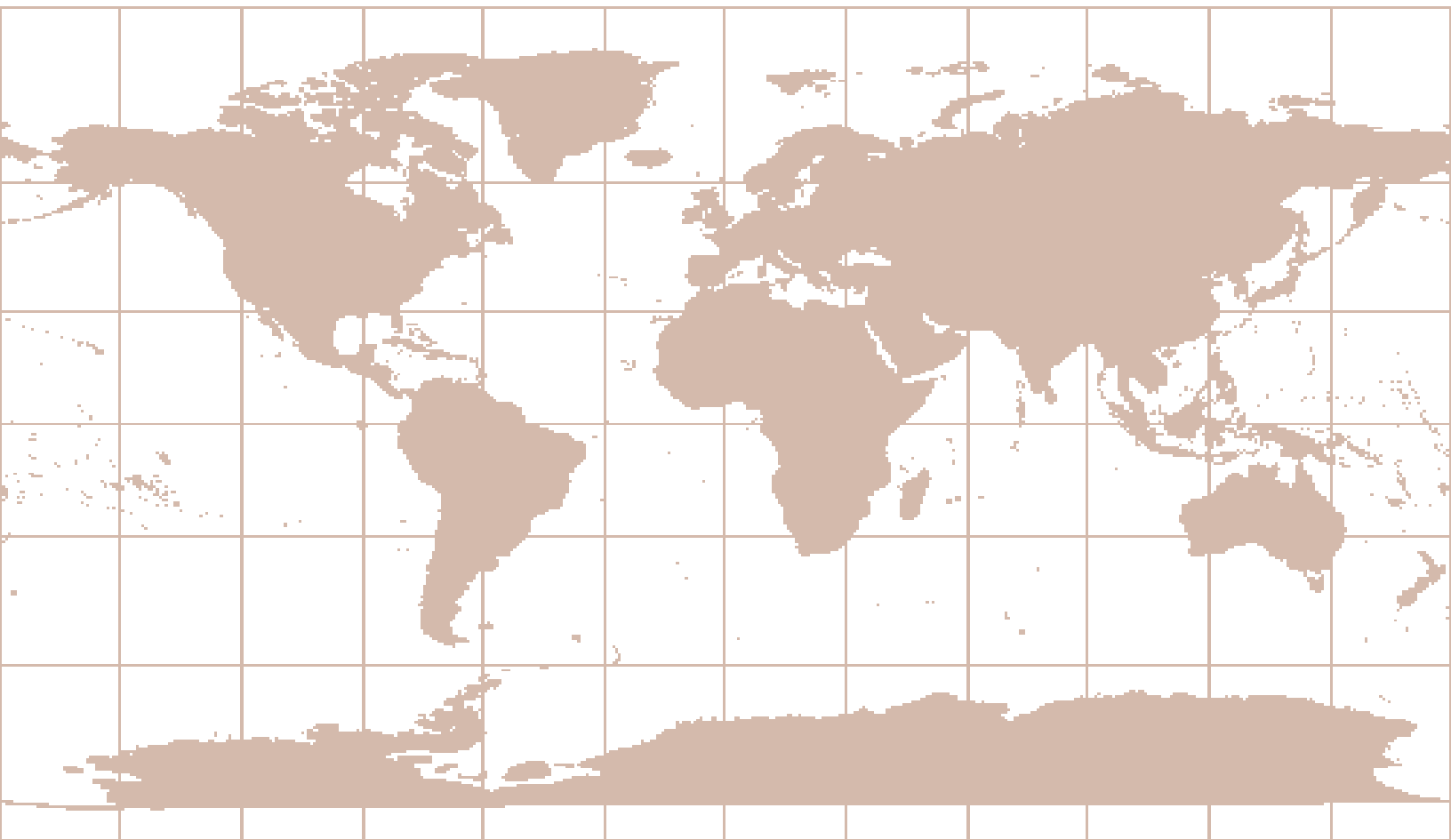


# World Economic Situation and Prospects 2011



United Nations  
New York, 2011

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# Executive Summary

## The global economic outlook

### *Weaker global growth is expected in 2011 and 2012...*

After a year of fragile and uneven recovery, global economic growth started to decelerate on a broad front in mid-2010. The slowdown is expected to continue into 2011 and 2012 as weaknesses in major developed economies continue to provide a drag on the global recovery and pose risks for world economic stability in the coming years. The unprecedented scale of the policy measures taken by Governments during the early stage of the crisis no doubt helped stabilize financial markets and jump-start a recovery. The policy response weakened during 2010, however, and is expected to be much less supportive in the near term also, especially as widening fiscal deficits and rising public debt have undermined support for further fiscal stimuli. Many Governments, particularly those in developed countries, are already shifting towards fiscal austerity. This will adversely affect global economic growth during 2011 and 2012.

