



Presentation on the Global Economy

Made at the Brookings Institution

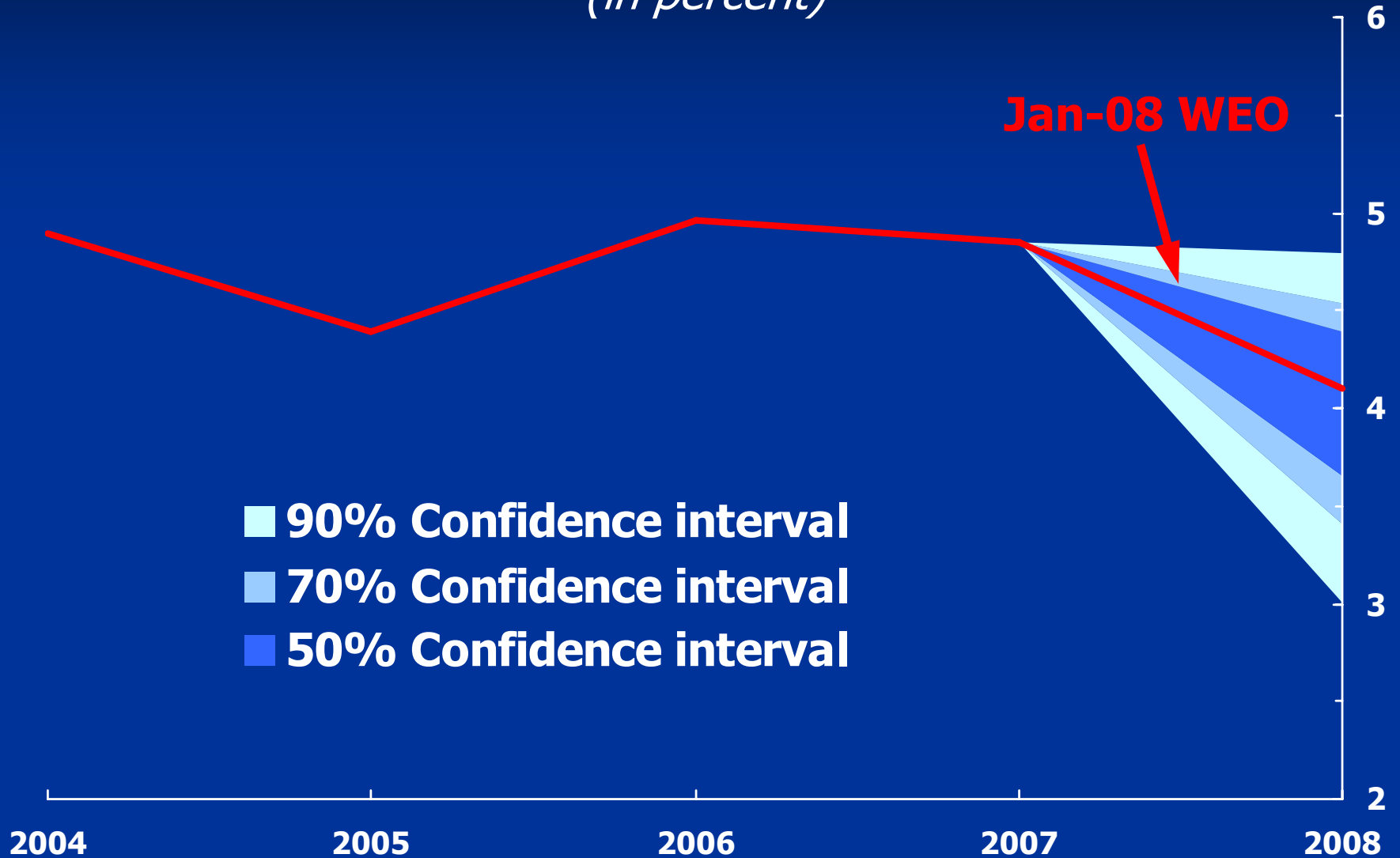
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January 31, 2008

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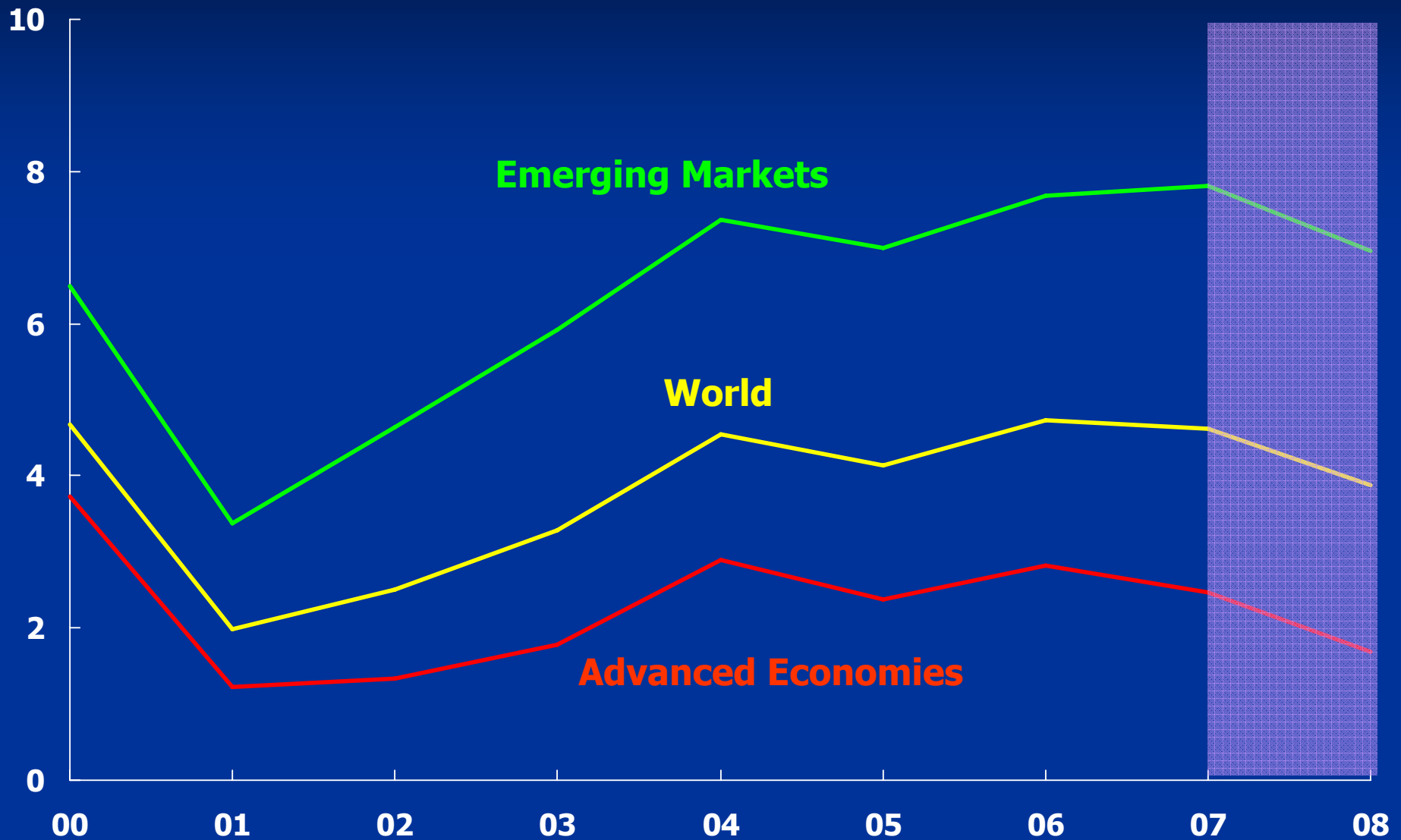
Global Outlook is Subdued with Risks Heavily Tilted to the Downside

(in percent)



Will Divergent Growth in Emerging Markets Continue?

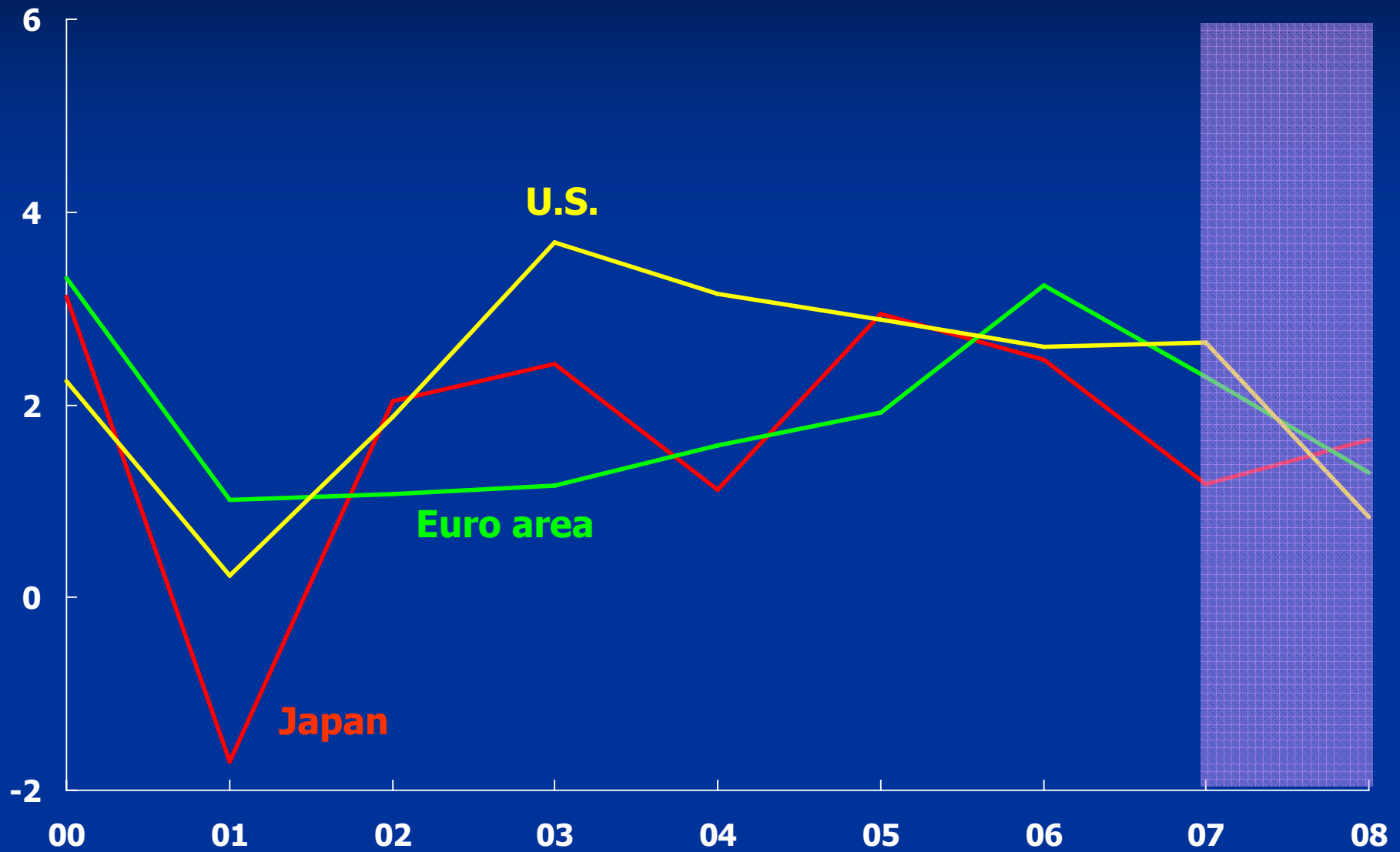
(in percent; yoy)



Source: WEO Update January 2008.

