



How Countries Compete

**Professor Richard Vietor
Harvard Business School**

**Universiti Teknologi Malaysia
March 2012**

Canada Firm IPO MARKET
 Euro area
 U.S. Cuts Pakistan Payments
 Japan Says Woes At Reactor Won't Delay Cleanup
 Israel Will Never Have Peace
 Europe Ministers Wrestle Over Aid
 Greek Scenarios Don't Overlap
 Opposition Leader
 France Public Grapples With Strauss-Kahn's Fight
 Nets Owner to Lead Russia Party
 French Public Grapples With Strauss-Kahn's Fight
 Images of the Arrested IMF Chief Dominate the Country's Television and

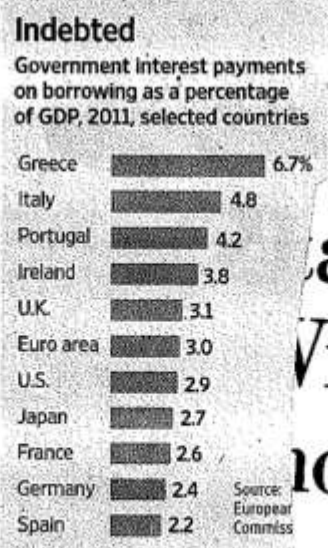
Thousands of South African civil servants marched in Pretoria last August during a one-day strike in which they pressed for better salaries.

South Africa's Labor Pain

Stalled Talks With Public-Sector Workers Over Salary Increases Cloud Local Vote
 Berlusconi's Party Trails in Milan Race
 Canada Firm

BP Arctic Deal on the Ropes

Oil Company Fails to Get Russian Partner



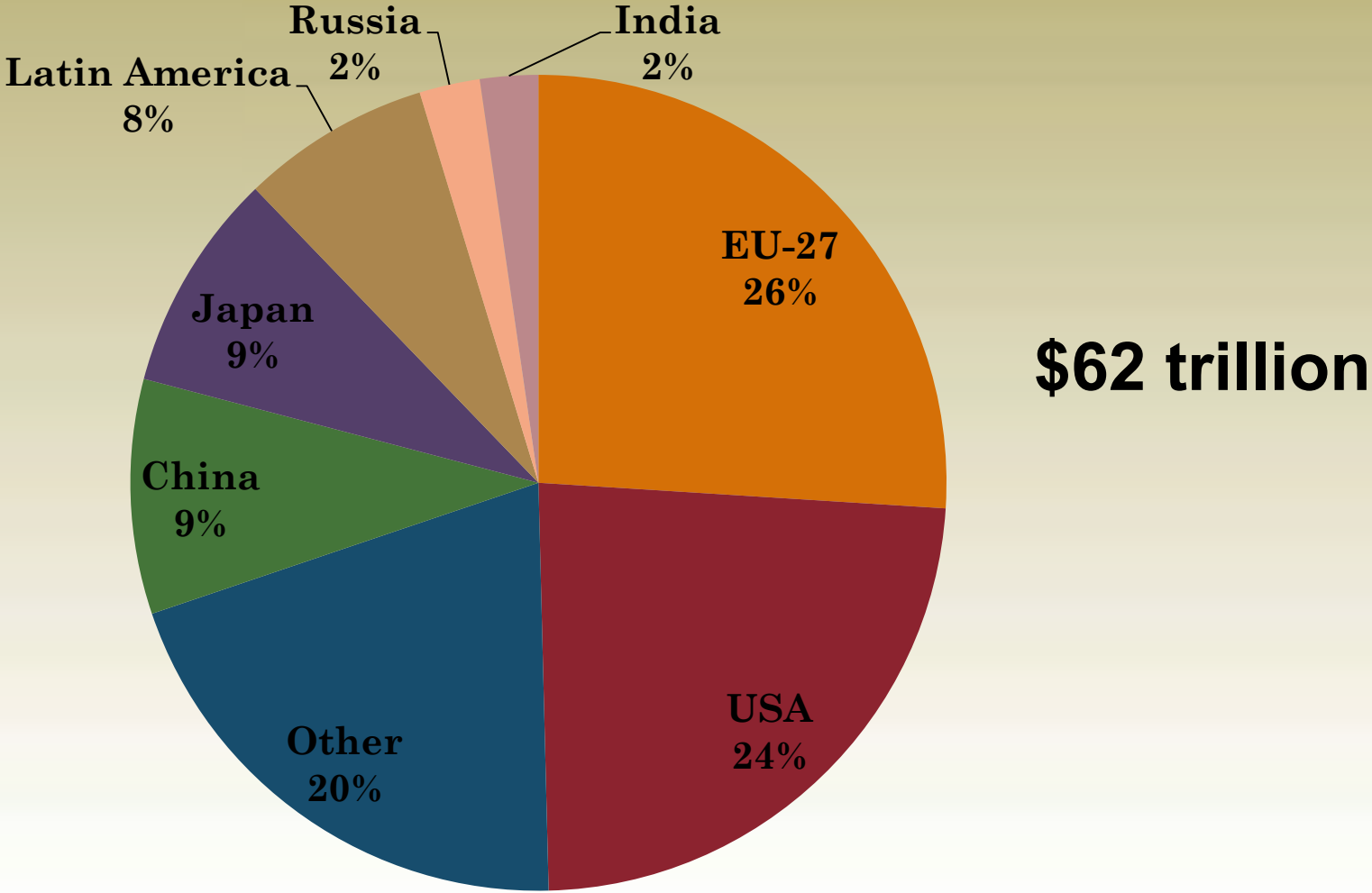


Markets have become global

Globalization, underway for more than half a century, is a process of economic integration and cultural homogenization across national borders. Fostered by advances in transportation and communication technologies after World War II and a eight rounds of trade negotiations under GATT, trade has grown at twice the rate of world GDP. Floating exchange rates, sovereign lending and the liberalization of capital accounts have accelerated this process.

Today, more than 73,000 multinational corporations manage more than 880,000 multinational subsidiaries.

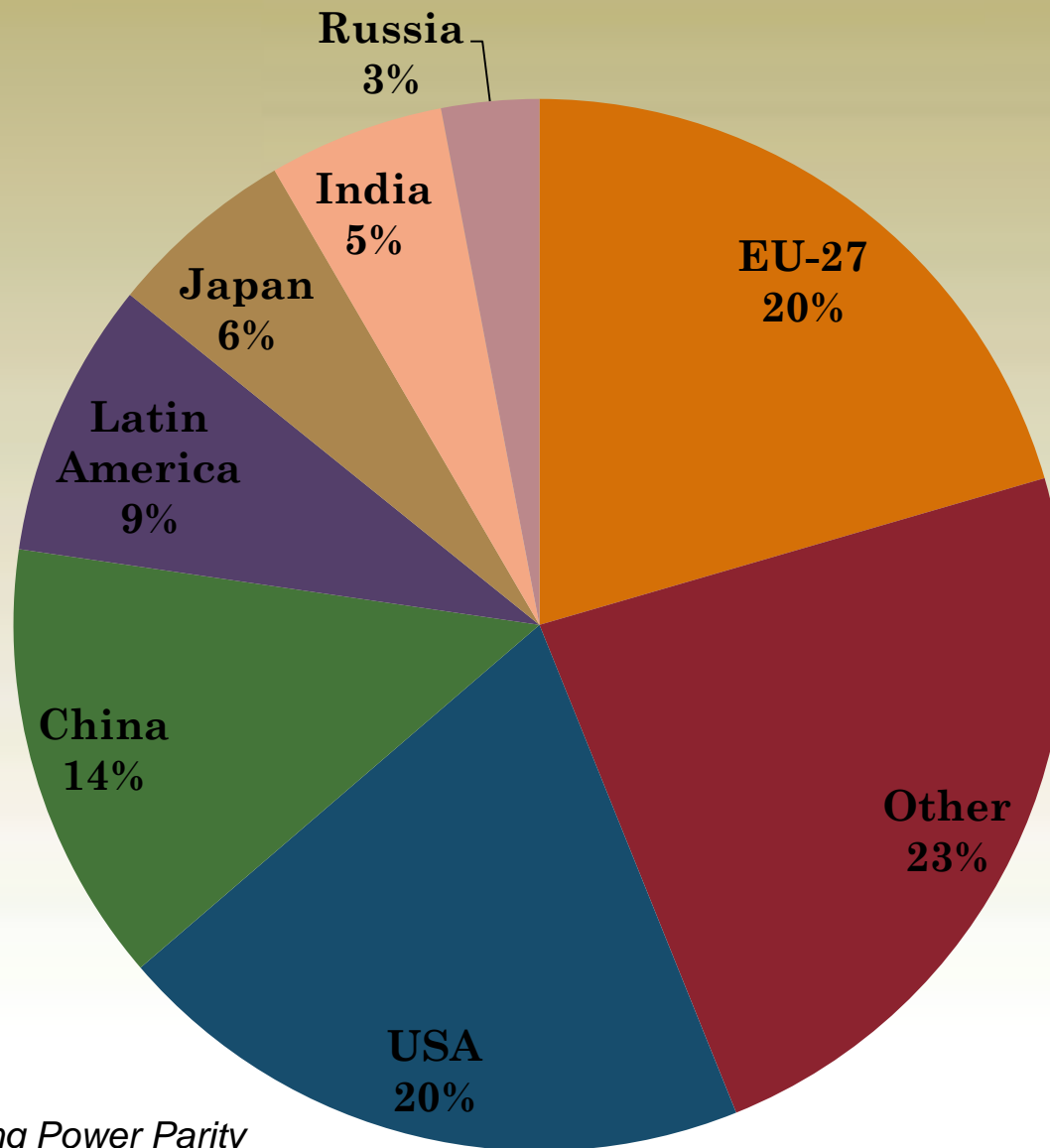
Share of the World GDP 2010



Source: IMF, 2011

Share of the World GDP 2010

Purchasing power parity adjusted




\$74 trillion

* Adjusted for Purchasing Power Parity
Source: IMF, 2011



Countries compete

- Within this global market place, **countries compete** for exports, for foreign direct investment and other capital resources, for technology and managerial know-how and for access to natural resources.
- The purpose of this competition is growth and development – to reduce poverty, accommodate urbanization, create jobs and increase living standards.



“Preparing our nation to compete is a goal that all of us can share... In a dynamic world economy, we are seeing new competitors, like China and India, and this creates uncertainty.”

President George W. Bush
State of the Union Message, 2006



National Development Strategy

Countries have development strategies:

- either explicit (carefully formulated and discussed by senior government officials);
- or implicit (a loose collection of goals and policies that merely net to strategy, after the fact).



Organizational structure

- **Countries – like companies – need an organizational structure suited to implementing the strategy;**
- **That structure must fit the domestic context – the skills, assets, polity and culture of its people – and the international context – its geography and political relationships abroad.**



The Role of Government is *Crucial*

- **Mediates the strategy**
- **Determines the organizational structure**
- **Shapes the context by building and regulating the *institutions* that shape the market**



Essential role of state:

- **Provide security – domestic and international;**
- **Enforce contracts, property rights and laws;**
- **Back risk – incorporation, bankruptcy, unemployment insurance, pensions, nuclear facilities;**
- **Provide money;**
- **Manage macro-economy;**
- **Implement industrial policy (explicit or implicit).**



Developmental Strategy of Government

- **Fiscal policy**
 - Revenue sources
 - Expenditure choices
 - Deficit/Debt management
- **Monetary policy**
 - Control money/inflation
 - Regulate banking
 - Control exchange rates
- **Incomes policy**
 - Wages, prices, work rules, distribution of income
- **Trade policy**
 - Tariffs, taxes, non-tariff barriers
- **Foreign direct investment controls**
- **Nationalization/privatization**
- **Economic regulation**
 - Externalities (environment) and market failures (telecom, banking, infrastructure and competition)
- **Provision of subsidies**



Government Management of Institutions

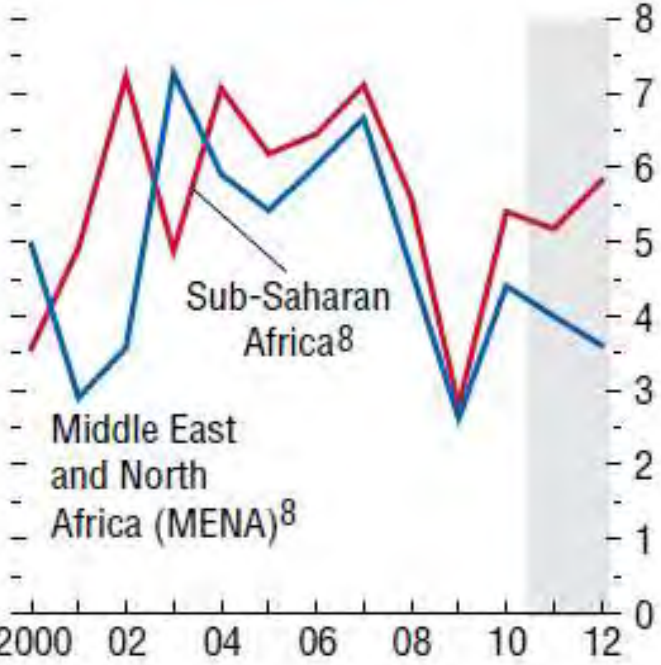
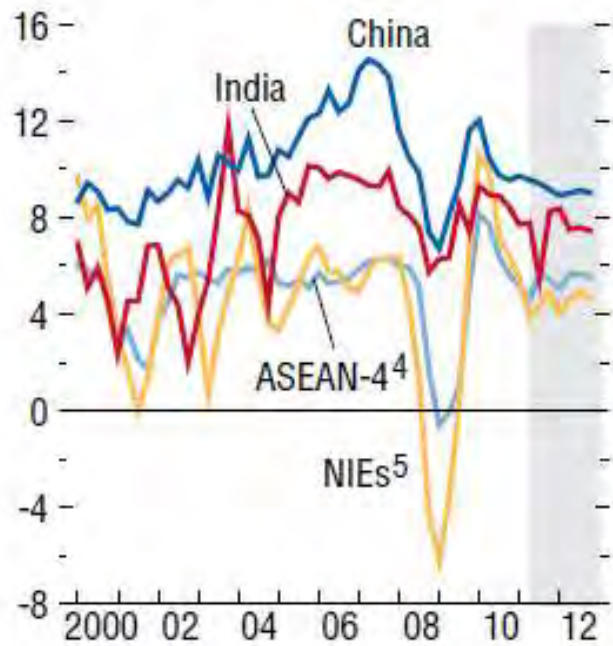
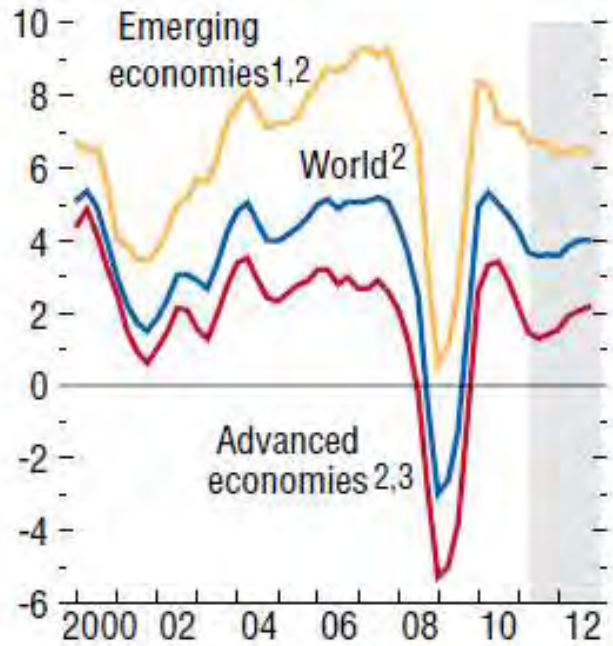
- **Corporations, partnerships, proprietorships**
- **Infrastructural resources**
 - (water, power, roads, rails, air traffic, telecom)
- **Human resources**
 - (schools, colleges/universities, healthcare)
- **Technological resources**
 - (patents, defense and public-science research)
- **Capital resources**
 - (banking, securities, insurance)



Trajectories of Development

- ✓ **Asian high growth**
- ✓ **Post Soviet restructuring of Russia and East Europe**
- ✓ **Latin American recovery from debt crises**
- ✓ **Islamic resurgence**
- ✓ **African renaissance**
- ✓ **European integration**
- ✓ **Deficits and debt in Japan and the United States**

IMF Forecast, October 2011






Singapore – Desperation Strategy:

- Build on the entrepot advantage;
- Free trade and foreign direct investment
- Tight monetary policy
- Market exchange rates
- Forced savings
- Invest in public housing and infrastructure
- State sector → 25% GDP
- Balanced budget (by late 80s)



Singapore's Institutional Web

- Ministry of Trade and Industry
 - Economic Development Board (EDB)
- Housing Development Board
- Jurong Town Corporation
- Temasek Holdings
 - Singapore Airlines, Singapore Technologies
- Monetary Authority of Singapore (MAS)
- Central Provident Fund
- SPRING (productivity board)
- ASTAR (science and biotechnology)
- National Trade Union Congress
- Corrupt Practices Investigation Board



Singapore – Results!

- Real GDP growth – 7.5% for 37 years;
- Savings 51% GDP; Investment 38%
- X&M = 3xGDP
- Inflation → 2.8%
- Balanced budget
- Current account 19.3% GDP
- GDP/capita - \$43,837



Lee Hsien Loong's New Strategy

- **Cut taxes to 20%; 18%**
- **Higher value-added tax - balance budget?**
- **Move to higher value-added exports?**
- **Attract intellectual talent?**
- **Refocus on biomedicine?**
- **Deal with Chinese (and Indian) competition?**



The global crisis was tough on trade....

- **GDP down -2.1% '09**
- **Investment down -3.1%**
- **Inflation down -.5% in '09**
- **Exports down -20%**
- **Imports down -22%**
- **Trade balance down -> (at \$31 billion)**
- **Current account -> down slightly 12.5%/GDP**
- **Unemployment up from 2.2% -> 3.4%**
- **Gov't surplus 1.5% -> -2.7%**



But now....

- Real GDP up 12.5% '10
- Investment up 10.3%
- Inflation up 2.8%
- Exports up 16.5%
- Imports up 15.9%
- Trade balance up -> (at \$48 billion)
- Current account up -> (at 19.3% GDP)
- Unemployment down from 3.0% -> 2.2%)
- Gov't deficit down -1.0% -> +3.2%

Singapore

Exchange rate

(S\$:US\$; av; inverted scale)



Source: Economist Intelligence Unit.

Foreign-exchange reserves

(US\$ m)



Source: Economist Intelligence Unit.

- not too bad....



China – a Greater Challenge

- \$200 per capita
- Closed, Communist economy
- Inefficient collective agriculture
- State-owned enterprise
- 987 million people
- “Cultural Revolution”



Deng's Pragmatic Liberalization

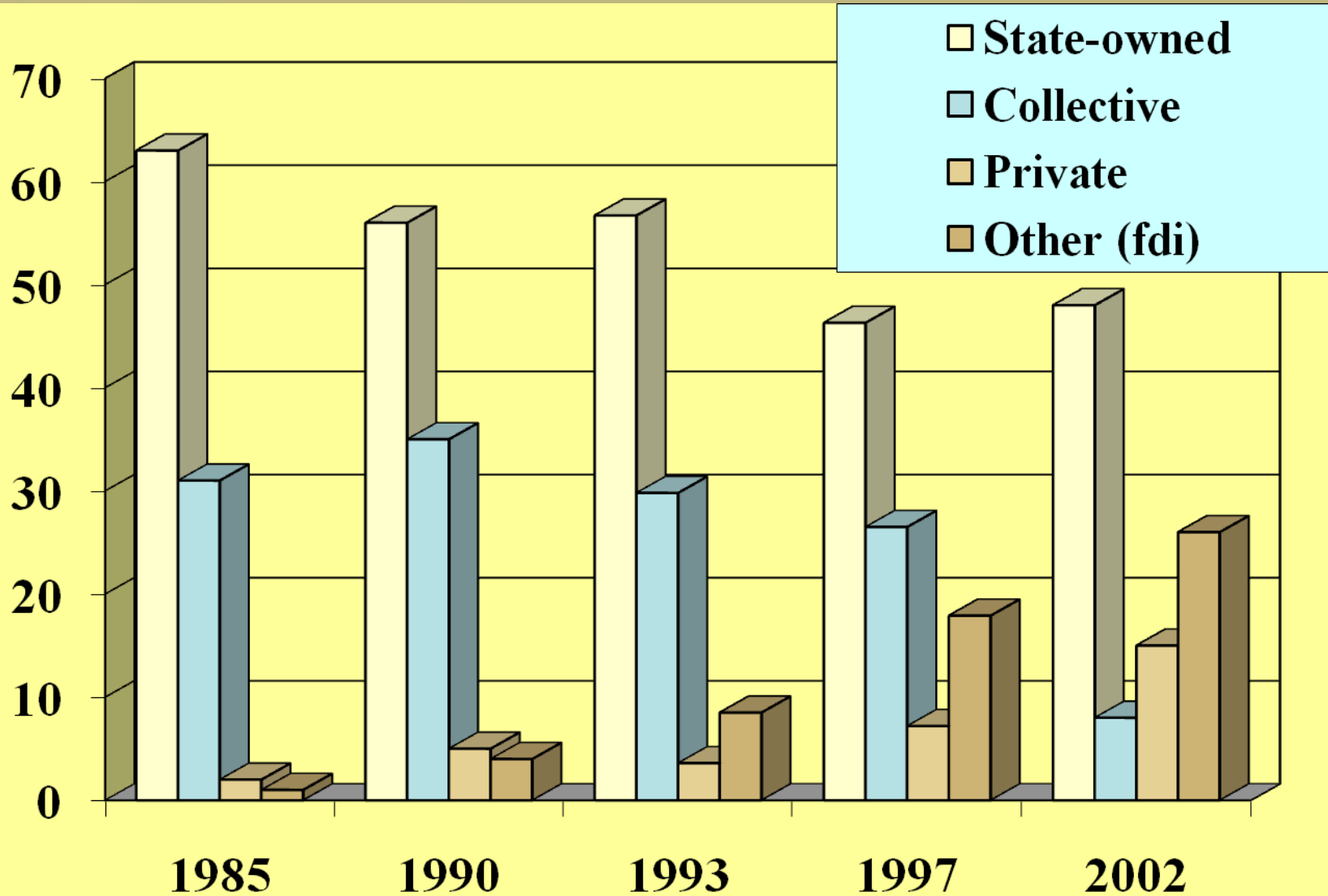
- One-child policy
- Agriculture – household responsibility system
- TVEs – Township & village enterprises
- SEZs – Special economic zones
- SOEs – management responsibility system; then privatization
- Gradual price decontrol
- Tax reform (1994)
- Currency reform (1994)
- WTO - 2001



China - Results

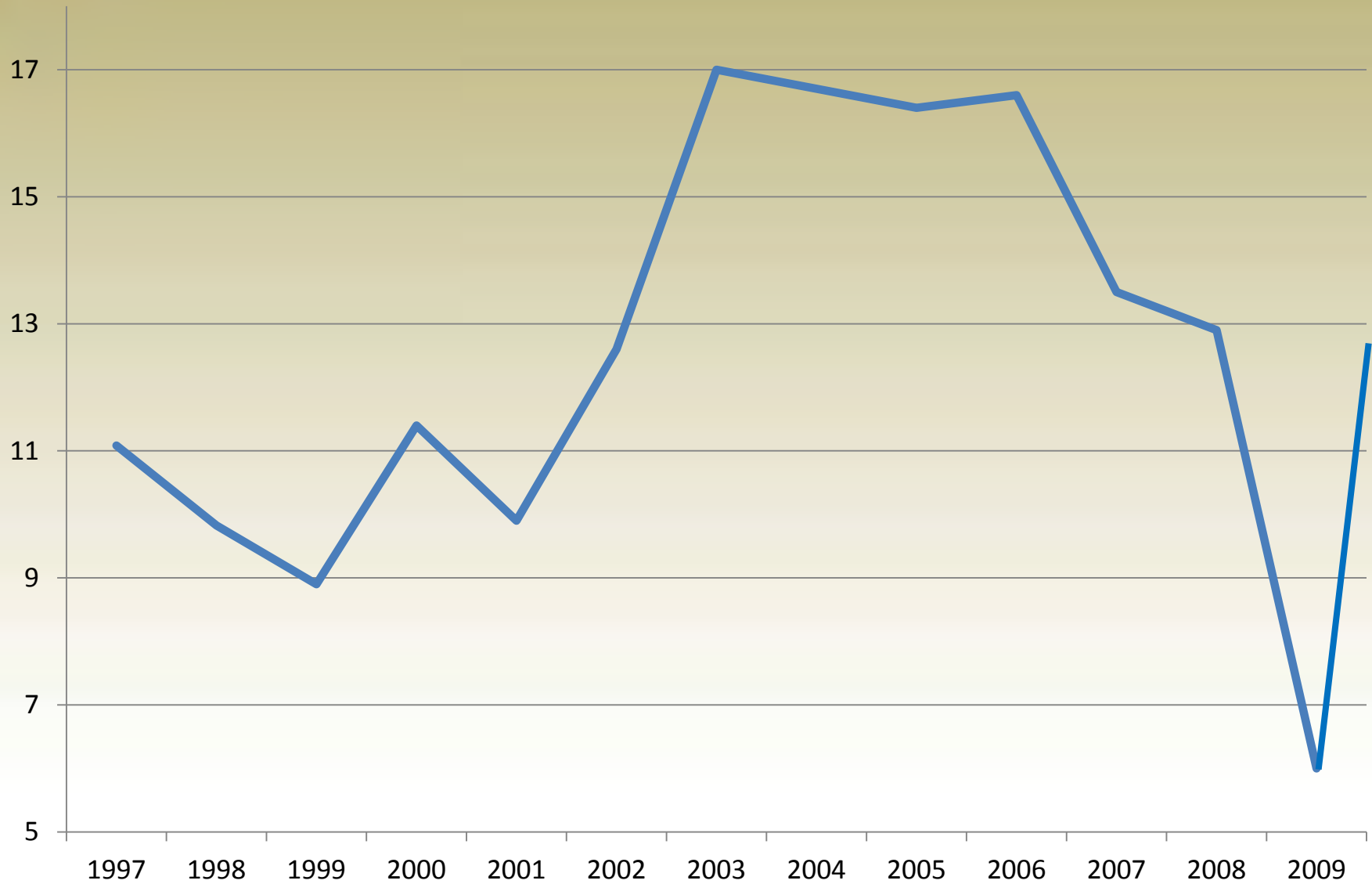
- 9.4% real GDP growth
- Investment 44%; Savings 50%
- Consumption down to 35%
- Exports 3% -> 35%
- Imports 3% -> 28%
- Inflation 3.5 -> 2.0%
- Unemployment – 9+%
- Balance of trade \$360 bil; current account \$426 bil.
- Cumulative FDI - \$970 bil

Structure of China's Industrial Output percent of total value





China Industrial Production: Value Added (yearly percent change)



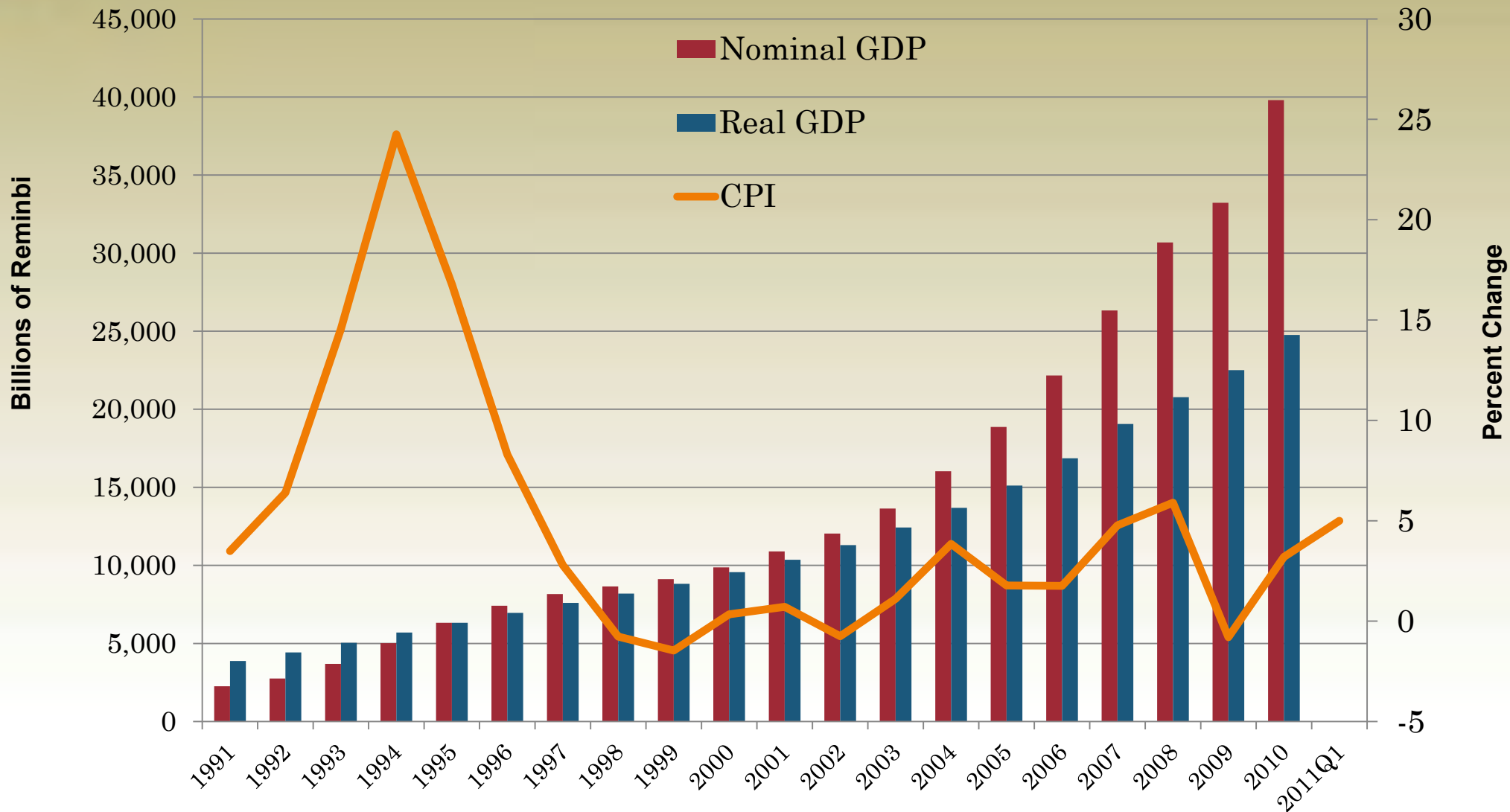
Source: Compiled with data from the *Economist Intelligence Unit*.

November 9th Stimulus Plan – Rmb 4 trn (\$586 billion)

- Public housing projects—notably on low-rent residential units, re-development of slumps and renovating deteriorated rural housing.
- Rural infrastructure investment—including water supply and conservation, including expediting the North South water diversion project; irrigation; rural roads; and the power grid.
- Transport infrastructure—with a focus on railways, both passenger and coal transport lines, but also highways, airports, and the urban power grid.
- Health and education—including improving the local clinic service systems; renovating schools in inland provinces.
- The environment—including enhancing urban water and sewage treatment projects, pollution treatment of key water ways, reforestation, and energy efficiency projects.
- Innovation and restructuring—facilitating structural change and R&D, and supporting the development of high tech and service industries.
- Post-earthquake reconstruction.
- Household income—including increasing grain procurement prices and farm subsidies and increasing payments under the minimum living allowance system.
- Rolling out the VAT reform nationwide in 2009, allowing capital spending to be deducted from the VAT in line with international practice, reducing the corporate tax burden by about RMB 120 billion (0.4 percent of GDP) in the government's estimate.¹⁰
- Increasing bank lending to support growth, with priority being given to key projects, rural investment, SMEs, R&D, M&A, and consumer loans.

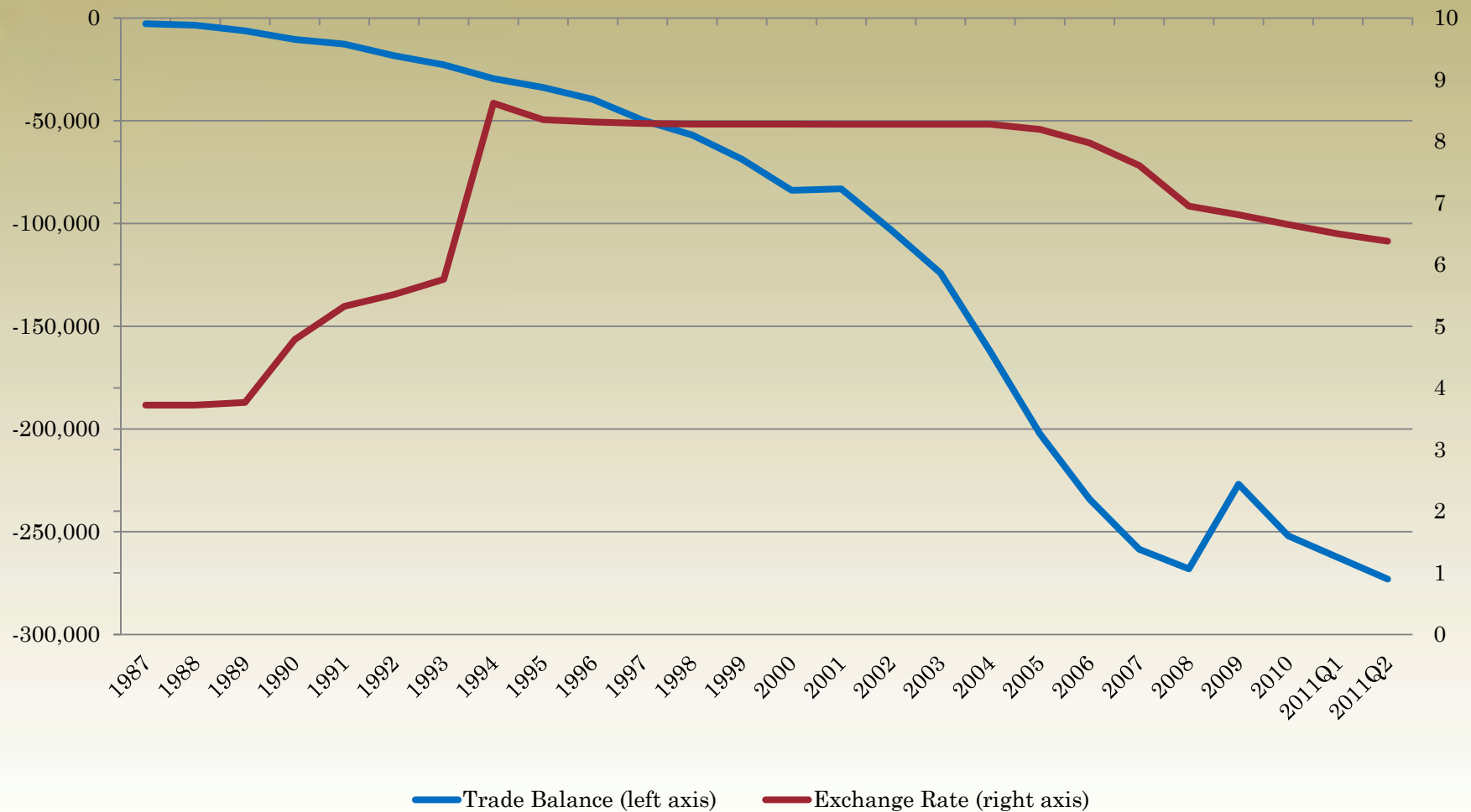
China's Growth

Nominal GDP, Real GDP, CPI



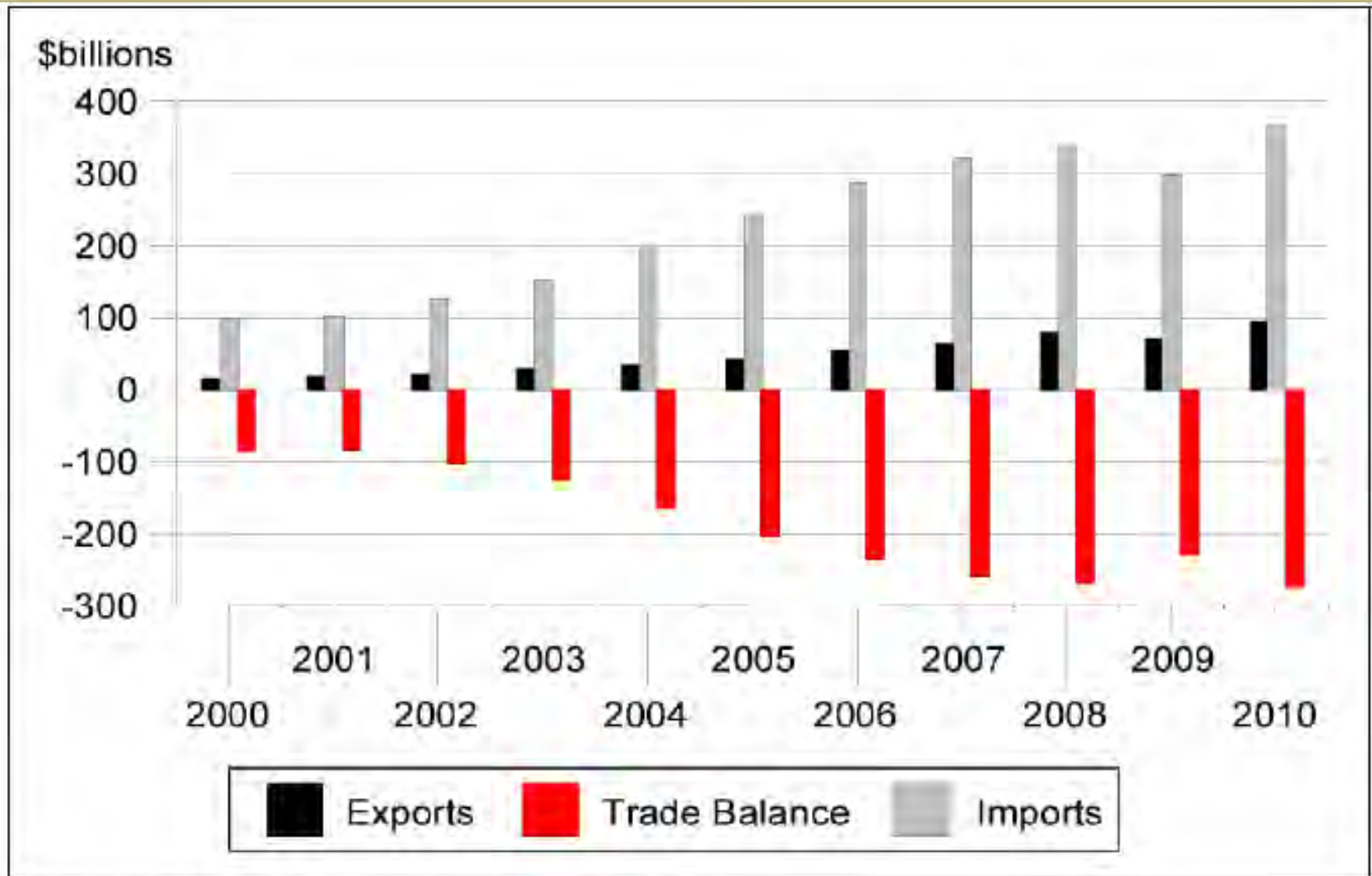
Source: Compiled with data from the *Economist Intelligence Unit*.

Renminbi/Dollar Exchange Rate and U.S. Merchandise Trade Balance with China (inverted scale, millions \$\$)



Source: Compiled with data from Economist Intelligence Unit Country Reports, (various years), http://countryanalysis.eiu.com/country_reports, accessed October 2011.

U.S. Trade Balance with China, 1980-2010

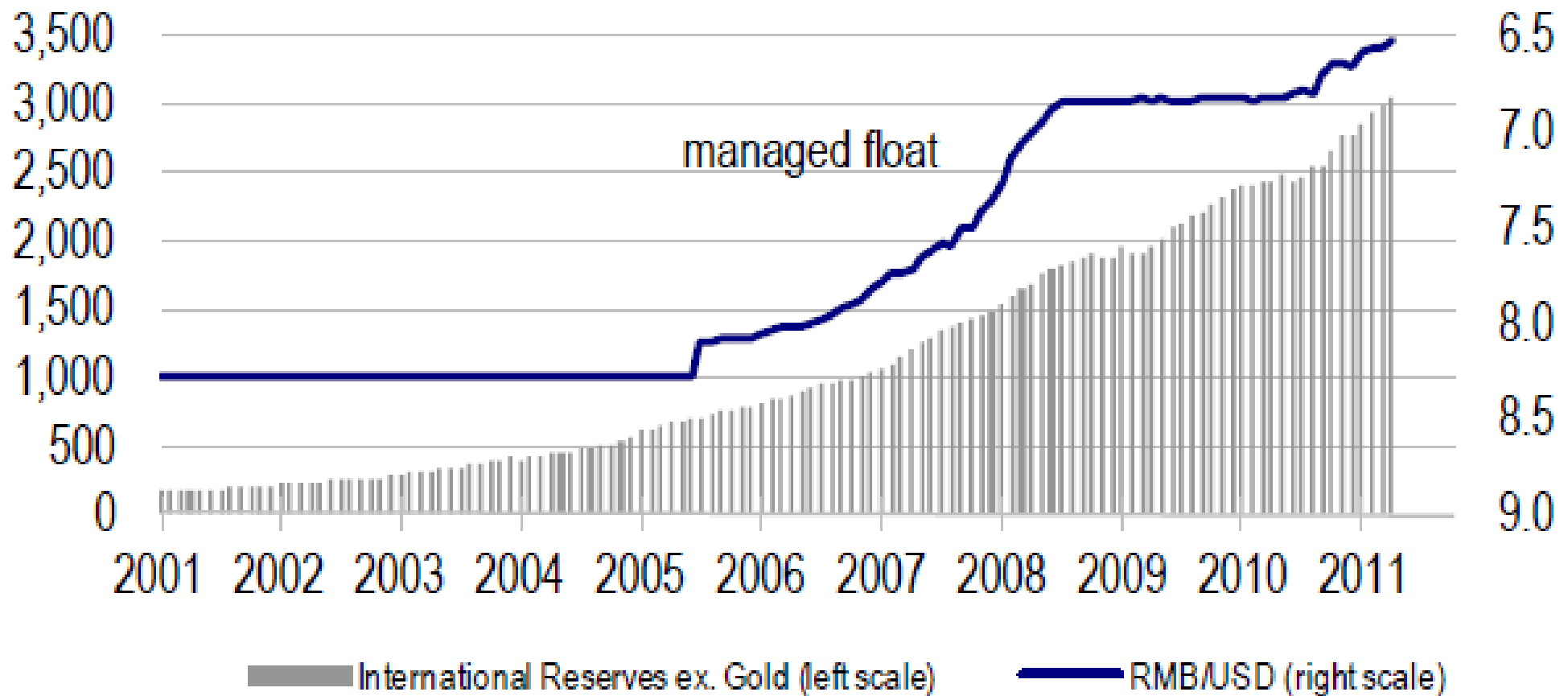


Source: U. S. International Trade Commission DataWeb.

Note: Data for 2010 estimated, based on January-October 2010.

