

The IMF and the global economic crisis

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IMF alone cannot save the world economy

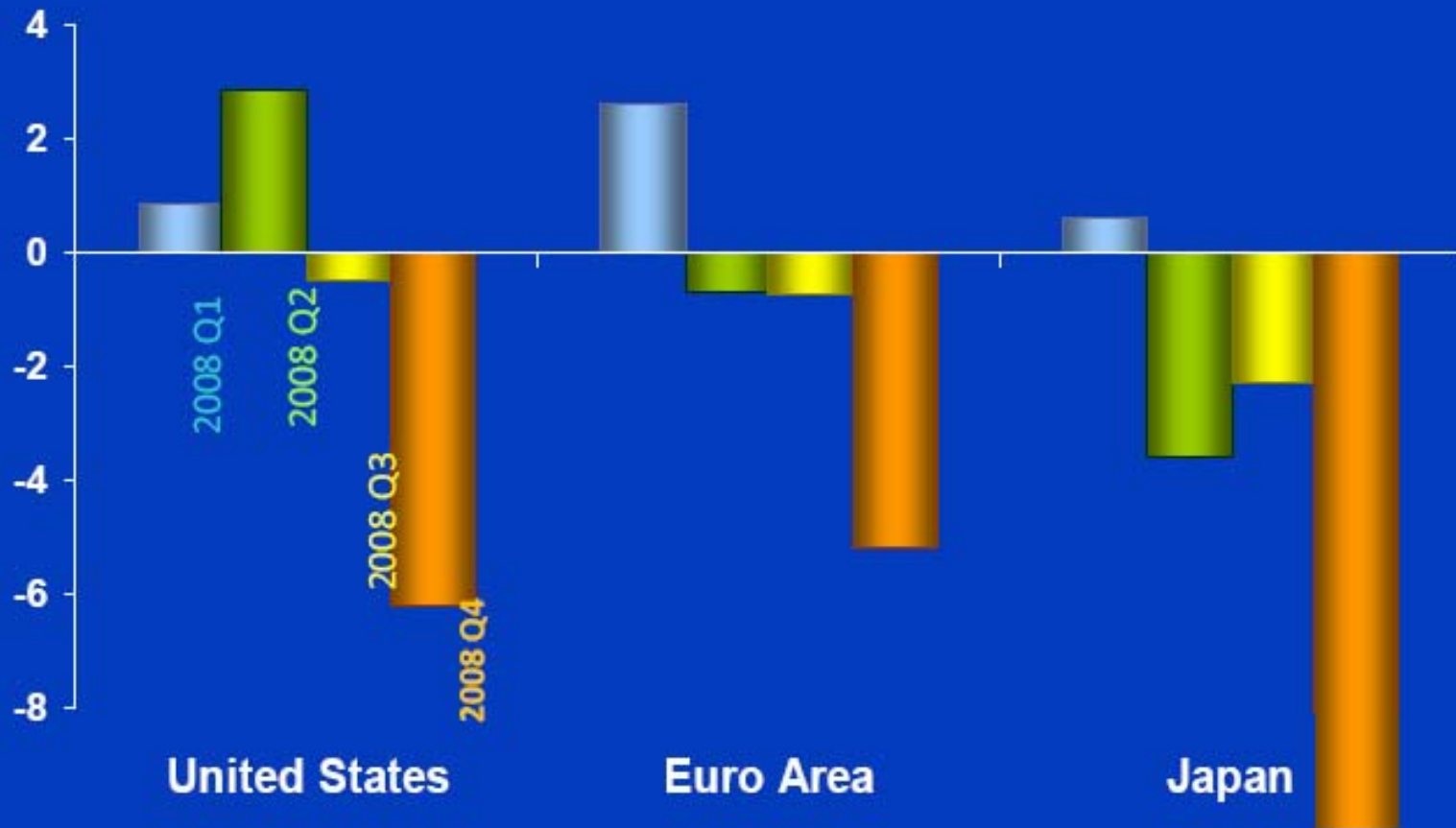
- G-20 trebles IMF's size and authorizes new SDR issue
- Adequately financed IMF helps cushion crisis' impact on emerging markets
- Source of global crisis is the industrialized countries
- Additional fiscal stimulus and bank recapitalization are urgently needed

Global Economy has a ring of the 1930s

- A severe synchronized economic contraction
- Acute busts in global asset prices and credit markets
- A collapse in international trade
- A shift to beggar-my-neighbor policies

