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Institute on Comparative Regional Integration Studies



Future Trends Series - GR:REEN Project

Title of the report

World Economic Outlook April 2013 – Hopes, Realities, Risks

Area

Economy

Reporter

International Monetary Fund (IMF)

Type of the Reporter

International Organisation

Periodically updated?

Yes

First issued year

1984

Latest update

2013

Official website

www.imf.org

Language available

Arabic, Chinese, English and Spanish

Short summary

The report addresses advanced economies, emerging market and developing economies. As outlined by the World Economic Outlook April 2013, global economic prospects have improved again: world output growth is forecast to reach 3.25 per cent in 2013 and 4 per cent in 2014.

The road to recovery in the advanced countries will better: activity is expected to gradually accelerate, starting in the second half of 2013. Over the past six months, advanced economy policymakers have successfully defused two of the biggest short-term threats to the global recovery, the threat of a euro area breakup and a sharp fiscal contraction in the United States caused by a plunge off the "fiscal cliff". In response, financial markets have rallied on a broad front. However, the prospects will remain bumpy and divergent: private demand appears increasingly robust in the United States, but still very sluggish in the euro area.

In emerging market and developing economies, activity has already picked up steam. There was a noticeable slowdown in the emerging market and developing economies during 2012, a reflection of the sharp deceleration in demand from key advanced economies, domestic policy tightening, and the end of investment booms in some of the major emerging market economies. But with consumer demand resilient, macroeconomic policy on hold, and exports reviving, most economies in Asia and sub-Saharan Africa and many economies in Latin America and the Commonwealth of Independent States are now seeing higher growth.

The recovery should again gain speed in emerging Europe as demand from advanced Europe slowly picks up. However, economies in the Middle East and North Africa continue to struggle with difficult internal transitions. And a couple of economies in South America are facing high inflation and increasing exchange market pressure.

The report not only constitutes a complete overlook on the world's economic realities, but it also addresses the hopes and risks that all countries are facing. For this reason, it forecasts the gravest short-term and medium-term risks and it offers several suggestions to policymakers in order to handle them.

Key trends

- What was until now a two-speed recovery, strong in emerging markets and developing economies, is becoming a three-speed recovery. Emerging market economies are still growing strong, but in advanced economies there appears to be a growing bifurcation between the United States on one hand and the euro area on the other.
- Growth in emerging market economies is forecast to reach 5.3 per cent in 2013 and 5.7 per cent in 2014. Growth in the United States is forecast to be 1.9 per cent in 2013 and 3.0 per cent in 2014. In contrast, growth in the Euro area is forecast to be -0.3 percent in 2013 and 1.1 per cent in 2014.
- Risks for the future. In the euro area, the main short-term dangers now revolve around adjustment fatigue, weak balance sheets, broken credit channels in the periphery, and insufficient progress toward a stronger economic and monetary union at the euro area level. In the United States and Japan, risks relate mainly to medium-term fiscal policy (absence of strong fiscal consolidation plans; high private sector debt; limited policy space; insufficient institutional progress in the euro area which could lead to a protracted period of low growth; distortions from easy and unconventional monetary policy in many advanced economies; overinvestment and high asset prices in many emerging market and developing economies).

Suggestions

- In the United States, the focus should be on defining the right path of consolidation: while the sequester has decreased worries about debt sustainability, it is the wrong way to proceed. There should be both less and better fiscal consolidation now and a commitment to more fiscal consolidation in the future.
- In the Euro area, the interest rates facing borrowers in periphery countries are still too high to secure the recovery, and there is a need for further and urgent measures to strengthen banks without weakening the sovereigns. The weakness of private demand also suggests that countries that have scope to do so should allow automatic stabilizers to operate, and some countries with fiscal space should go even beyond this.
- Emerging market economies should learn how to handle with capital flows: this is a desirable process and part of the global rebalancing that must take place if the world economy is to get back to health. At the same time, capital flows can be volatile, making macroeconomic management more difficult; so recipient countries should accommodate the underlying trends while reducing the volatility of the flows when they threaten macro or financial stability.
- In general, policymakers cannot afford to relax their efforts, even if some tail risks have decreased: recent good news about the United States has come with renewed worries about the Euro area. They should understand that, given the strong interconnections between countries, an uneven recovery would be also a dangerous one.

Methodology

Research from primary sources, research from secondary sources and modelling

Reference to other trends reports? If yes, which reports?

- Spence, A. Michael, 2011, "The Next Convergence: The Future of Economic Growth in a Multispeed World" (New York: Farrar, Straus and Giroux).