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## Appendix 5

# Regional Economic Developments and Prospects

East Asia and Pacific

Europe and Central Asia

Latin America and the Caribbean

Middle East and North Africa

South Asia

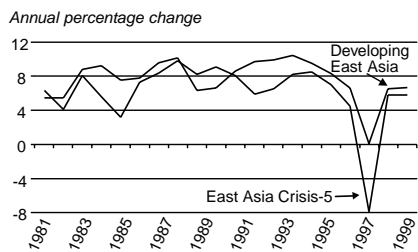
Sub-Saharan Africa



# East Asia and Pacific

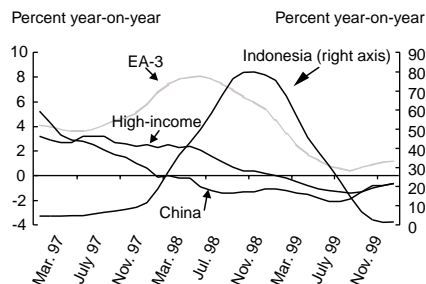
GNP per capita, 1997: \$990

## GDP growth rates, 1981–2000



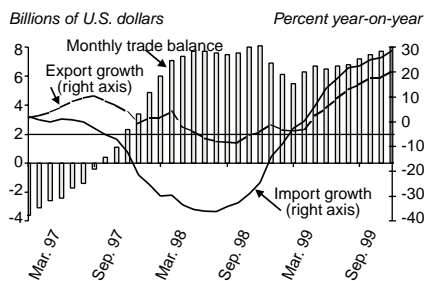
Source: World Bank.

## Consumer price index, 1997–99



Note: Calculated as a three-month moving average. EA-3 consists of the Republic of Korea, Malaysia, and Thailand. Sources: Datastream; IMF, *International Financial Statistics* (China).

## Merchandise trade growth in EA-5, 1997–99



Note: Import and export growth calculated as a three-month moving average in current U.S. dollars. Source: Datastream.

## Recent developments

THE CRISIS COUNTRIES IN EAST Asia (EA-5) recovered sharply in 1999. GDP grew 5.8 percent, a marked turnaround from the poor collective performance of -7.9 percent growth in 1998. Growth has been uneven, however, with the Republic of Korea having the sharpest V-shaped recovery and GDP growth of more than 10 percent in 1999, while Indonesia lagged far behind, barely eking out positive growth for the calendar year. Despite the impressive turnaround in most countries, per capita real incomes are unlikely to achieve their precrisis 1997 levels until 2001 in Malaysia, the Philippines, and Thailand, and not until 2005 in Indonesia, with recovery in terms of U.S. dollars taking longer due to the sharp currency declines. The exception is Korea, where per capita real incomes in 1999 had already surpassed their 1997 levels.

Growth accelerated throughout 1999. It was spurred initially by advances in exports, but broadened in the second half of the year as consumer demand picked up momentum and the rebuilding of depleted inventories weighed in to buttress growth. Both external and internal factors were key to recovery. Growth was stronger than anticipated in export markets, notably North America and Japan. This combined with a real depreciation (relative to precrisis levels) of around 20 percent to provide the export boost. Low inflation and interest rates along with accommodating fiscal policies led to a rise in domestic demand. This demand gained momentum throughout the year as stock market indices strengthened considerably, unemployment stabilized or declined, and consumer confidence returned.

Consumer price inflation averaged over the EA-3 countries (Korea,

Malaysia, and Thailand) peaked at 8.1 percent in mid-1998 and has declined steadily since then. Average inflation in 1999 will be around 1.3 percent for the EA-3, with a slight accelerating trend toward the end of the year that partly reflects higher imported inflation. Inflation in Indonesia peaked at a much higher level than in the other crisis countries, exceeding 80 percent by the end of 1998. Consumer price inflation in 1999 will average 20 percent, and annual inflation at the end of 1999 was below 2 percent. Like the rest of the crisis countries, Indonesia benefited from a strengthening of the exchange rate, but it was also assisted by a very good harvest that lowered food prices—still a significant component of the overall household consumption basket.

The merchandise trade balance for the five crisis countries remained very largely positive and appeared to be widening again at the end of the year. The withdrawal of short-term capital in 1998 was largely reflected in massive import compression (down 31 percent in 1998), with exports contracting nearly 4 percent in dollar terms despite the large devaluations. Imports skyrocketed in 1999, albeit from a very low base, and will be up more than 15 percent in dollar terms. And though exports have recently been growing at a somewhat slower pace, base-year effects have led to maintenance of a large positive merchandise trade balance.

While China managed largely to avoid the worst effects of the Asian crisis, growth has slowed recently (perhaps to more sustainable levels, though with an imbalance between private and public demand). While growth between 1990 and 1997 averaged 11.5 percent per year, it is likely to be just above 7 percent in 1999. Deficit spending and public invest-

ment outlays have bolstered demand. Economic restructuring has dampened private consumption, leading to rising redundancies and uncertainty. Weak rural consumer demand and external competitive pressures have spawned a two-year-long deflationary cycle that continues, although it is expected to end, in part due to surging energy prices. The remnimb/U.S. dollar rate held steady throughout the year despite widespread expectations at the beginning of 1999 of a devaluation in the aftermath of the Asian crisis and the first-half sluggishness of export growth.

Singapore and Hong Kong (China) also suffered deflationary pressures during the crisis. Singapore rebounded sharply in 1999, initially on the strength of electronics exports, but also on the growth of exports of specialty chemicals and financial services. Domestic demand has provided additional momentum. Recovery in Hong Kong has been more tenuous. Its financial and real estate-dominated economy has been hurt by the maintenance of high real interest rates necessary to defend the currency peg, and entrepôt activities were negatively affected by the slack in Chinese exports in the first half of 1999. A sluggish labor market, dampened real estate prices, and deflation also took their toll on consumer demand.

**External debt indicators**

Aggregate indebtedness fell for the first time in the 1990s in East Asia and the Pacific last year. While long-term debt increased from \$517 billion to \$531 billion, short-term debt continued its postcrisis decline to \$106 billion—down by only \$13 billion in 1999—after peaking at \$186 billion in 1996. Public and publicly guaranteed debt increased both absolutely and as a share of total long-term debt, whereas the nonguaranteed private

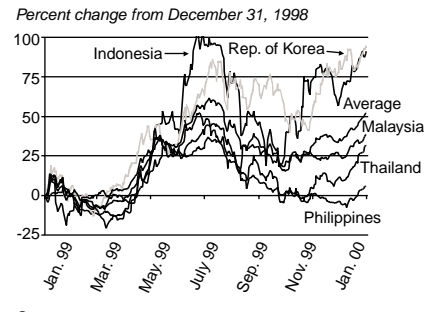
debt stock declined. The latter had increased rapidly in 1998 as short-term debt was converted into long-term debt.

Aggregate GDP and exports recovered strongly in 1999 in both volume and dollar terms. Combined with a lower debt stock, both debt-to-GDP and debt-to-export ratios declined substantially. The aggregate debt-to-GDP ratio among the largest economies of the region dropped to 33 percent, but varied quite significantly from a low of 15 percent to a high of around 90 percent—the latter figure unfortunately for one of the weakest economies, Indonesia. Strengthening local currencies provided relief to many debtors. For example, the average appreciation of the rupiah was 25 percent relative to the U.S. dollar in 1999 (though only 12.3 percent comparing end-of-period values).

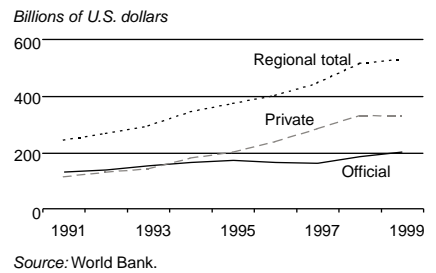
**Aggregate resource flows**

After dropping by \$45 billion in 1998, aggregate net resource flows increased by \$6 billion in 1999, reaching \$89 billion. This level was similar to 1993 but much lower than the 1994–96 average. The most significant change in 1999 occurred in portfolio equity flows, which more than doubled to \$19 billion. On the other hand, much-sought-after foreign direct investment declined from \$64.2 billion to \$61.5 billion, though it remained considerably above the average 1991–96 pre-crisis level. The most significant decline in FDI occurred in China. Several reasons are cited for this, including the widely anticipated—but never realized—currency devaluation at the beginning of 1999. Somewhat depressed domestic demand, economic problems in Hong Kong, and a changing regional environment may also have contributed to lower FDI flows. Though the Philippines and Thailand also suffered a decrease in FDI in

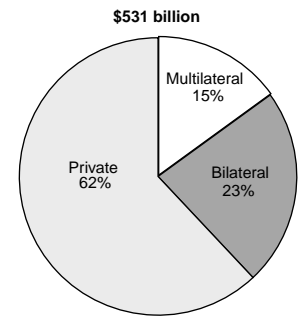
**Dollar return of local equity markets in 1999**



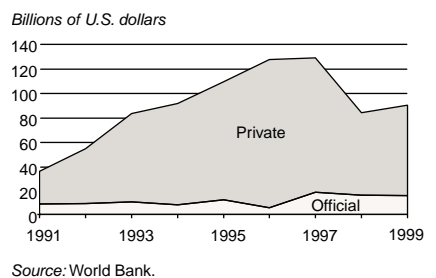
**Long-term external debt outstanding, 1991–99**



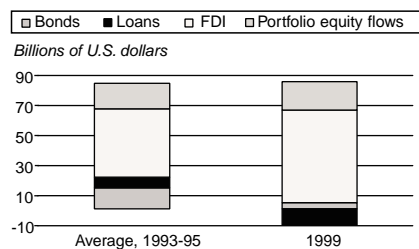
**Sources of long-term debt, 1999**



**Aggregate net resource flows, 1991–99**

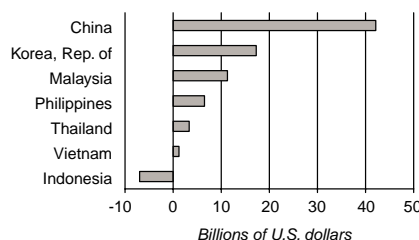


**Composition of private flows**



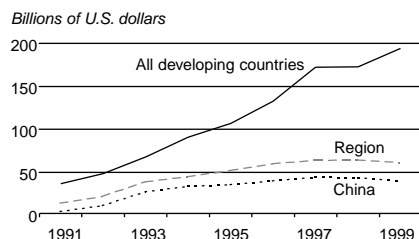
Source: World Bank.

**Net private flows, 1999**



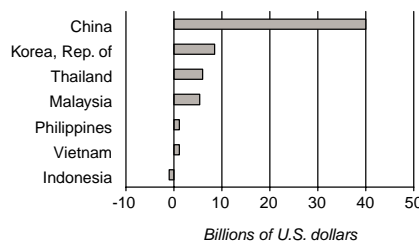
Source: World Bank.

**Foreign direct investment, 1991-99**



Source: World Bank.

**FDI by country, 1999**



Source: World Bank.

1999, the levels were nonetheless appreciably higher than in 1997. On the other hand, FDI into Korea increased sharply, jumping from \$2.8 billion in 1997 to \$5.4 billion in 1998 and to \$8 billion in 1999. Privatization and merger-and-acquisition activities have accelerated in the EA-5 countries in the aftermath of the crisis.

Foreign direct investment dominates the composition of net private flows, representing about 82 percent of the total. There is significant differentiation across the region, with China's large FDI inflow dominating the aggregate breakdown. Moreover, the continuing decline in net lending external liabilities is a persistent sign of the aftermath of the crisis. Another significant component of net private flows in 1999 is equity with a 25 percent share, and its absolute level of \$19 billion is also above the precrisis annual average of nearly \$13 billion. The strengthening of local currencies and the strong rebound in stock market indices, particularly in mid-1999, has enticed investors back to local markets. This is especially true in Korea, where portfolio equity flows have jumped from \$4.1 billion to \$11 billion. Even Indonesia has seen a fivefold increase in equity flows, albeit from a low base. Gross bond issuance continues to be depressed, valued at only \$13.8 billion compared with a \$31 billion average in 1996-97, and the net was a relatively paltry \$3.1 billion.

