

# A Short Tour of Global Risks

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# Related readings

Bredenkamp, Hugh, Ricardo Hausmann, Alex Pienkowski, and Carmen M. Reinhart, “Challenges Ahead”. Forthcoming in *Sovereign Debt: A Guide for Economists and Practitioners*, Ali Abbas, Alex Pienkowski, and Kenneth Rogoff, editors, Chapter 9 (London: Oxford University Press, 2019).

Horn Sebastian, Carmen M. Reinhart, and Christoph Trebesch.” China’s Overseas Lending,” (work in progress, 2019).

Ilzetki, Ethan, Carmen M. Reinhart, and Kenneth Rogoff, “Exchange Rate Arrangements in the 21<sup>st</sup> Century: Which Anchor Will Hold” *Quarterly Journal of Economics*, Vol. 134(2), May 2019, 599-646.

Reinhart, Carmen M., Vincent Reinhart and Christoph Trebesch. “Global Cycles: Capital Flows, Commodities, and Sovereign Defaults, 1815-2015,” *American Economic Review*, Vol. 106(5), May 2016, 574-580.

Reinhart, Carmen M., “Financial Crises: Past and Future,” *Business Economics*, Vol. 54(1), January 2019, 3-15. Prepared for the NABE Adam Smith Award, September 30, 2018.

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Global risks:  
Advanced economies

- What tools for the next downturn?
- De-globalization
- Europe's unresolved crises
- Low interest rates & risk taking

Global risks:  
Emerging markets

- The dilemma facing the PBoC
- The return of EM crises
- China's EM lending and hidden debts

The long horizon

- The US dollar and the modern "Triffin Dilemma"

# Global risks: Advanced economies

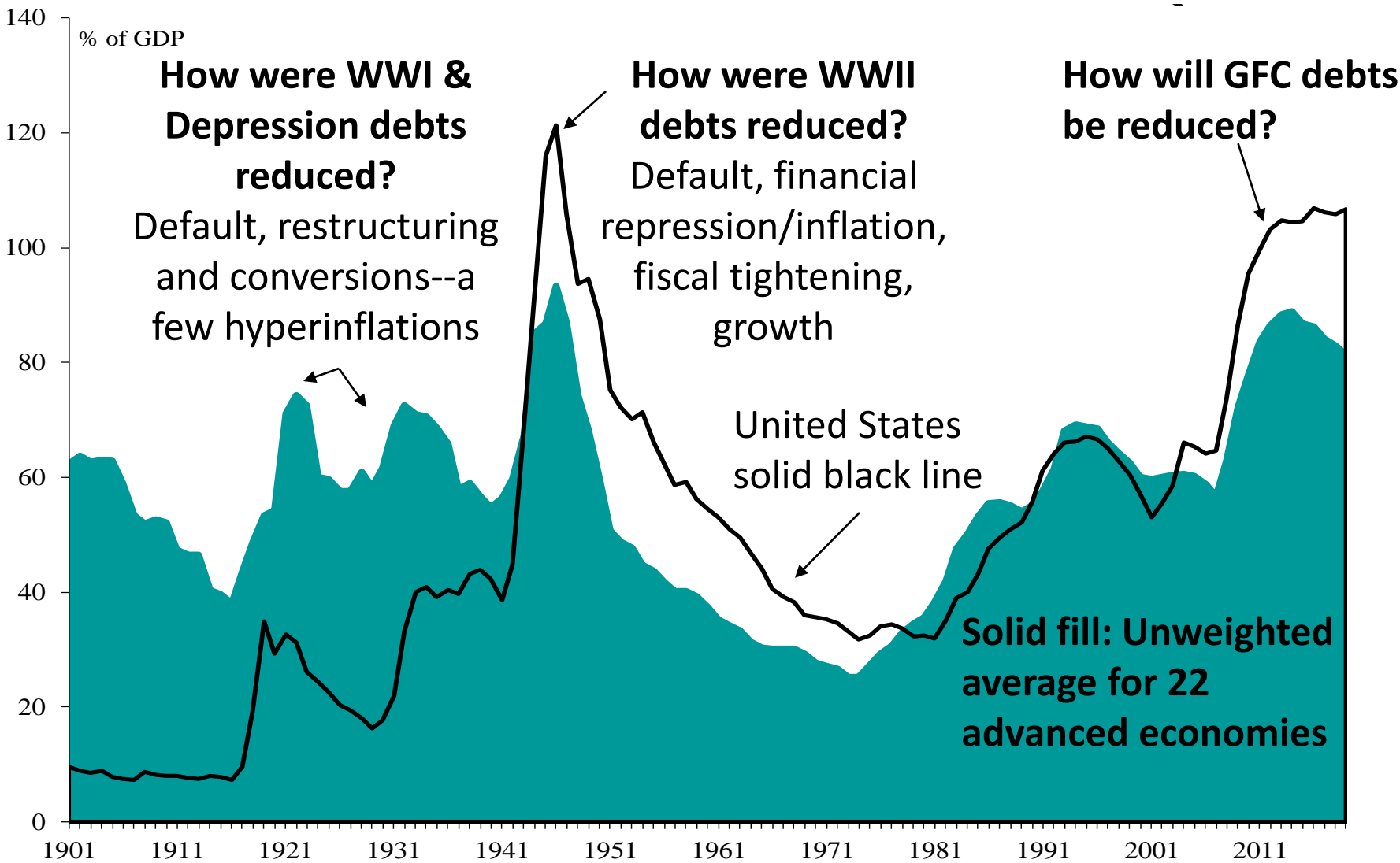
How much ammunition to cope with the next economic downturn?

