
BASELINE ASSUMPTIONS

World Macroeconomic Assumptions

The macro projections are little altered compared to those of the 2005 FAPRI outlook and call for continued solid global economic growth above 3% per annum, a weak U.S. dollar against most OECD currencies, and moderate price inflation in most countries.

NAFTA economies continued to grow at a solid pace in 2005, with growth of 2.9% for Canada, 3.1% for Mexico, and 3.7% for the United States. This growth path is projected to continue in the coming decade for the three countries, with average annual growth rates of 2.6%, 4%, and 3%, respectively. Price inflation in the three countries is expected to remain moderate during the outlook period.

The outlook for the Asian economies remains solid, with a projected average annual real growth rate of 3.7%, and with high growth rates (5% to 7.4%) predicted for China, Vietnam, Thailand, and India for the decade. East Asia is growing strongly. Japan's outlook remains positive; its economy grew by 2.4% in 2005 and is projected to grow by 1.7% annually for the outlook period. Inflation remains low in most of Asia.

Argentina's GDP grew by 8.7% in 2005 as it did in 2004 and is expected to grow at around 4% annually until 2014. Brazil's economy grew more moderately (2.7%) in 2005; it picks up during the coming decade at about 3.7% per year. The Latin America region grows at a 3.9% average annual rate during the outlook period. Price inflation is expected to be moderate in most of Latin America, except in Venezuela.

The economic growth convergence between old Europe and the NMS continued in 2005, with the former growing 1.5% and the latter 4.1%—a weakening from 2005. This convergence will continue during the next decade, with the NMS growing more than twice as fast as the EU-15 (4.2% versus 1.9% per year). Most members of the EU-25 experience a moderate currency appreciation against the U.S. dollar in the coming decade, reducing their competitiveness.

Most Latin American currencies appreciated against the dollar in 2005 and do so again in 2006. After that, most of these currencies, including the Brazilian real, depreciate in nominal terms. Price inflation eventually erodes much of this competitive advantage in most countries except Colombia. Despite its continued nominal devaluation, the Argentine peso actually appreciates in real terms over the whole decade because price inflation is significantly higher than in the United States.

The U.S. dollar remained weak relative to the currencies of Australia, Canada, and New Zealand in 2005. In 2006, this weakness expands to the currencies of Japan and the EU-25.

Most Asian currencies appreciate in real terms against the U.S. dollar, especially those of China, Indonesia, Taiwan, and Thailand. Large appreciations also occur elsewhere, with the cost of a U.S. dollar in real terms falling by 4.5% per year in Russia and by 6.1% per year in Ukraine. A weaker dollar benefits U.S. agricultural exports by reducing the price of U.S. products in terms of foreign currency.

Price inflation in 2006 remains high in Nigeria, Indonesia, Russia, Ukraine, Argentina, Venezuela, and Iran. In the long run, price inflation expectations are moderate for most countries except Nigeria, Venezuela, and Iran, with 9.5%, 14.7%, and 10.2% average growth rates of their GDP deflators, respectively. Latin American countries tend to have higher expected price inflation than do Asian countries.

Fossil fuel and fertilizer prices have moved higher since 2002, as factors including weather-related supply shocks, the political situation in the Middle East, and strong international demand for petroleum from China and India combined to keep supplies tight. Fertilizer and fuel prices are expected to decline beginning in 2007 but still remain well above the levels experienced from 1997 to 2002.

