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World Economic Situation and Prospects 2010

Press Release

The world economy bounces back in 2010, but risk of a double-dip recession remains – UN

Immediate challenge is to avoid premature withdrawal of stimulus measures and downfall of the dollar

New York, 2 December – After a sharp and synchronized global downturn, the United Nations expects the world economy to bounce back with a mild 2.4 per cent growth in 2010. The rebound is due to the massive and to some extent concerted policy actions taken by the major economies, which effectively arrested a further erosion of confidence worldwide. The cutbacks in industrial production that characterized early stages of the recession have now been reversed.

But the recovery is fragile. Firms have mainly begun to restock inventories, rather than respond to stronger consumer or investment demand.

In a pre-release of its annual report, the *World Economic Situation and Prospects 2010* (WESP), launched today, the United Nations says an increasing number of economies showed positive growth in the second quarter of 2009 and the recovery momentum continued to build in the third quarter.

"Nonetheless, because of the steep downturn in the beginning of the year, world gross product (WGP) is estimated to fall by 2.2 per cent for the year [2009]. Premised on the assumption of a continued supportive policy stance, worldwide a mild growth of 2.4 per cent is forecast in the baseline scenario for 2010. In this scenario, the level of world economic activity will be 7 per cent below where it could have been if pre-crisis growth would have continued," said the report.

The WESP report says from the second quarter of 2009, the world economic situation has been on the mend. Global equity markets have rebounded and risk premiums on lending have fallen. International trade and global industrial production have also been recovering noticeably, with an increasing number of countries registering positive quarterly growth of gross domestic product (GDP).

"The economic revival is driven in no small part by the effects of the massive policy stimuli injected worldwide since late 2008. This is an important turnaround after the free fall in world trade, industrial production, asset prices, and global credit availability which threatened to push the global economy into the abyss of a new Great Depression in early 2009. The recovery is uneven and conditions for sustained growth remain fragile," warns the report.

In the outlook, global economic recovery is expected to remain sluggish, unemployment rates will stay up and inflation will remain low. The immediate challenge for policy makers will be to determine how much longer the fiscal stimulus should continue. The UN report recommends that the stimulus should continue at least until there are clearer signals of a more robust recovery of employment growth and private sector demand.

Table I.1 Growth of world output, 2004-2010
(Annual percentage change)

								Change from UN forecast of June 2009[d]	
	2004	**2005**	**2006**	**2007**	**2008**	**2009[a]**	**2010[b]**	**2009**	**2010**
World output[c]	4.0	3.5	4.0	3.9	1.9	-2.2	2.4	0.4	0.8
of which:									
Developed economies	3.0	2.5	2.8	2.6	0.5	-3.5	1.3	0.4	0.7
Euro zone	2.2	1.7	3.0	2.7	0.7	-4.1	0.4	-0.4	0.5
Japan	2.7	1.9	2.0	2.3	-0.7	-5.6	0.9	1.5	-0.6
United Kingdom	3.0	2.2	2.9	2.6	0.6	-4.5	0.6	-0.8	0.8
United States	3.6	3.1	2.7	2.1	0.4	-2.5	2.1	1.0	1.1
Economies in transition	7.7	6.5	8.0	8.4	5.5	-6.5	1.6	-0.6	0.2
Russian Federation	7.2	6.4	7.7	8.1	5.6	-7.0	1.5	-0.2	0.0
Developing economies	7.3	6.7	7.3	7.6	5.4	1.9	5.3	0.5	1.0
Africa	6.5	5.9	5.9	6.0	4.9	1.6	4.3	0.7	0.3
Nigeria	10.6	5.4	6.2	7.0	6.0	1.9	5.0	2.4	0.3
South Africa	4.9	5.0	5.3	5.1	3.1	-2.2	3.1	-0.4	0.0
East and South Asia	7.8	7.7	8.6	9.3	6.3	4.3	6.4	1.1	0.8
China	10.1	10.4	11.6	13.0	9.0	8.1	8.8	0.5	0.6
India	8.3	9.3	9.7	9.1	7.3	5.9	6.5	0.9	0.2
Western Asia	8.7	6.9	6.1	5.0	4.6	-1.0	3.6	-0.3	0.7
Israel	5.0	5.1	5.2	5.4	4.1	0.1	2.0	1.0	1.2
Turkey	9.4	8.4	6.9	4.5	1.1	-4.9	2.2	-0.4	1.0
Latin America and the Caribbean	5.8	4.6	5.5	5.6	4.1	-2.1	3.4	-0.2	1.7
Brazil	5.7	3.2	4.0	5.7	5.2	0.0	4.5	0.6	2.0
Mexico	4.0	3.2	4.8	3.2	1.3	-7.1	3.0	-2.3	1.8
of which:									
Least developed countries	8.2	7.8	7.9	8.5	7.2	3.3	5.3	0.6	0.7
Memo item:									
World trade	11.0	7.8	9.3	6.7	2.9	-12.5	5.4	-1.4	1.8
World output growth with PPP-based weights	4.9	4.4	5.0	5.0	3.0	-1.0	3.2	0.0	0.5

Source: UN/DESA

a Partly estimated.
b Forecasts, based in part on Project LINK, an international collaborative research group for econometric modelling, coordinated jointly by the Global Economic Monitoring Unit of the United Nations Secretariat, and the University of Toronto.
c Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.
d See United Nations, *World Economic Situation and Prospects as per mid-2009*

Developing countries, especially in Asia, are expected to show the strongest growth in 2010. The UN report predicts output growth in developing countries will reach 5.3 per cent in 2010, up from 1.9 per cent in 2009. Yet, economic growth in the developing world will remain well below the pre-crisis pace of more than 7 per cent per annum. China's and India's economies are expected to grow at 8.8 and 6.5 per cent respectively in 2010, but also below potential. The Russian Federation is leading the turnaround among economies in transition as its economy is expected to grow at 1.5 per cent in 2010 after a severe decline by 7 per cent in 2009.

