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RISING ENERGY COSTS

High Oil Prices Pose Challenge for Policymakers

With oil prices in sight of $100 a barrel, the rise in energy costs is a new worry for consumers at a time of continued concerns in major economies about fallout from the credit crunch.

In November, the average petroleum spot price (APSP) reached a new high of over $94. The three main benchmark prices for oil all reached record highs, with West Texas Intermediate closing at almost $99, Brent at $96, and Dubai at over $90. Despite some softening at end-November, oil prices remained high and volatile.

But not everyone is feeling the same pinch from the oil price hike. Measured in euro and Special Drawing Right (SDR) terms, the surge has not been as dramatic, reflecting the depreciation of the dollar, the currency in which oil producers are paid (see Chart 1). The effects of the depreciating dollar on the price of oil

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Christian Charisius/Reuters

Oil storage tanks in Hamburg, Germany: World oil prices have been hovering close to record highs in recent weeks.

IMF to Deliver Debt Relief to Liberia

Managing Director Dominique Strauss-Kahn said November 12 that the IMF has secured sufficient financing pledges from member countries to allow it to provide debt relief to Liberia. When these pledges, totaling about $842 million, are formalized, a process will be followed of arrears clearance and new IMF financing that will enable the writing off of Liberian debt to the Fund. Hailing the "breakthrough" in financing, Strauss-Kahn said it represented "a critical step in moving Liberia onto a path toward comprehensive debt relief." He said the IMF would continue to support postconflict recovery in the country, "building on Liberia's many achievements over the past two years."

Strauss-Kahn thanked IMF member countries for "generous support," citing "efforts of many leaders around the world," including low-income countries, in securing the financing. He also acknowledged the roles played by Liberian President Ellen Johnson-Sirleaf and her

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Michael Spilotro/IMF photo

Liberian President Ellen Johnson-Sirleaf at IMF headquarters: The Liberian government has established an "encouraging track record of macroeconomic management and reforms," the IMF says.

Latin America Set for 5th Year of Healthy Growth

Latin America is poised for what could be its fifth consecutive year of strong economic growth in 2008.

But inflation, after falling to a historic low for the region in 2006, is edging up in several countries, the IMF said in its *Regional Economic Outlook* for the

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Also in this issue

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Address editorial correspondence to:

Current Communications Division
Room 7-106, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

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High Oil Prices

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were discussed at the third summit of the Organization of Petroleum Exporting Countries (OPEC), held November 17–18.

At end-November, futures and options markets indicated that the APSP would average almost $88 a barrel in the fourth quarter of 2007 and almost $87 in 2008, with about a one in three chance that Brent crude prices could be above $100 by April 2008.

The recent oil price surge was sparked by geopolitical concerns about growing tensions in the Middle East and some weather-related production shutdowns, underscoring that in an environment of limited spare oil production capacity and declining inventories, prices have become highly sensitive to news that may indicate possible future supply shortages. The weakening dollar also played a role. But more fundamentally, spare capacity remains low and market conditions are expected to remain very tight.

Demand outstripping supply

Oil demand growth has remained robust, supported by strong growth in emerging markets, particularly China and the Middle East (see Chart 2). Although the International Energy Agency recently revised oil demand downward in the fourth quarter of 2007 because of the slowing U.S. economy, global demand is expected to remain strong in 2008.

In contrast, supply has lagged behind and inventories are falling. During the first nine months of 2007, world oil supply declined moderately by 0.1 million barrels a day (year on year), reflecting a decline in OPEC's output and limited output growth in oil-producing countries that are not members of OPEC. As a result, commercial inventories in industrial countries fell in the third quarter and in October, a period normally marked by inventory accumulation.

Supply is lagging demand growth because of the increasing technological and economic challenges for oil production. As a result, tight market conditions are expected to persist and possibly intensify, assuming strong GDP growth continues in emerging markets such as China and India.

Analysis by the IMF shows that, over time, a prolonged price surge will certainly have the effect of curtailing demand—especially in the United States—by

Liberia to Get Debt Relief

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economic team, and World Bank President Robert Zoellick.

Track record

Johnson-Sirleaf took office in January 2006, leading a country that was emerging from a 14-year civil war that had ended 3 years earlier. The latest IMF staff report on the country's economy says economic activity remains buoyant, with GDP growth projected at around 8 percent in 2007.

Strauss-Kahn noted that, despite difficult postconflict circumstances, the Liberian government had established an encouraging track record of macroeconomic management and reforms that the IMF has supported through technical assistance and policy advice.

"IMF staff are currently finalizing discussions with the Liberian authorities on a three-year IMF-supported program, so that Liberia can build upon the initial economic recovery, maintain the strong growth needed to reduce poverty, and restore debt sustainability," Strauss-Kahn added.

The agreement follows talks between the IMF and the Liberian government during the IMF–World Bank Annual Meetings in October. Former IMF Managing Director Rodrigo de Rato said in an October 18 statement that it was "urgent that the international community make progress in moving Liberia onto the path toward debt relief." De Rato said the effort hinged on securing the resources needed to provide debt relief to the country. ■