ANNEX SUMMING UP BY THE ACTING CHAIRMAN

Directors warmly welcomed the rapid recovery in the world economy in 1999, and the prospect of even stronger growth in 2000. Global economic and financial conditions have improved dramatically during the past year, with growth picking up in almost all regions of the world. Directors noted that the remarkable strength of the U.S. economy and the robust growth now apparent in western Europe have provided key support for faster than expected recoveries in Asia, Latin America, and other emerging market regions. Determined actions by policymakers in the crisis-affected countries to deepen adjustment and reform efforts, together with support from the international community, have also been important. Directors considered that, at least in the near term, risks for global growth may well be on the upside.

At the same time, Directors expressed some concern about the potential for a correction of highly valued stock prices around the world (especially in the technology and information sectors), the mixed signals regarding economic recovery in Japan, the vulnerabilities still present in emerging market regions, and the possibility that growing global economic and financial imbalances could, if unchecked, lead to significant future disruptions in world growth. A sustained pickup in domestic demand in western Europe and Japan, together with some slowing of growth in the United States, will help achieve a more balanced pattern of growth among the major industrial countries. Several Directors also commented on additional uncertainties arising from the recent increases in oil prices. In view of these concerns, and notwithstanding the overall improvement in the global economic situation, Directors agreed that policymakers worldwide face important but widely varying challenges. They noted that, in some countries, macroeconomic policies need to be directed toward providing ongoing support for recovery while, elsewhere, further firming in the macroeconomic stance is probably needed to reduce risks of overheating. More broadly, prospects for sustained growth in almost all developing countries, and many advanced economies, would be enhanced by more vigorous and wide-ranging structural reforms.

Developments in the Major Currency Areas

In considering recent and prospective developments in the United States, Directors noted that there are few signs of economic activity slowing despite several interest rate increases by the Federal Reserve and, indeed, growth appears to have accelerated toward the end of 1999. They suggested that the combination of strong investment and productivity growth, subdued wage pressures, and ongoing low inflation resulting from fundamental changes in the economy has raised its potential growth rate. Nevertheless, many Directors expressed concern about rising internal and external imbalances in the economy that have accompanied the prolonged expansion. These imbalances include a record-high current account deficit, the strongly negative level of net private saving, and the high level of stock market valuations, even given the recent volatility in, and divergences between, major indices. Directors recognized the central role that U.S. demand has played in supporting recovery worldwide, as well as the importance of the strong domestic investment climate and increases in national saving in the evolution of the current account. However, many Directors agreed that some further firming in U.S. interest rates would probably be unavoidable in the coming months, especially in the absence of clearer signs of a moderation in growth of demand. They argued that such a strategy would improve

the prospects for a "soft landing" in the economy, whereas a delayed response could increase the risk of a further buildup of the imbalances and a subsequent "hard landing". A more balanced pattern of global growth would also make an important contribution to reducing the U.S. external deficit.

Some Directors noted, however, that further increases in U.S. interest rates could set back the prospects for sustained recovery in some key emerging market economies, notably among the Latin American countries that face significant external financing requirements in the coming years. These Directors, therefore, advocated a cautious approach to further monetary tightening, and considered that, alternatively, reliance on further fiscal consolidation to slow the growth of domestic demand would avoid the risk of spillover effects on world capital markets of continued increases in U.S. interest rates. They recognized, however, that implementing further fiscal tightening with a budget already in surplus could prove politically difficult.

More generally on fiscal policy in the United States, Directors agreed that further fiscal stimulus, whether through substantial tax cuts or expenditure increases, would be particularly dangerous under current circumstances. Instead, they argued that the welcome increases in public saving should be largely assigned to reducing debt and meeting the longer-term fiscal requirements associated with an aging population.

Turning to Japan, Directors agreed that recent economic indicators provide unclear signals regarding prospects for recovery. The just-released data on fourth quarter GDP, along with trends in household spending, confirm that real activity has again weakened following the short-lived upturn in the first half of 1999, while the latest index of leading indicators provides scope for more optimism about the economic outlook.

Most Directors considered that a strong, self-sustaining recovery in Japan led by private domestic demand still appears to be some distance away, and that supportive macroeconomic policies should therefore be maintained. Directors agreed that the zero interest policy remains appropriate for monetary policy, with several suggesting that the monetary authorities would need to consider further measures to ease monetary conditions, this being all the more important if the yen were again to appreciate. Some Directors also considered that the introduction of an inflation targeting framework could help improve the monetary framework. Most Directors believed that fiscal policy also needs to provide continued support for recovery. However, a number of Directors suggested that the focus of fiscal policy should soon start moving toward consolidation given the rapid rise in public debt, pressures on longer-term interest rates, and the need to tackle approaching fiscal pressures from public pension arrangements. In this connection, several Directors expressed concern about the efficacy of successive fiscal packages to strengthen consumer and business confidence and put the economy on a path of self-sustained growth. Some Directors suggested that accommodative macroeconomic policies might have reduced pressures for structural reforms in some sectors. All Directors underscored the crucial role of structural reforms in boosting confidence and thereby enhancing the efficacy of macroeconomic policies, noting also that—with zero interest rates and high levels of public debt—the scope for continued expansionary macroeconomic policies might be reaching its limits. Against this background, Directors expressed concern about recent delays in the implementation of some important structural reforms, and what they perceived as a weakening of other initiatives. They believed that, while structural adjustment could have a downside impact on some sectors, this would be more than offset over time by the broader-based improvements in confidence and activity that would follow from measures to liberalize domestic markets, strengthen the financial system, and address other structural weaknesses.

Directors welcomed the pickup in confidence and activity in the euro area. They noted, in particular, the recent improvements in economic performance of the largest economies in the region, but observed that growth remains substan-

tially more dynamic among several of the smaller countries. In view of these differences, Directors agreed that fiscal policy would need to play a central role in moderating risks of overheating among the fast-growing economies, even though such fiscal adjustments may be politically difficult in view of the emergence of budget surpluses in some of these countries. They also pointed out that a broad program of fiscal reforms is required in most euro-area economies in order to reduce current and longer-term expenditure pressures and provide greater scope for tax relief. Directors argued that the recovery in activity now under way provides an important opportunity for euro-area countries to push ahead with fiscal reforms and with complementary structural adjustment measures, especially in labor and product markets, that are needed to support sustained recovery. While all Directors agreed that monetary policy should continue to focus on maintaining low inflation, some thought that monetary conditions should remain generally supportive of recovery in view of the substantial slack still evident in the region. Some other Directors, however, suggested that a firming in monetary conditions could be expected in the year ahead, given the risk of price pressures—including in asset markets—developing in some countries.

