

International Dimensions of the Crisis and Policy Responses

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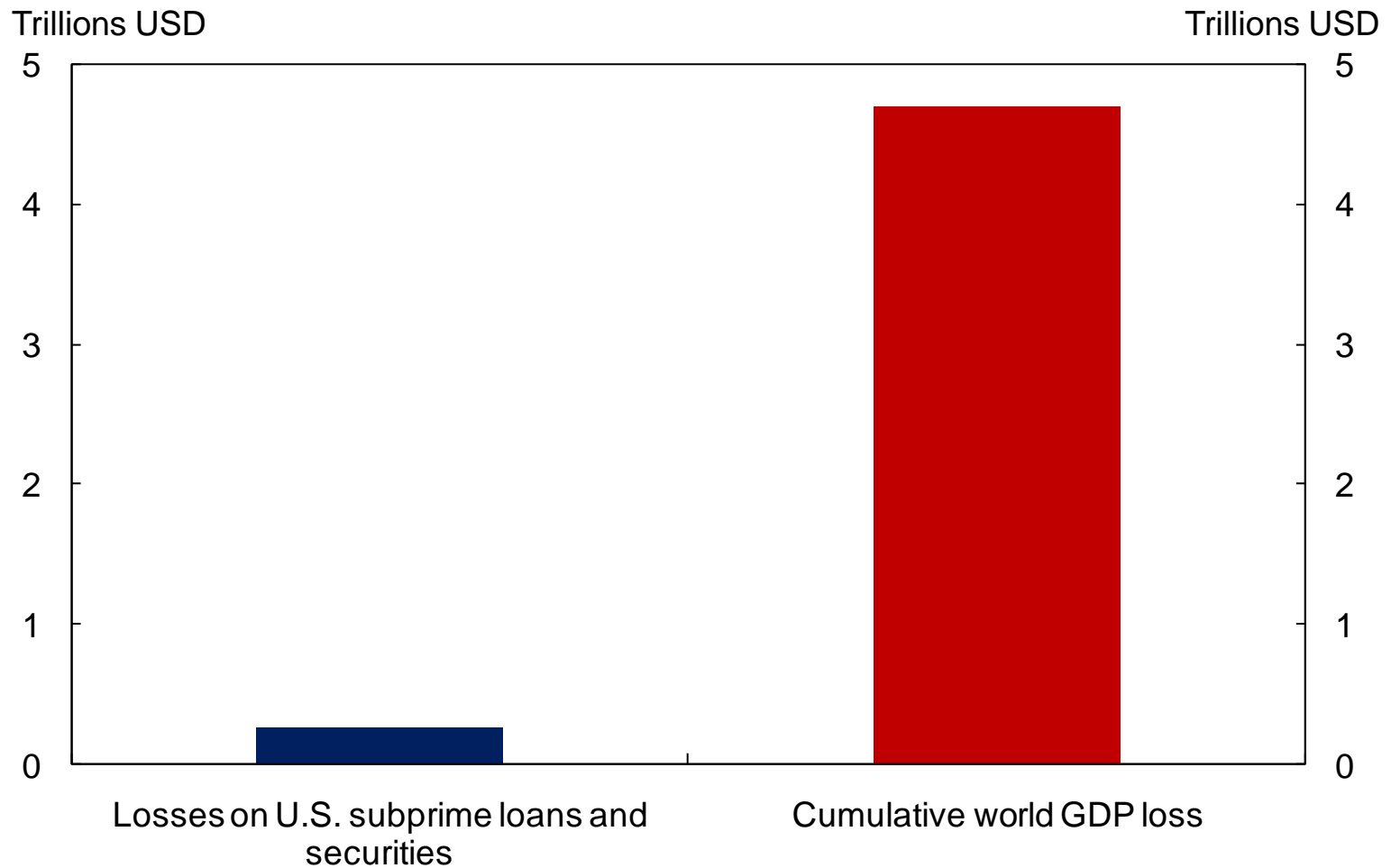
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Roadmap of presentation

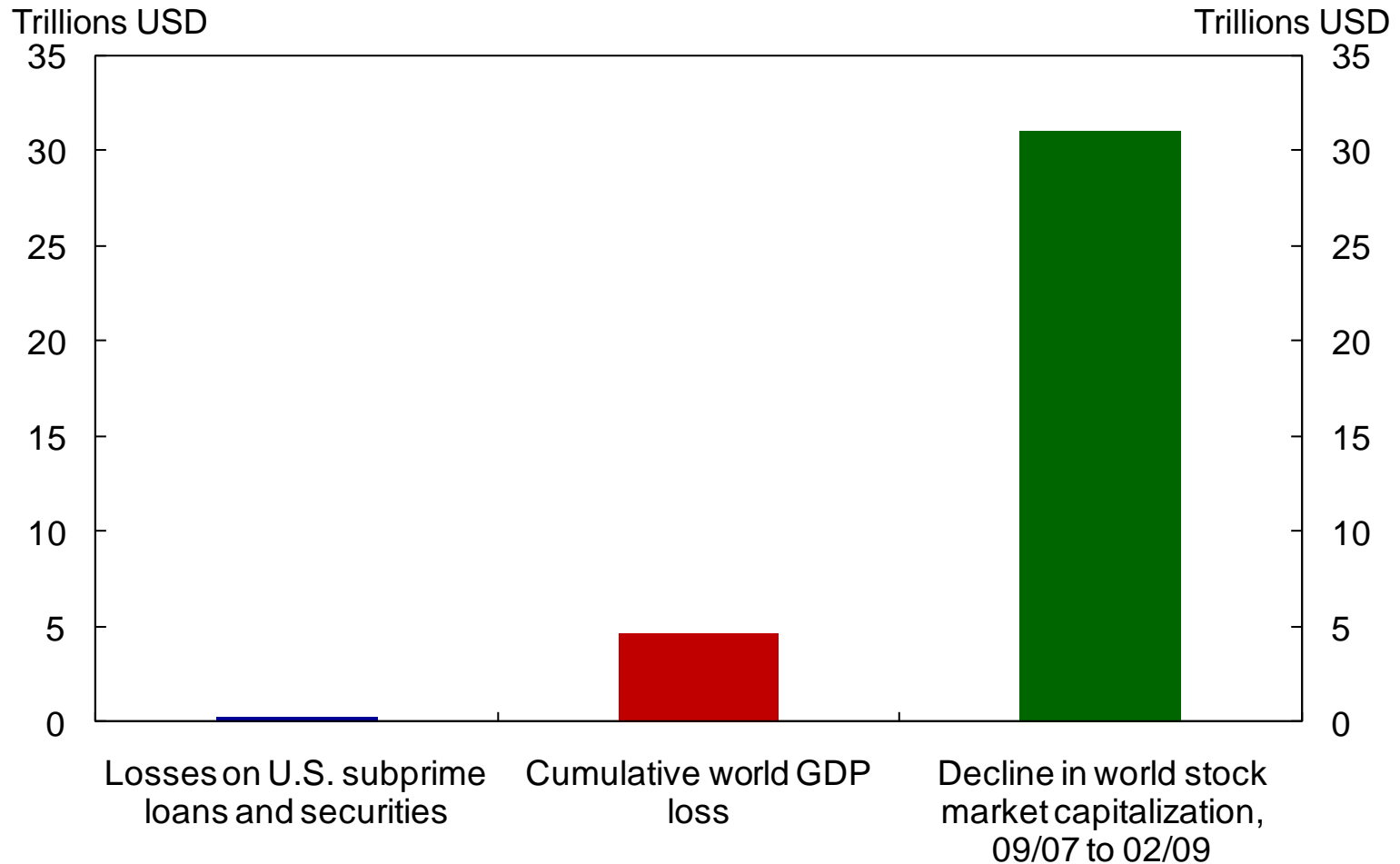
- Global contagion
- International trade collapse
- Policy responses
 - Conventional
 - Unconventional
- Measuring the impact of policy responses
 - Across programs
 - Across countries

A global domino effect...



Source: IMF Global Financial Stability Report and World Economic Outlook

...with devastating impact on capital markets



Source: IMF Global Financial Stability Report and World Economic Outlook, World Federation of Exchanges

Preconditions for global contagion

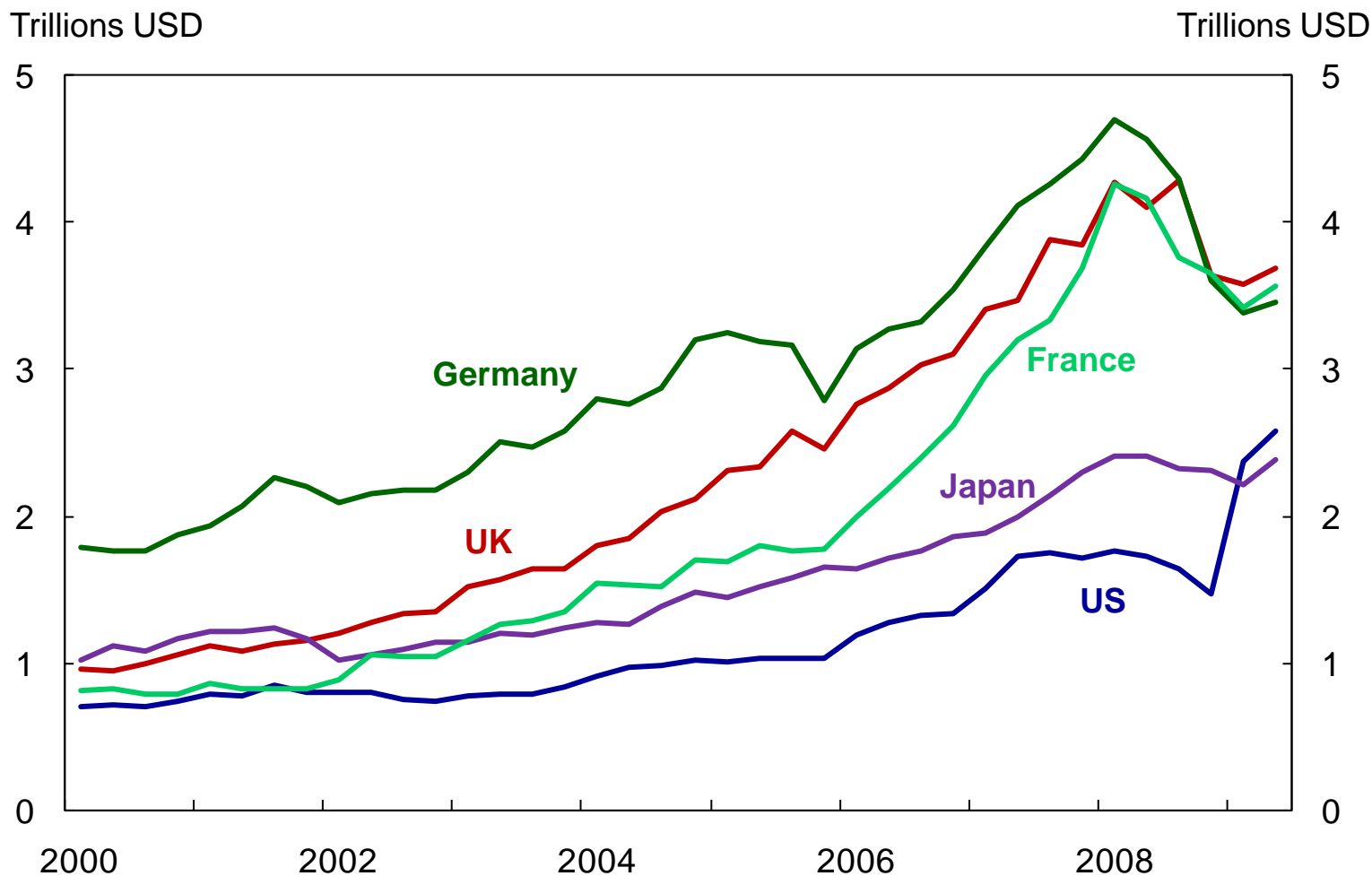
- Benign economic environment encourages excessive risk-taking
- High leverage
- What's in your wallet? Opacity of the securitization process impairs asset valuation
- Cross-border connectedness of financial institutions

High financial integration in the 2000s

- Cross-border flows from 5% of world GDP in 1998 to more than 17% in 2007
- By the end of 2007 cross-border assets and liabilities in advanced economies were more than 220% of aggregate GDP
- Ten years earlier, this ratio was only 110%
- Mostly banks

