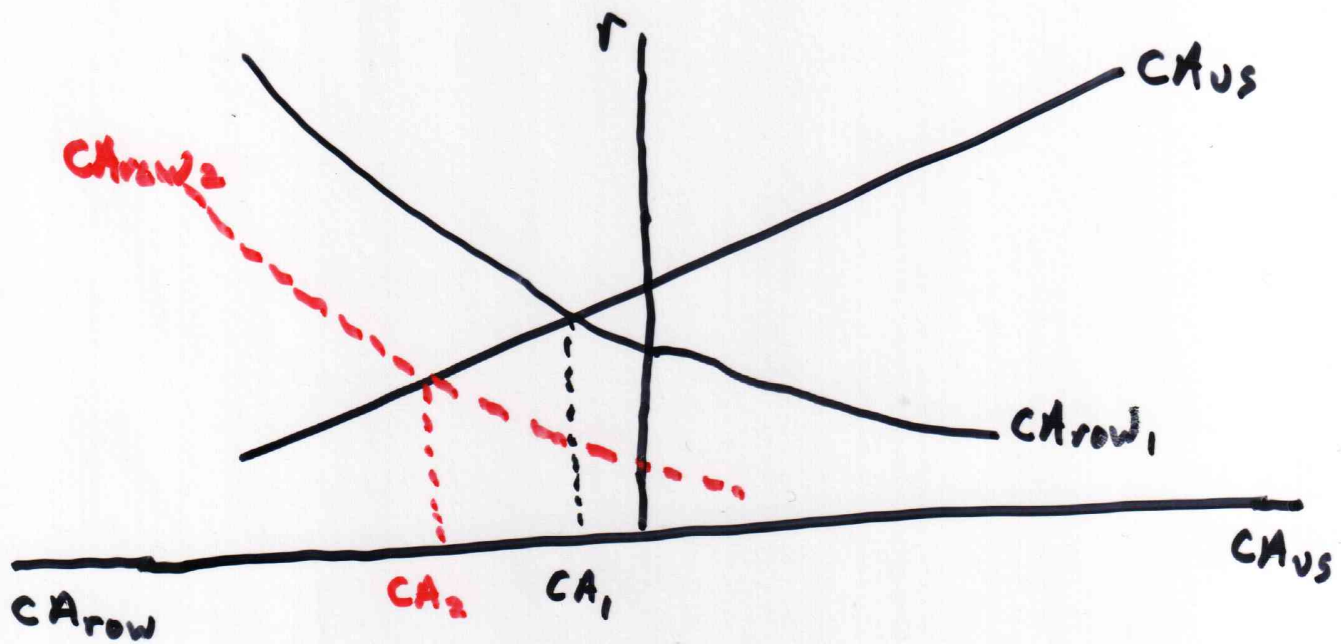


Global Factors in the Crisis

- 1.) Global sales of U.S. mortgage-backed securities (about $\frac{1}{3}$ of total).
- 2.) Precautionary Saving in Asia
(Response to 1997-98 Asian Crisis?)
- 3.) Undervalued Asian Currencies, especially China
- 4.) High oil prices + Middle East Current Acct. Surpluses.

Bernanke's (2005) "Savings Glut" Hypothesis



- Obstfeld & Rogoff argue that low real rates in early 2000s due to collapse in investment demand (due to bursting of tech bubble) and to accommodative/loose monetary policy, not a high Asian saving rate.

