ANNEX

IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, MARCH 2007

The following remarks by the Acting Chair were made at the conclusion of the Executive Board's discussion of the World Economic Outlook *on March 26, 2007.*

Executive Directors welcomed the continued strong, broad-based expansion of the global economy during 2006, and noted that activity in most regions met or exceeded expectations. Looking forward, Directors believed that the global expansion would slow only modestly in 2007 and 2008 and inflationary pressures would remain contained. Directors noted that the composition of demand is expected to be more balanced among the major advanced economies in 2007, with the United States, the euro area, and Japan all expanding slightly above 2 percent. Directors also saw continued strong, albeit somewhat less rapid, growth among emerging market and developing countries.

Risks around this central scenario appear to be more evenly balanced than at the time of the last *World Economic Outlook* (WEO) discussion in September 2006, but still tilted to the downside. In this context, Directors generally were of the view that the recent market turbulence represented a correction after a period of asset price buoyancy that does not require a fundamental revision in the positive global economic outlook. Some Directors were less sanguine about the risks to the outlook, pointing to heightened concerns about the stability of financial markets, slowing productivity and its implications for growth, and continuing uncertainties regarding oil and other commodity price developments. All Directors underscored the need for continued vigilance.

Directors discussed the downside risks facing the global economy. Most emphasized that the ongoing correction in the U.S. housing market could have a growing impact on the broader economy. Directors underscored that persistently higher financial market volatility could prompt a further retrenchment from riskier assets and markets—with several noting the potential for increased market volatility—and called for careful monitoring of market developments. Directors also recognized the possibility that inflationary pressures could revive as resource utilization constraints start to bind, and stressed the risk of a reversal of the recent decline in oil prices—given continuing geopolitical tensions and limited spare production capacity. They also noted continued risks that the existing large global imbalances could unwind in a disorderly way.

Directors considered that a key question in assessing risks to the outlook relates to the extent to which the world economy will remain on a sound growth trajectory even if the U.S. economy slows more sharply—or whether global prospects may decouple from the United States, especially in light of the limited impact of the recent cooling of U.S. activity. In this context, Directors welcomed the staff's analysis of cross-country growth spillovers, and attributed the limited global impact so far to several factors. In particular, the U.S. slowdown has been focused on the housing sector, which has a relatively low import content. Also, the causes of the slowing have been specific to the U.S. economy, rather than a common event simultaneously affecting many countries. Nevertheless, a number of Directors observed that the greater integration fostered by globalization has increased the potential magnitude of spillovers, and that a sharp further slowing in the U.S. economy would likely have a substantial impact on global growth. Directors recognized, however, that the strength of spillovers experienced by individual countries would vary both with the extent of their trade and financial linkages with the United States and with the degree of domestic vulnerabilities.

Advanced Economies

Directors noted that the U.S. economy has slowed noticeably over the past year, largely owing to the correction in the housing sector, while private consumption has so far remained robust. Nevertheless, activity in the United States is expected to regain momentum in the period ahead with growth rates rising during the course of 2007 and returning to potential in 2008. Directors expressed concern, however, about the recent evidence of intensifying difficulties in the subprime mortgage market, which could start to impose a broader drag on the economy, particularly if the housing downturn deepens and credit standards are tightened more generally. In this vein, some Directors considered that the impact of the weakening housing sector may not yet have played out fully, and that a deeper-than-anticipated downturn in the United States should not be ruled out. Although inflationary pressures have eased somewhat following the decline in oil prices from last year's highs, core inflation remains elevated. Directors supported the Federal Reserve's approach in recent months of holding the policy rate steady, while appreciating that the Fed stands ready to respond to shifts in the balance of risks between growth and inflation. Directors welcomed the indications that the FY2008 budget will seek to balance the federal budget by FY2012, while expressing a preference for the more ambitious target of aiming to achieve balance excluding the social security surplus. Fiscal consolidation will need to be supported by reforms to put the Social Security, Medicare, and Medicaid systems on a sustainable long-term footing.

