

GLOBAL GROWTH PROSPECTS FOR 2008

The global economy expanded in 2007 with growth running above 5 percent.¹ China's economy gained further momentum, growing by an expected 11.5 percent, and for the first time making the largest contribution to global growth evaluated at market exchange rates as well as purchasing-power-parity (PPP) exchange rates. India also grew rapidly at a rate expected to exceed 9 percent and Russia at almost 7 percent (see Figure 1). These three dynamic countries alone are thus accounting for approximately one-half of global growth. Yet it should be noted that other emerging market economies and developing countries have also maintained robust expansions in 2007. On average, the real growth rate is likely to amount to almost 6 percent for Africa, Central and Eastern Europe and the Middle East, while South America is expected to have grown by 5 percent in 2007.

Rapid growth in these countries has counterbalanced continued moderate growth in the United States that is only expanding at approximately 2 percent in 2007, due primarily to the drag caused by the housing correction. Economic growth in the euro area and Japan has also slowed this year. Compared to the real GDP growth rate of 2.8 and 2.2 percent in 2006, the 2007 rate is likely to be only 2.5 and 2.0 percent in euro land and Japan, respectively.

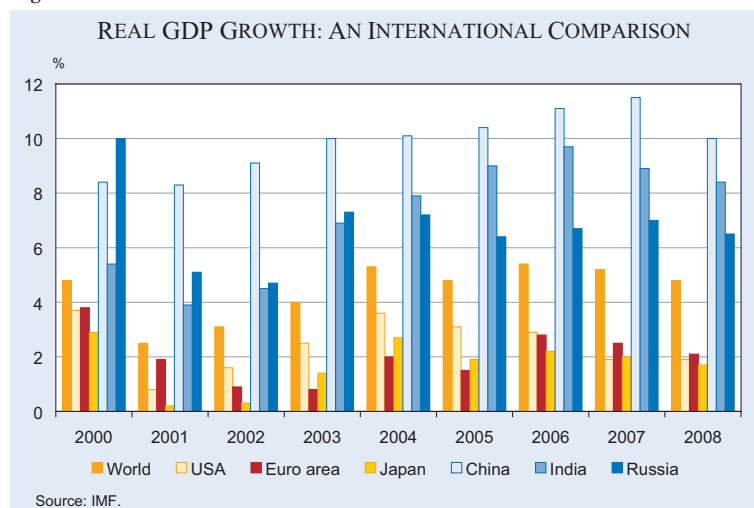
According to the latest IMF forecast, global growth will slow to 4.8 percent in 2008. In the United States

growth is projected at just 1.9 percent. Ongoing difficulties in the mortgage market are expected to extend the decline in residential investment, while high energy prices, sluggish job growth and weaker house prices are likely to further dampen consumption spending. In the euro area the growth rate is expected to be 2.1 percent in 2008, and this forecast also reflects the lagged effects of euro appreciation, trade spill-overs from the United States, etc. Japan will likely grow at 1.7 percent in 2008, and its decline from 2.0 percent in the previous year is also partly caused by slower global growth and a somewhat stronger yen.

Among emerging markets and developing countries, growth is anticipated to remain strong. The Chinese economy is expected to grow by 10 percent in 2008, while India will expand at 8.4 percent, followed by Russia with a growth prospect of 6.5 percent. On average, Africa will improve its growth rate by almost 1 percent, reaching 6.5 percent in 2008. A slight decrease in growth is expected in 2008 for the country groups of South America (4.3 percent) and Central and Eastern Europe (5.2 percent). In this context, the IMF suggests that strong domestic demand growth in developing and emerging market economies should continue to be a key driver of global growth, with more robust fiscal balances and economic policy frameworks providing scope for most countries to offset some weakening in external demand.

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Figure 1



¹ International Monetary Fund (IMF), World Economic Outlook, October 2007, Washington DC, Ch. 1.