High-income OECD countries are in deep synchronous recession

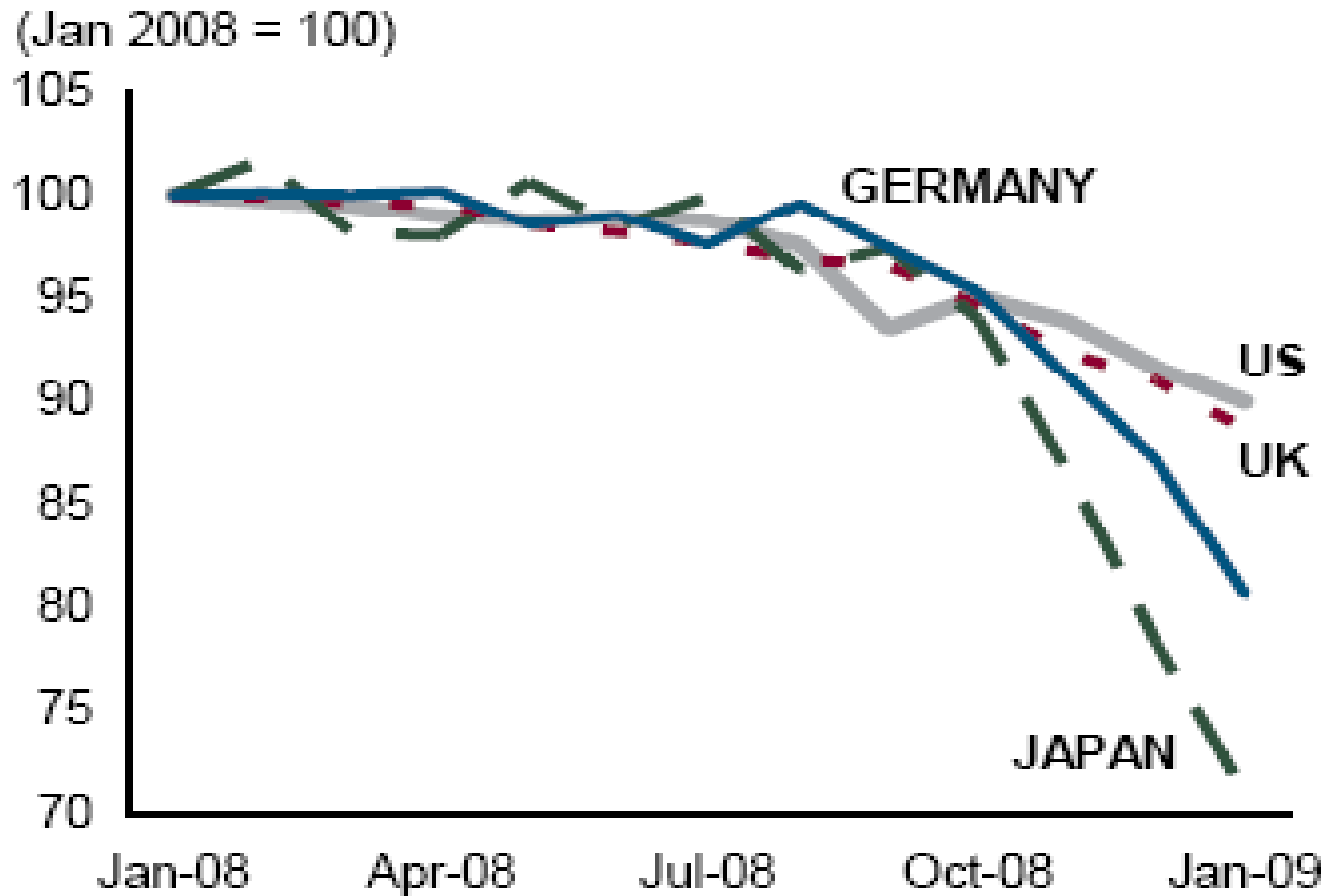
Growth of real GDP, percent change annualized



Source: World Bank and National Agencies.

