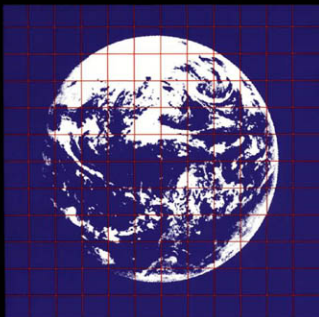


WORLD ECONOMIC OUTLOOK

MAY 1994



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**A Survey by the Staff of the
International Monetary Fund**



INTERNATIONAL MONETARY FUND
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Contents

	Page
Assumptions and Conventions	vii
Preface	ix
Chapter I. Overview	1
Industrial Countries	2
Developing Countries	7
Countries in Transition	9
Chapter II. World Economic Situation and Short-Term Prospects	11
Activity and Employment	11
Inflation and Commodity Prices	23
Foreign Exchange and Financial Markets	25
External Payments, Financing, and Debt	31
Chapter III. Fostering Job Creation, Growth, and Price Stability in Industrial Countries	34
Is the Rise in Unemployment Reversible?	35
Policy Reforms to Reduce Structural Unemployment	39
Role of Fiscal Policy	41
Monetary Policy and the Business Cycle	45
Chapter IV. Why Are Some Developing Countries Failing to Catch Up?	54
Economic Instability	54
Insufficient Financial Sector Reforms	56
Role of the State	58
Inward-Oriented Trade Policies	59
Financial Flows and Resource Transfers	62
Vulnerability to the External Environment	63
Impact of the Uruguay Round on Low-Growth Developing Countries	64
Chapter V. Stabilization, Reform, and the Role of External Financing in the Countries in Transition	67
Macroeconomic Stabilization and Economic Performance	67
Privatization, Corporate Governance, and Fiscal Reform	70
External Trade Reform	73
External Financing and Economic Adjustment	75
Priorities for Reform	79

	Page
Boxes	
Chapter	
II 1. U.S. Budget Proposal for Fiscal Year 1995	15
2. February 1994 Economic Stimulus Package in Japan	16
3. The Impact of Lower Oil Prices	20
4. Emerging Equity Markets	26
III 5. Recent Labor Market Reforms in Europe	38
6. Asset Prices and Inflationary Pressures	46
7. Interest Rate Spreads	50
IV 8. Striving for Stability: Realignment of the CFA Franc	60
V 9. Poland's Economic Rebound	72
10. Currency Arrangements in the Former Soviet Union and Baltic Countries	74
11. Exchange-Rate-Based Stabilization	77
12. Measurement of Aggregate Output in Countries in Transition	80
Statistical Appendix	
13. <i>The New Balance of Payments Manual</i>	100
Annexes	
I The Uruguay Round: Results and Implications	82
Implications for Global Real Income and Trade	83
Why Existing Studies May Underestimate the Gains	84
Selected Issues for the Post-Round Agenda	85
II Information Content of the Yield Curve	89
Underlying Relationships	89
Interpreting Yield Curve Movements	91
Implications and Recent Developments	92
III Adjustment and Recovery in Latin America and the Caribbean	93
The Initial Adjustment Phase	93
Further Adjustment and Consolidation	94
Achievements and Remaining Challenges	97
Statistical Appendix	99
Assumptions	99
Data and Conventions	99
Classification of Countries	101
List of Tables	107
Output (Tables A1–A7)	109
Inflation (Tables A8–A13)	119
Financial Policies (Tables A14–A20)	127
Foreign Trade (Tables A21–A25)	134
Current Account Transactions (Tables A26–A31)	141
External Financing (Tables A32–A36)	152
External Debt and Debt Service (Tables A37–A42)	163
Flow of Funds (Table A43)	173
Medium-Term Projections:	
Baseline Scenario (Tables A44–A45)	177

	Page
Tables	
Chapter	
II	1. Overview of the <i>World Economic Outlook</i> Projections 12
	2. Industrial Countries: Real GDP, Consumer Prices, and Unemployment 13
	3. Selected Developing Countries and Countries in Transition: Real GDP and Consumer Prices 22
III	4. Industrial Countries: General Government Financial Balances Including and Excluding Social Insurance 42
	5. Major Industrial Countries: General Government Structural Budget Balances, Actual Budget Balances, and Output Gaps 43
IV	6. Developing Countries: Growth and Other Indicators of Economic Performance 55
	7. Developing Countries: Economic Growth and Population, 1984–93 56
	8. Developing Countries: Real Interest Rates, 1984–93 57
	9. Developing Countries: Central Government Expenditures, 1984–93 59
	10. Developing Countries: Resource Transfers 62
	11. Developing Countries: Impact of the External Environment 64
V	12. Countries in Transition: Real GDP 68
	13. Countries in Transition: General Government Budget Balances 71
	14. Selected Countries of Central Europe: Trade with the European Union 75
	15. Selected Former Soviet Union and Baltic Countries: Trade with Countries Outside the Region 76
	16. Central European and Baltic Countries: External Financing, 1991–93 76
	17. Russia: Official Financial Assistance 78
Annex	
I	18. Estimated Real Income Effects of the Uruguay Round: Assumptions and Findings of Selected Studies 86
Box	
1	United States: Estimates of the Federal Budget Balance 15
2	Japan: Summary of Recent Economic Stimulus Packages 16
	Japan: Macroeconomic Effects of the February 1994 Stimulus Package 17
8	Sub-Saharan Africa: Selected Economic and Financial Indicators for CFA and Non-CFA Countries 61
Charts	
Chapter	
I	1. World Indicators 2
	2. Major Industrial Countries: Output Gaps 5
	3. Developing Countries: Domestic Saving and Investment 8
II	4. Major Industrial Countries: Real GDP 11
	5. Major Industrial Countries: Policy-Related Interest Rates and Ten-Year Government Bond Rates 14
	6. Six Major Industrial Countries: Indicators of Consumer Confidence 18
	7. Developing Countries: Real GDP 19
	8. Developing Countries: Contributions to Regional Export Flows 19
	9. Commodity Prices 25
	10. Selected European Countries: Bilateral Exchange Rates vis-à-vis the Deutsche Mark 28
	11. Selected European Countries: Interest Rate Differentials vis-à-vis Germany 29
	12. Major Industrial Countries: Nominal and Real Effective Exchange Rates 30
	13. Major Industrial Countries: Current Account Positions 31

	Page
14. Developing Countries and Countries in Transition: Net External Financing Flows	32
15. Developing Countries and Countries in Transition: External Debt and Debt Service	33
III 16. Industrial Countries: Actual and Structural Unemployment Rates	34
17. Industrial Countries: Selected Labor Market Indicators	36
18. Major Industrial Countries: General Government Debt	44
19. Industrial Countries: Monetary Aggregates and Nominal GDP	48
20. United States: Recovery Stage of Business Cycle	49
21. Germany: Recent Business Cycles	52
IV 22. Developing Countries: External Conditions Index	64
V 23. Selected Countries in Transition: Consumer Price Inflation	68
24. Selected Countries in Transition: Nominal and Real Exchange Rates	70
Annex	
II 25. Major Industrial Countries: Yield Curve Slope and Real Growth	90
26. Major Industrial Countries: Yield Curve Slope and Interest Rates	91
III 27. Western Hemisphere: Selected Economic Indicators	93
Box	
3 World Oil Prices and Supply	21
4 Equity Prices	27
6 Selected Countries: Asset Prices and Inflation	46
7 Major Industrial Countries: Lending, Money Market, and Deposit Rates	51
8 CFA Zone Countries: Real Effective Exchange Rate and Terms of Trade	60
9 Poland: Industrial Production	72



Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *World Economic Outlook*. It has been assumed that average real effective exchange rates will remain constant at their March 1–24, 1994 levels except for the bilateral rates among the exchange rate mechanism (ERM) currencies, which are assumed to remain constant in nominal terms; that “established” policies of national authorities will be maintained; that the average price of oil will be \$13.76 a barrel in 1994, \$14.57 a barrel in 1995, and remain unchanged in real terms over the medium term; and that the six-month U.S. dollar London interbank offered rate (LIBOR) will average 4.2 percent in 1994 and 5.1 percent in 1995. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The estimates and projections are based on statistical information available on April 11, 1994.

The following conventions have been used throughout the *World Economic Outlook*:

- ... to indicate that data are not available or not applicable;
- to indicate that the figure is zero or less than half the final digit shown;
- between years or months (for example, 1992–93 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (for example, 1992/93) to indicate a fiscal or financial year;
- “billion” means a thousand million, and “trillion” means a thousand billion;
- “basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percentage point);
- minor discrepancies between constituent figures and totals are due to rounding.

* * *

As used in this report, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

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Preface

The projections and analysis contained in the *World Economic Outlook* are an integral element of the IMF's ongoing surveillance of economic developments and policies in its member countries and of the global economic system. The IMF has published the *World Economic Outlook* annually from 1980 through 1983 and biannually since 1984.

The survey of prospects and policies is the product of a comprehensive interdepartmental review of world economic developments, which draws primarily on the information the IMF staff gathers through its consultations with member countries. These consultations are carried out in particular by the IMF's area departments together with the Policy Development and Review and Fiscal Affairs Departments.

The country projections are prepared by the IMF's area departments on the basis of internationally consistent assumptions about world activity, exchange rates, and conditions in international financial and commodity markets. For approximately 50 of the largest economies—accounting for 90 percent of world output—the projections are updated for each *World Economic Outlook* exercise. For smaller countries, the estimates are based on the projections prepared at the time of the IMF's regular Article IV consultations with member countries or in connection with the use of IMF resources; for these countries, the estimates used in the *World Economic Outlook* are updated incrementally to reflect changes in global economic conditions.

The analysis in the *World Economic Outlook* draws extensively on the ongoing work of the IMF's area and specialized departments, and is coordinated in the Research Department under the general direction of Michael Mussa, Economic Counsellor and Director of Research. The *World Economic Outlook* project is directed by Flemming Larsen, Senior Advisor in the Research Department, together with David T. Coe, Chief of the World Economic Studies Division.

Other contributors to the current issue include Garry J. Schinasi, Staffan Gorne, Robert P. Ford, Johan Baras, Monica Hargraves, Robert A. Feldman, Alexander Hoffmaister, Mahmood Pradhan, Hossein Samiei, Bas Bakker, Christopher Towe, Steven Symansky, Manmohan Kumar, Jean Clément, Adrienne Cheasty, Carlos A. Végh, Andrew Berg, and Jack Bame. The authors of the annexes are indicated in each case. The Fiscal Analysis Division of the Fiscal Affairs Department computed the structural budget and fiscal impulse measures. Anthony G. Turner, Sungcha Hong Cha, Toh Kuan, and Aarne Dimanlig provided research assistance. Cathy Wright, Shamim Kassam, Allen Cobler, Nicholas Dopuch, Gretchen Gallik, Yasoma Liyanarachchi, Steven Parker, and Prem Pillai processed the data and managed the computer systems. Susan Duff, Margarita Lorenz, and Nora Mori-Whitehouse were responsible for word processing. James McEuen of the External Relations Department edited the manuscript and coordinated production of the publication, and Alicia Etchebarne-Bourdin assisted with composition.

The analysis has benefited from comments and suggestions by staff from other IMF departments, as well as by Executive Directors following their discussion of the *World Economic Outlook* on April 6 and 8, 1994. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

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I

Overview

A year ago, the IMF Interim Committee adopted a "Declaration on Cooperation for Sustained Global Expansion."¹ This statement was prompted by the severe economic slowdown since 1990 and the risk of a further deepening of the recession in many industrial countries, and by a recognition of the need to face these challenges in a global and cooperative framework. Since then, there has been considerable progress in implementing the agenda set out in the Declaration: the Uruguay Round of multilateral trade negotiations has been concluded; programs of fiscal consolidation have been announced in several key countries; European interest rates have fallen, and tensions in the European Monetary System (EMS) have abated; Japan has taken further measures to support its economy; further progress toward stabilization and reform has allowed robust growth to be sustained in many developing countries, especially in Asia and Latin America; the IMF's new systemic transformation facility (STF) has been used to support the reform and recovery process in several of the countries in transition; and the IMF's concessional facility for low-income countries (ESAF) has been expanded and extended.

The conclusion of the Uruguay Round is particularly significant and will considerably enhance trading opportunities for all countries. The agreement will give new impetus to world trade in both manufactures and services and should begin to reduce the serious distortions affecting agricultural production and trade, particularly in many industrial countries. In addition to reductions of tariff and non-tariff barriers, multilateral trade rules will be strengthened and extended to new areas. The creation of the World Trade Organization strengthens the institutional basis for trade relations among countries and will help to sustain the achievements of the Uruguay Round and provide a forum for future multilateral trade negotiations. Estimates indicate that the agreement over time should boost the level of world trade by 10 percent and raise world income by \$250 billion a year as a result of efficiency gains, and these estimates may be on the conservative side. Such global welfare benefits will materialize gradually as the main elements of the

agreements are phased in, but the successful conclusion of the Round has also removed a major downside risk to the near-term outlook and is helping to bolster business and consumer confidence worldwide. The favorable effects on confidence would be enhanced by a quick resolution of outstanding issues and by an early ratification of the agreement.²

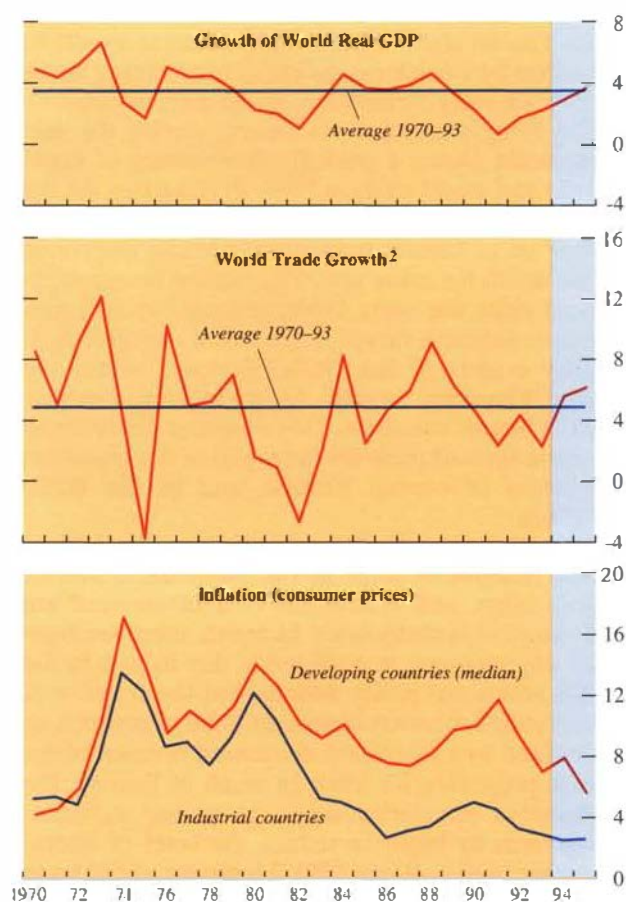
The many positive developments during the past year should permit a gradual strengthening of world activity and world trade in 1994–95 (Chart 1). At the same time, rates of inflation are projected to decline further or to remain broadly unchanged at present levels, which for many countries are the lowest experienced since the early 1960s. Stronger growth momentum, although varying from country to country, is already evident in the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, and the Nordic countries. There are also distinct and welcome signs of recovery in several of the transition economies of central Europe, and in the Baltic countries.

Nevertheless, with the exception of the United States, margins of slack in the industrial countries remain large, and indications of a turnaround are still tentative in many cases. In Japan, there are signs of an improvement in confidence, due in part to the recent additional policy actions, but the fragility of the projected recovery continues to be of concern, as underlined by a significant downward revision of the growth projection for 1994. In much of Europe, the prospective recoveries may not gather sufficient momentum to begin to reduce the level of unemployment until well into 1995. Moreover, rigidities in European labor markets risk leading to a further ratcheting up of already high rates of structural unemployment, which would limit the scope for fully reversing the recent rise in cyclical unemployment. The outlook for most of the former Soviet Union is still particularly uncertain, in part because of delays in implementing coherent stabilization policies and structural reforms in many countries. Much also remains to be done to improve economic conditions in many of the poorest countries, especially in Africa, although the devaluation of the CFA franc in

¹See the May 1993 *World Economic Outlook*, page x.

²A summary of the Uruguay Round agreements and discussion of their likely effects are presented in Annex I.

Chart 1. World Indicators¹
(In percent)



¹Blue shaded areas indicate IMF staff projections.

²Excluding trade among countries of the former Soviet Union and the Baltic states.

mid-January, and the supporting measures that are now being taken by the member countries of the franc zone, should greatly facilitate the resumption of economic growth.

It is important now to build on the achievements of the past year by addressing the remaining impediments to a strong and durable recovery and by ensuring that the expansion will spread to the largest possible number of countries. The emphasis should remain on cooperative solutions that resist protectionist forces and foster greater confidence among consumers and investors. Policy requirements to achieve these objectives, and hence to complete the agenda set out in the Interim Committee's Declaration of April 1993, are reviewed below.

Industrial Countries

The immediate priority for economic policy in the industrial countries is to further improve conditions for a robust recovery without jeopardizing longer-term growth and price stability, while also proceeding with critical structural reforms that will enhance longer-term growth. These objectives are common to all countries. However, differences in cyclical positions and in the degree of macroeconomic imbalances imply significantly different policy requirements from country to country.

In the case of fiscal policy, in countries where budget deficits are unsustainable—either because of lack of progress during the past decade or because of recent slippages—both medium-term considerations and the risk of short-run adverse spillovers to financial markets generally preclude fiscal expansion as a means of promoting stronger growth. Fiscal policy can best contribute to recovery in these circumstances by reducing uncertainty about future actions through the adoption of specific programs of medium-term fiscal consolidation. In several countries, including the United States, Germany, and the United Kingdom, such programs contributed—together with subdued inflation—to the marked reduction of long-term interest rates that took place in 1993. With the benefit of hindsight, however, part of the decline in long rates in 1993 may have been related to the taking of positions by financial investors in anticipation of significant further declines in European interest rates.

Although it may be difficult to front-load the necessary fiscal adjustments at a time of cyclical weakness, the pace of consolidation must be sufficiently rapid and sustained to reassure financial markets of the authorities' commitment to eliminate budgetary imbalances. Care must also be taken to pursue sufficiently ambitious medium-term fiscal targets in order to restore the sustainability of the public sector's financial position and to ensure an adequate contribution of the public sector to national saving, particularly in view of the longer-term need to pre-

pare for the aging of populations. In many industrial countries, however, current deficit-reduction plans do not meet such medium- and long-run objectives, even allowing for the favorable effects of recovery. Further substantial reductions in structural budget deficits will therefore be necessary over the medium term, and in some countries it will be appropriate to bring the budget position into surplus. Consolidation efforts should seek to limit recourse to increases in already heavy tax burdens by reducing subsidies and other outlays that impede the efficient functioning of markets and distort international competition, and by increasing the efficiency of government expenditure programs.

During the previous global slowdown of 1980-82, monetary policy faced a dilemma similar to that confronting fiscal policy today in most countries: an easing of monetary conditions to promote recovery would have exacerbated already serious policy imbalances, with detrimental consequences for inflation, financial stability, and medium-term growth. At that time, the industrial countries determined that ensuring medium-term price stability was the primary objective of monetary policy. The subsequent reduction of inflation to levels not seen for almost three decades stands out as a remarkable achievement.

In the current cycle, the monetary authorities in many countries, having enhanced the credibility of their commitment to reasonable price stability, have had greater scope to lower official interest rates to alleviate recessionary forces. Financial markets have clearly felt that the marked reduction of short-term interest rates has been appropriate, as suggested by the declines in long-term rates during 1993 to the lowest levels in twenty years or longer in many cases. The sentiment among market participants that there was both need and scope for significant reductions in interest rates also played a role during the successive crises in European exchange markets in 1992-93.³

The increase in long-term interest rates across a number of industrial countries in early 1994 does not seem to represent a sudden loss of hard-won credibility. In the United States, stronger-than-expected growth in the recent past may have led to an increase in real rates, as well as expectations of somewhat stronger price increases than otherwise; provided that monetary conditions are now allowed to tighten sufficiently, fears of a rise in inflation should abate, alleviating pressure on long-term rates. In Japan and Europe, where the balance of evidence points in the direction of continued low inflation and a slow recovery, the recent rise in long-term interest rates may

reflect the effect of higher long-term rates in the United States, various country-specific factors, and the sudden unwinding of positions in futures markets for long-term instruments. The slowing in the pace of monetary easing in Germany may have contributed to this unwinding.

To emphasize their commitment to price stability, a number of central banks have announced explicit targets for inflation as anchors for monetary policy. This development has been motivated in part by the instability of relationships between money supply and aggregate demand, which has undermined the usefulness of monetary aggregates as intermediate targets in many countries. For many European countries, a close link to the deutsche mark had provided a valuable anchor for the process of disinflation, but since the EMS crisis some countries that opted to float their currencies have felt the need for a new anchor better suited to their circumstances.

An explicit inflation target, used in combination with a range of indicators of financial conditions and inflationary pressures, can allow the monetary authorities to maintain a medium-term orientation for monetary policy in the absence of reliable intermediate monetary targets. However, given the inevitable degree of judgment and discretion involved, it also puts greater responsibility on the authorities to prevent a ratcheting up of inflation of the sort that occurred in the 1960s and 1970s. The credibility of inflation targeting may be increased by a record of success in controlling inflation, fiscal and structural policies that are consistent with medium-term inflation objectives, and central bank independence.

Setting monetary conditions in the context of an inflation target needs to take into account the relatively long lags between changes in monetary conditions and inflation performance. Forecasting price developments several years ahead is obviously subject to significant margins of uncertainty. It also may be difficult to obtain public understanding of the need to raise interest rates in anticipation of future inflationary pressures at a time when actual inflation is low. Indeed, a critical test of the usefulness of inflation targets will come when capacity utilization rates approach levels at which, on the basis of past experience, inflationary pressures may be beginning to build but are not yet apparent in current price data. Inflation targeting is clearly no panacea, and the increased degree of flexibility it may afford in the short run needs to be exploited with considerable caution. Finally, it is worth noting that many countries have successfully reduced inflation and strengthened policy credibility in the absence of formal anchors or explicit inflation targets.

Even with these caveats, several countries have found inflation targeting to be an attractive approach. New Zealand and Canada have pursued inflation targeting for several years as a central feature of their

³The events in the EMS from mid-1992 through September 1993 were analyzed extensively in the October 1993 *World Economic Outlook*, pp. 2-3 and 29-39. See also the May 1993 *World Economic Outlook* and the January 1993 *Interim Assessment of the World Economic Outlook*.

anti-inflationary strategies. More recently, given the exceptionally difficult cyclical and financial circumstances that forced a number of European countries to abandon their pegs to the deutsche mark, the adoption of inflation targets in the United Kingdom, Finland, and Sweden has helped to reduce uncertainty about the authorities' policy objectives. Together with improved prospects for fiscal consolidation, it helped to create the basis for significant reductions in both short- and long-term interest rates in 1993 and to allow the currencies of these countries to strengthen in foreign exchange markets, reversing part of the large depreciations that occurred immediately following the abandonment of the previous exchange rate pegs.

Appropriate macroeconomic policies can promote financial stability and higher sustainable growth of output and employment. However, better-functioning labor markets are also essential to permit a reversal of the rise in structural unemployment that has occurred during the past two decades, especially in Europe. In this respect, structural reform efforts in many countries made inadequate use of the opportunities provided by the long expansion of the 1980s. The latest surge in unemployment has again focused the attention of policymakers on the need to improve the functioning of labor markets, both to alleviate the very high rates of structural unemployment in many countries and to reduce the risk that the recent rise in cyclical unemployment will be transformed into a further rise in structural unemployment. In several countries, measures to address some distortions have already been implemented or are under way. Nevertheless, fundamental and more broadly based labor market reforms are required in almost all industrial countries.

Priorities in labor market reform differ depending on the specific features of each country's labor market. There is a general need to improve education and training in order to strengthen the skills and productivity of those workers most vulnerable to unemployment. At the same time it is necessary to reform regulations that discourage hiring or prevent real wages from reflecting the productivity of low-skill or inexperienced workers, and to ensure that social benefit programs do not discourage job search and employment. Such reforms need to be accompanied by appropriate adjustments to tax and transfer systems to help meet social concerns. In contrast to such measures, which emphasize the role of market forces and seek to address market failures, various shortcuts have been proposed that would be counterproductive. These include legislated reductions in the workweek—so called work sharing—which would reduce the supply of labor, lower living standards, and have little impact on the level of structural unemployment; protection against foreign competition, which would retard overall growth and

employment; and attempts to control or reduce the impact of technical change on productivity, which would undermine job growth and prosperity in the long run.

As regards developments in individual countries, the recent period has been noteworthy for the cyclical divergences between two groups of countries. The first group, including the United States, the United Kingdom, and Canada, entered into recession in 1990–91, and these countries are all now experiencing relatively robust recoveries (Chart 2). In the second group, comprising Japan and the continental European economies, which did not fall into recession until 1992, the downturns appear to have bottomed out, but clear signs of recovery have not yet emerged. Except for the United States, the recent recessions rank among the most severe in the postwar period and in most cases have been considerably more protracted than initially expected. The economic forces contributing to these developments have been discussed in previous issues of the *World Economic Outlook*.

The cyclical divergences among the industrial countries have been accompanied by an increase in current account deficits and surpluses. This reflects mainly normal cyclical effects, which should not be cause for concern. Over the medium to longer term, current account imbalances should be reduced as cyclical divergences diminish; as exchange rate changes feed fully through; and as the structural characteristics of economies change—for example, due to demographic changes and other factors that may affect saving-investment balances. Nevertheless, underlying current account deficits or surpluses may persist as a result of differences in domestic saving relative to domestic investment opportunities, which may lead investors to continue to diversify their investment portfolios—a key benefit associated with the liberalization of capital movements. Indeed, moderate current account deficits and surpluses are not necessarily undesirable. More generally, bilateral trade and current account positions are clearly not an appropriate focus for trade policy. In this context, it is essential that trade disputes be settled quickly and in a manner that is consistent with multilateral principles. If such disputes were allowed to escalate, they would damage the multilateral trading system and undermine the benefits of the Uruguay Round. Moreover, such trade tensions could adversely affect financial and foreign exchange markets, further retarding recovery.

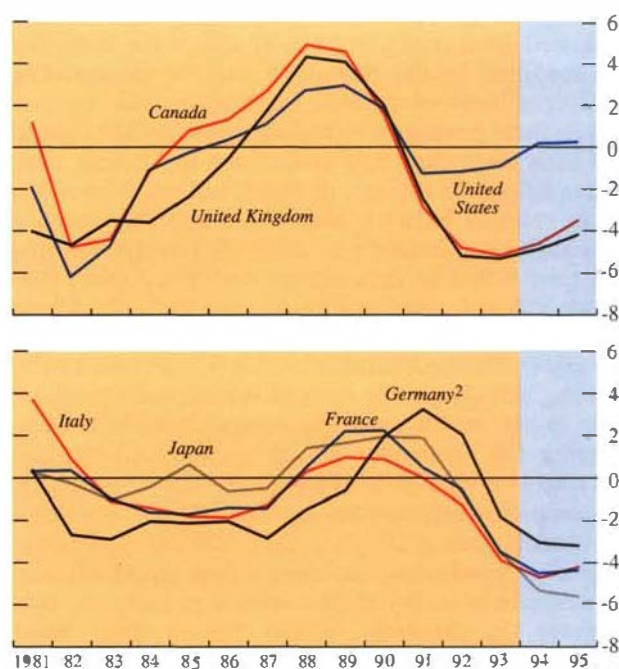
In the *United States*, the recovery was initially quite sluggish, but it has subsequently gained momentum. The economy is now in the expansionary phase of the cycle, and output is expected to be at about potential in 1994 and 1995. Balance sheet problems arising from the fall in asset prices in 1990–92 appear to have diminished substantially, in part

because of much-reduced interest rates across all maturities. The present challenge for U.S. policy-makers is to improve conditions for a durable expansion. The output gap has already been substantially absorbed, and monetary conditions will need to be adjusted accordingly to prevent a rise in inflationary pressures as the expansion matures. The small increases in the federal funds rate since early February were useful first steps, but further action to bring monetary conditions toward a more neutral stance would seem appropriate. Action to reduce the fiscal deficit helped to reduce long-term interest rates during 1993, and this has contributed to the recent strength of activity. The structural deficit, however, is still projected to average 2 to 3 percent of GDP over the medium term, a level that would remain an impediment to business investment, job creation, future growth, and improvement in the external position. The strength of the expansion provides an opportunity for the needed additional deficit-reduction efforts. In particular, it is important that the proposed reform of the health care system makes a substantial contribution to deficit reduction without placing a burden on the budget in the near term.

In *Canada*, low inflation, declining short-term interest rates, and a strong impetus from exports have contributed to the pickup in activity. However, the relatively high level of real long-term interest rates remains a threat to the strength of the expansion and could delay significant declines in unemployment. Together with the effect of continued economic expansion, measures in the recent budget are expected to reduce the federal budget deficit to 3 percent of GDP by 1996/97, which would represent an important step toward needed fiscal consolidation. In light of the high and rising ratio of government debt to GDP, however, additional action to cut the deficit further over the medium term remains the key to reducing long-term interest rates. Such action also would provide continued scope for monetary policy to support activity in the short run without jeopardizing price stability.

The recovery in the *United Kingdom* gathered pace in 1993, largely on the strength of private consumption. Household debt-income ratios have declined from earlier peaks, and lower short-term interest rates have reduced household debt-service payments. The external sector has thus far made only a small contribution to the recovery. The substantial fiscal consolidation measures adopted in 1993, which are to be implemented over the next three years, have helped to improve the policy mix. In the period ahead, inflation is expected to remain within the authorities' target range of 1 to 4 percent for the near term, although recent wage settlements raise the risk that inflation may have bottomed out and financial market developments suggest some

Chart 2. Major Industrial Countries: Output Gaps¹
(Actual less potential output, as a percent of potential)



¹Blue shaded areas indicate IMF staff projections. For a discussion of the approach to calculating potential output, see the October 1993 *World Economic Outlook*, p. 101.

²Data through 1990 apply to west Germany only.

increase in uncertainty about inflation prospects. Further monetary easing should await firm evidence that inflation is well on course toward the medium-term objective of 1 to 2½ percent.

Among the countries where margins of slack are likely to widen further in 1994, *Japan* continues to struggle with the adverse effects of the drop in equity and real estate values, overinvestment in key sectors in the late 1980s, balance sheet adjustments, and strains in the financial sector. The resulting weakness of activity has been aggravated by the recent sharp appreciation of the yen. In contrast to most other industrial countries, Japan's progress in consolidating its public finances during the 1980s has allowed fiscal policy to be used with some flexibility in response to the downturn without jeopardizing the credibility of medium-term objectives. Several large fiscal packages, including measures announced in early February, and reductions in interest rates have helped to support demand, but confidence has only recently begun to improve. The staff expects a gradual, slow recovery in 1994–95. For the upswing to gain sufficient momentum, continued fiscal support and a further easing of monetary conditions may well be required; of course, once a recovery is firmly established, fiscal consolidation will have to be strengthened again in view of the large demands on the public sector associated with population aging during the remainder of the decade and beyond. Macroeconomic policies alone provide a useful but incomplete response to Japan's current economic problems. Strong efforts at deregulation and market opening would help to raise living standards and contribute to a revival of confidence. Japanese consumers, in particular, would benefit from lower prices of domestic and imported products. In addition to their key domestic benefits, such reforms would contribute to a reduction of trade tensions.

In continental Europe, conditions for a gradual strengthening of activity have improved over the past year, although it seems likely that the process of rebalancing the policy mix by allowing interest rates to reflect the weakness of economic conditions more closely and by strengthening commitments to fiscal consolidation will need to continue for there to be a sufficiently robust upswing. In *Germany*, where inflation has been reduced to a pace more consistent with the Bundesbank's objective of price stability, the discount rate has been lowered by 3 percentage points since the beginning of 1993, to 5¼ percent. Low wage increases, progress toward fiscal consolidation, and the likely moderation in the growth of M3 (as the influence of special factors wanes) should facilitate a continued cautious but significant lowering of short-term interest rates in the months ahead. Nevertheless, activity in the western *Länder* seems likely to recover only slowly during 1994, and unemployment may continue to increase into 1995. In the

eastern *Länder*, the upturn that began in 1992 is projected to continue in 1994–95.

Prospects for *France* are also for a relatively slow recovery because the decline in interest rates may be felt only with a lag. Indeed, low inflation and a large margin of slack warrant a progressive further lowering of short-term interest rates. As interest rates continue to decline and the economic outlook strengthens, the fiscal situation should also improve. However, it is important that the scope for reversing the rise in the budget deficit experienced during the recession be fully utilized in order to meet the authorities' budget consolidation objectives, and preferably to reduce the budget deficit even further. The widening of the bands in the European exchange rate mechanism (ERM) in August 1993 provided the authorities in France and other ERM countries with the option to pursue a more independent monetary policy. However, because of the perceived implications for the credibility of monetary policy, as well as the importance attached to exchange rate stability in the process leading toward economic and monetary union (EMU) and the view that existing central rates were consistent with fundamentals, all of these countries decided to retain a close link to the deutsche mark and to wait for German monetary conditions to ease. Subsequently, interest rates in all the ERM countries have fallen significantly while exchange rates within the system have returned to the previous narrow bands. Provided that the downward adjustment of short-term interest rates in Germany continues, monetary conditions in France and other ERM countries should also continue to be brought more closely in line with domestic requirements for recovery of output and employment.

Notwithstanding the favorable impact on net exports from the significant depreciation of the lira following its exit from the ERM, the *Italian* economy continued to weaken through much of 1993. Positive features have been better-than-anticipated inflation performance, largely reflecting wage moderation following the July 1993 labor accord and the abolition of backward-looking wage indexation; and the success in 1993 in containing the fiscal deficit. However, the fiscal imbalance remains too high, and further corrective measures are likely to be necessary to prevent the 1994 budget targets from being missed. A significant reduction in both short- and long-term interest rates from their earlier crisis levels has contributed to a decline in the cost of servicing public debt. Early implementation of additional measures to reduce Italy's large budget deficit, and to stabilize and then reduce the debt/GDP ratio, will be crucial to allow a further decline in long-term interest rates and to permit a sustained economic expansion.

The return to calm in European exchange markets since the widening of ERM fluctuation bands in Au-

gust 1993 should allow the members of the European Union to focus their attention on a number of important challenges as they prepare the ground for EMU. The creation of the European Monetary Institute on January 1, 1994 has strengthened the institutional framework for the coordination of monetary policies, which should be facilitated by recent progress toward price stability in most member countries. However, the key policy challenge in the process toward EMU remains the need to reduce large budgetary imbalances in almost all member countries while sustaining economic recovery. This will require appropriate adaptation of monetary conditions as fiscal consolidation proceeds. Increased flexibility of labor markets is also essential to improve economic performance and to strengthen the resilience of individual economies to adverse economic disturbances.

Developing Countries

Robust economic growth in many developing countries has been one of the most encouraging aspects of global economic trends in recent years. In 1994 and 1995, aggregate output in the developing world is projected to continue to advance at a rate of $5\frac{1}{2}$ to 6 percent—similar to the rate of increase in 1992–93. The pattern of growth is likely to remain very uneven, however, mainly because of sharp differences in the quality of countries' stabilization and economic adjustment policies. Moreover, some of the oil exporting countries are expected to experience a decline in growth in the near term owing to the recent fall in world oil prices. In the longer run, some of the countries that have grown particularly rapidly may see a slowdown to more sustainable rates, in part because of infrastructural and environmental constraints. However, stronger adjustment efforts under way in an increasing number of countries suggest that average growth in the developing countries could be sustained at around 6 percent a year over the medium to longer run.

Past issues of the *World Economic Outlook* have reviewed the experience of the successfully adjusting developing countries, especially the newly industrializing countries in East and Southeast Asia, as well as a large and increasing number of reforming countries in all regions, including Mexico, Chile, Argentina, China, and India. A number of the successful countries have been facing different kinds of policy challenges, including substantial capital inflows and the risk of overheating.

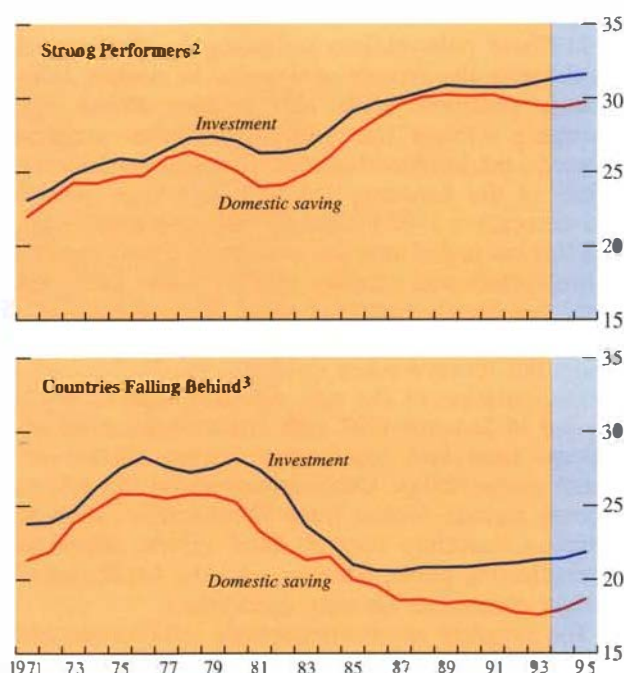
Improved economic prospects and financial reform in many developing countries in Asia and Latin America have attracted large inflows of foreign direct and portfolio investment in recent years. These inflows have helped to support investment and have facilitated the privatization of public enterprises.

They have also contributed to the development of domestic capital markets. Notwithstanding these positive developments, the surges in capital inflows and in stock market prices give cause for some concern about the risk of overheating and the possibility of sudden changes in market sentiment. To minimize the risk of speculative bubbles in the emerging stock markets and a reversal of capital inflows, many of these countries will need to monitor developments carefully to avoid the buildup of imbalances; some countries may need to take corrective measures relatively soon. A number of countries may also need to strengthen prudential supervision of their financial systems and, in some cases, broaden and deepen financial market reforms.

In *China*, policymakers are facing the challenge of moderating the growth of demand to contain inflationary pressures while also pushing ahead with sweeping reforms that will allow further progress toward a market-based system. The remarkable dynamism of the economy led to double-digit growth (13 percent) in 1993 for the second consecutive year, but this has fueled inflation and strained the country's infrastructure and supplies of energy and basic raw materials. Steady pursuit of sound financial policies is needed to restore and maintain macroeconomic stability; this remains a key condition for the successful implementation of the new reform program, which started in January 1994 with the unification of exchange rates and other steps toward current account convertibility. Other initiatives on the reform agenda include further trade liberalization, steps to improve monetary control, fiscal reform aimed at strengthening public finances, and the hardening of budget constraints on state enterprises.

The program of macroeconomic stabilization and structural reform initiated in *India* in 1991 has been effective in restoring external confidence, reducing inflation, and limiting the economic slowdown in the face of a severe balance of payments crisis. Exports and foreign equity investment have responded strongly to the improved incentives, and a comfortable cushion of external reserves has been rebuilt. In addition, the process of restructuring has begun to make inroads into long-standing distortions and rigidities in the economy. Despite continuing progress in many of these areas, developments in 1993 were characterized by certain troubling features, including a weakening of fiscal policy and a rekindling of inflationary pressures. The budget for FY 1994/95, while incorporating significant tax and tariff reforms, envisages only a modest reduction in the fiscal deficit. High real interest rates associated with persistently large budget deficits have contributed to the recent surge in capital inflows, which has complicated monetary management. The key policy requirement is to restore the momentum of fiscal consolidation while pressing ahead with further wide-ranging structural reforms to

**Chart 3. Developing Countries:
Domestic Saving and Investment¹**
(In percent of GDP)



¹Three-year centered moving average. Blue shaded areas indicate IMF staff projections.

²The top third of growth performers during 1984–93; growth rate for the group averaged about 6 percent during the 1970s and about 7 percent since 1980.

³The bottom third of growth performers during 1984–93; growth rate for the group averaged 4¾ percent in the 1970s and about 1½ percent since 1980.

put India on a sustainable path of dynamic growth and development.

The strong growth enjoyed by a large number of developing countries in recent years contrasts with the difficulties of many other countries that have failed to register any significant improvements in economic performance. In many of these countries, living standards have stagnated or even declined over the past ten to twenty years. Helping these countries to realize their potential and catch up with economic trends in the rest of the world remains of vital importance for the international community.

There is rarely only one reason for the failure of a country to realize its economic potential. In most cases, unsuccessful countries are characterized by many interrelated obstacles to growth, including large budget deficits, high and volatile rates of inflation, financial repression that distorts resource allocation, underdeveloped financial sectors, and excessive government intervention in the economy. In many countries, growth is also impeded by protection from foreign competition, overvalued exchange rates, unsustainable population growth, failure to build consensus for reform, and poor governance. With such obstacles to economic development, which are reflected in low saving and investment rates compared with the strong performers (Chart 3), many unsuccessful countries have failed to raise productivity in their commodity-producing sectors and to diversify their economies. As a result, these countries are often particularly vulnerable when terms of trade shocks and natural disasters occur.

Given the complexity of their problems, the challenges facing the low-growth countries—which include many of the poorest countries, especially in Africa, as well as a number of lower-middle-income countries in other regions—are truly daunting. Sustained adjustment efforts will be required over several years, and the success of domestic policy efforts will depend also on the timeliness of external financial assistance and debt restructuring, and on the absence of adverse external disturbances. However, the growing number of countries that have successfully adjusted their economies illustrates the considerable scope that exists for growth to recover when the necessary reforms and a stable macroeconomic environment are put in place.

Among the poorest countries, there is evidence of improved growth performance in the 16 countries in sub-Saharan Africa that are pursuing comprehensive adjustment programs supported by the IMF's ESAF. The recently adopted enlarged ESAF allows such assistance to continue to be offered to low-income countries that adopt comprehensive reform programs. However, together with new concessional lending, timely and realistic debt relief will also be needed for many of the poorest countries. A closer link between official development assistance and the

quality of countries' adjustment efforts would both increase the effectiveness of external aid and increase the chance of success of many adjustment programs. The recent devaluation of the CFA franc has helped to improve the growth prospects of countries in the franc zone, but the success of the devaluation will depend on steadfast implementation of the programs supported by the IMF and the international community. Developments in South Africa could have beneficial spillover effects on southern Africa in general; a post-election reduction in political strife would reinforce the incipient economic recovery and allow the new government to embark on a program of reconstruction and development while safeguarding macroeconomic balance.

The international environment is important for the developing world. In contrast to the recent strength of activity in many developing countries during a period of cyclical weakness in the industrial world, many commodity-exporting countries have suffered considerable terms of trade losses that have exacerbated problems of domestic economic management. Trade barriers in potential markets have also hampered export growth, and many developing countries have been adversely affected by the agricultural policies of the industrial countries. These policies have tended to lower world food prices and have reduced incentives for production by domestic farmers in the developing countries. In many respects, however, the external environment seems likely to improve during the next several years. The projected resumption of stronger growth in the industrial countries should allow real commodity prices to strengthen; maintenance of low inflation in the industrial countries should permit world interest rates to remain at relatively moderate levels; and the completion of the Uruguay Round will not only open up new trade opportunities for all countries, but should also begin to address the distortions affecting trade in agricultural products.

Countries in Transition

There are encouraging signs of progress toward economic stabilization, restructuring, and recovery in a number of the economies in transition. However, repeated setbacks in many other transition countries point to the likelihood that economic conditions may continue to deteriorate in the absence of a substantial strengthening of stabilization and reform efforts. Continuing economic decline risks eroding popular support for the reform process. Adequate external assistance is essential for the process of economic transformation, but it will be effective only if it is linked to determined adjustment efforts in the reforming countries.

Those transition countries that are beginning to experience a recovery of output are all characterized

by a reasonable measure of macroeconomic stability and significant progress in structural reform. In Poland, the first transition country to witness a turnaround, real GDP rose by 4 percent in 1993, and sustained output gains are likely during the period ahead provided that the recent upturn in inflation can be reversed. The Czech Republic has been particularly successful in containing the budget deficit and inflation and is expected to experience positive growth in 1994. In Albania, real GDP rebounded by 11 percent in 1993 owing to strong supply responses in the agricultural, construction, and service sectors. There has also been progress toward the stabilization of inflation and output in Slovenia, and activity has begun to recover in the three Baltic countries following considerable success in reducing inflation, although price increases have recently picked up somewhat in these countries. In other central European countries, output appears to have begun to stabilize, but the prospects for sustained recovery depend on further efforts to reduce budgetary imbalances and to contain inflation. In Mongolia, where important fiscal and monetary reforms have been implemented, positive growth is expected to resume in 1994.

The recent signs of improvement in economic performance in much of central Europe and the Baltic countries is in stark contrast to the continued deterioration in economic conditions in Russia and most other countries of the former Soviet Union in 1993. Excessive budget deficits and lack of monetary control have continued to fuel rapid inflation, distort price signals and economic incentives, and delay the crucial restructuring of the enterprise sector. Privatization has proceeded quickly in Russia and in the Kyrgyz Republic, but there has been insufficient progress toward market-oriented behavior at the enterprise level. Outside Russia, structural reforms are generally less advanced, and economic difficulties greater, in part because of the continued repercussions from the breakup of the Soviet command economy. Only Turkmenistan has managed to stabilize output, owing to buoyant gas exports. Most of the countries of the former Soviet Union have experienced growing hardship among the unemployed and the elderly, and this points to the urgent need to reform social safety nets.

The lack of adequate progress with macroeconomic stabilization in Russia and most of the other countries of the former Soviet Union over the past two years can be attributed in part to the lack of adequate adjustment and restructuring at the enterprise level and to the failure of the authorities to resist pressures from the agricultural and enterprise sectors for large-scale financial support, both subsidies and credits. The lesson for the period ahead is clear. Reform-minded governments must limit total financial support to enterprises to a level consistent with overall budget

objectives and with the need to make room for adequate levels of government expenditures on infrastructure, social safety nets, and other priority areas. Governments must enforce reasonable financial discipline and ensure that individual enterprises operate within their financial constraints. The transformation process will clearly take time, but financial assistance should be directed toward enterprises that have meaningful prospects for longer-term viability and that are making conscientious efforts to realize these prospects. It is necessary to tackle these problems without delay, and the authorities should give a clear signal that enterprises that build up arrears to the government or to other enterprises will not be bailed out; and that enterprises that have been privatized must learn to live without government support. All of this can and should be done in an open trading environment and within the context of a macroeconomic program geared toward a rapid reduction of inflation to a sustainable level. The comprehensive program adopted by Russia, and supported by the STF, constitutes a significant step toward restoring financial stability and ensuring further progress in the structural area.

Many of the central European countries are approaching a situation where requirements for

exceptional external financial support from multilateral and bilateral official creditors can be expected to decline during the next several years. In contrast, such assistance will continue to play a key role in the other transition countries for the foreseeable future. The STF, an addition to the IMF's usual facilities, has been established to assist countries in transition; but significant amounts of untied financial aid on favorable terms from other sources will also be needed. The experience of countries that have recently turned the corner clearly shows, however, that such assistance will be truly helpful only to the extent that appropriate macroeconomic and structural reforms are put in place. In the absence of sharp reductions in credit growth, fiscal deficits, and inflation, balance of payments assistance may delay adjustment, encourage capital flight, and postpone improvements in creditworthiness. The effectiveness of assistance to specific projects at the microeconomic level will also be impeded unless the macroeconomic environment improves. Renewed growth will ultimately depend on the implementation of policies to achieve macroeconomic stabilization and fundamental economic reform. The examples of the central European and Baltic countries show that this approach can succeed.



II

World Economic Situation and Short-Term Prospects

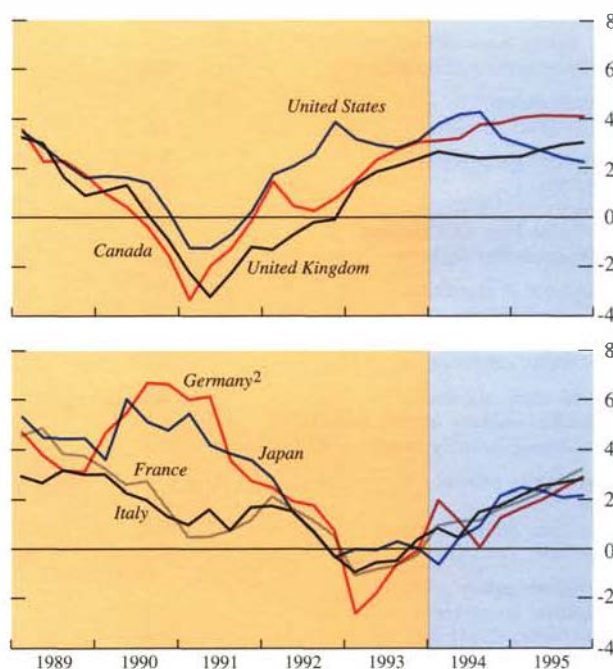
World output is projected to expand by 3 percent in 1994 and by 3¾ percent in 1995 as the global economy continues its gradual recovery (Table 1). The expansions that are now clearly under way in North America and the United Kingdom contrast with continued sluggishness in continental Europe and Japan. Developing country growth is expected to remain robust on average, although disparities remain large and the short-term outlook for the poorest countries has not improved substantially. Overall output in the countries in transition is expected to decline substantially again in 1994, although growth is beginning to pick up in most of central Europe and the Baltic countries. In all regions except the former Soviet Union, significant progress in reducing inflation has already been achieved or is anticipated in the near term. The successful conclusion of the Uruguay Round of trade negotiations in December 1993 stands out as a major policy achievement. This has removed a substantial downside risk to the prospects for world growth and is expected to support recovery in the short term by bolstering confidence and increasing incentives for investment.

Activity and Employment

Among *industrial countries*, the cyclical disparities evident for some time became even more pronounced toward the end of 1993, but divergences in growth are expected to diminish during 1994–95 (Chart 4). Recoveries in the large economies that first went into recession—the United States, Canada, and the United Kingdom—have gained strength; the estimated output gap in the United States had been substantially closed by end-1993, and in Canada and the United Kingdom it is expected to begin to narrow in 1994 (see Chart 2 in Chapter I). In continental Europe and Japan, economic activity remained subdued through 1993. While signs have now emerged that the downturns have bottomed out, recoveries in these economies may not be firmly established until next year, and margins of slack are expected to increase throughout 1994.

The nonsynchronous nature of the cyclical movements in these economies has been one of several distinguishing characteristics of the recent period. A

Chart 4. Major Industrial Countries: Real GDP¹
(Percent change from four quarters earlier)



¹Blue shaded areas indicate IMF staff projections; data for Italy for the fourth quarter of 1993 are also projected.

²Through 1991, west Germany only; thereafter, IMF staff estimates for unified Germany.

Table 1. Overview of the World Economic Outlook Projections*(Annual percent change unless otherwise noted)*

	1992	1993	Current Projections		Differences from October 1993 Projections	
			1994	1995	1993	1994
World output	1.8	2.3	3.0	3.7	0.1	-0.2
Industrial countries	1.6	1.2	2.4	2.6	0.1	0.2
United States	2.6	3.0	3.9	2.6	0.3	1.3
Japan	1.1	0.1	0.7	2.3	0.1	-1.3
Germany	2.1	-1.2	0.9	2.1	0.4	-0.3
France	1.4	-0.7	1.2	2.6	0.2	0.1
Italy	0.7	-0.7	1.1	2.5	-1.0	-0.5
United Kingdom	-0.6	1.9	2.5	2.8	0.1	-0.3
Canada	0.7	2.4	3.5	4.1	-0.2	-0.4
Seven countries above	1.7	1.4	2.5	2.5	0.2	0.3
Other industrial countries	0.9	—	1.6	2.8	—	-0.1
Memorandum						
European Union	1.0	-0.3	1.3	2.5	-0.1	-0.3
Developing countries	5.9	6.1	5.5	5.8	-0.1	—
Africa	0.4	1.1	3.4	4.5	-0.6	0.9
Asia	8.1	8.4	7.5	7.4	-0.3	0.4
Middle East and Europe	7.5	4.7	3.0	3.7	1.1	-1.4
Western Hemisphere	2.5	3.4	2.8	3.4	—	-0.7
Countries in transition	-15.5	-8.8	-6.1	1.4	1.3	-4.8
Central Europe	-8.3	-1.4	1.8	3.5	—	-0.2
Former Soviet Union and Baltic countries	-18.2	-11.9	-9.8	0.4	1.9	-6.8
World trade volume	4.5	2.4	5.8	6.3	-0.5	0.7
Industrial country import volume ¹	4.5	-0.2	5.4	5.2	-1.5	2.0
Developing country import volume	10.2	8.7	7.2	9.2	-0.6	-1.9
Commodity prices						
Oil ²	-0.5	-11.5	-14.7	5.9	-3.0	-18.1
In U.S. dollars a barrel	18.22	16.13	13.76	14.57	-0.55	-3.48
Nonfuel ³	-0.1	-3.8	6.0	2.1	-1.3	2.1
Consumer prices						
Industrial countries	3.3	2.9	2.5	2.6	-0.1	-0.2
Developing countries	38.8	45.9	40.9	12.0	1.3	5.2
Countries in transition	766.9	687.2	290.2	73.2	115.5	154.6
Central Europe	145.1	128.0	78.6	53.7	-0.3	7.6
Former Soviet Union and Baltic countries	1,292.4	1,226.3	457.4	83.2	269.1	284.7
Six-month LIBOR (in percent)⁴						
On U.S. dollar deposits	3.9	3.4	4.2	5.1	—	0.1
On Japanese yen deposits	4.3	3.0	2.2	2.9	-0.3	-1.2
On deutsche mark deposits	9.4	6.9	5.2	4.1	—	-0.2

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during March 1–24, 1994, except for the bilateral rates among ERM currencies, which are assumed to remain constant in nominal terms.

¹Information on 1993 trade may understate trade volume because of reduced data coverage associated with the abandonment of customs clearance of trade within the European Union.

²Simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil; assumptions for 1994 and 1995.

³Average, based on world commodity export weights, of U.S. dollar prices.

⁴London interbank offered rate.

second has been the low levels of short-term real interest rates required to support even the modest recoveries in some economies. Moreover, employment gains have been slower than usual over the course of the expansion in the United States and Canada, although this may be attributed in part to efficiency-enhancing restructuring undertaken in recent years. The principal downside risk for the

economies now recovering—particularly for the Nordic countries—stems from the possibility of prolonged slumps in major continental European countries and Japan.

Although the recession in Japan coincided with the downturns in continental Europe, its origins have much more in common with the earlier downturns in North America, the United Kingdom, and

Table 2. Industrial Countries: Real GDP, Consumer Prices, and Unemployment

(In percent)

	Real GDP ¹				Consumer Prices ¹				Unemployment			
	1991	1992	1993	1994	1991	1992	1993	1994	1991	1992	1993	1994
All industrial countries	0.6	1.6	1.2	2.4	4.5	3.3	2.9	2.5	7.0	7.8	8.2	8.3
Major industrial countries	0.5	1.7	1.4	2.5	4.4	3.1	2.8	2.4	6.6	7.3	7.3	7.4
United States ²	-0.7	2.6	3.0	3.9	4.2	3.0	3.0	2.8	6.7	7.4	6.8	6.2
Japan	4.3	1.1	0.1	0.7	3.3	1.7	1.3	0.9	2.1	2.2	2.5	3.0
Germany	1.0	2.1	-1.2	0.9	4.5	4.9	4.7	3.0	6.7	7.7	8.9	10.0
France	0.7	1.4	-0.7	1.2	3.2	2.4	2.1	1.9	9.4	10.1	11.7	12.4
Italy ³	1.2	0.7	-0.7	1.1	6.3	5.2	4.3	3.8	10.9	11.5	10.4	11.3
United Kingdom ⁴	-2.2	-0.6	1.9	2.5	6.8	4.7	3.0	3.2	8.1	9.8	10.3	10.0
Canada	-1.7	0.7	2.4	3.5	5.6	1.5	1.9	0.5	10.3	11.3	11.2	10.8
Other industrial countries	0.9	0.9	—	1.6	5.5	4.2	3.7	3.2	9.1	10.4	12.3	12.9
Belgium	1.9	0.6	-1.3	1.0	3.2	2.4	2.8	2.7	7.5	8.2	9.4	10.2
Denmark	1.0	1.2	0.3	2.4	2.4	2.1	1.3	2.2	10.6	11.4	12.3	12.1
Greece	1.8	0.9	—	0.5	19.5	15.8	14.4	11.2	7.7	9.2	9.8	10.0
Ireland	2.6	4.9	2.5	4.0	3.2	3.1	1.5	2.5	14.7	15.5	15.8	15.3
Netherlands	2.1	1.4	0.3	0.8	3.9	3.7	2.1	2.3	7.2	6.9	7.8	8.9
Portugal	2.3	1.5	-0.8	1.1	11.4	8.9	6.5	5.5	4.1	4.1	5.5	6.8
Spain	2.2	0.8	-1.0	1.0	5.9	5.9	4.6	4.3	16.3	18.4	22.7	24.0
Austria	2.7	1.6	-0.5	1.4	3.3	4.1	3.6	2.7	5.8	5.9	7.3	7.5
Finland	-7.1	-3.8	-2.6	1.6	4.2	2.9	2.2	2.8	7.6	13.1	17.9	19.8
Norway	1.6	3.3	1.8	3.1	3.2	2.3	2.3	1.8	5.5	5.9	6.1	6.0
Sweden	-1.1	-1.9	-1.7	2.2	9.3	2.3	4.7	2.7	2.9	5.3	8.3	8.4
Switzerland	—	-0.1	-0.7	1.2	5.8	4.0	3.3	1.5	1.1	2.6	5.1	5.3
Australia	-0.8	2.0	3.0	2.6	3.2	1.0	1.9	2.3	9.6	10.8	10.8	10.4
New Zealand	-2.7	2.1	3.7	3.6	2.6	1.0	1.4	1.2	10.6	10.3	9.4	9.0
Memorandum												
European Union	0.7	1.0	-0.3	1.3	5.3	4.6	3.7	3.2	9.1	10.1	11.2	11.9
West Germany	4.5	1.6	-1.9	0.5	3.5	4.0	4.1	2.7	5.5	5.8	7.3	8.6

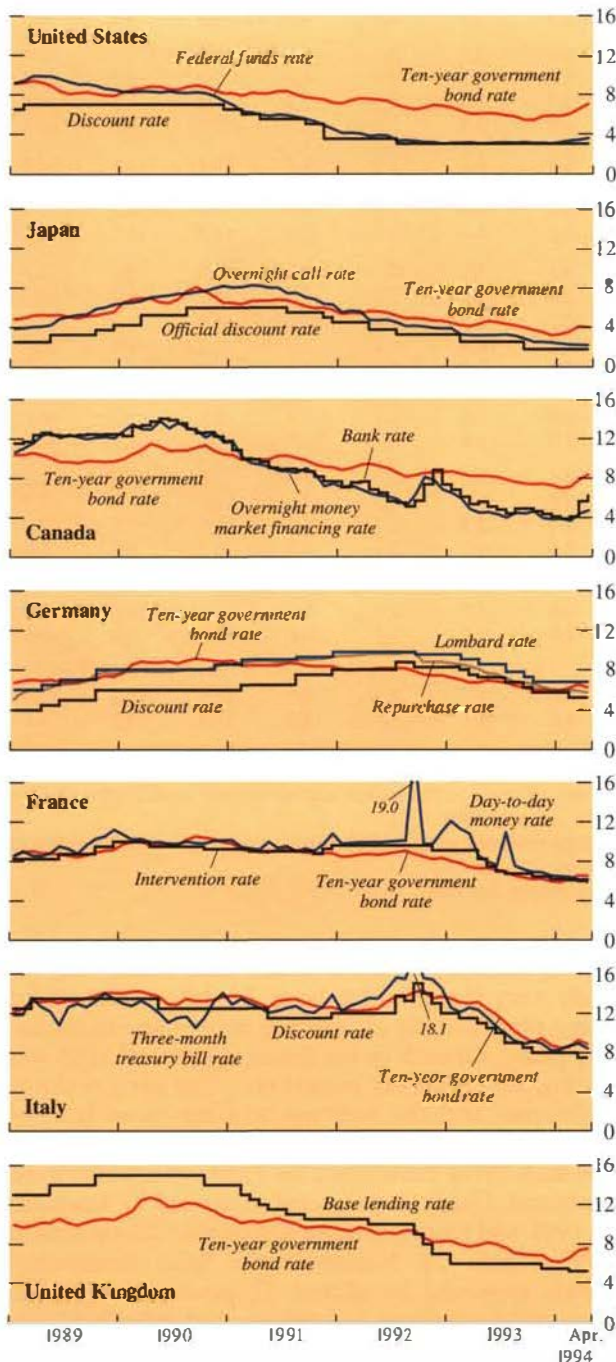
¹Annual percent change.²To maintain comparability with the historical data, the projections are not adjusted to the higher unemployment level implied by the new survey techniques adopted by the U.S. Bureau of Labor Statistics in January 1994.³The unemployment rate presents a new series starting in 1993, reflecting revisions in the labor force surveys and the definition of unemployment to bring data in line with those of other industrial countries.⁴Data for consumer prices based on the retail price index excluding mortgage interest.

the Nordic countries. Experience in these countries suggests that an important risk in the outlook for Japan is that banking sector problems and balance sheet adjustments will be resolved only slowly. An important difference, however, is that Japan's fiscal position has permitted the adoption of several fiscal stimulus packages—the largest of which was announced in February of this year. These packages, along with the reduction of official interest rates, have helped to moderate the downturn and should spur the recovery of domestic demand. In most of continental Europe, the expected persistence of high unemployment remains a major obstacle to an early strengthening of confidence and a rebound of activity. An additional source of uncertainty in the outlook concerns the timing, and impact, of needed fiscal consolidation efforts, although experiences in the United States and the United Kingdom in 1993 have shown that the gains from improved confidence and lower long-term interest rates can be significant.

The recovery in the *United States*, which was initially very sluggish, has been firmly established for some time, and the economy is now in an expansionary phase. Growth in the fourth quarter of 1993 was strong, at a 7 percent annual rate. The earthquake in California and the extreme weather in early 1994 probably reduced first-quarter growth somewhat, but the underlying momentum for recovery appears to be sustained. Output is projected to expand by 4 percent in 1994, and then by a more sustainable 2½ percent in 1995 (Table 2). Nonresidential fixed investment, which increased by almost 12 percent in 1993, is expected to continue to lead demand growth. Monetary policy contributed to the recovery by allowing short-term interest rates to remain at low levels, thereby permitting significant reductions in debt burdens and facilitating balance sheet adjustment (Chart 5). The stance of fiscal policy was mildly contractionary in 1993, in part owing to the continued constraints on discretionary spending. The U.S.

**Chart 5. Major Industrial Countries:
Policy-Related Interest Rates and Ten-Year
Government Bond Rates¹**

(In percent a year)



¹The U.S. federal funds rate, Japanese overnight call rate, German repurchase rate, Italian treasury bill rate, and all ten-year government bond rates are monthly averages; the Canadian bank rate and overnight money market financing rate are those of the last Wednesday of each month. All other series show end-of-month data. For April 1994, the observations reflect data available as of April 11.

Administration's budget for FY 1995 was presented in February 1994 and is expected to have a mildly contractionary effect in 1994–95. The budget proposal includes net expenditure cuts needed to meet the medium-term spending ceilings set out in the August 1993 budget legislation (Box 1). Nevertheless, continued improvements in economic confidence and robust growth of private investment and consumption provide a strong basis for the expansion (Chart 6). Capacity utilization rose above 83 percent in early 1994, the average workweek has been at postwar highs since November 1993, employment in manufacturing has begun to increase more consistently, and unemployment has declined significantly.⁴ The forecast for growth in 1994–95 is predicated on an assumed adjustment in monetary stance in keeping with the absorption of slack in the economy. The small increases in the federal funds rate in February and again in March were first steps in this direction.

The *Canadian* recovery is expected to gain momentum in 1994–95. This improvement is attributable in part to spillovers from the United States, but it also reflects a broadening of the expansion beyond the export sector. Domestic demand growth is projected to accelerate from 1³/₄ percent in 1993 to 2³/₄ percent in 1994, and to 3¹/₂ percent in 1995. An important factor restraining confidence is the high rate of unemployment, which is expected to decline only slowly from its current level of about 11 percent. Fiscal consolidation efforts initiated with the recent budget represent a step toward deficit-reduction goals; the stance of fiscal policy is expected to remain contractionary as government spending cuts continue in 1994. The projections reflect a continuation of relatively easy monetary conditions, given the very low rate of inflation, continuing declines in unit labor costs, and low levels of capacity utilization.

The *United Kingdom* is the third bright spot in the short-term outlook for the major industrial countries. Growth strengthened further in the final quarter of 1993, and unemployment declined below 10 percent in December—for the first time since August 1992. Much of the improvement in the competitiveness of manufacturing exports that occurred when sterling left the ERM has been maintained, although weak demand in key export markets limits this sector's contribution to growth. The economic turnaround in 1993 has mainly reflected rising consumer demand: household debt-income ratios have declined from earlier peaks, and the sharp reductions in short-term interest rates have reduced mortgage payments and have raised disposable income. In addition, progress with

⁴The U.S. Bureau of Labor Statistics adopted new survey techniques in January 1994 that appear to have increased measured unemployment by about 1/2 of 1 percentage point. To maintain comparability, projections presented here are based on the old survey procedure.

Box 1. U.S. Budget Proposal for Fiscal Year 1995

On February 7, 1994, the U.S. Administration presented its budget for FY 1995 (beginning on October 1, 1994). The Administration's proposals were constrained by the Omnibus Budget Reconciliation Act of 1993 (OBRA93), a multiyear fiscal program that established a freeze on total discretionary spending and maintained a "pay-as-you-go" feature, adopted in November 1990, requiring that deficit-increasing legislative changes in revenues or mandatory spending programs be financed by offsetting measures.¹

The Administration projects that the budget would reduce the unified deficit to \$176 billion (2½ percent of GDP) in FY 1995, followed by a gradual increase in the deficit, to \$200 billion by FY 1999, with the deficit remaining close to 2¼ percent of GDP during that time (see table).² The Administration estimates that the cyclically adjusted deficit would decline by ¾ of 1 percentage point, to 2 percent of GDP, in FY 1995 and would show no further improvement in the medium term. Excluding the surpluses of the social security trust funds, these deficit projections would be higher by roughly 1 percentage point of GDP in FY 1995–99.

The IMF staff projects a slightly higher deficit, primarily owing to the Administration's assumption of a slower and more modest rise in short-term interest rates. In the absence of health care reform, both the unified deficit and total federal debt are expected to rise in relation to GDP after 1999, in part because of projected increases in Medicare and Medicaid outlays.

¹Discretionary outlays are subject to the annual appropriation process. OBRA93 froze total nominal discretionary outlays at their estimated FY 1993 level for the following five years; adjustments to the caps were permitted only to the extent that inflation exceeded projected levels.

²These projections exclude the budgetary effects of health care reform. Note that the unified budget concept differs from the general budget concept discussed elsewhere in the *World Economic Outlook*, since the latter includes the fiscal activities of the state and local governments and treats government receipts and outlays on a national accounts basis.

To meet the OBRA93 caps, the Administration proposes to cut FY 1995 discretionary outlays by 1½ percent in nominal terms relative to their FY 1994 levels, or about 4 percent in real terms, by scaling back or in some cases terminating a broad range of programs. Roughly half of the proposed cuts are in defense, and the balance from reduced outlays in areas such as low-income energy assistance programs, agriculture, and mass transit subsidies. Savings are also expected from measures to reduce administrative costs, including previously issued executive orders requiring federal personnel reductions of 100,000 by FY 1995 and cuts in administrative expenses, as well as implementation of the National Performance Review.

These measures are expected to make room for the Administration's proposed \$14.9 billion increase in spending in FY 1995 (¼ of 1 percent of GDP) for social welfare programs (such as health, housing subsidies, education and training programs, and the National Service Initiative), crime prevention programs, research and development, and environmental programs. Although the budget contains no tax measures (other than those specifically related to the health care reform), a number of increases in user fees were proposed that would help to offset the effects of spending increases classified as mandatory outlays. These revenue measures would yield \$1.5 billion in FY 1995 and a cumulative \$7 billion in the subsequent four years.

The budget also refers to initiatives that the Administration hopes to address during 1994, including health care and welfare reform, a program to enhance job search and training, and measures that would strengthen budget discipline and planning, including enhanced presidential rescission authority, biennial budgeting, and a capital budget.³

³At present, the President has no authority to veto individual items (a "line item veto") in the budget passed by the Congress. Enhanced rescission authority would require a prompt congressional vote on a presidential recommendation to rescind specific spending proposals from the budget.

United States: Estimates of the Federal Budget Balance

(In billions of dollars unless otherwise noted; fiscal years)

	1993	1994	1995	1996	1997	1998	1999
U.S. Administration estimates							
Unified budget basis	-255	-235	-176	-173	-181	-187	-201
In percent of GDP	-4.0	-3.5	-2.5	-2.3	-2.3	-2.3	-2.3
Excluding social security	-302	-292	-239	-240	-259	-275	-297
In percent of GDP	-4.8	-4.4	-3.4	-3.2	-3.3	-3.3	-3.4
Structural balance ¹	-231	-196	-146	-160	-177	-188	-180
In percent of GDP	-3.7	-2.9	-2.1	-2.2	-2.3	-2.3	-2.1
IMF estimates							
Unified budget basis	-255	-233	-173	-179	-193	-209	-233
In percent of GDP	-4.0	-3.5	-2.5	-2.4	-2.5	-2.5	-2.7
Excluding social security	-302	-290	-236	-246	-272	-296	-329
In percent of GDP	-4.8	-4.3	-3.4	-3.3	-3.5	-3.6	-3.8

Sources: *The Budget of the United States Government: Fiscal Year 1995* (Washington: Government Printing Office, February 7, 1994); and IMF staff estimates.

¹Administration estimates of the structural balance exclude net outlays for deposit insurance but are not on a national accounts basis and so are not directly comparable to the IMF staff estimates reported elsewhere. The dollar amounts are expressed as a share of the Administration's projection of actual rather than potential GDP, since estimates for the latter were not available.

Box 2. February 1994 Economic Stimulus Package in Japan

The Japanese government announced a new economic stimulus package on February 8, the fourth stimulus measure since 1992 (*see table below*). The new package includes a temporary tax cut of ¥5.9 trillion for the current year, mainly in the form of reductions in central and local government personal income taxes.¹ On the spending side, the main element is an increase in public investment (excluding land purchases) of ¥4 trillion.

¹ This tax cut is expected to be implemented on a temporary basis in the form of a 20 percent reduction in income tax withholding in June and December 1994. The tax cut is viewed as an interim measure to be implemented in advance of full-fledged tax reform, including a permanent reduction in income taxes, which is to be agreed on by the government by the end of the year.

The remaining expenditures comprise allocations for land purchases, and loans for housing, small and medium-sized enterprises, and equipment investment in new business activities. The package also provides for subsidies for employment development and adjustment and contains a number of measures to strengthen the financial sector and the securities market.

To assess the macroeconomic impact of this package, it is useful to divide its provisions into two categories: measures such as tax cuts and increases in public spending that are likely to raise spending on goods and services directly; and the other measures, which are expected to provide indirect support to the recovery of private demand. The IMF staff estimates that the direct measures will raise the level of output by about $\frac{3}{4}$ of

Japan: Summary of Recent Economic Stimulus Packages

(In trillions of yen unless otherwise noted)

	Date Proposed			
	August 1992	April 1993	September 1993	February 1994
Total package	10.7	13.2	6.2	15.3
In percent of GDP	2.3	2.8	1.3	3.2
Tax reductions	—	0.2	—	5.9
In percent of GDP	—	—	—	1.2
Public investment ¹	5.8	7.6	2.0	4.0
In percent of GDP	1.3	1.6	0.4	0.8
Land purchases	1.6	1.2	0.3	2.8 ²
In percent of GDP	0.3	0.3	0.1	0.6
Increased lending by Housing Loan Corporation	0.8	1.8	2.9	1.2
In percent of GDP	0.2	0.4	0.6	0.3
Increased lending by government-affiliated financial institutions	2.1	2.4	1.0	1.5
In percent of GDP	0.5	0.5	0.2	0.3

Sources: Japanese authorities; and IMF staff estimates.

¹ Includes disaster relief, unidentified land component of public investment, and Fiscal Investment and Loan Program lending to public corporations for public works.

² Including ¥0.5 trillion for land purchases to be conducted over a five-year period.

both inflation and fiscal consolidation contributed to a moderate decline in long-term interest rates in 1993. A significant factor in the short-term outlook is the fiscal tightening arising from restrained government spending and from tax increases that take effect in April 1994. Nevertheless, the momentum of recovery should be sufficiently strong to permit output to rise by $2\frac{1}{2}$ percent in 1994 and—with an anticipated recovery in key export markets—by slightly more in 1995.

The largest downward revision to earlier projections for 1994 is for *Japan*, where the economy has been weighed down by the contractionary aftereffects of asset price declines (including loan losses in the

banking sector), continued weakness in investment following the exceptional activity of the late 1980s, the persistent strength of the yen, and depressed levels of business and consumer confidence. Industrial production fell at a 14 percent annual rate in the fourth quarter of 1993; although there were signs of a rebound in early 1994, the durability of this pickup remains uncertain. The fiscal stimulus package announced in February included a tax cut for one year equivalent to $1\frac{1}{4}$ percent of GDP, additional expenditure for public works, and increases in loan programs focusing on the residential sector and business investment (Box 2). The positive effects of this package, and the continuing stimulative effect of earlier

Japan: Macroeconomic Effects of the February 1994 Stimulus Package*(In percent unless otherwise noted)*

	1993	1994	1995	1996	1997
Real GDP growth					
Without package	0.1	—	2.3	4.2	4.6
With package	0.1	0.7	2.3	3.6	4.6
Inflation rate					
Without package	1.3	0.9	0.8	1.2	1.2
With package	1.3	0.9	0.9	1.2	1.2
Current account (in billions of U.S. dollars)					
Without package	131.4	135.5	127.2	128.0	131.2
With package	131.4	133.4	125.7	128.9	131.6

Source: IMF staff estimates.

1 percent in both 1994 and 1995.² Because of the transitory nature of the stimulus, output returns to its base-line level in 1996. These estimates are based on simulations using the IMF's MULTIMOD econometric model, which incorporates a multiplier for government expenditure of about 1.0 and a multiplier for tax measures of roughly 0.5.³ It is assumed that monetary policy keeps market interest rates unchanged, and consequently that there is no change in the exchange value of the yen. There is essentially no impact on inflation because of the large output gap.

Real GDP growth in 1994 is estimated to be $\frac{3}{4}$ of 1 percent—compared with essentially no growth in the

absence of the package—while in 1995 estimated real growth is about unchanged at $2\frac{1}{4}$ percent (*see table above*).⁴ Consumer price inflation is projected to ease from $1\frac{1}{4}$ percent in 1993 to slightly less than 1 percent in 1994 and 1995. Relative to developments in the absence of the package, the current account surplus is projected to be roughly \$2 billion lower in 1994 and 1995, reflecting the response of imports to aggregate demand. The current account surplus is thus expected to rise slightly in 1994 before declining in 1995.

Several considerations need to be borne in mind in interpreting these results. First, in addition to these direct effects, private sector confidence could well be boosted by the package. Second, the indirect measures have not been included in these estimates, and they would tend to have a positive effect. For these two reasons, the estimated output effect of the package given above may be underestimated.

²This assumes that about two-thirds of the effect of the tax cut on private spending will be felt in 1994, with the remainder falling into 1995. The increase in government spending on goods and services is assumed to be somewhat larger in 1995 than in 1994, given a normal implementation pattern. The Japanese authorities estimate that the entire package will have a cumulative impact on nominal GNP of 2.2 percent.

³For a description of the structure and properties of MULTIMOD, see Paul Masson, Steven Symansky, and Guy Meredith, *MULTIMOD Mark II: A Revised and Extended Model*, IMF Occasional Paper 71 (July 1990).

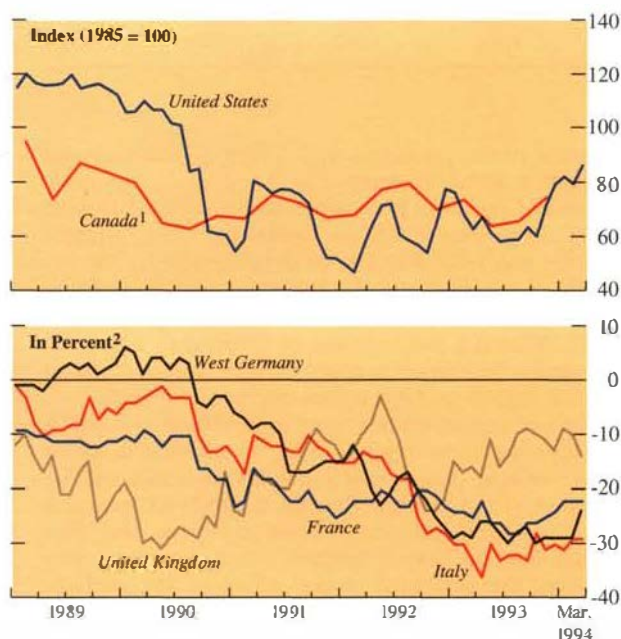
⁴The fiscal package put the level of output above the baseline projection in 1994 and 1995. With the withdrawal of the fiscal stimulus in 1996, simulated growth is lower than without the package in that year, and the level of output returns to its baseline.

measures, are expected to support a turnaround during the course of 1994, but output is projected to expand by only $2\frac{1}{4}$ percent in 1995, following growth of less than 1 percent in 1994.

The downward revisions to 1994 growth in *continental Europe* can mainly be attributed to the continued depressed levels of business and consumer confidence. In general, economic developments and policies in continental Europe have been subject to an array of conflicting pressures: the contradictory requirements of domestic recovery and exchange rate objectives; the rival needs for fiscal consolidation and economic stimulus; and tension between the desire for rapid reductions in unemployment and

the need for fundamental—but slower-acting—structural labor market reforms. Substantial reductions of short- and long-term interest rates since early 1993 have attenuated a major depressive force on activity. However, the stance of monetary policy in most of Europe remains mildly restrictive in view of the weakness of economic conditions, with real short-term interest rates at relatively high levels and the yield curve in many countries still inverted in early 1994. Monetary policy in Germany is expected to continue the cautious easing initiated in September 1992, which brought short-term interest rates in line with long-term interest rates in early 1994. This should facilitate further interest rate cuts in France

**Chart 6. Six Major Industrial Countries:
Indicators of Consumer Confidence**



Sources: For the United States, the Conference Board; for Canada, the Conference Board of Canada; and for the lower panel, European Union.

¹Quarterly observations.

²Percent of respondents expecting an improvement in their situation minus percent expecting a deterioration.

and other ERM countries and should permit an important rebalancing of macroeconomic policies throughout Europe. Fiscal policy in Germany has shifted progressively toward a more restrictive stance following the unification-related increase in the structural budget deficit in 1990-91. In France, despite selective stimulus measures intended to help reverse the deteriorating employment situation, overall fiscal policy has aimed to gradually reduce the general government deficit.

Economic activity in *Germany* remains subdued, and a recovery is not expected to take hold until mid-1994. Unemployment, which continued to rise throughout 1993, is unlikely to begin to decline until 1995. Weakness in domestic demand in particular is expected to persist, in part because of low consumer confidence in the face of uncertain job prospects, but also because of increases in fuel and social security taxes and reductions in public spending in 1994. The announcement of these fiscal measures may have contributed to a decline in long-term interest rates in the second half of 1993. However, the benefits of lower long-term financing costs—and, in general, of the gradual easing of monetary conditions since September 1992—are expected to feed through only slowly into investment and business activity this year. High unemployment and the associated pressure on the wage bargaining process are expected to stabilize wage costs in 1994-95. This should help to arrest the decline in competitiveness experienced in recent years and, together with the projected expansions in North America and in many developing countries, to facilitate a modest pickup in exports. On balance, output is projected to expand by 1 percent in 1994, with growth in the eastern Länder at 6 percent and activity in the western Länder remaining weak. Strengthening export markets and the beneficial effects of the continuing rebalancing of the policy mix are expected to raise growth to 2 percent in 1995.

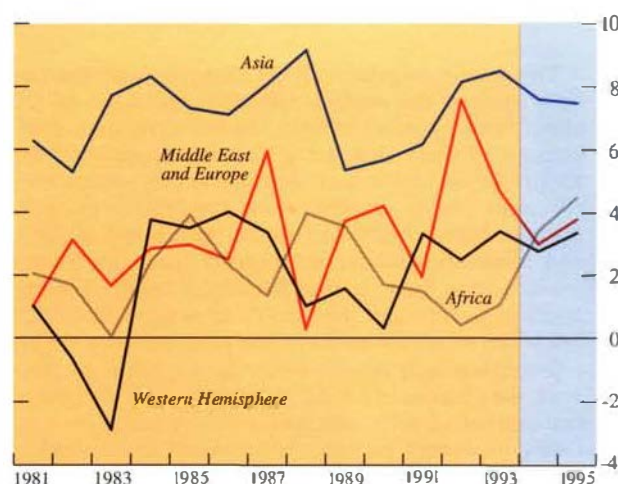
After a very sharp decline in the first quarter of 1993, economic activity in *France* increased moderately in the remainder of the year, limiting the decline in output for 1993 to $\frac{3}{4}$ of 1 percent. For 1994, growth is forecast at $1\frac{1}{4}$ percent, strengthening to $2\frac{1}{2}$ percent in 1995. Investment, which declined for three consecutive years through 1993, is projected to increase slightly in 1994. The large margin of slack in the French economy has been reflected in a marked increase in unemployment, to over 12 percent of the labor force at the end of 1993. Government decisions to increase public works spending and to unblock household savings held in profit-sharing plans should contribute some positive stimulus in 1994. Monetary conditions seem likely to ease further over the course of 1994, bringing real interest rates and the yield curve closer to positions more consistent with the weakness of economic conditions.

A strong boost from exports has helped to cushion the downturn in *Italy*, although, as in other continental European countries, a turnaround has not yet materialized. Growth in 1993 fell short of earlier projections, largely because domestic demand declined more sharply than expected—by some 5 percent overall, with investment down by 11 percent. Consumption was restrained by lower wage increases, higher taxes included in fiscal reform measures, and continued labor shedding. Both consumption and investment were adversely affected by a sharp decline in confidence—following the 1992 financial crisis—as well as by continued high real interest rates that reflect, in part, uncertainty regarding political developments and the future course of fiscal policy. In addition, bank lending has become more cautious in the wake of rising loan losses. Although some recovery is projected for 1994, unemployment is expected to remain at about 11 percent. Against this background of relatively weak economic conditions, the recent reduction in the fiscal deficit is particularly noteworthy. However, the debt and deficit remain very high, and additional measures are likely to be needed to ensure the achievement of the government's budget targets for 1994 and beyond. Further progress in fiscal consolidation will be the key to facilitating continuing declines in interest rates.

Growth in the *smaller industrial countries* is projected to average 1½ percent in 1994 (see Table 2). Differences in the outlook for individual countries follow a pattern similar to that among the major industrial economies. The Nordic countries—which went into recession earlier, following the asset market overheating and subsequent sharp corrections in the late 1980s (especially in Sweden) and, in Finland, following the collapse of trade with the former Soviet Union—are now showing clearer signs of recovery. Lower interest rates, improved competitiveness and export sector performances, and increased business confidence have been the main positive factors. Economic growth remained relatively strong in Ireland in 1993, supported in part by large reductions in interest rates, and the outlook for 1994–95 is very favorable. Elsewhere in Europe, prospects are more closely linked to the outlook for Germany and France; growth is projected to remain modest until 1995, when the expansions are expected to become mutually reinforcing, notwithstanding increased fiscal consolidation efforts in several countries. Growth projections for Australia and New Zealand are encouraging—the adverse effects of the recession in Japan have been more than offset by positive domestic developments, in particular a recovery of investment, and by demand from elsewhere in Asia and from North America.

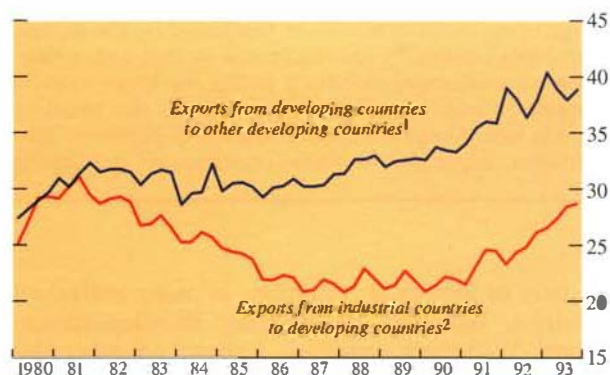
Aggregate performance in *developing countries* is projected to remain strong in 1994 and 1995 (see Table 1 and Chart 7). The sustained growth in the group of developing countries as a whole is indicative

Chart 7. Developing Countries: Real GDP¹
(Annual percent change)



¹Blue shaded area indicates IMF staff projections.

Chart 8. Developing Countries: Contribution to Regional Export Flows



¹As a percent of total dollar value of developing country exports.

²As a percent of total dollar value of industrial country exports.

Box 3. The Impact of Lower Oil Prices

The average spot price for oil has declined considerably since mid-1992, falling to the \$12–\$13 range following the November 1993 decision by the Organization of Petroleum Exporting Countries (OPEC) not to reduce production quotas (*see chart*). Futures market prices suggest that oil prices will recover somewhat during 1994 from their end-1993 level, reflecting the expectations of stronger growth in the industrial countries and continued high growth in the developing countries. Global demand for oil in 1994 is expected to be about 1 percent higher than in 1993. Oil prices are assumed to average \$13.76 during 1994, 20 percent lower than was assumed in the October 1993 *World Economic Outlook*.

The slide in oil prices reflects changing conditions on both sides of the market. Global demand for oil fell about $\frac{1}{4}$ of 1 percent in 1993, the first drop since 1985, because of weak demand in Europe, Japan, and the former Soviet Union. Low demand, in conjunction with abundant supply resulting from buoyant OPEC production, higher North Sea output at the end of 1993, and relatively resilient net exports from the former Soviet Union, led to a large buildup of crude oil inventories in Europe and the Caribbean toward the end of 1993. The relatively unrestrained production by OPEC reflected attempts to compensate for the fall in oil revenues, the absence of a strategy to deal with Iraq's eventual market re-entry, and lack of cooperation by non-OPEC producers, particularly the North Sea producers, to reduce supply. It also reflected OPEC's recent emphasis on regaining market share, which has depressed prices in the short run but may put OPEC in a better position to influence prices in the medium term. OPEC's share in world supply has increased in recent years, and almost all of the rise in world demand since the oil price collapse of 1985 has been met by increased OPEC production (*see chart*).

The beneficial effect of a 20 percent fall in oil prices on some individual countries could be significant, but the net impact on world activity is unlikely to be large because some countries would experience an income loss. Oil importing countries would benefit: aggregate supply would rise, since oil is used in production; and aggregate demand would be stimulated by the decline in overall prices, by the rise in real wealth, and, assuming an unchanged monetary policy, by lower interest rates. In addition, the improvement in the terms of trade would help to alleviate balance of payments constraints, especially in finance-constrained developing

countries, thus permitting a rise in oil and other imports and strengthening domestic activity. In general, however, the positive effects on demand are likely to be relatively small. In most industrial countries, interest rates and inflation are already relatively low, and oil intensity—oil consumption as a ratio to GDP—is lower than in the 1970s. In addition, exports to major oil exporting countries are important for many oil importers, and falling oil prices would have an adverse effect on such exports.

Simulations with the IMF's MULTIMOD economic model, which takes into account the above supply and demand effects, indicate that a permanent fall in nominal oil prices of 20 percent would raise GDP in industrial countries by about 0.1 percent after two years.¹ Interest rates would fall by about 10 basis points, and the price level would decline by $\frac{1}{4}$ of 1 percent. Using the IMF's developing country model, the effect on activity in non-oil developing countries is estimated to be roughly 0.1 percent after two years, and the aggregate current account balance of these countries as a ratio of their exports would improve by around $\frac{3}{4}$ of 1 percentage point.² The beneficial effects on the balance of payments in oil importing developing countries could have a positive impact on their creditworthiness, depending on the extent to which the wind-fall gains are to be saved.

For major oil exporters, the fall in oil prices would have sizable negative effects on national incomes and GDP, and on fiscal balances because government revenues are largely dependent on oil royalties. GDP in the major oil exporters could fall by around $1\frac{1}{2}$ percent after two years, and real incomes could fall even more.³ The aggregate current account as a ratio to exports

¹See Paul Masson, Steven Symansky, and Guy Meredith, *MULTIMOD Mark II: A Revised and Extended Model*, IMF Occasional Paper 71 (July 1990). These simulations do not take account of the possible increase in energy taxes.

²These estimates take into account higher output and lower interest rates in the industrial countries; see Manmohan S. Kumar, Hossein Samiei, and Sheila Bassett, "An Extended Scenario and Forecast Adjustment Model for Developing Countries," in *Staff Studies for the World Economic Outlook* (IMF, December 1993), pp. 47–75.

³Major oil exporters are defined to include Algeria, Indonesia, Islamic Republic of Iran, Kuwait, Libya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

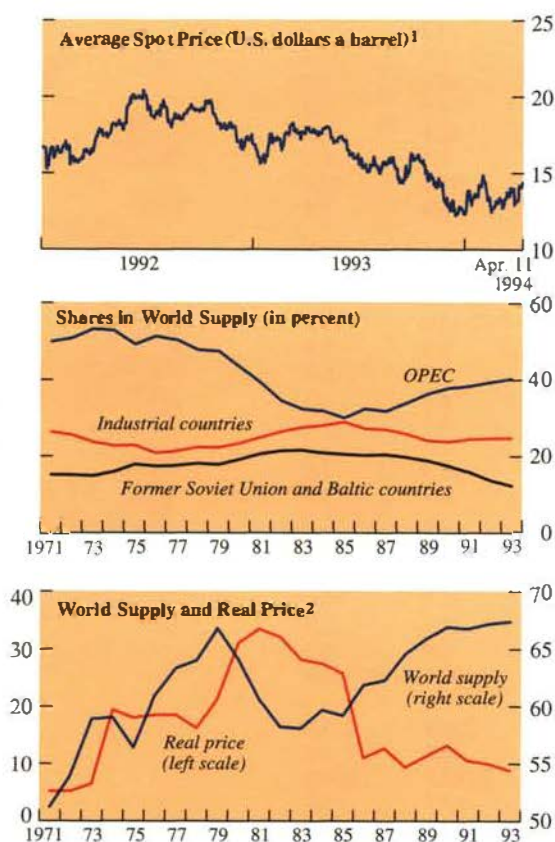
not only of improved conditions in many individual countries, but also of growing interdependence among developing countries. Exports to other developing countries have increased steadily as a proportion of developing country exports (Chart 8). Moreover, economic expansion in many developing countries has helped to offset some of the weakness in

demand growth among industrial countries: since 1990, exports to developing countries have risen significantly as a proportion of total industrial country exports.

Among the developing countries in Asia, activity in China slowed in the second half of 1993 as efforts to contain unsustainably rapid growth began to take

could worsen by around 8 percentage points, and government budget balances as a percent of GDP could fall by around $\frac{1}{2}$ of 1 percentage point. Falling oil prices

World Oil Prices and Supply



Sources: *Petroleum Market Intelligence* (New York); other oil industry sources; and International Energy Agency.

¹Simple average of daily U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil, equally weighted.

²Oil supply is in millions of barrels a day. The price of oil is deflated by consumer prices in industrial countries and is in constant 1980 U.S. dollars.

underscore the urgency in oil exporting countries of taking decisive steps to deal with already excessive fiscal and current account imbalances. The situation has been exacerbated by the near depletion of the financial surpluses of the 1970s and early 1980s, and by the significant increase in domestic and international borrowing.

