

The Global Economy in 2013: “Fragile and Timid Recovery”

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- The International Monetary Fund forecasts 3.5% GDP growth for the global economy in 2013
 - The economic climate is much better this year than last year, but the recovery is “fragile and timid”
 - A new economic policy in Japan and strength in China and Africa provide glimmers of hope
 - The theme of the 43rd World Economic Forum Annual Meeting is *Resilient Dynamism*.
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Davos-Klosters, Switzerland, 26 January 2013 – The global economy faces fewer headwinds in 2013 compared with last year and will likely grow a modest 3.5%, participants at the 43rd World Economic Annual Meeting were told in Davos, Switzerland. But Christine Lagarde, Managing Director, International Monetary Fund (IMF), described the recovery as “fragile and timid” because the Eurozone is prone to political crisis and slow decision-making processes.

“Some good policy decisions have been made in the various corners of the world, including by central banks,” said Lagarde. “In 2013, they have to keep the momentum.” She called on Europe to operationalize the new tools policy-makers have recently devised, including Europe’s banking union. Lagarde also credited the United States with making significant progress on fiscal consolidation, an achievement that she said tended to be overlooked.

Mark J. Carney, Governor of the Bank of Canada, echoed Lagarde’s caution. “There are still tail risks out there,” he warned, refuting some claims made in Davos that these risks have been reduced or totally eliminated. While central bank action is crucial, said Carney, this needs to be reinforced at the national level on the fiscal and structural sides, “and neither of those agendas are anywhere being finished.”

Still, there is a glimmer of hope in Japan, where the new government of Prime Minister Shinzo Abe has just unveiled a new economic policy that has been quickly dubbed “Abe-nomics”. Akira Amari, Minister for Economic Revitalization and Minister for Economic and Fiscal Policy of Japan, described the new tack as “a clear commitment to pro-growth policies”, designed to reverse Japan’s prolonged deflation and accelerate GDP growth.

China provides another bright spot. “After seven quarters of slowing growth, the economy headed up in the last quarter,” said Yi Gang, Deputy Governor, People’s Bank of China. The economy will grow about 8% in 2013, he added. Domestic consumption is becoming a more important driver of growth as evidenced by the steady shrinking in the current account surplus, a trend encouraged by China’s macroeconomic policies.

Africa is the third bright spot. “The IMF has revised its outlook for the continent upwards to 5.7%,” noted Trevor Manuel, Minister of the National Planning Commission (NPC) of South Africa.

The outlook for emerging markets and low-income countries is much higher, at 5.5%, than for the developed nations, at 1.5%. But any notion of a decoupling is misguided. “We now live in a

globalized world,” said Yi. What happens in Europe and the United States will affect China, Asia, Africa and other economies.

Notes to Editors

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