



# Prospects for the Global Economy

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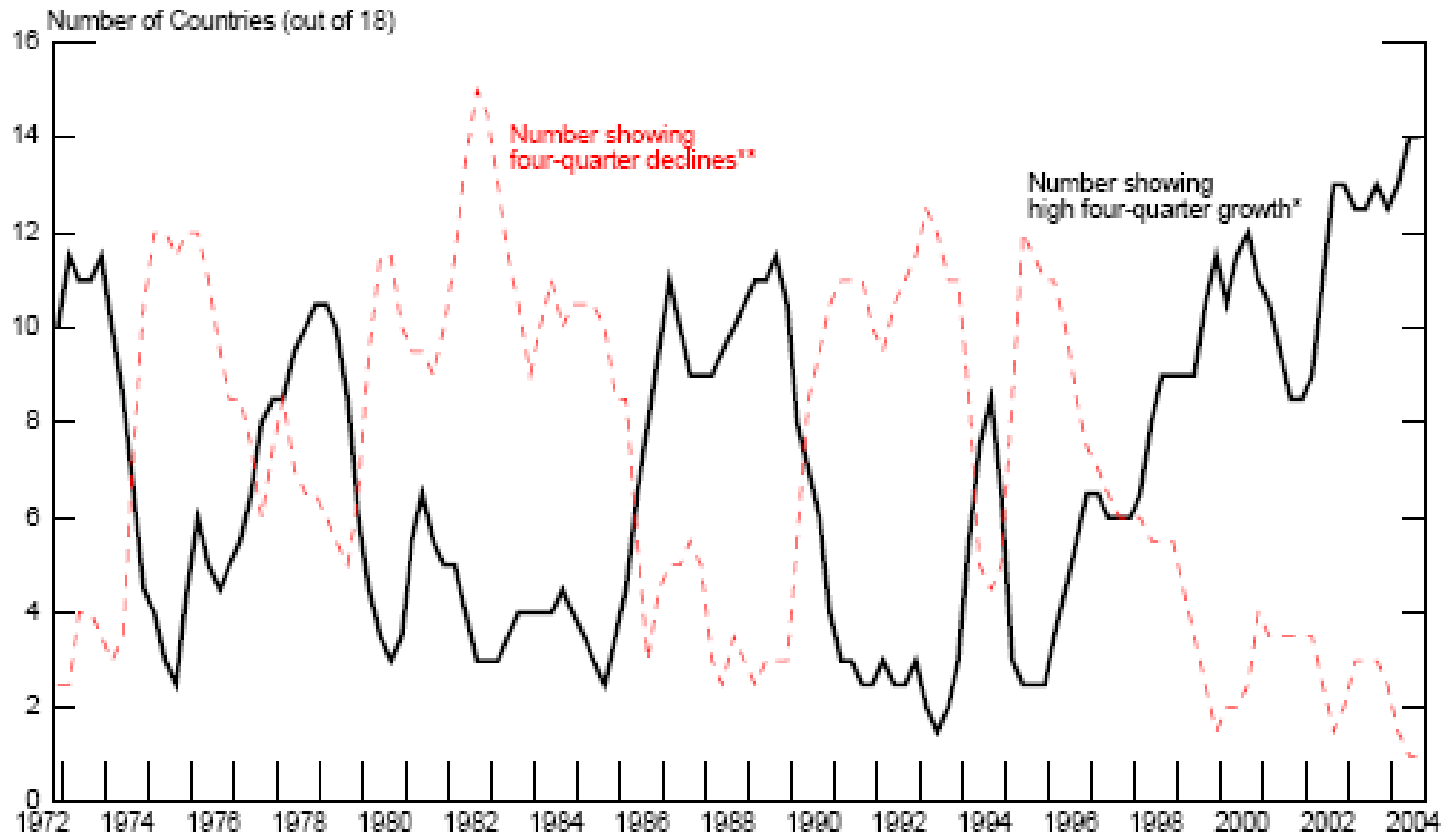
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# Yet another global housing slump





# Two key unknowns

- How far will deleveraging go?
- How deep will the U.S. recession be?





# Fed's response

- Zero interest rates and non-conventional policy?
- Fed relaxed about the dollar's plunge
- Fed's response speeding up adjustment of global imbalances





# Global adjustment

<b>Table 1.</b>	<b>Current Account Balances (\$ billions)</b>		
	<b>1995</b>	<b>2002</b>	<b>2007</b>
<b>United States</b>	-114	-460	-784
<b>Euro Area</b>	43	47	-21
<b>Asia</b>	73	233	676
<b>Japan</b>	111	113	196
<b>China</b>	2	35	379
<b>Major Oil Exporters</b>	9	112	381

Source: IMF.





# Implications for Europe

- Credit crisis affects Europe mostly through financial not trade linkages
- Europe not part of the problem of global imbalances, but a frontrunner on shouldering the burden
- Can Europe cope if things turn nasty?





# Implications for Asia

- Credit crisis affects Asia mostly through trade not financial linkages
- Asian currencies need to appreciate to contain inflation and shrink current account surpluses





# Longer-term perspective

- Benign economic conditions of past 10 years are gone
- Demographics -- healthcare
- Growth in BRICs -- natural resources
- Environmental issues won't go away

