



The Global Economic Crisis

IOVE/ELIAMEP Panel Discussion

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February 9, 2009

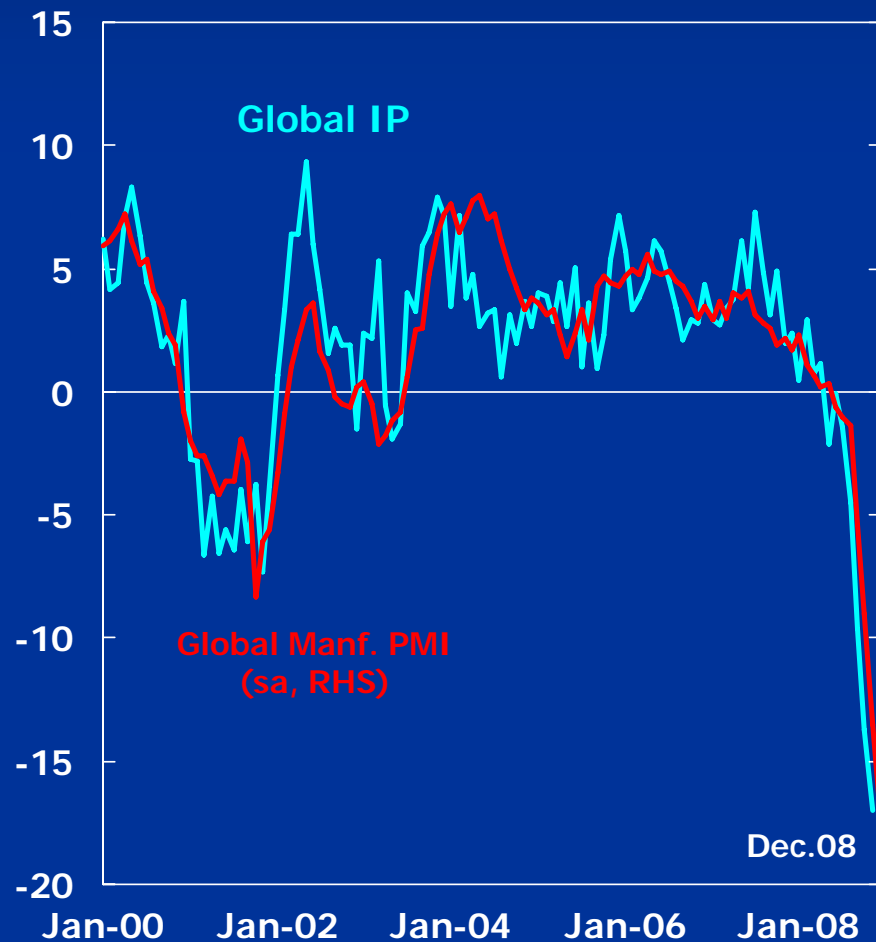
I. Economic Developments

Industrial Activity and Global Trade Have Fallen Very Sharply

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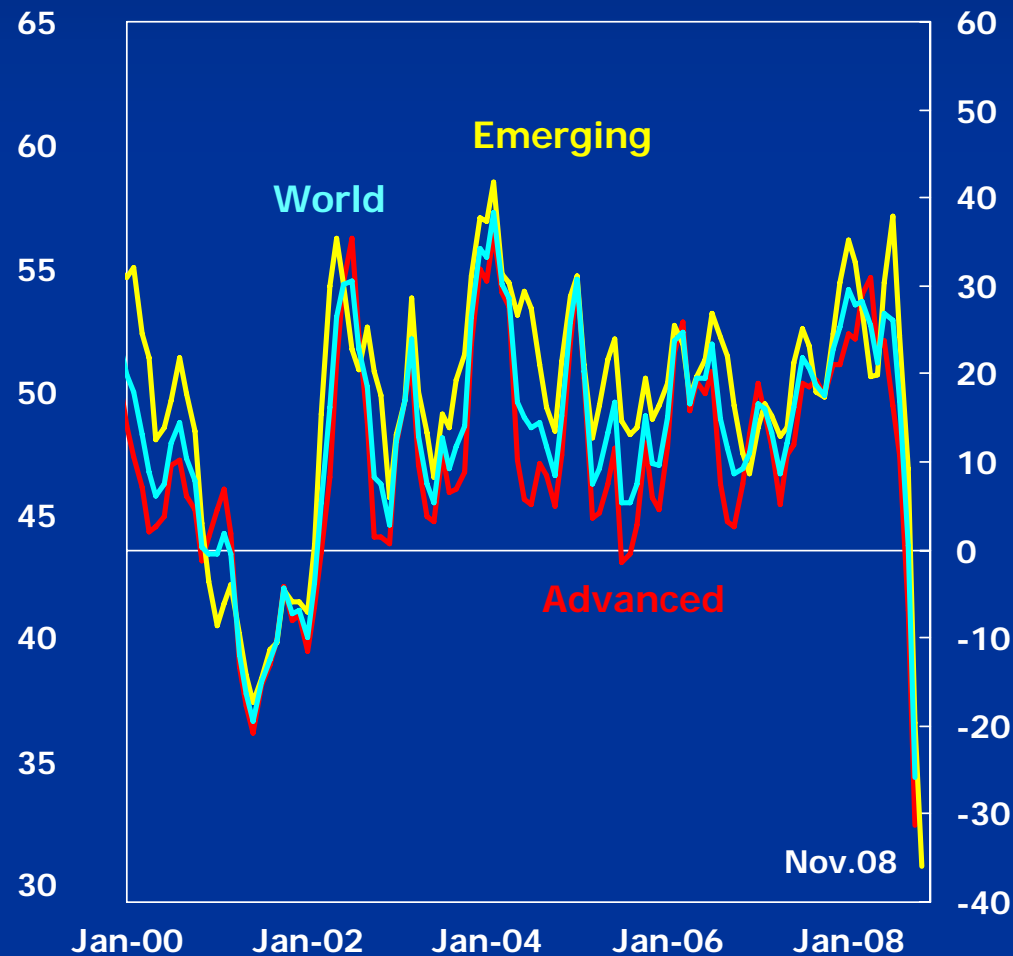
Industrial Production