Extreme Pain in Germany and Japan

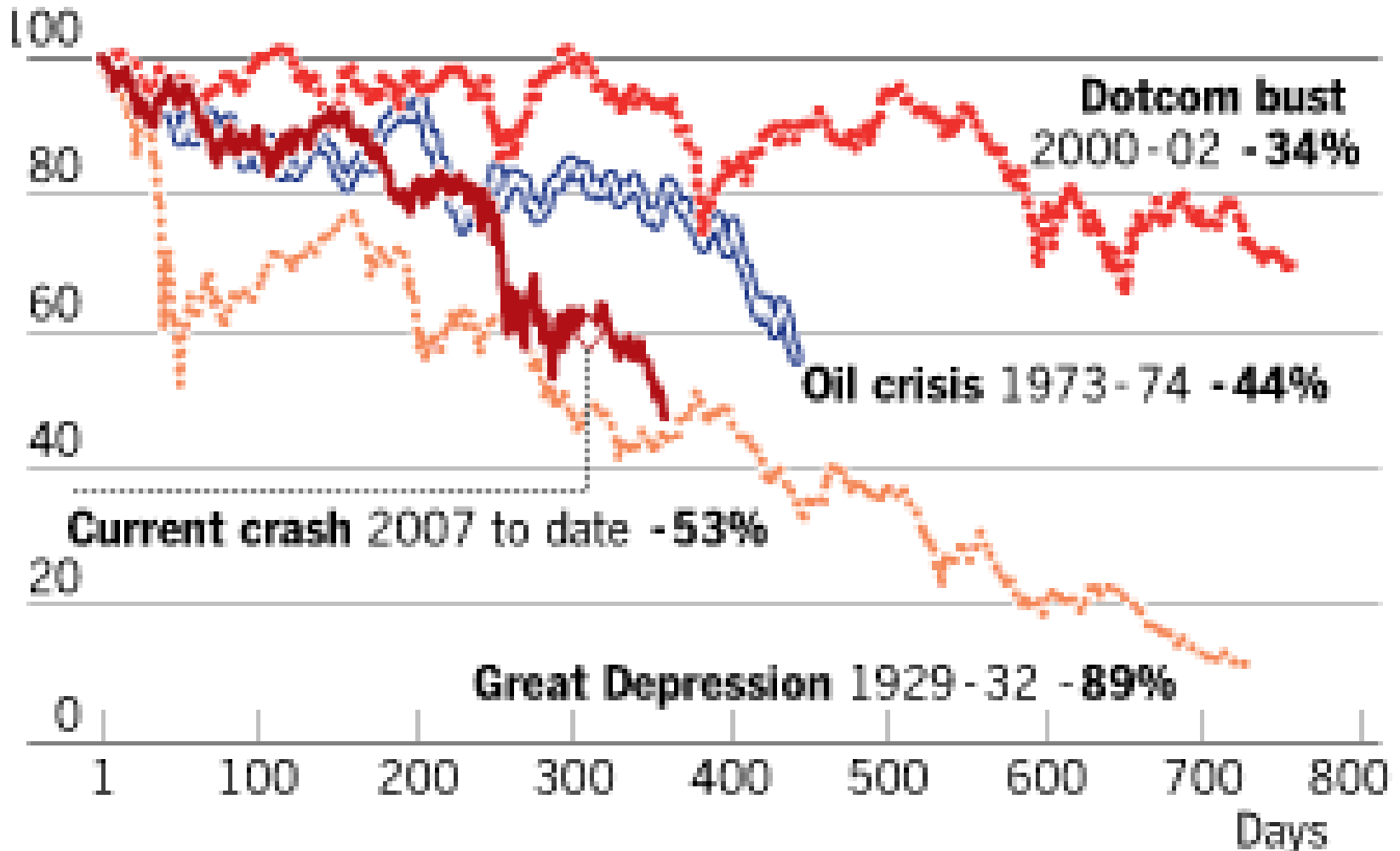
Industrial Output



Source: Haver Analytics and AllianceBernstein

Grizzly Bears

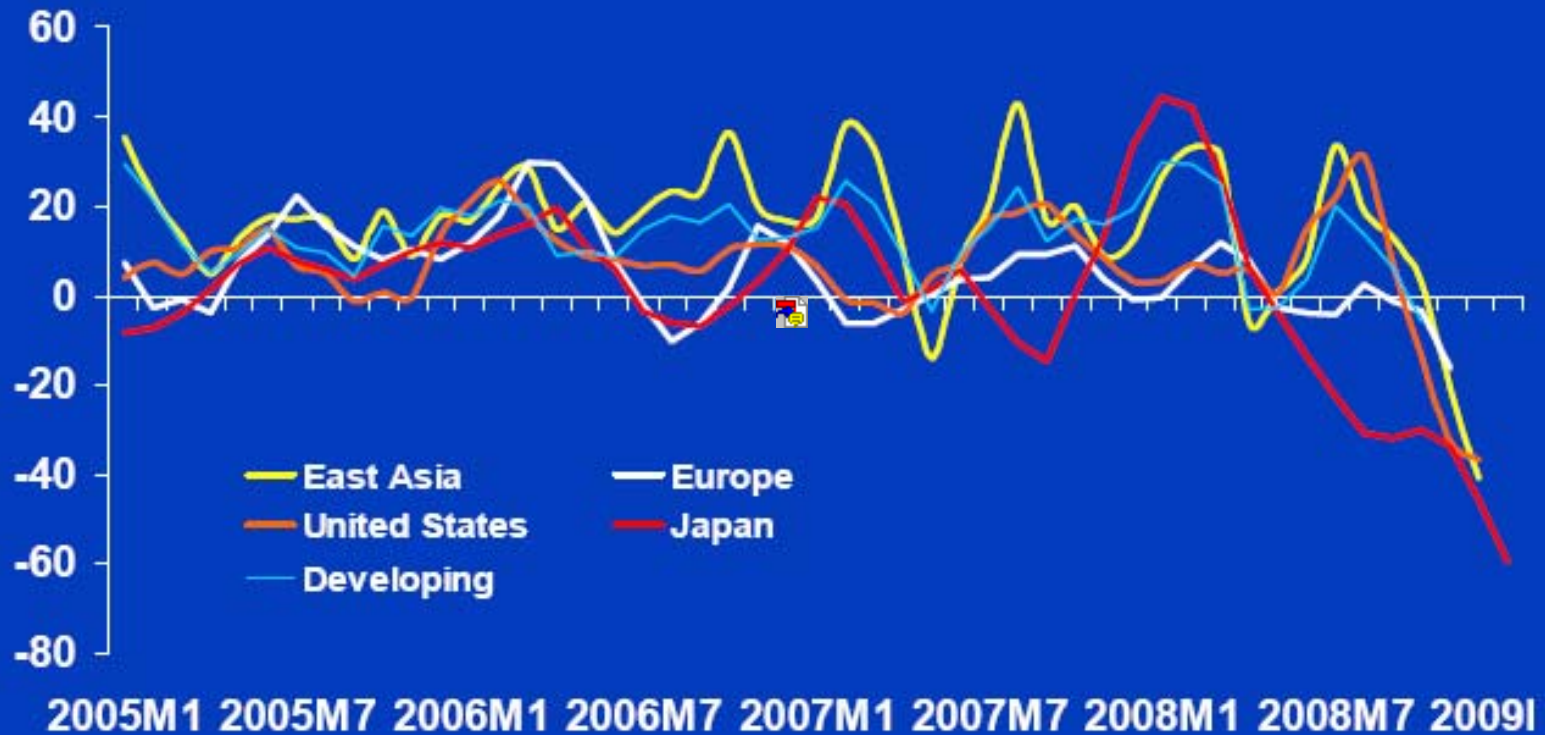
Peak to trough falls in the Dow Jones Industrial Average



Source: Thomson Datastream

Global Trade has shrunk

3 month export volumes, growth rate annualized

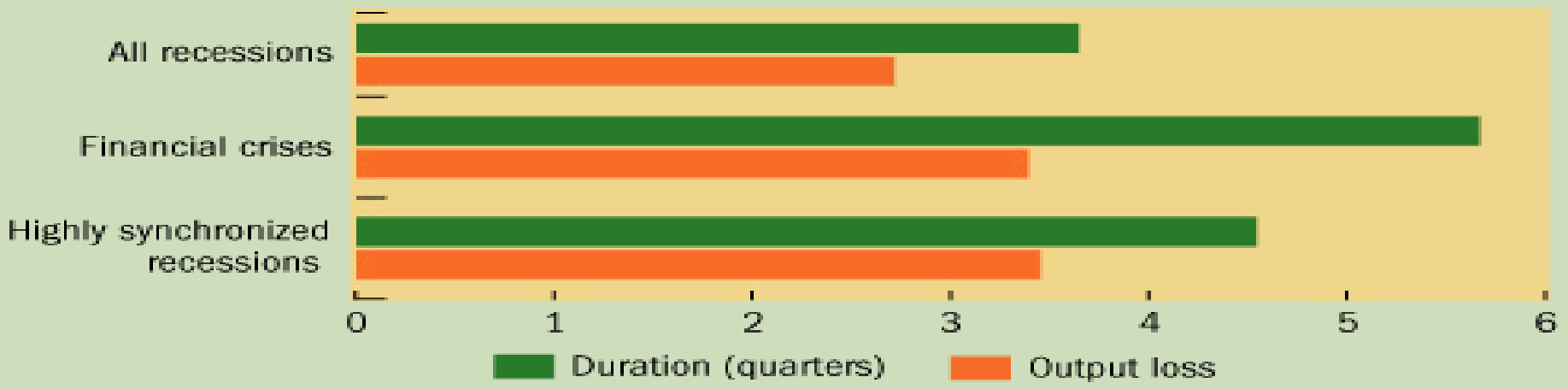


Source: World bank.

