



# The World Financial and Economic Crisis: Impact on Debt, Private Flows and FDI

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**United Nations**  
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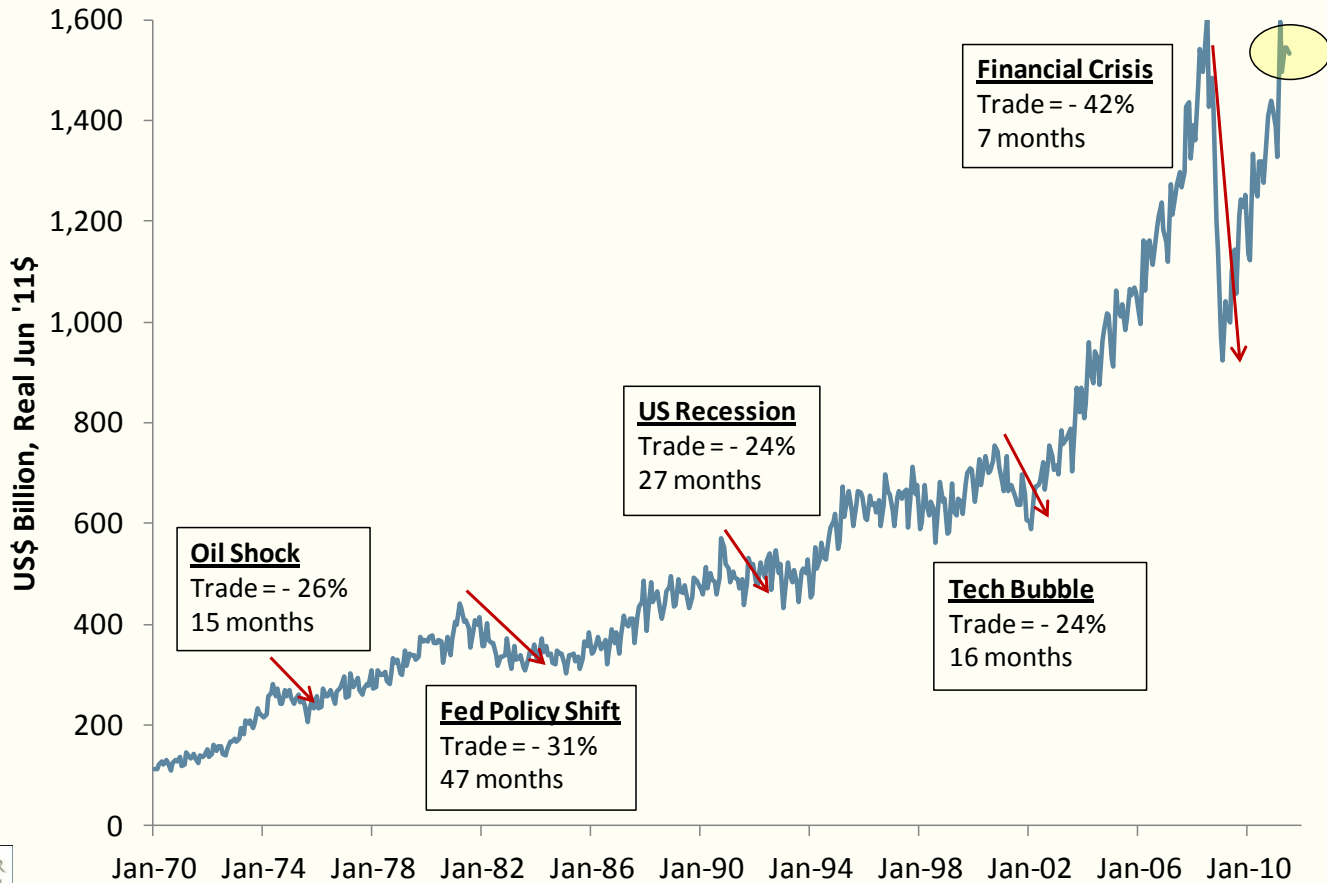
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## Major Themes

- **Economies and financial markets will remain highly interconnected**, as evidenced by the present crisis. The crisis was not created nor did it result from these long-standing relationships.
- **The future for emerging economies is bright**, yet focus is critical as direct and portfolio investors more actively scrutinize risks. Fiscal and monetary **policies matter**.
- **Communication strategies** of policy and plans are pivotal.



## World Trade: At Risk for a Stall



Source: IMF Direction of Trade Statistics and Center for Financial Stability Inc.