Asset Prices

In their consideration of economic developments in the advanced countries, Directors gave particular attention to recent trends in asset prices. They noted that asset price inflation was a general concern, encompassing the United States, much of western Europe, and many emerging market economies. High asset prices pose a formidable challenge for macroeconomic policy in the current environment of low inflation in goods and services markets. On the one hand, given the practical difficulties in determining the equilibrium value of asset prices and the fact that they are traded in relatively efficient markets, Directors noted that it would be unsuitable for macroeconomic policy to try to target those prices. On the other hand, as rapid and prolonged buildups in asset prices may exacerbate inflationary pressures and threaten financial stability through their impact on aggregate demand and domestic credit, it is clear that asset price developments can be a matter of serious concern for central banks. Directors agreed that, to the extent asset prices provide valuable information about future developments in economic activity and inflation, such information should be taken into account in the existing inflation and monetary targeting frameworks—but that prices of goods and services should remain the policy target. While agreeing that targeting asset prices should not become a permanent policy goal, some Directors considered that there may be instances in which macroeconomic policy should “lean against the wind” and try to stem financial market excesses, even though inflation in goods and service markets remains quiescent—although they recognized the practical difficulties in determining when and to what extent such a policy should be implemented. Several Directors also saw a role for regulatory and prudential policies in containing asset price inflation and volatility.

In the United States, Directors noted that, despite some uncertainty, many valuation analyses point to some degree of overvaluation in key broad indices. Several Directors commented on the particularly high valuations that have emerged in the information technology sector. In light of evidence that wealth effects stemming from the stock market may be a contributing factor in fueling growth of domestic demand well in excess of increases in potential output, Directors considered that the recent steps to tighten monetary conditions have been appropriate—although the need for further tightening will have to be kept under close review.

Regarding the euro area, Directors agreed that the main challenge for macroeconomic policy arising from aggregate asset price movements remains the magnitude of regional divergences, with property prices, in particular, rising far more rapidly in some of the fast growing euro-area countries in the periphery than in the re-

gion as a whole. Directors noted that, while faster growth in the periphery can, at least in part, be justified by the process of regional convergence in incomes associated with economic integration and the introduction of the euro, the potentially significant impact of asset price corrections on financial conditions in some small European countries poses a challenge to the conduct of monetary policy.

Prospects for Emerging Markets

Turning to economic developments in Asia, Directors welcomed the rapid recovery in the crisis-affected countries and the projections of continued strong growth. They noted that rising exports have played a key role in this recovery, adding to the support provided from public spending and, more recently, from private domestic demand. Directors agreed that fiscal stimulus should be steadily withdrawn as growth becomes self-sustaining. Indeed, several Directors suggested that in the countries most advanced in recovery, macroeconomic policies should now be focused on reducing risks of overheating and containing the growth in public debt. Directors urged the crisis-affected countries to maintain the momentum of structural reforms, especially in the financial and corporate sectors as well as in the underlying institutional and prudential framework, and cautioned that the current recoveries could prove to be short-lived if these reform efforts were relaxed. They agreed that, in order to maintain the current robust rates of growth in China and India, further structural reforms are needed, including further measures to strengthen the banking sector and restructure state-owned enterprises in China, and greater efforts to reduce the budget deficit and public sector subsidies in India.

Directors noted that, in Latin America as a whole, the downturn in 1999 had turned out to be milder than expected owing to the sustained pursuit of prudent macroeconomic and structural policies, although several countries had experienced severe recessions. They concurred with projections indicating that a broader-based recovery should emerge this year and continue into the next. Directors observed that several factors are contributing to the general improvement in regional economic conditions, including strong growth in the United States, rising commodity prices, and declining inflation and interest rates. Nevertheless, several Directors pointed out that the renewed optimism regarding the region's economic prospects needs to be tempered by concerns about remaining vulnerabilities—especially the high external financing requirements faced by the largest countries and persistent weaknesses in some of the smaller economies. Directors urged that the countries concerned continue with the steps they are taking to reduce the attendant risks and maintain the confidence of international investors. They agreed that key measures in this regard include: sustainable reductions in fiscal deficits, where further progress is expected in 2000; the implementation of monetary policy frameworks intended to help countries achieve or maintain low inflation; and, to support these objectives, further structural and institutional reforms, including greater trade liberalization. Directors also emphasized the importance of increasing public and private domestic saving to help reduce reliance on foreign financing.

Directors welcomed the rapid turnaround in Russia's economic performance in 1999, but noted that the prospects for a sustained recovery remain uncertain. They observed that the reductions in Russia's fiscal and external imbalances in 1999 are largely attributable to higher oil prices, with import compression and substitution also contributing to recent growth. Directors agreed that a firm and wide-ranging reform effort is needed in order to improve the investment climate and medium-term growth prospects. Priority needs to be given to strengthening the institutions and processes that underpin market economies, including improvements in the legal framework, competition policy, transparency, and governance. Such reforms would enhance efforts being made to tackle key structural weaknesses in the economy, particu-

larly in the tax regime, the banking system, and in many parts of the corporate sector.

Directors agreed that economic conditions are generally strong among the central and eastern European transition economies participating in the European Union (EU) accession process. Growth is expected to pick up in all of these countries in 2000, helped in most cases by growing exports to western Europe and stronger investor confidence. They concurred, however, that further progress with structural adjustment would be needed to support sustained improvements in economic prospects and to prepare these countries more fully for eventual EU membership. In some countries, more rapid progress with fiscal consolidation would also be desirable as growth strengthens in order to reduce pressures on inflation and interest rates.

