



Global Storms, Latin Spillovers

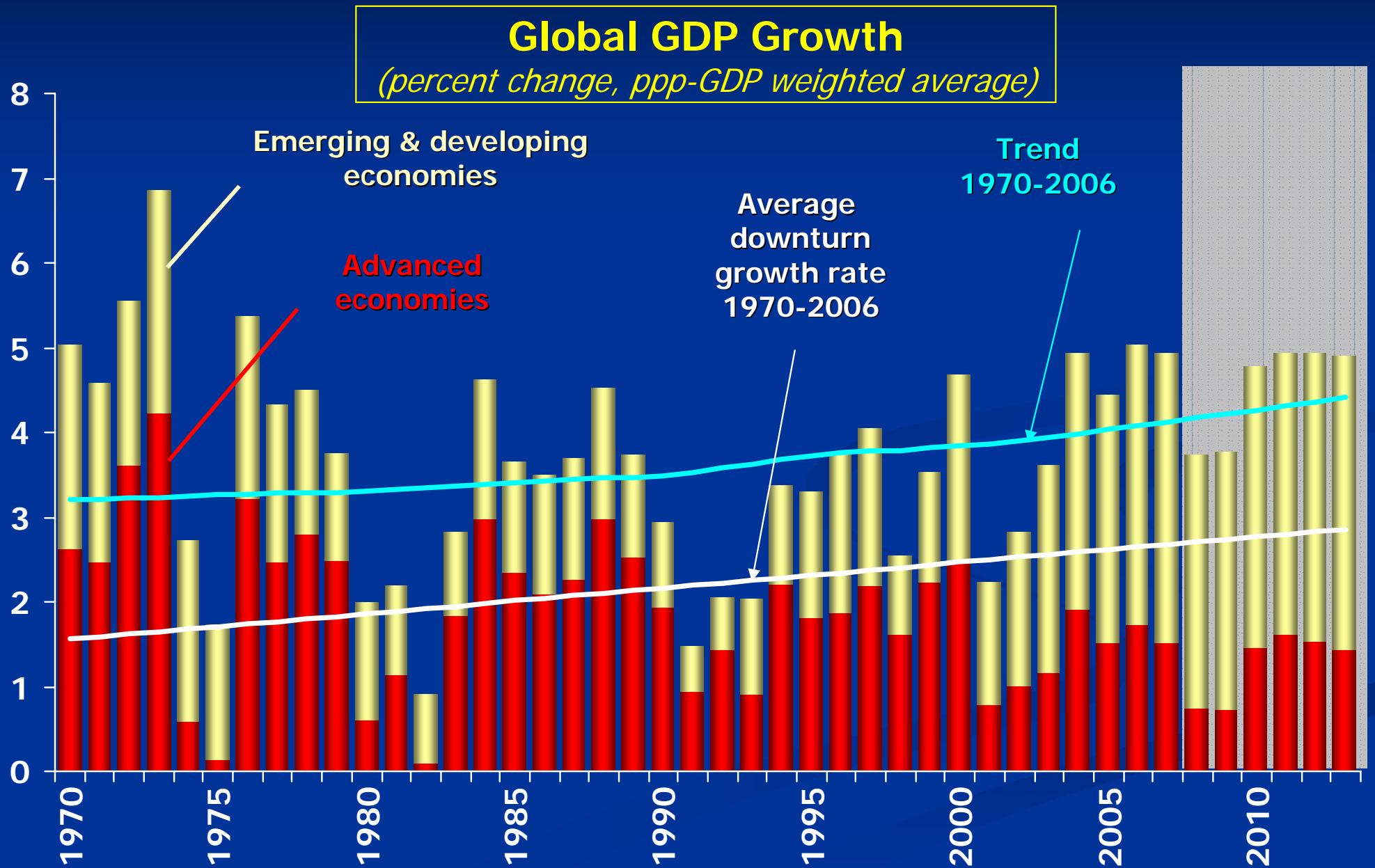
Charles Collyns

Lima, Peru
June 16, 2008

Road Map

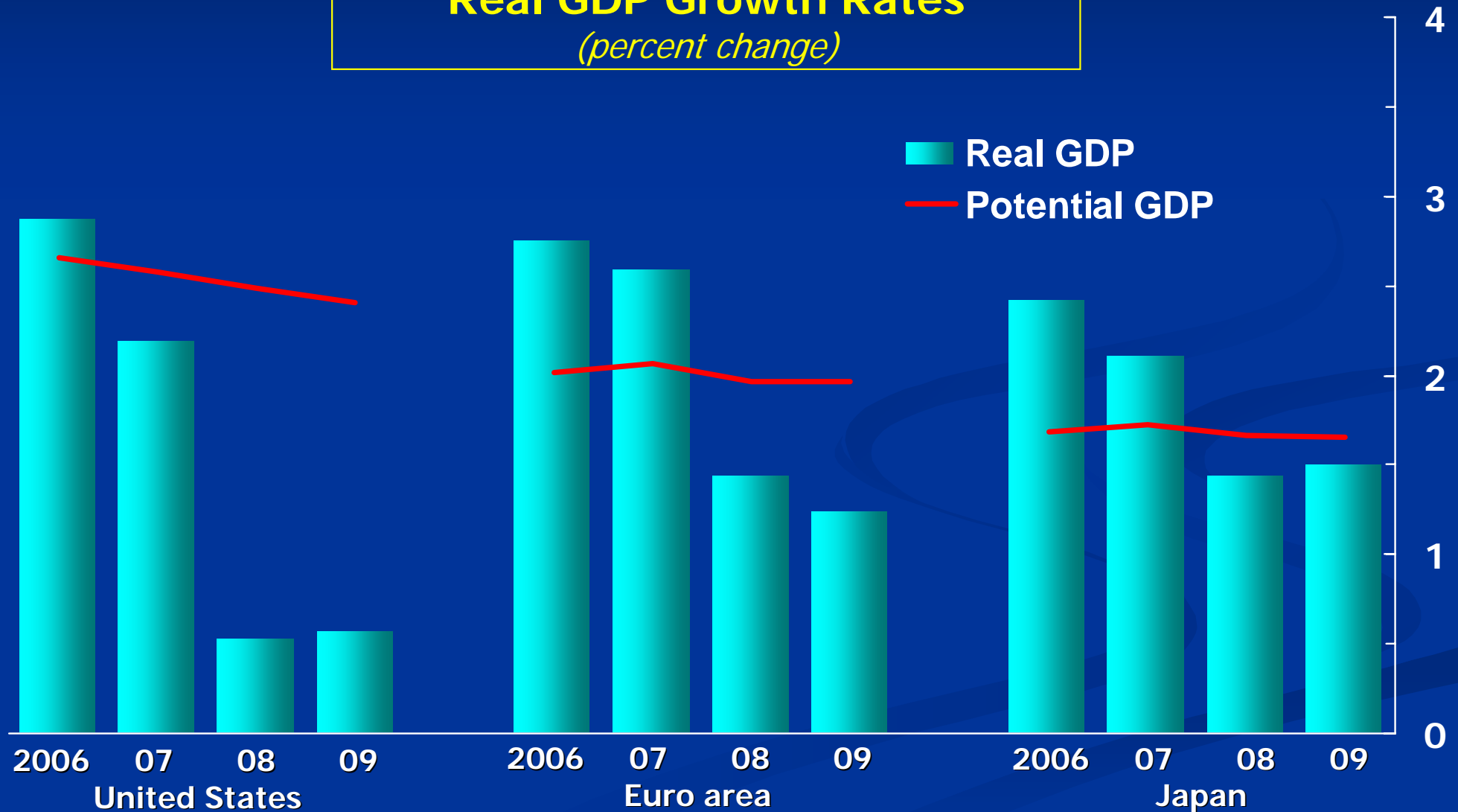
- **Global downturn — Have risks receded?**
- **Commodities and inflation — 1970s rerun?**
- **Financial winds — Which way will they blow on Latin America?**

April 2008 WEO: Two Years of Slower Growth



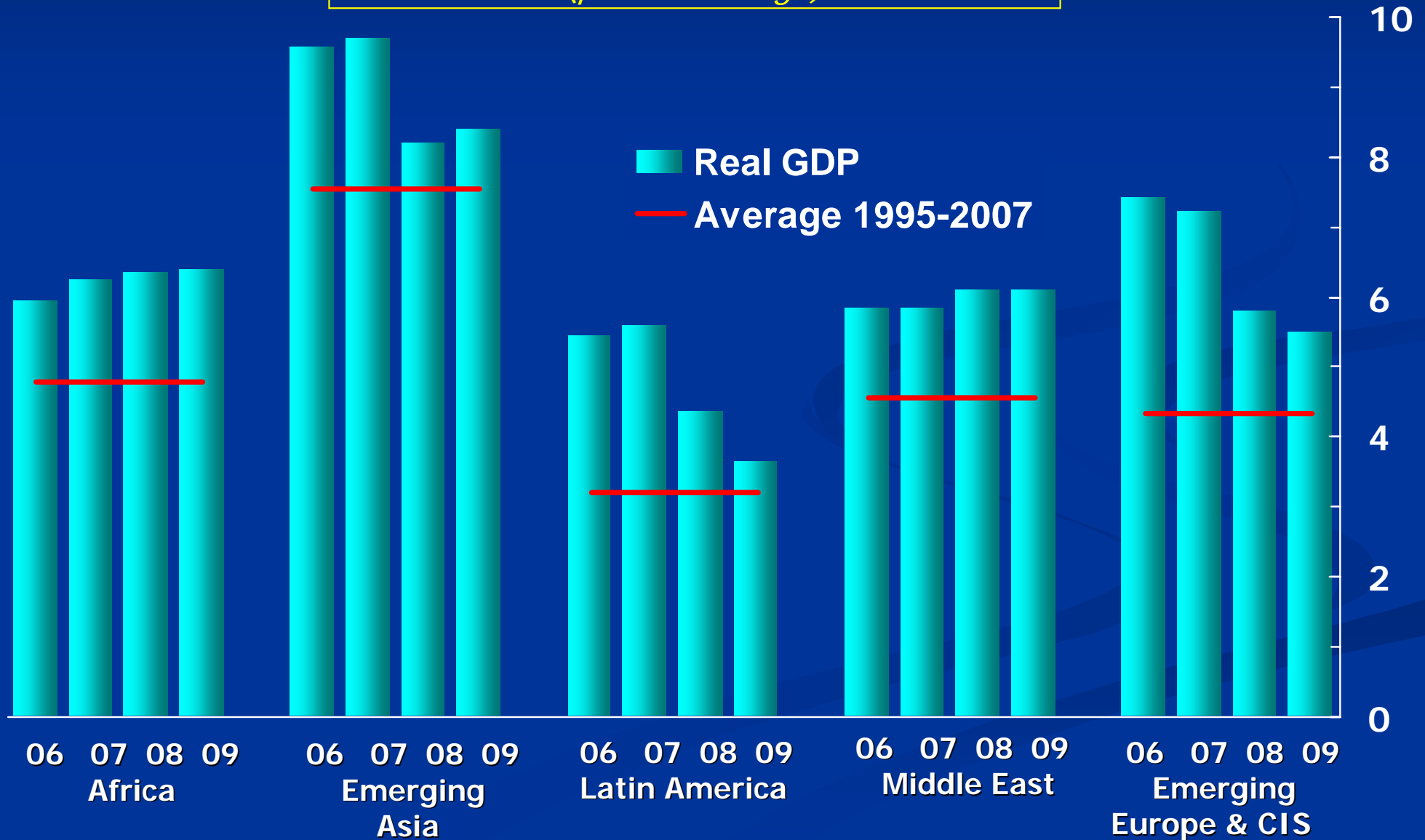
Advanced economies are being most affected by financial turbulence

Real GDP Growth Rates (percent change)



Emerging and developing economies slowing, but still above trend

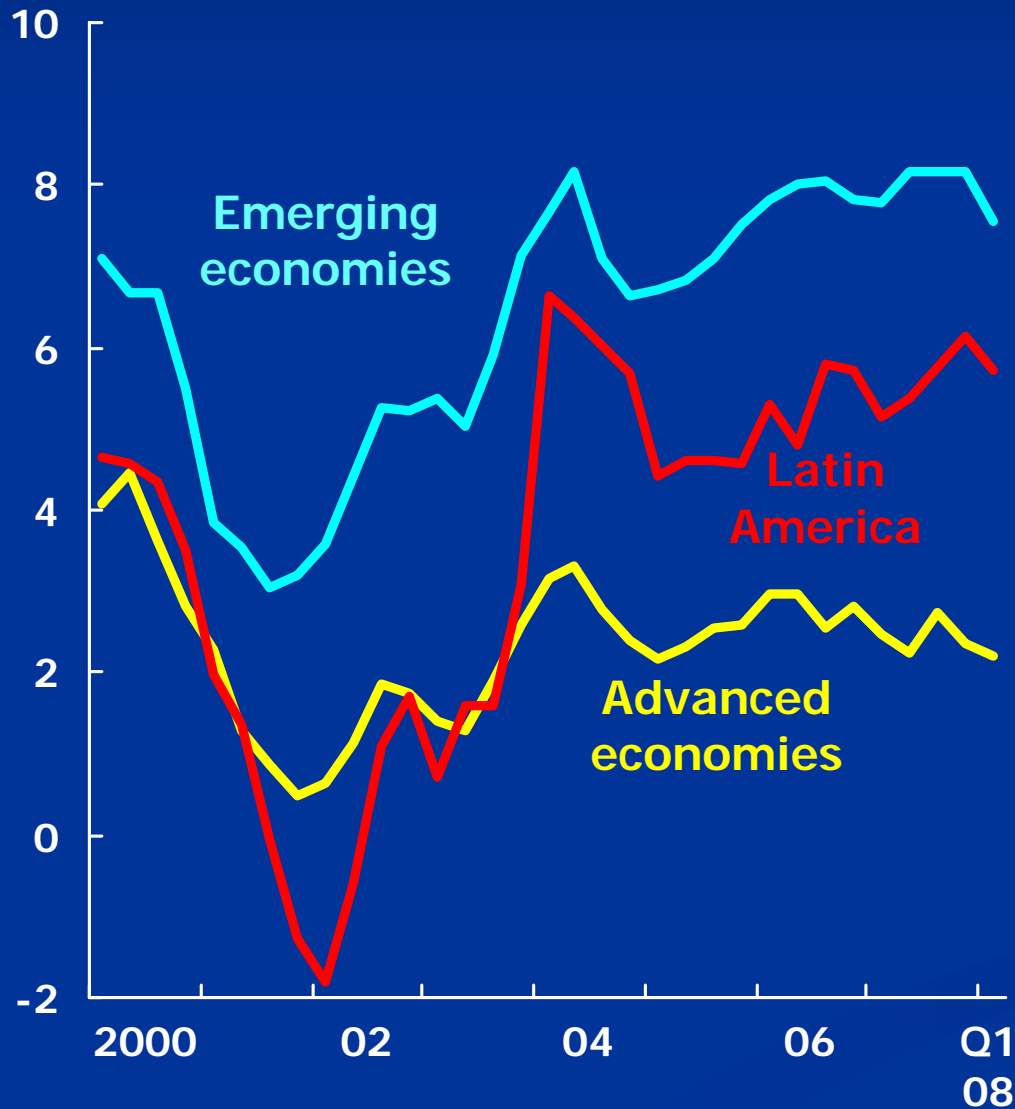
Real GDP Growth Rates
(percent change)



Global economy is already cooling

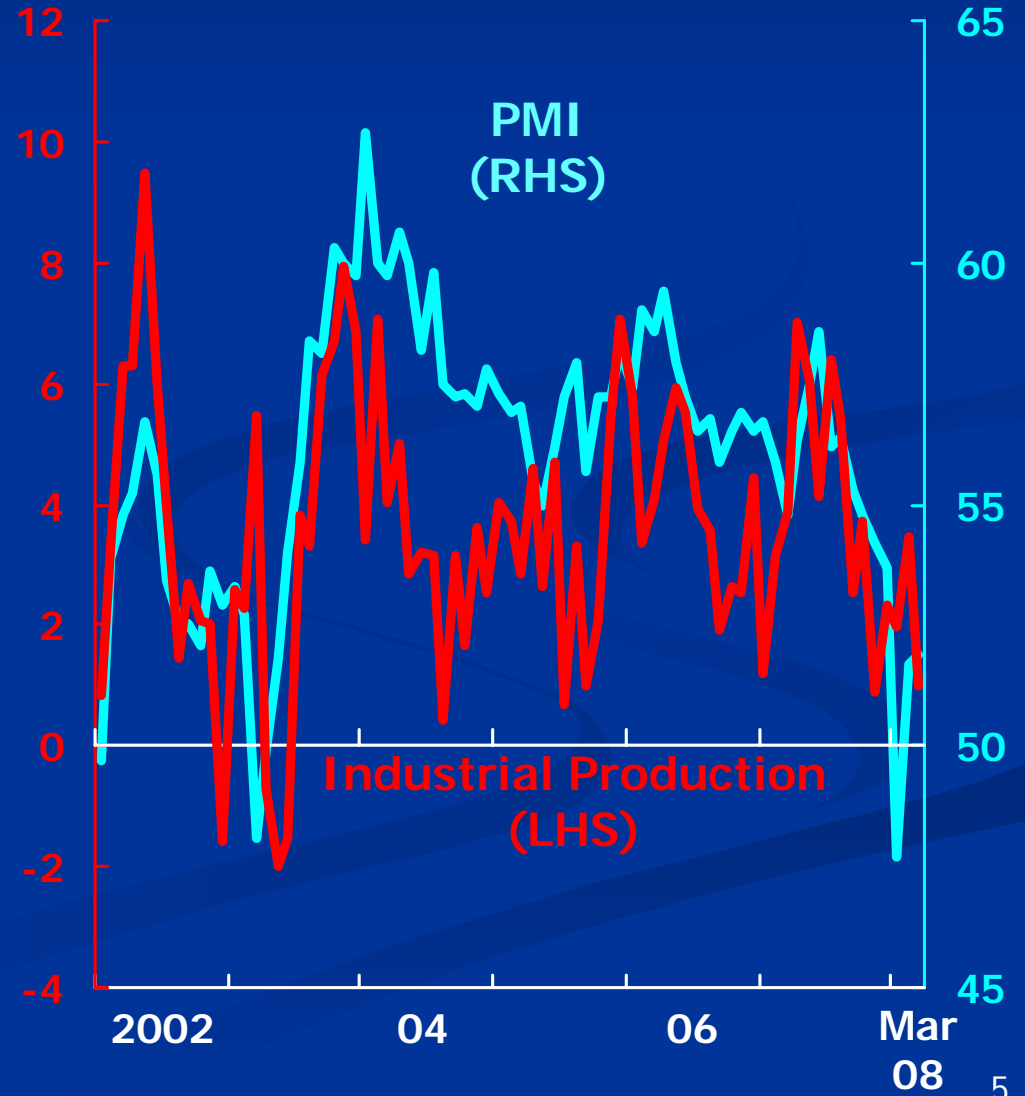
GDP

(Percent change from a year ago)



Global Industrial Production and PMI

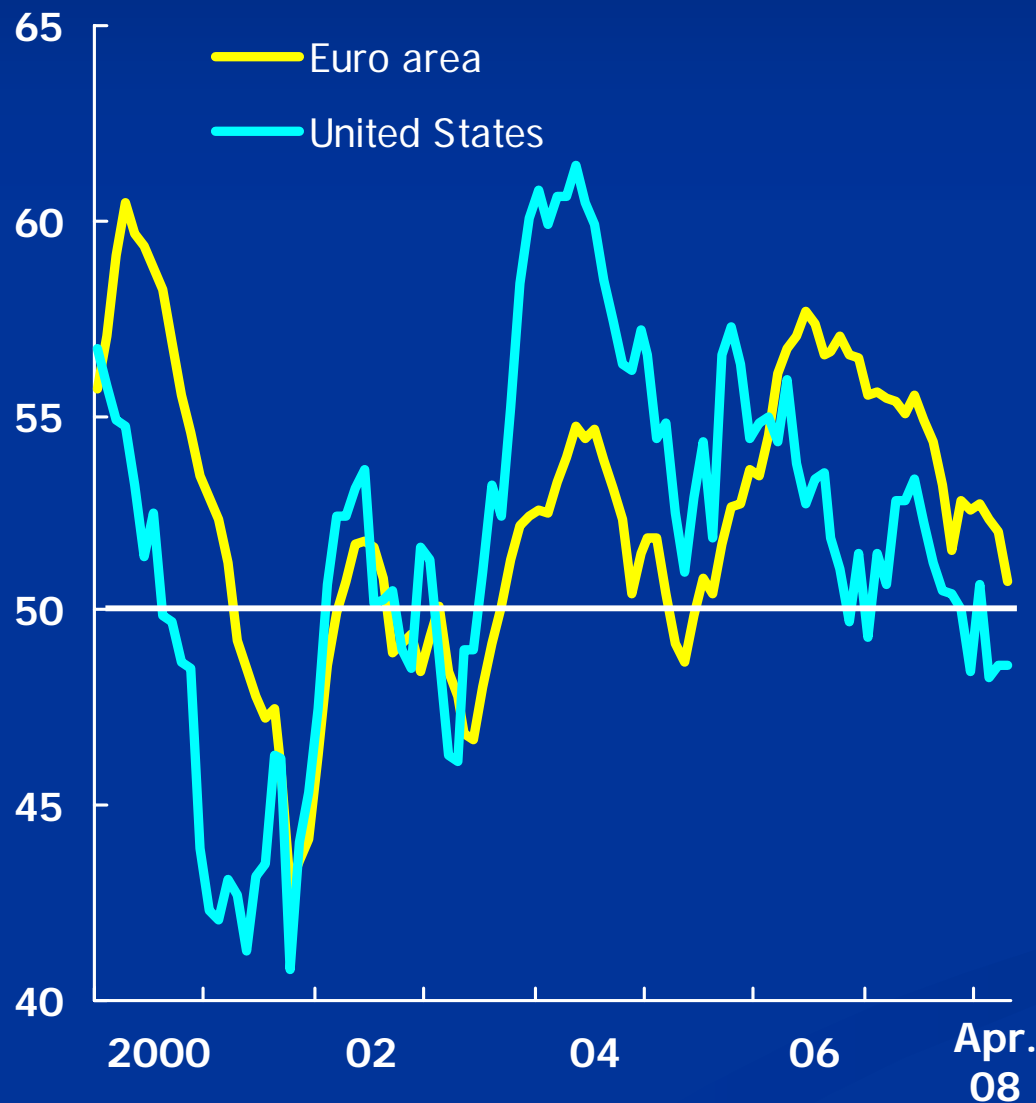
(In percent, 3m, saar)



Leading indicators point to slower growth ahead

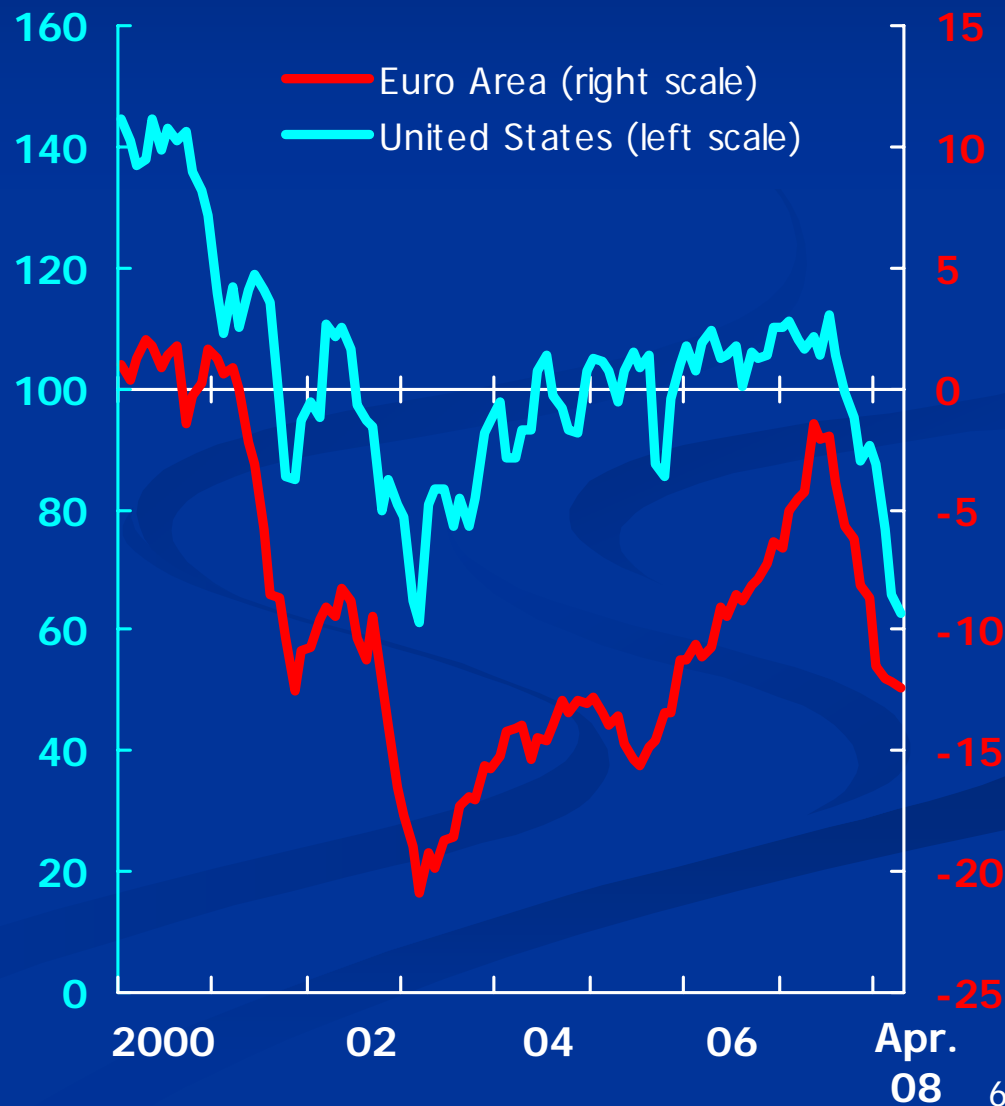
Manufacturing Confidence

(Values greater than 50 indicate expansion)



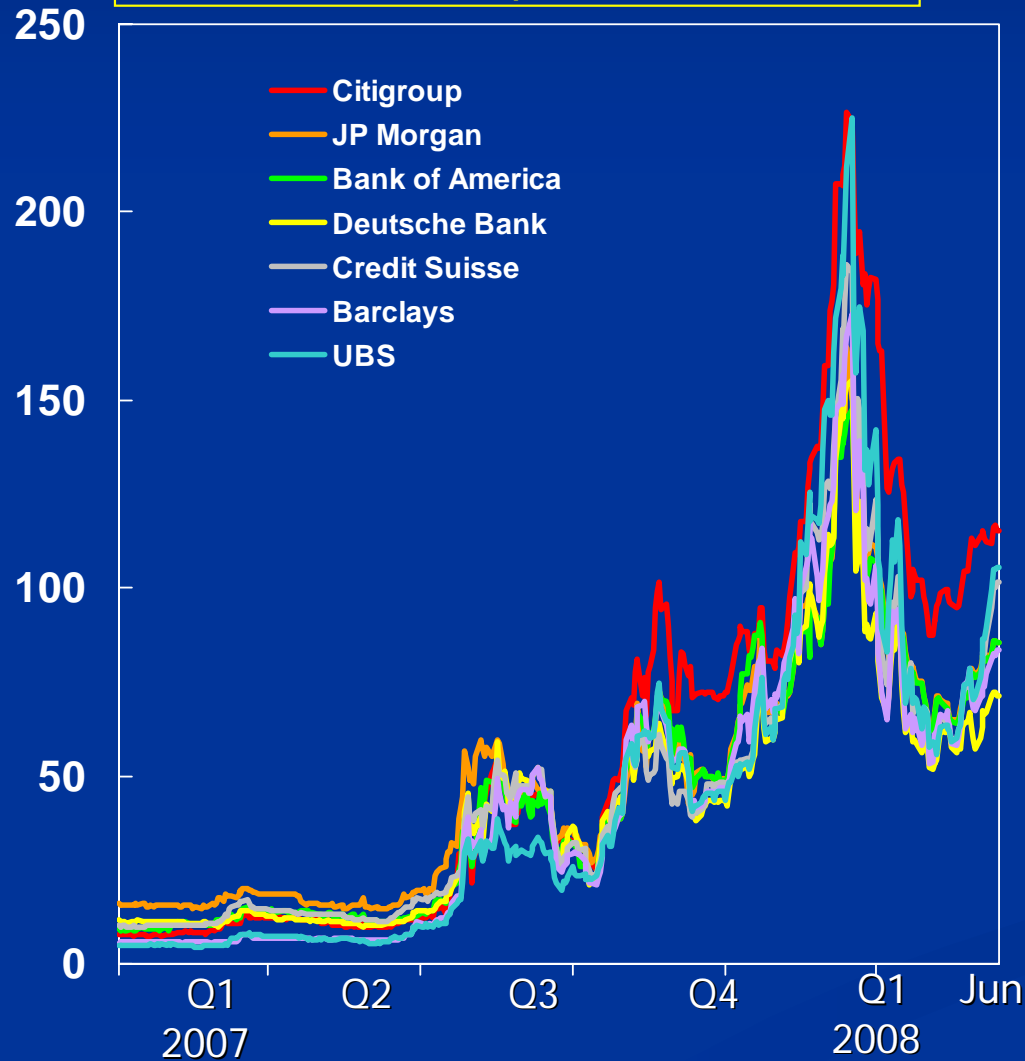
Consumer Confidence

(United States, 1985 = 100; Euro Area, percent balance)

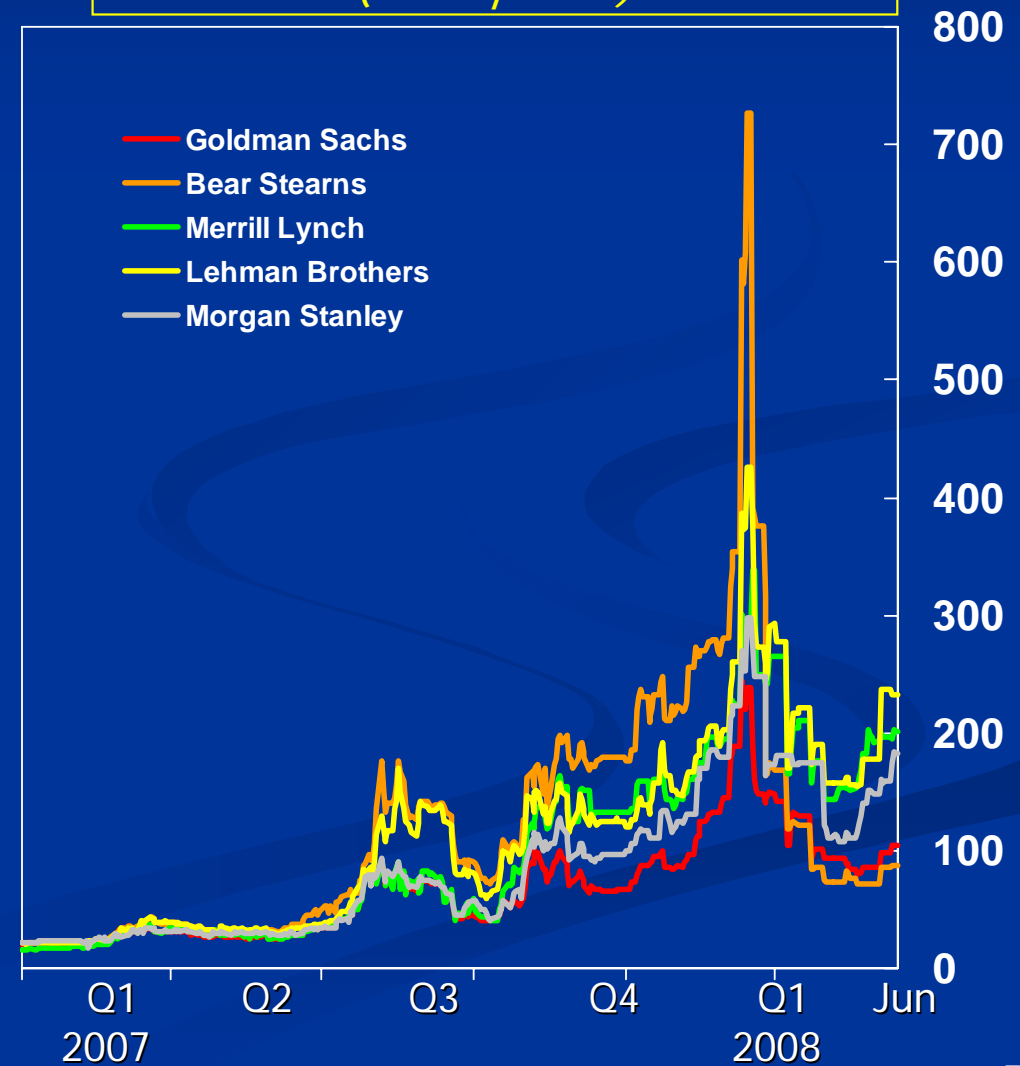


Tail risks in the financial system have been reduced—but fragilities remain

5-Year CDS Spreads of U.S. Banks
(Basis points)

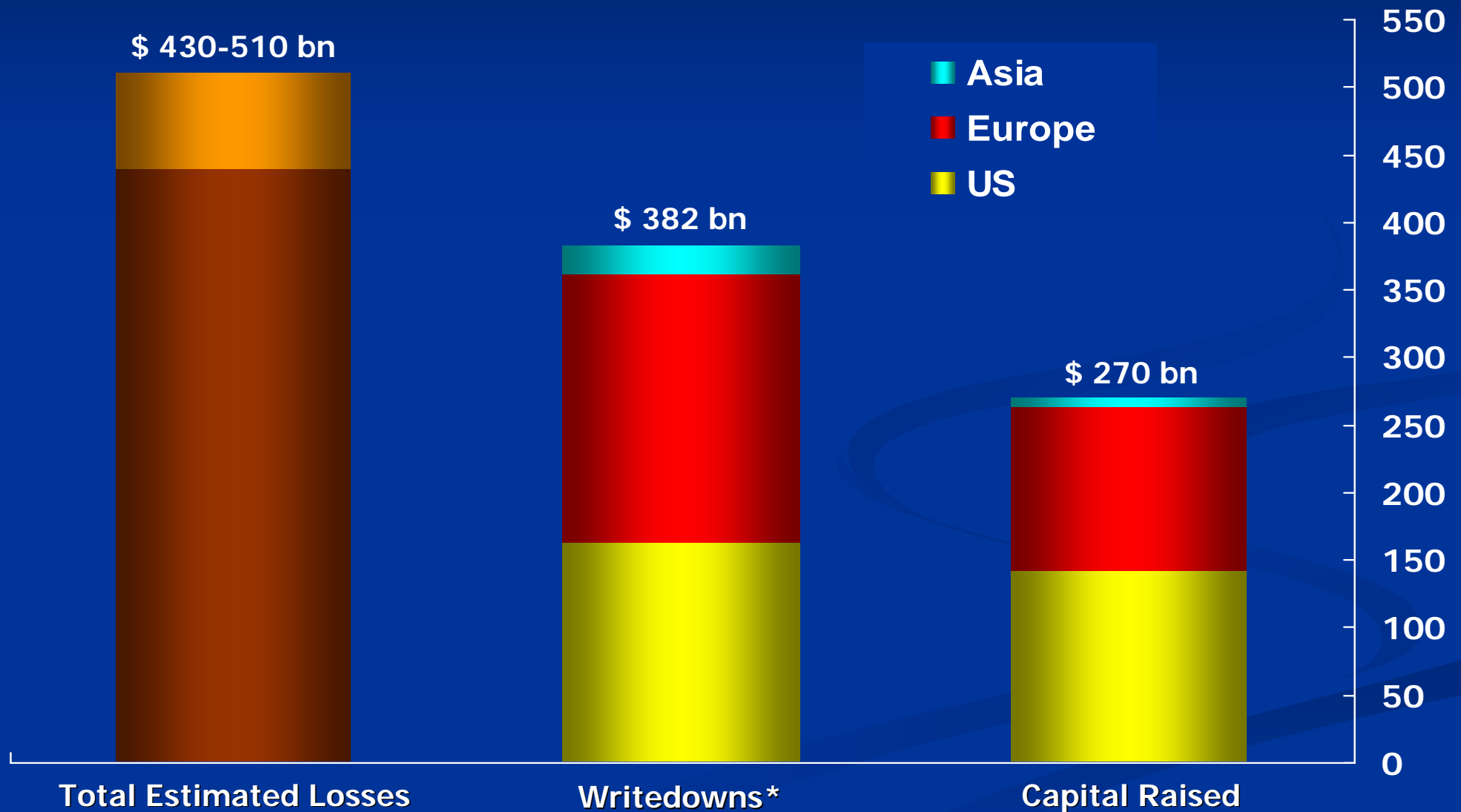


5-Year CDS Spreads of U.S. Investment Banks
(Basis points)



Financial balance sheets are being repaired

(Billions of U.S. dollars)

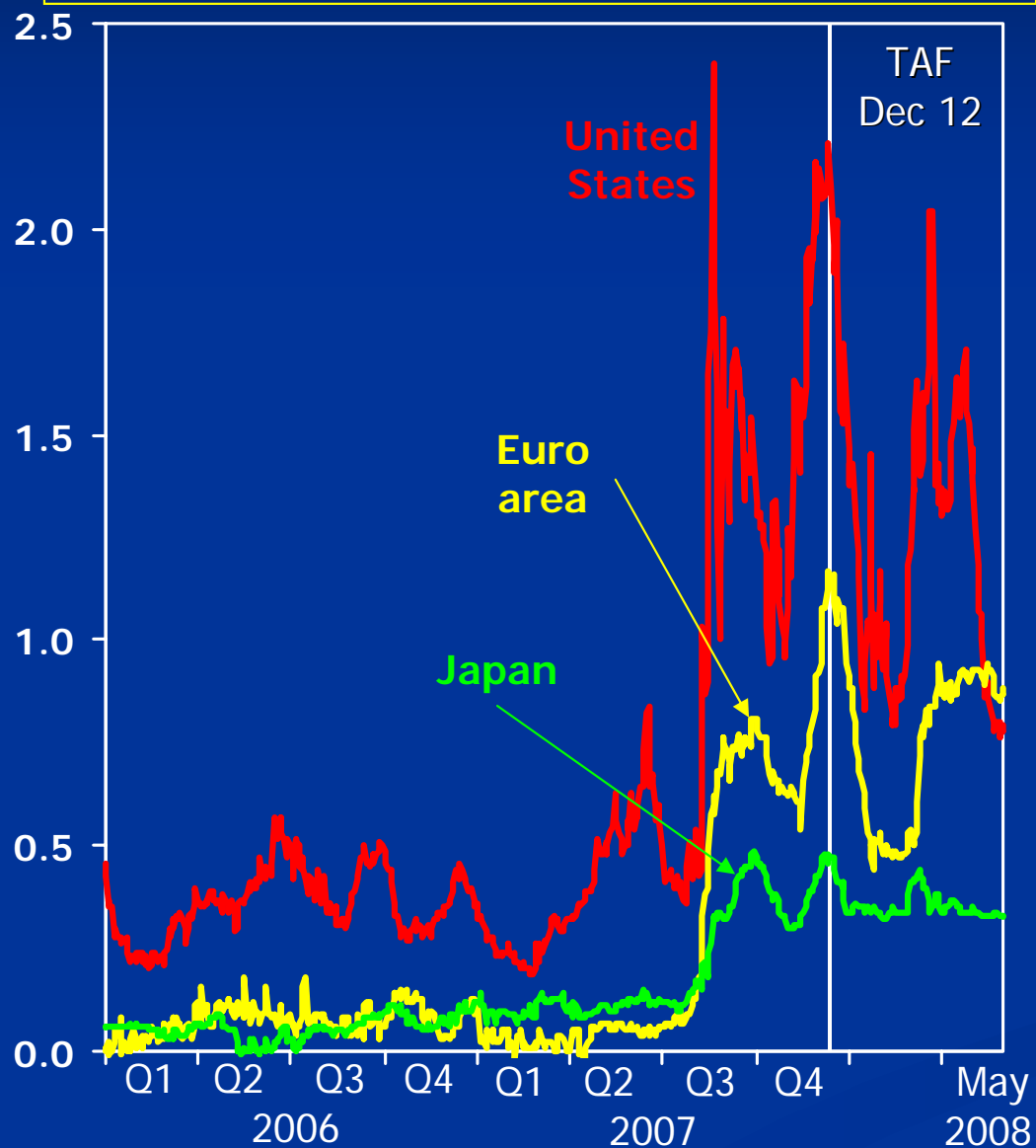


* Includes writedowns due to asset valuation yet to be passed through income statement.

Liquidity strains and volatility remain high

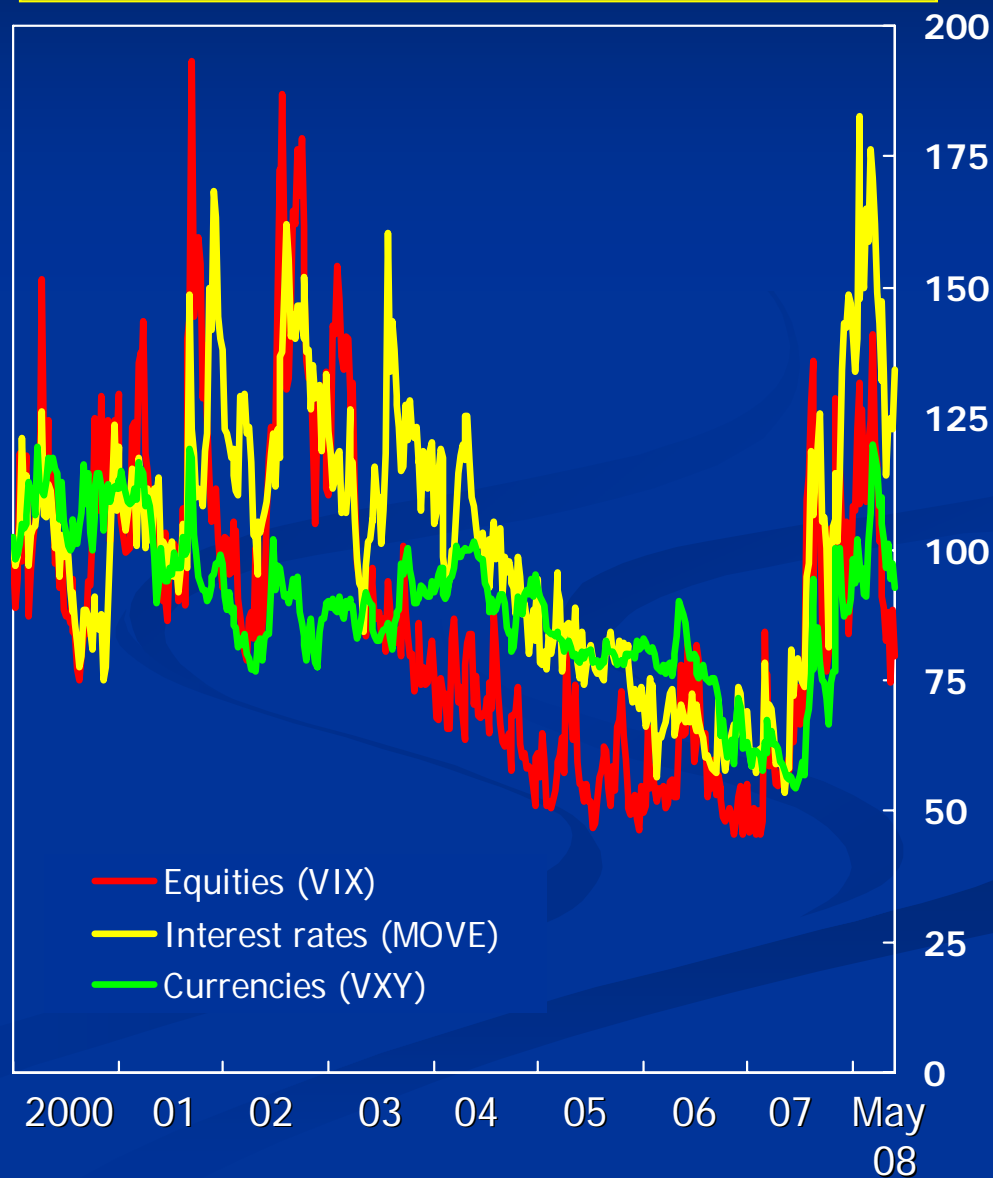
Interbank Markets

(3-month LIBOR minus T-bill rate; in percent)



Market Pricing of Volatility

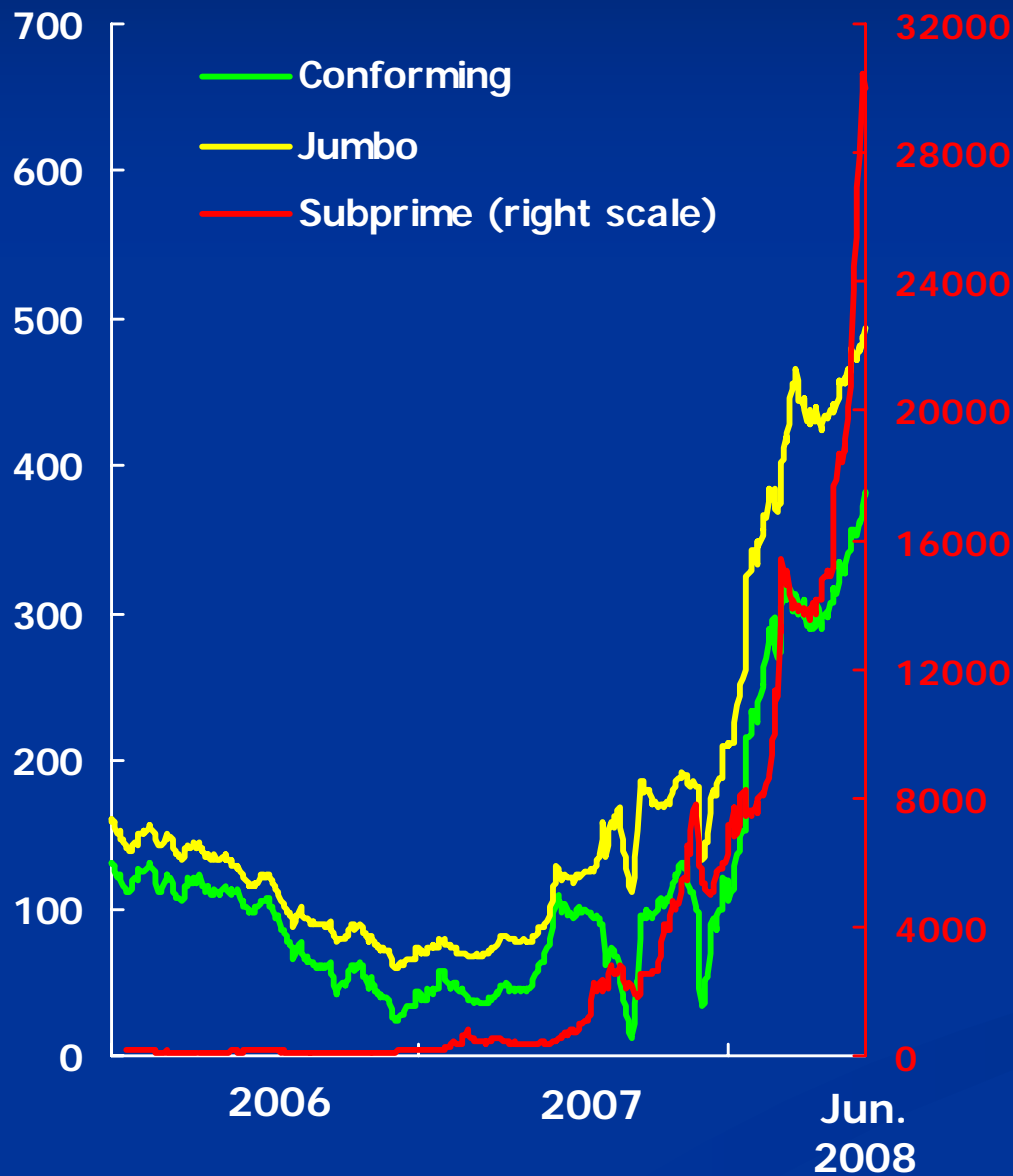
(10-years; medians in basis points)