Other forms of lending, particularly bank loans, are still negative on net. In part this is due to the lingering problems with short-term loans, the heart of the financial crisis. Many of the short-term loans were converted to medium-term (three-year) maturity and thus are scheduled for repayment through 2001-02 (between 1997 and 1999, the stock of short-term debt dropped from \$184 billion to \$106 billion). Though foreign banks have been cautious in returning to the re-

gion, an uptick in gross lending indicates that conditions are loosening modestly. Demand considerations have also significantly influenced the level of financial flows. With investment still largely depressed in most of East Asia, the demand for funds has been modest and local liquidity (including stronger retained earnings) has been sufficient to meet demand. And while spreads on secondary markets have declined substantially—a further indication of improved external financing conditions—domestic interest rates have dropped sharply and have remained low.

Official development financing, though still substantial, dropped slightly to \$15.3 billion in 1999 from \$15.6 billion in the previous year, as financing needs of the Asian crisis countries were reduced. Moreover, disbursements to Indonesia were delayed due to questionable practices regarding corporate and banking restructuring. Korea, on the other hand, was able to prepay its reimbursements as the economic situation improved dramatically.

**Prospects and risks**

The region should see a consolidation of the postcrisis recovery, with less of a perceived acceleration as base-year effects wear off. Following the solid 6.5 percent registered for 1999, growth for 2000 is forecast to be 6.6 percent. For the five crisis economies, growth in 2000 is anticipated to be more or less the same as in 1999, with most of the economies accelerating but with a modest reduction of growth in Korea after its roaring comeback of 10 percent or more last year.

Exports will continue to be a main source of growth, but the contribution of net exports is likely to be negative as imports rise rapidly due to restocking, recovery of consumer demand, and import-intensive capital invest-

ment. Consumer demand showed significant momentum in the second half of 1999 and is likely to persist through 2000. The contribution of expansionary fiscal policy will decline as governments begin to withdraw fiscal stimulus. The countries in the region have a tradition of prudent management of public finances and will desire to return to a more neutral position, particularly given the debt overhang of the financial crisis, which will take several years to absorb.

Investment is likely to continue to lag in most countries. Overcapacity still exists in many sectors (for example, real estate and automobiles), and liquidity is restrained compared with the precrisis period. Lagging investment demand will not be uniform across the board, however, as investment in high-tech sectors has been robust in 1999. External risks have been pushed back 6–12 months as the main export markets are likely to remain robust. Imported inflation could eventually lead to monetary tightening, though it has been kept in check for the moment. The greatest internal risk to the current forecast is the persistent weakness of bank and corpo-

rate balance sheets. While these have been improving steadily, rising interest rates, complacency, and a negative export shock could undermine further progress and reduce growth prospects. Rising public-sector debt and fiscal sustainability also constitute risk factors for the forecast, particularly in the case of Indonesia.

China is struggling with problems similar to those that have affected the crisis economies, though with a concentration in the state-owned sector: these include a fragile banking system, overcapacity, weak institutions, and minimal social safety nets. China is also trying to implement some similar policies, for example the creation of asset management companies to off-load the bad bank debt. These structural weaknesses have had a depressing impact on consumer demand; growth has mainly been buttressed by expansionary fiscal policy, and toward the second half of 1999, a surge in exports. China is likely to see much of the same in 2000 as restructuring proceeds, reinforced by the decision to pursue accession to the WTO and reduce import barriers. Anticipation of a

### East Asia and Pacific forecast summary

(percent per annum)

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	7.5	6.6	0.1	6.5	6.6	6.3	6.1
Consumption per capita	5.2	3.0	-4.0	5.2	5.9	5.2	5.4
GDP per capita	6.1	5.4	-1.1	5.3	5.5	5.3	5.1
Population	1.3	1.2	1.1	1.1	1.0	1.0	0.9
Median inflation <sup>a</sup>	6.3	3.8	8.7	4.5	3.7	3.1	3.8
Gross domestic investment/GDP	35.0	36.2	31.0	32.6	33.4	34.0	34.2
Budget balance	-0.6	-0.3	-2.2	-2.4	-2.6	-2.5	-2.3
Export volume <sup>b</sup>	11.9	17.6	7.0	9.8	10.7	9.6	8.9
Current account/GDP	-0.5	0.2	5.6	3.2	2.4	1.8	1.8
<i>Memo items</i>							
GDP of region, excluding China	5.7	4.4	-7.6	5.6	5.7	5.4	5.1
GDP of E. Asia Crisis-5 countries <sup>c</sup>	5.7	4.5	-7.9	5.8	5.7	5.4	5.1

a. GDP deflator in local currency.

b. Goods and nonfactor services.

c. Indonesia, Republic of Korea, Malaysia, the Philippines, and Thailand.

Source: World Bank Development Prospects Group, February 2000.

renminbi devaluation has receded as exports have recovered, and China's competitiveness has improved through price deflation, export incentive programs, and strengthening of the currencies of its trade competitors.

Singapore and Taiwan (China) will continue to benefit from the global boom in electronics, with the former also diversifying into financial services and specialty chemicals. Hong Kong's economy is more dependent on the interest-sensitive real estate and financial services sector, and will feel the impact of the rise in international interest rates. Nonetheless, it is poised to recover from the last two years of

weakness. Through deflation it has improved its relative competitive position in the region, leading to, among other things, a rise in tourist arrivals and retail sales. Hong Kong is attempting to diversify its economy, notably by investing significant sums in high technology in an effort to become a major regional hub for the booming Internet services sector. While there is little doubt that the Hong Kong economy will benefit from diversification in the long run, it will face significant competition from its neighbors—for example Malaysia and Singapore—as the Asian economies continue their decades-long march up the technological ladder.

# Europe and Central Asia



## Recent developments

**R**EAL GDP IN EUROPE AND CENTRAL Asia increased by 1 percent in 1999, compared with a contraction of 0.2 percent in 1998. This modest turnaround in growth reflects markedly divergent trends across the region. The predominantly hydrocarbon-rich Commonwealth of Independent States (CIS) benefited from a sharp rise in the price of oil. This combined with a strong impetus toward import substitution—particularly in Russia—spurred by large exchange rate devaluation. The result was an estimated 2.3 percent expansion of GDP in 1999, compared with a 2.7 percent decline in 1998.

In the Central and Eastern European countries, by contrast, output slowed on average to 1.5 percent in 1999 from 2.1 percent in 1998. Hungary and Poland both had expansions of close to 4 percent in 1999, down from near 5 percent growth in 1998. They experienced a vacuum in demand to the east (from Russia and Ukraine, in particular), although they were cushioned by a reorientation of trade links toward Western Europe and by strong domestic demand. Growth also slowed in other Central European countries (for example, Bulgaria) with continued output declines in Romania of 4.5 percent; this was partially offset by more moderate contractions in the Czech Republic and Croatia compared with 1998.

As a further constraint to growth in the broader ECA region, national output contracted in Turkey by almost 4 percent. This reflected not only the impact of the massive decline in external demand from the CIS (Turkey's fastest growing export market in recent years), but also the effects of the devastating August 1999 earthquake. Despite a reorientation of exports to Western European markets, export

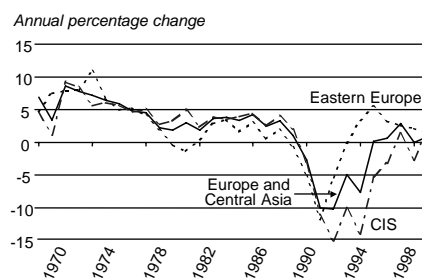
volume growth in the region was depressed by the collapse in Russian imports, especially in the CIS countries.

The immediate fallout of the crisis was a shutoff in access to new capital flows pending debt negotiations. Russia began another round of debt restructuring negotiations in 1999 with both commercial and public creditors, after imposing a moratorium on a large portion of its external debt liabilities in August 1998. Russia also concluded an agreement with the Paris Club in August 1999 to restructure \$8 billion in Soviet-era debt with official creditors. This agreement represents half of all debt (\$16 billion) rescheduled with the Paris Club in 1999. In February 2000, after protracted negotiations, Russia reached a deal with the London Club to write off 36.5 percent of \$32 billion in Soviet-era commercial debt claims and to restructure the remainder (some \$20 billion) into 30-year Eurobonds with a seven-year grace period. With these important agreements, and given a very large current account surplus, Russia should be able more easily to service its external debt in the short term. However, continuing capital flight, a difficult fiscal situation, and reliance on volatile oil prices for hard currency earnings weaken the country's financial profile. Russia thus remains vulnerable to shocks, particularly to a significant reversal in the price of oil.

Elsewhere in the region, Ukraine pursued debt restructuring talks in 1999 and achieved agreement on converting short-term private external debt (\$160 million). In February 2000, Ukraine launched an exchange offer equivalent to about \$2.5 billion, aimed at converting existing private debt instruments into seven-year bonds. Restructuring with official creditors, including Turkey and Turkmenistan, is also being planned. A number of other CIS countries, including Georgia, the

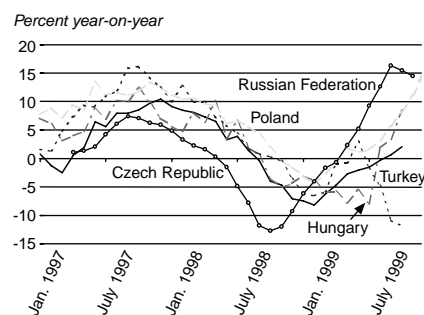
GNP per capita, 1997: \$2,200

## GDP growth rates, 1970–98



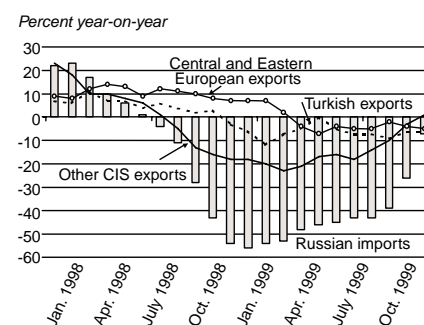
Source: World Bank.

## Industrial production, 1997–99



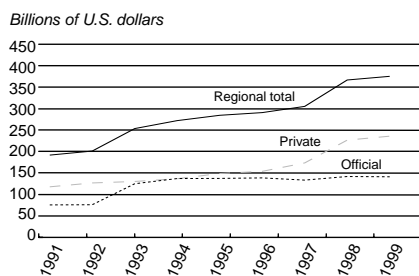
Note: Calculated as a three-month moving average. Sources: Datastream; Goskomstat (various issues of *Russian Economic Trends*).

## Russian imports and partner exports, 1998–99



Sources: IMF, *International Financial Statistics*; World Bank (1999 estimates).

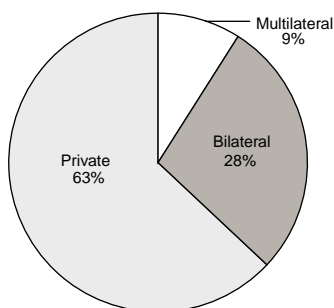
**Long-term external debt outstanding, 1991-99**



Source: World Bank Debtor Reporting System.

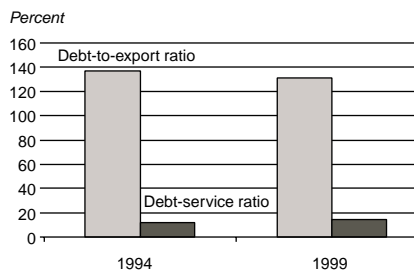
**Sources of long-term debt, 1999**

\$383 billion



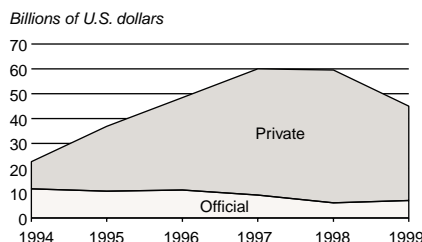
Source: World Bank.

**Debt indicators, 1994 and 1999**



Source: World Bank.

**Aggregate net resource flows, 1994-99**



Source: World Bank.

Kyrgyz Republic, Moldova, and possibly Turkmenistan (as a large soft-currency creditor to neighboring countries for gas exports), are experiencing some debt-servicing difficulties.

**External debt indicators**

The majority of the economies in Europe and Central Asia are classified by the World Bank as less indebted. The exceptions are Bosnia and Herzegovina and Bulgaria, which are classified as severely indebted, and Georgia, FYR Macedonia, the Slovak Republic, Hungary, and Turkey, which are classified as moderately indebted.

