



World Economic Situation and Prospects

Update per mid-2011

*Upgraded forecast,
but heightened risks*

New York, 25 May 2011

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United Nations

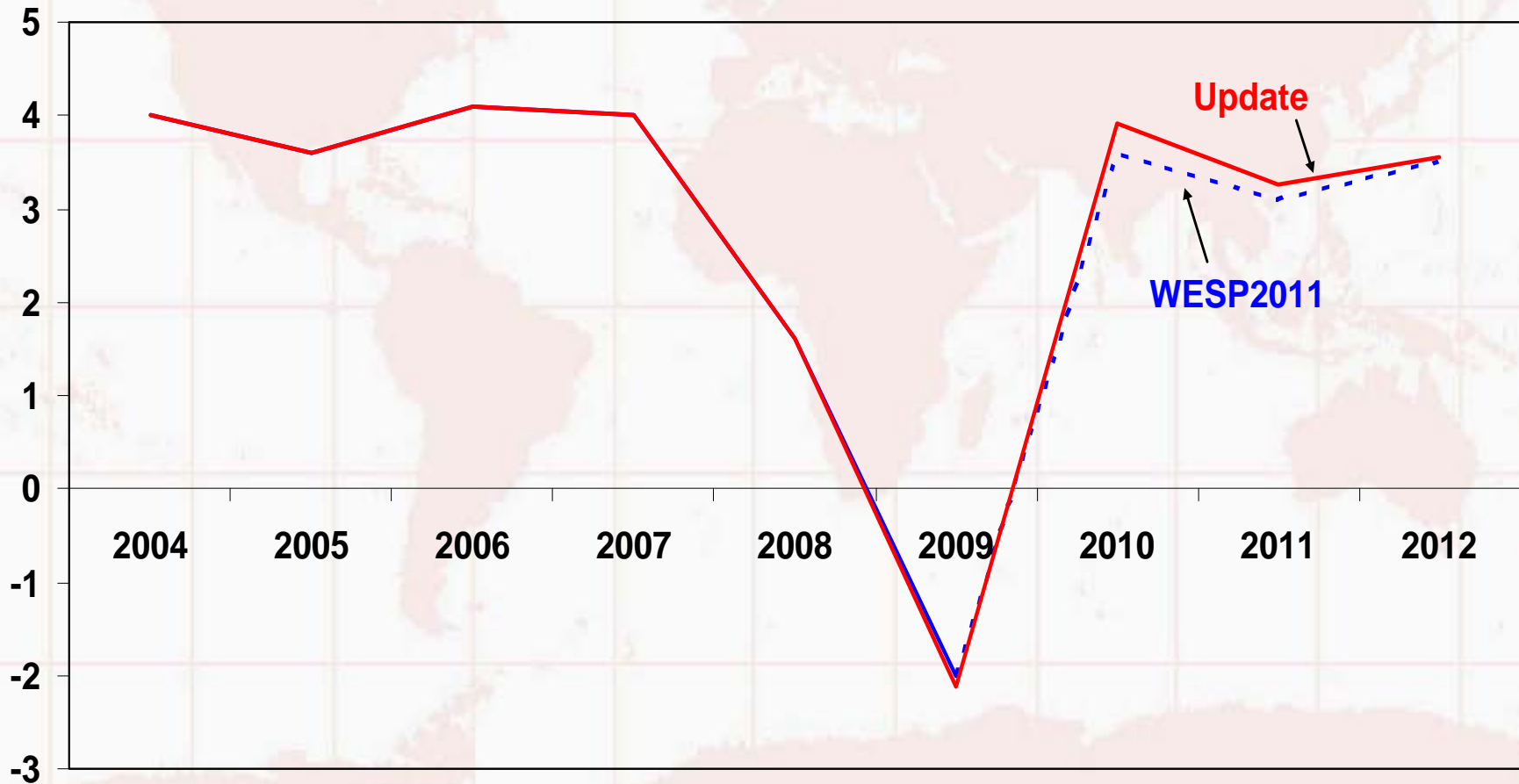
<http://www.un.org/en/development/desa/policy/>

