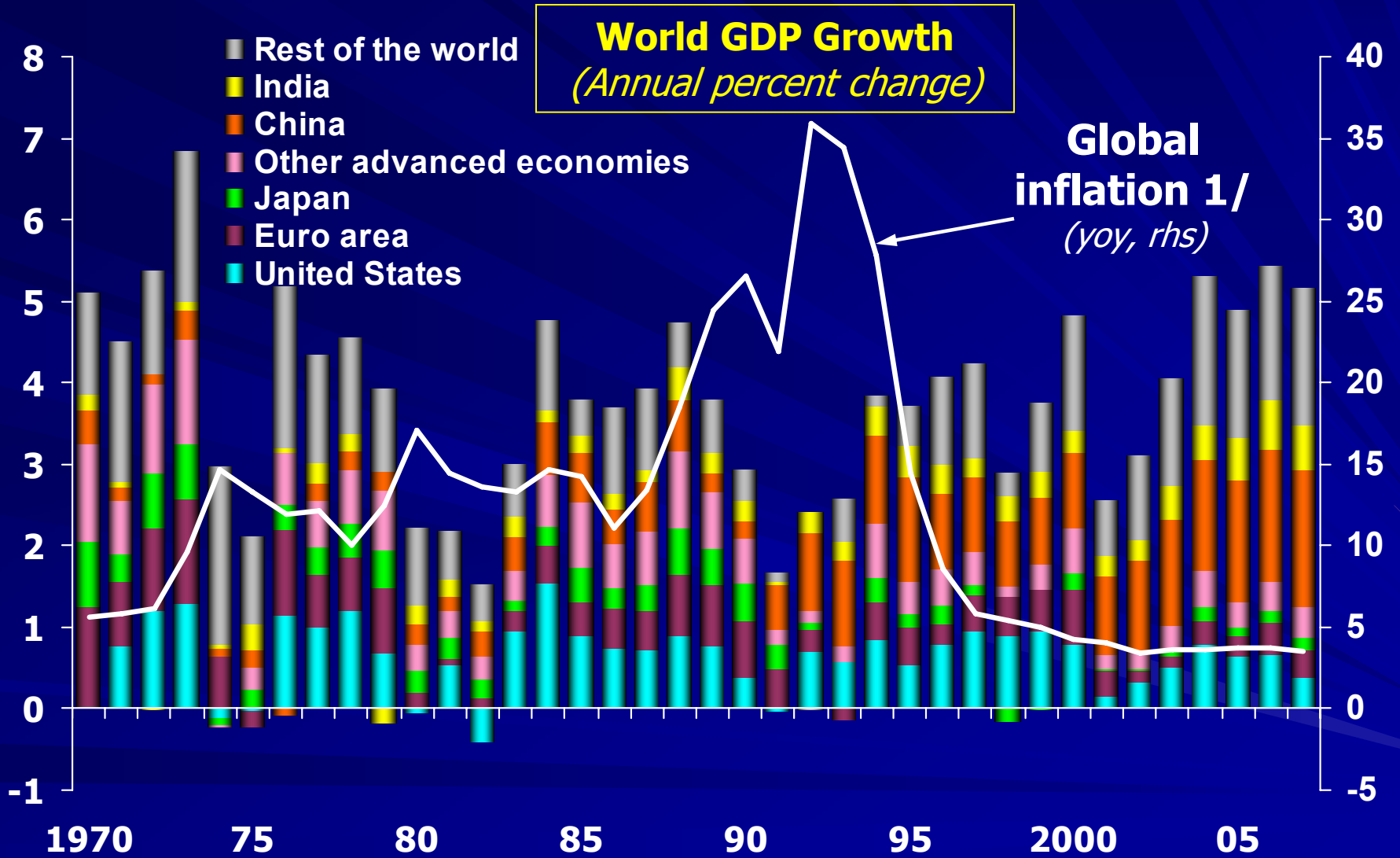


The Global Economy and Financial Markets: Where Next?

John Lipsky,
First Deputy Managing Director,
International Monetary Fund.

The Favorable Global Backdrop

The Global Expansion Has Been Strong...

