# International Outlook and Spillovers to the US Economy

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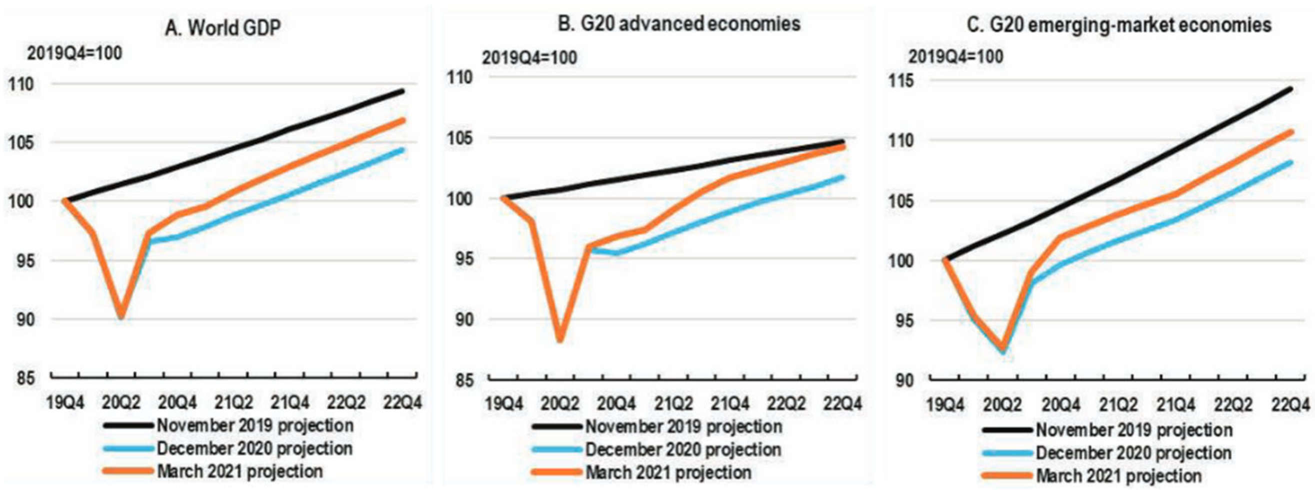
# International Outlook

- Upward revision to forecasts for growth in the US (driven by larger-than-expected fiscal stimulus package), and to a lesser extent, other AEs and EMs:




Note: The November 2019 OECD Economic Outlook projections are extended into 2022 using the November 2019 estimates of the potential output growth rate for each economy in 2021.
Source: OECD Economic Outlook database.

# Channels for International Spillovers

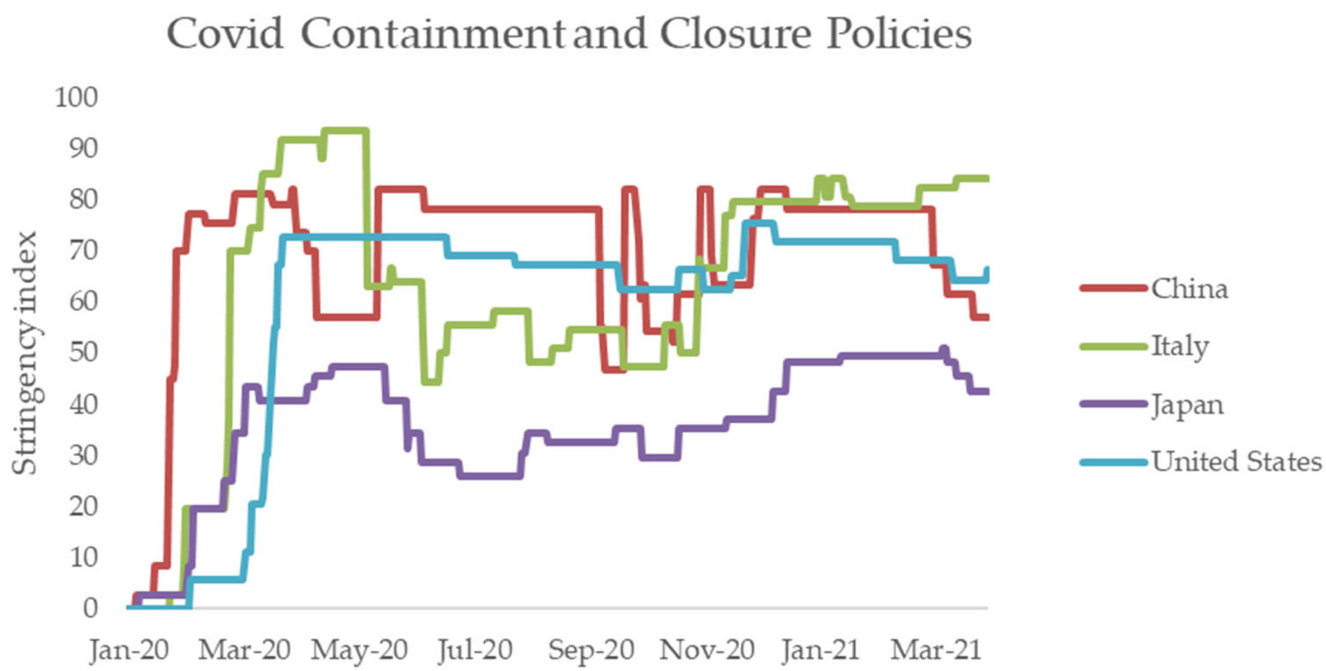
- Financial Market Linkages
  - financial intermediaries
  - equity and bond markets
  - capital flows
- Trade Linkages
  - global value chains

