REPORT ON THE MEETING OF THE EXPERT GROUP ON THE WORLD ECONOMIC SITUATION AND PROSPECTS (PROJECT LINK)

United Nations Headquarters, New York
17-20 April, 2000

United Nations
Economic Assessment and Outlook Branch
Development Policy Analysis Division
Department of Economic and Social Affairs

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1. INTRODUCTION

The Spring 2000 meeting of Expert Group on World Economic Situation and Prospects (Project LINK) was held at United Nations Headquarters, New York, from 17 to 20 April 2000. The meeting was serviced by the Development Policy Analysis Division of the Department for Economic and Social Affairs (DESA), and attended by over 100 participants from 60 countries, as well as representatives from international agencies and the United Nations Secretariat.

In his opening statement, Mr. Nitin Desai, Under-Secretary-General for Economic and Social Affairs, welcomed the participants to the meeting and provided a brief description of the main functions of DESA. In the statement, he stressed the importance of Project LINK in providing information essential to the Organization when assessing the current world economic situation and its immediate prospects. He also expressed the appreciation of the Department to Nobel Laureate Professor Lawrence Klein, Professor Peter Pauly, and the other participants for the contribution they make to the work of the United Nations.

The agenda of the meeting covered two broad topics: (1) the world economic outlook, including the LINK global outlook as prepared by the Economic Assessment and Outlook Branch (EAOB) of the United Nations Secretariat, the global outlook as assessed by other international institutions, and country and regional outlooks as presented by LINK country participants and United Nations regional commissions; (2) current policy issues, including the use of inflation-targeting as an objective of monetary policy in emerging market economies, the current debate surrounding the "New Economy", the on-going process of restructuring taking place in Asia in response to the financial crises of 1997 and 1998, and the impact of a possible equity market correction on the real sector of major economies.

The agenda, list of participants, and list of papers presented at the meeting are given in the annexes. The LINK *Global Economic Outlook,* and *Regional Outlook,* prepared by EAOB for the meeting, LINK *Country Reports* prepared by country participants, and other documents presented at the meeting are available on both the United Nations website (http://www.un.org/esa/analysis/link) and the Project LINK Research Center website at the Institute for Policy Analysis at the University of Toronto (http://www.chass.utoronto.ca/link).

2. WORLD ECONOMIC OUTLOOK

Five international agencies presented their global economic outlook at the meeting: Mr. Jozef van Brabant (United Nations) presented the *LINK Global Economic Outlook*, Mr. Ranil Salgado (International Monetary Fund (IMF)) presented the IMF *World Economic Outlook*, Ms. Annette De Kleine (World Bank) presented the World Bank's perspective on the prospects for world growth, Ms. Laurence Boone (OECD) presented the outlook for the OECD area as assessed by that agency, and Mr. Ray Barrell (The National Institute of Economic and Social Research (NIESR)) presented the NIESR world forecast. Professor Gerard Adams (Northeasten University) and Professor Robert Kaufmann (Boston University) presented the outlook for world commodity markets.

In a summary presentation, Professor Pauly (University of Toronto) compared the world economic outlooks of the different agencies and those of other forecasters such as NIESR and WEFA. He pointed out that the baseline forecasts were very similar in terms of their global overview, despite differences in emphasis given to various policy issues and differences in forecasting methods and approaches.[1] Preliminary estimates of growth in the world economy of all international agencies reflected the same pattern of recent economic growth among the major economic regions and the same pattern of recovery can be seen in their forecasts for 2000 (see table 1): the moderate pickup in world growth in 1999 and a lessening of regional disparities in 2000 and beyond. International trade is also recovering, and Professor Pauly pointed out that all agencies see a resumption of strong trade growth in 2000, with a return to roughly comparable rates of expansion in world trade to those that characterized the mid-1990s. Similarly, recent and forecasted trends in inflation and unemployment of the agencies pointed to relatively low inflation and some improvement of the employment situation in Europe. Looking to the longer-term, Professor Pauly mentioned that the forecasts reflected strong fundamentals in the global economy, with a strong recovery in developing and emerging markets.

Key features of the world economic outlook

The main features of the world economic outlook as presented to the Expert Group may be summarized as follows.

First, following a two-year setback, a *world economic expansion* has been underway since 1999. It has been widening and deepening since the second half of 1999 and has attained a momentum considerably above the rate of economic growth recorded for the 1990s as an average. Going into 2000, momentum has been gathering strength, with the increase in gross world product (GWP) expected to accelerate from the 2¾ per cent pace in 1999 to a 3½ per cent pace in 2000. This latter rate of growth is expected to be sustained over the course of the next few years and to be accompanied by falling unemployment and low inflation (see figure 1).

[1] For example, the IMF uses purchasing power parity (PPP) coefficients to convert country GDP estimates into a common base for calculating gross world product, while LINK uses market exchange rates. As a result, the IMF forecast growth rate for GWP in 2000 based on PPP is 4.2 per cent, while it is 3.5 per cent in the LINK forecast, even though GDP growth rates for most individual countries are virtually the same in both forecasts.

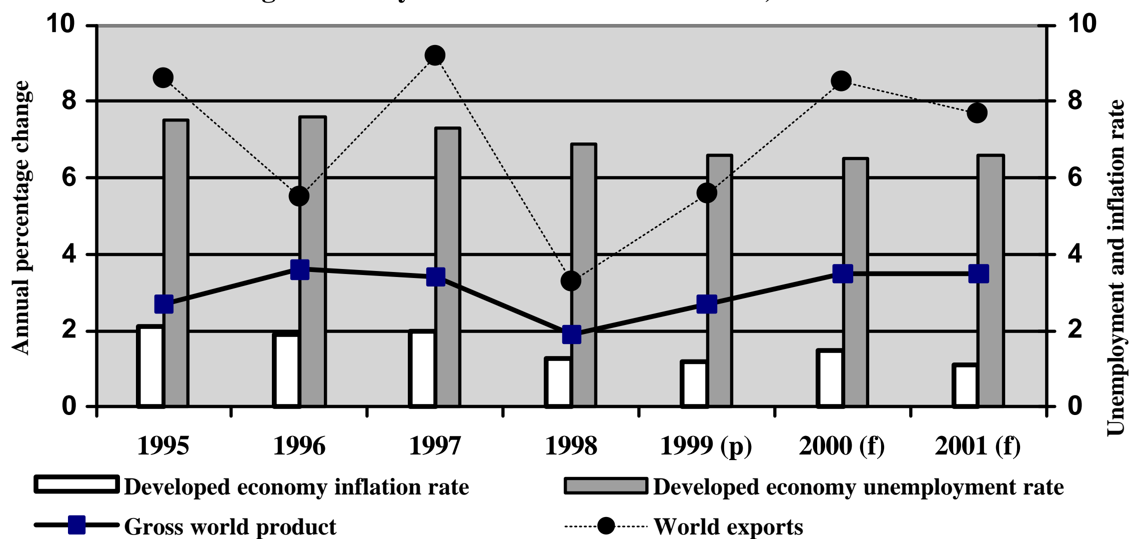
Table 1. World economic growth as assessed by international agencies, 1999-2001

	1999	2000	2001
United Nations			
World	2.7	3½	3½
Developed economies	2.6	3	3
Developing countries	3.4	5¼	5
Economies in transition	2.1	3¾	3½
International Monetary Fund			
World	3.3	4.2	3.9
Advanced economies	3.1	3.6	3.0
Developing countries	3.8	5.4	5.3
Countries in transition	2.4	2.6	3.0
World Bank			
World	2.6	3.1 a	
High income countries	2.6	2.6 a	
Low & middle income countries	2.7	4.5 a	

Source: United Nations: "Global Economic Outlook" (April 2000), paper presented at Spring 2000 meeting of Project LINK as modified in light of discussions and subsequent information made available to the Secretariat.
International Monetary Fund: "World Economic Outlook" (May 2000), reference document of IMF presentation at the Spring 2000 meeting of Project LINK.
World Bank: "Global Economic Prospects and the Developing Countries 2000" (December 1999), reference document of World Bank presentation at the Spring 2000 meeting of Project LINK.

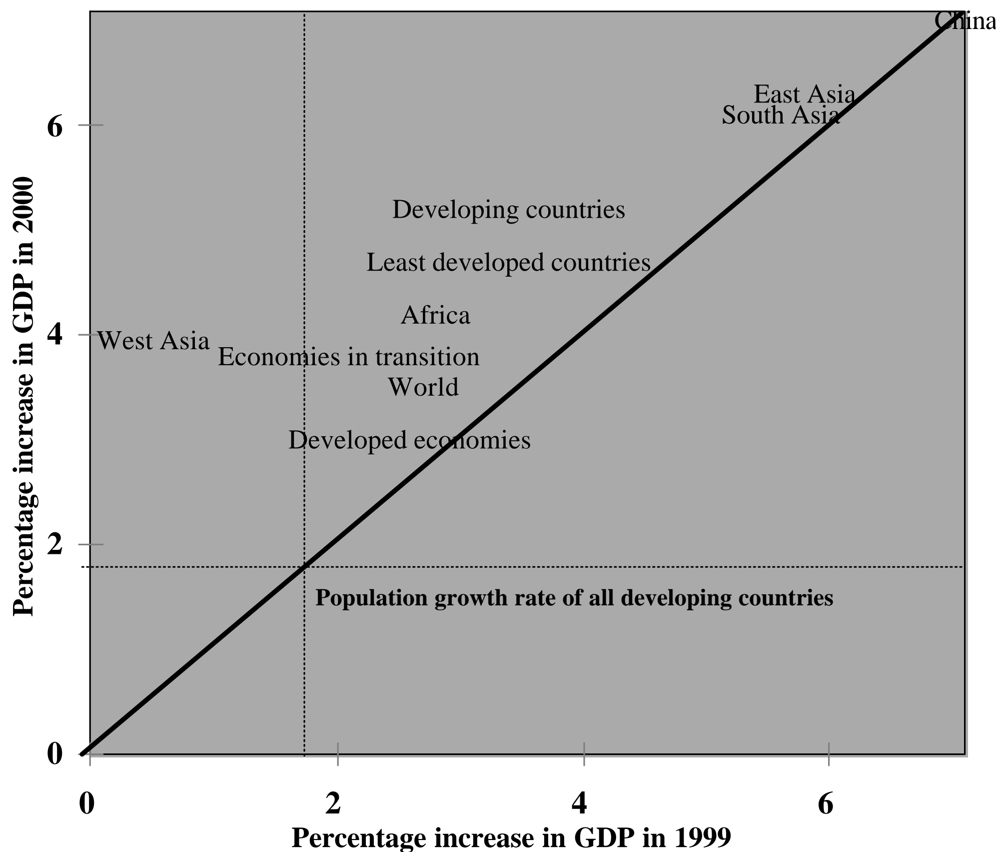
a. 1999-2008.

Figure 1. Key World Economic Indicators, 1995-2001



Although all regions of the world economy are expected to record rates of increase in GDP in 2000 well above those attained in 1999, the upswing in economic activity is particularly strong in the developing countries, where output is forecast to rise considerably faster than in the developed economies and economies in transition (see figure 2). The rise in economic activity is seen as particularly rapid in Asia, where forecasts point to continuing rapid growth in China, East Asia and South Asia and a marked improvement in the growth performance of West Asia and Latin America and the Caribbean. A significant improvements is also foreseen for Africa, in contrast to 1999, when output per capita stagnated in Africa and fell in West Asia and Latin America and the Caribbean, GDP per capita is forecast to rise in all main developing country regions in 2000.