Directors noted that, for most countries in the Middle East and several in Africa, the recent increase in international oil prices has contributed to substantial improvements in fiscal positions, current account balances, and other dimensions of economic performance. Increases in some non-oil commodity prices, such as metals, were also supporting external earnings growth in several African countries, although low prices for other products (such as tea, coffee, and cotton), combined with adverse weather conditions (particularly in Mozambique), have slowed growth prospects elsewhere. In this regard, Directors agreed on the importance of continued economic diversification in order to reduce these countries' vulnerability to swings in the prices and volumes of commodity exports. They were encouraged that substantial progress has been made in these regions, including among many of the smaller countries in Africa, in laying the groundwork for broader-based growth. In view of the economic and social challenges that remain, Directors agreed that these reform efforts need to be expanded, in order to make substantial inroads on poverty and to provide a more favorable environment for economic development.

Poverty Alleviation

Directors welcomed the analysis of poverty and poverty alleviation in the *World Economic Outlook*, and reiterated their commitment to policies aimed at raising the living standards of the least well-off. They stressed that poverty today remains far too prevalent, and represents an unacceptable level of human suffering and a squandering of human resources.

Directors agreed that the best way to reduce poverty is through sustained and rapid economic growth. They observed with some concern that economic performance in the majority of developing countries had on average been unsatisfactory over the past 30 years. However, Directors were generally encouraged by gains made in real per capita income in many poor countries in Asia, notably China and India, and, more recently, in several countries in Africa, where stabilization programs—directed at achieving reasonable price stability, prudent fiscal balances, and sustainable exchange rate regimes—have been implemented successfully.

Directors emphasized the critical role played in development by market-friendly institutions and an environment in which individuals and businesses can save and invest, as well as expect to enjoy the future benefits of their endeavors. They identified political instability, war, and the absence of the rule of law as critical impediments to providing such a setting, and to development more generally. Directors called for continued progress in removing distortions in domestic markets by eliminating price controls and subsidies, by liberalizing external trade, and by combating corruption through effective and transparent government. They noted that many developing countries also need to develop sounder financial markets that can efficiently allocate savings to profitable investments. Many of these countries, especially the poorest, would also benefit from placing a higher priority on health and education programs in order to help break the poverty cycle by increasing productivity. Directors cautioned, however, that there is no unique formula for starting and sustaining

economic growth, and that each country will need to decide how best to provide the necessary fundamentals for economic prosperity through the joint efforts of government and representatives of civil society. In this respect, they stressed that ownership of the reform process is crucial to ensuring its success.

Directors agreed that unsustainable levels of external debt are a critical impediment to economic growth and poverty alleviation, especially in some of the poorest countries. Without significant debt relief, incentives for government reform and private investment are dulled, and countries can be caught in a vicious debt and poverty trap. Directors emphasized the opportunity provided by the recently enhanced Initiative for Heavily Indebted Poor Countries (HIPC), under which debt would be lowered to sustainable levels through concerted efforts by the international community. Some Directors considered that the enhanced HIPC Initiative should be supplemented by additional concessional lending from the international community. They noted that middle-income countries facing debt problems similar to those of the HIPCs would also benefit from concessional financing.

Directors recognized the important contributions to debt relief being made by the advanced economies, both directly and through international organizations. Several Directors called for a reversal in the downward trend in official development assistance, and cautioned that debt relief associated with the HIPC Initiative should not be seen as a substitute for future development assistance. These Directors drew attention to the more effective use of development assistance, for example through strengthened incentives for reform in the recipient countries and through a better targeting of aid to these countries' needs. Many Directors also called on advanced economies to reform trade policies, especially in areas such as agricultural products and textiles, where current policies have particularly damaging effects on trade opportunities and growth prospects for developing countries.

Directors thanked the staff for the long-term and historical perspective on economic development and policies provided in the latest *World Economic Outlook*, and noted their general agreement on the salient features presented.

Finally, Directors expressed their special appreciation to Mr. Flemming Larsen for his many years of distinguished service in helping to make the *World Economic Outlook* the Fund's principal vehicle for the effective exercise of multilateral surveillance.

STATISTICAL APPENDIX

The statistical appendix presents historical data, as well as projections. It comprises four sections: Assumptions, Data and Conventions, Classification of Countries, and Statistical Tables.

The assumptions underlying the estimates and projections for 2000–2001 and the medium-term scenario for 2002–2005 are summarized in the first section. The second section provides a general description of the data, and the conventions used for calculating country group composites. The classification of countries in the various groups presented in the *World Economic Outlook* is summarized in the third section. Note that the group of advanced economies includes Israel and four newly industrialized Asian economies, which all were added to the industrial country group in the May 1997 issue of the *World Economic Outlook*.

The last, and main, section comprises the statistical tables. Data in these tables have been compiled on the basis of information available through mid-March 2000. The figures for 2000 and beyond are shown with the same degree of precision as the historical figures solely for convenience; since they are projections, the same degree of accuracy is not to be inferred.

Assumptions

Real effective *exchange rates* for the advanced economies are assumed to remain constant at their average levels during the period January 25–February 22, 2000. For 2000 and 2001, these assumptions imply average U.S. dollar/SDR conversion rates of 1.353 and 1.357, respectively.

Established *policies* of national authorities are assumed to be maintained. The more specific policy assumptions underlying the projections for selected advanced economies are described in Box 1.3.

It is assumed that the *price of oil* will average $24.50 a barrel in 2000 and $19.80 a barrel in 2001. In the medium term, the oil price is assumed to remain unchanged in real terms.

With regard to *interest rates*, it is assumed that the London interbank offered rate (LIBOR) on six-month U.S. dollar deposits will average 6.8 percent in 2000 and 7.1 in 2001; that the three-month certificate of deposit rate in Japan will average 0.2 percent in 2000 and 0.4 in 2001; and that the three-month interbank deposit rate for the euro will average 4.0 percent in 2000 and 4.9 percent in 2001.