In the former Soviet Union, over two-thirds of Russia's exports are energy related, and a fall in hard currency earnings would further increase demand for external financing and would put pressure on the reform process. Because Russia's oil production faces supply constraints, the fall in revenue could not easily be countered by raising output, and policies to improve domestic energy efficiency might be required. Elsewhere in the region, net oil exporters (Kazakhstan, Azerbaijan, and Turkmenistan) would also suffer income losses, while net oil importers would benefit.

The fall in oil prices over the past decade has in part resulted from increased energy efficiency in consuming countries, and the downward trend is generally expected to continue (see Box 5 in the May 1993 *World Economic Outlook*, pp. 56–57). There are, however, several factors that might tend to slow, or even reverse, this downward trend. The current weakness of prices conceals the fact that the market (excluding Iraq) is operating at over 90 percent capacity and thus is vulnerable to short-run fluctuations in demand or supply. Moreover, the overhang in the market during December 1993, which was estimated to be in the range of 55–65 million barrels, was almost eliminated by the end of January 1994, in part because of unusually cold weather in North America. In addition, the sustained low level of oil prices has weakened conservation efforts somewhat in recent years, and the rate of decline in oil intensity has slowed in most industrial countries. Low oil prices and weak demand have also made exploration, investment, and extraction in high-cost fields unprofitable and have slowed the expansion of capacity in low-cost fields. Unless oil prices recover, capacity in OPEC countries may not increase significantly. If high growth continues in the developing countries and if activity in the industrial countries recovers to more normal levels, even with stagnating demand in the former Soviet Union, demand for oil may pick up over the medium term. With production in the North Sea likely to peak during the 1990s, and with some oil exporters (including China and Indonesia) expected to become net importers by the end of the decade, the downward trend in oil prices may be attenuated or even reversed.

hold. Growth for the year was nevertheless strong, at 13 percent, but is expected to moderate somewhat in 1994–95 (Table 3). Economic activity in India in 1993 was slightly weaker than earlier projected, largely because of the slower-than-anticipated recovery in the industrial sector. An expected revival in investment and the prospect of sustained export growth

support the stronger growth forecast for 1994. Domestic demand strengthened decisively in Korea during 1993, and the outlook for 1994 is for robust growth, supported by both consumption and investment. Economic performance in Indonesia, Malaysia, Pakistan, and Taiwan Province of China remains buoyant, with growth in 1994–95 projected at 6 to

**Table 3. Selected Developing Countries and Countries in Transition:
Real GDP and Consumer Prices***(Annual percent change)*

	Real GDP			Consumer Prices		
	1992	1993	1994	1992	1993	1994
Developing countries	5.9	6.1	5.5	38.8	45.9	40.9
Median	3.5	3.7	4.0	9.3	7.1	8.0
Africa	0.4	1.1	3.4	40.6	31.7	30.6
Algeria	2.3	-1.8	3.0	31.8	20.2	37.8
Cameroon	-5.2	-4.9	-5.9	2.0	-3.9	12.8
Côte d'Ivoire	0.2	-1.1	0.8	4.2	2.0	35.4
Kenya	0.4	0.2	3.0	27.3	46.1	7.5
Morocco	-2.9	1.0	7.1	4.9	4.5	4.0
Nigeria	3.5	2.9	2.2	44.6	60.4	51.2
South Africa	-2.1	1.0	3.3	13.9	9.5	8.0
Sudan	8.9	6.0	3.0	117.6	95.0	60.0
Tunisia	8.0	4.1	6.4	5.5	6.0	5.5
SAF/ESAF countries ¹	-0.8	3.6	4.8	24.2	19.1	11.9
Asia	8.1	8.4	7.5	7.4	9.5	7.9
China	13.0	13.1	10.0	5.3	13.0	10.0
India	3.7	4.1	4.8	10.7	9.9	8.5
Indonesia	6.3	6.5	6.2	7.6	9.7	6.0
Korea	4.8	5.3	6.3	6.2	4.8	4.7
Pakistan	5.1	5.1	7.0	9.5	8.7	7.2
Philippines	0.3	1.8	3.5	8.9	7.6	10.0
Taiwan Province of China	6.5	5.7	5.8	4.5	2.9	3.0
Thailand	7.6	7.8	8.2	4.1	3.3	5.0
Middle East and Europe	7.5	4.7	3.0	24.2	24.4	20.9
Egypt	0.4	1.3	2.6	15.7	10.3	7.8
Iran, Islamic Republic of	4.6	3.0	3.0	21.6	27.5	10.0
Israel	6.6	3.5	5.3	12.0	10.9	8.0
Saudi Arabia	3.0	1.0	-3.1	-0.4	2.0	1.0
Turkey	5.3	6.8	5.1	70.1	65.0	65.0
Western Hemisphere	2.5	3.4	2.8	165.8	236.5	213.9
Argentina	8.7	6.0	4.5	24.9	10.6	4.0
Brazil	-0.9	5.0	2.0	991.1	2,103.3	1,888.0
Chile	10.3	6.0	4.5	15.4	12.7	10.0
Mexico	2.6	0.4	3.0	15.5	9.8	6.0
Venezuela	6.8	-1.0	-2.5	31.4	38.7	49.1
Countries in transition	-15.5	-8.8	-6.1	766.9	687.2	290.2
Central Europe	-8.3	-1.4	1.8	145.1	128.0	78.6
Czech Republic	...	0.5	2.5	...	20.8	10.0
Former Czechoslovakia	-8.5	...	...	11.0	...	...
Poland	1.5	4.0	4.5	43.0	35.3	27.3
Slovak Republic	...	-3.6	—	...	23.2	14.0
Former Soviet Union and Baltic countries	-18.2	-11.9	-9.8	1,292.4	1,226.3	457.4

¹ African countries that had arrangements, as of end-1993, under the IMF's structural adjustment facility (SAF) or enhanced structural adjustment facility (ESAF).

8 percent. In Thailand, consumption growth and increases in infrastructure investment, as well as strong exports related to recoveries in industrial countries, will continue to support the expansion. The outlook for the Philippines has improved somewhat, due in large part to increased power-generating capacity and expanding investment.

In the *Western Hemisphere*, overall growth is projected to be somewhat slower in 1994 than in 1993, but to return to a stronger pace thereafter. Political uncertainty and a drop in investment in Venezuela in 1993 contributed to a decline in output of 1 percent; the need for monetary tightening in the period ahead points to a likely further contraction in 1994. Eco-

economic activity in Mexico slowed sharply in 1993, reflecting restructuring efforts in manufacturing and the need to reduce inflation. Growth is projected to rebound in 1994–95 as private investment and economic confidence benefit from the ratification of the North American Free Trade Agreement (NAFTA). A stabilization plan anticipated for mid-1994 in Brazil should reduce domestic imbalances and strengthen the medium-term outlook, but it may cause a temporary decline in growth in the near term. In Chile a modest slowdown, associated with continued weakness in key export markets, is projected to bring the rate of expansion down somewhat further in 1994, albeit to a still satisfactory range. In Argentina as well, growth is expected to decline slightly as demand growth returns to more sustainable levels.

The short-term outlook for *Africa* shows significant improvement, relative to the experience of the past several years. The projected increases in activity in Morocco and Tunisia reflect the end of the drought that severely curtailed output in 1993. In addition to the drought, the decline in oil prices, a shortage of foreign exchange, and problems in obtaining imported inputs contributed significantly to the contraction in Algeria in 1993; reversal of some of these factors should strengthen growth in 1994–95. More generally, the anticipated improvement in world commodity prices and the prospect of stronger demand from industrial countries are significant positive factors in the regional outlook. An exception is Nigeria, where macroeconomic policy imbalances have hampered economic activity. Growth in the African countries of the franc zone is expected to be boosted considerably by their improved international competitiveness following the devaluation of the CFA franc by 50 percent, and of the Comorian franc by 33 percent, in January 1994 (see Box 8 in Chapter IV).⁵ With the maintenance of prudent financial policies in these countries, and with supportive financial flows on a bilateral basis from several countries and from multilateral institutions, the almost 2 percent decline in output in 1993 is expected to be reversed in 1994, and output is expected to increase by 4½–5 percent in 1995. African countries that had arrangements, as of end-1993, under the IMF's structural adjustment facility (SAF) or enhanced structural adjustment facility (ESAF) are projected to sustain average growth of 5 percent in 1994–95.

The sharp drop in oil prices in late 1993 has had a considerable impact on the oil exporting countries of the *Middle East and Europe* (Box 3). Declining oil revenues have weakened the short-term outlook for the Islamic Republic of Iran and have exacerbated

problems with its short-term external debt. Lower oil prices have also been a factor in Saudi Arabia, compounding pressures resulting from fiscal and external imbalances. In the economies less dependent on oil production, growth prospects have generally improved. Economic activity in Egypt is projected to strengthen because of sustained economic reform. In Israel, growth is expected to improve in 1994 because of higher private investment and stronger export markets. In Turkey, however, problems associated with large fiscal deficits and external imbalances present a significant risk in the period ahead.

Economic conditions improved substantially in most of the *transition countries of central Europe and the Baltic states* during 1993 (for more detailed discussion, see Chapter V). Output expanded in Poland, Albania, and Slovenia at a strong pace, and activity in the economies of the Czech Republic, Hungary, and Romania reached a turning point in the second half of 1993, with these countries experiencing output increases since then. Output continued to decline in Bulgaria and in the Slovak Republic—in the former, because of financing constraints and the adverse impact of the embargo on the Federal Republic of Yugoslavia (Serbia/Montenegro); in the latter, in the aftermath of the dissolution of Czechoslovakia. Unemployment in Poland, Hungary, and other central European transition countries remained in the 10–16 percent range, but unemployment in the Czech Republic stabilized below 5 percent.

Continued adverse developments in the countries of the *former Soviet Union* present a somber picture for the period ahead. Measured unemployment remains fairly low, but underemployment—in the form of shortened hours or obligatory leaves—is considerable, and open unemployment is expected to increase sharply in most states of the former Soviet Union in 1994 and beyond. The economies of Ukraine, Belarus, and most other countries of the former Soviet Union, with the notable exception of Turkmenistan, experienced further substantial drops in output in 1993 and early 1994 as a result of ongoing disruptions to interstate trade, failures to implement stabilization policies, and, in several countries, armed conflicts. In Russia, GDP is estimated to have fallen an additional 12½ percent in 1993, despite efforts to contain the decline by extending the provision of credit and subsidies to state enterprises and by permitting the re-emergence of sizable interenterprise arrears. Prospects for 1994–95 are extremely uncertain.

Inflation and Commodity Prices

The weakness of economic activity in the *industrial countries* since 1990 has helped to reduce inflation to very low levels (see Table 2). The drop of

⁵The CFA is commonly understood to refer to both the Communauté Financière de l'Afrique de l'Ouest and the Communauté Financière de l'Afrique Centrale.

almost 20 percent in oil prices since mid-1993 has also helped to bring inflation down, although there have been partially or fully offsetting increases in fuel taxes in several countries.⁶ Output gaps in the major industrial countries still in recession have widened to unprecedented postwar levels, contributing in Japan to further reductions in inflation below already very low rates of price increase. In continental Europe, tight monetary conditions and smaller wage increases in several countries have also helped to ease price pressures.

Average inflation in continental Europe is projected to continue to slow steadily during 1994–95. Rates of price increase in France, Italy, and Spain are expected to be at the lowest levels since the late 1960s. In Italy, moderate wage growth following the July 1993 labor agreement has contributed to inflation performance in 1993 that was much better than expected and holds promise for continued inflation convergence during the recovery. Broad measures of inflation in Germany have declined more slowly than might have been expected, given the large degree of economic slack and the stance of monetary policy, but increases in administered prices and indirect taxes have masked a steady decline in underlying inflation, especially in the tradable goods sectors. Inflation is expected to continue to decline throughout 1994–95.

In the United States, measured consumer price inflation remained unchanged on a year-on-year basis in 1993, although broader measures such as the GDP deflator showed continued declines. The strength of the U.S. recovery in the latter part of 1993 has largely absorbed the economic slack from the 1990–91 recession, but the oil price decline should contribute to some price reductions, and inflation is expected to remain broadly stable. In contrast, domestic slack remains substantial in Canada and the United Kingdom, despite the recoveries. Inflation is therefore projected to remain very low in Canada and is expected to fall slightly further in the United Kingdom. In Australia and New Zealand, inflation remains very low: New Zealand's combined outlook of strong growth and price stability is particularly impressive; in Australia, indirect tax increases contribute to slightly higher projected inflation in 1994–95, but underlying inflation remains stable.

Inflation performance in the *developing countries* also shows notable improvement. Average inflation, which jumped sharply in 1993 because of large price rises in a few countries, is expected to decline sub-

stantially in 1994 (see Table 3). Median inflation is forecast at 8 percent in 1994, down from almost 12 percent in 1991. The projected slight decline in average inflation in Africa in 1994 masks a significant increase in the CFA countries as prices adjust to the currency depreciation. With the maintenance of sound financial policies, however, the inflation increase should be temporary. Inflation in Asia is projected to decline in 1994, with continued progress in several countries and on the basis of the assumed implementation of successful stabilization policies in China. Inflationary pressures in the Islamic Republic of Iran intensified in 1993, following the currency depreciation in the wake of exchange rate unification, but more stable financial conditions are expected to bring inflation down in 1994–95. Domestic imbalances in Turkey, including a worsening of the fiscal position, imply that inflation will remain high in 1994. Prices should increase less rapidly in Brazil during the course of 1994 as stabilization efforts take effect, but for the year as a whole inflation is projected at a still very high level. A stabilization program was adopted recently that starts with the introduction of a new index for price adjustment, to be followed by the introduction of a new currency, the “real.” A loosening of financial policies in Venezuela in 1993 contributed to an acceleration in domestic prices in 1993, and inflation is expected to increase further in 1994. Elsewhere in the Western Hemisphere, inflation is generally expected to continue to decline in 1994.

With the exception of the Baltic states, where inflation fell to about 1 percent a month, there was only modest progress in reducing inflation in the *countries in transition* in 1993. Although inflation rose in the Czech Republic, Romania, and the Slovak Republic, this was due partially to increases in indirect taxes rather than to deterioration in policy stances or underlying conditions. The outlook for central European countries in 1994 and beyond is for further improvements in inflation performance, but prospects are less certain for Russia, where weak credit control led to monthly price increases of over 20 percent during 1993. Very high inflation also characterizes most other states of the former Soviet Union.

Average *petroleum prices* fell from \$17.37 a barrel in the second quarter of 1993 to \$14.32 in the fourth quarter, and to \$12.65 a barrel in December (Chart 9). Weak demand from industrial countries, and continued supply increases from both within and outside the Organization of Petroleum Exporting Countries (OPEC), exerted substantial downward pressure (see Box 3). Prices recovered somewhat in early 1994 as producers curtailed production. Uncertainty regarding the re-entry of Iraq into oil markets accounts for some continuing downward pressure on prices, although futures markets point to a firming of market conditions during the course of 1994.

⁶Fuel tax increases were implemented in 1993 in the United States, the United Kingdom, France, Spain, Sweden, and Australia and are scheduled to be, or already have been, implemented in 1994 in Germany and Italy, and again in the United Kingdom.

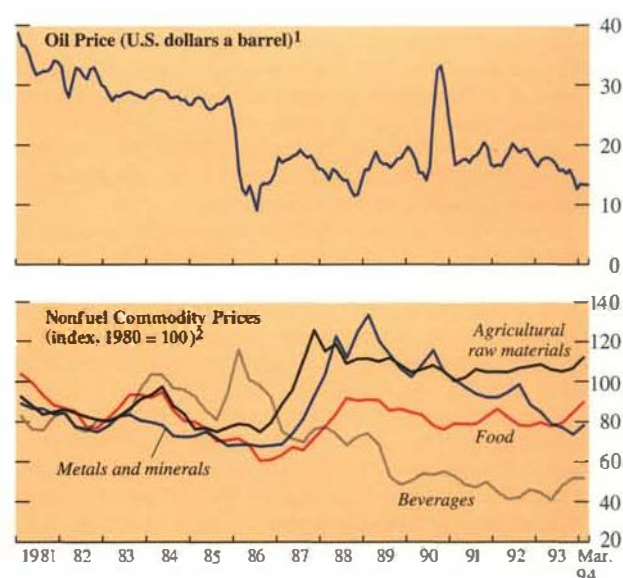
With the exception of metals and minerals, dollar prices of *nonfuel commodities* generally stabilized and then rose in the second half of 1993, but average 1993 prices were still below 1992 levels, bringing the cumulative decline in the nonfuel commodity price index since 1988 to almost 16 percent (see Chart 9). Prices for metals and minerals continued to fall in 1993 because of subdued activity in many industrial countries together with supply increases, especially from the former Soviet Union, that have brought world stocks to very high levels. The remaining commodity groups saw prices firm despite weak demand in Europe and Japan because of recovery in other large markets, weather-related reductions in the supply of some commodities, and some shift of productive capacity to other uses. Commodity prices are expected to recover somewhat in 1994, reversing some of the recent losses in metals and minerals prices and providing further gains in other prices, as activity gradually picks up in the industrial countries and as supply cutbacks in many areas continue.

Foreign Exchange and Financial Markets

In Europe, tensions have abated significantly within the EMS since the widening of the ERM intervention bands in August 1993. Following initial weakening, the currencies of several of the ERM countries have gradually returned to levels against the deutsche mark that are above their pre-August intervention floors, even as interest rate differentials with Germany have narrowed (Charts 10 and 11). Outside the ERM, the pound sterling has strengthened significantly since early 1993, although the interest rate cut in early February led to some weakening. The Italian lira weakened further during 1993, partly reflecting policy uncertainties; this decline was partially reversed in late March and early April 1994. The Finnish markka has reversed about half of the decline that occurred in the six months following the decision to float the currency, with the improvement in late 1993 reflecting increased confidence, emerging signs of recovery, and prospects for lower inflation. The Swedish krona declined marginally further, in nominal effective terms, during 1993 but strengthened somewhat in early 1994.

The U.S. dollar rose in nominal effective terms about 11 percent from its low in August 1992 to March 1994 (Chart 12). Between mid-September 1993 and early April 1994 it recorded gains of 4 to 7 percent against the deutsche mark, French franc, Italian lira, and pound sterling, reflecting relative cyclical positions and changes in interest rate differentials in favor of the U.S. currency. The U.S. dollar also strengthened by 5 percent against the Canadian dollar during this period.

Chart 9. Commodity Prices



¹Simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil, equally weighted.

²Measured in U.S. dollars, with weights based on average world export values in 1979–81.

Box 4. Emerging Equity Markets

Since the mid-1980s, there have been substantial increases in stock market activity in many developing countries. The combined capitalization of these emerging equity markets—the market value of the equity of quoted firms—has increased from less than \$100 billion at the end of 1983 to nearly \$1 trillion by end-October 1993.¹ This compares with a roughly threefold increase in the combined capitalization of industrial country markets over the same period. The increase in capitalization mainly reflects increases in equity prices (*see chart*), but there has also been a rise in the listings of new equity shares. Although the markets in the United States, the United Kingdom, and Japan are still significantly larger, market capitalization in some of the emerging markets now approaches that in many industrial countries. Expressed as a ratio to GDP, market capitalization in Chile, Hong Kong, Malaysia, and Singapore exceeds that in the United Kingdom or the United States.

The growth of equity markets has been encouraged by appropriate macroeconomic and structural reform policies implemented by many developing countries in recent years. As a result of these policies, domestic demand, exports, and corporate profits have all increased sharply. Furthermore, declining fiscal deficits and inflation, realistic and stable exchange rates, and improved economic incentives have provided an environment in which the private sector has begun to flourish and confidence in economic prospects has strengthened. The privatization of state enterprises has further promoted stock market activity by expanding the supply of shares, many of them internationally marketable.

Measures to improve the institutional environment have also increased investor confidence and spurred market growth. Countries such as Argentina, Chile, India, Korea, and Mexico have eliminated or reduced restrictions on foreign holdings and have improved settlement and clearance procedures. Reforms to the reg-

ulatory environment (for instance, increased disclosure requirements for new listings), as well as reduced taxes on transactions and capital gains, have also encouraged the expansion of equity markets.

During the past four years, the weakness of activity in industrial countries has increased the relative attractiveness of these markets, which has further boosted trading activity and prices. The unusually low interest rates that prevailed in the United States, in particular, attracted investors to the potentially high yields available in emerging markets. Moreover, external inflows appear to have set up a virtuous circle, whereby the efficiency of the domestic market has been enhanced through contacts with foreign financial institutions and sophisticated financial technology, thereby attracting further inflows.

These emerging equity markets have contributed to the mobilization of domestic and foreign saving in developing countries by broadening the set of financial instruments available to savers wishing to diversify their portfolios. In doing so, the markets provide an important source of investment capital at relatively low cost. During the past decade, available data suggest that equity issues financed more than a third of the increase in large firms' net assets in Chile, Korea, Malaysia, Mexico, Taiwan Province of China, and Thailand. More fundamentally, the limited availability of debt finance in many developing countries, including bank loans (which may be restricted to a select group of companies), can make equity finance highly attractive; it can reduce firms' vulnerability to interest rate increases and allow them to share risk with equity holders.

At the same time, the continuous valuation of share prices in equity markets and the implied possibility of mergers and takeovers impose discipline on the behavior of firms. Similarly, equity markets can improve the efficiency with which managerial resources are used by enhancing the ability of shareholders to effect changes in management. Although the incentive to monitor firms may be limited, and the takeover mechanism may not be very effective with broadly dispersed shareholdings, equity ownership is sufficiently concentrated in many developing countries to lead to the emergence of shareholders who should find it beneficial to exercise effective scrutiny over managerial actions.

Equity markets also act as a conduit for foreign saving, as the experience of the past four years has shown. External equity finance reduces reliance on external debt, which can render countries vulnerable to increases in international interest rates and the associated increases in debt-service payments. Allowing dividend

¹The International Finance Cooperation (IFC) identifies 36 emerging equity markets; including Hong Kong and Singapore, which are regarded as emerging markets by many observers, gives the following breakdown: 13 in Asia, 12 in Latin America, 7 in Africa, and 6 in the Middle East and Europe region. Several former centrally planned economies are also in the process of developing equity markets. For an analysis of key issues related to the operation of these markets, as well as data on their performance, and for further elaboration of the discussion in this Box, see Robert A. Feldman and Manmohan S. Kumar, "Emerging Equity Markets: Growth, Benefits, and Policy Concerns," IMF Papers on Policy Analysis and Assessment, PPAA/94/7 (March 1994).

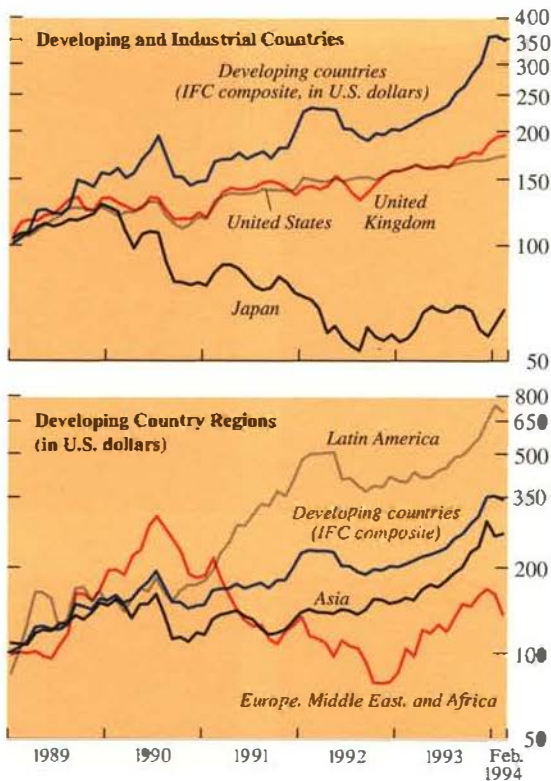
The Japanese yen strengthened marginally against the U.S. dollar since the October 1993 *World Economic Outlook*, amid sharp fluctuations that seemed to reflect changing market concerns over external imbalances and trade tensions. From highs approaching

100 yen per dollar in mid-August 1993, the yen fell to around 105 per dollar in mid-September and to 110 per dollar or more in late December 1993 and January 1994—which contributed to a decline in the currency in nominal effective terms—before strengthen-

payments and equity prices to adjust instead also allows for risk sharing with foreign investors. Moreover, inflows of equity finance bring improved accounting and reporting standards in their wake, as well as exposure to advanced supervisory and managerial techniques in the source country. From a global perspective, there is a net gain to the world economy as capital is channeled to areas yielding the highest returns. Investors in industrial countries also benefit from a diversification of their portfolios, since returns in the emerging markets do not appear to be highly correlated with those in industrial country markets.

Equity Prices

(Logarithmic scale; index, December 1988 = 100)



Sources: *Emerging Stock Markets Factbook*, International Finance Corporation (1993); and Bloomberg, Inc.

Despite these benefits, several concerns have been expressed about the operations of these markets. A common one is that "excessive" volatility in share prices will have negative spillovers for the real economy. It is not surprising, of course, that as markets become more efficient and the liquidity and frequency of trading increase, new information will be reflected in prices more quickly, and observed volatility may actually appear to increase. The more important concern is that speculative bubbles lie behind the marked increases in equity prices in developing countries. In this situation, prices can increase for considerable periods over and above the levels warranted by economic fundamentals, only to fall sharply after abrupt changes in market sentiment, with serious economic and financial consequences for the economy.

In practice, it is difficult to distinguish between bubbles and the effects of fundamentals. Although prices have risen sharply, price-earnings ratios have not, until very recently, increased markedly in several countries because there has also been a sharp increase in earnings. This suggests that the likelihood of a bubble may have been limited. Although differences in accounting standards, corporate capital structures, and legal requirements make cross-country comparisons difficult, price-earnings ratios in emerging markets have not, in general, been significantly higher than those in industrial country markets. In the last six months of 1993, however, the price-earnings ratios for some of the emerging markets increased by 50 percent or more. The volatility of these markets and the sharp drop in prices early in 1994 in some countries illustrate the sensitivity to both domestic and external shocks. It also raises concerns about the sustainability of recent stock market buoyancy and the possible adverse effects of a sudden change in market sentiment.

Although equity markets in many developing countries have become considerably more efficient, additional reforms would further increase their liquidity and reduce transaction costs. These include the institution of legal provisions to prohibit insider trading and the means to enforce them, improvements in accounting and reporting standards, and the simplification of procedures for listing new firms. With effective regulation and enforcement, domestic and international investors will have the confidence to commit further resources. Regulation should, of course, be confined to measures needed to correct market failures, so as not to impede the development of the market. The challenge is to provide adequate protection for investors without deterring market growth.

ing again to about 103 yen per dollar in early April. Between mid-September 1993 and early April 1994, the Japanese yen also rose by 6 to 8 percent against the four main European currencies. Reduced interest rate differentials in favor of assets denominated in Euro-

pean currencies contributed to the strength of the yen; trade tensions with the United States also appear to have been a factor in the latest rise against the dollar.

Among the developing countries, the Turkish lira continued to weaken because of high inflation and

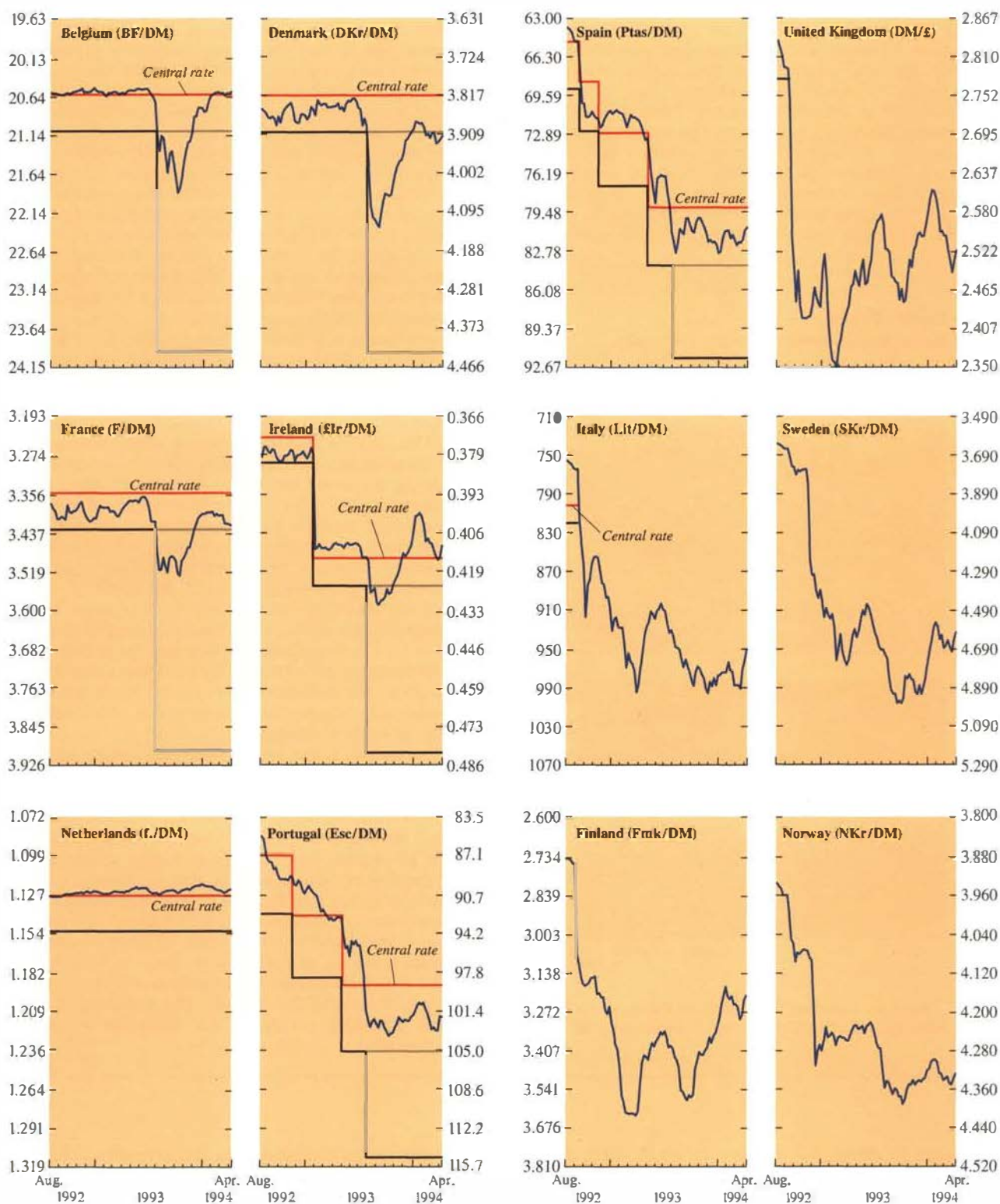
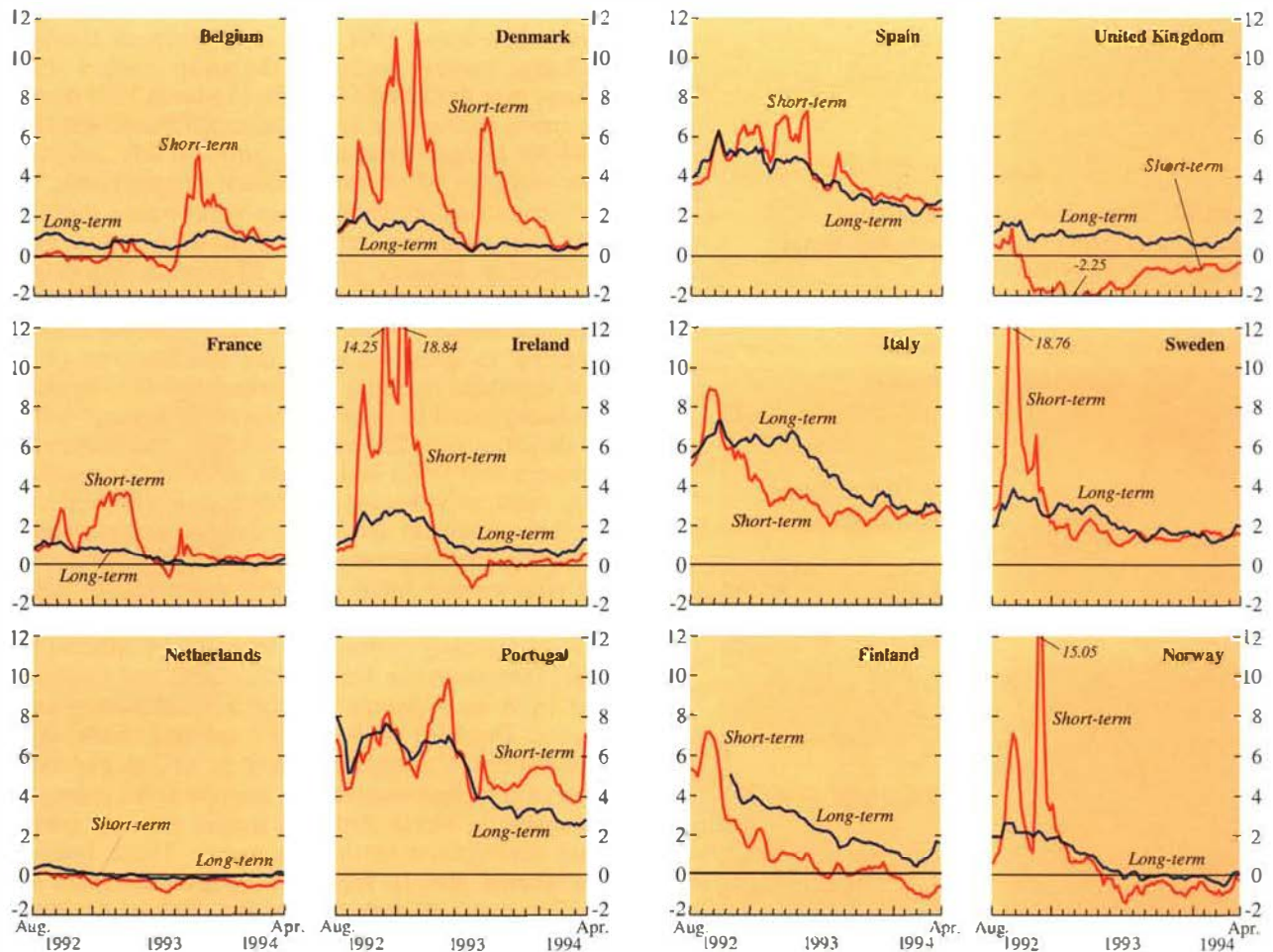
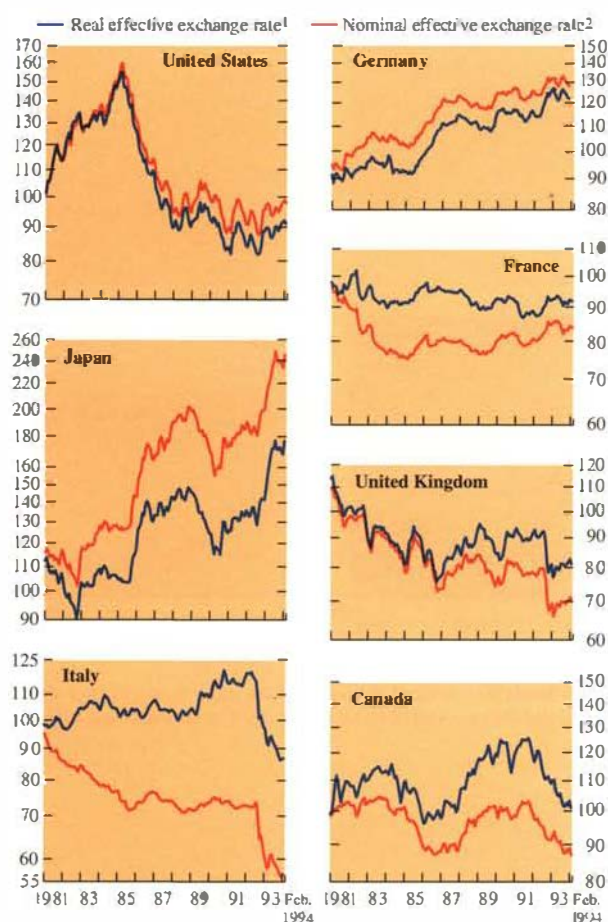
Chart 10. Selected European Countries: Bilateral Exchange Rates vis-à-vis the Deutsche Mark¹*(Black lines indicate intervention floors; tau lines indicate old intervention floors)*¹Weekly averages of daily data, based on noon quotations in London.

Chart 11. Selected European Countries: Interest Rate Differentials vis-à-vis Germany¹
(In percent)



¹Weekly averages of daily data. For long-term interest rates, yields on government bonds with residual maturities of ten years or nearest. For short-term interest rates: Italy, three-month treasury bill rate; Portugal, three-month domestic deposit rate; and other countries, three-month interbank rate.

**Chart 12. Major Industrial Countries:
Nominal and Real Effective Exchange Rates**
(Index, 1980 = 100; logarithmic scale)



Note: An increase represents an appreciation of the currency. Equal vertical distances represent equal percentage changes.

¹Defined in terms of relative normalized unit labor costs in manufacturing, as estimated by the IMF's Competitiveness Indicators System, using 1980 trade weights.

²Constructed using 1980 trade weights.

large fiscal deficits, with further depreciation of the currency at the beginning of 1994 following the downgrading of Turkey's external debt by international rating agencies. China unified its exchange system in January 1994, with new interbank foreign exchange centers replacing the swap market. Exchange rate unification in India in March 1993 made the rupee convertible for trade transactions, and the 1994–95 budget announced convertibility for the vast majority of current account transactions. In both countries, exchange rates depreciated slightly following exchange reform. The CFA franc was devalued in January 1994 by 50 percent in foreign currency terms, and the Comorian franc by 33 percent (see Box 8 in Chapter IV). Large devaluations occurred in Zaïre—despite the introduction of a new, devalued currency in November 1993—against the background of ongoing hyperinflation and a fiscal deficit of over 20 percent of GDP; and in Kenya (through mid-1993) and Sudan, reflecting high inflation, fiscal imbalances, and political uncertainties.

Equity prices in the major European and North American markets have been quite buoyant, reaching near record highs in many countries in early 1994. From mid-September to mid-February, prices in local currency terms rose by 11 to 14 percent in Italy, Germany, the United Kingdom, and Canada, and by 8 to 9 percent in the United States and France. Declines in European interest rates, and expectations of economic recovery in Europe and a stronger expansion in North America (hence stronger earnings) contributed to this buoyancy. These factors contributed also to the 12 to 25 percent gains in smaller stock markets in Europe, and to an even stronger 37 percent rise in equity prices in Finland. Since mid-February, equity prices in North America and in several European markets have on balance declined as bond yields increased. Two main exceptions to this recent trend are in Italy, where equity prices reached record highs following the election, and in Germany, where equity markets have made further gains. In Japan, equity prices have fluctuated substantially, falling in late 1993 as prospects for an early recovery weakened, but recovering in early 1994 in anticipation of the stimulus package announced in February. Political uncertainties and trade tensions resulted in considerable short-term price volatility in the first months of 1994.

Emerging stock markets generally continued their advance in the latter part of 1993 (Box 4). Performances were more mixed in the first two months of 1994, with losses reflecting in part the recent developments in financial markets in industrial countries. During the last quarter of 1993, Taiwan Province of China showed the largest gain (73 percent), owing to improving corporate earnings prospects and reduced political tension, followed closely by Thailand—where

price rises were supported by a shift in investment portfolios in industrial countries in favor of emerging markets in the region—and the Philippines.⁷ Profit taking contributed to some reversal of these gains in early 1994. Elsewhere in Asia during the last quarter of 1993, emerging equity markets in Pakistan and Malaysia gained over 40 percent, whereas average equity prices in China declined by 7 percent, in part because of expectations of new taxes on capital gains and stock transactions. In Latin America, equity prices in Mexico rose by more than 40 percent during the fourth quarter, owing to the successful completion of NAFTA. Further increases in January 1994 were offset in February. Elsewhere in the region, equity markets posted broad gains in early 1994.

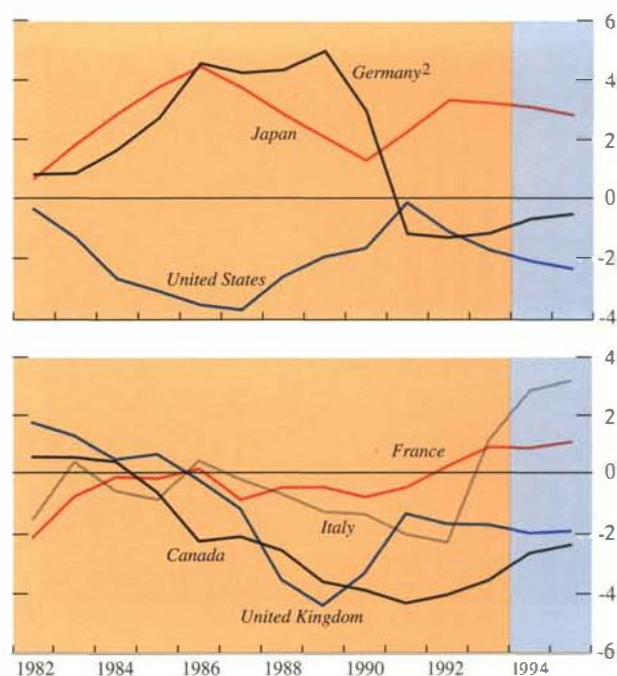
External Payments, Financing, and Debt

Growth in world trade volumes is estimated to have slowed to 2½ percent in 1993, well below the rate of increase recorded in the previous year (see Table 1). The slowdown mainly reflects low imports in European industrial countries, owing to the continued weakness of economic activity. There also appears to have been a temporary underrecording of trade flows.⁸ The low growth in trade volumes and a drop in dollar-denominated export prices in 1993 resulted in a decline in trade values measured in dollar terms. This decline follows ten years of uninterrupted growth, during which the dollar value of merchandise trade more than doubled and service trade grew even more rapidly. The volume of world trade is projected to increase by 5¾ percent in 1994 and by 6¼ percent in 1995, reflecting the projected pickup of import demand in industrial countries and a number of countries in transition and the continued strong import demand from the non-fuel-exporting developing countries.

The nonsynchronous nature of cyclical patterns among industrial countries in 1993 was a decisive

**Chart 13. Major Industrial Countries:
Current Account Positions¹**

(In percent of GDP)



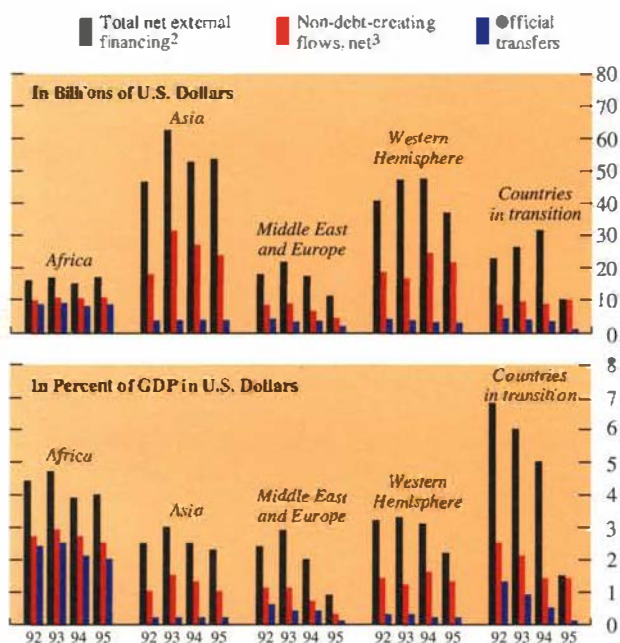
¹Blue shaded areas indicate IMF staff projections.

²Before July 1990, the current account balance of west Germany excluding the bilateral balance with east Germany; from July 1990, the current account balance of unified Germany.

⁷All references to stock price movements are to the IFC Global Index, which covers a larger part of the market than the IFC Investable Index, which is designed from the perspective of foreign investors. In countries where there are significant restrictions on foreign portfolio investment, such as China, the two indices can have very different movements. See *Monthly Update on Emerging Markets*, International Finance Corporation (November 1993 through March 1994).

⁸There is a strong likelihood that measures of 1993 world trade are understated because of reduced data coverage and reporting delays associated with new procedures to record trade within the European Union. As a result of the abolition of customs formalities within the European Union on January 1, 1993, data on intra-Union trade are now derived from value-added tax (VAT) returns, which are supposed to show exports to and imports from other European Union countries. The precise degree of underrecording is difficult to estimate but could amount to as much as 5 to 10 percent for some countries. With a gradual decline in the degree of underrecording of intra-Union trade expected over the next several years, there could be a tendency for recorded trade growth to overstate actual developments in the period ahead.

Chart 14. Developing Countries and Countries in Transition: Net External Financing Flows¹



¹Data for 1994–95 are IMF staff projections.

²The sum (with opposite sign) of balance on current account, excluding official transfers, change in reserves, asset transactions, and errors and omissions, net. See the Statistical Appendix, Table A32.

³The sum of official transfers and direct investment.

factor shaping current account developments, driving import demand higher in recovering countries and lower in the economies still in recession. A second critical determinant, and in Canada an offsetting force, has been the course of real effective exchange rates (see Chart 12). Together, these factors contributed to a widening of the current account deficit in the United States, which is expected to continue into 1995 (Chart 13). Japan's current account surplus is projected to decline only slightly in the period ahead, as the lagged effects of the recent yen appreciation are being partly offset by the projected weak recovery and further terms of trade gains in 1994. Germany's current account has been in deficit since 1991, but the deficit is projected to shrink gradually through 1995. The sharp fall in oil prices is estimated to reduce the nominal value of oil imports for all industrial countries by about \$25 billion in 1994.

Current account deficits in Mexico and Argentina, of roughly \$23 billion and \$8 billion respectively, are projected for 1994–95, reflecting relatively strong economic activity, including a rebound in investment together with private capital inflows. In Asia, large current account deficits of over \$8 billion are projected to persist in 1994 in China and Thailand, as are sizable deficits in Indonesia, the Philippines, and Pakistan. Taiwan Province of China is expected to register a deficit of \$1 billion, which is small relative to its large stock of reserves and follows a decade of large surpluses. The deterioration of Taiwan Province's external balance reflects primarily the high import content of a large-scale investment program included in the current six-year plan. Singapore is the only developing country in Asia that is expected to have a significant surplus in 1994 (about \$2 billion). Net direct investment and external borrowing in Asia are expected to remain high at \$48 billion—roughly half of the total flow to developing countries (Chart 14)—with China accounting for over one-third of the total for Asia. In Africa, Algeria's external account is projected to improve, and a deficit of over \$1 billion in Sudan and a surplus of nearly \$2 billion in South Africa are expected to be largely unchanged in 1994. Africa continues to rely heavily on official transfers as a source of external financing, with roughly half of the total official transfers to the developing countries going to Africa. In the Middle East and Europe region, the current account is projected to move into surplus in Kuwait as the quantity of oil exports recovers, whereas the decline in oil prices is expected to lead to a widening of deficits in other oil exporting countries in the region.

The combined current account of the central European countries moved further into deficit in 1993, reflecting domestic recoveries, weak external demand, increased private capital inflows, and in some cases real exchange rate appreciations. In con-

trast, and despite a significant real appreciation of the ruble, the current account balance in Russia moved from a deficit in 1992 to a surplus in 1993, reflecting depressed domestic demand (for extensive discussion of net external financing flows to transition countries, see Chapter V).

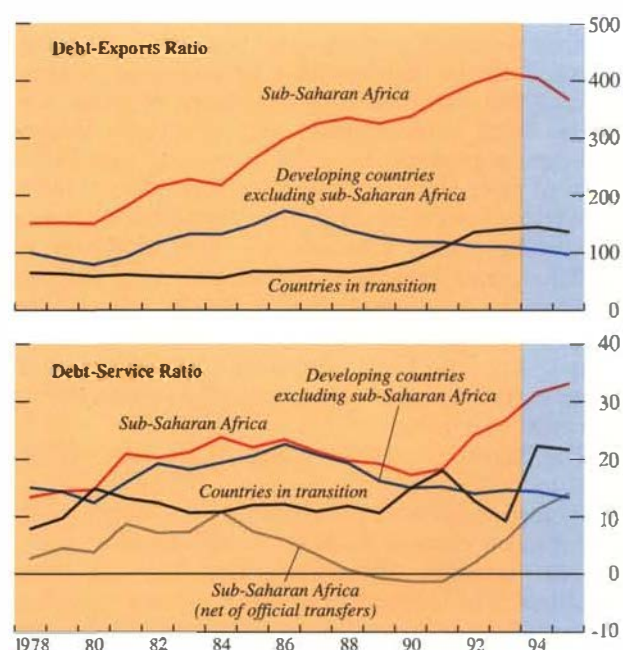
Aggregate measures of developing country indebtedness and debt burdens continue to improve, with a further decline in both debt-to-export and debt-service-to-export ratios projected for 1994–95 (Chart 15). This favorable overall trend is representative of developments in Asia, the Middle East and Europe, and the Western Hemisphere, where both debt and debt-service ratios are well below their peaks in 1986 (see the Statistical Appendix, Table A37). In Africa, however, earlier declines in debt and debt-service ratios have been partially or wholly reversed, leaving the debt ratio only somewhat lower in 1994–95 than it was in 1986, and the debt-service ratio higher than in 1986. In sub-Saharan Africa, the debt ratio increased dramatically through the 1980s and early 1990s. The debt-service ratio (which represents actual debt servicing rather than debt servicing due) declined in the second half of the 1980s, but it has risen substantially since 1991 and is now back above levels reached in the mid-1980s. External assistance has helped many sub-Saharan countries to service this external debt; official transfers in 1993 corresponded to roughly 80 percent of debt-service payments.

In 1991, Paris Club creditors adopted a new approach to debt restructuring that incorporates a 50 percent reduction in net present value terms. Although this approach should offer many countries a strong prospect for resolving debt problems, in some cases further concessions may be needed, conditional on sustained adjustment programs. Since the October 1993 *World Economic Outlook*, agreements have been concluded with Kenya and with Viet Nam. Negotiations are continuing with Algeria and with Russia. The debt initiatives associated with the devaluation of the CFA franc include a proposal by France to write off the poorest CFA countries' development aid loans, and to reduce by half the aid loans of the middle-income CFA countries. In addition, in the context of IMF-supported programs, France and other bilateral donors are committed to disbursing fresh financial assistance to CFA states over the next three years to support adjustments in the wake of the CFA franc devaluation.

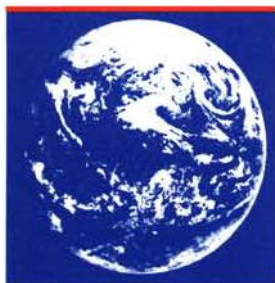
Commercial bank creditors completed agreements on debt and debt-service reduction with Bulgaria in November 1993 and with Jordan in December 1993 and signed an agreement with the Dominican Republic in February 1994. Negotiations are continuing between Panama, Peru, and Poland and their respective Bank Advisory Committees. Commercial bank creditors concluded a large debt-restructuring agreement with Brazil in April 1994.

Chart 15. Developing Countries and Countries in Transition: External Debt and Debt Service¹

(In percent of exports of goods and services)



¹ Debt service refers to actual payments of interest on total debt plus actual amortization payments on long-term debt. The projections (blue shaded areas) incorporate the impact of exceptional financing items.



III

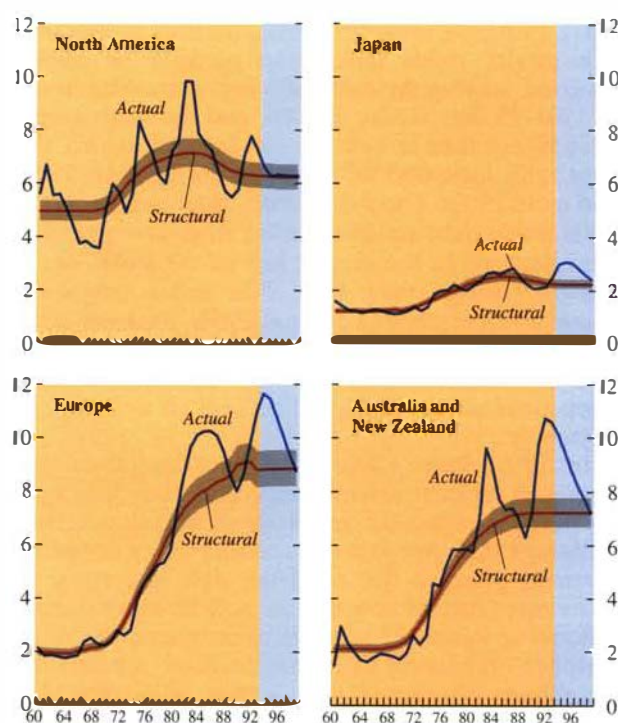
Fostering Job Creation, Growth, and Price Stability in Industrial Countries

The ratcheting up of unemployment in most industrial countries during the past two decades is reminiscent of the ratcheting up of inflation during the 1960s and the 1970s. By the end of the 1970s, inflation had reached intolerable levels, and growth and employment performance was weak; this contributed to the reorientation of economic policies toward the medium-term objectives of price stability, fiscal consolidation, and structural reform. Substantial progress has since been made only in the area of price stability, where the reduction of inflation to the lowest levels in three decades stands as a significant policy achievement. The reduction of inflation, and expectations that monetary policies will continue to ensure low inflation, has set the stage for progress also to be made toward the adoption of credible fiscal consolidation programs and labor market reforms to increase job creation during the next expansion.

The increased credibility of the monetary authorities in many countries in terms of their ability to safeguard reasonable price stability has allowed official interest rates to decline substantially during the recent recession without sparking fears of rising inflation. This reduction of interest rates, together with medium-term fiscal consolidation programs, has supported economic recoveries in North America, the United Kingdom, Australia, and New Zealand. In continental Europe and Japan, however, although the decline in output may have come to a halt, prospects for a meaningful recovery are still fragile. Macroeconomic policies in these countries will need to make full use of the available scope to lower interest rates further without compromising price objectives and to implement credible medium-term fiscal consolidation programs. Japan has been the only country with room for maneuver to be able to provide temporary fiscal stimulus.

The realization that unemployment is expected to remain high in many countries—even with appropriate macroeconomic policies—has brought labor market reform to the top of the political and economic policy agendas. This was recently highlighted by the meeting of finance, labor, industry, and social affairs ministers of the major industrial countries, together with delegates from the European Union, to discuss reducing unemployment and creating jobs at the “jobs conference” in Detroit on March 16–17.

**Chart 16. Industrial Countries:
Actual and Structural Unemployment Rates**
(In percent of labor force)



Note: The bands around the structural unemployment rates do not reflect statistically estimated confidence intervals but merely indicate that there is necessarily considerable uncertainty in the estimates. The actual unemployment rate estimates for the United States are based on the pre-1994 sampling methodology. For Germany, the actual and structural unemployment rates apply to west Germany through 1989 and to unified Germany thereafter. For Italy, the actual and structural unemployment rates use a new series beginning in 1993. These breaks account for, respectively, the uptick in the structural unemployment rate for Europe in 1990 and the downtick in 1993. Blue shaded areas for 1994–99 indicate IMF staff projections.

1994.⁹ If economic policies are to succeed in reducing unemployment on a durable basis, they will have to facilitate the absorption of cyclical unemployment as rapidly as would be compatible with medium-term budgetary and inflation objectives while at the same time addressing the fundamental causes of high levels of structural unemployment, just as monetary policies in the 1980s addressed the root causes of high inflation.

Is the Rise in Unemployment Reversible?

Labor market developments in the industrial countries during the past three decades have been characterized by a number of important, and mostly disturbing, features. The most important fact is that unemployment in the industrial countries has risen to very high levels (Chart 16). The economic and broader social costs of prevailing levels of unemployment, whether structural or cyclical, are enormous. The long-run economic cost, measured as a percent of GDP, is of the same order of magnitude as the unemployment rate itself.¹⁰ In Europe, for example, the cost of structural unemployment averaging 9 percent instead of, say, 6 percent for the past twelve years has been approximately 3 percent of GDP in each of those years. Long-term output losses of this order of magnitude dwarf the temporary output gaps created during periods of recession. These large economic costs imply, on the positive side, that the returns to policies that durably lower unemployment are also enormous.

A second important feature of trends in unemployment is the stark contrast among countries. In most European countries, current unemployment rates, many of which are in double digits, are three or four times higher than in the 1960s and early 1970s.¹¹ The unemployment rate is considerably lower in the United States, and the equilibrium level there appears to have remained relatively stable at about 6 percent. Although developments in labor

forces have also differed between Europe and North America, the strikingly divergent time profiles of unemployment mainly reflect different employment developments (Chart 17, panel D). Employment has been essentially stagnant in Europe over the past two decades, and the increase that has occurred has been predominantly in the public sector; in North America, by contrast, employment has almost doubled since 1960, with private sector employment accounting for almost all of the increase. The time profile of unemployment in Australia and New Zealand is almost identical to that of Europe (see Chart 16), although employment developments more closely resemble those in North America.¹² Japan is the only country where unemployment has remained relatively low and stable over the past thirty years, with employment growth occurring almost completely in the private sector.

A third important feature is that the current level of unemployment contains an important cyclical component that is the legacy of recent or ongoing recessions. Only the United States has experienced a recovery sufficiently vigorous to absorb a substantial portion, if not all, of the labor market slack from the recent recession. It is difficult to determine precisely how much of the increase in unemployment in Europe, Australia, and New Zealand is structural and how much is cyclical, in part because cyclical increases in unemployment have often persisted long after past recoveries in output and have tended to be transformed into structural unemployment.¹³ Reasonable estimates suggest that, although the bulk of unemployment in these countries is now structural, there is a significant cyclical component that can be reduced by a robust, self-sustaining recovery. But the longer is the delay before recovery takes hold, the greater is the risk that what is now

⁹In addition, the Commission of the European Communities recently published a White Paper, *Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century* (Brussels, June 1993); and the Organization for Economic Cooperation and Development will present the final report of its two-year employment and unemployment study to ministers of OECD countries in June 1994.

¹⁰This assumes that capital changes broadly in line with changes in employment and that average productivity remains broadly unchanged.

¹¹Even countries such as Finland, Norway, Sweden, and Switzerland, which had maintained relatively low rates of unemployment throughout the 1980s, have recently experienced a sharp worsening of labor market conditions. Detailed data on unemployment, employment, and labor force trends are presented in recent issues of OECD, *Employment Outlook* (Paris).

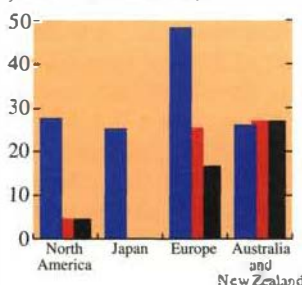
¹²The countries included in each of the geographic groupings shown in Chart 16 have labor market institutions that share many common features. There is, of course, a diversity of labor market institutions and experiences, which will be masked by any grouping. Although labor markets in Australia and New Zealand both resembled those in Europe until recently, this may no longer be the case because of comprehensive labor market reforms undertaken in New Zealand in the early 1990s.

¹³See the discussion of the persistence of unemployment and hysteresis in the May 1993 *World Economic Outlook*, pp. 38–40; and Reza Moghadam and Caroline van Rijckeghem, "Unemployment Hysteresis, Wage Determination, and Labor Market Flexibility," IMF Working Paper (1994, forthcoming). The structural unemployment rates shown in Chart 16 are based on judgmental estimates for each country based on previous work on the nonaccelerating-inflation rate of unemployment (NAIRU), or the natural rate of unemployment, by IMF staff (much of which is summarized in the box on "Unemployment in Industrial Countries" in the October 1991 *World Economic Outlook*, pp. 40–41), and on other available estimates such as those reported in Richard Layard, Stephen Nickell, and Richard Jackman, *Unemployment: Macroeconomic Performance and the Labor Market* (Oxford and New York: Oxford University Press, 1991).

**Chart 17. Industrial Countries:
Selected Labor Market Indicators**

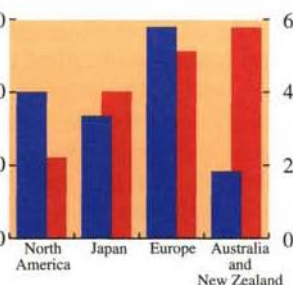
**A. Unemployment Insurance
Replacement Ratios**

(Benefits as a percent of previous before-tax earnings for the first year of unemployment shown in blue; average of years two and three shown in red, and average of years four and five shown in black, 1991)



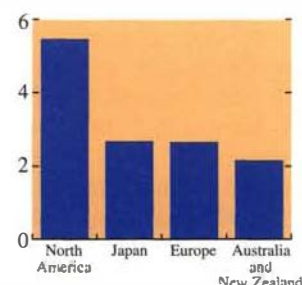
B. Nonwage Labor Costs

(Employers' contributions for social security insurance and pensions as a percent of wages, left scale, shown in blue, 1991; minimum number of weeks of annual leave and paid holidays, right scale, shown in red, 1992)



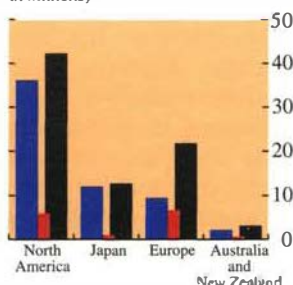
C. Earnings Dispersions

(Upper limit of the ninth decile of the earnings distribution divided by upper limit of the first decile, 1990 for most countries)



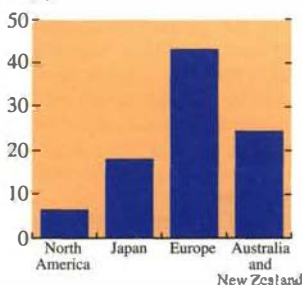
**D. Employment and Labor
Force Growth**

(Change in total employment, blue, government employment, red, and labor force, black, from 1973 to 1992, in millions)



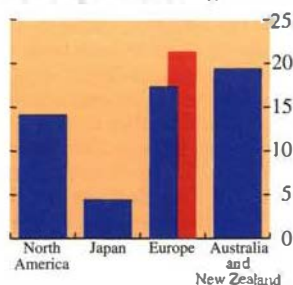
E. Long-Duration Unemployment

(Unemployed for twelve months or over as a percent of total unemployed, 1991)



F. Youth Unemployment

(Unemployed aged 15-24 as a percent of labor force in the same age group, 1992; red excludes Germany)



Source: OECD, *Employment Outlook*; and OECD estimates.

Note: Panel A shows the simple average of replacement ratios for individuals who are single, with dependent spouse, and with working spouse. Excludes Italy in panel A; Greece in panels B (blue) and F; Portugal in panel B (red); Finland, Greece, Ireland, Spain, and Switzerland in panel C; Austria and Switzerland in panel E; and Luxembourg and Iceland in all panels. All aggregates use labor force weights except for changes in unemployment and labor force, which are simple sums.

cyclical unemployment will increasingly become structural.

Fostering a macroeconomic environment that would facilitate the absorption of cyclical unemployment is a necessary first step to reduce unemployment on a durable basis in virtually all countries. However, this will not be sufficient. Broadly based structural reforms will also be needed to lower the substantial amount of structural unemployment that has built up during the past two decades. Structural reform policies are urgently required in all countries, although policy priorities will differ depending on the nature of labor market distortions and institutions. Policies that increase the flexibility of labor markets will reduce the strength of forces that tend to make cyclical unemployment persist, thereby speeding the reduction in cyclical unemployment. And by reducing structural unemployment at the same time that cyclical unemployment is falling, labor market reforms can reduce the risk of a buildup of inflationary pressures that would cut short or restrain the next expansion.

The divergent employment and unemployment developments noted above reflect structural differences among labor market institutions in Europe, the United States, and Japan (see Chart 17). Compared with those in Europe, labor markets in the United States are more flexible—reflecting, among other things, less generous unemployment insurance provisions in terms of the level of benefit payments, duration of benefits, and qualification for benefits; wider earnings dispersions; lower levels of unionization and less centralized wage bargaining; less government intervention in the wage bargaining process; fewer restrictions on hiring or firing of employees; and lower social insurance charges and other non-wage labor costs, such as the amount of paid vacation. The greater flexibility of the U.S. labor market is also reflected in greater geographic mobility and a lower relative incidence of long-term unemployment.¹⁴

These features have provoked discussion in Europe about the relevance or acceptability of the “American model” as a possible guide to the types of labor market reforms that might be adopted. The beneficial effects on employment from the greater flexibility of the U.S. labor market are acknowledged, but there is concern about the social implications of the wider wage differentials, particularly in countries with a strong tradition of egalitarian policies. This concern is underscored by the fact that real wages of unskilled workers fell during the 1980s

¹⁴Greater labor market flexibility allows the U.S. economy to adjust comparatively quickly to adverse disturbances; see Charles Adams, Paul R. Fenton, and Flemming Larsen, “Differences in Employment Behavior Among Industrial Countries,” in *Staff Studies for the World Economic Outlook* (IMF, July 1986), pp. 1–50.

in the United States and Canada, while in Europe they continued to rise.¹⁵ The fear is that greater wage flexibility may result in declines in the wages of the low paid, to the extent that their incomes might fall below society's poverty line—the phenomenon of the “working poor.”

However, the broader wage distribution that may arise from labor market liberalization does not necessarily imply a less egalitarian income distribution or lower real wages for less-skilled workers over the longer term. This is because stronger growth and higher average levels of employment imply larger income gains for the economy as a whole, and because governments can redistribute income through the tax and transfer system to offset adverse distributional effects. Indeed, distributional objectives can be achieved more efficiently through the tax and transfer system and through improved education and training than through regulations that distort the functioning of labor markets.¹⁶ The importance of this point is suggested by the contrast between a youth unemployment rate in 1992 of about 22 percent in France, where minimum wages have been relatively high and training programs have been relatively underdeveloped, and a youth unemployment rate of only 4 percent in Germany, where there is no statutory minimum wage and there is an extensive apprenticeship system.¹⁷

It is questionable whether European labor market regulations and institutions actually reduce income inequalities. To the extent that these policies primarily protect those already employed and have the perverse effect of increasing unemployment—which tends to be concentrated on the most vulnerable and least-skilled segments of society, often including first-time job seekers—they may increase rather than reduce inequality. This is particularly true of policies such as overly generous unemployment benefits, which may cause unemployment to be concentrated in specific segments of society that remain jobless for long periods—as is much more the case in Europe than in other industrial countries (see Chart 17, panel E)—rather than to be spread across a broader cross section of society that would be subject to short spells of unemployment.¹⁸ Similarly,

policies such as minimum wages may increase unemployment among low-skilled workers, many of whom may become dependent on the state for assistance; equity objectives would be better served if these workers were employed at a somewhat lower wage, with the state providing supplemental income support if necessary.

Finally, declining real wages for the unskilled, the problem of the working poor, and the relatively wide wage distribution in the United States cannot be attributed entirely to labor market policies. These problems also reflect reduced demand for low-skilled workers and increases in the numbers of low-productivity workers stemming from inadequate training and education—problems shared by many industrial economies—as well as more deep-seated social problems.

Different societies will, of course, have different views about the degree of income inequality that is socially acceptable. There is a risk, however, that fears about distributional consequences might prevent European governments from taking bold steps to implement fundamental, broadly based labor market reforms to address the root causes of unemployment. It is noteworthy, in this regard, that while some policies to increase the flexibility of labor markets have recently been adopted in Europe (Box 5), most of these measures attempt to correct distortions stemming from labor market regulations rather than to change the regulations themselves. Substantial reductions in structural unemployment will require basic reforms to unemployment insurance systems, minimum wage laws, employment protection regulations, and other distortions that hamper job creation and incentives to seek employment. To the extent that such reforms have unacceptable distributional consequences, they should be complemented with appropriately designed, well-targeted social transfer programs.

Where labor market regulations and institutions primarily benefit the employed “insiders,” it may be politically difficult to implement labor market reforms.¹⁹ To successfully implement fundamental, broadly based reforms, governments will have to initiate public discussions and build political support for change. It will be necessary to explain clearly that many current labor market policies may not achieve equity objectives, but instead contribute to high rates of structural unemployment that carry enormous economic and social costs. In some countries, open discussions of abuses of benefit systems and of the effectiveness of these systems in achieving their goals are long overdue.

¹⁵See OECD, *Employment Outlook* (Paris, July 1993), Chapter 5.

¹⁶This is demonstrated analytically in Gilles Saint-Paul, “Searching for the Virtues of the European Model,” IMF Working Paper 94/46 (April 1994).

¹⁷Recognizing this problem, the French authorities have recently introduced a number of training and apprenticeship programs for the young as well as a subsidy for young, first-time workers.

¹⁸See Reza Moghadam, “Labor Market Issues in Belgium: An International Comparison,” IMF Working Paper 93/32 (April 1993), for cross-country evidence of a significant relationship between long-duration unemployment and the generosity of long-term unemployment benefits relative to short-term unemployment benefits.

¹⁹See Gilles Saint-Paul, “On the Political Economy of Labour Market Flexibility,” CEPR Discussion Paper 803 (London: Centre for Economic Policy Research, August 1993).

Box 5. Recent Labor Market Reforms in Europe

Belgium. In 1992, the early retirement age was raised progressively from 55 to 56 as part of a gradual increase to 58. In 1993, unemployment insurance eligibility was tightened for the long-term unemployed and for part-time and temporary workers, and regulations on part-time employment were made stricter; tax exemptions were granted for firms hiring young workers; and a new job training program for the long-term unemployed was introduced. In the context of the November 1993 "global plan for employment, competitiveness, and social security," nonwage labor costs are to be reduced selectively, and wage indexation was changed from the consumer price index to the consumer price index excluding gasoline, alcohol, and tobacco.

Denmark. As of 1994, unemployment insurance recipients will be expected, and under certain conditions required, to take a job or to receive training. The maximum duration for benefits and training was capped at seven years; and workers will be allowed, with employers' agreement, to take one year's training while receiving a grant equal to the unemployment benefit.

Finland. In 1993, a waiting period before eligibility for unemployment benefits was introduced for people entering the labor force (three months for those entering for the first time, six weeks for others); the obligation of the government to provide jobs or training to the young and to provide jobs to the long-term unemployed was canceled; a two-year agreement was reached between the social partners that allows young workers to be paid 10 to 50 percent less than the wage agreed upon in collective bargaining for the first 8 to 12 months after recruitment; and wage negotiations were decentralized.

France. In January 1993, the unemployment insurance program was reformed to make payments fall with the duration of benefits, and the total duration of benefits was reduced (depending on age and contribution period). In November 1993, a five-year employment plan was enacted, which includes progressive reductions in employers' social insurance contributions, youth employment and training programs with remuneration below the minimum wage, and more flexible working time arrangements. In March 1994, the government introduced a subsidy of 1,000 francs a month for 9 months to employers taking on first-time young workers for at least 18 months.

Germany. From July 1, 1990, western German employment legislation and the social security system were extended to eastern Germany, but both take into account the special labor market situation in eastern Germany. In 1994, the unemployment insurance replacement ratio was lowered by 1 to 3 percentage points, to 60-67 percent, depending on family status. The government has submitted to Parliament a draft law that would make working hours more flexible.

Greece. In 1990, the maximum duration of unemployment insurance benefits was extended from 6 to

12 months; family allowances for the unemployed were increased by 12 percent, to 40 percent of the previous wage; and legislation regulating strikes was introduced. In 1992, average unemployment compensation was reduced from between 65 and 70 percent of earnings to about 60 percent; the waiting period after job loss and before eligibility for benefits was doubled from 6 to 12 months for new entrants into the labor force; wage indexation was abolished; and a new system of labor mediation and arbitration was introduced.

Iceland. In 1993, eligibility for unemployment insurance was broadened to nonunion workers and the self-employed. The unemployed were given the option of taking job training at the end of 37 weeks of benefits.

Ireland. As of 1993, those receiving unemployment benefits were allowed instead to collect an allowance, equal to unemployment benefits, for up to one year to start a new business. In 1994, unemployment benefits were made taxable.

Italy. In 1991, the "mobility list" was introduced to accommodate redundancies and workers receiving benefits under the special *Cassa Integrazione Guadagni* (a temporary redundancy scheme) with no prospects of being rehired. Workers on the list have higher priority in rehiring and are eligible for a benefit, lasting 12 to 36 months, of up to 80 percent of the last wage. Wage indexation (*scala mobile*) was suspended in December 1991. In 1993, an agreement among the social partners extended eligibility for the *Cassa Integrazione Guadagni*, expanded the menu of training programs, and introduced a new wage bargaining framework that abolished the *scala mobile* and linked wages at the national level to projected inflation. In addition, the government announced that the replacement rate of regular unemployment insurance benefits would be increased to 40 percent. In recent years, hiring regulations have been liberalized, although regulations on dismissals remain restrictive by European standards.

Luxembourg. In 1991, the retirement age was reduced from 60 to 57 for people who have worked for 33 years. In 1993, the minimum wage was linked to the average wage, and the government undertook to pay part of the social security contribution for new recruits who had been long-term unemployed.

Netherlands. In 1992, the right of unemployed youth to receive a social benefit was replaced by the right to a municipal job, and the disability compensation system was tightened by fining firms for workers who go on disability and by giving a bonus to firms that hire a disabled worker. In 1993, the entitlements of new entrants into the disability compensation system were substantially reduced. The minimum wage has been frozen since 1992.

Norway. From 1984-91, unemployment benefits had been provided for two consecutive 80-week periods

with a 26-week suspension in between. In 1991, the suspension period was reduced to 13 weeks. From 1990–92, the period during which temporarily laid-off workers receive unemployment benefits was extended from 12 to 26 weeks. As of January 1, 1994, this period was extended to 52 weeks, with benefits limited to a total period of 18 months.

Portugal. In 1989, the coverage and generosity of unemployment insurance was increased, some restrictions on layoffs were removed, and short-term contracts were made more restrictive. In 1992, some restrictions on layoffs were eased, and collective agreements were made more flexible. The minimum wage was raised in January 1990, April 1992, and March 1993.

Spain. In 1992, the unemployment insurance system was tightened by raising the minimum prior work period from 6 to 12 months, by shortening by one-third the maximum period over which such benefits could be drawn, and by reducing the benefit by some 12 percent. In January, 1994 unemployment insurance benefits were made taxable, and in some cases benefits were reduced. The government has recently drawn up a comprehensive labor market reform, some important elements of which were made effective in January 1994 (through decrees), and the rest of which is still before Parliament. These reforms would relax requirements for prior authorization for dismissals; reduce regulations on mobility, hiring, and part-time contracts; end the monopoly of the state employment agency; and make it easier for firms to opt out of some aspects of sectoral wage agreements, potentially increasing wage differentiation. It is current practice in Spain to increase the minimum wage every year. The government has introduced apprenticeship contracts for which wages could fall to around 80 percent of the minimum wage, and for which nonwage costs would be reduced by some 75 percent.

Sweden. In 1993, unemployment benefits were reduced from 90 percent to 80 percent of the previous wage, and employers hiring new workers became eligible to receive a 15 percent reduction in employers' social security contributions.

Switzerland. In 1992, the unemployment insurance replacement rate was standardized at 80 percent, whereas it had previously ranged from 65 to 80 percent. In 1993, the replacement rate was lowered for benefits above a set threshold, but benefits were increased for some groups, and the duration of benefits was increased from 250 to 400 days.

United Kingdom. Significant changes in British labor market policies took place during the early 1980s, including legislation to make strikes more difficult, decentralization of wage bargaining, liberalization of hiring and firing restrictions, and substantial reductions in unemployment benefits and duration of benefits. In 1993, wage councils, which had set minimum wages, were abolished. The United Kingdom now has no legislated minimum wage, except in the agricultural sector.

The rise in unemployment over the past two decades in Europe and Australia can be substantially reversed only if comprehensive labor market reforms are adopted to lower the level of structural unemployment. Comprehensive labor market reforms have been adopted recently in New Zealand, the industrial country that has successfully implemented the most far-reaching structural reform policies, and the 2 percentage point decline in the unemployment rate between March 1992 and September 1993 in that country suggests that reforms can help to reduce unemployment substantially. Similarly, structural reforms to the system of industrial relations in the United Kingdom may have contributed to the unexpectedly sharp decline in unemployment in the mid- to late 1980s and also to the unusually early decline of unemployment in the recent upturn.

Policy Reforms to Reduce Structural Unemployment

The types of fundamental policy reforms needed to reduce structural unemployment have been intensively studied and discussed since the early 1980s, and there is general consensus on the need to improve labor market flexibility.²⁰ Although the characteristics of the unemployed and the mix of labor market policies vary among countries, there is one aspect of labor markets that is common to all countries—the problem of low-skilled workers. In most countries, those at the lower end of the wage and income distributions and the unemployed—particularly those unemployed for long durations—are predominantly the low-skilled. It is important to recognize, of course, that wage and salary differences must to a significant extent reflect productivity and skill differentials; if this were not the case, employers would have little incentive to hire low-skilled workers whose real wages would exceed their productivity, and workers would have little incentive to acquire more relevant work experience, training, or better education. This implies that the only durable solution to the problem of low-skilled workers is to allow the necessary wage dispersion while also

²⁰Empirical studies of the importance of labor market policies and institutions for structural unemployment have often been inconclusive, in part because the structural unemployment rate itself is unobservable, but also because changes in labor market policies and institutions tend to occur infrequently and their impact may be felt only after some time. These problems are less severe in cross-country or panel data, and empirical results using these data are somewhat stronger and more persuasive. For a review of the evidence, see Jorgen Elmeskov, "High and Persistent Unemployment: Assessment of the Problem and Its Causes," OECD Economics Department Working Paper 132 (Paris, 1993).

endeavoring to increase the productivity of the low-skilled through work experience and through better education and training.

In Europe in the early 1980s, there was considerable concern that the rise in unemployment reflected a "real wage gap," a "capital shortage," or both.²¹ The relatively modest increase in average economy-wide real wages compared with the growth of labor productivity, and the resulting increase in profitability during the mid- and late 1980s, suggests that the importance of the first factor has been substantially reduced, although there now appears to be renewed concern in Europe about the level of real wages.²² The issue of the adequacy of the capital stock is more difficult to assess. An increase in saving and investment rates in the industrial countries would raise overall growth by increasing labor productivity. It would thereby increase the warranted wage and the demand for labor in those sectors benefiting from the higher investment. Although the overall demand for labor would probably increase, the effect on the demand for low-skilled workers would depend on a number of factors, including the extent to which higher wages in some sectors were transmitted to sectors with lower productivity and the flexibility with which the labor force adapted to changing educational and skill requirements. In the absence of fundamental labor market reforms, however, it is not obvious that higher investment would substantially improve employment opportunities for the most vulnerable segments of the labor force.

Although it is difficult to determine the degree of imbalance between actual and warranted real wages at the aggregate level, high real labor cost relative to productivity may have a direct bearing on unemployment at the low end of the skill or wage distribution. Labor market regulations and institutions such as the minimum wage may contribute to excessively high labor costs. Lowering the minimum wage in countries such as France, where it is high relative to the average wage, would create employment opportunities, particularly for young and other relatively disadvantaged workers.²³ A variety of other labor market institutions also serve to benefit insiders at the expense of outsiders, and thus have similar effects on unemployment. These include wage bargaining that excessively limits wage differentials, as well as the extension of wage bargains in large firms or industries to other industries, sectors, or regions

in which productivity may be lower. In countries such as Germany, Italy, Canada, and, until recently, the United Kingdom, this has contributed to relatively high unemployment in some regions.

Many European countries have relatively high payroll taxes that bear more heavily on low-paid workers because of lump-sum components and ceilings on contributions, or because minimum wages and other restrictions prevent increases in payroll taxes from being shifted to employees in the form of lower wage increases. Reducing these taxes would be expected to stimulate employment.²⁴ However, given the budgetary situation in almost all countries, such a reform would have to be financed by reduced expenditures or higher taxes elsewhere. Higher taxes could be levied on consumption or on upper-income groups, but the latter would effectively raise taxes on the return to saving, which could reduce capital formation and long-term economic growth. Thus, although a reduction in nonwage labor costs would be expected, other things being equal, to reduce unemployment, the impact on unemployment may not be large if other taxes are increased to make up for the lost revenue. More substantial reductions in structural unemployment are likely if reduced nonwage labor costs are financed by lower government expenditures and if they permanently reduce distortions in the cost of labor relative to the cost of capital.

Many industrial countries, and especially those in Europe, also have extensive employment protection, such as restrictions on laying off workers without cause (where "cause" is often very narrowly defined), generous severance arrangements that must be borne by firms, and administrative procedures that delay or prevent layoffs and plant closures. In Spain, for example, employers are usually required to make redundancy payments of about 50 days' salary for each year worked. It is clear that potential employers will take these employment protection regulations into account in their hiring decisions.²⁵ Easing such restrictions, as well as restrictions on hiring that are common in most European countries, would lower the true costs of employment and promote greater labor mobility.

²⁴For recent evidence, see Enrique G. Mendoza, Assaf Razin, and Linda L. Tesar, "An International Comparison of Tax Systems in Industrial Countries," in *Staff Studies for the World Economic Outlook* (IMF, December 1993), pp. 86–105; they find that a 1 percentage point increase in labor taxes has been associated with a fall in hours worked of up to 1½ percent and an increase of ½ of 1 percentage point in the structural unemployment rate. See also Caroline van Rijckeghem, "Endogeneity in Structural Unemployment Equations: The Case of Canada," IMF Working Paper 93/94 (December 1993).

²⁵See Dimitri G. Demekas, "Labor Market Institutions and Flexibility in Italy: A Critical Evaluation and Some International Comparisons," IMF Working Paper 94/30 (April 1994) for a review of the evidence linking restrictions on laying off to hiring in Italy; and Robert J. Flanagan, "Unemployment as a Hiring Problem," *OECD Economic Studies*, No. 11 (Paris, 1988), pp. 123–54.

²¹See, for example, Jacques R. Artus, "The Disequilibrium Real Wage Rate Hypothesis: An Empirical Evaluation," *Staff Papers* (IMF), Vol. 31 (June 1984), pp. 249–338; and Charles Bean, "Capital Shortage and Persistent Unemployment," *Economic Policy*, Vol. 8 (April 1989), pp. 11–53.

²²See, for example, Commission of the European Communities, *Growth, Competitiveness, Employment*.

²³See Reza Moghadam, "Why Is Unemployment in France So High?" IMF Working Paper (1994, forthcoming).

The array of policies designed to transfer income to the poor or disadvantaged can also impede the smooth functioning of labor markets by reducing incentives to find a job. Unemployment insurance or compensation schemes act, to some extent, as a disincentive to search for, or to accept, employment; they may also act as an incentive to enter the labor force in order to collect unemployment benefits. The duration of unemployment benefits is much longer in many European countries than in North America and Japan (see Chart 17, panel A), and unemployment benefits are very high as a percent of average wages at the low end of the wage distribution—as high as 90 percent in Denmark and Norway, and 80 percent in Sweden. In some countries employers and workers appear to collude to exploit unemployment or disability insurance systems by, for example, implicitly or explicitly agreeing to terminate employment when eligibility requirements (typically several weeks of work) have been met.²⁶ Basing unemployment insurance premiums on firms' past record of firing workers would discourage employers from such behavior by penalizing firms or industries that contribute most to unemployment.

There are several alternatives to passively providing income transfers to the unemployed. So-called active labor market policies—including training, job counseling, employment services, and more rigorous screening of beneficiaries—could, in principle, encourage employment and help to reduce unemployment, although the evidence that they actually do so is mixed. A recent innovation being tried in several countries is to allow those qualifying for unemployment compensation to use their benefits as a wage subsidy or as startup capital for their own business.²⁷ Income transfers, even if they are not directly linked to employment status, will in general tend to reduce employment by raising the wage at which some would be willing to take and hold a job. Moreover, since transfers are typically quickly withdrawn as labor income rises, the implicit tax rate, including the effect of lost transfers, is often higher at low incomes than at high incomes. This “poverty trap” can be an important disincentive to work. Smoothing the tax rate, through a unified “negative income tax,” for example, would improve work incentives.

²⁶In the Netherlands, for example, provisions for disability payments are particularly generous, and one in seven adults of working age collects disability pay. While this does not increase measured unemployment, abuse of the scheme reduces employment and raises the tax burden of those who do work.

²⁷See Sandra Wilson and Arvil Van Adams, “Promotion of Self-Employment for the Unemployed: Experiences in OECD and Transitional Countries” (Washington: World Bank, March 1994). For a discussion of the experience in the United Kingdom with alternatives to income transfers, see Dennis J. Snower, “Converting Unemployment Benefits into Employment Subsidies,” *American Economic Review* (May 1994, forthcoming).

In contrast to policies that would increase the flexibility of labor markets, initiatives to restrict the operation of market forces are likely to prove counterproductive.²⁸ Trade barriers may save jobs in protected industries in the short run, but they reduce market growth and employment in nonprotected industries by limiting competition and raising prices; and, in the long run, they reduce aggregate productivity and income growth. Similarly, attempts to offset the impact of technological change on employment will only undermine job growth and prosperity in the longer term. Finally, legislated reductions in the workweek—so-called job sharing—will reduce output and have little effect on structural unemployment. Decisions about working time are ultimately about the trade-off between leisure and income. The elimination of existing restrictions on voluntary reductions (or increases) in the workweek—both outright restrictions as well as arbitrary distinctions between full- and part-time work—would therefore enhance labor market flexibility and tend to increase employment.

It is unlikely that labor market reform in any single area will, by itself, have a large impact on unemployment. Broadly based reforms of all aspects of current labor market regulations and institutions that distort the efficient functioning of labor markets, rather than policies that address only the symptoms of the distortions, will be required to effectively address the root causes of high levels of structural unemployment in the industrial countries. In combination, such structural reform policies can be mutually reinforcing and can contribute to substantial declines in the equilibrium level of unemployment.

Role of Fiscal Policy

In considering the possible contribution of fiscal policy to the alleviation of the recent (and in many cases continuing) weakness of activity, the industrial countries have faced a conflict between the apparent need to provide short-term support for economic recovery and the requirements for a durable expansion. The latter objective requires the attainment of a sustainable government financial position and a substantial reduction in the public sector's absorption of private sector saving (Table 4). As analyzed in the October 1993 *World Economic Outlook*, an important aspect of achieving medium-term fiscal sustainability in many countries is the need to meet future pension liabilities as populations age. For most industrial countries, medium-term considerations have seriously limited the scope for short-term fiscal stimulus beyond the operation of the automatic stabilizers during the recent or ongoing recession. Only Japan, reflecting its strong efforts at fiscal

²⁸See the discussion of unemployment, trade, and protectionism in the October 1993 *World Economic Outlook*, pp. 62–67.

Table 4. Industrial Countries: General Government Financial Balances Including and Excluding Social Insurance
(In percent of GDP)

	1980	1982	1985	1989	1990	1991	1992	1993	Projections ¹		
									1994	1995	Average 1996–99
<i>Including social insurance</i>											
All industrial countries	...	...	-3.5	-1.3	-2.1	-2.9	-3.9	-4.4	-4.2	-3.5	...
Major industrial countries	-2.6	-4.1	-3.4	-1.2	-2.0	-2.7	-3.7	-4.1	-4.0	-3.2	-2.5
United States	-1.3	-3.4	-3.1	-1.5	-2.5	-3.4	-4.5	-3.5	-2.7	-2.0	-2.2
Japan	-4.4	-3.6	-0.8	2.5	2.9	3.0	1.8	-0.6	-2.7	-1.3	-1.3
Germany ²	-2.9	-3.3	-1.2	0.1	-1.9	-3.2	-2.6	-3.3	-3.2	-3.1	-1.9
France	—	-2.8	-2.9	-1.3	-1.5	-2.1	-3.9	-5.6	-5.8	-5.1	-3.1
Italy ³	-8.5	-11.3	-12.5	-10.3	-11.4	-10.7	-10.0	-10.0	-9.9	-9.0	-6.2
United Kingdom	-3.4	-2.5	-2.8	0.9	-1.2	-2.7	-6.3	-8.7	-7.4	-6.2	-3.9
Canada	-2.8	-5.9	-6.8	-2.9	-4.1	-6.3	-6.6	-6.8	-6.1	-4.7	-1.7
Other industrial countries	...	...	-4.5	-2.1	-2.5	-3.8	-4.7	-6.3	-5.9	-5.3	...
Belgium	-9.3	-11.5	-9.1	-6.7	-5.8	-6.6	-6.9	-7.2	-5.6	-5.1	...
Denmark	-3.3	-9.1	-2.0	-0.5	-1.5	-2.1	-2.4	-4.4	-5.2	-4.6	...
Greece	-5.4	-10.1	-16.5	-20.0	-18.9	-15.9	-14.0	-17.0	-16.3	-17.6	...
Ireland	-13.0	-14.5	-11.3	-1.9	-2.2	-2.1	-2.3	-2.3	-2.8	-2.8	...
Netherlands	-4.0	-7.0	-3.6	-4.7	-5.1	-2.5	-3.5	-2.9	-3.3	-3.3	...
Portugal	3.8	-11.0	-9.6	-4.8	-6.4	-6.8	-5.1	-8.6	-7.3	-5.7	...
Spain	-1.9	-5.6	-7.0	-2.8	-3.9	-5.0	-4.5	-7.3	-6.8	-6.1	...
Austria	-1.7	-3.4	-2.5	-2.8	-2.2	-2.5	-2.0	-3.3	-4.0	-3.7	...
Finland ⁴	0.3	-0.6	0.1	2.9	5.3	-1.5	-6.1	-9.1	-7.0	-5.7	...
Iceland	1.7	1.7	-1.7	-4.6	-3.5	-3.4	-3.6	-4.5	-4.0	-4.0	...
Norway	9.4	7.5	10.3	1.4	2.5	-0.2	-2.8	-2.7	-3.5	-3.1	...
Sweden	-4.0	-7.0	-3.6	5.4	4.2	-1.2	-7.4	-13.4	-10.9	-10.1	...
Switzerland	...	...	-0.1	0.8	—	-1.8	-3.0	-5.0	-4.4	-4.2	...
Australia	-1.4	-1.7	-3.0	1.6	0.5	-2.5	-4.5	-4.8	-4.6	-3.7	...
New Zealand ⁵	-7.7	-6.3	-4.2	-1.4	-2.4	-3.4	-2.8	-2.0	-1.6	-0.7	...
<i>Excluding social insurance</i>											
Major industrial countries	-4.1	-5.2	-5.1	-2.2	-3.0	-3.6	-4.2	-4.7	-4.8	-4.1	-3.2
United States	-1.8	-3.6	-4.5	-3.8	-4.7	-5.3	-6.0	-5.1	-4.7	-4.2	-4.2
Japan	-7.0	-6.3	-3.9	-0.7	-0.6	-0.7	-2.0	-4.4	-6.4	-4.8	-3.7
Germany ²	-3.2	-3.8	-1.4	-0.6	-2.6	-4.0	-2.7	-3.7	-3.8	-3.7	-2.3
France	-2.2	-3.6	-3.2	-1.5	-1.4	-2.0	-3.5	-4.7	-5.1	-4.6	-2.9
Italy ³	-20.0	-23.6	-24.5	-5.7	-6.1	-5.9	-5.0	-5.2	-5.3	-5.0	-3.5
United Kingdom ⁶	1.1	3.7	2.4	4.5	2.7	1.6	-0.9	-2.9	-2.2	-1.3	0.7
Canada	-1.9	-5.0	-5.5	-1.3	-2.5	-4.5	-4.7	-4.6	-4.1	-2.7	0.1

¹The projections are based on the assumptions of unchanged policies and constant real exchange rates, except for the bilateral exchange rates among the ERM currencies.

²Data before 1990 refer to west Germany.

³Including imputed interest due on tax refund liabilities not replaced by government bonds.

⁴In Finland, the semi-public pension funds have been included in the definition of general government starting in 1990.

⁵Central government only; excludes the proceeds from asset sales.

