

# Developing Country Perspectives on the Recent Crisis

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# Outline of Presentation

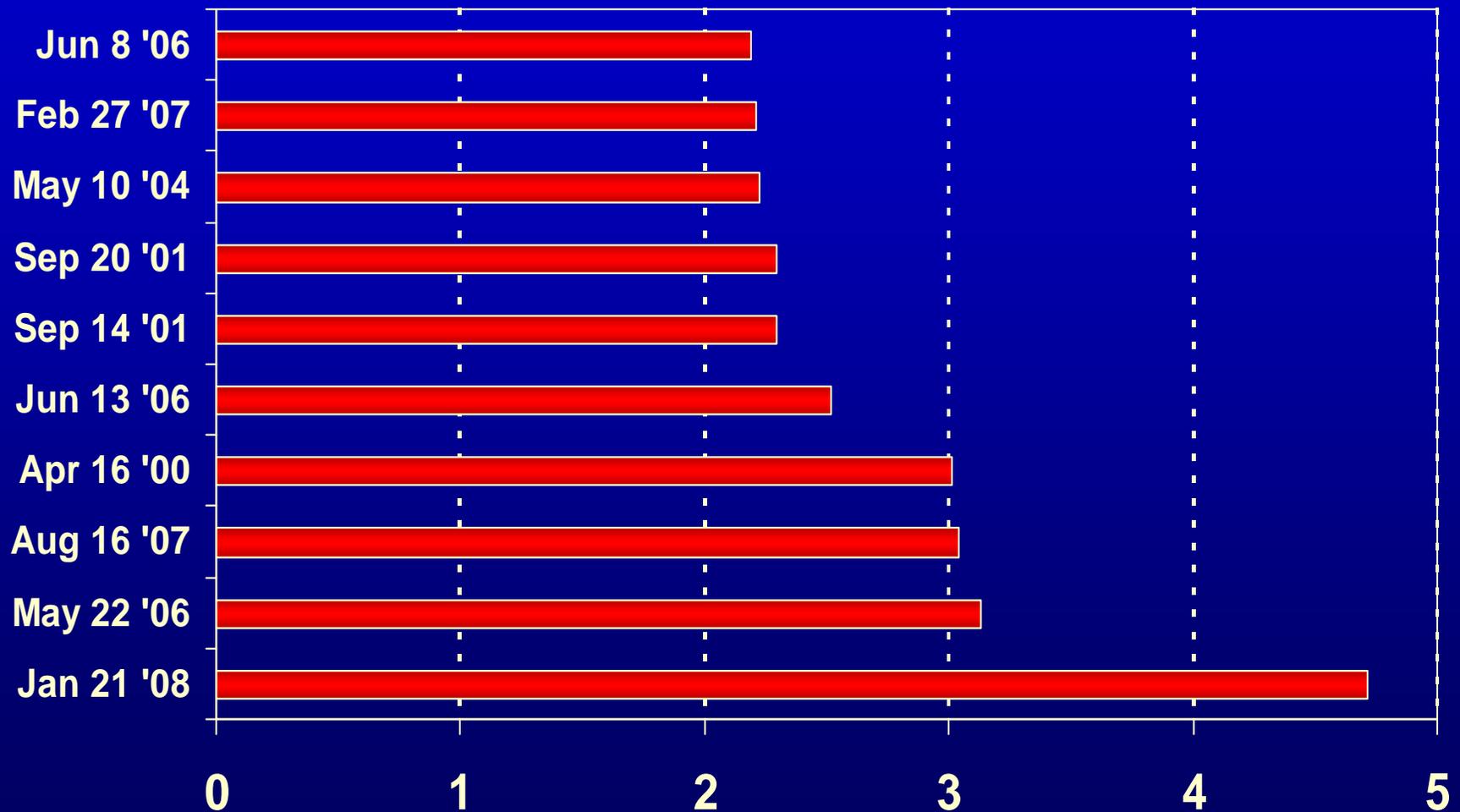
- What went wrong? The present crisis from the prism of emerging market financial crises.....
- How have emerging markets fared in the recent turbulence?
- Resurgent private capital flows and asymmetries in risks
- New rules of the game and implications for developing countries

# The Origins and Responses to Financial Crises...double standards?

- Bad incentives + Financial Liberalization = Excessive Lending
- Inadequate risk monitoring
- Weaknesses in crisis response

# Ten largest one-day losses in global stock markets

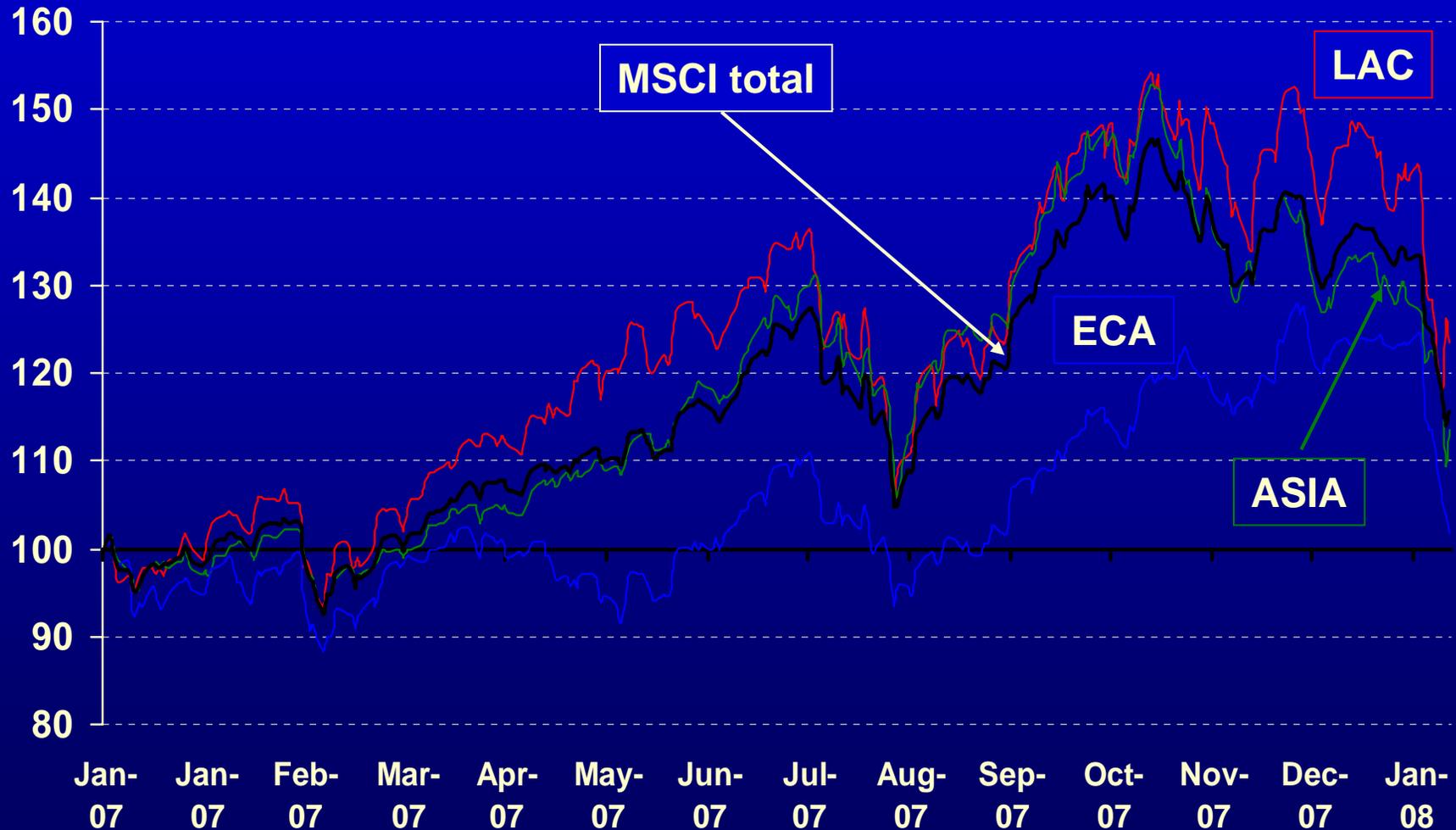
Simple average of daily % decline in 60 high-income and developing stock markets



Source: Development Prospects Group.

