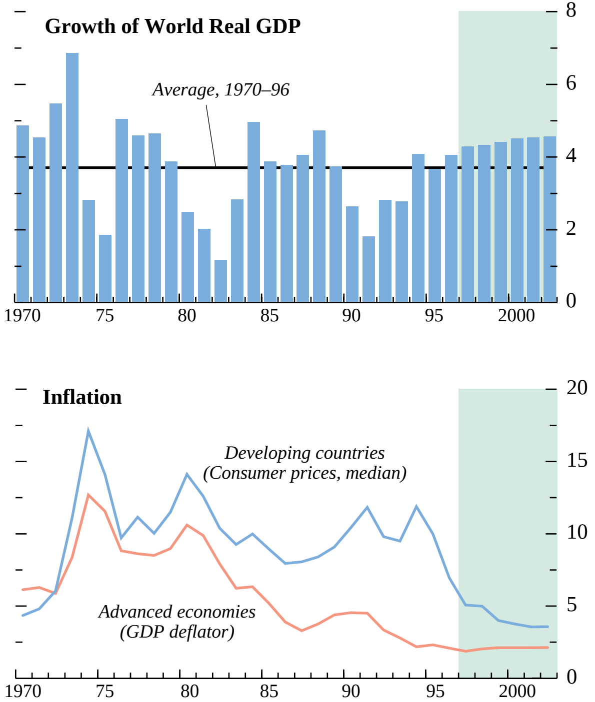
Figure 1. World Output and Inflation[1]

(Annual percent change)

The expansion of world output is expected to continue above trend, while inflation should remain contained.

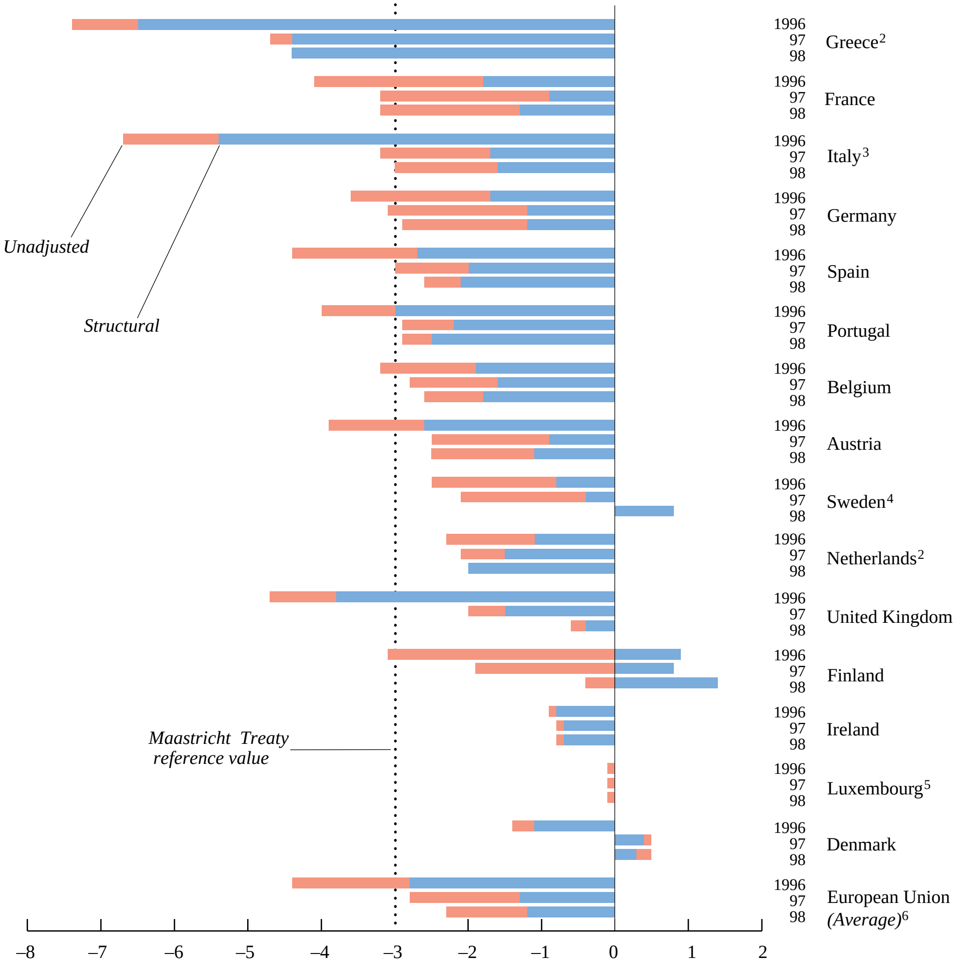


[1]Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise indicated.

Figure 2. European Union: General Government Budget Positions[1]

(In percent of GDP)

Expected progress toward reducing underlying budgetary imbalances is masked to some extent by large cyclical components in fiscal deficits.



[1]The detailed assumptions underlying the fiscal projections are set out in Box 1. The ordering of countries is based on the projected unadjusted budget positions for 1997, except that where the differences between projections are not significant the ordering is alphabetical.

[2]The unadjusted budget positions for 1998 are not shown separately for Greece and the Netherlands because their structural balances exceed the unadjusted balances.

[3]The projection for 1998 incorporates the recently announced three-year fiscal plan. It does not take into account any possible effects of the announced review of pension and welfare spending.

[4]The unadjusted budget position is projected to be in approximate balance in 1998.

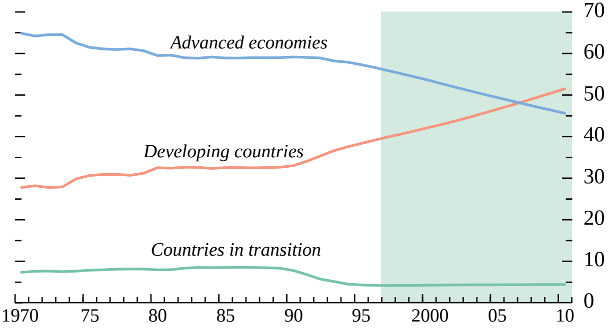
[5]Structural budget positions are unavailable and unadjusted budget positions are expected to be in approximate balance in 1996–98.

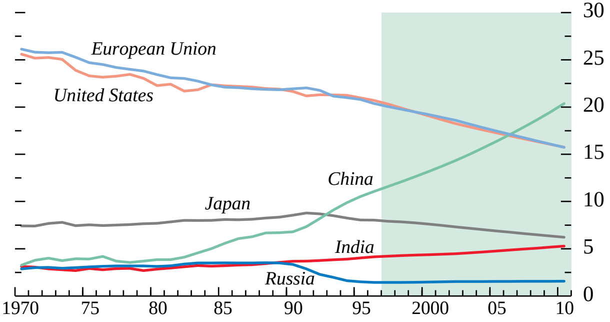
[6]Excludes Luxembourg.

Figure 3. Changing Relative Positions in the World Economy[1]

(Shares of world output)

Rapid growth in the developing countries is projected to steadily raise their share of world GDP. China alone, provided the recent growth trend can be sustained, may match the shares of the United States and the European Union in about a decade.





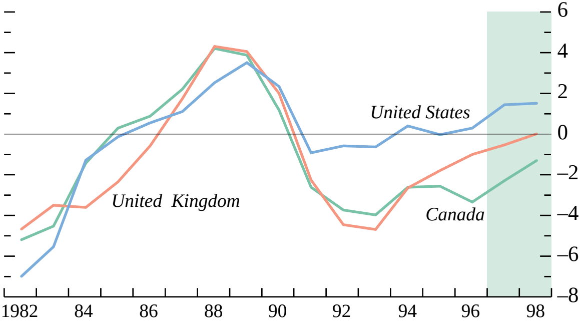
Note: Aggregates are computed using weights based on purchasing power parity in accordance with standard practice in the *World Economic Outlook* (see Statistical Appendix). Projections to 2010 are based on extrapolations of the IMF staff's medium-term baseline projections shown in Statistical Appendix Table A45.

