

# Exiting from Crisis: Challenges for Macroeconomic Policy

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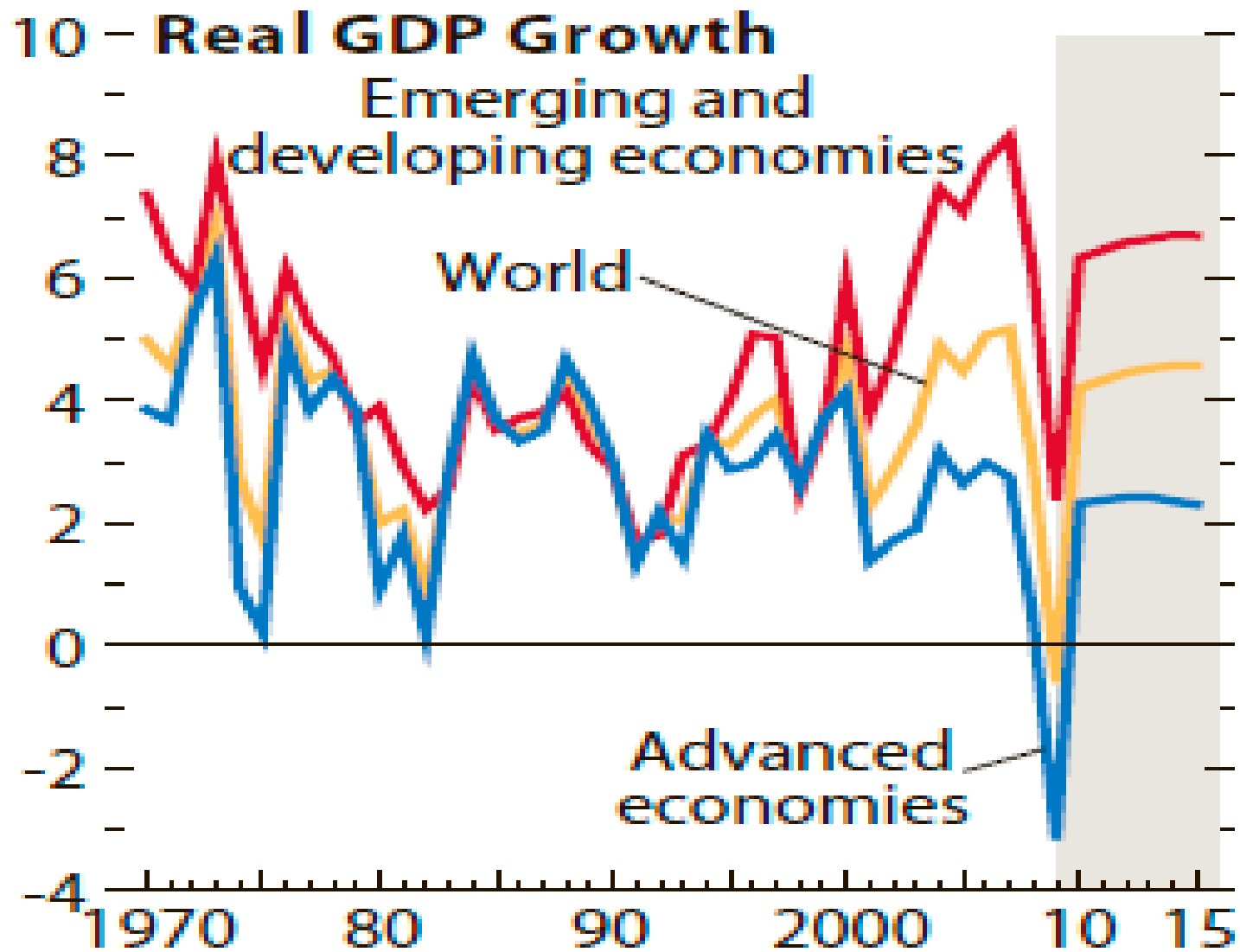
IMF-Singapore Regional Training Institute

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# Overview

- Economic Outlook
- Policy Response to the Crisis
  - Monetary
  - Fiscal
- Challenges for Macroeconomic Policy
- Conclusions