The ECA region's long-term external debt rose to \$383 billion in 1999, compared with \$374 billion in 1998. Between 1998 and 1999, debt to private creditors increased slightly (by \$4 billion to \$154 billion), as did private nonguaranteed debt (by \$5 billion to \$86 billion). Offsetting these increases, both debt to official creditors and short-term debt declined slightly.

Debt indicators deteriorated markedly during 1998, reflecting both a substantial increase in debt and generally poor export and growth performance. But indicators improved moderately in 1999, reflecting the slight increase in the region's total debt stock and higher regional output—though export receipts remained essentially unchanged for the year. Hence, the largest improvement in debt indicators for the region is the total debt-to-GNP ratio, which decreased to 42 percent in 1999 from 49 percent in 1998. The average ratio of total debt to exports remained unchanged at about 134 percent in 1999. In contrast, the ratio of interest payments to exports increased sharply to 7 percent in 1999, up from 5 percent in 1998. This was due to a rapid (28 percent) increase in payments, primarily in service of private nonguaranteed debt.

**Aggregate resource flows**

Trends in resource flows were widely divergent, reflecting the differential impact of the Russian crisis. Aggregate net resource flows to Europe and Central Asia declined markedly to \$45 billion in 1999 from \$58 billion in 1998. This mirrored a \$15 billion drop in net private capital flows, to \$38 billion. Despite the sharp contraction, the share of private capital flows in the total decreased only moderately to 84 percent in 1999, from 91 percent in 1998. The dramatic decline in total private capital flows to the region is mainly the result of the collapse in private flows to Russia in the wake of the August 1998 liquidity crisis, (which caused net private flows to the country to decline to \$1.9 billion in 1999 from \$19.3 billion in 1998). Hungary also experienced a slight decline in private resource flows, to \$2.1 billion in 1999 from \$4.7 billion in 1998, as its privatization program began to wind down. In contrast, Turkey experienced a doubling in net private inflows to \$3.3 billion from \$1.6 billion over the same period, largely due to a positive \$1.3 billion turnaround in private debt flows in 1999.

The relative composition of private flows shifted to foreign direct investment and away from debt as the latter collapsed. Net private long-term debt flows to the region fell to \$11.3 billion from \$26 billion in 1998. This fall reflected declines in both net commercial bank lending (to \$3.4 billion in 1999 from \$12.6 billion in 1998) and net bond issues (to \$7.8 billion in 1999 from \$14.3 billion in 1998). Sovereign bond issues comprised the majority of issuance in the region. Turkey dominated with \$5 billion in issues, followed by Hungary with \$2.3 billion. Poland and the Czech Republic led the region's smaller market for private bond issues in 1999, selling \$1.1 and \$0.9 billion, respectively.

At \$2.8 billion, net portfolio equity flows to Europe and Central Asia were flat in 1999. Such flows peaked in 1996 at \$8.3 billion, after which they declined by almost half each year to 1998. Among the region's largest recipients, Poland had net portfolio equity inflows that decreased to \$0.4 billion in 1999 from \$1.0 billion during the previous year, while Turkey's fell to \$0.8 billion from \$0.9 billion. More broadly, equity prices in ECA began to rebound amid signs of recovery from the spillover effects of Russia's financial crisis in 1998.

Despite difficulties in the region, foreign direct investment inflows in 1999 (\$24 billion) were essentially unchanged from 1998's record high performance. FDI inflows in most countries of Central Europe are strong relative to other emerging market economies, and are linked in large measure to the privatization process being pursued in the region. In particular, FDI has received substantial impetus from the EU accession process, with strong inflows originating primarily from Western Europe. Reflecting a continuation of their privatization programs, Poland and the Czech Republic received the largest net FDI inflows in 1999—\$7 billion and \$4 billion, respectively, up from \$6.4 billion and \$2.6 billion in 1998. FDI inflows to Hungary and Romania in 1999 decreased to \$1.5 billion and \$1.3 billion, respectively, down from \$1.9 billion and \$2 billion in 1998, as their privatization programs slowed. Asia experienced virtually flat net FDI inflows in 1999 of \$24 billion, after peaking at \$24.3 billion in 1998.

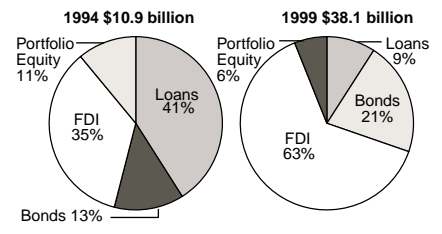
**Prospects and risks**

Regional GDP is expected to post a recovery to 2.5 percent in 2000 and strengthen thereafter to about 3.5 percent a year in 2001–02. Output in the Central and Eastern European coun-

tries is expected to rise by some 3.4 percent in 2000 (and to about 4–4.5 percent in 2001–02), spurred by stronger external demand in Western Europe. Growth in the CIS countries, on the other hand, is expected to slacken to 1.3 percent in 2000 (before recovering later), as the import substitution impetus to growth and remarkable oil windfalls ease. Output in Turkey is expected to recover fairly rapidly, reflecting the growth impact of reconstruction in the wake of the 1999 earthquake, a major public sector and structural reform program (under the December 1999 IMF \$4 billion Fund standby facility), and improving external conditions.

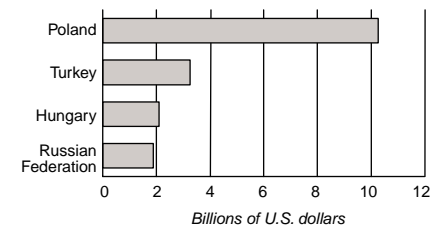
Private capital inflows to the region are expected to increase moderately in 2000 and over the medium term. They are largely driven by privatization programs, either ongoing (as in Poland) or newly revitalized (as in Turkey), as well as by continued progress in structural reforms. The EU's Helsinki Agreement at the end of 1999 to invite six more Central and Eastern European countries to apply for membership is expected to provide additional impetus for increased inflows. The new invitees (Bulgaria, Latvia, Lithuania, Romania, the Slovak Republic, and Turkey) are expected to benefit from improved investor confidence, as have the original five EU applicants (Czech Republic, Estonia, Hungary, Poland, and Slovenia)—although accession is not anticipated for some years. While foreign capital inflows represent important sources of financing, technology transfer, and skills (with FDI), they also pose important macroeconomic challenges. For example, in the run-up to EU accession, applicant countries increasingly will have to balance the demands of exchange rate stability tied to the European Monetary Union with the need for exchange rate flexibility to manage capital inflows. Maintaining effective investment is also an at-

**Composition of private flows, 1994 and 1999**



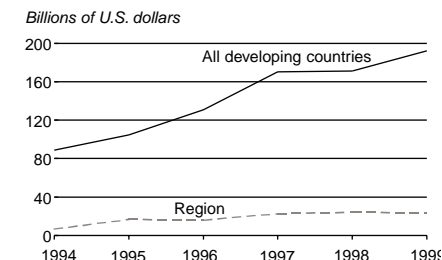
Source: World Bank.

**Net private flows, 1999**



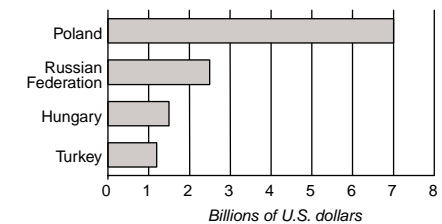
Source: World Bank.

**Foreign direct investment, 1994–99**



Source: World Bank Debtor Reporting System.

**FDI by country, 1999**



Source: World Bank.

tendant risk, given the remarkably rapid and substantial accumulation of FDI capital stock over the last decade in a number of Central and Eastern European countries.

The potential for stronger-than-expected growth stems primarily from improving policy formulation and the pursuit of a more aggressive reform agenda in the CIS, especially in Russia. While the CIS countries witnessed a significant easing of political tensions at the end of 1999, significant policy uncertainty remains, as reflected in this forecast. Downside risks for the CIS hydrocarbon exporters are tied

mainly to future evolution of oil prices. Downside risks in the Central and Eastern European countries center on their ability to maintain reform momentum, particularly in the areas of banking and corporate sector reform. Additionally, given that FDI inflows to the region originate primarily from EU countries, slower Western European growth would translate into less robust output in the Central and Eastern European countries, but also result in lower FDI flows. Slippage on government budget consolidation and public sector reform in Turkey also represents a downside risk to the forecast.

### Europe and Central Asia forecast summary

(percent per annum)

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	-3.5	2.7	-0.2	1.0	2.5	3.4	3.6
Consumption per capita	-2.1	3.4	1.0	1.8	2.3	3.1	3.1
GDP per capita	-3.8	2.6	-0.4	1.7	3.3	3.2	3.4
Population	0.3	0.1	0.1	-0.7	-0.7	0.1	0.2
Median inflation <sup>a</sup>	37.0	16.3	12.3	9.5	9.8	10.7	10.8
Gross domestic investment/GDP	27.2	24.4	22.9	22.3	22.6	22.9	23.1
Budget balance	-7.3	-5.4	-5.3	-4.4	-3.1	-2.4	-1.3
Export volume <sup>b</sup>	0.5	11.5	6.1	-1.2	7.3	7.6	7.2
Current account/GDP	0.7	-0.5	-1.1	-0.2	-0.1	-0.5	-0.7
<i>Memo items</i>							
GDP of middle-income							
Western Europe	4.2	7.5	2.9	-4.1	4.8	5.2	5.0
GDP of Eastern Europe	-0.8	2.6	2.1	1.5	3.4	4.1	4.4
GDP of CIS states	-6.3	1.4	-2.7	2.3	1.3	2.3	2.6

a. GDP deflator in local currency.

b. Goods and nonfactor services.

Source: World Bank Development Prospects Group, February 2000.

# Latin America and the Caribbean

## Recent developments

OVERALL OUTPUT IN THE REGION was stagnant in 1999 for the first time since 1990, with 11 countries experiencing negative per capita growth. This outturn, however, was 0.6 percent higher than expected, reflecting an improvement in the prices of the region's export commodities (except for grains) together with stronger growth in their export markets in the latter part of the year. By the fourth quarter of 1999, the recovery was well underway for many countries, reflecting the completion of the inventory cycle and setting the stage for stronger growth in 2000. However, the sharp decline in private loans in 1999 caused the region's imports to drop for the first time since the 1980s debt crisis, the current account deficit to narrow by some \$30 billion, and reserves to decline for the second year in succession.

The sharp deceleration in the region's output growth is explained in large part by external shocks, but autonomous shocks in domestic policies account for 20 to 40 percent of the slowdown in some countries (most notably Ecuador, Colombia, and the Republica Bolivariana de Venezuela, and to a lesser extent Argentina and Chile). Commodity-dependent economies experienced the deepest recessions, with output falling by more than 5 percent in Colombia, Ecuador, and the Republica Bolivariana de Venezuela, while Chile registered negative growth for the first time in 15 years. Argentina had its second major recession in four years, due in large part to the collapse of Brazilian imports as well as low grain prices and high real interest rates—a result of diminished investor confidence at the height of the Brazilian devaluation. Brazil, on the other hand, had a relatively short-lived recession. The effects of import substitution induced by the

devaluation in January, together with good macroeconomic management—which kept inflation under control and allowed for a gradually more accommodative monetary policy—allowed GDP to grow by an estimated 0.8 percent.

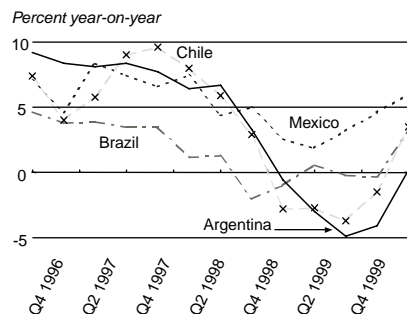
Per capita growth in the Central American economies rose marginally. Falling prices for bananas, coffee, and sugar reduced incomes, while El Salvador and Honduras have yet to recover fully from the devastation caused by hurricanes in 1998. Despite the large number of countries in the region that experienced weak or negative growth in 1999, some countries with a more diversified export base registered output growth of more than 4 percent. For example, GDP in Costa Rica grew by more than 8 percent on the strength of rapid exports in electronics (from the newly installed Intel plant). The Dominican Republic grew by more than 6 percent, reflecting the strong performance of manufactured goods exports and tourism. Mexico grew nearly 4 percent as a booming U.S. market boosted export growth and rising oil prices produced a terms-of-trade gain worth nearly 1.9 percent of GDP.