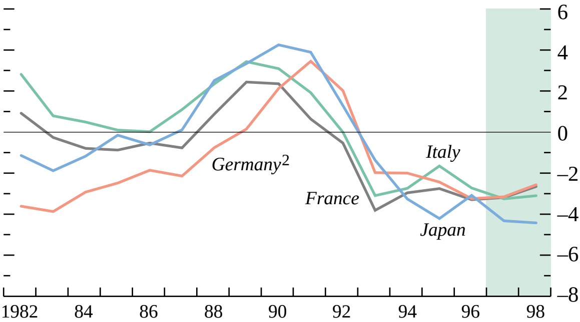
[1]Shaded areas indicate IMF staff projections.

Figure 4. Major Industrial Countries: Output Gaps[1]

(Actual less potential, as a percent of potential)

Recently, greater differences have emerged in the relative cyclical positions of the major industrial countries.



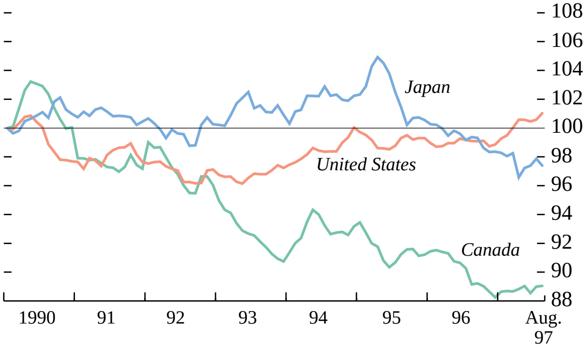


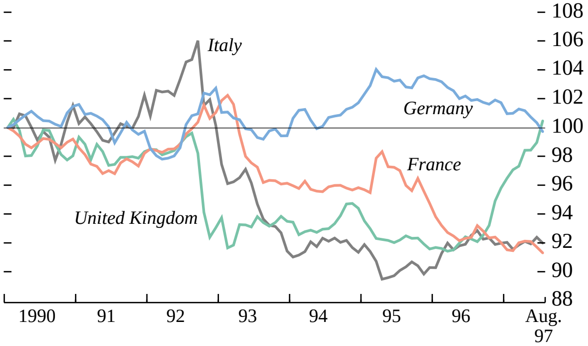
[1]Shaded areas indicate IMF staff projections. The gap estimates are subject to a significant margin of uncertainty. For a discussion of approaches to calculating potential output, see Paula De Masi, "IMF Estimates of Potential Output," *Staff Studies for the World Economic Outlook* (IMF, forthcoming).

[2]Data through 1991 apply to west Germany only.

Figure 5. Major Industrial Countries: Monetary Conditions Indices[1]

An easing of monetary conditions—broadly defined to include both interest rates and exchange rate changes—in Germany and France is expected to support a resumption of growth.



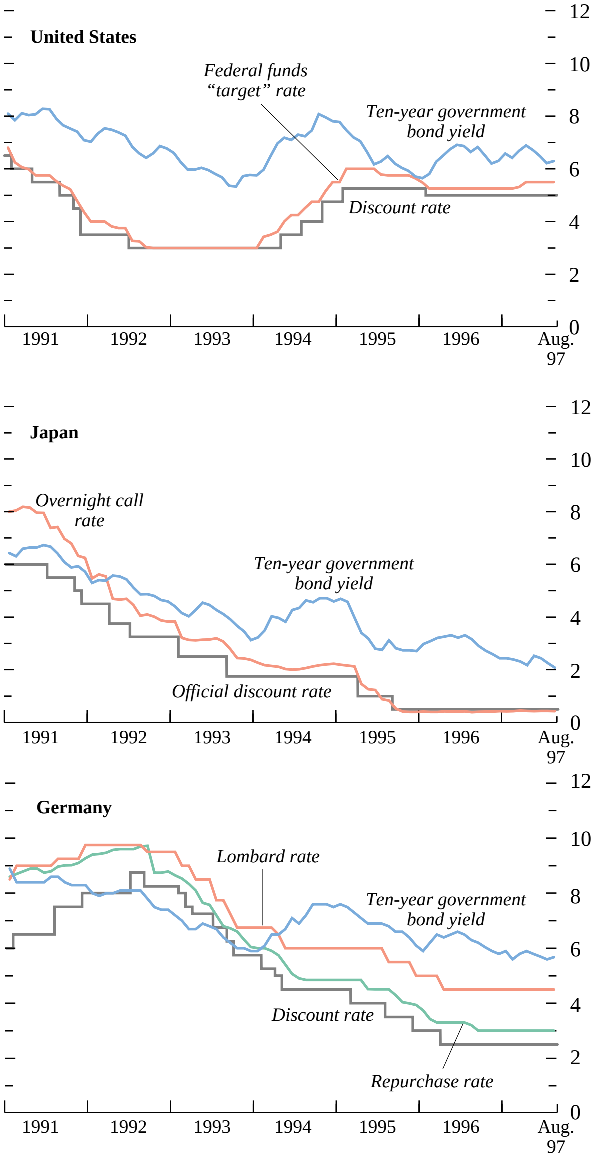


[1]For each country, the index is defined as a weighted average of the percentage point change in the real short-term interest rate and the percentage change in the real effective exchange rate from a base period (January 1990). Relative weights of 3 to 1 are used for Canada, France, Italy, and the United Kingdom, 4 to 1 for Germany, and 10 to 1 for Japan and the United States. The weights are intended to represent the relative impacts of interest rates and exchange rates on aggregate demand; they should be regarded as indicative rather than precise estimates. For instance, a 3-to-1 ratio indicates that a 1 percentage point change in the real short-term interest rate has about the same effect on aggregate demand over time as a 3 percent change in the real effective exchange rate. Movements in the index are thus equivalent to percentage point changes in the real interest rates. The lag with which a change in the index may be expected to affect aggregate demand depends on the extent to which the change stems from a change in the interest rate or the exchange rate, and varies depending on the cyclical position; the lag also differs across countries. No meaning is to be attached to the absolute value of the index; rather, the index is intended to show the degree of tightening or easing in monetary conditions from the (arbitrarily chosen) base period. Small changes in the relative weights may affect the value of the index but not the qualitative picture.

Figure 6. Three Major Industrial Countries: Policy-Related Interest Rates and Ten-Year Government Bond Yields[1]

(In percent a year)

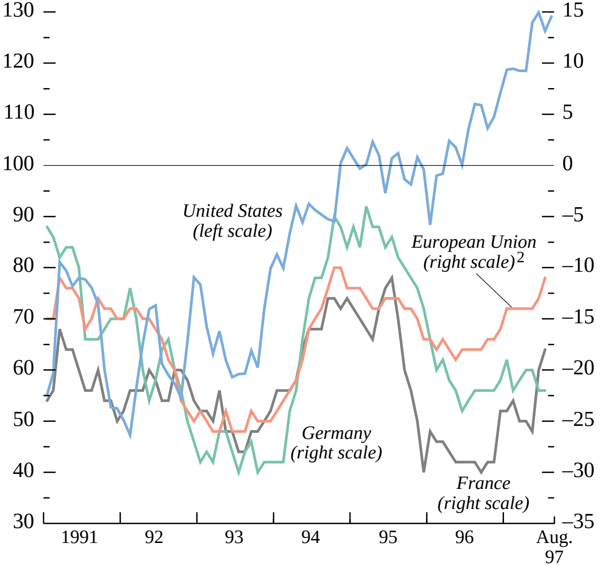
Policy-related interest rates in Japan and Germany have fallen significantly over the past three years.



[1]The U.S. federal funds "target" rate, Japanese overnight call rate, German repurchase rate, and all ten-year government bond yields are monthly averages. All other series are end of month.

Figure 7. European Union and the United States: Indicators of Consumer Confidence[1]

Consumer confidence remains weak in the countries of the European Union.



Sources: For the United States, the Conference Board; and the European Commission.