Source: IMF, (World Economic Outlook, Apr 2010)

# Policy Response to Crisis

# Response of Central Banks to the Crisis

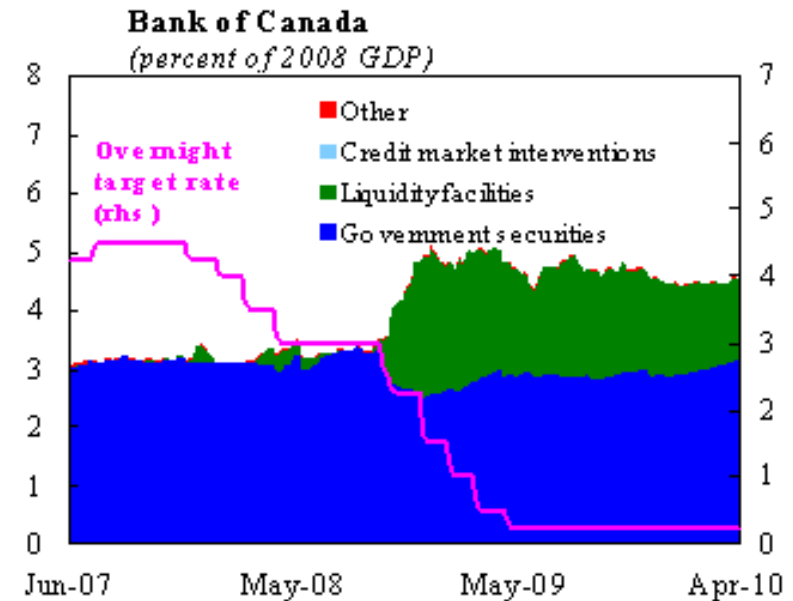
