

World Economic Outlook
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MR. HACCHE: Good morning, 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 External Relations Department at the IMF, and to my right to answer your questions 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 Economics Studies Division.

Before turning to Mr. Rajan for his opening remarks, I would remind you that tomorrow morning at 10:30, the Managing Director will be holding a press briefing here previewing this weekend's ministerial meetings. Raghu.

MR. RAJAN: Thank you, Graham. Good morning, all of you. Our central forecast for global growth has remained relatively unchanged since our last World Economic Outlook in April. We project a robust growth rate of 4.3 percent for 2005 and 2006. However, a number of developments concern us. These include the excessive dependence of global demand on consumption, especially in the United States, the elevated level of asset prices, particularly housing, and the high and volatile price of oil. The downside risks to our forecasts have thus increased.

Let me start, first, by summarizing how we see the major regions. We currently estimate Hurricane Katrina, tragic as the human suffering has been, will reduce growth in the United States by only 0.5 percentage points at an annual rate through the end of the year, which will be partly offset by a boost next year. Put another way, growth in 2005 will be about 0.1 percentage points lower as a result of Katrina.

Before Katrina, solid growth and booming house prices allowed the U.S. consumer to boldly spend like no one has spent before. But consumer confidence has fallen. With rising inflation cutting into nominal wages, and rising interest rates slowing house price growth, we expect private consumption growth to slow. We project lower overall growth of 3.5 percent this year and 3.3 percent next year for the United States.

The Euro Area continues to disappoint. Our GDP projections have drifted down to 1.2 percent for 2005 and 1.8 for 2006. Weak domestic demand continues to be the main problem. Europe's citizens do not seem convinced the bitter medicine of continued structural reforms will cure the stasis that afflicts much of the continent. Of course, economists can only prescribe, but it takes politicians to persuade. It is a failure of politics that people have not come to see that the more they want to retain the attractive European way of life, the more the way they work will have to change.

The Japanese economy offers more hope, with the first half of this year coming in very strong. Particularly gratifying has been the steady improvement in private consumption. Coupled with buoyant private investment, Japan has been reducing its reliance on exports for growth. We have increased our estimate of 2005 growth to 2 percent.

China's economic expansion continues unabated, with growth of 9 percent for 2005, and a moderate easing to 8.2 percent for 2006. While China has to increase consumption, it also needs to improve the quality of its investment. Provinces, state-owned corporations, and banks need to face a realistic cost of capital so that they invest more carefully.

India has been growing strongly and is basking in the glow of domestic business confidence and growing international interest. To maintain or even accelerate growth, India will need further reforms. Unfortunately, the government has not built the needed consensus, and even the halting steps towards fiscal consolidation are giving way partially to populist measures. There is a tide, as Shakespeare wrote, which taken at the flood leads on to fortune. India cannot afford to miss the tide again.

Growth elsewhere in emerging Asia moderated because of higher oil prices and a correction in the information technology sector, but is expected to pick up again in the second half of 2005. Growth in Latin America and emerging Europe is slowing somewhat from its strong pace last year. In the Commonwealth of Independent States, growth is more subdued because of sluggish investment and lower oil output. In sub-Saharan Africa, economic performance is still robust, though a number of non-oil commodity exporters are facing a challenging environment. The Middle East enjoys strong prospects thanks to higher oil revenue.

Let me now turn to risks. Some have suggested the world has a savings glut. In fact, the world is investing too little, as Chapter II of the World Economic Outlook shows. The current situation has its roots in a series of crises over the last decade that were caused by excessive investment, including the Japanese asset bubble, the crises in emerging Asia and Latin America, and more recently the IT bubble. Investment has fallen off sharply since then, with only very cautious recovery.

The policy response to the slowdown in investment has differed considerably across countries. In the industrial countries, accommodative policies such as expansionary budgets and low interest rates have led to consumption or credit-fueled growth, particularly in the Anglo-Saxon economies. Government savings have fallen, especially in the United States and Japan, and household savings have virtually disappeared in some countries with housing booms.