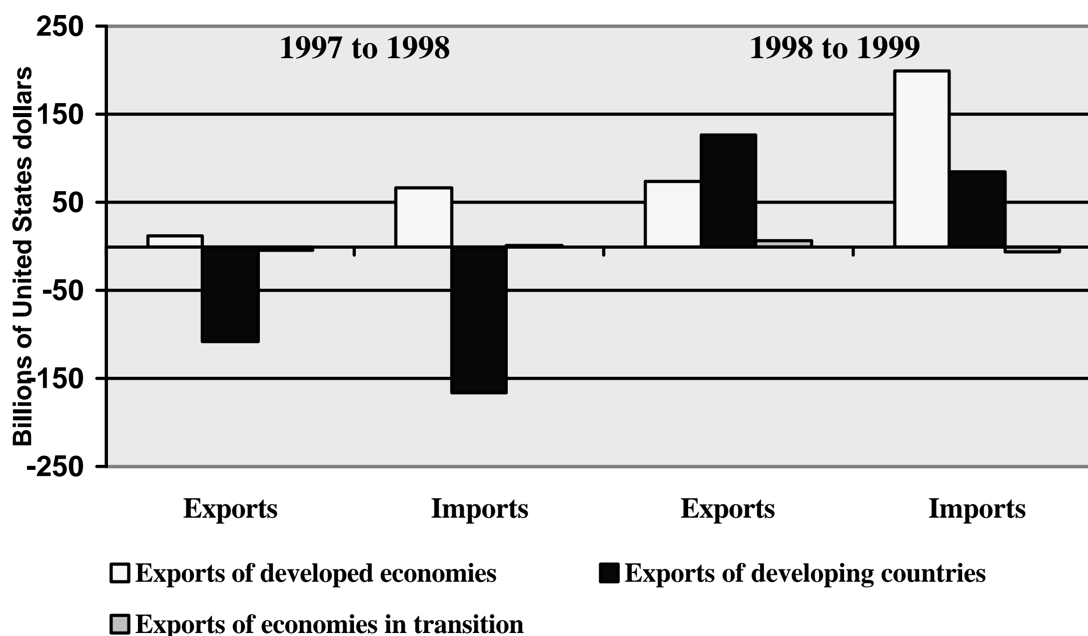
Figure 2. Major World Regions: Growth in 1999 and 2000



In the discussions, most forecasters attributed the current strength of the world economy to the faster-than-expected recovery of many emerging market economies from the recent international financial crises and to the continued robust performance of the United States economy. In addition, Mr. Van Brabant mentioned another important underlying factor: the diffusion in depth as well as in breadth of the information and communication technology (ICT) revolution. In this regard, in recent years there has been a remarkable increase in investment in ICT in almost all developed economies and some developing economies. This has supported the current economic expansion and should provide opportunities for sustaining strong growth in the world economy over the next few years and into the longer term.

Second, the *international economic environment* has improved considerably. World trade started to pick up during the second half of 1999 and world export volume is expected to rise by near 8 per cent in 2000, up from increases of about 3½ per cent in 1998 and 4.8 per cent 1999.[2] In terms of merchandise trade performance, there were considerable variations among major world economic regions, with the exports and imports of developing countries registering large gains in 1999 as many emerging countries recovered from the effects of the international financial crises of 1997 and 1998. In terms of value in United States dollars, exports from developing countries rose 8.3 per cent in 1999 from the severely depressed levels of 1998, an increase more than twice as fast as the world average. This jump in export value by developing countries more than offset the decline of the previous year and may be compared with only a relatively small increase in export value by the developed market economies and a slower rise in the value of exports from the economies in transition. In contrast, the largest increase in the value of internationally traded goods purchased on world markets was accounted for by demand originating in the developed economies (see figure 3).

Figure 3. Increment in Value of World Trade by Major Economic Region, 1997 to 1998 and 1998 to 1999

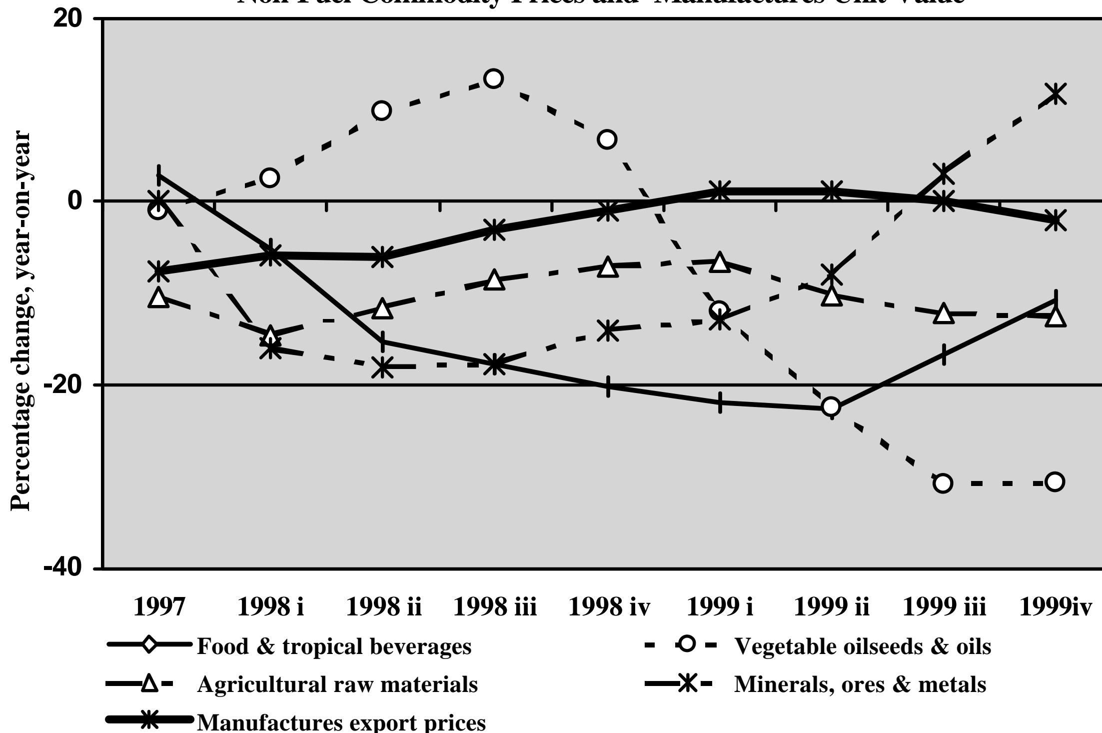


External finance conditions for emerging economies have also continued to improve. Capital flows into emerging countries dropped sharply during the 1997-1998 financial crises, with net private capital flows contracting in 1998 to one third of their 1996 level. Investor confidence has gradually been restored since the Brazil crisis at the beginning of 1999, and net capital flows to these economies are expected to increase modestly in 2000, following stagnation at low levels during 1998-1999. Nevertheless, as mentioned by all forecasters at the meeting, large trade imbalances across countries and regions continue to widen as is, most evident from the mounting trade deficit of the United States.

[2] A post-LINK-meeting revision has changed the growth rate of world export volume for 1999 and 2000 to 4.6 and 8 per cent, respectively.

Primary commodity prices are also strengthening. As a result of the earlier economic contractions, prices of major commodities dropped in early 1999 to their lowest levels in decades. Since the second quarter of 1999, however, prices for many non-fuel primary commodities have stabilized or recovered from the low levels reached during the crises (see figure 4). Professor Adams expressed the view that the upswing in prices of industrial raw materials since mid-1999 would continue in 2000, albeit at a more modest pace. Prices of agricultural commodities, which lagged in the current recovery, are expected to stabilize, with just a slight upward movement.

Figure 4. Recent Changes in Non-Fuel Commodity Prices and Manufactures Unit Value



On the outlook for oil prices, Professor Kaufmann forecast a range of $23-$28 for the next few years, which is in line with the assumption underlying the LINK forecasts. In this presentation, Professor Kaufmann focused mainly on developments on the supply side, and argued that the current lack of spare capacity and slow growth of new capacity would be decisive factors in keeping oil prices around their current levels in the short to medium term. However, he pointed to a number of risks to this forecast. On the upside, high capacity utilization rates in OPEC, the possibility of supply disruptions, and the low level of global stocks could lead to a further hike in prices. On the downside, increased production in Iraq would alter the supply-demand balance and could lead to a drop in prices.

Exchange rates of most currencies in emerging economies, many of which were sharply devaluated during 1997-1998, have been relatively stable over the course of 1999 and early 2000. Among the major currencies, the 25 per cent depreciation of the euro against the US dollar since its debut in 1999 did raise some concern among members of the Expert Group, but a number of forecasters emphasized the role of growth rate

differentials among the major regions in determining exchange rates. In their view, the US dollar should moderate slightly in value vis-à-vis other major currencies, and the euro should strengthen accordingly, as economic growth among these countries becomes more balanced.

Third, the outlook for worldwide *inflation* remains benign. Both Ms. Boone and Mr. Barrell expect some rise of inflation in Europe and North America in 2000, but rates of price increase are forecast to remain under 3 per cent, which is the upper bound of the target range for inflation set by many central banks. As pointed out by Mr. Van Brabant, this implies that the declining trend in inflation in the developed economies over the last decade, which brought inflation rates to near zero levels in 1998-1999, is now over. However, he also noted that as long as the factors that created the benign inflation environment, such as disciplined fiscal policies, vigilant monetary policies, and greater global competition, stay in place, inflation in these economies should remain under control. Inflation is not expected to be a major problem in emerging market economies in the near term, with some further reduction of inflation likely in some of these economies.

Fourth, the *employment* situation in many economies has shown a notable improvement along with the recovery in output growth, but sharp contrasts exist across regions and countries in the pattern and extent of the improvement. The extremely tight labour market in the United States was stressed by many experts as a significant constraint on continued rapid economic growth in that country. The most recent decline in unemployment rates in Europe was also noted, but many experts believed that much of the improvement was cyclical, and, therefore, incisive labour market reforms should continue. For most developing countries and economies in transition, the rise in unemployment during the 1997-1998 international financial crises has finally peaked in some countries and started to fall in others. High unemployment rates in many emerging market economies—where the actual labour market situation could be worse than official unemployment rates indicate--remain as a major policy challenge. In this regard, Mr. van Brabant also addressed the issue of the shortage of skilled labour in many economies and the continuing brain drain from developing countries to developed economies in the current environment of increased global competition and the IT revolution.

Fifth, in a discussion of *macroeconomic policies* underlying the global outlook, Mr. Van Brabant pointed out that policy makers worldwide were facing new challenges in an era of greater global economic integration, rapid technological innovation, and post-financial-crisis restructuring. While prevailing macroeconomic policy stances have been supportive of the recent recovery in world economic activity, prudent macroeconomic policies remain equally essential to efforts to sustain the current expansion.

The Expert Group also noted the recent significant shift in monetary policy in most developed countries, where central banks have raised interest rates significantly since mid-1999 as a pre-emptive step toward preventing a rise in inflation. The Expert Group also noted that central banks in many developing countries and economies in transition had not raised their policy interest rates. Most global forecasters expected a continued tightening in developed economies in the course of 2000, but they did not foresee a significant rise in interest rates in emerging market economies as some of these countries have room for cutting interest rates.

With regard to fiscal policy, the Expert Group noted a divergent trend across regions and countries. While most developed economies, with the exception of Japan, are in a sound fiscal position, with a number reporting a budget surplus, many other economies are in budget deficit. Therefore, in the outlook, some developed economies are expected to introduce tax reductions, but many emerging economies are likely to take steps toward fiscal consolidation in order to reduce their internal deficits.

