WORKSHOP ON STEEL AND RELATED RAW MATERIALS

The Financial Crisis and its Impact on the Global Economy

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ROADMAP

- Forces bearing on the economy
- Impacts on the economy
- The OECD economic outlook
- Risks and uncertainties

FORCES BEARING

FORCES BEARING ON THE ECONOMIC OUTLOOK

Negative:

- Extreme financial stress
- Cooling housing markets

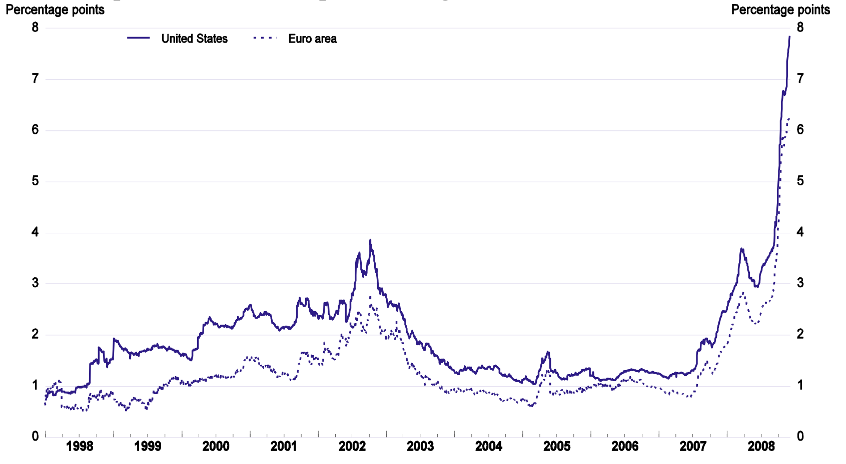
Positive:

