



Global Outlook and Policy Challenges

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Global Outlook Has Deteriorated, but Modest Turnaround Anticipated with Policy Stimulus

WEO Real GDP Growth Projections

(In percent change from a year earlier)

	U.S.	Euro	Japan	China	India	World
2009 (Jan.09)	-1.6	-2.0	-2.6	6.7	5.1	0.5
2009 (Nov.08)	-0.7	-0.5	-0.2	8.5	6.3	2.2
Change	-0.9	-1.5	-2.4	-1.8	-1.2	-1.7
2010 (Jan.09)	1.6	0.2	0.6	8.0	6.5	3.0
2010 (Nov.08)	1.5	0.9	1.1	9.5	6.8	3.8
Change	0.1	-0.7	-0.5	-1.5	-0.3	-0.8

Source: IMF, World Economic Outlook.

Deteriorated Outlook Reflects Abrupt Fall in Industrial Activity and Global Trade

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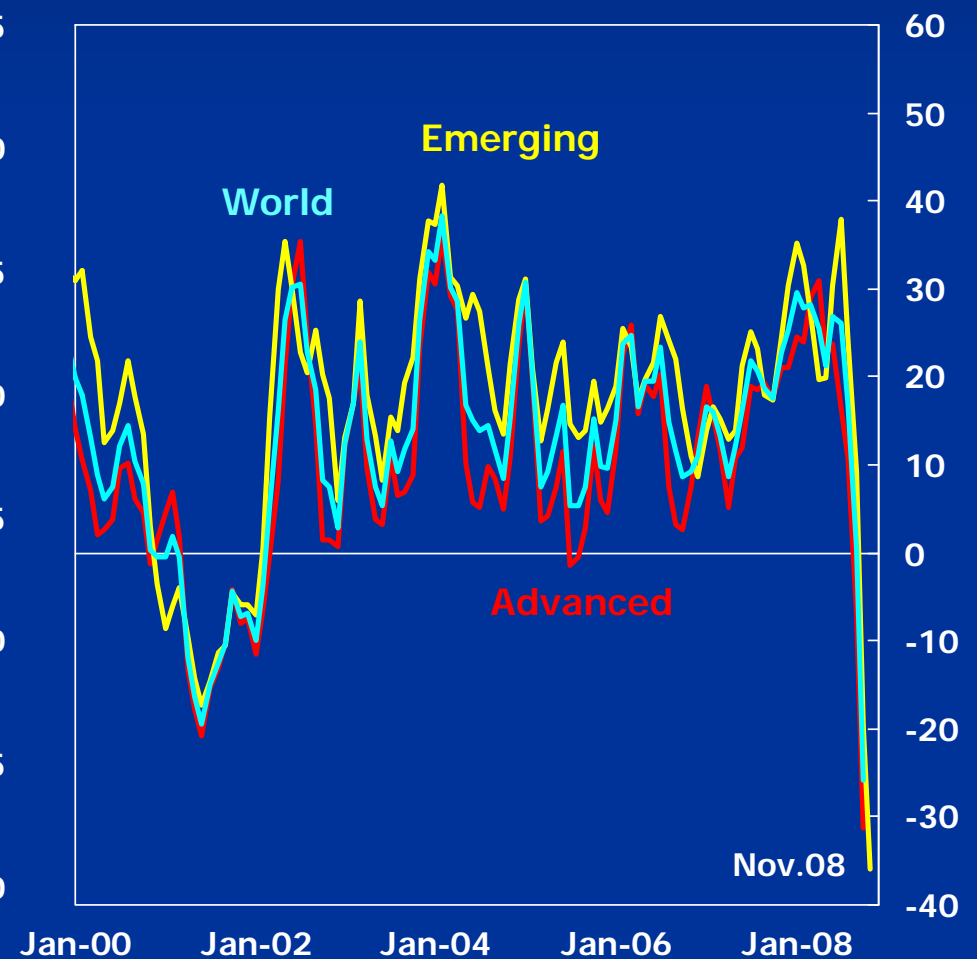
Industrial Production

(Annualized percent change of 3mma over previous 3mma)



Merchandise Exports

(Annualized percent change of 3mma over previous 3mma)



Behind the Forecasts—Advanced Economies

Causes of the collapse of output: Continued financial crisis.

- Less through direct effects (so far) of credit crunch.
- Than through indirect effects

Lower wealth

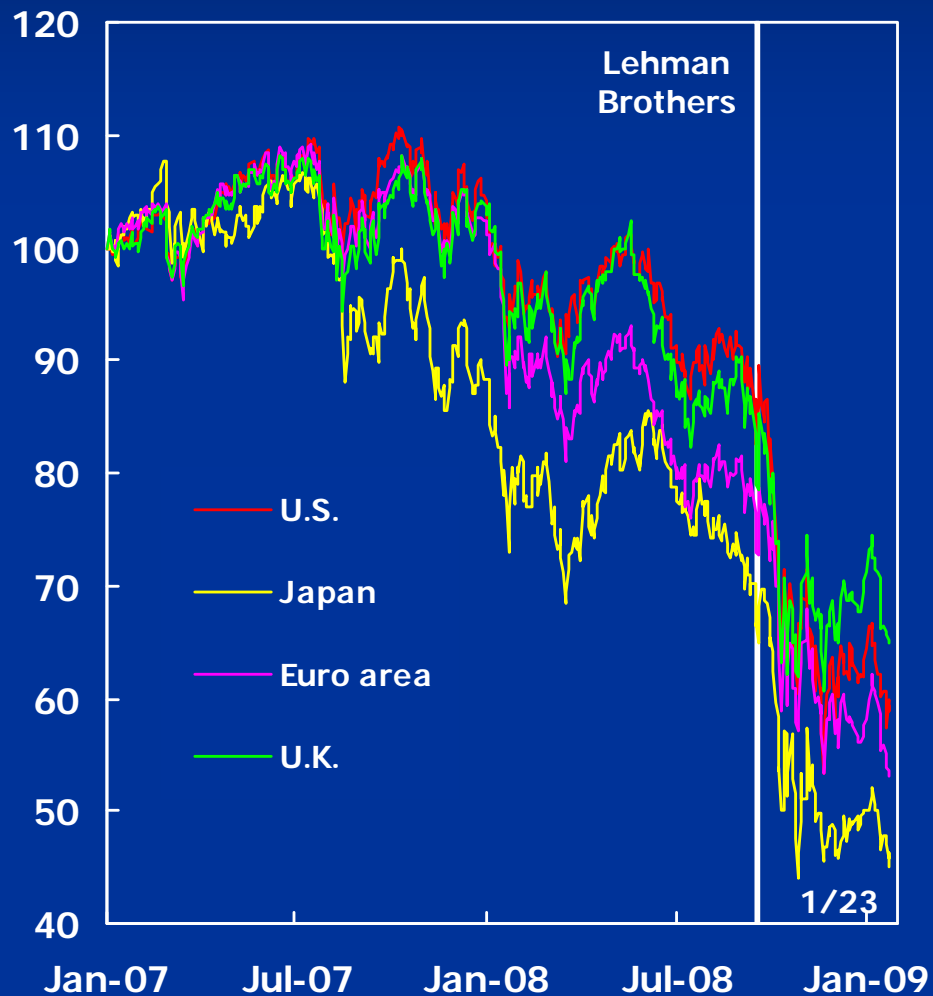
Collapsing confidence

Wait and see

Fall in Stock Markets and Consumer Confidence

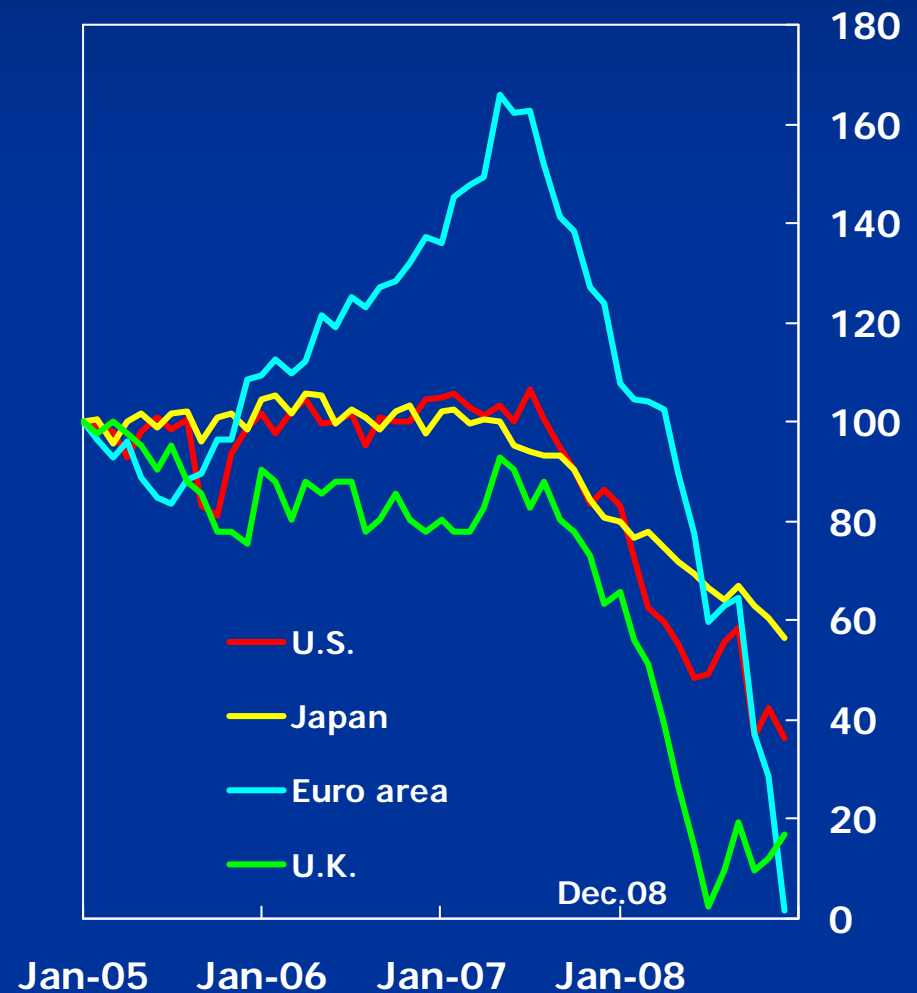
Equities

(1/1/2007=100; FTSE)



Consumer Confidence

(Jan. 2005=100)



Behind the Forecasts—Emerging Economies

Three Major Shocks:

