Emerging economies in Asia and Latin America continue to lead global economic recovery

_Credible and effective policy coordination is needed to solidify the global recovery_

**New York, 25 May:** China, India and developing countries continue to drive global economic recovery with strong output growth in developing countries and a weaker performance in developed economies, United Nations economists announced today. The world gross product (WGP) is expected to grow by 3.3 per cent in 2011 and 3.6 per cent in 2012, only a slight upward adjustment from the forecasts released in the *World Economic Situation and Prospects (WESP) 2011* at the beginning of the year.

In a mid-year update of *WESP* launched today, UN experts say the world economy continues to recover from the global economic crisis, but the pace remains uneven across countries. Output growth is strong among developing countries and feeble in many developed economies.

In developed economies, fiscal policies are shifting towards austerity in response to heightened concerns about the sustainability of public debt levels, thus weakening growth prospects in the short run.

Developing countries and economies in transition, in contrast, have contributed significantly to the post-crisis expansion of the world economy. The recovery continues to be led by the large emerging economies in Asia and Latin America, particularly China, India and Brazil. However, also in these economies, the growth outlook is moderating owing to several increasingly pressing concerns. Those concerns include persistently rising inflation, emerging domestic asset price bubbles, and upward pressure on their exchange rates, fuelled in part by large capital inflows.

**More jobs, but employment concerns remain**

Unemployment rates in developed economies have fallen in an increasing number of countries. However, the number of people without a job for six months or longer continues to rise in a range of developed countries, creating a problem – the UN report warns -- more difficult to deal with than transitory short-term employment. Unemployment rates also fell because many people without a job stopped looking for work. Among the economies in transition, employment conditions improved in the CIS, but remained problematic in South-Eastern Europe. Employment levels generally have returned to above pre-crisis levels in developing countries, especially in East Asia. The report says that, at the present pace of output growth, it would take another four to five years before employment is back at pre-crisis levels in developed countries.
**New headwinds**

New headwinds have also emerged in 2011. The earthquake, tsunami and nuclear crisis in Japan shook world financial markets and disrupted important global supply chains. The political unrest in Western Asia and North Africa has been a source of a renewed surge in oil prices. International prices of food and other primary commodities have also soared. *WESP* warns that the global recovery is still fragile and could suffer setbacks if public debt problems and continued financial sector fragility in developed economies are not adequately addressed, global commodity prices continue to surge and trigger belt-tightening policy responses, and global imbalances are not redressed to mitigate exchange rate volatility and the still looming risk of a dollar crisis. During April, the dollar reached its lowest point since the 1970s.

**Five key global policy challenges**

In the outlook for the rest of 2011 and for 2012, *WESP* says that more and more countries are expected to further unwind both monetary and fiscal support measures. Challenges differ across countries, warranting different policy stances, but current national policy stances are far from adequate to address the risks to the global economy, and instead may exacerbate them. The UN report indicates a number of policy directions to be concerted internationally to address those risks.

First, developed countries in particular should be cautious not to embark prematurely on fiscal austerity policies, given the still fragile state of the recovery and prevailing high levels of unemployment. Credible fiscal consolidation plans should focus on public debt sustainability in the medium run. Such action should be adequately coordinated among the major economies to ensure a reinvigoration of global growth that will also provide external demand for those economies that have encountered constraints on further fiscal stimulus.

Second, fiscal policy needs to be redesigned to strengthen its impact on employment and promote structural change for more sustainable economic growth over the medium and long run. For both developed and developing countries, a prudent policy would be to target public investments with a view to alleviating infrastructure bottlenecks that hamper growth prospects and addressing environmental challenges, including by accelerating the transformation of energy sectors to drastically reduce greenhouse gas emissions and investing in sustainable food agriculture.

The third challenge is to find greater synergy between fiscal and monetary stimulus, while counteracting damaging international spillover effects in the form of increased currency tensions and volatile short-term capital flows. This will require reaching agreement at the international level about the magnitude, speed and timing of quantitative easing policies within a broader framework of targets to redress the global imbalances. It will also require deeper reforms in the regulation of financial markets, including measures to address systemic risks of high-volume speculative capital flows and derivatives trading, as well reforms in the global reserve system reducing dependence on the dollar.

The fourth challenge is to ensure that sufficient resources are made available to developing countries, especially those possessing limited fiscal space and facing large development needs. These resources will be needed, in particular, to accelerate progress towards the achievement of the Millennium Development Goals and for investments in sustainable and resilient growth, especially for the least developed countries.

The fifth challenge is to find ways to arrive at credible and effective policy coordination among major economies. In this regard, there is some urgency to making the G-20 framework for sustainable global rebalancing more specific and operational.
**Regional outlook**

**Developed economies**

The *United States* economy expanded by 2.9 per cent in 2010, mainly driven by domestic demand, as weaker net exports acted as a drain on growth. GDP growth for 2011 and 2012 is projected at 2.6 per cent and 2.8 per cent, respectively, accompanied by a fall in the average unemployment rate to 8.2 per cent in 2012. The potential risks for the United States include sustained elevated commodity and oil prices, a further worsening in public finances and continued weakness in the housing market and financial sector.