- Plummeting commodity prices
- Substantial policy responses

FORCES BEARING

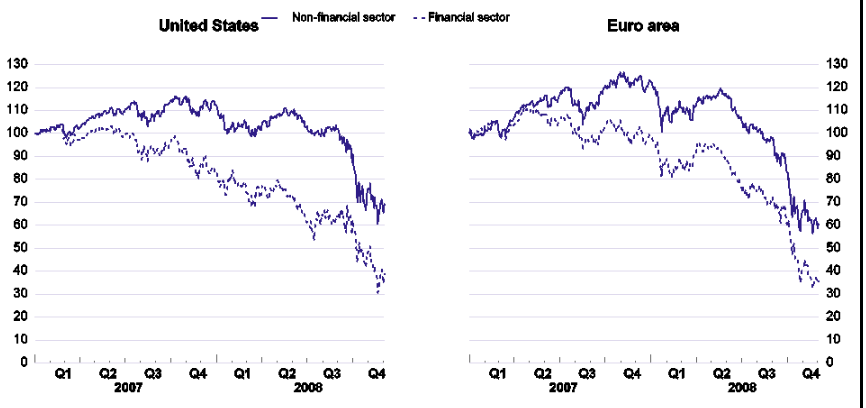
BOND SPREADS HAVE SOARED

Credit spreads between corporate and government benchmark bonds



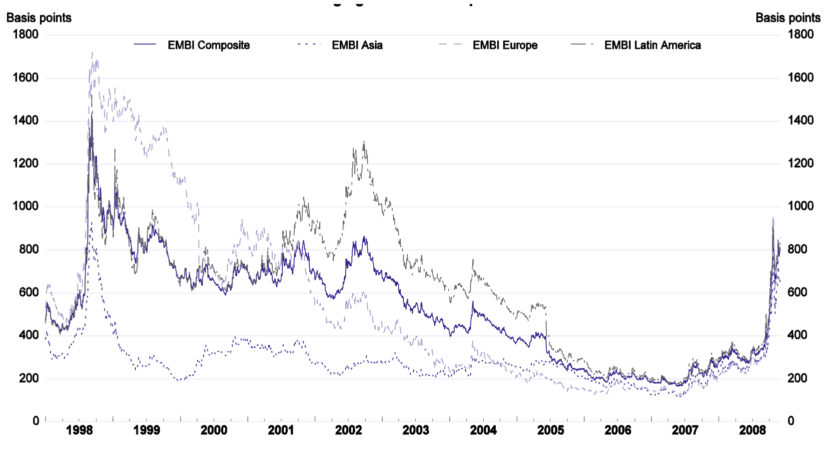
FORCES BEARING

SHARE PRICES HAVE DROPPED



FORCES BEARING

EMERGING MARKET COUNTRY RISK HAS INCREASED



FORCES BEARING

INDICATORS OF FINANCIAL MARKET STRESS

	Routine: before August 2007		Turmoil: Aug 2007 to 12 Sep 2008		Crisis: 15 Sep to 14 Oct 2008		Latest observation: 28 Nov 2008
	Average	Standard deviation	Average	Standard deviation	Average	Standard deviation	
Bank credit default swap rates[1]							
United States	21	6	158	97	271	60	**201**
Euro Area	13	4	79	33	170	24	**135**
United Kingdom	10	3	97	33	177	33	**120**
Three-month Treasury euro dollar spread	39	22	125	38	321	81	**210**
Three-month EURIBOR-EONIA swap index spread	6	1	62	16	118	41	**221**

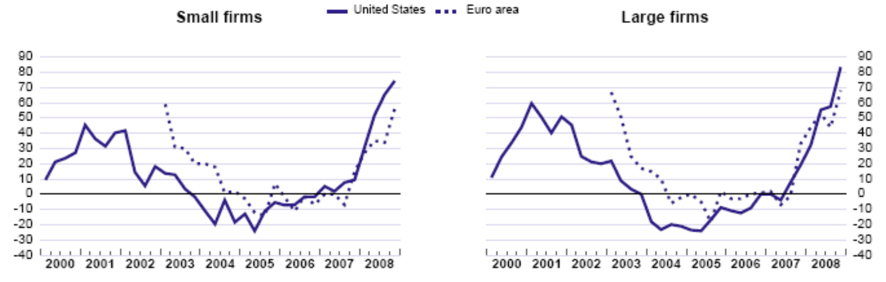
1. An average of 5-year credit default swap rates on bank's senior debt.

Source: OECD calculations

FORCES BEARING

BANKS ARE TIGHTENING LENDING STANDARDS

Net percentage of banks tightening credit

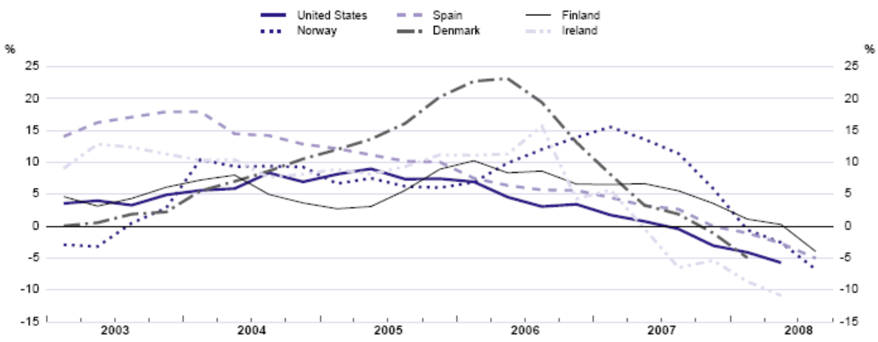


Source: US Federal Reserve, Senior Loan Officer Survey; ECB, The euro area bank lending survey; and Bank of Japan, Senior Loan Officer Opinion Survey.

FORCES BEARING

COOLING HOUSING MARKETS

Year–on-year percentage change[1]



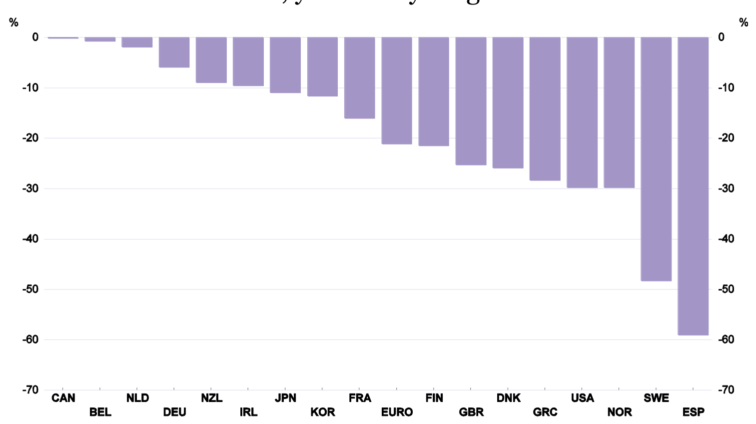
1. House prices deflated by the Consumer Price Index

Source: National sources.