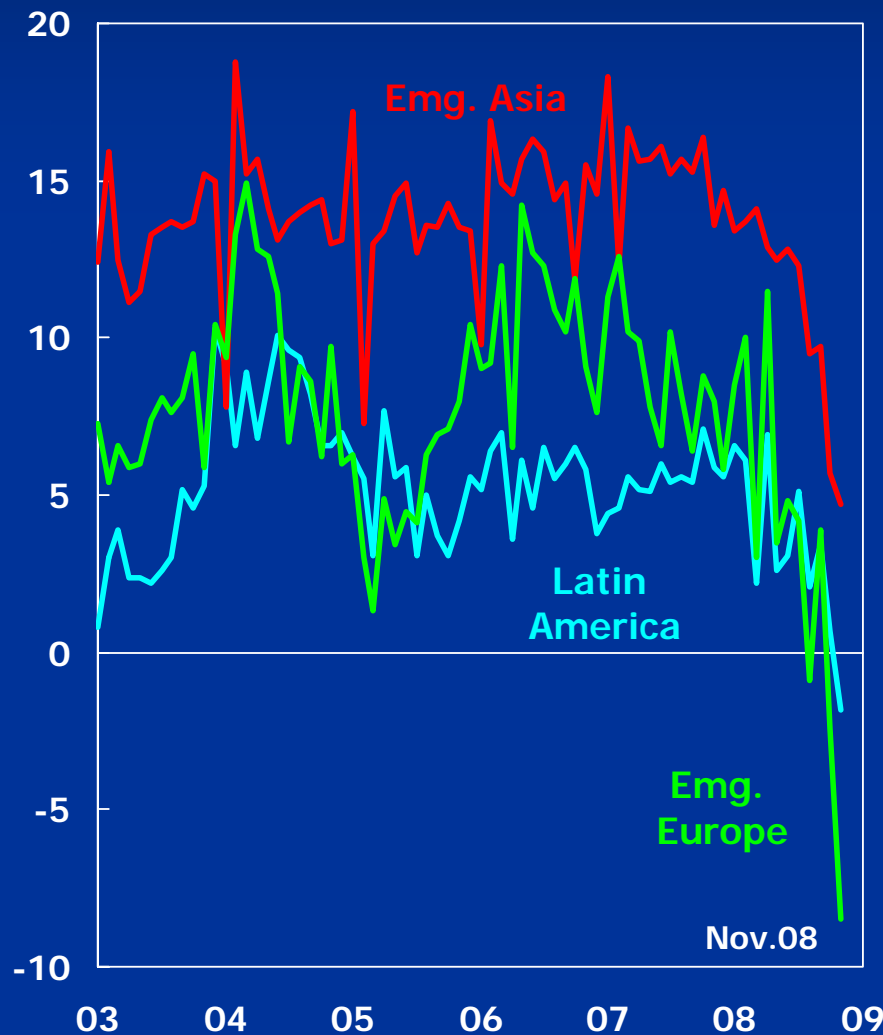
- Declining External Demand and Exports.
- Tighter Credit (External Financing).
- Lower Commodity Prices.

Emerging Economies Growth Slowed By Falling Exports and Industrial Production

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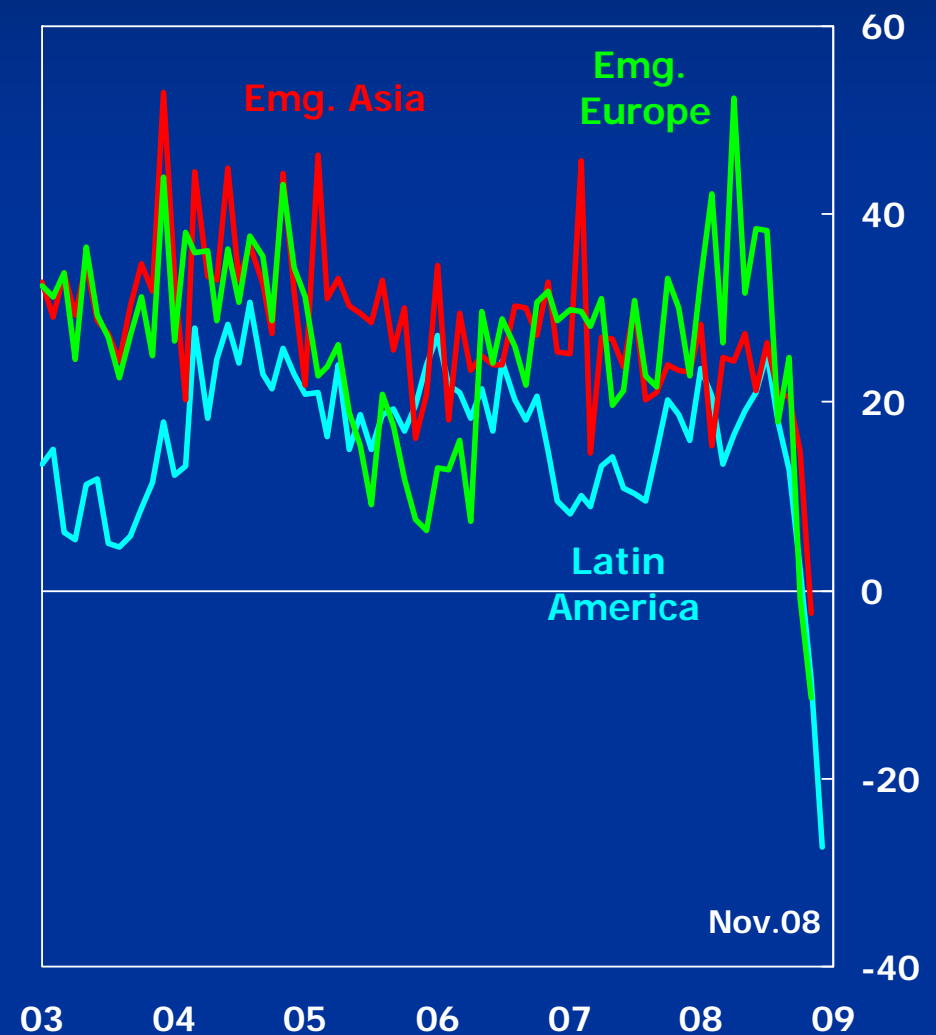
Industrial Production

(in percent change from a year earlier)



Merchandise Exports

(in percent change from a year earlier)

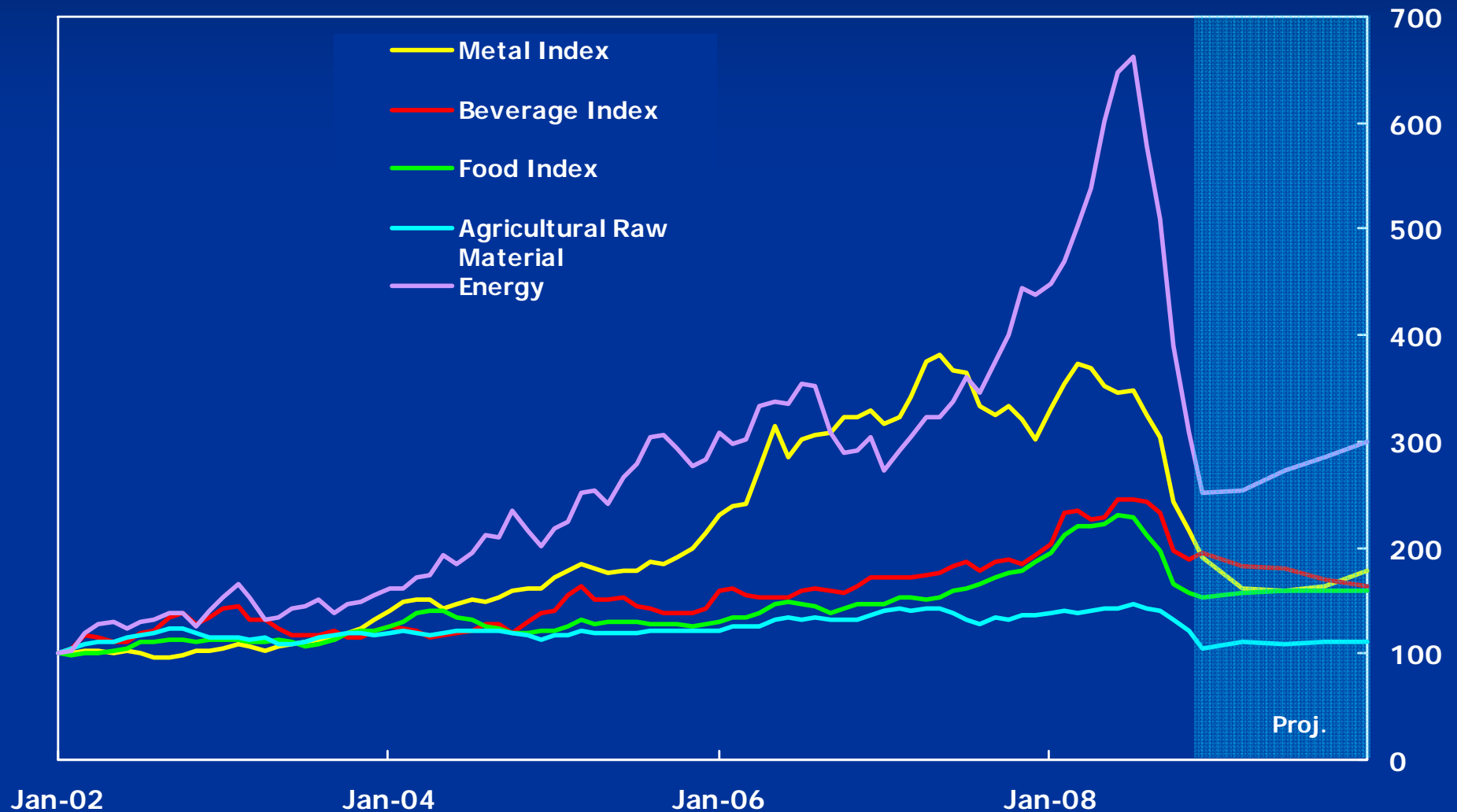


Sharply Lower Commodity Prices

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Commodity Price Indices

(index: Jan. 2002=100)