⁶This concept is less meaningful for the United Kingdom, where a significant proportion of social security outlays is financed through general revenues.

consolidation in the 1980s, has been able to use fiscal policy actively to help support activity without jeopardizing the credibility of its medium-term budgetary objectives.²⁹

Most if not all of the industrial countries failed to consolidate their fiscal positions adequately in the

1980s and entered the 1990s with high actual and structural budget deficits (Tables 4 and 5), high public debt-GDP ratios (Chart 18), and considerable unfunded pension liabilities. National saving rates and rates of capital formation have declined considerably in all countries during the past two decades, to levels that are unlikely to be sufficient to support adequate growth of productive capacity, employment, and living standards in the medium term. The

²⁹See Box 2 in Chapter II for a description of Japan's recent fiscal stimulus packages.

Table 5. Major Industrial Countries: General Government Structural Budget Balances, Actual Budget Balances, and Output Gaps¹*(In percent of GDP)*

	1982-83	1985	1989	1990	1991	1992	1993	1994	1995
United States									
Structural balance	-2.0	-3.1	-2.5	-3.2	-3.1	-4.0	-3.2	-2.7	-2.2
Output gap	-5.5	-0.3	2.9	1.8	-1.3	-1.2	-0.9	0.1	0.2
Actual balance	-3.8	-3.1	-1.5	-2.5	-3.4	-4.5	-3.5	-2.7	-2.0
Japan									
Structural balance	-3.4	-1.0	1.9	2.2	2.3	2.1	0.7	-0.6	0.8
Output gap	-0.6	0.6	1.7	2.0	1.9	-0.7	-3.5	-5.3	-5.6
Actual balance	-3.6	-0.8	2.5	2.9	3.0	1.8	-0.6	-2.7	-1.3
Memorandum									
Structural balance excluding social insurance	-6.1	-4.1	-1.3	-1.2	-1.4	-1.8	-3.2	-4.5	-2.8
Actual balance excluding social insurance	-6.3	-3.9	-0.7	-0.6	-0.7	-2.0	-4.4	-6.4	-4.8
Germany²									
Structural balance	-1.5	—	0.4	-3.2	-5.4	-3.8	-2.0	-0.9	-0.7
Output gap	-2.6	-1.9	-0.4	2.0	3.2	2.0	-1.8	-3.1	-3.2
Actual balance	-2.9	-1.2	0.1	-1.9	-3.2	-2.6	-3.3	-3.2	-3.1
France									
Structural balance	-2.6	-1.9	-2.0	-2.3	-2.2	-3.5	-3.7	-3.4	-2.8
Output gap	-0.3	-1.7	2.2	2.2	0.5	-0.5	-3.5	-4.5	-4.4
Actual balance	-3.0	-2.9	-1.3	-1.5	-2.1	-3.9	-5.6	-5.8	-5.1
Italy³									
Structural balance	-11.0	-11.7	-10.8	-11.9	-10.7	-9.4	-7.5	-6.9	-6.4
Output gap	-0.2	-1.6	0.9	0.8	—	-1.3	-3.9	-4.7	-4.2
Actual balance	-11.0	-12.5	-10.3	-11.4	-10.7	-10.0	-10.0	-9.9	-9.0
United Kingdom									
Structural balance	-0.5	-1.2	-1.4	-2.9	-2.1	-3.7	-5.7	-4.8	-4.0
Output gap	-4.1	-2.3	4.1	2.0	-2.5	-5.2	-5.3	-4.9	-4.2
Actual balance	-2.9	-2.8	0.9	-1.2	-2.7	-6.3	-8.7	-7.4	-6.2
Canada									
Structural balance	-3.6	-6.9	-5.5	-5.2	-4.5	-3.5	-3.4	-3.3	-2.6
Output gap	-4.6	0.8	4.5	1.5	-2.9	-4.8	-5.2	-4.6	-3.6
Actual balance	-6.4	-6.8	-2.9	-4.1	-6.3	-6.6	-6.8	-6.1	-4.7

¹The structural budget balance is the budgetary position that would be observed if the level of actual output coincided with potential output. Changes in the structural budget balance consequently include effects of temporary fiscal measures, the impact of fluctuations in interest rates and debt-service costs, and other noncyclical fluctuations in the budget balance. The computations of structural budget balances are based on staff estimates of potential GDP and revenue and expenditure elasticities (see the October 1993 *World Economic Outlook*, Annex I). Structural balances are expressed as percent of potential output, and the output gap is defined as actual output minus potential output, as a percent of potential output.

²Data before 1990 refer to west Germany.

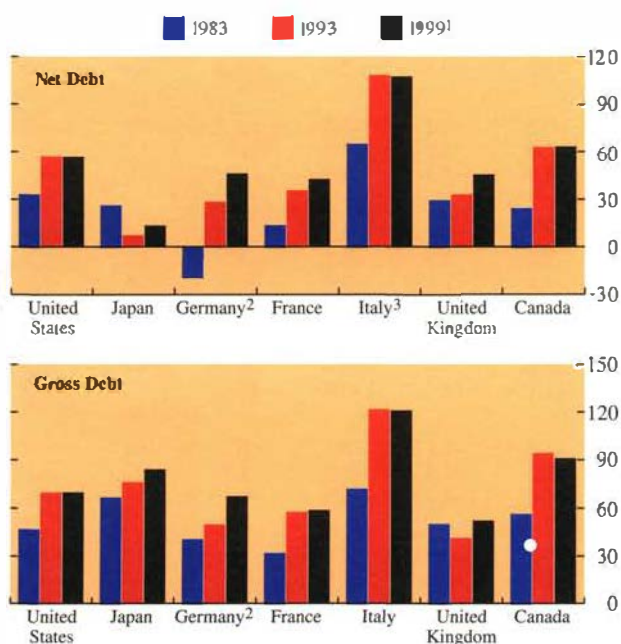
³Including imputed interest due on tax refund liabilities not replaced by government bonds.

high and still-rising levels of public debt have tended to inhibit investment by raising the average cost of funds required to finance investment outlays. In addition, the persistent differences across countries between domestic saving and domestic investment opportunities have been associated with large external imbalances, which have contributed to trade and exchange market tensions. Although the sharp deterioration in Germany's structural budget position in 1990-91 following unification initially boosted activity and demand throughout Europe, it has more recently been a source of particular concern because of its adverse impact on domestic inflation and on monetary conditions across Europe.

Because of the recent recessions, there has been considerable pressure to provide fiscal support—beyond the operation of the automatic stabilizers—in order to maintain income and employment levels, or at least to limit job losses. The ability to resist this pressure has been mixed, however, and some countries have experienced a marked worsening of their structural budget positions, in some cases reversing earlier efforts at consolidation. Although the increase in structural budget deficits may have temporarily dampened the effects of recession, the need to correct these increases has become a factor that now impedes prospects for a durable expansion. Indeed, in some cases budgetary slippages probably

**Chart 18. Major Industrial Countries:
General Government Debt**

(In percent of GDP)



¹IMF staff projections.

²Data for 1983 refer to west Germany.

³Figure for 1983 refers to 1984 data.

have been counterproductive, not only by putting upward pressures on long-term interest rates, but also by increasing already excessive imbalances and thereby adversely affecting business confidence and adding to uncertainty about the nature and timing of future policy changes.

In recognition of the adverse effects in financial markets associated with large deficits, many industrial countries are in the process of implementing fiscal consolidation programs. There is a growing consensus that this is the best way that fiscal policy can contribute to recovery in countries with unsustainable fiscal positions. As a result of such efforts, structural budget positions are projected to improve during the next few years, although in many countries relatively large deficits are expected to persist, and in some cases may start rising again by the end of the decade. Moreover, in most cases these efforts will not be sufficient to reduce public debt-GDP ratios significantly, if at all (see Chart 18). Thus, higher government revenues, lower expenditures, or both are necessary in the future, not only to reduce existing debt ratios but also to meet future pension obligations. Because tax burdens are already high in many countries, budgetary consolidation will need to be achieved primarily through expenditure restraint.

There are many examples that suggest that the early adoption of credible fiscal consolidation plans can support economic recovery and employment creation even though early consolidation implies a withdrawal of direct demand stimulus in the short run. In the United States, where there were concerns about the strength of the recovery through most of 1993, the adoption of a credible and substantial fiscal consolidation effort contributed to a marked reduction in long-term interest rates. The improved fiscal outlook allowed monetary policy the flexibility to maintain low short-term interest rates until recovery was more firmly established. Although the fiscal measures that are being implemented in 1994 will be slightly contractionary, they will take effect at a time when the U.S. economy has fully absorbed most of its spare capacity and when a withdrawal of policy stimulus is necessary to avoid an intensification of inflationary pressures. In Germany and the United Kingdom, plans for consolidation have also allowed long-term interest rates to decline, which should support recovery. However, the expected withdrawal of fiscal stimulus in 1994—which is expected to be large in Germany and moderate in the United Kingdom—will occur in the presence of substantial margins of slack and may allow financial conditions to ease further, especially in Germany.

Despite progress in several countries, further consolidation will clearly be needed in all the major industrial countries. In the United States, Germany, the United Kingdom, and Canada, earlier and recent efforts have substantially improved the fiscal out-

look, but prospective budgetary imbalances will continue to absorb significant shares of domestic saving. Current budgetary plans in France also imply a reduction in the structural deficit over the medium term (see Table 5), but specific measures that would meet these objectives have yet to be adopted. Moreover, high unemployment poses a risk that consolidation will be delayed. In Italy, where there has been considerable fiscal tightening since 1990, premiums in long-term interest rates have declined considerably, and growth prospects are improving. However, the extremely large deficits and high debt levels mean that a further substantial effort will be necessary to ensure adequate progress over the next several years. Even in Japan, where expansionary policies have been appropriate during the current downturn, the fiscal position has deteriorated sharply during the economic downturn, and a strengthening of fiscal consolidation will be required as the recovery gains momentum in order to meet future budgetary pressures associated with a rapidly aging population.

Most of the smaller industrial countries are characterized by large budget deficits that, in many cases, are expected to persist in the medium term even after excess capacity has been fully absorbed. The need for credible fiscal consolidation is particularly urgent in Finland, Greece, Portugal, Spain, and Sweden. In all of these countries, reduction of budgetary imbalances is critical to secure further declines in inflation, to safeguard stability in financial and foreign exchange markets, and to permit monetary conditions that support recovery. In Belgium, despite a significant reduction in the structural deficit, further fiscal measures are needed in light of the high government debt ratio in order to enhance confidence in the sustainability of financial policies. In Australia, significant fiscal consolidation plans are now being implemented, and current policies are expected to achieve the government's deficit target of 1 percent of GDP by 1996-97.

In addition to reducing budget deficits, many countries can improve their medium-term growth prospects by restructuring their expenditures and revenues with a view to reducing economic disincentives. Although precise relationships are difficult to quantify, there are elements of tax policy that may discourage private saving and distort investment decisions. Government subsidies and expenditure programs that support inefficient industries and regions are often unproductive and tend to delay adjustment. Economic incentives may be adversely affected by the high income tax rates on the current generation of workers that are necessary to finance current pension entitlements. Changes in the structure of public spending toward productive investment—in education, health care, and infrastructure—and the elimination of subsidies and taxes that discourage saving, investment, and work effort would

help to strengthen growth and employment opportunities over the medium term.

In summary, in most countries there has been little if any scope for expansionary fiscal measures to support activity and employment directly, apart from allowing automatic stabilizers to operate. Indeed, in view of the large underlying fiscal imbalances, the best contribution fiscal policy can make to support a durable expansion is through strong commitments to medium-term fiscal consolidation. The pace of consolidation needs to be sufficiently ambitious to make such commitments credible. In some countries the economic and fiscal situation is such that fiscal consolidation programs can be implemented on a gradual but expeditious schedule that does not impede prospects for economic recovery. In countries where fiscal consolidation is more urgent, credible actions are likely to be rewarded by reductions in long-term interest rates, and this will partially offset, and perhaps even outweigh, any short-term negative impact on economic activity. These fiscal policy requirements are an important element of the macroeconomic environment facing the monetary authorities.

Monetary Policy and the Business Cycle

Following the failure to control inflation in the late 1960s and the 1970s, the industrial countries conducted monetary policy in the 1980s with the primary aim of reducing inflation to low levels as an essential prerequisite for sustained growth. Although there were temporary setbacks late in the decade, inflation rates in many countries are presently as low as they have been in almost thirty years, and in some countries they are now in a range consistent with price stability. Moreover, current estimates of excess capacity and recent developments in wages and commodity prices imply that inflation is likely to remain low or continue to decline in many countries. Accordingly, the staff projects that by 1995 all but a handful of the industrial countries will have inflation rates that are 3 percent or lower. Because a reasonable degree of price stability is necessary to sustain growth over the medium term, it is essential to safeguard this achievement.

In this situation, where many countries are at price stability or within striking distance of it, the monetary authorities must address a critical question: To what degree should monetary conditions be allowed to vary over the cycle to avoid exacerbating fluctuations in output and employment? In addressing this issue during the 1980s, many central banks sought to rely on intermediate targets, particularly monetary aggregates, in the conduct of monetary policy. Thus, in response to a cyclical weakening of money demand, the central bank's attempts to maintain

Box 6. Asset Prices and Inflationary Pressures

Economic developments in the late 1980s demonstrated that, under some conditions, excess liquidity may lead to inflationary pressures in asset markets rather than in markets for goods and services. In part because monetary authorities relied mainly on conventional price measures, which exclude asset prices, monetary conditions in many countries were not tightened sufficiently early to prevent an increase in inflation. This delay meant that monetary conditions eventually had to be tightened sharply, which contributed to a necessary correction in asset prices and attendant balance sheet difficulties among households, enterprises, and financial institutions. More recently, asset prices in general—and stock market prices in particular—have recovered in several industrial countries, raising the question of whether these price increases should be interpreted as a sign of underlying inflationary pressures or as a reflection of improved growth prospects.

In the past, some asset prices served as a reliable advance signal of inflationary pressures: excess liquidity tended to be channeled to asset markets first and to goods markets relatively shortly thereafter. Price movements in real estate markets, in particular, were a good leading indicator of movements in conventional price measures (see chart). Although stock prices are often forward-looking, in that they reflect market anticipations of future earnings growth, they are extremely volatile and historically have not been a reliable indicator of inflationary pressures.

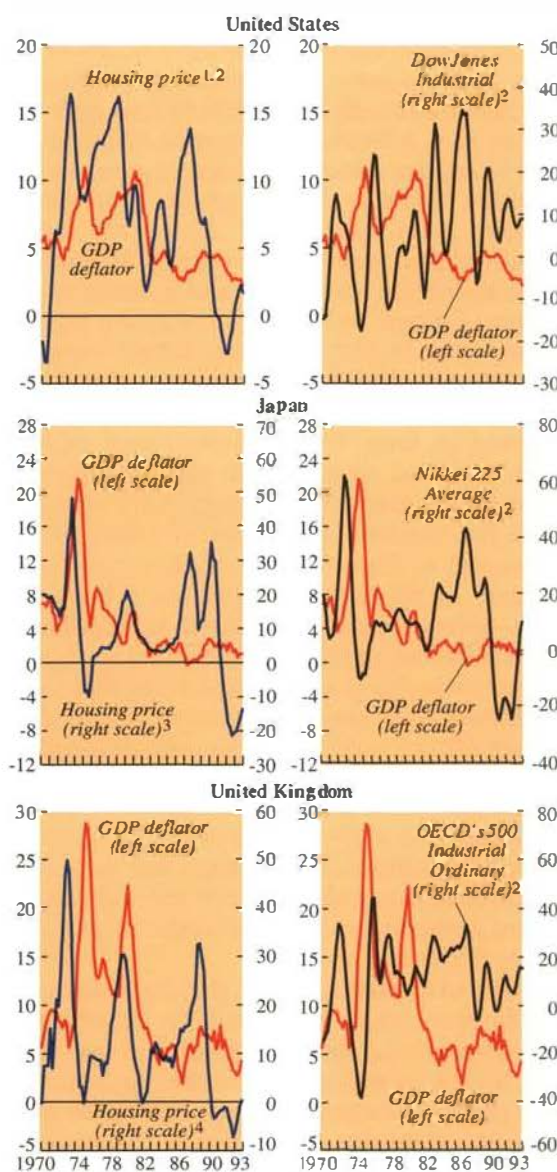
The relationships between real estate prices and conventional price measures changed in the mid- to late 1980s. With the benefit of hindsight, it appears that inflationary pressures that were initially channeled to real estate markets, and in Japan and the Nordic countries to stock markets as well, remained heavily concentrated in these asset prices.¹ Because conventional price measures did not subsequently rise as they had in the 1970s, or because the lags may have been substantially longer than in the past, asset price increases were mistakenly interpreted as sustainable relative price adjustments that were related to underlying structural changes, including demographic shifts. Later, when monetary policy was tightened and the asset price escalations were abruptly reversed, the role of excess liquidity and excessive accumulations of private sector debt in generating these asset price increases became more apparent.

¹Inflationary pressures were also concentrated in a wide variety of markets for collectibles (including art, books, jewelry, yachts, and the like) and contributed to intense financial activity involving mergers and acquisitions.

Selected Countries:

Asset Prices and Inflation

(Percent change from four quarters earlier)



Sources: For housing prices: United States and United Kingdom, WEFA, Inc.; Japan, Japan Real Estate Institute, *Bulletin of Japan Land Prices*. For stock prices: WEFA, Inc.

¹Average price of a new house.

²The series are smoothed using a four-quarter centered moving average.

³Urban residential land prices in six largest cities.

⁴Index of prices for dwellings.

The change in the relationship between real estate prices and aggregate prices for goods and services appears to have resulted from financial innovations and deregulation, increased bank competition, tax policies, demographic changes, and shifts in the flow of funds among intermediaries and sectors of the economy.² These structural changes were not perceived to be associated either with a change in the pattern of transactions or with changes in relationships between inflationary pressures and the various conventional measures of inflation. A key lesson from this experience is that the increases in asset prices were themselves signals of inflationary pressures, even though their relationship with conventional measures changed. It would therefore be useful to monitor asset markets in conjunction with other economic and financial developments, including excessive accumulations of debt, for early indicators of potential imbalances.³

In the current situation, the earlier downward adjustments to real estate values have run their course in most countries. In countries where recovery is under way, real estate prices have stabilized or have rebounded slightly. Indeed, in most cases some further recovery of real estate prices—as confidence continues to improve—should not give cause for concern. Stock markets rose quite strongly in the United States and Europe through early 1994, but there is little evidence of these increases being fueled by excess liquidity or of their being inconsistent with earnings prospects. In the United States, the strength of the recovery and the associated increases in earnings seem to imply price-earnings ratios that are broadly in line with past price-earnings relationships. In Europe, stock values appear to be high compared with current low corporate earnings, but they are within historical norms given the recovery of earnings that would be expected as economic recovery gets under way. Stock prices in Japan have been volatile within a moderate trading range, in part owing to adverse factors including problems related to nonperforming loans as well as the uncertain prospects for recovery.

²These structural changes and their effects have been discussed in previous issues of the *World Economic Outlook*. For a synthesis of these analyses, see Garry J. Schinasi and Monica Hargraves, “‘Boom and Bust’ in Asset Markets in the 1980s: Causes and Consequences,” in *Staff Studies for the World Economic Outlook* (IMF, December 1993), pp. 1–27. For a flow of funds analysis, see Monica Hargraves, Garry J. Schinasi, and Steven R. Weisbrod, “Asset Price Inflation in the 1980s: A Flow of Funds Perspective,” IMF Working Paper 93/77 (October 1993).

³The United Kingdom has included asset prices as monitored variables in its new monetary policy framework.

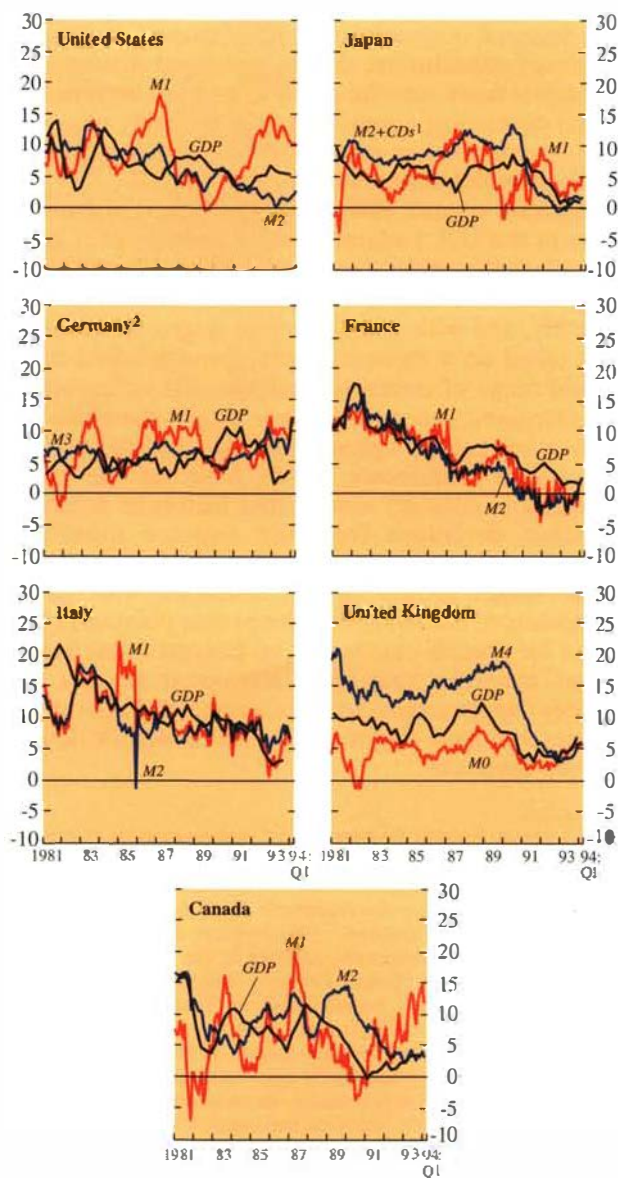
money growth in its targeted range would entail a lowering of official short-term interest rates. Conversely, when margins of slack diminished during an expansion, resistance by the central bank to an acceleration of money growth would imply an appropriate firming of short-term interest rates. In practice, however, reliance on monetary aggregates or other intermediate targets for monetary policy has been fraught with difficulty in many countries, primarily because of instability in the relationship between money, nominal income, and interest rates and because of wide divergences between various monetary aggregates (Chart 19). Such instability, which in many countries goes back at least to the 1970s, can be attributed to a range of factors, including financial innovation and restructuring, increased currency substitution, sizable and rapid movements in capital flows, and the demand for hard currency in some developing countries and in the early phase of the transformation process in the previously centrally planned economies.³⁰

Because of such difficulties, the Board of Governors of the U.S. Federal Reserve System, after having placed considerable emphasis on intermediate targets in the late 1970s and early 1980s, subsequently, and with a considerable degree of success, has relied on a more eclectic approach based on a broad range of economic and financial indicators.³¹ In Germany, where monetary targets continue to play a key role, frequent difficulties in interpreting short-term movements in M3 have led the Bundesbank to consider many other factors in deciding whether deviations from the targeted monetary growth are warranted. In 1992–93, for example, above-target growth of M3 conflicted with other indicators of monetary conditions that pointed to the need for gradual cuts in official interest rates. Many other countries that have attempted to rely on money supply targets have experienced similar difficulties and have progressively abandoned or downplayed their use.

³⁰A recent Federal Reserve Board study estimates that two-thirds of the stock of U.S. currency is circulating outside of the United States. See Richard Porter, “Estimates of Foreign Holdings of U.S. Currency—An Approach Based on Relative Cross-Country Seasonal Variations” (Washington, September 1993). For a discussion of monetary targeting in the context of European integration, see Marcell Cassard, Timothy Lane, and Paul Masson, “ERM Money Supplies and the Transition to EMU,” IMF Working Paper 94/1 (January 1994).

³¹The Board of Governors are obliged to “maintain long-run growth of the monetary and credit aggregates commensurate with the economy’s long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.” See Federal Reserve Act, Section 2A, 1913 and subsequent amendments. For a review of the conduct of monetary policy in the United States, see Michael Mussa, “U.S. Monetary Policy in the 1980s,” in *American Economic Policy in the 1980s*, edited by Martin Feldstein (Chicago: University of Chicago Press, 1994), pp. 81–164.

**Chart 19. Industrial Countries:
Monetary Aggregates and Nominal GDP**
(Percent change from a year earlier)



¹CDs, certificates of deposit.

²Data are adjusted for unification.

A number of industrial countries have relied on exchange rate anchors, in most cases vis-à-vis the deutsche mark, to guide monetary policy. Apart from the problems related to the use of monetary targets, a key motivation for this approach has been to gain credibility in the process of disinflation by accepting the discipline required to maintain a stable exchange rate vis-à-vis the deutsche mark. There is little doubt that this approach contributed to the successful reduction of inflation across Europe in the course of the 1980s, even though inflation differentials and other divergences in fundamentals continued to require occasional realignments.

Since 1991, however, with the unification-related pressure on interest rates in Germany, the adherence to fixed exchange rates created conditions in most other EMS countries that were inconsistent with domestic economic conditions and the outlook for inflation. As a result, interest rates in many countries were maintained at levels that exacerbated the recession and, in some instances, therefore proved unsustainable. This inconsistency eventually forced the United Kingdom, Italy, Finland, Sweden, and Norway to abandon their exchange rate anchors. In response to exchange market pressures, several other countries were obliged to devalue their currencies within the ERM. With the exception of the Netherlands, which maintained a narrow band vis-à-vis the deutsche mark, those countries that remained pegged to the deutsche mark eventually decided to widen substantially the margins of fluctuation within the ERM, but to continue to pursue a close relationship with the German currency. Subsequently, the lowering of interest rates in Germany and across Europe has helped to reduce tensions in the ERM, but the level of interest rates in many ERM countries has remained higher than appears warranted by domestic economic conditions.

The problems experienced with intermediate targets for monetary policy have encouraged a growing number of countries to focus more directly on inflation, and to underscore their commitment to price stability by adopting implicit or explicit inflation objectives.³² Explicit inflation targets provide a medium-term framework for policy and may help to establish credibility through public accountability. Unlike approaches using intermediate targets, however, inflation targets do not provide simple rules for managing short-term monetary conditions over the cycle. Monetary authorities therefore rely on a broad range of economic and financial indicators to assess the stance of policy on a continuous basis. In addition,

³²See Box 2 in the May 1993 *World Economic Outlook*, p. 26 for a discussion of the explicit inflation objectives recently adopted by the United Kingdom, Canada, Finland, New Zealand, and Sweden. More recently, France has announced an implicit objective of an inflation rate of less than 2 percent.

tion to inflation and forecasts of inflation, these indicators include both real and nominal measures of economic activity, estimates of the cyclical position of the economy relative to its potential, interest rates and their term structure, exchange rates, the flow of funds, and asset market information (Box 6). Central banks use this information to determine whether monetary conditions should be allowed to change in the near term to bring them more in line with stated policy goals during the normal course of the business cycle or in response to unexpected economic developments.

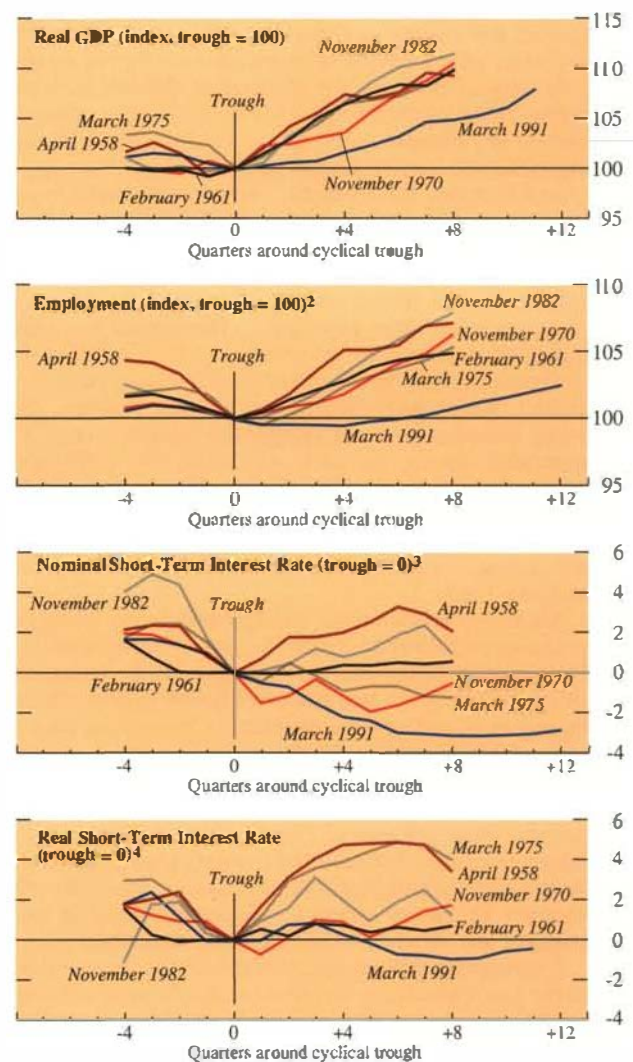
The emphasis on inflation targets has allowed monetary authorities in many countries to pay some attention to near-term objectives while at the same time seeking to safeguard reasonable price stability over the medium term. Given the inevitable degree of judgment and discretion associated with inflation targeting, the success of this approach ultimately depends on the ability to avoid a repetition of the costly ratcheting up of inflation that occurred in the 1960s and 1970s. Indeed, during the later stages of an economic expansion, when excess capacity has been absorbed, the temptation to prolong the expansion for as long as possible exposes countries to the danger that monetary conditions will not be tightened sufficiently early to prevent increases in inflation. If the monetary authorities fail to act soon enough to prevent a buildup of inflationary pressures, this will set the stage for more abrupt policy adjustments later in the cycle, thereby exacerbating future fluctuations in output and employment—as experienced so often in the past.

Nevertheless, provided that the resolve of the monetary authorities to prevent future increases in inflation is perceived as credible, experience shows that short-term interest rates *can* be allowed to decline substantially during a recession. This has been demonstrated in the United States, where the Federal Reserve Board progressively reduced the federal funds rate between early 1989 and late 1992 to the thirty-year low of 3 percent. Although economic recovery had been in progress since early 1991, by mid-1992 cumulative growth in output and especially employment had been extremely weak relative to previous U.S. recoveries (Chart 20), in part because there were still economic and financial “headwinds” impeding the expansion. The markets apparently considered that the reduction in short-term interest rates was appropriate to alleviate debt burdens and to stimulate private expenditures; and, with inflation remaining subdued and the fiscal outlook improving, the credibility of the overall policy mix was underscored by a substantial decline in long-term interest rates.

In present circumstances, and taking into account cyclical positions and different degrees of progress

**Chart 20. United States:
Recovery Stage of Business Cycle**

(Dates indicate cyclical trough for GDP)¹



¹As identified by the National Bureau of Economic Research.

²Employees on nonagricultural payrolls.

³The three-month treasury bill rate less its level at the trough.

⁴The three-month treasury bill rate, deflated by percent change of consumer prices from four quarters earlier, less its level at the trough.

Box 7. Interest Rate Spreads

An important way that changes in official interest rates affect consumption and investment decisions, and hence aggregate demand, is through their impact on bank interest rates. Although the monetary authorities do not directly control banks' lending and deposit rates in deregulated financial systems, policy-induced changes in short-term money market rates, as well as changes in official interest rates, affect banks' cost of funds. The extent to which banks pass on the resulting increases or reductions in the cost of funds to customers—by changing loan and deposit rates—depends on a variety of factors, including market structure, cyclical conditions, the strength of bank balance sheets, and the expected duration of the change in short-term rates. The impact of monetary policy actions on economic activity will therefore depend both on the changes in the official and money market interest rates that the authorities manage and on any changes in the spread between banks' lending rates and money market rates.

In Germany, for example, bank lending rates rose more than money market rates in 1991 and early 1992, and the marked decline in money market rates since the summer of 1992 has been accompanied by further increases in the spread between short-term lending and money market rates (*see chart*). The spread has also increased since mid-1992 in France and Italy, although in these countries the increases reflected a return of the spread, which had temporarily become negative, to more normal levels. In Japan, the spread increased somewhat during the early and mid-1980s and then more substantially in 1988. The interest rate spread has remained relatively stable in the United States, the United Kingdom, and Canada in recent years, although the spread increased somewhat in the United States in the late 1980s.

There are several possible explanations for changes in the spread between lending and money market rates. Commercial banks may widen spreads in order to increase their profit margins and thereby improve their capital base and reserve position.¹ Commercial banks may also increase the risk premium incorporated into their lending rates during recessions, either because loans become more risky or because banks themselves become more risk averse. Finally, like other enterprises whose prices are not adjusted to every change in costs, banks may adjust their lending rates gradually to changes in money market rates, particularly if the changes are small or expected to be temporary.

Interest rate changes associated with the recent crisis in the European Monetary System (EMS) were a factor in the recent changes in spreads in some countries. When official interest rates were increased substantially in a number of countries to defend exchange rates during 1992–93, short-term lending rates did not go up by

as much as money market rates, and hence the spread fell; in France and Italy, the spread even became negative. Later, when money market rates fell, lending rates declined by less, and the interest rate spread was restored to more usual levels.

Interest rate spreads also reflect the degree of competition in domestic financial markets and the willingness and ability of borrowers to deal with foreign financial intermediaries. The lowering of lending rates by an individual bank has two opposing effects on bank profits: it reduces the profit margin on loans, but it may increase the demand for loans. The higher demand for loans may reflect an economy-wide increase or a gain in market share for the individual bank. In a market with strong competition among banks or between banks and nonbank lenders, banks will lose market share if they do not lower their lending rates after a fall in money market rates. Aggregate lending may or may not rise significantly, depending on the responsiveness of loan demand to economic activity, but competition for market share implies that, in general, individual banks will adjust loan rates in line with market rates.

In less competitive markets, however, banks are less likely to adjust lending rates to protect market share, since demand for bank loans will increase only because of a generalized rise in demand for bank credit. If the responsiveness of bank credit with respect to the interest rate is low, profit-maximizing banks may not reduce lending rates after a fall in money market interest rates. The stronger the competition is among banks, or between banks and nonbank lenders, the faster banks will adjust their lending rates to a fall in short-term interest rates.² This may explain why spreads have shown no discernible upward trend as interest rates have fallen in countries with competitive financial markets, such as the United States and the United Kingdom.

The money market, and the central bank supply of liquidity to this market, is not the only source of bank funding. In general, bank deposits are much more important, although the relative importance of bank deposits compared with money market funding differs considerably among countries. Spreads between deposit and lending rates also differ considerably among countries, and these spreads have shown great variation in recent years, especially in Japan and Europe. In Japan, the lending-deposit spread rose sharply in 1989–91 but has subsequently fallen back to earlier levels. In Germany, this spread widened sharply with the rise in lending rates during 1988–92. In Italy, there has been a declining trend in the lending-deposit spread, although this was interrupted during the EMS crisis. In some cases, the change in the deposit-lending spread may

¹For a discussion of recent balance sheet problems of banks, see Morris Goldstein and David Folkerts-Landau, *International Capital Markets: Part II: Systemic Issues in International Finance* (IMF, August 1993).

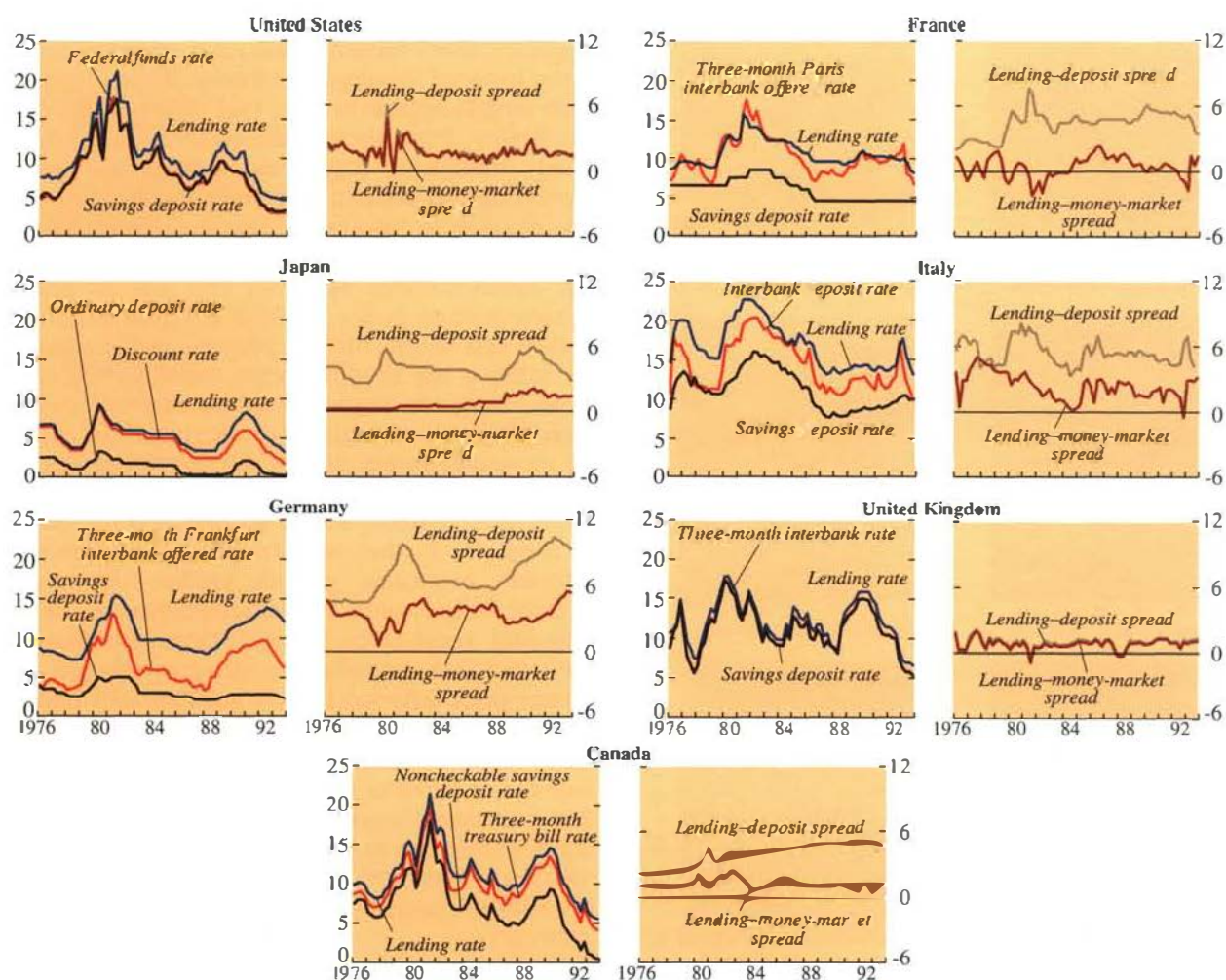
²For empirical evidence on the relationship between the speed of adjustment of lending rates and the degree of competition in the financial system, see Carlo Cottarelli and Angeliki Kourelis, "Financial Structure, Bank Lending Rates, and the Transmission Mechanism of Monetary Policy," IMF Working Paper 94/39 (March 1994).

have tended to offset the impact on bank profits of changes in the spread between lending rates and money market rates, as in France in 1993 and in Italy in 1992–93. In Germany, the widening of the two spreads coincided in 1992, but subsequent movements have been partially offsetting.

As noted, the tendency for the spread between bank lending rates and money market rates to widen during a recession may reflect attempts by banks to build up

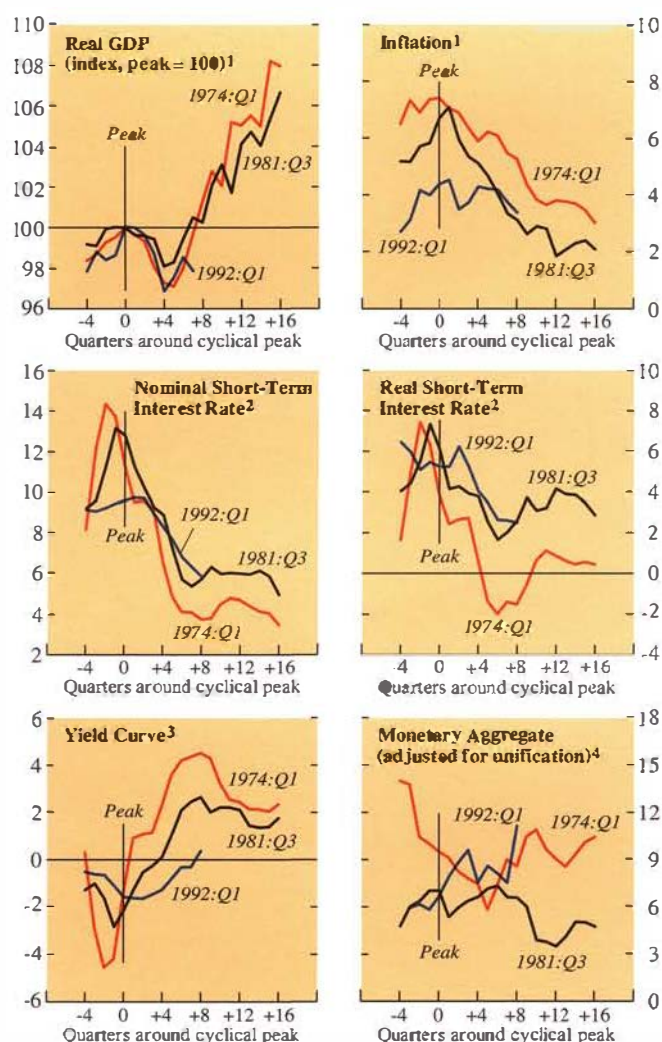
reserves against nonperforming loans. To the extent that the spread widens, however, declines in official interest rates may not be reflected in a corresponding easing of monetary conditions faced by borrowers. Thus, despite the declines in interest rates over the past two years, monetary conditions facing borrowers in some countries may be less supportive of economic activity than is suggested by the level of short-term official and money market interest rates.

Major Industrial Countries: Lending, Money Market, and Deposit Rates¹



Source: OECD, *Financial Statistics* (Paris).

¹All interest rates are period averages. Lending rates are the following: United States, interest rate on short-term bank loans to business; Japan, prime interest rate on short-term bank loans (until January 1988, standard interest rate on short-term bank loans); Germany, interest rate on credits in current account; France, prime lending rate on short-term credit to enterprises; Italy, interest rate on overdrafts with commercial banks; United Kingdom, minimum rate on overdrafts with commercial banks; and Canada, prime lending rate at chartered banks. Deposit rates are the following: United States, interest rate on large time deposits with commercial banks (certificates of deposit, CDs); Japan, interest rate on ordinary deposits; Germany, France, and Italy, interest rates on savings deposits; United Kingdom, three-month minimum rate on sterling CDs; and Canada, interest rate on noncheckable savings deposits.

Chart 21. Germany: Recent Business Cycles*(Dates indicate cyclical peak for GDP)*

¹Data are for west Germany only. Inflation using the consumer price index, in percent change from a year earlier.

²Three-month interbank rate. The real interest rate is deflated by the consumer price index, in percent change from four quarters earlier.

³Defined as ten-year government bond yield less three-month interbank rate.

⁴M3, in percent change from a year earlier.

toward medium-term fiscal consolidation, there are considerable differences in monetary policy requirements among the industrial countries. The U.S. recovery has now become more robust, and excess capacity is likely to be fully absorbed in the course of 1994. Although inflation remains relatively low, the maintenance of short-term interest rates at their current low level in a situation of nearly full capacity utilization could jeopardize medium-term price stability. The Federal Reserve Board appropriately raised short-term interest rates by $\frac{1}{4}$ of 1 percentage point in February and again in March to underscore its commitment to price stability, but further adjustments are likely to be needed during the period ahead to ensure a durable expansion.

In Canada, where there still is substantial excess capacity, short-term interest rates appropriately have been lowered to support recovery, while explicit inflation targets appear to have met with a high degree of credibility. Even though the recovery has been relatively moderate, suggesting a need for monetary conditions to remain relatively easy, there is need for caution in lowering interest rates further if the maintenance of price stability is to be assured. Similar considerations apply in the United Kingdom, where the new policy has had less time to build credibility and where further progress will be necessary to achieve the medium-term inflation objective. In both cases, the implementation of fiscal consolidation programs is critical to safeguard the credibility of monetary policy and of the overall policy mix in financial and foreign exchange markets.

In the remaining major industrial countries, there is room for further adjustments of interest rates to support economic growth sufficiently strong to reduce output gaps and unemployment. In Japan, nominal short-term interest rates are historically low; real interest rates are also low relative to consumer price inflation but are substantially higher relative to domestic wholesale price inflation, which has been negative since 1991. Problem loans in the banking sector have continued to grow, credit demand has remained weak, and the monetary aggregates have shown no more than modest growth. In this weak environment, short-term interest rates could be allowed to decline further to promote economic recovery.

In continental Europe, further reductions in short-term interest rates would also help to support economic recovery without jeopardizing reasonable price stability, especially as existing plans for fiscal consolidation are carried through and further strengthened over the medium term in Germany and France, and strengthened more significantly in Italy. Interest rates have declined substantially in Germany, but they remain relatively high in real terms for this stage of the economic cycle; and, compared with previous cycles, the yield curve has not yet fully normalized

(Chart 21 and Annex II). In addition, bank lending rates are still high relative to other market-determined interest rates, suggesting that a relatively substantial reduction of official interest rates will be needed to have the intended stimulative impact on private spending (Box 7). Because inflationary pressures—actual or expected—are weak and fiscal policy has been set on a contractionary course, a further lowering of short-term interest rates is warranted, notwithstanding that monetary growth has been rapid and has exceeded its target range significantly during 1993 and early in 1994. The overshooting has largely reflected special factors, including the unusual shape of the yield curve, the use of the deutsche mark as a parallel currency in some transition countries, and portfolio shifts associated with changes in the tax system. Under these circumstances, and given the large margin of slack in the German economy, the rapid growth of M3 does not seem to indicate a threat to medium-term price stability.

As monetary conditions in Germany continue to adjust to the weakness of economic conditions and the improved inflation outlook, short-term interest rates are also likely to fall further in the rest of Europe, and especially in France and other ERM countries. This should gradually bring monetary conditions much closer in line with domestic requirements and would strengthen conditions for recovery. Nevertheless, given the lags involved, the effects of such reductions in interest rates, even if they occur before mid-1994, may not be felt until well into 1995.

Monetary policies in Finland and Sweden have faced particularly difficult challenges, given the much deeper recessions in these countries than in the rest of Europe. Since their exchange rates were floated in late 1992, however, monetary conditions have eased significantly in both countries. This easing occurred after substantial exchange rate depreciations, which have stimulated activity in the traded-goods sectors. In Sweden, real interest rates and the margin of slack continue to be relatively high, and the rate of inflation has moderated. However, the scope for further significant reductions in interest rates to support recovery depends on progress in tackling Sweden's large fiscal deficit. In Finland, continued wage moderation, low inflation, and the rapidly improving external position have improved economic prospects, and the first signs of a recovery have become apparent. The easing of monetary conditions—with money market rates dropping markedly below equivalent German rates—was accompanied by significant declines in long-term interest rates and occurred in the context of a strengthening of the Finnish markka. Continued

efforts to address the large fiscal deficit remain, however, a prerequisite for a sustained, noninflationary recovery in Finland.

* * *

For all industrial countries, the key short-term policy challenge is to strengthen conditions for a durable expansion sufficiently robust to reverse the recent rise in cyclical unemployment while safeguarding the gains made toward achieving price stability. The reduction in inflation and inflationary expectations during the past decade and the escalation of unemployment in many industrial countries might suggest that there is a trade-off between the two. In the short run, stronger growth and a decline in cyclical unemployment would tend to reduce the dampening effects on inflation experienced during recession, albeit usually with a lag; so long as unemployment does not fall significantly below the level of structural unemployment, however, this should not increase inflation (barring commodity price or other supply-side shocks). In the long run—when the actual unemployment rate will converge toward the level of structural or equilibrium unemployment, which is determined primarily by labor market regulations and institutions and other factors that influence wage behavior—a large body of empirical evidence suggests that there is no trade-off between unemployment and inflation.

In most countries where recovery is not yet clearly under way, there continues to be some room for short-term interest rates to decline without jeopardizing progress toward price stability. This will also lessen the risk of further slippages in fiscal policy. Until recovery is firmly established, however, it will be difficult to achieve the fiscal consolidation needed in most industrial countries. Nevertheless, the early announcement of credible deficit-reduction programs could strengthen confidence, help to reduce long-term interest rates, and stimulate growth. In the longer term, the high levels of structural unemployment that now afflict many countries can be durably reduced only through far-reaching labor market reforms operating in an environment of economic expansion. As with fiscal consolidation, such reforms may be difficult to implement in a recession, and it is likely to take time to reduce structural unemployment to more acceptable levels. However, reducing structural unemployment would also help to alleviate current pressures on government budgets and to improve prospects for reductions in structural deficits. It is crucial that the opportunity provided by the coming expansion be used to implement urgently needed fiscal consolidation programs and fundamental labor market reforms.



IV

Why Are Some Developing Countries Failing to Catch Up?

There have been large differences in growth among developing countries over the past decade. Many countries that pursued macroeconomic stability, liberalized trade, and implemented market-based reforms in the early to mid-1980s are now well-established as the high performers in the developing world. Their policies have enabled them to better withstand adverse external developments. More recently, many other developing countries have adopted similar policy frameworks and have made substantial progress in fostering macroeconomic stability. For many of these countries growth has exceeded expectations, and their prospects are better than they have been for some time. Recent issues of the *World Economic Outlook* have focused on the experience of the successfully adjusting countries and on their resilience to the recent economic slowdown in the industrial countries.

Growth in a number of other developing countries remains weak, however, and there are at present relatively few indications of improvement. Longer-term growth prospects depend on well-known factors—including accumulation of physical and human capital and improvements in the efficiency of production. Many of the factors that promote growth are, in turn, significantly affected by economic policies. Although policy differences do not fully explain the growth experiences among developing countries or within countries over time, lack of economic stability, inadequate and distorted financial markets, unproductive state intrusion, and inward-oriented trade policies have all acted to restrain growth in many cases. The effects of these factors have, moreover, discouraged needed inflows of official financial assistance as well as of private capital and have tended to aggravate the impact of external developments. Although simple comparisons with the strong performers point to relatively straightforward explanations for the difficulties of low-growth countries, a closer look at their experiences suggests that their failure to grow at more satisfactory rates is attributable to a complex set of interactions among policy failures, poor governance, lack of incentives for reform, and adverse external developments.

Economic Instability

A comparison of developing countries distinguished by their longer-term growth performance

is provided in Table 6. During the decade 1984–93, the group of low-growth countries experienced real GDP growth of only 1.4 percent a year, implying declines in per capita real output, whereas the high-growth countries grew by 7.4 percent a year. About three-quarters of this difference is accounted for by total factor productivity growth, which was –1.1 percent a year for the low-growth countries compared with 3.4 percent a year for the high-growth countries.³³ Growth rates vary across time, as well as among countries. The low-growth countries had a better record in 1971–83 than in 1984–93, reflecting in part external factors. In particular, their terms of trade improved in the 1970s and then deteriorated significantly in 1984–93, whereas those of the high-growth countries were broadly stable, reflecting less dependence on exports of primary products.

Most countries in sub-Saharan Africa have had weak growth performances. In countries such as Côte d'Ivoire, Liberia, and Zaïre, average GDP growth over the past decade has been negative. In many others, including Ethiopia, Rwanda, Somalia, and Zambia, growth over the past decade, at less than 1 percent a year, has been only marginally higher. The problem of low growth is not, however, confined to Africa. Myanmar and the Philippines in Asia, and a number of countries in Latin America, have also experienced prolonged periods of very weak growth.

An important policy factor that has held back growth in many countries is the lack of a stable environment for economic decision making. In the low-growth countries, inflation has been relatively high and variable. This has often contributed to overvalued exchange rates and to a decline in competitiveness, and it has discouraged saving in financial assets because unanticipated inflation and low or negative interest rates have threatened to erode the real value of financial assets. Moreover, fiscal deficits often absorb excessive shares of national saving, reducing resources available for investment. Some countries have reacted to macroeconomic imbalances by resorting to import controls and restrictions

³³Total factor productivity growth is the increase in real output that is not accounted for by increases in capital and labor inputs, and it can be interpreted as a broad measure of the change in economic efficiency. Estimates of total factor productivity are, however, subject to significant margins of error.

on foreign exchange. Such policies are unlikely to be sustainable and often exacerbate the problems they were supposed to address. The experience of countries that have successfully adjusted shows that reducing fiscal deficits helps to raise domestic saving, and the introduction of market-determined ex-

change rates permits the trade sector to expand.³⁴ In contrast, in many low-growth countries state intervention in allocating foreign exchange has resulted in weak supply responses to market signals and in chronic external imbalances.

Some low-growth economies continue to suffer from poor governance and considerable social and political instability, which often exacerbate the effects of economic imbalances. In parts of southern and sub-Saharan Africa, governments' control of economic and financial policy is tenuous, and countries that have suffered extensive war damage—such as Angola, Ethiopia, Mozambique, and Somalia—face expensive national reconstruction programs. In many low-growth countries, problems in implementing adjustment programs are due in large part to the lack of commitment on the part of governments, to pressures from interest groups, and to a widespread lack of accountability. These factors have undermined the quality of public-sector decision making.³⁵ In many developing economies with large agrarian sectors and highly unequal land distribution, land reform that results in wider ownership can help to alleviate poverty and to improve productivity.³⁶ The provision of well-targeted social safety nets can help to ensure that distributional concerns do not delay necessary reforms.³⁷

Grouping countries according to per capita growth rates provides an indication of the relationship between growth and improvements in living standards, as measured by per capita income (Table 7). Developing countries that are growing faster than industrial countries account for about 68 percent of developing country population; the majority of these countries with high per capita growth are low-income countries, including China and India. A second group of countries, representing 15 percent of developing country population, have per capita

Table 6. Developing Countries: Growth and Other Indicators of Economic Performance

(Annual percent change unless otherwise noted)

	1971–83	1984–93
126 developing countries¹		
GDP growth	5.1	5.1
Consumer prices	20.2	43.5
Consumer prices (median)	10.9	8.8
Consumer price variability ²	0.7	0.8
Fiscal deficit (percent of GDP)	–3.8	–4.3
Investment (percent of GDP)	25.4	25.6
Savings (percent of GDP)	24.1	24.3
Export volume	2.2	7.6
Terms of trade	3.1	–1.1
External debt (percent of GDP)	23.3	39.6
Real effective exchange rate ³	0.1	–3.1
Total factor productivity	0.9	1.7
42 high-growth countries⁴		
GDP growth	5.8	7.4
Consumer prices	12.0	11.5
Consumer prices (median)	10.6	6.7
Consumer price variability ²	0.8	0.5
Fiscal deficit (percent of GDP)	–2.8	–3.2
Investment (percent of GDP)	25.8	30.1
Savings (percent of GDP)	24.5	29.3
Export volume	8.6	10.4
Terms of trade	0.4	0.1
External debt (percent of GDP)	19.2	29.4
Real effective exchange rate ³	–1.0	–5.9
Total factor productivity	1.9	3.4
42 low-growth countries⁵		
GDP growth	4.0	1.4
Consumer prices	26.4	53.5
Consumer prices (median)	10.8	10.7
Consumer price variability ²	0.7	0.8
Fiscal deficit (percent of GDP)	–4.1	–5.3
Investment (percent of GDP)	26.3	20.9
Savings (percent of GDP)	24.1	18.8
Export volume	–0.5	3.4
Terms of trade	4.7	–3.0
External debt (percent of GDP)	26.9	51.2
Real effective exchange rate ³	–1.9	1.6
Total factor productivity	0.2	–1.1

¹The data comprise 126 developing countries, except the figures for total factor productivity, are based on the 84 countries for which data were available. For total factor productivity, the figures in the second column refer to 1984–91.

²Equal to the absolute value of the ratio of the standard deviation of price inflation to its mean over the specified period.

³Because of data limitations, figures in the first column refer to 1981–83.

⁴The 42 (of 126) countries with the highest GDP growth in 1984–93.

⁵The 42 (of 126) countries with the lowest GDP growth in 1984–93.

³⁴Recent empirical studies have found a negative association between fiscal deficits and economic growth. See, for example, Robert J. Barro, "Economic Growth in a Cross-Section of Countries," *Quarterly Journal of Economics* (1991), pp. 407–43. See the October 1992 *World Economic Outlook*, Chapter IV, for a detailed analysis of macroeconomic policies in the successfully adjusting countries.

³⁵The importance of good governance for successful adjustment was emphasized at the IMF–World Bank Annual Meetings in September 1993. See Michel Camdessus, address to the Forty-Eighth Annual Meeting of the Board of Governors, September 28–30, 1993, in *Summary Proceedings* (IMF, 1994).

³⁶For evidence on the relation between land ownership patterns and productivity, see Albert R. Berry and William Cline, *Agrarian Structure and Productivity in Developing Countries* (Baltimore, Maryland: Johns Hopkins University Press, 1979).

³⁷For a survey of the recent literature on the interactions between economic conditions, including income distribution, and the sustainability of reforms, see Carlos M. Asilis and Gian Maria Milesi-Ferretti, "On the Political Sustainability of Economic Reforms," IMF Paper on Policy Analysis and Assessment, PPAA/94/3 (January 1994).

Table 7. Developing Countries: Economic Growth and Population, 1984–93*(Annual percent change unless otherwise noted)*

	All	High-Income ¹	Middle-Income ¹	Low-Income ¹
Developing countries²				
GDP growth	5.1	3.5	4.0	6.7
Per capita growth	3.1	1.4	1.5	4.8
Population growth	2.0	2.0	2.5	1.9
Share in developing country population (in percent of total, 1993)	100.0	11.1	12.4	76.5
High per capita growth²				
GDP growth	7.4	7.7	6.7	7.5
Per capita growth	5.7	6.6	4.7	5.8
Population growth	1.7	1.1	2.0	1.7
Share in developing country population (in percent of total, 1993)	68.3	1.9	3.8	62.6
Low per capita growth²				
GDP growth	3.3	2.8	3.8	4.0
Per capita growth	0.8	0.8	1.4	1.1
Population growth	2.5	2.0	2.5	2.9
Share in developing country population (in percent of total, 1993)	15.2	5.3	2.7	7.2
Negative per capita growth²				
GDP growth	1.5	1.7	1.5	0.4
Per capita growth	-1.2	-0.8	-1.3	-2.3
Population growth	2.7	2.5	2.8	2.7
Share in developing country population (in percent of total, 1993)	16.5	3.9	6.0	6.7

¹ High-, middle-, and low-income countries correspond respectively to high/upper-middle-income, lower-middle-income, and low-income groups in the World Bank's *World Development Report* (New York: Oxford University Press).

² The sample includes 126 developing countries. Countries with high per capita growth are those with per capita growth above the average of 2.02 percent for industrial countries during 1984–93. Countries with low per capita growth are those with per capita growth that is positive but below the average for industrial countries.

income growth that is positive but less than that in industrial countries, implying that they are failing to catch up in terms of average living standards. Of even greater concern is the absolute decline in living standards in countries that have experienced negative per capita income growth. This group represents about 16 percent of the population of developing countries, or over 400 million people, and about half of the countries in this group are low-income countries.

Unsustainable population growth has resulted in enormous strains on the capacity of countries to provide basic services and employment, especially in urban areas. In Africa, poor growth performance and rapidly expanding populations have meant that average per capita incomes have fallen by around 1.4 percent a year since 1989. Even in African countries with relatively strong growth, per capita income growth is only marginally positive. The transition to lower population growth rates, historically associated with higher economic growth and better living standards, can be promoted by policies that reduce the incentives for large families and improve access to family planning and education, especially for women. In many of the poorest countries, if population growth is not controlled, the attainment of higher living standards and poverty reduction will

require exceptionally high growth rates of output for an extended period, which may not be realistic.

Insufficient Financial Sector Reforms

The experience of many developing countries, particularly the East Asian countries and also some of the successfully adjusting African countries, suggests that a well-functioning financial sector can help to promote efficiency in real resource allocation.³⁸ In many low-growth countries, however, financial intermediation is not well developed. In sub-Saharan Africa, for example, the ratio of broad money to GDP in the period 1984–92 was about 0.25 compared with over 0.70 in the newly industrializing economies of Asia. In part, this difference reflects varying stages of economic development, but governments have also hindered—often inadvertently—the process of financial development by imposing a variety of restrictions on financial markets. In the majority of low-growth countries, interest rates on bank deposits and loans are controlled, often being

³⁸For recent evidence on the relation between financial development and growth, see Robert G. King and Ross Levine, "Finance and Growth: Schumpeter Might Be Right," *Quarterly Journal of Economics*, Vol. 108 (August 1993), pp. 717–38.

held significantly below market interest rates, and credit is often allocated according to nonmarket criteria. The maintenance of artificially low rates of interest is intended to encourage investment by reducing the cost of borrowing. But, with a few exceptions, the results have been the reverse: savings in financial assets have been discouraged, and low interest rates have reduced the efficiency of investment. Real interest rates in the high-growth countries have been positive on average, whereas they have been negative on average in the low-growth countries (Table 8).

All the countries that borrowed from the IMF under its structural adjustment facility (SAF) had previously used nonmarket mechanisms to allocate credit and, consequently, had suffered from inadequate saving. Correcting this problem became a key objective in the adjustment programs of these countries.³⁹ In countries with high and volatile inflation rates, administered interest rates have resulted in negative and volatile real interest rates, further discouraging saving. In Mozambique and Uganda, for example, real interest rates on bank deposits in the late 1980s were between -40 percent and -50 percent. Even where governments have adjusted administered rates frequently, it has been difficult to maintain stable positive real rates in the face of high and unstable inflation.

The relationship between growth and the degree of intervention in financial markets is not clear-cut, in part because of the diversity of experience between countries that have maintained relatively free financial markets, those that have imposed mild controls, and those with underdeveloped financial sectors. Policies pursued in some of the successful East Asian economies are often cited as demonstrating the advantages of nonliberalized financial markets. In Korea and Taiwan Province of China, interest rates were controlled throughout the 1970s and 1980s; foreign portfolio investment in listed Korean firms is still limited to 10 percent.⁴⁰ In these economies, however, subsidized credit was largely allocated on the basis of economic criteria. In Korea,

**Table 8. Developing Countries:
Real Interest Rates, 1984-93**

(In percent; median)

Developing countries	0.02
High-growth countries	2.89
Low-growth countries	-2.81

Note: The countries included are a subset of those in Table 6 for which data were available. The real interest rate is defined as the short-term nominal interest rate minus the rate of inflation. The median for each group is used in order to reduce distortion caused by a few high-inflation countries.

for example, firms were rewarded with subsidized credit on the basis of export performance.⁴¹ Moreover, in Korea and Taiwan Province of China, interest rates were only moderately repressed and were positive on average during 1971-91. Real interest rates in the successful East Asian economies were also considerably less volatile than in many other developing economies because macroeconomic conditions were relatively stable: fiscal deficits were controlled, and corrective measures were rapidly undertaken when public sector demands on credit exerted upward pressure on inflation and interest rates.⁴² Although there have been many successful examples of selective government intervention in the allocation of credit in these countries, there were also many failures and examples of overinvestment and misallocation. Whatever the contribution of selective credit policies in Southeast Asia, the experience of most other countries suggests that it is extremely difficult to administer such policies in an evenhanded way. In any case, the growing integration of the world economy is undermining the viability of highly regulated financial markets and controlled credit allocation.

To successfully liberalize the financial sector, it is imperative that public sector demands on credit do not exert excessive strains on financial institutions, which in many low-growth economies are insolvent or undercapitalized. Nonperforming loans of banks are often accounted for by public sector or quasi-public enterprises. Banks that have been recapitalized, at significant public expense in many instances, have been in difficulty subsequently. The need for better supervision and prudential regulation is recognized in countries that are engaged in financial sector reforms, but implementation has been slow, primarily because of the continued demands to

³⁹For an appraisal of adjustment programs in these low-income countries, see Susan Schadler, Franek Rozwadowski, Siddharth Tiwari, and David Robinson, *Economic Adjustment in Low-Income Countries: Experience Under the Enhanced Structural Adjustment Facility*, IMF Occasional Paper 106 (September 1993). The recent trend toward the liberalization of financial markets has been encouraging; in Africa the number of countries that maintain positive real interest rates rose from 22 in 1989 to 27 in 1992. See Pierre D'haesele, Jean Clement, Mbuyamu Matungulu, and Dawn Rehm, "Economic Trends in Africa," IMF Working Paper 93/71 (September 1993).

⁴⁰See World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Policy Research Report (Washington: World Bank; New York: Oxford University Press, September 1993); and Palle Andersen, "Economic Growth and Financial Markets," *Finance and the International Economy*, Vol. 7 (1993), pp. 66-91.

⁴¹In Korea, informal money markets may also have been important in determining credit allocation. See Sweder van Wijnbergen "Interest Rate Management in LDCs," *Journal of Monetary Economics*, Vol. 12, No. 3 (September 1983), pp. 433-52.

⁴²In the high-growth East Asian economies, annual inflation has averaged around 9 percent over the past three decades, compared with 18 percent in low- and middle-income countries.

finance government deficits or weak public sector enterprises. Implicit taxation in the form of unremunerated reserve requirements is pervasive in many developing countries, and in part explains the reluctance of governments to implement market-based reforms that are necessary to ensure that public sector credit demands are evaluated at their true opportunity costs.

Role of the State

Growth prospects for many of the low-growth countries depend critically on how successfully they restructure the role of the state away from direct intervention in product and factor markets toward the provision of infrastructure, basic services, and investment in human capital. In many of these countries, government intervention extends well beyond areas of genuine market failure. Although there is broad consensus on the policy measures required—privatization of state-owned enterprises, elimination of price controls (especially on agricultural products), and liberalization of trade and commerce—state involvement in economic activity is still extensive. In some countries, such as Korea, for example, interventionist policies have had some success, largely because they focused on fostering the right fundamentals, particularly macroeconomic stability. In most developing countries, however, interventionist policies failed badly because they caused large price distortions, discouraged investment, and resulted in inefficient resource allocation.

In the group of high-growth countries, central government current expenditure accounts for around 16 percent of GDP compared with almost 20 percent in the low-growth group (Table 9). Capital expenditure ratios are about the same for both groups. These figures may be somewhat misleading, however, because the productivity of public expenditure is different across countries⁴³ and also because they do not distinguish between countries that are at different stages of development. Some countries may need to assign greater priority to provision of basic services. For example, although expenditure on health as a percent of GDP in many African countries is similar to that in countries in Latin America and East Asia, in some sub-Saharan African countries, such as Mozambique, Sierra Leone, and Zaïre, total health expenditure per capita is less than \$10 a year, compared with over \$100 a year in Argentina, Brazil, and Mexico, and over \$300 in Korea.

Progress toward privatization, particularly in Africa, has been slow. In Zambia, even after price

controls on government-owned enterprises were abolished in 1989, the state did not give up ownership. Countries that have privatized faster, such as Argentina and Malaysia, have managed to attract significant foreign investment, in part into rapidly growing equity markets (see Box 4 in Chapter II). Countries that instituted privatization programs earlier, such as Chile and Mexico, generally have experienced faster growth. Because private investment is generally more productive than public sector investment, except perhaps in infrastructure projects, further progress on privatization should improve prospects.⁴⁴

In the 1970s and 1980s, one of the most distortionary aspects of economic policy in many developing countries was the widespread resort to price controls. Allocation inefficiencies that arise from such policies are well known.⁴⁵ Discrepancies between official and market prices typically lead to shortages, unproductive rent-seeking activities, and reduced tax bases through the diversion of economic activity to informal sectors. In Myanmar, where controls have until recently been extensive, most economic activity is not taxed at all. Moreover, allocation of inputs and distribution of final goods may be determined by noneconomic criteria. In low-income countries with IMF-supported structural adjustment programs, there has been substantial progress in decontrolling prices, and this has had a positive impact on economic incentives and growth. In Mozambique, for example, general controls on goods prices and profit margins have been replaced by selective controls, and growth has increased.

The motivation for certain forms of government intervention is well founded. Apart from investment in infrastructure and human capital, governments are rightly concerned about poverty alleviation and income distribution, and in some cases they seek to protect poorer groups from increases in the prices of staple foods. Although these are legitimate concerns, it is in general more efficient to address such issues through the tax and transfer system rather than through direct intervention in product and factor markets, where policy-induced distortions often result in perverse outcomes. This has been particularly true in agricultural markets in many developing countries.

⁴⁴See Mohsin S. Khan and Manmohan S. Kumar, "Convergence and Public and Private Investment," IMF Working Paper 93/51 (December 1992), which presents evidence that public investment has a positive impact on growth, but that the effect is considerably smaller than that of private investment.

⁴⁵Price controls have been used repeatedly in the context of "heterodox" macroeconomic stabilization programs, especially in Latin America, on the assumption that controls can help to stop inflation quickly without raising unemployment. In practice, however, price controls are often used as substitutes for monetary and fiscal policy adjustment. For a survey on the theoretical rationale for price controls, see Pierre-Richard Agénor and Carlos M. Asilis, "Price Controls and Electoral Cycles," IMF Working Paper 89/93 (November 1993).

⁴³See "Economic Implications of Unproductive Public Expenditures" (IMF Fiscal Affairs Department, 1994, forthcoming).

Table 9. Developing Countries: Central Government Expenditures, 1984-93
(In percent of GDP)

	116 Developing Countries	39 High- Growth Countries	38 Low- Growth Countries
Total expenditure	24.2	22.3	25.5
Current expenditure	18.0	16.5	19.6
Capital expenditure	6.1	5.8	5.9

Note: The countries included are the subset of those in Table 6 for which data were available.

Inefficiency of agricultural production, in large part the result of excessive controls and misguided government policies, has held back development significantly in low-income economies. To finance rapid industrialization, governments have often taxed agriculture excessively. The share of agriculture in total output in sub-Saharan Africa was 43 percent in 1965, similar to the 41 percent share in the East Asian economies. But by 1988, the share of agriculture in total output in East Asia had fallen to 22 percent, as productivity increases of more than 2 percent a year in the agricultural sector freed resources for use in other sectors. By contrast, in Africa agricultural productivity grew by only $\frac{1}{2}$ of 1 percent a year, and the share of agriculture in total output had fallen to only 36 percent. Countries that have neglected agricultural infrastructure investment have benefited little from the "green revolution." In India, for instance, two-thirds of the work force is employed in agriculture, but the sector accounts for only one-third of total output.

As a result of price controls and export restrictions on agricultural output, returns to producers do not rise with increased productivity. In Myanmar, for example, farmers are required to sell some proportion of their output to the state for export at well below world market prices. This implicit tax creates incentives to underreport output, discourages production, and diverts land use to crops not subject to restrictions. In Zambia, before reform in 1989, prices for maize were fixed by the government, and government-run marketing boards were responsible for distribution. Consequently, there was no regional variation in prices, and production moved away from urban areas, thus raising costs of distribution substantially. In general, reducing government intervention would help countries to diversify the agricultural export base as relative price distortions are removed.

Inward-Oriented Trade Policies

Inadequate exposure to international competition has contributed to low growth in many of the poorly

performing countries.⁴⁶ Import restrictions designed to promote infant industries have effectively offered permanent protection, increasing the cost of imported intermediate and capital goods and sustaining overvalued currencies. As a result, growth and diversification of the export sector have been limited. Because production of exports in most developing countries is more labor-intensive than the production of import substitutes, these restrictions often result in underutilized labor.

Empirical evidence suggests that output and productivity growth and the share of investment in output are positively associated with growth in exports and with the degree of outward orientation and the elimination of trade impediments.⁴⁷ The failure of protectionist policies—for example, in many Latin American countries during most of the postwar period until the mid-1980s—contrasts sharply with rapid growth in those South and East Asian countries with a longer tradition of outward-oriented policies. Trade reforms can also allow countries to industrialize faster. In Turkey, for example, as a result of trade and foreign exchange reforms in the early 1980s, exports grew nearly twice as fast as imports during 1979–89, and the share of manufacturing in GDP increased from 22 percent to 27 percent.⁴⁸ Liberalization programs may of course entail some short-run costs. Imports may rise, drawing down foreign reserves and putting downward pressure on the exchange rate, with possible adverse distributional effects on poorer groups in the economy. This underscores the need for safety nets to protect the poor while the economy adjusts. In addition, excessive import growth and exchange rate depreciation may be avoided through appropriate domestic demand management policies.

The recent shift in the orientation of trade policies has been most striking in the case of Latin America, where almost all countries are now significantly more open to trade than in the early 1980s. Nontariff barriers, which covered over 50 percent of imported goods in Colombia, Mexico, and Peru in the mid-1980s, have been substantially reduced or eliminated altogether; and the dispersion of import tariffs—the highest in the world in the 1960s in Brazil, Chile, and Colombia—has been drastically

⁴⁶See Rudiger Dornbusch, "The Case for Trade Liberalization in Developing Countries," *Journal of Economic Perspectives*, Vol. 6 (Winter 1992), pp. 69–85; and Sebastian Edwards, "Trade Orientation, Distortions, and Growth in Developing Countries," *Journal of Development Economics*, Vol. 39 (July 1992), pp. 31–57.

⁴⁷See Table 6 in the text, and Table 21 in the May 1993 *World Economic Outlook*. See also Sebastian Edwards, "Trade Policy, Exchange Rates and Growth," NBER Working Paper 4511 (Cambridge, Massachusetts: National Bureau of Economic Research, 1993), who found that trade impediments have tended to reduce total factor productivity growth.

⁴⁸Dornbusch, "The Case for Trade Liberalization in Developing Countries."

Box 8. Striving for Stability: Realignment of the CFA Franc

Since its creation almost fifty years ago, the African franc zone—usually referred to as the CFA zone—has served its members well.¹ The common currency, the CFA franc, has been freely convertible into French francs at a fixed rate and has provided an anchor for the economic and financial policies of the 14 African member countries.² These countries benefited from a long period of remarkably low inflation and—until the mid-1980s—sustained economic growth. The discipline imposed on monetary policy ensured that appreciations of real effective exchange rates arising from inflationary finance were avoided.

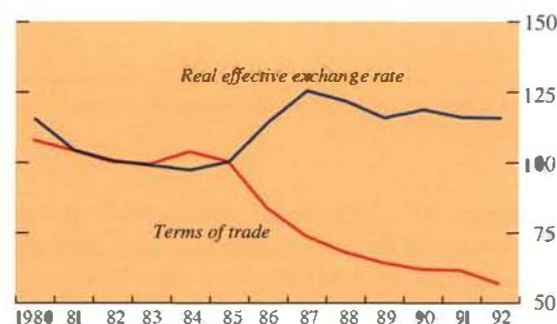
The CFA zone does not, however, satisfy all of the conditions for an optimal currency area. Despite the zone's arrangements and the activities of West and Central African trade organizations, formal trade in goods within the zone represents less than 15 percent of total trade. Trade tends to be mainly with the industrial countries of Europe, with total imports and exports of goods to Europe representing more than 40 percent of GDP of CFA zone countries. In addition, regional labor markets are not integrated, with different employment regulations and practices applying in each country.

Since 1985, the economic and financial situation of the zone has deteriorated as a consequence of two major shocks (*see chart*). First, the zone's terms of trade deteriorated by about 50 percent during the second half of the 1980s, owing mainly to a sharp drop in world market prices for its major exports of cocoa, coffee, cotton, and petroleum. Second, the external competitiveness of the zone weakened further as a result of the marked appreciation of the French franc against the currencies of the zone's other major trading partners. At the same time, the zone was handicapped by a number of structural and sectoral problems, particularly relatively high wages.

Despite repeated attempts at internal adjustment—especially, to control wage costs and restructure the banking system and public enterprises—per capita incomes fell steadily, and the economic and financial situation continued to worsen. Given the size of the shocks, reliance on internal adjustment alone would have resulted in increased tax rates being imposed on a shrinking tax base and in large cuts in current and capital expenditures—particularly in education, health, and infrastructure—thereby jeopardizing the basis for sus-

CFA Zone Countries: Real Effective Exchange Rate and Terms of Trade¹

(Index, 1985 = 100)



¹An upward movement of the real effective exchange rate represents an appreciation of the CFA franc, and a downward movement of the terms of trade represents lower export prices relative to import prices. All aggregates are constructed using 1985 GDP weights.

tainable growth. With governments' wage expenditures taking up an increasing share of government revenues, and with transfers to public enterprises rising, the public sector financing requirement expanded significantly, crowding out the private sector. Considerable domestic and external payments arrears were accumulated, creating serious distortions for the productive sector and weakening the banking system. Under these circumstances, the zone's attractiveness to foreign investors diminished substantially—despite the advantage of stable prices and exchange rates—and capital flight increased appreciably.

These differences were reflected in a sharp worsening in economic performance. Before 1985, growth in the CFA area was generally better sustained than in the rest of Africa (*see table*). Since 1986, however, output has remained flat on average in the CFA zone, whereas output expanded by an average of 2½ percent a year in the other sub-Saharan African countries; the contrast in terms of per capita incomes is even starker. The overall budget and external deficits were much larger in the CFA countries, and external debt increased by nearly 40 percentage points relative to GDP compared with 14 percentage points in other sub-Saharan African countries. By the early 1990s it had become increasingly clear that a new growth-oriented strategy was needed.

On January 11, 1994, the member countries of the CFA zone decided collectively to adopt a broadly based strategy consisting of a large change in the parity of their currencies, effective January 12, 1994, coupled with a coherent set of macroeconomic and structural policies tailored to the circumstances of each country. The member countries also agreed to strengthen their

¹The CFA is commonly understood to refer to both the Communauté financière de l'Afrique de l'Ouest and the Communauté financière de l'Afrique Centrale.

²See Jean A.P. Clément, "Rationale for the CFA Franc Realignment," *IMF Survey* (February 7, 1994), pp. 33–36, and the *IMF Survey* Special Supplement on the CFA franc realignment (March 21, 1994). The fixed parity with the French franc has been supported by the operations accounts with the French Treasury of the zone's three central banks: the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), whose members are Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo; Banque des Etats de l'Afrique Centrale (BEAC), whose members are Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon; and, since 1979, the Central Bank of the Comoros, which issues its own currency, the Comorian franc.

economic integration through twice-yearly meetings to coordinate policies and monitor the implementation of adjustment programs. In addition, the member countries of the West African Monetary Union (the members of the BCEAO) adopted a treaty establishing the West African Economic and Monetary Union.

The CFA franc was devalued by 50 percent in foreign currency terms, from CFAF 50 to CFAF 100 per French franc, and the Comorian franc was devalued by 33 percent, from CF 50 to CF 75 per French franc. The size of the parity change was based on several indicators of the extent of the overvaluation of the CFA franc and the Comorian franc, including the evolution of the real effective exchange rate and the deterioration of the terms of trade since the mid-1980s. To reap the full benefits of the devaluation, all of the CFA countries will have to implement fiscal adjustment programs, adopt prudent monetary policies, control wage costs, and accelerate structural reforms to foster recovery of supply. To implement these adjustment programs successfully, well-targeted social safety nets, perhaps supplemented by limited and temporary price subsidies, will have to be established.

These policies should allow the needed correction in relative prices of traded and nontraded goods, while ensuring that inflation returns rapidly to its predevaluation level. It should be possible to achieve sustained real growth in the range of 4 to 6 percent and external viability. Indeed, the realignment should lead to a shift in resources from low-growth sectors, which are often artificially protected, to more dynamic and competitive sectors. The agricultural sector—which employs most

of the population—might be the first to benefit from these policies, in part because of higher domestic prices for export crops, as well as effectively targeted public investments. Similarly, increasing production of non-traditional exports and substitutes for imports should allow existing capacities to be utilized more effectively. Inflows of private capital can be expected to resume and to be invested in the tradable goods sectors, where the productivity gains and profitability are likely to be most pronounced, thus reviving growth and creating employment.

The IMF has assisted each CFA zone country in formulating comprehensive adjustment programs. For 11 of the 14 countries, arrangements had already been approved by the IMF's Executive Board at end-March 1994. To put IMF assistance in place as rapidly as possible, a number of programs are being supported first with stand-by arrangements, which are expected to be replaced by annual arrangements under the enhanced structural adjustment facility (ESAF). At present, 12 of the 14 African countries of the CFA zone are eligible for the ESAF (Congo and Gabon are not eligible because their per capita incomes exceed the level that defines low-income countries). The World Bank has also closely collaborated in the design of the programs and has already assisted with mobilizing financial support. Shortly after the adjustment programs were approved by the IMF's Executive Board, the respective countries benefited from rescheduling arrangements with private and bilateral creditors, the latter under the aegis of the Paris Club.

Sub-Saharan Africa: Selected Economic and Financial Indicators for CFA and Non-CFA Countries¹

	Average 1975–85	1985	1986	1987	1988	1989	1990	1991	1992	1993	Average 1986–93
<i>Annual percent change</i>											
Real GDP growth											
CFA	4.6	7.3	4.0	-1.7	-0.4	1.7	-1.0	-0.2	0.1	-1.9	0.1
Non-CFA	1.4	2.8	2.1	2.5	5.7	4.0	2.7	1.6	-0.5	1.5	2.5
Real per capita GDP growth											
CFA	1.7	4.8	0.9	-4.4	-3.3	-1.3	-3.8	-3.2	-2.8	-4.7	-2.8
Non-CFA	-1.3	-0.1	-0.6	-0.3	2.8	1.1	-0.3	-1.2	-3.1	-1.0	-0.3
Inflation ²											
CFA	11.2	5.6	3.4	0.6	2.4	1.2	1.0	0.4	0.2	-0.3	1.1
Non-CFA	17.8	16.2	16.8	20.4	26.2	26.2	15.8	17.3	26.3	27.2	22.0
<i>In percent of GDP</i>											
Overall fiscal balance											
CFA	-5.0	-2.7	-3.9	-9.5	-8.9	-8.8	-8.0	-6.8	-6.6	-8.1	-7.6
Non-CFA	-6.1	-4.5	-5.0	-5.7	-7.2	-4.1	-2.8	-5.3	-6.5	-8.2	-5.6
External current account (including grants)											
CFA	-6.5	-1.7	-6.4	-8.9	-8.5	-7.1	-7.5	-6.5	-7.4	-6.7	-7.4
Non-CFA	-1.9	0.2	-2.2	-0.4	-1.8	-0.4	0.6	-0.6	-1.3	-1.2	-0.8
External debt											
CFA	38.2	54.2	53.8	60.6	66.0	72.4	76.8	82.9	83.5	93.5	73.7
Non-CFA	25.2	41.0	55.9	62.1	56.9	59.7	57.2	56.3	52.6	55.0	57.0

¹Compared with the definition used in the Statistical Appendix, sub-Saharan Africa is defined here to include Nigeria and South Africa and to exclude Djibouti, Liberia, Mauritania, Somalia, and Sudan.

²Based on the consumer price index.

reduced. In Africa, although it is recognized that trade is a necessary ingredient of revival, progress on trade liberalization has been slow. The possibility and benefits of successful liberalization, however, have been demonstrated by countries such as Ghana, where import licensing has been substantially liberalized and a uniform tariff introduced for most imports, and in Morocco, where significant reductions in protection have taken place since 1983 through the elimination of quantitative restrictions and the reduction of tariff rates, with the maximum rate reduced from 400 percent to 35 percent.

Differences in both macroeconomic and structural policies, including trade regimes, show up in sharp divergences in export performance. Exports of high-growth developing countries grew at an average annual rate of over 10 percent between 1984 and 1993, compared with a rate of increase of only around 3½ percent for low-growth countries (see Table 6). To some extent this positive correlation between growth and exports reflects movements in the terms of trade, but countries faced with a deterioration in the terms of trade have not always responded with appropriate policies. For example, countries such as Algeria, Egypt, Myanmar, Zambia, and the CFA countries maintained overvalued exchange rates for long periods, implicitly taxing exporters (Box 8).⁴⁹

For the developing countries as a group, exports grew by nearly 8 percent a year between 1984 and 1993, almost twice as fast as in the industrial countries. The industrial countries have also benefited. According to one estimate, trade liberalization efforts since 1985 in developing countries could raise the demand for industrial countries' exports in the developing countries by about 20 percent over the medium term.⁵⁰ In the longer run, the benefits will be even more substantial as liberalization leads to a more efficient pattern of global production and trade.

Financial Flows and Resource Transfers

Trends in the pattern of financial flows to developing countries are dominated by the increase in private capital flows, especially during the past five years (Table 10). In contrast to the early 1980s, most of the recipients are private businesses, and there has been a significant shift from commercial bank lending to direct investment. The latter accounts for

Table 10. Developing Countries: Resource Transfers
(In percent of GDP)

	1984-93	1989-93
126 developing countries		
Gross external financing ¹	5.3	5.2
Official financing	2.1	2.0
Private financing	3.1	3.2
Net resource transfers ²	0.2	0.6
42 high-growth countries³		
Gross external financing ¹	5.0	5.1
Official financing	1.7	1.6
Private financing	3.3	3.5
Net resource transfers ²	0.4	0.7
42 low-growth countries⁴		
Gross external financing ¹	5.3	5.4
Official financing	2.1	2.2
Private financing	3.1	3.3
Net resource transfers ²	0.1	0.9

¹Gross external financing comprises official and private financing, including amortization due on external debt (see the Statistical Appendix, Table A.32).

²This is defined as the balance of goods and nonfactor services, with the opposite sign.

³The 42 (of 126) countries with the highest GDP growth in 1984-93.

⁴The 42 (of 126) countries with the lowest GDP growth in 1984-93.

over one-third of all net flows to developing countries. Low-growth countries, however, continue to rely on official financing to supplement domestic saving. Over the past decade these countries received gross external financing of over 5 percent of GDP a year, about the same as the high-growth countries, although net resource transfers were marginally higher. In most African countries, foreign direct investment has been limited and has been largely offset by disinvestments by commercial banks. Countries that have liberalized capital controls and pursued privatization programs, such as India, Indonesia, and Pakistan, have benefited the most from private capital inflows, as have countries with strong growth prospects. China, for example, is currently the largest recipient of foreign direct investment.

For many low-growth countries, especially the low-income countries, greater flows of concessional assistance are called for on social and humanitarian grounds. It is important, however, that additional concessional assistance does not impede future growth prospects in these countries. To avoid the risk that increased financial assistance could exacerbate the dependence of these countries on external assistance while failing to promote needed adjustment, it would be helpful to link such assistance more closely to reform efforts and to improvements in governance. Where economic management does improve substantially, sustained inflows of external

⁴⁹The degree of overvaluation in some African countries in the mid-1980s, as approximately indicated by the premium in informal or parallel markets, was over 300 percent.

⁵⁰Susan Hickok, "Recent Trade Liberalization in Developing Countries: The Effects on Global Trade and Output," *Quarterly Review*, Federal Reserve Bank of New York (Autumn 1993), pp. 6-19.

assistance will be important to help put these countries on a stronger growth path. For countries with unsustainable debt burdens, timely and realistic debt-reduction agreements are also essential.

During the 1980s, the high cost of servicing unsustainable debt burdens led to a number of initiatives to reduce and restructure the debt of the most heavily indebted countries. Although the high debt burdens had become critical obstacles to growth, they were closely linked to underlying macroeconomic imbalances and distortions affecting resource allocation. These interrelationships have been analyzed extensively in previous issues of the *World Economic Outlook*. For a discussion of the experience of Latin American countries, many of which have successfully overcome earlier debt-related difficulties and have reformed their economies, see Annex III.

Vulnerability to the External Environment

The external economic environment facing developing countries has varied substantially in recent years. Fluctuations in world interest rates have been particularly large, although the interest payments of highly indebted countries have recently fallen.⁵¹ However, the most important adverse effects have come from changes in the terms of trade. Two major recessions in the industrial countries since 1980 depressed demand for developing country output and put downward pressure on commodity prices and, hence, on the export prices of many developing countries. These developments have had important adverse effects, since these countries have only a limited ability to hedge commodity price risks in world financial markets. Negative terms of trade movements also reduce output by increasing the cost of imported intermediate and capital goods.⁵²

To gauge the importance of changes in the external environment for different groups of countries, the staff has constructed a composite "external conditions index" based on a weighted average of world interest rates, industrial country growth, and the terms of trade. A rise in the index indicates that changes in the external environment have contributed positively to growth. The weights for the index

are based on the long-run elasticities of output growth in the developing countries to each of the three factors, using the IMF's developing country model.⁵³ Specifically, they are the long-run response of developing countries' growth rate to a sustained increase of: 1 percentage point in the U.S. dollar London interbank offered rate (LIBOR); 1 percentage point in the industrial country growth rate; and 1 percent in the terms of trade.⁵⁴

The developing country model suggests that changes in the terms of trade have the greatest impact on developing country output growth, with long-run elasticities of about 0.5 for both low- and high-growth countries. The sensitivity of developing country growth to industrial country growth is 0.4 for high-growth countries, four times as large as that for low-growth countries. The impact of the world interest rate is small for all groups, although it is large for some individual countries. The small long-run impact of the interest rate reflects the fact that the effects of changes in world real interest rates are partly captured through the terms of trade.

The fluctuations in the external conditions index in the early 1980s were largely the result of sharp variations in the terms of trade experienced by most developing countries (Chart 22). The external environment deteriorated in the second half of the 1980s because of the continued decline in nonfuel commodity prices. The weakness of nonfuel commodity prices over the past decade can be explained in part by an expansion of world supply, owing to higher productivity and structural reform policies and increased commodity exports in developing countries of Asia and the Western Hemisphere. World supply has also increased as a result of the agricultural policies of industrial countries, such as explicit and implicit price support programs.⁵⁵ Low-growth countries have been exposed to a particularly unfavorable external environment, both because their terms of trade have fallen more than those of the other countries and because their economic structures are more vulnerable to terms of trade changes.

Using the elasticities underlying the external conditions index, the total effect of changes in the terms of trade, industrial country growth, and world interest rates on developing country growth can be estimated. The analysis suggests that the external

⁵¹ The benefits of lower debt servicing are limited to those countries that are servicing their external debts. For countries that are not able to meet their debt interest payments, lower interest rates may not affect actual interest payments, although their nominal obligations and the magnitude of future arrears will be less.

⁵² See Enrique G. Mendoza, "International Evidence on the Macroeconomic Effects of Terms of Trade Disturbances," IMF Working Paper (1994, forthcoming) for empirical evidence on the importance of terms of trade movements in developing countries.

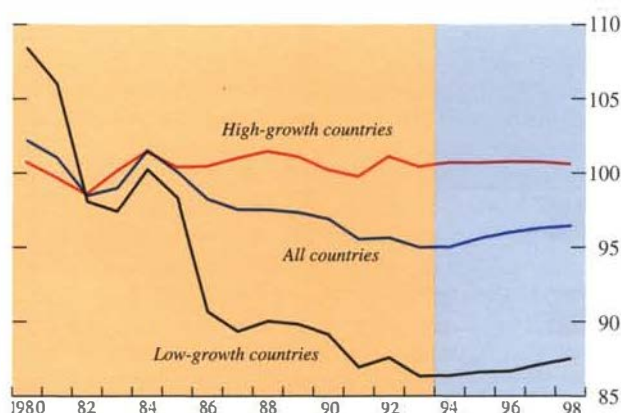
⁵³ For a description of the IMF's developing country model, see Manmohan S. Kumar, Hossein Samiei, and Sheila Bassett, "An Extended Scenario and Forecast Adjustment Model for Developing Countries," in *Staff Studies for the World Economic Outlook* (IMF, December 1993), pp. 47–75.

⁵⁴ The index is calculated by multiplying each external variable with its elasticity, summing the three products and adding 100.

⁵⁵ See Carmen M. Reinhart and Peter Wickham, "Commodity Prices: Cyclical Weakness or Secular Decline?" IMF Working Paper 94/7 (January 1994); and Eduardo Borenstein and Carmen M. Reinhart, "The Macroeconomic Determinants of Commodity Prices," IMF Working Paper 94/9 (December 1993).

