The following is an edited transcript from a video interview with Nouriel Roubini, by Aline van Duyn.

FT: What's in store for 2009?

NR: It is going to be a year of economic stagnation and recession for most of the global economy with deflationary pressures . . . I expect a global recession and a severe one.

FT: So you think next year will probably be the worst year?

NR: Yes. I see a recession throughout 2009 . . . and maybe there will be return to positive economic growth by 2010.

FT: What other policy actions do you think need to be taken?

NR: Well, part of the answer is the degree of these policy actions. For example, in the US monetary policy right now is very aggressive . . . I believe the ECB is behind the curve . . . But also on top of everything else I think that we have to recapitalise financial institutions much faster, more aggressively in the US. We also need a plan to reduce the debt burden of households that are now distressed and bankrupt.

FT: So it is going to cost the taxpayer a lot more?

NR: The fiscal deficit in the US is going to be huge; at least $1,000bn in 2010; another $1,000bn in 2011.

FT: Is there a risk that the capitalist system doesn't recover from this shock?

NR: We are going to avoid the Great Depression and a severe recession even if there is a risk of protracted slow economic growth. So I don't think this is the end of capitalism, of market economies, but it suggests that really there are significant market failures, that markets don't self-regulate each other.

FT: Are you advising the future Obama administration?

NR: I am not directly advising the administration. I am, of course, in touch with a number of members in the economic team.

FT: What could be the next shoe to drop?

NR: There are many of them. I think the process of deleveraging is going to continue. You could have a thousand, if not more, hedge funds going bust all at the same time.

Another source of stress is emerging market economies. There are about a dozen of them that are on the verge of a potential financial crisis: Latvia, Estonia, Lithuania, Hungary, Bulgaria, Romania, Turkey, Ukraine in emerging Europe . . . Pakistan, Indonesia or [South] Korea in Asia. Places like Ecuador that just defaulted. Argentina and Venezuela in Latin America. Some of these countries could get in trouble and there could be contagious effects to other financial markets in other emerging markets. This credit loss is going to spread from mortgages to commercial real estate, to credit cards, to auto loans, to leverage loans, to industrial and commercial loans . . . There are many sources of financial stress.

FT: What is your outlook for the dollar?

NR: There are different forces. In recent months the dollar was strengthening, partly because there was this flight to safety.

Of course, also the bleak economic outlook in Japan and Europe implied the relative interest rates are becoming less bearish for the dollar, but looking ahead I see a dollar weakness. I see dollar weakness because effectively the Fed is easing money like crazy.

FT: What is the outlook for markets?

NR: I see another 15 to 20 per cent downside risk for US and global equities because in the next few months macro news and earnings news is going to be much worse than expected . . . I don't see this as being the bottom of the market. There is a bear market rally but, like the previous ones, it is going to fizzle out.

So I am concerned about equities, I am concerned about credit, I am concerned about commodities falling another 15-20 per cent given a severe recession. I am still concerned about emerging market asset classes. I think that cash and cash-like instruments such as safe government bonds are still the safer bet for the next few months.

Down the line towards the end of 2009, if we see the light at the end of the tunnel of economic recovery - if and when we see it - maybe it is time to go back into risky assets, but not in the short term.

Source: Financial Times, December 23, 2008.