



The Global Economic Crisis: The World outside America

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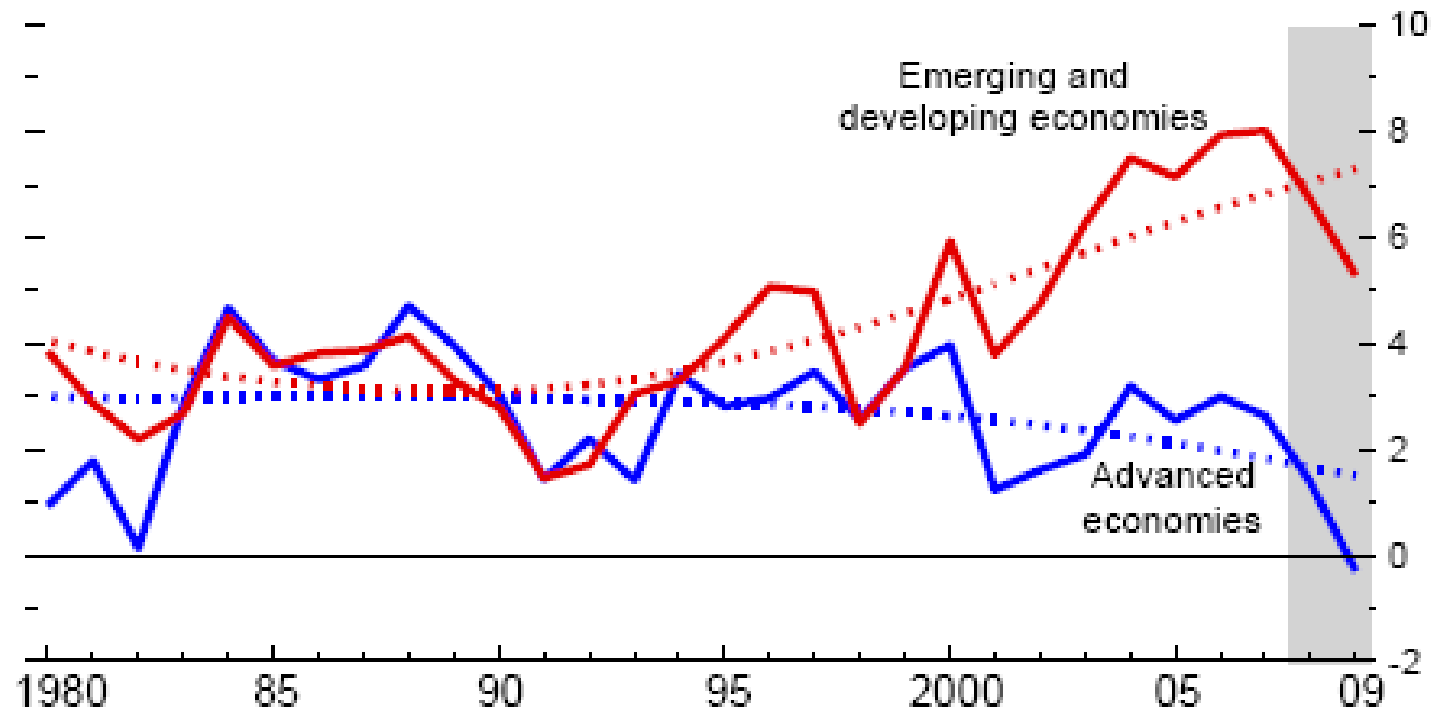


Outline

- The global economic landscape
- Transmission channels
- The end of America as consumer of last resort
- Policy responses
- Looking ahead

The Global Landscape

Figure 1. Real GDP Growth and Trend
(Percent change)



Source: IMF, *WEO* update, Nov. 6, 2008.

