

Goldman Sachs

**How the Changing World Leads to
New Opportunities and Challenges**

**Jim O'Neill
Managing Director &
Head of Global Economic Research**

April 2007

BRICs Potential and Consequences

1. By 2035 – 30 years – BRICs GDP may match G6.
 - By GDP 2010, annual increase in demand could match G6.
 - China & India could challenge the US.
 - BRICs wealth – GDP per capita – still likely to be less than G6 (except Russia).

Implications

- Change in global production, trade & consumption patterns.
- Change in world monetary, and perhaps social order.
- Global institutions need to change.

For Business

1. Selling **to** BRICs likely to be more long lasting than selling **from**.
2. Impact on commodities.
3. Impact on financial markets
4. Impact on labour.
5. For Belgium & Europe, “Chill Out” – it will help growth and wealth.

GDP Forecasts

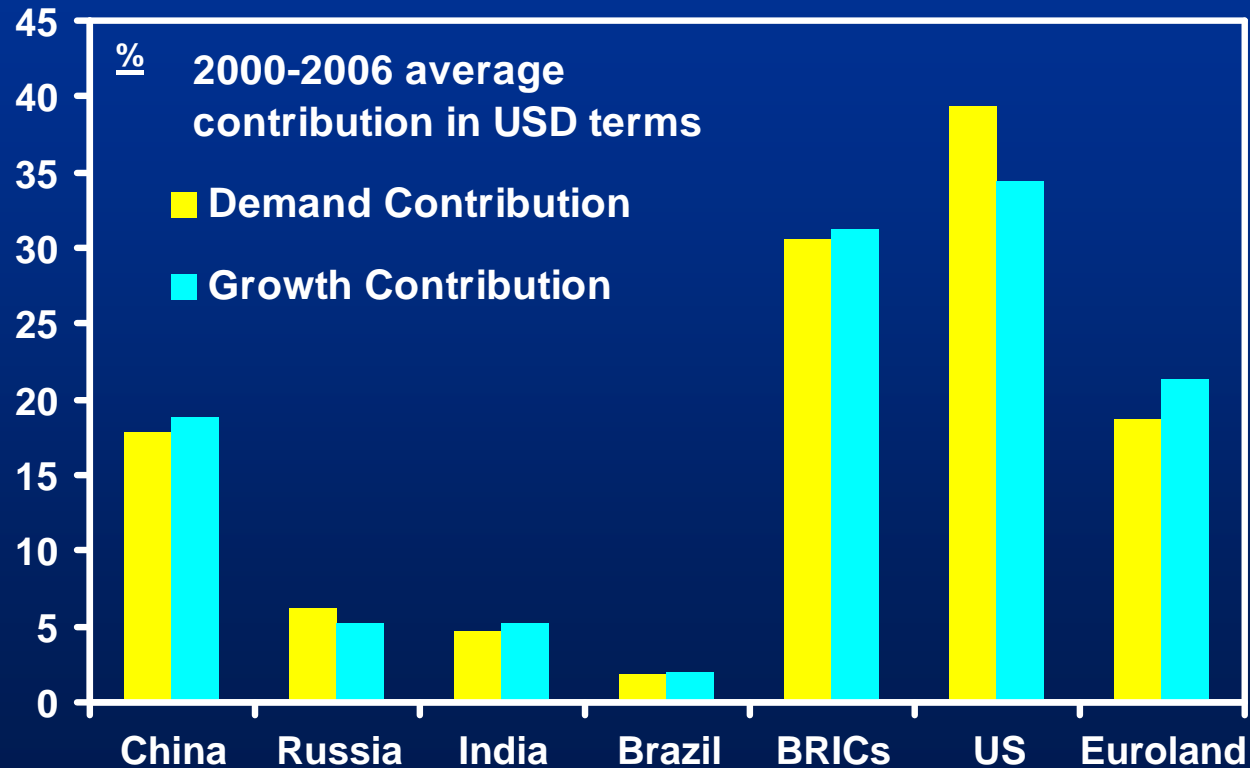
%yoy	2005	2006	2007		2008	
			GS	Consensus*	GS	Consensus*
US	3.2	3.3	2.1	2.3	2.5	2.9
Japan	1.9	2.2	2.4	2.2	2.7	2.2
Euroland	1.5	2.8	2.4	2.4	2.4	2.2
UK	1.9	2.8	2.7	2.6	2.6	2.3
Switzerland	1.9	2.7	1.9	2.1	1.8	2.0
China	10.4	10.7	10.8	10.0	10.0	9.6
India	9.0	8.8	8.0	8.0	7.8	7.7
BRICs	9.0	9.3	9.2	8.6	8.7	8.3
Advanced Economies	2.6	3.1	2.5	2.6	2.7	2.7
World	4.4	4.9	4.4	4.2	4.4	4.3

* Consensus Economics April 2007

Domestic Demand Forecasts (%)

% yoy	2005	2006	2007 (f)	2008 (f)
US	3.3	3.2	1.7	2.1
Japan	1.7	1.5	2.1	2.9
Euroland	1.6	2.6	2.2	2.3
UK	1.9	3.0	3.2	2.6
Switzerland	1.2	1.4	0.5	1.3
China	8.1	8.8	9.4	9.4
India	10.4	7.2	6.7	8.7
BRICs	8.4	8.0	8.5	8.6
Advanced Economies	2.5	2.9	2.2	2.5
World	4.3	4.5	4.1	4.3

Domestic Demand and Growth Contributions, Last 5 Years



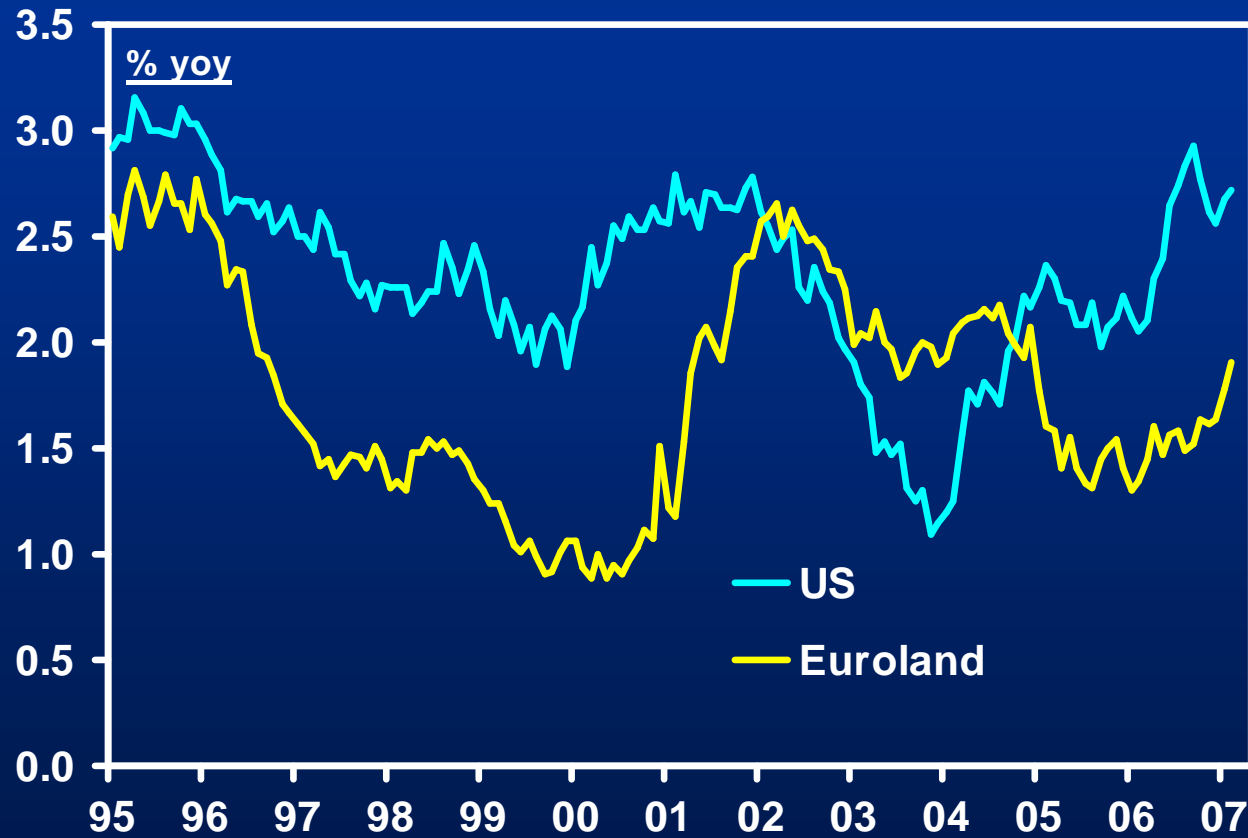
Source: World Bank, GS

Inflation Forecasts

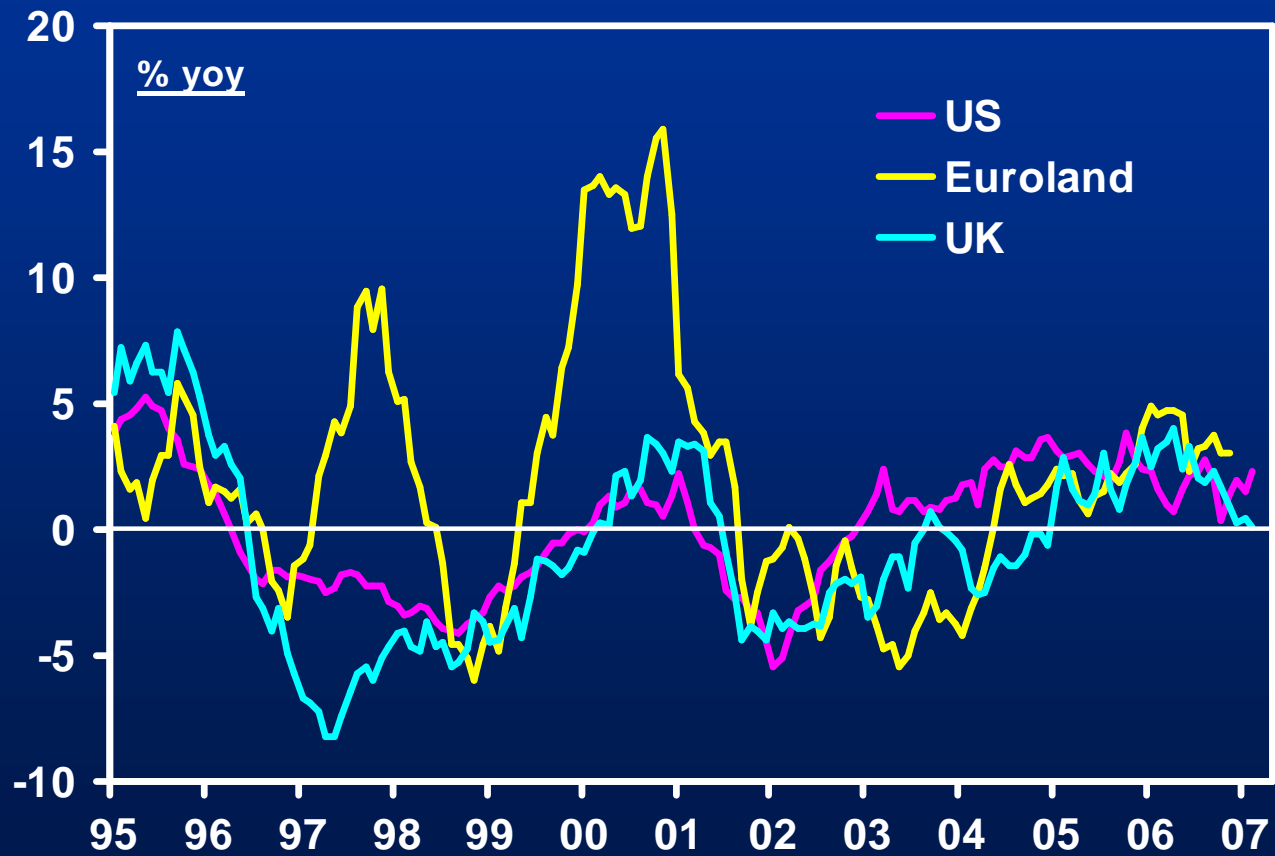
%yoy	2005	2006	2007		2008	
			GS	Consensus*	GS	Consensus*
US	3.4	3.2	2.5	2.1	2.0	2.2
Japan	-0.3	0.1	0.0	0.1	0.7	0.5
Euroland	2.2	2.2	1.8	1.8	1.9	1.9
UK	2.1	2.3	2.1	2.2	1.8	1.9
Switzerland	1.2	1.1	0.6	0.5	1.2	1.1
China	1.8	1.5	2.6	2.6	1.8	2.8
India	4.4	5.3	5.1	5.5	5.0	5.4
BRICs	3.8	3.4	3.8	3.8	3.3	3.9
Advanced Economies	2.3	2.3	1.9	1.8	1.9	1.9
World	3.3	3.2	2.9	2.8	2.8	2.8

