



# World Economic Situation and Prospects, 2011

## Global Outlook Pre-Launch

New York, 1 December 2010

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United Nations

[www.un.org/esa/policy](http://www.un.org/esa/policy)

# Main messages

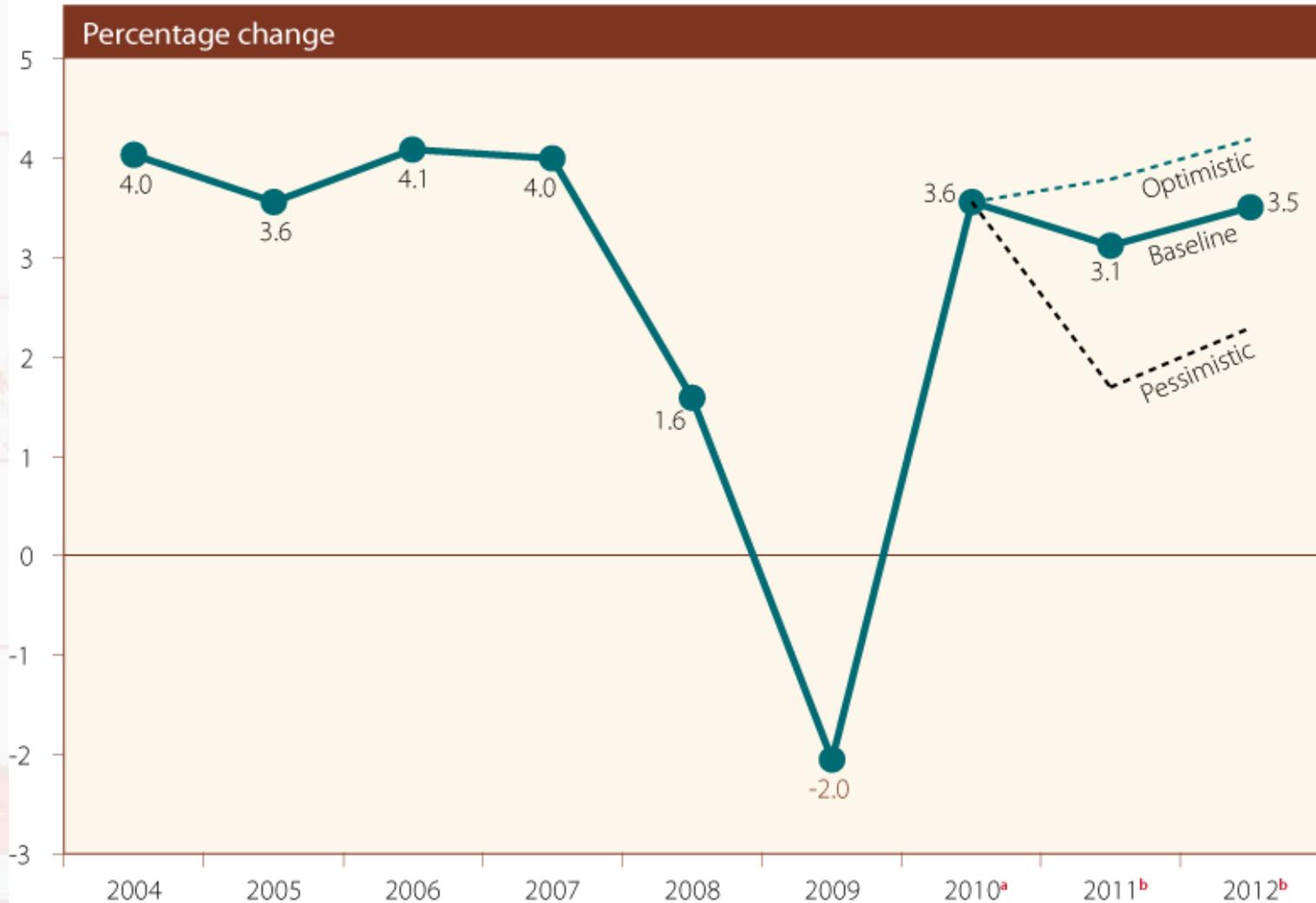


- 1. THE ROAD TO RECOVERY IS LONG AND BUMPY**
  - **WEAKNESS IN MAJOR DEVELOPED ECONOMIES REMAINS**
  - **AND, WILL DRAG GROWTH IN DEVELOPING COUNTRIES**
- 2. DOWNSIDE RISKS AND UNCERTAINTIES**
  - **PERSISTENT HIGH UNEMPLOYMENT AND WEAKER STIMULUS**
  - **CONTINUED FINANCIAL FRAGILITY, SOVEREIGN DEBT DISTRESS AND RISK OF “CURRENCY WARS”**
  - **SURGING CAPITAL INFLOWS, CURRENCY APPRECIATION AND RISK OF ASSET BUBBLES IN DEVELOPING COUNTRIES**
  - **GLOBAL IMBALANCES WIDENING AGAIN**
- 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