China's FX and Foreign Reserves

(in billions of US dollars and renminbi)

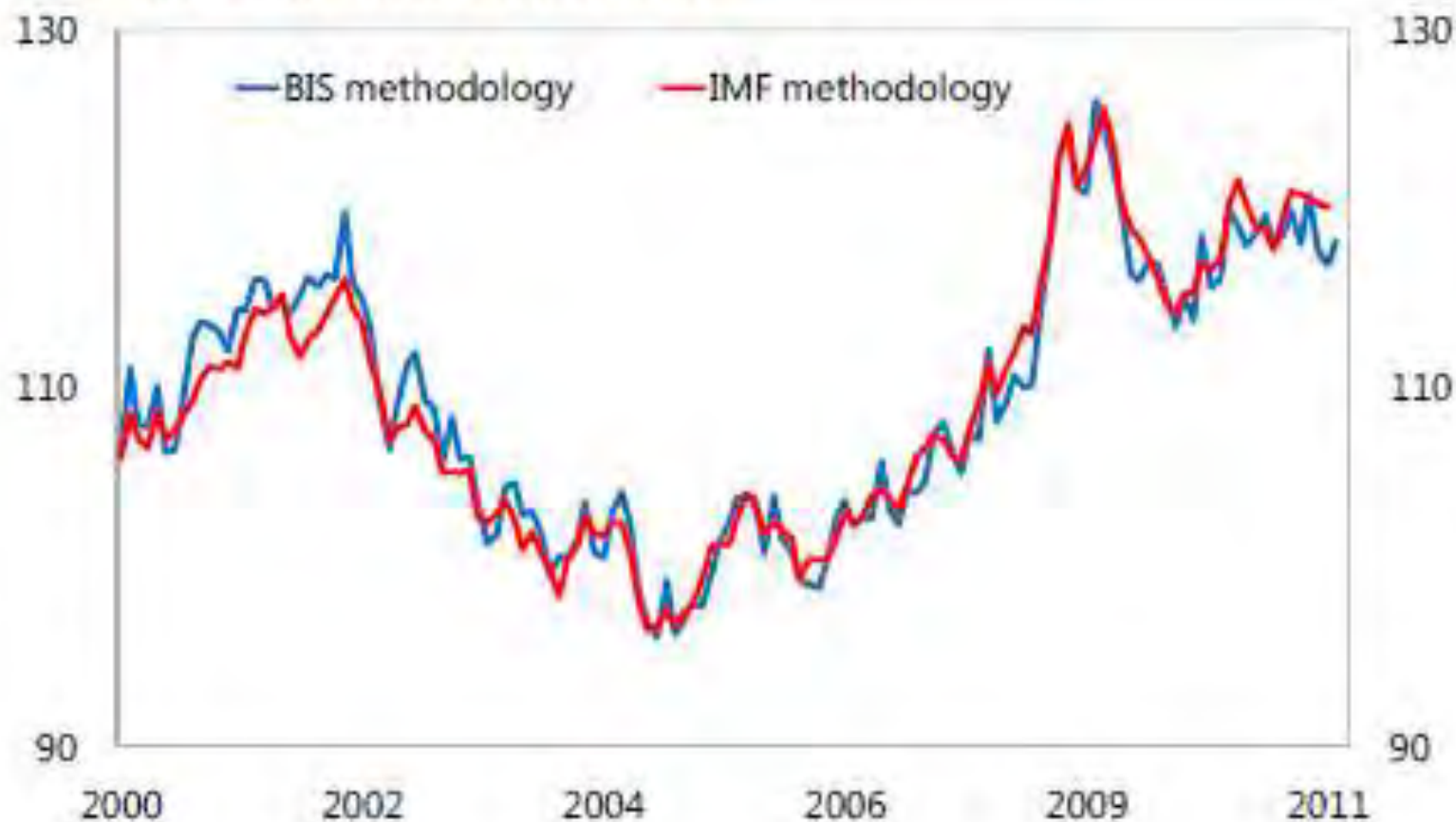


Source: Bloomberg

The exchange rate has depreciated in real effective terms over the past year

Real Effective Exchange Rate

(Index 2005=100, Increase=appreciation)





China – Great Performance, but...

- Tightly managed economic liberalization;
- Institutional reform still lagging (e.g., SOEs, banks, pensions, health care, Hukou system);
- Externalities mounting (e.g., environment, under-employment, corruption, food and energy dependence);
- Income distribution, rural population chafing...
- WTO – fair implementation;
- Trade surplus with US (still \$232 bn)– sustainable?
- New strategy – “Balanced growth” C up, inland I up, X-M down;
- Next round – communism & capitalism?

Illustrative Rebalancing Scenario¹

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|------|------|
| Real GDP (percent change) | 10.3 | 9.6 | 9.0 | 8.4 | 8.1 | 8.2 | 8.5 |
| Consumption (percent change) | 8.1 | 9.5 | 11.3 | 13.0 | 13.7 | 13.0 | 12.7 |
| Investment (percent change) | 12.0 | 7.5 | 7.5 | 7.4 | 7.3 | 7.1 | 7.6 |
| Net Exports (contribution to growth) | 0.8 | 1.5 | 0.2 | -1.3 | -2.1 | -2.0 | -1.9 |
| Fiscal balance (percent of GDP) | -2.2 | -1.6 | -1.0 | -0.5 | -0.4 | -0.3 | -0.3 |
| Gross national savings (percent of GDP) | 54.0 | 54.0 | 53.2 | 51.8 | 50.1 | 48.8 | 47.6 |
| Total capital formation (percent of GDP) | 48.8 | 48.5 | 47.7 | 46.9 | 46.1 | 45.2 | 44.5 |
| Current account (percent of GDP) | 5.2 | 5.5 | 5.5 | 4.9 | 4.1 | 3.6 | 3.1 |
| International reserves (US\$ trillion) | 2.9 | 3.5 | 4.1 | 4.6 | 5.0 | 5.3 | 5.5 |

¹ As discussed in the text, assumes an appreciation of the exchange rate in line with long-run market consensus forecasts, a higher cost of capital, lower labor taxes, improvements in the social safety net, financial liberalization, and an increase in a range of factor costs.



India – Failed Import Substitution

- Hindu rate of growth – 3.5% per year (with population growing 2.5% per year)
- 50% of output owned by public sector;
- 100% of banks and insurance firms;
- Highest tariffs, capacity licensing, imports allocated and price controls;
- “Sick units” protected;
- Widespread corruption.



India after 1991

Washington Consensus...gradually

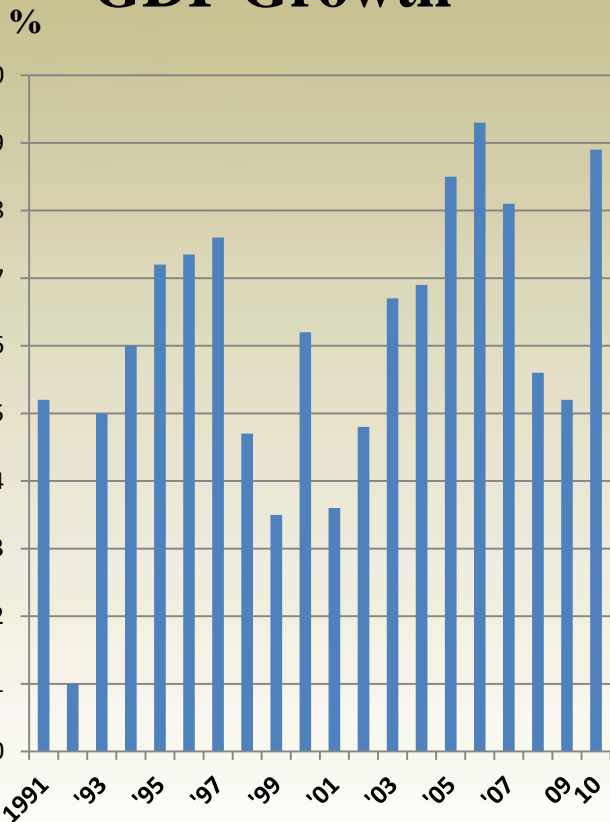
- Fiscal policy – deficit reduction;
- Monetary policy – tightened;
- Exchange rates – floated;
- Capacity licensing – removed;
- Price controls – removed;
- Tariffs lowered;
- Privatization begun;
- Foreign direct investment allowed;
- Spending on infrastructure and education increased.



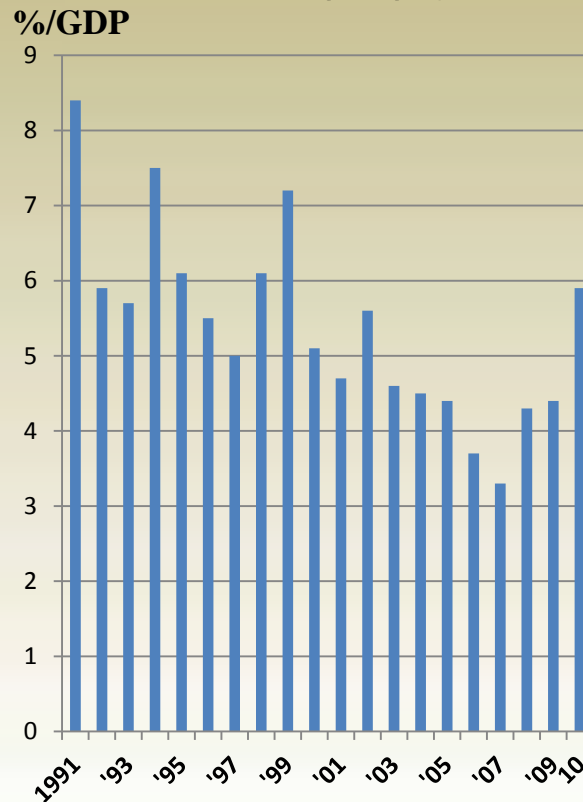
India's Results:

Year-to-year percentage growth in gross domestic product, and government deficit and current account deficit as percent of GDP; all figures for year ending March 31

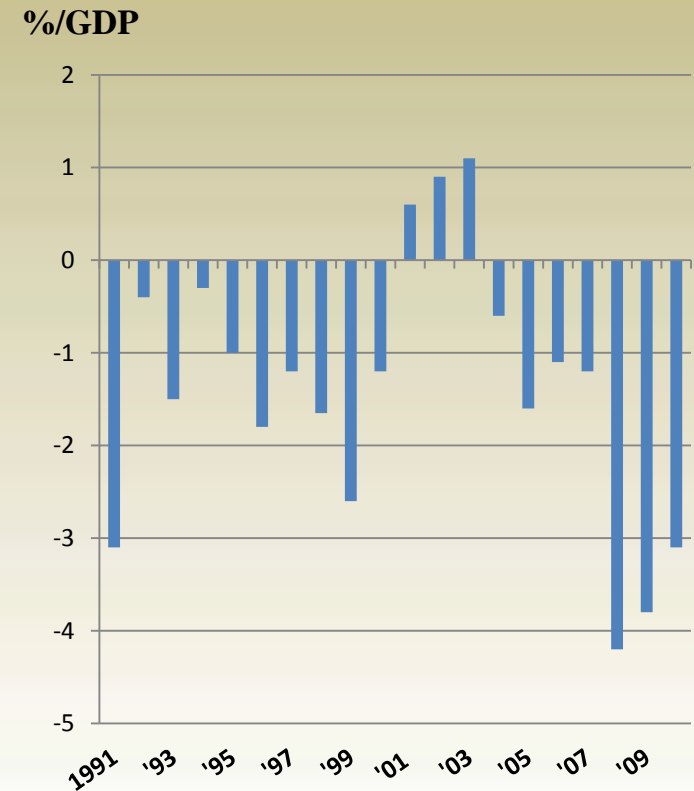
GDP Growth



Government Deficit



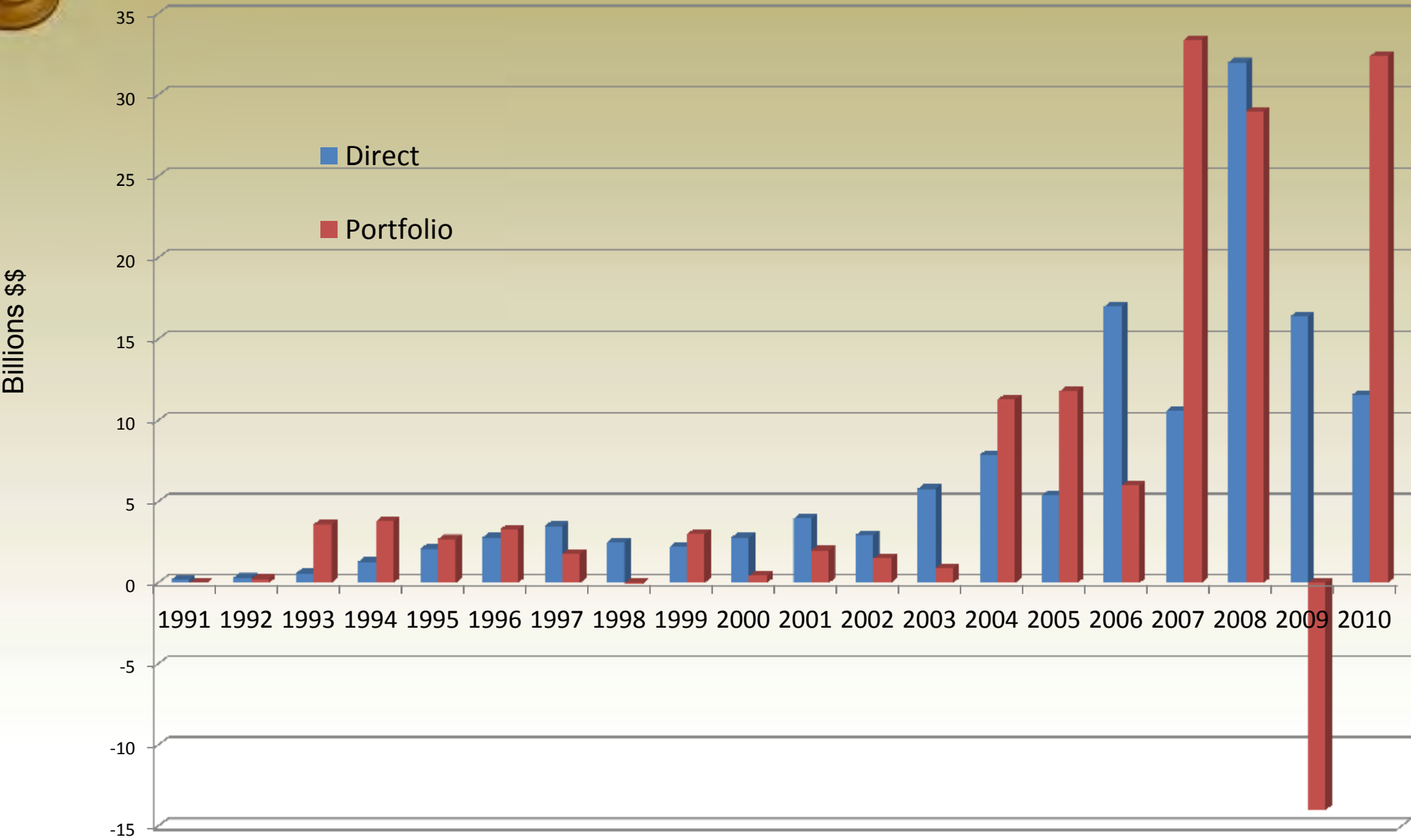
Current Account Deficit



Note: Fiscal deficit is the difference between revenues and spending; current account balance is the broadest measure of goods, service and money that crosses a country's border, with a deficit indicating more imports than exports.



Foreign Investment in India Since 1991

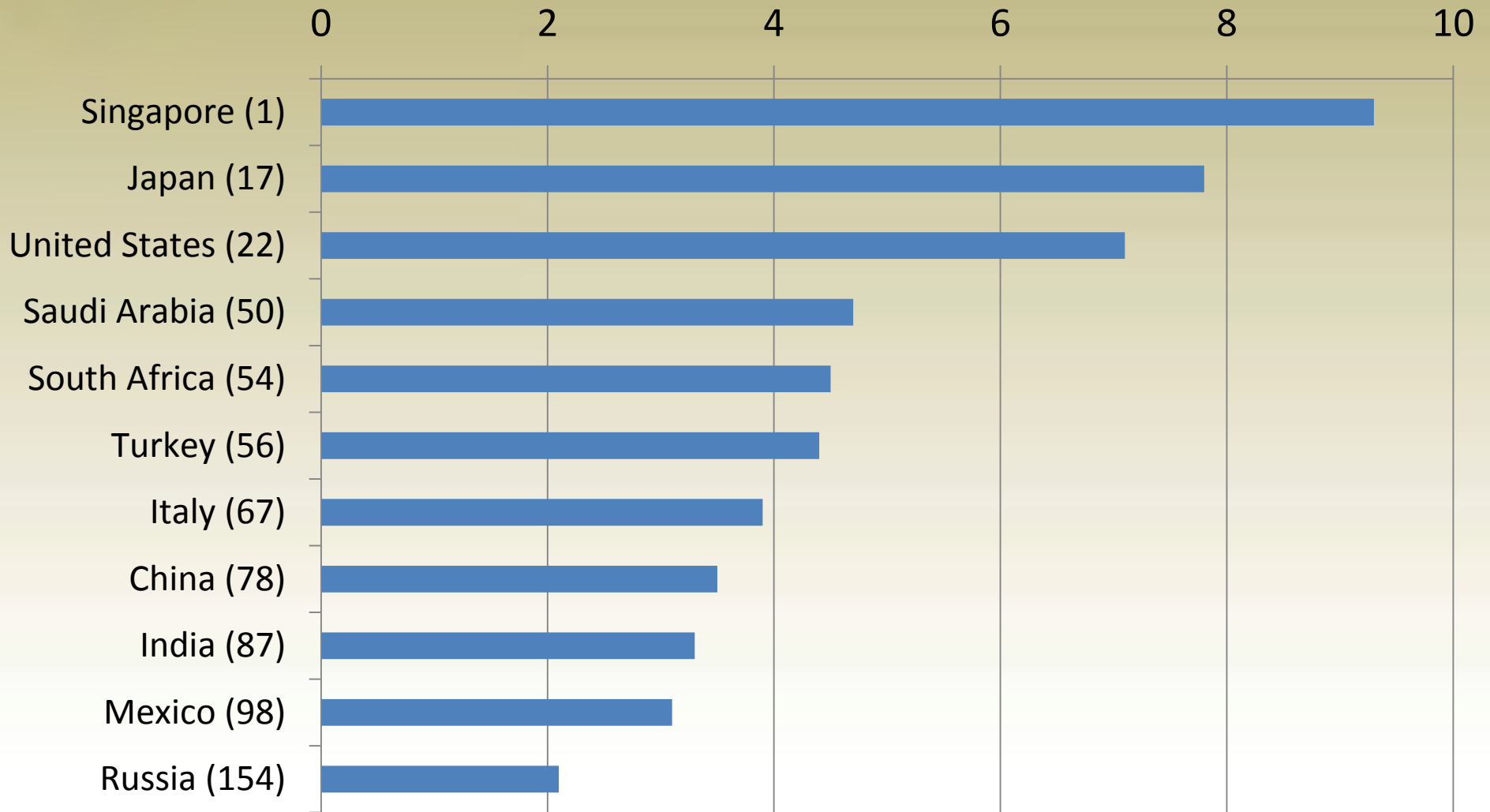


Source: Compiled with data from the *Economist Intelligence Unit*.



Corruption 2010

(0 = most corrupt 10 = least corrupt)

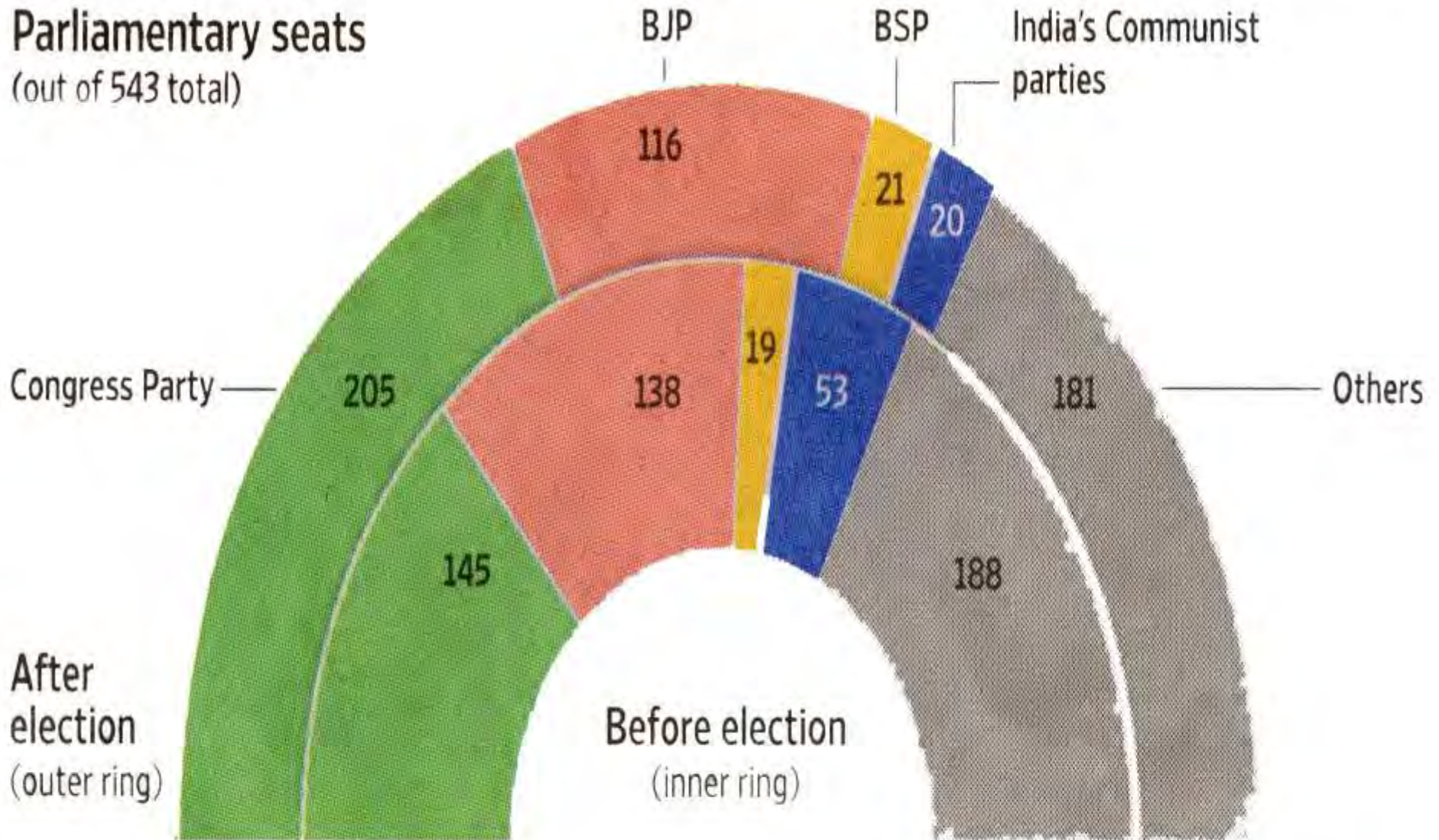


Note: rank among other countries is in parentheses

Source: Compiled from *Transparency International, 2010 Corruption Perceptions Index*, www.transparencyinternational.org.

Coalition Politics in India – May 2009

Parliamentary seats
(out of 543 total)



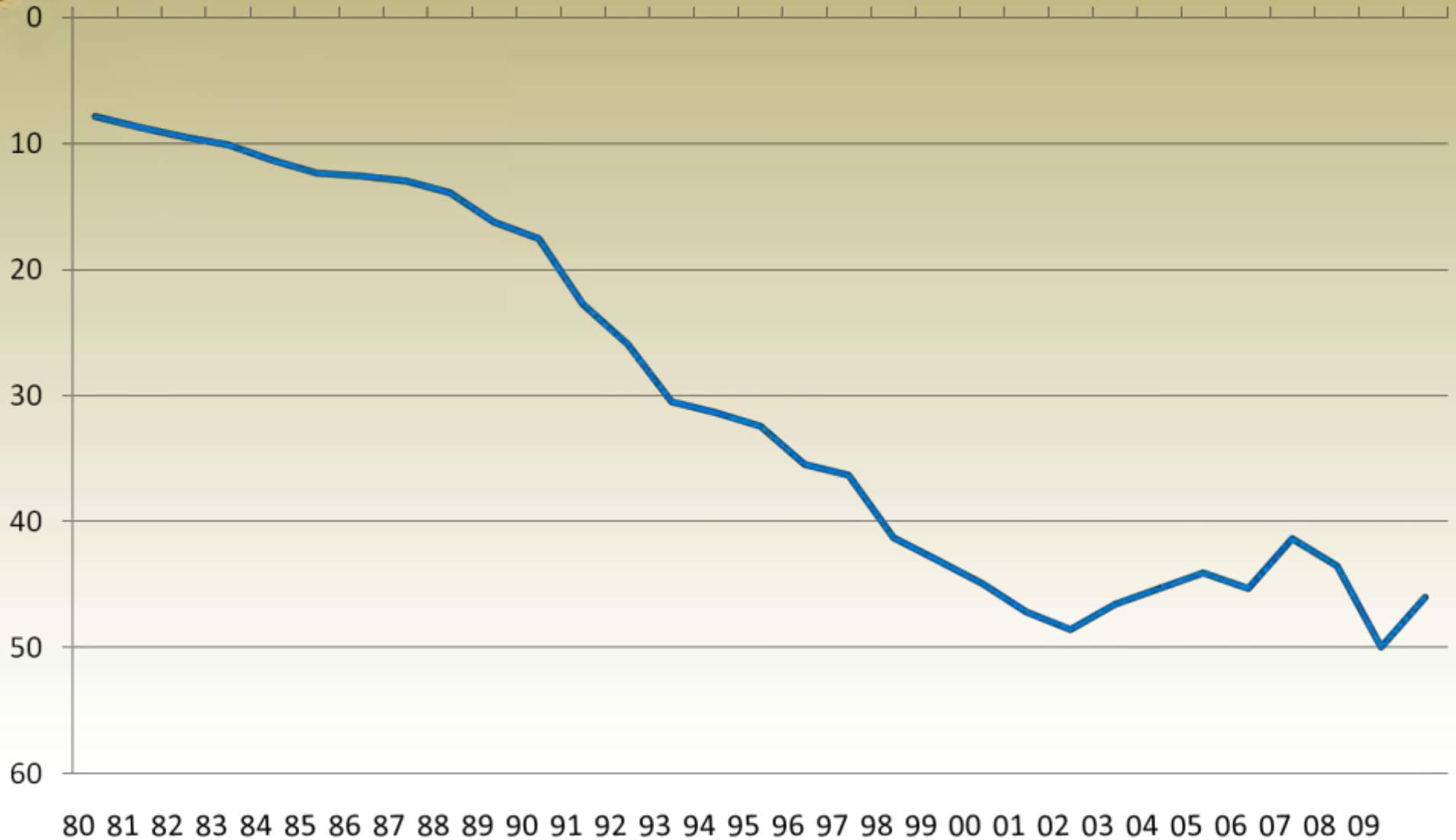
Note: Results are preliminary.

Source: Election Commission of India



India's Exchange Rate

(Indian Rupee/U.S. Dollar, inverted scale)



Source: Compiled with data from the *Economist Intelligence Unit*.



Mexico and Latin America

(debt, structural adjustment, and micro-reform)

Old Strategy

- Import substitution strategies with resource-led growth
 - High tariffs, limited FDI, large public sectors, fiscal deficits, monetization, fixed exchange rates

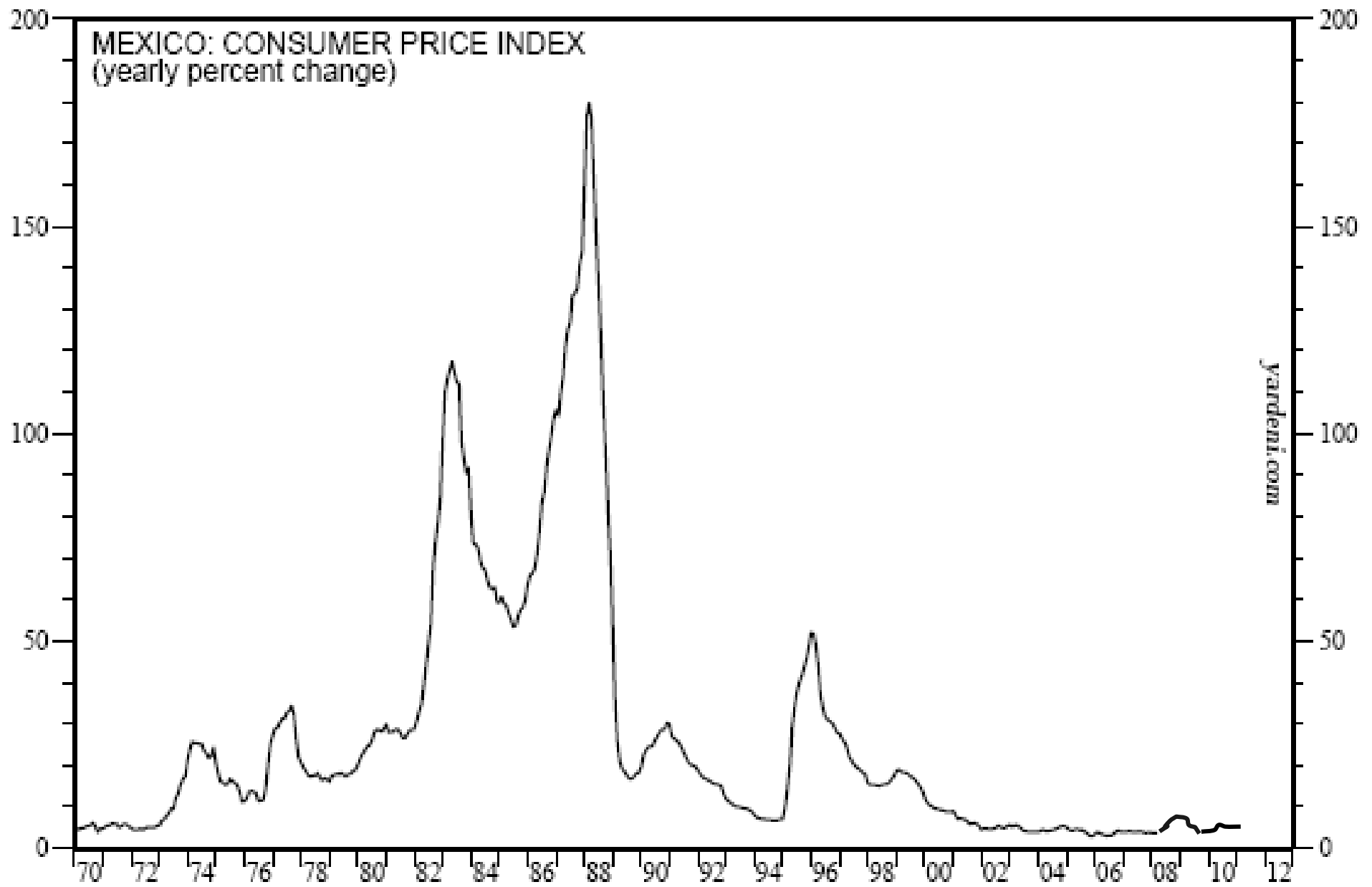
Revised Strategy

- Debt leveraged growth, 1974-1982;
- Debt crises & IMF bailouts



Economic Liberalization Strategy – 1982-1996

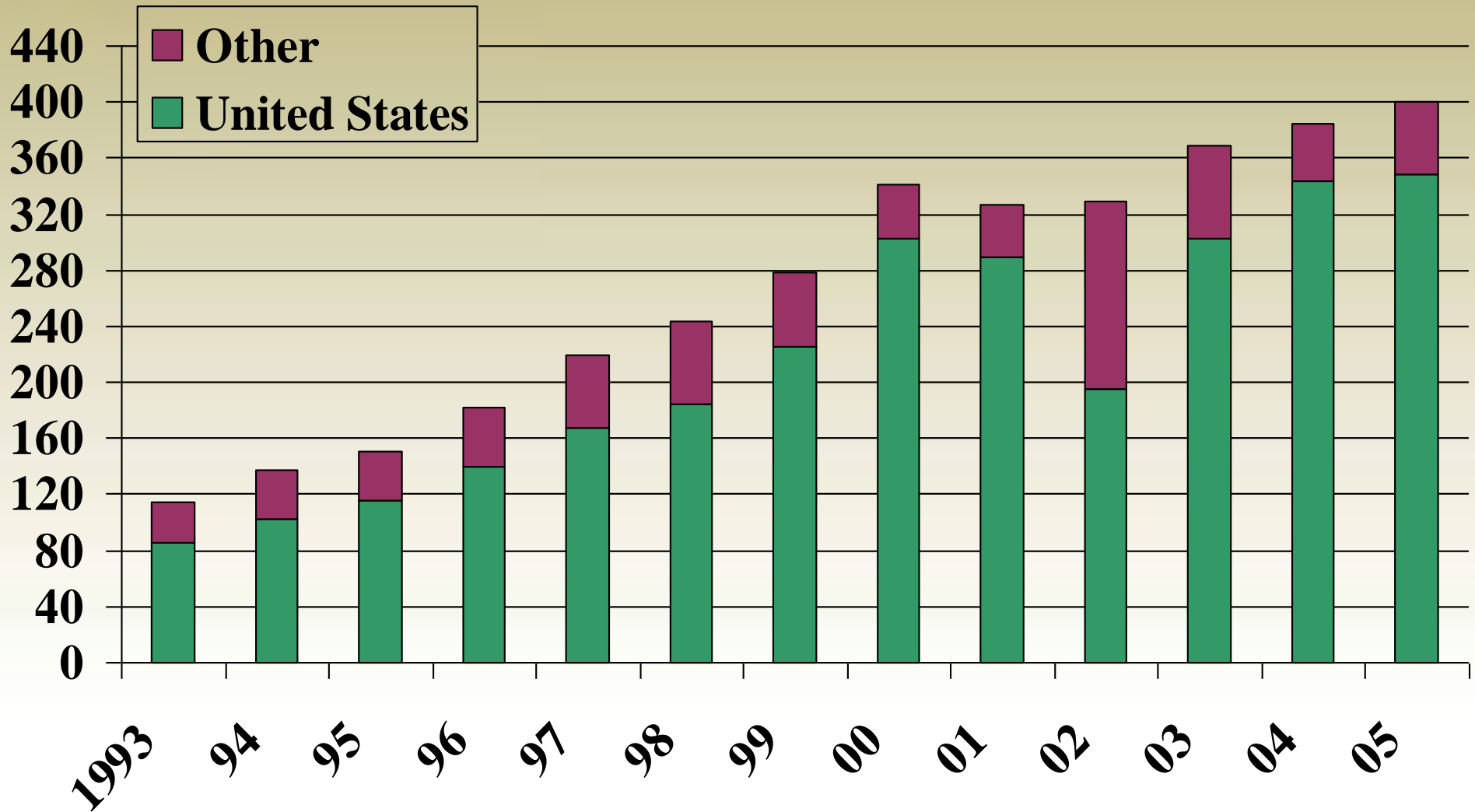
- Devaluations
- Fiscal and monetary control
- Tariffs down -> NAFTA
- Privatizations – domestic & foreign
- FDI – maquiladoras
- Wage controls
- Brady plan debt reductions
- But, overvaluation, current account deficits and foreign debt up – second “tequila” crisis.



That blowing sound?

Mexico's total trade, \$bn

Billions\$\$



Source: National statistics



Political Liberalization Strategy under Vicente Fox (2000-2006)

- Macro-economy stable – now microeconomic and institutional reform;
- Fix pensions;
- Poverty, education, income distribution, labor law, oil and gas sector, environment;
- Control crime and drugs
- And China competition threatening maquilas!
- But PAN a minority party...little accomplished.

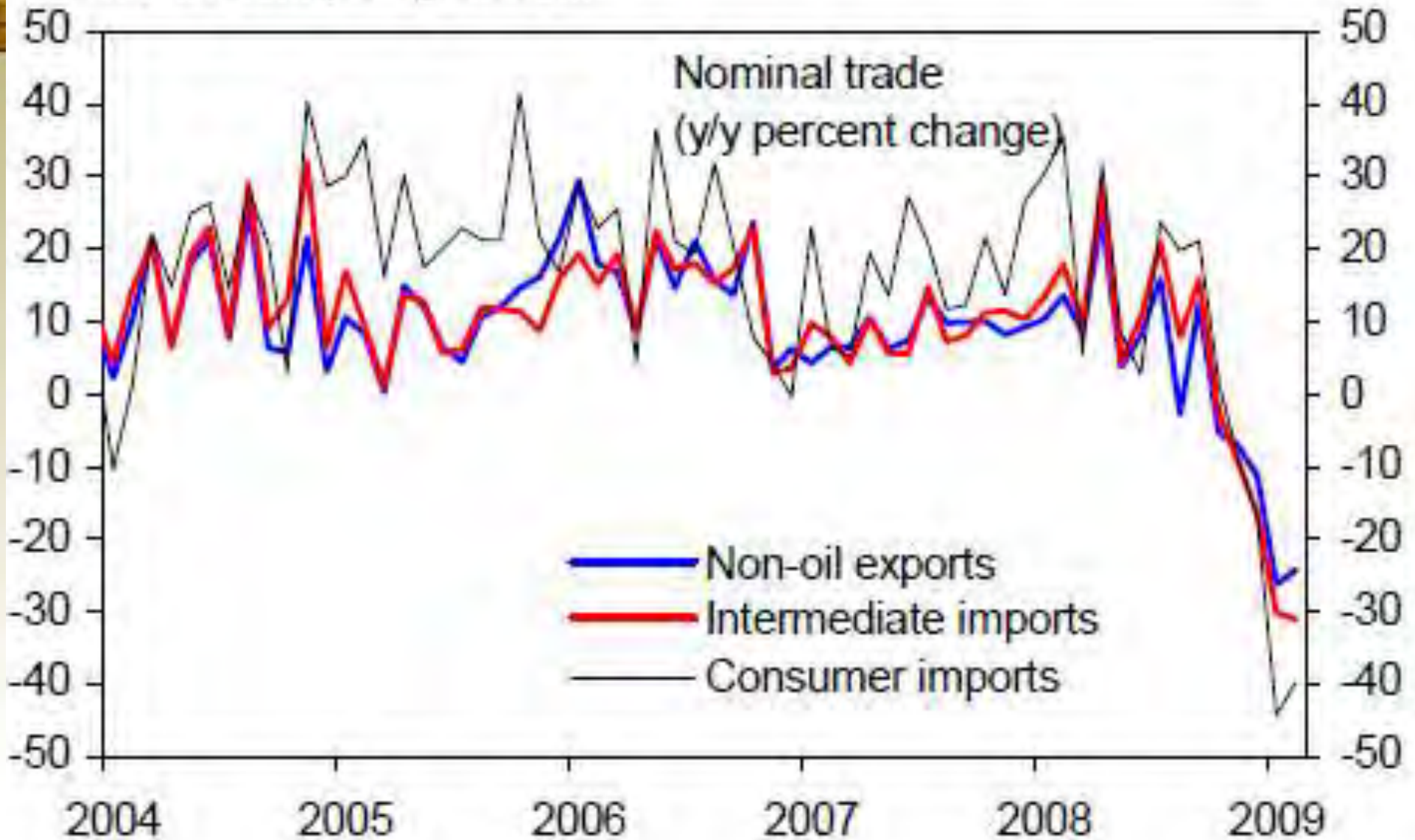


More Effective Reform under Felipe Calderon (2006 ->

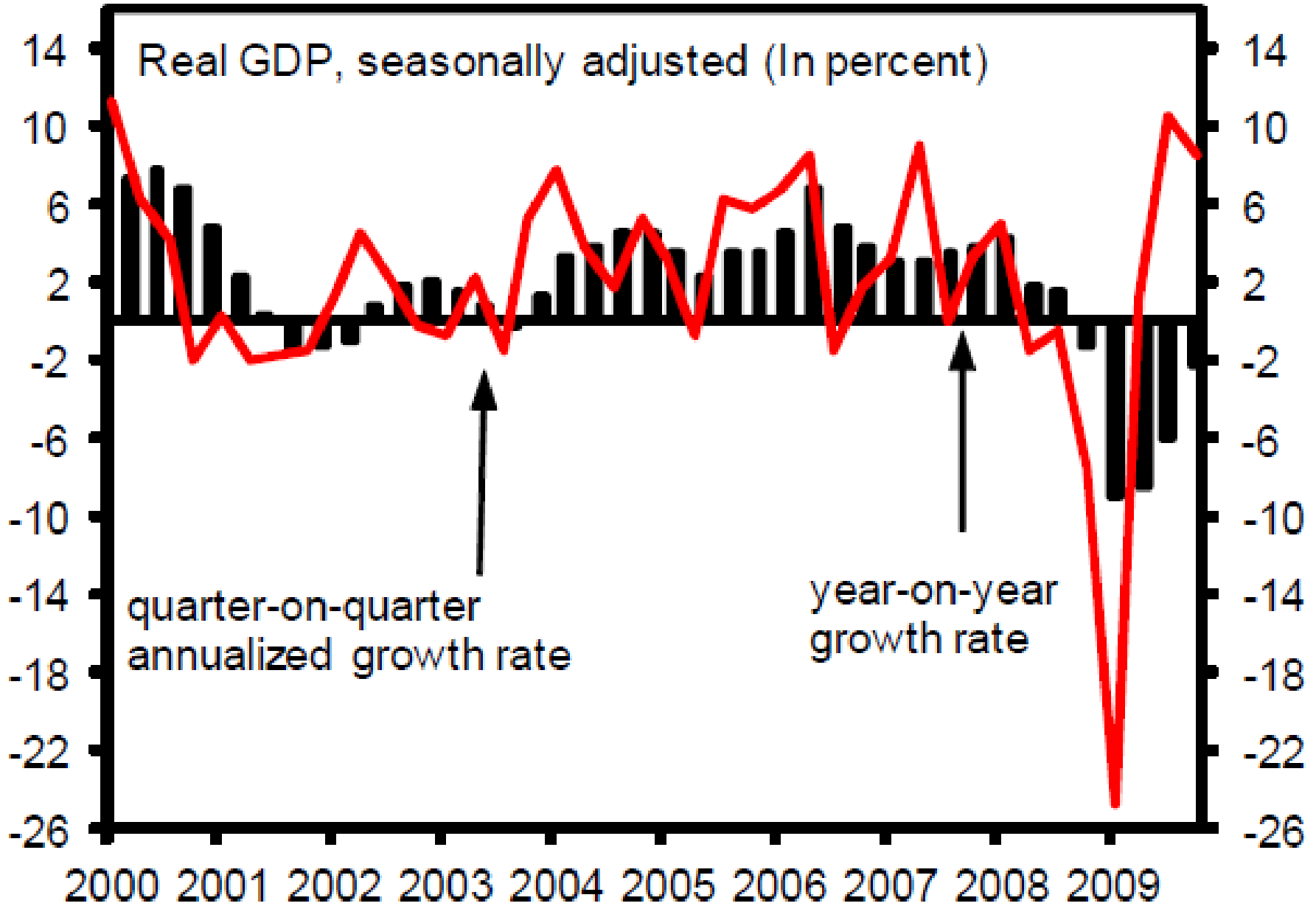
- **Drug war – 10,000 arrested; 20 leaders;**
- **Pension reform – retirement age up; defined benefits -> defined contributions;**
- **Electoral reform – shorter campaigns, limit to media spending;**
- **Fiscal reform – corporate flat tax, collection efficiencies -> revenue up 2%;**
- **Pemex – limited financial flexibility;**
- **Next – electoral reform – re-elections**

BUT ...FINANCIAL CRISIS...

...with collapsing trade...



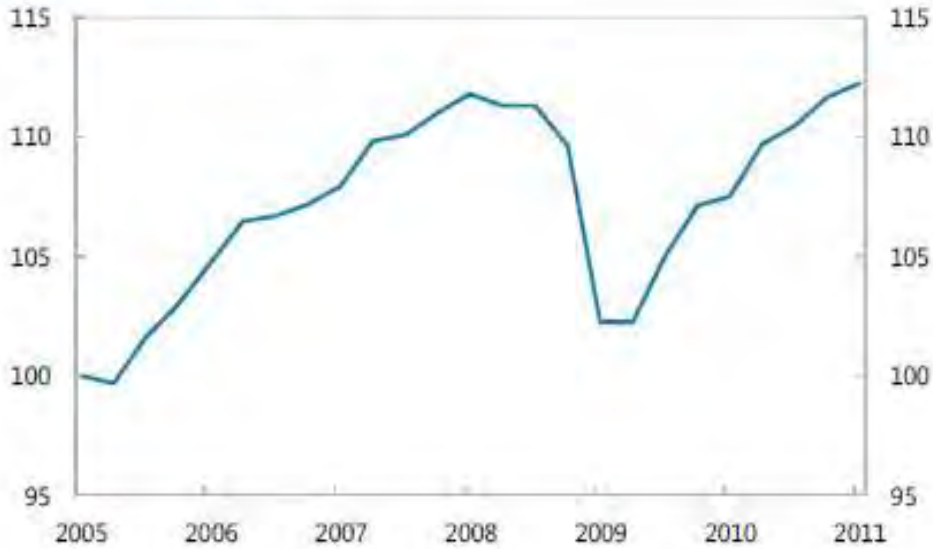
GDP growth fell sharply, but has since started to recover.



