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From an economic downturn to a global, synchronised recession: what's next?

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Taipei, 15 May 2009

Outline

- How we got there
- From sub-prime to credit crunch ... and to the rest
- “Green shoots”, confidence and what to do next



I. How we got there

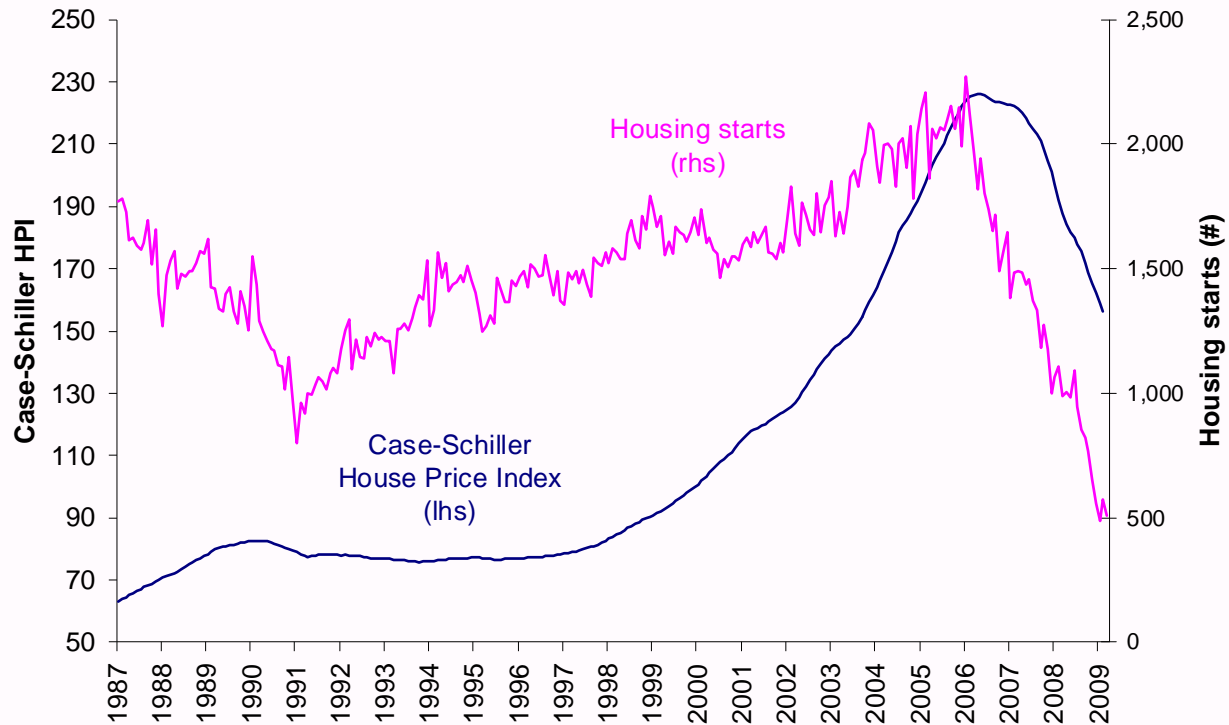


Timeline of pre-crisis events

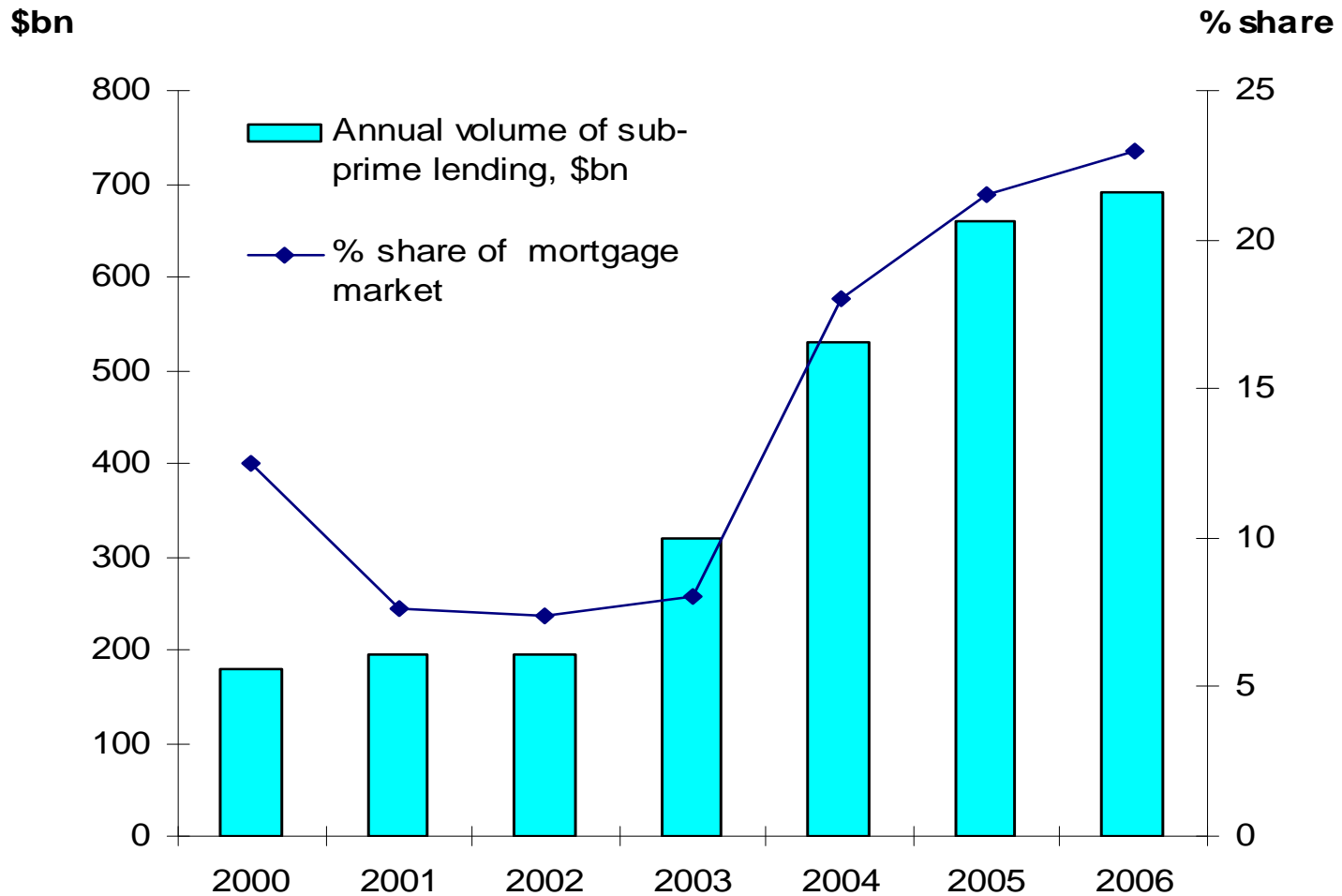
1970s-80s	Deregulation gains momentum
Oct 1987	Financial 'Big Bang' in London
1992	Mortgage and securitization targets for Fannie Mae & Freddie Mac set
1994-95	Mexican Peso Crisis
1997-98	Asian Financial Crisis
1998-99	Russian Financial Crisis and collapse of Long-Term Capital Management
1999	Glass-Steagall Act repealed in US
Mar 2000	Dot-com bubble peak, deflates throughout 2000-2001
2000-01	US interest rates drop from 6.5% to 1.75%
2001-02	Argentinean Financial Crisis
2003	Initial warnings of housing bubble
2006	House prices in US begin falling



