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Briefing Paper

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ECONOMIC FORECASTS FOR THE THIRD WORLD: 1984

Most of the major international agencies now publish forecasts for the developing countries, on which policy makers, both public and private, base their decisions. This Briefing Paper reviews the main features of forecasts published this year. According to the forecasts, the developing countries are recovering during 1984 and 1985 to their 1970s rates of growth. Unlike the industrial countries, however, they will not have 1-2 years of above-average growth, as is normal after a deep recession. They are therefore permanently worse off than expected before the recession. The period of rapid growth in the industrial countries is coming to an end. Although from opposite directions, both groups therefore return to the sluggish growth rates now seen as normal during the next few months and, assuming no major changes in international or national policies, maintain them during the next 5-10 years. This is the picture which emerges with an unusual degree of consensus from the major international forecasts (see Box). Two other notable features of this year's forecasts are the very unequal performances expected for different areas, within the industrial and the developing groups, and the increasing pessimism about the medium term: forecasters fear that even their lowered forecasts may prove too high.

The Forecasts

Output and Trade

Most forecasters base their expectations for the Third World first on forecasts for the **industrial countries**. These determine net demand for developing country trade and export prices. Together with the availability of deficit financing, these factors determine developing-country imports, which are normally assumed to limit their growth. The most recently published forecasts for industrial-country output in 1984 are 4-5%; those made in 1983 were 3-3½%. High growth in the United States had lasted longer than expected, with forecasts for 1984 having been revised upwards from 4½% to 7%. But forecasters still predict a slow down in US growth. Forecasts for Japan also show a strong cyclical recovery in 1984, to be followed by a return to average rates in 1985. European growth, however, remains virtually flat at 2-2½%, and thus does not show any recovery from the recession. Growth in all areas therefore remains approximately in line with the expected growth in productivity of between 2½ and 3% (Table 2) giving no further reduction in unemployment.

One of the most serious errors of the forecasts for 1983, even those made midway through the year, was to under-forecast the growth of industrial-country imports. For 1984, the forecasts have again had to be raised, with the most recent forecasts (except that by UNCTAD) at 9%. This can be attributed almost entirely to strong growth in the United States. Rapid growth in imports is characteristic of recoveries, particularly for the United States. With the ending of the recovery, the rate of increase is expected to fall back to 5% in 1985. Industrial-country export volumes are expected to grow less than imports this year, as they did in 1983, but in 1985 and beyond this difference disappears. Combined with the output forecasts, this means that the main opportunity for developing countries to benefit either from the growth in total import demand of industrial countries or from an increase in their market share is nearly past. Demand by the **OPEC** countries for imports is expected to grow slowly or even fall in 1984 and 1985. The result is that growth in **world trade** is predicted to be

FORECASTS DISCUSSED AND PRINCIPAL DEFINITIONS

Forecasts by International Organisations

General Agreement on Tariffs and Trade, *International Trade*, GATT.
Inter-American Development Bank, *External Debt and Economic Development in Latin America*, IDB.
International Monetary Fund, *World Economic Outlook*, and revisions announced in September, IMF.
Organisation for Economic Cooperation and Development, *OECD Economic Outlook*, July, OECD.
United Nations, *World Economic Survey*, and revisions announced in October, UN.
United Nations Conference on Trade and Development, *Trade and Development Report*, and revisions announced in October, UNCTAD.
World Bank, *World Development Report*, and revisions announced in October, World Bank.

Forecasts by independent UK forecasters

Economist Intelligence Unit, *World Outlook*, EIU.
National Institute of Economic and Social Research, *National Institute Economic Review*, August, NIESR.

Definitions

Oil price: average OPEC official export price; 'real': deflated by price of manufactured exports.
Price of manufactured exports: UN index for developed countries.
Price of primary exports: UNCTAD index, market prices of developing country exports.
Major oil exporters: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

All the published projections are called 'forecasts' here although some agencies call some of their numbers assumptions, scenarios, etc.