Main messages

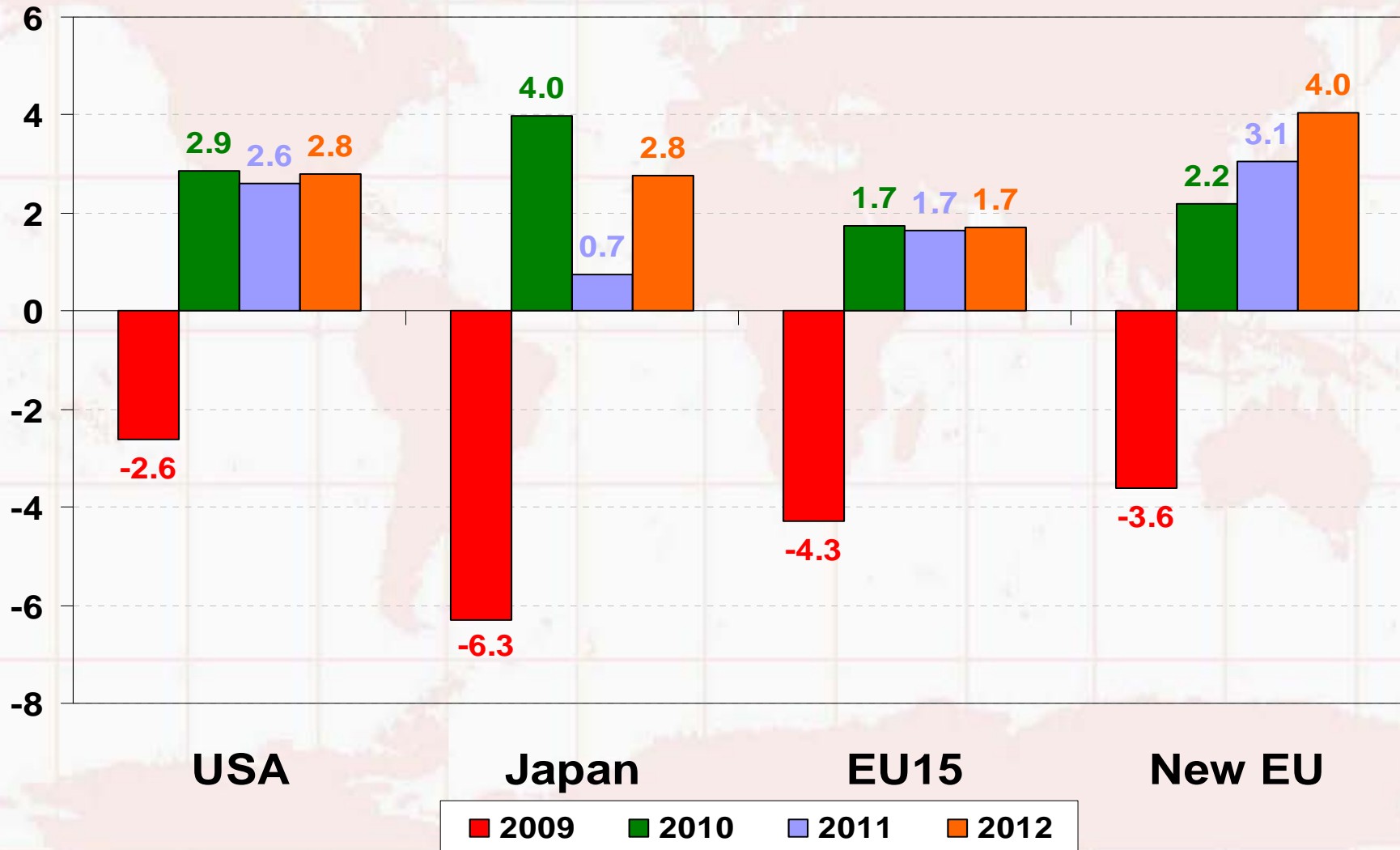


- 1. Recovery remains fragile, despite upgraded forecast**
 - Weakness in major developed economies remains
 - And, will drag growth in developing countries
- 2. Heightened downside risks**
 - Persistent high unemployment and weaker stimulus
 - Continued financial fragility and sovereign debt distress
 - 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