Activity is Decelerating Globally, Q4 over Q4

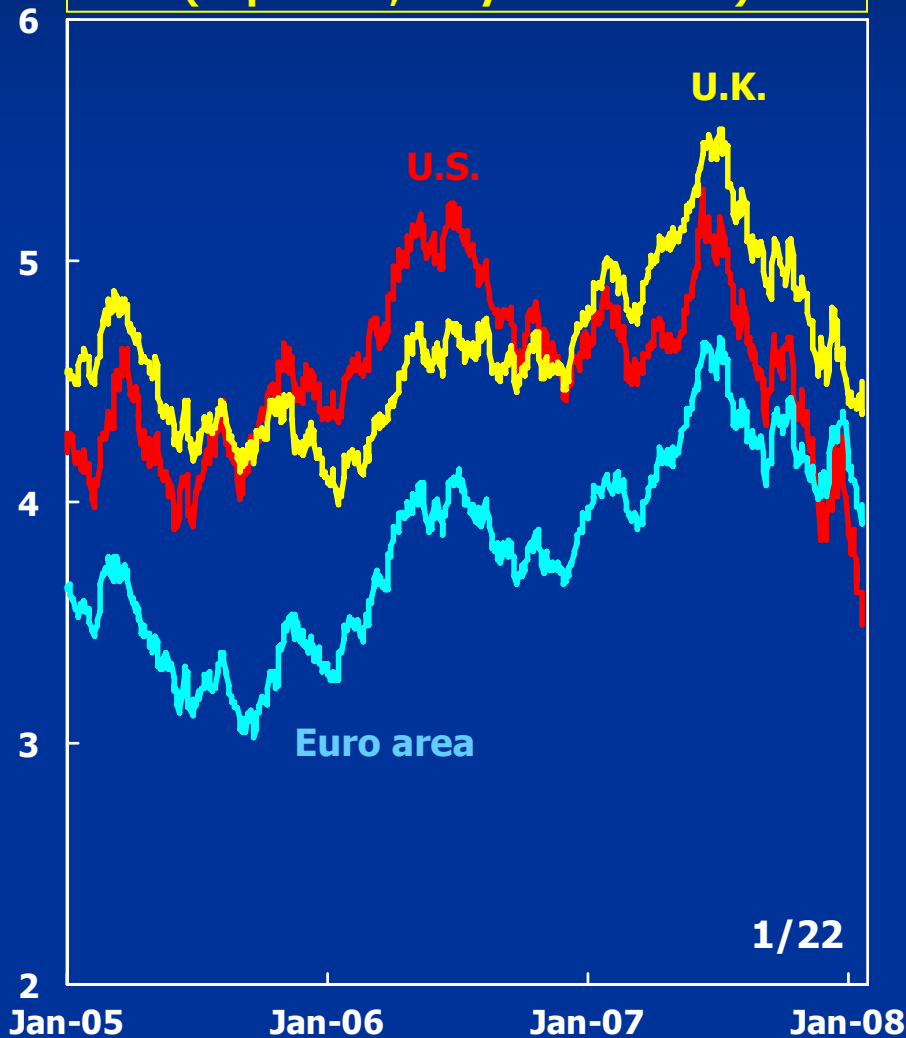
(growth in percent; Q4/Q4)



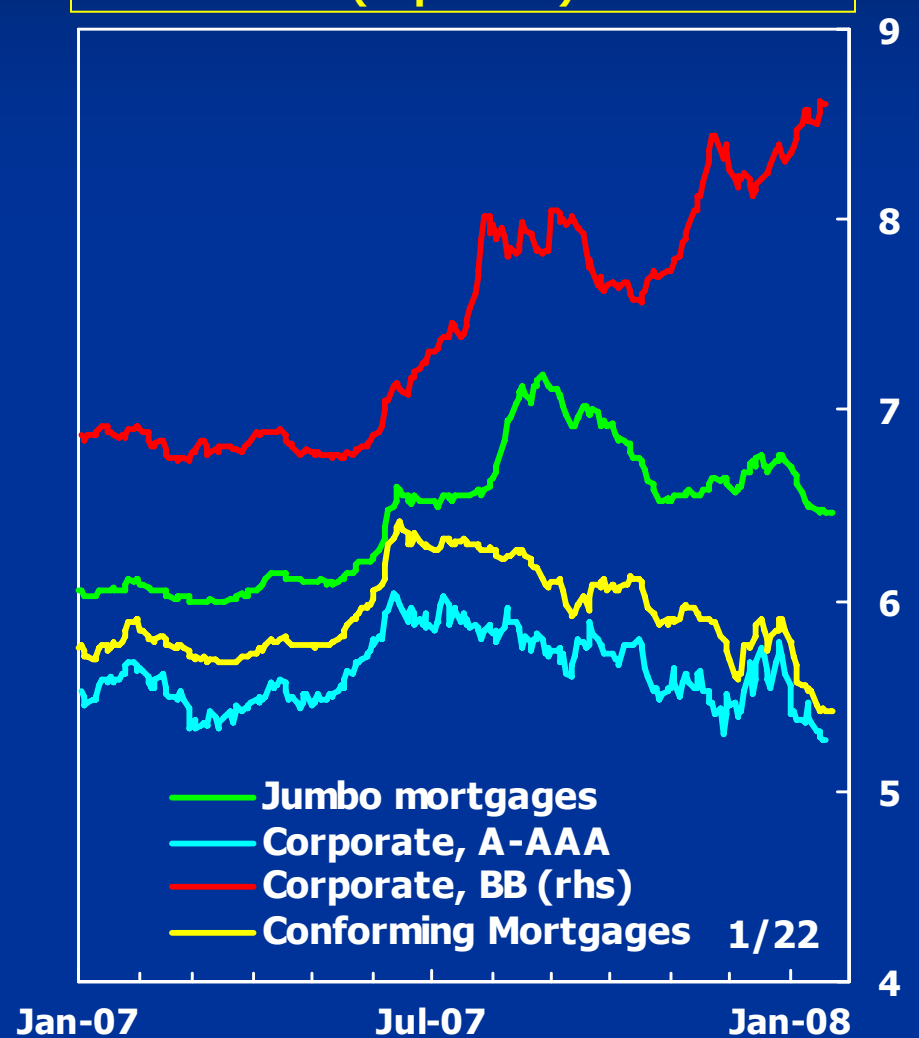
Source: WEO update January 2008.

Long Term Government Bond Yields Have Fallen, but Certain Interest Rates Remain High

Long-Term Interest Rates (in percent; 10-yr Govt. Bond)



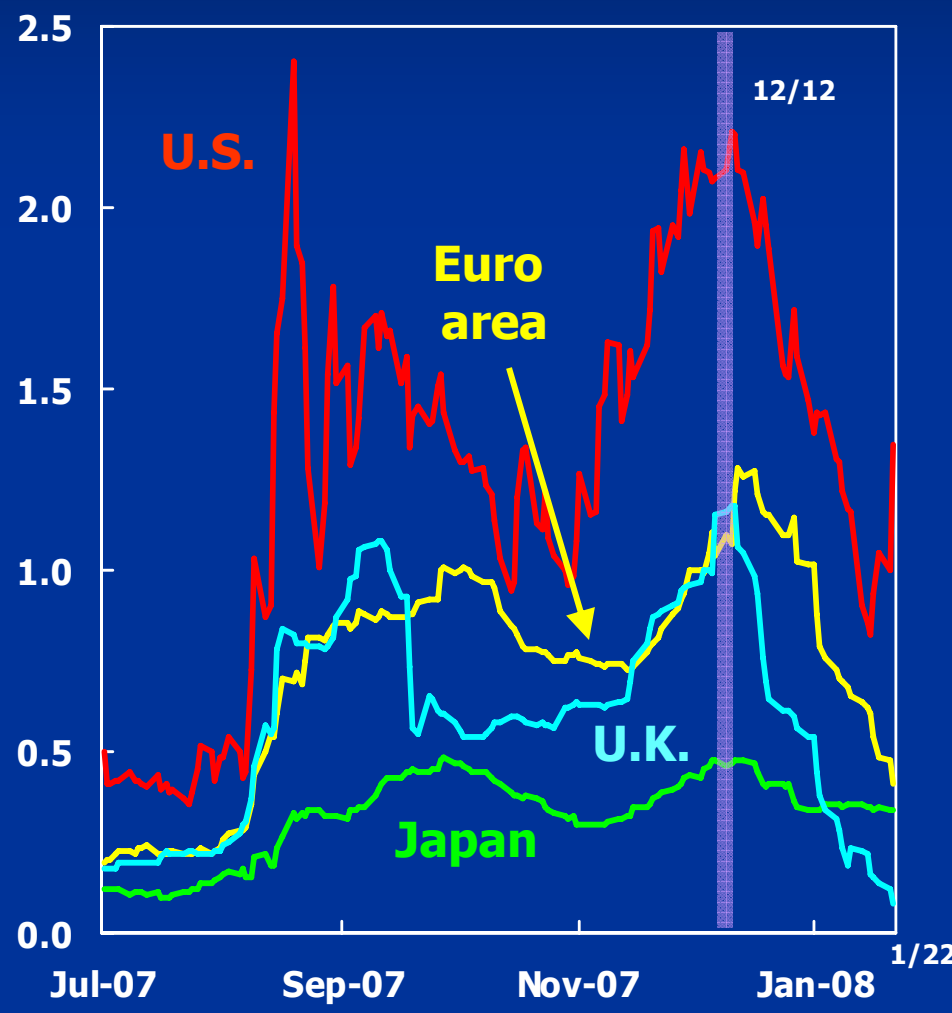
U.S. Interest Rates (in percent)



