1.8 Taxes Versus Quantities Under Uncertainty (Weitzman, 1974) 63
1.9 Experience with Emissions Trading in the European Union 64
2.1 What Risks Do Housing Markets Pose for Global Growth? 72
2.2 Labor Market Reforms in the Euro Area and the Wage-Unemployment Trade-Off 79
2.3 Managing the Macroeconomic Consequences of Large and Volatile Aid Flows 98
3.1 Can Capital Controls Work? 113
4.1 Measuring Inequality: Conceptual, Methodological, and Measurement Issues 144
4.2 What Do Country Studies of the Impact of Globalization on Inequality Tell Us? Examples from Mexico, China, and India 146
5.1 Major Economies and Fluctuations in Global Growth 181
5.2 Improved Macroeconomic Performance—Good Luck or Good Policies? 186
5.3 New Business Cycle Indices for Latin America: A Historical Reconstruction 193
A1. Economic Policy Assumptions Underlying the Projections for Selected Economies 204

Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Overview of the World Economic Outlook Projections</td>
<td>8</td>
</tr>
<tr>
<td>1.2</td>
<td>Global Oil Demand by Region</td>
<td>43</td>
</tr>
<tr>
<td>2.1</td>
<td>Advanced Economies: Real GDP, Consumer Prices, and Unemployment</td>
<td>70</td>
</tr>
<tr>
<td>2.2</td>
<td>Advanced Economies: Current Account Positions</td>
<td>71</td>
</tr>
<tr>
<td>2.3</td>
<td>Selected Asian Countries: Real GDP, Consumer Prices, and Current</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>Account Balance</td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Selected Western Hemisphere Countries: Real GDP, Consumer Prices, and Current Account Balance</td>
<td>86</td>
</tr>
<tr>
<td>2.5</td>
<td>Emerging Europe: Real GDP, Consumer Prices, and Current Account Balance</td>
<td>89</td>
</tr>
<tr>
<td>2.6</td>
<td>Commonwealth of Independent States: Real GDP, Consumer Prices, and Current Account Balance</td>
<td>93</td>
</tr>
<tr>
<td>2.7</td>
<td>Selected African Countries: Real GDP, Consumer Prices, and Current Account Balance</td>
<td>96</td>
</tr>
<tr>
<td>2.8</td>
<td>Selected Middle Eastern Countries: Real GDP, Consumer Prices, and Current Account Balance</td>
<td>101</td>
</tr>
<tr>
<td>3.1</td>
<td>Episodes of Large Net Private Capital Inflows—Summary Statistics</td>
<td>111</td>
</tr>
<tr>
<td>3.2</td>
<td>Post-Inflow GDP Growth Regressions</td>
<td>122</td>
</tr>
<tr>
<td>3.3</td>
<td>Real Exchange Rate Regressions</td>
<td>124</td>
</tr>
<tr>
<td>3.4</td>
<td>List of Net Private Capital Inflow Episodes</td>
<td>128</td>
</tr>
<tr>
<td>4.1</td>
<td>Determinants of the Gini Coefficient, Full Sample</td>
<td>152</td>
</tr>
<tr>
<td>4.2</td>
<td>Estimation of the Benchmark Model Using Quintiles’ Income Shares, Full Sample</td>
<td>158</td>
</tr>
<tr>
<td>4.3</td>
<td>Determinants of the Gini Coefficient, Regional Heterogeneity</td>
<td>164</td>
</tr>
<tr>
<td>5.1</td>
<td>Cross-Sectional Regressions</td>
<td>185</td>
</tr>
<tr>
<td>5.2</td>
<td>Panel and Probit Regressions</td>
<td>185</td>
</tr>
</tbody>
</table>

Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Global Indicators</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Global Inflation</td>
<td>2</td>
</tr>
<tr>
<td>1.3</td>
<td>Developments in Mature Credit Markets</td>
<td>3</td>
</tr>
<tr>
<td>1.4</td>
<td>Mature Financial Market Indicators</td>
<td>4</td>
</tr>
</tbody>
</table>
## CONTENTS

