The global economy in 2011

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We are cautiously optimistic on the global economic outlook in 2011 and beyond. We expect sustained above-trend expansion and forecast global Gross Domestic Produce (GDP) growth of about 3.5 percent in 2011 and 4 percent in 2012. Global growth is rarely uniform, but the current recovery is more uneven across major economies than usual. The developed countries overall should record only modest growth in 2011 because of private sector deleveraging and, in many cases, fiscal consolidation. Divergences are likely to remain acute in the euro-area, with continued above-trend growth in Germany but little or no growth in the periphery countries like Greece and Portugal. The emerging markets in Asia should again outperform the other regions as the expansions in China and India will continue, not only in 2011 but also for many years to come.

With widely differing growth and inflation prospects, central banks would continue to follow diverse paths. With a few exceptions, policy will likely remain generally accommodative in the developed countries. The Federal Reserve Bank (Fed), European Central Bank (ECB), and Bank of Japan, are all likely to keep policy interest rates on hold in 2011. The Fed probably will keep interest rates on hold until well into 2012, with the Bank of Japan on hold until at least late 2013. Only a few industrial countries are likely to increase rates in 2011: those with high growth e.g. Australia, Sweden, Switzerland and perhaps the United Kingdom. In contrast, strong recoveries already are raising serious inflation concerns among several emerging countries, such as China, where additions to ongoing rate hikes, credit tightening or increased reserve requirements are likely.

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There are many risks facing the global economy in 2011, mainly due to the extreme divergences of growth between countries and regions. First, if sovereign risk contagion in the euro zone widens - especially to Spain - then adverse effects on euro-area growth and financial conditions may increase. The sovereign crisis in the euro-area, however, will be contained to an extent. Given the continued economic weakness and extremely high sovereign spreads in Greece, Ireland and Portugal, there is a likelihood of eventual sovereign debt restructuring in all these countries. But, with bailout packages being agreed upon by the euro-zone countries, the likelihood of a sovereign debt default or restructuring in 2011 is unlikely, Neither would the crisis spill over into a significant tightening in financial conditions for core countries. Second, we expect persistently high global imbalances, with a rising current account deficit in the US and only a gradual drop in Asia's aggregate surplus. There are uncertainties over the policy response of emerging markets if capital inflows increase, as well as longer-term risks of a slide to protectionism by countries with sluggish growth. In particular, there may be a sharp deceleration in economic activity in a number of emerging markets as they resort to restrictive policies to control rising inflation. Third, risk assets may hit periodic weakness over concerns that government policy will not be able to successfully follow a stability-oriented path given the diverging economic trends and serious fiscal challenges.

But there are upsides for growth too. Continued above-trend global expansion, ongoing balance sheet repair, and successful monetary and fiscal measures to ensure medium-term stability could underpin risk assets and re-energize corporate appetites for expansion.

AFP

Visitors watch the last sunset of 2010 over the Arabian Sea in Mumbai. Economic expansion in India will continue for many years to come, analysts say.

United States

Economic performance in the fourth quarter of 2010 has improved substantially in recent weeks, reflecting larger gains in international trade, industrial production and a strong holiday shopping season. The prospects for growth in 2011 have also brightened due to the continued improvements in consumer and business investment as well as the turnaround in residential and commercial construction. Moreover, the extension of Bush-era tax-cuts for all earners, in combination with additional cuts to the payroll tax, extended employment insurance, and the full deduction for investment spending is likely to lift GDP growth in 2011 by at least 0.5 percent. In addition, the impact of the second round of quantitative easing by the Fed will stimulate the economy by around 0.3 percent in 2011. An improved growth outlook, low real interest rates, tax incentives and continuing deleveraging process will provide strong incentives to businesses to reinvest in equipment and software and increase hiring. Overall, we expect the US economy to grow between 3-3.5 percent in 2011.