Mexico

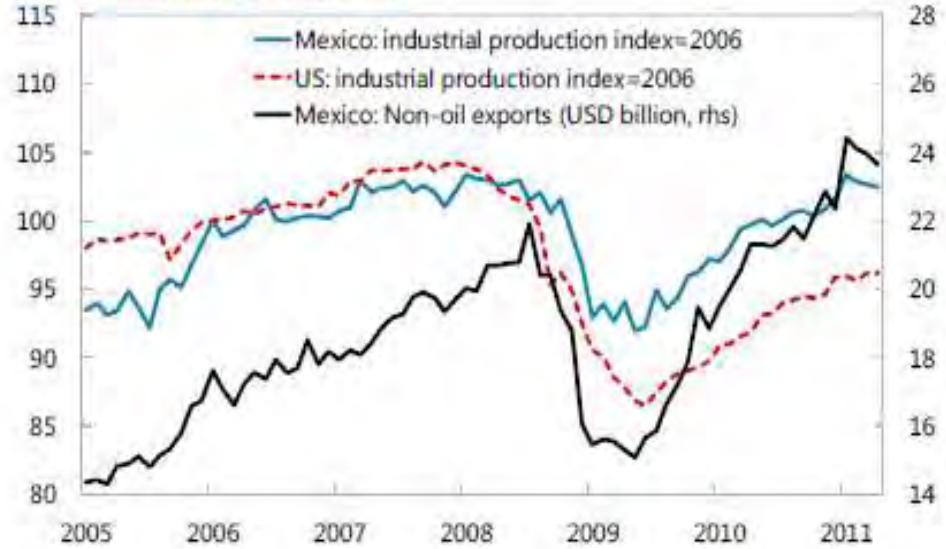
Real GDP

(in percent of 2005 GDP)

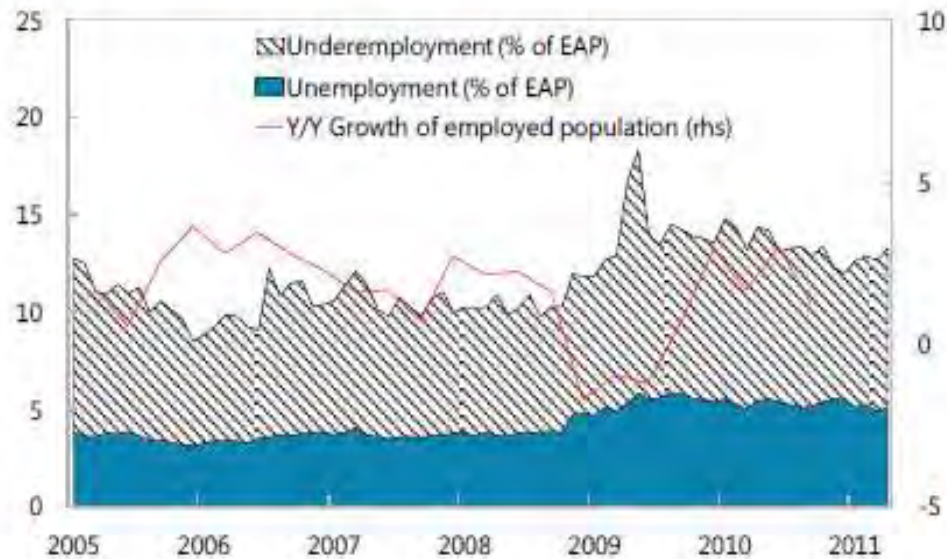


Mexico: Industrial production and Non-oil exports

US: Industrial production



Unemployment and Underemployment



Gross Fixed Capital Investment and Capacity Utilization



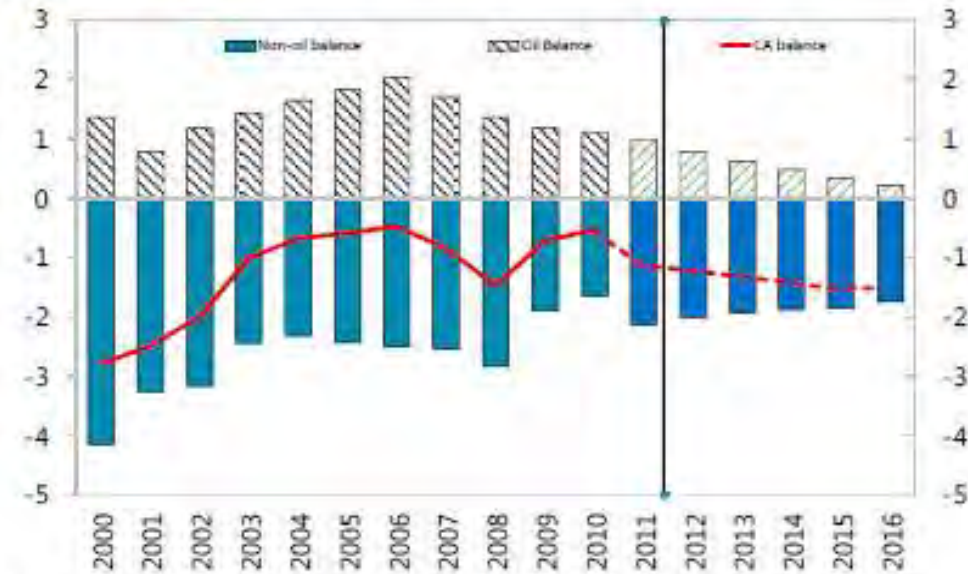
Changes in Consumer Price Index

(quarter on quarter percent annualized change)



Mexico: Current Account Developments

(In percent of GDP)



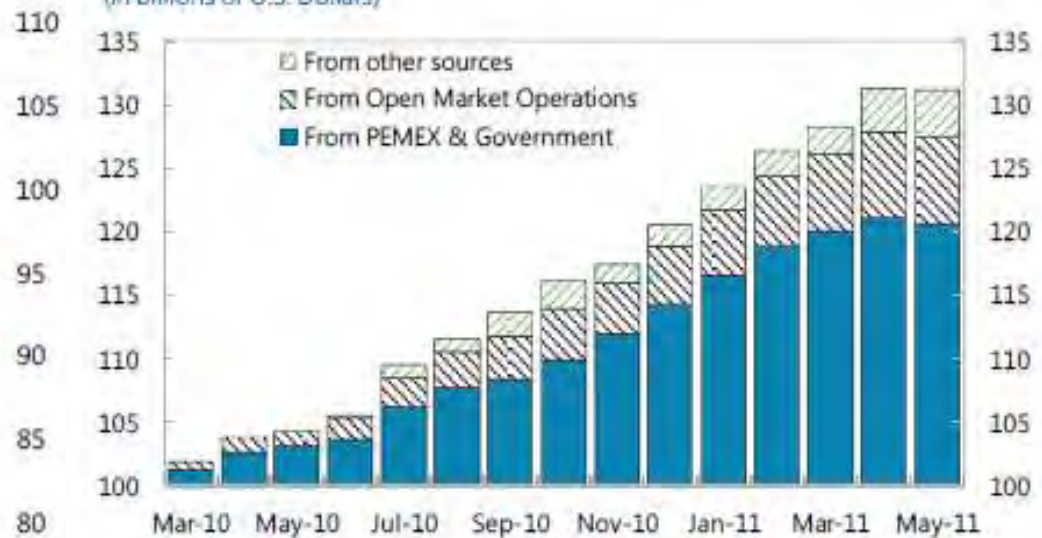
Sources: Banxico, and staff calculations

Peso Foreign Exchange Rate



Level of reserves

(in billions of U.S. Dollars)



Oil Production

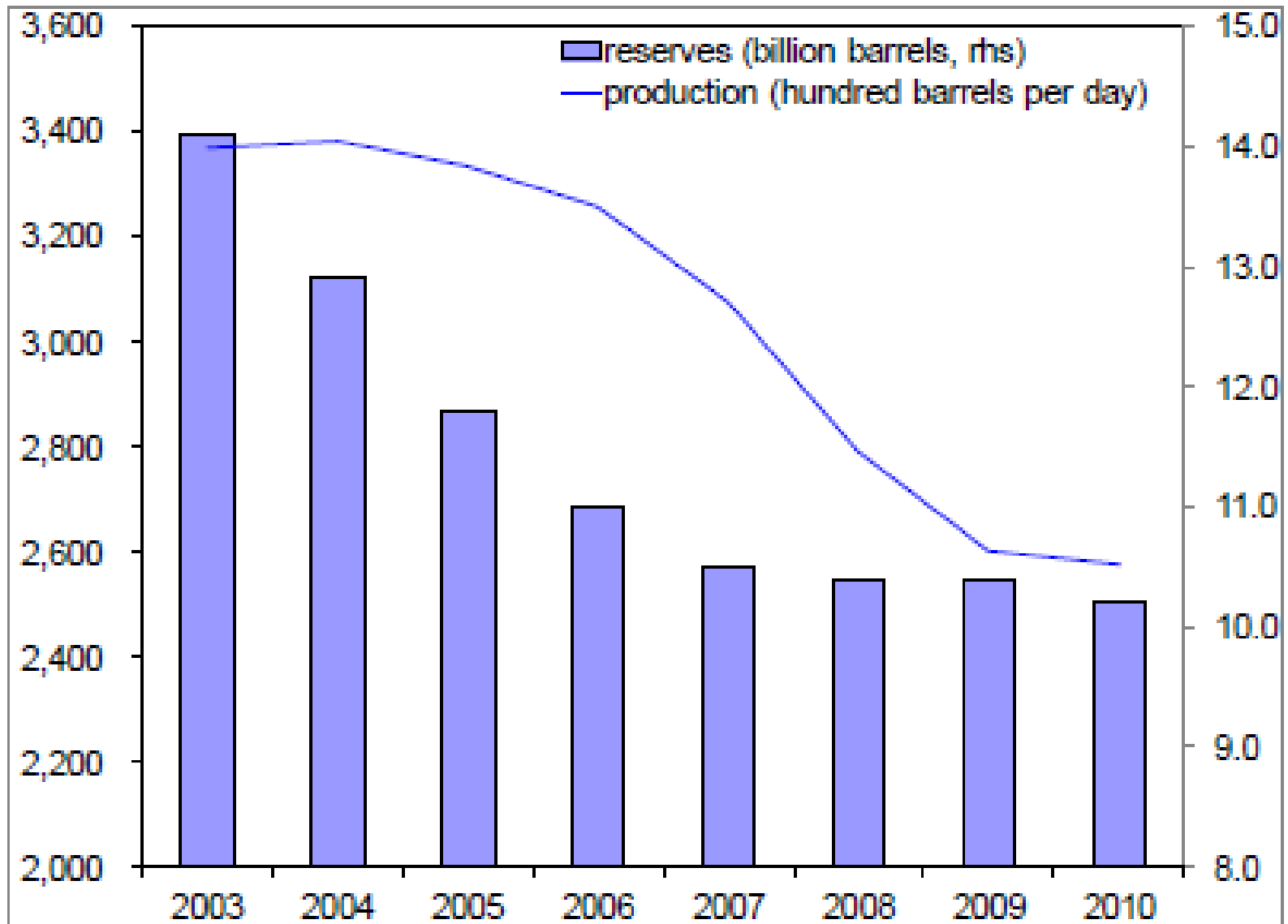


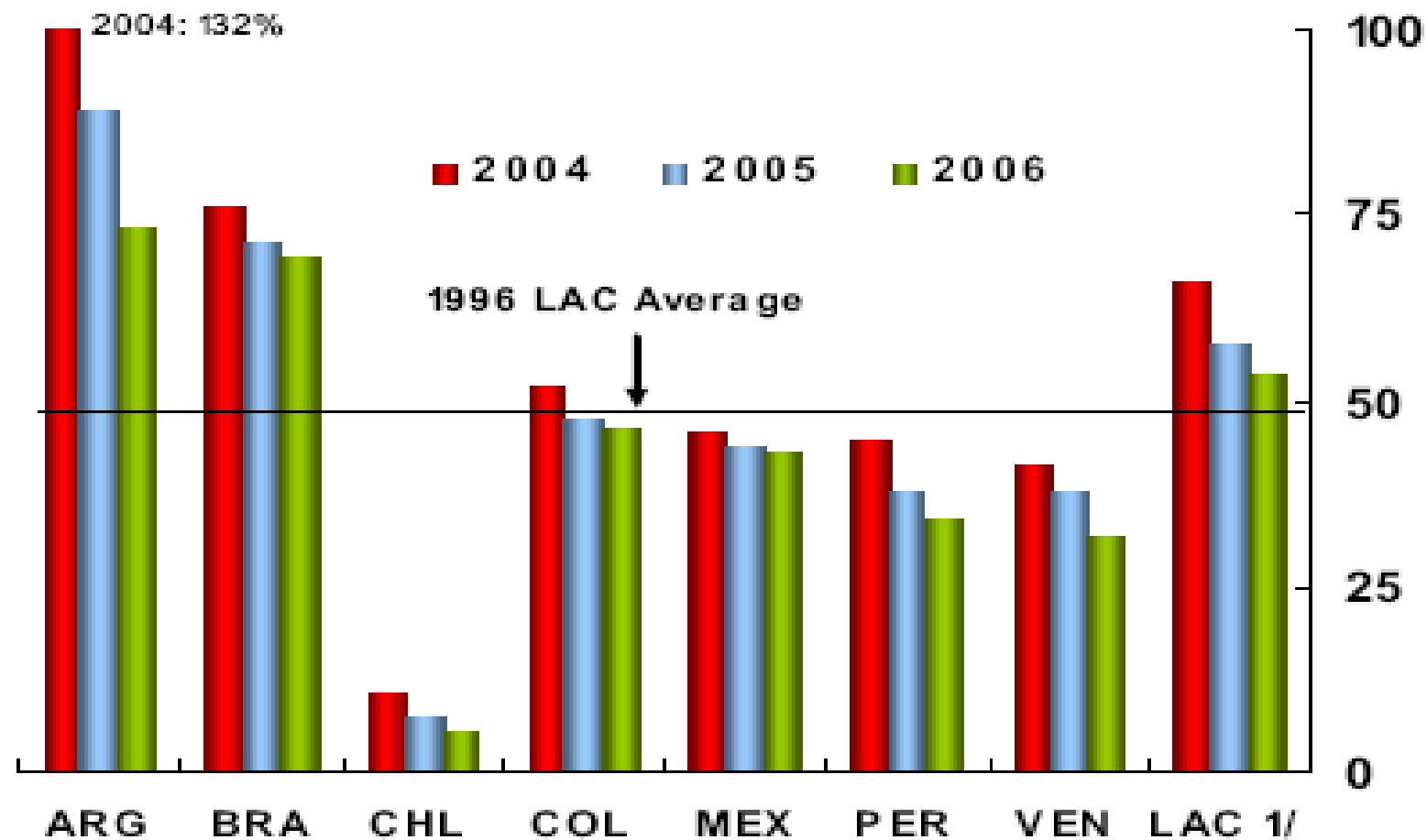
Table 1. Mexico: Macroeconomic Assumptions 2012-16

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-------|-------|-------|-------|-------|
| Real GDP growth (percent) | 4.1 | 3.3 | 3.3 | 3.3 | 3.2 |
| GDP deflator growth (percent) | 2.9 | 3.2 | 3.3 | 3.4 | 2.9 |
| Nominal exchange rate (average) | 12.3 | 12.5 | 12.6 | 12.8 | 12.9 |
| Interest rate (public debt; percent) | 6.1 | 6.5 | 6.5 | 6.5 | 6.5 |
| Oil price world markets (US dollars per barrel) | 105 | 102 | 100 | 99 | 99 |
| Oil production (thousand barrels per day) | 2,550 | 2,550 | 2,550 | 2,550 | 2,550 |
| Oil exports (thousand barrels per day) | 1,347 | 1,347 | 1,347 | 1,347 | 1,347 |
| Oil derivatives consumption growth (percent) | 4.1 | 3.3 | 3.3 | 3.3 | 3.2 |
| Oil derivatives domestic price growth (percent) | 12.0 | 12.0 | 0.0 | 0.0 | 0.0 |

Source: IMF Staff estimates.

Total Public Debt

(% of GDP)

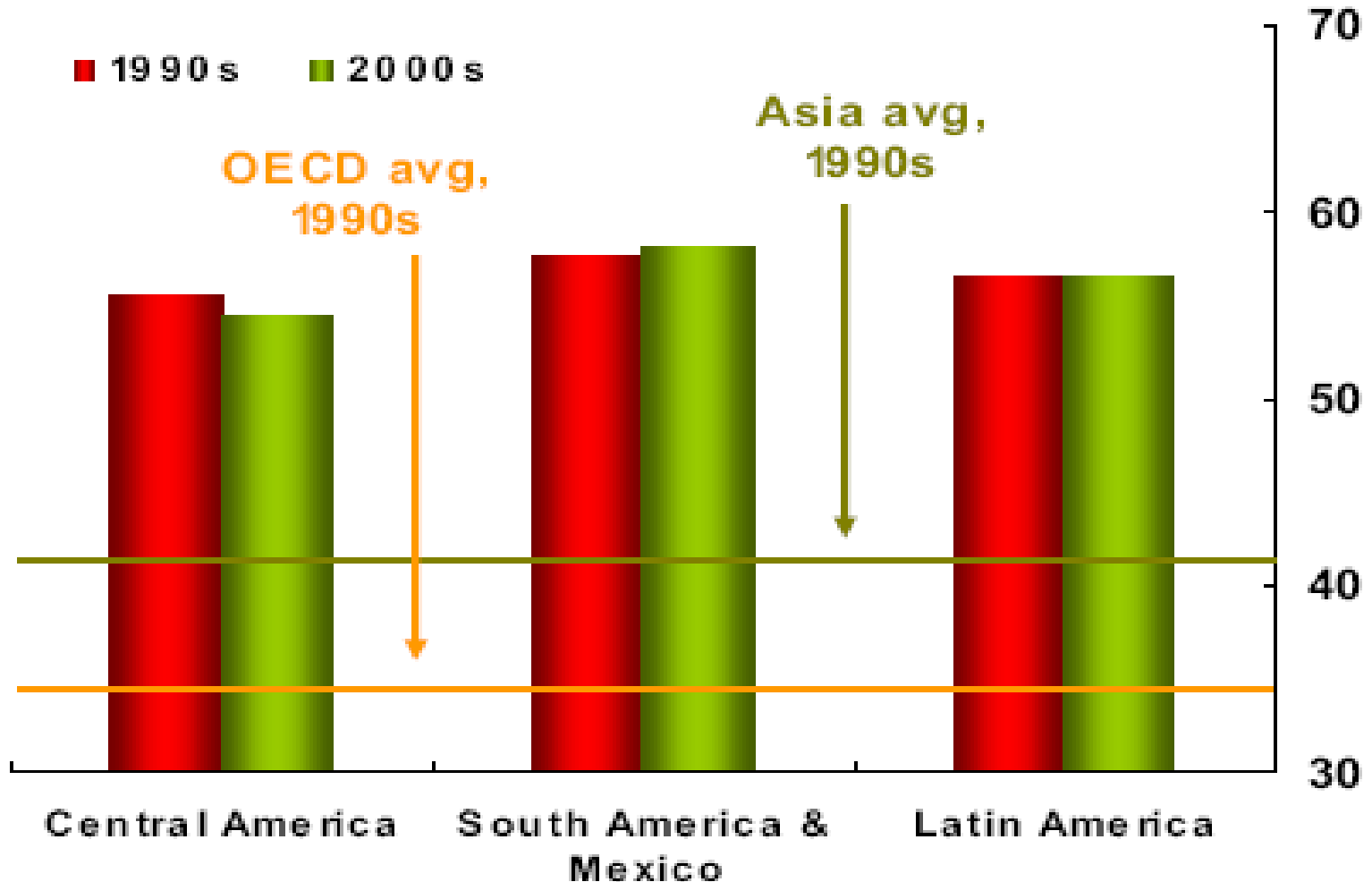


Source: IMF staff estimates.

1/ Weighted average.

Income Inequality

(Gini coefficient; larger figures indicate greater income inequality) ^{1/}



Sources: ECLAC; and de Ferranti et al. (2004).

^{1/} For Latin American countries, 1990s = available observation closest to 1990; 2000s = most recent available observation.

Latin American Recovery?

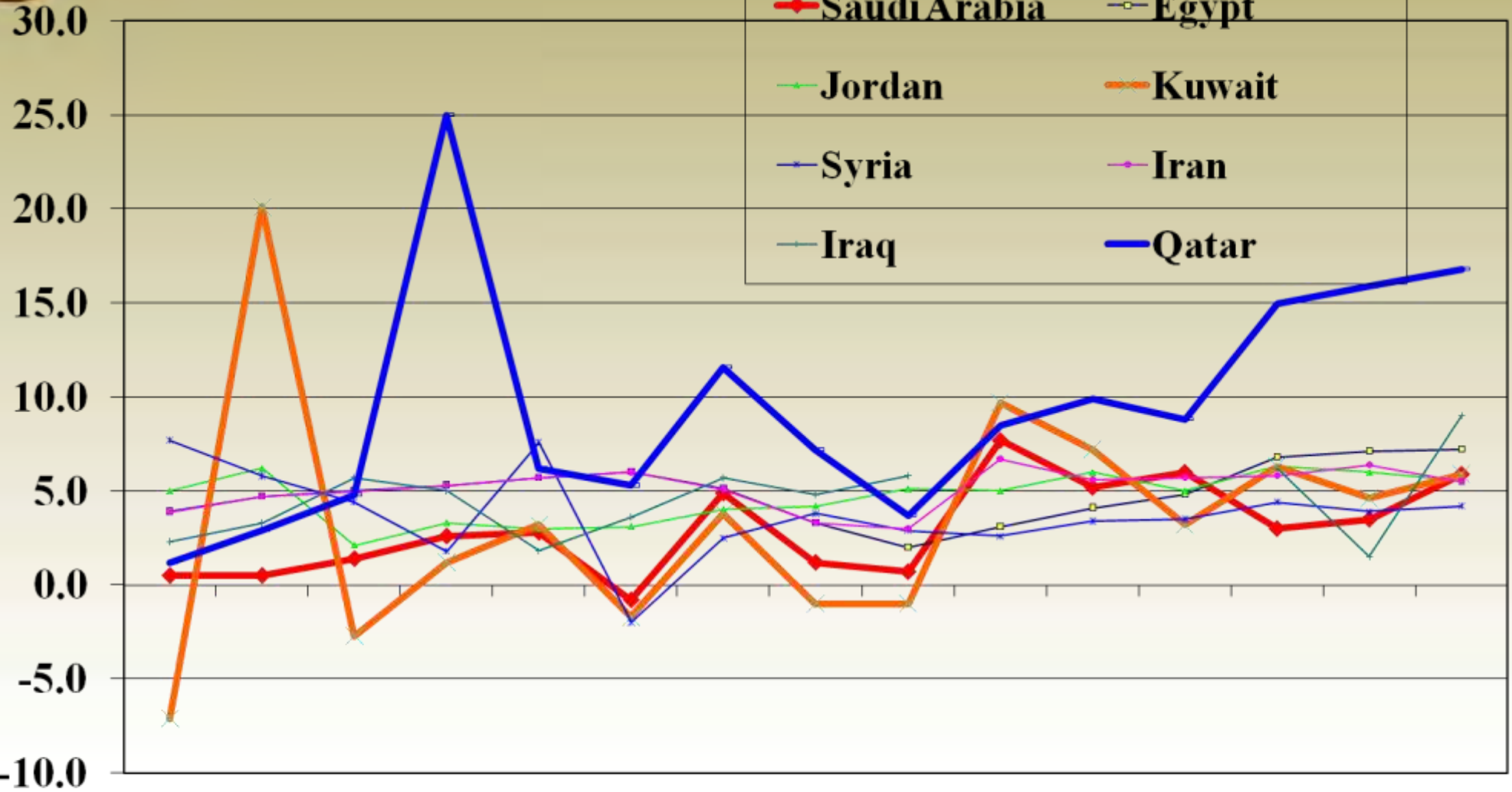
- Mexico – democratizing and economic reform – privatized, well-managed fiscal and monetary stability, and NAFTA dependent; now, crime and economic efficiency – competition with China?;
- Argentina – stable government ? Will Argentina inflate? Will it become competitive? Will default have lasting ill-effects?
- Brazil – Can institutional reform continue, with effective debt management, pension reform and income redistribution- will Dilma manage responsibly and build Brazil's competitiveness?
- Columbia – Free Trade Agreement with USA?

| | Growth of GDP | | | % Inflation | | | Cur acct (%/GDP) | | |
|-----------|---------------|-------------|-------------|-------------|-------------|-------------|------------------|-------------|-------------|
| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Mexico | 5.4 | 3.8 | 3.6 | 4.2 | 3.4 | 3.1 | -0.5 | -1.0 | -0.9 |
| Argentina | 9.2 | 8.0 | 4.6 | 10.5 | 11.5 | 11.8 | 0.8 | -0.3 | -0.9 |
| Brazil | 7.5 | 3.8 | 3.6 | 5.0 | 6.6 | 5.2 | -2.3 | -2.3 | -2.5 |
| Chile | 5.2 | 6.5 | 4.7 | 1.5 | 3.1 | 3.1 | 1.9 | 0.1 | -1.5 |
| Colombia | 4.3 | 4.9 | 4.5 | 2.3 | 3.3 | 2.9 | -3.1 | -2.6 | -2.5 |
| Venezuela | -1.5 | 2.8 | 3.6 | 28.2 | 25.8 | 24.2 | 4.9 | 7.3 | 5.8 |


Islamic Resurgence/Saudi Arabia Annual GDP Growth



Percent



1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008

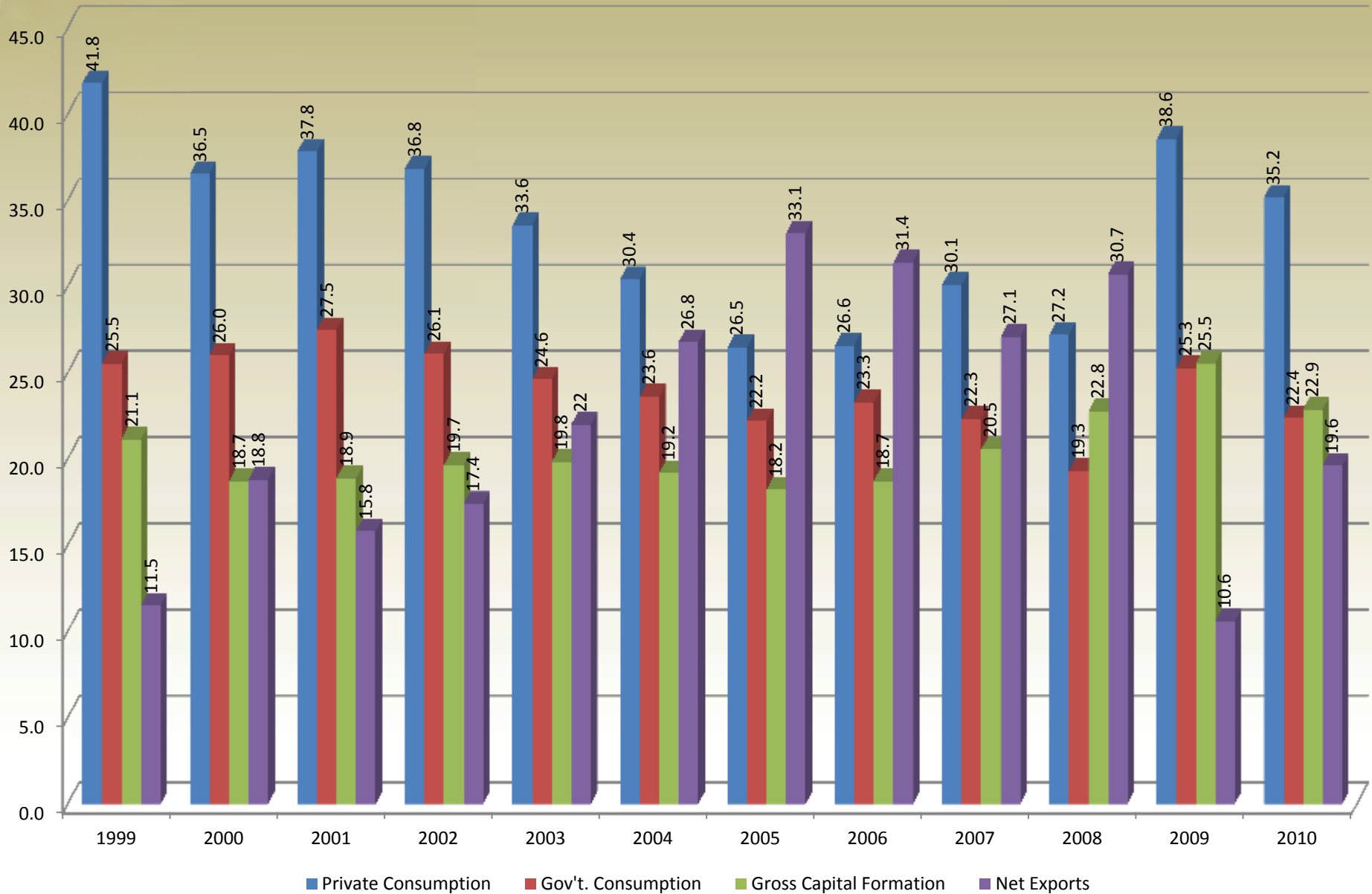


Saudi Arabia – Economic Issues until Oil Prices Rose

- Slow economic growth (1.8% per year), except for past three years – high oil prices;
- Government budgets – irregular deficits/debt
- Defense, debt service and education
- Unemployment → 13+%
- Low inflation
- Huge Trade surpluses
- Current account deficits (until 2000): large surpluses since.

Saudi Arabia: Gross Domestic Product

Percent Share of GDP



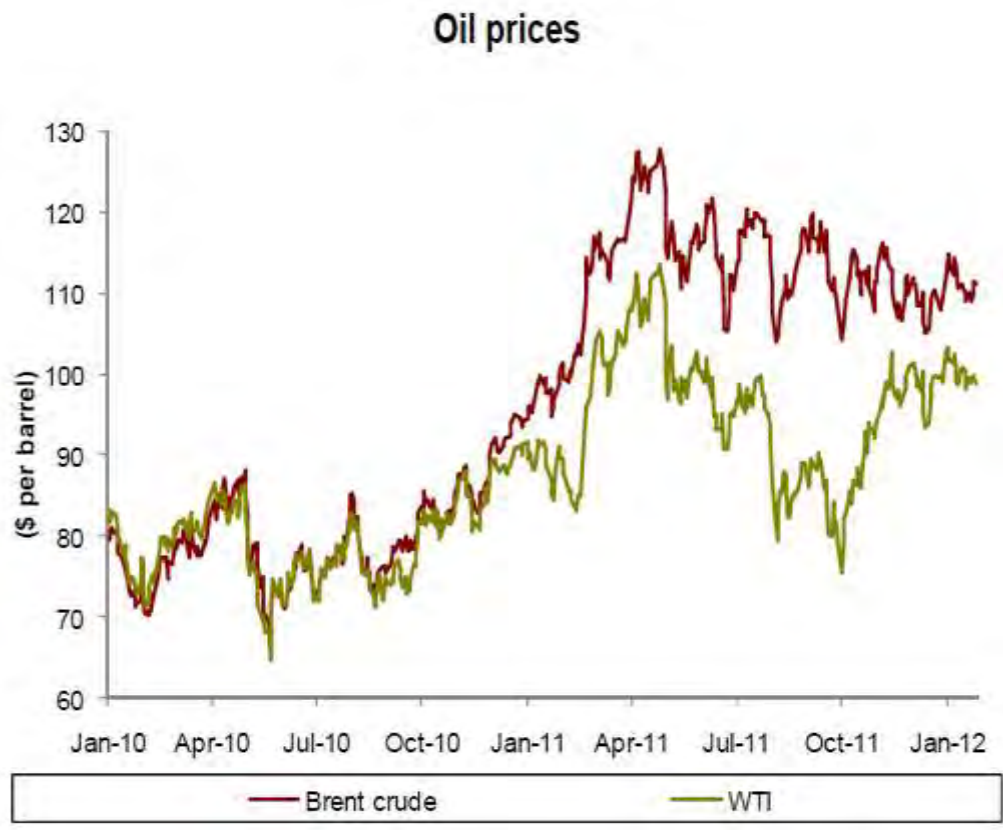
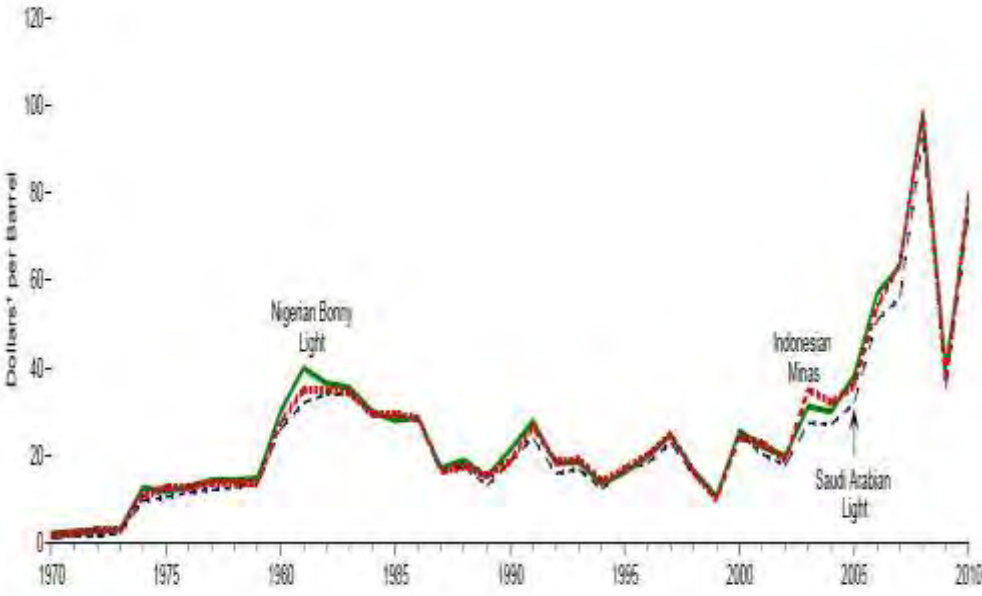


Saudi Development Strategy

- Reduce fiscal deficits
- Open up foreign investment
 - FDI law, gas initiative
- Build infrastructure
- Finance domestically
- Privatization
- Fund education
- Maintain low inflation
- Saudization
- Expand production capacity to 12.5 mmbd)
- Reduce production of oil by 3.5 mmbd – stabilize price;
- Abdullah Plan – Middle East Peace

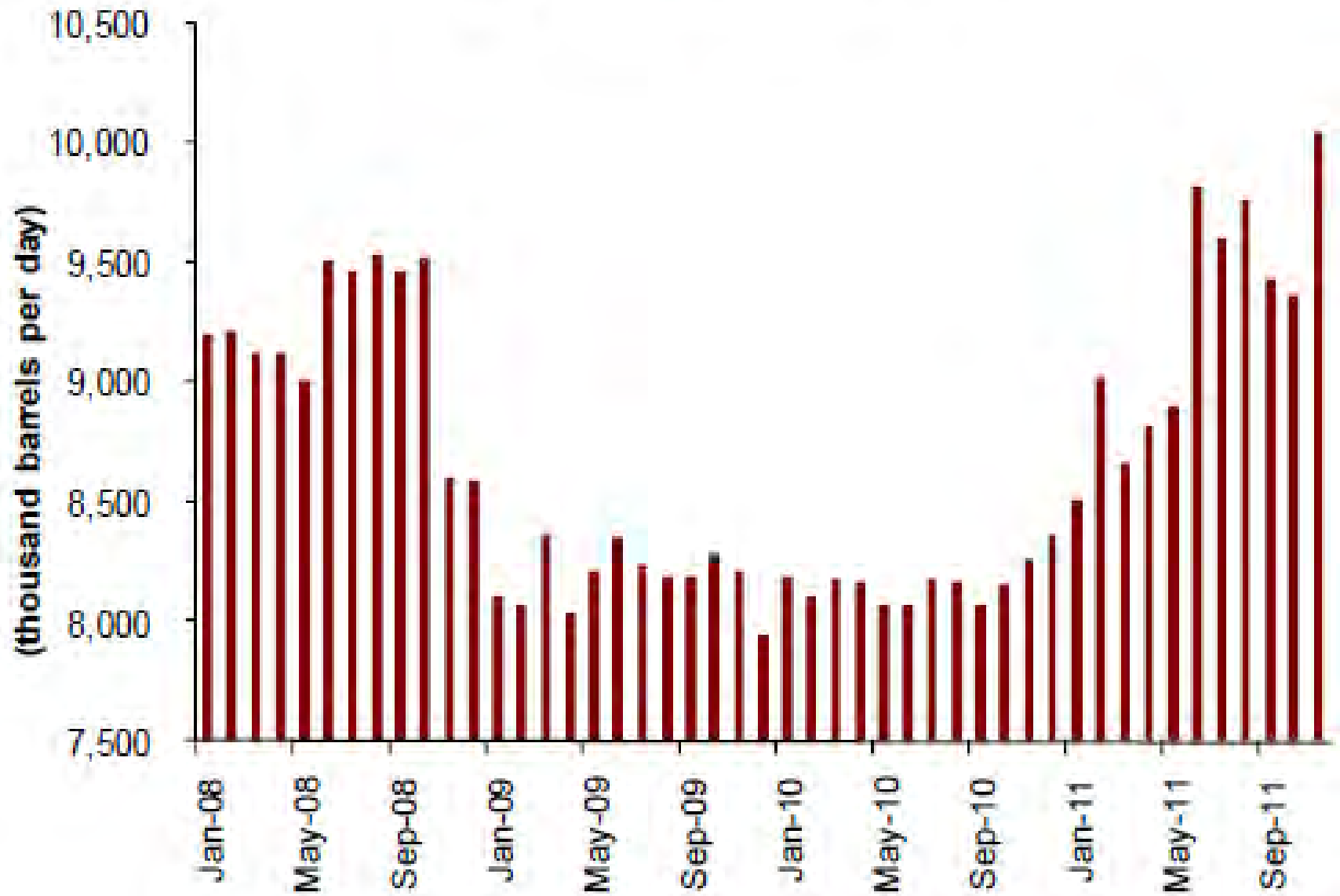


Crude Oil Prices, 1970-2012



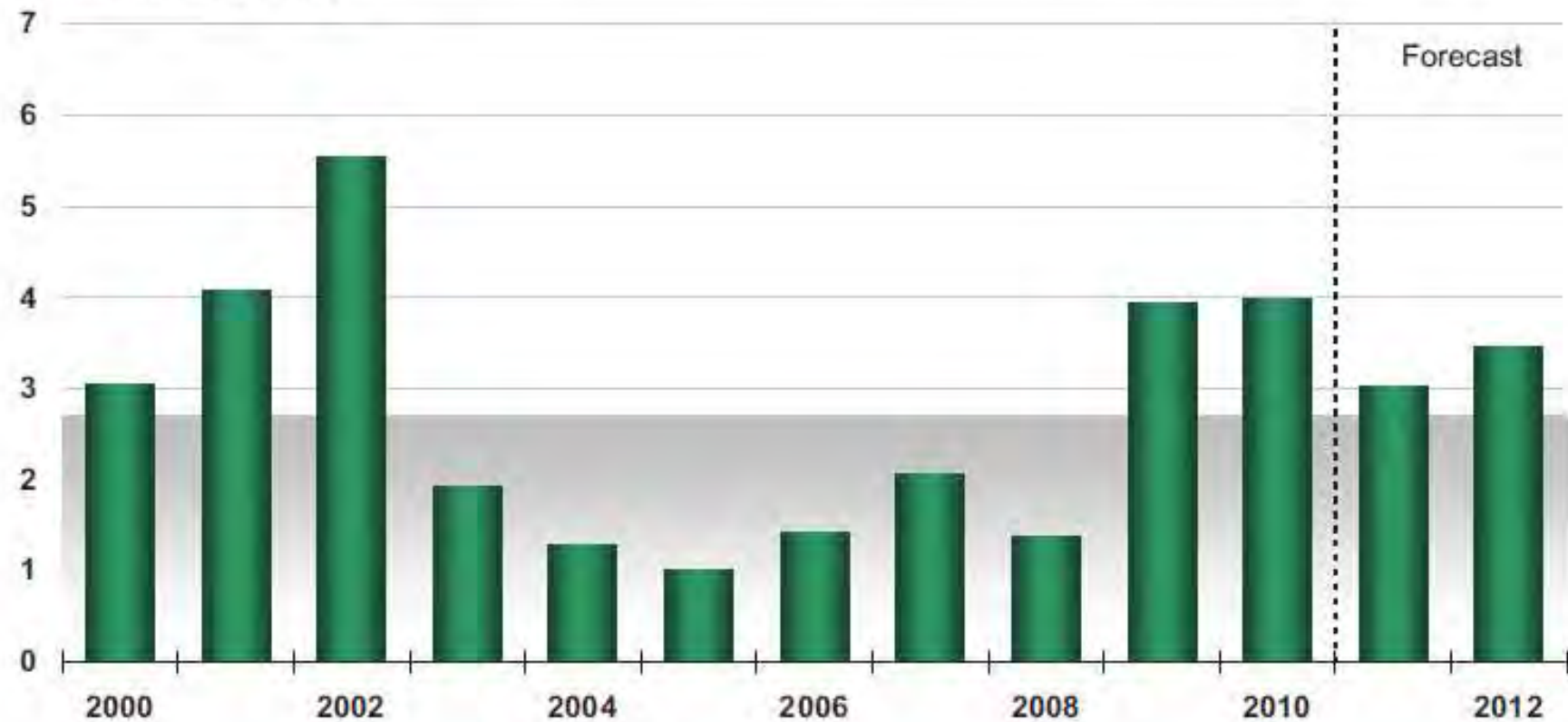
Source: Energy Information Administration, 2011.