Real GDP Growth Projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Percentage Change from Previous Year)										
World	3.3	3.3	3.0	3.2	3.3	3.1	3.0	3.0	3.0	3.0	3.0
Developed Market Economies											
Australia	2.4	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.4	2.4
Canada	2.9	2.9	2.6	2.8	2.9	2.9	2.7	2.6	2.4	2.3	2.3
European Union-15	1.5	1.9	1.8	2.0	2.2	2.0	1.9	1.9	1.9	1.9	1.8
Japan	2.4	1.9	1.6	1.6	1.7	1.8	1.8	1.8	1.7	1.6	1.5
New Zealand	2.1	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.3	2.3	2.1
Switzerland	1.8	2.1	1.7	1.8	1.6	1.5	1.3	1.4	1.4	1.5	1.5
United States	3.7	3.5	2.9	3.3	3.3	2.8	2.6	2.6	2.9	3.1	3.2
Developing Market Economies											
Africa											
Algeria	4.7	5.3	5.2	5.2	5.0	4.9	4.6	4.6	4.6	4.6	4.5
Egypt	6.4	6.4	6.4	6.4	6.0	6.0	5.7	5.0	4.8	4.7	4.6
Nigeria	4.9	5.0	5.1	4.7	5.0	5.3	4.7	4.0	4.2	4.2	4.3
Tunisia	4.5	6.2	6.0	5.8	4.7	4.7	4.8	5.0	4.8	5.2	4.8
South Africa	4.4	4.1	4.4	4.5	4.6	4.6	4.6	4.6	4.7	4.7	4.7
Tunisia	5.0	5.8	5.6	5.9	6.1	6.1	6.0	5.9	5.9	5.8	5.7
Asia											
China	4.2	3.9	3.7	3.7	3.8	3.8	3.8	3.7	3.6	3.5	3.4
Hong Kong	9.3	8.4	8.2	8.0	7.7	7.5	7.4	7.1	6.8	6.6	6.5
India	7.3	5.5	5.8	5.6	6.0	5.3	4.8	4.6	4.3	4.1	4.0
Indonesia	7.2	6.8	6.6	6.4	6.1	5.8	5.8	5.7	5.6	5.5	5.3
Malaysia	5.5	4.9	5.0	5.1	5.0	4.8	4.9	4.7	4.5	4.5	4.5
Pakistan	5.3	5.5	5.3	5.1	4.9	4.8	5.0	5.1	5.1	5.1	5.0
Philippines	8.4	6.4	6.1	5.5	4.3	4.1	4.0	4.0	3.7	3.7	3.5
South Korea	4.5	4.4	4.4	4.4	4.3	4.2	4.1	4.0	4.0	3.9	4.0
Taiwan	4.0	6.0	5.2	4.9	5.5	5.2	4.7	4.4	4.0	3.8	3.5
Thailand	3.7	3.5	3.9	4.3	4.7	4.9	4.6	4.4	4.1	3.9	3.7
Vietnam	4.2	4.6	5.2	5.4	5.3	5.3	5.4	5.6	5.4	5.3	5.2