FORCES BEARING

RESIDENTIAL CONSTRUCTION PERMITS FALLING SHARPLY

Latest data, year –on-year growth rates[1]

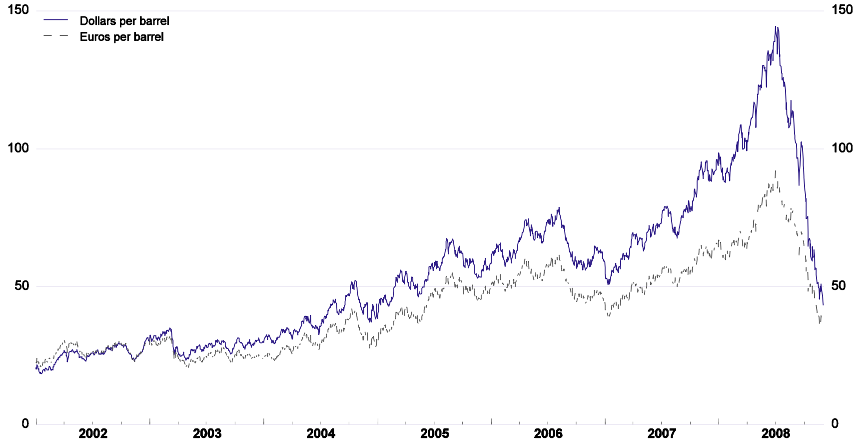


1. Monthly data mostly ending between March 2008 and July 2008; three-month average over the same three-month average in previous year

Source: Eurostat; and OECD, MEI.

THE OIL PRICE IS NOSE DIVING

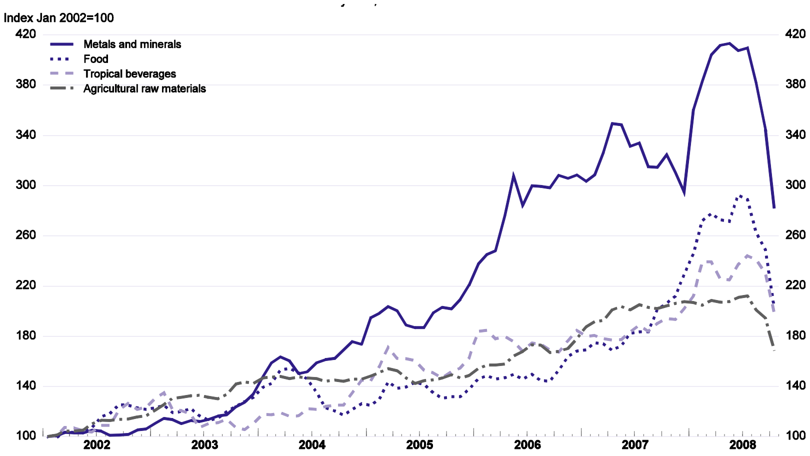
FORCES BEARING



Source: Datastream; IMF; OECD Economic Outlook 84 database.

PLUMETTING COMMODITY PRICES

FORCES BEARING



Source: Datastream; IMF; OECD Economic Outlook 84 database.

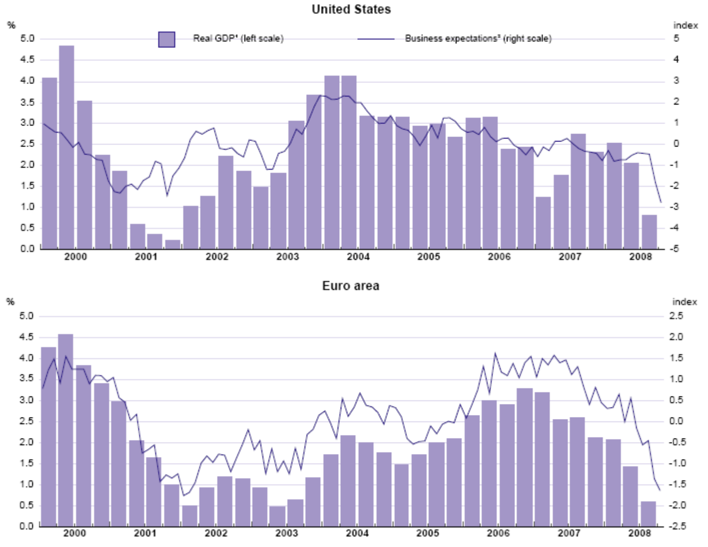
POLICY RESPONSES HAVE BEEN SUBSTANTIAL

FORCES BEARING

- Policy makers reacted quickly to deepening and broadening of the crisis.
- Massive liquidity injections.
- Extensive bank guarantees.
- Capital injections.
- Monetary policy has eased promptly and significantly.
- Many and substantial discretionary fiscal stimulus packages.

