

M. Ershov

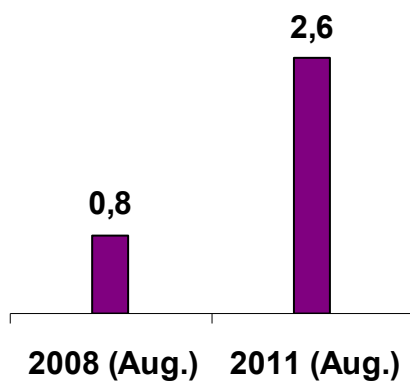
New Risks of Post-Crisis World

“None of the underlying causes of the current crisis have been removed”

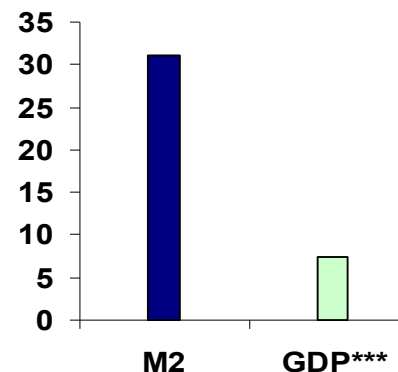
***Governor of the Bank of England M. King
March, 2011***

Liquidity grew faster than GDP

USD Monetary Base (USD trln)

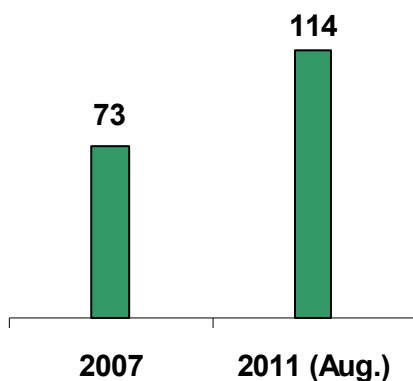


Growth rate of Money Supply (M2) & GDP in main countries* in 2007-2010** (%)

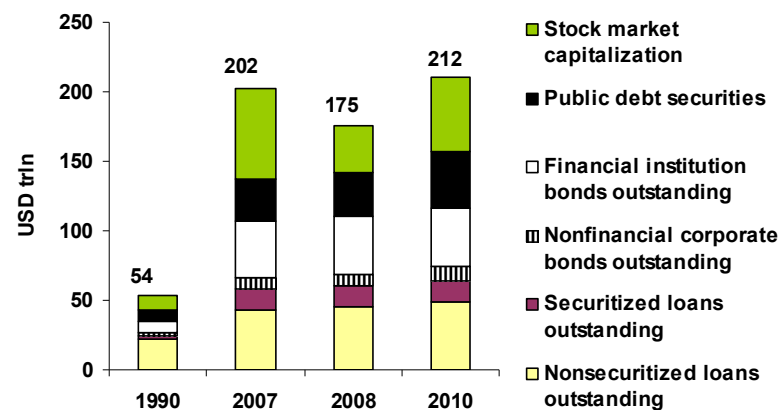


* Euro area, US, UK, Japan, China, Russia;
 ** Dec. /Dec.; *** Nominal growth rate of GDP

Japanese Yen Monetary Base (Yen trln)



Global Financial Stock (USD trln) *



* Based on a sample of 79 countries.