### *...as multiple risks to the recovery remain*

Despite the notable progress made in reducing the share of troubled assets in the banking sector, multiple risks remain. Real estate markets may deteriorate further, credit growth remains feeble, and levels of unemployment are persistently high. Most countries have kept in place, or even intensified, policies of cheap money (low interest rates and quantitative easing) in efforts to help financial sectors return to normalcy and stimulate economic activity as fiscal stimuli are being phased out. This has, however, added new risks, including greater exchange-rate volatility among major currencies and a surge of volatile capital flows to emerging markets, which have already become a source of economic tension and could harm the recovery in the near term. Such tensions have weakened the commitment to coordinate policies at the international level, which in turn has made dealing with the global imbalances and other structural problems that led to the crisis, as well as those that were created by it, all the more challenging.

### *The global recovery has been dragged down by the developed economies*

World gross product (WGP) is forecast to expand by 3.1 per cent in 2011 and 3.5 per cent in 2012. The recovery may, however, suffer setbacks and slow to below 2 per cent, while some developed economies may slip back into recession if several of the downside risks take shape.

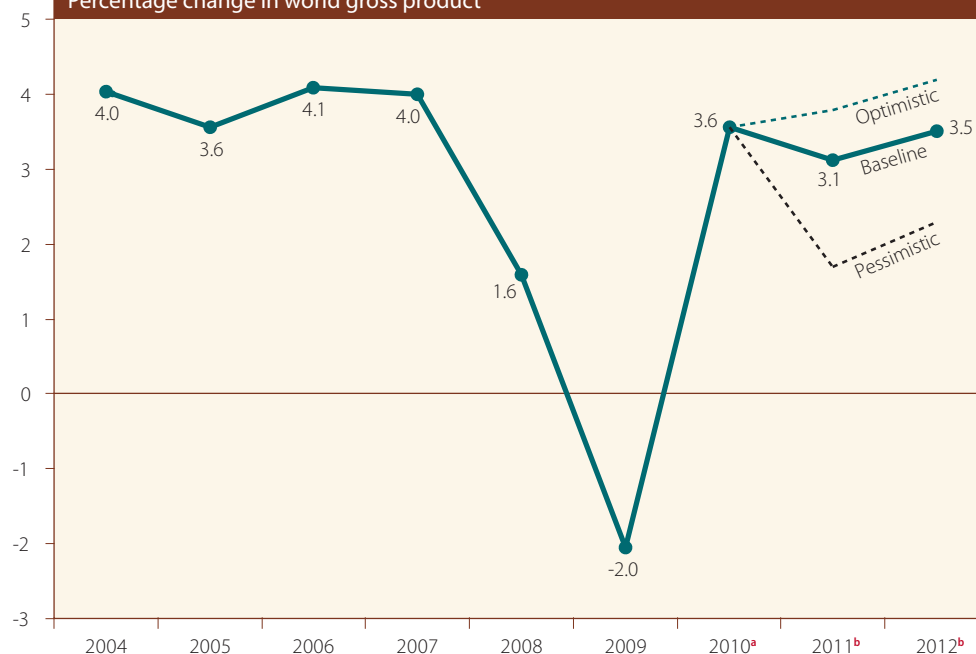
Among the developed economies, the *United States of America* has been on the mend from its longest and deepest recession since the Second World War, but has nonetheless been experiencing the weakest recovery pace in history. Although the level of gross domestic product (GDP) will return to its pre-crisis peak by 2011, a full recovery of employment will take at least another four years. Growth in many European countries will also remain low; drained by drastic fiscal cuts, some may continue to be in recession. Growth in Japan will also decelerate notably.

### Developing country growth will also moderate

Developing countries and the economies in transition continue to drive the global recovery, but their output growth is also expected to moderate during 2011 and 2012. *Developing Asia* continues to show the strongest growth performance. Strong growth in major developing economies, especially China, is an important factor in the rebound in global trade

#### A decelerating global recovery

##### Percentage change in world gross product



Source: UN/DESA and Project LINK.