* Consensus Economics April 2007

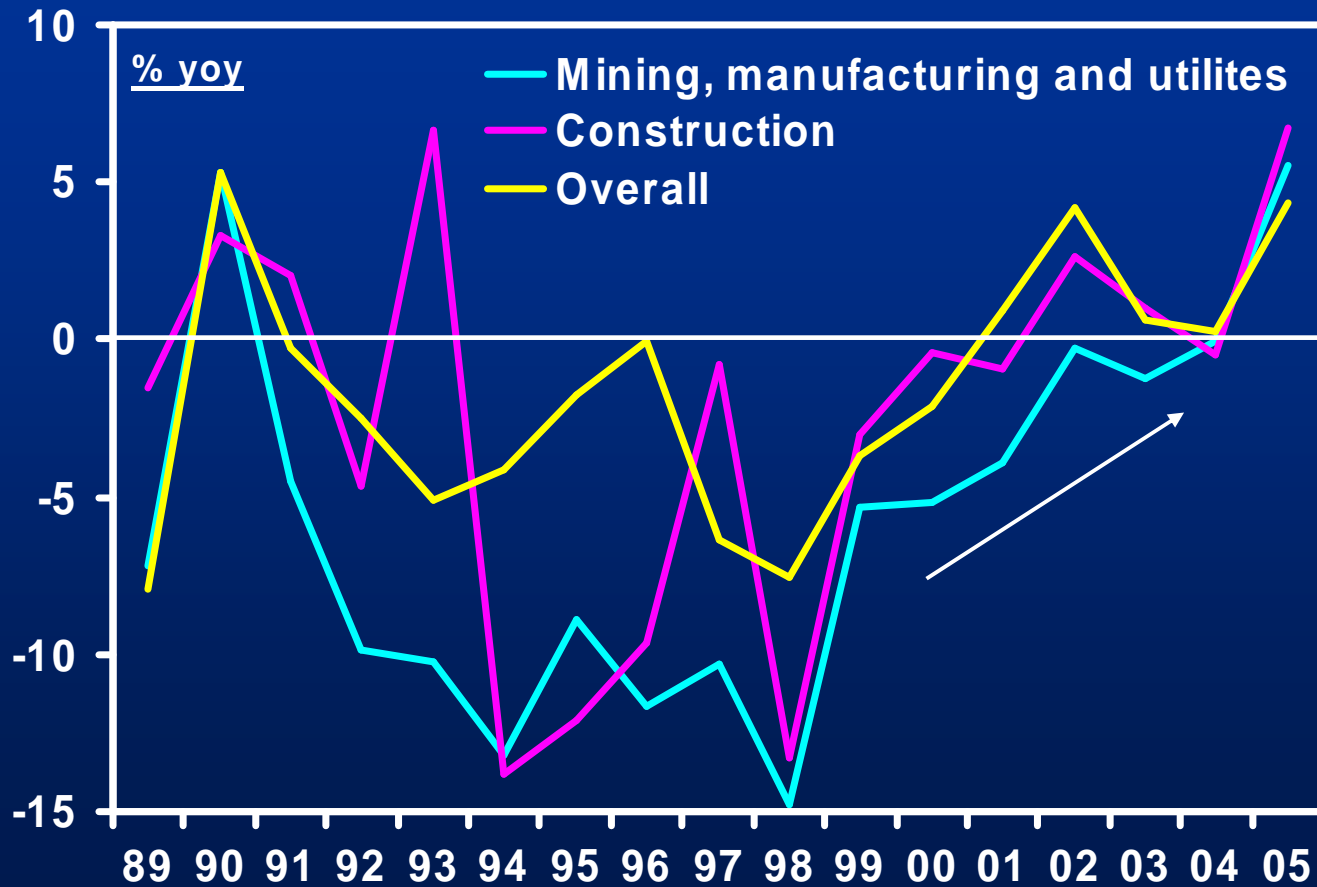
Core CPI in US and Euroland



Non-Energy Import Prices in US, Euroland and UK



Chinese Unit Labour Costs

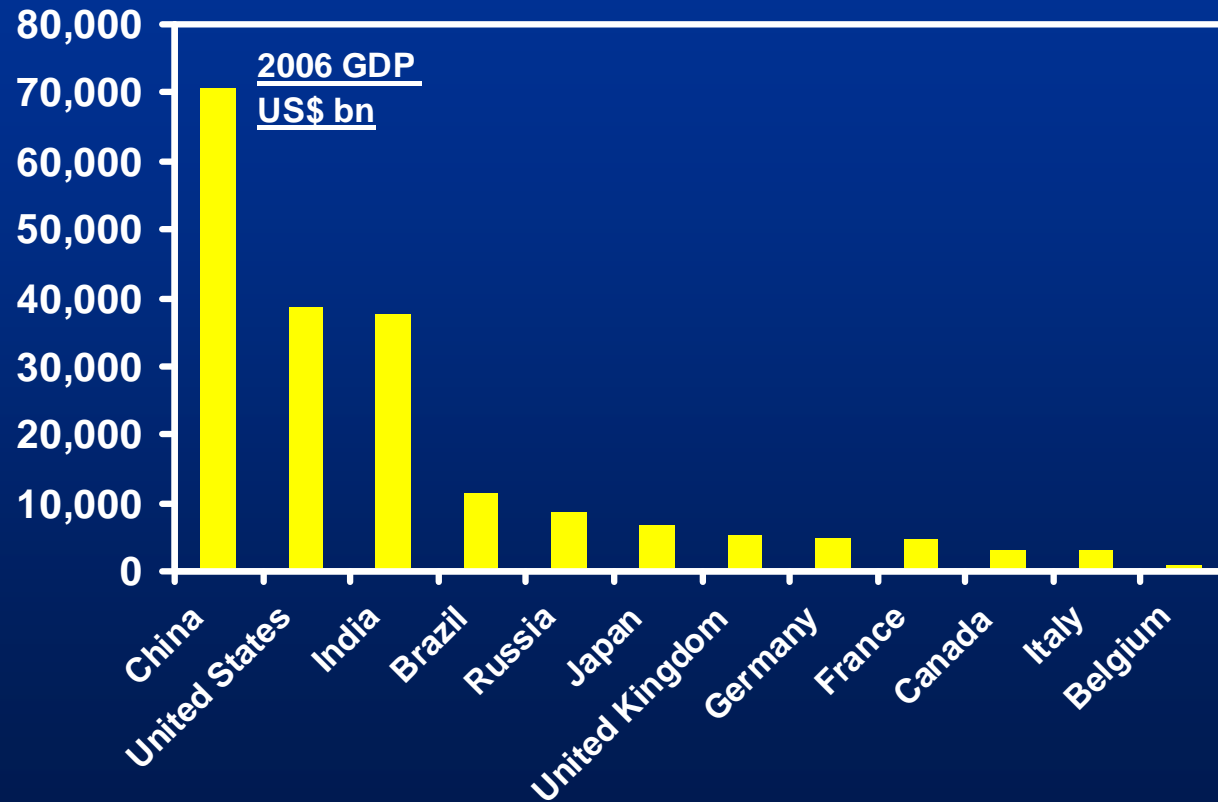


10

The N-11 & BRICs

	2006		2050	
	GDP (US\$ bn)	GDP per cap (US\$)	GDP (US\$ bn)	GDP per cap (US\$)
China	2,682	2,041	70,710	49,650
Brazil	1,064	5,657	11,366	49,759
Russia	982	6,909	8,580	78,576
India	909	817	37,668	20,836
Korea	887	18,161	4,083	90,294
Mexico	851	7,918	9,340	63,149
Turkey	390	5,545	3,943	45,595
Indonesia	350	1,508	7,010	22,395
Iran	245	3,768	2,663	32,676
Pakistan	129	778	2,085	7,066
Nigeria	121	919	4,640	13,014
Philippines	117	1,312	3,010	20,388
Egypt	101	1,281	2,602	20,500
Bangladesh	63	427	1,466	5,235
Vietnam	55	655	3,607	33,472