Directors welcomed the acceleration in real GDP growth in the euro area in 2006, and saw the risks to the outlook as evenly balanced. They considered that further cautious withdrawal of monetary accommodation by the European Central Bank would be warranted to forestall inflationary pressures, contingent on the recovery progressing as expected. Directors welcomed the progress made toward needed fiscal consolidation, but felt that more ambitious efforts are warranted given the strong cyclical upswing and the looming pressures from the aging of the population. Directors also underscored the importance of further policy reforms under the Lisbon agenda to bolster prospects for a sustained long-term expansion, particularly steps to boost productivity and increase labor utilization. Recent experience has also underlined the importance of complementary product and services market reforms to foster job creation and expenditure-based fiscal consolidation.

Directors welcomed the emergence of the Japanese economy from its mid-2006 soft patch. With inflation still close to zero, Directors generally supported the Bank of Japan's cautious approach to raising interest rates since exiting its zero interest rate policy last year, and suggested that monetary accommodation should be removed only if the expansion remains strong, and then only gradually. Directors suggested that greater clarity regarding the Bank of Japan's medium-term inflation goals would also help to anchor private sector expectations, while reducing risks of an abrupt unwinding of yen carry trades with sharp movements in exchange rates or the volume of capital flows. Fiscal consolidation appears to be running ahead of the government's plans to achieve a primary surplus by FY2011, but additional fiscal efforts beyond those contained in the current medium-term plan will be needed to put net debt on a declining trajectory. Further progress on structural reforms will also be important to enhance growth with spillover benefits to the world economy.

Emerging Market and Other Developing Countries

Directors welcomed the strong performance of the economies in emerging Asia, with the vibrant expansions in China and India leading the way. Most Directors were confident that the region is well positioned to withstand a U.S. slowdown, although some others cautioned that spillovers could still be sizable, as growing intraregional trade in part represents shipments of intermediate goods ultimately destined for the United States. Against the background of widening current account surpluses in some countries in the region, Directors took note of the differing degrees of exchange rate flexibility observed within the region. Many Directors considered that greater flexibility of the renminbi would help provide a more secure base for monetary policy management in China, while also helping to contain China's widening current account surplus.

Directors observed that growth in Latin America exceeded 5 percent in 2006, supported by a strong external environment and generally sound economic policies. Although the pace of growth is likely to ease somewhat in the next two years, Directors commented that strengthened fundamentals and improved macroeconomic policy frameworks should enable countries in Latin America to maintain growth rates even in the face of a sharper-than-expected U.S. slowdown. Nevertheless, the region remains vulnerable to a softening of commodity prices, which would pose policy challenges in several countries by putting pressure on current account and fiscal balances. Directors also noted that fiscal reforms will be important to create more room for increased spending on well-targeted social programs. Reforms to improve the region's disappointing productivity performance are also a priority.

Directors welcomed the strong growth in emerging Europe, noting that the expansion is likely to moderate in 2007 in response to slower growth in western Europe. While the widening current account deficits should be comfortably financed in most countries, Directors cautioned that a deterioration in global financial conditions could reduce capital inflows in the future. Directors also drew attention to the slowing pace of reform among the new European Union members, which again underscores the importance of structural reforms to facilitate continuing smooth convergence within the European Union.

Directors observed that economic activity in the Commonwealth of Independent States has continued to be boosted by high commodity prices, and growth prospects appear generally positive. They expressed concern that strong capital inflows and robust domestic demand growth, driven in part by large public spending increases that have outpaced revenue growth, have kept inflation high in many countries. Consequently, Directors saw a need for greater spending restraint as well as for tighter monetary policy and, in some cases, greater exchange rate flexibility, to contain inflationary pressures. Sustaining the recent strong growth momentum will also require reforms aimed at attracting greater private investment to diversify the sources of growth away from the export of primary commodities.

While recognizing the variety of challenges facing countries in sub-Saharan Africa, Directors welcomed the continued strong expansion seen in the region as a whole, as well as the prospects for a further acceleration in growth in 2007. At the same time, Directors highlighted the vulnerabilities of the non-oil-exporting economies in the region to commodity price shocks or further increases in oil prices. Sustained macroeconomic stability and structural reforms will be necessary to foster vibrant market-based economies and sustain the recent improvement in the region's growth performance. Directors underscored that most countries in the region would benefit from further trade liberalization, improved market access for their exports, and delivery on aid commitments by advanced economies to support progress toward achieving the Millennium Development Goals. Measures to strengthen institutions and the business environment will also help spur private sector activity, and reduce the region's still-high reliance on commodity exports.