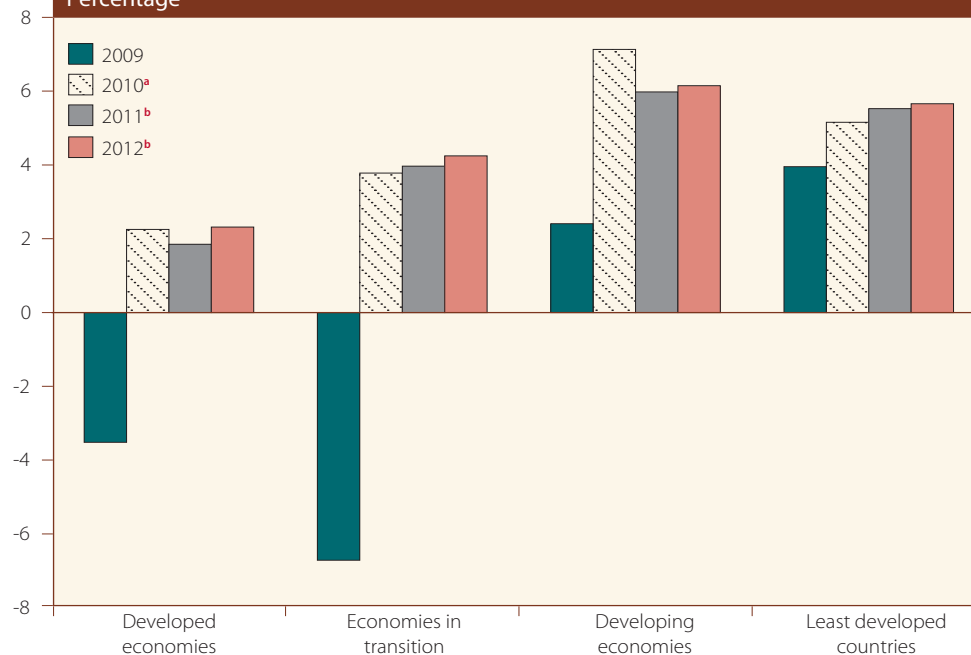
Note: For the baseline forecast assumptions, see box I.1. The pessimistic scenario refers to a situation of enhanced macroeconomic uncertainty in the outlook (see box I.4), while the optimistic scenario is one of limited, but improved, international policy coordination (see box I.5).

<sup>a</sup> Partly estimated.

<sup>b</sup> United Nations forecasts.

#### Developing country growth is leading the recovery

##### Percentage



Source: UN/DESA and Project LINK.

<sup>a</sup> Partly estimated.

<sup>b</sup> United Nations forecasts.

and commodity prices, which is benefiting growth in *Latin America, the Commonwealth of Independent States* and parts of *Africa*. Yet, the economic recovery remains below potential in all three regions. The fuel-exporting economies of *Western Asia* have not levelled oil production after the cutbacks made in response to the global recession; hence, the recovery in this region is also below pre-crisis levels of output growth.

Formidable challenges remain for the long-run development of many low-income countries. In particular, the recovery in many of the least developed countries (LDCs) will also be below potential.

## The outlook for employment, achievement of the Millennium Development Goals and inflation

Between 2007 and the end of 2009, at least 30 million jobs were lost worldwide as a result of the global financial crisis. Despite a rebound in employment in parts of the world, especially in developing countries, the global economy will still need to create at least another 22 million new jobs in order to return to the pre-crisis level of global employment. At the current speed of the recovery, this would take at least five years.

### *Long-term unemployment is rising*

Owing to the below-potential pace of output growth in the recovery, particularly in developed economies, few new jobs have been created to rehire those workers who have been laid off. As more Governments are embarking on fiscal tightening, the prospects for a quick recovery of employment look even gloomier. The longer term employment consequences of the present crisis are already becoming visible, as the share of the structurally or long-term unemployed has increased significantly in most developed countries since 2007.



*The recovery of employment has been faster in developing countries*

Workers in developing countries and economies in transition have also been severely affected by the crisis, although the impact in terms of job losses emerged later and was much more short-lived than in developed countries. The impact on aggregate employment was also softened by the absorption of many workers into the informal sector, although many more workers have ended up in more vulnerable jobs with lower pay as a result. Job growth in developing countries started to rebound from the second half of 2009; by the end of the first quarter of 2010, unemployment rates had already fallen back to pre-crisis levels in a number of developing countries.

*The crisis has caused important setbacks in progress towards the MDGs*

The economic downturn has caused important setbacks in progress towards the Millennium Development Goals (MDGs). Achieving the millennium target of halving global poverty rates by 2015 (from 1990 levels) is within reach for the world as a whole, although it will not be met in sub-Saharan Africa nor, possibly, in parts of South Asia. However, the crisis has significantly increased the challenge of achieving targets for universal primary education, reducing child and maternal mortality and improving environmental and sanitary conditions. The requirements for stepping up economic growth and social spending posed significant macroeconomic challenges even before the crisis; these have become all the more pressing in cases where setbacks have been the greatest. Unfortunately, the mood for fiscal tightening is taking hold even in those developing countries with a policy intention of safeguarding “priority” social spending. This is a worrying trend, particularly where GDP growth is still well below potential and tax revenues have declined significantly because of the crisis. Among the many low-income countries especially, sufficient support through official development assistance (ODA) will be critical for enabling stepped-up efforts to achieve the MDGs.

*Inflation does not pose a present danger, except in parts of South Asia*

The current rates of headline inflation have stayed at very low levels despite the massive monetary expansion. Except in some Asian economies, where increasingly strong inflationary pressures reflect a combination of supply and demand-side factors, inflationary expectations are likely to remain muted in the near future owing to the stagnation in credit growth, alongside wide output gaps and elevated unemployment in most developed economies.

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