Exhibit 1
Global Merchandise Exports

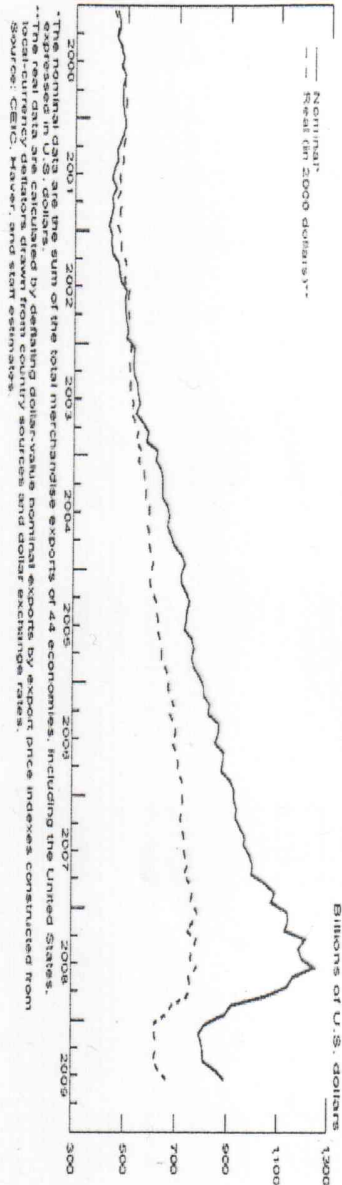
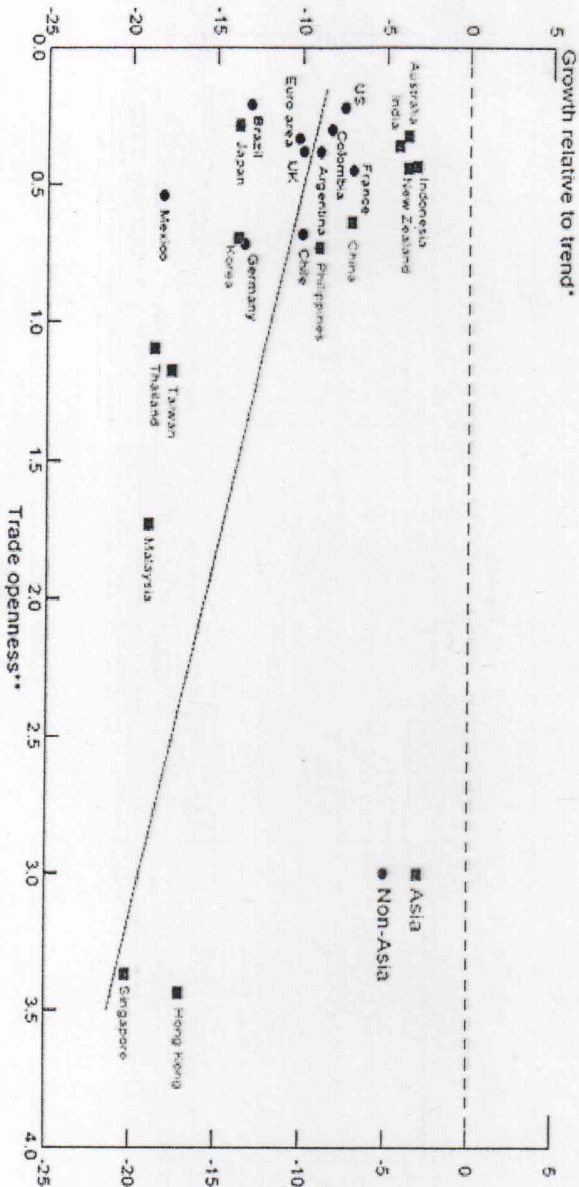


Exhibit 2
Trade Openness and GDP Growth
(2008Q4 - 2009Q1)



*Growth relative to trend is the percentage point difference between the realized rate of growth during 2008Q4 and 2009Q1, measured at an annual rate, and trend growth. Trend growth is the average annualized growth rate during 2006 and 2007 of smoothed gross domestic product (GDP) using the Hodrick-Prescott filter.

** (Exports+Imports) / GDP in 2007.

Source: CEIC, Haver, and staff estimates.

