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Appendix

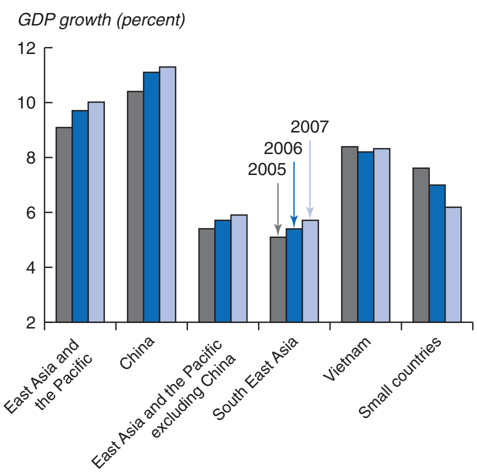
Regional Economic Prospects

East Asia and the Pacific

Recent developments

Growth in the developing countries of East Asia and the Pacific strengthened in 2007, with gross domestic product (GDP) advancing a full 10 percent in the year, up from 9.7 percent in 2006. The expansion was powered by China's 11.3 percent gain, with other countries in the region growing at a 5.9 percent pace (figure A1). Domestic demand was a key driving force for many economies, as a downturn in the global high-tech cycle for most of 2006–07 served to blunt the momentum of exports for technology-producing countries in the region. The pickup in regional growth was all the more notable because it occurred despite a slowdown in the U.S. economy: total U.S. imports fell from 5.8 percent growth in 2006 to 2 percent in 2007. Regional exports nonetheless advanced 17.8 percent, a modest pickup from 2006 outturns.

Figure A1 East Asian growth moves up in 2007



Sources: World Bank and national agencies.

East Asia appears to have absorbed the effects of the financial turmoil in the high-income markets well. Stock markets in the main East Asian economies dropped a median 14 percent during July and early August, with equity prices increasing a median 22 percent to mid-October. Similar developments were witnessed in foreign exchange markets and in sovereign bonds. Since the beginning of the year, several East Asian currencies have appreciated sharply against the dollar, with the Philippine peso up 12 percent and the Thai baht up 11.3 percent. The Chinese yuan continued its gradual rise against the dollar, a 4.7 percent gain since the beginning of the year, but at the same time, the yuan depreciated against many other currencies.

On the policy front, East Asian central banks generally tightened monetary conditions from mid-2004 to the early part of 2006 to curb rising inflation. As a result, inflation stabilized in 2007 (although headline inflation rates, which include fuels and food, have turned up recently in some countries because of higher food price inflation), allowing central banks to keep policy rates stable, and even to begin easing in Indonesia and Thailand

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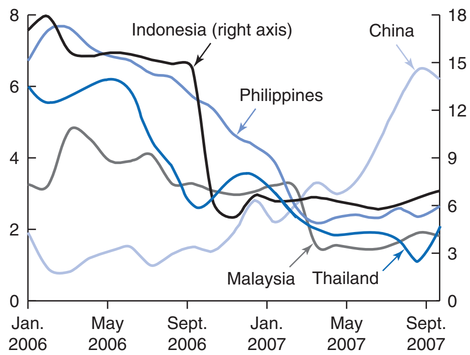
Figure A2 Except for China, inflation is now stabilizing across East Asia

Consumer price inflation (percent change year over year)



Source: World Bank.

(figure A2). Fiscal balances have improved and government debt has declined over the course of the decade in most of the larger East Asian economies thanks to fiscal consolidation efforts, relatively low interest rates, and sustained economic growth since 2001.

External conditions during 2007 remained sufficiently positive for surplus positions to widen across countries. Central banks in China, Indonesia, Malaysia, the Philippines, and Thailand continued to build up reserves as their current accounts remained in surplus. East Asia's aggregate current account surplus as a share of GDP increased to 10.1 percent in 2007, up from 8.4 percent in 2006. Gross capital flows, including bond and equity issuance and net bank borrowing, amounted to a remarkable $170 billion over the year through October. This contrasts favorably with inflows of $153 billion for all of 2006 and $107 billion for 2005, indicating that market access has remained largely unencumbered. At the same time, the contribution of net exports to GDP growth increased 3 percentage points, as exports expanded by 17.8 percent, significantly outpacing the 15.3 percent growth in imports (table A1).

Table A1 East Asia and Pacific forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	8.4	9.0	9.1	9.7	10.0	9.7	9.6
GDP per capita[c]	7.1	8.1	8.2	8.8	9.1	8.8	8.7
Purchasing Power Parity GDP[d]	—	9.2	9.3	9.9	10.2	9.9	9.7
Private consumption	7.3	6.8	7.5	7.4	7.6	7.6	7.6
Public consumption	9.0	6.7	10.9	8.5	9.0	8.5	8.6
Fixed investment	10.3	11.5	12.7	10.9	11.3	9.9	9.6
Exports, GNFS[e]	11.7	22.6	17.8	17.7	17.8	15.2	18.5
Imports, GNFS[e]	11.3	20.6	10.5	14.8	15.3	14.2	19.4
Net exports, contribution to growth	0.3	1.8	3.9	2.8	3.0	2.3	2.1
Current account balance/GDP (%)	0.1	3.4	5.7	8.4	10.1	8.6	7.6
GDP deflator (median, LCU)	6.5	6.1	3.8	4.3	4.6	2.9	3.8
Fiscal balance/GDP (%)	−0.7	−1.5	−1.4	−0.5	−0.9	−1.1	−1.2
Memo items: GDP							
East Asia, excluding China	4.8	6.1	5.4	5.7	5.9	5.9	6.2
China	10.4	10.1	10.4	11.1	11.3	10.8	10.5
Indonesia	4.2	5.1	5.7	5.5	6.3	6.3	6.5
Thailand	4.5	6.2	4.5	5.0	4.3	4.6	5.2

Source: World Bank.
Note: — = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.

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In China, growth continued at a robust pace in 2007, underpinned by strong contributions to GDP from net exports and by buoyant domestic demand, led by investment. Growth achieved a 11.5 percent run-up in the first half of the year, including an exceptional 11.9 percent advance during the second quarter. The soaring current account surplus of about $380 billion in 2007, some 12 percent of GDP, is adding to domestic liquidity and contributing to asset price increases, while supporting, along with other factors such as sharp gains in food prices, an upward drift in consumer price inflation.

Elsewhere investment growth picked up in most economies, as capacity utilization reached high levels, corporate profits rose, and the health of balance sheets improved. In Indonesia, fixed investment surged 11.3 percent (seasonally adjusted annual rate) in the second quarter, and GDP growth increased to 6.3 percent, up from 5.5 percent in 2006. Against this background, inflation is now a growing concern, reaching 6.9 percent in September (year-on-year), at the upper end of the central bank's target range. GDP growth should register a solid 6.3 percent for the year.

Malaysia suffered subpar export performance during the first half of 2007, tied in part to sluggish demand for semiconductors and other high-tech inputs, slow hydrocarbon shipments, and difficulties in several exportable food and raw material commodities. Export growth declined to 2.5 percent in the first half of 2007, down from 6 percent in the second half of 2006, contributing to a slowdown in GDP growth to 5.6 percent in the first half of the year. Equity markets were depressed for a short time during the period of global financial stress, but have bounced back sharply since mid-August. Domestic demand is expected to sustain growth, offsetting weakness in trade and allowing Malaysia to register 5.7 percent GDP growth for 2007.

In the Philippines, GDP growth ramped up to 7.3 percent during the first half of 2007 based on strong investment outlays and a pickup in services; growth for the year is expected to register 6.7 percent. The country is beginning to enjoy the benefits stemming from the substantial fiscal adjustment, public debt reductions, and balance-of-payments surpluses of recent years. The current account surplus rose sharply as a result of large remittance inflows and a diminishing trade deficit. Foreign direct investment (FDI) inflows increased 70 percent from 2006 to $1.6 billion in the first half of the year, while international reserves have increased to some $30.7 billion, enough to cover 5.5 months of imports.

In Thailand, where continuing political and policy uncertainties have significantly dampened business and consumer confidence, GDP is anticipated to grow by 4.3 percent in 2007, down from 5 percent in 2006. Growth has relied on conditions in the external environment, where the news is somewhat discouraging, given an 11 percent appreciation of the baht against the dollar over 2007 to date and sluggish conditions in the U.S. market.

Growth has also continued to run at strong 7 to 10 percent rates in several low-income economies of the region, including Cambodia, the Lao People's Democratic Republic, Mongolia, and Vietnam, powered by across-the-board strength in exports and domestic demand. Growth is also above historical rates in some of the small island states of the region, pushed up by high commodity prices, and in some cases by improved economic management. At the same time, political instability and social tensions continue to undermine performance in some of the Pacific islands, including Fiji, where GDP is expected to contract this year.

Medium-term outlook

Growth in East Asia and the Pacific is projected to remain strong, with GDP easing by just 0.3 percentage points to 9.7 percent in 2008 and retaining strength in 2009 with an advance of 9.6 percent. Growth in China is expected to slow modestly, dropping less than a percentage point over the period to 10.5 percent by 2009, as authorities' long-standing attempts to rein in certain investment projects

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Table A2 East Asia and Pacific country forecasts

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Cambodia							
GDP at market prices[b]	—	10.0	13.5	10.8	9.5	8.0	9.0
Current account balance/GDP (%)	—	−3.7	−7.1	−5.8	−7.8	−11.2	−9.0
China							
GDP at market prices[b]	10.4	10.1	10.4	11.1	11.3	10.8	10.5
Current account balance/GDP (%)	1.5	3.6	6.9	9.4	11.9	10.3	9.1
Fiji							
GDP at market prices[b]	2.1	5.3	0.7	3.6	−3.1	1.9	2.8
Current account balance/GDP (%)	−3.1	−16.8	−22.7	−22.2	−20.1	−24.0	−26.2
Indonesia							
GDP at market prices[b]	4.2	5.1	5.7	5.5	6.3	6.3	6.5
Current account balance/GDP (%)	−0.4	0.6	0.4	3.1	2.7	1.5	0.9
Lao People's Democratic Republic							
GDP at market prices[b]	—	6.4	7.1	7.6	7.1	7.9	7.5
Current account balance/GDP (%)	—	−6.3	−26.4	−18.7	−16.8	−19.0	−19.0
Malaysia							
GDP at market prices[b]	7.1	7.2	5.0	5.9	5.7	5.9	6.0
Current account balance/GDP (%)	−0.4	12.6	15.3	17.1	13.8	12.2	10.2
Papua New Guinea							
GDP at market prices[b]	4.8	2.7	3.4	2.6	5.2	4.0	4.2
Current account balance/GDP (%)	2.2	−1.5	2.6	4.4	2.7	3.6	2.8
Philippines							
GDP at market prices[b]	3.0	6.2	4.9	5.4	6.7	6.2	6.5
Current account balance/GDP (%)	−3.1	1.9	2.0	5.3	4.3	2.4	1.8
Thailand							
GDP at market prices[b]	4.5	6.2	4.5	5.0	4.3	4.6	5.2
Current account balance/GDP (%)	−1.2	1.7	−4.6	1.6	2.4	1.4	1.5
Vanuatu							
GDP at market prices[b]	4.1	4.0	6.5	7.2	5.0	5.0	5.0
Current account balance/GDP (%)	−8.2	−19.7	−20.2	−22.1	−19.9	−20.8	−20.4
Vietnam							
GDP at market prices[b]	7.6	7.7	8.4	8.2	8.3	8.2	8.3
Current account balance/GDP (%)	−5.1	−1.0	−0.3	1.1	−1.1	−0.6	−1.8

Source: World Bank.
Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. American Samoa, Dem. Rep., the Federated States of Micronesia, Kiribati, Korea, Northern Mariana Islands, Marshall Islands, Mongolia, Myanmar, Palau, Solomon Islands, Timor-Leste, and Tonga are not forecast because of data limitations.
— = not available
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

and to avoid overheating in several sectors come to fruition (table A2 and figure A3). Substantial reform efforts in several countries of the Association of Southeast Asian Nations should yield acceleration in activity through the forecast period. Growth among East Asian economies other than China is expected to register 6.2 percent by 2009.

A projected slowdown in export growth from 17.8 percent in 2007 to 15.2 percent in 2008 echoes a softening in demand by countries of the Organisation for Economic Co-operation and Development (OECD)—with U.S. imports increasing by a meager 1.3 percent—as well as second-round effects on intraregional trade. However, the decline

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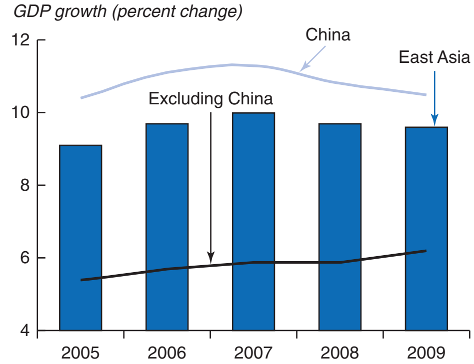
Figure A3 Performance improves for East Asian countries other than China



Source: World Bank.

should not make a serious dent in regional GDP, and the contribution of net trade to growth is projected to fall only moderately, from 3 percentage points in 2007 to 2.3 in 2008. Largely reflecting developments in China, the momentum underlying fixed investment begins to dissipate during 2008, easing from 11.3 percent in 2007 to 9.9 percent. By 2009, the external environment is expected to feature a revival in U.S. GDP growth complemented by recovery in Europe and Japan. OECD import demand is forecast to increase from 5 percent in 2008 to 7.8 percent in 2009, and conditions in financial markets are expected to stabilize.

Risks

The year 2008 will likely be challenging for policy makers, with a large number of interrelated downside risks. These include the possibility of a full-fledged recession in the United States, higher oil prices, and further escalation of turbulence in financial markets linked to the U.S. subprime debacle.

Among principal concerns is the extent to which both financial and real side effects of the U.S. subprime crisis might increase in the coming year. China should be well positioned to weather the continuing turmoil in financial markets. The impact on Chinese financial institutions holding overseas collateralized debt obligations and other U.S. mortgage-backed securities appears likely to be small in relation to the size of China's economy and its huge international reserves ($1.4 trillion), but other countries may be more vulnerable to effects flowing through both direct and indirect channels.

Should losses by large international institutions mount to substantial levels, other investments, including those in East Asia, could be called in an effort to rebalance portfolios and mitigate the effects on trading profits. Several countries in East Asia are exposed to this risk, particularly those that have been recipients of large capital inflows intermediated through the yen carry trade. Policy makers will need to keep a close eye on the volume, direction, and volatility of short-term flows, including those into local equity markets. Nevertheless the large holdings of foreign exchange reserves and the current account surplus positions of most East Asian economies should provide a significant buffer and reduce macroeconomic vulnerability to a reversal in capital flows.

The obverse of this risk is that interest rate reductions in high-income economies may boost liquidity to the point of touching off another upward cycle in equities, including in emerging markets, setting the stage for an even more pronounced adjustment later. Even in the absence of such a scenario, many economies in the region have been struggling to curb liquidity growth caused by burgeoning current account surpluses and large-scale buildup of reserves. If not managed properly, excess liquidity could jeopardize price stability, form asset price bubbles, and expose a country to serious financial and macroeconomic vulnerabilities. Finally, a slowdown in the high-income countries that is more severe than projected would subject many East Asian economies to a substantial downdraft in export growth.

