
World Economic Situation and Prospects 2013

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UN: Global economy at great risk of falling into renewed recession

Different policy approaches are needed to address continued jobs crisis

New York, 18 December 2012: Growth of the world economy has weakened considerably during 2012 and is expected to remain subdued in the coming two years, according to the United Nations in its latest issue of the [World Economic Situation and Prospects 2013](#) (WESP), published today. The global economy is expected to grow at 2.4 per cent in 2013 and 3.2 per cent in 2014 a significant downgrade from the UN's forecast of half a year ago.

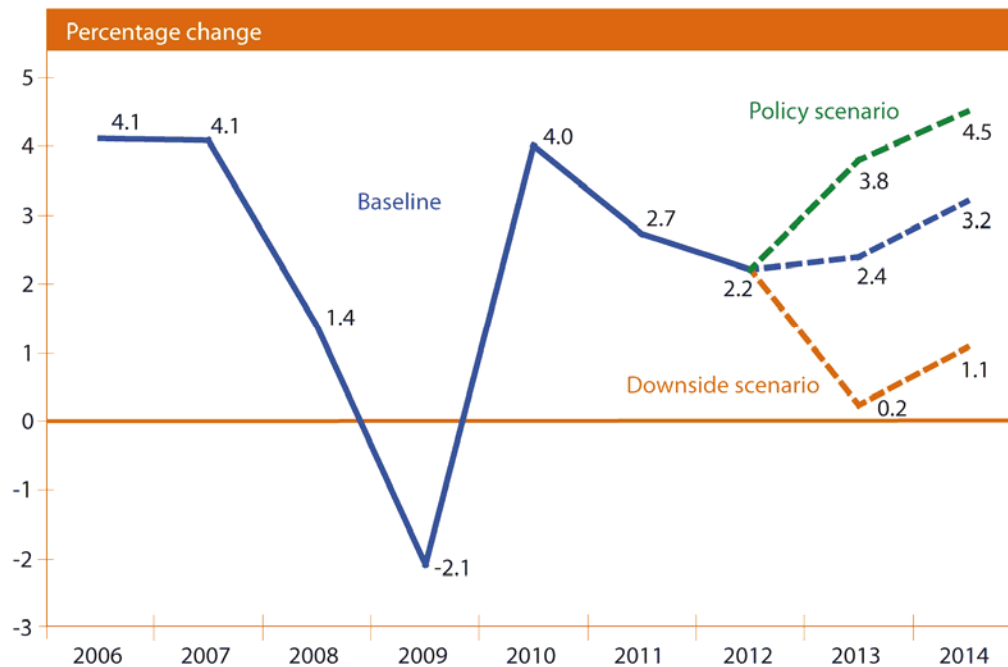
This pace of growth will be far from sufficient to overcome the continued jobs crisis that many countries are still facing. With existing policies and growth trends, it may take at least another five years for Europe and the United States to make up for the job losses caused by the Great Recession of 2008-2009.

Weaknesses in the major developed economies are at the root of the global economic slowdown. The WESP report stresses that most of them, but particularly those in Europe, are trapped in a vicious cycle of high unemployment, financial sector fragility, heightened sovereign risks, fiscal austerity and low growth. Several European economies and the euro zone as a whole are already in recession, and euro zone unemployment increased further to a record high of almost 12 per cent this year. Also, the US economy slowed significantly during 2012 and growth is expected to remain meager at 1.7 per cent in 2013. Deflationary conditions continue to prevail in Japan.

The economic woes in Europe, Japan and the United States are spilling over to developing countries through weaker demand for their exports and heightened volatility in capital flows and commodity prices. The larger developing economies also face home-grown problems, however, with some (including China) facing much weakened investment demand because of financing constraints in some sectors of the economy and excess production capacity elsewhere. Most low-income countries have held up relatively well so far, but are now also facing intensified adverse spillover effects from the slowdown in both developed and major middle-income countries.

