



# **Global Economy Under Stress**

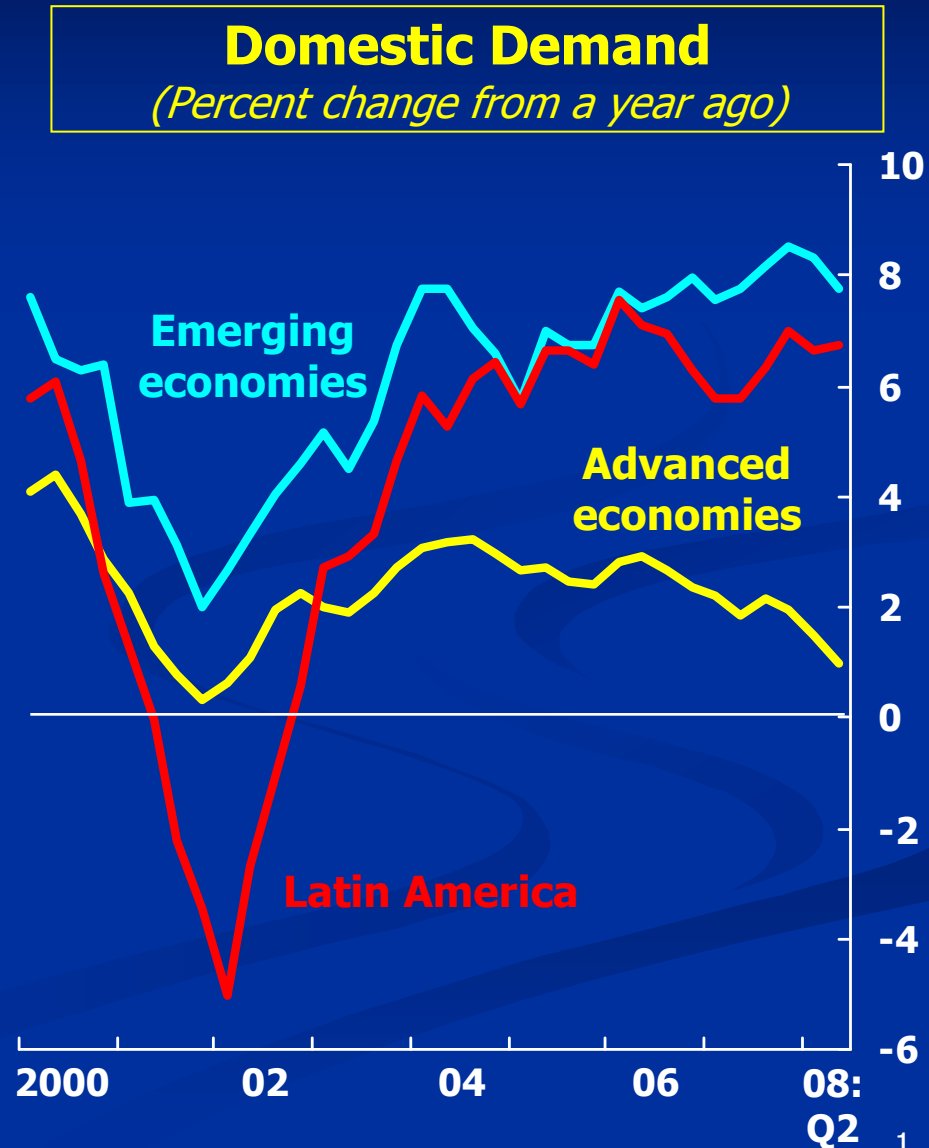
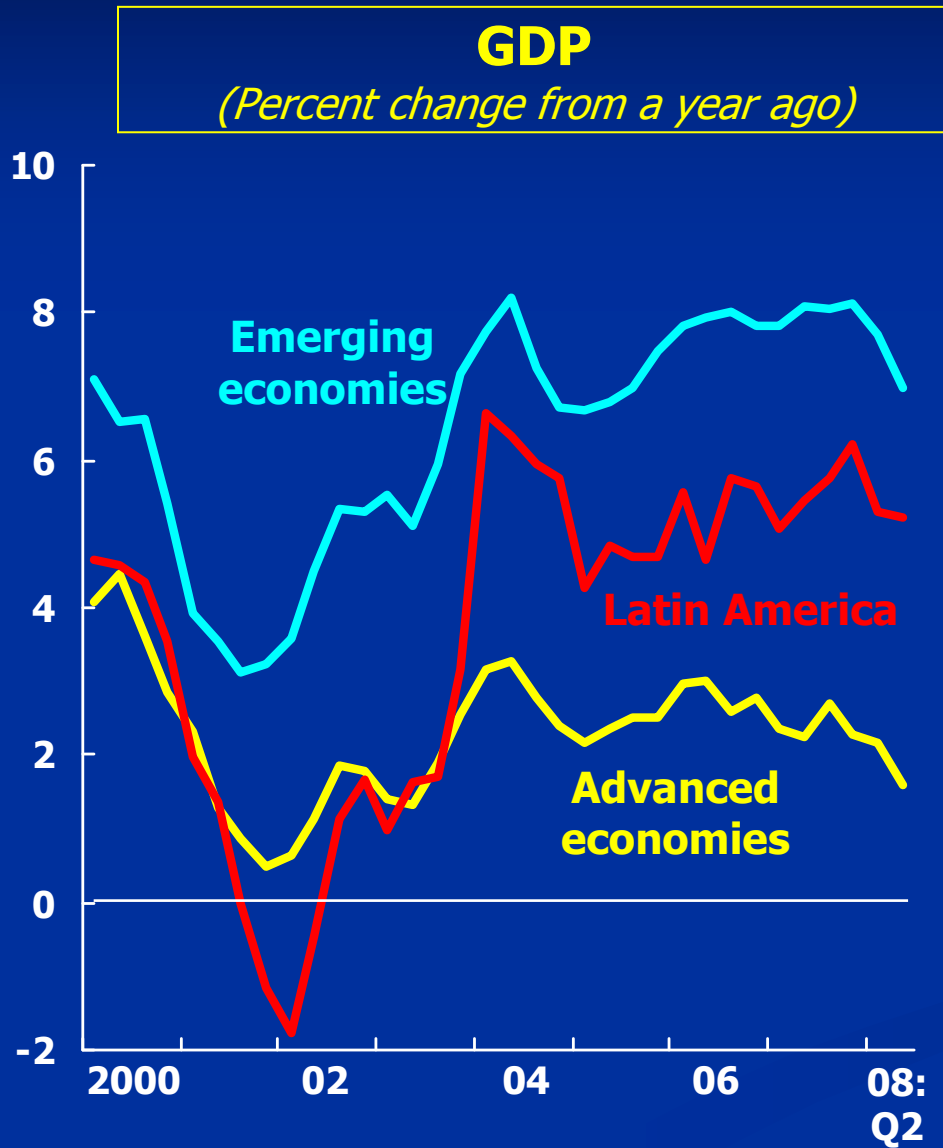
**Charles Collyns**

Central America Meeting

Washington, D.C.

October 13, 2008

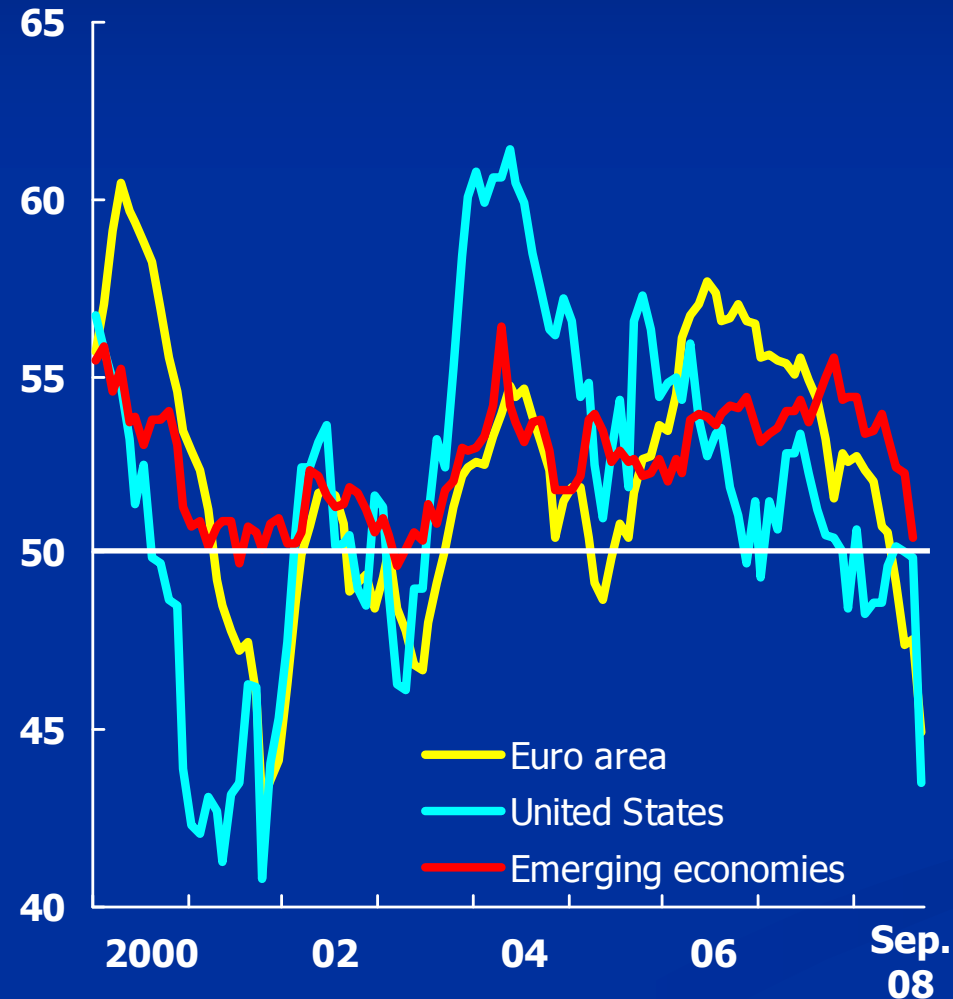
# Global economy has cooled...