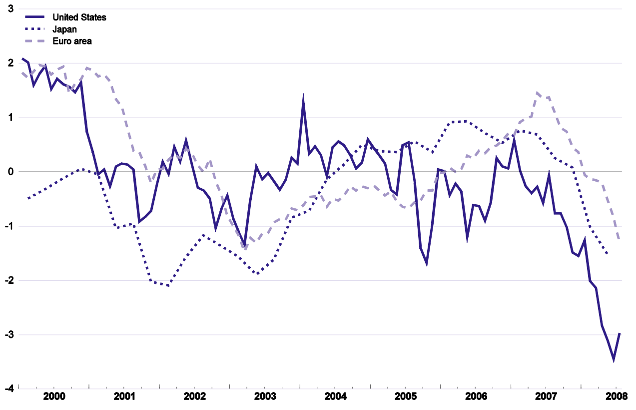
BUSINESS CONFIDENCE HAS WEAKENED...

IMPACTS ON THE ECONOMY



IMPACTS ON THE ECONOMY

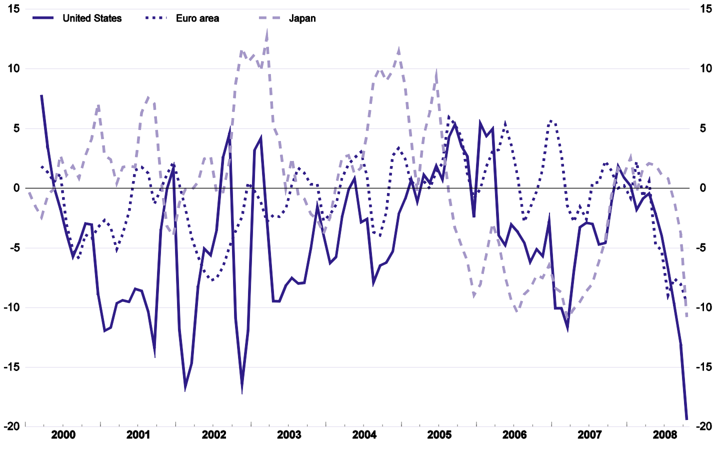
…AND SO HAS CONSUMER CONFIDENCE[1]



1 Indicators are normalised to the average for the period starting in 1985 and are presented in units of standard deviations. Monthly data, seasonally adjusted except Japan (quarterly, s.a.)
Source: OECD MEI; OECD calculations

IMPACTS ON THE ECONOMY

RECORD DROPS IN CAR SALES



Source: Datastream

OECD ECONOMIC OUTLOOK

A CONDITIONAL FORECAST

- Extended period of financial headwinds through late 2009, with a gradual normalisation thereafter.
- Constant exchange rates and oil prices.
- Fiscal and monetary easing built into the projections.

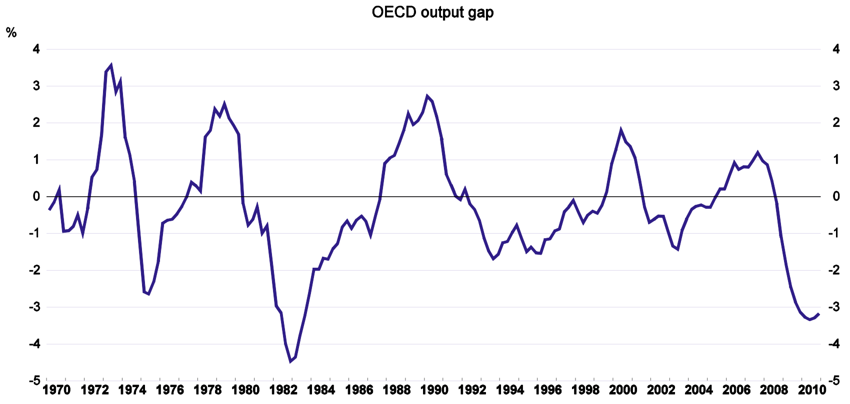
OECD ECONOMIC OUTLOOK

THE HIGHLIGHTS

- OECD area is in recession and will continue to be through 2009 Q2.
- 21 of 30 OECD countries will suffer from a deep and persistent recession.
- The most severe downturn since the 1980s.
- Unemployment in OECD countries may rise by 8 million up to 2010.
- Inflation will slow down. Some countries may face deflationary risk.

