

Preserving Access to Finance during the Global Crisis

Session 1

Crisis Resilience and Access to Finance – the Macro Perspective

2009 KfW Financial Sector Development Symposium

Berlin, December 3, 2009

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Developing Countries in the Current Crisis

The Financial Crisis hits Poor People



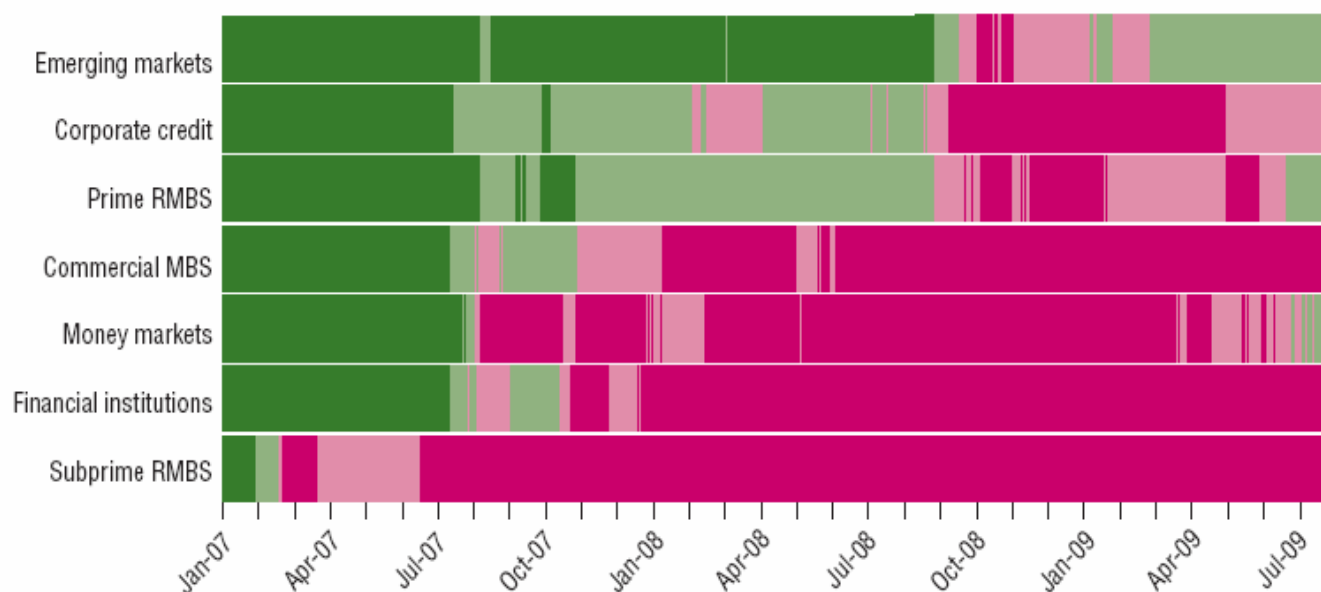
About 55 million more people will live on less than \$1.25 a day (in 2005 purchasing power parity terms) in developing countries this year than expected pre-crisis.

World Bank (April, 2009)

Emerging Market Distress in Perspective



Heat Map: Development in Systemic Asset Classes

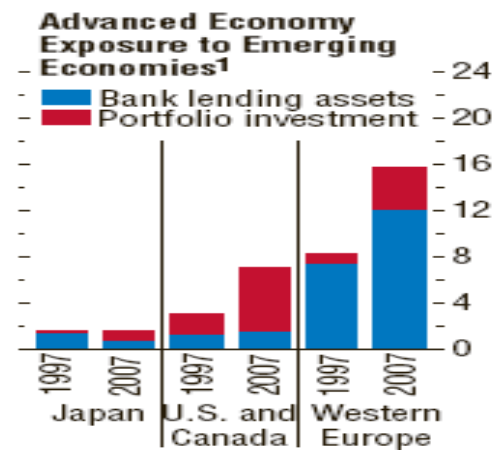
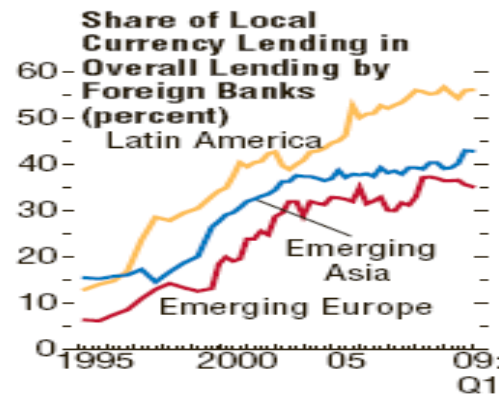
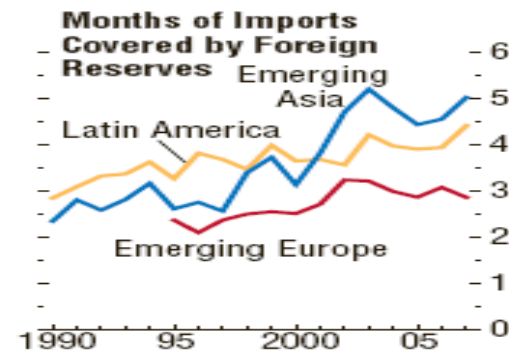
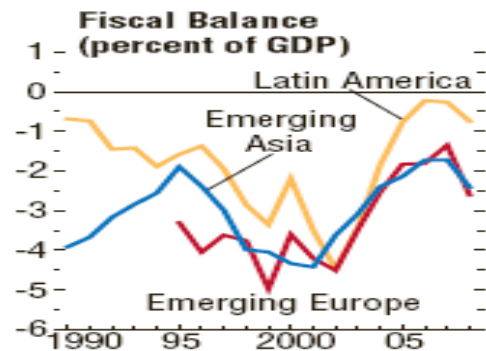


Source: IMF staff estimates.

Note: The heat map measures both the level and one-month volatility of the spreads, prices, and total returns of each asset class relative to the average during 2003–06 (i.e., wider spreads, lower prices and total returns, and higher volatility). That deviation is expressed in terms of standard deviations. Dark green signifies a standard deviation under 1, light green signifies 1 to 4 standard deviations, light magenta signifies 4 to 7 standard deviations, and dark magenta signifies greater than 7 standard deviations. MBS = mortgage-backed security; RMBS = residential mortgage-backed security.

Factors of Resilience

Emerging Economies: Factors Affecting Resilience



Sources: Bank for International Settlements; IMF, Coordinated Portfolio Investment Survey; and IMF staff calculations.

¹Assets in percent of advanced economies' GDP.