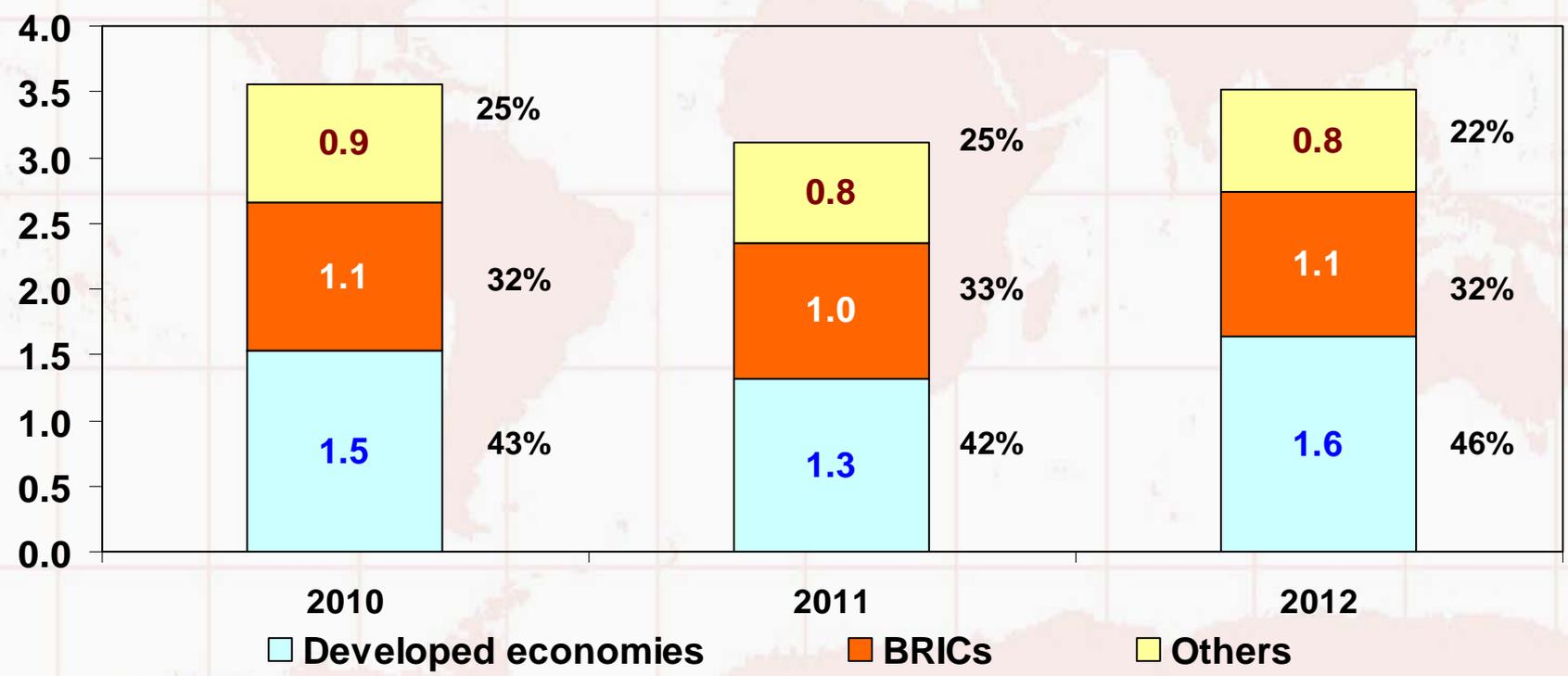
Growth of the world economy, 2004-2012



