

World Economic Situation and Prospects 2013

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World economy expanding at subdued pace, with moderate pickup in growth expected for 2014, says UN

Downside risks have diminished, but could still derail the global recovery

New York, 23 May—Global economic activity is projected to slowly gain momentum, but growth will continue to be below potential and employment gains will remain weak, says the *UN World Economic Situation and Prospects (WESP) 2013* mid-year update, launched today.

The report notes that since late 2012, new policy initiatives in major developed economies have reduced systemic risks and helped stabilize consumer, business and investor confidence, but with very limited improvement on economic growth.

“The main priority for policy makers worldwide should be to support a robust and balanced global recovery, with a focus on promoting job creation,” said Shamshad Akhtar, UN Assistant Secretary-General for Economic Development.

Global growth has been revised slightly downward from the forecasts presented in the WESP in December 2012. Growth of world gross product (WGP) is now projected at 2.3 per cent in 2013, the same pace as in 2012, before gradually strengthening to 3.1 per cent in 2014, supported by an expected pickup in activity in the United States.

The report warns that risks are still tilted to the downside and have the potential to derail, once again, the still feeble recovery of the world economy. Short-term risks associated with the situation in the euro area, fiscal adjustments in the US and the sharp slowdown in large developing countries have diminished, but not disappeared. In addition, some new medium-term new risks have emerged, including potentially adverse effects of the unconventional monetary measures in developed economies, such as Japan and the United States, on global financial stability.

The report highlights the continuing need to enhance international policy coordination to mitigate negative spillovers, reform the global financial system and ensure sufficient resource flows to developing countries.

Ongoing weaknesses in developed economies

The report shows ongoing weaknesses in developed economies, which continue to face major risks and uncertainties. In the euro area, the risk of a near-term break-up has declined considerably, but the economic situation remains dire. The real economy is held back by austerity programmes, weak bank lending and continued uncertainty, with activity projected to contract by 0.4 per cent in 2013. *WESP* says only a small expansion of 1.1 per cent is forecast for 2014, and this weak recovery remains uncertain given persistent banking and fiscal risks.

In the US, the avoidance of the fiscal cliff and expansion of monetary easing, along with gradual recovery in the housing sector, have somewhat improved growth prospects. Automatic government spending cuts and uncertainties associated with budget issues will weigh on aggregate demand. Economic growth is forecast to slow to 1.9 per

cent in 2013, before picking up to 2.6 per cent in 2014. Political gridlock and additional fiscal tightening could result in much lower-than-projected growth.

In Japan, policymakers have taken bold expansionary measures in an attempt to resuscitate the economy from the grip of deflation, but the results of these policies remain uncertain. GDP growth is projected at 1.3 per cent in 2013 and 1.6 per cent in 2014.

Many large developing countries, including Brazil, China, India and the Russian Federation, saw a significant deceleration in GDP growth in the past two years.

“The deceleration in the BRIC countries is due to a combination of weak external conditions and domestic impediments,” said Ingo Pitterle, the UN’s team leader for the report.

Although the report predicts GDP growth in China to be 7.8 per cent in 2013 and 7.7 per cent in 2014, an unexpected drop in China’s growth to about 5 per cent would impact economic activity worldwide, especially in commodity-exporting developing countries.

Capital flows to emerging economies rise and risks loom

The report notes that the current environment of low global interest rates, moderate volatility and rising risk appetite among investors poses considerable risks for emerging economies. The upward trend of private capital flows to emerging economies is likely to continue as growth and interest rate differentials will persist in the near term. This could lead to an appreciation of domestic currencies, excessive credit growth and a build-up of significant leverage and asset price bubbles. Corporate leverage and foreign exchange denominated debt have risen in several economies, potentially leading to increased balance sheet risks and heightened vulnerability.

Jobs not being created fast enough

“The employment situation remains a key policy challenge in a large number of economies, as the world economy continues to expand below its potential,” noted Pingfan Hong, Chief of the Global Economic Monitoring Unit for the UN Department of Economic and Social Affairs.

Unemployment in the euro area has reached an all-time high and is forecast to average 12.8 per cent in 2014. The US unemployment rate has fallen, but remains high by historical standards, and the drop partly reflects a significant decline in labour force participation. Some further improvement is expected in the outlook period, with US unemployment forecast to average 7 per cent in 2014.

In most developing regions, labour markets have not suffered as extensively from weak demand. In parts of East Asia and South America, unemployment rates have dropped below the levels seen before the financial crisis. By contrast, employment continues to be a key problem in many African countries, despite relatively strong growth in recent years.

WESP also includes updates to the economic outlooks for all regions of the world, as well as policy recommendations and information on global commodity prices, inflation, trade and exchange rates. **For more information**, visit: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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