Increase in G5 banks' foreign exposure

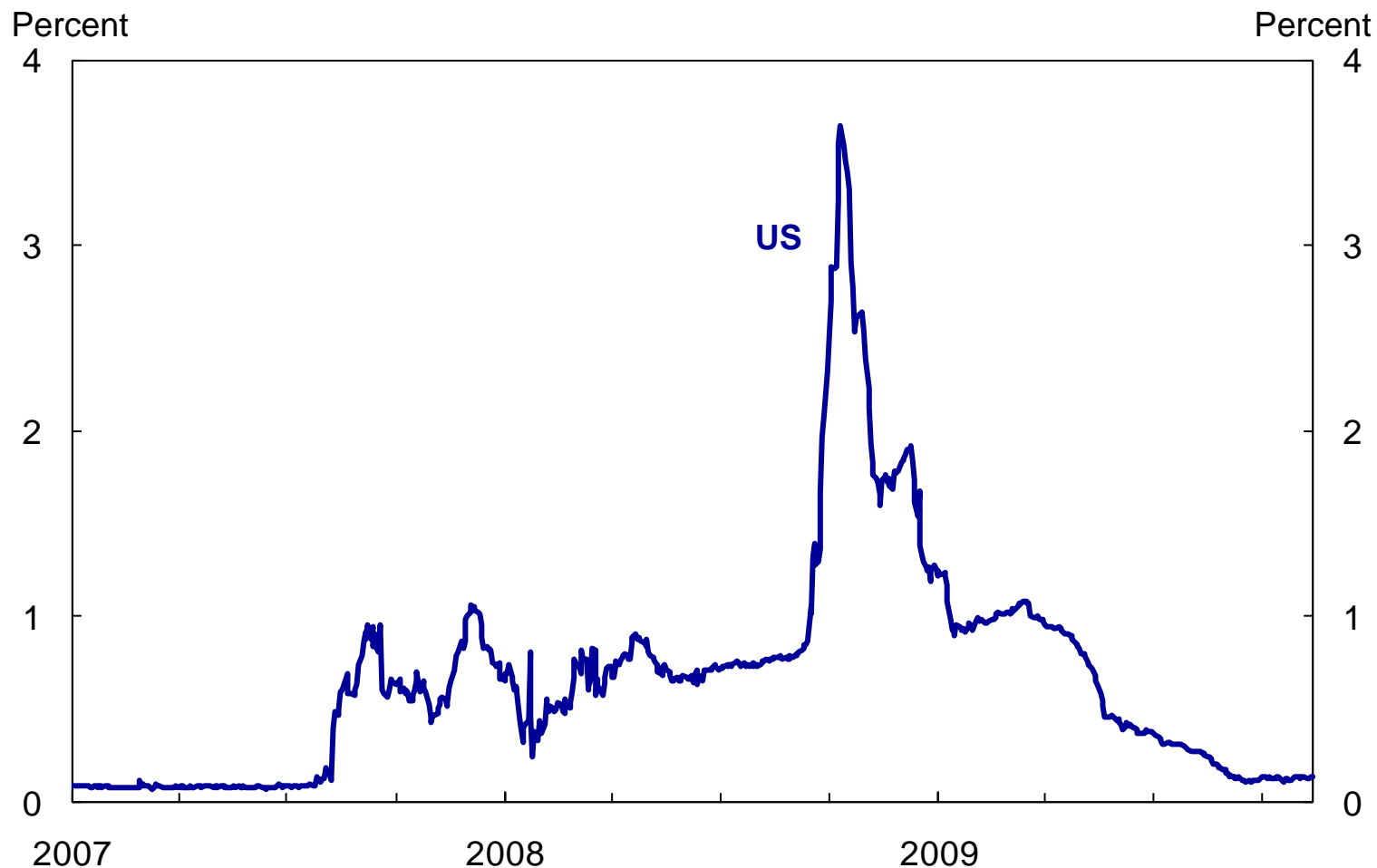
Financial Claims on Rest of World



Source: BIS Banking Statistics

Transmission of financial stress

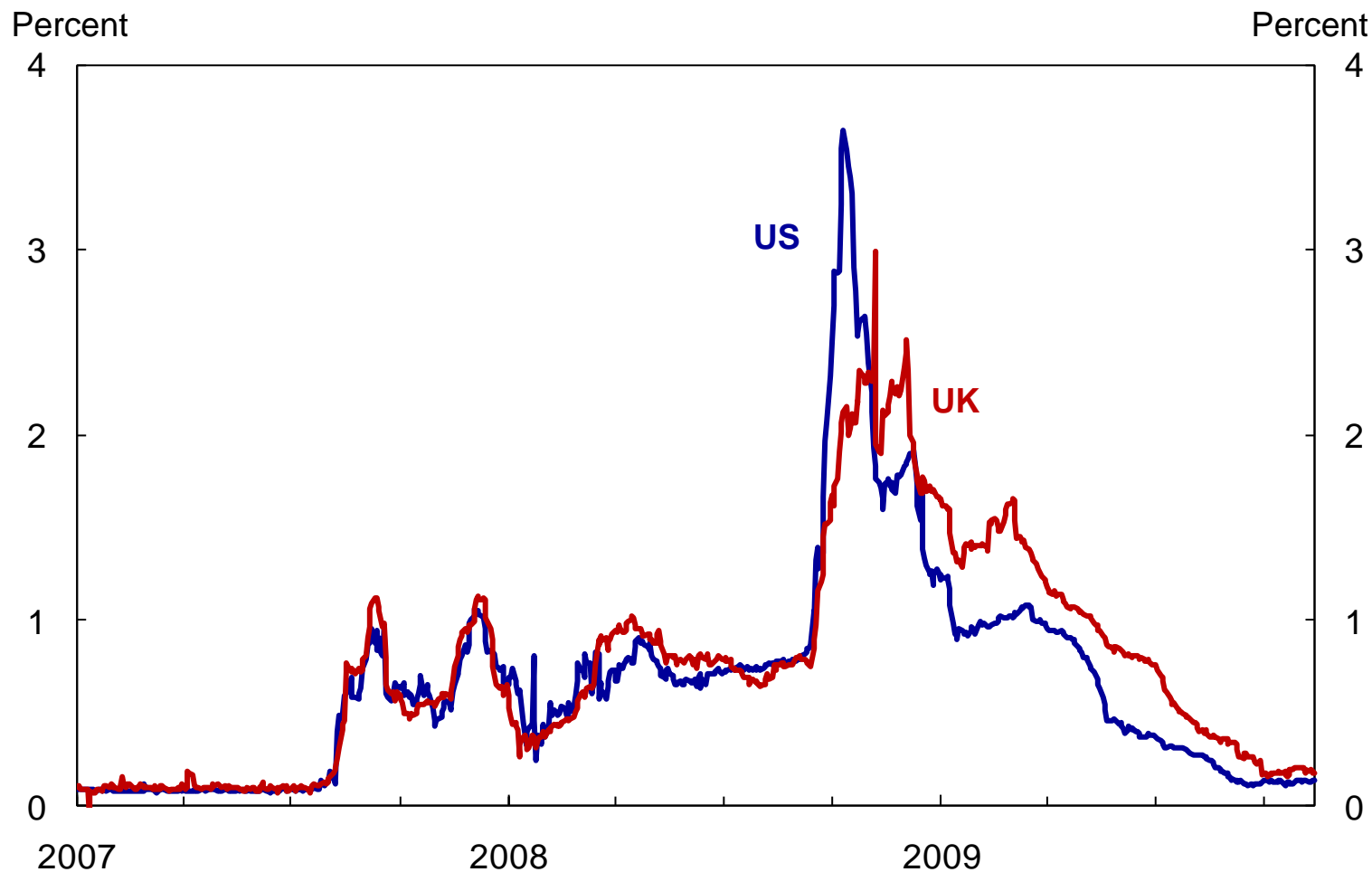
LIBOR-OIS spreads



Source: Bloomberg

Transmission of financial stress

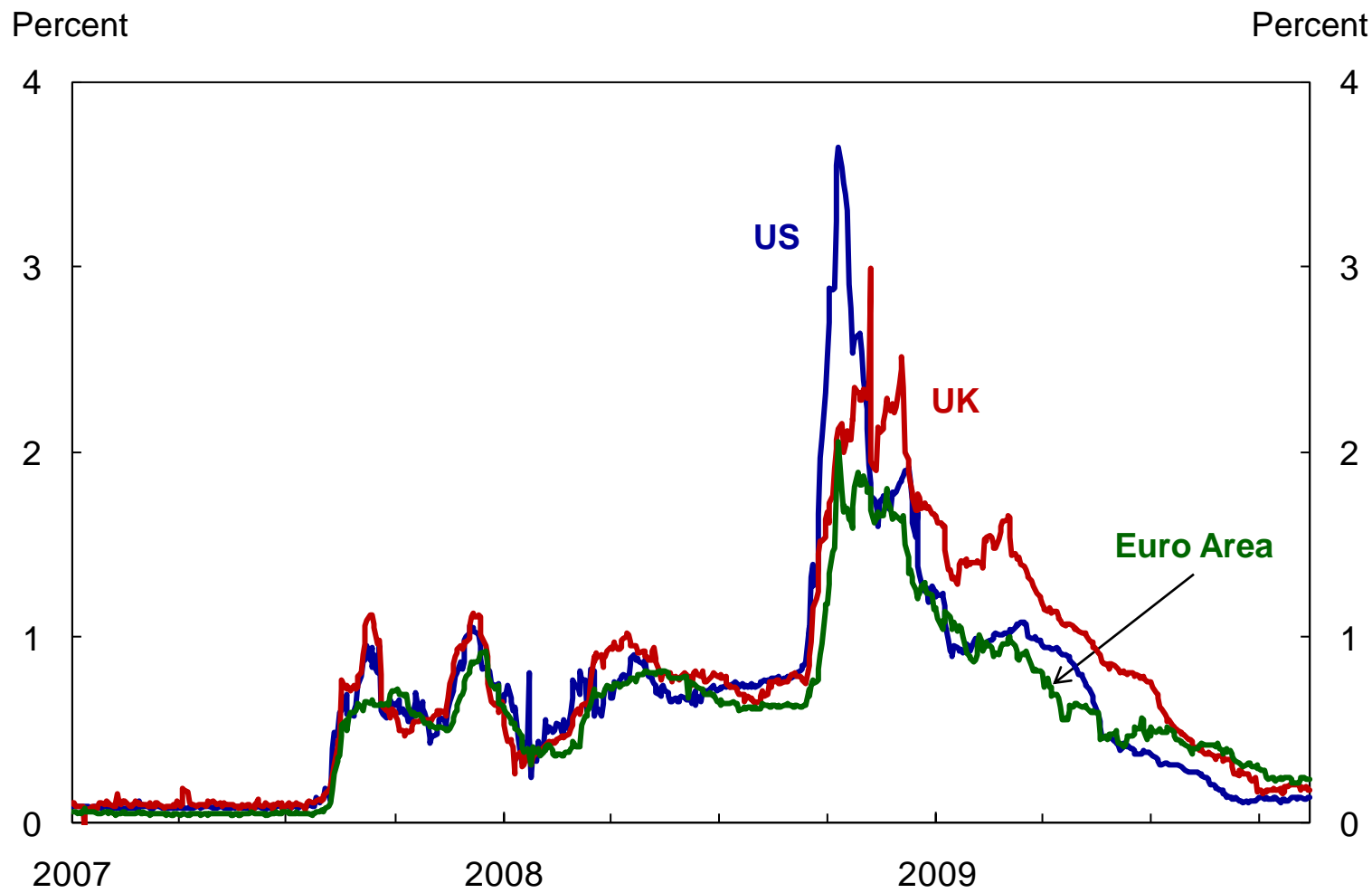
LIBOR-OIS spreads



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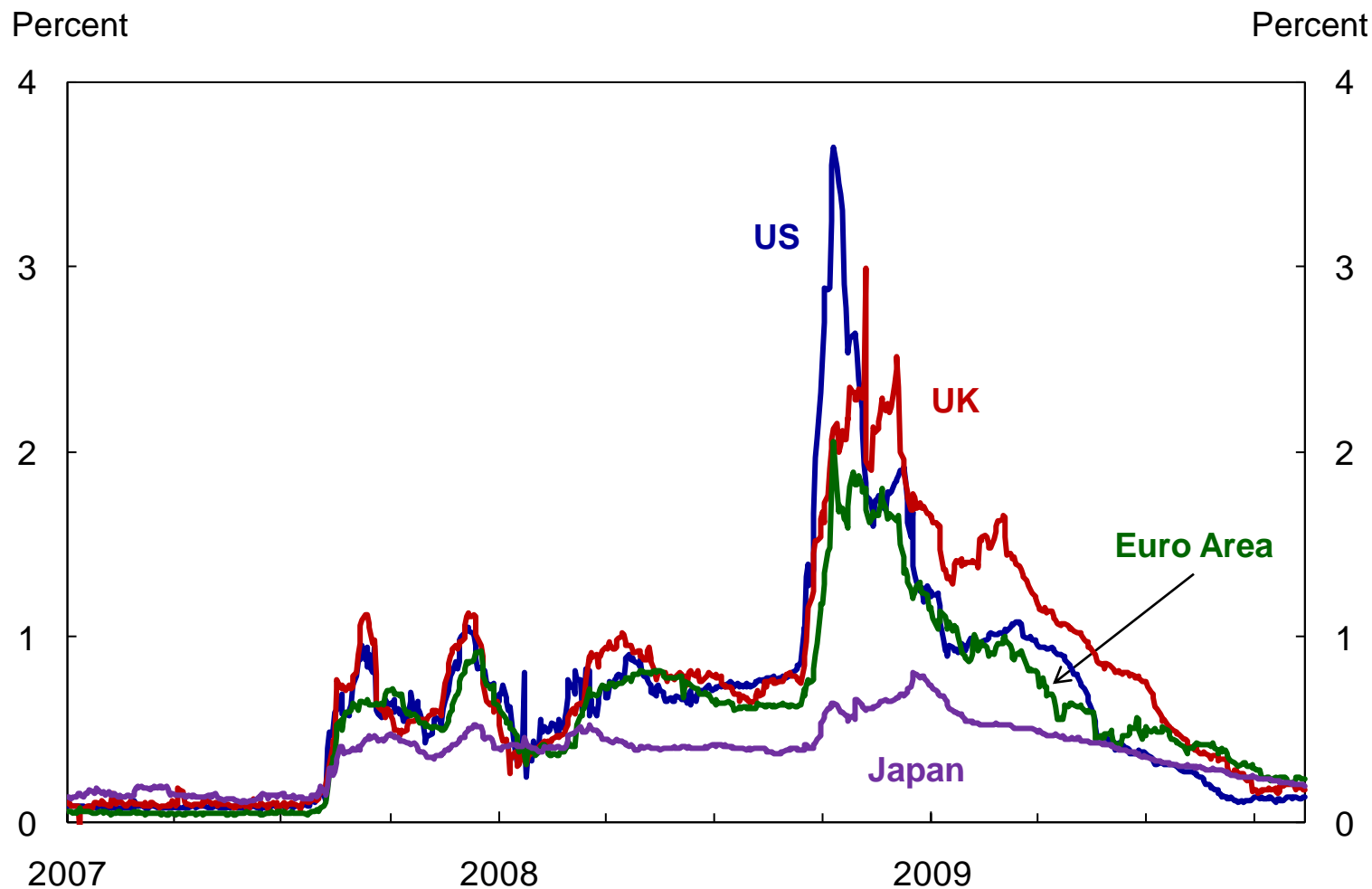
LIBOR-OIS spreads



Source: Bloomberg

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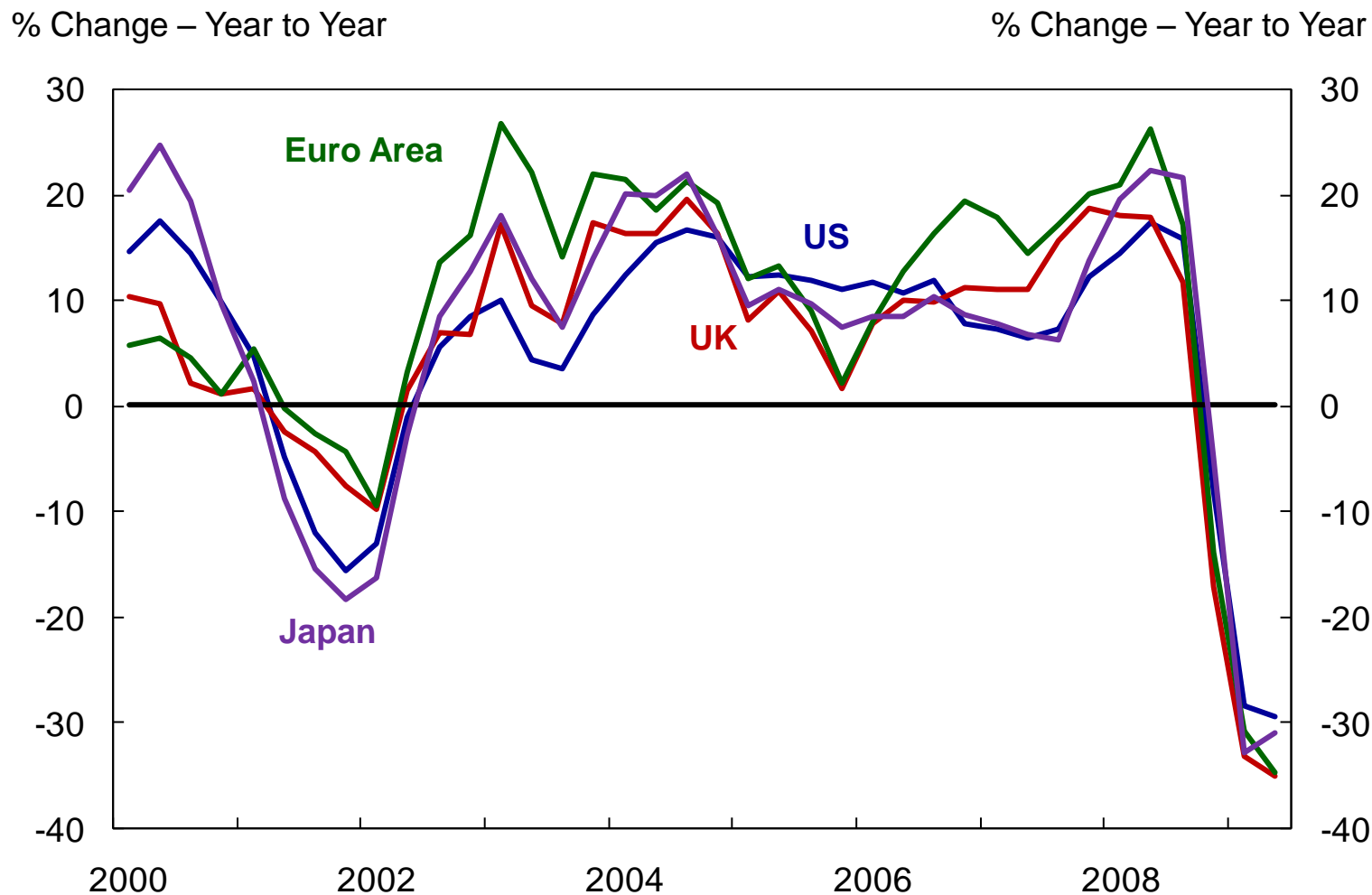