Saudi Oil production



OPEC Surplus Crude Oil Production Capacity

million barrels per day



Note: Shaded area represents 2000-2010 average (2.7 million barrels per day)

Source: Short-Term Energy Outlook, October 2011

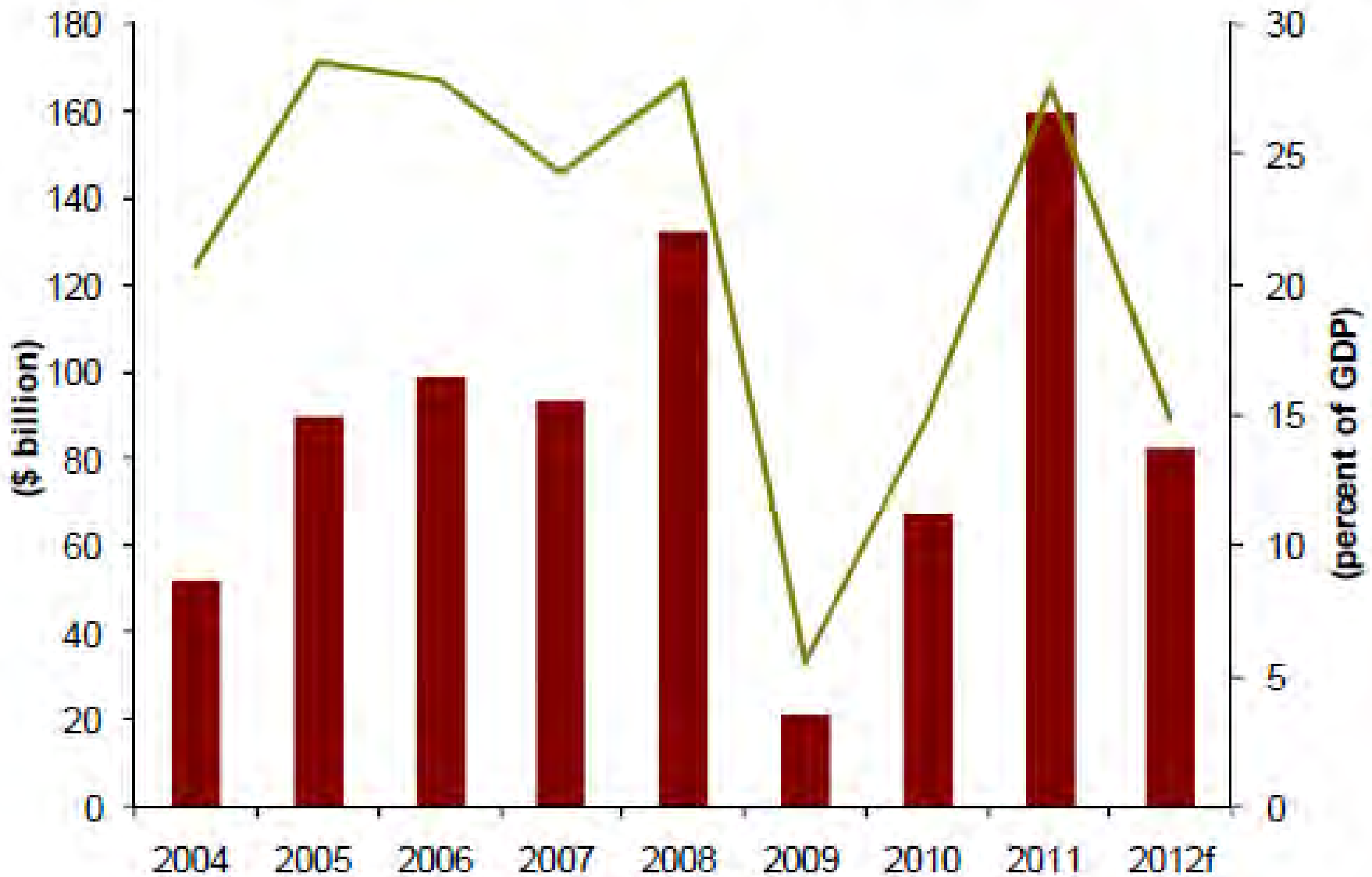




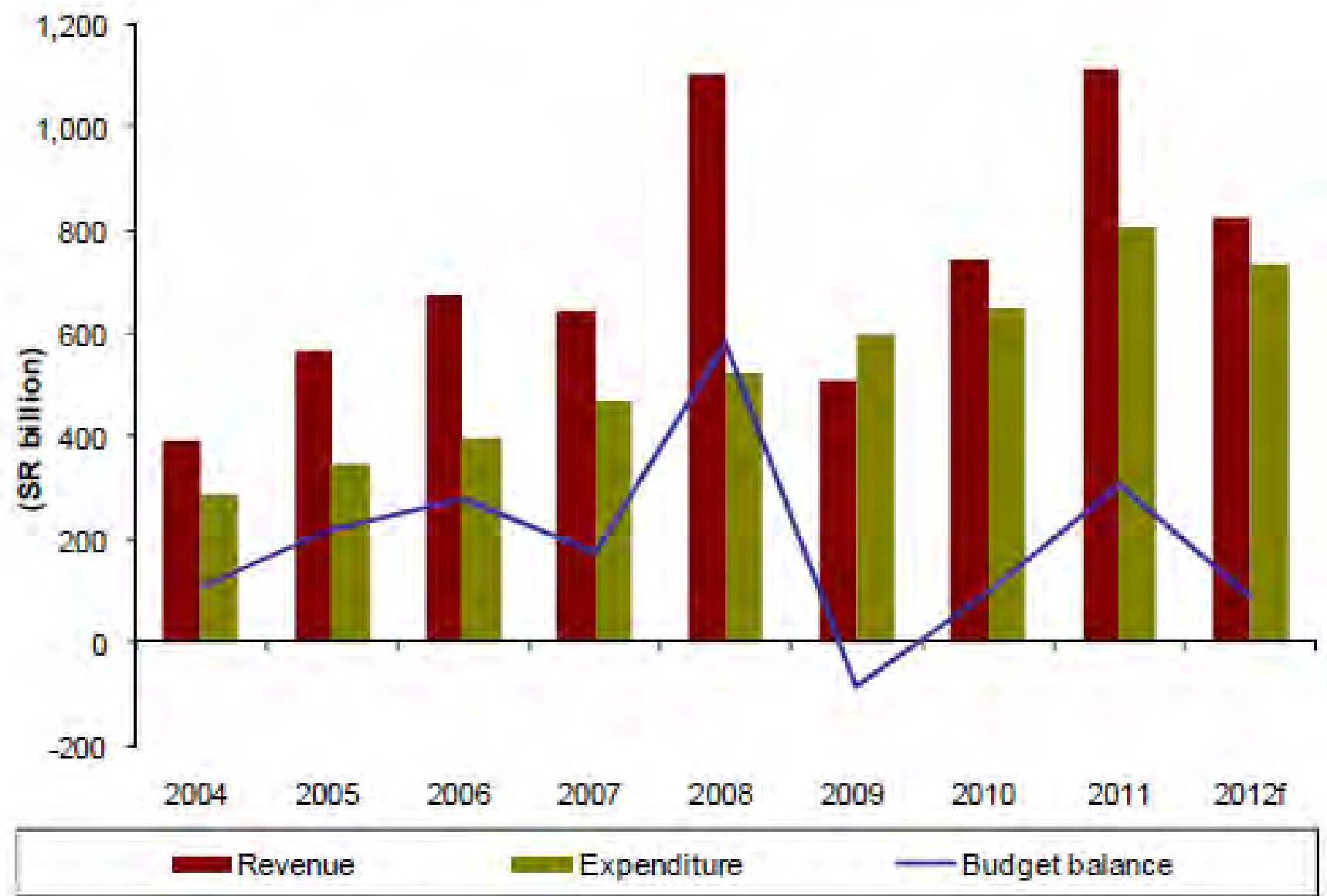
Saudi Arabia since 2005

- Rapid economic growth (up to 6.4% per year) – now back to 0.8%
- Huge Government surpluses, debt down to 24%/GDP
- Defense, education and infrastructure, including four new cities
- Unemployment → 7-8%
- Inflation up to 9%; back down to 4%
- Huge Trade surpluses
- Current account surplus - \$450 billion in Sovereign Wealth Reserves

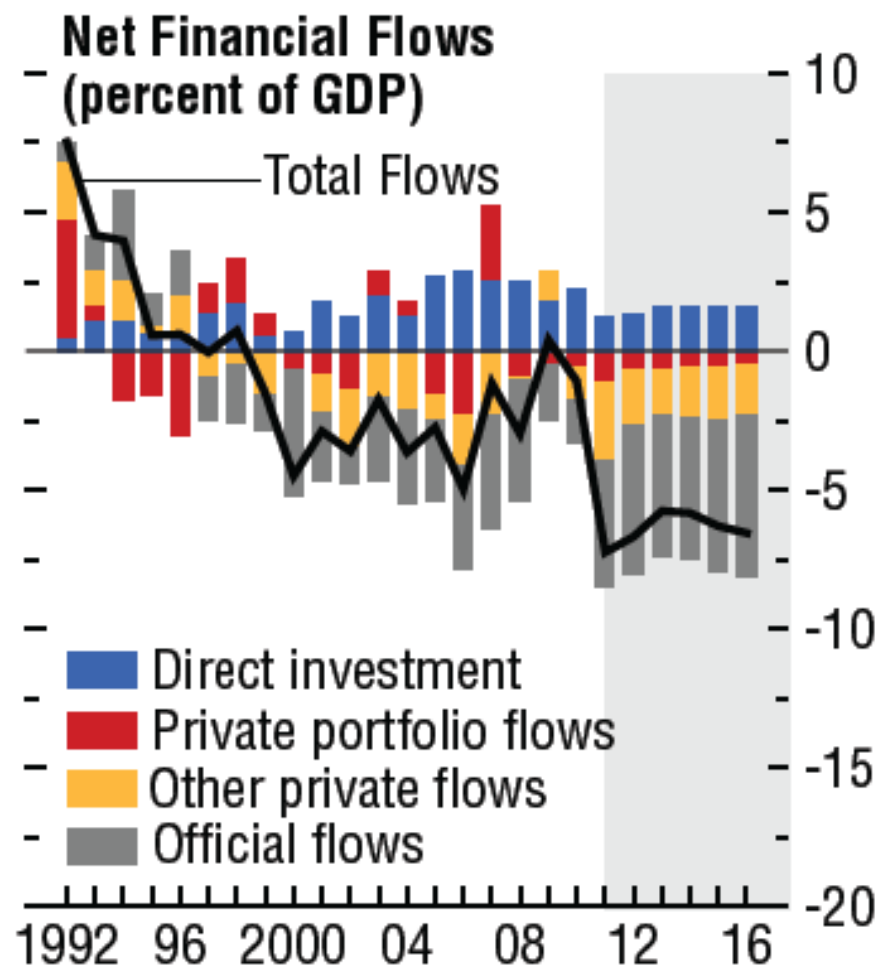
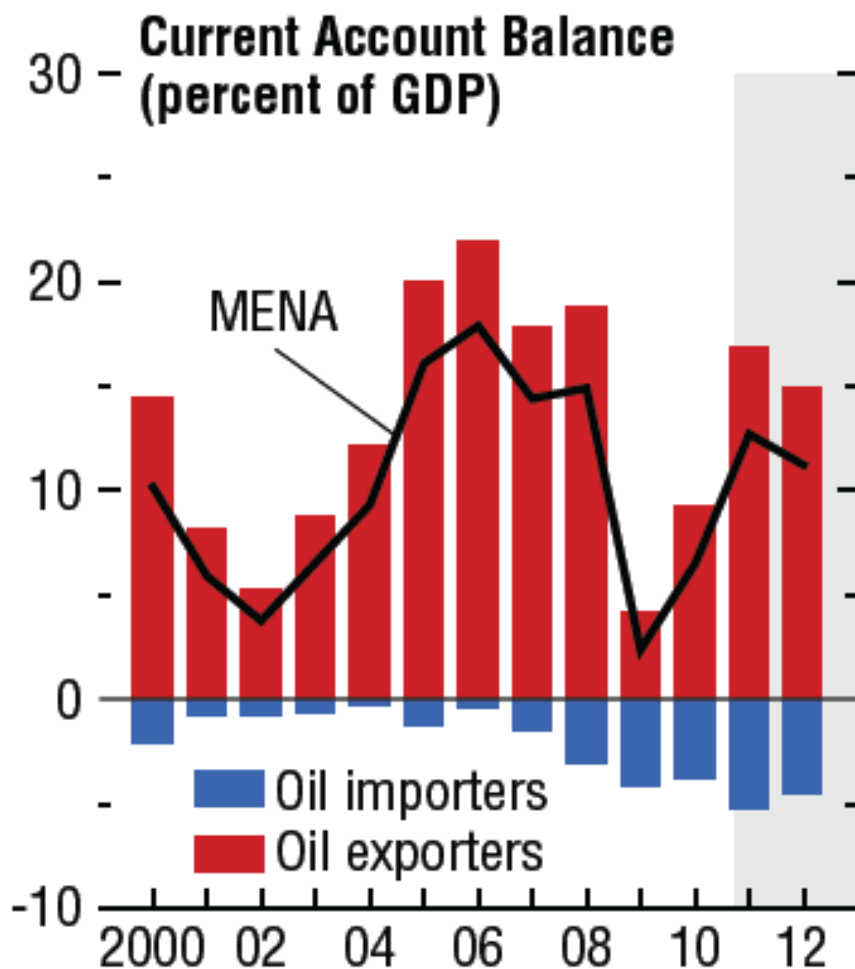
Current account balance



Budgetary performance



Build-up in Reserves; Draw-down in Crisis



Sources: Haver Analytics; International Labor Organization; IMF, Primary Commodity Price System; national sources; and IMF staff estimates.

Africa Recovery



| | <u>1995 GDP(bil\$)</u> | <u>GDP Growth 90-95</u> | <u>GDP Growth 2010</u> |
|---------------------|------------------------|-------------------------|------------------------|
| Kenya | 9.1 | 1.4 | 5.0 |
| Tanzania | 3.6 | 3.2 | 6.5 |
| Congo | 14.4 | 1.8 | 7.2 |
| Zambia | 4.0 | -0.2 | 7.6 |
| Zimbabwe | 6.5 | 1.0 | 9.0 |
| Malawi | 1.5 | 0.7 | 6.6 |
| Uganda | 5.6 | 6.6 | 5.2 |
| Angola | 0.5 | -4.5 | 1.6 |
| Botswana | 0.2 | 4.2 | 8.6 |
| Mozambique | 0.4 | 7.1 | 7.0 |
| Namibia | 0.4 | 3.8 | 4.4 |
| South Africa | 136.0 | 0.6 | 2.8 |
| Lesotho | 1.0 | 7.5 | 2.4 |





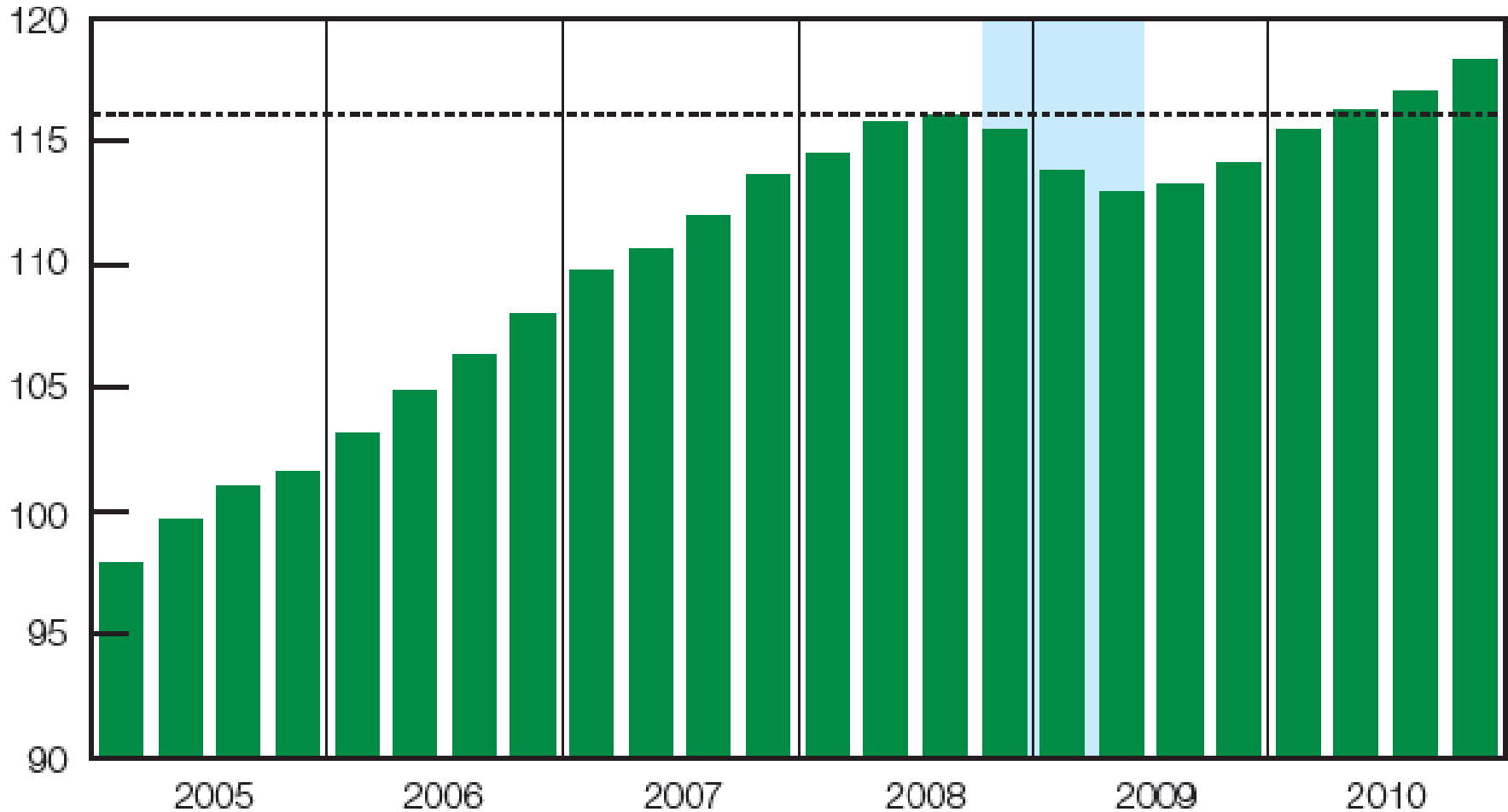
GEAR – Growth, Equality and Redistribution

- Fiscal policy (deficit reduction)
- Monetary policy (constant real exchange rate)
- Privatization – now stopped
- Two-pronged industrial policy
- Lower tariffs - WTO
- Two-tier wage policy - failed
- Now Black Empowerment

South Africa

Real gross domestic product

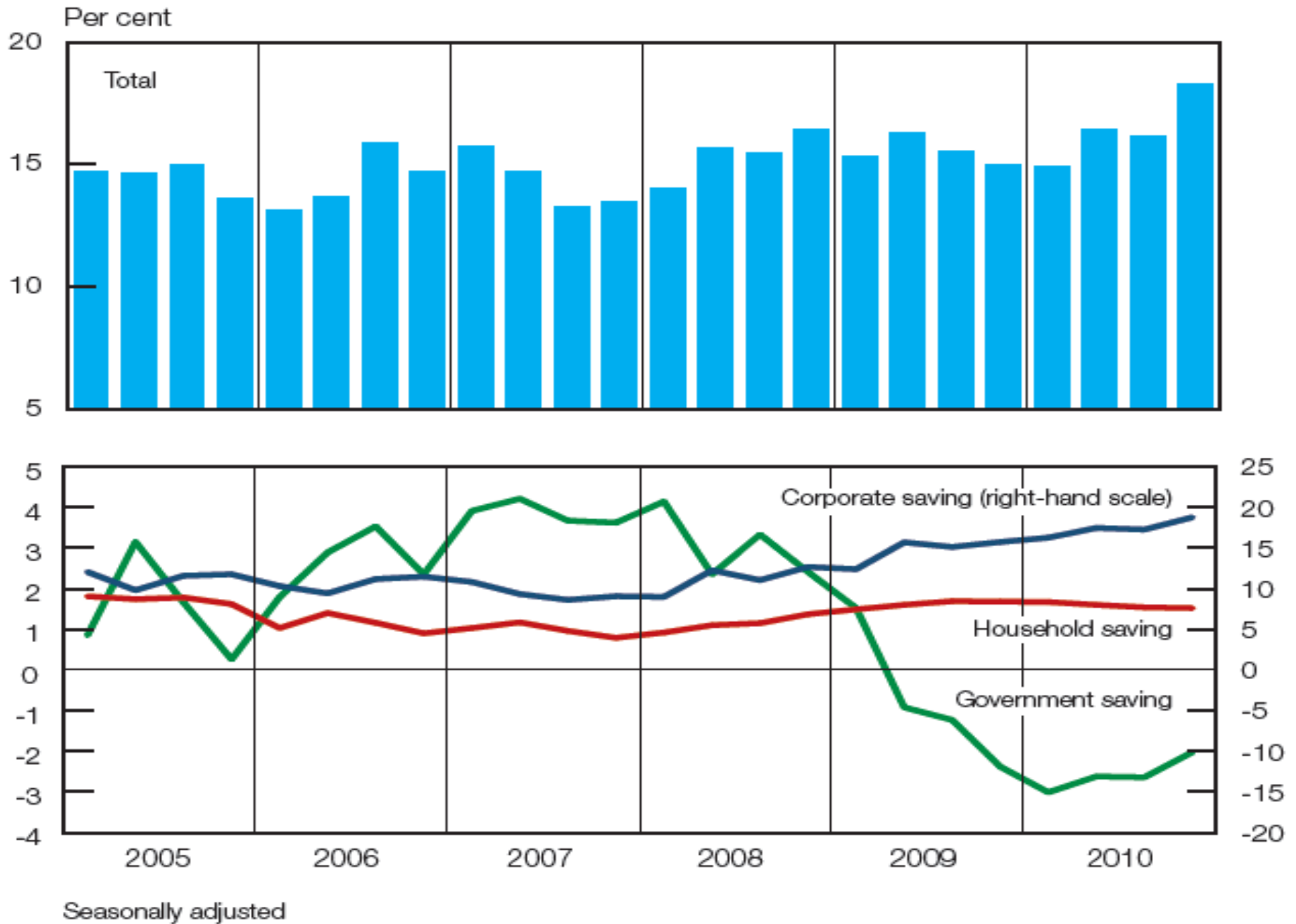
Index: 2005 = 100



- Period of negative growth
 - Pre-crisis maximum output
- Seasonally adjusted

South Africa

Gross saving as a percentage of gross domestic product





South African Social Issues:

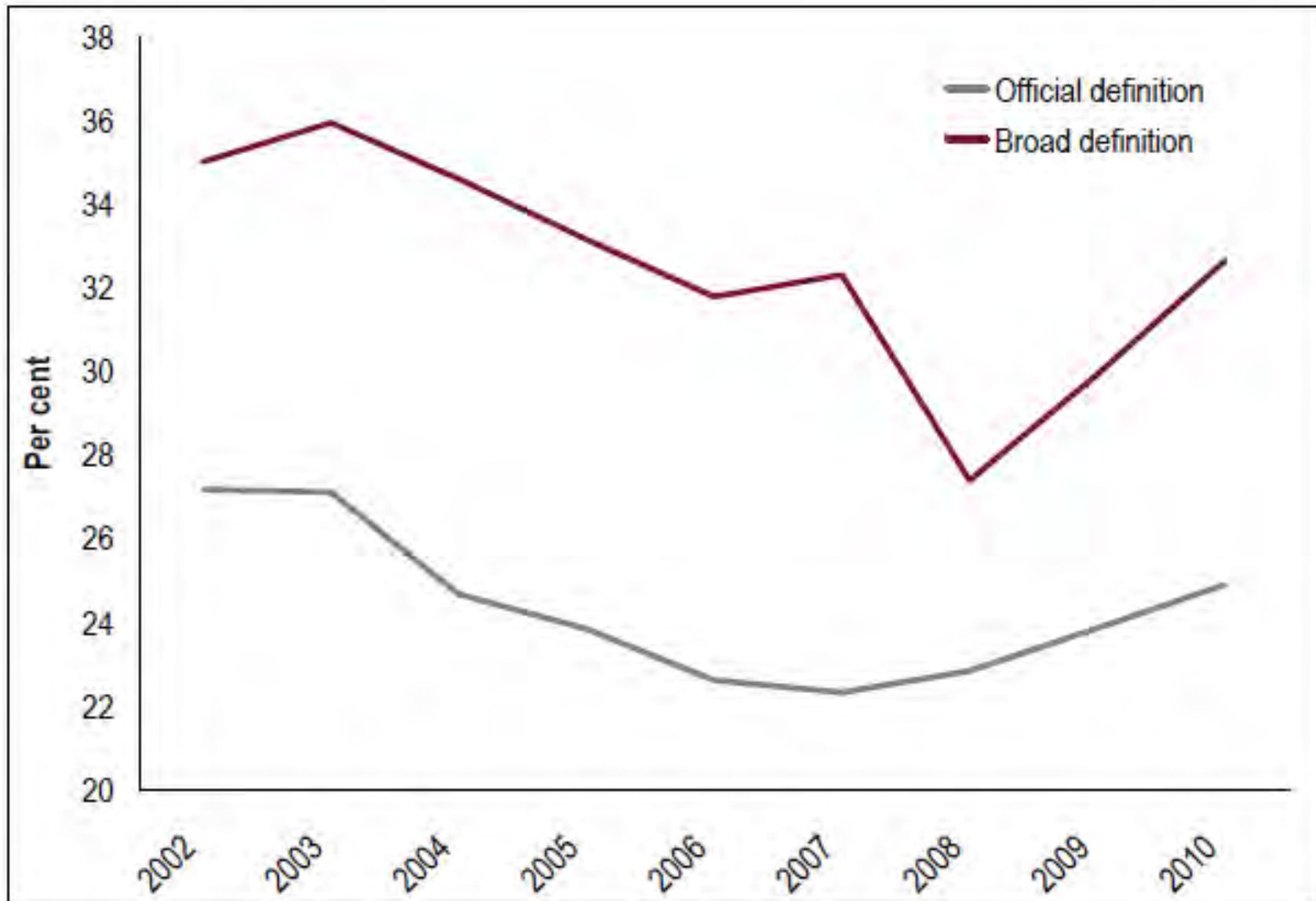
- Unemployment: 24%
- Infrastructure: electricity, plumbing, telephone, housing;
- Education: 32% illiterate
- Crime: 26,000 homicides; 1 felony/21 people
- HIV+: 19% - 20% of adult population



Black Economic Empowerment Act 2003

- Address slow pace of change in economic equity (gap in income inequality among blacks growing (GINI up from .59 to .63))
- BEE: hiring, training, promotion, ownership & control;
- Charters – voluntary commitments – in mining, finance, information technology so far;
- **FINANCIAL CHARTER**
 - 25% senior mgt, 50% middle mgt. by 2008
 - 50% black-owned procurement;
 - Financial services for 80% of population;
 - 25% black ownership by 2010;
 - 33% of the board should be black

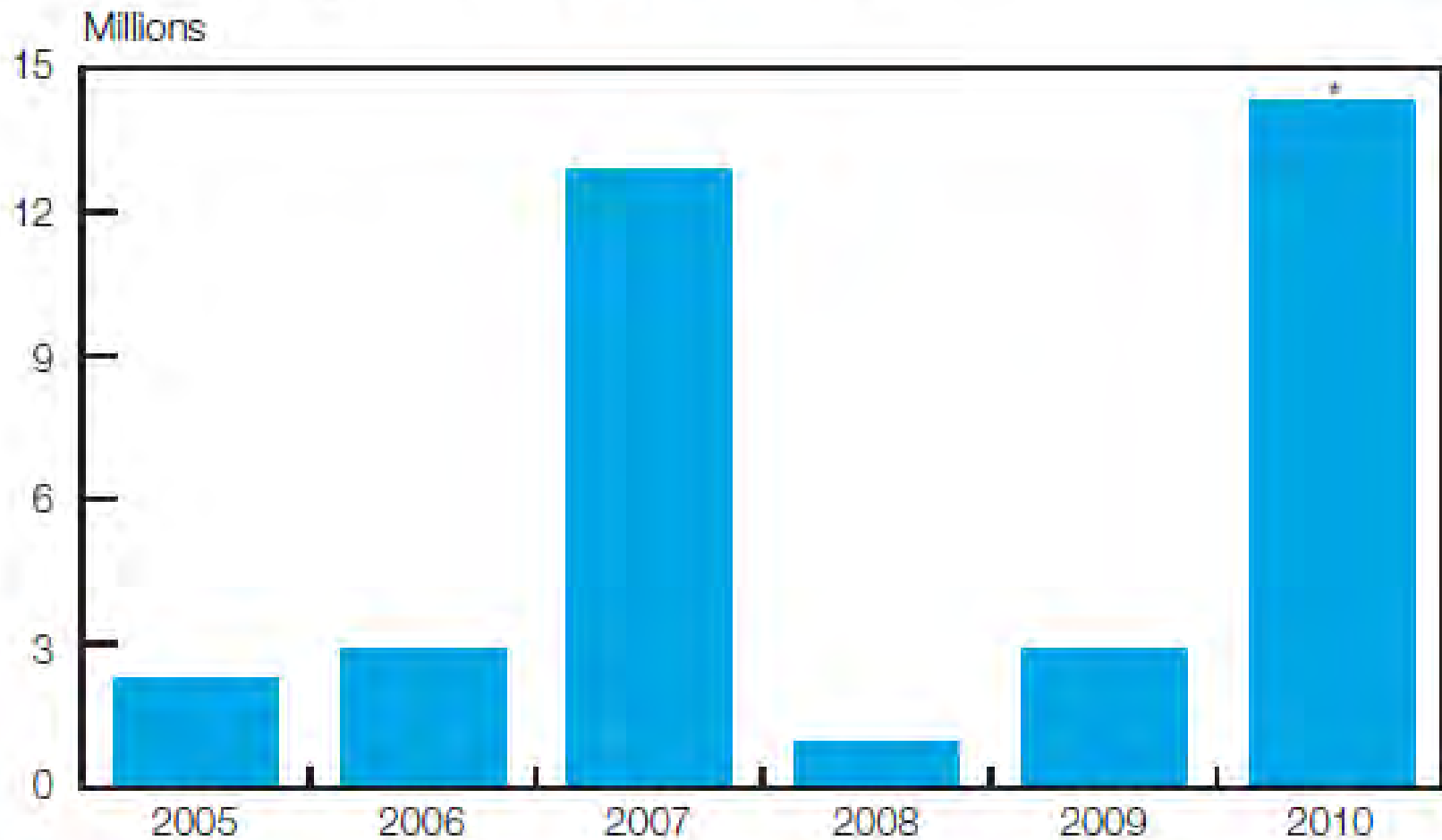
South African Unemployment



Source: Statistics South Africa

South Africa

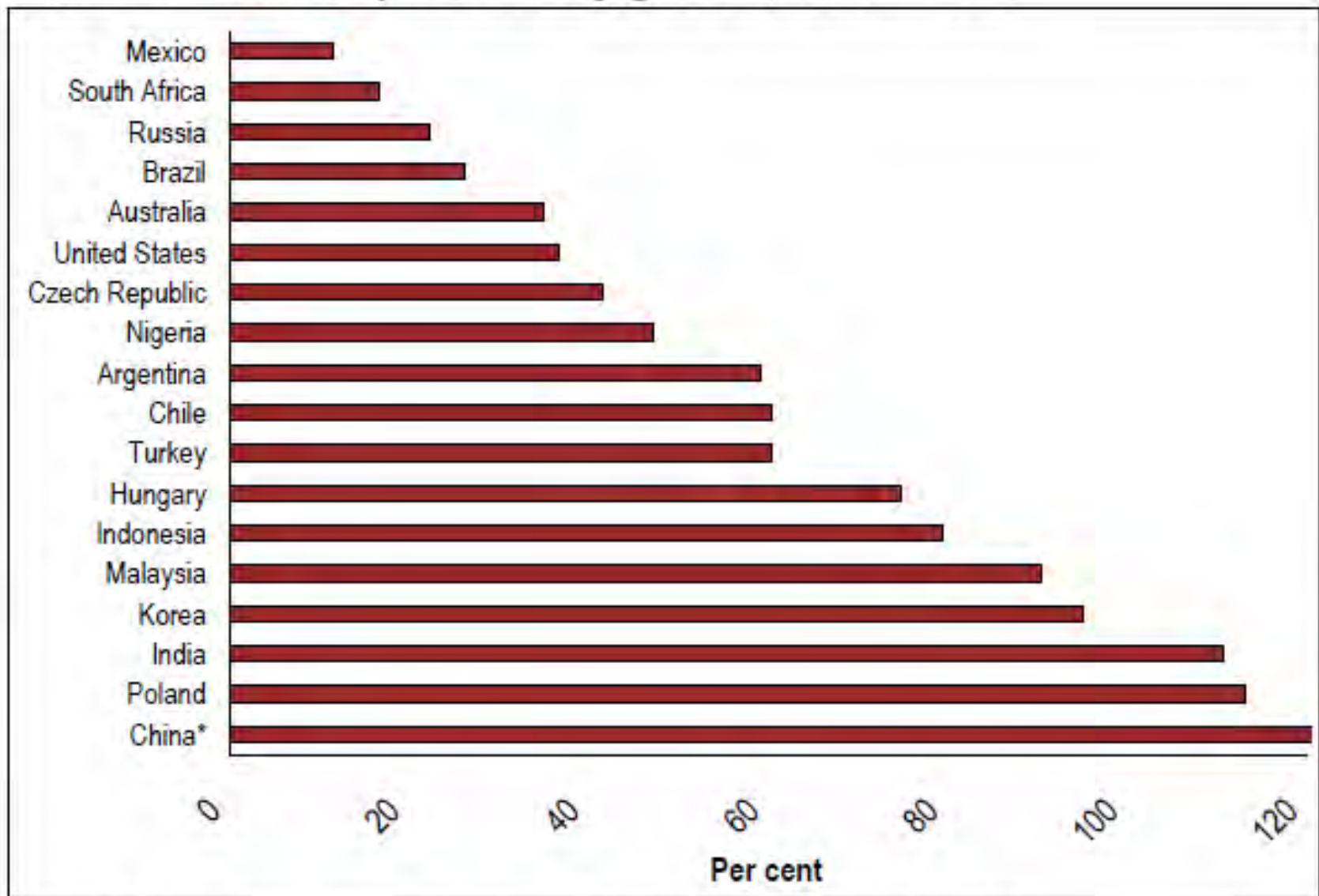
Working days lost due to strike action



* First nine months of 2010

Source: Andrew Levy Employment Publications

Labour productivity growth, 1990 – 2008



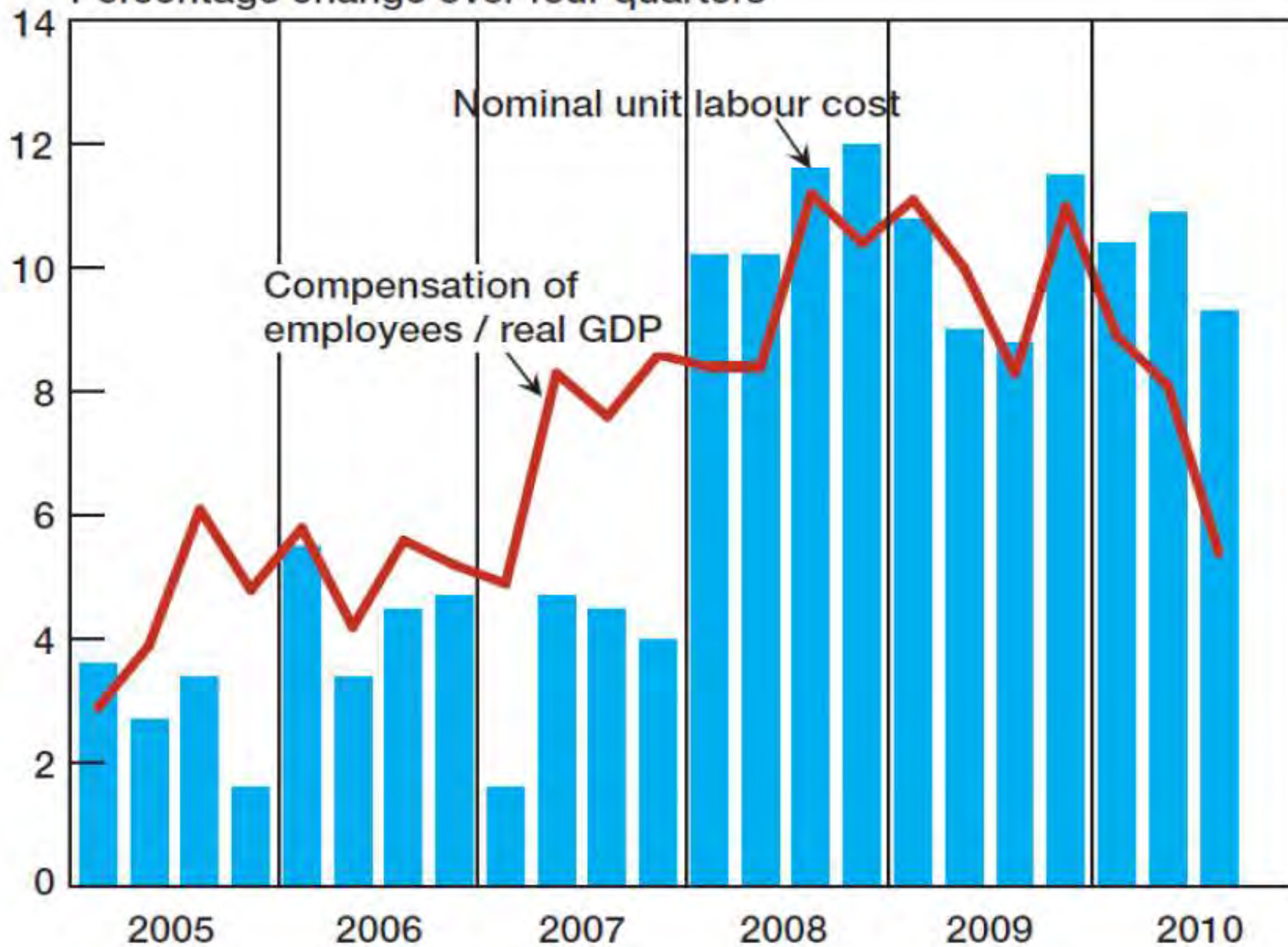
**China's labour productivity growth was 305 per cent over this period*

Source: International Labour Organisation

South Africa

Unit labour cost

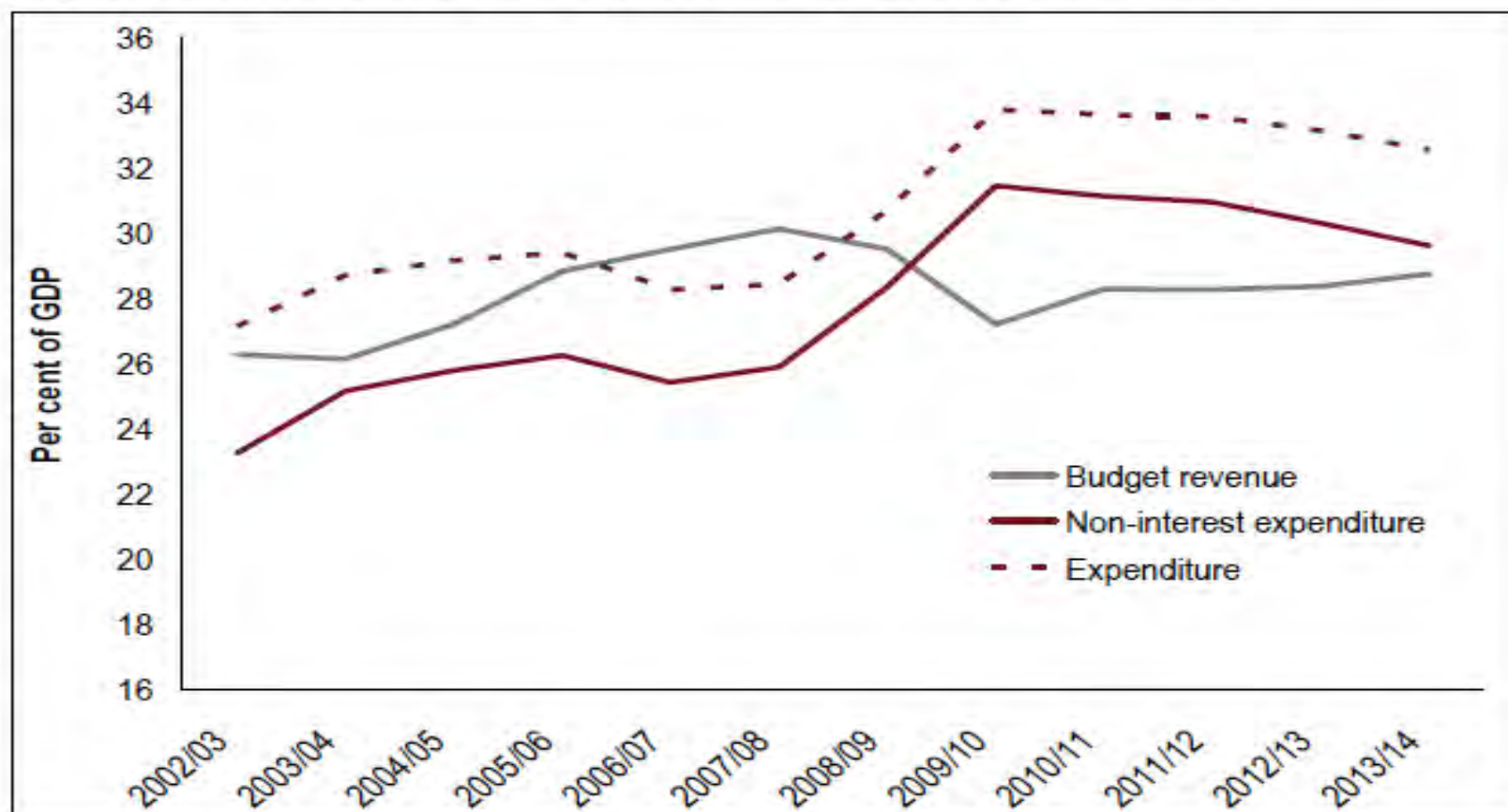
Percentage change over four quarters



Source: Gill Marcus, Governor of South African Reserve Bank, *Address to National Union of Metal Workers South Africa, Eskom National Shop Steward Council, February 2011.*

BUDGET

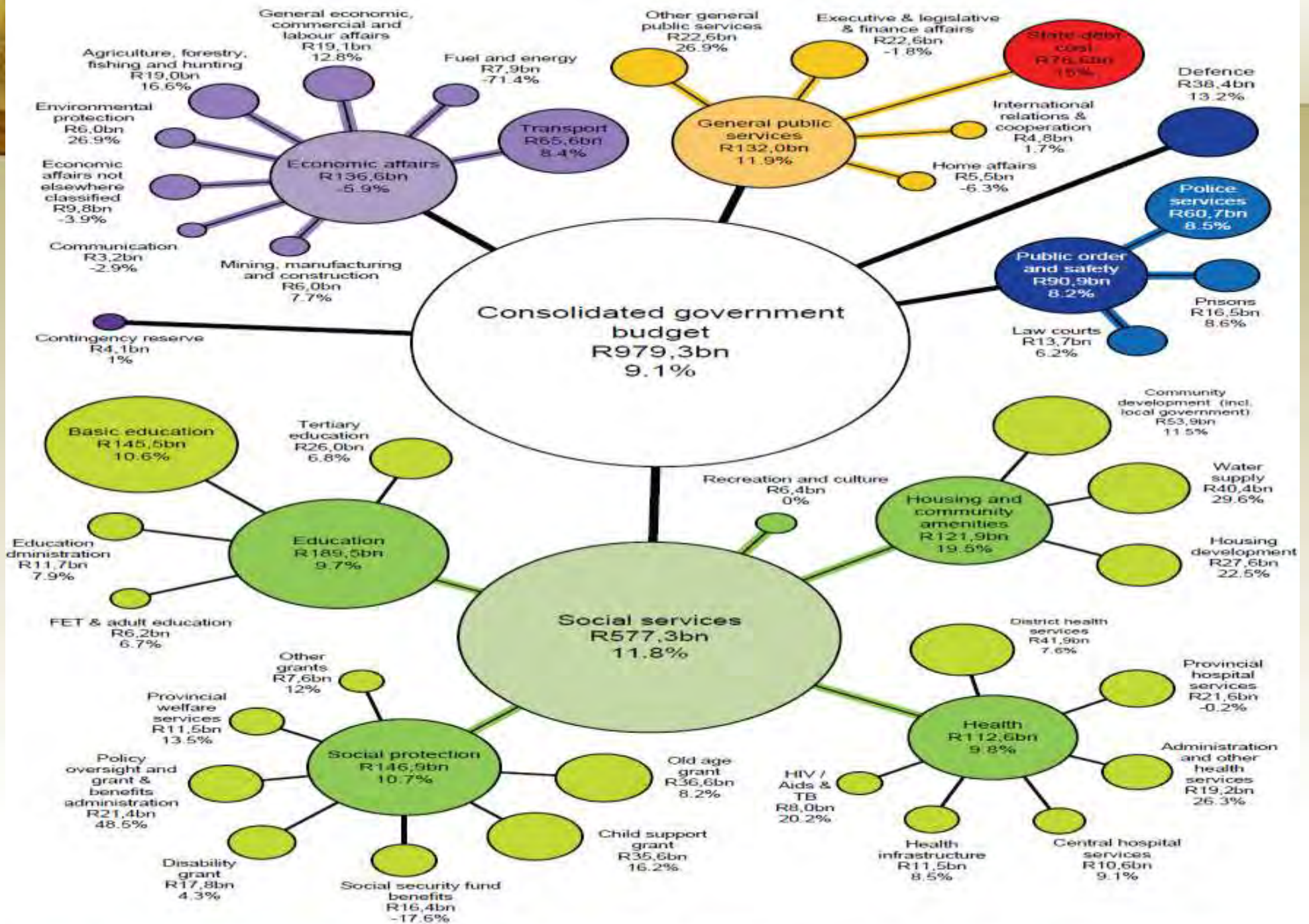
Revenue and expenditure, 2002/03 – 2013/14



Consolidated government fiscal framework

| | 2010/11 Revised estimate | 2011/12 Medium-term estimates | 2012/13 | 2013/14 |
|-------------------------------|-----------------------------|----------------------------------|---------|---------|
| R million | | | | |
| Revenue | 755.0 | 824.5 | 908.7 | 1 017.2 |
| <i>Percentage of GDP</i> | 28.3% | 28.3% | 28.4% | 28.8% |
| Expenditure | 897.4 | 979.3 | 1 061.6 | 1 151.8 |
| <i>Percentage of GDP</i> | 33.6% | 33.6% | 33.2% | 32.6% |
| Budget balance | -142.4 | -154.8 | -152.9 | -134.6 |
| <i>Percentage of GDP</i> | -5.3% | -5.3% | -4.8% | -3.8% |
| <i>Gross domestic product</i> | 2 666.9 | 2 914.9 | 3 201.3 | 3 536.0 |

South Africa's Budget Proposal 2011



Note: Consolidated government expenditure in R billion, percentages reflect growth relative to 2010/11 estimated outcome.

