

its economy. Recovery in the United Kingdom has been slower than during any of the previous recessions—slower even than during the Great Depression. The 0.8-percent growth expected for the United Kingdom in 2012 is close to 2011 levels, but growth is scheduled to pick up to 2.0 percent in 2013.

Emerging Economies

Emerging Asia

In 2011, emerging Asia again recorded the fastest real GDP growth of all the regions, at 7.8 percent. This was a deceleration from 9.7 percent in 2010, partly reflecting the process of deliberate cooling of the economy in China and partly the outcome of the disruptions in the regional supply chains occasioned by the natural disasters in Japan in the first quarter and floods in Thailand in the fourth quarter. Weaker external demand also played a role in the slowdown, which progressed gradually throughout the year. Growth was led by China at 9.2 percent (slowing down from 10.4 percent in 2010) and India at 7.2 percent (down from 10.6 percent in 2010). Real GDP among the ASEAN-5³ grew 4.5 percent last year, with Indonesia in the lead at 6.5 percent. Real GDP growth in Thailand lost an estimated 2 percentage points following the floods in 2011, resulting in marginal 0.1-percent growth for the year.

Spillovers from the eurozone crisis affected this region, which has forged strong trading links with Europe, dampening the demand for Asian exports. Internal factors were in operation in India, where investment weakened and borrowing costs increased as the monetary policy tightened to combat inflation. However, strong performances in corporate profits and household income

in China helped stabilize consumption and investment there, supporting the “soft landing” scenario. The financial repercussions of the European crisis were limited and contained; Asian banks in general ended the year in excellent health and with sufficient extra lending capacity.

The region recovered more strongly than expected from the effects of the earthquake and tsunami that hit Japan in early 2011, showing resilient domestic demand, robust well-managed institutions and room for policy easing. Assuming these factors persist, projections are for an orderly slowdown in China despite weakening external demand. Growth is expected to moderate to 8.2 percent in 2012, and then pick up to 8.8 percent in 2013. Somewhat more uncertainty is associated with India, where the higher interest rates are expected to cool off the economy to 6.9-percent growth in 2012 before growth speeds up again to 7.3 percent in 2013. Similarly, growth in all four Asian NIEs is expected to slow down in 2012 (Hong Kong’s most of all to 2.6 percent) before resuming on a faster growth path in 2013. ASEAN-5 countries should be an exception, however, as expected robust recovery in Thailand and the Philippines, combined with strong domestic demand in Indonesia, are forecast to speed up economic growth among the ASEAN-5 to 5.4 percent in 2012 and then to 6.2 percent in 2013. Other developing Asian countries combined are expected to post 5.0-percent growth in both 2012 and 2013.

Downside risks for emerging Asia are significant. First and foremost, the escalation of the eurozone crisis could potentially shave over a percentage point off emerging Asia’s growth forecast; contagion of the banking systems with increased financial risk and

3 The IMF defines the top 5 members of the Association of Southeast Asian Nations (ASEAN) as ASEAN-5, which comprises Indonesia, Malaysia, Philippines, Thailand and Vietnam.