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Europe and Central Asia

Recent developments

GDP growth in the Europe and Central Asia region eased slightly, from 6.9 percent in 2006 to 6.7 percent in 2007, reflecting a modest softening of both external and domestic demand (table A3). With a stable population in the region, this means that per capita production continued to increase at remarkable rates of more than 6 percent. High productivity gains have been made possible by technology diffusion, double-digit growth in investment supported by rapid credit expansion through lending by domestic and foreign banks, high energy prices for hydrocarbon exporters, and large remittance inflows from workers overseas. These same factors have boosted private consumption and consistently raised import growth 3 or more percentage points above the already robust expansion of exports. These developments, which have helped to rapidly increase standards of living, are not without shadow costs. Capital inflows have created challenges for macroeconomic management; inflation remains high relative to that in the Euro Area, making it more difficult for several countries to maintain effective exchange rate pegs; and current account deficits in many oil-importing countries have become unsustainably high.

At the subregional level, growth in Central and Eastern Europe (CEE) moderated to a still robust 6.0 percent in 2007 from 6.5 percent in 2006 (figure A4), buoyed by rapid growth in credit and in real wages, strong capital inflows, and high remittance inflows. The falloff in growth in CEE is attributable in large measure to a slowdown in Hungary, where a program of fiscal consolidation pushed growth down 3.2 percentage points to 2.2 percent in 2007. The decline in growth in CEE also stems from continued moderation in

Table A3 Europe and Central Asia forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	−1.0	7.4	6.1	6.9	6.7	6.1	5.7
GDP per capita[c]	−1.2	7.4	6.2	6.9	6.7	6.0	5.7
Purchasing Power Parity GDP[d]	−0.9	7.6	6.1	7.1	7.0	6.2	5.8
Private consumption	0.5	8.6	7.8	7.4	7.3	6.9	6.8
Public consumption	0.1	2.3	3.4	5.0	4.5	5.4	3.4
Fixed investment	−6.6	14.1	11.5	16.5	14.9	13.0	10.3
Exports, GNFS[e]	0.9	12.4	7.0	10.3	9.2	8.5	8.7
Imports, GNFS[e]	−1.6	17.4	10.2	14.0	12.8	12.2	11.2
Net exports, contribution to growth	0.9	−1.7	−1.4	−1.8	−2.0	−2.3	−1.9
Current account balance/GDP (%)	—	0.8	1.5	0.6	−1.3	−1.9	−2.6
GDP deflator (median, LCU)	118.5	6.6	5.8	7.3	6.9	6.4	5.5
Fiscal balance/GDP (%)	−6.1	−0.7	2.0	2.9	1.6	1.6	1.5
Memo items: GDP							
Transition countries	2.0	6.9	5.7	6.3	5.7	5.5	5.3
Central and Eastern Europe	1.2	5.7	4.7	6.5	6.0	5.5	5.2
Commonwealth of Independent States	−4.2	8.0	6.8	7.8	8.2	6.8	6.2
Russian Federation	−3.9	7.1	6.4	6.7	7.5	6.5	6.0
Turkey	3.6	8.9	7.4	6.1	5.1	5.4	5.7
Poland	3.8	5.3	3.6	6.1	6.5	5.7	5.1

Source: World Bank.
Note: — = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.

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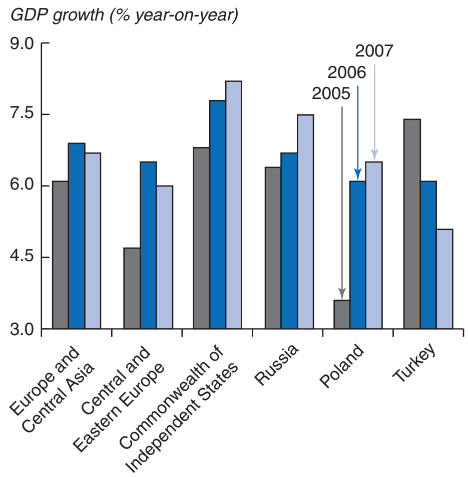
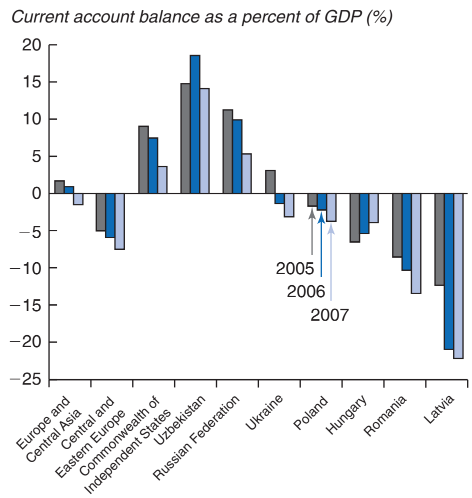
Figure A4 Mixed growth outturns across Europe and Central Asia



Sources: World Bank and national agencies.

Figure A5 External positions vary widely across Europe and Central Asia



Sources: World Bank and national agencies.

Turkish GDP, which slowed by 1 percentage point to 5.1 percent in 2007 from an unsustainable 8.9 percent pace posted in 2004.

In contrast with CEE, growth in the Commonwealth of Independent States (CIS) accelerated sharply from 7.8 percent in 2006 to 8.2 percent in 2007 (figure A4). A strong increase in public consumption and investment, combined with a slightly improved contribution from net exports, formed the foundation for this pickup in growth. Revenue gains for the oil-exporting economies, notably Azerbaijan, Kazakhstan, and the Russian Federation, continue at robust rates, given increasing oil prices, and are providing ongoing support to demand growth through fiscal linkage. A construction boom in residential, commercial, and civil engineering (infrastructure) projects is contributing to a rise in the non-oil sectors. Among the smaller CIS economies, high worker remittance inflows, FDI, and vibrant demand from regional oil exporters (notably Russia) and from Asia (especially China) are underpinning growth. Gross worker remittances represented a substantial share of GDP for several of the region's countries in 2006, ranging from the equivalent of 4 percent of GDP to as much as 38 percent: Albania (15 percent), Armenia (19 percent), Azerbaijan (4 percent), Georgia (7 percent), the Kyrgyz Republic (12 percent), Moldova (38 percent), and Tajikistan (20 percent). Remittances are anticipated to maintain this strong level in 2007.

Europe and Central Asia's regional current account position shifted to a modest deficit equivalent to 1.3 percent of GDP in 2007 after posting a surplus of 0.6 percent in 2006 (figure A5) and an average surplus of nearly 1 percent of GDP over 2000–05. Strong domestic demand is driving import volume growth of 12.8 percent, well in excess of exports at 9.2 percent. Sizable current account deficits among countries in CEE have been financed to a large extent by FDI, although for the Baltic states, foreign borrowing by banks has come to represent a substantial share of external finance, leading to higher external debt-to-GDP ratios. In the case of Latvia, that ratio reached 112 percent in 2006 and is projected to remain above 100 percent during 2007–09. Moreover, short-term debt as a share of total

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external debt is high in a number of countries, reaching more than 40 percent in Latvia, Lithuania, and the Slovak Republic. These indicators point to potential future problems with currency and maturity mismatches.

In the CIS, worker remittances have helped finance significant external deficits in a number of smaller countries. In Kazakhstan and the Kyrgyz Republic, external debt as a share of gross national income stood at 83 and 86 percent, respectively, in 2005, and in the case of Kazakhstan, this share has increased by 12 percentage points since 2001. Indeed, the rise in the international indebtedness of Kazakh banks has recently focused attention on the country, given the turbulence in international financial markets. In the Kyrgyz Republic, debt burdens remain at high levels, but they have been reduced sharply since 2000—by more than 50 percentage points as a share of gross national income—largely because of debt rescheduling by the Paris Club in 2002 and an improvement in debt management strategy.

Fiscal positions in the region generally deteriorated in 2007, with the largest shifts posted in the CIS. The most notable decline has been in Tajikistan, where the fiscal balance shifted from a surplus of 1.6 percent of GDP in 2006 to a deficit of 10.3 percent. This reflects, in part, an effort to offset weakening exports to sustain domestic consumption and investment. Marked deteriorations in fiscal positions of 2 percentage points or more during 2007 have been recorded in Belarus (2.0 points), Bosnia and Herzegovina (3.4 points), Kazakhstan (3.0 points), Russia (2.2 points), and Turkey (3.4 points). In contrast, notable consolidation has been achieved in Hungary, where the austerity program reduced the deficit from 9.2 percent of GDP in 2006 to 6.4 percent. Firming government revenues underpinned by stronger than expected GDP growth helped manage a reduction of Poland's deficit from 3.9 percent of GDP in 2006 to 3.0 percent in 2007. In Azerbaijan, increasing oil revenues and new productive capacity have led to a considerable rise in the fiscal surplus, which is equivalent to 5.0 percent of GDP, up from 0.1 percent in 2006.

Monetary policy across the region has become more restrictive to counter rising inflationary pressures. Price increases are stemming from sustained high domestic demand growth and rising fuel and grain prices, the latter aggravated locally by drought conditions in Bulgaria and Romania and globally by the surge in the use of cereals for biofuels. Moldova posted the largest escalation in prices. In Hungary and Latvia, prices were up 3 percentage points; inflation in Hungary is being driven by increases in indirect taxes and administered prices and in Latvia by rapid credit expansion tied to vibrant capital inflows. In Azerbaijan, inflation is expected to rise to 16 percent in 2007, double the rate of 2006; in Ukraine and Uzbekistan inflation is expected to average 17.5 and 17.0 percent, respectively.

In several countries, however, inflationary pressure has eased. In Romania, consumer prices fell from 6.6 percent during 2006 to 4.6 percent in 2007, thanks to currency appreciation and a delay in regulated price adjustments. The Slovak Republic is also projected to see an easing of inflation of some 2 percentage points. Tighter domestic conditions and exchange rate appreciation helped moderate inflationary pressures in Croatia, Kazakhstan, and Turkey during the year. Nonetheless, inflation pressures are expected to rekindle, in part reflecting higher food prices and energy costs, which are affecting a wide spectrum of countries.

The impact of market turbulence tied to the U.S. subprime mortgage market has been fairly limited in the region, and initial downside adjustments in currency and asset prices have largely been recouped. Bond spreads increased, but not as much as in other markets. Nevertheless, concerns about potential spillovers remain for a number of countries in the region, particularly those that have experienced rapid credit growth and private sector borrowing from abroad, the proportions of which may be underestimated. Signs of overheating are clearly evident in Bulgaria and the Baltic states,

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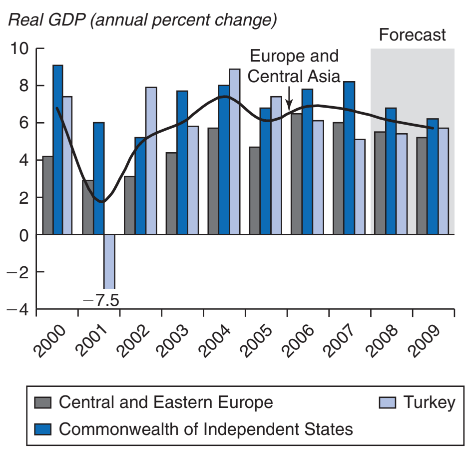
where already worrisome external positions have deteriorated even further during 2007. Given that foreign inflows are financing much of the credit expansion in these economies, increased market volatility points to heightened concerns in relation to currency mismatches, sudden stops, and contagion. A potential exchange rate risk is present in a number of countries where loans denominated in foreign currencies make up a large share of total loans by domestic banks. In the Baltic states, Hungary, Kazakhstan, Romania, and Ukraine, this ratio was 40 percent or more in 2006, and in the case of Latvia, the share increased by more than 15 percentage points since 2001 to nearly 80 percent in 2006.

Medium-term outlook

From GDP gains of 6.7 percent in 2007, growth is projected to continue easing, falling off to 6.1 percent in 2008 and to 5.7 percent in 2009 (tables A3 and A4, figure A6). The slowdown in 2008 is expected to be widespread across countries in the region, given heightened risk aversion and volatility on international financial markets, which could spill over to the region both directly and also indirectly through a faltering of external demand. Slower growth in the OECD countries, especially in Germany and the Euro Area, may dampen export growth for CEE during the year. Difficulties among European financial institutions would also have repercussions throughout Europe and Central Asia. Domestic demand growth is anticipated to moderate from recent highs, with the contribution to growth from both private consumption and investment projected to fall by 0.2 percentage points during 2008. The contribution of trade to growth—reflecting weakened external demand, and despite a degree of softening import growth—is expected to become still more negative in 2008.

Figure A6 Growth in Europe and Central Asia eases into 2009



Source: World Bank.

Three notable exceptions to the projected growth slowdown in 2008 are Albania, Hungary, and Turkey. In Albania, continued strong domestic demand is expected to help firm up growth. A key component of that demand is increased public investment to mitigate the power shortages that have created a bottleneck to growth. In Hungary and Turkey, improvements in domestic conditions should permit additional easing of monetary policy, bolstering demand sufficiently to bring about a pickup in GDP growth.

By 2009, external demand is projected to strengthen in concert with GDP growth in the OECD, leading to an improvement in contributions to growth from net exports, equivalent to 1.9 percentage points in 2009 (following a drop by 2.3 percentage points in 2008). A further falloff in domestic demand growth; particularly the investment in the CIS countries, is projected to offset this improvement somewhat, resulting in modest deceleration in regional growth to 5.7 percent in 2009. In large measure, the projected slowdown in the CIS is driven by the near completion of major hydrocarbon investment projects that led to the expansion of production and export capacity in recent years.