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



Merchandise Exports

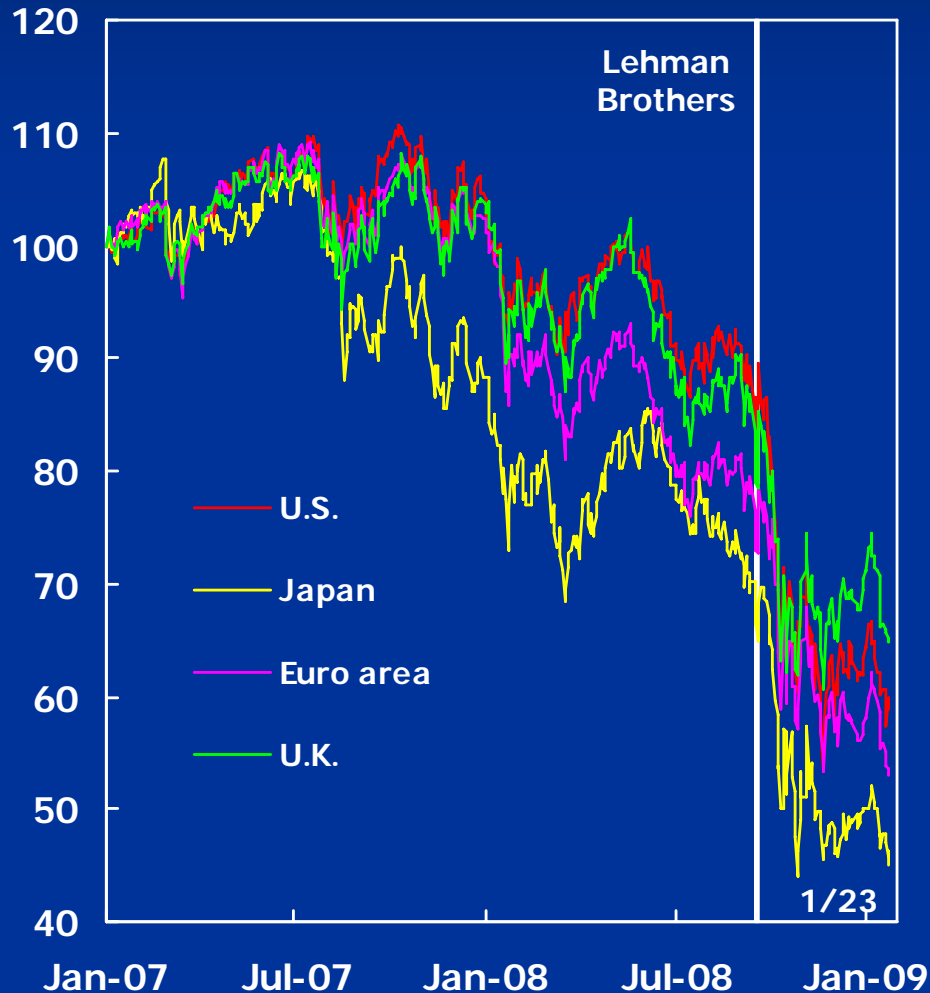
*(Annualized percent change of 3mma
over previous 3mma)*



Fall in Stock Markets and Consumer Confidence

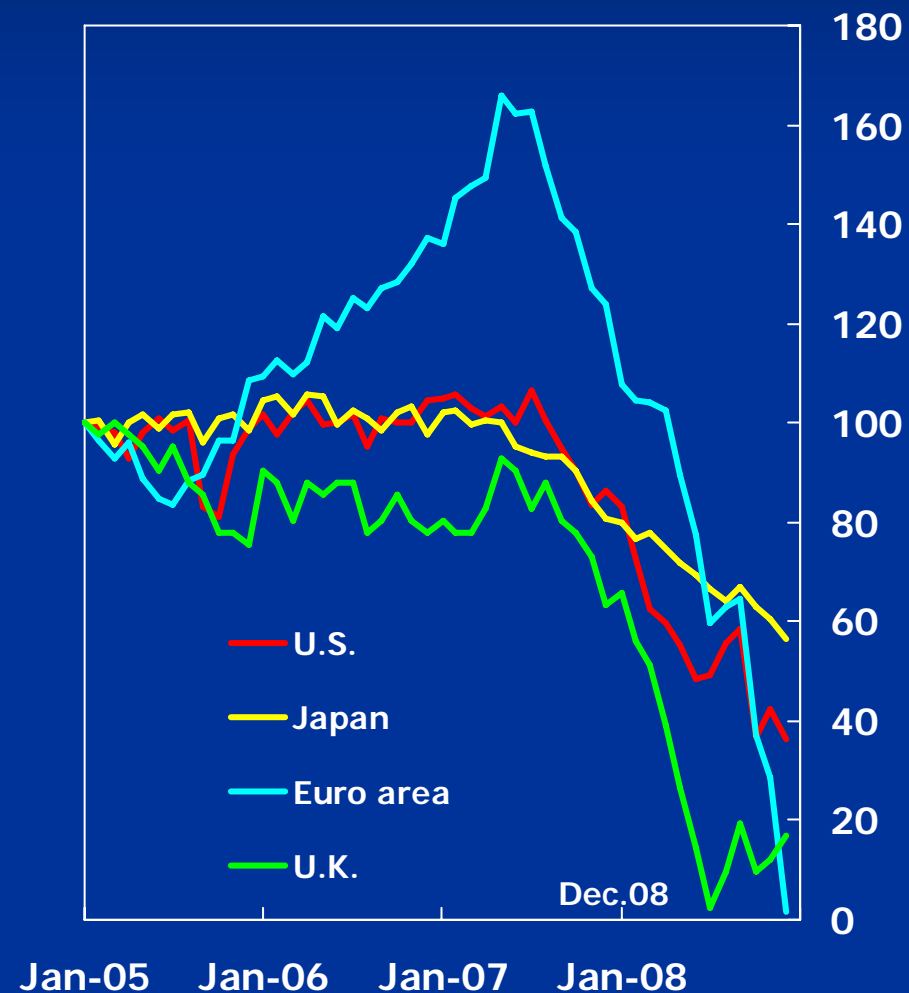
Equities

(1/1/2007=100; FTSE)



Consumer Confidence

(Jan. 2005=100)