External Financing Pressures

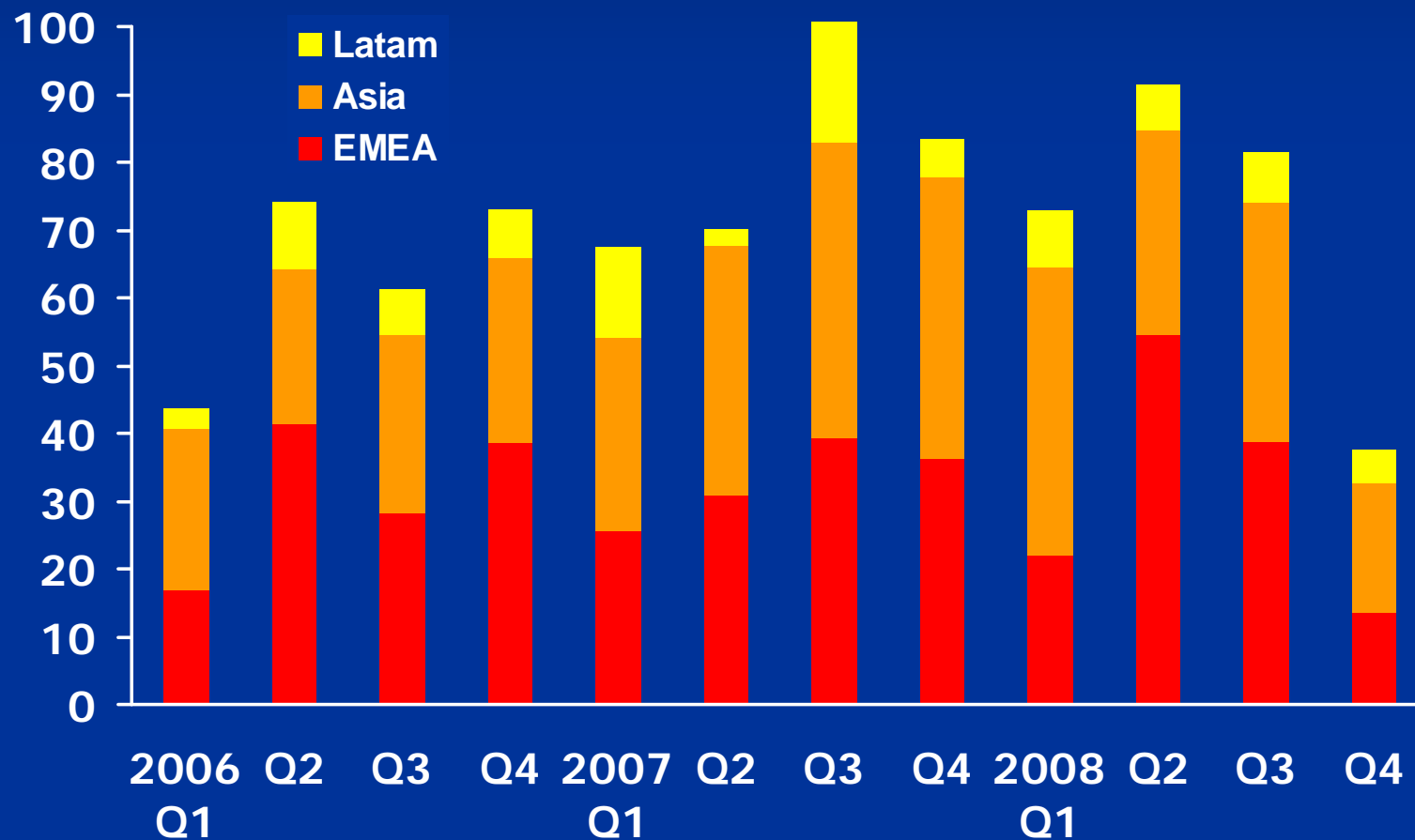
Selected Emerging Markets Sovereign CDS Spreads

(index: 7/1/2007=100)



Syndicated lending to emerging markets has contracted sharply as banks delever

Syndicated Lending to Emerging Markets
(in billions of U.S. dollars)



Market-based financing tighter with home bias

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Emerging Markets Bond Financing (in billions of U.S. dollars)

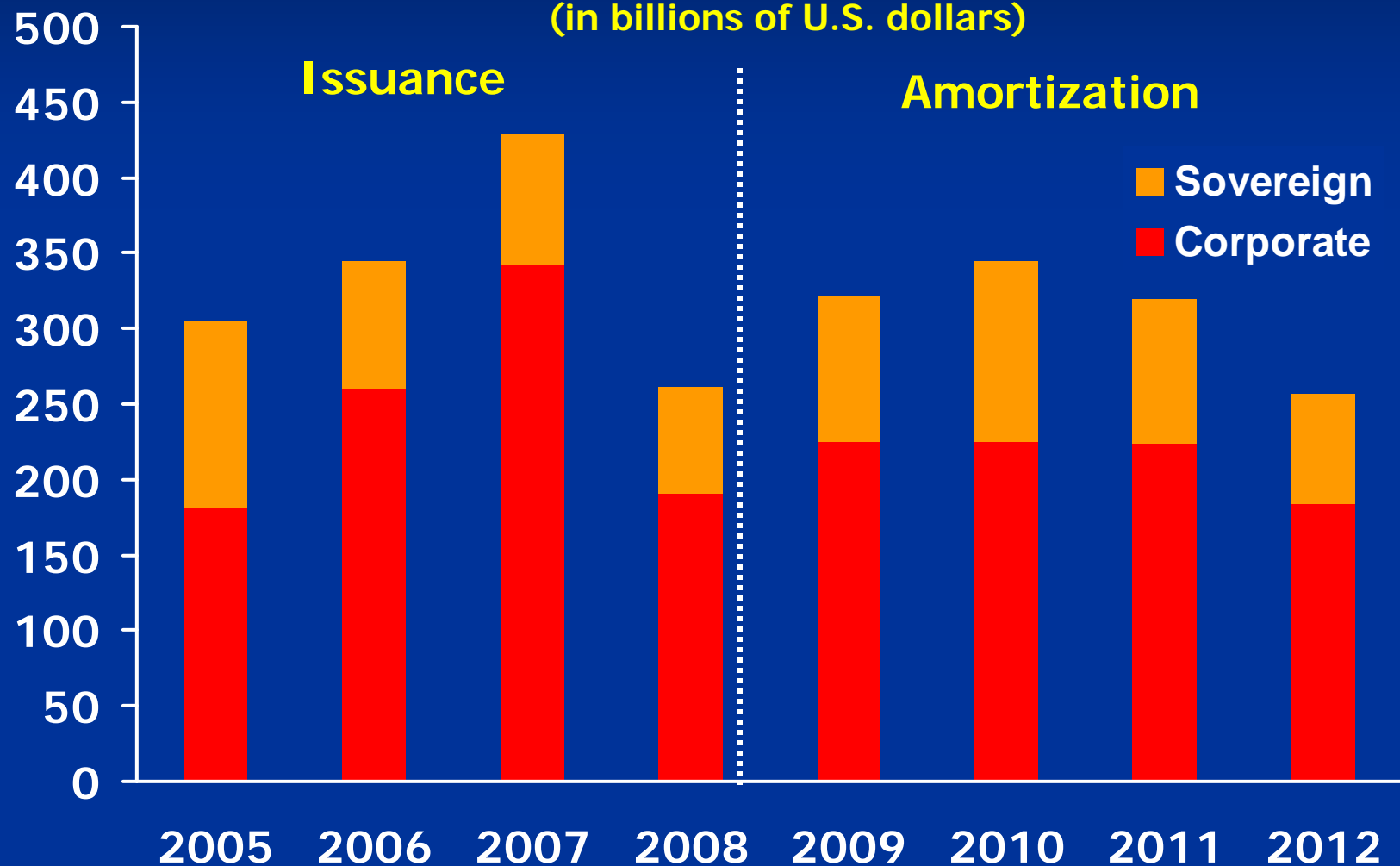


Source: Dealogic

Emerging Market Corporates will have Large Rollover Needs in Coming Years

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Historical Issuance and Upcoming FX-Denominated Debt (in billions of U.S. dollars)



Source: Dealogic, Bloomberg, Staff Estimates

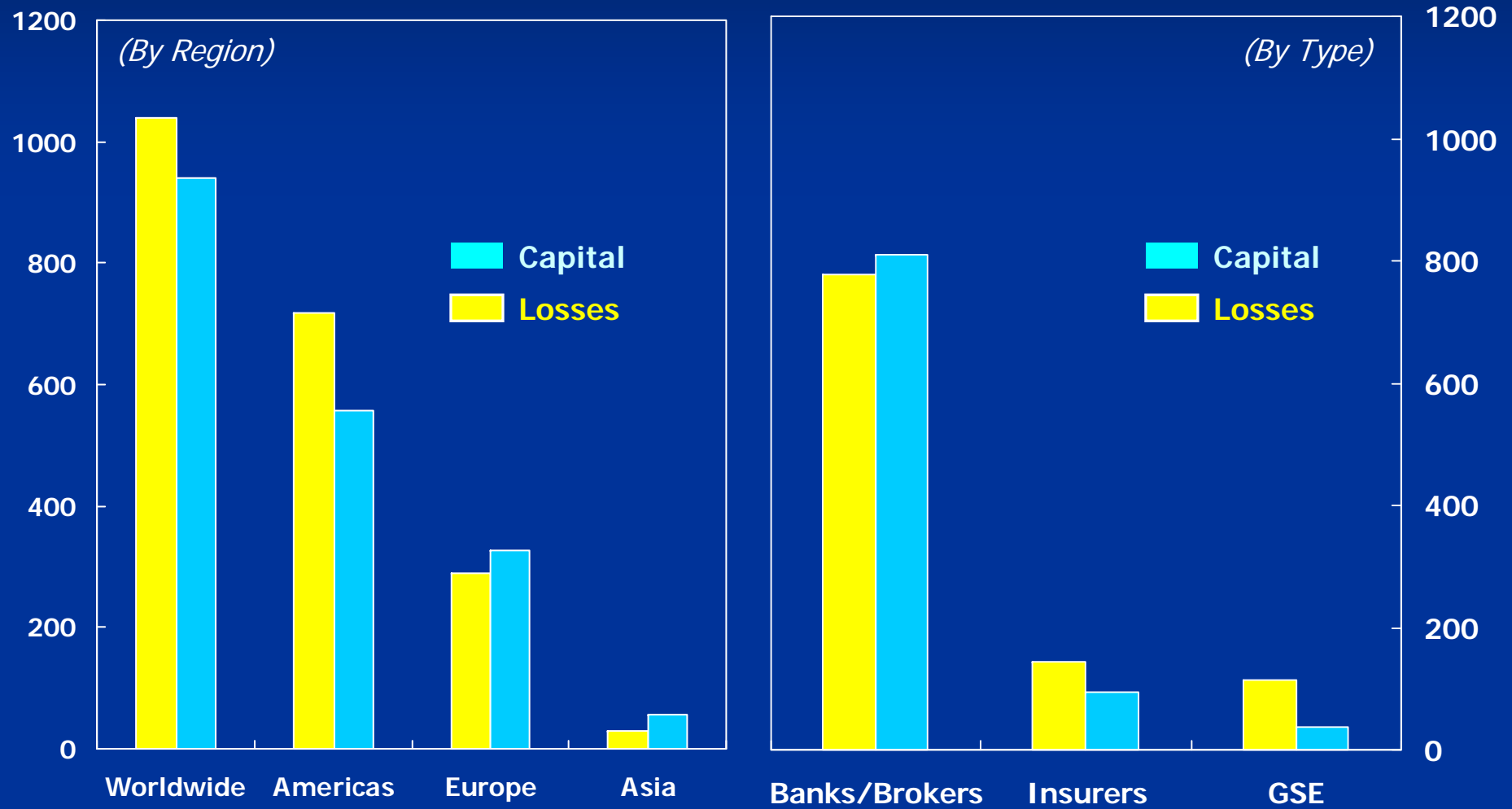
Policy Challenges—Advanced Economies

- Need to decrease uncertainty and tail risk
- Need to repair financial system, get credit going
3 legs, but only 1 working
- May need to substitute / do it yourself for some time
Central banks and “credit easing”
- Need to boost demand (fiscal stimulus)
Spending more than general tax cuts, higher multipliers