LIBOR-OIS spreads



Source: Bloomberg

Synchronized international trade collapse

Trade Volume

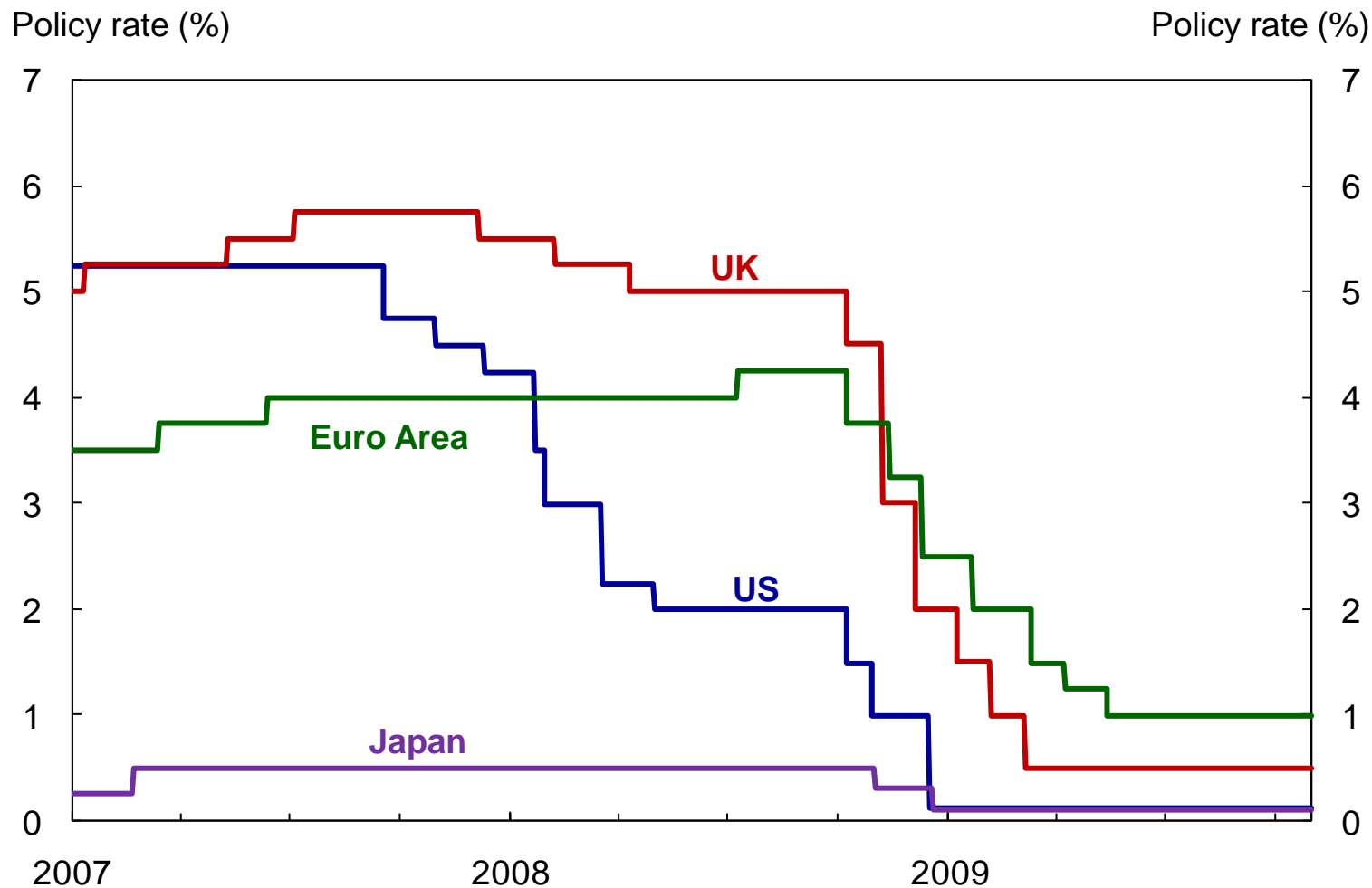


Source: IMF Direction of Trade Statistics

Response of global policy community

- Unprecedented policy responses to crisis, including conventional and unconventional monetary interventions, fiscal stimulus packages, new and expanded liquidity facilities...
- Preliminary evidence suggests international interventions have been effective
- Especially when they generated positive spillovers

