

# **Policy Making in the Global Economic Crisis**

Tim Besley, LSE

(formerly Bank of England, MPC)

University of Calgary

March 2010

## Issues

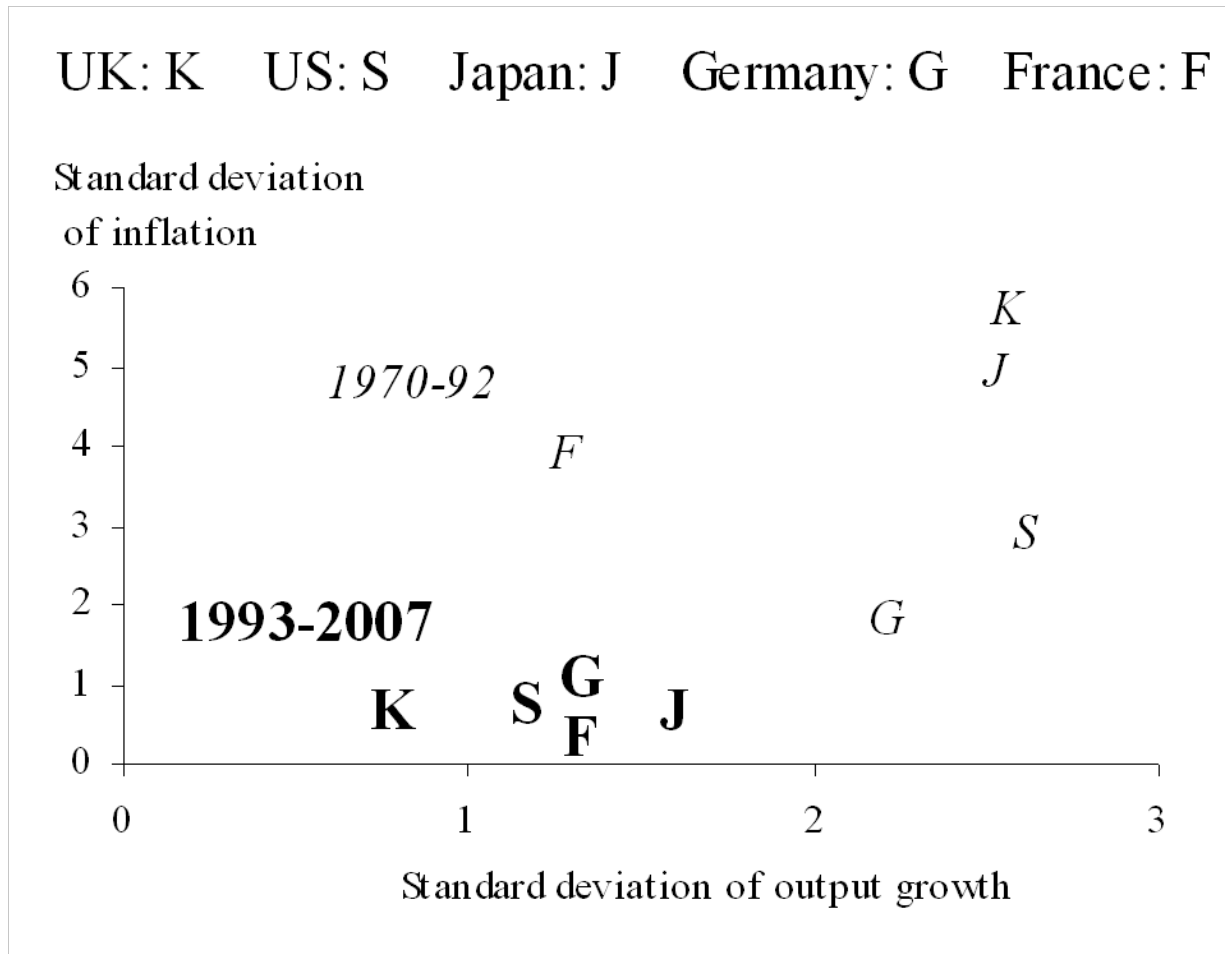
- Background
- The lead up to the crisis
- The crisis
- The response
- Where now?
- Lessons