[1]Indicators are not comparable across countries.

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

Figure 8. Selected Advanced Economies: Inflation

(Annual percent change)

Inflation in most of the advanced economies has stabilized at low levels or has continued to fall in 1997.

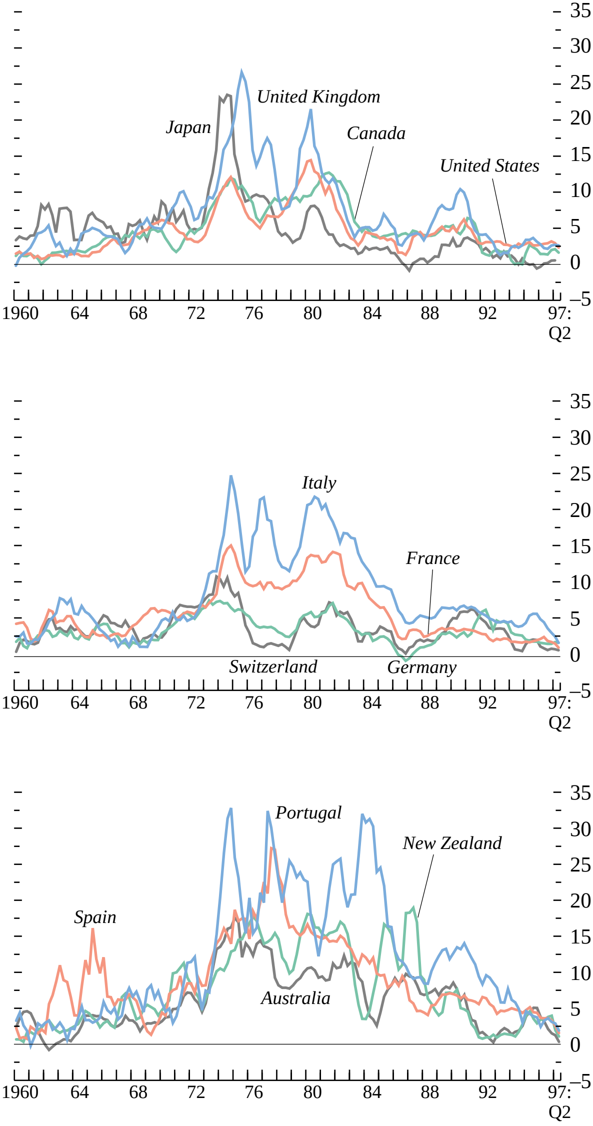
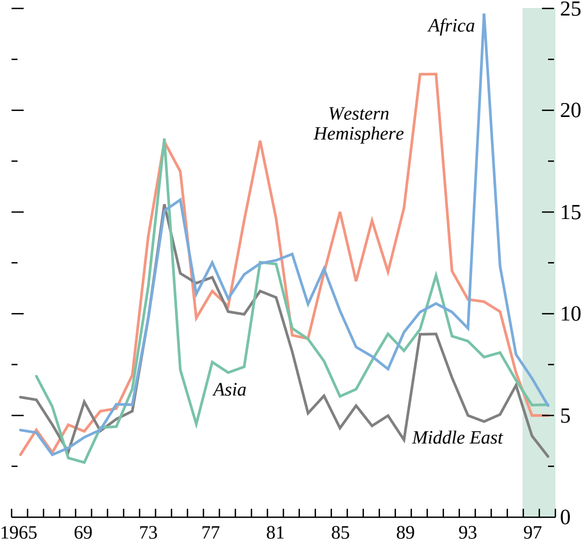


Figure 9. Developing Countries: Inflation[1]
(Median; annual percent change)

During the 1990s, many developing countries have made progress in reducing inflation.

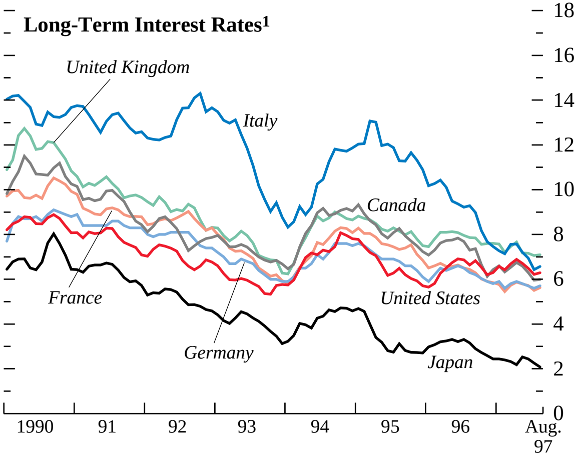


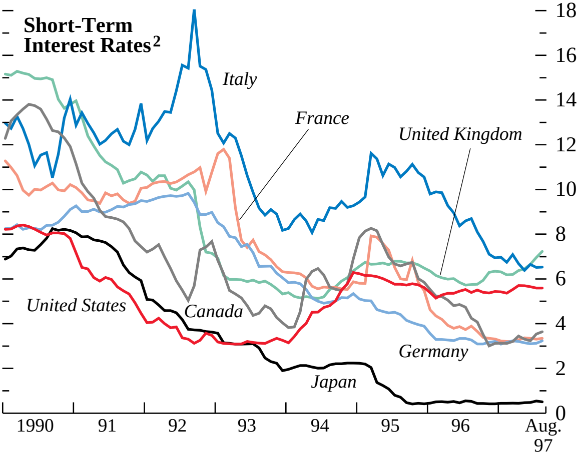
[1]Shaded area indicates IMF staff projections.

Figure 10. Major Industrial Countries: Nominal Interest Rates

(In percent a year)

In most countries, long-term interest rates have been on a downward trend, and short-term rates have remained relatively steady.





Sources: WEFA, Inc.; and Bloomberg Financial Markets.

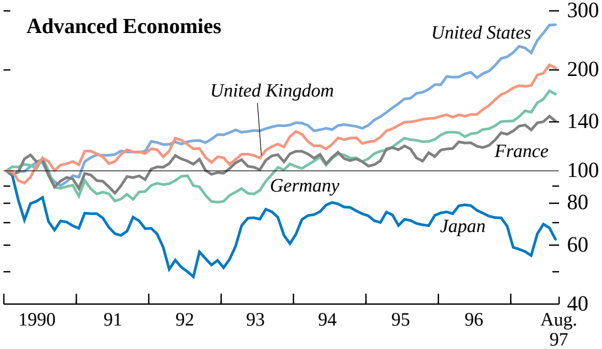
[1]Yields on government bonds with residual maturities of ten years or nearest.

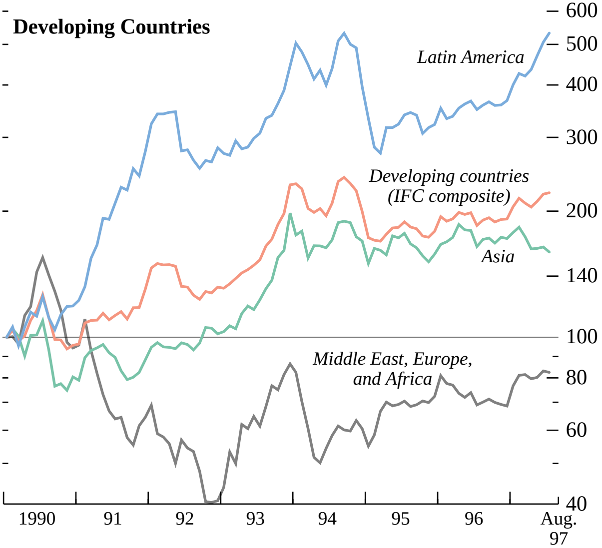
[2]Three-month maturities.

Figure 11. Equity Prices

(In U.S. dollars; logarithmic scale; January 1990 = 100)

Equity prices have recorded further strong advances in many advanced economies and developing countries.



