



WESP Mid-2009: World Economic Situation and Prospects 2009-10

- The report examines the UN forecast for world economic growth and details the necessary global policy responses to be taken as a measure against present and future financial crises.
- The world economy is deeply mired in severe financial crisis. Although its impacts are not uniform, no country has been immune from the current downturn. If it prolongs much further, the crisis will also bear profound consequences for global security and stability.
- Governments have demonstrated their ability to respond quickly to the crisis by taking monetary, fiscal measures to stabilize financial markets and revive global growth. With massive public funding, banks have been able to recapitalize. However, it is necessary to recognize that monetary and fiscal measures will not be enough to starve off the recession. Greater efforts and tougher reforms are needed to ensure the future well being of the global economy.

Key recommendations include:

- Further decisive and cooperative action is needed to restore the financial health of banks, especially in developed countries.
- Fiscal stimulus measures should be better coordinated and aligned with global sustainable development objectives. Without coordination between state and non-state actors, the size and timing will limit the multiplier effects of the stimuli.
- Fundamental reforms of the international financial system are needed to overcome the systemic flaws which caused this crisis in the first place and in order to guard against future crises. Such reforms should first deal with the major weaknesses in the regulation and supervision of the international financial system.
- A new framework for global economic governance in line with early 21st century realities needs to be created. Fundamental reform of the governance structure of the Bretton Woods institutions is needed.
- These reforms should also lead to the establishment of a credible and legitimate mechanism for improved international coordination of macroeconomic policies. Institutionalized macroeconomic policy coordination should be embedded in a more representative multilateral framework
- Broader global economic governance reforms must also be considered to ensure coherence in the global governance of the international financial architecture, the multilateral trading system, the framework for addressing climate change, the development agenda, and peace and security.
- Such coordination could take place through a new Global Economic Council that is part of the UN system, as proposed by some Member States, or through deep reform of the UN's Economic and Social Council.

Executive Summary

Faced with the worst recession since World War II, the world economy is deeply mired in severe financial and economic crisis. Although its impacts are not uniform, no country has been immune from the current downturn. As its impact increases both in scope and depth worldwide, the crisis poses a significant threat to the world economic and social development, including to the fulfillment of the Millennium Development Goals (MDGs). If it prolongs much further, the crisis will also bear profound consequences for global security and stability.

The global policy response has been unprecedented, including monetary, financial and fiscal measures to stabilize financial markets and revive global growth. Since the intensification of the financial crisis in September 2008, Governments worldwide have made massive public funding available to recapitalize banks, taking partial or full government ownership of ailing financial institutions and providing ample guarantees on bank deposits and other financial assets.

In the long term, broader global economic governance reforms must also be considered to ensure coherence in the global governance of the international financial architecture, the multilateral trading system, the framework for addressing climate change, the development agenda, and peace and security. Such coordination could take place through a new Global Economic Council that is part of the UN system, as proposed by some Member States, or through deep reform of the UN's Economic and Social Council. Whichever the mechanism, it is essential that a body be created which can provide coordination and oversight of responses to the broader range of global challenges and set the world on a new but sustainable development path.