



Global outlook: November 2008

By Tendani Mantshimuli, economist, Liberty Life

Recent responses to the global economic crisis include:

- International governments loaning trillions of dollars to banks in an effort to ease the credit crunch.
- G-20 leaders meeting to discuss restoring and reforming global markets.
- US president-elect Barack Obama's economic recovery plan in the US and pledge to work with other world leaders to stimulate growth and restore confidence in the financial markets.

Slow economic growth has led to fears of a recession but the International Monetary Fund (IMF) does not predict a global recession in the next two years.

It is expected that growth will start to recover towards the end of 2009.

Responses to the crisis

Governments lend to banks to ease pressure

The global financial market continued its rollercoaster ride in October. For the first time, governments in the US, Europe and Asia-Pacific (including Australia) pumped trillions of dollars into the banking system to try and ease off the credit crunch. The International Monetary Fund (IMF) also lent money to some distressed nations.

Central banks have continued cutting interest rates in a coordinated fashion to increase the amount of money in the financial system and restore some confidence. The reasoning behind this is that if banks can start lending to each other again, and businesses and individuals can start getting credit, the economy can start moving with some semblance of normality.

It remains to be seen whether this will help to stabilise markets and stimulate growth.

G-20 leaders working on financial market reforms

US president George W Bush hosted the G-20 Leaders Summit on Financial Markets and the World Economy in November. The G-20 is a group of countries, including South Africa, with the twenty strongest economies in the world. Leaders of these nations have agreed to work together to reform financial markets and restore global growth. Finance ministers from these countries are working on reform proposals and will report back to the group soon. The next meeting will be in April 2009 and Barack Obama, the US president-elect, is expected to attend.

US market responds positively to Obama's recovery plan

In the midst of all this turmoil, Americans elected Democrat Barack Obama as the 44th US president. Although he will only assume office on 20 January next year, he has already assembled a team of economic experts to ensure a smooth transition to the new administration so that the current crisis can be speedily addressed. The market has shown confidence in the team's ability to lead the recovery of the US economy and create jobs. Obama has pledged to work together with the G-20 to address the financial crisis.

Economic growth slow but IMF does not predict recession

Growth in the US and Europe declined in the third quarter of 2008, pointing to a possible recession in these economies. Fear of a global recession has contributed to a negative sentiment in the markets.

The US economy will suffer as households respond to the drop in value of real assets (like houses) as well as financial assets. Growth in Europe will be hard hit by tightening financial conditions and falling business and consumer confidence. In Japan, growth from net exports is expected to decline as demand for Japanese exports has fallen.¹

According to the IMF, growth in advanced economies is expected to drop by a quarter of a percent in 2009, down 0.75 basis points from the October 2008 projections. Although similar downturns occurred in 1975 and 1982, this would be the first annual decline after the end of World War II.

The IMF is forecasting a global slowdown but not a recession. This is because growth in emerging markets, although slow, will make up for the shortfall in developed economies.

It is expected that growth will start to recover towards the end of 2009.

¹ IMF World Economic Outlook, November 2008