Vietnam	8.1	7.8	7.1	7.0	6.9	6.8	6.7	6.7	6.6	6.5	6.4
Commonwealth of Independent States											
Russia	6.6	6.3	5.6	5.0	4.9	4.8	4.8	4.5	4.2	4.1	4.1
Ukraine	6.1	5.5	4.7	4.2	4.2	4.2	4.3	4.0	3.7	3.6	3.6
Ukraine	3.3	6.5	8.2	6.8	5.8	4.6	4.5	4.5	4.4	4.3	4.3
EU New Member States											
Czech Republic	4.1	4.6	4.8	4.8	4.7	4.5	4.3	3.6	3.5	3.4	3.4
Estonia	4.8	4.5	4.4	4.4	4.2	4.2	4.1	4.1	4.0	3.9	3.8
Hungary	8.9	7.5	6.8	6.6	5.8	5.5	5.2	4.9	4.7	4.5	4.3
Latvia	4.0	4.0	4.0	4.0	4.1	3.7	3.6	2.9	2.9	2.8	2.9
Lithuania	9.8	8.5	7.8	6.6	6.2	4.8	4.7	4.5	4.4	4.2	4.2
Poland	7.0	6.2	6.2	5.5	5.3	5.2	4.9	4.6	4.3	4.0	4.6
Slovakia	3.3	4.5	4.9	5.3	5.2	4.9	4.7	3.5	3.3	3.1	3.2
Slovenia	5.3	5.4	5.8	5.0	4.6	4.5	4.3	4.1	3.9	3.9	3.8
Slovenia	4.0	4.2	4.1	4.0	4.0	3.8	3.7	3.7	3.7	3.8	3.7
Latin America											
Argentina	4.4	4.0	4.0	4.0	4.0	4.0	3.9	3.8	3.8	3.8	3.7
Brazil	8.7	5.0	3.7	4.0	4.0	3.9	3.9	3.9	3.9	3.9	3.8
Colombia	2.7	3.6	4.0	4.0	4.0	3.8	3.6	3.4	3.4	3.4	3.4
Mexico	4.3	4.2	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.7	3.7
Uruguay	3.1	3.4	3.8	4.0	4.0	4.2	4.2	4.2	4.2	4.2	4.2
Venezuela	6.4	4.4	3.9	3.9	3.9	3.8	3.8	3.7	3.6	3.6	3.5
Venezuela	9.3	5.8	4.3	3.0	3.3	3.9	3.9	3.9	3.8	3.7	3.5
Middle East											
Iran	5.8	4.9	4.4	4.2	4.2	4.1	4.1	4.0	4.0	3.9	3.8
Israel	5.6	4.8	4.6	4.5	4.3	4.4	4.4	4.3	4.3	4.1	4.1
Saudi Arabia	4.9	3.8	3.6	3.7	3.8	3.7	3.6	3.5	3.4	3.3	3.2
Saudi Arabia	5.9	5.4	4.7	4.1	4.2	4.2	4.1	4.1	4.1	4.0	4.0
Other Eastern Europe											
Bulgaria	4.7	4.9	5.1	5.1	5.2	4.9	4.9	4.4	4.1	4.0	3.9
Romania	5.6	4.5	4.4	4.1	3.8	3.9	3.5	3.2	3.1	3.2	3.3
Romania	5.2	6.2	6.4	6.2	6.2	6.0	6.2	5.2	4.9	4.6	4.2