Despite a rise in external demand and continued moderation in domestic demand, the regional current account is anticipated to

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Table A4 Europe and Central Asia country forecasts

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Albania							
GDP at market prices[b]	1.4	5.9	5.5	5.0	5.5	6.0	6.2
Current account balance/GDP (%)	−5.6	−4.8	−7.8	−7.2	−8.4	−8.4	−8.0
Armenia							
GDP at market prices[b]	−3.8	10.5	13.9	13.3	11.0	8.5	7.5
Current account balance/GDP (%)	−12.0	−4.5	−4.4	−4.7	−5.7	−5.6	−4.8
Azerbaijan							
GDP at market prices[b]	−5.2	10.2	26.4	34.5	33.5	19.4	14.9
Current account balance/GDP (%)	−15.8	−29.8	1.3	18.2	24.2	31.6	33.3
Belarus							
GDP at market prices[b]	−1.2	11.4	9.4	9.9	7.8	6.4	5.7
Current account balance/GDP (%)	—	−5.2	1.8	−4.1	−8.0	−8.4	−8.3
Bulgaria							
GDP at market prices[b]	−1.7	5.7	5.5	6.3	6.1	6.0	5.2
Current account balance/GDP (%)	−2.3	−6.9	−12.2	−15.8	−19.2	−18.1	−17.3
Croatia							
GDP at market prices[b]	−1.5	3.8	4.3	4.8	5.8	4.9	4.5
Current account balance/GDP (%)	1.1	−5.2	−6.7	−7.7	−8.4	−8.0	−7.9
Georgia							
GDP at market prices[b]	−9.3	5.9	9.6	9.8	10.0	9.0	8.0
Current account balance/GDP (%)	—	−8.3	−9.8	−13.8	−15.0	−14.1	−12.0
Hungary							
GDP at market prices[b]	0.8	5.2	6.0	5.4	2.2	3.1	3.8
Current account balance/GDP (%)	−5.4	−8.5	−6.8	−5.7	−4.2	−5.0	−5.9
Kazakhstan							
GDP at market prices[b]	−3.6	9.6	9.7	10.7	8.5	7.1	6.4
Current account balance/GDP (%)	−1.8	0.8	−1.9	−2.2	−2.0	−4.6	−7.7
Kyrgyz Republic							
GDP at market prices[b]	−4.0	7.0	−0.6	2.7	7.5	7.0	6.7
Current account balance/GDP (%)	−10.6	−4.6	−9.3	−6.6	−17.9	−15.1	−12.2
Lithuania							
GDP at market prices[b]	−3.3	7.0	7.5	7.4	7.8	6.8	6.0
Current account balance/GDP (%)	−5.9	−7.7	−7.1	−10.8	−13.3	−13.6	−12.3
Latvia							
GDP at market prices[b]	−2.8	8.6	10.2	11.9	9.7	7.4	6.4
Current account balance/GDP (%)	−1.6	−12.9	−12.7	−21.4	−22.7	−19.5	−15.3
Moldova							
GDP at market prices[b]	−9.8	7.4	7.5	4.0	6.0	6.8	7.0
Current account balance/GDP (%)	—	−2.2	−9.0	−9.3	−8.0	−14.9	−12.7
Macedonia, FYR							
GDP at market prices[b]	−0.9	4.1	4.1	3.0	5.0	5.0	5.5
Current account balance/GDP (%)	—	−8.0	−1.5	−0.4	−2.9	−5.0	−6.1
Poland							
GDP at market prices[b]	3.8	5.3	3.6	6.1	6.5	5.7	5.1
Current account balance/GDP (%)	−3.5	−4.2	−1.9	−2.4	−4.3	−5.3	−5.7
Romania							
GDP at market prices[b]	−1.7	8.4	4.1	7.7	6.1	5.9	5.5
Current account balance/GDP (%)	−4.8	−8.5	−8.7	−10.5	−13.9	−15.3	−14.9
Russian Federation							
GDP at market prices[b]	−3.9	7.1	6.4	6.7	7.5	6.5	6.0
Current account balance/GDP (%)	—	10.0	11.1	9.7	5.7	4.3	2.2

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Table A4 (*continued*)

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Slovak Republic							
GDP at market prices[b]	0.3	5.2	6.6	8.8	8.7	7.1	6.8
Current account balance/GDP (%)	—	−3.1	−8.4	−8.0	−4.3	−3.5	−3.1
Turkey							
GDP at market prices[b]	3.6	8.9	7.4	6.1	5.1	5.4	5.7
Current account balance/GDP (%)	−1.1	−5.2	−6.2	−8.1	−7.5	−7.7	−7.6
Ukraine							
GDP at market prices[b]	−8.0	12.1	2.7	7.1	6.3	5.5	5.0
Current account balance/GDP (%)	—	10.7	2.9	−1.5	−3.6	−6.5	−7.4
Uzbekistan							
GDP at market prices[b]	−0.2	7.7	7.0	7.3	7.7	5.0	5.0
Current account balance/GDP (%)	—	10.1	14.9	18.7	14.3	11.9	8.7

Source: World Bank.
Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Bosnia and Herzegovina, Serbia and Montenegro, Tajikistan, and Turkmenistan are not forecast because of data limitations.
— = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

continue to deteriorate through 2009, largely because of declines in the terms of trade for hydrocarbon-exporting countries as oil prices begin to soften. Inflationary pressures are likely to ease over the medium term, with median GDP inflation coming down from 6.9 percent in 2007 to 6.4 percent in 2008 and 5.5 percent in 2009. This decline is tied to generally tighter credit conditions in both international and domestic markets. However, this somewhat sanguine picture masks an expected rise in inflation pressures in Belarus and Georgia and slower progress toward stabilization of consumer price inflation among oil exporters (as well as in Moldova and Ukraine) because of strong demand pressures. Among the new EU member countries, only the Slovak Republic is anticipated to join the Euro Area in the coming years following Slovenia's entry in 2007.

Risks

Downside risks to regional growth are tied to potential overheating and a sudden unwinding of large external imbalances. The presence of large foreign banks in several countries in the region, and the fact that many of these countries share common creditors and investors, appears to expose them to higher contagion risk in the event of a nondiscriminatory pullout, similar to what occurred in East Asia in 1997. In particular, large current account deficits (equivalent to about 12 percent or more as a share of GDP) in Bulgaria, Georgia, Latvia, Lithuania, and Romania remain a concern.

Risks to growth are also associated with the slowing of reform momentum in the new EU member states and other countries in CEE. In the CIS, slow progress with economic reforms and only gradual diversification from commodity market dependence remain a concern, pointing to slower medium-term growth prospects. And a more protracted workout of the housing situation in the United States and associated financial distortions there and in other OECD markets present a substantial downside risk.

Higher than anticipated oil prices also present risk for energy-importing countries in the form of higher import bills and increased inflationary pressures. With respect to the latter, while countries with free-floating currency regimes in CEE have direct policy levers to manage inflationary pressures, those with

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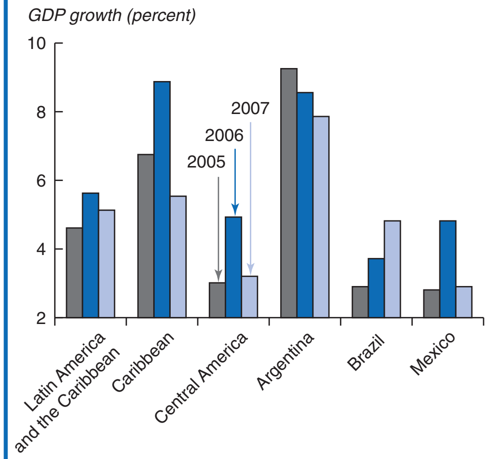
currencies pegged to the euro, such as the Baltic states and Bulgaria, have more limited options. Higher than projected grain prices could also lead to increased inflationary pressures, particularly among the low-income countries, where food expenditures represent a large share of consumption.

Despite gains in a number of Millennium Development Goal indicators, some countries in the region, particularly in Central Asia and the Caucasus, have shown regressing trends and slower progress toward achieving the goals. The Caucasus have met the goals related to carbon emissions and primary education, but concerns remain about the nonincome poverty indicators, such as malnutrition, access to tertiary education, HIV/AIDS, the environment, and soil and water management.

Figure A7 Growth outturns were mixed across Latin America in 2007



Sources: World Bank and national agencies.

Latin America and the Caribbean

Recent developments

Marking the fourth consecutive year of sustained advances, GDP growth in Latin America and the Caribbean registered 5.1 percent in 2007, following a 5.6 percent gain in 2006. The average yearly rate of output growth since 2004 has been 5.3 percent, twice the 2.7 percent registered during the previous 15 years. Recent growth has been more broadly based, with positive results shared by all subregions: the Caribbean, Central America, and South America. A favorable external environment together with improved domestic macroeconomic conditions helped strengthen fundamentals and enhanced growth and stability (figure A7).

During 2006, the region recorded large current account surpluses, which have diminished to a degree in 2007. Growing foreign exchange revenues made up of export earnings linked to high commodity prices for food, metals, and energy and continued large FDI; portfolio investment; and remittance flows have all contributed to the maintenance of high levels of foreign reserves and helped support equity markets. This positive external situation has underpinned government finances by boosting revenues that, despite a significant increase in public spending, limited the region's primary deficit to 0.3 percent of GDP in 2007, from 0.5 percent the previous year.

Monetary authorities, helped by stronger fiscal positions and supportive exchange rates, have been able to achieve inflation targets in most countries (figure A8). Excluding Argentina and the República Bolivariana de Venezuela, average consumer price inflation was stable in 2007 at 5.7 percent after declining by almost 1.0 percentage point in 2006. Only one country in the region has experienced inflation above 10 percent in each of the last five years.

The recent turmoil in financial markets that originated in the U.S. subprime mortgage market appears to have had limited effects on the region to date. Spreads have increased, though capital flows have continued (figure A9). Indeed, growth in 2007 continued to be strong, and although any sharp slowdown in the United States would eventually affect Latin American and the Caribbean prospects, the region seems better prepared for exogenous shocks than it was during earlier periods of crisis or financial dislocation.

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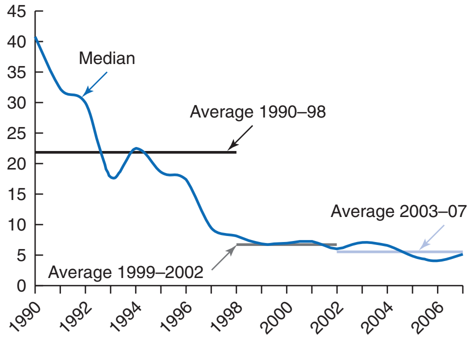
Figure A8 Latin American inflation eases over the last 15 years

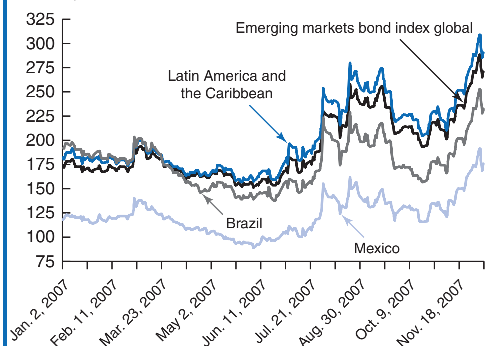
Median consumer price inflation in the seven largest Latin American countries (percent change)



Source: World Bank.

Figure A9 Latin America and the Caribbean sovereign bond spreads decline, then increase again

Basis points



Source: JPMorgan-Chase.

This broadly positive picture for the region is qualified by substantial variations from country to country. Between 2005 and 2007, Brazil, which accounts for about one-third of the region's GDP, stepped up growth by almost 1 percentage point a year. Significant monetary policy easing has been a key factor behind increasing private demand, which together with higher public spending, has boosted GDP growth. The policy interest rate was reduced further in the first half of 2007 in line with expectations of additional easing in inflation. Following the credit crisis in the United States, the exchange rate of the Brazilian *real* had depreciated from R/$1.86 in mid-July to R/$2.06 in mid-August. The currency had fully recovered and appreciated further against the U.S. dollar to R/$1.78 by the end of November, a move of 9.5 percent. Ample international reserves, a continuing current account surplus, and other strong macroeconomic fundamentals suggest increased resilience. In 2007, Chile resumed rapid 5.7 percent growth at the same level as in 2005 despite a dip to 4 percent in 2006 caused by the delayed effects of monetary tightening, countercyclical fiscal policy, mining stoppages, and energy constraints.

In Mexico, despite uncertainties surrounding the presidential election during the first half of 2007, investment demand rose 10.3 percent. High oil prices supported export revenues, which offset increased spending on imports and helped contain the trade deficit to $13 billion, up from $6 billion in 2006. Despite the positive performance of investment, private consumption, and manufacturing output in the first half of 2007, concerns regarding a weakening U.S. economy and its repercussions for Mexico have mounted because of the trade and financial links, including migrants' remittance flows, between Mexico and its northern neighbor. Mexico's GDP is anticipated to grow by 2.9 percent for the year.

Growth in Colombia and Peru has been above the regional average thanks to sustained strength in investment, which was up 18 percent in Colombia and 19 percent in Peru during 2006. Investment has been led by the private sector, with foreign companies playing an important role. The improved security situation in Colombia and several massive projects in the mining and energy sectors in Peru have attracted investors, and FDI has risen considerably. These factors will continue to support the pace of economic activity in 2007 at rates of 6.5 for Colombia and 7.5 percent for Peru.

Central American countries have also performed exceptionally well in recent years.

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Average growth for the aggregate of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama has amounted to 5.5 percent over 2004–07, the strongest since the early 1990s. Strong remittance inflows and the recent implementation of the Dominican Republic–Central American Free-Trade Agreement (a bilateral free trade agreement between the United States, Central America, and the Dominican Republic) have underpinned increasing consumer and business confidence and domestic spending. By increasing exports of manufactured goods to the United States, this agreement is helping Central America reduce export market losses in the garment sector resulting from the expiration of the Multi-Fiber Agreement and increased competition from China.

Growth in Argentina has been easing gradually from extremely high rates. GDP increased 7.8 percent in 2007, down from 8.5 percent in 2006. The prolonged expansion in Argentina can be explained in part by an undervalued real exchange rate, an expansionary fiscal policy, and an accommodative monetary stance. Contrasted with the experience of Brazil, where the currency appreciated and fiscal deficits contracted, in Argentina, intervention in the foreign exchange market has prevented nominal appreciation, while sterilization operations have contained expansion of the monetary base. Argentina has also put a series of supplementary measures in place to suppress inflation (actual levels of inflation remain unclear given the lack of transparency in official consumer price inflation calculations): the government raised export taxes on food and fuel and imposed direct controls on basic consumer prices, formal wages, and the tariffs on most energy products and public services. Despite massive revenue growth, the government's fiscal policy has been procyclical (increasingly so in the first half of 2007). Were external conditions to deteriorate, Argentina would have little margin to devalue the real exchange rate further or to contract its fiscal surplus in a meaningful way.

In the República Bolivariana de Venezuela, massive oil earnings have continued to finance large and procyclical government spending. These outlays supported growth of 8.3 percent in 2007, down 2 percentage points from the previous year. Apart from a clear acceleration in inflation, substantial export revenues have masked the adverse effects of increased state intervention on the economy. Significant declines in oil prices or oil production could lead to large liquidity problems in the future, especially in light of the increased spending, including spending on nationalized enterprises and numerous social programs.

The outcomes of seven presidential elections held in the region during 2006 did not result in major shifts in macroeconomic policy for the region as a whole. However, policy in Argentina, Bolivia, the República Bolivariana de Venezuela, and more recently Ecuador and Nicaragua is now more oriented toward an increasing role for the state in the economy.

Medium-term outlook

Regional GDP is expected to slow further in the years ahead, coming in at 4.5 percent in 2008 and at 4.3 percent in 2009 (figure A10). This measured slowdown is supported by continued strong growth in Brazil and a rebound from a weak 2007 for Mexico. Growth in other countries—notably Argentina and the República Bolivariana de Venezuela—is likely to slow. Excluding those two countries, regional GDP growth is expected to moderate only marginally from 4.4 percent in 2007 to 4.2 percent in 2008—because of weakness in the United States—before picking up to 4.3 percent in 2009.

Should these outturns be realized, they would represent the longest positive growth spell for Latin America since the 1960s. Despite a gradual worsening of current account balances due to stabilizing commodity prices and slower growth in global demand, this stronger growth is likely to persist, supported by continued expansion in consumption and investment and buoyed by an environment of low inflation (excluding Argentina

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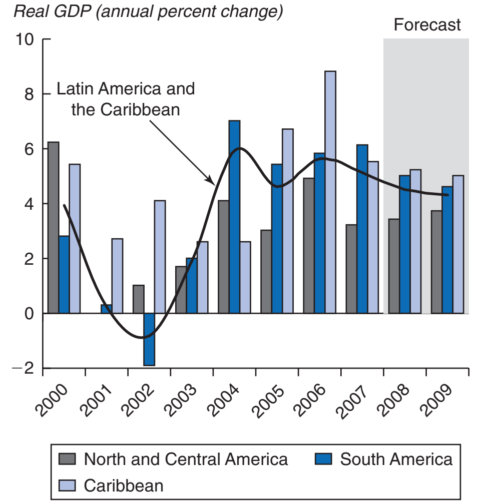
Figure A10 Growth in Latin America and the Caribbean eases into 2009



Source: World Bank.

and the República Bolivariana de Venezuela); improved fiscal policy (particularly in Mexico); and continued strong capital inflows (especially to Brazil).

