

## Economic, financial crises far from over, warns latest UN trade report



8 September 2009 – The global recession is unprecedented in its depth and breadth, and has left no country unscathed, according a new report by the United Nations Conference on Trade and Development (UNCTAD) launched today, predicting a gloomy economic future.

The UNCTAD report blames excessive risk-taking made possible by financial deregulation and innovation in obscure financial instruments for the economic turmoil inflicted across the world over the past year.

The crisis that initially began in the financial sector now has turned into a dramatic downturn in the wider economy with global gross domestic product (GDP) expected to fall by more than 2.5 per cent this year, according to the **2009 Trade and Development Report**.

GDP in the developed nations is forecast to contract by some 4 per cent this year, and output in the so-called “transition economies” is expected to fall by more than 6 per cent, while growth in developing countries is expected to slow from 5.4 per cent in 2008 to 1.3 per cent in 2009.

“The outlook is bleak,” UNCTAD’s Director of Division on Globalization and Development Strategies Heiner Flassbeck told reporters in New York.

Mr. Flassbeck cautioned that even in the most optimistic circumstances it could take up to six years for many countries to return to levels of GDP reached in 2007 before the crisis.

“On the global scale there are only two things that can promote growth,” he said. “One is consumption [and] the other is investment. There is nothing else, unfortunately.”

He noted that rising unemployment rates and depressed wages are obstacles to consumption, and new investment is hampered by idle manufacturing capacity and cuts in profits.

“We can only urge governments to go on with stimulating the economy,” said Mr. Flassbeck, stressing that all “talks about early exit strategies are premature. The world has to wait another one or even two years until the stimulus can be withdrawn and the private sector [can] go ahead on its own.”

In addition, banks still need to be recapitalized and their balance sheets cleansed of toxic assets before they can be guided back to their traditional role as providers of credit to investors in fixed capital, according to the report.

The report also spotlights elements of reform for the international financial architecture, which it says is long overdue, calling for a fundamental rethink of global financial governance to stabilize trade and financial relations by reducing the potential for gains from speculative capital flows. This will reduce the likelihood of similar crises occurring and help create a stable macro-economic environment conducive to growth and smooth structural change in poor countries.

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