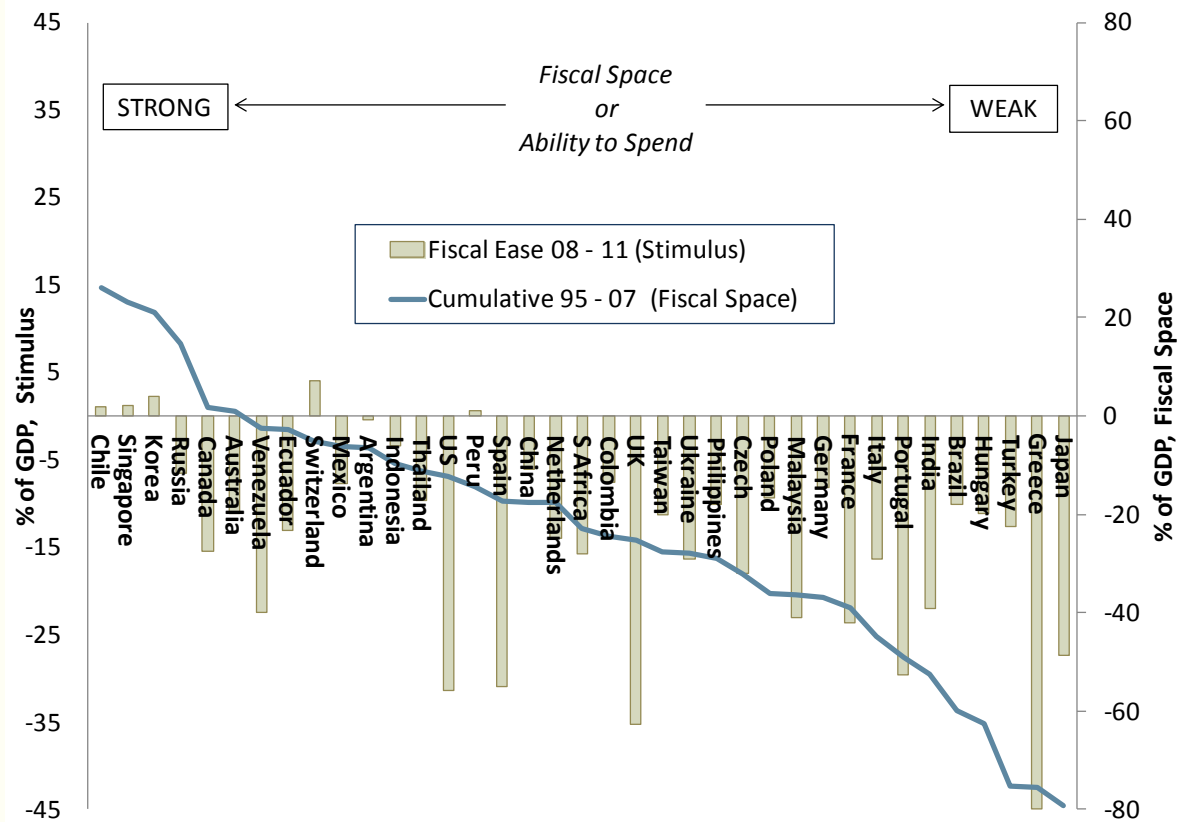


## Governments

- Risk Free rates are no longer **“Risk Free.”**
- Public spending propped demand in many nations. **Limits will soon be reached and markets will increasingly scrutinize sovereign balance sheets and income statements.**
- **Public spending limits will impact MDG.** Nations should manage local public finance and think creatively regarding engaging the private sector.
- Sovereign credit crisis and **FX volatility** are opposite sides of the same coin.