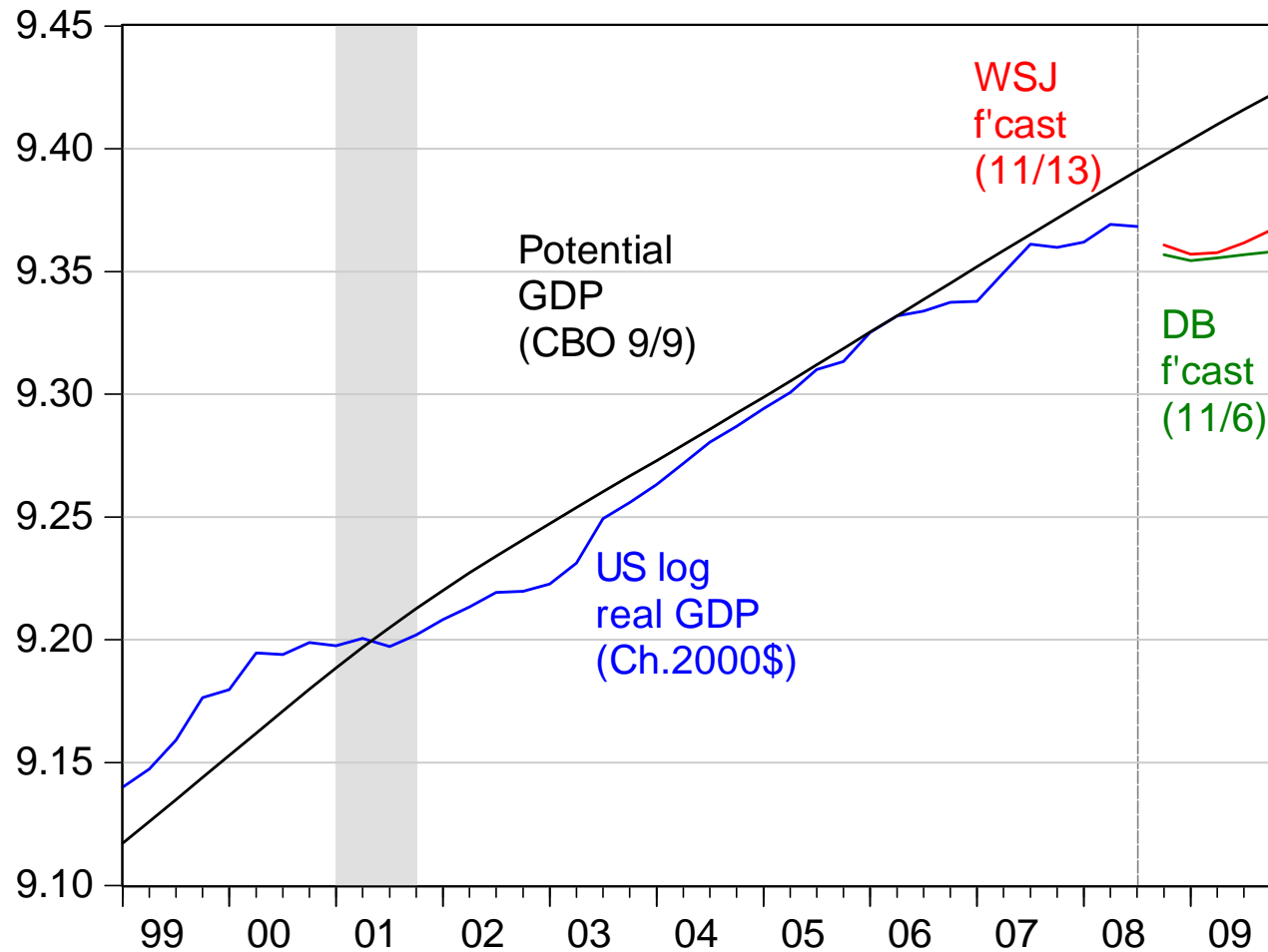
Latest forecasts: IMF

Table 1.1. Overview of the *World Economic Outlook* Projections

(Percent change, unless otherwise noted)