OECD ECONOMIC OUTLOOK

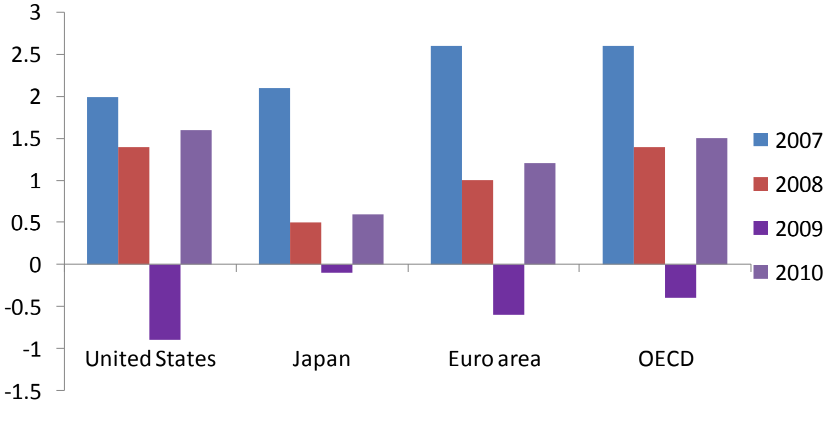
MOST SEVERE DOWNTURN SINCE THE 1980S



Note: the output gap is the difference between actual and potential output, where the latter represents an estimate of what the economy could produce at full capacity with stable inflation.
Source: OECD Economic Outlook 84 database.

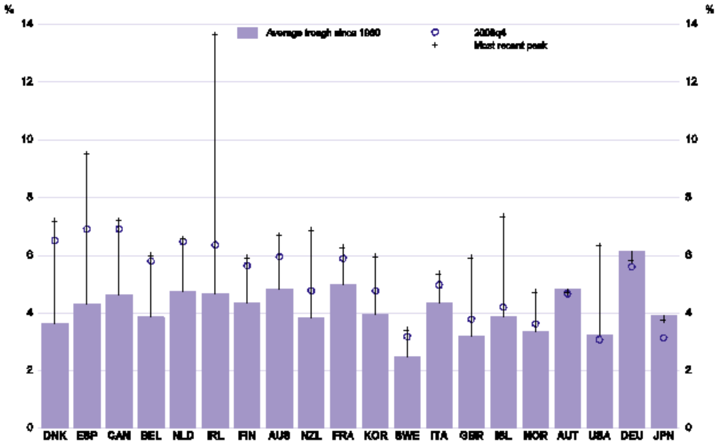
OECD ECONOMIC OUTLOOK

RECESSION IN MAJOR OECD COUNTRIES



OECD ECONOMIC OUTLOOK

DECLINING INVESTMENT IN HOUSING

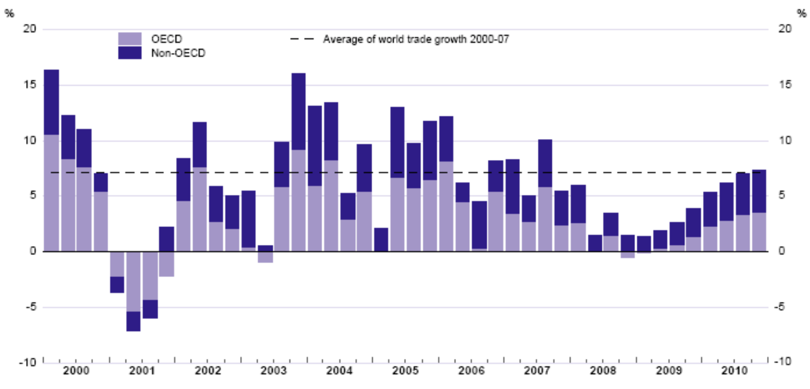


Note: Housing investment as share of GDP
Source: OECD Economic Outlook 84 database.