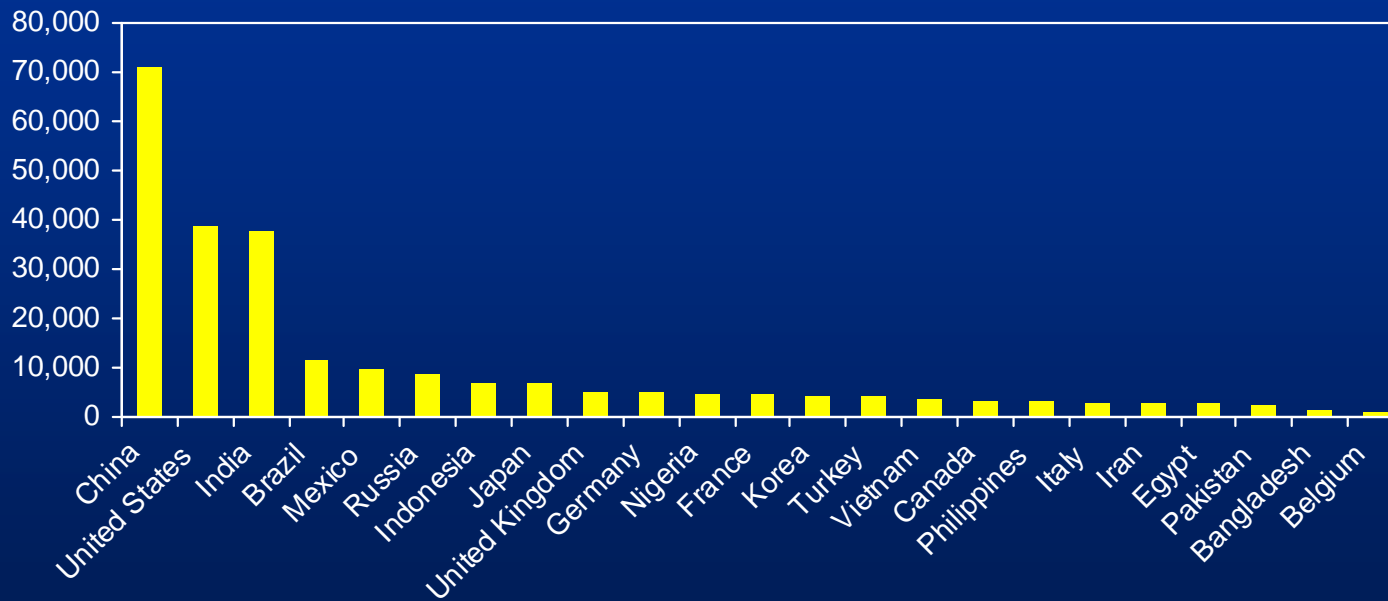
The Largest Economies in 2050



The Largest Economies in 2050

GDP 2006 US\$ bn

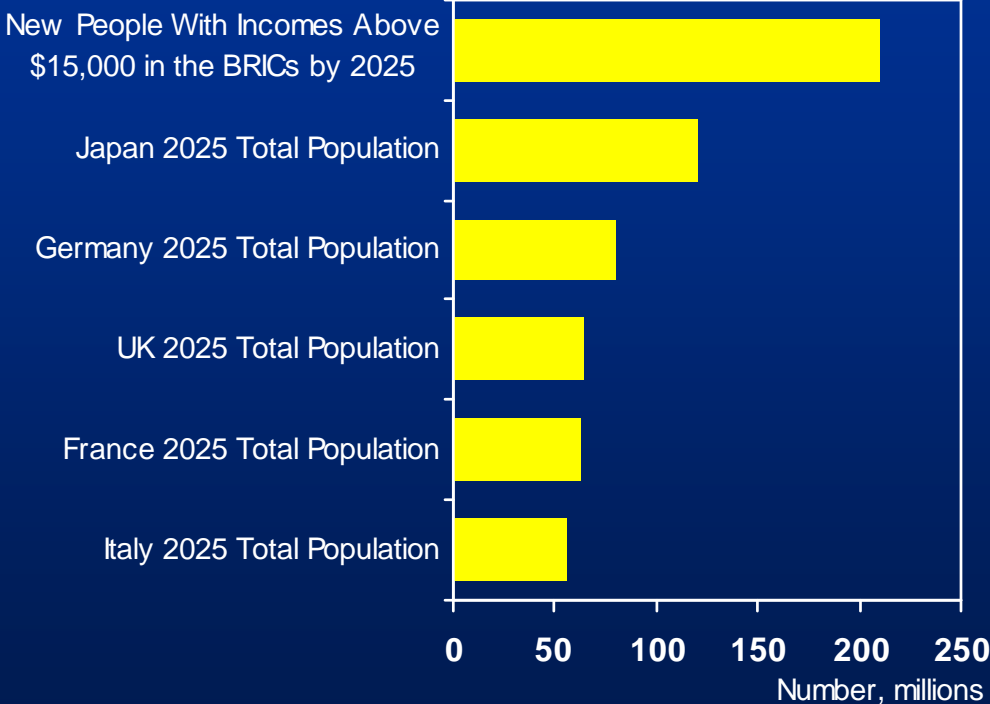
The World in 2050



Actual Growth vs Assumptions

	Actual	Assumed	
	2000-2006	2000-2015	2000-2050
Brazil	3.0	3.5	3.6
Russia	6.8	5.4	3.4
India	7.0	6.7	6.1
China	9.6	8.5	5.3

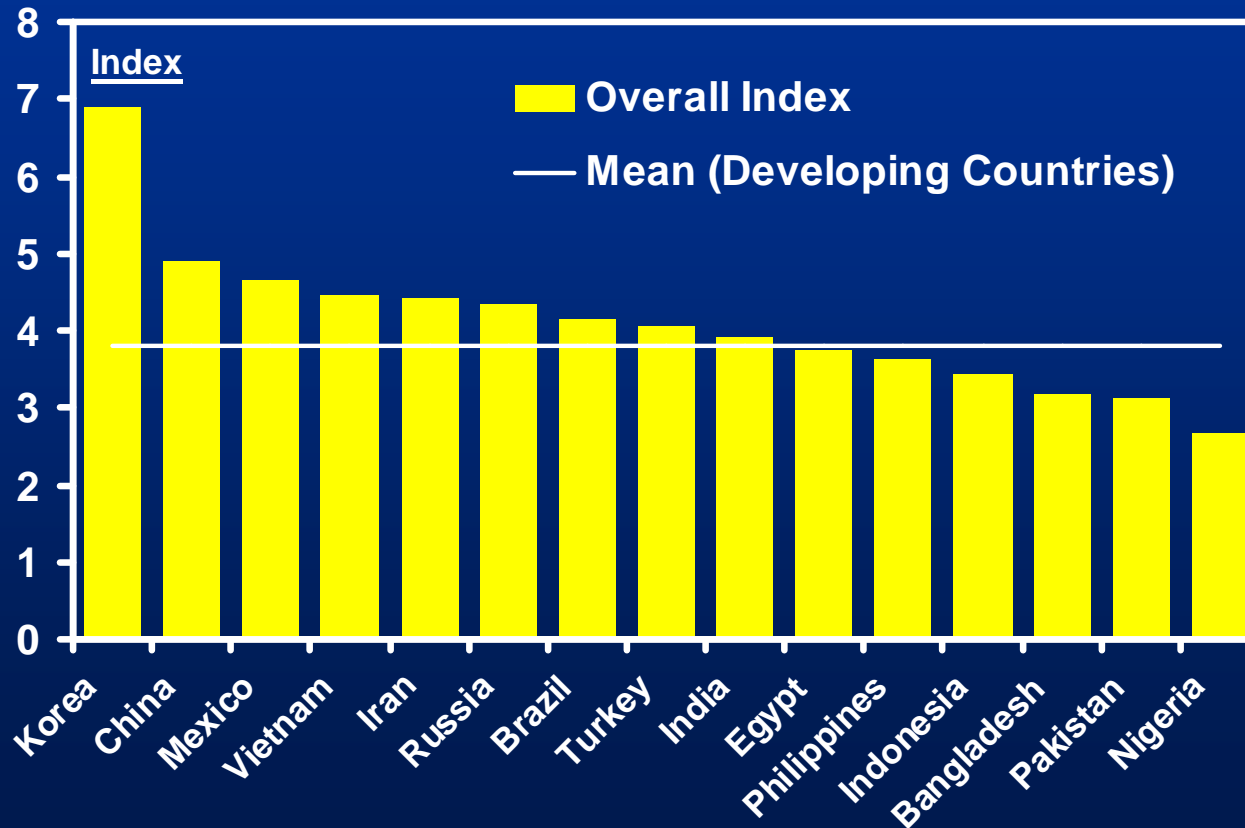
A Large High-Income Pool Could Emerge in the BRICs



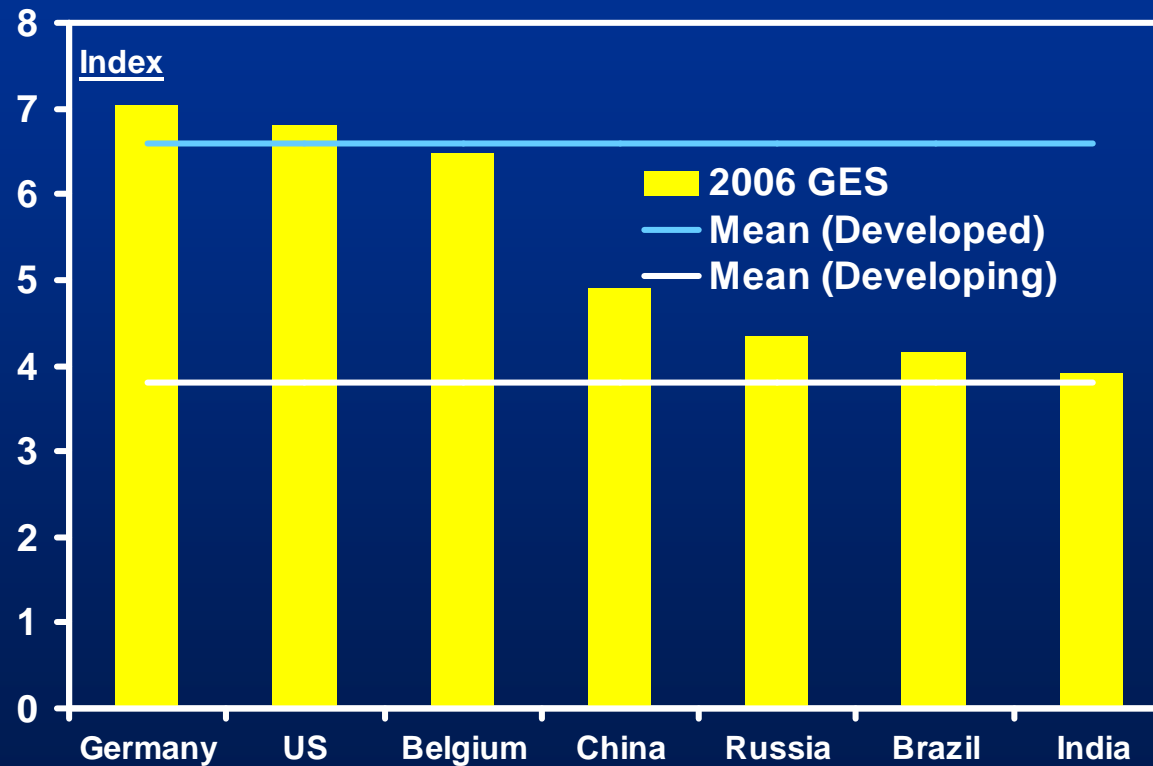
Ensuring the Conditions for Growth

- Sound, stable macroeconomic policies
- Strong, stable political institutions
- Openness
- High and broad levels of education
- ‘Miracle’ conditions are not needed.