## Background

- Central bank independence
- The Great Moderation

# The Great Moderation

## Output and inflation volatility in the G5

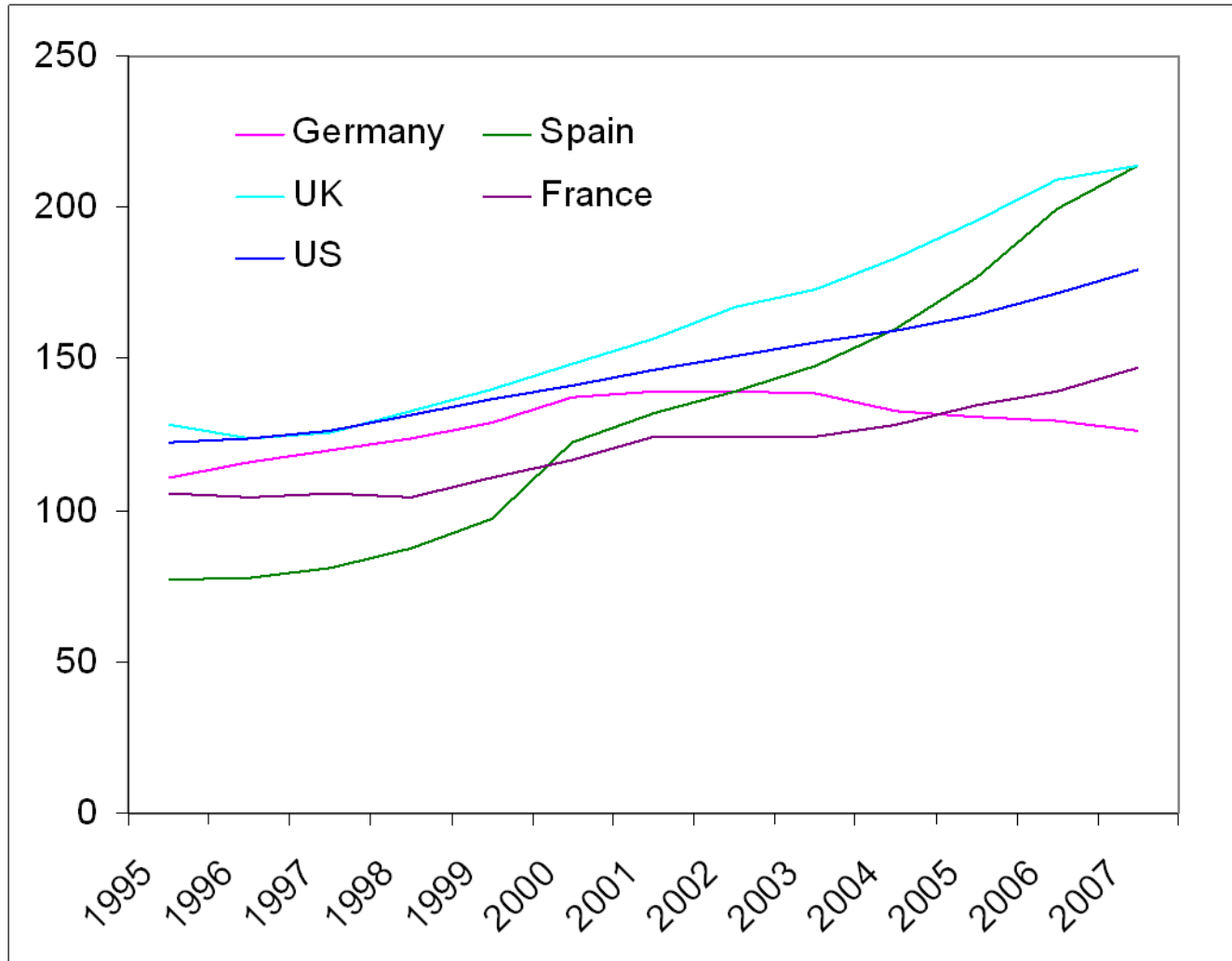