*Japan’s* economy suffered a severe shock from the earthquake of March 2011 and the subsequent tsunami and crisis at a nuclear power plant. The damage to buildings and infrastructure is estimated at about 25 trillion yen (5 per cent of GDP). These disasters hit the country when the recovery of the economy was still fragile. The reconstruction efforts likely will induce a recovery, though financing those could be challenging. GDP growth is projected at 0.7 per cent in 2011 and 2.8 per cent in 2012.

The recovery in *Western Europe* continues at a modest and uneven pace. Industrial business confidence indicators have returned to pre-crisis peaks in early 2011, but economies will face strong headwinds in the rest of the year: GDP growth in the euro area is expected to average 1.6 per cent in both 2011 and 2012. Germany is expected to grow by 2.9 per cent in 2011, while the countries most affected by the fiscal crisis -- Greece, Ireland, Portugal and Spain -- will either remain in recession or, at best, register low growth rates.

The recovery in most new EU member states in *Eastern Europe* strengthened in the last quarter of 2010, with aggregate GDP expanding by 2.2 per cent in 2010, supported by strong export performance and restocking of inventories. The recovery continued in early 2011. Assuming a continued strong export performance, GDP growth among the new EU member states is expected to accelerate to 3.1 per cent on average in 2011 and to 4.0 per cent in 2012.

**Economies in transition**

Growth in the *Commonwealth of Independent States (CIS)* bounced back to 4.6 per cent in 2010 after a contraction by 7 per cent in 2009. The recovery was fuelled by higher oil and metals prices and stronger domestic demand. The improved economic environment further led to a decline in unemployment, particularly in the Russian Federation, Kazakhstan and Ukraine. However, unlike in the case of other emerging economies, capital has been moving out of the region, especially out of the Russian Federation, as investors have grown increasingly uncertain about government policies. Outflows from the Russian Federation exceeded $21 billion in the first quarter of 2011 and are expected to be part of an ongoing trend in the near outlook. Output growth in the CIS is expected to continue at a pace of 4.6 per cent in 2011 and accelerate to 4.8 per cent in 2012.

The economies of *South-Eastern Europe*, except Croatia, showed a modest rebound in 2010, but the recovery remains feeble. GDP growth is projected to continue to be led by exports and accelerate to 2.2 per cent in 2011 and 3.1 per cent in 2012.

**Developing economies**
Economic growth in Africa will moderate to 3.6 per cent this year, but is forecast to accelerate to 5.4 per cent in 2012. This rather upbeat baseline outlook is surrounded by great uncertainty. In North Africa, public protests have already led to significant changes in political governance, but also have come with an economic cost and the forecast for output growth in 2011 has been substantially downgraded. In sub-Saharan Africa, many countries will see continued strong growth, supported by expansionary fiscal policies and infrastructure investments. Overall, internal conflicts, weak institutions and infrastructure deficits are important obstacles to higher and more sustained growth.

After a strong recovery, East Asia's economies are expected to record solid growth in the outlook period. While average GDP growth is projected to moderate from 9.1 per cent in 2010 to 7.3 per cent in 2011 and 7.2 per cent in 2012, East Asia continues to be the fastest-growing region. The expected slowdown reflects a tightening of monetary and credit conditions in response to increased inflationary pressures. Countries with large domestic markets, such as China and Indonesia, are expected to see only a minor slowdown or none at all. Unemployment and labour participation rates are close to pre-crisis levels, with little change expected in 2011 and 2012.

Led by strong performances in India and Sri Lanka, GDP growth in South Asia is expected to average 6.9 per cent in 2011 and 7.0 per cent in 2012, compared with 7.1 per cent in 2010. Economic prospects vary significantly in the region, ranging from 3 per cent GDP growth in the Islamic Republic of Iran to 8 per cent in India and Sri Lanka.

Western Asia experienced a regionally balanced recovery in 2010 with most economies growing by more than 4 per cent. Prospects for 2011 and 2012 are more mixed, as uncertainties created by continuing and spreading political unrest and higher oil prices are strengthening the fuel-exporting economies and highlighting the vulnerabilities of fuel importers.

After a strong recovery in 2010, economic growth in Latin America and the Caribbean is expected to decelerate to 4.5 per cent in 2011 and 4.9 per cent in 2012, down from 5.9 per cent in 2010. The Central American economies rebounded in 2010, but their prospects for 2011 are weaker, in part because they are net importers of food and energy. Continued surges in capital inflows in Brazil, Colombia and Mexico are inducing further upward pressures on currencies.

For interviews or to obtain more information, contact Newton Kanhema, tel 1-212-963-5602, e-mail kanhema@un.org, UN Department of Public Information


World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

Issued by the UN Department of Public Information