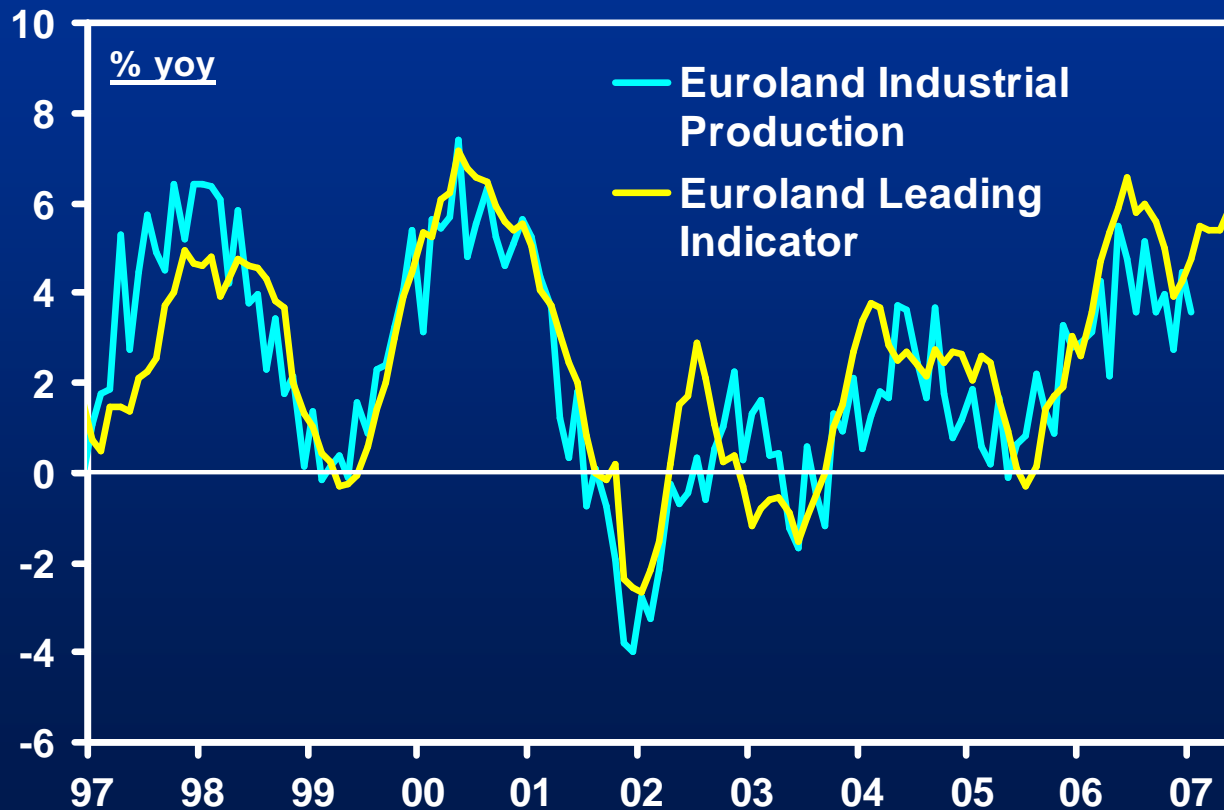
BRICs & N11. 2006 Growth Environment Score (GES)



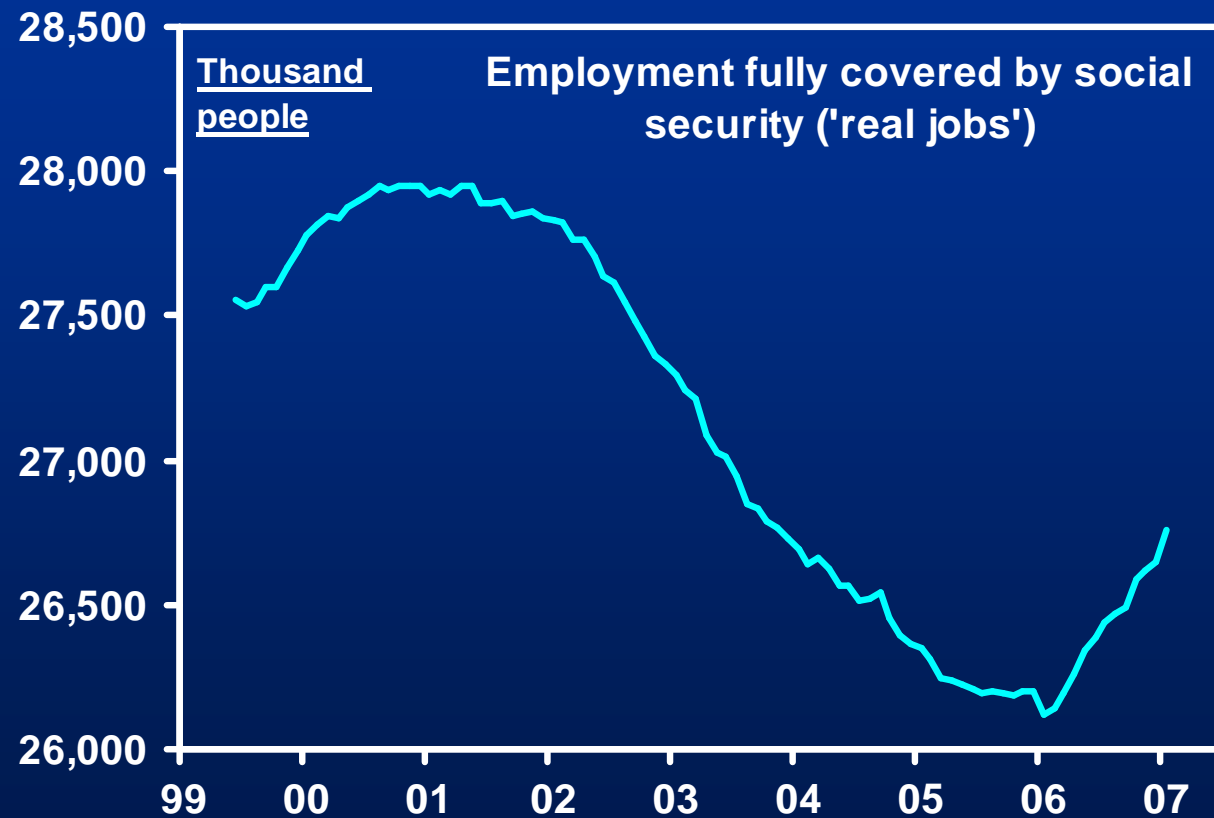
2006 Growth Environment Score (GES)



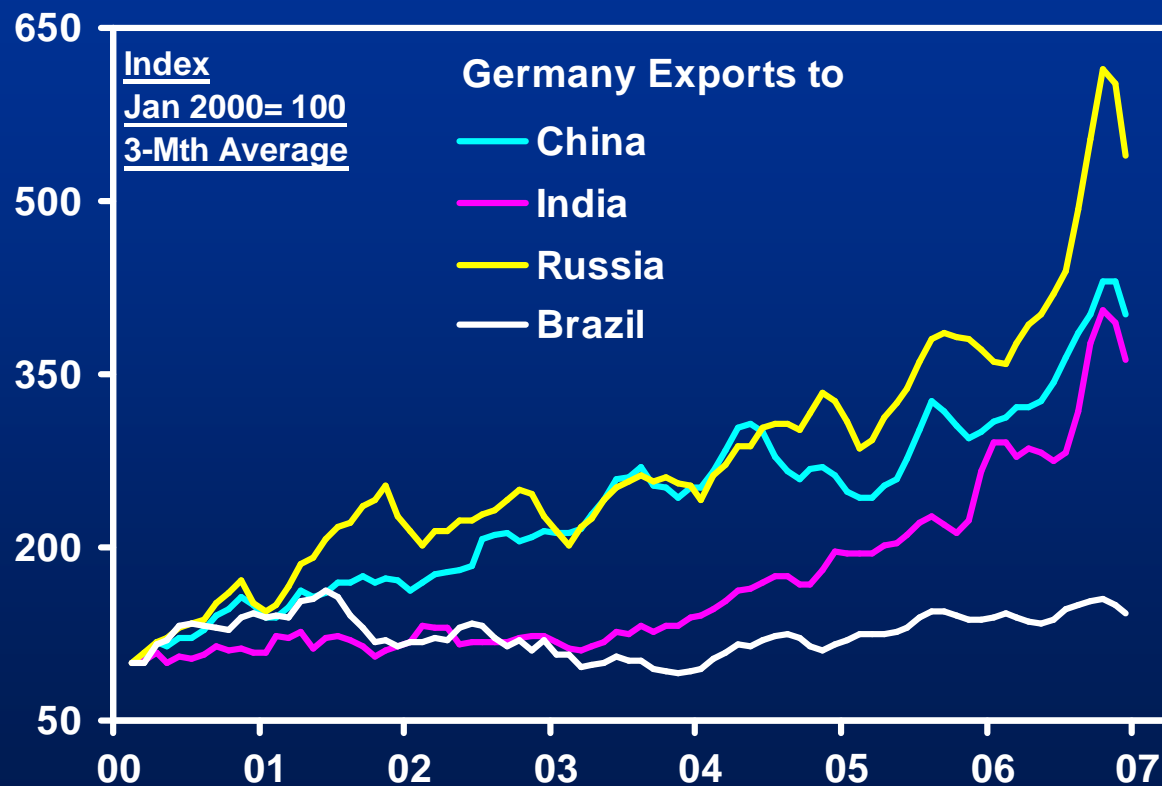
Euroland Leading Indicator vs Industrial Production