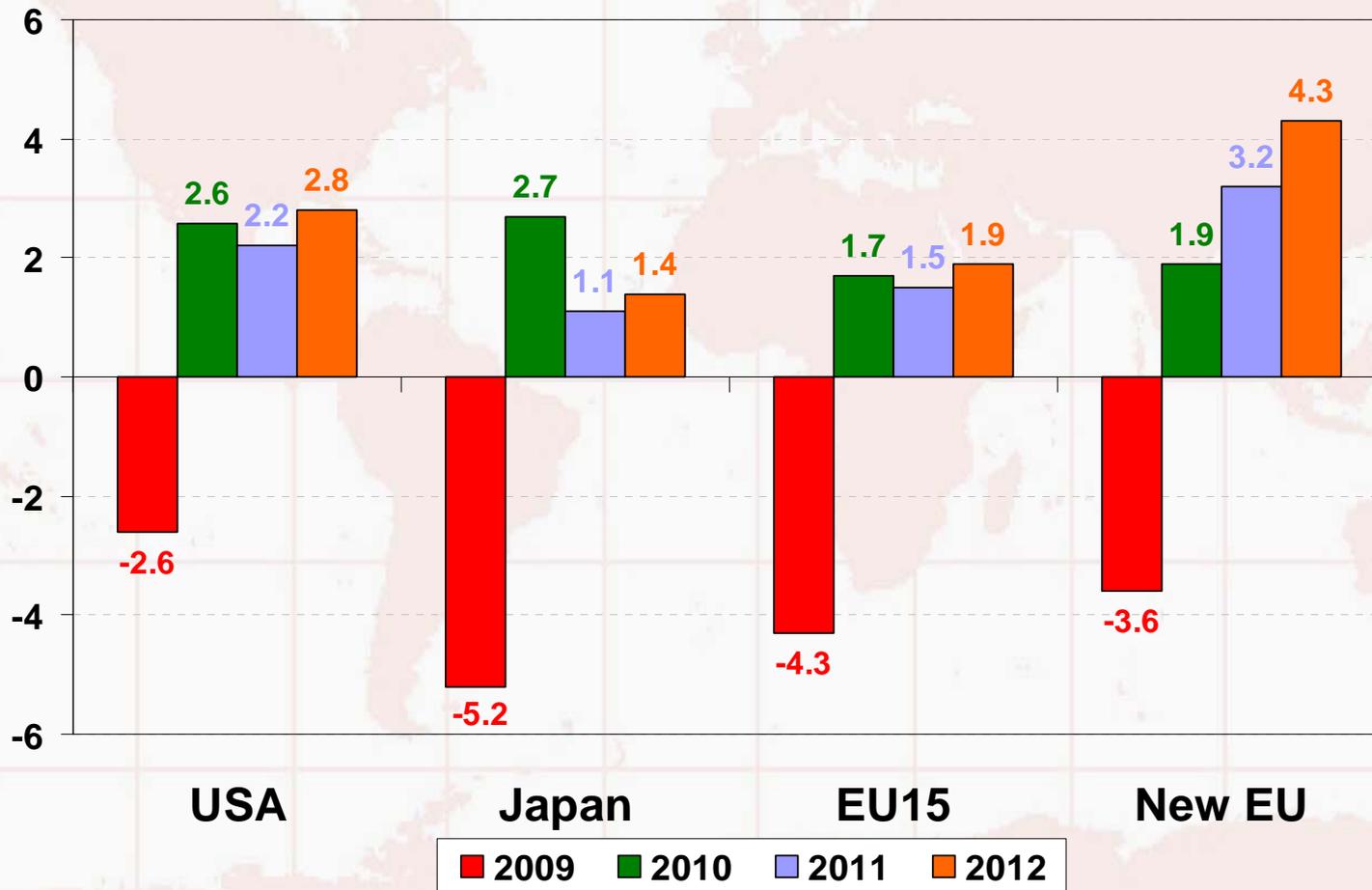


# DEVELOPING COUNTRIES DRIVING THE RECOVERY