Finally, notwithstanding the optimistic world economic outlook as it is now assessed, all global forecasters stressed *uncertainties and risks* that could markedly change the present outlook. One major downside risk is the large and growing external and internal imbalances of the United States, reflected in its large trade deficit, the high valuation of equities in its financial markets, and its low saving rate. Mr. Van Brabant reminded the participants of a global downside scenario simulated with the LINK system in early 1999, in which a substantial slowdown in world economic growth could be triggered by a major correction in equity markets in the United States and other major developed economies. [3] An over-tightening of monetary policy or a supply-side shock such as sharply rising and persistently high prices of oil could also trigger an abrupt adjustment in the United States and other countries and send ripple effects throughout the world. As pointed by Ms. De Kleine, volatility in global financial markets might continue to be the norm, and this would dampen the growth of world economic activity.

But a number of forecasters, such as Mr. Ranil Salgado, Ms. De Kleine, and Mr. Van Brabant, also mentioned the possibility of upside risks leading to stronger than expected potential world growth than the rate depicted in agency baseline forecasts. As one example, Mr. Salgado commented that, in spite of the strong global economic outlook, the world was entering a new century with the largest disparities ever recorded between the rich and the poor. The widening income gap within many countries and the gulf between the most affluent and most impoverished nations represent not only a moral outrage and waste of economic potential but a threat to peace and prosperity.

The outlook for major world economic regions

Several sessions were devoted to a discussion of the economic outlook for major world regions as assessed at the time of the meeting. A summary overview for each region was introduced by a LINK participant or staff member from the corresponding United Nations regional commission, which was followed by brief presentations of trends and forecasts in major economies as assessed by LINK country participants. A general discussion followed. The LINK forecast is summarized in table 2. The Annex Table provides individual country results.

The general pattern of growth in the world economy in 1999 and 2000 can be seen in figure 5, which reflects the great diversity in production performance of different world regions in 1998 and 1999. The forecasted upturn for 2000, however, points to a much more balanced pattern of world economic growth, with slower growing regions improving their performance significantly more than rapidly growing areas.

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[3] Mr. Pingfan Hong (United Nations) reviewed the scenario in detail in a later session, as reported below.

Table 2. World economic growth as assessed by Project LINK, 1999-2001

	1998	1999	2000	2001
World	1.9	2.7	3.5	3.5
Developed economies	2.1	2.6	3.0	3.0
Economies in transition	-0.6	2.1	3.8	3.4
Developing countries	1.5	3.4	5.2	5.5
Latin America & Caribbean	1.9	0.3	3.8	4.2
Africa	2.7	2.8	4.2	4.5
Western Asia	3.7	0.5	3.9	4.7
East and South Asia	-2.3	5.8	6.2	6.2
China	7.8	7.1	7.5	7.6

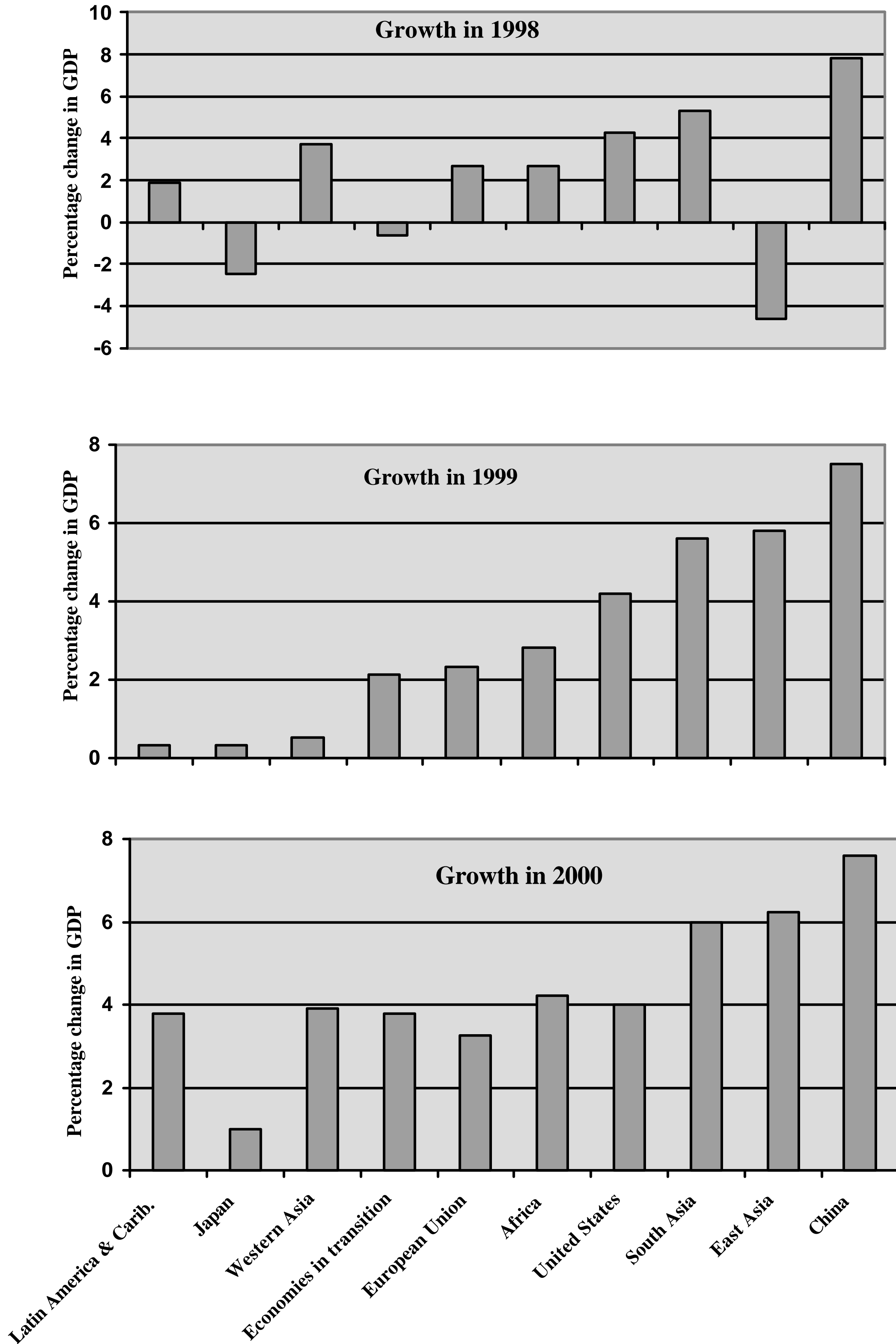
Source: "Global Economic Outlook" (April 2000), paper presented at Spring 2000 meeting of Project LINK as modified in light of discussions and subsequent information made available to the Secretariat.

Developed economies

In his presentation on the *United States*, Professor Klein (University of Pennsylvania) emphasized the dichotomy between the "real" economy, namely the production of goods and services for consumption and capital formation, and the "financial" economy, namely the process of intermediation between savers and investors and the allocation of capital to its most productive use, with the former doing well but the latter exhibiting volatility. While Professor Klein agreed in general with the optimistic LINK short-term forecast for the United States that reflected continued robust GDP growth accompanied by low unemployment and benign inflation, he nonetheless stressed a number of concerns: wide stock market swings, large trade and current-account deficits, and growing inequality in the distribution of income and wealth. He believed that the large capital appreciation in equity market valuations during the past few years had supported strong consumer demand, —leading to very low personal rates.

Professor Klein also expressed his concerns about the large external deficit of the United States. He argued that the deficits could continue as long as the rest of the world was willing to invest in the United States. But if investor attitudes were to change a vicious circle could ensure: The United States dollar would depreciate, leading to a reduction in demand for United States assets because of greater exchange rate risk; valuations in equity markets would then decline and act as a depressing force on final demand and economic growth; and, together with a devalued United States dollar, lower levels of economic activity would reduce the external deficit but at the cost of lost incomes and higher unemployment. At the same time, this process of adjustment would increase inflationary pressures and further depress investor sentiment.

Figure 5. Growth in the World Economy, 1998, 1999 and 2000



In presenting the outlook for *Japan*, Professor Ban (Osaka University) stressed the importance for the economy of a smooth transition from a recovery driven by private demand based on public spending expansion. Despite another year of faltering economic growth in 1999, both Government and market confidence in a recovery recently improved noticeably. Business fixed investment and industrial production have already shown some increase. However, a sustained recovery will depend on further improvements in the employment situation and income levels so that consumer demand can pick up. While monetary policy is expected to remain supportive of growth, with the interest rate near zero, fiscal policy may have reached its capacity to stimulate the economy as the ratio of government debt to GDP has mounted to 110 per cent. As now assessed, the economy is expected to expand at a mediocre rate of 1-2 per cent for 2000-2001.

Two speakers made summary presentations in the session on the "European Economic Outlook". Mr. André Dramais (European Commission) focused on short-run macroeconomic issues and Mr. Adrian Cooper (Oxford Economic Forecasting) discussed some structural changes required for attaining more rapid growth in European economies.

Mr. Dramais informed the Expert Group that the EC forecast had recently been revised upwards to a growth rate of 3.4 per cent for aggregate European Union GDP in 2000 and 3.1 per cent in 2001, slightly higher than the corresponding LINK forecast. But he noted that when preparing an assessment of the upside and downside risks to this forecast there is a serious question of identifying potential output, especially when the service sector comprise, 75 per cent of output. In the past, inflation came from an increase in industrial prices that pushed up profits and then wages, not price increases due to wage pressure. Consequently, there would be a danger if economic growth were higher than its potential because output would press upon capacity. However, Mr. Dramais agreed that with the greater internal market of the EU and the introduction of the euro as a common currency, capacity constraints within a single country should not matter, and it is the capacity constraint of the euro zone as a whole that is a key factor determining inflationary pressures.

Mr. Dramais also mentioned that labour demand has been strong, as employment growth averaged 1.3-1.4 per cent in 1998 and 1999, an addition to payrolls of about 2 million persons a year. But since the early 1980s, the growth of real wages has generally been slower than that of labour productivity, so that the share of the wages in GDP has fallen. Currently, the wage share has never been so low and the profit share never so high. In addition, profit per unit of capital has never been so high. This suggests that with the strong recovery in final demand, investment will be strong, particularly in machinery and equipment. The growth in investment is expected to rise to about 7 per cent per year, which is more than twice the expected rate of growth of GDP. Therefore, economic growth should be sustainable in the long run. With this increase in productive capacity, potential GDP increases, so that the rise in actual output should continue to be less than potential output, and there should be no price pressures.

Unemployment has fallen, but only by half the rise in employment. This is due to entry into the labour force of formerly discouraged workers. It will require ten years of

strong growth for full employment to be attained. The situation in the United States shows that NAIRU problems are not a worry. There are some places in Europe where there are shortages of labour. In the case of the Netherlands, for example, unemployment is low but there is a huge group of comparatively------people on disability pension. Similarly in Belgium, it is the pre-pension group. So there is still an unemployment problem.

In Mr. Dramais' view, there should be little inflationary danger in Europe from wages. For the next two years, trade unions and employers groups have reached agreements with reasonable rises in labour costs. Inflation has recently risen to 2 per cent. This rise has come from higher oil prices and the depreciation of the euro, -- both transient shocks. Oil prices have recently retreated and stabilized and the latest data show the core inflation rate at 1 per cent. So the medium term target of 2 per cent for inflation set by ECB is unlikely to be breached.

On fiscal policy, the results are better than expected. In 2001, only three countries are expected to have debt-to-GDP ratios in excess of 60 per cent, and all national budgets are expected to be approximately in balance. Actual tax receipts have been higher than expected, in part because domestic demand, which is taxed, has been higher than expected while net exports, which are not taxed, have been lower than expected. Half of the countries in the EU are in budgetary surplus. But now there is the question of what to do with this unexpected windfall. The suggestion of the Commission is to cut debt, but in Mr. Dramais' view, most countries have decided to cut taxes instead. Unfortunately, this implies a pro-cyclical fiscal policy, but many countries are reaching their targets, so it is difficult to argue against tax relief.