Source: International Financial Statistics January 2006 and projections after 2005 are from Global Insight (formerly DRI-WEFA).

GDP Deflator Growth Projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Developed Market Economies	(Percentage Change from Previous Year)										
Australia	5.3	4.2	3.1	3.3	3.4	3.6	3.4	3.2	3.1	3.1	3.1
Canada	2.9	1.8	0.8	1.3	1.5	1.7	1.5	1.5	1.6	1.7	1.8
European Union-15	0.1	1.5	1.8	2.0	1.8	1.9	1.9	1.9	2.0	2.0	1.9
Japan	-1.1	-0.2	0.8	1.3	1.4	1.6	1.8	1.9	2.0	2.1	2.1
New Zealand	2.6	2.4	2.0	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Switzerland	1.1	1.5	1.7	1.1	1.3	1.4	1.6	1.5	1.4	1.4	1.3
United States	2.7	2.5	1.8	2.0	2.1	2.1	2.2	2.3	2.3	2.3	2.4
Developing Market Economies											
Africa											
Algeria	8.0	-0.8	1.1	2.8	3.9	3.8	3.2	3.8	4.0	3.4	2.8
Egypt	20.1	-4.7	3.3	3.1	2.6	2.4	3.5	3.4	3.4	3.4	3.3
Nigeria	13.1	9.5	14.0	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
South Africa	5.1	5.1	4.4	4.5	4.4	4.1	4.1	4.0	4.8	4.7	4.8
Tunisia	2.2	3.4	3.6	3.5	3.4	3.4	3.3	3.1	2.9	2.6	2.2
Asia											
China	2.7	2.6	2.7	2.9	3.0	3.1	3.2	3.4	3.4	3.3	3.3
Hong Kong	-0.6	1.0	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.8
India	4.8	5.1	5.1	5.3	3.7	3.4	4.0	4.1	3.9	3.9	3.6
Indonesia	12.1	7.4	6.1	4.8	4.0	3.9	4.2	4.3	4.3	4.3	4.3
Malaysia	4.9	3.2	2.3	1.9	1.3	2.5	3.0	2.5	2.5	2.6	2.7
Pakistan	6.3	5.9	5.8	5.7	5.6	5.3	5.6	5.8	5.7	5.5	5.2
Philippines	4.2	5.1	5.1	5.0	3.9	3.0	3.4	3.4	3.3	3.2	2.9
South Korea	-0.3	4.7	4.5	3.3	3.1	2.9	2.8	2.7	2.6	2.5	2.5
Taiwan	-0.9	0.6	1.2	1.6	1.7	1.9	2.0	2.1	2.2	2.3	2.2
Thailand	4.8	4.3	3.2	2.4	2.6	2.7	2.9	3.0	3.0	3.1	3.0
Vietnam	7.6	4.5	3.8	3.7	3.0	2.9	2.9	2.8	2.6	2.5	2.5
Commonwealth of Independent States											
Russia	15.4	11.9	9.4	8.0	6.7	5.9	5.3	4.9	4.8	4.7	4.6
Ukraine	14.8	8.5	7.2	7.0	6.5	6.2	6.2	6.0	5.8	5.6	5.5
EU New Member States											
Czech Republic	9.3	4.3	3.1	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.2
Estonia	1.4	2.5	2.4	2.3	2.2	2.2	2.0	1.9	1.8	1.7	1.7
Hungary	3.7	2.7	2.2	2.6	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Hungary	3.5	2.4	2.5	2.5	2.5	2.4	2.2	2.2	2.3	2.3	2.3
Latvia	7.1	5.7	3.0	2.5	2.3	2.1	2.1	2.1	2.1	2.1	2.0
Lithuania	5.0	4.1	3.0	2.8	2.6	2.5	2.1	2.0	1.9	1.8	1.8
Poland	2.1	2.0	2.3	2.3	2.4	2.4	2.4	2.3	2.5	2.4	2.3
Slovakia	2.8	3.4	2.4	2.1	2.3	2.4	2.3	2.3	2.1	2.1	2.0
Slovenia	2.5	2.2	2.4	2.4	2.5	2.7	2.5	2.4	2.4	2.4	2.4
Latin America											
Argentina	17.1	11.5	9.9	8.0	7.5	7.9	7.9	7.8	7.7	7.7	7.6
Brazil	7.6	7.2	7.1	6.7	6.3	6.1	6.0	5.9	5.9	5.8	5.7
Colombia	5.8	5.7	5.3	5.1	4.8	4.5	4.4	4.3	4.2	4.2	4.2
Mexico	5.5	5.5	5.1	5.0	5.0	4.9	4.9	4.8	4.8	4.8	4.7
Uruguay	7.2	6.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Venezuela	18.9	16.3	19.0	22.4	18.2	15.1	14.3	12.4	10.3	10.2	9.1
Middle East											
Iran	17.9	15.0	13.5	11.9	10.3	9.2	8.7	8.4	8.3	8.2	8.1
Israel	-0.3	3.5	3.0	3.1	2.4	2.3	2.8	3.4	3.5	3.3	3.2
Saudi Arabia	6.7	-1.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Other Eastern Europe											
Bulgaria	7.9	6.1	5.6	4.3	2.7	2.7	2.2	2.2	2.2	2.3	2.3
Romania	9.3	5.7	3.7	3.7	3.2	2.4	2.3	2.3	2.0	1.9	1.8

