



Advance release
**World Economic Situation
and Prospects 2009**

Doha, Qatar

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Main messages

1. Worst financial crisis since 1930s: a story foretold
2. Global economy is entering in recession
 - Synchronized slowdown worldwide
 - World per capita income will fall in 2009
 - Problems have not bottomed out
3. Downside risks of further financial meltdown and hard landing of dollar
4. Policy challenges – New Global Deal:
 - Massive, internationally coordinated fiscal stimulus needed on top of financial bailouts
(Align fiscal stimulus with sustainable development objectives)
 - Deeper reforms of the international financial architecture should urgently be set in motion
(financial regulation, reform of global economic governance, reform of reserve system and compensatory financing schemes)



1. Story of a crisis foretold

- The global financial crisis and the rapidly deteriorating international economic environment**
- End of an unsustainable worldwide boom**

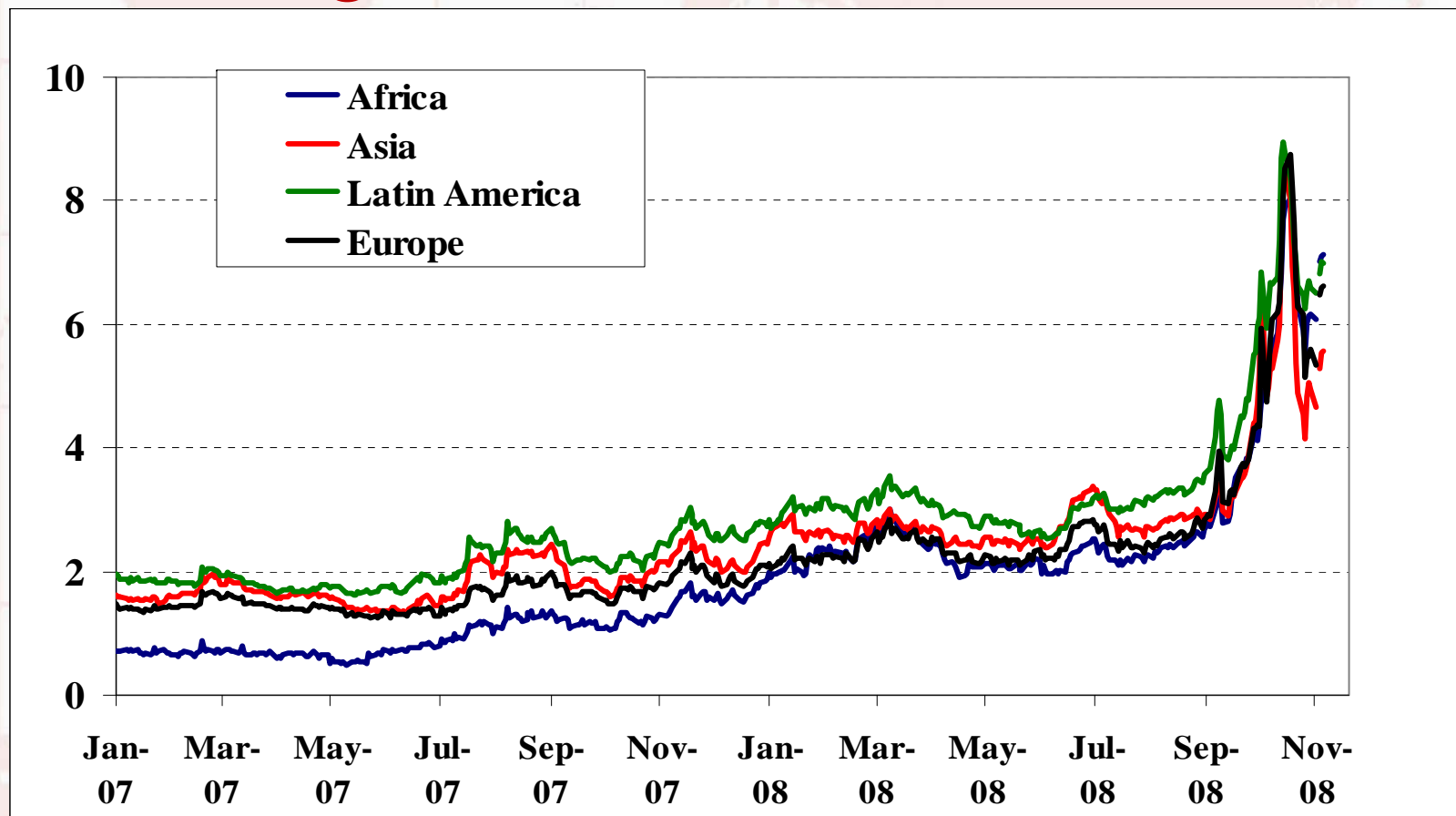
Credit crunch: rising cost of borrowing



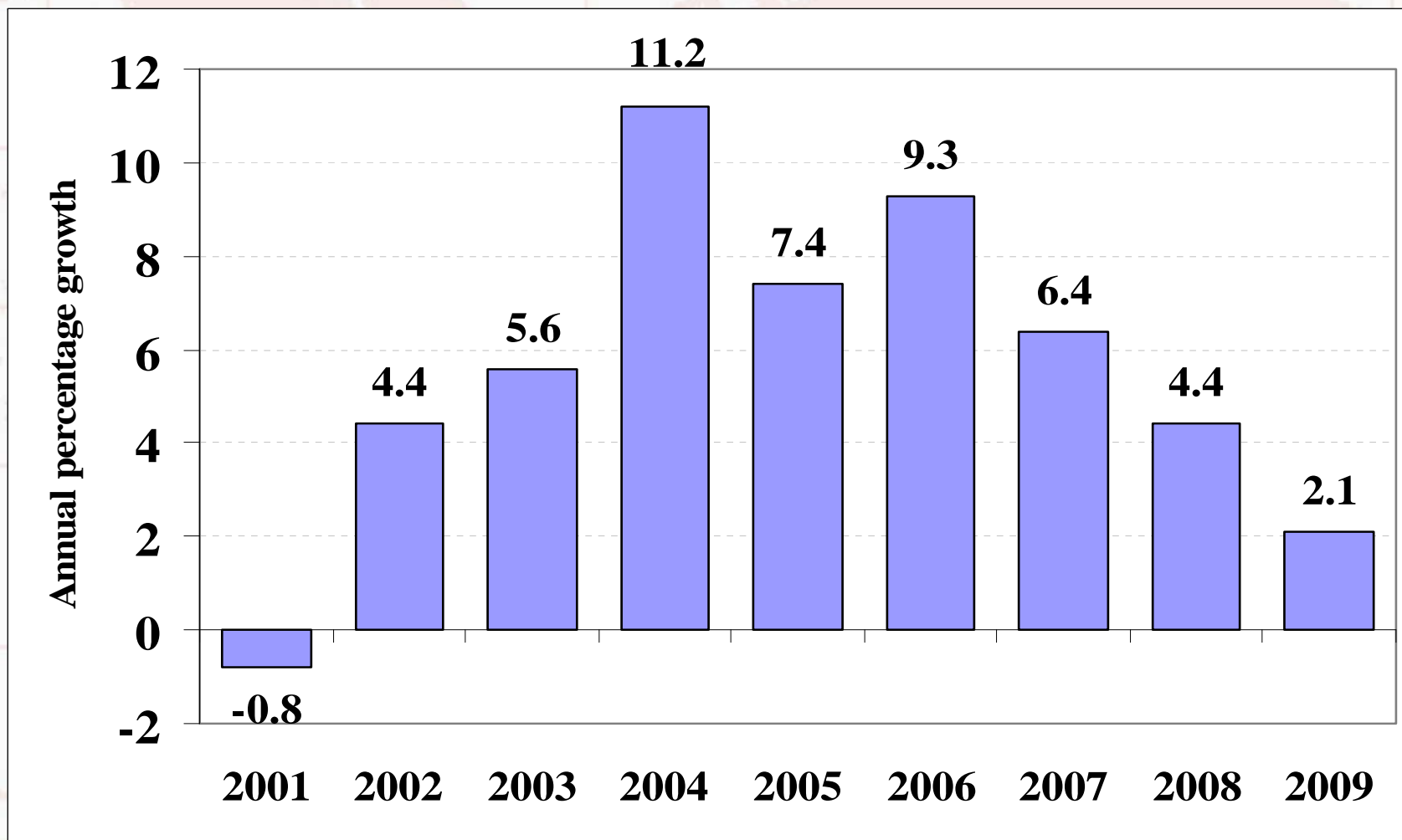
(Rising spread on interbank lending, % basis points)



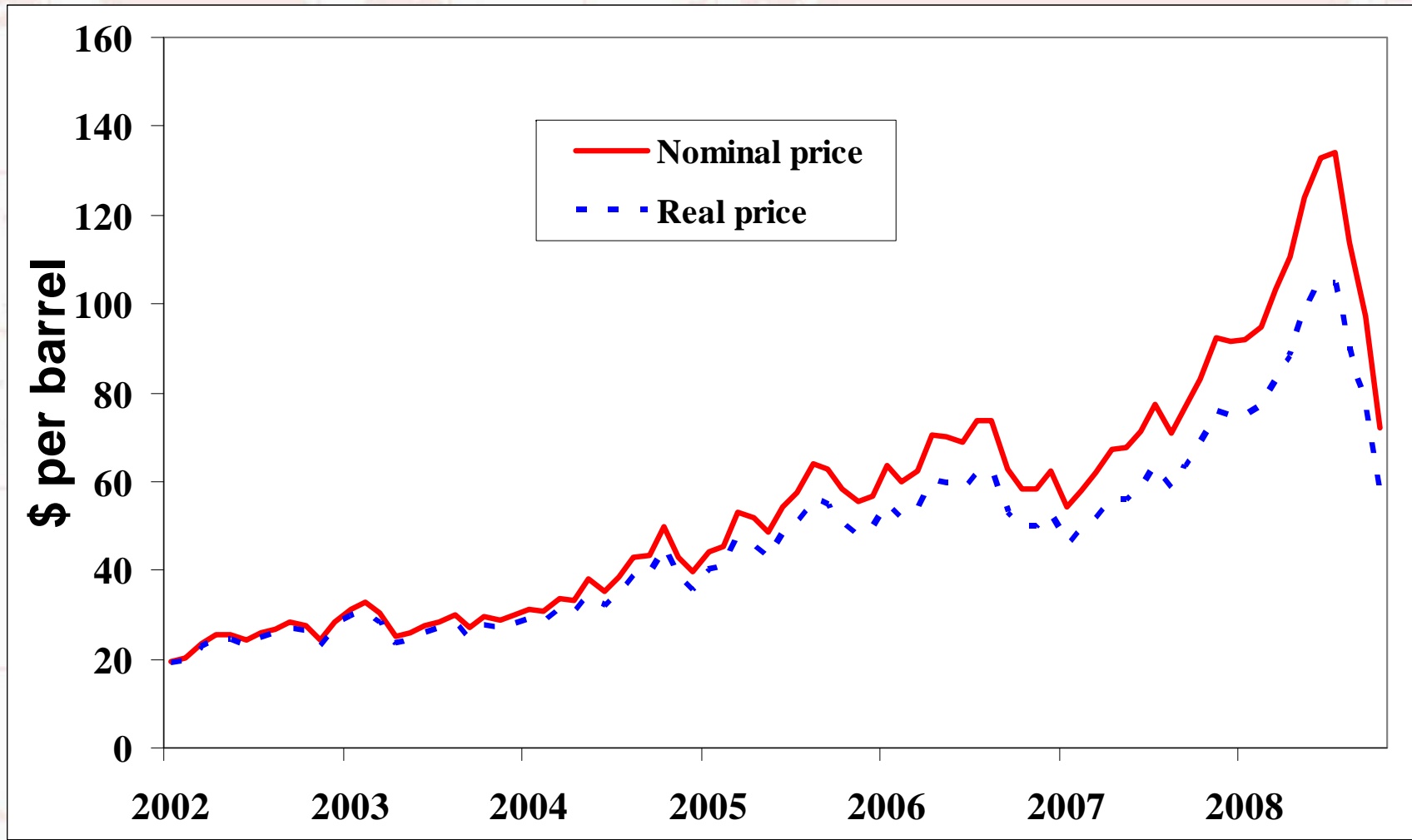
... also rising borrowing costs
for developing countries;
private capital flows are
reversing