The UN report projects a visible turnaround in the industrialized world as well, but with economic growth in 2010 remaining well below potential. The economy of the United States is expected to grow by 2.1 per cent in 2010, following an estimated downturn of 2.5 per cent in 2009. Recovery in both the European Union and Japan is projected to be much weaker, reaching GDP growth of no more than 0.6 and 0.9 per cent, respectively, in 2010. At this pace of recovery, the major developed economies are not expected to provide a strong impulse to global growth in the near-term outlook.

Many of the least developed countries (LDCs) are expected to see a much slower economic performance in the years ahead as compared with the robust growth they witnessed in the years before the crisis. In 2009, about 60 developing countries suffered declining per capita incomes. Thanks to the recovery, this number is expected to drop to 10 countries in 2010, but at the same time only 21 developing countries are expected to achieve growth rates of 3 per cent or more, which is taken as the minimum rate needed to ensure substantial poverty reduction. Hence, over 2009-2010 significant setbacks in the progress towards poverty reduction are expected.

POLICY RESPONSES

WESP indicates that governments worldwide have responded with massive fiscal stimulus measures to the tune of $2.6 trillion over 2009 and 2010, or more than 4 per cent of WGP, while – especially in developed countries – another $20 trillion of taxpayer money has been set aside for financial sector rescue operations. These measures have been critical to prevent the world economy from falling into another Great Depression. Yet, they may not have been enough to forge a robust recovery. Global demand recovery is expected to remain weak in the outlook and important financial fragilities still need to be addressed, while also many developing countries have not been able to implement significant countercyclical policies on their own. At the same time, however necessary they might be in the crisis, these policies have also redistributed risks from the financial sector to other sectors in the broad economy and reallocated debts from the private sector to the public sector, as well as led to a substantial expansion of the balance sheet of the central banks and considerable deterioration in government budget positions worldwide.

The *WESP* warns that failure to address two risks in particular could cause the global economy to entering into a double-dip recession. The first is the risk of a premature "exit" from the stimulus measures to prevent further financial sector fallout. The second relates to the risk of a renewed significant widening of the global macroeconomic imbalances, especially the United States deficit and mounting external debt, which could cause a hard landing of the United States dollar and cause a new wave of financial instability.

The *WESP* analyzes what would happen in a scenario of premature exit from fiscal stimulus measures and concludes it would cause an early abortion of the recovery. Instead of solving the problem of high public indebtedness, it in fact would worsen the situation as economic activity would continue to slow. Policy makers face a dilemma because sustaining the stimulus measures as presently undertaken would lead to a renewed widening of the global imbalances, with the United States current account deficit projected to increase to 6.4 per cent of GDP, up from 4.1 per cent in 2009. "Such a return to 'business-as-usual' would support a strong recovery of the world economy in 2010, but it would not last," warns the *WESP*. This will lead to an inevitable further weakening of the dollar, but this by itself would not be enough to rebalance the global economy; rather, loss in confidence in the value of the dollar could set off renewed turmoil in financial and commodity markets.

The UN report therefore calls for three “rebalancing acts” to avoid a return to the unsustainable pattern of growth that led to the global crisis. First, while continued fiscal stimulus is needed in the short run, over time private sector demand growth will have to replace government spending to uphold global aggregate demand. Second, the first rebalancing act should be achieved by ensuring much more of stimulus measures are oriented at long-term investments to support future productivity growth, but especially to initiate the transformative investments needed to meet the challenge of climate change and ‘crowd-in’ private investments for this purpose as well. Third, demand across countries will need to be rebalanced, involving a shift towards external demand (net exports) in major deficit countries, such as the United States, and towards domestic demand in the major surplus countries, especially in Asia. Again part of this rebalancing act could build on the suggested sustainable growth path with major developed countries exporting capital goods and finance to developing countries to facilitate large scale investments in clean energy and sustainable development in poor nations.

These three rebalancing acts will require close policy coordination as they are strongly interdependent. The UN report indicates that the framework for “strong, sustainable and balanced growth” launched by the G20 leaders at the Pittsburgh summit in September 2009 could prove an important step in the right direction. The success of this framework, however, will require strengthened mechanisms for international policy coordination which are more inclusive and legitimate than the present ad-hoc process. It will also depend on further reforms of the international financial architecture, including reforms of the global reserve system to a system less reliant on the US dollar as is presently the case. The UN report offers concrete suggestions on each of these counts.

For interviews or to obtain more information, contact the ***Development Section*** *of the*
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http://www.un.org/esa/policy/wess/wesp.html

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