**Chart 22. Developing Countries:
External Conditions Index¹**

(Index, average 1981–85 = 100)



¹The sample includes 118 countries and excludes major Middle East and North African oil exporters, for which the index is dominated by oil price movements. Blue shaded area indicates IMF staff projections.

**Table 11. Developing Countries: Impact
of the External Environment**

(In percent)

	Growth, 1984–93	
	High	Low
Output growth (annual percent change)	7.4	1.4
Total external contribution	1.0	–0.7
Variations in output growth	1.7	2.0
Total external contribution	0.2	0.8

environment reduced the average growth rate of low-growth countries by $\frac{3}{4}$ of 1 percentage point during 1984–93, while the average growth rate of high-growth countries was boosted by about 1 percentage point (Table 11). Although these estimates illustrate the relatively important role of the external environment, they also confirm that domestic factors and sound economic management are critical. Clearly, good policies cannot fully neutralize the effects of external shocks on the domestic economy, but they can reduce a country's vulnerability and give it the ability to ride out such shocks.

The same model can be used to assess the contribution of variations in external conditions to variations in output growth (see Table 11). A relatively small contribution would indicate greater resilience to external shocks. High-growth countries generally have less output variance overall, but the fraction of that variance accounted for by external conditions is only 12 percent, compared with 40 percent for low-growth countries. High-growth countries such as Colombia, Chile, Malaysia, and Sri Lanka have been able to diversify their export base, making them less vulnerable to price variations.⁵⁶ Moreover, export diversification has not been accomplished at the expense of the production of commodities; these countries are also among those that have increased the volume of commodity exports most.

Impact of the Uruguay Round on Low-Growth Developing Countries

Growth prospects for the developing countries, particularly those with outward-oriented trade policies, will be further enhanced as a result of the successful completion of the Uruguay Round. Uncertainty about the future of the multilateral trading system has been reduced, and the Uruguay Round has expanded the scope of the multilateral trading system by including agriculture, textiles, and

⁵⁶See the World Bank's *World Development Report* (Oxford and New York: Oxford University Press, 1992).

services and by clarifying the rules on intellectual property (see Annex I). The benefits for developing countries include increased efficiency in the use of domestic resources as tariffs and nontariff barriers are reduced or removed, economies of scale in production are realized, and technology transfers resulting from increased openness and global cooperation are increased. In addition, higher growth in the world economy and increased access to industrial country markets for developing countries will improve the external environment for developing countries. In principle, these benefits should also help to improve the performance of the low-growth countries, although the effects will depend critically on the success of domestic adjustments to make these economies more responsive to the potential new trading opportunities that will open up.

Two important components of the agreement are the planned cutback in agricultural subsidies and the tariffication of nontariff measures, including, notably, protection of agricultural sectors. Developing countries are provided more leeway in phasing in the required changes, and the poorest countries are generally exempted. Although agricultural products constitute only 13 percent of the nonfuel merchandise exports of all developing countries, many individual countries have substantial agricultural exports; for half of the developing countries, tropical agricultural products account for over 50 percent of export earnings.⁵⁷ The impact of the Uruguay Round on the prices of these commodities will be significant for many developing countries.

With the exception of some large food exporters, particularly in Latin America, there is very little protection for agriculture in developing countries. In contrast, developing countries have only limited access to most industrial country markets, and domestic price supports in industrial countries have promoted overproduction, lowered world market prices, and reduced the share of developing countries in world agricultural output and trade.⁵⁸ Within developing countries, lower agricultural output has resulted in increased migration from rural to urban areas, adding to the demand for basic social provisions and contributing to economic imbalances. The reduction or elimination of protection and price support schemes in industrial countries is likely to stim-

ulate food production in the developing countries, many of which have a comparative advantage in agricultural production. The developing countries are, therefore, likely on average to benefit from liberalization in agricultural trade, although countries that receive subsidized food as a result of overproduction in industrial countries are likely to lose in the short run. Many countries will also benefit from the removal of the extensive import quota systems and trade discrimination in textiles and clothing, their principal industrial exports.

The net benefits for individual developing countries will depend on greater access to industrial country markets, the erosion of trade preferences, and the efficiency and distributional responses within their own economies to changes in relative prices, especially in agriculture, as subsidies and other market interventions are reduced gradually over a five- to twenty-year period. World prices for food products such as wheat, grains, sugar, vegetable oils, and dairy products—whose production is at present heavily protected in the industrial countries—will probably rise, because the multisectoral liberalization envisaged in the agreement will likely result in a fall in production in industrial countries. As a result, the anticipated effect of the Round on the net exporters of food products among developing countries is positive. Some developing countries may be adversely affected by the erosion of some trade preferences, adverse terms of trade effects, and increased intellectual property rights. These negative effects are likely to be outweighed in the medium to longer run as access to industrial country markets increases and efficiency gains are realized. Relative incomes in rural and urban areas will also be affected, with the consequences for urban unemployment depending on the prior degree of protection in manufacturing and on the response of wages to changes in agricultural prices.

The ultimate impact of the Uruguay Round will depend on productivity gains in various sectors that result from the realization of economies of scale, technological transfers as global interaction increases, and the impact of increased trade on investment as markets expand. Confidence is also likely to be boosted, which would increase foreign investment in the developing countries that have participated in the agreement. It is difficult to estimate the overall effects of these factors. As noted in Annex I, the studies undertaken to measure the impact of the Uruguay Round have generally focused on the static gains of the agreement and therefore probably underestimate its full impact. The only study that provides separate estimates for developing countries suggests that full implementation of the Round's Final Act could increase the incomes of developing countries by over \$70 billion, measured in 1992 dol-

⁵⁷See GATT Secretariat, *An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Countries*, MTN.TNC/W/122 (Geneva: GATT, November 29, 1993).

⁵⁸The income loss in the OECD caused by agricultural protection is estimated to be about 1 percent of total OECD GDP. See John P. Martin, Jean-Marc Burniaux, Francois Delorme, Ian Lienert, and Dominique van der Mensbrugghe, "Economy-Wide Effects of Agricultural Policies in OECD Countries: Simulation Results with WALRAS," *OECD Economic Studies*, Vol. 13 (Winter, 1989–90), pp. 131–72.

lars, by the year 2002.⁵⁹ This study emphasizes the distributional effects of price changes across different regions, which are expected to result in most of the benefits accruing to middle income countries, with the gains to Africa and Latin America, where some countries that are net food importers may face terms of trade losses, being relatively small. The developing countries of Asia, in particular the high-growth export-oriented economies, are likely to gain substantially from higher growth elsewhere in the world.

* * *

The experience of developing countries that have fostered macroeconomic stability and implemented structural reforms shows the way forward for the low-growth countries, many of which are already embarking on similar programs. Provided that there is broad consensus in favor of such reforms, which

can be enhanced by addressing potential short-run adverse effects on poorer groups in the economy, countries can improve their economic performance in a relatively short period. Indeed, many of the countries that were identified as successful adjusters in the October 1992 *World Economic Outlook*, including some that had implemented reform programs in the late 1980s, were among the weakest performers less than a decade ago.

For low-growth economies, substantial further progress will be required in liberalizing trade regimes and improving the efficiency of agricultural sectors. As the process of further integration of the world economy gathers pace, spurred by the completion of the Uruguay Round, countries will need to adopt outward-oriented policies to share in global efficiency gains and to reduce their vulnerability to adverse external developments. For countries that continue to suffer from excessive debt burdens—particularly in sub-Saharan Africa, where debt-service payments in excess of 200 percent of export earnings are not uncommon—the international community will need to ensure that debt relief and other forms of financial assistance are made available to support policies that contribute to the goal of sustained economic growth.

⁵⁹See Ian Goldin, Odin Knudsen, and Dominique van der Mensbrugghe, *Trade Liberalization: Global Economic Implications* (Paris: OECD Development Centre; Washington: World Bank, 1993).



Stabilization, Reform, and the Role of External Financing in the Countries in Transition

Output has stabilized or begun to increase in those countries in transition that have made the most progress in macroeconomic stabilization. In many other countries, however, inflation and budget deficits remain very high, contributing to economic uncertainty and inefficiency, the impoverishment of vulnerable groups, capital flight, and a protracted adjustment period. Meanwhile, most countries in transition have made substantial progress in structural reform. In particular, prices are now largely market-determined, and international trade has been liberalized in many countries. Privatization has proceeded rapidly in many—but not all—countries, but the process needs to be speeded up, particularly in the case of large enterprises, for which progress has so far been very uneven. There is an urgent need in most countries to strengthen the financial sector and to put in place a legal framework of property rights and effective bankruptcy procedures. The apparent widening of the income distribution and the hardship borne by the unemployed, low-skilled workers, pensioners, and other groups has undermined public support for economic reforms in some countries. Social programs must be restructured to better protect the truly needy, while containing overall outlays to levels that are consistent with fiscal sustainability. To help to bridge the period until economic growth recovers, international financial institutions, industrial countries, and the private sector have been providing financial aid, largely in the form of loans and debt relief. More aid will be required, especially for the countries of the former Soviet Union, but it will be of little benefit unless appropriate macroeconomic and reform policies are implemented.

Macroeconomic Stabilization and Economic Performance

Economic developments among the countries in transition have increasingly diverged in the past year. Those countries that have achieved a reasonable measure of macroeconomic stability have begun to grow again, but those that have not yet implemented appropriate stabilization policies have continued to experience high inflation and substantial output losses. The Baltic states, the Czech

Republic, Mongolia, Poland, and, more recently, Albania and Slovenia have pursued successful stabilization programs in conjunction with ongoing structural reforms. In most of these countries, budget deficits and credit growth have been contained. In some cases, nominal exchange rates have been fixed, as in the Czech Republic and Estonia, or put on a crawling peg, as in Poland. These policies have delivered relatively low inflation, which has set the stage for economic recoveries that began in 1993 and are likely to strengthen further in 1994 (Table 12).

Poland is the first of the countries in transition to have experienced a significant recovery of output (Box 9). Real GDP increased by 4 percent in 1993, and there were signs of demand pressures, as reflected by a sharp deterioration in the trade balance. Subsequently, demand pressures abated somewhat, although inflation rose to nearly 5 percent a month by the end of the year (Chart 23). The uptick of inflation was attributable in part to seasonal factors and to the lagged effects of the introduction of the value-added tax (VAT), and the inflation rate fell back significantly in the first quarter of 1994. Nevertheless, the abolition of the former incomes policy—the *połpiwek*—in April 1994 raises the risk of increased wage pressures, although the government is in the process of formulating a replacement.

Appropriate policies were reflected in solid economic performance in the Czech Republic in 1993, despite the separation from Slovakia, as the general government balance was close to zero, the currency remained strong, and inflation was well contained (after the blip at the beginning of the year, attributable to an indirect tax increase). Wage increases have somewhat outstripped productivity gains, however, owing to tight labor market conditions; in response, the government reintroduced tax-based incomes policies in mid-1993. In Albania, real GDP rebounded strongly in 1993, increasing by as much as 11 percent because of the progress on structural reform, especially in the agricultural sector, and because of growth in construction and services. At the same time, inflation has been cut sharply. The government deficit remains too large, however, and could eventually prove to be a source of inflationary pressure if it is not reduced. Output appears to have stabilized in Slovenia; during the course of 1993, annual inflation fell to about 20 percent, and the

**Chart 23. Selected Countries in Transition:
Consumer Price Inflation**
(Monthly percent change)

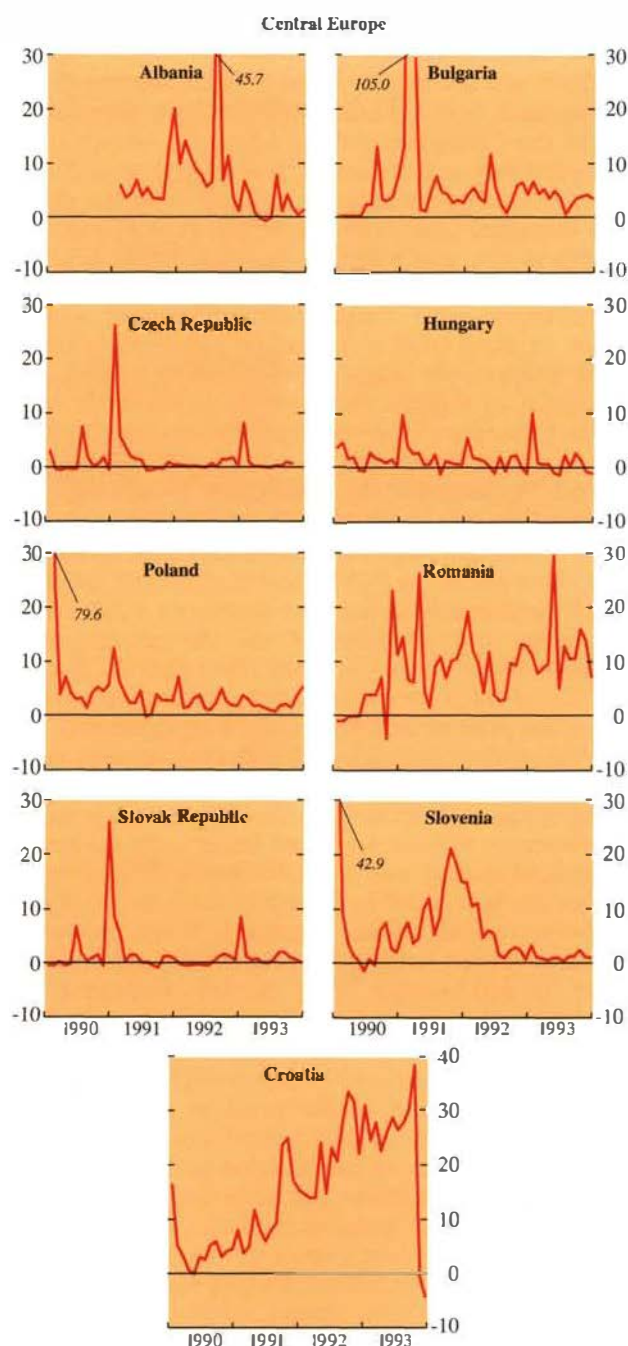


Table 12. Countries in Transition: Real GDP
(Annual percent change)

	1992	1993	1994
Central Europe	-8.3	-1.4	1.8
Albania	-9.7	11.0	8.0
Bulgaria	-5.6	-3.5	0.5
Former Czechoslovakia	-8.5	...	...
Czech Republic	...	0.5	2.5
Slovak Republic	...	-3.6	—
Hungary	-4.5	-1.6	—
Poland	1.5	4.0	4.5
Romania	-13.5	—	—
Former Soviet Union and Baltic countries	-18.2	-11.9	-9.8
Armenia	-52.0	-28.0	—
Azerbaijan	-26.8	-14.4	—
Belarus	-11.0	-11.7	-9.4
Estonia	-19.3	-3.5	6.4
Georgia	-45.6	-30.0	-5.0
Kazakhstan	-14.0	-10.0	-3.0
Kyrgyz Republic	-19.1	-16.4	-5.2
Latvia	-33.8	-10.1	5.0
Lithuania	-37.7	-16.2	4.7
Moldova	-21.3	-15.0	-3.0
Russia	-18.5	-11.5	-9.9
Tajikistan	-30.0	-30.0	-15.0
Turkmenistan	-5.3	8.5	-12.3
Ukraine	-17.0	-17.0	-18.0
Uzbekistan	-9.5	—	...
Other			
Mongolia	-7.6	-1.3	2.5

government budget deficit was only about 1 percent of GDP. Real output began to rise in all three Baltic countries in 1993, following rigorous stabilization programs that had reduced inflation to around 1 percent a month and resulted in stable or appreciating exchange rates. Inflation picked up in all three countries near the end of the year, to about 5 or 6 percent a month, although this was thought to be due mainly to temporary factors. The authorities in Latvia and Lithuania responded by tightening monetary conditions, and Lithuania is actively considering establishing a currency board—similar to the one in Estonia—that could enhance the credibility of a program to fix the exchange rate. In Mongolia, inflation has been contained, and output is expected to increase in 1994.

Significant progress toward macroeconomic stabilization has also been made in Hungary, the Slovak Republic, and, to a lesser degree, Bulgaria and Romania. The decline of output in these countries may be coming to an end, but containing budget deficits and inflation has proved difficult (Table 13). The fiscal deficit was large in Hungary, and a serious current account deficit has also developed, reflecting a collapse in savings; inflation, however, was relatively moderate at about 22 percent a year. Inflation

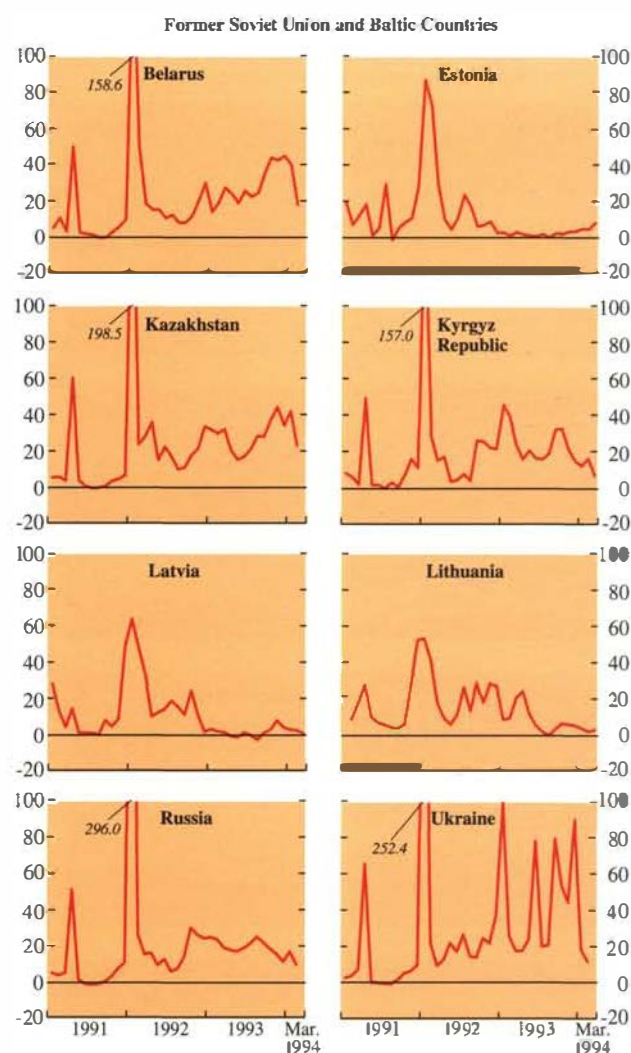
in the Slovak Republic was also moderate in 1993, despite an increase in retail prices owing to the introduction of a VAT, and output is likely to stabilize in 1994. In Bulgaria, inflation fell substantially in 1993 but, at about 60 percent a year, remained high. The government budget deficit expanded to about 15 percent of GDP. In Romania, inflation remained high in 1993, owing largely to a collapse in money demand in the face of highly negative real interest rates. The budget deficit fell in 1993, but it may rise somewhat in 1994.

The other countries in transition have been less successful in achieving macroeconomic stability. Real GDP fell by almost 12 percent in Russia in 1993, and a further decline is expected in 1994. Inflation remained excessive, averaging 20 percent a month in 1993, because of loose financial policies that reflected central bank financing of the large government budget deficit as well as directed central bank credits to enterprises extended through the commercial banks. In the last few months of the year, interest rates rose substantially—the central bank discount rate became positive in real terms in December—and money and credit aggregates decelerated, although the latter reflected in part the accumulation of arrears by the government. The tightening of monetary conditions in the latter part of the year contributed to a trend reduction of inflation that continued through the first quarter of 1994. The ruble depreciated by only 18 percent against the dollar in the second half of 1993, implying a sharp real appreciation (Chart 24).

Several other countries of the former Soviet Union were also characterized by very high inflation in 1993—bordering on hyperinflation in Belarus, Georgia, and Ukraine—steep output declines, and, in many cases, large budget deficits.⁶⁰ In countries that had remained in the ruble area, inflationary pressures were aggravated by the Russian “demone-tization” in July 1993, which led to inflows of old, pre-1993 rubles. This episode triggered the introduction of national currencies in all remaining members of the ruble area except Tajikistan by November 1993 (Box 10).⁶¹ Except in Turkmenistan, where gas exports have buoyed the economy, and in the Baltic states, output is expected to fall further in 1994 in most of the countries of the former Soviet Union, although at a slower rate than in 1993.

The reduction and control of inflation has been a key policy challenge facing all countries in transition. An important issue that has arisen in this context is the choice of exchange rate regime. The experiences

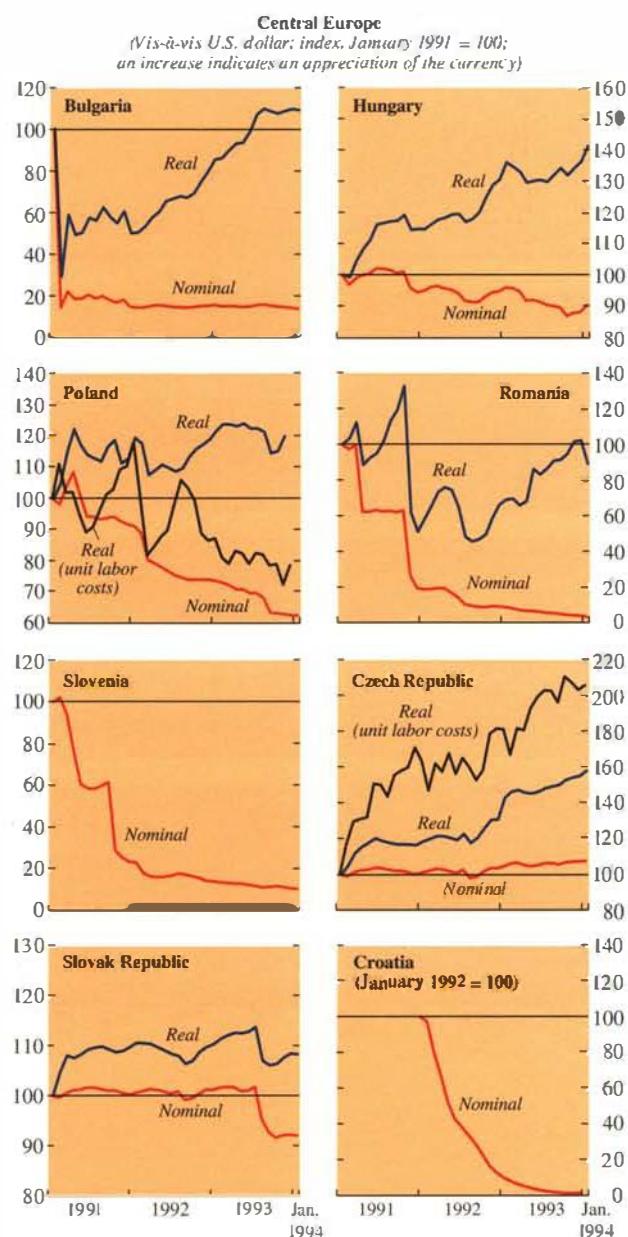
Chart 23 (concluded)



⁶⁰Armenia, Azerbaijan, the Federal Republic of Yugoslavia (Serbia/Montenegro), Georgia, and Tajikistan are all suffering from virtual economic collapse because of wars.

⁶¹In early 1994, several countries, notably Belarus, opened negotiations with Russia to rejoin the ruble area.

**Chart 24. Selected Countries in Transition:
Nominal and Real Exchange Rates¹**



of several countries, including the former Czechoslovakia, Estonia, and Poland, suggest that an exchange rate pegged against convertible currencies can prove to be an effective nominal anchor (Box 11). However, fixing the exchange rate is not in itself sufficient to achieve lasting disinflation. Moreover, it is clear that a fixed exchange rate is not necessary for a successful program of disinflation. Latvia and Lithuania achieved considerable disinflation under floating exchange rates by eliminating domestic financing of the budget deficit and by maintaining tight credit conditions more generally.

Underlying monetary and fiscal policies are more fundamental to macroeconomic stabilization than the exchange rate regime. An exchange rate peg cannot survive long without fiscal discipline and the containment of credit growth by the central bank; inflationary pressures stemming from these factors would quickly overwhelm the ability of the authorities to draw on foreign exchange reserves to stabilize the currency. Other factors that have also proved helpful in establishing the credibility of an exchange rate peg, and of monetary policy more broadly, are a high degree of central bank independence—which reduces the possibility that the central bank will have to monetize future government deficits—and currency convertibility. Moreover, the financial system as a whole must be robust enough to survive crises without extensive central bank bailouts on a scale that would undermine monetary confidence. This will require further restructuring of the banking sector and, in many countries, a solution to the problem of excessive interenterprise arrears.

For many of the countries in transition, including most of the countries of the former Soviet Union, it is clear that the needed budgetary, credit, and financial policies are not yet in place to allow the exchange rate to be pegged successfully. Once they are, however, a fixed exchange rate could play a role by providing an anchor for the monetary authority and by stabilizing traded-goods prices. This proved to be the case in Poland, which has since adopted a crawling peg vis-à-vis a basket of five currencies, and in Estonia, which established a currency board to ensure monetary independence and to strictly limit credit growth. In both cases, however, exchange rates were fixed in the context of the necessary supporting policies.

Privatization, Corporate Governance, and Fiscal Reform

In most countries, significant progress in privatization has been achieved in a relatively brief period, particularly in the case of smaller, mostly service sector, enterprises. The more difficult task of privatizing medium-sized and large enterprises has, of course,

**Table 13. Countries in Transition:
General Government Budget Balances**
(In percent of GDP)

	1992	1993
Central Europe		
Albania	-21.8	-15.5
Bulgaria	-14.0	-13.5
Former Czechoslovakia	-3.8	...
Czech Republic	...	0.3
Slovak Republic	...	-7.9
Hungary	-7.5	-5.8
Poland	-6.8	-4.1
Romania	-5.5	-4.6
Former Soviet Union and Baltic countries		
Armenia	-34.8	-52.0
Azerbaijan	-26.8	-14.4
Belarus	-5.7	-11.8
Estonia	0.6	0.2
Georgia	-35.1	-40.0
Kazakhstan ¹	-7.3	-2.9
Kyrgyz Republic ¹	-14.8	-8.2
Latvia	—	0.9
Lithuania	0.6	-0.2
Moldova ¹	-26.0	-6.1
Russia ²	-18.8	-9.3
Tajikistan	-37.0	-37.0
Turkmenistan ¹	14.1	-7.0
Ukraine ¹	-28.7	-15.0
Uzbekistan ¹	-13.0	-15.7
Other		
Mongolia	-12.7	-17.0

¹ Excludes extrabudgetary funds.

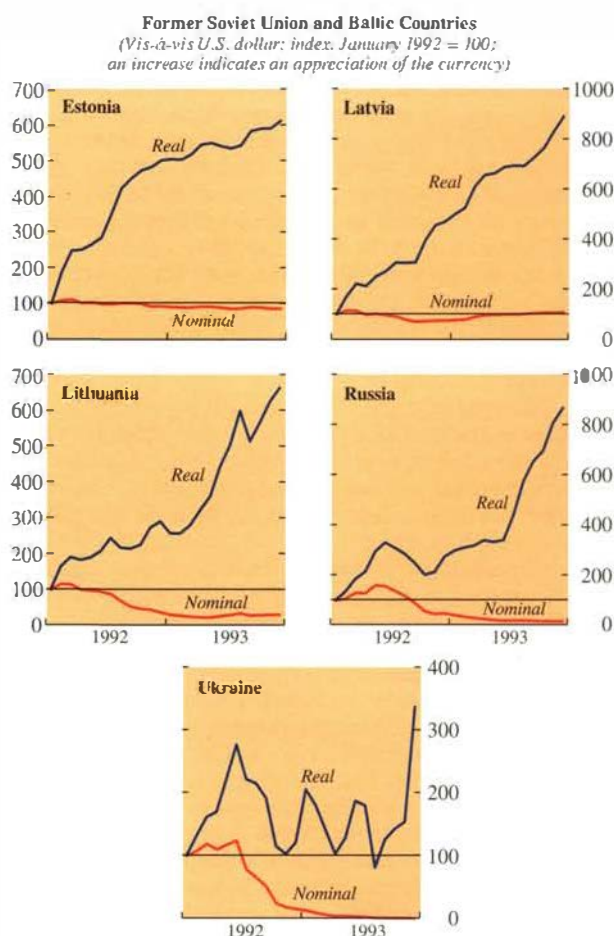
² Includes unbudgeted import subsidies.

taken longer, but it is proceeding in many countries. In Russia, more than two-thirds of small service enterprises have been privatized, and some 10,000 larger firms were corporatized and sold through vouchers in 1993. The status of land ownership is, however, still unclear pending the full implementation of the October 1993 presidential decree on land reform. The use of mass voucher privatization was pioneered in the former Czechoslovakia. In the Czech Republic, the second round began in March 1994, and the plan calls for 90 percent of the economy to be in private hands by the end of the year. In Slovakia, the second round of voucher privatization is anticipated for late 1994. Mongolia has completed the distribution of vouchers for privatization.

The success and rapid pace of privatization has brought the issue of corporate governance to the fore.⁶² In Russia, control of many firms has, in effect,

⁶²The relationship between corporate governance and privatization is discussed in the October 1993 *World Economic Outlook*, and in Eduardo Borensztein and Manmohan S. Kumar, "Proposals for Privatization in Eastern Europe," *Staff Papers* (IMF), Vol. 38 (June 1991), pp. 300-26.

Chart 24 (concluded)



¹Real exchange rates are based on relative consumer prices. For Poland and the Czech Republic, real exchange rates based on relative unit labor costs are also shown.

Box 9. Poland's Economic Rebound

The Polish economy staged a remarkable economic turnaround in 1992–93, with conservative estimates putting growth of real output in 1993 at 4 percent, following 1½ percent growth in 1992: because of systematic underreporting, actual growth might well have been substantially higher in both years. The recovery seems to be broadly based, with a turnaround in agriculture and a boom in industrial output, and inflation has been brought down to about 35 percent a year.

The recovery is testimony to the power of macroeconomic policy, supported by significant, if incomplete, structural reform, to induce economic transformation. Sweeping measures, first implemented by the Mazowiecki government in January 1990, aimed specifically at coping with an economy bordering on hyperinflation and facing pervasive shortages, deteriorating budget balances, and a grave external situation. Tough stabilization measures centered on fiscal and monetary contraction, as well as on reducing inflation by pegging the zloty to the U.S. dollar (see Box 11). In addition, price controls were eliminated; currency convertibility was introduced; and restrictions on foreign trade were removed. The trade reforms, in particular, resulted in a sharp shift in trade toward Europe, and in export-led growth.

Subsequently, the focus shifted to structural measures as the web of enterprise-specific taxes, tax relief, and subsidies was replaced with a value-added tax and with personal and corporate income taxes; and enterprise governance was enhanced, even in the face of relatively little progress on privatization, by imposing positive real interest rates on bank credit and hard budget constraints on state-owned enterprises. The resulting improvement in performance, including in the remaining public sector enterprises, has been a key factor in the expansion of output.

Liberalized trade and current account convertibility were crucial to correct the relative price structure and also exposed state enterprises and large unions to competitive discipline. The liberalization of prices initiated the process of resource reallocation away from large-scale state firms toward small enterprises. Growth of small enterprises was initially concentrated in services but subsequently spread to the industrial sector. By the end of 1992, recorded private employment outside agriculture was 3.8 million, an increase of 81 percent since 1990. In contrast, employment in state-owned industrial firms fell from 4.1 million at the end of 1989 to about 2.9 million at the end of 1992. At the end of 1993, private enterprises accounted for over 35 percent of industrial output, compared with 29 percent a year earlier.

The upsurge in 1992–93 was preceded by a substantial decline in measured output in the previous two years (see chart). This was due to several interrelated factors, including the disintegration of the Council for Mutual Economic Assistance trading system in 1991, a sharp contraction in demand for output from state-owned industry, and declines in inventory demand as liberalization and the imposition of hard budget con-

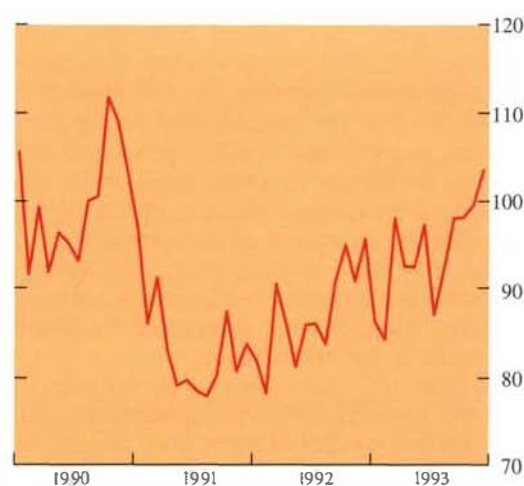
straints eliminated incentives to hoard. Moreover, measurement problems probably led to an overstatement of the true drop in output, since most of the conventional statistical apparatus was inadequate to capture the emerging private sector and may now understate the recovery (see Box 12).

The rebound has taken place against a brisk but uneven pace of institutional restructuring since 1990. Although much has been achieved, progress with respect to privatization of state-owned enterprises has been hampered by the political complexity of the problem. Financial sector reform has been relatively slow, in line with the pace of broader enterprise reform, leaving banks, the larger of which are still state-owned, with a heavy burden of bad loans. An innovative program of bank-led debt workouts, involving debt-equity swaps, is under way. Structural transformation is, however, a long-term process. Although bankruptcies of large firms have been limited, privatization and restructuring have proceeded through management and employee buyouts and by an ongoing process of selling off assets to the emerging private sector.

The Polish experience provides grounds for optimism that rapid implementation of stabilization and liberalization measures can create an environment in which structural reform can take hold and can initiate a significant shift of resources away from state production of goods that nobody wants toward private firms and services. At the same time, the process of economic transformation has resulted in considerable hardship, underscoring the need for an appropriately targeted social safety net to protect the most vulnerable members of society.

Poland: Industrial Production

(Index, average 1990 = 100)



Source: Polish authorities.

been taken by current workers and management, who may have neither the skill nor the incentive to carry out needed, but potentially painful, restructuring. This problem has been compounded by soft budget constraints—owing to easy access to credit from the central bank and growing arrears to other enterprises—and by the absence of liquid stock markets through which the ownership of privatized firms could change hands. In the Czech Republic and Slovakia, the shares of privatized firms are held by large Investment Privatization Funds, but these have not yet made much progress in restructuring the enterprises under their control. Although all three countries have bankruptcy laws, they have been little used, apparently because of the reluctance or inability of creditors to force troubled enterprises out of business, as well as the lack of institutional development (for example, the appointment of bankruptcy judges). The hope appears to be that most companies can be restructured without bankruptcy.

There has also been progress in privatization in other countries. Privatization of small concerns is proceeding in the Baltic countries, the Kyrgyz Republic, and Poland, but there has been little progress in the case of larger firms. Estonia, Latvia, and Kazakhstan have all begun to issue privatization vouchers, and Belarus and Poland plan to do so. In several other countries—notably Bulgaria, Romania, and many countries of the former Soviet Union—privatization has been very limited, although some important measures needed to proceed with the privatization process have been put in place. Nevertheless, many countries in this group do not yet have in place the needed legal framework, including workable bankruptcy laws.

Progress has also been made in the area of fiscal reform—particularly on the tax side—although it has varied widely among countries. The hundreds of turnover taxes that had been integral to central planning have largely been replaced with a much simpler structure, and many countries have introduced versions of the less distortionary VAT, often with the technical assistance of the IMF. Reform of the corporate and personal income tax systems is generally less advanced, although reforms in this area have been made in the Czech Republic, Poland, and Slovakia. There is a general need to broaden the tax base and to strengthen collection of both direct and indirect taxes by reducing exemptions and by extending coverage to more of the growing private sector.

Rather less has been accomplished on the expenditure side. A serious problem is that social safety nets are not sufficiently focused on the truly needy—such as the old and the unemployed—which has resulted in an unnecessarily large increase in income inequality as economic restructuring takes place. This has in some cases eroded support for economic

reform and has even called into question the reform process itself. At the same time, state subsidies remain very high in some countries. These distortionary subsidies command resources that could be better used to bolster social protection.

External Trade Reform

The rapid liberalization of external trade and payments was a crucial part of reform in most central European countries and in the Baltic states. Following the collapse of the Council on Mutual Economic Assistance (CMEA) in 1990–91, virtually all these countries rapidly replaced the centralized and highly administrative trading system with some of the most liberal import regimes in the world, based on a limited number of tariffs and quotas and on the rapid introduction of current account convertibility. Trade and exchange liberalization was perceived as a way to mitigate the impact of the collapse of managed trade, to speed up the correction of highly distorted domestic price systems, and to force domestic monopolistic industries to adjust to market forces. Pursuing this policy was made easier by the highly depreciated exchange rates of the currencies of these countries vis-à-vis those of the industrial countries, which boosted competitiveness and limited protectionist pressures. Subsequent real appreciations, however, have revived these pressures and have led in 1992 and 1993 to increases in tariffs in some countries.

Trade regimes in most of the countries of the former Soviet Union, except the Baltic countries, are significantly less liberal.⁶³ As in central Europe, tariffs have been lowered—to no more than 15 percent in most cases—and quantitative restrictions have largely been eliminated. However, centralized trading and state orders still play an important (though diminishing) role, and selectively available import subsidies remain very substantial. On the export side, many commodities are subject to quotas or are traded through centralized organizations. Moreover, within the former Soviet Union, much of the trade in several key commodities, notably energy, is still subject to bilateral agreements, often involving barter. Although in the absence of a well-developed payments system such arrangements may be needed for interstate trade, the mandatory procurement and restrictive licensing arrangements associated with them are the source of substantial distortions.

The willingness of industrial countries to lower trade barriers vis-à-vis the countries in transition has

⁶³For a detailed discussion, see Jack Boorman, Naheed Kirmani, and others, *Trade Policy Reform in the Countries of the Former Soviet Union*, IMF Economic Reviews, No. 2 (February 1994).

Box 10. Currency Arrangements in the Former Soviet Union and Baltic Countries

Country	Currency ¹	Comment ²
Armenia	Dram Dram 1 = Rus Rub 12.5 Dram 77 = \$1	Introduced on November 22, 1993. There is a floating exchange rate and effective current account convertibility.
Azerbaijan	Manat Manat 1 = Rus Rub 17 Manat 393 = \$1	Introduced on August 15, 1992 as a parallel currency and made sole legal tender on January 1, 1994. There is a managed float and limited convertibility.
Belarus	Russian ruble and rubel ³ Rubel 5.9 = Rus Rub 1 Rubel 9,150 = \$1	The rubel was introduced on May 25, 1992 as a parallel currency. There is a managed float and limited current account convertibility. The authorities are currently negotiating the unification of Belarus's monetary system with that of Russia.
Estonia	Kroon Kroon 1 = Rus Rub 125 Kroon 13.7 = \$1 Kroon 8 = DM 1	Introduced on June 20, 1992 in a currency board arrangement. The exchange rate is pegged at 8 kroon = DM 1, with current account convertibility.
Georgia	Coupon Coupons 135 = Rus Rub 1 Coupons 230,000 = \$1	Introduced on April 5, 1993 and became sole legal tender on August 2, 1993. There is a floating rate and current account convertibility. The authorities are considering the introduction of a permanent currency, the lari, or unification of Georgia's monetary system with that of Russia.
Kazakhstan	Tenge Tenge 1 = Rus Rub 119 Tenge 15.8 = \$1	Introduced on November 15, 1993. Exchange rate is determined at weekly official foreign exchange auctions, and there is current account convertibility.
Kyrgyz Republic	Som Som 1 = Rus Rub 140 Som 11.75 = \$1	Introduced on May 10, 1993. Exchange rate is determined by official auction, and there is current account convertibility.
Latvia	Lats Lats 1 = Rus Rub 2,500 Lats 0.6 = \$1	Introduced on June 28, 1993, replacing the Latvian ruble, which had been introduced on May 7, 1992 and had become sole legal tender on July 20, 1992. The exchange rate of the lats is floating, and there is current account convertibility.
Lithuania	Litas Litas 1 = Rus Rub 435 Litas 3.9 = \$1	Introduced on June 15, 1993, replacing the talonas, which had been introduced on May 1, 1992 and had become sole legal tender on October 1, 1992. The exchange rate of the litas is floating, and there is current account convertibility.
Moldova	Leu Leu 1 = Rus Rub 345 Leu 3.95 = \$1	Introduced on November 29, 1993, replacing the coupon, which had been introduced on July 27, 1993. The exchange rate of the leu is floating, and there is current account convertibility. The Trans-Dniester region continues to use pre-1993 rubles and rationing coupons. Negotiations on the use of the leu in that region are under way.
Russian Federation	Russian ruble Rus Rub 1,691 = \$1	Floating rate and current account convertibility.
Tajikistan	Russian ruble Rub 1.69 = \$1 (central bank accounting rate) Rub 1,650 = \$1 (market rate)	The authorities are currently negotiating the unification of Tajikistan's monetary system with that of Russia.
Turkmenistan	Manat Manat 1 = Rus Rub 600 (official rate) Manat 1 = Rus Rub 106 (market rate) Manat 1.99 = \$1 (official rate) Manat 16.5 = \$1 (market rate)	Introduced on November 1, 1993. The exchange rate is administered, and there is limited convertibility.
Ukraine	Karbovanets Karb 20.5 = Rus Rub 1 Karb 35,000 = \$1	Introduced on November 12, 1993. Foreign exchange auctions were suspended as of the beginning of November 1993. Since then, transactions have taken place at different rates and under various arrangements.
Uzbekistan	Sum-coupon Sum-coupon 1 = Rus Rub 1 Sum-coupon 1,650 = \$1	The sum-coupon was introduced on November 16, 1993 and became sole legal tender on January 1, 1994. The government has announced that a permanent currency, the sum, is to be introduced in April–July 1994. The sum-coupon is pegged to the Russian ruble, and there is limited convertibility.

¹Exchange rate quotations are for the week ending March 4, 1994. The exchange rate is the noncash market rate quoted in the home country and reported in Moscow.

²For many countries with de facto current account convertibility, there continue to be restrictions under the transitional arrangements of Article XIV of the IMF's Articles of Agreement.

³The rubel is used in cash transactions only. The unit of account in banks is the Belarussian ruble, which equals 0.1 rubel.

Table 14. Selected Countries of Central Europe: Trade with the European Union*(In percent of total trade)*

	Imports from EU				Exports to EU			
	1988	1990	1992	1993 ¹	1988	1990	1992	1993 ¹
Albania	31.4	40.6	63.2	65.1	36.8	38.3	34.0	38.2
Bulgaria	40.5	52.8	53.7	50.7	23.6	34.5	41.3	38.7
Former Czechoslovakia	26.5	31.1	42.0	46.3	24.2	32.0	49.5	46.6
Hungary	25.2	32.8	42.4	43.0	22.5	34.2	49.5	46.5
Poland	27.2	42.5	52.9	54.7	30.3	46.8	55.7	56.5
Romania	6.2	19.6	37.5	41.0	24.0	31.4	32.5	32.2

Source: IMF, *Direction of Trade Statistics*.¹Through October 1993. Data for 1993 are preliminary.

enhanced the gains from the strategy of trade liberalization. Industrial countries have granted most-favored-nation (MFN) status to most of the countries in transition. The European Union signed association agreements with Czechoslovakia—later replaced by separate agreements with the Czech Republic and the Slovak Republic—Hungary, and Poland in 1991, and with Bulgaria and Romania in 1993. At the Copenhagen Summit in 1993, the European Union agreed to accelerate tariff reductions envisaged by these agreements. The Baltic states have entered into free trade agreements with the Scandinavian countries. Free trade agreements between the European Free Trade Association (EFTA) and several central European countries have entered into force or are being negotiated.

An important outcome of the policies of both the countries in transition and the industrial countries has been a dramatic shift in trade patterns away from intra-CMEA trade to trade with the rest of the world. This development reflects a shift from patterns of trade determined by central planning to those driven primarily by market considerations. Thus, in less than five years the European Union has replaced the former CMEA as the dominant trading partner for Hungary, Poland, Slovakia, and the Czech Republic, and nominal trade flows between the European Union and these countries roughly doubled in the period 1987–92 (Table 14). In most countries of the former Soviet Union and in the Baltic countries, both exports to and imports from other countries grew sharply as a share of the total in 1992 (Table 15).

From the point of view of the industrial countries, of course, trade with the countries in transition remains very small. This fact, however, has not precluded the emergence of calls for protection against imports from the transition countries. Steel exports triggered safeguard clauses contained in the European Union association agreements, resulting in limits, until 1995, on European Union imports of certain steel products from the Czech Republic and

Slovakia to well below their 1992 levels. There are also barriers against increased imports of aluminum, and steel exports to the United States from Romania and Poland were subject to antidumping duties in 1993. There have also been numerous restrictive trade measures taken against the former Soviet Union and Russia.⁶⁴

Further reduction in trade barriers remains a crucial element to spur economic transformation. The trade agreements between the European Union and countries in central Europe are a welcome step, but there are still barriers in sectors where the transition countries could have benefited most, such as agricultural products. The uncertainty generated by the possibility of antidumping and safeguard actions by industrial countries is unnecessarily depressing badly needed, inward direct investment to the countries in transition.

External Financing and Economic Adjustment

In 1990, when the countries in central Europe embarked on the transformation to market-based economies, the effects of the disintegration of the CMEA and the economic collapse of the former Soviet Union were critically underestimated. The move to world prices and hard currencies implied large terms of trade movements, particularly for energy products and primary commodities that had been imported at highly subsidized prices—relative to prevailing world prices—from the Soviet Union. Moreover, the old interstate payments system was disrupted, sharply reducing credit available to finance trade imbalances.

As markets disappeared, the terms of trade deteriorated, and trade patterns disintegrated, the countries of central Europe had no alternative but to

⁶⁴See Annex II, Benedicte Vibe Christensen, *The Russian Federation in Transition: External Developments*, IMF Occasional Paper 111 (February 1994).

adjust. To support adjustment programs and to help maintain the momentum for reform, international financial institutions—primarily the IMF and the World Bank—have been providing financial assistance to the transition countries during this period. In most cases, however, the need for orderly adjustment and an early introduction of currency convertibility required more resources than the international financial institutions could provide. This

Table 15. Selected Former Soviet Union and Baltic Countries: Trade with Countries Outside the Region

(In percent of total trade)

	Imports from Outside Region		Exports to Outside Region	
	1991	1992	1991	1992
Belarus	19	46	15	53
Estonia	9	50	3	53
Kazakhstan	14	17	8	20
Kyrgyz Republic	20	23	1	27
Latvia	12	48	2	43
Lithuania	11	34	5	53
Russia	...	...	40	78
Ukraine	19	48	15	57

Sources: National authorities; and IMF staff estimates.

Note: Comparability of data between 1991 and 1992 is limited because of data and, especially in 1991, valuation problems.

Table 16. Central European and Baltic Countries: External Financing, 1991–93¹

(In billions of U.S. dollars)

	Original Assumptions	Actual Financing	Actual as Percent of Original ²
Official lending	15.8	11.6	73
IMF	6.6	5.1	77
World Bank	4.2	2.9	69
Other international institutions	1.3	0.7	54
G-24 countries ³	3.7	2.9	78
Private capital	14.2	17.4	122
Other ⁴	11.1	12.4	117
Total financing	41.1	41.4	101

¹Data for 1993 are provisional. Figures are based on program years: calendar years for Bulgaria, former Czechoslovakia, Hungary, Poland, Romania, and the Baltic states; July 1993–June 1994 for Albania. Poland is not included in 1992, when no annual program was agreed.

²For official lending, actual outlays were less than originally assumed because of delays in program implementation due to administrative difficulties and slippages in adjustment efforts.

³The bulk of the G-24 assistance has been provided by the European Union.

⁴Mainly debt relief by private and official creditors for Bulgaria and Poland.

financing was therefore complemented by lending by industrial countries in the context of the Group of Twenty-Four (G-24) framework, coordinated by the Commission of the European Communities.⁶⁵ The provision of external financing for the transition process, particularly the balance of payments aid from the G-24 and from multilateral agencies, has been in response to the exceptional conditions in these countries. As stabilization takes hold and the central European economies expand, it is anticipated that the high rates of investment required to complete the economic transformation will progressively be financed from private external sources and from increased domestic saving.

In total, lending from international financial institutions and the G-24 to Albania, Bulgaria, the former Czechoslovakia, Hungary, Romania, and the Baltic states amounted to \$11.6 billion in 1991–93, an amount equivalent to about 3 percent of the estimated combined GDP of these countries (at market exchange rates) (Table 16).⁶⁶ Private sources and debt relief have added another \$17.4 billion, for a total of about \$29 billion in the three years to 1993. Most of the official financial assistance has been in the form of debt at nonconcessional terms.

The G-24 assistance has typically been made available in support of IMF-sponsored programs, and conditionality for the disbursements has been linked to successful completion of IMF program reviews.⁶⁷ Conditionality has provided an important incentive for governments to use official assistance for macroeconomic stabilization, rather than to pursue an ultimately counterproductive course of delaying needed adjustments. Conditionality is likely to continue to play a key role in the provision of international financial aid. This will be particularly important because the pressures to slow the process of transformation—which frequently derive from the mistaken impression that the costs now being experienced can somehow be postponed or avoided by putting off macroeconomic stabilization and reform—remain strong. The need for a successful economic turnaround is all the greater because much of the assistance has been in the form of loans at nonconcessional terms.

The disintegration of the Soviet Union required the newly independent countries also to adjust to the rapidly changing economic environment, as earlier

⁶⁵The G-24 comprises the member countries of the OECD.

⁶⁶Before the establishment of the G-24 initiative, the European Community committed to loan \$1 billion to Hungary.

⁶⁷Loans provided by Japan to central European countries have been made available as cofinancing of World Bank structural adjustment loans, with disbursements subject to the conditionality attached to those loans. In addition, in 1993 Japan pledged to provide financing parallel to that under IMF stand-by arrangements.

Box 11. Exchange-Rate-Based Stabilization

The nominal exchange rate has been frequently used as an anchor in disinflation programs, particularly in high-inflation countries. Experiences with exchange-rate-based stabilization range from the post-World War I European hyperinflations to the recent, currency-board-type arrangements in Argentina and Estonia. Both successful and unsuccessful programs have been extensively analyzed, often with the help of theoretical models, in search of common patterns and lessons for the design of future programs.¹ Although there obviously are differences in underlying details relevant to individual countries, this research has identified six broad lessons.

1. Budgetary control is a necessary condition for successful stabilization. Large fiscal and quasi-fiscal deficits are the fundamental driving force behind sustained high inflation. In high-inflation countries, attempts to stabilize prices without attacking the fiscal deficit have enjoyed only temporary success at best. The fiscal adjustment should also be viewed by the public as sustainable over time. The eventual failure of the Argentine austral plan in the mid-1980s, for instance, is attributable to the temporary and partial nature of the fiscal adjustment. Structural reforms in other areas have also contributed to enhance the sustainability and credibility of the fiscal adjustment, as has been the case in Chile, Mexico, and, more recently, Argentina.

2. Abundant official foreign financing is not essential. Assuming that the fiscal situation is brought under control, experience shows that external financing is not essential, although it may be important as a signal of international support, and in some cases a sizable reserve cushion has proved to be useful by reinforcing the credibility of the exchange rate peg. The League of Nations played a major role in the stabilizations of the 1920s, but official external financing was not such an important factor in the recent stabilizations in Argentina, Bolivia, and Mexico. Moreover, under the currently prevailing conditions in international financial markets, the potential for private capital flows (including the return of flight capital) appears to be considerably larger than the potential for official financing.

3. Using the exchange rate as the nominal anchor has been most successful under hyperinflationary conditions.² During hyperinflations, nominal rigidities and backward-looking indexation usually disappear. Most nominal prices are quoted in foreign currency. Hence, fixing the exchange rate immediately stabilizes prices, which explains why in most successful stabilizations

inflation has come down virtually overnight. Furthermore, the absence of nominal rigidities implies that disinflation may take place with relatively small real costs.

4. Exchange-rate-based stabilizations have also been successful in situations of chronic inflation, but inflation inertia can be a major obstacle. In countries with a history of high but relatively stable inflation, widespread indexation in goods and financial markets imparts a high degree of inertia to inflation. Fixing either the level or the rate of change of the exchange rate does not usually have an immediate effect on inflation, thus leading to real appreciation and often unsustainable trade deficits. Therefore, incomes policies have sometimes been used to break the wage-price spiral, as in the successful Mexican and Israeli plans, although structural reforms such as the elimination of indexation in Argentina may make incomes policies unnecessary.

5. The costs of failure are high. Fiscally unsound programs that have relied on a fixed exchange rate—and, in many instances, on incomes policies as well—have achieved only a temporary reduction in inflation. When such programs eventually fail, inflation normally comes back with a vengeance, surpassing its initial level. During the second half of the 1980s, countries such as Argentina and Brazil went through a succession of failed exchange-rate-based programs, with inflation reaching a higher plateau after each failure. Failed programs, whether exchange-rate-based or money-based, erode credibility in future programs, increase the public debt, and may have a high cost in terms of international reserves.

6. Disinflation can have real effects. Given full credibility and the absence of nominal rigidities, fixing the exchange rate may stop inflation in its tracks with little real effects, as has been the case in several hyperinflations. In chronic-inflation countries, however, the real effects tend to result in an initial boom, led by consumption spending (often motivated by imperfect credibility), followed by a recession stemming from the cumulative effects of a real exchange rate appreciation. This contrasts with money-based stabilization, where the recessionary costs of disinflation occur early. In this sense, choosing between the exchange rate and a monetary aggregate as the nominal anchor in a disinflation program may imply choosing not if, but when, the recessionary costs will be paid.

In conclusion, as long as a credible sustainable fiscal adjustment is put in place, an exchange rate anchor can enhance the credibility of stabilization programs, particularly when monetary discipline is supported by institutional arrangements such as an independent central bank or a currency board, and by other structural reforms. An exchange rate anchor appears to have been particularly effective in hyperinflationary situations, where there is little inflation inertia and the gravity and nature of the problem are usually clear to everyone. In the presence of inflation inertia—as is often the case in situations of chronic inflation—an exchange-rate-based disinflation program is likely to result in significant output losses.

¹See, for example, Guillermo Calvo and Carlos A. Végh, "Inflation Stabilization and Nominal Anchors," IMF Papers on Policy Analysis and Assessment 92/4 (December 1992); Carlos A. Végh, "Stopping High Inflation: An Analytical Overview," *Staff Papers* (IMF), Vol. 39 (September 1992), pp. 626–95; and Julio A. Santaella, "Stabilization Programs and External Enforcement: Experience from the 1920s," *Staff Papers* (IMF), Vol. 40 (September 1993), pp. 584–621.

²For a discussion of the characteristics of hyperinflation and chronic inflation, see Box 8 in the October 1993 *World Economic Outlook*, pp. 92–95.

Table 17. Russia: Official Financial Assistance*(In billions of U.S. dollars)*

	1992		1993		Total ¹	
	Announced	Actual	Announced	Actual	Announced	Actual
Bilateral creditors and European Union ²	11	14	10	6	21	20 ³
Conditional IMF financing						
IMF facilities	3	1	7	1½	8	2½
IMF stabilization fund ⁴	6	...	6	...	6	...
World Bank and European Bank for Reconstruction and Development	1½	...	5	½	5	½
Official debt relief	2½ ⁵	...	15	15 ⁶	15	15
Total	24	15	43	23	55	38

Sources: Russian Federation Ministry of Finance; Vneshekonombank; U.S. Administration press release of April 2, 1992; Chairman's statement of the G-7 Joint Ministerial Meeting and the Following Meeting with the Russian Ministers of April 15, 1993; Tokyo Summit Economic Declaration of July 9, 1993; and IMF staff estimates.

¹Excludes most double counting (that is, amounts announced but not disbursed in 1992 and announced again in 1993). A small amount of double counting in the two-year total may nevertheless persist.

²Does not include grants from Germany of more than \$3 billion to rehouse Russian troops.

³Excludes some items in the announced packages for which reliable data are not available (technical assistance, nuclear facility rehabilitation, and the like).

⁴The \$6 billion stabilization fund was potentially available in both 1992 and 1993 to help stabilize the ruble in the context of a comprehensive reform strategy. It was not activated because the appropriate conditions were not in place.

⁵This amount was not formally granted during 1992.

⁶Includes \$6½ billion deferred or in arrears in 1992.

had been the case in central Europe. The resulting economic disruptions—including the large declines in output, high inflation, and the erosion of the financial position of vulnerable groups—have resulted in severe economic and social strains that have already significantly delayed reform in most countries of the former Soviet Union and, in some cases, threaten to derail the process. To alleviate the impact of the transition process, Russia received official external financing in 1992 and 1993 totaling almost \$38 billion (Table 17); in addition, Germany provided grants of more than \$3 billion, and there was a further \$16 billion in commercial debt-service deferral. Official financing was conditional on the implementation of appropriate macroeconomic stabilization policies, and much of the difference between the announced amounts and those actually disbursed—some \$17 billion over the two years—is related to the failure to put these policies in place.

To an even greater extent than had been the case in central Europe, most countries of the former Soviet Union have experienced a steep decline in the large explicit and implicit transfers that had been received from Russia.⁶⁸ These included fiscal trans-

fers from the former Union budget, which disappeared in 1992, and the subsidy implicit in the underpricing of energy and raw material exports (relative to world prices), which was reduced significantly as interstate prices for these goods were raised. The effects of these changes were partially alleviated by new financial transfers extended by Russia, mostly by the Central Bank of Russia through its correspondent accounts during 1992 and early 1993, and by a buildup of unpaid claims by Russian enterprises on companies in other countries of the former Soviet Union. As a result, transfers from Russia to the other countries of the former Soviet Union (except the Baltic states, which received virtually no new transfers from Russia in 1992–93) were still some 10 percent of Russian GDP in 1992, and about 20 percent of the combined GDP of the other countries. Important trade subsidies in 1992 amounted to around 5 percent of Russian GDP, evaluated at the average real ruble exchange rate in 1993. These still-large transfers were reduced in 1993 as the Russian authorities further increased energy and materials

⁶⁸The analysis and quantitative estimates of the reduction in financial resource transfers from Russia to the rest of the former

Soviet Union and the resulting adjustment burden are taken from Thomas Wolf, Warren Coats, Daniel Citrin, and Adrienne Cheasty, *Financial Relations Among Countries of the Former Soviet Union*, IMF Economic Reviews, No. 1 (February 1994).

prices toward world levels and reduced interstate credits, and they are expected to decline again in 1994.

Between 1992 and 1994 the loss of official transfers from Russia and the rise in the import bill—on the assumption that energy and materials prices rise to world levels—may cost the countries of the former Soviet Union other than Russia \$15 billion, or about 15 percent of their estimated 1994 GDP (at market exchange rates). Although adjustment to this shock is inescapable, additional financing would allow it to be more orderly. It is estimated that, broadly speaking, every additional \$1 billion of external balance of payments financing could diminish the projected near-term decline in output in these states by about 1½ percentage points, by allowing less compression of imports of intermediate inputs. It seems likely that in the short run this assistance will have to come largely from official bilateral and multilateral sources. Such financing could be complemented by sectoral loans linked to efforts to raise productive efficiency, particularly with regard to energy use. Consultative groups have been organized to pledge additional financial support for reform programs backed by the IMF and the World Bank for Moldova, Kazakhstan, and the Kyrgyz Republic. In the case of Kazakhstan, over \$1 billion was pledged in early 1994, a substantial part by Japan as financing complementary to a systemic transformation facility (STF) program with the IMF. Because Russia has an interest in the successful transformation of the other countries of the former Soviet Union, it can play an active role in the consultative groups and other initiatives to provide and coordinate international financial assistance for these countries.

It is difficult to assess the future financing needs of the countries of the former Soviet Union, but for Russia it is clear that a further comprehensive debt-relief package will be needed to normalize relations with external creditors. External financing will also be needed to help these countries to consolidate large budget deficits in a noninflationary manner, and to finance social safety nets. As was the case in central Europe, external financing, both official and private, will be forthcoming—and, indeed, will be helpful—to Russia and the other states of the former Soviet Union only in the context of strong and sustained stabilization and reform programs. Otherwise, foreign lending will tend to increase capital flight and external debt, and to further delay the development of an environment in which a strong private sector can emerge. Poland in the 1980s is a striking example of how external flows can slow economic reform and raise the burden of external debt. In contrast, Poland's more recent experience, and that of other central European and Baltic countries, demonstrates the effectiveness of strong domestic

policies assisted by conditional external financial support.

Priorities for Reform

The difficult process of transition from centrally planned to market economies is now well under way in many countries and, in most important respects, is essentially irreversible. Some countries, including most of those in central Europe, and especially Hungary, embarked on this process earlier than the countries of the former Soviet Union. Others, such as the Baltic states, have made rapid progress by pursuing reform consistently and vigorously. The results of the differing transition strategies allow the identification of priorities for ongoing reform.

Perhaps the most fundamental observation is that very expansionary monetary and fiscal policies—such as those followed by Belarus, Russia, and Ukraine—have not significantly mitigated the large declines in output that have been associated with the transition process. Instead, such policies have aggravated already difficult economic and social conditions by fueling high and unstable inflation—bordering on hyperinflation in some countries—that in turn has stimulated capital flight, discouraged needed foreign investment, and slowed adjustment. In contrast, the economies that have been successfully stabilized are now beginning to grow again. These gains need to be consolidated and any inflationary pressures that may arise need to be quickly contained.

In those countries where macroeconomic stability has not been achieved, the transition process is proving unnecessarily protracted and costly. In these countries—especially Russia, because of its size—the first priority should be to eliminate the underlying sources of inflation by sharply reducing budget deficits and reining in credit growth. Progress on this front will require tax reform to enhance revenues and to reduce distortions, and expenditure reform to reduce subsidies and to target social assistance more effectively. Eliminating excessive credit growth will require allowing financial markets, rather than central banks, to allocate credit at market-determined interest rates.

All countries in transition still face a daunting agenda of structural reform, despite the considerable strides that have already been made. By reducing economic distortions and freeing resources for productive activity, these reforms are crucial to the medium-term prospects for economic growth. A priority in the countries of the former Soviet Union, except the Baltic states, is the elimination of the system of state orders, bilateral trading arrangements, barter agreements, and export controls and tariffs. These distortionary measures should be replaced with more uniform tariff structures at low rates, a

Box 12. Measurement of Aggregate Output in Countries in Transition

The economies in transition have undergone dramatic changes in recent years. Because of the limitations of available economic statistics, however, it is difficult to assess the extent of the macroeconomic effects of the adjustment process. Indeed, it appears likely that the size of the initial output decline may have been overstated by official statistics and, conversely, that the strength of subsequent recoveries is likely to be understated.

Under central planning, the primary task of official statistical agencies had been to monitor state enterprise behavior, especially compliance with plan targets. As a result, information was, and in most countries still is, based on reports by individual enterprises, rather than on economy-wide surveys. The emphasis was on the "socialist sector"—state enterprises, cooperatives, and the government—and the private sector was, in general, excluded. The statistics also emphasized industrial, physical, and quantitative output measures; the concept of net material product, as opposed to GDP, excludes "non-material" services such as education, health care, administration, and private services. Finally, under central planning enterprises had an incentive to report exaggerated increases in real production, either through outright misreporting or by describing price increases as reflecting quality—and, hence, quantity—increases.

The key problem with measuring real output during the transition is that economies are changing rapidly in just the ways that the traditional statistics were not designed to capture. Relative declines in traditionally favored activities, such as state-owned industry, have been accompanied by growth in areas previously neglected by the statistical system, such as private services. This results in an underreporting of private sector growth and an exaggeration of the weakness of overall economic activity and of the decline in living standards.

These types of measurement problems have been most thoroughly documented for Poland at the outset of its transformation program.¹ For example, the traditional measure of supply—sales plus imports minus exports—had been collected from retail establishments in physical quantities for a variety of goods. A comparison of these data with those from household surveys on consumption, a measure that is less likely to understate the role of new private shops and other retail outlets, yields remarkable differences: butter supply in 1990 is reported to have fallen by 16 percent compared with 1989, but consumption increased by 4 percent; there was a reported 22 percent decline in

bread supply, but only a 5 percent decline in bread consumption. A further indication of the importance of underreporting of private sector activity is provided by a comparison of reported output growth with employment. In Poland, the private sector component of construction activity fell by 7 percent in 1990 in real terms, but employment rose by 4 percent. Similarly, private sector trade grew a reported 102 percent, but employment grew by 408 percent in that sector.

There also appears to have been substantial underreporting of international trade as existing statistical systems designed to monitor the activities of a small number of state trading organizations were overwhelmed by the explosion of small-scale private trading activity. In 1990, the volume of European Union exports to Poland, as reported by the exporting countries, was 43 percent higher than that reported by official Polish data; the discrepancies were much smaller before the transition process started in earnest—14 percent in 1988 and 18 percent in 1989. For Polish exports, the rate of underreporting, also measured by comparison with available partner-country data, was 7 percent in 1990 and essentially zero in 1988 and 1989. This problem appears to have been mitigated by the introduction of a customs-based data collection system in 1991. Similar reporting problems, however, remain acute for Russia and some of the other transition countries.

In addition to direct underreporting of activity, the transition raises an intractable index number problem. An index of total real output requires a comparison of the values of different physical outputs. In a market economy, the prices of goods provide the measure of their relative values and are used to construct output indices. In a transition economy, however, prereform prices did not reflect the relative values of different goods. Although prices tended to reflect production costs, these costs themselves did not reflect relative scarcities. Moreover, unlike in a market economy, there were no mechanisms to bring relative costs into line with the value to consumers of the output.

One indication of the importance of relative prices in measuring aggregate real output can be found in estimates of the decline in real GDP in Russia in 1992. The official estimate, computed at 1991 prices, is a decline of 18.5 percent. But at 1992 prices, the measured decline would have been about 16 percent, and at world prices it would have been about 14 percent. These differences are largely attributable to the very low domestic price of energy products in 1991, compared with 1992 prices in Russia and with world energy prices. Since decline in the real output of energy products was relatively mild, the underpricing in 1991 results in an excessively low weight for this sector in the aggregate.²

¹See Andrew Berg, "Measurement and Mismeasurement of Economic Activity During Transition to the Market," in *Eastern Europe in Transition: From Recession to Growth?* edited by Mario Blejer and others, World Bank Discussion Papers, No. 196 (Washington, 1993), pp. 39–63; and Andrzej S. Bratkowski, "The Shock of Transformation or the Transformation of the Shock? The Big Bang in Poland and Official Statistics," *Communist Economies and Economic Transformation*, Vol. 5, No. 1 (1993), pp. 5–28.

²See Kent Osband, "Index Number Biases During Price Liberalization," *Staff Papers* (IMF), Vol. 39 (June 1992), pp. 287–309; and Vincent Koen, "Measuring the Transition: A User's View on National Accounts in Russia," IMF Working Paper WP/94/6 (January 1994).

Moreover, because the analysis behind these estimates was carried out at a relatively aggregate level, it does not capture all the index number bias; nor does it address the underreporting problem. Another example of the problem of mismeasured prices is the apparently large declines in inventory stocks recorded in Poland, which were substantially overestimated in official data owing to inadequate adjustment for inflation.

In addition, it is not clear how to value the large number of new goods and services that had not previously been produced, or those that are no longer produced at all. A closely related problem is adjusting for quality changes; although this is a problem in all countries, it is particularly severe in the countries in transition, where large changes in the quality of goods are pervasive. New goods of higher quality and the end of shortages imply higher standards of living and, in the case of capital goods, more efficient investment. Before liberalization, some production could not be sold but was nevertheless counted as output. After liberalization, production of this sort stopped, and measured production fell. But because these goods had had no true economic value before liberalization, the cessation of their production should not have been counted as a reduction in output.

There is very little direct evidence about the magnitude of these measurement problems, but it is clear that the errors are potentially large, even relative to the substantial declines in real output that have been reported. As regards direct underreporting, attempts have been made to use indicators that are less biased against new activities than the traditional statistics, such as data from household consumption surveys, which do not suffer from undercoverage of sales from private sector retailers. One study has suggested that Polish real GDP fell between 5 percent and 8 percent from 1989 to 1990, with consumption falling substantially less than GDP; this compares with official estimates of a 12 percent decline in GDP.³ Another study examined a variety of statistical problems with Polish data and concluded that the cumulative fall in real output from 1989 to 1992 was about 5 to 10 percent, in contrast to the 18 percent decline recorded officially.⁴

At a minimum, it is clear that any user of official statistics must be extremely cautious and should keep in mind the sources and coverage of the data. More generally, broad conclusions about the impact of economic reform programs in the countries in transition, and especially conclusions about the effects of reforms on real standards of living, need to take account of the potentially large measurement problems.

³Andrew Berg and Jeffrey Sachs, "Structural Adjustment and International Trade in Eastern Europe: The Case of Poland," *Economic Policy*, Vol. 14 (April 1992), pp. 117–73.

⁴Zenon Raweski, "National Income," in *Results of the Polish Economic Transformation*, edited by L. Zienkowski (Warsaw: Główny Urząd Statystyczny/Polish Academy of Sciences, 1993).

workable interstate payments system, and an MFN-based trading system.

Privatization and enterprise reform, which are proceeding more slowly in most countries than had been anticipated, are central to the establishment of market economies. The experiences of the Czech Republic, Slovakia, and Russia have shown that mass privatization through vouchers can be rapid, and several other countries have begun or are considering voucher schemes. The pace and scope of privatization should generally be strengthened, particularly to include the large enterprises. Land reform, including liberalized real estate markets and the privatization of agricultural land, should also be speeded up in most countries.

To reap the benefits of privatization, it will also be necessary to strengthen enterprise governance and market incentives in general. The newly privatized enterprises and the growing number of newly established private firms need an appropriate legal, regulatory, and financial framework that provides market incentives for responsible management behavior. Fundamental aspects of commercial law, such as ownership and bankruptcy, must be clarified. Strengthening the financial sector would improve enterprise governance by subjecting managers to closer scrutiny by stakeholders.⁶⁹ The asset positions of banks should be bolstered, in many cases through mergers and restructuring, and the financial sector should receive adequate regulatory supervision. The development of regulated and liquid equity markets would improve the allocation of scarce financial resources by providing market-based information on the value of enterprises; it also would subject managers to shareholder discipline.

The decline in output during the transition period has put great strain on social, economic, and public institutions. Although the decline in average living standards has probably been significantly less than the fall in measured output (Box 12), some—such as the old, the unemployed, and the unskilled—have been exposed to severe hardship as inflation has eroded the real value of pensions, unemployment benefits, and minimum wages. In general, the patchwork of enterprise-provided social services that prevailed under central planning has not been replaced by adequate alternatives, and the absence of a social safety net has deterred firms from shedding labor. There is an urgent need to maintain the purchasing power of many benefits in the face of inflation, and to better target benefits by overhauling eligibility criteria and benefit structures, while keeping expenditures at levels consistent with sustainable budgetary positions.

⁶⁹For an extensive discussion of the increasing need for a well-functioning financial sector, see Guillermo A. Calvo and Manmohan S. Kumar, "Money Demand, Bank Credit, and Economic Performance in Former Socialist Economies," IMF Working Paper 94/3 (January 1994).



Annex I

The Uruguay Round: Results and Implications

The Final Act of the Uruguay Round agreement was signed in April 1994 and will become effective in 1995 after ratification by national legislatures. The Uruguay Round will substantially reduce tariff and nontariff trade barriers in many sectors, strengthen multilateral disciplines and extend them to new areas, and establish the World Trade Organization (WTO). The WTO envisages a single institutional framework encompassing the General Agreement on Tariffs and Trade (GATT), as modified by the Uruguay Round, and the complete results of the Uruguay Round.¹

The main achievements in improving market access and in the new areas are as follows.

- Industrial countries will cut tariffs on *manufactures* on average by some 40 percent in five equal annual reductions. Tariffs will be eliminated in ten major sectors, increasing the share of duty-free imports from 20 percent to 43 percent.² The weighted average tariff on manufactures will drop from over 6 percent to below 4 percent. A major breakthrough is the prohibition of “gray area measures,” such as voluntary export restraints and orderly marketing agreements, which will in general be phased out within four years. Developing countries will substantially increase the scope of their tariff “bindings”—commitments not to raise a tariff

This annex was prepared by Uwe W. Corsepius and Clinton R. Shiells.

¹The results include the national schedules of concessions and of commitments as well as the following agreements: agreement establishing the WTO; agreements on trade and goods (GATT 1994, agriculture, sanitary and phytosanitary measures, textiles and clothing, technical barriers to trade, trade-related investment measures, antidumping, customs valuation, preshipment inspection, rules of origin, import licensing procedures, subsidies and countervailing measures, safeguards); agreements on services and trade-related aspects of intellectual property rights including counterfeit goods; understanding on dispute settlement; the trade policy review mechanism; and the plurilateral agreements on Trade in Civil Aircraft, on Government Procurement, the Arrangement Regarding Bovine Meat, and the International Dairy Arrangement.

²These estimates are based on market access offers as of mid-November 1993; see GATT Secretariat, *An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Countries*, MTN.TNC/W/122 (Geneva, November 29, 1993).

without compensating trading partners—and will reduce the level of these bindings, thereby locking in recent reforms.

- Trade in *agricultural products* will be brought within the ambit of the WTO and will be progressively liberalized. When the Final Act of the Uruguay Round enters into force, nontariff barriers (with a few exceptions) will be converted into tariffs. Industrial countries will reduce the latter over six years by an average 36 percent from levels in the 1986–88 period; they will also reduce export subsidies by the same amount in value. The volume of subsidized exports will have to decline by 21 percent, and domestic support (production subsidies, for example) must decrease by 20 percent. For developing countries, reductions in tariffs, domestic supports, and export subsidies are generally set at two-thirds of those of the industrial countries, and implementation is spread over ten years. Least developed countries are effectively exempt from all reduction commitments.
- The *textiles and clothing sector* will be integrated into the WTO in four stages, with the bulk of products (49 percent in terms of 1990 values) to be liberalized at the end of a ten-year period. The order in which products are integrated will be determined by the importing countries. Existing growth rates of products that remain under quotas during the ten-year transition are to be augmented in three stages (by 16, 25, and 27 percent, respectively).
- The *General Agreement on Trade in Services* institutes a multilateral framework for this important segment of world trade, including such aspects as most-favored-nation (MFN) treatment and transparency. Many initial commitments involve binding existing levels of market access, thereby preventing slippages from the status quo. Negotiations in some service sectors were not concluded and will continue for a specified length of time after the signing of the agreement.
- In the area of *intellectual property rights*, the agreement establishes standards of protection and provisions for their enforcement under national law and for multilateral dispute settlement. The standards include national treatment

as well as minimum standards of protection (for example, patent protection in all areas of technology for twenty years).

- Trade-related investment measures that violate the GATT principles of national treatment and prohibition of quantitative restrictions (such as local content and foreign exchange balancing requirements) are to be eliminated within two years by industrial countries and within five years by developing countries (within seven years by least developed countries).

In the area of rules and disciplines, the following are the most important results.

- *Safeguards* temporarily restricting imports to protect domestic industries experiencing injury from imports or temporary import surges are subjected to tighter discipline through time limits, requirements for safeguard investigation (for example, public hearings), "sunset clause" criteria for determining injury, and (generally) nondiscrimination among suppliers. The automatic right of the exporting country to compensation or retaliation is suspended for the first three years that a measure is applied.
- *Antidumping rules* are clarified with respect to calculations of the dumping margin, injury definition, investigation procedures, duration of antidumping duties, and threshold levels below which actions are not permissible. Dispute-settlement panels reviewing antidumping cases cannot overturn a decision taken by national authorities if the facts were properly established and evaluated.
- A general framework with clearer rules and tighter discipline is established for *subsidies* and the use of *countervailing measures* against subsidies, thereby reducing uncertainty for exporters and import-competing firms. Subsidies are classified in three groups: as prohibited (export subsidies or those contingent on the use of domestic over imported goods); as actionable if they distort production or trade of partner countries (for example, serious prejudice to the interests of a trading partner shall be presumed when the total ad valorem subsidization of a product exceeds 5 percent); and as permissible and nonactionable (nonspecific subsidies, assistance for certain research activities and environmental adaptation, regional subsidies).³ Developing countries are provided a transition period to phase out prohibited subsidies.
- The speed and automaticity of *dispute-settlement procedures* is increased, and the scope for unilateral actions is limited.

³Subsidies on agricultural products are covered by the text on agriculture (see above).

Implications for Global Real Income and Trade

The Uruguay Round agreement will help to restore predictability and discipline to the multilateral trading system and arrest the deterioration in the trading environment that had been occurring in the past several years. This, in turn, will help to improve business confidence. Albeit not quantifiable, these are probably the most important implications of the Uruguay Round agreement.

Industrial and developing countries, and economies in transition, are expected to benefit substantially from gradual increases in trade, investment, and incomes as the market-opening provisions of the Uruguay Round are phased in over periods of up to ten years. Studies consistently show that the benefits of the Uruguay Round are heavily dependent on the extent of each country's own trade liberalization efforts. To take advantage of the enhanced trading possibilities provided by the Uruguay Round agreement, countries must take positive steps in formulating their economic policies to facilitate increases in supply (for instance, by creating a favorable investment climate).

There are only a few studies that try to assess the quantitative effects of the Uruguay Round on global real income and on incomes in individual countries. Four recent studies that most closely approximate the results of the completed Round are summarized in Table 18.⁴ The increase in global real income from full implementation of the Uruguay Round is estimated to range from \$212 billion to \$274 billion (in 1992 dollars), which is equivalent to about 1 percent of world GDP in 1992.⁵ For the industrial countries,

⁴Several studies completed before 1992 provide estimates of the likely effects of multilateral trade liberalization, including Alan V. Deardorff and Robert M. Stern, *Computational Analysis of Global Trading Arrangements* (Ann Arbor: University of Michigan Press, 1990); Ian Goldin and Odin Knudsen, eds., *Agricultural Trade Liberalization: Implications for Developing Countries* (Paris: OECD Development Centre; Washington: World Bank, 1990); T. Nguyen, C. Perroni, and R. Wigle, "The Value of a Uruguay Round Success," *World Economy*, Vol. 14 (December 1991), pp. 359-74; and I. Trela and J. Whalley, "Global Effects of Developed Country Trade Restrictions on Textiles and Apparel," *Economic Journal*, Vol. 100 (1990), pp. 1190-1205. Results from these studies are not discussed below because the more recent studies better approximate the final Uruguay Round agreement. In addition, A.S.P. Brandao and W.J. Martin, "Implications of Agricultural Trade Liberalization for the Developing Countries," *Agricultural Economics*, Vol. 8 (1993), pp. 313-43, incorporates only the agricultural portion of the agreement.

⁵Assuming implementation begins in 1995 and would be completed within a decade, the estimated impact on real world income refers to 2005. Changes in real income are, in technical terms, generally measured by compensating or equivalent variation in country trade expenditure functions. See, for example, Ian Goldin, Odin Knudsen, and Dominique van der Mensbrugghe, *Trade Liberalization: Global Economic Implications* (Paris:

the studies suggest that the gains to the European Union, where the initial distortions in agriculture are particularly severe, would range from \$61 billion to \$98 billion. Gains for Japan would range from \$27 billion to \$42 billion, and those for the United States from \$28 billion to \$67 billion.

According to the only study that provides a separate estimate of the real income effects of multisectoral trade liberalization under the Round for developing countries as a group, these countries would gain \$78 billion (in 1992 dollars).⁶ Although some developing countries are expected to gain significantly, it is possible that some net food-importing countries may lose—although not necessarily on a net basis—because of higher world agricultural prices (as a result of reduced agricultural subsidies, principally by the industrial countries), and that other developing countries may lose because of erosion of trade preferences. These results are likely to be felt only slowly. The Uruguay Round will provide opportunities that should be exploited by domestic policy measures to achieve economic restructuring and diversification; of course, there are also important intangible benefits for developing countries from the strengthening of the trading system as a result of the Uruguay Round. In the coming years, the unfolding impact of the Round on individual countries—especially the poorer ones—needs to be closely monitored with a view to timely assessment of their adjustment and financing needs.⁷

With regard to the impact on international trade, the Uruguay Round will lead to substantial growth, with growth rates for trade exceeding those of real world income discussed above. Gains in trade are much larger than income gains because liberalization affects trade directly, whereas income effects net out gains and losses to various groups (such as countries, factors of production, and industries).

Only two of the four studies cited in Table 18 provide estimated effects of the Round on trade.⁸ The GATT Secretariat found that merchandise trade would increase by more than 12 percent (over

what current growth rates would have yielded), or \$745 billion (in 1992 dollars), once the Round is fully implemented. World exports (including services as well as merchandise) would grow by 10 percent in value terms. In North America, exports (including services) would grow by 8 percent in value terms; for the European Union, growth would be 10.3 percent; and for other regions, the figure would be 9.7 percent.⁹ Nguyen, Perroni, and Wigle have estimated that total trade volume would rise by 20 percent because of full implementation of the Uruguay Round. Agricultural exporters (as a group) and centrally planned economies would experience export increases of nearly 40 percent.¹⁰

Why Existing Studies May Underestimate the Gains

Existing quantitative studies on the economic implications of the Uruguay Round are mainly based on computable general equilibrium models of world agricultural trade.¹¹ There are several limitations to this approach that suggest that the real income gains cited in Table 18 may represent a lower bound on the actual outcome of a fully phased-in Uruguay Round. First, these studies concentrate on market access provisions—in particular, on reductions in tariff rates. The majority of studies do not fully incorporate changes in nontariff barriers, such as the Multifibre Agreement, and in agricultural subsidies. Notably absent in existing studies of the Uruguay Round are the economic effects of improved rules on antidumping actions, subsidies, safeguards, the framework for services,¹² higher standards of intellectual property protection, and improvements in procedures for the settlement of disputes.

A second implication of the agricultural focus of existing studies, with the exception of that by Nguyen, Perroni, and Wigle, is a potential downward bias in the gains from trade liberalization in non-agricultural sectors, such as manufacturing and services. The models used have rather limited sectoral

OECD Development Centre; Washington: World Bank, 1993), pp. 50–51. The results from the models differ mainly because of differences in the way that trade policy changes envisaged under the agreement are incorporated.

⁶Goldin, Knudsen, and van der Mensbrugghe, *Trade Liberalization*.

⁷Recognizing the potential for adverse effects on some developing countries, a Ministerial Decision in the Uruguay Round agreement sets out objectives with regard to the provision of food and assistance for agricultural development. It also refers to the possibility of short-term financing from the IMF and the World Bank.

⁸The trade results in these studies are influenced by macro-economic closure assumptions. In particular, computable general equilibrium models often assume a fixed trade balance, with relative prices of traded and nontraded goods adjusting to restore equilibrium following a trade policy change.

⁹GATT Secretariat, *Analysis of the Proposed Uruguay Round Agreement*.

¹⁰T. Nguyen, C. Perroni, and R. Wigle, "An Evaluation of the Draft Final Act of the Uruguay Round," *Economic Journal*, Vol. 103 (November 1993), pp. 1540–49.

¹¹Brandao and Martin, "Implications of Agricultural Trade Liberalization"; and C.E. Petersen, "Trade Conflict and Resolution Methodologies," *American Economic Review, Papers and Proceedings*, Vol. 82 (May 1992), pp. 62–66, discuss some exceptions. See also DRI/McGraw-Hill, "Impacts of Trade Liberalization Under the Uruguay Round," prepared for the Office of the U.S. Trade Representative (Washington, January 11, 1993).

¹²For an exception, see Nguyen, Perroni, and Wigle, "Evaluation of the Draft Final Act," p. 1544. While acknowledging the limitations inherent in modeling nontariff barriers to trade in services by using tariff equivalents, their analysis liberalizes such barriers by 40 percent in all regions.

disaggregation within manufacturing, let alone services. Although current tariff levels in manufacturing are low in comparison with those in agriculture, in the industrial countries the manufacturing sector constitutes a much larger share of GDP than does agriculture. Accordingly, insufficient disaggregation of manufacturing (to say nothing of services) may substantially understate the gains from trade liberalization under the Uruguay Round.

Third, computable general equilibrium models of the Round omit some potentially important gains from trade liberalization.¹³ In particular, the Uruguay Round studies all assume perfect competition in product markets, thereby excluding the gains from trade attributable to economies of scale with imperfect competition. Also, there is no role for capital flows, in particular foreign direct investment.¹⁴ Moreover, studies of the Uruguay Round omit the potential trade gains stemming from dynamic economies of scale, which are emphasized in the recent theoretical literature on trade and endogenous growth.¹⁵ Because these recent models suggest the potential for an increase in steady-state economic growth rates, dynamic gains from the Round may dominate any static gains from trade, including those from static economies of scale.¹⁶

¹³Incorporation of nearly all these effects into a computable general equilibrium model is, in fact, feasible. With the exception of dynamic gains, which are explained below, all of the omitted gains from trade liberalization discussed in this paragraph have been incorporated into such models of the North American Free Trade Agreement (NAFTA).

¹⁴Brandao and Martin, "Implications of Agriculture Trade Liberalization"; GATT Secretariat, *Analysis of the Proposed Uruguay Round Agreement*; and Goldin, Knudsen, and van der Mensbrugghe, *Trade Liberalization*, did include the potential for increased economic growth, during transition from one steady state to another, in response to trade liberalization. Static gains from trade liberalization would lead to increased real income, more saving, and hence to capital accumulation and economic growth. With a declining marginal productivity of capital, growth would eventually come to a halt at a higher level of real income. See J.F. Francois and C.R. Shiells, *The Dynamic Effects of Trade Liberalization: A Survey*, Publication 2608 (Washington: U.S. International Trade Commission, February 1993), for a thorough discussion of these issues.

¹⁵See G.M. Grossman and E. Helpman, *Innovation and Growth in the Global Economy* (Cambridge, Massachusetts: MIT Press, 1991), for a discussion of recent theoretical developments in this area; and Francois and Shiells, *Dynamic Effects of Trade Liberalization*, for a discussion of the implications of open-economy endogenous growth theory for empirical assessments of trade liberalization.

¹⁶R.E. Baldwin, "The Growth Effects of 1992," *Economic Policy*, Vol. 9 (October 1989), pp. 247–83, and "Measurable Dynamic Gains from Trade," *Journal of Political Economy*, Vol. 100 (1992), pp. 162–74, present estimated dynamic gains for Europe from the single market. T.J. Kehoe, "Towards a Dynamic General Equilibrium Model of North American Trade," in *Modeling Trade Policy: Applied General Equilibrium Assessments of North American Free Trade*, edited by J.F. Francois and C.R. Shiells (Cambridge: Cambridge University Press, 1994), estimated dynamic gains from trade liberalization for Mexico. The rough calculations contained in these studies demonstrate that dynamic gains from trade liberalization may well dwarf static gains.

Finally, the computable general equilibrium studies estimate real income gains from the Uruguay Round agreement compared with the status quo, whereas the relevant counterfactual case would have been a deterioration in the trading environment from a *failure* of the Uruguay Round. The outcome of such a failure would likely have been to reduce future trading opportunities and world real income substantially.

Selected Issues for the Post-Round Agenda

An improved international trading environment will require not only adherence to the Uruguay Round agreement, but also efforts to sustain and build on the Round's achievements. In several service sectors, negotiations are scheduled to continue, including in areas such as basic telecommunications, maritime transport, financial services, and the international movement of persons. In areas such as agriculture, although the Uruguay Round will initiate a liberalization process, much remains to be done before market distortions are fully eliminated. Similarly, in the textiles and clothing sectors, some exporting countries view the liberalization envisaged in the Round as too slow and back-loaded.

The WTO will oversee implementation of the Uruguay Round agreement, exercise surveillance over trade policies, preside over a strengthened and integrated dispute-settlement mechanism, and provide a forum for future multilateral trade negotiations. A ministerial declaration in the Uruguay Round agreement calls for greater coherence in global economic policy making, and the WTO is to develop its cooperation with the international organizations responsible for monetary and financial matters. Thus, cooperation among the WTO, IMF, and World Bank will have to be worked out. This could include investigating whether (and how) existing channels of formal and informal cooperation need to be strengthened to address mutual concerns of members about the interactions of trade and other economic and financial policies and the exercise of effective surveillance in the respective areas of competence. The IMF's current role in implementing the provisions in the GATT relating to trade restrictions taken for balance of payments reasons will be extended to the area of services. In its own surveillance and lending activities, the IMF would need to continue to ensure that its advice is consistent with, and supportive of, the Uruguay Round agreement and the WTO.

An issue that is likely to continue to gain attention is the interaction of trade and environmental policies. In principle, an open international trading system need not be in conflict with the sustainable use

**Table 18. Estimated Real Income Effects of the Uruguay Round:
Assumptions and Findings of Selected Studies¹**
(1992 dollars and percent of GDP)

Study and Assumptions	Industrial Countries	Developing Countries	Countries in Transition	World
GATT Secretariat² Trade liberalization was based on market access offers as of November 19, 1993; liberalization of tariff equivalents of Multifibre Agreement quotas; 20 percent cuts in tariff equivalents of agricultural production subsidies; and 36 percent cuts in tariff equivalents of agricultural border measures. Includes gains from induced capital accumulation. Gains were measured in 2005, expressed in 1992 dollars.	European Union \$98 billion North America \$67 billion	...	...	\$230 billion
Goldin, Knudsen, and van der Mensbrugghe³ Tariff equivalents and input subsidies on agricultural commodities were reduced by 30 percent, based on producer and consumer subsidy equivalents, and import tariffs on non-agricultural commodities were reduced by 30 percent. Includes gains from induced capital accumulation. Gains were measured in 2002, expressed in 1992 dollars and as a percent GDP.	Australia and New Zealand 0.1 percent Canada 0.2 percent European Union 1.4 percent EFTA (European Free Trade Association) 1.4 percent Japan 0.9 percent United States 0.2 percent	\$78 billion Africa Nigeria -0.4 percent South Africa 0.6 percent Other Africa -0.2 percent Asia China 2.5 percent India 0.5 percent Indonesia -0.7 percent Low-income Asia 0.6 percent Upper-income Asia 2.6 percent Middle East Gulf region 0.5 percent Maghreb -0.5 percent Other Middle East -0.4 percent Western Hemisphere Brazil 0.3 percent Mexico 0.0 percent Other Latin America 0.6 percent	Europe 0.1 percent Former Soviet Union 0.1 percent	\$213 billion

of resources or other environmental objectives. In practice, internationally traded goods and services often do not fully reflect the environmental costs of their production, consumption, or disposal. Although poorly designed environmental policies can lead to trade distortions, trade measures are seldom the best instruments to achieve environmental goals. The challenge is to develop policies that,

based on free world trade, maximize environmentally sustainable growth. Other aspects of the debate include the effects on international competitiveness of differential environmental standards and the merits of harmonizing standards across countries. Some countries are concerned that differences in societal priorities as regards environmental quality may not be adequately recognized; that cost consid-

Table 18 (concluded)

Study and Assumptions	Industrial Countries	Developing Countries	Countries in Transition	World
Nguyen, Perroni, and Wigle⁴ In agriculture, all producer subsidy equivalents were cut by 30 percent, all border measures were cut by 40 percent in high-income regions, and all border measures were cut by 20 percent in low-income regions. The Multifibre Agreement was completely eliminated for textiles and apparel. In manufactures, tariffs were cut by 30 percent, and nontariff barriers (NTBs) were cut by 40 percent, with deeper cuts in high-technology goods and basic intermediates. In services, tariff equivalents of NTBs were cut by 40 percent. Gains are expressed in dollars and as a percent GDP.	\$139 billion Australia and New Zealand \$2.4 billion (1.1 percent) Canada \$3.7 billion (0.9 percent) European Union \$61.3 billion (1.8 percent) Other Western Europe \$8.1 billion (2.1 percent) Japan \$27.0 billion (2.0 percent) United States \$36.4 billion (0.8 percent)	\$36 billion	\$37.4 billion (0.9 percent; includes China)	\$212.1 billion (1.1 percent)
OECD⁵ Tariffs and ad valorem equivalents of NTBs were reduced by 36 percent in manufactures, agricultural goods, and other imported goods. Information on tariffs and NTBs at the tariff line level were utilized. Gains were measured in 2002, expressed in 1992 dollars and as a percent GDP.	\$185 billion Australia and New Zealand \$1.9 billion (0.6 percent) Canada \$6.6 billion (1.2 percent) European Union \$71.3 billion (1.7 percent) EFTA \$38.4 billion (6.0 percent) Japan \$42.0 billion (1.8 percent) United States \$27.6 billion (0.4 percent)	...	...	\$274.1 billion

¹Change in steady-state real income (measured in most cases as compensating or equivalent variation based on trade expenditure functions) once the agreements are fully implemented.