With respect to *introduction of the euro*, on December 31, 1998 the Council of the European Union decided that, effective January 1, 1999, the irrevocably fixed conversion rates between the euro and currencies of the member states adopting the euro are:

1 euro	= 40.3399	Belgian francs
	= 1.95583	Deutsche mark
	= 166.386	Spanish pesetas
	= 6.55957	French francs
	= 0.787564	Irish pound
	= 1,936.27	Italian lire
	= 40.3399	Luxembourg francs
	= 2.20371	Netherlands guilders
	= 13.7603	Austrian schillings
	= 200.482	Portuguese escudos
	= 5.94573	Finnish markkaa

See Box 5.4 in the October 1998 *World Economic Outlook* for details on how the conversion rates were established.

Data and Conventions

Data and projections for 184 countries form the statistical basis for the *World Economic Outlook* (the World Economic Outlook database). The data are maintained jointly by the IMF's Research Department and area departments,

with the latter regularly updating country projections based on consistent global assumptions.

Although national statistical agencies are the ultimate providers of historical data and definitions, international organizations are also involved in statistical issues, with the objective of harmonizing methodologies for the national compilation of statistics, including the analytical frameworks, concepts, definitions, classifications, and valuation procedures used in the production of economic statistics. The *World Economic Outlook* database reflects information from both national source agencies and international organizations.

The completion in 1993 of the comprehensive revision of the standardized *System of National Accounts 1993* (*SNA*) and the IMF's *Balance of Payments Manual* (*BPM*) represented important improvements in the standards of economic statistics and analysis.[1] The IMF was actively involved in both projects, particularly the new *Balance of Payments Manual*, which reflects the IMF's special interest in countries' external positions. Key changes introduced with the new *Manual* were summarized in Box 13 of the May 1994 *World Economic Outlook*. The process of adapting country balance of payments data to the definitions of the new *BPM* began with the May 1995 *World Economic Outlook*. However, full concordance with the *BPM* is ultimately dependent on the provision by national statistical compilers of revised country data, and hence the *World Economic Outlook* estimates are still only partially adapted to the *BPM*.

The members of the European Union have recently adopted a harmonized system for the compilation of the national accounts, referred to as ESA 1995. All national accounts data from 1995 onwards are now presented on the basis of the new system. Revision by national authorities of data prior to 1995 to conform to the new system has progressed, but has in some cases not been completed. In such cases, historical *World Economic Outlook* data have been carefully adjusted to avoid breaks in the series. Users of EU national accounts data prior to 1995 should nevertheless exercise caution until such time as the revision of historical data by national statistical agencies has been fully completed. See Box 1.2, *Revisions in National Accounts Methodologies*.

Composite data for country groups in the *World Economic Outlook* are either sums or weighted averages of data for individual countries. Arithmetically weighted averages are used for all data except inflation and money growth for the developing and transition country groups, for which geometric averages are used. The following conventions apply.

- Country group composites for exchange rates, interest rates, and the growth rates of monetary aggregates are weighted by GDP converted to U.S. dollars at market exchange rates (averaged over the preceding three years) as a share of world or group GDP.
- Composites for other data relating to the domestic economy, whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total world or group GDP.[2]
- Composite unemployment rates and employment growth are weighted by labor force as a share of group labor force.
- Composites relating to the external economy are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data, and at end-of-year market exchange rates for debt denominated in currencies other than U.S. dollars. Composites of changes in foreign trade volumes and prices, however, are arithmetic averages of percentage changes

[1]Commission of the European Communities, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations, and World Bank, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, and Washington, 1993); and International Monetary Fund, *Balance of Payments Manual, Fifth Edition* (Washington, 1993).

[2]See Box A.1 for a summary of the revised PPP-based weights and Annex IV of the May 1993 *World Economic Outlook*. See also Anne Marie Gulde and Marianne Schulze-Ghattas, "Purchasing Power Parity Based Weights for the *World Economic Outlook*," in *Staff Studies for the World Economic Outlook* (International Monetary Fund, December 1993), pp. 106–23.

Box A1. Revised Purchasing Power Parity Based Weights for the *World Economic Outlook*

The *World Economic Outlook* presents a wide range of regional, world, and analytic aggregates of economic indicators, such as growth rates and inflation. In most cases, these aggregates are weighted averages of the indicators in the countries concerned, with weights usually reflecting each country's share of group GDP. The derivation of these weights therefore requires that GDP in national currency terms be converted to a common currency (in practice, the U.S. dollar). Since 1993, exchange rates based on purchasing power parities (PPPs) have been used for this purpose.[1]

This edition of the *World Economic Outlook* incorporates revised GDP-PPP weights. The PPPs used to derive the previous weights were based on surveys of national prices that dated from the mid-1980s and, in some cases, even earlier. While the country weights are adjusted each year to take into account relative changes in real GDP, this adjustment does not fully capture changes in individual prices that underlie the PPP estimates. Such changes may have been significant over the last two decades, given the rapid growth of trade and market development—for example, among the transition economies. Newer benchmark studies of national prices are now available, released mainly by the World Bank and the Organization for Economic Cooperation and Development (OECD) under the auspices of the United Nations' International Comparison Program. The World Bank has published PPP estimates for many countries based on 1993 price surveys,[2] and the OECD has recently released estimates based on 1996 benchmarks for 52 countries.[3] These data form the basis for the revised weights introduced with this edition of the *World Economic Outlook*. For the small number of countries for which updated price surveys are not available, weights are estimated using a regression approach following the estimation methodology used earlier.[4]

New and old weights for the main regional breakdowns used in the *World Economic Outlook*, and for a number of individual countries, are shown in the table, together with the implied changes in regional GDP growth rates in 2000 as a result of the move to the new weighting scheme. Also shown are the significantly different weights that would arise if market exchange rates rather than PPP-based exchange rates were used. The overall distribution of world economic activity is broadly similar under the new GDP-PPP weights, but there are several notable changes. The share in global output of each of the main developing country regions declines, by over 2 percentage points in Asia; the advanced economies' share rises by 2½ percentage points, over half of this coming from the higher share of the United States; and the share of the transition economies, especially Russia, also increases. Projected world and regional growth rates in 2000 are little changed under the new weighting scheme. The largest adjustments are among the transition economies, with slower growth in central and eastern Europe, and a stronger pickup in the Transcaucasus and central Asia—where a higher weight for fast-growing Turkmenistan pushes up the regional growth rate. World growth falls slightly due to the higher weight of advanced economies.