## The Lead up to the Crisis

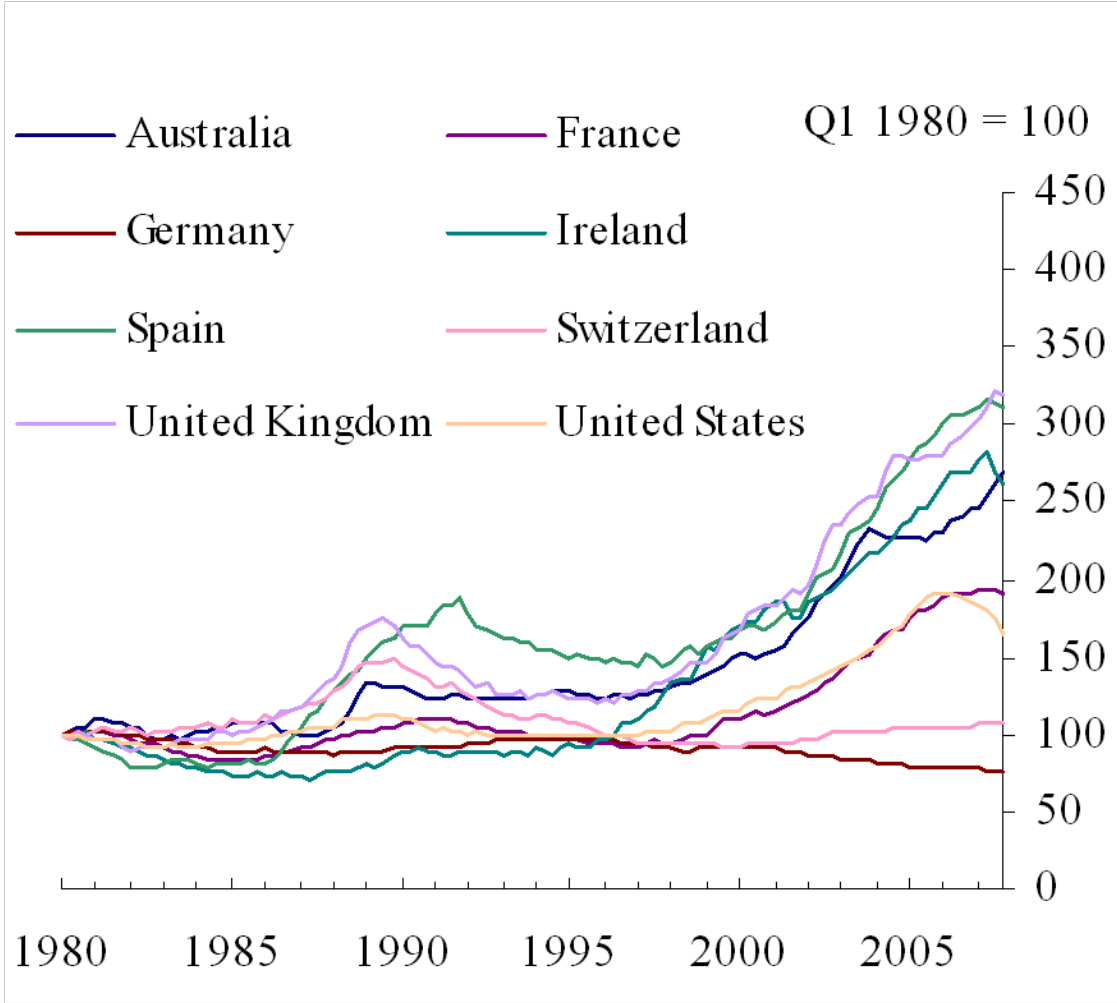
- Credit growth
- Global imbalances
- The dogs that didn't bark

# International credit expansion

Financial liabilities of household and business (% of GDP)