In the context of continued high oil prices, Middle Eastern oil exporters enjoyed another year of solid growth, accompanied by strong current account and fiscal balances. Directors viewed the outlook for the region as a whole as favorable, and welcomed the public investment plans among the GCC countries. Nonetheless, the region remains heavily dependent on the hydrocarbon sector, while rising populations are contributing to high unemployment rates. In this context, Directors underscored the importance of fostering greater private investment in the non-oil sector in order to balance the sources of growth and increase employment opportunities. Also important will be measures to improve the business environment and adapt education systems to align the skills mix of the labor force with the needs of the private sector. In the non-oil-exporting countries of the Mashreq region, growth accelerated in 2006 in the context of an upturn in foreign direct investment and the overall favorable external environment.

Directors noted that many emerging market and developing countries around the world face the challenge of taking advantage of strong capital inflows to support investment, while avoiding large swings in competitiveness and a buildup of balance sheet vulnerabilities. Noting that there is no simple recipe that can be uniformly applied, Directors highlighted the importance of balanced and flexible approaches to macroeconomic management that suit the circumstances of each country, while avoiding steps that could undermine confidence or distort markets. Several Directors also recognized that even countries with credible policy frameworks and strong institutions and financial systems may be vulnerable to large and volatile capital flows, and could benefit from Fund advice on policy options tailored to their circumstances in the context of Article IV consultations.

Multilateral Issues

Underscoring the shared responsibility among policymakers for maintaining the foundations for strong global growth, Directors emphasized the importance of policy actions across key countries to support the smooth unwinding of large global imbalances. Important elements of such an approach include efforts to raise national saving in the United States, including through further fiscal consolidation; advancing growth-enhancing reforms in the euro area; further structural reforms, including fiscal consolidation, in Japan; and initiatives to encourage consumption and greater exchange rate flexibility in some parts of emerging Asia, especially China. Directors were of the view that lower oil prices and increased spending would reduce external surpluses among Middle Eastern oil exporters, but saw scope for continuing to boost spending—subject to absorptive capacity constraints. A few Directors also considered that an increase in energy taxation in the United States could help reduce the country’s high levels of oil consumption, thereby contributing to a reduction in global imbalances as well as to reducing environmental consequences. In this context, Directors took note of the U.S. administration’s recently announced objective of curbing gasoline consumption.

Directors took note of the staff’s analysis—based on historical episodes of reversals of current account imbalances and a closer look at U.S. trade behavior—that real exchange rates can play a potentially important role in the adjustment process in countries with large and persistent current account surpluses and deficits. However, they emphasized that exchange rate changes, while supportive of adjustment, must be accompanied by policy actions to rebalance domestic demand. In this vein, several Directors considered that the analysis usefully complements earlier WEO studies on the importance of domestic policy adjustments and exchange rate movements in the resolution of imbalances. Directors generally acknowledged that a shared willingness of authorities across key regions to allow real exchange rates to adjust—particularly where they are not freely floating—could prove to be a crucial ingredient of policies to promote a smooth resolution of the large global imbalances. While the staff’s analysis suggests that the U.S. trade deficit could be more responsive to real exchange rate changes than is commonly found in the macroeconomic literature, many Directors were not convinced by this finding and felt that additional research and analysis in this area, using alternative methodologies, should be undertaken before firm conclusions can be drawn. Some other Directors emphasized, however, that the staff's finding is an important result.

Directors welcomed the staff's analysis on how the rapid growth of international trade and the introduction of new technologies are beginning to forge an increasingly integrated global labor market. This integration is contributing to growth and incomes in both source and host countries, but at the same time it is affecting distributional outcomes and may thus be contributing indirectly to protectionist sentiment. Steps to do more to help those who are adversely affected by developments in technology and trade should include better education systems, more flexible labor markets, and welfare systems that cushion the impact of—but do not obstruct—economic change.

Directors welcomed the revival of the Doha Round of multilateral trade negotiations. A successful outcome would, by further strengthening multilateral rules and reducing the risks of protectionism, boost medium-term global prospects. Prospects for a gradual unwinding of global imbalances would also benefit from initiatives to remove obstacles to the smooth reallocation of resources in response to exchange rate movements, including through trade reform.