Source: International Financial Statistics January 2006 and projections after 2005 are from Global Insight (formerly DRI-WEFA).

Exchange Rate* Growth Projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Developed Market Economies	(Percentage Change from Previous Year)										
Australia	-4.3	-0.4	-2.3	-1.2	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0
Canada	-5.9	-5.0	-0.8	1.1	0.8	0.0	-0.4	-0.3	-0.2	-0.2	-0.4
European Union-15	-1.7	-0.3	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Japan	-0.3	0.2	-11.8	-5.6	-2.7	-2.4	-1.8	-1.0	-0.5	-0.3	-0.1
New Zealand	-6.3	-0.8	-1.2	-0.4	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0
Switzerland	-1.4	-1.3	-10.8	-4.2	6.8	3.9	0.0	-2.0	-2.1	-2.0	-2.0
Developing Market Economies											
Africa											
Algeria	1.5	-1.4	1.6	2.1	1.1	0.6	2.6	2.8	2.9	2.6	2.1
Egypt	-6.6	1.5	2.8	2.2	2.2	1.4	1.8	2.8	2.9	2.9	2.9
Nigeria	-0.7	0.3	3.7	3.5	4.4	4.5	4.5	4.5	4.5	4.5	4.5
South Africa	-2.5	3.3	5.0	5.4	4.1	3.3	2.1	2.0	2.2	2.2	2.2
Tunisia	2.2	3.1	-0.3	1.0	2.4	2.5	1.1	0.7	0.5	0.5	0.4
Asia											
China	-0.5	-2.7	-4.0	-4.7	-3.4	-1.8	-1.3	-0.9	-0.6	-0.5	-0.5
Hong Kong	0.0	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3
India	-3.6	4.4	1.9	1.4	1.0	0.7	0.6	0.6	0.6	0.7	0.6
Indonesia	7.5	1.3	-3.0	-2.4	0.0	0.6	0.8	1.0	1.0	1.1	1.1
Malaysia	-0.2	-1.3	-2.2	-1.6	-1.2	-0.9	-0.7	-0.5	-0.4	-0.3	-0.2
Pakistan	2.0	2.4	3.9	4.5	3.3	2.8	2.6	2.5	2.4	2.3	2.1
Philippines	-1.4	-0.5	3.1	3.3	1.1	0.5	0.2	0.2	0.3	0.3	0.2
South Korea	-10.9	1.1	3.2	2.5	0.9	0.7	0.6	0.5	0.3	0.5	0.6
Taiwan	-3.6	-0.3	-6.1	-2.0	-1.6	-1.5	-2.3	-1.9	-1.7	-1.5	-1.4
Thailand	-0.6	-0.8	-2.5	-2.3	-2.0	-2.8	-2.5	-4.3	-4.5	-0.9	-0.8
Vietnam	0.5	0.8	0.8	-0.2	-0.3	0.2	0.1	0.0	0.0	0.0	0.0
Commonwealth of Independent States											
Russia	-2.3	1.0	1.8	1.9	1.1	-0.6	-0.6	-0.8	-0.9	-1.6	-2.1
Ukraine	-3.2	-4.0	-5.5	-2.0	-2.0	-2.0	-1.4	-0.5	-0.5	-0.5	-0.5
EU New Member States											
Czech Republic	-7.7	-3.0	-12.0	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Estonia	-1.6	-0.2	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Hungary	-3.6	2.4	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Latvia	2.9	-0.1	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Lithuania	-1.8	-0.3	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Poland	-12.1	-3.5	-10.8	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Slovakia	-5.2	-2.4	-12.0	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Slovenia	-1.4	-0.7	-10.2	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Latin America											
Argentina	-1.3	4.3	4.4	3.6	3.6	3.8	4.7	4.6	4.5	4.4	4.3
Brazil	-14.5	-6.5	7.2	6.9	6.6	6.2	4.0	3.8	3.8	3.8	3.7
Colombia	-11.2	2.5	7.6	5.9	5.5	5.2	4.2	3.6	3.0	2.8	2.7
Mexico	-2.9	0.6	3.3	2.6	2.2	2.5	2.5	3.3	2.2	2.3	2.4
Uruguay	-13.7	-0.6	2.3	1.8	0.5	2.6	2.4	2.4	2.4	2.4	2.3
Venezuela	9.5	2.4	18.1	16.9	16.6	14.7	14.4	12.5	11.4	10.3	9.8
Middle East											
Iran	3.7	3.5	3.6	3.5	3.5	3.0	4.7	7.1	7.0	7.0	7.0
Israel	-1.0	4.4	1.8	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4
Saudi Arabia	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Eastern Europe											
Bulgaria	-1.6	-0.3	-10.4	-6.1	5.4	3.2	0.0	-1.4	-1.4	-1.4	-1.4
Romania	-12.2	0.7	2.3	1.9	1.7	1.0	0.0	0.9	4.5	0.0	0.0

Source: International Financial Statistics January 2006 and projections after 2005 are from Global Insight (formerly DRI-WEFA).

* Note: in local currency per U.S. dollar.

Population Growth Projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Percentage Change from Previous Year)										
World	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Developed Market Economies											
Australia	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Canada	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
European Union-15	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Japan	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3
New Zealand	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7
United States											
Developing Market Economies											
Africa	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0
Algeria	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Egypt	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4
Morocco	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3
Nigeria	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
South Africa	-0.2	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Tunisia	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Asia	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0
China	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.6
Hong Kong	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
India	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2
Indonesia	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.1	1.1
Malaysia	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6
Pakistan	2.0	2.1	2.1	2.0	2.0	1.9	1.9	1.9	1.8	1.8	1.7
Philippines	1.9	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.5
South Korea	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Taiwan	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4
Thailand	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Vietnam	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Commonwealth of Independent States	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Russia	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5
Ukraine	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.6
EU New Member States	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Czech Republic	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Estonia	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7
Hungary	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Latvia	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Lithuania	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Poland	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Slovakia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Slovenia	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Latin America	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0
Argentina	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7
Brazil	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Mexico	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Paraguay	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Middle East	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Israel	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Saudi Arabia	2.4	2.3	2.2	2.0	1.9	1.8	1.7	1.6	1.5	1.5	1.4
Other Eastern Europe	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Bulgaria	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Romania	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2

Source: U.S. Bureau of the Census International Data Base, April 26, 2005.