Interest spreads have moderated – but still wide

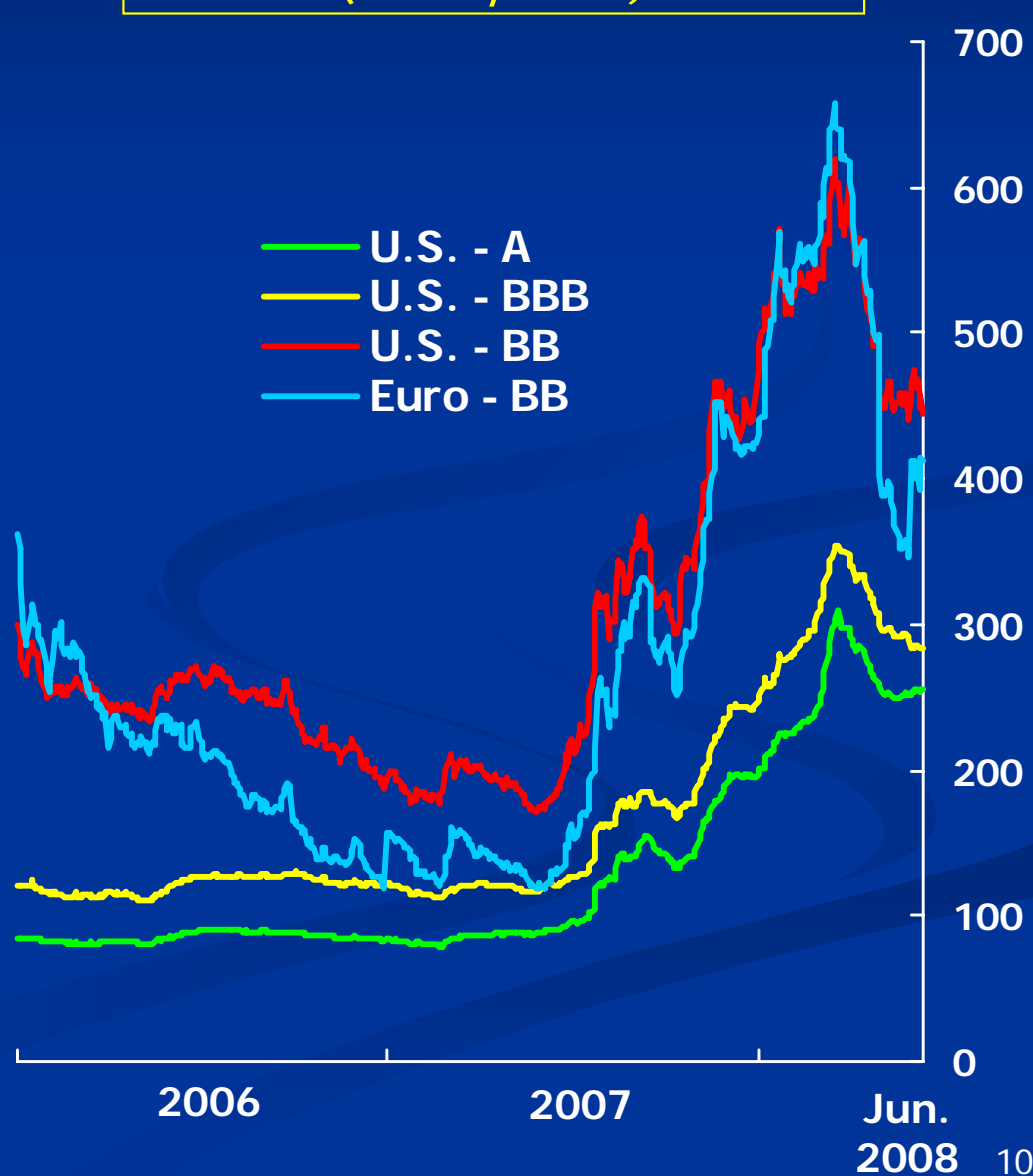
U.S. Mortgage Spreads

(over 1 month LIBOR rates, basis points)



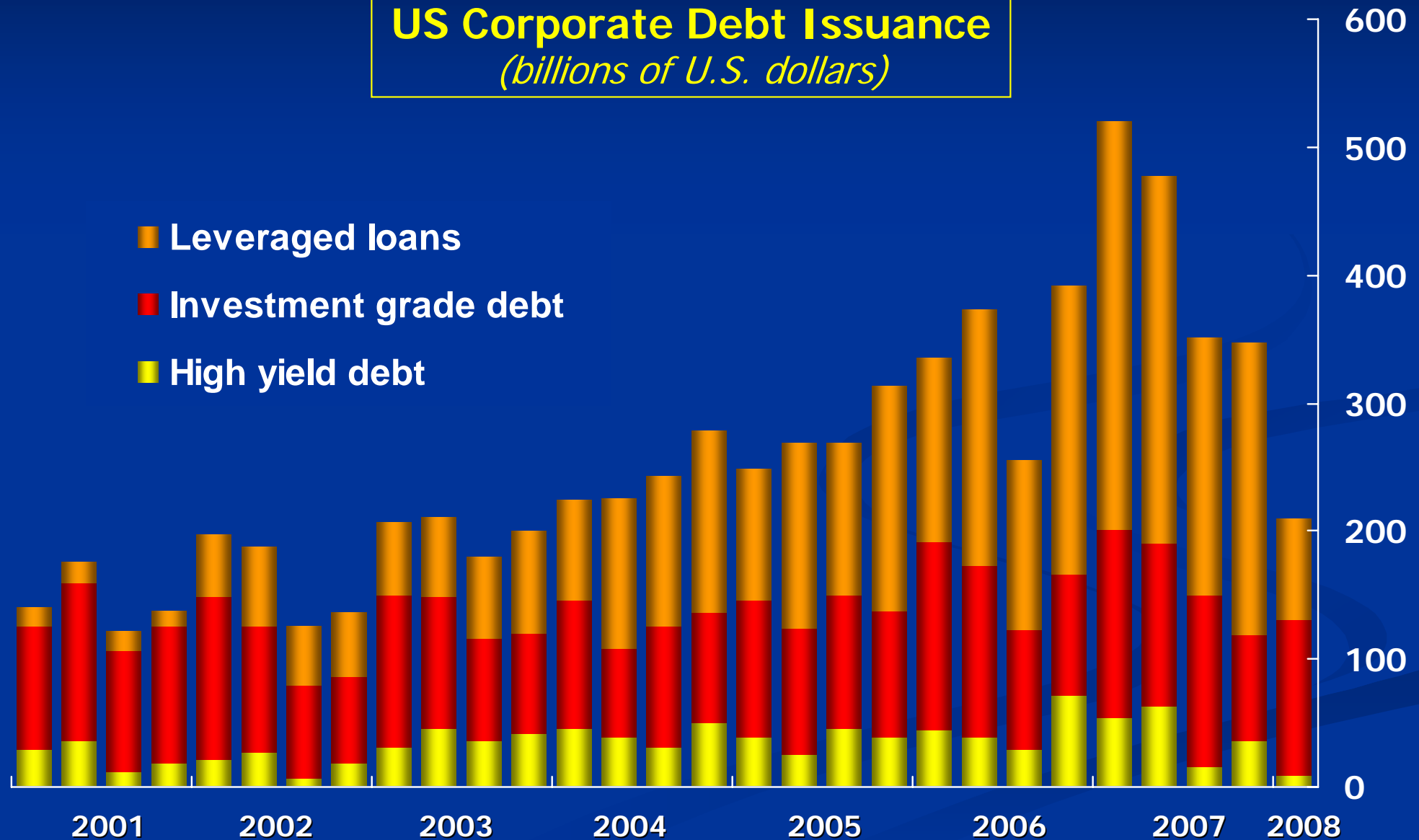
Corporate Spreads

(basis points)

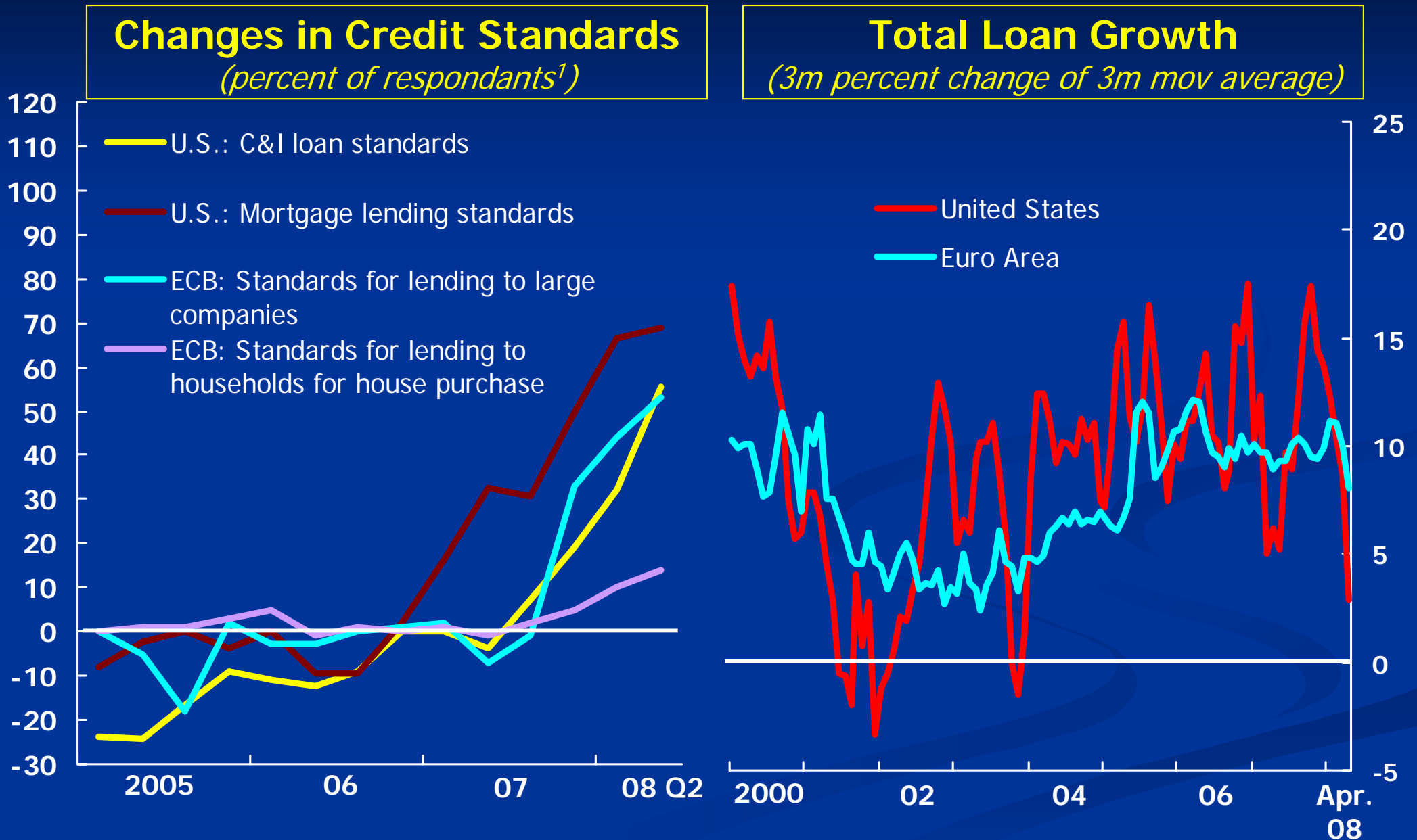


Issuance of debt has dropped off

US Corporate Debt Issuance
(billions of U.S. dollars)



How much is bank credit being squeezed?



¹ Change in the balance of respondents between the "tightened considerably and tightened somewhat" and the "eased somewhat and eased considerably."

U.S. housing correction continues full blast

New Home Sales & Starts

(y/y pct change of 3m moving average)



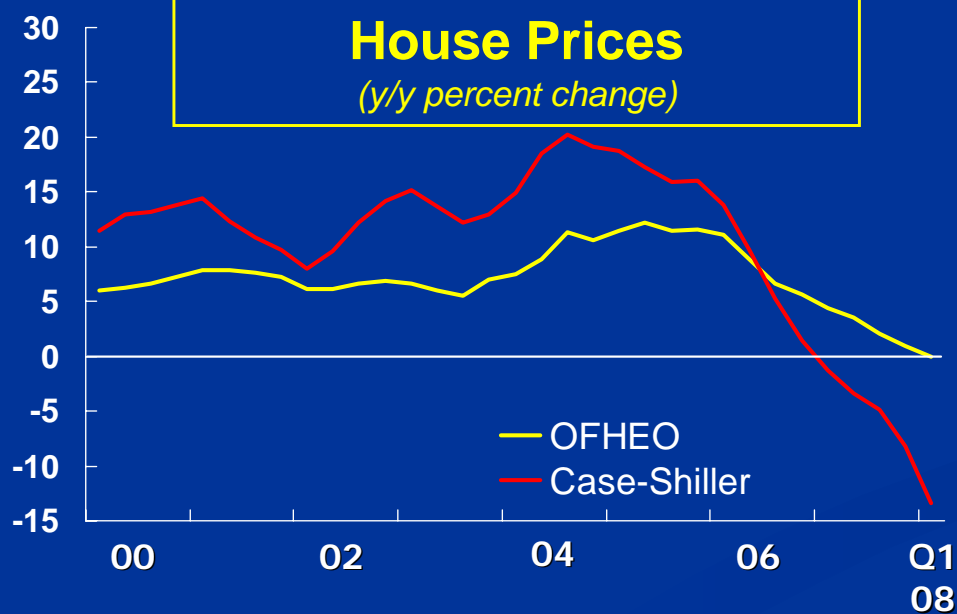
Inventories

(3 month moving average)



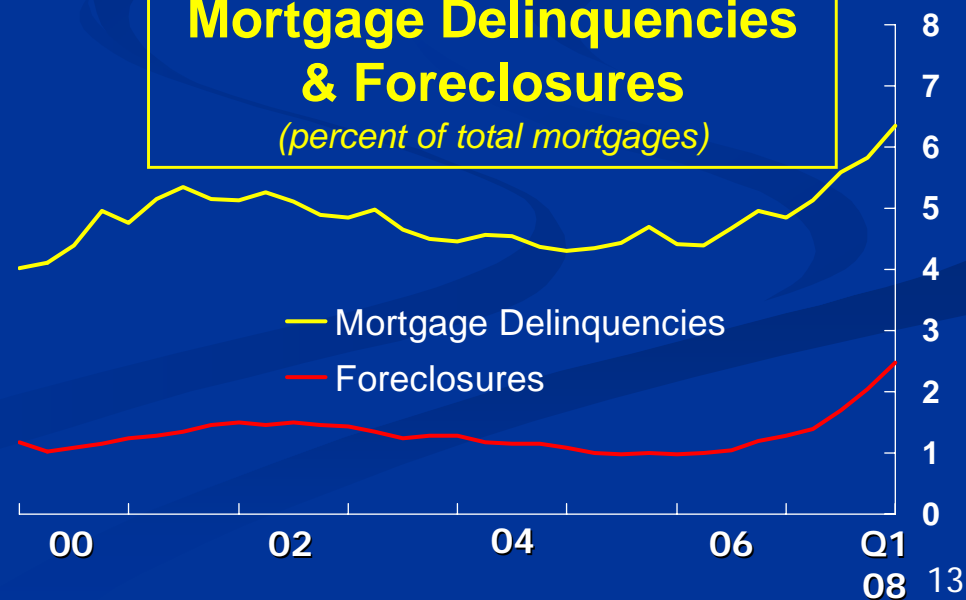
House Prices

(y/y percent change)



Mortgage Delinquencies & Foreclosures

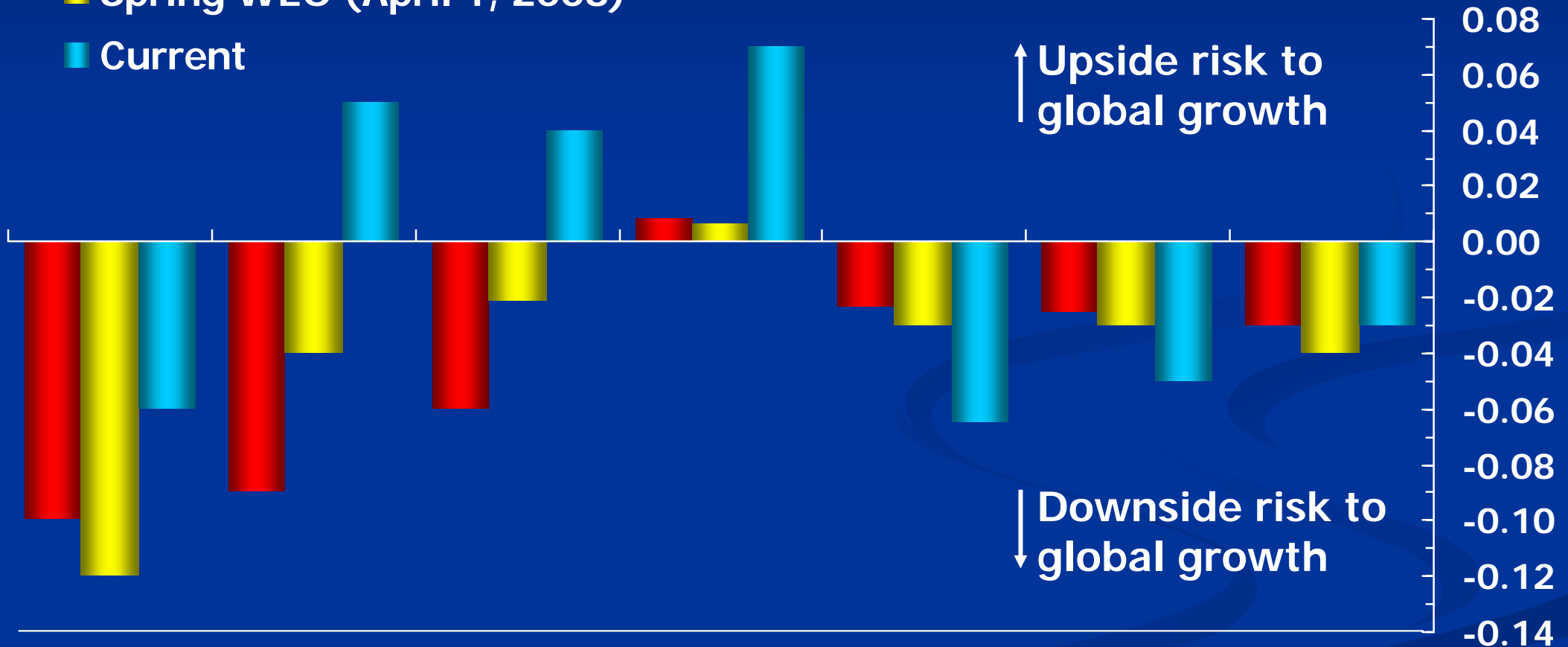
(percent of total mortgages)



Concerns shift from financial risk to inflation risk

(Percentage points of global GDP growth)

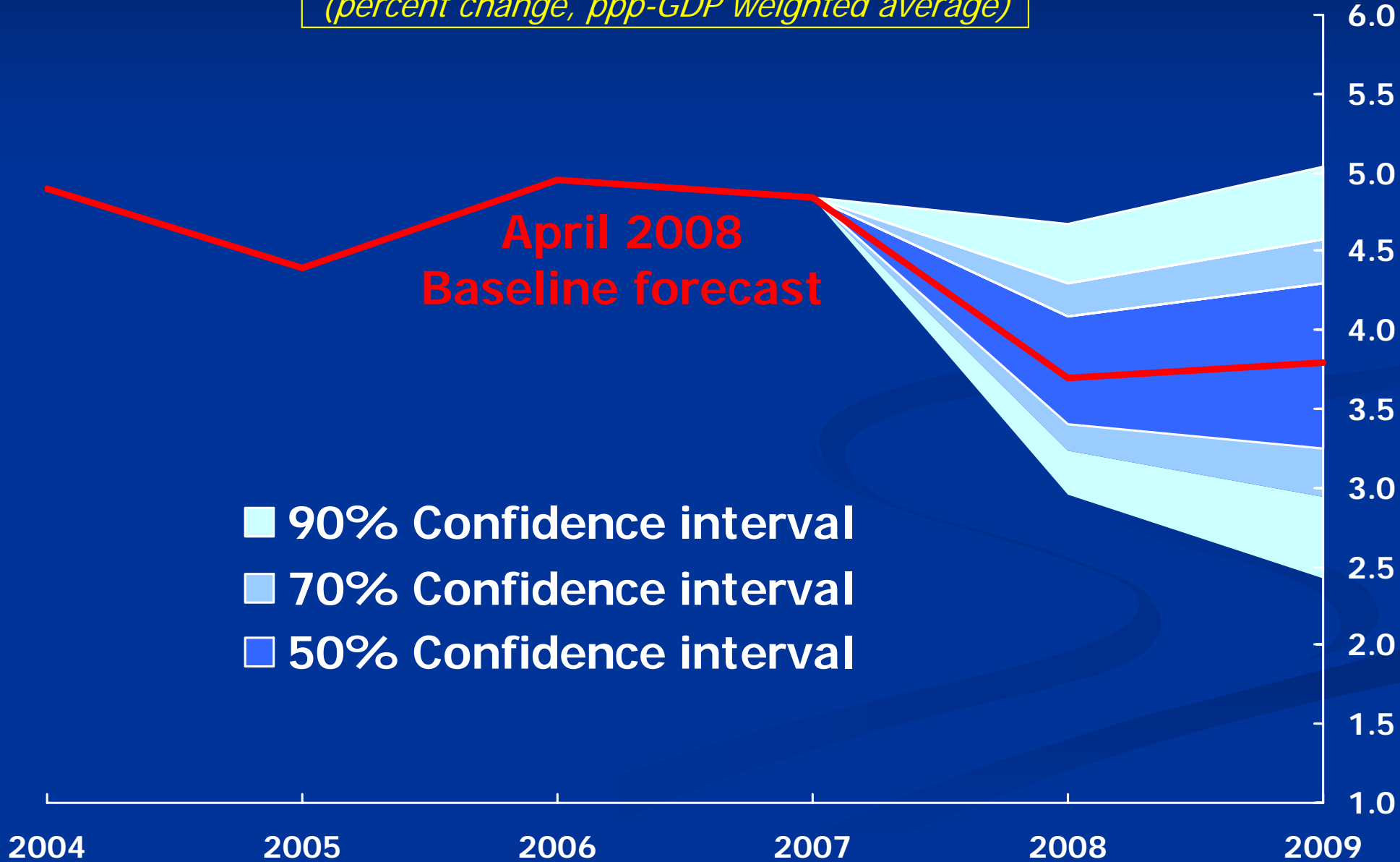
- January 2008 update
- Spring WEO (April 1, 2008)
- Current



Financial conditions Domestic demand in the U.S. Domestic demand in Europe and Japan Domestic demand in emerging markets Inflation risks Oil markets Global imbalances

Risks around baseline look more balanced

Global GDP Growth
(percent change, ppp-GDP weighted average)



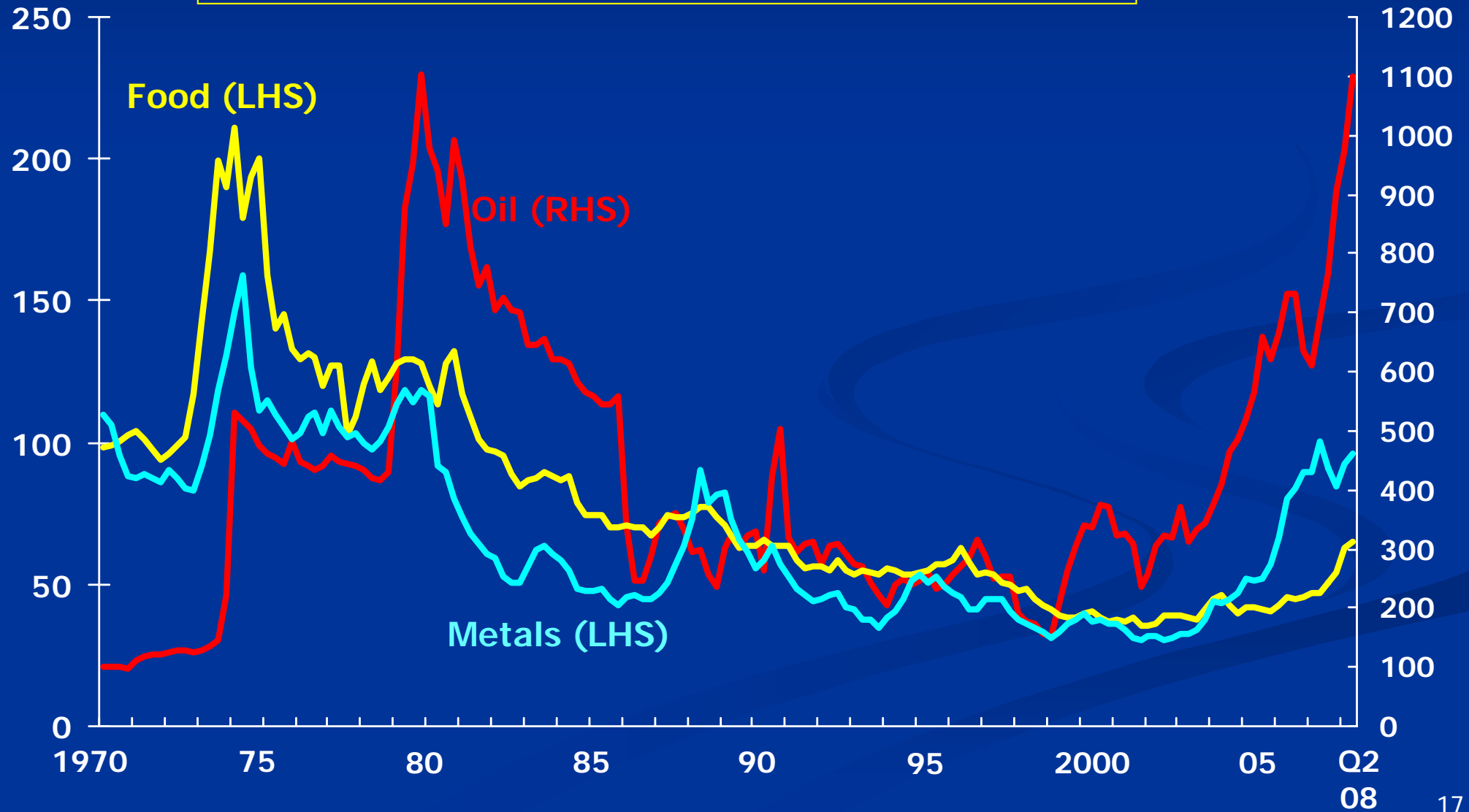
Road Map

- **Global downturn — Have risks receded?**
- **Commodities and inflation — 1970s rerun?**
- **Financial winds — Which way will they blow on Latin America?**

Historical perspective on the commodities boom

Real Oil, Metals and Food Prices

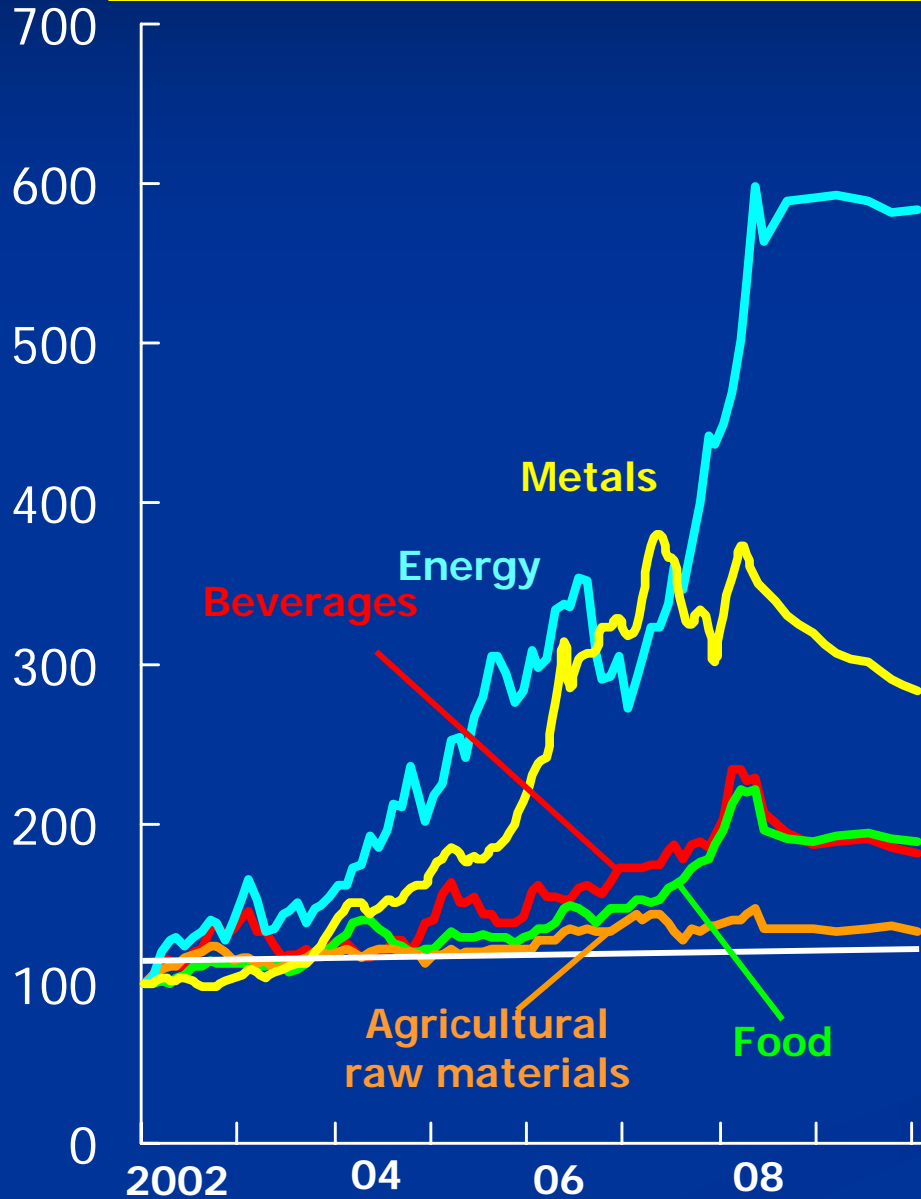
(1970 = 100)



How Much Higher Will Commodity Prices Go?

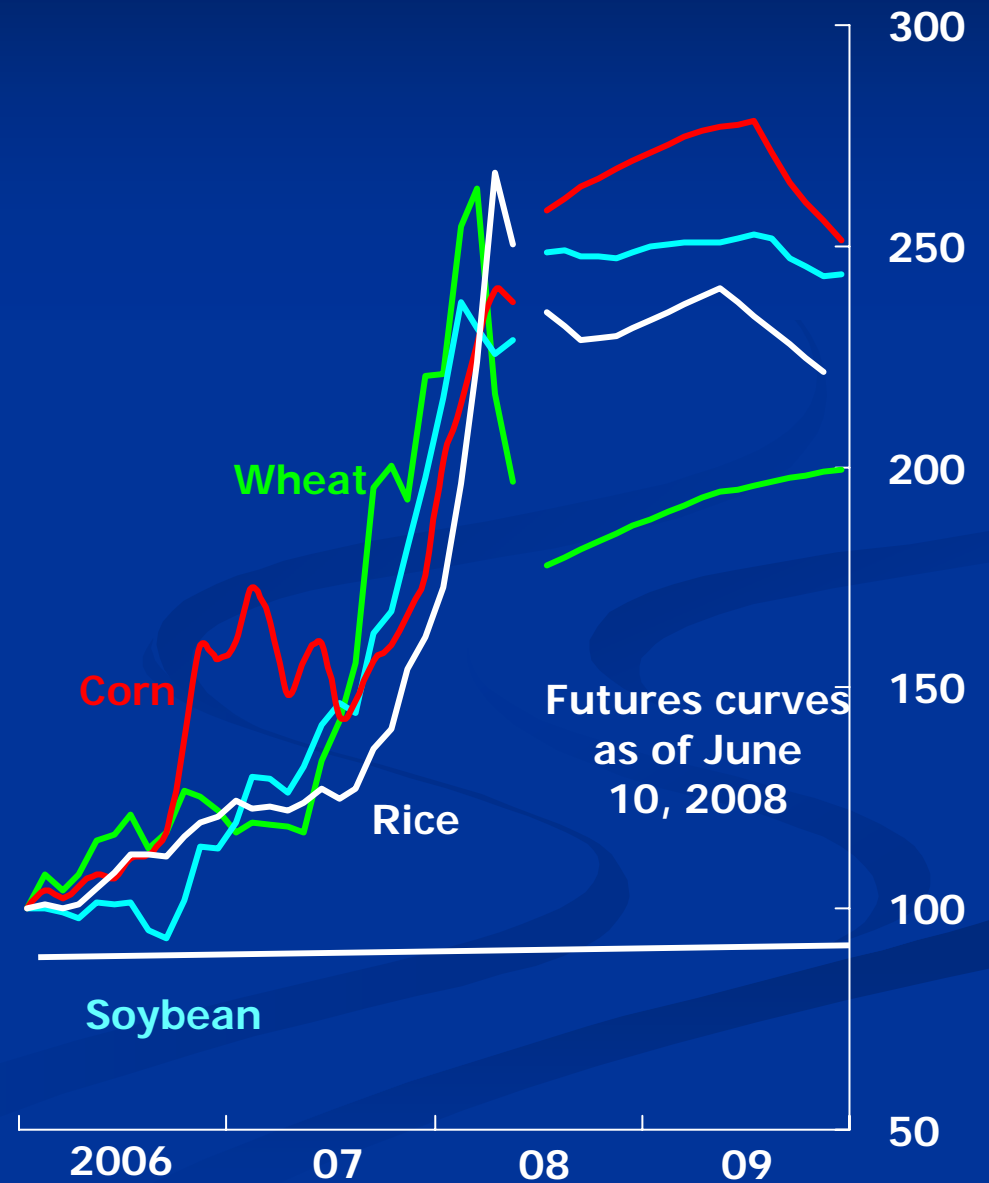
Selected Commodity Prices

(January 2002 = 100)



Selected Food Prices

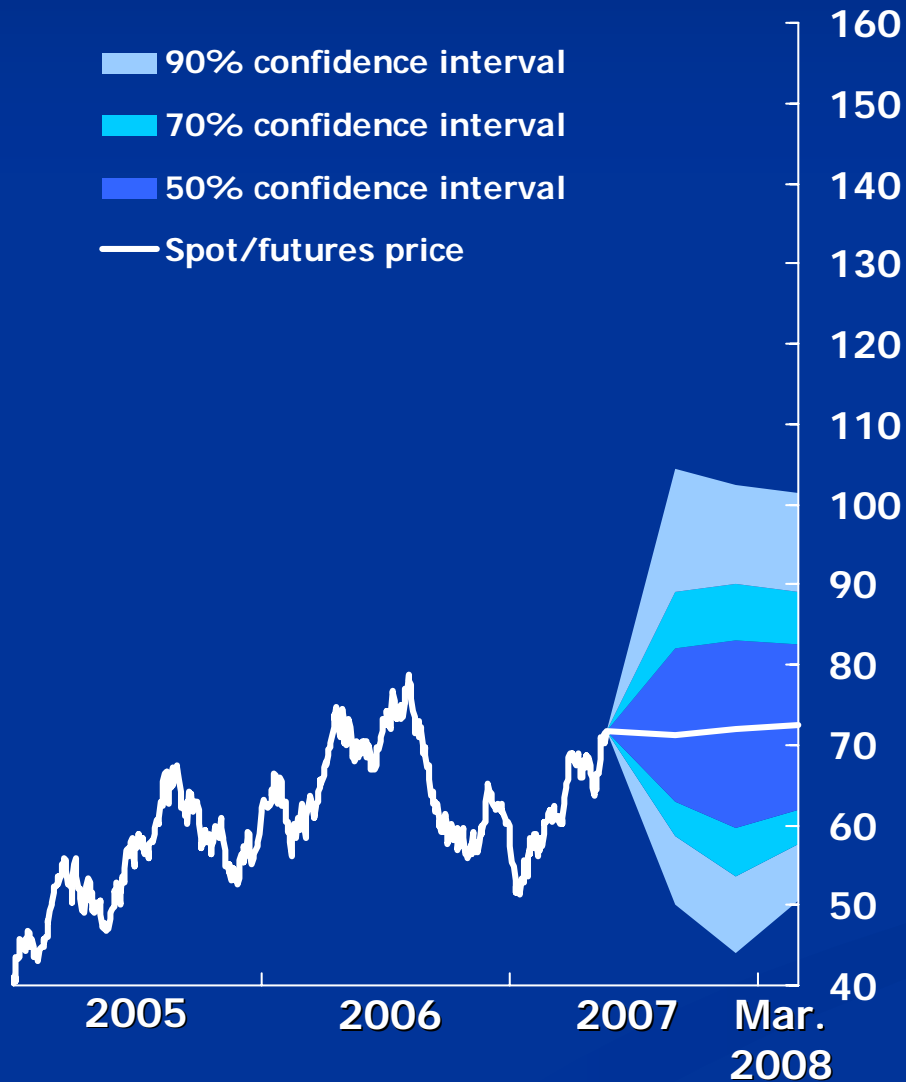
(January 2006 = 100)



Oil options prices show a wide band of uncertainty

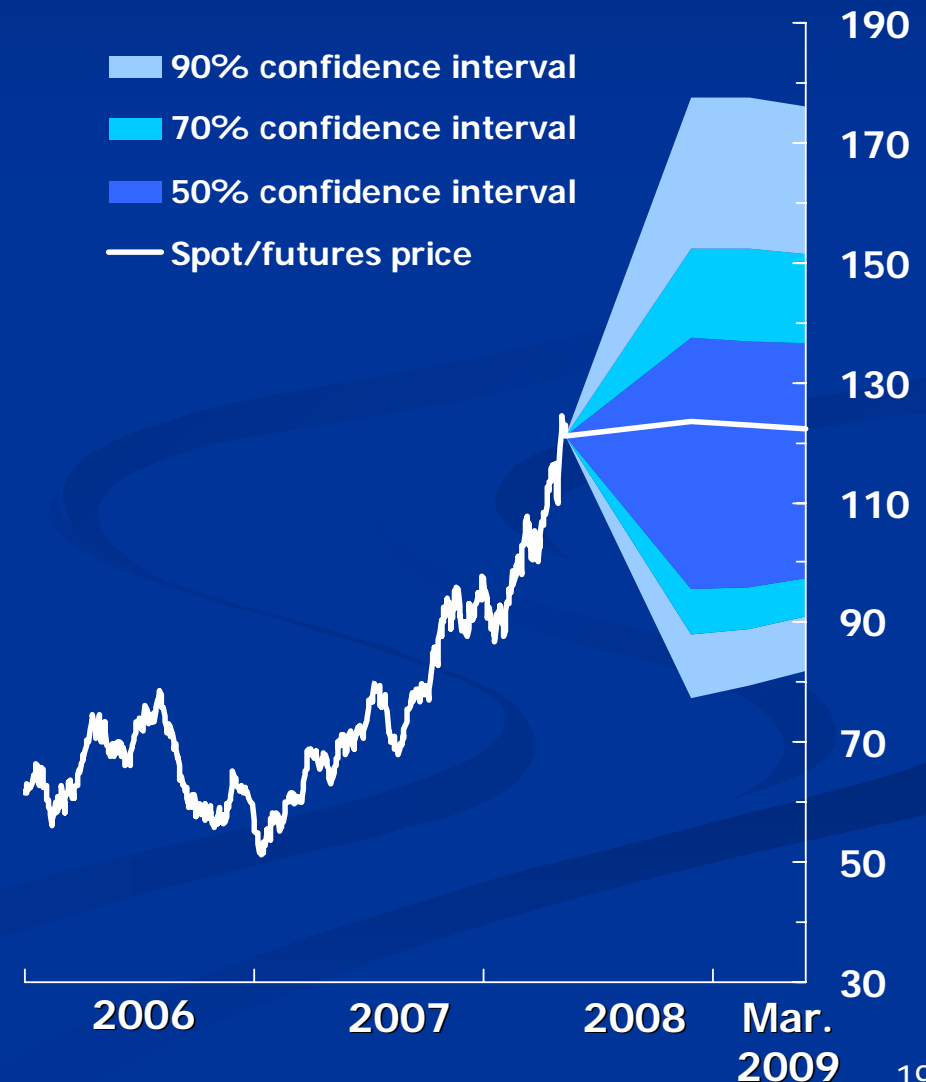
Crude Oil Prices

(Brent; from futures options; as of May 24 2007; U.S. dollars per barrel)



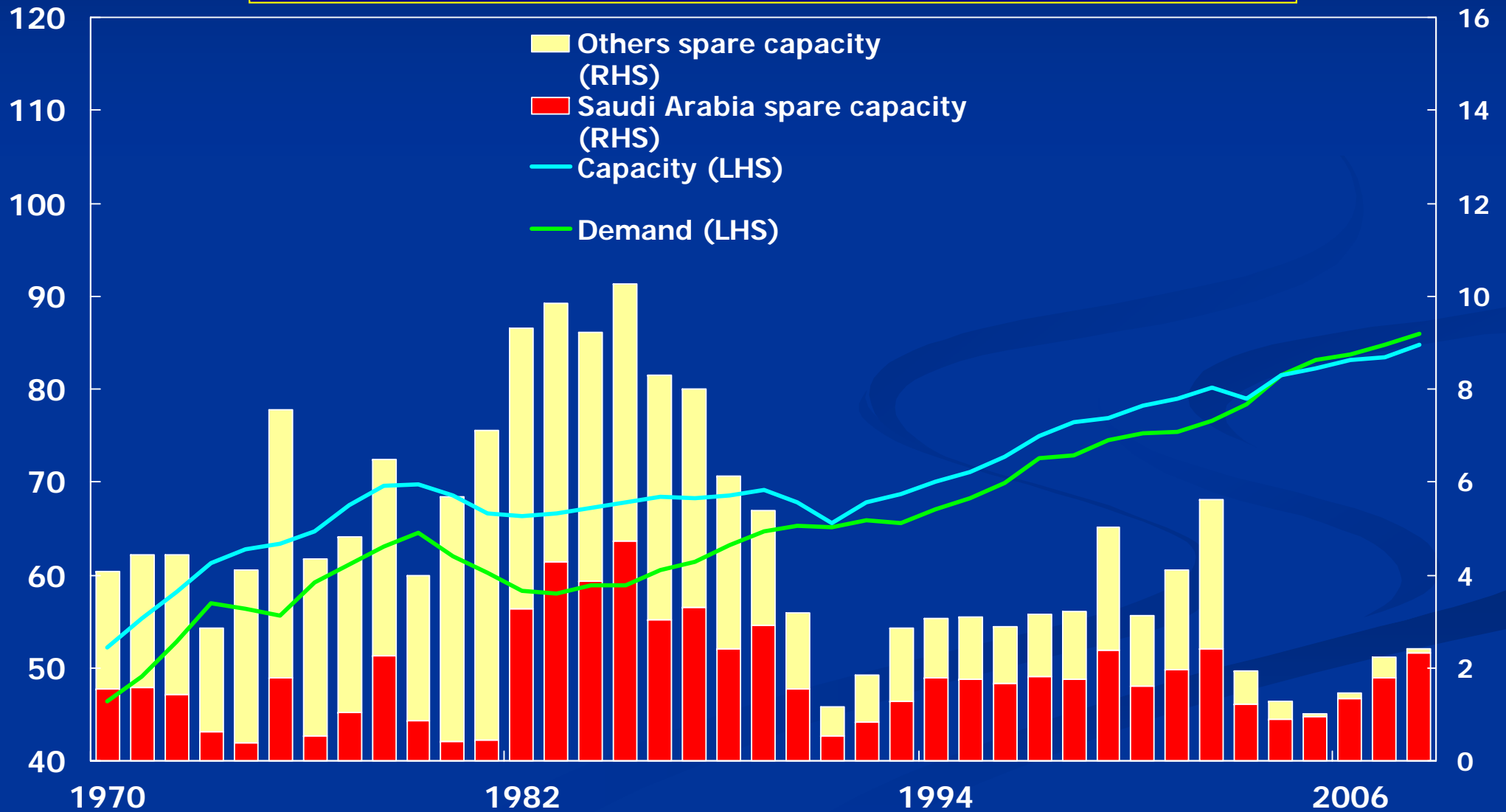
Crude Oil Prices

(Brent; from futures options; as of May 15 2008; U.S. dollars per barrel)



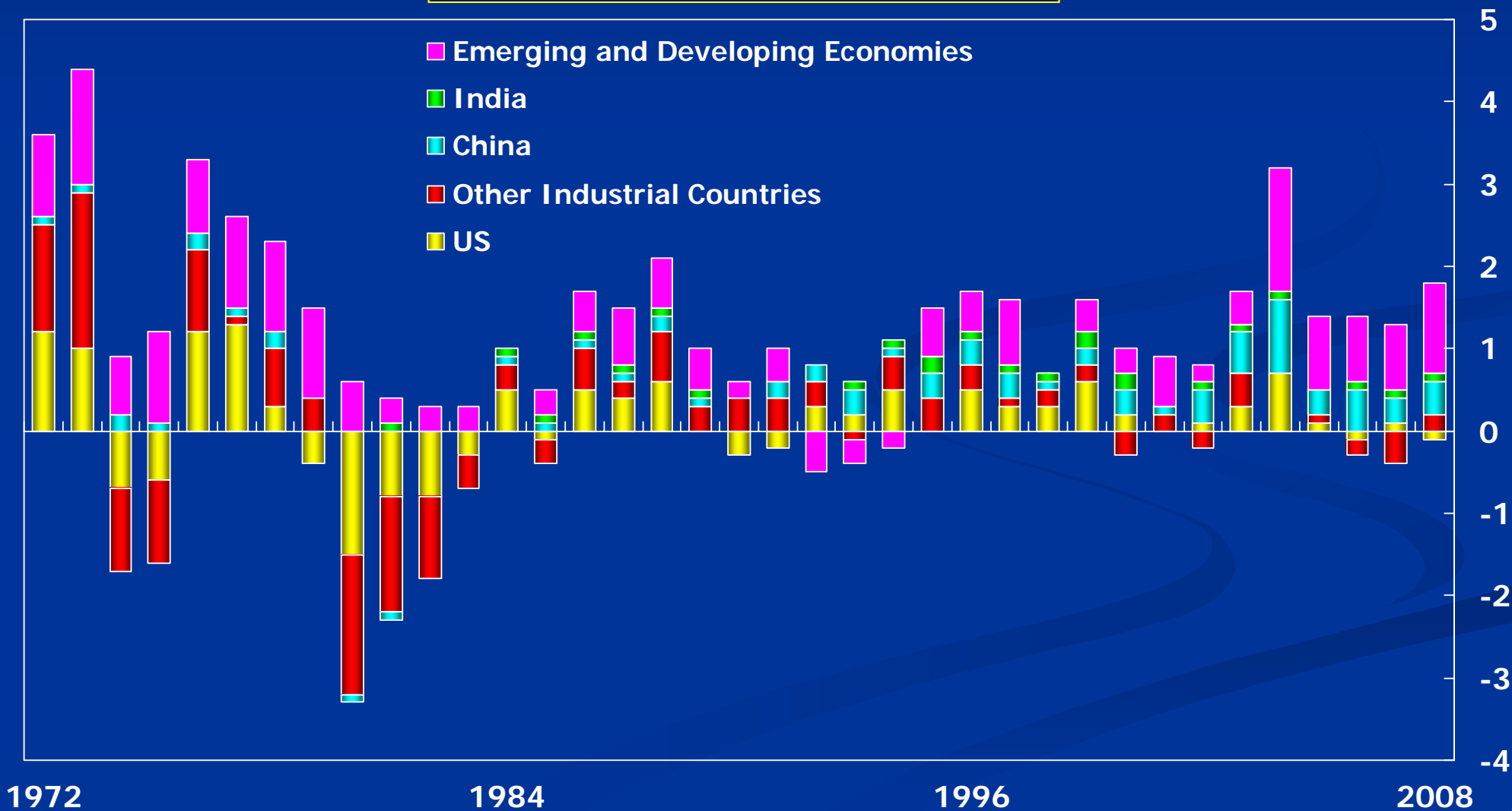
Oil demand has caught up with capacity

World Oil Demand, Production Capacity and Spare Capacity
(million barrels a day)