US housing market



Growth of global sub-prime lending



II. From sub-prime crisis to credit crunch ... and to the rest

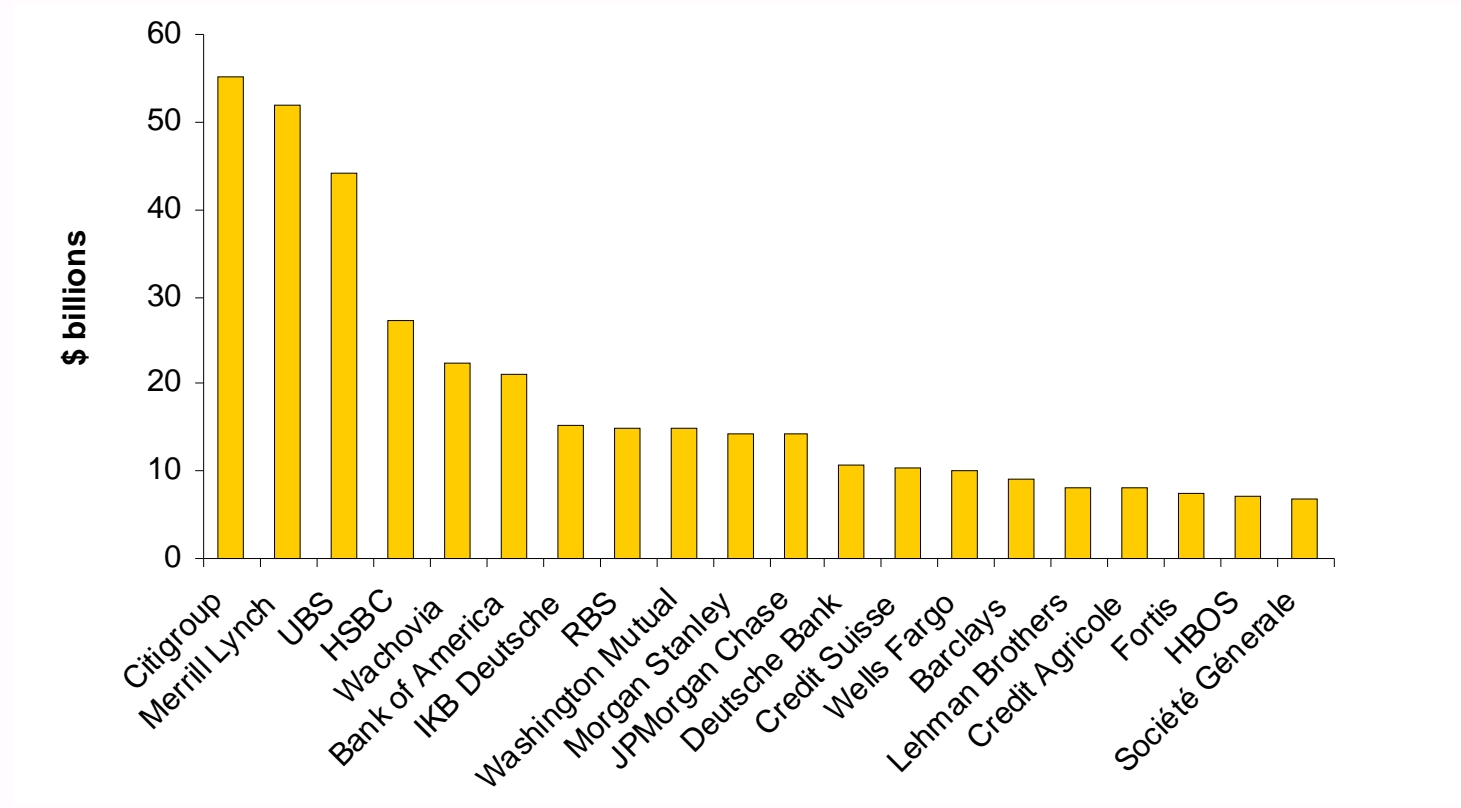


Timeline of events 2007-2008

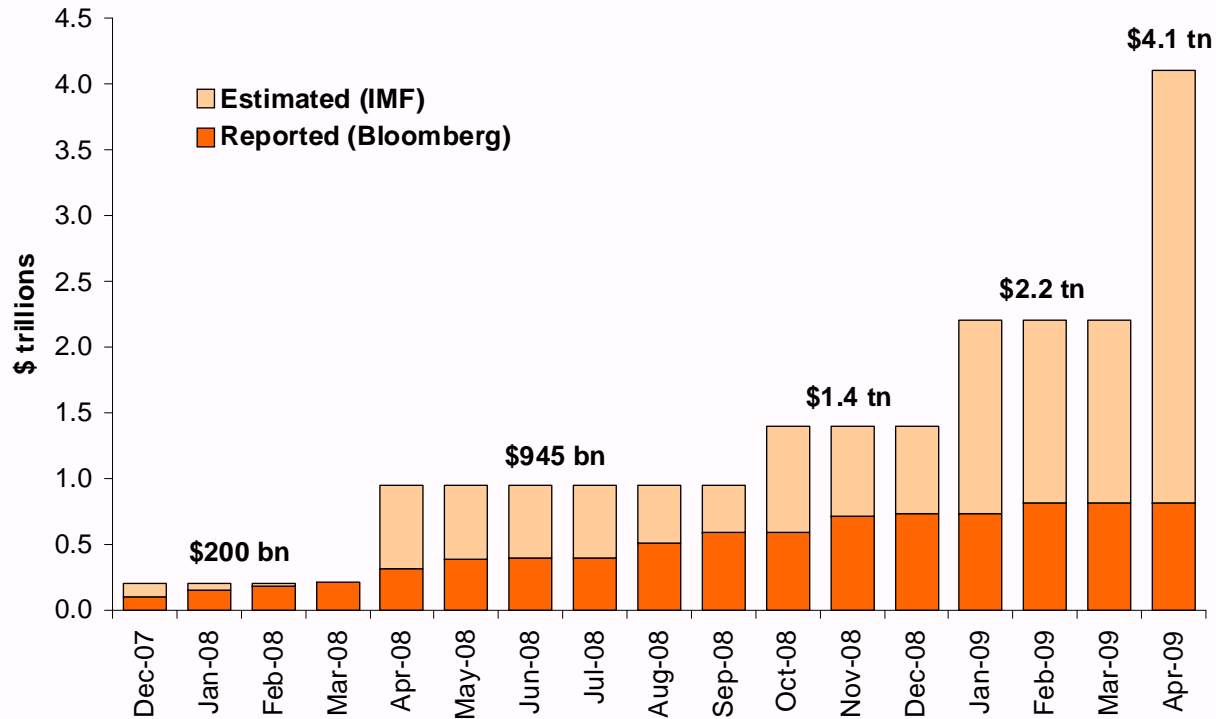
Feb-Mar 07	Subprime Crisis begins: dozens of US subprime lenders collapse
9 Aug 07	Credit Crunch begins: BNP Paribas suspends two subprime-related hedge funds. US/EU intervention to provide liquidity
14 Sep 07	Northern Rock bank run in UK
14 Mar 08	Bear Stearns taken over by JPMorgan
7 Sep 08	Fannie Mae and Freddie Mac taken over by US government
15 Sep 08	Lehman Brothers Collapses, Global Financial Crisis begins
17 Sep 08	AIG rescued by US government
3 Oct 08	Economic Stabilization Act, TARP
6-10 Oct 08	Stock markets collapse worldwide
15 Nov 08	G20 Summit in Washington
17 Feb 09	Obama's economic stimulus plan (ARRA) enacted
2 Apr 09	G20 Summit in London