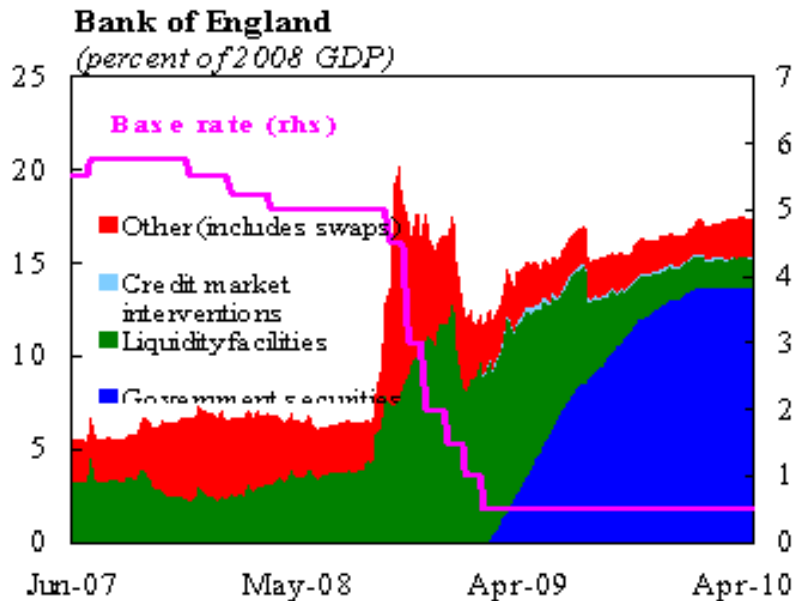
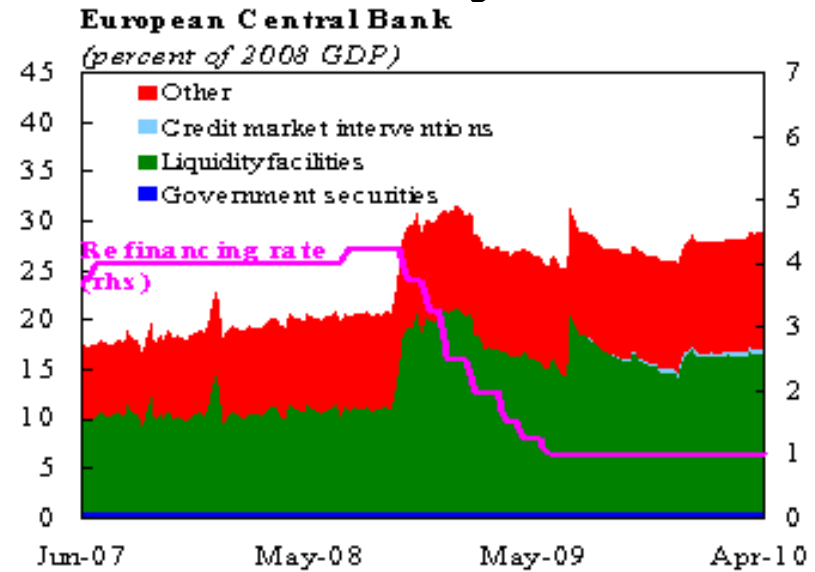
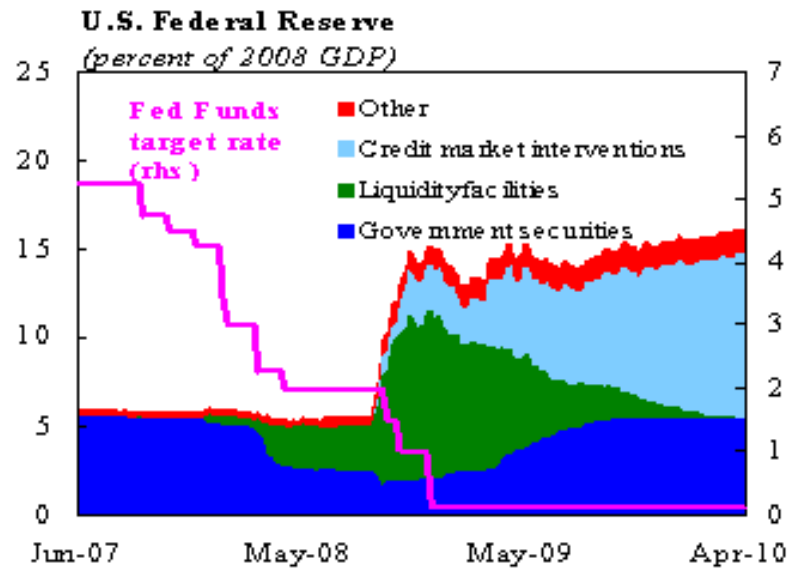
## Pre-Lehman