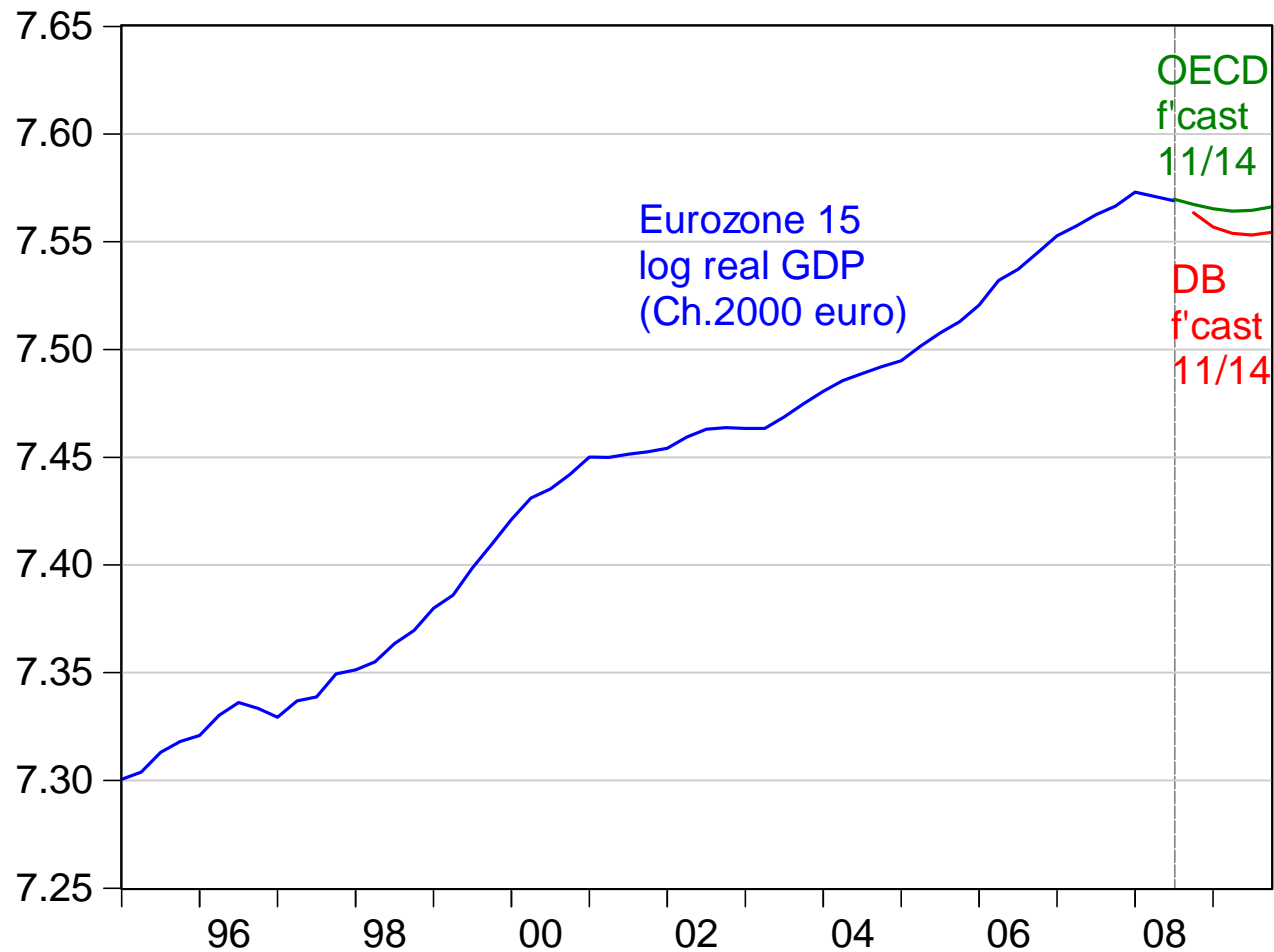
| | Year over Year | | | | | | Q4 over Q4 | | |
|--|----------------|------------|-------------|------------|--|-------------|----------------|-------------|------------|
| | 2006 | 2007 | Projections | | Difference from October 2008 WEO Projections | | Estimates 2007 | Projections | |
| | | | 2008 | 2009 | 2008 | 2009 | | 2008 | 2009 |
| World output¹ | 5.1 | 5.0 | 3.7 | 2.2 | -0.2 | -0.8 | 4.8 | 2.5 | 2.4 |
| Advanced economies | 3.0 | 2.6 | 1.4 | -0.3 | -0.1 | -0.8 | 2.6 | 0.3 | 0.3 |
| United States | 2.8 | 2.0 | 1.4 | -0.7 | -0.1 | -0.8 | 2.3 | 0.4 | -0.5 |
| Euro area | 2.8 | 2.6 | 1.2 | -0.5 | -0.1 | -0.7 | 2.1 | 0.1 | -- |
| Germany | 3.0 | 2.5 | 1.7 | -0.8 | -0.2 | -0.8 | 1.7 | 0.3 | -0.3 |
| France | 2.2 | 2.2 | 0.8 | -0.5 | -0.1 | -0.6 | 2.2 | -0.4 | 0.2 |
| Italy | 1.8 | 1.5 | -0.2 | -0.6 | -0.1 | -0.4 | 0.1 | -0.4 | -0.1 |
| Spain | 3.9 | 3.7 | 1.4 | -0.7 | -- | -0.5 | 3.2 | 0.2 | -0.6 |
| Japan | 2.4 | 2.1 | 0.5 | -0.2 | -0.2 | -0.7 | 1.4 | -0.3 | 0.4 |
| United Kingdom | 2.8 | 3.0 | 0.8 | -1.3 | -0.2 | -1.2 | 2.9 | -0.9 | -0.5 |
| Canada | 3.1 | 2.7 | 0.6 | 0.3 | -0.1 | -0.9 | 2.8 | -- | 1.0 |
| Other advanced economies | 4.5 | 4.7 | 2.9 | 1.5 | -0.2 | -1.0 | 5.0 | 1.8 | 3.0 |
| Newly industrialized Asian economies | 5.6 | 5.6 | 3.9 | 2.1 | -0.1 | -1.1 | 6.1 | 2.2 | 4.4 |
| Emerging and developing economies ² | 7.9 | 8.0 | 6.6 | 5.1 | -0.3 | -1.0 | 8.5 | 5.9 | 5.7 |
| Africa | 6.1 | 6.1 | 5.2 | 4.7 | -0.7 | -1.3 | ... | ... | ... |
| Sub-Sahara | 6.6 | 6.8 | 5.5 | 5.1 | -0.6 | -1.2 | ... | ... | ... |
| Central and eastern Europe | 6.7 | 5.7 | 4.2 | 2.5 | -0.3 | -0.9 | ... | ... | ... |
| Commonwealth of Independent States | 8.2 | 8.6 | 6.9 | 3.2 | -0.3 | -2.5 | ... | ... | ... |
| Russia | 7.4 | 8.1 | 6.8 | 3.5 | -0.2 | -2.0 | 9.5 | 5.9 | 5.8 |
| Excluding Russia | 10.2 | 9.8 | 6.9 | 1.6 | -0.7 | -4.6 | ... | ... | ... |
| Developing Asia | 9.8 | 10.0 | 8.3 | 7.1 | -0.1 | -0.6 | ... | ... | ... |
| China | 11.6 | 11.9 | 9.7 | 8.5 | -0.1 | -0.8 | 11.3 | 9.0 | 8.3 |
| India | 9.8 | 9.3 | 7.8 | 6.3 | -0.1 | -0.6 | 8.9 | 6.6 | 6.0 |
| ASEAN-5 | 5.7 | 6.3 | 5.4 | 4.2 | -0.1 | -0.7 | 6.6 | 4.4 | 5.2 |
| Middle East | 5.7 | 6.0 | 6.1 | 5.3 | -0.3 | -0.6 | ... | ... | ... |
| Western Hemisphere | 5.5 | 5.6 | 4.5 | 2.5 | -0.1 | -0.7 | ... | ... | ... |
| Brazil | 3.8 | 5.4 | 5.2 | 3.0 | -- | -0.5 | 6.2 | 3.9 | 3.2 |
| Mexico | 4.9 | 3.2 | 1.9 | 0.9 | -0.1 | -0.9 | 4.2 | 0.6 | 1.5 |