- Mediating Factors
  - fiscal/monetary policy mix
  - degree of exchange rate pass-through, crowding-out, manipulation
  - global economic slack
  - institutions (CB independence, financial regulation, foreign reserves)

# Drivers of Asynchronous Recovery

- Initial (pre-Covid) growth and business cycle conditions
- Lockdown timing
  - duration/stringency
  - impacts on domestic economic activity
- Scale of monetary and fiscal policy responses
- Impacts of trade/supply-chain disruptions
- Financial/capital flow volatility
- Reliance on tourism and high-contact service sectors

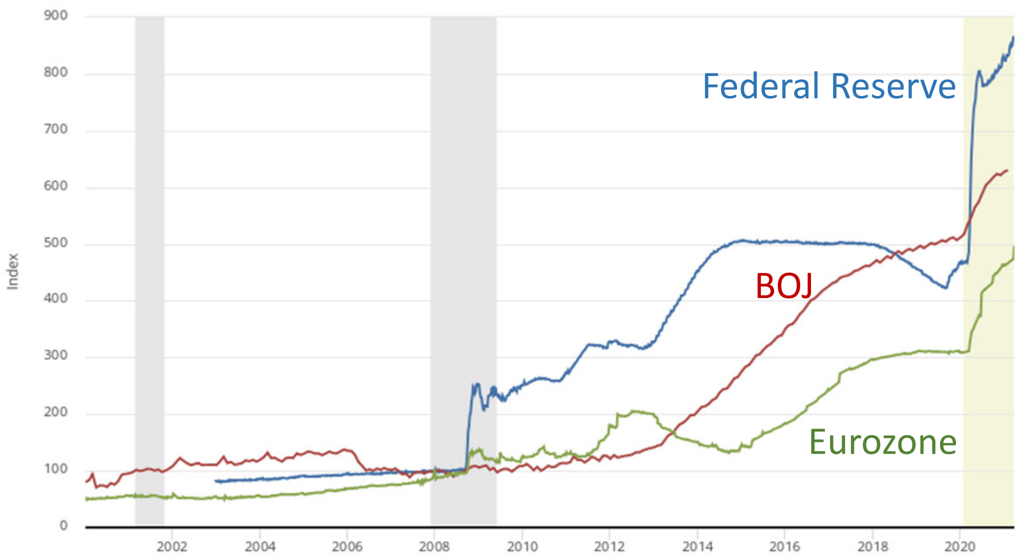
# Lockdown Timing and Stringency



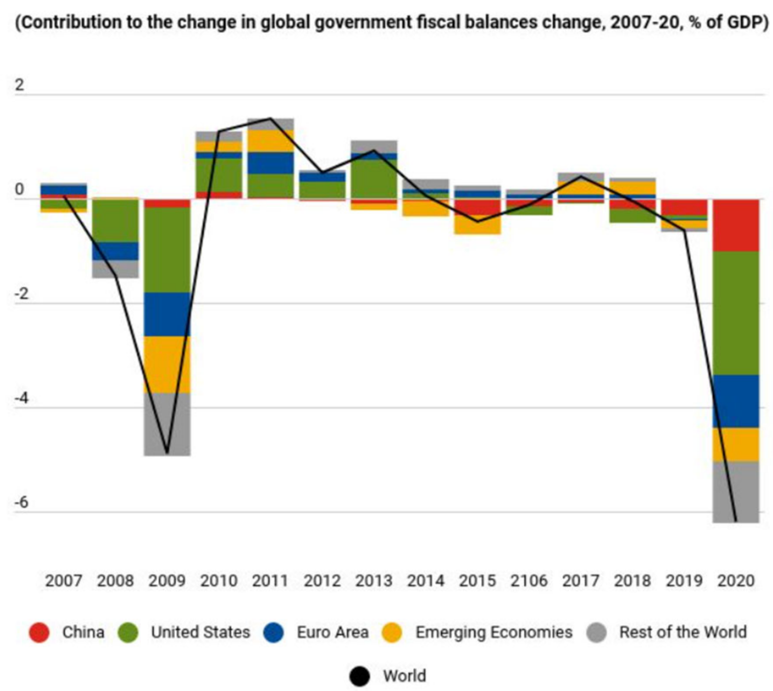

Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford.