[1]The estimation of the resulting GDP-PPP weights and their advantages compared with alternatives such as weights based on market exchange rates are discussed in *Staff Studies for the World Economic Outlook* (Washington: International Monetary Fund, December 1993). Further detail is provided in Anne-Marie Gulde, and Marianne Schulze-Ghattas, "Aggregation of Economic Indicators Across Countries: Exchange Rate Versus PPP-based GDP Weights," IMF Working Paper 92/36 (Washington: International Monetary Fund, 1992).

[2]See, for example, the World Bank's annual *World Development Indicators* and, for background information, "Purchasing Power of Currencies: Comparing National Incomes using ICP Data," (Washington: World Bank, 1993).

[3]These include OECD members, countries of the former Soviet Union, and other countries in central and eastern Europe. Further data based on 1996 surveys should become available later this year from the World Bank.

[4]For benchmark countries (with price surveys), GDP per capita on a PPP basis is regressed on GDP per capita on an exchange rate basis, openness to trade, and regional dummies, with the regression results then applied to non-benchmark countries.

Box A1 (*concluded*)

Comparison of New and Old Measures

	PPP weights in 2000		Market Exchange Rate Weights in	Change in Growth of GDP[1]
	New	Old	2000	
	(percent of world GDP)			
Advanced Economies	57.0	54.5	79.9	—
of which:				
Major industrial countries (G-7)	45.4	43.6	66.4	—
of which:				
United States	21.9	20.5	30.2	. . .
Japan	7.4	7.1	15.1	. . .
Other advanced economies	11.6	11.0	13.5	—
European Union	20.1	19.8	26.3	—
Euro area	15.7	15.5	20.0	—
Newly industrialized Asian economies	3.3	3.2	3.3	—
Developing Countries	37.2	41.0	17.9	—
of which:				
Africa	3.3	3.4	1.4	–0.1
Asia	21.6	23.9	7.7	—
of which:				
China	11.6	12.9	3.3	. . .
India	4.6	4.6	1.5	. . .
Middle East & Europe	3.9	4.7	2.6	–0.1
Western Hemisphere	8.4	9.1	6.2	—
Countries in Transition	5.7	4.5	2.2	–0.1
of which:				
Central and eastern Europe	2.9	2.6	1.4	–0.2
Russia	2.4	1.4	0.6	. . .
Transcaucasus and central Asia	0.5	0.5	0.2	0.6

	Nominal GDP in PPP US$bn			Real GDP Growth in percent
World	43,801.5	43,052.0		–0.1

[1]Real growth in 2000 under new PPP weights less growth in 2000 under old weights.

for individual countries weighted by the U.S. dollar value of exports or imports as a share of total world or group exports or imports (in the preceding year).

For central and eastern European countries, external transactions in nonconvertible currencies (through 1990) are converted to U.S. dollars at the implicit U.S. dollar/ruble conversion rates obtained from each country's national currency exchange rate for the U.S. dollar and for the ruble.

Unless otherwise indicated, multiyear averages of growth rates are expressed as compound annual rates of change.

Classification of Countries

Summary of the Country Classification

The country classification in the *World Economic Outlook* divides the world into three major groups: advanced economies, developing countries, and countries in transition.[3] Rather

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

than being based on strict criteria, economic or otherwise, this classification has evolved over time with the objective of facilitating analysis by providing a reasonably meaningful organization of data. A few countries are presently not included in these groups, either because they are not IMF members, and their economies are not monitored by the IMF, or because databases have not yet been compiled. Cuba and the Democratic People's Republic of Korea are examples of countries that are not IMF members, whereas San Marino, among the advanced economies, is an example of an economy for which a database has not been completed. It should also be noted that, owing to a lack of data, only three of the former republics of the dissolved Socialist Federal Republic of Yugoslavia (Croatia, the former Yugoslav Republic of Macedonia, and Slovenia) are included in the group composites for countries in transition.

Each of the three main country groups is further divided into a number of subgroups. Among the advanced economies, the seven largest in terms of GDP, collectively referred to as the major industrial countries, are distinguished as a subgroup, and so are the 15 current members of the European Union, the 11 members of the euro area, and the four newly industrialized Asian economies. The developing countries are classified by region, as well as into a number of analytical and other groups. A regional breakdown is also used for the classification of the countries in transition. Table A provides an overview of these standard groups in the *World Economic Outlook*, showing the number of countries in each group and the average 1999 shares of groups in aggregate PPP-valued GDP, total exports of goods and services, and population.

A new classification, the euro area, has been added to the Statistical Appendix for some variables. The euro area comprises the countries that formed the European Monetary Union as of January 1, 1999 (namely: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain). Data shown are aggregates of country data and do not reflect official statistics at this time.

General Features and Compositions of Groups in the *World Economic Outlook* Classification

Advanced Economies

The 28 advanced economies are listed in Table B. The seven largest in terms of GDP—the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada—constitute the subgroup of *major industrial countries*, often referred to as the Group of Seven (G-7) countries. The current members of the *European Union* (15 countries) and the *newly industrialized Asian economies* are also distinguished as subgroups. Composite data shown in the tables under the heading "European Union" cover the current 15 members of the European Union for all years, even though the membership has increased over time.

In 1991 and subsequent years, data for *Germany* refer to west Germany *and* the eastern Länder (i.e., the former German Democratic Republic). Before 1991, economic data are not available on a unified basis or in a consistent manner. Hence, in tables featuring data expressed as annual percent change, these apply to west Germany in years up to and including 1991, but to unified Germany from 1992 onward. In general, data on national accounts and domestic economic and financial activity through 1990 cover west Germany only, whereas data for the central government and balance of payments apply to west Germany through June 1990 and to unified Germany thereafter.

Developing Countries

The group of developing countries (128 countries) includes all countries that are not classified as advanced economies or as countries in transition, together with a few dependent territories for which adequate statistics are available.