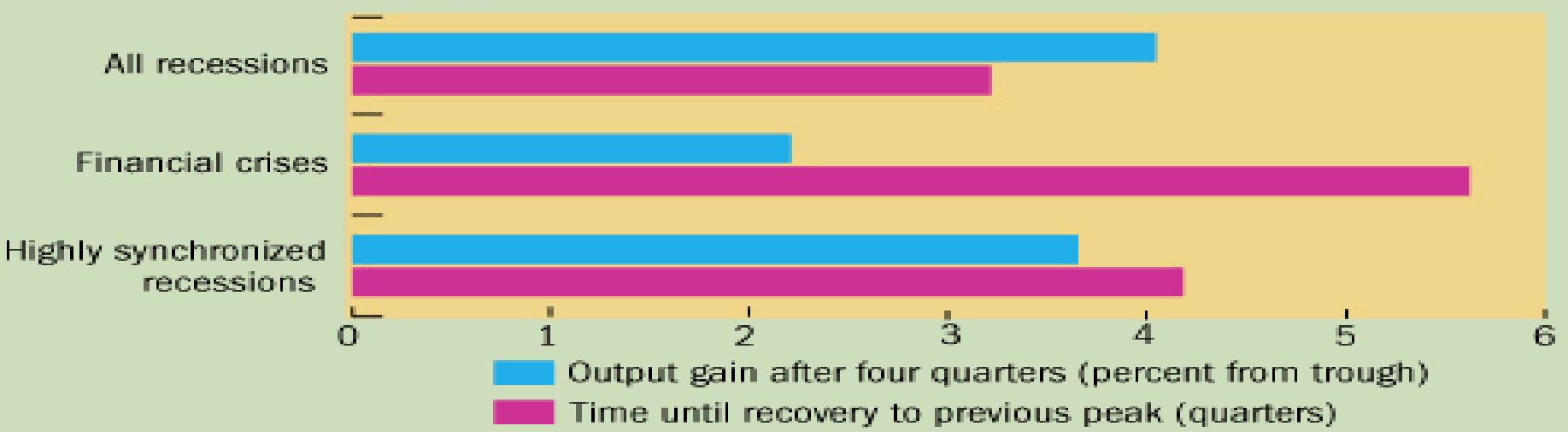
Timing is everything

Recessions associated with financial crises, or that are highly synchronized worldwide, have been larger and deeper.

All recessions



Recoveries



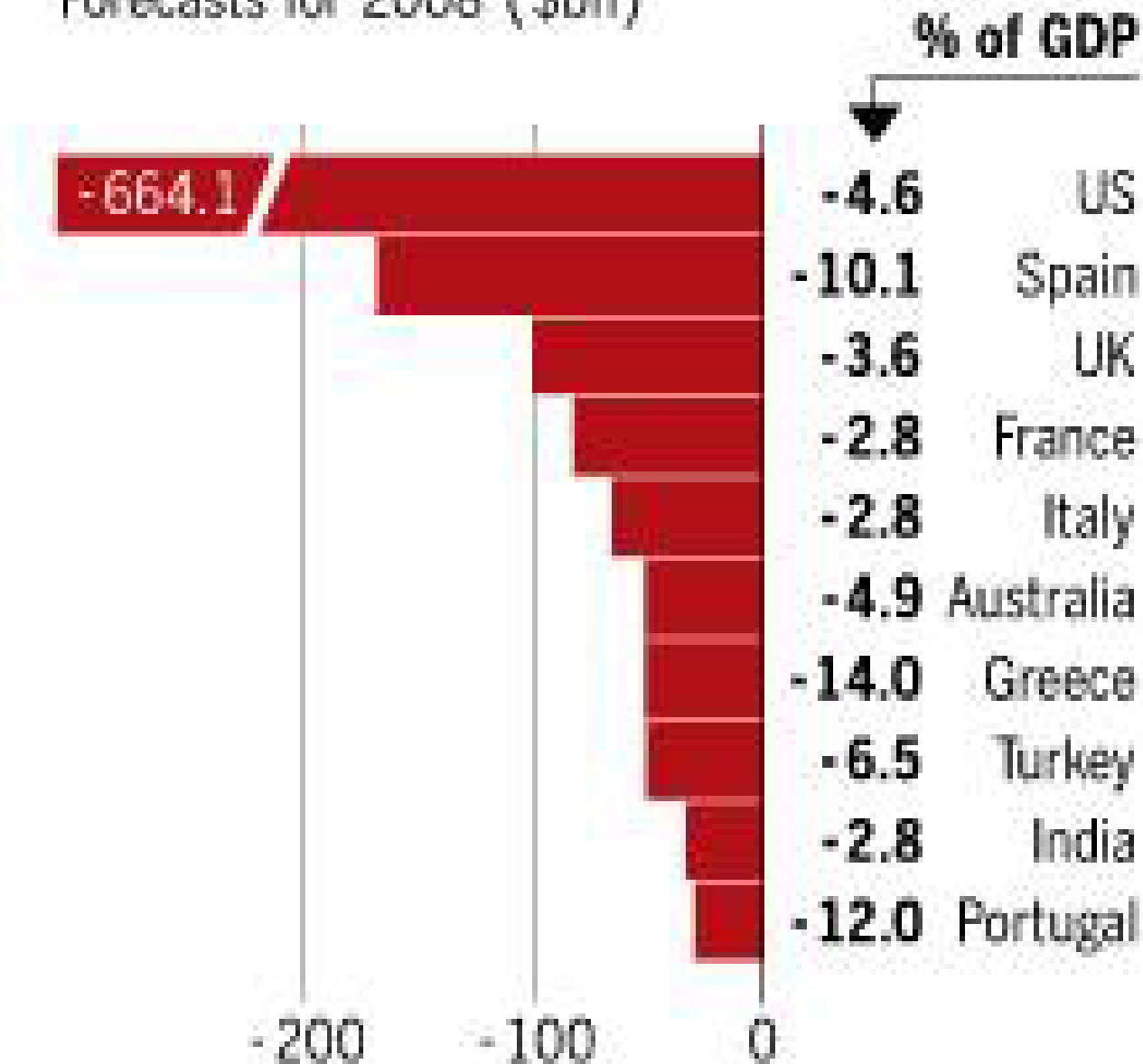
Sources: IMF staff calculations.