Liquidity Strains Have Eased, but Underlying Credit Problems Remain

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

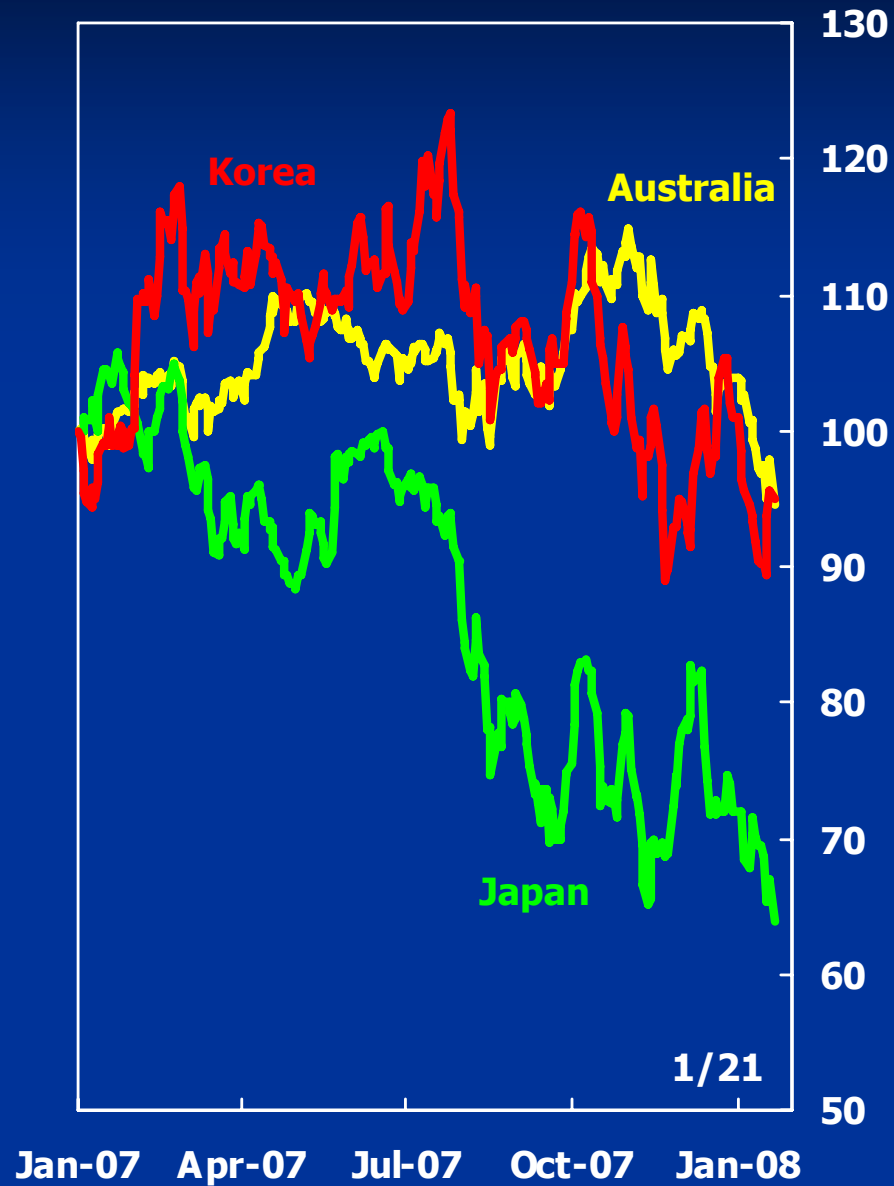
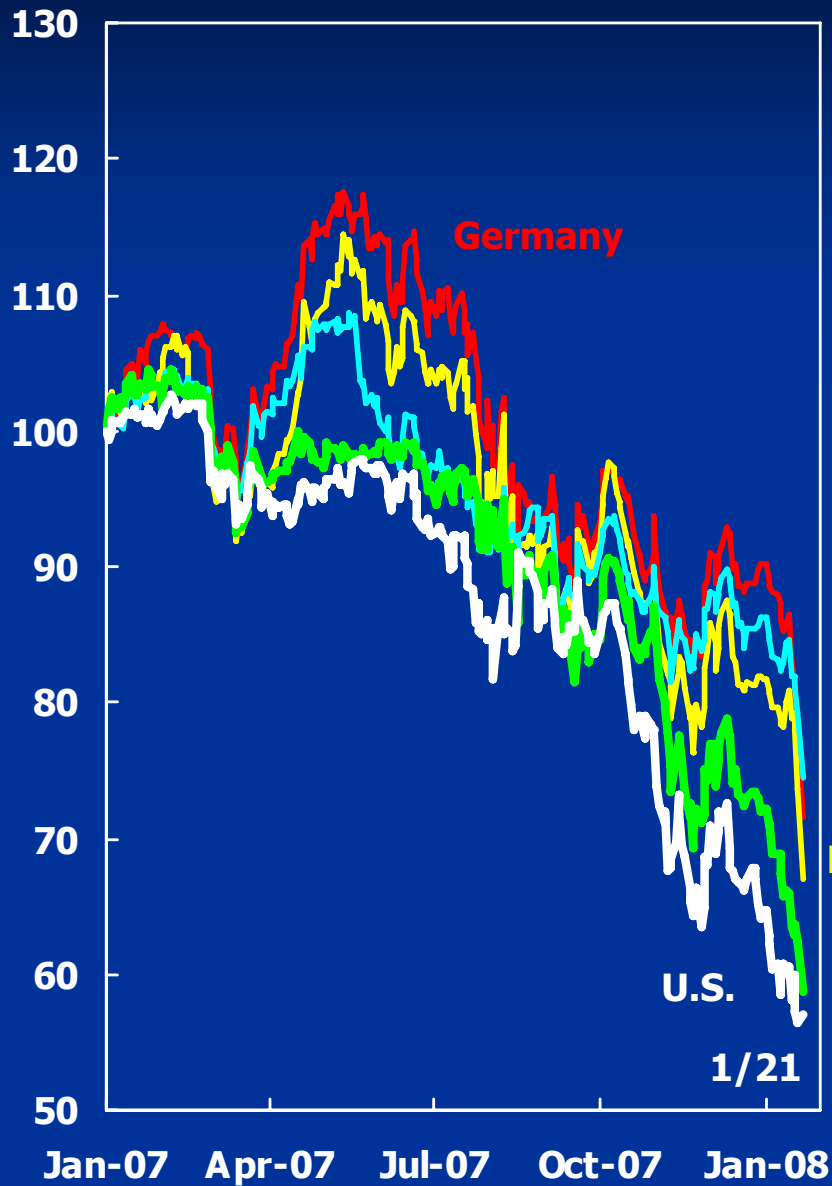
Bank CDS Spreads
(10-years; in basis points; Median)



1/ Euro LIBOR minus Germany's government bond rate.

Banks Are Showing Signs of Stress

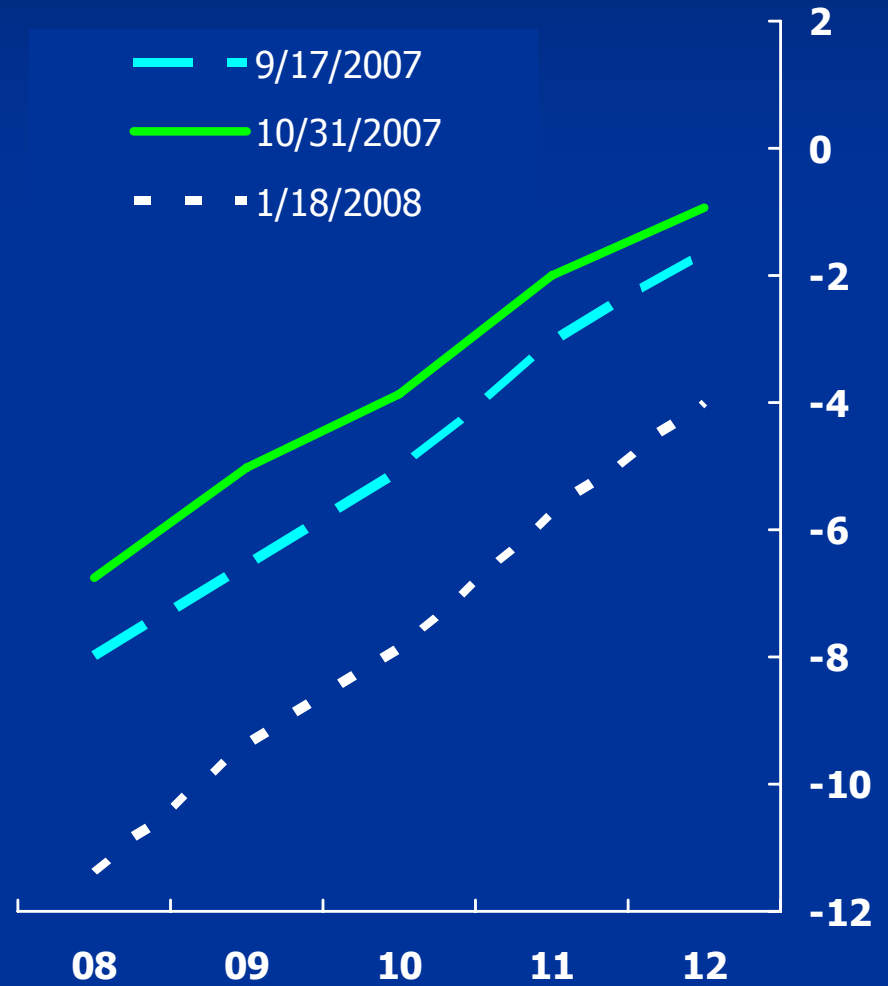
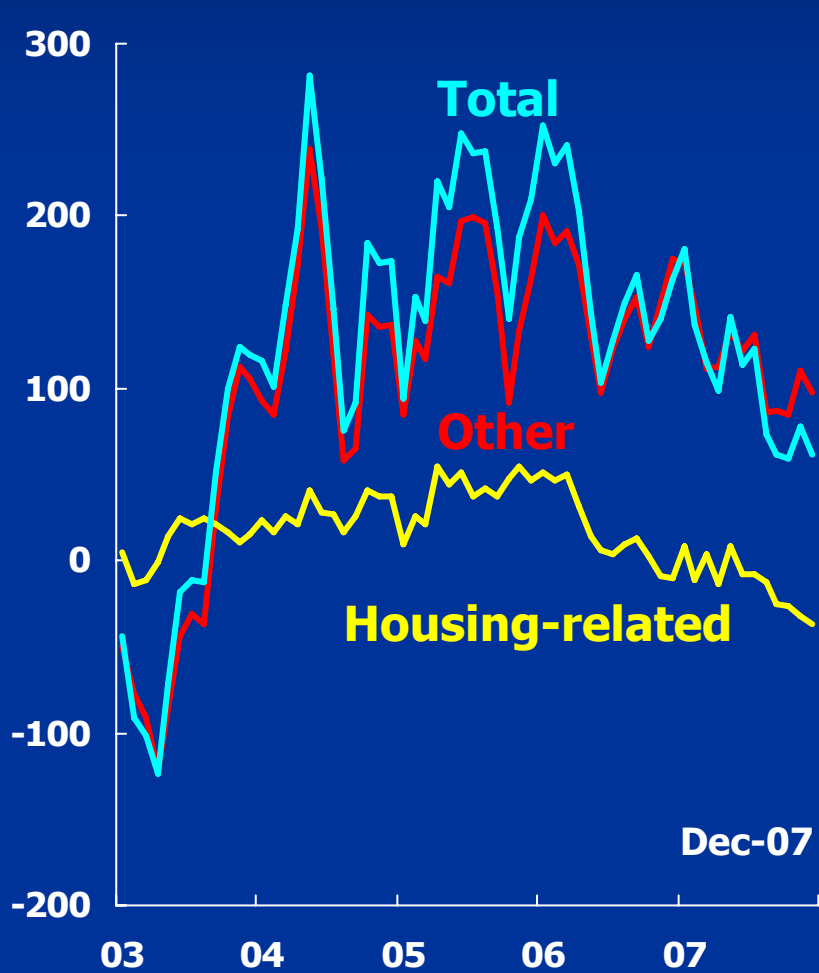
(FTSE sectoral indices; 1/1/2007=100)



U.S. Labor Markets and Declining House Prices Point to a Much Weaker Outlook

U.S. Private Payrolls
(thousands; 3-month moving average; monthly net change; seas. adj.)

