

# World Economic Situation & Prospects

## UN advises economic cooperation at global level to push back poverty, reduce risk of recession

(UNITED NATIONS GENEVA, 11 July) Under-Secretary-General José Antonio Ocampo today advocated for coordinated action by the world's leading economies and an enhanced decision making role for developing nations.

Speaking at the current session of the UN's Economic and Social Council, and shortly in advance of the G8 meeting in St. Petersburg, he said that moderation in still-strong global growth – slower than in the two previous years, and expected to continue to slacken during the second half of 2006 -- reflects a number of downside factors.

One is the continued overbalancing in global finances, according to the mid-term edition of World Economic Situation and Prospects 2006, the report of the UN Department of Economic and Social Affairs to ECOSOC. The expected rise of the United States current account deficit to more than \$900 billion in 2006 increases the chances of a sudden and sharp devaluation of an already weakened dollar and a significant slowdown of the US economy, with collateral damage to the international economy.

### Warning against too much tightening

There is the additional danger of contractionary monetary policies taken in response to higher inflation, partly fuelled by high oil prices. Especially if combined with adverse shocks in oil supply, this could similarly bring about a sharp global downturn.

To protect and consolidate the broad-based and stable world economic growth of the last few years, greater international cooperation is required, particularly to redress the global imbalances while avoiding recessionary adjustment in the US.

“Coordinated global adjustment will require measures that will stimulate savings in the deficit countries and domestic demand in the surplus countries,” the UN report says.

Under-Secretary-General Ocampo indicated that a format for macro economic coordination involving a much broader forum of countries than the G-8 is called for. He encouraged the International Monetary Fund (IMF) to take a leading role, and welcomed the agreement of the International Monetary and Finance Committee during the 2006 spring meetings of the IMF to place multilateral surveillance at the centre of the IMF work plan.



**Table 1. Growth of world output, 2004-2006**

Annual percentage change			
	2004	2005	2006
World output	4.1	3.6	3.6
<i>of which:</i>			
<b>Developed economies</b>	3.2	2.7	2.7
Northern America	4.2	3.5	3.1
Western Europe	2.4	1.6	2.3
Asia and Oceania	2.3	2.7	2.8
<b>Economies in transition</b>	7.6	6.3	6.0
Southern and Eastern Europe	6.6	4.6	4.8
Commonwealth of Independent States	7.8	6.8	6.3
<b>Developing economies</b>	6.9	6.1	6.2
Africa	5.0	5.3	5.9
East Asia	7.9	7.3	7.3
Southern Asia	7.0	6.7	6.3
Western Asia	6.5	5.1	5.2
Latin America and the Caribbean	5.8	4.5	4.6
<b>Other groupings</b>			
Landlocked countries	6.1	7.2	6.8
Least developed countries	6.7	6.9	7.3
Small island developing states	5.7	5.9	5.5
Sub-Saharan Africa	5.7	5.5	6.6

**Source:** Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA).

## Strong trends for poor and developing countries

One of the bright spots of the global economy during 2004-2006, the UN says, has been the rapid growth largely across the board in the developing world, including the world's 50 least developed countries (LDCs). Developing economies will again, as in the two previous years, register an expansion by more than 6.0 per cent in 2006, which compares favourably with 2.7 per cent for the industrial world (see table). The UN Department of Economic and Social Affairs projects that the LDCs will reach an unprecedented overall growth rate of over 7 per cent this year.

The solid growth figures experienced by developing countries as a whole reflect a broadly favourable international economic environment. Bright spots include debt relief for some of the poorest countries of the world, and the recovery in donor commitments official development assistance (ODA).

However, as both the UN and the Development Assistance Committee of the OECD have underscored, higher ODA levels are tied to debt relief, food aid and emergency relief, indicating that the amounts of resources actually available to financing achievement of the Millennium Development Goals is not as high as current accounting indicates. Meeting commitments made in the run up to the 2005 UN World Summit, as well as channelling more aid through the budgets of recipient countries, remain major challenges.

Developing countries as a whole continue to benefit from 7 per cent growth in world trade, and several of them from expanding market shares. Continued strong economic expansion in some large developing economies, particularly China, has continued to buttress demand for primary commodities. Until the first quarter of 2005, private capital flows to emerging market economies were also strong, and risk premia fell, for many countries to levels below those that prevailed prior to the 1997 Asian crisis.

## Commodity price volatility

The mix of rapid growth in world trade, high commodity prices and low interest rates has facilitated rapid growth in the developing world in recent years. But it is subject to growing risks.

The sustainability of the upward trend in commodity prices is "at issue", the UN says. Not just demand but non-economic factors such as geopolitical uncertainties and market speculation have pushed prices higher. These factors have made prices more volatile, and "primary commodity exporting countries should be vigilant about the risk of a sharp reversal in prices".

In addition, rising interest rates in industrial economies have been accompanied in recent months by "flight to safety" in financial markets, which means less financing at higher costs of such financing for developing countries.

**For more information, contact** Tim Wall of the UN Department of Public Information, Development Section, 1-212-963-5851, wallt@un.org. From UN DESA, contact Rob Vos, 1-917-399-2084. In Geneva, Olav Huslid, 00-41-22-9171328, Olav HUSLID/UNOG/GVA/UNO@UNGVA.