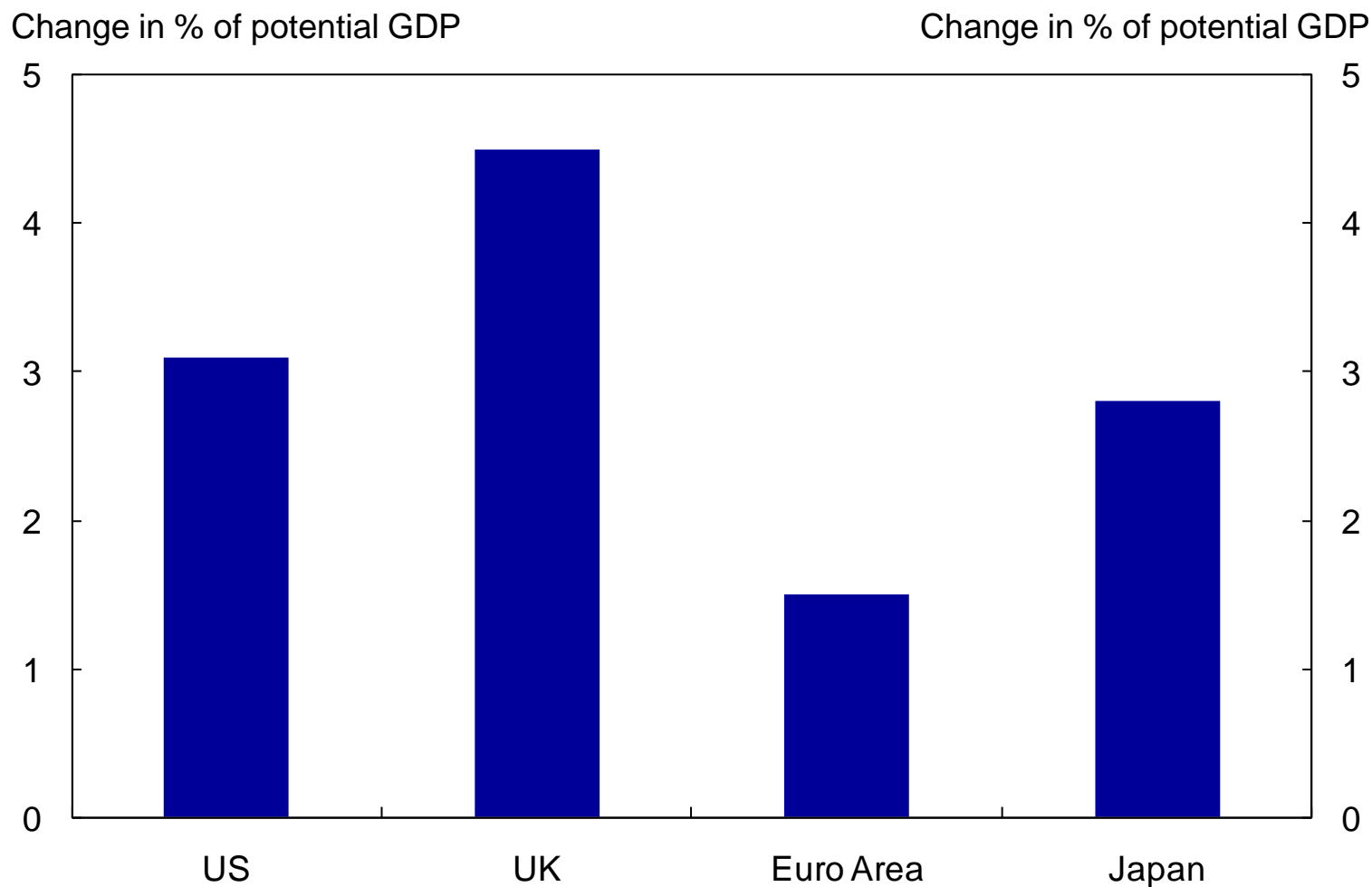
Coordination of policy rate cuts



Source: Central bank websites

No size fits all? Fiscal stimulus in 2009

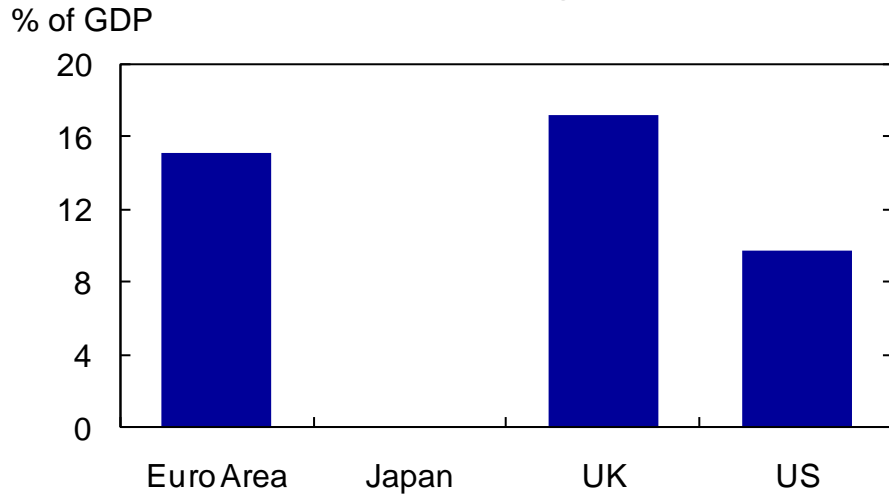
Cyclically-Adjusted Financial Balance



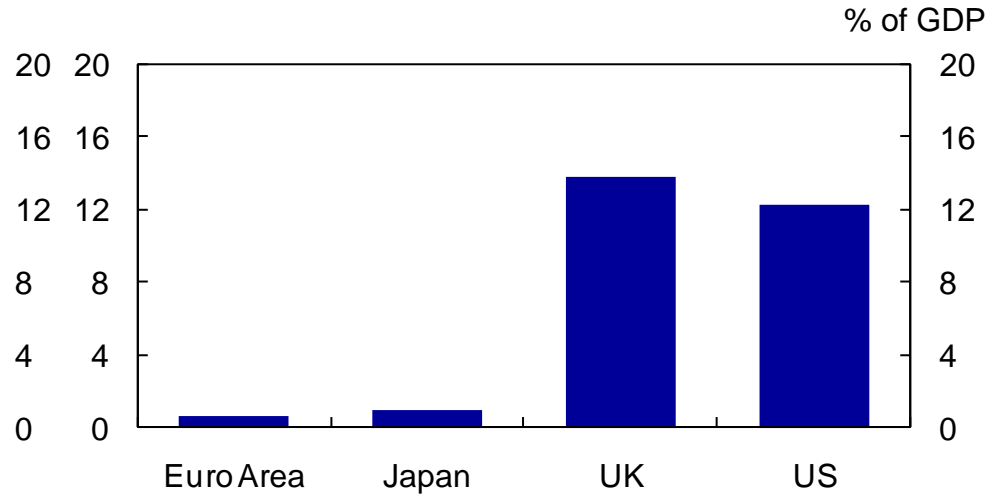
Source: OECD Economic Outlook

Asymmetries across policy interventions

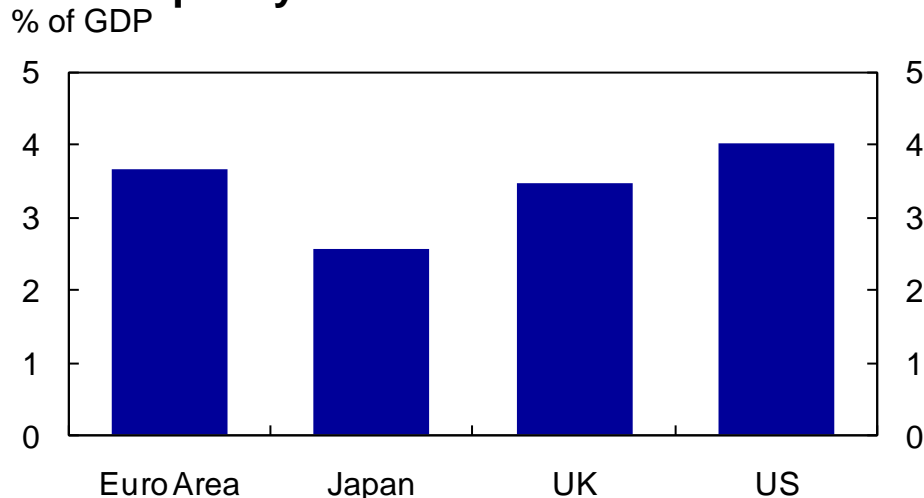
Wholesale Funding Guarantees



Unconventional Monetary Policy



Liquidity and Rescue Interventions



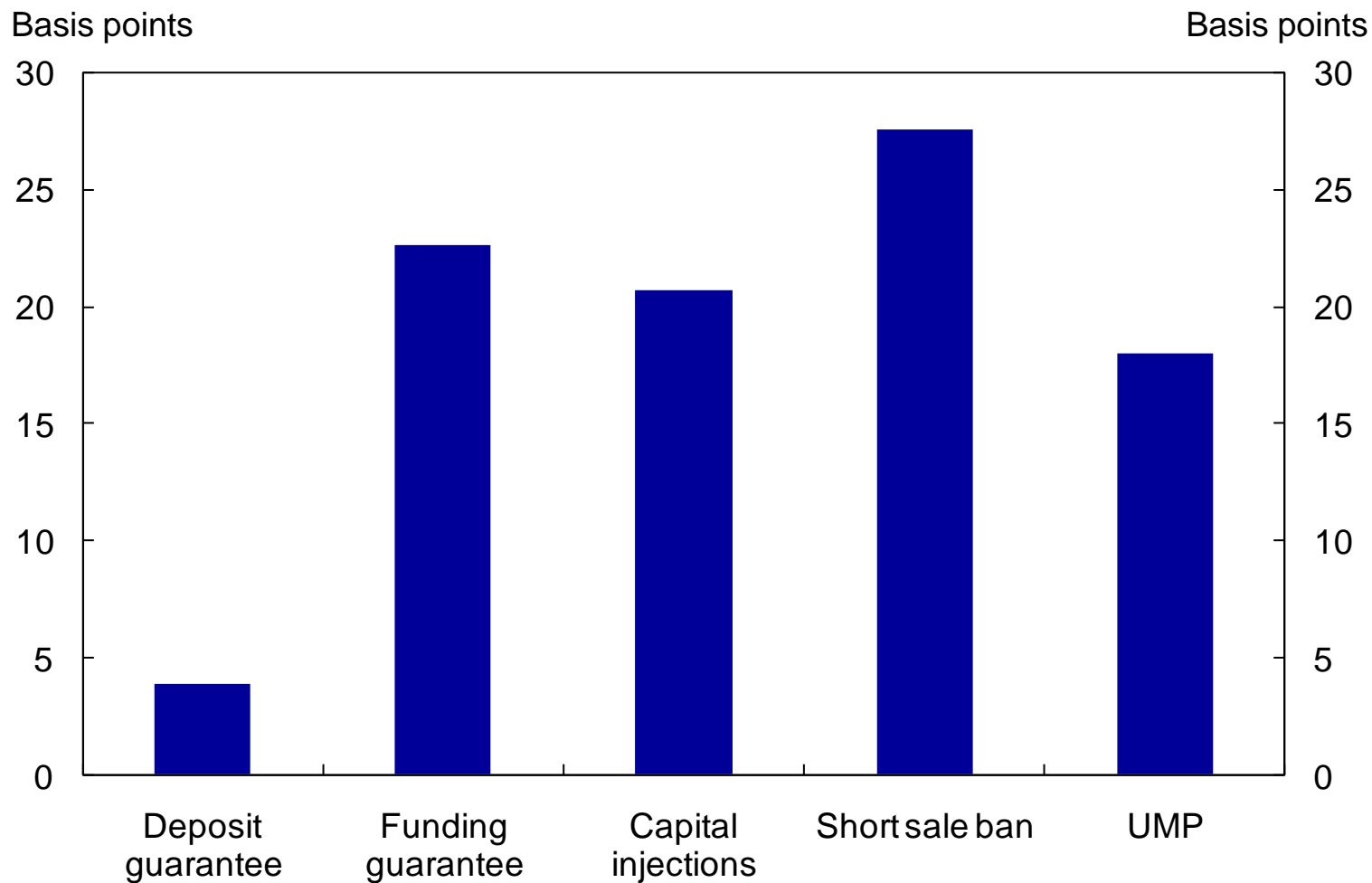
Source: Country sources

The impact of policy announcements...