## Fiscal Stimulus and Capacity to Expand

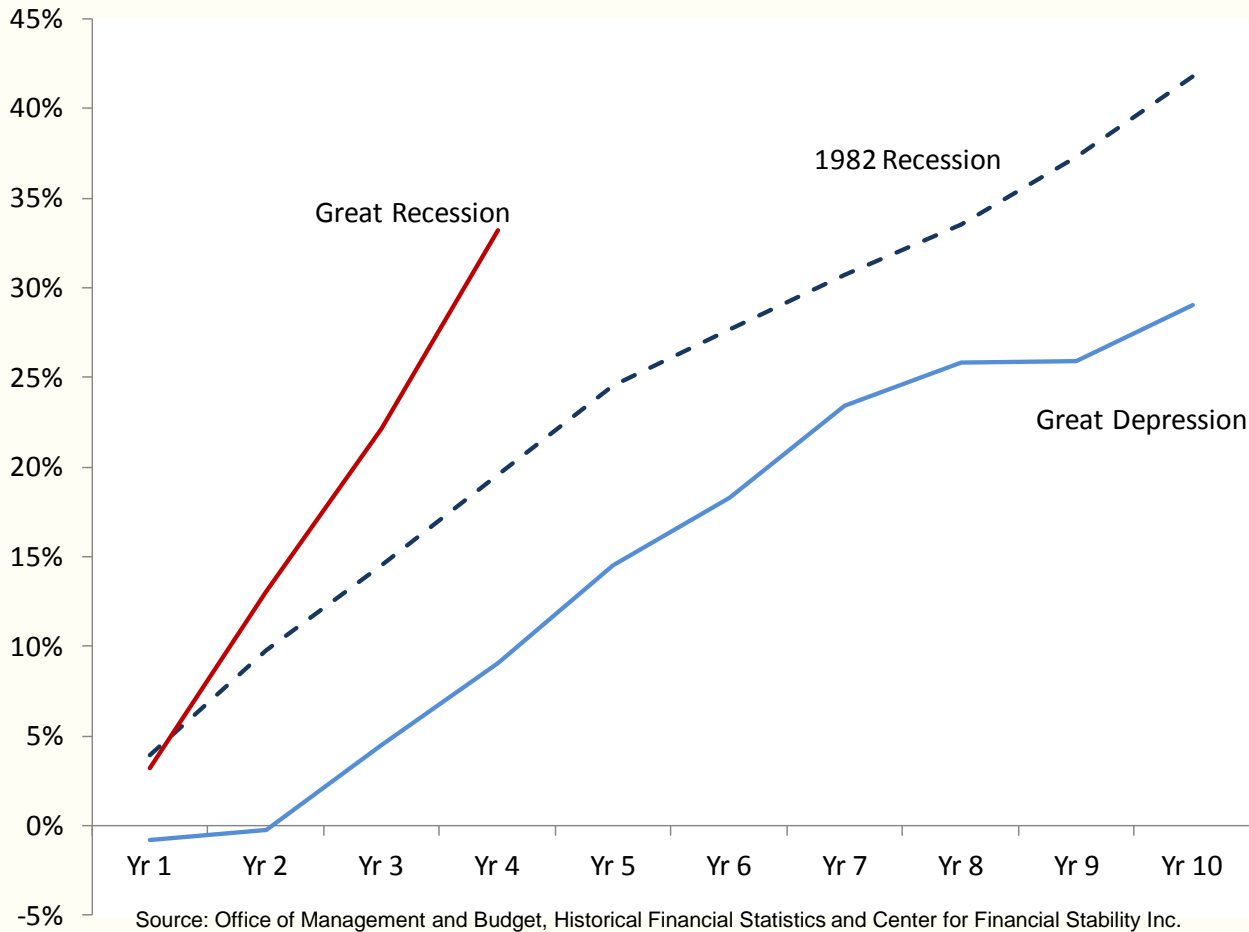


Source: Datastream and Center for Financial Stability Inc.



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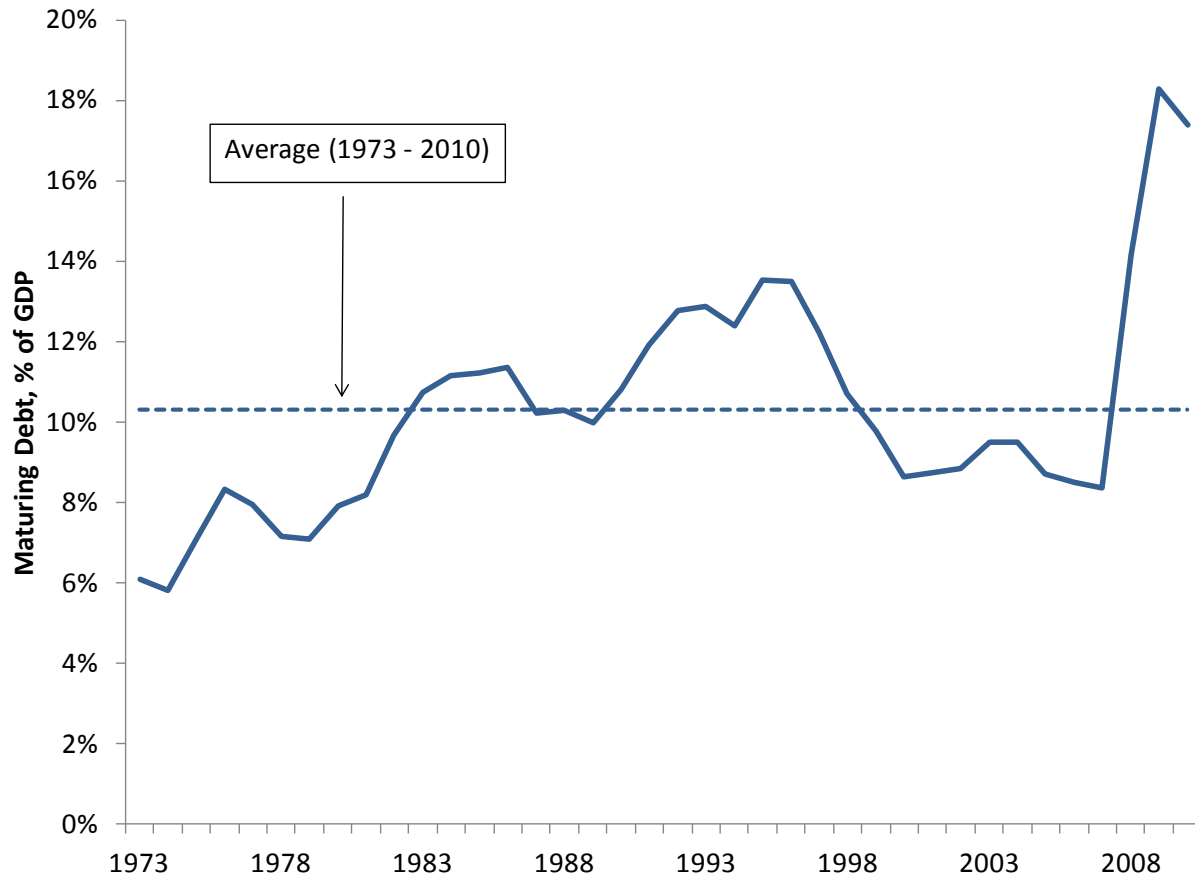
## Cumulative Deficits in Deep Downturns, % of GDP





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## USG Debt Maturities Spike in Coming Year



Note: Interest bearing public debt held by private investors.  
Source: US Treasury and Center for Financial Stability Inc.