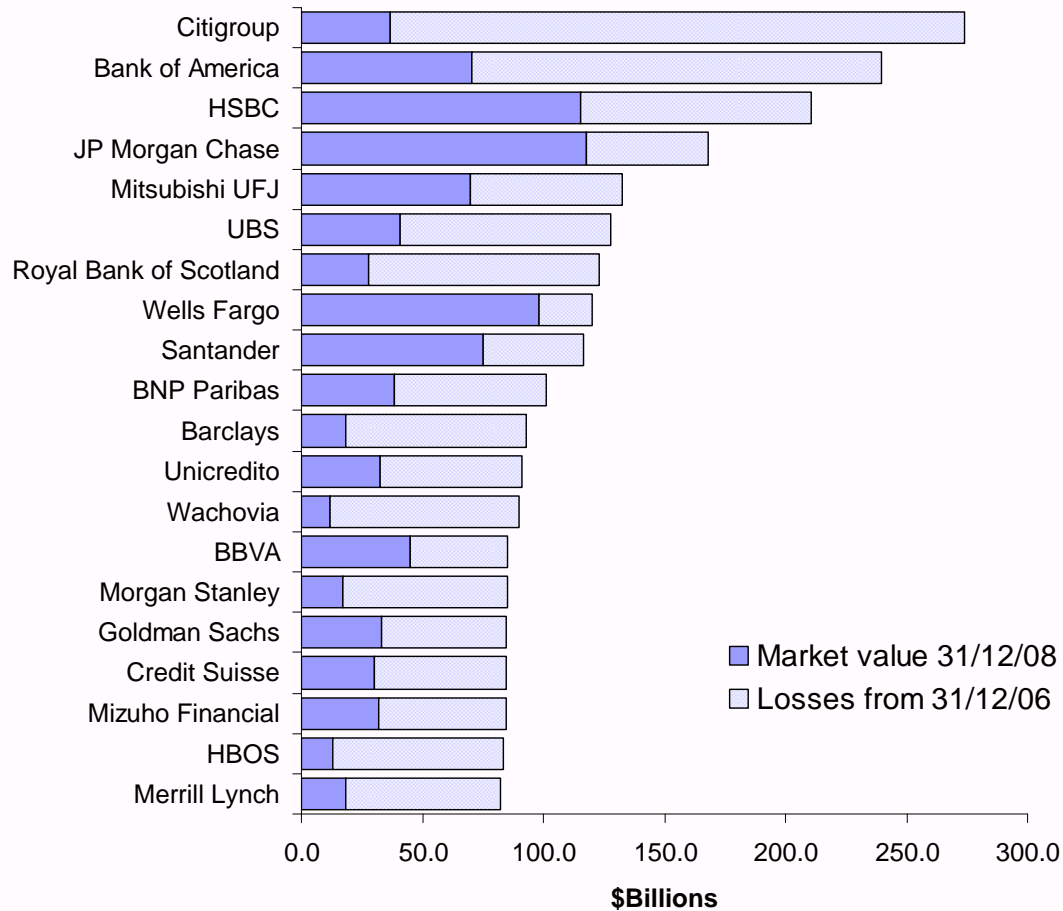
Initial sub-prime losses (up to August 2008)



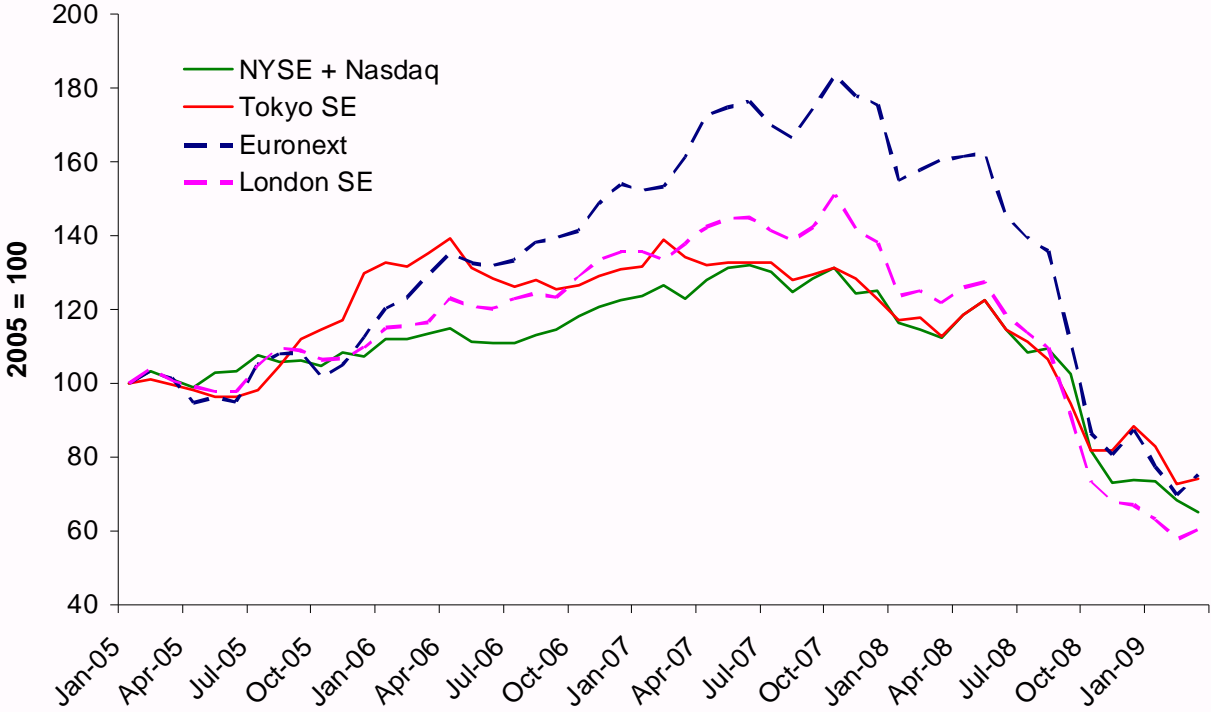
... and more losses to come?