OECD ECONOMIC OUTLOOK

WORLD TRADE GROWTH WILL REMAIN WEAK NEXT YEAR

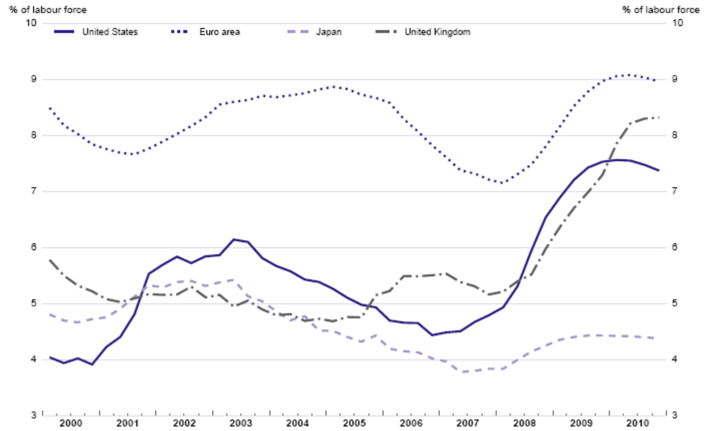
Contribution of OECD and non-OECD to world trade growth



Source: OECD Economic Outlook 84 database

OECD ECONOMIC OUTLOOK

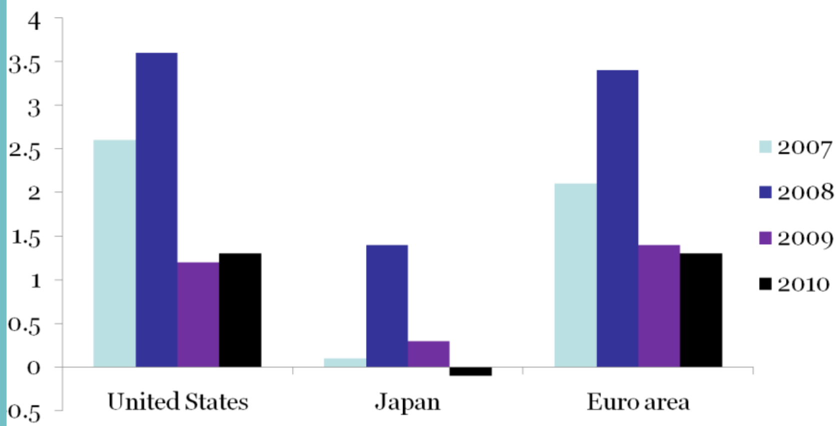
UNEMPLOYMENT WILL RISE



Source: OECD Economic Outlook 84 database.

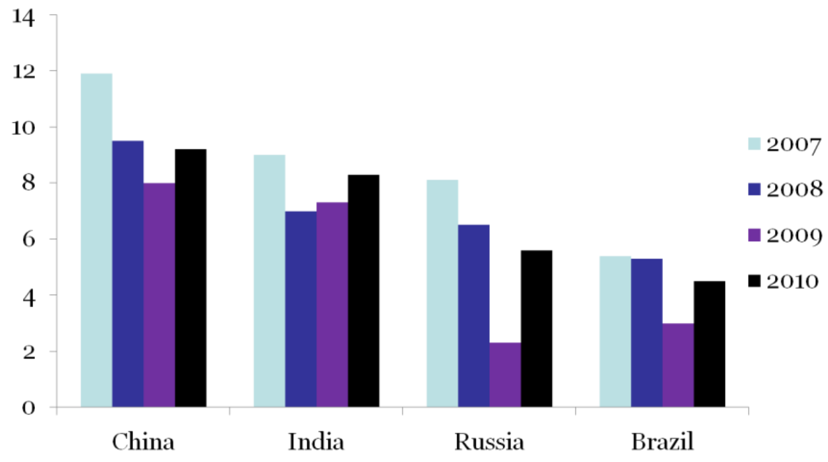
OECD ECONOMIC OUTLOOK

INFLATION IN MAJOR OECD COUNTRIES



OECD ECONOMIC OUTLOOK

NON-OECD GDP GROWTH IS ALSO SLOWING



RISKS AND UNCERTAINTIES

LARGE DOWNSIDE RISKS AND UNCERTAINTIES

- Financial conditions take more time to normalise.
- House price corrections overshoot on the downside.
- Negative feedbacks and further failures of financial institutions.
- Ineffectiveness of stabilisation policy.
- Emerging market economies are hit harder by the downturn in global trade and retrenchment of FDI.

RISKS AND UNCERTAINTIES

THERE ARE FEW UPSIDE RISKS

- Governments may introduce additional policy stimulus.
- Adjustment in bank balance sheets may advance more quickly in response to the comprehensive and unprecedented policy measures introduced.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Thank you

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