



# Prospects for the Global Economy

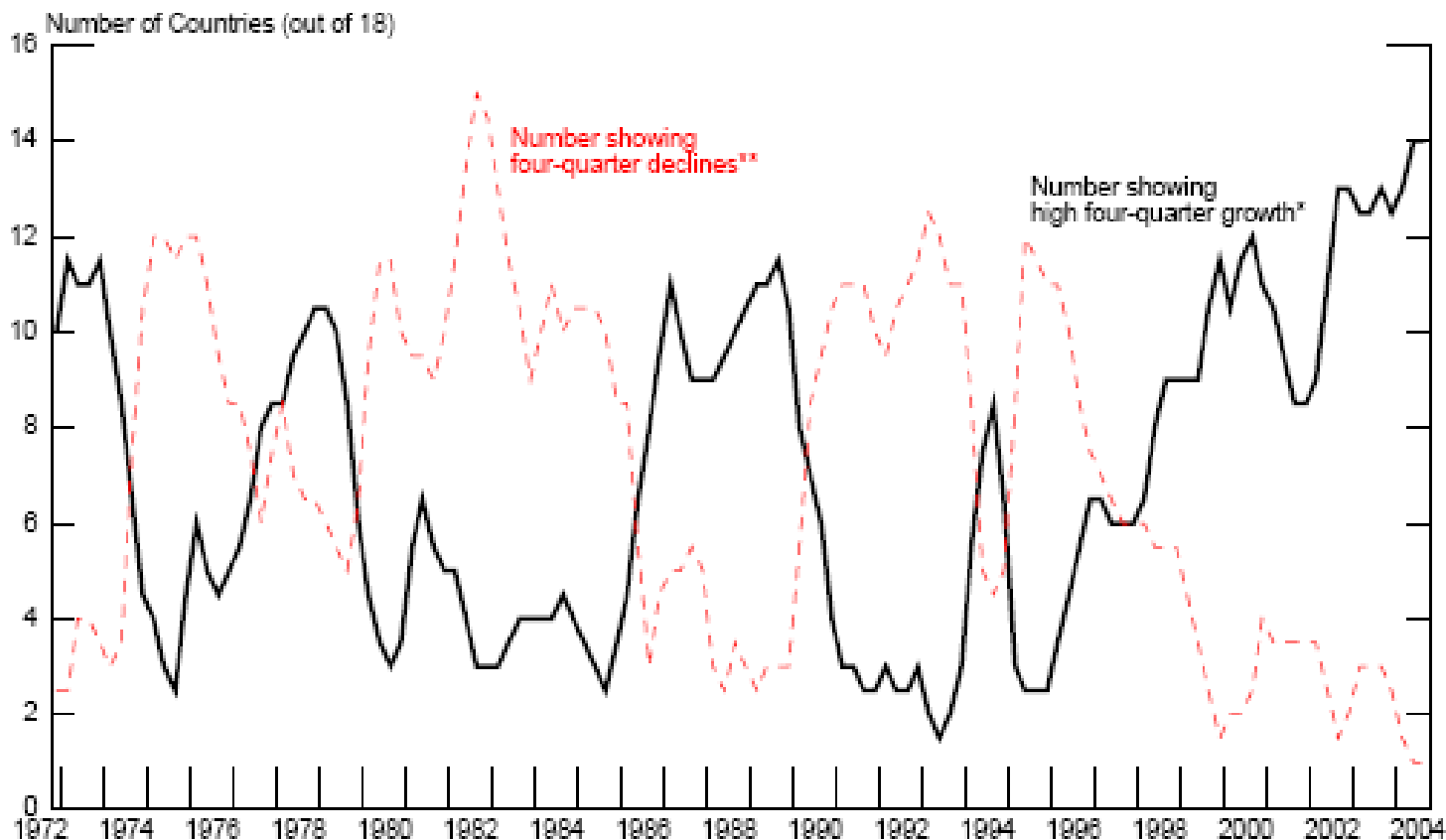
Alan Ahearne

J.E. Cairnes School of Business and Economics  
NUI Galway





# 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

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







# IAPF

# Annual Investment

# Conference

# 2008



IAPF Annual Investment Conference : 1<sup>st</sup> April 2008