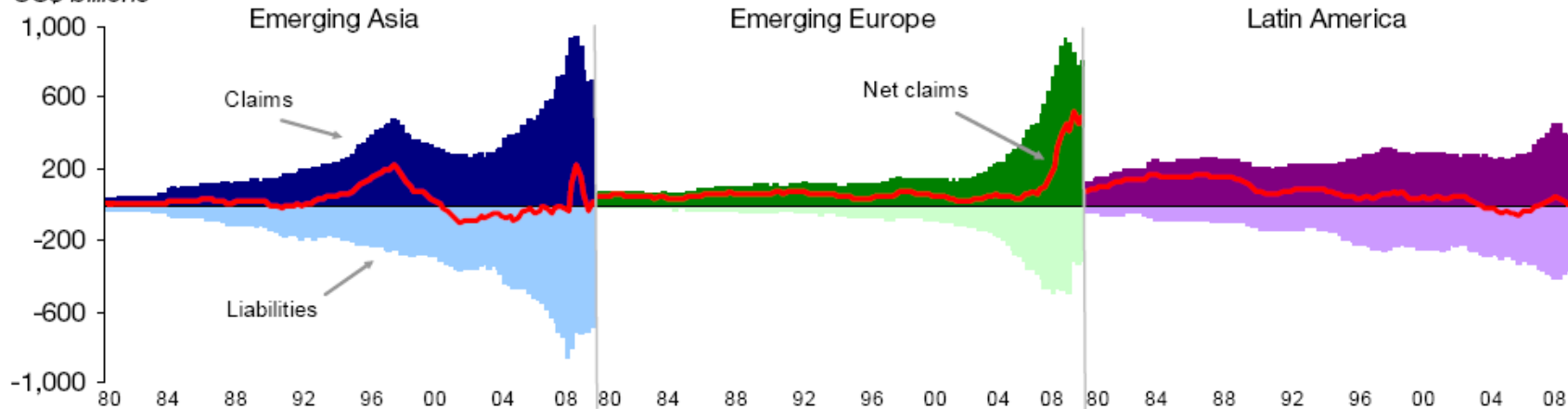
Source: IMF, 2009

Cross-border Finance to Emerging Markets



External Position of BIS-reporting Banks vis-à-vis Developing Countries*

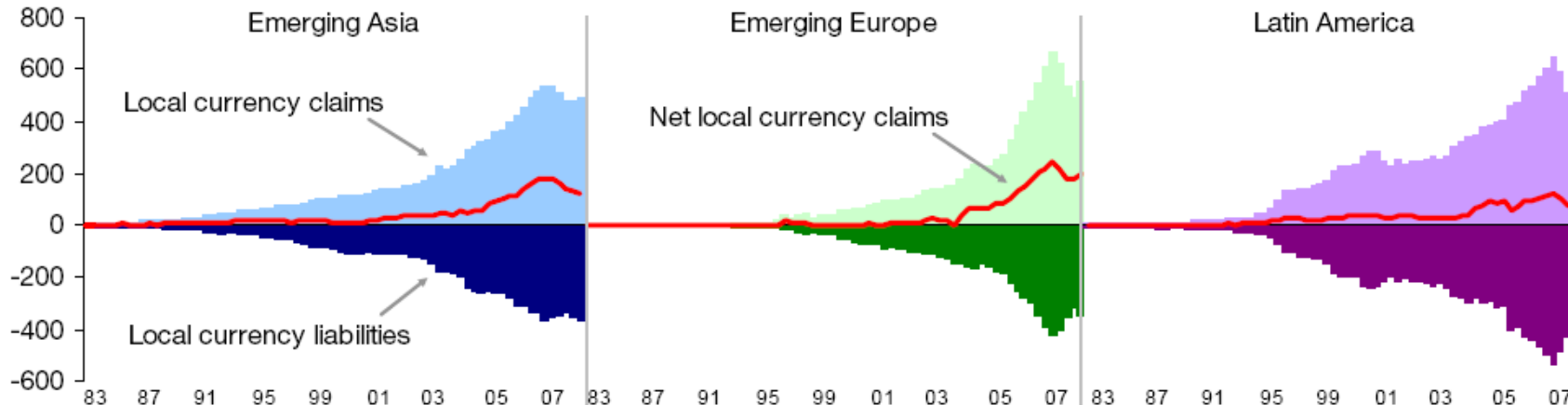
US\$ billions



Source: BIS locational banking statistics; IIF calculations. * Stock of outstanding claims (assets).

Local Currency Position of BIS-reporting Banks' Foreign Offices vis-à-vis Local Residents

US\$ billions



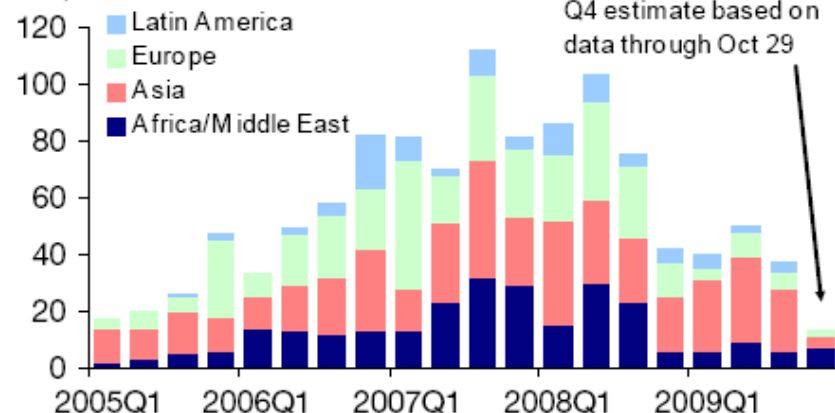
Source: BIS consolidated banking statistics; IIF calculations.

Bond Markets help in the Crisis



Emerging Market Syndicated Loans*

US\$ billions

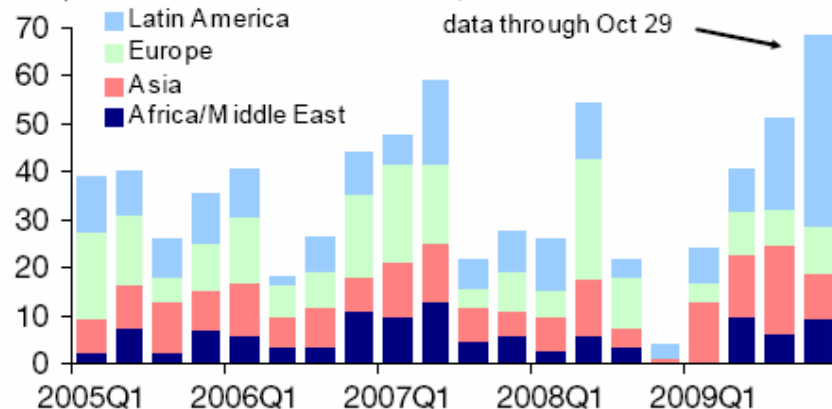


Source: Thomson Reuters; IIF calculations. * Includes syndicated loans regardless of currency, with original maturity of at least one year for the 30 major EM countries covered in the IIF's Capital Flows to EMs report.