The march towards de-globalization

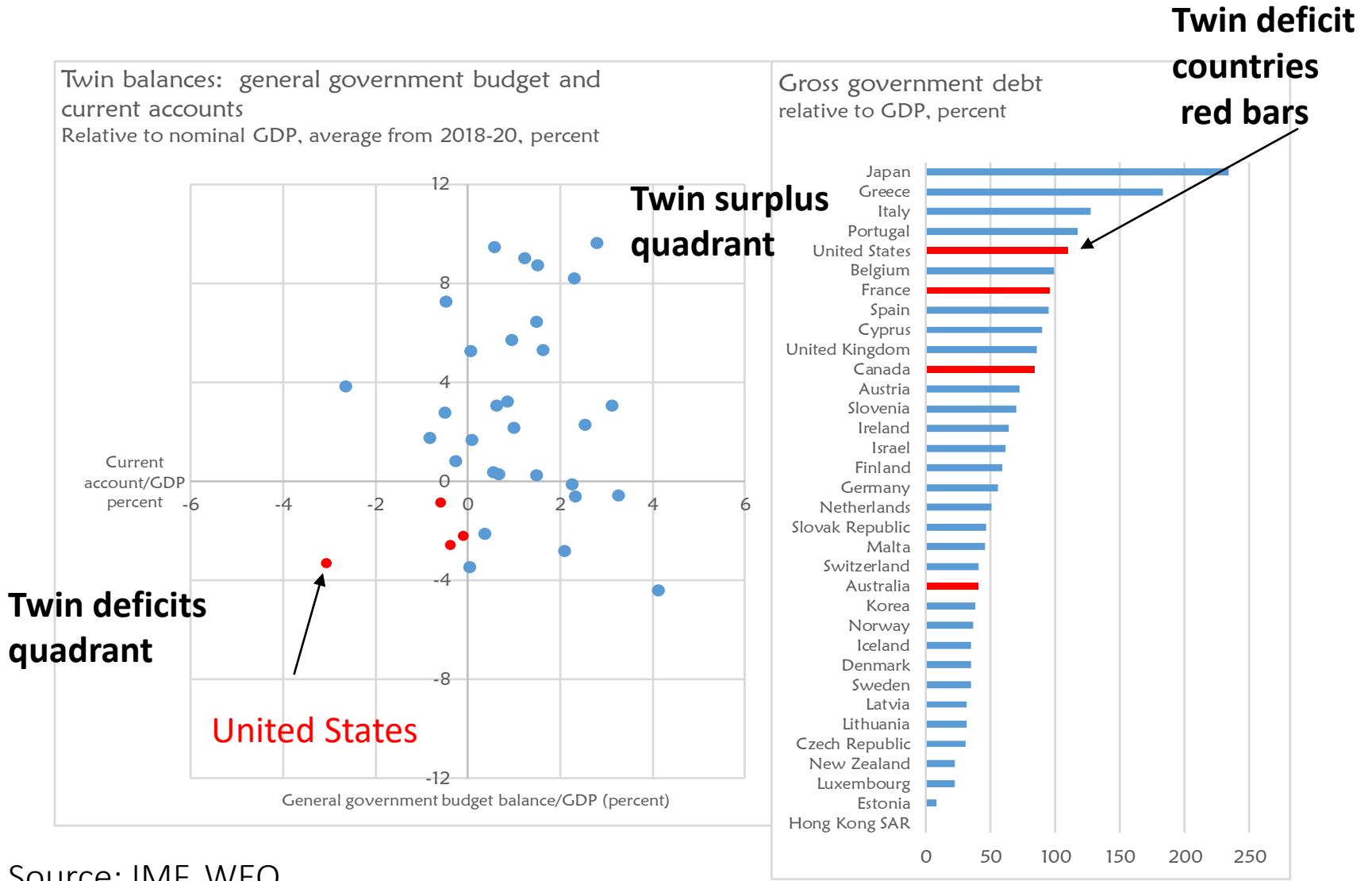
Europe's unresolved crises

Low interest rates and global risk-taking: Déjà vu?

# Advanced economies: Government debt as a % of GDP, 1901-2019. Fiscal space?



The global saving glut was a concern about flows (**US twin deficits = current account + fiscal**)—now it is stocks (debt) **and** flows. Debt and deficits no longer matter? Fiscal space?



Source: IMF, WEO.

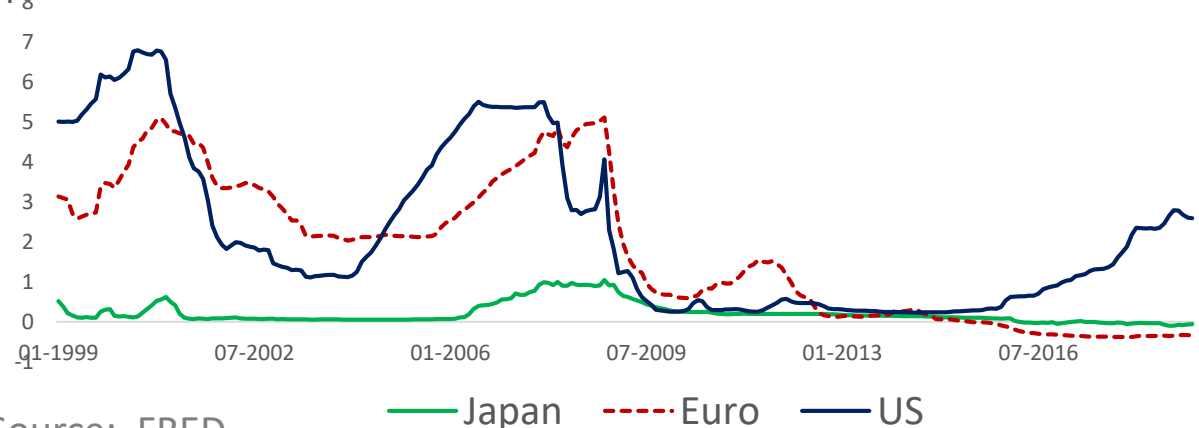
# Monetary policy “space”?

|                       | Starting fed funds rate | Lowest fed funds rate | Cumulative cut |
|-----------------------|-------------------------|-----------------------|----------------|
| <b>1990 recession</b> | 8.25%                   | 3.0%                  | 5.25pp         |
| <b>2001 recession</b> | 6.50%                   | 1.0%                  | 5.50pp         |
| <b>2007 recession</b> | 5.25%                   | 0%                    | ~5.25pp        |

Going back further, the Fed has cut interest rates by an average of 6 pp to counteract recessions.