Net exports of the EU outside the euro area are only 9-10 per cent its combined GDP. There is still a slight trade surplus, but it is down from 2.3 per cent of GDP. This figure reflects a large measurement error last year, so that half of the reported surplus was a statistical illusion. In the past trade was measured on a customs basis, so that exports were underestimated while imports were overestimated (one was taxed, the other not). Now, firms report trade, and exports are overestimated because firms want to declare exports, while imports are underestimated.

Mr. Dramais pointed out that the current level of the euro is not without precedent. Looking at history, using a simulated euro, in 1970, the euro was 1 to 1 with the $US, in 1980, it was 0.39, in 1985, it was 0.76, in 1990, it was 1.27 and in Jan 2000, it was 1.00 again. So anything can happen. But there are worries. In both the EU and the US, exchange rate policy has been one of benign neglect, with wide variations in the exchange rate. Such volatility is not good for other countries.

In his presentation, Mr. Cooper expressed the view that higher growth in Europe is possible, but more changes in policies will be needed. In comparison with the UK and the US, the euro area has double the unemployment rate and a much lower level of investment. Moreover, the time required to form a business was much longer and the costs associated with business formation much higher. OECD indicators of regulation, such as product market regulations and labour market regulations, are also higher.

Interest rate spreads between the bank lending rate and the deposit rate, which is an indicator of the cost of capital, are also much higher in the Euro area.

However, Mr. Cooper acknowledged that some change was taking place in many countries. But the least progress has been made in the labour market. Wage dispersion across income groups has not increased. Some countries have mandated a 35-hour workweek. But in France and Italy, the 35-hour workweek is very watered down. Moreover, there has been some erosion of employment protection. For example, the payroll tax has been reduced in France and there is more short-term and part-time employment. In 1979, these kinds of employment accounted for 8½ per cent of total employment while by 1998 their proportion had risen to 14½ per cent. Some regulations have been reduced or eliminated by governmental action, but the market is forcing change as well. The share of trade union membership in employment has also declined over the last 15 years and strike activity is down. This has very little to do with government policy; rather, it is a response to market forces and company and union decisions. Consequently, employment has increased considerably.

In product markets, significant changes are taking place. In 2002, euro notes and coins will be introduced, and this, plus the rise in e-commerce, should further enhance price transparency. Also, there has been a significant deregulation in such sectors as telecommunications and electricity as well as increases in store opening hours.

In capital markets great changes. Mergers have occurred and acquisitions have increased greatly, reaching a value similar to that in the United States. Hostile takeovers are starting and cross-border acquisitions are increasing. Germany will allow the unwinding of cross holdings without tax implications. There is an increased emphasis on maximizing shareholder value. Venture capital markets have deepened, and are now half the size of those in the United States. The corporate bond market is expanding and has been largely denominated in euros. Sources of funds are increasing, and are cheaper and more liquid. The interest rate spread between lending and deposit rates has decreased due to greater competition among banks, leading to corporate restructurings with cost cutting and gains in productivity. The possibility of higher growth through the new economy exists. But, Mr. Cooper noted, there is a long way to go. Standard and Poors now rates 2500 US companies, but only 75 EU companies.

Developing countries

Mr. Carl Gray (United Nations) reported that the real GDP of *Africa* increased 2.8 per cent in 1999, marginally above the 2.7 per cent increase of 1998. Growth in 1999 was largely export-driven, and was attributable mainly to significant increases in the export earnings of the region's oil-exporting economies as a result of higher oil prices. A recovery of demand in Asia and Europe for Africa's exports of industrial raw materials also contributed to higher export earnings. At the domestic level, sound macroeconomic policies in a large number of countries contributed to macroeconomic stability, but the growth in domestic demand was nonetheless generally weak and provided little stimulus to output growth. GDP growth is expected to accelerate to 4½ per cent in 2000 as domestic political conditions continue to improve and exports strengthen further. The outlook for individual economies, however, remains diverse.

According to Professor Charlotte du Toit (South Africa), the *South African* economy, one of the largest economy in the region, regained some growth momentum during 1999, supported by the recovery of external demand and a general easing monetary conditions. Foreign direct investment (FDI) increased again in 1999, but was still considered inadequate to stimulate significantly long-run economic growth. GDP growth is expected to reach almost 3 per cent in 2000, reflecting a shift to a more export-led growth path.

Mr. Cletus Dordunoo (Ghana) reported that the economy of *Ghana* continued to suffer in 1999 from external shocks, including the legacy of the Asian crisis, a softening of prices for cocoa and gold (two major export earners in Ghana), sharp increases in world prices for petroleum (the major import of the country), and a reduction in short-term FDT and brain drain out of Ghana. Despite all these negative shocks, real GDP increased 4.4 per cent in 1999, led by the rain-dependent agricultural sector, compared with a 4.6 per cent rise in 1998. Inflation slowed from a rate of 15.7 per cent in 1998 to 13.8 per cent in 1999, despite a depreciation of the national currency (the cedi) of 33 per cent vis-à-vis the United States dollar. Real GDP is projected to rise by 5 per cent in 2000 as investment rises.

In contrast, Mr. Kodjo Evlo (Togo) informed the Group that output in *Togo* had been falling since mid-1998, with GDP declining by 4½ per cent in 1999 as a result of a continued deterioration in the social and political environment. Another contributing factor was the sanctions imposed by the international community since the second half of 1998. Private consumption fell by 4.8 per cent due to the decline in household income, and private investment fell by 11.8 per cent in 1999. Public consumption fell by 18 per cent.

Uncertainties and downside risks exist in many economies in the region. For example, in the case of *Nigeria*, Mr. Sam Olofin (Nigeria) listed a number of major risks to the economy, including a potential fall in oil prices, the possibility of a continued conflict in areas where Islamic law has been introduced, and the potential for conflicts along regional or ethnic lines, which erstwhile military rulers may seek to exploit. Mr. Olofin was of the view that despite these risks, economic growth in Nigeria was likely to increase somewhat from 1999 to 2000.

Mr. Siddig Salih (Islamic Development Bank) summarized economic developments in the *Middle East* in 1999 and presented the outlook for the region for 2000. The percentage increase in the aggregate GDP of these countries, excluding Iraq, was 2.8 per cent in 1999, up from 2 per cent in 1998. However, with a population increase of 2½ per cent, GDP per capita rose only ¼ per cent, and did not recover losses in incomes incurred in 1998. Production performance varied widely among countries, especially between oil-exporting and oil-importing groups, with the latter generally performing better than the former in 1999. As assessed by Mr. Salih, the rebound of oil prices, prudent monetary and fiscal policies, modest increases in FDI, and some progress in the Israeli/Arab peace process should lead to a modest recovery in growth in 2000, with the rate of increase in GDP picking up. It should reach almost 4 per cent for the region as a whole in 2000, with oil-exporting countries growing faster than oil-importing

countries. Inflation should remain subdued and balance-of-payments positions are also expected to improve over the year.

Mr. A. Islam (ESCAP) briefly summarized the economic outlook for *Asia*. In 1999, there was a considerable improvement in growth performance across the region (except for South Asia) supported by fiscal stimulus and increased exports. Most notably, all East Asian emerging market economies that had recorded a recession in 1998 resumed growth in 1999, with some countries exhibiting a fairly rapid recovery. Inflation has also come down sharply and universally. In 2000, the region is expected to exhibit slightly higher growth, assuming smooth progress in restructuring, increased foreign capital inflows, and sustained increases in exports. However, there are a number of downside risks. First, if the bad debt problem facing many of these countries is not addressed within a reasonably short period of time, investor sentiment could deteriorate. Second, corporate restructuring with its associated layoffs could dampen consumer sentiment and thus domestic demand. Third, a possible crash of world stock markets and rising oil prices present significant external risks. Finally, there are political uncertainties in a number of countries in the region.

Ms. M. Zingapan (NEDA, Philippines) brought to the attention of the Expert Group that the strong double-digit export growth in the *Philippines* in 1999 was related to a surge in intraregional trade rather than a rise in exports to the United States, and therefore the downside risk from a possible slowdown in the United States economy may be smaller than previously assessed. In response, Mr. Islam said that the Philippine case was an exception, and that for the region as a whole exports to the United States remain important and a potential source of risk should the United States economy falter.

Mr. P. Patrawimolpon (Bank of Thailand) commented briefly on the economy of *Thailand*. He mentioned that the stabilization of its currency, the baht, and a slowing rate of inflation had allowed interest rates to fall, leading to a modest recovery in economic activity. Regarding macroeconomic policies, he was of the view that Thailand would plan to move to inflation-targeting in the next few years, with the maintenance of export competitiveness as a major rationale. But Mr. Islam commented that, were there serious external shocks to the Thai economy, such as a sharp fall in the demand for its exports as in 1995-1996, inflation-targeting would not help in dealing with the problem.

Mr. M. Dowling (University of Melbourne) added that, except for Indonesia, the relative competitiveness of the countries of East and South-east Asia had not changed significantly within the region, although their competitiveness against the rest of world had improved. In the cases of China and Hong Kong SAR, which did not devalue their currencies after the financial crises, there had nonetheless been domestic price deflation during the past two years equivalent to a 10 to 15 per cent effective devaluation in real terms. Consequently, the relative realignment between China and Hong Kong SAR on the one hand and the other countries of East Asia on the other was not that great.

During the session, considerable concern was expressed about the vulnerability of the crisis-hit Asian economies to further shocks as a result of slow and limited progress in the reform of their financial sector. Non-performing loans (NPLs) remain a major problem and persistent corporate governance problems have not been fully addressed.

With regard to exchange rate policy, Mr. T. Batbold (UNDESA) pointed to the danger that these countries might return to soft pegs of their currencies. While a special session was devoted to issues of financial restructuring in the region, as reported below, Mr. Islam briefly commented on the vulnerability of these countries to exchange rate misalignments and its implications for the current account and debt-service capacity. In his opinion, excessive dependence on exports to spur economic growth in East Asian countries would continue to keep these export-oriented countries vulnerable to external shocks. In his view, there is a need for balancing domestic demand and external demand. Nonetheless, he did not believe that East Asian countries, except Malaysia, would go back to a soft peg arrangement by deliberately fixing the exchange rate through intervention. In this regard, he noted that the recent period of exchange rate stability was partly due to the return of foreign capital and higher export growth.

Mr. Pedro Sainz (ECLAC) presented the outlook for *Latin America and the Caribbean*, emphasizing the divergent performance of two groups of countries. One group, comprising Mexico and most of Central America and the Caribbean, is expected to continue to register high rates of economic growth, while a second group, comprising the majority of South American countries, is expected to recover from the very weak performance of 1999. He also noted that because of the special link among Mexico, the United States and Canada under the North American Free Trade Agreement (NAFTA), there is a need to separate Mexico from the rest of Latin America to better understand developments in the external sector of the region.

Mr. Sainz remarked that efforts in 1999 to defend prevailing exchange rate arrangements through high interest rates accentuated the recessions experienced by many of Latin American countries in recent years. In contrast, economic growth in Mexico, with a floating exchange rate regime, was less affected by external developments because its flexible exchange rate regime allowed the country to limit interest rate increases more than other countries.

When assessing the prospects of the region in a longer-term perspective, Mr. Sainz classified the countries of the region into two different groups. In the first group, countries such as Chile, Mexico and some Central American and Caribbean countries that had been able to develop a stable pattern of growth and development are seen as continuing to perform well. In the case of these countries, some dynamic factors, such as manufacturing exports, the exploitation of natural resources, a growing tourism sector and rising private transfers, should provide support for the balance of payments of these economies under conditions of rapid growth. However, countries in the second group, comprising the rest of Latin America, most notably, Brazil, are viewed as unable to grow steadily without accumulating unsustainable external imbalances.