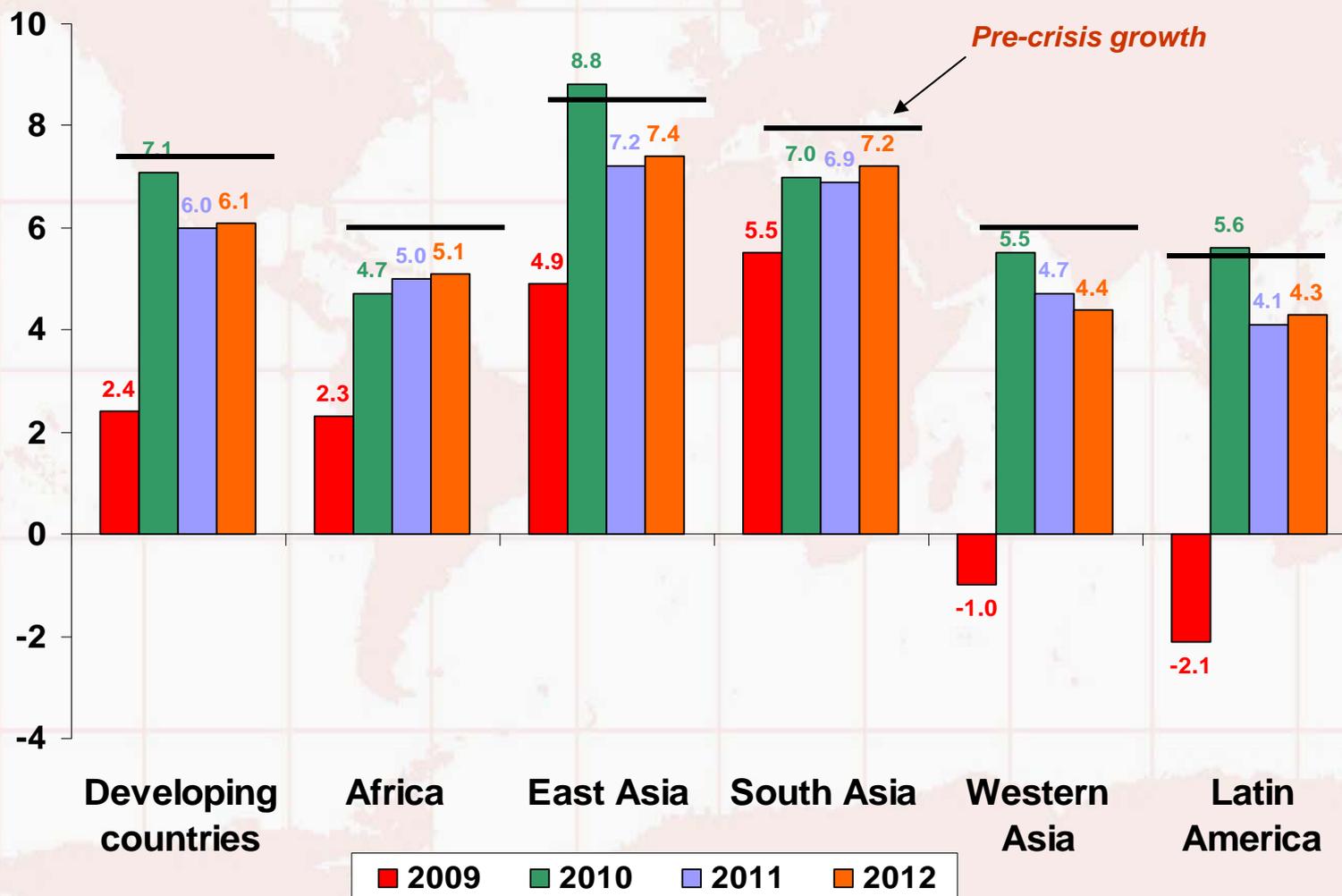
Contribution to WGP growth