Clarifying Asset Prices and Capital Adequacy

Writedowns and Credit Losses vs. Capital Raised

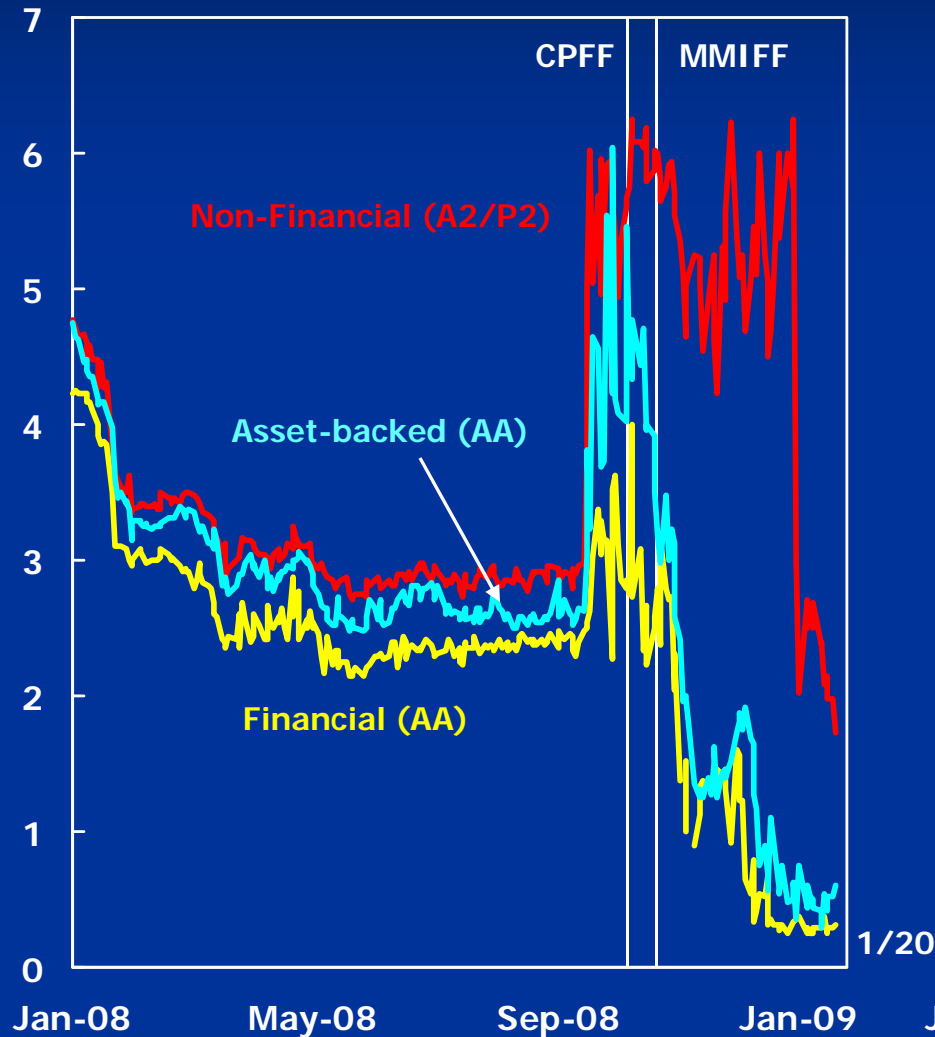
(In billions of US\$; cumulative since 2007Q2)



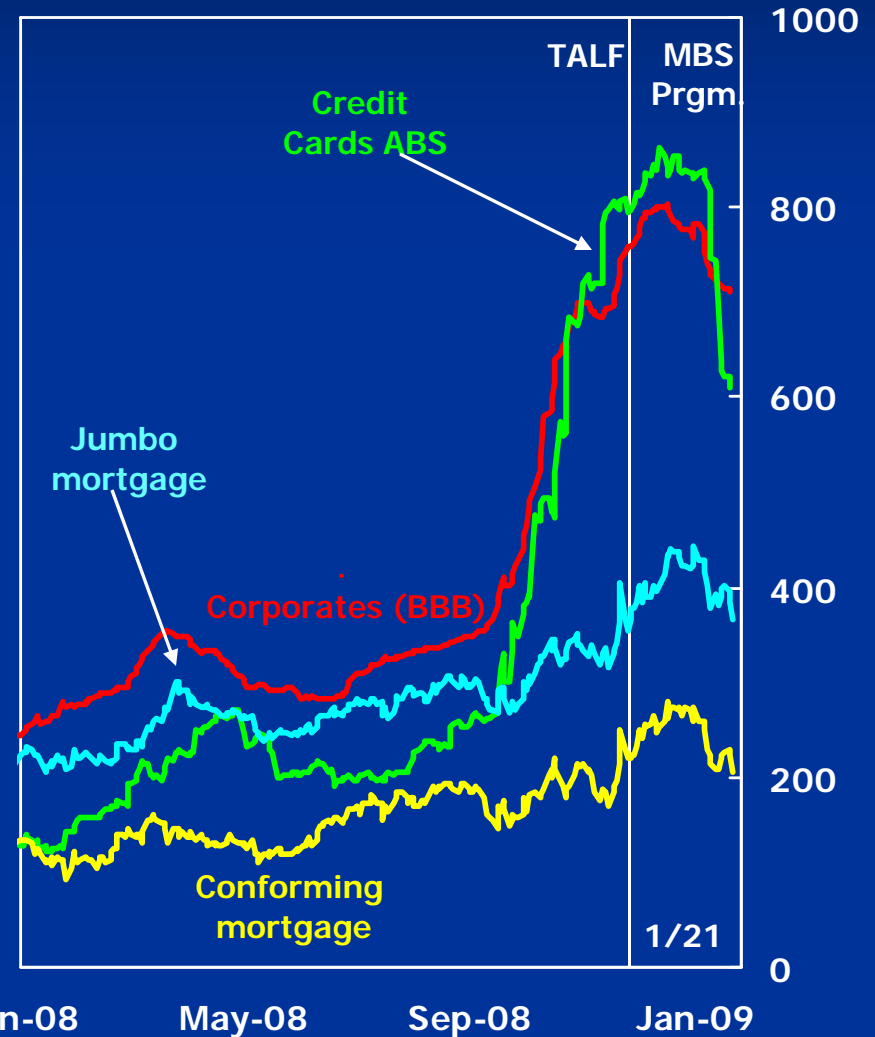
Source: Bloomberg, L.P.

Counteracting Portfolio Shifts through "Credit Easing" ¹⁴

U.S. Commercial Paper Rates (30-day rates; in percent)



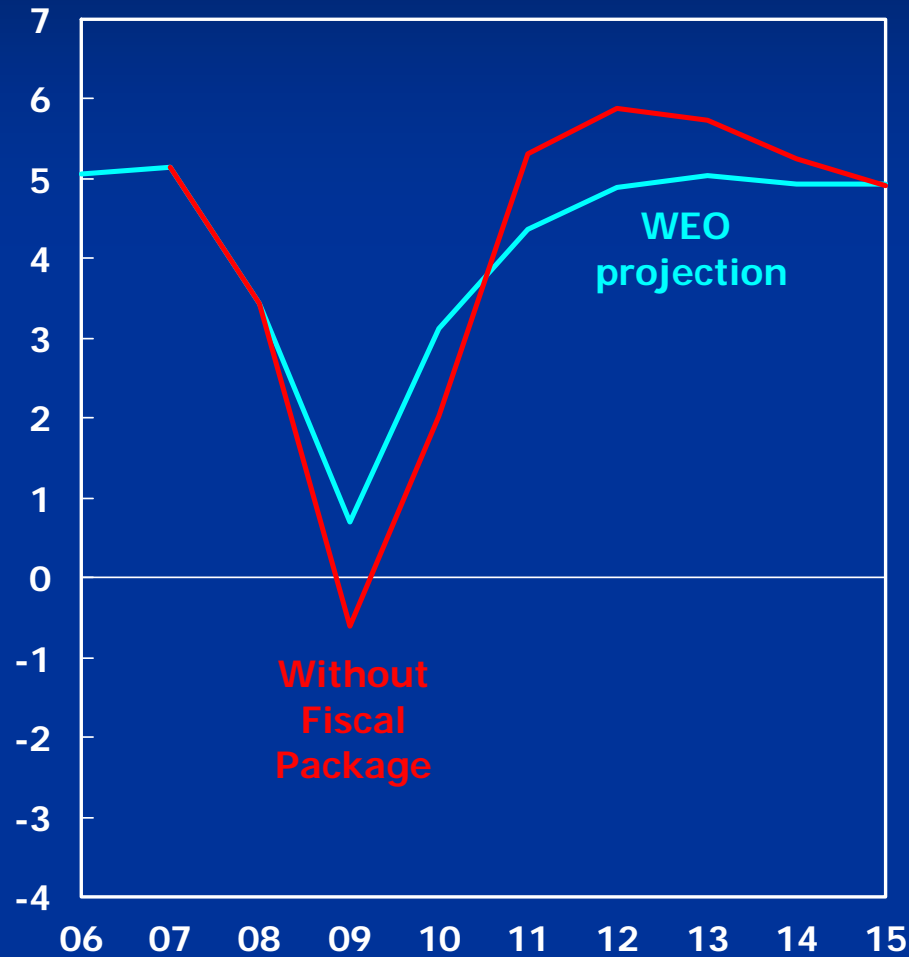
U.S. Credit Spreads (over Treasuries; in basis points)