Table 1: General Forecasts for 1984-1985 percentage growth rates

	1984							1984-85
	UNCTAD	IMF	OECD	UN	IDB	EIU	NIESR	World Bank[a]
Developed countries' output	3.9	4.9	4¼	4.7	3½	<3.5	4.6	3½
US	7.1	7.3	6	7.0	5.0	4.5	7.2	
Japan	4.5	5.0	4¾	5.0	4.0	3.9	5.0	
W. Europe	2.1	1.8	2¼	2.3	1.0	1.6	2.2	
Developed countries' import volume	5.8	6.5	9	5	3.0	4¼	9.4	
World trade volume	5	5.5	7	7.5		3.5	7½	
Volume of trade in manufactures			8			>3.5	8½	
Oil price, US $	0	-1.5	-2	0		<0	-3	
real	<0	-2	-2	-6			-3	
Price of manufactured exports	>P	1	0	6	4	3	0	
Price of primary products	0<P<6	7	8	<6	2		5	
Food	0.1	8.6	9	1			9	
Tropical beverages		6.1		11				
Vegetable oil seeds & oil			21	10				
Agricultural raw materials		8.6	5	6			1	
Minerals, ores, metals		4.4	1	2			-2	
Non-oil developing countries								
Output	3.2-3.5	3.3		2.9				4½
Export volume	6.7	7.0	7	4-5		4		9
Import volume	4.9	5.5	6	2		2		9½
Export prices	1.3	2.9	5	4.5				
Import prices	0	1.5	3	4				
Terms of trade	1.3	1.4	2	0.5		>0		

[a] Implied by 1980-85 estimate
Source: See Box, p.1.

7-7½% in 1984, followed by 5-5½% in 1985, and probably less in subsequent years.

Developing Countries

In sharp contrast to the results for the industrial countries, output growth in the **developing countries** was lower in 1983 than had been expected even as late as the second half of the year, and much lower than the earliest forecasts. Most estimates now put it at between 1% and 2%. Forecasters expect an improvement this year, but their expectations have been falling: the most recent forecasts are 3-3½%. Some anticipate a small improvement in 1985, to 3½-4%, the exception being the World Bank, whose estimates for 1980-85 imply an average of 4½% for 1984-1985.

In the medium term, growth is expected to remain at around 4½% (Table 2). This is slightly above last year's IMF forecast, but well below the World Bank's previous 'central' forecast of 5½%. Combined with the lower outcome for 1983 and lower expectations for 1984, this represents a significant worsening of the expected level of output in the developing countries throughout the 1980s. The forecast that they will not enjoy a period of rapid recovery as a consequence of the growth in industrial countries appears quite realistic in the light of recent experience, but it is unusual historically. In part, it can be interpreted as the counterpart of the 'failure' of the developing countries to reduce their growth during the second half of the 1970s by as much as they 'should' have done when industrial-country growth fell. Some of the burden of debt repayment is the result of their efforts to protect their growth during that period, and the cost of servicing that debt is one reason for their slower relative growth now. Finding explanations, however, does not alter the consequences for long-term development.

A striking feature which was not foreseen but has appeared in preliminary figures for 1984 is a persisting divergence among different groups of developing countries, whether these are classified by area or economic characteristic. The lower growth in 1983 was accounted for mainly by the poor performance of **Latin America**. Output there probably fell by about 2½%: although a decline had been anticipated, the amount and the difference from the other areas were greater than expected. **Africa's** economic performance was also worse than forecast, with almost no growth. All of **Asia**, including both the low-income countries of South Asia and the East Asian industrialising countries, did better than most expected. The revisions in the forecasts for 1984 follow the same pattern, so that for the second consecutive year all forecasters now predict a very wide spread (Table 3). Both Latin America and Africa, however, are expected to grow slightly this year and to improve their performance further in 1985. The Asian countries are expected to maintain growth rates of 5-6%. The divisions by group (these are not strictly comparable among the forecasters) again imply an unusually good performance by the lowest income countries.

