World Economic Prospects for 2009 and 2010

According to the IMF's latest forecast,[1] world growth will fall to 1/2 percent in 2009, its lowest rate since World War II. Output in the advanced economies will contract by 2 percent in 2009, while growth in emerging and developing economies will slow from 6 1/4 percent in 2008 to 3 1/4 percent in 2009, under the drag of falling export demand, lower commodity prices and much tighter external financing constraints. Continued efforts to ease credit strains as well as expansionary fiscal and monetary policies are prerequisites for a gradual recovery of the global economy in 2010, with growth reaching around 3 percent (Table 1). However, the outlook is highly uncertain.

The major reason for the pessimistic projection is that despite various policy actions to provide additional capital and reduce credit risks, financial strains remain acute, badly affecting the real economy. Since end-October 2008 in advanced economies, spreads in funding markets have only gradually narrowed despite government guarantees, and those in many credit markets remain close to their peaks. In emerging economies, despite some recent moderation, sovereign and corporate

[1] International Monetary Fund (IMF, 2009), World Economic Outlook Update, January 28, 2009, Washington DC.

Table 1

IMF's World Economic Forecasts for 2009 and 2010

			Projections	
	2007	2008	2009	2010
World output	5.2	3.4	0.5	3.0
Advanced economies	2.7	1.0	– 2.0	1.1
United States	2.0	1.1	– 1.6	1.6
Euro area	2.6	1.0	– 2.0	0.2
Japan	2.4	– 0.3	– 2.6	0.6
Newly industrialized Asian economies	5.6	2.1	– 3.9	3.1
Emerging and developing economies	8.3	6.3	3.3	5.0
Africa	6.2	5.2	3.4	4.9
Central and eastern Europe	5.4	3.2	– 0.4	2.5
Commonwealth of Independent States	8.6	6.0	– 0.4	2.2
Developing Asia	10.6	7.8	5.5	6.9
Middle East	6.4	6.1	3.9	4.7
World trade volume (goods and services)	7.2	4.1	– 2.8	3.2
Imports				
Advanced economies	4.5	1.5	– 3.1	1.9
Emerging and developing economies	14.5	10.4	– 2.2	5.8
Exports				
Advanced economies	5.9	3.1	– 3.7	2.1
Emerging and developing economies	9.6	5.6	– 0.8	5.4
Commodity prices (US dollars)				
Oil*	10.7	36.4	– 48.5	20
Nonfuel (average based on world commodity export weights)	14.1	7.4	– 29.1	7.3
Consumer prices				
Advanced economies	2.1	3.5	0.3	0.8
Emerging and developing economies	6.4	9.2	5.8	5.0

* Simple average prices of UK Brent, Dubai and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $97.03 in 2008; the assumed price based on future markets is $50.00 in 2009 and $60.00 in 2010.

Source: IMF.

spreads are still elevated. As economic prospects have deteriorated, equity markets in both advanced and emerging economies have made hardly any gains. Currency markets have been volatile. The continuation of the financial crisis, as policies failed to dispel uncertainty, has caused asset values to fall sharply across advanced and emerging economies, decreasing household wealth and thereby putting downward pressure on consumer demand. In addition, the associated high level of uncertainty has prompted households and businesses to postpone expenditures, reducing demand for consumer and capital goods. At the same time, widespread disruptions in credit are constraining household spending and curtailing production and trade.

The sudden decrease in global demand has led to a rapid fall of commodity prices. Despite production cutbacks and geopolitical tensions, oil prices have declined by over 60 percent since their peak in July 2008: the IMF projects 50 $/b for 2009 and 60 $/b for 2010. Metals and food prices have also been marked down in line with recent developments. These price declines have dampened growth prospects for many commodity-exporting economies. Sluggish real sector activity accompanied by lower commodity prices has reduced inflation pressure. In the advanced economies, headline inflation will decline from 3$^1/_2$ percent in 2008 to a record low of $^1/_4$ percent in 2009, before edging up to $^3/_4$ percent in 2010. In emerging and developing economies, inflation is also expected to subside to 5$^3/_4$ percent in 2009 and 5 percent in 2010, down from 9$^1/_2$ percent in 2008.

Faced with a rapidly deteriorating outlook and subsiding inflation pressures, central banks in the advanced economies have taken actions to cut policy rates and improve credit provision. Policy interest rates have been brought down substantially in recent months, especially as inflation pressures subsided, although falling inflation expectations are mitigating the impact on real interest rates. Central banks in emerging economies are also moving to ease their policy stance and improve market liquidity. At the same time, many governments have announced fiscal packages to boost their economies. Specifically, fiscal stimulus in G-20 countries in 2009 is projected to be 1.5 percent of GDP. Deficits are also expected to be boosted by the operation of automatic stabilizers and the impact on revenues of sharp asset price declines as well as the costs of financial sector rescues. Consequently the fiscal balance in advanced economies will deteriorate by 3$^1/_4$ percentage points to minus 7 percent of GDP in 2009.

NCW