# Emerging equity markets hit across the board

index January 1, 2007 = 100



Source: Morgan-Stanley.

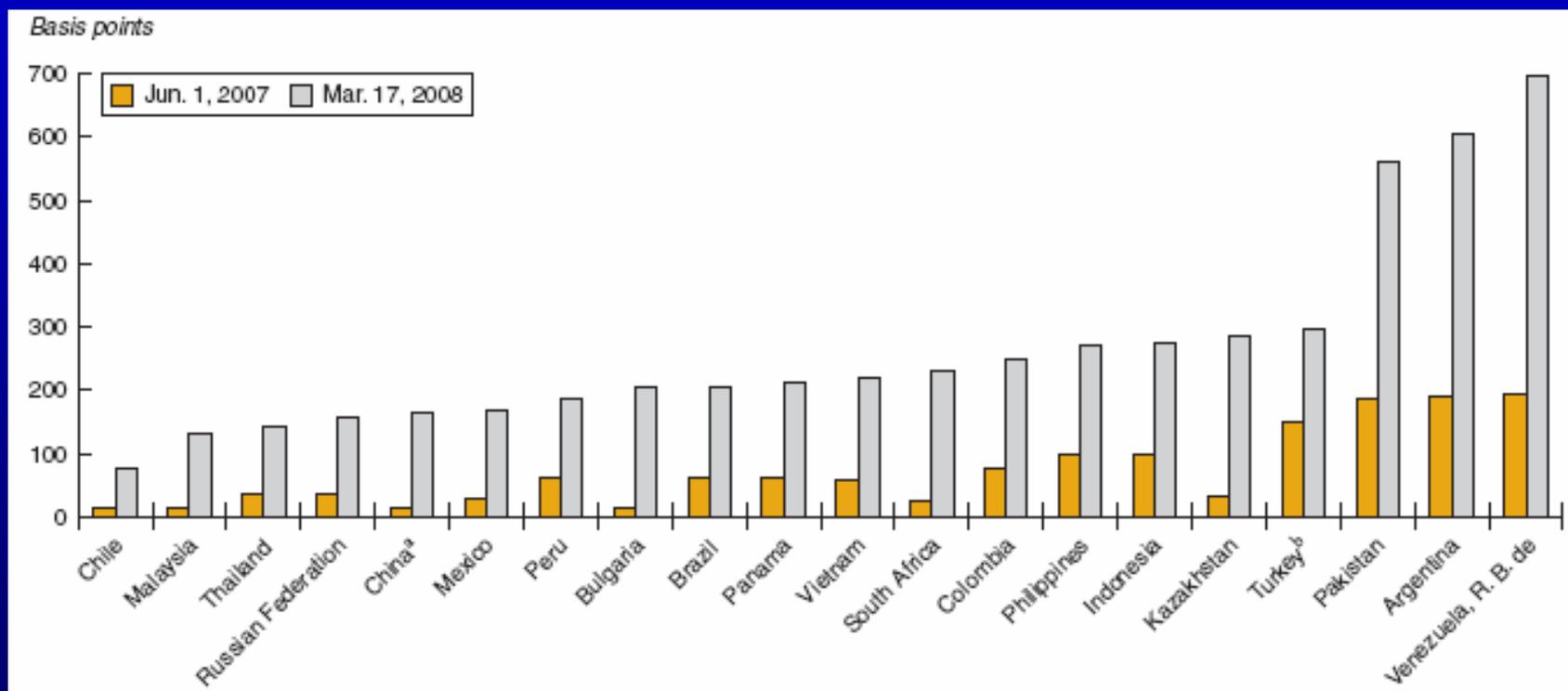
# Sovereign spreads increase across developing economies

spreads over ten-year U.S. T-note, basis points



Source: JPMorgan-Chase.

# Risk Premiums Have Increased Across Emerging Economies, as Shown by Spreads on Five-year Credit Default Swaps



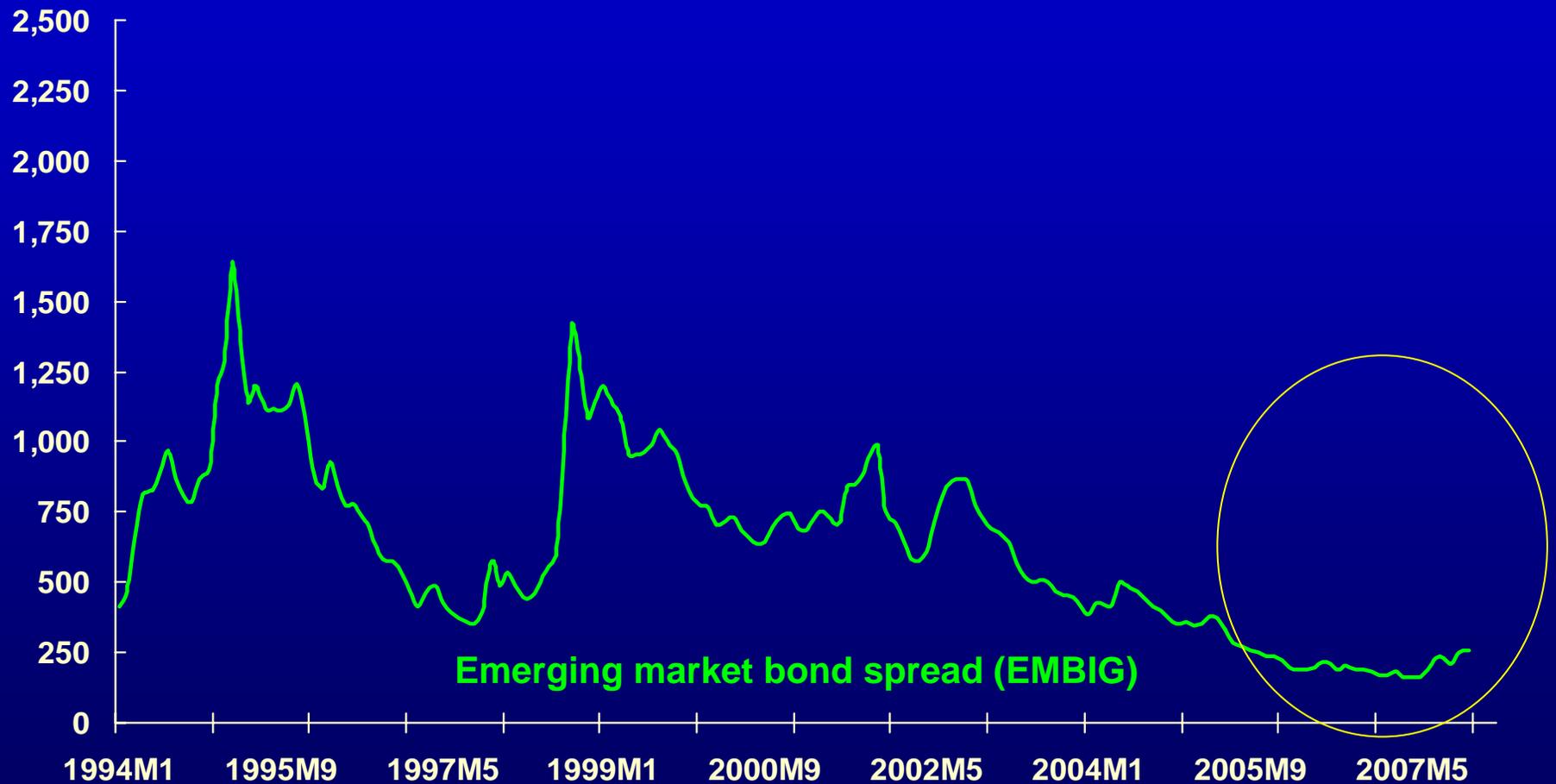
Source: Bloomberg.