South Africa

Macroeconomic projections, 2007 – 2013

| Calendar year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | Actual | | Estimate | Forecast | | |
| <i>Percentage change unless otherwise indicated</i> | | | | | | | |
| Final household consumption | 5.5 | 2.2 | -2.0 | 4.6 | 4.2 | 4.3 | 4.5 |
| Final government consumption | 4.1 | 4.7 | 4.8 | 4.6 | 4.4 | 4.1 | 3.9 |
| Gross fixed-capital formation | 14.0 | 14.1 | -2.2 | -3.6 | 3.9 | 5.5 | 6.8 |
| Gross domestic expenditure | 6.3 | 3.4 | -1.7 | 4.1 | 4.2 | 4.4 | 4.6 |
| Exports | 6.6 | 1.8 | -19.5 | 5.3 | 6.0 | 6.4 | 7.3 |
| Imports | 9.0 | 1.5 | -17.4 | 10.4 | 8.5 | 7.0 | 7.4 |
| Real GDP growth | 5.6 | 3.6 | -1.7 | 2.7 | 3.4 | 4.1 | 4.4 |
| GDP inflation | 8.1 | 8.9 | 7.2 | 6.3 | 5.3 | 5.4 | 5.8 |
| GDP at current prices (R billion) | 2 016.2 | 2 274.1 | 2 396.0 | 2 615.7 | 2 846.5 | 3 122.0 | 3 445.9 |
| Headline CPI inflation | 6.1 | 9.9 | 7.1 | 4.3 | 4.9 | 5.2 | 5.5 |
| Current account balance (% of GDP) | -7.0 | -7.1 | -4.1 | -3.2 | -4.2 | -4.9 | -5.0 |



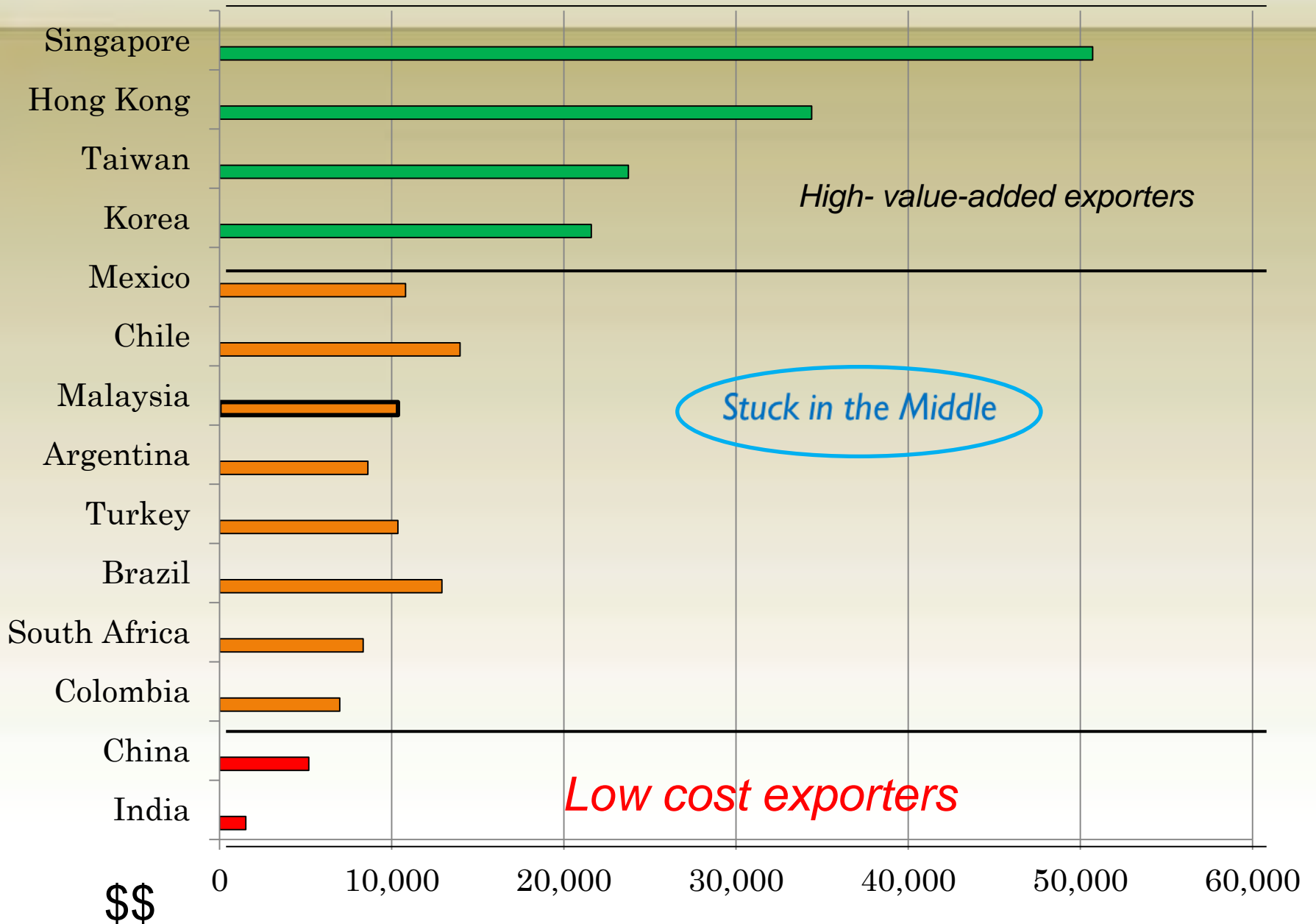
***Brazil, Argentina, Chile, Mexico,
South Africa, Malaysia and Turkey- if not***

- > low cost
- > differentiation
- > focus

“Stuck in the Middle”?



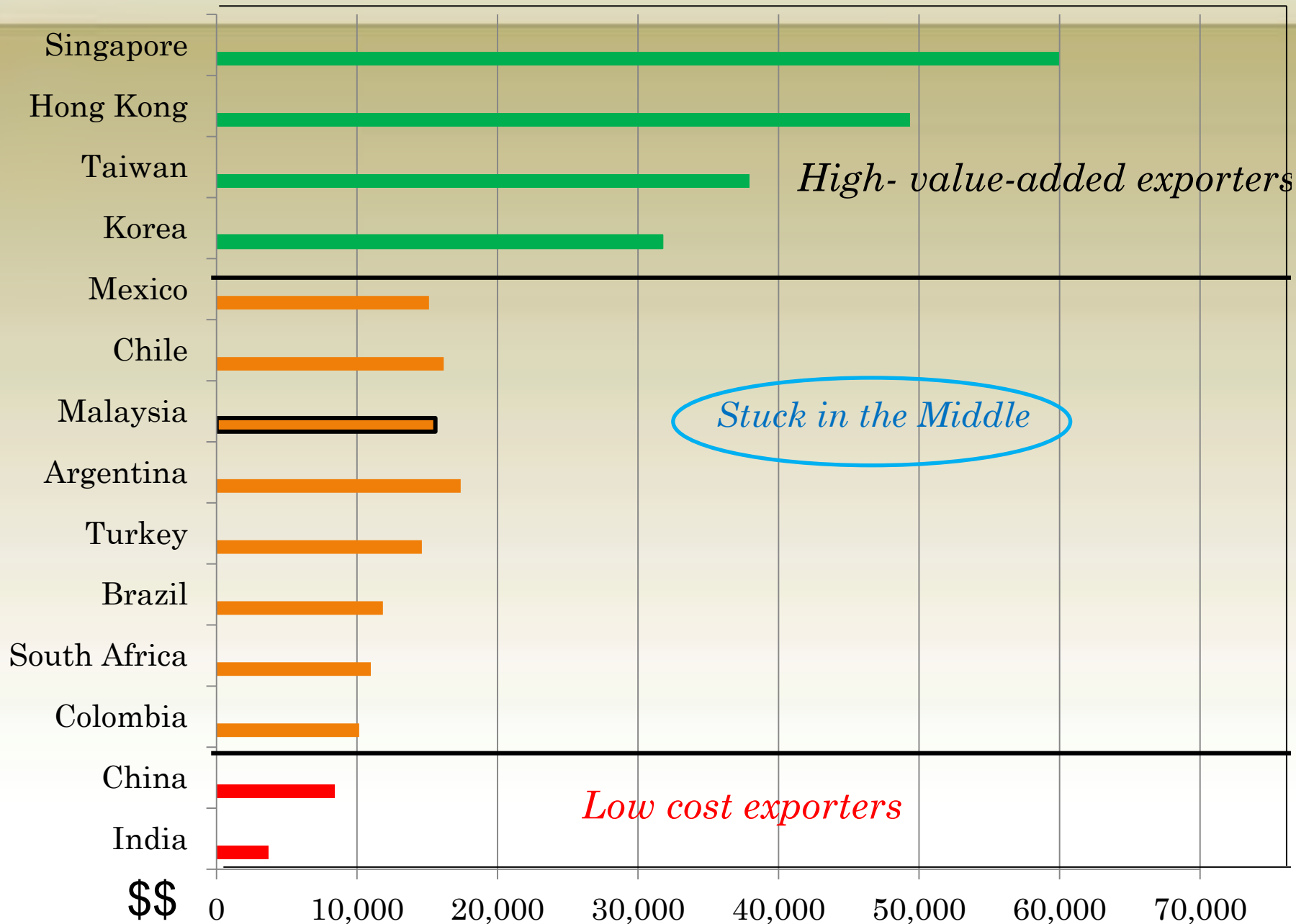
Gross Domestic Product per Capita for Exporting Countries (in nominal U.S. Dollars)



Source: IMF Database, 2011



Gross Domestic Product per Capita (PPP) for Exporting Countries (in U.S. Dollars)



Source: IMF Database, 2011

Malaysia: People First?

28 million (65% Bumiputera, 26% Chinese, 8% Indian, 1% other); predominantly Muslim; independence from Britain 1957 – democratic; oil, gas and agricultural resources; member of ASEAN

Development Strategies

1957-1969 import substitution

1971 New Economic Policy (NEP)

- restructuring ethnic identity and ending poverty
- build modern infrastructure
- export-led growth

1991 - Vision 2020

- move up value-chain
- knowledge & innovation
- reduce socio-economic inequalities
- improve quality of life
- implementation capacity

2009 - New Economic Model

- phase out NEP
- push technology, innovation, productivity & creativity

World Bank, *Doing Business* 2012

| | <u>2012</u> | <u>2011</u> | <u>change</u> |
|----------------------|------------------|------------------|---------------|
| Doing business | 18 th | 23 rd | +5 |
| starting a business | 50 | 111 | +61 |
| getting credit | 1 | 1 | - |
| protecting investors | 4 | 4 | - |
| construction permits | 113 | 111 | -2 |
| paying taxes | 41 | 39 | -2 |
| enforcing contracts | 31 | 60 | +29 |



Malaysia'Solid Growth

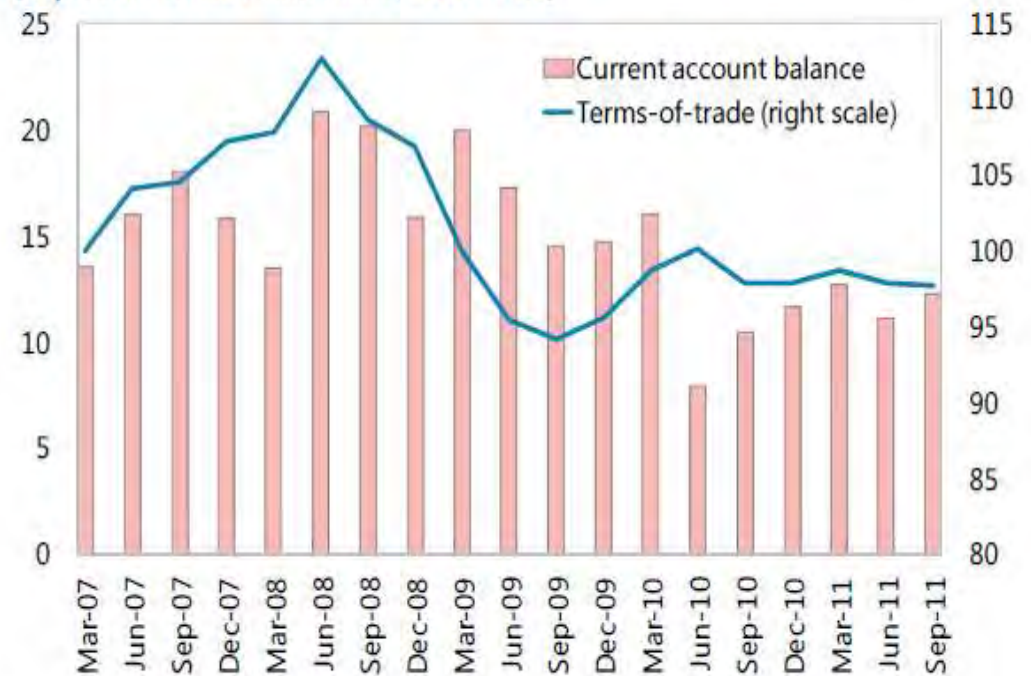
Per capital GDP \$15,578
 Real GDP growth 4.8%/yr.
 consumption/GDP 59%
 investment 22%
 national savings 33%
 Fiscal deficits average -3.6%
 Inflation averages 2.4%
 Unemployment 3.4%

Labor productivity 3%
 Total factor productivity 2.1%
 ULC 2.2%
 Exch. Rate R/\$ 3.8 -> 3.06

| (US \$\$) | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|------------------|-------------|-------------|-------------|
| Balance of trade | 42 | 45 | 47 |
| services | .53 | -.51 | .31 |
| Current account | 27.3 | 29.8 | 31.0 |
| | | | |
| Fx reserves | 106 | 138 | 147 |

Current Account Balance and Terms-of-Trade

(In percent of GDP and index, 2007=100)

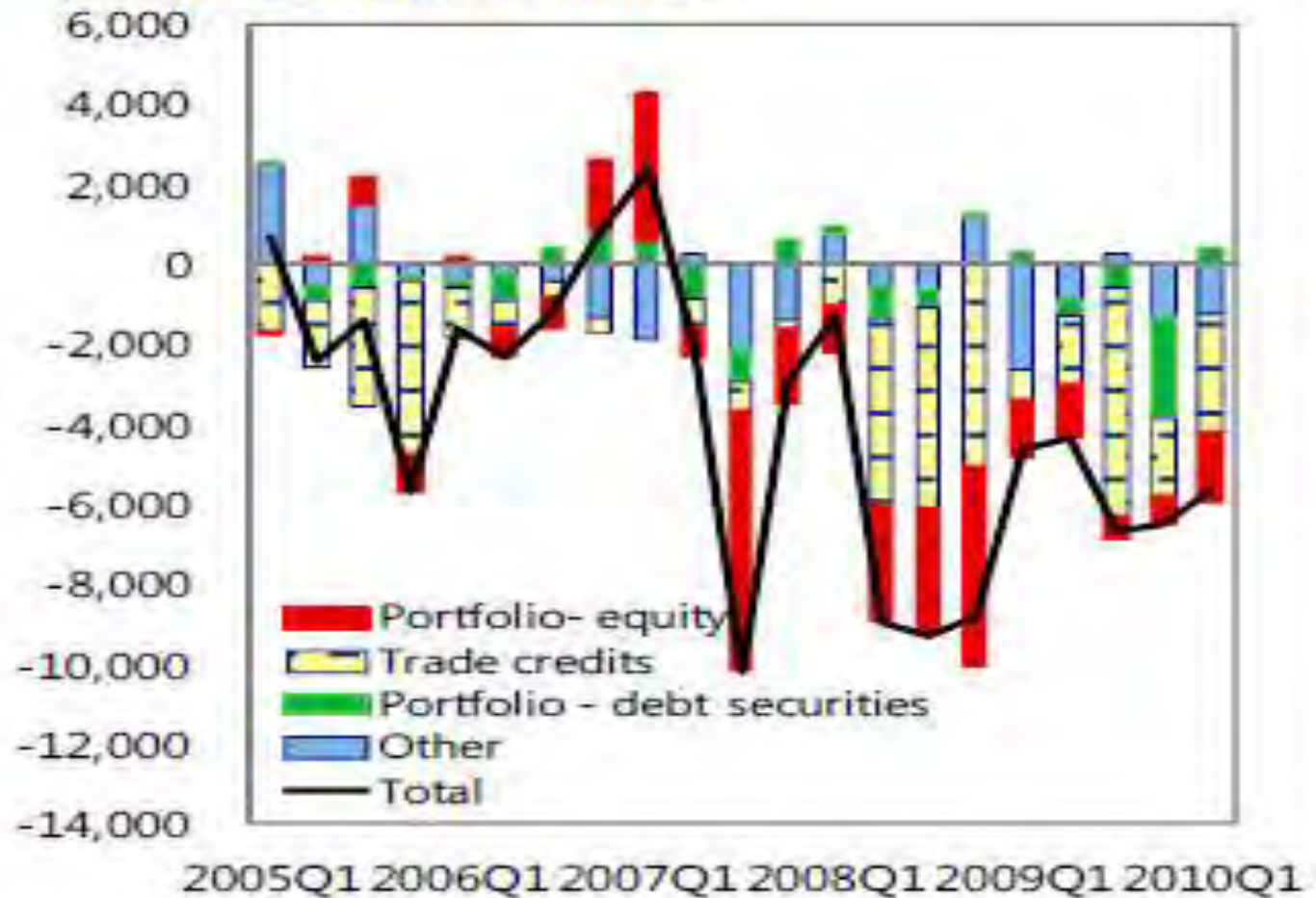


Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff estimates.

Too little domestic investment

Malaysia: Capital Flows—Nonfinancial Private Sector Net 1/

(In millions of U.S. dollars)



Sources: IMF, BPTS database; and IMF staff estimates.
1/ Excludes foreign direct investment.

Can Malaysia get “Unstuck”?

- Move investment and exports up-value chain
- Stimulate domestic innovation; R&D
- Continue to invest in infrastructure
- Reduce regulatory barriers to *Doing Business*
- Enhance labor skills in needed categories
- Encourage greater flexibility in education
- Encourage critical thinking, science, engineering
- Stimulate entrepreneurship, domestically
- Hold down ULC's (e.g., push hard on productivity)
- Reduce risk aversion by firms; individuals

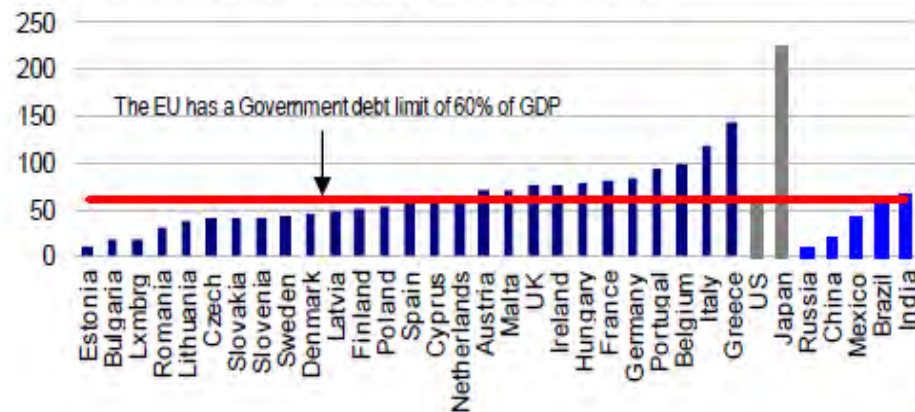
Sovereign Credit Quality Deterioration

Unsustainable Path of Debt Dynamics, Focus on Corporate and Fundamentally Sound Emerging Markets

| | Government Debt/GDP | | | Fiscal Balance/GDP | | | Current Account/GDP | | | Moody's | | S&P | | Fitch | |
|---------------------------------------|---------------------|-------|-------|--------------------|-------|-------|---------------------|-------|-------|---------|----------|--------|----------|--------|----------|
| | 2010 | 2011F | 2012F | 2010 | 2011F | 2012F | 2010 | 2011F | 2012F | Rating | Outlook | Rating | Outlook | Rating | Outlook |
| Selected EU Countries | | | | | | | | | | | | | | | |
| Greece | 143.0 | 167.0 | 180.0 | -10.5 | -9.8 | -7.5 | -10.4 | -7.5 | -4.0 | ▼ Caa1 | Stable | ▼ CC | Stable | ▼ CCC | Stable |
| Ireland | 77.3 | 87.3 | NA | -11.7 | -12.1 | NA | -0.9 | -0.6 | 0.4 | ▼ Baa1 | Stable | ▼ BBB+ | Stable | ▼ BBB+ | Stable |
| UK | 76.0 | 81.0 | 85.0 | -9.7 | -8.2 | -6.9 | -3.2 | -2.0 | -0.3 | Aaa | Stable | AAA | Stable | AAA | Stable |
| Spain | 60.0 | 68.0 | 75.0 | -9.2 | -6.8 | -6.2 | -4.6 | -3.4 | -1.6 | ▼ Aa2 | Stable | ▼ AA | Stable | AA+ | Stable |
| France | 82.0 | 86.0 | 90.0 | -7.1 | -6.0 | -4.5 | -1.7 | -2.7 | -2.3 | Aaa | Stable | AAA | Stable | AAA | Stable |
| Portugal | 93.0 | 109.0 | 121.0 | -9.1 | -6.3 | -4.7 | -10.5 | -8.3 | -5.7 | ▼ Ba2 | Stable | ▼ BBB- | Stable | ▼ BBB- | Negative |
| Germany | 83.0 | 84.0 | 84.0 | -3.3 | -1.9 | -1.0 | 5.7 | 5.2 | 4.8 | Aaa | Stable | AAA | Stable | AAA | Stable |
| Italy | 119.0 | 121.0 | 122.0 | -4.6 | -4.1 | -2.5 | -3.5 | -3.8 | -3.5 | ▼ A2 | Negative | ▼ A | Negative | AA- | Stable |
| Other Industrialized Countries | | | | | | | | | | | | | | | |
| US | 63.0 | 69.0 | 74.0 | -9.0 | -8.5 | -6.8 | -3.2 | -3.0 | -2.7 | Aaa | Negative | ▼ AA+ | Negative | AAA | Stable |
| Japan | 225.0 | 237.0 | 239.0 | -9.8 | -10.3 | -8.8 | 3.6 | 2.3 | 2.6 | ▼ Aa3 | Stable | ▼ AA- | Stable | AA | Stable |
| Emerging Markets | | | | | | | | | | | | | | | |
| Brazil | 63.0 | 63.0 | 63.0 | -2.5 | -2.5 | -2.5 | -2.3 | -2.3 | -2.7 | ▲ Baa2 | Stable | BBB- | Stable | ▲ BBB | Stable |
| Russia | 8.0 | 9.0 | 11.0 | -4.0 | -1.4 | -2.7 | 4.8 | 4.5 | 0.9 | Baa1 | Stable | BBB | Stable | BBB | Stable |
| India | 67.0 | 66.0 | 64.0 | -8.1 | -8.3 | -7.1 | -2.6 | -2.8 | -2.2 | Baa3 | Stable | BBB- | Stable | BBB- | Stable |
| China | 21.0 | 20.0 | 21.0 | -1.6 | -2.0 | -2.0 | 5.3 | 4.0 | 3.5 | ▲ Aa3 | Stable | AA- | Stable | A+ | Stable |
| Mexico | 43.0 | 42.0 | 42.0 | -2.8 | -2.5 | -2.0 | -0.5 | -1.1 | -2.4 | Baa1 | Stable | BBB | Stable | BBB | Stable |

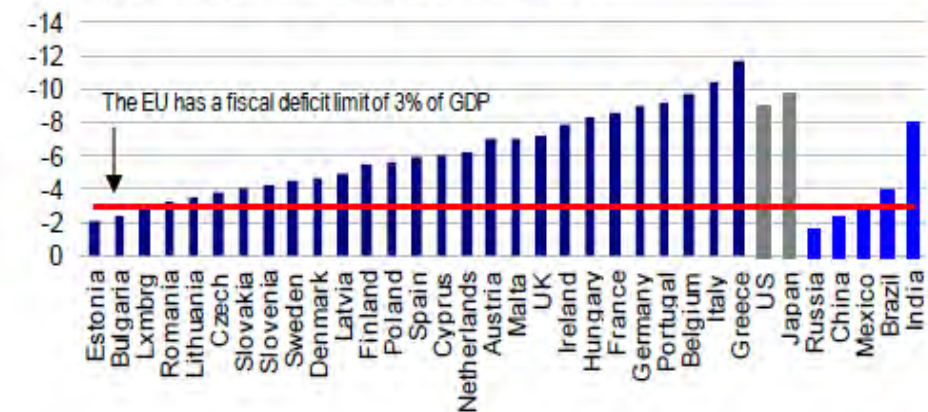
▲ ▼ Arrows indicate changes since Dec 2009. Negative in red, positive in blue. Source: European Commission (Ireland), CIRA, Bloomberg as of 5 Oct 2011.

Government Debt / GDP (2010 Forecasts)



Source: European Commission, CIRA 29 September 2011

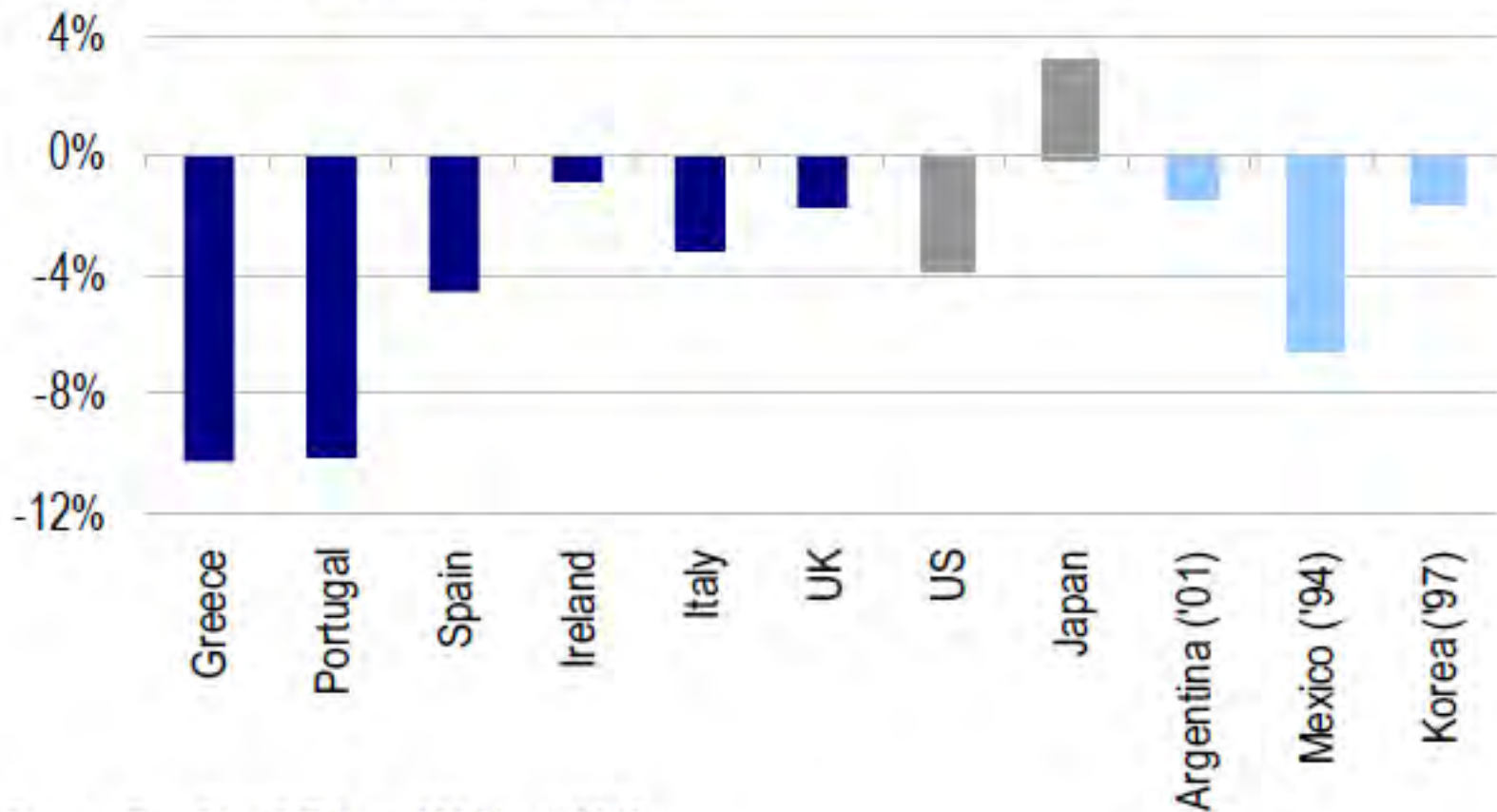
Fiscal Deficit / GDP (2010 Forecasts)



Source: European Commission, CIRA 29 September 2011



Current Account (2010)

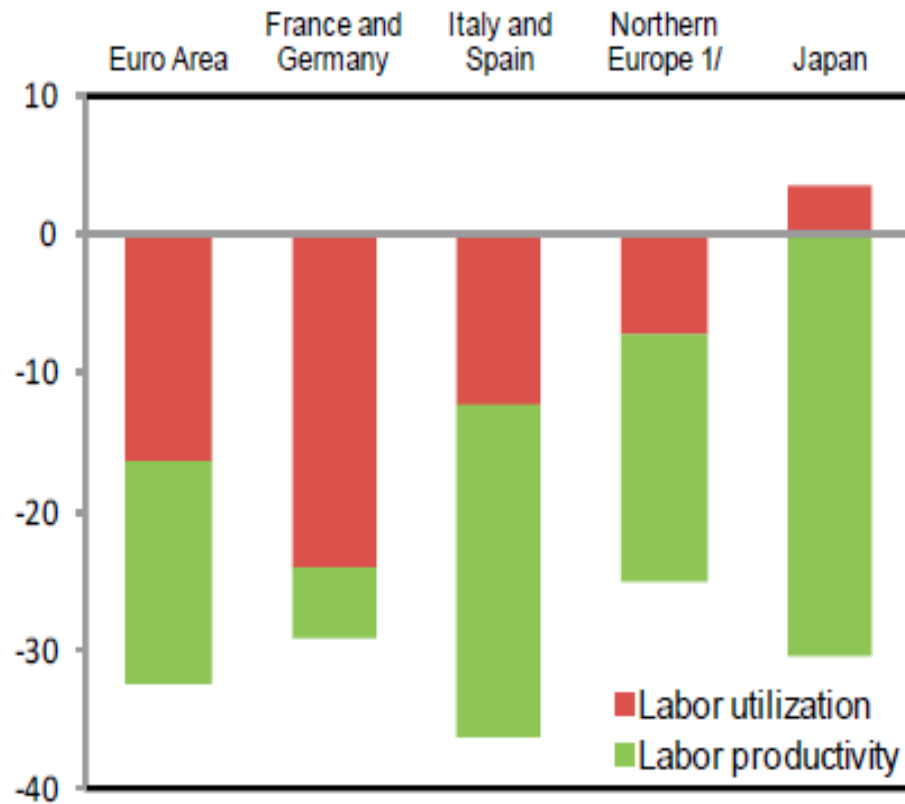


Source: EuroStat, CIRA as of 23 March 2010.

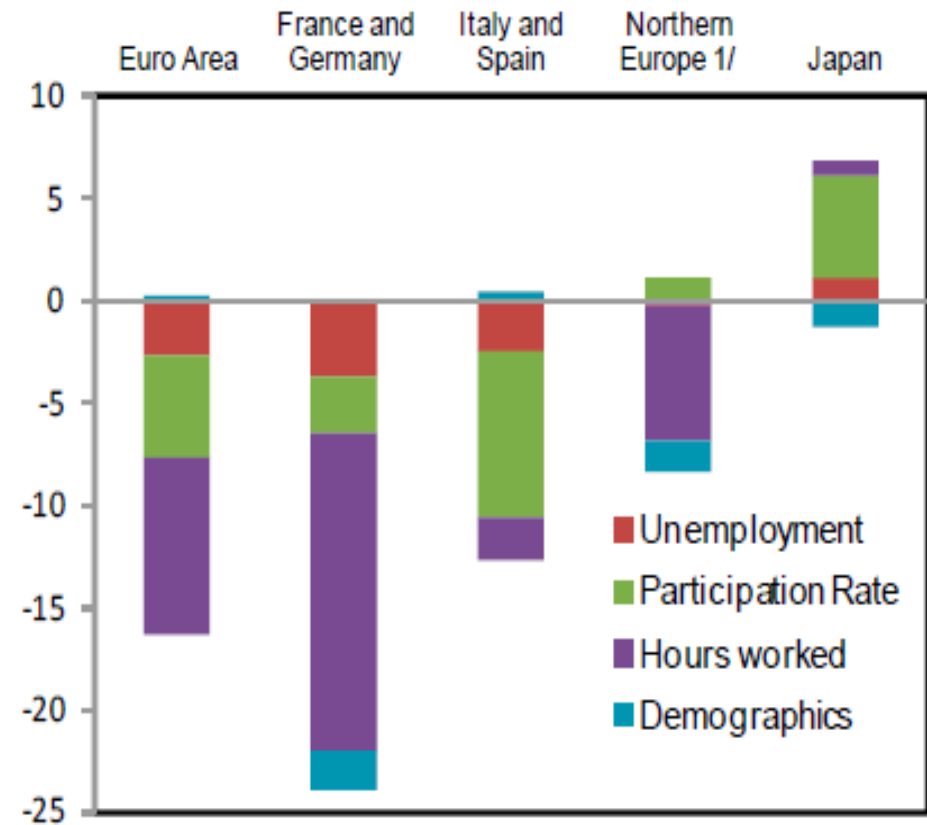
Selected Advanced Economies: Differential with the United States, 2006-08

(Percentage points)

Differential in GDP Per Capita



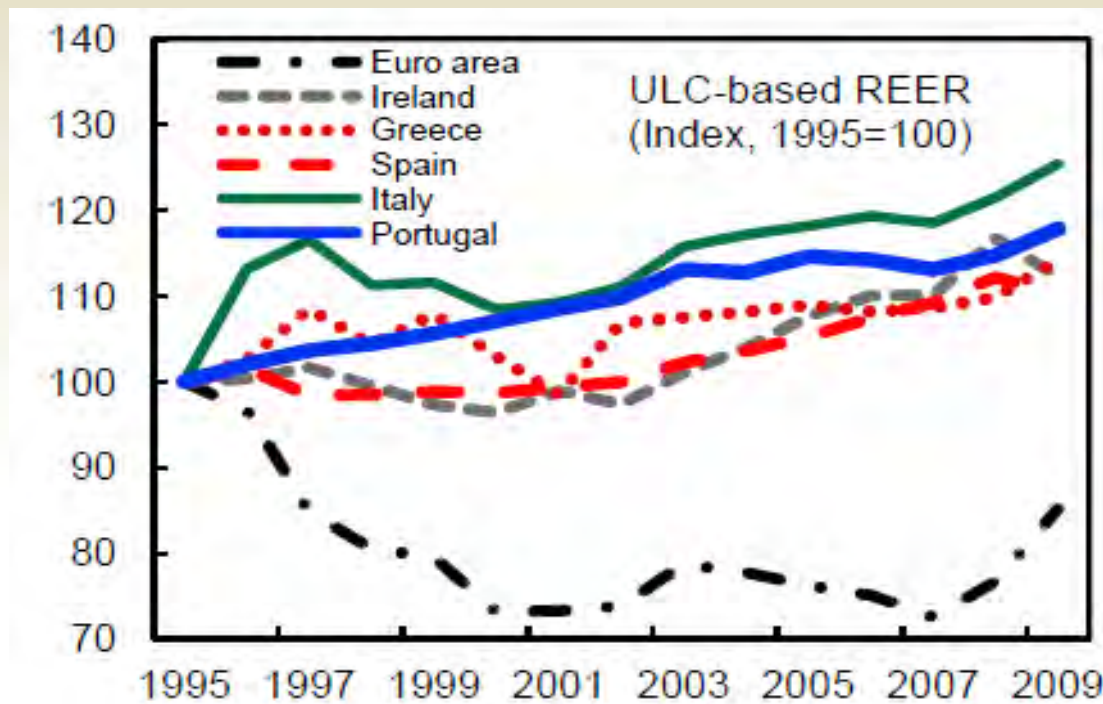
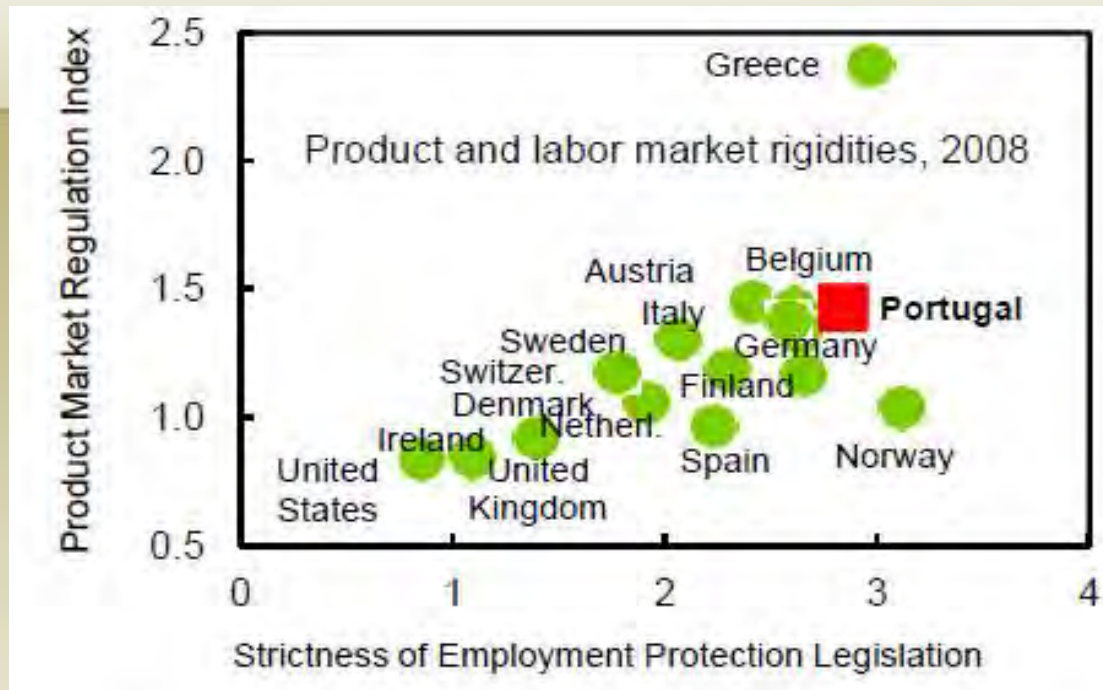
Differential in Labor Utilization



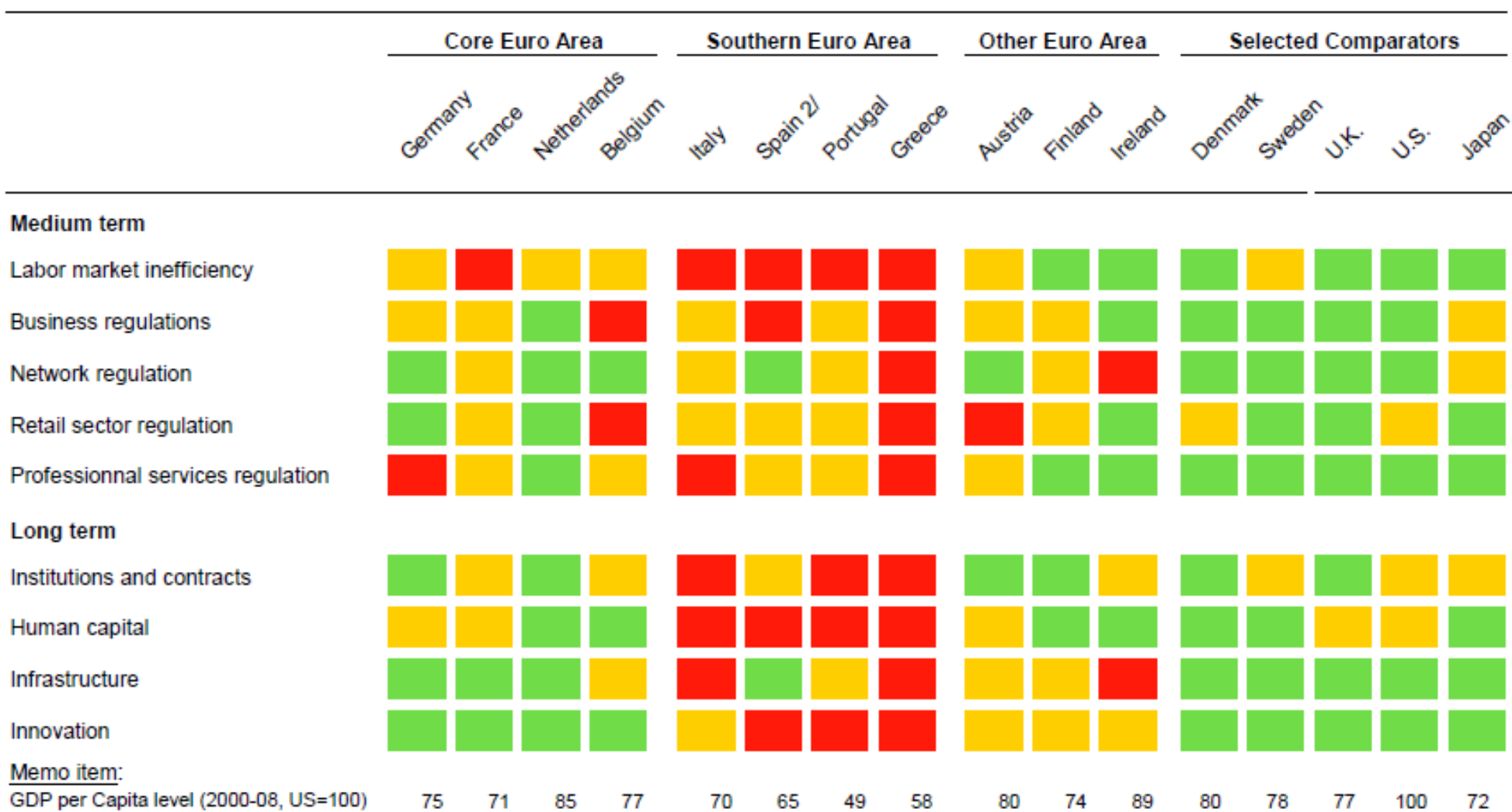
Source: Mourre (2009), European Commission, and IMF staff calculations.

1/ GDP-weighted average of Denmark, Sweden and UK.

Southern Europe's Competitiveness Problems



Structural Reforms Gaps in European Economies: A Heatmap 1/

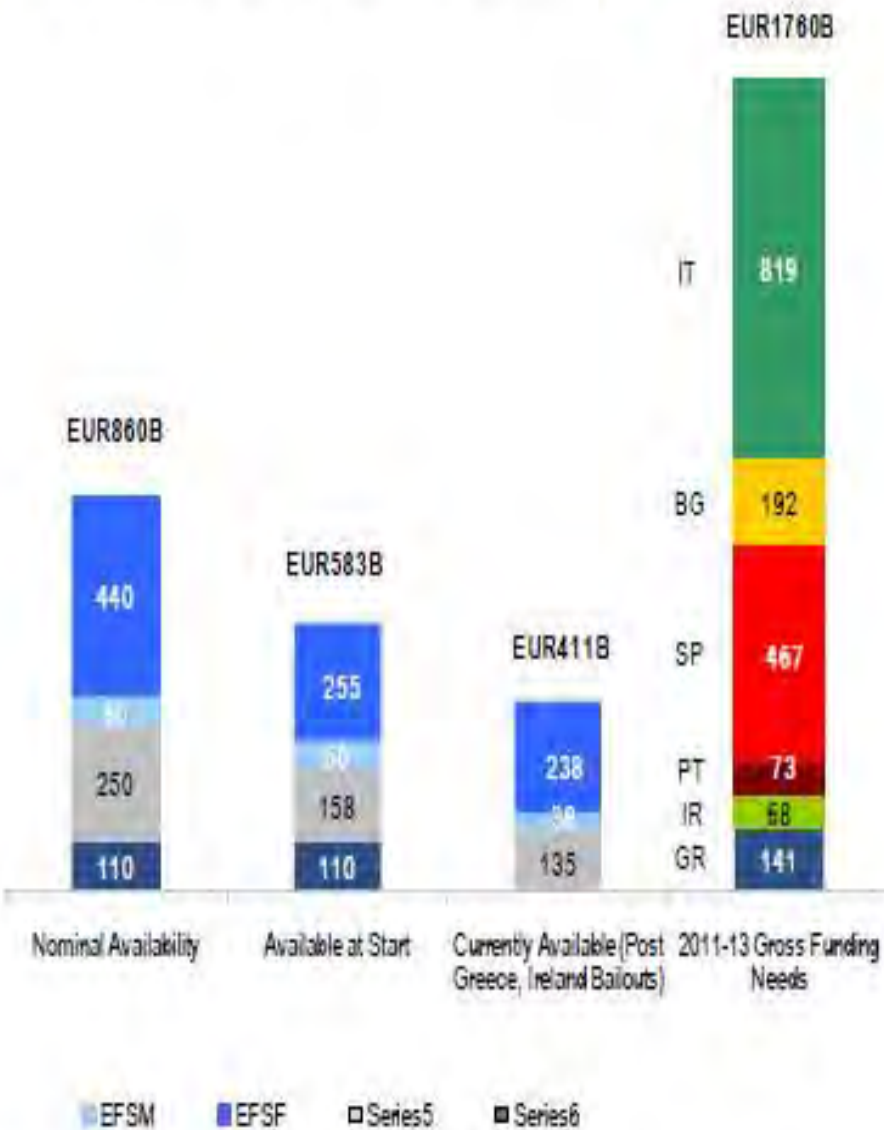


Sources: OECD; World Economic Forum; Fraser Institute; and IMF staff calculations.