Global Imbalances Remain Large

- U.S. current account deficit remains unsustainable
- China continues to run excessive current account surpluses
- Germany runs a massive current account surplus
- Spain had a huge current account deficit

Largest current account deficits

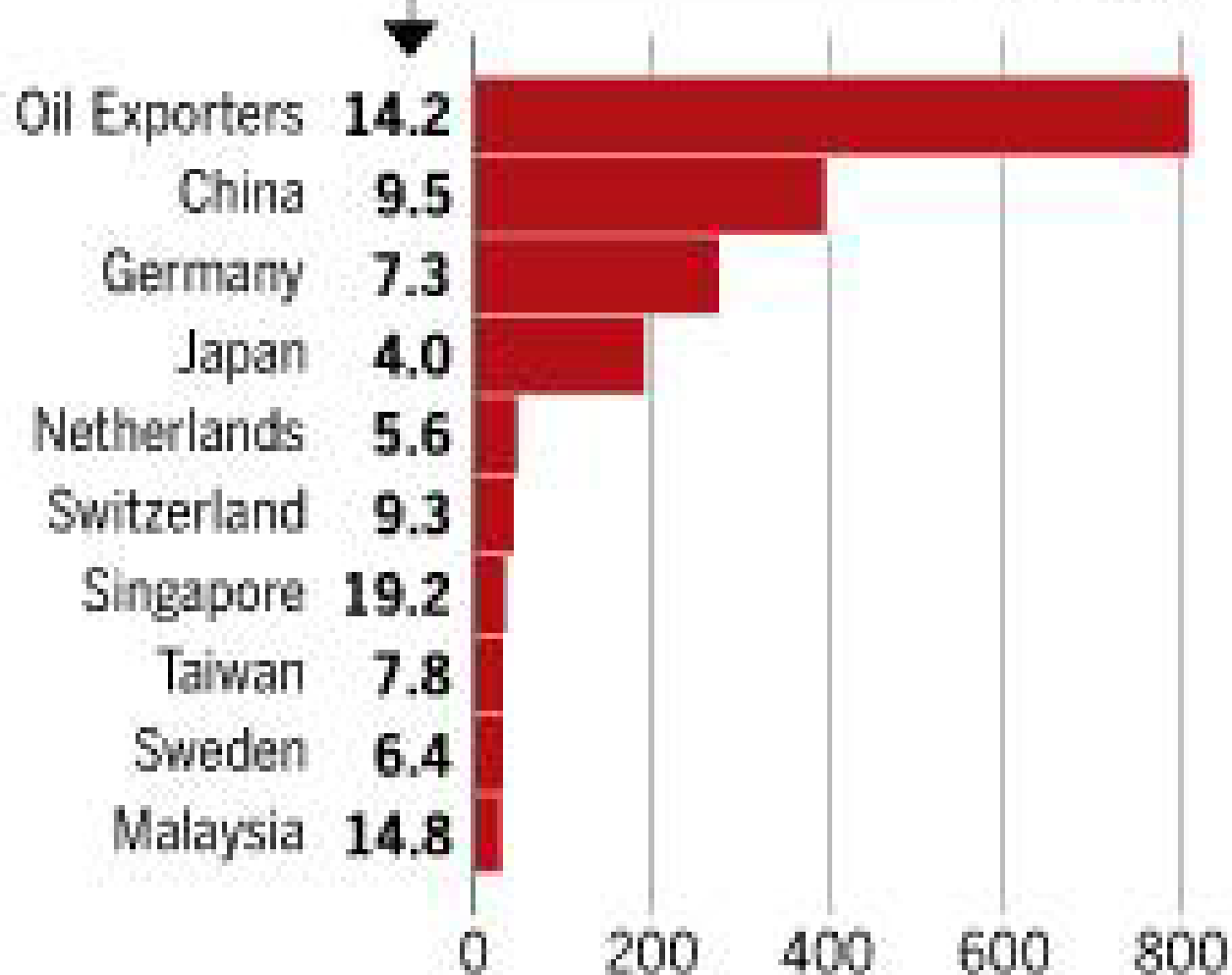
Forecasts for 2008 (\$bn)



Largest current account surpluses

Forecasts for 2008 (\$bn)