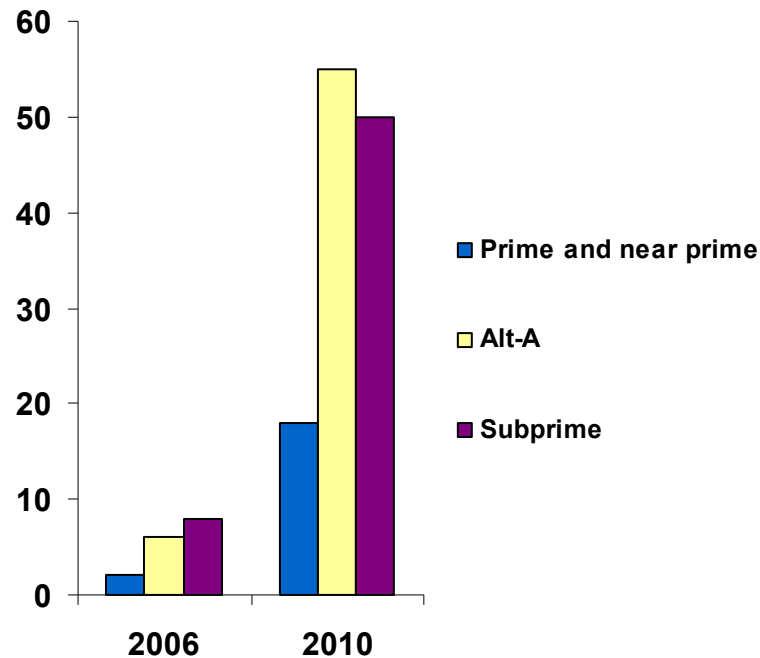
As a result new risks emerge

Abundance of global liquidity will be looking where to go and may lead to:

- **Hot money inflows/outflows**
- **New bubbles (commodities, stock markets, etc.)**
- **Further debasement of US dollar**

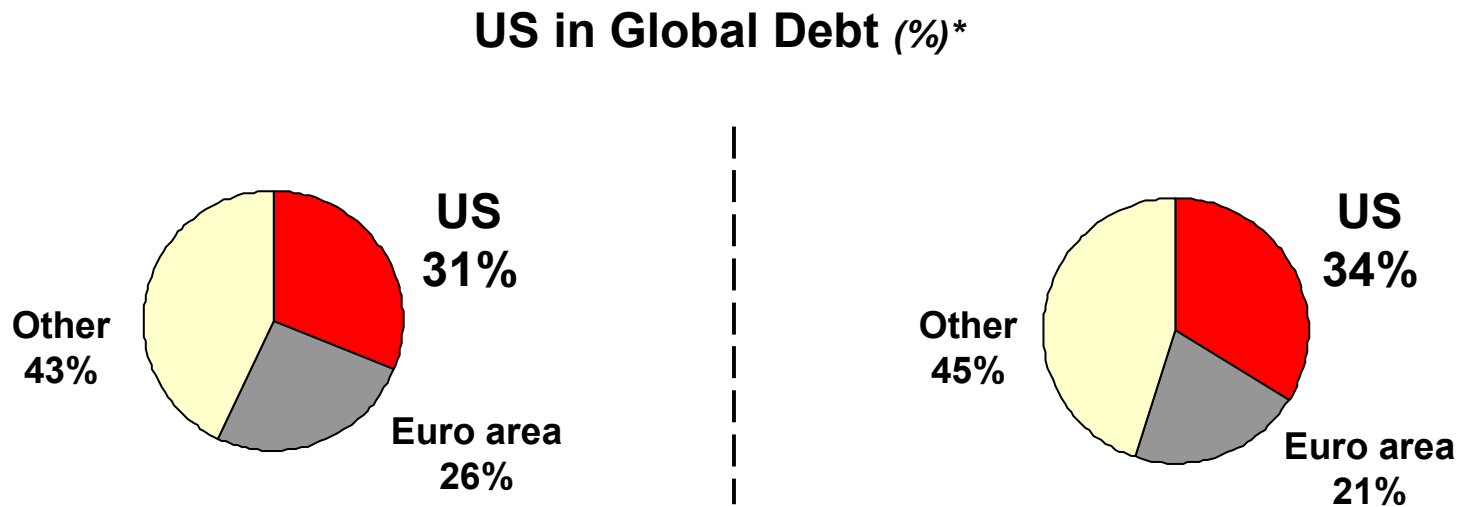
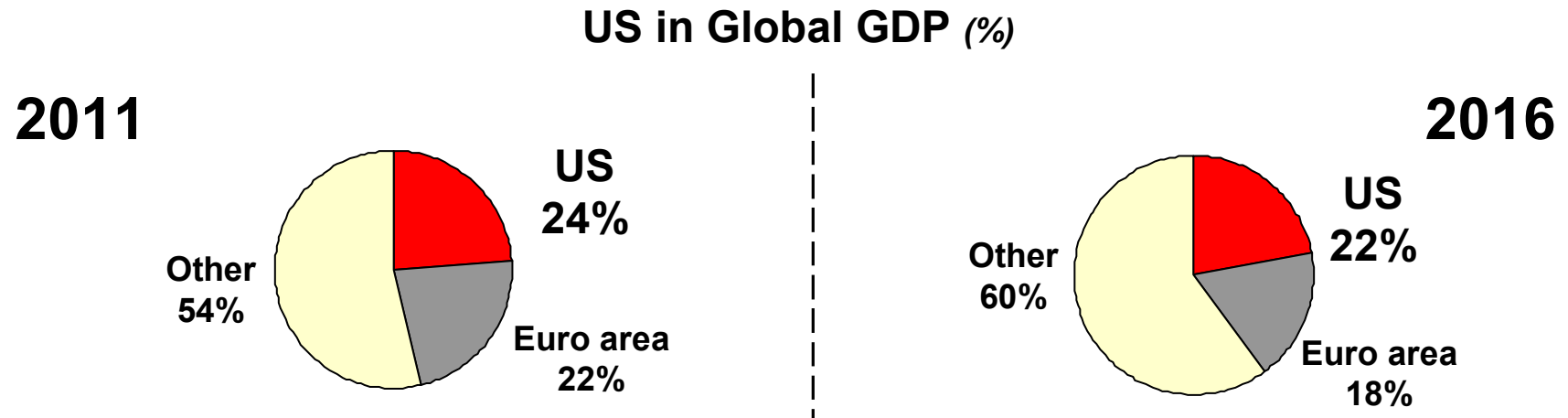
US: the main driver of the economy – real estate market – is in a difficult situation

