

FORUM ON “HOW WILL A GLOBAL RECESSION AFFECT ASIA?”

**BRITISH CHAMBER OF COMMERCE IN
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THE GLOBAL ECONOMIC OUTLOOK

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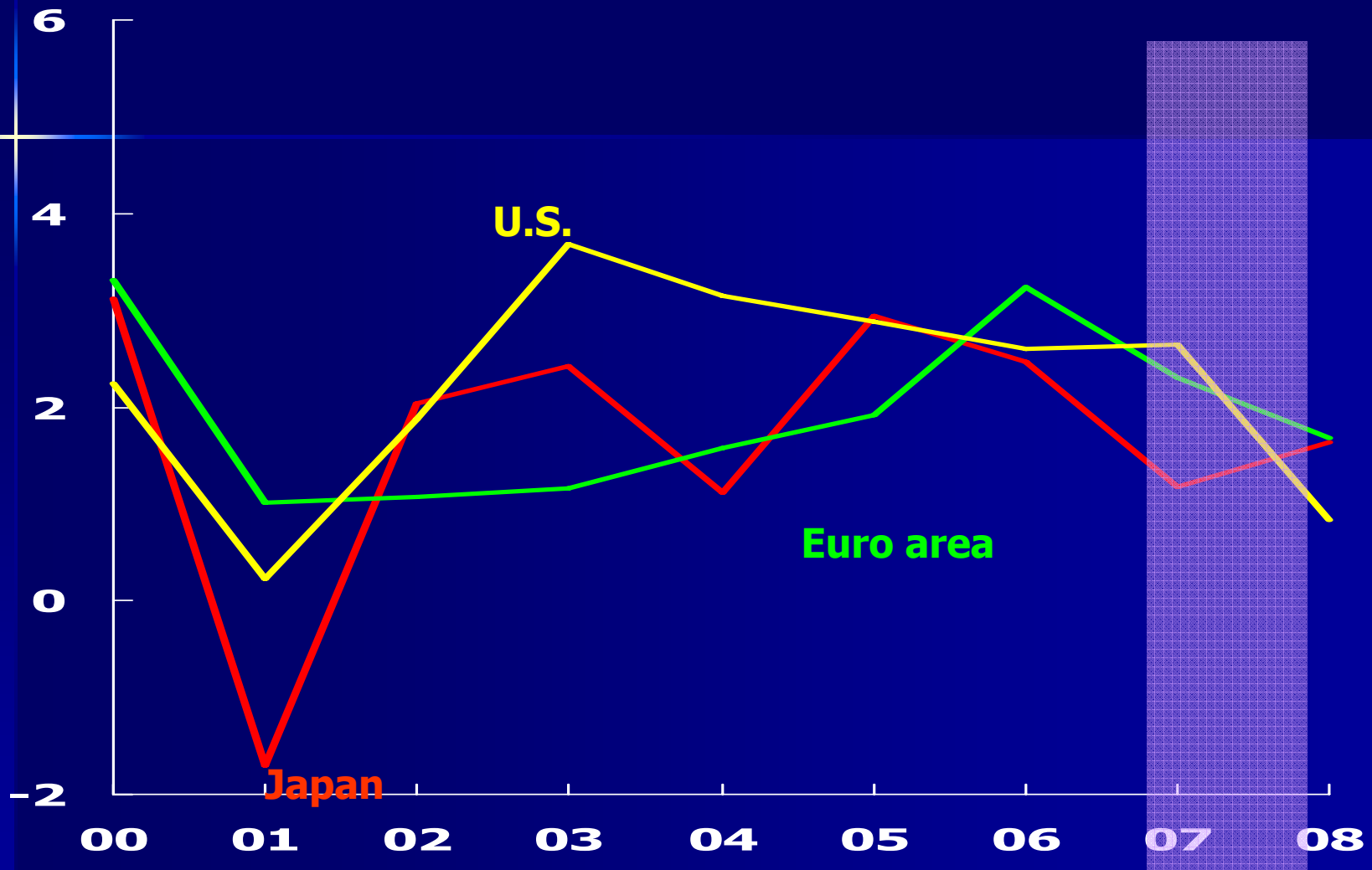
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1/ These views are my own and not the views of the IMF, its Executive Board, or its management.

