

FOR RELEASE:

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## Gradual Upturn in Global Growth During 2013

*Global growth is projected to increase during 2013, as the factors underlying soft global activity are expected to subside. However, this upturn is projected to be more gradual than in the October 2012 World Economic Outlook (WEO) projections. Policy actions have lowered acute crisis risks in the euro area and the United States. But in the euro area, the return to recovery after a protracted contraction is delayed. While Japan has slid into recession, stimulus is expected to boost growth in the near term. At the same time, policies have supported a modest growth pickup in some emerging market economies, although others continue to struggle with weak external demand and domestic bottlenecks. If crisis risks do not materialize and financial conditions continue to improve, global growth could be stronger than projected. However, downside risks remain significant, including renewed setbacks in the euro area and risks of excessive near-term fiscal consolidation in the United States. Policy action must urgently address these risks.*

Economic conditions improved modestly in the third quarter of 2012 (Figure 1), with global growth increasing to about 3 percent. The main sources of acceleration were emerging market economies, where activity picked up broadly as expected, and the United States, where growth surprised on the upside. Financial conditions stabilized. Bond spreads in the euro area periphery declined, while prices for many risky assets, notably equities, rose globally. Capital flows to emerging markets remained strong.

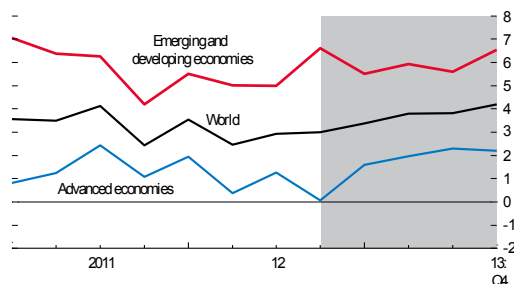
Global financial conditions improved further in the fourth quarter of 2012. However, a broad set of indicators for global industrial production and trade suggests that global growth did not strengthen further. Indeed, the third-quarter uptick in global growth was partly due to temporary factors, including increased inventory accumulation (mainly in the United States). It also masked old and new areas of weakness. Activity in the euro area periphery was even softer than expected, with some signs of stronger spillovers of that weakness to the euro area core. In Japan, output contracted further in the third quarter.

Turning to the updated outlook, growth in the **United States** is forecast to average 2 percent in 2013, rising above trend in the second half of the year (Table 1). These forecasts are broadly unchanged from the October 2012 WEO, as underlying economic conditions remain on track. In particular, a

supportive financial market environment and the turnaround in the housing market have helped to improve household balance sheets and should underpin firmer consumption growth in 2013. The projections, however, are predicated on the assumptions in the October 2012 WEO that the spending sequester will be replaced by back-loaded measures and the pace of fiscal withdrawal (at the general government level) in 2013 will remain at 1¼ percent of GDP.

The near-term outlook for the **euro area** has been revised downward, even though progress in national adjustment and a strengthened EU-wide policy response to the euro area crisis reduced tail risks and improved financial conditions for sovereigns in the periphery. Activity is now expected to contract by 0.2 percent in 2013 instead of expanding by 0.2 percent. This reflects delays in the transmission of lower sovereign spreads and improved bank liquidity to private sector borrowing conditions, and

Figure 1. Global GDP Growth  
(Percent; quarter over quarter, annualized)



Source: IMF staff estimates.