% of GDP

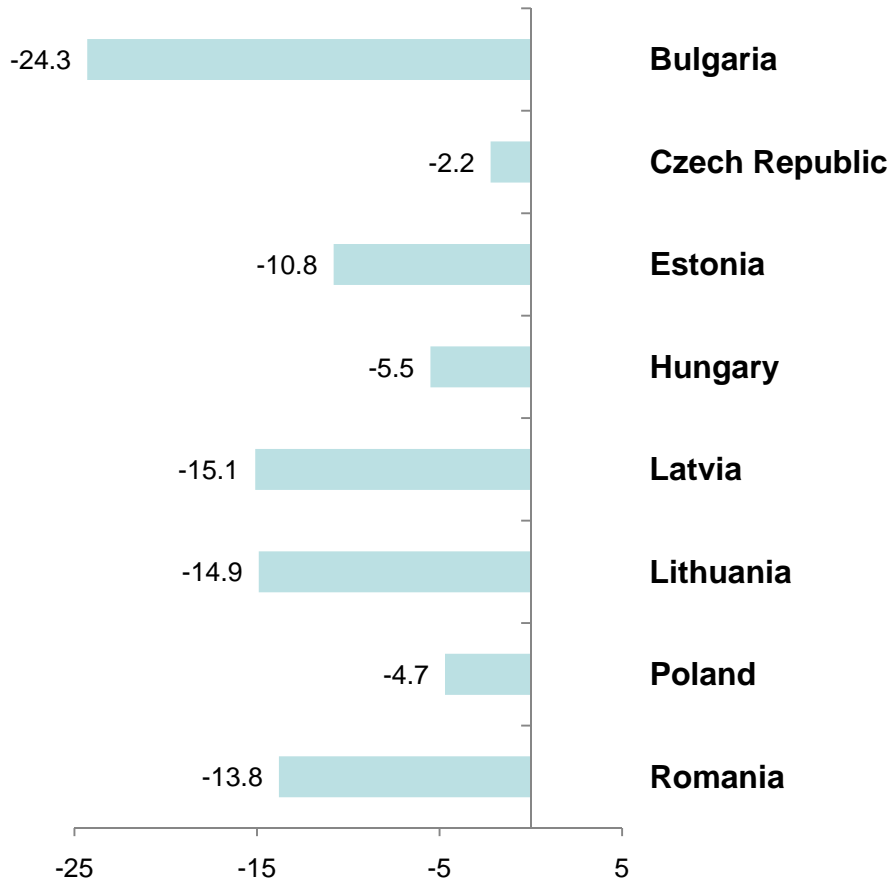


Eastern European Storm

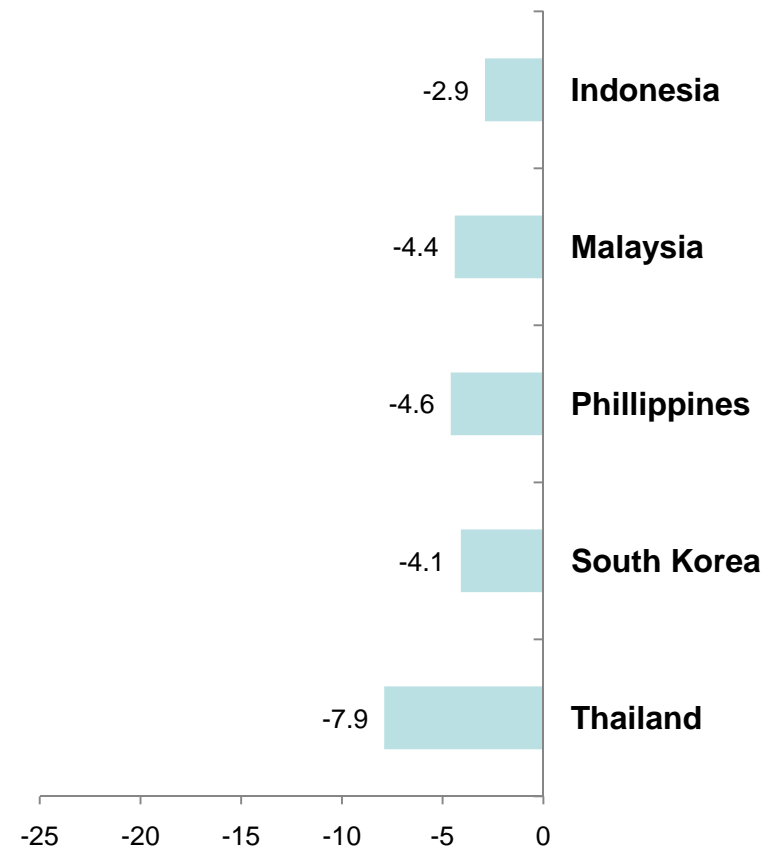
- Countries in East Europe have worse fundamentals than Asia in 1997
- East Europe has high external financing needs
- Currency mismatches characterize the region
- Banks in Austria, Netherland, Sweden, and Switzerland are heavily exposed

