

# 1. THE WORLD ECONOMY IN 1997-1998

Based on a broad range of preliminary indicators supplied by the International Monetary Fund, the world economic and financial conditions remained generally encouraging and the global economic expansion is expected to continue at a satisfactory pace in 1997/98 and over the medium term, in spite of the financial crisis in East Asia.

Therefore, total world output in 1997 was projected to expand by 4.2%, and increase by 4.3% in 1998. In industrial countries, the growth projections for 1997-98 are 2.8% and 2.5% respectively - marginally higher than the 2.4% recorded in 1995. This expansion reflected the continuing success among industrial countries in controlling inflation and the robust growth of output and employment now being experienced by a number of industrial countries especially the United States.

In summary, it appears that the expansion in World output resulted mainly from the following:

1. Significant progress toward fiscal consolidation
2. Correction of overvalued currencies
3. Significant containment of inflation
4. Significant growth in world trade in services
5. Significant investment in new technology

The expansion is underpinned by continued solid growth with low inflation in the United States and the United Kingdom; a strengthening recovery in Canada; a broadening of recovery

across continental Western Europe notwithstanding the unsatisfactory economic performances of the three (3) major economies of Germany, France and Italy.

Robust growth trends exist in most of the developing world, particularly in China, Latin America and much of Asia even though some countries are likely to experience a setback associated with the recent turmoil in financial markets in Southeast Asia. There is also evidence of an end to the decline in output, and perhaps a beginning of growth in Russia and in the transition countries as a group.

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## World Trade

World Trade volume was projected to increase by 7.7% in 1997 (1.4% more than the growth rate in 1996) and 6.82% in 1998; (0.5 percentage more than growth in 1995). Trade among the developing countries is also expanding strongly, supported by trade liberalization and increased intra-regional foreign direct investment.

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## Oil

The price of oil in recent years has continued to be highly volatile over short periods. It has been relatively stable, however, when compared with the period from the first oil shock in 1973 and through the Iraq-Kuwait conflict in 1990-91. Oil prices declined by 5.1% per barrel

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Table 1.1

**Overview of the World Economic Outlook Projections, 1995 - 1998**  
(Annual percentage change in GDP unless otherwise noted)

	1995	1996	1997	1998
<b>WORLD OUTPUT</b>	<b>3.7</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>
Industrial Countries	2.1	2.4	2.8	2.6
U.S.A.	2.0	2.8	3.7	2.6
Japan	1.4	3.5	1.1	2.1
Germany	1.9	1.4	2.3	2.8
Italy	2.9	0.7	1.2	2.1
U.K.	2.7	2.3	3.3	2.6
Canada	2.3	1.5	3.7	3.5
<b>EUROPEAN UNION</b>	<b>2.5</b>	<b>1.7</b>	<b>3.9</b>	<b>4.2</b>
<b>DEVELOPING COUNTRIES</b>	<b>6.0</b>	<b>6.5</b>	<b>6.2</b>	<b>6.2</b>
Jamaica	0.5	-1.7	-3.5	-3.0
Africa	2.8	5.2	3.7	5.0
Asia	8.9	8.2	7.6	7.4
Middle East and Europe	3.5	4.8	4.6	4.2
Western Hemisphere	1.3	3.4	4.1	4.4
<b>WORLD TRADE VOLUME</b>	<b>9.5</b>	<b>6.3</b>	<b>7.7</b>	<b>6.8</b>
<b>IMPORTS</b>				
Industrial Countries	8.9	6.1	7.1	6.4
Developing Countries	11.4	8.7	8.4	7.8
<b>EXPORTS</b>				
Industrial Countries	8.8	6.1	7.1	6.4
Developing Countries	10.5	8.6	7.5	7.0
<b>COMMODITY PRICE (IN SDRs)</b>				
Oil <sup>1</sup>	1.9	24.3	0.3	-0.8
In U.S. Dollars a barrel	8.0	18.9	-5.1	-1.8
<b>NON-FUEL <sup>2</sup></b>				
In SDRs	2.1	3.1	2.8	-1.6
In US Dollars	8.2	-1.3	-2.7	-2.5
<b>CONSUMER PRICES</b>				
Industrial Countries	2.5	2.4	2.2	2.3
Developing Countries	22.7	13.2	10.0	8.9
Countries in Transition	119.2	40.4	32.3	14.1
<b>SIX-MONTH LIBOR (IN PERCENT) <sup>3</sup></b>				
On U.S. Dollar Deposits	6.1	5.6	5.9	6.3
On Japanese Yen Deposits	1.3	0.7	0.7	1.1
On Deutsche Mark Deposits	4.6	3.3	3.3	4.0

<sup>1</sup>Simple average of spot prices of U.K., Brent, Dubai and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$20.42 in 1996; the assumed prices are \$19.69 in 1997 and \$18.36 in 1998

<sup>2</sup>Average, based on world commodity export weights

<sup>3</sup>London interbank offered rate.

*Source: World Economic Outlook*

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during 1997 over 1996 and are expected to decline by a further 1.8% during 1998.

### Trade Developments

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In terms of major trade agreements, there were not many new ones in 1997, however the World Trade Organisation (WTO) upheld a ruling by its Disputes Settlement Body that the preferential access granted by European Union (EU) countries for bananas from African, Caribbean and Pacific (ACP) countries, violates free trade rules. The EU was given fifteen months in which to come up with a system that is acceptable to the WTO.

There was a tacit agreement on the WTO financial services accord that will open new global markets for banks, insurers and securities firms during 1997/98.

Despite President Clinton's failure to obtain fast-track authority from Congress for the negotiation of the Free Trade Area of the Americas (FTAA), negotiations are still set to begin in April 1998, which will aim for hemisphere-wide free trade by 2005.

### Inflation and Commodity Prices

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The aggregate inflation projections for industrial countries in 1997 and 1998 are 2.4% and 2.2% per annum respectively. This low inflation expectation seems to have resulted from a strong commitment by the authorities to the use of tight monetary policies. A more flexible labour market and greater investment in new technology

may be contributing to wage moderation, while the growth in international trade and increased global competition should help to lessen the inflationary pressures.

Inflation in developing countries continues to be subdued, with inflation for 1997 and 1998 projected to be 10.0% (3% lower than 1996) and 8.9% respectively. Inflation rates for countries in transition are projected to be 32.3% in 1997 and 14.1% in 1998 which is a significant reduction considering that inflation in 1995 averaged 119.2%

### World Economic Outlook

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As shown by Table 1.1, the growth outlook for the world's output in 1997 and 1998 is estimated at about 4.3%. Private consumption growth is expected to be relatively strong in the United States and the United Kingdom. There is however, likely to be little growth in public consumption in industrialized countries, as these are making an effort to reduce their fiscal imbalances.

Although a moderation of world growth is indeed likely to occur at some point, there are reasons to believe that the current expansion can be sustained, possibly into the next decade. This is despite the financial and currency upheavals in Southeast Asia, which are expected to be resolved by the end of 1998, given the experience of Mexico in 1995. ■