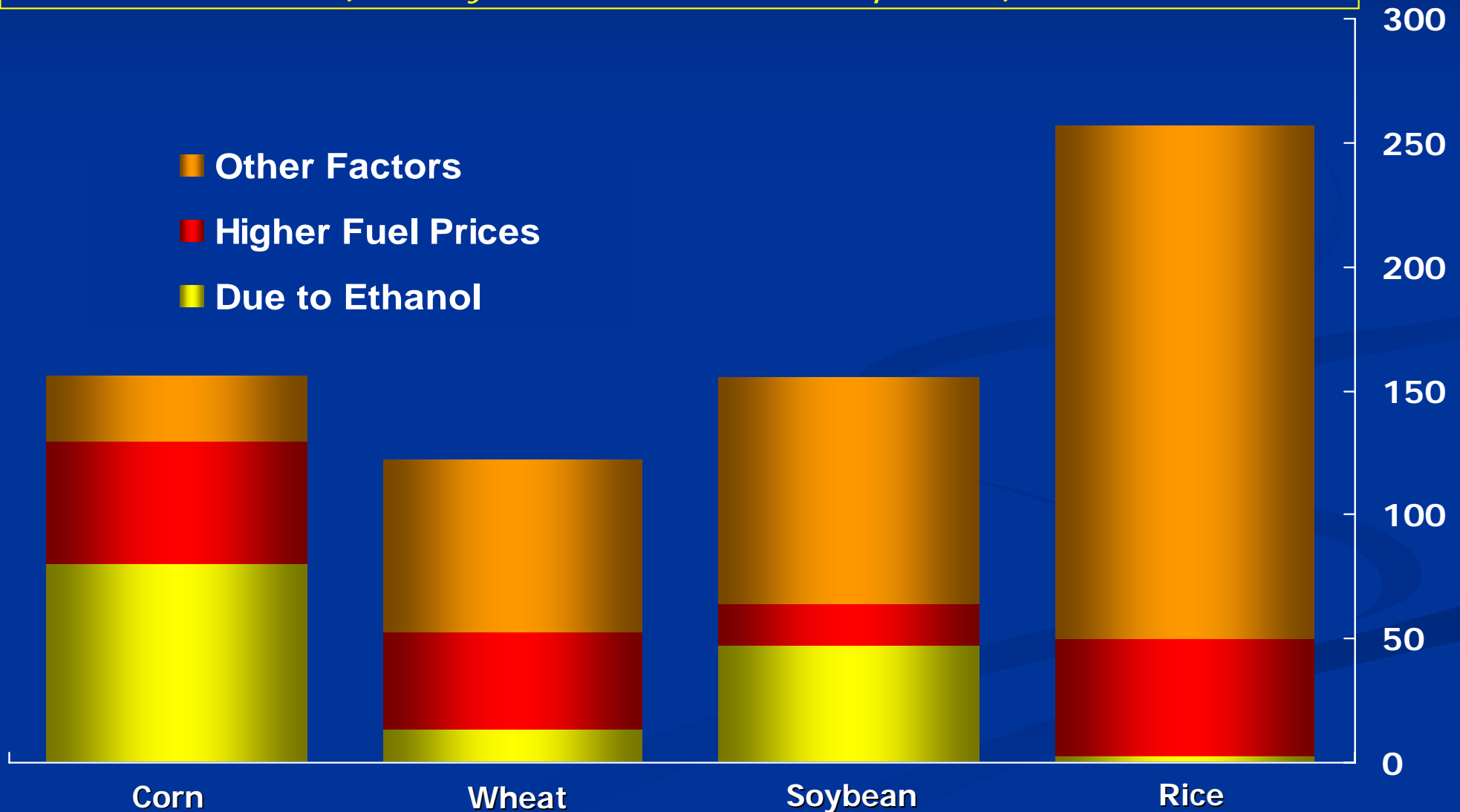
Global oil consumption is now driven by the emerging markets

World Oil Consumption
(in percent of world oil consumption)



Energy Markets Spill Onto Food Markets

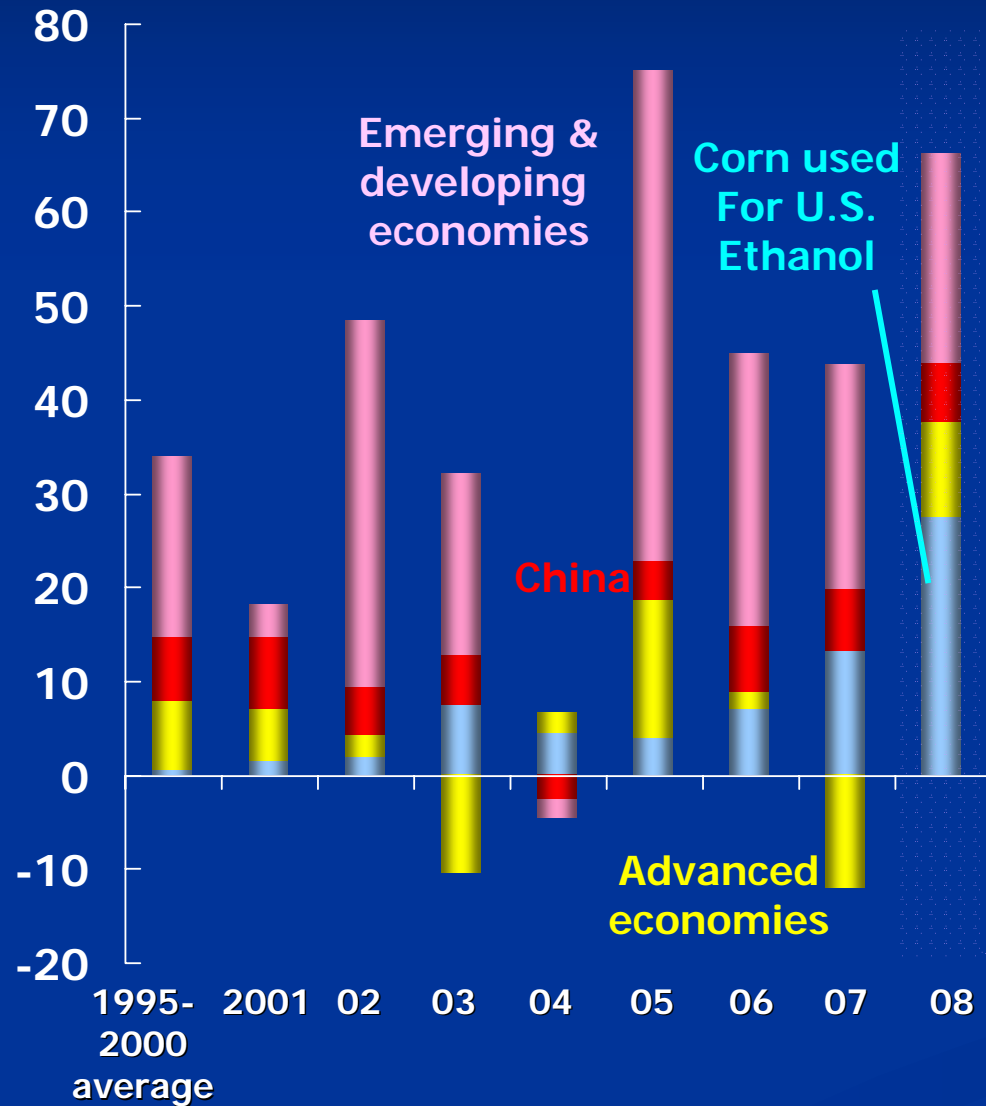
Estimated Contributions to Food Price Changes of Major Food Crops
(January 2006-March 2008; in percent)



Global Food Demand has Outrun Supply

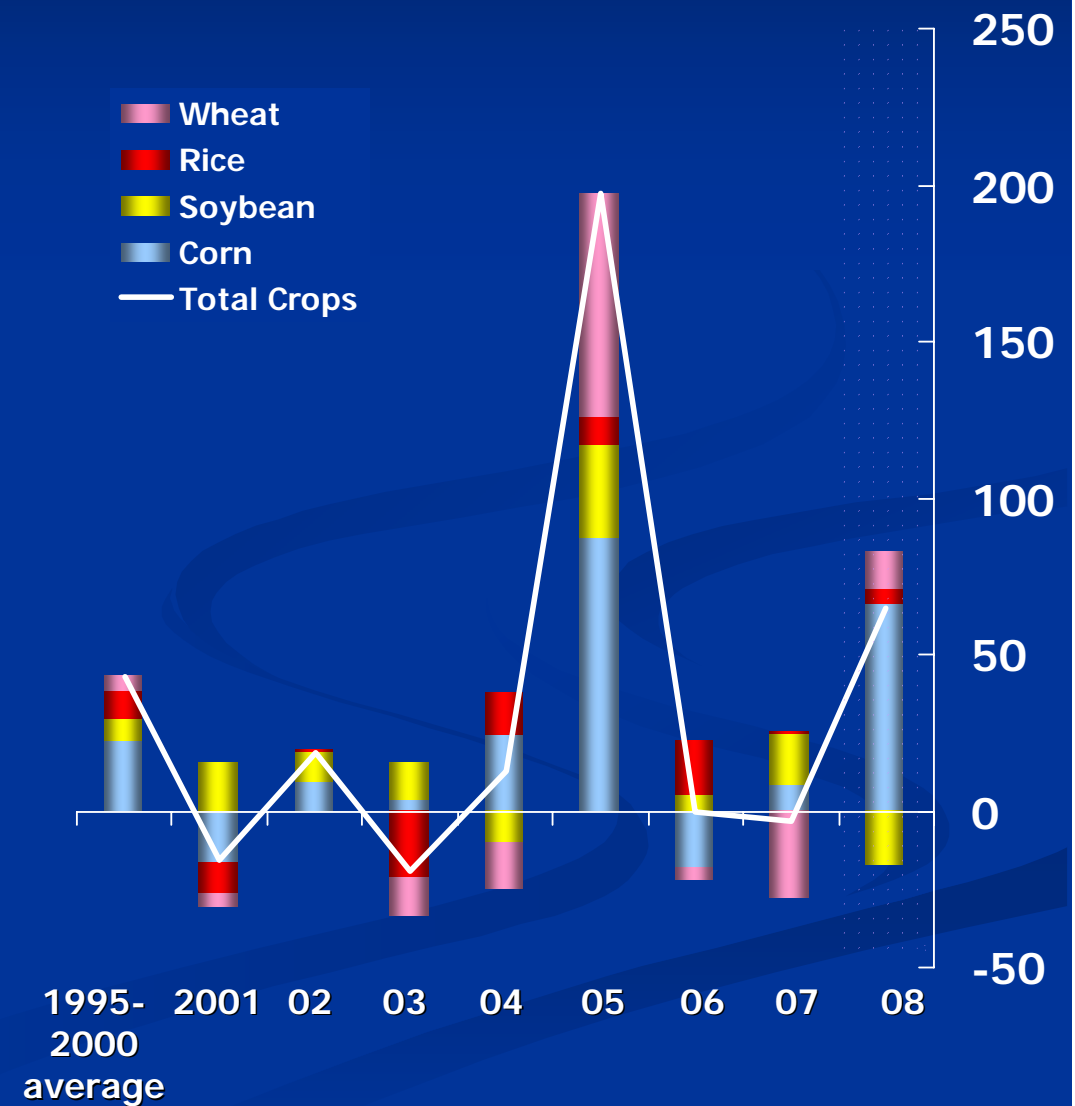
Demand for Major Food Crops

(annual change in millions of tonnes)



Production of Major Food Crops

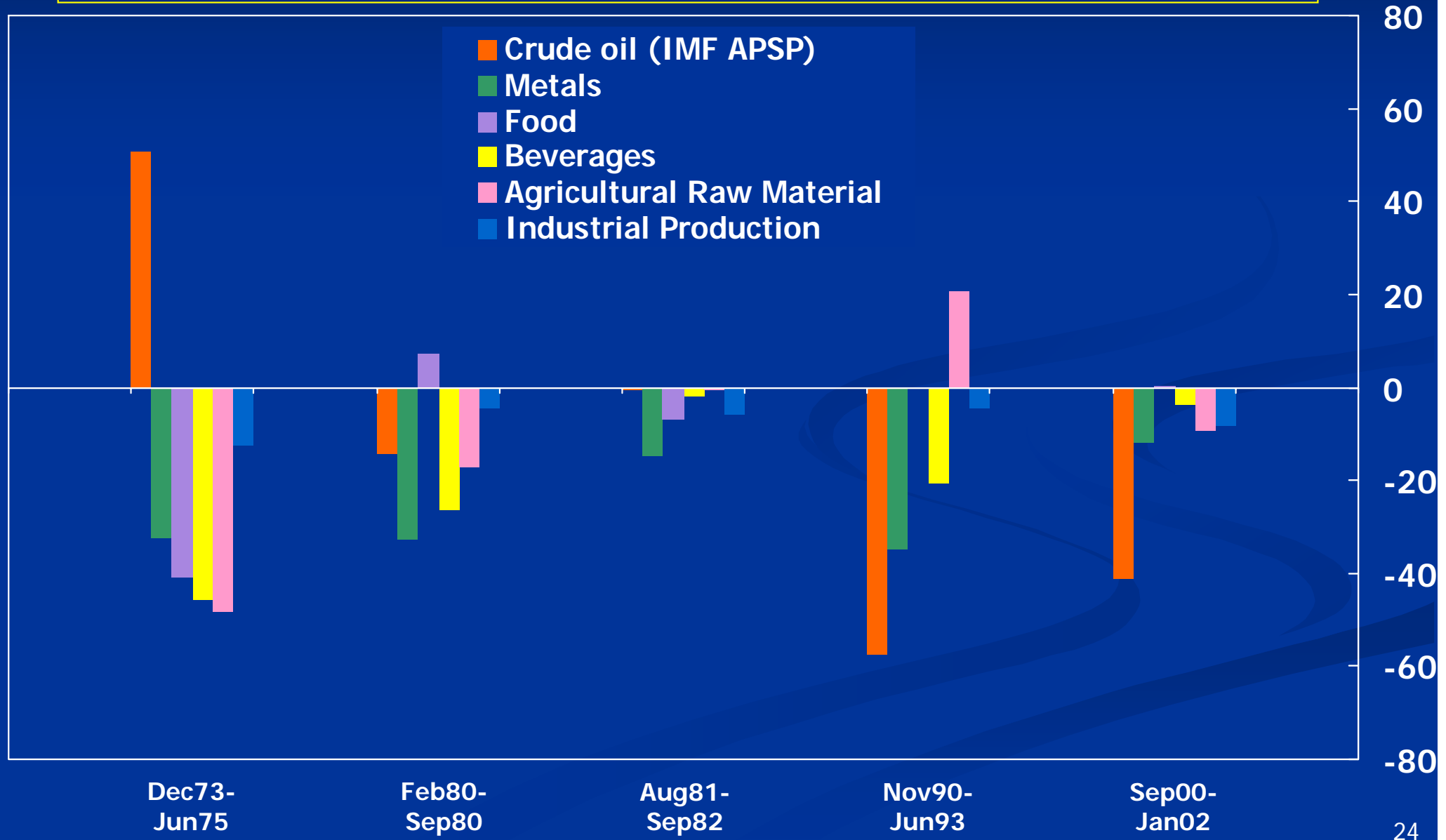
(annual change in millions of tonnes)



Commodity prices fall during global downturns

Commodity Price Changes By Category

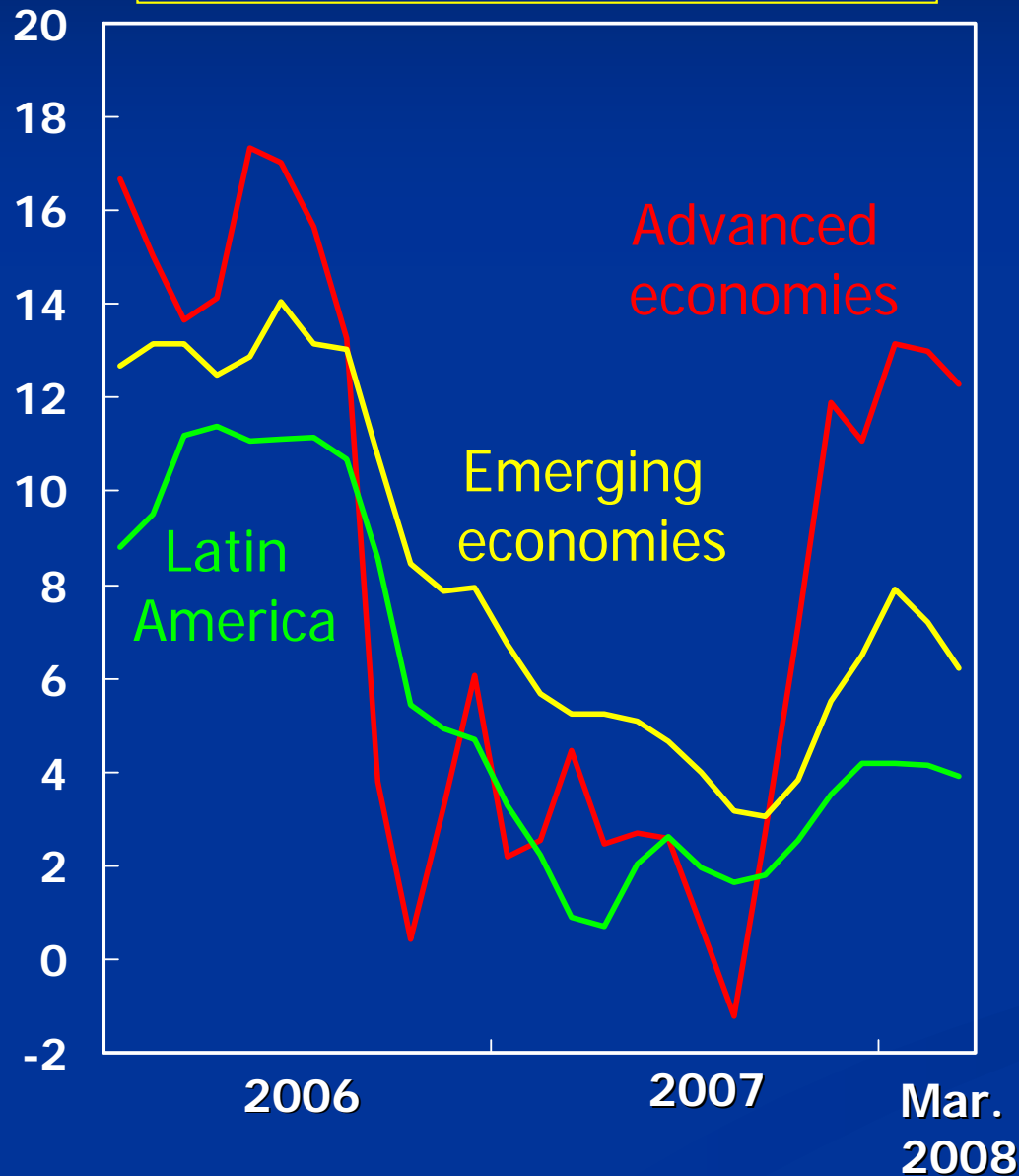
(in US dollars; peak to trough change)



Booming commodity prices and inflation

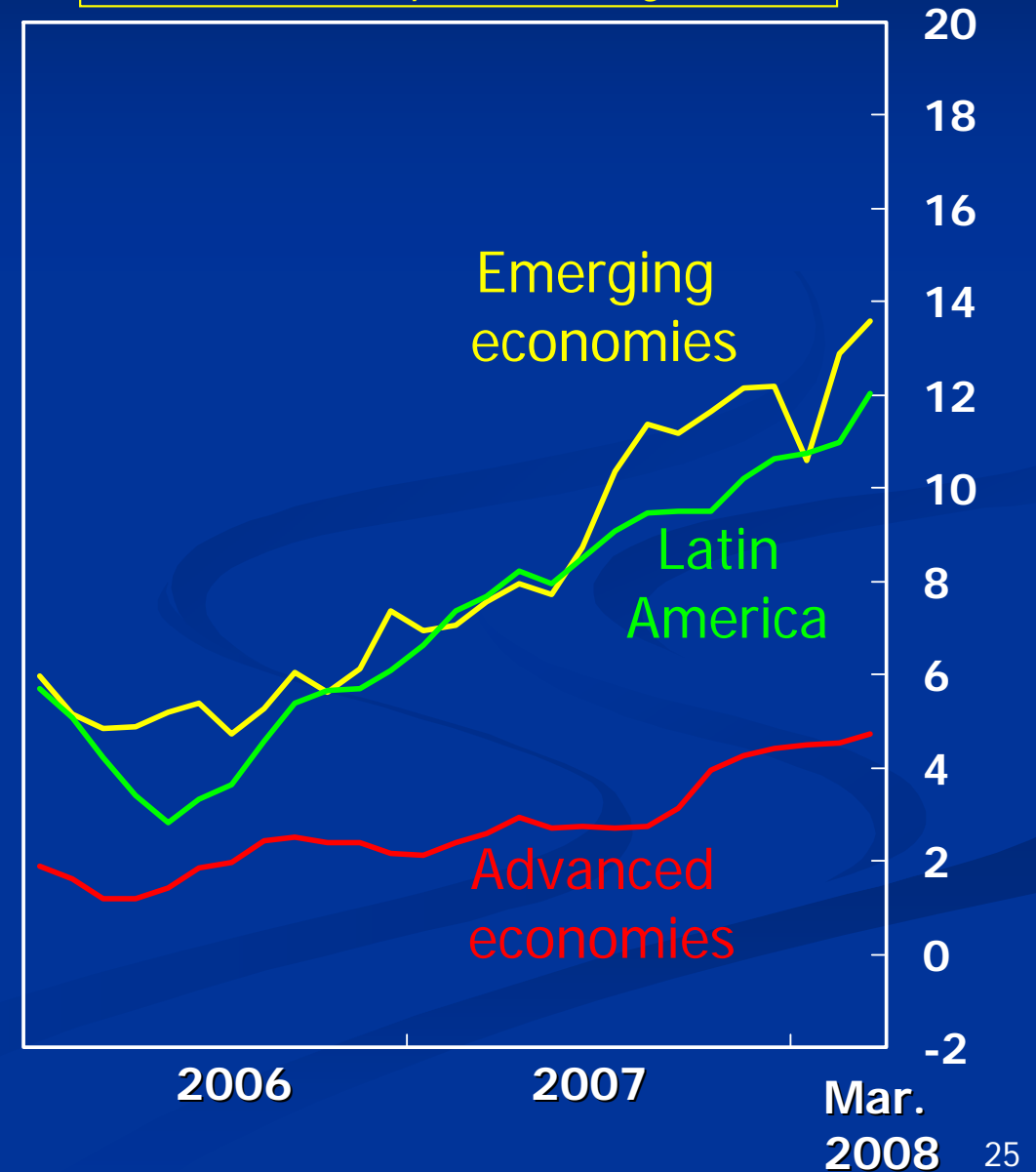
Fuel Price Inflation

(12 month percent change)



Food Price Inflation

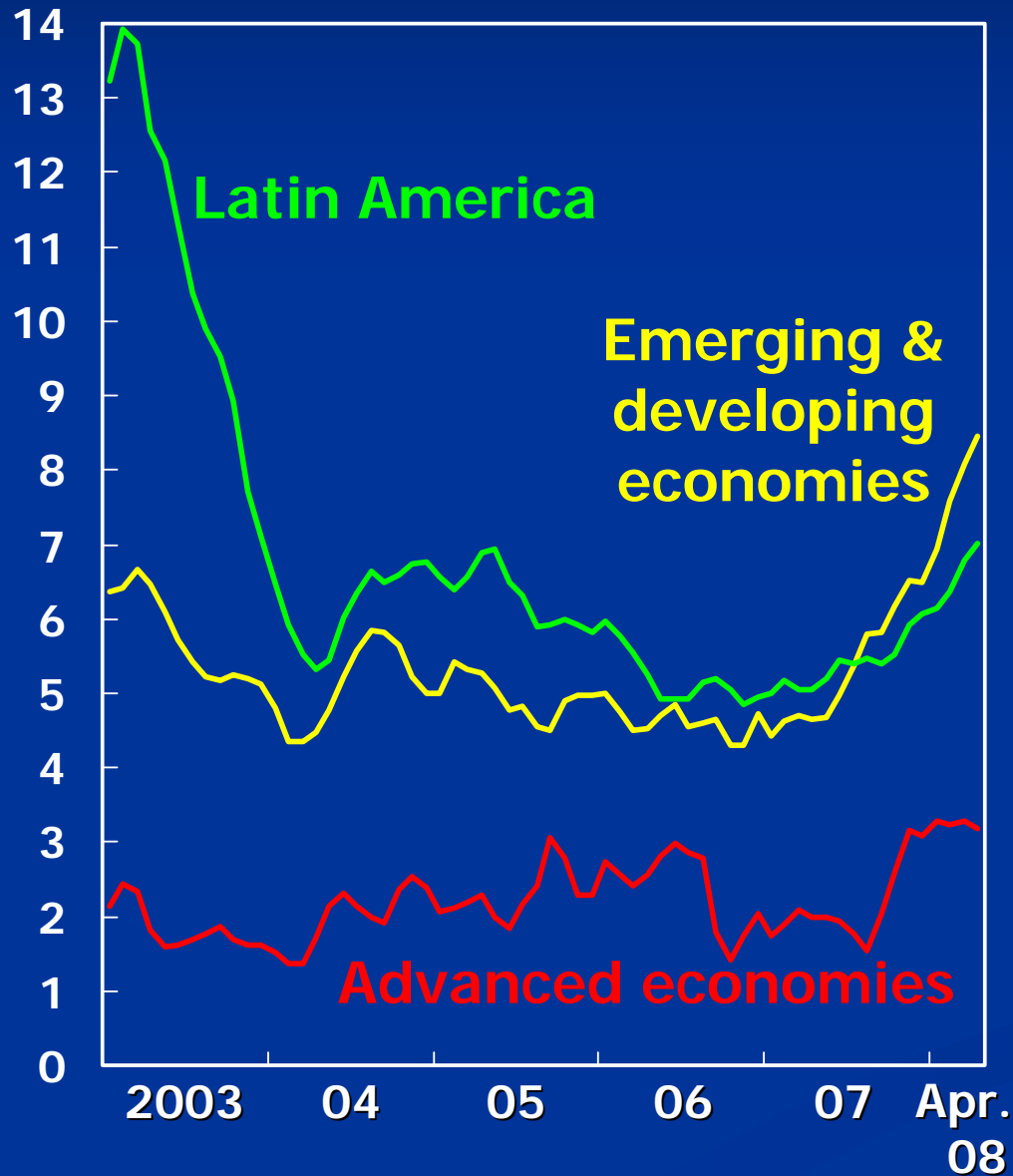
(12 month percent change)



Inflation is on the rise worldwide

Headline Inflation

(12 month percent change)



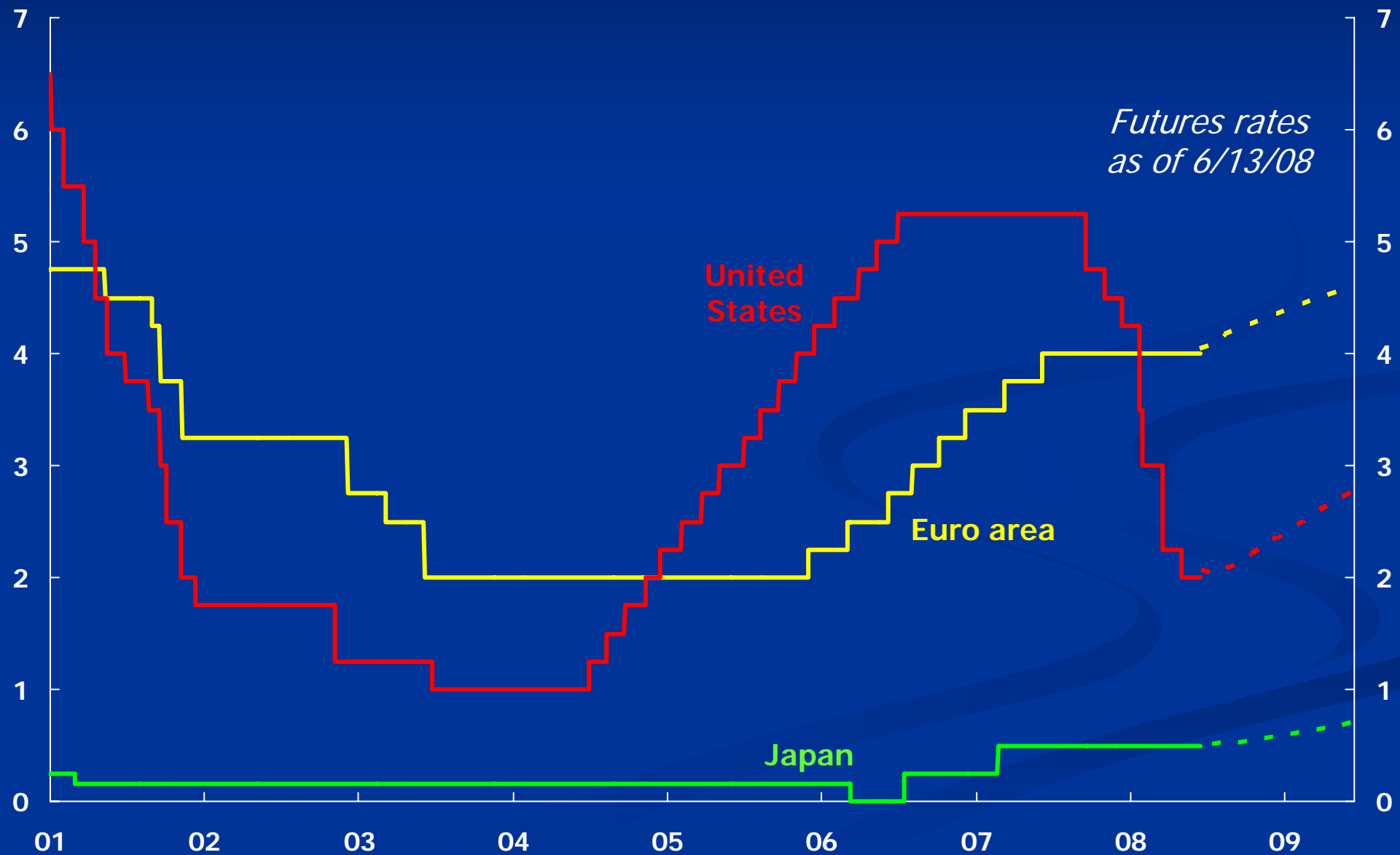
Core Price Inflation

(12 month percent change)



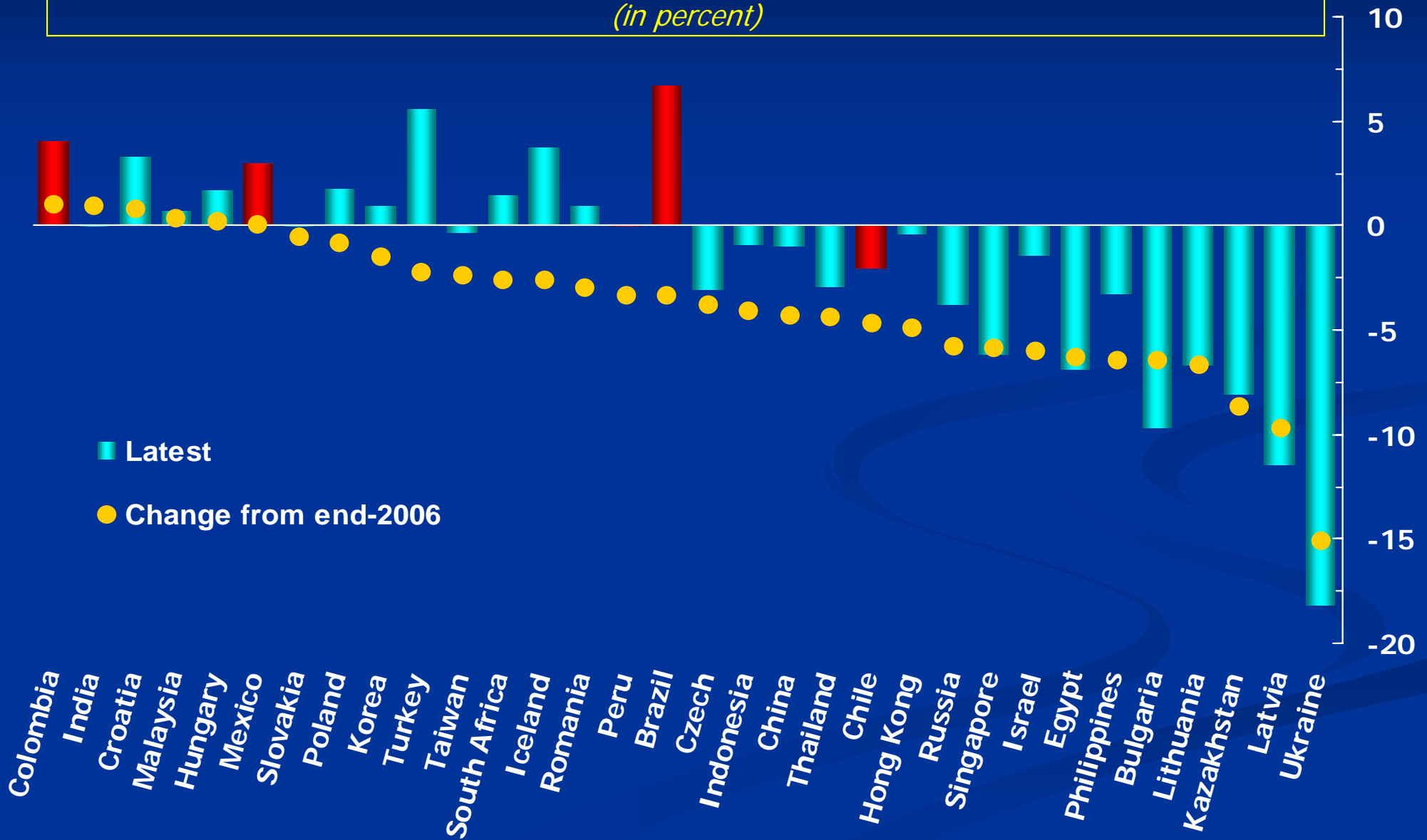
Monetary policy: shift to tightening bias

(Policy rates; percent)



Falling behind the curve?

Real Policy Rates: Latest Levels and Changes from End-2006
(in percent)



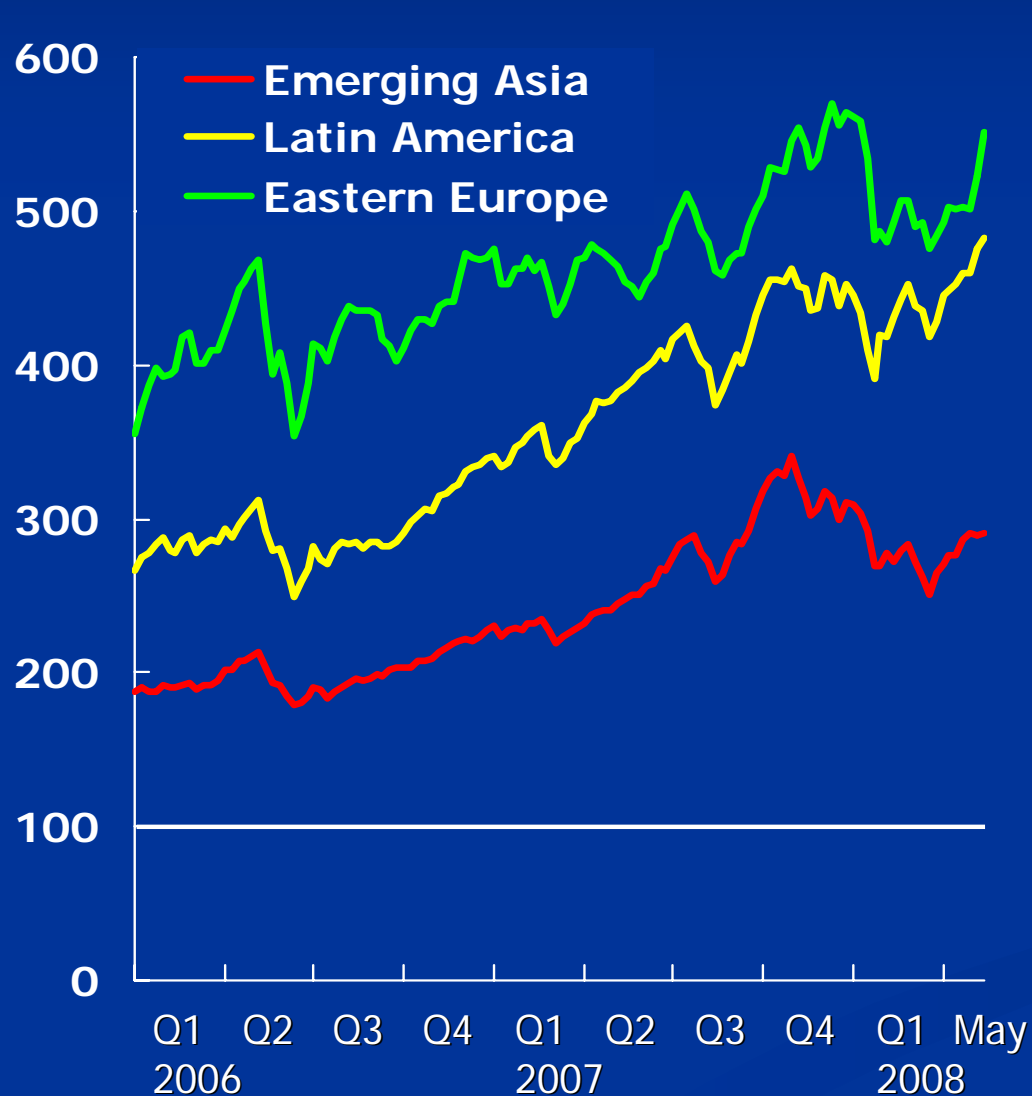
Road Map

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- **Financial winds — Which way will they blow on Latin America?**

Emerging markets have been resilient

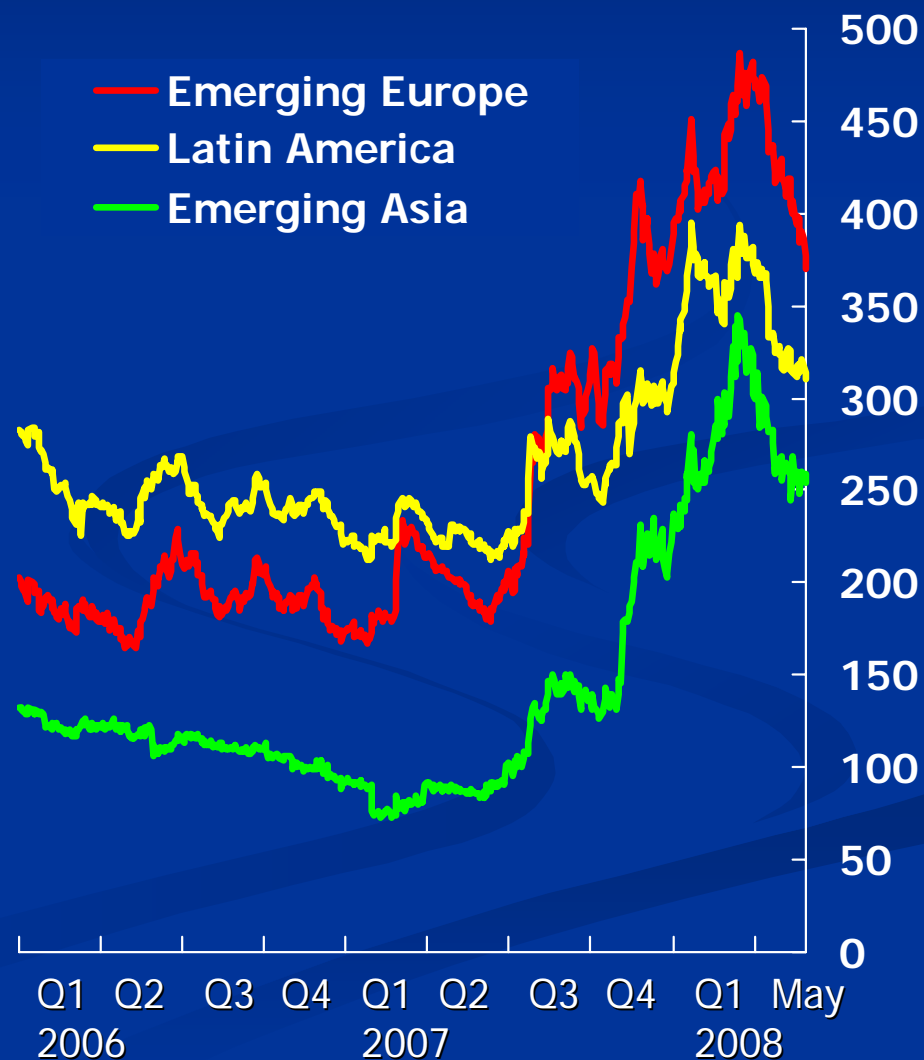
Emerging Economy Equity Markets

(2001 = 100; national currency)



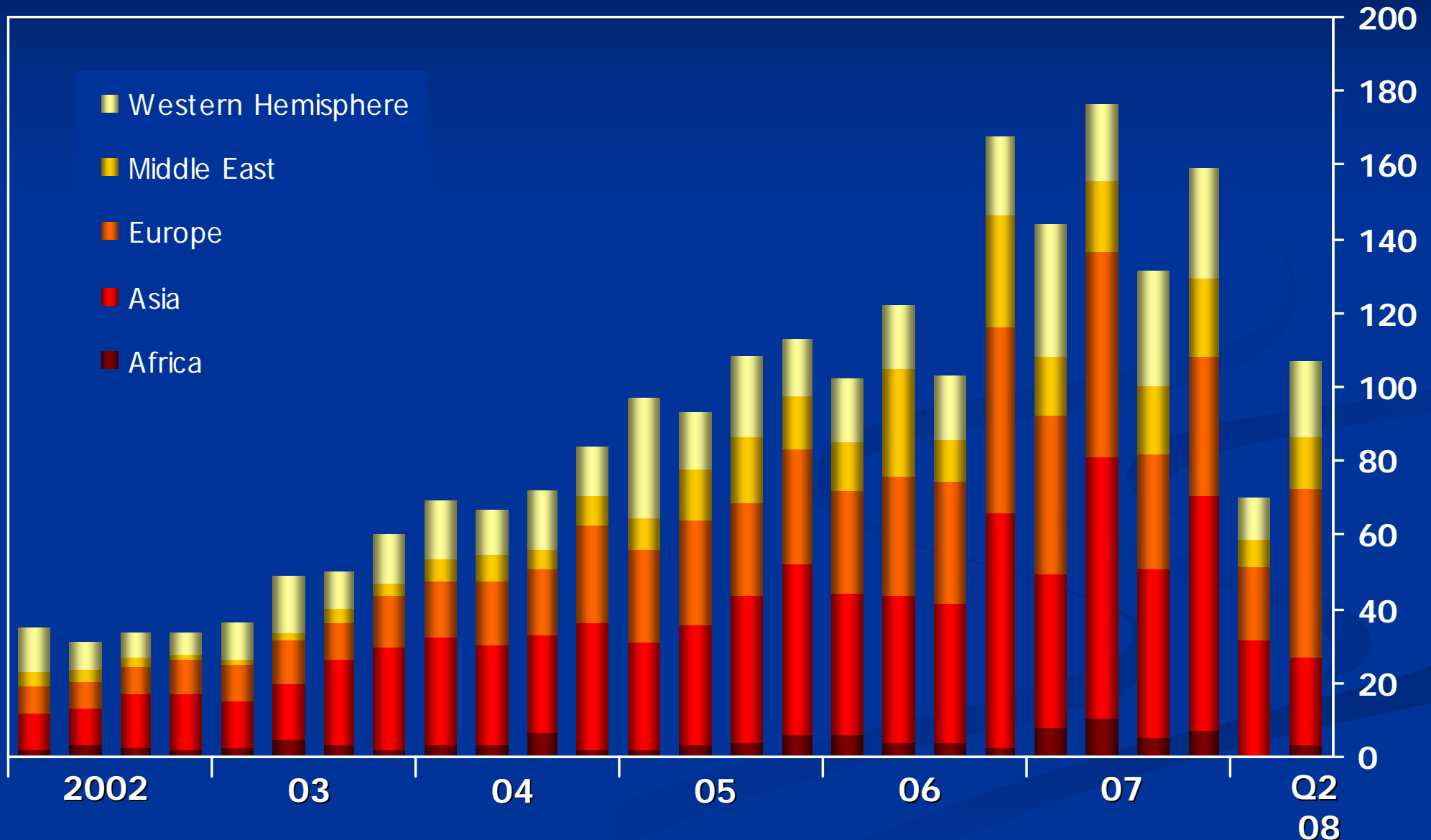
Emerging Market Corporate Bond Spreads

(basis points)



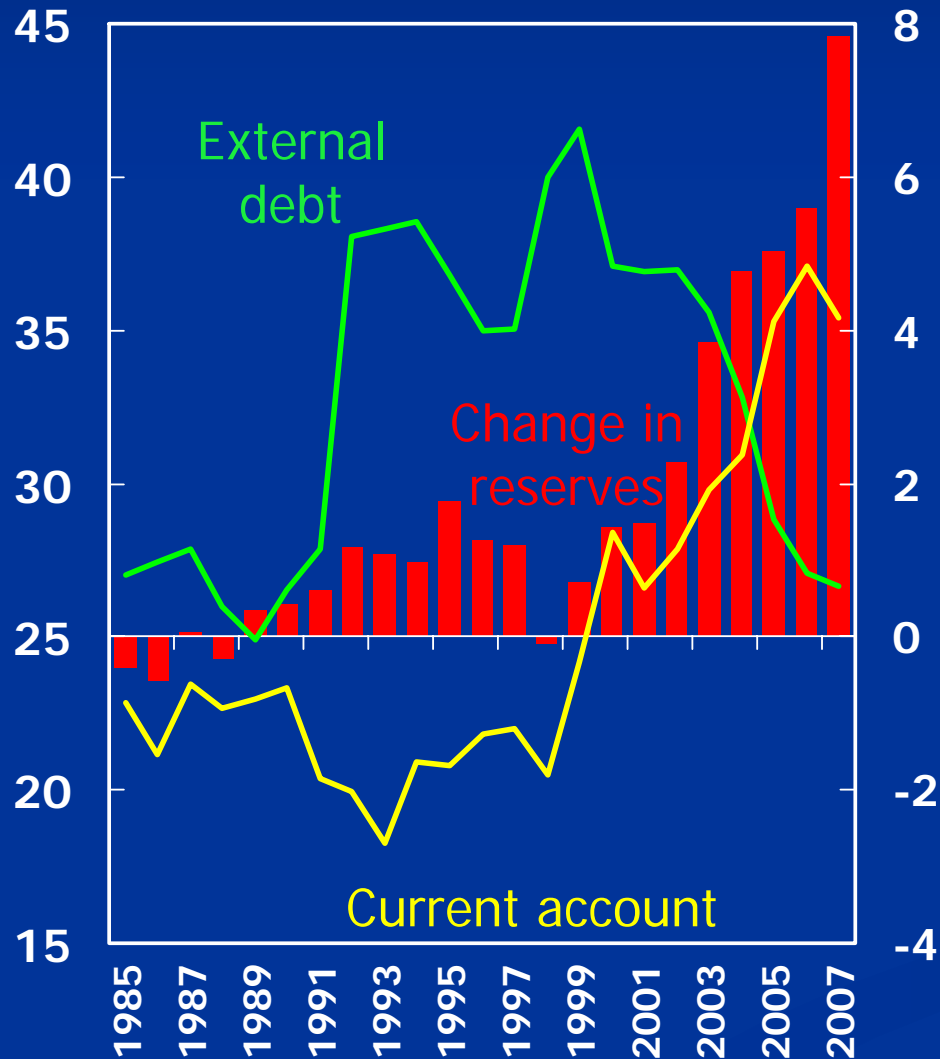
Emerging Market Inflows Have Dipped

(Bond, equity and loan issuance, billions of U.S. dollars)