Mortgage with Negative Equity (%)



- During the last year the prices of real estate continue to decline by 5-7%
- 30% of mortgages are ‘under water’
- About 20 mln houses remain vacant

Debt problems will stay for years ahead

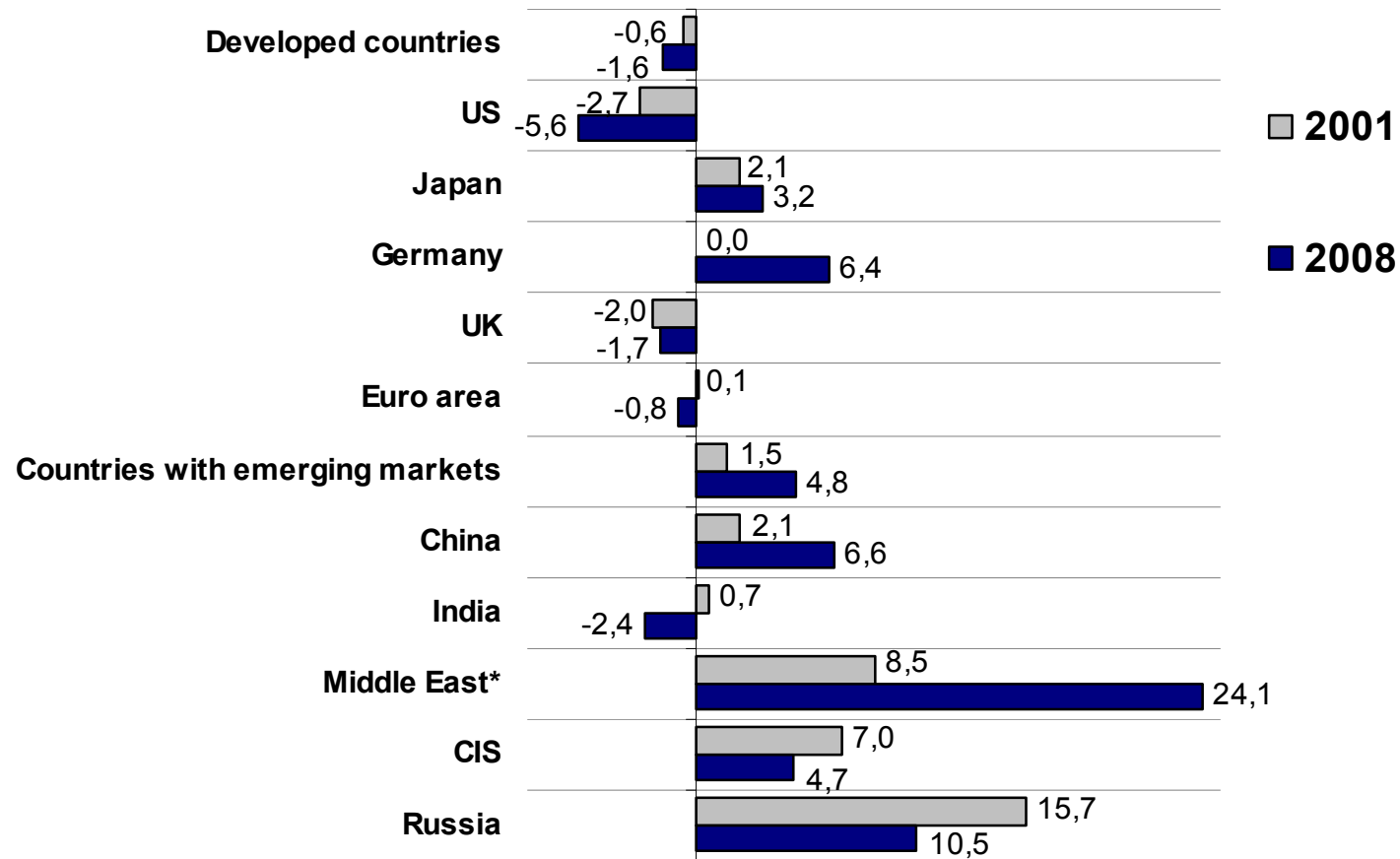


* Net government debt

Source: IMF

Imbalances also will persist

Difference between Savings & Investments (% of GDP)



* Iran, Kuwait, Libya, Oman, Qatar, S. Arabia, Yemen.

