

Reiterating weak economic prospects for the world economy this year, both the OECD and UNCTAD have raised concerns in their respective economic assessments.

**The focal point is that economic recovery in major industrialized economies has practically come to a halt.** Falling household and business confidence has resulted in weak private domestic demand and reduction in world trade.

**The switch between economy-boosting supportive macro-economic policies and fiscal austerity is the new challenge that developed countries have to tackle.**

The major concerns and growth projections provided by the two international bodies ring a warning bell towards an impending downturn in developed economies.

#### **Highlights of the Interim Assessment Report, OECD:**

##### *Issues –*

- Possible underestimation of the extent of bank leveraging due to regulatory changes
- Softening of hiring intentions could entrench high unemployment
- Investment levels remain well below historical averages in OECD countries
- Persistently high inflation in emerging market economies (EMEs)

##### *Projections –*

- Economic growth in G7 countries, excluding Japan to remain below annualized rate of 1% in second half of 2011
- US economy to grow only by 1.4% this year, down from the May projection of 2.6%
- Combined economic growth of Germany, France and Italy to be less than 1%, down from the May forecast of 2%

#### **Highlights of the Trade and Development Report 2011, UNCTAD:**

##### *Issues –*

- Fading of initial impulses from inventory cycle and fiscal stimulus programmes in developed countries
- Stagnating low wages, high unemployment
- Resurfacing of debt market stress
- Supply chain and energy disruptions in Japan

## Comments on Global Economic Growth

### OECD & UNCTAD

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- Developing economies could face financial instability, speculative flows generated in developed countries and external trade shocks

*Stall in economic recovery of developed countries - subdued growth*

**Projections –**

- World economy slowing from 4% in 2010 to about 3% in 2011
- Developed economies to grow between 1.5-2.0% in 2011
- Transition economies to grow at around 4%
- Developing economies to expand by more than 6% in 2011

*Developing countries to support world economic growth*

**Suggested Policy Response**

The OECD recommends that central banks of developed economies continue to keep policy rates at the present low levels, with timely intervention in securities markets. EMEs on the other hand, must gradually withdraw from monetary tightening.

1. **Fiscal reform measures** – credible curtailment of debt accompanied with medium-term fiscal consolidation plans
2. **Growth Friendly structural reforms** – with an aim to restore confidence in economic recovery
3. **Prudential step** – the process of capitalization of banks must be accelerated to support short-term funding needs and strengthen the overall banking system

*Balancing growth propelling monetary policies with fiscal consolidation*

**Way Forward**

A first few steps in line with these reforms have apparently begun with President Obama announcing a \$447 billion jobs plan that ensures tax cuts and boost in spending on infrastructure. This may hopefully prove to be a greater success when compared with the two rounds of Quantitative Easing (aggregating \$2.3 trillion) and near-zero interest rates. Secondly the ECB has also signaled that its short rate hike plan in April and May has come to an end and low rates would help release in liquidity in the dragging Euro-zone economies.

*Two major economies – US and Euro zone to take initiatives – may shape policy responses across the globe*

**Response functions of the government (fiscal side) and the central banks (monetary side) have to sharp and targeted by incorporating economic developments on a real-time basis.**

**The course of action could begin with propping up domestic demand and investment, naturally transiting to stronger global trade and financial flows.**

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