The financial sector in Latin America also drew attention at the meeting. While Brazil managed to reform and strengthen its banking system during the second half of the 1990s, and the Brazilian banks were relatively well prepared to deal with the crisis of early 1999, Mexico is still struggling to overcome financial problems that emerged in 1995. Moreover, financial systems in other countries in the region also show weaknesses, representing a cause for concern.

Comments from national experts of the region emphasized various issues common to many countries. Mr. Alfredo Calcagno (ECLAC) described the strategy of *Argentina* to attract foreign capital in support of structural reforms and fiscal consolidation in the expectation that these would improve economic prospects in 2000 and beyond. Calcagno expressed his concern, however, about the already high levels of indebtedness of Argentina and pointed out that it would be unrealistic to expect sustained inflows of foreign capital into the country. Mr. Eustaquio Reis (IPEA, Brazil) was cautious about the inflation-targeting framework that was introduced in *Brazil* in 1999. According to Mr. Reis, the lower-than-expected rate of inflation after the devaluation of Brazil's currency was not a consequence of this new policy framework, but rather rooted in the economic recession with its high unemployment, higher interest rates by the central bank and tight fiscal constraint.

Ms. Cristina Rodríguez (MetroEconomica, Venezuela) stressed the importance of political uncertainties in explaining the discouraging economic performance of *Venezuela*. She agreed with Mr. Sainz, who had pointed out the difficult political situation in all Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), and mentioned that many countries were experiencing "reform fatigue" after years of relatively slow growth. Mr. Juan José Echevarría (Fedesarrollo, Colombia) remarked on the poor economic performance of *Colombia*, with the increase of its external and fiscal deficits. Mr. Alfredo Coutiño (CIMEX-WEFA, United States) noted the positive impact on *Mexico* of NAFTA after seven years of implementation. Mr. Rafael Vargas (Universidad de Costa Rica) said that *Costa Rica* was experiencing a duality in its economic growth, with modern sectors growing very rapidly and traditional sectors lagging behind. He also commented that households were still facing many difficulties.

Economies in transition

Professor Franjo Štiblar (Slovenia) presented an overview of the economic situation in the economies in transition. He stated that the decline in economic activity in the transition countries had reached its nadir at the beginning of 1999 under the impact of the Russian financial crisis, large capital outflows from the region, and the slowdown in the European Union. However, the revival of economic activity in the second half of 1999 proved to be stronger than initially expected, in some countries accompanied by substantial improvements in the business climate and labour productivity. Nevertheless, both external and internal imbalances in many transition economies continued to deteriorate.

For the ten EU candidates in the group (Bulgaria, the Czech Republic, Estonia, Hungary, Poland, Latvia, Lithuania, Romania, Slovakia and Slovenia), growth in recent years was accompanied by substantial current-account and public-sector deficits. In 1999, the difference between domestic production and absorption was almost 5 per cent of the total GDP of the ten EU candidates. This gap was partially financed by flows of FDI and portfolio investment. The increase in the external debt of these countries during the last decade measured in nominal terms was twice the magnitude of the increase in their GDP. Meanwhile, the public debt in most of these countries has reached over 60 per cent of GDP.

Despite all these difficulties, prospects for the transition economies in 2000 look cautiously optimistic, although they vary from country to country. The growth in economic activity and trade is expected to accelerate throughout the region. However, there are a number of uncertainties that could affect this assessment, including the level of world commodity prices, interest rates in world financial markets, and capital inflows into the region. The threat of wide external imbalances could prevent some of these economies from achieving high rates of GDP growth. At the same time, a convergence of inflation rates is likely to occur - countries with relatively high inflation will probably be more successful in reducing inflation, while countries with low inflation will experience some rise in the rate of price increase.

With regard to the *Russian Federation*, Professor Štiblar noted that a decade-long contraction of the economy ended in 1999, due, among other factors, to a drastic depreciation of the rouble in 1998-1999 and a sharp increase in oil prices. However, many structural reforms still remain to be implemented, including reform of the banking sector. Russia remains dependent on private capital inflows, which in turn depend on successful negotiations with the IMF. The *Baltic States* demonstrated divergent economic performance after the Russian financial crisis, but their economic activity is likely to benefit in 2000 from the Russian recovery. In *Ukraine*, the ongoing recession is expected to end in 2000 with a return to very low growth.

The economic performance of the countries of *Central and Eastern Europe* was negatively affected by external factors in 1999 and also, to some extent, by the war in Kosovo. In addition, structural adjustment measures slowed growth in the *Czech Republic* and *Slovakia*. Domestic demand should accelerate economic growth in *Poland*, although a growth rate of 7-8 per cent as projected by some forecasters would seem difficult to justify, given the low rate of investment in 1999 and still stagnant exports. Dynamic growth is expected to continue in *Hungary*, reaching about 5 per cent in 2000. At the same time, austerity measures aimed at reducing the country's large domestic and external imbalances should allow for only a modest acceleration of growth in *Slovakia* in 2000.

Concluding his presentation, Professor Štiblar referred to the process of European Union enlargement. He mentioned that there were significant differences among the European Union candidates in the group of economies in transition, in terms of various economic and social criteria, such as GDP per capita, share of trade directly with the EU, FDI inflows, fulfilment of Copenhagen criteria.

Mr. Evgeny Gavrilenkov (Bureau of Economic Analysis, Russia) reported that the *Russian* economy was on a path of strong growth, with investment increasing by 4½ per cent in 1999. Capital flight has been reduced and consumer demand has been picking up. If the new President could take the opportunity to push through reforms necessary to improve the business and investment environment, Russia could achieve a 5 per cent increase in GDP in 2000. According to Mr. Gavrilenkov, most challenges were at the microeconomic level. Dismantling barriers to entry, deregulation, tax reduction, promotion of competition, and closure of loss-making enterprises were the priority tasks of the new Government. In his view, the Government could easily collect one-third of

the GDP in taxes and double taxes on personal incomes. If capital flight could be reversed, investment would grow at a 10-20 per cent annual rate. However, the economy is still vulnerable to adverse external shocks, such as a fall in oil prices. Also, policy makers need to overcome their conflicting views on such questions as liberalization versus regulation, integration versus isolation, and openness versus closeness. As mentioned by a number of participants, Mr. Gavrilenkov's forecasts were optimistic, compared with those of other analysts.

3. STUDIES OF CURRENT POLICY ISSUES

Inflation-targeting in emerging market countries

During the international financial crises of recent years, many emerging market economies moved from a fixed to a floating exchange-rate regime. As a result, these economies gained greater freedom to conduct monetary policy, but, at the same time, they lost an anchor for monetary policy. Direct inflation-targeting, a framework that has been adopted by many developed economies since the early 1990s, has recently been proposed for emerging market economies with floating exchange-rate regimes. In fact, some have already adopted this framework. However, the costs and benefits of inflation-targeting, as well as the preconditions necessary to adopt it, are still under debate. Professor Frederic S. Mishkin (Columbia University) was invited by the Expert Group to discuss "Inflation Targeting in Emerging Market Countries" at this meeting.

Professor Mishkin emphasized that in any discussion of monetary policy strategies for emerging market economies, the debate over fixed versus flexible exchange rates was the wrong debate, as both fixed and flexible exchange rate regimes had their good and bad points. The real debate, in his view, should be at a deeper level, recognizing that the key issues relate to fundamental circumstances and institutions at the national level. He stressed the importance of realizing that the economic environment of many emerging market countries had changed fundamentally during the last decade, as, for example, in Latin America where inflation had declined significantly in recent years.

After describing policy alternatives under a fixed exchange-rate regime, Professor Mishkin turned to the question of monetary policy in the context of a flexible exchange-rate regime. He noted that without a hard exchange-rate peg, monetary authorities countries must choose some other nominal anchor as the focus of their decision-making, for example, directly targeting some money aggregate. In this approach, monetary policy would be characterized by three elements: (1) the use of a monetary aggregate as the focus of monetary policy, (2) the announcement of quantitative targets with respect to that aggregate, and (3) accountability to meet the target. But this approach to monetary policy makes sense only if the monetary aggregate and nominal GNP (or inflation) are strongly related, which is not always the case in practice. The targeting of monetary aggregates has not really been used in emerging market economies, although they can be useful variables to monitor.

Another approach could be to use direct inflation-targeting as an anchor for monetary policy, which is characterized by five elements: (1) the public announcement

of a medium-term inflation target, (2) an institutional commitment to price stability, (3) an information-inclusive strategy for achieving the target, (4) increased transparency through public communication, and (5) increased accountability.

In Professor Mishkin's opinion, the advantages of inflation-targeting would be that monetary policy could focus on domestic issues. The policy would be transparent and easy to understand by all economic actors. It would increase accountability and would reduce the time-inconsistency problem (where there would be political pressure on the central bank to boost output temporarily above potential in the short run, but at the cost of higher inflation in the long run). The long-run orientation of inflation-targeting and the goal of stable inflation may also help to restrain fiscal policy.

Professor Mishkin also mentioned some criticisms and disadvantages of inflation targeting. Some critics have argued that there is too much focus on inflation so that output variability increases. But he countered that, first of all, no one targets zero inflation, and, secondly, it is very clear that inflation targeting is concerned with output fluctuations. In the case of negative demand shocks it helps smooth the output decline because policy can be more aggressive since loosening now does not mean higher inflation in the future, so inflation expectations are stable. In the case of a supply shock, theory tells us that adding concern over output fluctuations to an inflation targeting policy simply implies a more gradual approach to the target. Finally, the floor of the inflation target is crucial. A second criticism is that it is a rigid rule. But, in fact, it is not a rule but rather "constrained" discretion, that is, monetary policy would be constrained by accountability. Regarding the claim that inflation-targeting would produce low growth, he stated that disinflation would be costly, but afterwards growth should be higher.

On the other hand, Professor Mishkin did feel that there were some serious disadvantages of inflation-targeting for emerging market economies. First, there is the issue of weak accountability for high inflation. At high rates of inflation, there is a problem of control, which can negatively impact on credibility. The solution is that policy would need to be phased in slowly. Another aspect of this problem that the liberalization of controlled prices would require coordination between monetary and fiscal authorities or some other device such as targeting core inflation. Another serious problem is that inflation-targeting would not prevent fiscal dominance, although it would help to involve actively the government in setting the target. This should be viewed as an institutional requirement for adoption of the framework.

Professor Mishkin cited Chile as an example of the use of inflation-targeting. Chile pursued inflation-targeting quite successfully by gradually hardening the regime. But in 1999, the monetary authorities made a mistake. The exchange-rate band was narrowed and monetary policy was tightened in response to a negative external shock. The result was that the Chilian authorities undershot the target, which hurt their public support. Brazil has recently adopted inflation-targeting, but it is too soon to judge the results of these efforts. In the case of Brazil, an important question would be whether fiscal policy could be reformed. But Brazil did adopt a complete package of measures in four months, and to date has achieved its target. Mexico and Peru are also moving towards an inflation-targeting framework and Colombia has announced a target.

Concluding, Professor Mishkin stressed that no monetary regime could solve fundamental institutional problems. Nevertheless, recent successes suggest that inflation targeting could be an option for some countries.

The new economy and productivity

There has been an increasing debate on whether the United States has entered into a new economic era driven by global economic integration and the ICT. The debate has most recently been extended to the implications of this revolution for the global economy. During the LINK meeting, a session was held on this topic, with three speakers, Mr. Ed McKelvey (Goldman Sachs), Professor Lawrence Klein (University of Pennsylvania), and Mr. Pingfan Hong (United Nations), presenting their views on the relevant issues.