Global imbalances



Flow to countries with deficit



Decrease of interest rates



Decrease of yields

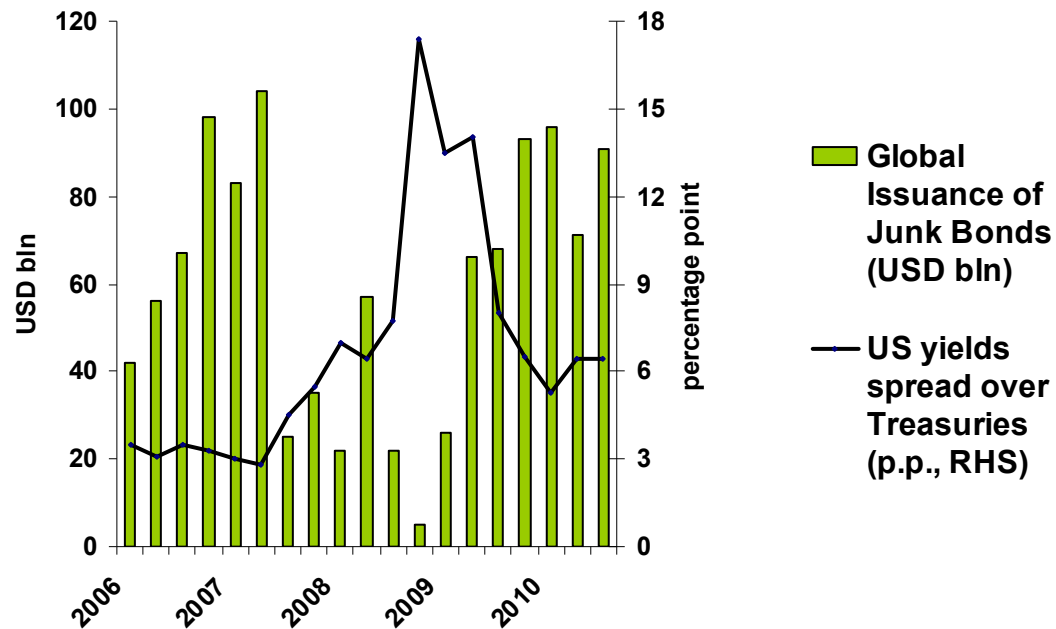


**Increase of interest to purchases of
bad assets with high yields**

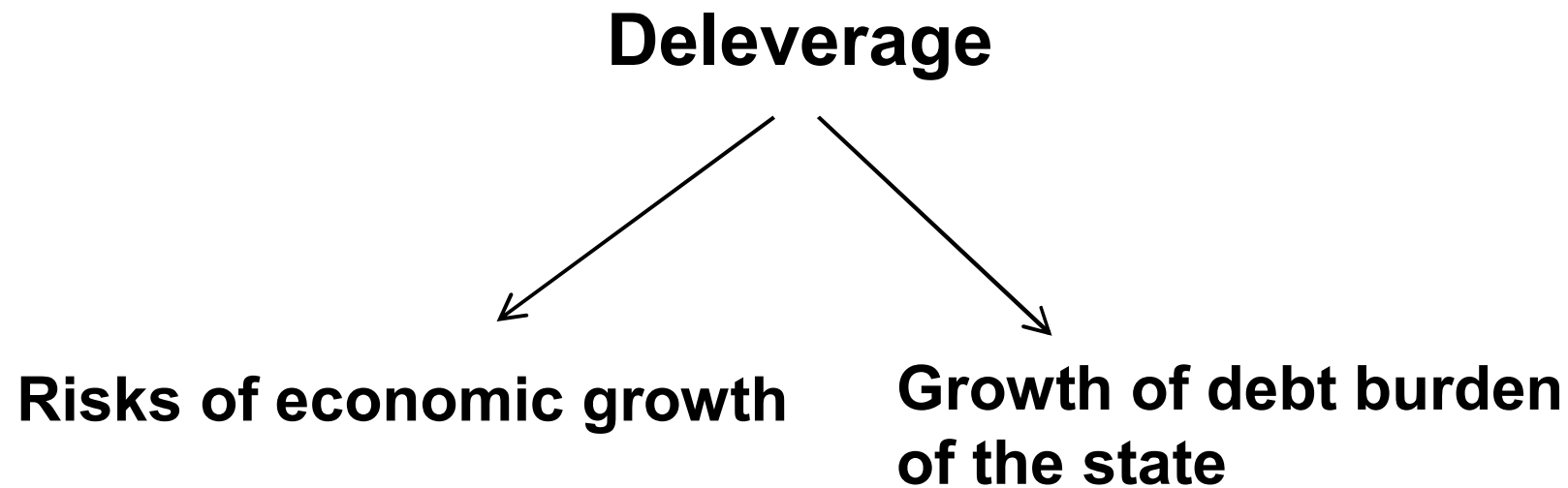
“Most financial institutions will find it hard to resist pressures from equity holders to raise the return on equity under severe competition”

Governor of the Bank of Japan, Shirakawa M.

Junk Bonds in the World



Leverage improves however it may cause new risks



- ✓ When the abundance of the global liquidity exists, not only outflows but INFLOWS of capital into the economy should be carefully monitored.