Source: IIF

Emerging Market External Bond Issuance*

US\$ billions



Source: Thomson Reuters; IIF calculations. * Includes bonds issued in an external market, regardless of currency, with original maturity of at least one year for the 30 major EM countries covered in the IIF's Capital Flows to EMs report.

The dogs that did not bark

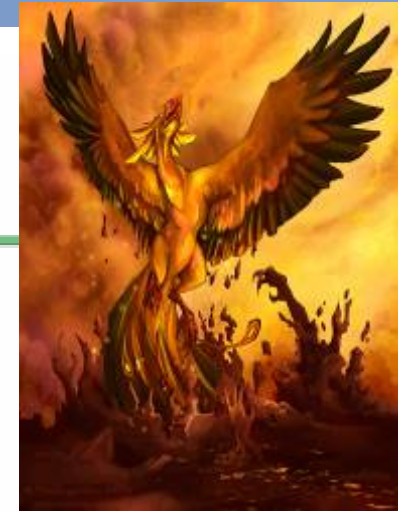
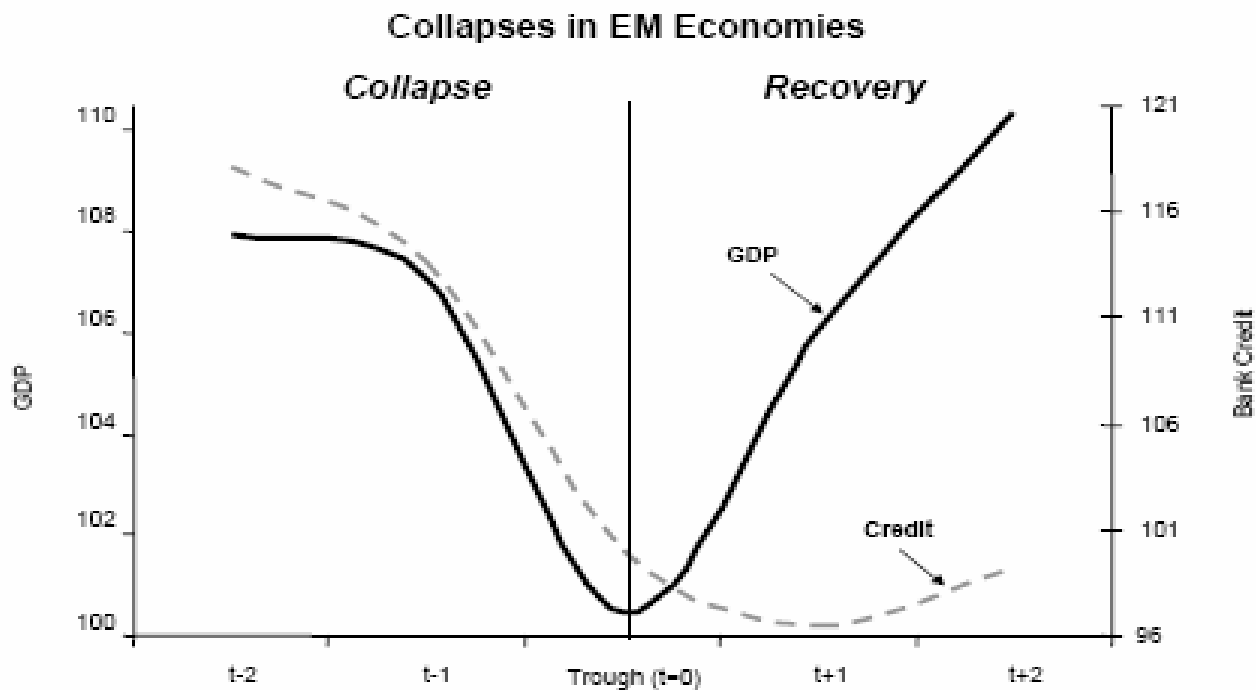


- No financial crisis in EM, except some Eastern European countries plus Kazakhstan and Nigeria
- In Eastern Europe no financial crisis in several countries e.g. Turkey
- No financial crisis in China and India now and during the “Asian Crisis”

Phoenix Miracles in Emerging Markets

Bank Credit Dynamics

(deflated by CPI, average 3S episode)



Source: G. Calvo, 2006

Patterns of Growth by Region



Growth in 2008	Growth in 2009	Least Decline 2007-2009	Growth in 2010
<i>Dev. Asia</i>	<i>Dev. Asia</i>	<i>MENA</i>	<i>Dev. Asia</i>
<i>SS Africa</i>	<i>MENA</i>	USA	<i>SS Africa</i>
CIS	<i>SS Africa</i>	<i>Dev. Asia</i>	<i>MENA</i>
<i>MENA</i>	LAC	<i>SS Africa</i>	LAC
LAC	USA	Euro zone	CIS
CEE	Euro zone	LAC	Japan
Adv. Asia	CEE	Japan	Adv. Asia
USA	<i>Adv. Asia</i>	CEE	CEE
Euro zone	CIS	<i>Adv. Asia</i>	USA
Japan	Japan	CIS	Euro zone

Source: IMF

Financial Crisis Patterns



Lengths of Financial Crises (1980-2007):

mean: 11.4 quarters

median: 8.5 quarters

What helps:

