Monthly Briefing World Economic Situation and Prospects and Monitoring of Global Vulnerability*

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Summary

- The global recession is moderating, with trade and industrial production stabilizing and financial markets partially improving
- The prospects of a true global recovery are highly uncertain as demand continues to largely depend on fiscal stimuli, unemployment rates continue to rise, and global imbalances remain large
- The prospects also vary significantly across regions and individual countries. Several economies, mostly in Asia, have rebounded in the second quarter of 2009, but many other economies remain mired in recession
- The economic crisis has triggered a prodigious global trade shock, equivalent to about 4 per cent of world output. Countries with a strong concentration of exports in the energy sector have proved to be the most vulnerable to such shocks, followed by manufacturing and mineral exporters

Part 1: World Economic Situation and Prospects

Global issues

Prospects for global recovery remain highly uncertain

After a sharp synchronized global downturn in late 2008 and early 2009, the world economy has shown signs of stabilization entering the second half of 2009, with prospects of a recovery in some parts of the world. Financial markets worldwide have stabilized in the second quarter, with equity prices rebounding and risk premiums narrowing. International trade and industrial production have also recuperated measurably on a month-on-month basis in many Asian countries, with the strength partly spreading to Latin America and other regions. In several East Asian economies, most notably China, economic growth has rebounded strongly in the second quarter of 2009. These revivals are in part driven by the effects of the massive policy stimuli injected by a number of countries since late 2008. A strong cyclical inventory adjustment is, however, also playing a role. Despite the most recent improvement in global financial markets, credit conditions remain tight in major developed economies. Most financial institutions are still in the stage of de-leveraging and consolidating and cleansing of their balance-sheets. In many countries, the recovery of domestic demand remains tentative at best and is far from autonomous, being highly dependent on policy support. The high unemployment rates and the large output gap worldwide will continue to linger as the key downside risks for the global recovery.

* This issue of the Monthly Briefing includes a new feature to assess the impact of the global financial crisis on the vulnerability of countries based on the "Integrated Monitoring and Analytical System for Crisis Response by UN-DESA", work on which is still in progress.

Note to the Secretary-General prepared by the Global Economic Monitoring Unit
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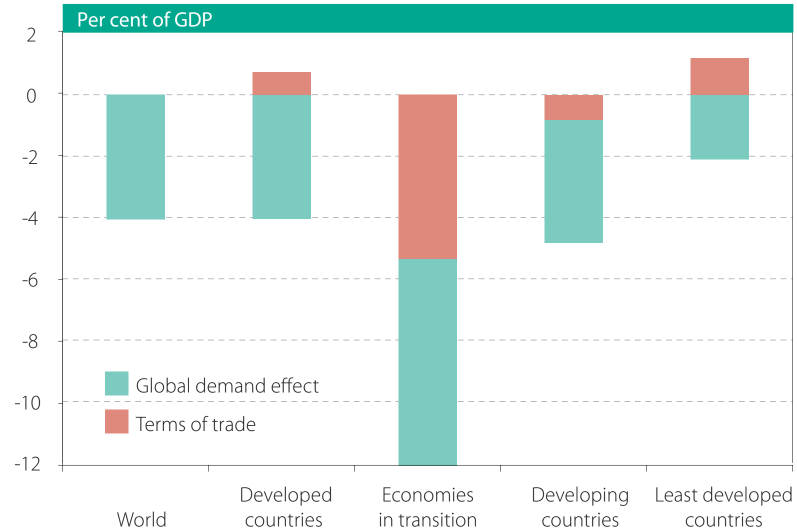
The oil market continues to be highly volatile

In July, the oil market showed once again how capricious and volatile it can be. The price for Brent crude oil fell from $67.95 per barrel at the end of June to $58.72 per barrel on 10 July. This drop by 13.6 per cent was underpinned by weak demand, market concerns about a global economic recovery and continued high levels of stocks. However, prices reversed course in the second half of the month, rising by 19.0 per cent to as high as $69.90 per barrel on 27 July on the back of a generally more optimistic market sentiment stemming from positive quarterly corporate earnings reports and buoyant stock markets.