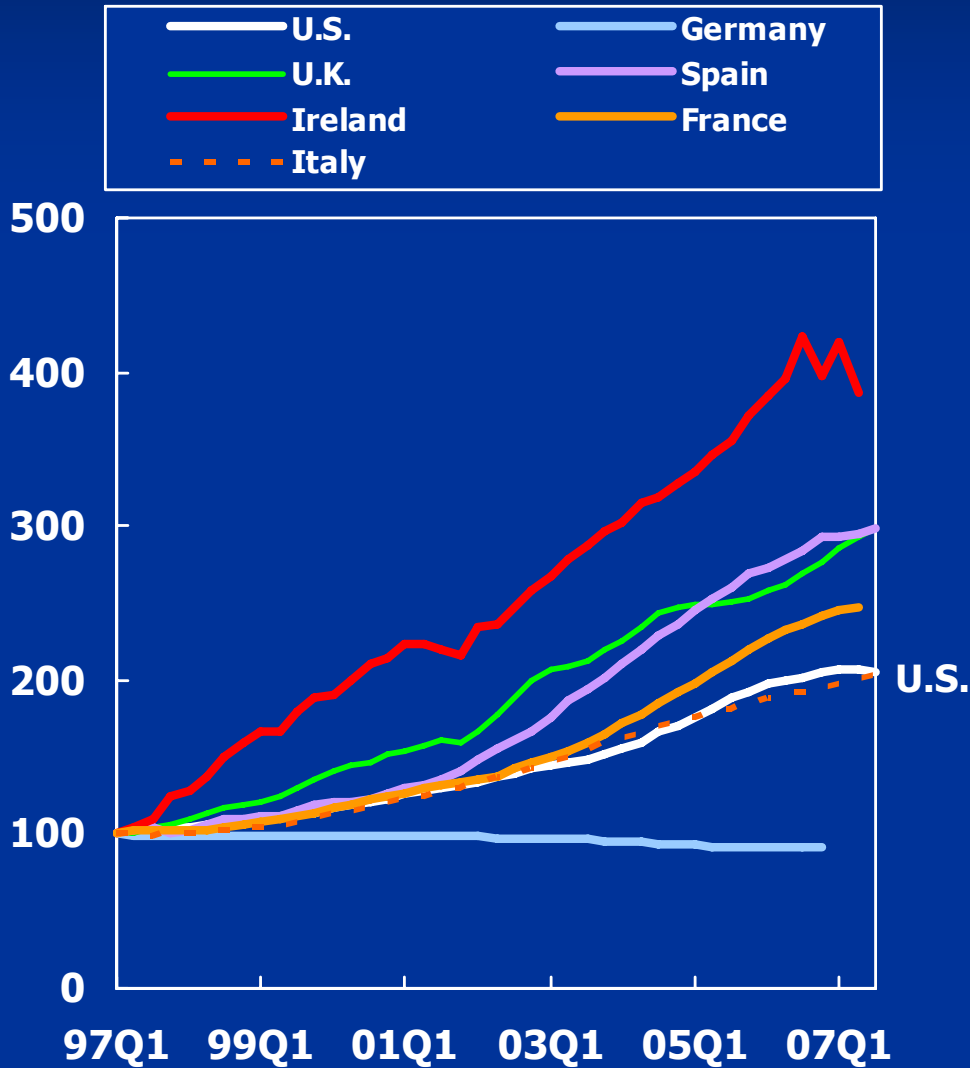
U.S. House Price Expectations 1/
(average annual change; in percent)



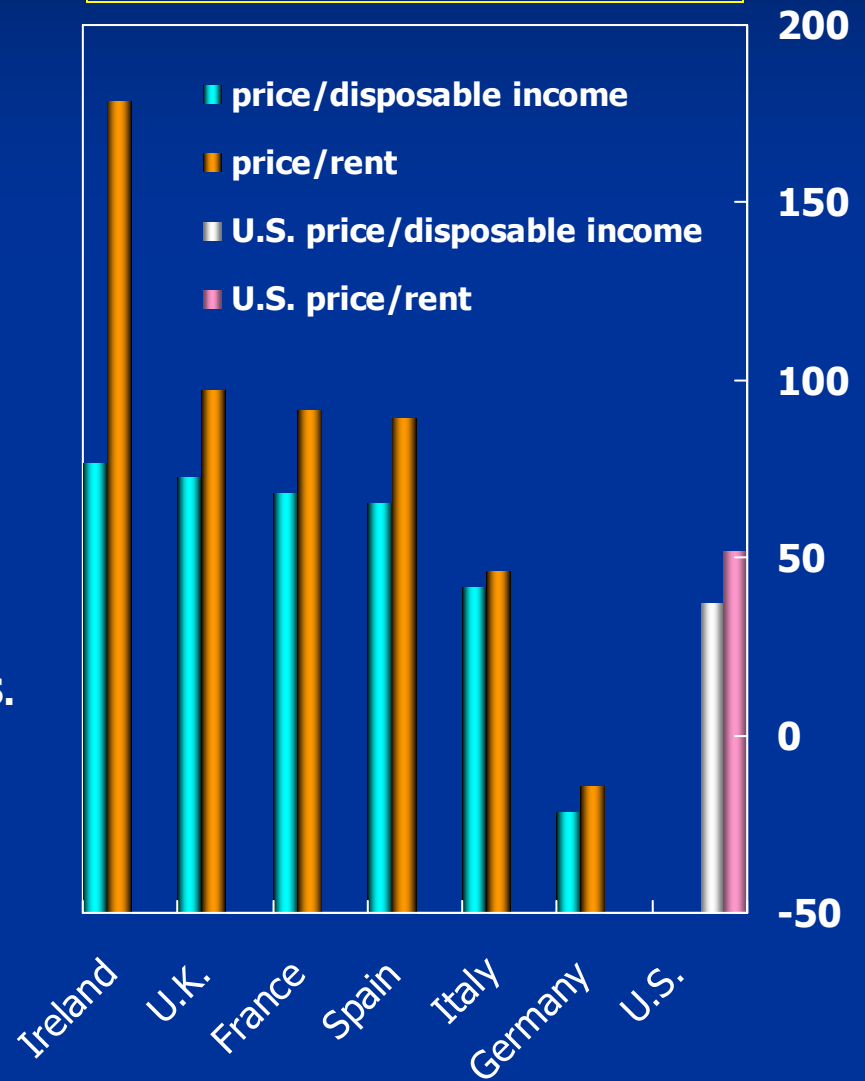
1/ RPX 25 MSA Composite: Forward Term Structure.

Several Advanced Economy Housing Markets Look Stretched

House Prices
(1997q1=100)



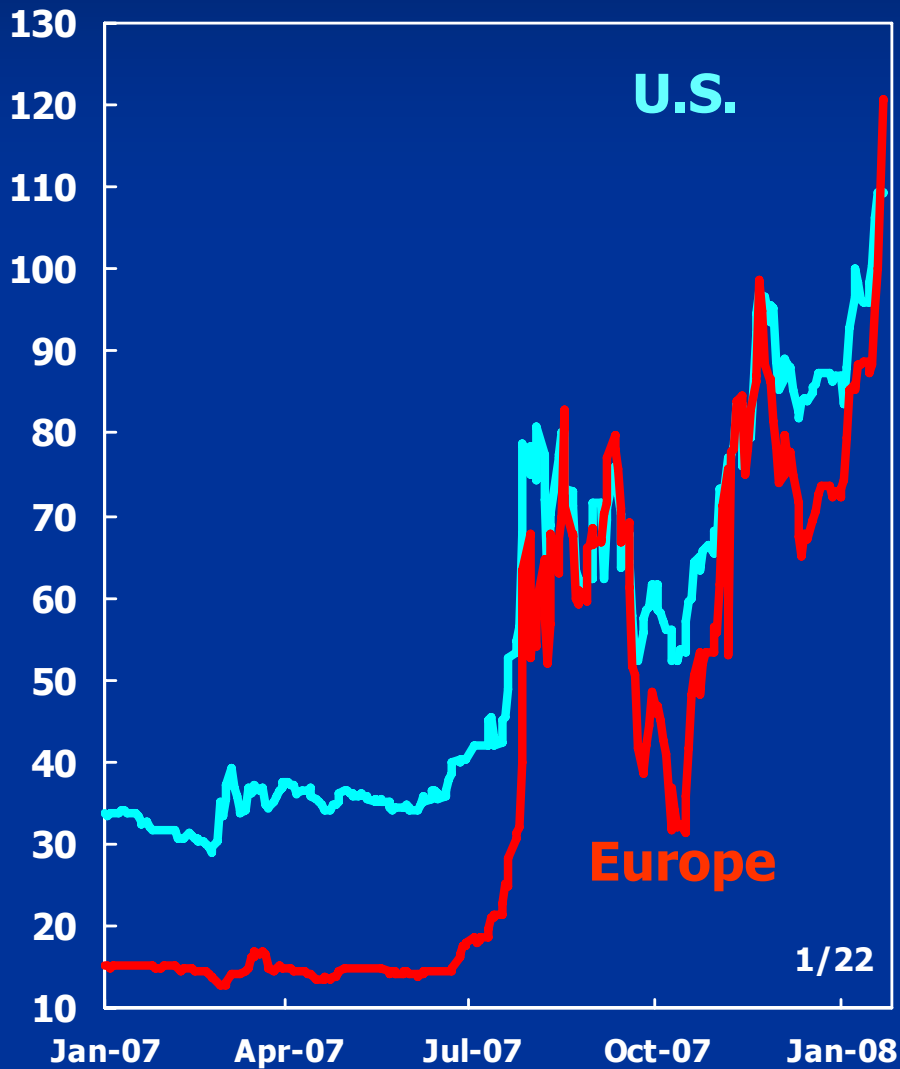
Housing Valuation Ratios
(1997-2006; percent change)



Signs of Non-Financial Corporate Stress Have Intensified Again

(5-year CDS Spreads; in basis points)