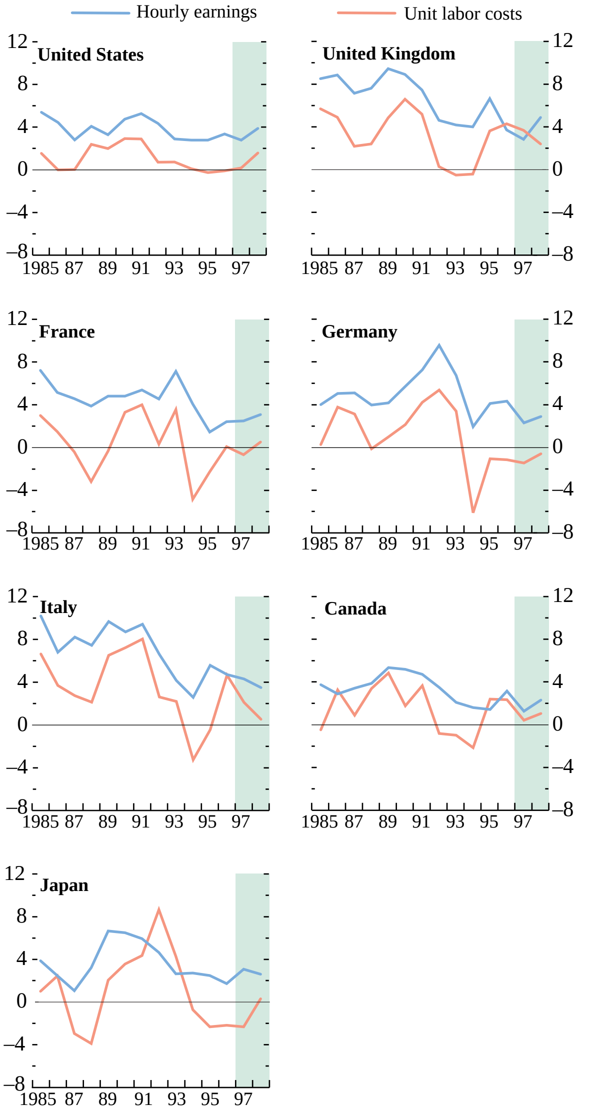


Sources: WEFA, Inc.; and International Finance Corporation, Emerging Markets Data Base.

Figure 12. Major Industrial Countries: Average Earnings and Unit Labor Costs in the Manufacturing Sector[1]

(Annual percent change)

Wage growth has remained low relative to the late 1980s, particularly in continental Europe, Canada, and Japan where unemployment is high.

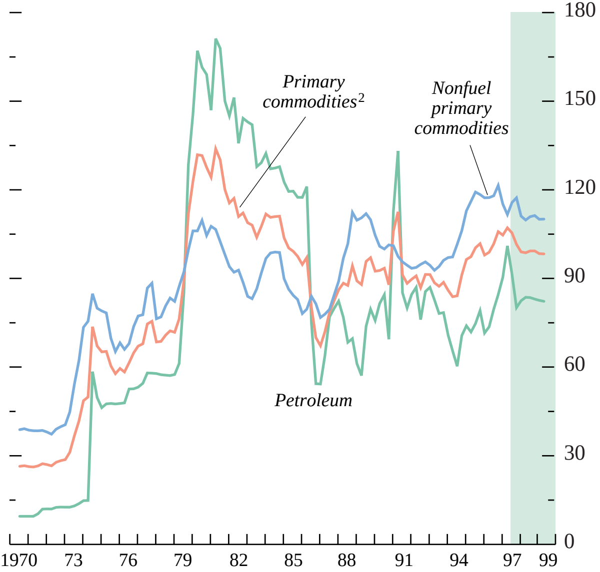


[1]Shaded areas indicate IMF staff projections.

Figure 13. Commodity Prices[1]

(In U.S. dollars; 1990 = 100)

In the first half of 1997, the price of petroleum decreased sharply, but the price of nonfuel primary commodities increased.



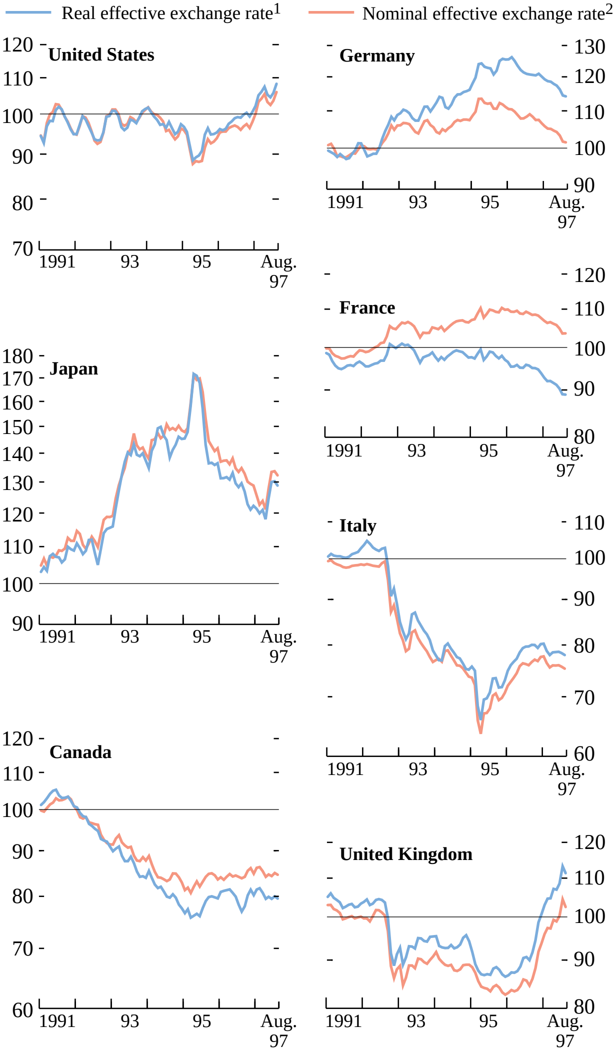
[1]Shaded area indicates IMF staff projections.

[2]The weights are 57.7 percent for the index of nonfuel primary commodities and 42.3 percent for the index of petroleum prices.

Figure 14. Major Industrial Countries: Effective Exchange Rates

(1990 = 100; logarithmic scale)

After declining to the level of early 1993, the yen rebounded sharply in late spring; the U.K. pound has continued the strong advance that began in August of 1996.

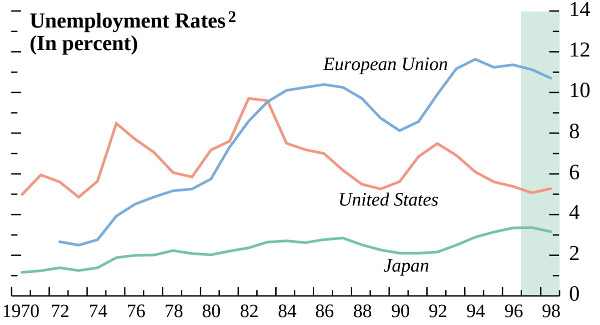


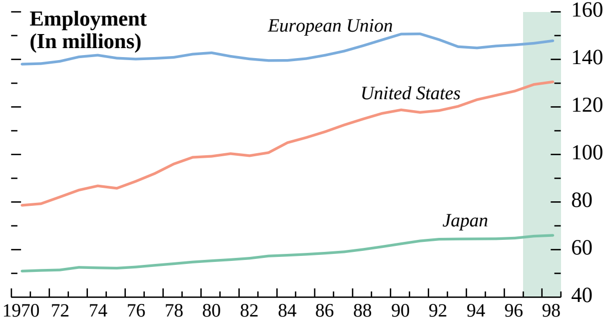
[1]Defined in terms of relative normalized unit labor costs in manufacturing, as estimated by the IMF's Competitiveness Indicators System, using 1989–91 trade weights.

[2]Constructed using 1989–91 trade weights.

Figure 15. Selected Advanced Economies: Employment and Unemployment[1]

The European Union's labor market performance since the mid-1990s has been weak compared with the United States and Japan.