Figure 1: Projected trade shocks in major country groups in 2009



Global trade shock is colossal, with varying impacts on individual countries

The global financial crisis has triggered a colossal shock for world trade, as reflected by a combination of a sharp decline in the volume of world trade and a precipitous fall in the prices of oil and other primary commodities. The size of the trade shock is estimated to be equivalent to about 4 per cent of world gross product (figure 1). The impact on individual countries varies, depending, among other factors, on the structure of trade, particularly the composition of exports, as shown in detail in part 2 of this Briefing.

Developed economies

United States: pace of economic contraction has declined as government expenditures expand

The national accounts of the United States have gone through a comprehensive revision, with the new data indicating a more severe downturn in 2008 than previously estimated. The growth rate for 2008 has been downgraded from 1.1 per cent to 0.4 per cent; and the annualized growth rate for the first quarter of 2009 has also been revised down from -5.1 per cent to -6.4 per cent. On the other hand, the same set of statistics also shows that the speed of contraction of GDP has decelerated to 1 per cent during the second quarter. The smaller decline can be mainly attributed to higher government expenditures, while personal consumption expenditures and private investment have fallen. Net exports technically have also contributed to the deceleration of the decline, but only because imports have fallen at a faster pace than exports. Meanwhile, the labour market situation continued to deteriorate in July. The initial jobless claims number, though down from its peak, is still at a very high level. This implies that the unemployment rate will remain at its elevated level over the coming months. At the same time, the speed of wage increases has halved from one year ago. These factors will constrain the growth of household disposable income and, together with the recently observed higher saving propensity, curb personal consumption. The three major housing price indices have either started to rise or stabilized in May. Recent data also show that the decline in housing construction activity has bottomed out over the first quarter of the year, which will curtail further contraction of GDP.

Western Europe and the EU: economic indicators improve, raising recovery hopes

There are increasing signs of recovery in Western Europe. Confidence indicators, such as the European Commission's Economic Sentiment Indicator, have transitioned from the dramatic declines exhibited at the end of 2008, through a period of slow deceleration in the first quarter of 2009, to a gradual upturn in the last few months. At first, only forward looking indices had improved, but indices that track current conditions are now turning up as well. Nonetheless, all indices remain well below their historical averages. For the first time since the onset of the crisis, industrial production has turned up in May, led by Germany, France and the Netherlands. Looking forward, however, new industrial orders fell marginally in May, although there was an increase for the capital goods sector. Germany, an important producer of capital goods, saw a 4.2 per cent rise in orders. But again, in perspective, orders remain 30 per cent below their level of a year ago. Unemployment continues to rise across the region, reaching 9.5 per cent in May for the Euro area, more than two percentage points higher than at the beginning of 2008. In some countries, unemployment is far above the regional average; in Ireland, the rate has increased to 11.7 per cent and in Spain to 18.7 per cent.

The new EU member States: recovery delayed?

Although macroeconomic indicators for April and May suggested that the economies of new EU members may be bottoming out, some stabilization at the beginning of the second quarter was followed by a further deterioration in several countries. In Lithuania, GDP plunged by 22.4 per cent year-on-year in the second quarter, deeper than in the first quarter, with an especially weak performance of the export sector. Industrial production in Latvia declined by 19.3 per cent in May, reversing the progress made earlier, and weak domestic demand in Poland has raised concerns about the ability of the economy to achieve positive growth in 2009. The car-scrapping schemes adopted in the EU-15 helped to sustain production in a number of factories in Central Europe, but this may be a temporary phenomenon, and the labour markets in the region continue to weaken. To ensure the flow of funds from multilateral lenders, the countries that received external assistance to stabilize their financial sectors, continue to work on fiscal austerity; in Hungary, the parliament has approved cuts in public sector wages and pensions. The serious worries about a possible collapse of the financial systems of these countries have faded following the massive international assistance. Still, the inter-bank markets in the Baltic States have not recovered as yet. Benefiting from some reduction in interest rates on their debt, Poland has raised $3.5 billion and Hungary $1.4 billion through the sale of government bonds in international capital markets.