Until mid-2007, world economy was doing well

- **Rapid growth.** 5 percent, 4th consecutive boom year;
- **Low inflation;**
- **Robust financial markets.** Dow Jones reached record high in autumn.

Activity is Decelerating Globally, Q4 over Q4 (growth in percent; Q4/Q4)



Source: WEO Update January 2008.

Situation has worsened in recent months

- Growth slowed markedly in Q4;
- Financial turmoil spread to real economy (U.S.: manufacturing; unemployment/payrolls; growth);
- Rising inflation;
- Exacerbated by oil prices.

Headline inflation in advanced economies has jumped

Headline Inflation
(in percent; yoy)



WEO: Updated Projections

Table 1. World Economic Outlook Update Projections

(Annual percent change unless otherwise noted)

	2005	2006	Estimates	Projections	Difference from October 2007 Projections ¹		Estimates	Projections
			2007	2008	2007	2008	2006 Q4 to 2007 Q4	2007 Q4 to 2008 Q4
World Output	4.4	5.0	4.9	4.1	0.2	-0.3	...	...
Advanced economies	2.5	3.0	2.6	1.8	0.1	-0.4	2.6	1.5
<i>of which</i>								
United States	3.1	2.9	2.2	1.5	0.3	-0.4	2.6	0.8
Euro area (15)	1.5	2.8	2.6	1.6	0.1	-0.5	2.3	1.3
Japan	1.9	2.4	1.9	1.5	-0.1	-0.2	1.2	1.6
Other advanced economies	3.2	3.7	3.8	2.8	0.1	-0.2	3.9	2.9
Emerging market and developing economies	7.0	7.7	7.8	6.9	0.2	-0.2	...	...
Africa	5.9	5.8	6.0	7.0	—	-0.2	...	...
Central and eastern Europe	5.6	6.4	5.5	4.6	-0.3	-0.6	...	...
Commonwealth of Independent States	6.6	8.1	8.2	7.0	0.5	—	...	...
Developing Asia	9.0	9.6	9.6	8.6	—	-0.1	...	...
<i>of which</i>								
China	10.4	11.1	11.4	10.0	-0.1	—	11.2	9.4
Middle East	5.6	5.8	6.0	5.9	0.1	-0.1	...	...
Western Hemisphere	4.6	5.4	5.4	4.3	0.5	—	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during December 4, 2007–January 2, 2008.

¹Country weights used to construct aggregate growth rates for groups of countries were revised from those reported in the October 2007 World Economic Outlook to incorporate updated PPP exchange rates released by the World Bank.

And risks on downside.

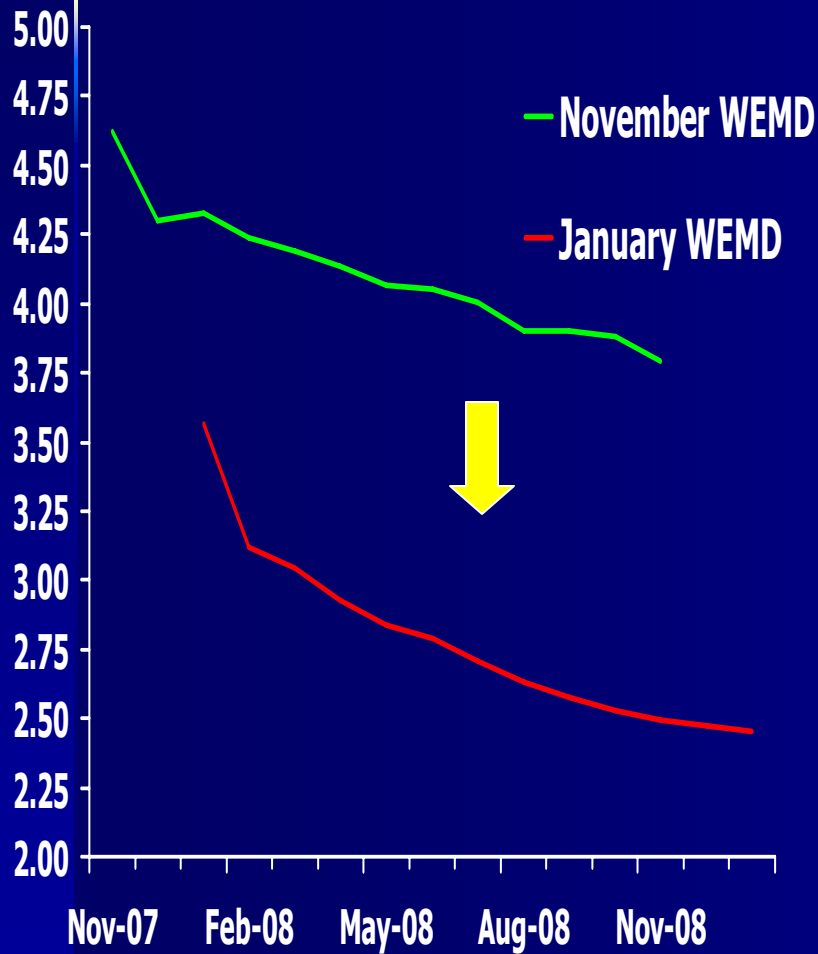
- Financial markets: turmoil not yet over; full extent and impact still unfolding;
- Housing markets: not just a U.S. problem.