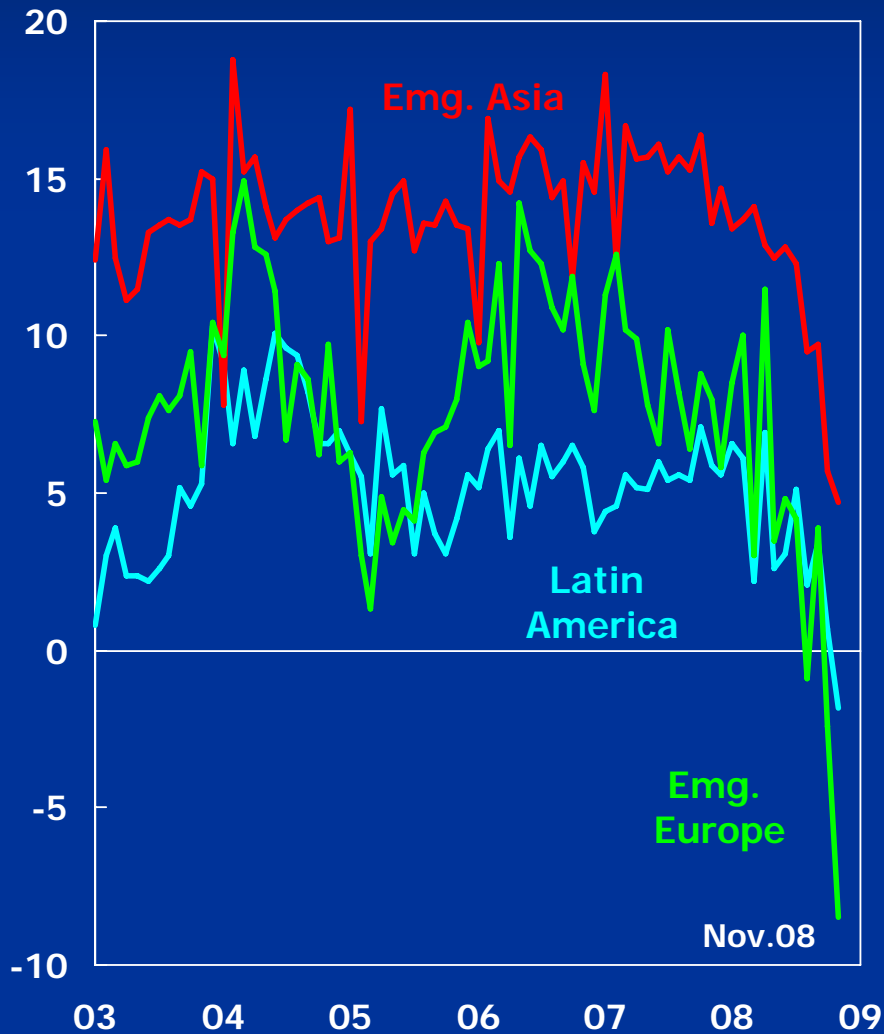


Emerging Economies Growth Slowed By Falling Exports and Industrial Production

4

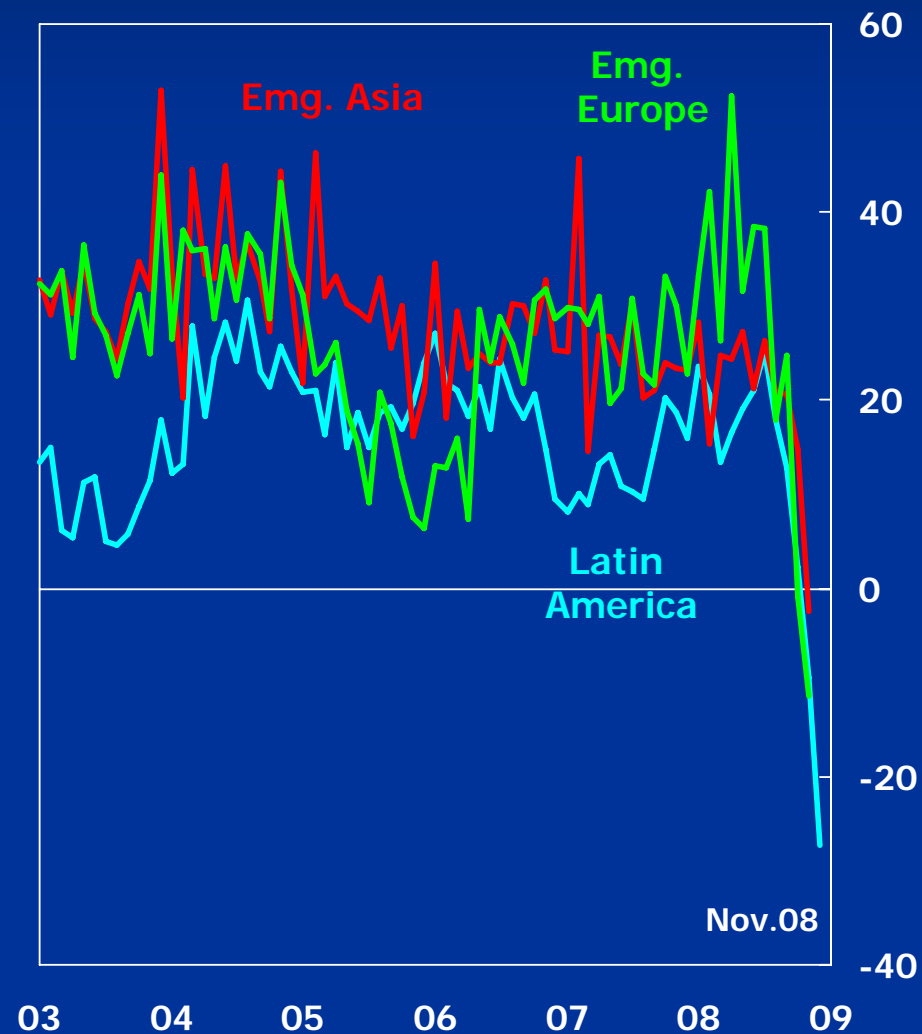
Industrial Production

(in percent change from a year earlier)



Merchandise Exports

(in percent change from a year earlier)



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

WEO Real GDP Growth Projections

(In percent change from a year earlier)

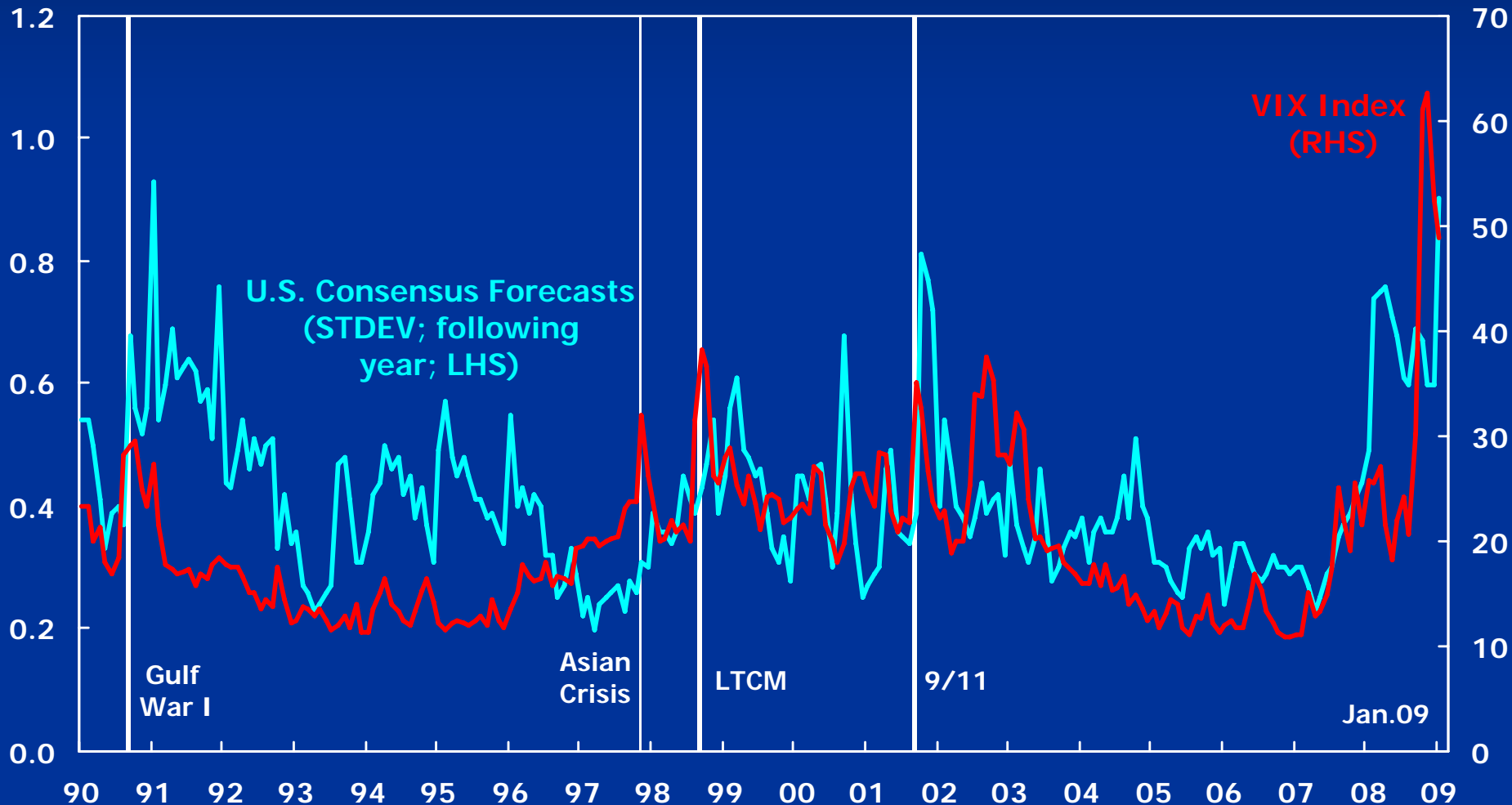
	U.S.	Euro	Japan	China	India	World
2009 (Jan.09)	-1.6	-2.0	-2.6	6.7	5.1	0.5
2009 (Nov.08)	-0.7	-0.5	-0.2	8.5	6.3	2.2
Change	-0.9	-1.5	-2.4	-1.8	-1.2	-1.7
2010 (Jan.09)	1.6	0.2	0.6	8.0	6.5	3.0
2010 (Nov.08)	1.5	0.9	1.1	9.5	6.8	3.8
Change	0.1	-0.7	-0.5	-1.5	-0.3	-0.8

Source: IMF, World Economic Outlook.