a. Export-Import Bank of China.

b. As of July 19, 2007.

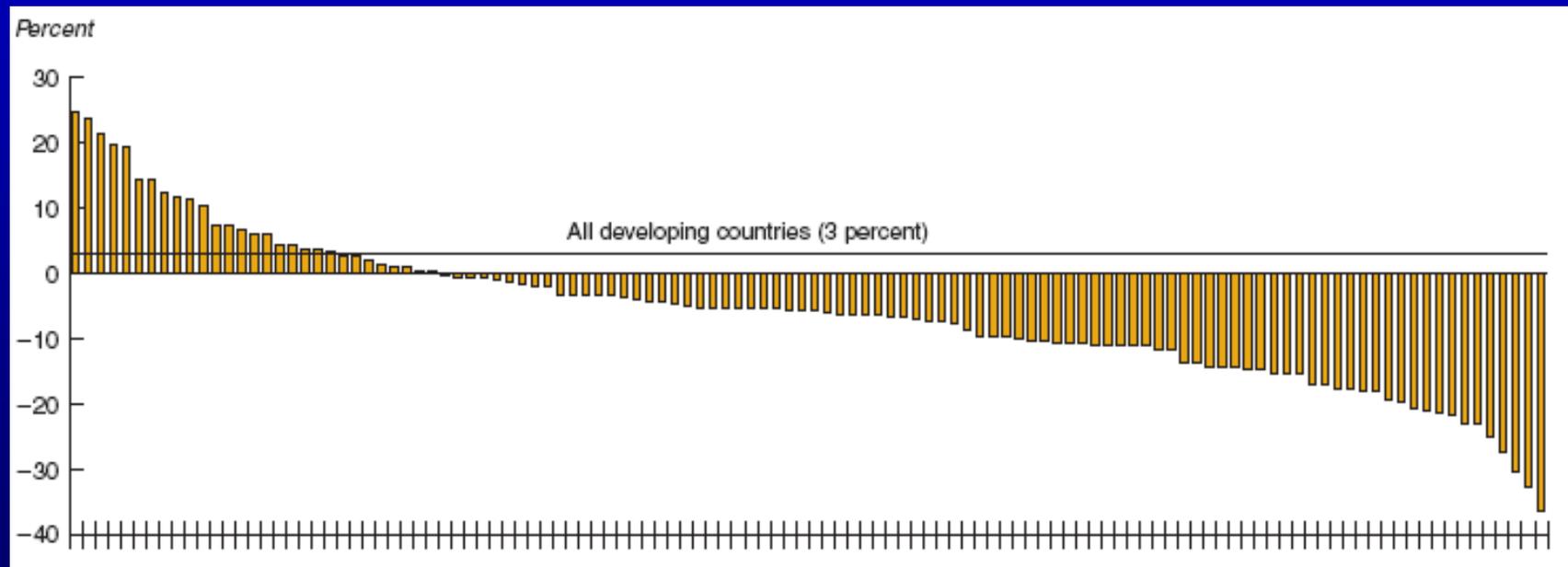
# ...but in historical perspective the present widening of spreads is modest

*Bond spreads (basis points)*



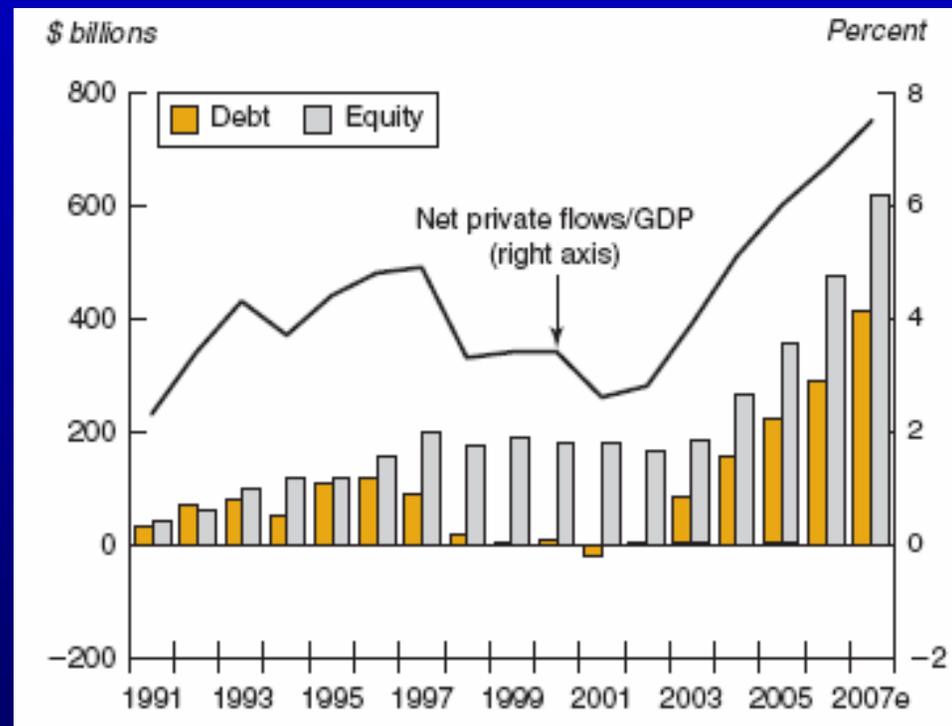
Source: JPMorgan.

# Current account as a share of GDP in Developing Countries 2007



Source: IMF International Financial Statistics.