Global Growth and Contributions of Fiscal Stimulus 1/

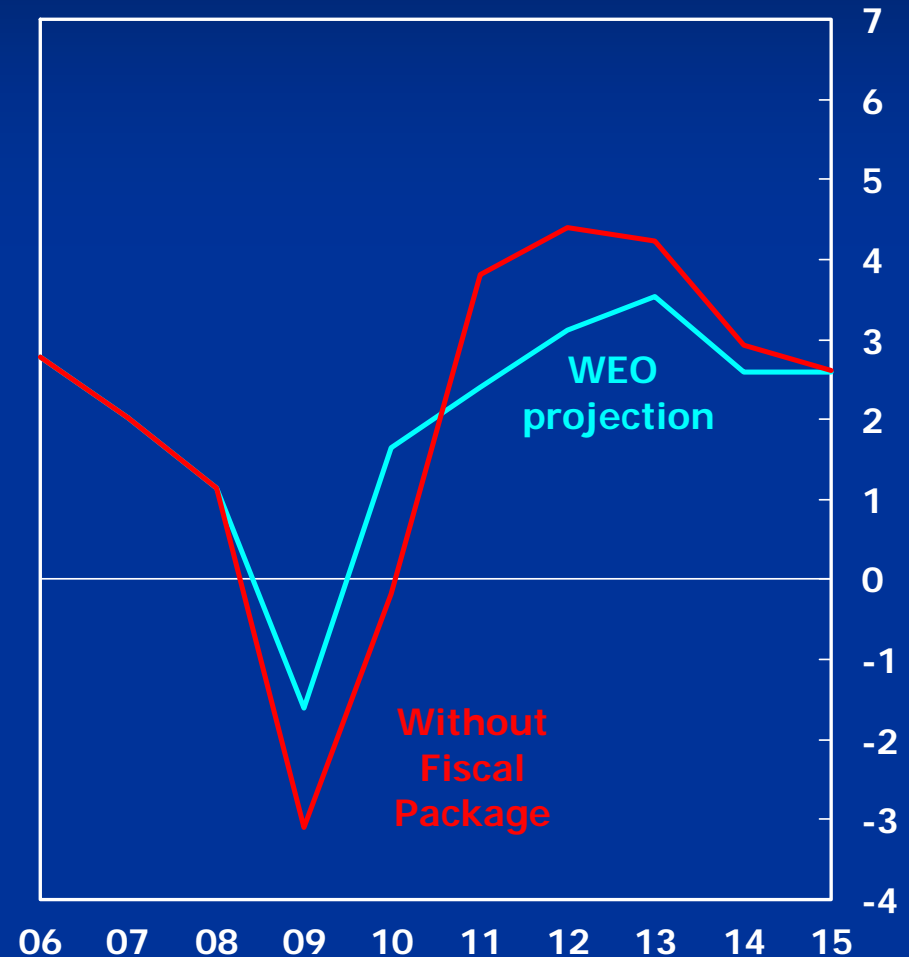
World

(in percent, GDP Growth)



United States

(in percent, GDP Growth)



1/ GIMF simulation; fiscal shock based on G-20 fiscal packages plus two-year monetary accommodation.

Policy Challenges—Advanced Economies

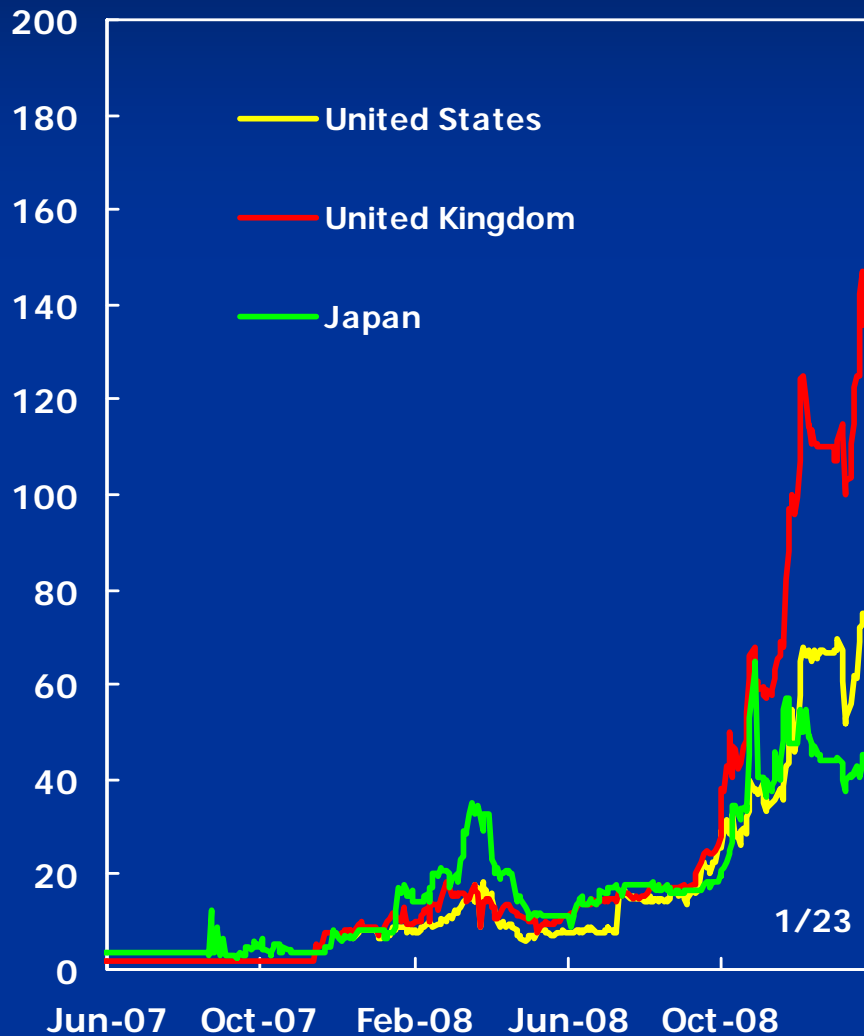
- Big challenge if long rates go up (sustainability concern), then much of the positive effects is offset
- Need well defined, credible medium-run plans

Rising Concerns Over Fiscal Sustainability

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Industrial Economies

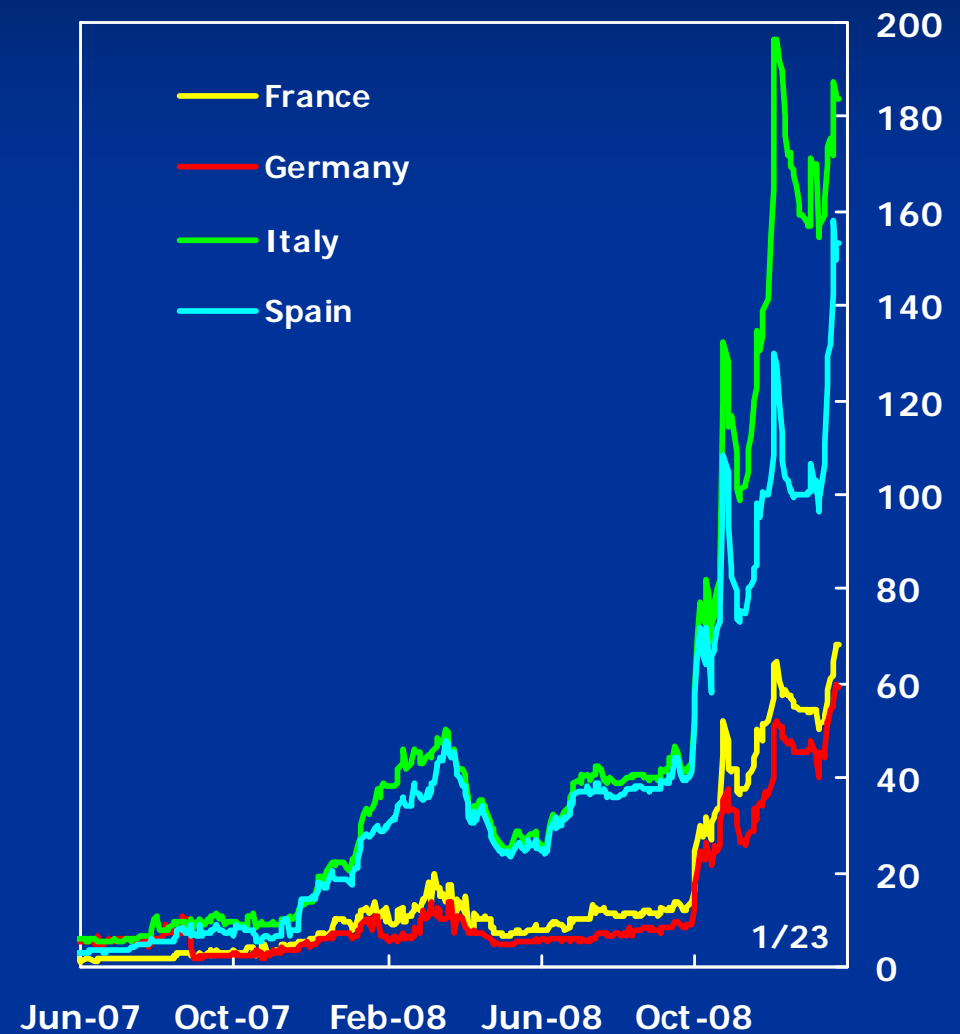
(5yr Sovereign CDS; in basis points)



Source: Bloomberg, L.P.