1.5 Emerging Market Financial Conditions 5  
1.6 External Developments in Selected Advanced Economies 6  
1.7 External Developments in Emerging Market and Developing Countries 7  
1.8 Global Outlook 9  
1.9 Current and Forward-Looking Indicators 10  
1.10 Risks to the Global Outlook 11  
1.11 Measures of the Output Gap and Capacity Pressures 21  
1.12 Productivity and Labor Cost Developments in Selected Advanced Economies 22  
1.13 Current Account Balances and Net Foreign Assets 23  
1.14 Simulated Effect of a Financial Disturbance on the Global Economy 27  
1.15 Private Capital Flows to Emerging Markets 28  
1.16 Current and Capital Account Flows to Selected Emerging Market and Developing Countries 29  
1.17 Perspectives on Global Growth 31  
1.18 Commodity Price Indices 40  
1.19 Crude Oil and Gasoline Prices 41  
1.20 Developments in Oil Consumption and Production 42  
1.21 Inventories and OPEC Production 44  
1.22 Oil Futures Prices, and Selected Energy and Metals Prices 45  
1.23 Sources of Demand and Prices of Selected Fuel-Related Food Items 52  
1.24 Greenhouse Gas Emissions by Region 54  
1.25 Actual and Projected Fuel-Related Carbon Emissions Under “Business-as-Usual” 55  
1.26 Time Profile of Aggregate Damages from Climate Change 57  
1.27 Mean per Capita GDP Losses at Different Levels of Warming 58  
1.28 Greenhouse Gas Emission Paths Consistent with Alternative Concentration Targets 59  
1.29 Greenhouse Gas Emissions, Kyoto Targets, and Predicted Emissions 66  
2.1 United States: Indicators of Investment 69  
2.2 Western Europe: What Is the Outlook for Inflation? 78  
2.3 Japan: Deflation Still Not Decisively Beaten 81  
2.4 Emerging Asia: Managing Strong Foreign Exchange Inflows 85  
2.5 Latin America—Capital Inflows Are Complicating Macroeconomic Management 87  
2.6 Emerging Europe: Rapid Credit Growth Is Fueling Domestic Demand 90  
2.7 Commonwealth of Independent States: Dealing with Capital Inflows 94  
2.8 Sub-Saharan Africa—Benefiting from Globalization 97  
2.9 Middle East: How Are Oil Revenues Used? 102  
3.1 Net Private Capital Inflows to Emerging Markets 105  
3.2 Gross Private Flows, Current Account Balance, and Reserve Accumulation 107  
3.3 Current Account Balance, Private Capital Inflows, and Reserve Accumulation by Region 108  
3.4 Net FDI and Non-FDI Inflows 109  
3.5 Characteristics of Episodes of Large Net Private Capital Inflows 110  
3.6 Exchange Market Pressure Index 117  
3.7 Evolution of Policy Indicators 118  
3.8 Policy Indicators in the Episodes of Large Net Private Capital Inflows 119  
3.9 Selected Macroeconomic Variables: Averages During, Before, and After Episodes of Large Net Private Capital Inflows 120  
3.10 Post-Inflow GDP Growth, Selected Macroeconomic Variables, and Policy Indicators 121
3.11 Real Effective Exchange Rate Appreciation and Policy Responses When Inflation Accelerates 123
3.12 Regional Dimension 125
3.13 Resistance to Exchange Market Pressures and Duration of Capital Inflow Episodes 126
3.14 Fiscal Policy and Balance of Payments Pressures 127
3.15 Mexico: Identification of Large Net Private Capital Inflow Episodes 129
4.1 Trade Globalization 137
4.2 Financial Globalization 138
4.3 Cross-Country Trends in Inequality 140
4.4 Income Shares by Quintile 141
4.5 Per Capita Income by Quintile 142
4.6 Per Capita Income by Quintile in Selected Countries 143
4.7 Inequality Versus Globalization: Selected Countries 150
4.8 Information and Communications Technology (ICT) Capital, Private Credit, Education, and Sectoral Employment Shares 151
4.9 Explaining Gini Coefficient Changes 153
4.10 Decomposition of Globalization Effects on Inequality 154
4.11 Inequality Versus Exports in Agriculture 155
4.12 Foreign Direct Investment Stock by Sector 156
4.14 Explaining the Change in Income Share of Top and Bottom Quintiles 159
4.15 Inequality, Import Share from Developing Countries, Inward Debt, and Outward Foreign Direct Investment (FDI), 1981–2003 165
5.1 World Growth Has Been Strong and Stable 172
5.2 Expansions in Historical Perspective 173
5.3 Recessions in Historical Perspective 174
5.4 Volatility of Growth in the Main World Regions 176
5.5 Decomposition of Changes in World Output Volatility by Region 177
5.6 Decomposition of Changes in World Output Volatility by Expenditure Component 178
5.7 Decomposition of Changes in U.S. Output Volatility 179
5.8 Volatility Patterns in Rapidly Growing Economies 180
5.9 Some Determinants of Differences in Business Cycle Characteristics 184
5.10 Contribution to Outcome Differences 188
A number of assumptions have been adopted for the projections presented in the World Economic Outlook. It has been assumed that real effective exchange rates will remain constant at their average levels during August 22–September 19, 2007, except for the currencies participating in the European exchange rate mechanism II (ERM II), which are assumed to remain constant in nominal terms relative to the euro; that established policies of national authorities will be maintained (for specific assumptions about fiscal and monetary policies in industrial countries, see Box A1); that the average price of oil will be $68.52 a barrel in 2007 and $75.00 a barrel in 2008, and remain unchanged in real terms over the medium term; that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 5.2 percent in 2007 and 4.4 percent in 2008; that the three-month euro deposits rate will average 4.0 percent in 2007 and 4.1 percent in 2008; and that the six-month Japanese yen deposit rate will yield an average of 0.9 percent in 2007 and of 1.1 percent in 2008. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The estimates and projections are based on statistical information available through end-September 2007.