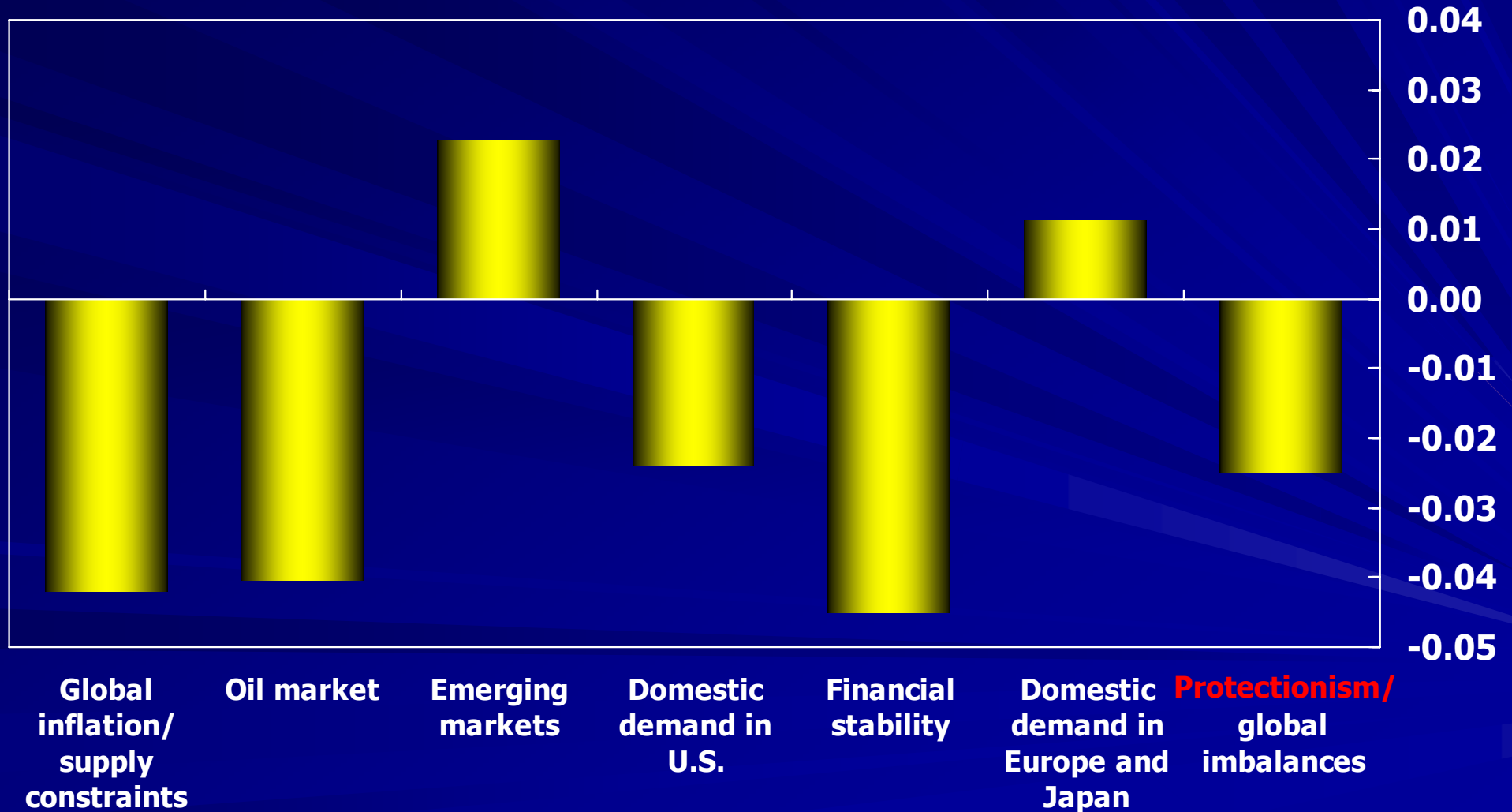


1/ Country CPI inflation rates aggregated using PPP weights.

Global Risk Factors Tilted to the Downside

(Percentage points of global GDP growth over next 12 months)

