

Economic uncertainty high in 2008

By Evan Pickworth

Johannesburg - Uncertainty about the short- and medium-term future is as high as it has been for a decade, and economically the uncertainty centres on how the global economy will respond to the spreading liquidity crunch of 2007, says the World Economic Forum (WEF) in its Global Risks 2008 report released on Wednesday

"The mispricing of financial risk, a central theme of Global Risks 2007, may have further to unwind. Geopolitically, uncertainty is focused on the possibility of an escalation in tensions with Iran and concerns over the long-term integrity of the states of Iraq and Afghanistan," adds the WEF.

The report notes that the result of uncertainty could be inaction in dealing with other, less immediate, global risks.

"Action to mitigate climate change, for example, may be put in danger should the global economy weaken substantially - even though many of the political, economic and investment decisions which will shape the future path of global climate will need to be made in the next five years," says the WEF.

"Proactive management of globalisation to ensure its long-term sustainability may be derailed by the prevailing currents of uncertainty. But inaction on long-term risks will only weaken the global capacity to manage future challenges," the institution says.

The WEF expresses fears that the current liquidity crunch will spark a US recession in the next 12 months and calls for new thinking on systemic financial risk in response to the revolution in financial markets over the last two decades.

It also recommends a set of principles for country risk management, and examines how the financial sector might take on an increasingly important role in risk transfer in the future.

The report is published in co-operation with Citigroup, Marsh & McLennan Companies, Swiss Re, the Wharton School Risk Centre and Zurich Financial Services, and highlights key areas of risk that will be a focus of discussions by business leaders and public policy makers at the World Economic Forum Annual Meeting in Davos later this month.

Published on the web by Business Report on January 9, 2008.

---

© Business Report 2008. All rights reserved.