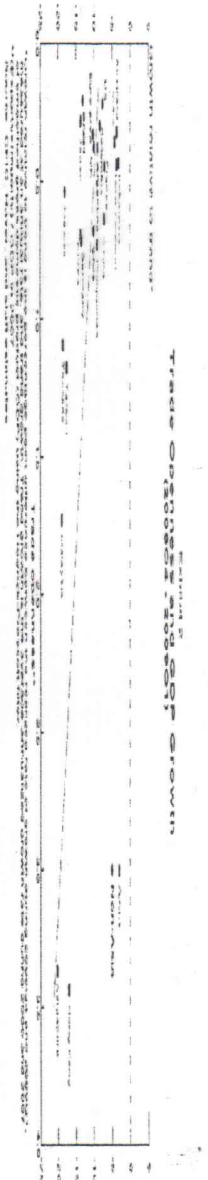
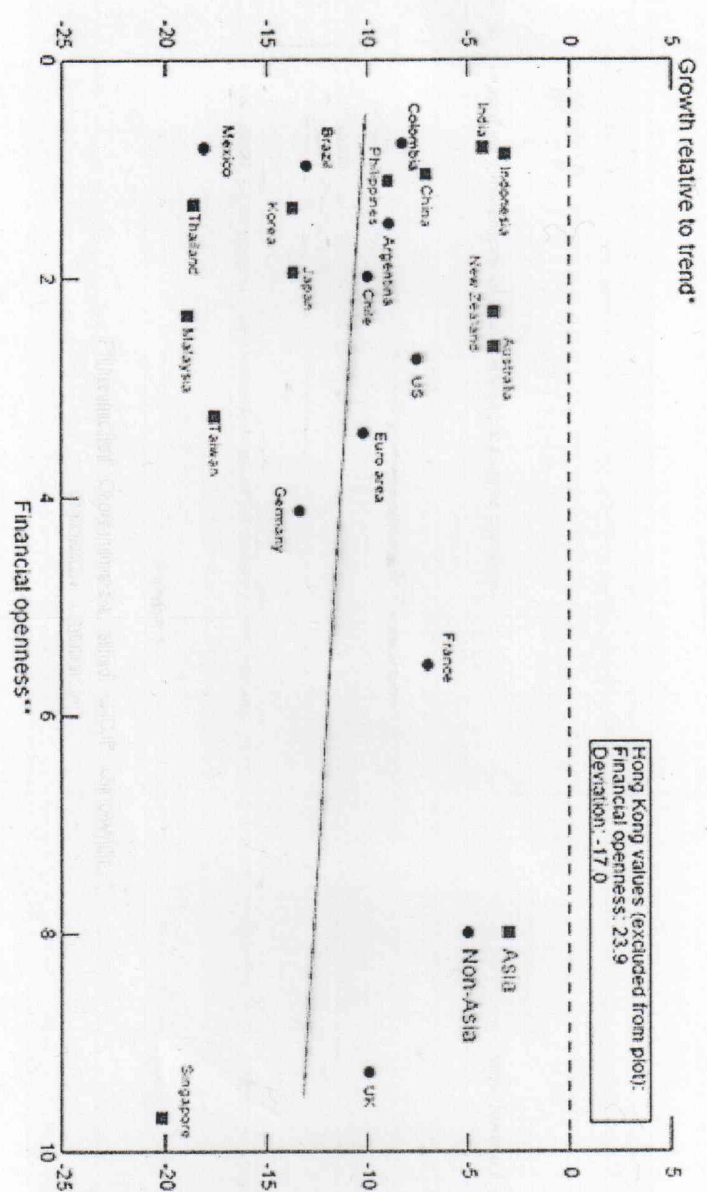


Exhibit 3
Financial Openness and GDP Growth
(2008Q4 - 2009Q1)



*Growth relative to trend is the percentage point difference between the realized rate of growth during 2008Q4 and 2009Q1, measured at an annual rate, and trend growth. Trend growth is the average annualized growth rate during 2006 and 2007 of smoothed gross domestic product (GDP) using the Hodrick-Prescott filter.

** (International Assets + Liabilities) / GDP in 2007.
Source: CEIC, Haver, and staff estimates. International investment position data are from Haver and the U.S. Bureau of Economic Analysis.

Global Imbalances + the Financial Crisis

- Obstfeld + Rogoff (2009) argue that it was the interaction between internal imbalances + external imbalances that was really to blame for the crisis.

Internal Imbalances
Macroeconomic Policy

- Low U.S. Saving
- Undervalued Asian Currencies
- Repressed Asian Financial Mkts.

low interest rates
+ sterilized intervention
permitted delay in
responding to domestic
macro imbalances