Strong growth in export markets (Asia for Chile and Peru, the United States for Mexico and others) was partly offset by weak intraregional trade, which accounts for 20 percent of total trade. This kept the region's export volume growth at near 6 percent, about the same as in 1998. Exchange rates in 1999 depreciated in real terms relative to precrisis levels by more than 15 percent in Brazil, Colombia, and Ecuador, and by 5–10 percent in Chile and Peru. This improving competitiveness did little for export volumes in 1999, but the stage was set for a strong acceleration starting in the second half of 1999 and continuing into 2000. Rising prices for oil and metals improved ex-



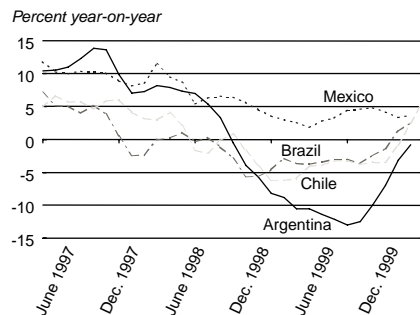
GNP per capita, 1997: \$3,860

## GDP growth for Latin America, 1996–99



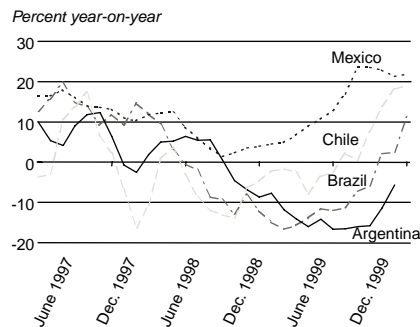
Source: Datastream.

## Industrial production, 1997–99



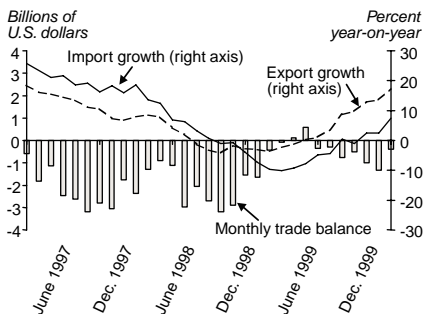
Note: Calculated as a three-month moving average.  
Source: Datastream.

## Export growth, 1997–99



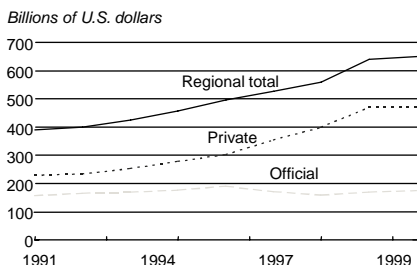
Note: Calculated as a three-month moving average in current U.S. dollars.  
Source: Datastream.

**Merchandise trade growth, 1997-99**



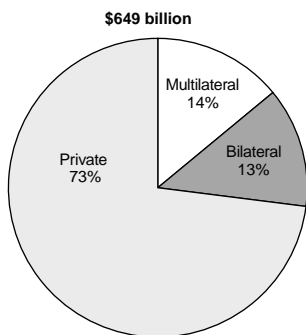
Note: Import and export growth calculated as a three-month moving average in current U.S. dollars. Source: Datastream.

**Long-term external debt outstanding, 1991-99**



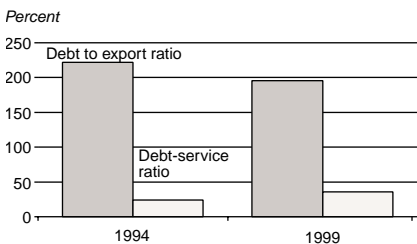
Source: World Bank.

**Sources of long-term debt, 1999**



Source: World Bank.

**Debt indicators, 1994 and 1999**



Source: World Bank.

port revenues. After falling in the first half by 0.5 percent (by 12 percent excluding Mexico), by the fourth quarter export receipts were rising year-over-year at double-digit rates in the larger economies. The decline in private debt flows to the region contributed to a 4 percent fall in imports expressed in dollars (13 percent excluding Mexico). The monthly trade deficit fell from more than \$2 billion in 1998 to less than \$0.5 billion in 1999. This resulted in a contraction of the overall current account deficit by some \$30 billion, one-third of which was attributed to Brazil. In relation to GDP, the adjustment of the current account was 1.3 percentage points for the region as a whole, while it exceeded 4 percentage points for Chile, Colombia, Ecuador, and the Republica Bolivariana de Venezuela.

**External debt indicators**

Total external debt rose only slightly in 1999 and there was a drop in short-term debt, most of which occurred in Brazil. Though debt due to private creditors fell by about \$2.7 billion, this was offset by a rise in debt from official sources, reflecting increased support by multilateral institutions. The decline in private-source debt was concentrated in commercial bank debt owed by the private sector in Brazil, partly explained by the diminished trade flows within Mercosur and the financing that goes with it. Outstanding bonds owed by the private sector in Argentina and Mexico also declined.

Debt indicators worsened somewhat as aggregate dollar-based GNP declined due to depreciating currencies and weak growth. The ratio of the region's external debt to GNP rose to 46.2 percent, the highest level for the decade and second only to Sub-Saharan Africa. However, the ratio of total

debt to exports fell from 211 percent in 1998 to about 195 percent, but still remains above 1997 levels. Last year was close to a peak for amortization payments coming due, and despite rising export receipts, debt service as a share of exports rose to more than 35 percent, the highest level for the 1990s.

Guyana received debt relief under the Lyon terms (80 percent reduction in net present value, or NPV). Bolivia was declared eligible for enhanced debt relief in early 2000, following relief received in 1998 under the original HIPC framework. Honduras received relief on Naples terms (67 percent NPV reductions), amounting to \$400 million. The collapse in the price of debt on secondary markets led a number of countries to retire debt through discounted swaps and open market debt buybacks. Argentina, Brazil, Mexico, and Uruguay retired almost \$6 billion of Brady bonds through these measures, and Guyana bought back \$55.9 million of commercial debt at about 9 cents to the dollar in an arrangement supported by the Debt Reduction Facility.

**Aggregate resource flows**

Net resource flows to the region fell to an estimated \$107 billion in 1999, the lowest level since 1996. This was due primarily to a sharp fall in net lending from private creditors—from \$56 billion in 1998 to \$5 billion in 1999. The fall in net private flows also reflects a marked shift in the composition of private flows in comparison with the mid-1990s. Foreign direct investment has become the principal source of private finance, while the importance of portfolio equity flows has declined in recent years. Financing through bonds fell by more than half in 1999 and accounted for a much smaller share of total private financing than in the years before 1997.

Commercial banks drastically reduced their exposure in the region with a net outflow of \$4 billion—the first outflow since the 1980s. This reverses the trend of rising inflows that was evident between 1995 and 1998, when the demand from domestic banks and corporations in the South American countries (especially in Brazil) fell in light of weak aggregate demand and a collapse in intraregional trade. This development in 1999 was unlike the one that occurred during the Mexican peso crisis of 1995, when commercial banks increased lending to the region as trade growth generally remained robust (excluding Mexico, import volumes grew 17 percent in 1995 compared with -10 percent in 1999).

Bond financing also dropped, but remained positive at \$9.6 billion in 1999 compared with \$17.6 billion in 1998. Sovereign bonds held up reasonably well given the deterioration in foreign investor confidence at the height of the Brazilian devaluation. They averaged about the same as the 1998 level, though a slight rise in amortization led to a decline on a net basis. However, investors were unwilling to lend without public guarantees, and the rising trend of private nonguaranteed lending was reversed sharply in 1999. Most of the decline in private debt financing occurred in the second half of the year as creditors, worried about Y2K disruptions, reduced their exposure to emerging markets in general.

FDI inflows, in contrast to the decline in private debt financing, surged in 1999 to a record \$89 billion, double the 1996 level. Latin America now accounts for almost half of all FDI to developing countries, up from 40 percent in 1997. Brazil, Argentina, Mexico, and Chile are now the second through fifth largest recipients among low- and middle-income countries. Privatization and cross-border mergers and acquisitions (rather than greenfield ventures) were the driving

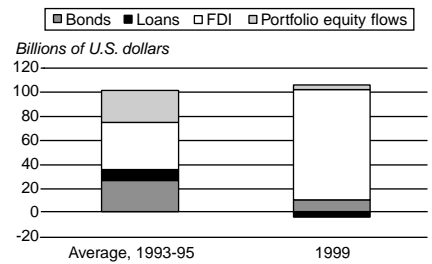
forces for the large increase, a pattern similar to what happened in the Asian crisis countries in 1998–99. Fiscal difficulties in Argentina and Brazil spurred another round of privatization, while the economic downturn in the region produced opportunities for foreign investors to increase their stake in the region. Spanish banks and corporations have been particularly aggressive in merger-and-acquisition activities throughout the region in 1999—for example, purchasing YPF of Argentina for about \$17 billion, acquiring controlling interest in the Chilean electric company Enersis, and buying Banco Santiago of Chile. However, the large increase in FDI inflows was accompanied by a rise in FDI outflows from countries in the region as mergers and acquisitions were not restricted to corporations outside the region. Chile, for example, had \$9 billion FDI abroad in 1999 compared with \$4.6 billion in 1998.

Net portfolio equity flows to the region rose to \$3.6 billion in 1999 (from about \$1.7 billion in 1998), but remained well below the average of \$11 billion in 1994–97. Most of the increase was due to Brazil, which together with Mexico accounted for \$3 billion, as booming stock markets reduced the incentive for corporations to seek external financing. Net official development finance was \$9.3 billion, down only moderately from the 1998 level of \$10.1 billion as official creditors continued to extend assistance to countries in the wake of slowing private debt-related flows. Net flows from multilateral institutions were large to Argentina, Brazil, Colombia, and Peru (amounting to more than \$7 billion), but negative for Mexico.

**Prospects and risks**

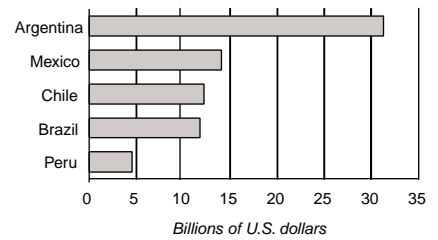
Prospects for growth in Latin America have improved relative to the forecasts in *Global Economic Prospects 2000*.

**Composition of private flows**



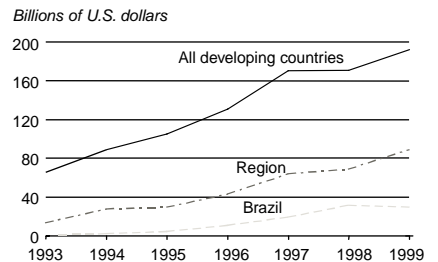
Source: World Bank.

**Net private flows, 1999**



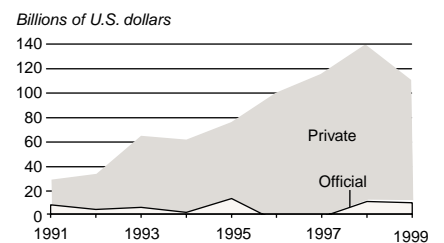
Source: World Bank.

**Foreign direct investment, 1993–99**

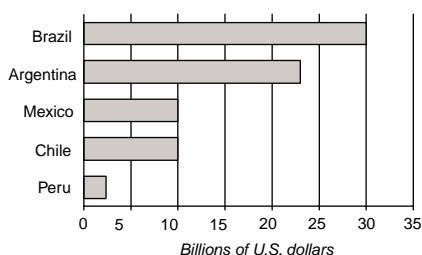


Source: World Bank.

**Aggregate net resource flows, 1991–99**



Source: World Bank.

**FDI by country, 1999**


Source: World Bank.

GDP is now expected to rise by 3.6 percent in 2000 compared with the earlier projection of 2.7 percent. Strong industrial production activity at the end of 1999 in conjunction with faster growth of world trade is likely to act as the prime underpinning for recovery. However, the baseline assumes a number of factors that will tend to offset the strong acceleration in growth tied to booming world trade and thus restrain recovery to moderate proportions.