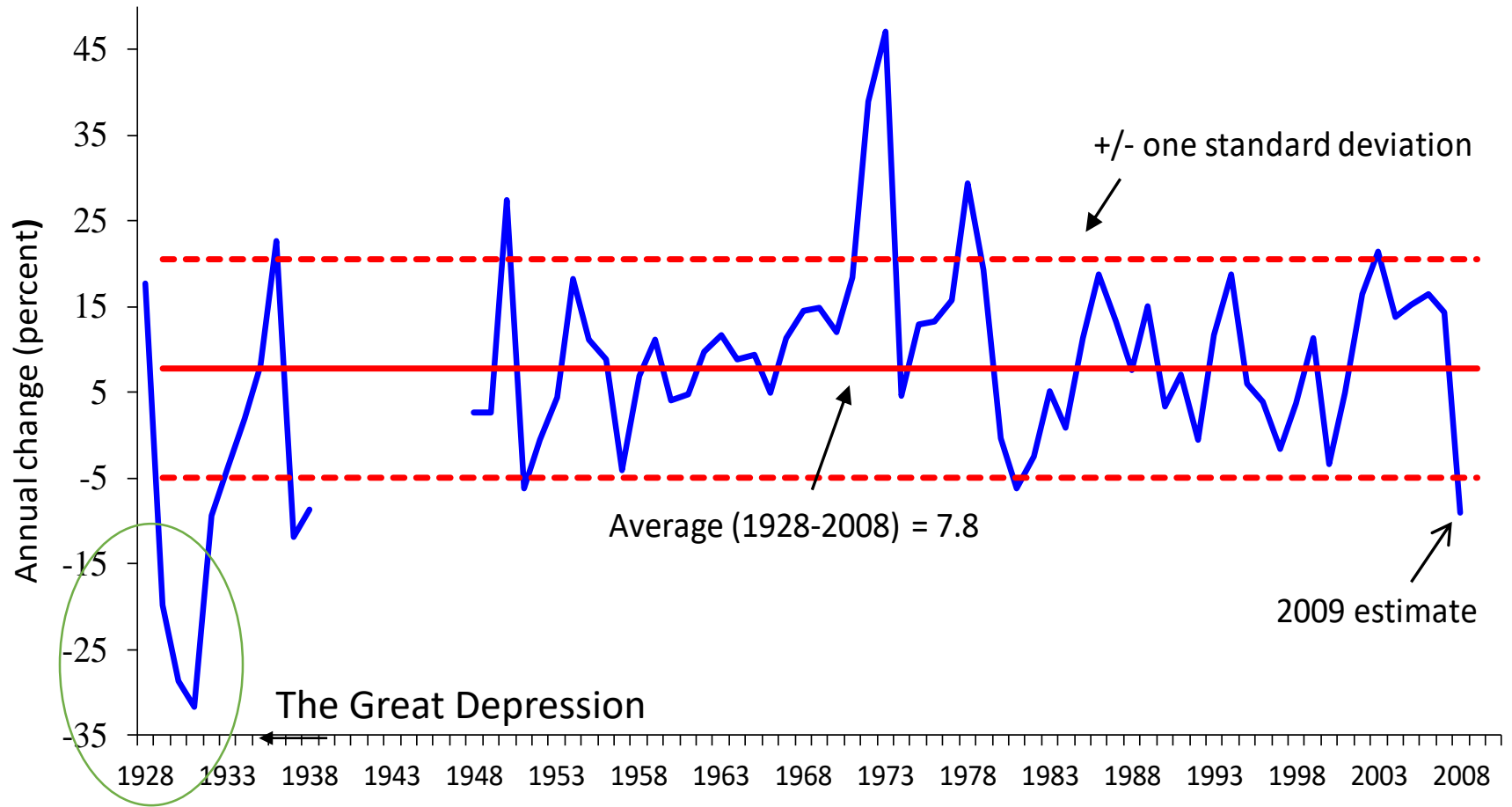
Japan and Europe are already in negative interest rate territory.

Three-month LIBOR interest rates percent



Source: FRED.