U.S. Program Provisions

The baseline assumes provisions of the FSRIA, the 2002 farm bill. In general, provisions set to expire in 2007 are assumed to continue throughout the projection period.

The baseline also incorporates provisions of the Deficit Reduction Act of 2005, approved in early 2006. The Deficit Reduction Act eliminates the cotton Step 2 program at the end of 2005/06, and it reduces the proportion of direct payments that farmers can obtain before planting from 50% to 22%, effective in 2007/08.

The Deficit Reduction Act extends the MILC program, previously scheduled to expire in 2005, for two years at a lower payment rate. Unlike other program provisions, MILC is not assumed to be renewed in 2007 because of technical features of the Deficit Reduction Act and federal budgetary rules.

The baseline does not reflect any other changes from policies in place in January 2006. No changes to U.S. farm legislation are assumed to comply with existing or pending trade agreements.

DPs and CCPs depend on fixed base acreages and program yields, not on actual production. The DP payment rate is also fixed, but the CCP payment rate depends on market prices. The CCP payment rate equals the target price minus the DP rate, minus the greater of the loan rate or the season average farm price.

Benefits under the marketing loan program are only available on actual production. LDPs and marketing loan gains are available for wheat, feed grains, and oilseeds when the county loan rate is greater than a posted county price that is tied to market prices. For cotton and rice, benefits are available when the loan rate exceeds an AWP.

Because CCPs and marketing loan benefits depend on market prices, actual payment rates can vary greatly from year to year, even though they are based on fixed target prices, loan rates, and DP rates.

Conservation reserve area dips in 2008/09 because of the expiration of many existing contracts. Conservation reserve area increases in later years but remains below the FSRIA limit of 39.2 million acres.

U.S. Program Provisions

	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
	(Dollars per Hundredweight)										
Milk Support Price	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90
	(Dollars per Bushel)										
Direct Payment Rate											
Corn	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28
Sorghum	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Wheat	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52
Soybeans	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44
	(Dollars per Hundredweight)										
Rice	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35
	(U.S. Cents per Pound)										
Cotton	6.67	6.67	6.67	6.67	6.67	6.67	6.67	6.67	6.67	6.67	6.67
Peanuts	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
	(Dollars per Bushel)										
Loan Rates											
Corn	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
Sorghum	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
Wheat	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Soybeans	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	(Dollars per Hundredweight)										
Rice	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
	(U.S. Cents per Pound)										
Cotton	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00
Peanuts	17.75	17.75	17.75	17.75	17.75	17.75	17.75	17.75	17.75	17.75	17.75
Raw Cane Sugar	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Beet Sugar	22.90	22.90	22.90	22.90	22.90	22.90	22.90	22.90	22.90	22.90	22.90
	(Dollars per Bushel)										
Target Prices											
Corn	2.63	2.63	2.63	2.63	2.63	2.63	2.63	2.63	2.63	2.63	2.63
Sorghum	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57
Wheat	3.92	3.92	3.92	3.92	3.92	3.92	3.92	3.92	3.92	3.92	3.92
Soybeans	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80
	(Dollars per Hundredweight)										
Rice	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
	(U.S. Cents per Pound)										
Cotton	72.40	72.40	72.40	72.40	72.40	72.40	72.40	72.40	72.40	72.40	72.40
Peanuts	24.75	24.75	24.75	24.75	24.75	24.75	24.75	24.75	24.75	24.75	24.75
	(Million Acres)										
Conservation Reserve	35.59	36.00	36.50	35.50	35.00	36.00	36.50	37.00	37.50	38.00	38.00

World Agricultural Policy Assumptions

The 2005 world policy environment included the continuing implementation of the 2003 European reforms (CAP reforms and enlargement with 10 EU NMS). The EU reforms aim to further decouple farm support from production decisions, a policy initiated in 1992. Decoupling implementation will be completed by 2007 and will take the form of a Single Farm Payment.