ANNEX

IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, AUGUST 2006

The following remarks by the Acting Chair were made at the conclusion of the Executive Board's discussion of the World Economic Outlook *on August 23, 2006.*

Executive Directors welcomed the continued strong, broad-based global expansion. They noted that during the first half of 2006, activity in most regions met or exceeded expectations. Among the advanced economies, growth was particularly strong in the United States in the first quarter, activity in the euro area gathered momentum, and the expansion in Japan remained on track. Directors were pleased that growth performance in emerging market and other developing countries remained robust despite more testing conditions in global financial markets.

Looking forward, Directors considered that the strong global expansion is likely to continue in 2007, with a better balanced composition of demand across the major advanced economies. Directors saw some upside potential to the outlook from even more rapid growth in emerging market economies, notably China, and the possibility of stronger-than-expected investment in a number of advanced economies. Overall, however, Directors felt that the risks to the forecast are clearly tilted to the downside, with the weight of such risks having risen compared to the *World Economic Outlook* in April 2006.

Directors identified a number of downside risks facing the global economy going forward. These include the possibility that a continued buildup of inflationary pressures in advanced economies might require a more aggressive monetary policy response; the continued potential for supply-side shocks in the oil and nonfuel commodity markets; the risk of a more abrupt slowdown in housing markets in advanced economies, notably the United States; and the possibility of weaker-than-expected growth in private consumption in Europe and Japan, due to slow productivity growth and labor market rigidities. Directors believed that a smooth, market-led unwinding of the large global imbalances remains the most likely outcome, but that the risk of a more disorderly resolution of these imbalances cannot be ruled out.

Advanced Economies

Directors noted that the pace of expansion in the United States has moderated after exceptionally strong growth in the first quarter of 2006. Risks to the outlook appear to be slanted to the downside, with a more abrupt cooling of the housing market being a particular concern. Directors observed that the Federal Reserve is faced by the difficult situation of rising core inflation and inflation expectations in the context of a slowing economy. In light of this, the policy stance going forward should depend on the evolving balance between the competing risks to growth and inflation; given the importance of keeping inflation expectations in check, further interest rate increases should not be ruled out. The better-than-expected fiscal performance in FY2006 is encouraging, although the permanence of the recent unexpected revenue buoyancy is not yet established. Directors welcomed the authorities' intention to halve the Federal deficit a year ahead of schedule, by FY2008, while observing that a more ambitious deficit reduction path would provide a firmer basis for the United States to face future demographic pressures, put the budget in a stronger position to respond to future economic downturns, and help reduce global imbalances.

Action to ensure fiscal sustainability should include measures to contain growth in entitlement spending, notably Social Security and Medicare/Medicaid.

Directors welcomed the acceleration in real GDP growth in the euro area in the first half of the year, and noted that prospects for a sustained, more robust, expansion have consolidated. They considered the risks to the outlook to be broadly balanced, with the upside potential arising from strong corporate positions offsetting the downside risks related to higher energy prices, elevated house prices in a number of countries, and the possibility of a sharp appreciation of the euro against the background of the large global imbalances. Directors anticipated a need for some further monetary policy tightening in the euro area if the expansion develops as expected but felt that—with inflation pressures broadly contained for now—interest rate increases could be gradual, especially in view of the downside risks. Directors emphasized that, given the importance of ensuring that the current cyclical upswing is translated into a sustained and long-lasting expansion, priority should be given to further reforms to promote greater competition in goods and service markets, more flexible labor markets, and increased cross-border financial sector integration. The need for further reductions in fiscal deficits was also underscored. Directors stressed that the credibility of medium-term budget targets would be strengthened by welfare, pension, and healthcare reforms, as well as reductions in the government wage bill that would provide much needed room to cut taxes on labor.

Directors welcomed the ongoing expansion in Japan, noting that final domestic demand is being supported by buoyant investment underpinned by robust profits and a turnaround in bank credit. They viewed the normalization of monetary policy as the key near-term macroeconomic policy challenge. They considered that—with the risk of accelerating inflation low and the costs of a reemergence of deflation high—further interest rate increases should be gradual. Directors underscored that further substantial fiscal adjustment is needed to ensure sustainable public finances and meet pressures from an aging population. Given this, while current budget plans aim to eliminate the primary deficit by 2011, some additional adjustment would be warranted to stabilize net government debt by the end of this period.