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## Debt Restructuring: The Way Forward

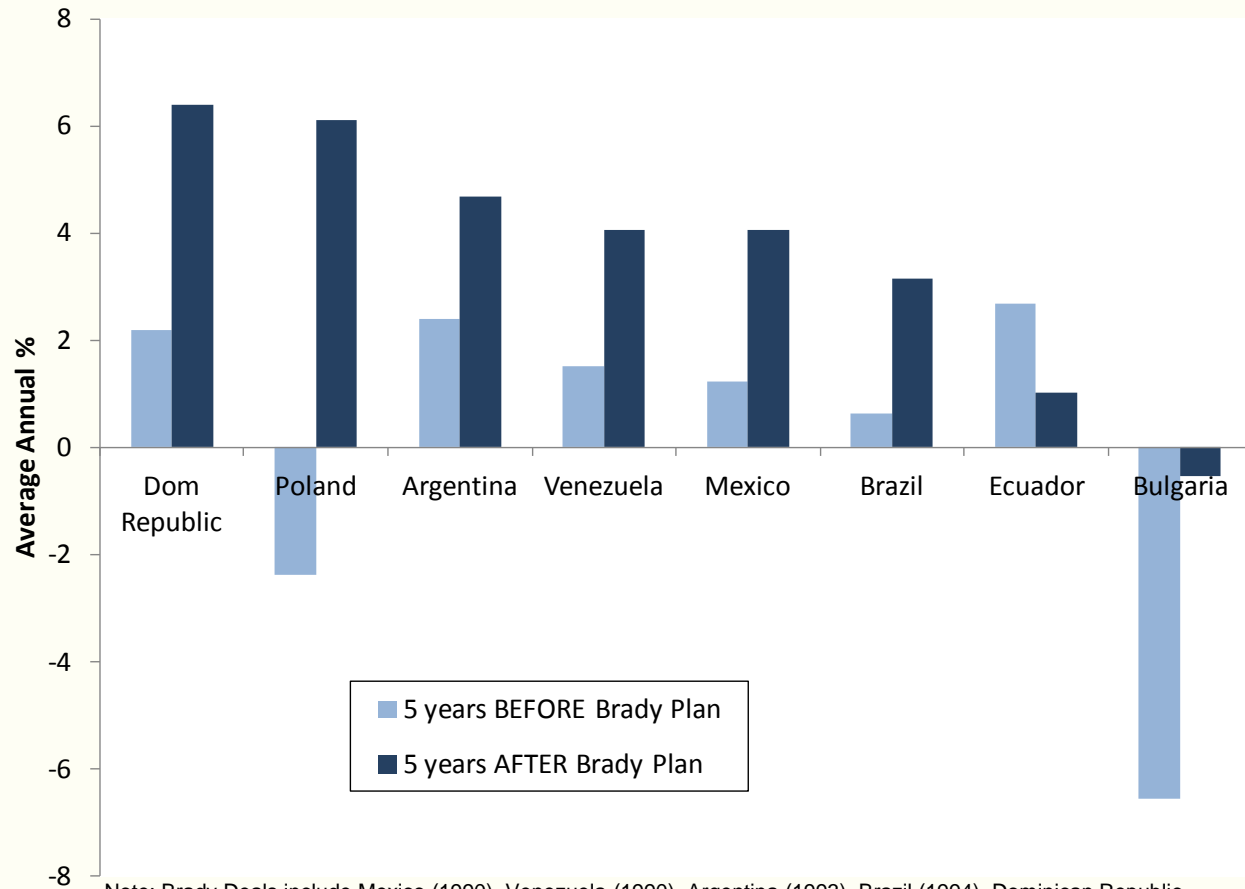
*The Economic Subcommittee (ESC) to Bank Advisory Committees during the Brady Debt restructuring era provides a blueprint for identifying common ground, deepening communication, and paving the way for the benefit of creditors and debtors alike.*





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## Economic Growth Improvement Post Debt Reduction



Note: Brady Deals include Mexico (1990), Venezuela (1990), Argentina (1993), Brazil (1994), Dominican Republic (1994), Bulgaria (1994), Poland (1994), and Ecuador (1995).  
 Source: Datastream, IMF and Center for Financial Stability Inc.



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## New Strategy: Financial Program

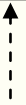
### Substitute Math for Rhetoric

- **Economics** – restoring growth for a long-term solution,
- **Finance** - identifying sustainable levels of debt and potentially needed support for banks,
- **Official Institutions** - highlighting available official resources to support and ensure implementation of a successful program.