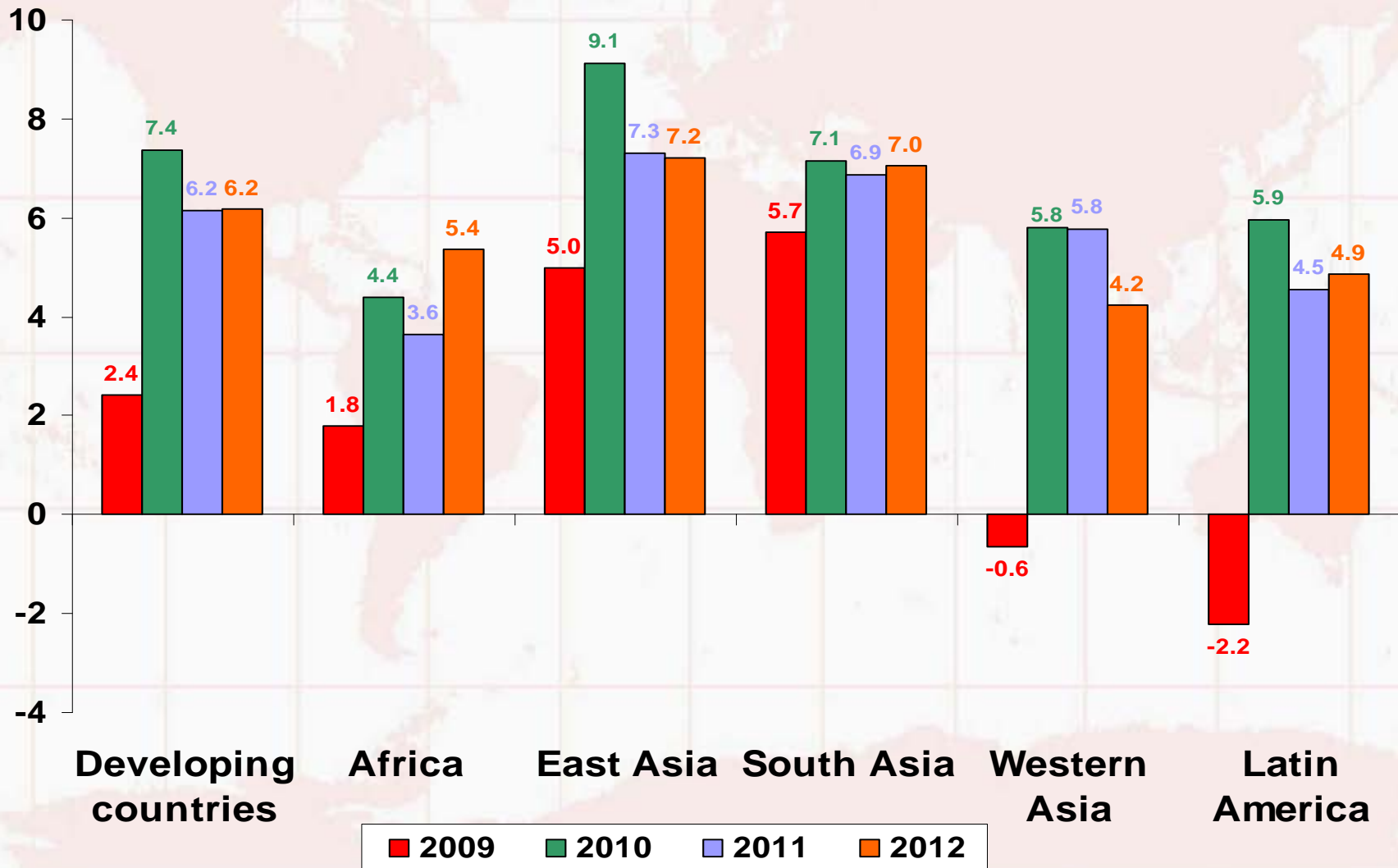
The global recovery is moderating