Heightened Uncertainty a Defining Feature of the Crisis

VIX and Standard Deviation of Forecasts

(in percent)



Causes of Output Collapse – Advanced Countries

- Negative feedback loop between financial sector and real economy
- Deleveraging → Market correction → Lower wealth, collapsing confidence, falling demand
- Recession → NPLs → provisioning, bank losses

Causes of Output Collapse – Emerging Markets

- Declining external demand and exports
- External financing constraints
- Lower commodity prices

Recovery Prospects and Risks

Recovery prospects based on:

- Slow improvement of financial system
- Housing price stabilization
- Fiscal stimulus

Risks:

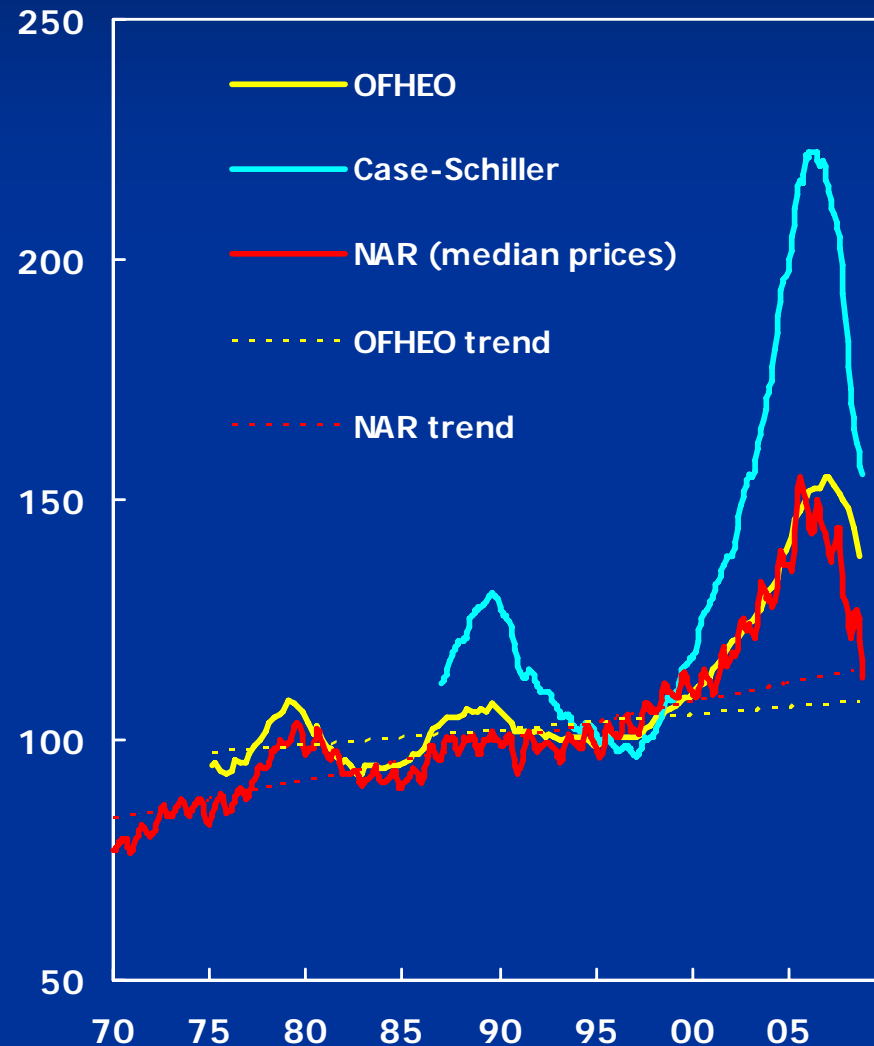
- Real and financial feedback loop
- Deflation risks
- Fiscal concerns/debt dynamics
- Negative feedback from emerging economies

U.S. Housing – Signs of Stabilization?

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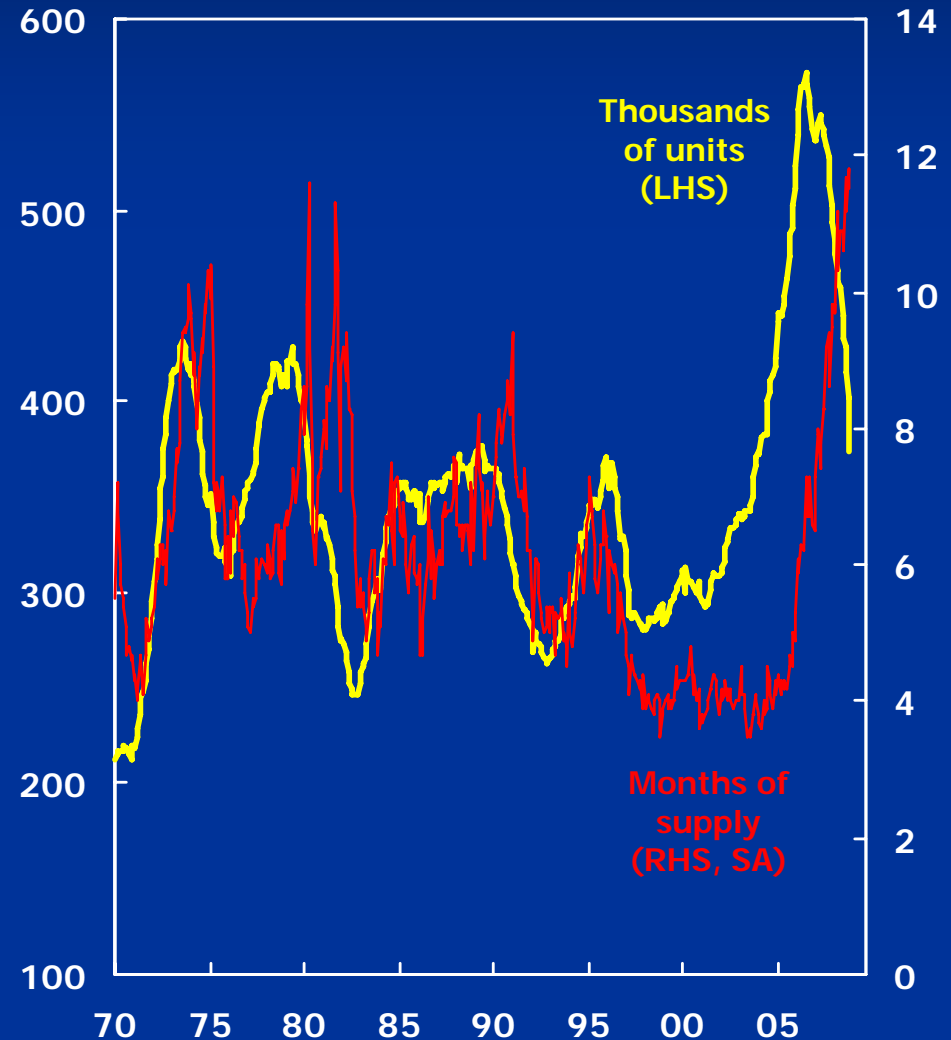
Real House Prices

