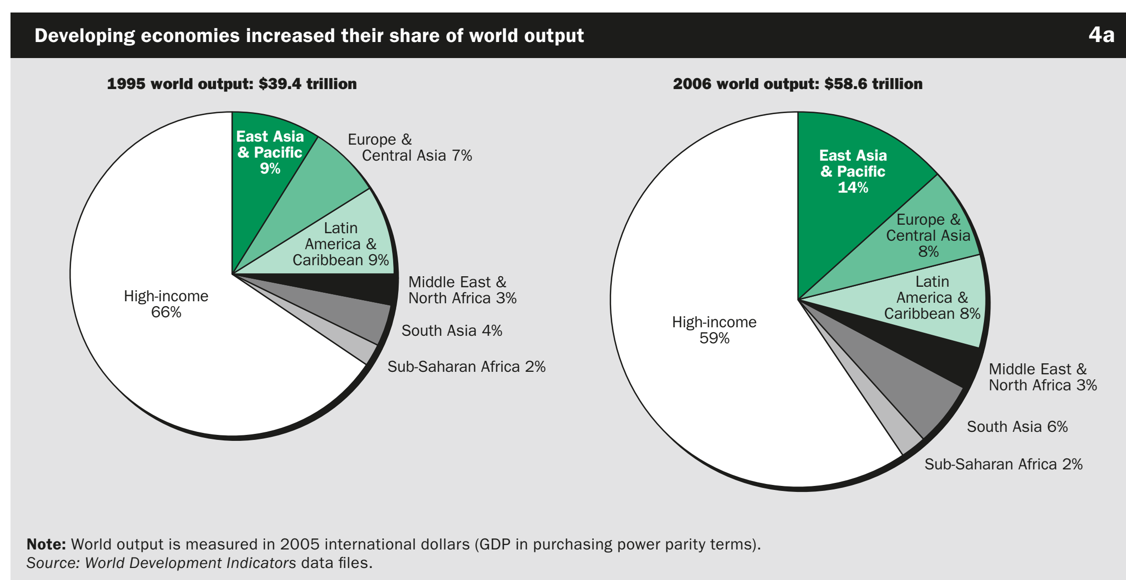
A portrait of the global economy

The world's output grew 4.8 percent in 2006, half a percentage point faster than in 2005, to reach nearly $59 trillion. That was an increase of almost 50 percent since 1995, measured in purchasing power parity and 2005 prices (figure 4a). Low- and middle-income economies—whose share of global output increased from 34 percent to 41 percent—grew faster on average than high-income economies. Setting the pace were East Asia and Pacific, whose developing economies more than doubled their output and increased their share of global output from 9 percent to 14 percent, and South Asia, whose share increased from 4 percent to 6 percent. Dominating the growth in these two regions were China and India. Growing less rapidly, Europe and Central Asia gained a percentage point, Sub-Saharan Africa and the Middle East and North Africa saw their shares stay the same, while Latin America and the Caribbean saw its share of global output decline from 9 percent to 8 percent.

The statistics in this section measure the size and structure of the world's economies and how they are managed. The national accounts record the sources of economic growth. The balance of payments tracks the flow of goods and services between countries. The fiscal and monetary accounts, interest rates, and exchange rates reflect the domestic and international forces acting on the economy and the responses of politicians and policymakers.

Viewed over time, macroeconomic statistics show the health of an economy and the quality of macroeconomic management. Viewed across countries, they reveal the many varied patterns of development. Together they inform citizens, businesses, and governments of the results of their efforts and guide them in their future choices.

Developing economies increased their share of world output **4a**



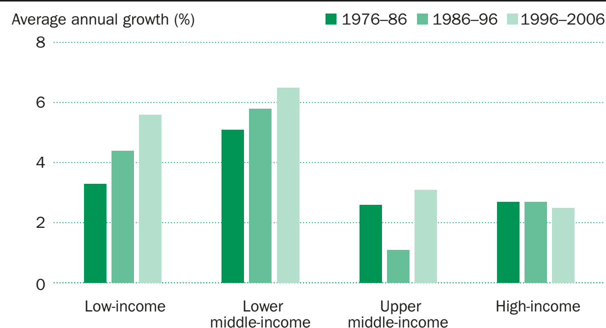
Note: World output is measured in 2005 international dollars (GDP in purchasing power parity terms).
Source: World Development Indicators data files.

Long-term trends

Developing economies are expected to continue growing faster than high-income economies thanks to labor surpluses, higher returns to physical capital, and ready access to technology already developed and amortized in high-income economies. With adequate investment in physical and human capital, developing economies should close the gap with richer economies in the long run.

