

smoothly rather than in a manner, as disruptive to the world economy.

While inflationary pressures in most advanced economies have broadly eased, 12-month core inflation in the U.S. remains somewhat above the implicit comfort zone preferred by the Federal Reserve, and both slowing productivity growth and increases in some measures of wages have added to cost pressures.

In the euro area, price and wage increases are still subdued, but given that unemployment rates have fallen and capacity utilisation rates are high, inflationary pressures could increase if labour markets continue to tighten.

The world economy is expected to continue to experience solid growth in 2007 and 2008, although mild deceleration is anticipated. The 2007 slowdown is expected to be most prominent in the U.S., but to moderate over the course of the year as the drag produced by the housing sector eases off.