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Dire Forecast for Global Economy and Trade

By MARK LANDLER

WASHINGTON - The world economy is on the brink of a rare global recession, the World Bank said in a forecast released Tuesday, with world trade projected to fall next year for the first time since 1982 and capital flows to developing countries predicted to plunge 50 percent.

The projections are among the most dire in a litany of recent gloomy forecasts for the world economy, and officials at the World Bank warned that if they proved accurate, the downturn could throw many developing countries into crisis and keep tens of millions of people in poverty.

Even more troubling, several economists said, there is no obvious engine to drive a recovery.

American consumers are unlikely to return to their old spending habits, even after the United States climbs out of its current financial crisis. With growth in China slowing sharply, consumers there are not about to pick up the slack from the Americans. The collapse in oil prices - a side effect of the crisis - has knocked the wind out of consumers in oil-exporting countries.

"We know that the financial crisis now is likely to be the worst since the 1930s," said Justin Lin, the chief economist of the World Bank, summarizing the projections.

The bank forecasts the global economy will eke out growth of 0.9 percent in 2009, down from 2.5 percent this year and 4 percent in 2006. That is the slowest pace since 1982, when global growth was 0.3 percent. Developing countries will grow an average of 4.5 percent next year - a pace that economists said constituted a recession, given the need of these countries to grow rapidly to generate enough jobs for their swelling populations.

"You don't need negative growth in developing countries to have a situation that feels like a recession," said Hans Timmer, who directs the bank's international economic analyses and projections. He predicted rising joblessness and closed factories in many developing countries.

The volume of world trade, which grew 9.8 percent in 2006 and an estimated 6.2 percent this year, will contract by 2.1 percent in 2009, the report said. That drop would be deeper than the last major contraction in trade: 1.9 percent in 1975.

Net private flows of capital to developing countries are projected to decline to $530 billion in 2009, from $1 trillion in 2007.

The loss of that capital will sharply constrict investment in emerging-market economies, the report said, with annual investment growth slowing to 3.5 percent in 2009 from 13.2 percent in 2007.

Several countries are also being hurt by the decline in the prices of oil and other commodities - a phenomenon the World Bank characterizes as the end of a five-year commodities boom - though the decline in food and fuel costs has relieved the pressure on people in other countries.

The sudden drop in capital flows poses a particular danger to oil exporters, some of whom have run up heavy debts.

"They'll have to roll over that debt, one way or the other," said Simon Johnson, a former chief economist of the International Monetary Fun . "That's going to put a huge squeeze on these countries."

Mr. Johnson said the calmer atmosphere in foreign markets belied the gravity of the situation. Spreads on credit default swaps- a common yardstick for whether a country's government is in danger of default - continue to signal potential trouble for Ireland, Italy and Greece.

The authorities in Greece are battling violent street protests in Athens and its suburbs, caused in part by the deteriorating economy.

Reflecting what is by now conventional wisdom, the World Bank recommended that countries undertake large fiscal stimulus programs to cushion the downturn. The bank itself has committed up to $100 billion in aid to developing countries over three years.

If there is a silver lining amid the gloom, it is the relief that lower food and fuel prices mean for poorer countries. While the prices of almost all commodities have fallen sharply since July, they remain higher than in the 1990s, which the bank says should prevent future supply shortages.

As the World Bank's experts struggled to find a historical analog for the slump, they said it had more in common with the Depression of the 1930s than with the severe recessions of the 1970s or 1980s.

"It is not just a supply shock," Mr. Timmer said. "It is not just a reduction in demand, but it is the lack of availability of credit."

Deutsche Bank, in a forecast issued this week, was even more pessimistic. It said global growth would drop to 0.2 percent in

more pessimistic. It said global growth would drop to 0.2 percent in 2009, with the United States, Europe, and Japan in recessions of roughly equal severity.

China, which grew 11.9 percent in 2007, will slow to 7 percent next year, the bank projects, and 6.6 percent in 2010, when the rest of the world is slowly recovering. "It's not going to be the spark that reignites global demand," said Thomas Mayer, the chief European economist for Deutsche Bank. "We're almost in an air pocket, where we don't have a new global driver of growth."