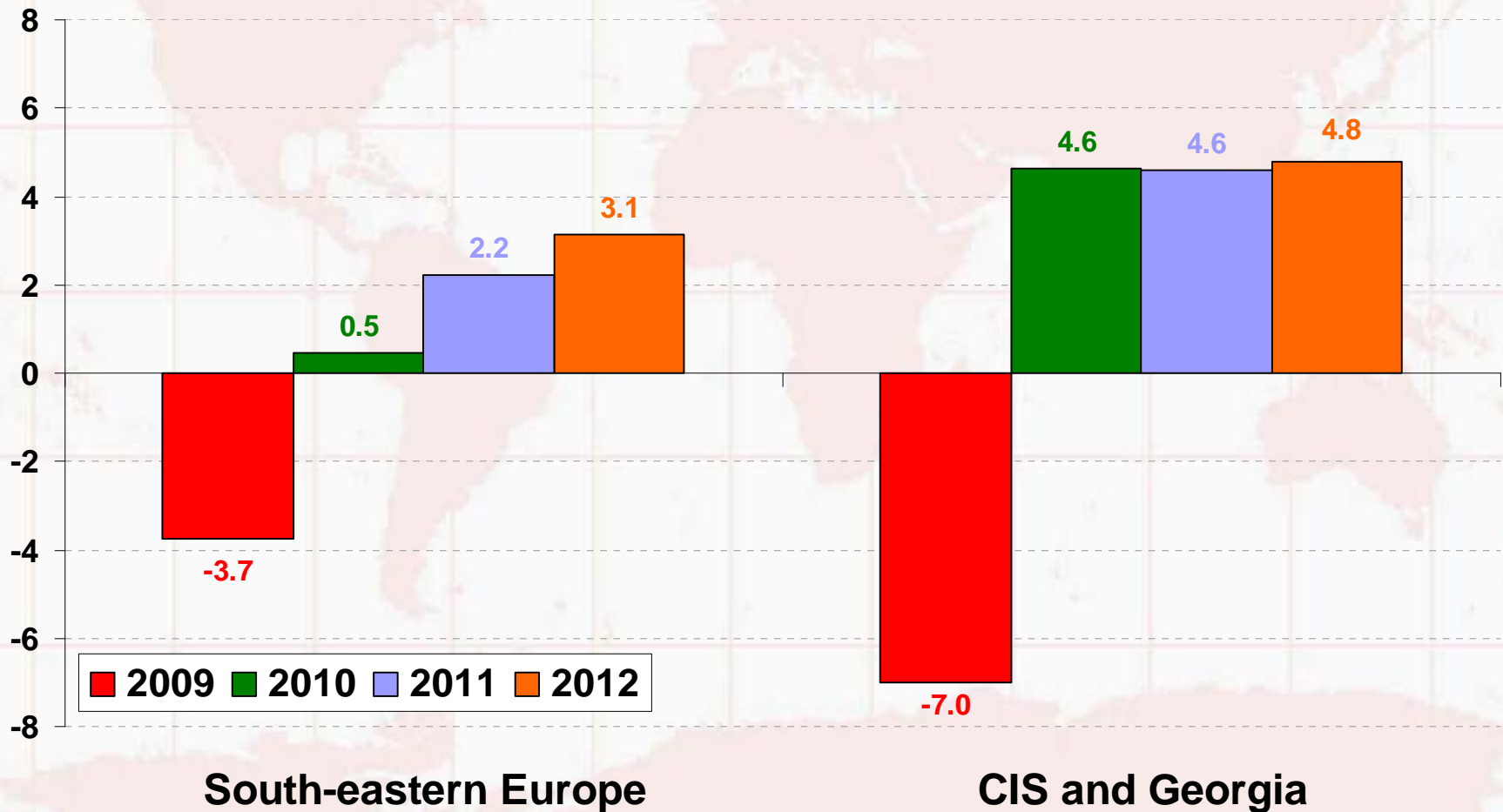
Protracted slow growth in major developed economies



