

The Crisis and the Trillion Dollar Club: An Overview

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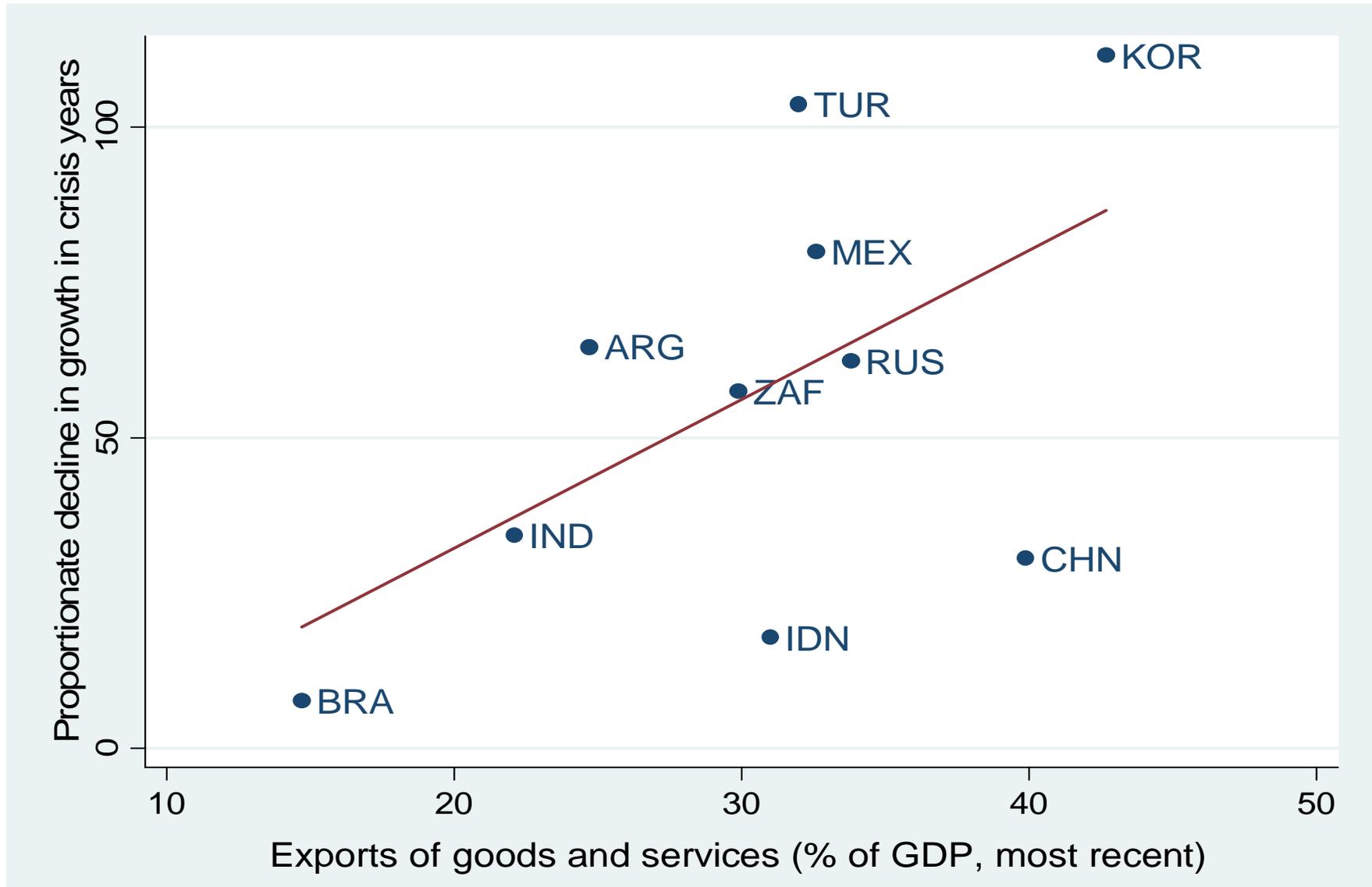
Growth Impact of the Crisis

- Measuring impact: Decline in growth rate as a proportion of pre-crisis growth rate
- Growth rates from the IMF's January WEO projections