## Net Private Flows to Developing Countries have reached a new peak.....

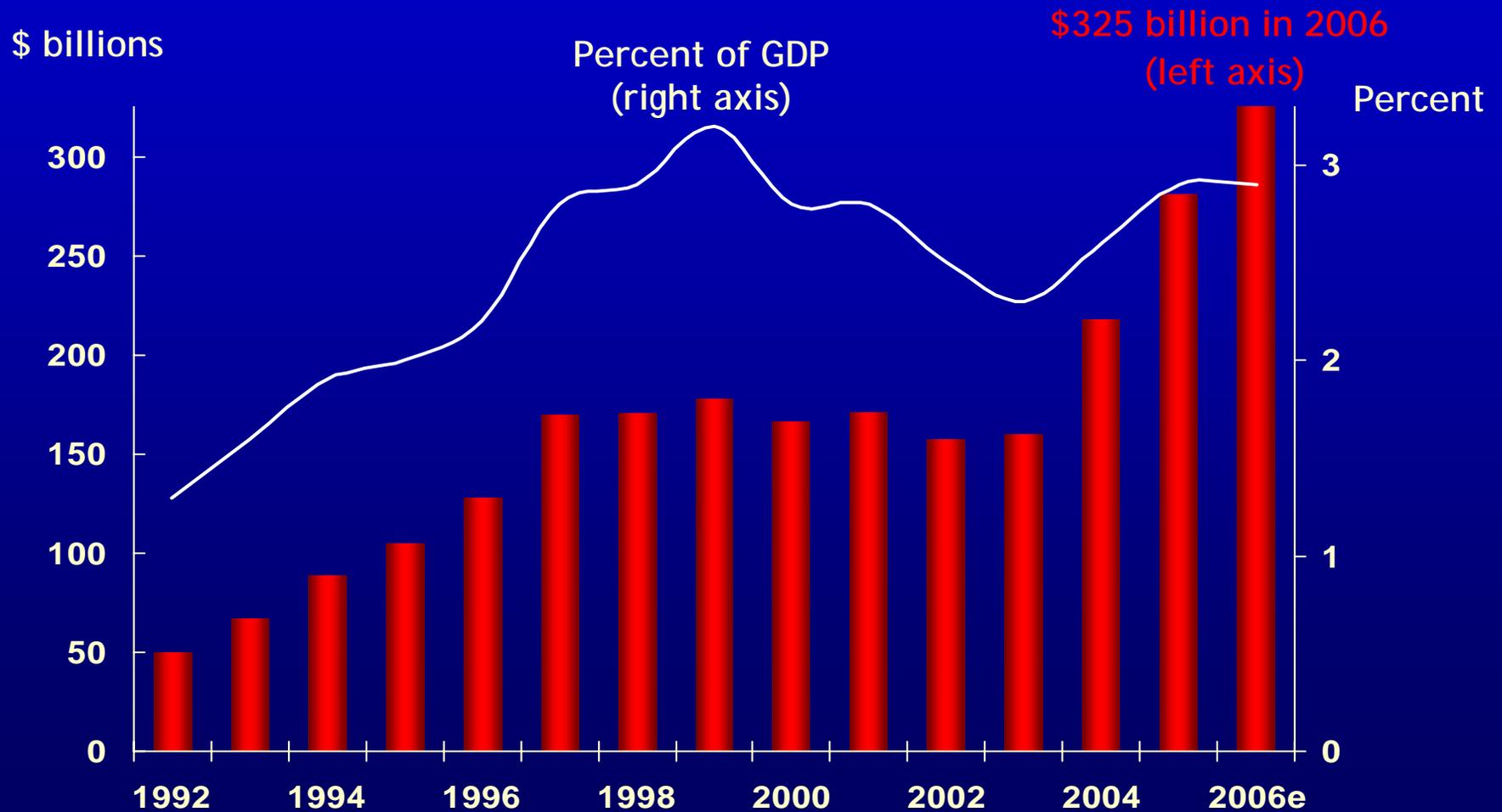


Sources: World Bank Debtor Reporting System and staff estimates.

Note: e = estimate.

# FDI inflows keeping pace with rapid growth...

Net FDI inflows to developing countries

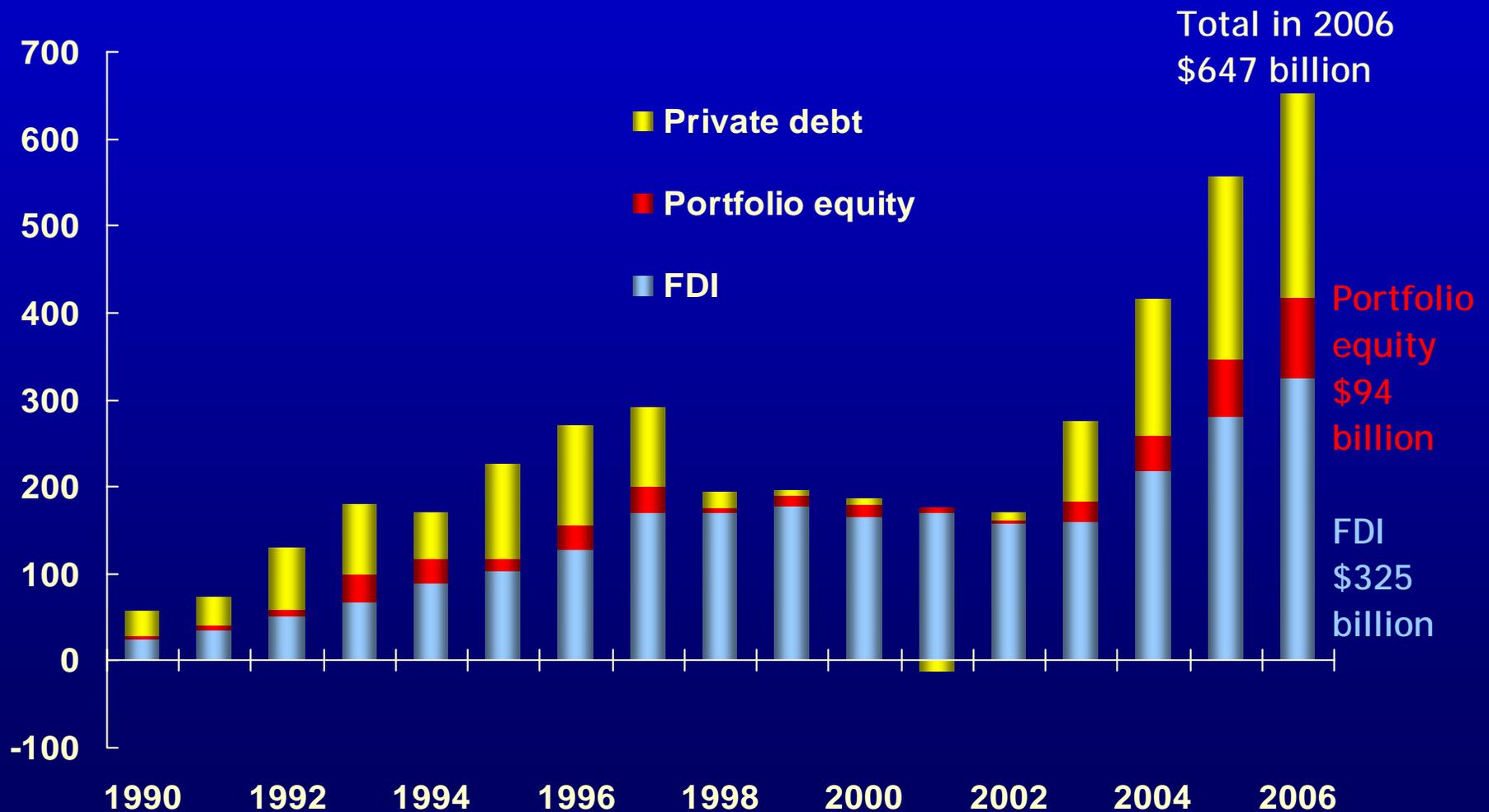


Source: World Bank.

