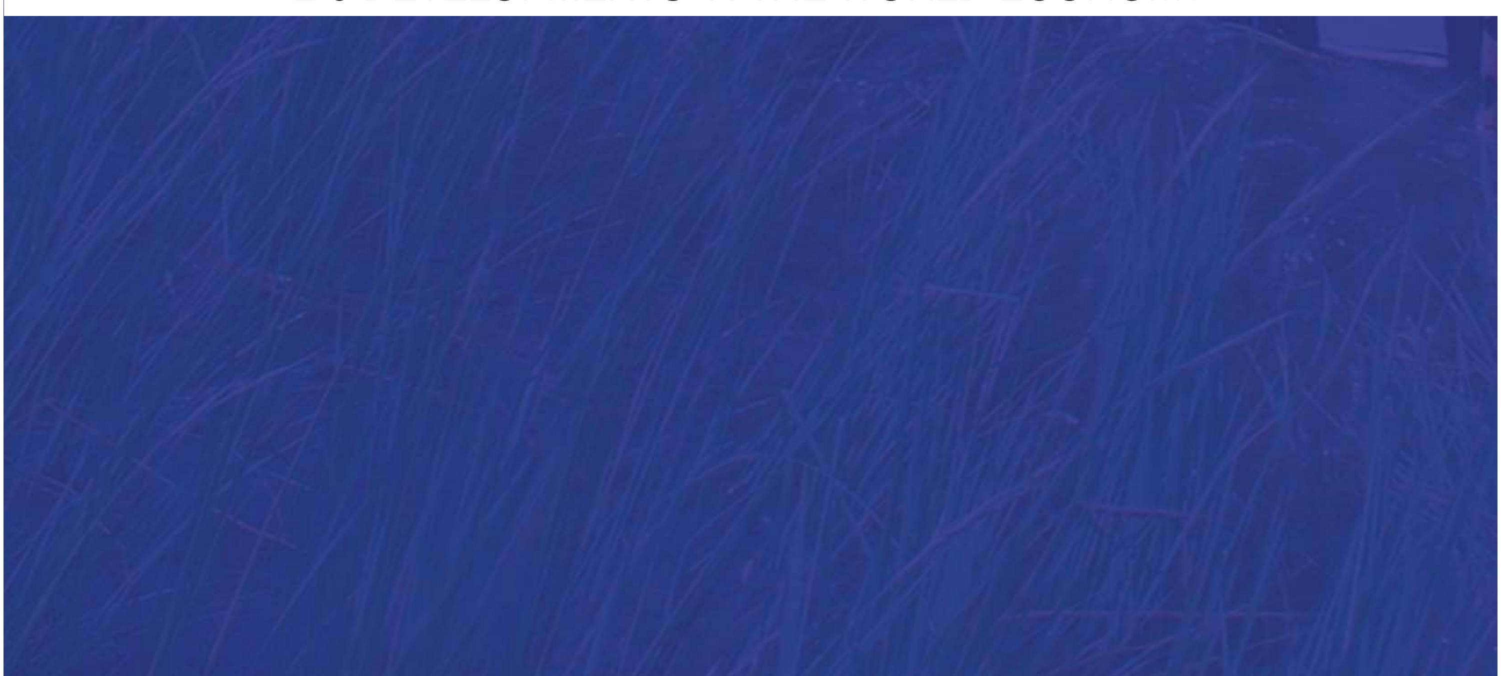
2.0 DEVELOPMENTS IN THE WORLD ECONOMY



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Overview

The global economy grew by 4.9% in 2007 from 5.0% in 2006, with strong growth being maintained in emerging and developing countries, whilst growth in advanced economies slowed down (see Table 1). In the advanced economies, inflationary pressures eased, reflecting slowing demand whilst in emerging and developing countries, inflation rose on account of strong domestic and external demand as well as higher food and energy prices. The current account balance was in deficit for the advanced economies while that of emerging and developing countries was positive, with the exception of sub-Saharan Africa.