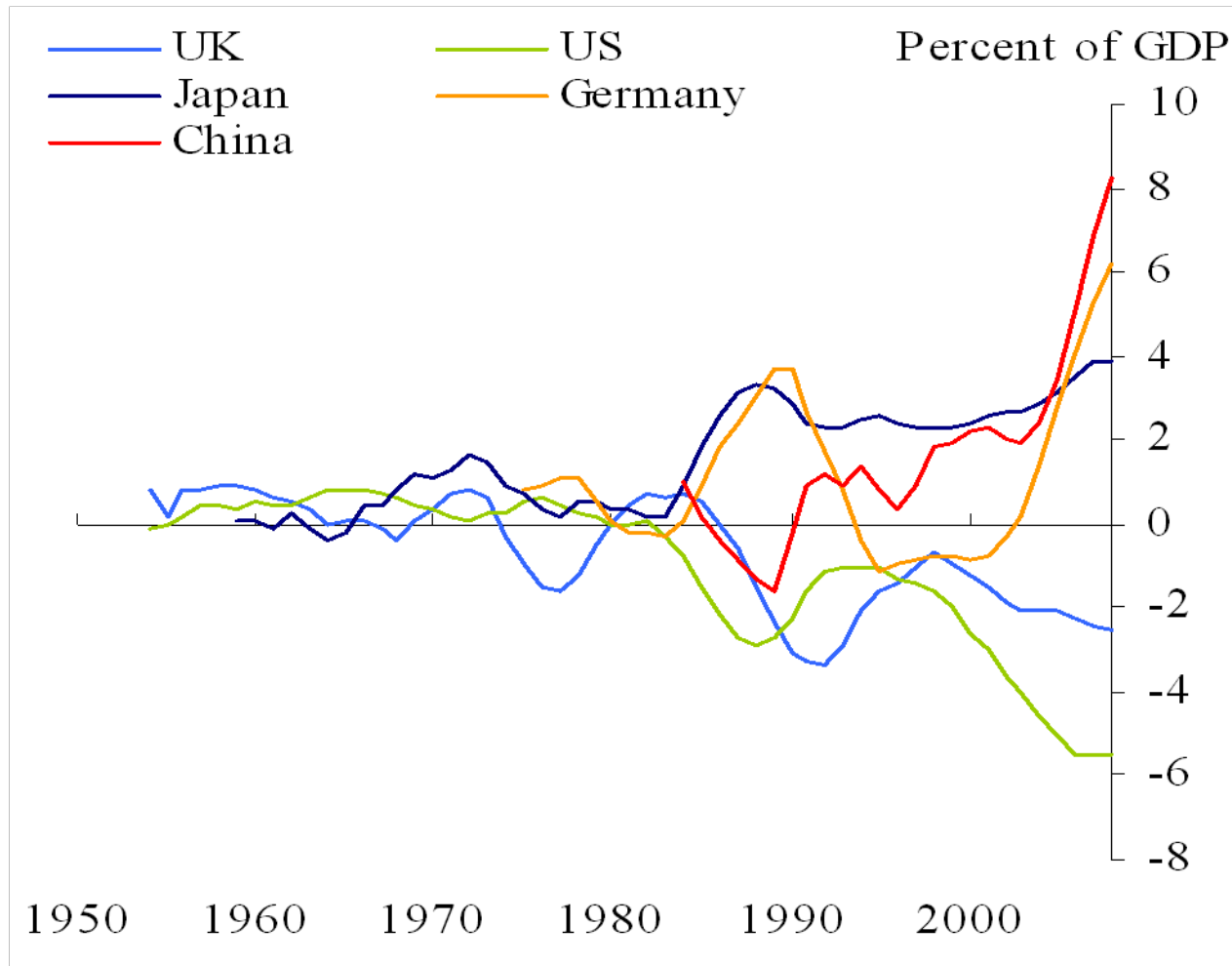


# Real house prices



# Global imbalances

