



The Global Economy and Financial Crisis

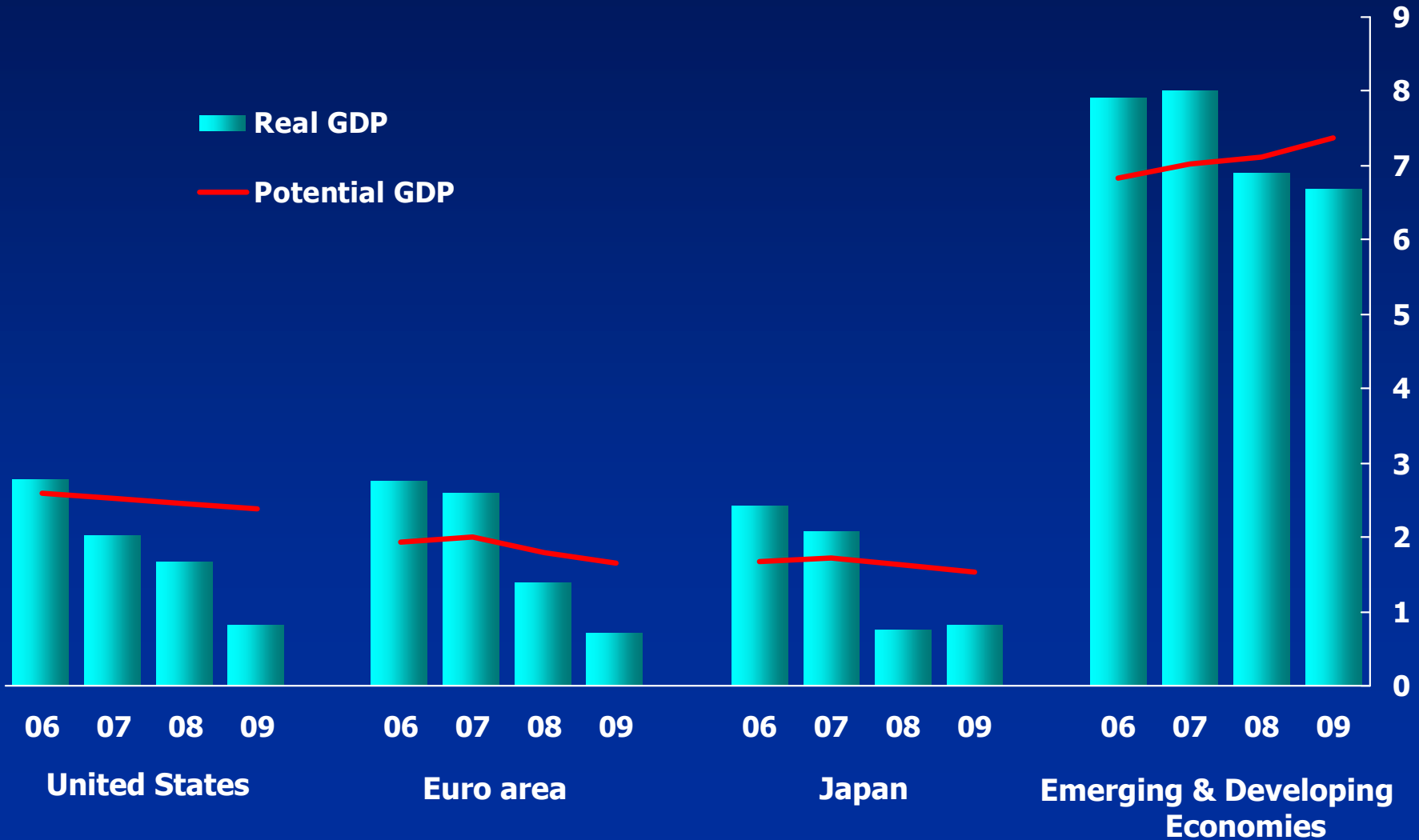
John Lipsky

*First Deputy Managing Director
International Monetary Fund*

UCLA Economic Forecasting Conference-September 23-24, 2008

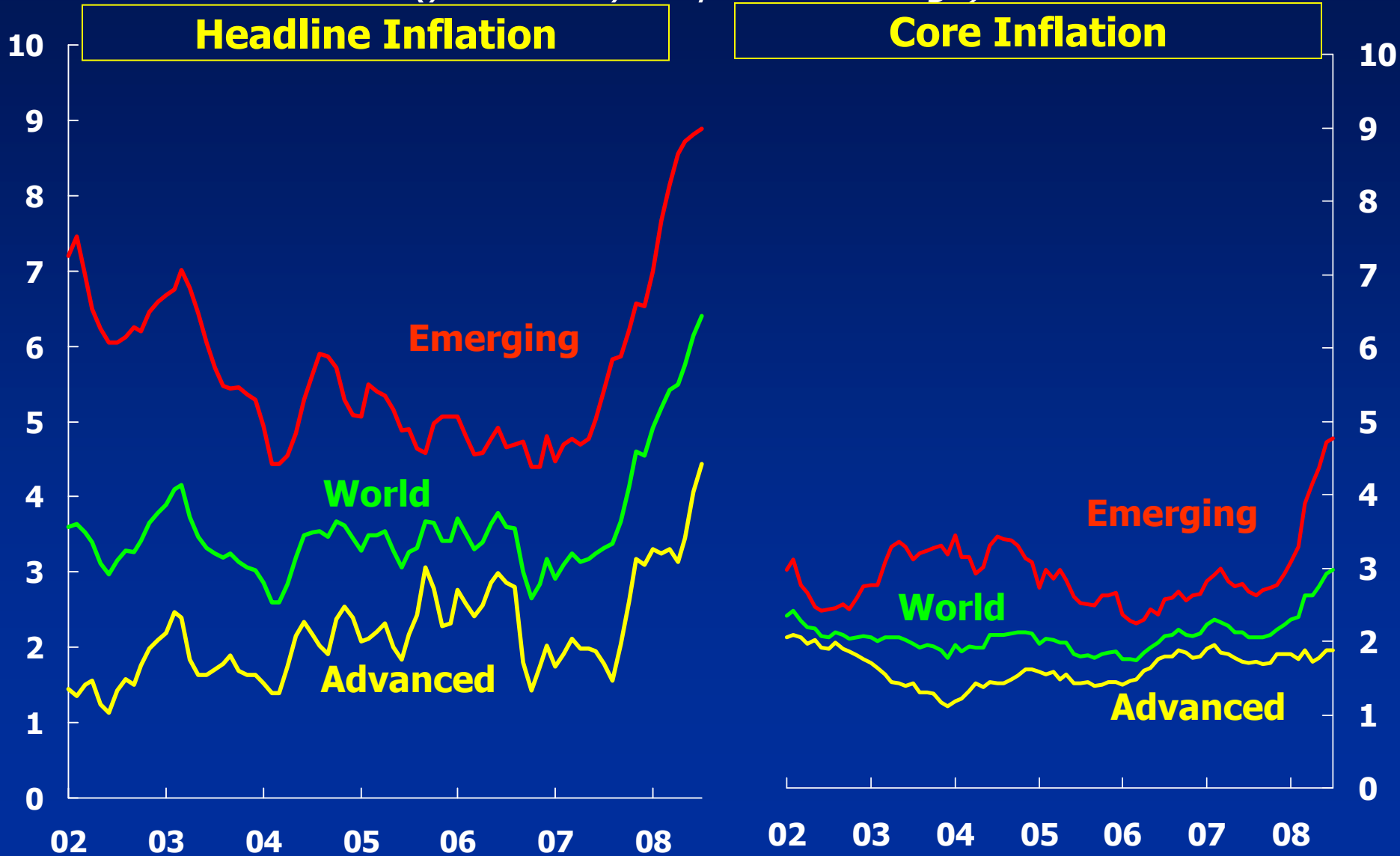
Growth Below Potential in Advanced Economies and Slowing in Emerging Markets