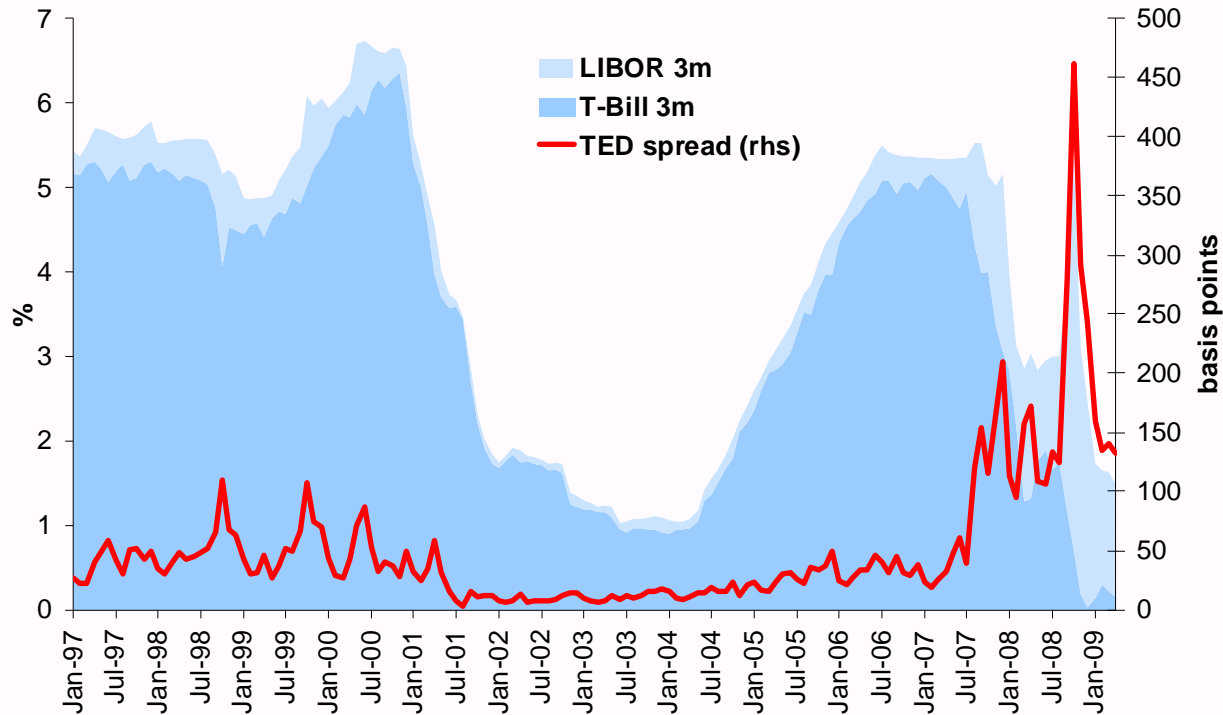
Bank market losses 2007-2008



Stock markets collapse



Signs of financial strains



Timeline of major rescues

Date		Country	Rescuer	Country
14 Sep 07	Northern Rock	UK	UK Govt	UK
14 Mar 08	Bear Stearns	US	US Govt, JPMorgan Chase	US
07 Sep 08	Fannie May & Freddie Mac	US	US Govt	US
15 Sep 08	Merrill Lynch	US	Bank of America	US
16 Sep 08	AIG	US	US Govt	US
22 Sep 08	Morgan Stanley	US	Mitsubishi UFJ	JPN
23 Sep 08	Lehman Brothers	US	Nomura	JPN
25 Sep 08	Washington Mutual	US	JPMorgan Chase	US
03 Oct 08	Wachovia	US	Wells Fargo	US
16 Oct 08	UBS	SWI	Swiss Govt, QIA	SWI, QAT
17 Oct 08	Unicredit	ITA	Central Bank of Libya	LIB
31 Oct 08	Barclays	UK	QIA Challenge, Abu Dhabi	QAT, UAE
23 Nov 08	Citigroup	US	US Govt	US