# But portfolio flows and bank borrowing have been the main sources of the recent increase...

## Net private capital flows to developing countries

\$ billions



Source: World Bank.

# Net Capital Flows to Developing Countries, 2000–07

\$ billions

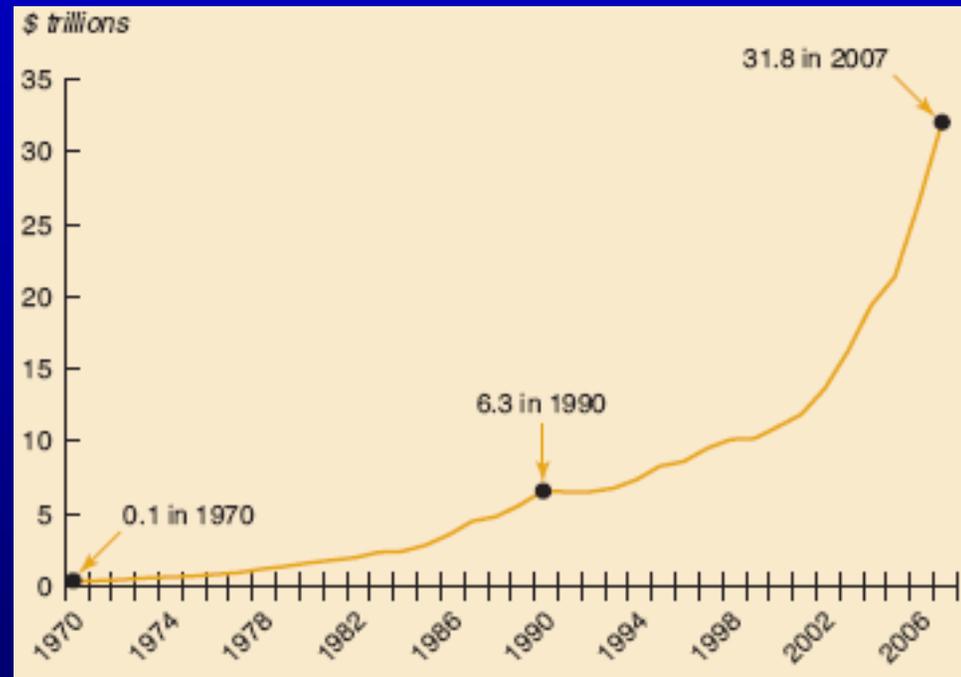
Category	1999	2000	2001	2002	2003	2004	2005	2006	2007e
Current account balance	-17.7	36.3	12.8	62	116.9	164.3	309.5	431	425.9
as % of GDP	-0.3	0.7	0.2	1	1.7	2	3.2	3.8	3.1
<i>Financial flows</i>									
Net private and official flows	209.7	181.2	191.3	174	262.4	386.4	479.7	689.8	1025
Net private flows (debt+equity)	195.7	187	164.5	169.1	274.1	412.5	551.4	760.3	1028.9
Net equity flows	188.4	179	178.6	166.2	186	265.9	357.4	472.3	615.9
Net FDI inflows	177	165.5	173	160.7	161.9	225.5	288.5	367.5	470.8
Net portfolio equity inflows	11.4	13.5	5.6	5.5	24.1	40.4	68.9	104.8	145.1
Net debt flows	15.1	-0.4	4.5	8.9	72.8	128.8	152.4	217.5	409.1
Official creditors	14	-5.8	26.8	4.9	-11.7	-26.1	-71.7	-70.5	-3.9
World Bank	8.8	7.9	7.6	-0.4	-0.8	1.4	2.5	-0.7	3
International Monetary Fund	-2.2	-10.6	19.5	14	2.4	-14.7	-40.2	-27.1	-4.7
Others official	7.4	-3.1	-0.3	-8.7	-13.3	-12.8	-34	-42.7	-2.2
Private creditors	1.5	5.8	-23	3.8	84.4	155.2	222.7	288	413
Net medium- and long-term debt	18.9	12.2	1.9	0.7	30.9	87.7	133.1	193.8	283.3
Bonds	25.7	19.5	10.2	8.8	19.6	41.1	52.6	25.3	79.3
Banks	-5.5	-3.9	-2	-1.7	15.2	50.4	85.3	172.4	214.7
Others	-1.3	-3.4	-6.3	-6.4	-3.9	-3.8	-4.8	-3.9	-10.7
Net short-term debt flows	-17.4	-6.4	-24.9	3.1	53.5	67.5	89.6	94.2	129.7
Balancing itema	-153.1	-172.3	-115.5	-70.6	-83.2	-156.6	-417.5	-481.9	-391
Change in reserves (- = increase)	-32.8	-42.6	-80.4	-166.5	-292.4	-402.4	-390.8	-634.2	-1090.7
<i>Memorandum item</i>									
Workers' remittances	77.5	84.5	95.5	115.8	143.4	160.7	191	221	240

Sources: World Bank Debtor Reporting System and staff estimates.

Note: e= estimate; FDI = foreign direct investment.

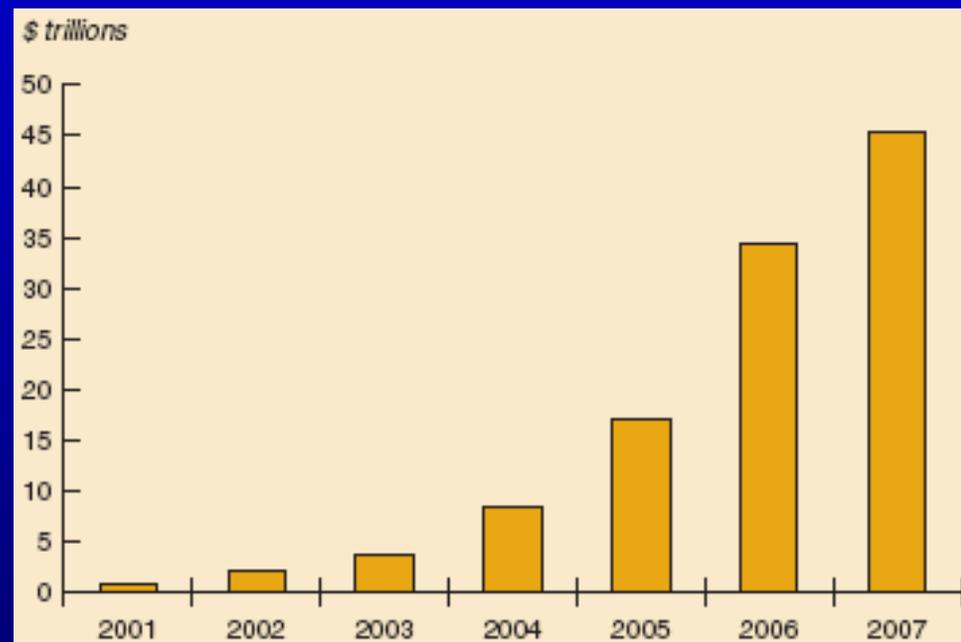
a. Combination of errors and omissions and transfers to and capital outflows from developing countries.

