

Global Economic Performance¹

Overview and Global Prospects

The global recovery, which gained a foothold toward the middle of 2009, picked up speed at the start of 2010 before decelerating during the second half of last year. This slowdown reflects a normal inventory cycle. As businesses moved to replenish depleted inventories early in the year, economic activity expanded more rapidly.

However, the pace of activity remains geographically uneven, with employment lagging in several countries. Economies that are running behind the global recovery typically suffered large financial shocks during the crisis, often related to housing booms and high external indebtedness, or they are facing financial market pressures. Broadly speaking, the recovery is moving at two speeds, with large output gaps in most advanced economies and closing or closed gaps in emerging and developing economies.

In major advanced economies, economic growth has been modest, especially considering the depth of the recession, reaching just 3.0 percent in 2010 (Table 1-1). In the United States and the euro zone, the economy is following as weak a path as that following the recessions of the early 1990s, despite a much deeper fall. Meanwhile, those advanced economies in Asia have experienced a strong rebound. Overall, growth is insufficiently strong to make a major dent in high unemployment rates, particularly in the advanced Western economies.

In contrast, many emerging and developing economies have seen robust growth, reaching 7.3 percent in 2010, and have low unemployment rates. In a growing number of these economies, there is evidence of tightening capacity constraints. Among emerging and developing economies, those in Asia are in the lead, followed by those in Latin America and the Caribbean, whereas those in eastern Europe are only just beginning to enjoy significant growth.

In most advanced economies, the handoff from public to private demand is proceeding smoothly, reducing concerns that diminishing fiscal policy support might cause a “double-dip” recession. Financial conditions continue to improve, although they remain somewhat fragile. In many emerging market economies, demand is robust and overheating is a growing policy concern. Rising food and commodity prices pose a threat to poor households, adding to social and economic tensions, notably in the Middle East and North Africa.

World real GDP growth is forecast to be about 4.5 percent in 2011 and 2012, down modestly from 5.0 percent in 2010. Real GDP in advanced economies and emerging and developing economies is expected to expand by some 2.4 percent and 6.5 percent, respectively. Downside risks continue to outweigh upside risks. In advanced economies, weak sovereign balance sheets and still-moribund real estate markets continue to present major concerns, especially in certain euro zone

¹ Statistics, estimations, and projections in this chapter come from the International Monetary Fund's *World Economic Outlook*, April 2011, supplemented by statistics from the U.S. Bureau of Economic Analysis, the Japan Cabinet Office, the European Central Bank, the U.K. Office for National Statistics, and the World Economic Outlook April 2011 database.