



## **Transcript of the World Economic Outlook Press Conference International Monetary Fund**

Washington, DC, April 13, 2005

Mr. HACCHE: Good morning, and welcome to this press briefing on the IMF's latest report on the World Economic Outlook. There is simultaneous interpretation through the headsets provided, with Spanish on Channel 2, French on Channel 3, and English on Channel 4.

I am Graham Hacche, Deputy Director of the IMF's External Relations Department. To my right is Raghuram Rajan, the IMF's Economic Counsellor and Director of the Research Department. To Mr. Rajan's right is David Robinson, Deputy Director of the Research Department, and to David's right is Tim Callen, Chief of the World Economic Studies Division.

Before turning to Mr. Rajan for his opening remarks, I remind you that tomorrow morning, at 10:30, the Managing Director, Rodrigo de Rato, will hold a press briefing here, previewing this weekend's Ministerial Meetings.

MR. RAJAN: Good morning. As we anticipated in our last outlook, global growth for 2004, at 5.1 percent, was the highest in decades. Growth slowed over the course of the year, but has picked up recently. While we project a still relatively robust 4.3 percent in 2005, volatile oil prices and higher interest rates cause some downside risk. Also, we see an increasing divergence across regions. The expansion continues to be overly dependent on growth in the United States and emerging Asia, while we still await a sustained recovery in the euro area and Japan.

Before turning to the broad risks, let me summarize how we see the major regions. The United States continues to hum; annual GDP growth is projected to be 3.6 percent in both 2005 and 2006. We expect a moderation in private consumption, reflecting a withdrawal of fiscal and monetary stimulus, offset by continued strength in investment.

In the euro area, the modest expansion that seemed to be underway during the first half of 2004 hit the rails in the second. While the U.S. consumer seems to give little thought for the future, European consumers seem to be beset with worry, especially the consequences of reforms on jobs and pensions. Weak domestic demand was compounded by weak export growth. We now project 1.6 percent for 2005, down from 2.2 percent in September, with some modest improvement over the course of 2005.

The Japanese economy continues to be moody. In 2004, the ebullience of the first quarter gave way to despondency in the rest of the year. However, we see improvements in the underlying fundamentals, and believe the economy will recover to an annual rate of 0.8 percent, accelerating to 1.9 percent in 2006.

The two fast growing emerging giants have different problems. Investment in China, which accounted for an extraordinary 45 percent of GDP in 2004, has picked up again. We have been concerned about the quality of investment, as have the Chinese authorities, and financial sector as well as public enterprise reform will be critical to improving it. Greater exchange rate flexibility can also help.

India, by contrast, needs more investment, especially in infrastructure. In order to create room in the already overstretched government budget, expenditures will have to be rationalized and



revenues expanded. Policy frameworks will also have to be strengthened to draw in the private sector.

Other regions of the world have also been growing robustly. One of the brightest spots in the current global recovery has been the acceleration of growth in Sub-Saharan Africa to over 5 percent in 2004, which is the highest in almost a decade. We expect growth prospects to remain favorable in 2005 and 2006.

This central scenario of robust growth for the world economy is surrounded by significant risks: primarily higher interest rates, high and volatile oil prices, and increasing current account imbalances. It is useful to see these risks in the context of two important medium-term transitions that are also taking place: first, the increasing economic importance of developing countries; and second, the aging of industrial country populations. We are doing too little to adjust to these transitions, and the risks that surround us today reflect this.

Let me explain. Developing countries and emerging markets will account for an increasingly important share of world GDP. Not only is GDP in these countries more volatile, but also it will be more commodity-intensive. Even at a conservative estimate, over the next quarter of a century China should see car ownership multiply 15 times, and India will be only a little behind. While the spectacular growth of these countries will benefit all, it will strain existing resources.

One example of a consequence is the high and volatile oil price. Even as demand from developing countries has increased, investment has not kept pace, resulting in very limited excess capacity. Not only can we not rule out price spikes, we can also not rule out price plunges if volatile developing country growth slows. Oil price volatility makes business more cautious about investing, especially in the oil sector itself where investment is needed throughout the production chain. In turn, low investment will continue to limit excess capacity, keeping price volatility high and perpetuating the vicious cycle.