(index, 1995 = 100)



Housing Inventories

(new homes)



II. Policy Initiatives

Policy Implications –Financial Sector

- Restoring the financial system has three elements:
 - Liquidity provision and measures to preserve functioning financial markets (Central banks)
 - Bank recapitalization (Fiscal authority)
 - Taking bad assets off the books; sell T-bills and use the funds to buy risky assets; “bad bank” (Fiscal authority)
- To be effective, financial policies need to be comprehensive and internationally coordinated

Policy Implications – Macro Policies

- Get consumers to spend more; target credit constrained consumers and firms
- Government-financed infrastructure spending
- Easy monetary policy to reduce interest rates;

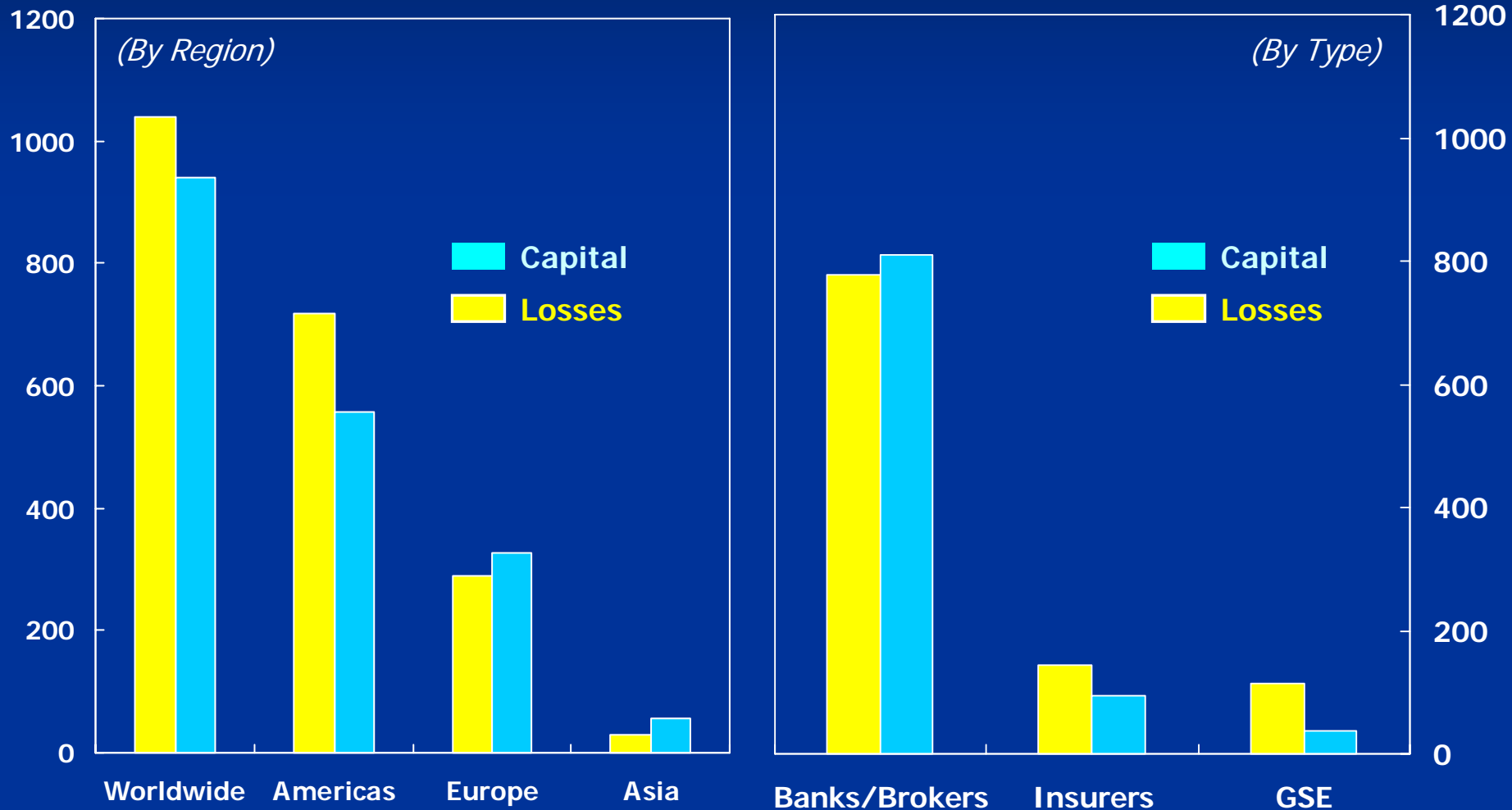
BUT:

- Essential need for credible medium-term fiscal programs to ensure debt sustainability
- Many countries starting from an already dangerous position (aging, health care)

Asset Prices and Capital Adequacy

Writedowns and Credit Losses vs. Capital Raised

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



Source: Bloomberg, L.P.

Global Policy Initiatives

- G-20 Leaders' Summit in Washington on Nov 15, 2008 agreed on 5 objectives:
 - Common understanding of the root causes of the global crisis
 - Review of countries' actions addressing the crisis
 - Agreement on common principles for reforming financial markets
 - Action plan to implement those principles and to develop further recommendations for later review
 - Reaffirmation of commitment to free market principles
- Next G-20 Leaders' Summit in London on April 2, 2009
 - Progress report on working groups set up in November to make specific proposals

Financial Packages since September 2008

Country	IMF (\$ bl)	Total (\$ bl.)	% of GDP
Belarus	2.5	7.4	13
Hungary	15.7	25.4	16
Iceland	2.1	10.9	65
Latvia	2.4	10.5	33
Pakistan	7.6	12.4	7
Ukraine	16.4	18.0	10

III. The view from the markets

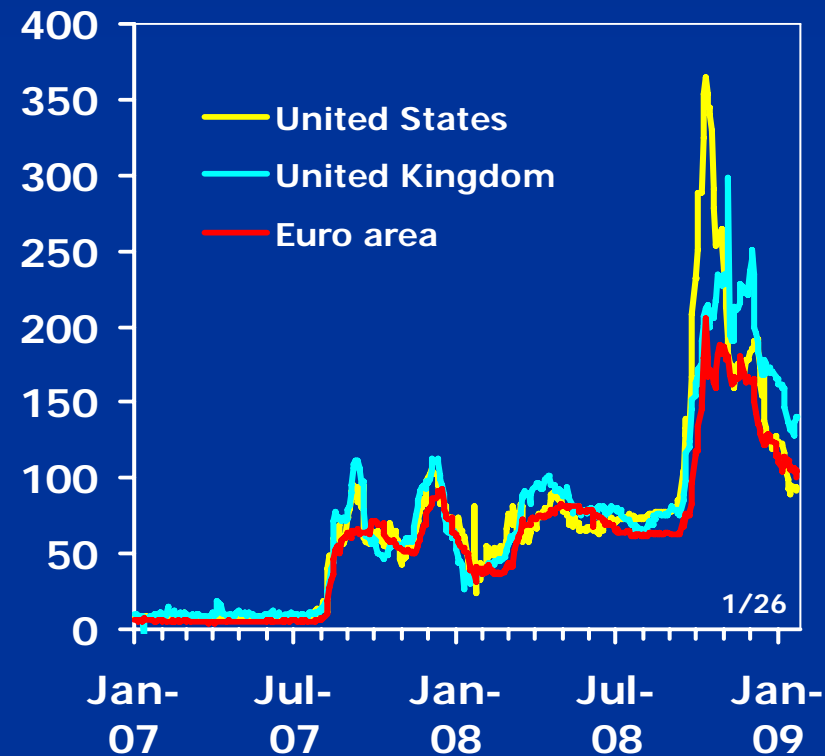
Systemic risks remain elevated despite government interventions