Selected Europe

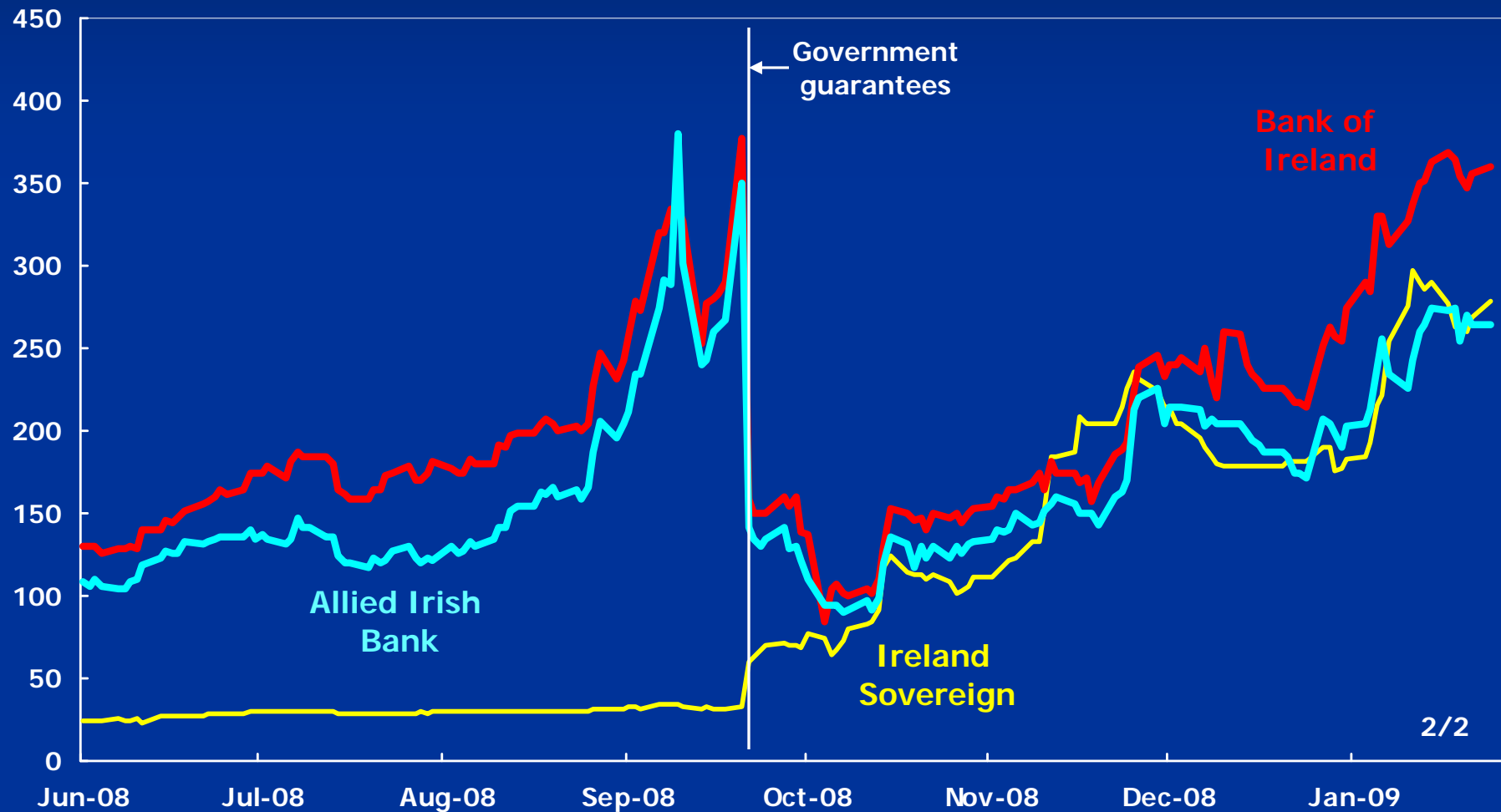
(5yr Sovereign CDS; in basis points)



Ireland Sovereign and Bank CDS Spreads Before and After Public Guarantees

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Irish Bank and Sovereign CDS Spreads (5-year CDS Spreads; in basis points)



2/2

Policy Challenges—Emerging Economies

Same as advanced economies (bad loans, tight credit), plus more:

- Lower commodity prices.
- Lower export growth.
- Usual advice: Smooth if you can (reserves, exchange rates, fiscal policy).

Two issues:

- How long? One year, or many more?
- Capital account: “Creeping stops” of financing (home bias)

Need liquidity support (reserves, swaps, new Fund facility)

New IMF Facility?

Some directions:

- Creeping stops: Largely exogenous, Slow, Long Lasting.
- Prequalification, not conditionality
- Precautionary. Available for 6 months, one year?
- Long lasting. Same terms as SBA?

Recovery Prospects and Risks

Recovery prospects based on: Slow improvement of financial system; housing price stabilization; fiscal impulses and other key policy actions.

Key Risks:

- Policies not in place soon enough (more serious real and financial feedbacks)
- Policies in place, but do not work well (Japan, 1990s)
- Policies cannot help avoid sustained deflation
- Policies help some at expense of others

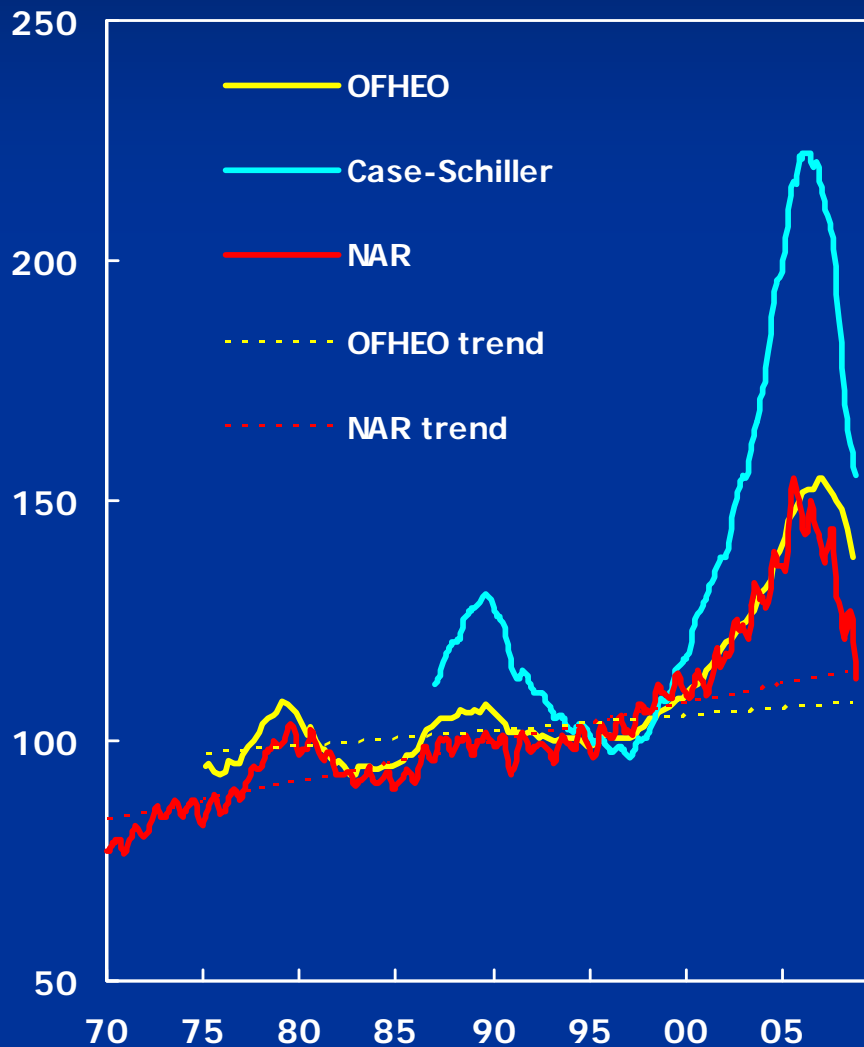
Still, some reasons for optimism. Crisis of confidence, but confidence can return fairly fast with right policies

U.S. Housing – Signs of Stabilization?

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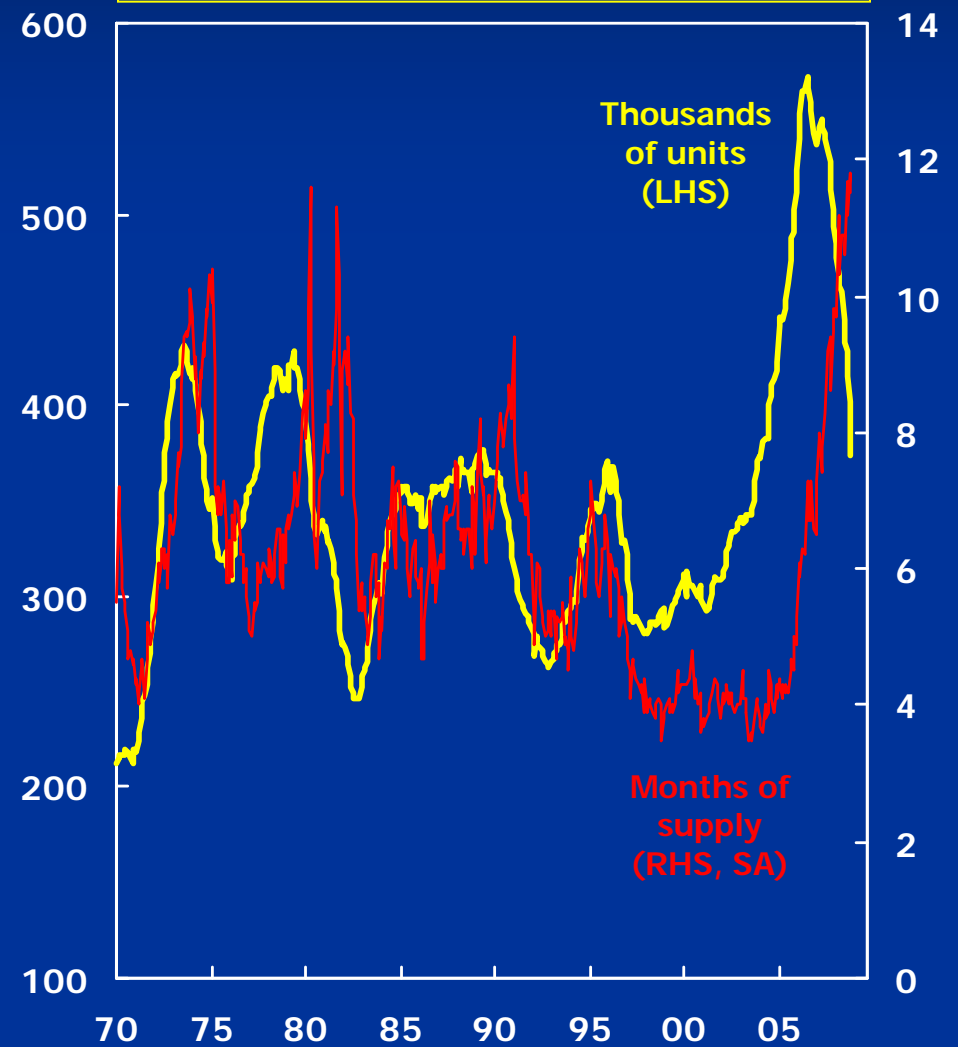
Real House Prices