The second major transition is that rich industrial countries are aging. Not only should they be restructuring their own work environment to make better use of the changing labor force, but also many should be sending capital to younger, poorer developing countries. This will enable Adrian and Becky to draw on their foreign investments in their old age even while the younger, increasingly skilled Abebe or Nafisa receive the capital to remain productive today. As our essay on demographics in the last World Economic Outlook suggests, rich countries should be saving more and running larger current account surpluses. Poor countries should be investing more, and running larger current account deficits.

Instead, we see capital flowing in the wrong direction nowadays, with emerging markets financing the rich. Therefore, the problem with global imbalances is not just that there is a small but costly risk that financial markets become wary of financing the U.S. current account deficit, but also the current direction of capital flows does not match what is needed given demographic trends. Now, markets will eventually deal with both the resource crunch and the global reallocation of capital, but governments have to help them work better by removing impediments. Oil price volatility can be reduced by disseminating more timely and accurate information on production and inventories. Unnecessary impediments to oil investment, ranging from uncoordinated environmental standards across the various states of the United States to drastic restrictions on private or foreign participation in the oil sectors of some countries, need to be removed. Energy efficiency can also be improved by raising the price of oil and gas to their true economic cost. In particular, countries that have not passed through oil price increases to consumers, or who do not impose sufficient taxes, should start doing so.



To some degree, higher oil prices will find their way into inflation. Monetary authorities in developing countries that have a high oil intensity of production, relatively inflexible labor markets, and low monetary credibility have to be especially vigilant. Also, the normalization of policy rates in expanding industrial economies will put upward pressure on all kinds of rates and risk premia that have been held down thus far by low policy rates. This could cool some red hot markets, including the market for housing and that for high yield debt. Also, while the resilience of emerging markets has improved, many are still vulnerable because of high levels of public debt. While all countries may look good when markets are inebriated with liquidity, the authorities will need to worry about how attractive they will be in the cold sober light of the morning after.

Turning to global imbalances, all regions have a part to play. They seem to be agreed on that, but their attitudes towards needed policy changes seem much like St. Augustine's "Lord, give me chastity, but not just yet." A mutually agreed, credible, multilateral framework for policy action, with specifics on measures and timing, would help keep markets calm.

The needed policy actions are the United States needs to save more. The worthy intent of halving the fiscal deficit by 2009 needs to be backed by credible measures to achieve it. The U.S. consumer who has bought the world out of recession needs to rest her tired feet and save more. Monetary policy could help if higher interest rates slow price growth and lead to greater household savings.

A number of emerging markets, especially in emerging Asia, have built up reserves to protect against everything short of the Apocalypse. The reserve build-up is now undermining monetary control, as well as the soundness of their financial systems. Greater exchange rate flexibility would slow reserve build-up and allow countries to regain monetary control. Financial sector reforms so that capital is allocated more transparently and profitably would increase the returns to investment, which should not only lead to greater investment but also could reduce the need to save, allowing imported capital to fill the gap. Capital could then flow again in the desired direction.

Finally, as domestic demand in the United States slows down and until emerging market are large enough to take up the slack, Europe and Japan will have to help out. They will have to grow faster, and there are domestic imperatives for this, also. At its current growth potential, Europe simply cannot afford its welfare state, while Japan will have difficulty dealing with its fiscal problems. Structural reforms to increase competition and flexibility are essential. When call centers are helping firms around the world squeeze 24 hours into a working day, Europe cannot still be debating stretching 35 hours into a working week.

Politicians typically deal only with the painfully immediate. Periods of foreign exchange or oil price volatility have been relatively brief, thus far, and the resulting pain muted so politicians have not been forced to focus. Even were they to do so, their choice of policies follows a simple calculus: any gain that follows elections counts for nothing, while any pain that precedes it is multiplied manyfold. Since the public will appreciate the gains from the policies we have outlined only in the medium term, it is not surprising that little has been done, thus far. But we are running out of time, and markets may not be willing to wait until after the next election. The world needs action now.