■ WEO

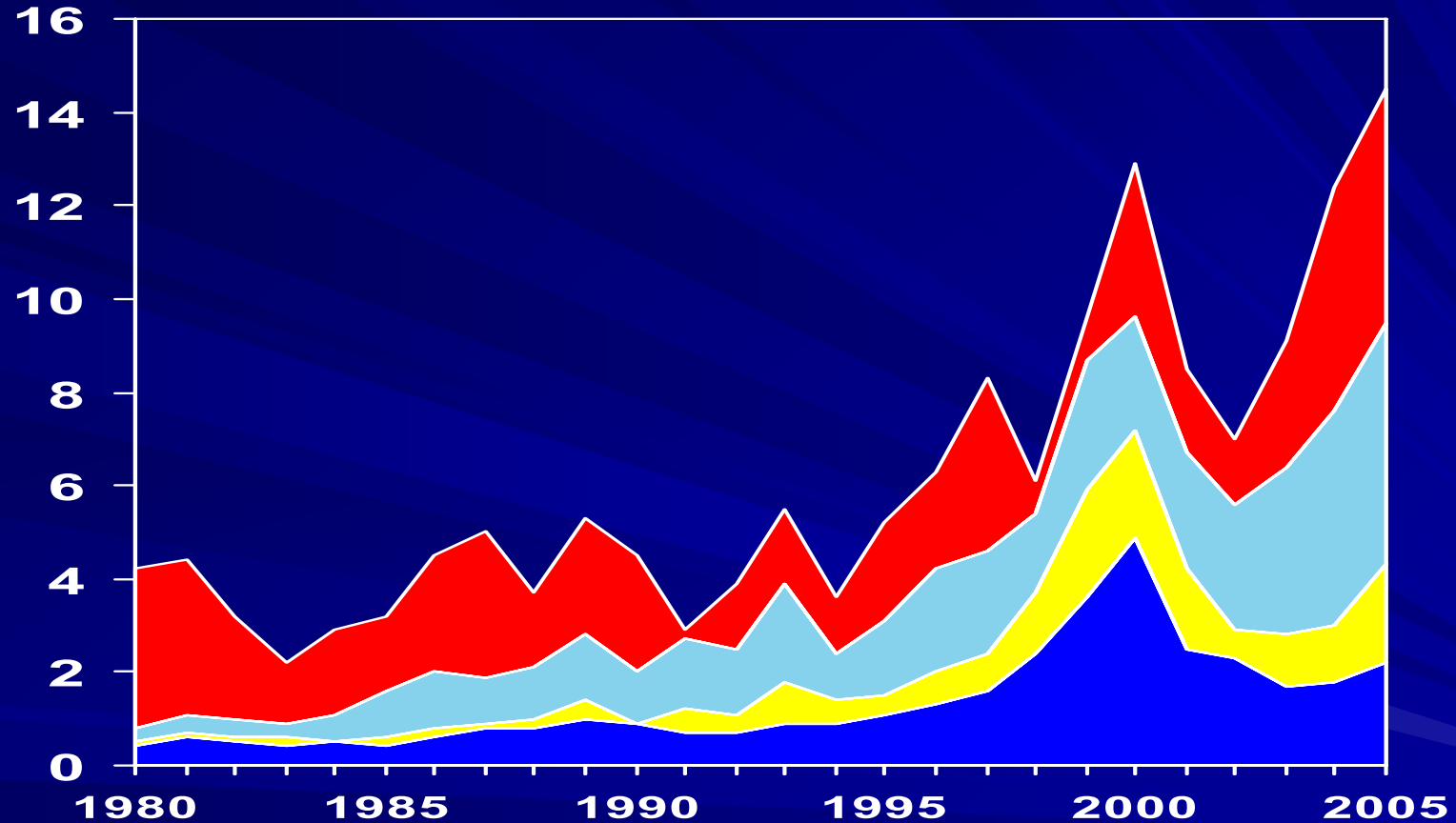


Hallmarks of Financial Innovation

- Securitization
- New Risk Transfer Instruments
- New Asset Management Institutions