By contrast, the crises were a wake-up call in a number of emerging market countries. Historically lax policies have been tightened, with some countries running primary fiscal surpluses for the first time, and most bringing down inflation through tight monetary policy. With corporations cautious about investing and governments prudent about

expenditure, exports have led growth. Many emerging markets have run current account surpluses for the first time.

We should celebrate the implicit global policy coordination that enabled the world to weather these crises. Rich countries with policy room expanded consumption and were supplied and financed by emerging markets, whose governments needed to be more austere. This is not a new world order; it is a temporary and effective response to crises. Now it needs to be reversed. It is misleading to term this situation a savings glut, for that would imply that countries running current account surpluses should reduce domestic incentives to save. But if the true problem is investment restraint, then a reduction in world savings incentives will generate excessively high real interest rates when the factors holding back investment dissipate.

This is why the world now needs two kinds of transitions. First, consumption has to give way smoothly to investment, as past excess capacity is worked off and as expansionary policies in industrial countries return to normal. Second, to reduce the current account imbalances that have built up, demand has to shift from countries running deficits to countries running surpluses.

There are reasons to worry whether the needed transitions will take place smoothly. First, we need more investment, especially in low-income countries, emerging markets, and oil producers. Of course China is an exception here in needing less, not more investment. The easy way to get more investment is a low-quality investment binge led by the government or fueled by easy credit. We know the consequences of that. The harder and correct way is through product, labor, and financial market reforms, which will ensure high-quality investment emerges. While some progress has been made here, the good may have been the enemy of the perfect.

Strong external demand has allowed a number of countries to generate growth through exports without the deep reforms that can create the right incentives for investment. Many countries are thus overly dependent on demand elsewhere, and that demand, originating primarily in a few industrial countries, is fueled by increasingly unsustainable fiscal stimulus, as well as housing prices that are ignoring the laws of gravity. Global flows and trade may have allowed economies more rope so that traditional signals like inflation, interest rates, and exchange rates have not guided transitions so far. But while more rope allows one to drift further, adjustments, when one reaches the end of the tether, tend to be abrupt. For instance, a slowdown in housing markets brought about by tighter financing conditions could lead to a sharp fall in consumption, especially if accompanied by higher oil prices.

Higher oil prices are therefore a clear and present danger. Their limited effect on growth thus far has been, in part, because prices were themselves driven up by unexpectedly strong demand growth. Yet increasingly, it is not news about unexpected demand but news about supply shortfalls and potential future shortages, especially of refined products, that are driving price increases. Moreover, higher oil prices are now adversely affecting confidence, and with economies closer to capacity, may create stronger inflationary pressures. Oil price increases are thus unlikely to be benign going forward, and they are already affecting emerging markets and developing countries.

Countries should pass through oil price increases to citizens instead of subsidizing them, so that citizens make the right consumption choices. Populism on the energy front is not just harmful to a country but to the world, which faces an aggregate supply constraint. Conservation measures need to be also contemplated. The oil market

needs to become more transparent so that investors throughout the supply chain, not just in production and not just in refining, can make the right decisions.

At the IMF we see our duty as forewarning of risk, not just when it is in the forefront and plain to the whole world, but also when it is in the background and it can be dealt with at low cost. For instance, the world is not at immediate threat from the collapse of large current account imbalances, but the risk could well materialize at the worst possible time, and even though small probability, can be extremely costly.

Furthermore, imbalances are symptoms of deeper underlying problems that I have just discussed. Since we started warning about imbalances, the United States has committed to reducing its fiscal deficit, while China and Malaysia have taken welcome steps towards exchange rate flexibility. More action, obviously, is clearly needed on all fronts, especially as new developments force change. For example, Katrina's effect on broader U.S. government spending will have to be met by fiscal adjustments elsewhere. But the process is also important, for if countries see these risks as a shared responsibility rather than caused by one or the other country, it will help each country's policymakers guide the domestic debate away from the protectionism that would otherwise come naturally.