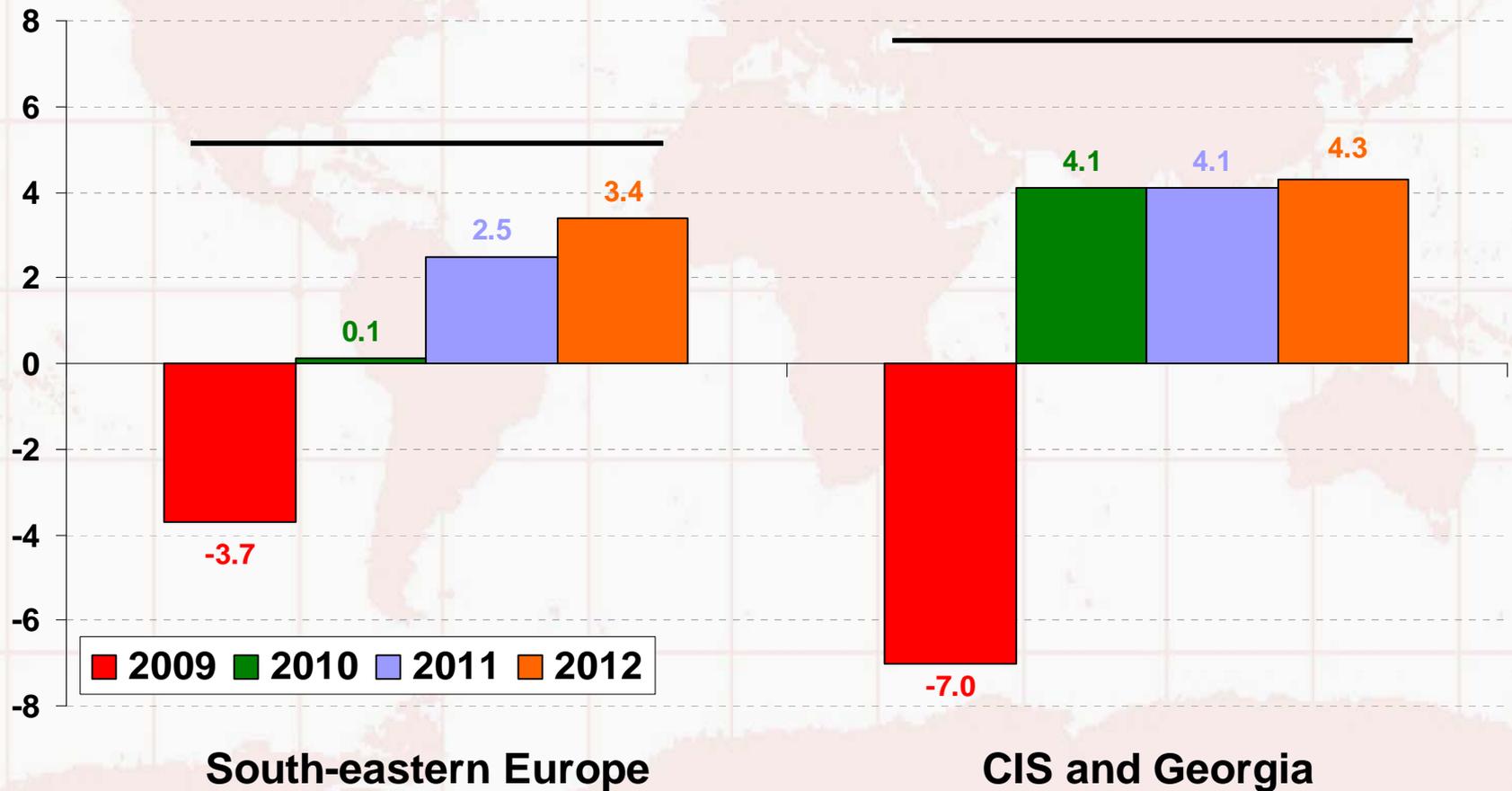
# Protracted slow growth in major developed economies