# International Banking Expansion 1970–2007



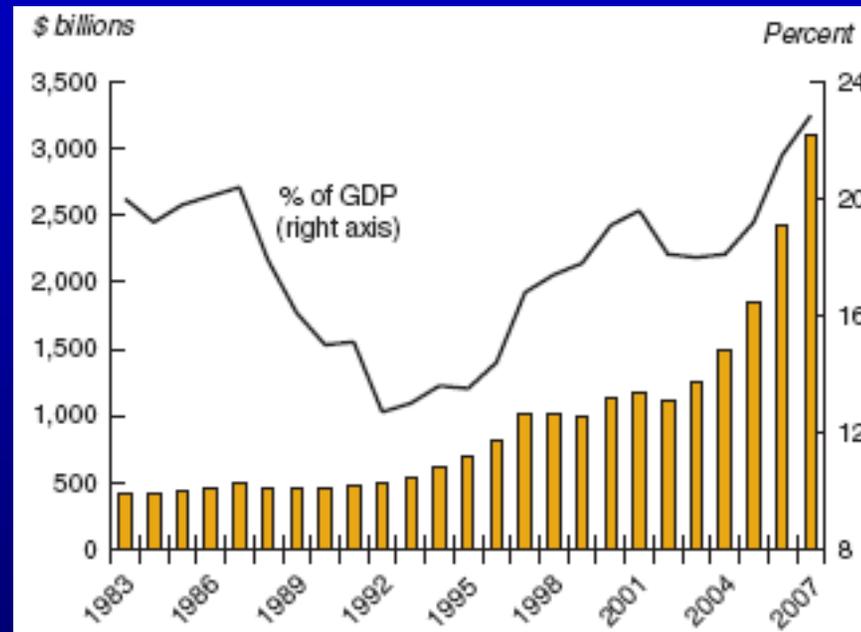
Source: Bank for International Settlements (BIS).

# Significant Expansion in The Credit Derivatives Market



Source: International Swaps and Derivatives Association 2007.

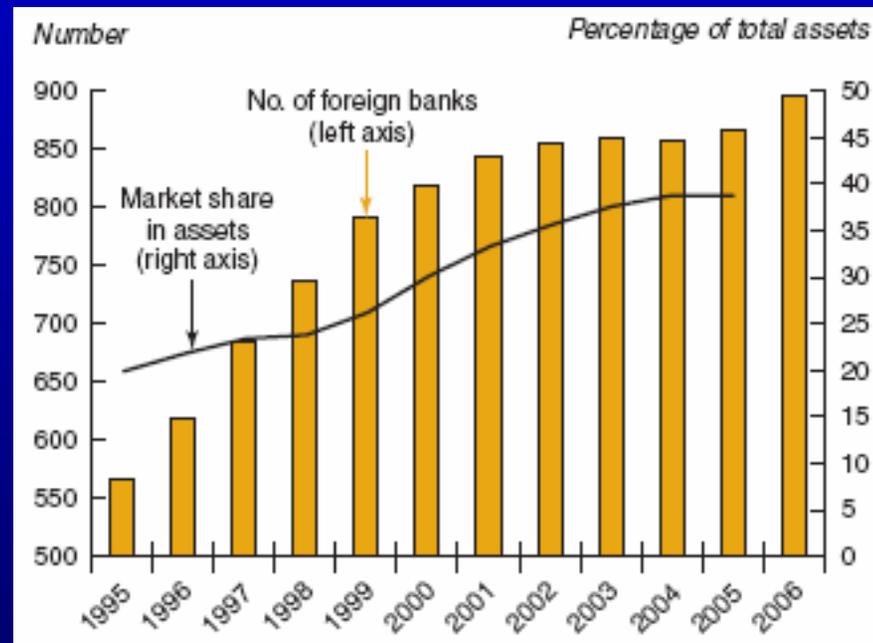
# International Bank Claims on Developing Countries



Sources: Bank for International Settlements (BIS); World Bank.

Note: These are the foreign assets of banks reporting to the BIS. GDP is aggregate GDP for developing countries.

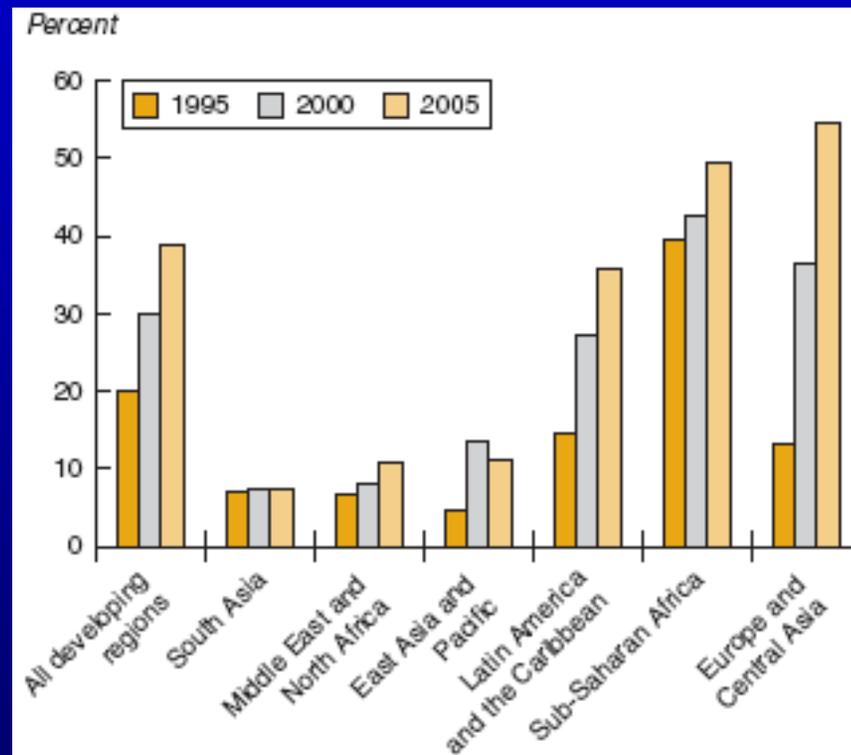
# Foreign Banks' Increasing Involvement in Developing Countries 1995–2006



*Source:* World Bank staff estimates based on data from Bankscope.

*Note:* Foreign banks are those in which foreign shareholders hold 50 percent or more of total capital. Because asset data for 2006 are missing for a significant number of banks, asset information is presented only to 2005.