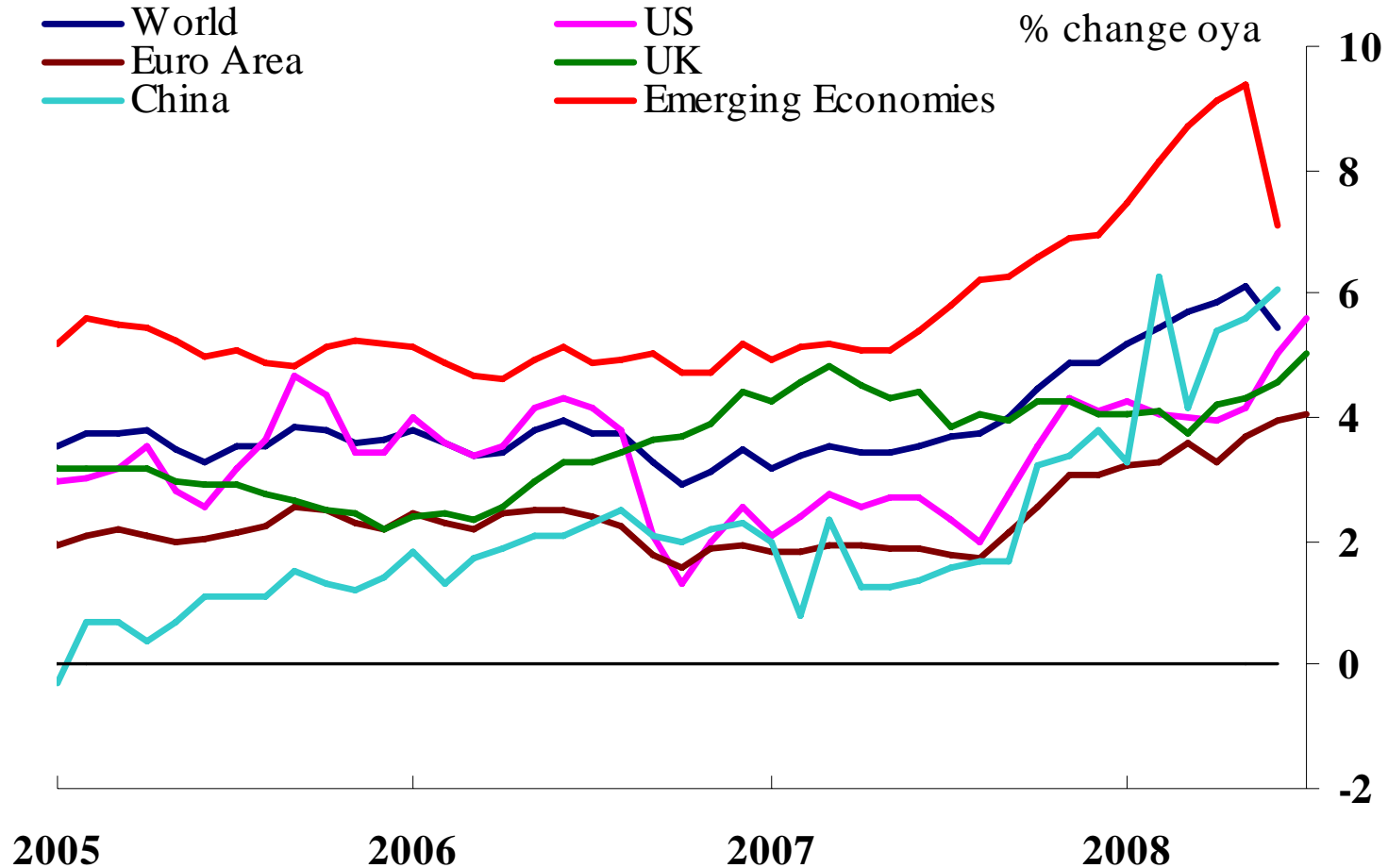
Current accounts (% of GDP, 5-year rolling average)