Among various groupings of Latin American economies, a number of themes emerges. Growth among agricultural exporters is expected to slow from 7.1 percent in 2007 to 4.6 by 2009. However, if Argentina—where growth is expected to slow to more sustainable rates—is excluded from the group, the deceleration is less marked, from 5.0 percent in 2007 to 4.5 in 2009. Growth among metals exporters is projected to remain buoyant, easing from 5.1 percent in 2007 to 4.7 percent by 2009, in large part because of expansionary policies in Brazil and Chile. Growth among energy exporters is expected to slow gradually, from 5.2 percent in 2007 to 4.4 percent in 2008, easing further to 4.2 percent in 2009 as oil prices begin to soften. A reduced pace

Table A5 Latin America and the Caribbean forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	3.4	5.9	4.6	5.6	5.1	4.5	4.3
GDP per capita[c]	1.7	4.6	3.3	4.3	3.8	3.2	3.0
Purchasing Power Parity GDP[d]	4.3	5.6	4.5	5.4	5.1	4.6	4.4
Private consumption	3.4	4.9	5.2	6.2	5.7	4.9	4.6
Public consumption	1.5	1.7	3.2	3.3	4.2	3.0	2.8
Fixed investment	4.7	9.7	9.7	12.2	10.2	9.5	8.2
Exports, GNFS[e]	8.1	12.5	8.6	7.8	4.7	5.5	5.8
Imports, GNFS[e]	10.7	15.2	12.2	13.6	9.4	9.5	8.4
Net exports, contribution to growth	−0.3	−0.4	−0.7	−1.4	−1.3	−1.2	−0.9
Current account balance/GDP (%)	−2.8	1.0	1.4	1.6	0.5	0.1	−0.2
GDP deflator (median, LCU)	10.9	7.2	6.6	10.0	8.7	5.1	4.2
Fiscal balance/GDP (%)	—	0.0	−0.7	−0.5	−0.3	−0.9	−1.1
Memo items: GDP							
LAC excluding Argentina	3.2	5.5	3.9	5.1	4.7	4.3	4.3
Central America	3.6	4.1	3.0	4.9	3.2	3.4	3.8
Caribbean	3.6	2.6	6.7	8.8	5.5	5.2	5.0
Brazil	2.7	4.9	2.9	3.7	4.8	4.5	4.5
Mexico	3.5	4.1	2.8	4.8	2.9	3.2	3.6
Argentina	4.5	9.0	9.2	8.5	7.8	5.7	4.7

Source: World Bank.
Note: — = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.

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Table A6 Latin America and the Caribbean country forecasts

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Argentina							
GDP at market prices[b]	4.5	9.0	9.2	8.5	7.8	5.7	4.7
Current account balance/GDP (%)	−2.9	1.9	2.8	3.4	2.2	2.0	1.3
Antigua and Barbuda							
GDP at market prices[b]	3.3	4.3	5.3	11.5	5.0	4.4	4.2
Current account balance/GDP (%)	−6.0	−11.9	−8.7	−16.0	−16.6	−17.6	−16.3
Belize							
GDP at market prices[b]	5.9	4.6	3.1	5.6	3.5	3.3	3.4
Current account balance/GDP (%)	−7.3	−14.4	−14.6	−1.9	−4.4	−6.5	−5.7
Bolivia							
GDP at market prices[b]	3.8	3.9	4.1	4.6	4.1	4.4	4.2
Current account balance/GDP (%)	−6.1	3.9	5.4	11.8	9.2	8.4	7.9
Brazil							
GDP at market prices[b]	2.7	4.9	2.9	3.7	4.8	4.5	4.5
Current account balance/GDP (%)	−2.1	1.9	1.7	1.4	0.7	−0.1	−0.2
Chile							
GDP at market prices[b]	6.4	6.2	5.7	4.0	5.7	5.1	5.0
Current account balance/GDP (%)	−2.7	2.2	1.1	4.0	4.0	1.6	0.8
Colombia							
GDP at market prices[b]	2.5	4.8	4.7	6.8	6.5	5.3	4.8
Current account balance/GDP (%)	−1.9	−0.9	−1.6	−1.5	−1.6	−1.1	−1.0
Costa Rica							
GDP at market prices[b]	5.2	4.1	5.9	8.2	6.1	5.0	4.9
Current account balance/GDP (%)	−3.6	−4.3	−4.9	−4.9	−4.8	−5.4	−5.0
Dominica							
GDP at market prices[b]	1.8	3.2	3.4	4.1	3.2	3.1	3.0
Current account balance/GDP (%)	−16.6	−19.5	−28.8	−18.4	−19.2	−20.6	−20.7
Dominican Republic							
GDP at market prices[b]	6.0	2.0	9.3	10.7	7.2	5.4	4.8
Current account balance/GDP (%)	−3.2	5.7	−2.0	−2.6	−2.9	−3.8	−4.2
Ecuador							
GDP at market prices[b]	1.8	7.9	4.7	4.1	2.4	2.5	2.7
Current account balance/GDP (%)	−2.3	−1.7	0.8	3.5	1.6	2.9	2.3
El Salvador							
GDP at market prices[b]	4.6	1.8	3.1	4.2	4.2	3.8	4.0
Current account balance/GDP (%)	−2.0	−4.0	−5.4	−4.7	−5.2	−6.1	−5.7
Guatemala							
GDP at market prices[b]	4.1	2.7	3.2	4.6	5.0	4.6	5.0
Current account balance/GDP (%)	−4.6	−4.4	−4.4	−4.3	−4.1	−5.3	−5.0
Guyana							
GDP at market prices[b]	4.9	3.3	−1.9	4.7	4.5	3.7	3.5
Current account balance/GDP (%)	−15.1	−2.5	−12.0	−26.6	−21.2	−22.8	−16.4
Honduras							
GDP at market prices[b]	3.3	5.0	4.1	6.0	6.0	5.5	4.7
Current account balance/GDP (%)	−7.7	−5.7	−1.4	−1.9	−4.9	−5.0	−5.2
Haiti							
GDP at market prices[b]	−1.3	−2.2	2.0	2.3	3.5	3.8	4.0
Current account balance/GDP (%)	−1.8	−1.7	1.4	−0.3	−2.0	−3.8	−3.8
Jamaica							
GDP at market prices[b]	1.9	1.1	1.8	2.5	1.1	3.0	3.1
Current account balance/GDP (%)	−2.7	−5.7	−11.1	−10.7	−11.5	−13.7	−13.6
Mexico							
GDP at market prices[b]	3.5	4.1	2.8	4.8	2.9	3.2	3.6
Current account balance/GDP (%)	−3.7	−1.0	−0.6	−0.2	−1.0	−0.9	−1.0

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Table A6 (*continued*)
(annual percent change unless indicated otherwise)

	1991–2000[a]	2004	2005	2006	Forecast 2007	2008	2009
Nicaragua							
GDP at market prices[b]	3.4	5.1	4.4	3.7	4.2	4.7	4.5
Current account balance/GDP (%)	−28.7	−14.6	−13.0	−13.9	−11.4	−12.1	−10.2
Panama							
GDP at market prices[b]	5.1	7.6	6.4	7.5	8.3	7.2	7.1
Current account balance/GDP (%)	−4.8	−7.5	−5.1	−0.2	−5.6	−6.8	−7.5
Peru							
GDP at market prices[b]	4.0	5.2	6.7	7.6	7.5	6.4	6.1
Current account balance/GDP (%)	−5.5	0.0	1.5	2.9	1.8	0.8	0.4
Paraguay							
GDP at market prices[b]	1.8	4.1	2.7	4.0	4.0	3.9	3.8
Current account balance/GDP (%)	−2.2	2.0	0.0	−2.6	−2.6	−3.8	−3.8
St. Lucia							
GDP at market prices[b]	3.1	3.9	5.8	5.4	5.2	5.1	5.0
Current account balance/GDP (%)	−11.4	−16.6	−22.5	−18.9	−16.8	−16.9	−15.0
St. Vincent and the Grenadines							
GDP at market prices[b]	2.1	5.4	2.2	4.5	5.5	6.3	5.9
Current account balance/GDP (%)	−19.8	−29.0	−29.1	−24.2	−19.8	−17.7	−13.9
Uruguay							
GDP at market prices[b]	3.0	11.8	6.8	7.0	5.5	4.2	3.8
Current account balance/GDP (%)	−1.5	0.0	0.0	−2.7	−2.7	−3.3	−2.9
Venezuela, R.B. de							
GDP at market prices[b]	2.1	17.9	10.3	10.3	8.3	5.8	4.2
Current account balance/GDP (%)	2.6	14.1	18.5	14.4	7.4	6.9	4.7

Source: World Bank.
Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Barbados, Cuba, Grenada, and Suriname are not forecast because of data limitations.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

of economic activity in Argentina and the República Bolivariana de Venezuela could speed up the regional slowdown for energy exporters, but a pickup in growth in Mexico would offset that to some extent.

Despite the gradual reduction in oil prices, growth among small energy importers is likely to moderate from 6 percent in 2007 to 5.1 percent by 2009. This outturn reflects the combined effects of weaker import demand in the United States, reduced remittance inflows (linked to a slowdown of construction activity in the United States), and increasing competition from China following the phaseout of textile and apparel quotas under the Multi-Fiber Agreement. At the same time, GDP should find support through continued strong FDI inflows following implementation of the Dominican Republic–Central American Free-Trade Agreement.

Growth in Brazil is expected to moderate from 4.8 percent in 2007 to 4.5 percent in both 2008 and 2009. The positive fundamentals observed in 2006 and 2007—low interest rates, a strong currency, and falling unemployment—should continue to underpin a robust pace of domestic activity. At the same time, a further near-term acceleration in growth is unlikely. The Central Bank has taken a pause in interest rate reductions, while quarter-on-quarter GDP figures show a slight moderation from the first quarter to the second quarter of 2007.

Argentina's growth is expected to decelerate sharply from 7.8 percent in 2007 to 5.7 percent in 2008 and to 4.7 percent in

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2009. Despite rising fiscal revenues, persistent and accelerating inflation and increased public intervention in private sector activity appear likely to discourage growth prospects. Recent production and goods trade numbers underscore a weakening in the pace of activity, caused in large part by the imposition of energy rationing. Industrial output gained 2.3 percent in July (year-on-year), the weakest showing in more than five years, while steel production contracted by 26 percent.

Growth in Mexico is likely to rebound from 2.9 percent in 2007 to 3.2 percent in 2008 and to 3.6 percent in 2009. Although remittances will contribute less to domestic activity as growth in the United States slows, increased domestic credit to consumers and businesses should support spending. Recent fiscal reforms also point toward better growth prospects, as improved revenue collection should allow the government to boost needed infrastructure outlays. With a rebound of U.S. activity in the second half of 2008 and 2009, Mexican exports will make a stronger contribution to growth.

Finally, activity in the República Bolivariana de Venezuela is anticipated to slow fairly rapidly, with GDP growth declining from 8.3 percent in 2007 to 5.8 percent in 2008 and 4.2 percent in 2009. Activity in late 2006 and early 2007 was supported by large-scale run-ups in fiscal outlays associated with the presidential elections, but falling oil revenues over the forecast period make continued expansion in government spending unlikely. Private activity is also expected to slow substantially. Higher inflation will likely result in declines in real wages, a sharp falloff in FDI will reduce the contribution of investment to growth, and an uncertain regulatory environment (notably with regard to property and contract rights) is anticipated to hamper private sector startups and job creation.

Risks

A stabilization of growth in Latin America and the Caribbean at high rates in a historical context and broad improvements in the region's fundamentals have been supported by an exceptionally favorable external environment. Should that environment deteriorate substantially, growth is likely to slow. Moreover, despite improved fundamentals, some countries may be vulnerable to a sharp reversal in conditions.

Overall, the region's resilience to shocks has improved, and better economic policies have supported this improvement. In particular, the structure of external debt—in terms of maturity and foreign currency exposure—has improved; the accumulation of reserves has, in most cases, surpassed external borrowing requirements; the region's fiscal and current accounts have been in surplus during the current growth cycle; and independent central banks are imposing countercyclical monetary policies, especially in those countries where inflation targeting is the adopted policy regime. Notwithstanding these advances, some risks linked to a worsening of the external environment may remain a concern for the region.

In a potentially difficult phase of rising risk aversion in global financial markets, the region has, up to now, demonstrated that it has developed a stronger "immune system." As shown in figure A11, the responsiveness of the spreads on sovereign bonds (noninvestment grade) for Latin American and the Caribbean countries with respect to changes in risk aversion, though still elevated, is much lower when contrasting the July 2006 to end-2007 period with the August 1997 to August 1999 period (the period of the financial crises in East Asia and Russia). Contagion effects to Latin America and the Caribbean through the financial channel seem less likely than during past challenging phases. However, there are still some country-specific issues: Argentina (because of the INDEC incident—the national statistics agency producing questionable infection data) and Ecuador (because of the outright discussion of default) have undermined the perception of their willingness to pay, regardless of their reserves cushion, and therefore were hit harder and earlier than the other countries. The República Bolivariana de Venezuela was also affected because of political concerns.

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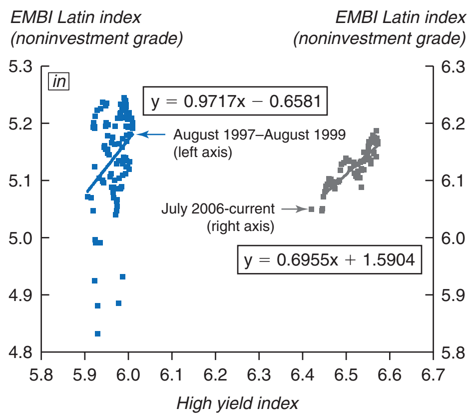
Figure A11 Financial test: Credit

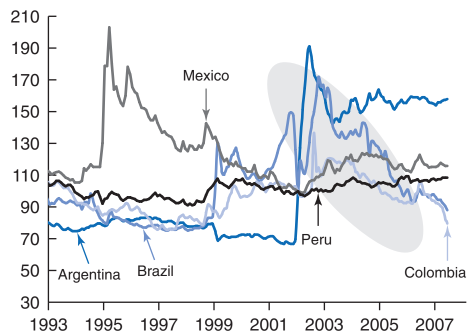
Lower elasticity of LAC EMBI with respect to risk aversion (HY bonds)...



Source: Bloomberg weekly data; Credit Suisse high-yield index; JP Morgan EMBI.
Note: EMBI = Emerging markets bond index.

Figure A12 Exchange rate policy dilemmas?