Investment Grade



Below Investment Grade



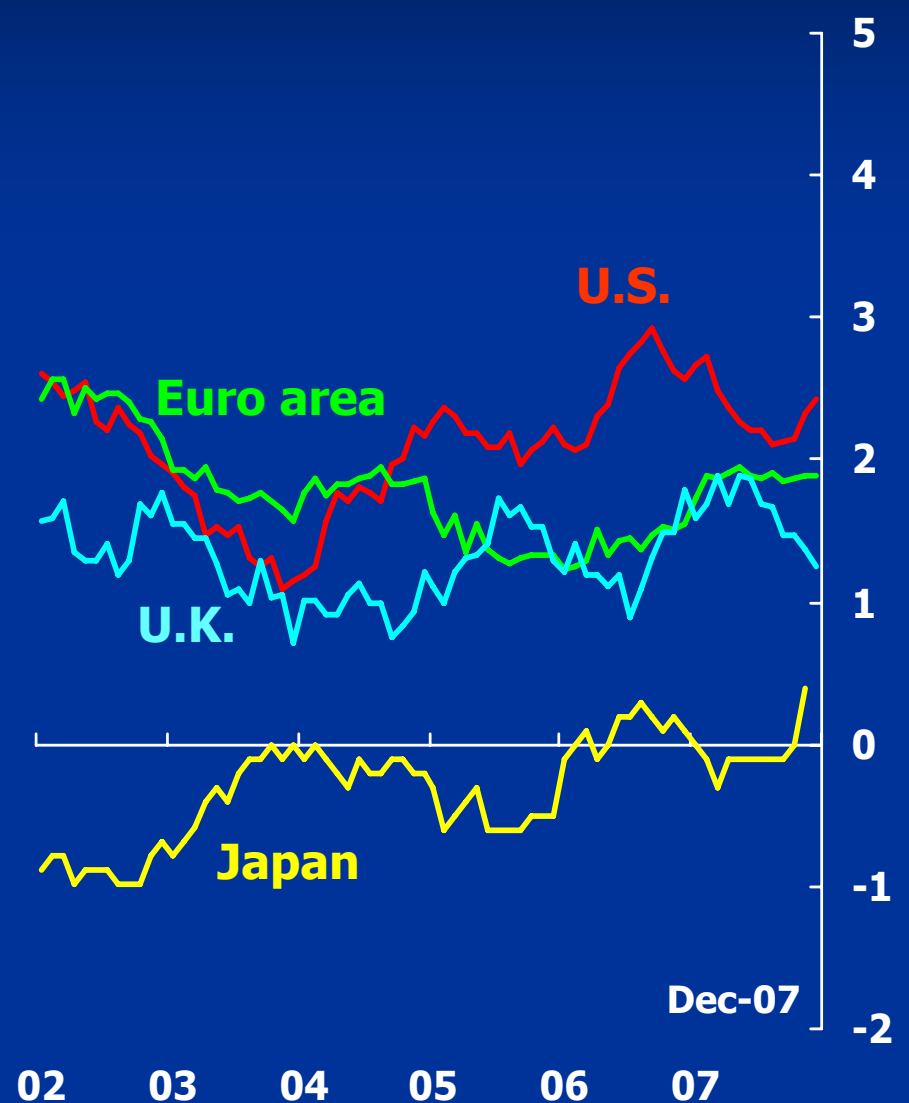
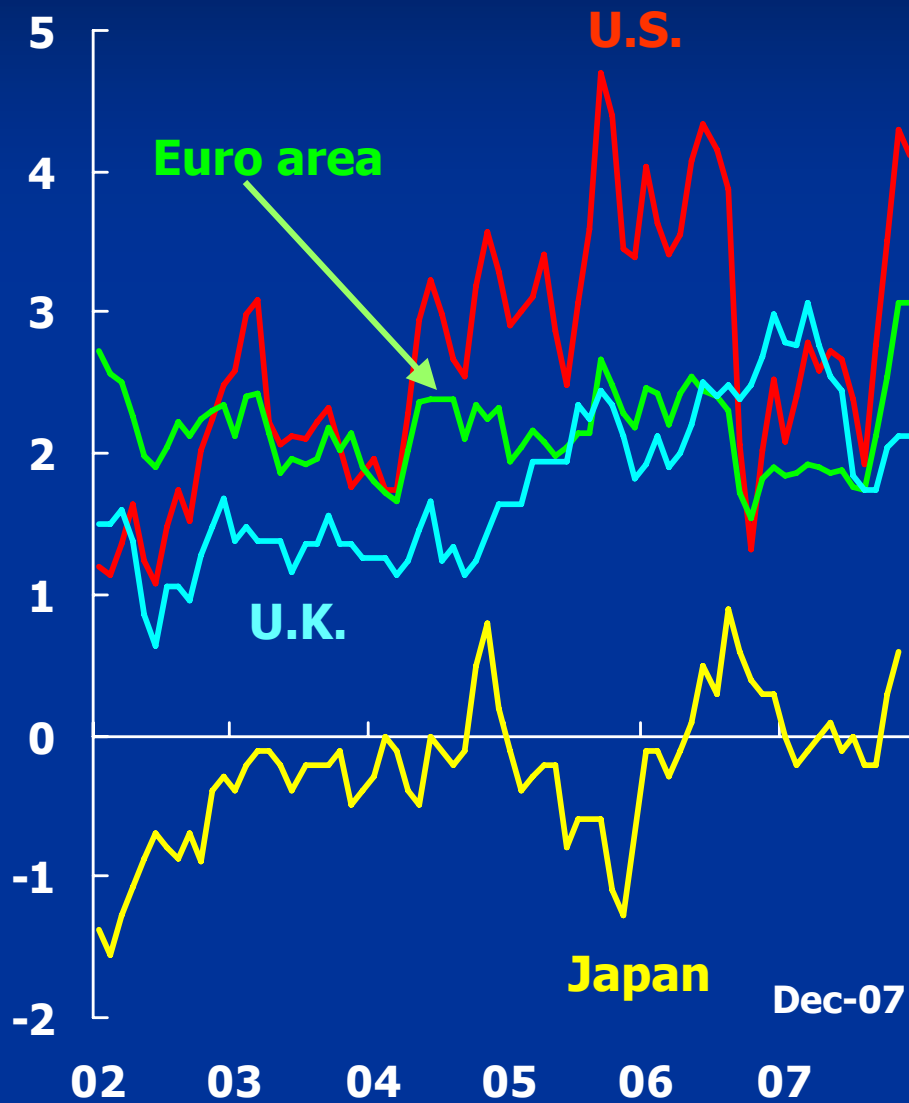
Headline Inflation in Advanced Economies Has Jumped 10

Headline

(in percent; yoy)

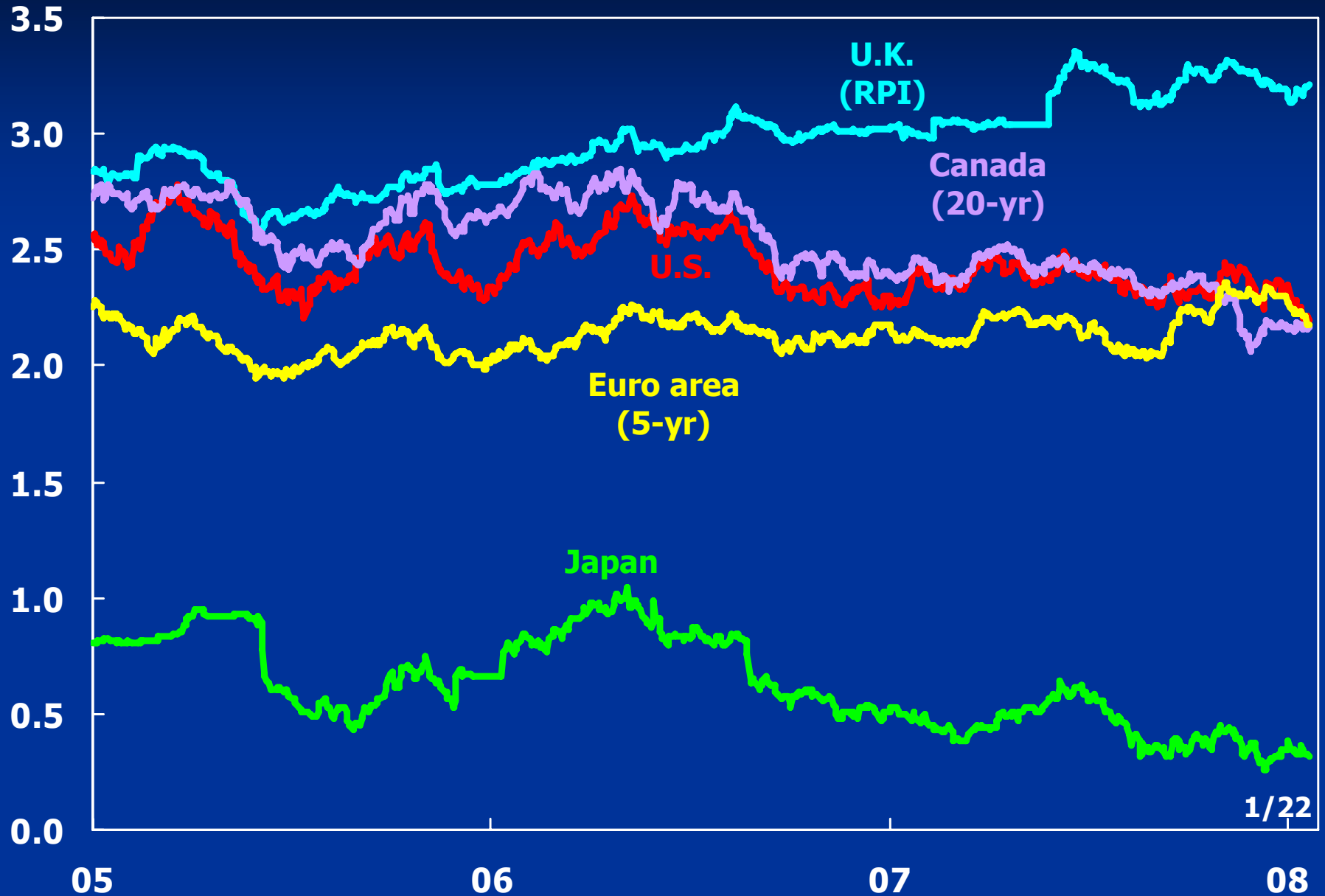
Core

(in percent; yoy)



Inflation Expectations Remain Well-Anchored

(break-even rates; from 10-year inflation-indexed bonds)

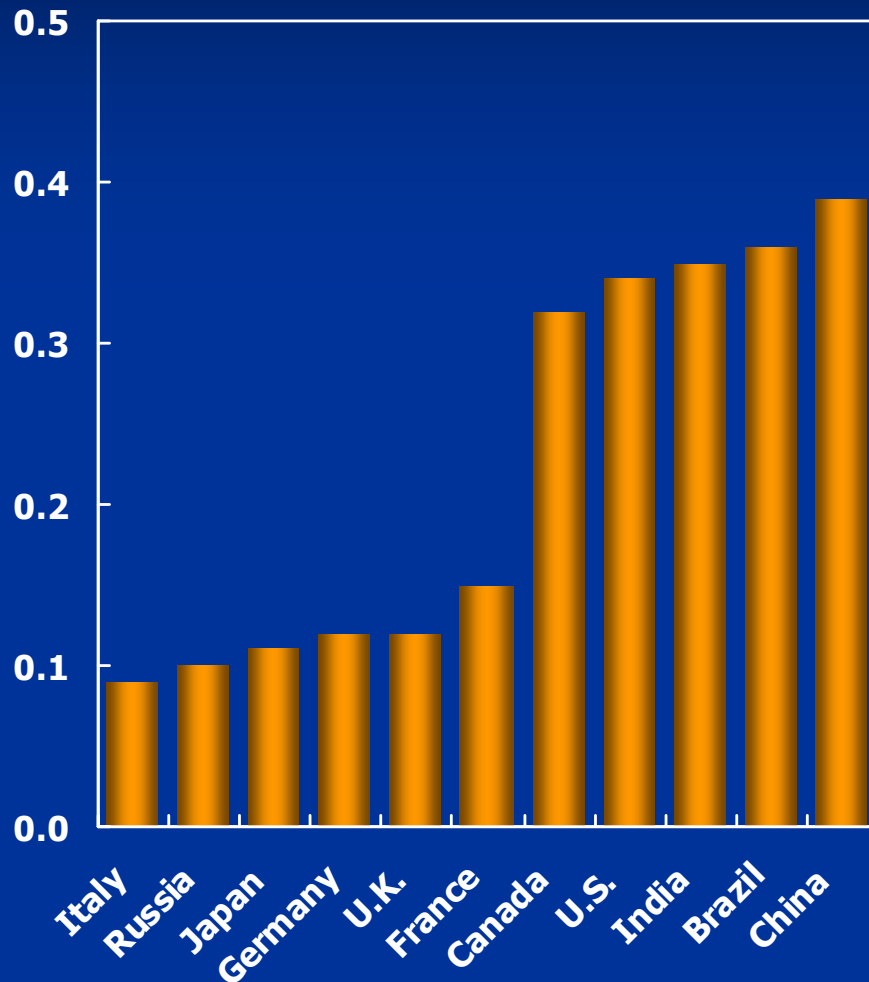


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Food and Fuel Price Inflation Hitting Emerging Markets ¹²

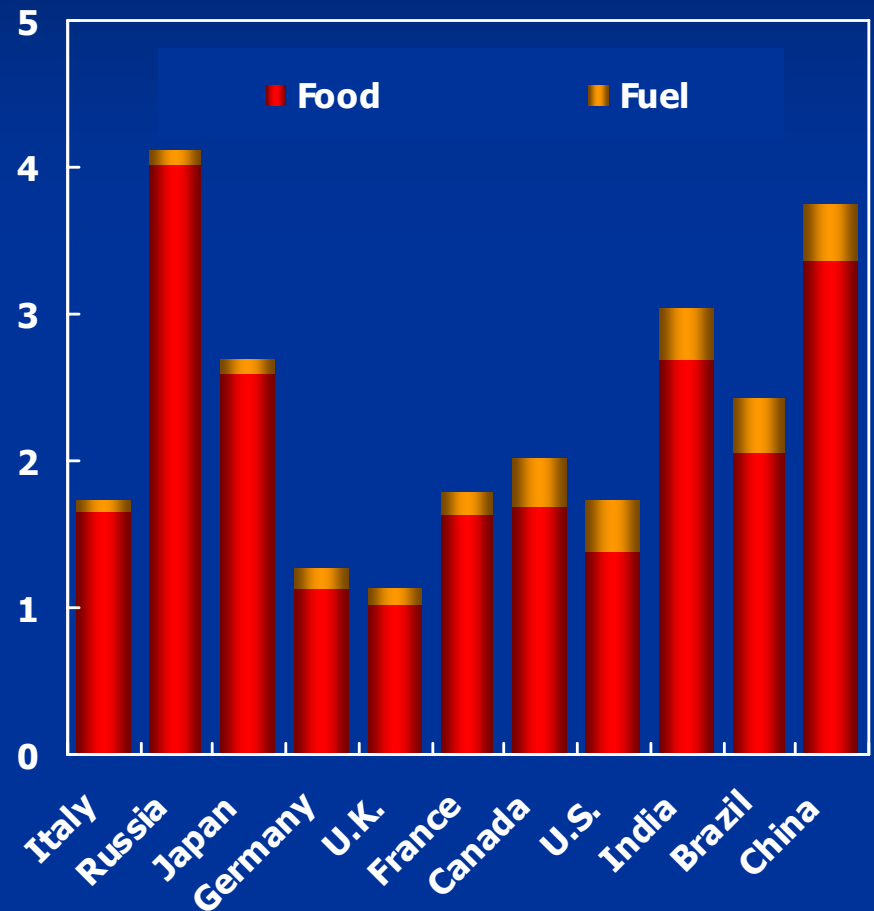
(in percentage points of annual inflation)

Effects of Oil Price Increase



Estimated Impact of a 10 percent Oil Price Increase on Annual Headline CPI inflation, selected countries.