Mr. HACCHE: Turning to questions, please wait for the microphone to come to you and state your name and affiliation, please.

QUESTION: Are you saying that the price of oil is underpriced in the U.S.? Also, just looking at your concern for oil prices globally, there have been projections that oil may go over a hundred



dollars a barrel. At what point are you concerned that there might be a global repercussion because of oil prices?

Mr. RAJAN: The point about oil, let me start with the second question. The real point to focus on is the possibility of volatility. So, you could have spikes, you could have falls, but there is going to be volatility because there is limited excess capacity. But we should not just be looking at the short term; we need to think about the medium term, because of the growth of these emerging markets; we need to be prepared for that, which means creating the incentives for investment going forward.

Now, in the short term, prices are generally right. We cannot foretell whether, in fact, today's price—which is around US\$51 a barrel—is going to go up to a hundred dollars a barrel or it is going to go down to 25. Both are possibilities. In our view, however, we should be prepared for some volatility.

QUESTION: What about U.S. prices?

Mr. RAJAN: The U.S. price of oil is generally considered low. Now, what the right price is, is something that has to be figured out, how much in terms of taxes have to be added on to create the necessary incentives for conservation. But in general, the U.S. price is lower than most other countries in the world.

QUESTION: You mentioned in the report that India's 10 percent budgetary deficit is too high. What do you think should be the correct figure; how much would you like to reduce it and what should be the correct figure? Just now, if I understood you right, you said that developing countries must invest more and incur deficits. At the same time, you tell India not to incur a deficit. India has had the second highest rate of growth in the last few years, which means that it is doing something right.

MR. RAJAN: The first question, what is the magic level of a budget deficit, depends on a variety of factors, including what the spending is on. But clearly 10 percent is too high. It also is too high because it gives relatively little room for the much-needed infrastructure spending that has to take place in India. Clearly, there has to be some government support to that infrastructure spending and, with such a stretched budget, you do not have that much room. So, reducing the deficit would be important both in its own right, but also in creating the room for the necessary spending.

I do not think the problem in India is with the current level of growth; it is a high level of growth. But the intention is to bump it up by a few percent and that will need increased investment, especially in infrastructure. So it is quite possible that that kind of investment, if appropriately done, would create more of a deficit, of a current account deficit.

QUESTION: There is a perception among European policymakers that, while structural reforms are important and need to be furthered, the real immediate problem is the global imbalances, and that is something that should be sorted out by you as policymakers and in Asia, where Europe is more on the sidelines. What would you say to that?

Mr. RAJAN: I think structural reforms are immensely important in Europe in its own right, even putting aside the issue of global imbalances. Europe needs to increase its growth potential. As I said, some of the fiscal problems that we have seen nowadays result, in general, from having a relatively low growth potential. So, it is important for that reason. A more flexible economy would help. It would also help with the looming problems; the problems of aging, how to keep the elderly employed in appropriate professions going forward, will require a more flexible economy.



As to the question of whether Europe has a role to play in the resolution of global imbalances, I think both Europe and Japan could play a very valuable role in supporting growth as U.S. growth slows down. U.S. domestic demand will have to slow down in order for the global imbalance to rectify, and all of it cannot transfer immediately, if you will, to the emerging markets. So, some support has to be given through higher growth from Europe and Japan.

QUESTION: In the section on the U.K., in Chapter I, Mr. Rajan, on page 30, you refer to the need for fiscal consolidation in the U.K. and for the pace of that to be accelerated. I wonder if you could elaborate on the pace and scale of measures that you see as necessary at the Fund and, in particular, whether you could say whether that consolidation should come through changes in expenditure programs or through potential changes in taxation.

MR. ROBINSON: Let me begin by answering that question by saying I think fiscal policy in the U.K. has been extremely well run; they have a very sound fiscal framework, and public debt in the U.K. is, I think, among the lowest of the G-7 countries. So, what we are talking about there is scope for marginal—but perhaps real—improvements.