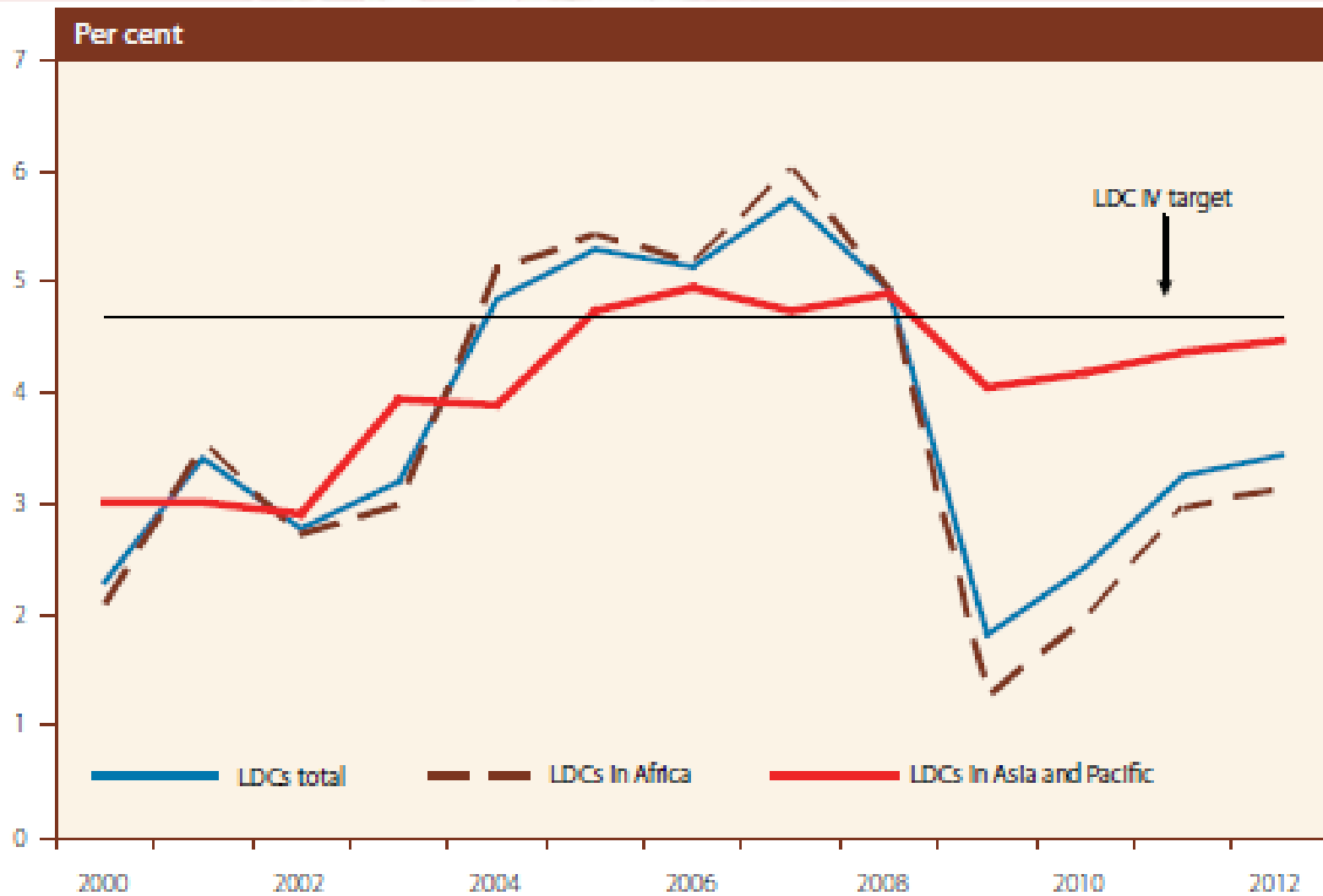
Growth moderating to below potential in developing countries



Despite a rebound, the recovery remains fragile in transition economies



Diverging but below-potential per capita growth among LDCs



Improving global environment, but....