Africa has grown relatively slowly in most of the last ten years, but the size of growth rate differentials and the fall in Latin American output followed by the very low growth, are new features. They may strain relationships among the developing countries and between them and the industrial. Although the disparities have been larger and more persistent than they originally predicted, forecasters (except for the IDB for Latin America) still assume that growth

		1985			
UNCTAD	IMF	OECD	UN	IDB	NIESR
2.9	3.4	2¾	3.3	3	3.2
3.1	4	2½	4.0	3.1	3.5
3.5	4.1	3¾	3.5	3.5	4.5
2.3	2	2¼	2.4	1.4	2.5
5		5½	5.5	5	4.6
5.5		5½	5		5½
		6¼			5½-6
0	0	0	5	9	0
<0	−4	−3	−1	2	−(4½-5)
0<M<6	4	3	6	7	4½-5
0<P<6	3	6	1	3	1
			0		
		6	−3		−1
		2	−12		
		4	6		1
		7	8		3
4.4-4.9	3.6		3.6		
6.2	>7	5	5-6		
2.6	6	6	4		
−0.4	<3	4	4		
0		4	5.5		
−0.4	0	0	−1.5		

rates will converge after 1985.

The strong growth of demand in the industrial countries stimulated developing-country **exports** in 1983 more than expected: the rise proved to be about at the recent average rate of 5-6%. But their performance relative to industrial-country total imports or to world trade was not as good as had been expected by UNCTAD, the IMF, or OECD. Although data are still incomplete, it appears that Asia did best, followed by Africa and then Latin America. The first two did increase their market share in total industrial-country imports, but this achievement must be qualified. If allowance is made for the importance for developing-country trade of the US market, where growth was fastest, the increase in share was much smaller. On some calculations by OECD, they may even have lost ground by this stricter criterion. The apparent increase in market share arises mainly from the rapid growth in some relatively high-share markets, especially the US, with the shares in individual markets remaining fairly stable. For this reason overall market share is a poor indicator of developing-country performance. In 1984, expectations for growth in their exports are widely scattered, between 4% and 7%, but again it appears likely that the real gain in share (after allowing for the differences among markets) is at best quite small.

It is important to make this distinction because of its implications for the future, when the differentials among growth rates in industrial countries are expected to be smaller, and in particular US growth is expected to fall. Any gains from purely compositional effects will therefore be reduced or eliminated. Only the IMF and the World Bank appear to expect significant gains in market share in 1985 (the implied World Bank forecast is well above other forecasts for either year). Most forecasters expect exports to grow at around 5-6%, against world trade of 5-5½%. Even the IMF and the World Bank do not appear to expect the gains to continue after that. This is a marked change from the medium-term forecasts they made last year, and helps to explain the greater overall pessimism about prospects for the developing countries over the medium term.

Differences in export performance by area are expected to continue, and to correspond to those found for growth. Exporters of manufactures, however, are expected to do better than the low-income countries in 1984 and 1985, which contrasts with output expectations. Export volumes overall grew much faster than output in 1983, and are expected to continue to do so in 1984 and 1985. However, the differential is either greatly reduced (IMF) or eliminated (World Bank) in the medium term. This is a significant change from the relationships assumed in 1983, when it was

Table 2: Medium-term forecasts
percentage growth rates

	World Bank 1985-95 Low	IMF 1985-90 Base	IDB 1986-90	NIESR[a] 1985-88
Developed countries				
Developed countries' output	2.5	3¼	2.5	2¾
Oil price, real		0	2	½
Price of manufactures	9	4	7	4½
Price of primary products	7	4	7	6
Aid plus bank credit expansion/year	−1	0		
Non-oil developing countries				
Output	4.7	4.6		
Major exporters of manufactures	5.2	4.3		
Low income countries	4.4	3.5		
Western hemisphere			2.7	
Asia, low income	4.6			
Africa, low income	2.8			
Export volume	4.7	5.4		
Major exporters of manufactures	6.3	6.7		
Low income countries	5.2	4.4		
Western hemisphere			4.5	
Asia, low income	5.7			
Africa, low income	2.2			
Exports of manufactures	7.5			
Exports of primary products	2.1			
Import volume	5.1	6.2		
Terms of trade		0	0	0.5
Debt service at end/exports	13.7	22.7	21	

[a] November 1983
Source: See Box, p.1.