Looking forward, our concern is that on the current stance of policies, it will be difficult to meet the government's own fiscal rules over the next cycle; we think they will meet them this cycle, but over the next cycle it will become somewhat more difficult.

Now, it is not a huge problem in terms of the amount that we are looking at; it is of the order of perhaps 1 percent of GDP over five years. We think if there could be additional adjustments of that amount over that timeframe, that would ensure that the rules are met. In terms of how that could be achieved, I think the preference would be to have slower expenditure growth. If not, one would look on the revenue side, or one might look at reducing exemptions, for example.

QUESTION: My question is, in general, on Latin America. How do you foresee the outlook of the next couple of years in the whole region? In the case of Mexico, I have seen in the report that this year and the next year there is a decrease in economic growth. My question to you is how Mexico needs to continue growing. Do you think it is because of the lack of structural reforms in Mexico that is softening the growth of the economy of Mexico?

MR. RAJAN: Well, let me start with the first part. There have been a number of improvements in Latin America. We have, in a number of countries, got away from the past cycle. We have better fiscal policies; we have some countries running current account surpluses; we have countries trying to improve the structuring of their public debt, including some countries recently borrowing in their own currency and getting away from what is known as the original sin, the inability to borrow in your own currency. So, there have been tremendous improvements, not uniformly but certainly across a number of countries in Latin America. I think the outlook, in general, looks quite good, especially if the reform process continues and spreads across the region.

In terms of Mexico itself, clearly there has been a tremendous improvement of the last few years. There is broad-based growth. Now, some of it is dependent on the U.S. economy and so some of the slowing that you will see is a natural function of the U.S. economy itself slowing from a very strong pace last year. There is a good policy framework in place. Inflation is under control; monetary policy has been tightened reasonably. There is fiscal discipline, which is strong. Unlike in the past—and this is a big change across Latin America—there is a flexible exchange rate which reduces the risks associated with external debt.



What is needed? Well, clearly the reform process has to continue, especially the structural reforms. In the financial sector, we have seen some; they should continue. Energy and telecom reform are quite important, but also labor market reform will be tremendously important. Especially given increasing competition from the Asian economies, more labor market flexibility would be quite important for Mexico to continue the steady growth path.

QUESTION: One question about Italy. You say in the outlook that Italy's budget deficit is projected to increase substantially. Just yesterday, the Commission has announced the intention of opening the so-called procedure for excessive deficit. Can you make a comment on that; can you say what you think about it?

MR. RAJAN: Well, let me make a brief comment and turn it over to David. Clearly, Italy needs fiscal consolidation, and not through one-off measures which have been the norm thus far. Now, in terms of going forward, I think the aim of reducing the structural fiscal deficit to credible measures in a substantial way is something that has to be undertaken wholeheartedly. If it is done, it could also have other spillover effects, for example in improving business confidence, and so on. But let me turn it over to David to give you more details.

MR. ROBINSON: Well, just a couple of points on the numbers. If I remember correctly, I think the Italian government's target for the fiscal deficit in FY 2005 is 2.7 percent of GDP. We obviously are concerned that it could be higher; our projection is 3.5. The main reasons for that difference are partly slower growth, but also because some revenue measures—in fact, largely accounting transactions, I think—we are not sure would be approved by EUROSTAT, technically speaking.

Our position really is that the 2.7 this year is a good target and they should try and achieve it. The worry is that the policies in place at present are not sufficient. Indeed, when you abstract from the cycle and look at the change in the underlying deficit, it is actually moving in the wrong direction according to our projection.

QUESTION: Oil prices seem to be the principal concern of this Spring Meetings; it was also the principal concern of the Autumn Meetings of the IMF in 2002. My impression, if I remember rightly, was that short-term factors [inaudible] oil markets because of doubts about the coming war in Iraq were emphasized by Mr. Kohler; if I remember rightly, he said that a swift resolution of the war in Iraq could actually ease concerns and bring down the price of oil. Two years later we seem to be talking exclusively about long-term structural factors, which I would imagine were [inaudible] to protect them. What has happened; what has happened in the intervening period?

