



# Strategic Analysis

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## IS THE RECOVERY SUSTAINABLE?

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Fiscal austerity is now a worldwide phenomenon. The United States and many other countries are essentially importing fiscal austerity from troubled economies in Europe and elsewhere. This is one way of looking at the predicament posed by the current world growth slowdown, which has developed during America's weak recovery from the 2007–09 recession. Following the financial collapse of perhaps four countries in Western Europe, US companies will not find much demand for their products abroad, since few of the affected countries will be able to implement appropriate stimulus measures within a year. Rather, countries such as Greece, Portugal, and Ireland are being forced to implement austerity measures as a condition for receiving international loans and bailouts, and some staggering giants such as the United Kingdom, Spain, and Italy are making deep budget cuts of their own.

Unfortunately, even before the collapse of the Greek and Italian governments, and the debacle in the relatively large Italian bond market, forecasters were predicting weak economic growth in most of the world in the coming months and years. Figure 1 corresponds to International Monetary Fund (IMF) growth-rate forecasts for this year and next for some of the largest nations, certain economic blocs, and the world. The 2011 forecast for the eurozone is less than 2 percent—among the worst of the forecasts depicted in the figure—and the IMF expects the region to experience even slower growth of 1.1 percent next year (the European Union's own forecast for its member countries is a grimmer 0.6 percent [Dalton 2011]). Overall, the advanced economies will grow at a 1.9 percent annual rate next year, according to the IMF numbers.

Although the IMF expects a modest uptick in growth rates for many countries in 2012, the important point is that many of the largest countries are already in an abysmal slump, even as the euro debt crisis intensifies and spreads. Moreover, as seen in the figure, even the economies of the developing world, which grew the most quickly last year, are expected to slow down at least modestly in 2012. Finally, some more recent forecasts are even less optimistic. In new figures released