The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside. Rob Vos, the UN's team leader for the report, warned: "A worsening of the euro area crisis, the 'fiscal cliff' in the United States and a hard landing in China could cause a new global recession. Each of these risks could cause global output losses of between 1 and 3 per cent."

Growth of world gross product, 2006-2014



Policy changes needed

The UN report further assesses that present policy stances fall short of what is needed to spur economic recovery and address the jobs crisis. While policy efforts have been significant, especially in the euro zone, in trying to redress sovereign debt distress, the combination of fiscal austerity and expansionary monetary policies has had mixed success so far in calming financial markets and even less so in strengthening economic growth and job creation.

It is essential to change course in fiscal policy, the UN report says, and shift the focus from short-term consolidation to robust economic growth with medium to long-term fiscal sustainability. Premature fiscal austerity should be avoided and, while necessary, fiscal consolidation should focus on medium-term, rather than short-term adjustment.

The report stresses that the reorientation of fiscal policies should be internationally coordinated and aligned with structural policies that support direct job creation and green growth. It further recommends that monetary policies be better coordinated internationally and regulatory reforms of financial sectors be accelerated in order to stem exchange rate and capital flow volatility, which pose risks to the economic prospects of developing countries. There is also a need to secure sufficient development assistance to help the poorest nations accelerate progress towards poverty reduction goals and invest in sustainable development.

Observing that development aid is declining, the UN report notes that fiscal austerity in donor countries is not only detrimental to their own economic recovery, but certainly should not come at the expense of the development efforts of the poorest nations.

Europe

Several European economies are already in recession. In Germany, growth has slowed significantly, while France's economy is stagnating. A number of new policy initiatives have been taken by the euro area authorities in 2012, including the Outright Monetary Transactions (OMT) programme and steps towards greater fiscal integration and coordinated financial supervision and regulation, but there has been no significant initiative towards boosting growth in the short run or tackling the ever-mounting crisis in the labour markets.

In the United Nations baseline forecast, the euro area economy is expected to grow by only 0.3 per cent in 2013 and 1.4 per cent in 2014, a feeble recovery from the 0.5 per cent decline in 2012. Because of the dynamics of the vicious circle, the risk for a much worse scenario remains high and could be triggered by deeper fiscal cuts and delayed implementation of the OMT programme.

The unemployment rate continued to climb to a record high in the euro area during 2012, up by more than one percentage point from one year ago. Conditions are worse in Spain and Greece, where more than a quarter of the working population is without a job and more than half of the youth is unemployed. Only a few economies in the region, such as Austria, Germany, Luxembourg and the Netherlands, register low unemployment rates of about 5 per cent. Unemployment rates in Central and Eastern Europe also edged up slightly in 2012, resulting from fiscal austerity and the economic slowdown in the euro area.

United States

The United States economy weakened notably during 2012, and growth prospects for 2013 and 2014 remain sluggish. On the up side, the beleaguered housing sector is showing some nascent signs of recovery, and further support is expected from the new round of quantitative easing recently launched by the Federal Reserve (Fed).

The unemployment rate stayed above 8 per cent for the most part of 2012, but dropped to just below that level from September onwards. However, the labour participation rate is at a record low, while the shares of long-term unemployment reached historic highs of 40.6 per cent (jobless for 6 months or longer) and 31.4 per cent (one year or longer).

The WESP report says that the lingering uncertainties about the fiscal stance continue to hold back business investment. External demand is also expected to remain weak. In the baseline outlook, growth of GDP (gross domestic product) in the United States is forecast to decelerate to 1.7 per cent in 2013 from an already anaemic pace of 2.1 per cent in 2012. Risks remain high for a much bleaker scenario, emanating from the "fiscal cliff," which would entail a drop in aggregate demand by as much as 4 per cent of GDP during 2013 and 2014, as well as from the spillover effects of a further intensification of the euro area crisis and a possible hard landing of the Chinese economy and further weakening of other major developing economies.