America in recession



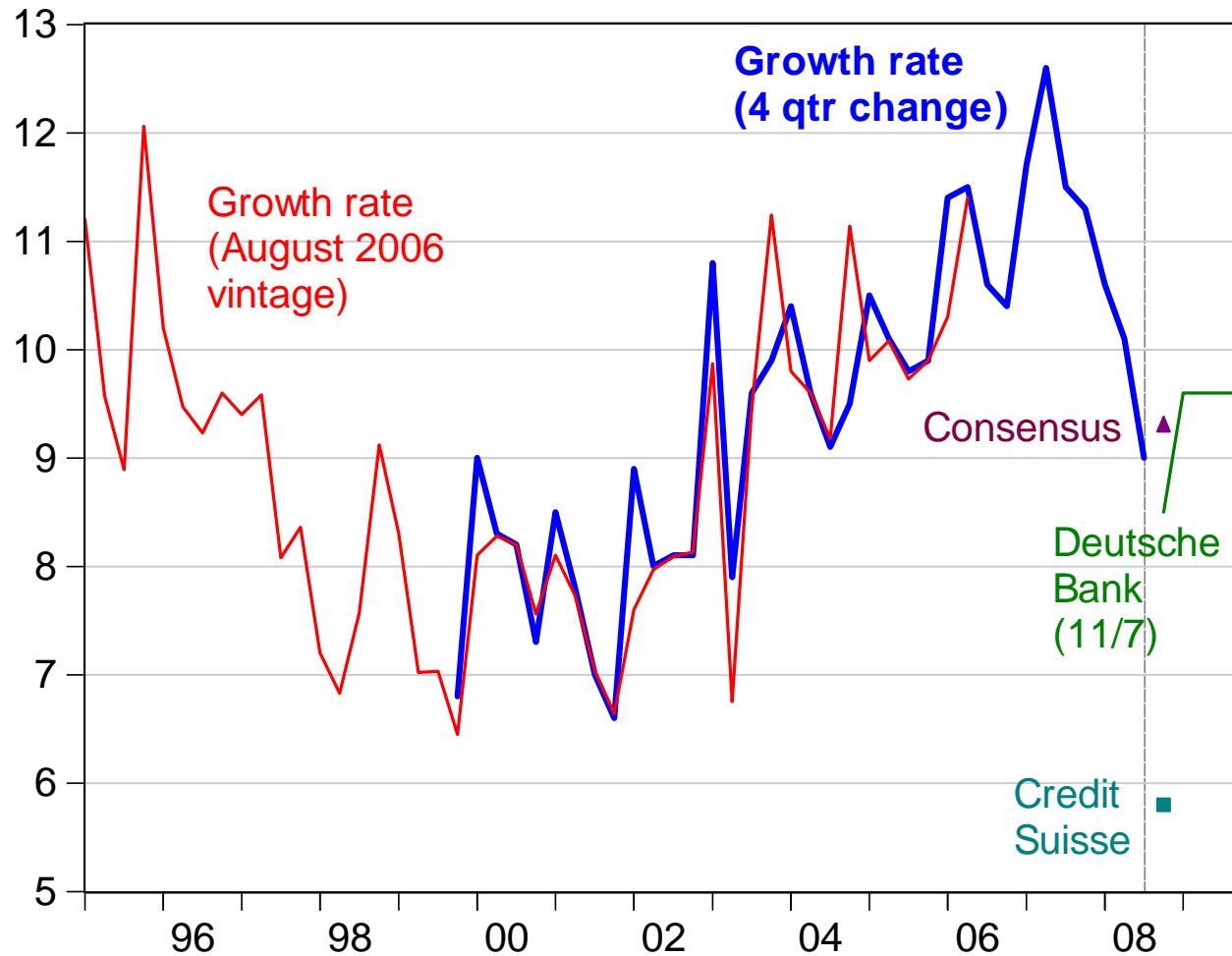
Log real US GDP. Source: BEA, CBO, Deutsche Bank, *WSJ* survey

Europe in tailspin



Euro zone 15 (fixed composition) log real GDP. Source: ECB, OECD, Deutsche Bank

And China in doubt



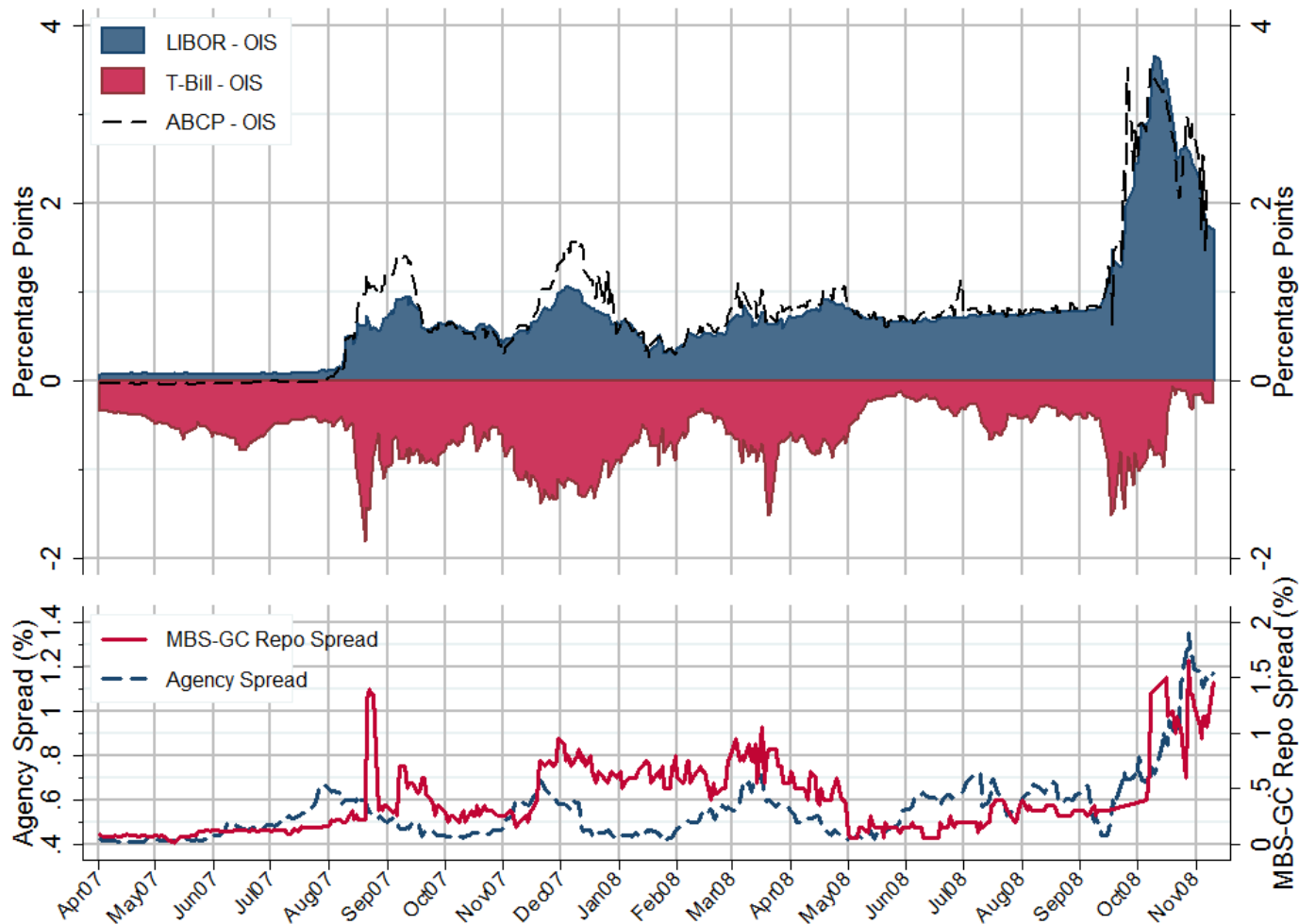
4-quarter growth rate of Chinese real GDP. Source: CEIC, IMF, Deutsche Bank