Eastern Europe and Asia Current Account Deficit/GDP

Eastern Europe: 2008 Estimate



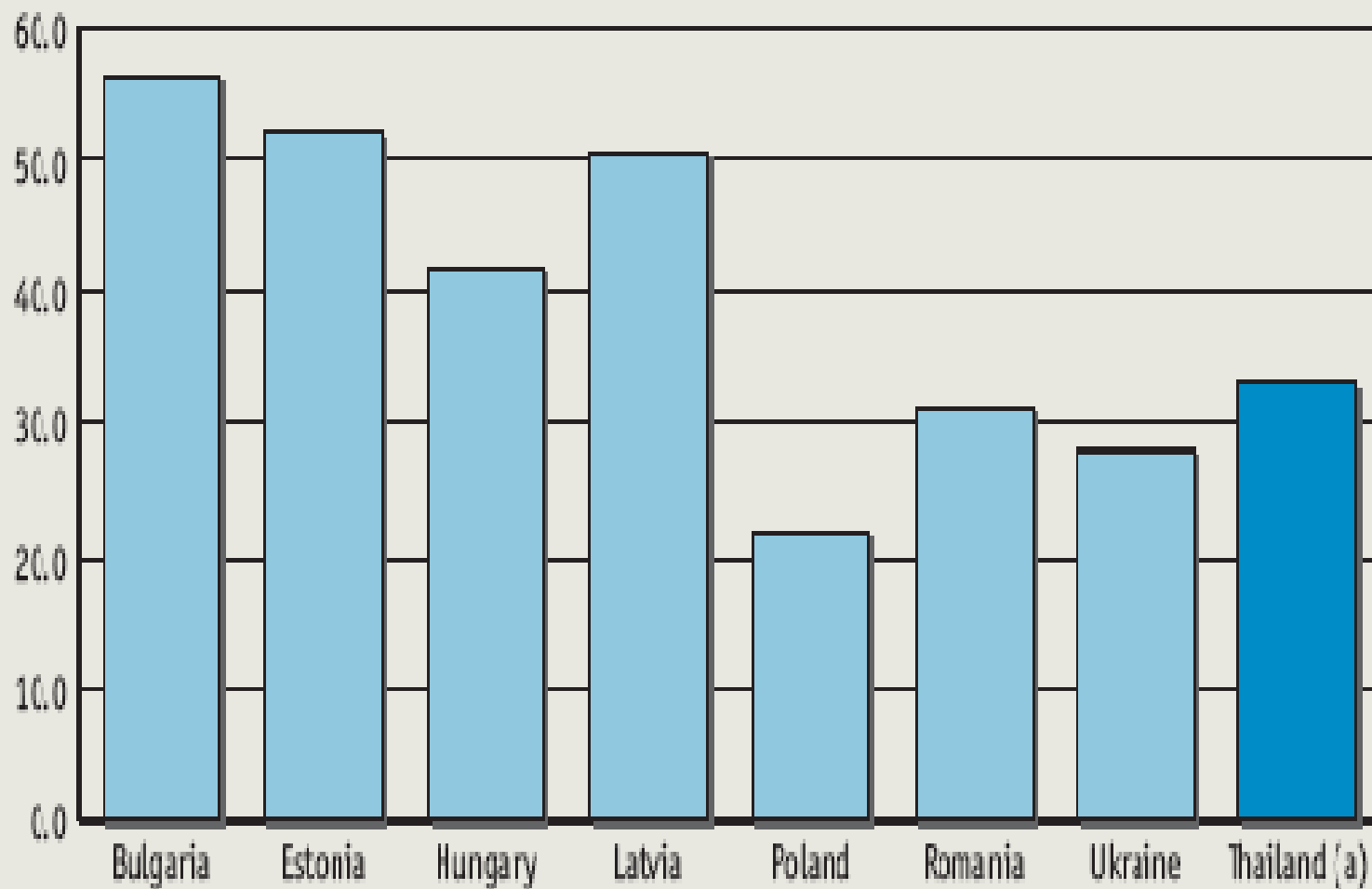
Asia: 1997



Source: Wall Street Journal and IMF

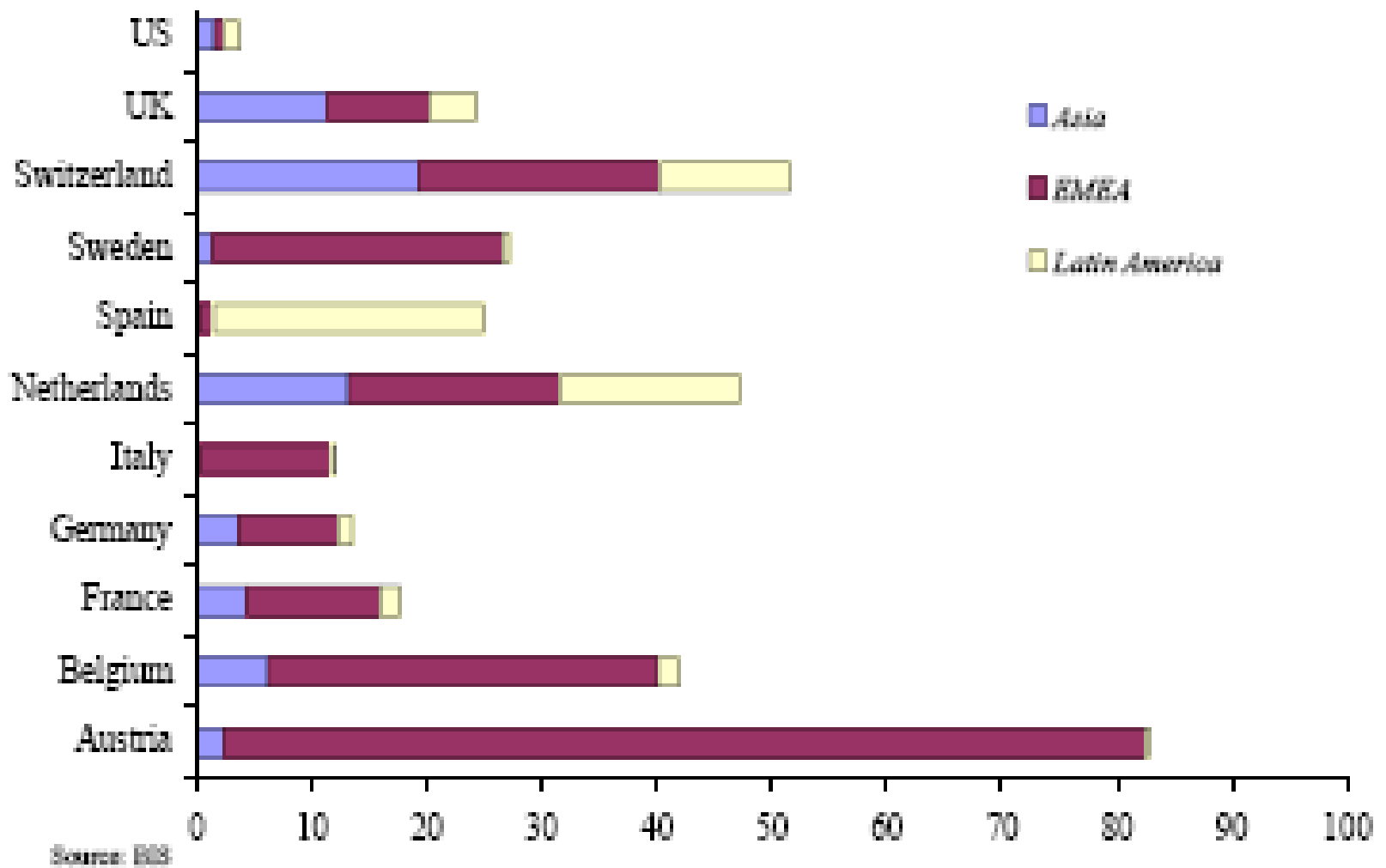
Funding challenge

(Gross external financing requirement, % of GDP, 2008)



(a) 1997 data.

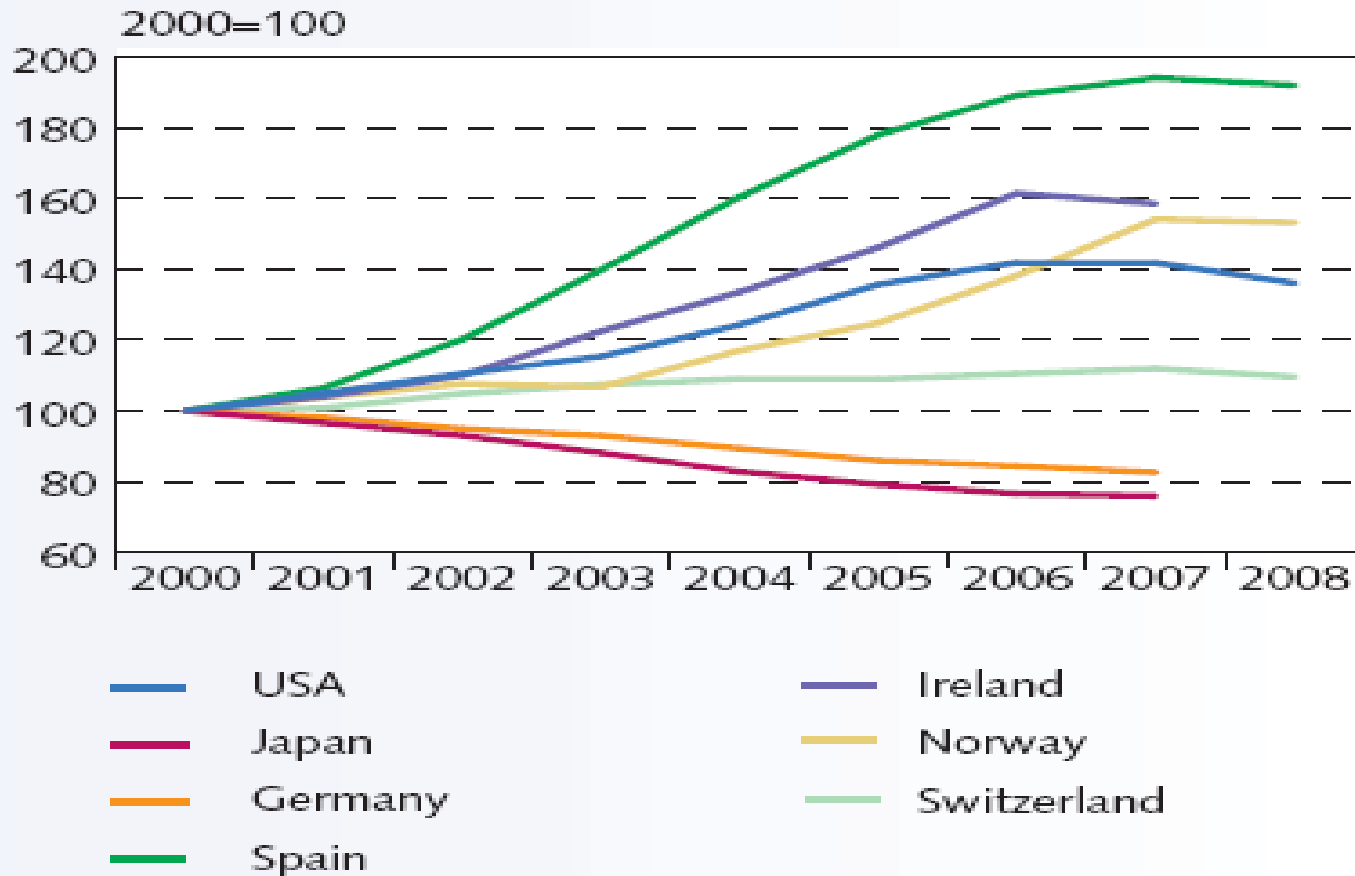
Source: Economist Intelligence Unit.