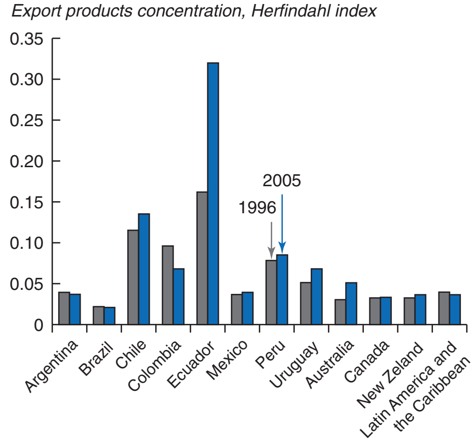
Real effective exchange rate indexes (January 2000 = 100)



Source: International Monetary Fund.

Figure A13 Export product (value) concentration is increasing

Export products concentration, Herfindahl index



Sources: World Integrated Trade System.

The region could still suffer adverse consequences from a worsening and spreading of the U.S. subprime crisis through real channels. Lower remittances may hurt some of the poorest among Latin America and the Caribbean's recipient countries, while lower external demand may be exacerbated by weaker competitiveness resulting from appreciating currencies, as shown in figure A12.

Finally, terms-of-trade deterioration may also exert negative pressure on aggregate output. Figures A13 and A14 summarize the region's vulnerability to commodity price shocks. In recent years, export concentration for the region, as captured by the Herfindahl index of exported goods, did not decline. Indeed, it increased in many countries, possibly because of an increase in specific commodity prices (as the index is measured in nominal terms). Increases in this index signal a potential worsening of the risk associated with volatility of global commodity prices. Counterbalancing this tendency is the geographic diversification of Latin American and the Caribbean's export markets. The concentration of Latin exports to the U.S. market is quite strong, especially for countries such as Mexico, but the overall trend is toward diversification.

The emergence of China and India played a role in explaining the trade patterns displayed in figures A13 and A14, and on a positive note, may have permanently and favorably changed the terms of trade faced by the region. In this rosier situation, the region may be drawn into intensive activities in areas

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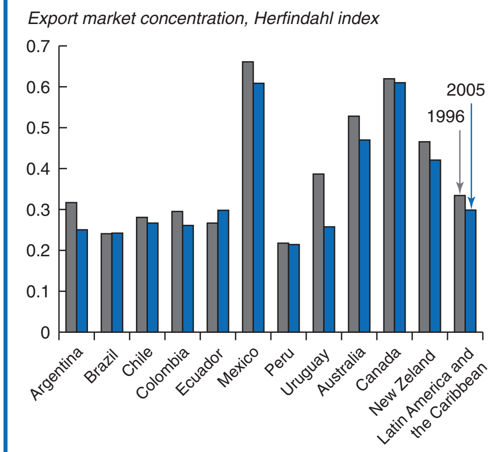
Figure A14 Export market (value) concentration is falling



Sources: World Integrated Trade System.

of comparative advantage, such as natural resources and skills and technology, but additional progress on some structural factors is needed to take full advantage of these opportunities. In particular, the region has to improve its investment climate and the skill composition of its labor force.

Compared with other regions, Latin American and Caribbean fundamentals may appear to be unimpressive, and the region does not seem to be catching up in a significant way. Even for the most recent period, aggregate GDP growth, gross fixed capital formation (as a share of GDP), and TFP growth remain well below averages for other developing regions. The Latin America and the Caribbean region does not appear, at least not yet, to have been capitalizing on the favorable external environment to raise its growth path.

Middle East and North Africa

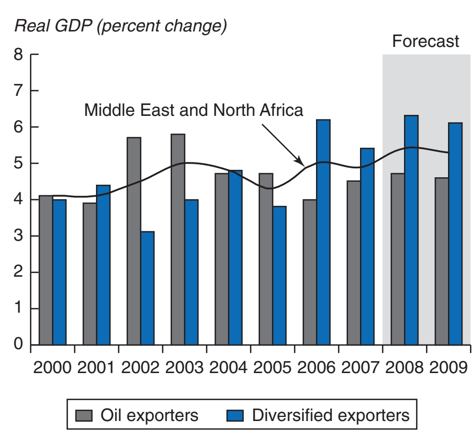
Recent developments

GDP for the developing countries of the Middle East and North Africa region grew nearly 5 percent in 2007, matching the decade-high pace achieved the preceding year (table A7 and figure A15).[1] Continued growth in hydrocarbon receipts among the region's developing (and high-income) oil exporters was a key factor supporting growth, as world oil prices breached records at close to $100 a barrel toward the end of the year. Notwithstanding the severe drought that afflicted countries in the Maghreb, notably Morocco, a revival in European demand helped underpin exports for the resource-poor, labor-abundant countries in the region, especially the Arab Republic of Egypt, where a depreciation of the pound against the euro also assisted, and Jordan.[2] Moreover, record inflows of FDI, ample liquidity, and strong domestic demand all bolstered growth across the diverse countries of the region.

Oil exporters registered growth of 4.5 percent for the year, up from 4.0 percent in 2006, as GDP in Algeria and the Islamic Republic of Iran moved higher. The group of diversified exporters witnessed an easing of growth from 6.2 percent in 2006 to 5.4 percent, largely as output gains in Morocco plummeted from 8 percent to 2 percent. However, GDP in all other countries picked up or repeated its strong performance of 2006.

Oil-related revenues for the year increased 9 percent for developing exporters in the

Figure A15 Growth in Middle East and North Africa picks up



Source: World Bank.

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Table A7 Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	3.8	4.8	4.3	5.0	4.9	5.4	5.3
GDP per capita[c]	1.6	3.0	2.5	3.1	3.1	3.6	3.5
Purchasing power parity GDP[d]	4.7	4.8	4.3	5.0	4.9	5.4	5.1
Private consumption	3.8	6.3	5.0	5.2	4.9	4.9	5.2
Public consumption	4.3	2.7	5.9	5.6	7.0	7.4	4.7
Fixed investment	3.3	8.1	8.2	11.6	13.9	11.7	11.1
Exports, GNFS[e]	4.4	8.6	9.1	9.5	4.3	3.8	5.2
Imports, GNFS[e]	1.6	15.2	12.5	13.5	10.2	7.2	8.0
Net exports, contribution to growth	0.7	−1.9	−1.2	−1.6	−2.3	−1.5	−1.5
Current account balance/GDP (%)	−0.5	7.4	9.6	9.6	8.2	9.5	6.2
GDP deflator (median, LCU)	7.4	9.1	11.7	8.7	4.4	6.1	4.3
Fiscal balance/GDP (%)	−2.8	−2.7	3.4	2.2	−0.9	−1.8	−1.8
Memo items: GDP							
MENA Geographic region[f]	3.4	5.0	5.2	4.8	4.6	5.1	4.9
Resource poor-labor abundant[g]	4.2	4.8	3.8	6.2	5.4	6.3	6.1
Resource rich-labor abundant[h]	3.3	4.9	4.6	3.8	4.4	4.6	4.4
Resource rich-labor importing[i]	3.0	5.2	6.8	4.7	4.2	4.6	4.5
Egypt, Arab Rep. of	4.6	4.1	4.5	6.8	7.1	7.0	6.8
Iran, Islamic Rep. of	3.7	5.1	4.3	4.6	5.0	5.0	4.7
Algeria	1.7	5.2	5.1	1.8	3.4	4.0	3.8

Source: World Bank.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.
f. Geographic region includes high-income countries: Bahrain, Kuwait and Saudi Arabia.
g Egypt, Jordan, Lebanon, Morocco and Tunisia.
h. Algeria, Iran, Syria and Yemen.
i. Bahrain, Kuwait, Oman and Saudi Arabia.

region, rising to $160 billion. Among high-income oil exporters, oil-related revenues rose 13 percent to $382 billion, sufficient to fund ongoing infrastructure and social programs while also adding to massive reserve levels.[3] Among developing country oil exporters, which are dominated in size by Algeria and the Islamic Republic of Iran, but also include Oman, Syria, and the Republic of Yemen, the upturn in oil prices had varying effects (figure A16). For example, in Algeria, hydrocarbon receipts increased moderately to $54 billion, widening Algeria's current account surplus slightly to $29 billion, or 23 percent of GDP. In the Islamic Republic of Iran, hydrocarbon revenues grew 12 percent to $65 billion, but rapid growth in consumer and government spending (as well as imports), together with volume constraints on oil production and shipment, caused the current account surplus to narrow from $34.5 billion in 2006 to $31 billion in 2007, or from 13.3 to 11.1 percent of GDP.

The dollar's swift decline—tied in part to reductions in U.S. interest rates to shore up the country's interbank market—has had differing effects in the region. Oil exporters find their dollar-based receipts falling sharply in relation to the euro, the currency in which a major proportion of imports are denominated, and are consequently suffering a form of terms-of-trade loss. In contrast, diversified exporters may find their competitiveness enhanced in the EU market, with local currencies depreciating moderately against the euro.

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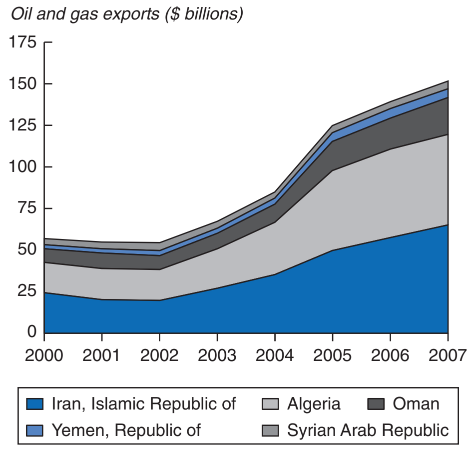
Figure A16 Hydrocarbon exports continue to rise on higher prices, modest volume gains



Source: United Nations Comtrade Database; World Bank.

A fall in hydrocarbon output has constrained growth in Algeria, with GDP advancing just 1.8 percent in 2006 and 3.4 percent in 2007. Oil and gas output growth declined 2.6 percent in 2006, but activity unrelated to hydrocarbons expanded by a robust 6 percent in 2007. A major government investment initiative got under way and is slated to expend more than $22 billion over the coming years on housing, transport, and agriculture. This is boosting job growth in construction and related sectors and underpinning strong household spending.

In the Islamic Republic of Iran, despite major fiscal expansion in 2007—seen in the widening of the budget deficit from 0.2 percent of GDP in 2006 to 2.4 percent—growth is likely to step up just 0.4 percentage points, to 5 percent given the extent of leakage into imports that occurred over the year. Exports advanced a modest 1.3 percent against a 13.5 percent gain in imports.

For the diversified exporters, or resource-poor, labor-abundant economies, 2007 marked a watershed for several countries in the area of finance. The Fitch Agency raised Egypt's Issuer Default Rating to a positive outlook, with growth supported by double-digit gains in investment. Morocco was awarded investment grade status for its sovereign bonds and quickly raised $675 million at a low 55 basis-point spread. GDP growth for the group—excluding Morocco, where the effects of drought bias figures for 2007—increased from 5.8 percent in 2006 to 6.2 percent in 2007 on the strength of 7.1 percent growth in Egypt, 6.0 percent in Jordan and Tunisia, and recovery for Lebanon from the downturn of 2006.

Growth in Egypt is broadly based, with non-oil manufacturing and retail trade accounting for half of overall output gains. The fastest-growing sectors include construction, Suez Canal traffic, communications, and tourism. Exports have boomed by 23 percent over 2007 to date, especially non-oil goods, but at 29 percent growth, import demand is even stronger and has kept the contribution of trade to growth negative while widening the country's deficit on trade. But for Egypt and many of the diversified exporters, services receipts and burgeoning remittances outweigh shortfalls on trade, allowing countries to maintain current account surplus positions (figure A17).

In Egypt, Morocco, and Tunisia, reforms are improving the business climate and increasing the competitiveness of the export sector. Egypt, Jordan, Morocco, and Tunisia signed a free trade agreement (the Agadir Agreement) to help promote intraregional trade while addressing rules-of-origin questions that often are part of broader frameworks, such as the European Union–Mediterranean agreements. FDI is becoming an important driver for private investment and growth in this group of countries, and as reforms proceed, the potential for attracting additional FDI grows in step.

Indeed, large-scale FDI has been flowing into the region for the last three years on the back of emerging and increasingly sustained economic growth, diversification, and ongoing reforms. Flows to the geographic region

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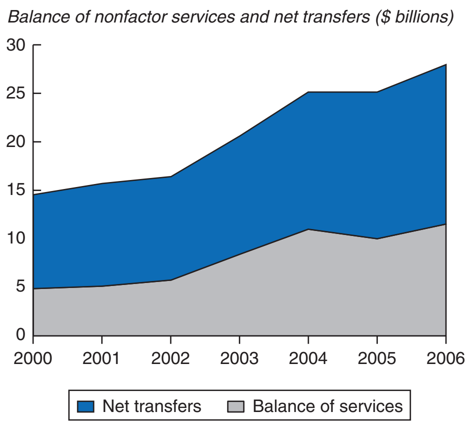
Figure A17 Tourism and remittances offset widening trade deficits for Maghreb and Mashreq countries



Source: International Monetary Fund balance of payments statistics.

(including the high-income oil exporters) increased 38 percent, to $64 billion in 2006, after doubling to $46 billion in 2005. Among the diversified exporters, the share of FDI in GDP doubled from 3.0 percent, on average, over 2000–04 to 5.6 percent in 2006. FDI flows are tending to focus on the services sector, including finance, telecommunications, and real estate, as well as hydrocarbons and related industries. Direct investment flows to Egypt, in particular, are booming, reaching $11 billion during the country's fiscal 2007, up from $6 billion the previous year. High-income countries in the region have emerged as major investors in the Middle East and North Africa. The United Arab Emirates, for example, invested $8 billion in Egypt in transport and tourism infrastructure during 2006. Evidence suggests that FDI continues to flow into the region's developing and high-income countries, setting a strong foundation for future growth and eventual alleviation of the region's unemployment problem.

Median inflation in the region currently stands at 5.0 percent, up from 3.2 percent in 2006. Inflation has become an important issue for several countries, including the Islamic Republic of Iran (18 percent year-on-year at latest readings) and Egypt (10.9 percent), where consumer price inflation has trended higher because of domestic supply shocks, for example, the partial elimination of subsidies in September 2006. More recent acceleration in Algeria and other oil exporters has accompanied rapid growth in domestic demand. Moreover, the ratcheting up of food and energy costs—the former notably in grains, with a 40 percent jump over 2007 related, in, part to increased global production dedicated to biofuels—presents difficulties for a number of economies, causing price pressures through imports as well as strains on fiscal positions from widespread subsidies covering fuels and cereals.

Medium-term outlook

Prospects for developing countries in the region appear relatively bright, with aggregate GDP gains projected to top 5 percent in 2008 and 2009. Despite uncertainties looming in the external environment for 2008 related to the financial and real implications of the U.S. subprime mortgage crisis, growth among developing oil exporters is anticipated to pick up, in large part tied to domestic developments, although oil prices will likely remain at high levels ($84 per barrel), thereby helping to sustain revenues supporting large, project-related expenditures. GDP gains for the oil exporters are projected to reach 4.7 percent in 2008 before receding to 4.6 percent in 2009 as global oil prices begin to recede.

For the diversified exporters, growth should pick up sharply in 2008, to 6.3 percent from 5.4 percent in 2007. A rebound in Morocco to 5.5 percent growth from the depths of drought is a factor in this outlook. Investment-led growth appears to be increasingly well established in Egypt, where activity is expected to remain within a higher 7 percent range over the forecast period. Sustained growth of around 6 percent in Jordan and Tunisia is likely, grounded in services exports and increasingly in investment and construction funded by FDI. In Lebanon, stronger growth

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on a sustained basis is unlikely until the political environment has improved (table A8).

