

## WORLD ECONOMIC OUTLOOK FOR 1997

### *The World: Global Economic Expansion Likely to Continue*

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In 1997 global economic expansion will most likely continue. The growth rate of real GDP for the world economy is expected to pick up to about 3.7% in 1996, and a further strengthening is expected in 1997 to about 4%. One of the most important factors is that satisfactory growth is highly likely for most countries all over the globe. While growth prospects are encouraging, structural problems still remain for the world economy. Most industrial countries need fiscal consolidation to reduce their fiscal deficits as well as labor reform to tackle their high unemployment rates. To reduce the risks stemming from the fragility of their banking systems, developing countries need to enhance the soundness of their financial sectors.

### *The U.S.: Keeping Economic Growth Close to its Potential*

The sustainable growth of the U.S. economy is expected to continue in 1997, maintaining almost its full potential. The fuel of the growth is the rebound in consumer spending which might be escalated by income growth due to the solid job market, as well as good gains in financial assets offsetting somewhat elevated debt burdens.

Recently, the labor productivity of U.S. has been growing about 3% annually so that the aggregate supply of the U.S. economy has been improving. Against this background, some economists recently estimated that the potential growth rate of U.S.'s real GDP has risen to about 2.5% from 2% in early

1990's. This means that continuous growth of 2~2.5% will not cause a rise in inflation. Even when wage inflation appears, the credible monetary policy of the Fed and effective financial responses can appropriately reduce inflation fears.

However, the possibility of an economic downturn still remains. It is proposed that, in view of a purely business-cycle theory, the current expansion is too long and that the business cycle will inevitably peak soon. In addition, if the overheated stock market loses its steam, an economic downturn is indeed possible.

### *Japan: Recovery in Private Demand and Exports Driving Economic Growth*

The Japanese economy has been recovering, but slowly. Even though the growth rate of real GDP is expected to be above 3% in 1996, the shape of the Japanese economy is not so good because the annual growth mostly came from the first quarter's abnormal growth and the recovery of domestic demand is still sluggish.

In 1997, however, the Japanese economy will likely to grow steadily throughout entire year thanks to the steady recovery in consumer spending. Gradual improvement in labor market and long-lasting low interest rates are expected to be the main gears of consumer spending. Exports will also be an important factor for economic growth. One barrier for consumer spending to increase is a hike in the consumption tax to 5% from the current 3%, scheduled in April 1997. However, it is expected that the effects of the increase in the consumption tax on consumer spending will not be serious. **VIP**

*(Jae-Chil Kim)*