



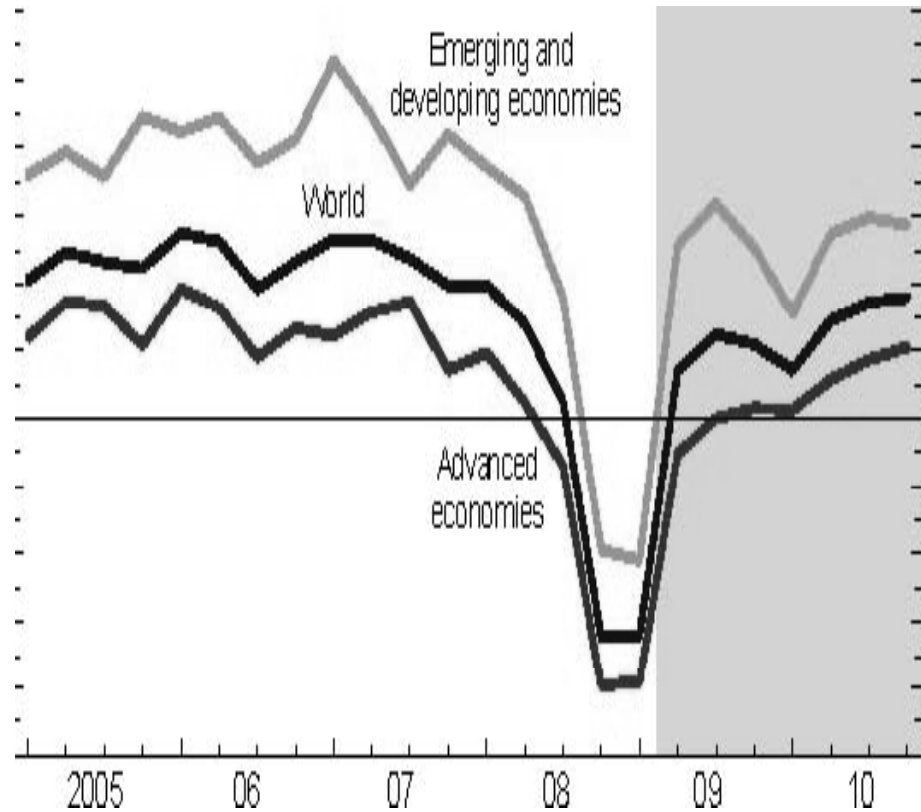
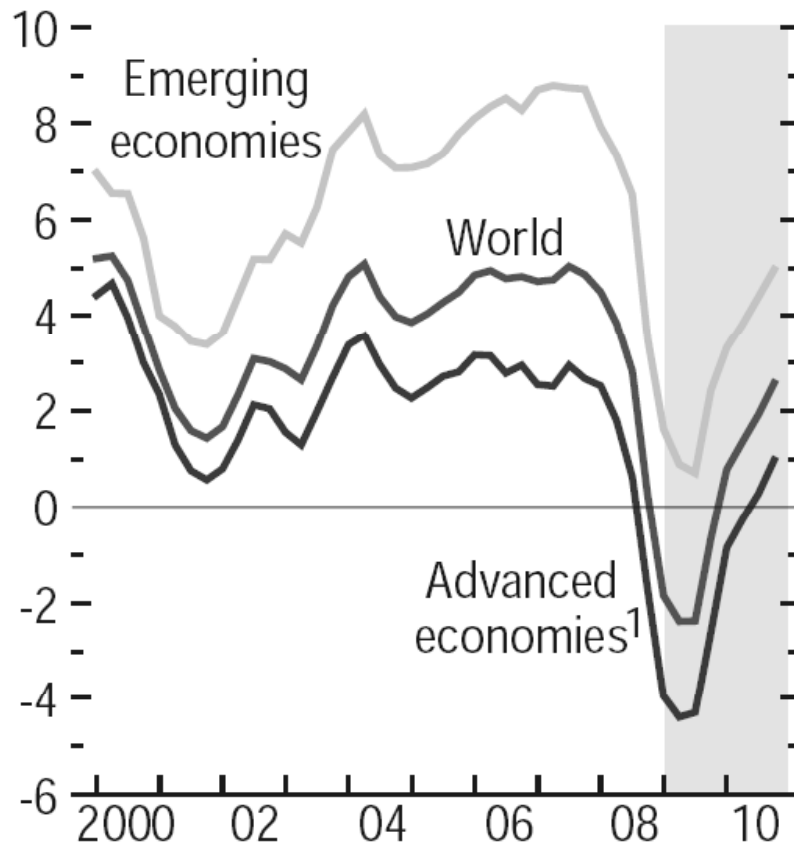
Experiences to overcome the crisis of some major economies