Japan: rebound in exports underpins tentative recovery

The rebound in Japan's volume of exports, which started at the beginning of the second quarter of 2009, continued, as shipments to other Asian economies, particularly China, remained strong, while exports to the United States and the European Union also showed some improvement. However, much of this rebound might be the result of a smaller reduction in inventories, rather than an indication of sustainable recovery. Household consumption also displayed some slight signs of revival, with retail sales stabilizing after a long period of decline. The government stimulus package continued to provide support for the economy. Nevertheless, business investments and the labour market situation continued to deteriorate, along with a weakening in demand for bank loans. Japan's economy is still far from reaching a stage of self-propelling recovery. Gross domestic product in the second quarter of 2009, to be released in August, is expected to register mild positive growth after declining by double-digit annual rates for two consecutive quarters, but a relapse may occur in the third quarter.

Australia: consumer indices and exports continue to improve

In Australia, fiscal and monetary stimuli helped boost consumer confidence and support retail sales, while exports continued to recover. Business investment, however, continued to decline. The unemployment rate remained steady in July at 5.8 per cent.

Economies in transition

CIS: growth performances differ sharply

High-frequency data for economic activity in the CIS released in July 2009 has signalled some moderation in the pace of contraction. In particular, year-on-year industrial production fell at a lower pace in a number of countries, such as the Russian Federation and Kazakhstan. In the Russian Federation, industrial output recovered by about 0.8 per cent in June according to a seasonally adjusted monthly estimate, reflecting a significant improvement in manufacturing. Crude oil production in the Russian Federation increased on average by 0.3 per cent per month in the second quarter of 2009. By contrast, the slump in household spending continues, owing to falling real wages, increased wage arrears, growing unemployment and constrained access to credit. In Kazakhstan, estimates of second-quarter GDP growth of about 3 per cent point to a strong recovery, helped by an expanding energy sector. After suffering from the impact of the global financial turmoil on the banking sector since the summer of 2008 (see *World Economic Situation and Prospects 2009*), financial stress in Kazakhstan has eased and a sustained revival is under way, leading to higher-than-expected GDP growth. Among the economies in this region, Ukraine continues to experience the steepest decline, with GDP contracting by over 20 per cent in the first quarter of 2009. By contrast, growth in Uzbekistan continues to surprise on the upside, exceeding 8 per cent for the first half of the year.

South-Eastern Europe: countries are struggling with budgets

According to recently released data, GDP declined by 3.5 per cent year-on-year in Serbia in the first quarter of 2009, with an especially sharp contraction in manufacturing. Governments in the region continue to push for fiscal savings. In Croatia, the Government is currently negotiating cuts in public sector wages of 6 per cent. It has also introduced excise taxes on some telecommunication services and luxury goods as well as an increase in the value added tax rate. The countries in the region are trying to return to the international capital markets, searching for external funding to avoid the conditionality of the IMF. To revive the domestic credit market, the Central Bank of Serbia reduced interest rates by a total of 575 basis points since the beginning of 2009. The availability of external finance has helped to ease the Central Bank's earlier concerns about stability of the currency.

Developing economies

Africa: recovery hopes follow sharp economic downturns

Data for the first quarter of 2009 showed how severely the economic crisis has hit some African countries. In Botswana, GDP declined by 20.3 per cent compared with the same period last year as mining output fell dramatically. In addition to the sharp decline of the oil price, crude production in Cameroon dropped by more than 20 per cent year-on-year. However, other countries reported more encouraging figures and leading indicators suggest that the bottom of the downturn has probably been reached. Kenya's economy registered year-on-year growth of 3.9 per cent in the first quarter, though part of this increase is the result of depressed activity in the first quarter of 2008 after the country experienced a rise in violence following the 2007 election. In Egypt, growth is expected to reach 4.5 per cent this year, while the Government of Malawi expects annual growth to reach 7.9 per cent. In June, the annual inflation rate declined further in many African countries owing to the fall of food prices from their peak twelve months ago. The decline was particularly pronounced in Ethiopia, where year-on-year inflation dropped from 14.2 per cent in May to 2.7 per cent in June. Recent unemployment data also give a mixed picture. Between the first and the second quarter, unemployment remained stable at about 23.5 per cent in South Africa, while it decreased from 9.6 per cent to 8.0 per cent in Morocco mainly owing to job creation in the agricultural sector.