Real GDP Growth Rates (percent change)



Core Inflation Stable in Advanced Economies but Rising in Some Emerging Markets

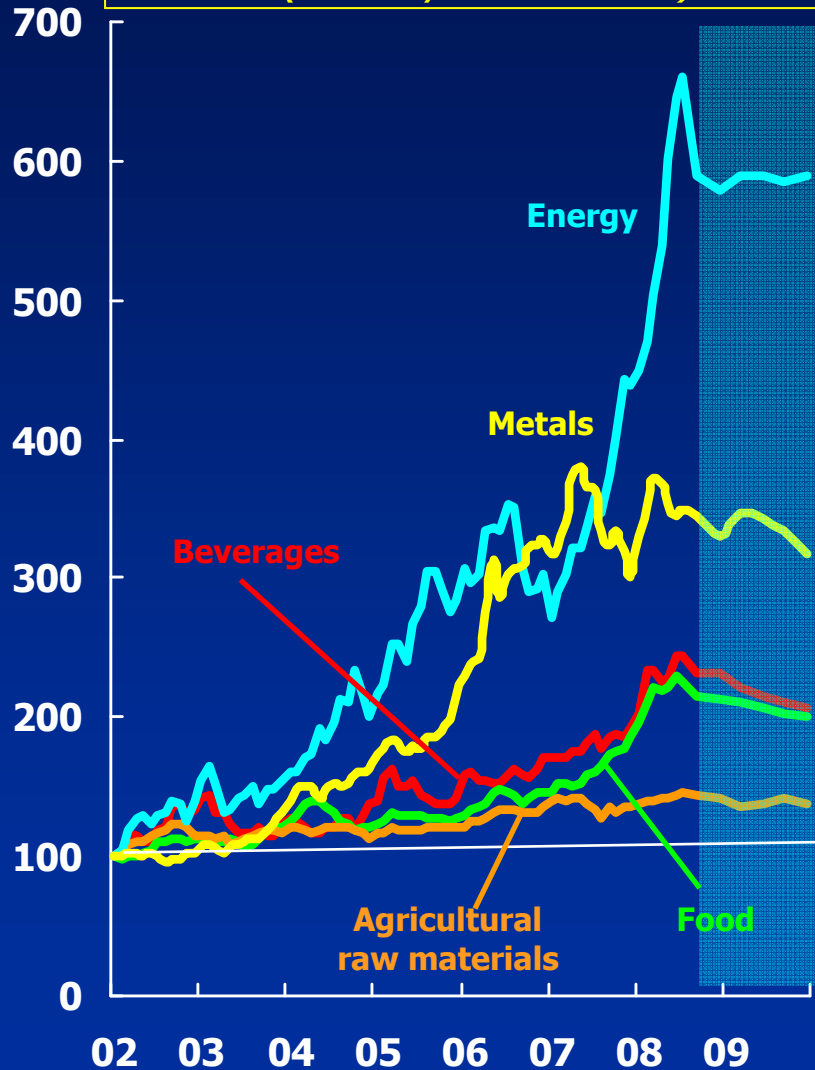
(year-over-year percent change)



Commodity Prices have Receded from their Highs

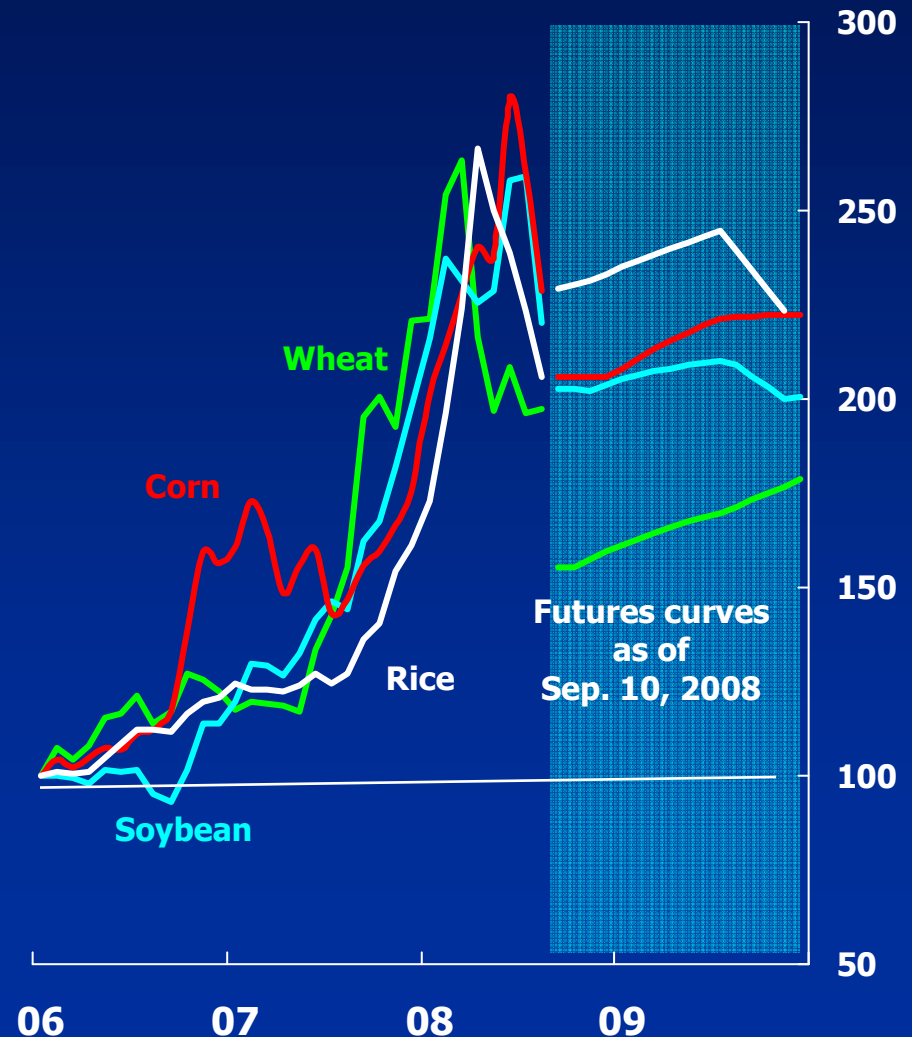
Selected Commodity Prices

(January 2002 = 100)