Global Imbalances
Intl. Capital Flows

Figure 1: Global imbalances, 1995-2009

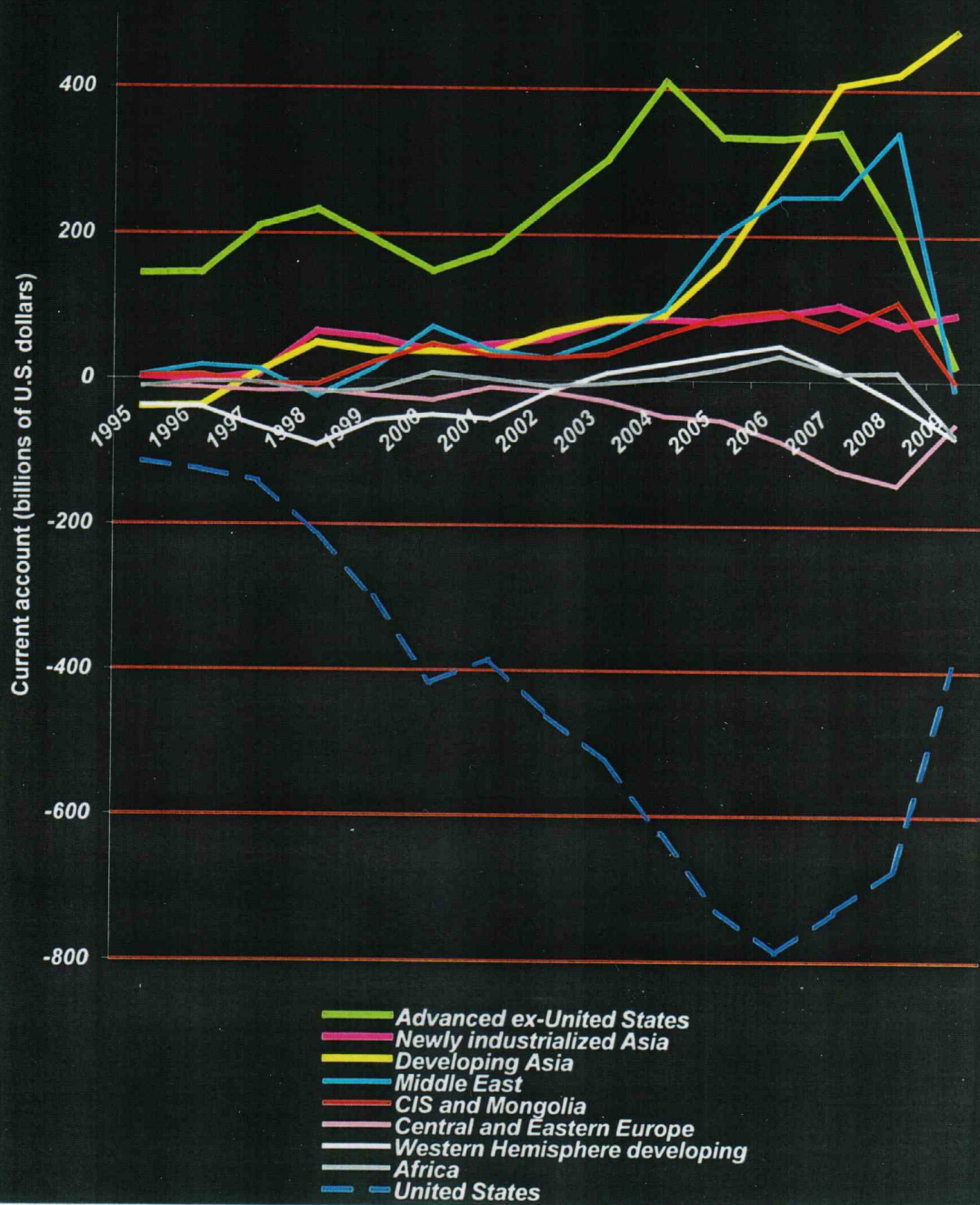


Figure 2: Global Commodity Prices

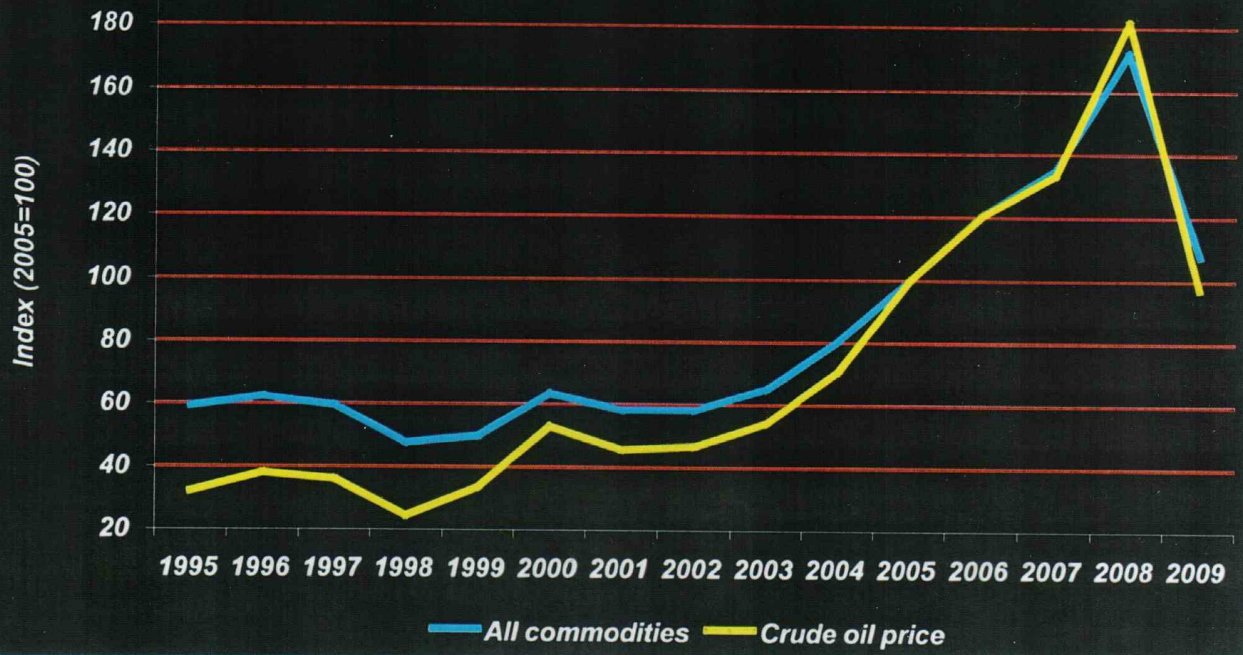


Figure 3: Real Exchange Rates of Selected Asian Currencies

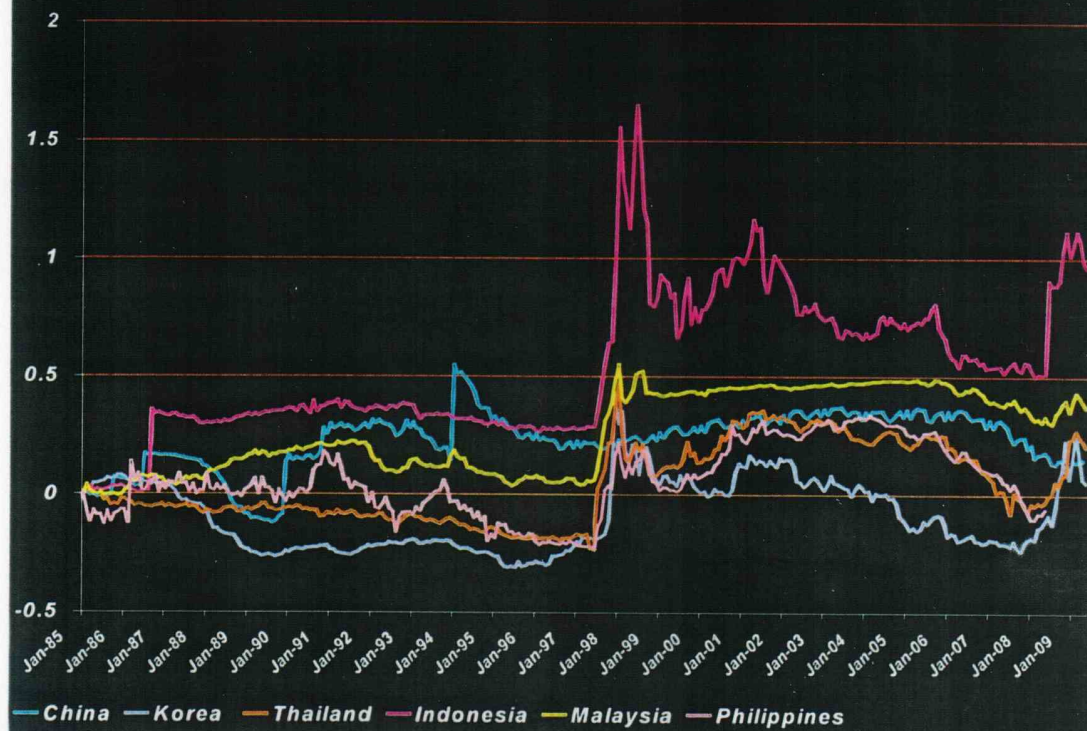