Let me conclude. The world economy has been resilient in the face of shocks, in part due to improvements in the quality of policy. This has allowed a variety of imbalances to build up. I am concerned whether the needed transitions to reduce imbalances will take place smoothly, which is why though the central scenario is one of strong, robust growth, the risks are weighted to the downside. Thank you.

MR. HACCHE: Thank you, Raghu. Turning to questions, when you are called, please wait for the microphone to come to you and state your name and affiliation in the usual way.

QUESTION: You mentioned that house prices are apparently defying gravity. Of course, central banks do not react normally to asset inflation. Can you foresee a situation in which rising oil prices feed into more generalized inflation in goods and services prices, possibly triggering a more rapid rise in interest rates, which in turn could puncture asset bubbles?

MR. RAJAN: The possibility that oil prices trigger a more general inflation, a rise in interest rates, and affect housing prices is a real possibility. How high it is? —thus far, inflation has been contained relatively in industrial countries, but it is certainly a factor to watch because pressures are increasing.

QUESTION: There seems to be a contradiction in the case of India. On the one hand it is recognized that it is one of the fastest growing economies in the world. On the other hand, it also needs a lot of reforms. No government, as you know, changes policies which are working. As the present policies appear to give a high rate of growth, what is the incentive for the government to change the policy? And, secondly, when you talk about the GDP or the deficit, do you also take into account the informal economy which may be as large as the official economy, and that will change all the percentages of deficit and everything else.

MR. RAJAN: I think the Indian economy has to be complimented for reaching the rate of growth it has and for doing so well over the last 20 years now. I think that is a given, but there are clear situations, areas where reforms are needed, and the government is

fully cognizant of this. The concern more is that these reforms are not happening despite the best wishes of the government, which is why I talked about political consensus. The areas where reform is needed are well known. The fiscal deficit is something the Finance Minister has talked repeatedly about. There are also other areas, such as the pension reform and reform of the energy sector where power may soon be a constraint.

You talked about the fact that we are raising this issue when India is doing so well. The concern is about the future. If these reforms are not implemented now, will that constrain growth? Could growth be even higher than it is right now? That is why we raise these issues, not in any way to detract from what has already been done.

QUESTION: I have a question on Germany. Germany has the weakest growth this year and next year according to your forecast. We just had elections with very inconclusive results. Germany could be drifting in any direction. What in your view has to be the hallmarks of the new German government to get going?

MR. RAJAN: Well, I think the previous German government or the current German government has undertaken a set of reforms. Those reforms have to be taken to their logical conclusion. For instance, on the one hand, we have created more labor supply in Germany. Now you have to create the demand for that labor by increasing the incentives for corporations to actually hire more people, for example by reducing some of the regulatory burden on them, reducing the extent of payroll taxes, and so on. So creating the demand for labor by making labor hiring more flexible and so on, this is an important step that has to be taken. Similarly, there are steps right through the economy, for instance in the financial sector, allowing for more competition between states. One could walk through the set of needed reforms. I think it is quite plain in Germany what has to be done, and I hope these things can, in fact, be done by the new government, whoever it is. David, would you like to add anything?

MR. ROBINSON: Just to add one further thought. I think another area where Germany and indeed many countries in Europe clearly also have to move forward is ensuring the medium-term fiscal situation is sustainable. When you look past 2010 in Germany and the pressures that will come on expenditures from both pensions and health, they are quite substantial. So, again, I would say that one thing that we feel quite strongly is that Germany needs to make, I would say, more progress towards getting its long-term fiscal house in order, with the aim of trying to get to broad structural balance on the fiscal accounts by 2010.

QUESTION: Going to Latin America, the report says, among other things, raising political uncertainty as a source of vulnerability. I was surprised because the report does not mention any country in specific, and I was wondering if you can give us your assessment in the case of Mexico which, as you know, is going to have a presidential election next year, and one of the main political candidates is a leftist. There is increasing concern among some markets that if he wins, if Mr. Lopez Obrador wins the election, he could turn to some of the populist policies that he supplies at the agreement of Mexico.