- Interest rate cuts
- Liquidity provision

## Post-Lehman

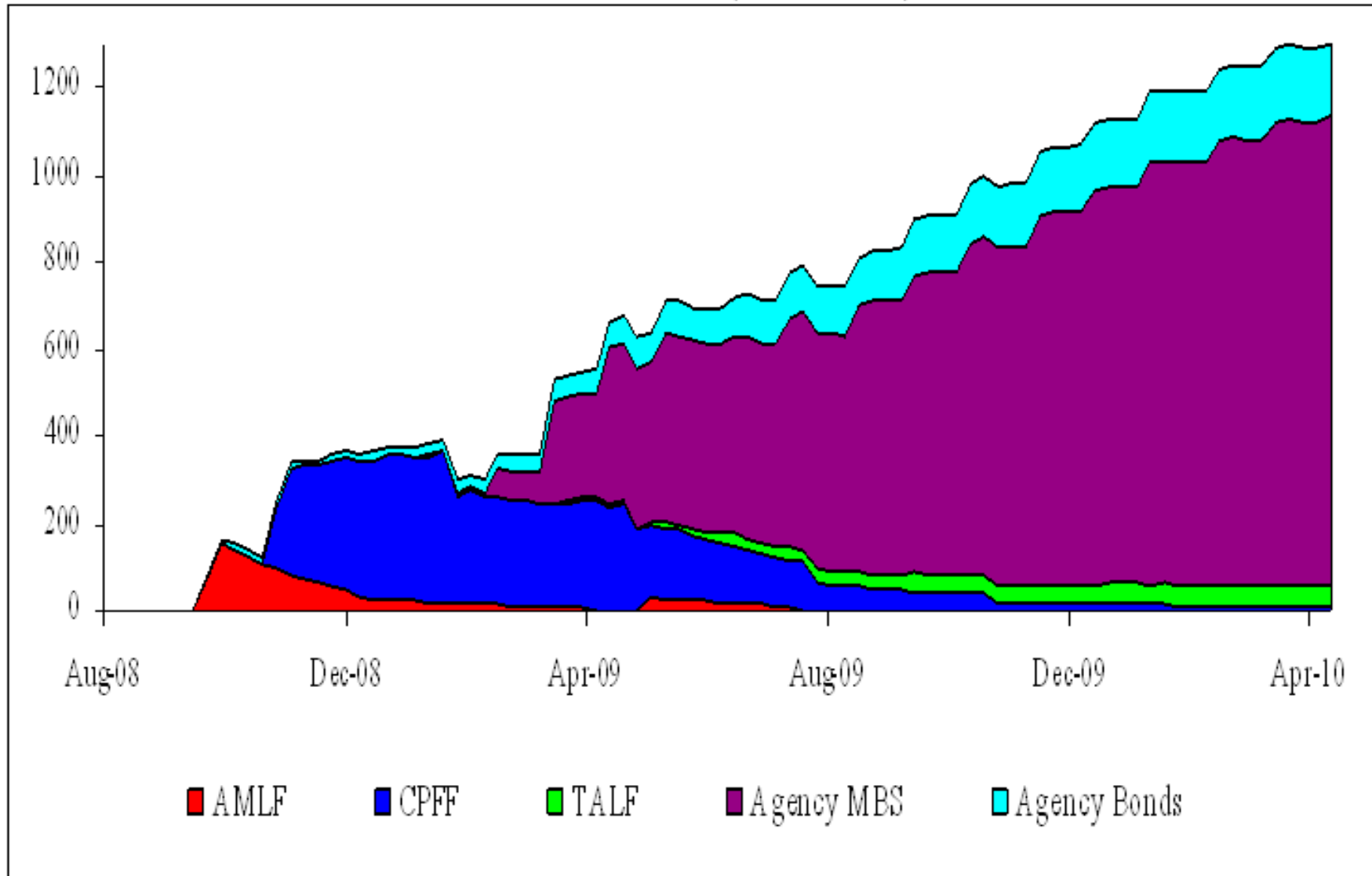
- More aggressive interest rate cuts
- Greater recourse to unconventional measures (*Central Bank balance sheet expansion*)