Source: IMF and national sources



# International CPI inflation rates

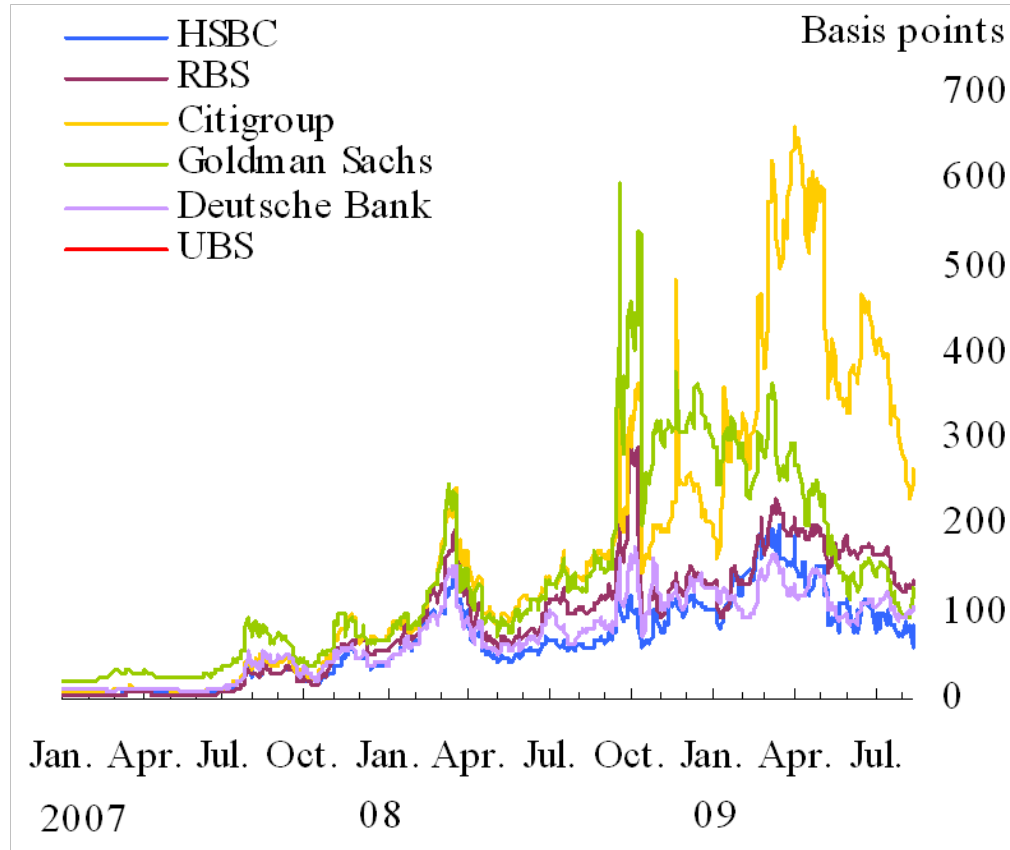


Source: IMF

## The Crisis

- Two phases
  - August 2007 to October 2008
  - October 2008 onwards

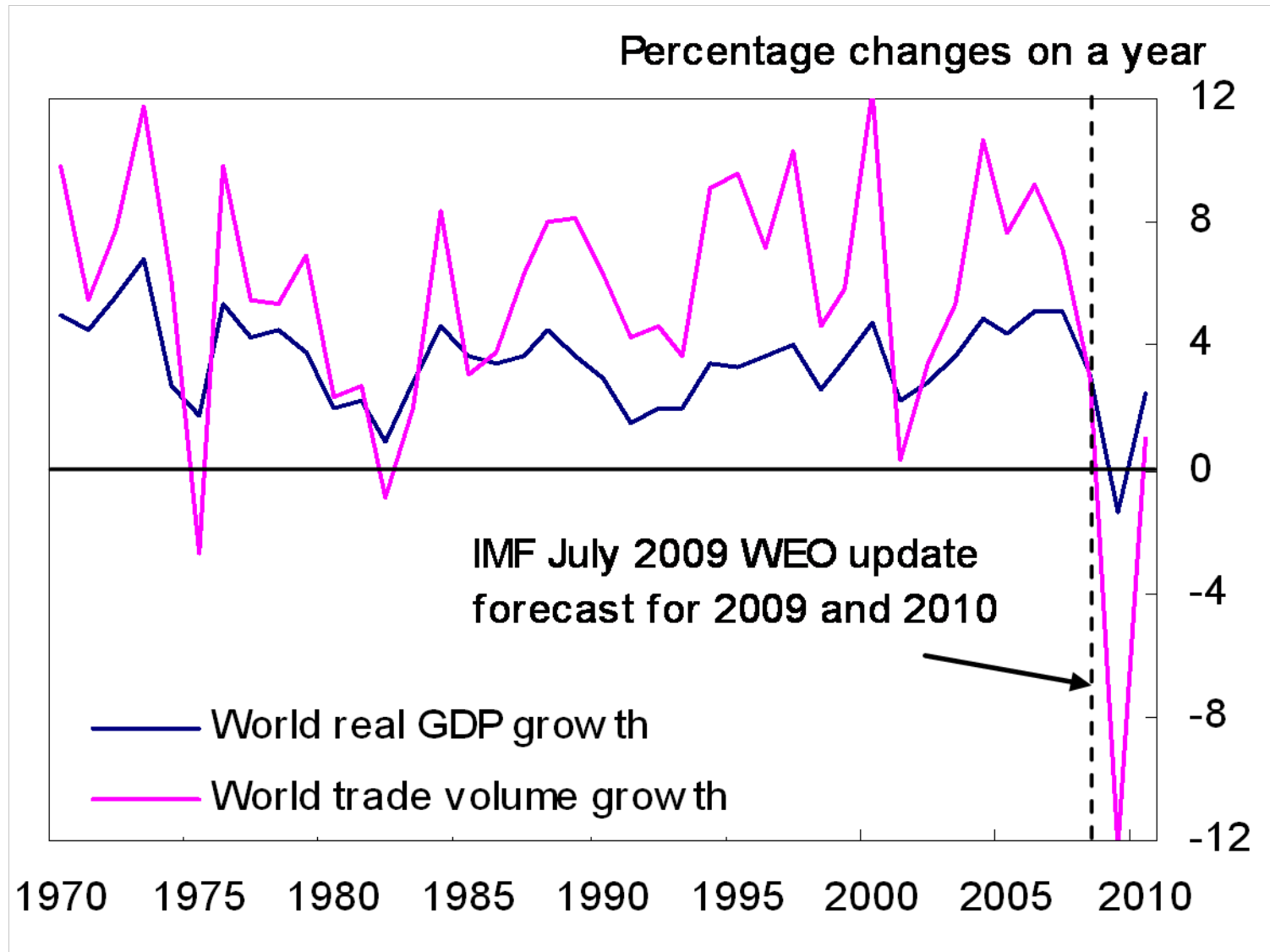
# CDS spreads for major financial institutions



Source: Markit.

(a) Five-year senior CDS premia.