East Asia: regional outlook improves as China's economy rebounds strongly

Most economies in East Asia have started to recover from the deep downturns triggered by the global financial crisis, as massive fiscal stimulus measures combined with aggressive monetary easing helped strengthen domestic demand. Across the region, industrial production has increased on a month-on-month basis since April, partly owing to a restocking of inventories. The external sector has also seen some improvements in the second quarter of 2009: exports have begun to pick up and capital flows have resumed amid increased risk appetite of investors. While this has allowed the central banks in the region to further build up their foreign exchange reserves, it has also exerted upward pressure on several currencies, including the Indonesian rupiah and the Thai baht. In China, year-on-year GDP growth accelerated to 7.9 per cent in the second quarter of 2009, up from 6.1 per cent in the first quarter, driven by robust consumption demand and a strong increase of public investment, especially transport infrastructure. The expansion of domestic spending was underpinned by a big surge in government-mandated bank lending and money supply, sparking fears among some observers of new property and equity bubbles. Economic growth has also rebounded in the Republic of Korea, Singapore, and Viet Nam in the second quarter of 2009. While the outlook for East Asia's economies has improved significantly over the past months, a sustained recovery will require that also the developed economies climb out of their recession.

South Asia: new budgets foresee strong spending increases and widening deficits

Faced with challenging global conditions and weakening domestic economies, the Governments of Bangladesh, India, and Pakistan presented expansionary budgets for the new fiscal year 2009/10. In India and, to a lesser extent, in Bangladesh, this follows the announcement of targeted fiscal stimulus measures during the first half of 2009 as the authorities are trying to support economic growth and to mitigate the adverse impact of the slowdown on the poor and vulnerable. The new budgets foresee strong increases in spending on infrastructure, social programs—including health and education—and the rural economy. As revenue growth will not keep pace with the expansion in spending, the already large budget deficits are forecast to widen further. India's deficit may exceed 7 per cent of gross domestic product in 2009/10. In Pakistan, fiscal expenditures are expected to increase moderately, after having contracted sharply during the past year as the country was facing a severe balance-of-payment crisis. Large parts of South Asia may experience poor harvests in the second half of 2009 as a result of late and insufficient monsoon rains. In India, where the agricultural sector is estimated to employ approximately 60 per cent of the workforce, total rainfall from June to mid-July was 27 per cent below normal. The IMF approved a $2.6 loan to Sri Lanka that mainly aims to replenish the country's dwindling foreign-exchange reserves.

Western Asia: Turkish economy is hitting bottom

Turkey saw further evidence of the severe impact of the crisis, although interspersed with some indications that a bottom might be forming. While the production of cars and commercial vehicles fell by 49 per cent year-on-year in the first five months of the year, car production has risen month-on-month in both April and May. Meanwhile, the Central Bank of Turkey cut its benchmark overnight borrowing rate by 50 basis points to 8.25 per cent, citing continued weakness in external demand, contracting domestic investment and little inflationary pressure. On the institutional side, Turkey signed a free-trade agreement with Chile. In Jordan, the Government underlined the importance of addressing the rising public budget deficit by setting appropriate spending priorities, not least in order to improve the country's attractiveness for foreign investments.

Latin America: several economies are seeing signs of improvement

Several Latin American and Caribbean economies are seeing signs of improvement. In Brazil, industrial production rose by 0.2 per cent from May to June. Domestic demand, stimulated by lower interest rates and strong public expenditures, is the main driving force for a recovery, as confirmed by the latest consumer confidence indicators, which are near pre-crisis levels. In line with the more optimistic growth outlook and annual consumer price inflation close to the target rate (4.5 per cent), the Central Bank of Brazil has reduced the pace of monetary easing. In Chile, industrial output fell less than expected in June, while Peru posted GDP growth of 0.5 per cent in May compared with the same month in 2008, after contracting by 2.0 per cent in April. A rebound in commodity prices, including oil and metals, is also good news for the region, as confirmed by the positive reaction of several stock markets. On the downside, several economies, including Brazil's, face rapidly rising government deficits. The Mexican Government, facing lower revenues, announced to cut spending this year, although the economy continues to contract (a contraction of around 10 per cent is now expected for the first half of 2009). In addition, remittances to Mexico fell by almost 18 per cent year-on-year in the second quarter of 2009. Regional trade trends also show deep declines. Bilateral trade between Brazil and Argentina contracted by 33 per cent in the first half of the year and also fell sharply between Colombia and the Bolivarian Republic of Venezuela.