Policies are responding:

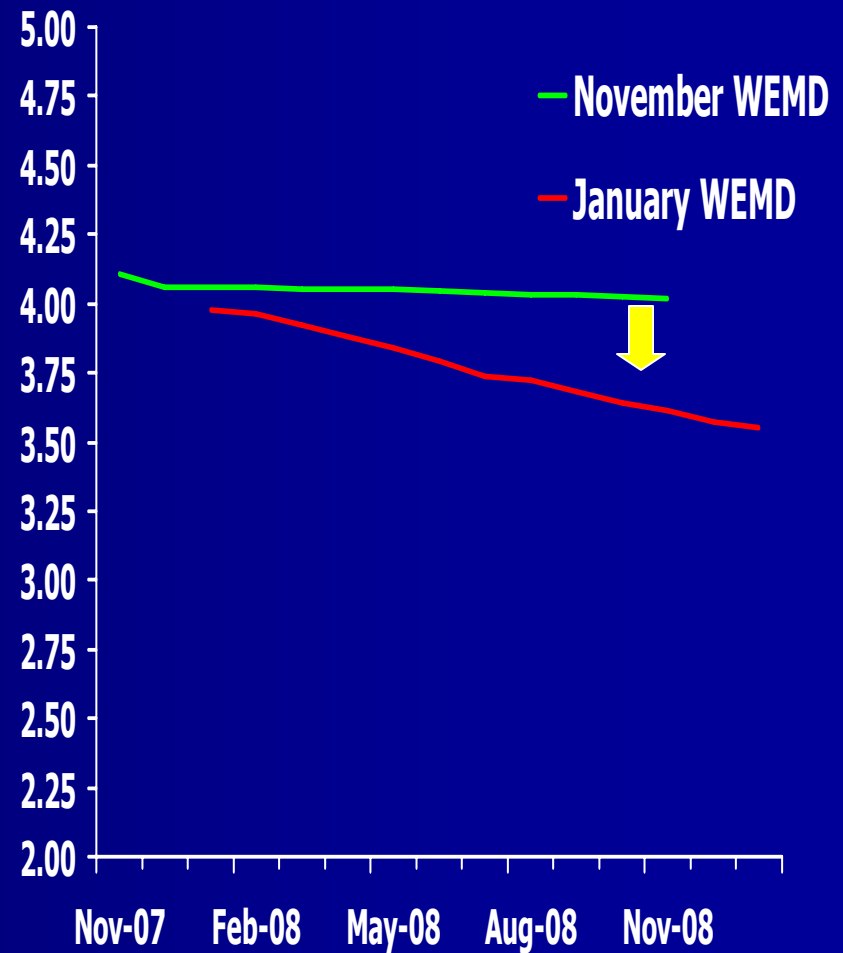
- Fiscal stimulus;
- Monetary easing.