Global Economic Performance

Global gross domestic product (GDP) growth in 2007 at 4.9% was almost the same as the 5.0% recorded in 2006. The growth was largely driven by China, India and Russia, which grew by 11.4%, 9.2%, and 8.1%, respectively. In the advanced economies, growth slowed down to 2.7% from 3.0%, with the United States of America (USA), the Euro area and Japan, growing by 2.2%, 2.6%, and 2.1% from 2.9%, 2.8%, and 2.4%, respectively in 2006. The growth in emerging and developing economies remained robust at 7.9% in 2007 compared to 7.8% in 2006. Africa posted growth of 6.2%, slightly above the previous year's 5.9%. Sub-Saharan Africa recorded a growth rate of 6.8% compared to 6.4% in 2006.

Following higher food and oil prices, global inflation increased to 3.9% in 2007 from 3.4% in 2006. Food inflation increased to 6.2% from 3.4% in 2006, reflecting growing demand for corn and other food items for bio-fuel production as well as supply constraints arising from adverse weather conditions. Strong demand factors, in the face of stable supply, also kept oil prices high. However, fuel inflation slowed down to 4.1% from 11.2%, thereby moderating the increase in world inflation. In the advanced economies, inflation was contained as it remained stable at 2.2%. However, inflation in developing countries increased to 5.9% from 5.1%.

The credit crunch triggered by the uncertainty of the extent of losses associated with the collapse of the housing market in the USA dominated developments in global financial markets in 2007. Consequently, credit conditions tightened, and in turn, the interest rates on mortgage-backed securities and interbank loans increased. In addition, long-term government bond yields declined as investors looked for safe havens. Central banks in advanced economies responded by providing liquidity to financial markets to ease the credit crunch. However, emerging markets and developing countries were relatively unaffected by the turbulence in global financial markets.

In terms of macroeconomic policy response, in advanced economies policy was directed at addressing the credit crunch by providing liquidity to financial markets. In developing countries, the major challenge was the management of inflows from the commodity boom by building reserves through sterilised interventions.

Table 1: World Real GDP, Inflation and Current Account Positions, 2005 - 2007
(Annual % change unless otherwise stated)

	Real GDP			Inflation			Current Account Positions (% of GDP)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
World	**4.4**	**5.0**	**4.9**	**n/ap**	**3.4**	**3.9**	**n/ap**	**n/ap**	**n/ap**
Advanced Economies	**2.6**	**3.0**	**2.7**	**2.3**	**2.4**	**2.2**	**-1.3**	**-1.5**	**-1.2**
United States	3.1	2.9	2.2	3.4	3.2	2.9	-6.1	-6.2	-5.3
Euro area	1.6	2.8	2.6	2.2	2.1	2.8	0.3	-0.1	-0.2
Japan	1.9	2.4	2.1	-0.3	0.3	-	3.6	3.9	4.9
Commonwealth of Independent States	**6.5**	**8.2**	**8.5**	**12.1**	**9.5**	**9.7**	**8.8**	**7.5**	**4.5**
Russia	6.4	7.4	8.1	12.7	9.7	9.0	11.0	9.5	5.9
Excluding Russia	6.7	10.1	9.6	10.6	8.8	11.6	1.6	1.1	-0.1
Middle East	**5.7**	**5.8**	**5.8**	**6.2**	**7.0**	**10.4**	**19.7**	**20.9**	**19.8**
Other Emerging and Developing Countries	**7.1**	**7.8**	**7.9**	**5.7**	**5.4**	**6.4**	**11.0**	**12.3**	**10.5**
China	10.4	11.1	11.4	1.8	1.5	4.8	7.2	9.4	11.1
India	9.1	9.7	9.2	4.2	6.2	6.4	-1.3	-1.1	-1.8
Africa	5.7	5.9	6.2	7.1	6.4	6.3	1.9	3.1	0.1
Sub-Saharan Africa	6.2	6.4	6.8	8.8	7.3	7.2	-2.5	-0.6	-7.9

Source: IMF: World Economic Outlook, April 2008, World Economic Outlook Update Projections
n/ap = not applicable

Advanced Countries

The real GDP growth in advanced countries slowed down to 2.7% in 2007 from 3.0% in 2006 as most economies were adversely affected by the financial market turbulence and weaker growth in the USA. In the USA, weak investment spending in the residential sector and a decline in private consumption growth due to rising gasoline prices continued to exert downward pressure on growth prospects. The Euro area on the other hand expanded, largely driven by increased investment spending particularly in Germany. In the UK, growth continued to expand driven by increased consumption.

