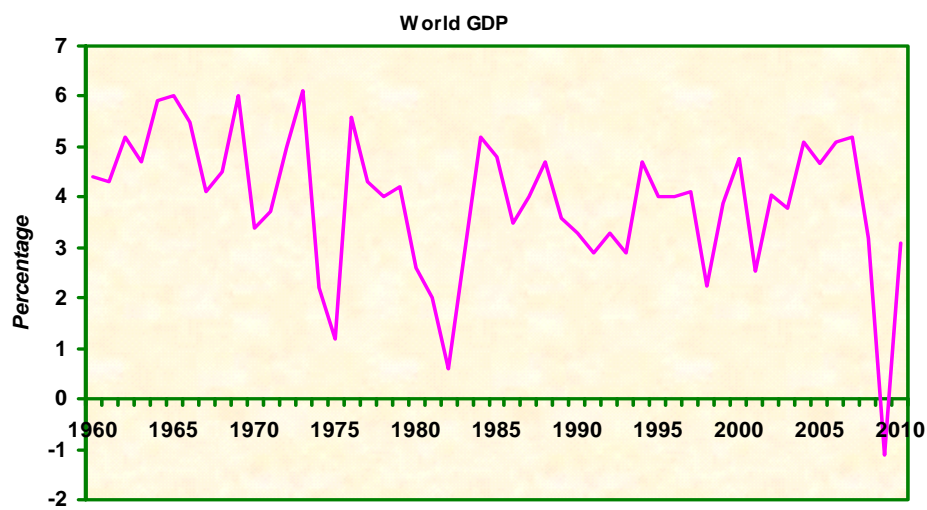


**Presentation at T.20 Ministers'
Meeting,
Johannesburg, South Africa
22-24 February 2010**

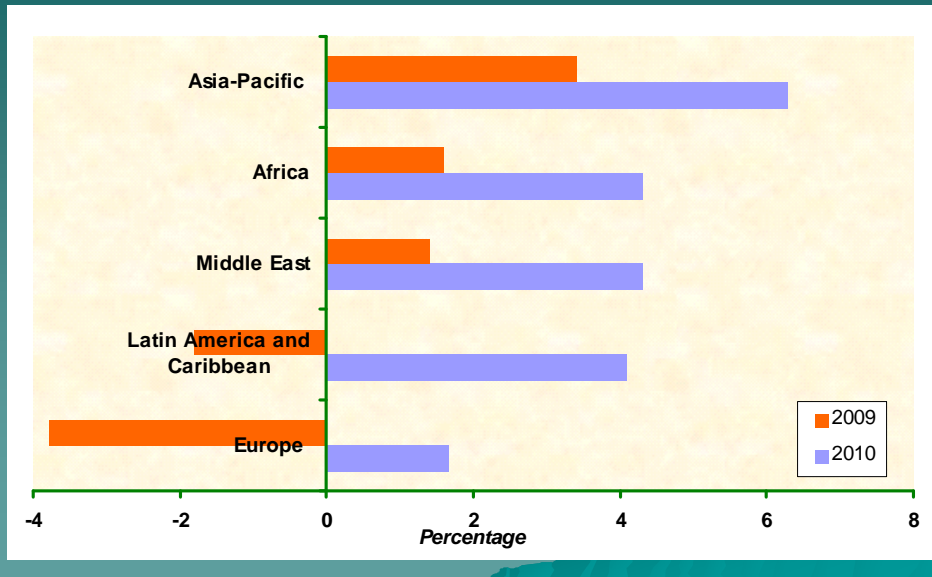
Tiziana Bonapace
Macroeconomic Policy and Development
Division