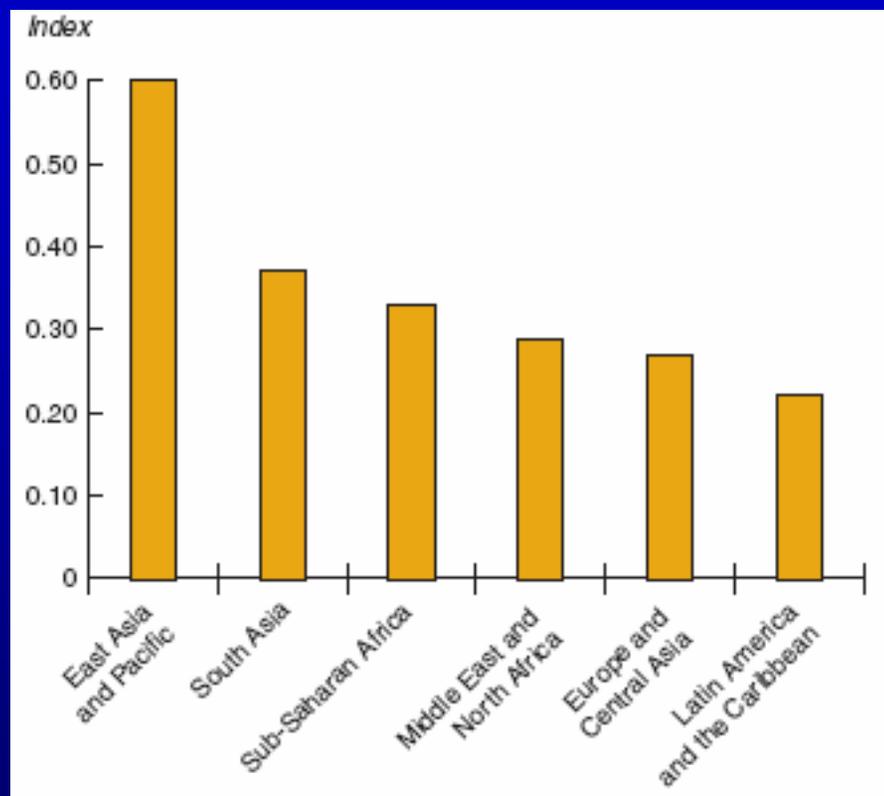
# Share of Banking Assets Held by Foreign Banks - by Region



Source: World Bank staff estimates based on data from Bankscope.

Note: Foreign banks are those in which foreign shareholders hold 50 percent or more of total capital.

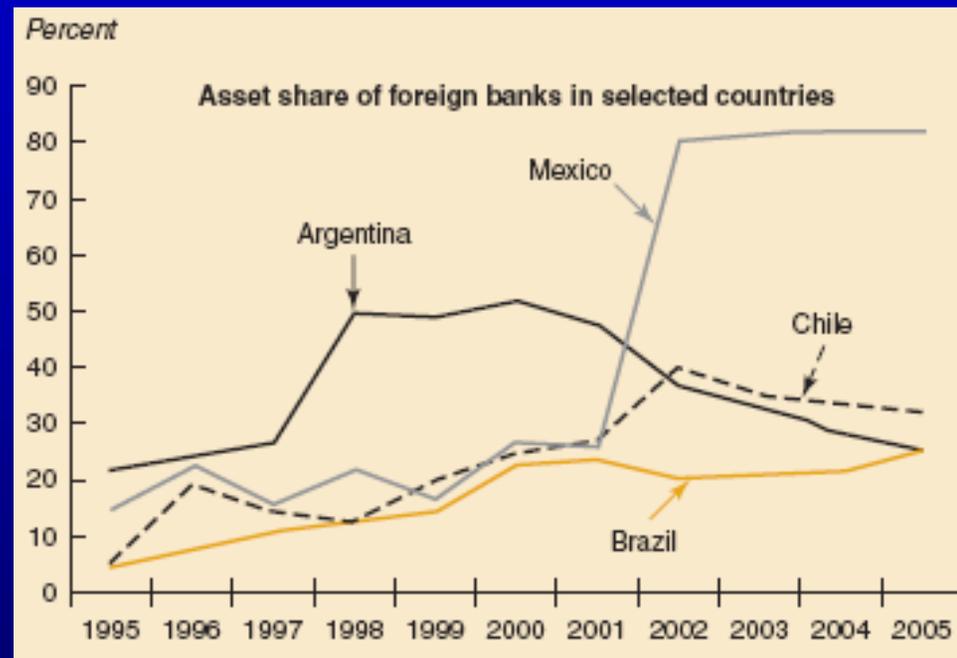
# Restrictions on FDI in the Banking Sector 2005



*Source:* World Bank staff estimates based on data from UNCTAD (2006).

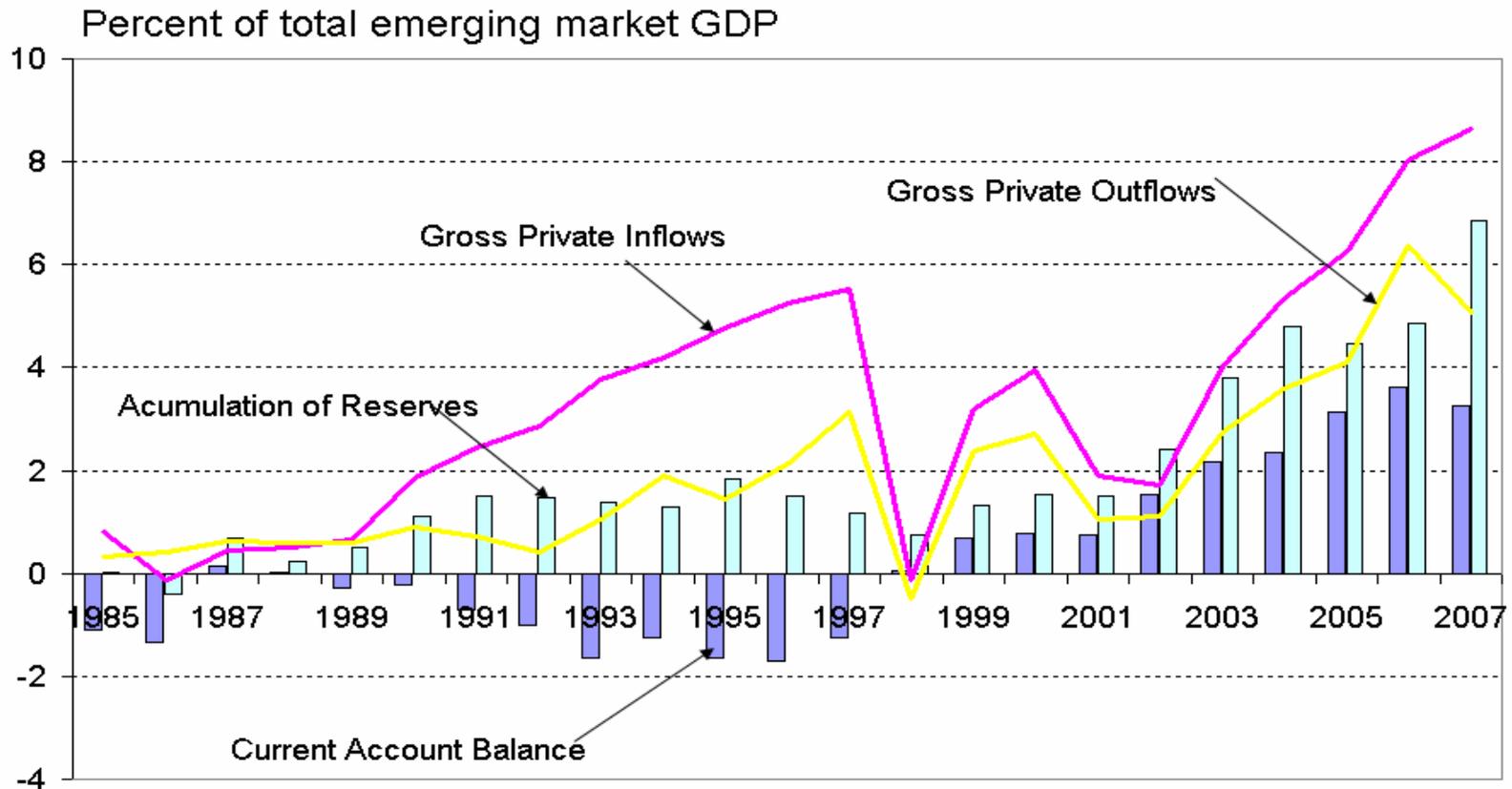
*Note:* Regional averages are the simple average of the index for each country within the region. The country index is measured on a 0–1 scale, with 0 representing full openness and 1 a de facto prohibition. The index is based on government policies related to foreign bank ownership restrictions, screening and approval, and operational restrictions (in the order of highest weighted restriction to the lowest).