# Monetary and Fiscal Policy Responses

- Scale of AE (and esp. US) central bank and fiscal authority expansion is unprecedented



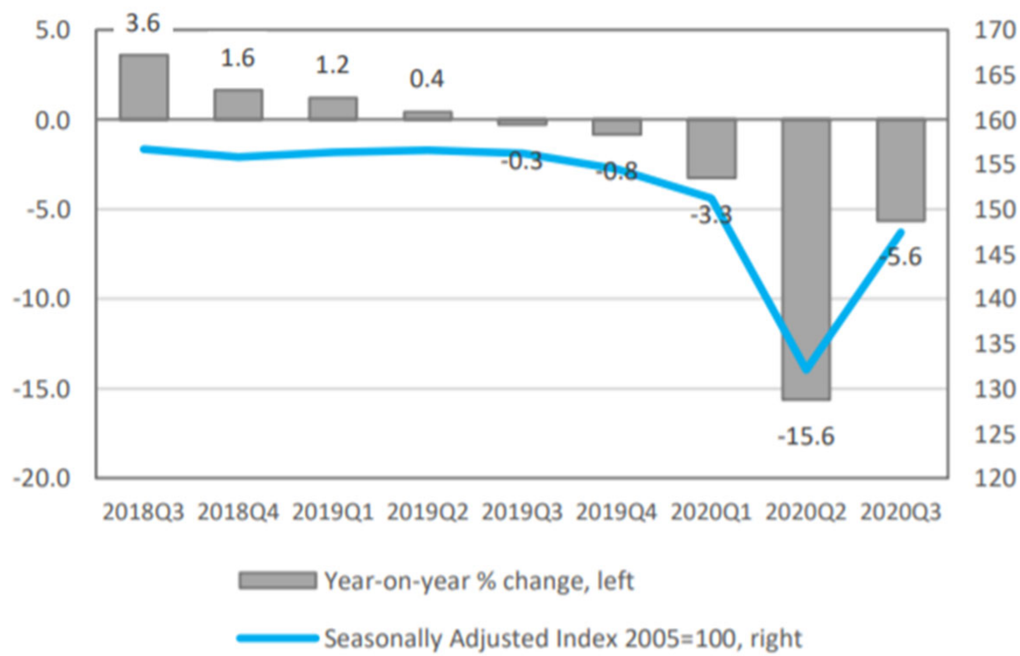

Sources: Board of Governor; BOJ, ECB




Source: IMF, WEO database

# World Merchandise Trade Volume

- Global activity indicators (industrial production, trade volume, manufacturing PMI) rebounding; 2021 trade outlook uncertain