# Global annual export growth 1928-2009



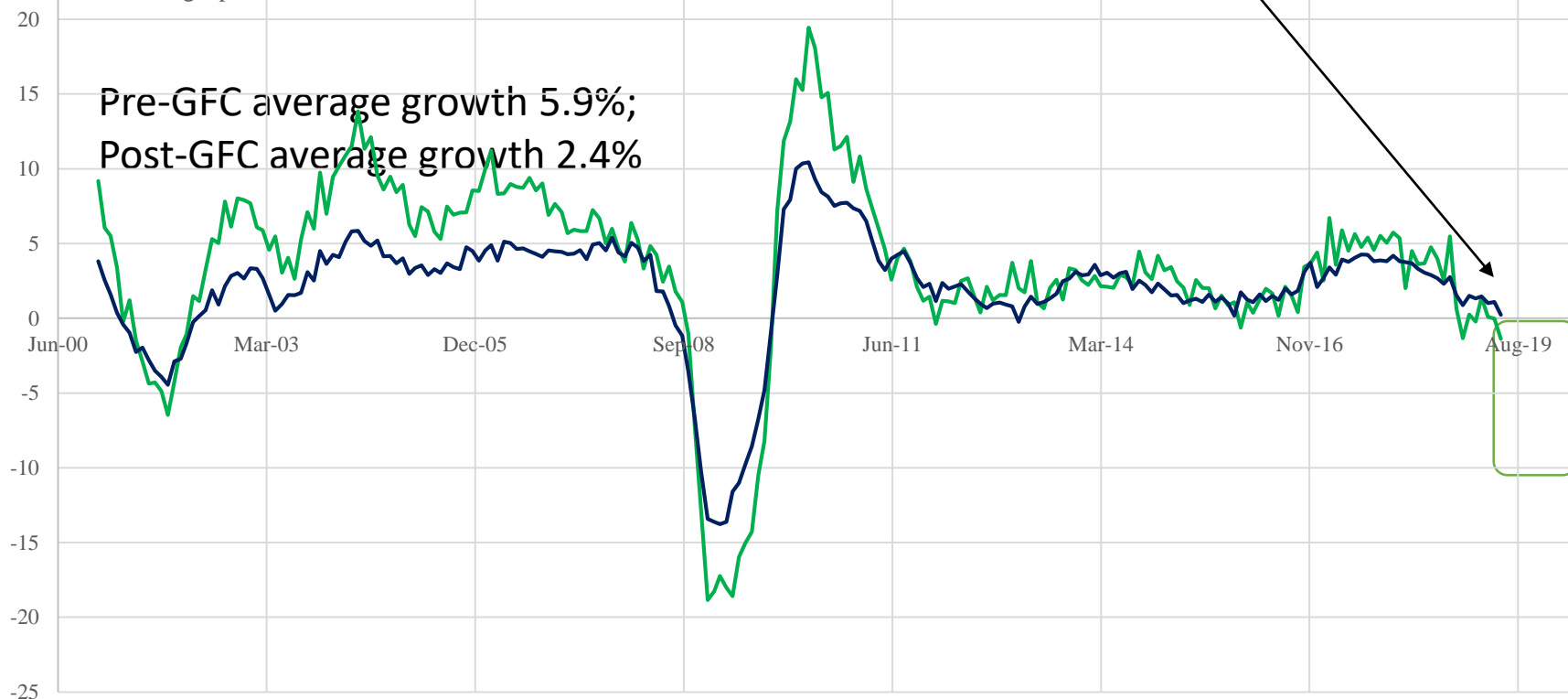
Source: Reinhart and Rogoff (2009).