Effects of Oil and Food Price Increase

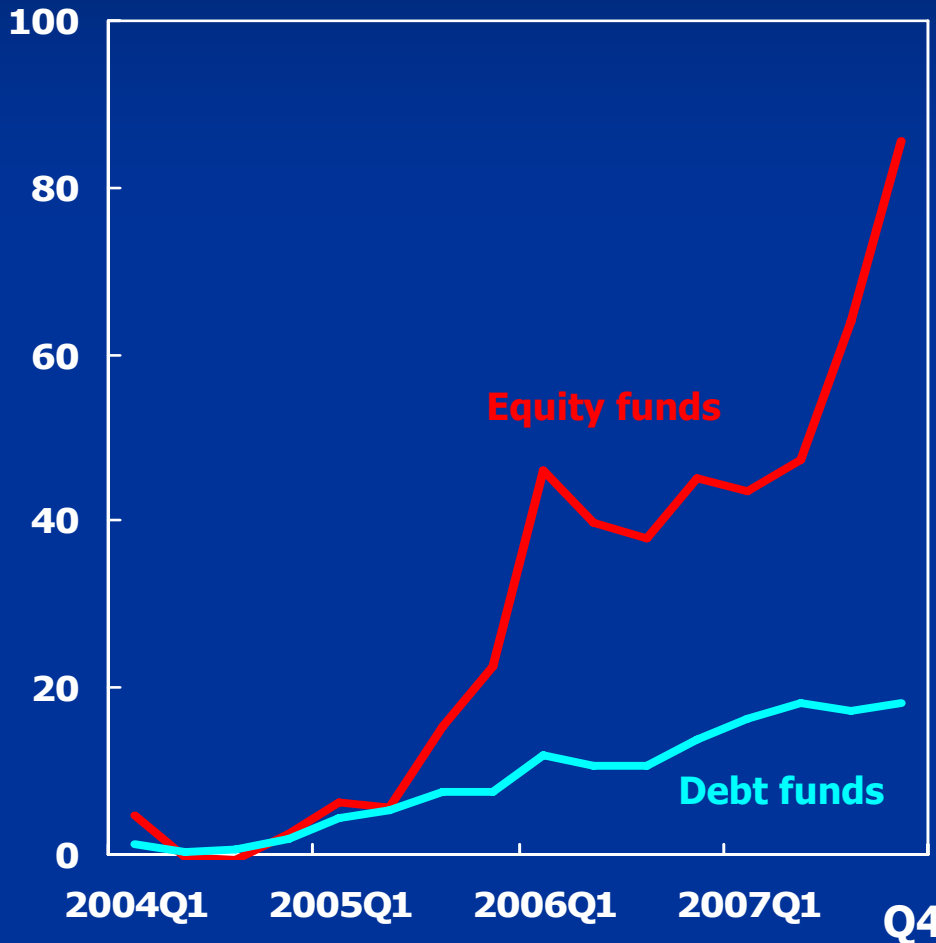


Estimated Impact of a 10 percent Oil and an 10 percent Food Price Increase on Annual Headline CPI inflation, selected countries

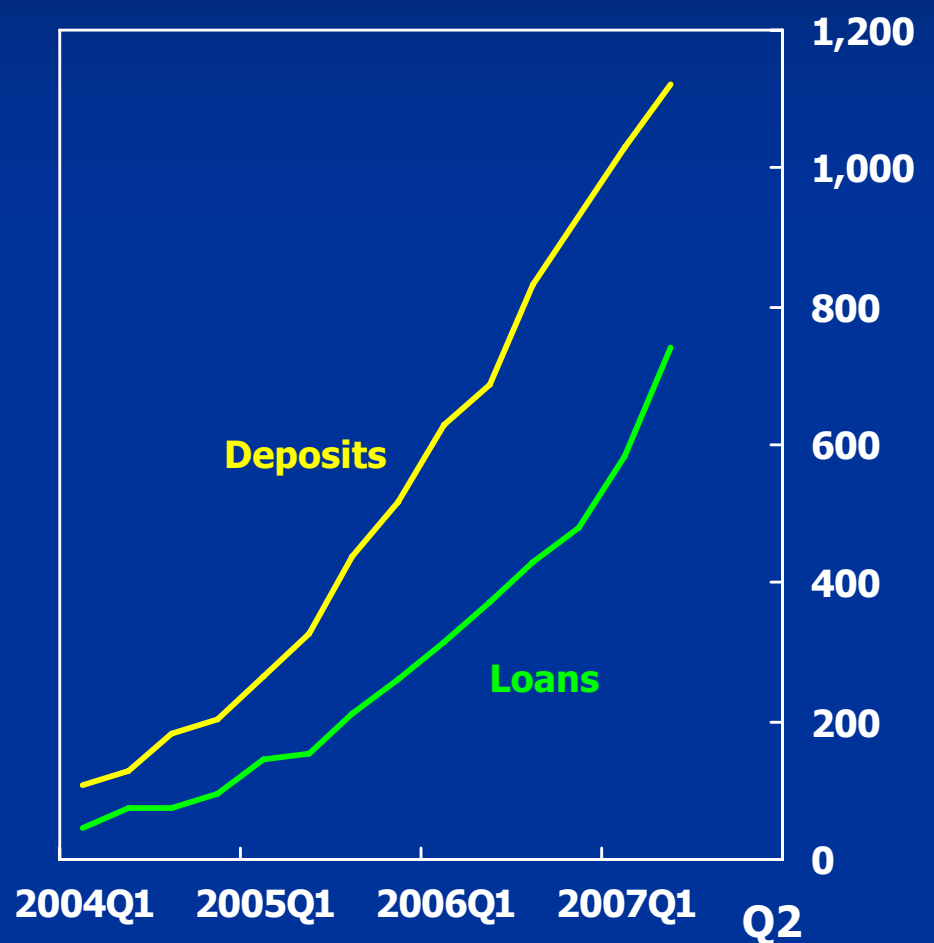
Capital Flows to Emerging Markets Have Not Abated

(cumulative flows; in billions of U.S. dollars)

Net Flows to Emerging Market Funds 1/



Bank Flows to Emerging Markets 2/

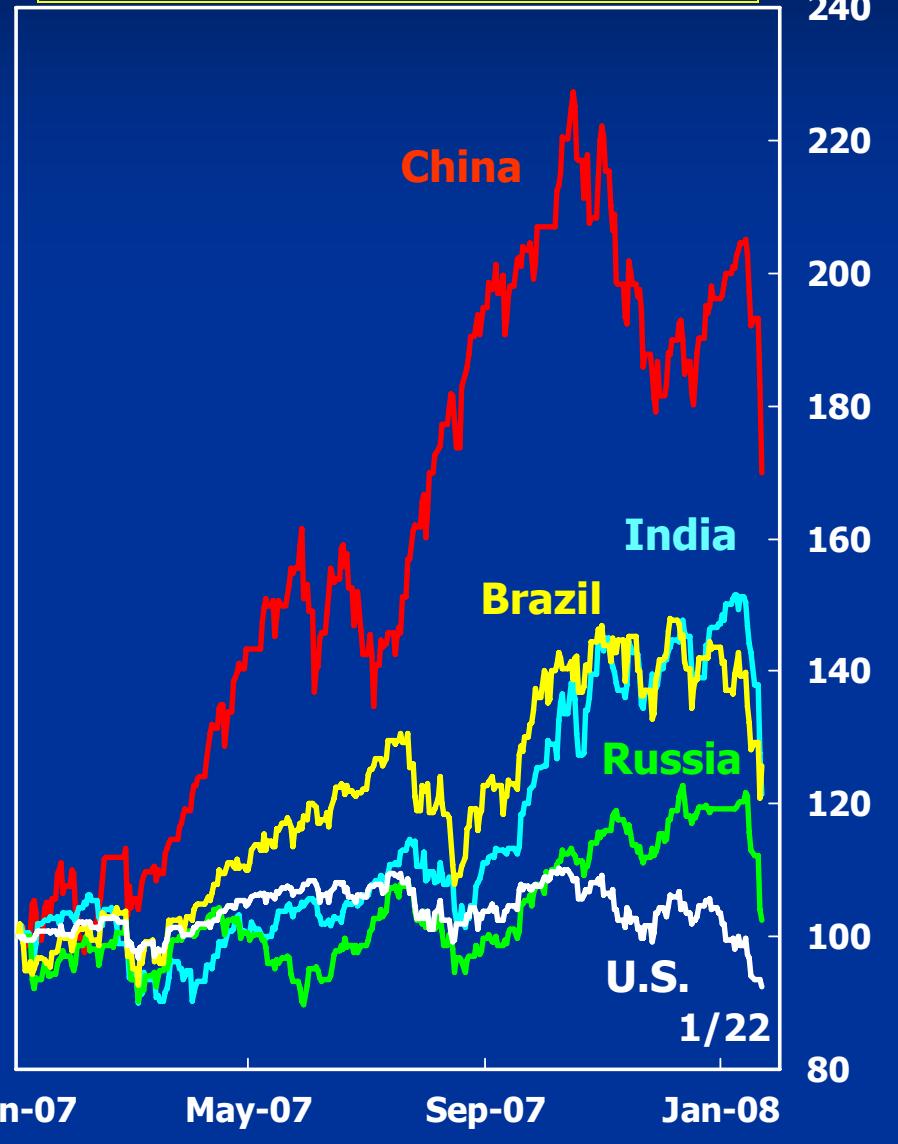
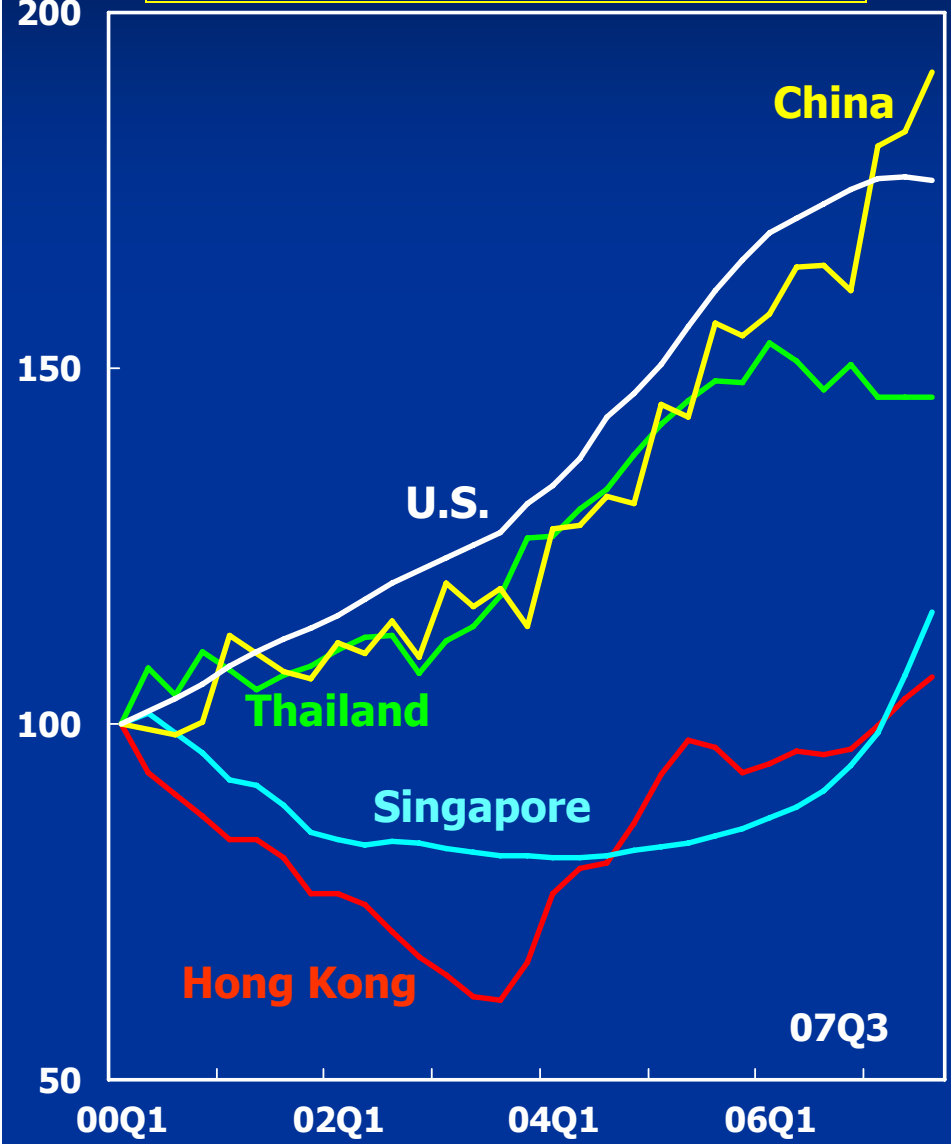