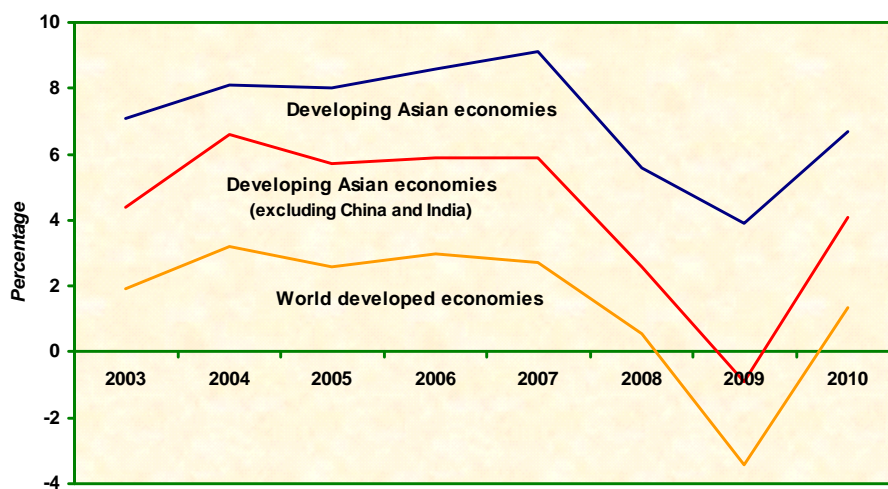
**A deep crisis with world economy contracting for
the first time in modern history**



A synchronized crisis, with Asian developing countries growing the fastest



...led by China and India. Other developing countries contracted in synchrony with developed countries



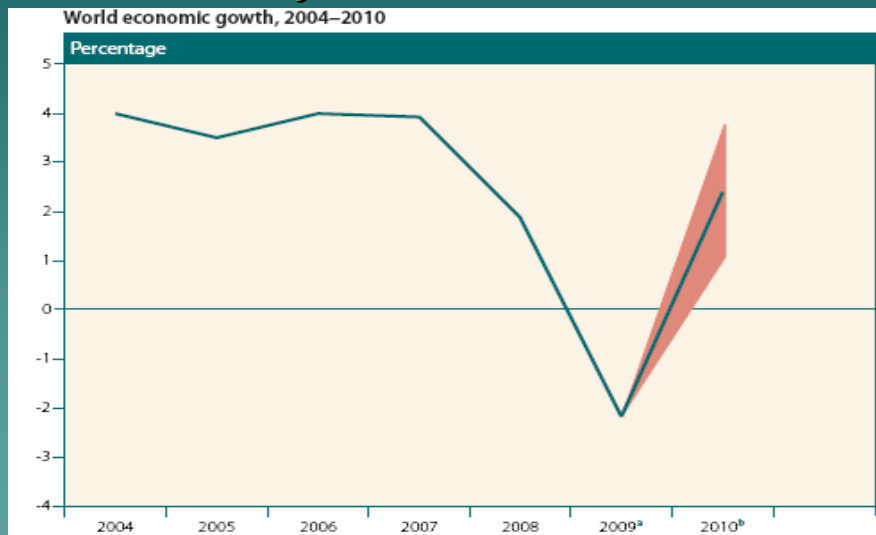
The crisis has abated

- ◆ Global equity markets have rebounded
- ◆ Risk premiums on credit have narrowed
- ◆ International trade flows and industrial production have recovered
- ◆ Commodity prices have rebounded
- ◆ Tourism is easing
- ◆ Growth rebound is from a low base

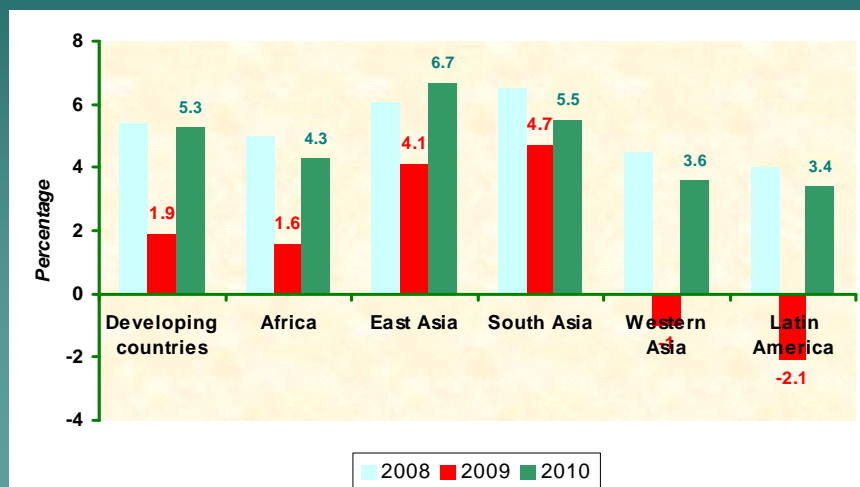
. ...but fragilities remain

- ◆ Rebound mainly on account of government spending and exceptionally low interest rates...
- ◆ .. and turn in global inventory cycle
- ◆ Private consumption and investment remain sluggish
- ◆ Unemployment rates still rising worldwide, increased vulnerable/illegal employment

