Global economy at great risk of falling into renewed recession: UN report

UNITED NATIONS, Dec. 18 (Xinhua) -- Growth of the world economy has weakened considerably during this outgoing year and is expected to remain subdued in the coming two years, a UN report said here Tuesday.

The global economy is expected to grow at 2.4 percent in 2013 and 3.2 percent in 2014, a significant downgrade from the UN' s forecast of half a year ago, said the report, "The World Economic Situation and Prospects 2013 (WESP)", which was released here Tuesday by the UN Department of Economic and Social Affairs.

"Four years after the eruption of the global financial crisis, the world economy is still struggling to recover," the report said. "During 2012, global economic growth has weakened further. A growling number of developed economies have fallen into a double-dip recession."

Rob Vos, the UN's leader for the report, listed at the launching of the report "a worsening of the euro area crisis, the 'fiscal cliff' in the United States" as the risks which he said " could cause global output losses of between 1 and 3 percent."

GLOBAL GROWTH

This pace of growth will be far from sufficient to overcome the continued jobs crisis that many countries are still facing, the report said, adding that with existing policies and growth trends, it may take at least another five years for Europe and the United States to make up for the job losses caused by the Great Recession of 2008-2009.

Weakness in the major developed economies are at the root of the global economies slowdown. The WESP report stresses that most of them, but particularly those in Europe, are trapped in a vicious cycle of high unemployment, financial sector fragility, heightened sovereign risks, fiscal austerity and low growth.

Several European economies and the euro zone as a whole are already in recession, and euro zone unemployment increased further to a record high of almost 12 percent this year, said the report.

Also, the U.S. economy slowed significantly during 2012 and growth is expected to remain meager at 1.7 percent in 2013. Deflationary conditions continue to prevail in Japan.

The economic woes in Europe, Japan and the United States are spilling over to developing countries through weaker demand for their exports and heightened volatility in capital flows and commodity prices.

The larger developing economies also face home-grown problems, however, with some, including China, facing much weakened investment demand because of financing constraints in some sectors of the economy and excess production capacity elsewhere, the report said.

Most low-income countries have held up relatively well so far, but are now also facing intensified adverse spillover effects from the slowdown in both developed and major middle-income countries, said the report.

The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside, Rob Vos, the UN's team leader for the report, said, "A worsening of the euro area crisis, the 'fiscal cliff' in the United States and a hard landing in China could cause a new global recession. Each of these risks could cause global output losses of between 1 and 3 percent."

"Economies in Africa are forecast to see a slight moderation in output growth in 2012 to 4.8 percent, down from 5.0 percent in 2012," according to the WESP report. "Major factors underpinning this continued growth trajectory include the strong performance of oil-exporting countries, continued fiscal spending on infrastructure projects, and expanding economic ties with Asian economies."

"However, Africa remains plagued by numerous challenges, including armed conflicts in various parts of the region," the report said. "Growth of income per capita will continue, but at a pace considered insufficient to accelerate poverty reduction."

Meanwhile, the UN report indicates that GDP growth in Latin America and the Caribbean decelerated notably during 2012, led by weaker export demand and lower prices of non-food commodities in the region's exports.

In the outlook, subject to the risks of a further downturn, the baseline projection is for a return to moderate economic growth rates, led by expected improvements in economic conditions in Brazil, the report said. "For the region as a whole, GDP growth is forecast to average 3.9 percent in the baseline for 2013, compared with 3.1 percent in 2012."

POLICY CHANGES NEEDED

The UN report asserted that present policy stances fall short of what is needed to spur economic recovery and address the jobs crisis.

While policy efforts have been significant, especially in the euro zone, in trying to redress sovereign debt distress, the combination of fiscal austerity and expansionary monetary policies has had mixed success so far in calming financial markets and even less so in strengthening economic growth and job creation, said the report.

It is essential to change course in fiscal policy, and shift the focus from short-term consolidation to robust economic growth with medium to long-term fiscal sustainability, said the report, adding that premature fiscal austerity should be avoided and, while necessary, fiscal consolidation should focus on medium-term, rather than short-term adjustment.

Meanwhile, the report stressed that the reorientation of fiscal policies should be internationally coordinated and aligned with structural policies that support direct job creation and green growth. It further recommended that monetary policies be better coordinated internationally and regulatory reforms of financial sectors be accelerated in order to stem exchange rate and capital flow volatility, which pose risks to the economic prospects of developing countries.

There is also a need to secure sufficient development assistance to help the poorest nations accelerate progress towards poverty reduction goals and invest in sustainable development, the report said.

Observing the development aid is declining, the UN report noted that fiscal austerity in donor countries is not only detrimental to their own economic recovery, but certainly should not come at the expense of the development efforts of the poorest nations.