1/ Flows from United States and Europe.
2/ From BIS reporting banks.

Asset Prices in Emerging Markets Remain High

House Prices
(2000Q1=100)

Stock Market Indices
(1/1/2007=100)

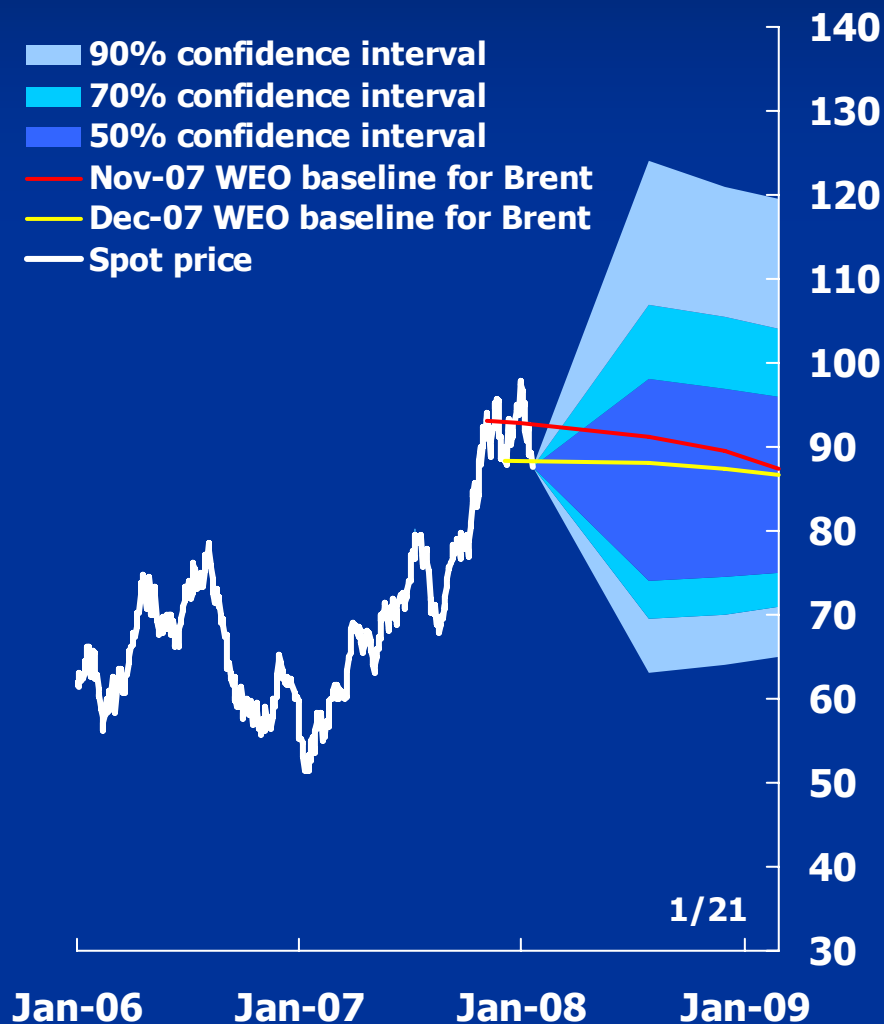


Oil Prices Have Touched New Highs, Amid Tight Market Conditions

Crude Oil Prices

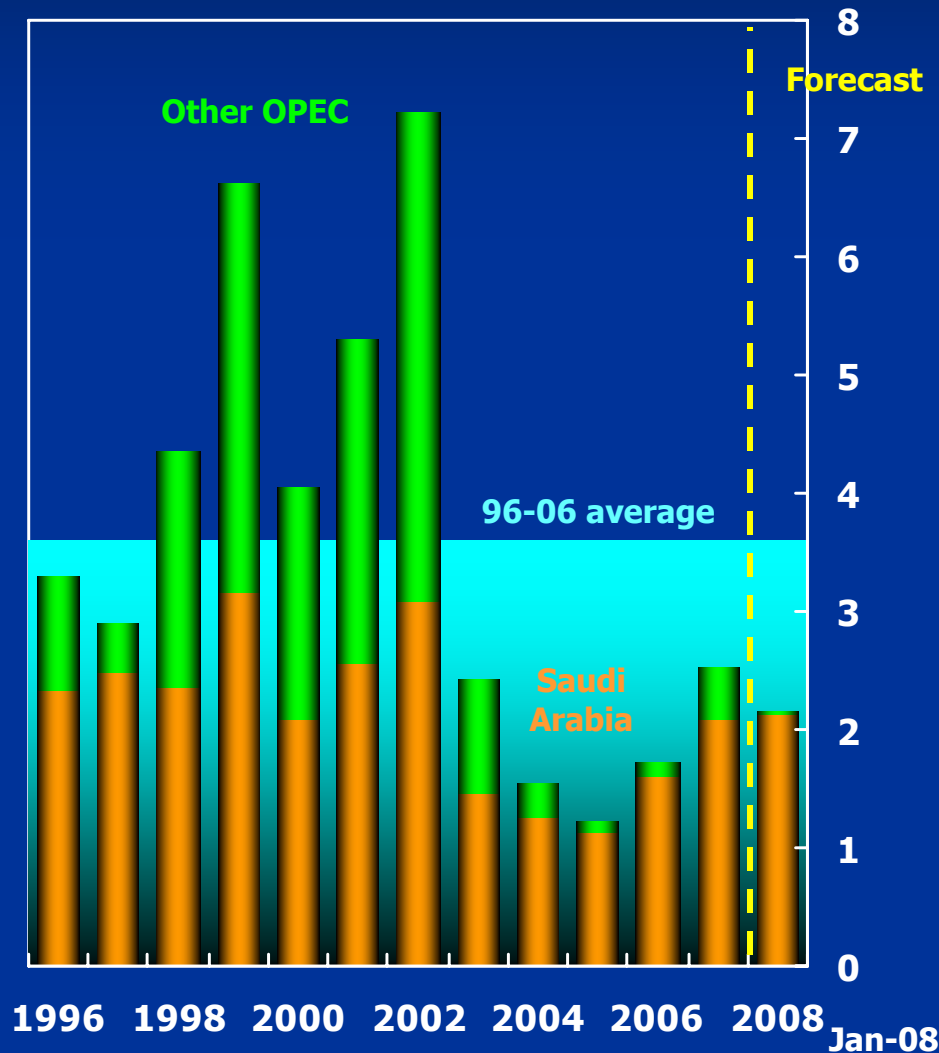
(Brent futures options; U.S. dollars per barrel)

- 90% confidence interval
- 70% confidence interval
- 50% confidence interval
- Nov-07 WEO baseline for Brent
- Dec-07 WEO baseline for Brent
- Spot price