MR. RAJAN: Well, sometimes it takes events to wake you up. Clearly, the rapid growth of emerging economies, like China and India, have played a part. Last year, for example, in 2004, the estimates for Chinese demand kept increasing throughout the year from the International Energy Agency. So, the extent to which that demand from these countries has emerged, and it has been oil-intensive, is something that has been a certain amount of surprise. But, once surprised, we should not be surprised twice. What we have done in this outlook is taken a very serious look at what medium-term projections would like look, given the emerging demand from these countries.

Our sense is that we do need to think about what the medium-term strategy will be in terms of creating the necessary supply, and also creating the necessary room on the demand side, which is why the issue about conservation comes in, that these countries will need to consume more oil, and somehow we have to find the space. We need to take measures on both sides.



QUESTION: Talking again about structural reforms in Europe, Germany has undertaken some comprehensive labor market reforms, but so far there have been no positive effects on the labor market; just to the contrary, unemployment has risen. Do you expect any positive effects at all from these reforms, or do you think they are just not bold enough?

MR. RAJAN: First, I think some of the increase in unemployment is statistical and, therefore, one should be careful reading too much into those figures. Second, we did look at the impact of structural reforms in a previous World Economic Outlook. One of the findings was that, in the short term, some reforms do have a negative impact on growth, a slight negative impact, but in the longer run the benefits are quite tremendous. My sense is that Germany is doing the right thing. German firms now are highly competitive, because of the restructuring that has taken place over the last few years. German exports are holding their own against competition from lower priced countries. So, I think the path is correct.

The point, however, to take away is reforms feed on each other. Therefore, half-baked reforms may not have as much impact as going the full course. It is almost like a course of antibiotics; you want to take it right through the end and has far better value then. So, I would say that we need to stick the course of reform and not hesitate.

QUESTION: I would like to have your evaluation about the vulnerability of Brazil to external shocks. The country has reduced its debt, but do you think it is still high? Also, there is a debate in the country whether monetary policy is the best way to fight inflation. Should a greater burden be put on the fiscal part instead of monetary policy?

MR. RAJAN: Well, first, Brazil has performed very well in the last year. Growth, as you know, was 5.2 percent. A lot of it is because of policy reform on the fiscal side; as you know, there is already a significant primary surplus. On the monetary side, I think the monetary authorities have rightfully taken steps, I should say, with adequate caution to ward off potential inflation.

Now, the reason Brazilian interest rates, especially lending, are high is not just fears of inflation; there are other structural factors that need to be dealt with. So, it is not just up to monetary policy alone; structural reforms need to be undertaken in order to bring down the level of those interest rates.

I would think the balance at this point is reasonable between how much fiscal tightening there is and how much monetary tightening there is. I think the focus should be placed more on continuing the structural reform process which is underway.

QUESTION: The report suggests that the European Central Bank may need to cut interest rates. I am wondering if you have a trigger point; in your mind, what is the point of slowdown to warrant cutting interest rates. On oil conservation, I am wondering what, in addition to cut subsidies, could be done at the moment.

MR. RAJAN: Let me start, first, with the interest rates. In general, I think we do feel that the primary problem in European growth is a structural one and, therefore, labor market, product market, financial market reforms are needed to increase the growth rate. With growth potential relatively low, it may not be necessary to offer a lot of monetary stimulus at the current levels. However, we think that the central bank should retain all options going forward and, therefore, it makes sense to leave them all on the table and not take off one set of options off the table. We do not have a magic number in mind.



In terms of the second question, on oil conservation, I think prices do a lot in their own right. Bringing prices to reflect the true economic cost—and by true economic cost, you can include a lot of effects of oil, including the environmental effects, which should be brought into the price—taking all that into account, I think, is quite important. Therefore, I would say the single biggest thing is to let the price reflect the true economic cost.

