

growth in the non-oil sector remains robust. The recovery in other LICs, such as Kenya and Ethiopia, is also expected to stay strong this year, supported by infrastructure investment and improving agricultural production. However, political turmoil in Cote d'Ivoire has dampened growth prospects, and that economy is projected to contract by 7.5 percent in 2011.

In marked contrast to the robust growth in most of the region, recovery is expected to be relatively weak in South Africa, the region's largest economy. Despite an already sizable output gap, South Africa is expected to grow by only 3.5 percent in 2011—a rate that is insufficient to reverse the substantial job losses of the past two years. The outlook primarily reflects the lack of strong domestic demand, as private investment is held back by excess capacity.

Assumptions and Risks

As indicated earlier, all projections in this chapter stem from the IMF's April 2011 *World Economic Outlook*. In making its projections, the IMF has adopted a number of technical assumptions that underpin its estimations. Key among these assumptions are that (1) for the advanced economies, real effective exchange rates remain constant at their average levels during the period between February 8-March 8, 2011; (2) established policies (fiscal and monetary) of national authorities are maintained; and (3) the price of oil will average US\$107.16 a barrel in 2011 and US\$108.00 a barrel in 2012. In addition, there are a number of working hypotheses concerning various deposit rates in the world's financial sectors. Interested readers should consult the *Outlook* for further details on these technical assumptions.

For the most part, the assumptions made by the IMF modellers are based on officially announced budgets, adjusted for differences between the national authorities

and the IMF regarding macroeconomic assumptions and projected fiscal outcomes, with medium-term projections incorporating policy measures that are judged likely to be implemented. Similarly, assumptions about monetary policy are based on the established policy framework in each country.

One of the key assumptions of the forecast relates to oil prices being in the US\$107-US\$108 per barrel range. There is a risk to growth relating to the potential for oil prices to surprise further on the upside because of supply disruptions. The IMF has examined the case of a temporary disruption pushing prices to US\$150 per barrel and found that it would lower real GDP in the advanced economies, in Asia and in Africa by three-quarters of a percentage point, and lower output in Latin America and the Caribbean by one-half of a percentage point. For the CIS and the Middle East, higher prices would yield output gains.

In addition, the outlook for activity a year ago was unusually uncertain because of downside risks stemming from fiscal fragilities. Over the course of the past year, financial risks declined as the recovery gained foothold. Improvements in macroeconomic performance and strong prospects for emerging market assets have supported overall financial stability. Accommodative macroeconomic conditions have helped ease balance sheet risks and have spurred an increase in risk appetite. However, significant fiscal and financial vulnerabilities still exist.

The key downside risks stem from high leverage and limited improvements in credit quality in advanced economies and building credit risks in some major emerging market economies. In particular, weak sovereign balance sheets in several advanced economies raise the potential for high volatility in interest rates and risk premiums. Additionally, bank exposure to real estate continues to pose downside risks. Real estate markets are