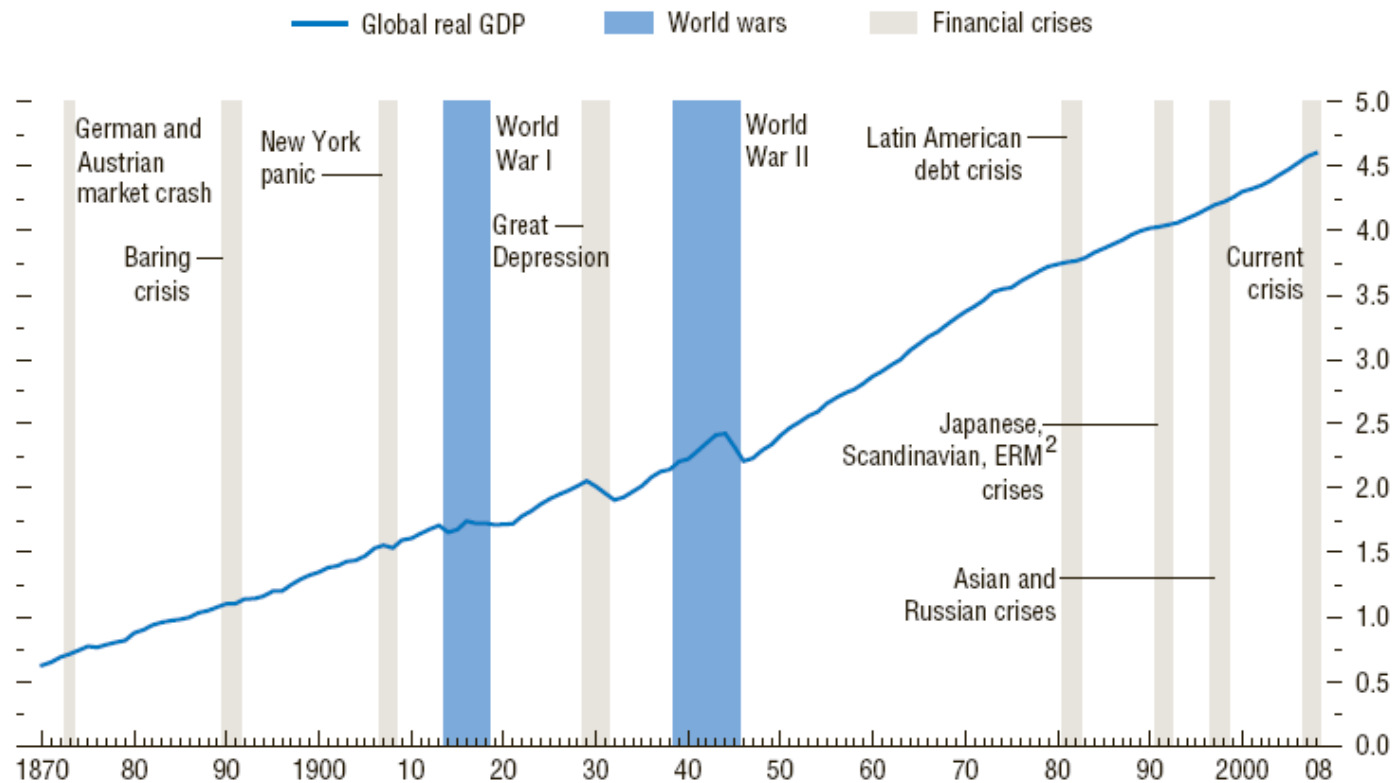
- High pre-crisis growth
- Strong fiscal position
- Sovereign Default shortens crises by nearly 6 quarters

What hurts:

- Currency crisis
- Asset Management Company lengthens crisis by almost 6 quarters

Financial Crises and Growth – The Long Run

Global Real GDP¹
(Log scale)



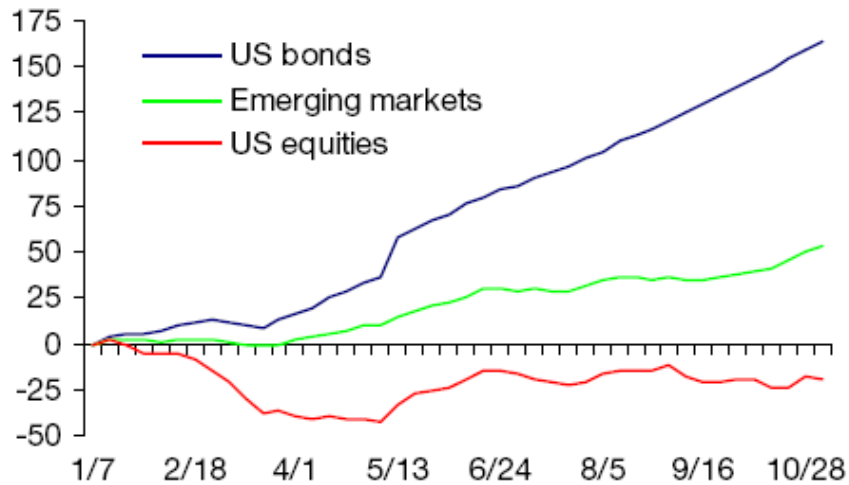
Source: IMF, 2009

Where the Prospects are – Emerging Markets



Global Mutual Funds: Net Flows, 2009

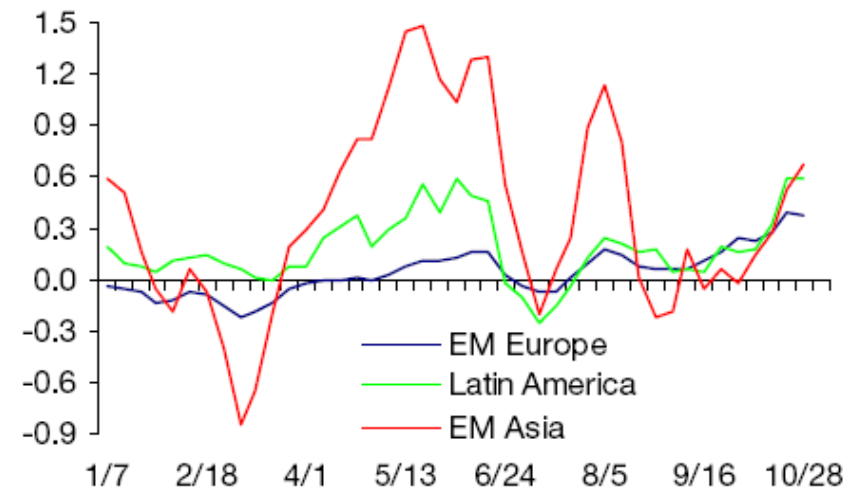
Cumulative change since end-2008, US\$ billions



Source: IIF

Emerging Market Regional Equity Fund Flows

US\$ billions, from dedicated funds, weekly smoothed



The Financial Crisis hits Poor People



About 55 million more people will live on less than \$1.25 a day (in 2005 purchasing power parity terms) in developing countries this year than expected pre-crisis.

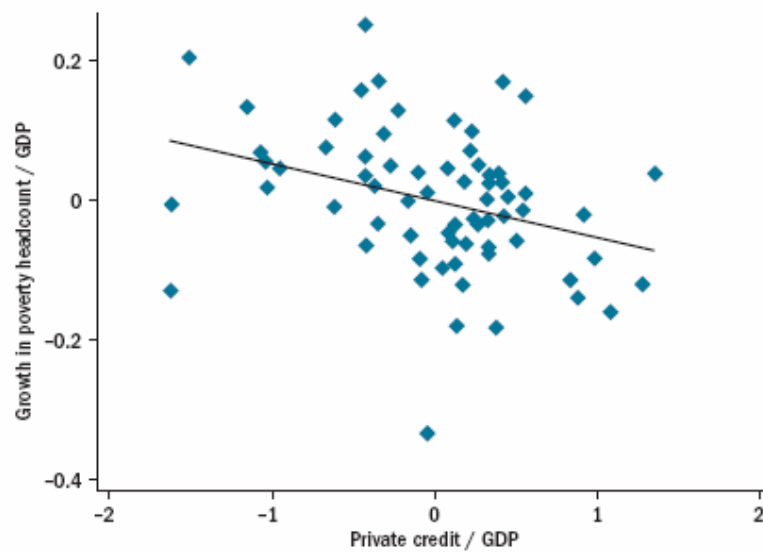
In 2009 Poverty will decline in developing countries