# ... And leading indicators point to slower growth ahead

## Manufacturing PMIs

(Values greater than 50 indicate expansion)



## Consumer Confidence

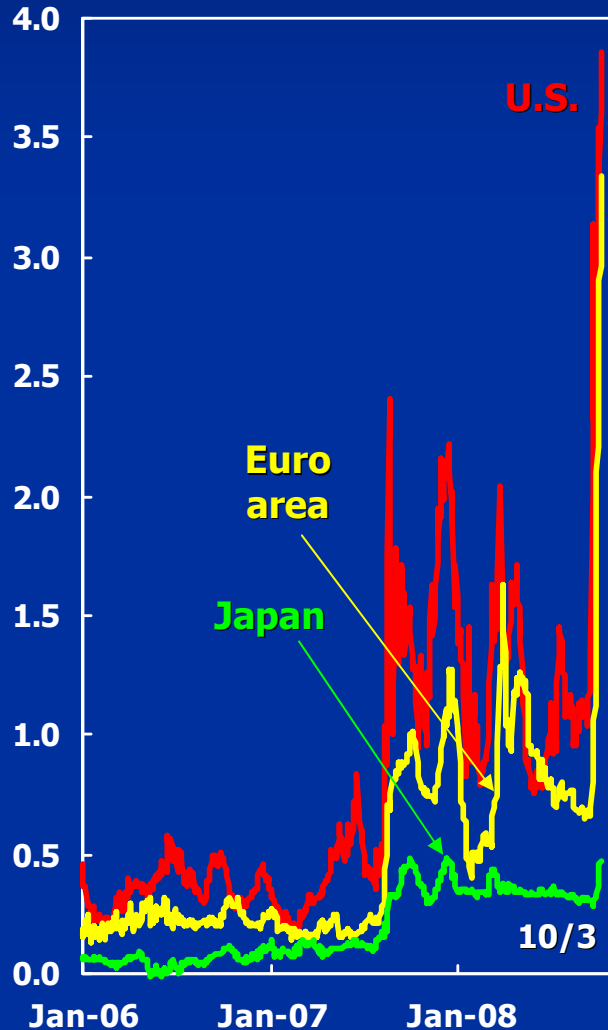
(United States, 1985 = 100; Euro Area, percent balance)



# Global financial system on the brink

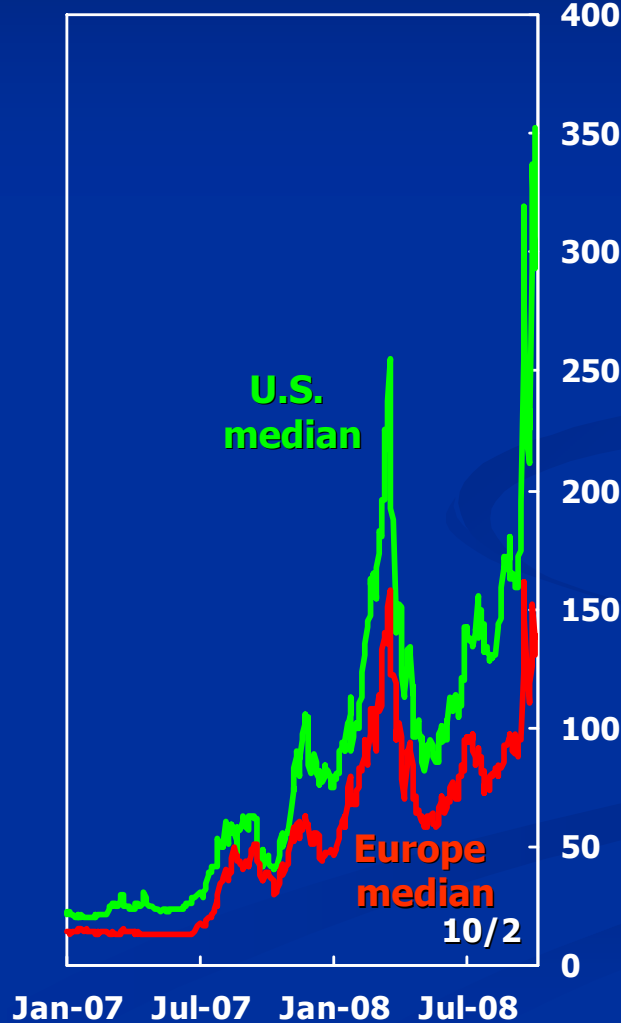
## Interbank Markets

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



## Bank CDS Spreads

(10-years; basis points)



## High-Grade Corporate Spreads

(basis points)



# Emerging markets increasingly affected

**Equity Markets**  
*(2000 = 100; national currency)*

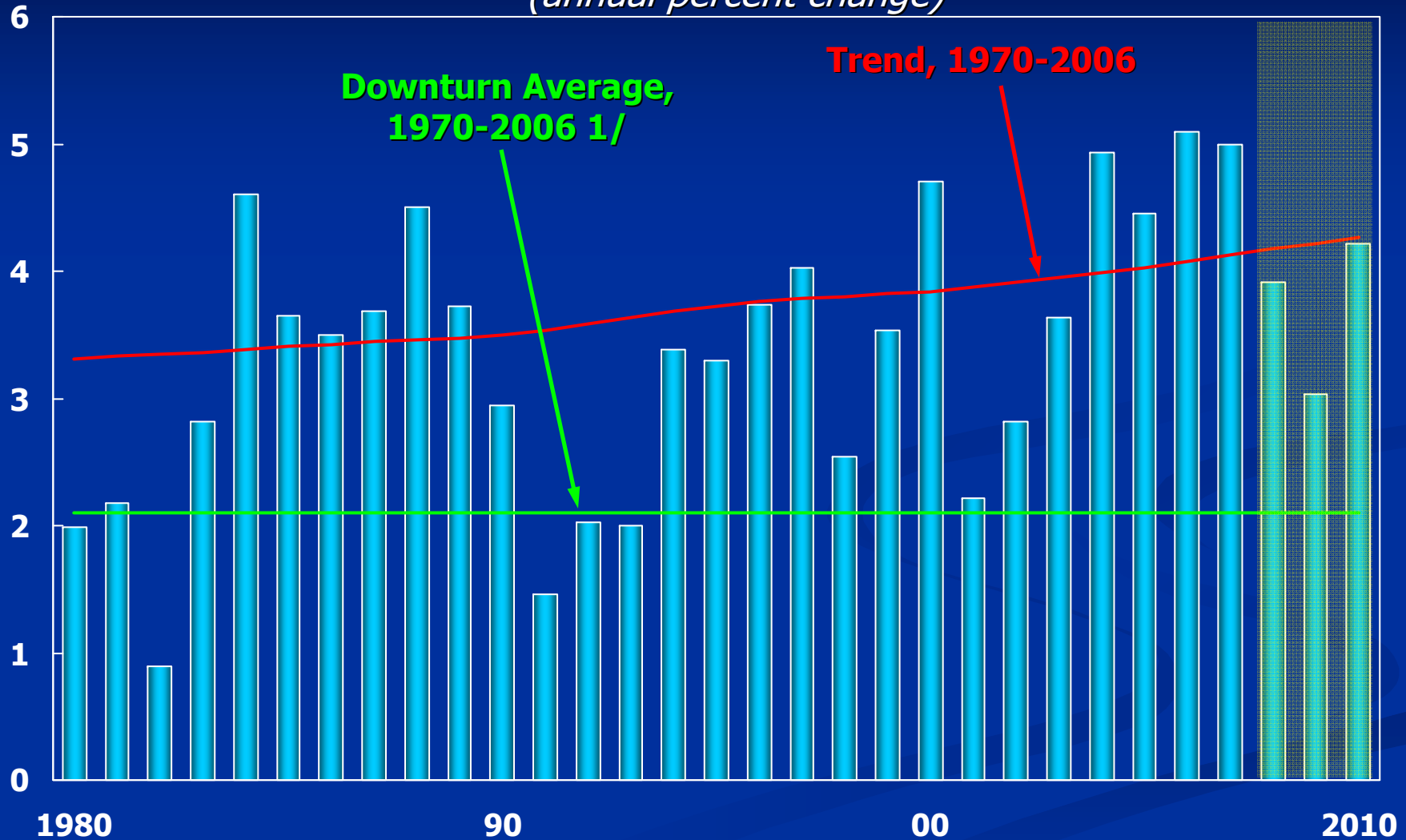
**Corporate Bond Spreads**  
*(basis points)*