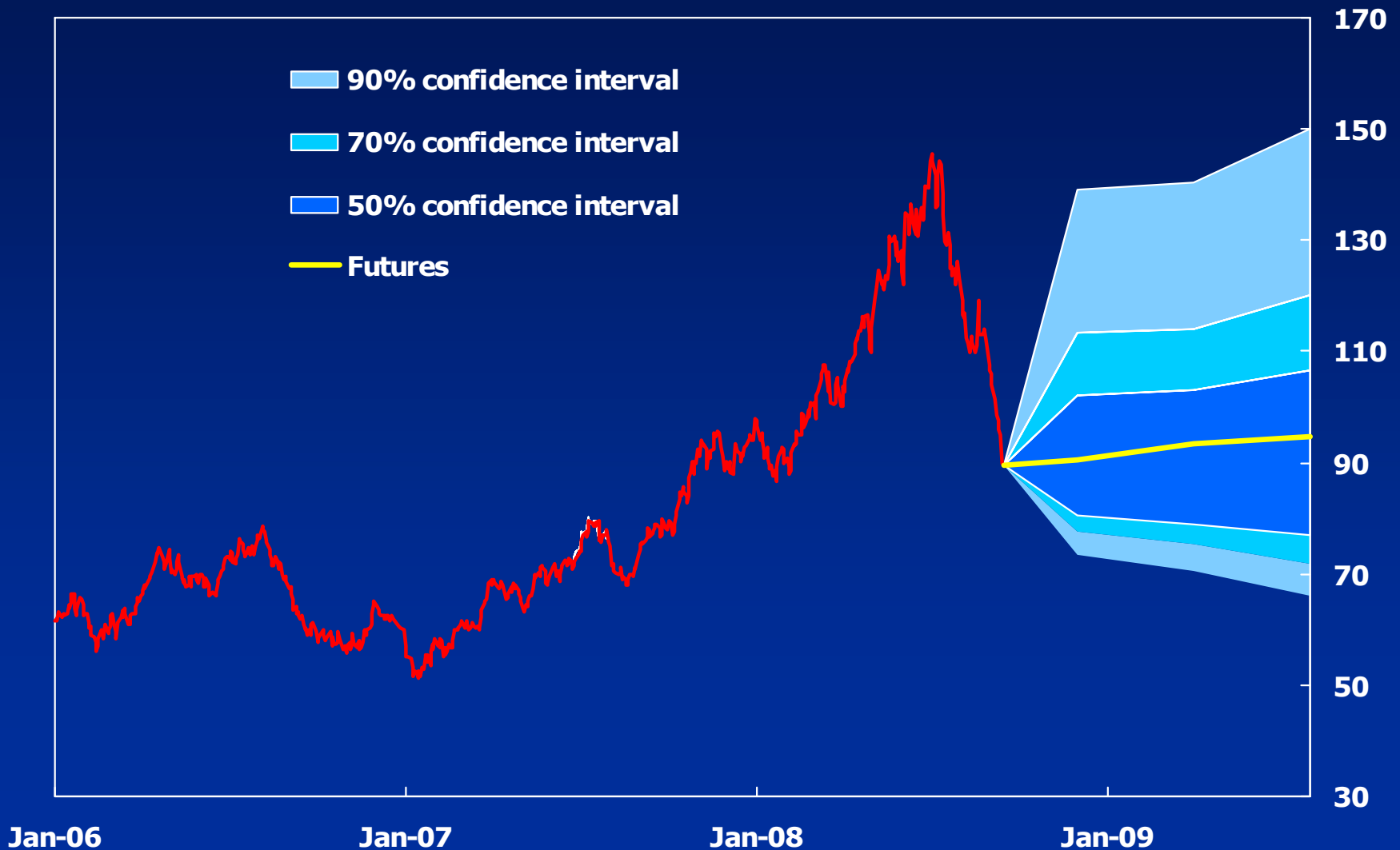
Selected Food Prices

(January 2006 = 100)



Uncertainty about Oil Prices Remains High

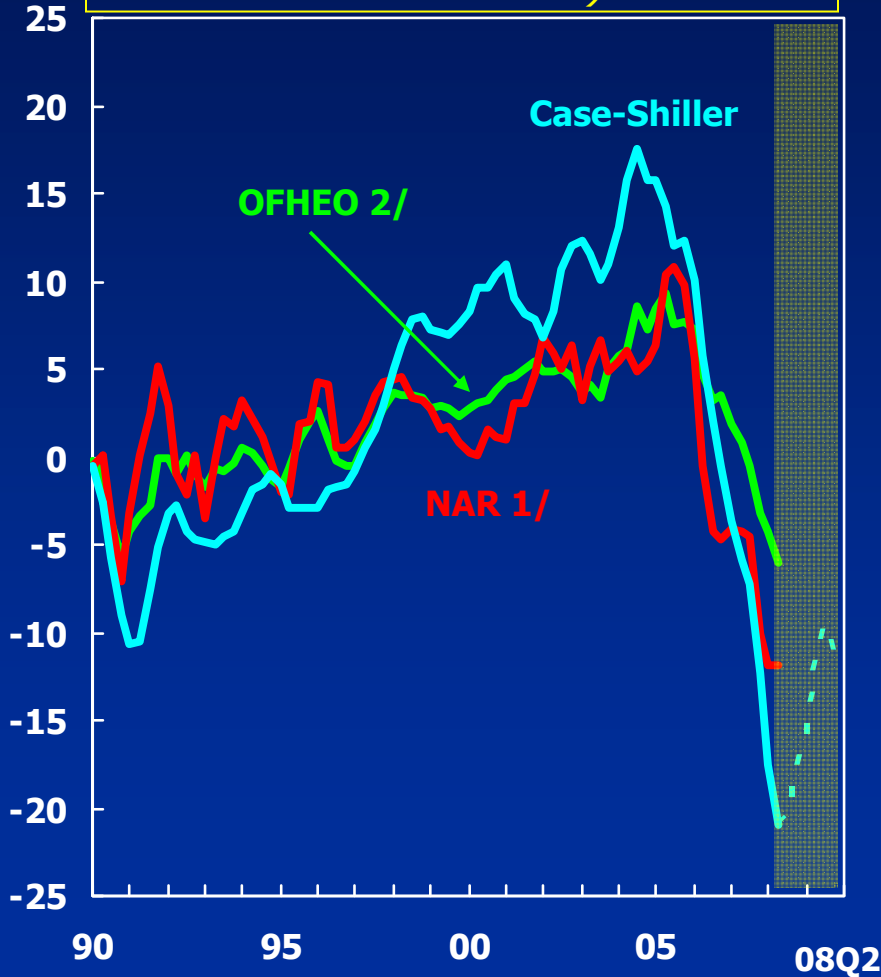
(U.S. dollars a barrel; from Brent futures options on September 16, 2008)