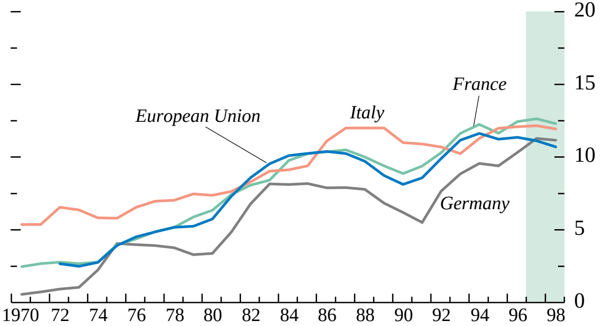


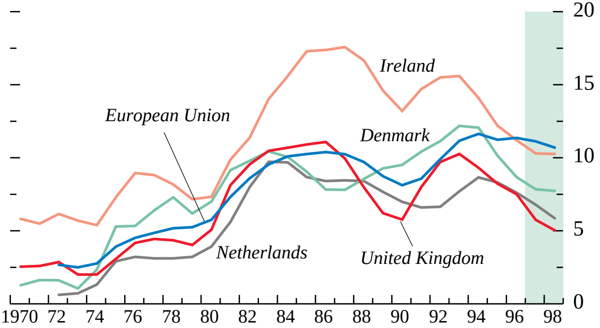
[1]Shaded areas indicate IMF staff projections.
[2]Based on national definitions.

Figure 16. Selected Advanced Economies: Unemployment Rates[1]

(In percent)

Unemployment has reached new peaks in the European Union, and in Germany, France, and Italy. In the United Kingdom, the Netherlands, Denmark, and Ireland, however, unemployment has declined.

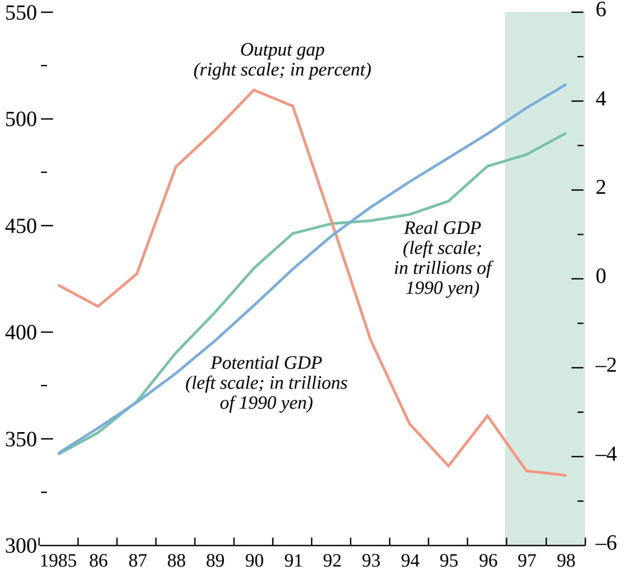




[1]Based on national definitions. Shaded areas indicate IMF staff projections.

Figure 17. Japan: Output Developments[1]

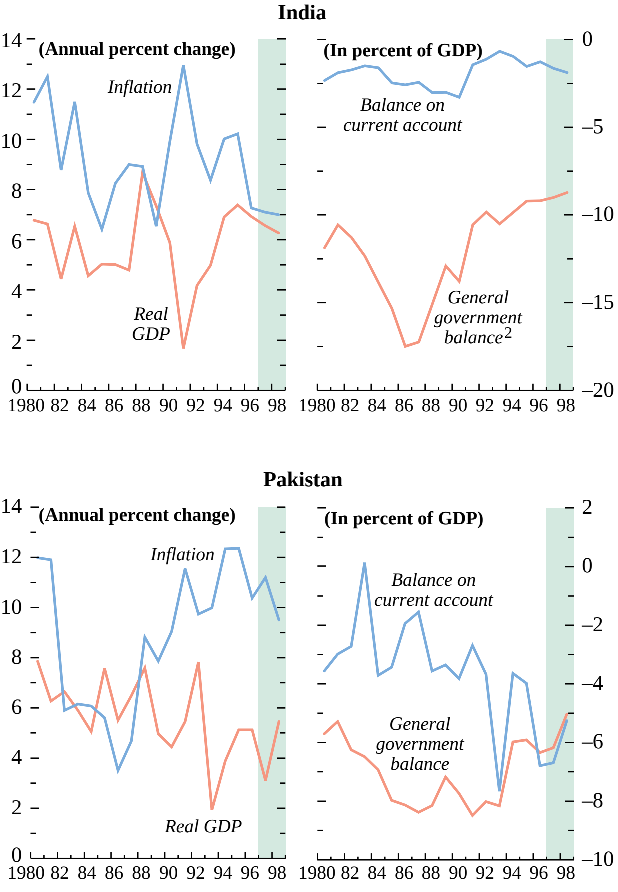
After an encouraging performance in 1996, Japan's recovery seems likely to slow temporarily in 1997–98.



Sources: National authorities; and IMF staff estimates.
[1]Shaded area indicates IMF staff projections.

Figure 18. India and Pakistan: Macroeconomic Indicators[1]

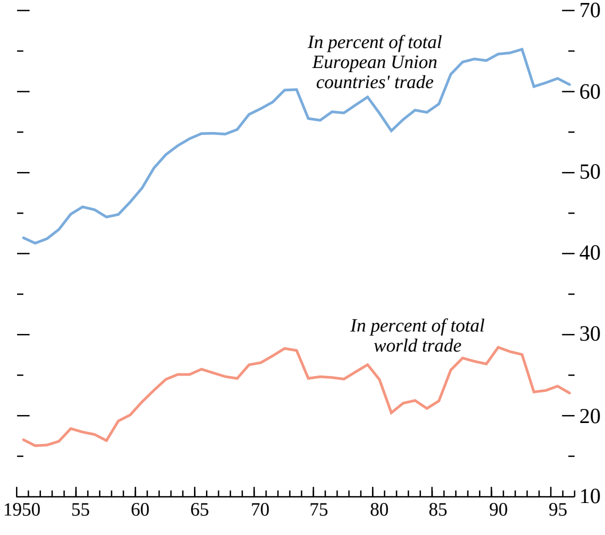
In India, growth is expected to remain strong although fiscal imbalances persist. In Pakistan, prospects for improved growth depend on the success of the reform program.



[1]Shaded areas indicate IMF staff projections.
[2]Includes central government public enterprises.

Figure 19. Trade Within the European Union[1]

Since the early postwar period, intra-European Union trade has risen to more than 60 percent from about 40 percent of total European Union countries' trade.

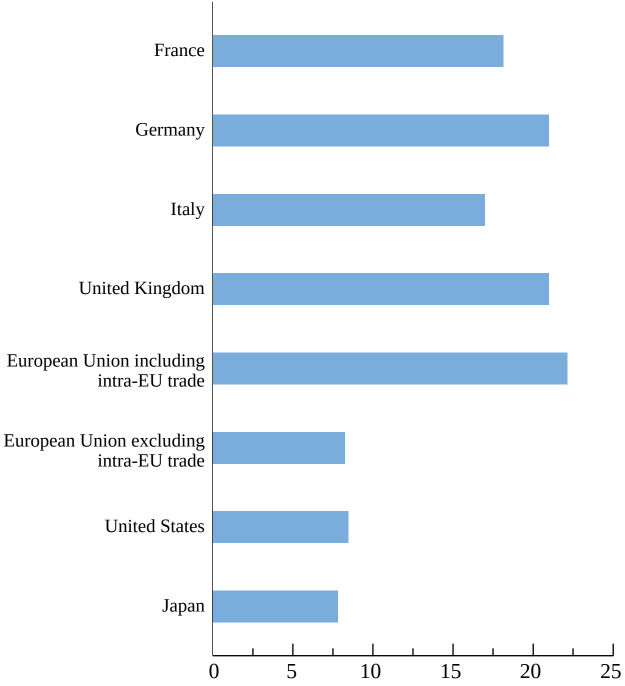


[1]Imports plus exports of goods.