CDS Spreads for High-Grade Financials (basis points)

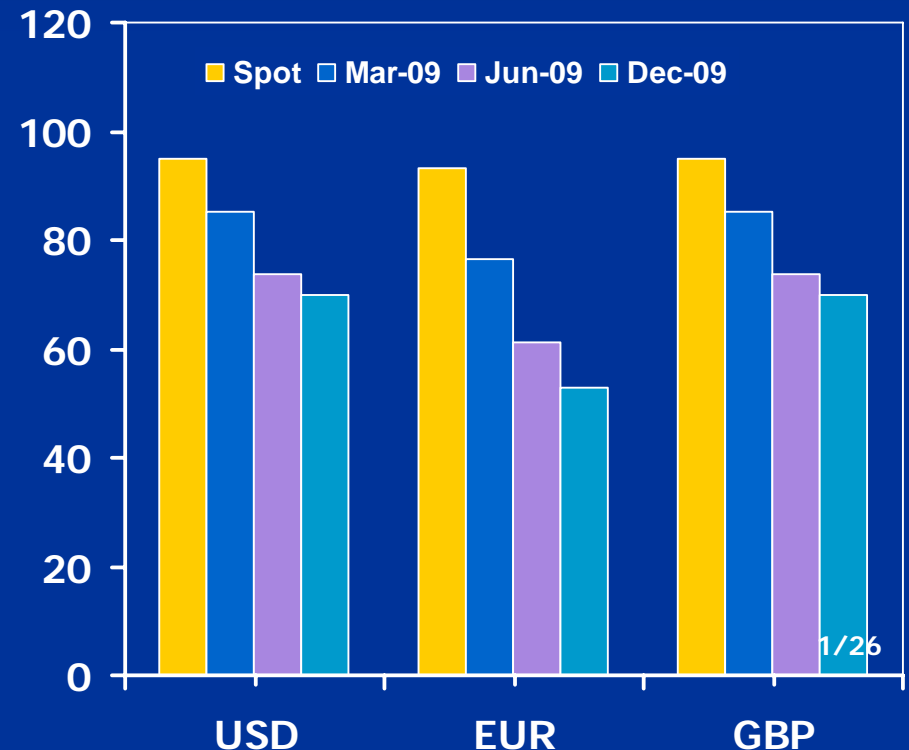


Although interbank spreads have dropped sharply, interbank liquidity remains impaired...

Libor-Overnight Index Swap Spreads (basis points)

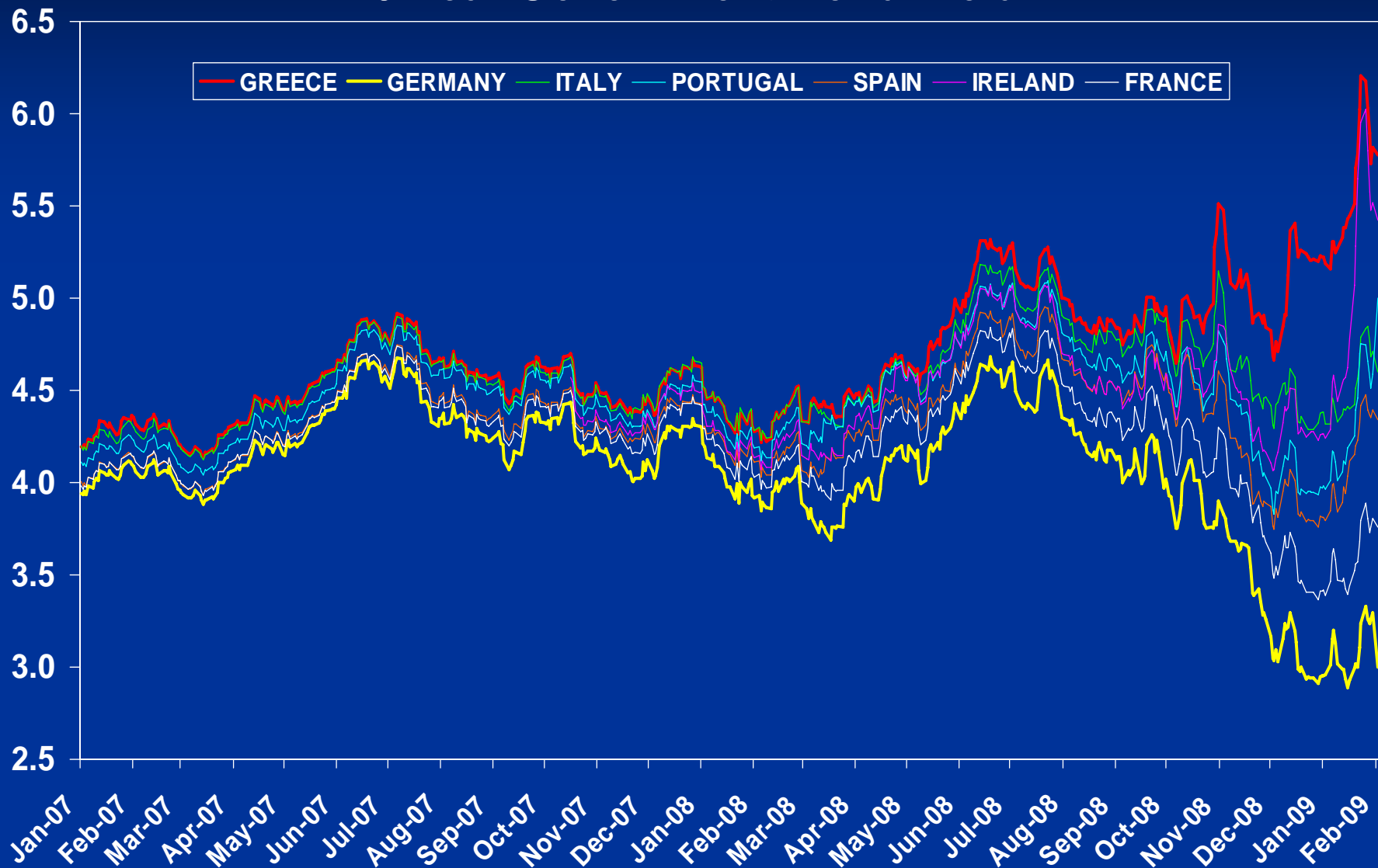


Spot and Forward LIBOR-OIS Spreads (basis points)



Rising concerns over fiscal sustainability...