In February 2006, the EU adopted the CMO reforms for sugar. The reforms will cover the period 2006/07 to 2014/15. The institutional price for white sugar will be cut by 36% over four years beginning in 2006/07 (cumulatively by 20% in year one, 27.5% in year two, 35% in year three, and 36% in year four). The minimum beet price will be reduced by 39.5% over the same period.

No mandatory cuts of sugar production quota were adopted but production reductions will occur through a voluntary restructuring buy-up scheme. Payments will encourage factory closure and the renunciation of quota. The "A" and "B" production quotas will be merged into a single quota and kept at the current 17.4 mmt of white sugar. Countries that produced "C" sugar during 2004/05 can produce an additional amount of 1.1 mt conditioned on a one-time payment. Beet farmers will be compensated for income loss at an average of 64.2% based on the final price cut of 36%. This payment will be made as part of the Single Farm Payment. The sugar intervention system will be abolished after a four-year phase-out period and replaced by a reference price. A private storage system will be introduced as a safety net in case the market price falls below the reference sugar price.

For the last three years, SPS issues, particularly BSE in North America, AI in Asia, and FMD in South America, have affected the world meat market and will remain a factor in the short-run outlook as the market recovers from these shocks. This outlook was prepared the week of January 22-27, 2006. Developments after this period, such as the FMD cases in Argentina and reported spread of AI in Western Europe, are not factored in these numbers.

Major energy policies included in the baseline are the 2005 U.S. Energy Policy Act, the 2003 Renewable Fuels Directive of the EU, and fuel mandates and regulations in Brazil's biodiesel fuel research program (mandating a 2% biodiesel blend by 2008, a 5% blend by 2013, and new tax incentives for biodiesel production). (See Box 1 in the overview on page 6-7.)

Under the Uruguay Round Agreement on Agriculture, the commitment schedule of developed countries for export subsidy limits, TRQ expansion, import duty reduction, and domestic support reduction are fixed at 2000 levels. Developing countries had their last reform installment implemented in 2004. All these commitments are held fixed through 2015/16. The 2006 outlook does not include any conjecture on policy changes arising from the Doha Round. The final WTO ruling on U.S. cotton and subsequent changes in U.S. farm policy are incorporated in the 2006 outlook. For U.S. policy assumptions coverage, see the U.S. Program Provisions section on page 60.

Agricultural Policy Assumptions for Crops

	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Policy Prices											
United States											
	(U.S. Dollars per Metric Ton)										
Corn Loan	77	77	77	77	77	77	77	77	77	77	77
Wheat Loan	101	101	101	101	101	101	101	101	101	101	101
Barley Loan	85	85	85	85	85	85	85	85	85	85	85
Rice Loan	143	143	143	143	143	143	143	143	143	143	143
Cotton Loan	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146
Soybean Loan	184	184	184	184	184	184	184	184	184	184	184
Beet Sugar Loan	505	505	505	505	505	505	505	505	505	505	505
Cane Sugar Loan	397	397	397	397	397	397	397	397	397	397	397
	(Million Hectares)										
Conservation Reserve Program	13.8	14.1	14.5	14.8	15.1	15.1	15.2	15.4	15.6	15.6	15.6
European Union-15											
	(Euro per Metric Ton)										
Cereal Intervention	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3
Rice Intervention	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
White Sugar Intervention *	631.9	505.5	458.1	410.7	404.4	404.4	404.4	404.4	404.4	404.4	404.4
Sugar Beet Basic *	43.6	32.9	29.8	26.7	26.3	26.3	26.3	26.3	26.3	26.3	26.3
	(Euro per Hectare)										
Durum Wheat Aid	291.0	285.0	285.0	285.0	285.0	285.0	285.0	285.0	285.0	285.0	285.0
EU New Member States											
Cereal Intervention	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3
India											
Tariff Reference Price	(U.S. Dollars per Metric Ton)										
Soybean Oil	508	508	508	508	508	508	508	508	508	508	508
Palm Oil	402	402	402	402	402	402	402	402	402	402	402
Tariffs											
Algeria											
	(Percent)										
Raw Sugar	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Argentina											
Raw Sugar	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
China											
Corn - in quota	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Corn - out quota	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Wheat - in quota	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Wheat - out quota	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Rice - in quota	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Rice - out quota	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Barley	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Soybean Oil - in quota	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Soybean Oil - out quota	22.6										
Rapeseed Oil - in quota	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Rapeseed Oil - out quota	22.6										
Palm Oil - in quota	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Palm Oil - out quota	22.6										

* Includes new member states after 2003/04.