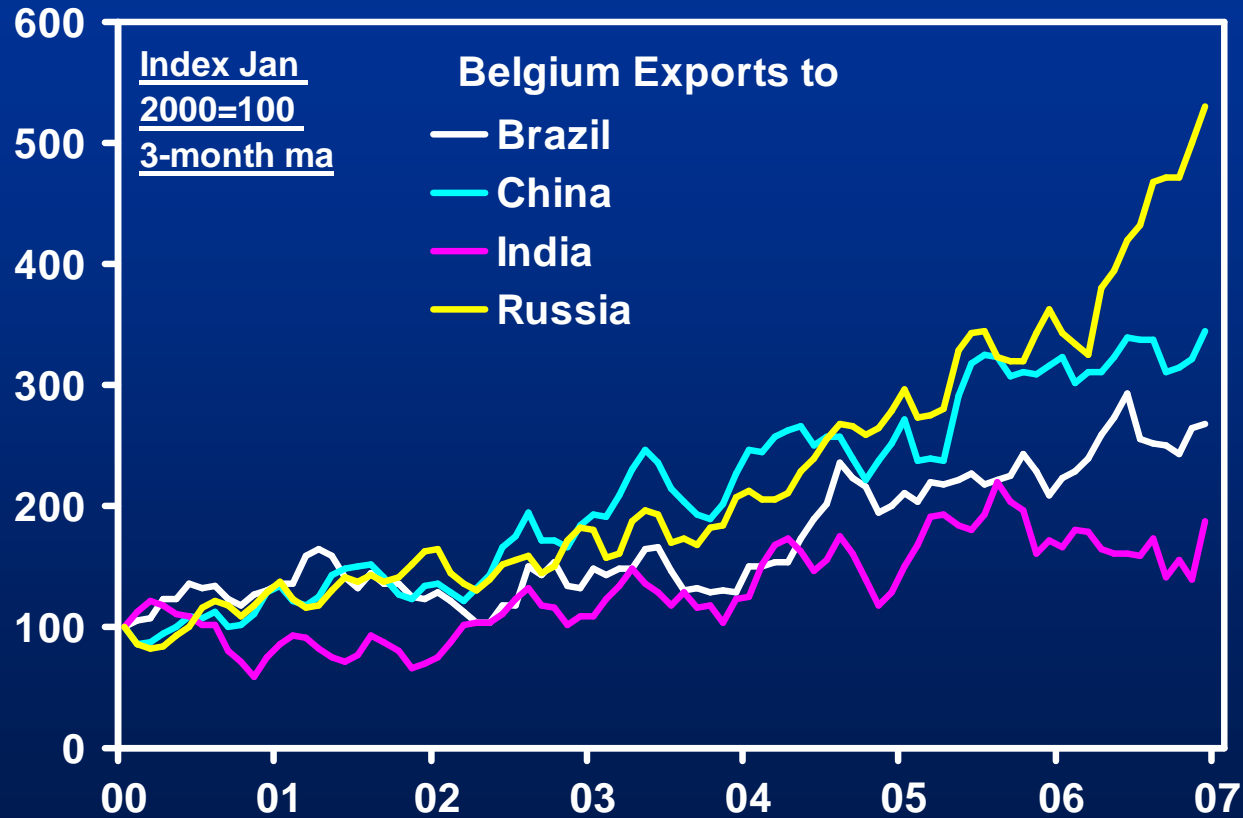
German Employment Growth



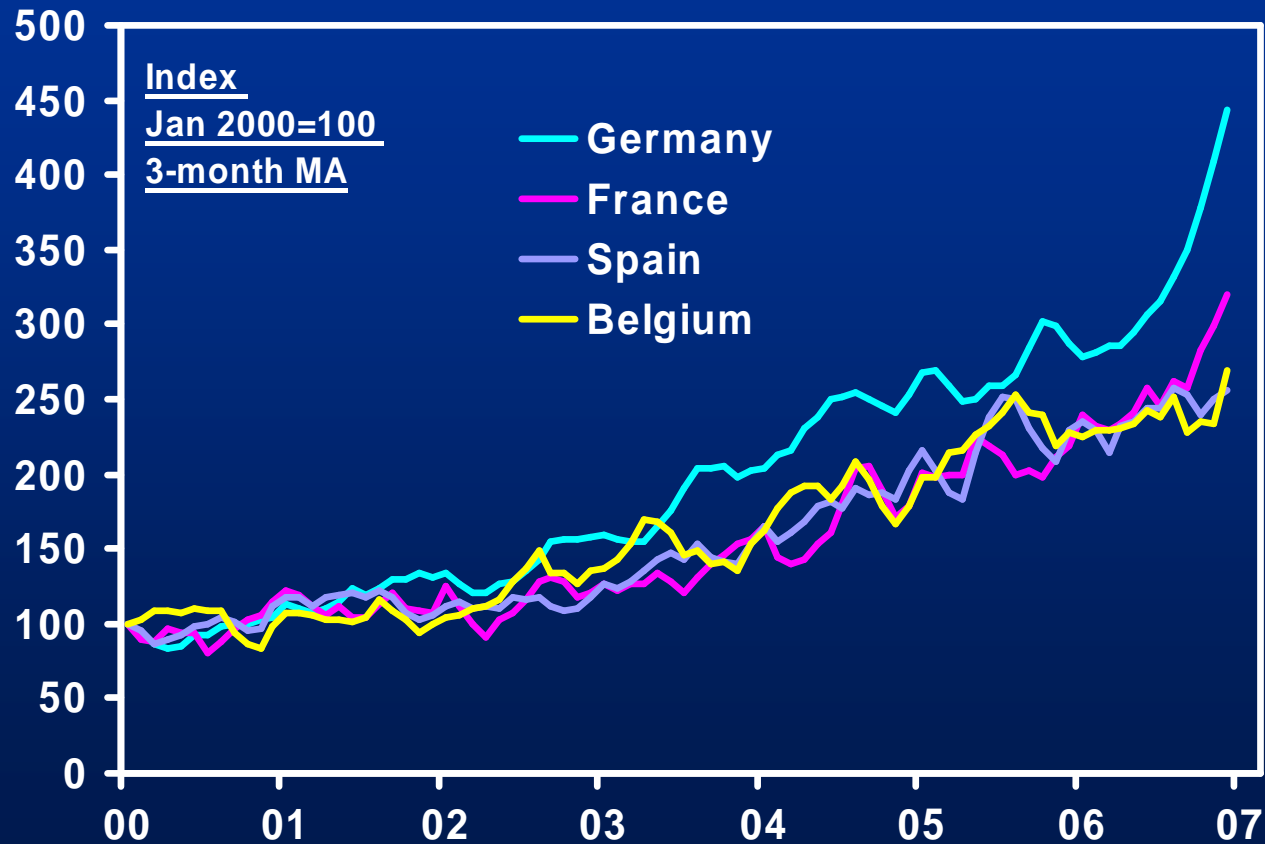
Germany Exports to the BRICs



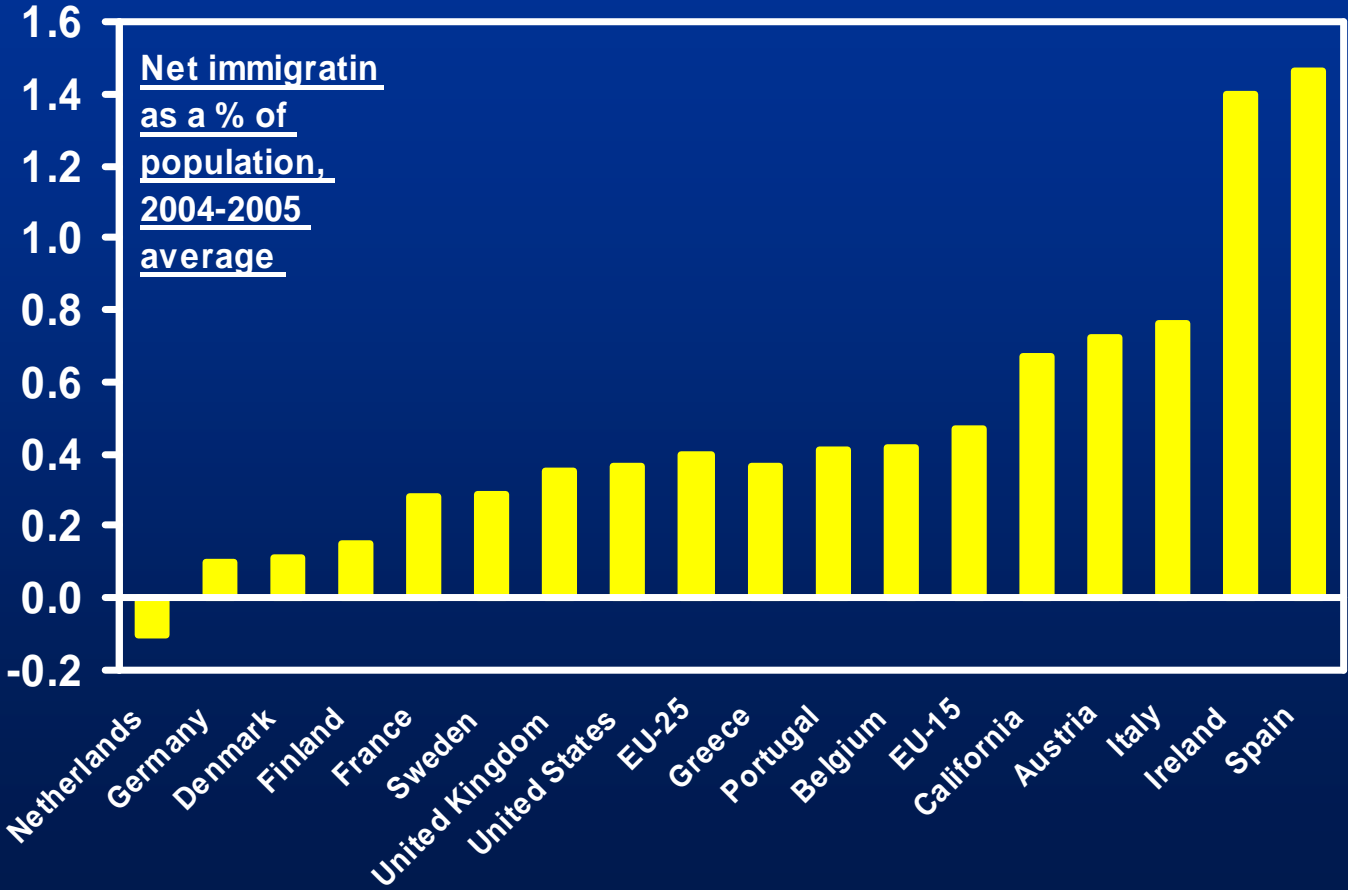
Belgian Exports to the BRICs



European Exports to the BRICs



Euroland Immigration



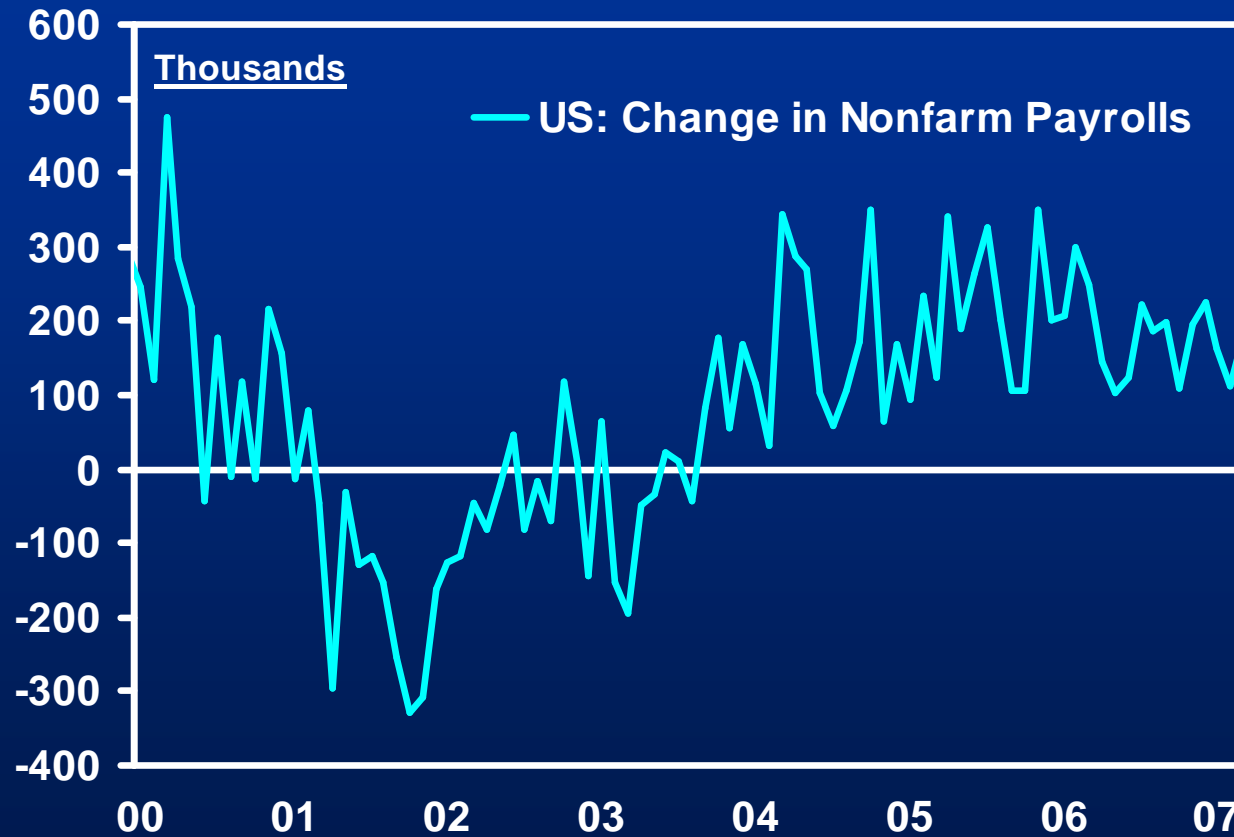
A Sharp Slowdown in the Housing Market



* Using three-month moving averages of sales.