Transmission mechanisms

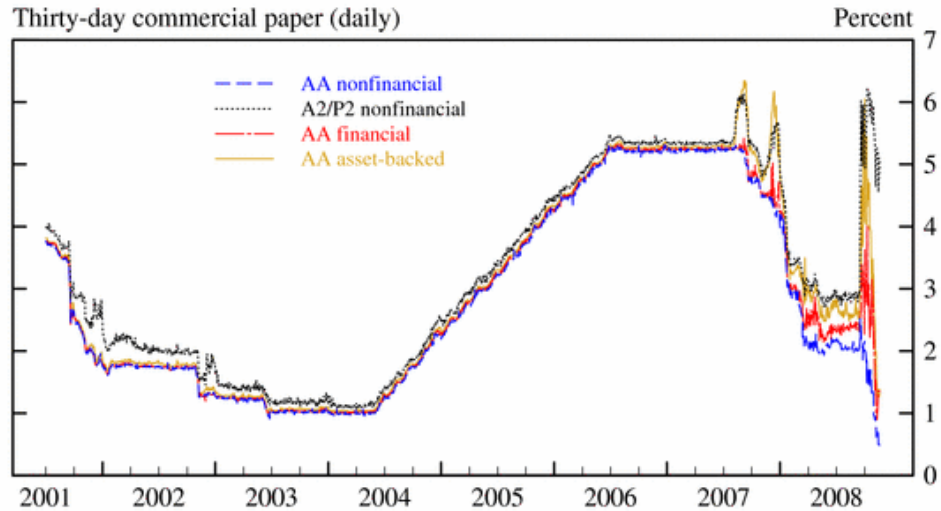
- Financial I: money market freeze
- Financial II: portfolios of MBS, CDOs
- Deleveraging
- Trade

Financial I: Freezing up of the interbank market



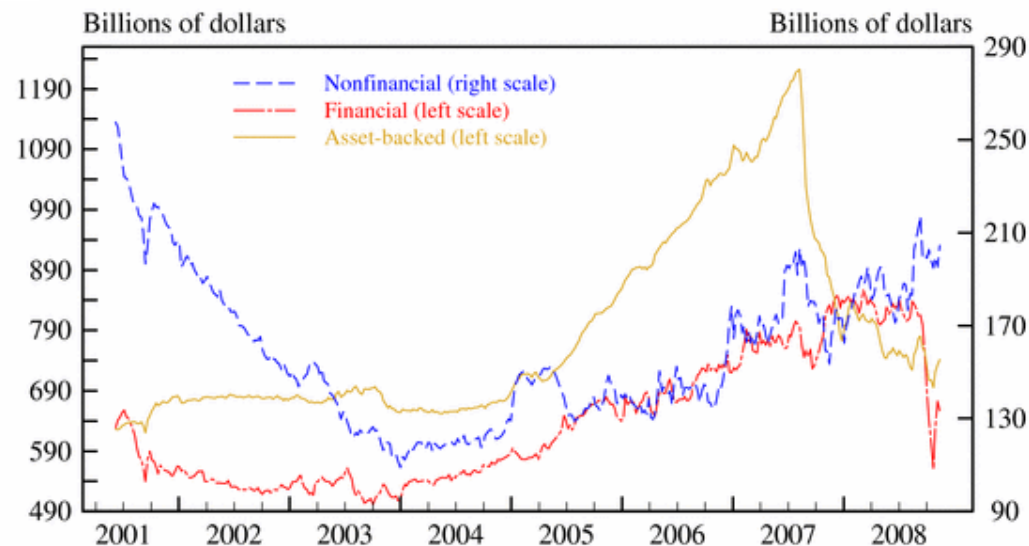
Source: M.K. Brunnermeier, "Deciphering the Liquidity and Credit Crunch 2007-08," Princeton (Nov. 15).