Least Developed Countries: economic integration in East Africa continues amidst adverse conditions

The latest economic data from some East African least developed countries present a mixed picture. Ethiopia's export earnings during the fiscal year ending June 2009 amounted to $1.5 billion, 40 per cent lower than planned. Foreign direct investment flows to Uganda fell by 5.5 per cent to $735.4 million in the fiscal year 2008/09. However, remittances to Rwanda increased by 26 per cent during the first five months of 2009 compared to the same period last year. In a longer perspective, Rwanda and Burundi made a commitment to commence the implementation of the East African Community (EAC) Customs Union on July 1, 2009, two years after having signed the accession treaties, which expanded the EAC membership to five partner states. This integration will help boost regional trade and investment flows with the other founding members Kenya, Tanzania and Uganda and it is expected that the region will have a single customs union territory in January 2010.

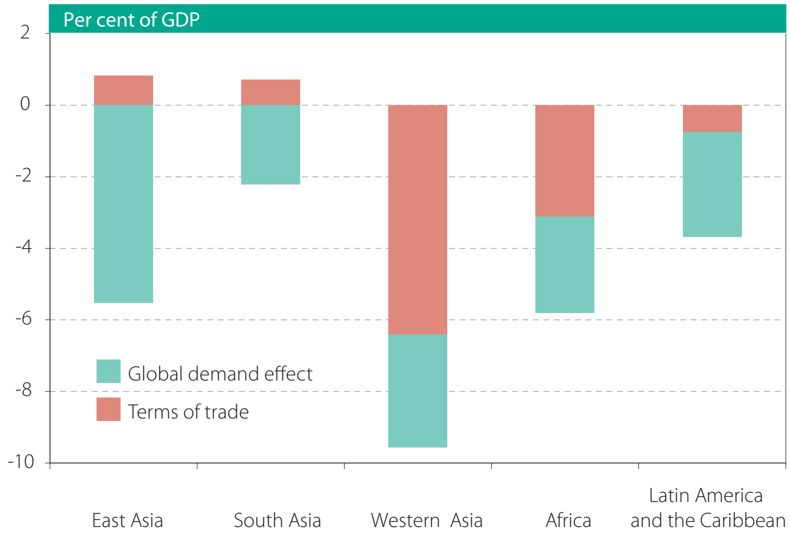
Part 2: Global Vulnerability to Trade Shocks

Impact of global trade shock on countries depends on export patterns

As a new feature of the Monthly Briefings, DESA will report on the impact of the main transmission channels of the crisis with a view to identifying the vulnerabilities of affected countries. This briefing assesses the size of the trade shock for each country, measured through the drop in export volume caused by the sharp contraction in global demand and the change in the country's terms of trade (i.e. the change in the country's average export price relative to that of imports).[1] By these trends,