Source: Department of Commerce.

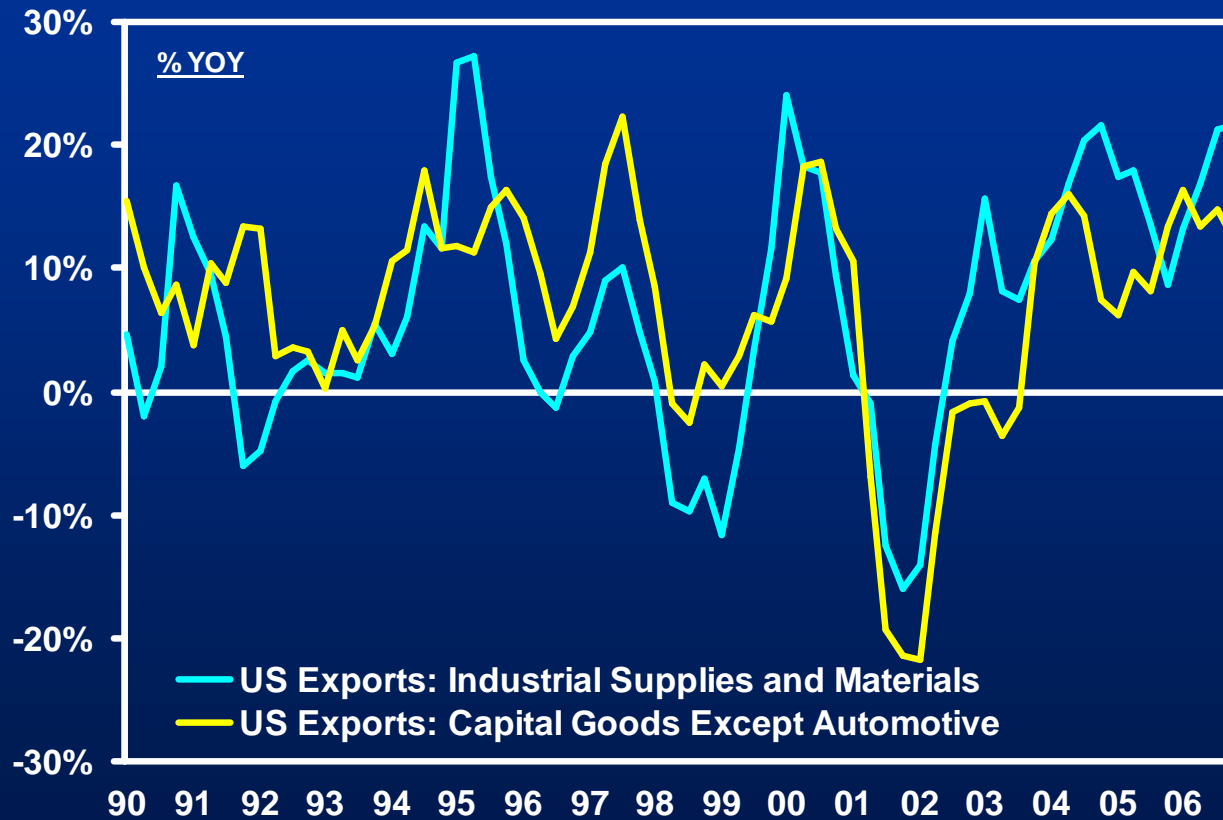
US Employment



US Export and Import Growth



US Exports of Industrial Supplies and Capital Goods

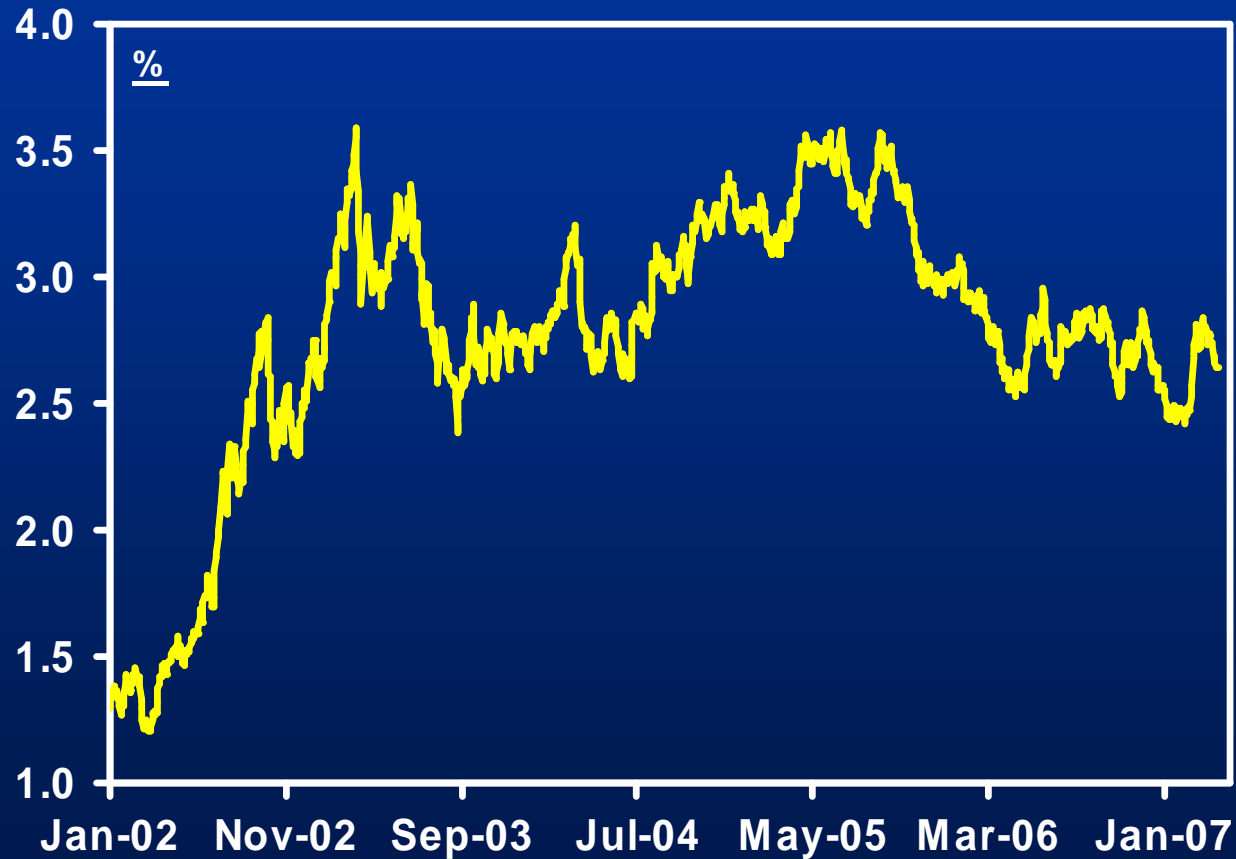


Updated Estimates for the Equity Risk Premium*

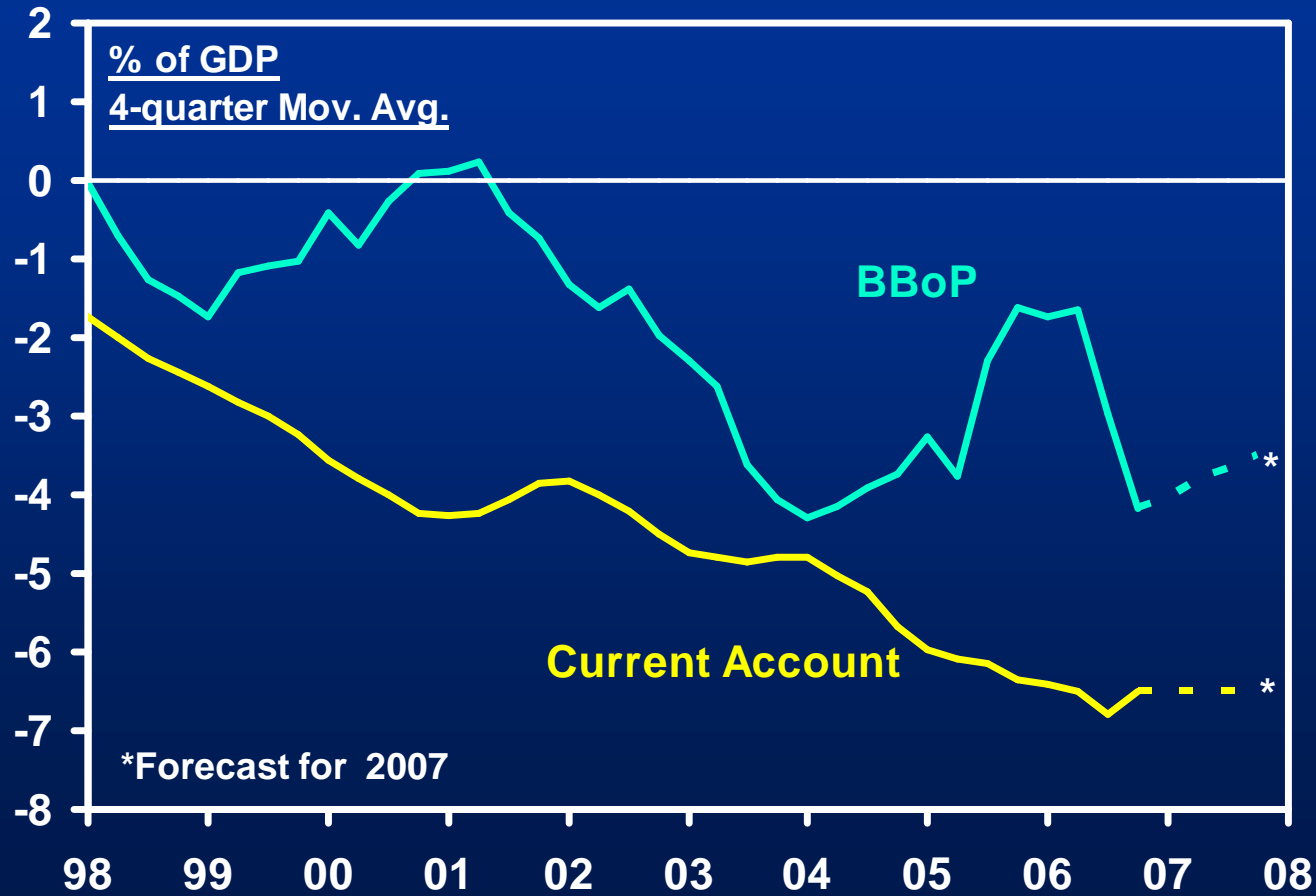
	Real GDP Growth	Real Earnings Growth	Dividend Yield	Expected Real Return	Real Bond Yield	Implied ERP	Expected Inflation	Expected Nominal Return
US	3.0	3.0	1.9	4.9	2.2	2.6	2.0	6.9
Japan	1.5	1.5	1.1	2.6	1.1	1.5	0.5	3.1
UK	2.5	2.5	3.0	5.5	1.9	3.6	2.0	7.5
Europe ex UK	2.3	2.3	2.3	4.6	1.9	2.7	2.0	6.6
World	2.5	2.5	2.1	4.6	1.9	2.6	1.8	6.3
Optimistic World	4.0	4.0	2.1	6.1	1.9	4.1	1.8	7.8

*Calculated as of 11 April 2007.