World Bank (April 2009)

Finance, growth and poverty reduction

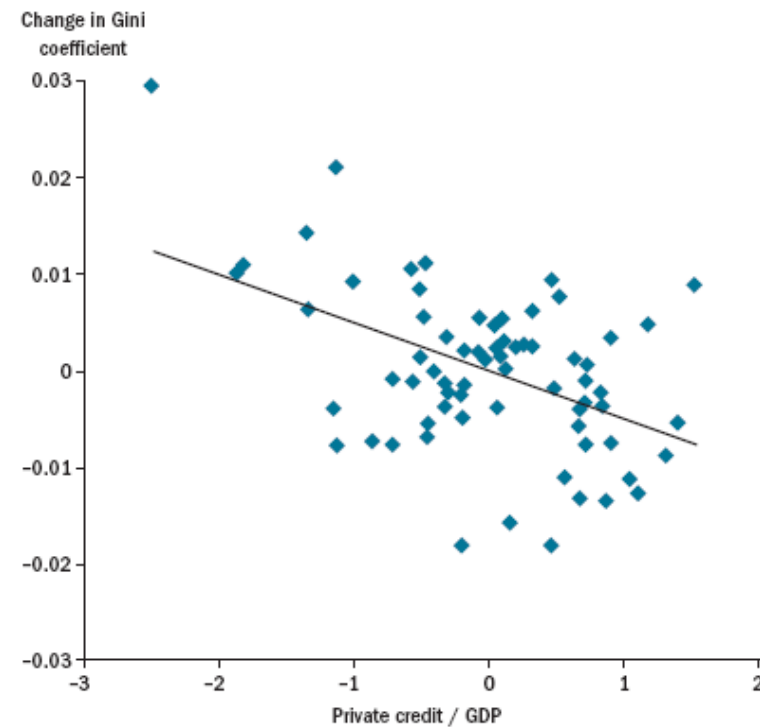
Finance, Poverty and Inequality

Finance and Poverty Reduction



Source: Beck, Demirgüç-Kunt, and Levine (2007).

Finance and Income Inequality

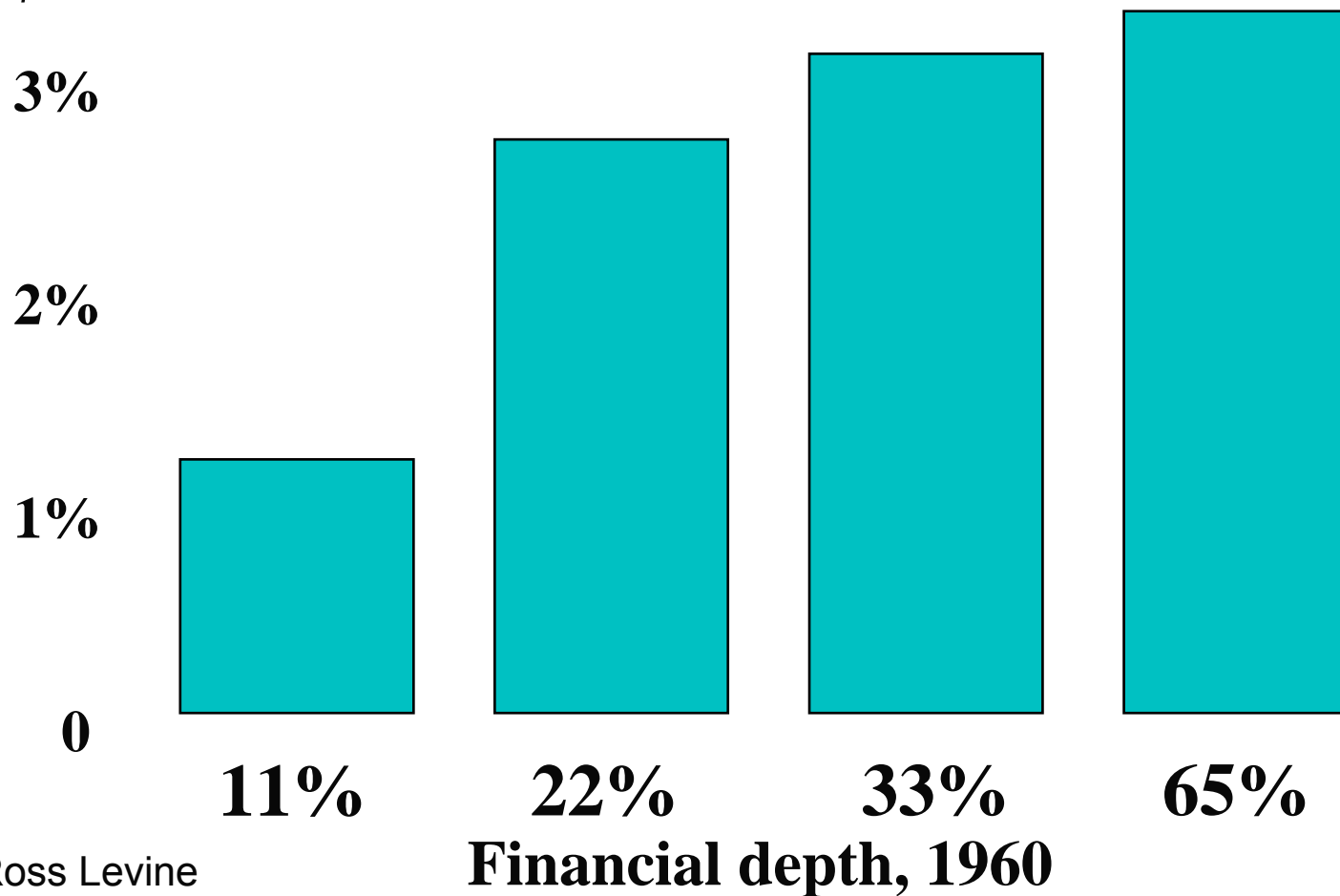


Source: Beck, Demirgüç-Kunt, and Levine (2007).