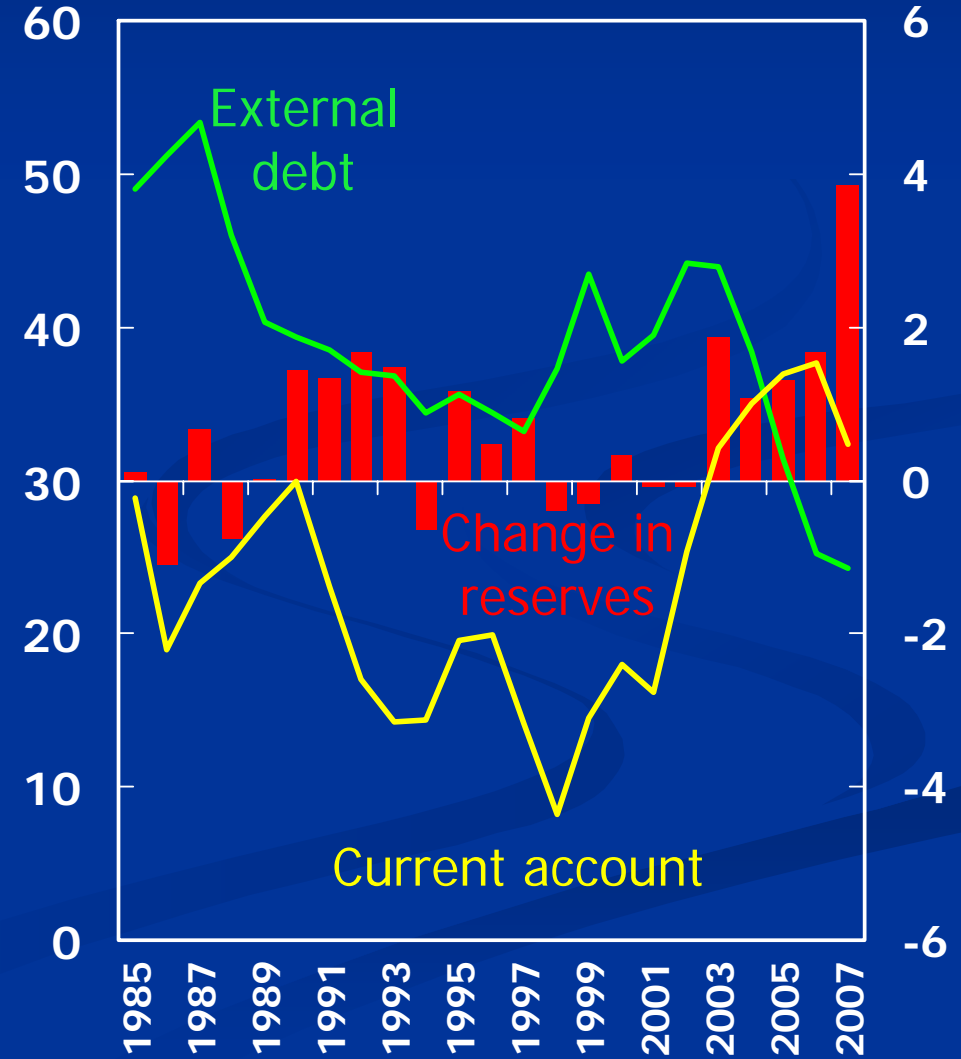


Reduced external vulnerabilities, greater resilience

Emerging and Developing Economy External Indicators
(percent of total GDP)

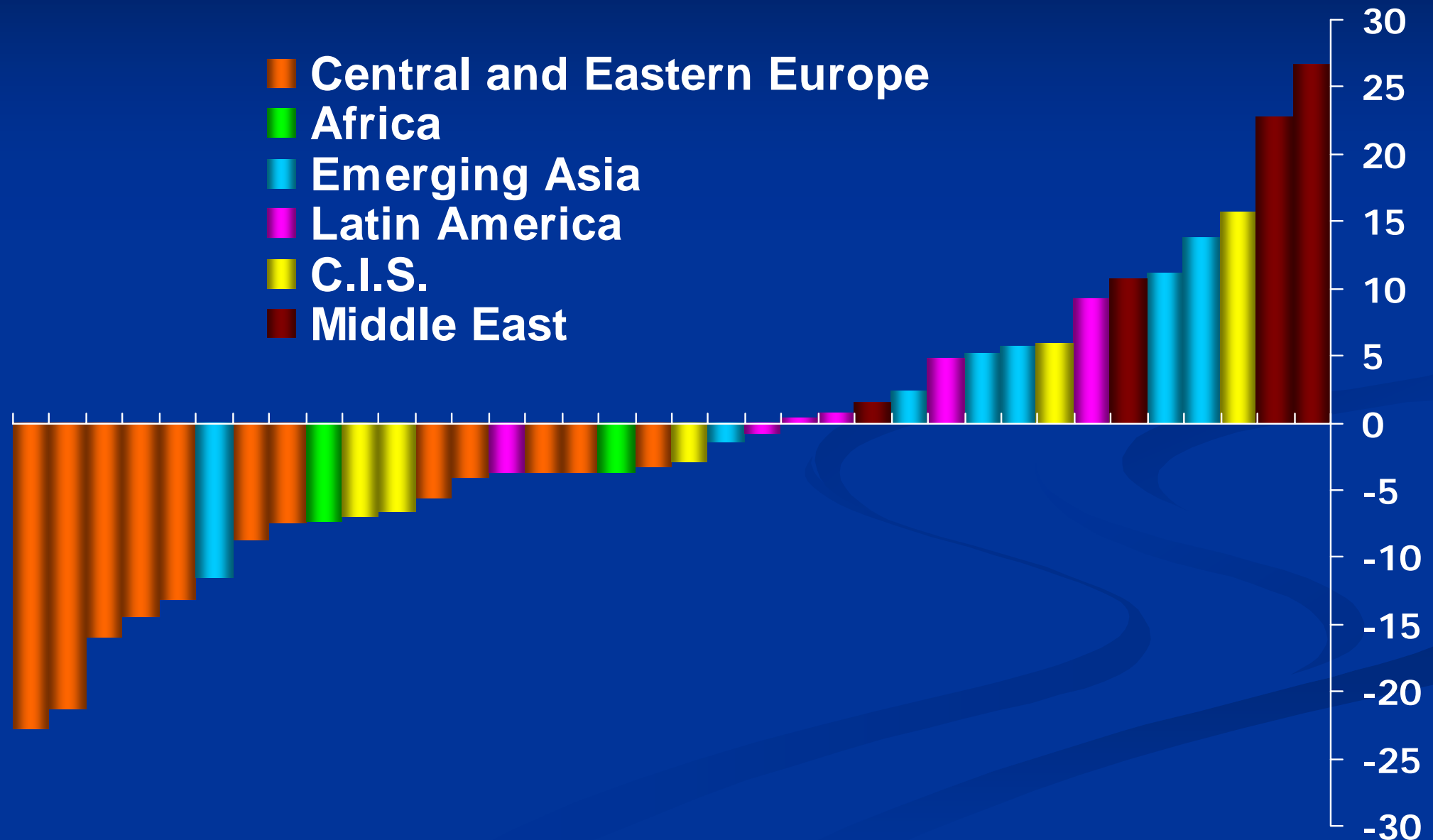


Latin America External Indicators
(percent of regional GDP)



Large Current Account Deficits May Be A Source Of Vulnerability

(2007 Emerging market country current accounts in percent of GDP)

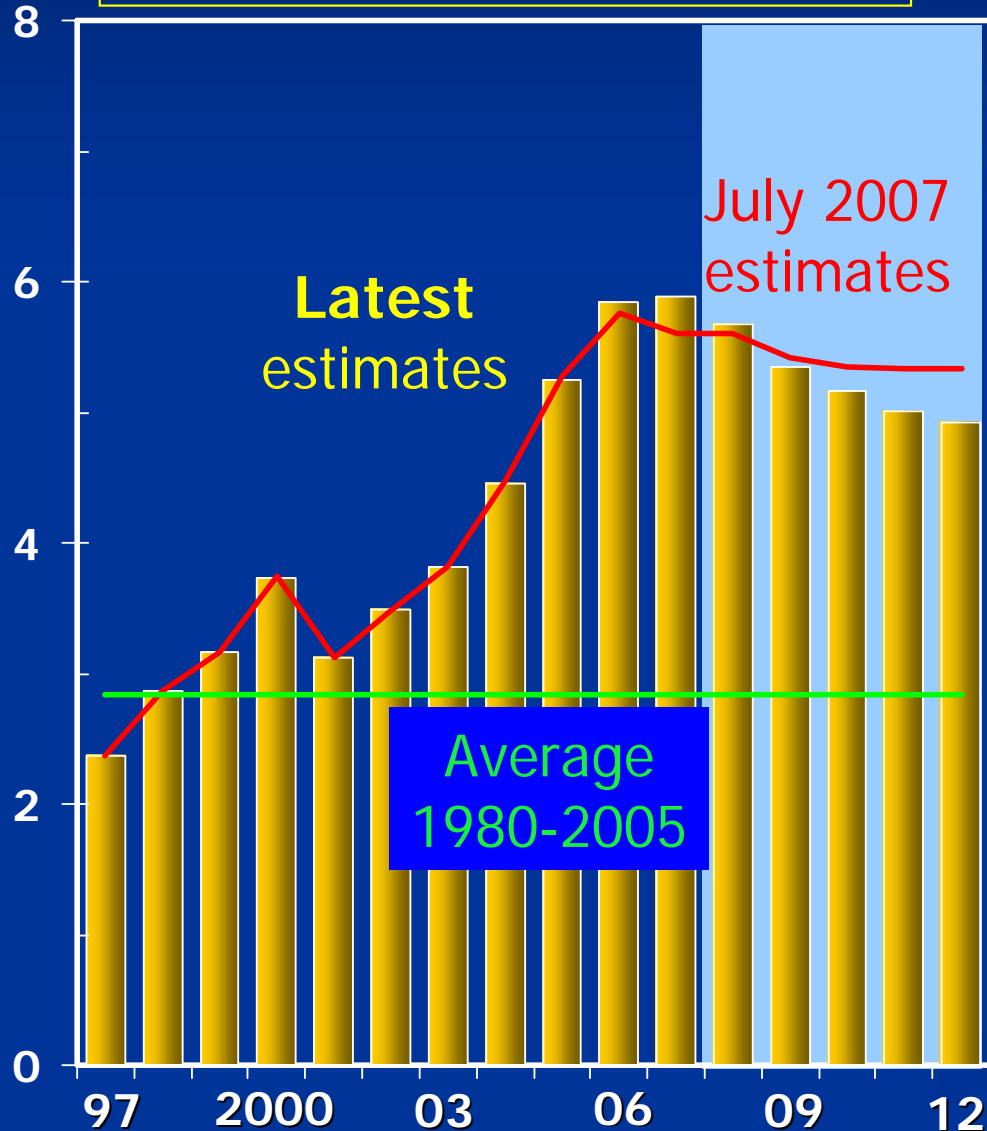


Outlook for Global Imbalances Has Improved

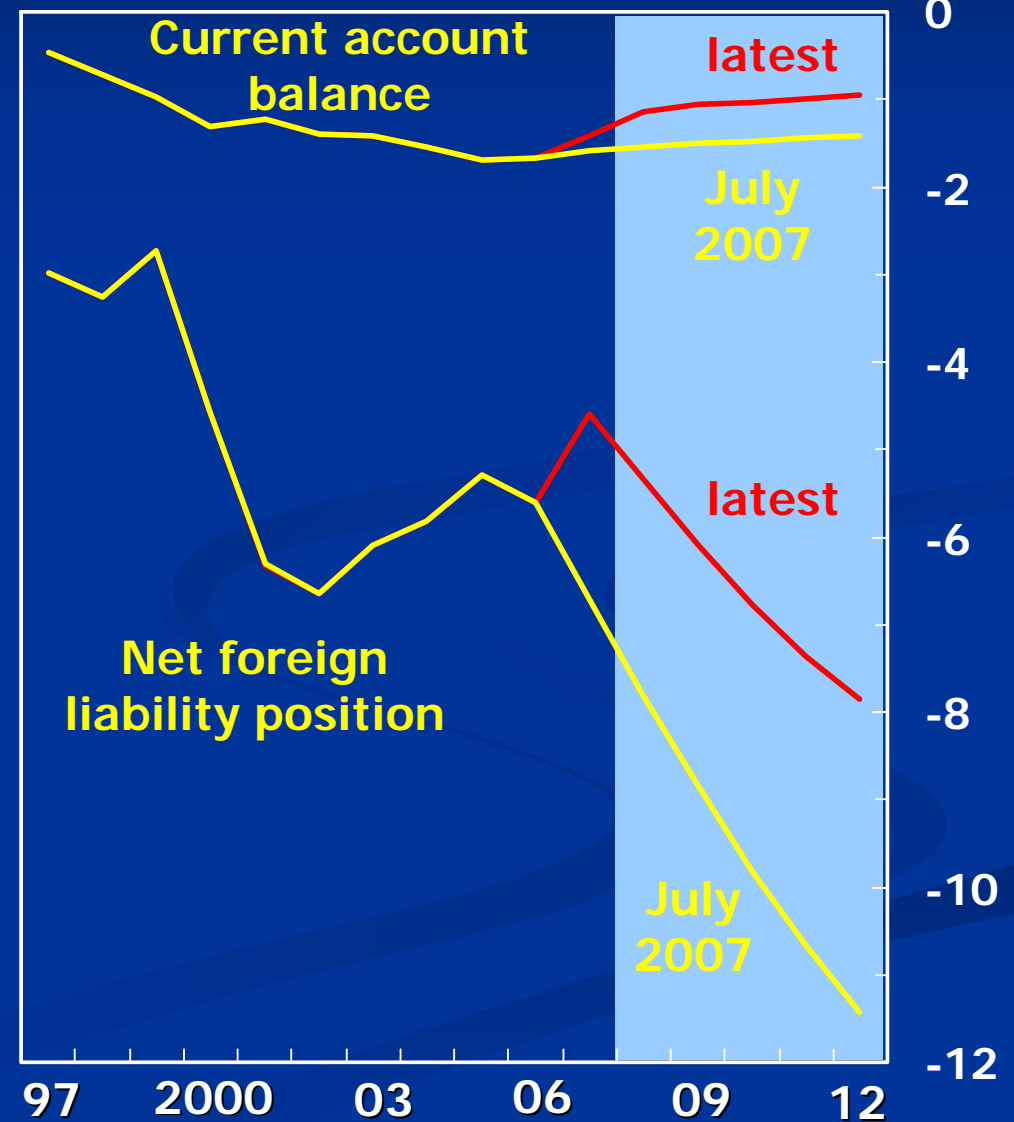
(Percent of Global GDP)

Global Imbalances

(sum of absolute value of global current account balances)



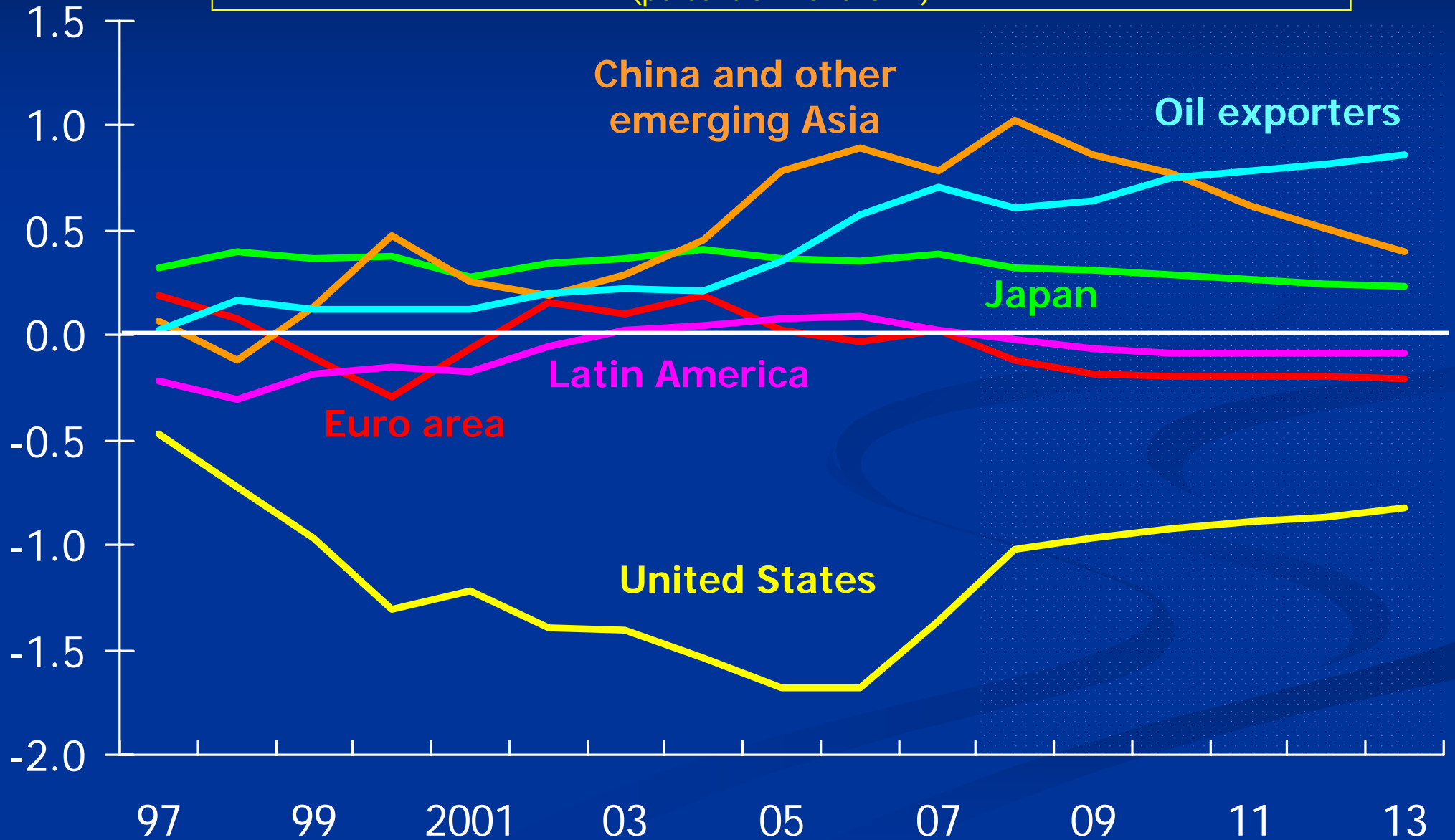
U.S. External Position



Where will the savings go?

Current Account Imbalances by Region

(percent of world GDP)



Key Messages

- **Global outlook:** financial tail risks have been reduced, but global slowdown will not be avoided.
- **Commodities and inflation:** monetary policy discipline is needed to ensure that relative price shock does not reverse inflation gains.
- **Financial winds:** Latin America should be ready for another surge of capital inflows.



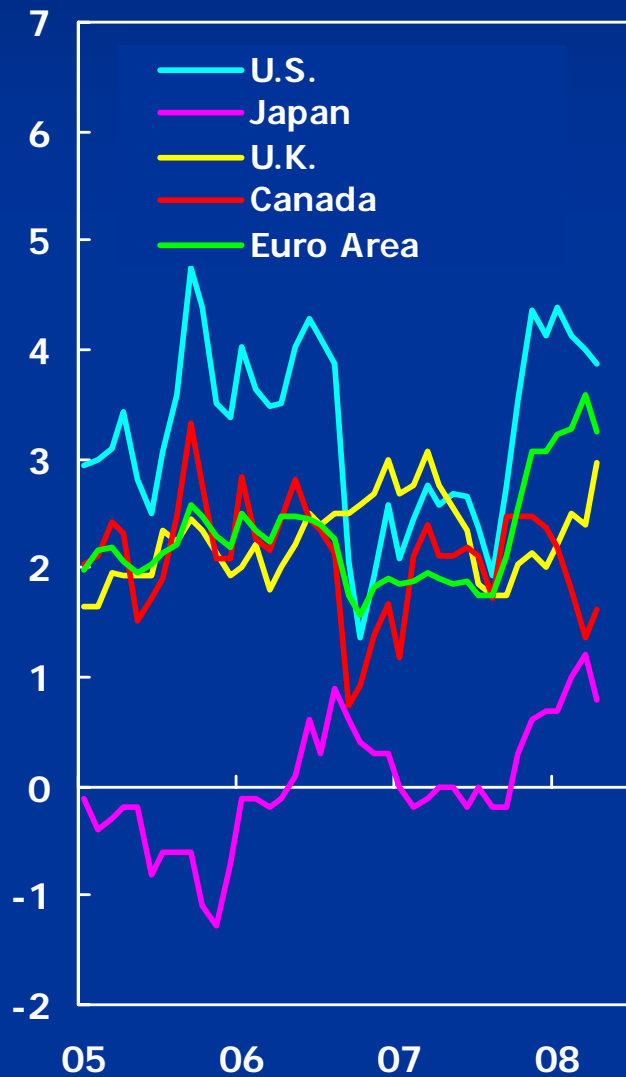
WEO Can Be Downloaded From

<http://www.imf.org/weo>

Inflation Risks Have Intensified in Several Advanced Economies

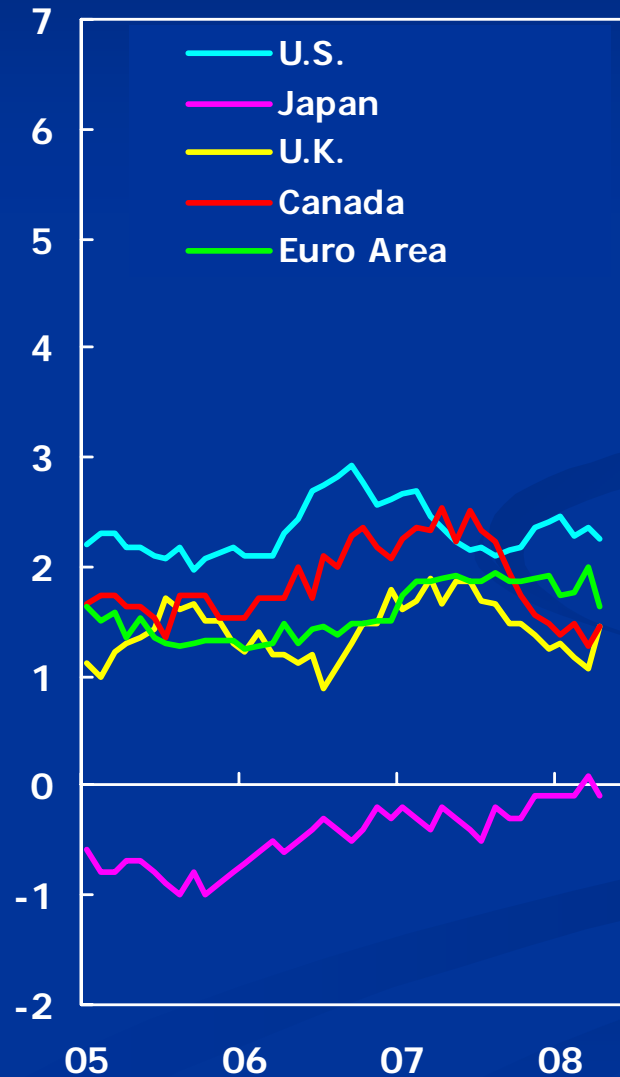
Headline Inflation

(12 month percent change)



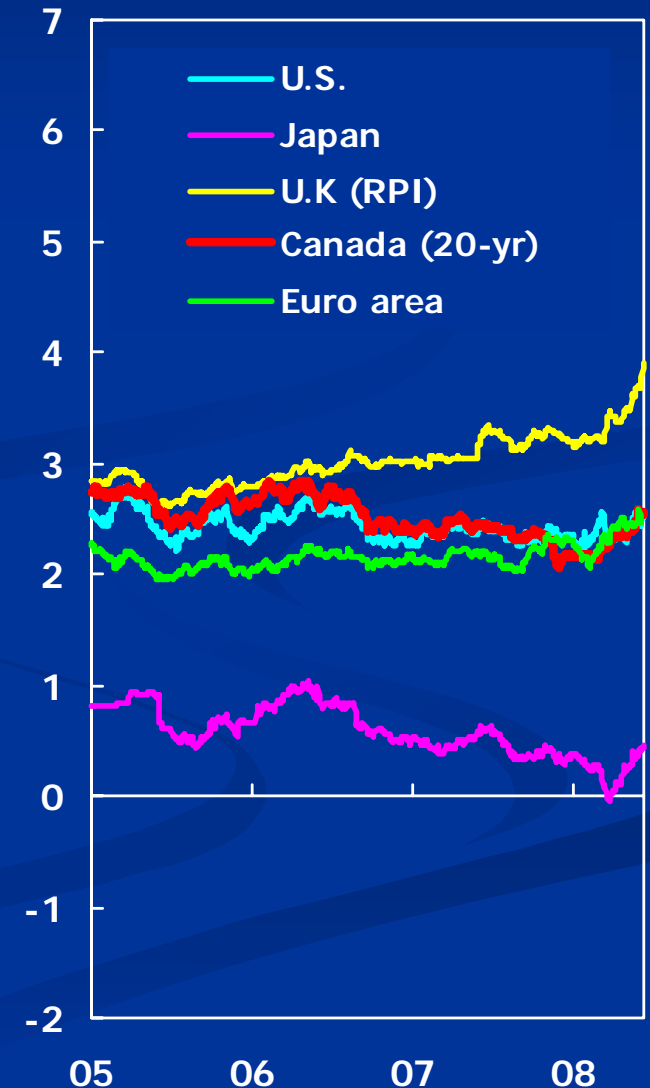
Core Inflation

(12 month percent change)



Inflation Exp.

(Percent from 10yr index linked bonds)

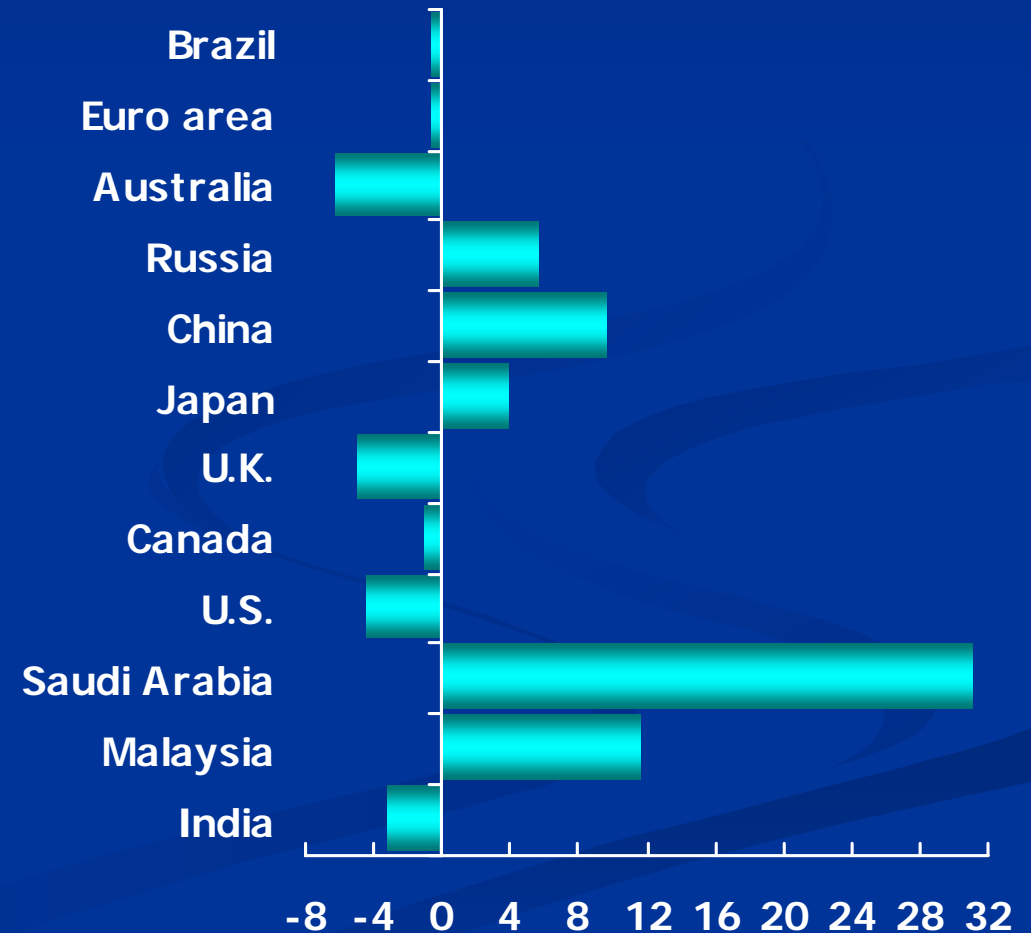
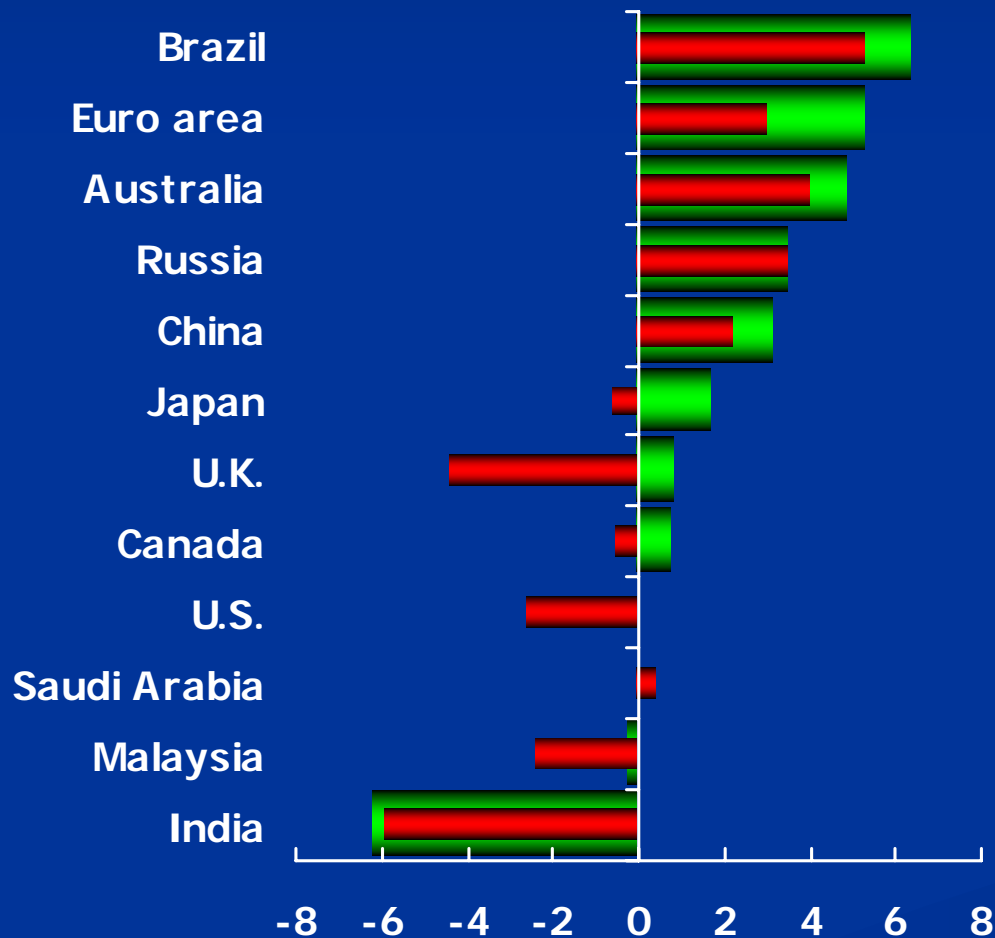


More flexible exchange rates in some countries would help control inflation and reduce imbalances

Exchange Rates 1/
(percent changes;
4/4/08 vs. 1/30/08-2/27/08 average)

Current Account Balances
(In percent of GDP; estimates for 2008)

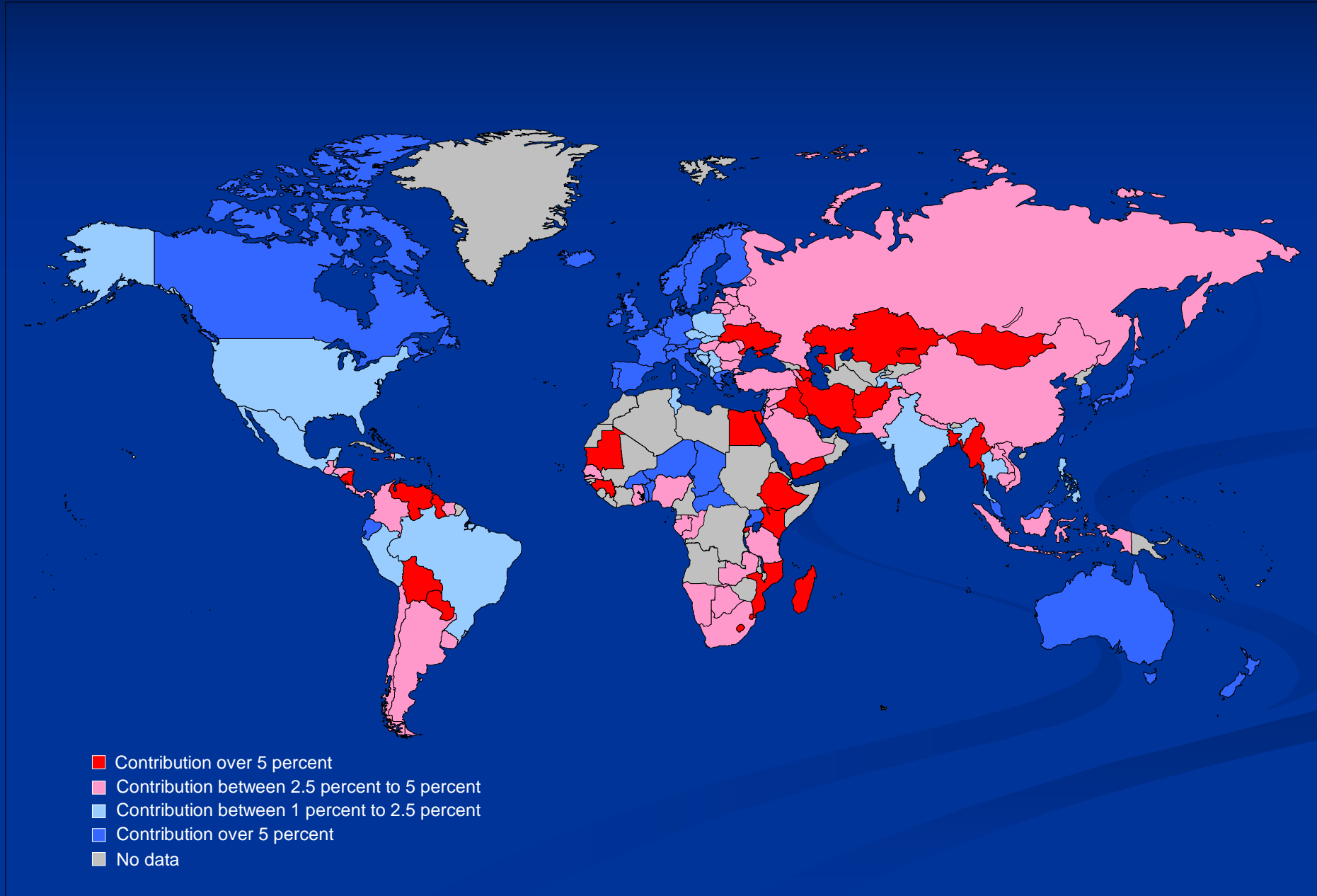
■ U.S. dollar per national currency ■ REER



1/ Positive numbers denote appreciation of local currency.

Food and Fuel Inflation Heat Map

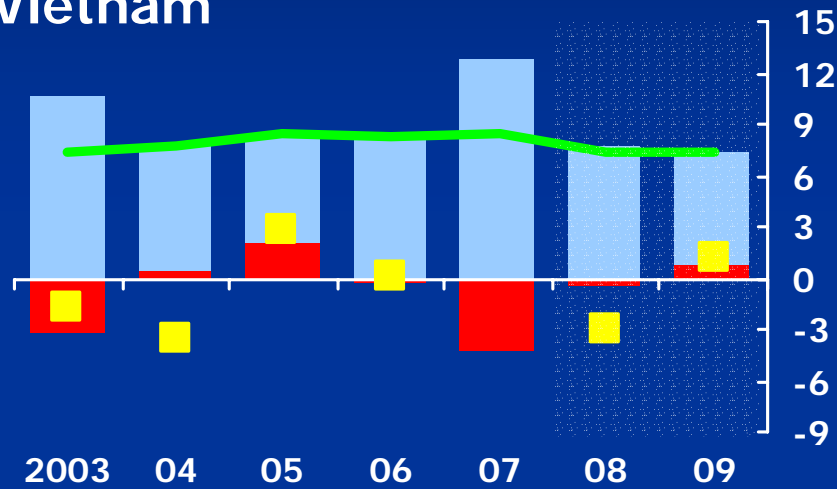
(Contribution of Food and Fuel Inflation to Headline Inflation)



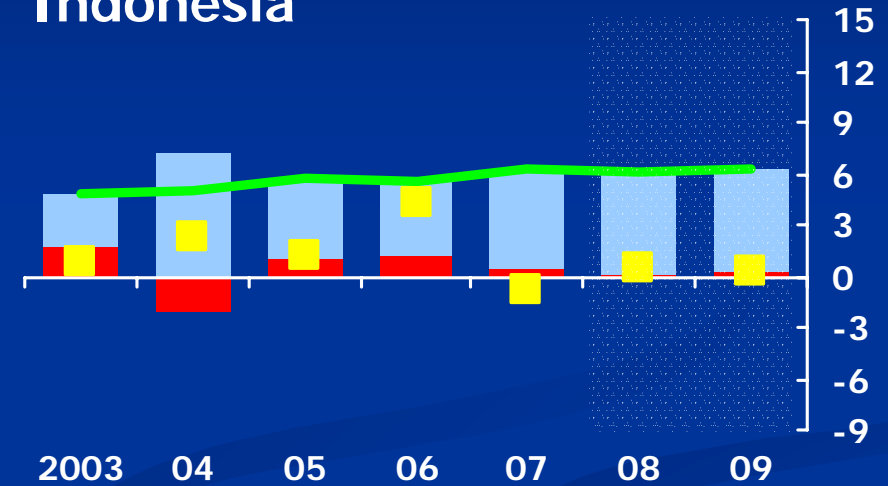
Domestic demand is also key in emerging Asia *(percent change)*

— Total growth
 ■ Total domestic demand
 ■ Net exports
 ■ Terms of trade gain

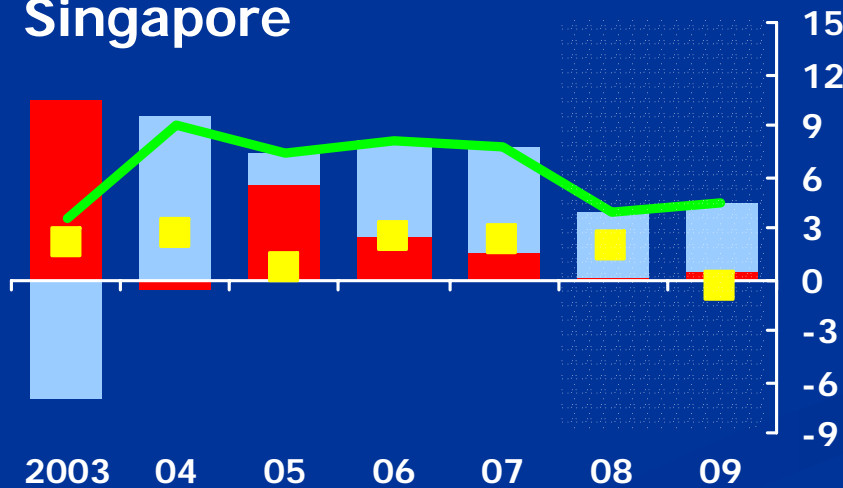
Vietnam



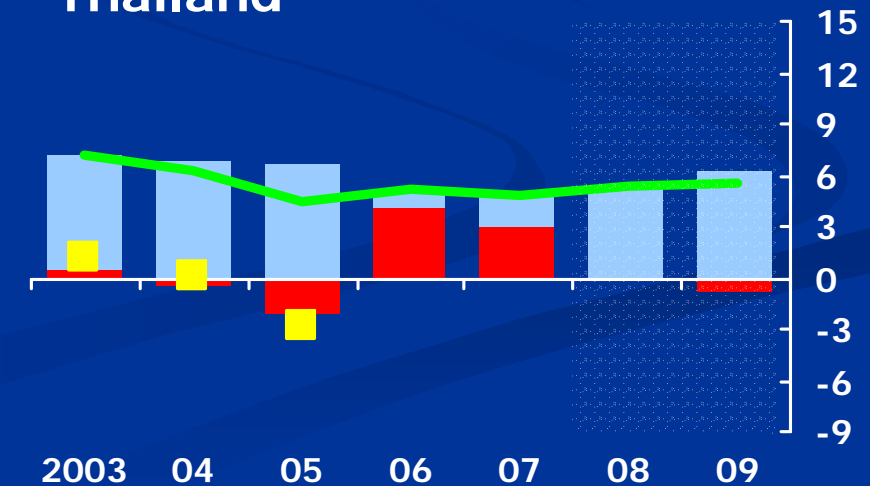
Indonesia



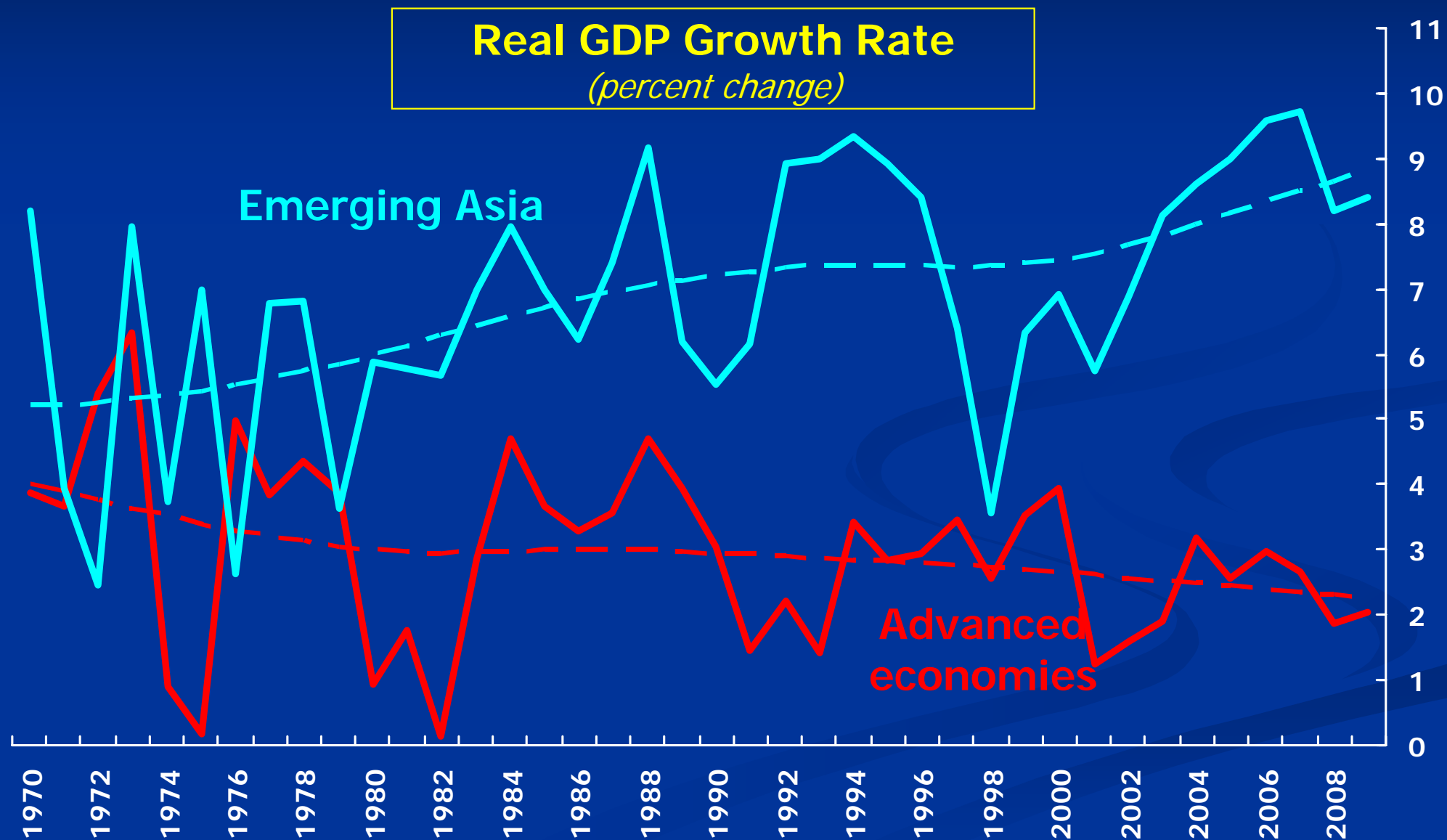
Singapore



Thailand

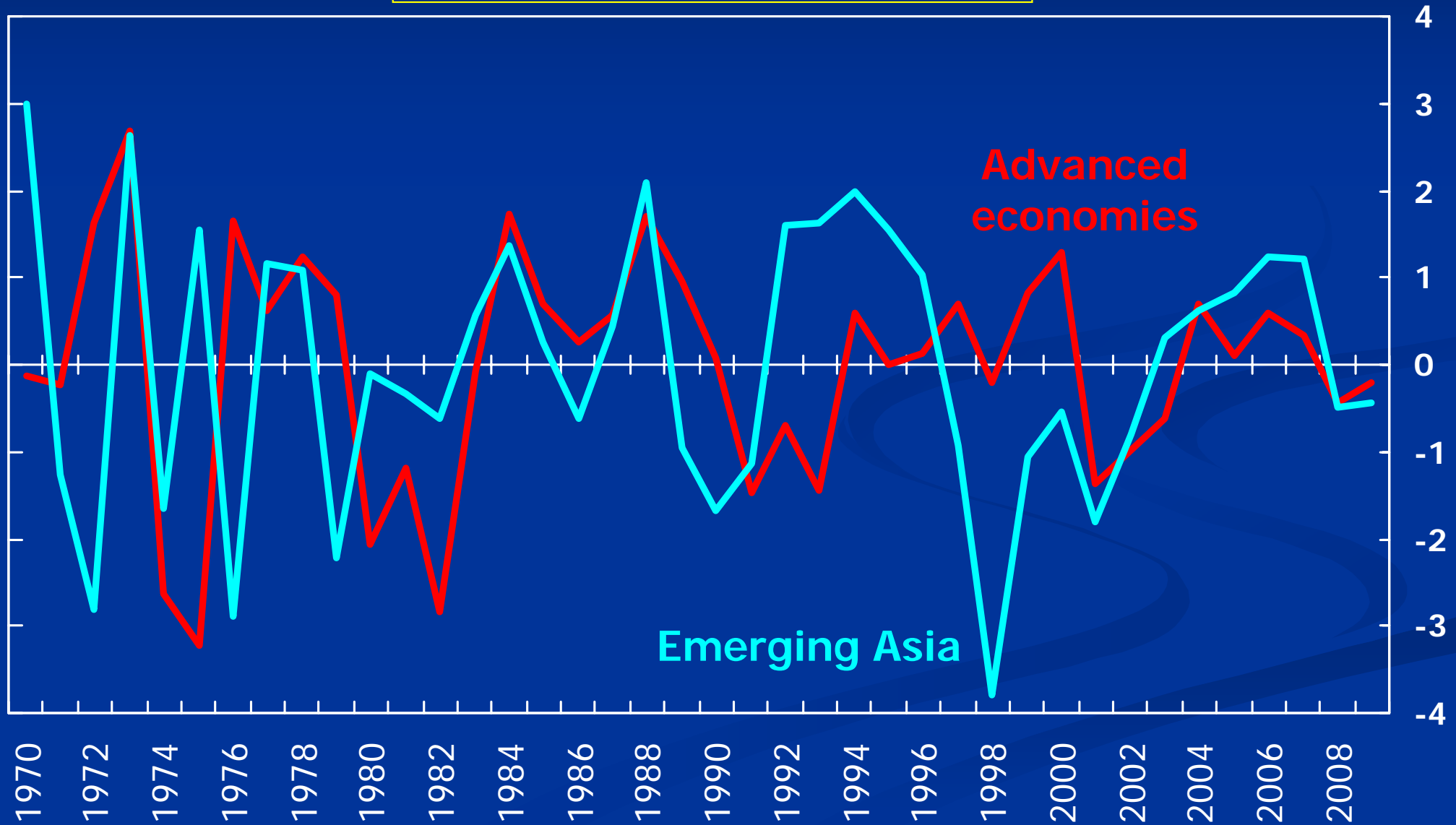


Advanced economies and emerging economies have diverged...