 - Quality of capital, its duration, directions of use, terms of repatriation are important.

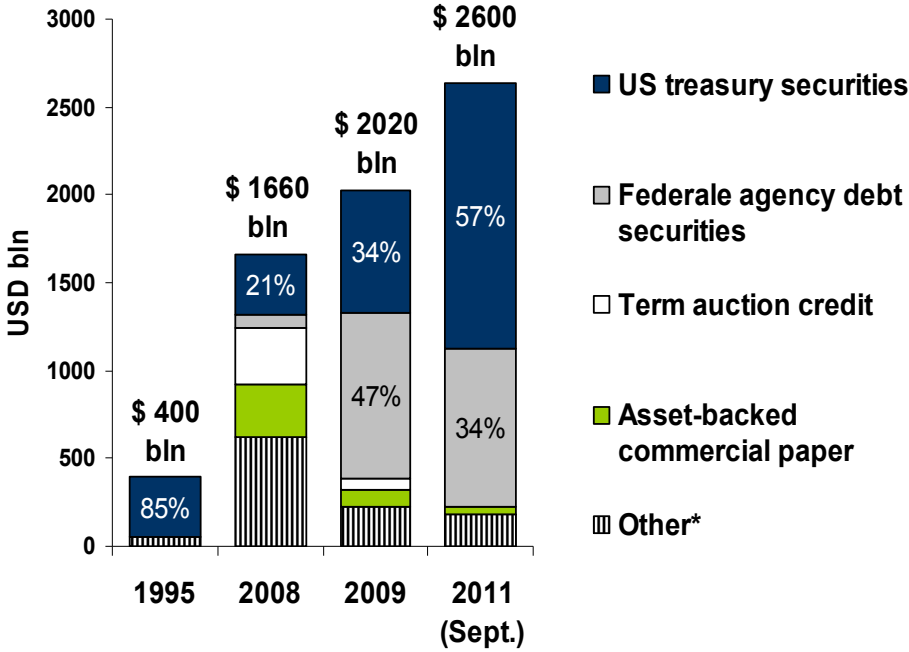
Even the IMF started to draw attention to such questions.

«Capital controls may be useful in addressing both - macroeconomic and financial-stability concerns in the face of inflow surges»

- ✓ Some countries (S. Korea and Brazil) adopt capital control measures.
- ✓ Committee on the Foreign Investments in the US which was set up before the crisis has an extensive geo-economic / geo-political focus.