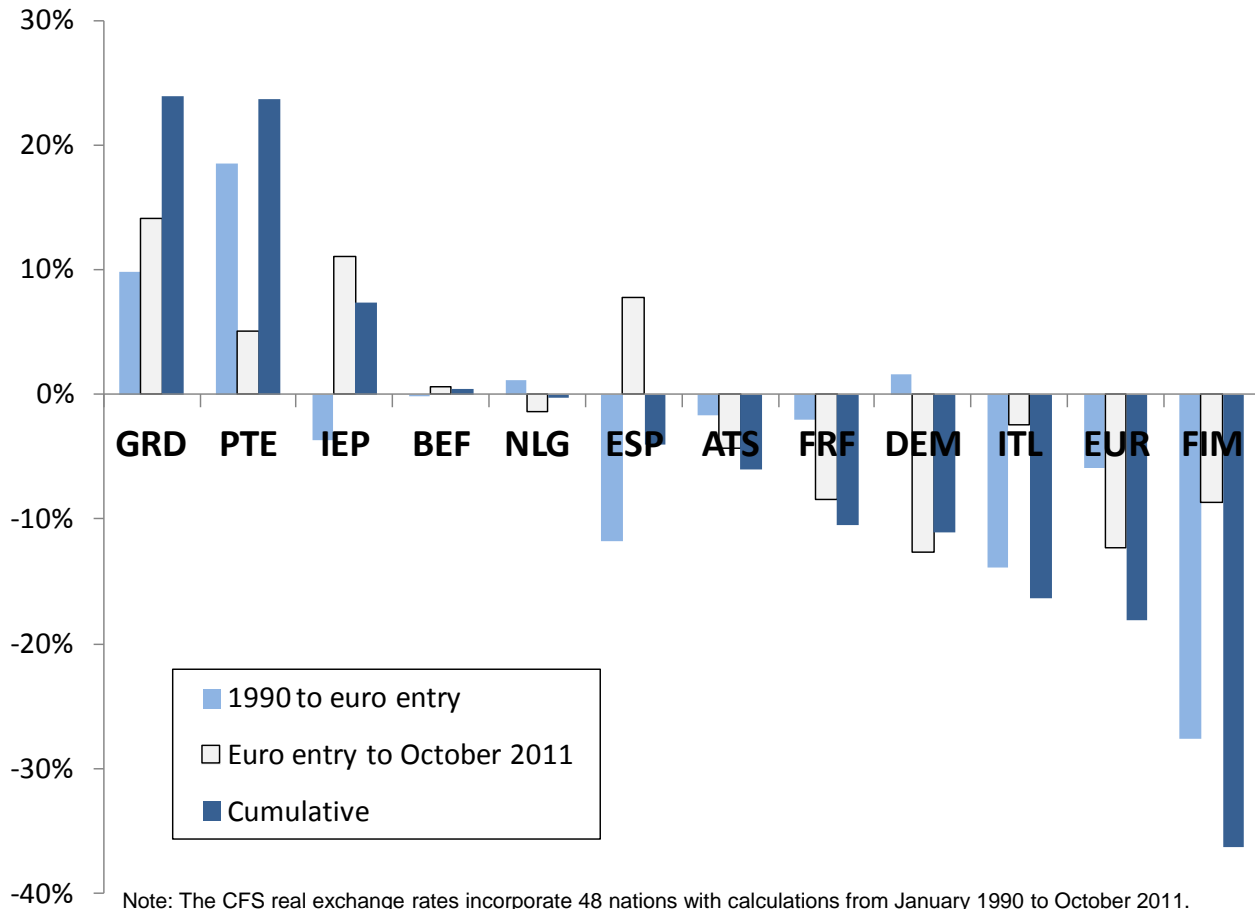
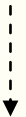


## Component Currency Strains in the Euro

Real Appreciation /  
Overvaluation



Real Depreciation /  
Undervaluation



Note: The CFS real exchange rates incorporate 48 nations with calculations from January 1990 to October 2011.  
Source: International Financial Statistics, Direction of Trade Statistics, and Center for Financial Stability.