MR. RAJAN: Well, it is a general policy of ours not to comment on internal political developments. I will say that, in general, countries, democracies, in my view, tend to find the right solution through the election process. So we will wait and see. But my sense is our general experience with Latin America has been even if there are candidates on the left, they tend to adopt policies which are reasonably market friendly,

but this is a more general statement about what we have experienced in the recent past rather than a prediction of the future.

QUESTION: I was wondering if I could give you a chance to get your defense in early on your U.K. forecast. Back in April, when you cut them, Gordon Brown, the Chairman of the IMFC among other things, effectively said that your figures were wrong and hoped you would revise them. Unfortunately you have revised them perhaps the wrong way, you have revised them down. I was wondering if you could explain those forecasts and in particular sort of detail what is behind them. I think the British government might say that it has a lot to do with oil prices. I was wondering if you could be specific.

On the public finances, you are talking about a structural deficit which seems to be 3.2 percent of GDP, the size of the entire deficit, which I assume implies that you are looking for that sort of spending cuts or tax increases, some \$30 billion a year.

MR. RAJAN: David, I leave all the questions on the U.K. to you.

MR. ROBINSON: Well, in terms of the reasons for the reduction in the forecast, I think they primarily come down to two things. Growth has been slower in the first half than we had thought, oil prices have certainly played a role in that. I think possibly the weakening in the housing market—which in general terms is of course welcome since we thought that was richly valued, and so far it looks like a soft landing—probably has also affected consumption.

That said, overall growth in the U.K. is still quite solid by European standards, I would say, and next year I think our projection is broadly in line with potential. So much for the forecast.

On the fiscal side, I think our position on that really has not changed very much in qualitative and quantitative terms since I am not sure if it was you or someone else asked exactly this question at the last press conference. I think our broad concern remains that looking forward it will be difficult on present policies in our view for the U.K. to meet its fiscal rules. That said, I think in general, as I said last time, U.K. fiscal policy has been very well managed, and I think that, for example, public debt in the U.K. is among the lowest if not the lowest of the G-7 countries; but we have argued, and we continue to argue that there is a need for a gradual and I would say modest fiscal consolidation of the order of about 1 percent of GDP to ensure that the government's fiscal rules can be met. I think those are the main points I would like to make.

QUESTION: A couple of questions, the first one on European interest rates. You called, in the WEO in April, to the ECB to cut rates if their recovery failed to materialize. It has failed, and you are calling now again if it fails again, cut rates. Why are you not calling for a cut in interest rates in Europe right now?

The second question relating to Spain. Spain, according to the WEO, is going to reach a current account deficit I think even larger than the United States and one of the biggest ones in all leading economies. For the Spanish economy what consequences could be relating to the current account deficit? Thank you.

MR. RAJAN: Taking the first question, we did call for a cut in rates if things turned dramatically down. We do think that a cut in rates is part of the tool kit of a central bank and should not be taken off the table. That was the primary reason for that, and it still is our maintained policy.

Now, in a sense we support the ECB's view that the primary malaise in Europe has to do with the low growth potential and the need for further structural reforms, and therefore interest rate cuts by themselves are going to be only a tool, but they cannot be the immediate solution to the problem, which ultimately has to do with increasing the reform pace.

On the Spain question, Spain is, in a sense, an example of one of those countries with housing booms, current account deficits. There is certainly a cause for some concern, but on the other hand, one also has to see this as part of the growth process which has been tremendous in Spain and reforms which have taken place over time to bring Spain to a very good situation.

QUESTION: A question on Argentina. The projection for growth in 2005 is 7.5 percent and in 2006 4.2 percent . I wanted to know how do you explain this slowdown. And, second, if you take into account that there is going to be an agreement with the IMF in these projections or not?

MR. RAJAN: In general, our projections are undertaken with policies as they are currently in place. As you know, as of now, there is no agreement. We are certainly in discussions, as the Argentines have expressed an interest in a Fund-supported program, but it would be premature to speculate on when such an agreement actually happens and what the shape will be. But more details on the projections?