# Against a Deepening Financial Crisis, Global Economy Faces Serious Downturn

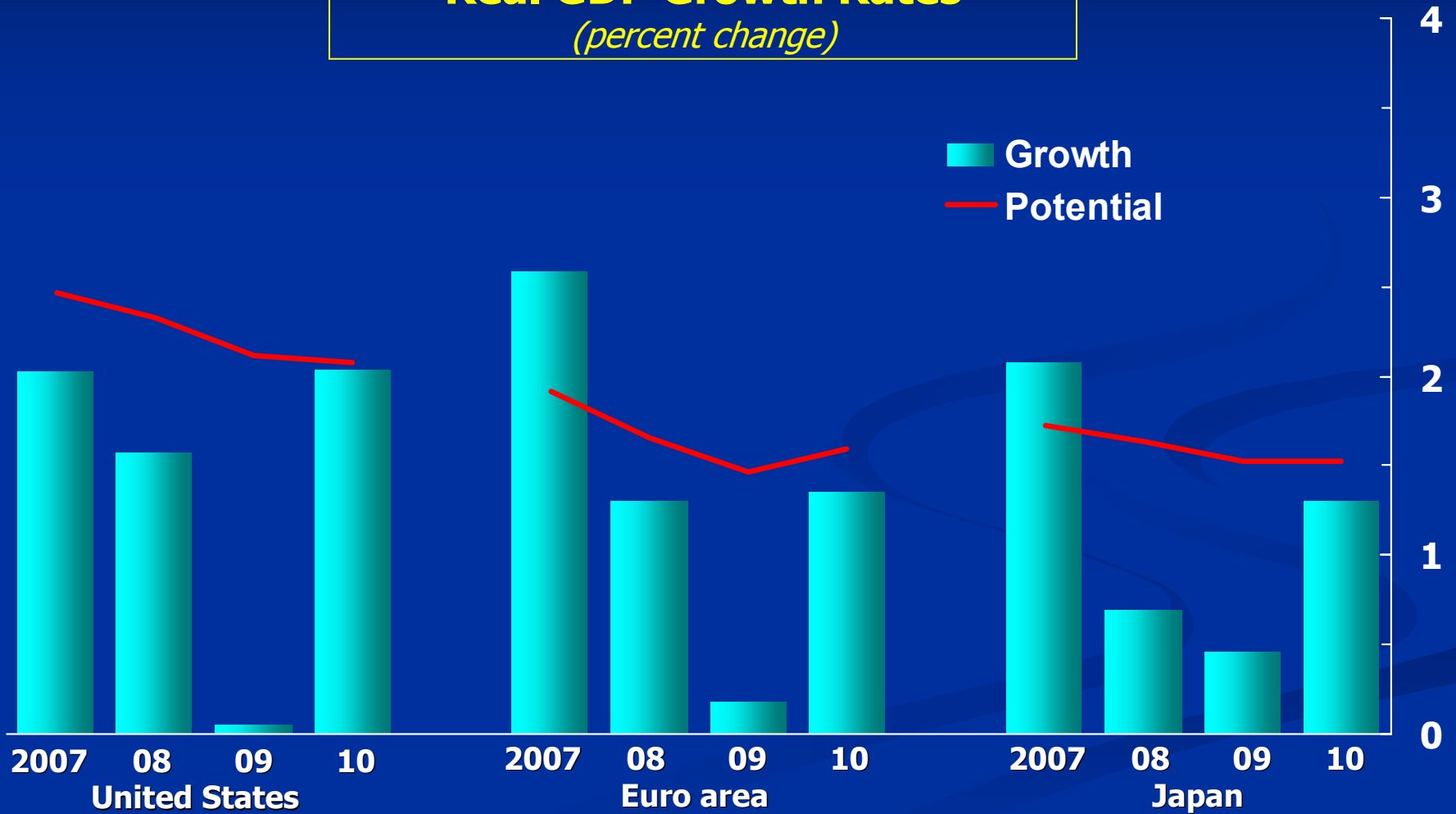
*(annual percent change)*



1/ Two or three year average during the growth downturn.

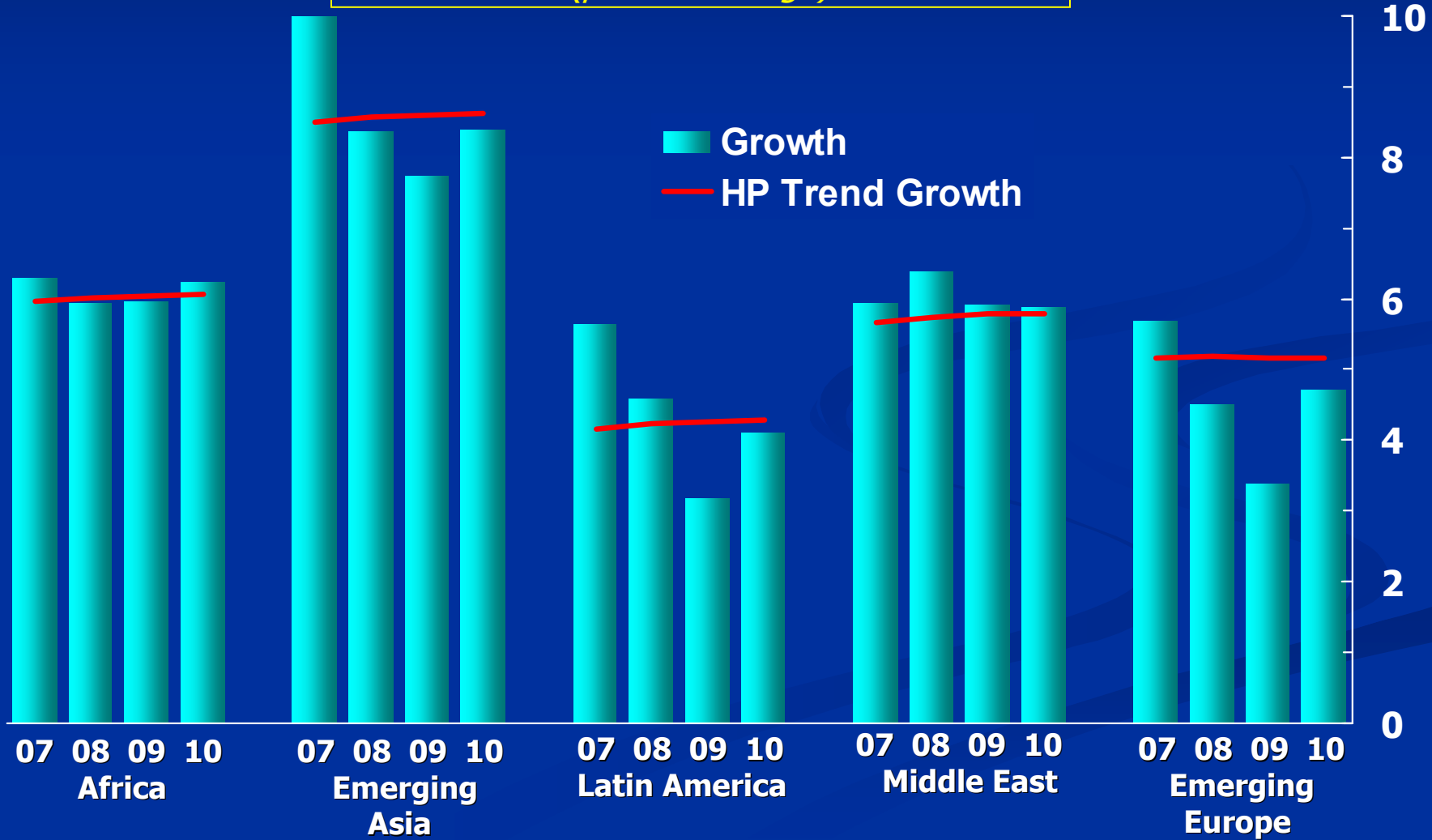
# Advanced economies now facing recession

**Real GDP Growth Rates**  
*(percent change)*



# Emerging and developing economies have not decoupled

**Real GDP Growth Rates**  
*(percent change)*





# Road to Recovery – and the Potholes

- Stabilizing financial conditions
  - but deleveraging will be protected
- Turnaround in U.S. housing market
  - but risk of overshooting?
- Resilience in emerging economies
  - but still vulnerabilities in some
- Subsiding inflation
  - another commodities surprise?