10 Year Government Bond Yield



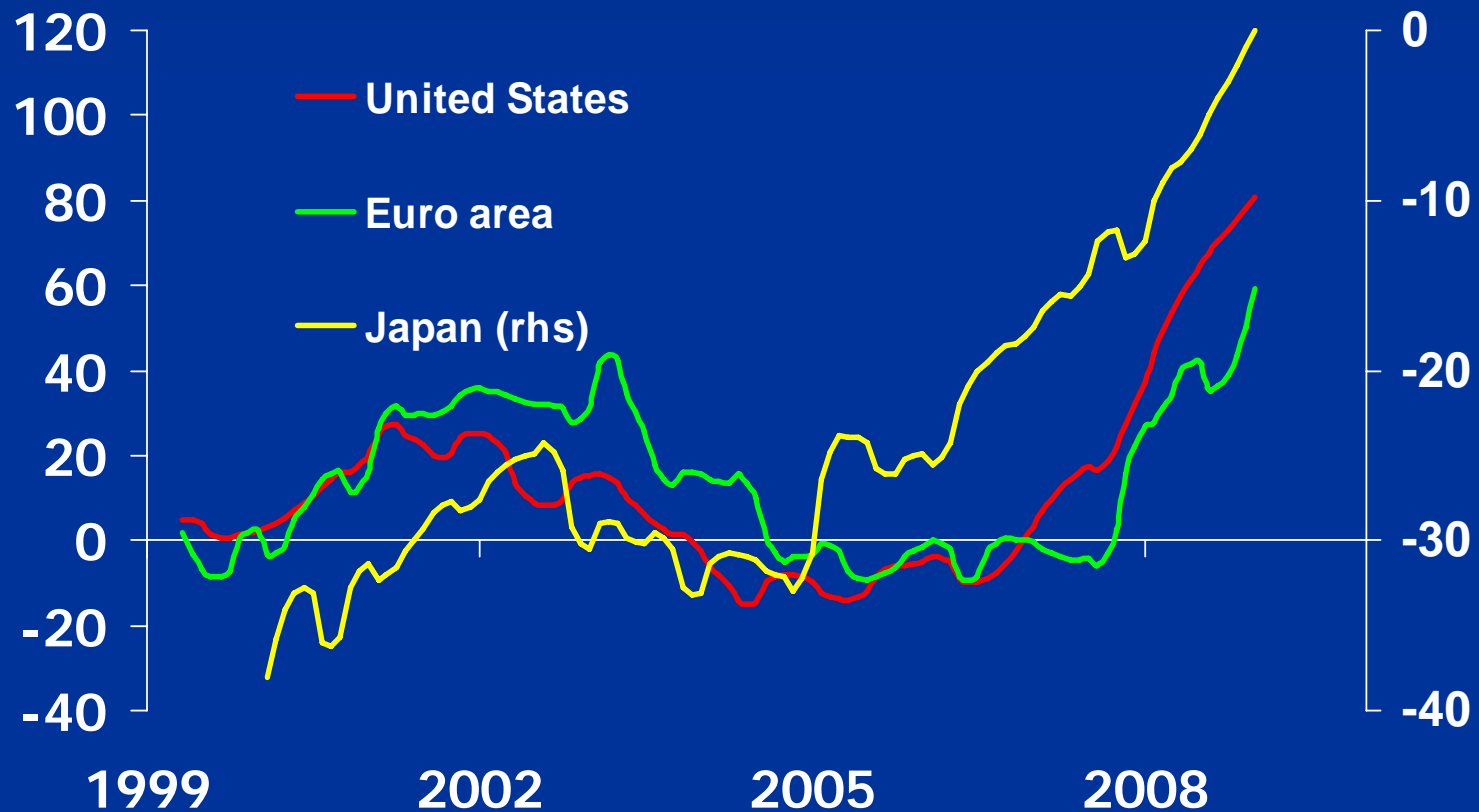
...reflected in widening spreads over Bunds

Spreads From the 10-Year German Bond Yield



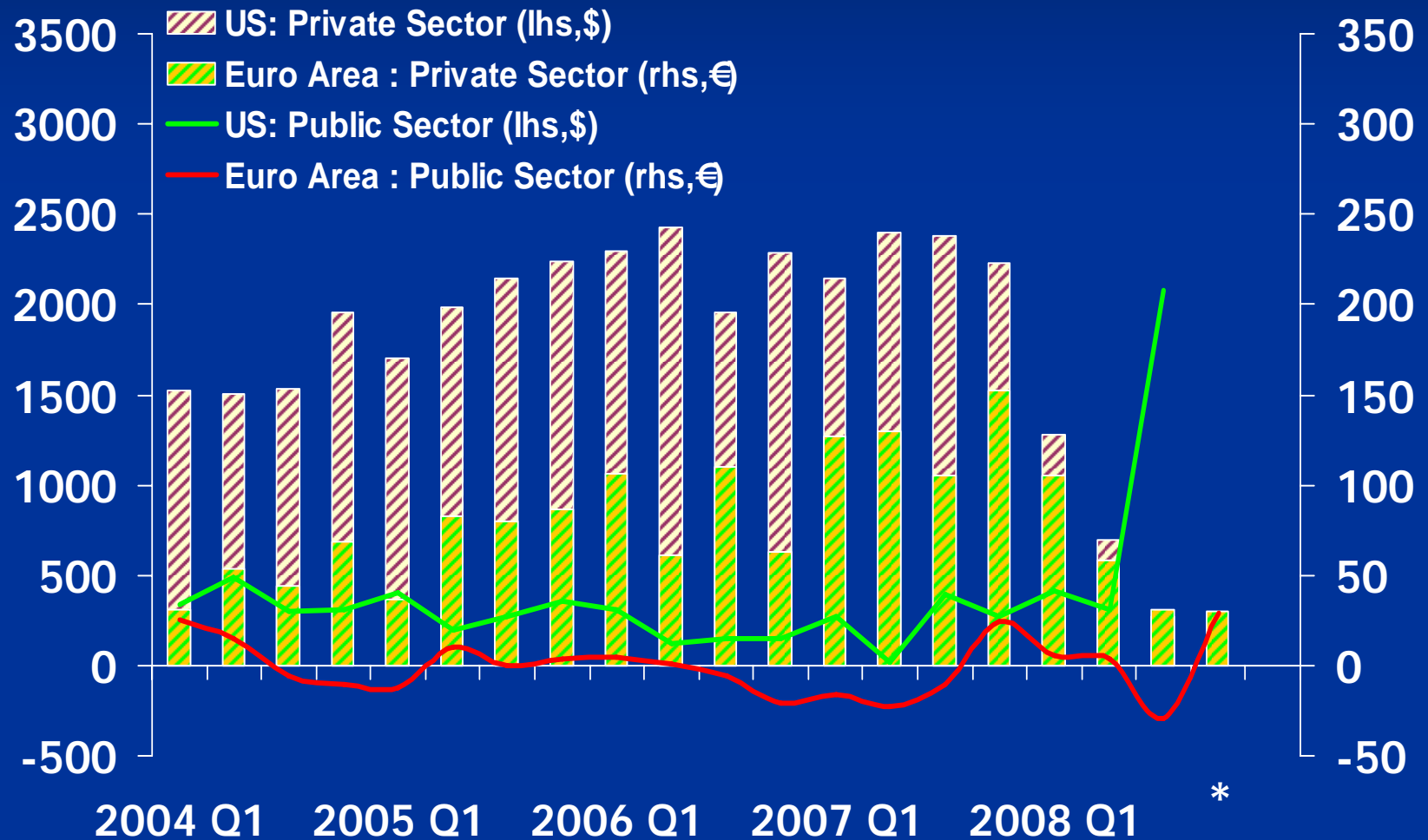
Bank lending standards have tightened as banks try to delever...