- Dependent variable: change in credit default swap spreads and equity prices two days after the announcement.
- Announcement effects of policy interventions were substantial
 - 28 basis point decline in CDS spreads
 - 5 percent increase in equity prices

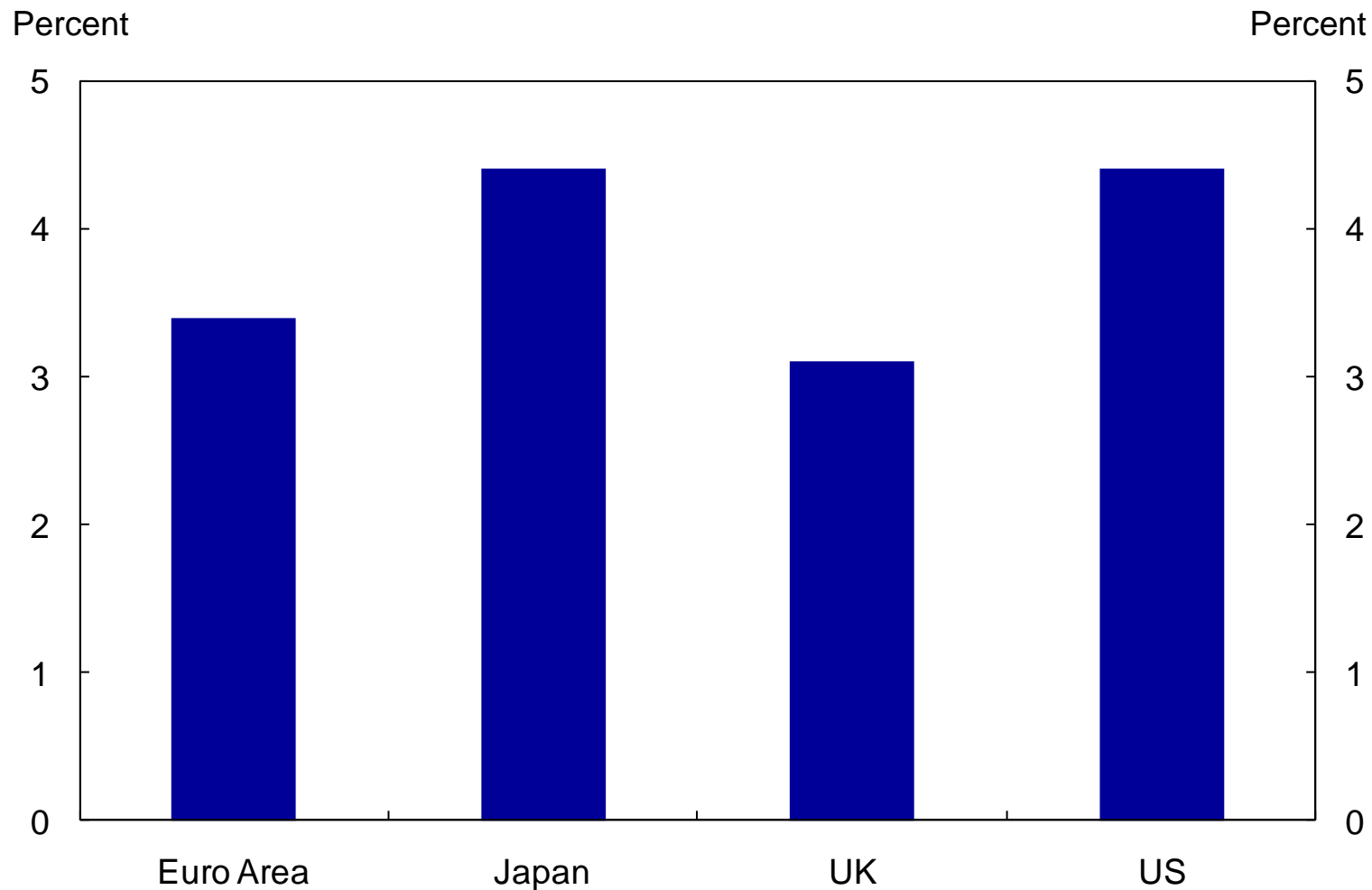
... across policy programs...

Reduction in Financial CDS Spreads



... and across countries

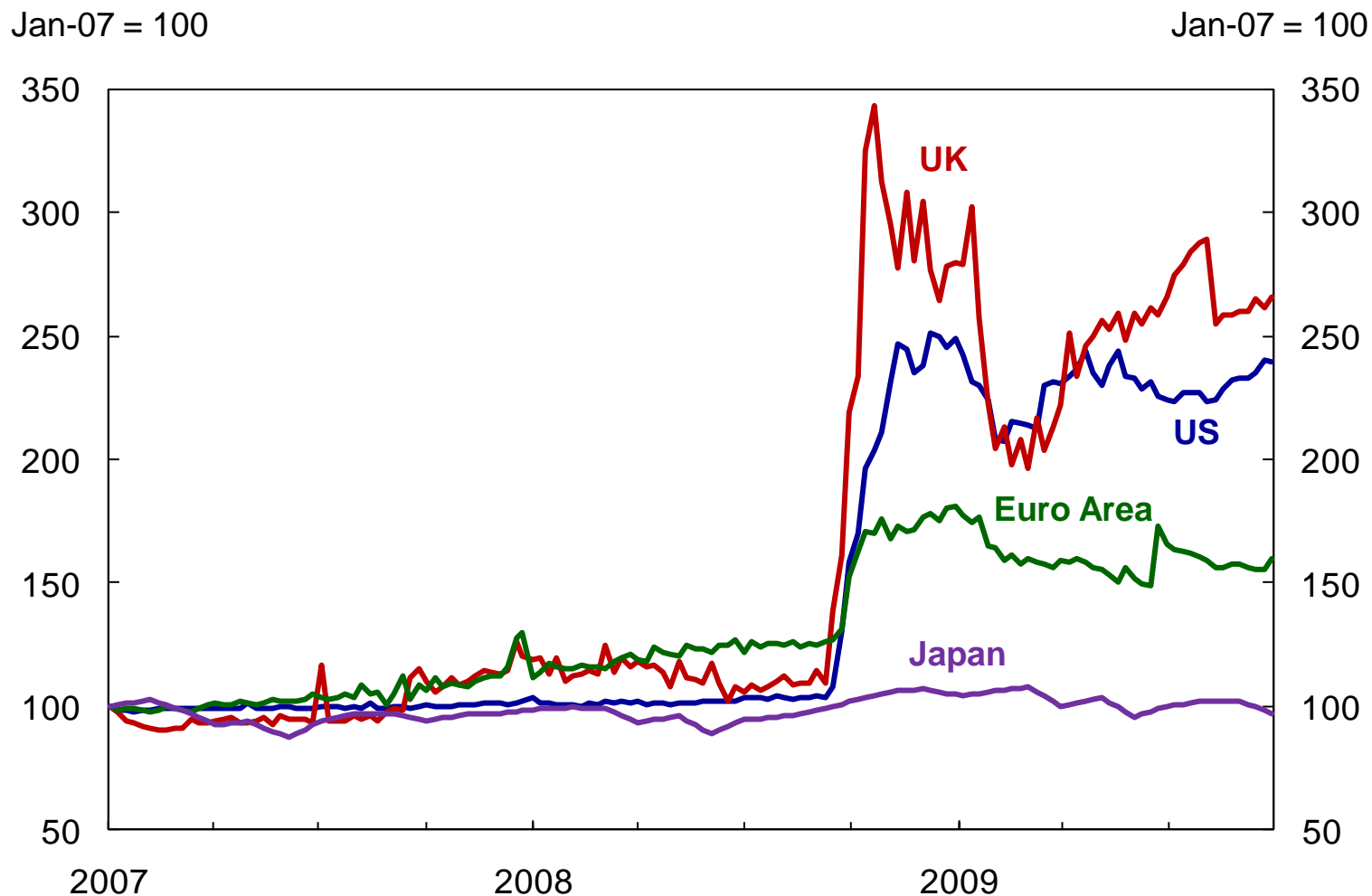
Increase in Financial Equity Prices



Spillover effects

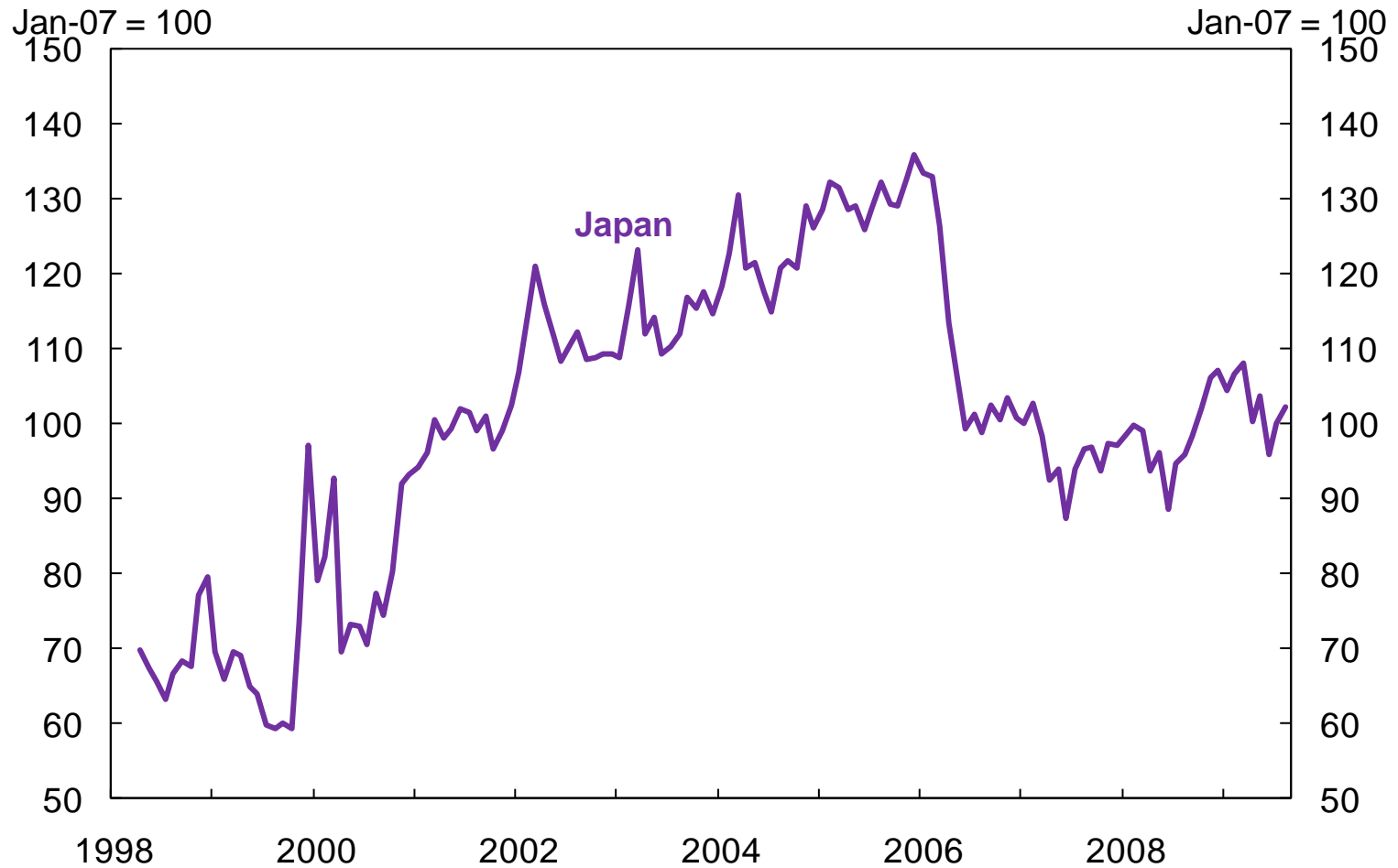
- Policy moves affected spreads abroad
 - Benefits from coordination
- IMF study finds significant spillover effects on Libor-OIS spreads after announcements of
 - Wholesale funding guarantees
 - Capital injections
 - Unconventional monetary policy