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IMF WEO: April vs. July



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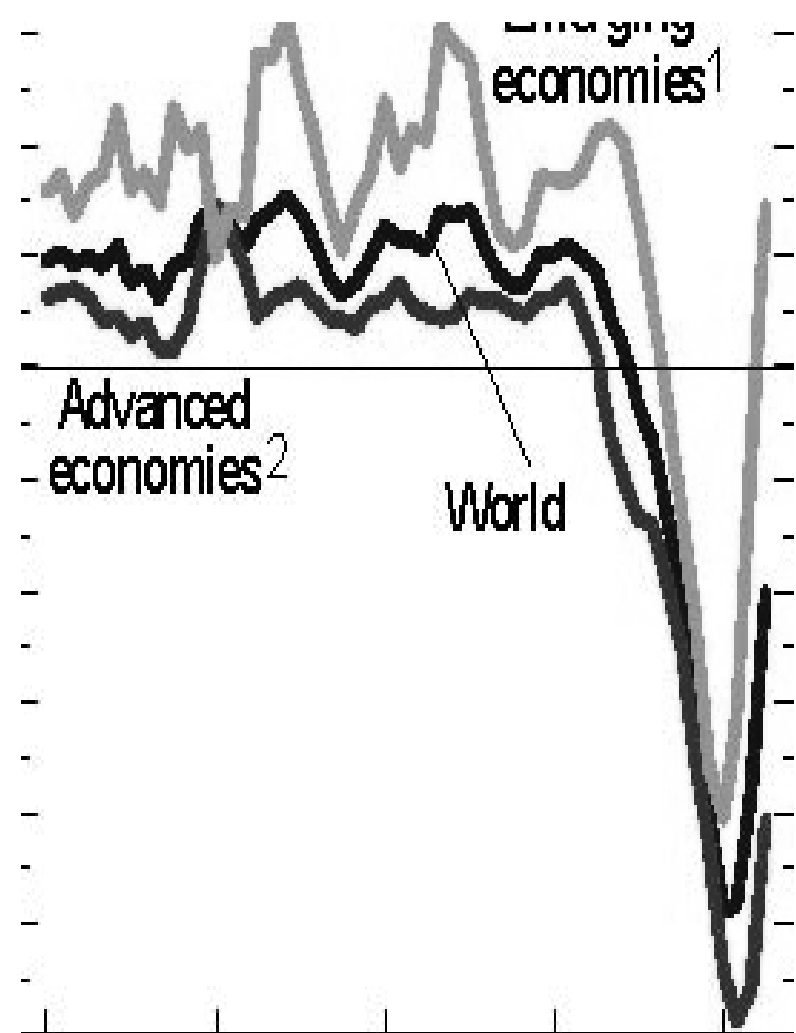
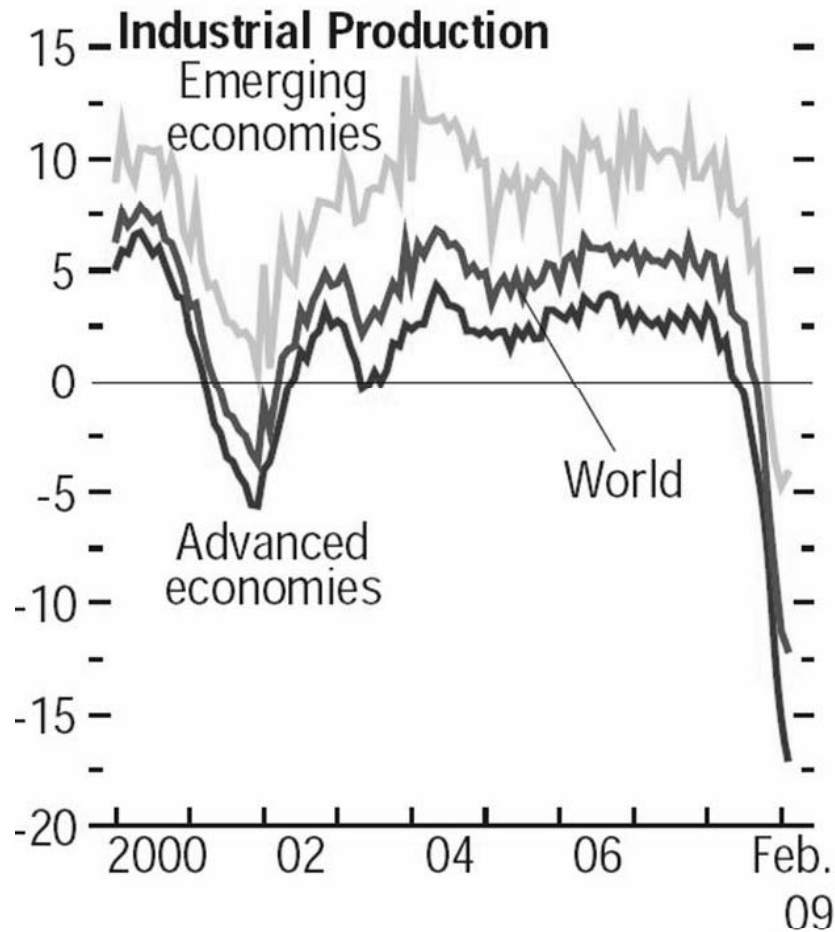
APRIL