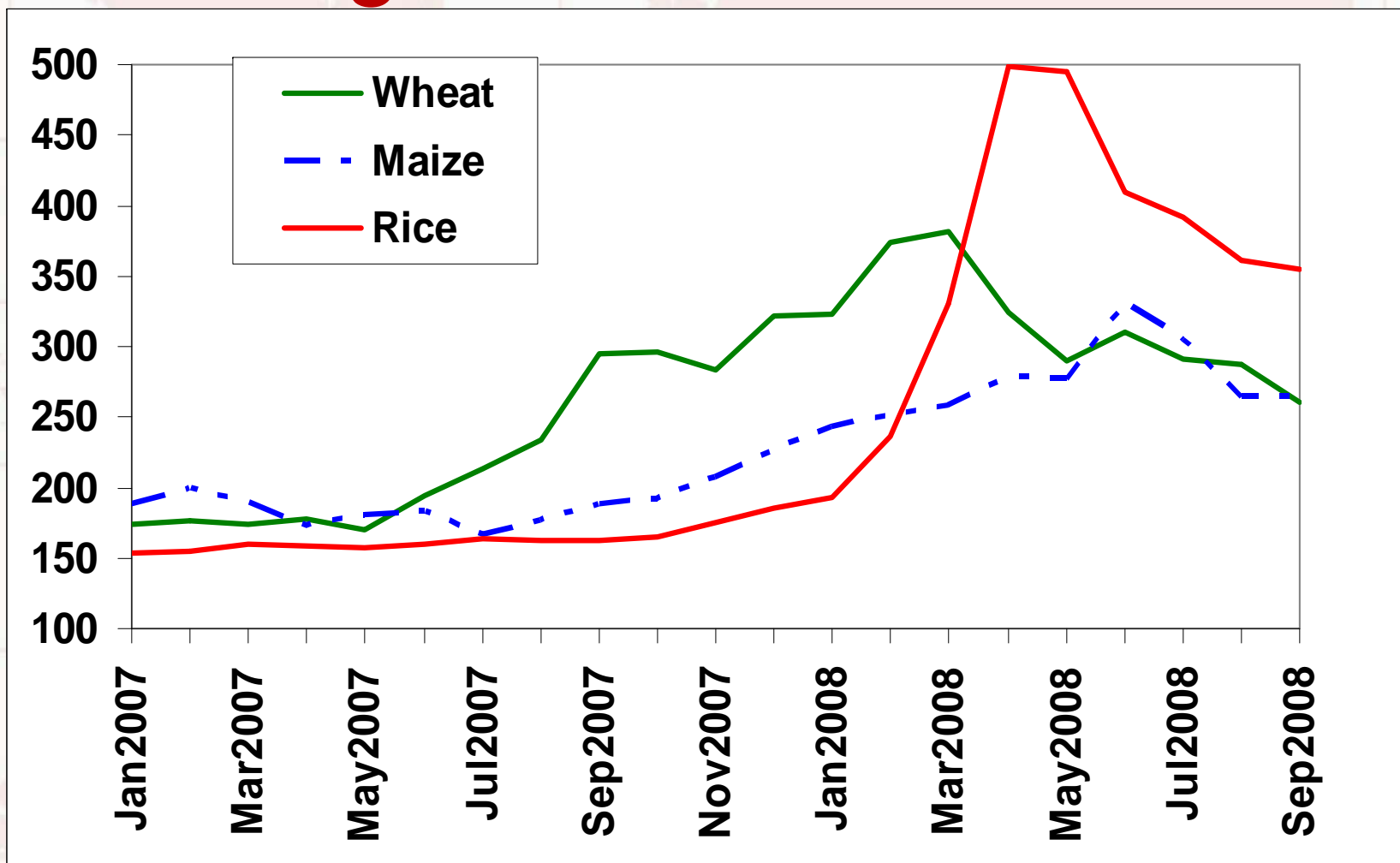
World trade growth decelerating rapidly



Plunging oil prices



World food prices are also declining

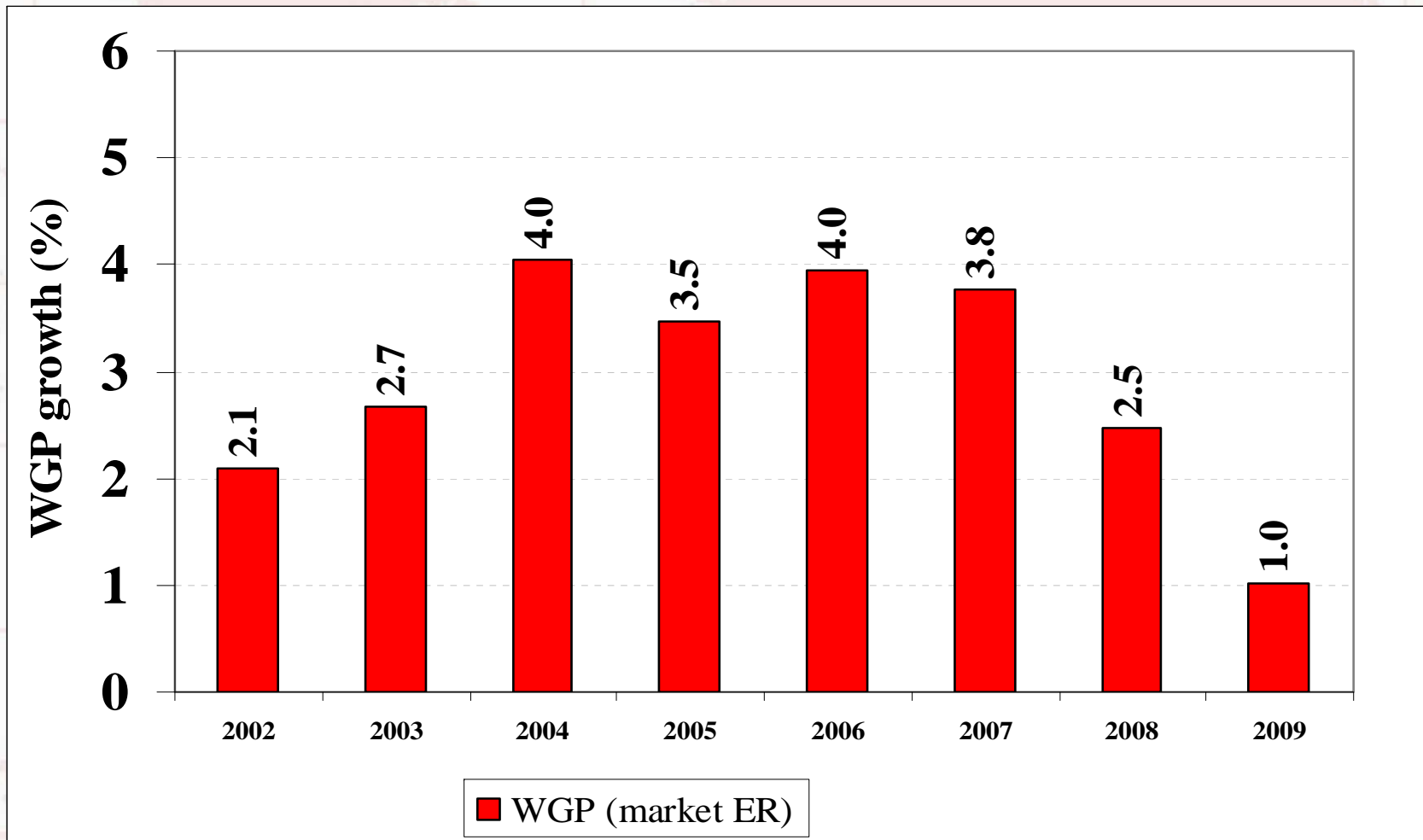




2. What consequences?