Financial I: Commercial paper drying up



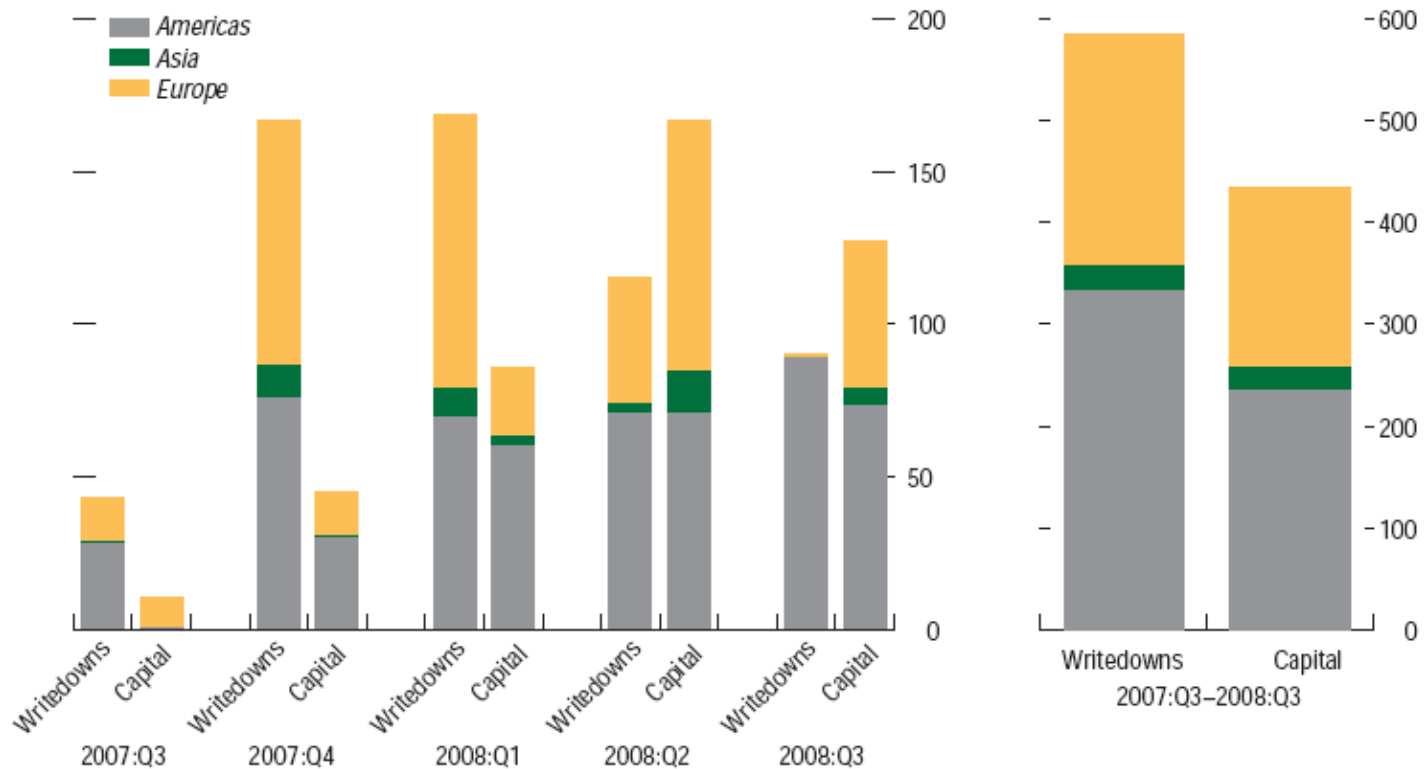
A2/P2 lowest
grade prime
Commercial paper

Source: Federal
Reserve Board,
19 Nov 2008



Financial II: Write-downs, capital injections, capital crunch

Bank Write-downs and Capital Raised
(In billions of U.S. dollars)

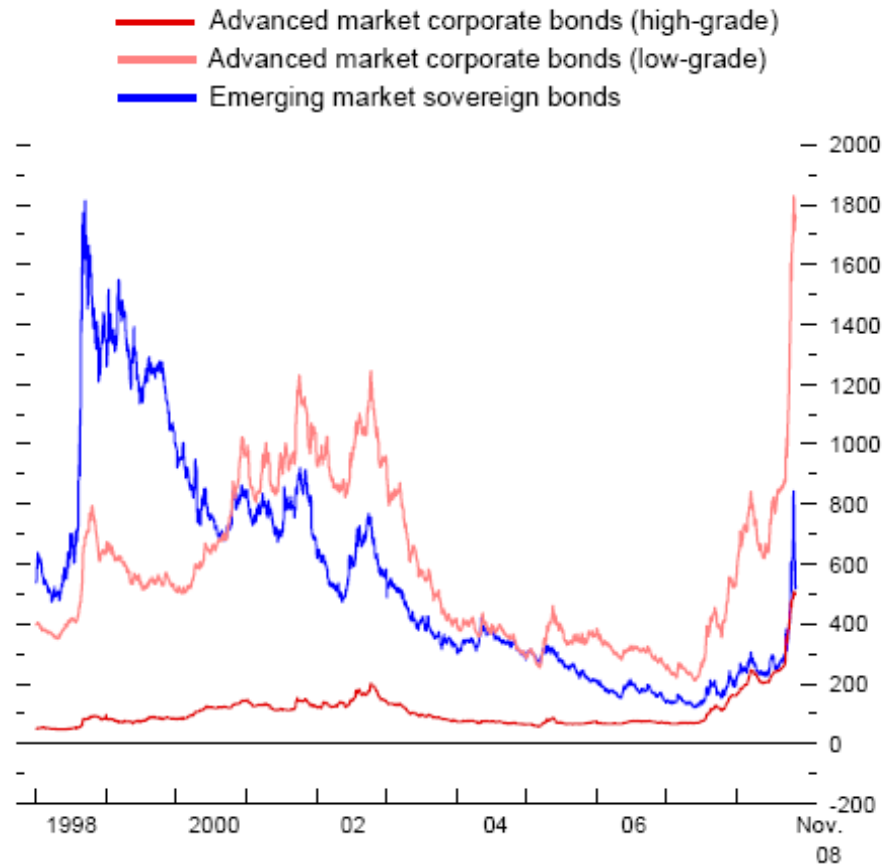


Source: Bloomberg L.P.