Turning Point for the U.S. Housing Market Has not yet been Reached

U.S. House Prices

(quarterly; Y/Y percent change;
relative to CPI)



Inventories and Housing Starts

(in millions of units)



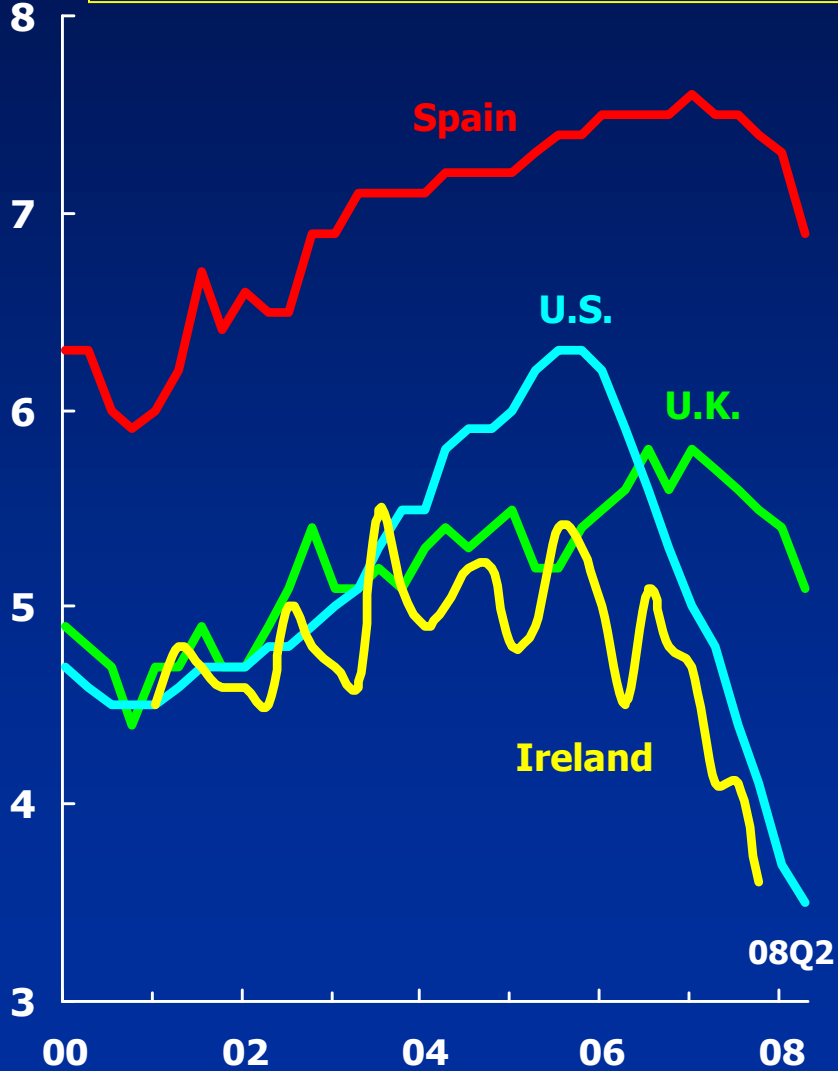
1/ NAR refers to National Association of Realtors.

2/ OFHEO refers to Office of Federal Housing Enterprise Oversight.

Other Countries with Housing Slumps

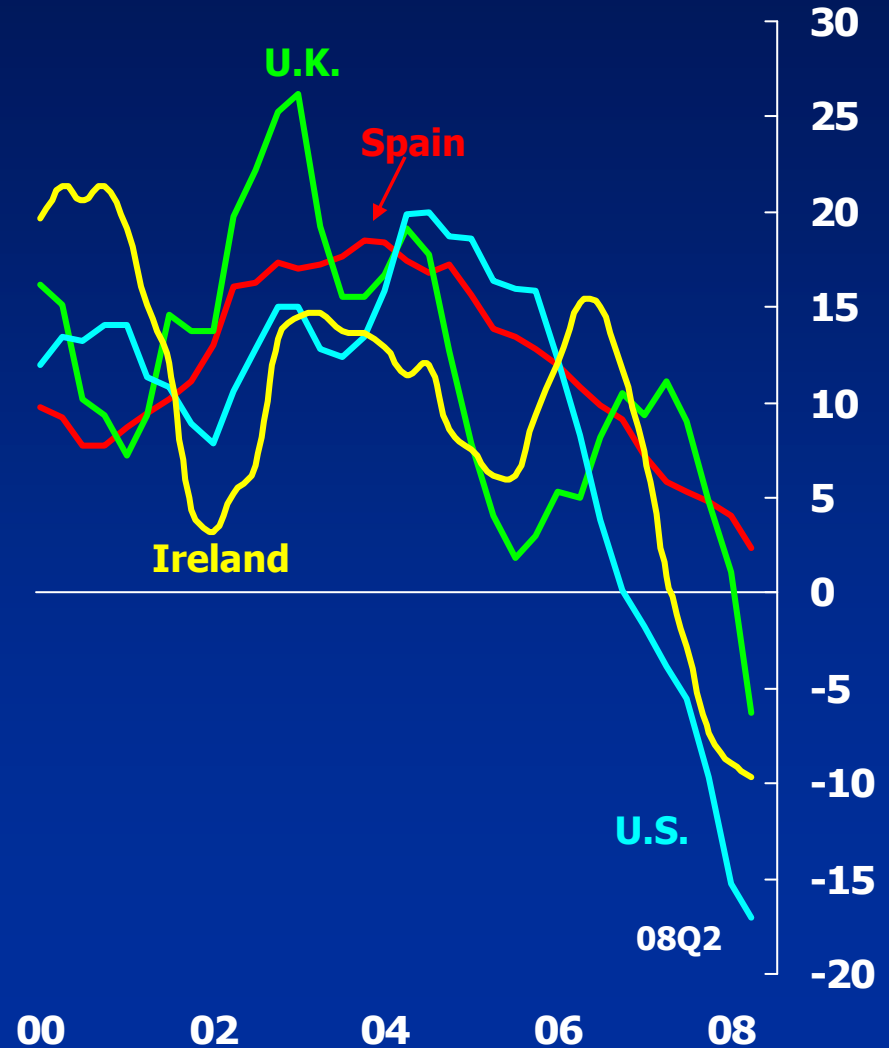
Residential Investment

(in percent of GDP; construction)