Markets hope central banks will save the day

United States (in percent)



Euro Region (in percent)

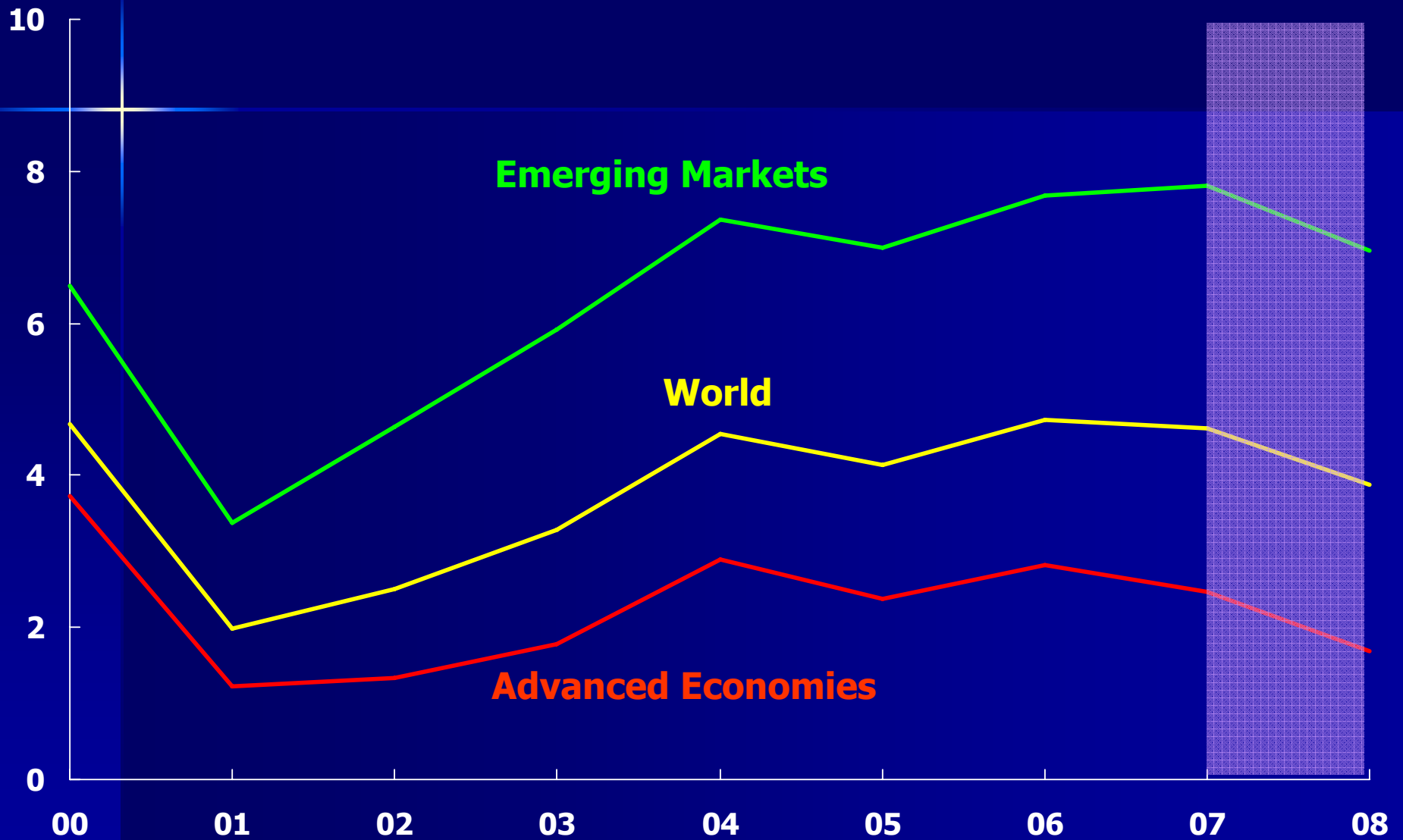


Global spillovers

- Trade linkages only part of the story
- Globalization has created new cross-border linkages
 - In 2000: IT industry collapsed simultaneously world-wide
 - In 2008, financial linkage is important.

Will Divergent Growth in Emerging Markets Continue?

(in percent; yoy)



Source: WEO Update January 2008.