²GATT Secretariat, *An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Countries*, MTN.TNC/W/W122 (Geneva, November 29, 1993).

³Ian Goldin, Odin Knudsen, and Dominique van der Mensbrugghe, *Trade Liberalization: Global Economic Implications* (Paris: OECD Development Centre; Washington: World Bank, 1993). This book is often referred to as the World Bank-OECD study.

⁴T. Nguyen, C. Perroni, and R. Wigle, "An Evaluation of the Draft Final Act of the Uruguay Round," *Economic Journal*, Vol. 103 (November 1993), pp. 1540-49. The total for industrial countries is the sum of figures for the countries shown. The total for developing countries is calculated as a residual.

⁵OECD, *Assessing the Effects of the Uruguay Round*, Trade Policy Issues 2 (Paris, 1993). The total for industrial countries is the sum of figures for the countries shown.

erations influence such priorities in important ways, particularly in developing countries; and that trade measures may be misused to enforce individual countries' preferences.

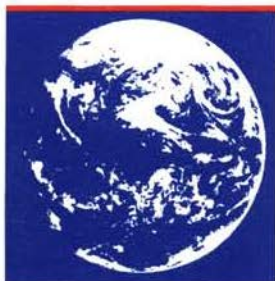
Trade frictions have also been emerging from the interaction between trade and domestic competition policies. Trade and trade-related measures, such as subsidies and voluntary export restraints, limit com-

petition and affect national and global welfare. Similarly, laws governing competition, and the ways in which they are enforced, affect competition between foreign and domestic sources of supply. Such laws could include weak standards for horizontal and vertical arrangements between firms that are exclusionary in effect; exemptions of certain practices (for example, export cartels, and research and develop-

ment ventures) from competition laws; and restrictions on takeovers and new foreign investments. With the increasing globalization of production, the scope for such trade friction could increase.

The links between trade policy and labor and social standards are also increasingly being debated; recently these gained greater prominence following the side-agreement to NAFTA on labor standards. One aspect of the debate relates to the appropriateness of

trade policy instruments as a means to bring about improvements in labor and social standards. Another aspect relates to the implications of varying labor standards on international competitiveness. Some feel that labor and trade issues should be addressed more directly in multilateral forums such as the GATT and the WTO, whereas others fear that such an approach may be misused to increase trade barriers or to avoid structural adjustment in the countries concerned.



Annex II

Information Content of the Yield Curve

The slope of the yield curve, summarized by the difference between current long-term and short-term interest rates, is one of many indicators used to assess economic conditions.¹ It is used as a predictor of growth, inflation, and future interest rates, and it is often taken as an indicator of the stance of monetary policy. A positively sloped yield curve has been associated with an increase in output in the period ahead, and with an increase in future inflation and short-term interest rates. A negatively sloped, or “inverted,” yield curve has been taken as an indicator of future declines in these variables.

This interpretation is consistent with developments in the yield curve and in growth over the past two decades in several countries.² In the United States, Germany, and Canada, changes in the slope of the yield curve have been followed fairly consistently by corresponding changes in the growth of output roughly one year later (Chart 25). In France, a similar pattern is evident in the 1970s and again since 1988; the relative constancy of the yield curve during most of the 1980s highlights the fact that not all changes in growth rates are preceded by changes in the yield curve. In the United Kingdom, the relationship appeared to break down in the mid-1980s, but it was quite consistent before and after the mid-1980s. In Japan and Italy, the relationship at this lag is not as apparent.³ With a longer and more vari-

able lag—on the order of two to four years—the slope of the yield curve also appears to predict inflation in several countries.⁴

A common explanation for the observed leading relationship between the slope of the yield curve and both output and inflation in several countries is that the slope of the yield curve is an indicator of the stance of monetary policy. The yield curve might also be expected to contain information about future economic developments because market assessments of a variety of factors in addition to monetary policy—such as fiscal policy developments, shocks to money demand or commodity markets, expected inflation or exchange rate movements—may be reflected in long-term interest rates and thus may affect the slope of the yield curve directly.

Underlying Relationships

Several fundamental relationships determine market interest rates and hence the slope of the yield curve. The first is summarized in the Fisher equation, which specifies that the nominal interest rate, at any maturity, is the sum of the real rate of interest and the rate of inflation expected over the relevant period. Underlying this equation is the observation that investors with funds to lend have the option of investing those funds in physical capital with its corresponding real rate of return. For a nominally specified loan contract to be attractive, it must offer a competitive real return plus compensation for the expected change—and the associated uncertainty—in the purchasing power of the money with which the loan will be repaid.

Market participants have alternatives besides real investment, and this provides a second, complementary way to characterize interest rate determination. This relationship is summarized in the “expectations

This annex was prepared by Bas B. Bakker and Monica Hargraves.

¹The yield curve refers to the plot, for a given date or time period, of interest rates ordered by the time to maturity of the underlying securities (from short to long maturities). The difference between long-term and short-term interest rates provides a simple characterization of the yield curve slope. More detailed measures of the slope at different points along the yield curve can also be informative.

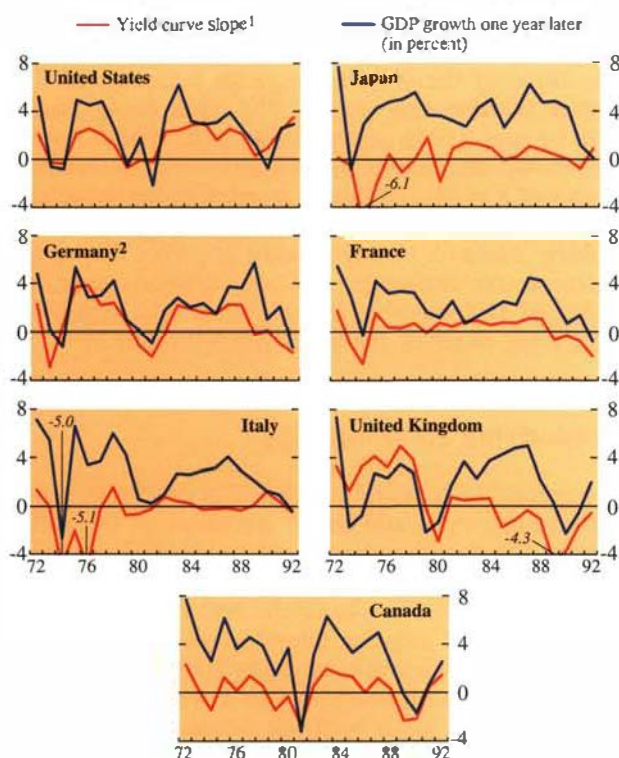
²For an econometric analysis of the relationship between the slope of the yield curve and subsequent real output growth, see James H. Stock and Mark W. Watson, “New Indexes of Coincident and Leading Economic Indicators,” in Olivier Jean Blanchard and Stanley Fischer, *NBER Macroeconomics Annual, 1989* (Cambridge, Massachusetts and London: MIT Press, 1989), pp. 351–94; Arturo Estrella and Gikas A. Hardouvelis, “The Term Structure as a Predictor of Real Economic Activity,” *Journal of Finance*, Vol. 46 (June 1991), pp. 555–76; and Ziliu Hu, “The Yield Curve and Real Activity,” *Staff Papers* (IMF), Vol. 40 (December 1993), pp. 781–806.

³The evidence for Italy is not fully comparable with that for the other countries because, for the sample period in question, the

available long-term interest rate is for two- to four-year maturities, which is considerably shorter than the ten-year interest rates available for other countries.

⁴See, for instance, Frederic S. Mishkin, “The Information in the Longer-Maturity Term Structure About Future Inflation,” *Quarterly Journal of Economics*, Vol. 105 (1990), pp. 815–28; and Philippe Jorion and Frederic Mishkin, “A Multicountry Comparison of Term-Structure Forecasts at Long Horizons,” *Journal of Financial Economics*, Vol. 29 (1991), pp. 59–80.

**Chart 25. Major Industrial Countries:
Yield Curve Slope and Real Growth**



¹Defined as long-term interest rate minus short-term interest rate. Long-term interest rates refer to the following instruments: for the United States, yield on ten-year treasury bonds; for Japan, over-the-counter sales yield on ten-year government bonds with longest residual maturity; for Germany, yield on government bonds with maturities of nine to ten years; for France, long-term (seven- to ten-year) government bond yield (Emprunts d'Etat à long terme TME); for Italy, before June 1991, secondary market yield on fixed-coupon (BTP) government bonds with two- to four-year residual maturity, thereafter ten-year government bond rate; for the United Kingdom, yield on medium-dated (ten-year) government stock; and for Canada, average yield on government bonds with residual maturity of over ten years. Short-term interest rates refer to the following instruments: for the United States, three-month certificates of deposit (CDs) in secondary markets; for Japan, before July 1984, three-month Gensaki rate, thereafter three-month CDs; for Germany, France, and the United Kingdom, three-month interbank deposits; for Italy, three-month treasury bills; and for Canada, three-month prime corporate paper.

²GDP data refer to west Germany through 1990 and to unified Germany thereafter.

hypothesis," which holds that the long-term interest rate equals the geometric average of the short-term interest rates expected to prevail over the lifetime of the long-term contract. In addition, the long-term interest rate may contain a risk premium, to compensate for uncertainty regarding the future course of interest rates and policy actions, for example, as well as a term premium, to compensate investors for the liquidity lost by locking into a long-term agreement.⁵ The expectations hypothesis is based on arbitrage reasoning as well: an investor can enter into a long-term loan contract or can plan a sequence of consecutive short-term loans, rolling the funds over and earning the market-given short-term interest rate each time. If the returns on one of these two strategies were expected to be higher (taking account of transaction costs and risks), investors would shift funds to that strategy, and interest rates would adjust.

Country-specific factors affect the extent to which long-term interest rates reflect market expectations of future economic variables. Administrative controls on interest rates, credit controls, limitations on market access, or collusive pricing of loan rates, for example, tend to interfere with the information content of market interest rates. Differences in the importance of such obstacles across countries, or over time within a country, would tend to alter the relationships. In addition, the size of the risk and liquidity premiums in long-term interest rates may be affected by policy developments and by institutional features of financial systems. Finally, as international financial markets have become more integrated, and particularly for countries whose exchange rates are linked, economic and policy developments in other countries have significant effects on domestic interest rates.

In principle, the market-driven relationships hold for interest rates at any maturity, but in practice very short-term interest rates are overwhelmingly influenced by monetary policy actions.⁶ This is the case whether the central bank is directly using an interest rate as a policy target—as the U.S. Federal Reserve Board did before 1979—or is targeting a quantity variable such as the growth of a monetary aggregate through actions in the interbank reserve market, which in turn affect interest rates. Similarly, central banks achieve exchange rate objectives primarily through their control of short-term interest rates. Because the monetary authorities' actions are the

⁵For example, the average differential between long- and short-term interest rates in the United States over the past twenty-five years has been 1½ percentage points, and the steepness of the yield curve can be judged relative to this "norm."

⁶This is not to suggest that market forces play no role, particularly for interest rates on private sector securities, but rather that monetary policy actions have a large influence on all such interest rates.

principal determinant of movements in very short-term interest rates, there is a shift in the mix of processes determining interest rates as one looks along the maturity spectrum: at the very short end, it is reasonable to view interest rate movements as being largely determined by current monetary policy; at the long end, interest rates are anchored by market participants' expectations of inflation and exchange rates, and by the long-run real rate of return in the economy.

Interpreting Yield Curve Movements

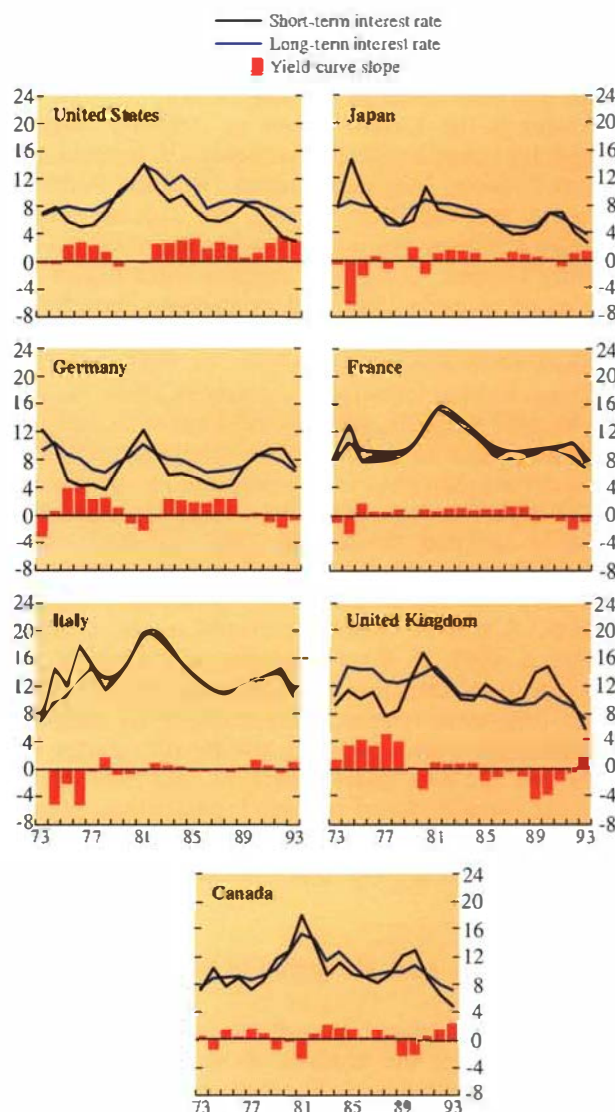
In general, changes in the slope of the yield curve have mainly reflected policy-related changes in short-term interest rates (Chart 26). In most cases, a steepening of the yield curve has occurred when short-term interest rates have fallen, and long-term interest rates have followed suit but have decreased by less. Similarly, declines in the slope of the yield curve have typically been the result of increases in short-term interest rates that were accompanied by smaller increases in long-term interest rates.

The change in long-term interest rates that accompanies a change in short-term interest rates depends on several factors. Consider, for example, the possible effects on the yield curve of an easing of monetary policy that results in a decline of 100 basis points in short-term interest rates. If these lower short-term rates are expected to be maintained for some time, then long-term interest rates would also tend to decline, although by somewhat less. The size of the change in the long-term rate would depend on how long the change in short-term interest rates is expected to be maintained, on market perceptions of the degree of slack in the economy, and on what impact the policy change is expected to have on inflation. The resulting change in the slope of the yield curve would be different depending on market conditions and expectations and thus would provide information not contained in the policy-induced change in short-term interest rates alone.

The yield curve may also adjust in the absence of current monetary policy actions if, for example, expectations of future monetary policy were revised, or if market perceptions of fiscal pressures or other factors affecting future real interest rates changed. An example of such an episode is the steepening of the yield curve that occurred as the fiscal implications of German unification became apparent. The anticipated increase in real activity and pressure on future real interest rates raised long-term interest rates relative to short-term interest rates, causing a steepening of the yield curve without a shift in official short-term interest rates.

It is possible for movements in long-term interest rates to more than offset a policy-induced change in

**Chart 26. Major Industrial Countries:
Yield Curve Slope and Interest Rates¹**
(In percent)



¹ See note to Chart 25.

short-term interest rates. Thus, although an increase in official short-term interest rates typically results in a moderate flattening of the yield curve, if markets considered the tightening to be insufficient, then long-term interest rates would tend to rise by much more, resulting in a steepening of the yield curve. Alternatively, a reduction in policy-controlled short-term interest rates typically leads to a steepening of the yield curve, but if markets anticipated much larger future reductions in short-term interest rates—because inflationary pressures were considered to be very low for example, and economic slack was thought to be considerable—then long-term interest rates would fall much further than short-term interest rates, and the slope of the yield curve would decrease.

An example in which a change in the yield curve's slope was dominated by a change in long-term interest rates is the United States in 1983–84.⁷ When long-term interest rates rose roughly 1¼ percentage points between May and August 1983, the Federal Reserve responded by raising the federal funds rate by 1 percentage point, leaving the yield curve slightly steeper. Long-term interest rates began to rise again in early 1984, and by midyear they were another 1½ percentage points higher. Short-term interest rates also moved higher in 1984, but the increase in long-term rates dominated these movements until midyear, and the yield curve steepened further. Taken in isolation, the steepening of the yield curve might have been interpreted as an indicator of higher growth in the following year. Growth actually declined throughout 1984 and into early 1985, however, and the increase in long-term rates probably reflected an increase in inflationary expectations. A similar episode occurred in the United States in 1987. A third example, with changes in the opposite direction, is Germany in 1976–77, when long-term interest rates declined by roughly 2 percentage points between the fourth quarter of 1976 and the first quarter of 1978, but short-term interest rates declined by just 1 percentage point. The yield curve's slope declined, but, with roughly a one-year delay, growth began to increase.

Implications and Recent Developments

One must, of course, be cautious in drawing strong conclusions, but the analysis above suggests some interesting observations. The first is that the widely

cited evidence of the predictive power of the yield curve does appear to be closely related to the interaction between the stance of monetary policy and the yield curve. In most cases, changes in the slope of the yield curve have been driven principally by changes in short-term interest rates. In cases in which the opposite held true—when changes in long-term rates, and thus presumably changes in market expectations rather than current monetary policy actions, dominated shifts in the yield curve—the usual “predictions” of the yield curve slope for future growth have not been fulfilled. This does not imply, of course, that these yield curve movements did not contain relevant information for other economic variables. Moreover, the monetary authorities' subsequent response may have reversed developments that would otherwise have “validated” the market expectations revealed in the yield curve's movement. In all cases, it is clear that a range of economic indicators must be considered when interpreting changes in the yield curve.

The analysis can be usefully applied to recent movements in the yield curve in several major industrial countries where long-term interest rates have increased since early 1994. In the United States, the yield curve steepened with an increase in long-term interest rates that exceeded the rise in short-term rates. The resulting movement in the yield curve may have reflected market assessments of a strengthening recovery and building inflationary pressures, and hence expectations that the Federal Reserve would raise short-term interest rates further in the future.

Long-term interest rates have also recently increased in Europe and Japan, resulting in a steeper yield curve. In contrast to the United States, however, it seems unlikely that these yield curve developments reflected fears of higher inflation, in view of the large margins of slack in these economies. Instead, part of the increase is probably due to spillover effects of the increase in U.S. long-term interest rates, which made dollar bonds relatively more attractive. In Europe, there has also been a perception that the long period of falling bond yields has come to an end, and that the pace of monetary easing is likely to be slower than had earlier been expected. This shift in sentiment appears to have triggered an unwinding of positions in bond futures markets. In Japan, the 1 percentage point rise in long-term interest rates since the beginning of the year appears to have reflected the perception that increased fiscal deficits may put pressure on asset markets, as well as the liquidation of bond holdings by banks attempting to restructure their balance sheets. More recently, signs that the economic downturn may have bottomed out, and possible spillover effects from U.S. interest rate movements, appear to have been the predominant factors.

⁷This episode has been characterized as an “inflation scare” that required a large policy response from the Federal Reserve; see Marvin Goodfriend, “Interest Rate Policy and the Inflation Scare Problem: 1979–1992,” *Federal Reserve Bank of Richmond Economic Quarterly*, Vol. 79 (Winter 1993), pp. 1–24.



Annex III

Adjustment and Recovery in Latin America and the Caribbean

The onset of the debt crisis in 1982, after a period of expansionary fiscal and monetary policies that resulted in significant domestic and external imbalances, made it clear that a major adjustment effort was necessary in many countries of Latin America and the Caribbean. The debt crisis was associated in the early 1980s with a steep increase in international interest rates, recession in the industrial countries, and a sharp drop in the prices of commodities exported by countries in the region.

The basic strategy to deal with the crisis and facilitate economic recovery involved strong adjustment efforts by debtor countries, cooperative action by lenders, and a strengthening of policies in industrial countries to improve the external environment. The multilateral financial institutions, including the IMF, provided financing; but in the case of the IMF, its support in designing and monitoring the adjustment programs and in helping to mobilize financing from other sources was perhaps more important.

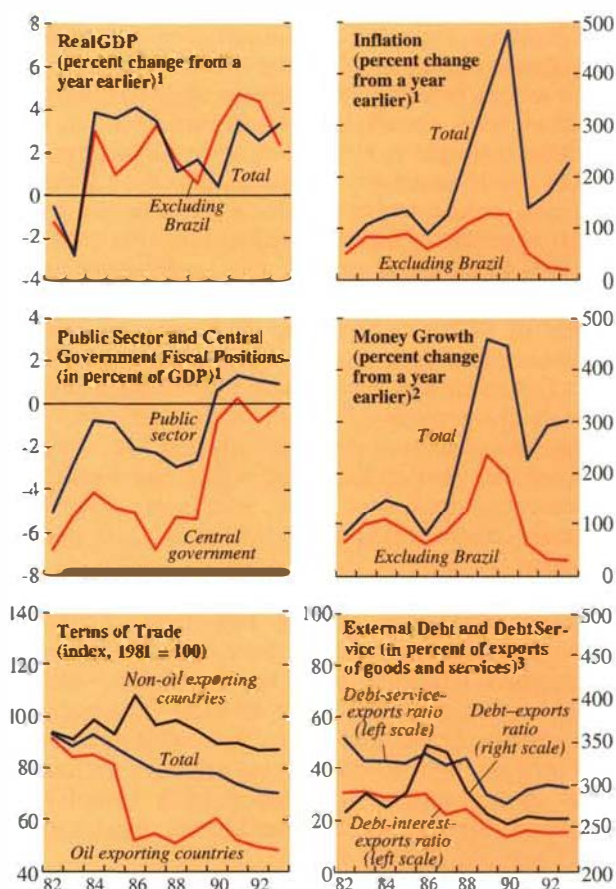
The Initial Adjustment Phase

From 1983 to 1989, many of the countries in Latin America and the Caribbean achieved considerable progress in redressing external imbalances. There was less success in reducing inflation and restoring economic growth (Chart 27). Progress in this area was uneven, since varying circumstances affected countries' ability to implement adjustment policies and structural reforms.

The external environment for countries in the region also became more favorable in 1983–89. Economic growth in industrial countries recovered to 3½ percent a year on average, from less than 1 percent a year in 1981–82, and international interest rates declined substantially from 1983 to 1987 before rising again somewhat in 1988–89. Although the terms of trade of countries in the region deteriorated by a cumulative 22 percent during 1983–89, this mainly reflected the reduction in oil prices in 1985 and 1986; when the major oil exporters are excluded, the region's terms of trade improved by more than 3 percent.

This annex was prepared by the IMF's Western Hemisphere Department.

Chart 27. Western Hemisphere:
Selected Economic Indicators



¹ Real GDP, inflation, and fiscal positions are weighted by GDP valued at purchasing power parity.

² Money growth is weighted by GDP converted to U.S. dollars at market exchange rates.

³ Debt service refers to actual payments of interest on total debt plus actual amortization payments on long-term debt.

The average rate of inflation in the region increased from 61 percent a year in 1981-82 to 113 percent a year in 1983-87, and to about 300 percent a year in 1988-89. The acceleration of inflation, particularly in 1988-89, can be attributed mainly to Argentina and Brazil, where the implementation of adjustment programs was uneven, and to Nicaragua and Peru, which pursued expansionary demand policies in combination with price controls and other controls on the economy. In contrast, Bolivia adopted a strong adjustment program in mid-1985 and moved from hyperinflation in 1984-85 to inflation of around 15 percent a year in 1987-89. Most of the countries in the Caribbean, as well as Honduras and Panama, recorded annual inflation rates below 10 percent during most of the 1980s.

To reduce inflation and improve their competitive position, most countries in Latin America and the Caribbean sought to strengthen their public finances and to curtail monetary expansion. For the region as a whole, public sector deficits were lowered from about 5 percent of GDP in 1982 to 1 percent of GDP in 1985. During this period, 17 countries achieved reductions in their deficits of more than 5 percentage points of GDP; only a few (Guyana, Nicaragua, Suriname) saw their deficits significantly widen. Fiscal adjustment was accompanied by credit restraint to slow the growth of money and to improve net international reserve positions. During 1986-89, by contrast, the fiscal deficit of the region rose by nearly 2 percentage points of GDP, with some countries suffering considerable deterioration in their public finances.

Exchange rate policies have varied widely among countries and over time in individual countries. Some countries (particularly those in the Caribbean) maintained currency pegs to the dollar, others sought to maintain the value of their currencies in real effective terms, and others allowed their currencies to float. In 1983-87 the real effective exchange rates of the region depreciated by a cumulative 25 percent on average, followed by an appreciation of 22 percent in 1988-89.

The dollar value of exports from Latin America and the Caribbean rose only slightly in 1983-87 because increases in volume were offset by falling prices. Import growth moderated as external financing to the region was curtailed in the wake of the debt crisis, and as currencies of most of the larger countries in Latin America depreciated. The external current account deficit narrowed from the equivalent of 5 percent of aggregate GDP in 1982 to an average of 1½ percent of GDP a year in 1983-87. In 1988-89, there was a recovery in world prices for most of the region's exports, but because of strong import growth the external current account deficit narrowed only marginally, to about 1 percent of GDP in 1988-89.

Because of the narrowing of the region's external current account deficit, the growth of external debt slowed from an average of \$33 billion a year in 1980-82 to an average of \$15 billion a year in 1983-87. Relative to GDP, external debt rose from 43 percent at the end of 1982 to 54 percent at the end of 1987, reflecting in part the real depreciation of the currencies of many of the debtor countries, which reduced the dollar value of their GDP. The stock of debt declined slightly in the following two years, and the ratio of outstanding debt to GDP fell again, to 43 percent. Relative to exports of goods and services, the region's debt-service payments were reduced from over 40 percent in 1983 to 30 percent in 1989. However, except for minor bond placements by Mexico and Venezuela in 1989, there was little or no voluntary private lending to the region through the end of the 1980s.

In 1984-87, the region's output rose at an annual rate of 3½ percent, compared with a decline of nearly 2 percent a year in 1982-83. This improvement was attributable mainly to real GDP growth of more than 5 percent a year in Brazil, Chile, Colombia, and Peru. In 1988-89, growth fell back to about 1 percent a year as output declined in some countries and increases in output slowed sharply in others. Belize, Chile, Colombia, Costa Rica, Guatemala, Honduras, Paraguay, and the East Caribbean countries continued to grow at rates well above the regional average.

The slowdown in growth toward the end of the decade was attributable, at least in part, to the reduction in domestic investment: after exceeding 23 percent of GDP over a period of several years through 1981, investment fell to less than 19 percent of GDP in 1983-86. In many countries, fiscal adjustment during this period was achieved initially through cutbacks in public investment rather than through increases in public saving. Investment also was affected adversely by the curtailment in foreign financing, and more generally by the effect of the debt crisis on investor confidence.

Further Adjustment and Consolidation

The region made substantial progress in reducing imbalances, lowering inflation, and improving growth performance during 1990-93. Much of the success came from the tightening of fiscal policies and the deepening of structural reforms. Many countries undertook a broad opening of their economies that, coupled with rising confidence, stimulated large inflows of private capital.

These positive developments took place against the background of a weakening external environment. The growth of output in industrial nations slowed from 3½ percent a year in 1983-89 to 1½ percent a year in 1990-93, and the growth in

industrial countries' import volumes declined from more than 7 percent a year to about 3 percent a year. Moreover, the terms of trade of Latin America and the Caribbean weakened, mainly because of lower export prices. At the same time, the region benefited substantially from the decline in international interest rates since 1989. On average, industrial countries' short-term interest rates declined from just below 9 percent in 1989 to about 5 percent in 1993, and the six-month U.S. dollar LIBOR (London interbank offered rate) fell from more than 9 percent to about 3½ percent.

In addition, since the introduction of the Brady initiative in May 1989, nine countries in the region have reached debt-restructuring agreements with commercial bank creditors that incorporated important elements of debt reduction. These packages reduced the bank debt of developing countries in the region by about \$37 billion (or about 8 percent of the region's debt at the end of 1988).¹ At the same time, the official bilateral debts of a number of countries (including Bolivia, Haiti, Honduras, Jamaica, Nicaragua, and Paraguay) were reduced through various debt-forgiveness initiatives, and the official bilateral debts of Bolivia, Guyana, Honduras, and Nicaragua were rescheduled under enhanced concessions in 1991–93. Although the overall amount of debt relief may be viewed as limited compared with the total debt outstanding, the debt-reduction agreements with bank creditors and the concessional rescheduling of official bilateral debt helped countries to persevere with economic reforms and increased domestic and external confidence in many countries of the region.

Strengthening Public Finances

In 1990–93 fiscal consolidation proceeded in many countries of the region. On average, the region's public sector balance shifted from a deficit of nearly 3 percent of GDP in 1989 to a surplus of 1 percent in 1993. Although the strengthening of public finances was particularly pronounced in Argentina, more than two-thirds of the countries improved their fiscal positions during this period. Only a few countries are currently running deficits that are larger than they were in the 1980s.

Public sector reforms were central elements in the fiscal consolidation process. These measures, intended to strengthen government finances and to improve operations of public entities not slated for privatization, focused mainly on tax policy, improved tax administration, better expenditure con-

trol, public pricing policy, management, and the quasi-fiscal operations of central banks. As regards the tax structure, considerable progress has been made in reducing the reliance on international trade taxes and in shifting the weight of taxes to domestic transactions and income. Most countries in the region have introduced or extended the scope of value-added taxes or broadly based sales taxes to replace a multiplicity of indirect taxes, and the valuation base for excise taxes has been shifted from specific to ad valorem. In many cases, tax rates have been lowered, and tax administration has been strengthened.

On the expenditure side, the efforts have focused not only on the control of spending, but also on the establishment of new priorities for government programs. Typically, higher priority has been given to public investment and social spending, particularly on health and education. In this regard, countries have sought to improve the targeting of subsidies and other social outlays in order to improve the quality of social programs and to reduce the spending pressures that derive from generalized access to such programs. In line with the attempts to downsize the public sector and control the wage bill, in a number of cases governments have sought to reduce public employment, often through voluntary retirement programs.

There have been improvements in public pricing policies in recent years, resulting in efficiency gains and contributing to the strengthening of public finances. For example, public prices and user charges generally have been adjusted to cover costs, and long-run marginal cost considerations increasingly are being taken into account in the pricing of electricity, water, and telecommunications. Although some countries still price petroleum products below their opportunity cost, there has been a sharp increase in fuel prices in the region in recent years.

In keeping with the region's new economic strategy, a large number of public enterprises and financial institutions have been divested to rid the state of loss-making enterprises and to reduce government intervention. Privatization has also served to mobilize resources for debt-reduction operations and to facilitate debt-equity swaps with foreign creditors. Argentina, Chile, and Mexico have privatized most publicly owned companies and institutions, including airlines, telecommunications companies, and mining and steel companies. Privatization has also been undertaken in Peru and Venezuela. Chile privatized its social security system in the early 1980s, and the privatization of social security systems is under way in Argentina, and under consideration in Mexico and Peru.

Most public enterprises that have not been slated for divestment have undergone considerable restructuring to increase competitiveness while avoiding

¹Including the present value of debt-service reduction and net of the cost of enhancements. See Charles Collyns, George Anayiotos, and others, *Private Market Financing for Developing Countries* (IMF, December 1993).

the need for government subsidies. Action has been taken to reduce excess employment and lower the cost of labor to levels comparable with the private sector. In some countries the authorities have introduced management contracts with private firms, competitive bidding, and efficiency audits to strengthen the operations of public enterprises.

In addition to privatizing public companies, the authorities in many countries have sought to increase the role of the private sector by contracting out services traditionally provided by the public sector, such as electricity and water service. In 1992, Bolivia began turning over most of its customs operations to private firms under the supervision of a reformed and downsized customs administration.

Financial Sector Developments

Traditionally, the financial sector in many countries of Latin America and the Caribbean has been regulated closely, with substantial use of directed credit, often at subsidized rates, to sectors favored under government development strategies. More recently, however, interest rates have been deregulated, and they are freely determined in all but a few countries. At the same time, compulsory credit allocation schemes have been largely abandoned, reserve requirements simplified, and market-based instruments introduced for purposes of monetary and credit control. Banking legislation has been modernized, prudential standards have been raised, and many countries have sought to increase the independence of their central banks.

Equity markets in the region surged in the early 1990s, reflecting the positive economic developments in many of the countries. There was a broadening of the investor base in most countries to include foreign investors. For example, market capitalization increased fourfold in dollar terms in Chile and Venezuela from 1988 to 1992 and tenfold in Mexico and Argentina; the growth in regional stock markets has continued, led by a surge in the Brazilian stock market. The growth of regional equity markets has also been evident in large increases in turnover ratios (total annual equity trading divided by year-end capitalization).

Exchange Rate Policies and Commercial Reforms

With a strengthening of fiscal and credit policies in a number of countries, the authorities were able to slow the rate of currency depreciation and, in some cases, to use exchange rate policy as an element of comprehensive and aggressive anti-inflationary programs. In March 1991, Argentina adopted strong adjustment and structural measures and pegged its currency to the dollar under the Convertibility Law, which also established the backing of the monetary

base with the central bank's gross international reserves and prohibited indexation of contracts denominated in domestic currency. The Peruvian currency was floated in a situation of hyperinflation in 1990, and concomitant strong fiscal and credit policies sharply lowered the rate of currency depreciation. At the same time, strong inflows of private sector capital into many countries of the region contributed to the appreciation of currencies in real terms.² For the region as a whole, currencies appreciated in real effective terms by a cumulative 30 percent in 1990–93; excluding Brazil, the appreciation was 58 percent.

There have been several structural reforms in the external sector, including the gradual opening of the economies to external competition. An early round of trade liberalization was initiated in the mid-1970s in Chile, and Bolivia and Mexico began liberalizing in the mid-1980s. Subsequently, the momentum spread through most of the region as import tariffs were reduced, the tariff structure was simplified, and quantitative restrictions were lifted. Tariff rates, which averaged over 50 percent in the mid-1980s, have been cut to less than 20 percent in most countries, and tariff dispersion has been reduced. The trade reforms often were accompanied by steps to liberalize payments for invisibles and to introduce capital account convertibility.

In the 1990s there has been a push for further economic integration in the region. Existing arrangements such as the Andean Pact, the Caribbean Community (CARICOM), and the Central American Common Market are becoming more outward-looking through reductions of tariff rates vis-à-vis the rest of the world. New arrangements such as the Southern Cone Common Market (MERCOSUR), which involves Argentina, Brazil, Paraguay, and Uruguay in a free trade area that is to take effect at the end of 1994, and the North American Free Trade Agreement (NAFTA, between Canada, Mexico, and the United States) are expected to create trade and foster economic growth.

In line with the trend toward liberalization, domestic price controls have been reduced or lifted in most countries, and business activity has been deregulated in a number of sectors. For example, within the transportation sector, substantial deregulation has been extended to port operations (Argentina, Brazil, Colombia, Mexico, and Uruguay), the trucking industry (Argentina and Mexico), and maritime transportation (Argentina, Colombia, and Venezuela). Attempts also have been made to create a more flexible labor market; although progress has been made in increasing labor

²See Susan Schadler, Maria Carkovic, Adam Bennett, and Robert Kahn, *Recent Experience with Surges in Capital Inflows*, IMF Occasional Paper 108 (December 1993).

mobility in some countries, wage indexation, high payroll taxes, and distortionary severance-payment schemes remain problems in several countries.

Improvements in Macroeconomic Performance

As a result of stronger fiscal and monetary policies and structural reforms, inflation was brought down from 360 percent in 1989 to about 220 percent in 1993; excluding Brazil, inflation in the region was reduced from around 130 percent in 1989 to an average of 18 percent in 1993. Inflation was reduced sharply from hyperinflationary levels in Argentina, Nicaragua, and Peru following the adoption of adjustment programs. Three countries (Dominican Republic, Bolivia, and Mexico) lowered inflation to single digits, bringing the number of countries in the region with single-digit inflation rates to 14.³ Nevertheless, inflation remains a major concern in Brazil, and there are ten countries in the region with annual inflation rates in excess of 20 percent (in some cases, including corrective price adjustments). For some countries where substantial progress has been made to curtail inflation, the reduction of price increases to industrial country levels has been complicated by indexation practices that were established during the period of prolonged inflation. In an effort to reduce the inertial element of inflation, Mexico introduced incomes policies centered on a tripartite agreement between government, business, and labor to limit increases in prices and wages with the support of an exchange rate policy to lower inflation.

The region's real GDP rose by 2½ percent a year on average during 1990–93, slightly higher than in the period 1983–89. Excluding Brazil, the region's output rose by about 3½ percent a year in 1990–93, compared with an average rate of about 1 percent in 1983–89. During the 1990–93 period, annual output growth for the region as a whole exceeded the average for the 1980s in all but eight of the countries (The Bahamas, Barbados, Brazil, Haiti, Nicaragua, Peru, Suriname, and Trinidad and Tobago). Some countries have been particularly successful in reducing urban unemployment (Bolivia, Chile, Guatemala, Honduras, and Mexico), and only two had higher average unemployment than in the 1980s.

After a sharp improvement in 1989–90, the external current account deficit of the Latin American and Caribbean countries widened markedly, owing to a drop in export prices and rising imports induced by higher investment and the economic recovery. The combined current account deficit increased from around 1 percent of aggregate GDP a year in

1989–90 to about 2½ percent of GDP in 1991–93. However, the overall external balance of payments turned strongly positive because of the large inflows of private capital. As a result, the region's net international reserves have tripled since the end of 1989, to nearly \$110 billion at the end of 1993. After declining in 1988–89, the external debt rose by \$60 billion in 1990–93. Relative to GDP, however, the debt was reduced from 43 percent at the end of 1989 to 35 percent in 1993.

Achievements and Remaining Challenges

In recent years there has been a marked improvement in the economic performance of most countries in Latin America and the Caribbean, notwithstanding the recession in industrial countries. Growth has been restored in most countries, inflation has subsided, the overall balance of payments of the region has improved, the debt burden has been reduced, and there has been a return of domestic and external confidence in the economic prospects of most of these countries. The economic recovery was helped by lower international interest rates, particularly dollar rates. Debt-reduction agreements with commercial bank creditors and reschedulings on concessional terms with bilateral creditors also have played an important part in reducing the debt burden.

More important, however, the improvement in economic performance reflects a major strengthening of economic policies in the region. Fiscal imbalances have been reduced considerably in most countries, with the support of reforms to broaden the revenue base and to reduce the size and scope of the public sector, including through privatization. The improvement in fiscal performance has facilitated better monetary and exchange rate management and has allowed governments to focus increased attention on the social sectors. At the same time, market-oriented structural reforms encompassing most economic sectors have led to improved efficiency and better resource allocation.

Considerable economic progress has been achieved in the region, but many challenges remain. Several countries that have initiated adjustment programs continue to face problems of high inflation and external debt, and others have yet to begin the task or need to restart programs that have faltered. There is also a need for countries that are well advanced in their economic transformation to persevere in their efforts and to consolidate the progress already achieved.

Output growth has increased in most countries of the region since the 1980s, but there are only a few in which per capita incomes are rising at rates higher than 2 percent a year. Although there has been a significant improvement in public sector saving in

³For a case study of Mexico, see *Mexico: The Strategy to Achieve Sustained Economic Growth*, edited by Claudio Loser and Eliot Kalter, IMF Occasional Paper 99 (September 1992).

the region as a whole, gross national saving declined to an average of about 18 percent of GDP in 1990–93, compared with 20 percent in 1987–89. Notwithstanding the improvements in efficiency, stronger economic growth requires an increase in domestic saving and investment.

Despite a reduced debt burden for the region as a whole, external debt remains high in many countries, and difficulties in debt management could return if interest rates in the industrial countries rise from their current low levels. A sustained recovery of economic activity in the industrial countries, however, would have a favorable effect on the region's exports.

The strengthening of confidence in the economic policies of the countries in the region has helped to attract large inflows of private capital, but this has complicated economic policy management in many countries. Some countries have allowed their currencies to appreciate somewhat in response to these

inflows; others have attempted to control a buildup of liquidity by monetary means, including open market operations. However, such actions could result in reduced competitiveness or higher interest rates, which could stifle exports and private investment. Fiscal adjustment would be an appropriate alternative to help to offset the effects of capital inflows that might not be available in the medium to longer run.

Finally, notwithstanding the progress that has been made in addressing problems of the poor in many of the countries of Latin America and the Caribbean, a large number of people in the region continue to live in extreme poverty. Further progress in strengthening the basis for the sustained growth of output and employment will help to reduce poverty. In addition, countries need to continue their efforts to improve the targeting of social spending programs and to give priority to expenditure on social infrastructure such as education and preventive health care.



Statistical Appendix

Assumptions

The statistical tables in this appendix have been compiled on the basis of information available on April 11, 1994. The estimates and projections for 1994 and 1995, as well as those for the 1996-99 medium-term scenario, are based on a number of assumptions and working hypotheses.

- For the industrial countries, real effective exchange rates are assumed to remain constant at their average level during March 1-24, 1994, except for the bilateral exchange rates among the ERM currencies, which are assumed to remain constant in nominal terms. For both 1994 and 1995, these assumptions imply an average U.S. dollar/SDR conversion rate of 1.395.
- "Established" policies of national authorities will be maintained.
- The price of oil will average \$13.76 a barrel in 1994 and \$14.57 a barrel in 1995. In the medium term, the oil price is assumed to remain unchanged in real terms.
- Interest rates, as represented by the London interbank offered rate (LIBOR) on six-month U.S. dollar deposits, will average 4.2 percent in 1994 and 5.1 percent in 1995; the three-month certificate of deposit rate in Japan will average 2.0 percent in 1994 and 2.7 percent in 1995; and the three-month interbank deposit rate in Germany will average 5.2 percent in 1994 and 4.1 percent in 1995.

Data and Conventions

Data and projections for more than 180 countries form the statistical basis for the *World Economic Outlook* (the World Economic Outlook data base). The data are maintained jointly by the IMF's Research Department and the area departments, with the latter regularly preparing country projections based on consistent global assumptions, such as those summarized above.

Although national statistical agencies are the ultimate providers of historical data and definitions, the international organizations are, and have always been, involved in statistical issues, with the aim of harmonizing differences among national statistical systems, of setting international standards with

respect to definitions, and of providing conceptual frameworks for measurement and presentation of economic statistics. As regards the World Economic Outlook data base, updates and revisions by both national source agencies and international organizations are used.

Over the past several years, two developments of major importance for improving the standards of economic statistics and analysis have been the comprehensive work to revise the United Nations' standardized *System of National Accounts (SNA)* and the IMF's *Balance of Payments Manual*. Work on both projects is now completed, and the *System of National Accounts 1993* as well as the fifth edition of the *Balance of Payments Manual* have been issued.¹ The IMF was actively involved in both projects, but it is the new *Balance of Payments Manual* that is central to the IMF's interest in countries' external positions. Box 13 summarizes key changes introduced with the new *Manual*.

Composite data for country groups in the *World Economic Outlook* are either sums or weighted averages of data for individual countries. Arithmetic weighted averages are used for all data except inflation and money growth for nonindustrial country groups, for which geometric averages are used.

The following conventions apply.

- Country group composites for interest rates, exchange rates, and the growth of monetary aggregates are weighted by GDP converted to U.S. dollars at market exchange rates (averaged over the preceding three years) as a share of world or group GDP.
- Composites for other data relating to the domestic economy, whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total world or group GDP.²

¹Commission of the European Communities, IMF, OECD, UN, and World Bank, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, and Washington, 1993); and IMF, *Balance of Payments Manual*, 5th ed. (Washington, 1993).

²See the May 1993 *World Economic Outlook*, Annex IV, pp. 116-19; and Anne Marie Gulde and Marianne Schulze-Ghattas, "Purchasing Power Parity Based Weights for the *World Economic Outlook*," in *Staff Studies for the World Economic Outlook* (IMF, December 1993), pp. 106-23. The PPP weights have been updated to incorporate revised estimates for the industrial countries.

Box 13. The New Balance of Payments Manual

Like its predecessors, the fifth edition of the IMF's *Balance of Payments Manual* (1993) serves as an international standard for the conceptual framework underlying balance of payments statistics. Compared with earlier editions, the *Manual* introduces a number of new features and changes in scope and orientation. These aim, among other things, to achieve maximum integration and harmonization with the *System of National Accounts 1993 (SNA)* and the IMF's money and banking and government finance statistical systems.¹

The *Manual* provides for an articulated set of international accounts, for the first time encompassing both flows and stocks. Thus, the conceptual framework for the measurement and presentation of balance of payments statistics concerning an economy's international transactions—which involve the provision of economic values in the form of goods, services, income, and financial instruments between the reporting economy and the rest of the world—is linked with the economy's international investment position in terms of the stock of external assets and liabilities. The relationship between transactions in financial instruments during a given period and their levels at the end of the period, including valuation changes (variations in price levels and exchange rates) and other changes in the volume of assets that do not reflect transactions, is also explicitly delineated in the *Manual*. With the development of a conceptual framework encompassing both transactions and stocks, the relationship between the international accounts and their integration with the *SNA* is reinforced.

The *Manual* defines the current account as comprising transactions in goods, services, and income, and the receipts or payments of current transfers; in previous editions, the current account was defined to be inclusive of all transfers. Capital transfers, such as investment grants and debt forgiveness, are now included in an

expanded and redesignated capital and financial account. The distinction between current and capital transfers is based on the guidelines established in the *SNA* that focus on the special characteristics of capital transfers. The redefinition of the current account, together with the inclusion of retained earnings on direct investment in the *SNA*, removes a major source of discordance between the *Manual* and the *SNA* and facilitates the derivation of important national accounting measures such as disposable income and saving.

Given the heightened interest in international trade in services—as evidenced, for example, in the Uruguay Round negotiations—the *Manual* expands considerably the classification of services transactions. The increased emphasis on disaggregated data for international transactions in services and the distinction between goods and services as reflected in the *Manual* also stem from the perception that both the production of and international trade in services differ from the production of and trade in goods. International trade in goods is independent of the production of goods. In contrast, the production of a service is limited to an arrangement made between a particular producer in one economy and a particular consumer or group of consumers in another, before the time that the international trade occurs.

The capital account in the *Manual* has been expanded and redesignated as the capital and financial account. The capital account component covers all transactions that involve the receipt or payment of capital transfers and the acquisition or disposal of nonproduced, nonfinancial assets. The financial account component, which is roughly equivalent to the former capital account, covers all transactions associated with changes of ownership in the foreign financial assets and liabilities of an economy. Such changes involve the creation and liquidation of claims on, or by, the rest of the world. Capital and financial account transactions as presented in the *Manual* are the same as those reflected in the external accumulation accounts of the *SNA*, are generally compatible with other IMF statistical systems, and are consistent with the classification of related current account income components and with that of the international investment position.

¹Commission of the European Communities, IMF, OECD, UN, and World Bank, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, and Washington, 1993); IMF, *A Guide to Money and Banking Statistics in International Finance Statistics* (1984); and IMF, *A Manual on Government Finance Statistics* (1986).

- Composite unemployment rates and employment growth are weighted by labor force as a share of group labor force.
- For data relating to the external economy (balance of payments and debt), composites are sums of individual country data after conversion to U.S. dollars at the average (for debt, end of period) exchange rates in the years indicated. Composites of foreign trade unit values, however, are arithmetic averages of percentage changes for individual countries weighted by the U.S. dollar value of exports or imports as a share of total world or group exports or imports

(in the preceding year). Group composites of trade volumes are derived as sums of trade values (on a balance of payments basis) deflated by corresponding unit-value group composites.

For the central European countries, external transactions in nonconvertible currencies through 1990 are converted to U.S. dollars at the implicit U.S. dollar/ruble conversion rates obtained from each country's national currency exchange rate for the U.S. dollar and for the ruble.

Trade among the states of the former U.S.S.R. is not yet included in the data for these coun-

Four functional components are distinguished in the financial account: direct investment, portfolio investment, other investment, and reserve assets. Direct investment, which is further divided into equity capital, reinvested earnings, and other capital, is classified primarily on a directional basis—resident investment abroad and nonresident investment in the reporting economy. For the first time, equity capital and other capital such as intercompany debt are subdivided into asset and liability transactions. Transactions through so-called special-purpose entities generally are included in direct investment. However, transactions between affiliated banks and between other affiliated financial intermediaries (including those of special-purpose entities with the sole purpose of serving as financial intermediaries) associated with deposits and other claims and liabilities related to usual banking transactions, and similar claims and liabilities of other financial intermediaries, are not included. These types of transactions are classified under portfolio or other investment.

The coverage of portfolio investment has been expanded to reflect the recent growth of new financial instruments. In addition to long-term debt and equity securities, money market debt instruments and tradable financial derivatives are included in portfolio investment. Among derivative instruments are various forms of options, traded financial futures, warrants, and arrangements such as currency and interest rate swaps. Transactions in derivatives are treated as separate transactions, rather than as integral parts of underlying transactions to which they may be linked as hedges.

Assets and liabilities for other investment—a residual category that includes all financial transactions not covered under direct investment, portfolio investment, or reserve assets—are classified primarily on an instrument basis. A secondary breakdown is based on the sector of domestic creditor or debtor. The instruments included in other investment comprise trade credits, loans (including use of IMF credit and IMF Trust Fund loans), currency and deposits, and other assets and liabilities such as miscellaneous accounts receivable and payable. IMF repurchase agreements

(repayment of principal for use of IMF credit) are classified under loans (as is the case in the *SNA* and the IMF's money and banking statistics) because they are treated as newly created financial assets that are collateralized loans, rather than as assets related to the underlying securities used as collateral.

Reserve assets, the fourth major functional category of the financial account, consist of monetary gold, SDRs, reserve position in the IMF, foreign exchange assets, and other claims. In contrast to the fourth edition, the new *Manual* excludes all reserve asset changes that are not attributable to transactions, such as the monetization or demonetization of gold, the allocation or cancellation of SDRs, and valuation changes. These adjustments are reflected in the international investment position.

The concept of exceptional financing and the related balance of payments accounting treatment have evolved since the fourth edition of the *Manual* was published and have assumed greatly increased importance for IMF members and for IMF operations and statistics in recent years. The treatment of various forms of exceptional financing or debt reorganization in the balance of payments involves entries in several components of the accounts in the standard presentation and below-the-line exceptional financing in analytic presentations, as in the IMF's *Balance of Payments Statistics Yearbook*. New and extensive coverage of exceptional financing transactions is presented in the new edition of the *Manual*, including, in a special appendix, tabular details of the appropriate balance of payments entries.

A few of the changes and new features in the fifth edition of the *Manual* are already reflected in the World Economic Outlook data base—for example, the harmonization of balance of payments flows with external debt stocks and the treatment and organization of the many new types of exceptional financing transactions, such as restructuring and cancellation of debt and payment arrears. Other changes, including the revision to exclude capital transfers from the definition of the current account, will be reflected over time as national statistical compilers come into compliance with the new *Manual*.

tries' external transactions because of insufficient information.

Unless otherwise indicated, multiyear averages of growth rates are expressed as compound annual rates of change.

Classification of Countries

Summary of the Country Classification

The country classification in the *World Economic Outlook* divides the world into three major groups:

industrial countries, developing countries, and countries in transition.³ Rather than being based on strict criteria, economic or otherwise, this classification has evolved over time and is intended only to facilitate the analysis and provide a reasonably meaningful organization of data. Each of the three main country groups are further divided into a number of

³The term "country" as used here does not in all cases refer to a territorial entity that is a state as understood by international law and practice. It also covers some territorial entities that are not states, but for which data are maintained and provided internationally on a separate and independent basis.

Table A. Industrial Countries: Classification by Standard *World Economic Outlook* Groups, and Their Shares in Aggregate GDP and Exports of Goods and Services, 1990¹

	Number of Countries Included in Group	Percentage of			
		Total GDP of		Total exports of goods and services of	
		Industrial countries	World	Industrial countries	World
Industrial countries	23	100.0	55.7	100.0	75.7
United States		38.6	21.5	18.0	13.7
Japan		15.3	8.6	11.7	8.9
Germany		8.2	4.6	13.7	10.3
France		6.9	3.9	9.7	7.3
Italy		6.5	3.6	6.5	4.9
United Kingdom		6.4	3.6	9.9	7.5
Canada		3.6	2.0	4.0	3.1
Other industrial countries	16	14.4	8.0	26.5	20.1
Industrial country groups					
Seven major industrial countries	7	85.6	47.7	73.5	55.6
European Union	12	36.2	20.2	55.3	41.9
Industrial countries except the United States, Japan, and Germany	20	9.9	5.5	15.0	11.4
Seven major industrial countries except the United States	6	47.1	26.2	55.4	42.0
Major European industrial countries	4	28.1	15.7	39.7	30.1

¹The GDP shares are based on the purchasing power parity (PPP) valuation of country GDPs.

subgroups. Tables A and B provide an overview by these standard groups in the *World Economic Outlook*, showing the number of countries in each group and the average 1990 shares of groups in aggregate PPP-valued GDP, total exports of goods and services, and total debt outstanding.

The general features and the compositions of groups in the *World Economic Outlook* classification are as follows.⁴

The group of *industrial countries* (23 countries) comprises

Australia	Greece	Norway
Austria	Iceland	Portugal
Belgium	Ireland	Spain
Canada	Italy	Sweden
Denmark	Japan	Switzerland
Finland	Luxembourg	United Kingdom
France	Netherlands	United States
Germany	New Zealand	

⁴A number of countries are presently not included in the groups featured below, either because they are not IMF members, and their economies therefore are not monitored by the IMF, or because data bases have not yet been compiled. Cuba and the Democratic People's Republic of Korea are examples of countries that are not IMF members, whereas San Marino among the industrial countries, and the Republic of the Marshall Islands and the Federated States of Micronesia among the developing countries, are examples of economies for which data bases have not been completed.

The seven largest countries in this group in terms of GDP—the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada—are collectively referred to as the *major industrial countries*.

The members of the *European Union* are also distinguished as a subgroup.⁵ They are

Belgium	Greece	Netherlands
Denmark	Ireland	Portugal
France	Italy	Spain
Germany	Luxembourg	United Kingdom

In 1991 and subsequent years, data for *Germany* refer to west Germany and the former German Democratic Republic. Before 1991, economic data are not available on a unified basis or in a consistent manner. In general, data on national accounts and domestic economic and financial activity through 1990 cover west Germany only, whereas data for the central government, foreign trade, and balance of payments apply to west Germany through June 1990 and to unified Germany thereafter.

The group of *developing countries* (130 countries) includes all countries that are not classified as indus-

⁵Composite data shown in the tables under the heading "European Union" cover the current members of the European Union for all years, even though the membership has changed over time.

Table B. Developing Countries and Countries in Transition: Classification by Standard *World Economic Outlook* Groups and Their Shares in Aggregate GDP, Exports of Goods and Services, and Total Debt Outstanding, 1990¹

	Number of Countries Included in Group	Percentage of				
		Total GDP of		Total exports of goods and services of		Total debt of developing countries
		Developing countries	World	Developing countries	World	
Developing countries	130	100.0	33.4	100.0	20.3	100.0
By region						
Africa	50	11.8	3.9	9.9	2.0	17.4
Asia	28	51.4	17.2	52.2	10.6	28.1
Middle East and Europe	18	13.0	4.3	21.4	4.3	21.0
Western Hemisphere	34	23.9	8.0	16.5	3.4	33.5
Sub-Saharan Africa	45	4.4	1.5	3.3	0.7	8.9
Four newly industrializing Asian economies	4	6.9	2.3	32.0	6.5	3.0
By predominant export						
Fuel	19	23.4	7.8	27.2	5.5	31.7
Nonfuel exports	111	76.6	25.6	72.8	14.8	68.3
Manufactures	11	50.0	16.7	51.2	10.4	30.6
Primary products	54	10.9	3.7	7.7	1.6	20.3
Agricultural products	40	8.3	2.8	5.2	1.1	14.7
Minerals	14	2.6	0.9	2.5	0.5	5.6
Services and private transfers	33	6.6	2.2	4.3	0.9	8.8
Diversified export base	13	9.1	3.0	9.6	2.0	8.6
By financial criteria						
Net creditor countries	8	7.0	2.3	21.7	4.4	4.2
Net debtor countries	122	93.0	31.1	78.3	15.9	95.8
Market borrowers	22	50.0	16.7	53.4	10.8	43.4
Diversified borrowers	31	28.5	9.5	16.7	3.4	30.3
Official borrowers	69	14.5	4.9	8.2	1.7	22.1
Countries with recent debt-servicing difficulties	72	37.8	12.6	26.3	5.3	59.8
Countries without debt-servicing difficulties	50	55.2	18.4	52.0	10.5	36.0
Other groups						
Small low-income economies	45	9.4	3.1	3.1	0.6	11.3
Least developed countries	46	5.2	1.7	2.0	0.4	8.2
Fifteen heavily indebted countries	15	28.1	9.4	20.1	4.1	39.0
Countries in transition²	24	...	10.9	...	4.0	...
Central Europe	8	...	2.8	...	1.4	...
Former U.S.S.R.	15	...	8.1	...	2.6	...

¹The GDP shares are based on the purchasing power parity (PPP) valuation of country GDPs.

²Including Mongolia.

trial countries or as countries in transition, together with a few dependent territories for which adequate statistics are available.

The *regional breakdowns* of developing countries in the *World Economic Outlook* conform to the IMF's *International Financial Statistics (IFS)* classification, with one important exception. Because all of the developing countries in Europe except Cyprus, Malta, and Turkey are included in the group of countries in transition, the *World Economic Outlook* classification places these three countries in a

combined Middle East and Europe region. It should also be noted that Egypt and the Libyan Arab Jamahiriya are included in this region, not in Africa. Two additional regional groupings are included in the *World Economic Outlook* because of their analytical significance. These are sub-Saharan Africa⁶ and four newly industrializing Asian economies.⁷

⁶Excluding Nigeria and South Africa.

⁷Hong Kong, Korea, Singapore, and Taiwan Province of China.

The developing countries are also grouped according to *analytical criteria*: predominant export, financial criteria, and other groups. The export criteria are based on countries' export composition in 1984-86, whereas the financial criteria reflect net creditor and debtor positions as of 1987, sources of borrowing as of end-1989, and experience with debt servicing during 1986-90.

The first analytical criterion, by *predominant export*, distinguishes among five groups: fuel (Standard International Trade Classification—SITC 3); manufactures (SITC 5 to 8, less diamonds and gemstones); nonfuel primary products (SITC 0, 1, 2, 4, and diamonds and gemstones); services and private transfers; and diversified export base. A further distinction is made among the exporters of nonfuel primary products on the basis of whether countries' exports of primary commodities consist primarily of agricultural commodities (SITC 0, 1, 2 except 27, 28, and 4) or minerals (SITC 27 and 28 and diamonds and gemstones).

The *financial criteria* first distinguish between net creditor and net debtor countries. Countries in the latter, much larger group are then differentiated on the basis of two additional financial criteria: by predominant type of creditor and by experience with debt servicing.

The country groups shown under *other groups* constitute the small low-income economies, the least developed countries, and 15 heavily indebted countries.

The group of *countries in transition* (28 countries) comprises central and eastern European countries, non-European successor states of the former Soviet Union, and Mongolia. A common characteristic of these countries is the transitional state of their economies from a centrally administered system to one based on market principles. The group of countries in transition comprises

Albania	Georgia	Romania
Armenia	Hungary	Russia
Azerbaijan	Kazakhstan	Slovak Republic
Belarus	Kyrgyz Republic	Slovenia
Bosnia and Herzegovina	Latvia	Tajikistan
Bulgaria	Lithuania	Turkmenistan
Croatia	Macedonia, Former Yugoslav Rep. of	Ukraine
Czech Republic	Moldova	Uzbekistan
Estonia	Mongolia	Yugoslavia, Fed. Rep. of (Serbia/Montenegro)
	Poland	

Two subgroups are distinguished among the countries in transition, *central Europe* and the *former U.S.S.R.* The countries in central Europe (12 countries) are

Albania	Czech Republic	Romania
Bosnia and Herzegovina	Hungary	Slovak Republic
Bulgaria	Macedonia, Former Yugoslav Rep. of	Slovenia
Croatia	Poland	Yugoslavia, Fed. Rep. of (Serbia/Montenegro)

Detailed Description of the Developing Country Classification by Analytical Group

Countries Classified by Predominant Export

Fuel (19 countries). Countries whose average ratio of fuel exports to total exports in 1984-86 exceeded 50 percent are assigned to this category. The group comprises

Angola	Iran,	Oman
Algeria	Islamic Rep. of	Qatar
Cameroon	Iraq	Saudi Arabia
Congo	Kuwait	Trinidad and Tobago
Ecuador	Libya	United Arab Emirates
Gabon	Mexico	Venezuela
Indonesia	Nigeria	

Nonfuel exports (111 countries). This category identifies countries with total exports of goods and services including a substantial share of (a) manufactures, (b) primary products, or (c) services and private transfers. However, those countries whose export structure is so diversified that they do not fall clearly into any one of these three groups are assigned to a fourth group, (d) diversified export base.

(a) Economies whose exports of manufactures accounted for over 50 percent of their total exports on average in 1984-86 are included in the group of *exporters of manufactures* (11 countries). This group includes

Brazil	Israel	Thailand
China	Korea	Tunisia
Hong Kong	Singapore	Turkey
India	Taiwan Province of China	

(b) The group of *exporters of primary products* (54 countries) consists of those countries whose exports of agricultural and mineral primary products (SITC 0, 1, 2, 4, and diamonds and gemstones) accounted for at least half of their total exports on average in 1984-86. These countries are

Afghanistan,	Gambia, The	Papua New Guinea
Islamic State of	Ghana	Paraguay
Argentina	Guatemala	Peru
Bhutan	Guinea	Rwanda
Bolivia	Guinea-Bissau	São Tomé and Príncipe
Botswana	Guyana	Solomon Islands
Burundi	Honduras	Somalia
Central African Rep.	Kenya	Sri Lanka
Chad	Lao People's Dem. Rep.	St. Vincent and the Grenadines
Chile	Liberia	Sudan
Colombia	Madagascar	Suriname
Comoros	Malawi	Swaziland
Costa Rica	Mali	Togo
Côte d'Ivoire	Mauritania	Uganda
Djibouti	Mauritius	Uruguay
Dominica	Myanmar	Viet Nam
El Salvador	Namibia	Zaire
Equatorial Guinea	Nicaragua	Zambia
	Niger	

Among exporters of primary products, a further distinction is made between exporters of agricultural products and minerals. The group of *mineral exporters* (14 countries) comprises

Bolivia	Liberia	Suriname
Botswana	Mauritania	Togo
Chile	Namibia	Zaire
Guinea	Niger	Zambia
Guyana	Peru	

All other exporters of primary products are classified as *agricultural exporters* (40 countries).

(c) The *exporters of services and recipients of private transfers* (33 countries) are defined as those countries whose average income from services and private transfers accounted for more than half of total average export earnings in 1984–86. This group comprises

Antigua and Barbuda	Grenada	Pakistan
Aruba	Jamaica	Panama
Bahamas, The	Jordan	Seychelles
Barbados	Kiribati	St. Kitts and Nevis
Burkina Faso	Lebanon	St. Lucia
Cambodia	Lesotho	Tanzania
Cape Verde	Maldives	Tonga
Cyprus	Malta	Vanuatu
Dominican Rep.	Mozambique, Rep. of	Western Samoa
Egypt	Nepal	Yemen, Rep. of
Ethiopia	Netherlands Antilles	
Fiji		

(d) *Countries with a diversified export base* (13 countries) are those whose export earnings in 1984–86 were not dominated by any one of the categories mentioned under (a) through (c) above. The group comprises

Bahrain	Malaysia	South Africa
Bangladesh	Morocco	Syrian Arab Rep.
Belize	Philippines	Zimbabwe
Benin	Senegal	
Haiti	Sierra Leone	

Countries Classified by Financial Criteria

Net creditor countries (8 countries) are defined as developing countries that were net external creditors in 1987 or that experienced substantial cumulated current account surpluses (excluding official transfers) between 1967–68 (the beginning of most balance of payments series in the World Economic Outlook data base) and 1987. The net creditor group consists of the following economies:

Iran, Islamic Rep. of	Qatar	United Arab Emirates
Kuwait	Saudi Arabia	
Libya	Taiwan Province of China	
Oman		

Net debtor countries (122 countries) are disaggregated according to two criteria: (a) predominant type of creditor and (b) experience with debt servicing.

(a) Within the classification by *predominant type of creditor* (sources of borrowing), three subgroups are identified: market borrowers, official borrowers, and diversified borrowers.

Market borrowers (22 countries) are defined as net debtor countries with more than two-thirds of their total liabilities outstanding at the end of 1989 owed to commercial creditors. They comprise

Algeria	Hong Kong	Peru
Antigua and Barbuda	Israel	Singapore
Argentina	Kiribati	Suriname
Bahamas, The	Korea	Thailand
Brazil	Malaysia	Trinidad and Tobago
Chile	Mexico	Uruguay
China	Panama	Venezuela
	Papua New Guinea	

Official borrowers (69 countries) are defined as net debtor countries with more than two-thirds of their total liabilities outstanding at the end of 1989 owed to official creditors. This group comprises

Afghanistan, Islamic State of	Ghana	Nicaragua
Aruba	Grenada	Niger
Bangladesh	Guinea	Nigeria
Belize	Guinea-Bissau	Pakistan
Bhutan	Guyana	Rwanda
Bolivia	Haiti	São Tomé and Príncipe
Botswana	Honduras	Somalia
Burkina Faso	Jamaica	St. Kitts and Nevis
Burundi	Lao People's Dem. Rep.	St. Lucia
Cambodia	Lesotho	St. Vincent and the Grenadines
Cameroon	Madagascar	Sudan
Cape Verde	Malawi	Swaziland
Central African Rep.	Maldives	Tanzania
Chad	Mali	Togo
Comoros	Malta	Tonga
Djibouti	Mauritania	Tunisia
Dominica	Mauritius	Uganda
Dominican Rep.	Morocco	Viet Nam
Egypt	Mozambique, Rep. of	Western Samoa
El Salvador	Myanmar	Yemen, Rep. of
Equatorial Guinea	Namibia	Zaire
Ethiopia	Nepal	Zambia
Gabon	Netherlands Antilles	
Gambia, The		

Diversified borrowers (31 countries) consist of those net debtor developing countries that are classified neither as market nor as official borrowers.

(b) Within the classification by *experience with debt servicing*, a further distinction is made. *Countries with recent debt-servicing difficulties* (72 countries) are defined as those countries that incurred external payments arrears or entered into official or commercial bank debt-rescheduling agreements during 1986–90. Information on these developments is taken from relevant issues of the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions*.

All other net debtor countries are classified as *countries without debt-servicing difficulties* (50 countries).

Other Groups

The group of *small low-income economies* (45 countries) comprises those IMF members—excluding China and India—whose GDP per person, as estimated by the World Bank, did not exceed the equivalent of \$425 in 1986. These countries are

Afghanistan, Islamic State of	Guyana*	Rwanda
Bangladesh	Haiti	São Tomé and Príncipe
Benin	Kenya	Senegal
Bhutan	Lao People's Dem. Rep.	Sierra Leone
Burkina Faso	Lesotho	Somalia
Burundi	Madagascar	Sri Lanka
Cambodia	Malawi	Sudan
Central African Rep.	Maldives	Tanzania
Chad	Mali	Togo
Comoros	Mauritania	Uganda
Equatorial Guinea	Mozambique, Rep. of	Vanuatu
Ethiopia	Myanmar	Viet Nam
Gambia, The	Nepal	Zaire
Ghana	Niger	Zambia
Guinea	Pakistan	
Guinea-Bissau		

The countries currently classified by the United Nations as the *least developed countries* (46 countries) are⁹

*Although Guyana's estimated GDP per person slightly exceeded the threshold of \$425 in 1986, it dropped considerably in 1987; therefore Guyana is included in this group.

⁹The United Nations classification also covers Tuvalu, which is not included in the *World Economic Outlook* classification.

Afghanistan, Islamic State of	Guinea	Niger
Bangladesh	Guinea-Bissau	Rwanda
Benin	Haiti	São Tomé and Príncipe
Bhutan	Kiribati	Sierra Leone
Botswana	Lao People's Dem. Rep.	Solomon Islands
Burkina Faso	Lesotho	Somalia
Burundi	Liberia	Sudan
Cambodia	Madagascar	Tanzania
Cape Verde	Malawi	Togo
Central African Rep.	Maldives	Uganda
Chad	Mali	Vanuatu
Comoros	Mauritania	Western Samoa
Djibouti	Mozambique, Rep. of	Yemen, Rep. of
Equatorial Guinea	Myanmar	Zaire
Ethiopia	Nepal	Zambia
Gambia, The		

The group of *15 heavily indebted countries*¹⁰ (the Baker Plan countries) comprises those countries associated with the "Program for Sustained Growth" proposed by the Governor for the United States at the 1985 IMF–World Bank Annual Meetings in Seoul. These countries are

Argentina	Côte d'Ivoire	Peru
Bolivia	Ecuador	Philippines
Brazil	Mexico	Uruguay
Chile	Morocco	Venezuela
Colombia	Nigeria	Former Yugoslavia

¹⁰The former Socialist Federal Republic of Yugoslavia and, after its dissolution, the successor states—Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Slovenia, and the Federal Republic of Yugoslavia (Serbia/Montenegro)—are included in this group of developing countries even though they are now classified as countries in transition.

List of Tables

	Page
Output	
A1. Summary of World Output	109
A2. Industrial Countries: Real GDP and Total Domestic Demand	110
A3. Industrial Countries: Components of Real GDP	111
A4. Industrial Countries: Employment, Unemployment, and Real Per Capita GDP	113
A5. Developing Countries: Real GDP	114
A6. Developing Countries—by Country: Real GDP	115
A7. Countries in Transition: Real GDP	118
Inflation	
A8. Summary of Inflation	119
A9. Industrial Countries: GDP Deflators and Consumer Prices	120
A10. Industrial Countries: Hourly Earnings, Productivity, and Unit Labor Costs in Manufacturing	121
A11. Developing Countries: Consumer Prices	122
A12. Developing Countries—by Country: Consumer Prices	123
A13. Countries in Transition: Consumer Prices	126
Financial Policies	
A14. Summary Financial Indicators	127
A15. Major Industrial Countries: Central Government Fiscal Balances	128
A16. Major Industrial Countries: General Government Fiscal Balances and Impulses	129
A17. Industrial Countries: Monetary Aggregates	130
A18. Industrial Countries: Interest Rates	131
A19. Developing Countries: Central Government Fiscal Balances	132
A20. Developing Countries: Broad Money Aggregates	133
Foreign Trade	
A21. Summary of World Trade Volumes and Prices	134
A22. Industrial Countries: Export Volumes, Import Volumes, and Terms of Trade	135
A23. Developing Countries—by Region: Merchandise Trade	136
A24. Developing Countries—by Predominant Export: Merchandise Trade	138
A25. Developing Countries: Nonfuel Commodity Prices	140

	Page
Current Account Transactions	
A26. Summary of Payments Balances on Current Account	141
A27. Industrial Countries: Balance of Payments on Current Account	142
A28. Industrial Countries: Current Account Transactions	143
A29. Developing Countries: Payments Balances on Current Account	144
A30. Developing Countries—by Region: Current Account Transactions	146
A31. Developing Countries—by Analytical Criteria: Current Account Transactions	148
External Financing	
A32. Summary of External Financing	152
A33. Developing Countries—by Region: External Financing	154
A34. Developing Countries—by Analytical Criteria: External Financing	156
A35. Developing Countries: Reserves	160
A36. Net Credit from IMF	162
External Debt and Debt Service	
A37. Summary of External Debt and Debt Service	163
A38. Developing Countries—by Region: External Debt, by Maturity and Type of Creditor	165
A39. Developing Countries—by Analytical Criteria: External Debt, by Maturity and Type of Creditor	166
A40. Developing Countries: Ratio of External Debt to GDP	169
A41. Developing Countries: Debt-Service Ratios	170
A42. IMF Charges and Repurchases to the IMF	172
Flow of Funds	
A43. Summary of Sources and Uses of World Saving	173
Medium-Term Projections: Baseline Scenario	
A44. Summary of Medium-Term Baseline Scenario	177
A45. Developing Countries—Medium-Term Baseline Scenario: Selected Economic Indicators	178

Table A1. Summary of World Output¹*(Annual percent change)*

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
World	3.4	3.6	3.9	4.7	3.4	2.2	0.7	1.8	2.3	3.0	3.7
Industrial countries	2.8	2.9	3.2	4.4	3.3	2.4	0.6	1.6	1.2	2.4	2.6
United States	2.9	2.9	3.1	3.9	2.5	1.2	-0.7	2.6	3.0	3.9	2.6
European Union	2.3	3.0	2.9	4.3	3.5	3.0	0.7	1.0	-0.3	1.3	2.5
Japan	4.2	2.6	4.1	6.2	4.7	4.8	4.3	1.1	0.1	0.7	2.3
Other industrial countries	2.8	2.6	3.4	4.0	3.1	1.1	-1.0	0.7	1.3	2.6	3.3
Developing countries	4.5	5.0	5.7	5.3	4.0	3.7	4.4	5.9	6.1	5.5	5.8
By region											
Africa	2.4	2.3	1.4	4.0	3.6	1.7	1.5	0.4	1.1	3.4	4.5
Asia	6.4	7.1	8.0	9.1	5.3	5.6	6.1	8.1	8.4	7.5	7.4
Middle East and Europe	3.5	2.5	5.9	0.3	3.7	4.2	1.9	7.5	4.7	3.0	3.7
Western Hemisphere	3.3	4.0	3.4	1.0	1.6	0.3	3.3	2.5	3.4	2.8	3.4
By analytical criteria											
Fuel exporters	3.4	0.8	3.0	1.2	5.0	4.2	3.9	5.6	2.8	2.8	4.3
Nonfuel exporters	4.9	6.4	6.6	6.5	3.7	3.6	4.6	6.0	7.0	6.3	6.2
Net creditor countries	3.2	0.3	1.7	-0.4	6.7	7.3	6.2	9.2	5.0	2.4	3.5
Net debtor countries	4.6	5.4	6.0	5.7	3.8	3.4	4.3	5.6	6.2	5.8	6.0
Market borrowers	5.2	6.3	6.9	6.0	3.4	3.0	5.8	7.3	7.8	6.5	6.5
Official borrowers	3.6	4.0	3.4	4.1	4.0	3.7	3.5	3.0	3.4	4.7	5.0
Countries with recent debt-servicing difficulties	3.1	3.7	3.9	1.9	2.4	0.2	2.1	2.3	2.9	3.0	3.8
Countries without debt-servicing difficulties	6.0	6.8	7.7	8.5	4.8	5.7	5.7	7.7	8.1	7.3	7.2
Countries in transition	3.6	3.6	2.6	4.3	2.3	-3.3	-11.8	-15.5	-8.8	-6.1	1.4
Central Europe	3.1	3.4	1.9	1.5	0.4	-7.0	-12.7	-8.3	-1.4	1.8	3.5
Former U.S.S.R. ²	3.8	3.6	2.8	5.3	3.0	-2.0	-11.6	-18.2	-11.9	-9.8	0.4
Memorandum											
Median growth rate											
Industrial countries	2.8	2.9	3.1	4.1	3.8	2.1	1.0	1.2	0.1	1.4	2.7
Developing countries	3.9	3.4	3.1	3.9	3.7	3.1	3.0	3.5	3.7	4.0	4.5
Countries in transition	3.8	3.6	2.8	5.3	3.0	-2.3	-11.8	-17.0	-10.1	—	3.0
Output per capita											
Industrial countries	2.2	2.3	2.6	3.7	2.5	1.6	-0.2	0.9	0.5	1.7	1.9
Developing countries	2.0	2.7	3.4	4.7	0.6	1.9	2.5	3.3	4.4	3.5	4.1
Countries in transition	2.9	2.9	1.8	3.6	1.8	-4.0	-12.0	-15.7	-8.9	-6.1	1.3

¹Real GDP. For most countries included in the group "countries in transition," total output is measured by real net material product (NMP) or by NMP-based estimates of GDP.

²Figures from 1990 onward are weighted averages of separate estimates for the states of the former U.S.S.R. and the Baltic countries.

Table A2. Industrial Countries: Real GDP and Total Domestic Demand*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Fourth Quarter ¹		
												1993	1994	1995
Real GDP														
United States	2.9	2.9	3.1	3.9	2.5	1.2	-0.7	2.6	3.0	3.9	2.6	3.1	3.2	2.2
Japan	4.2	2.6	4.1	6.2	4.7	4.8	4.3	1.1	0.1	0.7	2.3	—	2.2	2.2
Germany ²	2.2	2.3	1.5	3.7	3.6	5.7	1.0	2.1	-1.2	0.9	2.1	-0.1	1.2	2.9
France	2.3	2.5	2.3	4.5	4.3	2.5	0.7	1.4	-0.7	1.2	2.6	-0.2	1.6	3.2
Italy	3.1	2.9	3.1	4.1	2.9	2.1	1.2	0.7	-0.7	1.1	2.5	0.4	1.7	2.8
United Kingdom ³	1.9	4.3	4.8	5.0	2.2	0.4	-2.2	-0.6	1.9	2.5	2.8	2.4	2.4	3.0
Canada	3.4	3.3	4.2	5.0	2.4	-0.2	-1.7	0.7	2.4	3.5	4.1	3.0	3.8	4.1
Seven countries above	2.9	2.9	3.2	4.5	3.2	2.4	0.5	1.7	1.4	2.5	2.5	1.7	2.6	2.5
Spain	1.6	3.5	5.6	5.2	4.7	3.6	2.2	0.8	-1.0	...	...	...	...	...
Netherlands	1.9	2.7	1.2	2.6	4.7	4.1	2.1	1.4	0.3	...	...	...	...	...
Belgium	1.6	1.5	2.0	5.0	3.8	3.4	1.9	0.6	-1.3	...	...	...	...	...
Denmark	2.6	3.6	0.3	1.2	0.6	1.4	1.0	1.2	0.3	...	...	...	...	...
Greece	2.8	1.6	-0.7	4.1	3.5	-0.1	1.8	0.9	—	...	...	...	...	...
Portugal	3.1	4.1	5.1	4.0	5.5	4.2	2.3	1.5	-0.8	...	...	...	...	...
Ireland	3.4	3.7	4.6	4.2	6.5	9.1	2.6	4.9	2.5	...	...	...	...	...
Luxembourg	3.2	5.0	4.2	6.4	7.8	4.6	2.7	2.2	2.0	...	...	...	...	...
Sweden	1.6	2.3	3.1	2.3	2.4	1.4	-1.1	-1.9	-1.7	...	...	...	...	...
Switzerland	1.5	2.9	2.0	2.9	3.9	2.3	—	-0.1	-0.7	...	...	...	...	...
Austria	2.3	1.1	1.9	3.8	3.8	4.2	2.7	1.6	-0.5	...	...	...	...	...
Finland	3.1	2.1	4.0	5.4	5.4	0.4	-7.1	-3.8	-2.6	...	...	...	...	...
Norway	4.1	4.2	2.0	0.1	2.0	1.7	1.6	3.3	1.8	...	...	...	...	...
Iceland	3.4	6.5	8.8	-0.4	0.2	0.5	1.0	-3.7	1.0	...	...	...	...	...
Australia	3.1	1.9	4.4	4.4	4.6	1.4	-0.8	2.0	3.0	...	...	...	...	...
New Zealand	1.5	0.7	-1.7	3.0	-1.0	0.8	-2.7	2.1	3.7	...	...	...	...	...
Other industrial countries	2.2	2.6	3.1	3.8	4.0	2.8	0.9	0.9	—	1.6	2.8	...	...	...
All industrial countries	2.8	2.9	3.2	4.4	3.3	2.4	0.6	1.6	1.2	2.4	2.6	...	...	...
European Union	2.3	3.0	2.9	4.3	3.5	3.0	0.7	1.0	-0.3	1.3	2.5	...	...	...
West Germany	2.2	2.3	1.5	3.7	3.6	5.7	4.5	1.6	-1.9	0.5	1.8	-0.8	1.1	2.5
Real total domestic demand														
United States	3.3	3.0	2.7	3.0	1.8	0.8	-1.4	2.9	3.8	4.2	2.7	4.0	3.5	2.4
Japan	3.4	3.7	5.1	7.6	5.8	5.0	2.9	0.4	0.3	1.7	2.9	1.1	2.8	2.7
Germany ²	1.8	3.3	2.4	3.6	2.9	5.2	4.2	2.7	-1.4	0.2	1.8	...	...	...
France	2.1	4.5	3.3	4.7	3.9	2.8	0.5	0.4	-1.4	1.0	2.3	-1.3	2.2	2.4
Italy	2.7	3.0	4.2	4.4	2.8	2.5	1.9	0.8	-5.0	0.4	2.4	-3.4	1.1	3.0
United Kingdom	1.9	4.9	5.3	7.9	2.9	-0.6	-3.3	0.4	2.0	3.2	2.7	3.3	2.2	2.9
Canada	3.0	4.2	5.3	5.5	4.3	-0.7	-0.7	—	1.7	2.8	3.5	3.2	3.0	3.8
Other industrial countries	1.7	3.7	3.8	4.3	5.3	2.6	0.5	0.7	-0.9	1.3	2.6	...	...	...
All industrial countries	2.8	3.5	3.6	4.5	3.4	2.2	0.3	1.6	1.1	2.5	2.6	...	...	...
Seven countries above	2.9	3.5	3.6	4.6	3.1	2.1	0.2	1.7	1.4	2.7	2.7	1.7	2.8	2.5
European Union	1.9	4.0	3.9	5.0	3.7	3.0	1.4	1.2	-1.5	1.0	2.4	...	...	...
West Germany	1.8	3.3	2.4	3.6	2.9	5.2	3.6	1.5	-2.6	-0.5	1.4	-3.4	1.7	1.4

¹From fourth quarter of preceding year.²Data through 1990 apply to west Germany only.³Average of expenditure, income, and output estimates of GDP at market prices.

Table A3. Industrial Countries: Components of Real GDP*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Private consumer expenditure											
United States	3.2	3.6	2.8	3.6	1.9	1.5	-0.4	2.6	3.3	3.0	2.2
Japan	3.6	3.4	4.2	5.2	4.3	3.9	2.2	1.7	1.1	2.4	3.3
Germany ¹	2.0	3.5	3.4	2.7	2.8	5.2	4.0	2.3	0.1	-0.6	0.9
France	2.5	3.9	2.9	3.2	3.1	2.9	1.4	1.7	0.8	1.1	1.8
Italy	3.4	3.7	4.2	4.2	3.5	2.5	2.7	1.4	-2.1	0.1	1.8
United Kingdom	2.1	6.8	5.3	7.5	3.2	0.6	-2.2	—	2.5	2.7	2.4
Canada	3.1	4.4	4.4	4.5	3.4	1.0	-2.0	1.1	1.6	2.0	3.4
Other industrial countries	1.8	3.3	3.3	3.1	3.7	2.6	2.1	1.6	-0.2	1.4	2.4
All industrial countries	2.8	3.8	3.4	4.0	2.9	2.4	0.9	1.9	1.6	2.0	2.3
Seven countries above	3.0	3.9	3.5	4.2	2.8	2.4	0.7	2.0	1.9	2.2	2.3
European Union	2.3	4.2	3.9	4.1	3.4	3.0	2.0	1.6	0.2	0.8	1.8
West Germany	2.0	3.5	3.4	2.7	2.8	5.2	4.5	1.7	—	-0.7	0.6
Public consumption											
United States	2.1	5.2	3.0	0.6	2.0	3.1	1.5	-0.1	-0.7	0.3	-0.3
Japan	3.5	4.5	0.4	2.2	2.0	1.9	1.6	2.2	3.0	2.9	2.8
Germany ¹	1.8	2.5	1.5	2.1	-1.6	2.2	-0.1	3.8	-0.7	-0.6	-0.4
France	2.9	1.7	2.8	3.4	0.5	2.0	2.5	2.7	1.1	0.9	0.7
Italy	2.8	2.6	3.4	2.8	0.8	1.2	1.6	1.0	0.8	-0.2	1.5
United Kingdom	0.9	1.6	1.0	0.7	1.4	2.5	2.5	0.7	-0.5	0.2	0.9
Canada	2.2	1.6	1.7	4.1	4.0	3.4	2.1	0.2	-0.1	-0.5	-0.7
Other industrial countries	3.0	3.4	3.3	2.4	3.4	3.1	3.0	1.7	0.9	0.2	0.2
All industrial countries	2.4	3.8	2.4	1.7	1.8	2.6	1.7	1.2	0.4	0.6	0.5
Seven countries above	2.3	3.9	2.3	1.6	1.5	2.5	1.5	1.1	0.3	0.6	0.5
European Union	2.3	2.5	2.7	2.3	1.1	2.2	1.8	2.2	0.3	-0.1	0.9
West Germany	1.8	2.5	1.5	2.1	-1.6	2.2	0.3	3.2	-1.3	-0.6	-0.4
Gross fixed capital formation											
United States	4.8	0.4	-0.5	4.2	0.1	-1.7	-7.7	6.2	11.0	10.7	9.1
Japan	3.0	4.8	9.6	11.9	9.3	8.8	3.7	-0.8	-1.3	-0.2	1.5
Germany ¹	1.2	3.3	1.8	4.4	6.3	8.5	8.0	4.2	-3.3	2.4	4.2
France	0.3	4.5	4.8	9.6	7.8	2.9	-1.5	-2.1	-5.1	0.6	2.6
Italy	1.3	2.2	5.0	6.9	4.3	3.8	0.6	-2.0	-11.1	0.2	2.6
United Kingdom	1.3	2.6	10.2	13.5	5.5	-3.4	-9.8	-1.6	0.8	4.8	4.8
Canada	3.7	6.2	10.8	10.3	6.1	-3.5	-2.0	-1.3	0.7	7.1	6.8
Other industrial countries	0.5	5.8	5.6	8.6	8.9	1.6	-2.5	-2.0	-3.3	0.6	4.8
All industrial countries	2.9	2.8	3.9	7.4	4.6	1.7	-2.7	1.9	2.3	5.1	5.7
Seven countries above	3.3	2.3	3.6	7.2	3.9	1.7	-2.8	2.5	3.3	5.8	5.9
European Union	0.7	4.2	5.6	8.8	6.9	3.8	0.1	-0.4	-4.7	1.6	3.6
West Germany	1.2	3.3	1.8	4.4	6.3	8.5	6.1	1.1	-6.9	0.2	3.4

Table A3 (concluded)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Final domestic demand											
United States	3.2	3.4	2.3	3.1	1.7	1.3	-1.2	2.5	3.7	3.7	2.9
Japan	3.4	3.9	5.4	7.0	5.7	5.3	2.6	0.9	0.5	1.6	2.7
Germany ¹	1.8	3.2	2.7	3.0	2.6	5.3	4.0	3.0	-0.8	0.1	1.4
France	2.1	3.6	3.3	4.6	3.6	2.8	1.0	1.1	-0.4	1.0	1.8
Italy	2.8	3.2	4.2	4.5	3.3	2.6	2.2	0.5	-3.6	0.1	1.9
United Kingdom	1.7	4.9	5.2	7.2	3.3	0.2	-2.7	-0.2	1.6	2.6	2.5
Canada	3.0	4.2	5.1	5.6	4.1	0.5	-1.2	0.4	1.1	2.5	3.4
Other industrial countries	1.7	3.7	3.8	4.1	4.8	2.4	1.2	0.8	-0.7	1.0	2.5
All industrial countries	2.7	3.6	3.5	4.4	3.2	2.5	0.5	1.6	1.2	2.2	2.6
Seven countries above	2.9	3.6	3.4	4.4	2.9	2.5	0.4	1.7	1.5	2.4	2.6
European Union	1.9	3.9	3.9	4.7	3.7	3.1	1.5	1.3	-0.9	0.8	2.0
West Germany	1.8	3.2	2.7	3.0	2.6	5.3	4.0	1.8	-1.8	-0.5	1.0
Stock building²											
United States	0.1	-0.3	0.4	-0.1	0.2	-0.5	-0.3	0.3	0.2	0.5	-0.2
Japan	0.1	-0.1	-0.3	0.6	0.2	-0.3	0.3	-0.5	-0.1	0.1	0.2
Germany ¹	—	0.1	-0.2	0.6	0.3	-0.1	0.2	-0.3	-0.6	0.1	0.4
France	—	0.9	0.1	0.1	0.3	0.1	-0.4	-0.7	-1.0	—	0.5
Italy	—	-0.1	—	—	-0.4	—	-0.2	0.3	-1.6	0.3	0.5
United Kingdom	0.2	—	0.1	0.7	-0.3	-0.9	-0.7	0.5	0.4	0.7	0.1
Canada	—	0.1	0.1	-0.1	0.2	-1.2	0.4	-0.5	0.7	0.2	0.2
Other industrial countries	—	—	—	0.2	0.6	0.2	-0.7	-0.1	-0.2	0.3	0.2
All industrial countries	0.1	-0.1	0.1	0.2	0.2	-0.3	-0.2	—	-0.2	0.3	0.1
Seven countries above	0.1	-0.1	0.1	0.1	0.1	-0.4	-0.1	—	-0.2	0.3	0.1
European Union	—	0.2	—	0.3	0.1	-0.1	-0.1	-0.1	-0.6	0.2	0.3
West Germany	—	0.1	-0.2	0.6	0.3	-0.1	-0.4	-0.3	-0.7	0.1	0.3
Foreign balance²											
United States	-0.5	-0.2	0.3	0.9	0.6	0.4	0.7	-0.3	-0.9	-0.4	-0.2
Japan	0.7	-1.0	-0.9	-1.2	-1.1	-0.2	1.3	0.8	-0.3	-0.9	-0.7
Germany ¹	0.3	-0.8	-0.8	0.3	0.9	0.8	-3.1	-0.6	0.2	0.7	0.3
France	0.2	-1.9	-1.1	-0.3	0.3	-0.4	0.2	1.0	0.7	0.2	0.3
Italy	-0.1	-0.1	-1.1	-0.5	—	-0.5	-0.8	-0.1	4.6	0.7	0.1
United Kingdom	—	-0.5	-0.5	-2.9	-0.8	1.1	1.2	-0.9	-0.2	-0.8	—
Canada	0.3	-0.7	-0.9	-1.2	-1.6	0.7	-0.6	0.8	0.5	0.7	0.4
Other industrial countries	0.4	-1.1	-0.8	-0.6	-1.5	0.1	0.5	0.1	1.0	0.2	0.2
All industrial countries	—	-0.6	-0.4	-0.2	-0.2	0.2	0.3	—	0.1	-0.2	-0.1
Seven countries above	-0.1	-0.6	-0.3	-0.1	0.1	0.2	0.3	—	—	-0.3	-0.1
European Union	0.2	-1.0	-0.9	-0.8	-0.3	—	-0.7	-0.2	1.2	0.3	0.2
West Germany	0.3	-0.8	-0.8	0.3	0.9	0.8	1.2	0.2	0.6	1.0	0.5

¹Data through 1990 apply to west Germany only.²Changes expressed as percent of GDP in the preceding period.