Mr. McKelvey presented a study undertaken by Goldman Sachs & Co. that focused on the likely effects on the world economy of the growth in business-to-business commerce over the Internet (B2B). He argued that even though some of the recent improvement in productivity in the United States was due to cyclical factors, the widespread use of ICT has contributed to an increase in the trend rate of growth of productivity. One of the main channels spurring rapid growth was B2B commerce. The study estimated that B2B could raise the annual average rate of economic growth of the major industrialized countries by ¼ per cent during the next ten years. Based on estimates of cost savings from cheaper inputs in 17 industries in the United States, Germany, Japan, France and the United Kingdom, there would be an average a decline in costs for the economy as a whole by 5 per cent, leading to a downward shift in the aggregate supply curve.

Conventional thinking about B2B commerce is that cheaper inputs would lead to lower inflationary pressures in the economy, and consequently lower bond yields and narrower profit margins. However, Mr. McKelvey argued that B2B, in addition to shifting the supply curve downward, would induce an upward shift in the aggregate demand curve, on balance increasing output but leaving prices unchanged in the long run. He pointed to two different ways in which this could happen. First, if equity markets start to anticipate stronger growth, higher prices for equities could fuel consumption expenditures and GDP through the wealth effect. This would lead to increased inflationary pressures and higher interest rates. The economy would be most susceptible to this effect in the medium term. Second, to the extent that this autonomous increase in demand did not occur, central banks pursuing an inflation target would tend to boost demand via lower interest rates when a disinflationary supply shock occurred. Thus, whereas the short- to medium-term effects on inflation and interest rates could be quite different in these two scenarios, the long-term effect would be the same in both cases, namely, higher output and unchanged prices. Mr. McKelvey ended his presentation by raising some caveats, in particular with respect to the quality of the cost-cutting estimates and asked whether central banks would in fact accommodate shifts in the supply curve.

In his paper, "A New Economy?", Professor Klein expressed the view that there was a new economy, but there would be no need for new methods for analysing it. According to Professor Klein, the economic expansion in the United States that began in

the early 1990s was stimulated by a fiscal retrenchment due to the reduction in defence spending and an easy monetary policy, which combined to keep the long end of the yield curve low. The rewiring of the economy in 1980s and 1990s via the Internet has had an effect similar to large-scale infrastructure investment, boosting productivity. The same was happening with other recent innovations such as the advances in satellite technology. The fastest growing sectors are those closely related to ICT. Consistent with the findings of the Goldman Sachs study, a sudden surge in B2B commerce occurred after 1992.

Professor Klein argued that the effects of the new economy could be analysed by using the input-output techniques, and for this reason updating the 1996 input-output tables for the United States would be very useful. Also, in his view, estimating a more flexible production function with information identified as a separate input and with relaxed first order conditions of cost minimization instead of profit maximization, would display increasing returns to scale and allow for the quantification of new economy features. The recent increase in graduates, proficient in ICT, can be modelled as an addition to human capital. In his opinion, the new economy effects of ICT would not be short-lived, and would likely last for several decades.

Finally, Professor Klein expressed his conviction that the new economy was bound to expand internationally. Europe was already catching up, Japan was aware of its potential, and, more importantly, some developing economies such as Israel, Taiwan Province of China and India were already participating in the new economy.

Mr. Pingfan Hong made a presentation on "The New Economy and its Global Implications". First, he reviewed the current debate on the new economy, which was triggered by the strong performance of the United States economy in the 1990s, especially the coexistence of low inflation and low unemployment. He summarized the new paradigm into three strands: increased global economic integration, an accelerated ICT revolution, and improved macroeconomic policies. These factors have fundamentally changed the United States economy in terms of business conduct, corporate structure, and government policies, resulting in a rise in productivity growth and a weakening of the traditional linkage between inflation and employment. He also commented on some major issues around the debate of the new economy, namely, the network effects, productivity growth, and the relationship between stock markets and the new economy.

Second, he addressed the global implications of the new economy, pointing out that there has been a trend in most developed economies and some emerging market economies to increase investment in ICT sectors. A spreading of the ICT revolution to the world economy is now under way, coincident with global integration, and these two trends are reinforcing each other. But he also pointed out a list of constraints that developing economies must overcome before they can join the new-economy wagon, including overcoming wide technology gaps and institutional rigidities. Mr. Hong also reviewed some pessimistic assessments of the impact of the new economy on low-income countries, including the possible further marginalization of these economies.

Finally, Mr. Hong discussed the policy implications of the new economy, including the implications for macroeconomic policies and government regulations. In

this regard, he emphasized the importance of enhancing international policy co-ordination and increasing transfers from developed countries to low-income countries in order to alleviate adverse side effects of these new global trends.

During the general discussion, some participants asked whether the spread of the new economy to developing countries would lead to enclave sectors without forward and backward linkages to the rest of the national economy, possibly exacerbating income inequality. A number of participants were also more skeptical about the capacity of other developing countries to emulate some of the more advanced emerging economies in their absorption of technology. In response, Professor Klein said that India's experience was very encouraging in this sense. Although India had the advantage of having English as a widely used language, the key was education and fostering ICT literacy. Professor Klein pointed out that countries could benefit from ICT revolution in many ways, not only by participating in hardware and software development. In his view, the net effect of the new economy on the developing world would be enormously beneficial.

Post-crisis restructuring in Asia

The strong recovery in many crisis-hit economies has to some extent deflected attention from underlying structural problems that continue to hinder their recovery and ability to sustain a rapid pace of economic growth. The current cyclical upturn with its faster economic growth has not lessened the need for restructuring the still fragile financial and corporate sectors in many of these economies. A panel discussion was held on the question of the need for further restructuring of the financial and corporate sectors of crisis-affected Asian countries.

In leading the discussion, Mr. Dowling pointed out that NPLs remain in these economies and the cost of eliminating these problem loans is far higher than anticipated a year ago. To date, Governments have not been able to wipe out NPLs and restore the banking system's normal intermediating function. While some progress has been made, he believed that NPLs would be a long-term problem, which should be dealt with in a systematic way. Although the restructuring process followed by different countries was similar in some respects, there were also noticeable differences in their approach. For example, *Malaysia* and the *Republic of Korea* have made the most progress in restructuring but with contrasting approaches. The Republic of Korea adopted tight macroeconomic policies under an IMF programme, while Malaysia avoided IMF assistance and, instead, adopted a fixed exchange rate and capital controls. Thailand, after dramatically downsizing its financial sector, adopted a more gradual market-based approach. Indonesia lagged behind others primarily because it faced bigger problems.

Mr Dowling summarized two major lessons from the restructuring process. First, financial and corporate restructuring should be synchronized, because these two problems are in a sense two sides of the same coin. Second, damage to the social sector needs to be minimized as the process of restructuring proceeds. He also emphasized two longer-term issues. First, fiscal imbalances need to be reduced. Second, financial markets need to be deepened, particularly financial markets dealing with long-term investments and financial transactions such as equities, bonds, insurance and even derivatives.

Country participants on the panel commented on the financial crisis and the post-crisis restructuring efforts of their countries. Mr. K. Hong (KDI, the Republic of Korea) mentioned that the Korean crisis was basically a liquidity crisis because, except for low international reserves, other fundamentals were sound at the time of crisis. NPLs and the resulting fiscal burden remain as serious problems. He also mentioned that, as the Government had issued large amount of bonds to purchase NPLs, the bond market was expanding, but it was still underdeveloped compared to other OECD countries.

Mr. I. Azis (Cornell University) briefly discussed progress made in restructuring the banking and corporate sectors in *Indonesia*. Corporate restructuring has been slow, especially in the area of foreign-debt resolution. The recently amended bankruptcy laws were not effective due to enforcement problems. Negotiations between debtors and creditors have been hampered by the fragility of economic recovery, creditors' lack of confidence and complex regulations. Political instability and uncertainty also played a role in the limited progress made to date.

According to Professor Azis, progress in bank restructuring has also been very slow despite the implementation of various measures. For example, despite the huge cost of bank recapitalization (51 per cent of GDP by February 2000), which has been funded mainly by government bond issue, the banks' intermediating function has not been revitalized because many banks have very low levels of capital. Credits from the banking sector cannot be expected to improve significantly until 2001. The budgetary implications are serious. Interest payments on public debt in the current budget amounts to 6½ per cent of GDP. Half of this will be financed by official external loans and the other half will come from asset sales and privatization.

Mr. P. Patrawimolpon (Thailand) commented briefly on restructuring efforts in Thailand. At the beginning of the crisis, Thailand had external debts of about $100 billion. As a result of a forty per cent devaluation of the Baht, the total financial loss in local currency reached $40 billion. A third of this was paid by government bond-issues and the rest was borne by the private sector (in comparison, the Republic of Korea fiscalized all). Without full fiscalization and a framework of enforcement, debt-restructuring in Thailand has been slow. There have been other problems, such as strategic NPLs. Now, Thailand focuses on strengthening the enforcement of the debt-restructuring in the framework of bankruptcy-court and debtor-creditor agreements.

Mr. M. Samudram (Institute of Loyal ITA, Malaysia) said that *Malaysia* had a smaller problem than other countries initially because, following its 1985 crisis, the rules and regulations for supervision of the financial system had been set up according to the Banking and Financial Act in 1989. These rules, however, have been neglected recently. In dealing with its problems, Malaysia also adopted a somewhat different policy. It introduced selective capital controls to check capital outflows. It also reduced the reserve ratio and interest rates. Two agencies were created, one for recapitalizing banks and the other for purchasing NPLs. NPLs were reduced from a peak of 25 per cent of total loans to 12 per cent. A total of 6 to 7 billion ringgit was injected into the financial system for purposes of recapitalization, funded by a government-guaranteed bond issue. Fifty-five banks are expected to merge into 10 banks. Malaysia has also strengthened supervision and transparency. To date, these efforts have been successful.

Mr. M. Zingapan (Philippines) reported that the *Philippines* has not experienced a financial meltdown although NPLs increased from 3-4 per cent of all loans before the crisis to 14 per cent in January 2000, because of two factors. First, banking reforms had already been introduced in 1992 and a number of prudential regulations had been put in place prior to the crisis. Second, the debt exposure of the banking system was not that significant relative to other countries in the region. Since 1998, there have been a number of additional banking reforms. For example, capital asset requirements were raised and this spawned a number of consolidations and mergers.

Impact of stock market correction

The large appreciation of stock markets in many countries over the last few years, especially in the United Stated and other developed economies, has increasingly drawn the attention of policy makers, as equity values seem to be overvalued in terms of historical benchmarks. In fact, the impact of a potentially significant correction in stock markets on the real economic activity has been a recurrent issue in LINK meetings of recent years. Immediately before this meeting, stock markets in the United States and many other countries experienced a large gyration, with the NASDAQ index of technology-concentrated stocks declining by 30 per cent in two weeks. This had the effect of making the question of possible equity market overvaluation seem more imminent. During the LINK meeting, Mr. Dramais and Mr. Hong (United Nations) reviewed their studies of this issue.

Mr. Dramais presented results from two scenarios simulated on the basis of the global model QUEST. These scenarios were designed to estimate the effects of a "hard landing" of the United States economy, triggered by a value correction in equity markets.

In scenario one, a bubble was assumed to exist in the values of stocks in United States stock markets. As the bubble suddenly bursts, there is a sharp fall in financial wealth, assumed to be about 20 per cent, and this is estimated to lead to a drop in consumption expenditure of 2 per cent, with consumers increasing their rate of saving. There would also be a negative impact on investment. In this case, the overall impact on the economy would also depend on how policy would respond. If monetary authorities did not respond promptly, GDP in the United States would drop by about 1.4 per cent in the first year. Some spillover to stock markets in other major economies was also simulated with different policy responses from other major developed countries.

In scenario two, a correction in stock market valuations, also of 20 per cent, was assumed to be driven by a different reason: a rise in the equity premium. In this case, the effects would be stronger on investment than on consumption and would last much longer. In this case, GDP in the United States would fall by 4 per cent, as investment would decline by 20 per cent. Again, the simulation showed that the reaction of monetary authorities would be important for alleviating the adverse impact of the financial shock on the real economy.