Finance boosts growth



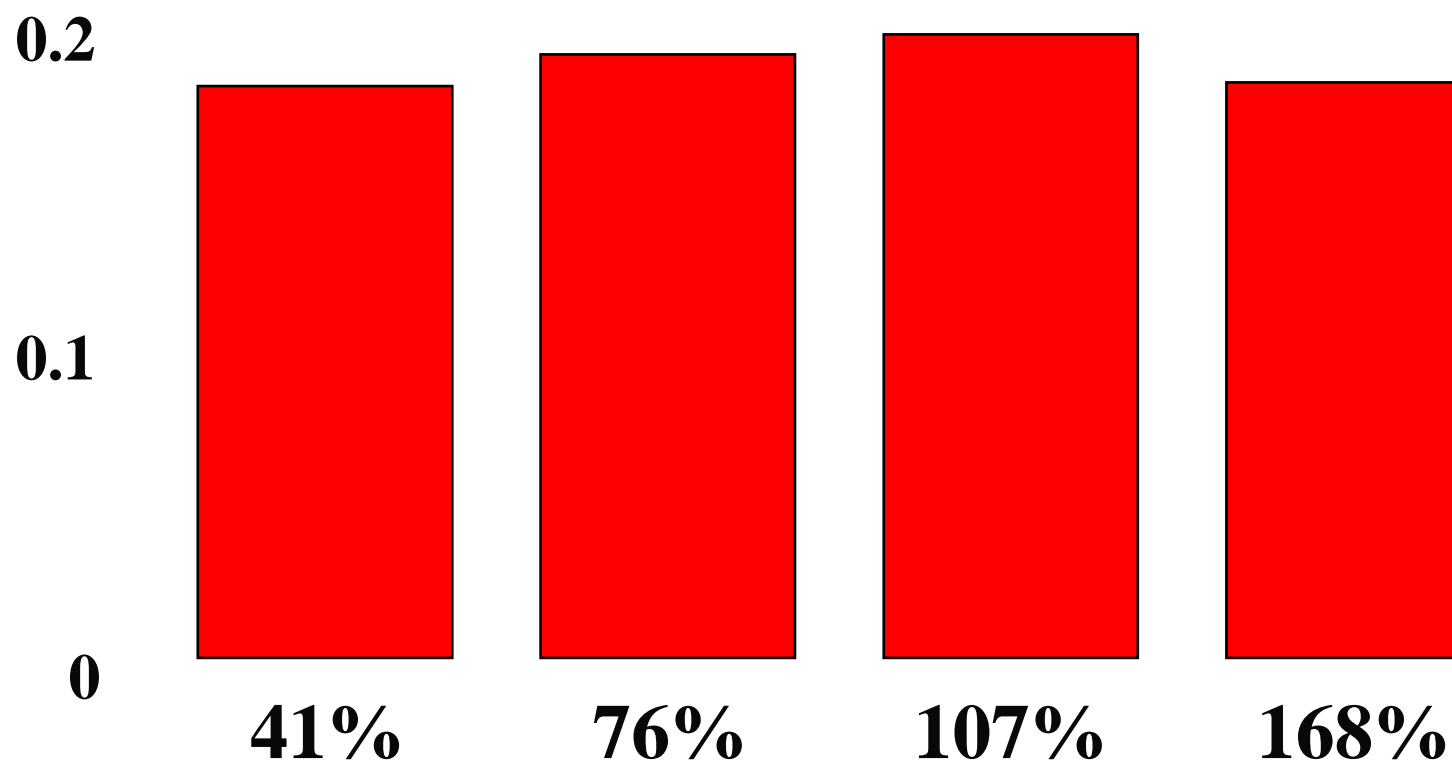
Per capita GDP
growth, 1960-05



Source: Ross Levine

But, finance does not boost savings

Private saving, 1976-05



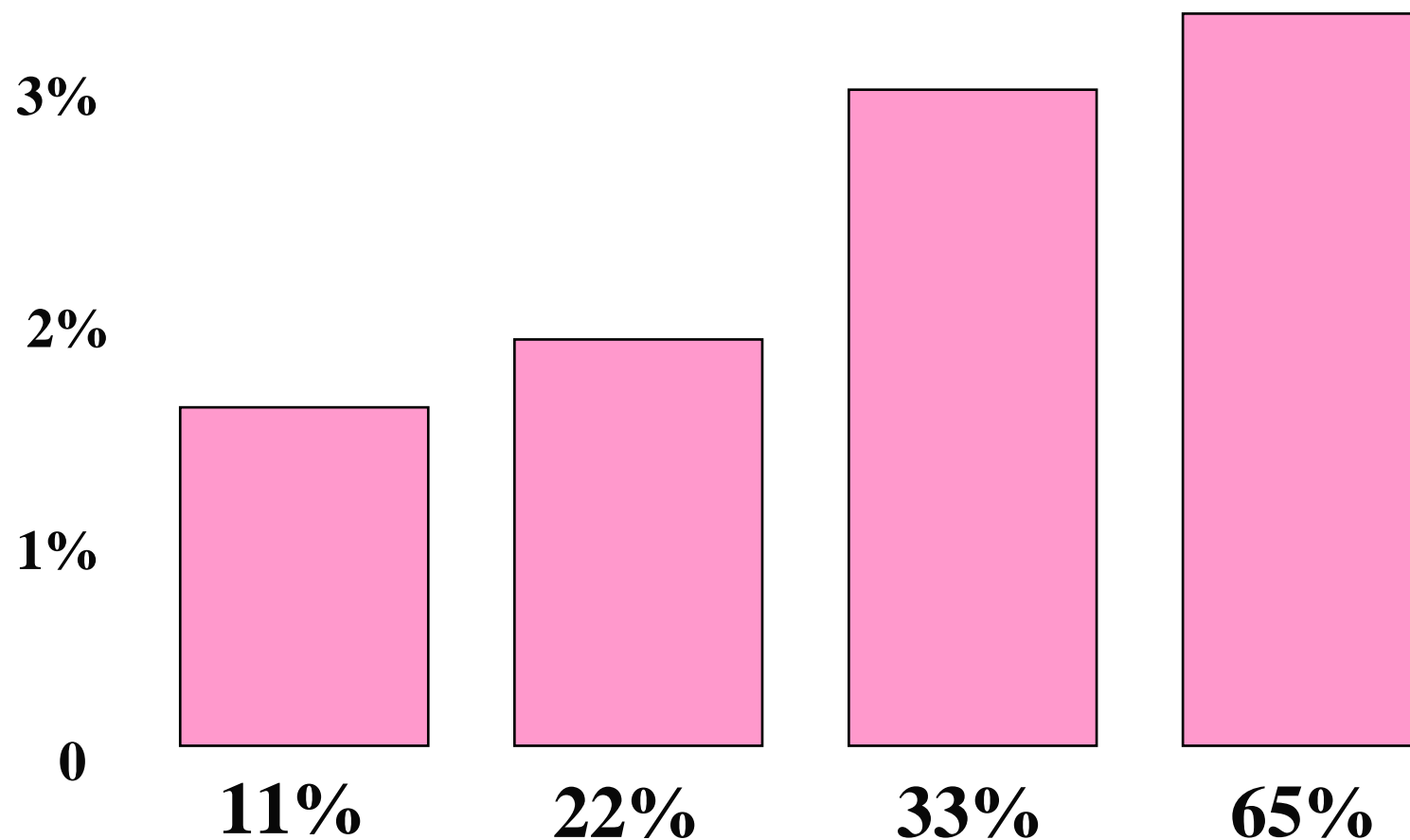
Source: Ross Levine

Financial depth, 1976

Finance boosts productivity



Productivity growth, 1960-05



Source: Ross Levine

Financial depth, 1960

Cross-border finance and Growth

The Lucas Paradox

Capital Flows from Poor to Rich Countries

The relative income of capital-exporting countries has fallen when compared with the United States.