Table A4. Industrial Countries: Employment, Unemployment, and Real Per Capita GDP

(In percent)

	Average ¹ 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Growth in employment											
United States	2.2	2.3	2.6	2.3	2.0	0.5	-0.9	0.6	1.5	1.8	1.3
Japan	1.1	0.8	1.0	1.7	1.9	2.0	1.9	1.1	0.2	0.3	0.6
Germany ²	0.2	1.4	0.7	0.8	1.5	3.0	-2.3	-1.7	-1.9	-1.4	—
France	—	0.1	0.3	0.8	1.4	1.1	0.1	-0.5	-1.4	-0.4	0.7
Italy	0.5	0.8	-0.1	0.7	0.1	1.4	1.4	-0.6	-2.5	-1.3	0.4
United Kingdom	-0.2	0.3	2.3	3.3	2.7	0.3	-3.2	-2.7	-1.2	0.6	0.8
Canada	1.9	2.8	2.9	3.2	2.0	0.7	-1.8	-0.8	1.2	1.8	2.8
Other industrial countries	0.1	1.8	1.7	1.8	2.2	1.7	-0.3	-1.5	-1.8	0.1	1.3
All industrial countries	1.0	1.5	1.7	1.9	1.9	1.3	-0.4	-0.3	-0.3	0.5	1.0
Seven countries above	1.2	1.4	1.7	1.9	1.8	1.2	-0.5	-0.1	—	0.6	0.9
European Union	—	0.9	1.2	1.6	1.7	1.7	-0.8	-1.4	-1.8	-0.7	0.6
West Germany	0.2	1.4	0.7	0.8	1.5	3.0	2.6	0.9	-1.6	-1.4	-0.3
Unemployment rate											
United States ³	7.5	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.2	5.8
Japan	2.3	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	3.0	3.1
Germany ²	5.2	7.6	7.6	7.6	6.8	6.2	6.7	7.7	8.9	10.0	10.0
France	7.0	10.4	10.5	10.0	9.4	8.8	9.4	10.1	11.7	12.4	12.1
Italy ⁴	8.6	11.1	12.0	12.0	12.0	11.0	10.9	11.5	10.4	11.3	11.2
United Kingdom	7.1	11.1	10.0	8.0	6.3	5.8	8.1	9.8	10.3	10.0	9.8
Canada	9.0	9.5	8.8	7.8	7.5	8.1	10.3	11.3	11.2	10.8	10.1
Other industrial countries	7.5	10.2	9.9	9.5	8.6	8.3	9.1	10.4	12.3	12.9	12.5
All industrial countries	6.5	7.8	7.4	6.9	6.3	6.2	7.0	7.8	8.2	8.3	8.1
Seven countries above	6.3	7.3	6.9	6.3	5.8	5.7	6.6	7.3	7.3	7.4	7.2
European Union	7.6	11.0	10.8	10.2	9.3	8.6	9.1	10.1	11.2	11.9	11.7
West Germany	5.2	7.6	7.6	7.6	6.8	6.2	5.5	5.8	7.3	8.6	8.8
Growth in real per capita GDP											
United States	1.9	2.0	2.2	3.0	1.6	0.2	-1.8	1.4	1.9	2.8	1.5
Japan	3.3	2.1	3.6	5.8	4.3	4.5	3.9	0.8	-0.2	0.5	2.1
Germany ²	2.3	2.3	1.5	3.1	2.6	3.7	0.3	1.3	-1.9	0.3	1.6
France	1.9	2.1	1.8	4.0	3.8	2.0	0.3	1.0	-1.1	0.8	2.1
Italy	2.9	2.8	3.0	3.9	2.8	2.0	0.9	0.6	-0.8	1.0	2.4
United Kingdom	1.9	4.0	4.5	4.8	1.9	0.1	-2.9	-0.9	1.7	2.3	2.5
Canada	2.3	2.3	2.9	3.6	0.7	-1.7	-2.9	-0.4	1.3	2.3	2.9
Other industrial countries	1.7	2.2	2.7	3.4	3.4	2.2	0.2	0.5	-0.5	1.0	2.3
All industrial countries	2.2	2.3	2.6	3.7	2.5	1.6	-0.2	0.9	0.5	1.7	1.9
Seven countries above	2.3	2.3	2.6	3.8	2.4	1.5	-0.3	1.0	0.6	1.8	1.9
European Union	2.1	2.8	2.7	4.0	3.1	2.3	0.2	0.7	-0.7	1.0	2.2
West Germany	2.3	2.3	1.5	3.1	2.6	3.7	3.2	0.3	-2.8	-0.4	1.0

¹Compound annual rate of change for employment and per capita GDP; arithmetic average for unemployment rate.²Data through 1990 apply to west Germany only.³To maintain comparability with historical data, the projections are not adjusted to the higher unemployment level implied by the new survey techniques adopted by the U.S. Bureau of Labor Statistics in January 1994.⁴New series starting in 1993, reflecting revisions in the labor force surveys and the definition of unemployment to bring data in line with those of other industrial countries.

Table A5. Developing Countries: Real GDP

(Annual percent change)

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries	4.5	5.0	5.7	5.3	4.0	3.7	4.4	5.9	6.1	5.5	5.8
By region											
Africa	2.4	2.3	1.4	4.0	3.6	1.7	1.5	0.4	1.1	3.4	4.5
Asia	6.4	7.1	8.0	9.1	5.3	5.6	6.1	8.1	8.4	7.5	7.4
Middle East and Europe	3.5	2.5	5.9	0.3	3.7	4.2	1.9	7.5	4.7	3.0	3.7
Western Hemisphere	3.3	4.0	3.4	1.0	1.6	0.3	3.3	2.5	3.4	2.8	3.4
Sub-Saharan Africa	2.6	4.1	2.6	3.1	2.6	0.8	0.9	-0.2	1.2	3.4	5.1
Four newly industrializing Asian economies	8.3	11.0	12.2	9.8	6.3	7.0	7.3	5.4	5.9	6.2	6.5
By predominant export											
Fuel	3.4	0.8	3.0	1.2	5.0	4.2	3.9	5.6	2.8	2.8	4.3
Nonfuel exports	4.9	6.4	6.6	6.5	3.7	3.6	4.6	6.0	7.0	6.3	6.2
Manufactures	6.0	7.9	8.1	8.1	4.3	4.0	5.0	7.2	8.5	7.0	6.8
Primary products	2.3	4.9	3.6	1.4	1.2	1.9	3.7	4.7	4.5	4.5	4.9
Agricultural products	2.4	4.7	2.8	1.6	1.6	2.6	4.2	5.6	5.1	4.6	4.7
Minerals	1.8	5.5	5.7	0.9	0.2	-0.4	2.1	1.7	2.6	4.0	5.7
Services and private transfers	5.1	5.0	6.3	3.8	3.3	3.5	4.1	3.6	4.1	5.3	5.2
Diversified export base	3.6	1.9	2.7	6.4	3.3	3.4	3.3	1.9	3.2	4.7	4.8
By financial criteria											
Net creditor countries	3.2	0.3	1.7	-0.4	6.7	7.3	6.2	9.2	5.0	2.4	3.5
Net debtor countries	4.6	5.4	6.0	5.7	3.8	3.4	4.3	5.6	6.2	5.8	6.0
Market borrowers	5.2	6.3	6.9	6.0	3.4	3.0	5.8	7.3	7.8	6.5	6.5
Diversified borrowers	4.2	4.6	5.8	5.9	4.3	4.0	1.9	3.9	4.4	4.8	5.4
Official borrowers	3.6	4.0	3.4	4.1	4.0	3.7	3.5	3.0	3.4	4.7	5.0
Countries with recent debt- servicing difficulties	3.1	3.7	3.9	1.9	2.4	0.2	2.1	2.3	2.9	3.0	3.8
Countries without debt- servicing difficulties	6.0	6.8	7.7	8.5	4.8	5.7	5.7	7.7	8.1	7.3	7.2
Other groups											
Small low-income economies	3.8	4.2	3.5	3.4	3.8	3.6	4.1	3.5	4.0	5.5	5.8
Least developed countries	3.0	3.3	2.4	2.5	2.8	2.1	1.1	2.1	2.8	4.4	4.9
Fifteen heavily indebted countries	3.1	4.1	2.8	1.9	2.1	0.6	2.4	1.2	2.8	2.7	3.3
Memorandum											
Real per capita GDP											
Developing countries	2.0	2.7	3.4	4.7	0.6	1.9	2.5	3.3	4.4	3.5	4.1
By region											
Africa	-0.4	-0.4	-1.3	1.2	0.9	-1.1	-1.0	-2.2	-1.5	0.6	1.7
Asia	4.4	4.9	6.1	10.5	0.9	4.0	4.3	6.4	7.2	5.7	6.2
Middle East and Europe	-0.2	-0.6	2.1	-3.0	1.4	2.7	0.2	0.4	2.2	0.4	1.0
Western Hemisphere	0.9	1.9	1.2	-0.8	-0.8	-1.6	1.3	0.4	1.5	0.8	1.5

Table A6. Developing Countries—By Country: Real GDP¹*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Africa	2.4	2.3	1.4	4.0	3.6	1.7	1.5	0.4	1.1
Algeria	3.4	-0.2	-0.7	-1.9	4.9	-1.4	0.2	2.3	-1.8
Angola	...	...	...	...	...	...	-1.6	1.3	-17.6
Benin	4.1	2.1	-1.5	3.0	-2.0	4.0	3.0	4.2	3.3
Botswana	11.6	8.2	12.2	14.1	9.2	7.3	5.5	2.7	4.9
Burkina Faso	2.7	5.6	1.3	5.7	3.3	—	6.0	0.7	0.4
Burundi	4.1	3.3	5.5	5.0	1.3	3.5	5.0	2.7	-1.2
Cameroon	7.5	7.9	-3.5	-10.5	0.8	-6.9	-7.0	-5.2	-4.9
Cape Verde	4.6	2.7	7.6	7.6	6.9	2.4	2.5	3.5	2.3
Central African Republic	3.0	4.6	-3.3	2.3	2.3	1.0	-1.6	-2.4	-3.0
Chad	—	-4.0	-1.8	13.8	5.8	-2.3	8.3	3.9	-3.7
Comoros	3.9	1.9	1.6	2.7	-1.6	0.9	2.1	1.6	1.2
Congo	7.9	-6.9	0.2	1.8	2.6	1.0	1.5	2.6	-1.5
Côte d'Ivoire	3.7	3.4	-1.6	-2.0	-1.1	-2.1	-1.5	0.2	-1.1
Djibouti	1.4	-1.2	0.5	1.2	1.7	2.0	2.0	2.0	2.0
Equatorial Guinea	1.8	-2.3	4.4	2.7	-1.2	3.3	-1.1	13.0	7.1
Ethiopia	1.1	6.9	9.9	2.4	1.2	-2.2	-1.0	-9.8	8.8
Gabon	-1.0	-2.1	-15.4	3.5	7.0	4.0	6.7	-2.4	2.6
Gambia, The	4.1	4.1	2.8	1.7	4.3	5.2	2.3	4.0	2.1
Ghana	0.3	5.2	4.8	5.6	5.1	3.3	5.3	3.9	5.0
Guinea	2.2	3.1	3.3	6.3	4.0	4.3	2.4	3.0	4.5
Guinea-Bissau	7.1	-1.0	5.6	6.9	4.5	3.3	3.0	2.8	3.0
Kenya	4.8	7.1	5.9	6.0	4.5	4.3	2.3	0.4	0.2
Lesotho	-0.4	2.1	5.1	12.9	11.9	4.6	1.4	2.5	8.2
Liberia	1.0	-0.9	1.3	3.1	-10.8	0.3	2.9	1.9	2.2
Madagascar	1.9	2.0	1.2	3.4	4.1	3.1	-6.3	1.1	1.9
Malawi	3.5	-0.2	1.6	3.0	5.2	4.8	7.8	-7.7	12.0
Mali	0.8	8.4	1.2	-0.2	11.8	0.4	-2.5	7.8	-0.8
Mauritania	4.2	5.8	2.9	3.1	2.2	-1.8	2.6	3.0	2.5
Mauritius	4.3	8.5	10.8	8.7	5.7	4.7	6.3	4.4	6.0
Morocco	4.1	8.3	-2.5	10.4	2.5	3.7	5.1	-2.9	1.0
Mozambique, Rep. of	-1.0	0.9	4.6	5.5	5.3	1.3	2.6	-2.3	5.6
Namibia	...	4.7	3.1	7.0	0.7	1.0	5.7	6.4	-2.2
Niger	5.6	4.6	1.8	6.9	0.9	-1.3	2.5	-6.5	1.4
Nigeria	-0.5	2.5	-0.7	9.9	7.2	8.2	4.8	3.5	2.9
Rwanda	3.4	5.5	-0.3	3.8	1.0	0.4	0.3	0.4	-10.9
São Tomé and Príncipe	0.5	1.0	-1.5	2.0	3.1	-2.2	1.5	1.5	1.5
Senegal	2.3	4.6	4.0	5.1	-1.4	4.5	0.8	2.9	-0.8
Seychelles	4.0	0.8	4.9	5.3	10.3	7.5	-1.2	6.5	3.7
Sierra Leone	-0.1	18.4	3.1	2.5	2.5	-0.8	0.7	-0.8	1.5
Somalia	2.6	3.4	5.1	-0.6	-0.2	-1.5	-20.0	2.5	5.0
South Africa	2.1	—	2.1	4.2	2.3	-0.5	-0.4	-2.1	1.0
Sudan	2.1	3.9	1.4	1.6	1.6	-0.3	6.0	8.9	6.0
Swaziland	3.5	8.5	16.9	10.0	3.5	8.8	3.8	3.8	4.1
Tanzania	3.4	3.3	6.1	4.2	3.0	3.5	3.8	4.5	5.1
Togo	1.6	1.6	0.5	6.2	3.8	0.6	—	2.9	-13.4
Tunisia	5.4	-1.1	6.7	0.1	3.7	7.6	3.9	8.0	4.1
Uganda	0.8	1.2	6.3	7.8	6.8	4.4	4.3	3.4	5.0
Zaire	—	2.7	2.7	2.5	-1.4	-2.6	-7.2	-10.6	-16.0
Zambia	0.5	2.7	2.8	1.9	1.0	0.7	-2.0	-2.8	4.0
Zimbabwe	2.6	2.1	-0.5	7.3	6.4	2.2	4.9	-7.7	2.0

Table A6 (continued)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Asia	6.4	7.1	8.0	9.1	5.3	5.6	6.1	8.1	8.4
Afghanistan, I.S. of	-1.0	3.0	-10.3	-8.3	-7.1	-2.5	-0.6	2.0	6.0
Bangladesh	4.8	4.3	3.5	2.7	4.6	5.0	3.8	4.3	4.4
Bhutan	6.8	10.2	17.8	1.1	0.7	2.0	1.9	2.2	5.6
Cambodia	...	...	...	9.9	3.5	1.2	7.6	7.0	5.7
China	7.8	9.7	11.0	11.1	3.4	3.8	7.7	13.0	13.1
Fiji	1.6	6.2	-5.9	2.4	12.0	4.8	0.7	2.8	3.3
Hong Kong	8.9	11.1	14.5	8.3	2.8	3.2	4.1	5.3	5.5
India	4.6	4.1	4.9	9.7	5.0	5.8	1.8	3.7	4.1
Indonesia	5.7	5.9	4.9	5.8	7.5	7.2	6.9	6.3	6.5
Kiribati	-5.7	-1.3	0.3	10.2	-2.2	-2.9	2.8	3.1	2.9
Korea	8.0	12.4	11.8	11.5	6.3	9.2	8.4	4.8	5.3
Lao P.D. Republic	4.7	4.8	-1.0	-1.9	13.6	6.6	3.9	6.4	5.2
Malaysia	6.8	1.2	5.4	8.9	9.2	9.7	8.7	8.0	7.4
Maldives	7.6	8.6	7.3	10.3	9.3	16.2	7.6	6.3	5.4
Myanmar	5.6	-1.1	-4.0	-11.4	3.7	2.8	-1.0	8.0	4.0
Nepal	3.2	4.3	3.9	7.2	3.9	8.0	4.6	2.1	4.8
Pakistan	6.1	6.0	6.4	4.8	4.7	5.6	8.2	5.1	5.1
Papua New Guinea	0.9	4.7	2.8	2.9	-1.4	-3.0	9.5	11.8	14.4
Philippines	2.8	3.4	4.8	6.3	6.1	2.4	-0.4	0.3	1.8
Singapore	7.4	1.8	9.5	11.1	9.2	8.3	6.7	5.8	9.8
Solomon Islands	6.3	1.4	1.7	5.1	5.0	2.2	3.3	8.2	4.0
Sri Lanka	5.2	4.4	1.4	2.7	2.3	6.2	4.6	4.3	4.0
Taiwan Province of China	8.6	11.6	12.3	7.3	7.6	4.9	7.2	6.5	5.7
Thailand	6.6	4.9	9.5	13.2	12.2	11.6	8.1	7.6	7.8
Vanuatu	3.9	-2.0	0.4	0.6	4.5	5.2	6.5	0.6	1.7
Viet Nam	6.4	3.4	2.5	5.1	7.8	4.9	6.0	8.3	8.0
Western Samoa	2.7	5.4	0.5	0.3	2.6	-7.4	-1.6	-1.7	3.5
Middle East and Europe	3.5	2.5	5.9	0.3	3.7	4.2	1.9	7.5	4.7
Bahrain	7.1	0.5	-1.2	10.9	1.2	1.3	4.6	7.8	5.7
Cyprus	8.3	3.8	7.0	8.7	8.0	7.3	1.2	10.3	1.3
Egypt	6.4	4.8	8.7	3.5	2.7	2.3	1.2	0.4	1.3
Iran, Islamic Republic of	1.2	-9.3	-2.2	-9.7	4.5	11.2	8.6	4.6	3.0
Iraq	0.8	11.9	28.3	-10.2	12.0	-26.0	-61.3	10.0	—
Israel	2.8	3.6	6.1	3.1	1.3	5.8	6.2	6.6	3.5
Jordan	8.3	7.7	2.6	-0.5	-13.5	1.7	1.8	11.2	5.8
Kuwait	-2.0	8.6	8.1	-10.0	25.0	-30.2	-47.6	94.6	33.6
Lebanon	-8.7	—	—	3.0	3.0	3.0	3.9	4.2	4.4
Libya	1.1	-15.2	-23.6	-10.2	7.2	10.8	6.0	4.0	—
Malta	5.6	3.9	4.1	8.4	8.2	6.3	6.0	4.7	4.2
Oman	8.9	3.4	-3.5	5.7	3.6	8.8	9.2	6.8	5.0
Qatar	-0.4	3.7	0.9	4.7	5.3	2.1	-0.8	5.6	1.5
Saudi Arabia	2.7	5.8	-1.5	6.6	0.6	10.8	9.7	3.0	1.0
Syrian Arab Republic	4.5	-4.9	1.4	13.3	-9.0	7.6	11.5	9.7	6.0
Turkey	4.0	8.7	7.2	4.4	-0.3	9.2	1.2	5.3	6.8
United Arab Emirates	2.4	-19.4	5.5	-2.6	13.3	17.5	0.2	1.8	0.4
Former Yemen Arab Republic	...	8.3	4.4	6.7	3.4	1.7	...	...	...
Former Yemen, P.D. Republic of	...	-11.9	1.4	1.0	2.5	3.0	...	...	...
Yemen, Republic of	...	...	...	...	...	2.0	-4.2	7.4	4.3

Table A6 (concluded)

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993
Western Hemisphere	3.3	4.0	3.4	1.0	1.6	0.3	3.3	2.5	3.4
Antigua and Barbuda	6.4	9.7	9.0	7.7	6.3	3.4	4.3	1.7	2.6
Argentina	-0.5	7.3	2.6	-1.9	-6.2	0.1	8.9	8.7	6.0
Aruba	...	-0.3	15.9	17.0	12.3	10.4	4.6	3.1	...
Bahamas, The	5.2	2.6	3.2	2.1	2.5	0.9	-2.3	0.3	1.9
Barbados	2.6	9.6	3.8	3.1	3.7	-3.3	-5.2	-5.3	1.3
Belize	3.4	5.0	12.6	9.6	12.9	8.0	4.7	4.9	4.2
Bolivia	0.4	-2.5	2.6	3.0	2.8	2.6	4.1	2.7	3.2
Brazil	4.0	7.6	3.6	0.3	3.3	-4.4	0.9	-0.9	5.0
Chile	3.5	5.6	6.6	7.3	10.2	3.0	6.1	10.3	6.0
Colombia	3.8	5.8	5.4	4.1	3.4	4.3	2.1	3.5	5.2
Costa Rica	3.0	5.5	4.8	3.4	5.6	3.6	2.2	7.3	6.0
Dominica	3.5	6.8	6.8	8.0	-1.2	6.4	2.2	2.1	3.7
Dominican Republic	3.2	3.2	7.9	1.6	4.1	-5.0	-0.9	7.8	3.0
Ecuador	4.3	3.1	-5.9	10.5	0.3	3.0	4.9	3.5	1.7
El Salvador	-0.4	0.6	2.7	1.6	1.0	3.4	3.5	5.0	5.0
Grenada	4.4	5.5	6.0	5.3	5.7	5.2	2.0	2.9	5.3
Guatemala	2.2	0.1	3.5	3.9	3.9	3.1	3.7	4.8	4.0
Guyana	-2.2	-0.9	0.9	-2.6	-3.3	-5.3	6.0	7.8	7.4
Haiti	2.3	0.6	0.6	-1.5	-1.5	-3.0	-4.0	-10.8	-4.0
Honduras	4.4	0.7	6.1	4.5	4.3	0.1	3.1	5.0	4.0
Jamaica	0.4	7.0	7.7	-4.0	4.7	4.1	0.8	1.8	3.0
Mexico	4.3	-3.8	1.9	1.2	3.3	4.4	3.6	2.6	0.4
Netherlands Antilles	2.6	-5.5	0.2	3.3	4.2	7.2	3.3	6.6	3.0
Nicaragua	-1.8	-1.0	-0.7	-12.5	-1.7	-0.3	-0.2	0.4	-0.5
Panama	4.6	3.4	2.4	-15.6	-0.4	4.6	9.6	8.6	5.9
Paraguay	6.4	—	4.3	6.4	5.8	3.1	2.5	1.8	3.7
Peru	1.1	9.2	8.3	-8.2	-11.6	-4.4	2.7	-2.8	7.0
St. Kitts and Nevis	4.7	6.2	7.4	9.8	6.7	3.0	6.8	5.0	4.5
St. Lucia	6.2	5.8	2.1	12.7	7.4	3.6	1.8	6.3	3.5
St. Vincent and the Grenadines	6.1	7.2	6.3	8.6	7.2	7.1	3.1	4.7	2.2
Suriname	1.7	-2.4	-13.3	7.8	4.2	—	2.3	3.5	-0.2
Trinidad and Tobago	—	-1.7	-4.7	-4.0	-0.9	1.5	3.1	-1.6	-1.0
Uruguay	0.9	8.8	7.9	—	1.3	0.9	2.9	7.4	1.7
Venezuela	1.2	6.5	3.6	5.8	-8.6	6.5	9.7	6.8	-1.0

¹For many countries, figures for recent years are staff estimates. Data for some countries are for fiscal years.

Table A7. Countries in Transition: Real GDP¹*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Central Europe	3.1	3.4	1.9	1.5	0.4	-7.0	-12.7	-8.3	-1.4
Albania	1.0	5.6	-0.8	-1.4	9.8	-10.0	-27.7	-9.7	11.0
Bulgaria	5.8	5.6	5.7	2.4	-0.5	-9.1	-11.7	-5.6	-3.5
Croatia	...	...	...	...	...	...	...	...	1.4
Czech Republic	...	...	...	...	...	...	...	...	0.5
Former Czechoslovakia	2.8	2.8	2.1	2.5	4.5	-0.4	-15.9	-8.5	...
Hungary	2.7	1.5	4.1	-0.1	-0.2	-3.5	-11.9	-4.5	-1.6
Macedonia, Former Yugoslav Rep. of	...	...	...	...	...	...	...	...	-15.2
Poland	1.8	4.2	2.0	4.1	0.2	-11.6	-7.6	1.5	4.0
Romania	5.2	2.3	0.8	-0.5	-4.3	-7.4	-15.1	-13.5	—
Slovak Republic	...	...	...	...	...	...	...	...	-3.6
Slovenia	...	...	...	...	...	...	...	...	-6.0
Former Yugoslavia	2.2	3.2	-1.1	-1.7	0.8	-7.5	-17.0	-34.0	...
Former Soviet Union and Baltic countries²	3.8	3.6	2.8	5.3	3.0	-2.0	-11.6	-18.2	-11.9
Armenia	...	...	...	...	...	...	-11.8	-52.0	-28.0
Azerbaijan	...	...	...	...	...	...	-0.7	-26.8	-14.4
Belarus	...	...	...	...	...	...	-1.9	-11.0	-11.7
Estonia	...	...	...	...	...	...	-11.3	-19.3	-3.5
Georgia	...	...	...	...	...	...	-20.6	-45.6	-30.0
Kazakhstan	...	...	...	...	...	...	-13.0	-14.0	-10.0
Kyrgyz Republic	...	...	...	...	...	...	-5.0	-19.1	-16.4
Latvia	...	...	...	...	...	...	-8.3	-33.8	-10.1
Lithuania	...	...	...	...	...	...	-13.1	-37.7	-16.2
Moldova	...	...	...	...	...	...	-18.0	-21.3	-15.0
Russia	...	...	...	...	...	...	-12.9	-18.5	-11.5
Tajikistan	...	...	...	...	...	...	-8.7	-30.0	-30.0
Turkmenistan	...	...	...	...	...	...	-4.7	-5.3	8.5
Ukraine	...	...	...	...	...	...	-11.9	-17.0	-17.0
Uzbekistan	...	...	...	...	...	...	-0.9	-9.5	—
Other									
Mongolia	6.4	9.4	3.5	5.1	4.2	-2.0	-9.9	-7.6	-1.3

¹Data for most countries refer to real net material product (NMP) or are estimates based on NMP. For many countries, figures for recent years are staff estimates. The figures should be interpreted only as indicative of broad orders of magnitude because reliable, comparable data are not generally available. In particular, the growth of output of new private enterprises or of the informal economy is not fully reflected in the recent figures.

²Figures for 1990 onward are weighted averages of separate estimates for the states of the former U.S.S.R. and the Baltic countries.

Table A8. Summary of Inflation
(In percent)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP deflators											
Industrial countries	7.6	3.8	3.2	3.7	4.4	4.3	4.2	3.2	2.6	2.3	2.5
United States	6.7	2.7	3.1	3.9	4.6	4.3	3.9	2.9	2.6	2.2	2.8
European Union	9.9	5.6	4.0	4.3	4.9	5.2	5.5	4.6	3.6	3.1	2.8
Japan	3.7	1.8	—	0.4	1.8	2.2	2.0	1.6	1.0	1.2	0.9
Other industrial countries	7.7	4.6	5.4	5.3	5.7	4.6	3.3	1.5	1.6	1.8	2.2
Consumer prices											
Industrial countries	7.9	2.7	3.2	3.4	4.4	5.0	4.5	3.3	2.9	2.5	2.6
United States	7.2	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0	2.8	3.2
European Union	9.8	3.6	3.2	3.5	4.8	5.3	5.3	4.6	3.7	3.2	2.7
Japan	4.7	0.9	0.1	0.7	2.3	2.8	3.3	1.7	1.3	0.9	0.9
Other industrial countries	8.0	5.0	5.3	4.8	5.2	5.9	5.0	2.1	2.5	1.6	2.2
Developing countries	25.7	28.3	35.2	53.7	61.9	65.5	35.9	38.8	45.9	40.9	12.0
By region											
Africa	16.8	15.3	16.7	21.3	21.9	16.9	32.2	40.6	31.7	30.6	12.4
Asia	7.4	8.3	9.2	13.8	11.5	7.5	8.6	7.4	9.5	7.9	6.1
Middle East and Europe	20.0	20.0	22.4	26.2	22.0	24.6	24.7	24.2	24.4	20.9	21.6
Western Hemisphere	67.5	86.5	124.6	245.1	363.3	480.2	136.2	165.8	236.5	213.9	23.6
By analytical criteria											
Fuel exporters	19.0	26.4	36.2	36.4	18.8	17.0	16.7	17.1	17.4	14.4	8.8
Nonfuel exporters	28.5	28.9	34.9	59.4	78.0	84.0	42.2	45.9	55.1	49.1	12.9
Market borrowers	39.6	41.8	55.1	94.8	122.8	131.7	50.5	58.7	77.3	68.8	13.1
Official borrowers	18.5	28.1	27.0	35.2	26.1	24.1	35.5	32.9	24.6	21.5	10.0
Countries with recent debt-servicing difficulties	46.9	62.6	83.2	142.2	182.2	226.3	93.2	109.1	139.2	127.1	19.1
Countries without debt-servicing difficulties	10.6	8.1	9.1	14.3	13.8	9.7	11.0	10.8	12.6	11.1	9.2
Countries in transition	4.7	6.7	7.5	10.3	27.6	32.4	104.3	766.9	687.2	290.2	73.2
Central Europe	12.8	19.3	25.1	42.3	135.5	158.2	121.9	145.1	128.0	78.6	53.7
Former U.S.S.R.	1.6	2.1	1.5	0.3	2.3	5.4	98.4	1,292.4	1,226.3	457.4	83.2
Memorandum											
Median inflation rate											
Industrial countries	8.4	3.6	4.1	4.6	4.8	5.4	4.2	3.1	3.0	2.7	2.5
Developing countries	10.7	7.7	7.5	8.3	9.8	10.1	11.8	9.3	7.1	8.0	5.7
Countries in transition	0.9	2.0	1.3	0.6	2.0	5.6	105.0	854.6	797.5	156.0	19.0

Table A9. Industrial Countries: GDP Deflators and Consumer Prices*(Annual percent change)*

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Fourth Quarter ¹		
												1993	1994	1995
GDP deflators														
United States	6.7	2.7	3.1	3.9	4.6	4.3	3.9	2.9	2.6	2.2	2.8	2.2	2.7	2.9
Japan	3.7	1.8	—	0.4	1.8	2.2	2.0	1.6	1.0	1.2	0.9	0.9	1.2	1.0
Germany ²	3.6	3.2	1.9	1.5	2.4	3.1	4.7	5.3	3.9	3.0	2.4	...	...	...
France	9.8	5.2	3.0	2.8	3.0	3.0	3.0	2.3	2.1	1.9	2.1	1.8	2.5	1.4
Italy	15.5	7.8	6.0	6.7	6.2	7.7	7.6	4.5	4.4	3.5	3.1	4.9	2.0	3.7
United Kingdom	10.8	3.3	5.0	6.0	7.1	6.4	6.5	4.4	3.4	3.1	3.0	4.4	2.5	3.2
Canada	7.1	2.4	4.7	4.6	4.8	3.3	2.5	1.1	0.8	1.1	1.7	0.5	1.5	1.8
Seven countries above	7.2	3.2	2.9	3.4	4.1	4.1	4.0	3.0	2.5	2.2	2.4	2.3	2.3	2.3
Spain	14.7	11.9	5.8	5.7	7.0	7.4	7.0	6.5	4.3	...	...	...	...	...
Netherlands	4.7	0.2	−0.5	1.2	1.2	2.3	2.8	2.5	1.5	...	...	...	...	...
Belgium	5.7	3.8	2.4	1.8	4.7	2.7	2.7	4.1	2.6	...	...	...	...	...
Denmark	8.2	4.6	4.7	3.4	4.2	2.7	2.5	1.9	1.2	...	...	...	...	...
Greece	17.9	17.5	14.3	15.5	12.7	20.5	19.5	14.9	14.0	...	...	...	...	...
Portugal	21.3	20.5	11.3	11.5	13.3	14.5	13.5	12.5	6.8	...	...	...	...	...
Ireland	12.7	5.8	2.3	3.1	4.6	−1.7	0.9	1.1	1.5	...	...	...	...	...
Luxembourg	6.7	1.1	−3.1	1.0	0.2	1.3	3.8	2.3	4.1	...	...	...	...	...
Sweden	9.4	6.9	4.8	6.5	8.0	8.8	7.8	1.3	2.9	...	...	...	...	...
Switzerland	3.5	3.8	2.6	2.4	4.2	5.7	5.5	2.6	2.3	...	...	...	...	...
Austria	5.0	3.8	2.4	2.1	2.9	3.3	3.9	4.2	3.9	...	...	...	...	...
Finland	9.0	4.5	5.3	6.9	6.9	5.5	2.3	1.1	1.2	...	...	...	...	...
Norway	8.5	−1.4	7.2	3.7	4.7	3.4	2.3	−1.1	2.4	...	...	...	...	...
Iceland	30.6	24.5	20.2	23.4	20.4	14.3	7.3	3.3	1.0	...	...	...	...	...
Australia	9.2	7.2	7.4	8.2	7.3	4.6	1.8	1.2	1.1	...	...	...	...	...
New Zealand	15.3	17.1	14.1	7.7	8.0	4.2	2.0	2.1	1.6	...	...	...	...	...
Other industrial countries	9.9	7.2	5.2	5.3	6.1	5.9	5.2	4.1	3.2	3.1	3.0	...	...	...
All industrial countries	7.6	3.8	3.2	3.7	4.4	4.3	4.2	3.2	2.6	2.3	2.5	...	...	...
European Union	9.9	5.6	4.0	4.3	4.9	5.2	5.5	4.6	3.6	3.1	2.8	...	...	...
West Germany	3.6	3.2	1.9	1.5	2.4	3.1	3.9	4.4	3.3	2.7	2.1	2.9	3.2	1.7
Consumer prices														
United States	7.2	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0	2.8	3.2	2.7	3.0	3.2
Japan	4.7	0.9	0.1	0.7	2.3	2.8	3.3	1.7	1.3	0.9	0.9	1.1	1.1	1.1
Germany ²	4.0	−0.1	0.2	1.3	2.8	2.7	4.5	4.9	4.7	3.0	2.2	...	...	...
France	10.0	2.5	3.3	2.7	3.5	3.4	3.2	2.4	2.1	1.9	2.1	2.1	2.1	2.0
Italy	15.3	5.9	4.7	5.0	6.3	6.5	6.3	5.2	4.3	3.8	3.1	4.0	3.9	2.6
United Kingdom ³	10.5	3.6	4.1	4.6	5.9	8.1	6.8	4.7	3.0	3.2	3.0	2.7	3.5	3.0
Canada	7.7	4.2	4.4	4.0	5.0	4.8	5.6	1.5	1.9	0.5	1.7	1.8	0.4	1.8
Other industrial countries	9.6	6.0	4.9	4.7	5.6	6.4	5.5	4.2	3.7	3.2	3.0	...	...	...
All industrial countries	7.9	2.7	3.2	3.4	4.4	5.0	4.5	3.3	2.9	2.5	2.6	...	...	...
Seven countries above	7.6	2.2	2.9	3.2	4.3	4.8	4.4	3.1	2.8	2.4	2.5	2.5	2.5	2.5
European Union	9.8	3.6	3.2	3.5	4.8	5.3	5.3	4.6	3.7	3.2	2.7	...	...	...
West Germany	4.0	−0.1	0.2	1.3	2.8	2.7	3.5	4.0	4.1	2.7	2.0	3.7	2.3	2.0

¹From fourth quarter of preceding year.²Data through 1990 apply to west Germany only.³Retail price index excluding mortgage interest.

Table A10. Industrial Countries: Hourly Earnings, Productivity, and Unit Labor Costs in Manufacturing
(Annual percent change)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Hourly earnings											
United States	7.6	4.1	2.2	4.0	3.9	5.2	5.5	4.2	2.8	1.4	2.9
Japan	5.5	2.4	1.0	3.2	6.7	6.5	5.9	4.6	2.7	2.6	3.0
West Germany	6.0	5.0	5.2	3.9	4.2	5.8	7.3	7.1	5.8	2.9	3.0
France	12.6	5.1	4.6	3.9	4.8	5.2	4.1	4.0	2.0	2.0	3.0
Italy	17.5	3.1	7.6	7.9	10.2	9.0	9.4	6.7	3.9	3.8	4.6
United Kingdom	12.4	8.0	7.4	8.0	9.0	9.7	9.3	6.5	4.7	3.5	4.2
Canada	8.7	2.9	3.3	3.9	5.3	5.2	4.8	3.6	2.1	2.1	2.1
Other industrial countries	11.5	7.4	6.6	5.8	6.5	7.7	7.6	5.5	4.1	3.9	4.1
All industrial countries	9.1	4.6	3.8	4.6	5.6	6.3	6.4	5.0	3.3	2.4	3.3
Seven countries above European Union	8.7	4.1	3.4	4.4	5.4	6.1	6.2	4.9	3.2	2.2	3.1
	12.1	5.8	6.2	5.8	6.7	7.3	7.6	6.3	4.3	3.4	3.8
Productivity											
United States	1.9	2.6	6.5	2.4	0.6	1.7	2.1	4.1	5.1	2.3	2.3
Japan	4.2	—	4.1	7.4	4.5	2.8	1.5	-3.7	-1.6	-1.4	1.7
West Germany	3.6	1.0	1.9	4.2	3.3	3.5	2.9	1.4	2.3	2.9	2.3
France	4.4	3.6	5.0	7.3	5.1	1.4	0.7	3.2	1.0	1.0	1.8
Italy	4.2	-0.8	5.4	6.1	3.3	2.0	1.8	3.1	2.1	2.2	2.4
United Kingdom	3.1	3.8	5.4	5.4	4.3	1.9	2.5	4.9	7.1	2.4	2.6
Canada	2.6	-0.2	2.5	0.3	0.5	4.0	2.1	3.3	2.6	2.2	2.1
Other industrial countries	4.4	1.9	2.2	3.6	2.4	1.1	2.0	1.8	1.9	1.6	1.8
All industrial countries	3.2	1.8	4.8	4.1	2.4	2.0	2.0	2.2	2.9	1.6	2.1
Seven countries above European Union	3.0	1.8	5.2	4.2	2.4	2.2	2.0	2.2	3.1	1.6	2.2
	4.2	2.0	3.8	5.2	3.6	1.8	1.9	2.6	2.7	2.1	2.2
Unit labor costs											
United States	5.5	1.4	-3.9	1.6	3.3	3.5	3.3	0.2	-2.2	-0.9	0.6
Japan	1.2	2.4	-3.0	-3.9	2.0	3.5	4.3	8.6	4.3	4.1	1.3
West Germany	2.3	4.0	3.3	-0.2	0.9	2.1	4.3	5.6	3.4	—	0.7
France	7.9	1.5	-0.4	-3.2	-0.3	3.8	3.4	0.7	1.0	1.0	1.2
Italy	12.8	4.0	2.1	1.7	6.7	6.8	7.5	3.5	1.8	1.6	2.1
United Kingdom	9.1	4.0	1.9	2.5	4.6	7.7	6.6	1.5	-2.3	1.0	1.5
Canada	5.9	3.1	0.8	3.6	4.9	1.2	2.6	0.2	-0.5	-0.1	—
Other industrial countries	6.9	5.4	4.3	2.2	4.1	6.6	5.6	3.7	2.2	2.3	2.2
All industrial countries	5.8	2.8	-0.8	0.5	3.2	4.2	4.3	2.8	0.4	0.8	1.1
Seven countries above European Union	5.6	2.3	-1.7	0.3	3.0	3.9	4.1	2.7	0.2	0.6	0.9
	7.7	3.7	2.4	0.6	3.0	5.4	5.6	3.7	1.6	1.2	1.5

Table A11. Developing Countries: Consumer Prices*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries	25.7	28.3	35.2	53.7	61.9	65.5	35.9	38.8	45.9	40.9	12.0
By region											
Africa	16.8	15.3	16.7	21.3	21.9	16.9	32.2	40.6	31.7	30.6	12.4
Asia	7.4	8.3	9.2	13.8	11.5	7.5	8.6	7.4	9.5	7.9	6.1
Middle East and Europe	20.0	20.0	22.4	26.2	22.0	24.6	24.7	24.2	24.4	20.9	21.6
Western Hemisphere	67.5	86.5	124.6	245.1	363.3	480.2	136.2	165.8	236.5	213.9	23.6
Sub-Saharan Africa	23.6	19.3	27.2	27.4	26.8	26.0	67.4	75.9	49.2	43.8	12.9
Four newly industrializing Asian economies	9.0	1.8	2.6	5.1	5.8	7.1	7.7	5.9	4.6	5.0	4.6
By predominant export											
Fuel	19.0	26.4	36.2	36.4	18.8	17.0	16.7	17.1	17.4	14.4	8.8
Nonfuel exports	28.5	28.9	34.9	59.4	78.0	84.0	42.2	45.9	55.1	49.1	12.9
Manufactures	26.7	28.5	36.8	68.1	86.5	94.2	43.0	58.2	78.3	69.7	15.0
Primary products	59.3	56.6	60.2	108.0	175.9	184.9	88.2	43.2	28.4	21.4	10.7
Agricultural products	60.3	58.4	63.2	100.8	157.1	154.4	62.6	24.6	17.9	13.5	10.9
Minerals	56.4	51.3	51.6	131.3	242.5	307.0	201.3	128.7	72.4	53.2	10.2
Services and private transfers	10.9	12.0	13.9	12.1	15.8	18.2	19.0	16.9	12.2	10.3	8.7
Diversified export base	11.8	11.9	12.3	10.5	10.1	11.3	11.9	9.3	6.5	7.1	5.8
By financial criteria											
Net creditor countries	9.4	6.9	9.5	9.1	7.1	5.6	7.7	7.7	9.1	4.7	4.8
Net debtor countries	27.3	30.1	37.3	57.6	66.8	71.2	38.3	41.5	49.2	44.0	12.6
Market borrowers	39.6	41.8	55.1	94.8	122.8	131.7	50.5	58.7	77.3	68.8	13.1
Diversified borrowers	13.9	12.7	15.2	17.1	15.7	18.7	19.7	17.5	16.6	14.6	12.9
Official borrowers	18.5	28.1	27.0	35.2	26.1	24.1	35.5	32.9	24.6	21.5	10.0
Countries with recent debt- servicing difficulties	46.9	62.6	83.2	142.2	182.2	226.3	93.2	109.1	139.2	127.1	19.1
Countries without debt- servicing difficulties	10.6	8.1	9.1	14.3	13.8	9.7	11.0	10.8	12.6	11.1	9.2
Other groups											
Small low-income economies	18.5	31.1	32.0	34.3	21.9	25.5	42.2	37.4	23.7	19.7	8.6
Least developed countries	18.3	18.4	25.2	25.8	28.7	29.0	65.0	69.3	40.7	35.3	14.7
Fifteen heavily indebted countries	60.1	75.8	109.4	209.1	332.6	386.3	120.6	170.6	229.6	201.3	29.2
Memorandum											
Median											
Developing countries	10.7	7.7	7.5	8.3	9.8	10.1	11.8	9.3	7.1	8.0	5.7
By region											
Africa	11.5	8.5	7.0	7.7	9.7	10.0	10.4	9.8	6.9	12.6	7.8
Asia	7.9	5.6	6.7	8.4	7.5	8.6	10.1	8.5	5.9	5.0	4.8
Middle East and Europe	9.5	6.3	8.4	7.0	10.3	11.6	7.5	5.7	5.9	5.9	5.5
Western Hemisphere	12.4	11.6	14.6	12.1	14.3	21.9	22.7	12.1	10.7	6.2	5.0

Table A12. Developing Countries—By Country: Consumer Prices¹*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Africa	16.8	15.3	16.7	21.3	21.9	16.9	32.2	40.6	31.7
Algeria	10.5	14.0	5.9	5.9	9.2	16.7	22.8	31.8	20.2
Angola	...	...	...	...	...	...	80.1	253.0	1,044.0
Benin	9.4	3.6	3.2	4.3	0.5	0.3	0.9	3.5	3.1
Botswana	11.2	10.0	9.8	8.4	11.6	11.4	11.8	16.1	10.0
Burkina Faso	8.7	-0.4	-0.4	3.0	0.8	1.2	3.9	-1.9	1.8
Burundi	10.5	1.7	7.1	4.5	11.7	7.0	9.0	4.5	9.7
Cameroon	11.5	4.3	2.8	1.7	1.6	1.5	-0.6	2.0	-3.9
Cape Verde	13.6	14.0	1.7	4.4	9.3	9.8	7.6	7.0	6.8
Central African Republic	11.7	3.9	0.8	-2.1	3.9	1.7	-0.4	2.5	2.1
Chad	8.5	-13.1	-2.7	15.4	-4.9	3.0	1.7	-5.6	2.1
Comoros	9.7	8.3	3.3	0.3	4.6	-7.4	-1.7	2.4	1.9
Congo	10.3	2.5	1.2	4.0	4.1	2.0	0.1	2.1	0.7
Côte d'Ivoire	11.5	6.8	7.0	6.9	1.0	-0.7	1.6	4.2	2.0
Djibouti	9.2	16.4	4.2	6.4	3.0	4.5	4.0	19.0	5.5
Equatorial Guinea	21.9	-15.7	-9.0	-3.4	5.2	2.7	-0.9	1.5	1.6
Ethiopia	11.8	4.9	-9.5	2.2	9.6	5.2	20.9	21.0	10.0
Gabon	11.3	6.4	-1.0	-9.8	6.6	6.0	1.9	0.7	1.2
Gambia, The	11.4	35.0	46.2	12.4	10.8	10.2	9.1	12.0	5.9
Ghana	61.8	24.6	39.8	31.4	25.2	37.2	18.0	10.1	24.3
Guinea	20.3	64.7	36.7	27.4	28.3	19.4	19.6	16.6	7.1
Guinea-Bissau	26.4	37.0	86.8	60.3	80.8	33.0	57.6	69.6	47.8
Kenya	13.2	4.0	5.1	8.3	9.9	15.7	19.6	27.3	46.1
Lesotho	14.5	10.0	11.6	14.9	14.4	15.8	14.0	18.8	12.0
Liberia	6.1	3.6	5.0	9.7	25.3	10.0	10.0	10.0	10.0
Madagascar	14.7	14.5	15.5	26.3	9.0	11.8	8.5	15.3	13.2
Malawi	10.9	14.8	26.8	31.4	15.7	11.5	11.9	22.7	16.6
Mali	12.4	-1.2	-15.0	8.5	-0.2	1.6	1.5	-5.9	-0.6
Mauritania	4.7	7.8	8.2	6.3	9.0	6.4	5.6	6.2	3.3
Mauritius	13.2	4.3	0.7	1.5	16.0	10.7	12.8	2.9	8.9
Morocco	9.8	8.7	2.7	2.4	3.1	6.7	8.2	4.9	4.5
Mozambique, Rep. of	9.9	12.2	175.8	55.0	42.1	49.2	33.2	45.1	35.0
Namibia	...	13.4	12.6	12.9	15.1	12.0	11.9	17.7	8.6
Niger	11.0	-3.2	-4.3	0.6	-0.8	-2.0	-1.9	-1.8	0.4
Nigeria	17.7	5.7	11.3	54.5	50.5	7.4	13.0	44.6	60.4
Rwanda	8.9	-1.1	4.1	3.0	1.0	4.2	19.6	9.5	12.5
São Tomé and Príncipe	5.4	13.9	23.8	41.2	44.8	40.4	36.1	27.4	21.2
Senegal	9.3	6.1	-4.1	-1.8	0.4	0.3	-1.8	—	-0.7
Seychelles	8.7	0.3	2.6	1.8	1.5	3.9	2.0	3.3	3.1
Sierra Leone	31.1	80.9	178.7	32.7	62.8	111.0	102.7	65.5	19.4
Somalia	33.1	35.7	28.1	81.7	110.4	140.4	55.1	36.3	24.3
South Africa	12.9	18.5	16.2	12.9	14.7	14.3	15.3	13.9	9.5
Sudan	25.4	23.3	21.5	62.9	65.3	65.2	123.5	117.6	95.0
Swaziland	14.5	13.2	13.2	12.2	12.9	13.5	13.0	9.0	8.0
Tanzania	22.1	32.4	29.9	31.2	25.8	19.7	22.3	22.1	23.5
Togo	8.7	4.1	—	0.2	-1.2	1.0	0.5	2.4	0.3
Tunisia	8.3	6.2	8.2	7.2	7.7	6.5	7.8	5.5	6.0
Uganda	71.4	179.6	256.0	180.1	61.5	33.1	27.7	54.5	5.1
Zaire	55.5	45.7	90.4	82.0	90.4	74.1	2,155.0	4,131.8	1,351.5
Zambia	19.0	54.8	47.0	54.0	128.3	109.6	93.4	191.3	187.3
Zimbabwe	12.2	14.2	11.9	7.1	11.6	15.5	23.9	42.7	25.4

Table A12 (continued)

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993
Asia	7.4	8.3	9.2	13.8	11.5	7.5	8.6	7.4	9.5
Afghanistan, I.S. of	12.0	-8.7	18.2	29.2	89.8	158.8	165.0	58.2	34.0
Bangladesh	11.2	11.0	9.5	9.3	10.0	8.1	7.2	4.3	—
Bhutan	6.3	9.9	6.8	10.0	9.7	11.0	13.7	9.8	9.1
Cambodia	...	...	...	...	90.5	152.3	87.9	176.8	31.0
China	2.9	6.0	7.3	18.6	17.8	2.1	2.7	5.3	13.0
Fiji	8.1	1.8	5.7	11.8	6.1	8.1	6.5	4.9	5.2
Hong Kong	8.8	2.9	5.5	7.4	10.1	9.7	12.0	9.3	8.5
India	5.5	5.8	8.2	7.5	7.4	10.0	13.4	10.7	9.9
Indonesia	12.7	5.9	9.3	8.1	6.8	8.1	9.4	7.6	9.7
Kiribati	7.5	6.6	6.5	3.1	5.3	3.8	5.7	4.0	6.5
Korea	12.1	2.7	3.0	7.1	5.7	8.6	9.3	6.2	4.8
Lao P.D. Republic	52.8	35.0	6.1	14.8	75.9	19.6	10.4	6.7	5.0
Malaysia	4.6	0.6	0.8	2.5	2.8	3.1	4.4	4.7	3.6
Maldives	10.4	9.1	11.7	6.5	7.2	3.6	14.7	16.8	20.2
Myanmar	4.5	14.7	22.0	22.5	23.7	22.0	29.1	22.3	25.0
Nepal	8.3	15.9	13.3	11.0	8.1	9.7	9.8	20.8	8.0
Pakistan	8.0	3.7	4.9	3.3	7.2	9.7	11.7	9.5	8.7
Papua New Guinea	6.8	5.5	3.1	5.7	4.7	7.5	7.0	4.3	4.5
Philippines	15.9	0.8	3.8	9.1	10.6	12.7	18.7	8.9	7.6
Singapore	3.5	-1.4	0.5	1.5	2.4	3.4	3.5	2.3	2.4
Solomon Islands	8.3	13.1	11.5	16.8	14.9	8.6	15.2	10.3	7.0
Sri Lanka	10.6	8.0	7.7	14.0	11.6	21.5	12.2	11.4	5.0
Taiwan Province of China	6.3	0.7	0.5	1.3	4.4	4.2	3.6	4.5	2.9
Thailand	7.3	1.9	2.5	3.9	5.5	6.0	5.7	4.1	3.3
Vanuatu	6.7	4.8	14.7	8.4	7.5	5.0	6.5	4.1	4.4
Viet Nam	37.0	487.2	316.7	394.0	35.0	67.0	68.1	17.5	5.3
Western Samoa	13.9	5.8	4.6	8.5	6.4	15.2	-1.3	8.5	1.7
Middle East and Europe	20.0	20.0	22.4	26.2	22.0	24.6	24.7	24.2	24.4
Bahrain	8.0	-2.5	-1.7	0.2	1.2	1.3	0.8	1.0	0.9
Cyprus	7.5	1.2	2.8	3.4	3.8	4.5	5.0	6.5	4.9
Egypt	13.4	23.9	19.7	18.0	19.3	19.2	20.4	15.7	10.3
Iran, Islamic Republic of	15.9	23.7	27.7	28.9	17.4	9.0	19.6	21.6	27.5
Iraq	15.3	20.0	18.0	15.0	15.0	50.0	50.0	50.0	75.0
Israel	118.4	48.1	19.9	16.3	20.2	17.2	19.0	12.0	10.9
Jordan	8.5	—	-0.3	7.7	25.8	16.1	8.2	4.0	4.8
Kuwait	5.1	-0.6	17.4	6.5	9.1	13.1	-26.4	1.0	-0.6
Lebanon	21.2	150.0	400.0	200.0	200.0	200.0	100.0	50.0	50.0
Libya	11.2	3.3	4.4	3.1	1.3	6.8	5.0	5.0	6.9
Malta	5.2	2.0	0.4	1.0	0.9	3.0	2.5	1.6	4.0
Oman	3.2	7.1	2.5	1.6	1.3	10.1	7.2	3.4	1.0
Qatar	8.1	1.6	4.5	4.6	3.3	3.0	4.4	3.0	3.0
Saudi Arabia	5.9	-3.2	-1.6	0.9	1.0	2.1	4.6	-0.4	2.0
Syrian Arab Republic	11.6	36.0	59.5	34.6	11.4	19.4	7.7	8.1	8.0
Turkey	43.9	34.6	38.8	75.4	63.3	60.3	66.0	70.1	65.0
United Arab Emirates	9.8	5.5	5.5	5.0	3.3	0.6	5.5	4.1	3.0
Former Yemen Arab Republic	...	29.1	20.7	13.9	19.4	14.0	...	...	...
Former Yemen, P.D. Republic of	...	0.8	2.5	0.5	—	2.1	...	...	...
Yemen, Republic of	15.5	...	...	...	...	...	44.9	62.4	50.0

Table A12 (concluded)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Western Hemisphere	67.5	86.5	124.6	245.1	363.3	480.2	136.2	165.8	236.5
Antigua and Barbuda	16.7	0.5	3.6	6.8	3.7	7.0	5.7	3.0	3.0
Argentina	251.8	90.1	131.3	343.0	3,080.5	2,314.7	171.7	24.9	10.6
Aruba	...	1.1	3.6	3.1	4.0	5.8	5.6	3.9	...
Bahamas, The	6.4	5.4	6.1	4.1	5.4	4.6	7.2	5.7	2.7
Barbados	9.4	0.2	3.6	4.8	6.2	3.0	6.3	6.1	1.1
Belize	3.8	0.8	2.0	5.2	2.1	3.0	5.6	2.8	1.8
Bolivia	188.5	276.3	14.6	16.0	15.2	17.1	21.4	12.1	7.6
Brazil	98.5	142.2	224.8	684.6	1,319.9	2,738.8	413.7	991.1	2,103.3
Chile	44.5	19.5	19.9	14.7	17.0	26.0	21.8	15.4	12.7
Colombia	23.8	18.9	23.3	28.1	25.9	29.1	30.5	27.0	22.4
Costa Rica	20.7	11.8	16.8	20.8	16.5	19.0	28.7	21.8	9.8
Dominica	10.5	2.2	4.7	2.2	6.7	2.0	6.2	5.3	3.6
Dominican Republic	13.0	9.8	15.9	44.4	45.4	59.4	53.9	4.6	4.8
Ecuador	19.5	23.0	29.5	58.2	75.7	48.4	48.8	54.6	45.0
El Salvador	13.4	31.9	25.3	19.9	17.6	24.0	14.4	11.2	18.5
Grenada	13.6	0.5	-0.8	4.0	5.6	2.8	2.6	3.8	2.6
Guatemala	9.7	36.8	12.7	11.2	11.0	40.7	33.2	10.1	13.3
Guyana	16.1	7.9	28.7	39.9	89.7	63.6	101.5	28.2	11.3
Haiti	7.9	8.5	-5.1	2.9	10.9	20.6	19.8	25.2	30.7
Honduras	8.3	4.4	2.4	4.6	9.8	23.3	33.9	8.8	10.7
Jamaica	19.2	24.4	11.2	8.2	14.3	21.9	51.0	77.3	22.1
Mexico	39.6	86.2	131.8	114.2	20.0	26.7	22.7	15.5	9.8
Netherlands Antilles	6.8	1.2	3.8	2.6	3.9	3.6	3.6	1.4	3.5
Nicaragua	37.9	681.6	911.9	14,315.8	4,709.3	7,484.9	2,945.1	23.7	20.4
Panama	4.7	-0.1	1.0	0.2	-0.2	0.8	1.3	1.8	0.5
Paraguay	15.2	31.7	21.8	23.0	26.0	38.2	24.9	15.5	18.3
Peru	74.5	77.8	85.8	667.0	3,398.6	7,481.6	409.2	73.2	48.6
St. Kitts and Nevis	11.1	—	0.9	0.2	5.1	4.2	4.2	2.9	2.0
St. Lucia	8.1	2.2	7.0	0.8	4.4	3.8	6.1	5.7	0.8
St. Vincent and the Grenadines	9.9	1.2	2.9	0.3	2.7	7.3	5.9	3.8	4.3
Suriname	9.2	18.7	53.4	7.3	2.7	19.5	26.0	43.6	143.5
Trinidad and Tobago	12.7	7.7	13.4	12.1	9.3	9.5	2.3	8.5	13.5
Uruguay	51.4	76.4	63.6	62.2	80.4	112.6	101.8	68.4	54.2
Venezuela	11.1	11.6	28.1	29.4	84.5	40.7	34.2	31.4	38.7

¹For many countries, figures for recent years are staff estimates. Data for some countries are for fiscal years.

Table A13. Countries in Transition: Consumer Prices¹*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993
Central Europe	12.8	19.3	25.1	42.3	135.5	158.2	121.9	145.1	128.0
Albania	—	—	—	—	—	—	35.5	225.9	85.0
Bulgaria	1.1	2.7	2.7	2.5	6.4	23.9	333.5	82.0	72.8
Croatia	...	...	...	...	...	...	...	...	1,516.4
Czech Republic	...	...	...	...	...	...	...	...	20.8
Former Czechoslovakia	1.8	0.5	0.1	0.2	1.4	10.8	59.0	11.0	...
Hungary	6.5	5.3	8.6	15.5	17.0	28.9	36.4	23.0	22.5
Macedonia, Former Yugoslav Rep. of	...	...	...	...	...	...	...	...	244.0
Poland	19.4	17.8	25.2	60.2	251.1	585.8	70.3	43.0	35.3
Romania	2.9	0.7	1.1	2.6	0.9	4.7	161.1	210.3	256.0
Slovak Republic	...	...	...	...	...	...	...	...	23.2
Slovenia	...	...	...	...	...	...	...	...	22.9
Former Yugoslavia	32.8	88.1	122.1	200.0	1,257.7	584.0	270.0	6,146.6	...
Former Soviet Union and Baltic countries²	1.6	2.1	1.5	0.3	2.3	5.4	98.4	1,292.4	1,226.3
Armenia	...	...	...	...	...	...	100.0	790.0	2,500.0
Azerbaijan	...	...	...	...	...	...	105.6	611.3	797.5
Belarus	...	...	...	...	...	...	83.5	969.0	1,188.0
Estonia	...	...	...	...	...	...	210.6	1,069.0	89.0
Georgia	...	...	...	...	...	...	78.5	887.5	1,480.0
Kazakhstan	...	...	...	...	...	...	147.0	2,568.0	2,146.9
Kyrgyz Republic	...	...	...	...	...	...	85.0	854.6	1,208.7
Latvia	...	...	...	...	...	...	124.4	951.2	109.0
Lithuania	...	...	...	...	...	...	224.7	1,020.3	410.4
Moldova	...	...	...	...	...	...	162.0	1,276.0	1,340.0
Russia	...	...	...	...	...	...	92.7	1,353.0	895.9
Tajikistan	...	...	...	...	...	...	111.6	1,156.7	1,869.9
Turkmenistan	...	...	...	...	...	...	102.5	492.9	1,860.0
Ukraine	...	...	...	...	...	...	91.2	1,445.3	4,927.9
Uzbekistan	...	...	...	...	...	...	105.0	528.0	761.0
Other									
Mongolia	0.2	—	—	—	—	—	208.6	321.0	183.0

¹For some countries, figures for recent years are staff estimates. The figures should be interpreted only as indicative of broad orders of magnitude because reliable, comparable data are not generally available.

²Figures for 1990 onward are weighted averages of separate estimates for the states of the former U.S.S.R. and the Baltic countries.

Table A14. Summary Financial Indicators

(In percent)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Industrial countries										
Central government fiscal balance¹										
Industrial countries	-4.3	-3.3	-2.7	-2.4	-2.8	-3.2	-4.2	-4.5	-4.1	-3.5
United States	-4.7	-3.3	-2.8	-2.3	-2.9	-3.6	-4.6	-3.5	-2.6	-2.0
European Union	-4.8	-4.2	-3.7	-3.4	-3.9	-4.2	-5.0	-6.2	-5.8	-5.3
Japan	-3.2	-2.2	-1.3	-1.2	-0.5	-0.2	-1.6	-2.6	-3.7	-3.1
Other industrial countries	-2.5	-1.5	-1.0	-0.7	-1.2	-3.0	-4.1	-5.4	-4.7	-3.9
General government fiscal balance¹										
Industrial countries	-3.5	-2.5	-1.9	-1.3	-2.1	-2.9	-3.9	-4.4	-4.2	-3.5
United States	-3.4	-2.5	-2.0	-1.5	-2.5	-3.4	-4.5	-3.5	-2.7	-2.0
European Union	-4.8	-4.2	-3.7	-3.0	-4.2	-4.7	-5.4	-6.6	-6.3	-5.7
Japan	-0.9	0.5	1.5	2.5	2.9	3.0	1.8	-0.6	-2.7	-1.3
Other industrial countries	-2.7	-1.3	-0.5	-0.2	-0.8	-3.5	-5.1	-6.2	-5.6	-4.7
Growth of broad money										
Industrial countries	8.7	7.5	8.2	8.8	7.8	4.2	3.1	3.4	...	...
United States	9.3	4.3	5.3	4.8	4.0	2.9	1.9	1.3	...	...
European Union	7.1	9.6	9.8	10.6	12.2	6.7	6.0	5.7	...	...
Japan	9.2	10.8	10.2	12.0	7.4	2.3	-0.2	2.2	...	...
Other industrial countries	9.9	9.3	10.9	10.9	6.9	3.9	2.8	3.4	...	...
Short-term interest rates²										
United States	6.0	5.8	6.7	8.1	7.5	5.4	3.4	3.0	3.9	4.8
Japan	5.0	3.9	4.0	4.7	6.9	7.0	4.1	2.7	2.0	2.7
Germany	4.6	4.0	4.3	7.1	8.4	9.2	9.5	7.2	5.2	4.1
LIBOR	6.8	7.3	8.1	9.3	8.4	6.1	3.9	3.4	4.2	5.1
Developing countries										
Central government fiscal balance¹										
Weighted average	-6.0	-6.0	-5.6	-4.9	-3.5	-3.3	-3.4	-3.5	-3.2	-2.9
Median	-5.4	-5.6	-5.9	-4.8	-4.4	-4.5	-3.9	-4.3	-4.1	-3.0
Growth of broad money										
Weighted average	33.7	45.1	66.9	81.0	77.5	54.0	71.9	68.7	41.8	17.4
Median	18.2	16.0	18.2	16.6	17.0	16.7	15.3	13.7	12.0	10.1
Countries in transition										
Central government fiscal balance ^{1,3}	-2.4	-2.3	-2.4	-2.6	-4.8	-10.2	-10.7	-8.3	-5.8	-4.3
Growth of broad money	10.3	18.0	22.2	32.4	22.1	125.9	602.1	352.1	...	...

¹In percent of GDP.²For the United States, three-month treasury bills; for Japan, three-month certificates of deposit; for Germany, three-month interbank deposits; for LIBOR, London interbank offered rate on six-month U.S. dollar deposits.³Due to country differences in definition and coverage, the estimates for this group of countries should be interpreted only as indicative of broad orders of magnitude. In particular, estimates for several countries in the former U.S.S.R. group apply to a wider concept of government.

Table A15. Major Industrial Countries: Central Government Fiscal Balances*(In percent of GDP)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Fiscal balance										
United States ¹	-4.7	-3.3	-2.8	-2.3	-2.9	-3.6	-4.6	-3.5	-2.6	-2.0
Japan ²	-3.2	-2.2	-1.3	-1.2	-0.5	-0.2	-1.6	-2.6	-3.7	-3.1
Germany ^{3,4}	-1.2	-1.4	-1.7	-0.9	-1.8	-1.9	-1.3	-2.2	-2.3	-2.5
France ⁴	-2.8	-2.2	-2.0	-1.6	-1.4	-2.0	-3.2	-4.5	-4.4	-4.1
Italy ⁵	-12.4	-11.8	-11.8	-11.4	-11.1	-11.1	-11.1	-10.5	-10.2	-8.9
United Kingdom ⁶	-2.1	-1.1	1.1	1.2	-1.1	-2.4	-6.9	-9.2	-7.9	-6.8
Canada ⁶	-4.7	-3.8	-3.2	-3.2	-3.8	-4.5	-3.8	-4.3	-3.6	-2.8
Seven countries above	-4.4	-3.4	-2.8	-2.4	-2.8	-3.2	-4.2	-4.3	-3.9	-3.3
Seven countries except the United States	-4.0	-3.4	-2.8	-2.5	-2.7	-2.9	-4.0	-4.9	-5.0	-4.4
Four European countries	-4.4	-4.0	-3.5	-3.0	-3.7	-4.2	-5.3	-6.2	-5.9	-5.3

¹Data are on a budget basis.²Data are on a national income basis and exclude social security transactions.³Data through June 1990 apply to west Germany only.⁴Data are on an administrative basis and exclude social security transactions.⁵Data refer to the state sector and cover the transactions of the state budget as well as those of several autonomous entities operating at the same level; data do not include the gross transactions of social security institutions, only their deficits. Includes imputed interest due on tax refund liabilities not replaced by government bonds.⁶Data are on a national income accounts basis.

Table A16. Major Industrial Countries: General Government Fiscal Balances and Impulses¹*(In percent of GDP)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Fiscal balance										
United States	-3.4	-2.5	-2.0	-1.5	-2.5	-3.4	-4.5	-3.5	-2.7	-2.0
Japan	-0.9	0.5	1.5	2.5	2.9	3.0	1.8	-0.6	-2.7	-1.3
Germany ²	-1.3	-1.9	-2.1	0.1	-1.9	-3.2	-2.6	-3.3	-3.2	-3.1
France ³	-2.7	-1.9	-1.7	-1.3	-1.5	-2.1	-3.9	-5.6	-5.8	-5.1
Italy ⁴	-11.9	-11.2	-11.1	-10.3	-11.4	-10.7	-10.0	-10.0	-9.9	-9.0
United Kingdom ⁵	-2.4	-1.4	1.0	0.9	-1.2	-2.7	-6.3	-8.7	-7.4	-6.2
Canada	-5.4	-3.8	-2.5	-2.9	-4.1	-6.3	-6.6	-6.8	-6.1	-4.7
Seven countries above	-3.4	-2.5	-1.9	-1.2	-2.0	-2.7	-3.7	-4.1	-4.0	-3.2
Seven countries except the United States	-3.4	-2.6	-1.8	-0.9	-1.7	-2.2	-3.1	-4.6	-5.1	-4.2
Four European countries	-4.4	-4.0	-3.4	-2.5	-3.8	-4.6	-5.5	-6.6	-6.3	-5.7
<i>+ Expansionary, - contractionary</i>										
Fiscal impulse⁶										
United States ⁷	0.5	-0.6	—	-0.5	0.7	0.5	—	-0.8	—	-0.6
Japan ⁷	—	-1.3	-0.4	-0.9	—	—	0.6	1.5	1.5	-1.4
Germany ^{2,7}	—	—	0.8	-1.7	...	0.7	-1.5	-1.3	-0.5	—
France ⁷	—	-0.9	0.7	0.5	—	—	1.1	—	-0.4	-0.6
Italy	-0.7	—	0.8	-0.5	1.0	-1.2	-1.3	-1.9	-0.6	-0.5
United Kingdom	0.4	—	-1.0	—	1.1	-0.4	1.8	2.3	-1.0	-0.8
Canada	-1.1	-0.8	—	—	—	-0.5	-0.6	—	—	-0.7
Seven countries above	—	-0.6	—	-0.5	0.5	—	—	—	—	-0.7
Seven countries except the United States	—	-0.6	—	-0.5	—	—	—	—	—	-0.8
Four European countries	—	—	—	-0.4	0.5	—	—	—	-0.6	-0.5
Memorandum										
Fiscal balance excluding social security transactions										
United States	-5.1	-4.3	-4.2	-3.8	-4.7	-5.3	-6.0	-5.1	-4.7	-4.2
Japan	-3.9	-2.3	-1.6	-0.7	-0.6	-0.7	-2.0	-4.4	-6.4	-4.8
Germany	-1.8	-2.2	-2.2	-0.6	-2.6	-4.0	-2.7	-3.7	-3.8	-3.7
France	-2.4	-2.1	-1.9	-1.5	-1.4	-2.0	-3.5	-4.7	-5.1	-4.6
Italy	-7.7	-7.2	-6.5	-5.7	-6.1	-5.9	-5.0	-5.2	-5.3	-5.0
Canada	-4.0	-2.2	-0.9	-1.3	-2.5	-4.5	-4.7	-4.6	-4.1	-2.7

¹On a national income accounts basis.²Data through 1990 apply to west Germany only.³Adjusted for valuation changes of the foreign exchange stabilization fund.⁴Includes imputed interest due on tax refund liabilities not replaced by government bonds.⁵Excludes asset sales.⁶For a definition of the fiscal impulse measure, see *The New Palgrave Dictionary of Money and Finance*, edited by Peter Newman, Murray Milgate, and John Eatwell (London: Macmillan, 1992; New York: Stockton, 1992). Impulse estimates equal to or less than ± 0.3 percent of GDP are indicated by "—".⁷For relevant years, the fiscal impulse is calculated on the basis of data adjusted for net international financial transfers related to the 1990–91 regional conflict in the Middle East.

Table A17. Industrial Countries: Monetary Aggregates*(Annual percent change)¹*

	1986	1987	1988	1989	1990	1991	1992	1993
Narrow money²								
United States	15.5	6.3	4.3	0.6	4.2	7.9	14.3	10.5
Japan	10.4	4.8	8.6	2.4	4.5	9.5	3.9	7.0
Germany ³	6.0	7.4	10.9	5.6	29.6	3.4	10.8	8.5
France	6.9	4.1	3.9	7.6	3.7	-4.7	-0.1	-0.6
Italy	7.2	7.8	7.3	10.3	6.6	10.5	0.6	7.5
United Kingdom	4.0	4.8	6.8	5.7	5.2	2.4	2.3	4.8
Canada	6.5	8.2	7.5	3.2	-1.2	5.2	5.4	13.9
Other industrial countries	9.9	12.9	13.5	9.1	9.4	6.8	6.4	5.7
All industrial countries	11.4	6.9	7.2	3.9	7.1	6.5	7.9	7.7
Seven countries above	11.6	6.1	6.2	3.1	6.7	6.5	8.2	8.0
European Union	6.9	6.9	8.6	7.9	13.1	4.1	4.5	5.1
Broad money⁴								
United States	9.3	4.3	5.3	4.8	4.0	2.9	1.9	1.3
Japan	9.2	10.8	10.2	12.0	7.4	2.3	-0.2	2.2
Germany ³	4.0	5.9	6.9	5.5	19.7	6.3	7.6	10.9
France	6.6	9.9	8.4	9.5	9.0	2.7	5.5	-1.5
Italy	-1.7	7.2	7.6	9.9	8.1	9.1	4.5	7.9
United Kingdom	16.0	16.0	17.3	18.8	12.1	6.0	3.5	4.9
Canada	10.9	7.1	12.6	14.4	8.1	4.8	3.1	3.5
Other industrial countries	10.1	10.6	10.1	10.5	7.9	6.5	5.2	4.0
All industrial countries	8.7	7.5	8.2	8.8	7.8	4.2	3.1	3.4
Seven countries above	8.5	7.0	7.9	8.5	7.7	3.8	2.7	3.3
European Union	7.1	9.6	9.8	10.6	12.2	6.7	6.0	5.7

¹Based on end-of-period data.²M1 except for the United Kingdom, where M0 is used here as a measure of narrow money; it comprises notes in circulation plus bankers' operational deposits. M1 is generally currency in circulation plus private demand deposits. In addition, the United States includes traveler's checks of nonbank issues and other checkable deposits and excludes private sector float and demand deposits of banks. Japan includes government demand deposits and excludes float. Germany includes demand deposits at fixed interest rates. Canada excludes private sector float.³Data through 1989 apply to west Germany only. The growth rates for the monetary aggregates in 1990 are affected by the extension of the currency area.⁴M2, defined as M1 plus quasi-money, except for Japan, Germany, and the United Kingdom, for which the data are based on M2 plus certificates of deposit (CDs), M3, and M4, respectively. Quasi-money is essentially private term deposits and other notice deposits. The United States also includes money market mutual fund balances, money market deposit accounts, overnight repurchase agreements, and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks. For Japan, M2 plus CDs is currency in circulation plus total private and public sector deposits and installments of Sogo Banks plus CDs. For Germany, M3 is M1 plus private time deposits with maturities of less than four years plus savings deposits at statutory notice. For the United Kingdom, M4 is composed of non-interest-bearing M1, private sector interest-bearing sterling sight bank deposits, private sector sterling time bank deposits, private sector holdings of sterling bank CDs, private sector holdings of building society shares and deposits, and sterling CDs less building society holdings of bank deposits and bank CDs, and notes and coins.

Table A18. Industrial Countries: Interest Rates*(In percent a year)*

	1986	1987	1988	1989	1990	1991	1992	1993	March 1994
Short-term interest rate¹									
United States	6.5	6.9	7.7	9.1	8.2	5.8	3.7	3.2	3.8
Japan	5.0	4.1	4.4	5.3	7.6	7.2	4.3	2.8	2.1
Germany	4.6	4.0	4.2	7.1	8.4	9.2	9.5	7.2	5.8
France	7.7	8.2	7.9	9.3	10.3	9.7	10.4	8.4	6.2
Italy	11.9	11.1	11.2	12.7	12.3	12.7	14.5	10.5	8.9
United Kingdom	10.9	9.7	10.3	13.9	14.8	11.5	9.6	5.9	5.2
Canada	9.2	8.4	9.6	12.2	13.0	9.0	6.7	5.0	4.6
Other industrial countries	10.1	9.4	9.0	10.8	11.4	10.7	10.4	8.1	6.4
All industrial countries	7.3	6.7	7.1	8.8	9.2	8.0	6.7	5.1	4.5
Seven countries above	6.9	6.7	7.2	8.7	9.2	7.8	6.3	4.8	4.3
European Union	8.7	8.2	8.3	10.3	11.1	10.7	11.0	8.2	6.2
Long-term interest rate²									
United States	7.7	8.4	8.8	8.5	8.6	7.9	7.0	5.9	6.5
Japan	5.3	5.0	4.8	5.1	7.0	6.3	5.1	4.0	4.0
Germany	6.1	6.2	6.5	7.0	8.7	8.5	7.9	6.5	6.5
France	8.6	9.4	9.1	8.8	10.0	9.0	8.6	6.9	6.6
Italy ³	12.2	11.6	12.0	13.3	13.6	13.1	13.1	11.3	9.3
United Kingdom	10.1	9.6	9.7	10.2	11.8	10.1	9.1	7.5	7.3
Canada	9.5	9.9	10.2	9.9	10.8	9.8	8.8	7.9	7.8
Other industrial countries	10.1	10.4	9.9	10.7	11.7	10.2	9.8	8.0	6.8
All industrial countries	8.1	8.4	8.4	8.6	9.5	8.6	7.9	6.5	6.2
Seven countries above	7.7	8.0	8.1	8.1	9.0	8.3	7.5	6.2	6.2
European Union	9.1	9.2	9.1	9.8	11.0	10.2	9.8	8.1	7.0

¹Interest rate on the following instruments: United States, three-month certificates of deposit (CDs) in secondary markets; Japan, from July 1984, three-month CDs (through June 1984, three-month Gensaki rate); Germany, France, and the United Kingdom, three-month interbank deposits; Italy, three-month treasury bills; and Canada, three-month prime corporate paper.

²For the United States, yield on ten-year treasury bonds; for Japan, over-the-counter sales yield on ten-year government bonds with longest residual maturity; for Germany, yield on government bonds with maturities of nine to ten years; for France, long-term (seven- to ten-year) government bond yield (Emprunts d'Etat à long terme TME); for Italy, secondary market yield on fixed-coupon (BTP) government bonds with two to four years' residual maturity; for the United Kingdom, yield on medium-dated (ten-year) government stock; and for Canada, average yield on government bonds with residual maturities of over ten years.

³March 1994 data refer to yield on ten-year government bonds.

Table A19. Developing Countries: Central Government Fiscal Balances

(In percent of GDP)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries	-6.0	-6.0	-5.6	-4.9	-3.5	-3.3	-3.4	-3.5	-3.2	-2.9
By region										
Africa	-5.2	-7.4	-8.0	-5.2	-3.6	-5.0	-7.2	-10.6	-8.4	-8.4
Asia	-4.2	-3.4	-3.3	-3.3	-2.9	-2.7	-2.8	-2.9	-2.6	-2.2
Middle East and Europe	-13.8	-12.5	-12.9	-9.8	-10.6	-11.4	-7.4	-6.4	-6.4	-6.4
Western Hemisphere	-5.6	-6.8	-5.3	-5.4	-0.8	0.2	-0.9	-0.1	-0.3	-0.2
Sub-Saharan Africa	-6.8	-9.9	-8.7	-7.3	-8.2	-8.9	-10.1	-13.2	-12.1	-12.7
Four newly industrializing Asian economies	-0.3	0.9	2.5	1.8	1.3	-0.1	0.3	-0.1	—	0.2
By predominant export										
Fuel	-10.1	-10.1	-9.9	-5.5	-4.2	-4.3	-3.4	-3.1	-2.6	-1.9
Nonfuel exports	-4.7	-4.7	-4.3	-4.7	-3.3	-3.1	-3.4	-3.6	-3.3	-3.2
Manufactures	-3.4	-3.6	-3.0	-3.9	-2.1	-2.1	-2.7	-2.7	-2.4	-2.1
Primary products	-4.4	-5.6	-5.7	-5.7	-4.2	-4.0	-4.1	-4.8	-4.7	-4.8
Agricultural products	-4.3	-4.9	-6.1	-7.0	-4.2	-3.5	-4.1	-3.2	-3.1	-2.7
Minerals	-4.6	-7.5	-4.6	-2.0	-4.1	-5.9	-4.0	-10.2	-10.3	-11.8
Services and private transfers	-12.2	-10.9	-11.0	-10.7	-11.0	-8.6	-7.6	-7.7	-7.8	-9.1
Diversified export base	-6.3	-5.2	-4.8	-3.7	-2.8	-3.3	-3.6	-4.8	-3.9	-3.5
By financial criteria										
Net creditor countries	-9.1	-8.5	-7.4	-2.1	-6.2	-10.9	-6.1	-3.5	-3.6	-1.9
Net debtor countries	-5.8	-5.8	-5.5	-5.1	-3.3	-2.8	-3.2	-3.5	-3.1	-3.0
Market borrowers	-4.0	-4.3	-3.3	-3.2	-0.7	-0.4	-1.2	-1.1	-1.3	-1.2
Diversified borrowers	-7.5	-6.5	-7.1	-6.9	-5.4	-4.7	-4.6	-5.5	-4.7	-4.4
Official borrowers	-8.6	-9.8	-10.1	-8.2	-8.1	-7.5	-7.8	-9.0	-7.1	-7.0
Countries with recent debt-servicing difficulties	-7.8	-8.9	-8.4	-7.4	-3.8	-2.8	-3.5	-3.7	-2.9	-2.9
Countries without debt-servicing difficulties	-4.2	-3.4	-3.4	-3.4	-2.9	-2.7	-3.0	-3.4	-3.2	-3.0
Other groups										
Small low-income economies	-7.7	-8.7	-9.1	-7.4	-7.9	-7.8	-8.2	-9.2	-8.4	-8.5
Least developed countries	-8.3	-10.8	-11.2	-8.9	-9.7	-9.1	-10.1	-12.5	-12.7	-13.8
Fifteen heavily indebted countries	-5.3	-6.6	-5.4	-5.1	-1.0	-0.5	-1.8	-1.4	-0.8	-0.7
Memorandum										
Median										
Developing countries	-5.4	-5.6	-5.9	-4.8	-4.4	-4.5	-3.9	-4.3	-4.1	-3.0
By region										
Africa	-6.7	-7.2	-6.8	-6.4	-6.0	-6.0	-5.1	-6.2	-5.5	-4.4
Asia	-5.1	-4.0	-2.4	-3.2	-4.4	-4.6	-4.2	-4.7	-4.7	-3.4
Middle East and Europe	-15.0	-11.9	-9.1	-5.3	-5.8	-7.2	-5.6	-4.7	-4.6	-3.8
Western Hemisphere	-2.3	-2.9	-4.4	-4.4	-2.3	-2.0	-2.0	-1.8	-1.5	-1.0

Table A20. Developing Countries: Broad Money Aggregates*(Annual percent change)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries	33.7	45.1	66.9	81.0	77.5	54.0	71.9	68.7	41.8	17.4
By region										
Africa	11.3	18.3	23.3	16.5	17.0	26.7	31.9	22.9	17.4	15.6
Asia	24.9	25.6	23.8	23.0	20.7	21.7	20.6	18.5	16.3	15.6
Middle East and Europe	17.8	16.4	18.7	19.8	20.3	9.0	39.4	27.6	29.2	30.4
Western Hemisphere	77.9	131.5	288.0	456.7	443.1	224.1	289.4	299.2	116.9	13.2
Sub-Saharan Africa	25.5	20.7	22.7	22.2	18.8	42.8	54.5	33.2	24.6	21.4
Four newly industrializing Asian economies	21.6	23.2	20.0	18.8	15.8	19.2	15.4	15.6	14.2	14.2
By predominant export										
Fuel	21.6	29.8	26.8	23.4	24.0	22.8	20.3	23.8	18.2	16.2
Nonfuel exports	40.7	53.8	90.8	114.4	106.9	70.2	103.9	93.6	52.4	17.8
Manufactures	41.8	57.0	98.2	106.5	107.9	81.7	148.4	141.6	74.1	18.3
Primary products	66.9	94.3	176.7	350.4	273.0	87.3	54.5	38.6	24.6	19.4
Agricultural products	70.2	101.4	178.3	362.7	227.9	75.5	49.4	37.4	23.1	18.6
Minerals	53.1	64.7	169.7	301.2	501.2	135.5	74.8	43.6	31.4	23.3
Services and private transfers	23.5	16.2	12.6	18.4	22.2	23.7	23.9	21.8	21.7	22.2
Diversified export base	11.2	12.5	19.7	20.6	15.1	14.9	11.7	10.5	10.4	9.7
By financial criteria										
Net creditor countries	12.7	14.6	15.5	13.7	15.5	19.5	18.6	20.2	13.9	9.5
Net debtor countries	38.2	51.9	80.1	100.4	96.2	64.1	90.9	83.6	48.1	18.5
Market borrowers	50.9	76.3	127.6	176.5	168.6	106.0	130.5	135.0	63.9	14.6
Diversified borrowers	21.0	19.6	26.5	27.7	19.0	8.7	43.2	22.1	27.9	27.2
Official borrowers	29.5	38.9	50.9	39.3	42.2	34.6	38.5	27.7	21.0	20.0
Countries with recent debt-servicing difficulties	54.2	88.9	165.1	235.7	234.2	142.2	181.3	182.6	80.9	17.3
Countries without debt-servicing difficulties	23.3	21.5	22.5	22.5	21.3	15.6	33.5	21.9	22.3	19.6
Other groups										
Small low-income economies	46.2	60.2	37.5	39.5	29.0	43.3	49.4	33.3	25.4	23.7
Least developed countries	28.0	25.4	30.0	30.6	27.7	48.0	57.2	37.8	28.2	25.4
Fifteen heavily indebted countries	67.9	118.8	244.8	452.3	354.3	200.7	339.9	267.0	107.9	13.2
Memorandum										
Median										
Developing countries	18.2	16.0	18.2	16.6	17.0	16.7	15.3	13.7	12.0	10.1
By region										
Africa	13.4	13.9	15.0	13.4	11.8	13.8	12.9	10.8	9.8	10.0
Asia	18.4	18.7	18.2	19.8	17.5	19.7	15.2	16.5	14.6	14.0
Middle East and Europe	10.5	9.7	9.1	11.3	15.0	13.8	10.7	10.3	10.8	9.7
Western Hemisphere	23.5	19.5	22.9	17.4	27.5	30.9	19.9	13.8	10.3	9.8

Table A21. Summary of World Trade Volumes and Prices*(Annual percent change)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
World trade¹											
Volume	4.0	4.8	6.1	9.2	6.4	4.6	2.4	4.5	2.4	5.8	6.3
Unit value											
In U.S. dollars	4.1	4.6	10.7	5.1	1.7	8.3	-1.0	1.6	-3.7	0.3	2.1
In SDRs	5.9	-9.5	0.4	1.1	6.6	2.3	-1.8	-1.3	-2.9	0.4	2.1
World trade prices²											
Manufactures	3.4	18.3	12.3	6.3	-0.2	9.3	-0.7	3.7	-4.2	2.1	1.6
Oil	...	-48.8	28.7	-20.4	21.5	28.3	-17.0	-0.5	-11.5	-14.7	5.9
Nonfuel primary commodities	2.0	-3.7	8.3	22.8	-0.5	-7.8	-4.4	-0.1	-3.8	6.0	2.1
Volume of trade											
Exports											
Industrial countries	4.9	2.8	4.6	8.4	6.5	5.8	2.9	4.1	0.4	4.0	4.4
Developing countries	0.9	8.6	10.5	13.4	6.1	6.2	7.2	7.8	8.6	9.6	9.2
Fuel exporters	-4.2	11.9	-1.3	14.6	8.2	4.5	1.5	3.7	5.1	9.3	5.3
Nonfuel exporters	6.7	7.2	15.6	12.8	5.4	7.0	9.4	9.3	9.7	9.6	10.5
Imports											
Industrial countries	5.1	8.5	6.8	8.6	7.1	4.8	2.0	4.5	-0.2	5.4	5.2
Developing countries	3.8	-1.6	6.6	12.8	6.6	7.1	9.8	10.2	8.7	7.2	9.2
Fuel exporters	2.7	-18.3	-6.7	10.1	7.3	3.6	7.9	7.9	-1.0	2.5	7.6
Nonfuel exporters	4.2	5.8	11.1	13.6	6.4	8.1	10.3	10.9	11.4	8.4	9.6
Unit value of trade in SDRs											
Exports											
Industrial countries	5.0	-1.7	1.4	2.2	5.4	2.7	-2.0	-0.6	-3.6	0.3	1.6
Developing countries	9.0	-26.9	1.5	-1.2	11.1	1.0	-2.9	-1.3	-0.5	0.5	3.2
Fuel exporters	10.7	-48.7	9.3	-13.4	18.9	13.2	-9.6	-0.6	-1.8	-2.4	7.0
Nonfuel exporters	6.5	-12.7	-1.7	3.5	8.6	-3.4	-0.2	-1.6	-0.1	1.4	2.1
Imports											
Industrial countries	5.2	-9.7	0.4	0.8	6.2	3.4	-3.2	-2.3	-5.0	-0.7	1.9
Developing countries	6.5	-12.4	-1.3	3.2	8.8	-1.1	0.4	-1.1	1.3	2.4	2.5
Fuel exporters	5.6	-4.2	-1.9	3.6	6.5	1.8	3.5	1.0	1.9	4.1	4.4
Nonfuel exporters	6.9	-15.6	-1.0	3.0	9.4	-1.8	-0.4	-1.7	1.1	2.0	2.1
Terms of trade											
Industrial countries	-0.2	8.8	1.1	1.4	-0.7	-0.6	1.2	1.8	1.4	1.0	-0.3
Developing countries	2.4	-16.5	2.7	-4.3	2.1	2.1	-3.3	-0.2	-1.8	-1.8	0.6
Fuel exporters	4.9	-46.5	11.5	-16.4	11.6	11.1	-12.6	-1.6	-3.6	-6.2	2.5
Nonfuel exporters	-0.3	3.4	-0.6	0.4	-0.7	-1.6	0.1	0.2	-1.2	-0.6	—

¹ Average of annual percent change for world exports and imports. The estimates of world trade comprise, in addition to trade of industrial and developing countries (which is summarized in the table), trade of countries in transition, except that trade among the states of the former U.S.S.R. is not included.

² In U.S. dollars. As represented, respectively, by the export unit value index for the manufactures of the industrial countries; the average of U.K. Brent, Dubai, and Alaska North Slope crude oil spot prices; and the average of world market prices for nonfuel primary commodities weighted by their 1979-81 shares in world commodity exports.

Table A22. Industrial Countries: Export Volumes, Import Volumes, and Terms of Trade¹*(Annual percent change)*

	Average 1976–85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Export volume											
United States	2.3	6.0	8.3	20.7	10.8	7.6	7.7	6.9	5.2	7.8	4.4
Japan	8.5	-0.6	0.4	4.4	4.2	5.8	2.4	1.6	-1.0	-1.1	1.8
Germany ²	5.6	1.3	2.9	6.8	7.9	4.5	1.2	1.5	-10.3	4.4	3.5
France	5.2	0.3	3.8	8.1	8.2	4.8	4.2	5.1	-4.5	2.8	6.0
Italy	4.9	3.8	3.3	4.9	9.2	3.3	0.1	3.9	8.8	3.8	5.2
United Kingdom	4.4	4.2	5.9	2.1	5.8	6.2	1.2	2.2	3.0	1.7	5.6
Canada	7.1	4.6	3.6	9.3	1.2	5.1	0.9	8.8	10.1	6.9	4.3
Other industrial countries	4.9	2.7	6.8	6.7	4.6	6.7	3.1	4.5	1.4	4.2	5.5
All industrial countries	4.9	2.8	4.6	8.4	6.5	5.8	2.9	4.1	0.4	4.0	4.4
Seven countries above European Union	4.9	2.9	3.8	9.0	7.2	5.5	2.8	4.0	—	3.9	4.1
	5.0	2.9	4.8	6.5	7.1	5.4	2.1	3.5	-1.8	3.6	5.0
Import volume											
United States	8.3	9.8	3.5	4.1	3.9	1.9	0.7	11.0	12.7	9.1	6.1
Japan	2.8	9.7	9.0	16.7	7.9	5.6	3.8	-0.7	4.0	7.2	7.1
Germany ²	4.3	6.1	5.5	6.5	7.2	12.8	13.7	2.1	-12.9	1.0	3.4
France	4.8	10.2	8.2	9.0	7.0	5.4	3.1	1.2	-10.4	2.5	4.4
Italy	4.5	7.6	11.3	6.4	8.5	4.5	4.5	3.5	-7.7	1.5	5.5
United Kingdom	4.1	7.4	7.7	13.5	8.2	0.1	-5.3	6.6	4.2	5.9	5.0
Canada	6.6	8.1	6.2	14.2	5.4	-0.1	2.6	6.5	10.3	6.6	3.2
Other industrial countries	3.8	8.1	9.5	8.0	7.8	5.0	1.2	3.1	-2.8	4.4	5.3
All industrial countries	5.1	8.5	6.8	8.6	7.1	4.8	2.0	4.5	-0.2	5.4	5.2
Seven countries above European Union	5.6	8.7	5.9	8.7	6.9	4.7	2.4	5.0	0.7	5.7	5.2
	4.3	8.4	9.1	8.7	7.7	6.8	4.5	3.7	-7.1	3.2	4.8
Terms of trade											
United States	0.4	-1.6	-3.7	1.2	-0.7	-2.5	1.7	0.3	1.2	-0.7	-0.7
Japan	-1.9	34.7	0.6	3.1	-4.4	-6.6	10.2	7.3	8.2	8.8	-1.0
Germany ²	-1.6	15.1	3.7	—	-2.7	1.5	-2.3	2.5	2.3	-0.1	—
France	-0.8	12.8	0.6	1.1	-1.6	0.1	0.6	1.1	-1.2	-1.2	-0.4
Italy	-0.8	16.7	2.7	0.8	-1.2	2.9	3.7	1.4	-3.7	-0.1	-0.6
United Kingdom	0.9	-5.1	0.4	0.5	2.1	0.9	0.9	1.9	2.4	2.6	-0.5
Canada	1.1	-2.8	3.2	1.8	1.8	-2.7	-1.4	0.2	1.0	1.9	-0.1
Other industrial countries	0.1	4.7	1.1	1.6	1.0	0.1	-0.8	0.3	-1.1	—	—
All industrial countries	-0.2	8.8	1.1	1.4	-0.7	-0.6	1.2	1.8	1.4	1.0	-0.3
Seven countries above European Union	-0.4	10.3	1.0	1.3	-1.4	-0.8	1.9	2.3	2.3	1.4	-0.5
	-0.4	10.1	1.9	0.5	-1.0	1.1	—	1.8	0.1	0.1	-0.3
Memorandum											
Non-oil trade											
Industrial countries											
Export volume	4.1	5.2	6.3	8.5	6.3	7.0	2.7	4.3	-1.0	3.8	4.4
Import volume	6.4	11.0	8.8	8.9	6.4	6.5	3.1	4.5	-1.1	5.1	5.3
Terms of trade	1.2	2.5	1.1	0.1	0.1	0.5	0.6	1.3	1.5	0.3	-0.1

¹Merchandise trade based on balance of payments or trade returns data.²Data through June 1990 apply to west Germany only.