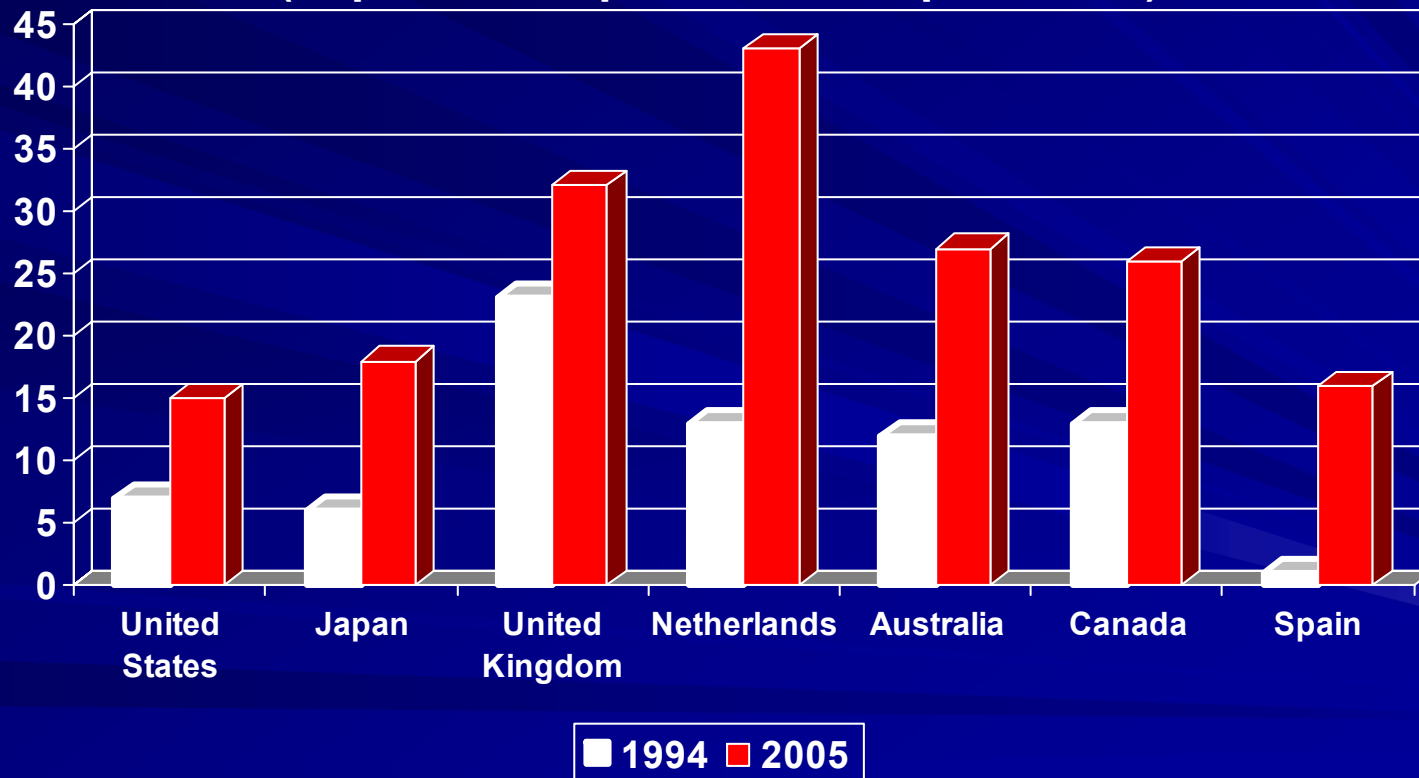
The Effects – Record Cross-Border Flows

Global Cross-Border Flows By Type in Percent of World GDP



The Effects - Reduced “Home-Bias”

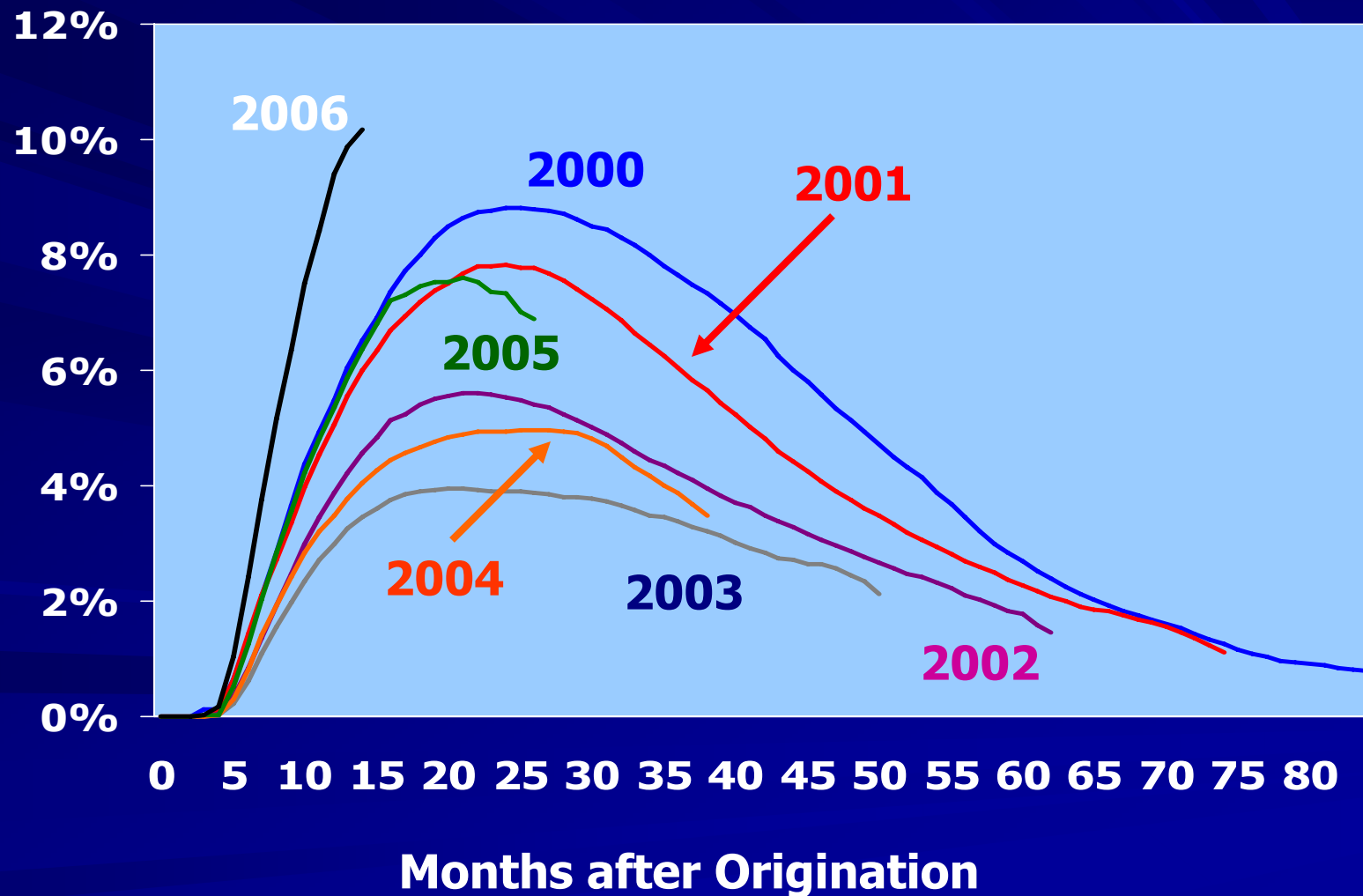
Pension Fund International Asset Allocation: Equities
(In percent of pension fund portfolios)