- The effects of the crisis are deeper in advanced economies
- Growth will pick up again in 2010
- Advanced economies will embark on a lower growth path in the medium term
- Emerging economies as growth locomotive ?

• JULY

- The world economy is stabilizing, helped by an unprecedented macroeconomic and financial policy support
- However, the recession is not over and the recovery is likely to be sluggish
- The advanced economies as a group are still projected not to show a sustained pickup in activity until the second half of 2010, consistent with the April 2009 WEO forecast
- Global activity is forecast to contract by 1.4 percent in 2009 and to expand by 2.5 percent in 2010, which is 0.6 percentage point higher than envisaged in the April 2009

IMF WEO: April vs. July



IMF WEO: April vs. July

APRIL

- Industrial production is in steep decline
- Investment goods are particularly affected
- High overcapacities in steel, automotive industry, shipbuilding, semiconductors....
- Restructuring/de-industrialisation in highly industrialised economies?

– JULY

- the pace of recovery will depend on the balance between opposing forces
- PROS: The downward drag exerted by the financial shock, the sharp fall of global trade, and the general increase in uncertainty and collapse of confidence is gradually diminishing

IMF WEO: April vs. July

- CONS:
 - Many housing markets have yet to bottom out. Financial markets remain impaired and bank balance sheets still need to be cleaned and institutions restructured;
 - Cuts in policy interest rates, continued provision of ample liquidity, credit easing, public guarantees, and bank recapitalization have appreciably lowered concerns about systemic failure and have supported intermediation; ***but*** financial stress indexes for advanced and emerging economies have receded since the beginning of 2009
- HOWEVER:
 - the improvements are far from uniform across markets and countries
 - bank lending conditions are expected to remain tight and external financing conditions constrained for a considerable time