Table A23. Developing Countries—By Region: Merchandise Trade

(Annual percent change)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries											
Value in U.S. dollars											
Exports	8.1	-8.2	23.5	16.4	12.4	13.5	5.0	9.5	7.0	10.0	12.7
Imports	8.5	-0.5	16.1	21.0	10.6	12.2	11.2	12.2	9.1	9.7	11.9
Volume											
Exports	0.9	8.6	10.5	13.4	6.1	6.2	7.2	7.8	8.6	9.6	9.2
Imports	3.8	-1.6	6.6	12.8	6.6	7.1	9.8	10.2	8.7	7.2	9.2
Unit value in U.S. dollars											
Exports	7.1	-15.5	11.8	2.6	5.9	6.9	-2.1	1.6	-1.4	0.4	3.2
Imports	4.6	1.2	8.8	7.2	3.7	4.7	1.3	1.8	0.4	2.3	2.5
Terms of trade	2.4	-16.5	2.7	-4.3	2.1	2.1	-3.3	-0.2	-1.8	-1.8	0.6
Memorandum											
Real GDP growth in developing country trading partners	4.3	4.2	5.2	5.5	3.9	3.6	2.4	3.0	3.0	3.5	3.7
Market prices of nonfuel commodities exported by developing countries	2.7	-0.9	3.4	17.2	-2.2	-7.2	-3.2	-2.2	-4.2	5.7	2.9
By region											
Africa											
Value in U.S. dollars											
Exports	6.3	-13.1	13.5	2.4	7.9	17.1	-3.8	-1.6	-2.9	1.0	8.2
Imports	4.0	0.1	7.0	12.4	5.4	8.3	-1.6	5.6	-1.5	-2.5	10.9
Volume											
Exports	0.5	0.6	0.8	3.8	5.8	6.0	0.6	-0.6	3.5	-0.1	3.0
Imports	-0.4	-7.4	-3.1	6.6	3.8	1.0	-2.9	3.9	0.4	-6.5	7.7
Unit value in U.S. dollars											
Exports	5.7	-13.6	12.6	-1.3	2.0	10.5	-4.4	-1.0	-6.2	1.1	5.0
Imports	4.4	8.0	10.4	5.4	1.5	7.3	1.4	1.7	-1.8	4.3	3.0
Terms of trade	1.2	-20.0	2.0	-6.4	0.5	3.0	-5.7	-2.6	-4.5	-3.1	2.0
Asia											
Value in U.S. dollars											
Exports	14.2	10.2	29.6	24.7	11.3	10.8	14.0	13.0	10.4	12.2	13.8
Imports	13.3	3.2	23.6	30.2	13.4	12.5	14.1	12.6	12.6	12.1	13.2
Volume											
Exports	8.7	15.6	18.2	16.1	6.3	8.2	10.7	9.1	9.8	10.1	10.9
Imports	8.3	4.4	14.6	21.3	9.2	8.4	11.9	11.0	11.2	9.4	10.3
Unit value in U.S. dollars											
Exports	5.0	-4.6	9.7	7.4	4.7	2.5	3.0	3.6	0.5	1.9	2.5
Imports	4.7	-1.2	7.9	7.4	3.9	3.8	1.9	1.5	1.2	2.4	2.7
Terms of trade	0.4	-3.5	1.7	—	0.8	-1.3	1.0	2.1	-0.7	-0.6	-0.1

Table A23 (concluded)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Middle East and Europe											
Value in U.S. dollars											
Exports	2.4	-29.2	25.1	2.7	20.8	22.8	-9.4	8.1	1.9	7.7	11.7
Imports	7.5	-9.0	7.3	6.5	7.6	13.3	5.3	7.6	3.4	6.6	9.9
Volume											
Exports	-6.1	13.1	0.4	14.9	7.2	1.6	2.2	8.8	7.1	14.2	6.4
Imports	3.5	-12.6	-2.2	-0.9	3.5	6.0	4.6	4.6	4.1	5.3	7.5
Unit value in U.S. dollars											
Exports	9.1	-37.4	24.5	-10.6	12.6	20.8	-11.3	-0.7	-4.9	-5.7	4.9
Imports	3.9	4.1	9.8	7.5	3.9	6.9	0.6	2.8	-0.7	1.2	2.2
Terms of trade	5.0	-39.8	13.4	-16.8	8.4	13.0	-11.9	-3.4	-4.2	-6.8	2.6
Western Hemisphere											
Value in U.S. dollars											
Exports	10.0	-16.0	12.6	17.1	10.2	9.7	-1.2	4.7	5.4	8.1	11.3
Imports	4.0	2.2	12.2	15.8	7.1	12.0	16.6	20.2	7.5	9.1	9.3
Volume											
Exports	4.2	-5.4	8.8	10.1	4.7	6.2	5.1	6.7	8.0	7.3	8.1
Imports	-1.1	4.1	2.6	7.6	2.3	7.8	17.3	18.0	8.0	7.3	7.2
Unit value in U.S. dollars											
Exports	5.6	-11.2	3.5	6.3	5.3	3.3	-5.9	-1.9	-2.4	0.8	3.0
Imports	5.2	-1.8	9.3	7.6	4.7	3.9	-0.6	1.8	-0.5	1.6	1.9
Terms of trade	0.4	-9.6	-5.3	-1.2	0.6	-0.6	-5.4	-3.7	-1.9	-0.9	1.0
Sub-Saharan Africa											
Value in U.S. dollars											
Exports	5.9	1.0	7.5	2.5	6.4	7.5	-4.1	-2.9	-1.7	3.6	12.3
Imports	4.0	10.0	11.1	9.0	3.1	7.3	-0.3	2.0	-1.2	2.0	9.7
Volume											
Exports	-0.6	1.6	1.5	-2.9	8.5	7.7	-2.6	-1.3	1.6	-8.8	8.2
Imports	-2.0	0.7	-2.6	2.6	1.9	1.8	-1.9	-0.1	-1.4	-6.4	6.4
Unit value in U.S. dollars											
Exports	6.6	-0.6	5.9	5.6	-1.9	-0.2	-1.5	-1.7	-3.3	13.5	3.9
Imports	6.1	9.3	14.0	6.2	1.2	5.4	1.7	2.1	0.2	9.0	3.0
Terms of trade	0.4	-9.0	-7.1	-0.6	-3.1	-5.3	-3.1	-3.7	-3.5	4.1	0.8
Four newly industrializing Asian economies											
Value in U.S. dollars											
Exports	17.7	19.9	34.7	26.0	10.2	7.8	14.3	12.1	10.8	11.7	13.5
Imports	14.6	11.3	35.0	32.6	12.8	13.8	16.5	12.7	11.2	12.4	13.1
Volume											
Exports	11.6	21.2	21.9	16.1	3.6	6.2	12.7	11.0	11.3	10.8	11.7
Imports	8.4	17.1	24.3	23.2	8.2	12.5	16.0	12.9	9.5	9.7	10.8
Unit value in U.S. dollars											
Exports	5.4	-1.1	10.6	8.6	6.4	1.6	1.5	1.0	-0.5	0.8	1.7
Imports	5.7	-5.0	8.6	7.7	4.2	1.2	0.5	-0.2	1.6	2.5	2.1
Terms of trade	-0.3	4.1	1.8	0.8	2.1	0.4	1.0	1.1	-2.1	-1.6	-0.4

Table A24. Developing Countries—By Predominant Export: Merchandise Trade

(Annual percent change)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Fuel											
Value in U.S. dollars											
Exports	4.2	-33.7	19.0	3.2	22.7	25.2	-7.4	6.1	2.4	6.6	12.6
Imports	6.5	-9.6	0.9	18.5	9.0	11.7	12.6	12.1	—	6.5	12.3
Volume											
Exports	-4.2	11.9	-1.3	14.6	8.2	4.5	1.5	3.7	5.1	9.3	5.3
Imports	2.7	-18.3	-6.7	10.1	7.3	3.6	7.9	7.9	-1.0	2.5	7.6
Unit value in U.S. dollars											
Exports	8.8	-40.8	20.5	-10.0	13.4	19.8	-8.8	2.3	-2.6	-2.5	6.9
Imports	3.7	10.7	8.1	7.7	1.6	7.8	4.3	4.0	1.0	4.0	4.3
Terms of trade	4.9	-46.5	11.5	-16.4	11.6	11.1	-12.6	-1.6	-3.6	-6.2	2.5
Nonfuel exports											
Value in U.S. dollars											
Exports	11.6	8.1	25.3	21.3	9.2	9.4	10.0	10.7	8.6	11.0	12.7
Imports	9.4	3.1	21.2	21.6	11.0	12.3	10.8	12.2	11.6	10.5	11.9
Volume											
Exports	6.7	7.2	15.6	12.8	5.4	7.0	9.4	9.3	9.7	9.6	10.5
Imports	4.2	5.8	11.1	13.6	6.4	8.1	10.3	10.9	11.4	8.4	9.6
Unit value in U.S. dollars											
Exports	4.6	0.8	8.4	7.5	3.6	2.3	0.6	1.3	-1.0	1.3	2.0
Imports	5.0	-2.5	9.1	7.1	4.3	3.9	0.5	1.2	0.2	1.9	2.1
Terms of trade	-0.3	3.4	-0.6	0.4	-0.7	-1.6	0.1	0.2	-1.2	-0.6	—
Manufactures											
Value in U.S. dollars											
Exports	14.7	11.3	31.5	24.3	9.4	8.4	12.5	12.6	9.6	11.6	13.1
Imports	12.0	4.8	25.4	26.4	12.4	12.5	12.1	12.2	13.9	12.0	12.8
Volume											
Exports	9.8	9.5	21.0	14.9	4.4	5.8	11.0	11.3	10.6	10.6	11.5
Imports	6.4	9.2	15.0	17.0	7.8	8.9	11.8	11.8	13.2	10.1	10.6
Unit value in U.S. dollars											
Exports	4.5	1.7	8.6	8.2	4.8	2.4	1.3	1.3	-0.9	0.9	1.5
Imports	5.3	-4.0	9.1	8.1	4.3	3.3	0.3	0.3	0.6	1.7	2.0
Terms of trade	-0.8	6.0	-0.4	0.1	0.5	-0.8	1.0	0.9	-1.5	-0.8	-0.4
Primary products											
Value in U.S. dollars											
Exports	7.4	4.4	4.5	14.3	8.8	9.4	0.4	3.0	3.5	7.5	11.6
Imports	4.4	9.3	15.0	7.9	2.6	8.1	9.7	20.9	7.8	5.9	8.3
Volume											
Exports	2.2	2.9	2.1	4.2	8.6	13.0	3.7	5.0	5.0	5.3	8.1
Imports	-0.4	5.5	4.6	0.7	-1.0	3.8	9.9	18.8	7.2	3.6	6.0
Unit value in U.S. dollars											
Exports	5.1	1.5	2.4	9.7	0.2	-3.1	-3.2	-1.9	-1.4	2.2	3.2
Imports	4.8	3.5	9.9	7.2	3.6	4.1	-0.2	1.7	0.6	2.3	2.1
Terms of trade	0.3	-1.9	-6.8	2.4	-3.3	-7.0	-3.0	-3.6	-2.0	-0.1	1.0

Table A24 (concluded)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agricultural products											
Value in U.S. dollars											
Exports	7.3	6.0	-0.2	12.9	4.8	15.4	1.0	2.8	8.3	8.7	11.3
Imports	5.1	8.0	13.6	7.2	-1.0	6.6	13.8	23.7	10.2	6.3	7.8
Volume											
Exports	1.6	5.6	2.1	8.8	6.0	18.5	4.1	6.6	5.8	5.7	7.3
Imports	0.3	6.2	3.8	0.3	-4.8	2.1	13.2	21.4	9.3	3.3	5.7
Unit value in U.S. dollars											
Exports	5.7	0.3	-2.2	3.7	-1.1	-2.6	-3.0	-3.5	2.3	2.8	3.7
Imports	4.8	1.7	9.4	7.0	4.0	4.4	0.5	1.9	0.8	2.9	1.9
Terms of trade	0.8	-1.4	-10.7	-3.0	-4.9	-6.7	-3.5	-5.3	1.5	-0.1	1.8
Minerals											
Value in U.S. dollars											
Exports	7.5	1.1	15.4	17.2	16.5	-0.9	-0.6	3.4	-6.3	4.9	12.1
Imports	2.7	12.5	18.7	9.5	11.4	11.3	1.3	14.4	1.9	4.9	9.8
Volume											
Exports	3.5	-3.0	1.8	-4.0	13.3	3.3	3.0	2.0	3.0	4.0	9.9
Imports	-2.0	3.8	6.6	1.6	8.6	7.5	2.9	12.9	1.7	4.2	6.9
Unit value in U.S. dollars											
Exports	3.9	4.3	13.3	22.0	2.8	-4.1	-3.5	1.3	-9.1	0.9	2.0
Imports	4.8	8.4	11.4	7.8	2.7	3.5	-1.6	1.3	0.2	0.7	2.7
Terms of trade	-0.9	-3.8	1.8	13.2	0.2	-7.3	-1.9	—	-9.2	0.2	-0.7
Services and private transfers											
Value in U.S. dollars											
Exports	4.5	3.8	8.2	17.1	8.6	9.2	5.5	1.9	5.6	12.9	11.6
Imports	8.6	-2.9	7.0	8.5	5.0	8.3	0.5	6.4	4.2	4.5	6.9
Volume											
Exports	0.5	4.3	7.9	5.3	5.5	1.2	5.8	-2.7	4.9	10.2	5.9
Imports	4.0	-0.9	-0.4	2.0	-1.9	1.8	-1.6	-1.4	3.3	2.9	4.5
Unit value in U.S. dollars											
Exports	4.0	-0.4	0.3	11.3	3.0	7.9	-0.3	4.8	0.7	2.5	5.3
Imports	4.4	-2.0	7.5	6.3	7.1	6.3	2.1	7.9	0.8	1.6	2.3
Terms of trade	-0.4	1.6	-6.6	4.6	-3.8	1.5	-2.4	-2.8	-0.2	0.9	2.9
Diversified export base											
Value in U.S. dollars											
Exports	8.7	-0.8	21.4	13.2	8.3	15.1	6.0	7.9	6.8	9.5	11.3
Imports	5.8	-5.5	17.9	19.1	14.7	17.4	10.7	9.0	5.9	7.9	11.3
Volume											
Exports	4.1	2.6	5.3	11.6	8.7	10.2	5.6	4.3	8.6	6.6	7.2
Imports	1.5	-4.1	7.5	16.8	11.2	10.9	9.5	6.9	8.4	5.0	8.5
Unit value in U.S. dollars											
Exports	4.4	-3.3	15.3	1.4	-0.3	4.4	0.4	3.4	-1.6	2.7	3.8
Imports	4.3	-1.4	9.7	1.9	3.1	5.8	1.1	2.0	-2.3	2.8	2.6
Terms of trade	0.1	-1.9	5.2	-0.5	-3.4	-1.3	-0.7	1.4	0.8	—	1.2

Table A25. Developing Countries: Nonfuel Commodity Prices¹*(Annual percent change; U.S. dollar terms)*

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Nonfuel primary commodities	2.7	-0.9	3.4	17.2	-2.2	-7.2	-3.2	-2.2	-4.2	5.7	2.9
By commodity group											
Food	-0.4	-12.1	7.5	26.1	0.3	-6.9	1.6	-0.8	-2.5	9.2	-2.7
Beverages	6.9	16.3	-28.7	0.3	-17.0	-13.3	-6.8	-12.7	6.9	7.6	8.5
Agricultural raw materials	4.6	-0.6	32.6	5.4	-2.4	-3.5	-0.3	1.9	0.5	6.7	5.5
Minerals and metals	1.4	-8.2	14.4	37.9	5.2	-7.5	-8.6	-2.5	-15.6	-0.9	3.4
By region											
Africa	2.3	1.2	0.2	13.1	-2.0	-5.1	-6.5	-3.7	-5.9	4.4	3.5
Asia	2.5	-8.7	16.8	16.8	-2.7	-9.7	0.2	4.1	-3.8	7.5	2.8
Middle East and Europe	0.3	-7.2	15.5	13.9	2.5	-2.2	-4.3	-6.6	-6.0	5.2	2.1
Western Hemisphere	2.9	5.6	-7.4	20.4	-2.5	-7.0	-5.2	-6.3	-3.1	4.8	2.8
Sub-Saharan Africa	3.7	3.1	-0.5	11.3	-3.3	-6.4	-6.5	-3.9	-4.0	3.8	3.8
Four newly industrializing Asian economies	4.2	-17.0	17.3	10.9	-4.6	-9.6	3.2	7.5	-1.3	6.5	3.0
By predominant export											
Fuel	4.7	2.5	7.6	11.9	-6.9	-8.8	-3.1	—	-1.8	6.9	6.0
Nonfuel exports	2.3	-0.8	1.3	18.2	-1.6	-7.1	-3.8	-2.5	-4.3	5.6	2.5
Manufactures	2.2	-1.2	-4.1	12.2	-1.2	-5.1	-0.3	-2.9	-1.9	7.1	1.8
Primary products	3.0	4.1	-3.1	20.1	-1.3	-7.3	-6.8	-4.8	-5.0	3.6	2.6
Agricultural products	3.6	6.4	-11.5	11.5	-5.5	-8.3	-4.4	-7.0	1.8	6.8	3.3
Minerals	1.9	-1.3	18.0	36.2	5.1	-6.0	-9.9	-1.6	-14.2	-1.5	1.5
Services and private transfers	-0.7	5.8	0.2	22.8	-1.8	-7.7	-6.5	-9.7	-3.0	9.2	1.6
Diversified export base	1.6	-12.2	21.2	21.0	-2.7	-9.1	-1.2	4.0	-6.1	6.5	3.2
By financial criteria											
Net creditor countries	0.2	-0.4	18.6	27.3	-2.0	-6.9	-6.7	-3.8	-5.8	9.6	0.9
Net debtor countries	2.5	-0.4	2.1	17.3	-2.3	-7.4	-3.7	-2.2	-4.0	5.7	3.0
Market borrowers	2.2	-3.8	6.1	19.7	-2.0	-7.3	-3.0	-0.2	-4.0	5.8	2.1
Diversified borrowers	3.6	1.8	-1.6	13.5	-2.9	-7.5	-2.5	-2.7	-2.8	6.0	4.1
Official borrowers	1.7	3.9	-0.7	18.0	-2.1	-7.2	-7.0	-6.1	-6.1	5.0	3.2
Countries with recent debt- servicing difficulties	2.3	1.2	-0.1	19.5	-1.5	-6.4	-5.2	-4.2	-5.3	5.1	2.5
Countries without debt- servicing difficulties	2.9	-3.0	5.8	13.9	-3.7	-9.1	-1.0	1.3	-2.0	6.8	3.6
Other groups											
Small low-income economies	2.4	2.3	1.6	17.5	-0.7	-6.5	-8.0	-5.1	-6.4	4.1	2.0
Fifteen heavily indebted countries	2.6	1.6	-2.7	18.1	-2.0	-7.3	-4.3	-3.1	-4.6	5.3	2.5
Memorandum											
Average oil spot price ² In U.S. dollars a barrel	...	-48.8	28.7	-20.4	21.5	28.3	-17.0	-0.5	-11.5	-14.7	5.9
Export unit value of manufactures ³	3.4	18.3	12.3	6.3	-0.2	9.3	-0.7	3.7	-4.2	2.1	1.6

¹Averages of prices weighted by 1979-81 commodity shares in exports of developing countries or groups.²Average of U.K. Brent, Dubai, and Alaska North Slope crude oil spot prices.³For the manufactures exported by the industrial countries.

Table A26. Summary of Payments Balances on Current Account*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Industrial countries	-34.3	-67.0	-57.0	-84.1	-110.1	-32.1	-43.2	12.1	7.8	-8.0
United States	-150.2	-167.3	-127.2	-101.6	-91.9	-8.3	-66.4	-109.2	-140.3	-165.9
European Union	47.5	30.2	12.3	1.3	-15.1	-65.5	-67.8	2.4	19.1	30.4
Japan	85.8	87.0	79.6	57.2	35.8	72.9	117.6	131.4	133.4	125.7
Other industrial countries	-17.4	-16.9	-21.7	-40.9	-38.9	-31.2	-26.5	-12.4	-4.4	1.9
Developing countries	-46.9	-4.7	-24.9	-16.9	-11.6	-87.9	-67.1	-104.6	-106.2	-100.8
By region										
Africa	-10.2	-4.5	-9.8	-7.3	-3.0	-4.6	-7.5	-8.3	-4.1	-4.2
Asia	4.0	22.1	9.6	0.8	-2.7	-2.7	-4.5	-25.1	-28.3	-26.5
Middle East and Europe	-24.3	-11.9	-12.9	-1.8	—	-61.1	-20.3	-27.8	-27.1	-22.7
Western Hemisphere	-16.4	-10.4	-11.7	-8.6	-6.0	-19.6	-34.8	-43.3	-46.6	-47.4
By analytical criteria										
Fuel exporters	-36.8	-10.5	-29.1	-10.7	1.1	-76.6	-46.9	-48.5	-47.4	-43.8
Nonfuel exporters	-10.1	5.8	4.2	-6.2	-12.7	-11.4	-20.2	-56.2	-58.8	-57.0
Net creditor countries	6.0	14.8	5.6	14.3	19.3	-48.2	-8.9	-16.6	-20.1	-14.7
Net debtor countries	-52.9	-19.6	-30.5	-31.3	-30.9	-39.7	-58.2	-88.0	-86.1	-86.1
Countries with recent debt-servicing difficulties	-39.2	-23.5	-30.5	-23.3	-19.9	-29.8	-47.2	-56.0	-55.4	-55.7
Countries without debt-servicing difficulties	-13.7	4.0	-0.1	-8.0	-11.0	-9.9	-11.0	-32.0	-30.7	-30.4
Countries in transition	6.8	12.5	6.7	-4.1	-17.4	-6.0	-6.6	-6.5	-20.7	-16.7
Central Europe	—	2.1	5.9	2.8	0.3	-6.1	-1.2	-6.5	-6.5	-5.0
Former U.S.S.R.	7.8	11.4	1.8	-6.0	-17.0	0.3	-5.4	—	-14.1	-11.6
Total¹	-74.4	-59.2	-75.2	-105.2	-139.1	-126.0	-117.0	-99.0	-119.1	-125.6
In percent of sum of world exports and imports of goods and services	-1.3	-0.9	-0.9	-1.2	-1.4	-1.2	-1.1	-0.9	-1.0	-1.0
Memorandum										
Total, by selected categories¹										
Merchandise trade	-1.1	18.3	14.8	-11.6	-11.3	12.1	27.3	57.4	39.0	20.6
Services and income	-53.4	-54.1	-64.0	-67.1	-84.7	-101.7	-104.0	-114.0	-116.1	-101.5
Investment income	-60.5	-64.7	-66.1	-66.7	-76.9	-76.3	-74.9	-85.9	-86.0	-89.3
Private transfers	-0.6	0.8	-1.2	1.9	-1.3	-6.7	-4.5	-7.7	-8.8	-6.9
Official transfers	-19.5	-24.2	-24.9	-28.3	-41.8	-29.7	-35.8	-34.6	-33.2	-37.8

¹Reflects errors, omissions, and asymmetries in balance of payments statistics on current account, as well as the exclusion of data for international organizations and a limited number of countries. See "Classification of Countries" in the introduction to this Statistical Appendix.

Table A27. Industrial Countries: Balance of Payments on Current Account*(In billions of U.S. dollars or percent of GDP)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Balance on current account										
United States	-150.2	-167.3	-127.2	-101.6	-91.9	-8.3	-66.4	-109.2	-140.3	-165.9
Japan	85.8	87.0	79.6	57.2	35.8	72.9	117.6	131.4	133.4	125.7
Germany ¹	39.5	45.9	50.5	57.5	47.3	-19.9	-25.3	-21.9	-13.0	-10.6
France	0.9	-8.0	-4.8	-4.6	-9.7	-5.9	2.8	10.5	10.3	13.4
Italy	2.4	-1.6	-5.9	-11.0	-14.8	-23.3	-27.9	10.6	26.2	30.7
United Kingdom	-1.3	-8.2	-29.6	-36.9	-32.6	-13.5	-17.6	-16.0	-19.4	-19.7
Canada	-8.2	-8.7	-12.6	-19.8	-22.2	-25.3	-22.9	-19.5	-14.5	-13.8
Seven countries above	-31.0	-60.9	-49.9	-59.3	-88.2	-23.4	-39.7	-14.2	-17.3	-40.2
Spain	3.7	-0.1	-3.7	-11.5	-16.9	-16.7	-18.8	-5.0	...	...
Netherlands	5.1	3.2	5.3	8.3	10.4	7.8	7.6	8.7	...	...
Belgium-Luxembourg	3.1	2.7	3.6	3.5	3.6	4.8	6.4	10.1	...	...
Denmark	-4.5	-3.0	-1.3	-1.1	1.3	2.1	4.6	4.4	...	...
Greece	-1.8	-1.2	-1.0	-2.6	-3.6	-1.5	-2.1	-0.7	...	...
Portugal	1.2	0.4	-1.1	0.1	-0.2	-0.7	-0.2	-1.1	...	...
Ireland	-0.8	-0.1	0.1	-0.5	0.1	1.5	2.6	2.7	...	...
Sweden	0.4	-0.3	-0.8	-3.6	-6.8	-3.4	-5.3	-1.3	...	...
Switzerland	6.9	7.6	9.0	7.0	8.6	10.2	15.6	16.6	...	...
Austria	0.2	-0.2	-0.2	0.2	1.2	0.1	-0.1	0.1	...	...
Finland	-0.8	-1.7	-2.7	-5.8	-6.9	-6.7	-4.9	-0.9	...	...
Norway	-4.5	-4.1	-3.7	0.2	3.7	5.1	2.9	3.6	...	...
Iceland	—	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	—	...	...
Australia	-9.4	-7.5	-10.2	-17.9	-15.2	-10.3	-10.7	-10.5	...	...
New Zealand	-2.1	-1.7	-0.3	-1.3	-1.1	-0.5	-0.8	-0.4	...	...
Other industrial countries	-3.3	-6.1	-7.1	-24.8	-21.9	-8.7	-3.5	26.3	25.1	32.2
All industrial countries	-34.3	-67.0	-57.0	-84.1	-110.1	-32.1	-43.2	12.1	7.8	-8.0
European Union	47.5	30.2	12.3	1.3	-15.1	-65.5	-67.8	2.4	19.1	30.4
Balance on current account in percent of GDP										
United States	-3.5	-3.7	-2.6	-1.9	-1.7	-0.1	-1.1	-1.7	-2.1	-2.3
Japan	4.3	3.6	2.7	2.0	1.2	2.2	3.2	3.1	3.0	2.7
Germany ¹	4.5	4.1	4.2	4.9	2.9	-1.2	-1.3	-1.2	-0.7	-0.5
France	0.1	-0.9	-0.5	-0.5	-0.8	-0.5	0.2	0.8	0.8	1.0
Italy	0.4	-0.2	-0.7	-1.3	-1.4	-2.0	-2.3	1.1	2.7	3.1
United Kingdom	-0.2	-1.2	-3.5	-4.4	-3.3	-1.3	-1.7	-1.7	-2.0	-1.9
Canada	-2.3	-2.1	-2.6	-3.6	-3.9	-4.3	-4.0	-3.5	-2.6	-2.4
Spain	1.6	—	-1.1	-3.0	-3.4	-3.2	-3.3	-1.0	...	...
Netherlands	2.8	1.5	2.3	3.7	3.7	2.7	2.4	2.8	...	...
Belgium-Luxembourg	2.8	2.0	2.4	2.3	1.9	2.4	2.9	4.9	...	...
Denmark	-5.4	-2.9	-1.2	-1.1	1.0	1.6	3.3	3.3	...	...
Greece	-4.5	-2.6	-1.8	-4.8	-5.3	-2.2	-2.7	-0.9	...	...
Portugal	3.9	1.2	-2.6	0.3	-0.3	-1.1	-0.2	-1.5	...	...
Ireland	-3.1	-0.3	0.3	-1.4	0.1	3.3	5.2	6.1	...	...
Sweden	0.3	-0.2	-0.5	-1.9	-3.0	-1.4	-2.2	-0.7	...	...
Switzerland	5.1	4.4	4.9	4.0	3.8	4.4	6.5	7.1	...	...
Austria	0.3	-0.2	-0.2	0.2	0.8	—	-0.1	0.1	...	...
Finland	-1.1	-1.9	-2.6	-5.0	-5.1	-5.5	-4.6	-1.1	...	...
Norway	-6.5	-4.9	-4.1	0.3	3.5	4.8	2.5	3.5	...	...
Iceland	0.8	-3.4	-3.5	-1.4	-2.2	-4.8	-3.2	-0.8	...	...
Australia	-5.6	-3.8	-4.1	-6.3	-5.1	-3.5	-3.7	-3.7	...	...
New Zealand	-7.6	-4.9	-0.8	-3.1	-2.6	-1.3	-1.9	-1.0	...	...

¹Data through June 1990 apply to west Germany only.

Table A28. Industrial Countries: Current Account Transactions*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports (f.o.b.)	1,440.7	1,685.4	1,940.6	2,077.2	2,390.2	2,428.8	2,587.1	2,481.9	2,586.9	2,744.3
Imports (f.o.b.)	1,453.9	1,718.8	1,955.6	2,121.4	2,432.7	2,423.1	2,545.2	2,392.1	2,500.6	2,681.6
Trade balance	-13.2	-33.4	-15.1	-44.2	-42.5	5.7	41.9	89.8	86.3	62.6
Services and income, credits	709.4	849.1	1,012.7	1,178.1	1,427.5	1,483.2	1,574.3	1,539.9	1,593.5	1,713.4
Services and income, debits	683.5	828.1	999.1	1,159.4	1,419.8	1,473.0	1,575.0	1,536.1	1,592.7	1,705.1
Balance on services and income	25.8	21.0	13.6	18.7	7.8	10.2	-0.7	3.8	0.9	8.3
Balance on goods, services, and income	12.6	-12.4	-1.5	-25.4	-34.7	15.9	41.2	93.6	87.2	70.9
Private transfers, net	-13.4	-14.3	-14.7	-13.8	-18.1	-20.5	-24.0	-23.4	-24.4	-23.3
Official transfers, net	-33.5	-40.2	-40.8	-44.8	-57.2	-27.5	-60.4	-58.0	-55.0	-55.7
Current account balance	-34.3	-67.0	-57.0	-84.1	-110.1	-32.1	-43.2	12.1	7.8	-8.0
Trade balance										
United States	-145.1	-159.6	-127.0	-115.2	-109.0	-73.8	-96.1	-132.5	-154.6	-178.6
Japan	92.8	96.4	95.0	76.9	63.5	103.0	132.3	141.4	146.4	136.9
Germany ¹	56.2	70.5	80.0	77.9	73.0	24.5	32.2	42.7	54.6	58.0
France	-2.2	-8.7	-8.5	-10.6	-13.5	-10.0	1.2	10.5	9.6	12.1
Italy	4.2	-0.3	-1.2	-2.2	0.4	-0.2	3.1	32.2	36.5	38.1
United Kingdom	-14.0	-19.0	-38.3	-40.5	-33.6	-18.2	-23.7	-20.2	-23.9	-25.6
Canada	7.2	8.5	7.2	5.1	8.1	4.4	7.4	9.1	12.8	15.1
Other industrial countries	-12.3	-21.3	-22.4	-35.5	-31.3	-24.1	-14.6	6.5	4.9	6.7
All industrial countries	-13.2	-33.4	-15.1	-44.2	-42.5	5.7	41.9	89.8	86.3	62.6
Seven countries above	-0.9	-12.2	7.3	-8.6	-11.1	29.7	56.5	83.3	81.4	56.0
European Union	39.4	28.4	15.9	0.2	-1.6	-33.5	-12.8	59.5	67.1	70.7
Balance on invisibles²										
United States	-5.1	-7.8	-0.2	13.6	17.2	65.5	29.7	23.2	14.4	12.7
Japan	-7.0	-9.4	-15.4	-19.8	-27.8	-30.1	-14.8	-10.1	-13.0	-11.2
Germany ¹	-16.6	-24.6	-29.4	-20.4	-25.7	-44.5	-57.5	-64.6	-67.6	-68.6
France	3.1	0.7	3.7	6.0	3.9	4.1	1.6	—	0.6	1.3
Italy	-1.8	-1.3	-4.7	-8.9	-15.2	-23.1	-31.0	-21.6	-10.2	-7.3
United Kingdom	12.7	10.8	8.7	3.6	1.0	4.7	6.1	4.1	4.5	5.8
Canada	-15.4	-17.2	-19.8	-24.9	-30.3	-29.7	-30.3	-28.6	-27.3	-28.9
Other industrial countries	9.0	15.1	15.3	10.7	9.4	15.4	11.2	19.8	20.2	25.5
All industrial countries	-21.0	-33.6	-41.9	-40.0	-67.6	-37.8	-85.1	-77.7	-78.5	-70.7
Seven countries above	-30.1	-48.7	-57.2	-50.7	-77.0	-53.2	-96.2	-97.5	-98.7	-96.2
European Union	8.1	1.8	-3.6	1.0	-13.5	-32.0	-55.0	-57.1	-48.0	-40.4

¹ Data through June 1990 apply to west Germany only.² Services, income, and transfers.

Table A29. Developing Countries: Payments Balances on Current Account¹

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>In billions of U.S. dollars</i>										
Developing countries	-46.9	-4.7	-24.9	-16.9	-11.6	-87.9	-67.1	-104.6	-106.2	-100.8
By region										
Africa	-10.2	-4.5	-9.8	-7.3	-3.0	-4.6	-7.5	-8.3	-4.1	-4.2
Asia	4.0	22.1	9.6	0.8	-2.7	-2.7	-4.5	-25.1	-28.3	-26.5
Middle East and Europe	-24.3	-11.9	-12.9	-1.8	—	-61.1	-20.3	-27.8	-27.1	-22.7
Western Hemisphere	-16.4	-10.4	-11.7	-8.6	-6.0	-19.6	-34.8	-43.3	-46.6	-47.4
Sub-Saharan Africa	-6.0	-6.5	-7.9	-6.7	-8.6	-8.3	-8.8	-8.4	-7.0	-5.8
Four newly industrializing Asian economies	23.2	30.9	28.3	24.4	14.3	9.7	10.0	4.5	0.8	3.2
By predominant export										
Fuel	-36.8	-10.5	-29.1	-10.7	1.1	-76.6	-46.9	-48.5	-47.4	-43.8
Nonfuel exports	-10.1	5.8	4.2	-6.2	-12.7	-11.4	-20.2	-56.2	-58.8	-57.0
Manufactures	4.6	22.0	20.7	12.8	4.4	9.1	10.3	-21.2	-26.9	-27.4
Primary products	-11.4	-15.1	-12.8	-11.5	-10.1	-12.7	-22.1	-25.2	-25.5	-25.1
Agricultural products	-7.8	-11.4	-9.8	-9.7	-6.5	-9.4	-17.5	-18.9	-18.7	-18.5
Minerals	-3.6	-3.7	-2.9	-1.9	-3.6	-3.3	-4.6	-6.3	-6.8	-6.6
Services and private transfers	-5.1	-5.2	-5.9	-6.1	-5.6	-3.1	-4.8	-5.6	-3.8	-2.1
Diversified export base	1.9	4.1	2.1	-1.4	-1.4	-4.6	-3.6	-4.1	-2.7	-2.3
By financial criteria										
Net creditor countries	6.0	14.8	5.6	14.3	19.3	-48.2	-8.9	-16.6	-20.1	-14.7
Net debtor countries	-52.9	-19.6	-30.5	-31.3	-30.9	-39.7	-58.2	-88.0	-86.1	-86.1
Market borrowers	-15.8	8.1	3.0	0.6	5.0	-18.0	-30.7	-52.6	-54.2	-56.6
Diversified borrowers	-19.8	-14.4	-18.0	-17.4	-24.9	-10.5	-13.3	-19.3	-18.1	-17.6
Official borrowers	-17.3	-13.3	-15.5	-14.4	-11.0	-11.2	-14.2	-16.1	-13.8	-12.0
Countries with recent debt-servicing difficulties	-39.2	-23.5	-30.5	-23.3	-19.9	-29.8	-47.2	-56.0	-55.4	-55.7
Countries without debt-servicing difficulties	-13.7	4.0	-0.1	-8.0	-11.0	-9.9	-11.0	-32.0	-30.7	-30.4
Other groups										
Small low-income economies	-7.4	-8.3	-9.8	-9.9	-11.1	-10.0	-10.5	-10.9	-10.0	-9.5
Least developed countries	-4.6	-4.8	-5.5	-5.0	-6.9	-6.6	-7.2	-6.9	-6.7	-6.2
Fifteen heavily indebted countries	-16.7	-8.9	-10.7	-6.9	-3.4	-23.2	-33.9	-46.3	-48.3	-48.2

Table A29 (concluded)

	Average 1976-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>In percent of exports of goods and services</i>											
Developing countries	-2.7	-8.1	-0.7	-3.1	-1.9	-1.1	-8.1	-5.7	-8.3	-7.7	-6.5
By region											
Africa	-13.0	-14.8	-5.7	-12.0	-8.3	-3.0	-4.7	-7.6	-8.6	-4.2	-4.0
Asia	-4.7	1.5	6.5	2.3	0.2	-0.5	-0.4	-0.7	-3.3	-3.4	-2.8
Middle East and Europe	9.8	-18.3	-7.9	-8.2	-1.0	—	-29.5	-9.2	-12.7	-11.8	-8.7
Western Hemisphere	-19.5	-14.9	-8.4	-8.4	-5.6	-3.5	-11.5	-19.5	-23.1	-23.1	-21.3
Sub-Saharan Africa	-24.7	-23.3	-22.9	-26.9	-21.2	-25.3	-25.1	-27.3	-26.0	-20.9	-15.2
Four newly industrializing Asian economies	-1.1	14.5	14.5	10.6	8.1	4.4	2.6	2.4	1.0	0.2	0.6
By predominant export											
Fuel	6.9	-22.0	-5.7	-15.1	-4.7	0.4	-28.9	-17.0	-17.5	-16.3	-13.3
Nonfuel exports	-12.1	-2.4	1.1	0.7	-0.9	-1.7	-1.4	-2.2	-5.7	-5.4	-4.7
Manufactures	-8.6	1.7	6.4	4.8	2.7	0.8	1.6	1.6	-3.0	-3.4	-3.0
Primary products	-23.5	-20.8	-26.0	-19.4	-16.1	-12.8	-15.8	-26.4	-28.8	-27.2	-24.3
Agricultural products	-22.8	-20.2	-28.9	-22.2	-20.8	-12.3	-17.3	-30.9	-30.8	-28.3	-25.4
Minerals	-26.1	-22.0	-19.8	-13.6	-7.4	-13.9	-12.5	-17.1	-24.1	-24.7	-21.7
Services and private transfers	-18.8	-15.6	-14.8	-15.8	-15.3	-12.8	-6.7	-9.9	-10.9	-6.7	-3.4
Diversified export base	-10.7	3.2	5.9	2.7	-1.6	-1.4	-4.4	-3.1	-3.4	-2.0	-1.6
By financial criteria											
Net creditor countries	17.5	4.6	9.8	3.4	7.5	8.7	-21.5	-3.7	-7.0	-8.3	-5.6
Net debtor countries	-1.1	-11.7	-3.6	-4.8	-4.4	-3.9	-4.6	-6.2	-8.6	-7.6	-6.7
Market borrowers	-11.4	-5.6	2.3	0.7	0.1	0.9	-3.0	-4.6	-7.2	-6.7	-6.1
Diversified borrowers	-11.6	-17.0	-11.3	-12.7	-11.1	-14.6	-6.1	-7.2	-9.5	-8.0	-6.7
Official borrowers	-23.0	-32.7	-22.2	-23.5	-19.8	-13.1	-13.2	-16.4	-18.3	-15.0	-11.7
Countries with recent debt- servicing difficulties	-18.0	-21.9	-11.5	-13.6	-9.4	-7.4	-11.3	-17.2	-19.5	-17.8	-15.7
Countries without debt- servicing difficulties	-22.8	-5.0	1.2	—	-1.7	-2.1	-1.7	-1.6	-4.4	-3.7	-3.3
Other groups											
Small low-income economies	-36.9	-32.2	-33.2	-35.9	-34.5	-35.5	-30.8	-31.3	-30.5	-25.4	-21.5
Least developed countries	-38.6	-31.6	-28.4	-29.6	-24.9	-33.4	-32.2	-35.3	-32.5	-28.7	-22.8
Fifteen heavily indebted countries	-18.7	-13.0	-6.1	-6.5	-3.8	-1.6	-11.8	-16.2	-21.5	-20.9	-18.8
Memorandum											
Median											
Developing countries	-16.0	-12.1	-12.4	-12.7	-10.3	-11.1	-12.1	-9.3	-12.3	-12.2	-7.8

¹ Including official transfers.

Table A30. Developing Countries—By Region: Current Account Transactions*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries										
Exports (f.o.b.)	441.5	545.4	634.8	713.8	810.5	850.8	932.0	997.7	1,097.3	1,236.5
Imports (f.o.b.)	436.4	506.4	612.6	677.4	759.7	844.9	947.8	1,034.3	1,134.4	1,269.8
Trade balance	5.1	39.0	22.3	36.5	50.7	5.9	-15.8	-36.6	-37.1	-33.4
Services and income, net	-76.1	-72.2	-73.3	-82.4	-89.0	-96.5	-88.5	-100.9	-100.7	-98.3
Balance on goods, services, and income	-71.0	-33.2	-51.0	-45.9	-38.2	-90.5	-104.3	-137.5	-137.8	-131.6
Unrequited transfers, net	24.1	28.5	26.1	29.0	26.6	2.6	37.2	32.9	31.6	30.8
Current account balance	-46.9	-4.7	-24.9	-16.9	-11.6	-87.9	-67.1	-104.6	-106.2	-100.8
<i>Memorandum</i>										
Exports of goods and services	580.6	693.2	802.3	901.5	1,021.8	1,081.2	1,183.7	1,257.0	1,375.1	1,546.4
Investment income, net	-49.2	-50.6	-56.0	-56.9	-57.4	-47.8	-48.6	-57.1	-57.6	-61.5
Interest payments	76.8	75.9	83.6	90.5	92.2	87.2	84.9	85.9	89.3	95.6
Oil trade balance	71.4	84.9	79.0	103.7	134.8	111.4	113.4	102.4	94.6	110.3
By region										
Africa										
Exports (f.o.b.)	57.8	65.6	67.2	72.5	84.9	81.7	80.4	78.0	78.8	85.2
Imports (f.o.b.)	54.2	58.0	65.1	68.7	74.4	73.1	77.3	76.1	74.3	82.3
Trade balance	3.6	7.6	2.0	3.8	10.5	8.5	3.1	1.9	4.5	2.9
Services and income, net	-22.6	-21.7	-22.8	-23.2	-26.9	-25.7	-24.3	-23.9	-21.6	-21.0
Balance on goods, services, and income	-18.9	-14.1	-20.7	-19.4	-16.3	-17.1	-21.2	-22.0	-17.1	-18.1
Unrequited transfers, net	8.7	9.5	10.9	12.1	13.3	12.5	13.7	13.6	12.9	13.9
Current account balance	-10.2	-4.5	-9.8	-7.3	-3.0	-4.6	-7.5	-8.3	-4.1	-4.2
<i>Memorandum</i>										
Exports of goods and services	69.1	78.8	81.7	87.6	101.3	98.1	98.4	96.6	98.0	106.5
Investment income, net	-14.4	-15.7	-16.5	-16.7	-19.1	-17.9	-17.4	-17.1	-16.0	-15.7
Interest payments	11.4	12.1	13.5	13.9	15.2	15.0	14.2	13.6	12.5	12.3
Oil trade balance	11.4	13.4	11.5	16.3	23.4	20.5	19.9	17.6	14.1	15.2
Asia										
Exports (f.o.b.)	217.1	281.3	350.8	390.6	432.9	493.5	557.8	615.7	690.6	785.6
Imports (f.o.b.)	215.3	266.1	346.5	393.0	442.1	504.3	568.0	639.6	716.8	811.3
Trade balance	1.8	15.2	4.3	-2.3	-9.2	-10.8	-10.2	-23.9	-26.2	-25.7
Services and income, net	-8.9	-4.5	-5.7	-5.8	-3.4	-3.5	-8.2	-10.6	-11.7	-9.8
Balance on goods, services, and income	-7.2	10.7	-1.4	-8.1	-12.6	-14.3	-18.4	-34.5	-37.9	-35.5
Unrequited transfers, net	11.2	11.4	11.0	8.9	9.9	11.7	13.9	9.3	9.5	9.0
Current account balance	4.0	22.1	9.6	0.8	-2.7	-2.7	-4.5	-25.1	-28.3	-26.5
<i>Memorandum</i>										
Exports of goods and services	269.1	340.7	422.9	475.3	533.2	606.3	687.2	753.8	844.6	957.3
Investment income, net	-12.0	-11.1	-10.9	-9.5	-7.8	-7.4	-7.8	-11.2	-10.4	-10.9
Interest payments	17.4	17.8	19.7	21.2	21.7	23.3	26.0	24.9	27.6	30.4
Oil trade balance	-3.3	-7.7	-7.5	-10.2	-14.0	-16.0	-20.0	-21.1	-22.8	-26.6

Table A30 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Middle East and Europe										
Exports (f.o.b.)	86.7	108.4	111.4	134.5	165.1	149.6	161.8	164.8	177.4	198.2
Imports (f.o.b.)	102.1	109.6	116.7	125.5	142.2	149.7	161.0	166.4	177.3	194.9
Trade balance	-15.5	-1.2	-5.4	8.9	22.9	-0.1	0.7	-1.6	0.1	3.3
Services and income, net	-9.7	-13.9	-7.4	-13.0	-18.7	-30.1	-20.6	-27.0	-27.5	-24.9
Balance on goods, services, and income	-25.2	-15.2	-12.8	-4.1	4.1	-30.1	-19.8	-28.7	-27.4	-21.6
Unrequited transfers, net	0.9	3.3	-0.2	2.2	-4.1	-30.9	-0.5	0.8	0.2	-1.1
Current account balance	-24.3	-11.9	-12.9	-1.8	—	-61.1	-20.3	-27.8	-27.1	-22.7
<i>Memorandum</i>										
Exports of goods and services	132.7	150.4	158.5	184.6	218.3	206.9	219.8	219.1	230.8	260.2
Investment income, net	12.0	9.6	10.5	12.0	10.1	12.5	9.9	7.2	6.9	7.3
Interest payments	11.6	12.5	13.9	15.5	16.3	13.4	12.5	14.9	16.2	17.1
Oil trade balance	51.6	65.1	63.1	82.5	103.8	89.3	96.9	90.6	87.5	102.9
Western Hemisphere										
Exports (f.o.b.)	80.0	90.1	105.5	116.2	127.6	126.1	132.0	139.2	150.4	167.4
Imports (f.o.b.)	64.8	72.7	84.2	90.2	101.0	117.8	141.5	152.1	166.0	181.4
Trade balance	15.2	17.4	21.3	26.0	26.6	8.3	-9.5	-12.9	-15.5	-13.9
Services and income, net	-34.9	-32.0	-37.4	-40.5	-40.0	-37.2	-35.4	-39.5	-40.0	-42.5
Balance on goods, services, and income	-19.7	-14.6	-16.1	-14.4	-13.5	-28.9	-44.9	-52.4	-55.5	-56.5
Unrequited transfers, net	3.3	4.2	4.4	5.8	7.5	9.3	10.1	9.0	8.9	9.1
Current account balance	-16.4	-10.4	-11.7	-8.6	-6.0	-19.6	-34.8	-43.3	-46.6	-47.4
<i>Memorandum</i>										
Exports of goods and services	109.7	123.2	139.3	154.0	169.0	169.8	178.3	187.5	201.7	222.5
Investment income, net	-34.8	-33.4	-39.1	-42.7	-40.5	-35.0	-33.4	-36.0	-38.1	-42.2
Interest payments	36.4	33.6	36.4	39.9	39.1	35.5	32.3	32.5	33.0	35.7
Oil trade balance	11.7	14.2	11.9	15.1	21.6	17.6	16.6	15.4	15.7	18.8
Four newly industrializing Asian economies										
Exports (f.o.b.)	130.2	175.5	221.1	243.7	262.8	300.5	336.9	373.1	416.7	473.2
Imports (f.o.b.)	111.1	150.0	198.9	224.3	255.3	297.5	335.1	372.8	419.0	474.0
Trade balance	19.1	25.5	22.2	19.3	7.5	3.0	1.7	0.3	-2.3	-0.8
Services and income, net	3.5	5.1	6.9	7.3	7.8	7.6	7.4	7.6	6.6	8.1
Balance on goods, services, and income	22.7	30.6	29.1	26.6	15.2	10.7	9.1	8.0	4.3	7.3
Unrequited transfers, net	0.6	0.3	-0.8	-2.2	-0.9	-0.9	0.9	-3.4	-3.5	-4.1
Current account balance	23.2	30.9	28.3	24.4	14.3	9.7	10.0	4.5	0.8	3.2
<i>Memorandum</i>										
Exports of goods and services	160.4	213.1	267.7	299.3	327.3	372.0	416.2	456.5	508.5	574.3
Investment income, net	-0.8	-0.5	1.7	3.4	4.4	5.2	5.2	2.3	3.0	3.3
Interest payments	4.9	4.8	4.5	4.9	4.8	4.7	5.0	4.2	4.3	4.6
Oil trade balance	-5.9	-7.6	-7.2	-9.0	-11.7	-12.0	-14.6	-14.6	-13.8	-15.5

Table A31. Developing Countries—By Analytical Criteria: Current Account Transactions*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
By predominant export										
Fuel										
Exports (f.o.b.)	124.6	148.2	152.9	187.7	234.9	217.5	230.8	236.3	252.0	283.6
Imports (f.o.b.)	110.8	111.8	132.5	144.5	161.4	181.8	203.8	203.7	217.0	243.7
Trade balance	13.8	36.4	20.4	43.2	73.5	35.8	27.0	32.6	35.0	39.9
Services and income, net	-39.6	-38.5	-38.1	-45.0	-53.7	-65.1	-59.3	-69.2	-68.9	-69.0
Balance on goods, services, and income	-25.9	-2.0	-17.7	-1.9	19.8	-29.3	-32.3	-36.6	-33.9	-29.0
Unrequited transfers, net	-11.0	-8.5	-11.4	-8.8	-18.7	-47.3	-14.6	-11.9	-13.4	-14.8
Current account balance	-36.8	-10.5	-29.1	-10.7	1.1	-76.6	-46.9	-48.5	-47.4	-43.8
<i>Memorandum</i>										
Exports of goods and services	167.1	184.7	192.4	229.4	277.8	264.8	276.7	276.6	290.3	329.7
Investment income, net	-3.1	-3.4	-6.0	-6.2	-7.9	-4.9	-9.9	-14.1	-14.2	-16.2
Interest payments	23.5	23.3	27.0	29.2	29.2	25.7	25.2	27.2	27.6	29.3
Oil trade balance	88.0	105.8	98.8	126.3	163.8	140.3	145.8	135.7	128.0	146.9
Nonfuel exports										
Exports (f.o.b.)	316.9	397.2	481.9	526.2	575.5	633.3	701.2	761.4	845.3	952.8
Imports (f.o.b.)	325.6	394.6	480.0	532.9	598.3	663.1	744.0	830.5	917.4	1,026.1
Trade balance	-8.6	2.6	1.9	-6.7	-22.8	-29.9	-42.8	-69.2	-72.1	-73.3
Services and income, net	-36.5	-33.7	-35.2	-37.4	-35.3	-31.4	-29.2	-31.7	-31.8	-29.3
Balance on goods, services, and income	-45.1	-31.1	-33.4	-44.1	-58.1	-61.2	-72.0	-100.9	-103.9	-102.6
Unrequited transfers, net	35.0	36.9	37.6	37.9	45.3	49.8	51.8	44.7	45.1	45.5
Current account balance	-10.1	5.8	4.2	-6.2	-12.7	-11.4	-20.2	-56.2	-58.8	-57.0
<i>Memorandum</i>										
Exports of goods and services	413.5	508.4	609.9	672.1	744.0	816.3	907.0	980.4	1,084.8	1,216.7
Investment income, net	-46.2	-47.2	-50.0	-50.7	-49.5	-42.9	-38.7	-43.0	-43.4	-45.2
Interest payments	53.3	52.6	56.6	61.2	63.0	61.5	59.8	58.7	61.7	66.3
Oil trade balance	-16.5	-20.9	-19.8	-22.5	-28.9	-28.9	-32.5	-33.3	-33.4	-36.5
Manufactures										
Exports (f.o.b.)	214.4	281.9	350.4	383.4	415.5	467.2	526.3	577.0	643.9	728.4
Imports (f.o.b.)	209.8	263.1	332.6	373.9	420.5	471.4	528.7	601.9	674.0	760.2
Trade balance	4.7	18.8	17.7	9.5	-5.0	-4.2	-2.4	-25.0	-30.1	-31.8
Services and income, net	-12.5	-9.1	-8.4	-8.1	-5.5	-4.2	-5.8	-10.2	-10.1	-8.4
Balance on goods, services, and income	-7.9	9.7	9.4	1.4	-10.5	-8.4	-8.2	-35.1	-40.3	-40.1
Unrequited transfers, net	12.4	12.3	11.3	11.4	14.9	17.5	18.5	13.9	13.4	12.7
Current account balance	4.6	22.0	20.7	12.8	4.4	9.1	10.3	-21.2	-26.9	-27.4
<i>Memorandum</i>										
Exports of goods and services	267.1	345.0	428.8	474.9	522.7	584.9	659.6	719.6	801.3	902.8
Investment income, net	-20.4	-19.4	-20.0	-18.3	-15.6	-11.9	-11.6	-17.6	-16.1	-17.5
Interest payments	25.0	24.3	26.9	28.4	29.0	29.0	30.4	30.8	32.9	36.4
Oil trade balance	-11.5	-15.1	-14.5	-18.0	-24.8	-24.9	-28.5	-30.0	-29.8	-33.9

Table A31 (continued)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Primary products										
Exports (f.o.b.)	44.2	46.2	52.8	57.4	62.8	63.1	65.0	67.3	72.4	80.7
Imports (f.o.b.)	41.6	47.9	51.6	53.0	57.3	62.8	75.9	81.9	86.7	94.0
Trade balance	2.6	-1.7	1.1	4.5	5.6	0.3	-10.9	-14.6	-14.4	-13.2
Services and income, net	-20.2	-20.7	-21.8	-23.7	-23.9	-22.7	-21.7	-20.0	-21.1	-22.4
Balance on goods, services, and income	-17.6	-22.4	-20.6	-19.3	-18.3	-22.4	-32.6	-34.6	-35.5	-35.6
Unrequited transfers, net	6.2	7.2	7.9	7.7	8.1	9.7	10.4	9.4	10.0	10.5
Current account balance	-11.4	-15.1	-12.8	-11.5	-10.1	-12.7	-22.1	-25.2	-25.5	-25.1
<i>Memorandum</i>										
Exports of goods and services	55.0	58.3	65.8	71.8	79.0	80.7	83.7	87.5	93.6	103.4
Investment income, net	-15.1	-15.9	-16.9	-19.0	-18.7	-18.3	-17.4	-16.0	-17.1	-18.1
Interest payments	14.2	14.0	15.3	17.3	17.3	17.0	15.4	14.2	14.7	15.3
Oil trade balance	-3.7	-3.5	-3.8	-3.8	-3.3	-3.9	-3.6	-2.7	-2.8	-2.0
Services and private transfers										
Exports (f.o.b.)	12.9	14.0	16.4	17.8	19.5	20.5	20.9	22.1	25.0	27.9
Imports (f.o.b.)	34.2	36.6	39.8	41.8	45.2	45.5	48.4	50.4	52.7	56.3
Trade balance	-21.3	-22.6	-23.3	-23.9	-25.7	-24.9	-27.4	-28.3	-27.7	-28.4
Services and income, net	4.1	5.4	4.6	4.3	4.8	5.5	6.7	7.4	8.5	10.4
Balance on goods, services, and income	-17.2	-17.3	-18.7	-19.6	-20.9	-19.4	-20.8	-20.9	-19.2	-18.0
Unrequited transfers, net	12.1	12.0	12.9	13.5	15.3	16.3	16.0	15.3	15.5	15.9
Current account balance	-5.1	-5.2	-5.9	-6.1	-5.6	-3.1	-4.8	-5.6	-3.8	-2.1
<i>Memorandum</i>										
Exports of goods and services	32.6	35.3	37.0	39.8	43.9	46.1	48.6	51.7	56.6	62.5
Investment income, net	-3.6	-3.8	-4.7	-4.4	-5.6	-4.3	-3.5	-3.8	-3.4	-3.2
Interest payments	6.7	6.3	6.1	6.7	7.7	6.8	5.8	6.1	6.1	6.3
Oil trade balance	-2.3	-3.3	-3.0	-2.5	-3.1	-3.1	-3.0	-3.4	-3.0	-2.9
Diversified export base										
Exports (f.o.b.)	45.4	55.1	62.4	67.6	77.7	82.4	88.9	95.0	104.1	115.8
Imports (f.o.b.)	39.9	47.0	56.0	64.2	75.4	83.5	91.0	96.3	103.9	115.7
Trade balance	5.5	8.1	6.4	3.3	2.3	-1.0	-2.1	-1.3	0.1	0.1
Services and income, net	-7.9	-9.2	-9.7	-9.9	-10.7	-9.9	-8.4	-8.9	-9.1	-8.9
Balance on goods, services, and income	-2.4	-1.2	-3.3	-6.6	-8.4	-10.9	-10.5	-10.3	-8.9	-8.8
Unrequited transfers, net	4.3	5.3	5.5	5.2	7.0	6.3	6.9	6.2	6.2	6.5
Current account balance	1.9	4.1	2.1	-1.4	-1.4	-4.6	-3.6	-4.1	-2.7	-2.3
<i>Memorandum</i>										
Exports of goods and services	58.8	69.8	78.3	85.6	98.4	104.6	115.1	121.5	133.3	148.1
Investment income, net	-7.0	-8.0	-8.4	-9.0	-9.7	-8.3	-6.3	-5.7	-6.8	-6.4
Interest payments	7.4	8.0	8.3	8.8	9.1	8.7	8.1	7.7	7.9	8.2
Oil trade balance	0.9	0.9	1.5	1.7	2.3	3.0	2.6	2.7	2.3	2.3

Table A31 (continued)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
By financial criteria										
Net debtor countries										
Exports (f.o.b.)	347.0	424.8	508.7	566.2	630.7	668.1	735.1	799.0	889.1	1,014.7
Imports (f.o.b.)	366.5	422.6	512.1	568.6	640.6	703.3	790.1	871.3	961.6	1,086.9
Trade balance	-19.4	2.2	-3.3	-2.4	-9.9	-35.2	-55.1	-72.4	-72.5	-72.2
Services and income, net	-70.8	-61.0	-68.7	-73.1	-71.8	-59.0	-59.5	-64.8	-62.1	-61.7
Balance on goods, services, and income	-90.2	-58.8	-72.1	-75.6	-81.7	-94.2	-114.6	-137.1	-134.5	-133.9
Unrequited transfers, net	37.3	39.3	41.5	44.3	50.8	54.5	56.4	49.1	48.4	47.8
Current account balance	-52.9	-19.6	-30.5	-31.3	-30.9	-39.7	-58.2	-88.0	-86.1	-86.1
<i>Memorandum</i>										
Exports of goods and services	451.4	541.3	638.0	710.9	800.3	857.0	944.8	1,021.0	1,132.7	1,285.0
Investment income, net	-68.3	-68.3	-76.6	-78.9	-78.7	-67.5	-66.0	-70.6	-71.6	-75.7
Interest payments	73.1	71.9	79.1	85.0	87.2	82.5	79.7	80.0	83.2	89.3
Oil trade balance	28.2	31.4	28.4	38.9	41.9	24.9	19.8	17.3	16.0	26.5
Market borrowers										
Exports (f.o.b.)	220.4	281.2	348.0	386.6	434.0	479.0	537.8	587.3	655.4	743.7
Imports (f.o.b.)	211.1	254.7	321.1	362.6	410.2	481.1	551.8	612.4	683.4	774.7
Trade balance	9.3	26.5	26.8	24.0	23.7	-2.0	-14.0	-25.2	-28.1	-31.0
Services and income, net	-35.1	-27.8	-33.8	-34.5	-31.1	-29.8	-32.6	-39.2	-36.9	-36.1
Balance on goods, services, and income	-25.8	-1.3	-6.9	-10.5	-7.4	-31.8	-46.7	-64.3	-65.0	-67.1
Unrequited transfers, net	10.0	9.4	9.9	11.1	12.4	13.8	16.0	11.8	10.9	10.5
Current account balance	-15.8	8.1	3.0	0.6	5.0	-18.0	-30.7	-52.6	-54.2	-56.6
<i>Memorandum</i>										
Exports of goods and services	282.1	354.5	429.8	480.7	545.7	600.5	673.0	729.5	813.3	920.3
Investment income, net	-39.5	-37.7	-43.0	-44.2	-39.8	-35.3	-35.6	-40.7	-41.2	-45.0
Interest payments	44.4	41.2	44.3	47.5	47.0	44.6	43.9	43.9	45.9	50.2
Oil trade balance	15.2	18.3	14.2	17.1	24.4	18.8	14.3	12.3	10.7	11.1
Official borrowers										
Exports (f.o.b.)	38.4	42.5	46.3	52.1	60.9	60.0	59.9	60.0	62.7	69.9
Imports (f.o.b.)	60.1	63.6	70.5	74.2	81.6	82.8	87.6	88.6	90.7	98.7
Trade balance	-21.6	-21.0	-24.2	-22.1	-20.8	-22.8	-27.6	-28.7	-28.0	-28.8
Services and income, net	-14.8	-12.6	-12.6	-14.3	-16.3	-15.1	-13.1	-12.6	-11.1	-9.7
Balance on goods, services, and income	-36.4	-33.6	-36.8	-36.4	-37.0	-37.9	-40.7	-41.2	-39.1	-38.5
Unrequited transfers, net	19.1	20.4	21.3	21.9	26.0	26.7	26.6	25.1	25.3	26.5
Current account balance	-17.3	-13.3	-15.5	-14.4	-11.0	-11.2	-14.2	-16.1	-13.8	-12.0
<i>Memorandum</i>										
Exports of goods and services	53.0	59.8	66.1	72.9	84.0	84.7	86.7	88.0	92.3	102.4
Investment income, net	-12.2	-12.7	-13.5	-13.1	-15.1	-13.7	-12.6	-12.6	-11.9	-11.5
Interest payments	11.1	11.8	13.1	13.6	15.1	14.3	13.0	12.9	12.8	12.7
Oil trade balance	3.6	3.3	3.0	6.5	10.5	8.7	8.7	7.1	5.0	5.3

Table A31 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Countries with recent debt-servicing difficulties										
Exports (f.o.b.)	135.5	157.4	177.7	197.6	212.0	197.5	204.6	215.6	234.7	269.4
Imports (f.o.b.)	132.9	143.0	163.5	173.2	187.1	197.6	225.4	237.6	256.5	287.6
Trade balance	2.7	14.4	14.3	24.4	25.0	-0.1	-20.8	-22.0	-21.8	-18.2
Services and income, net	-57.9	-55.4	-63.6	-68.8	-70.7	-56.8	-54.2	-59.3	-58.8	-61.9
Balance on goods, services, and income	-55.3	-41.0	-49.3	-44.4	-45.8	-56.8	-75.1	-81.3	-80.6	-80.0
Unrequited transfers, net	16.1	17.5	18.8	21.1	25.9	27.0	27.8	25.3	25.2	24.3
Current account balance	-39.2	-23.5	-30.5	-23.3	-19.9	-29.8	-47.2	-56.0	-55.4	-55.7
<i>Memorandum</i>										
Exports of goods and services	179.1	204.0	224.1	248.7	268.7	262.7	274.3	287.3	311.6	354.1
Investment income, net	-48.2	-48.0	-54.9	-58.3	-59.1	-47.6	-44.9	-47.2	-47.0	-49.7
Interest payments	49.8	48.3	52.7	57.6	58.1	51.8	46.8	47.6	47.2	49.8
Oil trade balance	24.0	30.2	28.8	40.0	45.0	29.9	29.5	29.9	31.6	44.8
Countries without debt-servicing difficulties										
Exports (f.o.b.)	211.5	267.4	331.0	368.6	418.7	470.6	530.5	583.4	654.4	745.3
Imports (f.o.b.)	233.6	279.6	348.6	395.4	453.6	505.7	564.7	633.7	705.1	799.3
Trade balance	-22.1	-12.2	-17.6	-26.8	-34.9	-35.1	-34.2	-50.3	-50.7	-54.0
Services and income, net	-12.8	-5.6	-5.2	-4.4	-1.0	-2.3	-5.3	-5.5	-3.3	0.2
Balance on goods, services, and income	-34.9	-17.8	-22.8	-31.2	-35.9	-37.4	-39.5	-55.8	-54.0	-53.9
Unrequited transfers, net	21.2	21.8	22.7	23.2	24.9	27.5	28.6	23.8	23.3	23.5
Current account balance	-13.7	4.0	-0.1	-8.0	-11.0	-9.9	-11.0	-32.0	-30.7	-30.4
<i>Memorandum</i>										
Exports of goods and services	272.2	337.3	413.9	462.2	531.6	594.3	670.5	733.7	821.1	930.9
Investment income, net	-20.0	-20.3	-21.7	-20.6	-19.6	-19.9	-21.1	-23.4	-24.7	-26.0
Interest payments	23.3	23.5	26.4	27.4	29.1	30.7	32.9	32.4	36.0	39.5
Oil trade balance	4.2	1.2	-0.4	-1.1	-3.1	-5.0	-9.7	-12.6	-15.6	-18.3
Other groups										
Least developed countries										
Exports (f.o.b.)	11.9	13.3	15.0	16.3	16.6	16.0	15.7	16.3	18.1	20.8
Imports (f.o.b.)	19.0	21.2	23.1	23.7	25.1	25.0	25.8	26.6	28.4	31.6
Trade balance	-7.1	-7.9	-8.1	-7.4	-8.5	-9.0	-10.1	-10.3	-10.3	-10.8
Services and income, net	-5.8	-6.2	-6.9	-7.4	-8.0	-7.2	-7.4	-6.8	-6.8	-6.3
Balance on goods, services, and income	-12.9	-14.0	-14.9	-14.8	-16.5	-16.2	-17.5	-17.0	-17.0	-17.1
Unrequited transfers, net	8.3	9.3	9.4	9.8	9.6	9.5	10.4	10.1	10.3	10.9
Current account balance	-4.6	-4.8	-5.5	-5.0	-6.9	-6.6	-7.2	-6.9	-6.7	-6.2
<i>Memorandum</i>										
Exports of goods and services	14.6	16.8	18.6	20.3	20.6	20.5	20.3	21.4	23.3	27.0
Investment income, net	-3.3	-3.7	-3.7	-3.5	-3.6	-3.4	-3.6	-3.4	-3.5	-3.5
Interest payments	2.9	3.2	3.4	3.7	3.6	3.8	3.8	3.6	3.6	3.6
Oil trade balance	-3.0	-2.9	-2.7	-2.0	-2.2	-2.5	-2.5	-2.5	-2.2	-2.3

Table A32. Summary of External Financing*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries										
Balance on current account, excluding official transfers ¹	-60.9	-20.8	-40.7	-33.2	-26.7	-80.0	-87.5	-124.1	-124.7	-117.8
Change in reserves (- = increase) ²	-5.6	-48.2	1.8	-24.7	-42.5	-67.7	-52.0	-48.2	-22.9	-25.5
Asset transactions, including net errors and omissions ³	-7.2	8.6	-21.4	-7.8	-14.8	47.7	18.7	24.2	18.8	23.1
Total, net external financing⁴	73.7	60.4	60.3	65.8	84.0	100.0	120.8	148.1	128.8	120.2
Non-debt-creating flows, net	26.9	35.5	26.5	30.5	31.2	20.1	54.1	66.7	67.7	59.9
Official transfers	14.0	16.0	15.8	16.3	15.1	-7.9	20.4	19.5	18.5	17.0
Direct investment	12.9	19.5	10.7	14.2	16.1	28.0	33.7	47.3	49.3	42.9
Reserve-related liabilities ⁵	-1.9	-2.7	-3.4	-1.0	-4.5	1.8	-0.6	1.2	-0.9	-2.1
Net credit from IMF ⁶	-2.2	-4.7	-4.1	-1.5	-1.9	1.6	-0.2	-0.3	...	...
Net external borrowing ⁷	48.7	27.5	37.2	36.2	57.3	78.1	67.4	80.2	62.0	62.4
Memorandum										
Balance on goods and nonfactor services in percent of GDP ⁸	-0.8	0.6	0.1	0.3	0.5	-1.0	-1.3	-1.8	-1.6	-1.2
Scheduled amortization of external debt	88.6	104.8	108.0	95.1	103.8	101.2	116.3	120.8	122.7	124.7
Gross external financing ⁹	162.2	165.2	168.4	160.9	187.8	201.3	237.1	268.9	251.6	244.9
Gross external borrowing ¹⁰	137.3	132.3	145.2	131.4	161.1	179.3	183.7	201.0	184.8	187.1
Exceptional financing	37.9	44.8	38.0	39.6	45.3	31.8	33.0	24.0	20.9	13.8
Arrears on debt service	7.6	5.1	11.4	15.0	16.5	-3.1	-5.1	6.5	...	...
Rescheduling of debt service	28.6	38.5	25.2	19.5	21.7	25.7	30.7	11.2	...	...
Net long-term borrowing from official creditors ¹¹	31.5	30.7	20.8	21.7	35.7	27.6	38.1	33.6	5.9	14.0
Net borrowing from commercial banks ¹²	4.5	10.6	-1.1	3.7	25.8	35.4	11.3	13.7	38.0	17.2
Countries in transition										
Balance on current account, excluding official transfers ¹	6.7	12.5	6.6	-4.3	-17.7	-11.6	-10.8	-10.4	-24.0	-17.7
Change in reserves (- = increase) ²	-3.1	0.3	-4.7	-4.7	6.2	2.7	-3.3	-7.9	-3.7	-10.0
Asset transactions, including net errors and omissions ³	-5.2	-9.4	-4.6	-9.8	0.3	-0.5	-8.6	-8.0	-3.7	17.5
Total, net external financing⁴	1.5	-3.4	2.7	18.9	11.2	9.5	22.8	26.3	31.5	10.2
Non-debt-creating flows, net	-0.2	-0.2	0.6	0.4	0.4	8.0	8.4	9.3	8.6	9.8
Official transfers	—	—	0.1	0.2	0.4	5.6	4.2	3.9	3.4	1.0
Direct investment	-0.2	-0.2	0.5	0.2	0.1	2.4	4.2	5.4	5.2	8.9
Reserve-related liabilities ⁵	—	-2.1	1.7	5.2	6.6	-0.3	0.9	1.5	3.3	-1.6
Net credit from IMF ⁶	-0.5	-1.1	-0.9	-0.9	0.1	3.5	1.7	1.9	...	...
Net external borrowing ⁷	1.7	-1.2	0.4	13.3	4.1	1.7	13.4	15.4	19.6	2.0

Table A32 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Memorandum										
Balance on goods and nonfactor services in percent of GDP ⁸	0.9	1.2	0.8	0.2	-0.6	-0.4	-1.5	-1.1	-2.7	-1.5
Scheduled amortization of external debt	19.0	18.6	18.9	15.8	30.3	27.9	24.1	23.2	22.6	24.7
Gross external financing ⁹	20.5	15.2	21.7	34.7	41.5	37.3	46.9	49.5	54.1	34.9
Gross external borrowing ¹⁰	20.7	17.4	19.4	29.1	34.4	29.6	37.5	38.6	42.2	26.7
Exceptional financing	5.9	6.2	7.2	7.3	15.9	9.6	19.3	20.1	26.1	10.1
Arrears on debt service	2.6	-3.1	0.4	3.9	2.5	4.0	7.6	-2.4	...	...
Rescheduling of debt service	3.3	9.2	6.9	3.4	13.0	8.0	10.4	20.3	...	...
Net long-term borrowing from official creditors ¹¹	2.4	—	-2.2	—	9.9	19.1	13.6	13.2	3.4	-0.3
Net borrowing from commercial banks ¹²	-0.9	1.7	5.6	11.1	-4.0	-6.0	-1.4	5.7	3.0	-0.2

Note: Except where footnoted, estimates are based on national balance of payments statistics. These flows are not always reconcilable with year-to-year changes in either debtor- or creditor-reported debt statistics, in part because the latter are affected by changes in valuation.

¹In this table, official transfers are treated as non-debt-creating financial flows.

²Positioned here to reflect the discretionary nature of many countries' reserve transactions.

³Includes export credit, recorded changes in private foreign assets, the collateral for debt-reduction operations, and unrecorded capital transactions.

⁴Equals, with opposite sign, the sum of transactions listed above; it is the amount required to finance the deficit on goods, services, and private transfers; the increase in the official reserve level; the net asset transactions; and the transactions underlying the net errors and omissions.

⁵Comprises net credit from IMF and short-term borrowing by monetary authorities from other monetary authorities.

⁶Includes use of IMF credit under the General Resources Account, Trust Fund, structural adjustment facility (SAF), and enhanced structural adjustment facility (ESAF). Further detail is given in Table A36.

⁷Residually derived. Includes disbursements of short- and long-term credits as well as exceptional financing from both official and private creditors.

⁸This is often referred to as the "resource balance" and, with opposite sign, as the "net resource transfer."

⁹Defined as total net financing (see footnote 4 above) plus amortization due on external debt.

¹⁰Defined as net borrowing (see footnote 7 above) plus amortization due on external debt.

¹¹Estimates of net disbursements by official creditors (other than monetary authorities) based on directly reported flows and flows derived from statistics on debt stocks. The estimates include the increase in official claims caused by the transfer of officially guaranteed claims to the guarantor agency in the creditor country, usually in the context of debt rescheduling. When possible, the impact of debt cancellation is excluded.

¹²Estimates based on directly reported flows or on cross-border lending by banks derived from claims data reported in the IMF's international banking statistics data base, after adjustment for valuation changes resulting from exchange rate movements, and the impact of debt-reduction operations. Excludes seven offshore banking centers (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).

Table A33. Developing Countries—By Region: External Financing¹*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Africa										
Balance on current account, excluding official transfers	-15.8	-10.3	-16.9	-15.2	-11.2	-12.5	-16.1	-17.3	-12.1	-12.7
Change in reserves (- = increase)	1.4	-1.7	0.6	-2.2	-4.1	-3.9	1.3	-0.7	-2.7	-4.3
Asset transactions, including net errors and omissions	-1.2	-1.0	-0.6	0.8	0.2	—	-1.2	1.1	3.4	-1.6
Total, net external financing	15.6	13.0	16.8	16.6	15.1	16.4	16.0	16.9	11.5	18.6
Non-debt-creating flows, net	6.8	6.5	8.2	10.8	9.4	9.1	9.7	10.5	10.3	10.6
Reserve-related liabilities	-1.2	-0.8	0.1	-0.1	-0.4	0.3	-0.3	0.2	-0.1	0.5
Net credit from IMF	-1.0	-1.1	-0.3	0.1	-0.6	0.2	-0.2	0.2	...	...
Net external borrowing	10.0	7.3	8.5	5.9	6.2	7.0	6.6	6.3	1.2	7.4
<i>Memorandum</i>										
Exceptional financing	12.7	10.4	12.3	12.2	11.2	11.6	14.2	11.4	8.5	7.0
Net long-term borrowing from official creditors	7.0	6.6	6.7	5.9	8.5	7.3	8.6	9.3	-4.4	5.8
Net borrowing from commercial banks	-1.6	-1.1	-0.9	-2.5	0.7	-0.2	-4.0	-3.5	-4.6	-2.3
Asia										
Balance on current account, excluding official transfers	0.9	18.9	5.9	-2.8	-6.1	-6.2	-8.1	-28.8	-32.1	-30.3
Change in reserves (- = increase)	-22.8	-37.4	-10.0	-8.4	-18.2	-38.8	-25.1	-22.1	-13.0	-15.9
Asset transactions, including net errors and omissions	-5.8	-3.1	-14.1	-8.8	-7.4	-14.3	-13.3	-11.5	-7.5	-7.3
Total, net external financing	27.7	21.7	18.2	19.9	31.7	59.3	46.5	62.4	52.6	53.5
Non-debt-creating flows, net	11.4	16.2	6.1	7.1	10.0	15.4	17.7	31.2	26.8	23.6
Reserve-related liabilities	-0.9	-2.4	-2.4	-1.2	-2.3	2.8	1.9	1.9	0.6	-0.3
Net credit from IMF	-0.9	-2.4	-2.4	-1.1	-2.4	1.9	1.3	0.6	...	...
Net external borrowing	17.2	7.9	14.5	14.0	24.0	41.0	26.9	29.4	25.3	30.1
<i>Memorandum</i>										
Exceptional financing	2.3	2.2	2.0	1.5	2.3	2.9	2.8	2.1	1.8	1.2
Net long-term borrowing from official creditors	8.4	7.4	6.6	3.0	13.1	11.6	17.8	16.2	10.5	9.9
Net borrowing from commercial banks	4.1	3.7	4.9	5.7	6.5	21.7	14.3	11.4	10.8	12.5
Middle East and Europe										
Balance on current account, excluding official transfers	-28.2	-16.9	-16.0	-5.0	-0.6	-37.9	-24.4	-31.0	-30.7	-24.5
Change in reserves (- = increase)	8.7	-6.0	9.7	-10.1	-4.5	-5.7	-3.0	-3.2	2.5	1.0
Asset transactions, including net errors and omissions	3.4	9.7	-1.7	6.7	-1.6	50.6	9.5	12.5	10.9	12.3
Total, net external financing	16.0	13.3	8.0	8.4	6.7	-7.0	17.9	21.7	17.3	11.2
Non-debt-creating flows, net	4.2	6.7	3.2	4.5	2.0	-19.2	8.3	8.7	6.4	4.3
Reserve-related liabilities	-0.5	-0.4	-0.5	-0.2	-0.1	—	0.4	—	—	-0.1
Net credit from IMF	-0.5	-0.4	-0.5	-0.2	-0.1	—	0.4	—	...	...
Net external borrowing	12.3	6.9	5.3	4.1	4.8	12.2	9.2	13.1	11.0	7.1
<i>Memorandum</i>										
Exceptional financing	1.4	2.8	3.9	2.0	4.7	3.8	3.2	10.3	2.7	0.9
Net long-term borrowing from official creditors	6.4	8.9	1.4	3.0	2.5	2.4	5.2	3.3	1.7	-0.9
Net borrowing from commercial banks	3.1	7.7	9.2	-1.5	3.2	8.3	6.8	2.7	6.0	-1.9

Table A33 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Western Hemisphere										
Balance on current account, excluding official transfers	-17.8	-12.4	-13.8	-10.3	-8.7	-23.5	-38.9	-47.0	-49.8	-50.3
Change in reserves (- = increase)	7.1	-3.1	1.5	-4.0	-15.7	-19.2	-25.2	-22.2	-9.6	-6.2
Asset transactions, including net errors and omissions	-3.6	3.0	-5.0	-6.6	-6.0	11.3	23.7	22.2	11.9	19.7
Total, net external financing	14.3	12.5	17.3	20.9	30.5	31.3	40.5	47.1	47.4	36.9
Non-debt-creating flows, net	4.4	6.2	9.0	8.1	9.9	14.8	18.3	16.4	24.3	21.4
Reserve-related liabilities	0.6	1.0	-0.5	0.5	-1.6	-1.3	-2.6	-0.8	-1.4	-2.3
Net credit from IMF	0.1	-0.8	-0.9	-0.3	1.2	-0.5	-1.6	-1.1	...	...
Net external borrowing	9.2	5.4	8.9	12.2	22.3	17.9	24.7	31.5	24.5	17.8
<i>Memorandum</i>										
Exceptional financing	21.5	29.4	19.8	23.7	27.0	13.6	12.8	0.1	7.8	4.7
Net long-term borrowing from official creditors	9.7	7.7	6.1	9.8	11.6	6.2	6.5	4.8	-1.9	-0.8
Net borrowing from commercial banks	-1.1	0.4	-14.4	2.0	15.4	5.6	-5.8	3.2	25.8	8.9
Sub-Saharan Africa										
Balance on current account, excluding official transfers	-10.6	-11.6	-13.5	-12.9	-14.9	-14.9	-16.1	-15.2	-13.9	-13.1
Change in reserves (- = increase)	-0.6	-0.4	-0.5	-0.8	-0.1	-1.4	-0.7	-0.3	-1.4	-1.3
Asset transactions, including net errors and omissions	-0.2	-0.9	-0.7	0.7	1.2	0.9	0.5	1.3	3.4	-1.6
Total, net external financing	11.3	12.9	14.7	13.1	13.8	15.3	16.3	14.2	11.9	16.0
Non-debt-creating flows, net	5.2	5.4	6.1	6.7	6.6	6.8	7.7	6.9	7.6	7.8
Reserve-related liabilities	-0.8	-0.1	0.2	-0.6	-0.1	0.1	-0.1	-0.2	0.2	0.8
Net credit from IMF	-0.4	-0.5	-0.2	-0.4	-0.3	—	—	-0.1	...	...
Net external borrowing	6.9	7.6	8.4	7.0	7.3	8.4	8.7	7.6	4.1	7.4
<i>Memorandum</i>										
Exceptional financing	4.4	5.3	6.0	7.1	7.2	7.6	8.1	7.7	6.0	4.8
Net long-term borrowing from official creditors	6.3	6.7	6.2	4.4	8.3	7.0	7.0	5.8	-0.1	3.6
Net borrowing from commercial banks	-0.5	-0.1	0.1	0.4	0.9	0.5	0.4	0.2	0.3	—
Four newly industrializing Asian economies										
Balance on current account, excluding official transfers	23.2	30.9	28.4	24.4	14.4	10.3	10.2	4.6	0.8	3.2
Change in reserves (- = increase)	-24.3	-30.0	-9.1	-5.1	-0.4	-12.7	-10.9	-9.2	0.7	-0.6
Asset transactions, including net errors and omissions	-4.3	-3.1	-9.7	-8.8	-8.3	-8.8	-0.3	1.8	-0.5	-1.3
Total, net external financing	5.4	2.2	-9.6	-10.5	-5.7	11.3	1.0	2.8	-1.0	-1.2
Non-debt-creating flows, net	5.0	8.8	-3.7	-4.5	-2.9	-0.3	-2.3	-0.3	-1.8	-3.8
Reserve-related liabilities	-0.1	-1.2	-0.5	—	—	—	—	—	—	—
Net credit from IMF	-0.1	-1.2	-0.5	—	—	—	—	—	...	...
Net external borrowing	0.5	-5.4	-5.4	-6.0	-2.8	11.5	3.3	3.1	0.7	2.6
<i>Memorandum</i>										
Exceptional financing	—	—	—	—	—	—	—	—	—	—
Net long-term borrowing from official creditors	-0.2	-2.4	-0.9	-0.3	0.2	0.8	0.5	1.0	0.5	0.7
Net borrowing from commercial banks	1.8	-1.7	-4.5	-5.1	-5.7	8.6	2.7	0.9	-0.4	1.3

¹For definitions, see footnotes to Table A32.