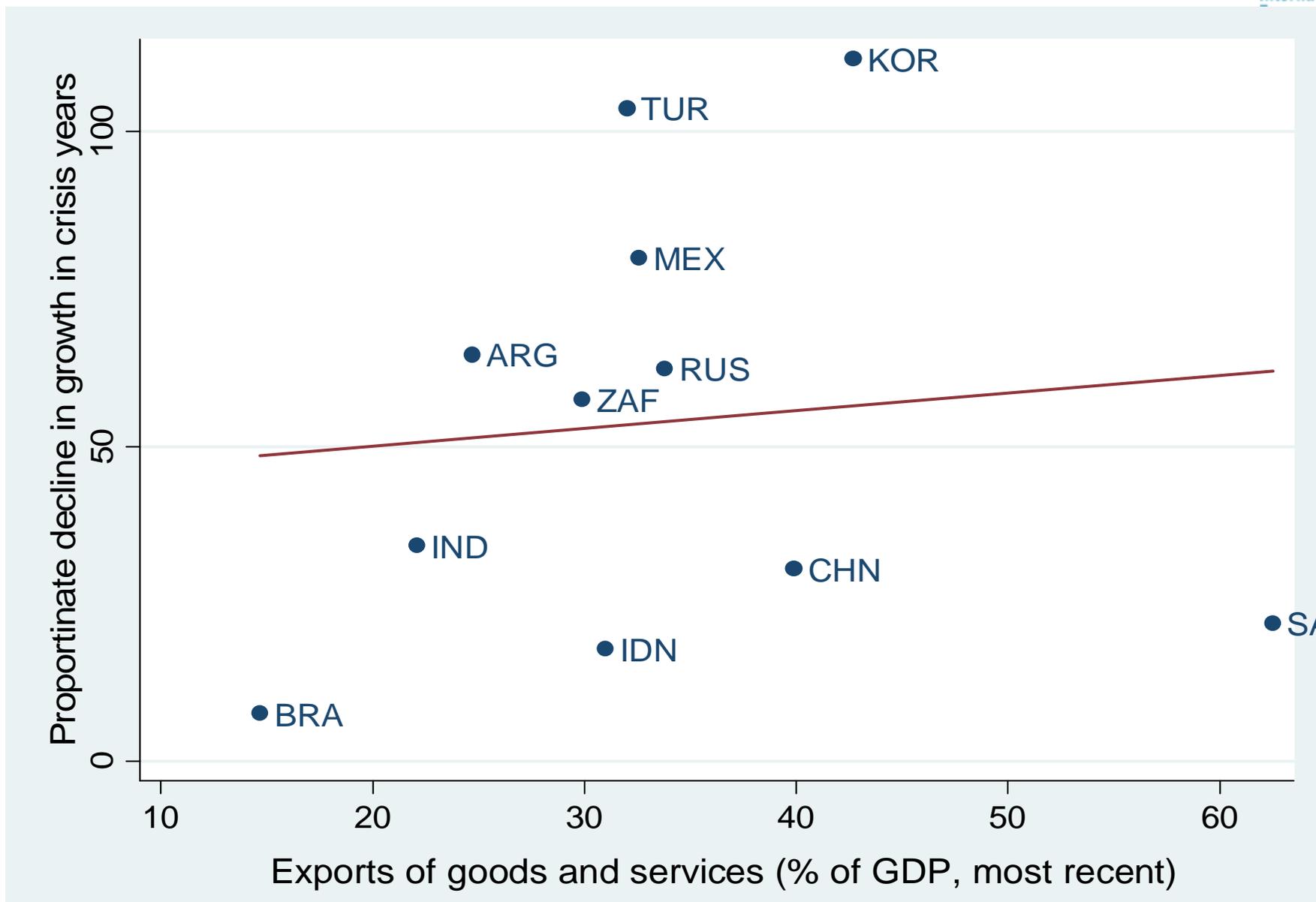
Growth Impact

Country	Pre-crisis	Crisis		Decline in growth 2008-09 (% of 2005-07 growth)	Decline in growth 2009 (% of 2005-07 growth)
	(avg. 2005-07)	(avg. 2008-09)	2009		
Italy	1.3	-1.4	-2.1	205.1	263.6
Japan	2.1	-1.5	-2.6	167.6	221.2
United Kingdom	2.6	-1.1	-2.8	139.8	206.0
Germany	2.1	-0.6	-2.5	128.8	220.2
France	2.1	-0.3	-1.9	114.4	191.3
United States	2.6	-0.4	-1.6	113.6	162.0
South Korea	4.8	-0.6	-4.0	111.5	183.9
Canada	2.9	-0.3	-1.2	108.6	141.4
Spain	3.7	-0.3	-1.7	106.7	145.7
Mexico	3.7	0.8	-0.3	80.0	108.0
Russia	7.3	2.8	-0.7	62.3	109.6
India	9.4	6.2	5.1	34.2	45.9
China	11.3	7.9	6.7	30.5	40.7
Brazil	4.1	3.8	1.8	7.5	56.2