Figure 20. Selected Advanced Economies: Openness[1]

(In percent of GDP)

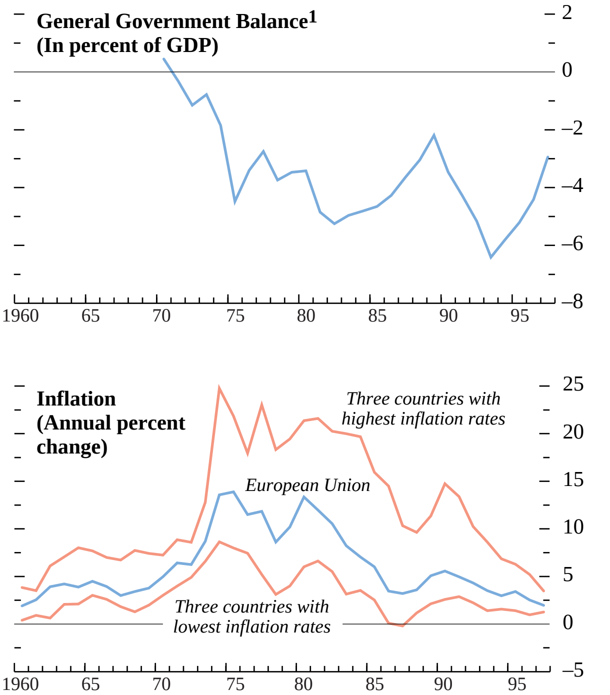
The openness to trade of the European Union (EU) as a whole is markedly less than that of its member countries, and comparable with that of the United States and Japan.



[1]Half the sum of exports and imports of goods and services.

Figure 21. European Union: Inflation and General Government Balance

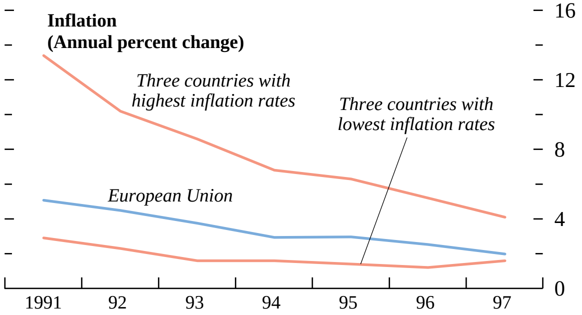
The steady convergence of inflation since the 1970s contrasts with the continued growth of fiscal deficits up to the early 1990s.

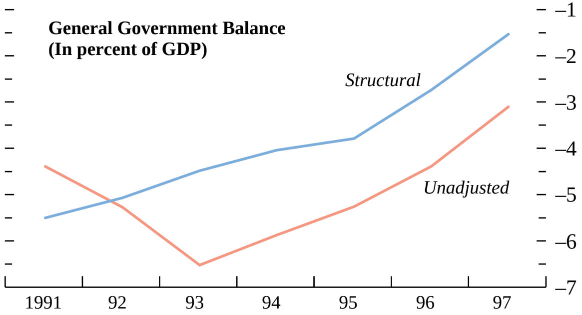


[1]Excludes Greece.

Figure 22. European Union: Inflation, General Government Balance, and Gross Debt

In the 1990s, continued convergence of inflation has been accompanied by substantial fiscal consolidation.





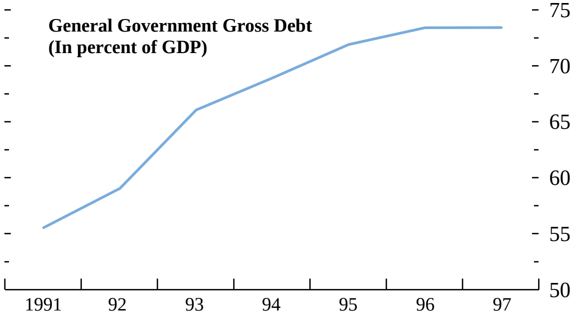


Figure 23. Selected Developing and Transition Countries: Trade and Financial Links with the European Union

(In percent)

Countries in Africa and central and eastern Europe that peg their exchange rates to European currencies typically have close trade links with the European Union (EU), but service debt denominated in both EU and non-EU currencies.

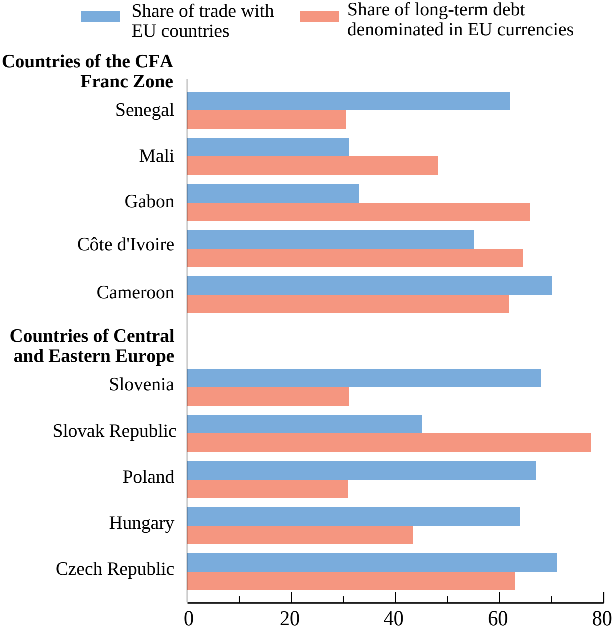
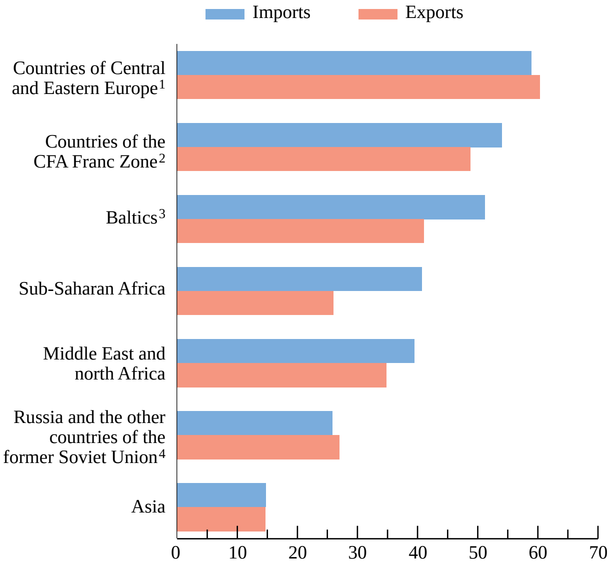


Figure 24. Selected Developing and Transition Countries: Shares of Trade with the European Union

(In percent of total trade)

There is generally little evidence of a "mismatch" in countries' trade links.



[1]Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.

[2]Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Senegal, and Togo.

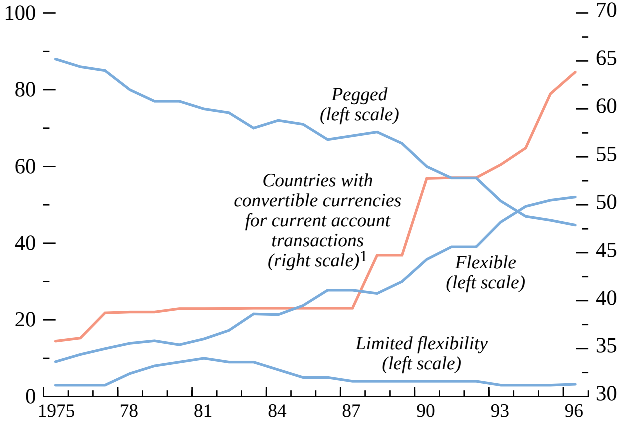
[3]Estonia, Latvia, and Lithuania.

[4]Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Figure 25. Developing Countries: Evolution of Exchange Rate Regimes

(In percent of total number of countries)

Over the past two decades, an increasing number of developing countries have adopted flexible exchange rate arrangements.