Table A34. Developing Countries—By Analytical Criteria: External Financing¹*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
By predominant export										
Fuel										
Balance on current account, excluding official transfers	-34.3	-10.5	-27.9	-9.4	9.1	-43.9	-45.2	-47.4	-45.7	-40.5
Change in reserves (- = increase)	18.2	-10.7	22.5	-8.7	-14.3	-15.7	0.6	0.4	-3.4	-4.2
Asset transactions, including net errors and omissions	-1.1	13.0	-3.8	7.0	-5.6	55.7	21.4	12.9	20.5	22.2
Total, net external financing	17.2	8.2	9.2	11.2	10.8	3.9	23.2	34.1	28.6	22.5
Non-debt-creating flows, net	-0.3	3.4	1.6	4.4	-3.1	-21.6	9.5	10.4	10.1	8.5
Reserve-related liabilities	0.7	1.5	1.0	3.1	1.5	0.8	-1.4	-1.9	-1.5	-1.6
Net credit from IMF	0.8	1.0	—	2.0	2.7	0.8	-1.3	-1.9	...	...
Net external borrowing	16.8	3.3	6.6	3.7	12.3	24.7	15.1	25.6	20.0	15.6
<i>Memorandum</i>										
Exceptional financing	10.5	7.6	7.0	6.8	10.7	5.2	9.1	15.2	5.8	3.7
Net long-term borrowing from official creditors	8.5	12.3	6.9	0.9	13.7	8.1	19.5	12.0	-4.7	0.7
Net borrowing from commercial banks	-1.1	1.5	-1.9	7.0	14.4	20.0	0.9	9.5	26.0	11.1
Nonfuel exports										
Balance on current account, excluding official transfers	-26.6	-10.3	-12.8	-23.8	-35.8	-36.1	-42.3	-76.7	-79.0	-77.3
Change in reserves (- = increase)	-23.8	-37.5	-20.7	-16.0	-28.3	-52.0	-52.6	-48.6	-19.5	-21.3
Asset transactions, including net errors and omissions	-6.1	-4.5	-17.6	-14.8	-9.2	-8.0	-2.8	11.3	-1.8	0.8
Total, net external financing	56.5	52.2	51.2	54.6	73.3	96.2	97.7	114.0	100.2	97.8
Non-debt-creating flows, net	27.1	32.1	25.0	26.1	34.3	41.7	44.6	56.4	57.6	51.4
Reserve-related liabilities	-2.6	-4.1	-4.4	-4.1	-6.1	1.0	0.7	3.1	0.6	-0.5
Net credit from IMF	-3.0	-5.7	-4.1	-3.5	-4.6	0.8	1.2	1.7	...	...
Net external borrowing	31.9	24.2	30.6	32.6	45.0	53.4	52.3	54.6	42.0	46.8
<i>Memorandum</i>										
Exceptional financing	27.4	37.2	31.0	32.7	34.6	26.6	23.9	8.8	15.0	10.1
Net long-term borrowing from official creditors	22.9	18.4	13.8	20.9	22.0	19.5	18.6	21.6	10.6	13.2
Net borrowing from commercial banks	5.6	9.1	0.8	-3.2	11.4	15.3	10.3	4.2	12.0	6.1
By financial criteria										
Net creditor countries										
Balance on current account, excluding official transfers	9.4	15.6	8.0	16.9	28.2	-14.0	-5.6	-14.1	-18.1	-12.7
Change in reserves (- = increase)	-16.1	-30.9	11.5	-1.7	5.2	-10.4	—	6.2	5.5	3.6
Asset transactions, including net errors and omissions	-4.0	3.1	-8.6	-3.8	-11.2	47.1	5.1	5.9	11.4	13.1
Total, net external financing	10.7	12.2	-10.9	-11.5	-22.2	-22.7	0.5	2.0	1.2	-4.1
Non-debt-creating flows, net	-0.4	5.3	-10.8	-9.9	-15.6	-34.3	-7.1	-3.2	-5.2	-6.7
Reserve-related liabilities	—	—	—	—	—	—	—	—	—	—
Net credit from IMF	—	—	—	—	—	—	—	—	...	...
Net external borrowing	11.1	6.9	-0.1	-1.6	-6.6	11.6	7.5	5.2	6.5	2.7
<i>Memorandum</i>										
Exceptional financing	—	—	—	—	—	—	2.2	9.0	1.0	-0.6
Net long-term borrowing from official creditors	-0.8	-0.9	-0.7	0.3	0.2	1.6	7.4	0.6	0.7	-1.7
Net borrowing from commercial banks	2.1	8.3	1.0	-4.1	-7.3	10.4	4.4	2.2	5.7	-2.1

Table A34 (continued)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Net debtor countries										
Balance on current account, excluding official transfers	-70.3	-36.4	-48.7	-50.1	-54.9	-66.0	-82.0	-110.0	-106.5	-105.1
Change in reserves (- = increase)	10.5	-17.3	-9.7	-23.1	-47.8	-57.3	-51.9	-54.4	-28.5	-29.1
Asset transactions, including net errors and omissions	-3.1	5.4	-12.8	-4.0	-3.6	0.5	13.5	18.3	7.4	10.0
Total, net external financing	62.9	48.2	71.2	77.3	106.2	122.8	120.4	146.1	127.6	124.3
Non-debt-creating flows, net	27.2	30.2	37.3	40.5	46.9	54.4	61.2	70.0	73.0	66.6
Reserve-related liabilities	-1.9	-2.7	-3.4	-1.0	-4.5	1.8	-0.6	1.2	-0.9	-2.1
Net credit from IMF	-2.2	-4.7	-4.1	-1.5	-1.9	1.6	-0.2	-0.3	...	...
Net external borrowing	37.6	20.6	37.3	37.8	63.9	66.5	59.8	75.0	55.6	59.7
<i>Memorandum</i>										
Exceptional financing	37.9	44.8	38.0	39.6	45.3	31.8	30.8	15.0	19.9	14.4
Net long-term borrowing from official creditors	32.3	31.6	21.5	21.4	35.5	26.0	30.7	33.0	5.2	15.6
Net borrowing from commercial banks	2.4	2.3	-2.1	7.8	33.1	24.9	6.8	11.5	32.3	19.3
Market borrowers										
Balance on current account, excluding official transfers	-22.2	2.9	-2.7	-5.4	-2.2	-26.8	-39.4	-61.5	-61.9	-64.1
Change in reserves (- = increase)	7.4	-13.5	-10.1	-15.7	-36.6	-38.3	-40.5	-42.4	-21.1	-20.7
Asset transactions, including net errors and omissions	-7.8	1.1	-15.3	-13.4	-17.6	-5.3	4.8	8.9	3.6	11.7
Total, net external financing	22.6	9.5	28.1	34.4	56.4	70.5	75.1	95.0	79.4	73.1
Non-debt-creating flows, net	12.8	14.5	19.6	19.5	23.3	29.7	37.8	45.8	45.7	40.7
Reserve-related liabilities	1.2	-0.2	-1.1	1.1	-2.1	-1.3	-2.6	-1.2	-1.6	-2.2
Net credit from IMF	0.6	-1.8	-1.4	0.2	0.8	-0.7	-1.6	-1.5	...	...
Net external borrowing	8.7	-4.8	9.7	13.8	35.2	42.1	39.8	50.3	35.3	34.6
<i>Memorandum</i>										
Exceptional financing	17.9	25.7	16.3	19.6	23.7	10.6	10.3	-2.4	4.9	2.8
Net long-term borrowing from official creditors	7.5	1.9	4.1	7.7	11.4	9.9	8.7	9.5	1.5	3.6
Net borrowing from commercial banks	-3.3	-3.6	-10.7	3.9	24.2	21.7	4.1	9.2	26.4	15.6
Diversified borrowers										
Balance on current account, excluding official transfers	-23.0	-17.8	-21.5	-20.8	-29.4	-15.9	-17.9	-22.3	-20.7	-18.4
Change in reserves (- = increase)	4.1	-1.6	2.5	-5.4	-5.4	-12.7	-9.7	-10.0	-3.5	-5.5
Asset transactions, including net errors and omissions	3.1	5.1	2.6	7.9	10.9	1.9	5.2	7.0	-0.9	-0.6
Total, net external financing	15.8	14.3	16.4	18.3	23.8	26.7	22.3	25.3	25.1	24.5
Non-debt-creating flows, net	4.9	4.8	6.2	6.5	8.4	9.7	8.7	10.3	13.2	11.3
Reserve-related liabilities	-2.2	-2.0	-1.6	-1.9	-1.3	2.8	1.6	2.4	0.5	-0.5
Net credit from IMF	-1.7	-2.2	-1.9	-1.5	-1.5	2.0	1.1	1.3	...	...
Net external borrowing	13.0	11.5	11.8	13.7	16.7	14.2	12.1	12.6	11.4	13.7
<i>Memorandum</i>										
Exceptional financing	3.3	4.3	6.4	7.9	5.8	8.6	7.7	6.4	5.5	3.9
Net long-term borrowing from official creditors	11.1	18.2	3.9	0.7	14.5	9.6	13.7	14.7	2.6	6.1
Net borrowing from commercial banks	6.6	6.7	9.0	5.2	9.6	3.1	4.7	4.6	5.9	4.2

Table A34 (continued)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Official borrowers										
Balance on current account, excluding official transfers	-25.1	-21.5	-24.6	-23.9	-23.3	-23.3	-24.7	-26.3	-23.9	-22.7
Change in reserves (- = increase)	-1.0	-2.1	-2.0	-2.1	-5.8	-6.2	-1.8	-2.0	-3.8	-2.9
Asset transactions, including net errors and omissions	1.6	-0.8	-0.1	1.4	3.2	3.9	3.5	2.4	4.6	-1.1
Total, net external financing	24.5	24.4	26.7	24.5	26.0	25.6	23.0	25.8	23.1	26.7
Non-debt-creating flows, net	9.5	10.9	11.6	14.5	15.2	15.0	14.7	13.9	14.1	14.6
Reserve-related liabilities	-0.9	-0.5	-0.7	-0.2	-1.2	0.3	0.4	-0.1	0.2	0.6
Net credit from IMF	-1.0	-0.8	-0.8	-0.2	-1.1	0.3	0.3	-0.1	...	...
Net external borrowing	15.9	14.0	15.8	10.2	12.0	10.2	7.9	12.0	8.9	11.5
<i>Memorandum</i>										
Exceptional financing	16.7	14.8	15.4	12.1	15.7	12.7	12.8	11.0	9.5	7.7
Net long-term borrowing from official creditors	13.6	11.6	13.4	13.0	9.6	6.5	8.3	8.8	1.1	5.9
Net borrowing from commercial banks	-0.8	-0.8	-0.4	-1.3	-0.7	0.1	-2.0	-2.2	0.1	-0.6
Countries with recent debt-servicing difficulties										
Balance on current account, excluding official transfers	-47.3	-32.1	-39.4	-32.3	-32.6	-43.1	-59.6	-66.4	-65.1	-63.9
Change in reserves (- = increase)	10.4	-7.1	1.2	-10.2	-23.6	-26.7	-25.0	-24.0	-14.6	-10.5
Asset transactions, including net errors and omissions	4.7	8.3	0.3	3.0	6.0	16.9	25.5	24.9	16.1	18.2
Total, net external financing	32.3	30.9	37.8	39.5	50.1	53.0	59.0	65.5	63.5	56.2
Non-debt-creating flows, net	11.8	14.6	18.4	19.1	21.4	26.3	28.4	25.7	33.4	28.7
Reserve-related liabilities	-0.6	0.3	-0.6	—	-2.3	-0.5	-2.2	0.9	-0.3	-0.6
Net credit from IMF	-1.0	-1.8	-1.3	-0.5	0.4	-0.6	-1.8	-0.5	...	...
Net external borrowing	21.0	16.0	20.0	20.3	31.1	27.1	32.9	38.9	30.4	28.0
<i>Memorandum</i>										
Exceptional financing	37.6	44.6	37.9	39.7	44.9	30.5	29.4	13.9	18.5	13.4
Net long-term borrowing from official creditors	18.5	20.7	16.8	20.3	21.1	12.8	16.6	13.4	-6.0	5.1
Net borrowing from commercial banks	-2.2	1.2	-11.5	-3.1	15.4	3.3	-9.1	3.8	23.4	8.8
Countries without debt-servicing difficulties										
Balance on current account, excluding official transfers	-23.0	-4.2	-9.4	-17.8	-22.3	-22.9	-22.4	-43.6	-41.5	-41.3
Change in reserves (- = increase)	0.1	-10.2	-10.9	-12.9	-24.2	-30.5	-26.9	-30.4	-13.9	-18.6
Asset transactions, including net errors and omissions	-7.9	-2.9	-13.1	-7.0	-9.6	-16.4	-12.0	-6.6	-8.8	-8.2
Total, net external financing	30.7	17.3	33.4	37.8	56.1	69.8	61.3	80.6	64.1	68.1
Non-debt-creating flows, net	15.4	15.6	18.9	21.3	25.5	28.1	32.8	44.2	39.6	37.9
Reserve-related liabilities	-1.3	-3.0	-2.8	-1.0	-2.2	2.3	1.6	0.2	-0.6	-1.5
Net credit from IMF	-1.2	-2.9	-2.8	-1.0	-2.3	2.1	1.6	0.2	...	...
Net external borrowing	16.6	4.7	17.2	17.5	32.8	39.4	27.0	36.1	25.2	31.7
<i>Memorandum</i>										
Exceptional financing	0.3	0.2	0.2	-0.1	0.4	1.3	1.4	1.1	1.3	1.0
Net long-term borrowing from official creditors	13.8	11.0	4.6	1.1	14.4	13.2	14.1	19.6	11.3	10.6
Net borrowing from commercial banks	4.6	1.2	9.4	10.9	17.7	21.6	15.9	7.7	8.9	10.5

Table A34 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Other groups										
Small low-income countries										
Balance on current account, excluding official transfers	-13.4	-14.9	-17.0	-17.4	-18.6	-17.9	-18.6	-18.6	-17.8	-17.9
Change in reserves (- = increase)	-0.2	-0.2	-0.1	-0.7	0.3	-0.4	0.6	—	-0.6	—
Asset transactions, including net errors and omissions	-0.3	-0.1	-0.6	0.4	0.3	0.1	0.1	1.0	3.2	-1.5
Total, net external financing	14.0	15.2	17.7	17.7	18.0	18.1	17.9	17.6	15.2	19.3
Non-debt-creating flows, net	6.3	6.8	7.4	7.9	8.2	8.7	8.8	8.5	8.7	9.3
Reserve-related liabilities	-0.8	-0.4	-0.1	-0.1	-0.6	0.4	0.3	—	0.3	0.8
Net credit from IMF	-0.9	-0.6	-0.3	—	-0.6	0.4	0.2	—	...	...
Net external borrowing	8.5	8.8	10.4	10.0	10.4	9.0	8.8	9.1	6.2	9.2
<i>Memorandum</i>										
Exceptional financing	4.1	4.2	4.3	4.9	4.9	5.0	5.3	4.4	4.6	3.0
Net long-term borrowing from official creditors	6.0	5.3	6.6	8.1	9.5	7.3	7.3	7.2	7.5	5.4
Net borrowing from commercial banks	-0.3	0.4	0.4	0.1	1.0	0.3	-0.2	-0.1	0.4	0.2
Least developed countries										
Balance on current account, excluding official transfers	-10.1	-10.8	-11.8	-11.6	-13.4	-13.6	-14.5	-13.9	-13.8	-13.8
Change in reserves (- = increase)	-1.0	-1.4	-0.8	-0.7	-0.3	-1.4	-0.8	-1.0	-0.9	-0.8
Asset transactions, including net errors and omissions	-0.2	-0.1	-0.4	-0.5	0.3	0.5	0.1	0.5	3.6	-1.8
Total, net external financing	11.3	12.3	13.0	12.8	13.4	14.5	15.2	14.4	11.2	16.4
Non-debt-creating flows, net	5.6	6.0	6.2	6.6	6.9	7.7	8.4	8.3	7.9	8.4
Reserve-related liabilities	-0.2	0.2	—	-0.4	-0.3	0.1	0.2	-0.1	0.1	0.7
Net credit from IMF	-0.3	—	-0.2	-0.3	-0.4	0.1	0.2	-0.1	...	...
Net external borrowing	5.9	6.2	6.8	6.6	6.9	6.7	6.5	6.2	3.2	7.4
<i>Memorandum</i>										
Exceptional financing	3.5	3.6	3.9	4.8	5.0	5.5	6.1	5.4	5.0	3.8
Net long-term borrowing from official creditors	5.0	4.7	5.2	5.1	6.4	5.1	4.6	4.7	5.6	4.0
Net borrowing from commercial banks	-0.2	0.3	-0.5	0.6	0.7	0.1	-0.2	-0.1	0.2	—
Fifteen heavily indebted countries										
Balance on current account, excluding official transfers	-17.2	-9.9	-11.8	-8.0	-6.0	-25.9	-37.1	-49.1	-50.6	-50.2
Change in reserves (- = increase)	6.1	-2.2	-0.2	-8.4	-19.1	-18.3	-22.0	-22.8	-12.3	-9.6
Asset transactions, including net errors and omissions	-3.4	1.9	-4.4	-1.4	-7.0	12.1	21.5	21.0	11.1	18.7
Total, net external financing	14.6	10.1	16.4	17.8	32.2	32.1	37.6	50.8	51.8	41.1
Non-debt-creating flows, net	4.0	5.6	8.9	10.2	10.4	14.3	18.5	16.2	25.2	21.9
Reserve-related liabilities	0.2	0.3	-1.0	-0.1	-2.2	-1.1	-2.2	0.4	-0.3	-1.0
Net credit from IMF	-0.2	-1.3	-1.4	-0.8	0.6	-1.4	-1.8	-1.1	...	...
Net external borrowing	10.3	4.2	8.5	7.7	24.0	18.8	21.3	34.2	26.8	20.2
<i>Memorandum</i>										
Exceptional financing	32.1	36.9	26.9	28.5	33.5	19.4	19.4	4.2	10.2	7.4
Net long-term borrowing from official creditors	11.5	9.1	6.5	12.1	13.0	9.2	10.7	7.6	-11.4	-0.1
Net borrowing from commercial banks	-1.9	-1.4	-13.8	-0.1	13.3	4.9	-8.4	7.0	26.9	9.2

¹For definitions, see footnotes to Table A32.

Table A35. Developing Countries: Reserves¹

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>In billions of U.S. dollars</i>										
Developing countries	195.8	255.2	249.6	271.5	319.9	388.0	408.6	448.1	446.6	452.2
By region										
Africa	9.3	11.0	10.8	12.7	17.5	21.2	18.3	19.3	21.7	26.4
Asia	104.6	148.4	158.6	168.5	194.2	237.5	236.8	246.9	241.2	240.3
Middle East and Europe	48.3	57.5	49.1	57.0	59.9	63.4	64.8	71.8	69.3	68.3
Western Hemisphere	33.7	38.3	31.1	33.3	48.3	65.9	88.7	110.0	114.4	117.3
Sub-Saharan Africa	5.1	6.0	6.5	7.2	8.5	9.8	9.8	10.2	11.1	12.2
Four newly industrializing Asian economies	67.8	102.8	111.4	117.7	126.3	143.6	152.7	161.8	161.1	161.8
By predominant export										
Fuel	57.4	71.8	52.6	58.8	68.6	82.1	75.9	80.8	84.3	89.0
Nonfuel exports	138.4	183.4	197.0	212.7	251.3	305.9	332.7	367.3	362.4	363.2
Manufactures	102.1	145.7	156.7	169.1	193.0	230.4	235.7	268.1	271.1	275.9
Primary products	17.8	17.1	19.7	20.4	27.9	34.6	41.2	28.5	11.1	-3.9
Agricultural products	11.5	10.5	12.5	11.7	15.8	19.8	23.6	9.6	-7.7	-23.0
Minerals	6.3	6.6	7.2	8.7	12.1	14.9	17.6	18.8	18.9	19.1
Services and private transfers	7.5	8.0	8.5	9.1	11.2	15.2	21.5	25.4	29.4	32.8
Diversified export base	11.1	12.6	12.1	14.1	19.1	25.7	34.3	45.4	50.8	58.4
By financial criteria										
Net creditor countries	84.2	119.4	109.2	108.6	103.4	113.5	109.9	108.8	103.2	99.6
Net debtor countries	111.6	135.8	140.5	162.9	216.5	274.5	298.7	339.3	343.4	352.6
Market borrowers	76.3	94.4	99.2	113.0	154.9	196.6	211.7	260.1	276.0	293.7
Diversified borrowers	23.4	27.2	26.4	33.3	38.9	49.5	56.0	45.6	29.7	18.0
Official borrowers	11.8	14.2	14.8	16.6	22.7	28.3	30.9	33.7	37.7	40.9
Countries with recent debt-servicing difficulties	36.9	44.2	36.7	44.7	67.6	90.7	113.8	136.5	145.4	152.9
Countries without debt-servicing difficulties	74.7	91.6	103.8	118.2	148.9	183.8	184.8	202.9	198.0	199.8
Other groups										
Small low-income economies	5.4	5.5	5.7	5.7	6.2	7.3	7.2	8.0	8.6	8.6
Least developed countries	4.6	6.4	7.1	7.3	8.7	10.3	11.2	-8.5	-26.4	-42.5
Fifteen heavily indebted countries	34.4	38.7	32.9	38.1	57.2	74.5	93.8	115.5	122.3	129.2

Table A35 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	<i>Ratio of reserves to imports of goods and services²</i>									
Developing countries	30.1	35.1	29.3	28.7	30.2	33.1	31.7	32.1	29.5	26.9
By region										
Africa	10.5	11.8	10.5	11.9	14.9	18.4	15.3	16.3	18.9	21.2
Asia	37.8	45.0	37.4	34.9	35.6	38.3	33.6	31.3	27.3	24.2
Middle East and Europe	30.6	34.7	28.7	30.2	28.0	26.8	27.0	29.0	26.9	24.2
Western Hemisphere	26.0	27.8	20.0	19.8	26.5	33.2	39.7	45.9	44.5	42.0
Sub-Saharan Africa	13.9	14.7	14.9	15.9	17.3	20.1	19.8	20.9	22.7	23.3
Four newly industrializing Asian economies	49.2	56.3	46.7	43.2	40.5	39.7	37.5	36.1	32.0	28.5
By predominant export										
Fuel	29.7	38.5	25.1	25.4	26.6	27.9	24.6	25.8	26.0	24.8
Nonfuel exports	30.2	34.0	30.6	29.7	31.3	34.9	34.0	34.0	30.5	27.5
Manufactures	37.1	43.5	37.4	35.7	36.2	38.8	35.3	35.5	32.2	29.3
Primary products	24.5	21.2	22.7	22.4	28.7	33.6	35.4	23.3	8.6	-2.8
Agricultural products	22.3	18.5	20.6	18.7	23.9	27.6	28.7	11.0	-8.4	-23.1
Minerals	30.0	27.7	27.7	30.6	39.0	47.5	51.7	54.7	51.9	48.5
Services and private transfers	15.0	15.3	15.3	15.2	17.3	23.2	31.1	34.9	38.8	40.8
Diversified export base	18.1	17.7	14.8	15.3	17.9	22.2	27.3	34.5	35.7	37.2
By financial criteria										
Net creditor countries	76.5	94.6	76.2	67.5	58.1	51.5	48.1	46.0	42.0	38.4
Net debtor countries	20.6	22.6	19.8	20.7	24.5	28.9	28.2	29.3	27.1	24.9
Market borrowers	24.8	26.5	22.7	23.0	28.0	31.1	29.4	32.8	31.4	29.7
Diversified borrowers	16.2	18.0	15.5	17.9	18.7	25.3	26.4	19.4	11.6	6.2
Official borrowers	13.2	15.2	14.4	15.2	18.8	23.1	24.3	26.1	28.7	29.1
Countries with recent debt-servicing difficulties	15.7	18.0	13.4	15.3	21.5	28.4	32.6	37.0	37.1	35.2
Countries without debt-servicing difficulties	24.3	25.8	23.8	24.0	26.2	29.1	26.0	25.7	22.6	20.3
Other groups										
Small low-income economies	13.0	12.2	11.5	11.1	11.4	13.1	12.5	13.3	13.8	12.6
Least developed countries	16.9	20.7	21.2	20.9	23.5	28.0	29.6	-22.0	-65.5	-96.5
Fifteen heavily indebted countries	22.8	24.2	18.1	19.2	25.9	32.0	36.8	42.4	42.2	41.0

¹In this table, official holdings of gold are valued at SDR 35 an ounce. This convention results in a marked underestimate of reserves for countries that have substantial gold holdings.

²Reserves at year-end in percent of imports of goods and services for the year indicated.

Table A36. Net Credit from IMF¹

(In billions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1992	1993
Developing countries	-2.2	-4.7	-4.1	-1.5	-1.9	1.6	-0.2	-0.3
By region								
Africa	-1.0	-1.1	-0.3	0.1	-0.6	0.2	-0.2	0.2
Asia	-0.9	-2.4	-2.4	-1.1	-2.4	1.9	1.3	0.6
Middle East and Europe	-0.5	-0.4	-0.5	-0.2	-0.1	—	0.4	—
Western Hemisphere	0.1	-0.8	-0.9	-0.3	1.2	-0.5	-1.6	-1.1
Sub-Saharan Africa	-0.4	-0.5	-0.2	-0.4	-0.3	—	—	-0.1
By predominant export								
Fuel	0.8	1.0	—	2.0	2.7	0.8	-1.3	-1.9
Nonfuel exports	-3.0	-5.7	-4.1	-3.5	-4.6	0.8	1.2	1.7
Manufactures	-1.0	-4.0	-2.9	-2.6	-2.6	1.3	1.1	—
Primary products	-0.5	-0.3	-0.4	-1.0	-0.9	-0.8	-0.4	0.8
Services and private transfers	-0.6	-0.6	-0.6	0.2	-0.4	0.3	0.3	0.2
Diversified export base	-1.0	-0.8	-0.3	-0.1	-0.7	0.1	0.1	0.7
By financial criteria								
Net creditor countries	—	—	—	—	—	—	—	—
Net debtor countries	-2.2	-4.7	-4.1	-1.5	-1.9	1.6	-0.2	-0.3
Market borrowers	0.6	-1.8	-1.4	0.2	0.8	-0.7	-1.6	-1.5
Official borrowers	-1.0	-0.8	-0.8	-0.2	-1.1	0.3	0.3	-0.1
Countries with recent debt-servicing difficulties	-1.0	-1.8	-1.3	-0.5	0.4	-0.6	-1.8	-0.5
Countries without debt-servicing difficulties	-1.2	-2.9	-2.8	-1.0	-2.3	2.1	1.6	0.2
Other groups								
Small low-income economies	-0.9	-0.6	-0.3	—	-0.6	0.4	0.2	—
Least developed countries	-0.3	—	-0.2	-0.3	-0.4	0.1	0.2	-0.1
Fifteen heavily indebted countries	-0.2	-1.3	-1.4	-0.8	0.6	-1.4	-1.8	-1.1
Countries in transition	-0.5	-1.1	-0.9	-0.9	0.1	3.5	1.7	1.9
Central Europe	-0.5	-1.1	-0.9	-0.9	0.1	3.5	0.6	0.3
Former U.S.S.R.	—	—	—	—	—	—	1.1	1.7
Memorandum								
Total, nonindustrial countries								
Net credit provided under:								
General Resources Account	-2.169	-5.656	-4.877	-3.121	-2.148	3.606	0.842	1.711
Trust Fund	-0.632	-0.718	-0.675	-0.513	-0.366	-0.069	—	-0.060
SAF	0.075	0.522	0.413	0.902	0.131	0.242	0.024	-0.064
ESAF	—	—	0.138	0.330	0.557	0.804	0.706	0.317
Disbursements at year-end under: ²								
General Resources Account	40.020	40.269	33.314	29.334	29.503	33.434	32.961	34.609
Trust Fund	2.362	1.959	1.182	0.629	0.296	0.226	0.217	0.157
SAF	0.100	0.688	1.067	1.967	2.403	2.670	2.590	2.524
ESAF	—	—	0.138	0.473	0.959	1.805	2.424	2.734

¹Excludes industrial countries' net credit from IMF. Includes net disbursements from programs under the General Resources Account, Trust Fund, SAF, and ESAF. The data are on a transaction basis, with conversions to U.S. dollar values at annual average exchange rates.

²Converted to U.S. dollar values at end-of-period exchange rates.

Table A37. Summary of External Debt and Debt Service¹

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>In billions of U.S. dollars</i>										
External debt										
Developing countries	1,036.6	1,154.3	1,171.7	1,201.5	1,290.0	1,364.3	1,407.3	1,488.5	1,546.1	1,608.8
By region										
Africa	169.8	192.8	200.3	209.9	224.6	230.5	224.1	228.2	228.4	232.5
Asia	281.8	315.4	324.5	329.9	362.0	403.3	428.9	467.1	494.0	524.7
Middle East and Europe	204.1	228.3	238.6	250.3	271.2	280.3	284.1	297.1	307.5	314.8
Western Hemisphere	380.9	417.8	408.3	411.4	432.2	450.3	470.2	496.2	516.2	536.7
By financial criteria										
Net creditor countries	57.9	63.8	62.1	59.7	54.0	66.2	73.4	78.0	84.7	88.0
Net debtor countries	978.6	1,090.5	1,109.6	1,141.8	1,235.9	1,298.1	1,333.9	1,410.5	1,461.4	1,520.8
Market borrowers	492.9	532.0	521.8	522.4	560.2	601.9	633.7	680.9	715.2	754.1
Diversified borrowers	274.1	319.3	334.5	354.1	390.3	403.8	411.6	429.3	434.5	448.3
Official borrowers	211.6	239.1	253.2	265.3	285.4	292.4	288.6	300.3	311.7	318.3
Countries with recent debt-servicing difficulties	628.0	696.9	705.7	724.9	771.6	792.3	803.9	837.2	860.5	886.4
Countries without debt-servicing difficulties	350.7	393.5	403.9	416.8	464.3	505.8	530.0	573.3	601.0	634.4
Countries in transition	124.5	141.5	141.2	153.3	170.4	175.3	186.6	200.6	215.0	229.7
Central Europe	93.1	102.3	98.2	98.3	109.2	108.0	107.4	109.4	110.2	107.4
Former U.S.S.R.	31.4	39.2	43.0	55.0	61.1	67.1	78.9	90.8	104.3	121.7
Debt-service payments²										
Developing countries	131.5	144.4	155.2	146.7	154.0	165.2	168.9	187.3	203.1	213.1
By region										
Africa	19.7	18.9	20.4	21.5	23.7	25.0	23.6	23.7	34.5	28.8
Asia	39.8	51.1	48.6	51.2	51.5	55.5	62.1	66.5	70.4	76.9
Middle East and Europe	22.2	24.0	25.6	28.4	34.8	32.4	25.4	26.2	34.3	37.7
Western Hemisphere	49.8	50.4	60.6	45.6	44.1	52.3	57.8	71.0	63.9	69.8
By financial criteria										
Net creditor countries	9.5	9.7	10.6	10.9	11.5	13.0	9.6	9.4	16.8	19.6
Net debtor countries	122.1	134.7	144.6	135.8	142.5	152.2	159.3	177.9	186.2	193.5
Market borrowers	74.0	83.8	89.9	76.3	74.2	83.4	93.5	108.4	102.9	112.4
Diversified borrowers	30.7	34.1	40.3	43.3	46.9	46.2	48.8	51.6	57.3	59.3
Official borrowers	17.4	16.8	14.5	16.2	21.4	22.6	16.9	17.9	26.1	21.9
Countries with recent debt-servicing difficulties	69.5	69.5	78.0	66.0	69.7	74.3	74.9	89.1	91.9	95.4
Countries without debt-servicing difficulties	52.6	65.2	66.6	69.8	72.8	77.8	84.3	88.7	94.3	98.2
Countries in transition	22.5	22.1	25.1	22.7	30.3	29.3	17.5	13.1	33.1	36.5
Central Europe	14.6	13.3	16.7	13.8	11.8	11.8	10.8	9.3	12.0	14.7
Former U.S.S.R.	7.9	8.9	8.4	8.9	18.4	17.5	6.7	3.7	21.0	21.8

Table A37 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>In percent of exports of goods and services</i>										
External debt³										
Developing countries	178.5	166.5	146.0	133.3	126.2	126.2	118.9	118.4	112.4	104.0
By region										
Africa	245.9	244.8	245.3	239.5	221.8	234.9	227.7	236.3	232.9	218.4
Asia	104.7	92.6	76.7	69.4	67.9	66.5	62.4	62.0	58.5	54.8
Middle East and Europe	153.7	151.7	150.5	135.6	124.2	135.5	129.2	135.6	133.3	121.0
Western Hemisphere	347.3	339.1	293.1	267.2	255.7	265.1	263.7	264.6	256.0	241.2
By financial criteria										
Net creditor countries	44.8	42.0	37.8	31.3	24.4	29.5	30.7	33.1	34.9	33.7
Net debtor countries	216.8	201.5	173.9	160.6	154.4	151.5	141.2	138.2	129.0	118.3
Market borrowers	174.7	150.1	121.4	108.7	102.7	100.2	94.2	93.4	87.9	81.9
Diversified borrowers	235.8	251.4	235.4	225.0	228.8	235.1	222.4	210.9	191.3	170.9
Official borrowers	399.2	400.2	383.1	364.1	339.7	345.1	333.0	341.3	337.8	310.9
Countries with recent debt-servicing difficulties	350.5	341.7	314.8	291.4	287.1	301.6	293.1	291.5	276.1	250.3
Countries without debt-servicing difficulties	128.8	116.7	97.6	90.2	87.3	85.1	79.0	78.1	73.2	68.1
Countries in transition	67.0	69.4	66.4	71.7	84.4	108.0	135.8	141.0	144.9	136.5
Central Europe	135.0	137.1	123.7	124.3	150.9	174.7	159.1	169.0	161.7	144.2
Former U.S.S.R.	27.1	30.5	32.5	41.1	47.3	67.0	113.4	117.7	130.7	130.3
Debt-service payments										
Developing countries	22.7	20.8	19.3	16.3	15.1	15.3	14.3	14.9	14.8	13.8
By region										
Africa	28.6	24.0	24.9	24.5	23.4	25.5	23.9	24.5	35.1	27.0
Asia	14.8	15.0	11.5	10.8	9.7	9.1	9.0	8.8	8.3	8.0
Middle East and Europe	16.7	15.9	16.2	15.4	15.9	15.7	11.5	11.9	14.9	14.5
Western Hemisphere	45.4	40.9	43.5	29.6	26.1	30.8	32.4	37.8	31.7	31.4
By financial criteria										
Net creditor countries	7.3	6.4	6.4	5.7	5.2	5.8	4.0	4.0	6.9	7.5
Net debtor countries	27.0	24.9	22.7	19.1	17.8	17.8	16.9	17.4	16.4	15.1
Market borrowers	26.2	23.7	20.9	15.9	13.6	13.9	13.9	14.9	12.6	12.2
Diversified borrowers	26.4	26.9	28.4	27.5	27.5	26.9	26.4	25.3	25.2	22.6
Official borrowers	32.8	28.1	21.9	22.3	25.5	26.7	19.5	20.3	28.2	21.4
Countries with recent debt-servicing difficulties	38.8	34.1	34.8	26.5	26.0	28.3	27.3	31.0	29.5	26.9
Countries without debt-servicing difficulties	19.3	19.3	16.1	15.1	13.7	13.1	12.6	12.1	11.5	10.5
Countries in transition	12.1	10.9	11.8	10.6	15.0	18.0	12.8	9.2	22.3	21.7
Central Europe	21.2	17.8	21.0	17.5	16.3	19.0	16.1	14.3	17.6	19.7
Former U.S.S.R.	6.8	6.9	6.4	6.6	14.2	17.5	9.6	4.8	26.3	23.3

¹Excludes liabilities and service payments to the IMF.²Debt-service payments refer to actual payments of interest on total debt plus actual amortization payments on long-term debt. The projections incorporate the impact of exceptional financing items.³Total debt at year-end in percent of exports of goods and services in year indicated.

Table A38. Developing Countries—By Region: External Debt, by Maturity and Type of Creditor¹*(In billions of U.S. dollars)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries										
Total debt	1,036.6	1,154.3	1,171.7	1,201.5	1,290.0	1,364.3	1,407.3	1,488.5	1,546.1	1,608.8
By maturity										
Short-term	188.2	208.5	214.8	220.4	239.9	240.8	251.5	262.6	259.5	269.4
Long-term	848.4	945.8	956.9	981.1	1,050.0	1,123.5	1,155.8	1,225.9	1,286.6	1,339.4
By type of creditor										
Official	406.7	480.7	491.0	508.6	567.8	598.8	618.1	655.4	662.2	673.5
Commercial banks	481.0	519.7	499.3	488.0	494.7	529.4	529.5	537.8	566.3	583.0
Other private	148.8	153.9	181.4	205.0	227.4	236.1	259.7	295.3	317.6	352.3
By region										
Africa										
Total debt	169.8	192.8	200.3	209.9	224.6	230.5	224.1	228.2	228.4	232.5
By maturity										
Short-term	20.8	23.0	23.0	25.1	25.7	26.3	27.7	31.0	25.0	24.9
Long-term	149.0	169.8	177.3	184.8	199.0	204.1	196.4	197.2	203.3	207.6
By type of creditor										
Official	97.7	121.6	126.9	131.6	145.6	150.2	152.5	160.7	156.7	159.6
Commercial banks	56.4	60.2	57.6	60.5	63.3	62.9	54.1	49.6	40.2	37.7
Other private	15.6	11.0	15.8	17.8	15.8	17.4	17.6	17.9	31.5	35.2
Asia										
Total debt	281.8	315.4	324.5	329.9	362.0	403.3	428.9	467.1	494.0	524.7
By maturity										
Short-term	55.4	64.8	71.5	69.6	70.9	79.5	86.2	93.5	98.3	104.2
Long-term	226.4	250.6	253.0	260.3	291.1	323.7	342.7	373.6	395.7	420.5
By type of creditor										
Official	128.7	148.4	149.0	150.2	170.5	184.7	197.6	219.1	230.0	240.2
Commercial banks	104.9	116.8	118.9	120.4	124.5	146.0	157.7	169.5	180.2	192.7
Other private	48.3	50.2	56.6	59.3	67.0	72.6	73.6	78.6	83.8	91.8
Middle East and Europe										
Total debt	204.1	228.3	238.6	250.3	271.2	280.3	284.1	297.1	307.5	314.8
By maturity										
Short-term	64.0	65.5	65.4	69.4	74.5	76.9	76.6	83.4	86.6	90.2
Long-term	140.1	162.8	173.2	180.8	196.7	203.4	207.5	213.7	220.9	224.6
By type of creditor										
Official	91.6	104.7	101.7	104.0	107.1	106.0	107.7	110.9	112.3	111.2
Commercial banks	63.1	71.7	74.7	78.5	82.1	90.0	93.6	95.8	101.5	99.5
Other private	49.4	51.9	62.1	67.7	81.9	84.3	82.8	90.4	93.8	104.1
Western Hemisphere										
Total debt	380.9	417.8	408.3	411.4	432.2	450.3	470.2	496.2	516.2	536.7
By maturity										
Short-term	47.9	55.3	54.9	56.3	68.8	58.0	61.0	54.8	49.5	50.1
Long-term	332.9	362.6	353.3	355.2	363.3	392.3	409.2	441.4	466.7	486.6
By type of creditor										
Official	88.7	106.0	113.3	122.7	144.6	158.0	160.3	164.8	163.2	162.4
Commercial banks	256.6	271.0	248.1	228.5	224.8	230.6	224.2	222.9	244.4	253.1
Other private	35.5	40.8	46.9	60.2	62.7	61.8	85.7	108.5	108.6	121.2
Sub-Saharan Africa										
Total debt	77.4	91.9	98.3	102.2	114.5	123.3	128.3	134.6	136.2	139.7
By maturity										
Short-term	7.2	9.5	10.1	10.9	12.1	14.1	15.7	17.6	15.2	14.0
Long-term	70.2	82.4	88.2	91.3	102.3	109.2	112.6	117.0	121.0	125.7
By type of creditor										
Official	59.5	72.5	78.3	80.4	91.1	98.1	100.7	105.9	105.9	106.7
Commercial banks	12.6	14.2	13.5	13.8	15.9	16.3	16.4	16.0	11.4	11.3
Other private	5.3	5.2	6.5	8.0	7.4	9.0	11.2	12.7	19.0	21.7

¹Excludes liabilities to the IMF.

Table A39. Developing Countries—By Analytical Criteria: External Debt, by Maturity and Type of Creditor¹
(In billions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
By predominant export										
Fuel										
Total debt	320.5	357.2	366.8	376.3	409.2	440.1	453.2	481.8	503.1	517.5
By maturity										
Short-term	66.2	70.5	74.5	75.6	73.3	73.6	77.9	85.4	85.4	90.0
Long-term	254.3	286.7	292.3	300.7	335.9	366.4	375.3	396.4	417.7	427.5
By type of creditor										
Official	77.9	97.2	102.9	103.7	125.6	135.6	149.0	163.5	159.5	157.7
Commercial banks	189.1	203.5	193.8	202.6	208.8	229.3	223.5	232.7	258.4	269.3
Other private	53.5	56.4	70.2	70.0	74.8	75.2	80.7	85.6	85.1	90.4
Nonfuel exports										
Total debt	716.0	797.2	804.8	825.1	880.8	924.3	954.1	1,006.7	1,043.0	1,091.3
By maturity										
Short-term	122.0	138.1	140.3	144.7	166.6	167.2	173.6	177.2	174.1	179.4
Long-term	594.1	659.1	664.5	680.4	714.1	757.1	780.5	829.6	868.9	911.9
By type of creditor										
Official	328.9	383.5	388.1	404.8	442.2	463.2	469.2	491.9	502.7	515.7
Commercial banks	291.9	316.2	305.5	285.3	285.9	300.2	306.0	305.1	307.8	313.7
Other private	95.3	97.4	111.2	134.9	152.6	160.9	179.0	209.8	232.5	261.9
Manufactures										
Total debt	318.5	356.8	356.3	364.0	394.9	424.3	441.1	476.9	499.6	528.4
By maturity										
Short-term	62.7	76.5	75.4	78.0	93.8	103.5	101.4	109.9	107.8	112.1
Long-term	255.7	280.3	280.9	286.0	301.0	320.9	339.7	367.0	391.8	416.3
By type of creditor										
Official	98.4	113.0	108.7	114.5	125.0	141.3	141.8	149.3	153.4	158.1
Commercial banks	159.8	180.6	177.7	161.3	166.9	183.6	194.8	197.8	203.2	211.3
Other private	60.3	63.3	69.9	88.3	102.9	99.5	104.5	129.8	143.0	159.0
Primary products										
Total debt	199.6	225.6	233.6	244.2	262.2	273.9	283.0	292.1	301.4	314.2
By maturity										
Short-term	27.9	32.5	37.2	39.6	46.2	38.4	43.5	38.2	37.1	36.8
Long-term	171.7	193.1	196.4	204.7	216.0	235.5	239.5	253.9	264.3	277.3
By type of creditor										
Official	104.7	124.1	132.3	139.2	159.5	167.9	172.0	180.1	181.9	185.5
Commercial banks	74.8	77.3	72.5	71.0	68.8	68.0	66.4	61.0	58.6	56.4
Other private	20.1	24.2	28.8	34.0	33.9	38.0	44.5	51.0	60.9	72.3
Agricultural products										
Total debt	140.5	161.7	167.9	179.6	189.5	199.2	203.6	209.3	216.5	229.3
By maturity										
Short-term	20.6	23.1	26.0	26.6	31.1	29.0	32.3	26.1	23.6	24.9
Long-term	119.9	138.6	141.9	153.0	158.4	170.2	171.3	183.2	192.9	204.4
By type of creditor										
Official	76.3	91.5	96.8	102.2	114.1	120.5	122.5	128.8	129.2	132.3
Commercial banks	51.1	56.5	54.1	55.1	52.3	51.4	51.1	45.5	43.0	42.8
Other private	13.1	13.6	17.0	22.3	23.1	27.3	30.1	35.0	44.3	54.3
Minerals										
Total debt	59.2	64.0	65.7	64.6	72.7	74.7	79.4	82.8	84.9	84.9
By maturity										
Short-term	7.3	9.4	11.2	13.0	15.2	9.4	11.2	12.1	13.4	11.9
Long-term	51.8	54.6	54.5	51.6	57.5	65.3	68.2	70.7	71.5	72.9
By type of creditor										
Official	28.4	32.5	35.5	37.0	45.4	47.5	49.5	51.3	52.8	53.2
Commercial banks	23.8	20.8	18.4	15.9	16.5	16.5	15.4	15.5	15.5	13.6
Other private	7.0	10.6	11.8	11.7	10.8	10.7	14.5	16.0	16.6	18.0

Table A39 (continued)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Services and private transfers										
Total debt	90.1	100.8	103.7	107.3	112.9	112.3	112.1	115.9	120.1	123.6
By maturity										
Short-term	11.0	10.6	10.8	10.2	8.5	6.0	6.0	7.0	7.5	7.9
Long-term	79.1	90.2	93.0	97.1	104.4	106.2	106.2	109.0	112.5	115.7
By type of creditor										
Official	69.6	78.3	82.4	86.2	88.3	86.2	84.7	87.0	89.4	91.7
Commercial banks	12.7	13.8	14.0	14.3	15.4	15.2	15.4	15.9	16.3	16.5
Other private	7.9	8.6	7.4	6.8	9.2	10.8	12.1	13.0	14.4	15.4
Diversified export base										
Total debt	107.8	113.9	111.2	109.5	110.8	113.7	117.9	121.8	121.9	125.1
By maturity										
Short-term	20.4	18.5	17.0	16.9	18.1	19.3	22.8	22.0	21.7	22.6
Long-term	87.5	95.4	94.3	92.6	92.8	94.4	95.1	99.7	100.3	102.6
By type of creditor										
Official	56.2	68.1	64.7	64.9	69.4	67.8	70.6	75.5	77.8	80.5
Commercial banks	44.7	44.5	41.3	38.8	34.9	33.4	29.3	30.3	29.8	29.5
Other private	6.9	1.4	5.2	5.8	6.5	12.6	17.9	16.0	14.3	15.1
By financial criteria										
Net creditor countries										
Total debt	57.9	63.8	62.1	59.7	54.0	66.2	73.4	78.0	84.7	88.0
By maturity										
Short-term	42.1	49.6	48.7	45.8	39.2	45.2	43.8	47.0	49.7	52.7
Long-term	15.8	14.3	13.4	13.9	14.8	21.0	29.6	31.1	35.0	35.3
By type of creditor										
Official	10.6	9.8	9.1	9.4	9.6	11.3	18.3	19.2	19.8	18.2
Commercial banks	39.2	47.8	47.1	44.1	37.1	47.1	49.2	51.2	56.7	54.5
Other private	8.1	6.2	6.0	6.2	7.3	7.9	5.9	7.6	8.1	15.3
Net debtor countries										
Total debt	978.6	1,090.5	1,109.6	1,141.8	1,235.9	1,298.1	1,333.9	1,410.5	1,461.4	1,520.8
By maturity										
Short-term	146.1	159.0	166.1	174.5	200.7	195.6	207.7	215.6	209.8	216.7
Long-term	832.6	931.5	943.5	967.2	1,035.2	1,102.5	1,126.2	1,194.9	1,251.6	1,304.0
By type of creditor										
Official	396.1	470.9	481.9	499.2	558.2	587.5	599.8	636.2	642.3	655.3
Commercial banks	441.9	471.9	452.2	443.8	457.6	482.4	480.3	486.6	509.6	528.4
Other private	140.6	147.6	175.4	198.7	220.1	228.2	253.8	287.7	309.5	337.0
Market borrowers										
Total debt	492.9	532.0	521.8	522.4	560.2	601.9	633.7	680.9	715.2	754.1
By maturity										
Short-term	74.9	81.0	85.5	92.7	114.1	111.0	122.9	120.5	118.2	122.1
Long-term	418.0	451.0	436.3	429.7	446.0	490.9	510.8	560.5	597.0	632.0
By type of creditor										
Official	105.2	121.2	118.6	125.8	146.0	163.1	168.6	180.5	182.8	186.6
Commercial banks	320.4	337.1	316.2	294.3	299.9	321.9	324.1	327.8	350.0	365.5
Other private	67.3	73.8	87.1	102.3	114.2	116.9	141.0	172.7	182.4	202.0
Diversified borrowers										
Total debt	274.1	319.3	334.5	354.1	390.3	403.8	411.6	429.3	434.5	448.3
By maturity										
Short-term	50.9	56.3	58.2	59.6	66.5	65.1	66.8	72.4	71.5	75.5
Long-term	223.3	263.0	276.4	294.4	323.9	338.7	344.8	356.9	363.0	372.9
By type of creditor										
Official	127.3	155.0	155.8	156.6	177.9	188.5	194.4	209.9	212.9	219.0
Commercial banks	91.1	104.7	106.5	115.6	121.7	124.9	127.0	131.8	132.5	136.6
Other private	55.7	59.6	72.3	81.9	90.8	90.4	90.3	87.6	89.1	92.7

Table A39 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Official borrowers										
Total debt	211.6	239.1	253.2	265.3	285.4	292.4	288.6	300.3	311.7	318.3
By maturity										
Short-term	20.3	21.7	22.4	22.2	20.1	19.5	18.0	22.8	20.1	19.2
Long-term	191.3	217.4	230.8	243.1	265.3	272.9	270.6	277.5	291.6	299.2
By type of creditor										
Official	163.6	194.7	207.6	216.9	234.3	236.0	236.9	245.8	246.7	249.7
Commercial banks	30.3	30.2	29.5	33.9	36.0	35.5	29.3	27.0	27.0	26.3
Other private	17.7	14.2	16.1	14.5	15.1	20.9	22.5	27.5	38.1	42.3
Countries with recent debt-servicing difficulties										
Total debt	628.0	696.9	705.7	724.9	771.6	792.3	803.9	837.2	860.5	886.4
By maturity										
Short-term	86.0	93.9	92.6	95.6	107.5	95.2	98.2	94.2	84.1	85.0
Long-term	541.9	603.0	613.1	629.3	664.1	697.1	705.7	743.1	776.4	801.4
By type of creditor										
Official	230.1	278.7	294.8	313.3	354.2	368.1	372.0	385.5	380.1	382.4
Commercial banks	324.0	341.3	315.6	300.5	295.0	297.7	281.1	278.2	292.2	300.7
Other private	73.9	77.0	95.2	111.1	122.4	126.5	150.9	173.6	188.2	203.3
Countries without debt-servicing difficulties										
Total debt	350.7	393.5	403.9	416.8	464.3	505.8	530.0	573.3	601.0	634.4
By maturity										
Short-term	60.1	65.0	73.5	79.0	93.1	100.4	109.5	121.5	125.7	131.8
Long-term	290.6	328.5	330.4	337.9	371.2	405.4	420.5	451.8	475.3	502.6
By type of creditor										
Official	166.1	192.3	187.1	185.9	203.9	219.4	227.9	250.7	262.2	273.0
Commercial banks	117.9	130.6	136.6	143.3	162.7	184.6	199.2	208.4	217.4	227.8
Other private	66.7	70.7	80.2	87.6	97.7	101.8	102.9	114.2	121.4	133.7
Other groups										
Small low-income economies										
Total debt	104.1	120.3	127.1	132.6	146.1	157.2	162.1	172.0	179.8	187.6
By maturity										
Short-term	6.1	7.4	8.2	9.1	10.3	11.6	12.5	14.6	15.8	15.0
Long-term	98.0	113.0	119.0	123.5	135.8	145.5	149.6	157.3	164.0	172.6
By type of creditor										
Official	87.0	101.0	108.9	114.1	125.8	134.2	138.2	146.1	152.6	157.8
Commercial banks	10.0	11.3	11.4	11.7	13.2	12.8	12.1	11.9	12.2	12.3
Other private	7.1	8.1	6.8	6.8	7.1	10.2	11.7	14.0	15.0	17.4
Least developed countries										
Total debt	73.3	84.6	90.9	93.9	105.7	113.2	117.1	123.0	128.0	133.8
By maturity										
Short-term	5.2	6.1	6.7	7.1	7.9	9.3	10.1	11.5	12.7	11.7
Long-term	68.1	78.5	84.2	86.8	97.9	103.9	107.0	111.5	115.4	122.1
By type of creditor										
Official	62.1	72.0	78.2	81.2	92.5	98.0	100.4	105.4	109.8	113.7
Commercial banks	6.7	7.2	7.0	7.1	7.9	7.7	7.4	7.2	7.4	7.4
Other private	4.5	5.4	5.7	5.5	5.3	7.5	9.3	10.3	10.8	12.7
Fifteen heavily indebted countries										
Total debt	441.5	482.1	473.0	479.6	503.2	520.8	531.3	559.6	576.0	596.7
By maturity										
Short-term	53.5	59.7	58.2	63.2	76.9	66.3	72.0	68.7	55.7	55.9
Long-term	388.0	422.5	414.9	416.4	426.3	454.5	459.3	490.9	520.3	540.8
By type of creditor										
Official	112.0	140.2	145.6	159.1	185.6	199.3	203.2	210.5	199.9	199.8
Commercial banks	284.0	296.9	273.2	256.0	248.2	253.1	238.8	240.4	258.0	267.0
Other private	45.5	45.1	54.2	64.5	69.3	68.4	89.3	108.7	118.2	129.9

¹Excludes liabilities to the IMF.

Table A40. Developing Countries: Ratio of External Debt to GDP¹

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries	38.7	38.2	35.2	33.1	31.5	30.7	33.5	32.5	31.5	28.3
By region										
Africa	55.8	61.1	60.4	62.9	59.1	58.2	61.7	63.8	58.8	54.5
Asia	27.1	26.8	23.6	21.8	23.4	24.4	23.4	22.8	23.6	22.4
Middle East and Europe	33.2	30.6	30.9	30.4	25.5	22.5	38.5	39.1	34.8	25.8
Western Hemisphere	52.8	53.5	47.9	42.9	39.0	39.4	37.1	35.1	33.4	31.7
Sub-Saharan Africa	70.5	82.2	81.7	81.3	77.4	71.8	99.8	111.3	128.4	123.5
Four newly industrializing Asian economies	24.3	18.7	13.2	9.6	7.5	8.0	7.8	7.3	6.7	6.3
By predominant export										
Fuel	38.2	39.2	37.9	34.6	30.6	28.6	42.0	42.5	38.8	31.3
Nonfuel exports	38.9	37.8	34.1	32.5	31.9	31.9	30.6	29.2	28.8	27.1
Manufactures	27.5	27.1	22.9	20.2	21.1	22.6	21.9	21.2	21.7	20.6
Primary products	58.1	57.4	61.3	70.6	57.9	49.5	47.0	43.7	41.2	38.5
Agricultural products	50.1	50.7	55.2	69.7	52.9	44.4	42.0	37.9	35.5	33.5
Minerals	93.1	85.7	85.1	73.4	76.7	71.5	67.8	71.5	69.7	64.6
Services and private transfers	63.2	61.2	55.5	79.3	73.5	65.7	62.4	59.5	54.7	48.1
Diversified export base	55.1	48.8	46.6	43.3	39.1	37.8	35.7	36.1	33.9	32.1
By financial criteria										
Net creditor countries	12.8	11.5	10.3	8.5	6.0	6.1	13.0	15.3	16.9	16.3
Net debtor countries	43.9	44.2	40.7	39.1	38.6	38.8	36.7	34.7	33.1	29.5
Market borrowers	39.8	39.2	32.8	29.0	28.5	29.1	27.6	26.2	26.3	25.0
Diversified borrowers	41.6	43.6	44.0	44.6	45.6	47.6	45.0	42.7	37.4	29.4
Official borrowers	63.8	63.7	67.6	81.9	75.7	67.8	67.5	64.2	59.3	52.8
Countries with recent debt-servicing difficulties	56.9	57.2	55.0	53.6	49.3	48.2	44.7	40.9	36.9	31.2
Countries without debt-servicing difficulties	31.2	31.5	27.9	26.6	28.4	29.7	28.9	28.3	29.0	27.5
Other groups										
Small low-income economies	57.3	62.4	66.4	68.0	62.8	56.2	60.0	57.8	54.7	49.3
Least developed countries	71.4	81.6	78.2	69.6	63.6	54.4	60.8	55.7	50.3	44.0
Fifteen heavily indebted countries	54.2	56.5	49.7	45.1	40.2	39.1	39.9	38.1	35.6	33.6

¹Debt at year-end in percent of GDP in year indicated.

Table A41. Developing Countries: Debt-Service Ratios¹

(In percent of exports of goods and services)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Interest payments²										
Developing countries	12.4	9.6	9.4	8.1	7.0	6.9	6.2	6.7	6.5	6.0
By region										
Africa	13.9	11.3	11.9	11.4	10.3	11.3	9.9	9.1	18.8	12.0
Asia	6.4	5.2	4.5	4.3	4.0	3.7	3.7	3.3	3.2	3.1
Middle East and Europe	9.1	8.6	8.0	7.9	7.7	7.0	5.8	6.9	7.1	6.7
Western Hemisphere	30.1	22.1	24.2	17.7	13.5	15.5	14.3	19.0	13.9	14.7
Sub-Saharan Africa	11.0	9.9	9.6	9.1	9.3	9.9	13.0	14.1	17.0	16.8
Four newly industrializing Asian economies	3.1	2.3	1.7	1.7	1.5	1.3	1.2	0.9	0.8	0.8
By predominant export										
Fuel	14.1	12.4	13.2	12.1	9.4	9.2	7.9	8.5	11.5	8.8
Nonfuel exports	11.7	8.6	8.2	6.7	6.1	6.1	5.7	6.2	5.2	5.2
Manufactures	9.1	6.2	6.9	5.0	4.2	4.4	4.3	4.2	4.0	4.0
Primary products	22.8	18.5	14.7	13.3	11.7	13.2	12.4	20.7	12.1	13.1
Agricultural products	24.6	20.2	15.3	14.3	12.5	14.3	13.7	25.5	13.2	13.9
Minerals	18.7	14.8	13.5	11.6	10.2	10.8	9.5	9.3	9.3	11.4
Services and private transfers	14.1	11.8	7.7	8.9	12.9	12.2	8.4	8.7	8.0	7.8
Diversified export base	11.7	10.5	10.0	9.6	8.4	7.6	7.4	7.0	6.4	6.0
By financial criteria										
Net creditor countries	3.2	3.2	3.2	3.3	2.7	2.5	2.4	2.8	2.8	2.7
Net debtor countries	15.0	11.4	11.0	9.3	8.2	8.0	7.1	7.7	7.3	6.7
Market borrowers	14.9	10.2	10.0	7.5	5.9	6.1	5.7	6.7	5.2	5.2
Diversified borrowers	14.2	13.8	14.0	14.0	13.6	12.6	11.9	11.1	11.1	10.5
Official borrowers	17.2	13.6	11.0	11.3	12.1	12.4	8.4	7.9	17.3	10.2
Countries with recent debt-servicing difficulties	24.9	18.7	19.6	15.8	13.6	14.6	12.7	15.8	15.2	13.2
Countries without debt-servicing difficulties	8.5	7.0	6.3	5.9	5.5	5.1	4.9	4.5	4.4	4.2
Other groups										
Small low-income economies	11.2	11.1	11.1	10.7	9.4	9.9	13.3	13.6	12.7	12.9
Least developed countries	11.2	9.8	9.1	8.7	6.8	7.9	13.8	14.5	13.3	13.6
Fifteen heavily indebted countries	29.7	21.8	23.5	17.9	13.4	15.9	13.2	17.2	17.3	15.0

Table A41 (concluded)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Amortization²										
Developing countries	10.3	11.2	10.0	8.2	8.1	8.4	8.1	8.2	8.2	7.8
By region										
Africa	14.7	12.7	13.1	13.2	13.1	14.2	14.1	15.4	16.3	15.0
Asia	8.4	9.8	7.0	6.4	5.6	5.4	5.4	5.5	5.1	4.9
Middle East and Europe	7.7	7.4	8.2	7.5	8.3	8.7	5.7	5.0	7.8	7.8
Western Hemisphere	15.3	18.8	19.3	11.9	12.6	15.3	18.2	18.9	17.8	16.6
Sub-Saharan Africa	12.5	11.5	10.3	10.2	8.1	8.5	11.3	12.8	14.7	16.4
Four newly industrializing Asian economies	5.9	8.6	4.7	3.5	3.4	2.7	2.6	2.5	2.2	2.1
By predominant export										
Fuel	11.2	13.3	14.8	9.2	9.3	11.7	12.0	10.8	13.7	13.4
Nonfuel exports	9.9	10.5	8.4	7.9	7.6	7.3	6.9	7.4	6.8	6.2
Manufactures	8.2	10.2	7.3	6.6	5.8	5.9	5.6	6.1	5.5	5.2
Primary products	17.0	11.4	15.2	15.2	15.1	13.9	15.6	16.5	15.5	14.7
Agricultural products	20.7	14.9	20.2	20.6	20.7	17.9	19.3	19.0	18.0	16.0
Minerals	8.2	4.0	5.1	5.2	3.6	5.6	7.7	10.8	9.5	11.5
Services and private transfers	11.8	13.6	9.2	9.5	15.3	15.7	9.6	9.5	8.1	8.0
Diversified export base	10.0	9.6	8.7	8.0	7.6	6.6	6.5	7.7	7.4	6.3
By financial criteria										
Net creditor countries	4.1	3.2	3.2	2.4	2.5	3.3	1.6	1.2	4.2	4.8
Net debtor countries	12.0	13.5	11.7	9.8	9.6	9.7	9.7	9.8	9.1	8.4
Market borrowers	11.3	13.4	10.9	8.4	7.7	7.8	8.2	8.2	7.5	7.0
Diversified borrowers	12.2	13.1	14.3	13.5	13.9	14.2	14.5	14.3	14.1	12.1
Official borrowers	15.5	14.5	10.9	11.0	13.4	14.3	11.2	12.4	10.9	11.2
Countries with recent debt-servicing difficulties	13.8	15.4	15.2	10.7	12.4	13.6	14.6	15.3	14.3	13.8
Countries without debt-servicing difficulties	10.8	12.3	9.8	9.3	8.2	8.0	7.7	7.6	7.1	6.3
Other groups										
Small low-income economies	17.2	15.4	14.8	15.2	12.5	12.7	14.8	16.9	15.5	15.5
Least developed countries	13.3	10.0	9.4	12.0	8.7	10.4	13.5	14.7	11.9	13.8
Fifteen heavily indebted countries	15.5	17.4	18.1	12.0	12.4	14.6	16.1	17.0	17.1	16.0

¹Excludes service payments to the IMF.

²Interest payments on total debt and amortization on long-term debt. Estimates through 1993 reflect debt-service payments actually made. The estimates for 1994 and 1995 take into account projected exceptional financing items, including accumulation of arrears and rescheduling agreements. In some cases amortization on account of debt-reduction operations is included.

Table A42. IMF Charges and Repurchases to the IMF¹*(In percent of exports of goods and services)*

	1986	1987	1988	1989	1990	1991	1992	1993
Developing countries	1.5	1.6	1.2	1.0	1.0	0.8	0.6	0.5
By region								
Africa	3.4	2.9	2.0	2.1	1.6	1.3	1.2	1.1
Asia	1.0	1.1	0.7	0.5	0.5	0.4	0.2	0.1
Middle East and Europe	0.4	0.4	0.3	0.2	0.1	—	—	—
Western Hemisphere	2.7	3.6	2.9	2.8	3.1	2.9	2.6	2.6
Sub-Saharan Africa	5.6	4.8	4.6	4.7	3.4	2.5	2.1	1.6
By predominant export								
Fuel	0.3	0.5	0.6	0.6	0.8	1.0	0.9	1.0
Nonfuel exports	2.0	2.0	1.3	1.1	1.0	0.7	0.5	0.4
Manufactures	1.1	1.4	0.9	0.6	0.5	0.3	0.2	0.1
Primary products	4.7	5.0	4.1	4.1	3.6	3.1	2.6	2.7
Services and private transfers	2.6	2.8	2.0	1.6	1.5	1.1	1.4	0.8
Diversified export base	2.9	2.5	1.1	1.0	1.1	0.8	0.5	0.3
By financial criteria								
Net creditor countries	—	—	—	—	—	—	—	—
Net debtor countries	1.9	2.1	1.5	1.3	1.2	1.0	0.8	0.7
Market borrowers	1.2	1.5	1.0	0.9	1.0	0.8	0.7	0.7
Official borrowers	4.6	4.1	3.2	2.9	2.5	1.9	1.4	1.2
Countries with recent debt-servicing difficulties	3.0	3.3	2.5	2.5	2.6	2.4	2.1	2.0
Countries without debt-servicing difficulties	1.1	1.3	0.9	0.6	0.5	0.4	0.2	0.2
Other groups								
Small low-income economies	8.1	7.1	5.7	5.8	4.9	3.1	2.5	1.9
Least developed countries	7.5	4.9	3.4	4.5	3.8	2.7	1.7	1.3
Fifteen heavily indebted countries	3.1	3.7	3.1	2.9	2.9	2.8	2.3	2.3
Countries in transition	0.5	0.7	0.7	0.5	0.4	0.3	0.7	0.5
Central Europe	1.5	1.9	1.9	1.4	1.1	0.8	1.5	1.0
Former U.S.S.R.	—	—	—	—	—	—	—	0.1
Memorandum								
Total, in billions of U.S. dollars								
General Resources Account	9.563	12.594	10.892	10.000	10.538	9.010	8.348	7.671
Charges	2.913	2.674	2.428	2.422	2.596	2.525	2.427	2.341
Repurchases	6.650	9.921	8.463	7.578	7.941	6.485	5.921	5.330
Trust Fund	0.643	0.715	0.680	0.517	0.369	0.070	—	0.063
Interest	0.011	0.005	0.004	0.004	0.002	0.001	—	0.003
Repayments	0.632	0.710	0.675	0.513	0.366	0.069	—	0.060
SAF	—	0.001	0.003	0.006	0.010	0.014	0.045	0.138
Interest	—	0.001	0.003	0.006	0.010	0.014	0.012	0.012
Repayments	—	—	—	—	—	—	0.033	0.126
ESAF	—	—	—	0.001	0.003	0.007	0.010	0.013
Interest	—	—	—	0.001	0.003	0.007	0.010	0.013
Repayments	—	—	—	—	—	—	—	—

¹Excludes industrial countries. Charges on, and repurchases (or repayments of principal) for, use of IMF credit.

Table A43. Summary of Sources and Uses of World Saving
(In percent of GDP)

	Averages		1987	1988	1989	1990	1991	1992	1993	1994	1995
	1977-81	1982-86									
World											
Saving	25.0	22.5	23.2	23.5	23.7	23.3	22.3	21.5	20.5	21.2	21.3
Investment	25.4	23.3	23.6	24.2	24.5	24.1	23.1	22.8	22.5	22.8	23.3
Industrial countries											
Saving	22.9	20.7	20.5	21.2	21.4	20.7	20.1	19.4	19.4	19.8	20.2
Private	21.5	21.0	19.6	19.8	19.3	19.2	19.6	19.8	20.2	20.3	20.0
Public	1.4	-0.3	0.9	1.5	2.2	1.5	0.5	-0.5	-0.7	-0.5	0.2
Investment	23.2	21.0	21.0	21.7	22.1	21.6	20.6	20.0	19.6	20.0	20.5
Private	19.4	17.3	17.5	18.2	18.6	17.9	17.0	16.4	15.8	16.3	16.8
Public	3.7	3.7	3.5	3.5	3.6	3.8	3.6	3.6	3.7	3.7	3.7
Net lending	-0.2	-0.3	-0.6	-0.5	-0.7	-0.9	-0.4	-0.7	-0.1	-0.2	-0.2
Private	2.0	3.6	2.1	1.6	0.7	1.4	2.6	3.4	4.3	4.0	3.2
Public	-2.3	-4.0	-2.6	-2.0	-1.4	-2.3	-3.0	-4.1	-4.5	-4.2	-3.5
Unrequited transfers	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.2	-0.4	-0.4	-0.4	-0.3
Factor income	0.3	—	-0.1	-0.1	—	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Resource balance	-0.2	-0.1	-0.4	-0.3	-0.4	-0.4	0.1	0.1	0.4	0.3	0.2
United States											
Saving	20.8	17.5	16.0	16.6	16.4	15.2	14.6	13.9	14.9	15.6	16.0
Private	18.8	18.6	16.1	16.4	15.6	15.4	15.8	16.0	16.1	16.0	15.9
Public	1.9	-1.2	-0.1	0.2	0.8	-0.2	-1.1	-2.2	-1.3	-0.5	0.1
Investment	21.0	19.4	18.9	18.4	18.2	16.9	15.2	15.5	16.2	17.4	18.0
Private	18.5	17.1	16.5	16.2	15.8	14.6	12.9	13.2	14.0	15.2	15.9
Public	2.5	2.2	2.4	2.2	2.3	2.3	2.3	2.3	2.2	2.2	2.1
Net lending	-0.2	-1.9	-2.9	-1.8	-1.7	-1.7	-0.6	-1.6	-1.3	-1.8	-2.0
Private	0.3	1.5	-0.4	0.2	-0.2	0.8	2.9	2.9	2.2	0.8	—
Public	-0.5	-3.4	-2.5	-2.0	-1.5	-2.5	-3.4	-4.5	-3.5	-2.7	-2.0
Unrequited transfers	-0.3	-0.5	-0.5	-0.5	-0.5	-0.6	0.1	-0.5	-0.5	-0.5	-0.5
Factor income	1.1	0.7	0.2	0.3	0.3	0.4	0.2	0.1	—	-0.1	-0.3
Resource balance	-1.0	-2.3	-3.3	-2.3	-1.7	-1.4	-0.5	-0.7	-1.2	-1.5	-1.6
European Union											
Saving	21.7	20.0	20.3	21.1	21.6	21.1	19.9	19.0	18.7	19.4	20.0
Private	21.5	20.9	20.7	21.0	21.0	21.5	21.1	21.3	21.9	22.2	22.2
Public	0.2	-1.0	-0.4	0.1	0.5	-0.4	-1.2	-2.3	-3.2	-2.9	-2.2
Investment	22.2	19.7	19.8	21.0	21.7	21.6	20.9	20.0	18.6	19.0	19.5
Private	19.0	16.2	16.5	17.6	18.2	17.6	17.5	16.7	15.4	15.8	16.2
Public	3.2	3.5	3.3	3.4	3.5	4.0	3.4	3.3	3.2	3.2	3.3
Net lending	-0.5	0.3	0.5	0.1	-0.2	-0.5	-1.0	-1.0	—	0.3	0.5
Private	2.4	4.7	4.2	3.4	2.8	3.9	3.6	4.6	6.5	6.4	6.0
Public	-3.0	-4.5	-3.7	-3.3	-3.0	-4.4	-4.6	-5.6	-6.5	-6.1	-5.5
Unrequited transfers	-0.3	-0.3	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3
Factor income	-0.2	-0.3	-0.3	-0.2	-0.1	-0.3	-0.4	-0.3	-0.5	-0.4	-0.3
Resource balance	—	0.9	1.2	0.6	0.3	0.1	-0.3	-0.2	1.0	1.1	1.1
Japan											
Saving	31.9	31.0	32.3	33.4	33.8	34.0	34.7	34.4	33.5	32.6	32.0
Private	28.2	26.7	25.8	25.5	24.2	23.6	25.0	25.1	25.4	26.0	24.4
Public	3.7	4.3	6.5	7.9	9.6	10.4	9.7	9.3	8.1	6.6	7.6
Investment	31.5	28.4	28.7	30.6	31.8	32.8	32.5	31.2	30.4	29.6	29.3
Private	21.8	20.6	21.8	23.7	25.0	26.0	25.6	23.5	21.7	20.6	20.7
Public	9.7	7.8	6.9	6.9	6.7	6.8	6.9	7.6	8.7	9.0	8.6
Net lending	0.4	2.6	3.6	2.7	2.0	1.2	2.2	3.2	3.1	3.0	2.7
Private	6.3	6.1	4.0	1.8	-0.9	-2.4	-0.7	1.6	3.7	5.4	3.7
Public	-6.0	-3.5	-0.4	0.9	2.9	3.6	2.8	1.6	-0.6	-2.4	-1.0
Unrequited transfers	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.4	-0.1	-0.1	-0.2	-0.2
Factor income	0.1	0.3	0.7	0.7	0.8	0.8	0.8	1.0	1.0	1.0	1.2
Resource balance	0.4	2.4	3.1	2.2	1.3	0.6	1.8	2.3	2.3	2.1	1.7

Table A43 (continued)

	Averages										
	1977–81	1982–86	1987	1988	1989	1990	1991	1992	1993	1994	1995
Developing countries											
Saving	25.7	22.0	24.5	24.5	25.1	26.2	23.9	24.7	24.0	24.2	25.0
Investment	26.6	24.2	25.1	25.8	26.2	26.7	25.4	26.2	26.5	26.5	27.0
Net lending	-0.9	-2.2	-0.6	-1.3	-1.2	-0.5	-1.5	-1.4	-2.4	-2.3	-2.0
Unrequited transfers	1.2	1.4	1.4	1.3	1.5	1.5	1.1	1.5	1.4	1.3	1.3
Factor income	-1.3	-2.4	-2.3	-2.1	-2.1	-1.9	-1.7	-1.6	-1.6	-1.5	-1.4
Resource balance	-0.8	-1.3	0.2	-0.5	-0.8	-0.2	-1.0	-1.5	-2.4	-2.3	-1.9
Memorandum											
Acquisition of foreign assets	3.1	0.5	1.1	0.5	0.8	1.8	1.3	1.0	0.9	0.6	0.6
Change in reserves	1.1	-0.1	1.3	-0.1	0.7	1.6	2.1	1.0	0.9	0.6	0.7
By region											
Africa											
Saving	26.8	19.4	18.3	17.6	18.9	20.6	19.6	19.0	17.9	18.5	19.9
Investment	30.1	22.6	20.8	20.7	21.1	21.1	20.8	21.1	20.4	20.1	21.3
Net lending	-3.3	-3.2	-2.6	-3.1	-2.2	-0.5	-1.2	-2.1	-2.5	-1.6	-1.4
Unrequited transfers	1.7	2.4	3.7	3.9	4.4	4.5	4.2	4.5	4.7	4.5	4.6
Factor income	-2.9	-4.1	-6.4	-5.2	-5.2	-5.6	-5.3	-5.4	-5.2	-4.6	-4.1
Resource balance	-2.3	-1.6	-0.1	-2.0	-1.5	0.4	-0.2	-1.7	-2.4	-2.0	-2.3
Memorandum											
Acquisition of foreign assets	1.0	0.2	0.8	-0.2	0.5	1.5	1.2	-0.9	—	-0.4	1.5
Change in reserves	0.2	-0.1	0.8	-0.2	0.9	1.6	1.0	-1.3	0.4	0.8	1.0
Asia											
Saving	26.0	26.5	30.1	30.0	30.0	30.6	30.2	30.3	29.7	29.8	30.4
Investment	27.2	28.0	29.6	30.6	31.1	31.2	30.4	30.8	31.5	31.5	32.0
Net lending	-1.2	-1.5	0.5	-0.5	-1.1	-0.5	-0.2	-0.5	-1.7	-1.8	-1.6
Unrequited transfers	1.3	1.5	1.3	1.1	1.0	1.0	1.1	1.1	0.9	0.8	0.8
Factor income	-0.9	-1.3	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8	-0.9	-0.8	-0.8
Resource balance	-1.6	-1.8	0.3	-0.7	-1.5	-1.0	-0.7	-0.9	-1.9	-1.9	-1.7
Memorandum											
Acquisition of foreign assets	1.8	1.0	2.1	1.3	0.8	1.9	3.2	2.2	1.8	1.5	1.4
Change in reserves	1.0	0.5	1.9	0.5	0.4	1.7	2.4	1.0	0.9	0.8	0.9
Middle East and Europe											
Saving	33.4	19.2	19.1	18.7	20.8	22.0	13.4	20.3	17.7	16.7	17.4
Investment	26.1	22.8	21.5	20.8	21.5	22.7	20.8	23.2	21.9	20.7	20.3
Net lending	7.3	-3.7	-2.3	-2.1	-0.7	-0.7	-7.4	-2.9	-4.3	-3.9	-2.9
Unrequited transfers	2.2	1.8	1.4	0.5	2.3	1.8	-1.9	1.9	2.1	1.8	1.8
Factor income	1.7	1.8	1.2	1.5	1.2	0.6	0.8	0.8	0.3	0.3	0.3
Resource balance	3.4	-7.3	-4.9	-4.1	-4.3	-3.1	-6.3	-5.6	-6.6	-6.0	-5.0
Memorandum											
Acquisition of foreign assets	10.4	-1.2	-0.8	-1.2	0.4	0.9	-5.6	-0.8	-0.9	-1.8	-1.8
Change in reserves	2.8	-1.4	0.9	-1.4	1.9	1.4	2.2	1.3	1.1	-0.3	-0.2
Western Hemisphere											
Saving	20.7	17.4	20.2	20.2	20.4	21.7	17.8	17.0	16.6	16.8	17.4
Investment	24.6	19.5	21.1	21.8	21.5	22.2	19.3	19.5	19.7	20.1	20.3
Net lending	-3.9	-2.0	-0.9	-1.5	-1.1	-0.5	-1.5	-2.5	-3.1	-3.2	-2.9
Unrequited transfers	0.2	0.4	0.6	0.7	0.8	0.9	1.0	1.0	0.9	0.8	0.8
Factor income	-2.8	-5.4	-4.5	-4.7	-4.7	-3.9	-3.2	-2.9	-2.8	-2.8	-2.8
Resource balance	-1.4	3.0	2.9	2.5	2.8	2.5	0.7	-0.7	-1.2	-1.2	-0.8
Memorandum											
Acquisition of foreign assets	1.9	0.6	0.2	0.2	1.1	2.1	0.8	0.2	-0.1	-0.2	-0.7
Change in reserves	0.8	-0.3	0.7	-0.4	0.5	1.6	1.9	2.0	1.3	0.6	0.4

Table A43 (continued)

	Averages										
	1977-81	1982-86	1987	1988	1989	1990	1991	1992	1993	1994	1995
By predominant export											
Fuel											
Saving	31.5	21.6	21.9	19.6	22.6	27.3	19.3	22.8	21.3	21.2	22.1
Investment	28.5	23.7	23.1	23.4	24.0	27.2	25.1	26.9	25.4	24.9	25.2
Net lending	3.0	-2.0	-1.2	-3.8	-1.4	0.1	-5.8	-4.1	-4.1	-3.8	-3.1
Unrequited transfers	-1.1	-1.0	-0.5	-0.9	-0.5	-1.1	-3.0	-0.6	-0.3	-0.6	-0.5
Factor income	-1.1	-2.0	-2.0	-2.1	-2.1	-2.2	-2.1	-2.2	-2.3	-2.1	-2.1
Resource balance	5.3	0.9	1.3	-0.8	1.3	3.3	-0.7	-1.3	-1.4	-1.1	-0.5
Memorandum											
Acquisition of foreign assets	6.8	-0.3	—	-2.2	0.2	2.5	-2.1	-1.9	-0.5	-0.9	-0.9
Change in reserves	1.8	-1.2	1.7	-2.7	1.0	2.3	2.1	-0.2	0.3	0.5	0.5
Nonfuel exports											
Saving	23.2	22.1	25.4	26.1	25.8	25.9	25.3	25.3	24.8	25.1	25.8
Investment	25.8	24.4	25.8	26.6	27.0	26.6	25.5	25.9	26.8	27.0	27.5
Net lending	-2.6	-2.3	-0.4	-0.5	-1.1	-0.7	-0.2	-0.7	-2.0	-1.9	-1.7
Unrequited transfers	2.2	2.2	2.0	1.9	2.2	2.2	2.3	2.2	1.9	1.8	1.8
Factor income	-1.4	-2.5	-2.4	-2.1	-2.1	-1.8	-1.6	-1.4	-1.4	-1.3	-1.2
Resource balance	-3.4	-2.1	-0.1	-0.4	-1.5	-1.3	-1.1	-1.6	-2.6	-2.6	-2.3
Memorandum											
Acquisition of foreign assets	1.6	0.7	1.4	1.3	0.9	1.6	2.4	1.9	1.2	1.0	1.0
Change in reserves	0.8	0.4	1.2	0.7	0.6	1.4	2.1	1.4	1.1	0.7	0.7
By financial criteria											
Net creditor countries											
Saving	40.5	25.8	24.5	22.2	25.4	26.5	12.2	22.1	19.3	18.0	19.1
Investment	26.4	22.6	21.0	20.9	22.2	23.1	23.6	25.1	23.5	22.5	21.9
Net lending	14.1	3.1	3.5	1.3	3.2	3.3	-11.4	-3.0	-4.2	-4.4	-2.8
Unrequited transfers	-3.9	-3.9	-3.1	-4.7	-4.6	-6.1	-12.1	-3.8	-2.8	-3.1	-2.9
Factor income	1.7	4.4	5.3	6.6	6.2	5.1	3.9	3.0	2.0	2.0	1.9
Resource balance	16.3	2.6	1.3	-0.6	1.5	4.3	-3.2	-2.2	-3.4	-3.4	-1.8
Memorandum											
Acquisition of foreign assets	14.5	4.2	6.2	-0.6	1.2	1.1	-9.5	-1.4	-1.8	-3.1	-3.1
Change in reserves	1.8	1.7	7.5	-3.4	0.1	-1.1	1.9	—	-0.9	-0.6	-0.3
Net debtor countries											
Saving	24.3	21.6	24.5	24.7	25.0	26.2	24.8	24.9	24.4	24.7	25.5
Investment	26.6	24.3	25.5	26.2	26.5	27.0	25.6	26.2	26.7	26.9	27.4
Net lending	-2.4	-2.7	-0.9	-1.5	-1.5	-0.8	-0.7	-1.3	-2.3	-2.2	-1.9
Unrequited transfers	1.7	1.8	1.8	1.7	2.0	2.0	2.1	1.9	1.7	1.6	1.6
Factor income	-1.6	-2.9	-2.9	-2.8	-2.7	-2.5	-2.1	-2.0	-1.9	-1.8	-1.7
Resource balance	-2.5	-1.6	0.1	-0.5	-1.0	-0.6	-0.8	-1.5	-2.3	-2.2	-1.9
Memorandum											
Acquisition of foreign assets	2.0	0.2	0.7	0.6	0.7	1.8	2.2	1.2	1.1	0.8	0.9
Change in reserves	1.1	-0.2	0.9	0.2	0.7	1.8	2.1	1.1	1.1	0.7	0.7
Market borrowers											
Saving	25.3	25.0	29.2	29.4	29.4	30.2	29.1	28.2	27.7	27.9	28.1
Investment	28.4	26.4	28.6	29.7	29.9	29.5	29.1	28.8	29.7	30.0	30.0
Net lending	-3.1	-1.4	0.5	-0.3	-0.4	0.8	0.1	-0.6	-2.0	-2.1	-1.9
Unrequited transfers	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.4	0.4
Factor income	-2.0	-3.2	-2.5	-2.5	-2.3	-1.7	-1.4	-1.3	-1.3	-1.2	-1.2
Resource balance	-1.5	1.3	2.5	1.7	1.3	1.9	1.0	0.1	-1.2	-1.3	-1.1
Memorandum											
Acquisition of foreign assets	1.9	0.8	1.2	1.2	1.3	3.2	3.0	2.2	1.7	1.2	0.9
Change in reserves	0.9	0.1	1.3	0.4	0.8	2.4	2.5	1.3	1.2	0.8	0.8

Table A43 (concluded)

	Averages		1987	1988	1989	1990	1991	1992	1993	1994	1995
	1977-81	1982-86									
Official borrowers											
Saving	20.0	14.0	14.1	13.8	14.4	16.5	17.2	16.4	15.7	16.5	18.4
Investment	24.4	18.9	18.6	18.3	18.8	18.9	19.5	19.7	19.5	19.4	20.6
Net lending	-4.4	-5.0	-4.5	-4.5	-4.4	-2.4	-2.4	-3.3	-3.8	-3.0	-2.2
Unrequited transfers	5.4	6.4	6.6	6.2	7.6	8.1	7.8	7.2	6.6	6.5	6.5
Factor income	-1.3	-3.0	-4.7	-3.9	-4.1	-4.4	-3.9	-3.7	-3.5	-3.0	-2.7
Resource balance	-8.5	-8.4	-6.4	-7.1	-9.2	-7.2	-7.2	-7.8	-7.6	-7.1	-6.6
<i>Memorandum</i>											
Acquisition of foreign assets	1.3	—	0.6	0.2	0.3	1.0	0.5	-1.2	—	-0.3	1.0
Change in reserves	0.3	—	0.6	0.3	0.7	1.9	1.5	-0.3	0.5	0.9	0.7
Countries with recent debt-servicing difficulties											
Saving	23.1	16.8	18.5	18.3	18.9	20.2	17.1	16.8	16.1	16.5	17.3
Investment	26.2	20.1	20.4	20.7	20.8	21.3	18.8	19.4	19.2	19.2	19.7
Net lending	-3.1	-3.3	-1.9	-2.4	-1.9	-1.1	-1.7	-2.6	-3.0	-2.8	-2.4
Unrequited transfers	1.5	1.7	1.8	1.9	2.5	2.8	2.7	2.6	2.3	2.3	2.2
Factor income	-2.1	-4.6	-4.6	-4.5	-4.5	-4.2	-3.4	-3.0	-2.9	-2.7	-2.5
Resource balance	-2.5	-0.4	0.8	—	-0.4	-0.2	-1.4	-2.5	-2.8	-2.7	-2.4
<i>Memorandum</i>											
Acquisition of foreign assets	2.3	-0.3	0.1	-0.3	0.6	1.4	0.7	-0.4	-0.2	-0.2	—
Change in reserves	1.1	-0.5	0.8	-0.3	0.9	1.9	2.0	1.0	1.0	0.8	0.6
Countries without debt-servicing difficulties											
Saving	25.5	25.8	29.2	29.3	29.3	30.1	29.7	29.8	29.1	29.2	29.7
Investment	27.2	27.9	29.4	30.1	30.5	30.8	29.8	30.3	31.0	31.0	31.4
Net lending	-1.7	-2.1	-0.2	-0.8	-1.2	-0.6	-0.1	-0.6	-1.9	-1.9	-1.7
Unrequited transfers	1.9	2.0	1.7	1.6	1.6	1.5	1.6	1.5	1.4	1.3	1.2
Factor income	-1.1	-1.4	-1.5	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.2	-1.2
Resource balance	-2.5	-2.6	-0.4	-0.9	-1.4	-0.9	-0.5	-0.8	-2.0	-1.9	-1.7
<i>Memorandum</i>											
Acquisition of foreign assets	1.7	0.6	1.1	1.2	0.8	2.1	3.1	2.2	1.8	1.4	1.3
Change in reserves	1.0	0.2	0.9	0.5	0.6	1.8	2.2	1.1	1.1	0.7	0.8
Countries in transition											
Central Europe											
Saving	31.4	29.5	28.7	29.8	27.0	27.0	21.0	20.0	17.8	14.5	17.2
Investment	34.4	29.2	28.3	28.4	26.9	27.1	22.9	20.9	21.0	20.7	21.8
Net lending	-3.0	0.3	0.3	1.4	0.2	-0.1	-1.9	-1.0	-3.2	-6.2	-4.7
Unrequited transfers	1.1	1.0	1.0	1.2	1.1	1.7	1.0	2.2	11.8	10.5	9.9
Factor income	-1.9	-2.5	-2.4	-2.5	-2.6	-2.5	-2.8	-2.7	-7.9	-6.8	-6.4
Resource balance	-2.2	1.8	1.7	2.7	1.7	0.7	-0.1	-0.5	-7.0	-9.9	-8.2
<i>Memorandum</i>											
Acquisition of foreign assets	0.5	1.1	0.4	-0.5	0.2	1.2	2.4	0.7	1.6	2.0	4.3
Change in reserves	—	0.4	-0.1	1.3	1.2	0.2	1.9	0.7	2.7	1.3	8.0

Note: The estimates in this table are based on individual countries' national accounts and balance of payments statistics. In particular, the estimates of national saving are built up from national accounts data on gross domestic investment and from balance-of-payments-based data on net foreign investment. The latter, which is equivalent to the current account balance, comprises three components: net unrequited transfers, net factor income, and the resource balance. The mixing of data sources, which is dictated by availability, implies that the estimates for national saving that are derived incorporate statistical discrepancies. Furthermore, errors, omissions, and asymmetries in balance of payments statistics affect the estimates for net lending; at the global level, net lending, which in theory would be zero, equals the world current account discrepancy. Notwithstanding these statistical shortcomings, flow of funds estimates, such as those presented in this table, provide a useful framework for analyzing developments in saving and investment, both over time and across regions and countries.

Table A44. Summary of Medium-Term Baseline Scenario

Four-Year	Eight-Year Averages		Four-Year Average					Four-Year Average
	1976-83	1984-91	1992-95	1992	1993	1994	1995	1996-99
Annual percent change, unless otherwise noted								
Industrial countries								
Real GDP	2.6	3.0	1.9	1.6	1.2	2.4	2.6	3.1
Real total domestic demand	2.4	3.2	2.0	1.6	1.1	2.5	2.6	3.1
GDP deflator	8.4	4.1	2.6	3.2	2.6	2.3	2.5	2.4
Real six-month LIBOR (in per-cent) ¹	3.5	4.4	1.5	1.0	0.9	2.0	2.3	2.2
World prices (in U.S. dollars)								
Manufactures	4.7	5.0	0.7	3.7	-4.2	2.1	1.6	1.6
Oil	...	...	-5.5	-0.5	-11.5	-14.7	5.9	1.5
Nonfuel primary commodities	4.0	-0.1	1.0	-0.1	-3.8	6.0	2.1	1.6
Developing countries								
Real GDP	4.3	4.8	5.8	5.9	6.1	5.5	5.8	6.1
Export volume	0.5	7.1	8.8	7.8	8.6	9.6	9.2	8.7
Terms of trade	3.1	-2.5	-0.8	-0.2	-1.8	-1.8	0.6	—
Import volume	4.8	4.9	8.8	10.2	8.7	7.2	9.2	8.6
World trade, volume	3.7	5.5	4.7	4.5	2.4	5.8	6.3	6.5
	Four-Year Average 1984-87	1987	1991	1992	1993	1994	1995	1999
In billions of U.S. dollars								
Developing countries								
Total net external credit ²	36.5	27.5	78.1	67.4	80.2	62.0	62.4	53.9
Net official credit ³	31.5	30.7	27.6	38.1	33.6	5.9	14.0	11.9
Net bank credit ⁴	15.2	10.6	35.4	11.3	13.7	38.0	17.2	22.4
In percent of exports of goods and services								
Current account balance	-5.5	-0.7	-8.1	-5.7	-8.3	-7.7	-6.5	-4.0
Total external debt ⁵	154.2	166.5	126.2	118.9	118.4	112.4	104.0	80.2
Debt-service payments ⁶	20.4	20.8	15.3	14.3	14.9	14.8	13.8	11.3
Interest	11.3	9.6	6.9	6.2	6.7	6.5	6.0	4.4
Amortization	9.1	11.2	8.4	8.1	8.2	8.2	7.8	6.9
Memorandum								
Net debtor countries								
Current account balance	-8.8	-3.6	-4.6	-6.2	-8.6	-7.6	-6.7	-4.0
Total external debt ⁵	191.9	201.5	151.5	141.2	138.2	129.0	118.3	88.8
Debt-service payments ⁶	25.2	24.9	17.8	16.9	17.4	16.4	15.1	12.5
Interest	14.1	11.4	8.0	7.1	7.7	7.3	6.7	4.8
Amortization	11.1	13.5	9.7	9.7	9.8	9.1	8.4	7.7

¹London interbank offered rate on U.S. dollar deposits less percent change in U.S. GDP deflator.²Excluding reserve-related liabilities.³Estimate of long-term borrowing from official creditors. See Table A32, footnote 11, for further explanation.⁴Estimate of net lending from commercial banks. See Table A32, footnote 12, for further explanation.⁵Excludes liabilities to the IMF.⁶Interest payments on total debt, plus amortization payments on long-term debt only. Projections incorporate the impact of exceptional financing items. Excludes service payments to the IMF.

Table A45. Developing Countries—Medium-Term Baseline Scenario: Selected Economic Indicators

	Averages			1992	1993	1994	1995	Average 1996–99
	1976-83	1984–91	1992–95					
	Annual percent change							
Developing countries								
Real GDP	4.3	4.8	5.8	5.9	6.1	5.5	5.8	6.1
Export volume	0.5	7.1	8.8	7.8	8.6	9.6	9.2	8.7
Terms of trade	3.1	–2.5	–0.8	–0.2	–1.8	–1.8	0.6	—
Import volume	4.8	4.9	8.8	10.2	8.7	7.2	9.2	8.6
By region								
Africa								
Real GDP	2.2	2.6	2.3	0.4	1.1	3.4	4.5	4.2
Export volume	–0.6	3.5	1.4	–0.6	3.5	–0.1	3.0	3.3
Terms of trade	1.3	–3.3	–2.1	–2.6	–4.5	–3.1	2.0	0.5
Import volume	0.1	–1.0	1.2	3.9	0.4	–6.5	7.7	4.8
Asia								
Real GDP	6.1	7.1	7.9	8.1	8.4	7.5	7.4	7.4
Export volume	9.2	11.0	10.0	9.1	9.8	10.1	10.9	10.8
Terms of trade	0.6	–0.3	0.2	2.1	–0.7	–0.6	–0.1	–0.2
Import volume	9.3	9.7	10.5	11.0	11.2	9.4	10.3	10.5
Middle East and Europe								
Real GDP	3.6	3.0	4.7	7.5	4.7	3.0	3.7	3.6
Export volume	–6.4	3.4	9.1	8.8	7.1	14.2	6.4	3.1
Terms of trade	6.6	–6.3	–3.0	–3.4	–4.2	–6.8	2.6	0.5
Import volume	6.5	–2.3	5.4	4.6	4.1	5.3	7.5	3.8
Western Hemisphere								
Real GDP	3.2	2.6	3.0	2.5	3.4	2.8	3.4	4.7
Export volume	4.4	4.4	7.5	6.7	8.0	7.3	8.1	7.6
Terms of trade	0.6	–2.9	–1.4	–3.7	–1.9	–0.9	1.0	0.5
Import volume	–1.7	5.4	10.1	18.0	8.0	7.3	7.2	6.7
By financial criteria								
Countries with recent debt-servicing difficulties								
Real GDP	3.1	2.6	3.0	2.3	2.9	3.0	3.8	4.6
Export volume	0.9	3.1	7.8	4.2	9.2	6.9	11.0	6.1
Terms of trade	1.5	–2.9	–1.2	–2.4	–2.9	–0.6	1.0	0.6
Import volume	0.4	1.1	8.2	12.0	6.1	5.3	9.5	6.0
Countries without debt-servicing difficulties								
Real GDP	5.6	6.8	7.6	7.7	8.1	7.3	7.2	7.2
Export volume	6.9	10.6	10.0	9.2	9.8	10.1	10.8	10.8
Terms of trade	1.6	–1.0	0.1	1.0	–0.3	–0.6	0.1	–0.1
Import volume	7.8	8.2	10.0	9.4	11.7	8.6	10.4	10.4

Table A45 (concluded)

	1983	1987	1991	1992	1993	1994	1995	1999
	<i>In percent of exports of goods and services</i>							
Developing countries								
Current account balance	-9.6	-0.7	-8.1	-5.7	-8.3	-7.7	-6.5	-4.0
Total external debt ¹	136.5	166.5	126.2	118.9	118.4	112.4	104.0	80.2
Debt-service payments ²	18.3	20.8	15.3	14.3	14.9	14.8	13.8	11.3
Interest payments	11.2	9.6	6.9	6.2	6.7	6.5	6.0	4.4
Amortization	7.1	11.2	8.4	8.1	8.2	8.2	7.8	6.9
By region								
Africa								
Current account balance	-16.7	-5.7	-4.7	-7.6	-8.6	-4.2	-4.0	-6.4
Total external debt ¹	168.7	244.8	234.9	227.7	236.3	232.9	218.4	194.9
Debt-service payments ²	22.7	24.0	25.5	23.9	24.5	35.1	27.0	17.9
Interest payments	9.7	11.3	11.3	9.9	9.1	18.8	12.0	7.6
Amortization	13.0	12.7	14.2	14.1	15.4	16.3	15.0	10.3
Asia								
Current account balance	-6.3	6.5	-0.4	-0.7	-3.3	-3.4	-2.8	-1.2
Total external debt ¹	93.9	92.6	66.5	62.4	62.0	58.5	54.8	42.6
Debt-service payments ²	11.8	15.0	9.1	9.0	8.8	8.3	8.0	6.6
Interest payments	6.0	5.2	3.7	3.7	3.3	3.2	3.1	2.3
Amortization	5.8	9.8	5.4	5.4	5.5	5.1	4.9	4.4
Middle East and Europe								
Current account balance	-11.6	-7.9	-29.5	-9.2	-12.7	-11.8	-8.7	-6.8
Total external debt ¹	77.3	151.7	135.5	129.2	135.6	133.3	121.0	102.5
Debt-service payments ²	9.1	15.9	15.7	11.5	11.9	14.9	14.5	10.3
Interest payments	5.5	8.6	7.0	5.8	6.9	7.1	6.7	5.6
Amortization	3.5	7.4	8.7	5.7	5.0	7.8	7.8	4.7
Western Hemisphere								
Current account balance	-7.8	-8.4	-11.5	-19.5	-23.1	-23.1	-21.3	-13.8
Total external debt ¹	291.6	339.1	265.1	263.7	264.6	256.0	241.2	193.8
Debt-service payments ²	42.6	40.9	30.8	32.4	37.8	31.7	31.4	32.3
Interest payments	31.0	22.1	15.5	14.3	19.0	13.9	14.7	12.1
Amortization	11.6	18.8	15.3	18.2	18.9	17.8	16.6	20.1
By financial criteria								
Countries with recent debt-servicing difficulties								
Current account balance	-16.9	-11.5	-11.3	-17.2	-19.5	-17.8	-15.7	-11.8
Total external debt ¹	261.2	341.7	301.6	293.1	291.5	276.1	250.3	203.4
Debt-service payments ²	34.4	34.1	28.3	27.3	31.0	29.5	26.9	25.4
Interest payments	23.2	18.7	14.6	12.7	15.8	15.2	13.2	10.4
Amortization	11.2	15.4	13.6	14.6	15.3	14.3	13.8	15.0
Countries without debt-servicing difficulties								
Current account balance	-10.2	1.2	-1.7	-1.6	-4.4	-3.7	-3.3	-1.5
Total external debt ¹	108.3	116.7	85.1	79.0	78.1	73.2	68.1	51.5
Debt-service payments ²	15.0	19.3	13.1	12.6	12.1	11.5	10.5	8.2
Interest payments	7.5	7.0	5.1	4.9	4.5	4.4	4.2	3.0
Amortization	7.6	12.3	8.0	7.7	7.6	7.1	6.3	5.3

¹Excludes liabilities to the IMF.²Interest payments on total debt plus amortization payments on long-term debt only. Projections incorporate the impact of exceptional financing items. Excludes payments to the IMF.

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