Table 3: Forecasts by area or type of developing country percentage growth rates

	1984					1984-5	1985				
	UNCTAD	IMF	OECD	UN	IDB	World Bank[a]	UNCTAD	IMF	OECD	UN	IDB
Output											
Major exporters of manufactures	2.3	2.5				2½	4.4	>3.5			
Low income	3.9	5.8				6	3.9	5.8			
Western hemisphere	0.9	1.3		1.6	−0.5		3.0	>1.3		3.5	3
Africa	2.7	3.5		1.7		3½	3.3			3.0	
Asia	5.2-5.6	6.1		5.2		6	5.2-6.2	6		5.0	
Exports											
Major exporters of manufactures	7.8	8.4	8				7.4		6		
Low income	5.2	7.5	5				2.1		4		
Western hemisphere	4.7	6.9			5		4.2				6
Africa	5.3	6.6					3.0				
Asia	6-6.9	8.6					5.5-7.7			*<1984*	

[a]Implied by 1980-85 estimate *Source:* See Box, p.1.

predicted that export volume would grow significantly faster, and serves to mitigate the consequences of poorer export prospects for the output forecasts.

Estimates for **import volume** in 1983 still vary widely, but it seems probable that low-income countries in Africa and Asia and the Latin American countries suffered falls, while East Asian imports probably rose. Aggregate growth must have been very low. This would be in line with the estimates for output growth. In all areas, and probably all the groupings, the balance between exports and imports improved, corresponding to the increase in net demand for developing-country exports by the industrial countries. In 1984, most forecasters expect the rises in imports to be much larger. Although their forecasts vary widely, import growth is consistently expected to be smaller than changes in exports, so that balances continue to improve. The only exception could be Latin America, but the improvement there was sufficiently large in 1983 for the performance over the two years to be comparable to the other areas.

According to the forecasts, by 1985 these improvements must come to an end. In the medium term, both the World Bank and the IMF envisage some deterioration in the trade volume of developing countries. The period of high stimulus to output from foreign demand is effectively over.

If the import forecasts are compared with those for output, the medium term forecasts now imply much lower ratios between the growth rates than they did in 1983: forecasts for both have been reduced, but those for output by less. The ratios which the forecasters use are now well below those usually assumed for industrial countries (around 1.5) with the World Bank (at about 1.1) lower than the IMF (1.3). These ratios are consistent with the average for 1966-76, used as the long-term trend for developing countries in the tables of the IMF report, and with the years since 1981. But periods that include the first oil price rise and the consequent sharp cut in oil imports or a deep recession accompanied by a financial crisis may not give typical results. For other periods, including the late 1970s, higher ratios are observed. The import-output ratios, like those for exports to output, suggest that the present output forecasts may be too high to be consistent with trade prospects.

Prices

One explanation for the low rises in prices of exports of **manufactures** is the lower than expected inflation within the industrial countries, but the rise of the dollar, in which they are expressed, is more important. These prices fell last year by 4%, the third successive year of decline; it should be noted that as late as summer 1983 none of the forecasters was expecting any fall. For 1984, forecasts made in mid-1984 again expect little or no change, a considerable reduction on most forecasts made before then. Most forecasters continue to work on the assumption that these prices will rise slightly less than domestic inflation in the industrial countries, and with no further changes in the dollar (this was forecast by some; assumed by convention by the others) they start to rise in 1985. The contrast between the majority and the UN and the IDB, which both expect a 6-7% rise, is remarkably large (inflation forecasts are usually closer together than output or other real variable forecasts). This unusual divergence continues into the medium term: both the World Bank and the IDB expect industrial country inflation to be about 7%, with manufactures prices rising at up to 9%. The IMF, on the other hand, expects no difference between the two rates while NIESR anticipates the usual negative difference: both also have lower general inflation forecasts, giving figures for manufactures prices of 4-4½%. This difference is particularly significant for the developing countries at present because high inflation would reduce the burden of past debt relative to current income.