House Prices

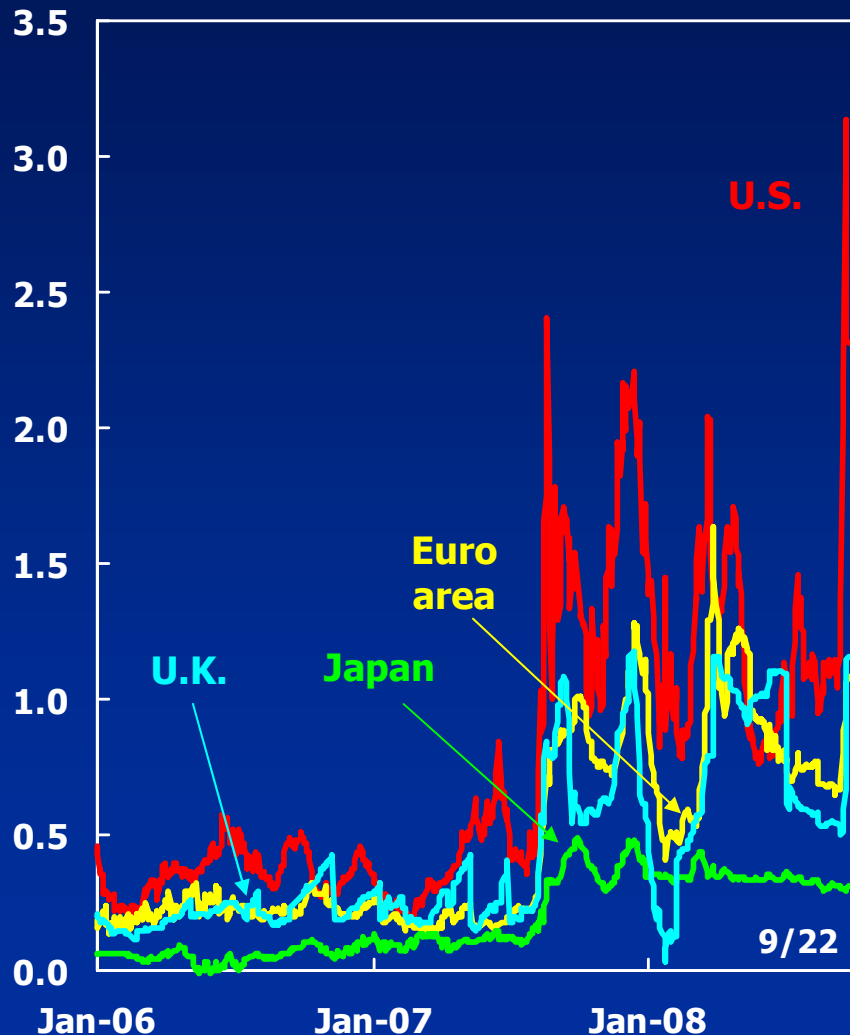
(in percent; year on year)



Liquidity Strains Remain Elevated Amid Solvency Concerns in the Banking Sector

Interbank Markets

(3-month LIBOR minus T-bill rate; in percent)



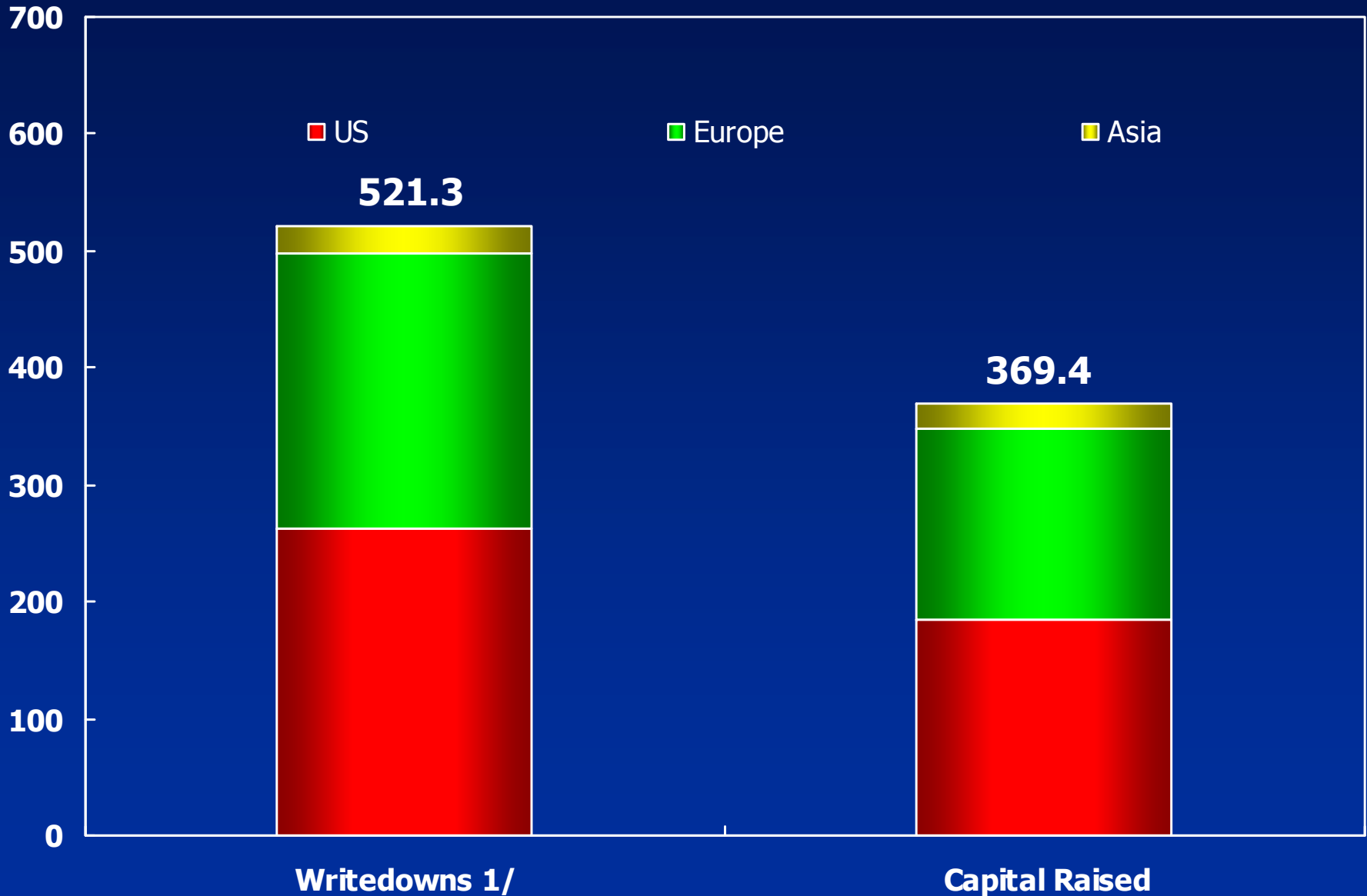
Bank CDS Spreads

(10-years; basis points)



Global Bank Writedowns and Capital Infusion

(in billions of U.S. dollars)