Japan

Japan's GDP is forecast to grow at 0.6 per cent in 2013 and 0.8 per cent in 2014, down from 1.5 per cent in 2012. Economic growth in Japan in 2012 was up from a year ago, mainly driven by the reconstruction work and recovery from the earthquake-related disasters of 2011. The Japanese

government took additional measures to stimulate private consumption. Exports faced strong headwinds from the slowdown in global demand and appreciation of the yen.

According to the WESP report, Japan's economy is expected to slow as a result of the phasing out of incentives to private consumption and a new measure that increases the tax on consumption, reduces pension benefits and cuts government spending.

Developing Asia

Economies in developing Asia have weakened considerably during 2012, the UN report states, as the region's growth engines, China and India, have shifted into lower gear. While a significant deceleration in exports has been a key factor behind the slowdown, both economies also face a number of structural challenges that hamper growth. Given persistent inflationary pressures and large fiscal deficits, the scope for policy stimulus in India and other South Asian countries is limited. China and many East Asian economies, in contrast, possess much greater space for countercyclical policy. In the outlook, average growth in East Asia is forecast to pick up mildly to 6.2 per cent in 2013, from the estimated 5.8 per cent in 2012. GDP growth in South Asia is expected to average 5.0 per cent in 2013, up from 4.4 per cent in 2012, led by a moderate recovery of India's economy.

Africa

Economies in Africa are forecast to see a slight moderation in output growth in 2013 to 4.8 per cent, down from 5.0 per cent in 2012, according to the WESP report. Major factors underpinning this continued growth trajectory include the strong performance of oil-exporting countries, continued fiscal spending on infrastructure projects, and expanding economic ties with Asian economies. However, Africa remains plagued by numerous challenges, including armed conflicts in various parts of the region. Growth of income per capita will continue, but at a pace considered insufficient to accelerate poverty reduction.

Western Asia

Contrasting trends are found in Western Asia, according to the UN report. Most oil-exporting countries have experienced robust growth supported by record-high oil revenues and government spending. Social unrest and political instability, notably in the Syrian Arab Republic, continue to elevate the risk assessment for the entire region. On average, GDP growth in the region is expected to decelerate to 3.3 per cent in 2012 and 2013, from 6.7 per cent in 2011.

Latin America and the Caribbean

The UN report indicates that GDP growth in Latin America and the Caribbean decelerated notably during 2012, led by weaker export demand and lower prices of non-food commodities in the region's exports. In the outlook, subject to the risks of a further downturn, the baseline projection is for a return to moderate economic growth rates, led by expected improvements in economic conditions in Brazil. For the region as whole, GDP growth is forecast to average 3.9 per cent in the baseline for 2013, compared with 3.2 per cent in 2012.

Russian Federation and the Commonwealth of Independent States

Economic growth in the Russian Federation and other countries of the Commonwealth of Independent States (CIS) was robust in 2012, although it moderated in the second half of the year. Firm commodity prices, especially the prices of oil and natural gas, held up growth among energy-exporting economies, including the Russian Federation and Kazakhstan. In the outlook, GDP for the CIS is expected to grow by 3.8 per cent in 2013, the same as in 2012.