1/ See IMF, 2010d for a description of the methodology, and of the detailed components of the labor market heatmap.

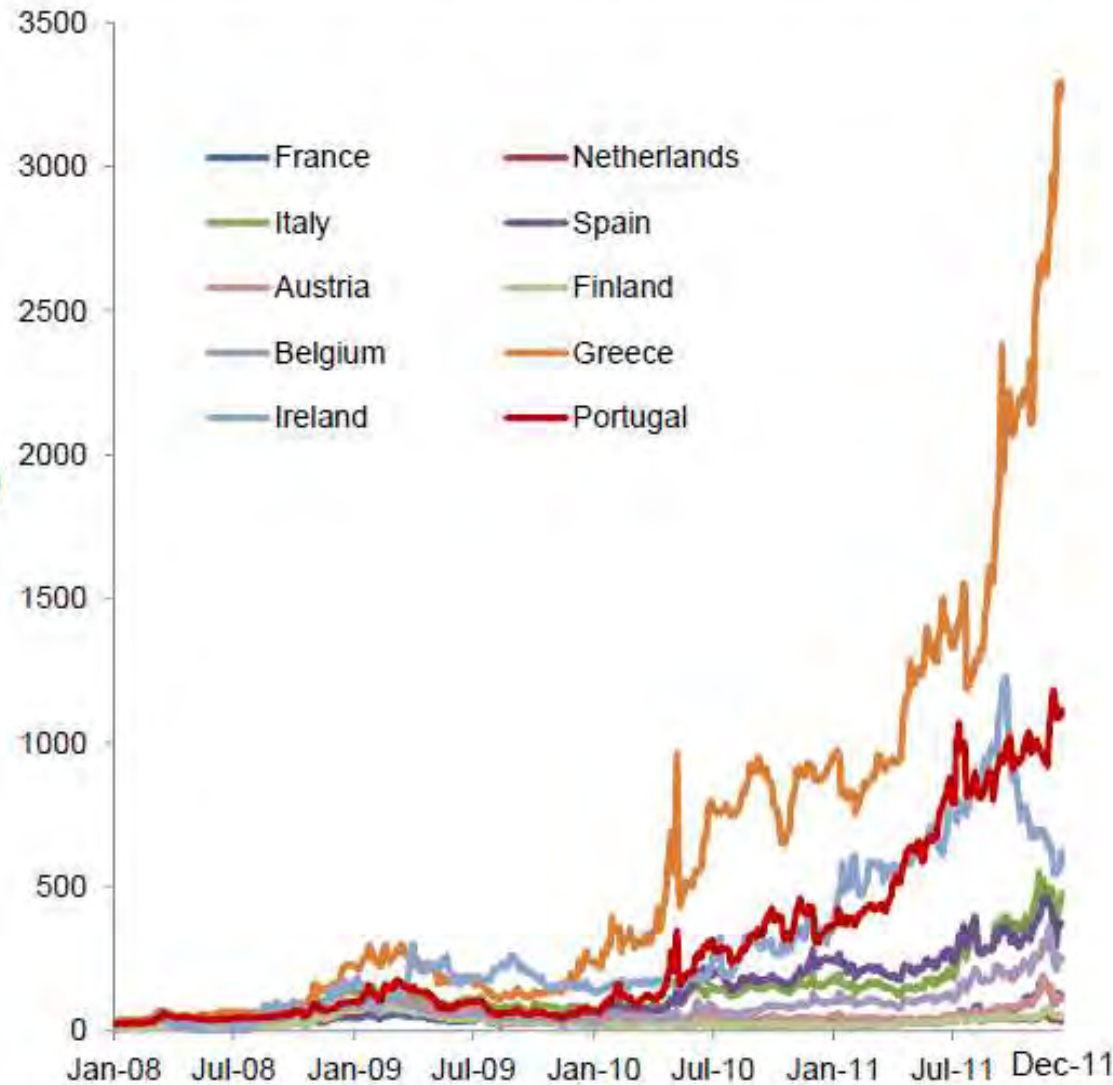
2/ The indicators do not incorporate the labor market reform implemented in Spain in 2010.

European Bailout Fund versus Funding Needs



Source: CIRA January 2011. Note: Ireland has received EUR63B.
EFSM=European Financial Stabilisation Mechanism; EFSF=European Financial Stability Facility

10-year Government bond yields Spread against Germany in basis points



Source: Bloomberg

Table 2.2. Selected European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change unless noted otherwise)

| | Real GDP | | | Consumer Prices ¹ | | | Current Account Balance ² | | | Unemployment ³ | | |
|------------------------------------|------------|-------------|------------|------------------------------|-------------|------------|--------------------------------------|-------------|-------------|---------------------------|-------------|------------|
| | 2010 | Projections | | 2010 | Projections | | 2010 | Projections | | 2010 | Projections | |
| | | 2011 | 2012 | | 2011 | 2012 | | 2011 | 2012 | | 2011 | 2012 |
| Europe | 2.2 | 2.0 | 1.5 | 2.4 | 3.1 | 2.1 | 0.3 | 0.1 | 0.4 | ... | ... | ... |
| Advanced Europe | 1.8 | 1.6 | 1.3 | 1.9 | 2.8 | 1.7 | 0.8 | 0.8 | 1.0 | 9.4 | 9.2 | 9.1 |
| Euro Area ^{4,5} | 1.8 | 1.6 | 1.1 | 1.6 | 2.5 | 1.5 | -0.4 | 0.1 | 0.4 | 10.1 | 9.9 | 9.9 |
| Germany | 3.6 | 2.7 | 1.3 | 1.2 | 2.2 | 1.3 | 5.7 | 5.0 | 4.9 | 7.1 | 6.0 | 6.2 |
| France | 1.4 | 1.7 | 1.4 | 1.7 | 2.1 | 1.4 | -1.7 | -2.7 | -2.5 | 9.8 | 9.5 | 9.2 |
| Italy | 1.3 | 0.6 | 0.3 | 1.6 | 2.6 | 1.6 | -3.3 | -3.5 | -3.0 | 8.4 | 8.2 | 8.5 |
| Spain | -0.1 | 0.8 | 1.1 | 2.0 | 2.9 | 1.5 | -4.6 | -3.8 | -3.1 | 20.1 | 20.7 | 19.7 |
| Netherlands | 1.6 | 1.6 | 1.3 | 0.9 | 2.5 | 2.0 | 7.1 | 7.5 | 7.7 | 4.5 | 4.2 | 4.2 |
| Belgium | 2.1 | 2.4 | 1.5 | 2.3 | 3.2 | 2.0 | 1.0 | 0.6 | 0.9 | 8.4 | 7.9 | 8.1 |
| Austria | 2.1 | 3.3 | 1.6 | 1.7 | 3.2 | 2.2 | 2.7 | 2.8 | 2.7 | 4.4 | 4.1 | 4.1 |
| Greece | -4.4 | -5.0 | -2.0 | 4.7 | 2.9 | 1.0 | -10.5 | -8.4 | -6.7 | 12.5 | 16.5 | 18.5 |
| Portugal | 1.3 | -2.2 | -1.8 | 1.4 | 3.4 | 2.1 | -9.9 | -8.6 | -6.4 | 12.0 | 12.2 | 13.4 |
| Finland | 3.6 | 3.5 | 2.2 | 1.7 | 3.1 | 2.0 | 3.1 | 2.5 | 2.5 | 8.4 | 7.8 | 7.6 |
| Ireland | -0.4 | 0.4 | 1.5 | -1.6 | 1.1 | 0.6 | 0.5 | 1.8 | 1.9 | 13.6 | 14.3 | 13.9 |
| Slovak Republic | 4.0 | 3.3 | 3.3 | 0.7 | 3.6 | 1.8 | -3.5 | -1.3 | -1.1 | 14.4 | 13.4 | 12.3 |
| Slovenia | 1.2 | 1.9 | 2.0 | 1.8 | 1.8 | 2.1 | -0.8 | -1.7 | -2.1 | 7.3 | 8.2 | 8.0 |
| Luxembourg | 3.5 | 3.6 | 2.7 | 2.3 | 3.6 | 1.4 | 7.8 | 9.8 | 10.3 | 6.2 | 5.8 | 6.0 |
| Estonia | 3.1 | 6.5 | 4.0 | 2.9 | 5.1 | 3.5 | 3.6 | 2.4 | 2.3 | 16.9 | 13.5 | 11.5 |
| Cyprus | 1.0 | 0.0 | 1.0 | 2.6 | 4.0 | 2.4 | -7.7 | -7.2 | -7.6 | 6.4 | 7.4 | 7.2 |
| Malta | 3.1 | 2.4 | 2.2 | 2.0 | 2.6 | 2.3 | -4.8 | -3.8 | -4.8 | 6.9 | 6.3 | 6.2 |
| United Kingdom ⁵ | 1.4 | 1.1 | 1.6 | 3.3 | 4.5 | 2.4 | -3.2 | -2.7 | -2.3 | 7.9 | 7.8 | 7.8 |
| Sweden | 5.7 | 4.4 | 3.8 | 1.9 | 3.0 | 2.5 | 6.3 | 5.8 | 5.3 | 8.4 | 7.4 | 6.6 |
| Switzerland | 2.7 | 2.1 | 1.4 | 0.7 | 0.7 | 0.9 | 15.8 | 12.5 | 10.9 | 3.6 | 3.4 | 3.4 |
| Czech Republic | 2.3 | 2.0 | 1.8 | 1.5 | 1.8 | 2.0 | -3.7 | -3.3 | -3.4 | 7.3 | 6.7 | 6.6 |
| Norway | 0.3 | 1.7 | 2.5 | 2.4 | 1.7 | 2.2 | 12.4 | 14.0 | 12.8 | 3.6 | 3.6 | 3.5 |
| Denmark | 1.7 | 1.5 | 1.5 | 2.3 | 3.2 | 2.4 | 5.1 | 6.4 | 6.4 | 4.2 | 4.5 | 4.4 |
| Iceland | -3.5 | 2.5 | 2.5 | 5.4 | 4.2 | 4.5 | -10.2 | 1.9 | 3.2 | 8.1 | 7.1 | 6.0 |
| Emerging Europe⁶ | 4.5 | 4.3 | 2.7 | 5.3 | 5.2 | 4.5 | -4.6 | -6.2 | -5.4 | ... | ... | ... |
| Turkey | 8.9 | 6.6 | 2.2 | 8.6 | 6.0 | 6.9 | -6.6 | -10.3 | -7.4 | 11.9 | 10.5 | 10.7 |
| Poland | 3.8 | 3.8 | 3.0 | 2.6 | 4.0 | 2.8 | -4.5 | -4.8 | -5.1 | 9.6 | 9.4 | 9.2 |
| Romania | -1.3 | 1.5 | 3.5 | 6.1 | 6.4 | 4.3 | -4.3 | -4.5 | -4.6 | 7.6 | 5.0 | 4.8 |
| Hungary | 1.2 | 1.8 | 1.7 | 4.9 | 3.7 | 3.0 | 2.1 | 2.0 | 1.5 | 11.2 | 11.3 | 11.0 |
| Bulgaria | 0.2 | 2.5 | 3.0 | 3.0 | 3.8 | 2.9 | -1.0 | 1.6 | 0.6 | 10.3 | 10.2 | 9.5 |
| Serbia | 1.0 | 2.0 | 3.0 | 6.2 | 11.3 | 4.3 | -7.2 | -7.7 | -8.9 | 19.6 | 20.5 | 20.6 |
| Croatia | -1.2 | 0.8 | 1.8 | 1.0 | 3.2 | 2.4 | -1.1 | -1.8 | -2.7 | 12.2 | 12.7 | 12.2 |
| Lithuania | 1.3 | 6.0 | 3.4 | 1.2 | 4.2 | 2.6 | 1.8 | -1.9 | -2.7 | 17.8 | 15.5 | 14.0 |
| Latvia | -0.3 | 4.0 | 3.0 | -1.2 | 4.2 | 2.3 | 3.6 | 1.0 | -0.5 | 19.0 | 16.1 | 14.5 |

¹Movements in consumer prices are shown as annual averages. December–December changes can be found in Tables A6 and A7 in the Statistical Appendix.

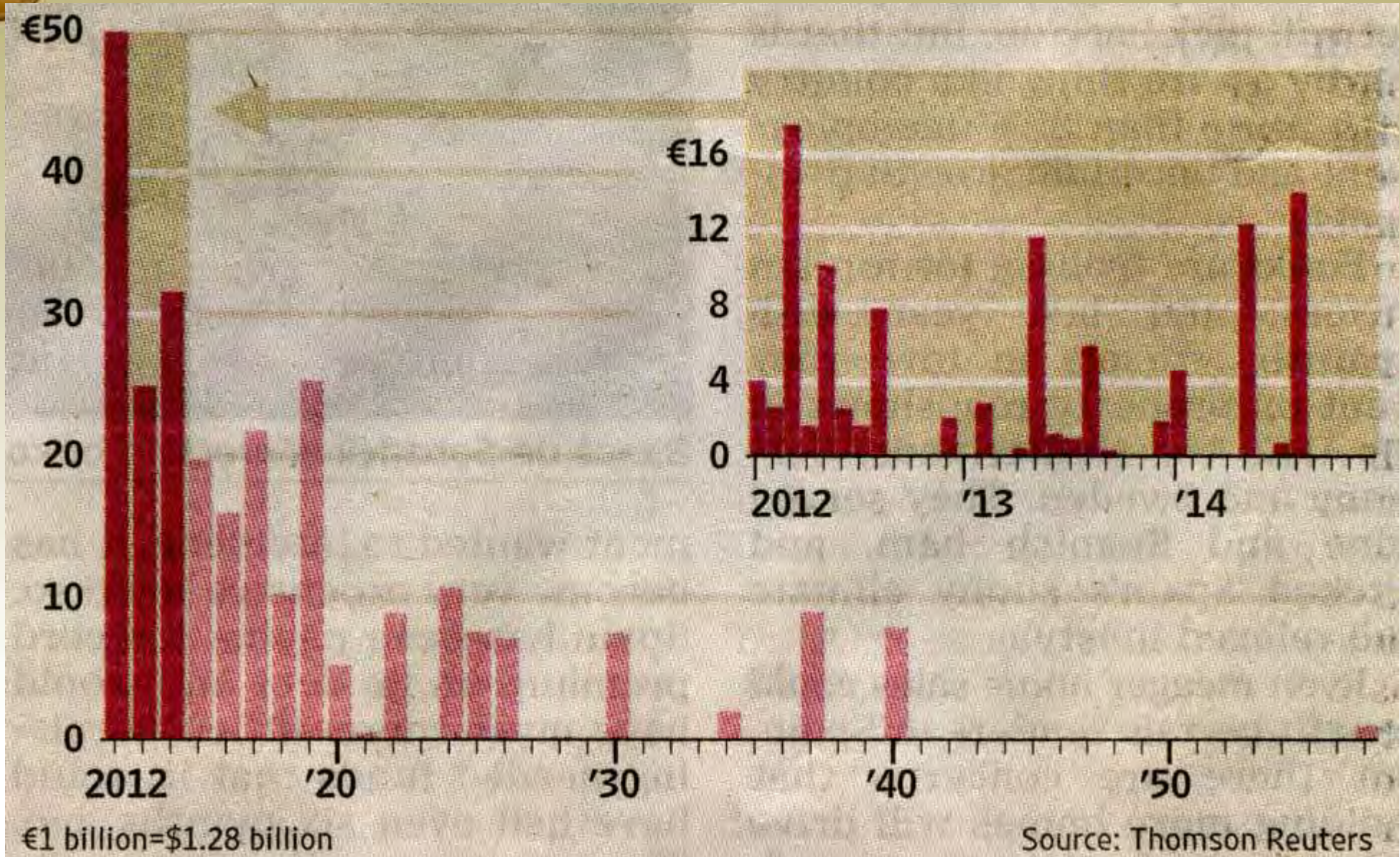
²Percent of GDP.

³Percent. National definitions of unemployment may differ.


⁴Current account position corrected for reporting discrepancies in intra-area transactions.

Coming Due Too Soon

Greece has more than €106 billion in debt that it must pay back or refinance in the next three years; debt due each year (large chart) and each month of the first three years (small chart), in billions



Source: *New York Times*, January 11, 2012.



German Finance Minister Wolfgang Schauble:
“Perhaps we and our partners must look into ways to assist
Greece in an even closer manner”

- Greece – 5th Plan, 2nd bailout.....February 21, 2012
EU and IMF - Refinance public sector - for \$172 billion
– use to bolster banking system, sweeten private sector deal –
reduce debt to 120%/GDP by 2020;
- ECB to distribute profits on 40 bil. Euro in Greek debt it bought;
 - 53% Haircut for private holders of Greek debt;
Exchange bonds for new ones – 30 year, average
interest rate lowered from 4.8% to 3.65% -
Debt write off \$142 billion – 74% net present value loss
Greece
 - 30 new savings & reforms by Greece;
 - Escrow account to guarantee debt payments;

INSIDE THIS WEEK: A 14-PAGE SPECIAL REPORT ON CHINA

The Economist

ISSN 0950-0804 (print) 1750-0497 (online)

economist.com

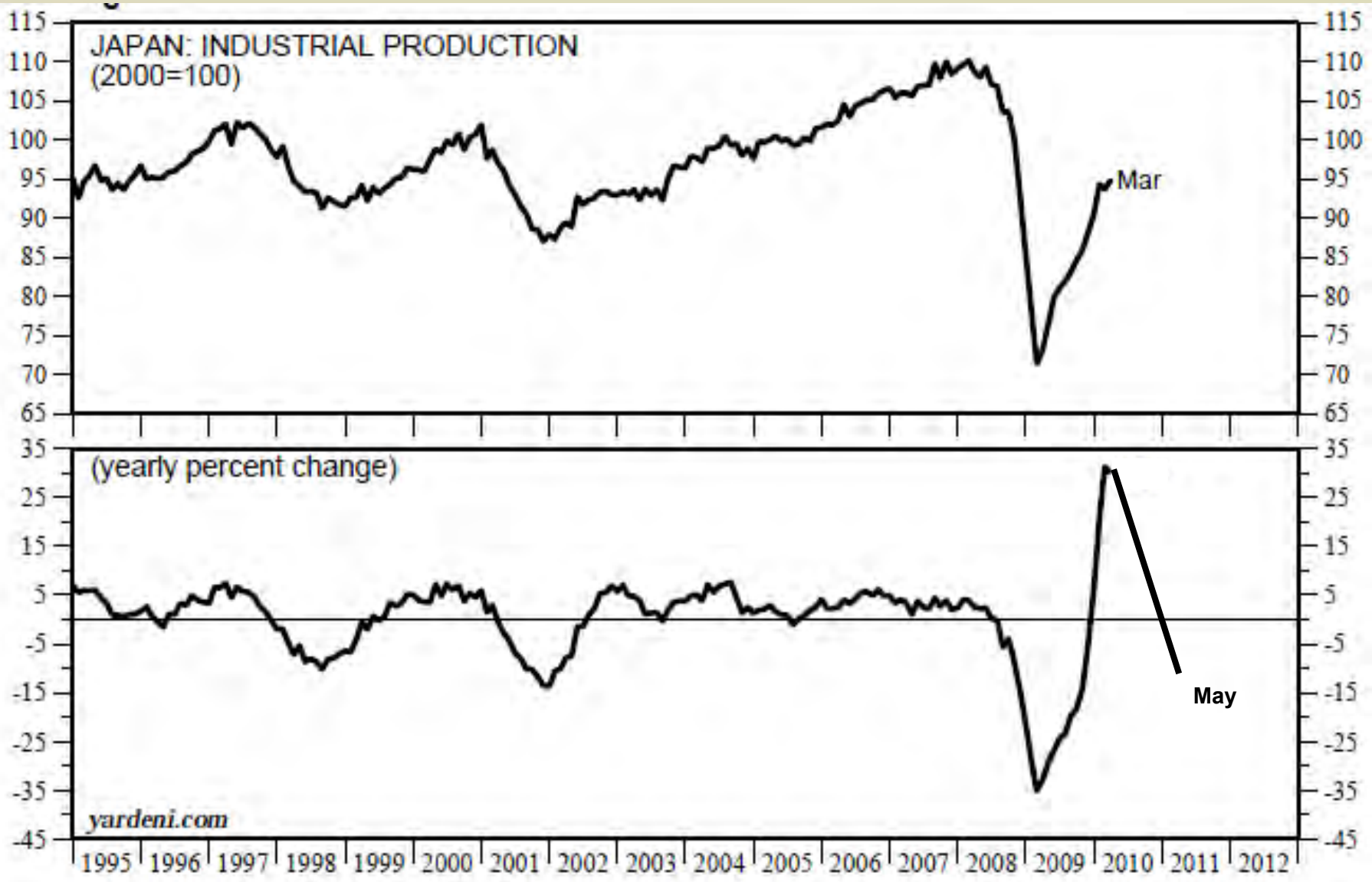
In praise of Britain's private schools
Egypt's economy and the Arab spring
The danger of exchange-traded funds
What will happen if America defaults?
The marvel of medieval relics

If Greece goes...



Japan – Deficits, Debt and Deflation

| Performance Factors | <u>1979-85</u> | <u>1985-91</u> | <u>1991- >11</u> |
|-----------------------------|-----------------------|-----------------------|----------------------------|
| Real GDP Growth | 3.9% | 5.1% | 1.2 -6.2 1.5% |
| of which consumption | 60.7 | 57.8 | 56.8 |
| government | 10.0 | 9.9 | 17.9 |
| investment | 29.6 | 34.0 | 19.4 |
| exports | 12.1 | 14.2 | 16.0 |
| Unemployment | 2.8 | 2.1 | 5.2 -> 4.7% |
| Savings (household) | 17.0 | 14.9 | 5.1 -> 3.0 |
| Productivity Growth | 4.1 | 2.9 | 2.7 |
| Budget Deficit (%/GDP) | 6.1-> 4.2 - - - > | 1.1 -> | 8.3 -> 3.8 |
| Balance of trade (bil \$\$) | 7 - - > 56 - - - > | 77 - - - > | 105 -> 92 |
| Current account (bil \$\$) | 1 - - > 49 - - - > | 57 - - - > | 248-> 196 |

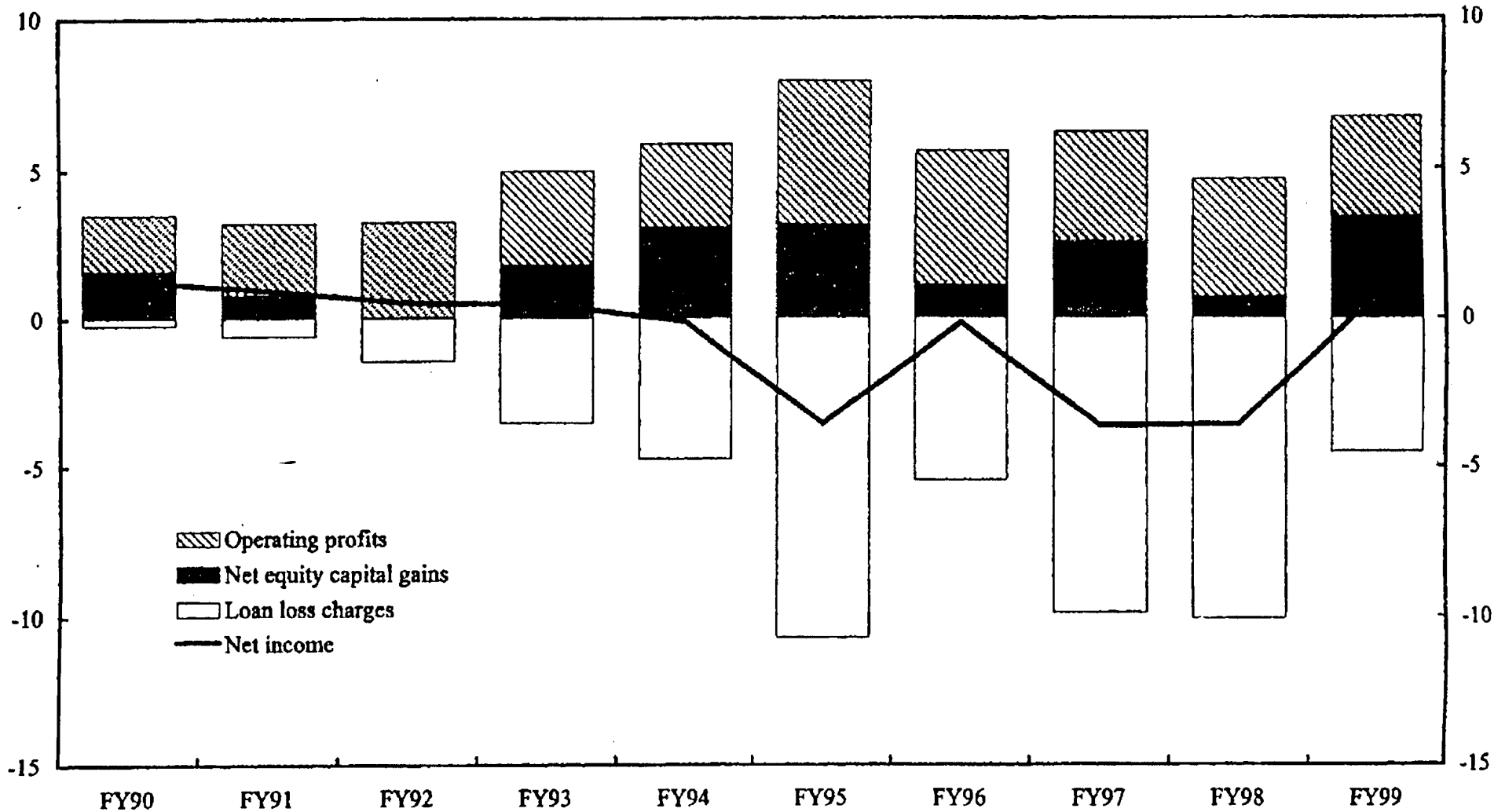


Source: METI



Japan: Major Bank Profits, FY 90-99

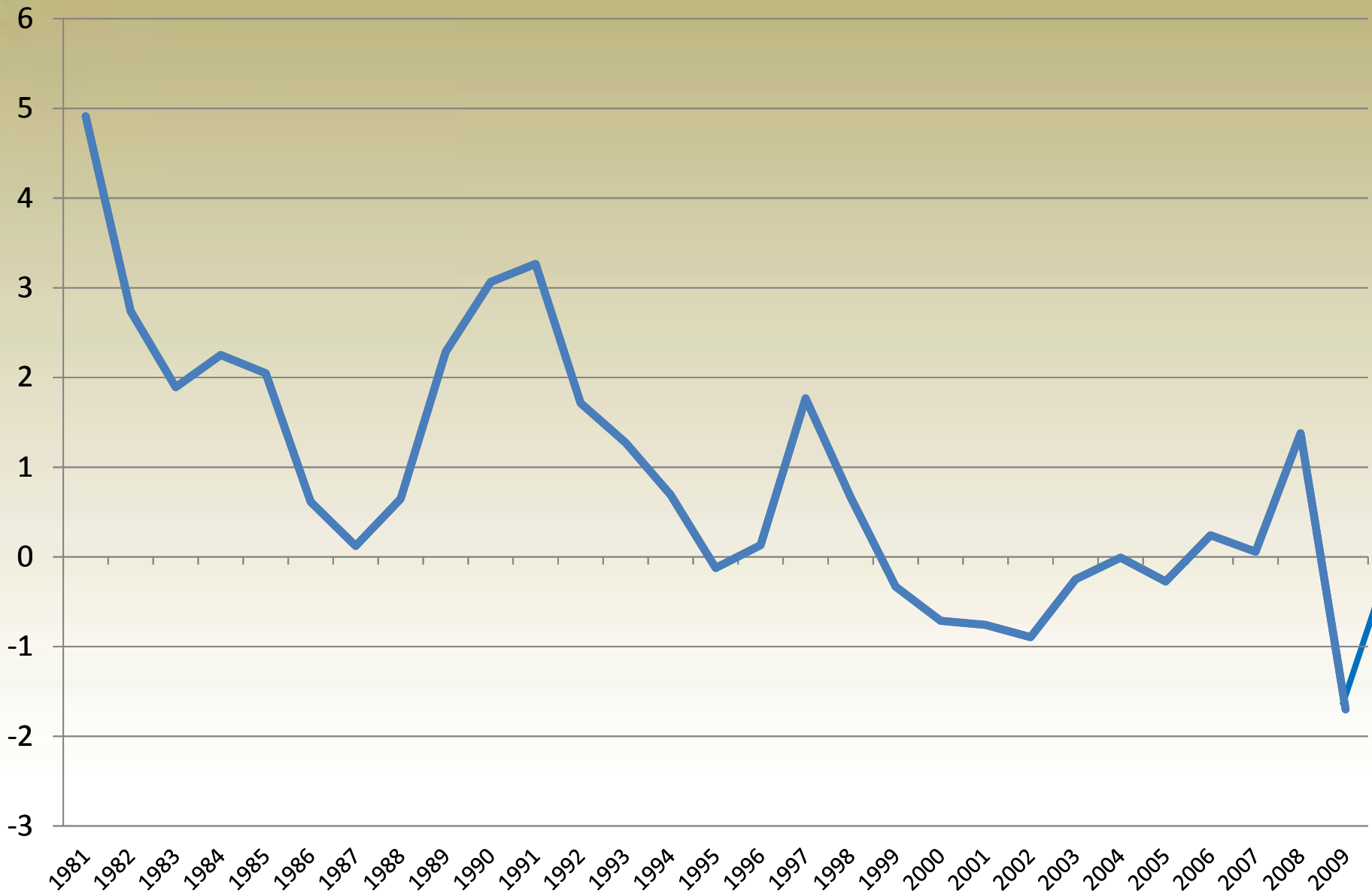
(in trillions of yen)





Japan's Inflation

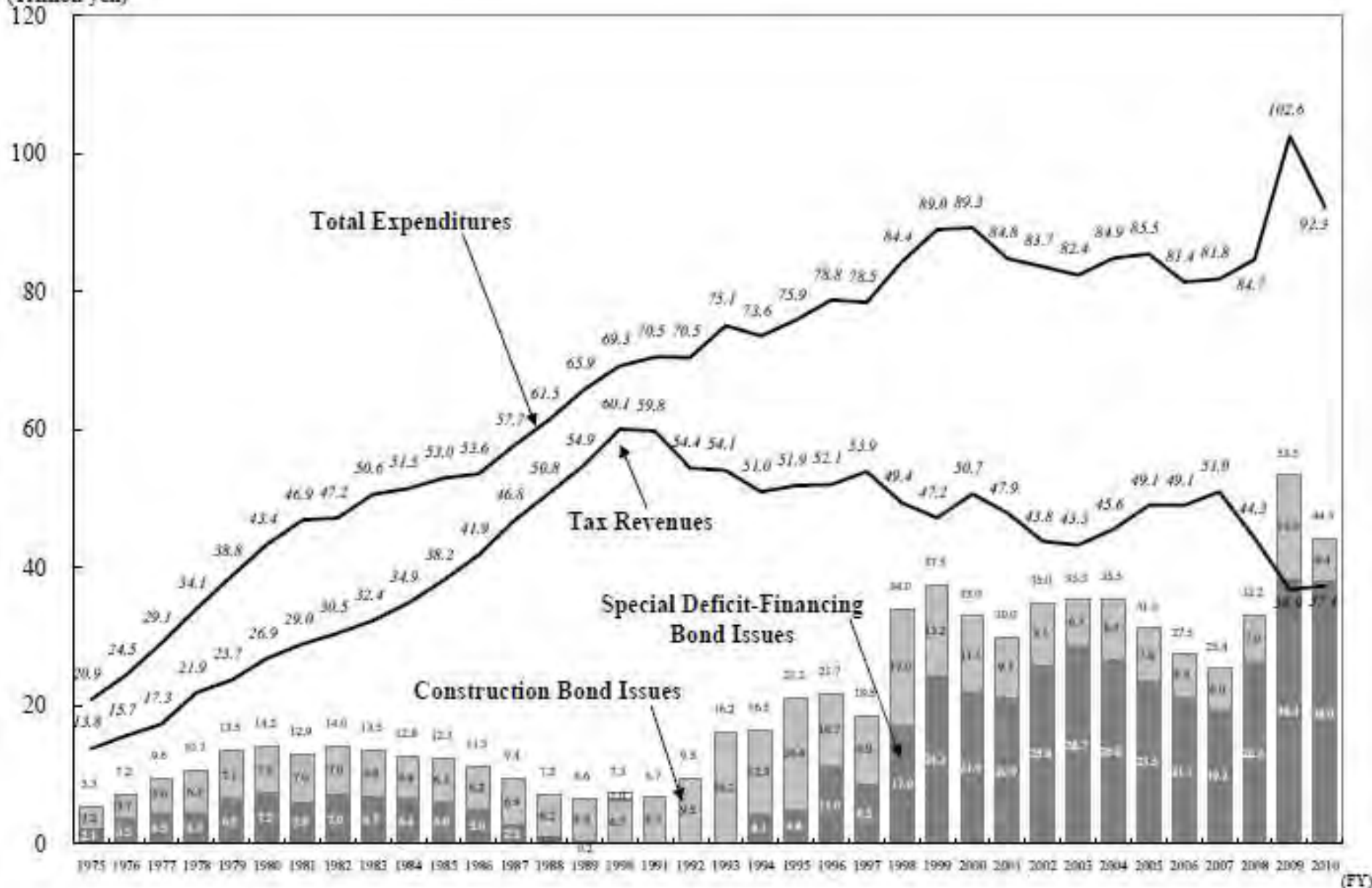
(percent change per year)



Source: Compiled with data from the *Economist Intelligence Unit*.

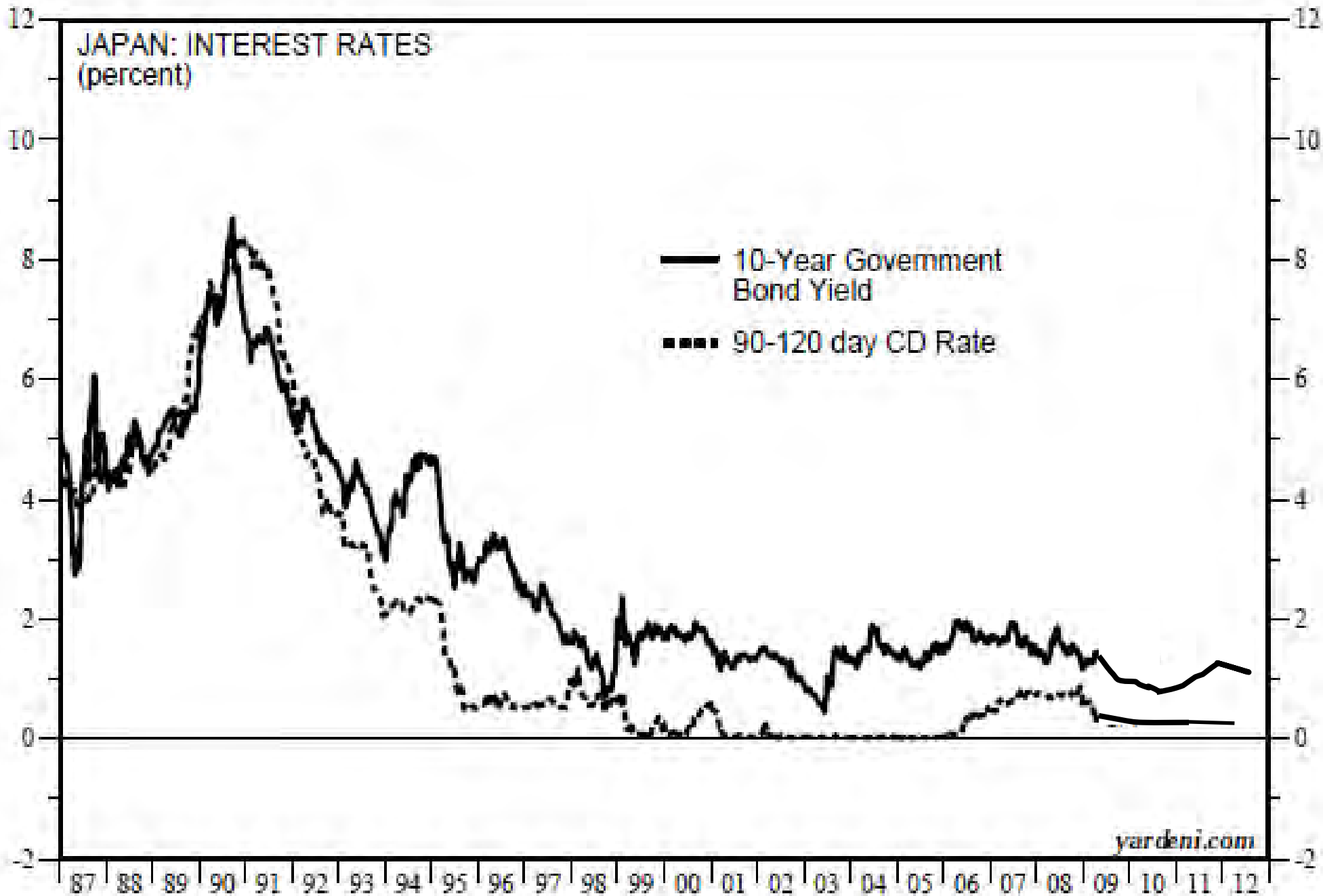
Trends in General Account Tax Revenues, Total Expenditures, and Government Bond Issues

(Trillion yen)



(Note 1) FY1975-2008: Settlement, FY2009: Second revised budget, FY2010: Initial budget

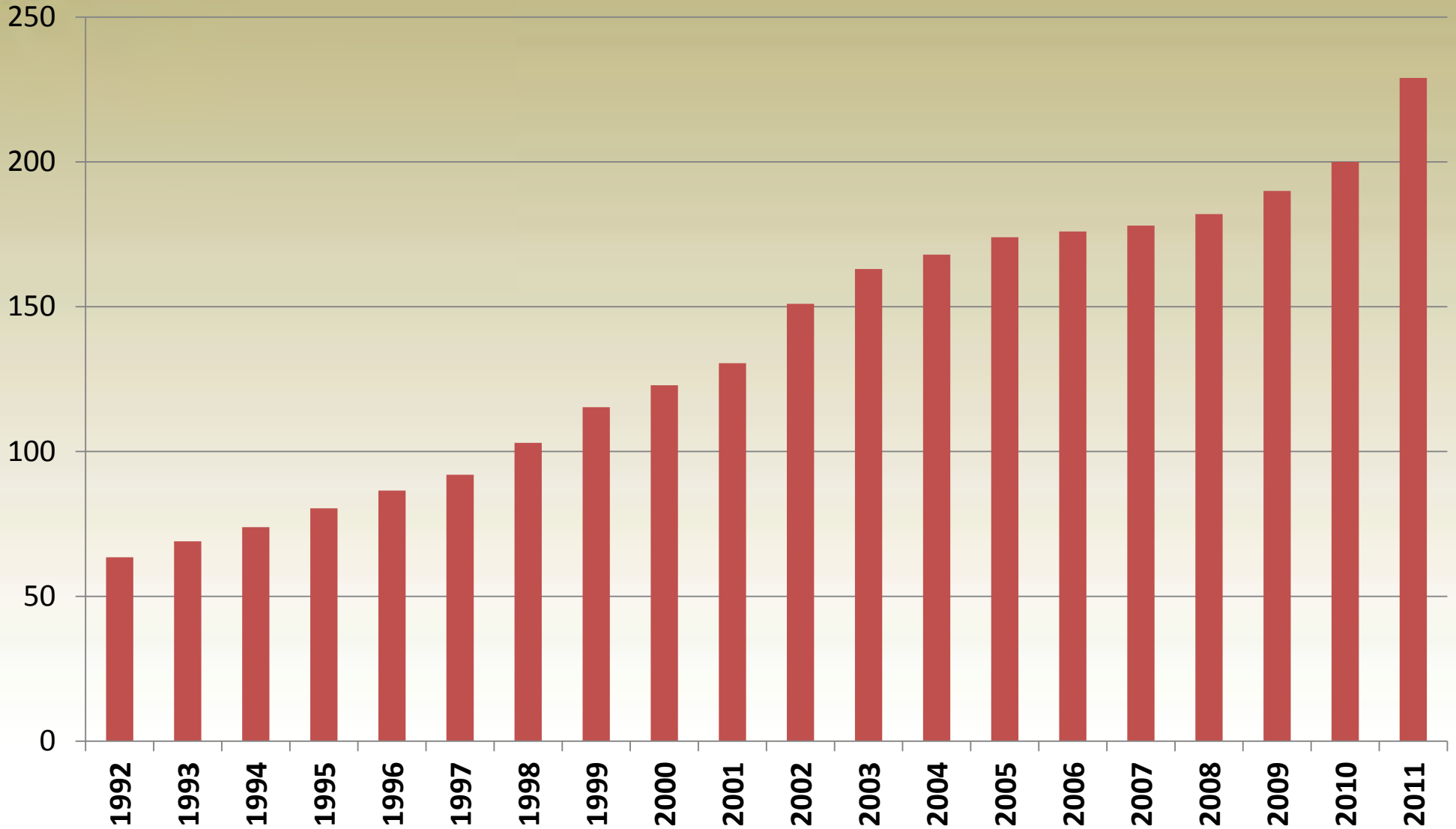
(Note 2) Ad-hoc deficit-financing bonds (approx. 1 trillion yen) were issued in FY1990 as a source of funds to support peace and reconstruction efforts in the Persian Gulf Region.





Public Debt of Japan

(as percent of GDP)

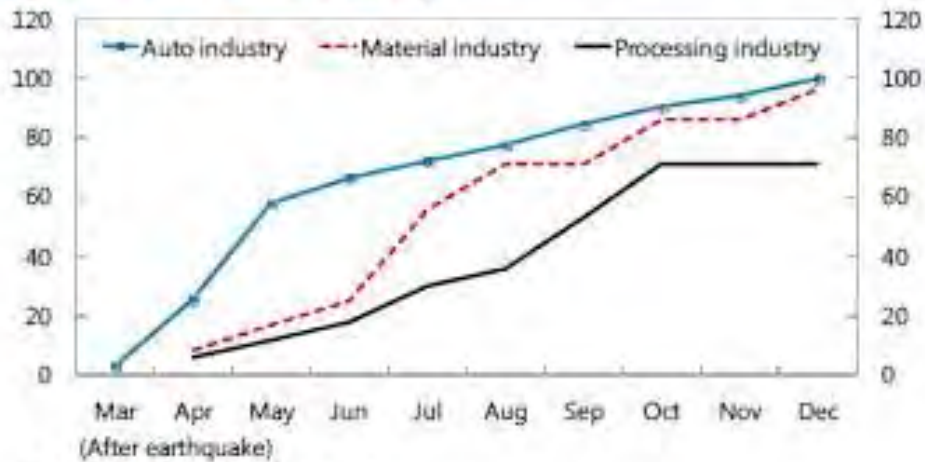


Source: Compiled with data from the *Economist Intelligence Unit*.

Japan Post Earthquake

Restoration of Capacity in Different Sectors

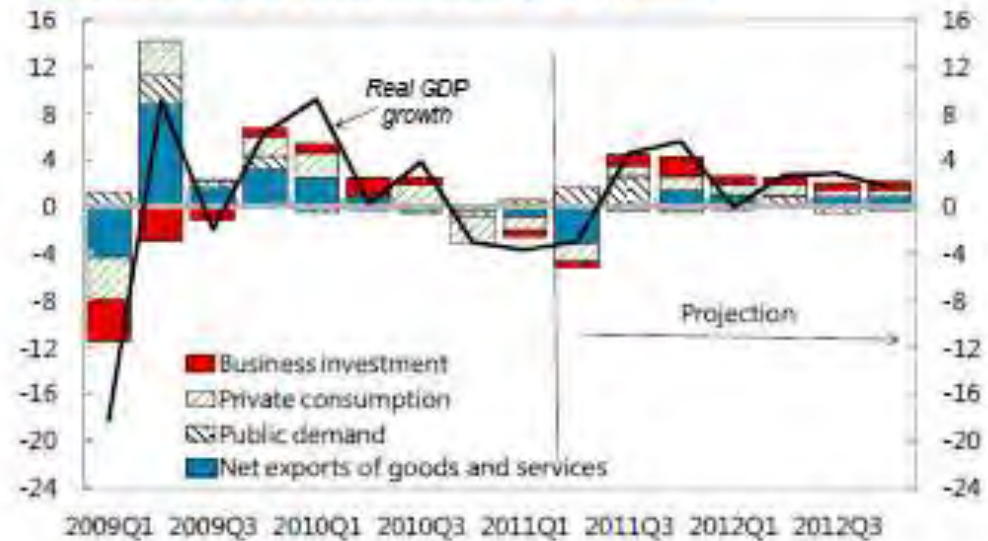
(Percent of firms with restored capacity)



Source: METI and IHS Automotive.