Central banks' balance sheets



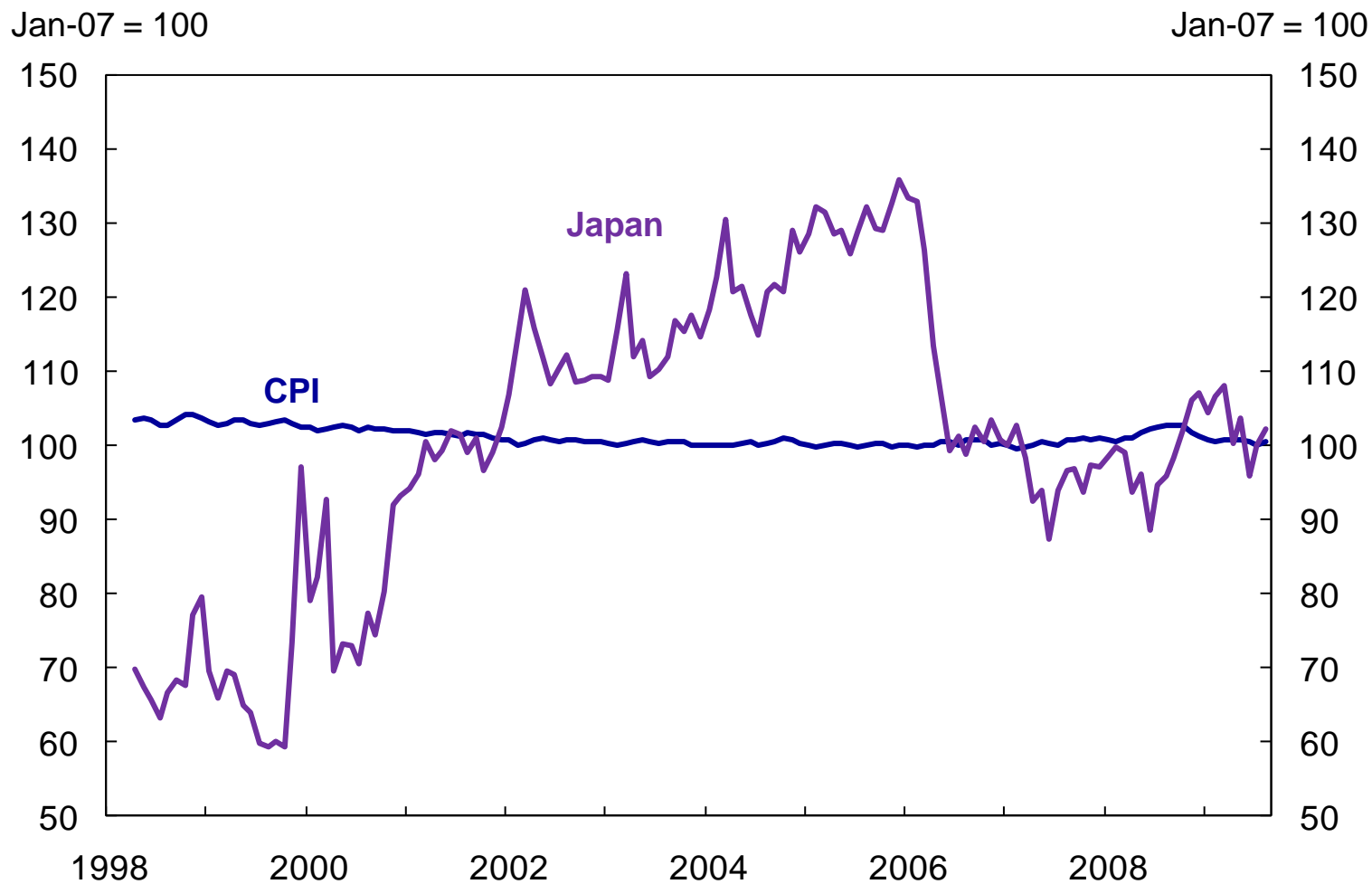
Source: Central bank websites

Japan's experience: quantitative easing...



Source: Bank of Japan

... and CPI deflation



Source: Bank of Japan, IMF International Financial Statistics

Questions for discussion

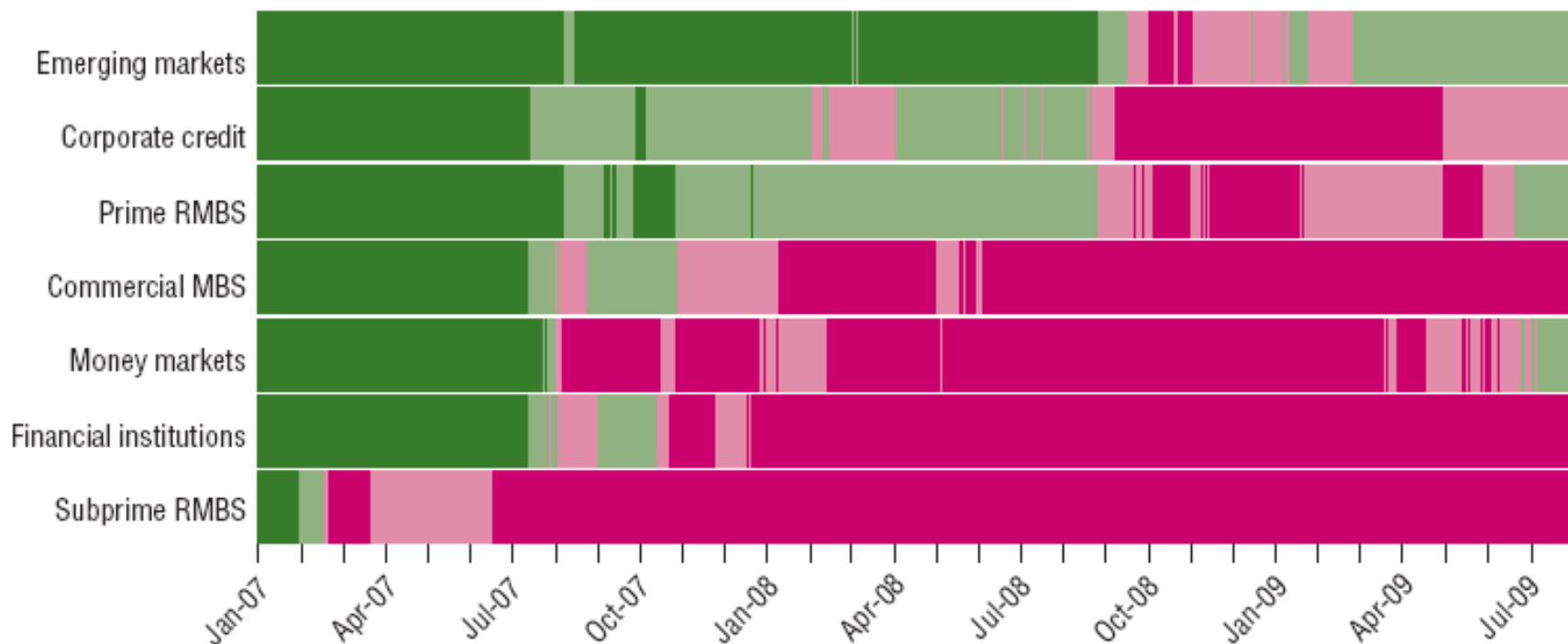
- Policy spillovers seem to matter. Should central banks coordinate the timing of the exit strategies with each other or can they rather act independently?
- High leverage fueled the global contagion. Are low interest rates creating new bubbles in asset and commodity prices?
- The U.S. trade deficit is lower than before, but we continue to borrow from foreign investors. Is this putting the dollar at risk? Or the crisis has made these concerns a feature of the past?

Reference Slides

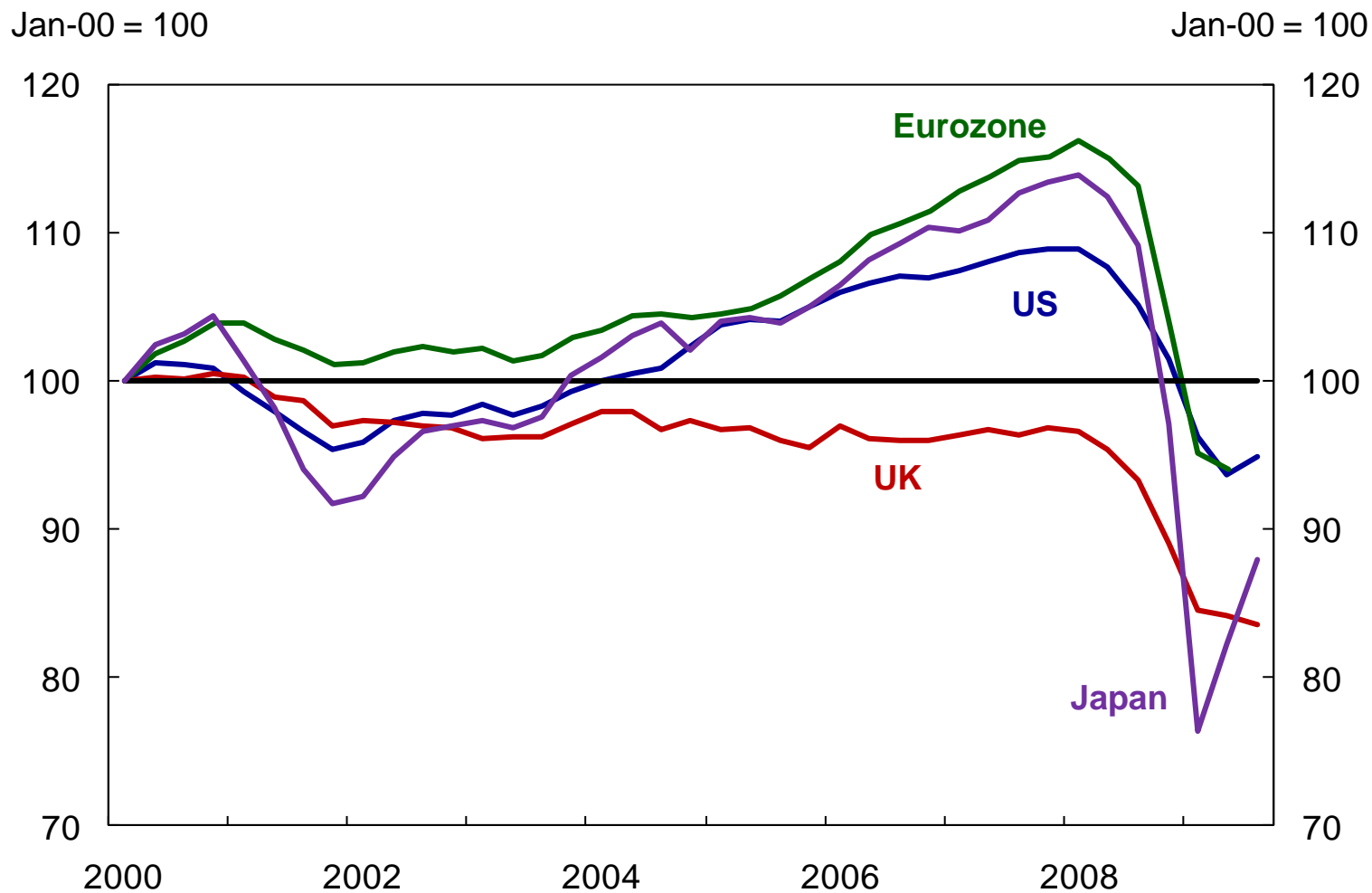
Did current account imbalances trigger the global domino?

- Not a key role
- World saving glut contributed to regime of low-interest rates
- But specific risks associated with global imbalances have not materialized (yet?)

Heat map: Contagion across assets and countries



Synchronized cyclical conditions: Industrial production

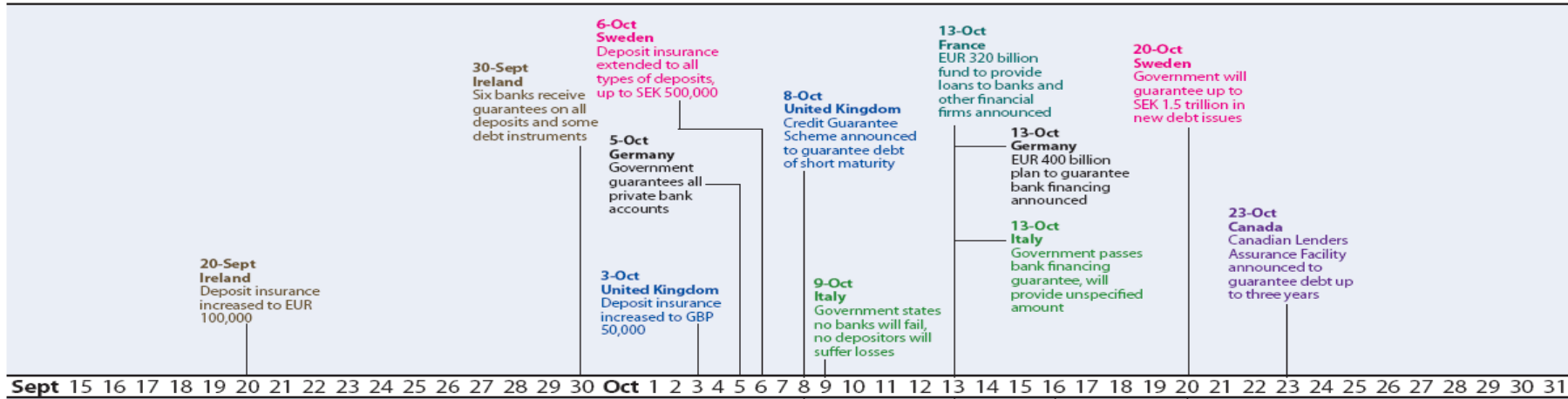


Source: OECD

Clustering of policy responses...