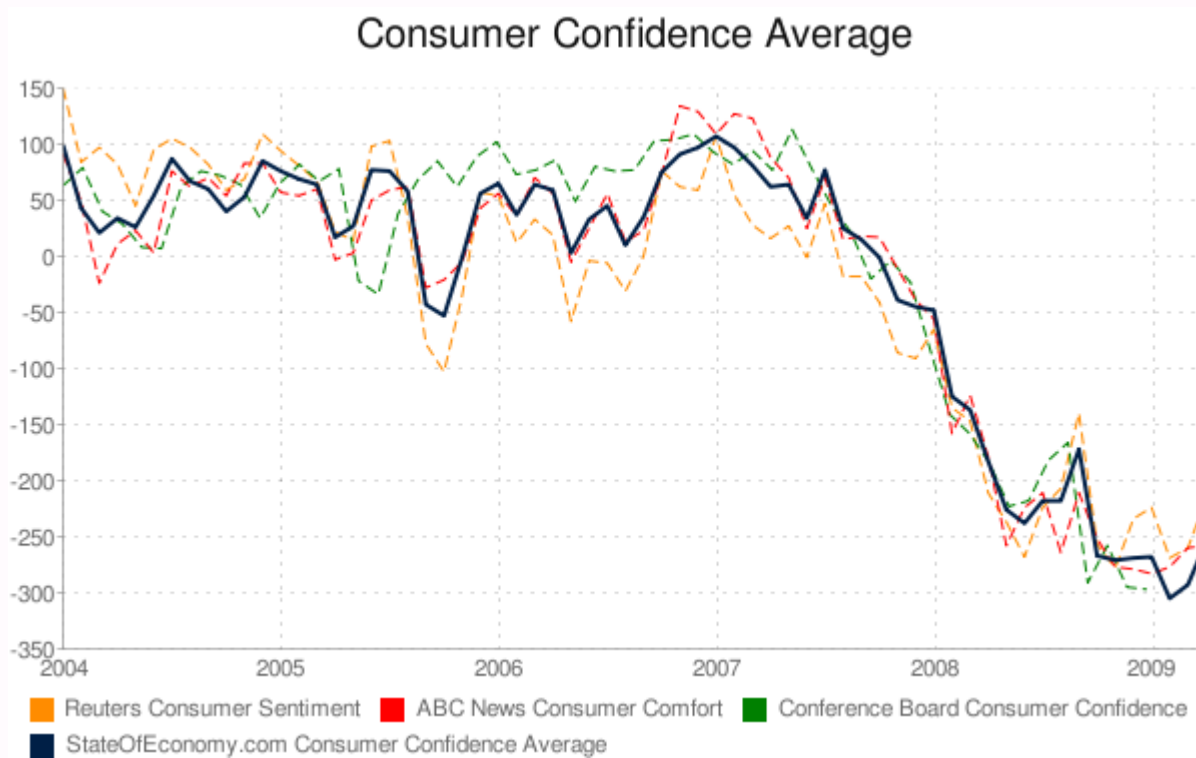


The changing nature of the financial sector

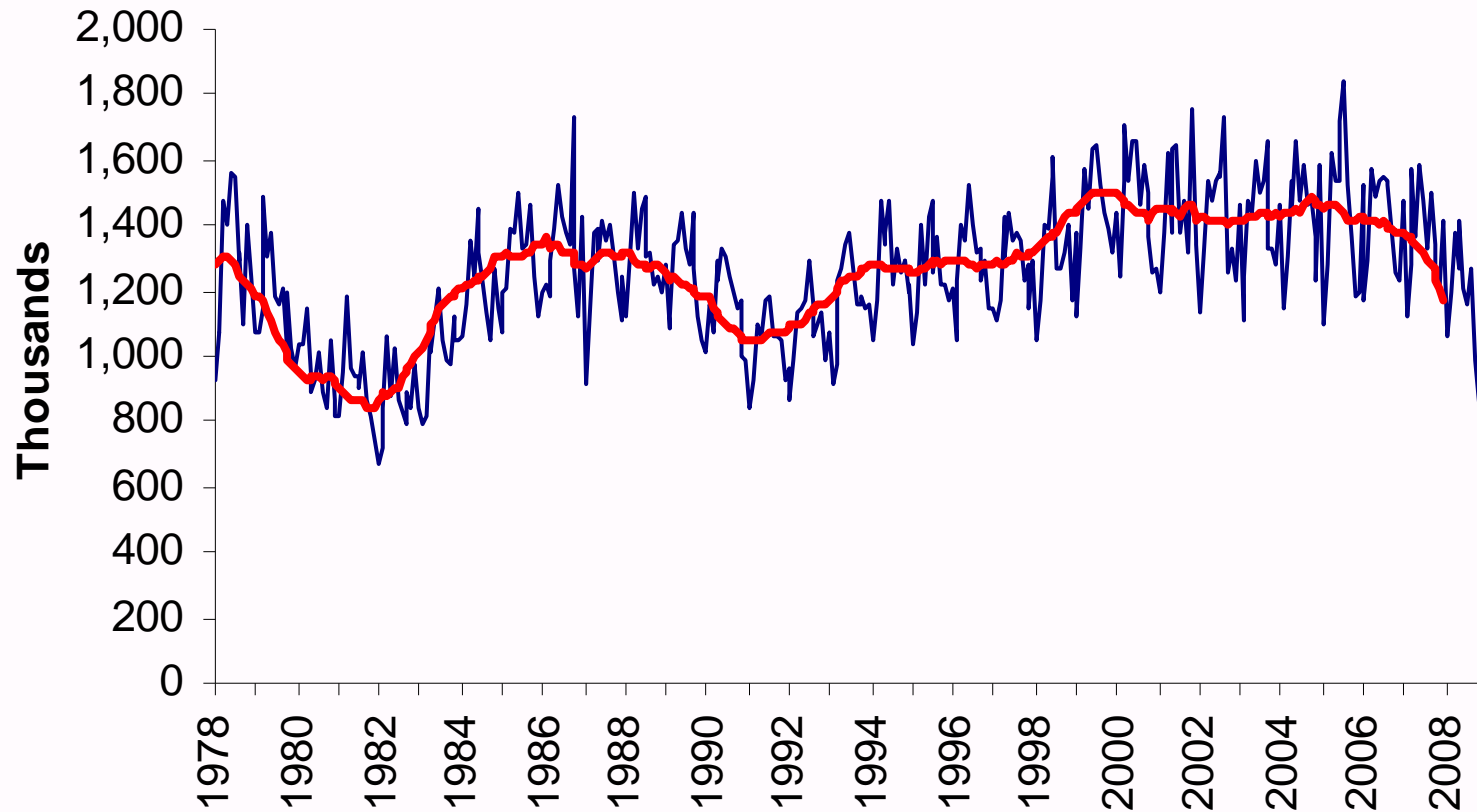
- Currently governments are taking on an ever greater role as lenders of last resort, either directly or through guarantees to banks
- Financial services - intermediaries carrying no balance sheet risk - doing relatively well
- Risk aversion has driven savings into secure bank deposits and government bonds
- Investors and banks afraid to lend
- But which institutions will take on balance sheet risks?