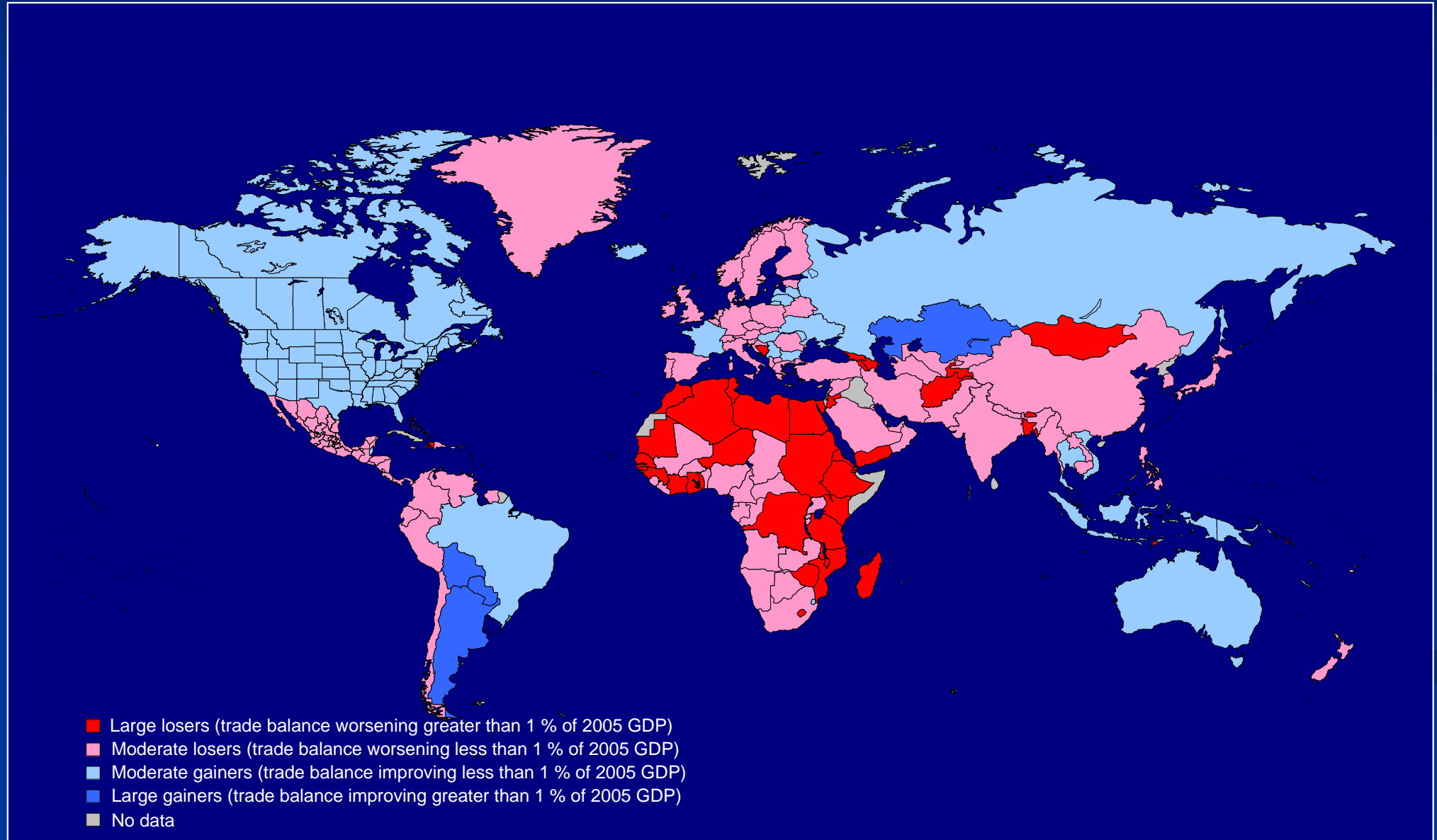
... but not decoupled

Real GDP Growth Rates
(deviation from trend)

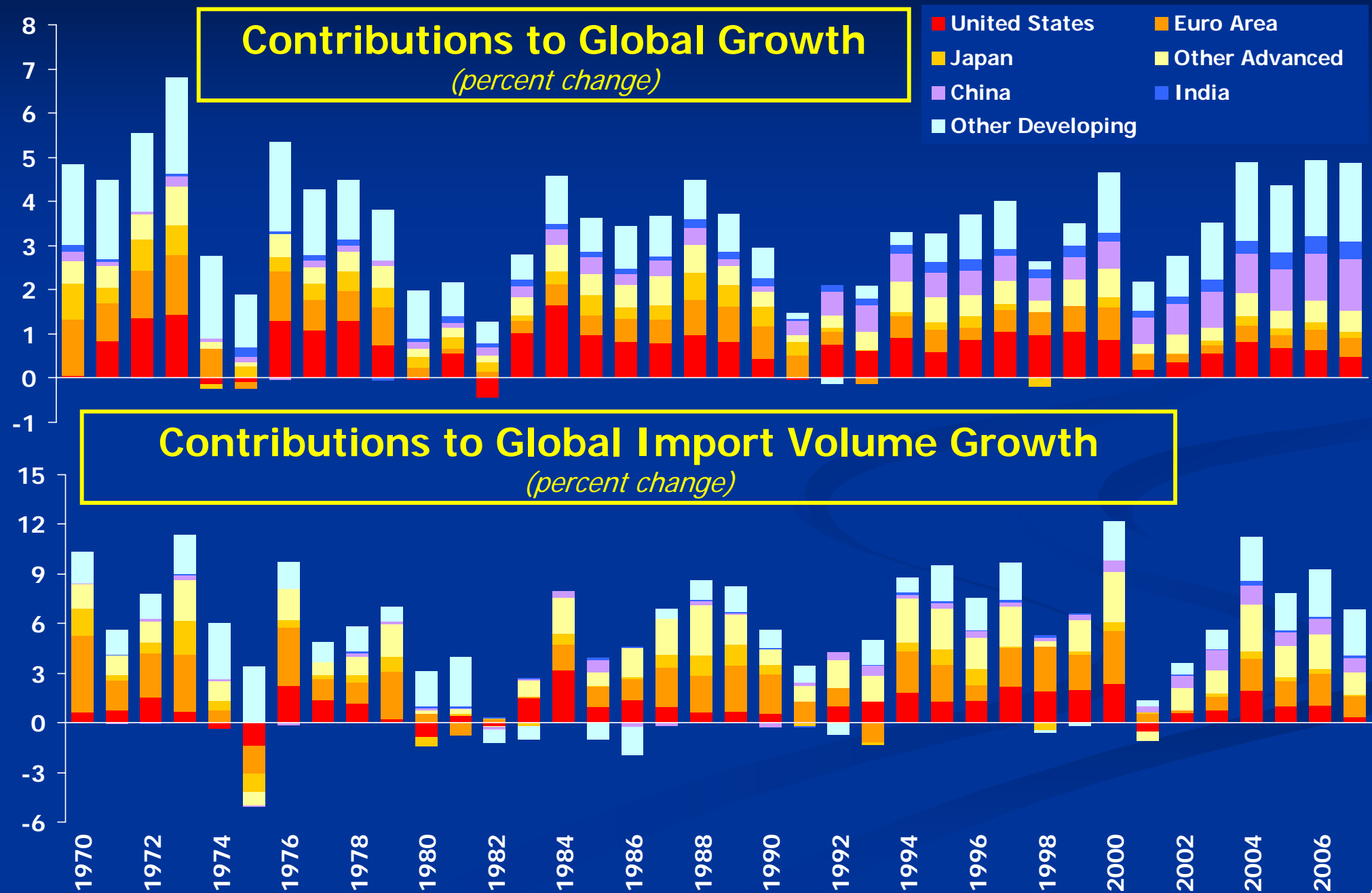


Projected food price increases (in 2008) and their impact on trade Balances

(year-on-year percent changes)



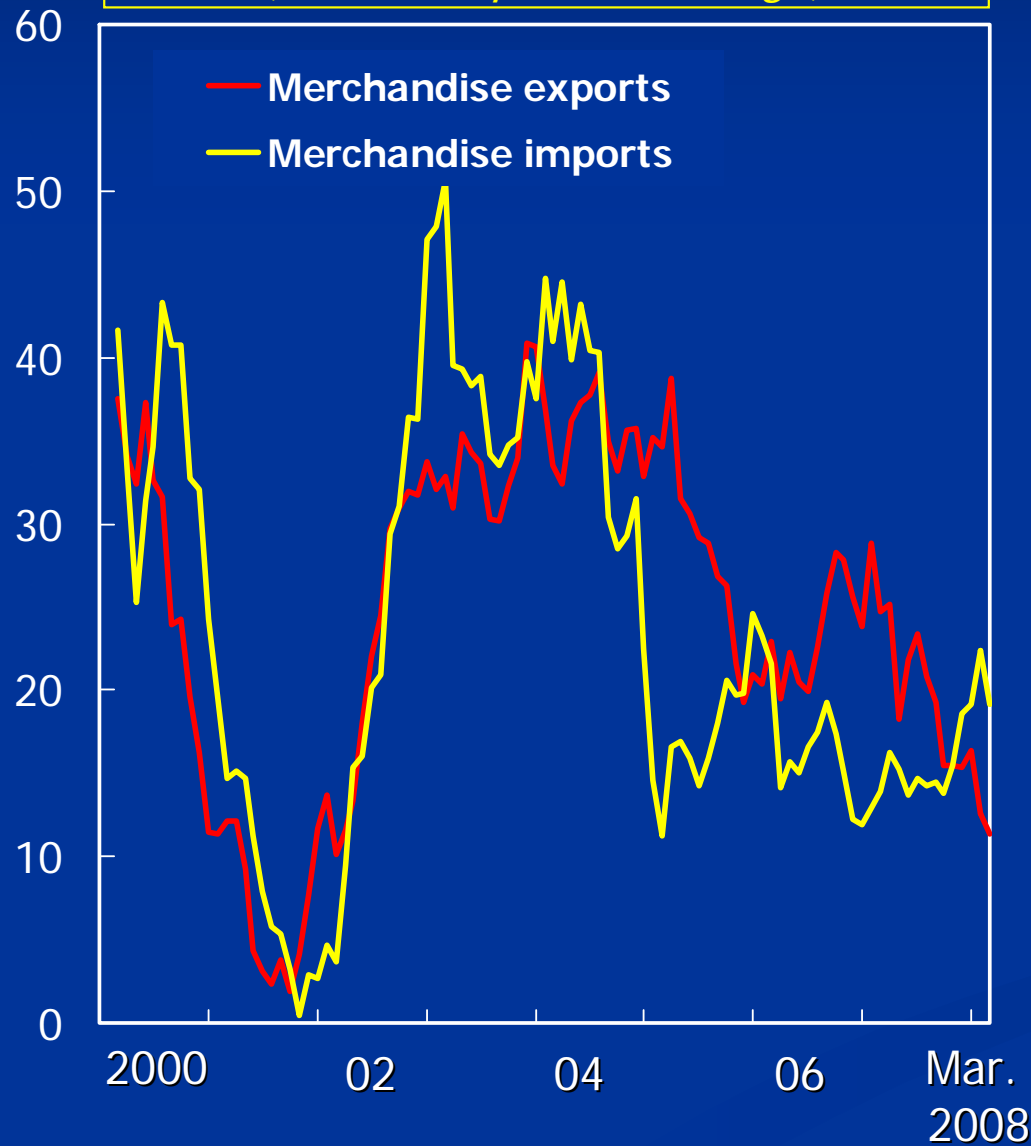
Emerging economies account for a rising share of global growth



China's exports are starting to slow, but domestic demand is still strong

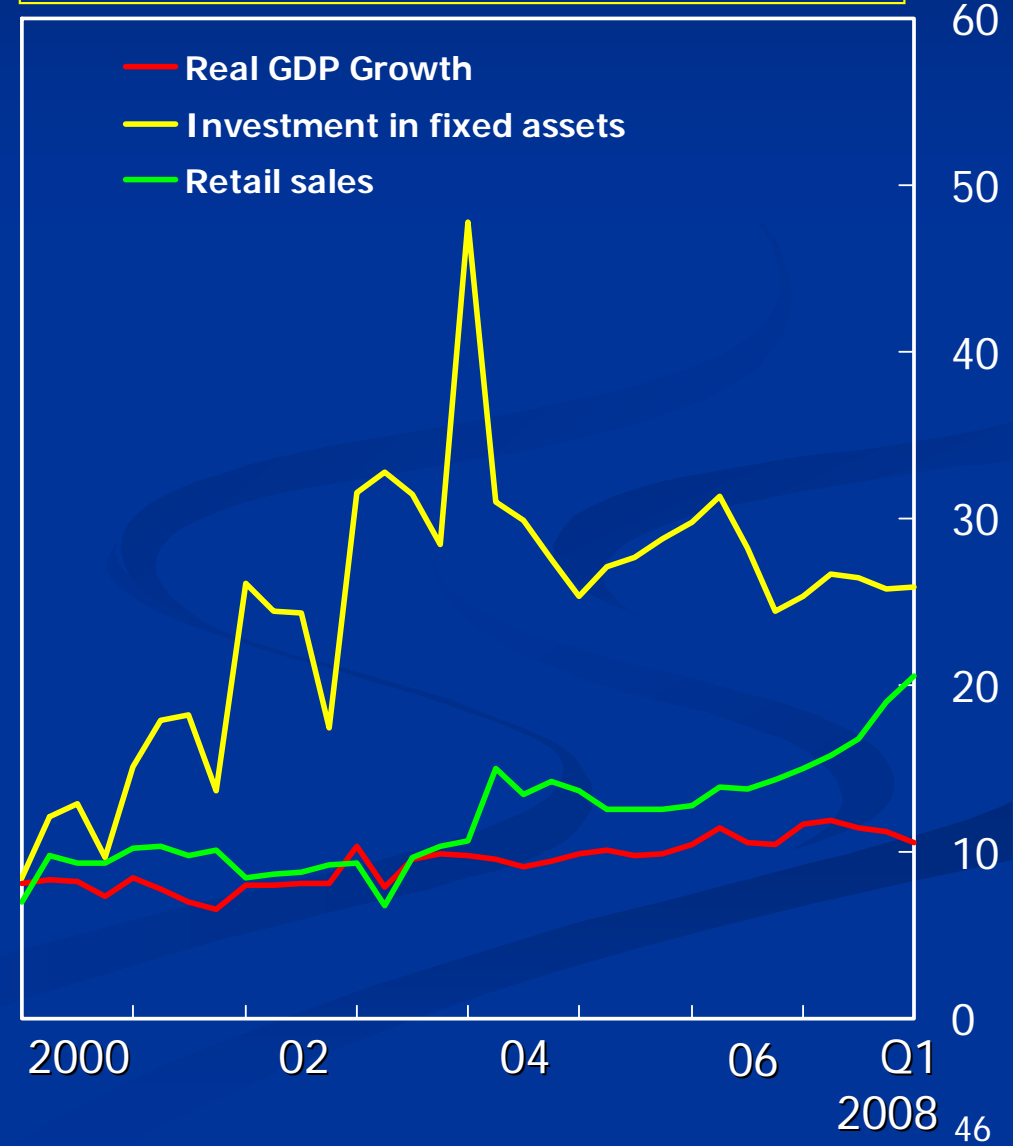
China's Trade

(12 month percent change)



China's Domestic Activity

(12 month percent change)

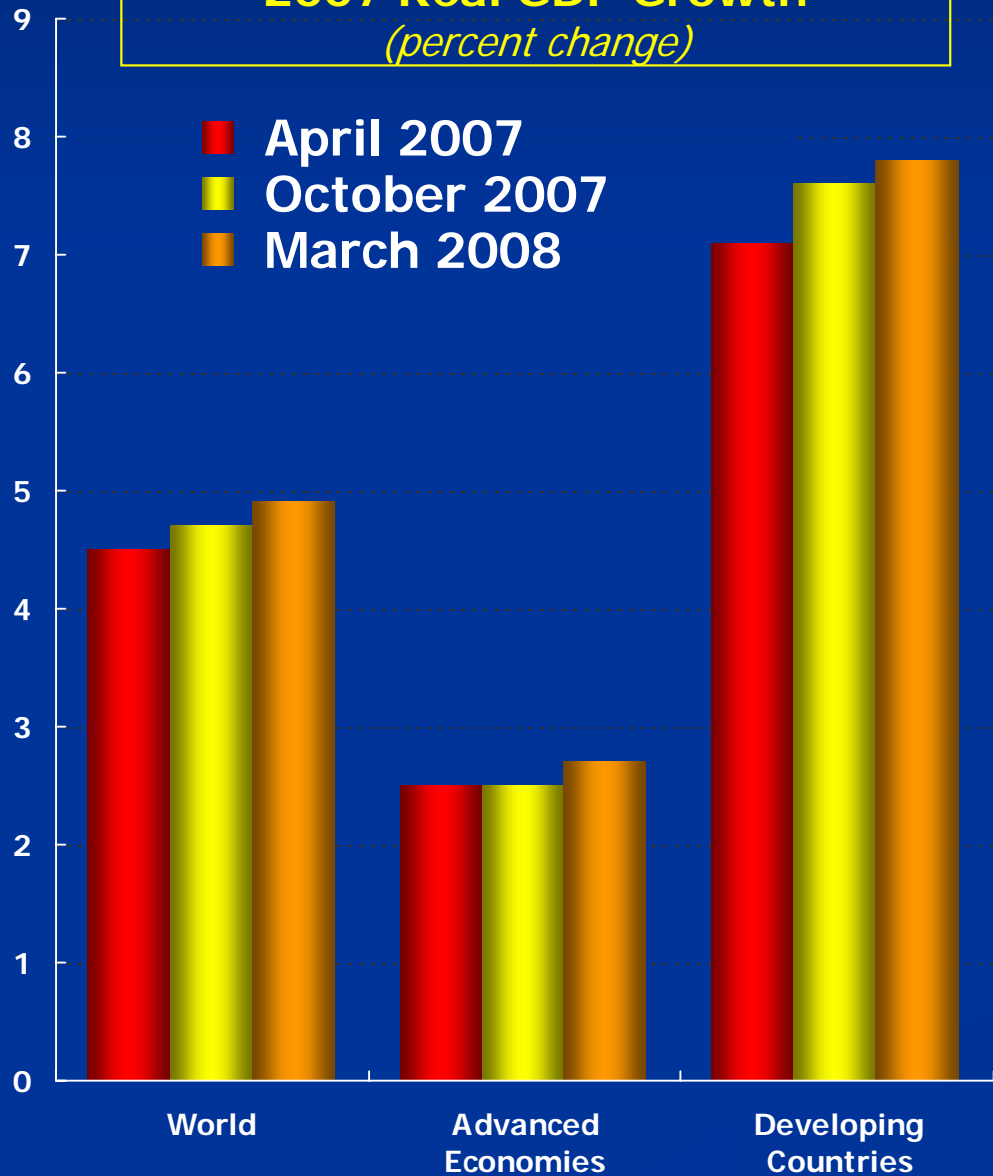


2007 up, 2008 down

2007 Real GDP Growth

(percent change)

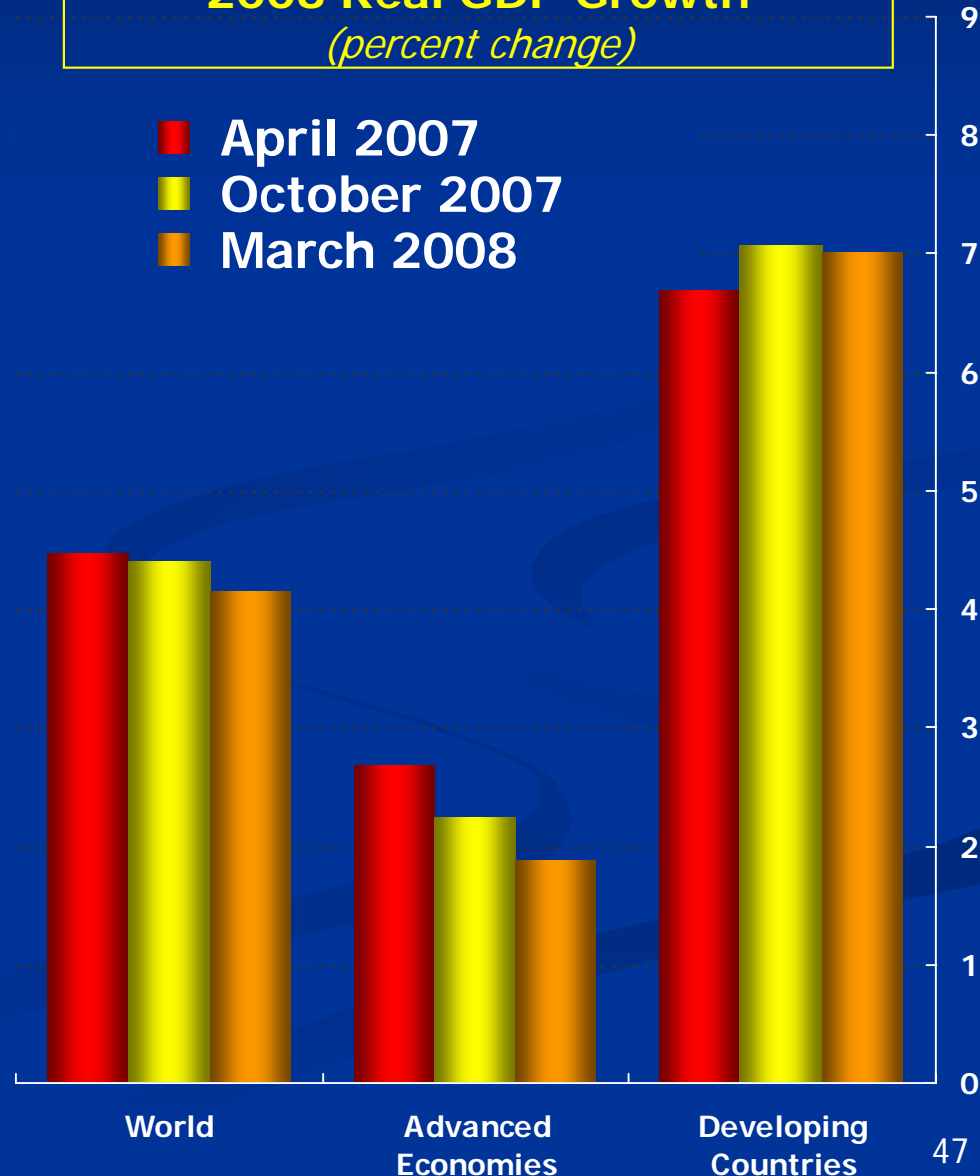
- April 2007
- October 2007
- March 2008



2008 Real GDP Growth

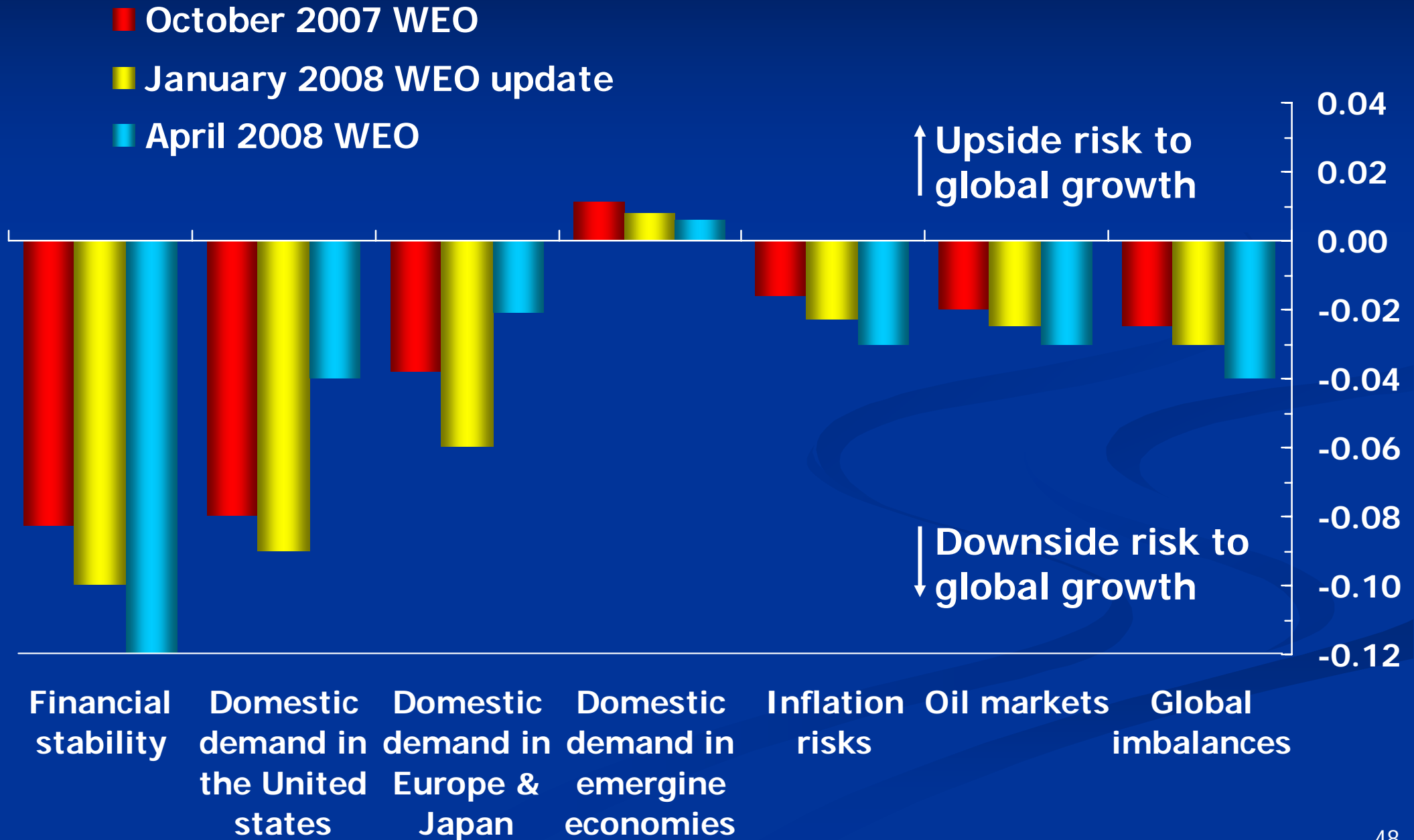
(percent change)

- April 2007
- October 2007
- March 2008

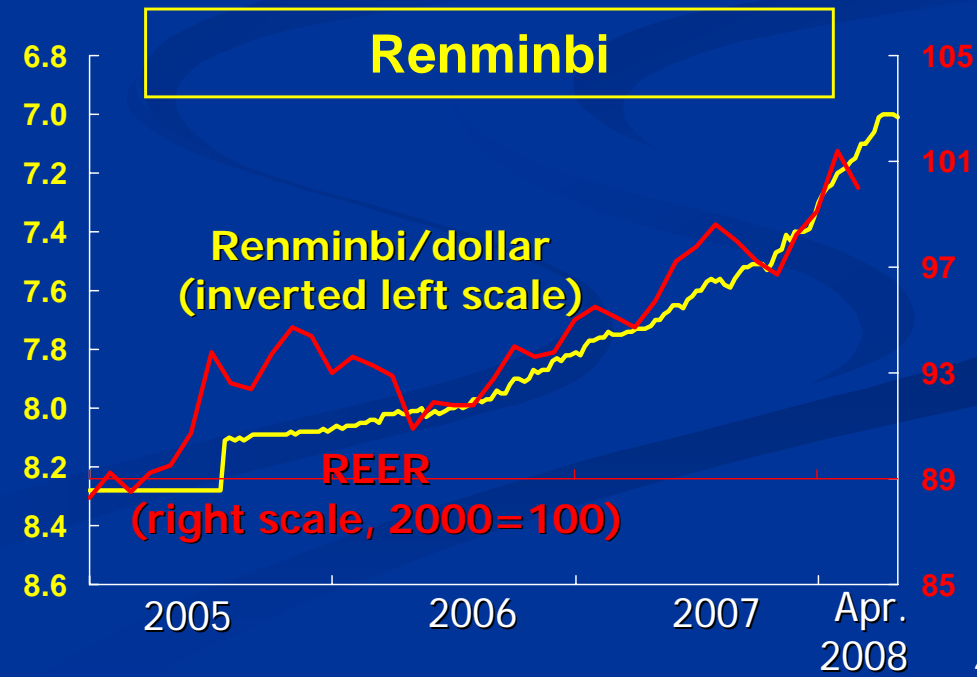
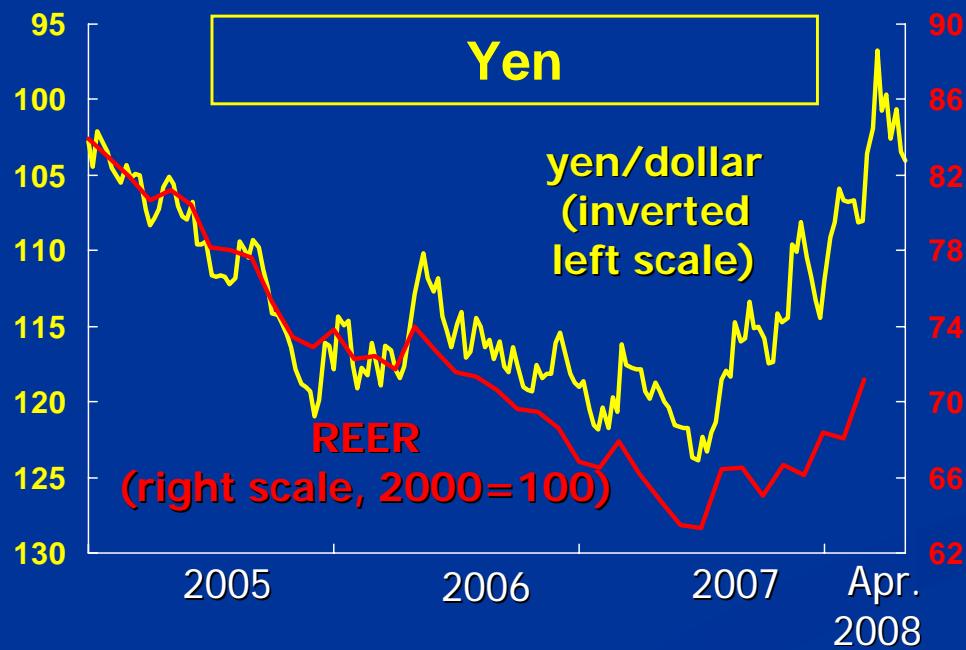
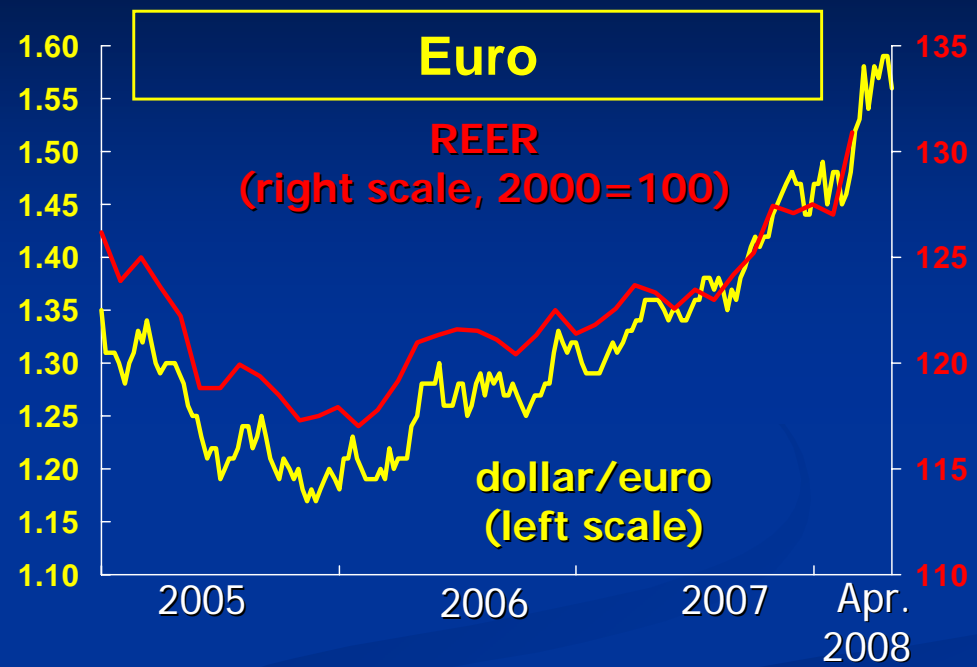
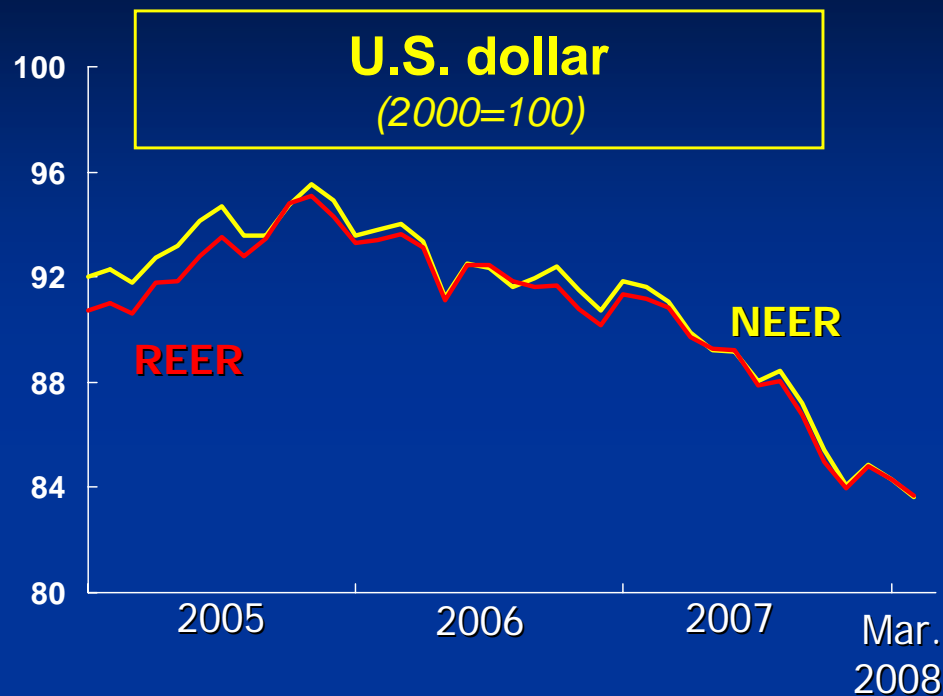


Most global risk factors are negative

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

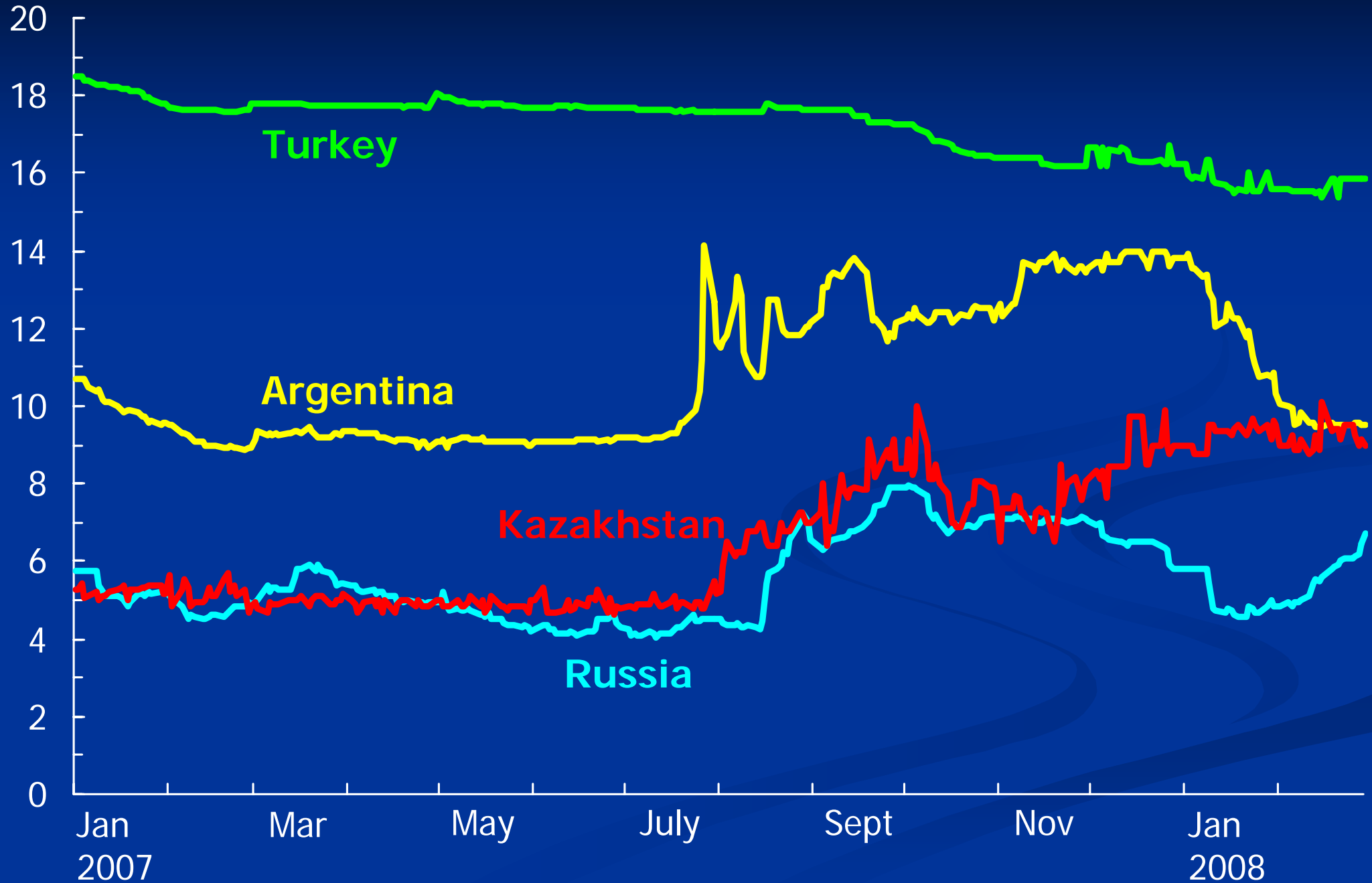


U.S. dollar had depreciated, but limited real appreciation in key surplus countries



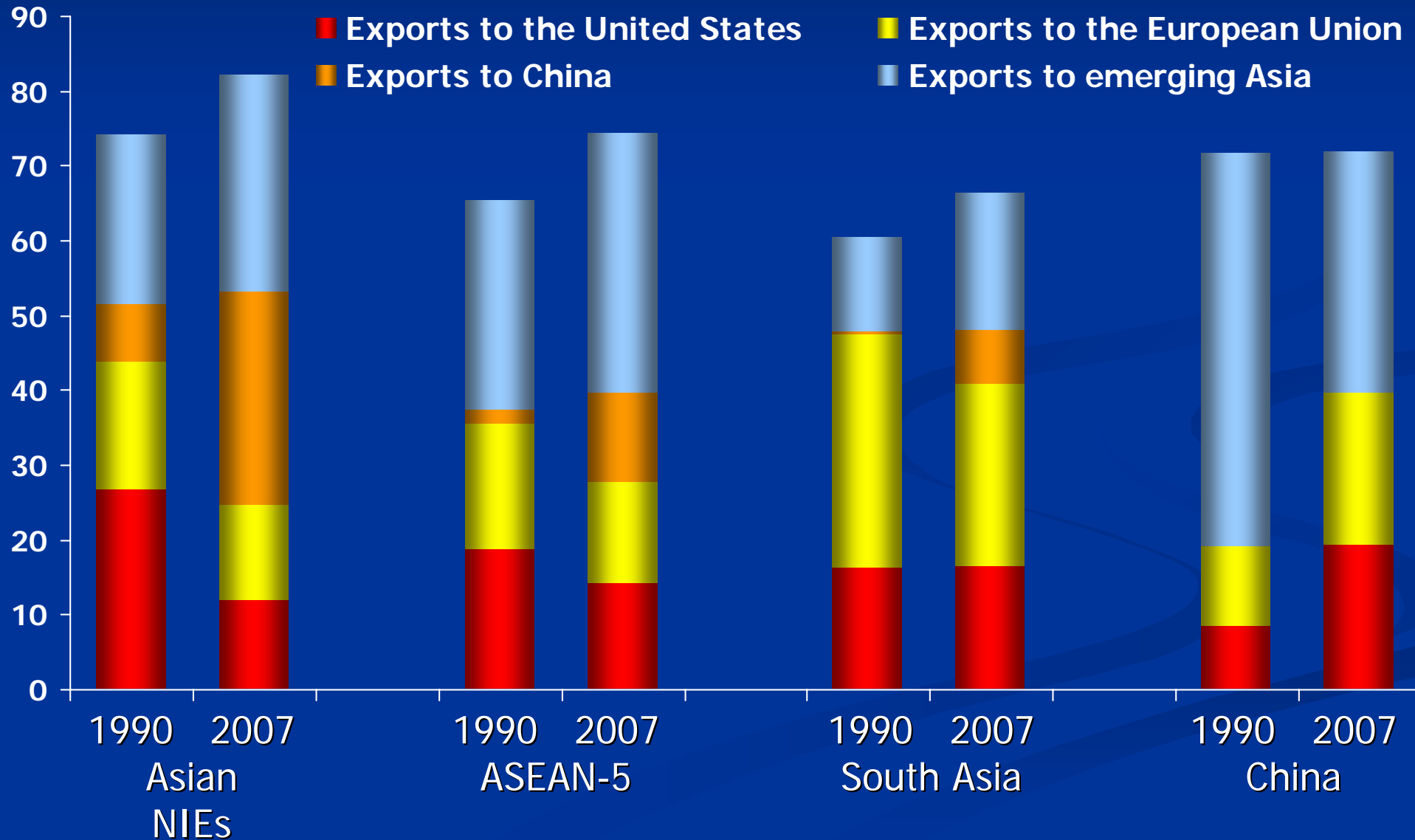
Some Signs of Stress in Some Emerging Markets

(Interbank 1-month rates; percent)



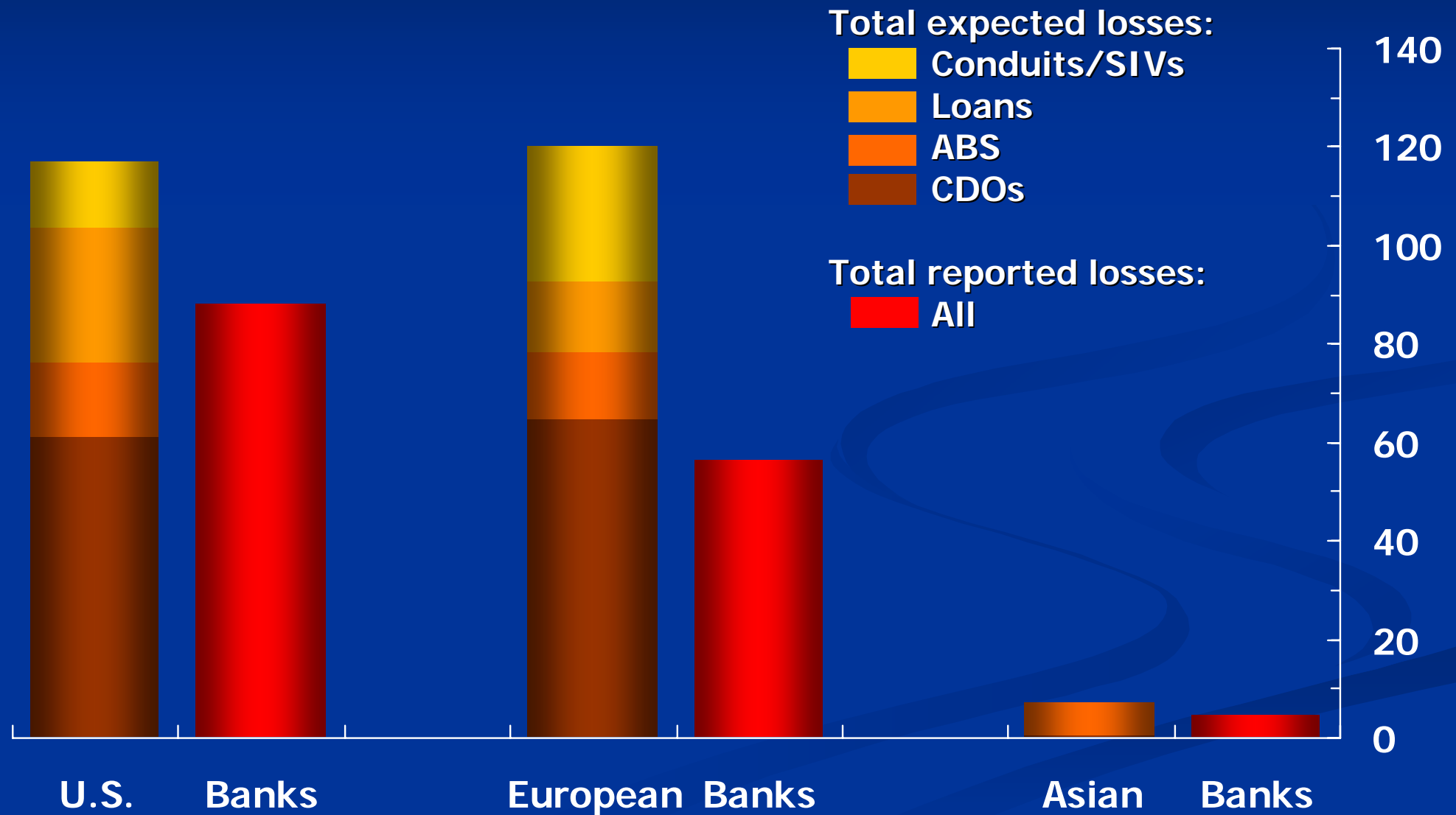
Asia's trade patterns are increasingly diversified

Exports to Selected Destinations *(Percent of merchandise exports of country/region)*



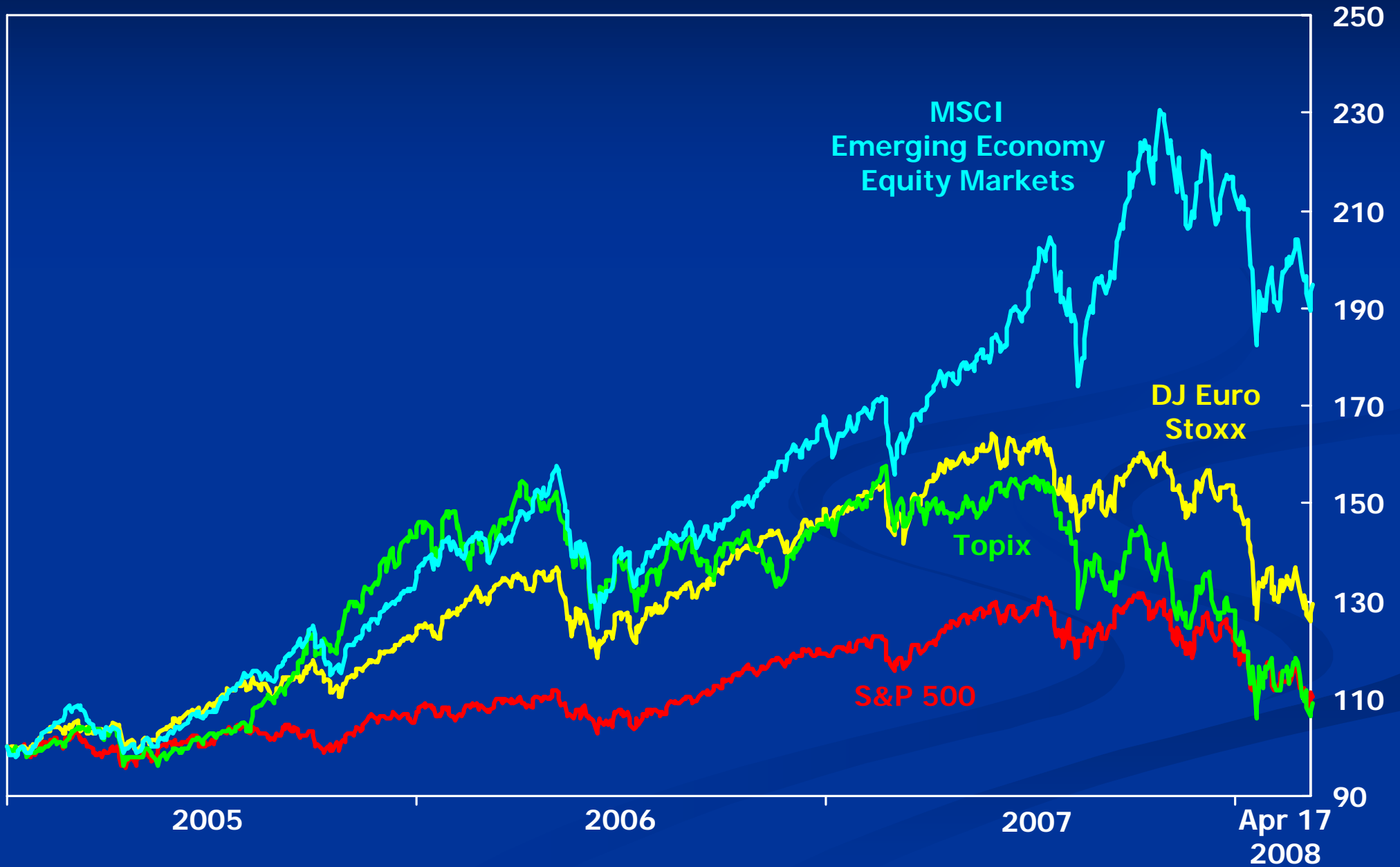
Expected Bank Losses Are Sizeable in Relation to Capital for Global Banks

