

# Executive Summary

2011 was a challenging year for the global economic recovery. After a strong rebound in output and trade that took place in 2010, fueled by inventory restocking, government stimulus and easy monetary policy, growth was expected to be slower in 2011. However, numerous adverse shocks made the slowdown worse than it should have been and also clouded the economic prospects for the year 2012 in several regions.

The eurozone crisis was the chief agent of uncertainty in the global economy in 2011. Growing fiscal stress and increasing uncertainty over the future of the European Monetary Union caused output in the eurozone to contract in the fourth quarter. The focus of the crisis shifted from the relatively small Greek economy to the large global players—Spain and Italy. As markets called into question the sustainability of their fiscal path, sovereign yields have increased, and the perceived risks associated with holding their sovereign debt have increased as well. This raised the degree of risk in the financial system, led to tightened credit conditions, lowered confidence and raised the overall level of uncertainty in the global economy. As several eurozone countries slipped into recession at the end of 2011, contagion from Europe spread through strong financial and trading links between this region and the rest of the world.

Generally, recoveries following financial crises are weaker and last longer, and this one is no exception. As governments in most of the advanced world shifted stance

from stimulus to fiscal consolidation, private and business debtors were still deleveraging. As a consequence, private demand and business investment did not pick up sufficiently, resulting in slow growth. Many governments faced fiscal pressures that made it difficult to address the high unemployment rate prevailing in most developed countries.

The year 2011 also had its share of natural disasters and unforeseen events. The Great East Japan earthquake cut short the recovery in that country, disrupted supply chains across the globe and severely impacted the global economy in the second quarter of the year. Floods in Thailand in the fourth quarter had a similar effect, dampening growth across Southeast Asia. Civil disorder in North Africa and outright civil war in Libya led to curtailment of many economic activities in that region and raised uncertainty about oil prices. Fears of the recession in the United States did not materialize, and the country did better than expected at the end of the year, but the political gridlock that called its credit rating into question has persisted, making effective economic governance difficult.

For the year as a whole, world real GDP grew by 3.9 percent in 2011, down from the 5.3-percent pace of 2010. The pace of growth in the advanced economies slowed down to 1.6 percent in 2011 from 3.2 percent in 2010. By contrast, growth in the developing world continued to be high, posting a 6.2-percent increase in 2011, following the 7.5-percent growth in 2010.