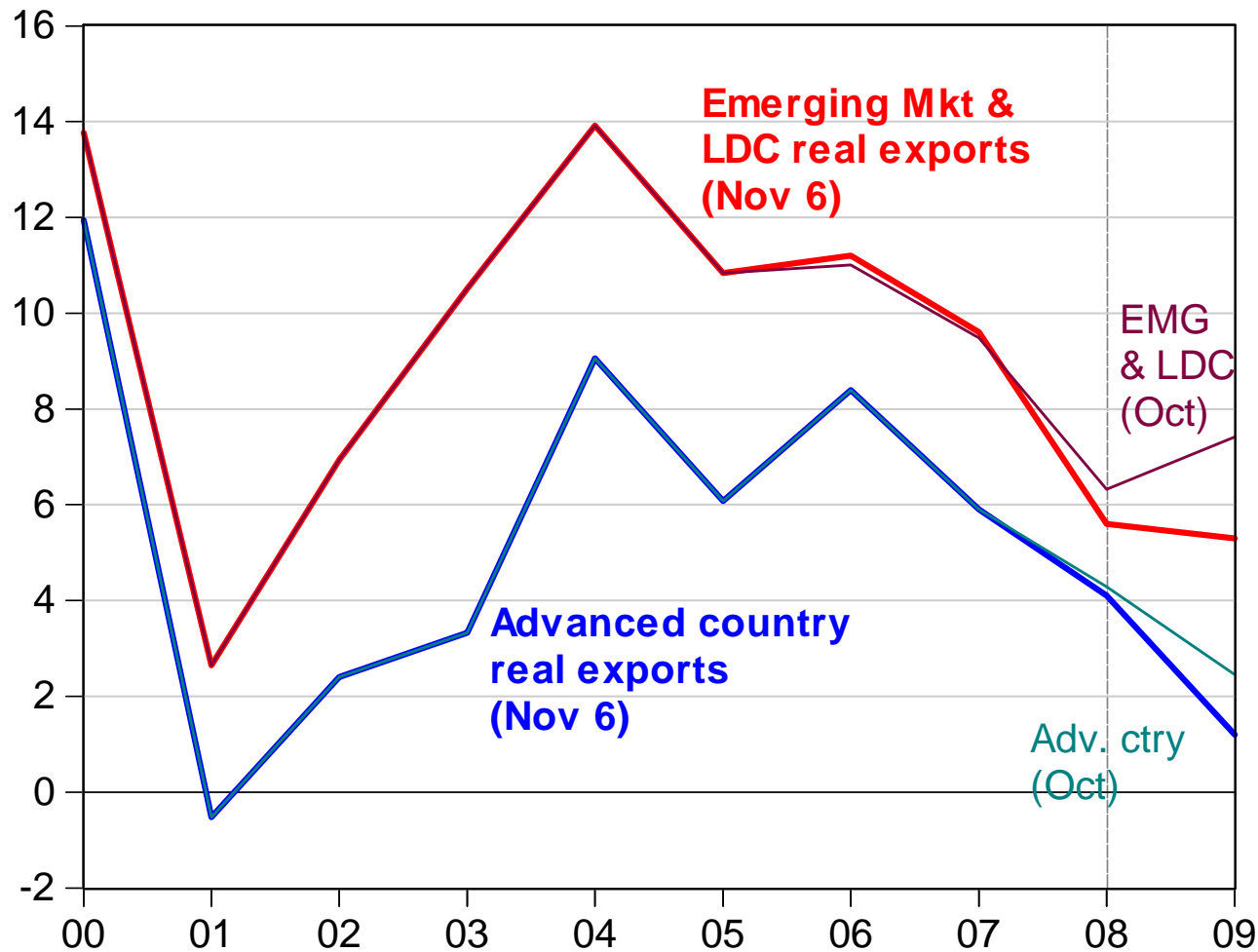
Financial II: Risk perceptions rising in emerging markets

Figure 3. Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 1998–2008¹
(In basis points)