The Latest Challenge- The Re-Pricing of Credit Risk

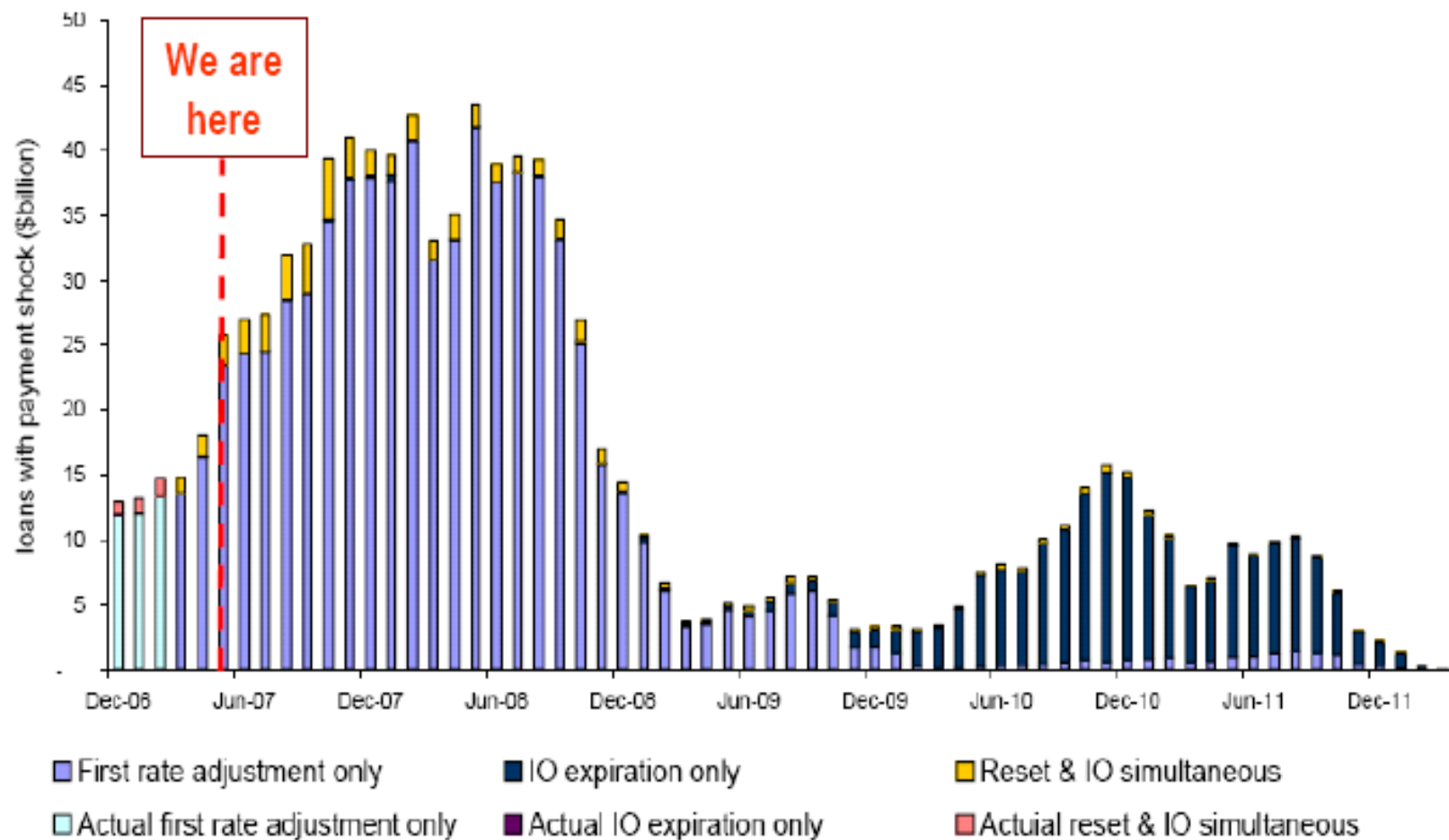
U.S. Sub-Prime Market Credit Quality Deterioration

Subprime 60-Day Delinquencies by Mortgage Vintage Year
(adjustable rate mortgages, in percent of payments due)



