

## **20100225 World Bank: A new partnership for global growth (Speech by Justin Yifu Lin, Senior Vice President and Chief Economist)**

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*\*This paper serves as the basis for a panel intervention at a session on 'Post-Crisis International Economic Order'. It is not a transcript.*

### **1. INTRODUCTION**

It is my great honor to address such a distinguished audience and to share some thoughts on the situation and perspectives of the global economy. The specific topic of our exchange today, "Post-Crisis International Financial Architecture", could not be timelier: the world economy has narrowly escaped a disaster of major proportions, which will be studied by researchers around the world for generations to come. Another Great Depression has been avoided, thanks to decisive actions by governments around the world: central bank balance sheets in 6 industrialized countries, together with that of the European Central Bank, increased by an average of more than 8 percentage points of GDP between June 2007 and June 2009. At the same time, government balance sheets of 16 advanced countries increased on average by about 5.5 percentage points of GDP. By any standards, these were public interventions of historic proportions.

The long-run consequences of the crisis may be severe, possibly turning a short-run macroeconomic adjustment into a long-term development problem. Researchers at the World Bank estimate that about 64 million more people will be living in extreme poverty (on less than \$1.25 a day) by the end of 2010 than would have been the case had the crisis not occurred. When poor households pull their children out of school, there is a significant risk that they will not return once the crisis is over, or that they will not be able to recover the learning gaps resulting from lack of attendance. And the decline in nutritional and health status among children who suffer from reduced (or lower-quality) food consumption can be irreversible.

Thanks to a bold and rapid policy response, delivered by policymakers around the world with unprecedented cooperation, it appears that the storm has passed and the worst has been averted. Global economic activity is rising again. While the latest data available suggest that economic recovery is underway, albeit at a moderate pace, many challenges remain. Economists and policymakers are being confronted with some immediate challenges: (i) assessing the extent of the damage caused by the crisis and the effectiveness of the policy response; (ii) designing the appropriate exit strategies, that is, balancing the withdrawal of fiscal and monetary policies adopted to weather the crisis without jeopardizing the recovery; (iii) pursuing policies that create conditions for sustained growth and job creation; and (iv) reexamining some of the policy options and intellectual frameworks that may have led to complacency and mistakes prior to the crisis.

The tasks are clearly daunting and may require fresh, bold and pragmatic thinking, beyond all ideological fads. In fact, despite the return to positive growth, it will take several years before economies recoup the losses they have endured during the recession. It would be unrealistic to expect an overnight recovery from this deep and painful crisis: it will take several years for economies regain some of the pre-crisis momentum and to create enough jobs to compensate for the loss—and the toll on the poor will be very real.

In my remarks today, I wish to make two main points: first, sustaining the global recovery remains a challenge—the world economy is not out of the woods yet. Second, the recession provides a great opportunity for fresh thinking, and for a new partnership for international cooperation. If we can do that, we may turn the crisis into an opportunity for achieving a more sustainable and inclusive growth for the world. I will elaborate on these, and conclude with a few thoughts on

Korea's leadership role in the new global environment.

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