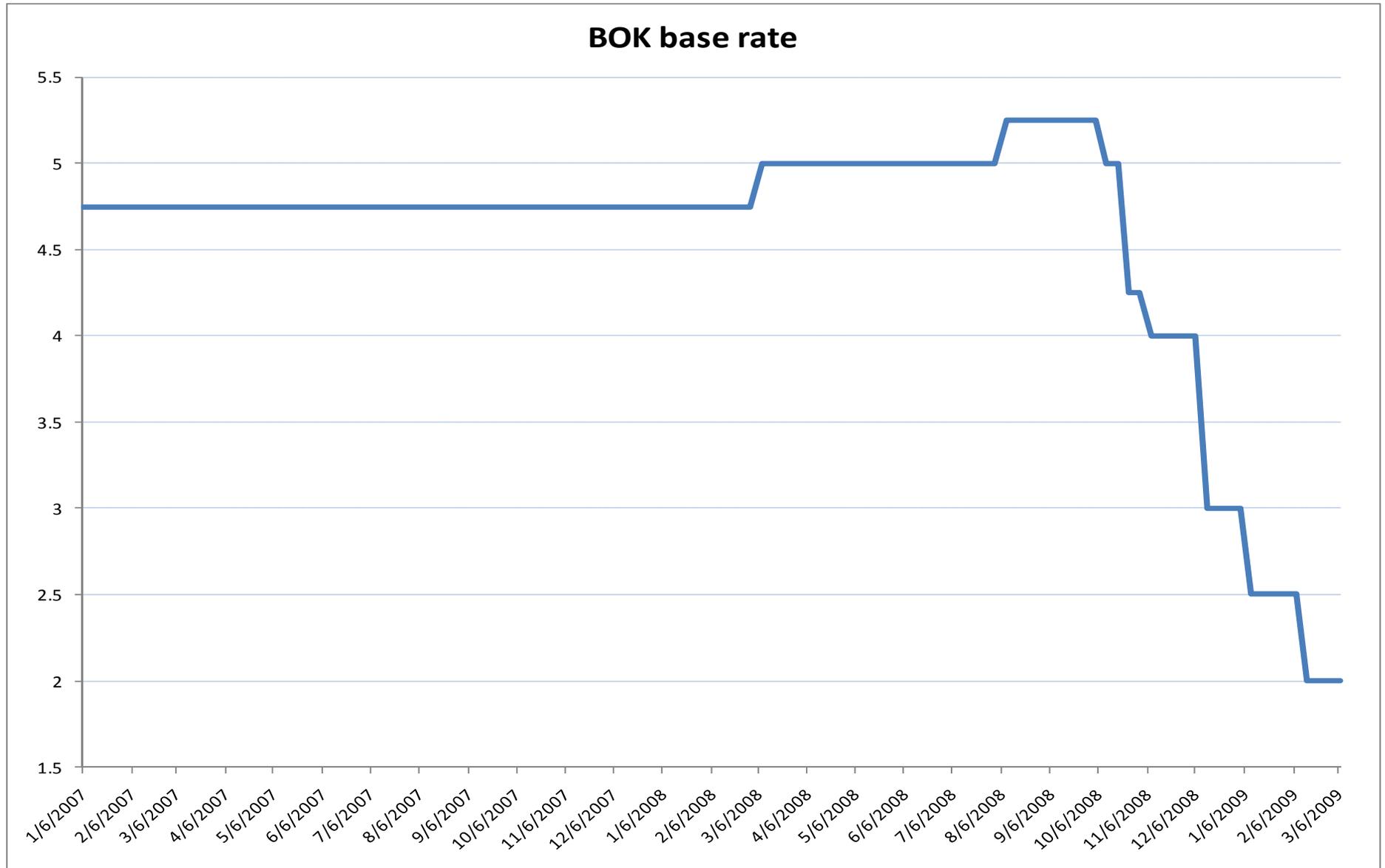
Growth decline related to export openness