The *regional breakdowns* of developing countries in the *World Economic Outlook* conform to the IMF's *International Financial Statistics (IFS)* classification—*Africa, Asia, Europe, Middle East,* and *Western Hemisphere*—with one important ex-

Table A. Classification by *World Economic Outlook* Groups and Their Shares in Aggregate GDP, Exports of Goods and Services, and Population, 1999[1]
(Percent of total for group or world)

	Number of Countries	GDP		Exports of Goods and Services		Population	
		← *Share of total for*					→
		Advanced economies	World	Advanced economies	World	Advanced economies	World
Advanced economies	**28**	**100.0**	**57.4**	**100.0**	**77.6**	**100.0**	**15.5**
Major industrial countries	**7**	79.8	45.8	63.1	48.9	74.4	11.6
United States		38.2	21.9	18.0	14.0	29.6	4.6
Japan		13.3	7.6	8.6	6.7	13.7	2.1
Germany		8.2	4.7	11.6	9.0	8.9	1.4
France		5.7	3.3	7.1	5.5	6.3	1.0
Italy		5.5	3.2	5.6	4.4	6.1	1.0
United Kingdom		5.6	3.2	6.9	5.4	6.3	1.0
Canada		3.4	2.0	5.1	4.0	3.3	0.5
Other advanced economies	**21**	20.2	11.6	36.9	28.7	25.6	4.0
Memorandum							
Industrial countries *(former definition)*	**23**	93.8	53.9	87.1	67.6	90.8	14.1
European Union	**15**	35.3	20.3	50.6	39.3	40.3	6.3
Euro area	**11**	27.6	15.8	40.2	31.2	31.3	4.9
Newly industrialized Asian economies	**4**	5.7	3.3	12.2	9.5	8.6	1.3
		Developing countries	World	Developing countries	World	Developing countries	World
Developing countries	**128**	**100.0**	**36.8**	**100.0**	**18.0**	**100.0**	**77.7**
Regional groups							
Africa	**51**	8.8	3.2	10.2	1.8	15.5	12.0
Sub-Sahara	**48**	6.8	2.5	7.6	1.4	14.0	10.9
Excluding Nigeria and South Africa	**46**	3.9	1.4	4.0	0.7	10.3	8.0
Asia	**27**	57.5	21.2	45.9	8.3	67.1	52.1
China		30.6	11.2	17.1	3.1	27.2	21.1
India		12.4	4.6	4.0	0.7	21.4	16.6
Other Asia	**25**	14.6	5.4	24.8	4.5	18.5	14.4
Middle East and Europe	**17**	10.8	4.0	19.1	3.4	6.5	5.0
Western Hemisphere	**33**	22.9	8.4	24.8	4.5	10.9	8.5
Analytical groups							
By source of export earnings							
Fuel	**18**	9.0	3.3	17.7	3.2	7.0	5.4
Nonfuel	**110**	91.0	33.4	82.3	14.9	93.1	72.3
Manufactures	**9**	64.6	23.7	52.1	9.4	63.4	49.3
Primary products	**42**	6.6	2.4	6.6	1.2	10.8	8.4
Services, income, and private transfers	**35**	3.3	1.2	3.9	0.7	5.1	3.9
Diversified	**24**	16.5	6.1	19.6	3.6	13.8	10.7
By external financing source							
Net creditor countries	**9**	2.9	1.1	11.1	2.0	0.9	0.7
Net debtor countries	**119**	97.2	35.8	89.3	16.2	99.2	77.1
Official financing	**45**	5.7	2.1	5.1	0.9	13.5	10.5
Private financing	**46**	80.9	29.8	72.4	13.1	71.5	55.5
Diversified financing	**28**	7.6	2.8	9.4	1.7	12.5	9.7
Net debtor countries by debt-servicing experience							
Countries with arrears and/or rescheduling during 1994–98	**55**	24.8	9.1	23.2	4.2	28.8	22.4
Other net debtor countries	**61**	72.3	26.6	65.8	11.9	70.3	54.6
Other groups							
Heavily indebted poor countries	**40**	5.1	1.9	4.6	0.8	13.2	10.3
Least developed countries	**46**	4.4	1.6	2.8	0.5	13.6	10.5
Middle East and north Africa	**21**	10.3	3.8	17.6	3.2	7.4	5.8
		Countries in transition	Countries World	Countries in transition	World	Countries in transition	World
Countries in transition	**28**	**100.0**	**5.8**	**100.0**	**4.4**	**100.0**	**6.8**
Central and eastern Europe	**18**	49.5	2.9	63.2	2.9	44.8	3.1
Excluding Belarus and Ukraine	**16**	39.9	2.3	57.3	2.5	29.9	2.0
Russia		41.5	2.4	28.8	1.3	36.4	2.5
Transcaucasus and central Asia	**9**	9.0	0.5	6.0	0.3	18.8	1.3

[1]The GDP shares are based on the purchasing-power-parity (PPP) valuation of country GDPs.

Table B. Advanced Economies by Subgroup

	European Union		Euro Area	Newly Industrialized Asian Economies	Other Countries
Major industrial countries					
	France		France		Canada
	Germany		Germany		Japan
	Italy		Italy		United States
	United Kingdom				
Other advanced economies					
	Austria	Luxembourg	Austria	Hong Kong SAR[1]	Australia
	Belgium	Netherlands	Belgium	Korea	Iceland
	Denmark	Portugal	Finland	Singapore	Israel
	Finland	Spain	Ireland	Taiwan Province of China	New Zealand
	Greece	Sweden	Luxembourg		Norway
	Ireland		Netherlands		Switzerland
			Portugal		
			Spain		

[1]On July 1, 1997, Hong Kong was returned to the People's Republic of China and became a Special Administrative Region of China.

ception. Because all of the developing countries in Europe except Cyprus, Malta, and Turkey are included in the group of countries in transition, the *World Economic Outlook* classification places these three countries in a combined *Middle East and Europe* region. In both classifications, Egypt and the Libyan Arab Jamahiriya are included in this region, not in Africa. Three additional regional groupings—two of them constituting part of Africa and one a subgroup of Asia—are included in the *World Economic Outlook* because of their analytical significance. These are *sub-Sahara, sub-Sahara excluding Nigeria and South Africa*, and *Asia excluding China and India*.