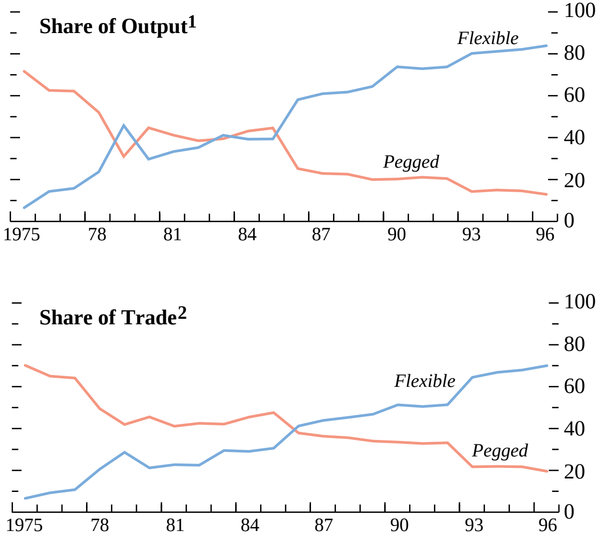
Note: The classification is based on officially reported exchange rate arrangements as of year-end. “Pegged” regimes include exchange rate arrangements in which the currency is pegged to a single currency, to the SDR, or to a basket of currencies. “Flexible” regimes consist of exchange rate arrangements in which the exchange rate is adjusted according to a set of indicators, follows a managed float, or is independently floating. For some countries, the exchange rate may be classified as “managed floating” or “independently floating” but in fact is informally pegged. The differences between pegged and flexible regimes may therefore not be as significant as those indicated in the figure. The total number of countries included increases over time in keeping with increasing Fund membership.

[1]Percent of developing countries that have accepted Article VIII of the IMF’s Articles of Agreement; countries are weighted by their 1990–95 share of aggregate exports of all developing countries.

Figure 26. Developing Countries: Share of Output and Trade by Exchange Rate Regime

(In percent of total developing country output and trade)

Countries with officially reported flexible exchange rate arrangements account for most of the developing countries' total output and trade.



Note: The classification is based on officially reported exchange rate arrangements as of year-end. "Pegged" regimes include exchange rate arrangements in which the currency is pegged to a single currency, to the SDR, or to a basket of currencies. "Flexible" regimes consist of exchange rate arrangements in which the exchange rate follows a managed float or is independently floating. For some countries, the exchange rate may be classified as "managed floating" or "independently floating" but in fact is informally pegged. The differences between pegged and flexible regimes may therefore not be as significant as those indicated in the figure. The total number of countries included increases over time in keeping with increasing Fund membership.

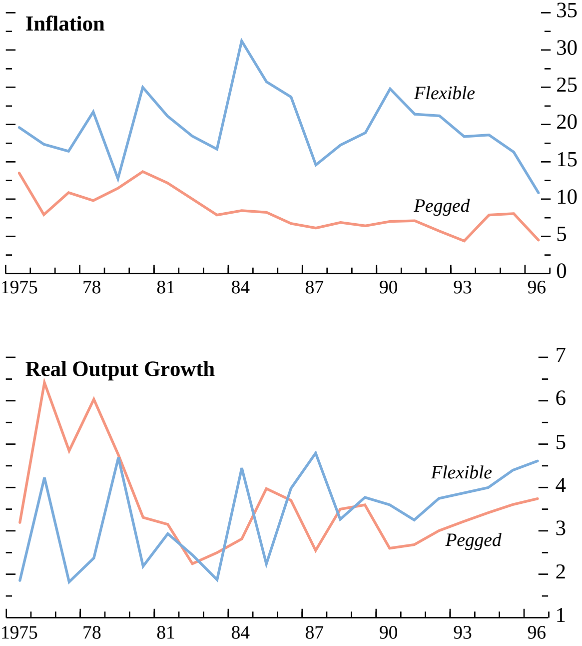
[1]Real GDP, valued at purchasing power parities, of developing countries in each regime as a share of total developing country GDP.

[2]Exports and imports of developing countries in each regime as a share of total developing country exports and imports.

Figure 27. Developing Countries: Growth and Inflation by Exchange Rate Regime

(Annual percent change; median of group)

While inflation in countries with pegged exchange rates has typically been lower than in countries with flexible exchange rates, there is no clear relationship between the exchange rate regime and output growth.

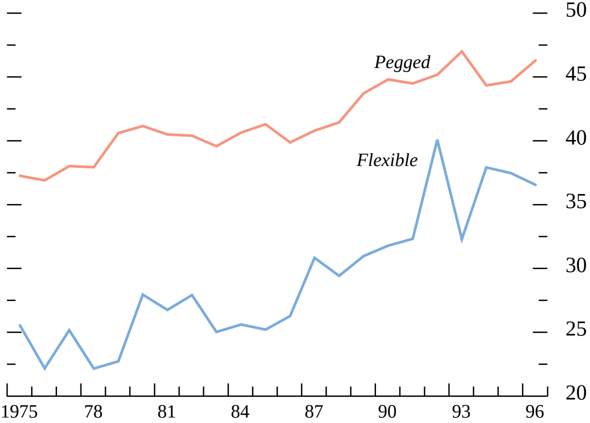


Note: The classification is based on officially reported exchange rate arrangements as of year-end. "Pegged" regimes include exchange rate arrangements in which the currency is pegged to a single currency, to the SDR, or to a basket of currencies. "Flexible" regimes consist of exchange rate arrangements in which the exchange rate follows a managed float or is independently floating. For some countries, the exchange rate may be classified as "managed floating" or "independently floating" but in fact is informally pegged. The differences between pegged and flexible regimes may therefore not be as significant as those indicated in the figure. The total number of countries included increases over time in keeping with increasing Fund membership.

Figure 28. Developing Countries: Openness by Exchange Rate Regime[1]

(In percent of GDP; average of group)

Countries with pegged exchange rates are on average more open economies.



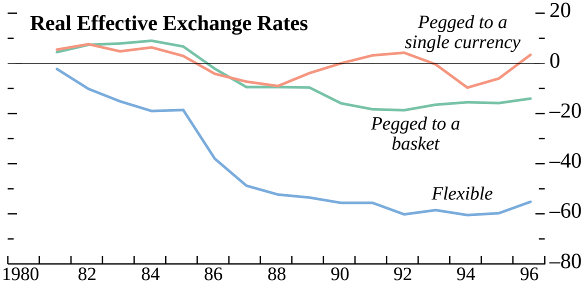
Note: The classification is based on officially reported exchange rate arrangements as of year-end. "Pegged" regimes include exchange rate arrangements in which the currency is pegged to a single currency, to the SDR, or to a basket of currencies. "Flexible" regimes consist of exchange rate arrangements in which the exchange rate follows a managed float or is independently floating. For some countries, the exchange rate may be classified as "managed floating" or "independently floating" but in fact is informally pegged. The differences between pegged and flexible regimes may therefore not be as significant as those indicated in the figure. The total number of countries included increases over time in keeping with increasing Fund membership.

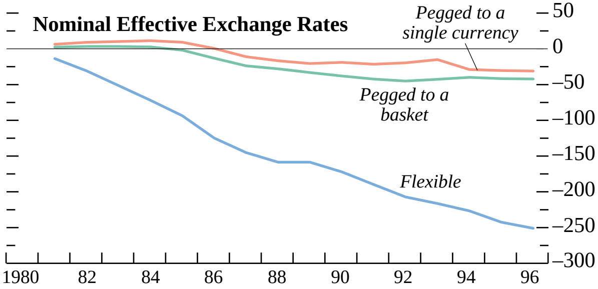
[1]Openness is defined as half the sum of exports and imports of goods and services, in percent of GDP.

Figure 29. Developing Countries: Exchange Rate Movements of Countries with Pegged and Countries with Officially Declared Flexible Exchange Rate Arrangements

(Cumulative percent change)

Countries with flexible exchange rates have experienced a relatively larger cumulative real depreciation since the early 1980s.