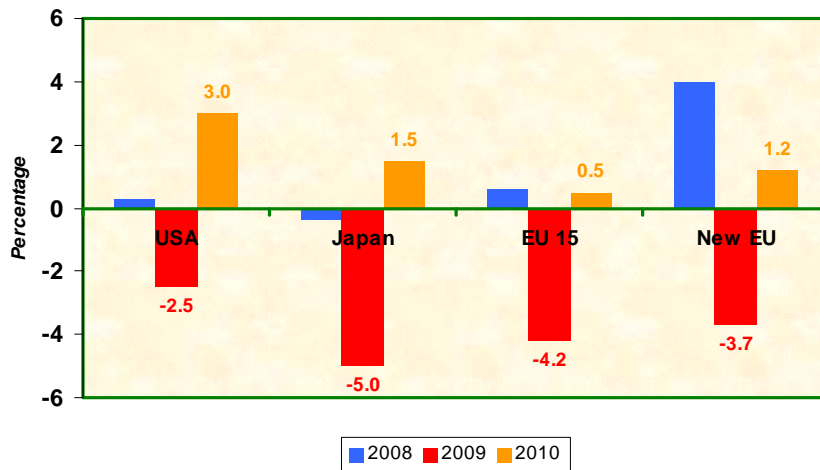
World economy is projected to recover by 2.4% in 2010.....



Below potential recovery in developing countries



Most developed economies slowly out of recession



Downside risks

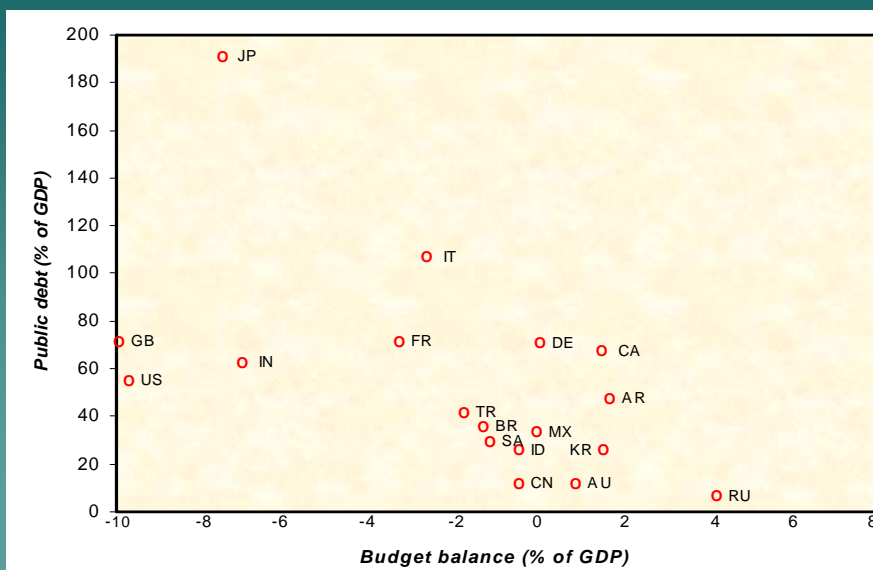
- ◆ Return of volatile capital flows and build up of asset bubbles
- ◆ Return of inflationary trends especially with rising oil and food prices
- ◆ Premature withdrawal of fiscal stimulus
- ◆ Need for new engines of growth
 - Demand in the western world will continue to remain weak

Policy challenges

- ◆ When's a good time to withdraw stimulus?
 - Robust recovery with growth of consumption and private investment
 - Recovery of employment levels
- ◆ Should we be concerned with high public debts and large budget deficits?
 - Over time yes, but premature withdrawal stimulus will be self-defeating
 - High inflation a concern but deflation also
 - Country-specific situation and room for manouver