Euro-zone is on Cusp of Crisis

- The German export dynamo is sputtering
- Ireland and Spain have major housing busts
- The Euro's Mediterranean members and Ireland all have competitiveness problem
- Precarious public finances in Greece and Italy
- The EU is not positioned for bail-outs

Real house price index¹

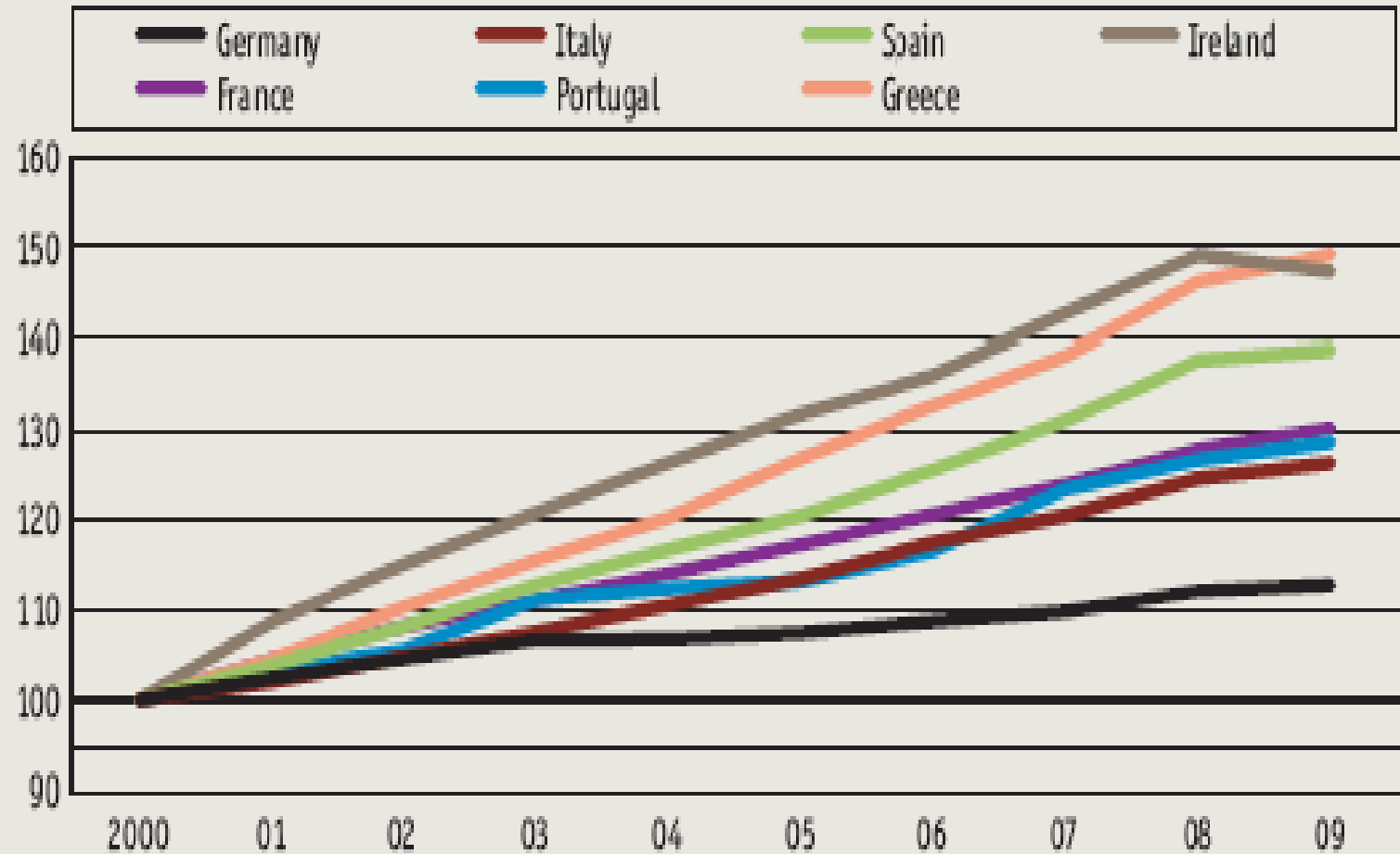


1. Data for the year 2007 are averages for available quarters, as data were not available for the year 2007 and figures for 2008 are based on the first quarter.

Source: OECD.

Uncompetitive

Average nominal wage index of selected Eurozone countries (LCU, 2005=100)



Source: Economist Intelligence Unit.

Multiple Roles for the IMF

- IMF's mandate is to facilitate growth of international trade
- IMF has crucial role in policy surveillance
- There is a pressing need for multilateral surveillance
- IMF has major role in supporting emerging market adjustment.

IMF's Surveillance Role

- IMF missed the recession in 2008 but now highlights downside economic risks
- Advocacy of 2 percent of GDP fiscal stimulus is overly broad brush
- Virtually silent on global payment imbalances
- Efforts at multi-lateral surveillance have been totally wanting

IMF Lending

- After Asian crisis, IMF conditionality is now better focused
- FCL amendments are welcome
- IMF continues to be overly supportive of overvalued fixed exchange rates
- In a world of free capital movement, IMF should be doing more to “bail-in” foreign banks