MR. ROBINSON: Well, on the forecast very briefly, I do not think anyone expected the growth rates in 2004, 9 percent or so, to be sustained. This was in part a rebound following the crisis. In fact, in 2005, we are projecting growth of 7.5 percent, which is still really quite strong, in fact stronger than we projected, if I remember correctly, back in April. So I would not view this as being a particularly negative result.

QUESTION: A question about Italy. You were mentioning before the warning about, the duty of warning about risks, and this is my question. As you probably know, in Italy there is a big debate about the credibility of the Bank of Italy following the banking takeover. So I would like to know, first of all, if you think there is this kind of risks and also how it can affect a country that this year will have zero growth according to the WEO, and in general, more in general if it is dangerous for stability, a lack of credibility of this institution, how important is the quality of the institution. Thank you.

MR. RAJAN: Well, it is always a concern when an important institution like the Bank of Italy comes under some uncertainty, and the issues in this particular situation are very complex, ranging from the reputation of the central bank to the independence of the central bank. So I think it is very important, given how central the institution is to Italian economics, that the situation be cleared up as soon as possible, and we certainly are hoping that it does happen soon.

QUESTION: You mentioned that developing countries are very dependent on support from developed countries, and soon Latin America will have seen two years of appreciation of their currencies. How do you expect this to affect the economic growth

in the region, especially in Colombia now that it has got a 5 percent revaluation this year?

MR. RAJAN: Well, if one has floating exchange rates, revaluations can be a good thing in that they indicate a sign of strength, a sign of economic strength, a sign of strong economic activity, so in that sense there is no reason to see a direct correlation between revaluation and economic problems down the line. So I think the age where we thought of revaluations as automatically bad for an economy are sort of gone.

MR. ROBINSON: Just to make one more point. I think you have to see what has happened to exchange rates in Latin America recently—I am not specifically talking about Colombia here, but Latin America—in the context of what has happened over the last few years. If you look at figure 1.3 in the Chapter I of the WEO, it is page 4, there is a little chart which shows this. In fact, between February 2002 and December 2004, Latin American currencies actually depreciated by around 25 percent. Since then, we have had some recovery, about half of that has come back. So I think you have to see it in that broader context as well, beyond the points that Raghu made.

MR. RAJAN: Right. And if you think of the rationale for some of that depreciation it was not particularly good news which brought about some of those depreciations, so I think this is adding to that point.

QUESTION: I would like to elicit a comment of what you say about Uruguay and after the strong recovery of last year with strong growth, more than 12 percent, and what are the more important challenges going more than you say about the debt and the sustainability of the debt and the dollarization of the economy. The government of Uruguay now is projecting 5.5 percent growth this year, but you are still keeping 6 percent as the projection for this year.

MR. RAJAN: I will leave the specific question on Uruguay for a second. The main concern that emerging markets have, I think, is to, in a sense, to restore the flow of capital and their ability to use capital properly without experiencing the fear of crisis. In a sense, this implies reducing the risk associated with external capital flows. Being able to reduce, for example, the extent of dollarization, reducing the extent to which this necessarily comes through banking systems but also help allow these countries to borrow through markets, domestic markets rather than necessarily international markets. So there are a whole variety of reforms which need to take place and I think those reforms will help—and this goes back to the broader point I was trying to make earlier—will help capital flow again the natural way, from rich countries to emerging markets and to poor countries, such that investment can be made in the poorer countries and emerging markets, which will help in turn the rich countries as the aging populations age to, in a sense, secure the returns for their retirement.

On the specific question?

MR. CALLEN: You said getting beyond the public debt and banking system fragilities, but we certainly see those as being the two critical issues for Uruguay. If you look at public debt, it is even this year projected to be well in excess of 70 percent of GDP. A lot of it is foreign currency denominated. As you say, the banking system is still highly dollarized. These are very important vulnerabilities that the government needs to continue to address.