# Growth moderating to below potential in developing countries



# Despite a rebound, the recovery remains fragile in transition economies



# IMPROVING GLOBAL ENVIRONMENT, BUT....



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

# **DOWNSIDE RISKS AND UNCERTAINTIES**

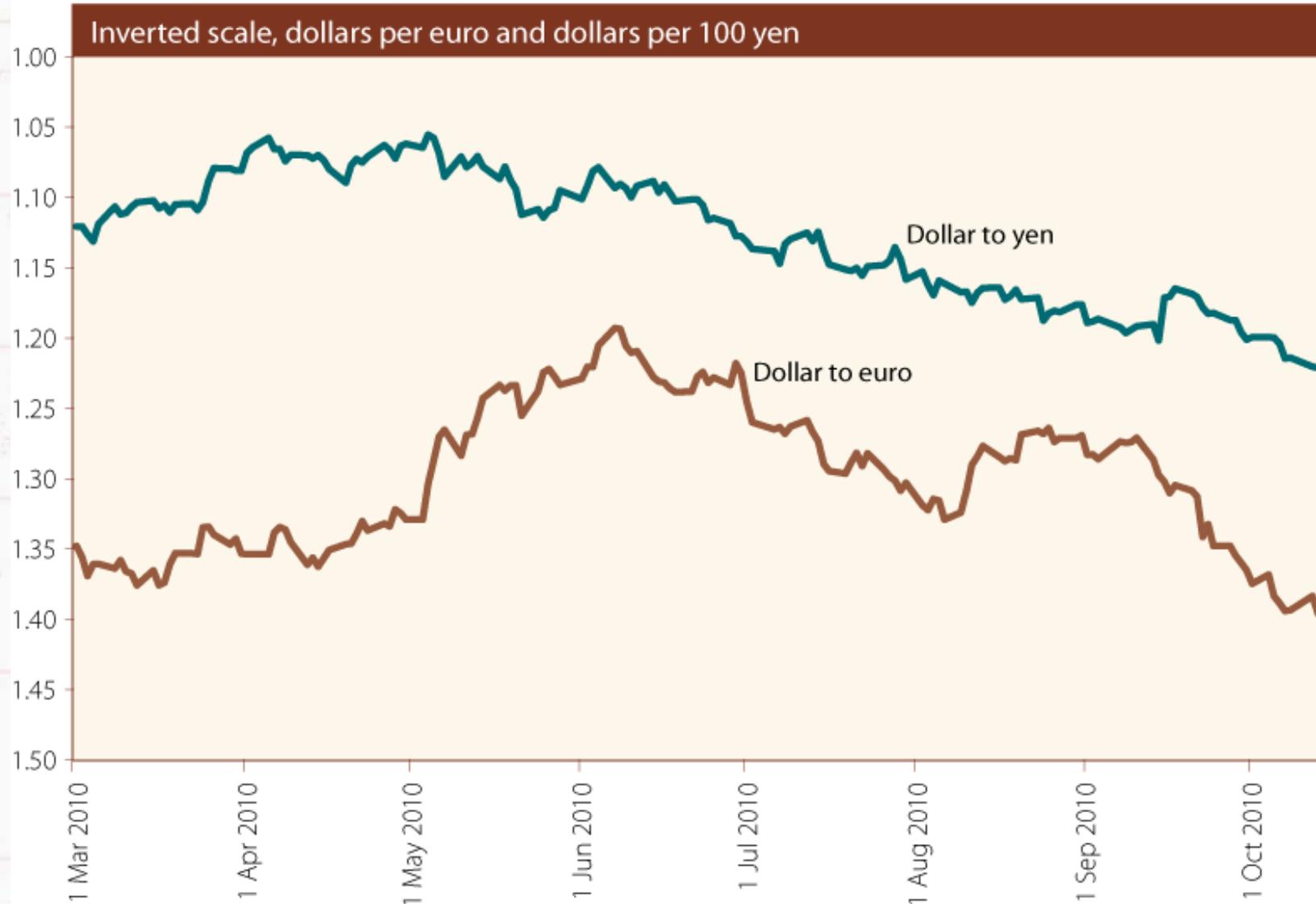


- **PERSISTENT HIGH UNEMPLOYMENT COMPOUNDED BY EARLY WITHDRAWAL FISCAL STIMULUS**
- **CONTINUED FINANCIAL FRAGILITY, SOVEREIGN DEBT DISTRESS AND RISK OF “CURRENCY WARS”**
- **SURGING CAPITAL INFLOWS, CURRENCY APPRECIATION AND RISK OF ASSET BUBBLES IN DEVELOPING ECONOMIES**
- **GLOBAL IMBALANCES WIDENING AGAIN**