(Bank losses, billions of U.S. dollars)



Equity Markets Have Weakened

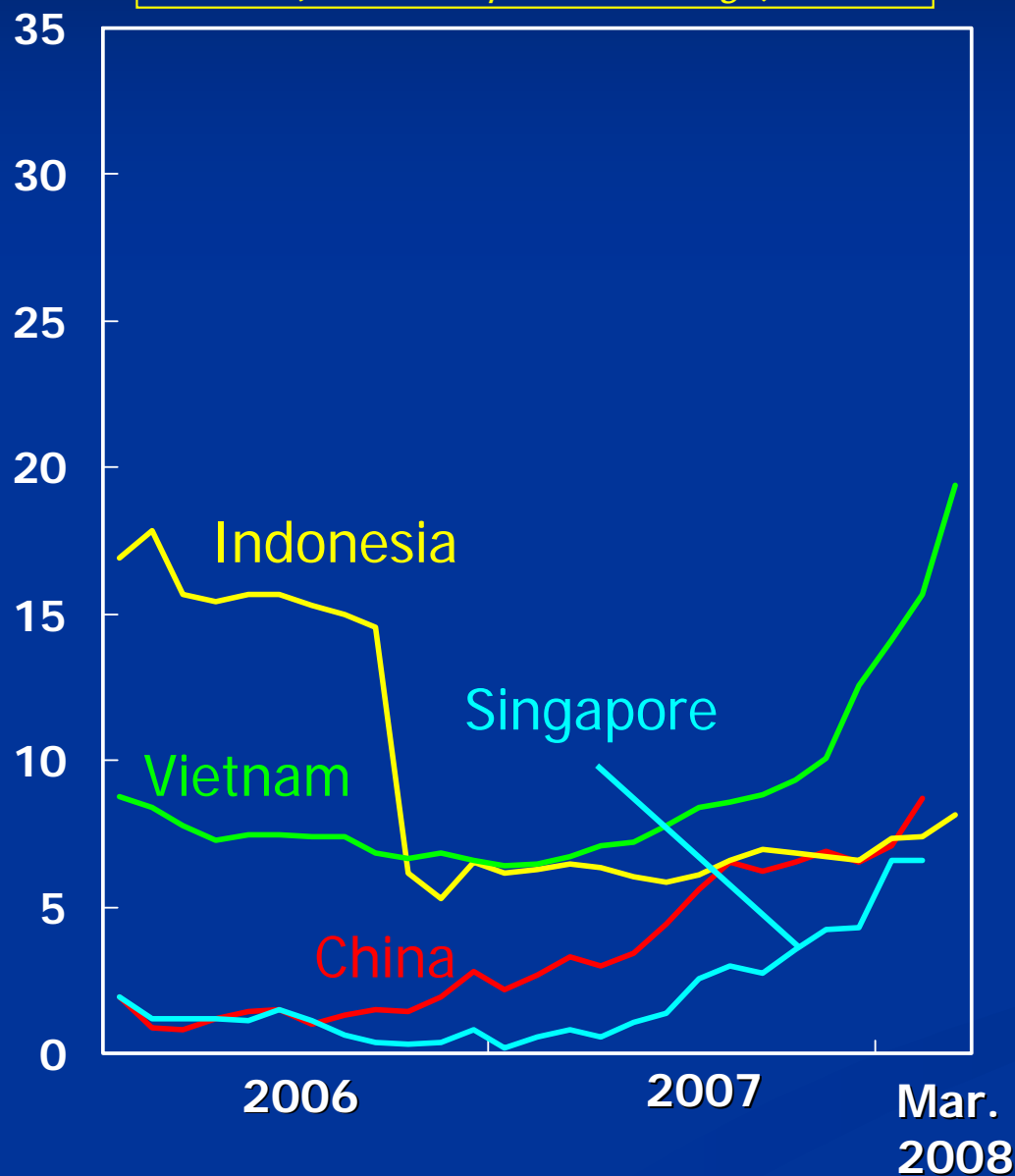
(January 4, 2005 = 100)



...including in emerging Asia

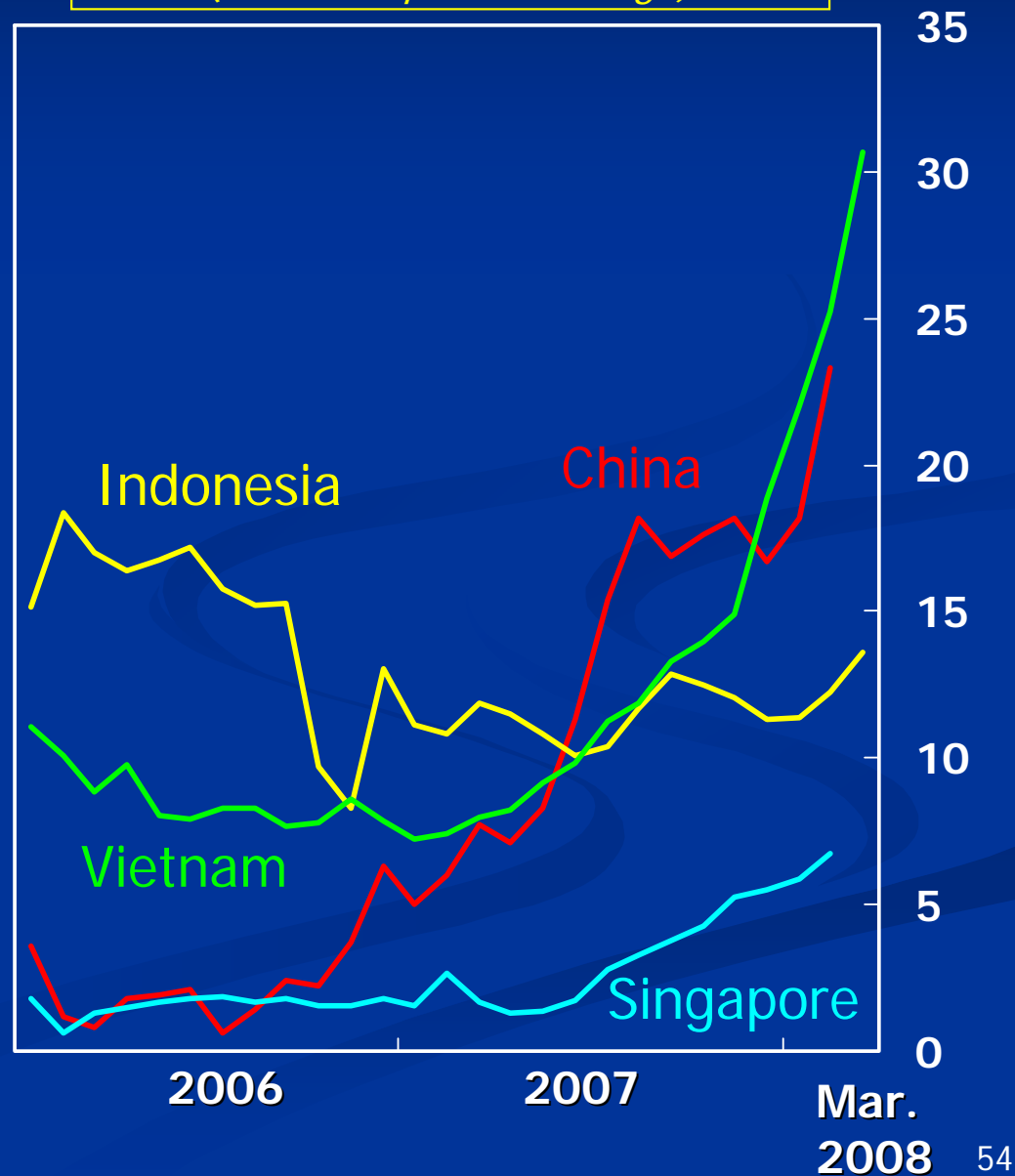
Headline Inflation

(12 month percent change)



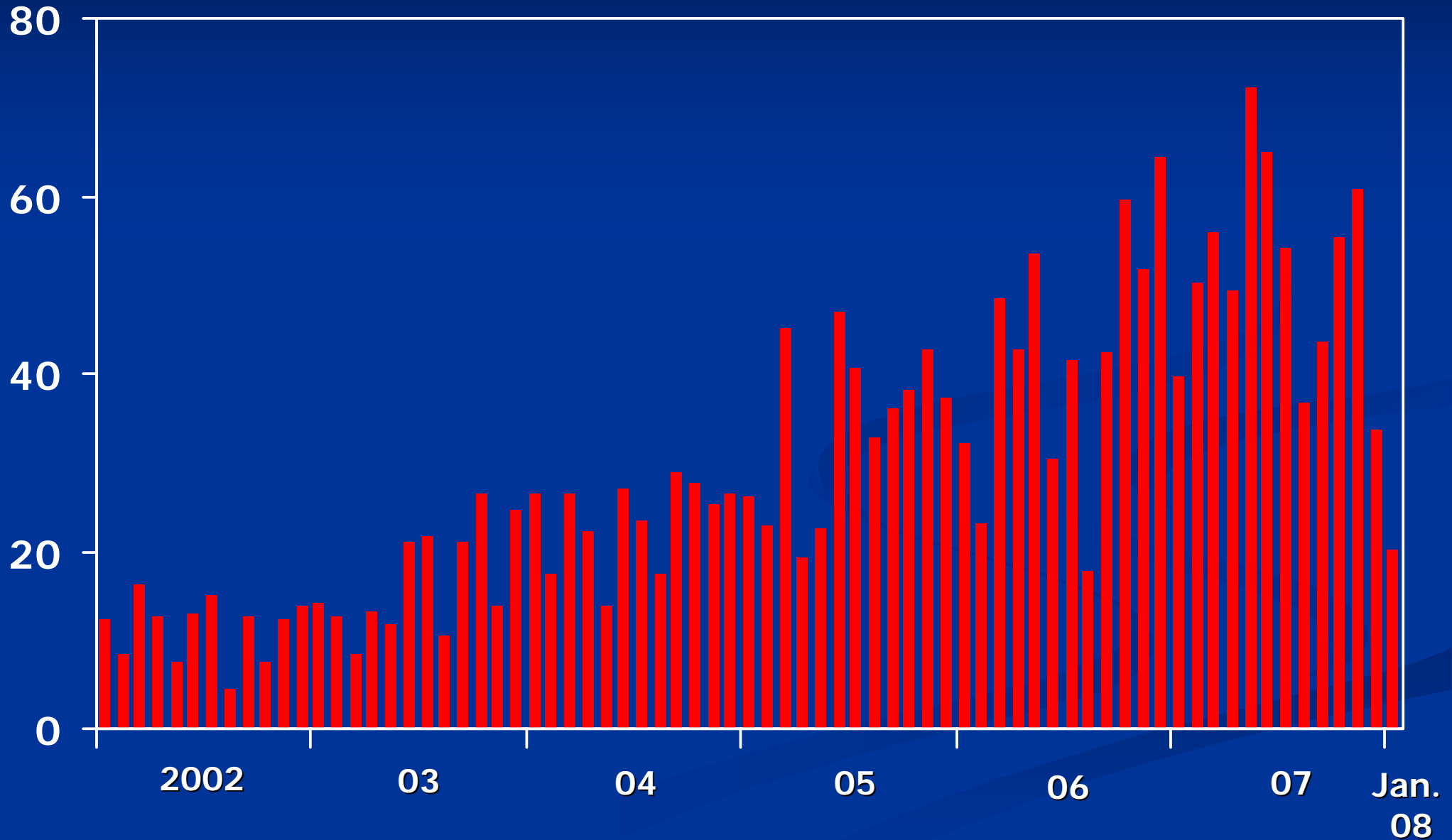
Food Price Inflation

(12 month percent change)



Emerging Market Inflows Are Now Sagging

(Bond, equity and loan issuance, billions of U.S. dollars)



Exchange Rate Adjustments Still Not Reflecting Current Account Positions

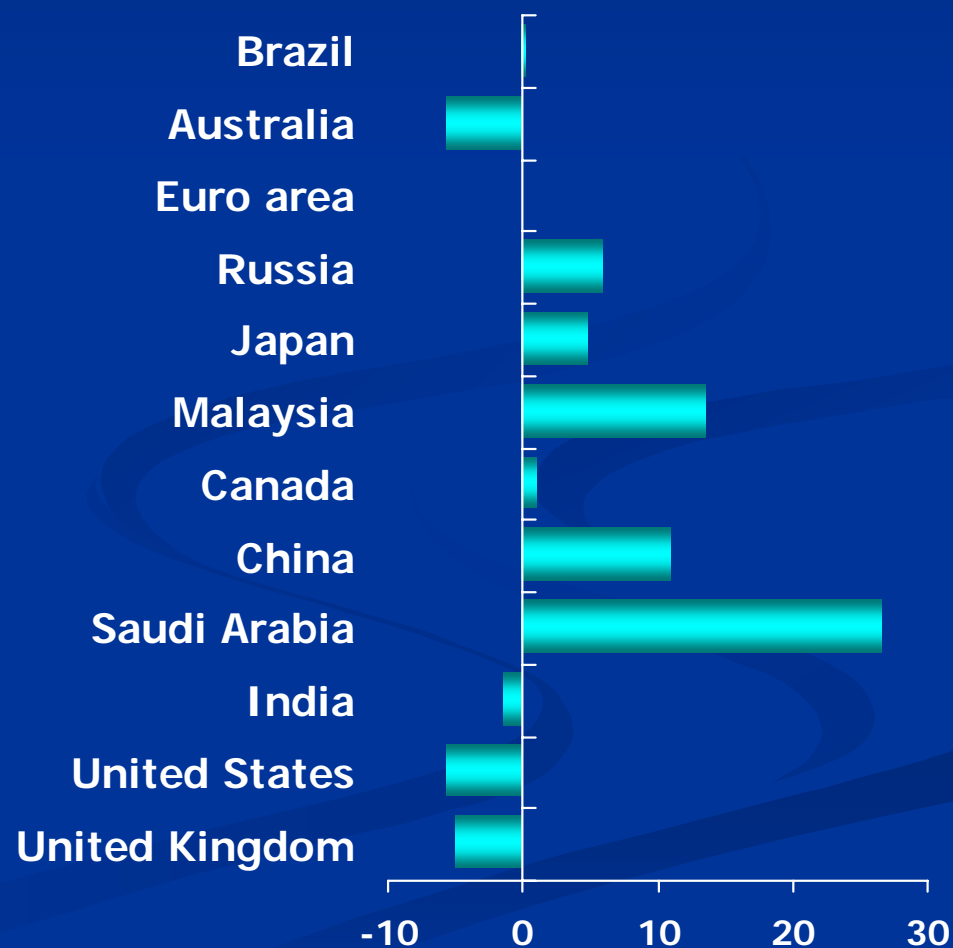
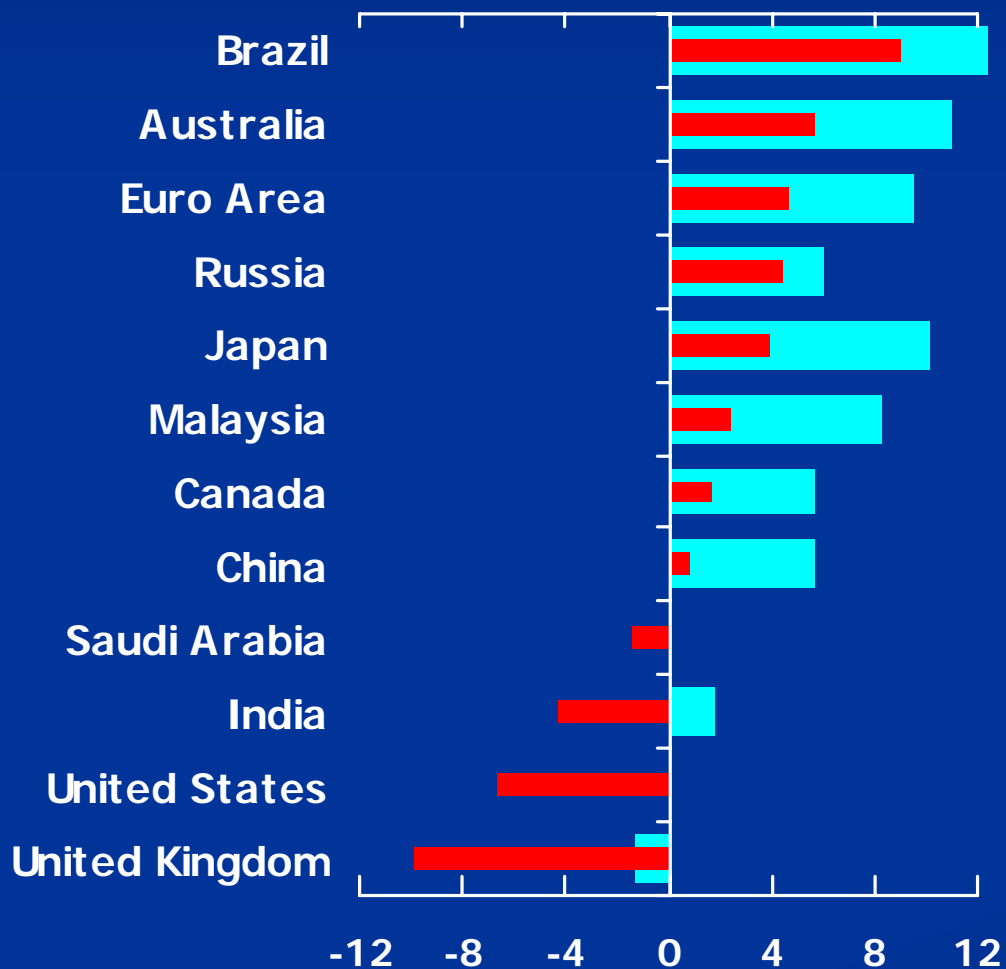
Exchange Rate ¹

(percent change 8/22-9/19/07 to 2/29/08)

Current Account Balances, 2007

(percent of GDP)

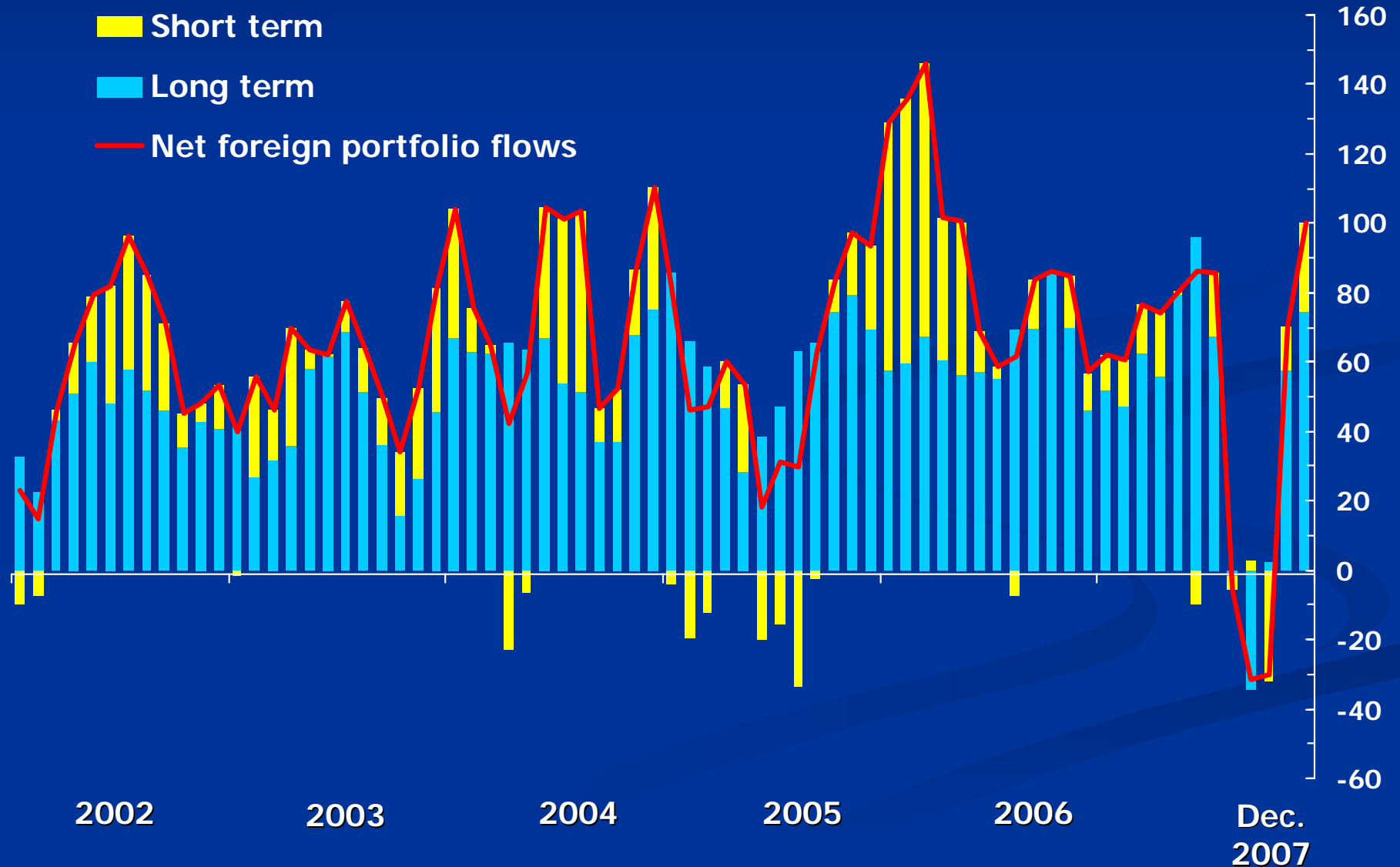
■ U.S. dollar / national currency ■ REER



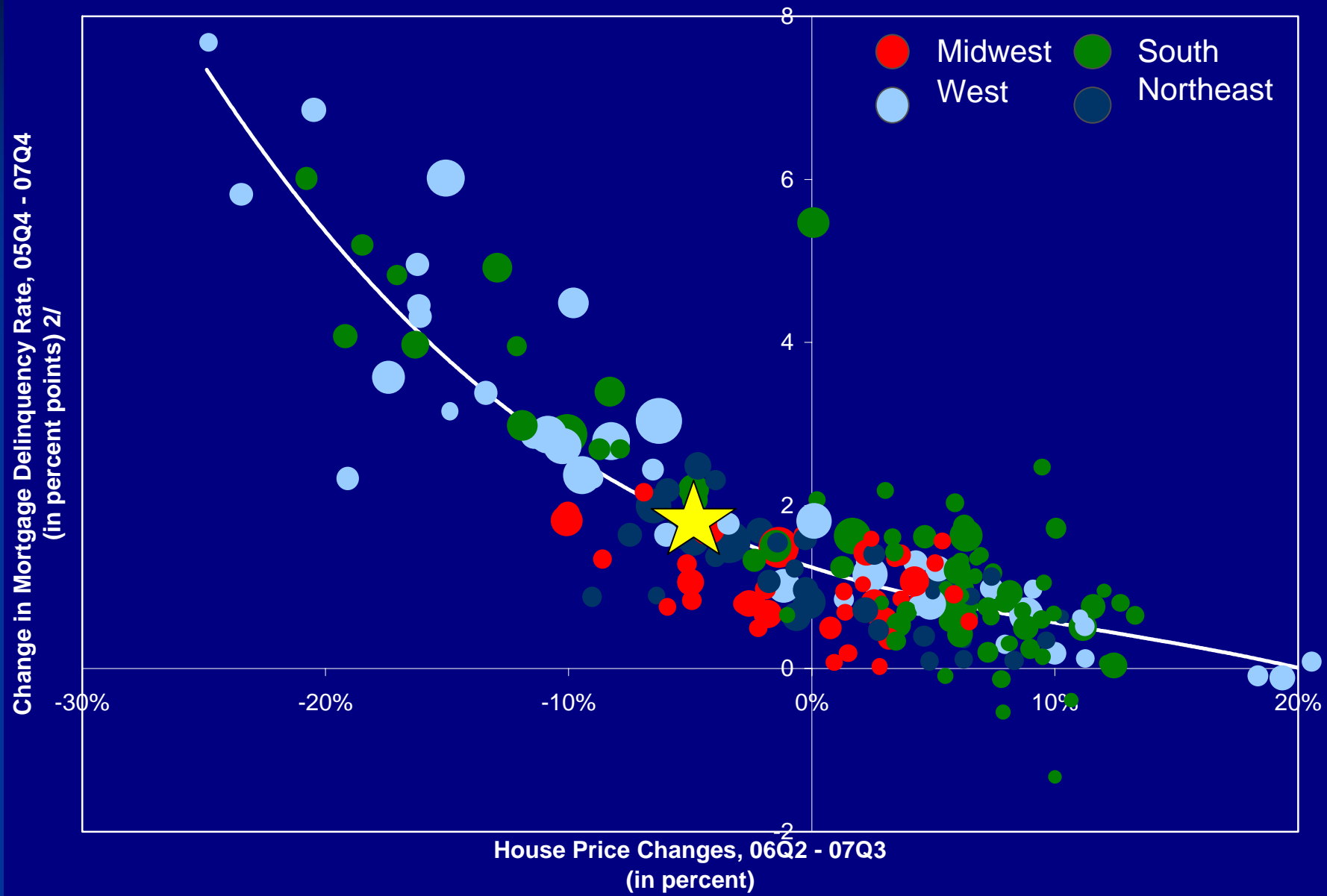
¹ Positive values indicate domestic currency appreciation

Meeting U.S. Financing Needs at Risk

(Three-month moving average, billions of U.S. dollars)



Falling U.S. house prices and rising mortgage delinquencies ¹



Sources: Moody's Economy.com, Equifax, Case-Shiller and OFHEO.

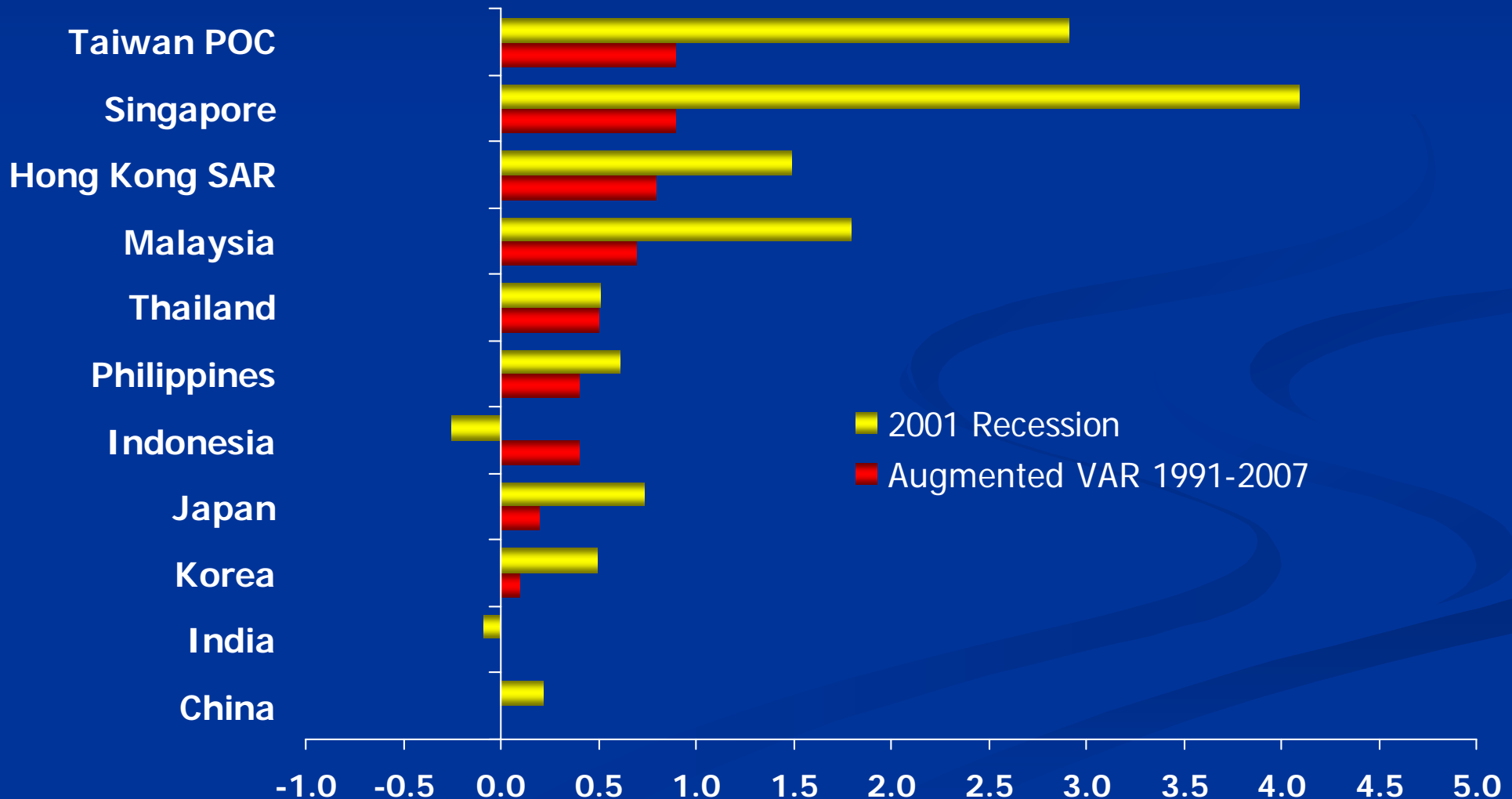
1/ ★ = National Average; size of regional marker reflects relative size of the mortgage market (in outstanding \$).

2/ Delinquency rate defined in percent of outstanding mortgages (in dollar amounts).

Impact on Asia of a fall in U.S. Growth

(Percentage point reduction in GDP growth from 1 percentage point reduction in U.S. growth)

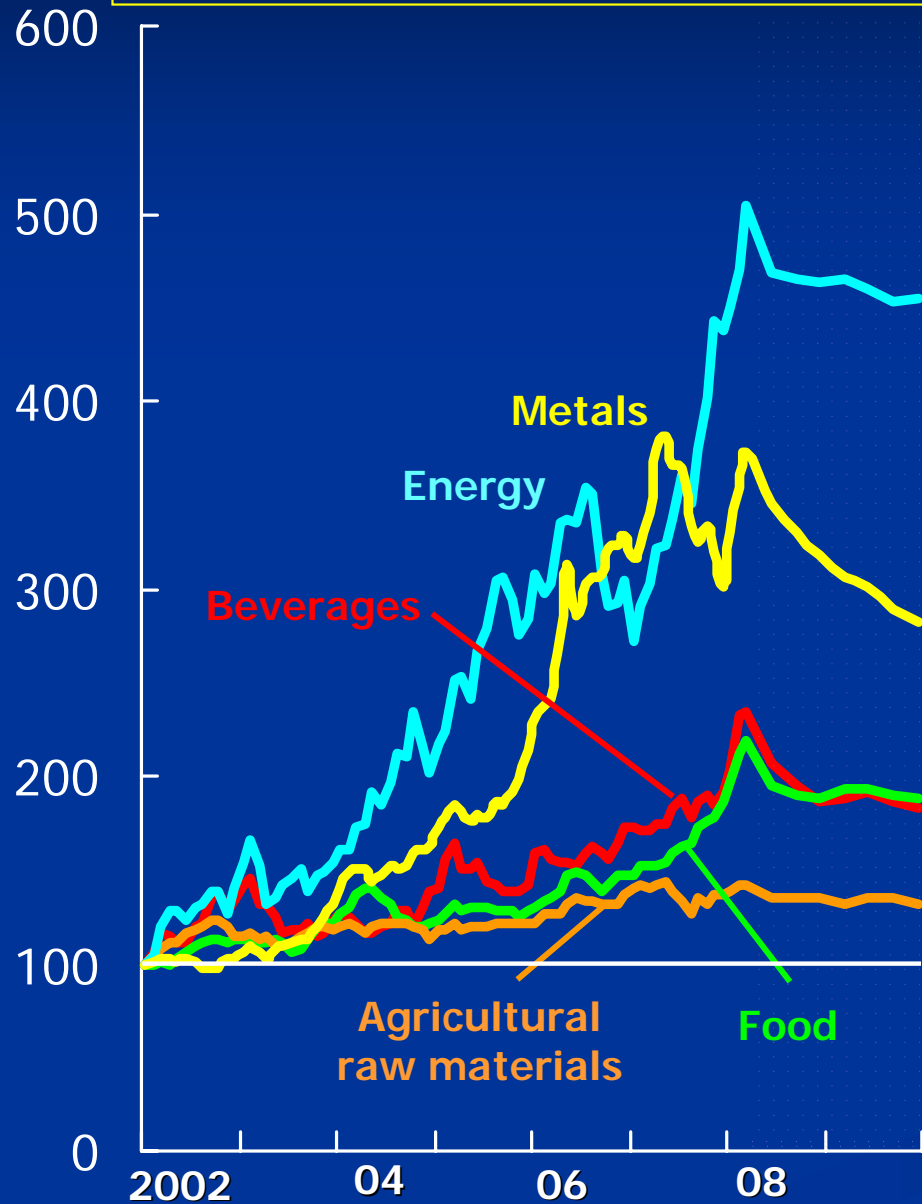
Real GDP Growth Rates
(Percentage point reduction in GDP growth from one percentage point reduction in U.S. growth)



How Much Higher Will Commodity Prices Go?

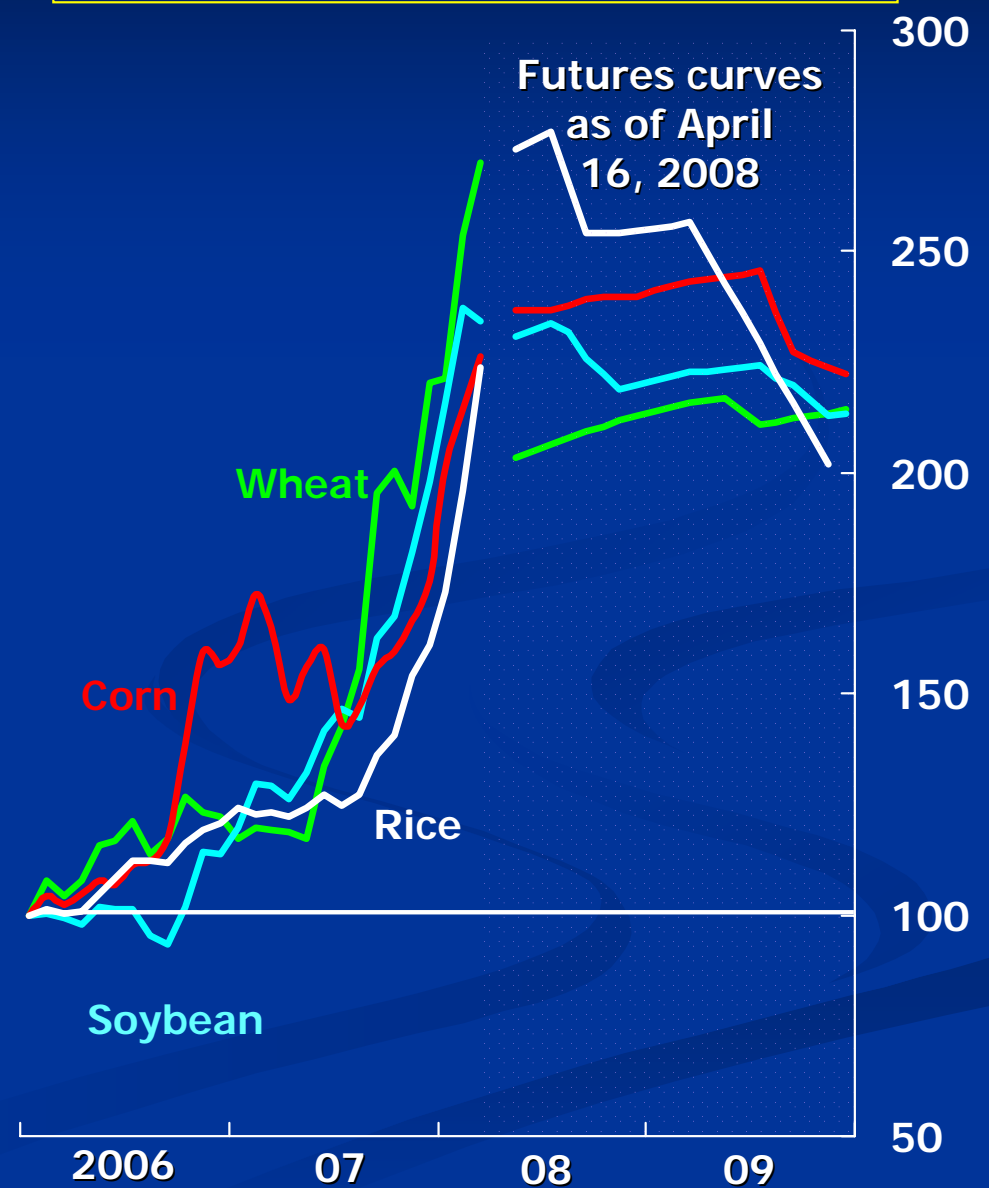
Selected Commodity Prices

(January 2002 = 100)



Selected Food Prices

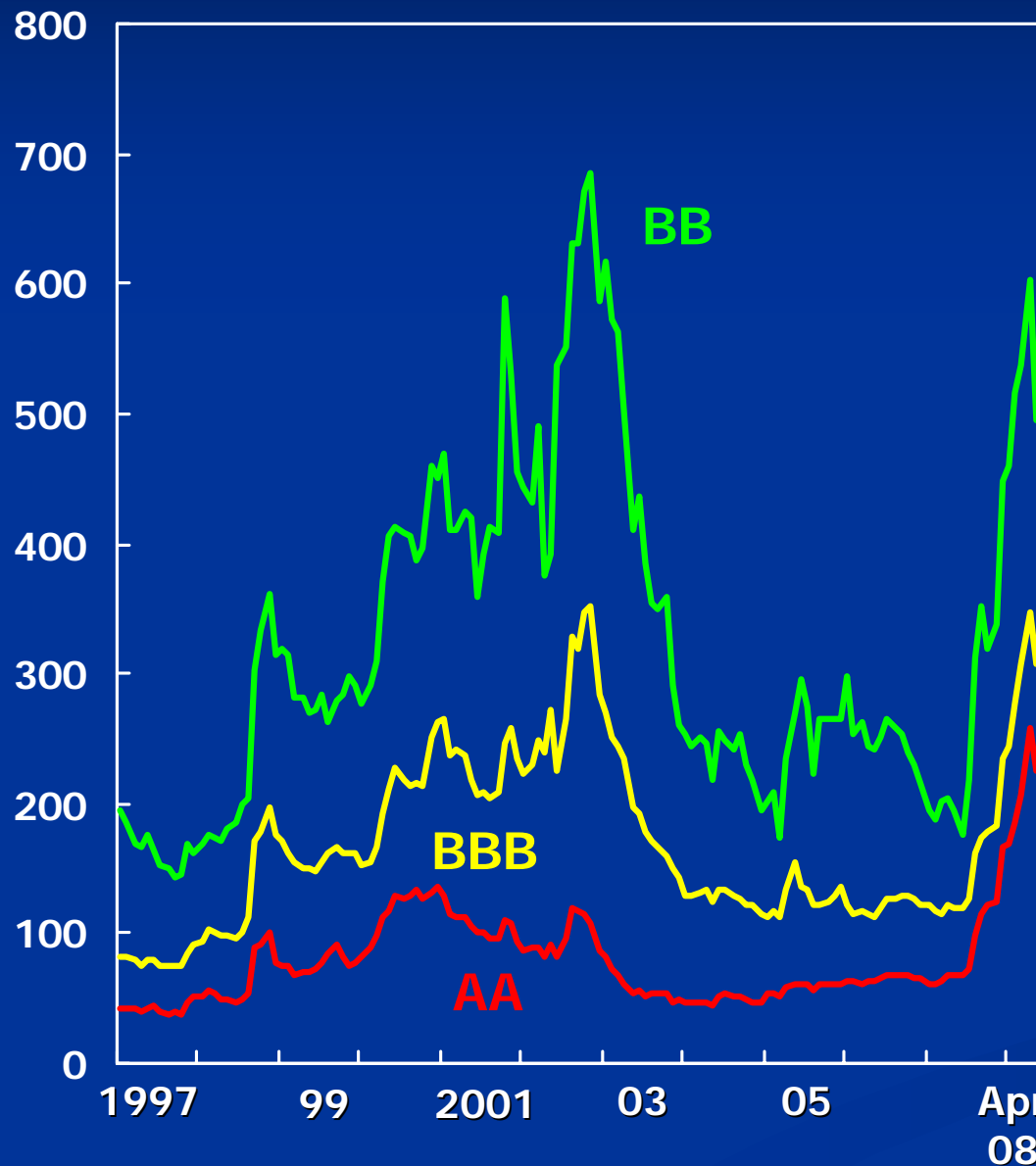
(January 2002 = 100)



Some Historical Perspective

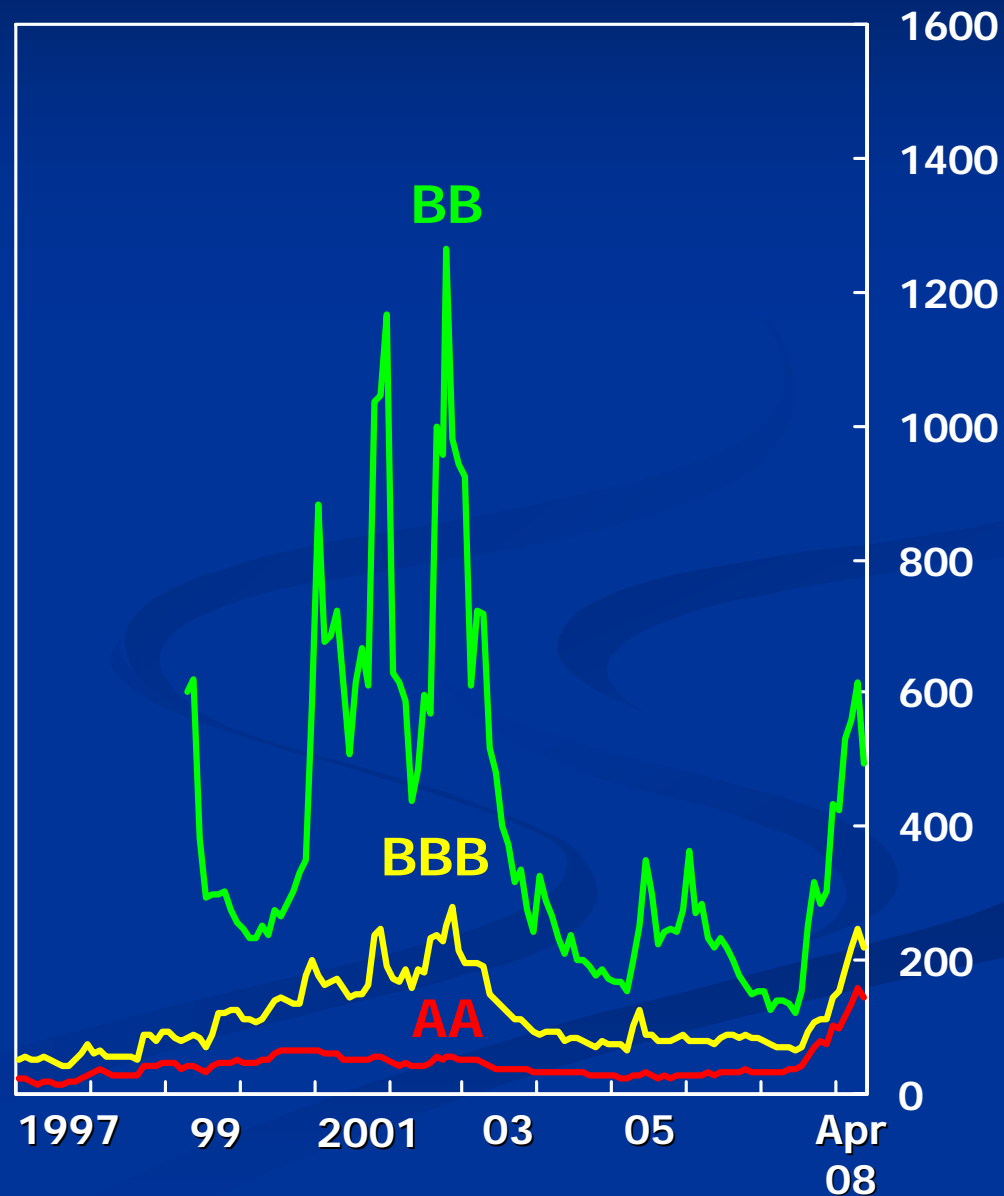
United States

(corporate bond spreads, basis points)



Euro Area

(corporate bond spreads, basis points)