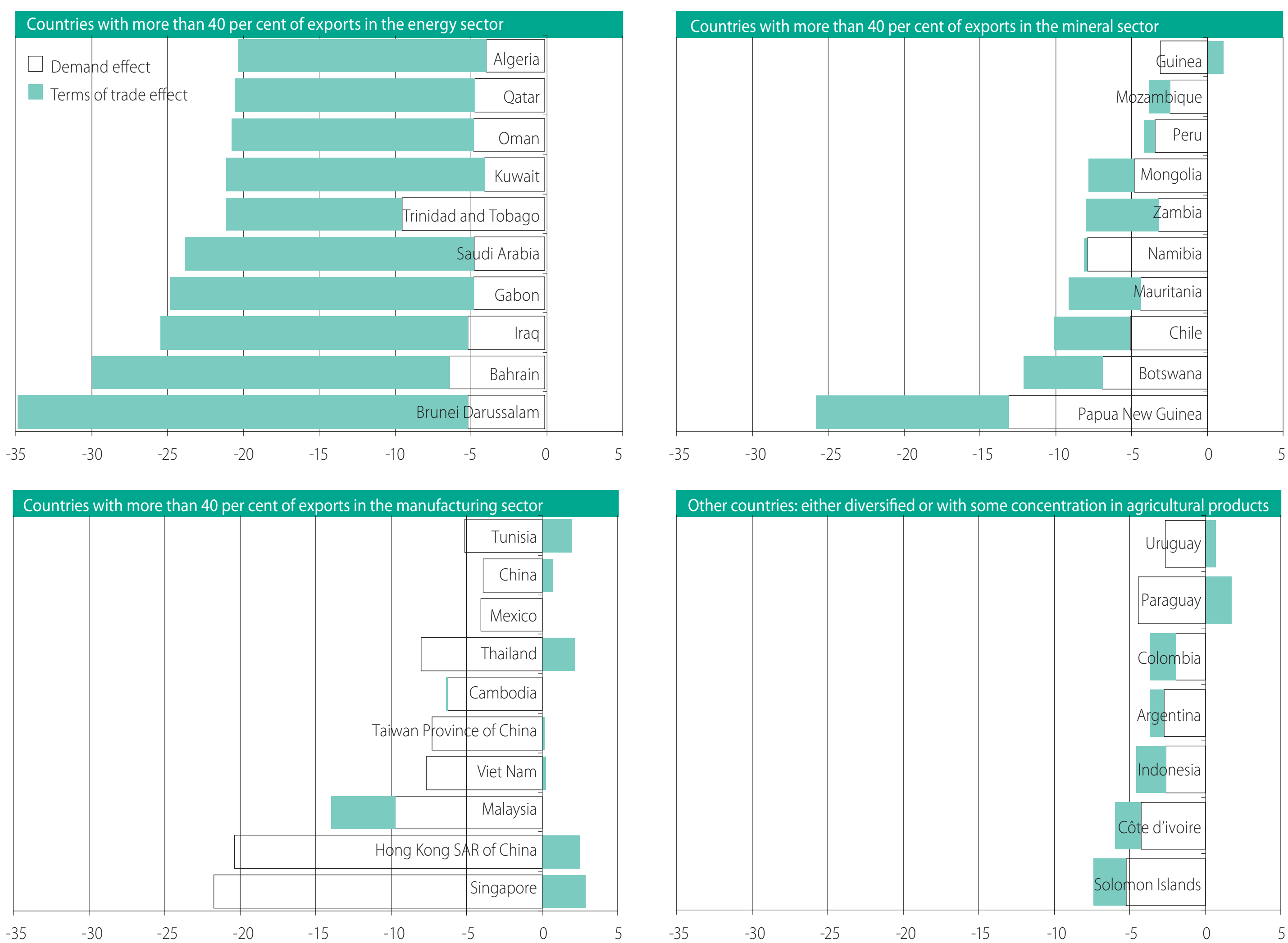
1 See forthcoming "Accounting for Trade Shocks—A Methodological Note", at www.un.org /esa/policy/index.html

Figure 2: Projected trade shocks in developing regions in 2009



not all regions and countries are affected in the same way. The global picture is summarized in figure 1 and figure 2, where the projected trade shocks are presented as a proportion of GDP. At the country level, the degree of export specialization matters. As illustrated in figure 3, the countries most severely hit are those with a strong concentration of exports in the energy sector as they experience strong reversals of previous years' favorable terms of trade. Manufacture exporters are also heavily affected, but they face predominantly negative demand effects. Exporters of minerals are less drastically impacted, with both demand and price effects being meaningful but of lesser importance than for the previous groups. Finally, countries with some degree of export diversification as well as agricultural exporters seem to fare better under the current crisis.

Figure 3: Most severely affected countries grouped by sector of export specialization
(Trade shocks as per cent of GDP)



The economies in transition and Western Asia as a group are expected to be hit hardest by the decline in global trade in 2009 with trade shocks to the tune of 12 per cent and 10 per cent of their respective combined GDPs. Notably, most of these countries are oil exporters and most of the adverse shock is accounted for by the expected 35 per cent drop in the average price of crude oil in 2009 (compared with the 2008 average).