Table 1. Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
	2011	2012	Projections		Difference from October 2012 WEO		Estimates	Projections	
			2013	2014	2013	2014		2012	2013
<b>World Output 1/</b>	<b>3.9</b>	<b>3.2</b>	<b>3.5</b>	<b>4.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>2.9</b>	<b>3.8</b>	<b>4.0</b>
<b>Advanced Economies</b>	<b>1.6</b>	<b>1.3</b>	<b>1.4</b>	<b>2.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.9</b>	<b>2.0</b>	<b>2.1</b>
United States	1.8	2.3	2.0	3.0	-0.1	0.1	1.9	2.4	3.2
Euro Area	1.4	-0.4	-0.2	1.0	-0.3	-0.1	-0.7	0.5	1.0
Germany	3.1	0.9	0.6	1.4	-0.3	0.1	0.6	1.3	1.1
France	1.7	0.2	0.3	0.9	-0.1	-0.2	0.3	0.3	1.2
Italy	0.4	-2.1	-1.0	0.5	-0.3	0.0	-2.4	0.1	0.4
Spain	0.4	-1.4	-1.5	0.8	-0.1	-0.2	-1.9	-0.3	0.8
Japan	-0.6	2.0	1.2	0.7	0.0	-0.4	0.2	2.6	-0.1
United Kingdom	0.9	-0.2	1.0	1.9	-0.1	-0.3	0.0	1.4	2.0
Canada	2.6	2.0	1.8	2.3	-0.2	-0.1	1.3	2.2	2.3
Other Advanced Economies 2/	3.3	1.9	2.7	3.3	-0.3	-0.1	2.0	3.5	3.2
Newly Industrialized Asian Economies	4.0	1.8	3.2	3.9	-0.4	-0.2	2.4	3.9	3.8
<b>Emerging Market and Developing Economies 3/</b>	<b>6.3</b>	<b>5.1</b>	<b>5.5</b>	<b>5.9</b>	<b>-0.1</b>	<b>0.0</b>	<b>5.5</b>	<b>5.9</b>	<b>6.2</b>
Central and Eastern Europe	5.3	1.8	2.4	3.1	-0.1	0.0	1.6	3.2	3.1
Commonwealth of Independent States	4.9	3.6	3.8	4.1	-0.3	-0.1	2.4	4.3	3.4
Russia	4.3	3.6	3.7	3.8	-0.2	-0.1	2.4	4.4	3.4
Excluding Russia	6.2	3.9	4.3	4.7	-0.5	-0.1	...	...	...
Developing Asia	8.0	6.6	7.1	7.5	-0.1	0.0	7.3	7.1	7.8
China	9.3	7.8	8.2	8.5	0.0	0.0	8.1	7.9	8.8
India	7.9	4.5	5.9	6.4	-0.1	0.0	5.4	6.0	6.4
ASEAN-5 4/	4.5	5.7	5.5	5.7	-0.2	0.0	7.7	5.8	5.5
Latin America and the Caribbean	4.5	3.0	3.6	3.9	-0.3	-0.1	3.1	4.2	3.6
Brazil	2.7	1.0	3.5	4.0	-0.4	-0.2	2.1	4.0	4.1
Mexico	3.9	3.8	3.5	3.5	0.0	0.0	2.8	4.9	2.5
Middle East and North Africa	3.5	5.2	3.4	3.8	-0.2	0.0	...	...	...
Sub-Saharan Africa 5/	5.3	4.8	5.8	5.7	0.0	0.1	...	...	...
South Africa	3.5	2.3	2.8	4.1	-0.2	0.3	1.5	4.2	4.1
<i>Memorandum</i>									
European Union	1.6	-0.2	0.2	1.4	-0.3	-0.2	-0.3	1.0	1.2
World Growth Based on Market Exchange Rates	2.9	2.5	2.7	3.4	-0.2	-0.1	2.1	3.1	3.3
<b>World Trade Volume (goods and services)</b>	<b>5.9</b>	<b>2.8</b>	<b>3.8</b>	<b>5.5</b>	<b>-0.7</b>	<b>-0.3</b>	...	...	...
Imports									
Advanced Economies	4.6	1.2	2.2	4.1	-1.1	-0.4	...	...	...
Emerging Market and Developing Economies	8.4	6.1	6.5	7.8	-0.1	-0.1	...	...	...
Exports									
Advanced Economies	5.6	2.1	2.8	4.5	-0.8	-0.4	...	...	...
Emerging Market and Developing Economies	6.6	3.6	5.5	6.9	-0.2	-0.2	...	...	...
<b>Commodity Prices (U.S. dollars)</b>									
Oil 6/	31.6	1.0	-5.1	-2.9	-4.1	1.3	-1.0	-3.3	-3.3
Nonfuel (average based on world commodity export weights)	17.8	-9.8	-3.0	-3.0	-0.1	1.9	1.2	-4.2	-2.6
<b>Consumer Prices</b>									
Advanced Economies	2.7	2.0	1.6	1.8	0.0	0.0	1.8	1.6	1.8
Emerging Market and Developing Economies 3/	7.2	6.1	6.1	5.5	0.3	0.2	5.1	5.1	4.6
<b>London Interbank Offered Rate (percent) 7/</b>									
On U.S. Dollar Deposits	0.5	0.7	0.5	0.6	-0.1	-0.1	...	...	...
On Euro Deposits	1.4	0.6	0.1	0.3	-0.1	-0.2	...	...	...
On Japanese Yen Deposits	0.3	0.3	0.2	0.2	-0.1	-0.1	...	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 12–December 10, 2012. When economies are not listed alphabetically, they are ordered on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

1/ The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

2/ Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and Euro Area countries.