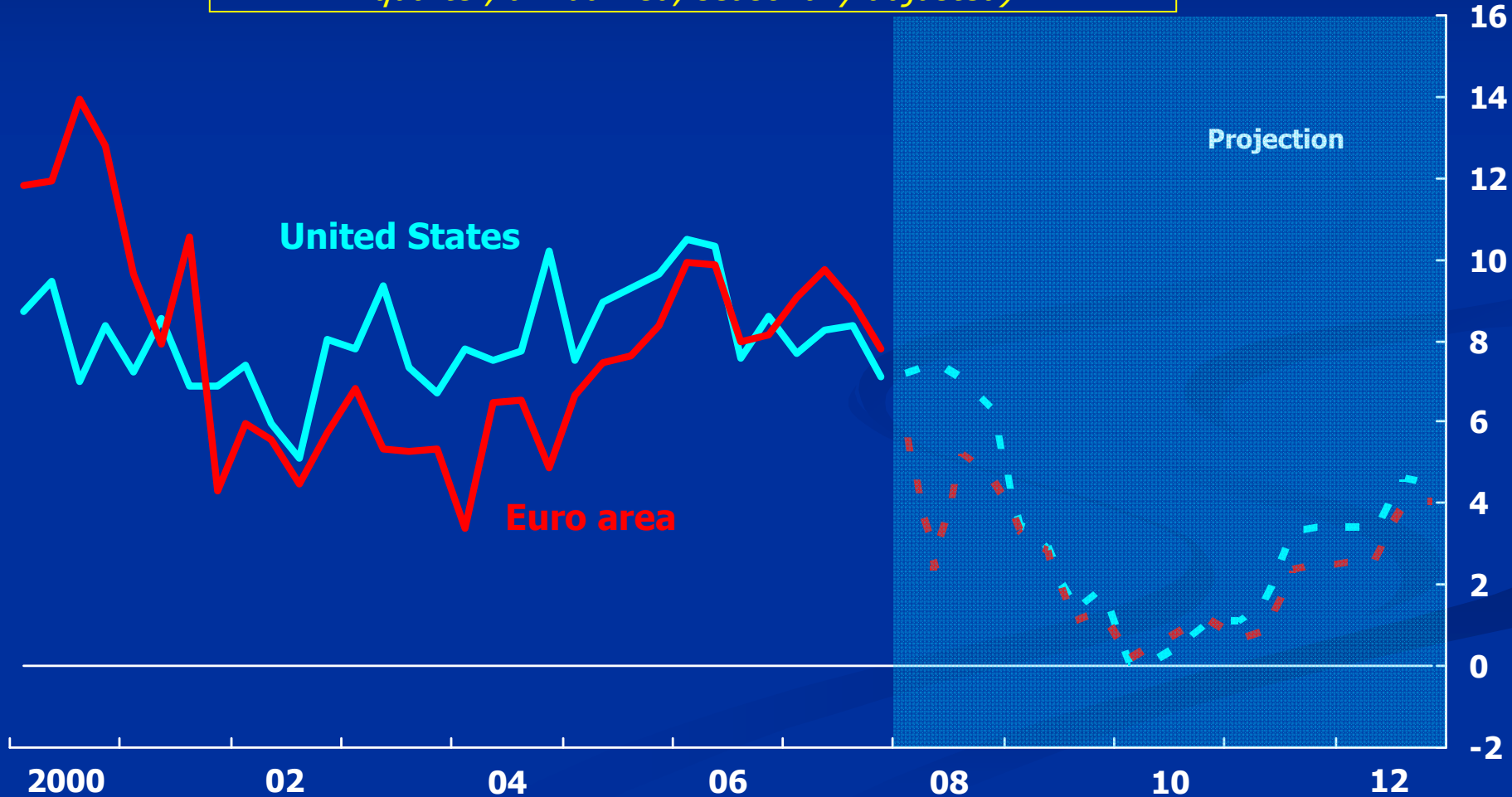
# Five policy actions to stabilize financial conditions

- Protection of deposits and other short-term liabilities
- Removal of troubled assets and recognition of losses
- Use of public money to recapitalize banks
- Comprehensive, coordinated response to financial crisis essential
- Emerging and developing economies should have access to emergency funding

# Deleveraging will take a large toll on credit growth

## Private Sector Credit Growth

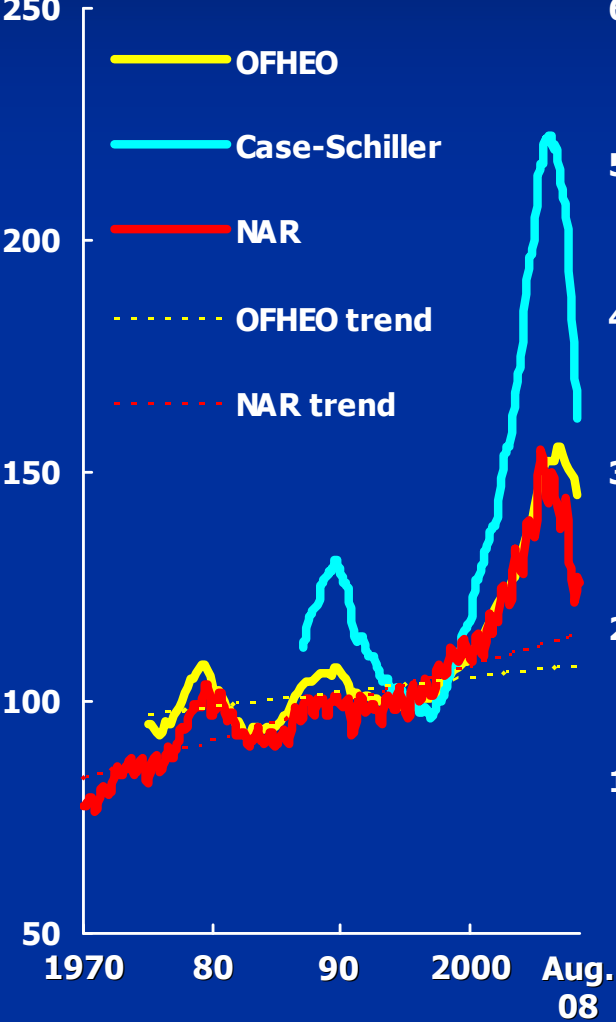
*(Borrowing as a percent of debt outstanding, quarter-on-quarter, annualized, seasonally adjusted)*