QUESTION: I have two questions on Argentina. As you know, there is a big concern on inflation and it is picking up, but you say it is expected to end the year within the central bank's target. I would like to know why. Do you think they are going to tighten monetary policy or do you think they are doing a correct offensive not to get prices up?

The second question is on growth, GDP. You said it was 9 percent in 2004, and you say that in 2005 it is going to be 6, and then 3.6 in 2006. I would like to know why you expect this decline.

MR. RAJAN: The details of the growth numbers I will ask David to comment on. In terms of inflation itself, clearly there are signs that it may be creeping up. The hope is that we will have action on both sides; that is, both on the monetary policy side, but also on the fiscal side, that we have fiscal policy being adequately tightened to take into account potential inflation. As far as the rationale for the growth numbers go, David?

MR. ROBINSON: I can only answer that question briefly. I think the 9 percent is an exceptionally high rate of growth by any standard. What we have seen, among other things in Argentina over the last couple of years, is a rebound from the very sharp slowdown that we had. Eventually, that factor is going to come out and will move back down to more normal growth rates, and I think that is what this is saying in the projection.

QUESTION: I am curious what growth rate you think the United States has to register in its slowdown, if you think it is advisable. But my question is, your comment about time running out, and growing imbalances across the globe, and politicians' reluctance to act on these, could you trace out some scenarios of what would happen if China's investment boom does not slow and, secondly, if the United States does not cut its fiscal deficit as promised in half over the next few years.

MR. RAJAN: What growth rate should the U.S. aim at? Well, the whole point of this strategy, if you will, is to prevent a dramatic slowdown in global growth. Clearly, if the U.S. as a whole slows down without anybody taking up the slack, it will not just be the U.S. which will slow down growth but the rest of the world will also slow down. The hope is that, while the U.S. slows down domestic demand, U.S. net exports increase such that the U.S. itself does not have to slow down dramatically. For that, you need growth elsewhere in the world to pick up so they can absorb those net exports. That is the rationale for everyone doing their bit so that the world sort of emerges without a drastic slowdown. Will there be slowdown? Quite possibly; but dramatic, hopefully not.

In terms of what would happen if the Chinese investment boom does not slow down, again I want to emphasize it is the quality of the investment, and some of that quality is tied to quantity. If quality improves, we are halfway there. Clearly, some other countries have invested at a tremendous rate during the growth phase. What I think we are particularly worried about, and the Chinese authorities, including the Premier, have said they are worried about, is the quality. If it does not slow down, what happens is you are building up a hole in the financial system, the banking system, which could be quite large, and that eventually will have to be dealt with. So, how that will be dealt with, what consequences that will have, we would rather not contemplate. We hope that the



slowdown and the quality improves in such a way that we do not have to deal with the problems that would otherwise emerge.

The U.S., if it does not cut its fiscal deficit—the fiscal deficit is just one part. The other part is savings; private household savings have to also contribute. The fiscal deficit itself may not be enough. If U.S. savings do not increase adequately, you basically have to borrow from abroad. At some point, investors outside will have a tremendous amount of U.S. assets in their portfolio and will start worrying about their value and about whether they are adequately diversified.

Essentially, to convince them to hold U.S. assets, one of two things has to happen: either U.S. interest rates have to go up way above the alternative opportunities these people have, or the U.S. exchange rate has to depreciate far enough that they feel that an appreciating exchange rate provides returns which give them incentives to hold U.S. assets. Neither of these is a particularly palatable outcome. A high U.S. interest rate is going to curb U.S. investment, as also feed through to the rest of the world, and that is going to be a problem. A very sharp movement in exchange rates is going to be problematic for a number of countries, including those countries that, for example, are exporting in dollars but have liabilities in euros, and they are going to have a problem. But sharp volatility, in general, creates tremendous problems of dislocation, changes in trade patterns, and so on, which increase costs. So, those are the kind of things that we are trying to ward off through an orderly resolution of these global imbalances.