For 1984, most forecasters expected little change in the real price of **oil**. The dollar has risen since most of the forecasts were made, which increases the price, but this has been largely offset by recent falls in the oil price. In 1985, most forecasters expect the dollar price to remain unchanged, giving a real fall if the prices of manufactures do rise. Only the IDB expects a real rise. In the medium terms, the IMF and NIESR continue to expect no change in the real price, while the IDB has small annual rises.

The IMF, OECD, and NIESR expect the prices of other **primary products** to continue to rise at about 6% relative to manufactures in 1984 (the rate observed in 1983) but the UN, UNCTAD and IDB expect a fall. Most predict some real decline in 1985. In 1983 and 1984, the increase appears to be confined to food and other agricultural products with only modest changes observed or expected for minerals and metals. There is complete disagreement about the prospects for the medium term: these prices will rise relative to others (NIESR), fall (World Bank) or stay the same (IMF and

IDB). This divergence of price expectations is another serious source of uncertainty for developing countries attempting to estimate their future capacity to import.

All forecasters expect the average ratio of export to import prices for the developing countries, their **terms of trade**, to improve in 1984, as they did in 1983. In 1985 and beyond, however, little change is expected. Thus the contribution of improving relative prices to developing-country balances of trade is coming to an end at the same time as that of volume changes.

Balances and Financing

Arithmetically, these results give the path of the **trade balance**, although in almost all the forecasts the line of causation runs the other way, from the balance to output. Only the IDB forecasts derive the need for financing from the trade balance forecast, using a growth target (hardly an ambitious one — to maintain consumption levels at the 1983 level). Under their forecasts, borrowing, presumably from banks, would need to rise in order to pay the interest on existing borrowing, although the Western hemisphere would be in trade surplus.

The other forecasters have to make assumptions about the availability and cost of different types of finance to derive their balance of trade forecasts. Balance changes on current account are smaller than those in trade, particularly in 1984, because of the rise in interest payments. The IMF and UNCTAD expect **official grants** to remain approximately constant in real terms. The World Bank assumes they will rise at 2-2½% p.a., in line with the growth in industrial country GDP. This is a rather better performance than has been observed in recent years, although it is less than the World Bank expected in 1983. It implicitly assumes a resumption in growth of OPEC aid and that aid from OECD countries will not decline further relative to income.

IMF credits are expected to fall back to their 1982 level in 1984 (after a rise in 1983 from $7 to 10 billion), and back almost to their pre-crisis level in 1985, about $2½ billion. This reflects both the policy of treating the increased role of the IMF as a temporary response to a crisis, assumed to be over, and the reality of the failure to increase its resources. Any new crisis lending must therefore require repayment by existing borrowers.

The IMF assumes that **trade credits** will grow in line with imports. **Direct investment** fell sharply in 1982 and 1983, but the large rises of the two preceding years mean that this has only brought it back to around the late 1970s level. The forecasters do not expect further major changes in either direction, although the IMF assumes it will grow in real terms.

Commercial bank lending is expected to remain constant or grow very slowly. The short-term forecasters avoid predicting interest rates, but in the medium term the emphasis on available funding for deficits means that such forecasts cannot be avoided. The World Bank and the IMF expect quite small reductions in the real rates (from, probably, spring 1984 levels), with, possibly, a slightly greater fall for those applied to developing countries. Combined, all these forecasts suggest little real growth in total financing and little change in its cost. At most a small deterioration in developing-country balances, as suggested by the IMF and World Bank, will be possible.

Alternative forecasts for the medium term

The IMF, World Bank and IDB present more than one medium term forecast, reflecting different assumptions about behaviour. The **IMF's** alternatives all show less favourable results than the base case, suggesting that it sees most risk in this direction. It points out that, on the basis of its relationships, a 1% lower growth p.a. in industrial country GDP reduces developing-country exports by 2% and output by 1%, effectively a 1 for 1 reduction. 1% higher commercial interest rates cut imports by 1¼%. 2% faster growth of exports, for example because of lower import barriers in the developed countries, would increase imports by 1.8% and GDP by 1%. Its pessimistic and 'crisis' scenarios combine lower industrial-country growth and higher interest rates or lower lending, reducing developing-country output by more than 1% p.a. (The crisis scenario assumes a cyclical recession centring on 1987 instead of lower growth throughout.) Its 'weak policies' (in developing countries) forecast gives them higher financing costs, but faster growth.