Developing countries as a whole are estimated to suffer a loss of about 5 per cent of GDP as a result of a drop in demand for their exports and the terms-of-trade effect. In dollar terms, this is about $820 billion with the largest shocks being felt in absolute terms by China ($140 billion), Saudi Arabia ($115 billion) and Mexico ($45 billion). China and Mexico have mainly suffered from the sharp drop in the world demand for manufactures. As a proportion of domestic income, the largest adverse shocks among developing countries are experienced by some of Asia's newly industrialized economies as well as by several energy- and mineral-exporting countries, with some of them suffering losses of well over 20 per cent of their GDP (such as in Bahrain, Brunei Darussalam, Gabon, Iraq and Papua New Guinea).

Notably, the least developed countries are, on average, hurt to a much lesser degree. Their aggregate trade shock is estimated to cost about $3 billion in 2009 or about 0.9 per cent of their combined GDP. It should be noted, however, that unlike most other country groups, the LDCs as a group had already suffered a negative trade shock in 2008, while also running persistent trade deficits. Further, the impact on these economies differs greatly: most oil and mineral exporters suffer strong adverse shocks (including countries such as Mauritania, Yemen and Zambia), while net food and energy importers even register some possible mild trade gains from falling import prices (such as Gambia, Sao Tome et Principe and Tanzania). Although LDCs have possibly not been hit as hard for the year on average, they face the key problem of the adverse impact of highly volatile export and import prices on their fragile economies.

The developed countries, in which the crisis originated, will suffer strong negative trade shocks in 2009 amounting to 3.2 per cent of their combined GDP or almost $1.3 trillion. In dollar terms, Germany (about $200 billion) and Japan (about $150 billion) are hardest hit, almost entirely on account of the collapse in global demand for manufactures. In both countries the shocks are somewhat softened by the price drop of imported food and energy. The adverse trade shock for the United States is estimated at about $40 billion. In relative terms, the strongest trade shocks (more than 10 per cent of their GDP) among developed countries are felt by the countries in Central and Eastern Europe (Slovakia, Czech Republic, Belarus, Hungary and the Baltic States), as a consequence of the decline in the demand for their manufactured exports.

The trade shocks will affect growth and employment in every case though clearly not to the same degree since the nature of the shock varies. At this point in the crisis, many of the countries that are considered the most vulnerable (the LDCs) do not appear to be the hardest hit through the estimated trade shocks. Yet, as will be assessed in subsequent briefings, other factors need to be considered as well, including existing cushions to mitigate the impact of the crisis (such as availability of international reserves).

Regions exhibit different price and demand effects

The United States is estimated to experience a negative trade shock of approximately $40 billion in 2009. However, the contraction in the import bill due to the recession and the lower energy prices will outpace the fall in export revenues. On the assumptions of a 35 per cent fall in oil prices and no disruptions in domestic supply, energy imports will decline by a total of $250 billion in 2009. In addition, the lower import demand for consumer goods and capital goods may cut the import bill by another $100 billion. Conversely, Canada will suffer a more severe shock since the recession in the United States will cut the net export volume of manufactured goods, and the fall in commodity and oil prices will adversely affect export revenues.

The European Union will suffer a negative trade shock of about $700 billion, mostly owing to the fall in demand for manufacturing exports. By contrast, a fall in import volume demand of a similar magnitude, together with more favorable terms of trade, will result in a small gain in the trade balance of about $30 billion in 2009. However, Germany will likely experience a drop in its trade balance equivalent to 1.9 per cent of GDP, almost entirely accounted for by the shrinking volume of manufacturing exports.

The new EU members are expected to register a negative trade shock of more than $100 billion. The gain in terms of trade will not compensate for the projected fall in exports of at least 25 per cent owing to the decline in demand from Western Europe. On the import side, depressed domestic demand, the credit contraction and the strong import content of exports will lead to an even sharper decline of imports at a rate of at least 30 per cent. The net effect on the trade balances may even be positive, most noticeably in the Baltic States.

The trade shock for Japan in 2009 is projected to amount to about $150 billion. In late 2008 and early 2009, Japan's exports plummeted at an annual pace of more than 50 per cent, and its trade balance turned from a large long-term surplus to a deficit. A slump in the global demand for autos, information technology and machinery has been the key factor. Exports and imports have somewhat recovered since the second quarter of 2009, partly reflecting the moderating pace of inventory adjustment in the global economy, as well as the slow recovery of demand from Asian emerging economies.