World ERP, the Last 3 Years



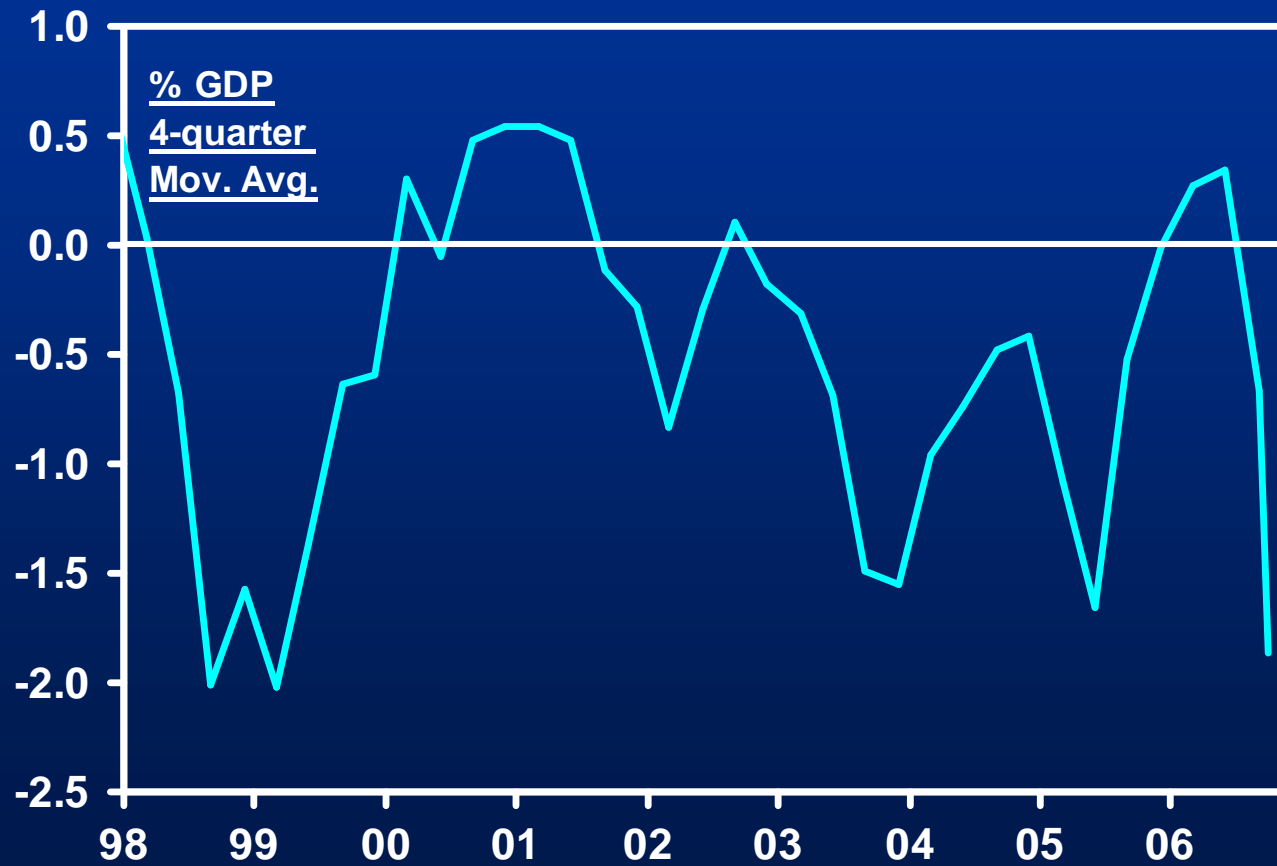
US: Broad BoP



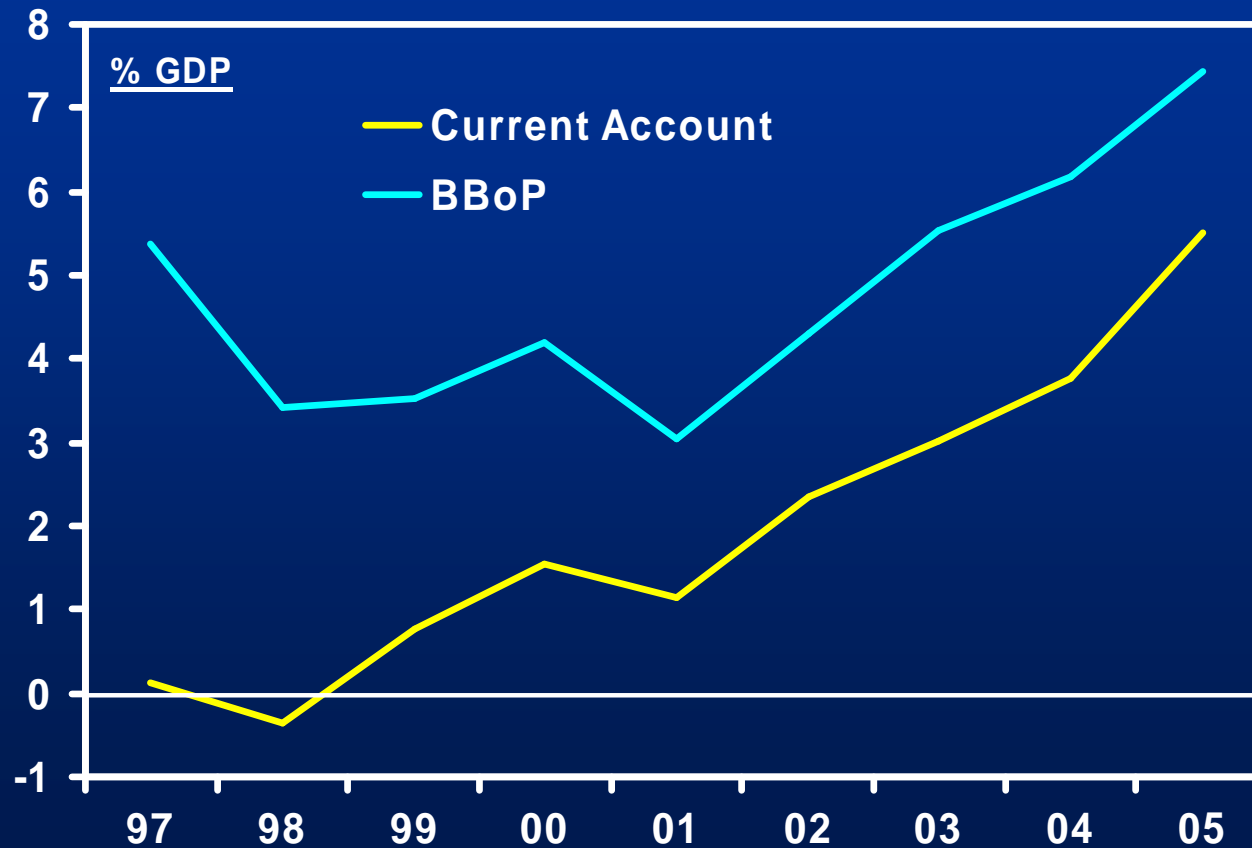
Trends in US Balance of Payments (% of GDP)

	Last 3 Years	5 Years	10 Years	Better/Worse
Current Account	-6.0	-5.4	-4.2	Worse
Net FDI	-0.2	-0.4	0.1	Mixed/Worse
Narrow Basic Balance	-6.2	-5.8	-4.1	Worse
Net Equity	-0.2	-0.2	-0.1	Worse
Net US Treasuries	0.8	0.9	0.6	Mixed/Better
US Overseas Bonds	-0.6	-0.3	-0.3	Worse
Foreign US Corporates	2.4	2.1	1.8	Better
Foreign US Agencies	0.6	0.5	0.4	Better
Net Portfolio	3.0	3.0	2.4	Mixed/Better
Broad Basic Balance	-3.2	2.8	-1.6	Worse

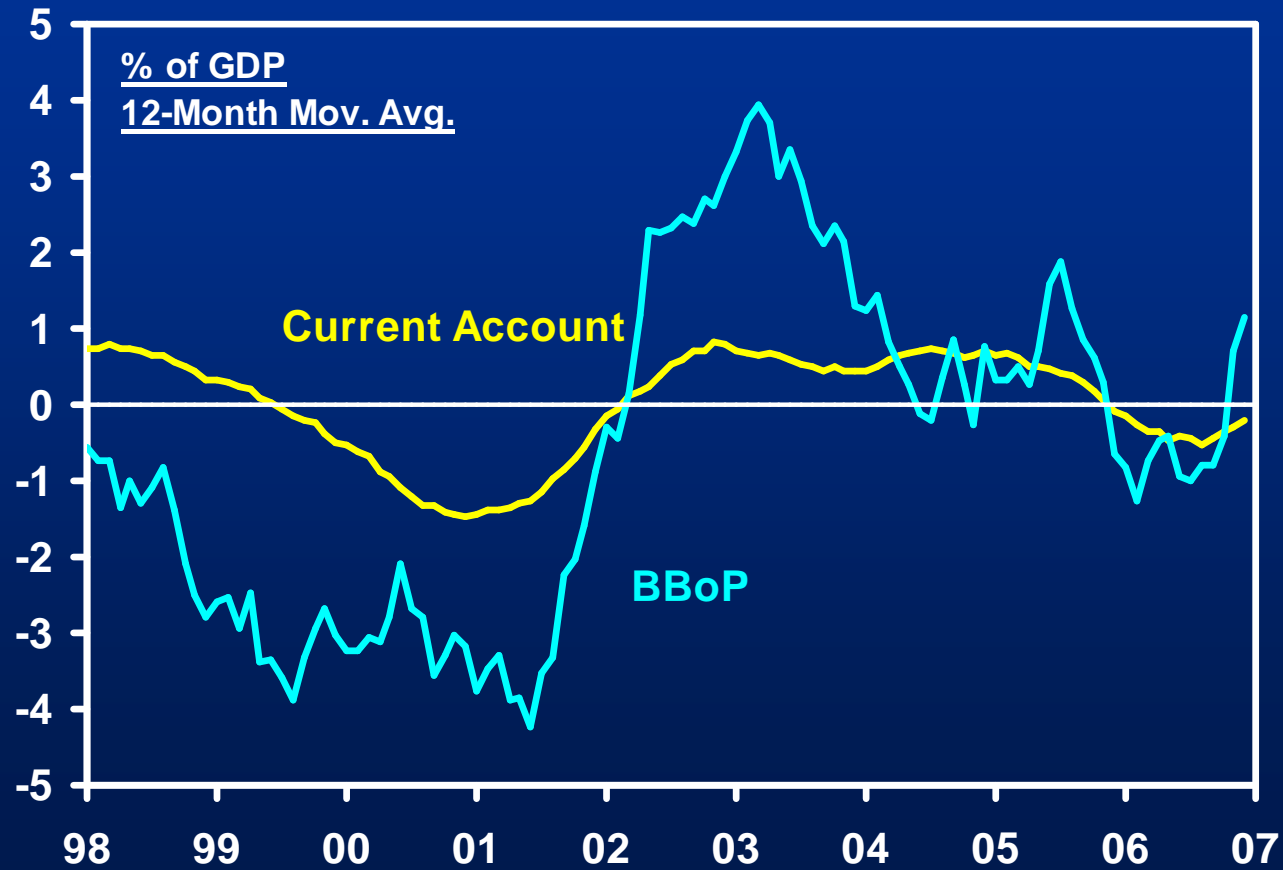
US Adjusted BBoP (including Official Reserves)