# Global trade growth now in negative territory: Will this time be different?

## Global trade and industrial production

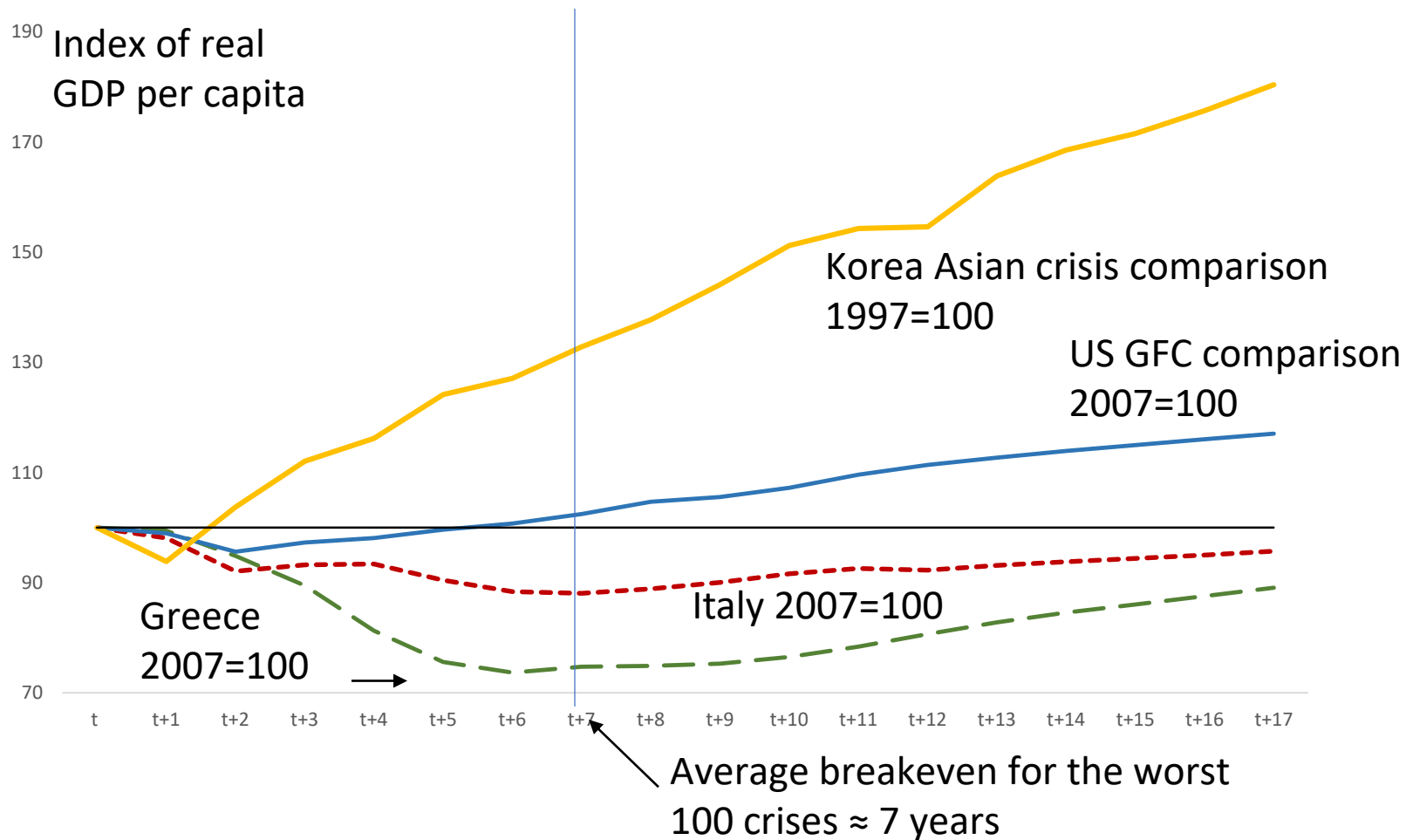
Twelve-month change, percent



— Volume of trade

— Industrial production

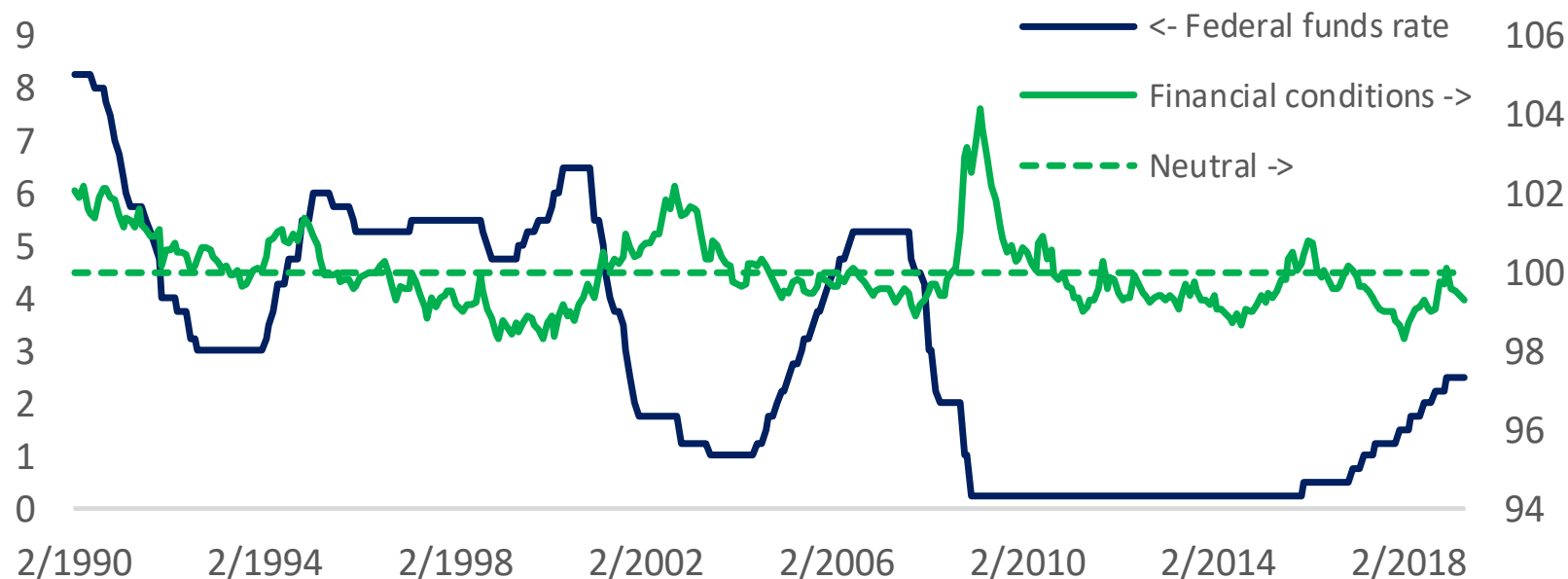
# Post-crisis recovery (or lack thereof in southern Europe): Unresolved debt overhangs...



Number of years after start of crisis (2019-2024, IMF estimates)

# Despite a rising federal funds rate, US financial conditions remained accommodative up until 2018 and resumed that stance in 2019

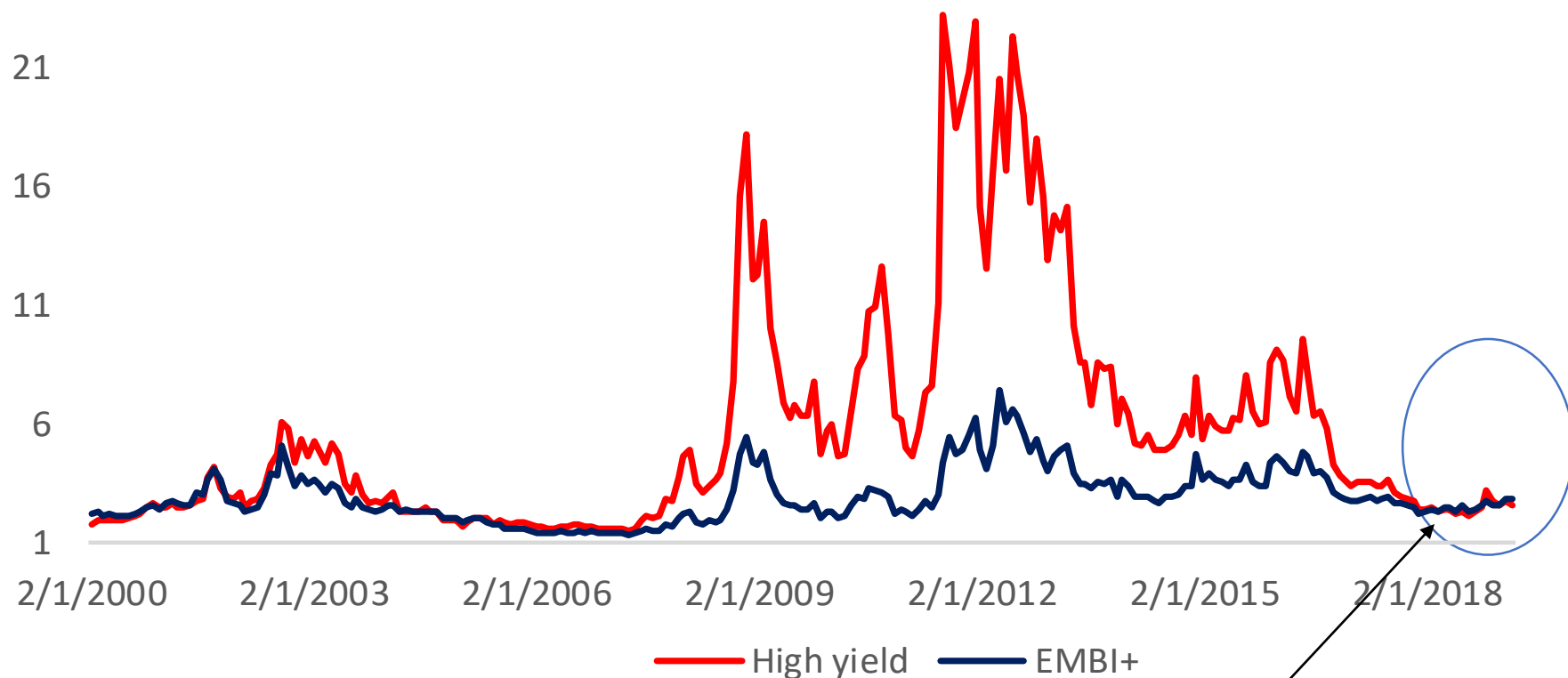
Federal funds rate and financial conditions percent and index