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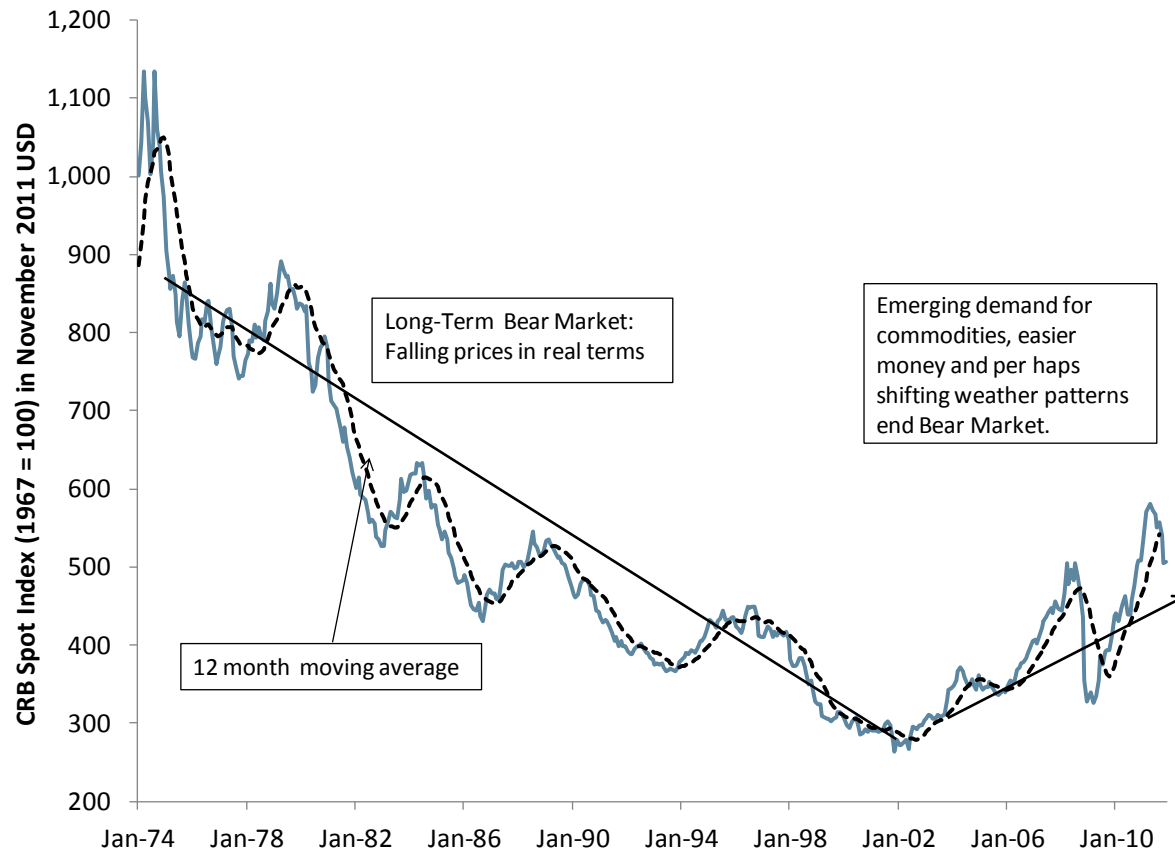
## Limits to the Fed's Quantitative Easing (QE)



With thanks to William Barnett, Director of Advances in Monetary and Financial Measurement at the Center for Financial Stability Inc.  
Source: Federal Reserve, other official, bank rates, and the Center for Financial Stability Inc.



## Commodity Market Paradigm Shift

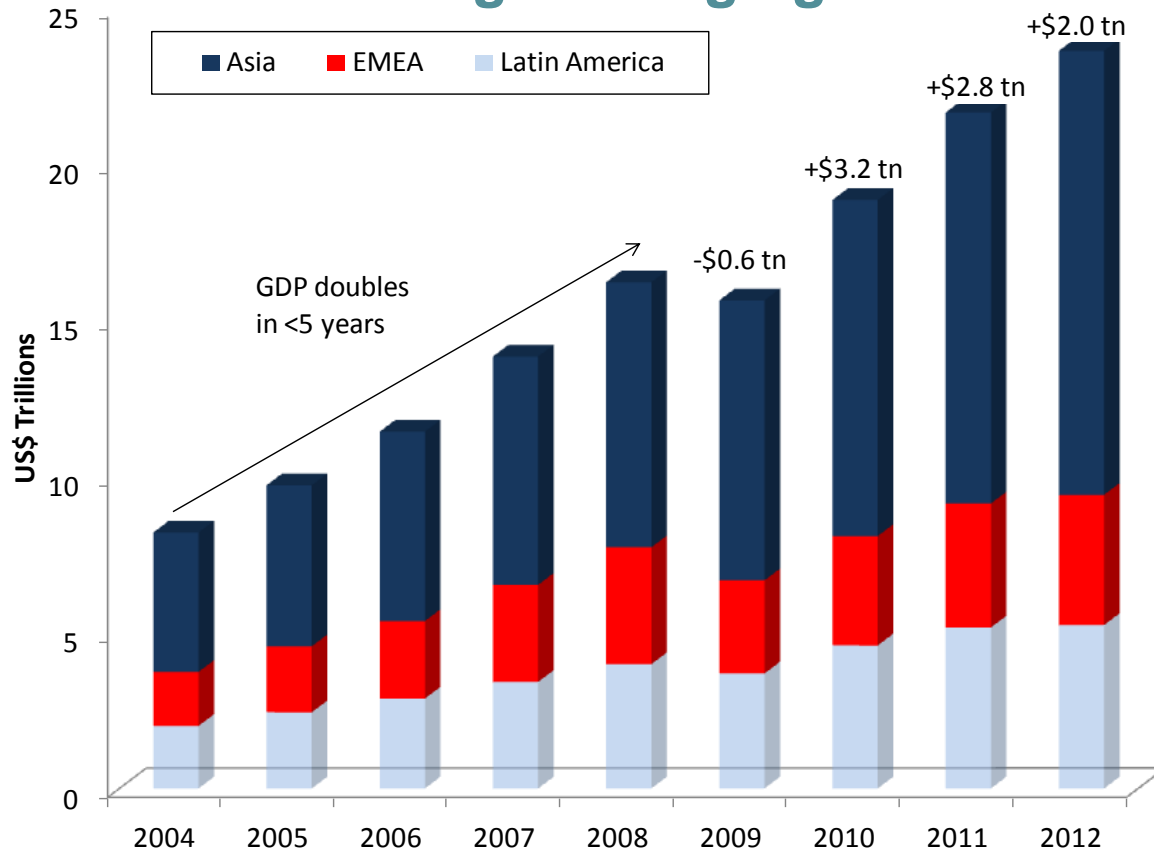


Source: Thomson Reuters/Jefferies CRB and the Center for Financial Stability Inc.