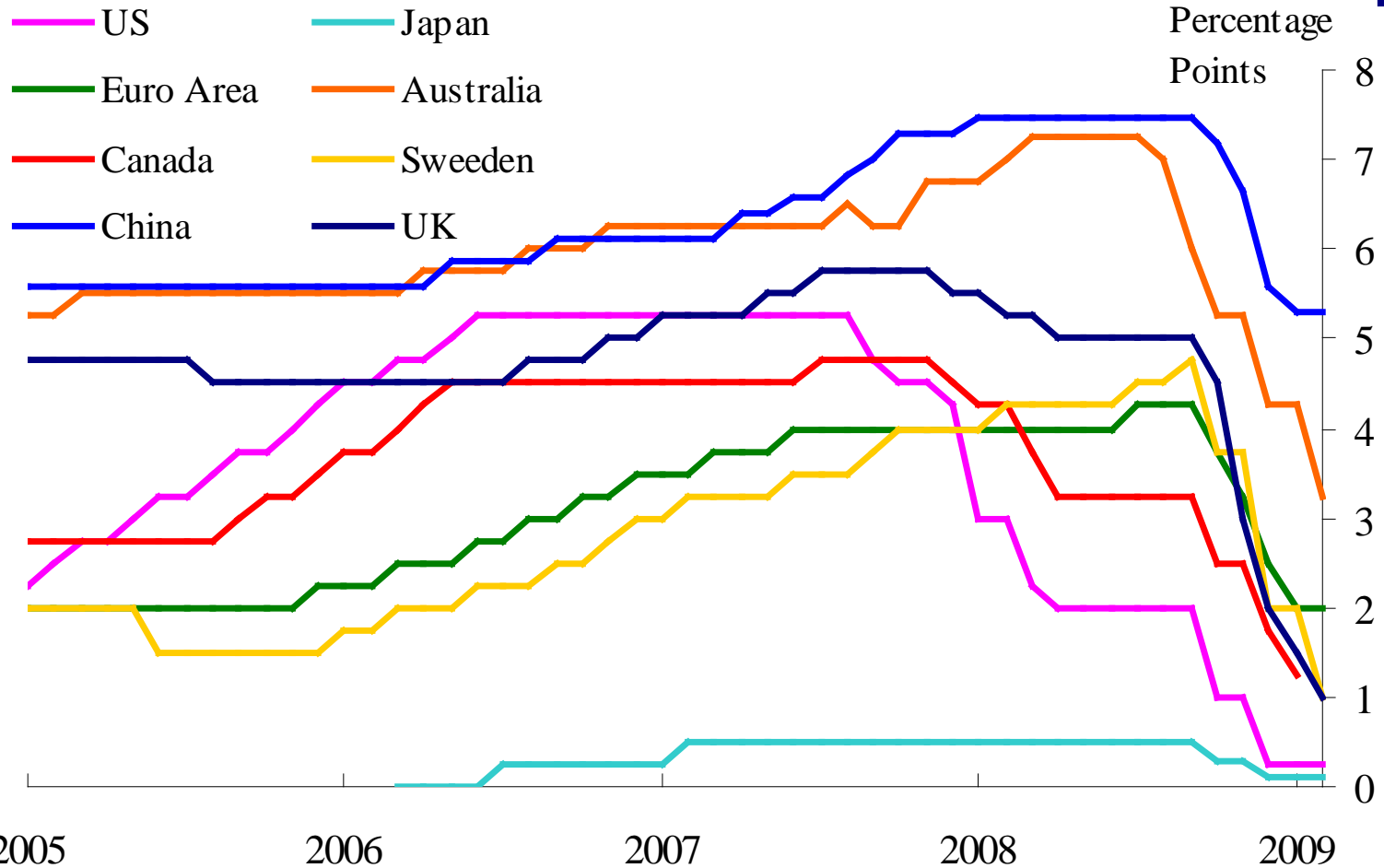
# The Great Contraction



## The Response

- Bank recapitalization
- Loosening monetary policy + unconventional measures
- The fiscal response

# International Loosening of Monetary Policy



Sources: National Central Banks and Thompson Datastream

**Table 1****Fiscal situation and prospects<sup>1</sup>**

	Fiscal balance			Structural balance <sup>5</sup>			General government debt <sup>6</sup>		
	As a percentage of GDP								
	2007	2010	2011	2007	2010	2011	2007	2010	2011
Austria	-0.7	-5.5	-5.8	-1.4	-3.3	-3.6	62	78	82
Germany	0.2	-5.3	-4.6	-0.8	-4.0	-3.7	65	82	85
Greece	-4.0	-9.8	-10.0	-4.5	-6.9	-6.8	104	123	130
France	-2.7	-8.6	-8.0	-3.5	-6.8	-6.3	70	92	99
Ireland	0.2	-12.2	-11.6	-1.3	-9.0	-9.0	28	81	93
Italy	-1.5	-5.4	-5.1	-2.2	-2.6	-2.8	112	127	130
Japan	-2.5	-8.2	-9.4	-3.4	-7.4	-9.0	167	197	204
Netherlands	0.2	-5.9	-5.3	-0.6	-3.6	-3.1	52	77	82
Portugal	-2.7	-7.6	-7.8	-2.8	-6.1	-6.8	71	91	97
Spain	1.9	-8.5	-7.7	1.6	-5.2	-4.5	42	68	74
United Kingdom	-2.7	-13.3	-12.5	-3.4	-10.5	-9.9	47	83	94
United States	-2.8	-10.7	-9.4	-3.1	-9.2	-8.2	62	92	100
China	0.9	-2.0	-2.9				20	22	23
India	-4.4	-10.0	-8.7				81	86	86
Other Asia <sup>2</sup>	2.1	-1.2	-1.0				31	37	38
Central Europe <sup>3</sup>	3.7	-4.4	-3.9				23	28	29
Latin America <sup>4</sup>	-1.5	-2.4	-2.0				41	37	35