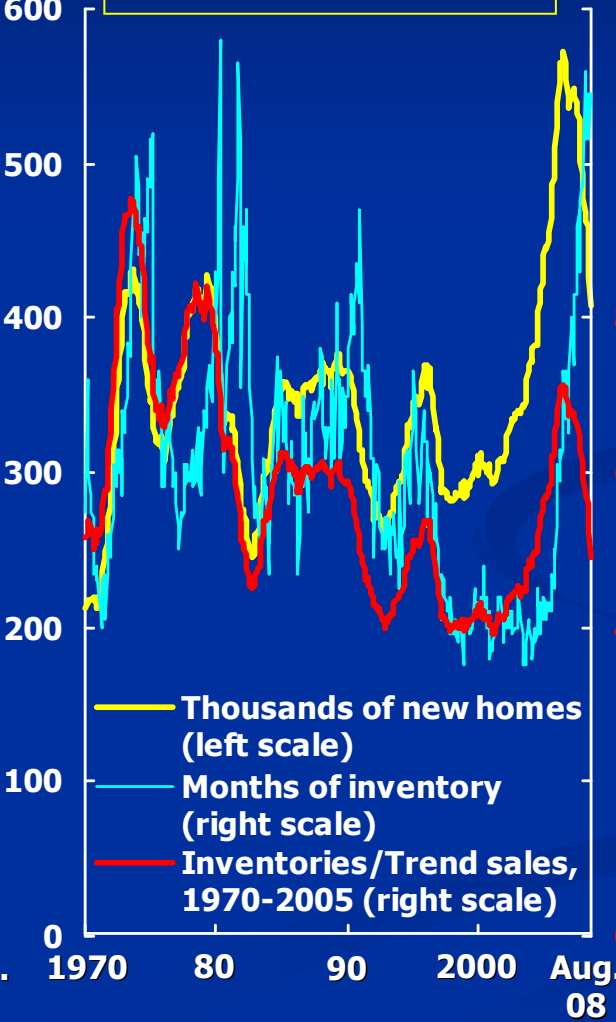


# US Housing – How close to the floor?

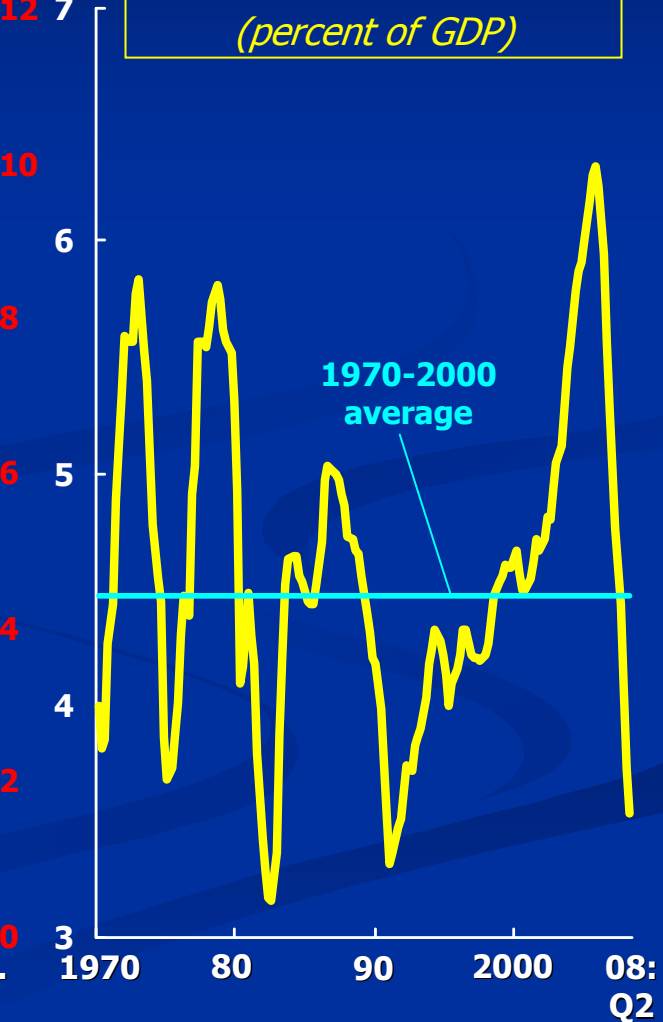
### Real House Prices *(index, 1995 = 100)*



### Inventories of New Homes

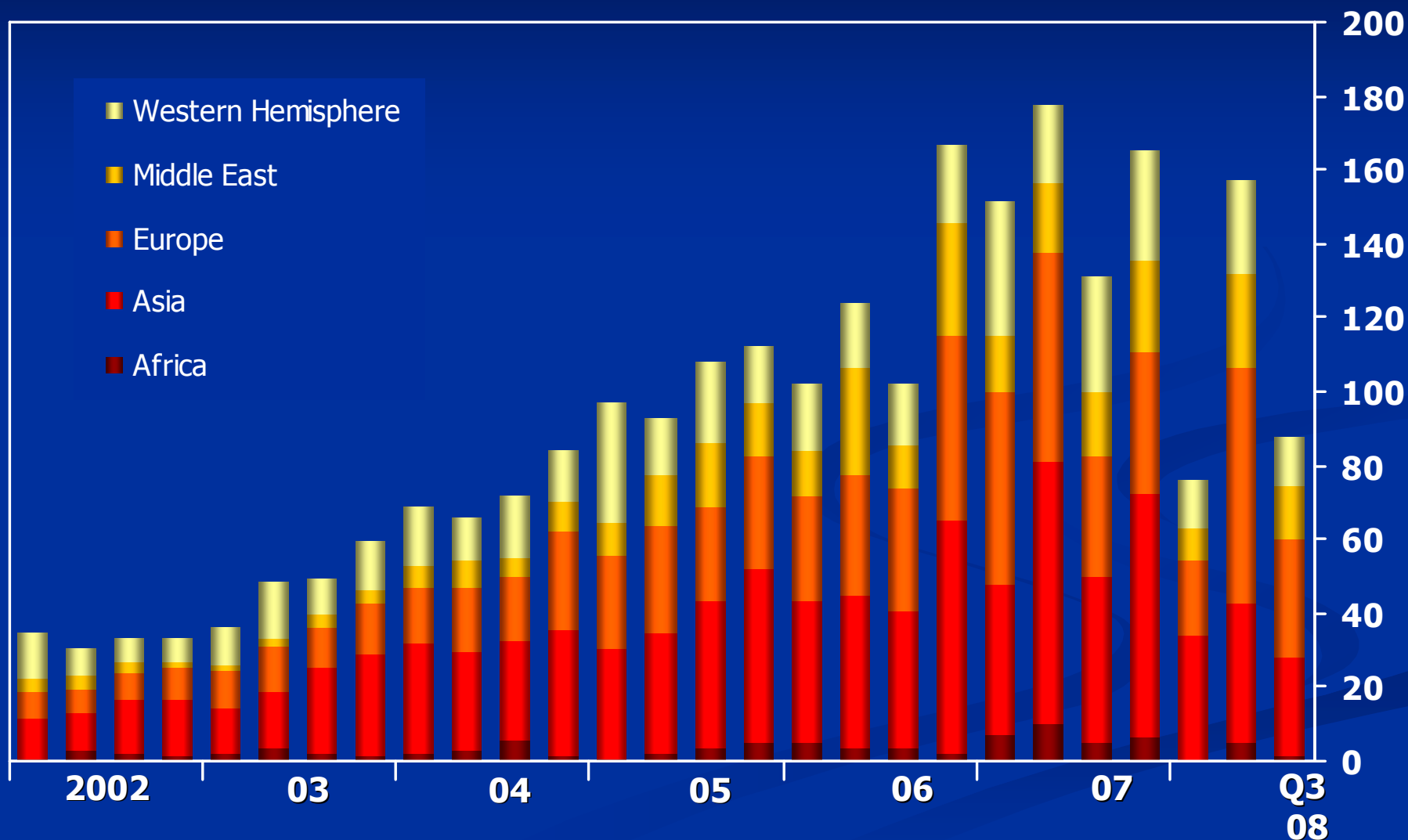


### Real Residential Investment *(percent of GDP)*



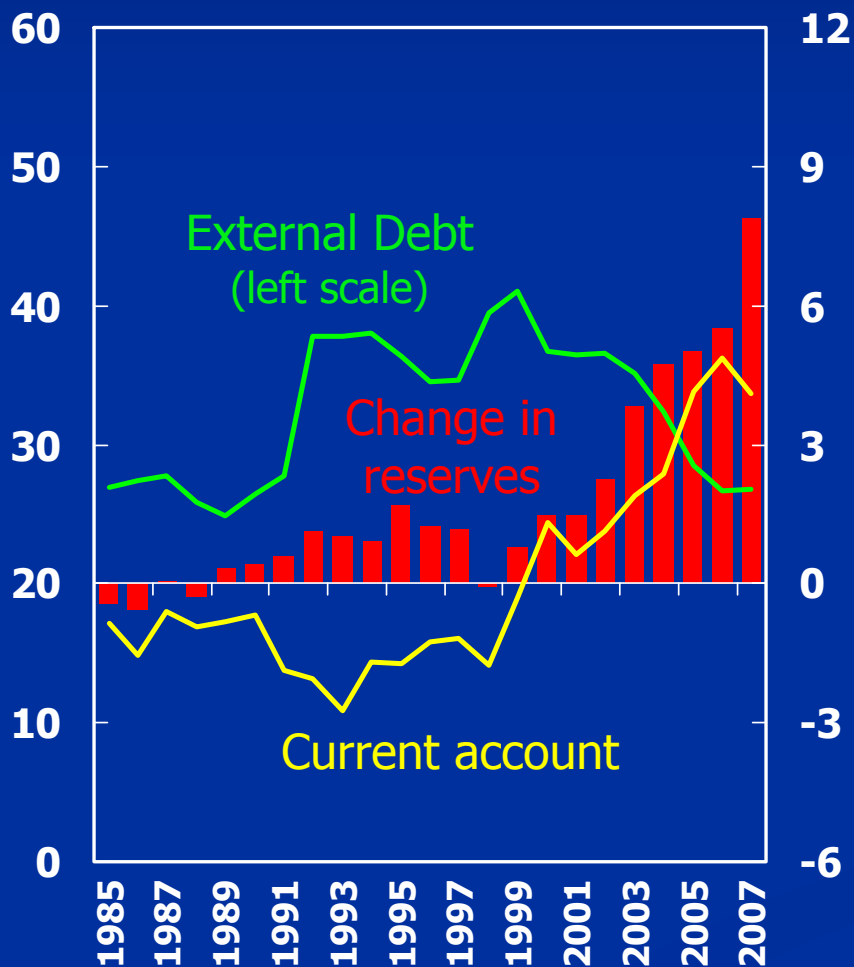
# Emerging market inflows resilient so far...