Source: Federal Reserve and Goldman Sachs, accessed via Bloomberg (5/13/19).

# Yield ratios

Risky yield relative to Treasury



Source: Bloomberg and author's calculations.

**2018-2019 EM-High yield divergence: Are corporate risks underestimated?**

# Global risks: Emerging markets

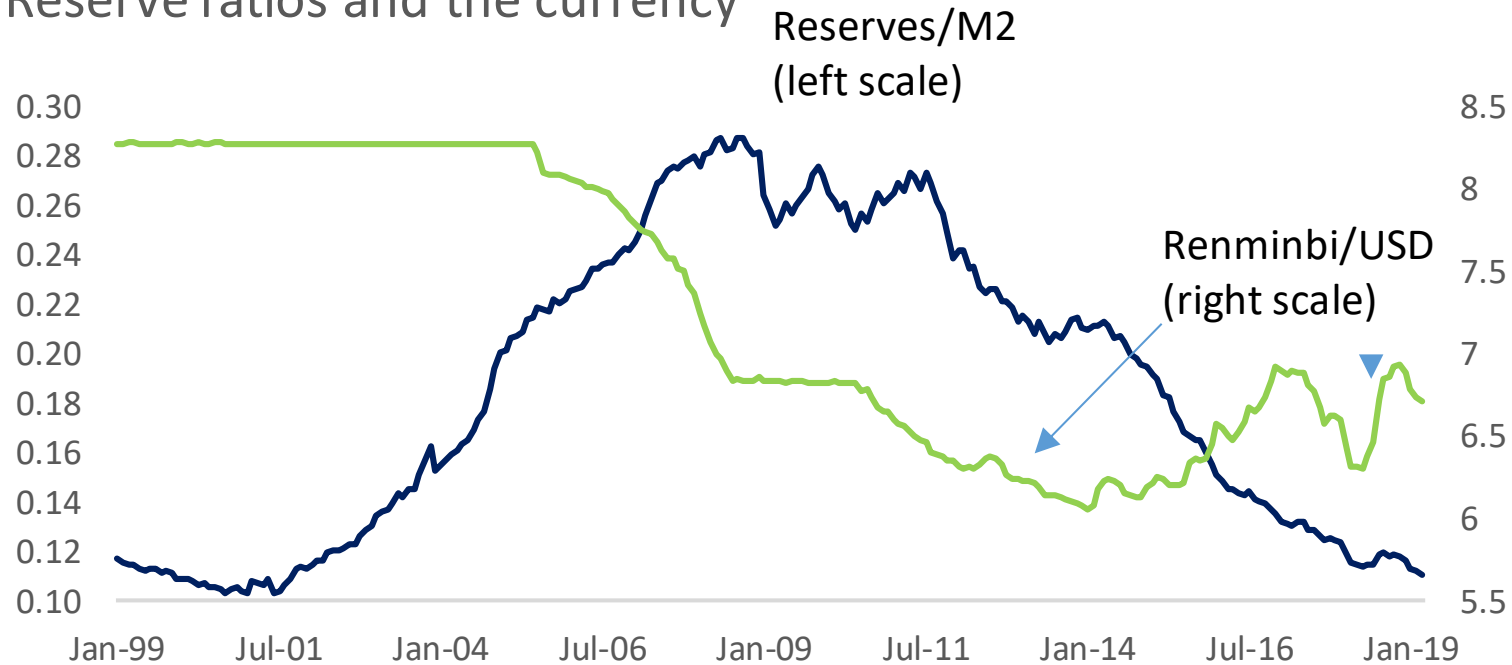
The dilemma facing the PBoC

The return of “classic” EM crises: Remember the 1980s and 1990s?

China’s EM lending and hidden debts

# FOREX

## Reserve ratios and the currency



Source: FRED.

PBoC Dilemma: Easier to support growth or tighter to support the renminbi?