Directors welcomed staff's analysis of how differences across financial systems might affect economic cycles in advanced countries, while emphasizing that the findings should be seen as tentative. Directors broadly agreed that the recent trend away from bank- and relationship-based systems toward more arm's length financial systems, where securities markets play a greater role, is likely to continue given technological innovations and the removal of regulatory barriers. At the same time, they noted that important differences in financial systems across countries remain. They concurred that in more arm's length systems, households may be able to better smooth consumption in response to changes in income, but that their spending may be more sensitive to changes in asset prices. Corporate investment appears to react more smoothly to cyclical downturns in relationship-based systems, but arm's length systems seem better at reallocating resources in response to structural changes. They emphasized that supervisory and regulatory policies will need to keep up with the changes, while macroeconomic policy management will need to adapt to variations in cyclical behavior.

Emerging Market and Other Developing Countries

Directors agreed that the most immediate policy priority for emerging market and developing economies is the continued implementation of policies to reduce vulnerabilities and sustain the current strong growth momentum. They noted that emerging market economies remain susceptible to rising interest rates and reduced liquidity in global financial markets. Countries at risk include those with weak public sector balance sheets, large current account deficits, and less well anchored inflation expectations. In this regard, Directors viewed the increasing reliance by a number of emerging European countries on private debt flows to finance large current account deficits as a source of concern. They also emphasized that emerging market and developing economies should continue to advance market-oriented reforms, particularly by reducing barriers to competition, in order to create the climate for vigorous private sector-led growth.

Directors observed that sharply rising prices of nonfuel commodities, particularly metals, had underpinned strong growth in many emerging market and other developing countries. Most Directors noted staff findings that speculative activity had not been a significant driver leading commodity price movements. Looking forward, Directors advised that current revenue windfalls should be saved or invested to support future growth in noncommodity sectors, rather than be used to increase spending in areas that would be difficult to reverse later.

Directors welcomed the strong growth performance of the economies in emerging Asia, noting that much of the momentum is due to vibrant expansions in China and India. Nevertheless, some Directors expressed concern that the exceptionally rapid growth in fixed investment in China could lead to overheating of the economy and a boom-bust cycle. While most countries have succeeded in restraining core inflation with quite small increases in nominal policy rates, Directors noted the need to stand ready to increase policy rates further, if needed. Directors observed that, while increased exchange rate flexibility in some countries had helped to achieve a better balance between domestically and externally led growth, China's current account surplus continued to rise in 2005 and the first half of 2006. Most Directors called for greater flexibility of the renminbi, which would help to relieve overheating concerns and encourage a more balanced composition of demand. The move toward greater exchange rate flexibility should be supported by a continuation of complementary financial sector reforms, which, together with reforms to the pension, health, and education systems, would also help to foster a shift toward consumption.

Directors broadly agreed that the remarkable growth performance of many countries in Asia holds important lessons for less advanced developing countries. They welcomed staff's analysis of growth in Asia, and concurred with the finding that the favorable policy environment in the region has been the key to strong total factor productivity growth and rapid accumulation of physical and human capital. Directors considered that prospects for sustaining strong growth in Asia in the future will be strengthened by continued progress in trade liberalization, improving access to education, and steps to promote financial development and encourage entrepreneurship. These would facilitate the ongoing shift of resources out of agriculture and into industry and services. Efforts to boost productivity growth and increase competition in industry, and particularly the relatively more sheltered services sector, will also pay important dividends.

The economic expansion in Latin America gathered momentum in the first half of this year, underpinned by high prices for key commodities, declining interest rates, and a pick up in public spending, while inflation largely remained subdued. Directors expressed satisfaction that the region's expansionary momentum was largely unaffected by the increased financial market volatility during the spring of 2006, as higher reserve cushions, more flexible exchange rate management, and improved fiscal indicators reduced vulnerabilities. Nevertheless, they advised countries in the region to continue preparing for the possibility of more testing financial market conditions, with disciplined fiscal policy at the core of such efforts. Directors noted that the region remains the slowest growing among the emerging market and developing countries, and emphasized the importance of unlocking Latin America's growth potential. This will depend on extending market-based reforms, while taking steps to ensure that benefits of growth are broadly shared.