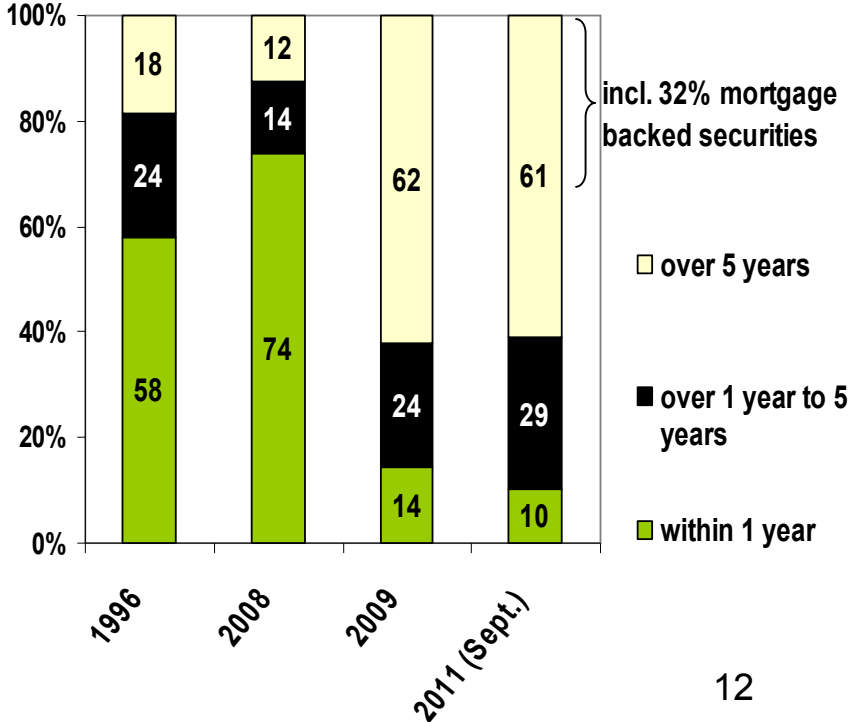
Recent anti-crisis measures made longer the sources of funding in developed countries

USD Monetary Base Creation (USD bln., %)

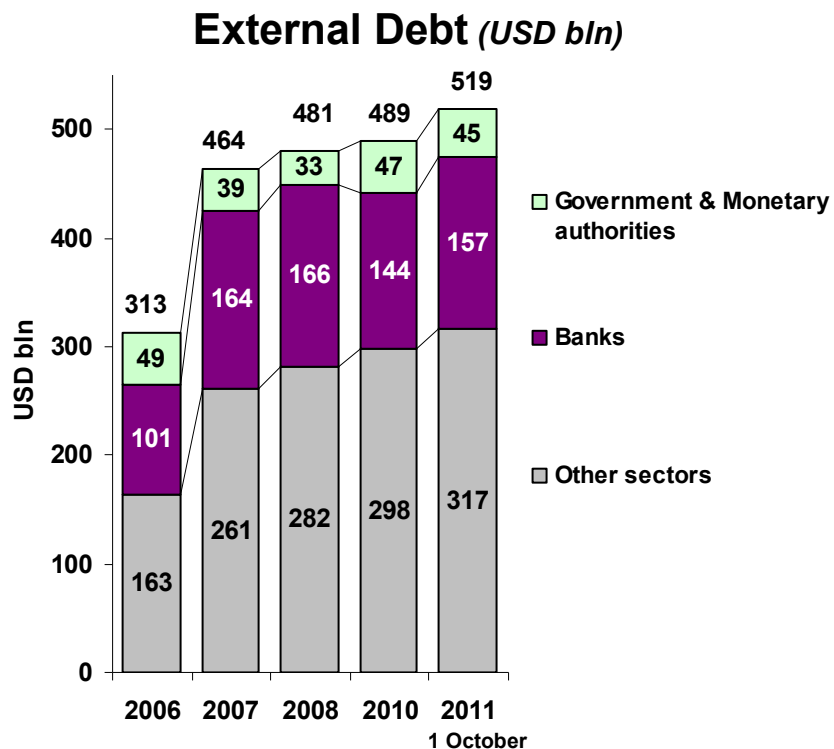


* Incl. swaps, gold, other loans, etc.