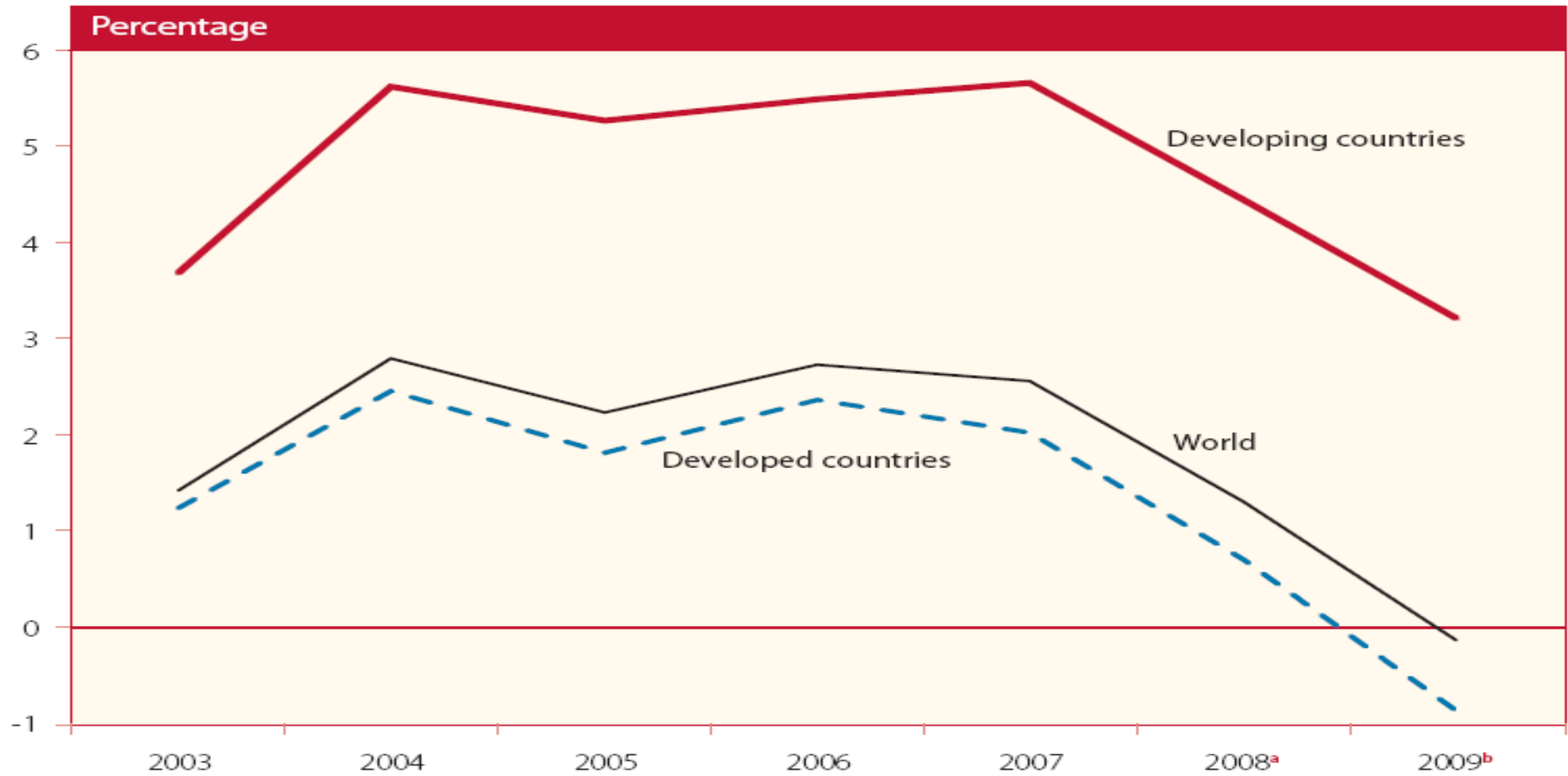
- **Slower world economic growth**
- **Recession in rich countries**
- **Severe slowdown in poor countries**
- **Problems have not bottomed out yet**