Note: The chart is from April and restoration plans have been moved up by 1-2 months, but no new comprehensive survey data are available.

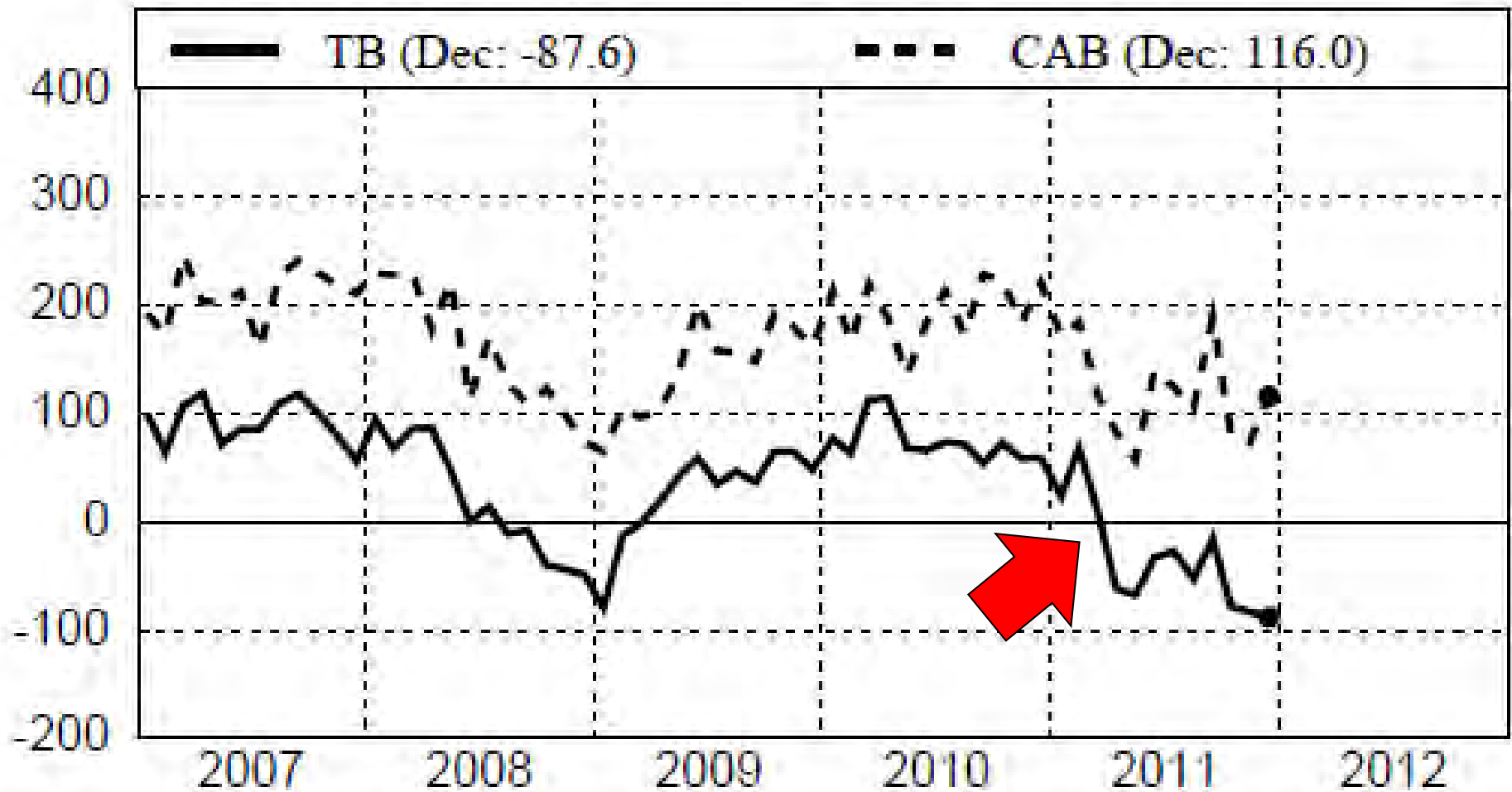
Contributions to GDP Growth (q-o-q, saar)



Source: Cabinet Office of Japan and IMF staff estimates.

Japan's

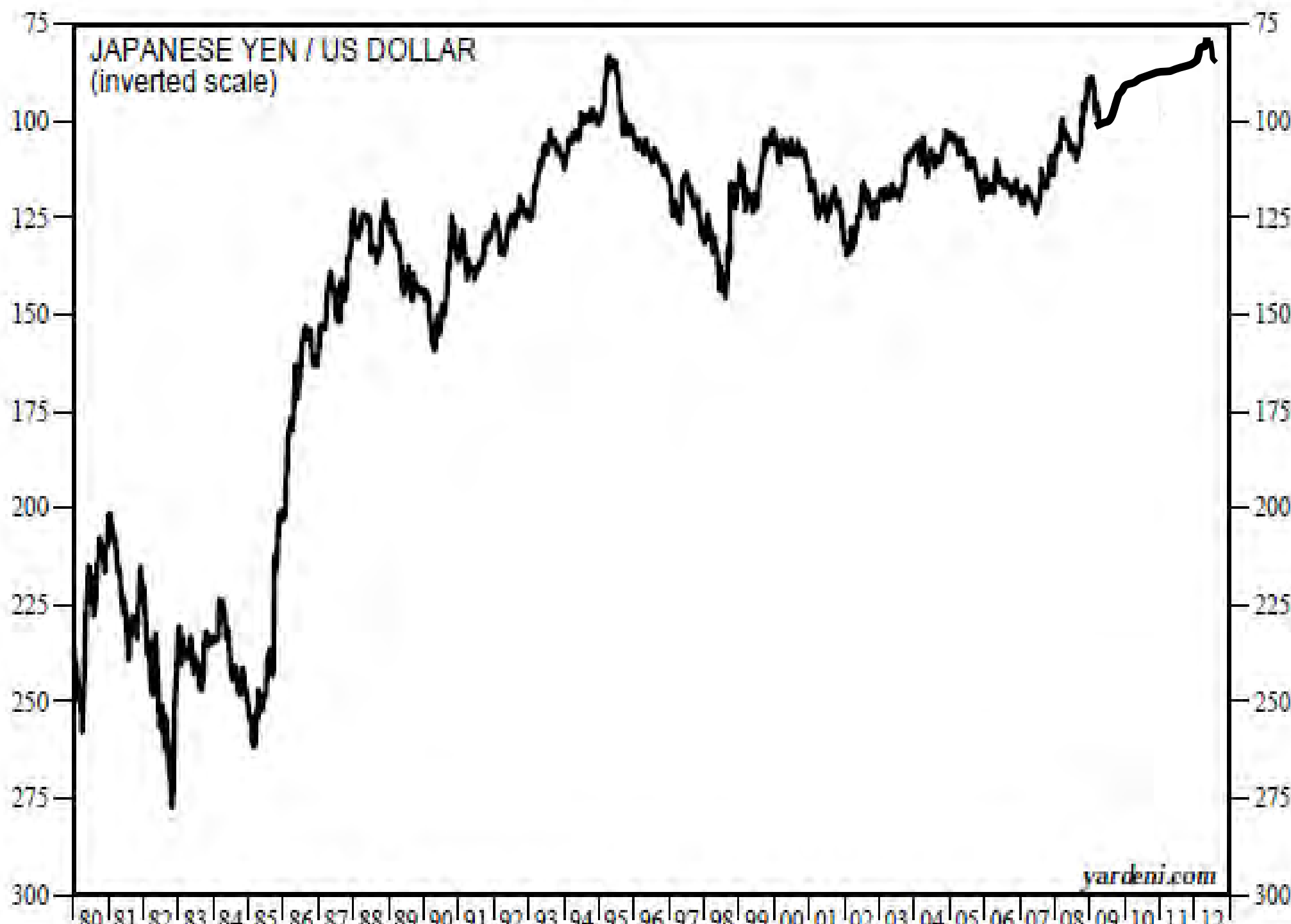
Trade and Current Account Balances In Billions of Dollars, SAAR





Japan Unable to Change Strategies

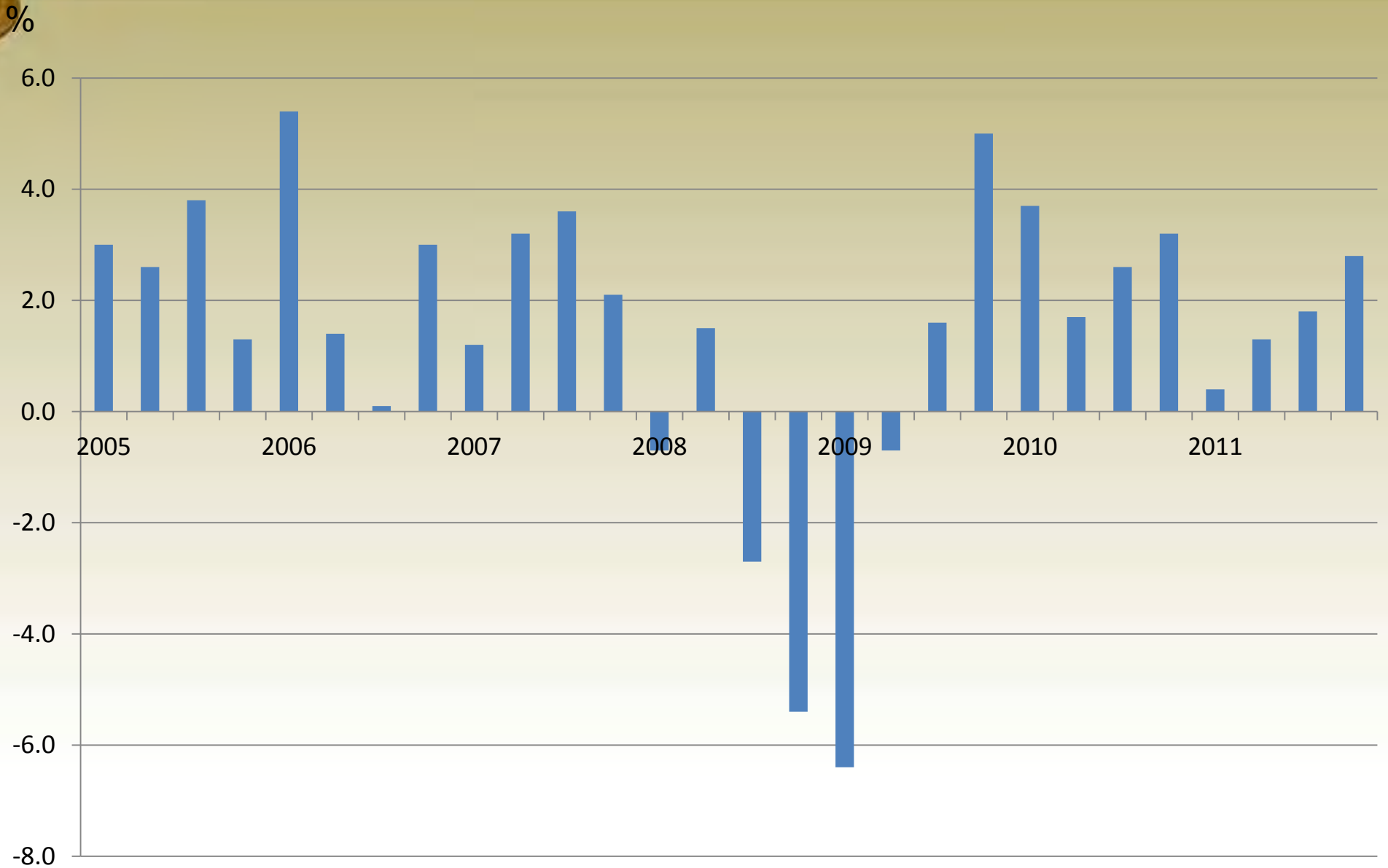
- Monetary policy won't work – liquidity trap
- Fiscal policy won't work – deficits & debt
- Institutions need modernization
- Political gridlock – new party?
- Totally dependent on exports
- Rebuilding and Re-energizing
- Debt/GDP → 229% and rising?
- Collapse pending? Or Restructuring?
- Yen?



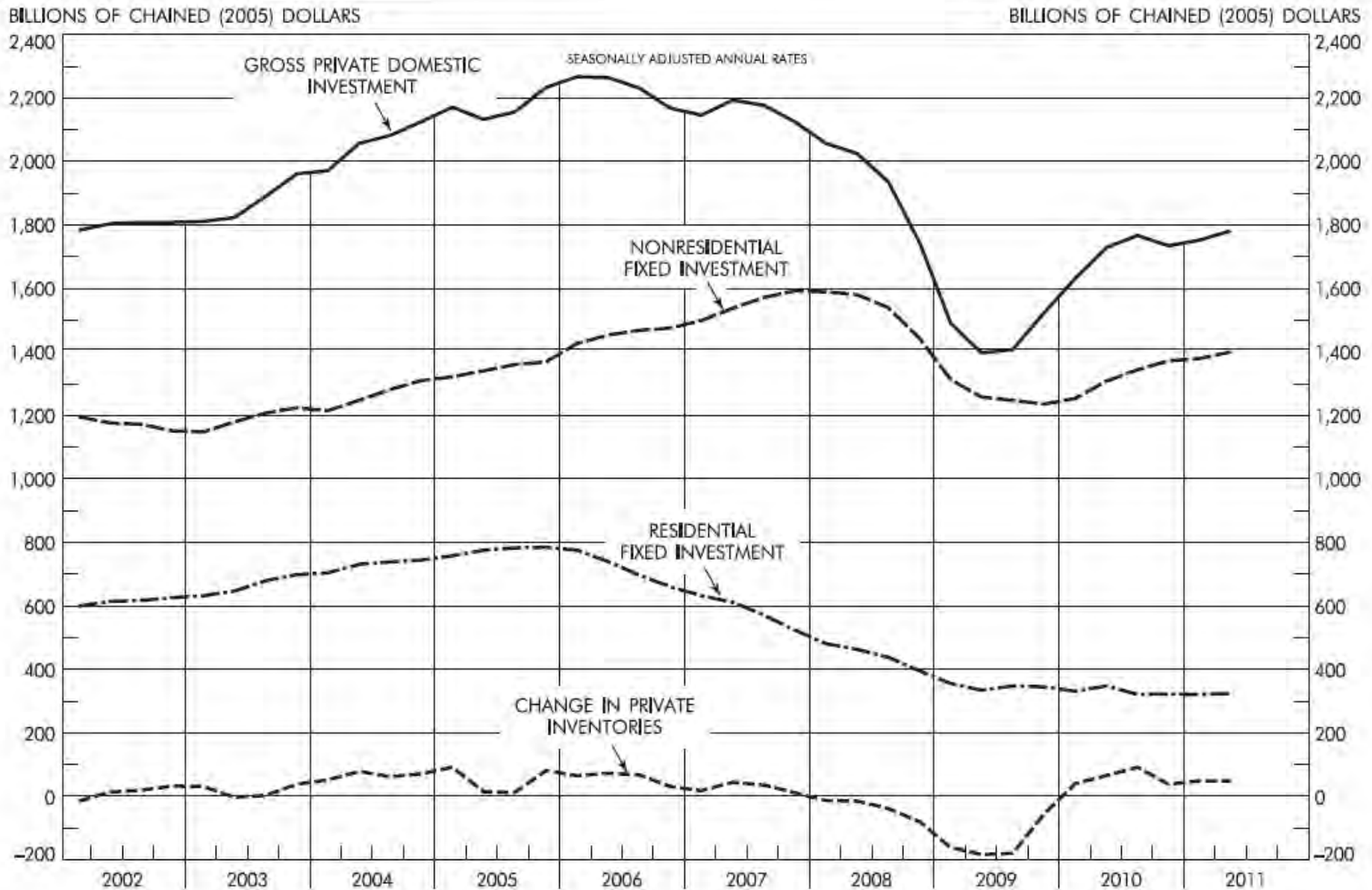
JAPANESE YEN / US DOLLAR
(inverted scale)

United States Real GDP, 2005-2011

(quarterly, billions of chained 2000 dollars)



Gross Private Domestic Investment



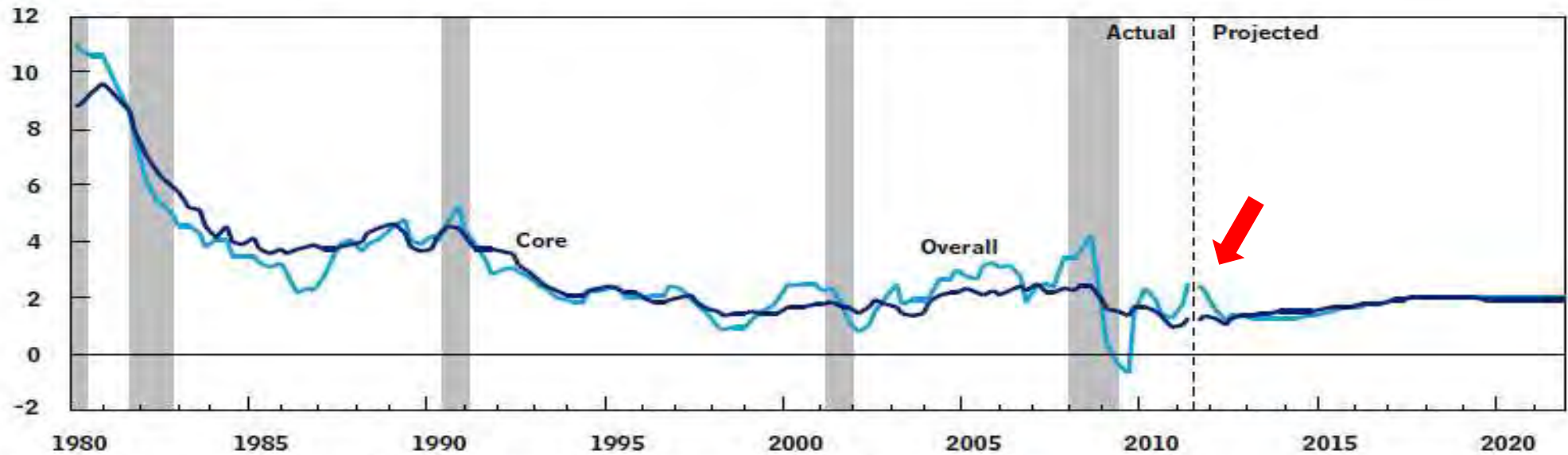
SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of chained (2005) dollars; quarterly data at seasonally adjusted annual rates]

Inflation

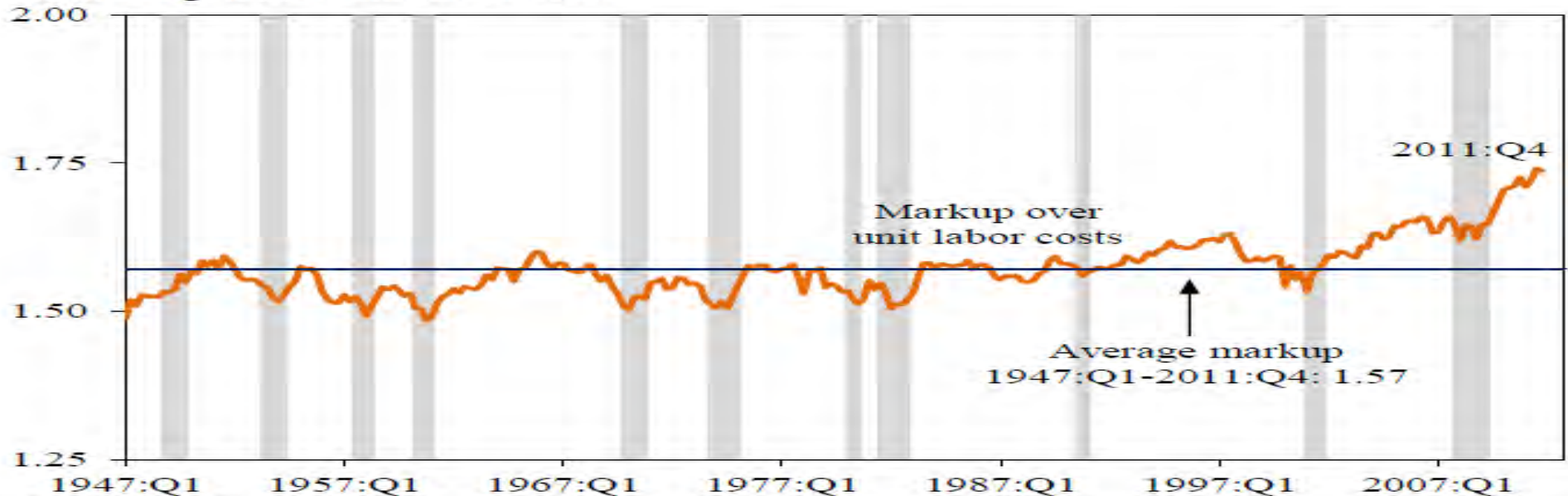
(Percentage change in prices from previous year)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Price Markup over Unit Labor Costs, Nonfarm Business, 1947–2011

Ratio of prices to unit labor costs

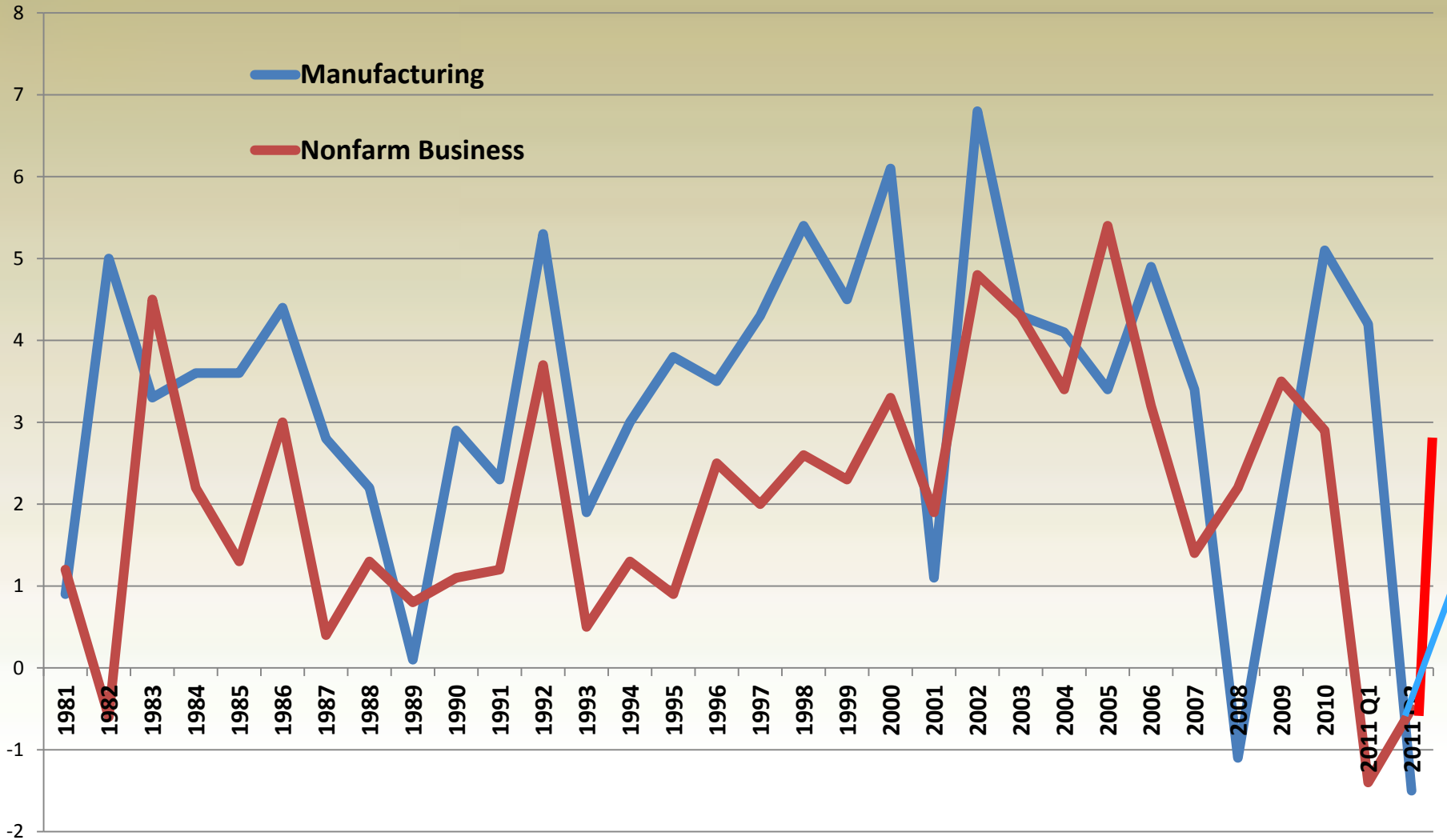


Note: Shading denotes recession.

Source: Bureau of Economic Analysis, National Income and Product Accounts; Bureau of Labor Statistics, Productivity and Costs; CEA calculations.

Good News - US Productivity: 1981-2011

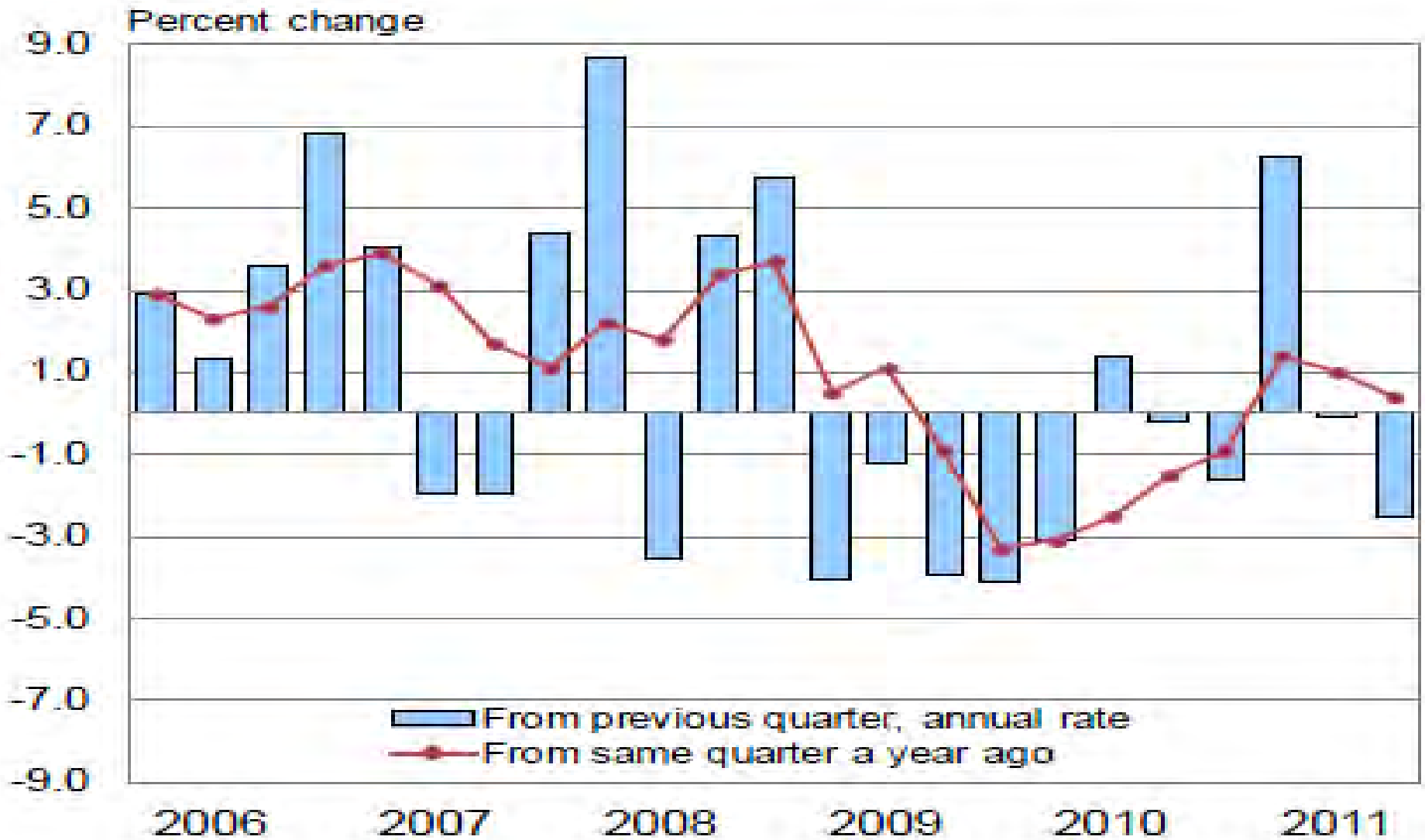
Percent



Source: Bureau of Labor Statistics, November 2011.

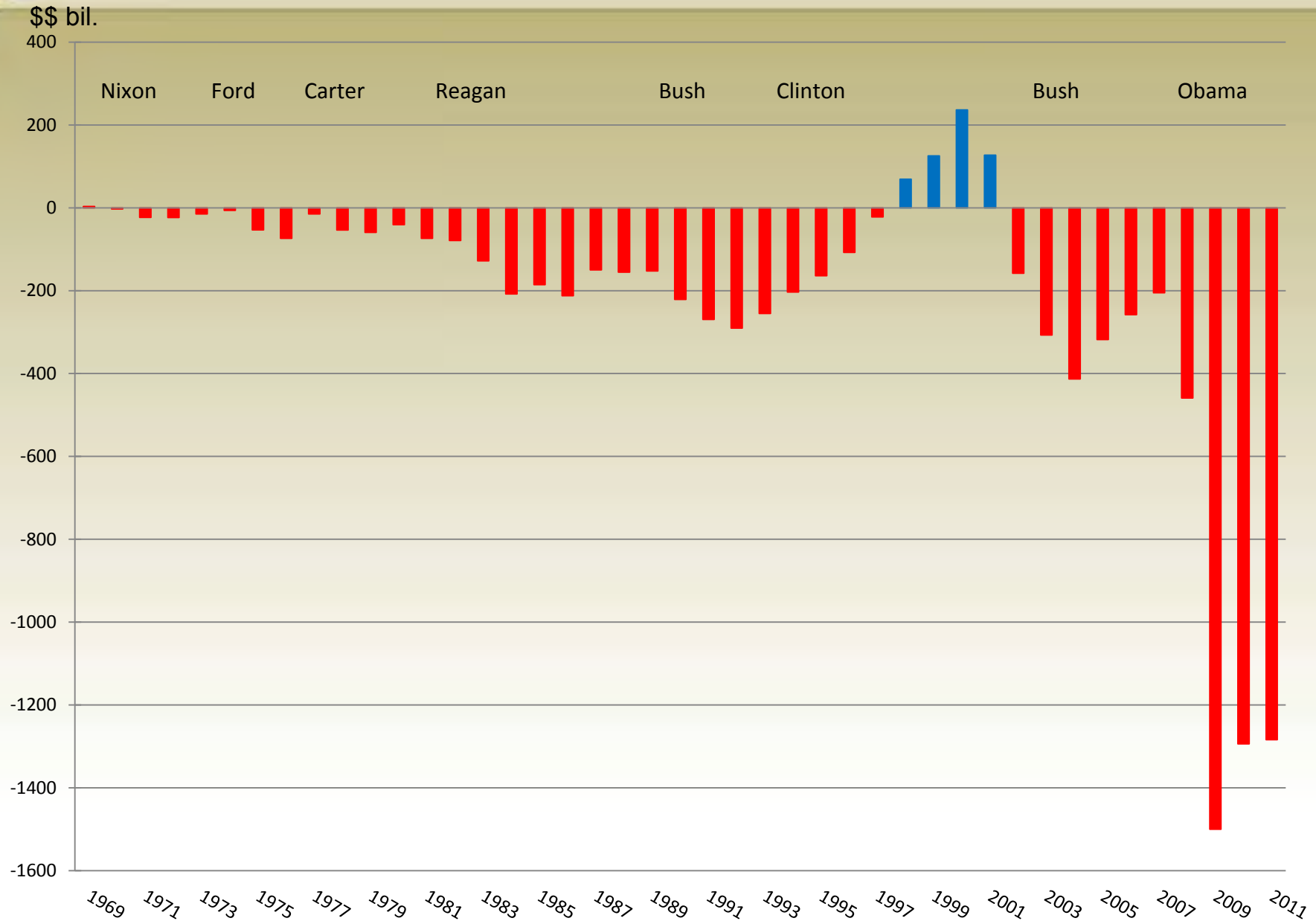
USA Unit Labor Costs

Chart 2. Unit labor costs, nonfarm business, all persons, 2006Q1 – 2011Q3





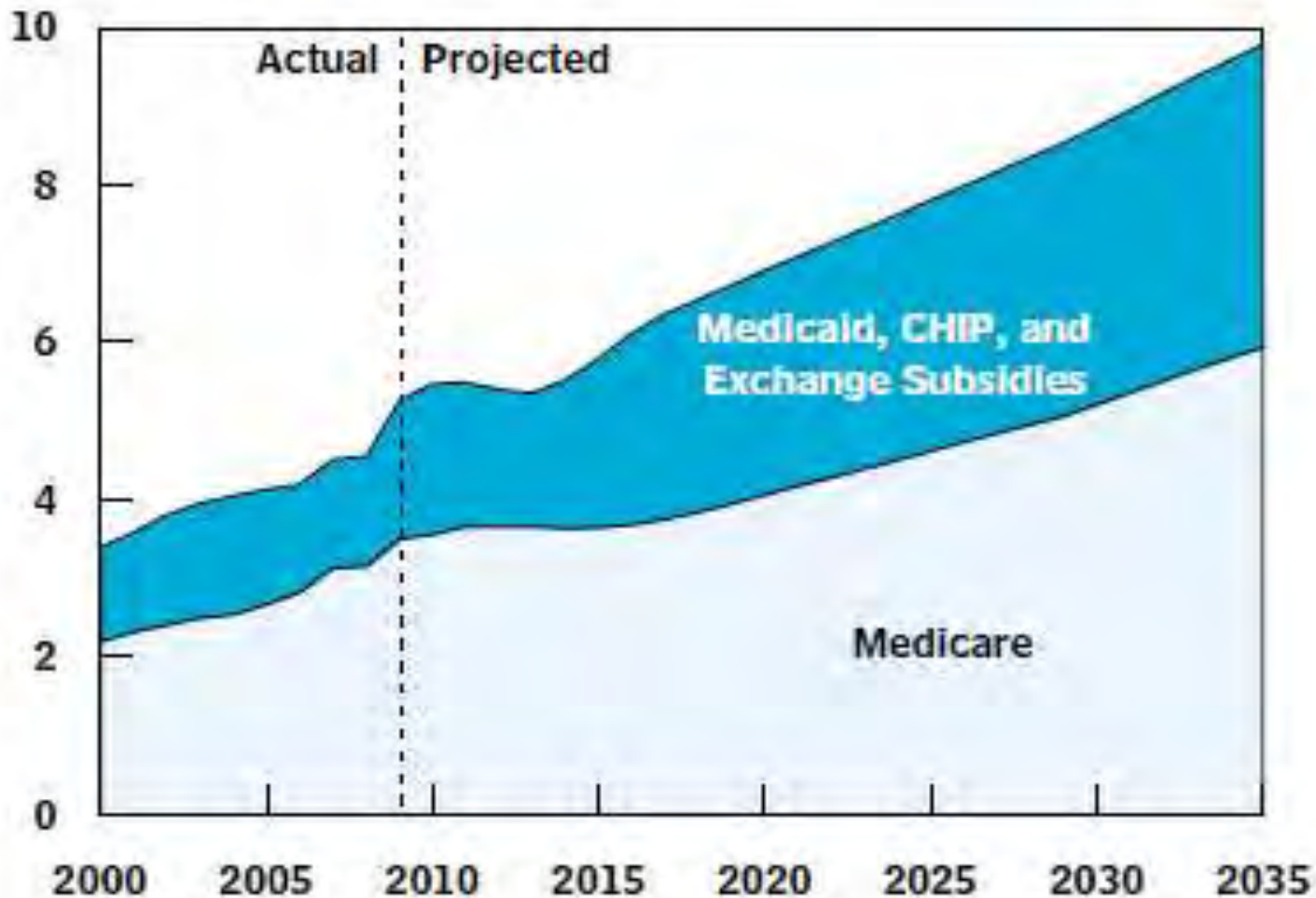
Bad News – Budget Deficits



Source: Compiled from *Economic Report of the President 2010*; CBO, *Budget Outlook*, February 2011.

Mandatory Federal Spending on Health Care, By Category

(Percentage of gross domestic product)

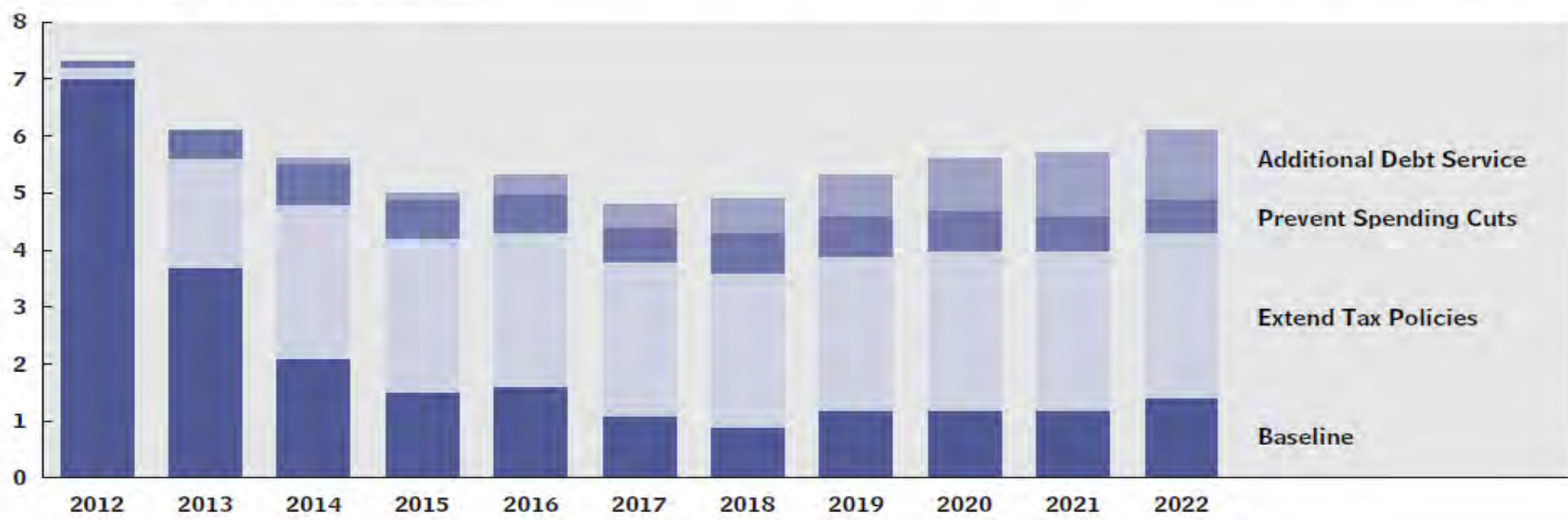


Source: Congressional Budget Office.

CHIP – Children's Health Insurance Program

Deficits Projected in CBO's Baseline and Under an Alternative Fiscal Scenario

(Percentage of gross domestic product)



Federal Debt Held by the Public Projected in CBO's Baseline and Under an Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Bowles-Simpson Deficit Reduction Commission – 11/10/10

- Achieves nearly \$4 trillion in deficit reduction through 2020: 50+ specific ways to cut outdated programs and strengthen competitiveness by making Washington cut and invest, not borrow and spend.
- Reduces the deficit to 2.2% of GDP by 2015, exceeding President's goal of primary balance (about 3% of GDP).
- Reduces tax rates, abolishes the AMT, and cuts backdoor spending in the tax code.
- Caps revenue at or below 21% of GDP and gets spending down to 22% and eventually to 21%.
- Stabilizes debt by 2014 and reduces debt to 60% of GDP by 2024 and 40% by 2037.
- Ensures lasting Social Security solvency, prevents projected 22% cuts in 2037, reduces elderly poverty, and distributes burden fairly.



Budget Control Act of 2011

- August 2, 2011 – Congress compromised to raise debt crisis

Stage #1

- Imposed caps on new discretionary budget authority – designed to reduce expenditures by \$756 billion (plus \$134 billion in debt service savings), cumulatively;
- debt ceiling raised immediately \$400 billion, \$500 more when Congress votes;

Stage #2

- New Congressional committee (6X6) to cut additional \$1.2 trillion (\$1 trillion plus \$197 saved debt service), including entitlements cumulatively;
- If Congress does not vote by December 23, automatic cuts of \$1.2 trillion, across the board...

The Budget Control Act of 2011

Effect of the Budget Control Act of 2011 on Projected Deficits in CBO's Baseline

(Billions of dollars)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total, 2012-2021 |
|---|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|
| Discretionary Caps | -25 | -47 | -59 | -67 | -74 | -81 | -89 | -97 | -104 | -112 | -756 |
| Education Provisions | 3 | 6 | 3 | -2 | -2 | -2 | -2 | -2 | -2 | -3 | -5 |
| Debt Service ^a | * | -1 | -2 | -3 | -7 | -12 | -18 | -24 | -30 | -37 | -134 |
| Total Effect on the Deficit Excluding Provisions Related to the Joint Select Committee on Deficit Reduction | -22 | -42 | -58 | -73 | -84 | -96 | -109 | -123 | -137 | -152 | -895 |
| Provisions Related to the Joint Select Committee on Deficit Reduction | | | | | | | | | | | |
| Policy changes ^b | n.a. | -111 | -111 | -111 | -111 | -111 | -111 | -111 | -111 | -111 | -1,003 |
| Debt service | n.a. | -1 | -3 | -6 | -12 | -20 | -27 | -35 | -42 | -50 | -197 |
| Total Effect on the Deficit | -22 | -155 | -173 | -190 | -208 | -227 | -248 | -269 | -290 | -313 | -2,095 |

Source: Congressional Budget Office.