Term Structure of USD Monetary Base (%)

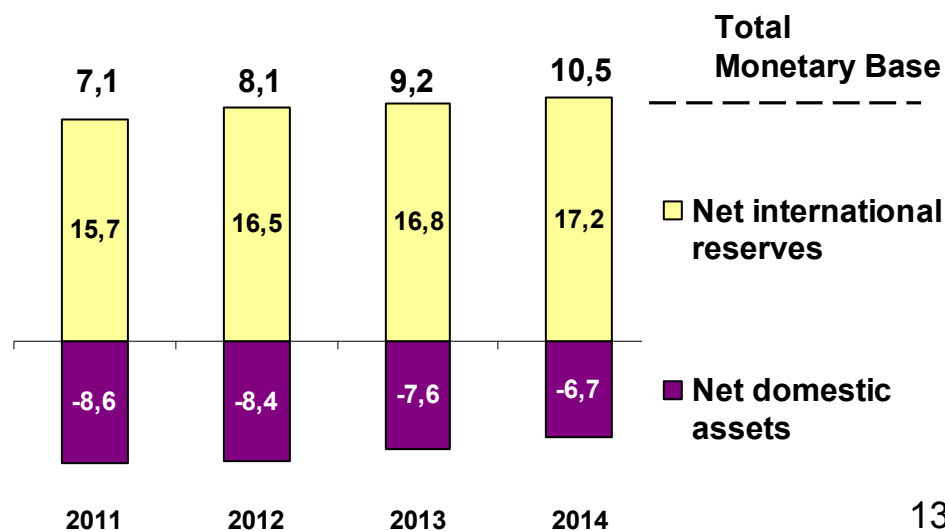


Russia: reliance on external funding may again create risks



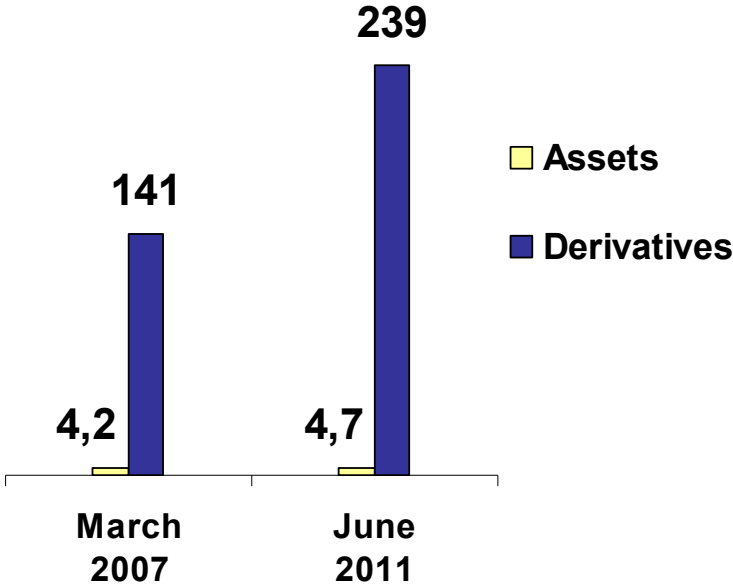
External debt of companies begins to grow

Sources of Formation of the Rouble Monetary Base (Rub trln)



Derivatives continue growing

**US TOP-5 banks*:
assets & derivatives (USD trln.)**



Derivatives played detrimental role in the crisis of 2007. Now their volume is high again

* 2007 – JP Morgan Chase Bank NA, Citibank National ASSN, Bank of America NA, HSBC Bank USA National ASSN, Wachovia Bank National ASSN

2011 - JP Morgan Chase Bank NA, Citibank National ASSN, Bank of America NA, Goldman Sachs Bank USA, HSBC Bank USA National ASSN

Source: US Comptroller of the Currency

“The world is on the eve of the next financial crisis”

PIMCO, Sept. 22, 2011

M. Ershov (2005): “The global monetary system will have to undergo serious transformations to avoid an extensive systemic crisis”

Source: M. Ershov “Economic Sovereignty of Russia in the Global Economy”
- M.: Economica, 2005. - P. 280.

The crisis is not only “Judgment” **ancient Greek**). The crisis is also a “Turning Point,” which gives the opportunity to outline new solutions in new post-crisis environment.

M. Ershov

**“World Financial Crisis.
What’s Next?”**

- M.: Economica, 2011. 295 p.

www.ershovm.ru