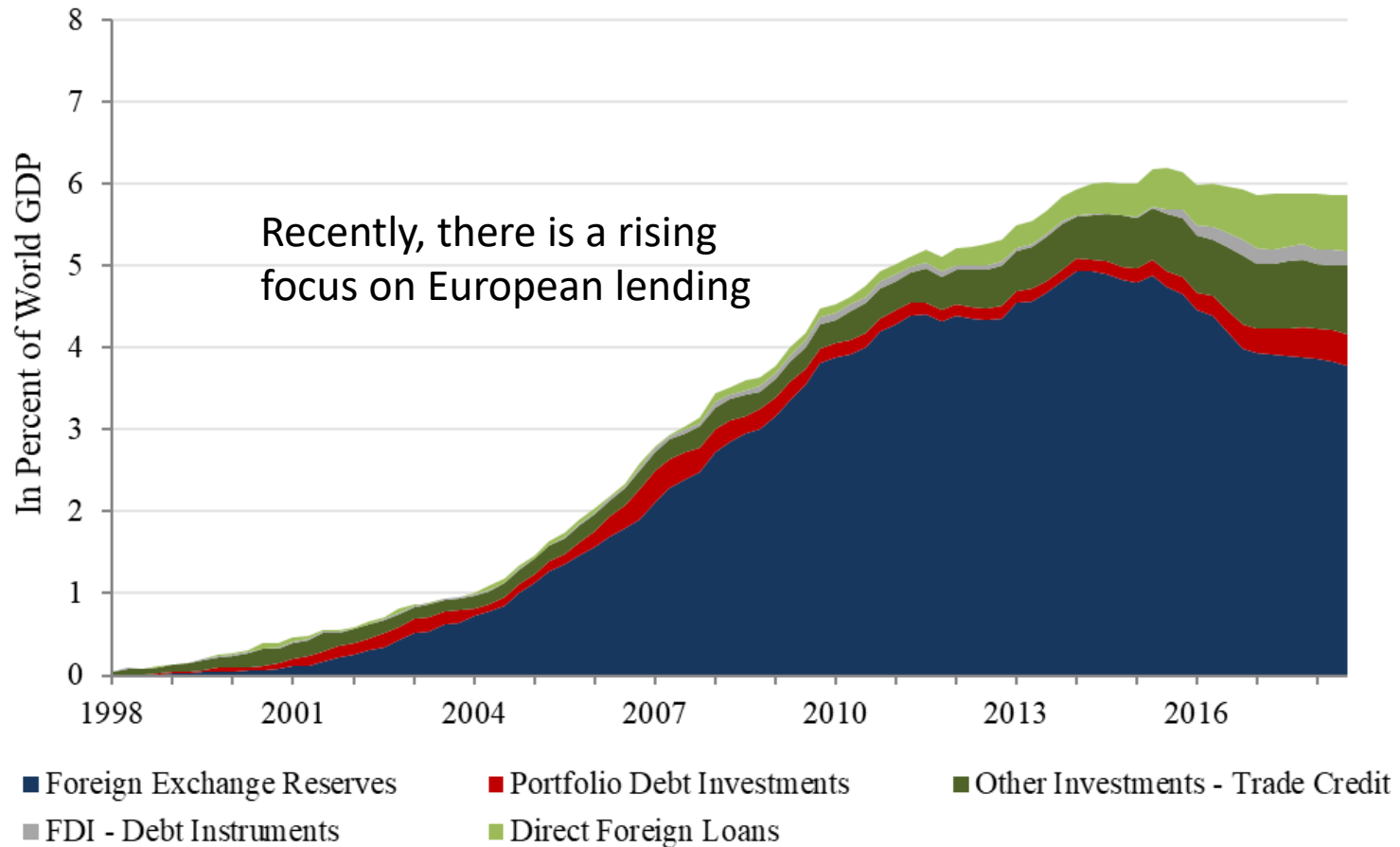


Source: Bredenkamp, Hausmann, Pienkowski and Reinhart forthcoming (2019)

<https://www.imf.org/en/News/Seminars/Conferences/2018/05/24/sovereign-debt-a-guide-for-economists-and-practitioners>

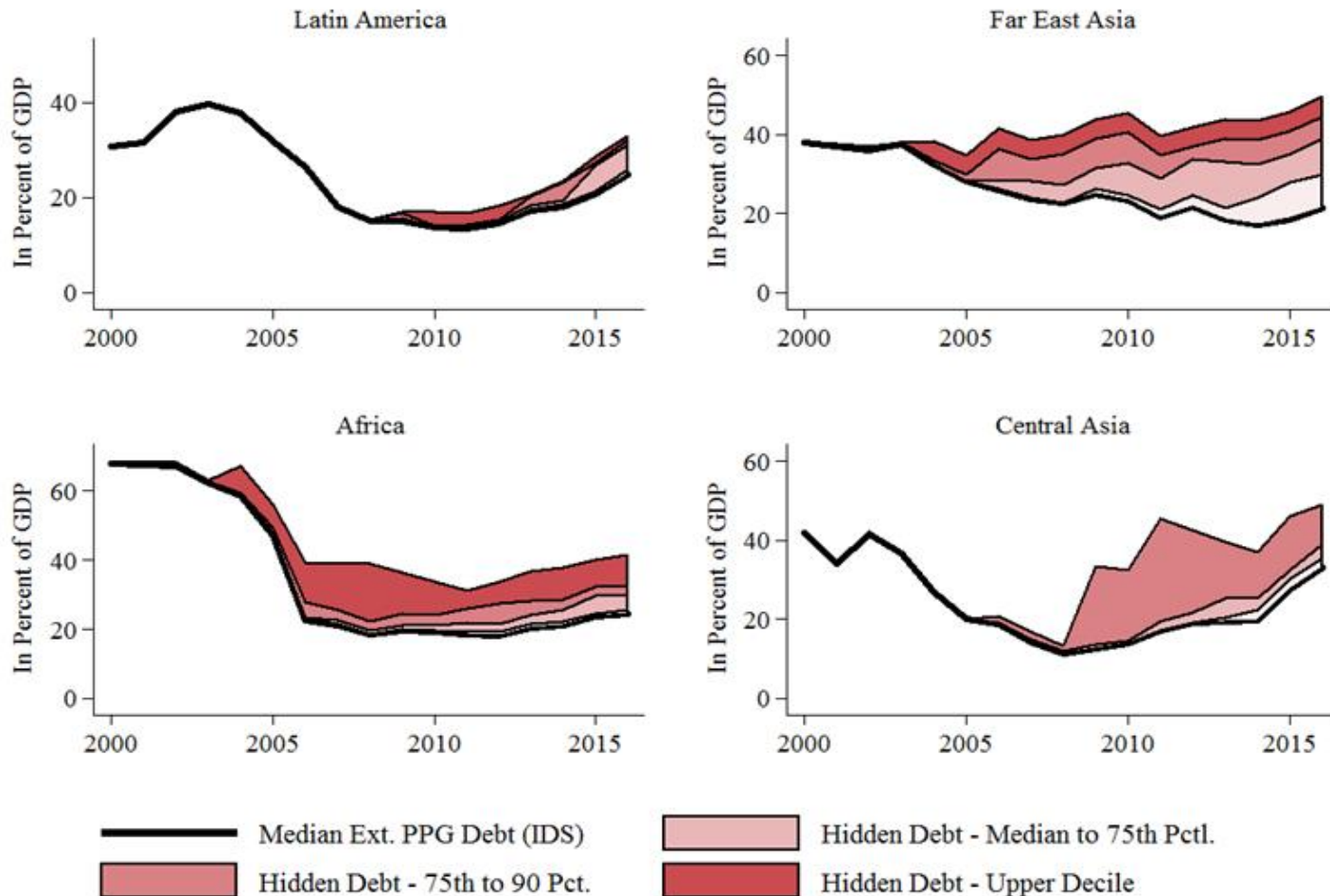
These countries have been historically debt intolerant. There are other economic and political vulnerabilities as well. Brewing crises?