QUESTION: On Latin America, you warn about the high levels of debt in the region, as usual. What do you see is the forecast, considering that U.S. interest rates are going up and might go up faster than expected, as you warn in the report?

A second question if I may, on Argentina. You still forecast very significant growth in the country, some of the highest in Latin America, while they do not have access to international capital markets. My question is how important is it for Argentina to get the issue of the debt resolved, or do you assume in your forecast that that issue will be resolved in the next years?

MR. RAJAN: Our forecasts for Latin America are made with expectations of interest rates, and so on. We do not do forecasts based on deviations from expectations, which are always possible. So, it is in that sense that you should take the forecast.

As for Argentina, the problems that are yet unresolved certainly have not had a tremendous impact on growth as yet. But eventually, if one does not resolve the problem with utilities, for example, or one does not get access to international capital markets, it will have some effects on growth. This is why given the strong growth that has taken place over the last few years, I think it is even more important for the Argentine authorities to deal with these problems and put them behind them so that growth can be allowed to continue unimpeded, and that, I think, is our desire.

Catch-up growth can take place without many of the things I have talked about. I mean, if you are starting from a low level, capacity constraints in energy do not matter that much. If your exports are booming but your imports have got crushed, then you have some room; you do not need foreign financing. But eventually you are going to get more of a balance, and at that point the need to reaccess international markets becomes even more important. So, I think dealing with these problems should be a priority.

QUESTION: A couple of quick questions, one global, one U.K., if that is okay. Forgive me if I misunderstood, but one of the consequences on the issue with oil, you seem to be saying, was that



oil prices could lead to higher interest rates and that could cool red hot markets such as housing. I was wondering is that now the case that actually that is now the key risk in terms of the housing market or, if not, what is the key risk of the housing market.

And just very quickly on the U.K., is it disappointing that no political parties are offering to the electorate the chance to vote on the sort of package of reform that you seem to be advocating?

MR. RAJAN: I think interest rates are normalizing in their own right without oil necessarily playing a part. Oil could just exacerbate that rise potentially. But interest rates are being normalized, certainly in the United States, certainly in the U.K., Australia, and a number of other countries. Yes, higher interest rates will pose a risk to the housing market, and we have already seen some cooling of the housing market in the United Kingdom. We see some mixed signals in the United States. Housing starts are still continuing as strong as ever, but other signs suggest that there might be potentially some slowing. In terms of the United Kingdom, let me hand it over to David.

MR. ROBINSON: Well, I think in terms of your question, all I would say is that I think this is an issue that is going to face whatever government wins, whatever party wins the election in May. As I said, I think the U.K. has a very sound fiscal framework. We hope and expect that that fiscal framework will continue, and that we believe some modest, additional fiscal adjustment will be needed to ensure those rules can be met over the medium term.

MR. RAJAN: Does anybody have a question on Japan, the Middle East, or Africa?

QUESTION: Japan is still struggling against deflation, and in this report you are insisting that the Bank of Japan should continue the current monetary policy, continue easing monetary policy. Some people are criticizing that such a policy is not working very well anymore. So, what do you think about such a criticism?

MR. CALLEN: Well, I think we have seen signs that deflation has begun to ease in Japan. If we look at the core underlying CPI, it is now only slightly negative year-on-year, and that is clearly a reflection of the fact that Japan has enjoyed somewhat stronger growth in recent years.

Regarding the quantitative easing in the framework, I think we see that as an important sign of the Bank of Japan's commitment to end deflation. At the moment, we think the framework should just stay in place. The forecast we have is that, as growth continues to pick up in Japan or again picks up over this year, the deflation pressure should gradually ease, and we would like to see the quantitative easing stay in place until deflation is decisively beaten.

MR. HACCHE: I think we have to wrap it up. Apologies to those of you we did not get to this time. Thanks very much for coming.

IMF EXTERNAL RELATIONS DEPARTMENT  
Public Affairs: 202-623-7300 - Fax: 202-623-6278  
Media Relations: 202-623-7100 - Fax: 202-623-6772