Three lines of defense

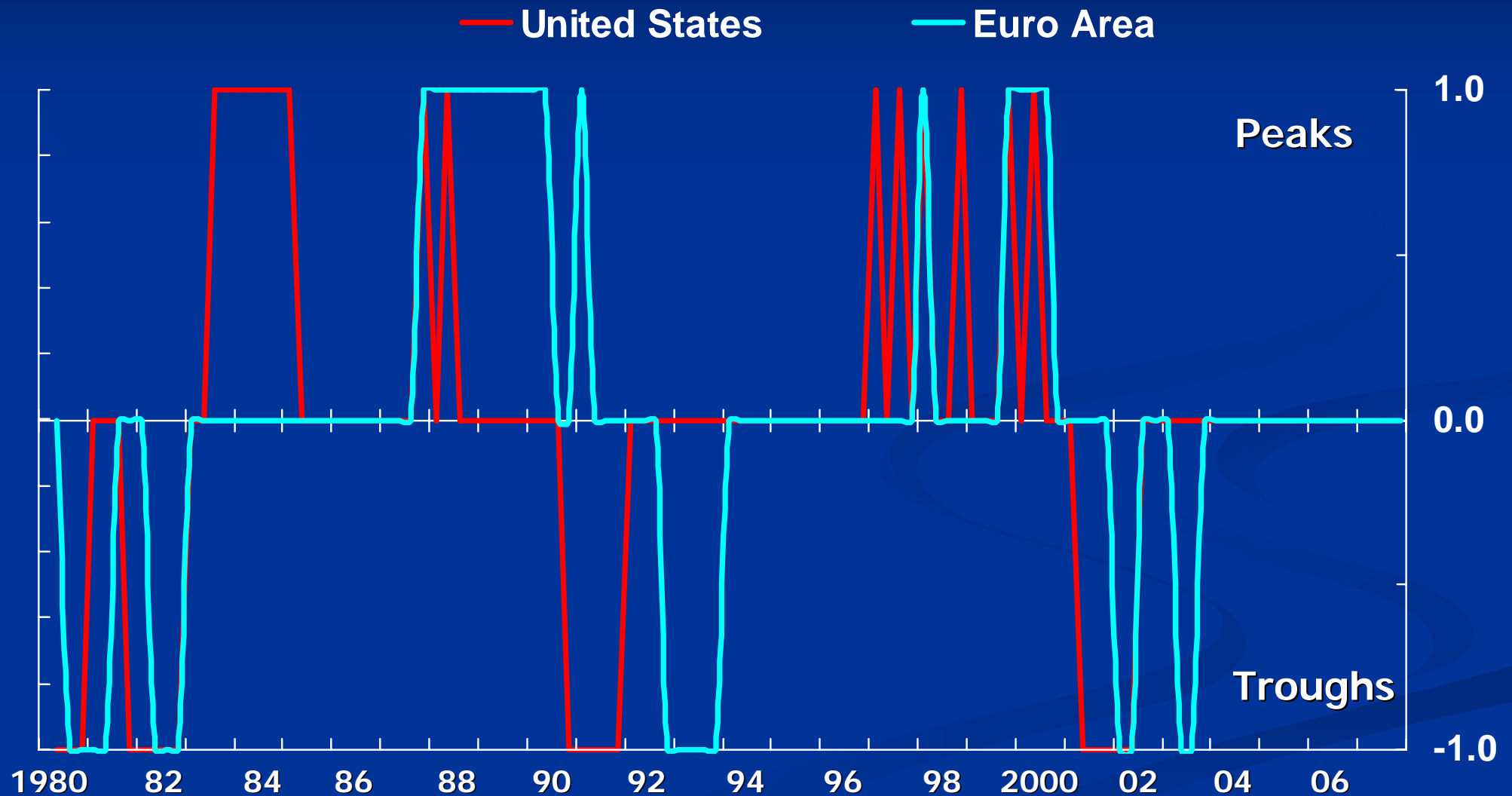
1. Ease monetary policy

2. Fiscal Stimulus

3. Use of public balance sheets to support housing and credit markets

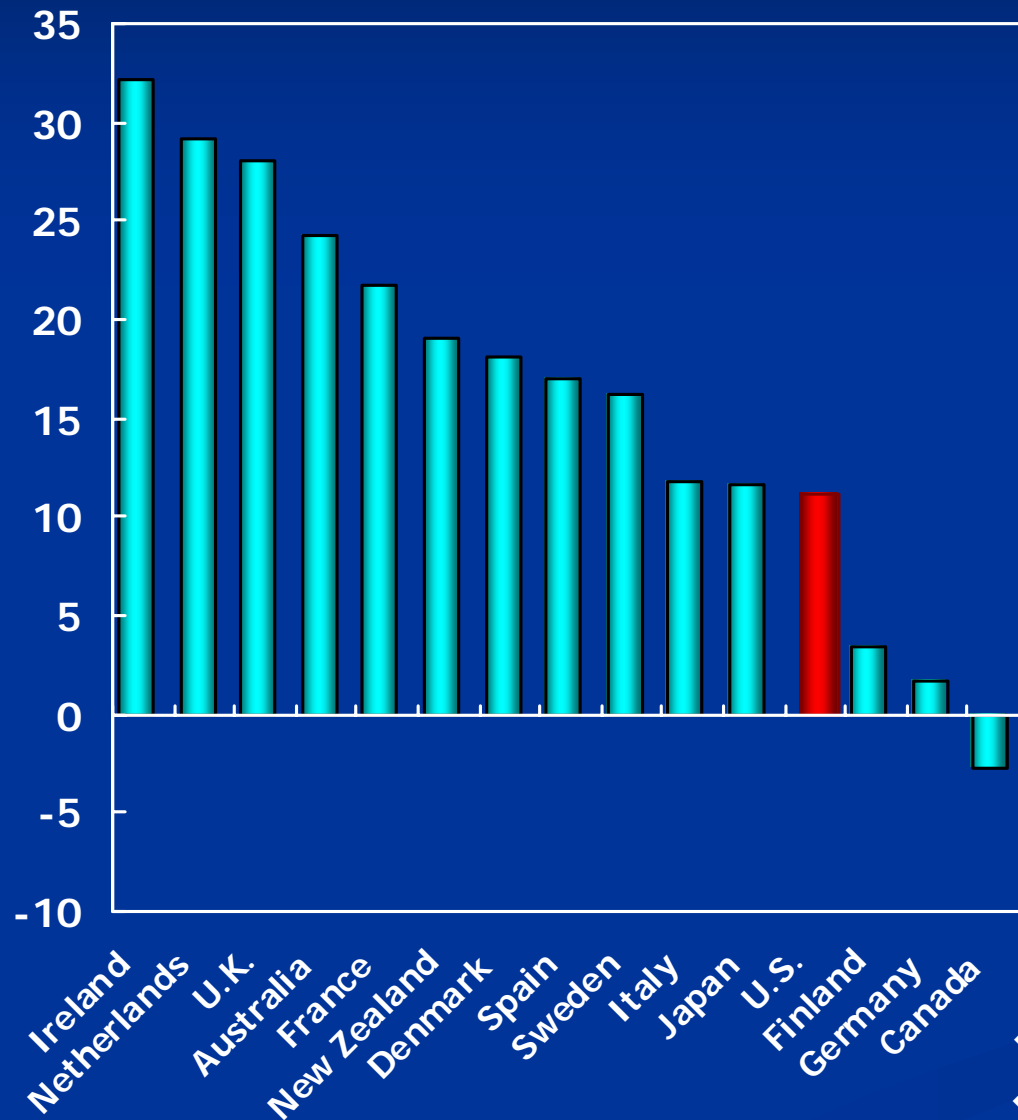
- Repos for illiquid assets (Federal Reserve/BoE)
- Maintaining supply of commercial mortgages (Freddie & Fannie)
- Preventing collapse of systemic institutions (Bear Sterns)
- Facilitating refinancing of underwater mortgages (Barney Frank plan)
- Holding company for impaired assets (RTC)

Where the U.S. leads, the Euro zone is likely to follow

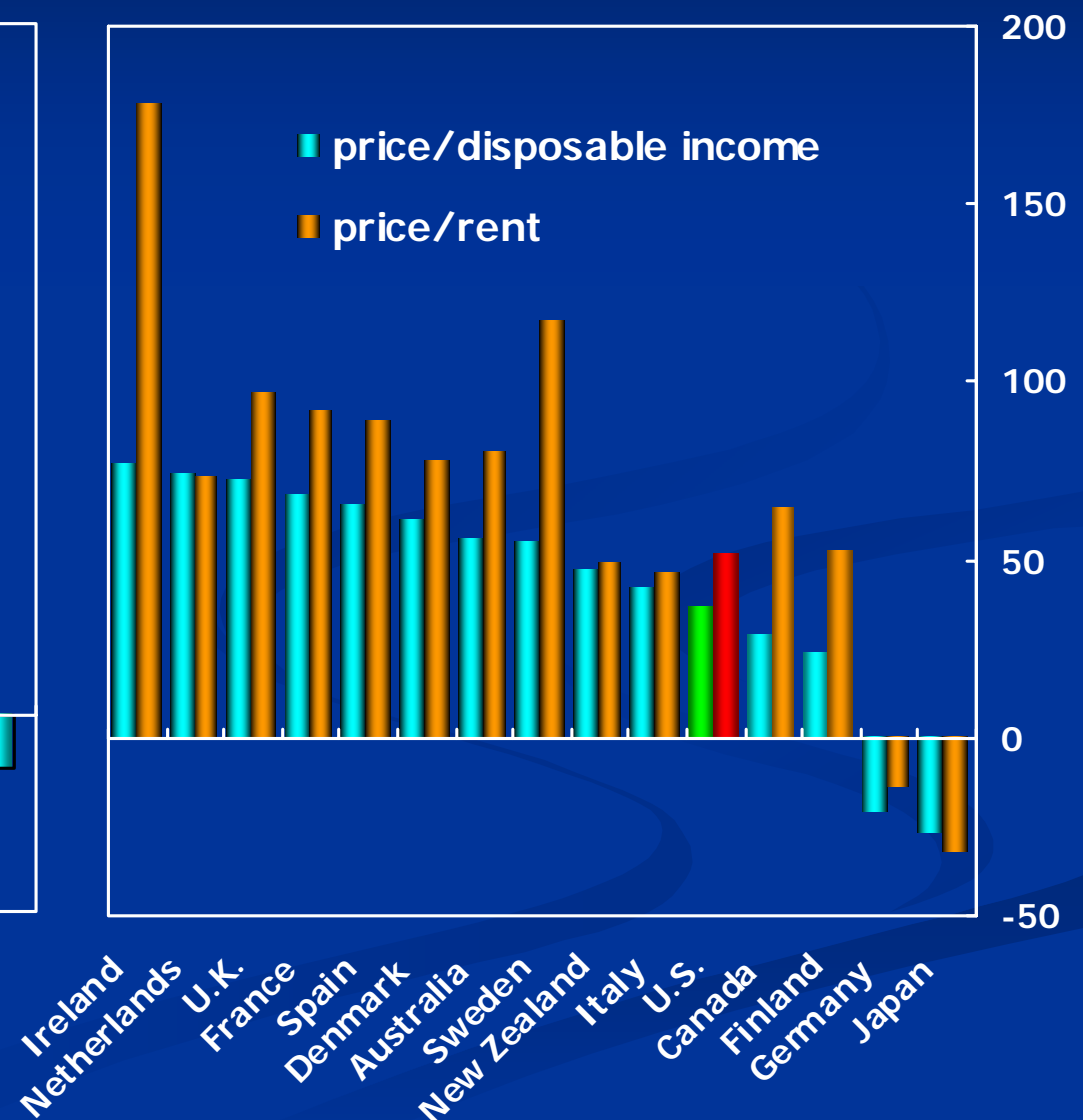


Housing-Related vulnerabilities are widespread

House "Price Gaps"
(1997-2007; in percent of real house prices)



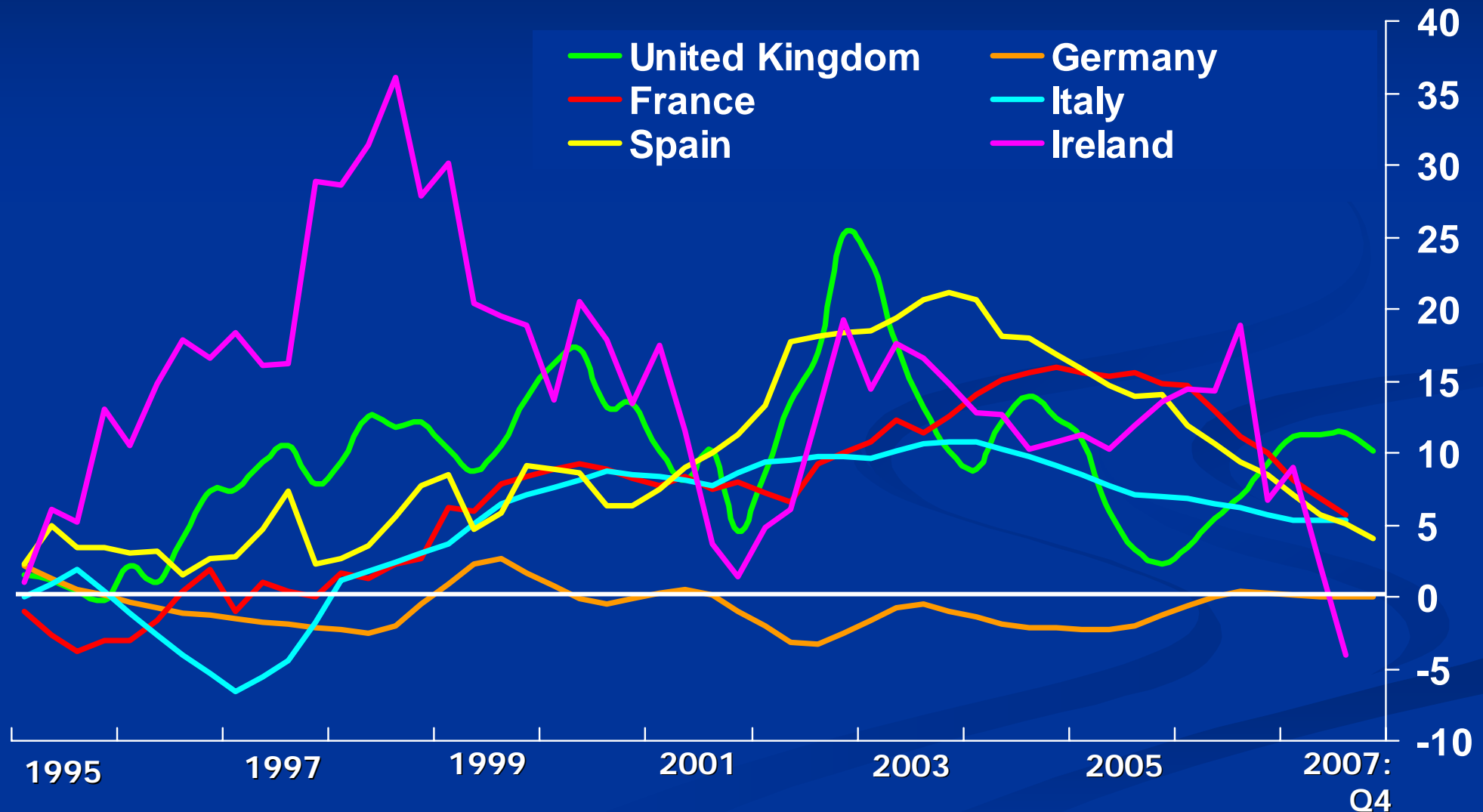
House Valuation Ratios
(1997-2006; percent change)



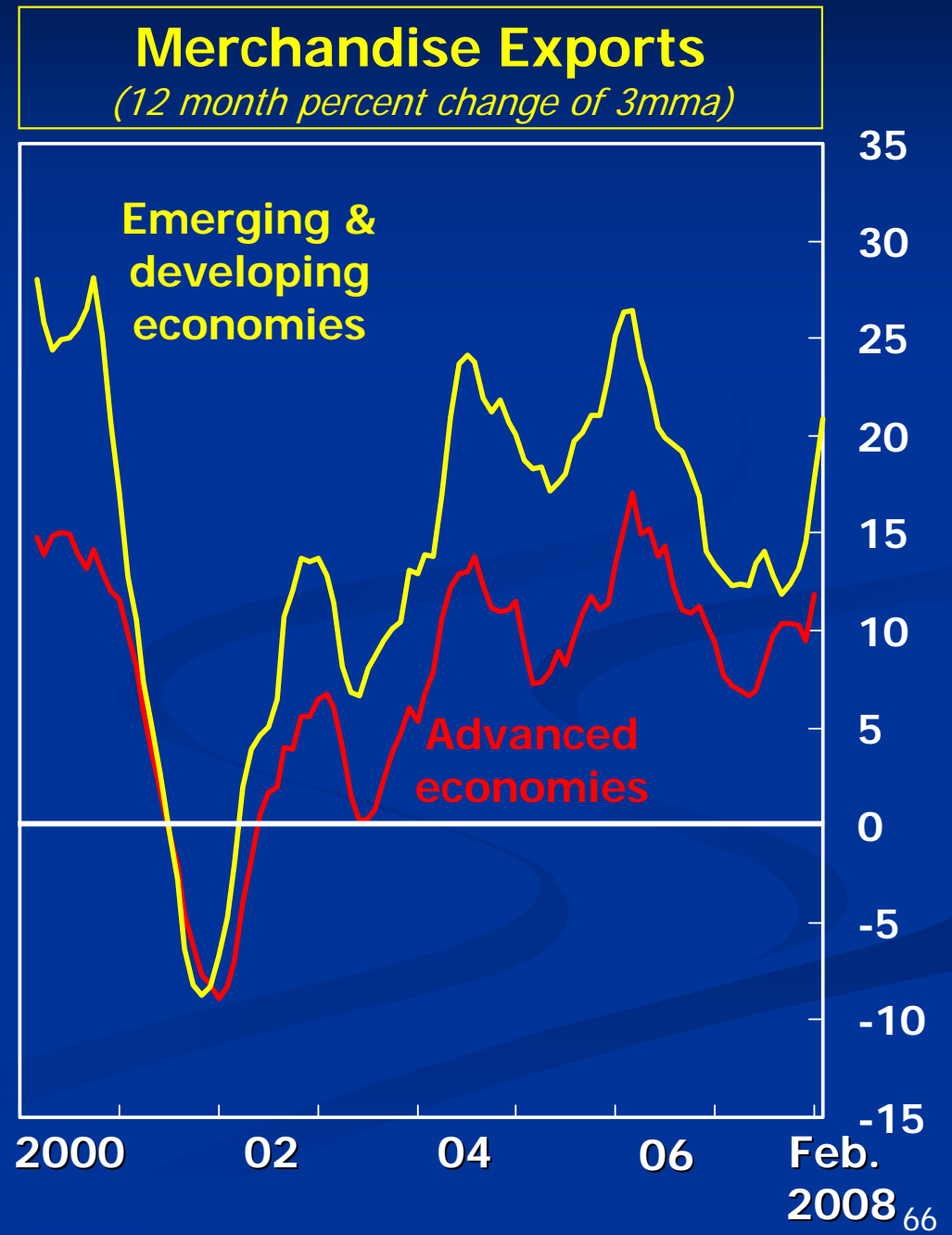
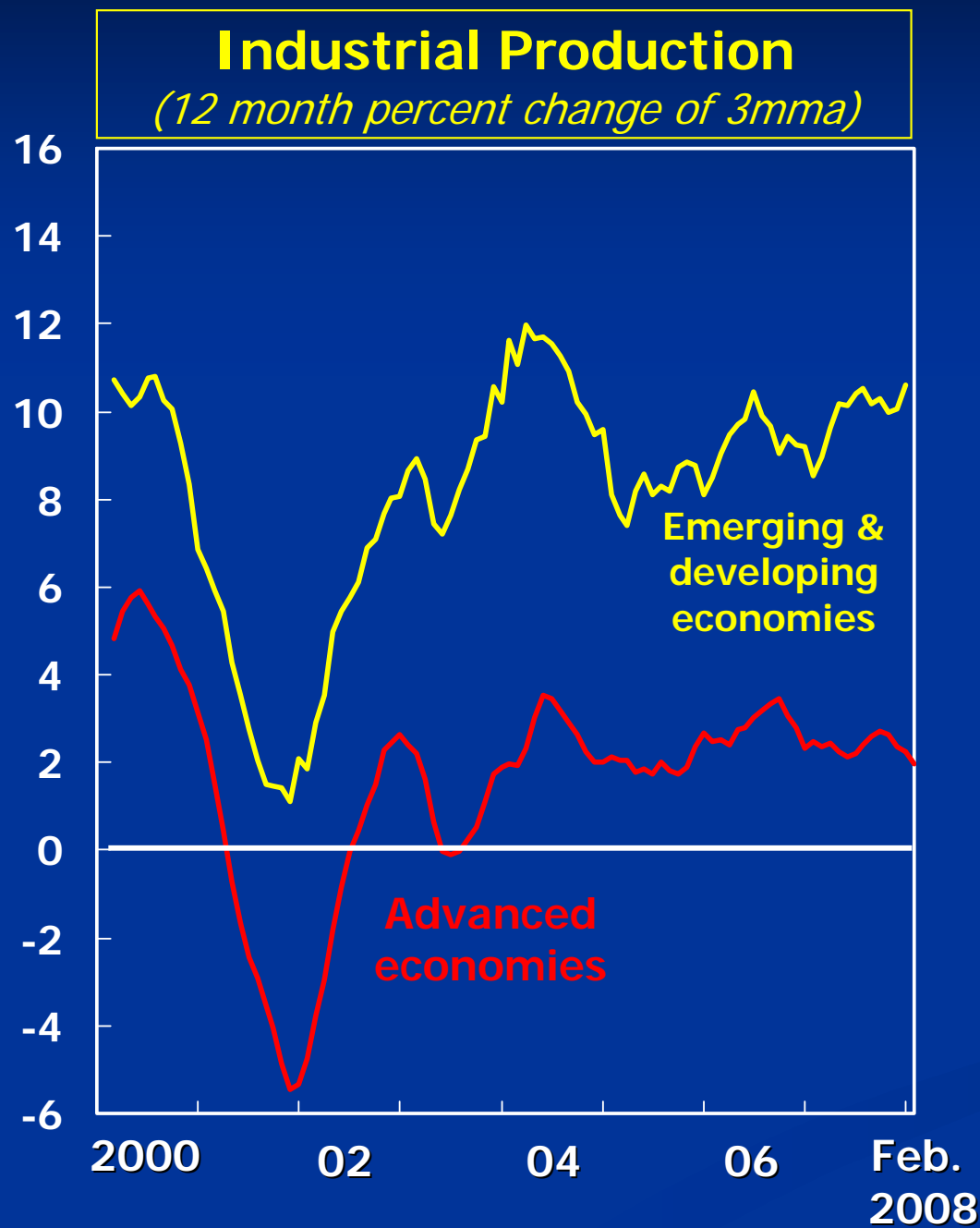
Source: IMF staff calculations.

European Housing Markets are Turning Down

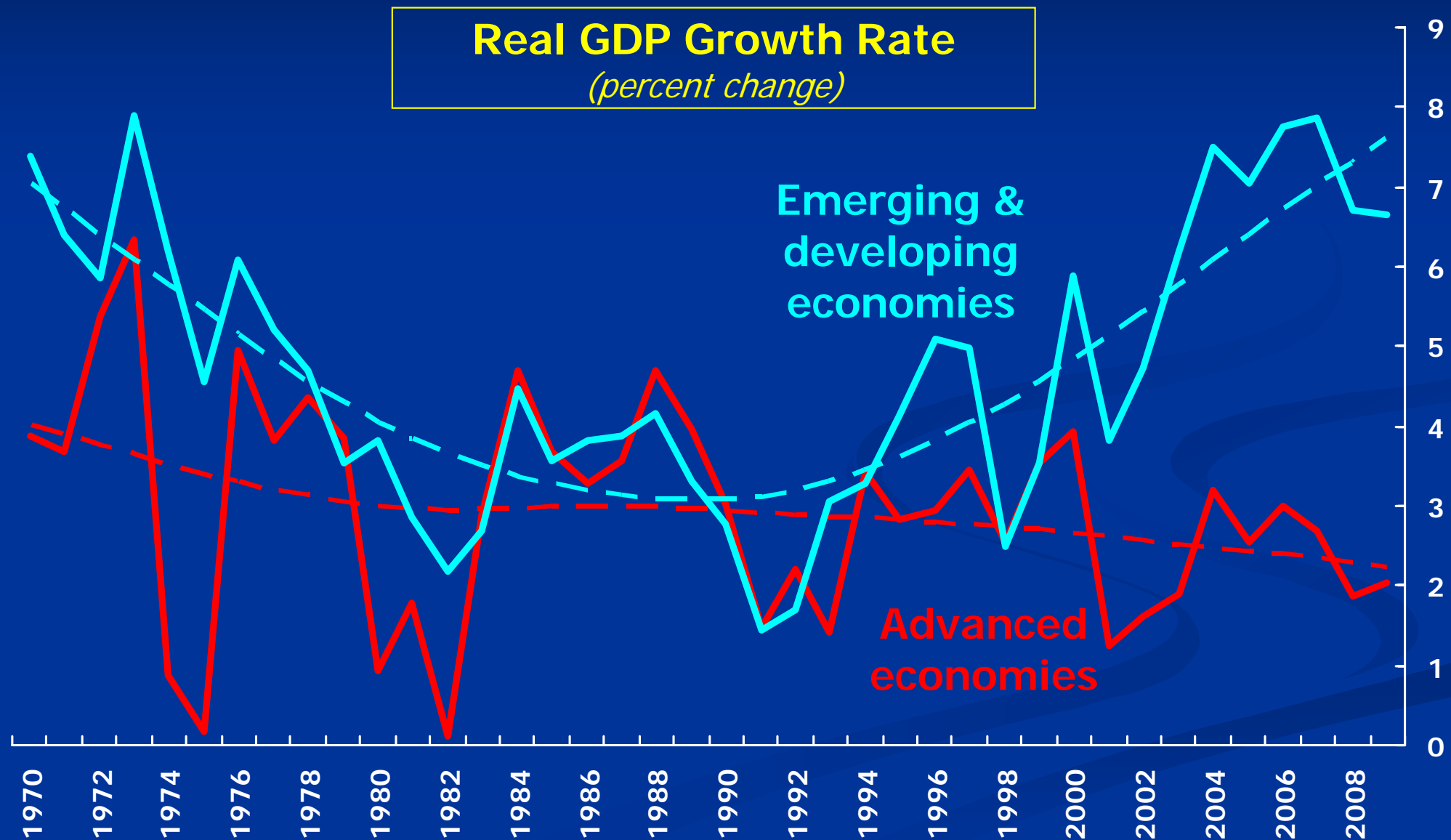
(Four quarter percent change)



But industrial production and exports seem little affected... so far

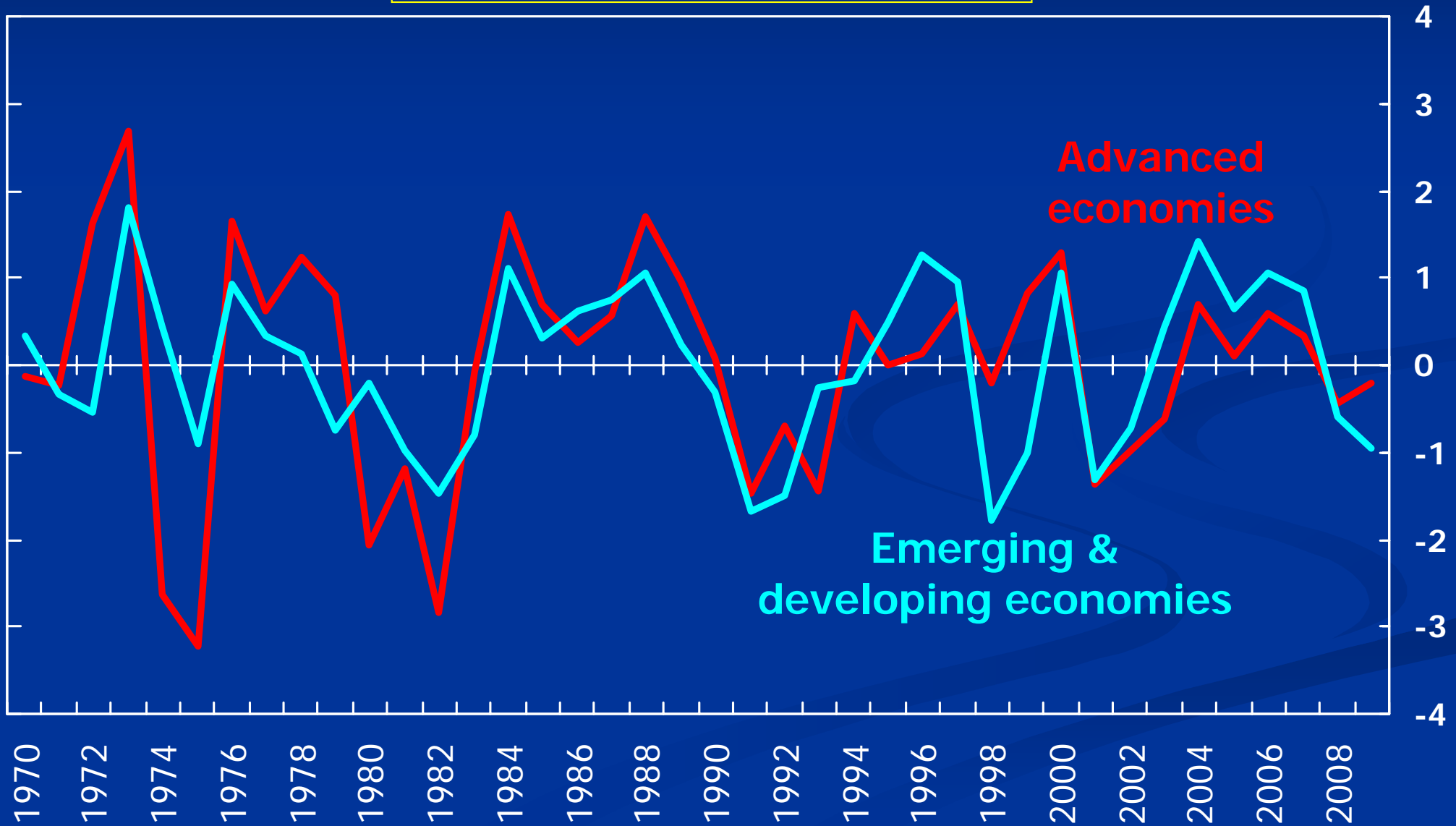


Advanced economies and emerging economies have diverged...



... but not decoupled

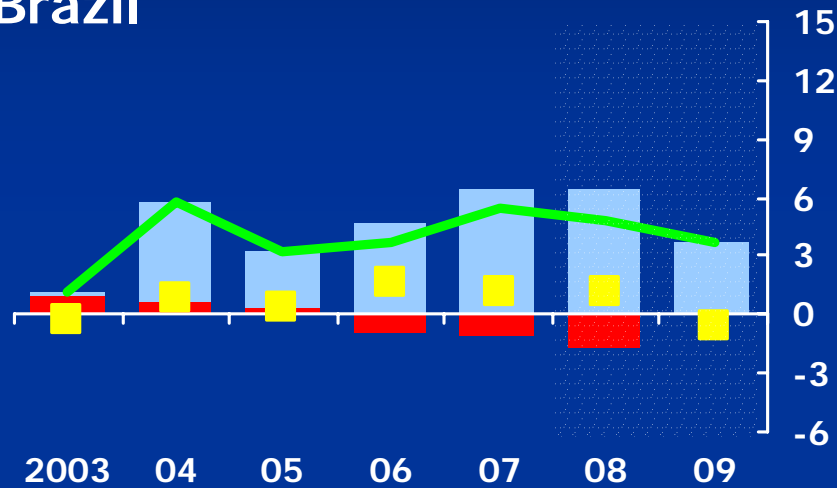
Real GDP Growth Rates
(deviation from trend)



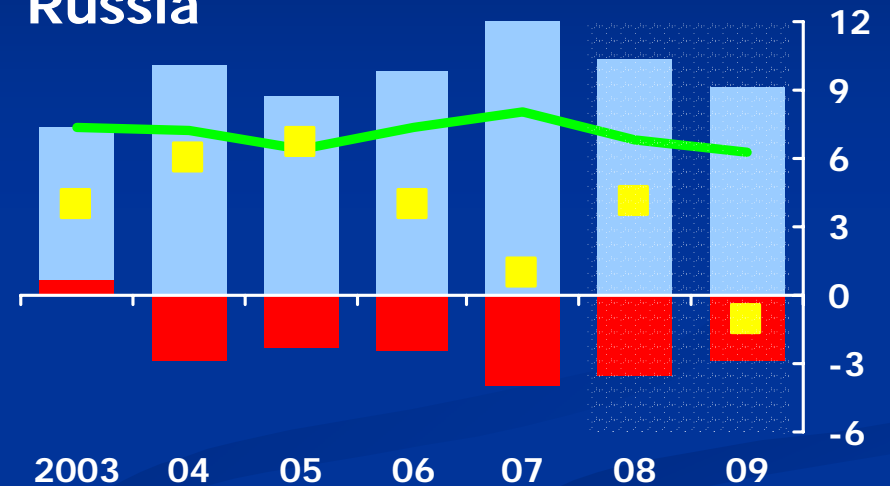
And domestic demand has strong momentum in BRICs *(percent change)*

— Total growth
 ■ Total domestic demand
 ■ Net exports
 ■ Terms of trade gain

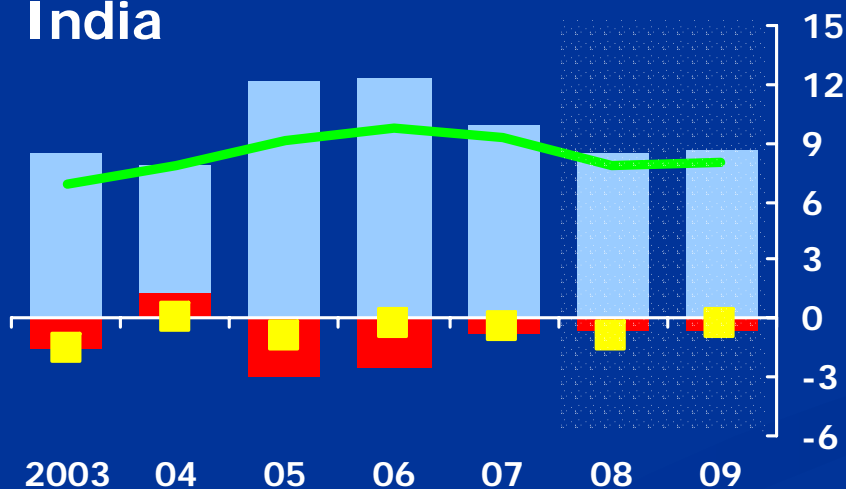
Brazil



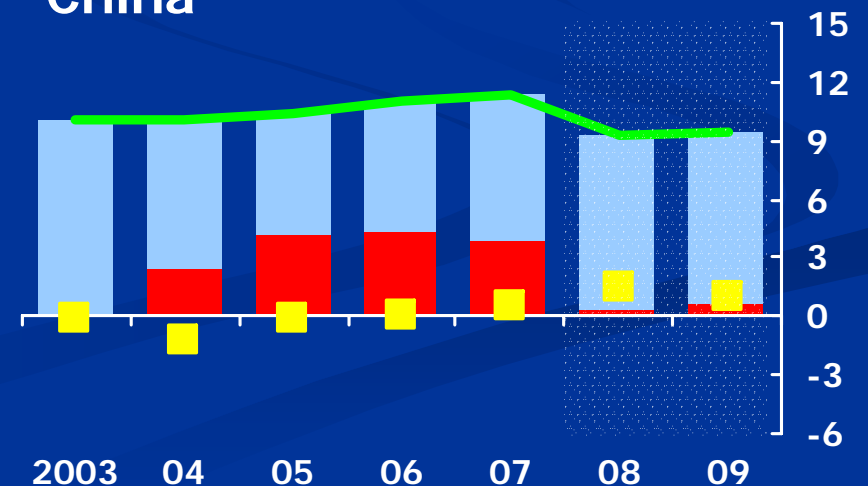
Russia



India



China



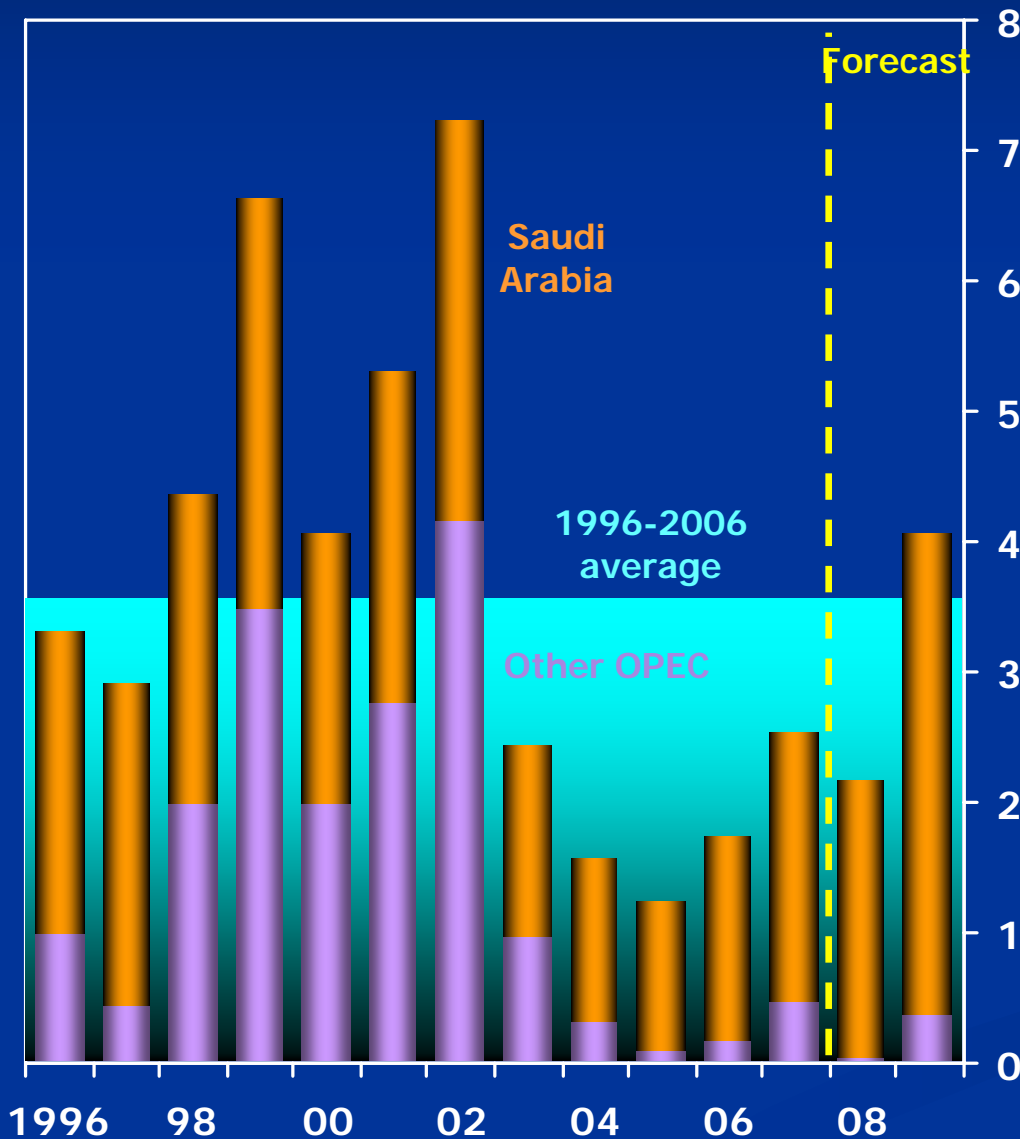
And 2007 Looks Worse Than 1996

(Emerging market country current accounts in 1996 and 2007; percent of GDP)

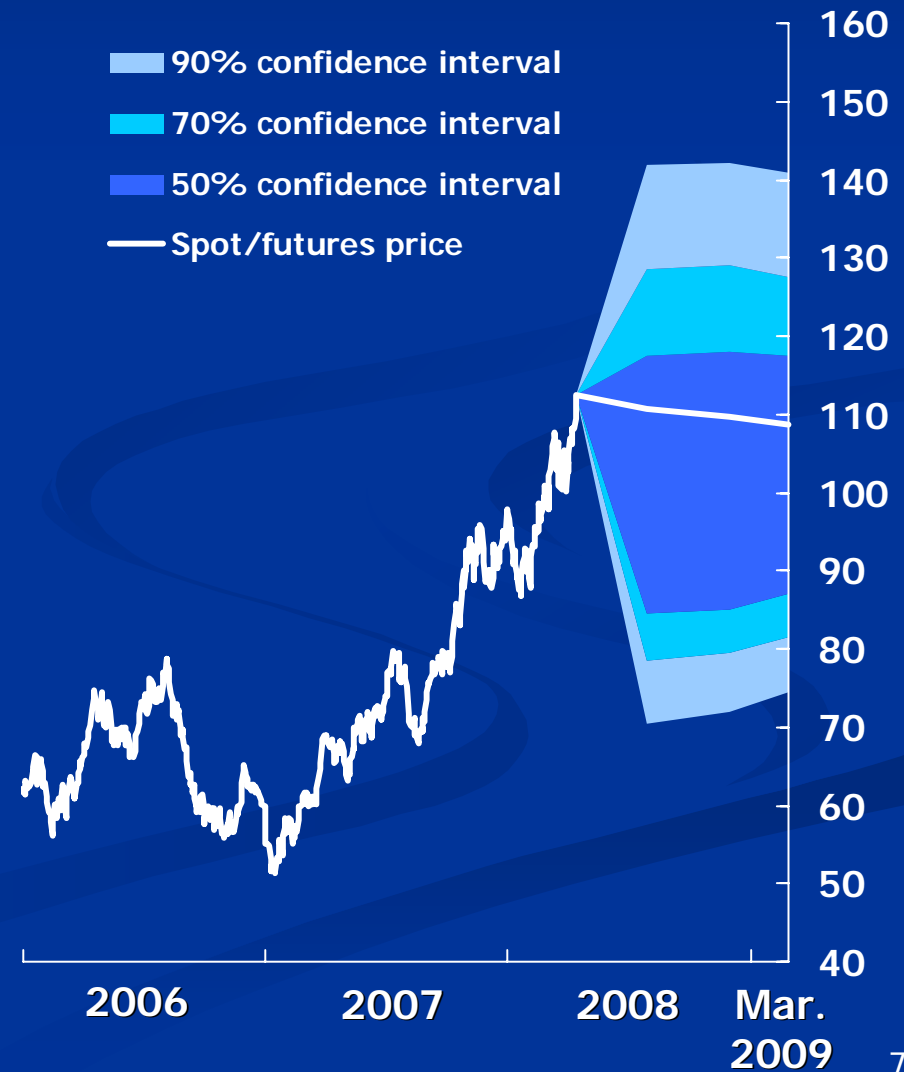


Oil Prices have reached new highs, amid tight market conditions

OPEC Spare Capacity
(percent of world oil consumption)

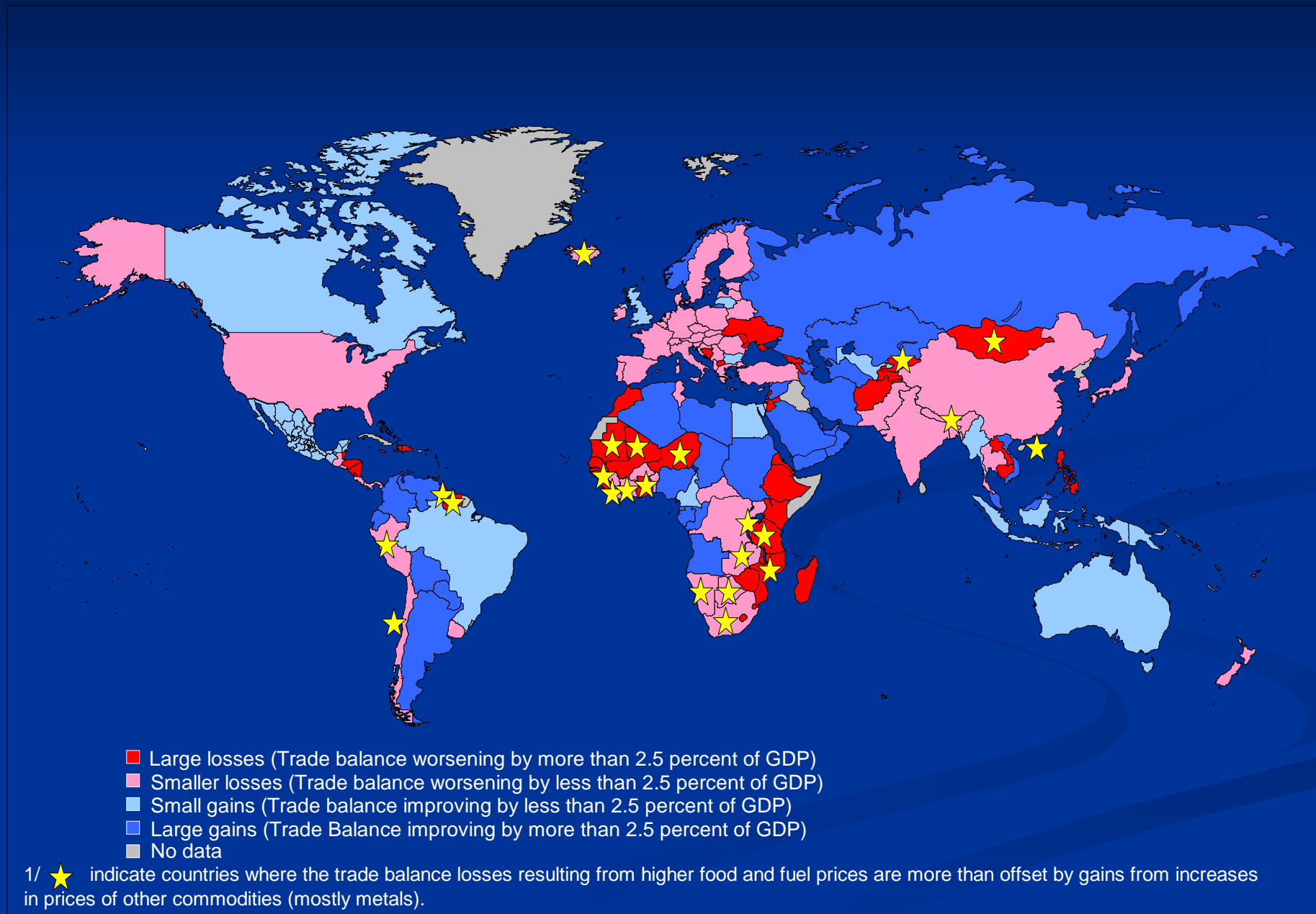


Crude Oil Prices
(Brent; from futures options; as of April 16 2008; U.S. dollars per barrel)



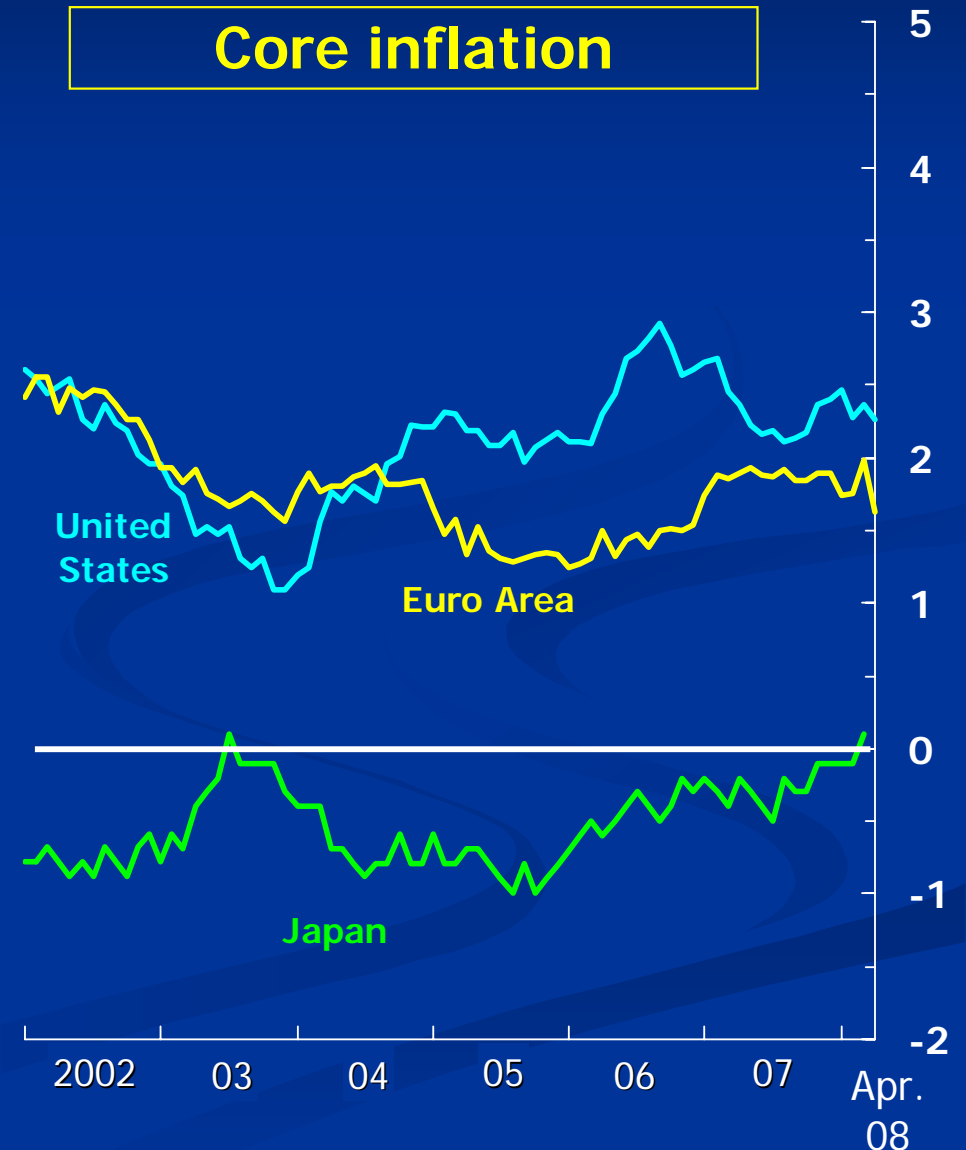
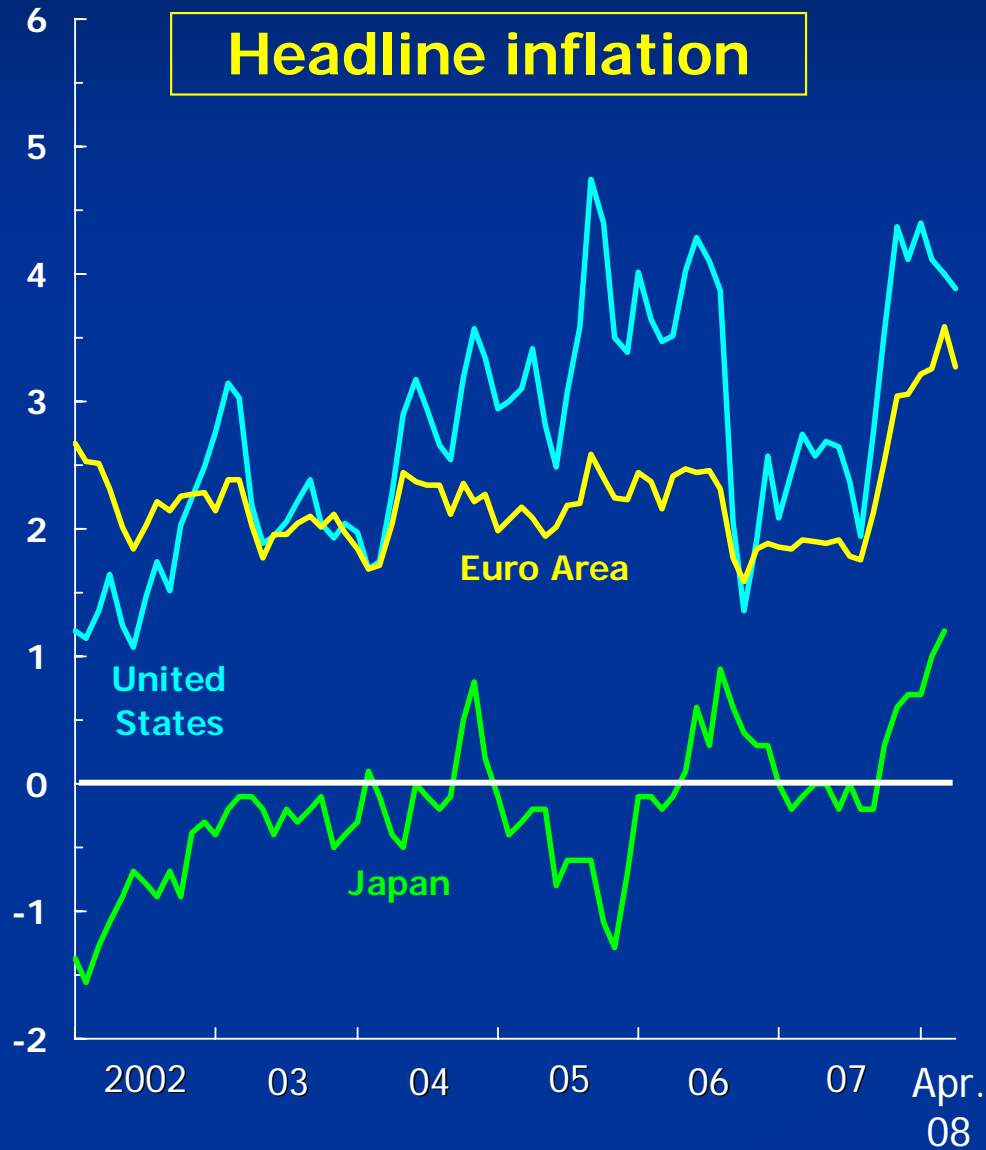
Winners and losers