# Central Bank Assets and Policy Rates

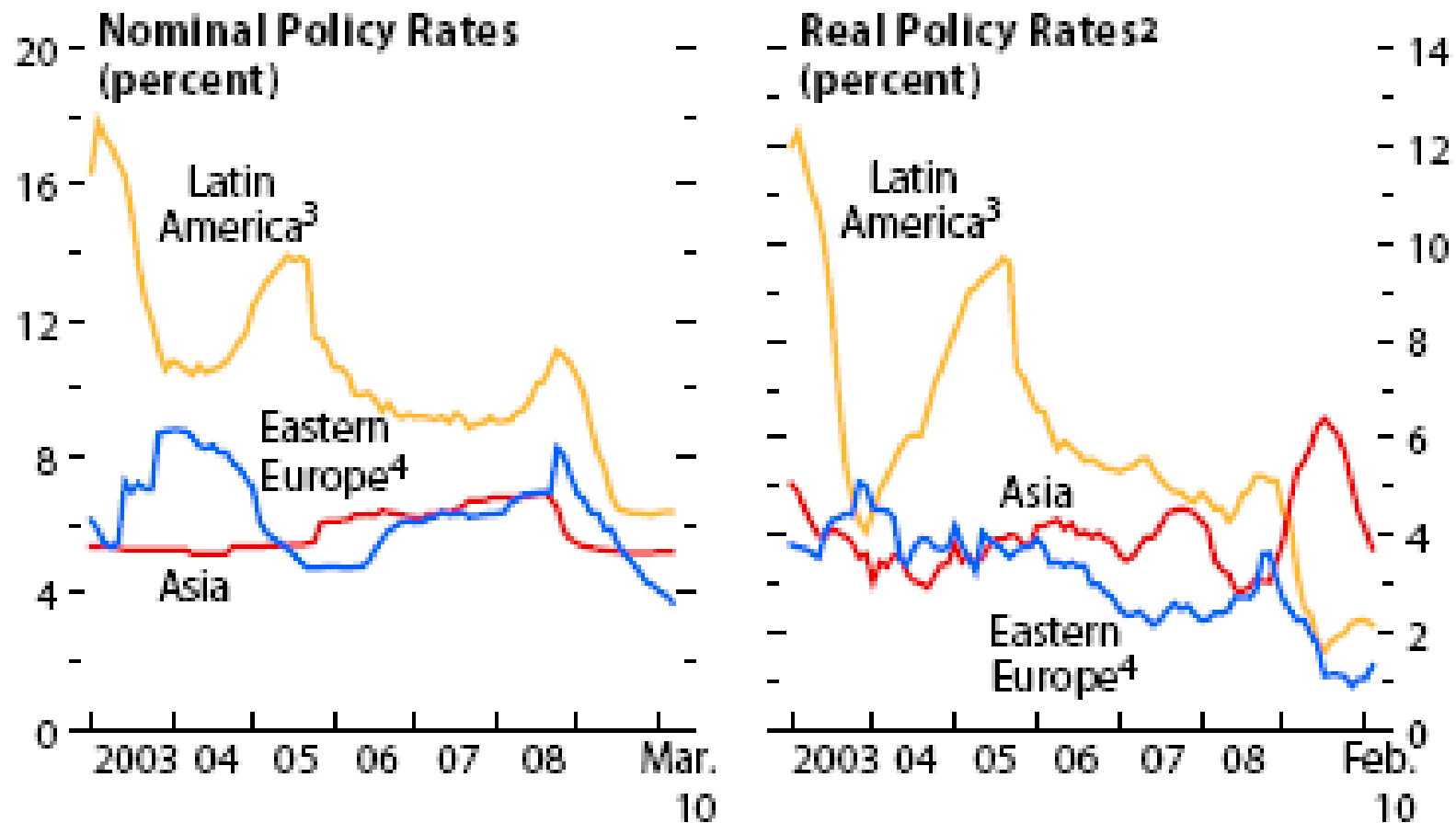


# Credit Market Intervention

Fed Intervention in Credit Markets (\$ billion)



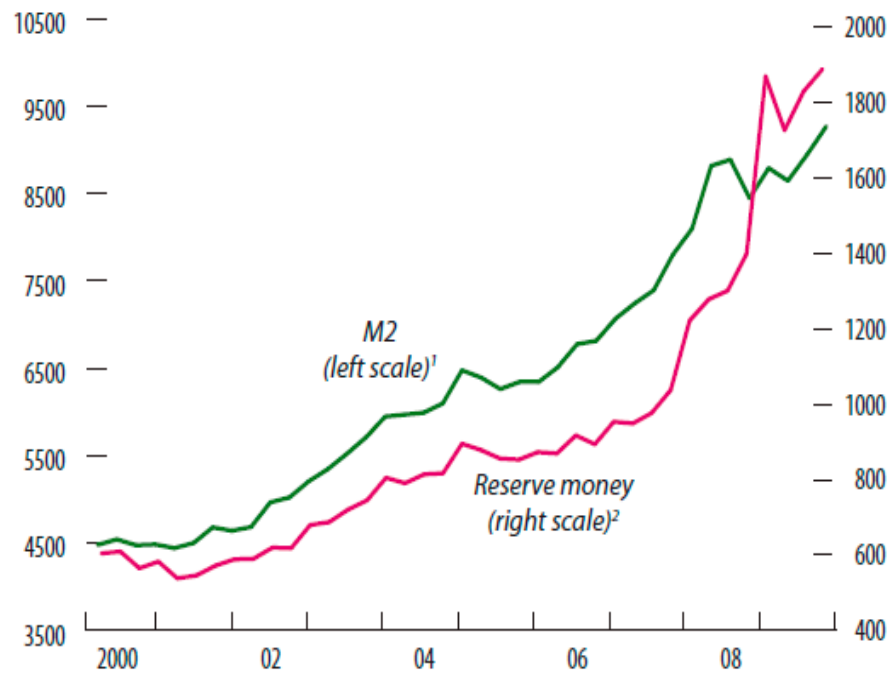
# Monetary Policy in Emerging Markets (EMs)