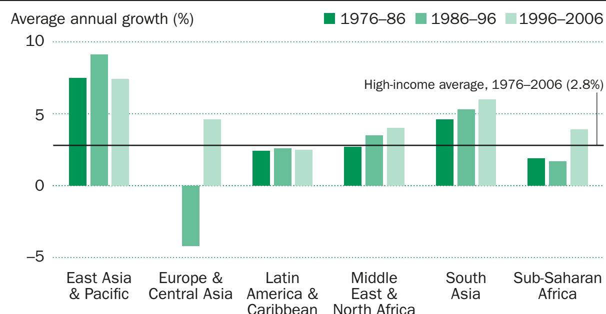
Average growth of low- and lower middle-income economies has been rising, surpassing that of upper middle-income and high-income economies in the last three decades (figure 4b). Since 2000 annual GDP growth in low-income economies has averaged 6.5 percent, compared with 5.6 percent in middle-income economies and 2.3 percent in high-income economies. A few large countries drive these averages: China, India, and the Russian Federation, which have performed exceptionally well and carry large weights in the aggregates. Growth remains uneven across regions (figure 4c) and economies. In the last decade 20, mostly small, economies graduated from the World Bank's low- and middle-income economies classification. Some of the most successful economies are now classified as high-income. But poverty traps, exclusion from global markets, internal conflicts, resource constraints, poor policies, and market failures have limited growth and poverty reduction in low-income economies, especially in Africa.

Low- and lower middle-income economies have had the strongest growth **4b**



Source: World Development Indicators data files.

Patterns of regional growth vary widely **4c**



Source: World Development Indicators data files.

Better policies to achieve macroeconomic stability

Developing economies are running lower fiscal and external deficits, accumulating larger reserves, and pursuing more prudent monetary and fiscal policies. These policies mean less vulnerability and volatility and increased investor confidence. Since the high inflation and the debt crises of the 1970s and 1980s—and the rapid inflation in Europe and Central Asia after the Soviet Union's collapse—better fiscal, monetary, and exchange rate policies have reduced inflation in most developing countries. These shocks also revealed the importance of reliable, publicly available data for monitoring governments and private agents. The number of countries with double-digit inflation dropped from 61 in the 1990s to 27 in 2000–06, and inflation averaged less than 9 percent in all developing regions in 2006 (table 4d). But higher prices for oil and other commodities pushed inflation back up in three regions in 2006.

Better macroeconomic management has also lowered real interest rates in many developing economies, encouraging investment and faster growth. For the poorest and most indebted, Heavily Indebted Poor Country and Multilateral Debt Relief Initiatives led by the World Bank and International Monetary Fund have reduced debt burdens. Reforms under these programs have improved Sub-Saharan Africa's growth prospects.

Inflation is now less than 9 percent in all developing regions **4d**

Region	1975	1985	1995	2000	2005	2006
East Asia & Pacific	..	3	8	3	6	5
Europe & Central Asia	..	..	56	13	7	8
Latin America & Caribbean	15	16	12	7	6	7
Middle East & North Africa	5	4	8	7	6	7
South Asia	24	7	9	4	6	6
Sub-Saharan Africa	11	10	10	6	8	7

Source: World Development Indicators data files.

Real interest rates have fallen in many developing economies **4e**

Economy	1985	1990	1995	2000	2005	2006
Argentina	..	..	14	10	–2	–4
Algeria	..	..	–8	–12	–7	–1
Brazil	..	..	..	48	45	45
China	–2	3	–1	4	1	2
India	9	5	6	8	6	5
Indonesia	..	12	8	–2	–1	2
Nigeria	6	17	–23	–12	–6	8
Russian Federation	..	..	72	–10	–7	–5
South Africa	4	5	7	5	6	4
Ukraine	..	..	–57	15	–7	1

Source: World Development Indicators and International Monetary Fund data files.

The contribution of trade

Globalization has elevated the importance of trade for developing economies. The rapid industrialization of many large developing economies has increased demand for primary commodities. The prices of oil, metals, and minerals have increased rapidly since 2002, allowing commodity producers to invest and produce more (figure 4f).

As a result, many primary commodity–exporting economies have experienced strong GDP growth, while oil- and metal-importing economies have seen price increases (figure 4g).