World economy is nearing a recession

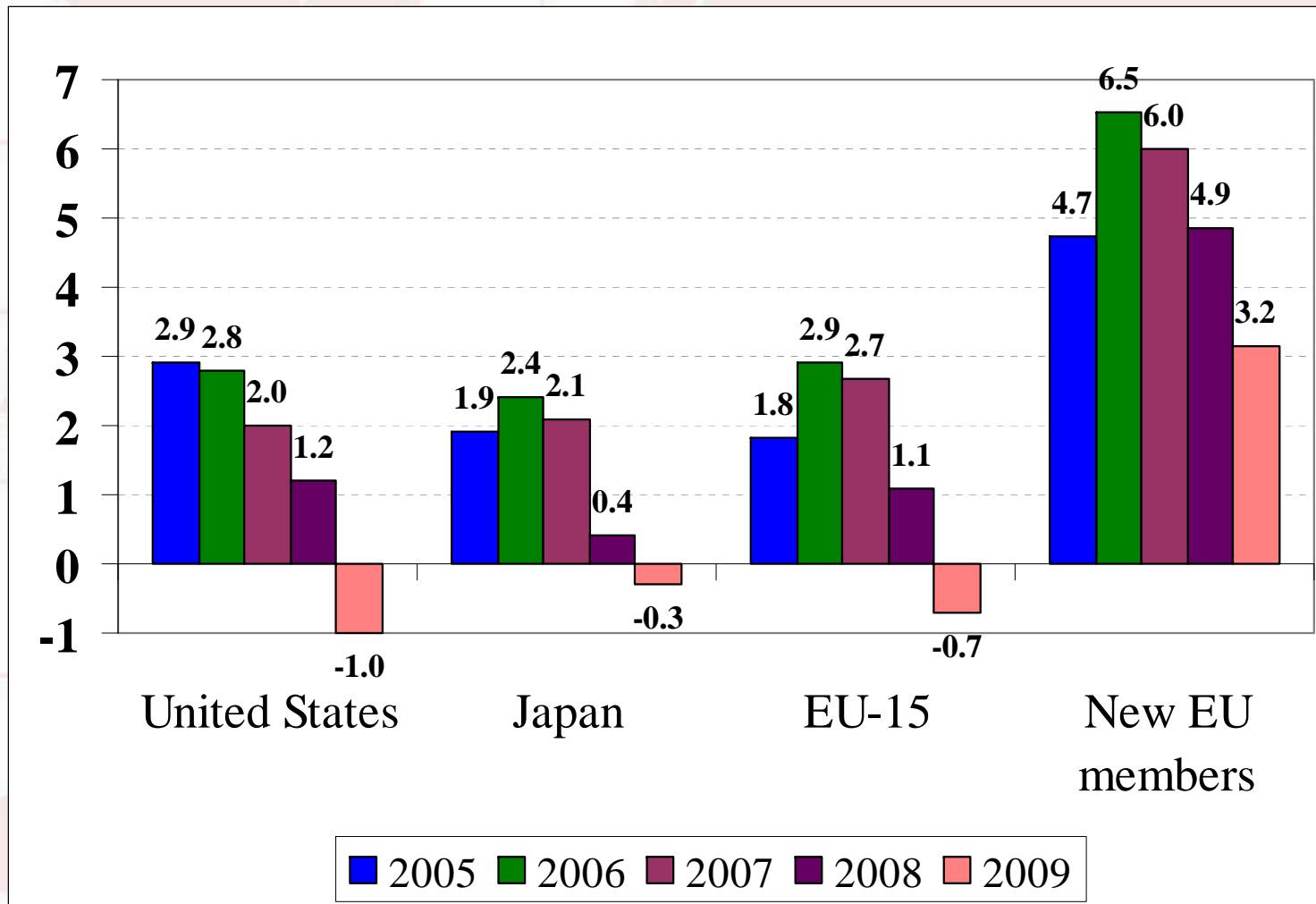




World income per capita will decline in 2009

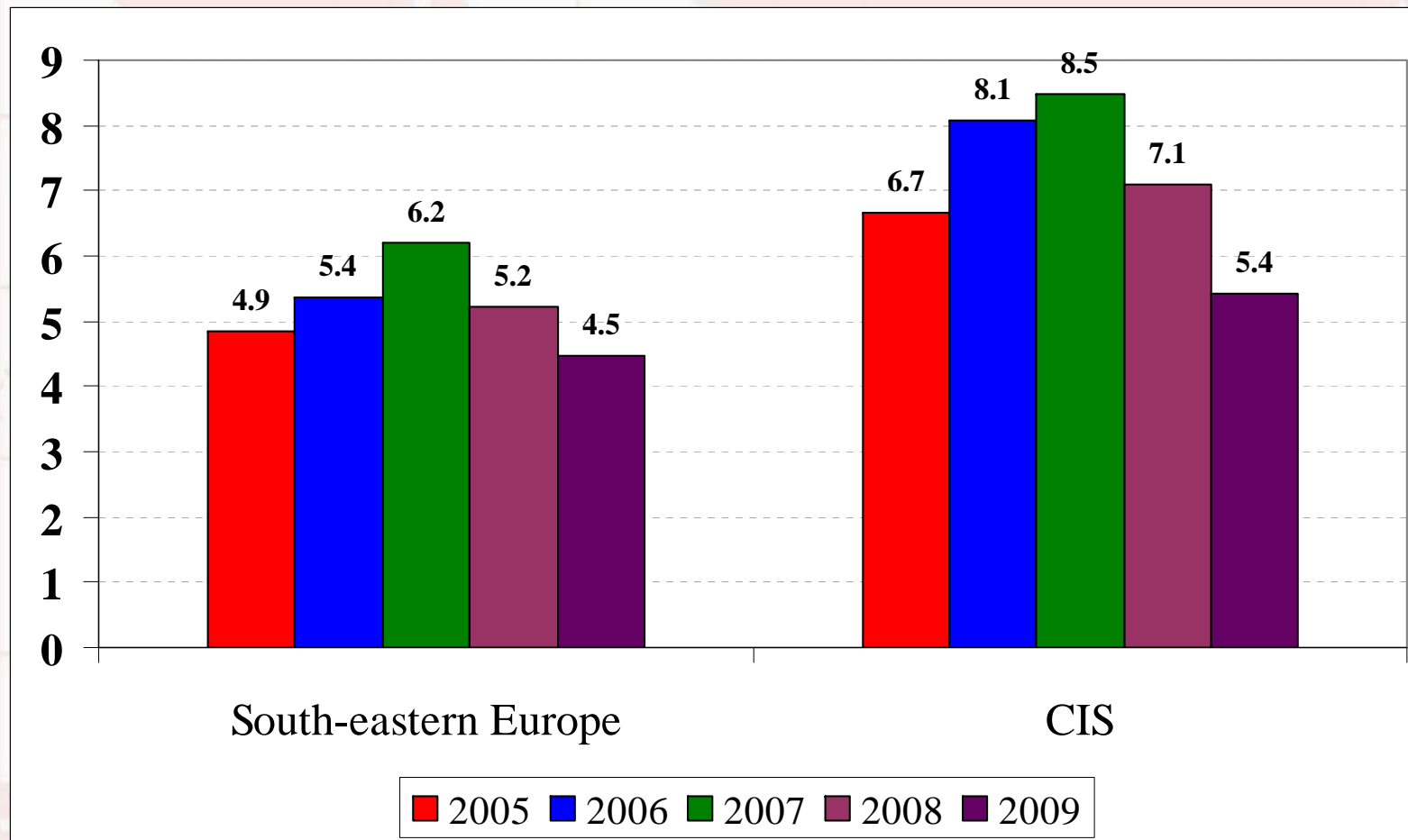


Recession in most developed economies





Growth slowing in the economies in transition...



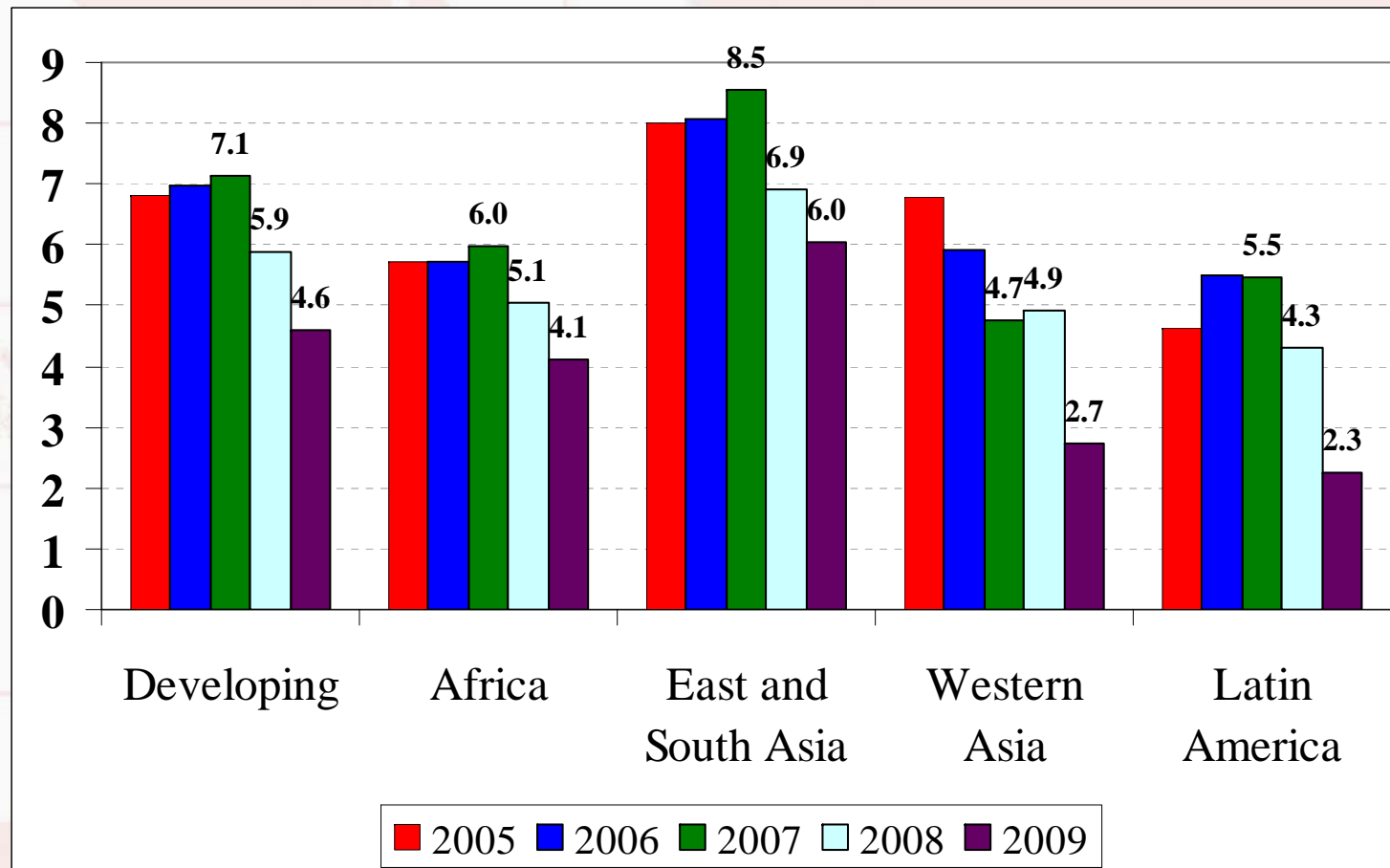


Developing countries will be hit hard through trade and finance channels

- Spill-over effects through financial markets likely will hit strongest on the **middle-income countries**
- **All developing countries** will be affected through slowing trade.
- **Primary exporters** will also see deterioration in terms of trade
- **Low-income, net food and oil-importers** may see improving terms of trade, but will suffer mainly through reduced demand for exports
- Balance of payments constraints likely will emerge in growing number of countries and vast reserves may quickly evaporate