First, the expected rise in LIBOR (normally a benchmark for dollar debt) by 100 basis points above the 1999 average will tend to increase the cost of debt servicing and of new borrowing, unless offset by a reduction in risk perceptions through lower spreads. Second, net oil-importing countries of the region will be facing a deterioration in terms of trade. This will potentially widen trade deficits and lead to higher imported inflation. Third, food prices are likely to recover after large declines in 1998–99 (a contributing factor to the relatively low inflation rates in Brazil), putting additional upward pressure on inflation rates. These fac-

tors would suggest that monetary policy is likely to be less accommodative this year than it was in 1999. Moreover, fiscal positions are expected to be tight in Argentina and Colombia, with little scope for easing in Brazil, as it is likely these countries will take advantage of the stronger external environment to address fiscal imbalances and high levels of domestic debt.

Nonetheless, the improvement in world trade and the likely increase in private capital flows to the region in 2000 are expected to support faster growth of output than earlier expected. Risks may well be on the upside of the current projections. Sovereign bond issues and swaps by Argentina, Brazil, Colombia, and Mexico have been large and well received in January and February 2000. Spreads have also declined during this period, indicating a gradual return of investor confidence. A significant proportion of private capital is likely to be directed to replenishment of reserves, which need to be raised by about \$14 billion in 2000 to bring them in line with 1997 levels. The region's GDP growth in 2001 is pro-

### Latin America and the Caribbean forecast summary

(percent per annum)

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	2.9	5.4	2.1	0.0	3.6	3.8	4.4
Consumption per capita	1.6	4.0	1.5	-3.2	1.1	1.5	2.3
GDP per capita	1.1	3.7	0.5	-1.6	2.0	2.3	2.9
Population	1.8	1.7	1.6	1.6	1.6	1.5	1.4
Median inflation <sup>a</sup>	16.5	8.5	7.9	7.4	7.0	6.6	5.9
Gross domestic investment/GDP	22.1	24.2	24.0	22.9	23.8	24.4	24.7
Budget balance	-2.8	-1.8	-3.7	-2.8	-1.6	-1.2	-1.4
Export volume <sup>b</sup>	8.0	8.9	5.6	5.6	9.0	7.2	6.8
Current account/GDP	-2.4	-3.3	-4.5	-3.2	-3.2	-3.5	-3.5
<i>Memo items</i>							
GDP of region, excluding Brazil	3.5	6.4	3.2	-0.4	3.7	3.8	4.4
GDP of region, excluding Mexico	2.8	5.0	1.5	-0.9	3.3	3.9	4.3

a. GDP deflator in local currency.

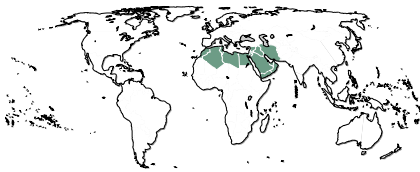
b. Goods and nonfactor services.

Source: World Bank Development Prospects Group, February 2000.

jected at a conservative 3.8 percent, largely reflecting the anticipated slackening of demand in the United States together with high international interest rates. In 2002, growth is expected to accelerate to near 4.5 percent as countries progressively overcome factors that have acted to restrain past growth, namely high debt and low saving rates.

Per capita income growth over the projection horizon is likely to remain diverse among the Caribbean economies. Growth will be fastest in tourism-dependent countries in the Eastern Caribbean, as well as in the Dominican Republic and Trinidad and

Tobago, due to reforms. It will be weaker in Guyana and Jamaica, owing to high debt and a lack of consensus on needed reforms. Countries in the Eastern Caribbean that export mostly bananas (Dominica, for example) are likely to experience weak growth in 2000–02. They face both low prices for bananas (the price in 2002 is forecast to barely reach 1998 levels) and poor prospects for volumes as preferential access into Europe is weakened. The speed at which structural adjustment takes place in these economies will determine how quickly they can return to a higher growth path over the long term.



GNP per capita, 1997: \$2,030

# Middle East and North Africa

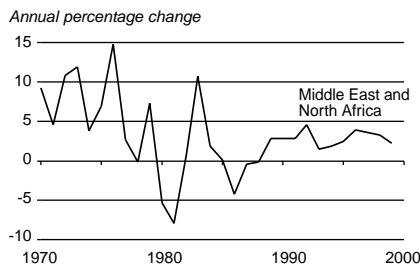
## Recent developments

**T**HE DRAMATIC RISE IN OIL prices in the second half of 1999 led to an improvement in the short-term fiscal positions and current account balances in the Middle East and North Africa region. GDP for the region grew at 2.2 percent, 0.3 percentage points faster than projected in *Global Economic Prospects 2000*. The swift reversal in the terms of trade for oil-exporting countries was equivalent to more than 5 percent of their GDP. Since oil exporters account for 75 percent of the region's merchandise exports, export volume growth remained low, falling from 3.6 percent in 1998 to 2.5 percent in 1999 as the restrictions placed on output by OPEC and strict adherence to the quotas lifted oil prices above \$23 a barrel by year-end. The export slowdown was generally less pronounced for the more diversified economies of the region. The region's current account improved markedly with a turnaround from a deficit of \$8 billion in 1998 to a surplus of more than \$20 billion in 1999, reflecting the huge terms-of-trade gain. The cap on export volumes in the oil-exporting countries (Saudi Arabia, Bahrain, Oman, the Islamic Republic of Iran, Iraq, Algeria, and the Republic of Yemen), together with continued fiscal prudence in these countries, which had borrowed heavily during the period of low oil prices, limited GDP growth to 1.5 percent in 1999. The high-absorption oil exporters (Algeria, the Islamic Republic of Iran) fared better, with 2.7 percent growth; but a drought in the Islamic Republic of Iran has caused declines in agricultural incomes, forcing higher food imports and increasing inflationary pressures. Drought has also affected countries in the group of diversified economies (Morocco, the Syrian Arab Republic, Jordan), where GDP

advanced by 2.9 percent in 1999. Other countries in the group (the Arab Republic of Egypt, Tunisia) maintained GDP growth in the range of 5–6 percent, based on the beginnings of recovery in traditional export markets and improved growth in tourism and worker remittances.

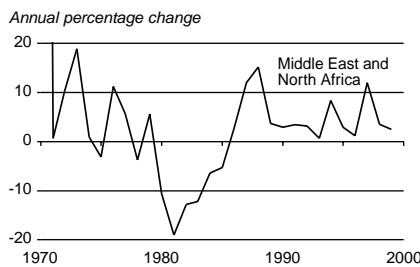
Major policy changes are required to allow the region to gain from the benefits of greater integration with the global economy. The state still plays a large role in the economy, and trade protection is high. Policy reforms have begun in several areas. Fiscal reforms are underway in several countries to widen the tax base and reduce subsidies for utilities, oil, and public services. In the oil exporters, the baseline assumes (reflecting current trends) that most governments will not use higher revenues to subsidize consumption or implement large publicly funded projects, as they did during previous terms-of-trade booms. Fiscal prudence is still required to pay off debt accumulated during the trough in oil prices. There is also now a focus on decreasing the role of the state in the market and providing better incentives and institutional requirements for private investment. For example, many countries are privatizing state-owned enterprises in telecommunications, airlines, tourism, and industries such as petrochemicals, cement, textiles, and utilities. Privatization is being used as a vehicle to deepen capital markets and encourage foreign direct investment, and is being used with some success in the diversified exporters. Additionally, some countries are abolishing barriers to external trade as a result of agreements with the European Union, bilateral trade and investment agreements, and agreement to conditions for accession to the World Trade Organization. Many of these policies are being implemented in a

### GDP growth rates, 1970–2000



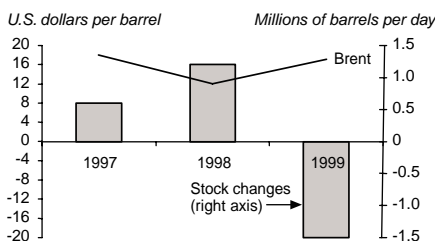
Source: World Bank.

### Export volume growth rates, 1970–2000



Source: World Bank.

### World crude oil stock changes and spot prices, 1997–99



Sources: International Energy Association; World Bank.

gradual manner, reflecting political and other concerns about transitional effects in the presence of high rates of unemployment.

**External debt indicators**

Financing requirements in the region remained quite high in 1999. The Asian crisis initially caused oil prices to decline; as a consequence, long-term debt rose 9.2 percent in 1998 to \$164.1 billion and a further 3 percent in 1999, to \$169.5 billion. The recovery in oil prices did not begin until the middle of the year. Much of the debt increase consisted of private debt, both publicly guaranteed and nonguaranteed, which rose from \$54.4 billion in 1998 to \$61.5 billion in 1999. Official debt fell from \$110 billion to \$108 billion in 1999, the same level as 1997.

Debt indicators were mixed in 1999. The rise in oil prices came too late to have a positive impact on the debt-to-GNP ratio, which rose sharply to 44.2 percent from 36.1 percent in 1998. However, the oil price rise had a rather dramatic impact on the value of exports, and external debt as a share of exports of goods and services fell to 111 percent from 129 percent in 1998, when it rose sharply due to the lower oil receipts during the East Asian crisis.

**Aggregate resource flows**

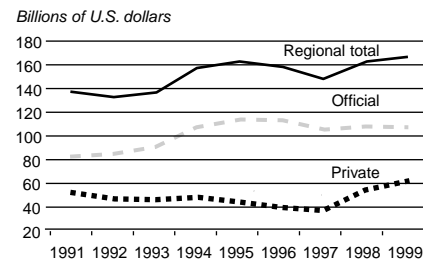
Net resource flows to the Middle East and North Africa nearly doubled in 1999 to an estimated \$20 billion. The figure is impressive when compared with net resource flows of only \$3 billion in 1995 and an average for 1990–97 of \$8.7 billion. Most of the increase in 1999 consisted of an \$8 billion increase in private flows. This is a reversal from the situation in the early 1990s, when official development assistance made up the bulk of net resource flows.

Net private debt flows rose sharply in 1999, from \$3 billion in 1998 to \$8 billion. The largest share of these flows was from private commercial loans, rising by more than \$6 billion to a record \$8 billion. Much of this borrowing was done by oil-exporting countries that suffered significant shortfalls in export and fiscal revenues and utilized commercial bank borrowing to smooth consumption. Their access to financial markets was not greatly affected due to extensive foreign reserves, external portfolios, and oil wealth. Lebanon dominated bond flows to the region, accounting for more than 75 percent of bond issues in 1999. Bond flows rose to more than \$2 billion in 1999, up from \$1.3 billion in 1998.

Nondebt private flows recovered from the decline in 1998, rising from \$6 billion to \$9 billion. FDI to the region rose by more than \$3 billion. Saudi Arabia, Egypt, and Tunisia accounted for the largest inflows of FDI, amounting to \$5 billion, \$1.6 billion, and \$0.5 billion, respectively. The increased FDI inflows in the oil exporters resulted from further investment in the hydrocarbons sector. But an increasing amount is taken up by the privatization of state-owned enterprises in several countries, particularly among the diversified exporters. Portfolio flows to the region remain negligible, and fell from \$0.9 billion in 1998 to \$0.6 billion in 1999. This is consistent with the lackluster performance of stock markets in Egypt and Morocco in 1999 and the large falls in stock market indices in several Gulf countries.

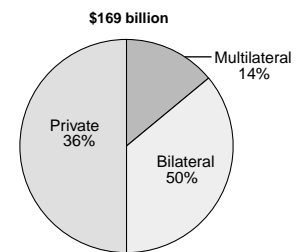
Official development finance (grants and official loans) rose by 50 percent to \$3.2 billion in 1999. The improvement reflects the successful rescheduling of debt payments by several countries in the region. The Islamic Republic of Iran has negotiated a rescheduling of payment of principal

**Long-term external debt outstanding, 1991–99**



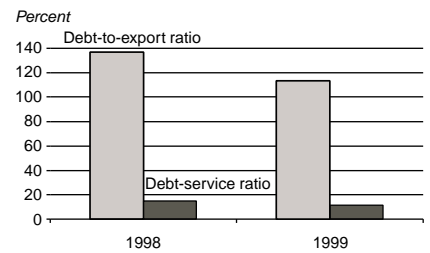
Source: World Bank.

**Sources of long-term debt, 1999**



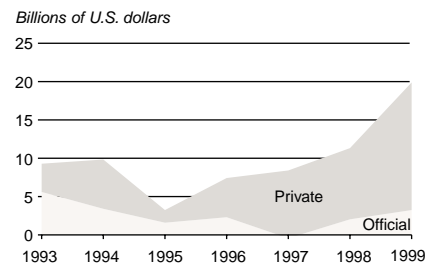
Source: World Bank.