The developing countries are also classified according to *analytical criteria* and into *other groups*. The analytical criteria reflect countries' composition of export earnings and other income from abroad, a distinction between net creditor and net debtor countries, and, for the net debtor countries, financial criteria based on external financing source and experience with external debt servicing. Included as "other groups" are currently the heavily indebted poor countries (HIPCs), the least developed countries, and Middle East and north Africa (MENA). The detailed composition of developing countries in the regional, analytical, and other groups is shown in Tables C through E.

The first analytical criterion, by *source of export earnings*, distinguishes among five categories: *fuel* (Standard International Trade Classification—SITC 3); *manufactures* (SITC 5 to 8, less 68); *nonfuel primary products* (SITC 0, 1, 2, 4, and 68); *services, income, and private transfers* (exporters of services and recipients of income from abroad, including workers' remittances); and *diversified export earnings*. Countries whose 1994–98 export earnings in any of the first four of these categories accounted for more than half of total export earnings are allocated to that group, while countries whose export earnings were not dominated by any one of these categories are classified as countries with diversified export earnings (see Table C).

The financial criteria first distinguish between *net creditor* and *net debtor countries*. Net creditor countries are defined as developing countries with positive net external assets at the end of 1998.[4] Countries in the much larger net debtor group are differentiated on the basis of two additional financial criteria: by *main source*

[4]If information on the net external asset position is unavailable, the inclusion of countries in this group is based on whether they have cumulated a substantial current account surplus over the past 25 years to 1998.

Table C. Developing Countries by Region and Main Source of Export Earnings

	Fuel	Manufactures	Primary Products	Services, Income, and Private Transfers	Diversified Source of Export Earnings
Africa					
Sub-Sahara	Angola Congo, Rep. of Equatorial Guinea Gabon Nigeria		Benin Botswana Burkina Faso Burundi Central African Rep. Chad Congo, Democratic Rep. of Côte d'Ivoire Gambia, The Ghana Guinea Guinea-Bissau Liberia Madagascar Malawi Mali Mauritania Namibia Niger Somalia Sudan Swaziland Tanzania Togo Zambia Zimbabwe	Cape Verde Comoros Djibouti Eritrea Ethiopia Lesotho Mozambique, Rep. of Rwanda São Tomé and Príncipe Seychelles Uganda	Cameroon Kenya Mauritius Senegal Sierra Leone South Africa
North Africa	Algeria				Morocco Tunisia
Asia	Brunei Darussalam	Bangladesh China India Malaysia Pakistan Philippines Thailand	Bhutan Cambodia Myanmar Papua New Guinea Solomon Islands Vanuatu Vietnam	Fiji Kiribati Maldives Marshall Islands Micronesia, Federated States of Nepal Samoa Tonga	Afghanistan, Islamic State of Indonesia Lao People's Democratic Rep. Sri Lanka
Middle East and Europe	Bahrain Iran, Islamic Rep. of Iraq Kuwait Libya Oman Qatar Saudi Arabia United Arab Emirates	Turkey		Cyprus Egypt Jordan Lebanon	Malta Syrian Arab Rep. Yemen, Rep. of
Western Hemisphere	Trinidad and Tobago Venezuela	Brazil Mexico	Belize Bolivia Chile Guyana Honduras Nicaragua Paraguay Peru Suriname	Antigua and Barbuda Bahamas, The Barbados Dominican Rep. Grenada Haiti Jamaica Netherlands Antilles Panama St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines	Argentina Colombia Costa Rica Dominica Ecuador El Salvador Guatemala Uruguay

Table D. Developing Countries by Region and Main External Financing Source

		Net Debtor Countries		
		By main external financing source		
Countries	Net Creditor Countries	Official financing	Private financing	Diversified financing
Africa				
Sub-Sahara				
Angola				•
Benin		•		
Botswana	•			
Burkina Faso		•		
Burundi		•		
Cameroon		•		
Cape Verde		•		
Central African Rep.		•		
Chad		•		
Comoros		•		
Congo, Democratic Rep. of		•		
Congo, Rep. of		•		
Côte d'Ivoire				•
Djibouti				•
Equatorial Guinea			•	
Eritrea				•
Ethiopia		•		
Gabon		•		
Gambia, The		•		
Ghana				•
Guinea		•		
Guinea-Bissau		•		
Kenya			•	
Lesotho			•	
Liberia		•		
Madagascar		•		
Malawi		•		
Mali		•		
Mauritania		•		
Mauritius				•
Mozambique, Rep. of		•		
Namibia			•	
Niger		•		
Nigeria				•
Rwanda		•		
São Tomé and Príncipe		•		
Senegal		•		
Seychelles			•	
Sierra Leone			•	
Somalia				•
South Africa			•	
Sudan				•
Swaziland	•			
Tanzania		•		
Togo		•		
Uganda		•		
Zambia		•		
Zimbabwe				•

Table D *(continued)*

		Net Debtor Countries		
		By main external financing source		
Countries	Net Creditor Countries	Official financing	Private financing	Diversified financing
North Africa				
Algeria		•		
Morocco			•	
Tunisia				•
Asia				
Afghanistan, Islamic State of				•
Bangladesh		•		
Bhutan		•		
Brunei Darussalam	•			
Cambodia		•		
China			•	
Fiji			•	
India			•	
Indonesia			•	
Kiribati			•	
Lao People's Democratic Rep.		•		
Malaysia			•	
Maldives			•	
Marshall Islands		•		
Micronesia, Federated States of		•		
Myanmar			•	
Nepal		•		
Pakistan				•
Papua New Guinea				•
Philippines				•
Samoa		•		
Solomon Islands				•
Sri Lanka				•
Thailand			•	
Tonga		•		
Vanuatu			•	
Vietnam		•		
Middle East and Europe				
Bahrain			•	
Cyprus			•	
Egypt			•	
Iran, Islamic Rep. of			•	
Iraq				•
Jordan		•		
Kuwait	•			
Lebanon				•
Libya	•			
Malta			•	
Oman	•			
Qatar	•			
Saudi Arabia	•			
Syrian Arab Rep.				•
Turkey			•	
United Arab Emirates	•			
Yemen, Rep. of				•