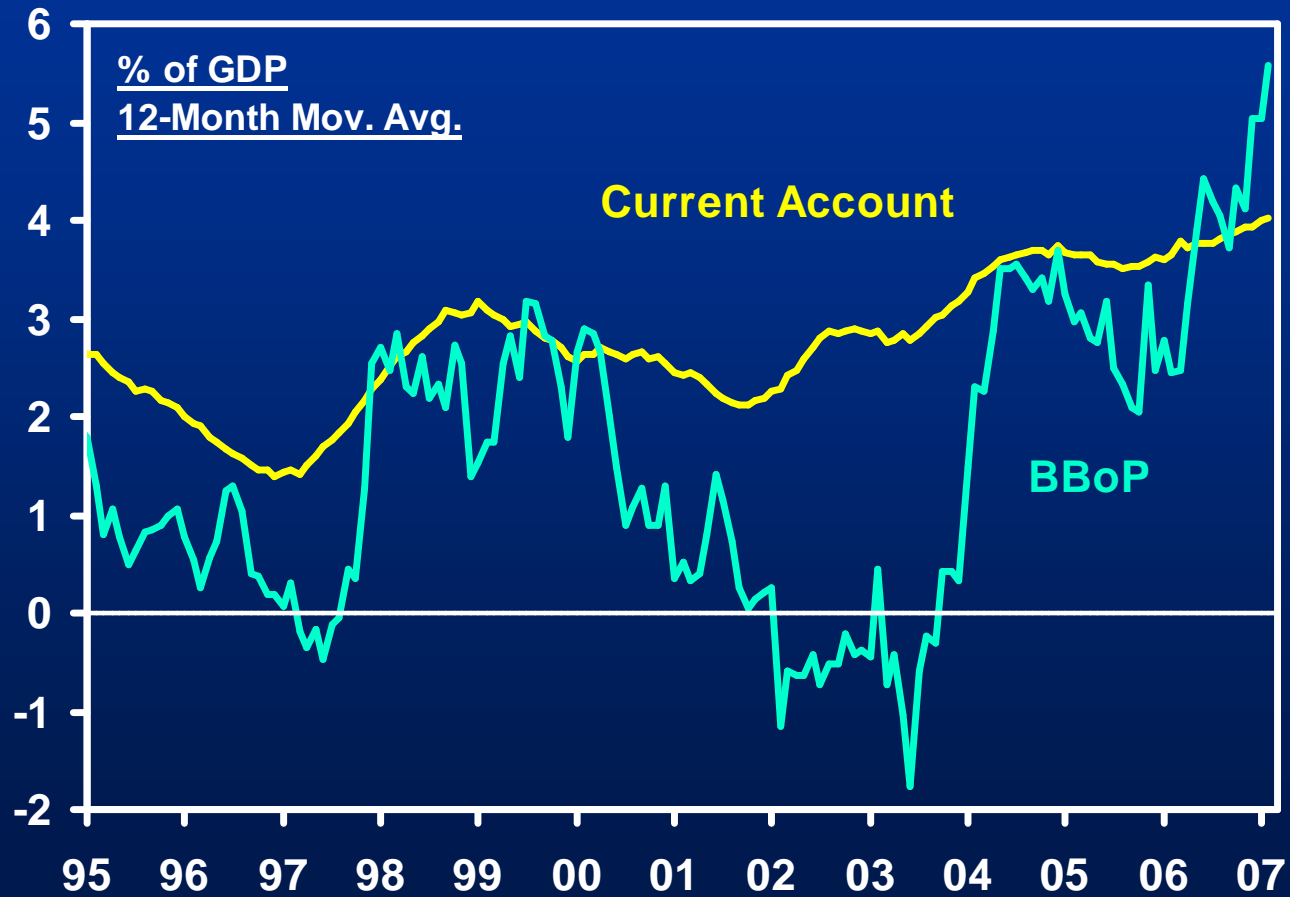
BRICs BBoP vs Current Account



Euroland: BBoP vs Current Account



Japan: BBoP vs Current Account



Foreign Exchange Forecasts

	Current*	3-months		6-months		12-months	
		Forward	Forecast	Forward	Forecast	Forward	Forecast
EUR/\$	1.35	1.36	1.35	1.36	1.35	1.37	1.37
\$/¥	119.3	117.9	115.0	116.5	115.0	114.1	105.0
EUR/¥	161.2	159.9	155.3	158.5	155.3	155.7	143.9
EUR/CHF	1.64	1.64	1.65	1.63	1.65	1.62	1.62
CHF/¥	98.13	97.72	94.09	97.27	94.09	96.36	88.80
\$/CHF	1.22	1.21	1.22	1.20	1.22	1.18	1.18
EUR/£	0.68	0.68	0.68	0.69	0.70	0.69	0.72
£/\$	1.98	1.98	1.99	1.98	1.93	1.97	1.90
£/¥	236.6	233.7	228.3	230.8	221.8	225.2	199.8
£/CHF	2.41	2.39	2.43	2.37	2.36	2.34	2.25
EUR/NOK	8.10	8.11	8.00	8.12	7.90	8.16	7.80
EUR/SEK	9.28	9.27	9.15	9.26	8.90	9.24	8.80
A\$/	0.83	0.83	0.80	0.83	0.78	0.82	0.76
NZ\$/	0.74	0.73	0.70	0.73	0.69	0.72	0.60
\$/C\$	1.14	1.13	1.12	1.13	1.12	1.13	1.10
\$/CNY	7.72	7.63	7.62	7.52	7.49	7.28	7.25

* Close 13 April 2007

The World in 2025

		2006 GDP		2025 GDP		2006 Income per Capita		2025 Income per Capita		GES		Membership	
		(US\$ bn)	Rank	(2005 US\$ bn)	Rank	(US\$ bn)	Rank	(2005 US\$ bn)	Rank	Index	Rank	G7	G20
1	US	13,228	1	19,644	1	44,168	6	56,181	5	6.8	18	✓	✓
2	Japan	4,421	2	6,708	3	34,590	15	55,896	6	6.4	23	✓	✓
3	Germany	2,753	3	3,776	4	33,356	17	46,830	13	7.0	14	✓	✓
4	China	2,530	4	14,156	2	1,926	105	9,742	35	4.9	58	✓	✓
5	UK	2,229	5	3,312	6	36,875	12	51,890	9	6.7	19	✓	✓
6	France	2,093	6	3,097	7	33,387	16	49,094	12	6.3	27	✓	✓
7	Italy	1,751	7	2,353	11	30,144	18	41,850	16	5.4	41	✓	✓
8	Canada	1,259	8	1,758	13	38,659	8	46,057	14	7.6	6	✓	✓
9	Spain	1,156	9	1,558	14	27,815	20	39,377	17	5.9	31		
10	Brazil	1,023	10	2,280	12	5,507	60	10,466	34	4.2	88		✓
11	Russia	900	11	2,873	8	6,331	55	22,013	25	4.4	80		✓
12	Korea	892	12	2,625	9	18,320	26	51,923	8	6.9	17		✓
13	India	850	13	3,617	5	769	131	2,656	41	3.9	99		✓
14	Mexico	847	14	2,401	10	7,926	50	18,443	28	4.6	68		✓
15	Australia	729	15	na	na	35,311	14	na	na	7.1	13		✓
16	Netherlands	625	16	923	16	38,232	9	52,638	7	7.2	12		
17	Turkey	414	17	877	17	5,692	59	10,662	33	4.0	94		✓
18	Belgium	373	18	515	22	35,843	13	49,263	10	6.5	22		
19	Switzerland	361	19	na	na	49,485	4	na	na	7.9	2		
20	Sweden	359	20	536	21	39,562	7	57,532	4	7.9	1		
21	Saudi Arabia	346	22	na	na	14,619	35	na	na	5.3	43		✓
22	Indonesia	315	24	977	15	1,420	112	3,255	39	3.4	122		✓
23	Austria	306	25	426	24	37,378	10	43,452	15	6.9	16		
24	Norway	305	26	na	na	65,785	2	na	na	7.6	5		
25	Denmark	263	27	384	26	48,530	5	67,367	3	7.5	9		
26	South Africa	255	28	654	19	5,388	63	16,390	30	4.3	83		✓
27	Argentina	210	31	na	na	5,497	61	na	na	3.9	98		✓
28	Ireland	207	32	349	29	49,533	3	72,086	2	7.0	15		
29	Finland	193	33	258	34	36,928	11	49,162	11	7.2	11		
30	Singapore	129	42	na	na	28,940	19	na	na	7.7	4		
31	Luxembourg	35	68	61	38	76,224	1	104,831	1	7.8	3		

Copyright © 2007 by Goldman, Sachs & Co.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of The Goldman Sachs Group, Inc. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. The Goldman Sachs Group, Inc. does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions - including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only.

We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives (including options) thereof of companies mentioned herein. For purposes of calculating whether The Goldman Sachs Group, Inc. beneficially owns or controls, including having the right to vote for directors, 1% of more of a class of the common equity security of the subject issuer of a research report, The Goldman Sachs Group, Inc. includes all derivatives that, by their terms, give a right to acquire the common equity security within 60 days through the conversion or exercise of a warrant, option, or other right but does not aggregate accounts managed by Goldman Sachs Asset Management. No part of this material may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without The Goldman Sachs Group, Inc.'s prior written consent.

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd, in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union. This material has been issued by The Goldman Sachs Group, Inc. and/or one of its affiliates and has been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 by Goldman Sachs International, which is regulated by the Financial Services Authority, in connection with its distribution in the United Kingdom, and by Goldman Sachs Canada, in connection with its distribution in Canada. Goldman Sachs International and its non-US affiliates may, to the extent permitted under applicable law, have acted on or used this research, to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risk and are not suitable for all investors. Please ensure that you have read and understood the current options disclosure document before entering into any options transactions.

Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in Italy should contact Goldman Sachs S.I.M. S.p.A. in Milan or its London branch office at 133 Fleet Street; persons in Hong Kong should contact Goldman Sachs (Asia) L.L.C. at 2 Queen's Road Central; persons in Australia should contact Goldman Sachs JBWere Pty Ltd. (ABN 21 006 797 897), and persons in New Zealand should contact Goldman Sachs JBWere (NZ) Ltd. Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this material in conjunction with the last published reports on the companies mentioned herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risk warnings is available from the offices of Goldman Sachs International on request. A glossary of certain of the financial terms used in this material is also available on request. Derivatives research is not suitable for private customers. Unless governing law permits otherwise, you must contact a Goldman Sachs entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.