# Weaker dollar, more exchange rate volatility



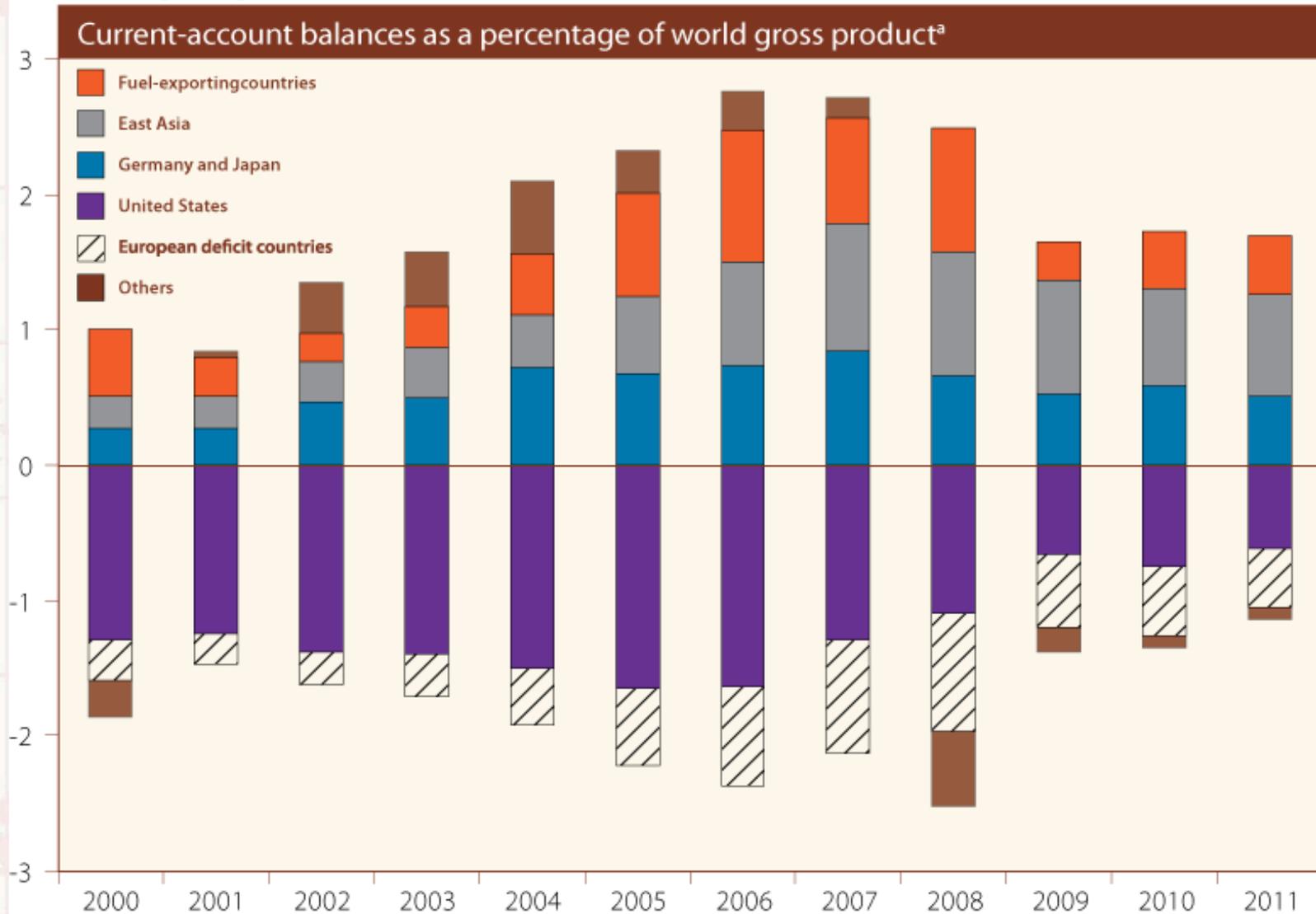
Exchange rates among major currencies, March 2010-October 2010



# Global imbalances widening again



## Resurge in global imbalances, 1996-2011



# Five Policy Challenges



## **1. MORE AND BETTER COORDINATED FISCAL STIMULUS**

- **MOST DEVELOPED COUNTRIES STILL HAVE AMPLE FISCAL SPACE**
- **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 DEVELOPMENT**

## **5. STRENGTHEN FRAMEWORK FOR INTERNATIONAL POLICY COORDINATION**

- Cooperative spirit is waning when it is needed more
- Target zones for current account balances can be helpful to stress responsibilities of surplus and deficit countries and move away from single focus on exchange rates
- Framework should comprise addressing all five challenges