International Responses to the Crisis Timeline (Sept 2008 - Oct 2008)

Bank Liability Guarantees



Liquidity and Rescue Interventions



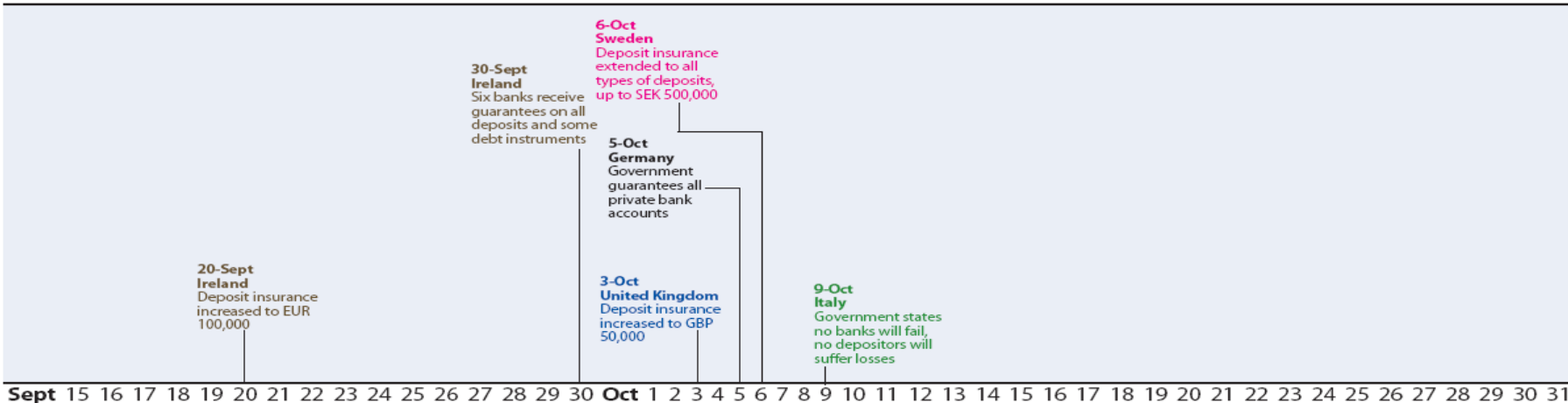
Other Market Interventions



Clustering of policy responses...

International Responses to the Crisis Timeline (Sept 2008 - Oct 2008)

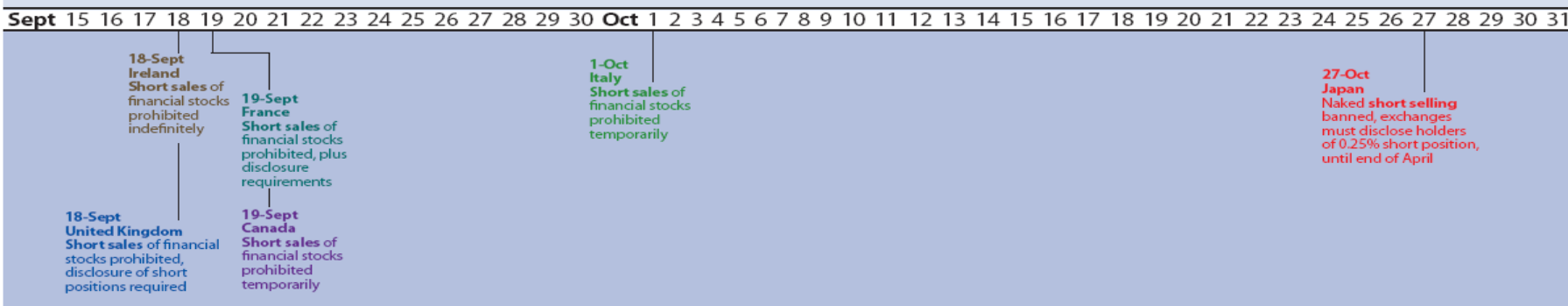
Bank Liability Guarantees



Liquidity and Rescue Interventions

DEPOSIT GUARANTEES

Other Market Interventions



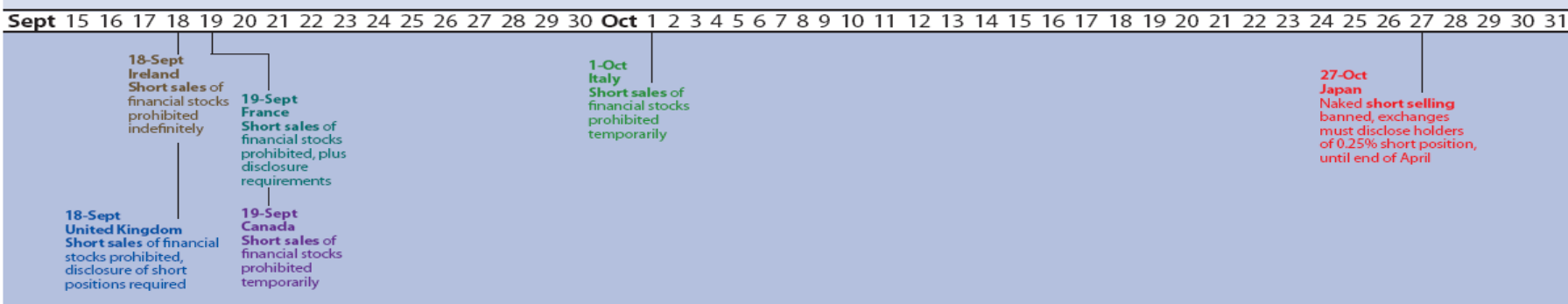
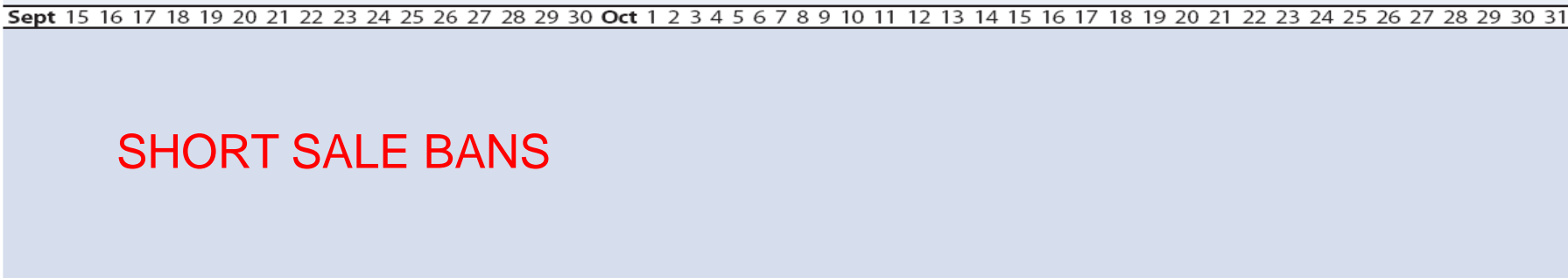
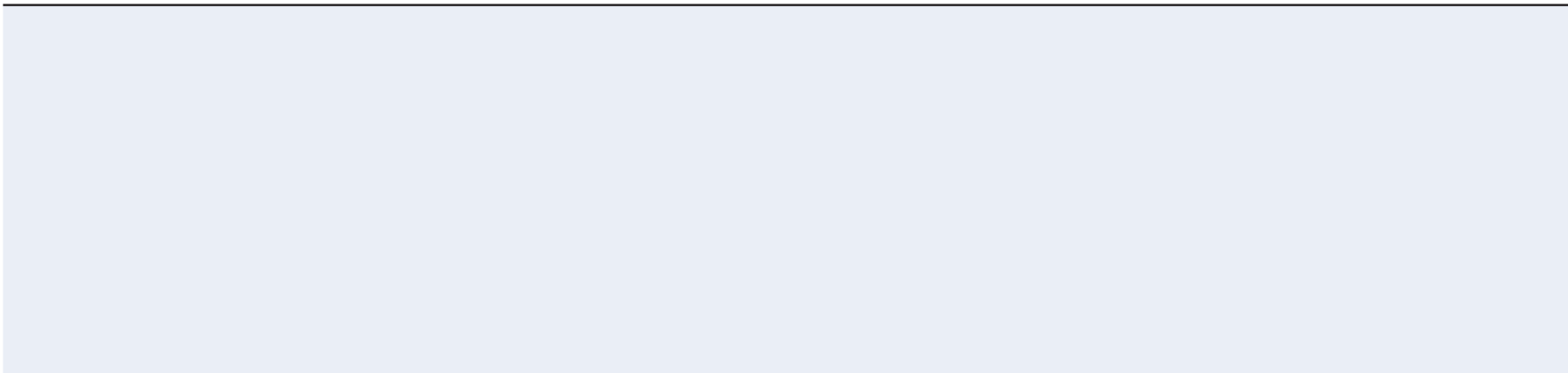
Clustering of policy responses...

International Responses to the Crisis Timeline (Sept 2008 - Oct 2008)