Varying fiscal space

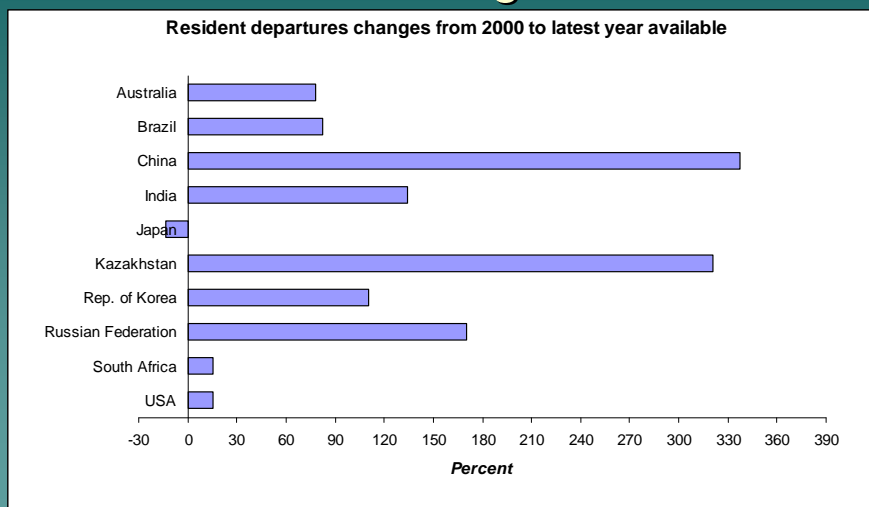
Budget balance and public debt, 2009 or latest available



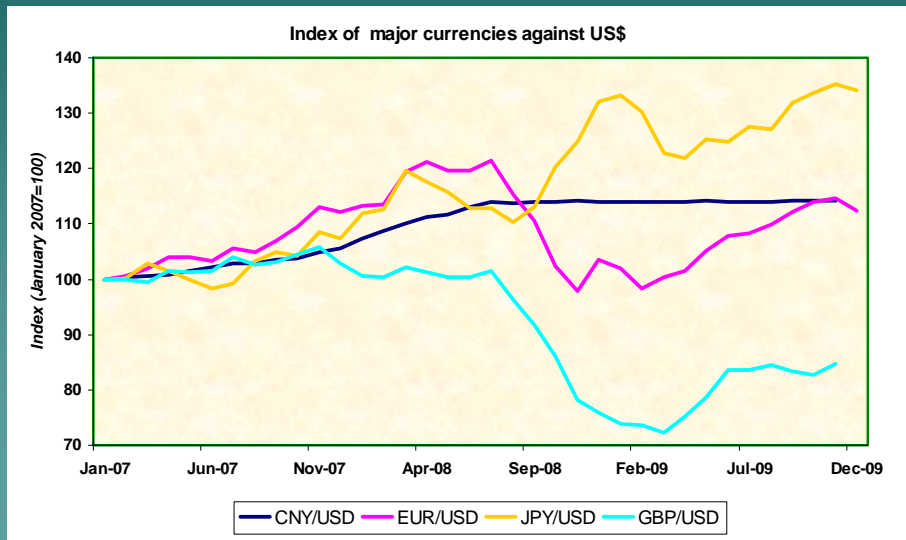
Policy challenges

- ◆ What about dealing with the systemic flaws?
 - Regulatory reform of financial system remains critical and urgent
 - Reform of global reserve system, less dependence on dollar
 - Global governance reform
- ◆ How to achieve sustainable rebalancing of global economy?
 - Rebalancing acts in global demand:
 - ◆ From public to private sector demand (consumption and investment)
 - ◆ From deficit to surplus countries
 - Interdependence requires strong international policy coordination

Implications for tourism: new sources of growth



Implications for tourism: appreciating currencies



Implications for tourism: fiscal support

- ◆ Tourist arrivals down by 4% in 2009
- ◆ Q4 figures show marked y-o-y rebound, and tourism arrivals forecast to grow by 3-4% in 2010, boosted by international sporting events, but...
- ◆ Tourism receipts, hotel revenues showed steep declines, with lagged recovery expected
- ◆ Crisis-sensitive nature of sector
- ◆ Also crisis-recovery potential through employment generation
- ◆ Fiscal support through spending support and tax reductions
- ◆ Mutual benefits in coordinating fiscal support at G20 level

THANK YOU