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)*

<table>
<thead>
<tr>
<th></th>
<th>Year over Year</th>
<th>Difference from October</th>
<th>Q4 over Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006 2007</td>
<td>2008 2009</td>
<td>2007 2008 2009</td>
</tr>
<tr>
<td>World output¹</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced economies</td>
<td>3.0 2.6</td>
<td>1.4 -0.3</td>
<td>2.6 0.3 0.3</td>
</tr>
<tr>
<td>United States</td>
<td>2.8 2.0</td>
<td>1.4 -0.7</td>
<td>2.3 0.4 -0.5</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.8 2.6</td>
<td>1.2 -0.5</td>
<td>2.1 0.1 --</td>
</tr>
<tr>
<td>Germany</td>
<td>3.0 2.5</td>
<td>1.7 -0.8</td>
<td>1.7 0.5 -0.3</td>
</tr>
<tr>
<td>France</td>
<td>2.2 2.2</td>
<td>0.8 -0.5</td>
<td>2.2 -0.4 0.2</td>
</tr>
<tr>
<td>Italy</td>
<td>1.8 1.5</td>
<td>0.2 -0.6</td>
<td>0.1 0.4 0.1</td>
</tr>
<tr>
<td>Spain</td>
<td>3.9 3.7</td>
<td>1.4 -0.7</td>
<td>3.2 0.2 -0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4 2.1</td>
<td>0.5 -0.2</td>
<td>1.4 0.3 0.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.8 3.0</td>
<td>0.8 -1.3</td>
<td>2.9 -0.9 -0.3</td>
</tr>
<tr>
<td>Canada</td>
<td>3.1 2.7</td>
<td>0.6 0.3</td>
<td>2.8 -- 1.0</td>
</tr>
<tr>
<td>Other advanced economies</td>
<td>4.5 4.7</td>
<td>2.9 1.5</td>
<td>5.0 1.8 3.0</td>
</tr>
<tr>
<td>Newly industrialized Asian economies</td>
<td>5.6 5.6</td>
<td>3.9 2.1</td>
<td>6.1 2.2 4.4</td>
</tr>
</tbody>
</table>

Emerging and developing economies²

|                          |                |                          |            |
| Africa                   | 6.1 6.1        | 5.2 4.7                  | ... ... ... |
| Sub-Saharan              | 6.6 6.8        | 5.5 5.1                  | ... ... ... |
| Central and eastern Europe | 6.7 5.7       | 4.2 2.5                  | ... ... ... |
| Commonwealth of Independent States | 8.2 8.6 | 6.9 3.2 | ... ... ... |
| Russia                   | 7.4 8.1        | 6.8 3.5                  | 9.5 5.9 5.8 |
| Excluding Russia         | 10.2 9.8       | 6.9 1.6                  | ... ... ... |
| Developing Asia          | 9.8 10.0       | 8.3 7.1                  | ... ... ... |
| China                    | 11.6 11.9      | 9.7 8.5                  | 11.3 9.0 8.3 |
| India                    | 9.8 9.3        | 7.8 6.3                  | 8.9 6.6 6.0 |
| ASEAN-5                  | 5.7 6.3        | 5.4 4.2                  | 6.6 4.4 5.2 |
| Middle East              | 5.7 6.0        | 6.1 5.3                  | ... ... ... |
| Western Hemisphere       | 5.5 5.6        | 4.5 2.5                  | 6.2 3.9 3.2 |
| Brazil                   | 3.8 3.4        | 5.2 3.0                  | 6.2 3.9 3.2 |
| Mexico                   | 4.9 3.2        | 1.9 0.9                  | 4.2 0.6 1.5 |
America in recession

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

Potential GDP
CBO
7 Jan 09

GDP
Ch.00$ (23 Dec)

WSJ
8 Jan 09

Log real US GDP. Source: BEA, CBO, WSJ survey
Output Gap Forecasts

Figure 1.