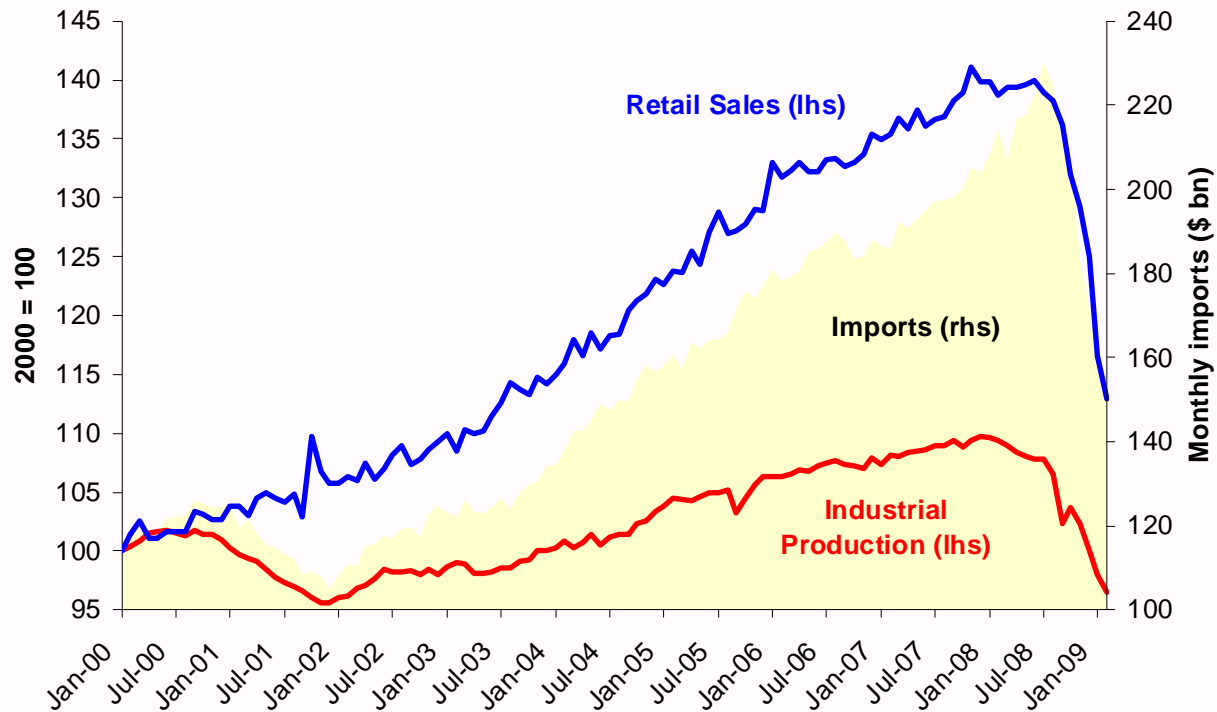
US Consumer Confidence



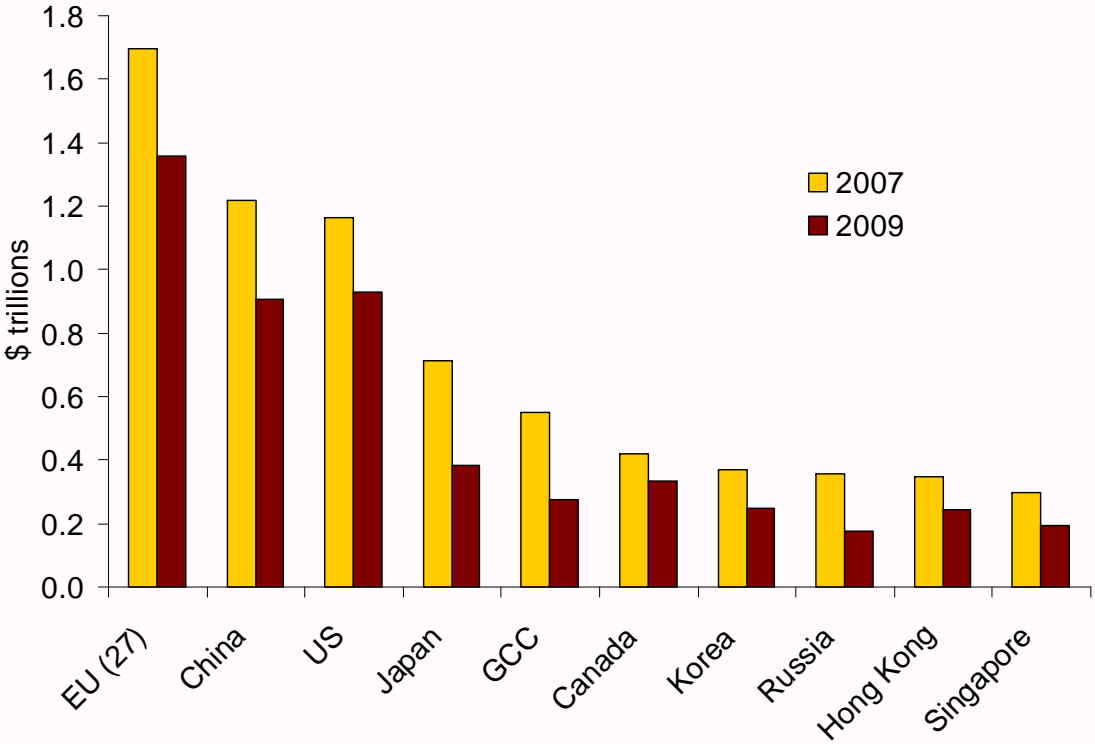
US car sales slump



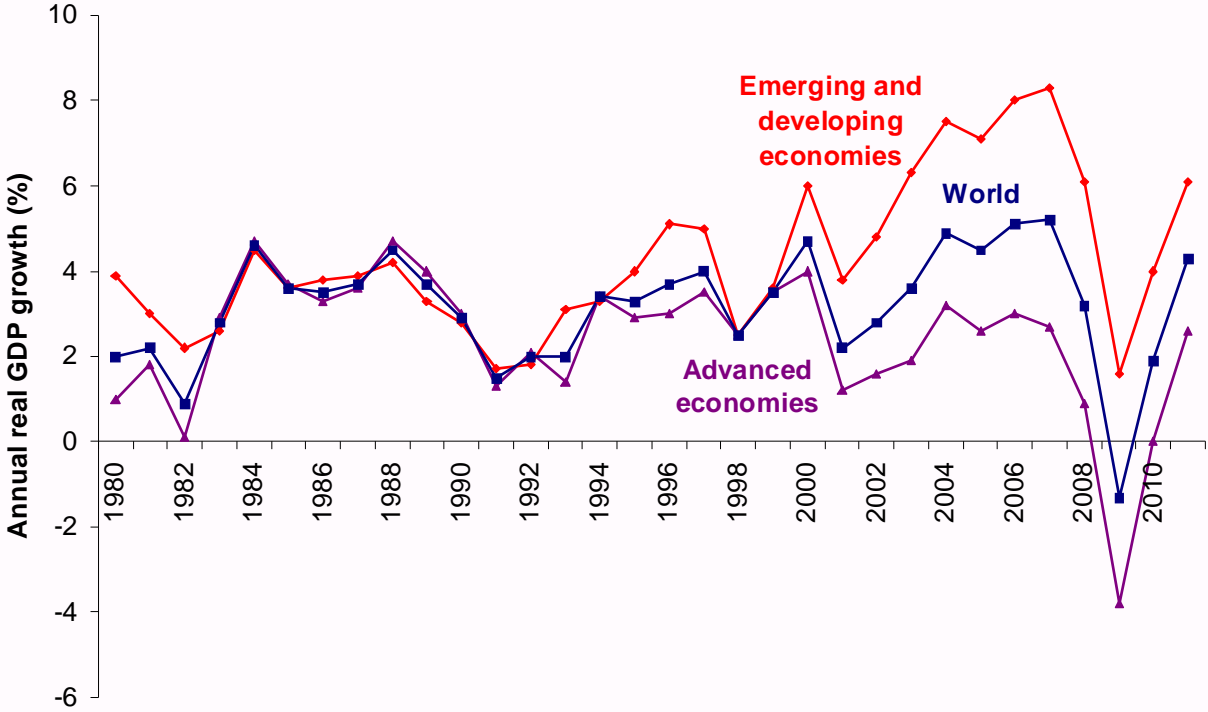
US industrial production, retail sales and imports



Collapse in world trade



A synchronised recession



III. What's next?



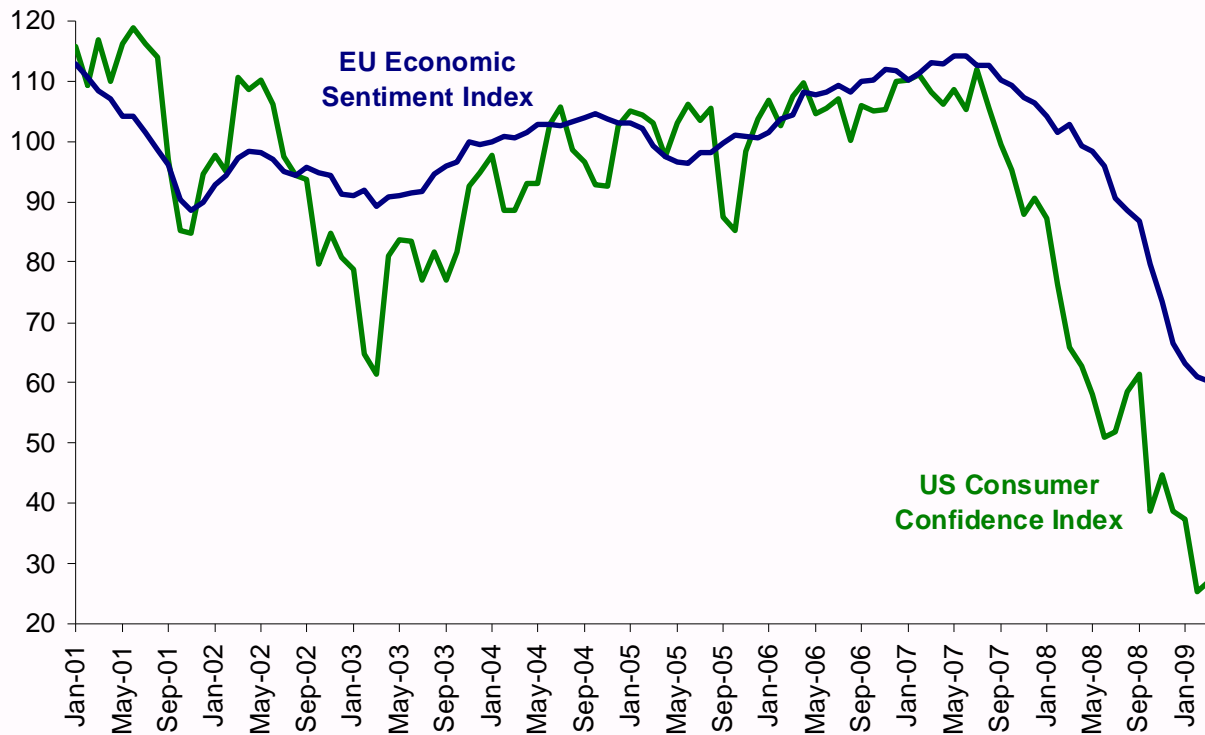
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'Green shoots', or not?