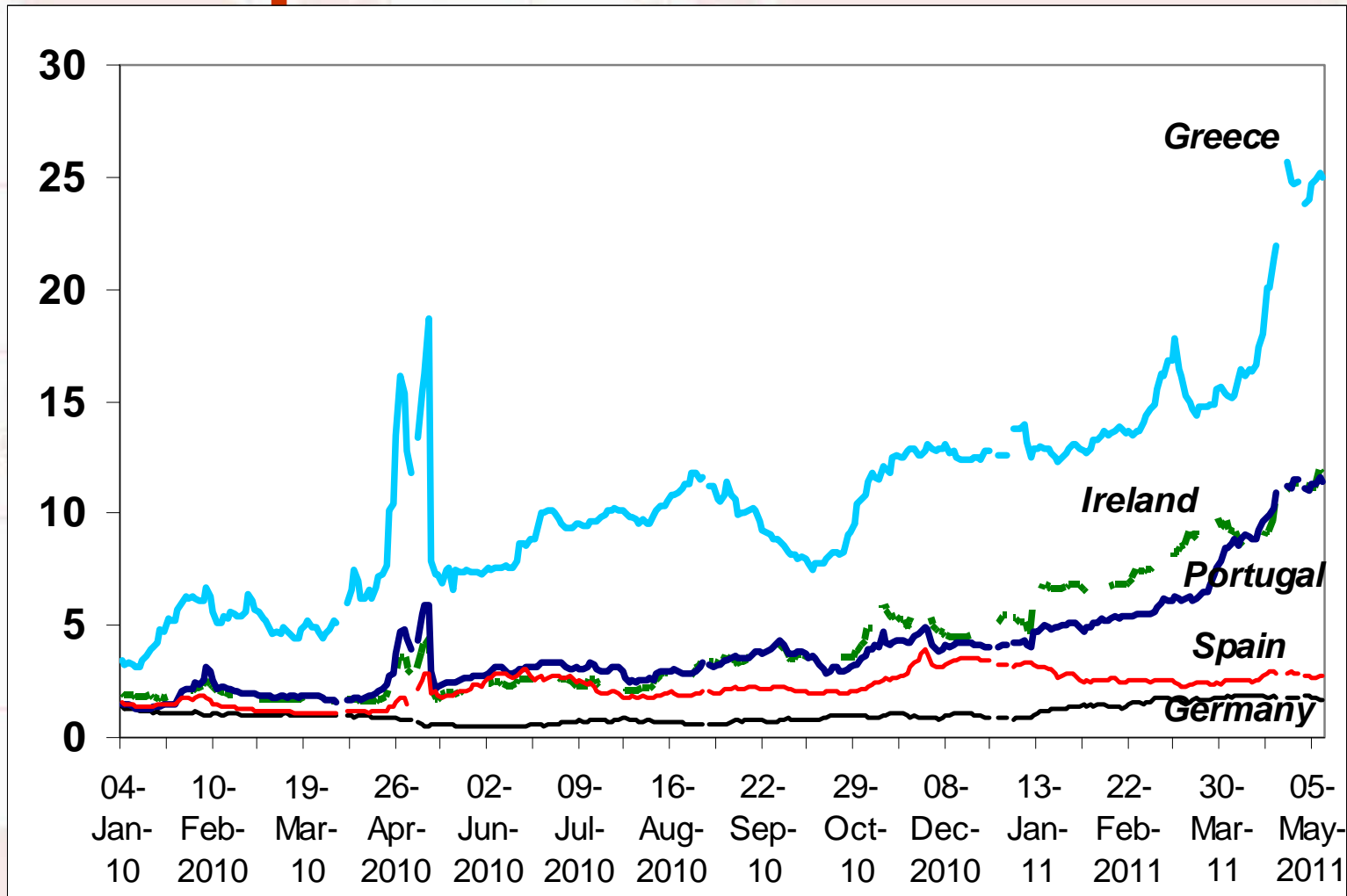
- Trade recovering, **but** at moderating pace
- Commodity prices surging, **but** remain highly volatile
- Capital inflows returning to emerging economies, **but** creating problems of their own