**Debt indicators, 1998 and 1999**



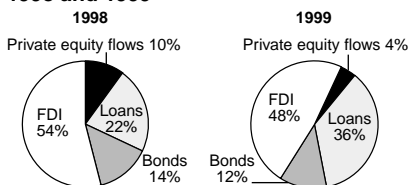
Source: World Bank.

**Aggregate net resource flows, 1993–99**



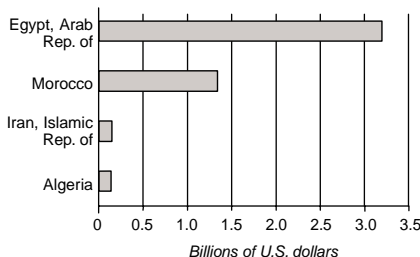
Source: World Bank.

**Composition of private flows, 1998 and 1999**



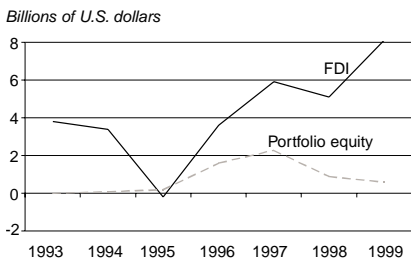
Source: World Bank.

**Net private flows, 1999**



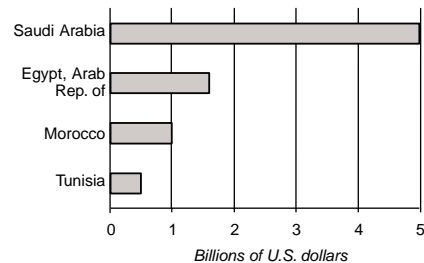
Source: World Bank.

**Private equity flows, 1993–99**



Source: World Bank.

**Foreign direct investment, 1999**



Source: World Bank.

with bilateral creditors, and Jordan has concluded an agreement with the Paris Club to reschedule \$821 million of multilateral debt falling due in 1999. Official development assistance (ODA) rose slightly to \$4.8 billion in 1999, with grants accounting for 80 percent of the total. However, there is an increasing trend in the 1990s away from official financing and toward private sources of capital.

**Prospects and risks**

Growth in the Middle East and North Africa is projected to improve to 3.5 percent in 2000, rising to an average of 3.6 percent in 2001–02. Oil prices are expected to average about \$23 a barrel in 2000 and fall toward \$19 a barrel in 2001–02, underpinning the prospects for a moderate recovery. GDP growth of almost 3 percent in the oil-exporting countries is expected as the income boost from the rise in terms of trade is transmitted to the economy. These effects will be limited, however, by the expectation of the transitory nature of the oil price rise—implying that fiscal policies in most oil exporters are unlikely to respond fully to what is per-

ceived as a temporary rise in revenues. In the high-absorption oil exporters (the Islamic Republic of Iran and Algeria), GDP growth is projected to improve in 2001–02, as the Islamic Republic of Iran recovers from drought conditions and Algeria implements large investment projects, many with foreign participation, as the political situation improves. Growth in the diversified exporters is likely to rise to 4.7 percent in 2000 as the effects of the droughts in several countries fade. An improved external environment will further support growth as the full recovery of economic activity in the Euro Area undergirds growth in export markets. GDP growth in the diversified exporters is expected to increase further to 4.8 percent in 2001–02 as export revenues increase, tourism receipts rise, and continuing privatization of state-owned enterprises and judicial and other market reforms encourage foreign direct investment.

The anticipated easing of oil prices in 2001–02 would still support substantial current account surpluses and allow easier repayment of debt for most oil exporters. Several countries in the region are likely to experience in-

**Middle East and North Africa forecast summary (percent per annum)**

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	3.0	3.6	3.3	2.2	3.5	3.6	3.6
Consumption per capita	-0.1	0.3	1.8	0.6	1.8	1.4	1.2
GDP per capita	0.6	1.5	1.2	0.1	1.4	1.5	1.5
Population	2.4	2.1	2.1	2.1	2.1	2.1	2.0
Median inflation <sup>a</sup>	7.7	4.9	3.1	4.7	4.9	4.8	4.4
Gross domestic investment/GDP	22.8	23.9	23.7	23.9	24.0	24.2	24.5
Budget balance	-5.2	-2.6	-5.4	-4.3	-3.8	-3.4	-3.0
Export volume <sup>b</sup>	4.5	5.0	2.6	2.3	3.1	4.2	4.7
Current account/GDP	-2.2	3.8	-1.5	4.0	5.5	3.1	1.9
<i>Memo items</i>							
GDP of oil-dominant economies	3.6	2.9	1.6	1.5	2.7	3.1	3.0
GDP of diversified economies	3.7	2.7	3.9	2.9	4.7	4.6	4.8

a. GDP deflator in local currency.

b. Goods and nonfactor services.

Source: World Bank Development Prospects Group, February 2000.

ipient inflationary pressures as a result of drought, cuts in government subsidies, and rises in commodity prices, requiring monetary policy to remain disciplined. Appreciating real exchange rates in 1999, particularly for several North African countries, will slow export volume growth somewhat in 2000, but should be offset by the favorable external environment.

Short-term risks to the forecast are less pronounced than six months ago, the result of improved oil prices and the strengthening recovery in Eu-

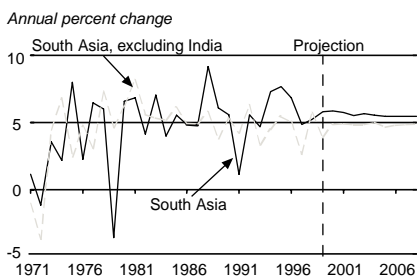
rope. But in the longer term, the outlook for oil prices remains uncertain. The challenge for OPEC is to raise production in a coordinated manner in order to ease prices from their current very high levels. A sharper-than-anticipated fall in oil prices could result if compliance with prospective oil production quotas should slip. In that event, oil exporters would once again face difficulties with export revenues, fiscal balances, and financing requirements, highlighting the need to maintain fiscal discipline in this period.



# South Asia

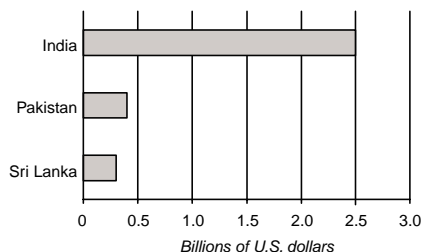
GNP per capita, 1997: \$430

## GDP growth rates in South Asia, 1971–2008



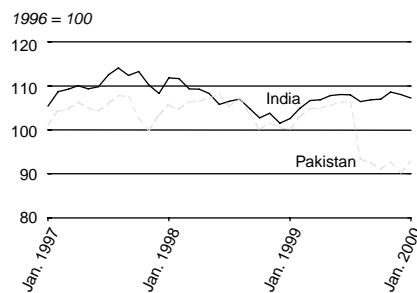
Source: World Bank.

## FDI by country, 1999



Source: World Bank.

## Real effective exchange rates in South Asia, 1997–2000



Source: J.P. Morgan.

## Recent developments

**S**OUTH ASIA CONTINUED TO enjoy rapid growth in 1999, reaching 5.8 percent. An improved cyclical and policy environment in India after the election of a new government was the main reason. Despite recovery from floods in Bangladesh and very good agricultural production in Pakistan, growth in these and other large South Asian countries was constrained by political difficulties and halting policy performance. Policy reforms in the region will need to accelerate in a more stable environment if South Asia is to reap the gains from the current recovery in global conditions and sustain a rate of growth necessary to achieve significant progress in poverty reduction.

Across the region, rising domestic demand contributed the most to growth. Fiscal deficits remained high, but inflation was subdued because of good agricultural harvests and stable exchange rates. The foreign sector had a positive but smaller impact on South Asian economies in 1999, with export and import volumes increasing at broadly similar rates—about 7 and 5.5 percent, respectively. Both India and Pakistan showed evidence of accelerating exports in the second half of 1999, consistent with the overall improvement in world trade volumes and steady or depreciating real effective exchange rates. Nonetheless, the positive impact of trade on growth was relatively small. Despite past progress with trade reforms, export barriers continue to impede greater efficiency and to hold back prospects for export-led growth in South Asia. Moreover, terms of trade deteriorated due to sharply higher oil import prices and lower agricultural export prices, with a negative impact.

The regional current account deficits remained small, with some

variation, and were largely manageable. India's deficit narrowed to lower levels as a result of faster growth in exports over imports (despite sharply higher oil prices) and was easily financed. Foreign reserves rose substantially. In Pakistan, on the other hand, a fall in official capital inflows as well as remittances and a widening trade gap meant continuing pressure in external financing. This occurred despite debt rescheduling obtained from the Paris Club and private creditors.

The most important influence on South Asian growth in 1999 was India's more than 6 percent advance in GDP, supported by an increase of about 10 percent in domestic fixed capital formation. India's domestic investment and consumption boom is attributable to several factors. First, confidence has been buoyed by the election of a new government with a clearer majority. Second, a cyclical upturn in investment was expected after the inventory downsizing of the last few years, and was also boosted by a lowering of interest rates following better results on inflation. Stable nominal exchange rates and (earlier) steady terms of trade helped India reduce and keep inflation at about 3–4 percent. Third, after elections, the new government reached consensus with the opposition, resulting in bipartisan support for several important economic reforms and legislation. These include opening of the insurance sector to domestic and foreign competition, phase-in of a new value added tax to replace sales taxes, reduction of previously ballooning domestic oil subsidies, power sector reforms, a new trade agreement with the United States (and prospects for further consolidation of bilateral ties), and active consideration of the privatization of state-owned airlines and other enterprises. The benefits of recent faster growth

were spread across the Indian economy. Services grew at 8 percent, agricultural production matched previous peak levels, and industrial production grew by at least 7 percent. A downside, however, has been a widening gap in economic performance by states. Many of the poorly performing states have high rates of poverty.

Reflecting these factors, the Indian stock market has gained nearly 50 percent in the past few months. There has also been a 10 percent increase in financial institution lending for investment projects in 1999, and foreign capital inflows are beginning to pick up. The balance of payments shows that the relatively small current account deficit was easily financed. FDI flows held steady and portfolio equity flows were drawn in by booming stock market performance. Portfolio flows were running at about \$2.5 to \$3.0 billion a year and have risen especially quickly in February 2000. In addition, India has continued to reap the gains of a rapidly growing and integrating software industry with global markets. Recent listings of Indian software companies in the United States have gained dramatically in value, in turn boosting and shifting the capital markets valuation of companies listed in the domestic markets. In February 2000 the government further eased and broadened the external borrowing ability of Indian companies, while maintaining an unchanged overall annual ceiling (\$8.5 billion). On the negative side, the budget deficit of the central government (5–6 percent of GDP) is likely to have well exceeded the government's target (4.4 percent of GDP). The large fiscal overruns of the states are also worrying, and poor infrastructure and loss-making state enterprises continue to exert significant drag on the Indian economy.

In Pakistan, uncertainties and stop-and-go reforms have continued to constrain growth, even though a suc-

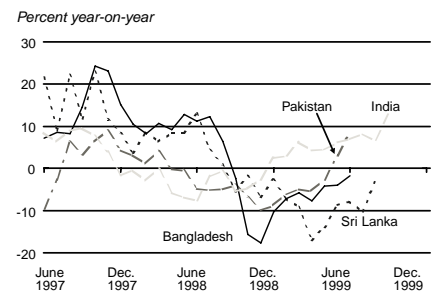
cessful monsoon led to bumper cotton, sugar, and rice crops. Estimated growth for 1999–2000 has been revised to 3.3 percent. The current account deficit expanded to \$2.8 billion, largely in response to higher oil prices. Inflation was relatively moderate (near 3 to 4 percent). The stock market has risen 50 percent in the past few months, following regional trends.

Bangladesh is starting to recover from the devastating floods of 1998. Aided by bumper crops and an investment boom in natural gas development, growth is starting to improve. Mini-devaluations, tighter monetary policy, and good harvests kept inflation at bay (at about 4 percent). Lower interest rates since then are supporting economic activity. Nonetheless, domestic uncertainties continue to constrain economic performance. Export growth has been weak due to lower commodity prices and disruptions to garment exports from frequent and costly strikes. Rising bad debts in the banking system also remain a serious concern. In Sri Lanka, falling prices of tea and rubber prevented the country from reaping the advantages of recovering world trade, as did a weak market for garment exports. In addition, the continuing civil war, rising military expenditures, inability to correct budget deficits, and tight monetary policy restrained growth to well below potential rates.