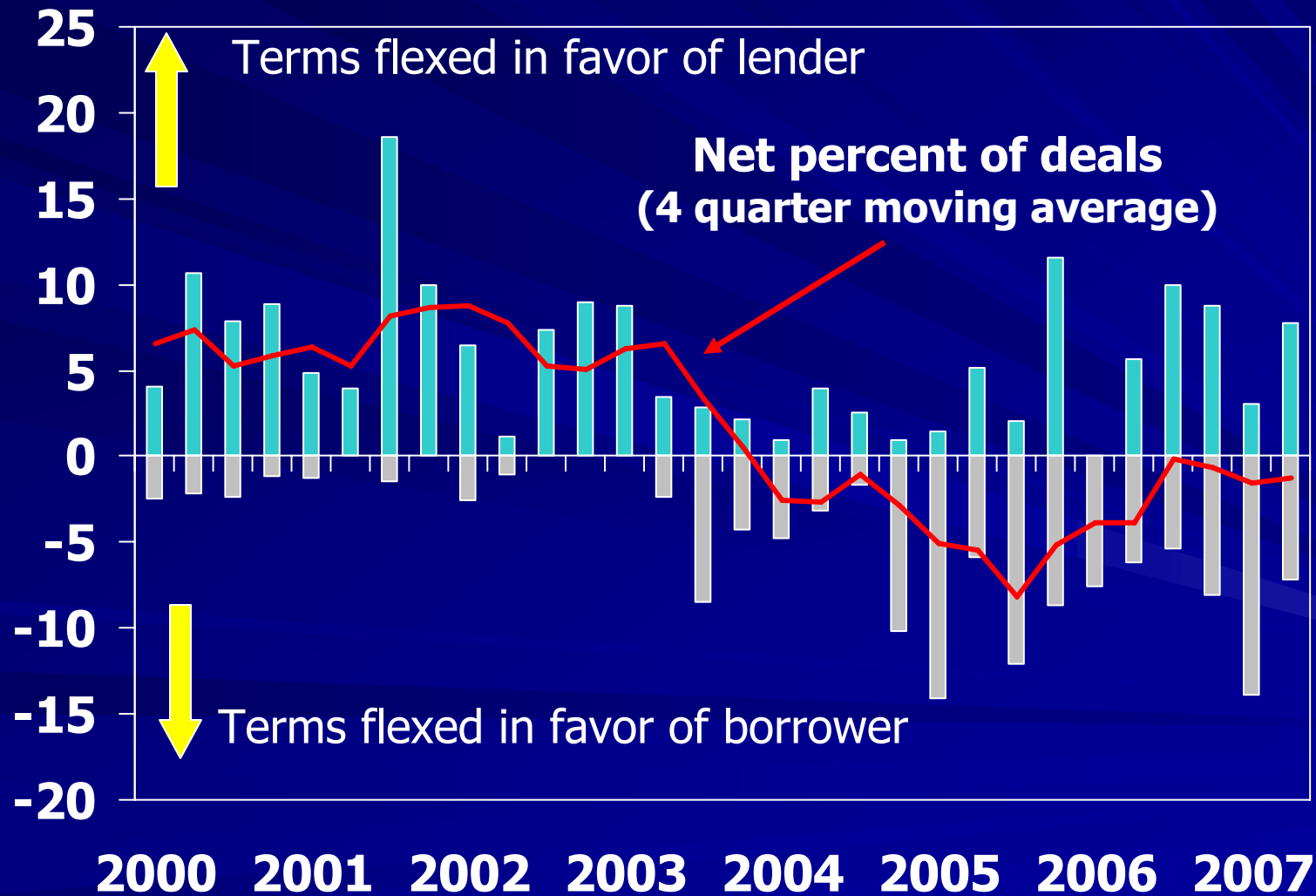
Sub-Prime Mortgages: Long-Tailed Impact

Loans with Payment Shock (in billions of U.S. dollars)



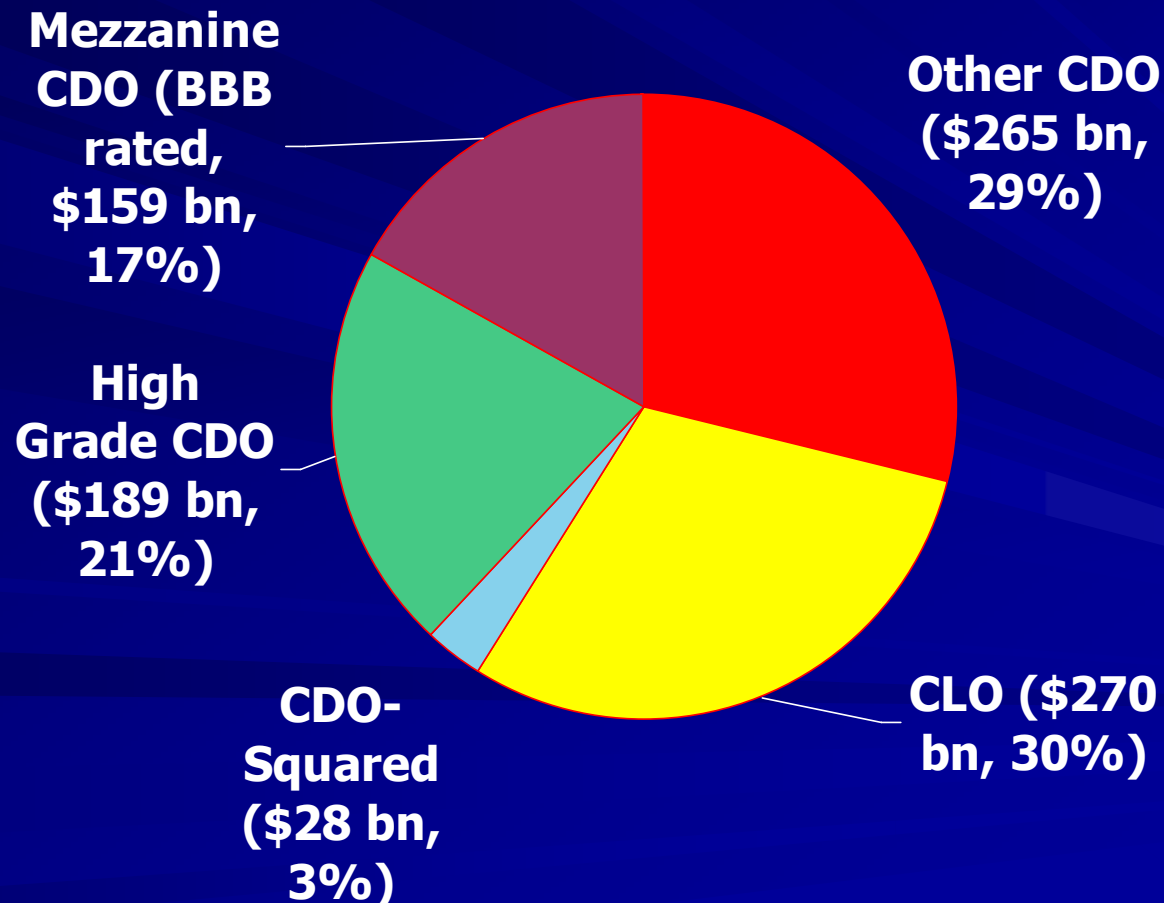
Discipline Weakening in Corporate Credit Markets