Bank Liability Guarantees

Liquidity and Rescue Interventions

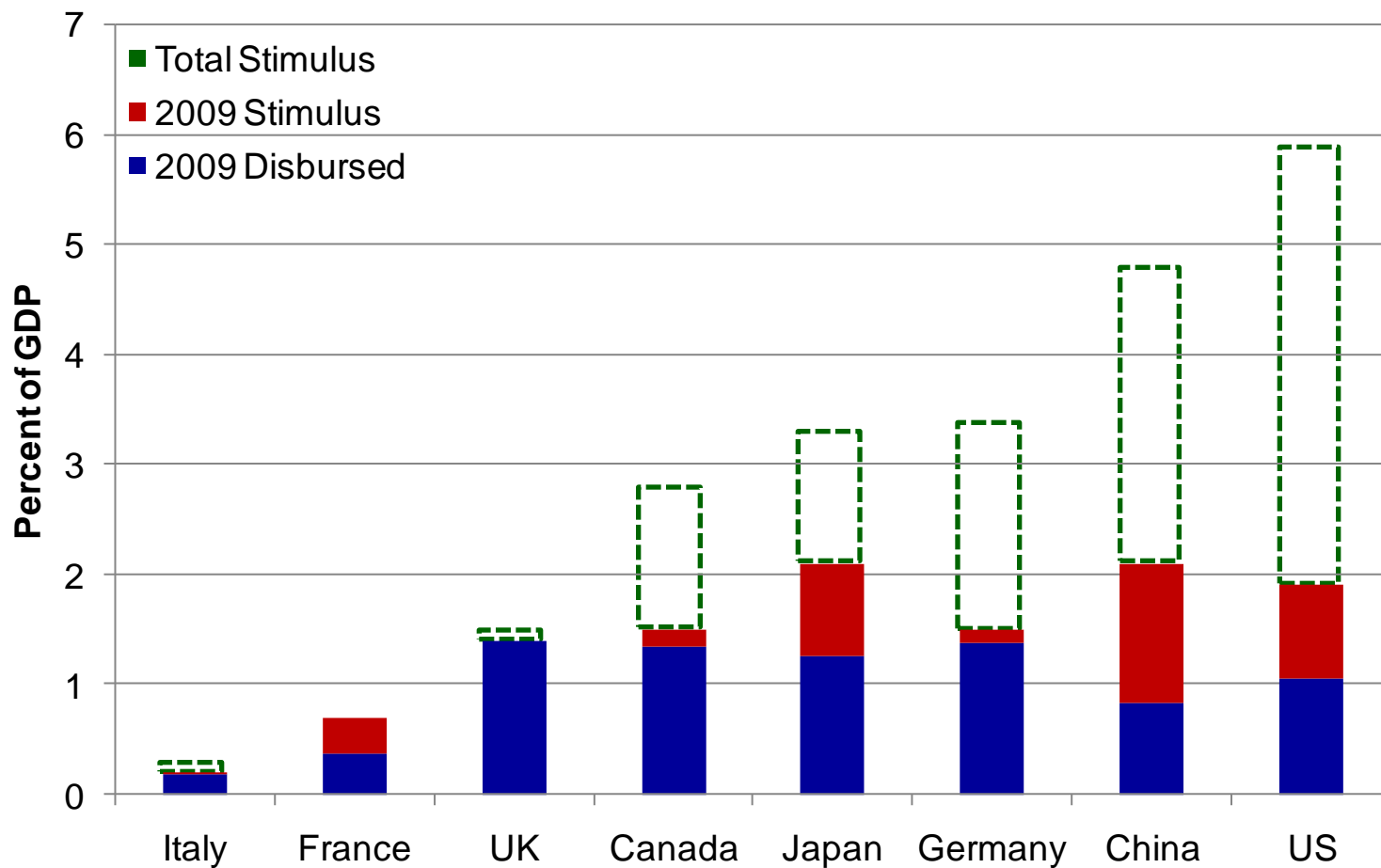
Other Market Interventions



G-20 fiscal stimulus

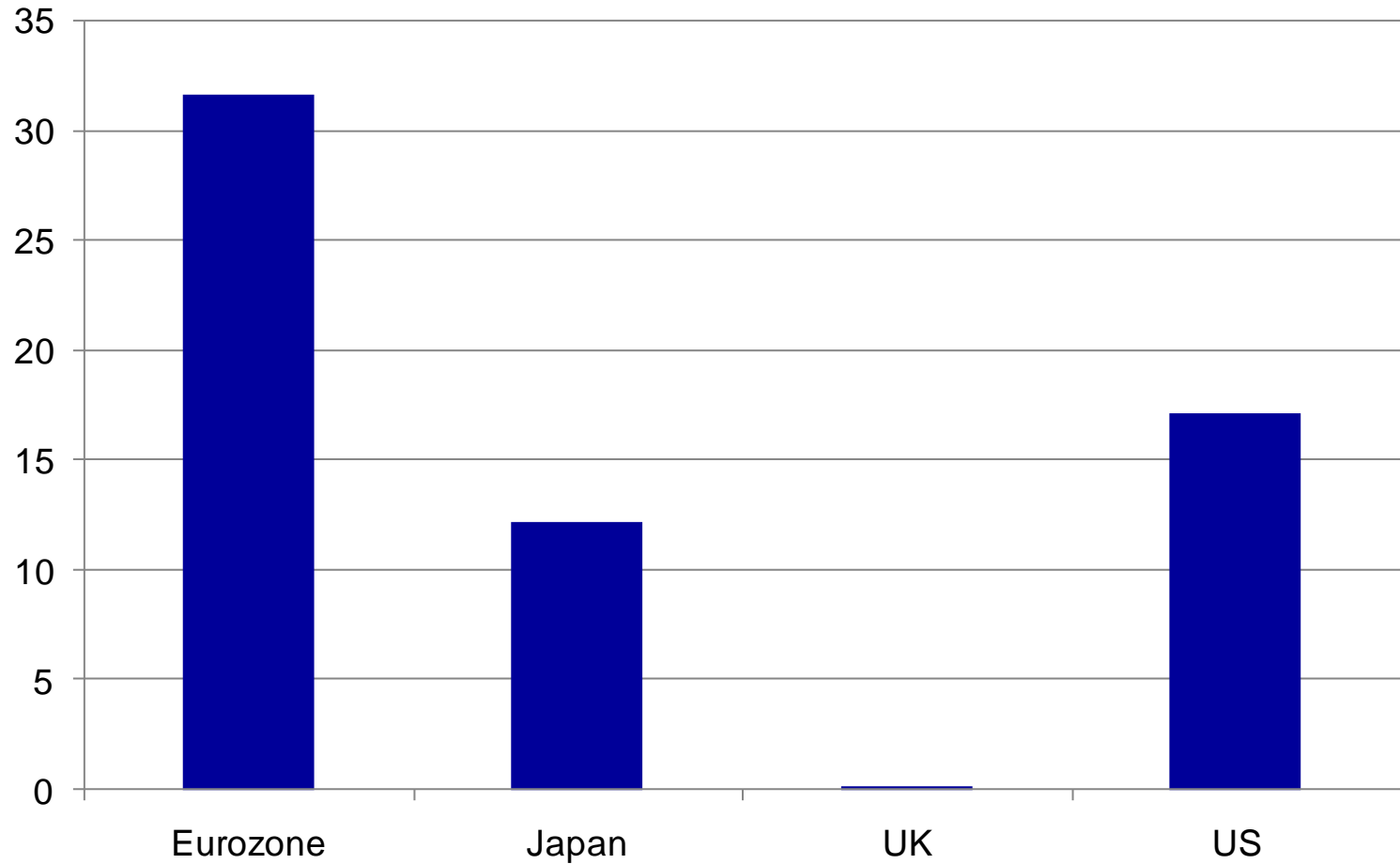
	Stimulus (USD bn)	As % of GDP
Argentina	4.4	1.3
Australia	19.3	1.8
Brazil	8.6	0.5
Canada	43.6	2.8
China	204.3	4.8
France	20.5	0.7
Germany	130.4	3.4
India	6.5	0.5
Indonesia	12.5	2.5
Italy	7.0	0.3
Japan	154.4	3.3
Korea	26.1	2.7
Mexico	11.4	1.0
Russia	30.0	1.7
Saudi Arabia	49.6	9.4
South Africa	7.9	2.6
Spain	75.3	4.5
Turkey	0.0	0.0
UK	40.8	1.5
US	841.2	5.9

Fiscal stimulus/GDP

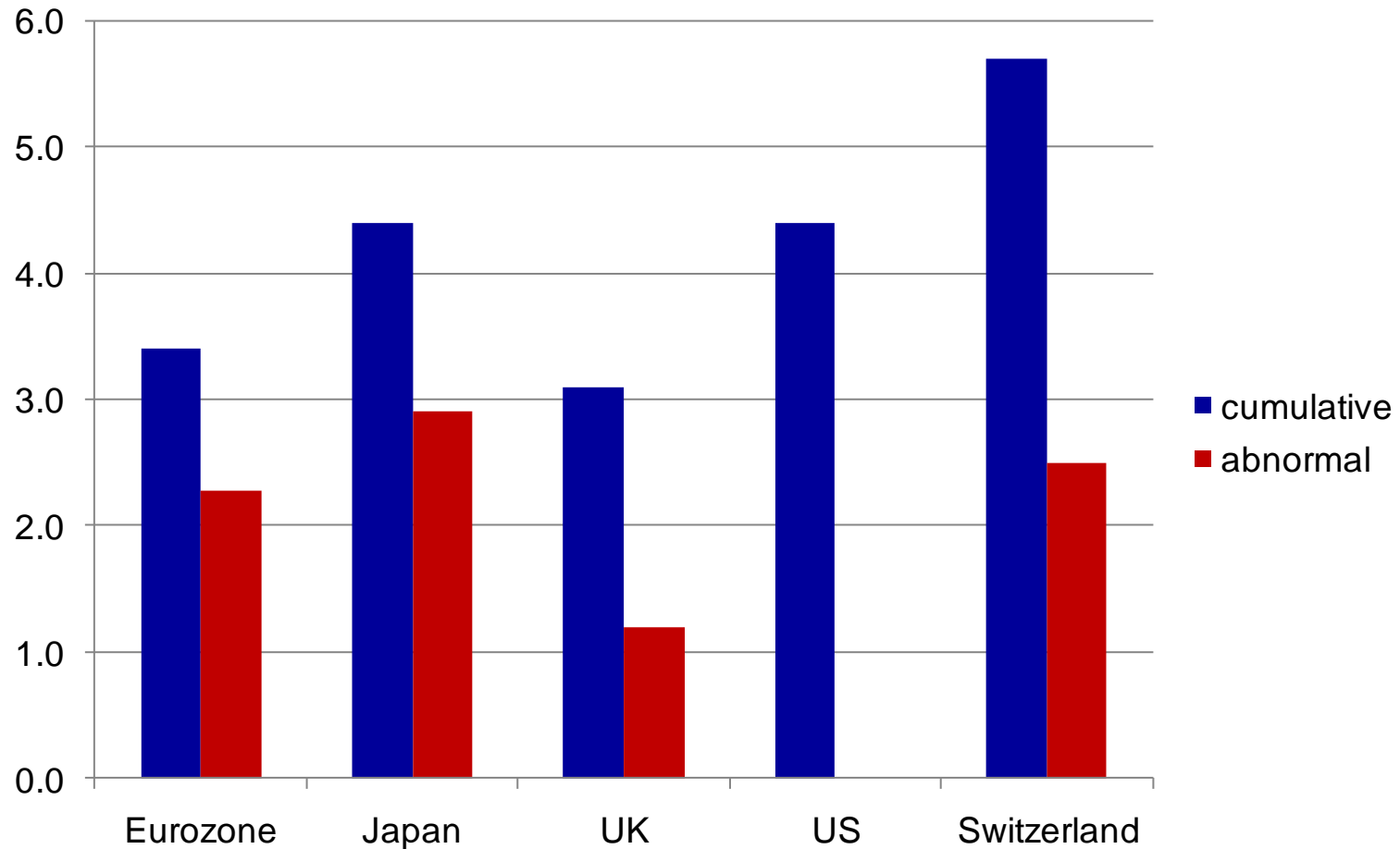


Source: IMF, Brookings Institute

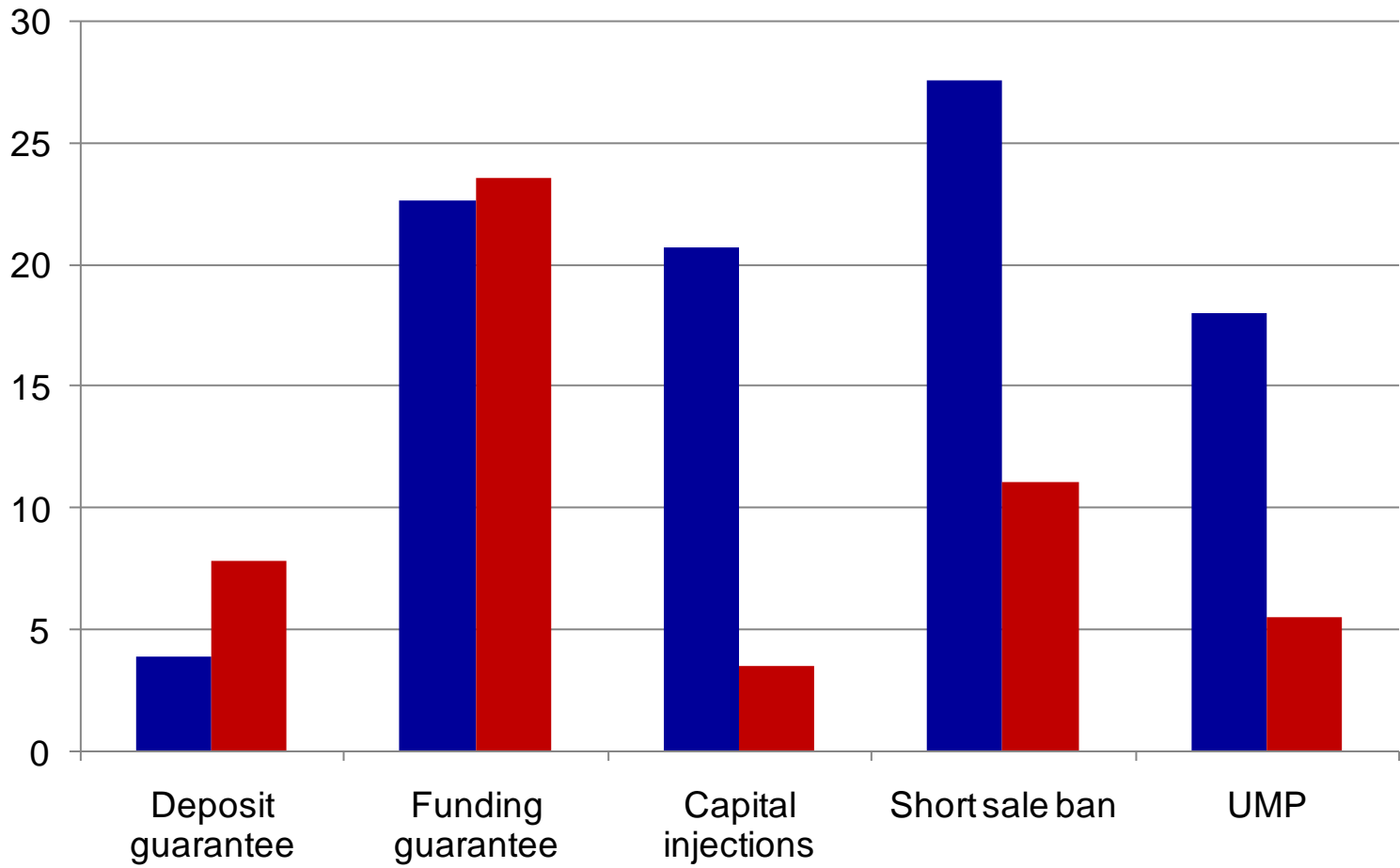
Impact of unconventional monetary policy on financial firms' CDS spreads



Impact of unconventional monetary policy on financial firms' equity prices



Impact of policy announcements on financial firms' CDS spreads (ex. US)



Impact of policy announcements on financial firms' equity prices (ex. US)