The **World Bank** offers a 'High' case which assumes the industrial countries can return to 1960s rates of growth (4.3% p.a.). The resulting 7% growth of world trade would improve developing countries' real trade balances (through both higher demand and lower import barriers), their relative prices, and their financing by lowering real interest rates and raising the rate of growth of aid in proportion to GDP. Although developing-country exports would not achieve the rate of growth, in absolute terms or relative to world trade, assumed in the Bank's 1983 central forecast, their export growth of 6½% would still permit the same import growth (7.2%) as last year's forecast, and an output growth of 5½%. One of its variants assumes that slow growth in the industrial countries could increase their protection against developing-country exports, reducing their exports and their output by 0.4%. The last, like the IMF 'weak policies', postulates different behaviour in the developing countries, with no change in the industrial, leading to higher growth: in neither case are the actual policies specified.

The **IDB** alternative forecast is higher than its base: it is defined as the growth 'necessary to provide productive employment to a growing labor force'. The implied output growth of 5.4% instead of 2.7% raises the final debt service to export ratio to 27.3% instead of 21%.

Policy issues

This year both the IMF and the World Bank include scenarios that attempt to show what they believe could be achieved by changes in **domestic policies**, within an unchanged external environment. In the past, they have asserted that the effect of domestic policies was very important, but without attempting to quantify it. The scenarios imply, and the World Bank points out repeatedly in the text, the greater importance of external conditions, and therefore of policy in the industrial countries. This is a significant change in emphasis from the 1983 reports.

One crucial issue is only rarely hinted at in the reports' discussion of their forecasts: whether the **debt crisis** has reached a stable solution and whether the present structure of international relationships and obligations can be regarded as secure. All the forecasts, and all the alternative scenarios, assume this, although some point to the possibility of major difficulties in particular areas (the major debtors) or under particular circumstances (such as a further major recession in 1986-87). The IMF sees a need for another major renegotiation of debt in 1985-86, and believes that this will put severe strains on the international system and on the lending banks. It therefore advocates bringing forward some of the rescheduling (and has done so for Mexico). It does not discuss whether the present system can survive, other than to imply that the consequences of further strains are serious enough to warrant policies to avoid them and to suggest that it would be desirable that more of the banks' current lending should be done on a spontaneous basis, not in tandem with the IMF.

The World Bank suggests that some of the worst hit debtors could be 'in and out of financial difficulties for the rest of the 1980s and beyond', and that they 'might effectively impose their own schedule for debt repayment'. It also compares the recession of the 1980s to that of the 1930s, although it concludes that the conditions are not as bad as those that led to default then. The IDB notes that the growing level of interest payments and their 'inelasticity' have 'important policy implications' although it does not spell these out.

Several forecasters try to identify the **long term effects,** economic, political or social, of the recession within the developing countries. The World Bank notes that the recession 'increased unemployment, reduced investment and undermined social programs'. But, although it does translate many of its output forecasts into per capita terms which show their consequences more clearly, the whole emphasis of its discussion of adjustment is on the subordination of domestic consequences to external requirements, and on the importance of 'political will'. UNCTAD, on the other hand, takes a very serious view of the social consequences of the present and expected slow growth: it not only points out the direct effects on welfare, including effects on employment, education and training, and health, but argues that these, in turn, will harm future economic performance because of their effects on productivity and on the vulnerability of the economy to external shocks. The IMF also notes the potential long term damage to productivity.

All these effects must be considered in choosing between the lower and higher growth scenarios. The consequences of slow growth may be more unfavourable, immediately and for the future, than would appear from the identifiable trade, price and output effects. Some of the economically possible scenarios may not be socially or politically possible. This is indirectly confirmed by the World Bank's emphasis on 'will' and the IMF's terminology of 'weak policies'. Certain combinations of particularly unfavourable industrial-country performance and policy may leave no feasible path for the hardest hit of the developing countries within the unchanged economic and social structures assumed in economic forecasts.

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