Table D *(concluded)*

Countries	Net Creditor Countries	Net Debtor Countries		
		By main external financing source		
		Official financing	Private financing	Diversified financing
Western Hemisphere				
Antigua and Barbuda			•	
Argentina			•	
Bahamas, The			•	
Barbados				•
Belize			•	
Bolivia				•
Brazil			•	
Chile			•	
Colombia			•	
Costa Rica			•	
Dominica				•
Dominican Rep.			•	
Ecuador			•	
El Salvador				•
Grenada				•
Guatemala			•	
Guyana		•		
Haiti		•		
Honduras				•
Jamaica			•	
Mexico			•	
Netherlands Antilles		•		
Nicaragua		•		
Panama			•	
Paraguay			•	
Peru			•	
St. Kitts and Nevis			•	
St. Lucia			•	
St. Vincent and the Grenadines			•	
Suriname			•	
Trinidad and Tobago			•	
Uruguay				•
Venezuela			•	

of external financing and by *experience with debt servicing*.[5]

Within the classification *main source of external financing*, three subgroups, based on country estimates of the composition of external financing, are identified: *countries relying largely on official financing, countries relying largely on private financing,* and *countries with diversified financing source*. Net debtor countries are allocated to the first two of these subgroups according to whether their official financing, including official grants, or their private financing, including direct and portfolio investment, accounted for more than two-thirds of their total 1994–98 external financing. Countries that do not meet either of these two criteria are classified as

[5]Within the classification *experience with debt servicing*, a distinction is made between countries with arrears or rescheduling agreements (or both) and other net debtor countries. During the 1994–98 period, 55 countries incurred external payments arrears or entered into official or commercial bank debt-rescheduling agreements. This group of countries is referred to as *countries with arrears and/or rescheduling during 1994–98.*

Table E. Other Developing Country Groups

	Heavily Indebted Poor Countries	Least Developed Countries	Middle East and North Africa
Africa			
Sub-Sahara			
Angola	•	•	
Benin	•	•	
Burkina Faso	•	•	
Burundi	•	•	
Cameroon	•		
Cape Verde		•	
Central African Rep.	•	•	
Chad	•	•	
Comoros		•	
Congo, Democratic Rep. of	•	•	
Congo, Rep. of	•		
Côte d'Ivoire	•		
Djibouti		•	•
Equatorial Guinea		•	
Ethiopia	•	•	
Gambia, The		•	
Ghana	•		
Guinea	•	•	
Guinea-Bissau	•	•	
Kenya	•		
Lesotho		•	
Liberia	•	•	
Madagascar	•	•	
Malawi	•	•	
Mali	•	•	
Mauritania	•	•	•
Mozambique, Rep. of	•	•	
Niger	•	•	
Rwanda	•	•	
São Tomé and Príncipe	•	•	
Senegal	•		
Sierra Leone	•	•	
Somalia	•	•	•
Sudan	•	•	•
Tanzania	•	•	
Togo	•	•	
Uganda	•	•	
Zambia	•	•	
North Africa			
Algeria			•
Morocco			•
Tunisia			•
Asia			
Afghanistan, Islamic State of		•	
Bangladesh		•	
Bhutan		•	
Cambodia		•	
Kiribati		•	
Lao People's Democratic Rep.	•	•	
Maldives		•	
Myanmar	•	•	
Nepal		•	
Samoa		•	
Solomon Islands		•	
Vanuatu		•	
Vietnam	•		
Middle East and Europe			
Bahrain			•
Egypt			•
Iran, Islamic Rep. of			•
Iraq			•
Jordan			•
Kuwait			•
Lebanon			•
Libya			•
Oman			•
Qatar			•
Saudi Arabia			•
Syrian Arab Rep.			•
United Arab Emirates			•
Yemen, Rep. of	•	•	•
Western Hemisphere			
Bolivia	•		
Guyana	•		
Haiti		•	
Honduras	•		
Nicaragua	•		

countries with diversified financing source (see Table D).

The *other groups* of developing countries (see Table E) constitute the HIPCs, the *least developed countries*, and MENA countries. The first group comprises 40 of the countries (all except Nigeria) considered by the IMF and the World Bank for their debt initiative, known as the HIPC Initiative.[6]

[6]See David Andrews, Anthony R. Boote, Syed S. Rizavi, and Sukwinder Singh, *Debt Relief for Low-Income Countries: The Enhanced HIPC Initiative,* Pamphlet Series, No. 51 (Washington: International Monetary Fund, November 1999)

Table F. Countries in Transition by Region

Central and Eastern Europe		Russia	Transcaucasus and Central Asia
Albania	Lithuania	Russia	Armenia
Belarus	Macedonia, former Yugoslav Rep. of		Azerbaijan
Bosnia and Herzegovina	Moldova		Georgia
Bulgaria	Poland		Kazakhstan
Croatia	Romania		Kyrgyz Rep.
Czech Rep.	Slovak Rep.		Mongolia
Estonia	Slovenia		Tajikistan
Hungary	Ukraine		Turkmenistan
Latvia	Yugoslavia, Federal Rep. of (Serbia/Montenegro)		Uzbekistan

The group of least developed countries comprises 46 of the 47 developing countries classified as "least developed" by the United Nations (Tuvalu, not being an IMF member, is excluded). Finally, Middle East and north Africa, also referred to as the MENA countries, is a new *World Economic Outlook* group, whose composition straddles the Africa and Middle East and Europe regions. It is defined as the Arab League countries plus the Islamic Republic of Iran.

Countries in Transition

The group of countries in transition (28 countries) comprises central and eastern European countries (including the Baltic countries), Russia, the other states of the former Soviet Union, and Mongolia. The transition country group is divided into three regional subgroups: *central and eastern Europe, Russia,* and *Transcaucasus and central Asia*. The detailed country composition is shown in Table F.

One common characteristic of these countries is the transitional state of their economies from a centrally administered system to one based on market principles. Another is that this transition involves the transformation of sizable industrial sectors whose capital stocks have proven largely obsolete. Although several other countries are also "in transition" from partially command-based economic systems toward market-based systems (including China, Cambodia, the Lao People's Democratic Republic, Vietnam, and a number of African countries), most of these are largely rural, low-income economies for whom the principal challenge is one of economic development. These countries are therefore classified in the developing country group rather than in the group of countries in transition.