*(Bond, equity and loan issuance, billions of U.S. dollars)*

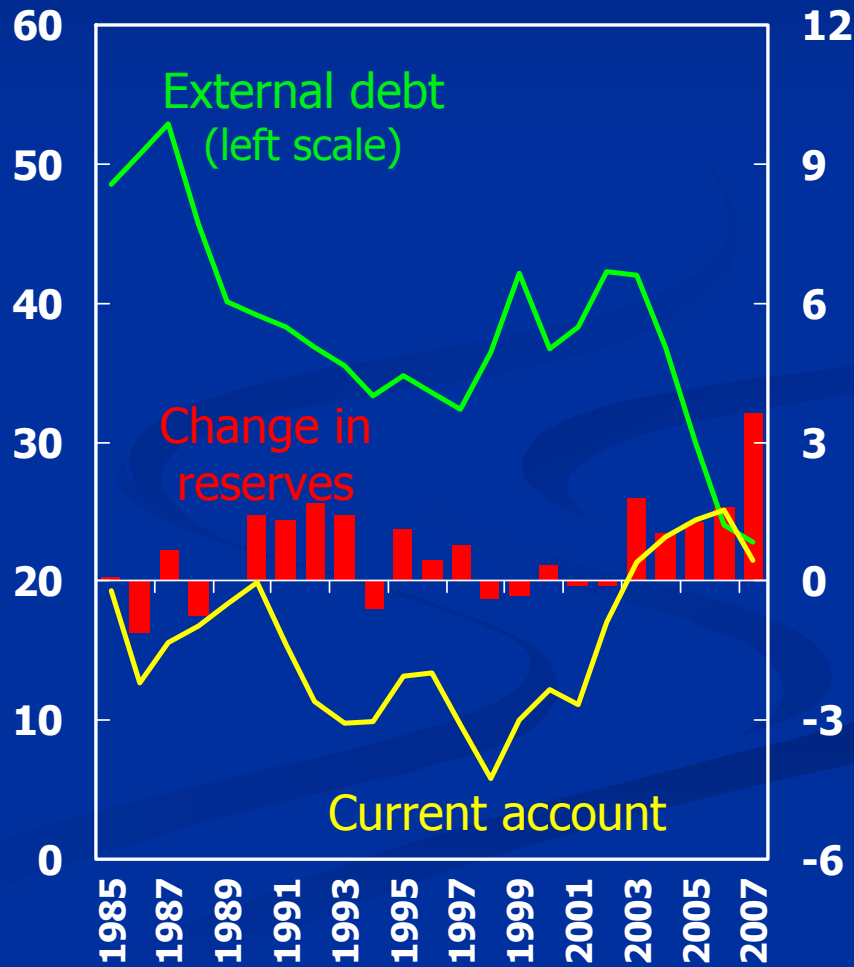


# Reduced external vulnerabilities—but not for all

**Emerging and Developing Economy External Indicators**  
*(percent of total GDP)*



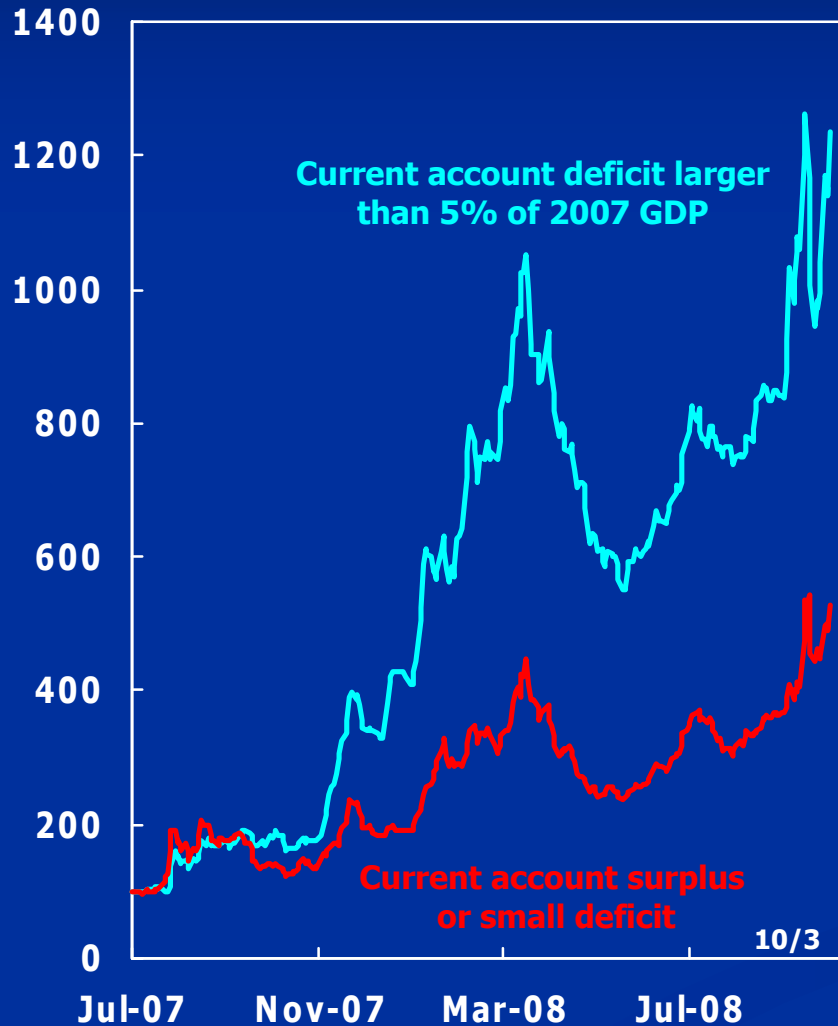
**Latin America External Indicators**  
*(percent of regional GDP)*



# Emerging Economies Increasingly Affected, Some Risks of Sudden Stops?

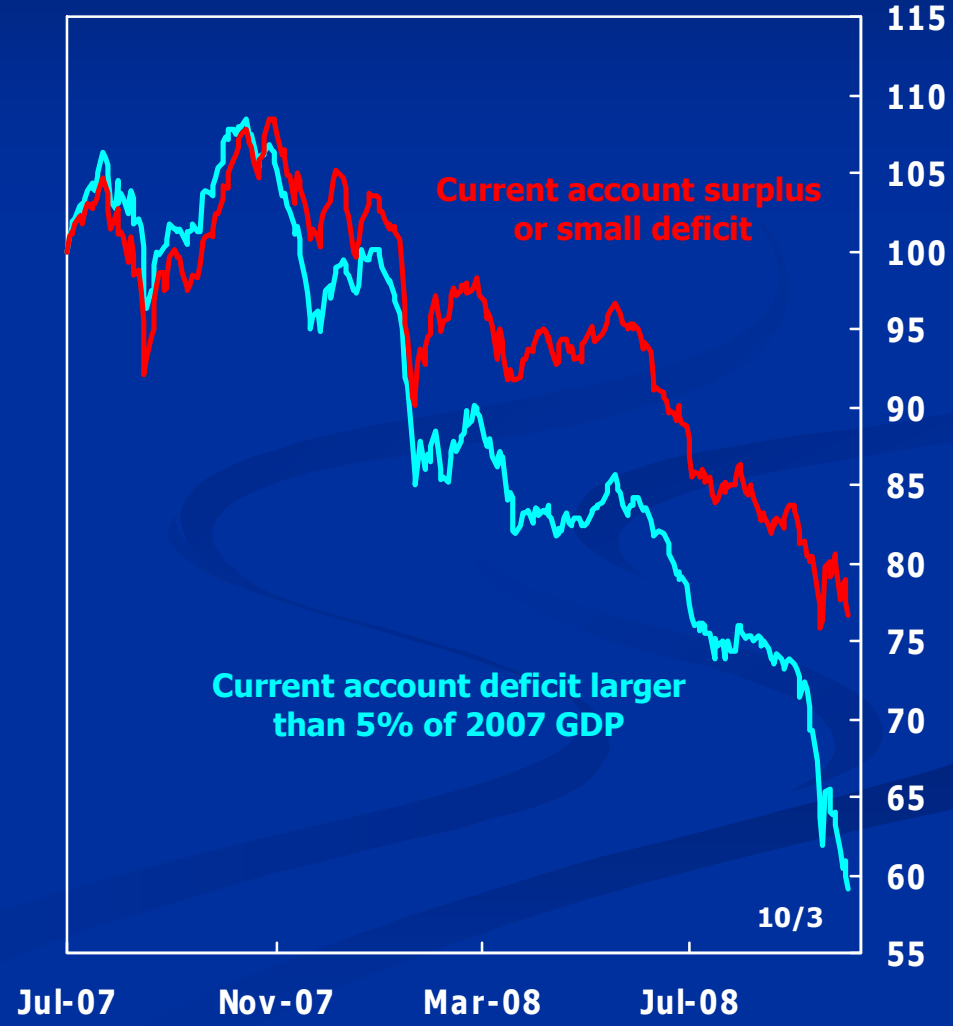
## Sovereign CDS Spreads

(index: 7/1/2007=100)