The following conventions have been used throughout the World Economic Outlook:

... to indicate that data are not available or not applicable;
— to indicate that the figure is zero or negligible;
– between years or months (for example, 2005–06 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
/ between years or months (for example, 2005/06) to indicate a fiscal or financial year.

"Billion" means a thousand million; “trillion” means a thousand billion.

“Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percent point).

In figures and tables, shaded areas indicate IMF staff projections.

Minor discrepancies between sums of constituent figures and totals shown are due to rounding.

As used in this report, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.
This report on the World Economic Outlook is available in full on the IMF’s Internet site, www.imf.org. Accompanying it on the website is a larger compilation of data from the WEO database than in the report itself, consisting of files containing the series most frequently requested by readers. These files may be downloaded for use in a variety of software packages.

The following changes have been made to streamline the Statistical Appendix of the World Economic Outlook. Starting with this issue, the printed version of the World Economic Outlook will carry only Part A Tables in the Statistical Appendix section.

Part A contains Tables 1, 2, 3, 6, 7, 8, 11, 20, 25, 26, 31, 35, 43, and 44 from the previous issues of the World Economic Outlook; Tables 1.2 and 1.3, which used to be in the main text of the report; and a new table on private capital flows. Tables in Part A present summary data for both advanced economies and emerging market and developing countries in the categories of Output, Inflation, Financial Policies, Foreign Trade, Current Account Transactions, Balance of Payments and External Financing, Flow of Funds, and Medium-Term Baseline Scenario.

Part B of the Statistical Appendix contains the remaining tables. The complete Statistical Appendix, which includes both Part A and Part B Tables, will be available only via the Internet at www.imf.org/external/pubs/ft/weo/2007/02/index.htm.

Inquiries about the content of the World Economic Outlook and the WEO database should be sent by mail, electronic mail, or telefax (telephone inquiries cannot be accepted) to:

World Economic Studies Division  
Research Department  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C. 20431, U.S.A.  
E-mail: weo@imf.org Telefax: (202) 623-6343