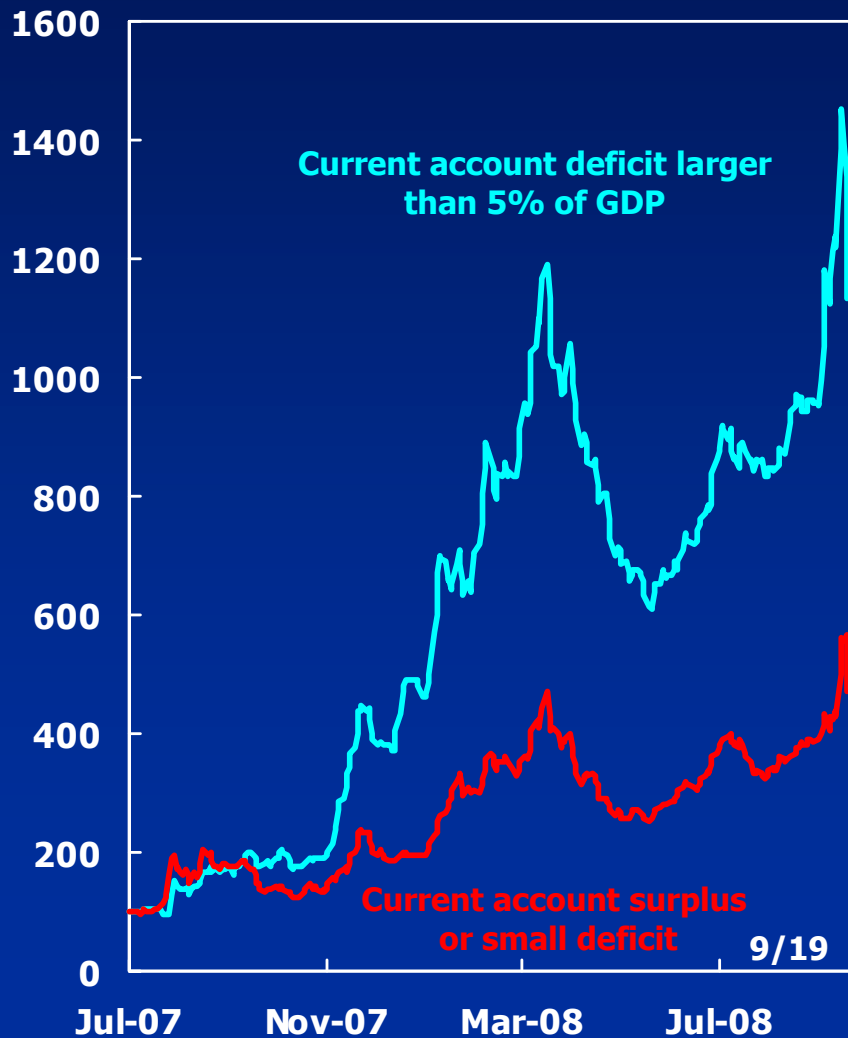


1/ Includes writedowns due to asset valuation, yet to be passed through income statement.

In Emerging Economies, Large Deficit Countries Have Faced Greater Market Pressures

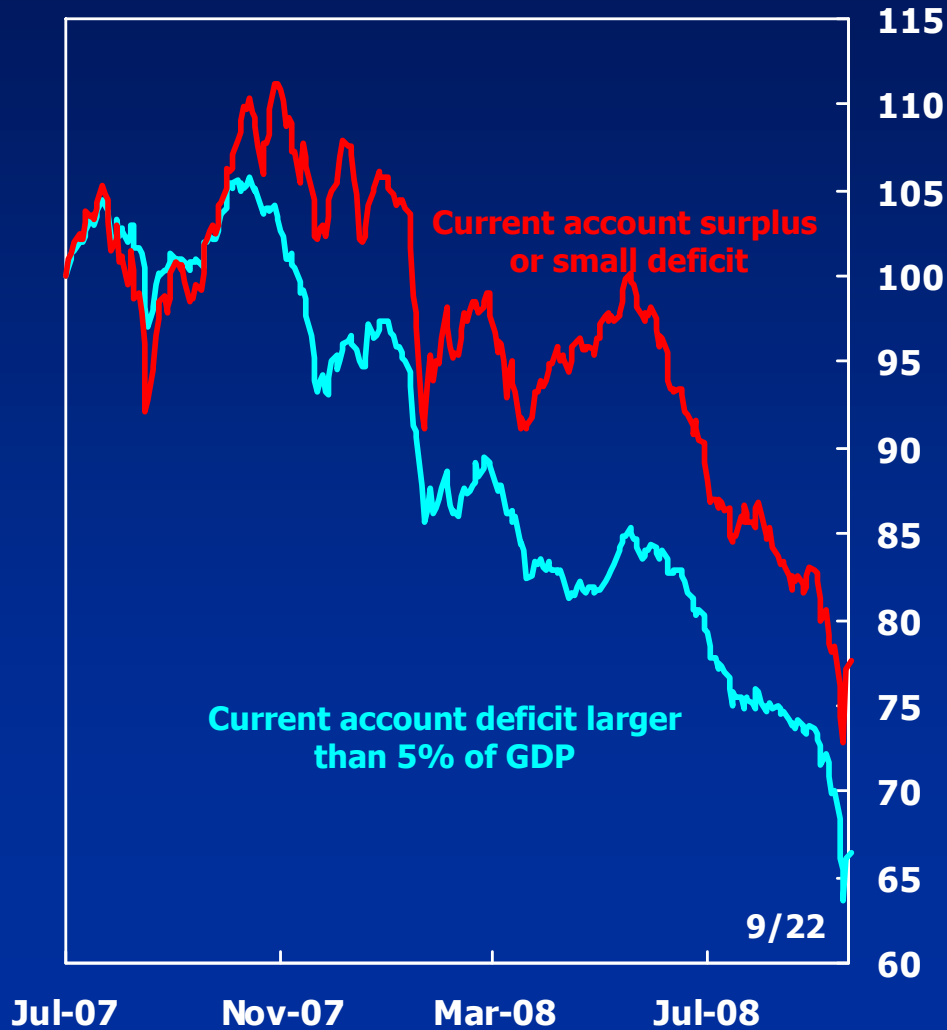
Sovereign CDS Spreads

(index: 7/1/2007=100)