Mr. Hong reviewed a simulation study of the impact of large stock market correction on the world economy, entitled "A Downside Scenario". Although the

simulation was implemented using the LINK modelling system in early 1999, results were regarded as still valid for the current situation. He first highlighted a few unsustainable trends in the United States, including the large and increasing external deficit, the record low household saving rate, the high level of private sector debt, and an overvalued stock market. An abrupt adjustment of these trends could bring a downward shock to the economic growth of the United States economy and send adverse ripple effects to the rest of the world.

The main assumption of the scenario was a 40 per cent decline in stock valuations in the United States and other major developed economies, along with a hike in corporate bond yield spreads. These shocks to financial markets would impact on the real economic sectors in these economies through various channels. As shown by the model simulation, first, there would be a negative wealth effect on private consumption expenditure, which was estimated to be 3 per cent lower in the United States than the baseline level over a two-year period. Second, business investment would be depressed by about 6 per cent, because of the decline in equity value (as explained by Tobin's theory for investment) and worsened credit conditions. As a result, import demand by these economies would fall. Then, through international linkages such as trade flows and capital flows, these effects would be transmitted to emerging economies, leading to drop in exports and decline in capital inflows to these economies, and eventually a decline in their income and output. The LINK model simulation shows that through the international multiplier effects, the assumed large correction in stock markets could lead to a loss of 1.7 per cent of gross world product and a reduction in world trade of 5 per cent in two years.

During the discussion, some participants remarked that although the difference between a bubble-led correction and a fundamental-led correction was important, it would be difficult to distinguish these two crashes ex ante.

ANNEXES

Annex Table. World economies: Growth of gross domestic product and consumer price inflation, and unemployment rate, 1991-2000

(Countries ranked by increase in rate of growth of GDP between 1999 and 2000)

	Growth of Gross Domestic Product				Growth of Consumer Price Inflation				Unemployment rate			
Country	**1991-97**	**1998**	**1999**	**2000**	**1991-97**	**1998**	**1999**	**2000**	**1991-97**	**1998**	**1999**	**2000**
Countries where economic growth is forecast to accelerate in 2000 by 5 per cent or more												
FR Yugoslavia	-8.3	2.6	-19.3	6.0		30.4	50.0	50.0		27.2	27.4	25.0
Turkey	4.1	3.0	-5.5	4.0	79.9	84.6	64.9	55.0				
Venezuela	2.8	-0.7	-7.2	2.3	52.1	35.8	23.6	20.9				
Ecuador	3.2	0.4	-7.3	1.0	35.7	36.1	52.2	52.0				
Colombia	3.9	0.6	-4.5	3.0	23.4	20.4	11.2	9.3				
Chile	7.6	3.4	-1.1	5.9	11.8	5.1	3.3	3.2				
Lithuania	-5.9	5.1	-4.1	2.8		5.1	0.8	3.0		6.9	10	8.5
Uruguay	3.9	4.3	-3.4	3.0	49.4	10.8	5.7	5.0				
Estonia	-2.7	4.0	-1.1	5.0		8.2	3.3	4.6		5.1	6.6	6.0
Republic of Moldova	-13.5	-8.6	-5.0	1.0		7.7	39.3	35.0		2.0		
Argentina	6.0	3.9	-3.0	2.8	22.2	0.9	-1.2	0.4				
Honduras	3.6	3.0	-2.0	3.0	20.9	13.7	11.6	11.1				
Congo Dem. Rep (Zaire)	-6.3	-3.5	-5.0	0.0	1710.4	65.0	60.0	3.0				
Countries where economic growth is forecast to accelerate in 2000 by between 2 per cent and 5 per cent												
Romania	-1.9	-5.4	-3.2	1.0		59.1	54.0	40.0		10.3	11.3	12.4
Indonesia	6.9	-13.1	0.2	4.3	8.5	57.6	20.5	5.5				
Angola	0.8	1.0	2.5	6.5	0.0							
Latvia	-8.0	3.6	0.1	4.0		4.7	3.2	3.5		9.2	9.1	8.5
Syrian Ar Rep	4.5	7.8	-1.5	2.2	9.5	-1.2	-0.5	2.5				
Zambia	0.8	-2.4	1.1	4.5	77.9	23.0	27.4	23.0				
Georgia	-13.5	2.9	3.0	6.0		3.5	19.1	6.0		3.1		
Libyan Ar Jm	-0.6	-2.0	2.0	5.0	0.0							
Ethiopia	3.6	-0.5	0.0	3.0	7.7	7.0	5.0	5.0				
Brazil	2.8	0.1	1.0	3.9	322.5	3.2	4.9	8.4				
Croatia	-2.7	2.5	-0.7	2.0		5.7	4.2	6.0		18.6	20.8	18
Morocco	2.0	6.3	-1.0	1.6	4.8	2.9	1.0	2.0				
Norway	3.9	2.0	1.0	3.5	2.2	2.3	2.3	2.0	5.3	3.3	3.2	3.8
Ukraine	-11.8	-1.7	-0.4	2.0		10.6	22.7	20.0		3.2		
Mauritius	5.3	5.2	2.5	4.8	7.0	6.8	8.0	8.5				
Hong Kong	5.4	-5.1	2.3	4.5	8.5	2.8	-4.0	-1.0				
Malaysia	8.5	-7.5	5.1	7.2	4.1	5.3	3.0	3.6				
South Africa	1.4	0.6	1.3	3.4	10.3	6.9	5.2	4.0				
Qatar	1.9	2.0	1.5	3.5	3.0	3.1	2.0	2.5				
Burundi	-4.2	3.0	3.0	5.0	15.6	12.5	3.4	20.0				
Togo	0.6	-1.3	3.0	5.0	9.2	1.0	3.8	2.5				
Iraq	-5.4	15.0	8.0	10.0	0.0							

Country	Growth of Gross Domestic Product				Growth of Consumer Price Inflation				Unemployment rate			
	1991-97	1998	1999	2000	1991-97	1998	1999	2000	1991-97	1998	1999	2000
Countries where economic growth is forecast to accelerate in 2000 by between 1 per cent and 2 per cent												
Czech Republic	1.7	-2.3	-0.2	1.7		10.6	2.1	3.5		7.5	9.4	9.8
Kazakhstan	-6.4	-1.9	1.7	3.5		7.3	8.4	5.0		4.0		
New Zealand	2.4	-0.3	2.5	4.3	2.0	1.3	1.4	2.2	8.2	7.4	6.8	6.3
Kyrgyzstan	-9.0	2.1	2.2	4.0		12.0	36.8	20.0		3.3		
Israel	5.2	2.2	2.2	4.0	12.0	5.4	5.2	3.6				
Bolivia	4.3	4.7	1.5	3.2	10.9	7.7	2.2	4.0				
Kuwait	2.8	-2.5	1.1	2.8	2.6	0.2	1.9	2.5				
Armenia	-8.4	7.2	4.0	5.6		8.7	0.7	2.5		10.0		
Paraguay	3.0	-0.4	0.5	2.0	15.4	11.5	6.8	9.8				
Bahrain	2.1	4.8	1.5	3.0	0.9	-0.4	0.9	2.0				
United Arab Emirates	2.6	1.2	2.5	4.0	0.0							
Sudan	2.8	3.0	4.0	5.5	98.5	17.1	19.0	15.0				
Namibia	3.8	2.4	3.0	4.5	10.8	6.2	8.5	7.0				
Lebanon	4.0	2.0	-1.0	0.5	0.0							
Belgium	1.7	2.7	2.4	3.7	2.3	1.0	1.1	1.4	8.8	9.5	9	8.8
Germany	1.2	2.2	1.5	2.8	3.0	0.9	0.6	1.7	7.4	9.4	9.1	8.8
Singapore	8.0	0.4	5.4	6.7	2.3	-0.3	0.4	1.4				
Jordan	5.3	-1.0	1.3	2.5	4.4	4.4	0.6	3.3				
Italy	1.2	1.3	1.4	2.6	4.4	2.0	1.7	2.0	10.5	11.9	11.4	11.0
Netherlands	2.4	3.7	3.6	4.8	2.5	2.0	2.2	2.3	6.2	4	3.3	3.3
United Kingdom	2.0	2.2	2.1	3.3	3.2	3.4	1.6	2.8	9.0	6.3	6.1	6.0
Mexico	2.9	4.8	3.7	4.8	20.3	15.9	16.6	10.6				
Poland	3.4	4.8	4.1	5.2		11.8	7.3	8.8		10.4	12.8	12.8
Iran	4.0	1.8	1.2	2.3	26.9	19.4	30.0	27.0				
Sri Lanka	5.3	4.7	3.7	4.7	11.0	9.4	4.7	7.5				
Algeria	1.2	2.5	4.5	5.5	23.2	4.5	4.2	4.5				
Kenya	2.5	1.8	1.5	2.5	20.0	5.8	5.5	6.0				
Nepal	4.9	3.1	4.2	5.2	10.1	10.0	7.3	5.5				
Countries where economic growth is forecast to increase in 2000 by 1 per cent or less												
Brunei	1.9	-0.5	0.1	1.0	0.0							
Philippines	3.1	-0.5	3.2	4.1	9.3	9.7	6.7	7.3				
Oman	4.8	2.9	1.6	2.5	0.0							
Jamaica	0.8	-0.7	-1.9	-1.0	32.9	8.6	6.0	10.0				
Chad	1.8	6.0	1.2	2.0	7.9	4.4	4.5	4.0				
Russian Federation	-6.9	-4.5	3.2	4.0		27.7	85.9	25.0		9.0		
Tanzania	4.1	3.8	4.4	5.2	24.8	12.8	7.9	7.1				
Taiwan	6.5	4.6	5.7	6.4	3.7	2.6	0.2	2.0				

