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### Ripple Effect: Half of world economy faces recession, says Goldman Sachs

22 Aug, 2008, 0400 hrs IST, Bloomberg

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LINDAU: Goldman Sachs Group said countries that account for half of the world's economy face a recession a year after the credit crisis began. The US, Japan, the 15-nation euro area and the UK are "either in recession or face significant recession risks in the months ahead," Goldman's London-based international economist Binit Patel said in a report to clients.

A year since the US housing slump sparked about \$500 billion in credit market losses for banks globally, the world's largest economies are all stumbling as rising borrowing costs combine with record commodity prices to sap growth. The US is close to a recession and France, Germany and Japan all contracted in the second quarter. Economists at UBS led by Larry Hatheway this week cut their forecast for global growth next year to 2.9% from 3.1%, close to the 2.5% deemed a world recession, while those at JPMorgan Chase say this quarter's estimated 1% expansion will be the slowest since mid-2001.

"The economy has really shown one sign after another of weakening," Martin Feldstein, the Harvard University economist, said in a Bloomberg Television interview in Jackson Hole, Wyoming, where he's attending an annual Federal Reserve conference. Feldstein said he is "much more pessimistic than a year ago" about the outlook.

Lone Star Funds, the Dallas-based private equity firm, agreed to buy IKB Deutsche Industriebank after the German bank was felled by the subprime mortgage crisis. Bear Stearns, the fifth-largest US securities firm has already collapsed, while the bonds of regional banks such as National City are under pressure on expectations of more fallout.

The crisis is "not over and I'm not exactly sure when it's going to end," Nobel Prize-winning economist Myron Scholes said at a conference in Lindau, Germany. Nobel laureate Daniel McFadden said at the same event that "as the crisis continues you will see a lot of business failures."

European Central Bank council member Nout Wellink told Het Financieel Dagblad in an interview published that banks "need to strengthen their buffers because of their central position in the economy." Global central banks have responded 'adequately' to the credit crisis by providing liquidity.

Still, Patel sees the chances of a global recession at no more than 20% given his expectation that China's economy will continue to grow about 10% this year and next.

"Continued robust, albeit slowing, growth in China and the rest of the emerging markets" will deliver world growth of 3.6% next year after 3.9% in 2008, said Patel, who estimates emerging markets account for the other 50% of the world economy.

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