Risks

The region appears to have suffered little in the way of direct effects from the financial turbulence of mid-2007. Yet the increasing sophistication of reserves management among high-income oil exporters and the movement toward establishing large-scale sovereign wealth funds may increase the exposure of such portfolios to innovative, yet complex and hard to price, securities. Regional equity markets slumped only briefly during the bout of global volatility, and indeed, stock exchanges in the Gulf states have outperformed the Morgan-Stanley emerging market average through the final months of 2007 (figure A18).

Markets for non-oil commodities, manufactures, and tourism services may suffer a more pronounced slowdown linked to the ripple effects of financial difficulties already present in the United States and the Euro Area. Should a significant credit crunch occur, slowing growth across the OECD as well as across

Table A8 Middle East and North Africa country forecasts

(annual percent change unless indicated otherwise)

				Estimate	Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Algeria							
GDP at market prices[b]	1.7	5.2	5.1	1.8	3.4	4.0	3.8
Current account balance/GDP (%)	3.2	13.1	20.7	24.2	23.0	24.4	21.2
Egypt, Arab Rep. of							
GDP at market prices[b]	4.6	4.1	4.5	6.8	7.1	7.0	6.8
Current account balance/GDP (%)	0.0	4.3	3.3	1.6	2.1	2.4	1.9
Iran, Islamic Rep. of							
GDP at market prices[b]	3.7	5.1	4.3	4.6	5.0	5.0	4.7
Current account balance/GDP (%)	1.2	15.9	16.2	13.3	11.1	12.7	6.8
Jordan							
GDP at market prices[b]	5.1	8.4	7.3	6.3	6.0	5.8	6.0
Current account balance/GDP (%)	−4.3	−0.2	−18.7	−15.0	−13.5	−14.6	−12.6
Lebanon							
GDP at market prices[b]	7.2	6.3	1.0	0.0	1.0	3.5	4.5
Current account balance/GDP (%)	—	−22.5	−23.2	−16.7	−19.6	−19.0	−15.9
Morocco							
GDP at market prices[b]	2.2	5.2	2.4	8.0	2.0	5.5	4.5
Current account balance/GDP (%)	−1.4	1.7	1.9	2.8	2.3	0.6	0.5
Oman							
GDP at market prices[b]	4.6	3.1	5.8	6.0	6.0	6.3	5.8
Current account balance/GDP (%)	−3.7	2.3	13.7	12.4	12.2	17.2	11.3
Syrian Arab Republic							
GDP at market prices[b]	5.1	3.9	4.5	5.1	3.9	3.7	4.8
Current account balance/GDP (%)	1.0	2.4	1.1	2.8	2.5	3.2	0.8
Tunisia							
GDP at market prices[b]	4.7	6.0	4.0	5.4	6.0	6.2	6.0
Current account balance/GDP (%)	−4.3	−2.0	−1.1	−2.1	−2.5	−2.6	−2.1
Yemen, Rep. of							
GDP at market prices[b]	5.5	2.5	4.6	4.0	3.8	4.3	4.0
Current account balance/GDP (%)	−4.3	1.7	2.3	0.4	−2.2	−2.3	−5.1

Source: World Bank.
Notes: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Djibouti, Gaza, Iraq, Libya, and West Bank are not forecast because of data limitations.
— = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

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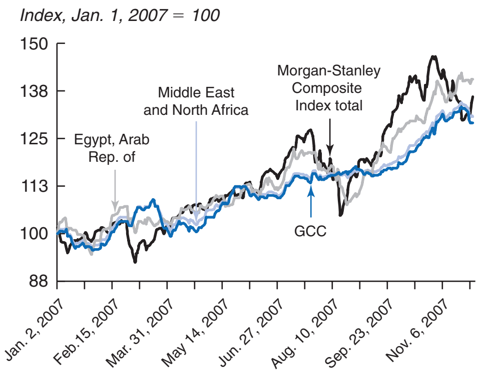
Figure A18 Middle East and North Africa equities rebound from the mid-2007 slump



Source: Morgan-Stanley.

developing countries, demand for crude oil and refined petroleum products could decline and lead to a sharp fall in prices with the attendant effects ensuing for revenues and growth.

Notes

1. For the purposes of this report, coverage of the region is restricted (for the sake of consistency across all regions) to include only low- and-middle-income countries. These countries include Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, Oman, the Syrian Arab Republic, Tunisia, and the Republic of Yemen. Because of data limitations, the middle-income economies of Djibouti, Iraq, Libya, and the West Bank and Gaza are not included in the aggregates. High-income countries in the region are Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, to which references are made. Qatar and the United Arab Emirates are not included in the high-income aggregate because of data limitations.

2. For the developing countries in the region, the resource-poor, labor-abundant countries are Egypt, Jordan, Lebanon, Morocco, and Tunisia. The resource-rich, labor-abundant countries are Algeria, the Islamic Republic of Iran, Syria, and the Republic of Yemen. Oman is the developing, resource-rich, labor-importing country. However, memo items in table A7 cover the full geographic region, including Bahrain, Kuwait, and Saudi Arabia. For reference, the GDP of the developing countries of the Middle East and North Africa region accounts for just 62 percent of the geographic region.

3. Changes in the volume of oil and gas production have been modest in recent years, ranging from 0.5 to 1.0 percent annual gains in Algeria to a decline in the Islamic Republic of Iran and the Republic of Yemen. Hence the buildup in export revenues is largely due to the large-scale increase in global oil prices over 2005 through 2007.

South Asia

Recent developments

South Asia's regional GDP was vibrant at 8.4 percent growth in 2007, easing only moderately from the 8.8 percent outturn of 2006. The region continues to build on the momentum of recent fiscal and business-oriented reforms. Private consumption and investment accelerated in 2007 despite more restrictive monetary policies. Large capital inflows, rising incomes, and strong worker remittances have supported private spending. Improvement in business sentiment—both foreign (toward India) and domestic—and rising corporate profits have provided a strong foundation for investment. Growth in government spending has come down from 12.5 percent in 2006 and is now in line with overall economic activity. The decline in government spending is primarily attributable to a sharp falloff in Pakistan's outlays following a spike in 2006 linked to recovery and reconstruction efforts after the December 2005 earthquake.

Among the larger economies, a modest easing of GDP growth in India, from 9.4 percent in 2006 to 9.0 percent in 2007 reflects a firming in Indian import demand that yielded a negative net export position, further underpinned by strong appreciation of the rupee (figure A19). The falloff in growth in Pakistan from 6.9 percent in 2006 to 6.4 percent in 2007 stems from a decline in private sector credit growth, a slowdown in FDI inflows beginning in July 2007, and weaker exports. In Bangladesh, tighter domestic credit conditions induced a softening in investment growth, while net exports turned negative, explaining

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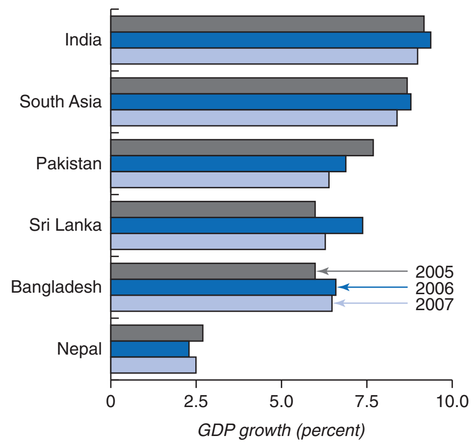
Figure A19 South Asian economies ease into 2007



Sources: World Bank and national agencies.

the slight moderation in growth from 6.6 in 2006 to 6.5 percent in 2007. In Sri Lanka, an escalation of the conflict between government-led forces and separatists dampened prospects in the tourism industry and contributed to a 1.1 percentage point falloff in growth to 6.3 percent in 2007. In contrast, growth in Nepal is on course to pick up modestly from 2.3 percent in 2006 to 2.5 percent in 2007 as the peace process moves forward, bringing increases in foreign assistance and a gradual recovery in the tourism sector.

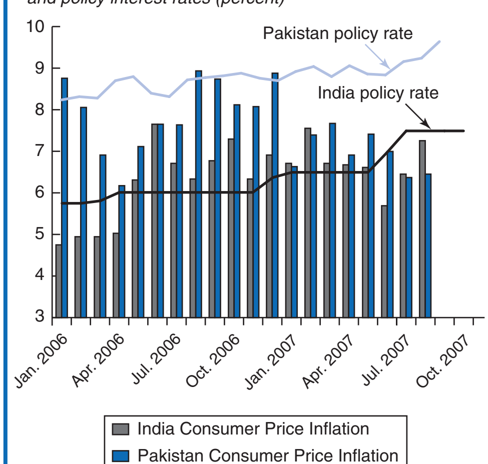
At the regional level, robust investment demand drove rapid import growth—which averaged 11 percent a year and exceeded export growth by 2.5 percentage points—while currency appreciation also increased demand for imports. Exports remained healthy at 8.5 percent, but were slowed by softening demand in high-income countries and real appreciations that have made export markets more competitive.

The regional current account deficit increased as a share of GDP, moving from 1.3 percent in 2006 to 2.4 percent. Current account positions worsened in a number of countries over the course of 2007, with deficits reaching close to 5 percent of GDP in Pakistan and about 2 percent in India. Pakistan's current account is of some concern, having deteriorated by the equivalent of more than 5 percentage points of GDP in the last four years. Strong flows of worker remittances into the region have helped contain the extent of deterioration in current account positions. Remittances amount to substantial proportions of GDP in many South Asian countries, helping to smooth private consumption while offering a buffer for external trade shortfalls. Remittance receipts are the equivalent of a large 16 percent of GDP in Nepal, 9 percent in Sri Lanka, 7 percent in Bangladesh, and 4 percent in Pakistan. Strong foreign capital flows to India and Pakistan, in particular, have complemented remittances to provide generally comfortable levels of external finance.

Inflation pressures in India and Pakistan eased over the first three quarters of 2007 (figure A20). In India, the appreciating rupee contributed to an easing of wholesale price inflation to 3 percent as of early November (year-on-year), breaching a five-year low. However, risks of a regional revival in inflation remain, stoked by an incomplete

Figure A20 Monetary policy is tightened in response to a buildup in inflation

Consumer price inflation (percent change year-on-year) and policy interest rates (percent)



Source: World Bank.

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pass-through of higher energy costs to the final consumer in several countries, increasing and widespread upward pressure on food prices, strong credit growth, and sharp gains in equity markets that have fueled liquidity. In Sri Lanka, inflation reignited in 2007, with 12-month moving average inflation increasing to 18 percent in September, up from 6.8 a year earlier. Inflation has also picked up in Maldives, from 3.7 percent in 2006 to 7.0 percent in 2007, reflecting expansionary government spending and a budget deficit anticipated to reach 24 percent of GDP in 2007, caused in part by continuing post-tsunami reconstruction and large tourism construction projects. Inflation also appears to be stepping up in Bangladesh in the wake of the recent cyclone.

In India, monetary tightening and large capital inflows led to significant currency appreciation during 2007, with the rupee reaching a near decadal high of Rs 39.2 against the dollar by the end of November. This development has contributed to an easing of inflationary pressures through prices of imports, while at the same time it has reduced the price competitiveness of India's exporters. The strong currency gains prompted the Reserve Bank of India to sell rupees to help contain the rate of appreciation and to introduce selected capital control measures. Pakistan's currency had been appreciating slightly against the dollar over much of the year, but it began to depreciate in response to heightened uncertainty on international capital markets and the president's imposition of a state of emergency in early November.

The increased volatility of international credit markets during mid-2007 tied to the housing market downturn in the United States initially led to a falloff in equity prices in India and Pakistan, but markets in both countries have since recouped their losses. In October, India's Sensex index rose above 19,000 for the first time, driven by overseas fund purchases. According to the Securities and Exchange Board of India, foreign investors bought an average of nearly $500 million more than they sold in Indian equities during the first half of October, compared with daily net purchases of $232 million in September. In relation to local currencies, equity markets were up 36 percent in India (50 percent in dollar terms) and 20 percent in Pakistan (19 percent in dollar terms) from January 1 to October 31, 2007.

Medium-term outlook

Tighter credit conditions, volatility in international financial markets, a risk of recession in the United States, and slowing growth in the European Union should yield a fairly pronounced slowing of external demand for South Asia's exports during 2008. This is likely to worsen the region's overall current account deficit, as will increases in global oil prices into 2008. Nonetheless, contributions to growth from domestic demand—both private consumption and investment—are expected to remain relatively high, despite facing headwinds from tighter monetary conditions and further consolidation in fiscal positions.

These factors are expected to lead to an easing of regional GDP growth from 8.4 percent in 2007 to 7.9 percent in 2008, with most countries experiencing a modest deceleration (tables A9 and A10). In Bangladesh, however, heightened political tensions and severe flooding were curbing demand in the second half of 2007 and will contribute to a full percentage point reduction in growth to 5.5 percent for 2008. Regional growth is expected to pick up to 8.1 percent by 2009, as recovering growth in the OECD firms up external demand and as receding oil prices ease pressures on the import bill. Domestic absorption is projected to regain momentum in 2009, assuming that price conditions permit an easing of monetary policy during the second half of 2008.

Tighter credit conditions in international markets and a decreased appetite for risk among investors could result in a falloff in regional capital inflows, which have contributed to recent strong growth outturns, particularly in India and Pakistan. Although trade openness has generally increased (except in Afghanistan, Nepal, and Sri Lanka, which are

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Table A9 South Asia forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	5.2	7.8	8.7	8.8	8.4	7.9	8.1
GDP per capita[c]	3.2	6.1	7.0	7.2	6.9	6.4	6.6
Purchasing power parity GDP[d]	6.4	7.9	8.7	8.9	8.5	8.0	8.2
Private consumption	4.0	5.7	7.1	5.6	6.4	6.3	6.6
Public consumption	3.9	5.3	8.8	12.5	8.4	8.3	8.7
Fixed investment	5.5	10.2	14.2	14.2	15.2	13.6	12.6
Exports, GNFS[e]	9.0	14.5	7.0	9.0	8.5	8.4	10.5
Imports, GNFS[e]	7.9	32.9	12.5	11.9	11.0	11.1	12.1
Net exports, contribution to growth	−0.1	−3.1	−1.3	−0.9	−0.9	−1.0	−0.9
Current account balance/GDP (%)	−1.5	−0.1	−1.2	−1.3	−2.4	−3.0	−2.7
GDP deflator (median, LCU)	8.0	4.9	5.7	7.5	7.0	7.0	6.4
Fiscal balance/GDP (%)	−7.8	−6.4	−6.4	−6.3	−6.1	−5.5	−5.1
Memo items: GDP							
South Asia, excluding India	4.4	6.1	6.7	6.7	6.3	6.0	6.5
India	5.5	8.3	9.2	9.4	9.0	8.4	8.5
Pakistan	3.9	6.4	7.7	6.9	6.4	6.5	6.7
Bangladesh	4.8	6.3	6.0	6.6	6.5	5.5	6.5

Source: World Bank.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.