Big questions

- It is unclear how structurally weaker private consumption in the United States and other advanced and emerging economies that suffered asset price collapses will be compensated for by stronger demand elsewhere. Currently, expansionary macroeconomic policies and an inventory adjustment are supporting global activity but these are temporary forces
- GDP in the advanced economies is projected to decline by 3.8 percent in 2009 before growing by 0.6 percent in 2010
 - Growth in 2010 would still fall short of potential until late in the year, implying continuing increases in **unemployment.**
 - Among the major economies, growth rates have been marked up mainly for the United States and Japan

Few indications for the future

<p>United States</p>	<ul style="list-style-type: none">-Diminishing rate of deterioration, including in the labor and housing markets-Industrial production may be close to bottoming out;-The inventory cycle is turning; and business and consumer confidence has improved;-Stabilization of output during the second half of 2009 and with a gradual recovery emerging in 2010
<p>Japan</p>	<ul style="list-style-type: none">-output is stabilizing-Improved consumer confidence, progress in inventory adjustment, aggressive fiscal policies, strong performance by other Asian economies are expected to lift growth in the coming quarters
<p>Euro area</p>	<ul style="list-style-type: none">-consumer and business survey indicators have been recovering but data on real activity show few signs of stabilization and thus activity is projected to strengthen more slowly than elsewhere;-Macroeconomic policies are providing support but much of the adjustment in the labor market still lies ahead. Rising unemployment will reduce consumption and activity, as will the economy's heavy dependence on a still-ailing banking sector.

Few indications for the future

Emerging Asia	<p>-Growth projections in emerging Asia have been revised upward to 5.5 percent in 2009 and 7.0 percent in 2010. The upgrade owes to improved prospects in China and India, in part reflecting substantial macroeconomic stimulus; and a faster than-expected turnaround in capital flows;</p> <ul style="list-style-type: none">•However, the recent acceleration in growth is likely to peter out unless there is a recovery in advanced economies
Latin America	<p>-Growth projections have been lowered by 1.1 percentage points in 2009, as production has been hit much harder by the global trade slowdown than initially expected;</p> <p>-However, the region is benefiting from rising commodity prices, and growth projections have been revised up by 0.7 percentage points in 2010</p>
Eastern Europe and CIS States	<p>-The growth projections have been revised downward by 1.3 and 0.7 percentage points in 2009 and upward by 0.2 and 0.8 percentage points in 2010, respectively. Developments differ appreciably across countries but many have been badly affected by the global financial crisis, with capital flows reversed and commodity exports sharply contracted</p>

Main strategies to face the crisis

- It is possible to group the policy actions taken in response to the crisis under three headings: improving the macroeconomic environment, promoting market stability, and advancing structural repair
- **IMPROVING THE MACROECONOMIC ENVIRONMENT**
 - Since 2007(!) the monetary authorities generally acted quickly to adopt measures responding to the demand by financial institutions for increased access to central bank liquidity

Main strategies to face the crisis

- E.G.: **Sep-07 thru Feb-08 United Kingdom** Government provides liquidity facilities and guarantees to Northern Rock before it is ultimately nationalized (other countries: US, Germany, Sweden, Canada, France)
- Central banks relaxed the terms of access to discount windows and employed a variety of similar mechanisms.
- Coordination between the major central banks was reinforced in December 2007 with the establishment of Federal Reserve swap facilities that, over the following 10 months, were expanded in size and in participation, though that expansion raised other issues
- For many countries, the use of conventional monetary policy and interest rate reductions came later

Main strategies to face the crisis

- As part of the containment phase of the crisis, a few central banks have embraced so-called unconventional monetary policies with respect to what they buy, on what terms, and whether they worry about the consequences for the liability sides of their balance sheets (UK, Japan, Switzerland, ECB)
- It was not until the second year of the crisis, starting in late 2008, that discretionary fiscal policy came to be widely used by those countries with scope to do so. It is difficult to conclude that fiscal policy actions have been coordinated, but they are all pointed in the same direction