The GDP Gap, 1949 to 2019

(Percentage of potential gross domestic product)

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.
Europe in tailspin

Eurozone 15 log real GDP (Ch. 2000 euro)

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

Figure 1. Economic growth is decelerating rapidly

Figure 2. Exports have so far been supported by emerging market demand and gains in market share

Source: NBS, staff estimates
1/ Quarterly data from national accounts
2/ Monthly data, covering SOEs and large non-SOEs

Transmission mechanisms

• Financial I: money market freeze
• Financial II: portfolios of MBS, CDOs
• Deleveraging
• Trade
Financial I: Freezing up of the interbank market

Financial I: Commercial paper drying up

A2/P2 lowest grade prime
Commercial paper

Source: Federal Reserve Board, 16 January 2009
Financial II: Write-downs, capital injections, capital crunch

Bank Writedowns and Capital Raised
(In billions of U.S. dollars)

Source: Bloomberg L.P.

IMF, Global Financial Stability Report (Oct. 2008), Box 1.3.
Financial II: Risk perceptions rising in emerging markets

Figure 3. Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 1998–2008

1 (In basis points)

Source: IMF, WEO update, 11/6/08
Real goods & svcs exports by country group. Source: IMF, WEO Oct. 2008; Nov. 6 WEO update
America: No longer consumer of last resort

Log real imports of goods ex.-oil, and real consumption. Source: BEA (12/26), NBER
Responses

• Fed interventions in money markets, swaps
• Quantitative easing
• TARP (USD335 bn so far)
• Fiscal stimulus plans?
• Euro area, UK, US
• Japan
• China
Fed interventions

- 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

Deutsche Bank, *Money Market Monitor*, 3 Nov 08
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% (in November)
Divvying Up $825 Billion

The economic recovery package, outlined by the House Democrats, allocates about $275 billion for tax cuts and $550 billion in new spending. Major components of the bill:

**$275 billion TAX CUTS FOR INDIVIDUALS AND BUSINESSES**
Includes a tax cut of $500 for individuals and $1,000 for couples by reducing payroll tax withholdings and a proposal that would allow businesses to cut taxes by writing off current losses against profits earned in the past five years, instead of the usual two years.

**$119 billion AID TO STATES FOR HEALTH CARE AND OTHER ESSENTIALS**
- $87 billion to temporarily increase aid to states for Medicaid costs.
- $20 billion for high priority needs like public safety and other critical services, which may include education.
- $7 billion for law enforcement and to help needy families.

**$117 billion EDUCATION**
- $41 billion to local school districts for schools serving impoverished and disabled students and for construction needs.
- $38 billion to local school districts, public colleges and universities.
- $15 billion to states for meeting key performance measures.
- $22 billion for higher education; includes increasing the Pell grant.

**$106 billion AID FOR UNEMPLOYED AND THE NEEDY**
- $43 billion to extend jobless benefits and provide training services.
- $36 billion to help those who lost their job to keep their group health benefits under the COBRA law and provide short-term options to be covered by Medicaid.
- $20 billion to increase the food stamp benefit by over 13 percent.
- $4 billion to increase Social Security benefit payments for low-income disabled and elderly people.

**$90 billion INFRASTRUCTURE**
- $30 billion for highway and bridge construction.
- $31 billion to repair federal buildings and other public infrastructure and make them more energy efficient.
- $10 billion for water and environmental projects.
- $10 billion for public transit and rail systems.

**$54 billion ENERGY INVESTMENTS**
- $32 billion for smarter electricity grid and renewable technology.
- $22 billion to repair public housing, make federal infrastructure more energy efficient and provide aid to low-income people to weatherize their homes.

**$16 billion INVESTMENTS IN SCIENCE AND TECHNOLOGY**
- $10 billion for scientific research and facilities.
- $6 billion to expand broadband Internet service to rural areas.

**$48 billion OTHERS (may include small-scale investments in categories above)**

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Source (left): NYT 1/16/09
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)