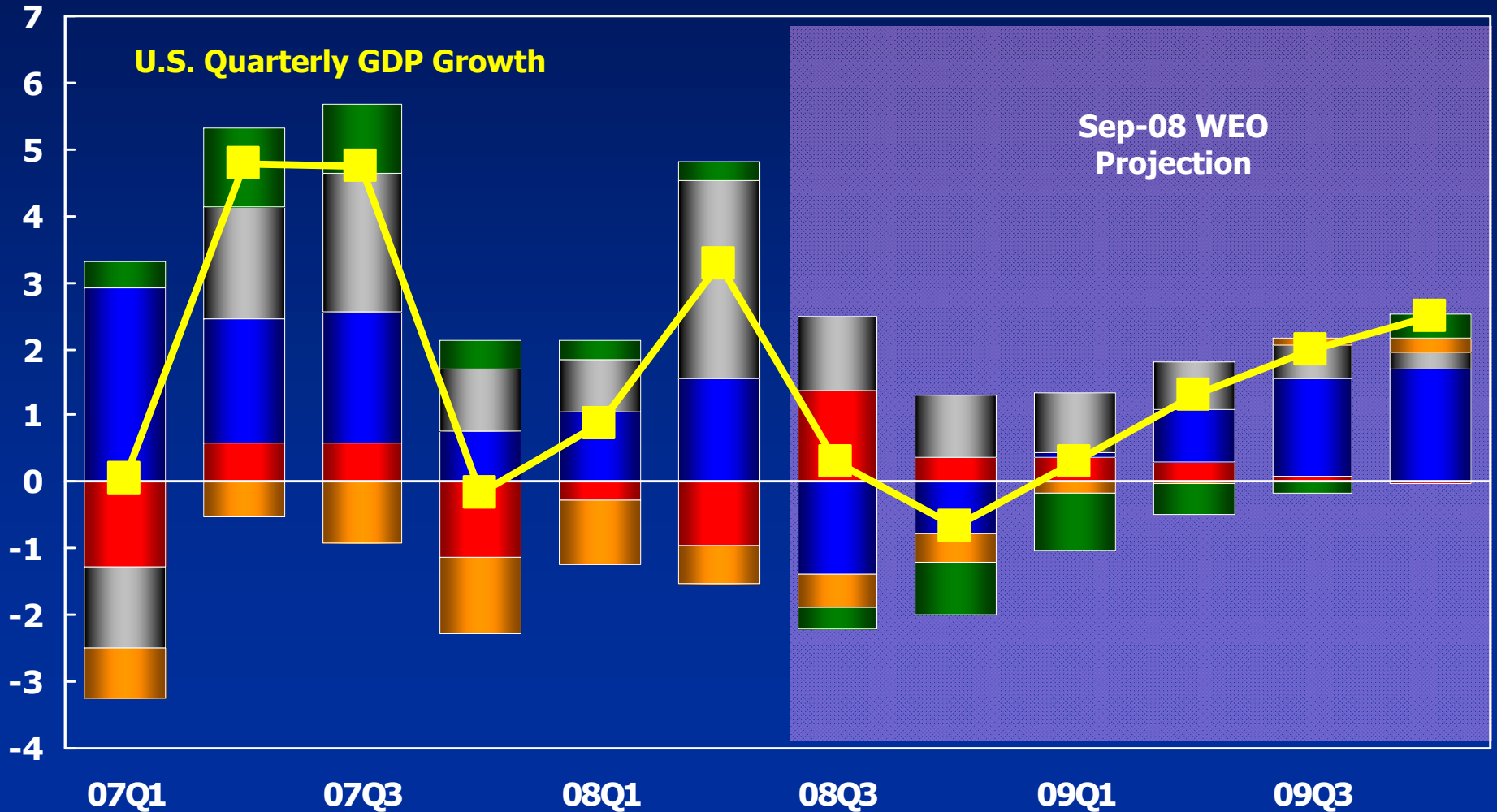
Equity Prices

(index: 7/1/2007=100)



U.S. Monetary Policy, Real Exchange Rate and Exports are Lending Support

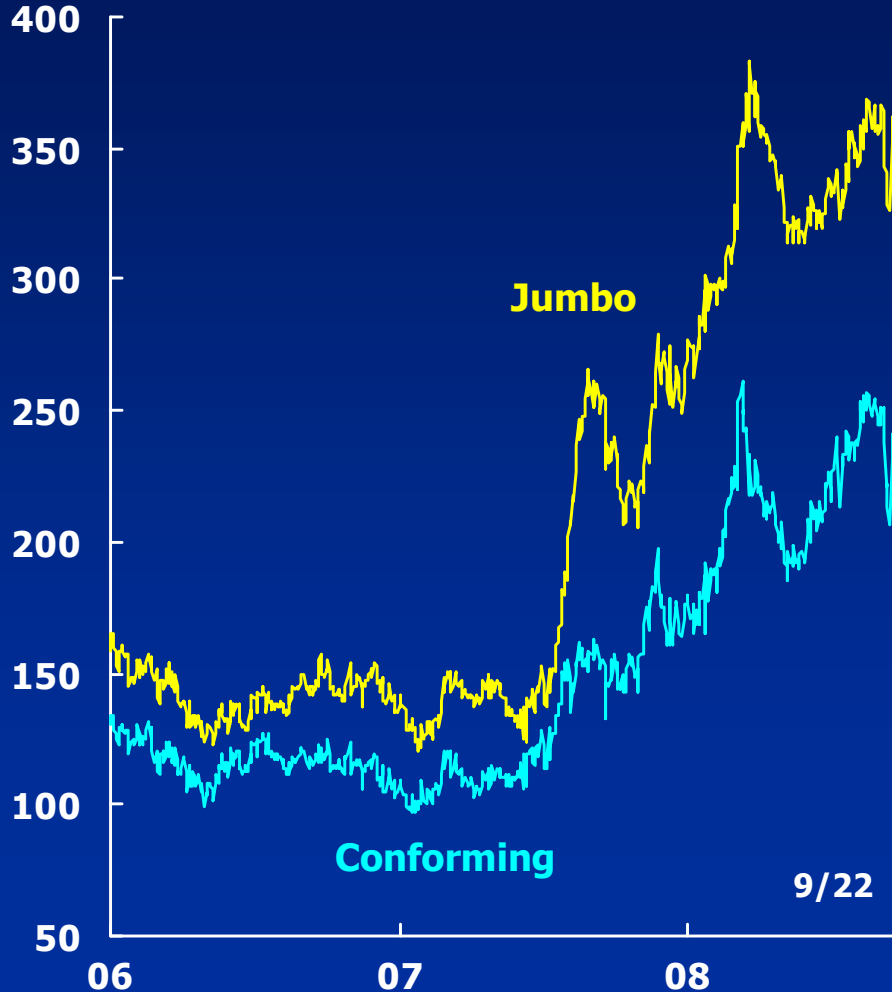
- Other
- Net Exports
- Non-residential Investment
- Consumption
- Residential Investment