Source: International Monetary Fund, World Economic Outlook, April 2010

## Global Liquidity

(In billions of U.S. dollars; GDP-weighted; quarterly data)



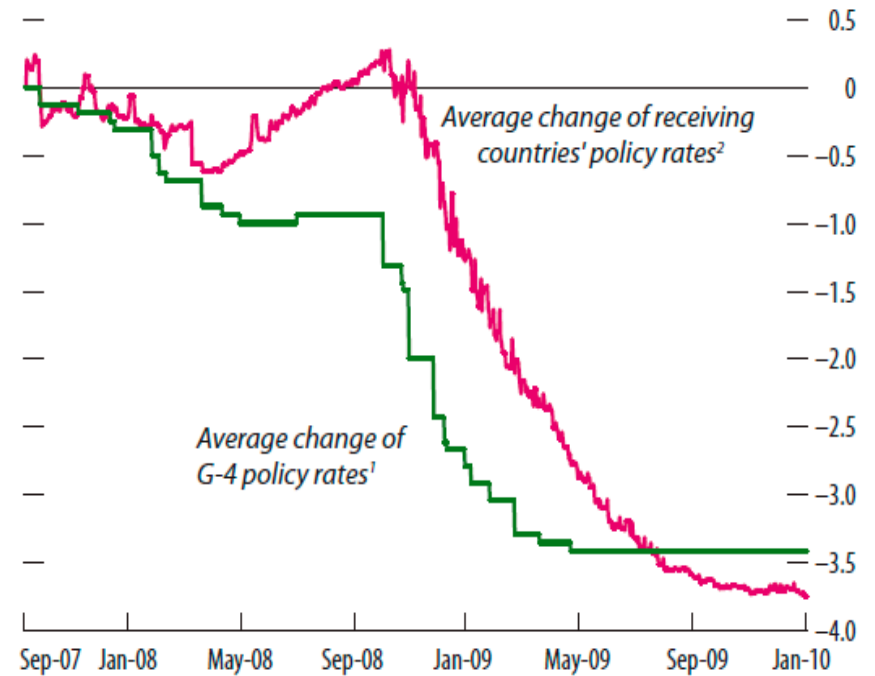
Sources: Datastream; IMF, International Financial Statistics database; and IMF staff estimates.

<sup>1</sup>Sum of GDP-weighted M2 for the euro area, Japan, the United Kingdom, and the United States.

<sup>2</sup>Sum of GDP-weighted reserve money for the euro area, Japan, the United Kingdom, and the United States.

## Change of Central Bank Policy Rates

(In percentage points; September 1, 2007 = 0)



