



XVIII CICLO DE JORNADAS ECONÓMICAS

Guatemala, 15 y 16 de junio de 2009



THE GLOBAL FINANCIAL CRISIS: LESSONS LEARNED AND CHALLENGES FOR DEVELOPING COUNTRIES

Eighteenth Cycle of Economic Lectures

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OVERVIEW

1. **Causes** of the 2007-2009 Global Financial Crisis
2. **Lessons**
 - A. Too good to be true is probably false
 - B. Be better prepared
 - C. The myth of self insurance
 - D. The role of the IMF
 - E. The future of globalization

CAUSES OF THE CRISIS

1. **Macroeconomic** policies in the United States and elsewhere?
2. Financial sector supervision and **regulation** in the United States and elsewhere?
3. Financial **engineering**?
4. Under-supervised **global private financial institutions**?

HOW DOES THIS CRISIS DIFFER?

1. The **U.S. origins** of the crisis
2. A truly **global** crisis
3. A **dual severe** economic and financial

LESSONS FROM THE CRISIS

- A. Too good to be **true** is probably **false**
- B. **Be better prepared**
- C. The myth of **self insurance**
- D. The role of the **IMF**
- E. The future of **globalization**

Table 1 – Progression of IMF April Forecasts of Real GDP

| | Avg. 1991 2000 | Forecast for 2007 | | | Forecast for 2008 | | | Forecast for 2009 | | | Forecast for 2010 |
|--|----------------------|-------------------|------|------|-------------------|------|------|-------------------|------|------|----------------------|
| | | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 | 2009 |
| World | 3.1 | 4.9 | 4.9 | 5.2 | 4.9 | 3.7 | 3.2 | na | 3.8 | -1.3 | 1.9 |
| Advanced Economies | 2.8 | 2.5 | 2.7 | 2.7 | 2.7 | 1.3 | 0.9 | na | 1.3 | -3.8 | 0.0 |
| Emerging and Developing Economies | 3.6 | 7.5 | 7.9 | 8.3 | 7.1 | 6.7 | 6.1 | na | 6.6 | 1.6 | 4.0 |
| <i>of which</i> Western Hemisphere | 3.3 | 4.9 | 5.6 | 5.7 | 4.2 | 4.4 | 4.2 | na | 3.6 | -1.5 | 1.6 |

TOO GOOD TO BE TRUE IS PROBABLY FALSE

LESSON 1: Don't extrapolate the **good times**

LESSON 2: There was no **decoupling**

LESSON 3: **Globalization** has tied us all together

BE BETTER PREPARED

Conventional wisdom:

- 1) This crisis was different because it began in the United States
- 2) Emerging and developing economies should be held blameless

LESSON 4: Countries that were better prepared
suffered less

LESSON 5: Scope for counter-cyclical policies

THE MYTH OF SELF INSURANCE

The case of South Korea

- Huge reserves and current account surpluses
- Cumulative 2008-10 growth shortfall projected at 15.6 percent
- Won collapsed 36 percent from 2007 through early 2009

LESSON 6: Massive foreign exchange build-up provided **inadequate protection**

LESSON 7: **Gross** flows are more relevant than **net** flows

Qualifications

THE ROLE OF THE IMF

LESSON 8: Don't starve the IMF **financially**

-- For January 2011: Double quotas, index them for the future, and consider annual SDR allocations

LESSON 9: Improve the global **adjustment process**

-- Promote responsible growth policies that do not rely on competitive non-appreciation

LESSON 10: The **financial system** is global

-- Monitor countries' adherence to standards and their financial stability; re-examine the role of the Fund on capital account issues

THE FUTURE OF GLOBALIZATION

LESSON 11: Don't turn back on **globalization**

THE MOST DIFFICULT LESSON OF ALL?



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