### External debt indicators

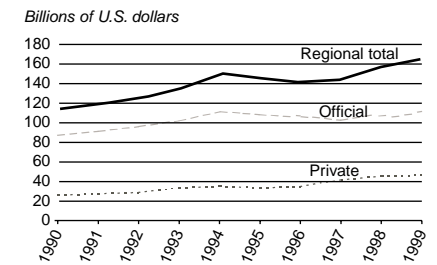
South Asia's long-term debt stock increased marginally from \$164 billion in 1998 to \$171 billion in 1999. This was due entirely to an increase in debt owed to official creditors. The stock of debt owed to private creditors remained unchanged at about \$46 billion (after a big jump in 1998), reflecting the effects of rising flows to India and falling ones to Pakistan in the wake of its crisis. Bond issues, which

### Export growth, 1997–99



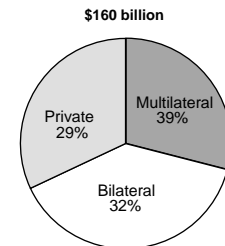
Note: Calculated as a three-month moving average in current U.S. dollars. Source: Datastream.

### Long-term external debt outstanding, 1990–99



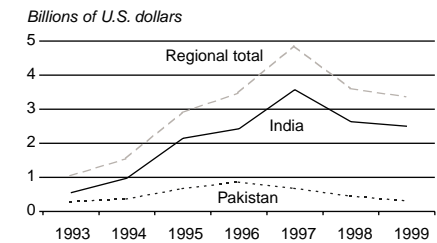
Source: World Bank

### Sources of long-term debt, 1999



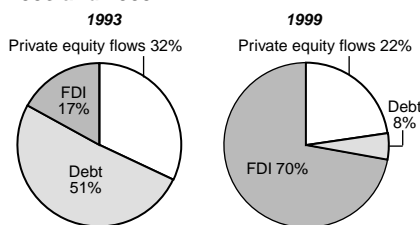
Source: World Bank.

### Foreign direct investment, 1993–99



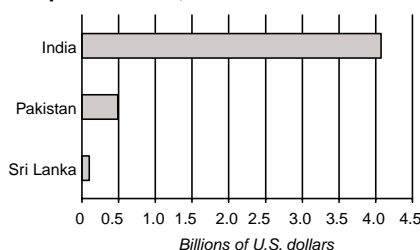
Source: World Bank.

**Composition of private flows, 1993 and 1999**



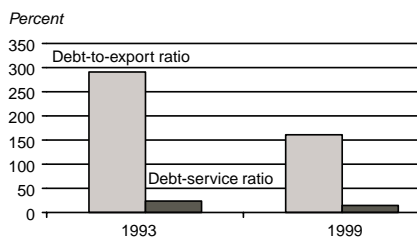
Source: World Bank.

**Net private flows, 1999**



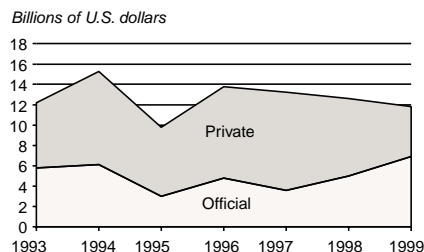
Source: World Bank.

**Debt indicators, 1993 and 1999**



Source: World Bank.

**Aggregate net resource flows, 1993–99**



Source: World Bank.

hit an all-time high of \$4.2 billion in 1998 (such as India’s Resurgent bonds,<sup>1</sup> dropped to \$0.1 billion in 1999. The combination of only marginal increases in debt and rising GDP (and exports) improved debt indicators for the region.

**Aggregate resource flows**

Net resource flows to South Asia dropped to \$11.8 billion in 1999. This represents a decline of nearly \$1 billion from the \$12.6 billion recorded in 1998. This reflects a drop in net private debt transactions, from \$3.6 billion in 1998 to \$0.4 billion in 1999. Bank loans were largely unchanged in 1999, while net portfolio equity flows rose sharply in response to a surging Indian stock market.

Foreign direct investment was steadier over time than other kinds of capital flow. Inflows dropped only marginally from \$3.7 billion in 1998 to \$3.4 billion in 1999, with India the main recipient in both years. Bangladesh attracted direct investment connected to development of natural gas, while Pakistan had difficulty attracting FDI, in part because of an earlier dispute with foreign investors in the power sector. South Asia as a region is now attracting the lowest levels of FDI relative to GDP (about 0.7 percent) among developing regions, where the rate is 2.7 percent of GDP on average.

Official finance flows (gross disbursements less amortization) increased from \$2.7 billion in 1998 to \$4.8 billion in 1999. Bilateral credits accounted for the increase, rising from \$630 million in 1998 to \$2.2 billion in 1999. Net credit from multilateral institutions, though still far larger than bilateral credits, rose by \$0.5 billion. Gross lending rose from \$8.0 billion to \$8.8 billion.

**Prospects and risks**

Output growth in South Asia is expected to rise to about 6 percent in 2000, moderating thereafter toward the 1989–98 average of 5.5 percent. The initial upturn reflects improved short-term conditions mentioned above, particularly in India. However, the forecast also implicitly assumes that deeper reforms in the region will be harder to implement, and that the region’s countries will not be able to take full advantage of the *potential* for about 7–8 percent growth per year that might be realized by using to advantage the rapid recovery and growth in world trade. Moreover, the large public debt overhang will require significant fiscal tightening, but will be constrained by institutional bottlenecks. This may then lead to slower growth and a weakening of investor confidence.

Upside potential, which varies from country to country, has one common thread: the pursuit of deeper and faster economic reforms in a more stable and supportive economic environment. Such reforms include the lowering of trade barriers, fiscal consolidation, improved governance, accelerated reform of state enterprises, and improvements in financial and physical infrastructure. An improved environment in India, reflecting a more stable governing coalition that is cooperating with the opposition, could lead to such deeper economic reforms over the near-to-medium term. The new budget will be important in this regard, and the government has indicated its intent to move ahead with substantial reforms on most areas—though much will depend on implementation.

Similarly, Pakistan could boost its growth prospects by improving its governance and policy credibility to both inside and outside investors. This would involve improving the efficiency of public spending; improving the

functioning of the banking and financial sector; and stimulating competition by lowering trade and investment barriers across the board. The policy redirection announced by the government in December 1999 stresses some of these areas, and confidence in implementation will again be key. Growth in Bangladesh could be sustained by the diversification of exports and higher levels of FDI. Faster progress could be achieved with improved governance and consensus. Greater exploitation of large deposits of natural gas could spur investment and exports, particularly to markets within the region.

Regarding the international environment, global conditions have improved steadily since mid-1999, and downside risks have diminished substantially compared with six months ago. South Asian export markets are beginning to grow rapidly and commodity prices are recovering, while oil import prices should moderate somewhat in the year ahead. The countries of the region are less vulnerable to developments in external con-

ditions than other emerging markets due to their lower reliance on trade. More significant downside risks therefore originate in the regional and domestic contexts. In particular, escalating regional conflicts and domestic uncertainties could lead to a loss of investor confidence, increasing military expenditures, and a disruption of normal economic activity. Agriculture, which remains a dominant sector—particularly in terms of labor force participation and poverty—is also prone to natural calamities in the form of floods, cyclones, and droughts. Smaller countries such as Bhutan, Maldives, and Nepal are more vulnerable to these events due to their high dependence on a few commodities.

## Note

1. So-called Resurgent bonds were sold by India to nonresident nationals as a temporary measure to help finance the current account deficit during the financial and political turmoil of 1998.

### South Asia forecast summary

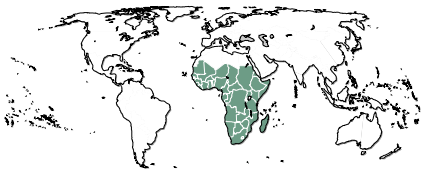
(percent per annum)

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	5.5	4.9	5.2	5.8	5.9	5.8	5.5
Consumption per capita	3.2	2.3	3.1	3.3	3.6	3.6	3.6
GDP per capita	3.5	3.0	3.3	3.8	3.9	4.0	3.8
Population	1.9	1.8	1.8	1.9	1.8	1.7	1.7
Median inflation <sup>a</sup>	9.4	9.1	7.6	5.9	5.3	4.9	5.0
Gross domestic investment/GDP	22.0	22.9	23.2	23.6	23.9	24.3	24.6
Budget balance	-6.3	-7.5	-6.1	-5.7	-5.2	-4.9	-4.6
Export volume <sup>b</sup>	9.8	2.6	1.9	6.1	7.5	7.8	7.7
Current account/GDP	-1.8	-0.9	-1.6	-1.8	-2.0	-2.3	-1.9

a. GDP deflator in local currency.

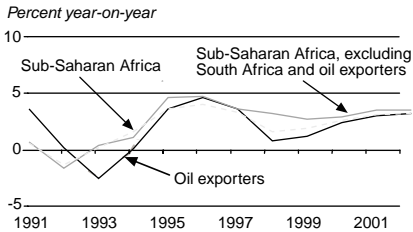
b. Goods and nonfactor services.

Source: World Bank Development Prospects Group, February 2000.



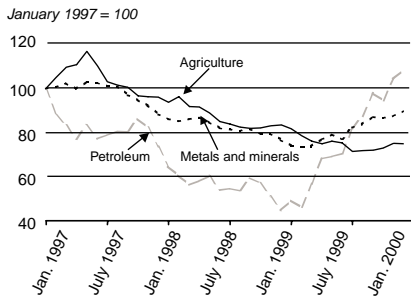
GNP per capita, 1997: \$510

### GDP growth, 1991–2002



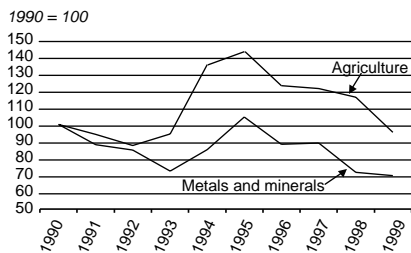
Source: World Bank.

### Commodity price indices, 1997–2000



Source: World Bank.

### Sub-Saharan African commodity price indices, 1990–99



Source: World Bank.

# Sub-Saharan Africa

## Recent developments

**S**UB-SAHARAN AFRICA RECORDED a second straight year of disappointing growth in 1999. After slowing from an average of 3.9 percent in 1995–97 to just 2.2 percent in 1998, growth barely increased to 2.5 percent in 1999. Excluding South Africa and oil exporters, the performance was slightly better: 3.3 percent in 1999 compared with 3.6 percent in 1998. But this was still well below the 1997 rate of 5 percent, and barely positive in per capita terms.

Many factors contributed to the poor performance in 1999. Not least was weak demand in world commodity markets, which cut into export prices and earnings, oil excepted. Poor weather conditions in eastern and southern Africa affected agricultural production, reducing domestic income and expenditure. A swath of civil conflicts and wars also cut across the continent from Ethiopia and Eritrea to Angola. Chronic problems of governance and other institutional weaknesses served to interrupt multilateral lending and halt foreign aid inflows to some countries. Higher interest rates in South Africa in the wake of the crises in Asia and Russia dampened the performance of interest-sensitive sectors and slowed growth there to about 1 percent. Still, in general, countries with supportive policy environments (Mozambique, Uganda, the CFA zone countries) performed better, with higher savings, investment, and exports. Countries with poor governance and policy environments (Kenya, Zimbabwe, and especially the strife-torn countries of the Democratic Republic of Congo, Guinea-Bissau, Liberia, and Sierra Leone) did worse.

There were widespread effects across the region from a major realignment of key export commodity prices. Agricultural producers came off worst as prices moved progressively lower through 1998–99. To-

ward the end of 1999, cocoa prices were down 48 percent, tea 36 percent, and cotton 46 percent compared with highs reached in 1997. Metals and minerals prices recovered somewhat over the course of 1999, but remained below levels achieved in 1996–97. And the price of crude oil more than halved between late 1997 and early 1999 before rebounding sharply.