Flex and Reverse Flex Deals (in percentage of deals)



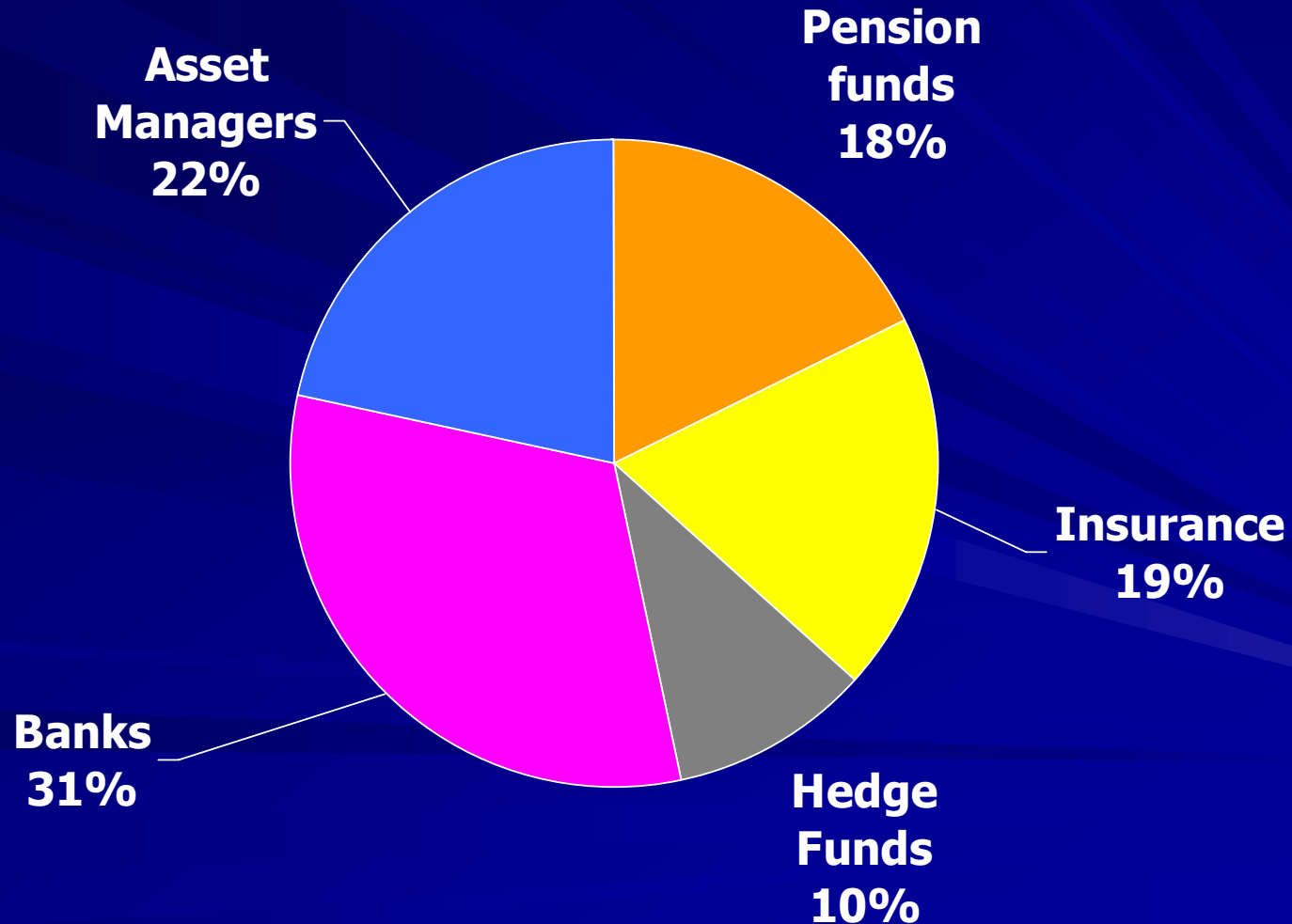
Collateralized Debt Obligations

US CDOs: Outstanding Volumes (\$900 billion total)