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## A Development Success Story: GDP for 24 Large Emerging Economies

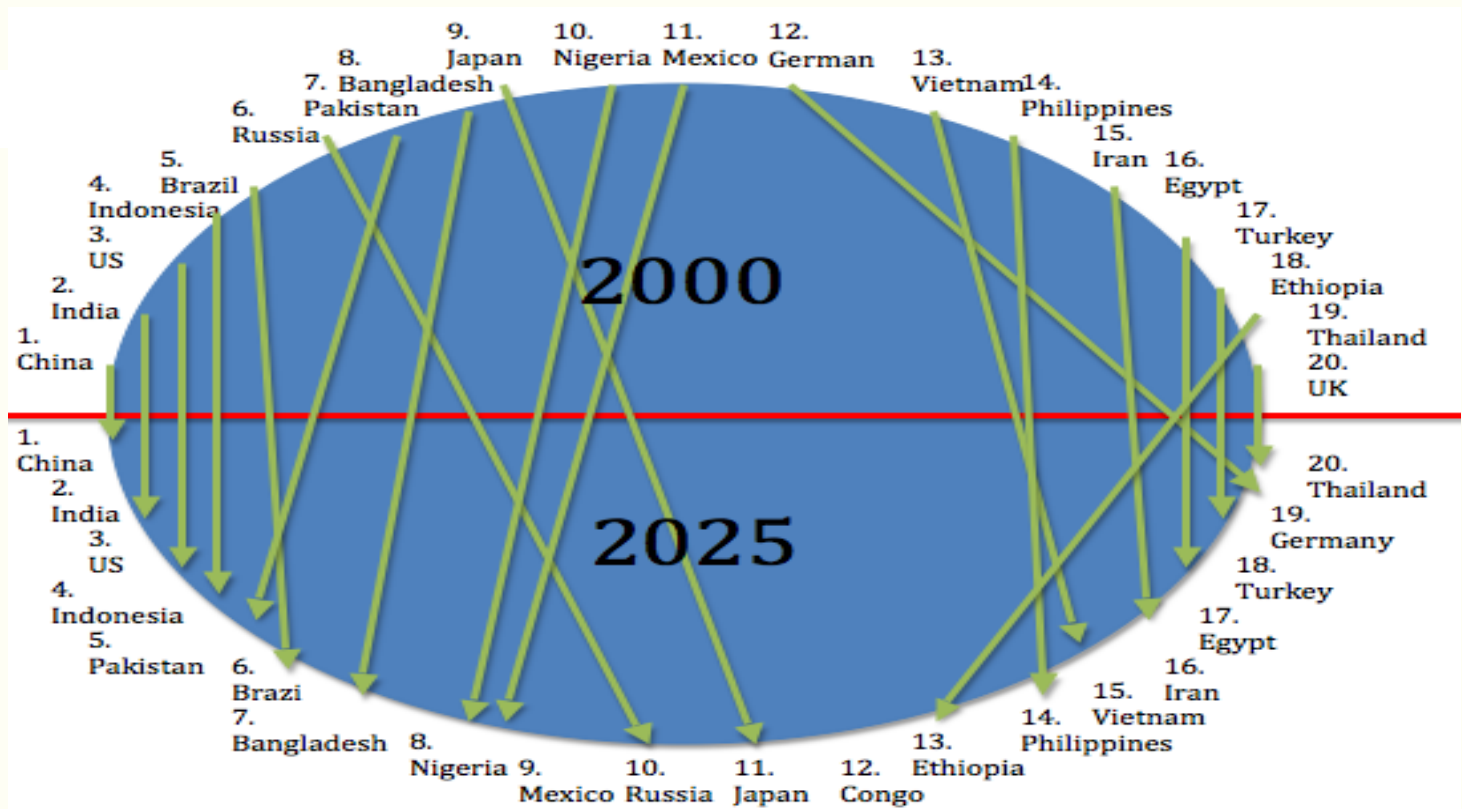


Source: Datastream and Center for Financial Stability, Inc.