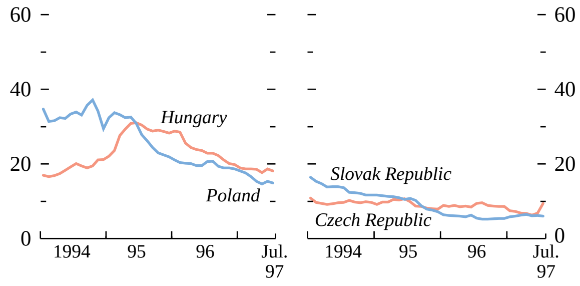


Note: The classification is based on officially reported exchange rate arrangements as of year-end. “Pegged” regimes include exchange rate arrangements in which the currency is pegged to a single currency, to the SDR, or to a basket of currencies. “Flexible” regimes consist of exchange rate arrangements in which the exchange rate follows a managed float or is independently floating. For some countries the exchange rate may be classified as “managed floating” or “independently floating” but in fact is informally pegged. The differences between pegged and flexible regimes may therefore not be as significant as those indicated in the figure. The total number of countries included increases over time in keeping with increasing Fund membership.

Figure 30. Selected Countries in Transition: Inflation

In countries more advanced in transition, inflation has come down steadily. In those less advanced in transition, inflation has been reduced in the countries that have maintained tight financial policies.

Countries More Advanced: Annual Inflation
(Twelve-month percent change in the consumer price index)



Countries Less Advanced: Monthly Inflation
(Monthly percent change in the consumer price index)

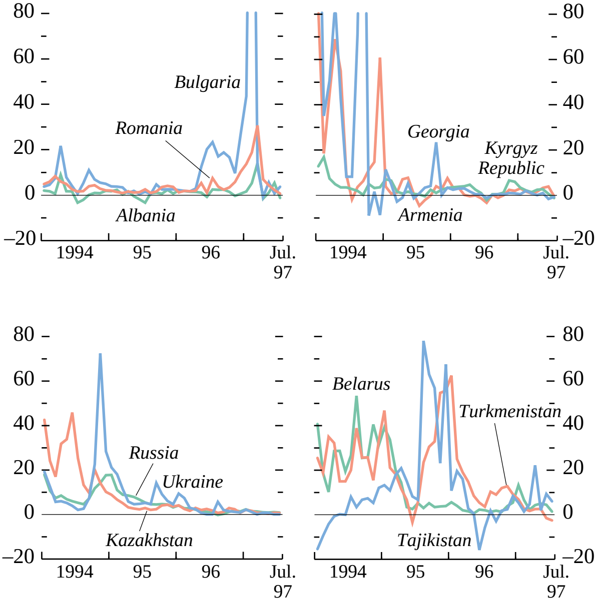


Figure 31. Latvia, Russia, and Other Countries of the Former Soviet Union: Importance of Seigniorage in 1996

Seigniorage remains an important source of government revenue in many countries less advanced in the transition.

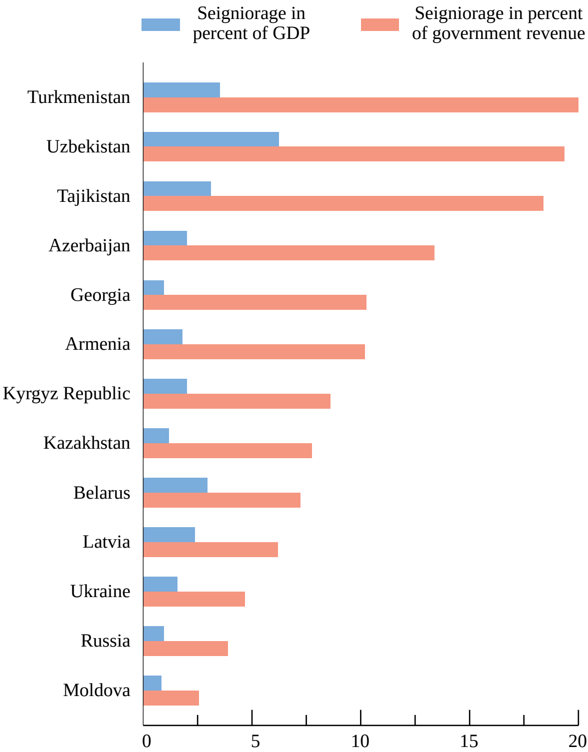
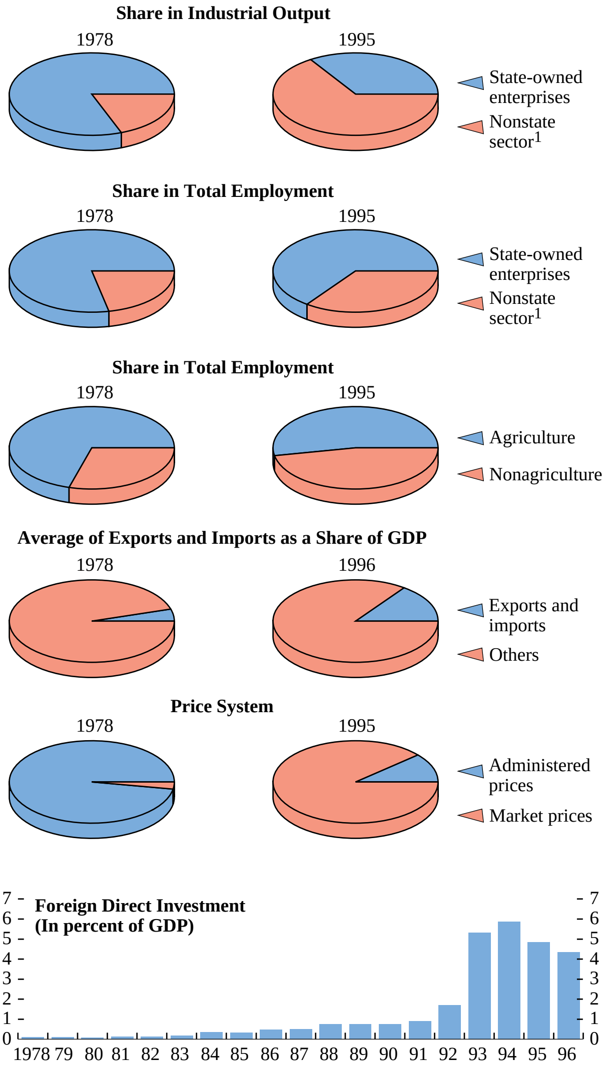


Figure 32. China: Indicators of Structural Transformation and External Opening

(In percent)

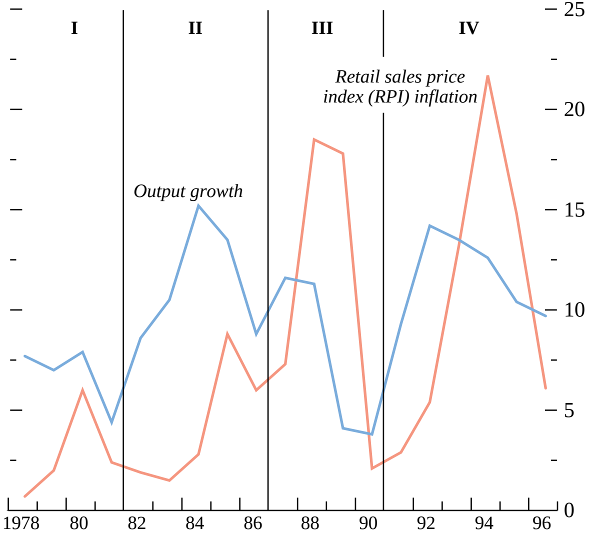


Sources: Data provided by the Chinese authorities; and IMF staff estimates.

[1]Proportions of retail sales at administered or market prices.

Figure 33. China: Macroeconomic Cycles in the Reform Period

(In percent)



Source: State Statistical Bureau, China.