Table A10 South Asia country forecasts

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Bangladesh							
GDP at market prices[b]	4.8	6.3	6.0	6.6	6.5	5.5	6.5
Current account balance/GDP (%)	−0.4	−0.5	−0.3	1.8	1.3	0.9	0.2
India							
GDP at market prices[b]	5.5	8.3	9.2	9.4	9.0	8.4	8.5
Current account balance/GDP (%)	−1.1	0.1	−1.0	−1.1	−2.2	−2.8	−2.5
Nepal							
GDP at market prices[b]	5.0	3.7	2.7	2.3	2.5	4.0	4.5
Current account balance/GDP (%)	−6.4	−0.7	0.0	−0.1	−1.7	−2.4	−2.9
Pakistan							
GDP at market prices[b]	3.9	6.4	7.7	6.9	6.4	6.5	6.7
Current account balance/GDP (%)	−3.7	−0.8	−3.3	−4.3	−4.9	−5.8	−5.3
Sri Lanka							
GDP at market prices[b]	5.2	5.4	6.0	7.4	6.3	6.2	6.5
Current account balance/GDP (%)	−4.6	−3.4	−3.1	−4.9	−4.8	−5.1	−4.5

Source: World Bank.
Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Afghanistan, Bhutan, and Maldives are not forecast because of data limitations.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

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all suffering from civil strife), openness remains relatively low in most countries. As a consequence, the region is likely to be buffered to a degree from a falloff in external demand tied to the downturn in the credit cycle.

Risks

Relatively large current account deficits in Maldives, Pakistan, and Sri Lanka remain of concern, particularly in an environment of increased volatility in international financial markets. In Maldives and Sri Lanka, fiscal deficits exceed 7.3 percent of GDP, and foreign reserve positions were fairly tight as of mid-2007, equivalent to 2.5 months of import cover. Although import cover in Pakistan is still a relatively comfortable four months, it is on a declining trend, suggesting that further adjustments are required. Accordingly, a sudden and marked slowdown in capital inflows or a discrete adjustment in global financial markets could have noticeable adverse economic effects on these countries.

European and U.S. restrictions on some categories of Chinese textile and clothing exports will be lifted at the end of 2008, and increased competition in 2009 could hurt regional exporters. Potential effects may be discerned by examining developments in Canada, which has not imposed safeguard restrictions on China: Bangladesh's share of Canada's textile and clothing market declined from 7.4 percent in 2005–06 to 6.9 percent over 2007 to date. Among regional exporters, Sri Lanka appears to be most at risk: nearly one-third of its total merchandise exports to the EU and nearly one-fifth of its shipments to the United States are in categories in which Chinese trade will be liberalized (see box 1.1 in chapter 1).

High, and in some cases increasing, commodity prices also present a risk for the region's economies. Sharp gains in international food prices are a growing threat in a region where food imports represent 11–20 percent of total merchandise imports: Bangladesh (19 percent), Maldives (16 percent), Nepal (17 percent), Pakistan (11 percent), and Sri Lanka (12 percent). India's food imports account for just 3 percent of its total merchandise imports. Aside from putting increased pressure on external positions, higher international food prices carry potentially serious implications for the poorest members of these societies and could strain government coffers and generate increased inflationary pressures given widespread food subsidies. Similarly, further increases in energy prices remain a risk for the region, which is highly dependent on oil imports. In India and Pakistan, for example, fuel imports represent more than 30 percent and 20 percent of merchandise imports, respectively.

Internal political and military tensions continue to represent downside risks to the projections, as demonstrated, for example, by increased fighting in the civil war in Sri Lanka from mid-2006 through 2007. Correspondingly, improving relations represent potential upside opportunities, such as the ongoing progress in reestablishing ties between India and Pakistan with the opening on October 1, 2007, of the first overland truck route across the border after several decades of closed borders.

Sub-Saharan Africa

Recent developments

Economic growth in Sub-Saharan Africa accelerated from 5.7 percent in 2006 to 6.1 percent in 2007, the region's fastest pace of growth in more than three decades (figure A21). Robust 8.1 percent GDP growth among the region's oil exporters and 5.3 percent gains for oil-importing countries, not including South Africa, powered the growth. High oil prices and new oil production, notably in Angola and Sudan, helped propel growth in the oil-exporting countries to the highest rate in almost 35 years. At the same time, the boom in non-oil commodity prices, in conjunction with increased openness and improved macroeconomic stability, boosted growth in oil-importing economies to a 10-year high (table A11).

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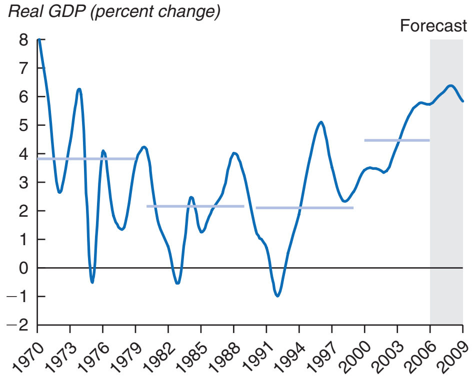
Figure A21 Growth in Sub-Saharan Africa has accelerated markedly…



Source: World Bank.

Output expansion in South Africa, the region's largest economy, appears slated to ease to 5.0 percent in 2007 from 5.4 percent in 2006. Quarterly output readings point to robust expansion, with third-quarter growth accelerating to 4.7 percent (seasonally adjusted annual rate) from 4.4 percent in the second quarter. There are indications, however, that higher borrowing costs have dampened the pace of consumption growth, while higher interest rates and a stronger rand are undermining growth in the manufacturing sector. Meanwhile gross fixed capital formation continues to expand at a robust pace, and will likely do so in coming quarters as infrastructure spending is under way for the 2010 World Soccer Cup. Softer private consumption growth and a modest improvement in the terms of trade reduced South Africa's current account deficit to 6.5 percent of GDP in the second quarter of 2007, from a 6.9 percent gap in the previous quarter. Despite softer private consumption, increased capital and construction materials imports and deterioration in the terms of trade will cause the current account balance to widen (table A12).

Table A11 Sub-Saharan Africa forecast summary

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
GDP at market prices[b]	2.3	5.3	5.8	5.7	6.1	6.4	5.8
GDP per capita[c]	−0.4	2.9	3.4	3.7	4.0	4.4	3.8
Purchasing Power Parity GDP[d]	3.4	5.5	6.1	6.1	6.5	6.7	6.1
Private consumption	1.2	5.5	5.4	6.0	5.1	5.1	5.1
Public consumption	2.6	5.0	4.7	6.6	6.7	6.5	6.1
Fixed investment	3.7	9.1	13.7	15.7	13.2	12.5	11.8
Exports, GNFS[e]	4.7	6.7	11.6	4.4	5.7	7.3	6.6
Imports, GNFS[e]	4.4	9.3	14.6	12.3	8.2	8.6	8.9
Net exports, contribution to growth	0.2	−0.9	−1.1	−3.0	−1.2	−0.9	−1.4
Current account balance/GDP (%)	−2.1	1.0	−0.3	−0.2	−1.0	−0.9	−2.1
GDP deflator (median, LCU)	10.1	7.5	6.0	6.5	5.8	4.8	4.5
Fiscal balance/GDP (%)	−4.2	−0.7	0.6	1.6	−0.2	0.6	0.1
Memo items: GDP							
SSA excluding South Africa	2.6	5.5	6.2	5.9	6.7	7.2	6.2
Oil exporters	2.2	6.0	7.3	6.7	8.1	9.0	6.9
CFA countries	2.6	4.2	4.0	2.8	3.7	4.5	4.1
South Africa	1.8	4.8	5.0	5.4	5.0	5.1	5.3
Nigeria	2.8	6.0	6.6	5.6	5.9	7.4	6.1
Kenya	1.9	4.9	5.8	6.1	6.3	5.3	5.1

Source: World Bank.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Measured in U.S. dollars.
d. GDP measured at purchasing power parity exchange rates.
e. Exports and imports of goods and nonfactor services.

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Table A12 Sub-Saharan Africa country forecasts

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Angola							
GDP at market prices[b]	0.8	11.2	20.6	16.9	24.3	21.7	13.4
Current account balance/GDP (%)	−6.1	5.9	15.1	13.6	12.4	9.6	3.7
Benin							
GDP at market prices[b]	4.8	3.1	2.9	3.6	4.4	5.1	5.3
Current account balance/GDP (%)	−6.8	−7.8	−6.3	−5.4	−5.7	−7.0	−7.4
Botswana							
GDP at market prices[b]	6.2	5.9	3.8	2.6	4.8	4.4	3.9
Current account balance/GDP (%)	8.1	2.9	16.6	18.0	17.6	14.7	12.8
Burkina Faso							
GDP at market prices[b]	4.0	3.9	7.1	6.1	5.3	5.5	5.9
Current account balance/GDP (%)	−5.6	−11.0	−10.5	−10.1	−10.2	−11.0	−11.3
Burundi							
GDP at market prices[b]	−1.7	4.8	0.9	5.4	4.2	5.3	5.1
Current account balance/GDP (%)	−3.4	−25.0	−17.9	−17.0	−15.5	−14.9	−13.7
Cape Verde							
GDP at market prices[b]	5.8	4.5	5.9	6.2	6.3	6.6	6.4
Current account balance/GDP (%)	−8.3	−16.3	−5.5	−12.0	−14.6	−15.8	−13.7
Cameroon							
GDP at market prices[b]	1.4	3.7	2.0	3.5	3.8	4.4	4.2
Current account balance/GDP (%)	−3.0	−2.6	−4.2	−0.7	−0.6	−0.9	−2.4
Central African Republic							
GDP at market prices[b]	1.6	1.3	2.2	3.3	3.5	3.8	4.1
Current account balance/GDP (%)	−4.3	−4.6	−4.9	−2.9	−2.9	−3.9	−4.6
Chad							
GDP at market prices[b]	2.3	29.5	7.9	1.4	−1.4	4.2	2.1
Current account balance/GDP (%)	−5.5	−18.7	−6.6	−7.3	−4.8	−2.6	−1.8
Comoros							
GDP at market prices[b]	1.1	−0.2	4.2	1.3	1.8	2.5	2.7
Current account balance/GDP (%)	−6.8	−3.4	−4.9	−5.9	−5.1	−5.2	−5.5
Congo, Dem. Rep. of							
GDP at market prices[b]	−5.6	6.6	6.5	5.1	6.1	7.3	6.8
Current account balance/GDP (%)	2.0	−8.8	−10.0	−8.9	−9.3	−9.5	−9.9
Congo, Rep. of							
GDP at market prices[b]	1.5	3.6	7.8	6.6	3.2	6.3	5.9
Current account balance/GDP (%)	−16.5	15.5	16.2	11.0	6.1	11.0	8.0
Côte d'Ivoire							
GDP at market prices[b]	2.3	1.8	1.8	0.9	1.7	2.8	3.1
Current account balance/GDP (%)	−4.0	1.6	0.4	3.3	2.5	1.0	−0.5
Equatorial Guinea							
GDP at market prices[b]	18.4	10.0	6.5	−5.2	8.8	9.0	−1.4
Current account balance/GDP (%)	−40.6	7.3	6.8	6.3	4.3	7.7	2.8
Eritrea							
GDP at market prices[b]	—	1.9	4.8	1.7	1.9	2.0	2.2
Current account balance/GDP (%)	—	−13.6	−28.0	−31.6	−30.9	−30.1	−28.5
Ethiopia							
GDP at market prices[b]	2.3	12.3	10.5	9.6	9.3	7.7	7.4
Current account balance/GDP (%)	−0.8	−6.9	−7.7	−9.6	−7.3	−7.4	−5.6
Gabon							
GDP at market prices[b]	2.4	1.4	3.0	1.2	4.8	3.9	3.7
Current account balance/GDP (%)	5.7	12.8	13.7	21.4	17.3	21.4	18.6

(continued)

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Table A12 (*continued*)

(annual percent change unless indicated otherwise)

					Forecast		
	1991–2000[a]	2004	2005	2006	2007	2008	2009
Gambia, The							
GDP at market prices[b]	3.3	5.1	6.9	6.4	6.1	5.3	5.8
Current account balance/GDP (%)	−1.6	−11.1	−21.6	−21.5	−20.4	−21.2	−18.3
Ghana							
GDP at market prices[b]	4.3	5.6	5.9	6.2	4.9	5.4	6.1
Current account balance/GDP (%)	−6.4	−3.6	−6.5	−8.7	−10.3	−10.2	−8.4
Guinea							
GDP at market prices[b]	3.9	2.7	3.3	2.4	2.1	3.7	3.2
Current account balance/GDP (%)	−5.7	−4.3	−5.2	−6.1	−7.3	−10.7	−11.5
Guinea-Bissau							
GDP at market prices[b]	1.5	2.2	3.2	2.7	2.7	2.6	3.3
Current account balance/GDP (%)	−24.0	−4.9	−7.5	−11.3	−10.1	−4.3	−3.3
Kenya							
GDP at market prices[b]	1.9	4.9	5.8	6.1	6.3	5.3	5.1
Current account balance/GDP (%)	−1.6	−2.2	−0.8	−2.1	−3.2	−4.1	−3.6
Lesotho							
GDP at market prices[b]	3.4	3.1	2.9	6.9	4.1	4.8	4.4
Current account balance/GDP (%)	−13.3	−5.6	−7.4	3.0	0.1	−0.9	2.4
Madagascar							
GDP at market prices[b]	1.7	5.3	4.6	4.9	5.8	6.3	6.9
Current account balance/GDP (%)	−7.8	−12.4	−11.9	−8.9	−14.7	−21.7	−21.4
Malawi							
GDP at market prices[b]	3.4	7.1	2.7	7.4	6.3	6.1	5.6
Current account balance/GDP (%)	−8.5	−4.7	−9.5	−6.2	−4.0	−5.1	−4.1
Mali							
GDP at market prices[b]	4.0	2.2	6.1	4.9	5.1	5.2	5.3
Current account balance/GDP (%)	−8.9	−8.4	−8.3	−4.9	−4.6	−4.9	−5.2
Mauritania							
GDP at market prices[b]	2.9	5.2	5.4	11.7	2.1	5.7	6.7
Current account balance/GDP (%)	−0.3	−20.1	−46.3	−2.1	−4.0	−11.6	−19.3
Mauritius							
GDP at market prices[b]	5.3	4.7	3.1	3.5	4.1	4.4	3.9
Current account balance/GDP (%)	−1.6	−1.8	−3.7	−5.6	−8.4	−8.9	−7.6
Mozambique							
GDP at market prices[b]	5.2	7.5	6.2	8.5	9.1	7.4	6.7
Current account balance/GDP (%)	−18.2	−11.1	−12.6	−7.3	−9.0	−10.2	−9.2
Namibia							
GDP at market prices[b]	4.2	6.0	4.2	4.6	4.6	4.3	3.8
Current account balance/GDP (%)	4.1	10.0	7.2	13.0	15.0	11.3	10.6
Niger							
GDP at market prices[b]	1.8	0.0	7.0	4.2	4.8	4.5	4.6
Current account balance/GDP (%)	−6.9	−7.6	−9.4	−9.5	−10.3	−11.0	−10.8
Nigeria							
GDP at market prices[b]	2.8	6.0	6.6	5.6	5.9	7.4	6.1
Current account balance/GDP (%)	−0.8	23.4	10.9	13.7	9.2	12.6	9.5
Rwanda							
GDP at market prices[b]	0.2	4.0	6.1	6.4	6.7	5.1	4.7
Current account balance/GDP (%)	−3.5	−10.8	−3.9	−7.1	−8.3	−8.2	−7.4
Senegal							
GDP at market prices[b]	2.9	6.2	5.5	3.1	4.5	5.1	5.3
Current account balance/GDP (%)	−6.0	−6.7	−7.0	−9.6	−9.7	−8.4	−7.6