Leading to slowdown of growth in all developing countries





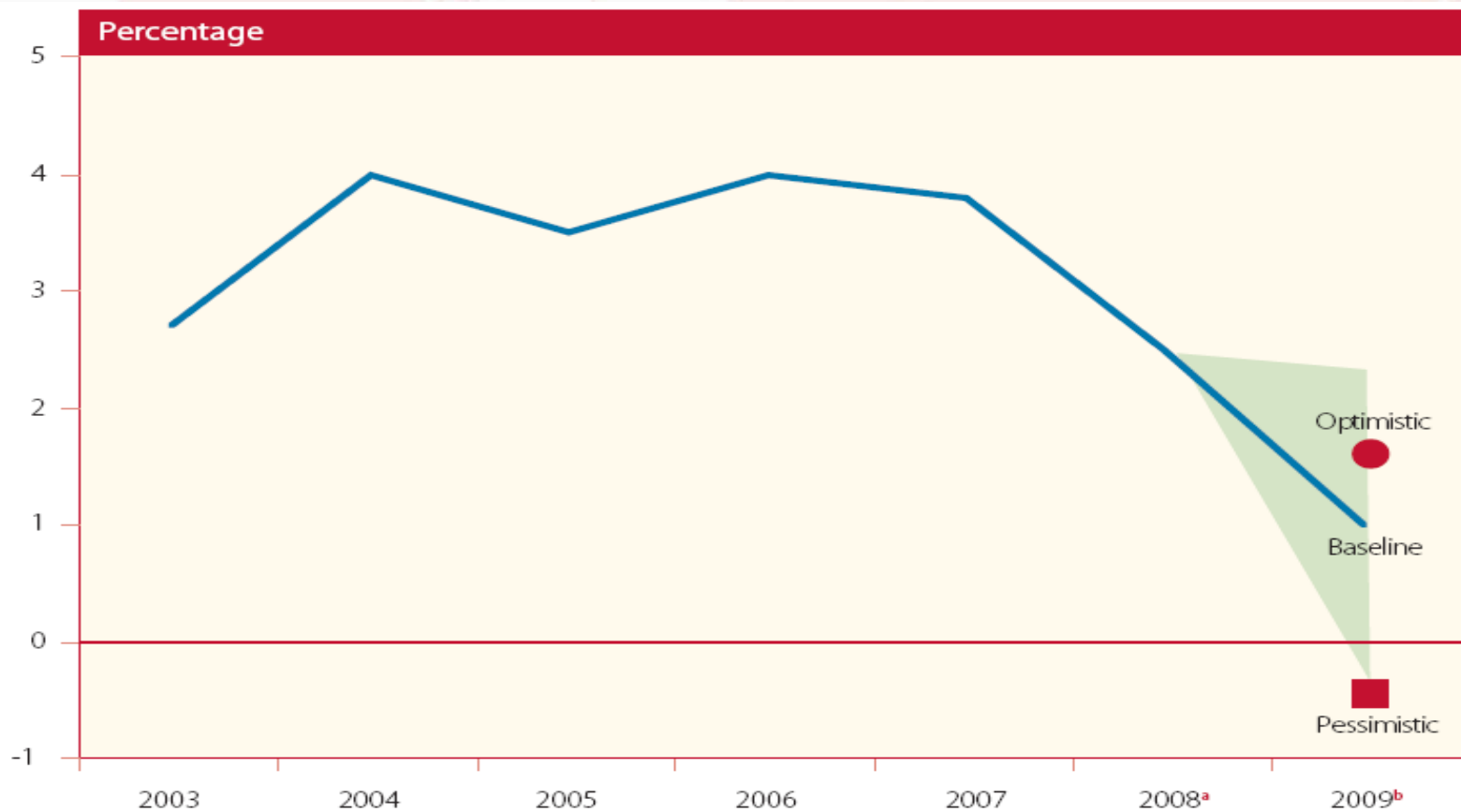
3. Downside risks

- **Deeper and prolonged crisis**
 - (a) prolonged credit crunch in major economies and deeper recession
 - (b) steep capital reversals in emerging markets
 - (c) less ODA for low-income countries
- **Hard landing of US dollar**