Headline inflation remained stable at 2.2% compared with 2.3% in 2006. With the economy weakening, inflation in the USA declined to 2.2% from 2.9% while in the Euro area it rose to 5.4% from 5.2%, largely on account of higher energy and food prices. The current account deficit, as a percentage of GDP, remained stable at 1.3% from 1.4% in 2006.

Emerging Market and Developing Countries

Emerging markets and developing countries grew by 7.9% in 2007 compared to 7.8%, with growth reflected across all regions including Africa and Latin America. Growth continued to be driven by the strong domestic demand particularly in China and India. In most regions inflation rose, reflecting strong domestic demand, high commodity prices, and rapid credit growth. Foreign exchange inflows to the region increased during the period under review with current account transactions accounting for much of the inflows.

Developing Asia

Real GDP growth remained robust at 9.7% in 2007 compared to 9.6% in 2006. China, India, and the ASEAN-5[1] recorded growth rates of 11.4%, 9.2%, and 6.3%, respectively. Inflation increased to 5.3% from 4.0% in 2006, with inflation in China and India rising to 4.5% and 6.2% from 1.5% and 6.1%, respectively. The current account as a percentage of GDP recorded a surplus of 6.9% compared to 5.9% in 2006.

Commonwealth of Independent States

Economic growth in the region increased further to 8.5% in 2007 from 8.2% in the previous year. Consumption remained the main driver of growth, reflecting rising real income and easy access to credit by the private sector. Inflation declined to 8.9% from 9.4% due to improved macroeconomic management. Although the current account relative to GDP weakened, owing to robust demand, it remained positive at 4.8% of GDP in 2007 compared to 7.6% in 2006.

Latin America and the Middle East

Real GDP growth in Latin America remained stable at 5.6% compared to 5.5% in 2006, spurred by Brazil which recorded a growth of 5.4%, due to strong domestic demand and the commodity boom. Inflation remained relatively unchanged at 5.3% in 2007 compared to 5.4% in the previous year. Current account surpluses moderated to 0.6% from 1.5% of GDP as strong domestic demand boosted import growth.

Economic growth in the Middle East continued to be strong at 5.8%, supported by high oil prices and growing domestic demand. Inflation accelerated in the region to 10.8% from 7.5% due to rising demand pressures, which reflected increased government spending on social projects and infrastructure mainly to expand oil production and refining capacity. As a percentage of GDP, the current account remained robust at 16.7% in 2007 compared to 19.7% in 2006.

African Economies

Economic growth in Africa remained strong at 5.7% in 2007 compared to 5.6% in 2006 (see Table 2). This was largely attributed to higher growth of 6.1% from 5.7% in Sub-Saharan Africa following the coming on stream of new production facilities in oil-exporting countries such as Angola and Nigeria. In addition, the region expanded non-traditional manufacturing exports, improved market access and diversified export destinations.

[1]The ASEAN-5 comprises Indonesia, Malaysia, Thailand, Phillipines and Singapore.

Inflation was generally moderate in most African countries (excluding Zimbabwe) as it was recorded at 6.6% in 2007 compared to 6.3% in 2006 despite the rise in fuel prices. The high import bill on account of higher oil prices and increased imports of capital goods resulted in the deterioration of the current account to a deficit of 0.1% from a surplus of 7.7%.

Table 2: Selected African Countries GDP and Inflation, 2005 - 2007

(Annual % change unless otherwise stated)

	Real GDP (%)			Inflation (%)		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
Africa	5.6	5.6	5.7	6.6	6.3	6.6
Angola	20.6	18.6	23.1	23.0	13.3	11.9
Ghana	5.9	6.2	6.3	15.1	10.9	9.4
Kenya	5.8	6.1	6.4	10.3	14.5	6.9
Nigeria	6.0	5.3	4.5	17.8	8.3	5.3
South Africa	5.1	5.0	4.7	3.4	4.7	6.6
Tanzania	6.7	6.2	7.1	4.4	7.3	5.6
Uganda	6.7	5.4	6.2	8.0	6.6	7.5
Zambia	5.2	6.2	5.7	15.9	8.2	8.9
Sub-Saharan Africa	6.0	5.7	6.1	8.2	7.3	7.6

Source: IMF: Regional Economic Outlook, April 2008