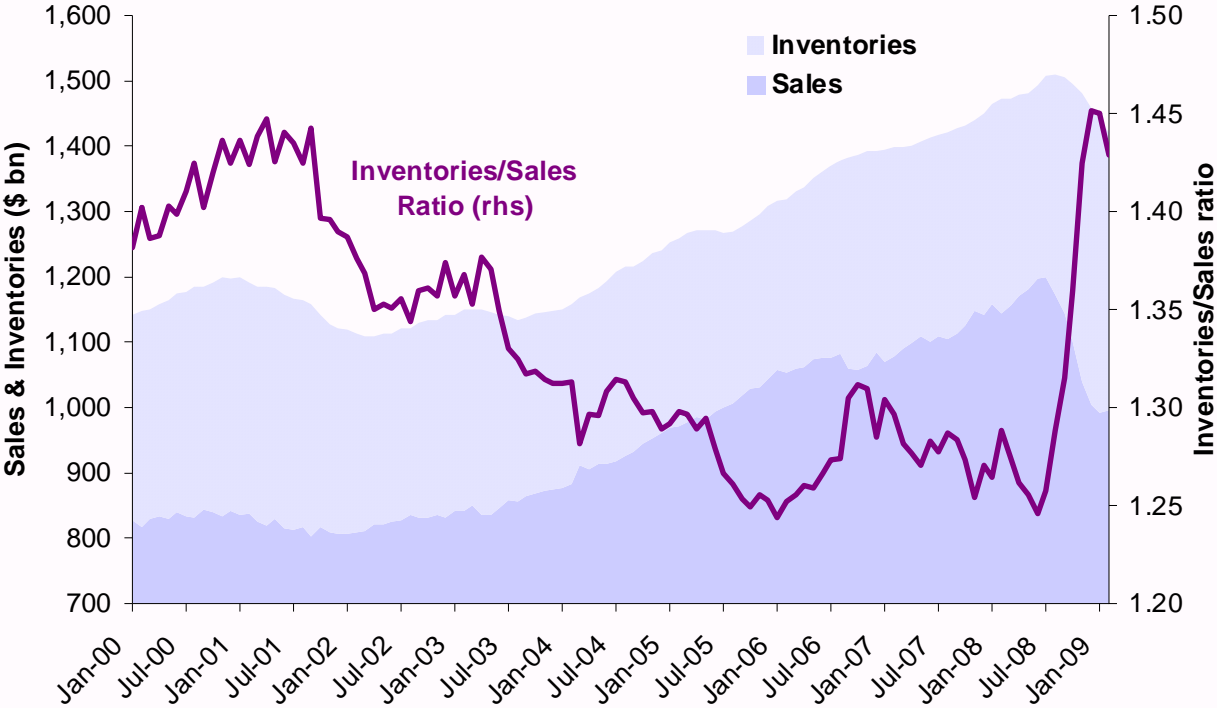
- Improvement in confidence
- Growing stockbuilding
- Fastest retail sales growth in 3 years (April, UK)
- Jobless benefits claimants: less than expected increase (April, UK)



US, European confidence improving?



Will stockbuilding boost growth?



But...

- Euro area exports down by 26% in Q4 2008
- UK, Spain, Ireland and the Baltic countries particularly affected by real estate bubble
- Credit extension is slowing down
- Corporate bond spreads still high
- Recovery in bank lending too slow
- Rising non-performing loans and tighter lending standards
- Foreign currency liquidity a key challenge for EMEs

Higher savings rates and wider sovereign spreads



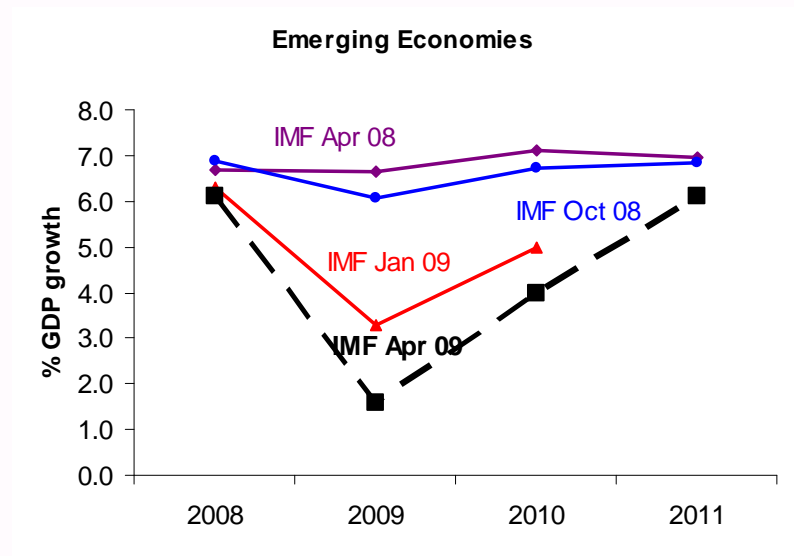
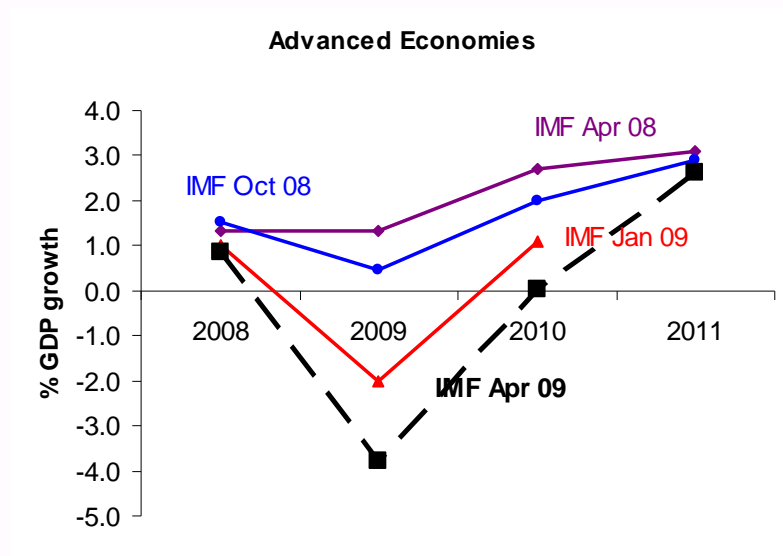
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So...