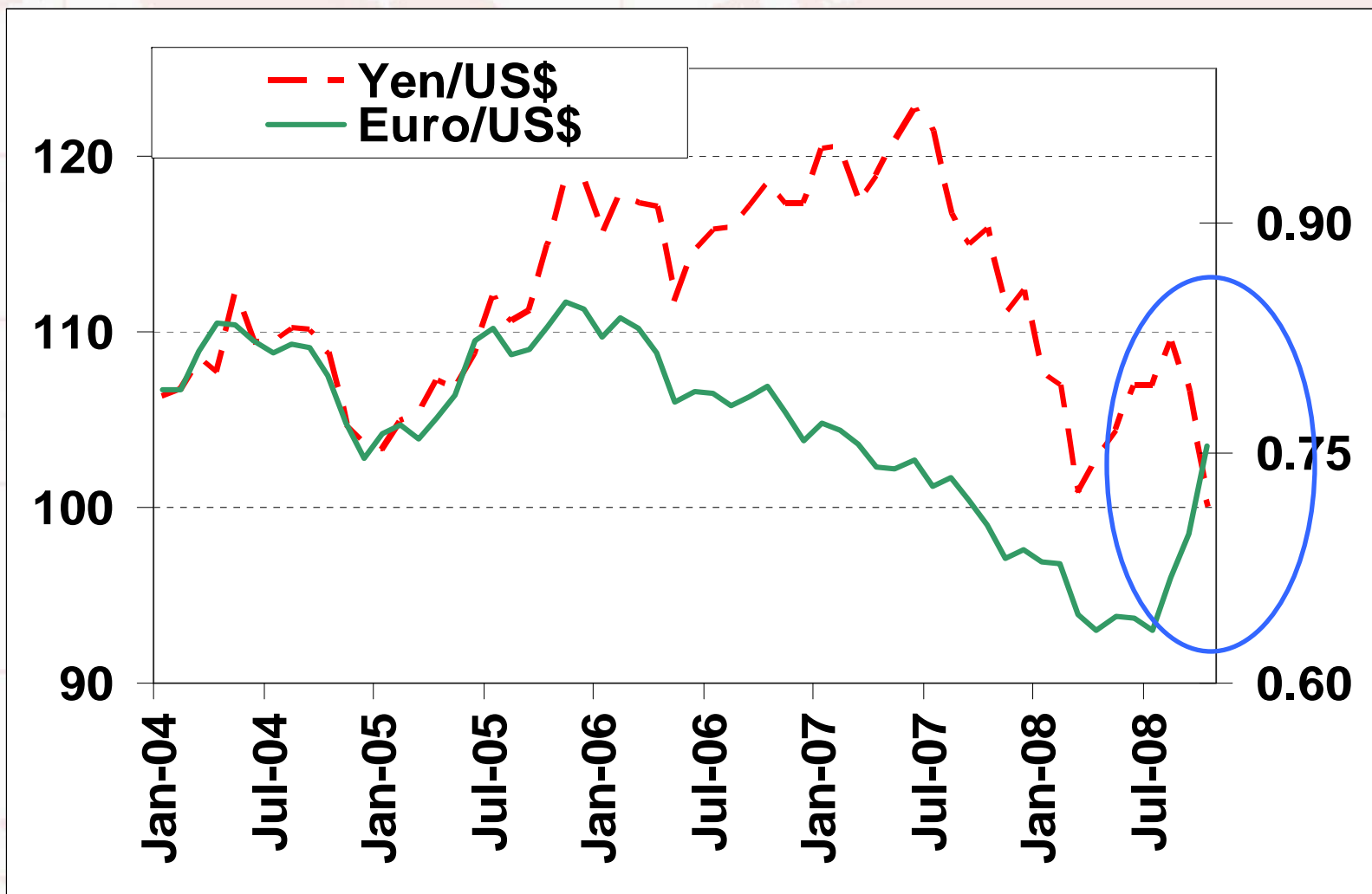
Risk of deep global recession remains



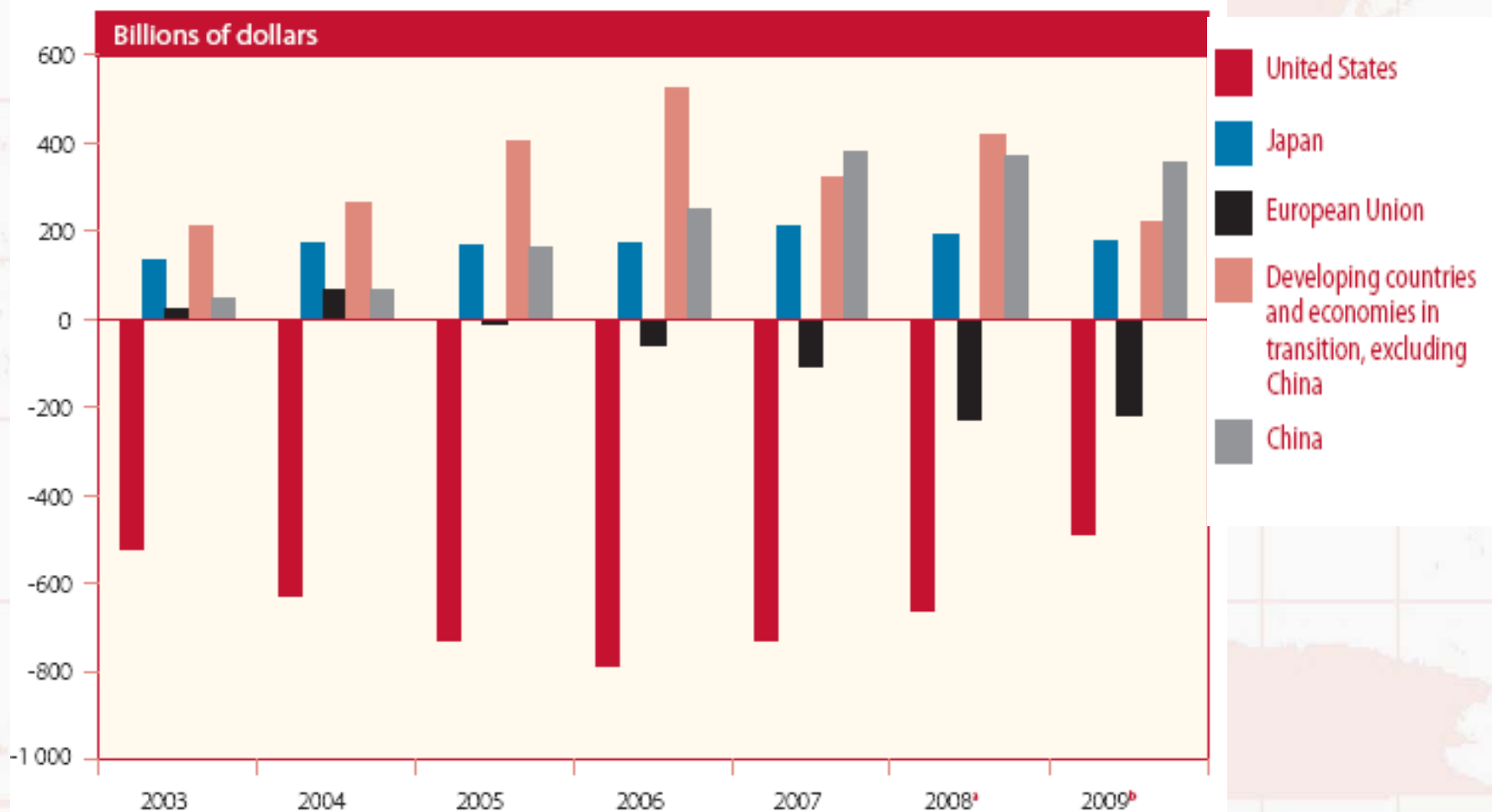
(growth of WGP)



The dollar has appreciated recently



...but risk of hard landing of dollar remains as global imbalances persist



4. Policy challenges - “Fighting the fire”



- We have seen extraordinary responses to deal with crisis
 - \$11 trillion of committed public funds so far (about 20% of WGP)
 - Financial landscape has changed
 - Coordinated monetary responses
- More and even bolder action is needed:
 - Massive, internationally coordinated fiscal stimulus
 - Align stimulus with sustainable development and poverty reduction objectives
 - Alleviate financing constraints for developing countries to enhance their fiscal space



4. Looking ahead – Reforming the International Financial Architecture

- Establishing a credible and effective mechanism for international policy coordination and reform governance IMF.
- Fundamental reforms of existing systems of financial regulation and supervision
- Reforms of liquidity provisioning
- Reform of the present international reserve system.