## Equity Prices

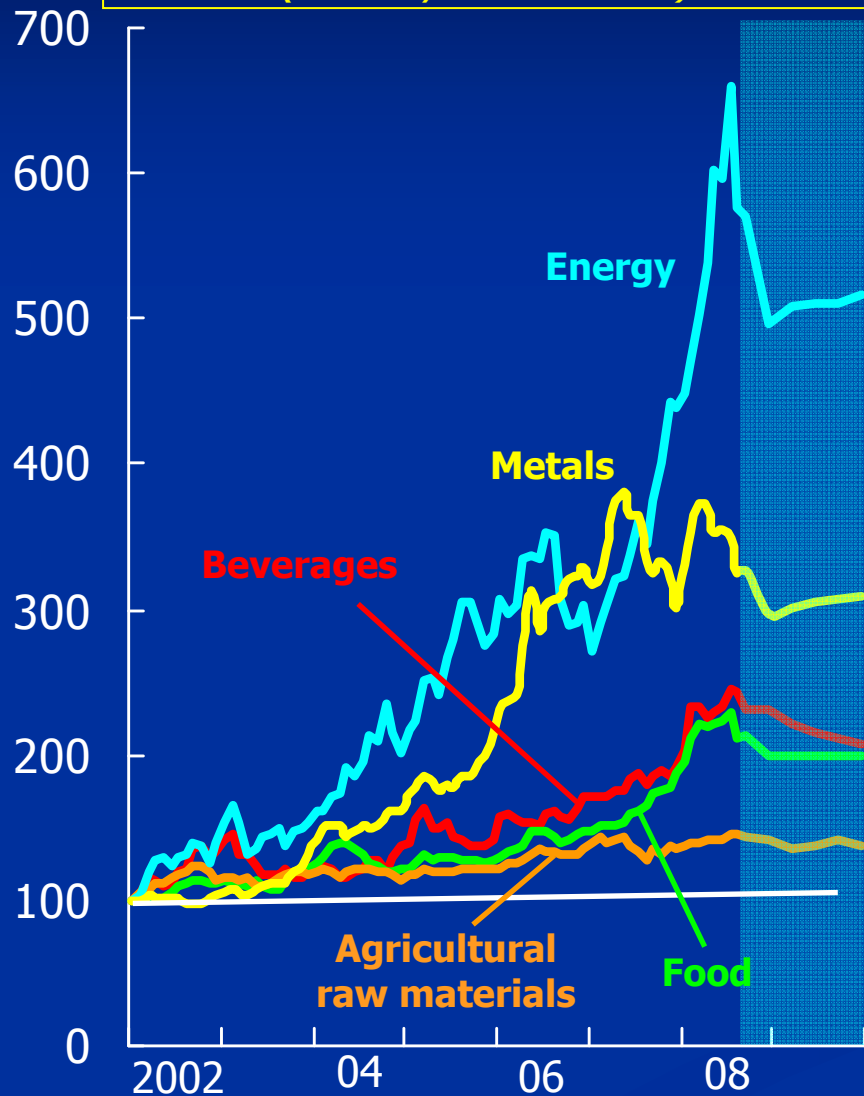
(index: 7/1/2007=100)



# Where will commodity prices go?

## Selected Commodity Prices

(January 2002 = 100)



## Selected Food Prices

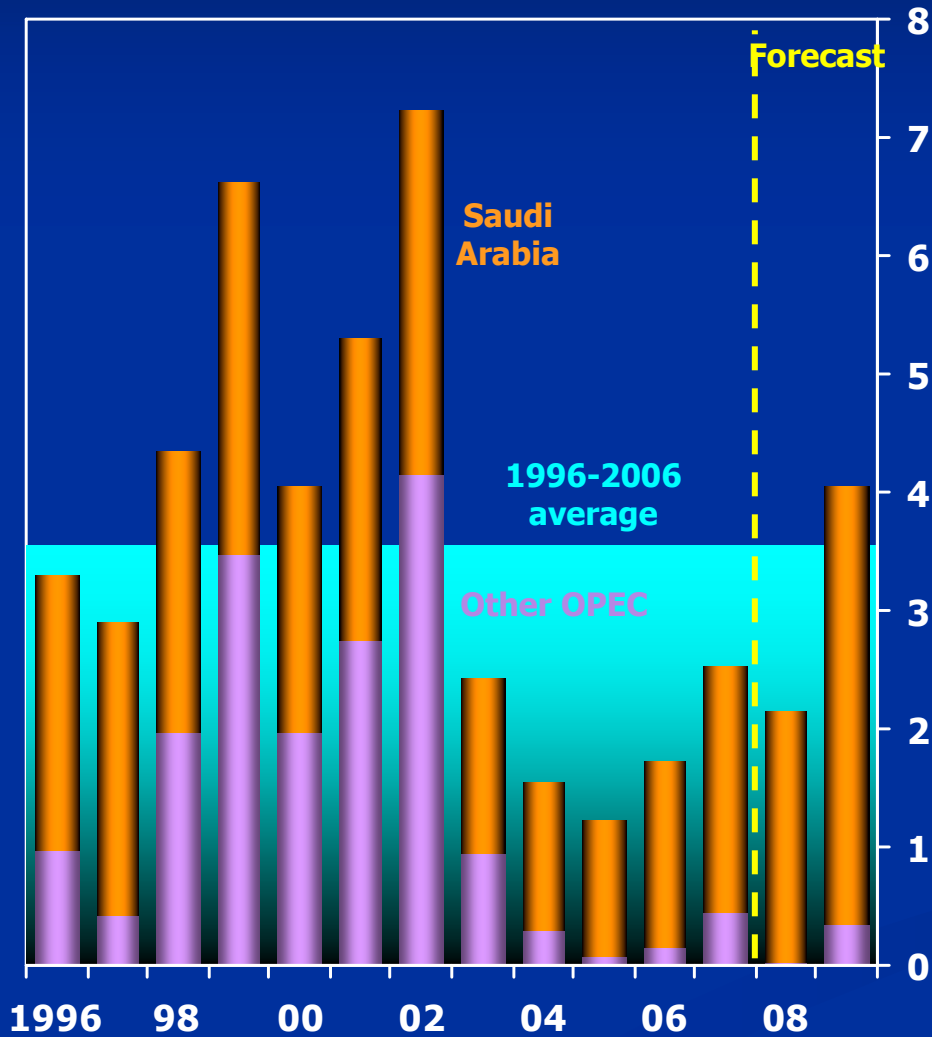
(January 2006 = 100)