Growth of world output, 2006-2014

Annual percentage change							Change from June 2012 forecast ^a	
	2006-2009 ^a	2010	2011 ^b	2012 ^c	2013 ^c	2014 ^c	2012	2013
World	1.1	4.0	2.7	2.2	2.4	3.2	-0.3	-0.7
Developed economies	-0.4	2.6	1.4	1.1	1.1	2.0	-0.1	-0.7
United States of America	-0.5	2.4	1.8	2.1	1.7	2.7	0.0	-0.6
Japan	-1.5	4.5	-0.7	1.5	0.6	0.8	-0.2	-1.5
European Union	-0.3	2.1	1.5	-0.3	0.6	1.7	-0.3	-0.6
EU-15	-0.5	2.1	1.4	-0.4	0.5	1.6	-0.3	-0.6
New EU members	2.1	2.3	3.1	1.2	2.0	2.9	-0.5	-0.8
Euro area	-0.4	2.1	1.5	-0.5	0.3	1.4	-0.2	-0.6
Other European countries	0.9	1.9	1.7	1.7	1.5	1.9	0.6	0.2
Other developed countries	1.2	2.8	2.4	2.3	2.0	3.0	0.0	-0.6
Economies in transition	2.2	4.4	4.5	3.5	3.6	4.2	-0.5	-0.6
South-Eastern Europe	1.6	0.4	1.1	-0.6	1.2	2.6	-1.2	-0.6
Commonwealth of Independent States and Georgia	2.2	4.8	4.8	3.8	3.8	4.4	-0.5	-0.6
Russian Federation	1.7	4.3	4.3	3.7	3.6	4.2	-0.7	-0.8
Developing economies	5.2	7.7	5.7	4.7	5.1	5.6	-0.6	-0.7
Africa	4.7	4.7	1.1	5.0	4.8	5.1	0.8	0.0
North Africa	4.2	4.1	-6.0	7.5	4.4	4.9	3.1	0.0
Sub-Saharan Africa	5.0	5.0	4.5	3.9	5.0	5.2	-0.2	0.0
Nigeria	6.6	7.8	7.4	6.4	6.8	7.2	0.1	0.0
South Africa	2.5	2.9	3.1	2.5	3.1	3.8	-0.3	-0.4
Others	6.3	5.5	4.4	3.9	5.5	5.3	-0.3	0.1
East and South Asia	7.1	9.0	6.8	5.5	6.0	6.3	-0.8	-0.8
East Asia	7.2	9.2	7.1	5.8	6.2	6.5	-0.7	-0.7
China	11.0	10.3	9.2	7.7	7.9	8.0	-0.6	-0.6
South Asia	6.4	8.3	5.8	4.4	5.0	5.7	-1.2	-1.1
India	7.3	9.6	6.9	5.5	6.1	6.5	-1.2	-1.1
Western Asia	2.3	6.7	6.7	3.3	3.3	4.1	-0.7	-1.1
Latin America and the Caribbean	2.5	6.0	4.3	3.1	3.9	4.4	-0.5	-0.3
South America	3.9	6.5	4.5	2.7	4.0	4.4	-0.9	-0.4
Brazil	3.6	7.5	2.7	1.3	4.0	4.4	-2.0	-0.5
Mexico and Central America	-0.1	5.4	4.0	4.0	3.9	4.6	0.6	0.0
Mexico	-0.6	5.5	3.9	3.9	3.8	4.6	0.5	-0.1
Caribbean	3.6	3.5	2.7	2.9	3.7	3.8	-0.4	-0.3
By level of development								
High-income countries	-0.2	2.9	1.6	1.2	1.3	2.2		
Upper middle income countries	5.3	7.4	5.8	5.1	5.4	5.8		
Lower middle income countries	5.8	7.4	5.6	4.4	5.5	6.0		
Low-income countries	5.9	6.6	6.0	5.7	5.9	5.9		
Least developed countries	7.2	5.8	3.7	3.7	5.7	5.5	-0.4	0.0
Memorandum items								
World trade ^e	-0.3	13.3	7.0	3.3	4.3	4.9	-0.8	-1.2
World output growth with PPP-based weights	2.3	5.0	3.7	3.0	3.3	4.0	-0.4	-0.7

Source: UN/DESA.

a Average percentage change.

b Actual or most recent estimates.

c Forecast, based in part on Project LINK and baseline projections of the UN/DESA World Economic Forecasting Model.

d See United Nations, *World Economic Situation and Prospects as of mid-2012 (E/2012/72)*.

e Includes goods and services.

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.

On the web: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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