# The rise of China as a global official creditor: 1998-2018





# Total external debt: Officially reported (World Bank) and “hidden debts” to China, 2000-2018



External dollar debts are much higher in many EMs and developing countries.

Restructurings  
of external  
Chinese debt  
since 2011  
include:

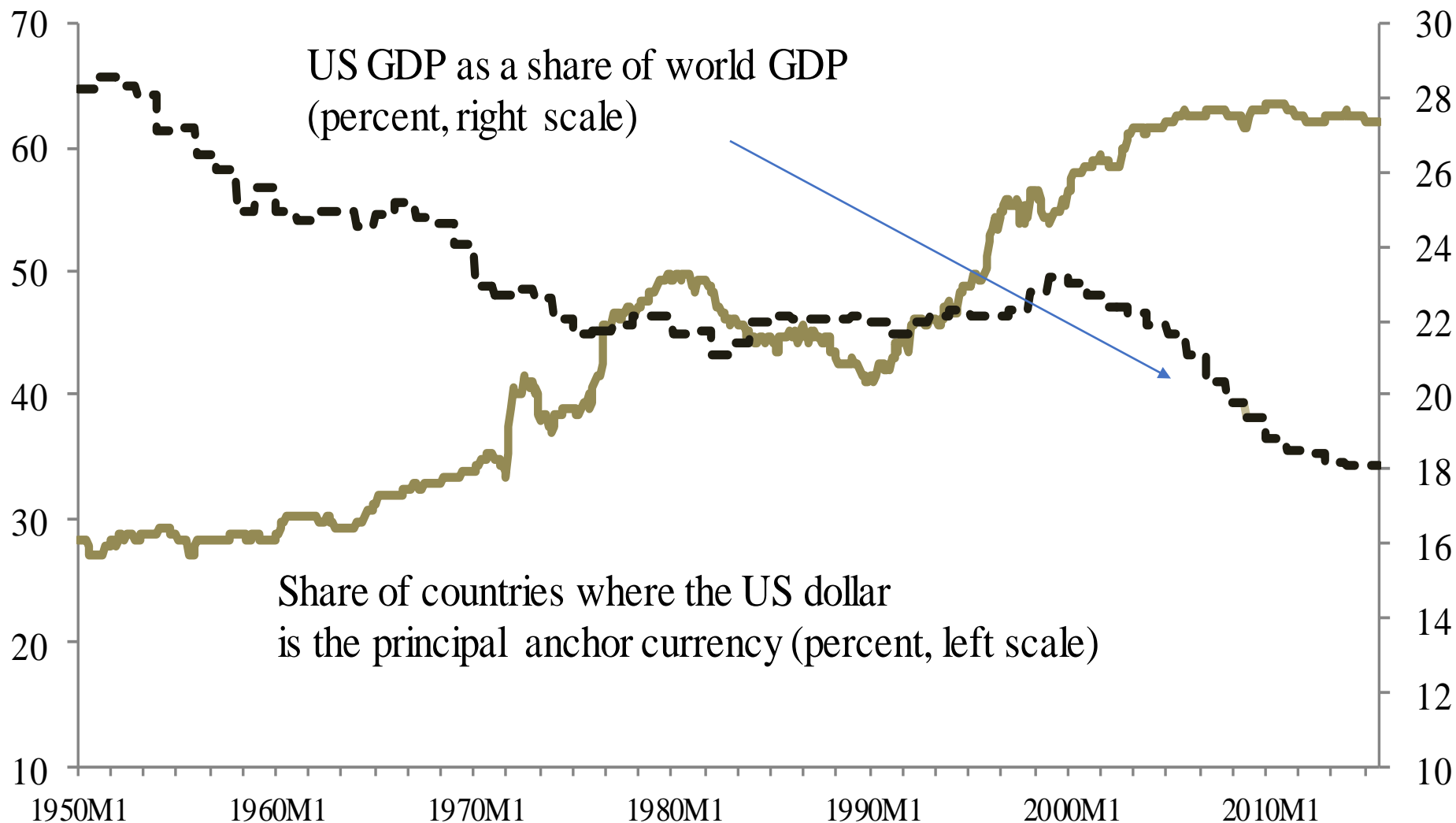
- Tanzania
- Bangladesh
- Cote D'Ivoire
- Cuba
- Seychelles
- Togo
- Sudan
- Venezuela
- Ukraine
- Ecuador
- Zambia
- Sri Lanka

# The long horizon

The US dollar and the modern-day “Triffin dilemma”

The **Triffin dilemma** or **Triffin** paradox is the conflict of economic interests that arises between short-term domestic and long-term international objectives for countries whose currencies serve as global reserve currencies.

# Role of the dollar and the global footprint of the US economy 1950-2016



# Role of the French franc & DM 1950-1998 and Euro 1999-2016—(notice the difference in scales in comparison to prior US/USD chart)