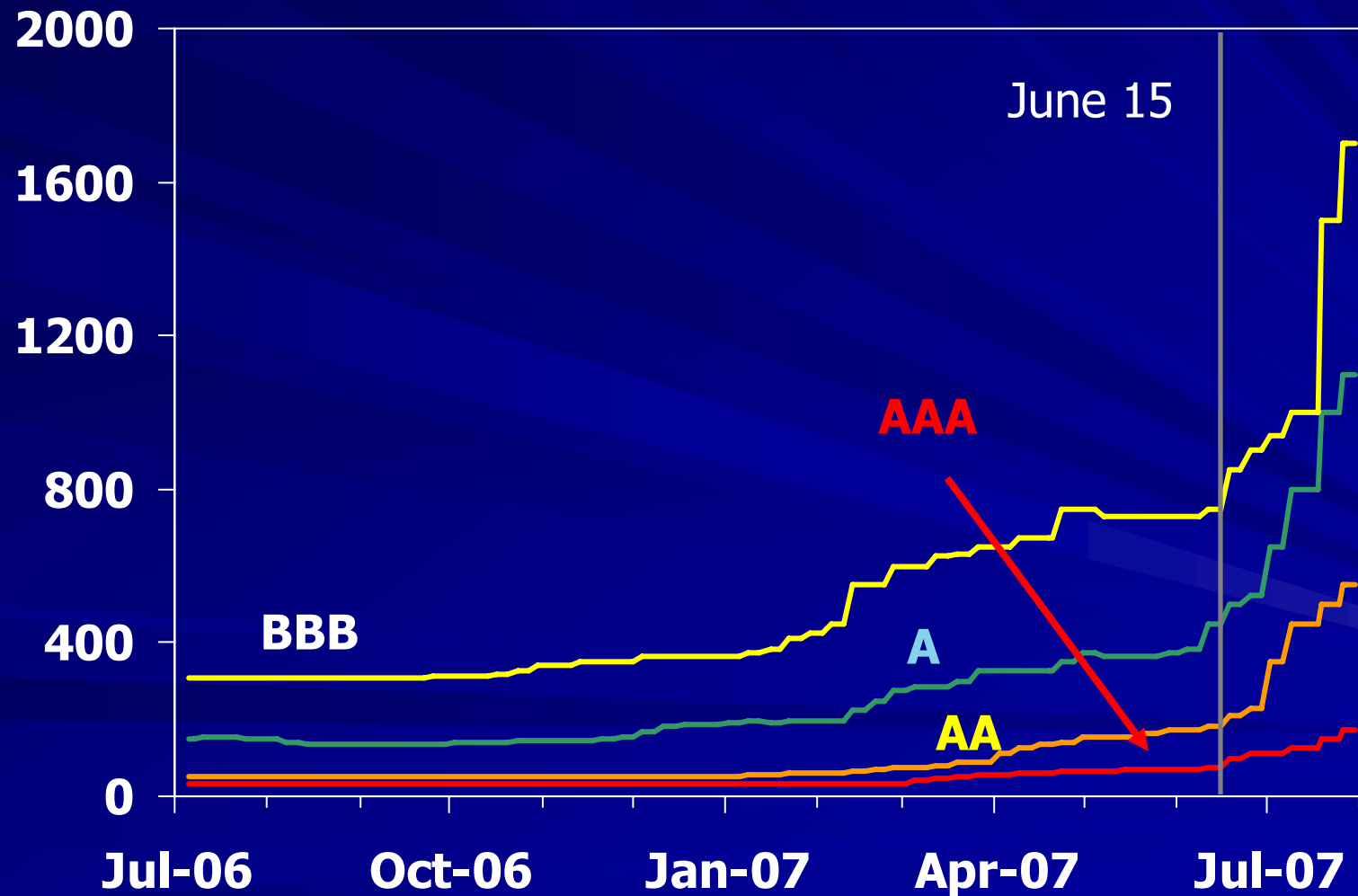
Riskiest Positions Held by a Wide Variety of Investors

CDO Holders: Riskiest Portions (Not delta adjusted)



CDO Spreads Widened, Post Bear-Stearns Hedge Fund Troubles ...

**Primary Market Spreads of Mezzanine CDO Tranches over LIBOR
(in basis points, CDOs with collateral of BBB average quality)**



IMPLICATIONS

- Markets

- Fundamentals

- Policies