Executive Summary

2009 was a landmark year. The global economy suffered the worst downturn since the Great Depression of the 1930s, enduring dramatic shifts in global economic and financial markets in an extraordinarily challenging environment. The banking system teetered on the abyss, tested by weak credit markets, a collapse in equity markets, and heightened requirements for liquidity and capital. From August 2008 through mid-2009 output contracted and global trade plunged. Policy intervention on an unprecedented scale was essential to jump-start the recovery. Monetary policy has been highly expansionary and supported by unconventional liquidity provision, while fiscal policy provided a major stimulus in response to the deep downturn. The downturn bottomed out toward mid-2009, and a turnaround has been underway since that time.

Real output contracted by 0.6 percent in 2009—the first and only contraction in global GDP for at least thirty years. The recession was most severe within the advanced economies, which collectively contracted by 3.2 percent last year. Japan and the advanced EU nations were hardest hit, while North America (the United States and Canada) fared somewhat better, and all other advanced nations performed the best. The emerging and developing economies broadly experienced a slowdown in economic activity in 2009, but avoided outright contraction. Together, these economies registered growth of 2.4 percent last year, compared to 6.1 percent a year earlier.

As economies emerge from the global recession, activity remains dependent on highly accommodative macroeconomic policies. Overall, the world looks poised for further recovery at varying speeds. Global growth is projected at 4.2 percent in 2010 and 4.3 percent in 2011. The advanced economies are expected to expand by 2.3 percent in 2010 and growth is expected to edge up to 2.4 percent in 2011. For the emerging and developing economies, growth is expected to reach 6.3 percent in 2010 and 6.5 percent in 2011.

For the United States, substantial monetary and fiscal easing, alongside other policies aimed directly at the financial and housing sectors, helped to stimulate economic activity. After four quarters of contraction, GDP growth turned positive in the third quarter, rising by 2.2 percent (seasonally adjusted annual rate) and accelerated to 5.6 percent in the fourth quarter of 2009, reflecting a pick up in investment and a slowdown in inventory destocking. Nonetheless, for the year as a whole, real U.S. GDP growth was down by 2.4 percent in 2009. Growth in the euro area resumed in the third quarter, but was anaemic in the final quarter of last year: overall growth for the year declined 4.1 percent. The United Kingdom was even harder hit, down 4.9 percent, as growth only resumed in the fourth quarter. For Japan, real GDP contracted for the second consecutive year, falling 5.2 percent last year; however, as the year progressed, Japan's economy picked up mainly due to improvement in overseas economic conditions and to various policy measures.