G-3 Bank Lending Conditions (net percentage of respondents tightening loan standards)

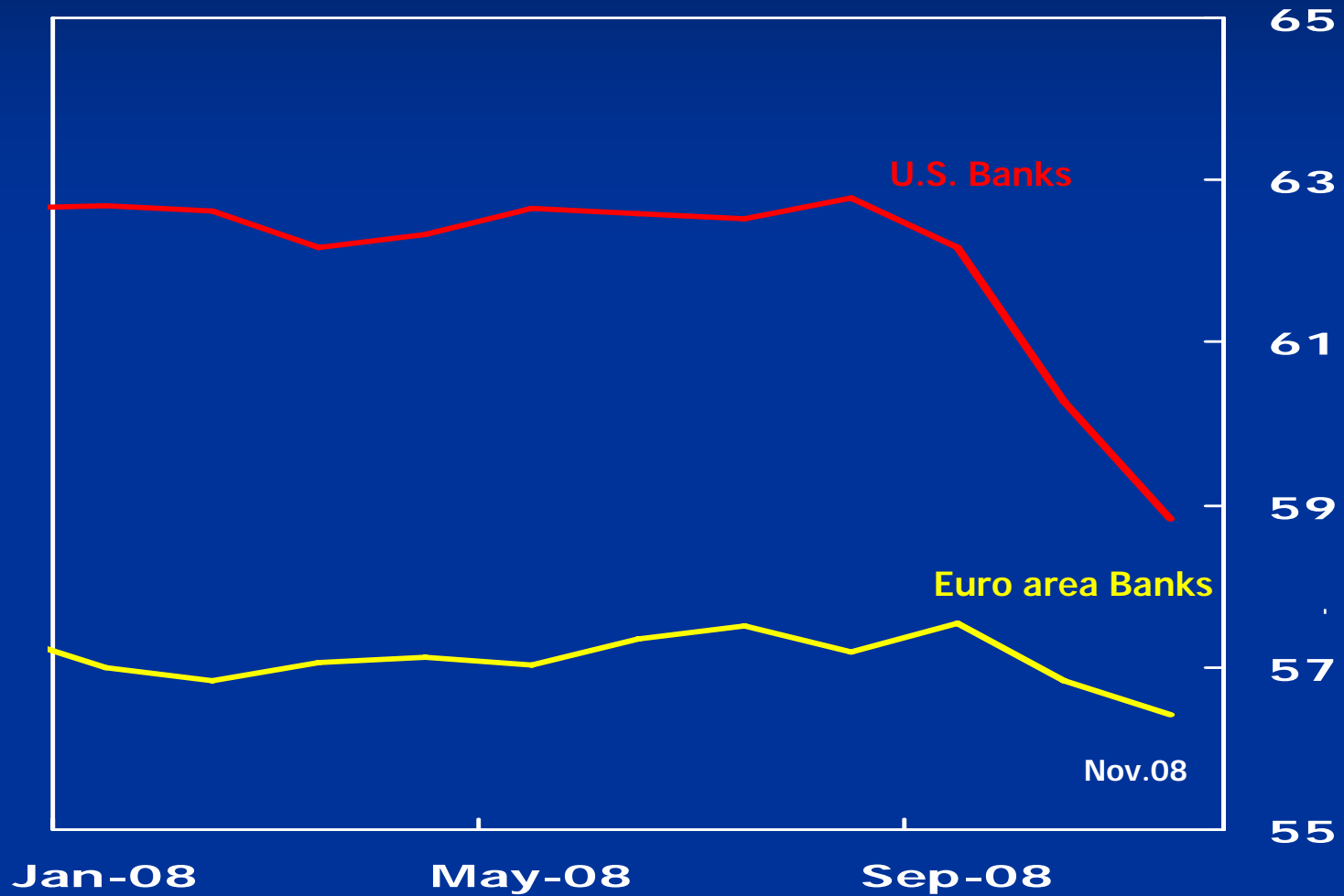


... and private credit growth has fallen sharply, with the public sector picking up some of the slack

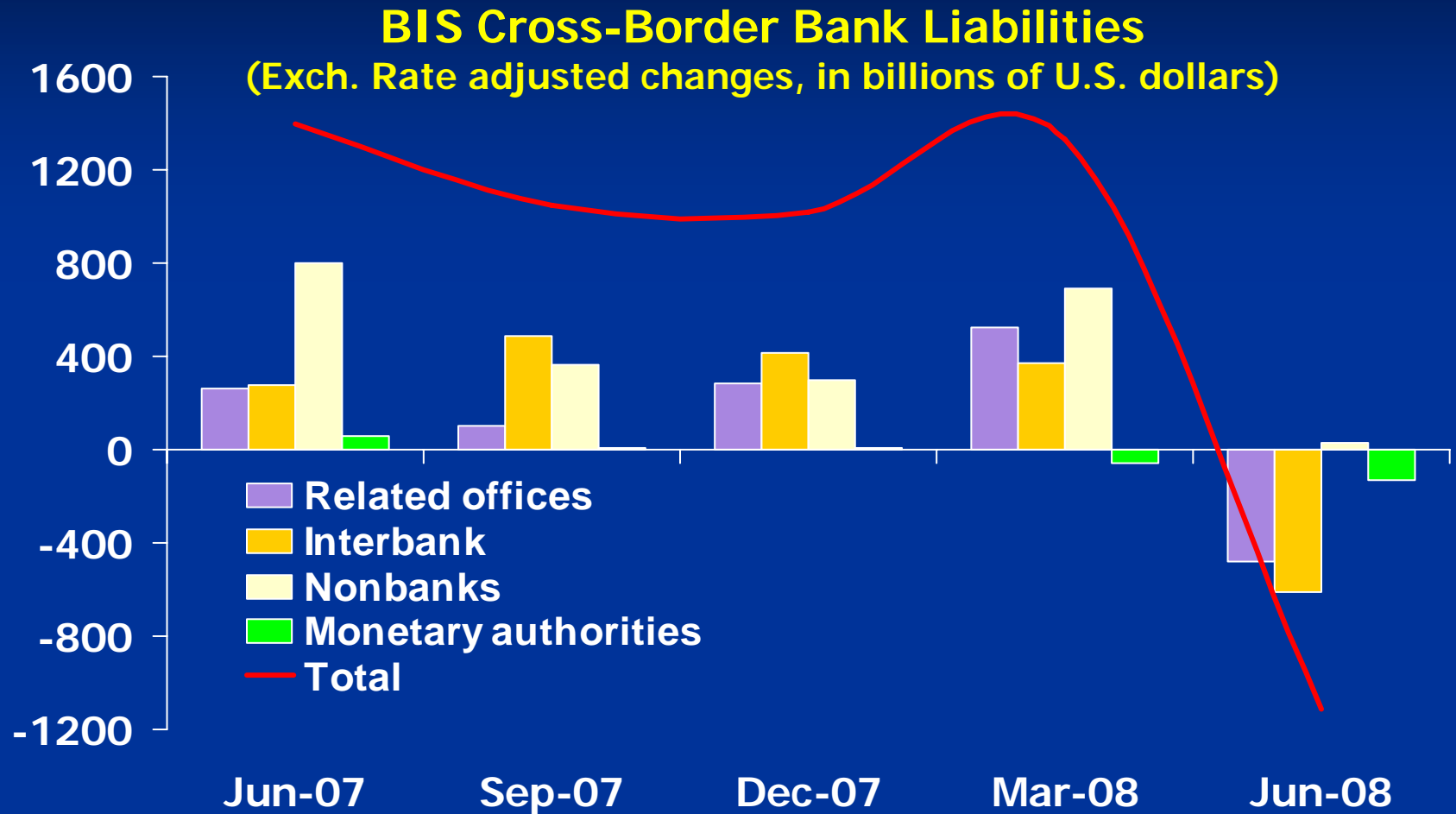
Credit Growth in Public and Private Sectors (qoq changes, seasonally adj. , Billions of Local Currency)



Bank Loans to Assets (in percent)



Cross-border bank flows have started to drop sharply



Deterioration in emerging markets may, in turn, be transmitted back to mature markets banks

Banking Systems Exposures to Emerging Markets (as % of Mature Market's GDP)