Main strategies to face the crisis

- PROMOTE FINANCIAL MARKET STABILITY

- These measures often blend into monetary policy actions, and they contribute to structural repair as well as to market stability.
- These measures are directed primarily at actual or perceived market failures rather than at institutions, individually or collectively. Generally, these measures employ the central bank's balance sheet, initially constrained by its interest rate target and more recently unconstrained. The broad objective is to provide liquidity to specific markets, for example the commercial paper market, and thereby to restore their functioning as suppliers of credit. One measure of this type that does not involve central banks is increasing the coverage of deposit insurance, which in effect is designed to stabilize the market for bank deposits as well as to stabilize deposit-taking institutions.
- The United States has gone further in this direction than most other countries for two main reasons. First, nonbank financial institutions make up a larger part of the overall financial system in the United States than in other countries. Therefore, direct market-related measures are thought to be necessary to restore the flow of credit. Second, the Federal Reserve conveniently has the power to act under "unusual and exigent circumstances" to use its balance sheet to facilitate this type of action. Thus, it was easier within the US political system to go to the central bank, where the money is, than in some other countries

Main strategies to face the crisis

- ADVANCING STRUCTURAL REPAIR

At least five types of action with progressive levels of intrusion in the operations of financial institutions have been employed.

- Guarantees of the liabilities (other than deposits) of certain types of financial institutions, generally banks but, for example in the United States, money market mutual funds as well. The use of this type of action has been widespread;
- Capital injections. They have been employed in many countries, but with different conditions attached depending on the jurisdiction and the circumstances of the institutions;
- Programs to deal with legacy, or toxic, assets by moving those assets off of the balance sheets of institutions or by isolating them on balance sheets;
- Takeover of a financial institution (or of group of institutions) either de jure or through a process that does not involve formal nationalization but amounts to substantial governmental control;
- Institutions have been forced into mergers or into bankruptcy. These two events differ in many respects but they have a common structural characteristic: The institution disappears.

Other important measures

- Multilateral coordination of the national stimulus programmes
 - Fiscal stimulus (up to 2% of the GDP) (need to coordinate)
 - it will probably be much too small unless all major countries contribute to it;
 - It would then be unbalanced geographically and lead to a renewal (or even further increase) in the global imbalances (US deficit, Chinese and Japanese surpluses) that helped bring on the crisis in the first place;
 - "free riding" by nonparticipants will be widely perceived elsewhere as unfair and add to the risk of protectionist trade reactions (see below)
 - Widespread participation will reduce the risk that any individual country will be penalized by the markets for adding temporarily to its fiscal deficit.

Other important measures

- Avoiding protectionism
 - “legal” protectionism (trade defense measures)
 - increased import barriers, higher export subsidies, domestic subsidies (e.g., for automobile industries) that discriminate against foreigners, strictures on international lending (e.g., complaints that financial institutions receiving government support have made new loans to foreigners), and other measures that have similar effects;

Other important measures

- Mobilizing resources for developing countries (IMF)
 - liquidity with little or no conditionality to developing countries that have suffered sharp declines in exports or capital inflows due to the global slowdown rather than any policy errors of their own
 - it should resume creating Special Drawing Rights (SDRs)
 - increase its regular quotas to enable it to conduct its traditional, conditional lending programs on the much larger scale required by the current crisis
- International financial regulatory reform

What else?

– US challenges

- Without comprehensive healthcare reform, there is little prospect of convincing markets that the long-term growth in Federal debt is under control or of convincing businesses that the United States is the most competitive place for them to invest.
- Without financial regulatory reform, there is the risk that the next recovery will be distorted by asset market bubbles just as were the last several.
- Without an expanded and improved infrastructure, there is the risk of having growth constrained by lack of capacity and of bottlenecks that exacerbate inflationary pressures.
- Without comprehensive energy policies, the risk of vulnerability to the energy price gyrations that have caused so much economic pain in the past.

THANK YOU!

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