The pattern of growth was similar for both oil and non-oil exporters: a sharp slowdown in 1998, followed by a modest acceleration in 1999. However, there were significant distributional effects from the relative price movements. Oil exporters' terms of trade plummeted in 1998 by 23 percent, then bounced back 32 percent in 1999. For non-oil commodity exporters,<sup>1</sup> cheaper oil imports at first offset declining prices of major export commodities, resulting in a small rise in terms of trade in 1998; but as oil prices rose through 1999, non-oil exporters' terms of trade fell steeply by 10.3 percent. Both groups of countries were able to offset the terms-of-trade shocks to some extent. Oil exporters' current account deficits widened in 1998 to 11 percent of GDP and then narrowed to just 2 percent in 1999. Non-oil exporters moved in the other direction, as deficits first narrowed slightly to 3.9 percent of GDP in 1998, then widened to 4.2 percent in 1999.

## External debt indicators

Total outstanding debt in 1999 was little changed from a year earlier at \$231 billion. Of the total, long-term debt represented 78 percent; public and publicly guaranteed debt was 74 percent; while private nonguaranteed debt constituted just 4 percent of the total. New disbursements totaled \$10.7 billion, up from \$7.4 billion in 1998. But even that substantial increase left inflows in 1999 below the 1993 level. Moreover, despite the new

inflows, net transfers on debt were negative at \$2.7 billion. One encouraging sign was the source of the new lending. Both official and private sources were involved, but private creditors represented nearly 75 percent of the total increase (\$2.6 billion out of \$3.5 billion).

No additional arrears were accumulated during the year as all countries scheduled debt servicing payments; \$9 billion of amortization and \$5 billion of interest payments were met. However, a total of \$20 billion in interest arrears and \$45 billion in principal arrears remains outstanding. Two countries concluded Paris Club rescheduling agreements: Zambia received a flow refinancing on Naples terms (67 percent NPV reduction), covering \$1.1 billion of its debt; and Mozambique rescheduled on Lyon terms (an 80 percent NPV reduction covering \$1.9 billion at the HIPC completion point). So far, debt reduction has been agreed for six Sub-Saharan African countries—Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Mozambique, and Uganda; overall some 30 others are eligible. Several, including Guinea, Senegal, and Tanzania, are moving quickly and may reach decision points in the first half of 2000.

**Aggregate resource flows**

Aggregate resource flows recovered in 1999, rising to \$17.5 billion from \$14.6 billion in 1998. Private flows, mostly destined for South Africa, offset a small decline in official flows. All categories of private debt inflows rose—commercial bank lending, bonds, and other. Foreign direct investment also increased in 1999 by nearly \$1.2 billion. Most of the increase was to South Africa, which received \$1.2 billion in 1999 after \$550 million in 1998. But there were increases in flows to Ghana, Mozambique, Nigeria, and other countries as

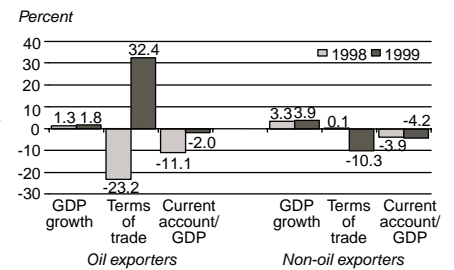
well. At the same time, portfolio equity inflows declined by \$0.2 billion to \$0.5 billion, barely 10 percent of the peak level of \$4.9 billion in 1995. Resource extraction and processing, especially oil, continued to dominate private inflows, though some amount of broadening to infrastructure, telecommunication, and transportation has also been evident, reflecting an improved climate for foreign investment and privatization opportunities. Official grants and loans declined in 1999, reflecting reduced loans on nonconcessional terms. However, ODA aid flows were static at \$12.3 billion, most of that due to a decline in concessional loans from multilateral sources.

In South Africa, inflows rose from \$1 billion in 1998 to \$3 billion in 1999. Almost all of South Africa's inflows were private; around two-thirds were debt-related and the rest were into equity. Equity inflows were especially strong in the third quarter of 1999, following the listing of the Old Mutual Life Assurance company in London in July. Net debt inflows remained positive, consolidating the reversal of the sharp outflows that occurred in the second half of 1998. A total of \$1.7 billion of bond financing was raised through a combination of public and private issues.

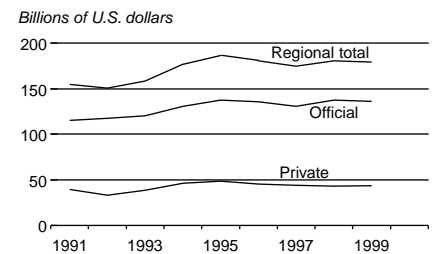
**Prospects and risks**

Despite the slowdown in growth in 1998–99, some optimism about medium-term prospects is justified. First, a number of regional conflicts appear to be moving toward resolution. Peace agreements have been signed in Guinea-Bissau, Liberia, and Sierra Leone, while fighting has abated in Angola and the Democratic Republic of Congo. In other countries, notably Nigeria and South Africa, peaceful political transitions are putting in place governments with mandates to pursue growth-oriented reforms. Second, the

**Adjustment of oil and non-oil commodity exporters to export price changes, 1998 and 1999**

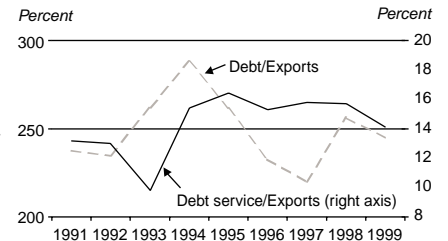


**Long-term external debt outstanding, 1991–99**



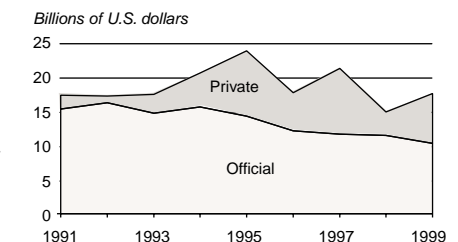
Source: World Bank.

**Debt and debt servicing, 1991–99**



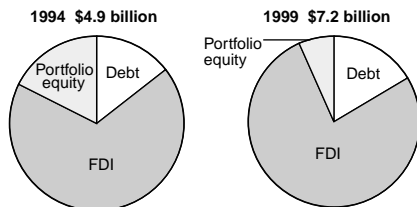
Source: World Bank.

**Aggregate net resource flows, 1991–99**

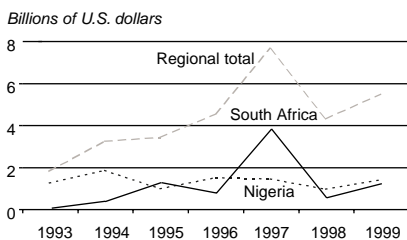


Source: World Bank.

**Composition of private flows, 1994 and 1997**



**Foreign direct investment, 1993–99**



Source: World Bank.

weather has improved in eastern and southern Africa after two years of disruption from El Niño. Third, commodity prices appear to have bottomed out toward the end of 1999 and are expected to strengthen moderately over the near to medium terms. Finally, South Africa’s economic slump proved short lived. A resumption of capital inflows and a strong upward trend in growth were apparent in official data available through the third quarter of 1999.

GDP growth is anticipated to rise to 3.2 percent in 2000, in line with previous forecasts. Fueling near-term growth will be a recovery in the agricultural sector as a result of better weather conditions, which will both contribute positively to the trade balance and raise domestic income and expenditure. Stronger export growth, improvements in the policy environment, and a cooling of many of the region’s conflicts will also make a contribution.

Export growth has been revised upward over the forecast period because of the surprising strength of East Asia’s rebound and continued robust growth in the G-7. Overall, Sub-Saharan exports should rise 7.0 percent this year and 5.8 percent in 2001–02. For oil producers, near-term prospects are particularly bright due to the initiation of Nigeria’s Bonny Island liquid natural gas facility; new offshore production in Nigeria, Angola, and Gabon; and the contributions of nontraditional producers Equatorial Guinea and Sudan. Oil producers will continue to benefit from buoyant prices that will boost export receipts and tax revenues, translating into faster growth and higher consumption and investment spending.

Non-oil commodity producers are likely to experience a pickup in exports as well, even though terms-of-trade deterioration (particularly with higher oil prices) may be a damper. Short-term commodity price volatility

has not historically been strongly linked to GDP growth, and despite price weakness, indications are that output and export volumes are making a recovery. Weather conditions have improved generally, while in West Africa bountiful rains in January may raise the cocoa harvest to record levels. Prospects for metals and minerals exports are less bright. Though prices are firming, supply constraints will limit the potential benefits. Gold continues its progressive decline in South Africa, while Ghana’s Ashanti Goldfields, though maintaining production, remains in deep financial trouble. The medium-term outlook for Zambian copper production has improved following a privatization agreement, but substantial restructuring and investment are needed before the new arrangement bears fruit. Meanwhile, political instability in central Africa continues to impede any imminent resurgence of mining activity there.

In South Africa, the region’s largest economy, momentum built through 1999 as stronger domestic demand complemented the recovery of the export sector. A resumption of inbound investment flows points to a sustained expansion of the domestic sector, while export performance is likely to benefit from the recently finalized free trade agreement with the EU. Nigeria is also set to strengthen as activity picks up in the hydrocarbons sector, particularly in light of the rise in prices. A more broad-based economic expansion in Nigeria, however, is unlikely to gather much strength in the near term.

By 2002, growth in the region should strengthen further to 3.8 percent (4.1 percent excluding South Africa and oil exporters). The key drivers remain improved governance and policy reforms, supported by new initiatives, including HIPC. With regard to the former, a number of conflicts moved toward resolution in 1999, but others persist. The December coup in

Côte d'Ivoire had negative implications and refocused attention on stability and governance in the region. At the same time, progress with the HIPC Initiative is expected to strengthen policy reforms oriented toward growth and poverty reduction. By the end of 2000, HIPC aims to have debt relief packages prepared for a total of 23 countries, including reassessment under the enhanced framework for nine retroactive cases. Most countries covered would be in Sub-Saharan Africa.

Current account deficits, which were compressed in 1999, are expected to widen over the forecast period as a result of better financing, higher inbound FDI, and an increase in official aid, including debt relief (reflecting the HIPC effects). For the region as a whole, the current account deficit is expected to narrow to 2.4 percent of GDP in 2000 from 2.7 percent in 1999, and then widen to 3.1 percent of GDP in 2001–02.

There are several risks to the forecast, mainly on the downside. The chief external risk is of a resurgence of inflation in industrial countries that would raise interest rates or slow

growth, or both, having a negative effect on investment and exports. A further risk is potentially weaker commodity prices. From an internal standpoint, the difficulties of reversing Sub-Saharan Africa's marginalization of the past 25 years should not be minimized. Massive unemployment, high incidence of AIDS, civil unrest, low savings and investment, deficient policy frameworks, and high levels of foreign indebtedness are challenges that cannot be dealt with quickly or easily. Failure to implement needed reforms will discourage investment, slow the development of internal markets, and delay the onset of more rapid growth.

### Note

1. The set of non-oil commodity exporters consists of 21 countries that account for 75 percent of non-oil commodity exports from Sub-Saharan Africa (see chapter 4, *Global Economic Prospects 2000*). The group excludes economies that were experiencing civil strife or for which /data were not adequate, which undoubtedly biases group performance upward.

### Sub-Saharan Africa forecast summary

(percent per annum)

Growth rates/ratios	1989–98	1997	1998	1999	Baseline forecast		
					2000	2001	2002
Real GDP growth	2.4	3.9	2.2	2.5	3.2	3.7	3.8
Consumption per capita	-0.5	2.8	0.4	-1.4	0.2	0.7	0.8
GDP per capita	-0.3	1.0	-0.4	-0.1	0.7	1.2	1.4
Population	2.8	2.9	2.6	2.6	2.5	2.5	2.4
Median inflation <sup>a</sup>	10.4	8.2	6.5	7.9	5.7	5.7	5.9
Gross domestic investment/ GDP	16.8	17.0	17.4	17.5	17.7	17.8	17.9
Budget balance	-5.3	-3.3	-3.6	-4.5	-4.4	-4.1	-3.8
Export volume <sup>b</sup>	4.3	5.6	-0.2	3.8	7.0	5.8	5.8
Current account/GDP	-2.0	-2.4	-4.5	-2.7	-2.4	-3.1	-3.1
<i>Memo items</i>							
GDP of major oil exporters	2.9	4.2	1.3	1.8	3.0	3.6	3.8
GDP of region, excluding South Africa and oil exporters	3.1	5.0	3.6	3.3	3.5	4.1	4.1

a. GDP deflator in local currency.

b. Goods and nonfactor services.

Source: World Bank Development Prospects Group, February 2000.