(index, 1995 = 100)



Housing Inventories

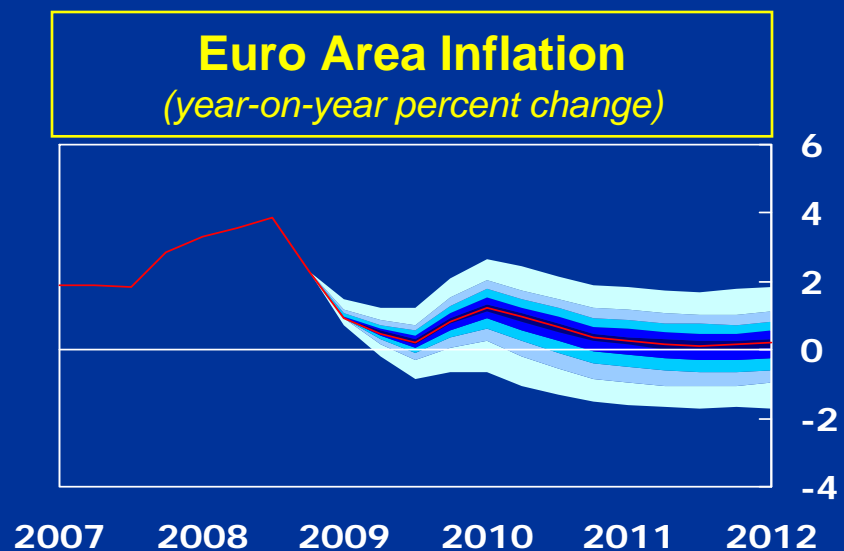
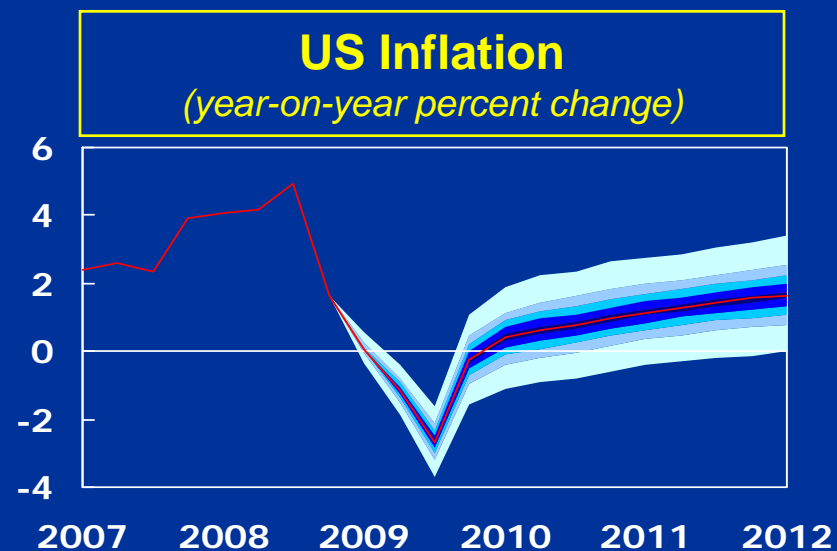
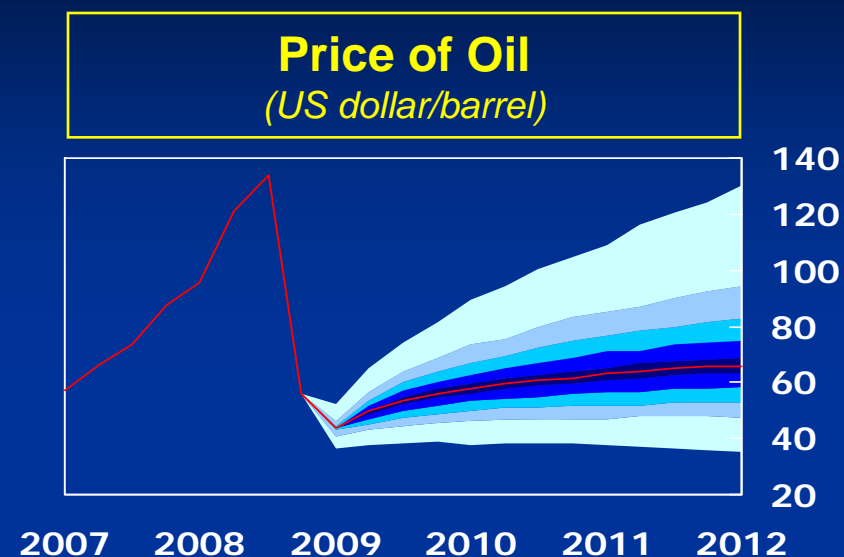
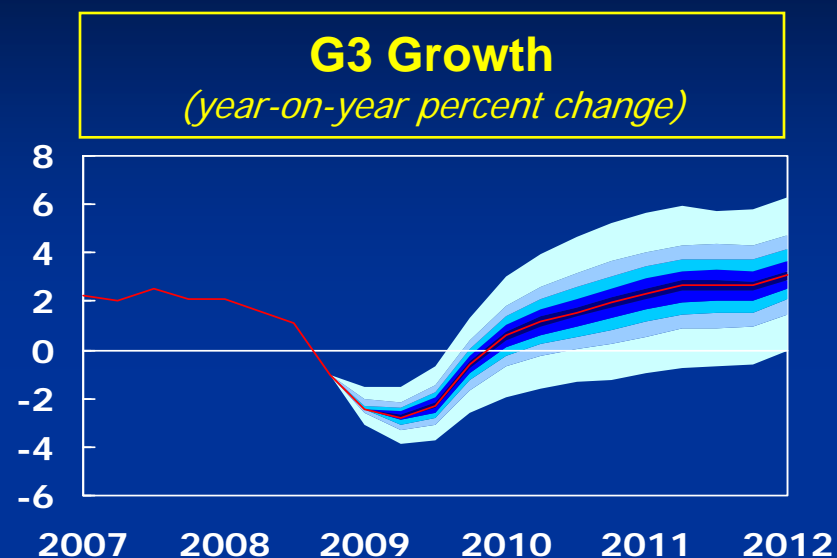
(new homes)



How Great Are Deflation Risks?

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— 50th percentile and confidence bands 1/

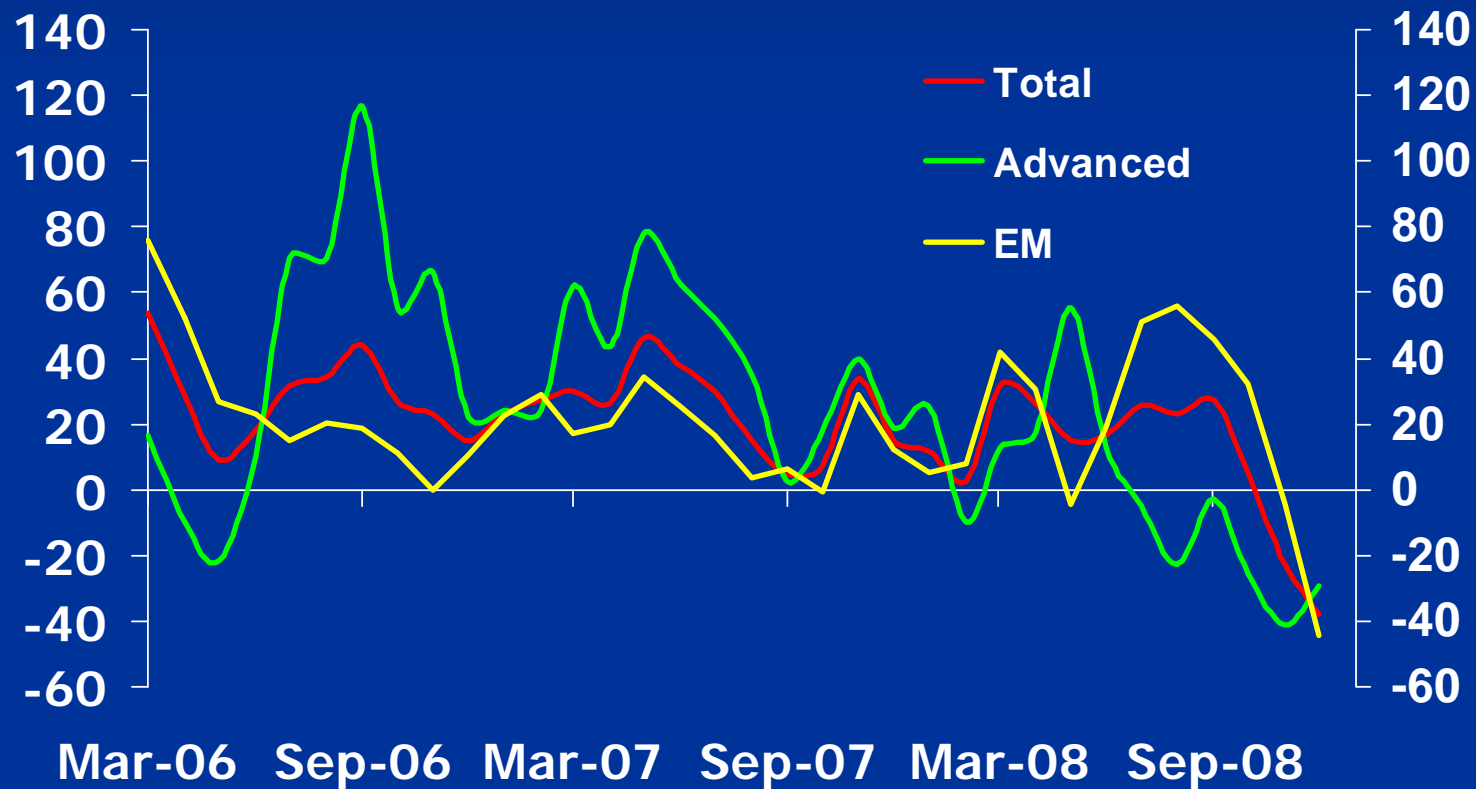


1/ Simulations from Global Projection Model (GPM).