- Economic recovery too slow ...
- ... and difficult to forecast



Changes in IMF forecasts



Different scenarios

	Apr 08	Oct 08	Jan 09	Apr 09	Downward Scenario
US	0.6	0.1	-1.6	-2.8	-3 to -4
Euro Area	1.2	0.2	-2.0	-4.2	-5 to -6
Germany	1.0	n.a.	-2.5	-5.6	-5 to -6
Japan	1.5	0.5	-2.8	-6.2	-7 to -8
China	9.5	9.3	6.7	6.5	6 to 6.5
Middle East	6.1	5.9	3.9	2.5	0 to 1
Latam	3.6	3.2	1.1	-1.5	-3 to -4



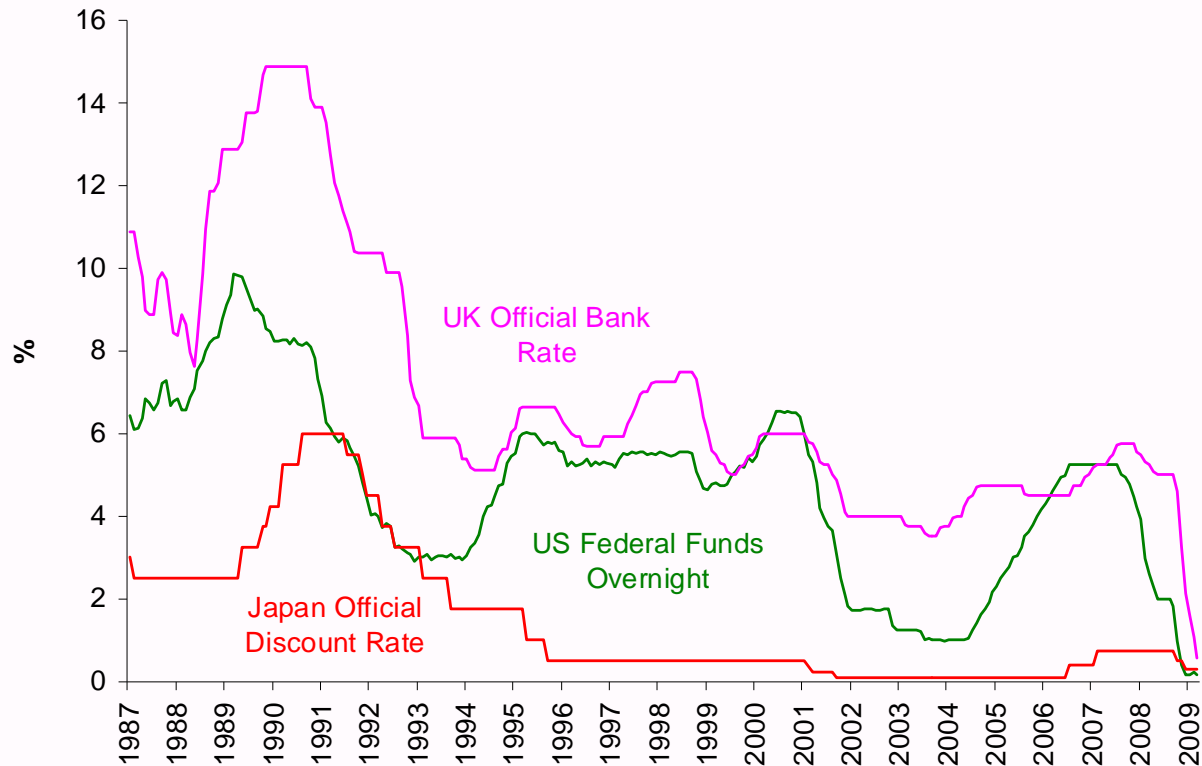
Time for action

Policy actions seen so far

- Monetary policy: flushing liquidity through the system and cutting official rates to near zero
- Bank bail outs and guarantees for loans
- Fiscal stimulus packages
- “Unconventional monetary policy”
- Extra resources for international agencies



Running out of policy tools?

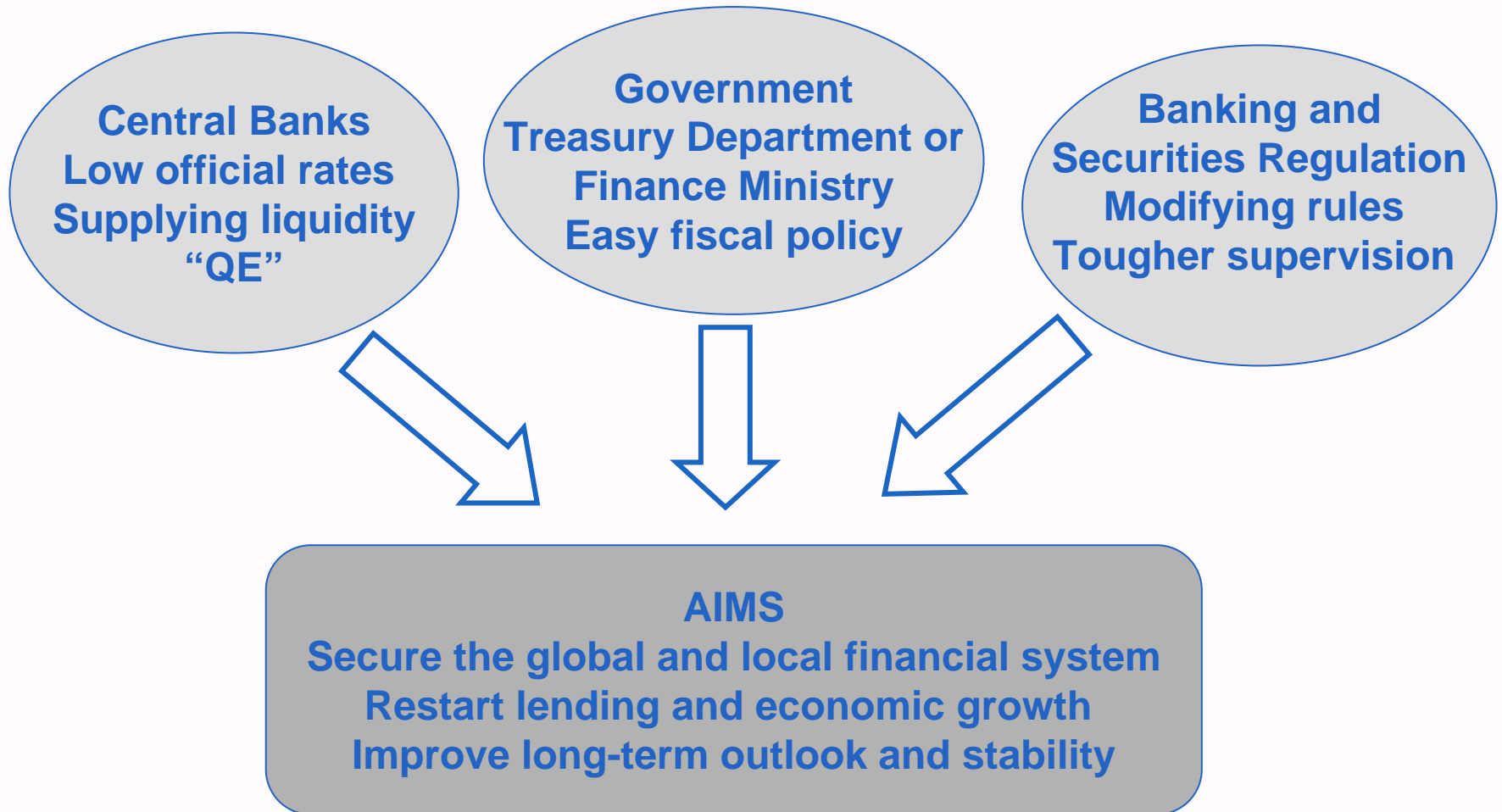


Policy response: what to do?

- Continued provision of liquidity
- Loss recognition in the financial system
- Recapitalization as well as orderly resolution
- Coordination in dealing with cross-border banks (Europe)
- Continued support to demand
- Institution-strengthening (G20-London Summit)



Policy aims: restarting growth and lending while defining a more secure system



THANK YOU

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