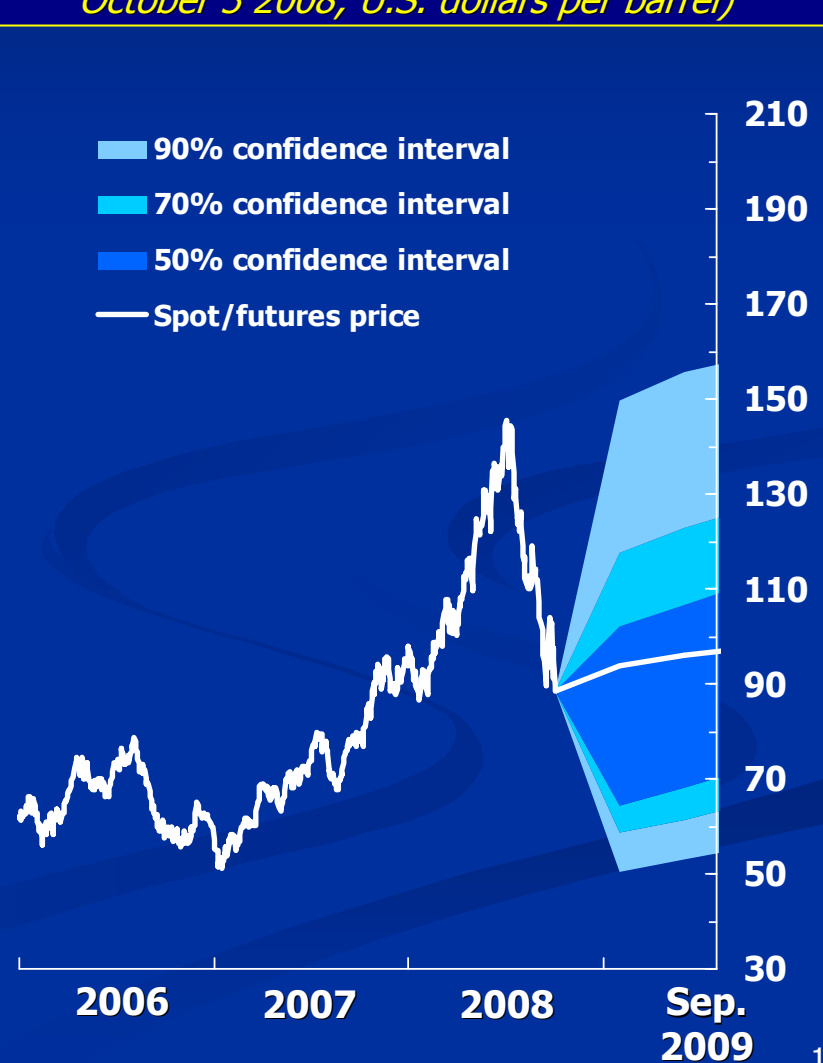


# Oil price outlook highly uncertain

**OPEC Spare Capacity**  
(percent of world oil consumption)

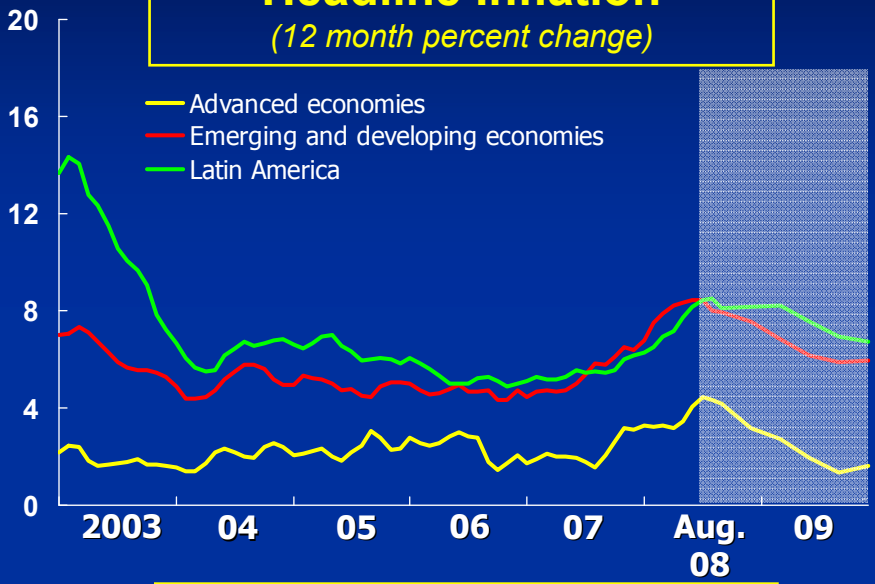


**Crude Oil Prices**  
(Brent; from futures options; as of October 3 2008; U.S. dollars per barrel)

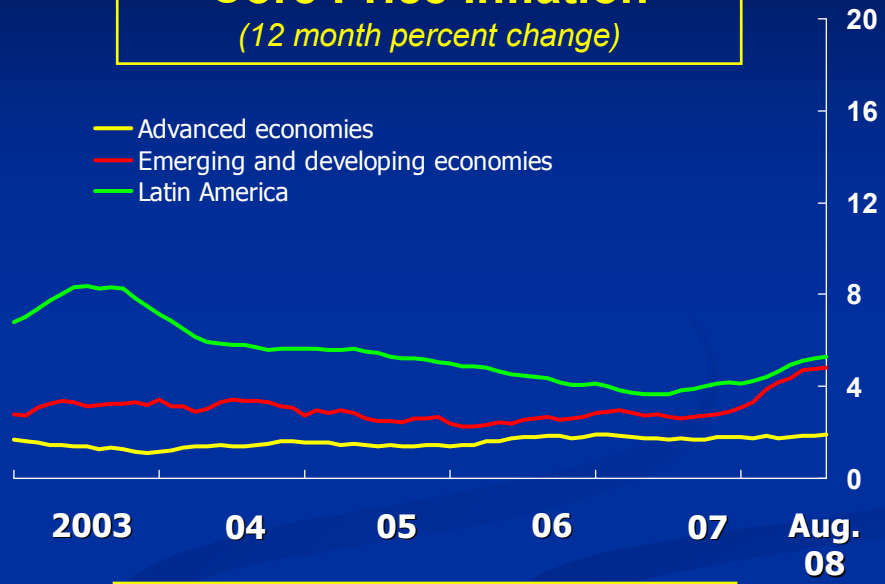


# Still inflation concerns in some emerging economies

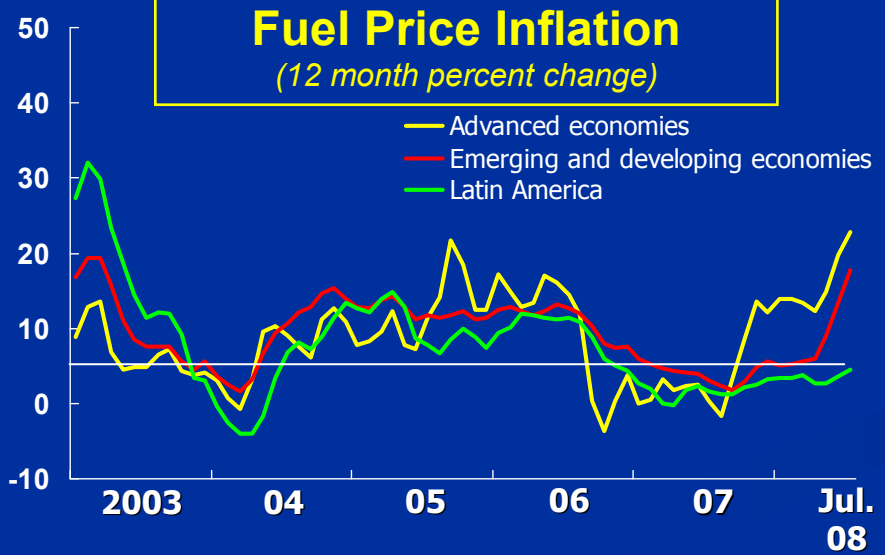
**Headline Inflation**  
(12 month percent change)



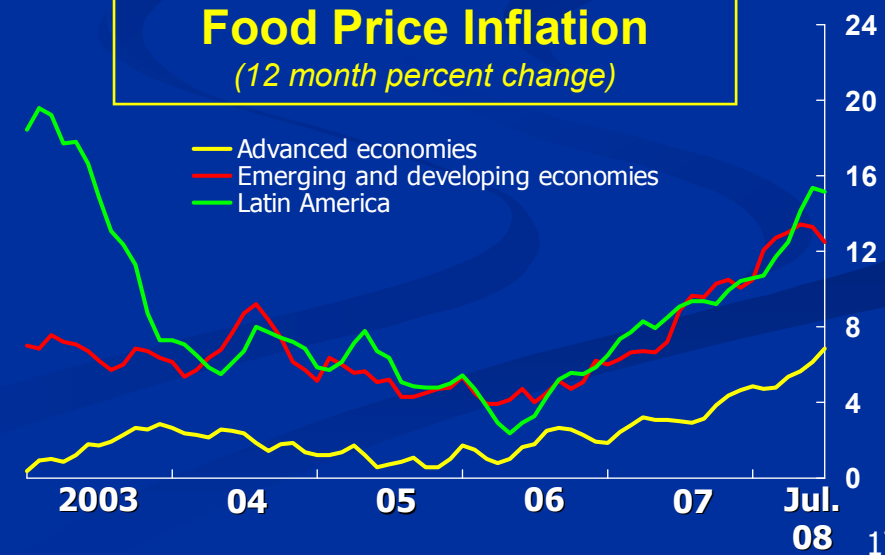
**Core Price Inflation**  
(12 month percent change)



**Fuel Price Inflation**  
(12 month percent change)



**Food Price Inflation**  
(12 month percent change)



# Key Messages

- Major global downturn inevitable
- Substantial downside risks to baseline
- Comprehensive, coordinated response to financial crisis essential to avoid the worst
- Emerging and developing economies should be ready for tough times ahead



**WEO Can Be Downloaded From**

**<http://www.imf.org/weo>**