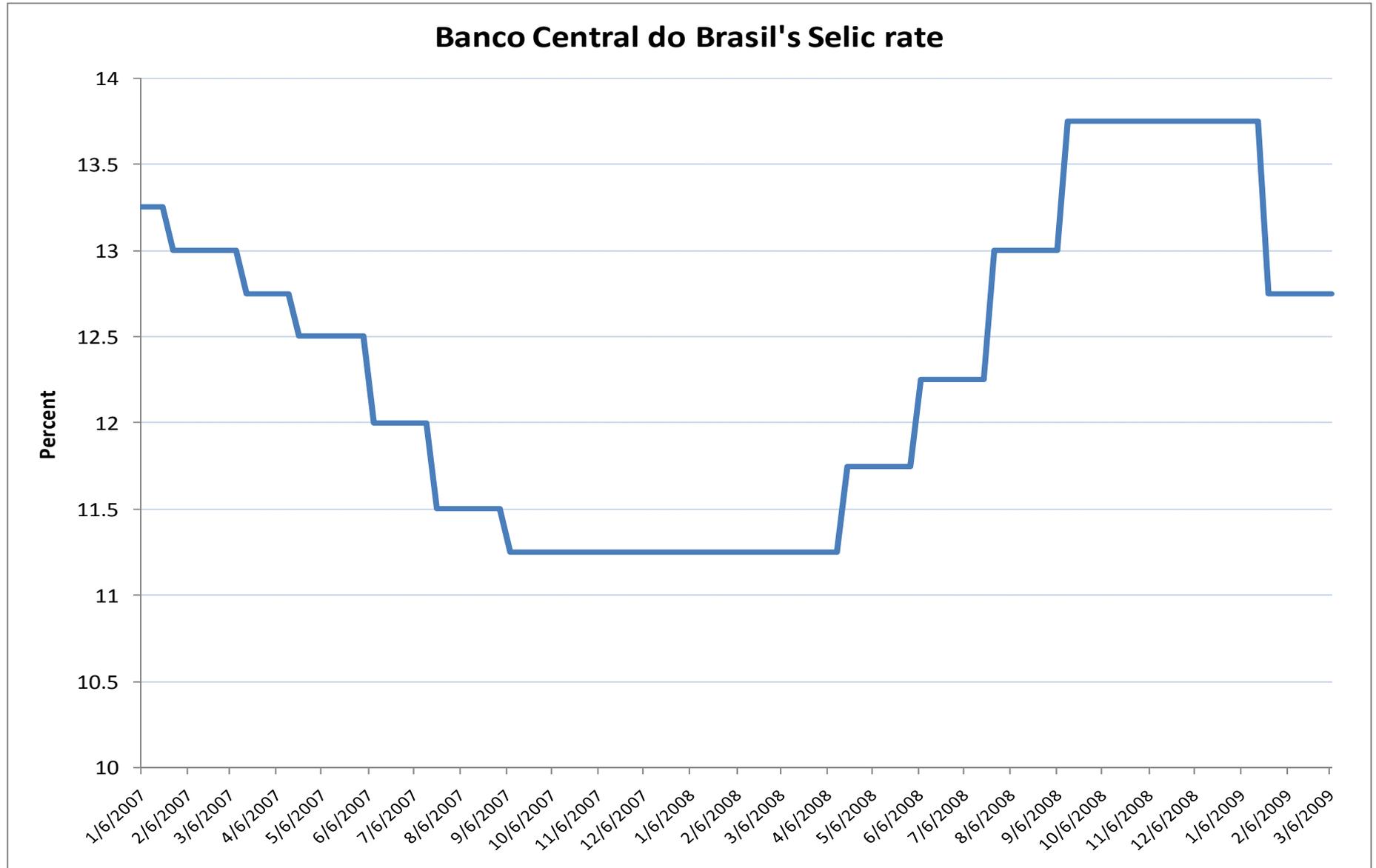
Growth decline related to export openness (cont.)



Asia: Aggressive monetary policy response



Brazil: Cautious monetary policy response



Fiscal Response

Country	Fiscal Stimulus (% of GDP)		
	2008	2009	2010
Brazil	0.0	0.3	0.2
Canada	0.0	1.5	1.3
China	0.4	2.0	2.0
France	0.0	0.7	0.0
Germany	0.0	1.5	2.0
India	0.0	0.5	n/a
Italy	0.0	0.2	0.1
Japan	0.4	1.4	0.4
Mexico	0.0	1.0	n/a
Russia	0.0	1.7	n/a
South Korea	1.0	1.5	0.3
Spain	3.1	1.1	0.3
United Kingdom	0.2	1.4	-0.1
United States	1.1	1.9	2.9

Is financing a binding constraint?

- External finance has certainly dried up.
- Emerging Europe and Latin America still see high rates without significant declines.
- But in emerging Asia, collapsing world demand and exports are more of a problem than finance.
- Policy and short-term market interest rates have declined in Asia.

Lessons

- There can be too much of a good thing—exports. Mercantilism and mercantilism-on-steroids has costs.
- Small economies that are highly open (Singapore, Thailand, Taiwan, etc.) are more vulnerable. Shocks are very big relative to the ability of countercyclical policy.
- Larger economies are more able to counteract external shocks through policy.
- But this requires strong fundamentals.
- Asia able to use monetary policy without fear of losing investor confidence (especially of residents).
 - Key difference between Asia today and Asia in the 1990s, and between Asia today and emerging Europe today.
- Improving the public sector balance sheet in good times to pursue expansionary fiscal policies in the bad times.
 - China's debt/GDP of <20% (and US) versus India's ratio of 80%