Country	Growth of Gross Domestic Product				Growth of Consumer Price Inflation				Unemployment rate			
	1991-97	1998	1999	2000	1991-97	1998	1999	2000	1991-97	1998	1999	2000
France	1.2	3.1	2.9	3.6	2.0	0.7	0.5	0.9	11.5	11.8	11.3	10.5
Japan	2.0	-2.5	0.3	1.0	1.2	0.6	-0.3	-0.4	2.8	4.1	4.7	4.7
Zimbabwe	2.2	1.6	-1.2	-0.5	25.2	31.8	58.1	45.0				
Senegal	2.5	5.7	5.0	5.7	5.5	1.2	1.5	2.0				
Pakistan	4.3	3.7	3.8	4.5	10.9	7.2	5.4	5.6				
Cameroon	1.0	4.7	4.2	4.9	6.7	2.5	2.3	2.9				
Papua New Guinea	4.7	1.4	3.6	4.3	7.3	13.6	14.9	13.0				
Peru	5.3	0.3	3.8	4.4	55.4	7.2	3.5	4.1				
Nigeria	2.8	1.9	3.4	4.0	38.4	10.3	22.0	25.0				
Yemen	1.3	2.7	2.2	2.8	0.0							
Thailand	6.7	-10.2	4.2	4.8	5.1	8.1	1.2	4.1				
Egypt	3.2	5.7	5.0	5.6	11.5	4.2	3.1	3.5				
Uganda	7.0	7.8	5.5	6.0	16.0	2.5	6.4	8.5				
Ghana	4.0	4.7	4.5	5.0	29.3	14.6	12.9	15.1				
Madagascar	0.9	4.0	4.5	5.0	19.8	8.5	7.5	7.5				
Bulgaria	-4.3	3.5	2.5	3.0		22.3	0.4	6.0		12.2	17.0	15.0
Hungary	-0.9	4.9	4.5	5.0		14.3	9.5	9.0		9.1	9.6	9.2
Benin	4.5	4.4	5.0	5.5	0.0							
Mali	3.3	4.3	5.0	5.5	5.1	4.0	4.0	3.0				
Trinidad & Tobago	2.3	3.6	4.0	4.5	6.0	5.6	2.9	4.0				
Guyana	8.0	-1.3	2.0	2.5	6.7	3.6	8.6	6.0				
Bangladesh	4.6	5.5	5.4	5.8	5.1	7.8	8.2	7.5				
India	4.8	5.6	6.1	6.5	9.8	8.5	6.4	7.2				
Myanmar	6.1	4.4	4.6	5.0	25.8	51.5	38.0	32.0				
Austria	2.0	3.3	2.1	2.5	2.8	0.9	0.6	1.2	3.9	4.5	3.7	6.0
Saudi Arabia	2.1	0.8	1.6	2.0	1.8	-0.4	1.5	3.0				
Greece	1.6	3.5	3.5	3.8	11.8	4.8	2.6	2.1	9.5	11.2	10.2	10.1
Luxembourg	4.2	4.7	4.2	4.5	2.4	1.0	1.0	1.4	2.6	2.7	2.3	3.0
TFYR Macedonia	-3.6	2.9	2.7	3.0		-1.0	1.0	6.0		43.5	46.0	40.0
Tajikistan	-12.9	5.3	3.7	4.0		43.2	27.6	25.0		3.0		
Congo Rep	-0.3	3.6	5.0	5.3	13.7	5.0	3.0	3.0				
El Salvador	5.2	3.2	1.8	2.1	11.2	2.5	0.5	2.0				
Ireland	5.9	8.9	8.3	8.5	2.2	2.4	1.6	2.6	13.4	7.6	5.8	5.0
C.Afr.Rep	2.3	3.9	5.0	5.2	5.5	2.6	4.0	4.0				
Tunisia	4.4	5.0	5.8	6.0	5.2	3.1	2.7	3.0				
Slovakia	3.0	4.4	1.8	2.0		6.7	10.7	14.0		15.6	18.2	19.8
Azerbaijan	-10.8	10.0	7.4	7.5		-0.8	-8.5	3.0		2.1		
Niger	0.9	4.0	4.2	4.3	5.1	4.5	5.0	4.0				

Country	Growth of Gross Domestic Product				Growth of Consumer Price Inflation				Unemployment rate			
	1991-97	1998	1999	2000	1991-97	1998	1999	2000	1991-97	1998	1999	2000
Countries where economic growth is forecast to be unchanged in 2000												
Switzerland	0.2	2.1	1.7	1.7	2.4	0.1	0.8	0.2	3.5	3.5	3.0	2.8
Malta	4.9	2.0	1.8	1.8	3.1	2.4	2.1	2.5	4.2	5.1	5.4	5.3
Albania	-1.3	8.0	8.0	8.0		22.1	51.1	20.1		17.6	18.0	17.5
Barbados	0.7	4.2	3.2	3.2	3.6	-1.3	1.6	2.0				
Guatemala	4.1	5.1	3.5	3.5	13.2	6.6	5.2	6.0				
Gabon	2.9	-4.4	1.5	1.5	3.3	1.0	1.6	3.4				
Burkina Faso	3.7	6.2	5.7	5.7	5.7	5.1	3.0	3.0				
Countries where economic growth is forecast to slow in 2000												
China	11.2	7.8	7.1	7.0	10.7	-0.8	-1.4	1.5				
Iceland	2.0	5.1	2.3	2.2	3.1	1.7	3.2	2.0	3.8	3	3.3	2.7
U.S.A.	2.9	4.3	4.2	4.1	3.0	1.6	2.2	2.5	6.2	4.5	4.2	4.2
Nicaragua	2.6	4.0	6.0	5.9	81.7	13.0	11.2	8.4				
Denmark	2.7	2.9	1.7	1.6	2.0	1.8	2.5	2.3	7.9	5.2	5.2	5.3
Portugal	2.1	3.5	2.9	2.7	5.9	2.8	2.3	2.4	6.0	5.2	4.5	4.4
Finland	1.0	5.0	3.5	3.3	1.8	1.4	1.2	1.7	13.4	11.4	10.2	9.2
Viet Nam	8.0	5.8	4.4	4.2	0.0							
Spain	1.8	3.8	3.7	3.5	4.5	1.8	2.3	2.4	21.0	18.8	15.9	14.1
Rwanda	-5.2	9.5	5.3	5.0	17.6	10.0	9.0	5.0				
Panama	5.1	3.9	3.3	2.9	1.2	0.6	1.3	2.0				
Cyprus	3.9	3.0	4.5	4.0	4.3	2.2	1.7	3.5				
Guinea	4.1	4.6	5.0	4.5	0.0							
Haiti	-1.9	2.7	2.4	1.9	24.4	10.6	8.7	10.0				
Canada	2.0	3.1	4.2	3.5	2.1	1.0	1.7	1.3	10.2	8.3	7.6	7.5
Sweden	0.7	2.9	3.7	2.9	3.2	-0.1	0.5	1.2	7.9	8.3	7.2	5.9
Slovenia	0.7	3.9	4.9	4.0		8.0	6.8	5.0		14.6	12.8	11.0
Turkmenistan	-11.0	5.0	16.0	15.0		16.8	23.5	25.0	..			
Cote D'Ivoire	2.5	5.4	5.0	4.0	7.5	4.7	0.8	3.0				
Australia	3.0	4.8	4.4	3.1	2.2	0.9	1.5	2.3	9.5	8	7.2	6.8
Dominican Rep	4.8	7.3	8.0	6.5	12.2	4.5	6.3	5.0				
Uzbekistan	-1.9	4.4	4.1	2.5		29.0	29.1	25.0		0.3		
Malawi	2.6	3.1	4.7	3.0	29.6	29.7	44.9	24.7				
Mozambique	6.9	11.5	10.0	8.0	40.1	-1.3	5.5	4.0				
Belarus	-4.2	8.4	3.0	1.0		73.2	293.8	150.0		2.8		
Korea Rep	7.1	-5.8	10.7	8.2	5.8	8.6	0.1	3.3				
Costa Rica	3.7	6.7	8.3	5.0	18.1	11.7	10.0	9.8				
Botswana	4.7	6.0	9.0	5.3	11.7	6.7	7.1	7.0				

Source: Development Policy Analysis Division of the United Nations Secretariat.

Annex A

Agenda

Project LINK Spring Meeting
April 17-20, 2000
United Nations Headquarters, New York

<u>Monday, April 17</u>

10:00 **Opening Address**

Nitin Desai, Under-Secretary-General
Department of Economic and Social Affairs, United Nations

10:15-1:00 **Global Outlook**

Chair: Lawrence Klein

"The World Economic Outlook : Summary"
Peter Pauly, University of Toronto

Review of the Global Outlook
LINK Participants

"United Nations Project LINK"
Jozef van Brabant, United Nations

"The International Monetary Fund"
Ranil Salgado, IMF

"The World Bank"
Annette De Kleine, The World Bank

"The OECD"
Laurence Boone, OECD

"The National Institute of Economic and Social Research"
Ray Barrell, NIESR

1:00-2:30 **Lunch Break**

2:30-3:30 **Global Outlook (cont.)**

Chair: Peter Pauly

General Discussion
LINK Participants

3:30-4:30 **International Economic Issues**

Chair: Peter Pauly

"Inflation Targeting in Emerging Market Countries"
Frederic Mishkin, Columbia University

4:30-5:30 **Global Outlook (cont.)**

Chair: Peter Pauly

"Panel on World Commodity Markets"
F. Gerard Adams, Northeastern University
Robert Kaufmann, Boston University

General Discussion
LINK Participants

6:00 **Reception**

Express Bar
Third Floor
United Nations Headquarters

Tuesday, April 18

10:00-12:00 **Regional Economic Outlook: North America and Japan**

Chair: Stephen Hall

"The U.S. Outlook"
Lawrence R. Klein, University of Pennsylvania

"The Outlook for the Japanese Economy"
Kanemi Ban, Osaka University

General Discussion
LINK National Participants

12:00-1:00 **Emerging Market Outlook**

Chair: Stephen Hall

"Russia : Summary
Evgeny Gavrilenkov, Bureau of Economic Analysis, Moscow

General Discussion
LINK National Participants

1:00-2:30 **Lunch Break**

2:30-4:30 **Regional Economic Outlook: Europe**

Chair: Delia Nilles

"Europe : Summary"
Andre Dramais, Commission of the EU

"How Rapidly Is Europe Changing ?"
Adrian Cooper, Oxford Economic Forecasting

General Discussion
LINK National Participants

4:30-5:30 **Regional Economic Outlook : Africa and Middle East**

Chair : Delia Nilles

"Africa : Summary"
Carl Gray, United Nations

"Middle East : Summary"
Siddig Salih, Islamic Development Bank, Jeddah 15.)

General Discussion
LINK National Participants

Wednesday, April 19

10:00-1:00 **New Economy and Productivity**

Chair: Bert Hickman

"The 'NEW' Global Economy : B2B and the Internet"
Ed McKelvey, Goldman Sachs, New

"A New Economy ?"
Lawrence R. Klein, University of Pennsylvania

"Global Implications of the 'New Economy'"
Pingfan Hong, United Nations

General Discussion
LINK Participants

1:00-2:30 **Lunch Break**

2:30-4:00 **Regional Outlook : Latin America**

Chair: Hans Timmer

"Latin America : Summary"
Pedro Sainz, ECLAC

General Discussion
LINK National Participants

4:00-5:30 **International Economic Issues**

Chair: Hans Timmer

"QUEST II simulations of a stock market correction and possible policy reactions. Implications for the EU, US and Japan"
Andre Dramais, Commission of the EU

"Project LINK Asset Market Simulations Results : A Review"
Pingfan Hong, United Nations

General Discussion
LINK National Participants

<u>Thursady, April 20</u>

10:00-12:30 **Regional Outlook: Asia**

Chair: Duncan Ironmonger

"Asia Summary"
Azizul Islam, ECSAP

"Post-Crisis Restructuring in Asia"
Malcom Dowling, ADB/University of Melbourne

Panel Discussion on East Asian Economies
Iwan Azis, Indonesia
Kiseok Hong, Korea
Pichit Patrawimolpon, Thailand
Muthi Samudram, Malaysia
Socorro Zingapan, Philippines

General Discussion
LINK National Participants

12:30-1:00 **LINK Business Meeting**

Chair: Peter Pauly

Expected Close of Meeting: 1:00p.m.

Annex B. Name list of participants

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Annex C. Papers

1.	Thailand	Pichit Patrawimolpon
2.	Bulgaria	Garabed Minassian
3.	Zambia	Noah Mutoti
4.	Russia	E. Gavrilenkov
5.	Poland	W. Adys & aw Welfe
6.	Philippines	S. Zingpan
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29.	Taiwan	J.L. Lin, K. Kan, S.L. Peng
30.	Italy	Anna Slagni
31.	Bangladesh	S. Ahamad,

32.	Colombia	Fedesarrollo
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35.	New Zealand	J. Archibald
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37.	Pakistan	A.H. Khan
38.	Czech Rep.	M. Klima, D. Vavra
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46.	Chile	Paula Benavides
47.	Brazil	Eustaquio J. Reis
48.	Simulating economy-wide models to capture The Transition from Financial to Social Crisis	Iwan J. Azis
49.	Belgium	Simon Erlich
50.	Canada	T.W. Wilson, P. Dungan, S. Murphy
51.	Finland	
52.	Malaysia	Muthi Samudram
53.	Netherlands	
54.	Togo	Kodjo Evlo
55.	Mexico	Alfredo Coutino
56.	Japan	Kanemi Ban