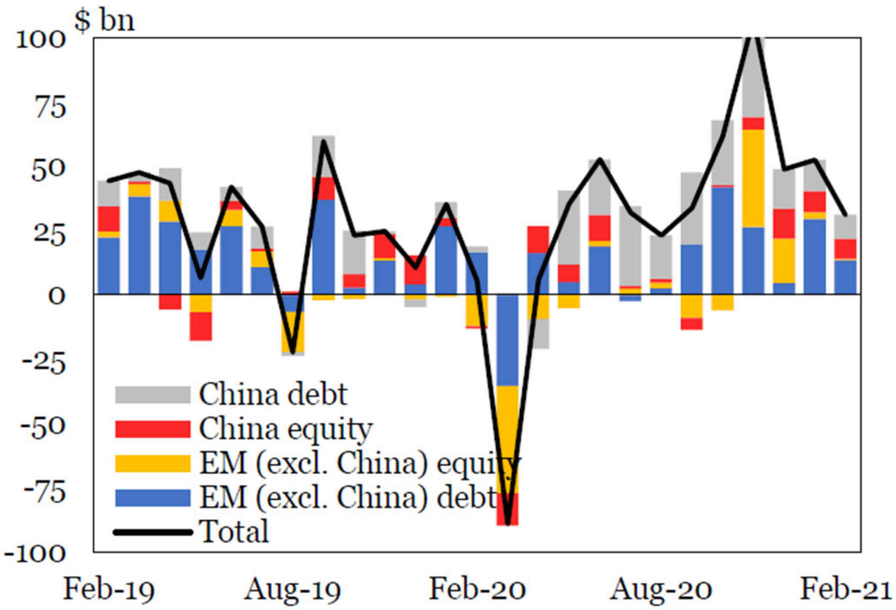



Source: WTO Secretariat

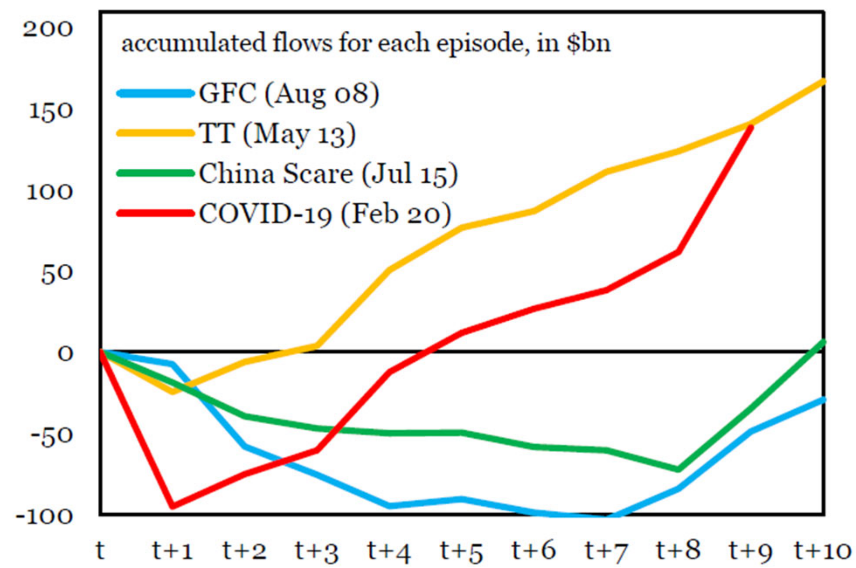
# Covid-related EM Capital Flows

- Capital flows to EMs rebounded; but rising US yields may increase risks of “taper tantrum” dynamics.

Non-Resident Portfolio Flows to EMs



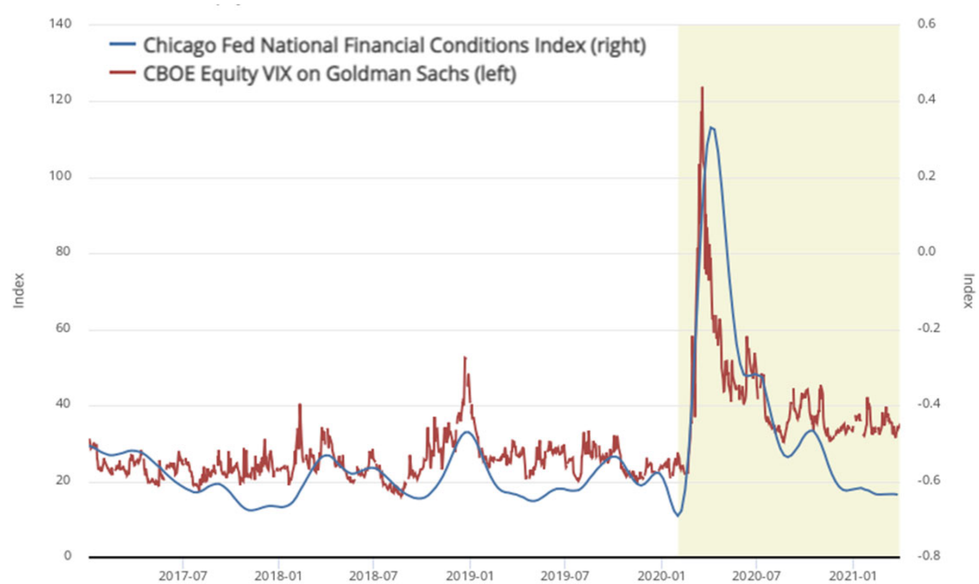

Comparing Capital Flow Episodes for EMs




Source: Institute of International Finance.

# Financial Conditions Indices

- Financial conditions tightened dramatically in March 2020, but have largely returned to pre-Covid levels




Sources: Chicago Fed; CBOE

# Risks to US Economy from Abroad

- Rising Leverage (esp. in EU and EMs)
  - firm bankruptcies/ zombie risks
  - government fiscal balances
- Trade and Currency War redux
  - USD appreciation
  - growing current account imbalances
  - balance sheet implications for EMs with USD debt
- EM “taper-tantrum” redux
- Global supply-chain disruptions (Ever Given redux)
- Premature post-Covid policy normalization