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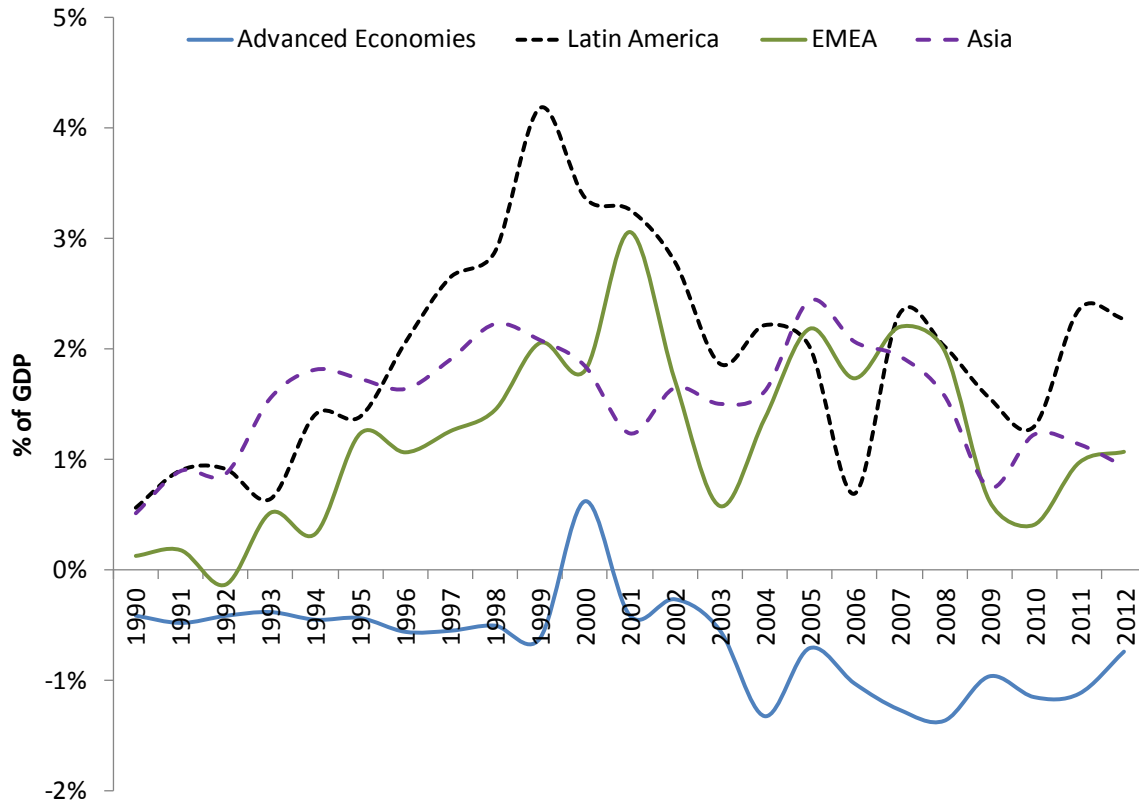
## A Changing World: Largest 20 Nations by Population





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## Regional Trends in Direct Foreign Investment



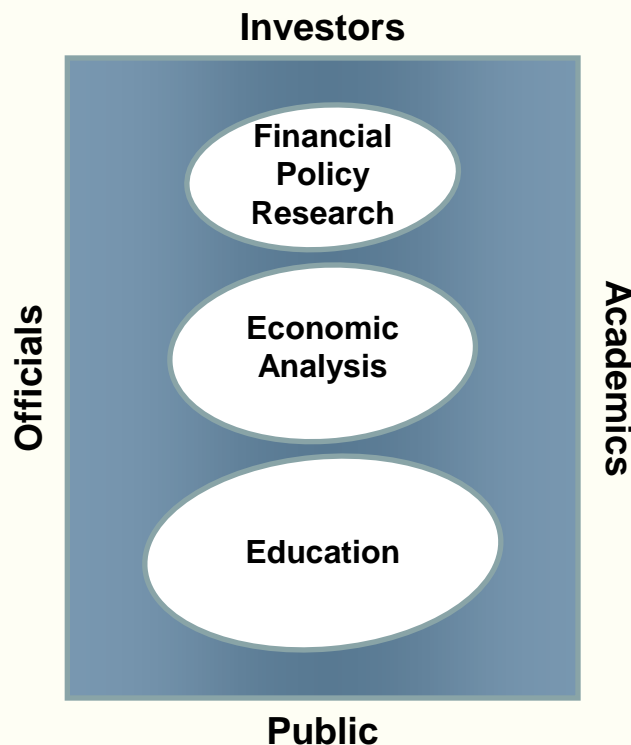
Source: Datastream and Center for Financial Stability Inc.





## CFS Solution: Platform and Community

### What we are doing to help!



CFS facilitates development of a **community** of market participants, officials, and academics.

The community is built on **research**, **events**, and **outreach** to officials.

**Technology** is at the heart of the CFS.



## Educational Tools

- **Advances in Monetary and Financial Measurement (AMFM)** – CFS Director William A. Barnett directs a program to deepen state-of-the-art advances in monetary and financial measurement and to make the result in data available to the public.
- **Historical Financial Statistics** – CFS formed a joint venture with Johns Hopkins University to develop the HFS, which is now the central, online source in the world for free economic and financial data.
- **Financial Policy Library** – Brief synopsis of key issues and relevant studies across 14 major financial policy.
- **Financial Stability Reports** – Monthly compilation of a broad range of Financial Stability reports by financial regulators and central banks in over 60 countries.
- **Financial Crisis Timeline** – Key events from 2007 to the present across markets, the Fed, Treasury, institutions, and other areas.



## Conclusions

- **Economies and financial markets will remain highly inter-connected**, as evidenced by the present crisis. Nations and financial markets will remain highly inter-connected with implications for MDG.
- **Corporations seek to invest in emerging economies**, providing potential opportunities for capital, job creation and technology.
- The conduct of **policy matters**.
- **Communication strategies** related to policies and plans are pivotal.



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