In the CIS, the losses resulting from the global trade shock are expected to exceed $250 billion due primarily to lower export prices and despite lower import costs of $50 billion. Export losses will exceed $180 billion in the Russian Federation alone, driven mainly by lower oil prices. However, exports of manufactures and agriculture will also decrease significantly, leading to a significant contraction of the current account surplus. Decreases in exports are also forecast to affect Ukraine and Kazakhstan, the second- and third-largest economies of the CIS. In Kazakhstan, the current account will swing into deficit, while in Ukraine the current account deficit is expected to be halved owing to an improvement in the total terms of trade and lower import demand.

South-eastern Europe will experience a negative trade shock of approximately $2 billion, mainly due to the negative impact of the recession in the EU on export demand. While export revenues will decline by at least 20 per cent, trade balances are generally projected to improve as imports may contract by more than 30 per cent.

The negative trade shock for Africa as a whole is estimated to be approximately $80 billion, owing half to a decline of its terms of trade and half to a decline of export volumes. However, net energy-importing countries are clearly facing a favorable trade shock. In particular, many least-developed countries, which entered the economic crisis in an unfavorable situation owing to high energy and food prices, will face an improvement in their terms of trade which will partially alleviate the decline in export demand. Other energy-importing countries, like Ghana and Kenya, will likely experience a positive shock of about 8 per cent of GDP. Meanwhile, South Africa's fall in the volume of exports is likely to be greater than a favorable price effect, resulting in a negative trade shock of 1.5 per cent of GDP.

East Asia is expected to experience an aggregate negative trade shock of almost $350 billion (4.7 per cent of aggregate GDP) in 2009, following the sharp contraction of trade in manufactured goods earlier in the year. The trade shocks are most severe in Hong Kong Special Administrative Region of China, Malaysia, Papua New Guinea and Singapore, ranging from 14 per cent to 27 per cent of GDP. In Papua New Guinea, which is one of the poorest countries in the region, the strong decline in export earnings is the result of a fall in the demand and price of copper as well as a much lower average oil price. The impact of the trade shock on the larger economies of China, Indonesia, the Philippines and the Republic of Korea has been much smaller, with the expected losses ranging from 1 per cent to 5 per cent of GDP.

With the exception of the Islamic Republic of Iran, the South Asian economies are less impacted by the global trade shock than most other world regions. The region as a whole is projected to experience a negative trade shock of the magnitude of $2.5 billion, or 1.4 per cent of aggregate GDP, as the negative demand effect outweighs the benefits from improved terms-of-trade. The combined effect is expected to be positive for India, Pakistan and Sri Lanka, partly owing to lower crude oil prices. The shock will be only slightly negative for Bangladesh. Garment shipments, which account for approximately 80 per cent of Bangladesh's total export earnings, have continued to grow strongly since the onset of the global financial crisis, helped by low prices that undercut rivals in the region.

Western Asia will see a negative trade shock of the magnitude of $200 billion, driven mainly by a fall in export prices. Looking at individual countries, the region offers a picture of stark contrasts. In line with the regional trend, oil exporters such as Saudi Arabia are forecast to experience a pronounced contraction in their trade surpluses due to lower oil prices and, albeit to a smaller extent, lower oil export volumes. By contrast, more manufacturing-oriented economies such as Turkey are expected to see a shrinking trade deficit in 2009, with falling imports outpacing the drop in exports.

In Latin America and the Caribbean, the estimated trade shock will be around $125 billion in 2009, which represents 3.7 per cent of the regional GDP. This loss is mainly due to a drop in export volume, particularly for countries such as Mexico that are directly linked to the United States economy. In the Central American economies, more favorable changes in the terms of trade are projected to result in a positive trade shock. Meanwhile, for Brazil, the slight positive terms of trade shock will not be sufficient to offset the decline in export demand. In turn, the negative impact of the terms of trade shock will be felt most in the oil-exporting countries of the Bolivarian Republic of Venezuela and Ecuador. ■