American Jobs Act

2012-2021

(millions)

| | |
|---------------------------------------|---------------------|
| - halve payroll taxes | \$68,748 |
| - extend 100% expensing | 50,660 |
| - rehire teachers & first responders | 35,000 |
| - infrastructure investments | 94,000 |
| - reform & extend unemployment | 48,000 |
| - re-training | 14,000 |
| total | 447,000 |
| | |
| Mandatory Savings | -256,682 |
| | |
| Health Savings | -320,036 |
| | |
| Cap Overseas Contingency Operations | -1,083,978 |
| | |
| Tax Reforms | |
| - all high-income tax cuts to expire | -866,011 |
| - reduce itemized deductions to 28% | -410,139 |
| - eliminate oil & gas tax preferences | -39,000 |
| - close loopholes for business | -59,900 |
| - reform international tax system | -113,000 |
| - other changes | -84,537 |
| Total | -\$3,121,000 |

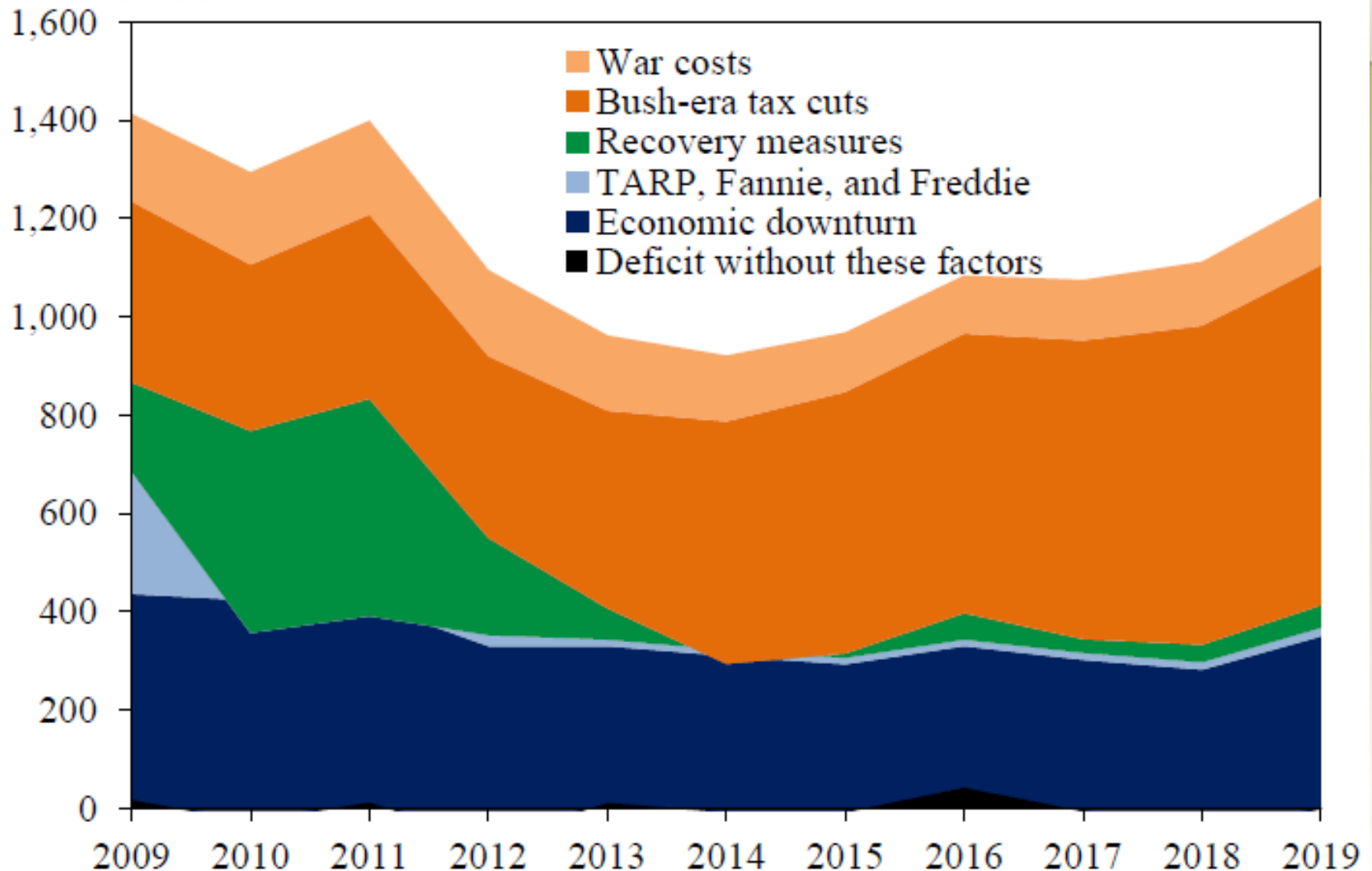
Obama's 2013 Proposed Budget by Category

(In billions of dollars)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Totals | |
|---|--------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|--------------|--------------|
| | | | | | | | | | | | | | 2013–2017 | 2013–2022 |
| Outlays: | | | | | | | | | | | | | | |
| Appropriated ("discretionary") programs: ¹ | | | | | | | | | | | | | | |
| Security | 838 | 868 | 851 | 768 | 749 | 757 | 771 | 786 | 803 | 820 | 837 | 856 | 3,897 | 8,001 |
| Nonsecurity | 462 | 450 | 410 | 393 | 385 | 386 | 390 | 397 | 405 | 415 | 420 | 430 | 1,964 | 4,032 |
| Subtotal, appropriated programs | 1,300 | 1,319 | 1,261 | 1,160 | 1,135 | 1,143 | 1,162 | 1,183 | 1,208 | 1,236 | 1,258 | 1,287 | 5,861 | 12,033 |
| Mandatory programs: | | | | | | | | | | | | | | |
| Social Security | 725 | 773 | 820 | 867 | 918 | 970 | 1,026 | 1,085 | 1,149 | 1,216 | 1,287 | 1,361 | 4,601 | 10,699 |
| Medicare | 480 | 478 | 523 | 551 | 569 | 619 | 633 | 654 | 716 | 767 | 822 | 908 | 2,895 | 6,762 |
| Medicaid | 275 | 255 | 283 | 338 | 370 | 399 | 423 | 450 | 479 | 510 | 542 | 578 | 1,813 | 4,372 |
| Troubled Asset Relief Program (TARP) ² ... | -38 | 35 | 12 | 8 | 5 | 2 | 1 | * | * | * | | | 29 | 30 |
| Other mandatory programs | 631 | 711 | 654 | 644 | 665 | 705 | 712 | 716 | 750 | 775 | 821 | 826 | 3,381 | 7,269 |
| Subtotal, mandatory programs | 2,073 | 2,252 | 2,293 | 2,409 | 2,527 | 2,695 | 2,796 | 2,905 | 3,094 | 3,269 | 3,472 | 3,673 | 12,719 | 29,131 |
| Net interest | 230 | 225 | 248 | 309 | 390 | 483 | 565 | 631 | 692 | 748 | 798 | 850 | 1,996 | 5,715 |
| Adjustments for disaster costs ³ | * | * | 2 | 5 | 7 | 8 | 9 | 9 | 10 | 10 | 10 | 10 | 31 | 80 |
| Total outlays | 3,603 | 3,796 | 3,803 | 3,883 | 4,060 | 4,329 | 4,532 | 4,728 | 5,004 | 5,262 | 5,537 | 5,820 | 20,607 | 46,959 |
| Receipts: | | | | | | | | | | | | | | |
| Individual income taxes | 1,091 | 1,165 | 1,359 | 1,476 | 1,617 | 1,763 | 1,912 | 2,052 | 2,184 | 2,319 | 2,459 | 2,605 | 8,128 | 19,747 |
| Corporation income taxes | 181 | 237 | 348 | 430 | 445 | 455 | 473 | 480 | 485 | 494 | 507 | 520 | 2,151 | 4,637 |
| Social insurance and retirement receipts: | | | | | | | | | | | | | | |
| Social Security payroll taxes | 566 | 572 | 677 | 742 | 781 | 833 | 881 | 936 | 987 | 1,034 | 1,093 | 1,150 | 3,915 | 9,113 |
| Medicare payroll taxes | 188 | 203 | 214 | 226 | 240 | 257 | 273 | 290 | 306 | 321 | 339 | 357 | 1,210 | 2,823 |
| Unemployment insurance | 56 | 57 | 58 | 59 | 75 | 79 | 75 | 73 | 65 | 64 | 66 | 67 | 347 | 681 |
| Other retirement | 8 | 9 | 10 | 11 | 12 | 12 | 13 | 13 | 14 | 14 | 16 | 17 | 57 | 130 |
| Excise taxes | 72 | 79 | 88 | 99 | 104 | 106 | 112 | 120 | 136 | 142 | 150 | 159 | 509 | 1,216 |
| Estate and gift taxes | 7 | 11 | 13 | 23 | 25 | 27 | 29 | 32 | 34 | 37 | 39 | 42 | 117 | 301 |
| Customs duties | 30 | 31 | 33 | 36 | 38 | 39 | 41 | 44 | 46 | 48 | 50 | 52 | 188 | 428 |
| Deposits of earnings, Federal Reserve System | 83 | 81 | 80 | 61 | 46 | 36 | 36 | 38 | 40 | 42 | 43 | 45 | 260 | 468 |
| Other miscellaneous receipts | 20 | 24 | 21 | 52 | 68 | 71 | 74 | 77 | 83 | 89 | 95 | 101 | 286 | 729 |
| Total receipts | 2,303 | 2,469 | 2,902 | 3,215 | 3,450 | 3,680 | 3,919 | 4,153 | 4,379 | 4,604 | 4,857 | 5,115 | 17,167 | 40,274 |
| Deficit | 1,300 | 1,327 | 901 | 668 | 610 | 649 | 612 | 575 | 626 | 658 | 681 | 704 | 3,440 | 6,684 |
| Net interest | 230 | 225 | 248 | 309 | 390 | 483 | 565 | 631 | 692 | 748 | 798 | 850 | 1,996 | 5,715 |
| Primary deficit / surplus (-) | 1,070 | 1,102 | 654 | 359 | 219 | 166 | 47 | -56 | -67 | -90 | -117 | -146 | 1,445 | 969 |
| On-budget deficit | 1,367 | 1,394 | 945 | 695 | 629 | 673 | 634 | 601 | 647 | 667 | 686 | 701 | 3,576 | 6,877 |
| Off-budget deficit / surplus (-) | -67 | -67 | -43 | -27 | -19 | -24 | -22 | -25 | -21 | -10 | -5 | 4 | -136 | -193 |

Selected Components of Deficit Projections: 2009–2019

Billions of dollars



Note: Based on CBO budget projections. CBO employs different economic assumptions and methodology than OMB. As a result, the projections presented in this figure may differ from those presented by OMB.

Source: Ruffing and Horney (2011).

ECONOMIC ASSUMPTIONS¹

(Calendar years; dollar amounts in billions)

| | 2010 | Projections | | | | | | | | | | | |
|--|--------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Actual | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Gross Domestic Product (GDP): | | | | | | | | | | | | | |
| Levels, dollar amounts in billions: | | | | | | | | | | | | | |
| Current dollars | 14,527 | 15,106 | 15,779 | 16,522 | 17,397 | 18,448 | 19,533 | 20,651 | 21,689 | 22,666 | 23,659 | 24,688 | 25,760 |
| Real, chained (2005) dollars | 13,088 | 13,323 | 13,687 | 14,097 | 14,606 | 15,211 | 15,821 | 16,431 | 16,952 | 17,403 | 17,844 | 18,290 | 18,748 |
| Chained price index (2005 = 100) | 111.0 | 113.4 | 115.3 | 117.2 | 119.1 | 121.3 | 123.5 | 125.7 | 127.9 | 130.2 | 132.6 | 135.0 | 137.4 |
| Percent change, fourth quarter over fourth quarter: | | | | | | | | | | | | | |
| Current dollars | 4.7 | 4.0 | 4.6 | 4.7 | 5.8 | 6.1 | 5.8 | 5.7 | 4.6 | 4.4 | 4.3 | 4.3 | 4.3 |
| Real, chained (2005) dollars | 3.1 | 1.7 | 3.0 | 3.0 | 4.0 | 4.2 | 3.9 | 3.8 | 2.8 | 2.6 | 2.5 | 2.5 | 2.5 |
| Chained price index (2005 = 100) | 1.6 | 2.2 | 1.6 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Percent change, year over year: | | | | | | | | | | | | | |
| Current dollars | 4.2 | 4.0 | 4.5 | 4.7 | 5.3 | 6.0 | 5.9 | 5.7 | 5.0 | 4.5 | 4.4 | 4.3 | 4.3 |
| Real, chained (2005) dollars | 3.0 | 1.8 | 2.7 | 3.0 | 3.6 | 4.1 | 4.0 | 3.9 | 3.2 | 2.7 | 2.5 | 2.5 | 2.5 |
| Chained price index (2005 = 100) | 1.2 | 2.1 | 1.7 | 1.7 | 1.6 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Incomes, billions of current dollars: | | | | | | | | | | | | | |
| Domestic corporate profits | 1,418 | 1,588 | 1,782 | 1,750 | 1,779 | 1,884 | 1,936 | 1,973 | 1,946 | 1,906 | 1,842 | 1,761 | 1,678 |
| Employee compensation | 7,971 | 8,278 | 8,595 | 8,955 | 9,433 | 9,992 | 10,622 | 11,297 | 11,953 | 12,586 | 13,230 | 13,885 | 14,587 |
| Wages and salaries | 6,408 | 6,668 | 7,025 | 7,253 | 7,601 | 8,063 | 8,578 | 9,150 | 9,696 | 10,219 | 10,749 | 11,277 | 11,850 |
| Other taxable income ² | 3,108 | 3,308 | 3,495 | 3,697 | 3,899 | 4,164 | 4,475 | 4,766 | 5,022 | 5,251 | 5,464 | 5,655 | 5,794 |
| Consumer Price Index (all urban):³ | | | | | | | | | | | | | |
| Level (1982–84 = 100), annual average | 218.1 | 225.1 | 230.0 | 234.5 | 239.1 | 244.0 | 249.0 | 254.3 | 259.6 | 265.1 | 270.7 | 276.4 | 282.2 |
| Percent change, fourth quarter over fourth quarter | 1.2 | 3.6 | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Percent change, year over year | 1.6 | 3.2 | 2.2 | 1.9 | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Unemployment rate, civilian, percent: | | | | | | | | | | | | | |
| Fourth quarter level | 9.6 | 9.0 | 8.8 | 8.6 | 7.8 | 7.0 | 6.3 | 5.6 | 5.5 | 5.4 | 5.4 | 5.4 | 5.4 |
| Annual average | 9.6 | 9.0 | 8.9 | 8.6 | 8.1 | 7.3 | 6.5 | 5.8 | 5.5 | 5.4 | 5.4 | 5.4 | 5.4 |
| Federal pay raises, January, percent: | | | | | | | | | | | | | |
| Military ⁴ | 3.4 | 1.4 | 1.6 | 1.7 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Civilian ⁵ | 2.0 | 0.0 | 0.0 | 0.5 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Interest rates, percent: | | | | | | | | | | | | | |
| 91-day Treasury bills ⁶ | 0.1 | 0.1 | 0.1 | 0.2 | 1.4 | 2.7 | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 |
| 10-year Treasury notes | 3.2 | 2.8 | 2.8 | 3.5 | 3.9 | 4.4 | 4.7 | 5.0 | 5.1 | 5.1 | 5.1 | 5.3 | 5.3 |

NA = Not Available

U.S. Federal Government Debt

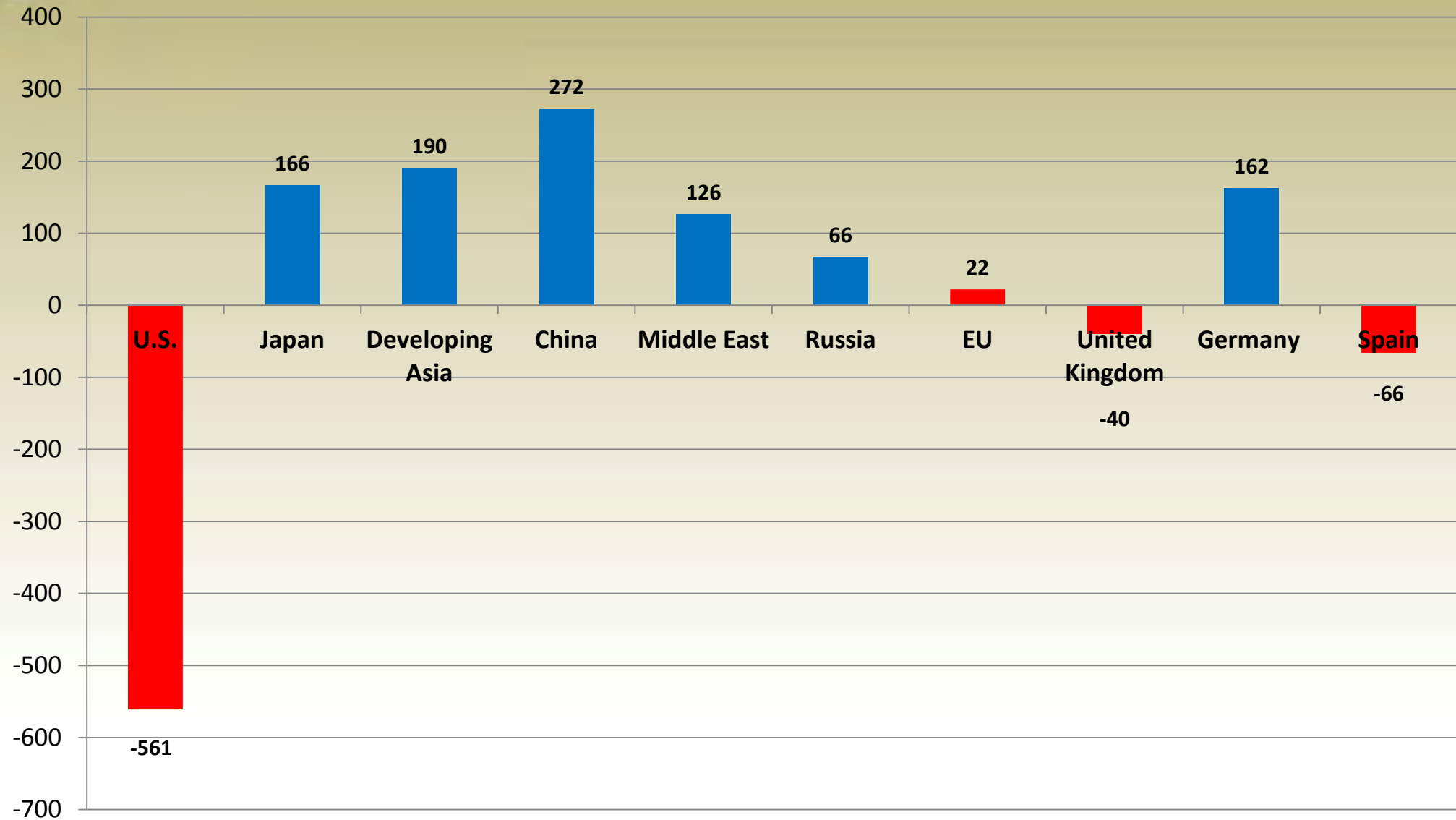
(Dollars amounts in billions)

| | Actual 2011 | Estimate | | | | | | | | | | |
|--|----------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Debt Outstanding, End of Year: | | | | | | | | | | | | |
| Gross Federal debt: ⁵ | | | | | | | | | | | | |
| Debt issued by Treasury | 14,737 | 16,323 | 17,520 | 18,471 | 19,398 | 20,363 | 21,298 | 22,218 | 23,125 | 24,051 | 24,984 | 25,918 |
| Debt issued by other agencies | 27 | 28 | 28 | 29 | 29 | 28 | 28 | 27 | 27 | 26 | 24 | 22 |
| Total, gross Federal debt | 14,764 | 16,351 | 17,548 | 18,500 | 19,427 | 20,392 | 21,326 | 22,245 | 23,152 | 24,077 | 25,008 | 25,940 |
| Held by: | | | | | | | | | | | | |
| Debt held by Government accounts | 4,636 | 4,773 | 4,911 | 5,055 | 5,229 | 5,411 | 5,613 | 5,841 | 6,015 | 6,180 | 6,330 | 6,454 |
| Debt held by the public ⁶ | 10,128 | 11,578 | 12,637 | 13,445 | 14,198 | 14,980 | 15,713 | 16,404 | 17,137 | 17,897 | 18,678 | 19,486 |
| As a percent of GDP | 67.7% | 74.2% | 77.4% | 78.4% | 78.1% | 77.8% | 77.1% | 76.5% | 76.4% | 76.5% | 76.5% | 76.5% |



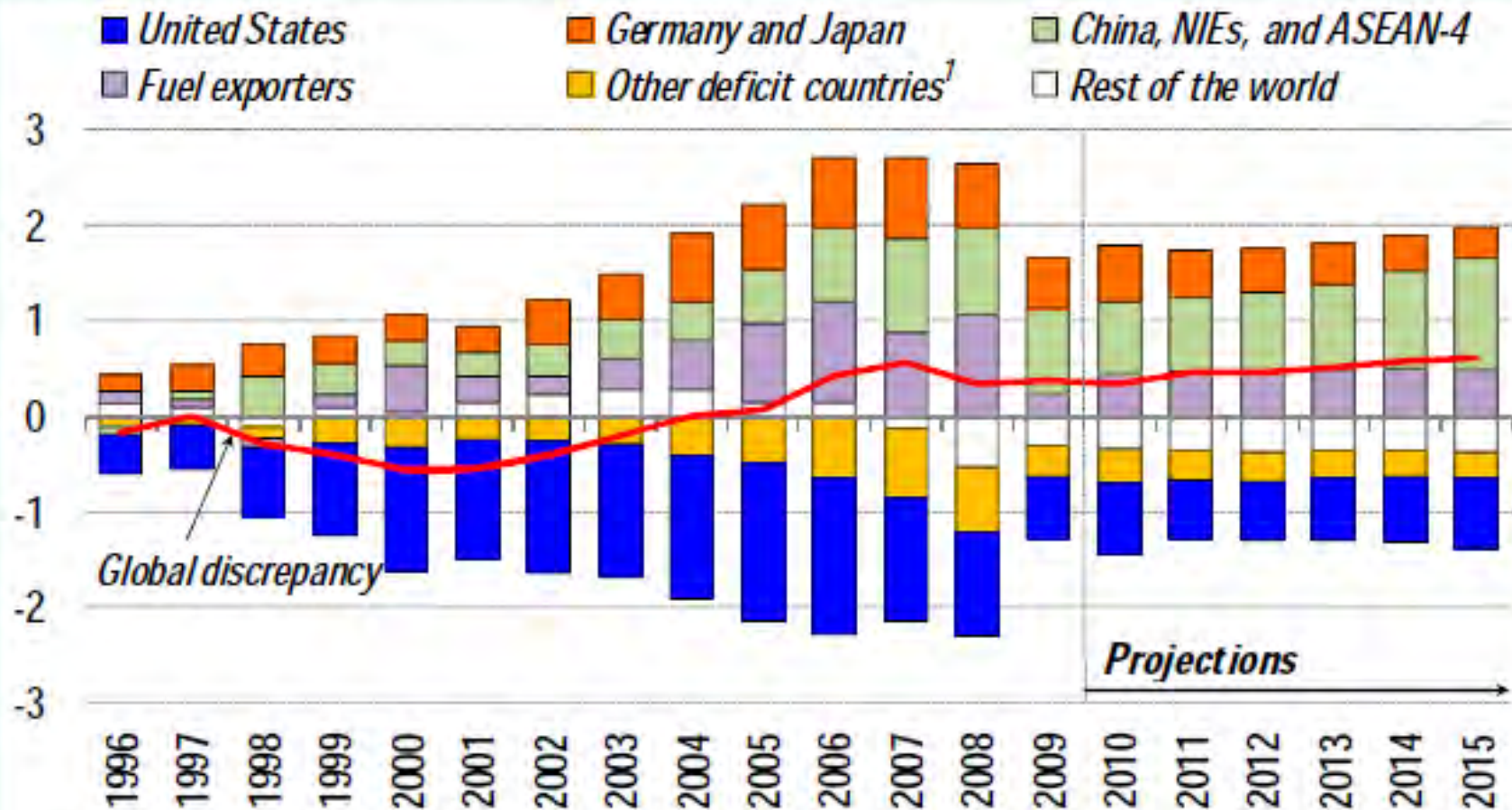
Overall Global Current Account Balances in 2010

Billions \$\$



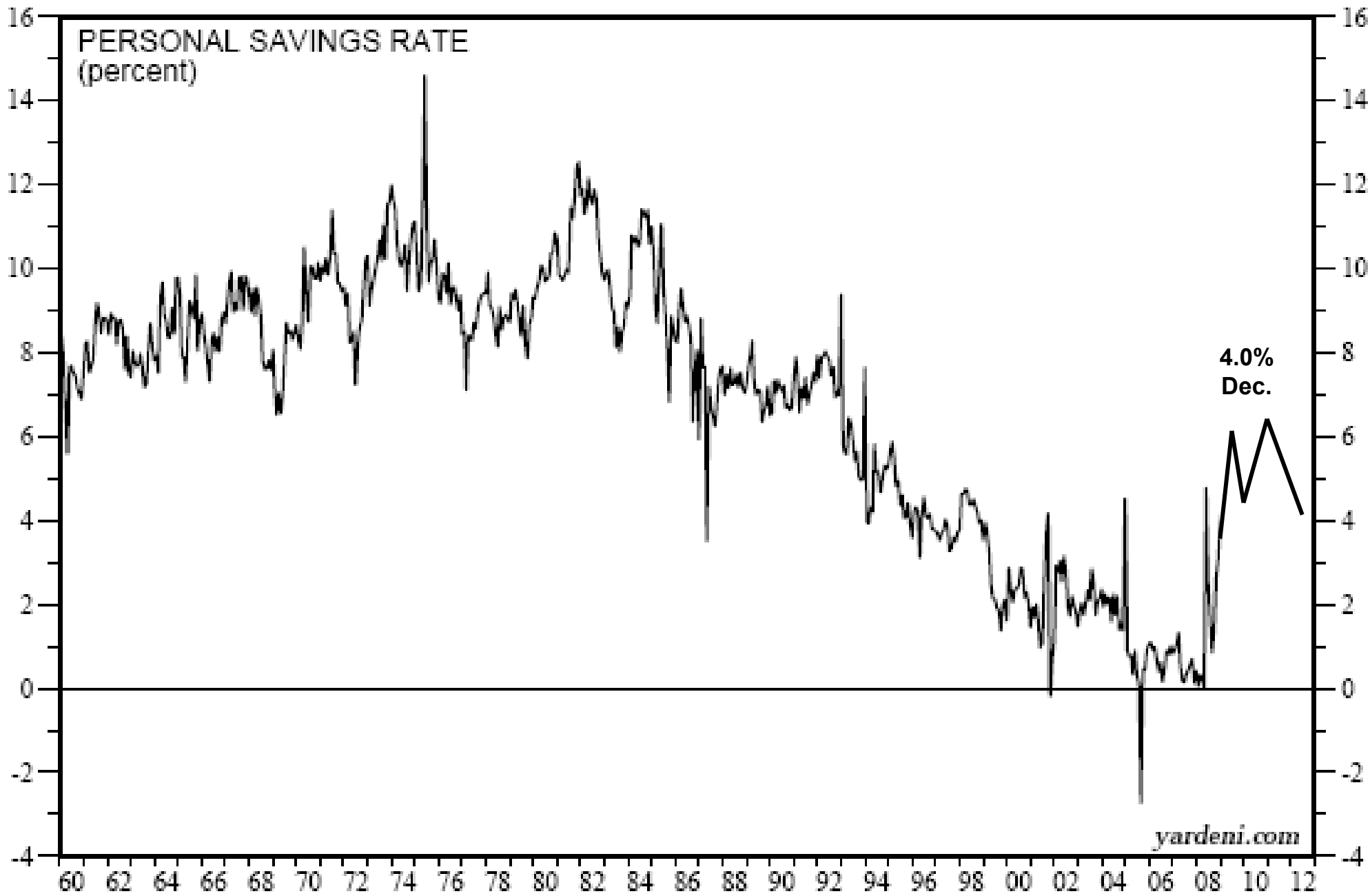
Global Imbalances

(In percent of world GDP)



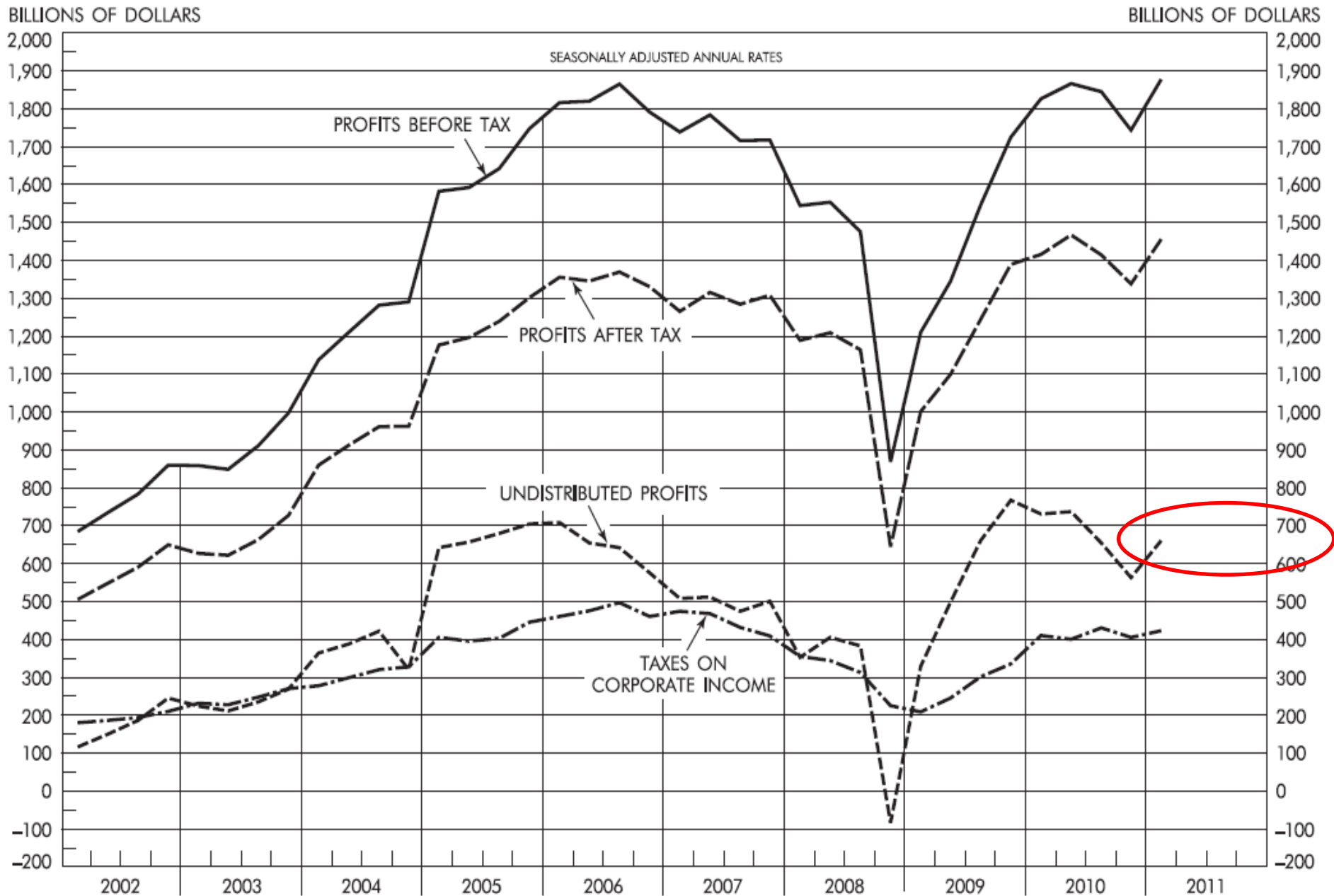
Sources: IMF, WEO database, and staff projections.

¹ Other deficit countries include Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom.



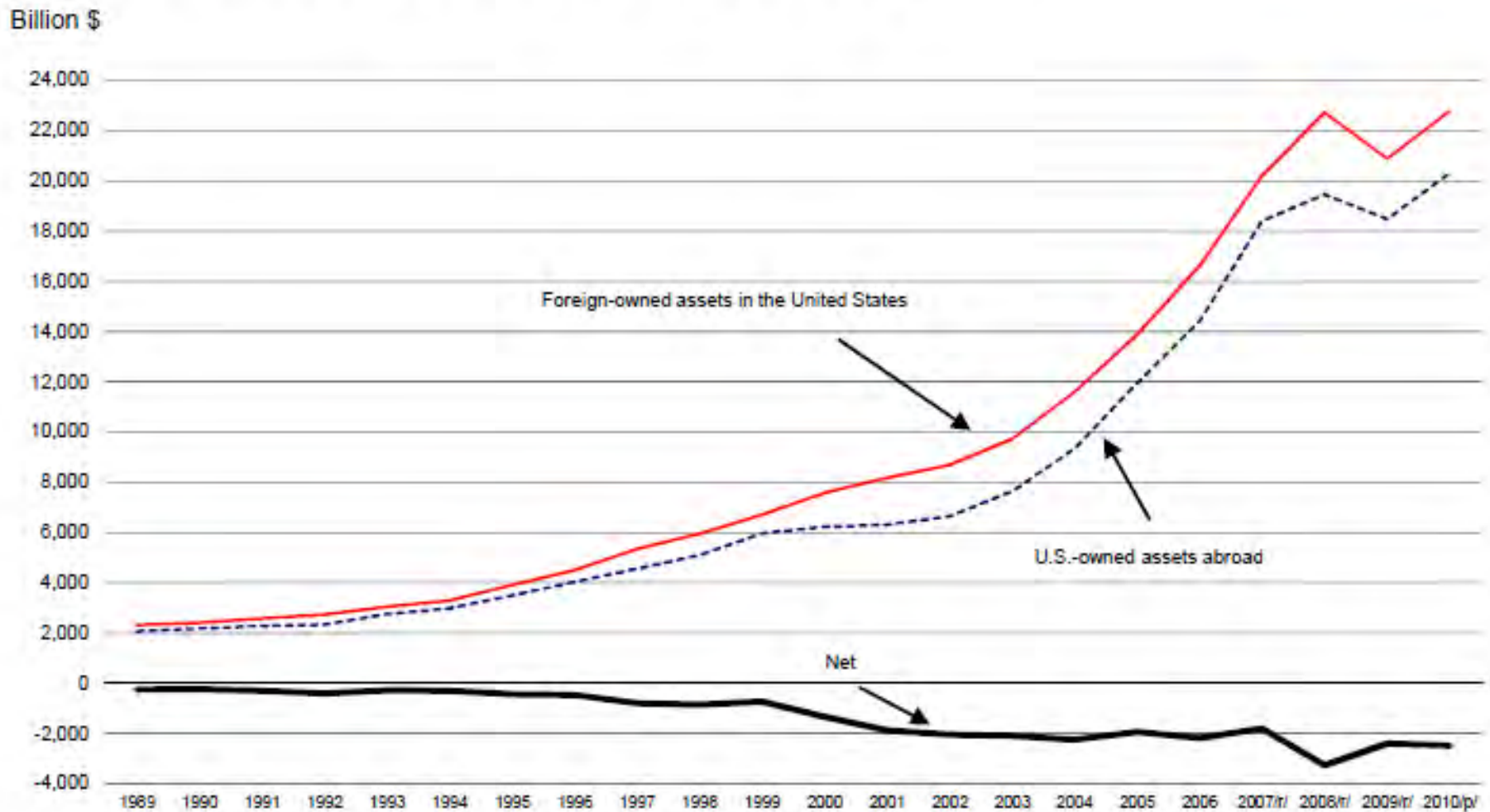
4.0%
Dec.

Corporate Profits



Sad News for the Next Generation

Net International Investment Position of the United States at Yearend, 1989 - 2010



Foreign Exchange Reserves

| Rank | Country/Monetary Authority | Foreign exchange reserves (Millions of USD) | Figures as of |
|------|---|--|--------------------------|
| — | World (sum of all countries) | N/A | -- |
| 1 |  People's Republic of China | 3,197,000 | Jun 2011 ^[1] |
| 2 |  Japan | 1,137,809 | Jun 2011 ^[2] |
| - |  Eurosystem (EU member states which have adopted the euro, incl. ECB) | 886,355 | July 2011 ^[2] |
| 3 |  Russia | 524,527 | Jun 2011 ^[2] |
| 4 |  Saudi Arabia | 456,200 | Dec 2010 ^[1] |
| 5 |  Republic of China (Taiwan) | 387,200 | Dec 2010 ^[1] |
| 6 |  Brazil | 335,775 | Jun 2011 ^[2] |
| 7 |  India | 311,516 | May 2011 ^[2] |
| 8 |  Republic of Korea | 305,084 | May 2011 ^[2] |
| 9 |  Switzerland | 288,590 | May 2011 ^[2] |
| - |  Hong Kong | 277,206 | Jun 2011 ^[2] |
| 10 |  Singapore | 242,287 | Jun 2011 ^[2] |
| 11 |  Germany | 230,879 | Jun 2011 ^[2] |
| 12 |  Thailand | 185,471 | May 2011 ^[2] |
| 13 |  France | 182,167 | May 2011 ^[2] |
| 14 |  Italy | 169,558 | May 2011 ^[2] |
| 15 |  Algeria | 150,100 | Dec 2010 ^[1] |
| 16 |  United States | 142,931 | Jul 2011 ^[2] |
| 17 |  Malaysia | 132,750 | May 2011 ^[2] |
| 18 |  Mexico | 131,174 | May 2011 ^[2] |
| 19 |  Indonesia | 118,109 | May 2011 ^[2] |
| 20 |  United Kingdom | 114,180 | Jun 2011 |

Good news – US Dollar has weakened, some

Trade Weighted U.S. Dollar Index: Major Currencies (TWEXM)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2012 research.stlouisfed.org

Table 1. Overview of the World Economic Outlook Projections
(Percent change unless noted otherwise)

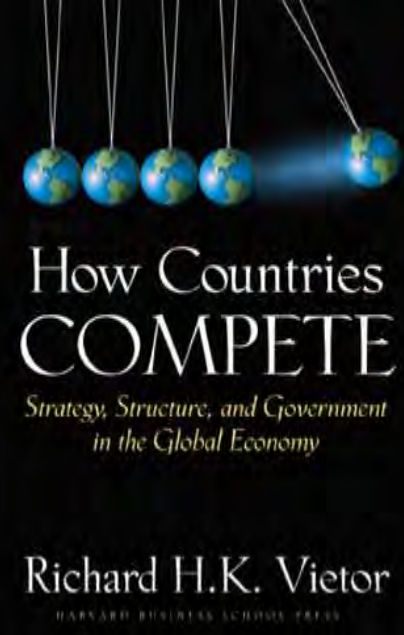
| | Year over Year | | | | | | Q4 over Q4 | | |
|---|----------------|------------|-------------|------------|--|-------------|------------|-------------|------------|
| | 2010 | 2011 | Projections | | Difference from September 2011 WEO Projections | | Estimates | Projections | |
| | | | 2012 | 2013 | 2012 | 2013 | 2011 | 2012 | 2013 |
| World Output ¹ | 5.2 | 3.8 | 3.3 | 3.9 | -0.7 | -0.6 | 3.3 | 3.4 | 4.0 |
| Advanced Economies | 3.2 | 1.6 | 1.2 | 1.9 | -0.7 | -0.5 | 1.3 | 1.3 | 2.1 |
| United States | 3.0 | 1.8 | 1.8 | 2.2 | 0.0 | -0.3 | 1.8 | 1.5 | 2.4 |
| Euro Area | 1.9 | 1.6 | -0.5 | 0.8 | -1.6 | -0.7 | 0.8 | -0.2 | 1.2 |
| Germany | 3.6 | 3.0 | 0.3 | 1.5 | -1.0 | 0.0 | 1.8 | 0.7 | 1.6 |
| France | 1.4 | 1.6 | 0.2 | 1.0 | -1.2 | -0.9 | 0.9 | 0.5 | 1.3 |
| Italy | 1.5 | 0.4 | -2.2 | -0.6 | -2.5 | -1.1 | -0.1 | -2.7 | 0.9 |
| Spain | -0.1 | 0.7 | -1.7 | -0.3 | -2.8 | -2.1 | 0.2 | -2.1 | 0.6 |
| Japan | 4.4 | -0.9 | 1.7 | 1.6 | -0.6 | -0.4 | -0.9 | 1.9 | 1.5 |
| United Kingdom | 2.1 | 0.9 | 0.6 | 2.0 | -1.0 | -0.4 | 0.8 | 1.0 | 2.4 |
| Canada | 3.2 | 2.3 | 1.7 | 2.0 | -0.2 | -0.5 | 2.1 | 1.7 | 2.0 |
| Other Advanced Economies ² | 5.8 | 3.3 | 2.6 | 3.4 | -1.1 | -0.3 | 2.9 | 3.2 | 3.5 |
| Newly Industrialized Asian Economies | 8.4 | 4.2 | 3.3 | 4.1 | -1.2 | -0.3 | 3.8 | 4.3 | 3.8 |
| Emerging and Developing Economies ³ | 7.3 | 6.2 | 5.4 | 5.9 | -0.7 | -0.6 | 5.9 | 6.0 | 6.3 |
| Central and Eastern Europe | 4.5 | 5.1 | 1.1 | 2.4 | -1.6 | -1.1 | 3.4 | 1.4 | 3.0 |
| Commonwealth of Independent States | 4.6 | 4.5 | 3.7 | 3.8 | -0.7 | -0.6 | 3.2 | 3.5 | 3.7 |
| Russia | 4.0 | 4.1 | 3.3 | 3.5 | -0.8 | -0.5 | 3.5 | 2.8 | 4.0 |
| Excluding Russia | 6.0 | 5.5 | 4.4 | 4.7 | -0.7 | -0.4 | ... | ... | ... |
| Developing Asia | 9.5 | 7.9 | 7.3 | 7.8 | -0.7 | -0.6 | 7.4 | 7.9 | 7.6 |
| China | 10.4 | 9.2 | 8.2 | 8.8 | -0.8 | -0.7 | 8.7 | 8.5 | 8.4 |
| India | 9.9 | 7.4 | 7.0 | 7.3 | -0.5 | -0.8 | 6.7 | 6.9 | 7.2 |
| ASEAN-5 ⁴ | 6.9 | 4.8 | 5.2 | 5.6 | -0.4 | -0.2 | 3.7 | 7.4 | 5.0 |
| Latin America and the Caribbean | 6.1 | 4.6 | 3.6 | 3.9 | -0.4 | -0.2 | 3.9 | 3.3 | 5.0 |
| Brazil | 7.5 | 2.9 | 3.0 | 4.0 | -0.6 | -0.2 | 2.1 | 3.8 | 4.1 |
| Mexico | 5.4 | 4.1 | 3.5 | 3.5 | -0.1 | -0.2 | 4.1 | 3.1 | 3.6 |
| Middle East and North Africa (MENA) ⁵ | 4.3 | 3.1 | 3.2 | 3.6 | ... | ... | ... | ... | ... |
| Sub-Saharan Africa | 5.3 | 4.9 | 5.5 | 5.3 | -0.3 | -0.2 | ... | ... | ... |
| South Africa | 2.9 | 3.1 | 2.5 | 3.4 | -1.1 | -0.6 | 2.4 | 3.0 | 3.7 |
| <i>Memorandum</i> | | | | | | | | | |
| European Union | 2.0 | 1.6 | -0.1 | 1.2 | -1.5 | -0.7 | 0.8 | 0.3 | 1.7 |
| World Growth Based on Market Exchange Rates | 4.1 | 2.8 | 2.5 | 3.2 | -0.7 | -0.4 | ... | ... | ... |
| World Trade Volume (goods and services) | 12.7 | 6.9 | 3.8 | 5.4 | -2.0 | -1.0 | ... | ... | ... |
| Imports | | | | | | | | | |
| Advanced Economies | 11.5 | 4.8 | 2.0 | 3.9 | -2.0 | -0.8 | ... | ... | ... |
| Emerging and Developing Economies | 15.0 | 11.3 | 7.1 | 7.7 | -1.0 | -1.0 | ... | ... | ... |
| Exports | | | | | | | | | |
| Advanced Economies | 12.2 | 5.5 | 2.4 | 4.7 | -2.8 | -0.8 | ... | ... | ... |
| Emerging and Developing Economies | 13.8 | 9.0 | 6.1 | 7.0 | -1.7 | -1.6 | ... | ... | ... |
| Commodity Prices (U.S. dollars) | | | | | | | | | |
| Oil ⁶ | 27.9 | 31.9 | -4.9 | -3.6 | -1.8 | -3.1 | ... | ... | ... |
| Nonfuel (average based on world commodity export weights) | 26.3 | 17.7 | -14.0 | -1.7 | -9.3 | 2.2 | ... | ... | ... |
| Consumer Prices | | | | | | | | | |
| Advanced Economies | 1.6 | 2.7 | 1.6 | 1.3 | 0.2 | -0.1 | 2.9 | 1.2 | 1.3 |
| Emerging and Developing Economies ³ | 6.1 | 7.2 | 6.2 | 5.5 | 0.3 | 0.4 | 6.5 | 5.6 | 4.8 |
| London Interbank Offered Rate (percent) ⁷ | | | | | | | | | |
| On U.S. Dollar Deposits | 0.5 | 0.5 | 0.9 | 0.9 | 0.4 | 0.3 | ... | ... | ... |
| On Euro Deposits | 0.8 | 1.4 | 1.1 | 1.2 | -0.1 | -0.4 | ... | ... | ... |
| On Japanese Yen Deposits | 0.4 | 0.4 | 0.5 | 0.2 | 0.2 | 0.0 | ... | ... | ... |

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 14–December 12, 2011. When economies are not listed alphabetically, they are ordered on the basis of economic size. The aggregated quarterly data are seasonally adjusted.



How Countries Compete

1. **Governments must guarantee basic property rights;**
2. **Governments must maintain sound macroeconomic policies:**
 - **Fiscal deficits cannot continue indefinitely,**
 - **Entitlements should be limited and securely funded;**
 - **Taxes should be somewhat redistributive and discourage excessive consumption;**
3. **Strong (not necessarily independent) central banks are necessary for non-inflationary growth;**
4. **Microeconomic liberalization (trade, foreign investment and privatization) by government is eventually necessary in a competitive global economy, but financial markets must be regulated...**
5. **Governments must maintain labor market flexibility to enhance productivity and facilitate competitiveness;**
6. **Government must manage resource endowments carefully;**
7. **Governments must control corruption;**
8. **Governments are responsible for insuring equitable income distribution;**
9. **Governments must stimulate savings and investment;**
10. **Governments can not allow unsustainable current account asymmetries.**





Members of AMP ,

as senior executives and powerful members of your Nation's political-economic community, it is incumbent upon you to try to make your Nation a better, more productive place to live and work.

If people like you don't contribute, you run the risk of going....