QUESTION: I am going to ask about the United States. Do you share the view expressed by the Fed yesterday on the U.S. inflation?

MR. RAJAN: We think that inflation at this point is still contained, but there are signs which make us cautious. Unit labor costs have been increasing. You do see that productivity at least has shown some signs of slowing. Of course, it is hard to make forecasts about the future change in productivity. But these are warning signs that things may not be so benign going forward. So I think the Fed in raising interest rates yesterday has suggested that it still sees some potential threat from inflationary pressures not as yet but perhaps in the future, and in that sense it is moving towards a more neutral rate, I do not think we are still there. I think we fully support that view, that we should be cautious and wary about inflation, especially given the high oil prices.

QUESTION: You say the interest rate—regarding Europe—is a tool, and reform is a key. After the constitutional referendum in France, after the last German election, it seems that reform is even more difficult. Do you see this increase in the risk of global recession in Europe? This is the first question. And the second one, going back to Spain you are projecting 0.5 plus growth for 2005 at the same time you are projecting a current account deficit of 6 percent. This is doubling in only one year. At the same time, you are mentioning the matter of housing, the booming housing market in Spain. Could you elaborate a little bit more about this trend in Spain.

MR. RAJAN: Okay. I will start first with whether there is a concern about recession in Europe. I do not think so. I think our expectation, our hope, is that we see a turn-up in the second half of the year.

Now that said, there has been some mixed news coming from Europe. We see, for example, today the news on French consumption was quite strong. I think there will be ups and downs in the European data going forward, but I do not think we are at this point anywhere near calling for a recession.

I think the important thing, again, is that Europe has to increase its growth rate, its potential growth rate. This is an important first step. I think, as you pointed out, the political processes are still in flux. To get people convinced that the way to go forward is through these dramatic structural reforms, and I think the political process has to find a way to convince people that that is the way to go. Ultimately it is a process of persuasion, and I am hopeful that over time Europe finds out that way, but I do not think there is any danger of a serious crisis in the meantime.

MR. ROBINSON: I will just maybe make one point on Spain. I think, as you have pointed out, and as Raghuram said a little bit earlier, the unbalanced pattern of growth we see and the erosion of competitiveness is something of a concern. I think one important policy response that is under way is to improve productivity and competitiveness. I think—I am not going to pronounce this right, I am afraid—the Plan de Dinamización, which the Spanish authorities have put forward and are implementing, is particularly important in this regard. Obviously, when you do not have your own monetary or exchange rate policy, one needs to look very closely at domestic competitiveness, so I think this is the right priority.

QUESTION: I have a question about China. China revalued its currency in July and now instead of pegging it to the U.S. dollar, now it is pegging it to a basket of currencies. I wonder what you think of this new currency regime, and secondly, because of the speculation that China will further appreciate its currency, there is a lot

of hot money coming into China. I am wondering if you have any suggestions to the Chinese government about how they should deal with this.

MR. RAJAN: On the issue of the move, I think it is a welcome move. It is something that we had been calling for some time, and I think the Chinese government has taken an important first step. As the Chinese authorities have said again and again, they hope over time to allow the market to play a much bigger role in determining the exchange rate, and so this should be seen as part of a process. I think the Chinese have taken the right steps since then also in trying to create more of a foreign exchange market, and I think these are all very welcome steps. In the process we have also seen that some of the other Asian exchange rates have accompanied movements upwards as the Chinese and the Malaysian exchange rate has moved. In a sense, this should be seen as part of a process, and I think we will watch and advise the Chinese government as and when it requires or asks for it in that process.

QUESTION: You said that oil markets need to have more transparency. What specific steps do you propose in order to cope with high oil prices and to what extent are current prices due to speculation?

