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)*

<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><strong>World output</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
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<tr>
<td>Advanced economies</td>
<td>5.1</td>
<td>5.0</td>
<td>3.7</td>
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<tr>
<td>United States</td>
<td>3.0</td>
<td>2.6</td>
<td>1.4</td>
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<tr>
<td>Euro area</td>
<td>2.8</td>
<td>2.6</td>
<td>1.2</td>
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<tr>
<td>Germany</td>
<td>3.0</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>France</td>
<td>2.2</td>
<td>2.2</td>
<td>0.8</td>
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<tr>
<td>Italy</td>
<td>1.8</td>
<td>1.5</td>
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<tr>
<td>Spain</td>
<td>3.9</td>
<td>3.7</td>
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<td>Japan</td>
<td>2.4</td>
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<td>United Kingdom</td>
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<td>Other advanced economies</td>
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<td>Newly industrialized Asian economies</td>
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<td><strong>Emerging and developing economies</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
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<td>Sub-Saharan Africa</td>
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<tr>
<td>Central and eastern Europe</td>
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<td>Commonwealth of Independent States</td>
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<td>Russia</td>
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<td>Excluding Russia</td>
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<tr>
<td>Mexico</td>
<td>4.9</td>
<td>3.2</td>
<td>1.9</td>
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</tbody>
</table>
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

Eurozone 15 log real GDP (Ch. 2000 euro)

OECD f'cast 11/14

DB f'cast 11/14

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

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, 1998–2008

(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

- 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%
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)