The economic expansion remains robust in emerging Europe, mainly driven by buoyant domestic demand, underpinned by increasing net capital inflows and credit growth. Directors expected continued solid growth in the region but were concerned by the heavy reliance on foreign savings and the substantial fraction of bank lending that is in foreign currency, while recognizing that generally large current account deficits reflect, in part, favorable investment opportunities in the context of EU accession and integration. Against this background, they agreed that growth opportunities provided by foreign savings must be carefully balanced against risks, and that reducing vulnerabilities is a broad priority in the region. With most countries in the region aiming for euro adoption in the medium term, adequate preparation is needed for the loss of monetary policy autonomy and to establish the capacity to achieve external adjustment in the absence of nominal exchange rate flexibility.

Directors observed that activity in the Commonwealth of Independent States has been buoyant, given high commodity prices and support from capital inflows, and that growth prospects are generally positive. Directors noted that care should be taken to avoid undue further increases in consumption and to preserve competitiveness. Inflationary pressures might become entrenched, particularly in countries with limited possibilities for sterilization. Directors suggested that the real effective appreciation would better be achieved by allowing the nominal exchange rate to appreciate. They also stressed the importance of structural reforms to improve the investment climate and avoid the emergence or aggravation of supply bottlenecks.

Directors welcomed sub-Saharan Africa's strongest economic expansion since the early 1970s. While growth is expected to remain high, the persistence of elevated oil prices could have a detrimental impact on growth in oil-importing countries, particularly if combined with a sharp decline in non-oil commodity prices. Against such risks, the challenge is to continue adjusting to high oil prices, including by passing on increases in international oil prices to domestic energy prices. Directors emphasized that sub-Saharan Africa's growth performance, while improved, still falls short of the 7 percent annual growth needed to meet the Millennium Development Goal of halving poverty by 2015. Continued support from the international community, including through debt relief, making good on recent commitments to further boost aid, and bold market opening initiatives, will accordingly be crucial to promoting private sector investment and employment.

Oil revenues in the Middle East rose further in the first half of 2006, and oil-exporting countries continued to enjoy robust growth, combined with rising external current account and fiscal surpluses. Looking forward, Directors expected the outlook for the region to remain favorable, given prospects for high oil prices, although geopolitical risks remain a concern. Directors observed that most oil exporting countries have appropriately begun to use the opportunity provided by higher revenues to increase spending to address long-standing structural problems. They felt that, at the current juncture, there is scope for this buildup of spending, given high unemployment in many countries and still low inflation. Nevertheless, they cautioned that with credit growing rapidly, the risks of overheating need to be carefully monitored, and underscored that higher expenditures should be accompanied by determined efforts at capacity-enhancing reforms to ensure the proper use of funds and lasting supply-side benefits. Directors emphasized that policymakers throughout the region should be mindful of prudential risks in the financial sector, given rapid credit growth, rising financial sector exposure to asset price corrections, and a possible deterioration in credit quality.

Multilateral Issues

Against the background of important downside risks to the global outlook, Directors underscored that policymakers across the world share a responsibility for maintaining the foundations for strong global growth. In this regard, they emphasized that the risks of a disorderly adjustment of the existing large global imbalances will be considerably reduced by sustained policy actions across the major economies, particularly steps to boost national saving in the United States, including through fiscal consolidation; greater progress on structural reforms in Europe and Japan; reforms to boost domestic demand in emerging Asia (consumption in China, investment elsewhere) together with greater exchange rate flexibility; and increased spending in oil-producing countries, particularly in the Middle East where a large buildup is already in train, consistent with absorptive capacity constraints and cyclical considerations. Directors noted that a multilateral approach will enhance the prospect that possible risks associated with individual actions will be alleviated by simultaneous policy initiatives elsewhere. In this respect, Directors considered that the present multilateral consultation by the Fund could contribute to this process.

Directors expressed disappointment about the apparent deadlock in the Doha Round, and emphasized that trade liberalization on a nondiscriminatory basis remains the best way to open up new global growth opportunities. The threat of protectionist pressures will need to be firmly resisted, with all member countries stepping up efforts to reinvigorate the process of multilateral trade liberalization. Directors considered that high and volatile prices in world energy markets remain a major concern that will require sustained efforts from all sides to address. Increased investment is needed to build up adequate production and refining capacity, while appropriate incentives for consumers would encourage improved energy conservation.