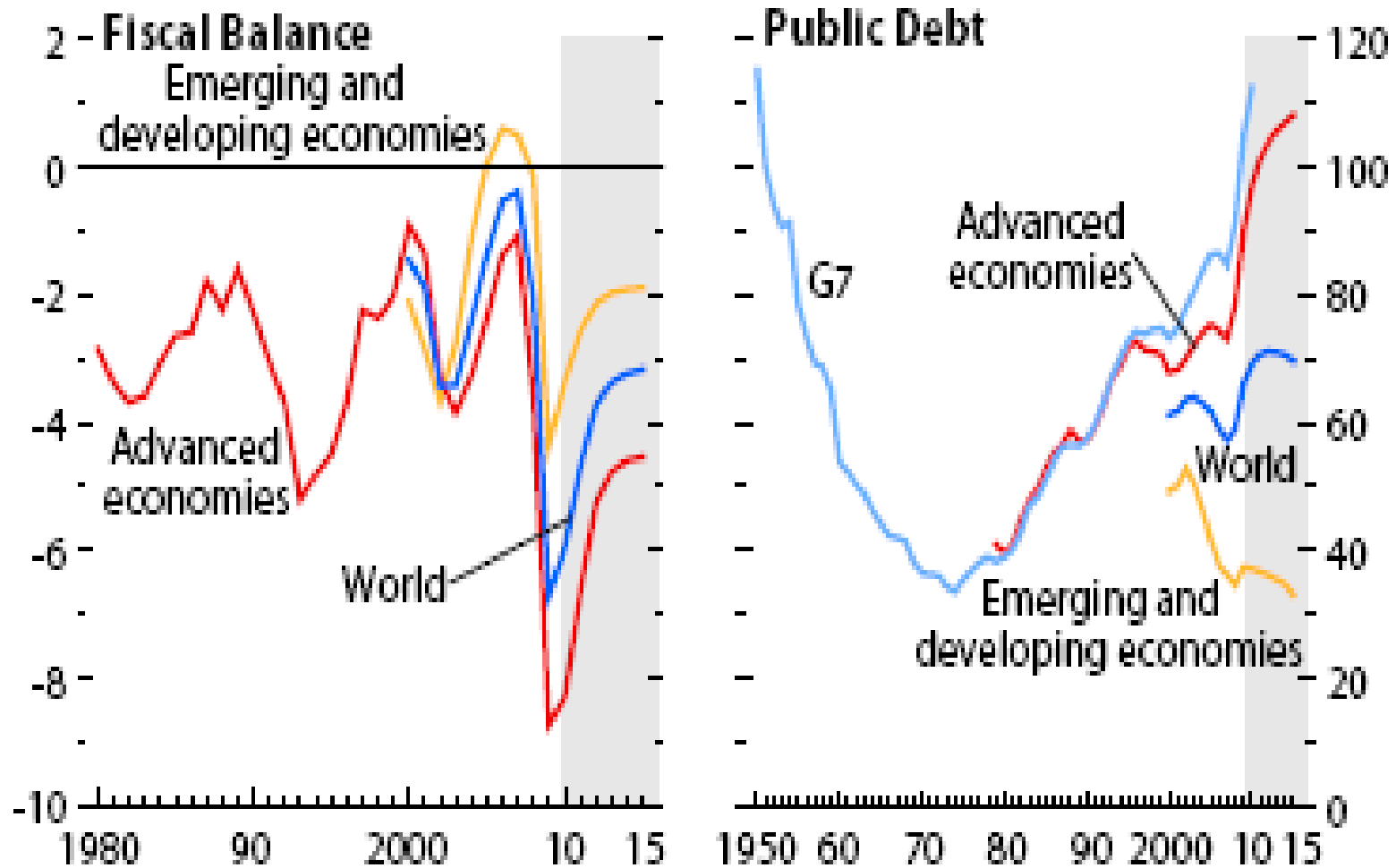
Sources: Bloomberg L.P.; and IMF staff estimates.

<sup>1</sup>G-4 includes the euro area, Japan, the United Kingdom, and the United States.

<sup>2</sup>Receiving countries are Argentina, Australia, Brazil, Canada, China, India, Indonesia, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Sweden, Switzerland, and Turkey.