(relative per capita GDP weighted by current accounts)



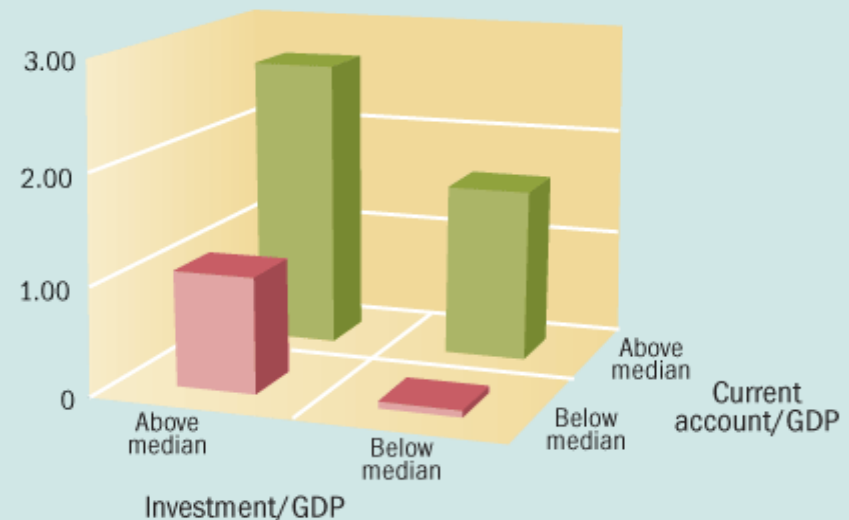
Source: Authors' calculations.

Notes: For each year, we separate our sample of countries into two groups—those with current account surpluses and those with deficits in that year. For the first group, we then take each country's share of the total current account surplus accounted for by all countries in that group. We then multiply that share by the relative purchasing power parity-adjusted per capita income of that country (measured relative to the per capita income of the richest country in the sample in that year). This gives us a current account-weighted measure of the relative incomes of surplus countries. We do the same for current account deficit countries. This enables us to compare the relative incomes of surplus versus deficit countries in each year.



Countries with high investment ratios and lower current account deficits grew faster than those more reliant on foreign capital.

(average per capita GDP growth; percent)



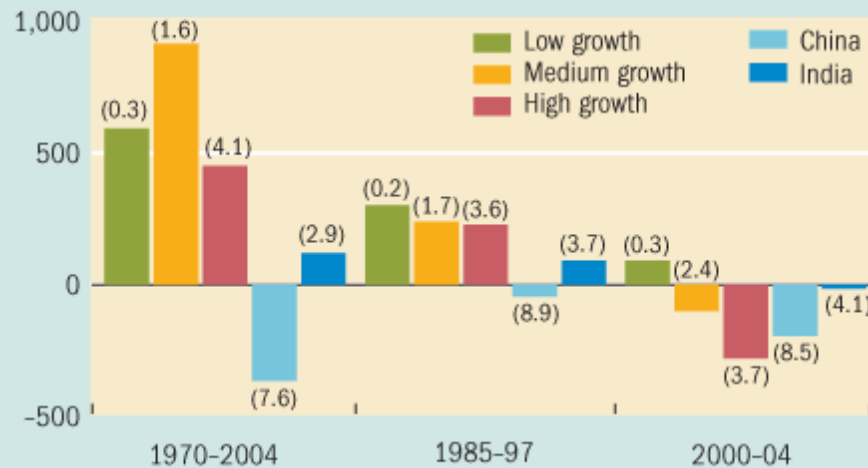
Source: Authors' calculations.

Net foreign capital flows are irrelevant – FDI helps



More Capital, Less Growth

High-growth developing countries attracted less net foreign capital than medium- and low-growth groups.
(aggregate flows to nonindustrial countries, billion dollars)

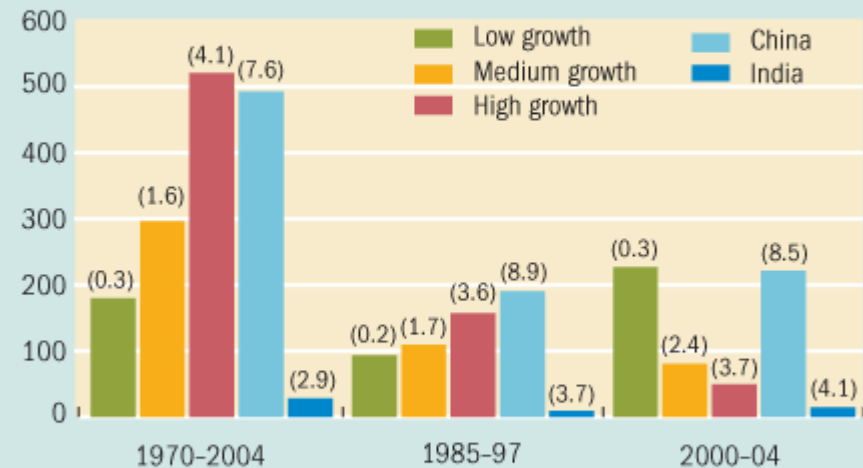


Source: Authors' calculations.

Notes: Median real GDP growth rates for the countries in each group (after averaging over the relevant period for each country) are shown in parentheses. The nonindustrial countries in our sample are split into three groups with roughly equal total populations in each group. China and India are treated separately. Each panel shows the cumulative current account deficits (in billions of dollars, deflated by the U.S. consumer price index starting at 1 in 2004) summed up within each group over the relevant period. Bars below the zero line indicate a current account surplus.

FDI supports Growth

Except for the most recent period, more FDI went to the fastest-growing countries.
(net FDI to nonindustrial countries, billion dollars)



Source: Authors' calculations.

Notes: Median real GDP growth rates for the countries in each group (after averaging over the relevant period for each country) are shown in parentheses. The nonindustrial countries in our sample are split into three groups with roughly equal total populations in each group. China and India are treated separately. Each panel shows the cumulative net FDI inflows (in billions of dollars, deflated by the U.S. consumer price index starting at 1 in 2004) summed up within each group over the relevant period.