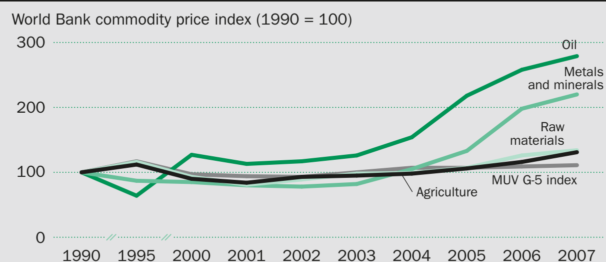
Such changes in the terms of trade affect the real growth of GDP. When export prices rise faster than import prices, the terms of trade improve, an economy's capacity to import rises, and the real value of its output increases.

One commonly used measure of the terms of trade effect is the difference between the value of exports deflated by the import price index and the value of exports in constant prices. Adding the terms of trade adjustment to GDP in constant prices yields real gross domestic income (GDI).

For some countries the terms of trade effect can be quite large. The terms of trade adjustment accounted for 33 percent of Zambia's GDI between 2000 and 2006 (table 4h). Real growth rates, taking account of the terms of trade effect, may differ substantially from constant price growth rates. Tajikistan's GDP increased 9.1 percent a year from 2000 to 2006, but the real growth of GDI was only 0.6 percent. This represented a terms-of-trade loss of 8.5 percent, the largest of any economy over the period.

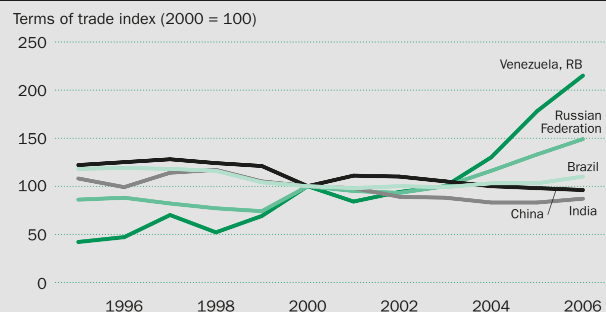
Most oil-exporting economies have seen rising terms of trade in recent years. Some metal-exporting economies, such as Chile and Zambia, have also experienced favorable terms of trade thanks to recent increases in copper prices. But some oil-importing economies have weathered the worsening terms of trade by rapidly expanding manufactured goods exports (China) or services (India). Of 147 economies with data, 65 experienced a loss in income due to the terms of trade effect (6 greater than 2 percent), 68 economies gained (18 more than 2 percent), and 14 economies had no appreciable terms of trade effect.

Oil, metal, and mineral prices have increased since 1990 **4f**



Note: The MUV G-5 index, or the manufacturers unit value index, a proxy for the price of developing country imports of manufactures, is a weighted average of the export prices of the Group of Five economies (France, Germany, Japan, United Kingdom, and United States).
Source: World Development Indicators data files.

Oil-exporting economies have experienced gains **4g**



Source: World Development Indicators data files.

Terms of trade, gross domestic product, and gross domestic income growth for selected economies **4h**

Economy	Terms of trade 2000 = 100 2006	Terms of trade average annual % growth 2000–06	Gross domestic product average annual % growth 2000–06	Gross domestic income average annual % growth 2000–06	Terms of trade gain or loss % 2000–06	Terms of trade gain or loss % of GDI 2000–06
Oil-exporting economies						
Azerbaijan	214	14.2	15.6	23.5	7.9	13.5
Equatorial Guinea	168	9.3	19.4	30.1	10.7	16.1
Iran, Islamic Rep.	172	11.1	5.6	8.7	3.1	7.6
Russian Federation	149	7.8	6.4	10.7	4.4	6.9
Venezuela, RB	215	15.8	3.4	8.9	5.4	18.5
Metal- and primary commodity-exporting economies						
Burkina Faso	96	–1.5	6.2	6.0	–0.2	–0.8
Chile	174	10.2	4.3	8.6	4.3	5.5
Côte d'Ivoire	82	–3.0	0.1	–2.3	–2.3	–17.7
Tajikistan	42	–11.7	9.1	0.6	–8.5	1.7
Zambia	142	4.7	5.0	15.7	10.8	32.8
Oil-importing economies						
China	87	–2.7	9.8	8.5	–1.3	–2.9
Costa Rica	87	–2.4	4.8	3.4	–1.4	–2.5
Brazil	110	1.5	3.0	3.2	0.2	–3.5
India	87	–2.8	7.4	6.9	–0.5	0.3
South Africa	113	2.0	4.1	4.7	0.6	1.7

Source: World Development Indicators data files.