A Global Credit Crunch may Contribute to Sharp Drop in Trade Finance

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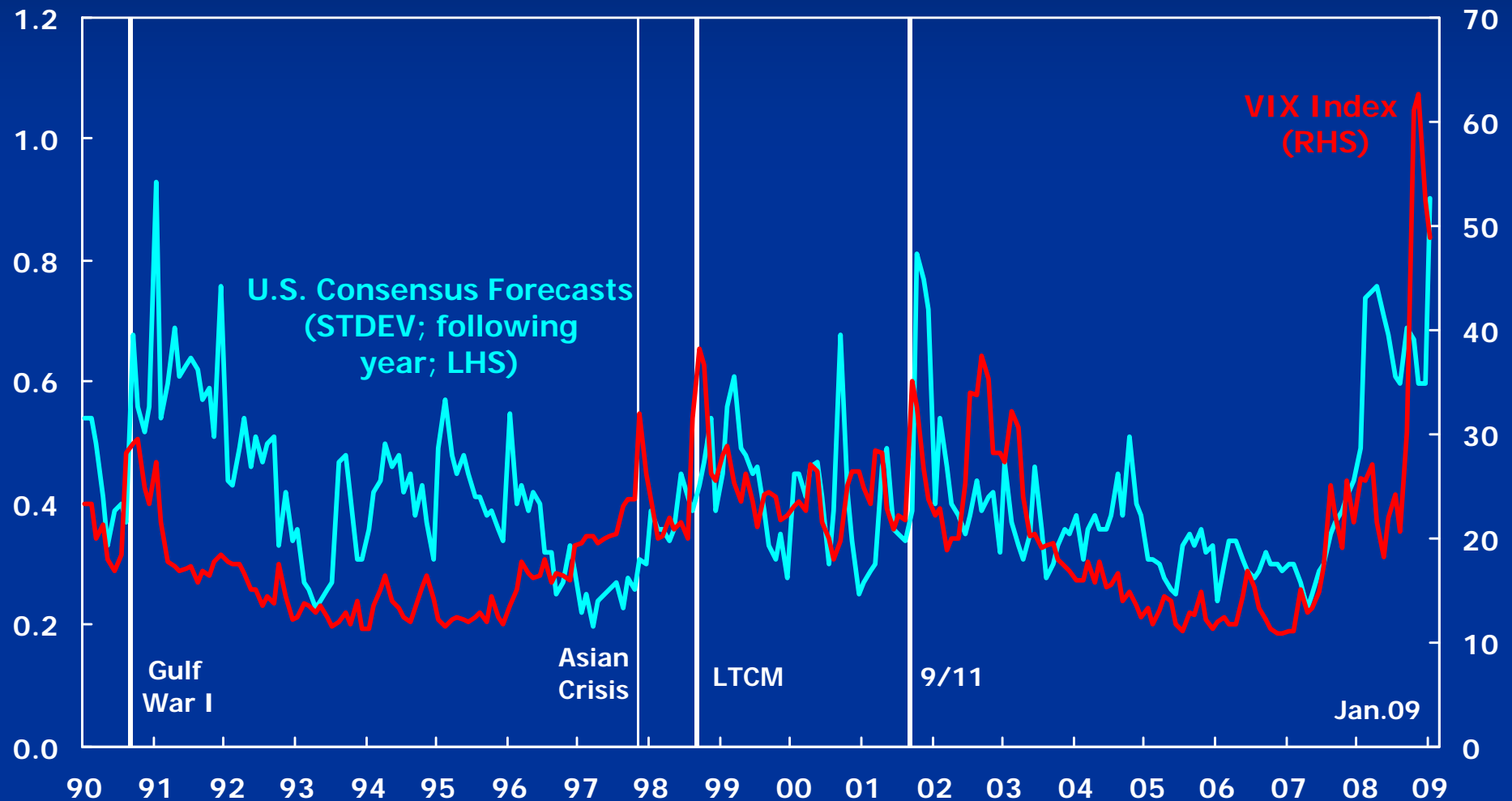
Syndicated Loans for Trade Finance (%yoy change on 3-month moving average)



Heightened Uncertainty a Defining Feature of the Crisis

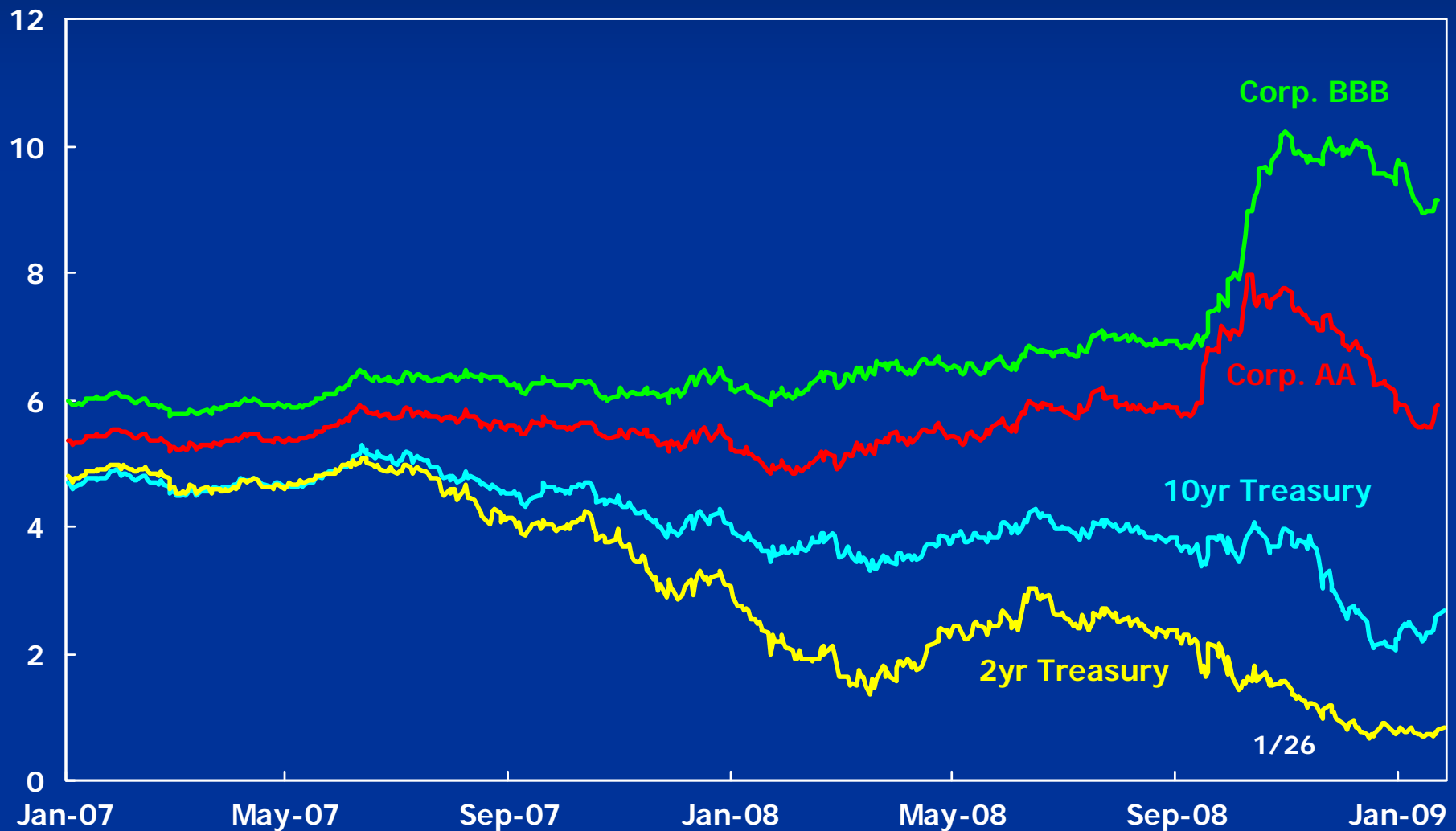
VIX and Standard Deviation of Forecasts

(in percent)



Leading to Sharp Portfolio Shifts

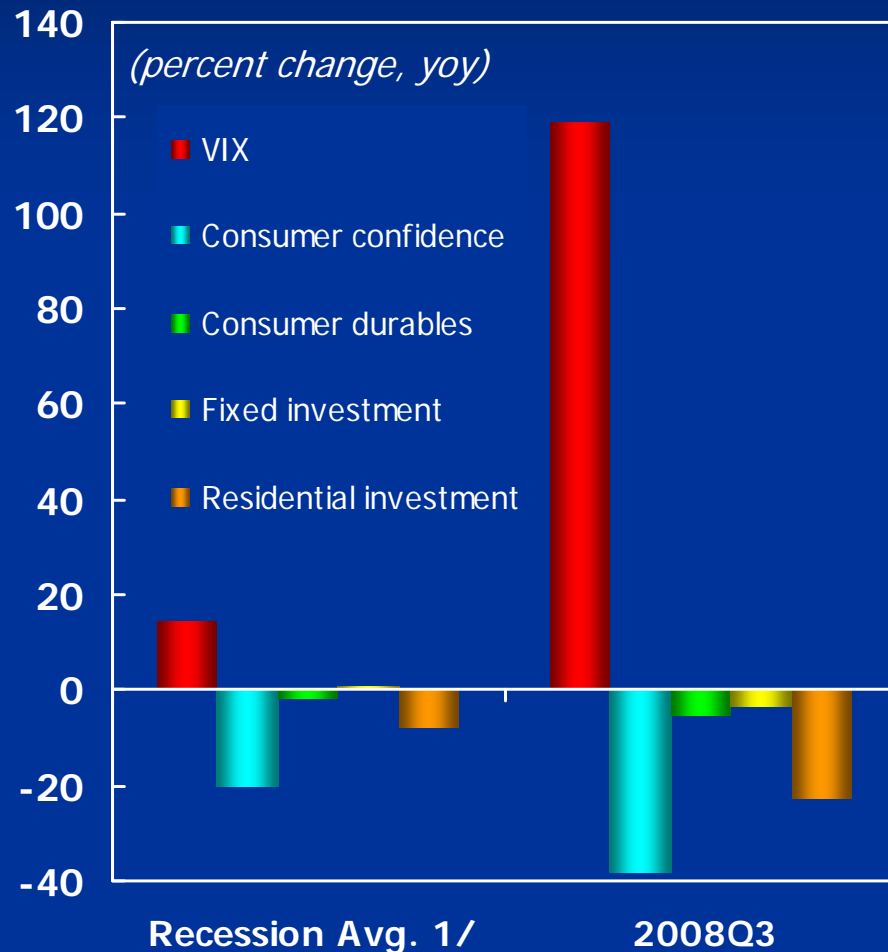
U.S. Interest Rates (in percent)



Elevated Uncertainty Weighing on Spending

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VIX , U.S. Confidence & Spending



Source: Bloomberg L.P.

1/ Average of year-on-year percent changes during NBER recession dates from 1980-2008.

U.S. Vehicle Sales (in percent)