Heightened downside risks

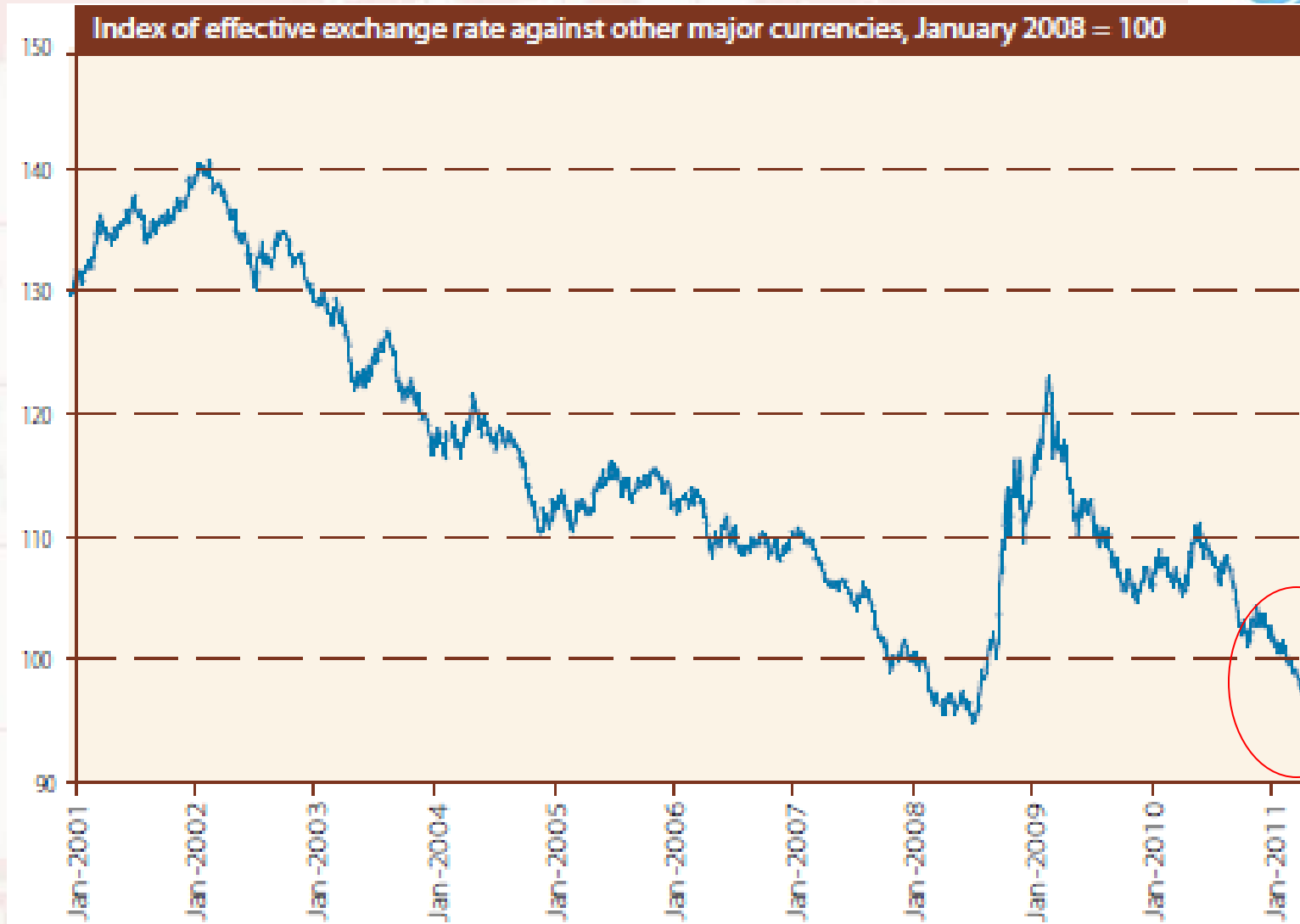


- **Commodity price volatility**
- **Surging capital inflows, currency appreciation, inflation and risk of asset bubbles in developing economies**
- **Continued financial fragility and sovereign debt distress**
- **Persistent high and long-term unemployment compounded by early withdrawal fiscal stimulus**
- **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