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Table A12 (*continued*)

(annual percent change unless indicated otherwise)

	1991–2000[a]	2004	2005	2006	Forecast 2007	2008	2009
Seychelles							
GDP at market prices[b]	4.6	−2.0	1.2	5.3	5.5	5.1	5.7
Current account balance/GDP (%)	−7.4	−9.1	−23.8	−28.9	−30.4	−28.8	−20.4
Sierra Leone							
GDP at market prices[b]	−4.7	7.4	7.5	7.5	7.3	6.9	7.4
Current account balance/GDP (%)	−9.0	−13.1	−9.3	−6.0	−6.5	−8.3	−9.0
South Africa							
GDP at market prices[b]	1.8	4.8	5.0	5.4	5.0	5.1	5.3
Current account balance/GDP (%)	−0.2	−3.2	−3.8	−6.3	−6.8	−7.8	−7.7
Sudan							
GDP at market prices[b]	5.7	5.2	8.6	11.8	10.8	9.7	8.1
Current account balance/GDP (%)	−6.7	−4.1	−10.9	−14.2	−9.6	−6.5	−6.6
Swaziland							
GDP at market prices[b]	3.1	2.1	2.3	1.7	1.4	1.1	1.2
Current account balance/GDP (%)	−2.6	4.6	1.5	1.0	0.1	−3.2	−2.4
Tanzania							
GDP at market prices[b]	2.9	6.7	6.8	6.2	7.1	6.8	6.7
Current account balance/GDP (%)	−12.5	−2.2	−4.8	−8.0	−9.4	−11.0	−10.2
Togo							
GDP at market prices[b]	2.2	3.0	2.8	1.5	2.3	2.1	2.4
Current account balance/GDP (%)	−8.5	−10.0	−5.1	−5.7	−6.1	−9.3	−7.8
Uganda							
GDP at market prices[b]	6.8	5.5	6.6	5.4	5.5	5.3	5.9
Current account balance/GDP (%)	−7.0	−3.2	−2.2	−4.8	−3.0	−5.4	−4.9
Zambia							
GDP at market prices[b]	0.7	5.4	5.1	5.9	5.3	5.7	5.9
Current account balance/GDP (%)	−10.5	−10.0	−8.6	1.6	−0.7	−4.6	−6.2
Zimbabwe							
GDP at market prices[b]	0.9	−3.8	−5.3	−4.2	−6.3	−4.9	−2.1
Current account balance/GDP (%)	−7.5	20.7	25.7	45.0	71.9	81.7	82.7

Source: World Bank.
Notes: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Liberia, Mayotte, São Tomé and Principe, and Somalia are not forecast because of data limitations.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

Recent turbulence in international financial markets resulted in a moderate depreciation of the rand against the dollar, but that followed a period of strong appreciation caused by, among other factors, anticipated capital inflows related to merger and acquisition activity. The rand has since returned to levels prevailing before the period of intense financial market disruptions of July. Volatility and declines in high-income financial markets affected capital markets in South Africa to some degree, but the change was limited. The country avoided sharp asset sell-offs, and the all-share Johannesburg Stock Exchange index reached new highs. Looking forward, limited spillovers to consumption and investment are anticipated.

Exceptional outturns in countries like Angola and Sudan underpinned growth among Sub-Saharan Africa's oil-exporting economies (figure A22). In Angola, the region's fastest-growing economy and its second largest oil producer, growth continues to be exceptionally robust, with both oil and non-oil sectors

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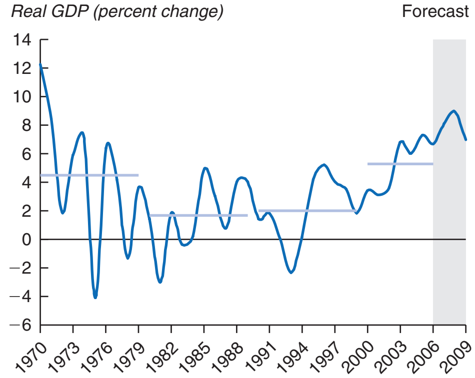
Figure A22 …reaching a 35-year high in oil-exporting countries…



Source: World Bank.

advancing at double-digit rates. Diamond production has also been climbing, supplementing oil revenues and contributing to an increase in the current account surplus. Nevertheless, the increase in oil production was an impressive 18.7 percent in the first nine months of 2007 (year-on-year) after expanding 26 percent in 2005 and 13 percent in 2006. The new oil fields scheduled to come on line over 2007 to 2009 will ensure strong growth in the oil sector, while robust growth in agriculture, manufacturing, construction, and the power sector will boost activity in the non-oil sectors to near 20 percent.

Also notable among the oil-exporting economies is an improvement in macroeconomic stability, with inflation easing, notwithstanding large revenue inflows and stronger growth in government spending. Furthermore, recent monetary tightening should help bring inflationary pressures in Angola down further. Both fiscal and current account balances have improved tremendously as a result of the oil windfall. The non-oil fiscal balance also has improved, but largely as a result of capacity constraints that limit government spending increases.

Meanwhile, performance in Nigeria, the region's second largest economy, has improved marginally over the course of 2007. GDP growth rose modestly from 5.6 percent in 2006 to 5.9 percent, as strong gains in the non-oil sector offset substantial underperformance in oil. A 9.5 percent expansion in the non-oil sector during the third quarter of 2007 (year-on-year), driven by strong performance in agriculture and financial services, pushed overall growth up to 6.1 percent from 5.7 percent in the previous quarter. Crude oil production, including condensates and natural gas liquids, declined 7.1 percent during the third quarter (year-on-year), bringing output down 4.2 percent for the first nine months of 2007. This unfavorable result followed a contraction in production of 5.3 percent in 2006. Economic growth in Mauritania, the region's newest oil producer, has also been disappointing. Growth there was subdued largely because of a halving in oil output tied to a changeover in equipment.

Members of the Central African Economic and Monetary Community experienced mixed economic performance. For example, strong growth in the non-oil sector in Gabon led to a considerable pickup in GDP despite a decline in oil production. Growth also accelerated in Cameroon, underpinned by strong domestic demand, and on the supply side, by strong performance in the transport and telecommunications sectors. Meanwhile in the Republic of Congo, growth performance fell off as expansion in the oil sector softened, and delays in public investment affected growth in the non-oil sector. In Chad, another sharp decline in oil production and continued deceleration in growth within the non-oil sector caused the economy to contract during the year.

Among the region's oil importers, GDP advances were robust, especially in those countries that are further along the reform path, have achieved greater trade openness, and have improved macroeconomic stability (figure A23). Increases in nontraditional manufactured exports have helped propel growth in several countries. In East Africa, Tanzania recorded stronger growth in the agriculture sector and improved its performance in manufacturing, mining, and construction, pushing

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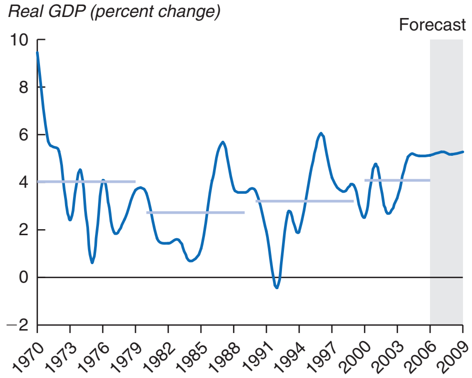
Figure A23 ...and a 10-year high in oil-importing countries



Source: World Bank.

overall GDP gains to 7.1 percent in 2007. In Kenya, at 6.3 percent, growth should surpass a 30-year record set in 2006 (6.1 percent) based on improved tourism arrivals and receipts, stronger gains in transport and communications, and better agriculture output. Growth accelerated to 7.1 percent in the second quarter of 2007 (year-on-year) as manufacturing expanded 8.6 percent, hotels and restaurants gained 11.1 percent, and communications expanded 11.8 percent. In Madagascar, large inflows of FDI to the mining sector are generating an important shift in the structure of the economy, while Uganda is benefiting from strong expansion in construction, transport, and communications, as well as from recovery in agriculture.

Growth among members of the West African Economic and Monetary Union also picked up in 2007, rising by almost a full percentage point to 3.7 percent, as GDP gains exceeded 4 percent in five of the eight economies. Yet inadequate energy supplies in many member countries and difficulties in several agriculture subsectors have kept growth from rising even further. Agricultural output and private consumption will take some time to recover in several countries in the union that sustained significant damage from flooding, slowing growth toward the end of 2007 into 2008.

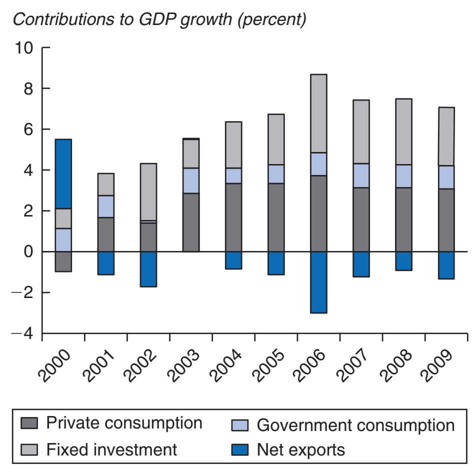
In Mozambique, growth continues apace, with output up 8.8 percent in the first half of the year, but damage from cyclones and flooding slowed the rate of growth from 10 percent recorded a year earlier (year-on-year). The country boosted its GDP with investments of \$1.4 billion in the Moatize Coal Project and \$390 million in other projects during the first half of 2007.

Medium-term outlook

Growth in Sub-Saharan Africa is poised to remain buoyant by historic standards, nearing 6 percent over the near and medium terms, despite softening of demand in the Euro Area in 2008 and corrections to non-oil commodity prices, particularly metals, over the medium term (table A11). For many countries, the impetus for growth will come in part from robust domestic demand, in particular, strong growth in public and private fixed investment (figure A24).

Fixed investment is expected to remain strong, despite the credit crunch in international financial markets and the easing in

Figure A24 Contributions of investment and consumption have increased



Source: World Bank.

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non-oil commodity prices. Large, strategic, capital projects initiated by big, rapidly–growing, developing economies such as China and India are likely to underpin continued strong investment. Among recent notable deals is the $5 billion loan agreement reached between China and the Democratic Republic of Congo. According to the signed accord, about $3 billion will fund large infrastructure projects, including 2,000 miles of railway and 2,125 miles of highway. The project will also finance the construction of 31 hospitals, 145 health centers, and 2 universities. The remaining $2 billion will be used to set up a joint venture mining company between the two countries. Madagascar and Mozambique are also experiencing large-scale FDI flows into their economies.

Several years of strong non-oil commodity prices, together with rising private capital inflows and remittances, are supporting private consumption, although spending is anticipated to flatten over the medium term as income growth eases. In South Africa, higher interest rates and an erosion of real incomes is likely to curb real spending. Furthermore, the sharp decline in farmers' incomes in those countries affected by recent floods will constitute a drag on consumption, although private, government, and donor transfers may mitigate some of the effects. According to the latest estimates, the worst-affected countries are Burkina Faso, Ghana, and Uganda. Adverse spillovers to personal spending will be felt well into 2008. In other countries, recovery from drought is translating into improved performance in agriculture, adding impetus to growth, while the income effect resulting from several years of high prices for non-oil commodities continues to stimulate private consumption.

Growth among Africa's oil exporters is expected to slow to 6.9 percent by 2009, as oil prices are forecast to decline that year and as investment projects begin to unwind. However, this transition occurs from peak 9 percent GDP gains in 2008 led by continued advances in Angolan and Sudanese crude oil output and anticipated recovery in Nigerian production. Lower oil prices by 2009 could yield supply responses, at minimum slowing the pace of oil output growth for many smaller producers, where production costs remain high. For the region's major producers, however, output is projected to continue to increase.

Growth in Nigeria is projected to pick up markedly in 2008, buoyed by recovery in the oil sector and strong gains in the non-oil sector. Stabilization in the Niger Delta should allow oil production to recover gradually and to exceed 2005 levels, supporting gains near 10 percent in Nigeria's oil sector, following the contraction recorded in 2007. Investment growth should moderate, notwithstanding the government's plans to invest substantial amounts in roads, railways, and electricity infrastructure and in the dredging of the Niger River. This investment appears highly import-intensive, with import sourcing accounting for some 75–80 percent of expenditure, thereby limiting the direct positive effects on Nigeria's growth.

Difficulties in the cotton and groundnut subsectors in several West African countries are having negative spillover effects on growth, while electricity shortages and high energy costs are constraining faster expansion among oil-importing economies. Some countries are seeing surges in their oil import bills, in part because many companies use fuel-run power generators to supplement grid electricity. Growth among West African Economic and Monetary Union economies will be supported by improved performance in the primary sector and increased public investment spending, financed from savings made under the Highly Indebted Poor Countries and Multilateral Debt Relief initiatives. Furthermore, growth in oil-importing economies should benefit from strong investment growth, as well as continued demand for non-oil commodities from the rapidly expanding emerging market economies.

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Risks

Among the most important downside risks to growth in Sub-Sahara African is a larger-than-expected falloff in high-income country growth and import demand. Such a falloff could be tied to continuing difficulties in financial markets, or it could be triggered by weaker growth outturns in major emerging market economies, such as in China and India, which might result in weaker export growth for Sub-Saharan Africa in general, and for the oil-importing countries in particular.

The risk of increasing inflationary pressure is also palpable. Should oil prices increase further or drought conditions affect the food supply, inflation could be the consequence. Increases in international prices of staple commodities such as cereals and vegetable oils, to a large degree already in the pipeline, could spill over to fuel domestic price pressures, particularly in countries that are heavily reliant on imports of wheat and vegetable oils.

In some countries, strong domestic demand and upward adjustments in public sector wages are already fueling inflationary pressures. Capacity constraints and overheating in some economies, especially the oil-producing economies, constitute further upside risks for inflation. Similarly, in South Africa, high confidence, strong domestic expenditures, rising employment, buoyant credit extension, and increasing asset prices all boost consumption through positive wealth effects and make the risk of a further buildup in inflationary pressures very apparent.

South Africa also faces a specific source of risk in the way it has financed its sizable current account deficit, anticipated to be in excess of 7 percent of GDP in 2008 and 2009: the country has relied largely on portfolio investments, which could potentially be reversed. Moreover, a marked depreciation of the rand in the event of a sell-off of South African assets by nonresidents would present the authorities with additional financial management issues to address as well as inflation pressures.

Finally, negative terms-of-trade shocks (lower non-oil commodity prices, further increases in oil prices, or both) may come to affect disposable incomes in oil-importing countries, undermining private consumption while also yielding worse external balances. Conversely, higher oil prices would benefit growth in oil-exporting countries. Sociopolitical tensions also remain a source of downside risk for countries such as Côte d'Ivoire, the Democratic Republic of Congo, Ethiopia, Guinea, Guinea-Bissau, Somalia, and Togo. In Nigeria, the risks associated with the activity of militant groups in the Niger Delta remain substantial, with oil production still about 25 percent below the 2.9 million barrels daily capacity.