3/ The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing economies.

4/ Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

5/ Regional and global aggregates include South Sudan.

6/ Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$105.08 in 2012 ; the assumed price based on futures markets is \$99.71 in 2013 and \$96.78 in 2014.

7/ Six-month rate for the United States and Japan. Three-month rate for the euro area.

still-high uncertainty about the ultimate resolution of the crisis despite recent progress. During 2013, however, these brakes start easing, provided that the planned policy reforms to address the crisis continue to be implemented.

The near-term growth outlook for **Japan** has not been downgraded despite renewed recession. Activity is expected to expand by 1.2 percent in 2013, broadly unchanged from October. The recession is expected to be short-lived because the effects of temporary factors, such as the car subsidy and disruptions to trade with China, will subside. And a sizeable fiscal stimulus package and further monetary easing will give growth at least a near-term boost, with support from a pickup in external demand and a weaker yen.

Growth in **emerging market and developing economies** is on track to build to 5.5 percent in 2013. Nevertheless, growth is not projected to rebound to the high rates recorded in 2010–11. Supportive policies have underpinned much of the recent acceleration in activity in many economies. But weakness in advanced economies will weigh on external demand, as well as on the terms of trade of commodity exporters, given the assumption of lower commodity prices in 2013 in this *Update*. Moreover, the space for further policy easing has diminished, while supply bottlenecks and policy uncertainty have hampered growth in some economies (for example, Brazil, India). Activity in Sub-Saharan Africa is expected to remain robust, with a rebound from flood-related output disruptions in Nigeria contributing to an acceleration in overall growth in the region in 2013.

Against this backdrop, the projections in this *WEO Update* imply that **global growth** will strengthen gradually through 2013, averaging 3.5 percent on an annual basis, a moderate uptick from 3.2 percent in 2012, but 0.1 percentage point lower than projected in the October 2012 WEO. A further strengthening to 4.1 percent is projected for 2014, assuming recovery takes a firm hold in the euro area economy.

### **Policy Action Is Needed to Secure the Fragile Global Recovery**

The policy requirements outlined in the October 2012 WEO remain relevant. Most advanced economies face two challenges. First, they need steady and sustained fiscal consolidation. Second,

financial sector reform must continue to decrease risks in the financial system. Addressing these challenges will support recovery and reduce downside risks.

The **euro area** continues to pose a large downside risk to the global outlook. In particular, risks of prolonged stagnation in the euro area as a whole will rise if the momentum for reform is not maintained. Adjustment efforts in the periphery countries need to be sustained and must be supported by the center, including through full deployment of European firewalls, utilization of the flexibility offered by the Fiscal Compact, and further steps toward full banking union and greater fiscal integration.

In the **United States**, the priority is to avoid excessive fiscal consolidation in the short term, promptly raise the debt ceiling, and agree on a credible medium-term fiscal consolidation plan, focused on entitlement and tax reform.

In **Japan**, the priority is to underpin the renewed emphasis on raising growth and inflation with more ambitious monetary policy easing, adopt a credible medium-term fiscal consolidation plan anchored by the consumption tax increases in 2014–15, and raise potential growth through structural reforms. Absent a strong medium-term fiscal strategy, the stimulus package carries important risks. Specifically, the stimulus-induced recovery could prove short lived, and the debt outlook significantly worse.

In **China**, ensuring sustained rapid growth requires continued progress with market-oriented structural reforms and rebalancing of the economy more toward private consumption. In other **emerging market and developing economies**, requirements differ. The general challenge is to rebuild macroeconomic policy space. The appropriate pace of rebuilding must balance external downside risks against risks of rising domestic imbalances. In some economies with large external surpluses and low public debt, this entails a lower, more sustainable pace of credit growth and fiscal measures to support domestic demand. In others, fiscal deficits need to be rolled back further, while monetary tightening proceeds gradually. Macroprudential measures can help stem emerging financial excesses. In the **Middle East and North Africa region**, many countries will need to maintain macroeconomic stability under difficult internal and external conditions.