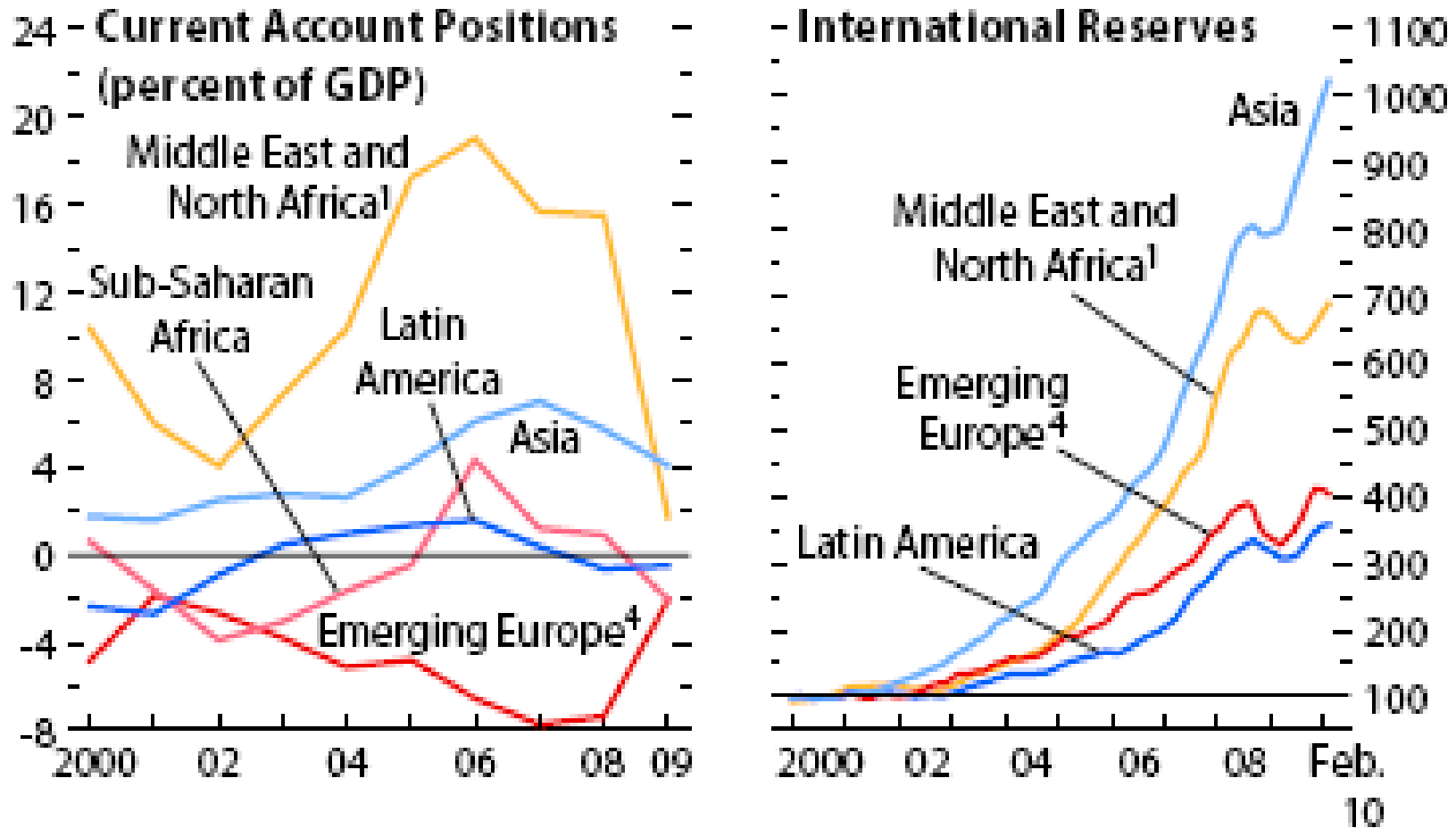
Source: IMF, (GFSR, Apr 2010)

# Fiscal Policy Response



Source: International Monetary Fund, World Economic Outlook, April 2010

# FEx Reserves Keep Increasing



Source: International Monetary Fund, World Economic Outlook, April 2010

# Challenges for Macroeconomic Policy

# Where are We in Recovery Cycle?

- Multi-speed and policy-driven recovery is underway
  - Recovery in major advanced economies will be sluggish
  - Output gaps closing in major emerging economies. Risks of overheating and credit booms
- A multi-speed recovery implies differentiation in the timing and sequencing of exit from crisis-related intervention policies

# OECD Countries

- Fiscal consolidation needed
- With fragile economic recovery, interest rates may remain low for an extended period of time
  - Governments, households and banks remain highly leveraged
- Greece

# Implications for Emerging and Developing Economies - 1

- Huge capital flows into emerging market
  - The carry trade – low interest rates in OECD countries for an extended period and money creation by central banks
  - Better growth and macro picture in EMs
- Own policy stimulus in emerging markets
- Financial intermediation remains robust
- Real rates remain low
- Leading to asset price increases and inflationary pressures

# Implications for Emerging and Developing Economies - 2

- Composition of expenditure needs to change, in countries with large current account surpluses toward higher domestic consumption and vice-versa
- Greater exchange rate flexibility

# Conclusions

- Unconventional monetary policies used to address an unprecedented aggregate demand shock and strains in the financial markets
- Fiscal vulnerabilities have increased sharply in advanced countries, while emerging market economies have fared much better
- In the multi-speed world, optimal timing and sequencing of exit from extraordinary policy interventions will vary across countries