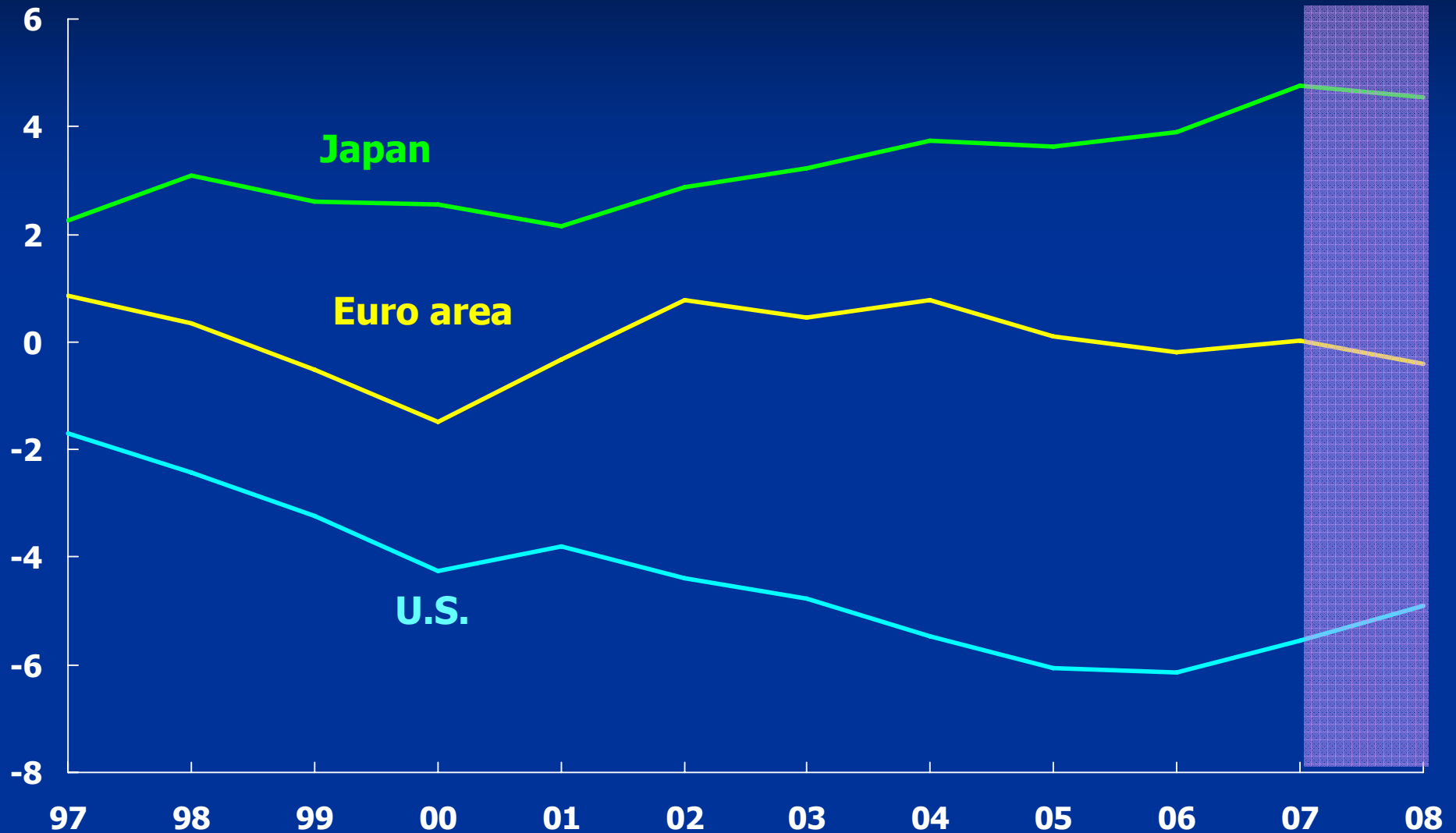
OPEC Spare Capacity

(in percent of world oil consumption)



High Oil Prices Could Slow a Narrowing of Imbalances 1/6

(Current Account; in Percent of GDP)



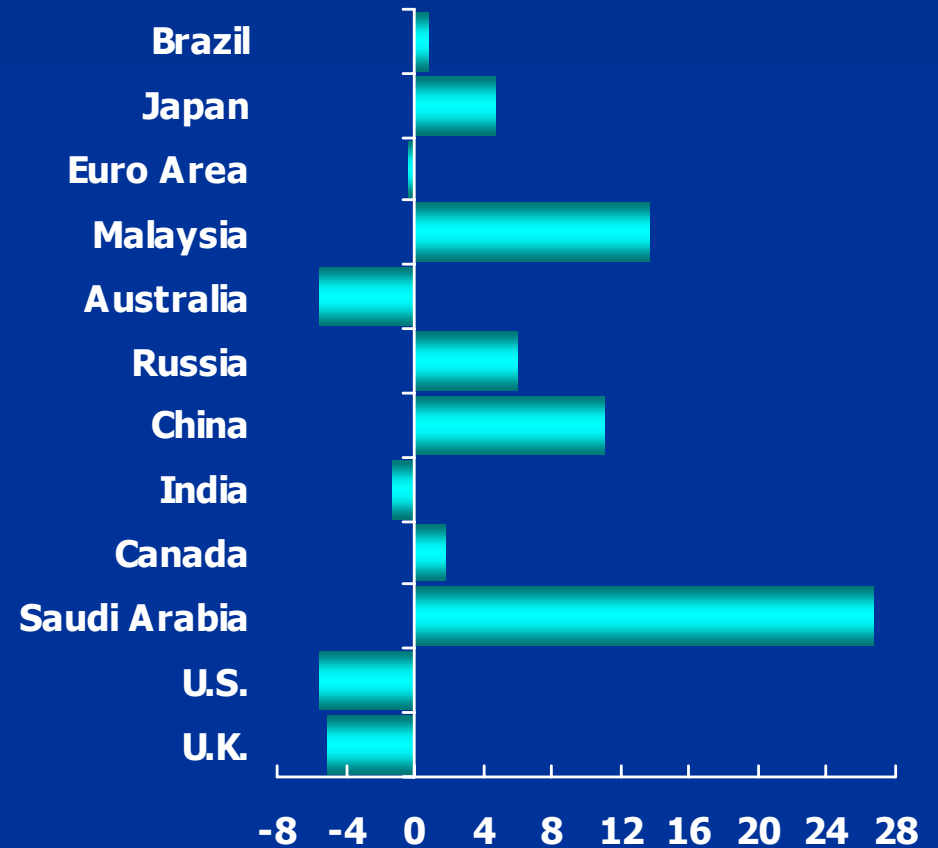
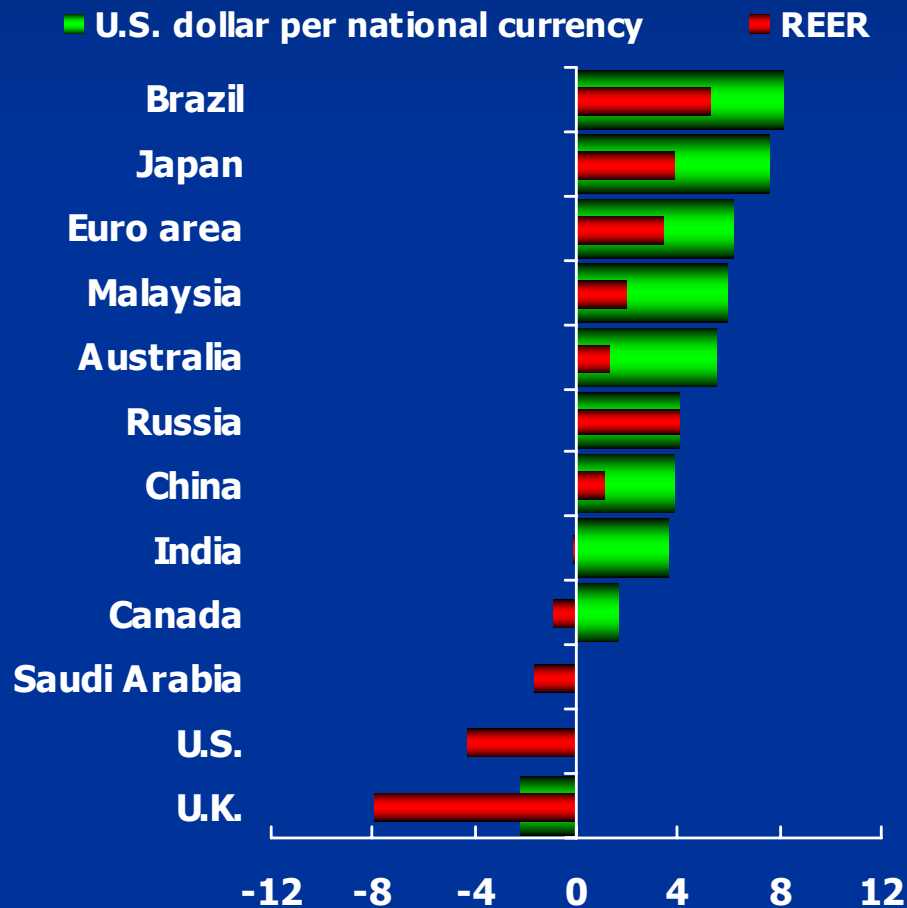
Source: WEO Update January 2008.

1/Oil Base Line assume \$86.25 for 2008 and \$84.25 for 2009.

Exchange Rate Adjustments Still Not Reflecting Current Account Positions

Exchange Rates 1/
(percent changes;
1/17/08 vs. 8/22-9/19 average)

Current Account Balances
(In percent of GDP; estimates for 2007)

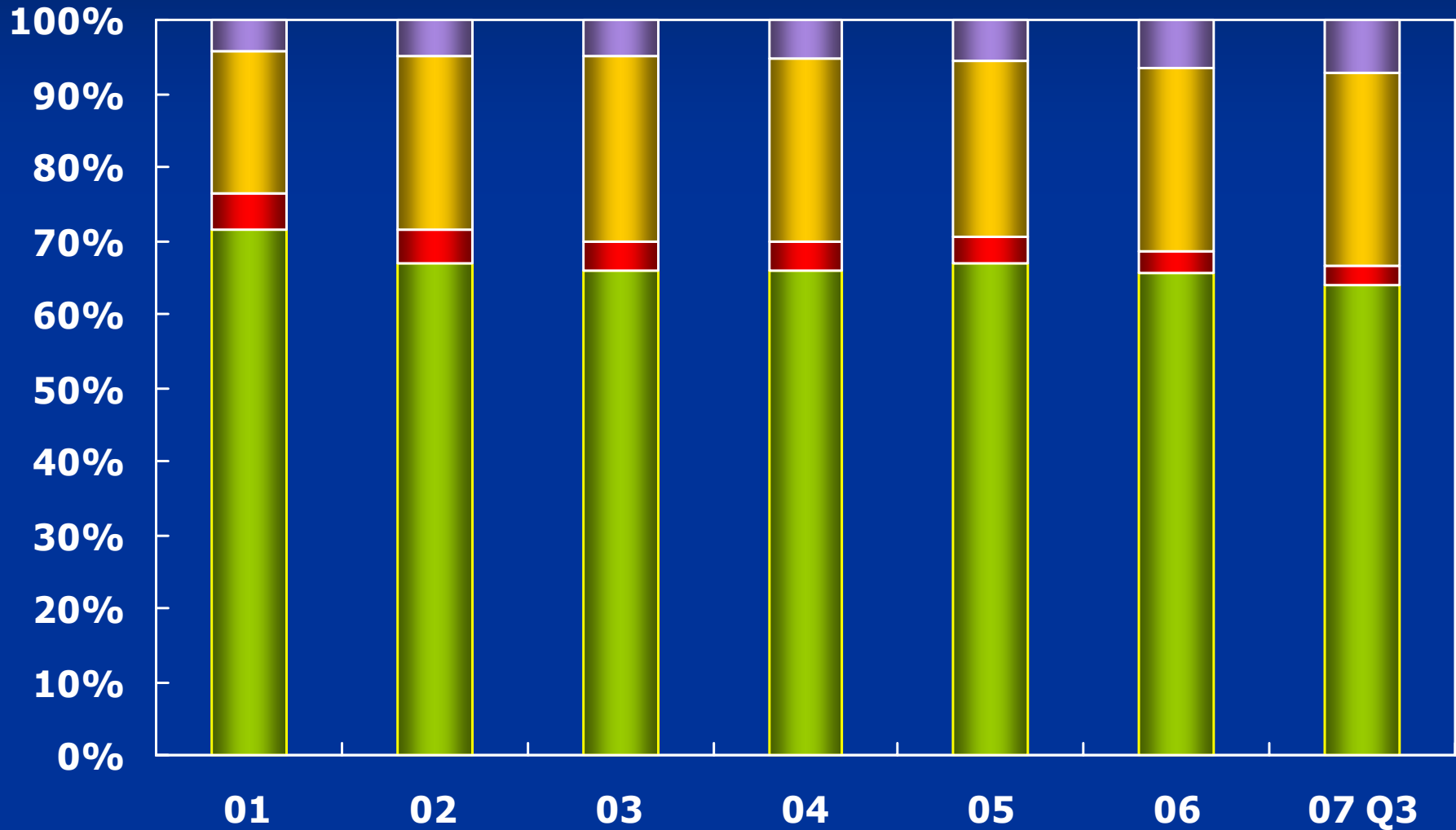


1/ Positive numbers denote appreciation of local currency.

U.S. Dollar Share of Reserves Declining Slightly

(in percent of Global Reserves 1/)

■ U.S. dollar ■ Japanese yen ■ Euro ■ Others



1/ Total allocated reserves.