Events over the last few months have increased the likelihood that the US economy will continue to recover rather than slip into another recession. However, while economic growth is likely average 3-3.5 percent in 2011, a faster pace of growth -- necessary to make a material dent in the housing market and unemployment rate -- is still two to three years off. The economy still faces serious challenges, including a depressed housing market, potential spillover from Europe's financial problems, and stubbornly high unemployment. But the improvement in many key measures, such as, consumer spending and business investment suggest that the recovery is moving beyond temporary factors including government stimulus spending, and is now growing on the strength of underlying demand for more goods and services.

TO BE CONTINUED

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Microfinance faces hurdles in empowering Afghan women

REUTERS, *Kabul*

In a dimly lit room at the back of an Afghan house, 21-year-old Zahara is crouched on a plank of wood weaving a large carpet on a loom that she was able to buy using a microfinance loan of $1,100.

Zahara started weaving carpets when she was 10 and did not go to school, but the loan from non-profit development group BRAC allowed her to start her own business about 18 months ago and she has since taken out two more loans of $330 each.

"When I first got the money, the carpets I was making were small and now I can make bigger carpets," said Zahara, who heard about microfinance loans from her neighbour in Kabul. "Before I made carpets for other people and now I make them for myself."

More than 1.5 million loans worth $831 million have been given out in the past seven years, said the Microfinance Investment Support Facility for Afghanistan (MISFA), which was set up by the government in 2003 to coordinate the sector.

Thirty years of conflict have shattered Afghanistan's economy and infrastructure, leaving two-thirds of the roughly 30 million population illiterate and at least a third in dire poverty.

REUTERS

An Afghan artist removes rubbish in front of her graffiti in an industrial park in Kabul.

Aside from security fears, microfinance is facing a shortage of skilled people to run programmes, as well as challenges in reaching sparsely populated rural areas and religious concerns among conservative Muslims about paying interest.

"If you talk to the real villagers, they need money," said Fazlul Hoque, head of non-profit development group BRAC in Afghanistan, which is responsible for half the country's 430,000 microfinance clients. "We need to establish a credit culture."

Unlike traditional bank loans which require paperwork such as proof of identification and income, many microfinance lenders simply require borrowers to become part of a support group and verify their ability to repay.

The average annual income in Afghanistan is $370, according to the World Bank. But Hoque said the default rate on BRAC loans was low, around 3 or 4 percent.

Microfinance -- developed more than 30 years ago by Bangladeshi economist Muhammad Yunus, who won the Nobel Peace Prize in 2006 for his efforts -- traditionally targets women. MISFA said 60 percent of current Afghan clients are women.

"Women are ignored, so one of our social missions is to bring them out, so that there will be a kind of dignity of women, they can have a better position in the family," said Hoque, adding that more than 80 percent of BRAC's clients were women.

But the independent Afghanistan Research and Evaluation Unit (AREU) said it would take more than access to microfinance to empower women and build their social status.

"Credit can be a means to assist women to achieve more decision-making power and autonomy, but there needs to be a purposeful, culturally attuned strategy in place to support this process," said Paula Kantor, an AREU visiting researcher and former director of the unit.

There are enduring limits on women's rights across Afghanistan more than nine years after the strict Islamist Taliban were ousted after more than five years in power, during which women were made to wear all-covering burqas and were rarely allowed out in public for education or work.

A UN report earlier this month found that millions of Afghan women and girls suffer from traditional practices such as child marriage and "honour" killings, and that authorities are failing to enforce laws protecting them.

AREU senior research officer Sogol Rand has been studying microfinance and gender in Afghanistan and said that when a loan helped improve a family's economic situation it reduced domestic violence, but when a family found it difficult to repay their loan, the violence increased.

Microfinance also faces a religious hurdle because Islamic law prohibits the payment or acceptance of interest fees. Some microfinance organisations try to work around this by calling an interest payment an administrative or service charge.

MISFA is working to develop a loan that would be compliant with Islam, while some smaller microfinance groups such as FINCA, which has about 9,000 Afghan clients, already offer such loans.

"There are indeed a number of Afghans who do not participate in mainstream microfinance ... for fear of social pressure," said MISFA Managing Director Katrin Fakiri. "Potential borrowers must have a choice between Islamic or conventional loans."

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