(Estimated impact of projected oil and food price changes in 2008 in percent of GDP)



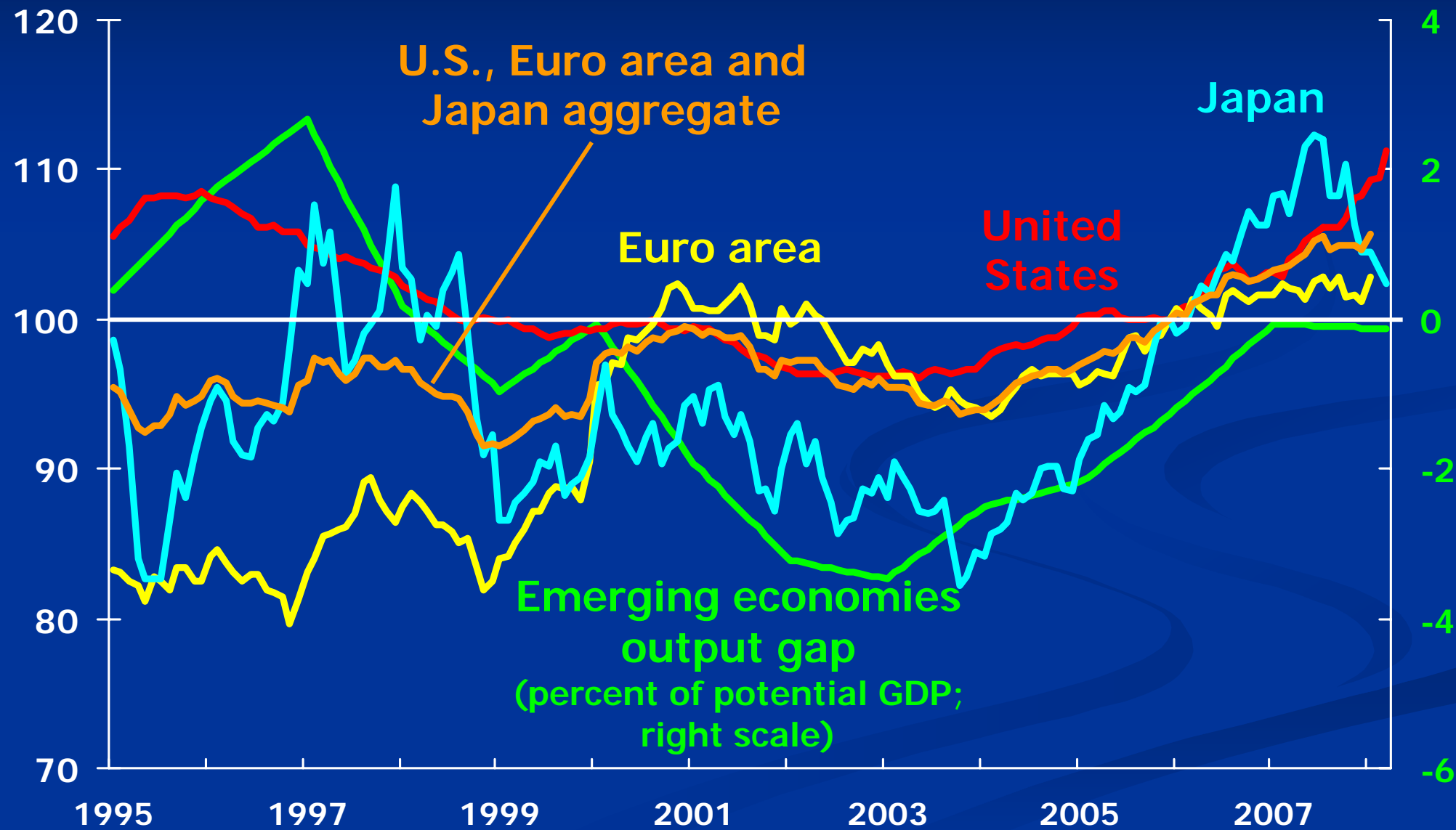
Headline vs. Core

(12 month percent change)



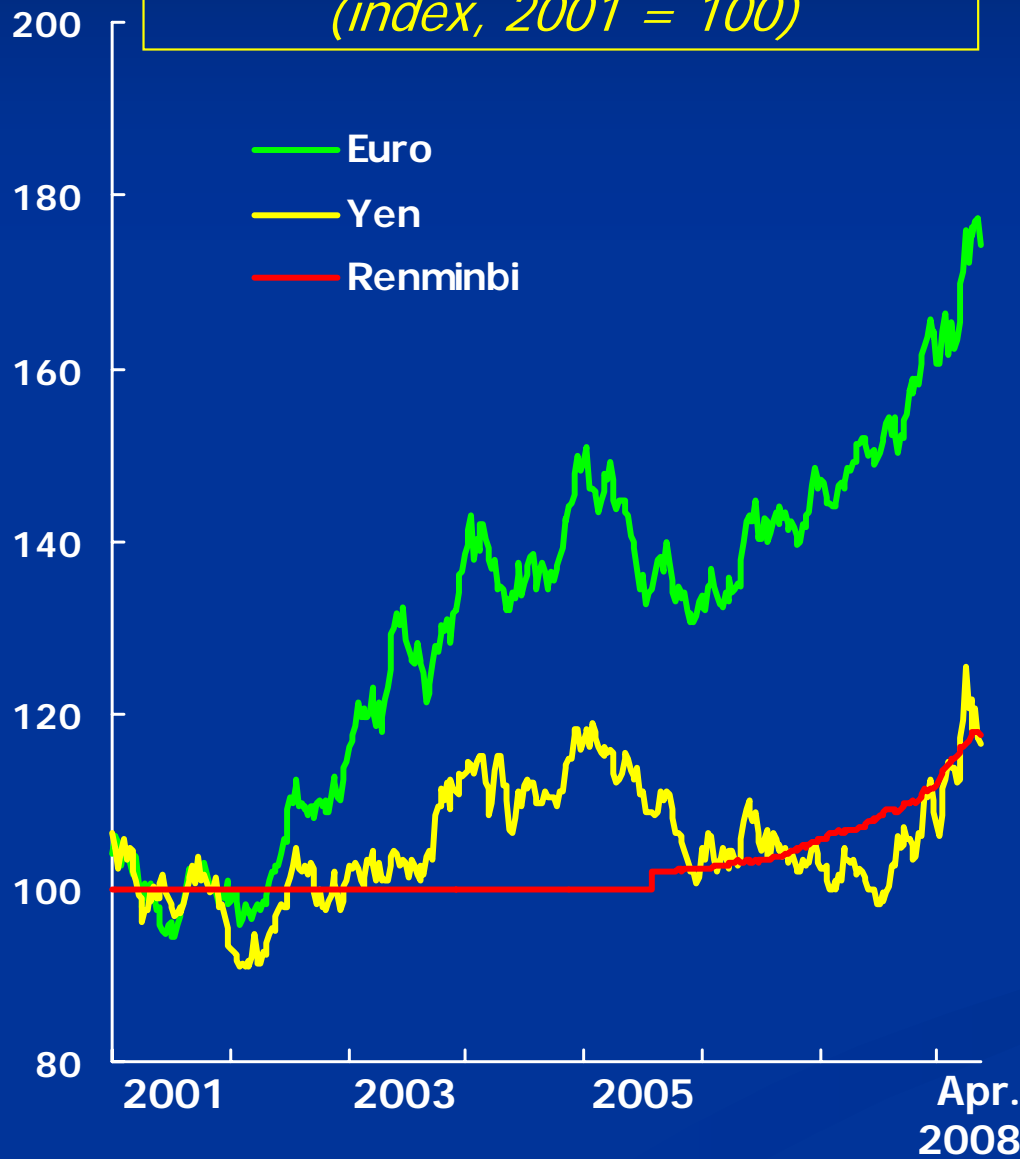
Rising pressure on manufactured import prices

(indices; December 2005 = 100)



U.S. Dollar Has Depreciated, But Limited Real Appreciation in Key Surplus Countries

**Nominal Exchange Rates
Against U.S. Dollar**
(index, 2001 = 100)



REER

(index, 2001 = 100)

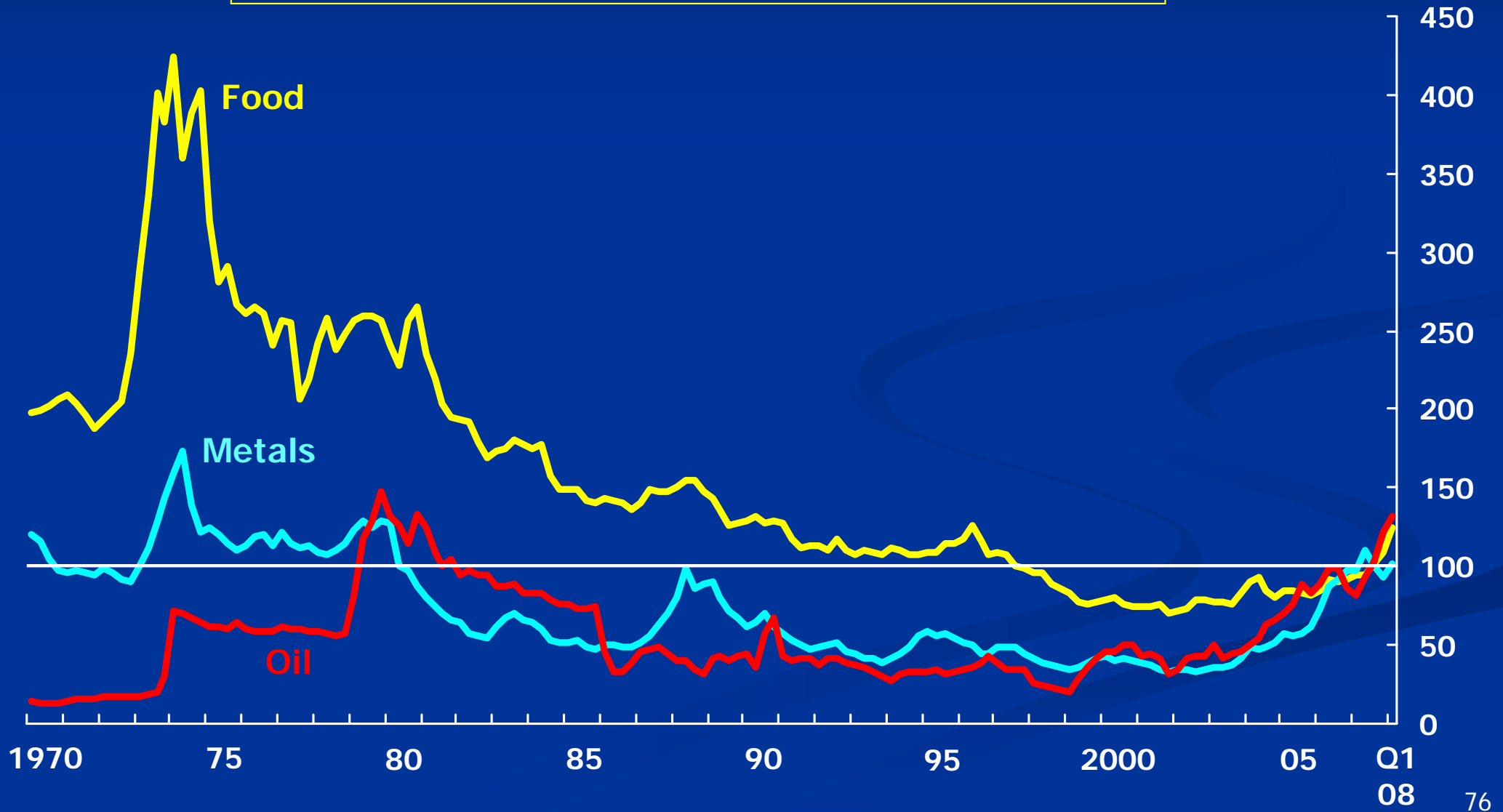
- United States
- Euro Area
- Japan
- China



Title

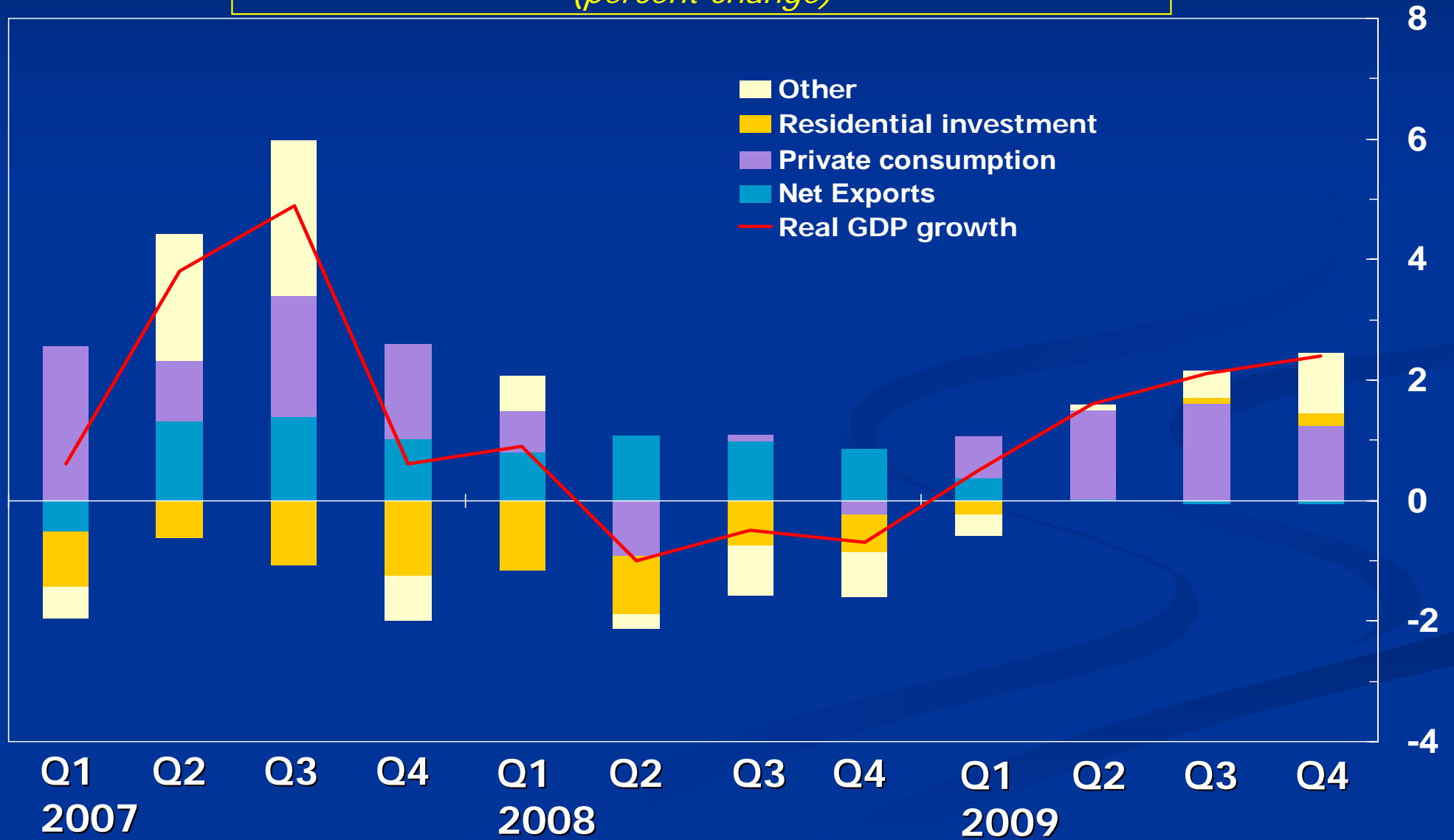
Real Oil, Metals and Food Prices

(2007 = 100)



US Forecast: mild recession, slow recovery

Real GDP Growth and its Components
(percent change)



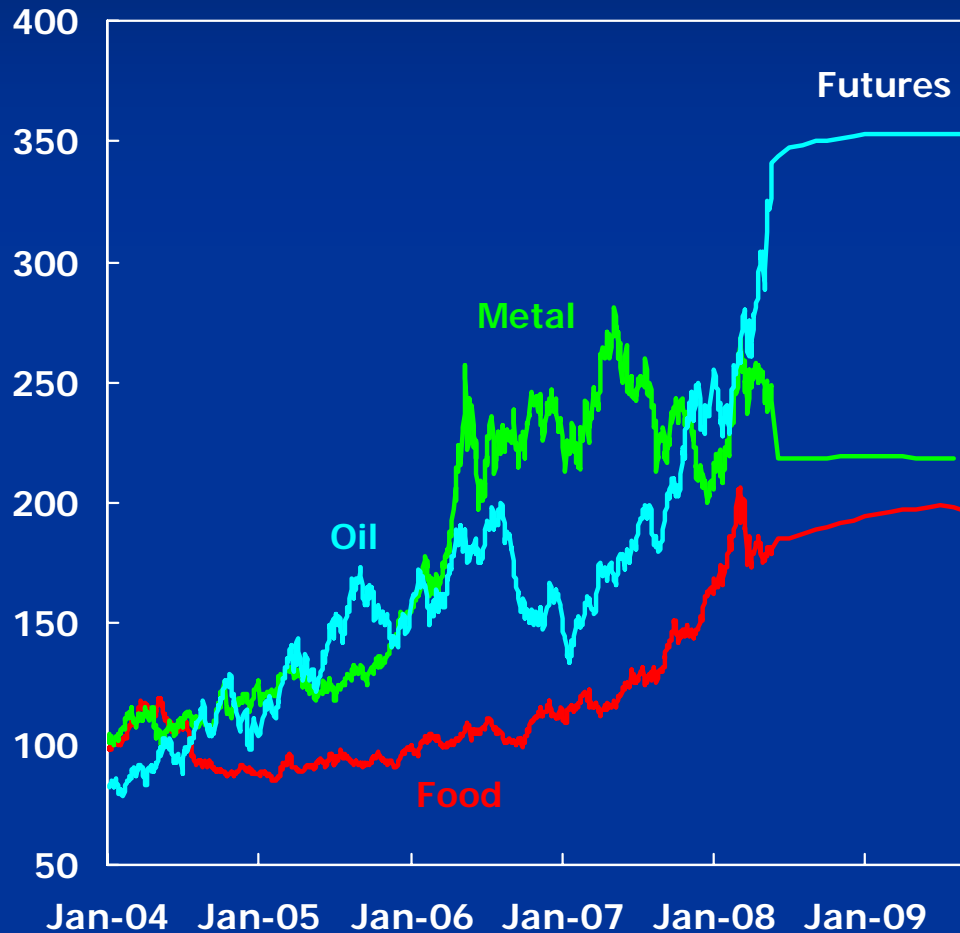
April 2008 WEO: Two Years of Slower Growth

Real GDP Growth Rates *(percent change)*

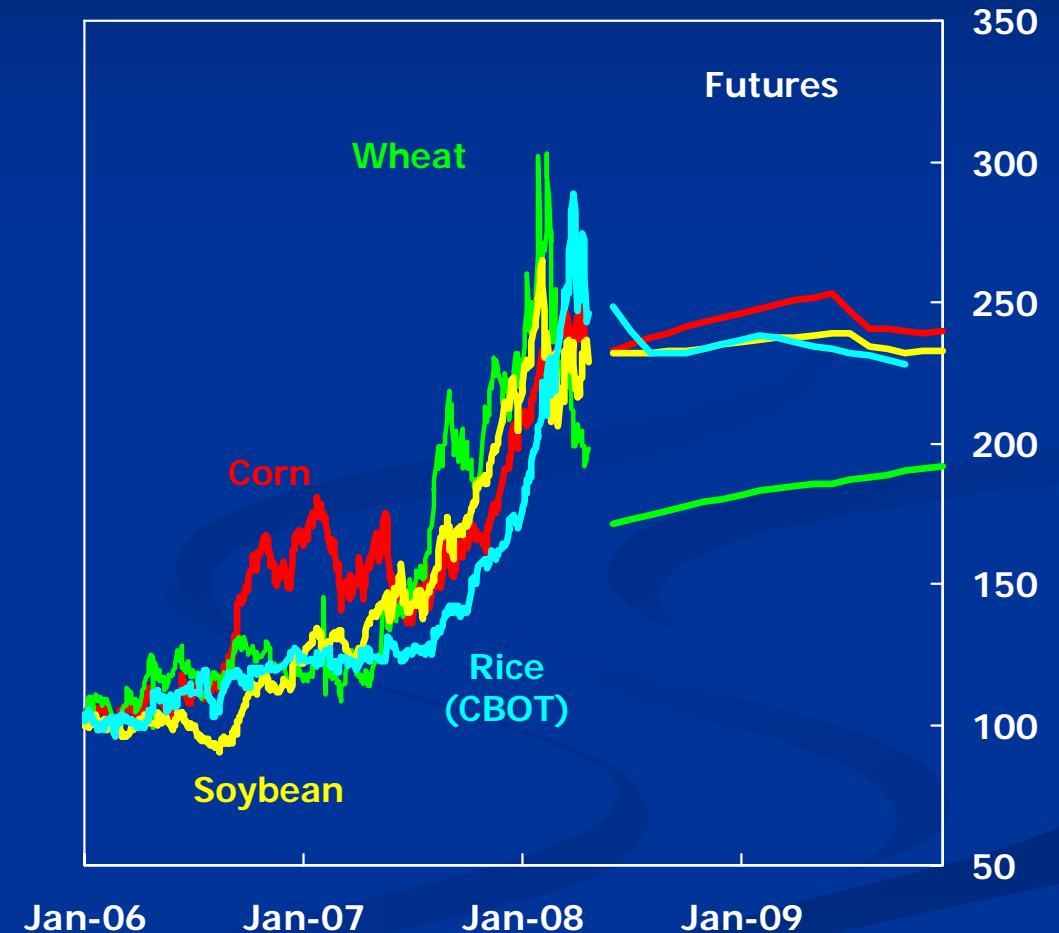


How Much Higher Will Commodity Prices Go?

Commodity Indices 1/
(dotted lines are futures prices)



Selected Grain Prices 2/
(January 2006 = 100)

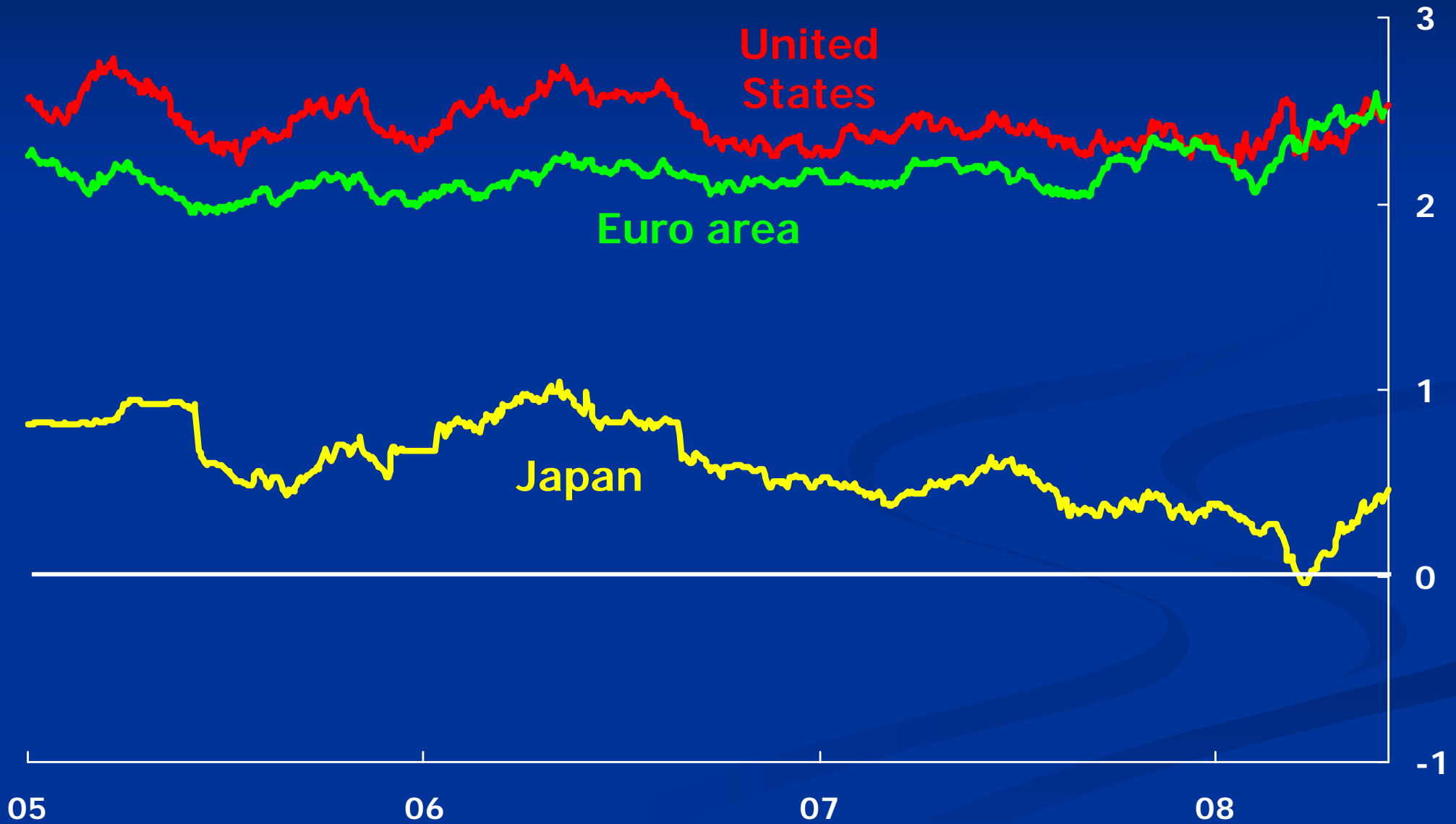


1/ Food index is composed of barley, corn, soybean, soybean meal, soybean oil, pork, palm oil, sugar and wheat. Base metals index comprises aluminum, copper, lead, nickel, tin and zinc.

2/ Futures prices are as of 4/24/2008.

Inflation expectations drifting upwards

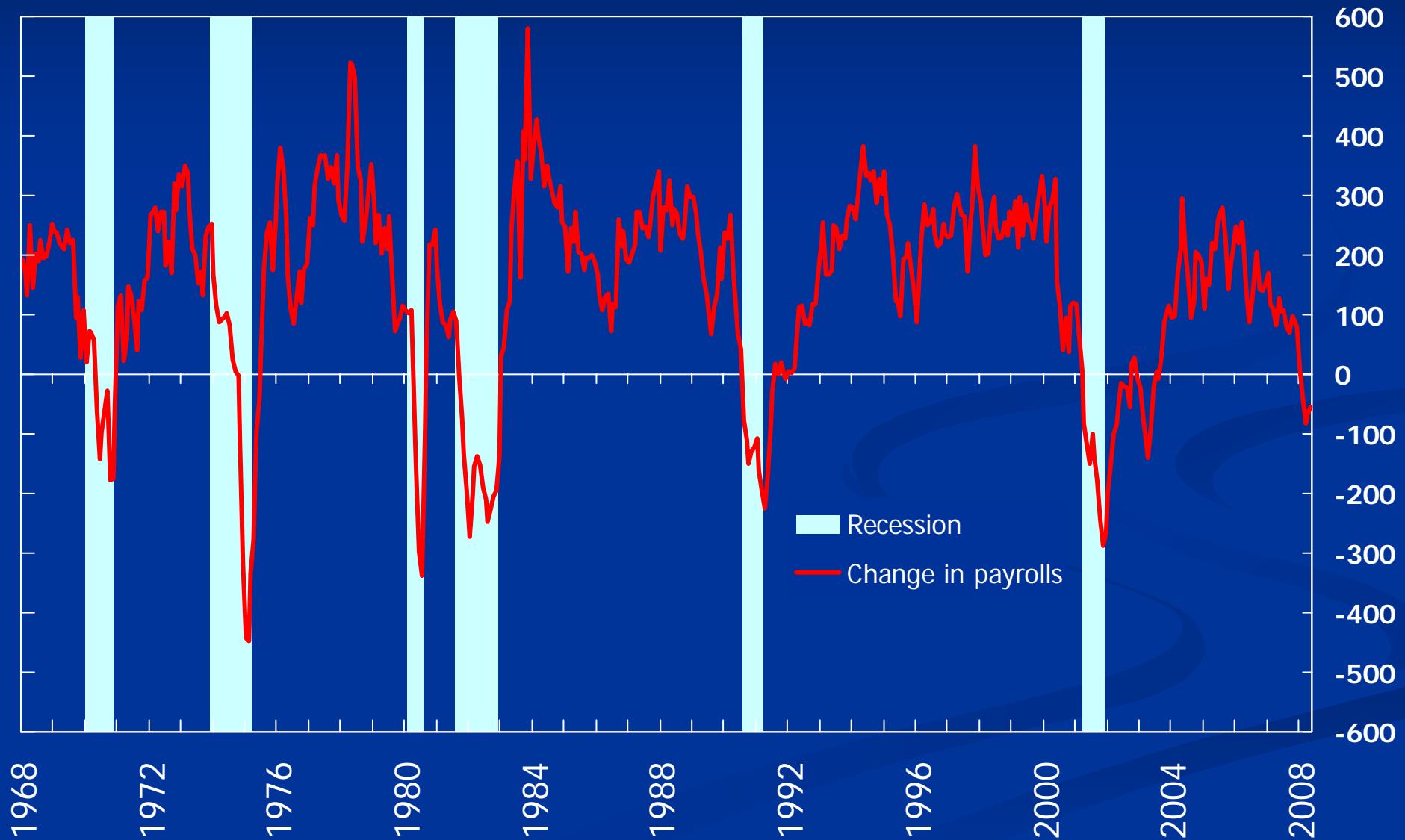
(in percent; from 10-yr index-linked bonds)



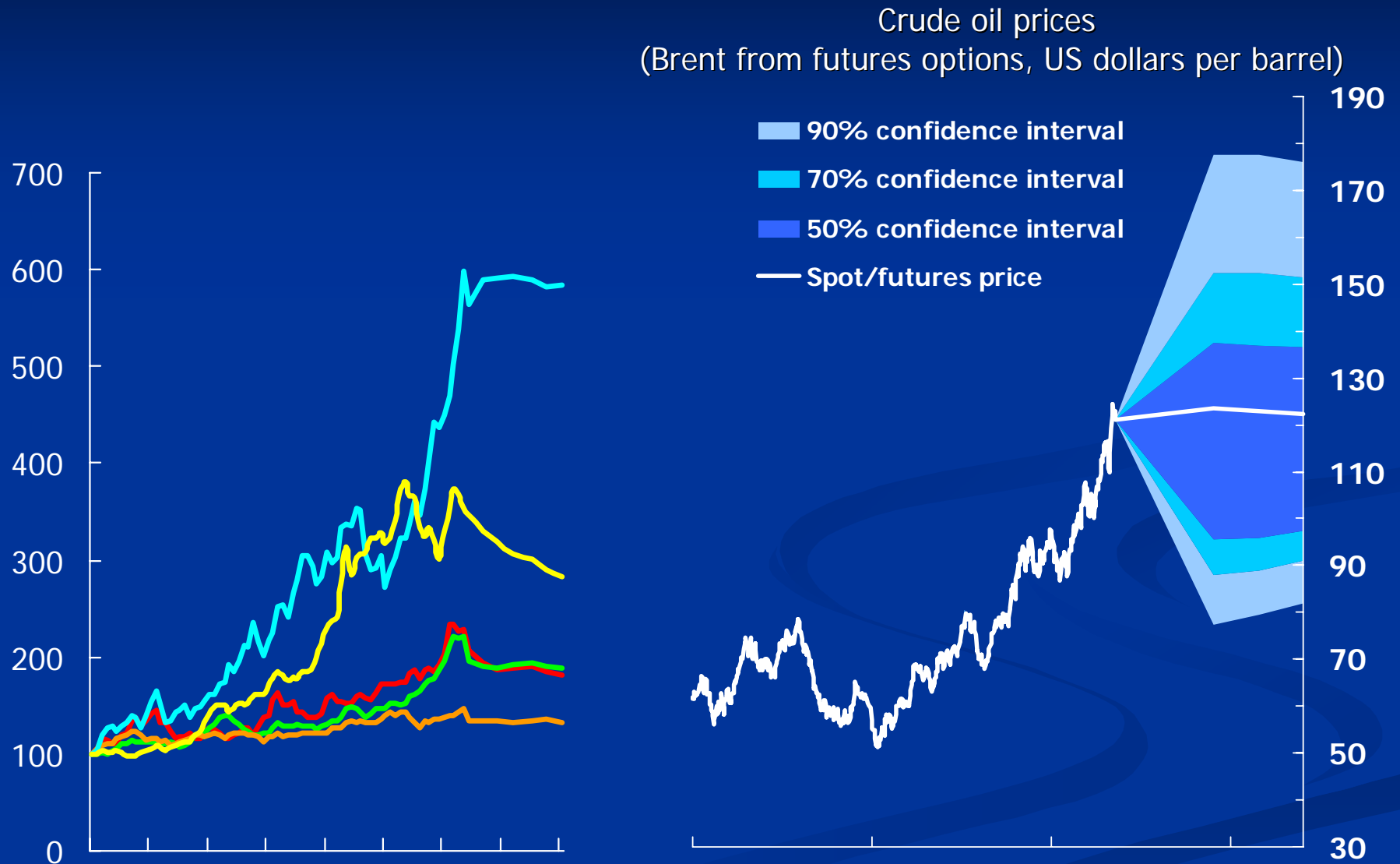
U.S. employment is beginning to contract

Change in Employment Payrolls

(Average monthly change over the previous 3 months, thousands of people)



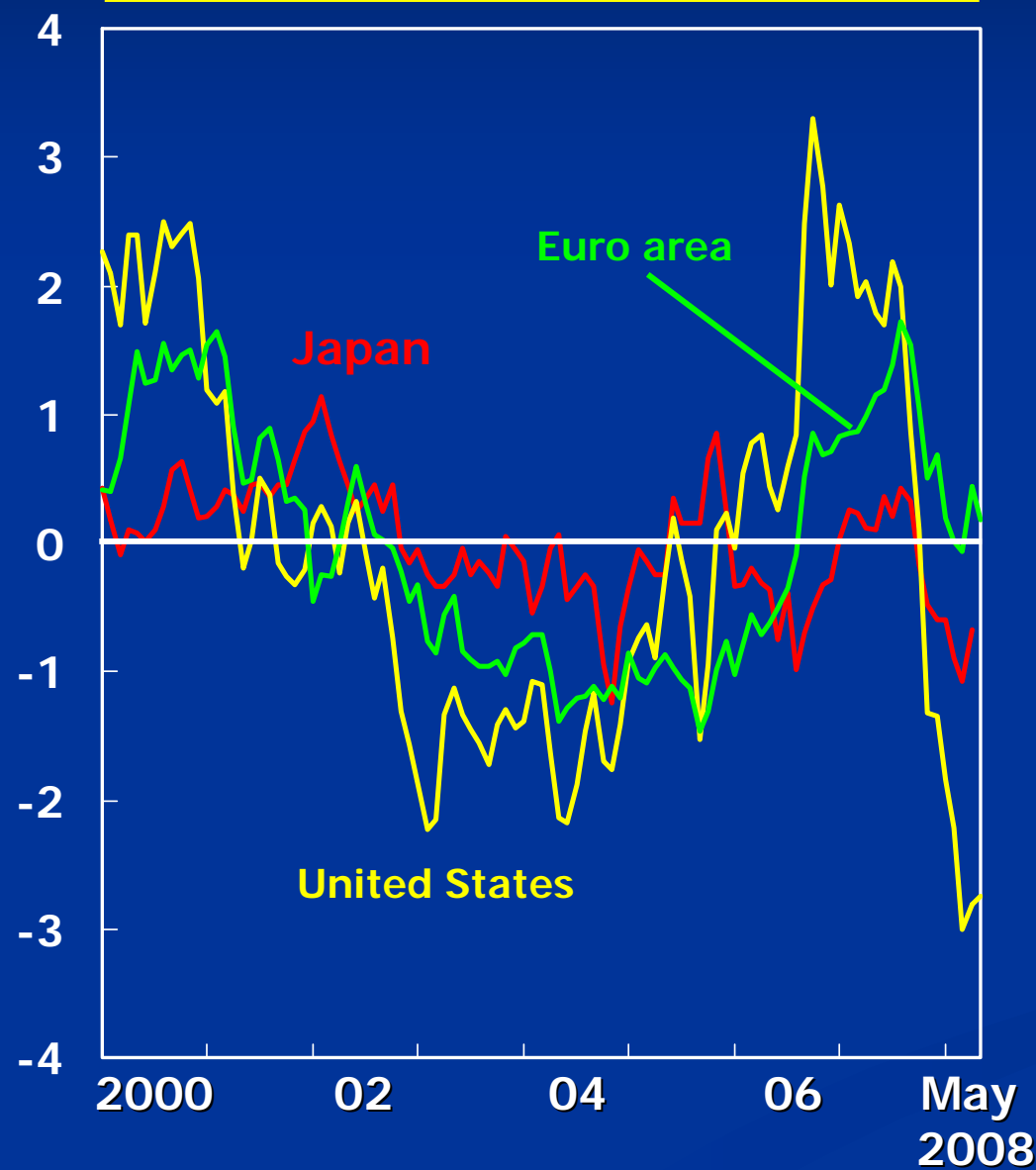
Have commodities prices reached a peak?



Advanced economy monetary policy stances are accommodative

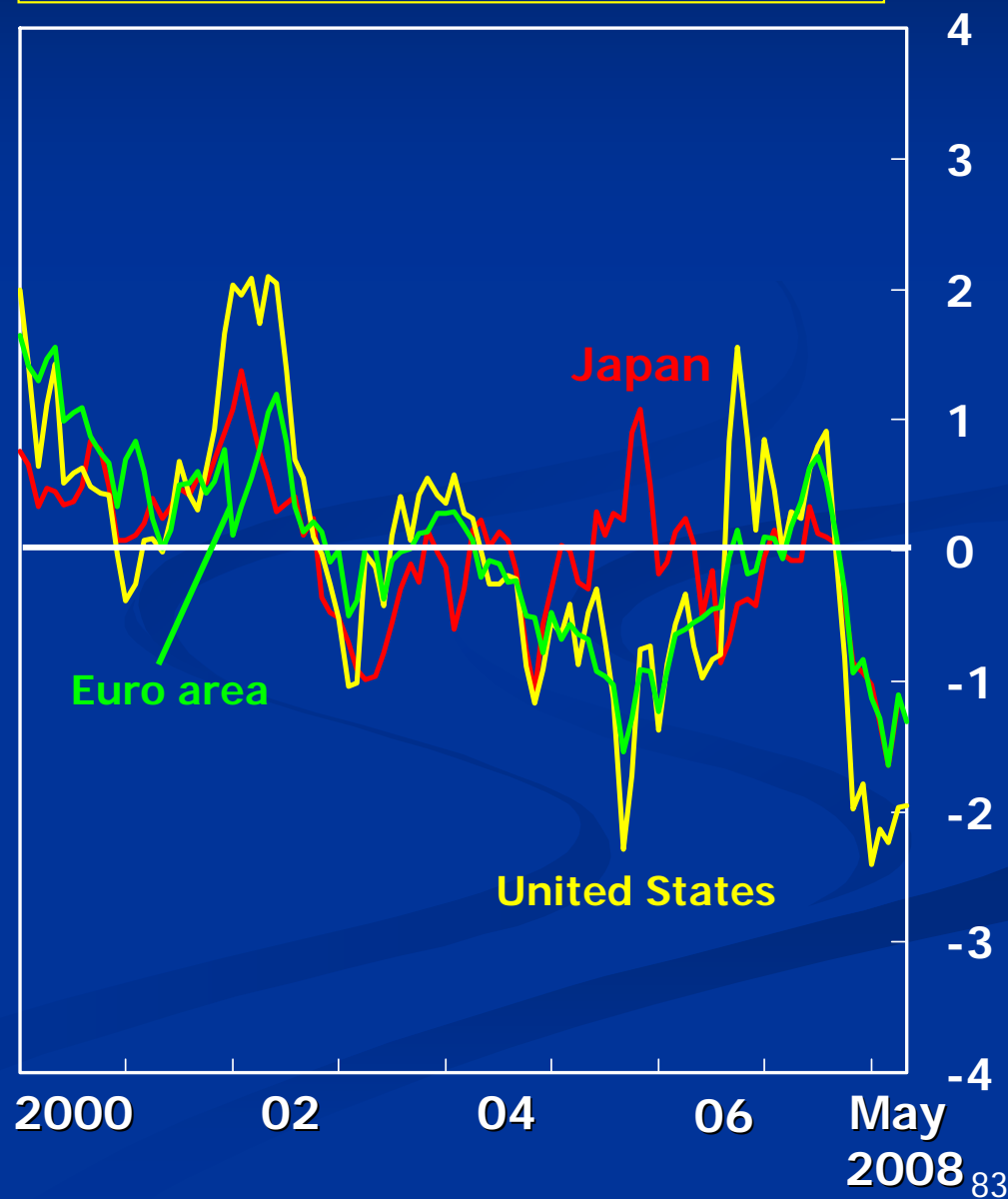
Real Short-Term Interest Rates

(deviation from 2000-2007 average)



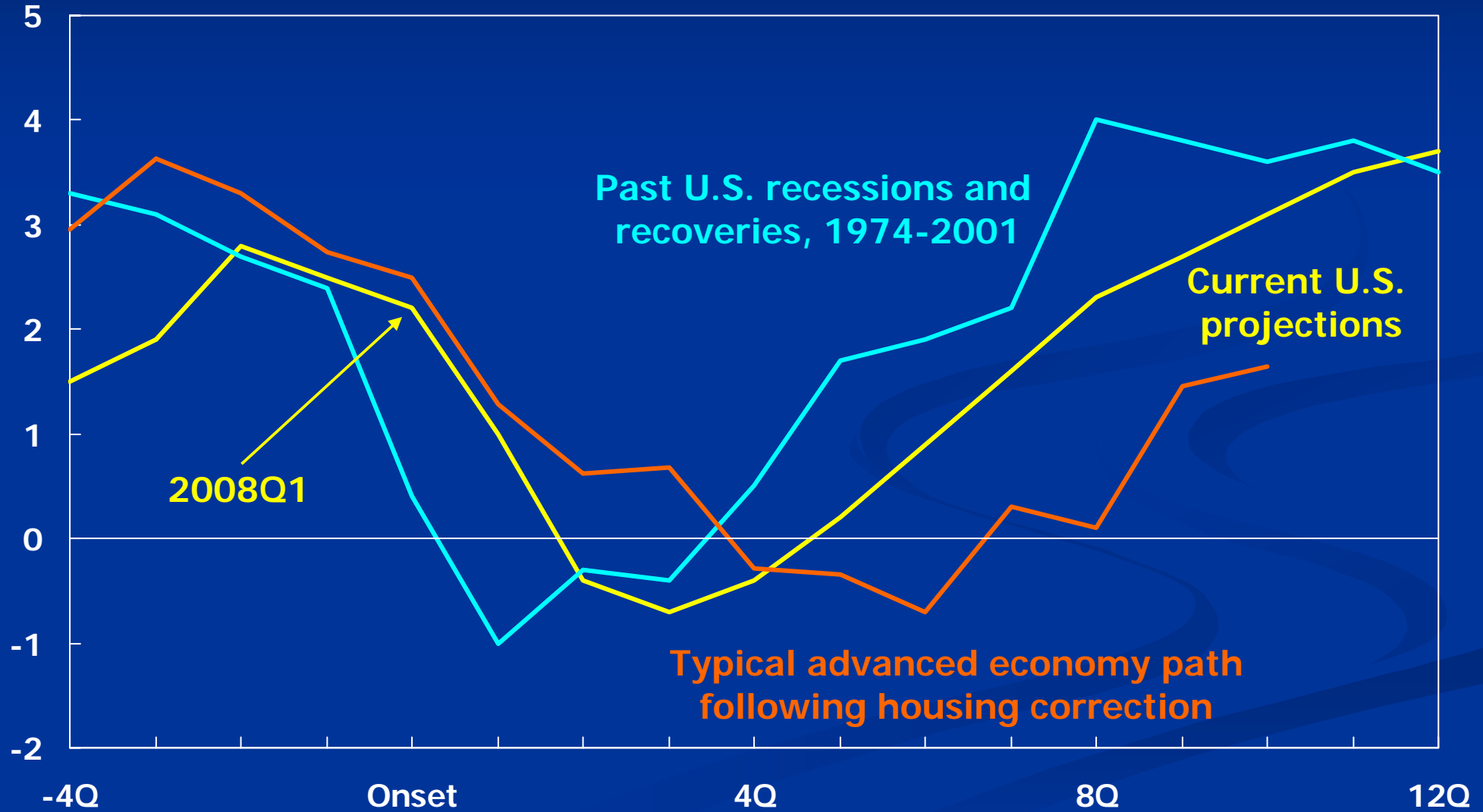
Real Long-Term Interest Rates

(deviation from 2000-2007 average)



How does the US downturn compare?

Downturns and Recoveries
(Real GDP; in percent change from year earlier)



Tale of three cycles