Source: IMF, *WEO* update, 11/6/08

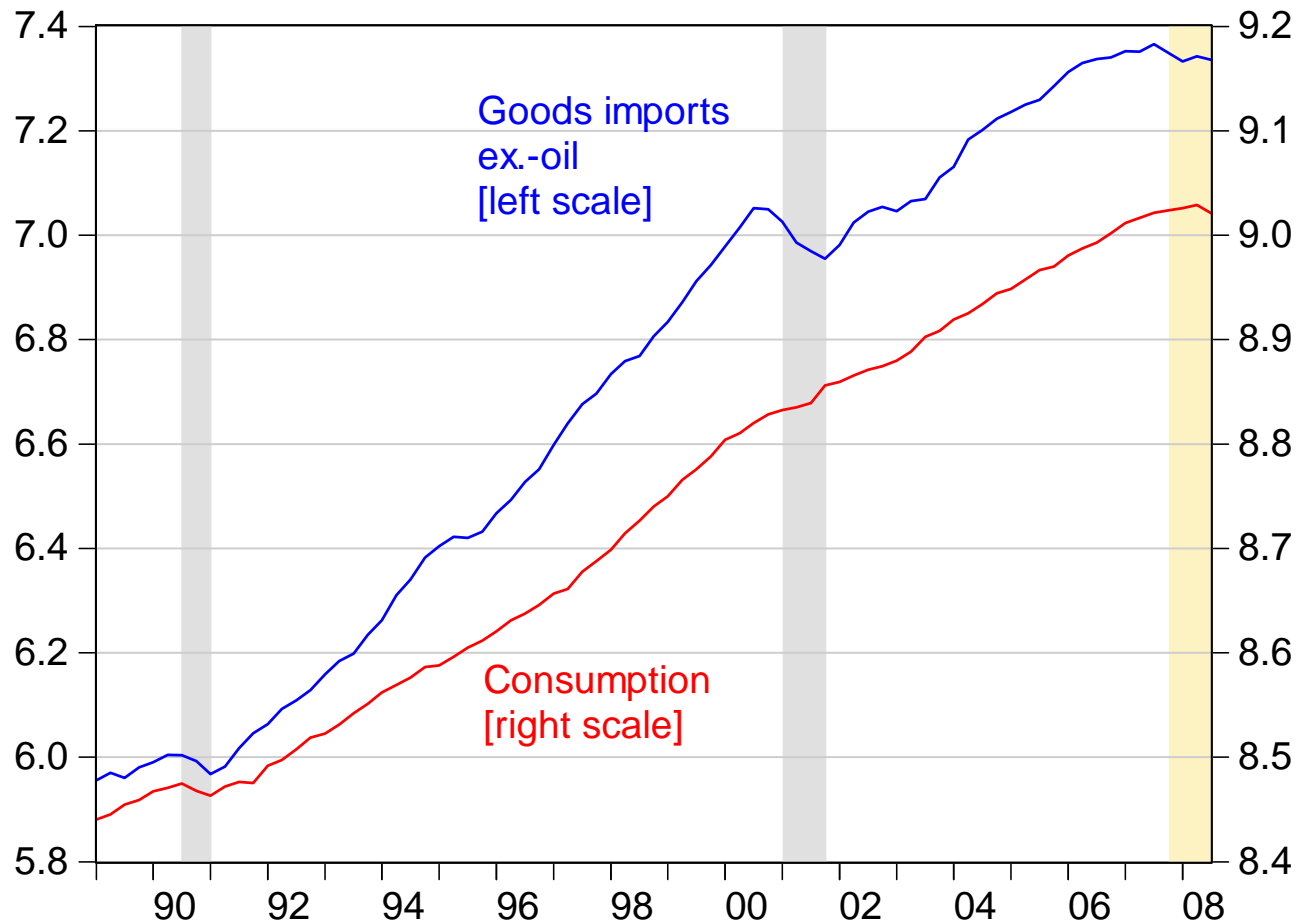


Trade: Export growth rates



Real goods & svcs exports by country group. Source: IMF, *WEO* Oct. 2008; Nov. 6 *WEO* update

America: Consumer of last resort no longer



Log real imports of goods ex.-oil, and real consumption. Source: BEA (10/30), NBER

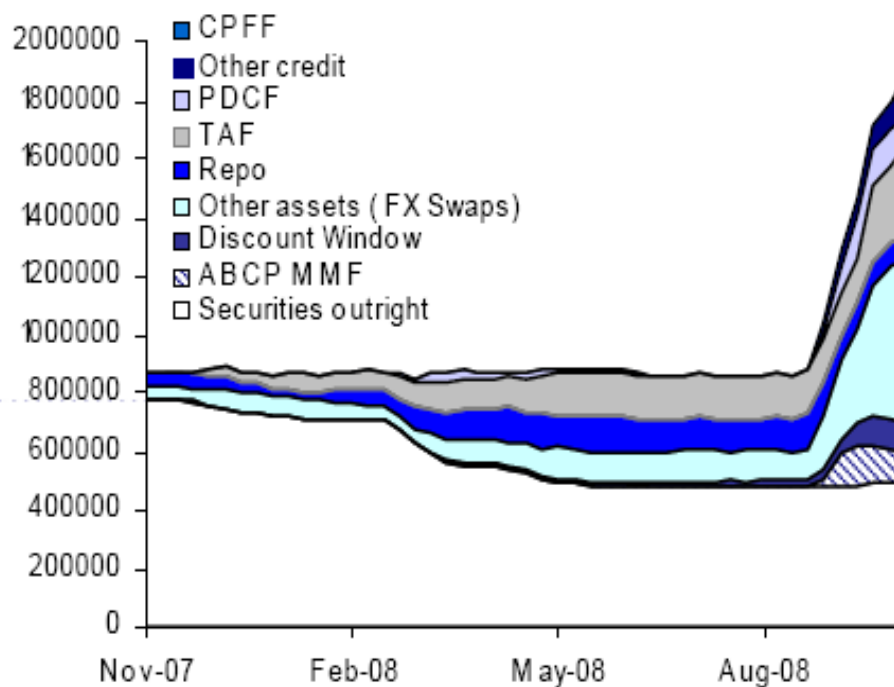


Responses

- Fed interventions in money markets
- Fed swaps
- TARP
- Stimulus plans?
- Euro area UK
- Japan
- China

Fed interventions

Discount window borrowing on the rise (USD mln)



Source: Deutsche Bank, Federal Reserve

- CPFF: Commercial Paper Funding Facility
- PDCF: Primary Dealer Credit Facility
- TAF: Term Auction Facility
- ABCP MMF: Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility



Fiscal stimulus

- US: Another 2-6% on top of 1%
- Germany: 2%
- Japan: 1.2% (cumulative)
- China: *Not* 20% over two years
 - 2% central gov p.a.
 - 2% (?) provincial p.a.
 - SOE's, etc.
- IMF suggests 2%



Looking ahead

- Deleveraging implies easy credit is over for...
- Countries as hedge fund (Iceland)
- Central Europe with BoP issues (Hungary)
- Commodity exporters, soon (Argentina)
- Even (high cost) oil exporters
- East Asia eventually (perhaps sooner rather than later)