Figure 4: Emerging Market Growth of International Reserves

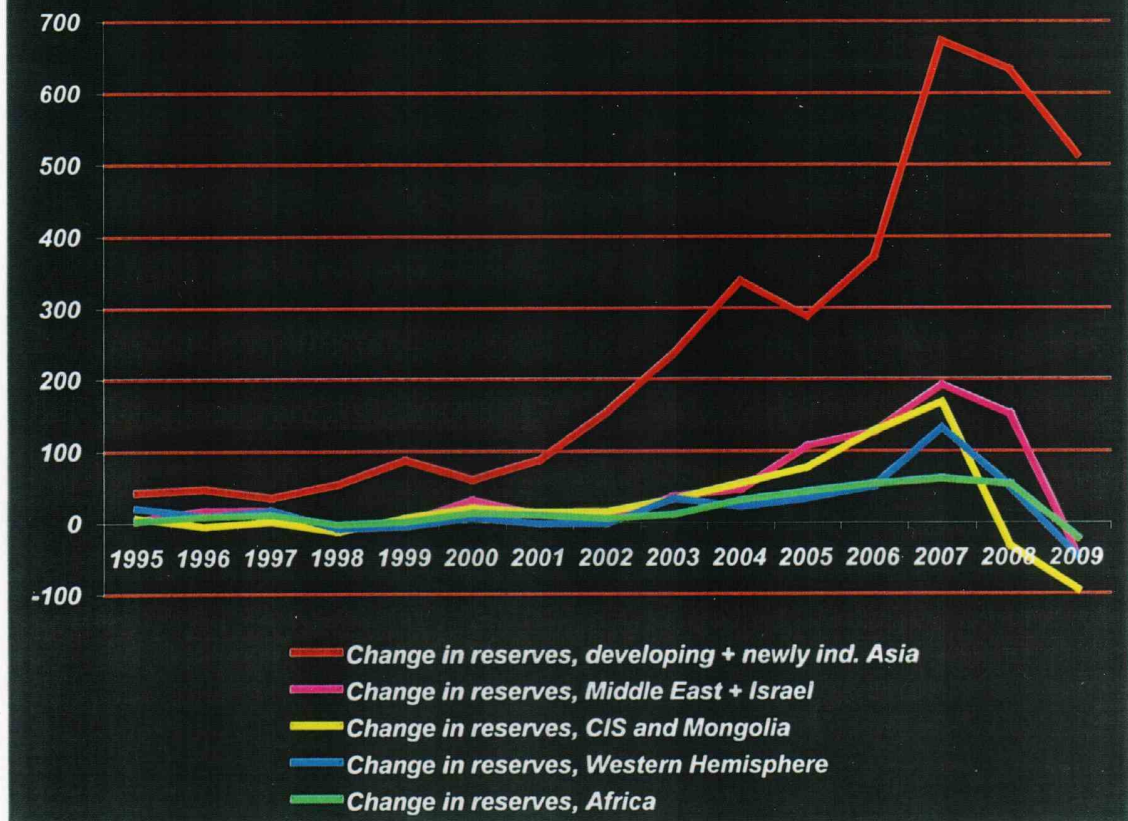


Figure 6: Long-Term Real Interest Rates



Figure 7: Nominal U.S. Asset Prices and Real Interest Rate



Figure 8: Policy Interest Rates



Looking Forward

- Obstfeld & Rogoff argue that the following policy reforms would reduce the chances of future crises:
 - 1.) Monetary Policy Should Respond More to Asset Prices (and the Current Acct. ?).
 - 2.) Asian Economies Should Promote the Development of their Domestic Financial MKts. (this would support greater domestic consumption).
 - 3.) Greater international cooperation on the regulation/supervision of intl. financial institutions.