Mortgage Spreads Declining Some But Mortgage Securitization is Still Limited

U.S. Mortgage Spreads

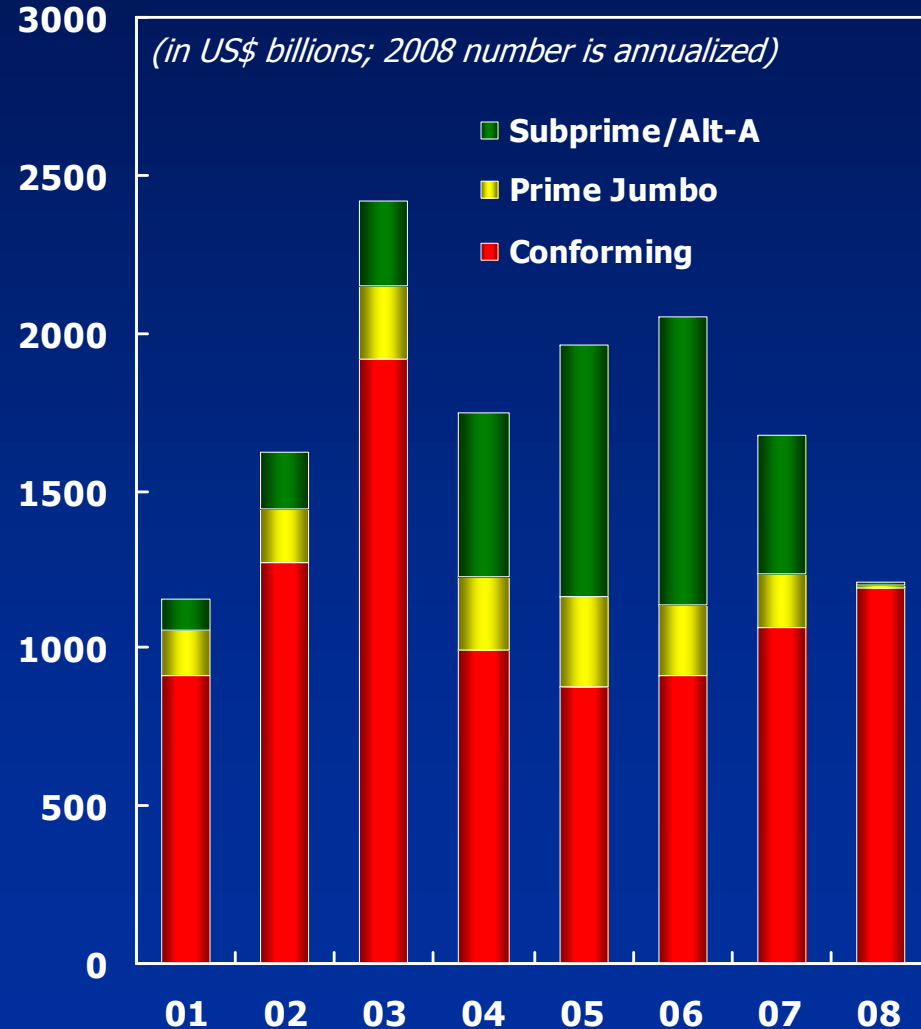
(over 10 year Treasury rates, basis points)



Source: IMF staff estimates.

Mortgage Securitization

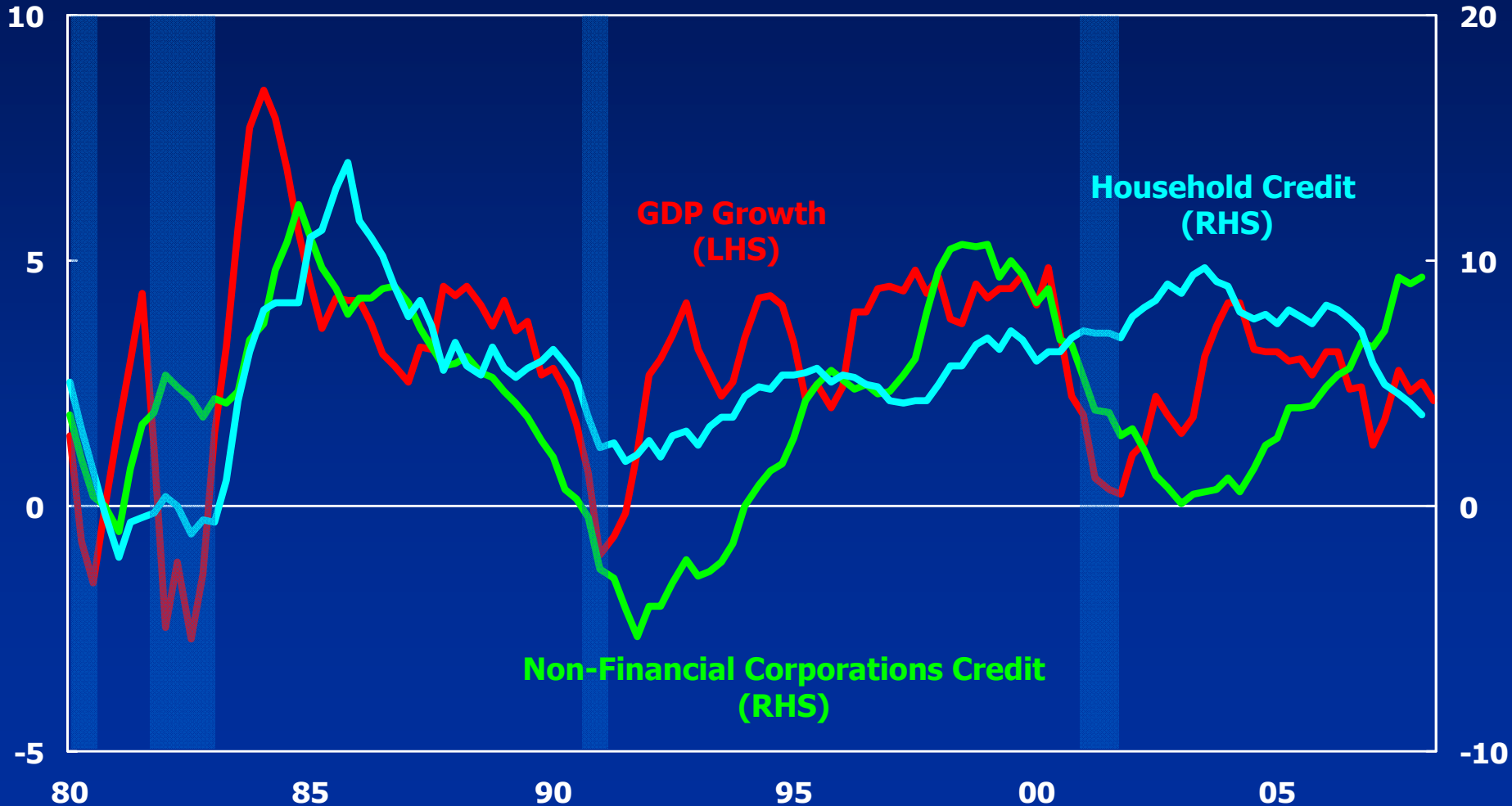
(in US\$ billions; 2008 number is annualized)



A Decline in Credit Growth Does Not Necessarily Forestall a Recovery

United States Credit and Output Growth 1/

(percent change from a year ago; GDP growth on the left axis, all others on the right axis)



1/ Highlighted areas indicate recessions.

First Policy Line of Defense

- *Monetary authorities*

- a) *liquidity provision to the financial sector*

- b) *setting policy interest rates.*

Second Policy Line of Defense

- *Fiscal Policy*

- a) *automatic stabilizers*

- b) *support to growth subject to fiscal sustainability*

Third Policy Line of Defense

- *Direct intervention*
- *This has been, and must be, considered so long systemic risks to the financial system remain elevated.*
- *The key is to strike the right balance between limiting moral hazard and safeguarding financial stability.*

End