Agricultural Policy Assumptions for Livestock and Dairy Products (continued)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
China											
											(Percent)
Beef	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Pork	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Poultry	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Lamb-Mutton	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Egg	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Butter	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Cheese	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Nonfat Dry Milk	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Whole Milk Powder	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Fluid Milk	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	10.0	10.0	10.0
Colombia											
Butter	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
Cheese	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0
Nonfat Dry Milk	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0
Whole Milk Powder	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0
Egypt											
Beef	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Poultry	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Butter	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Cheese	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Nonfat Dry Milk	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Whole Milk Powder	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
European Union*											
											(Euro per Metric Ton)
Beef	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3	1,768.3
Pork	536.3	536.3	536.3	536.3	536.3	536.3	536.3	536.3	536.3	536.3	536.3
Broiler	325.1	325.1	325.1	325.1	325.1	325.1	325.1	325.1	325.1	325.1	325.1
											(Percent)
Beef	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
											(Euro per Metric Ton)
Butter	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0	1,896.0
Cheese	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0	1,671.0
Nonfat Dry Milk	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0
Whole Milk Powder	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0	1,304.0
India											
											(Percent)
Beef	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Poultry	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Butter	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Cheese	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Nonfat Dry Milk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Indonesia											
Beef	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Pork	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Broiler	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Butter	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Cheese	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Nonfat Dry Milk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Whole Milk Powder	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Japan											
Beef	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.5
Pork	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Poultry	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Butter	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8
Cheese	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8
Nonfat Dry Milk	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8

* Note: 10 NMS harmonize to this tariff beginning in 2004.

Other Agricultural Policy Assumptions

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Other Policies											
White Sugar Production Quota	(Thousand Metric Ton)										
EU New Member States	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958	2,958
EU-15	14,482	14,482	14,482	14,482	14,482	14,482	14,482	14,482	14,482	14,482	14,482
Milk Delivery Quota	(Million Metric Tons)										
	119	119	120	120	121	121	121	121	121	121	121
Summary Table of EU CAP Reform and Enlargement											
Decoupling											
	(percent)										
Crops	33	67	93	93	93	93	93	93	93	93	93
Livestock											
Cattle	26	52	78	78	78	78	78	78	78	78	78
Sheep	24	49	73	73	73	73	73	73	73	73	73
Dairy	33	67	100	100	100	100	100	100	100	100	100
Modulation											
	3	4	5	5	5	5	5	5	5	5	5
Set-aside Rate †											
EU-15	10	10	10	10	10	10	10	10	10	10	10
EU NMS	0	0	0	0	10	10	10	10	10	10	10
Dairy Quota											
	(Million Metric Tons)										
EU-15	119.0	119.3	119.8	120.3	120.3	120.3	120.3	120.3	120.3	120.3	120.3
EU NMS	18.3	18.4	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Intervention Price and Premium											
	(Euro per 100 Kilogram)										
Butter**	293.84	270.98	252.96	246.39	246.39	246.39	246.39	246.39	246.39	246.39	246.39
NFD**	190.61	180.33	176.69	174.69	174.69	174.69	174.69	174.69	174.69	174.69	174.69
Payments											
	(Euro per Metric Ton)										
Arable Area Payment ‡	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
	(Percent)										
National Top Up	30	30	30	30	30	30	30	30	30	30	30
EU payments	30	35	40	50	60	70	70	70	70	70	70
Total	60	65	70	80	90	100	100	100	100	100	100

‡ Arable area payments become part of SFP starting in 2005 for EU-15 members.

† Average set-aside prior to exemption for small producers.

** Calendar-average prices of marketing-year prices.