World Economic Situation and Prospects
Update per mid-2011

Upgraded forecast, but heightened risks

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United Nations

Main messages

1. Recovery remains fragile, despite upgraded forecast
   • Weakness in major developed economies remains
   • And, will drag growth in developing countries

2. Heightened downside risks
   • Persistent high unemployment and weaker stimulus
   • Continued financial fragility and sovereign debt distress
   • Surging food and energy prices
   • Surging capital inflows, currency appreciation, inflation and risk of asset bubbles in developing countries
   • Still looming risk of dollar downfall

3. Five policy challenges
   • More and better coordinated fiscal stimulus
   • Redesigning the fiscal stimulus
   • More measured monetary stimulus and coordinate with other policies
   • Sufficient resource transfers for MDGs and sustainable development
   • Strengthen framework for international policy coordination
The global recovery is moderating
Protracted slow growth in major developed economies

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Growth moderating to below potential in developing countries

- Developing countries
- Africa
- East Asia
- South Asia
- Western Asia
- Latin America

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<th>Year</th>
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Despite a rebound, the recovery remains fragile in transition economies.
Diverging but below-potential per capita growth among LDCs
Improving global environment, but....

- Trade recovering, **but** at moderating pace
- Commodity prices surging, **but** remain highly volatile
- Capital inflows returning to emerging economies, **but** creating problems of their own
Heightened downside risks

- Commodity price volatility
- Surging capital inflows, currency appreciation, inflation and risk of asset bubbles in developing economies
- Continued financial fragility and sovereign debt distress
- Persistent high and long-term unemployment compounded by early withdrawal fiscal stimulus
- Global imbalances widening again, dollar weakening further
Sovereign debt distress in Europe
Further sliding dollar, greater exchange rate volatility
Five Policy Challenges

1. Avoid premature withdrawal of fiscal stimulus and greater coordination needed
   - Coordinate among surplus and deficit and between those with ample and limited fiscal space

2. Redesigning the fiscal stimulus
   - More focus on direct spending (infrastructure, etc.) for jobs creation and investment in sustainable development
   - Coordinate with labour market and structural policies
Five Policy Challenges

3. More measured monetary stimulus and coordinate with other policies
   • Monetary expansion in tandem with fiscal stimulus
   • Further support and regulatory reform to repair financial sectors
   • Facilitate capital controls by emerging market economies
   • Off load pressure to more reserve accumulation through reform of the global reserve and exchange system
Five Policy Challenges

4. Sufficient resource transfers for MDGs and sustainable development
   - Net transfers still flowing from poor to rich
   - Ensure compliance with aid commitments and further easing access low-income countries to external finance for stimulus through investing in sustainable development

5. Strengthen framework for international policy coordination
   - Cooperative spirit is waning when it is needed more
   - Framework should comprise addressing all five challenges