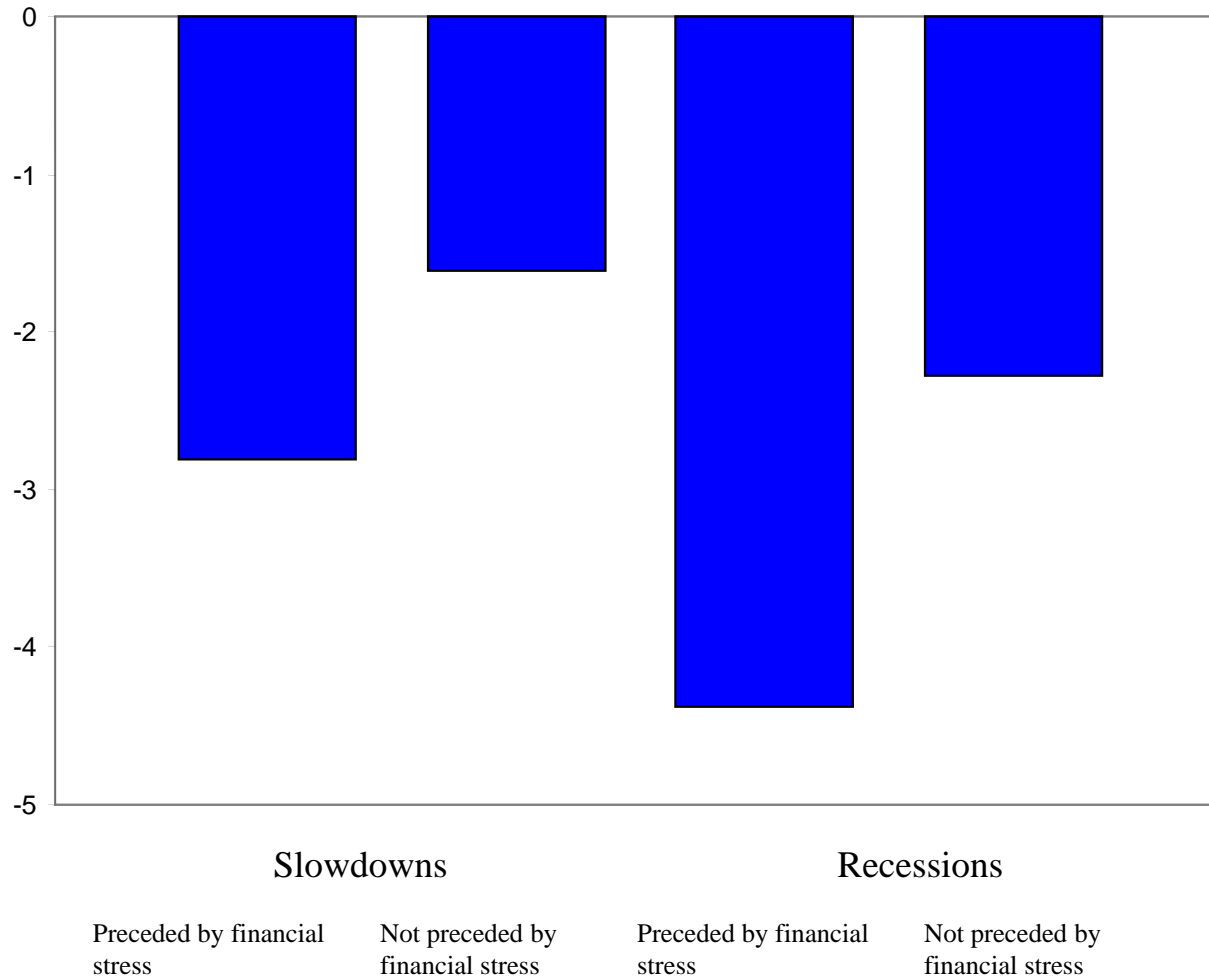
## Where now?

- The "exit" strategy
- Regulation
- Global imbalances redux
- Fiscal implications



# Total output loss in slowdowns & recessions

Medians, % GDP



Source: IMF WEO October 2008

## Lessons

- Probability zero events
- Real time responses
- Communications
- The role/responsibility of economists.