MR. RAJAN: Let me take the second question first. We have tried to look to see whether measures of speculative interest in oil prices, these are fairly—these are not the greatest—statistics in the world, but it does not seem that measures of speculative interest precede the movement upwards in oil prices. So if you thought, for example, speculators were actually pushing prices upwards, you should see people whom you consider speculators building up positions as the price starts moving upwards, so in a sense they are pushing it upwards. We do not see that in the data. Our sense is that at least at present it seems more likely that speculators are following prices rather than necessarily pushing the prices upwards. There are reasons, a variety of reasons why prices, in fact, are moving up, including the fact that there is very limited spare capacity, that in fact there might be limited supplies of certain kinds of distillates, refined products, like gasoline and heating oil, and that is what is causing price movements upwards.

On the issue of transparency, there needs to be better information throughout the oil market, for example on the extent of reserves and the accessibility of those reserves in different countries, but also factors like investment intent, factors like the amount of production at different points in time, the amounts of holdings, the quality of different kinds of products. There are various attempts going on. There is initiatives in which the Fund is also involved in some of them to improve the quality of these statistics. The hope is that if the quality of the statistics are improved, it will give market participants a better sense of where the market is and where it is going, allow better investment and production decisions, which will help reduce the volatility in prices.

QUESTION: I have two questions. What would be the risk if the global imbalances do not come into equilibrium in a coordinated way? The second, you have reduced growth or expected growth in the United States by 0.5 percent. Could you please tell us about the possibility that you could reduce more the expected growth from Mexico, that it is below the Latin American medium goal?

MR. RAJAN: Okay, on the risk of global imbalances, I actually think there are two important risks. One, of course, is something that is highlighted in Appendix 1.2 of the first chapter, which is that it is possible that if investors who are currently financing the U.S. current account deficit for some reason tire of financing it, you could get sharp

movements in exchange rates which may not be as bad as sharp movements in interest rates. These will affect various markets and could have knock-on effects on both U.S. growth and world growth. So that is a major concern, and the problem with that is that if and when it happens, it could happen at the worst possible time, when there is bad news, for example, about U.S. productivity or U.S. growth, which then makes investors more reluctant to invest in the United States. That is the concern. It is a small probability concern, but it is an extremely costly event if it occurs, which is why we have been advising for some time that countries should take steps to reduce these imbalances, especially because the steps that we suggest they take are all in their domestic interest and the sooner they are taken, the better for the countries themselves. In effect our suggestion could act as an external anchor for these countries to do it because they can say it is in the global interest and it is because of our responsibilities as part of the global community and therefore get some domestic mileage which will enable them to undertake some of these reforms which by themselves may be more difficult.

The other reason to focus on this is what is the alternative? The alternative is if these imbalances build up, we get all sort of protectionist sentiments cropping up in countries where countries point fingers at each other, and then you get protectionist pressures to raise tariffs and so on, which will make everything much worse, and so it is to avoid this that we are suggesting this multilateral solution to the global imbalances, and I am glad that at least over time we have persuaded people that this is the right way to go. Now, of course, it is important they each take further actions.

QUESTION: You speak about robust growth in sub-Saharan Africa continuing. You write about a figure of 4.8 percent, slightly above the world average. You also allude to the fact that this robust growth is buoyed up by only a handful of oil exporters who are benefiting from the current high oil prices. So I am just wondering how realistic is that prediction for the rest of sub-Saharan Africa in general, the non-oil exporting countries, and how should they mitigate the effects of the current high oil prices?

MR. RAJAN: First, a number of countries that are facing oil prices again, not all, have also faced higher commodity prices, so it has helped them to some extent weather higher oil prices. Also, I think we are seeing throughout sub-Saharan Africa in a number of countries stronger macroeconomic performance, better governance, if you will, and this has contributed to help the growth rate. Of course, there are exceptions. There are countries also that have not benefited as much from the commodity boom. For example, cotton exporters have done relatively badly. It is for these countries that are facing a challenging situation with higher oil prices that we are trying to put together mechanisms that might, in fact, help them, and we stand ready with our traditional mechanisms to help these countries.

MR. HACCHE: Thank you. Apologies to those of you we did not get to this time. Thank you very much for coming.

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