Lessons about Incentives

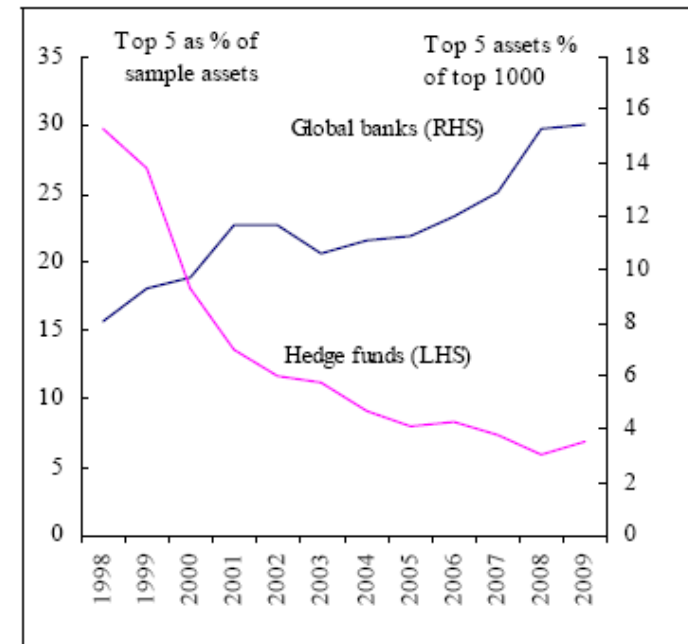
Large, Concentrated and Risky Hard to see?



More dogs that did not bark – Hedge Funds

- Large number of small players
- Specialized, not diversified
- High entry and exit (HF = 5%; banks = 0.1%)
- Most HF leveraged less than 1/10th of banks
- No bail-outs

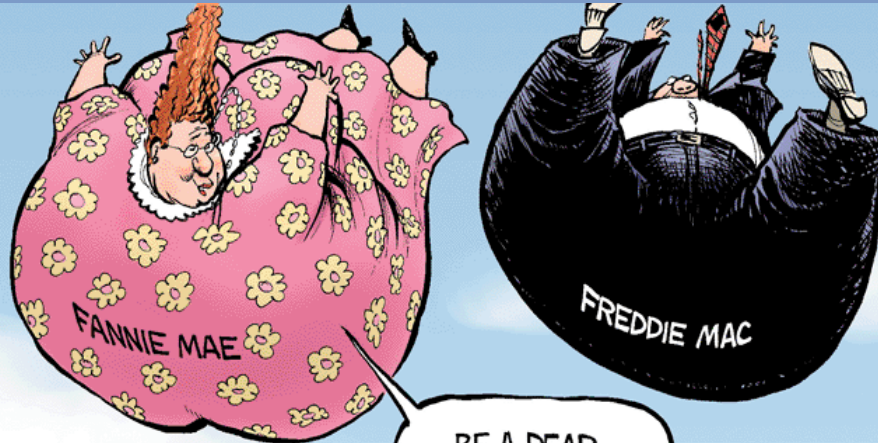
Bank and Hedge Fund Concentration



Source: A. Haldane et. al., 2009

Source: TASS and The Banker

State-owned and –sponsored Institutions



BE A DEAR
AND CATCH US
WHEN YOU LAND!



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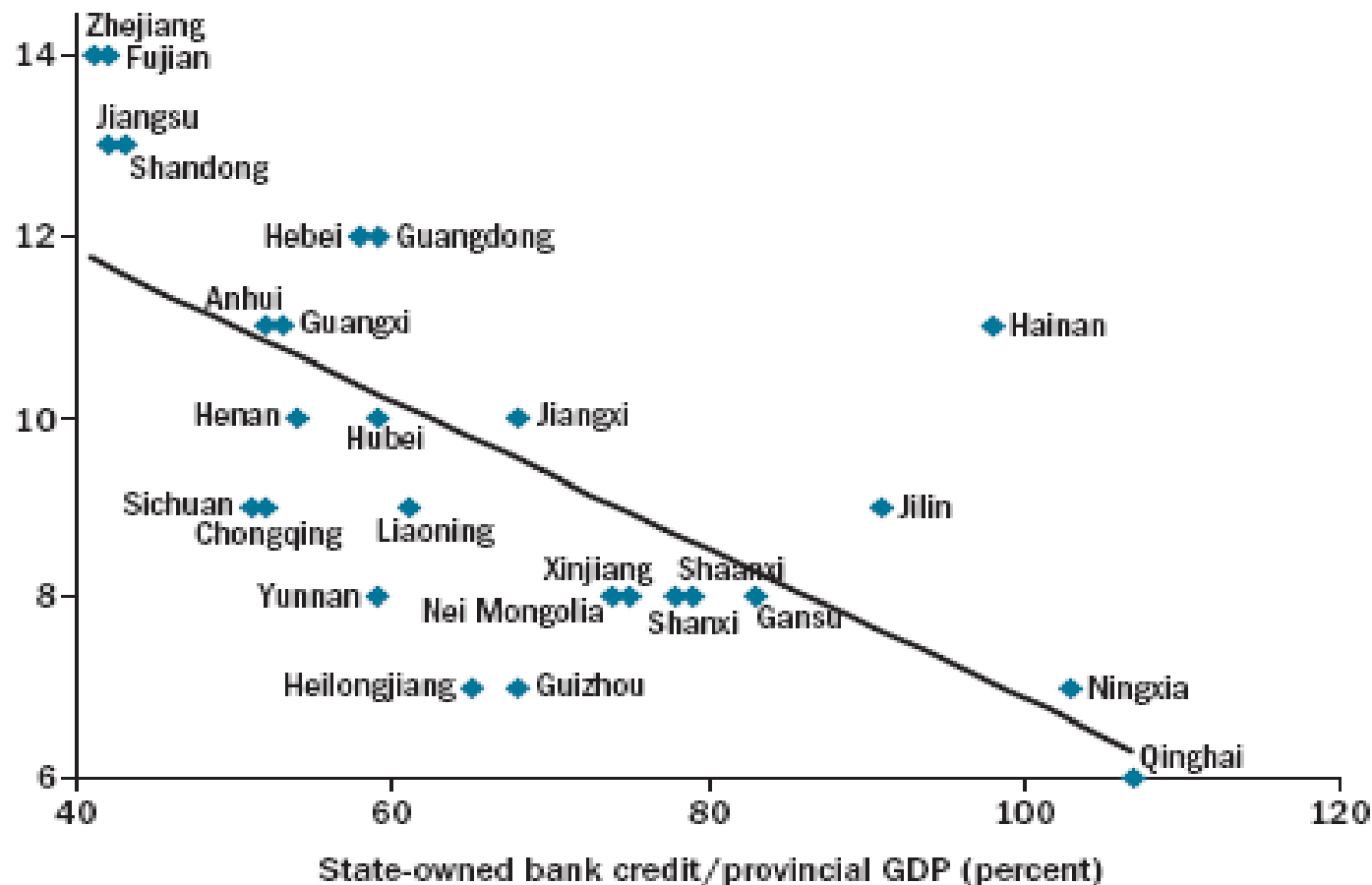


Are Chinese State-owned Banks different?



Finance and Growth across Chinese Provinces

% GDP per capita growth



Source: World Bank, 2008

When Finance Helps



- **Value Added – not Volume**
- **Opportunity – not Access**

The banker, therefore, is not so much primarily a middleman ... He authorizes people in the name of society ... (to innovate).

Joseph Schumpeter, 1912