# Changing Role of Foreign Banks in Latin America



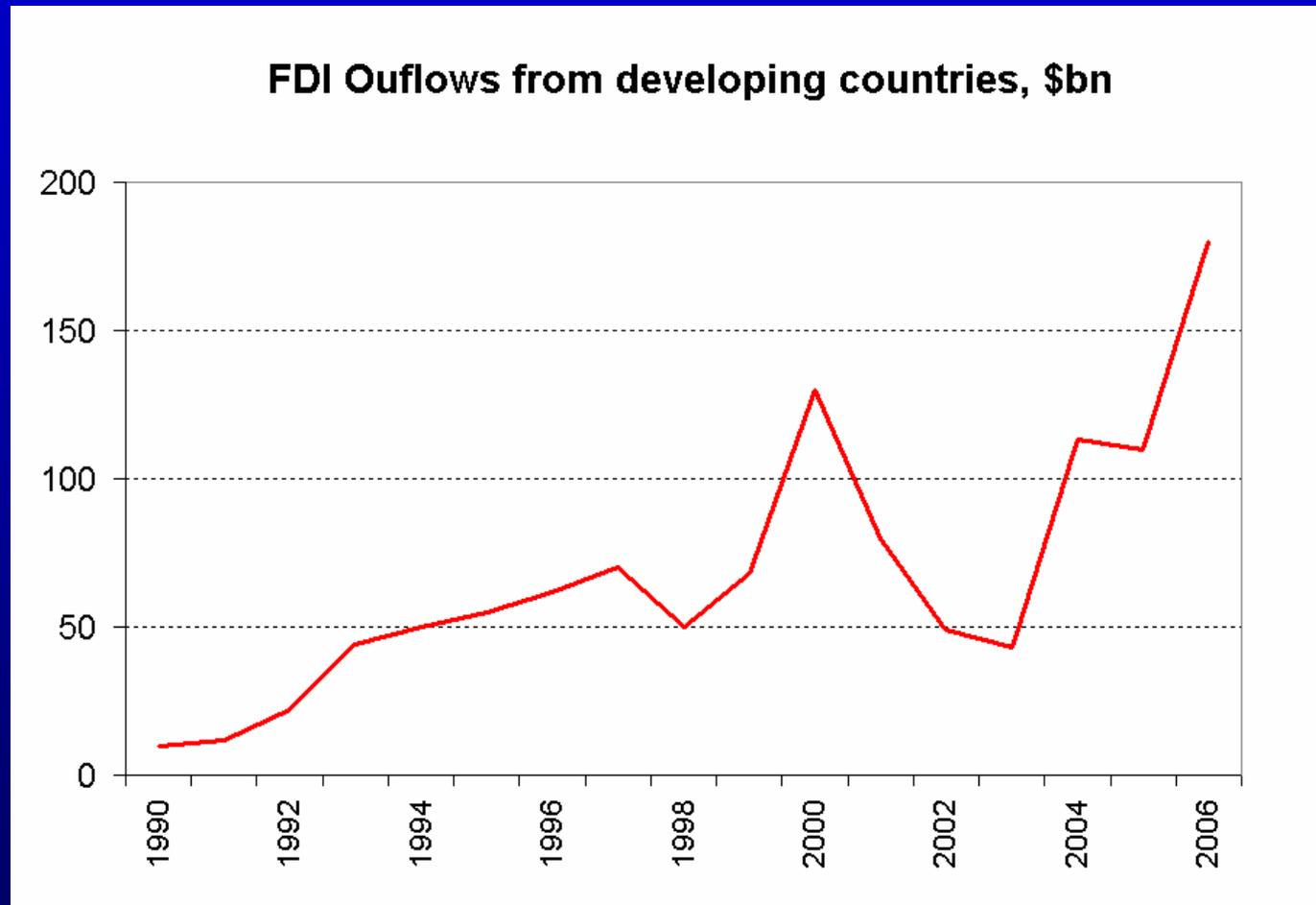
Source: World Bank staff estimates based on data from Bankscope.

# The surge in net private inflows is matched by a pickup in gross outflows



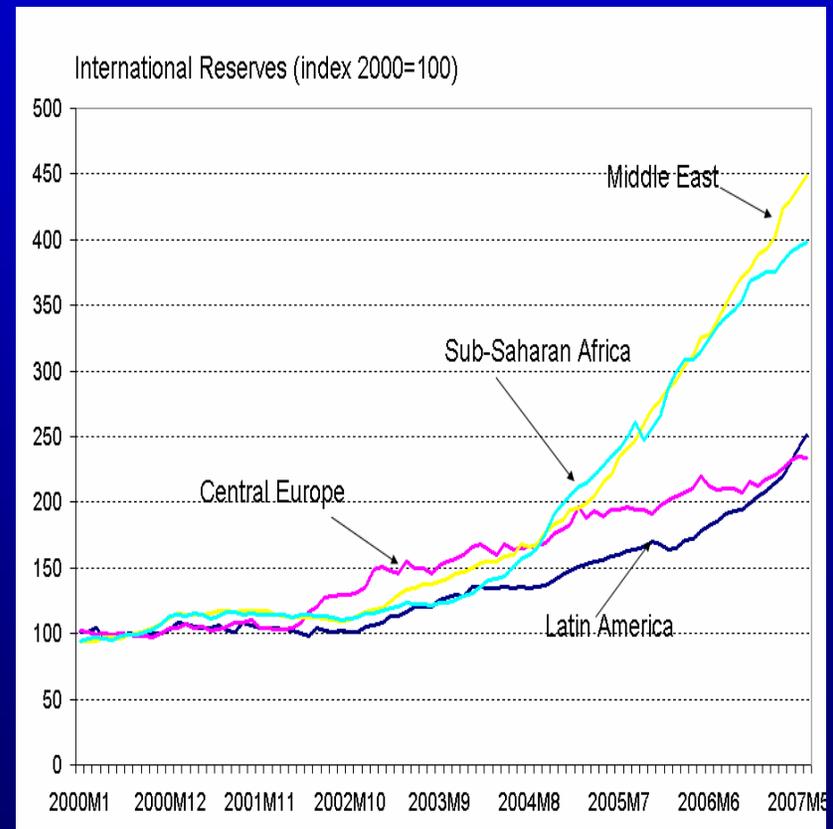
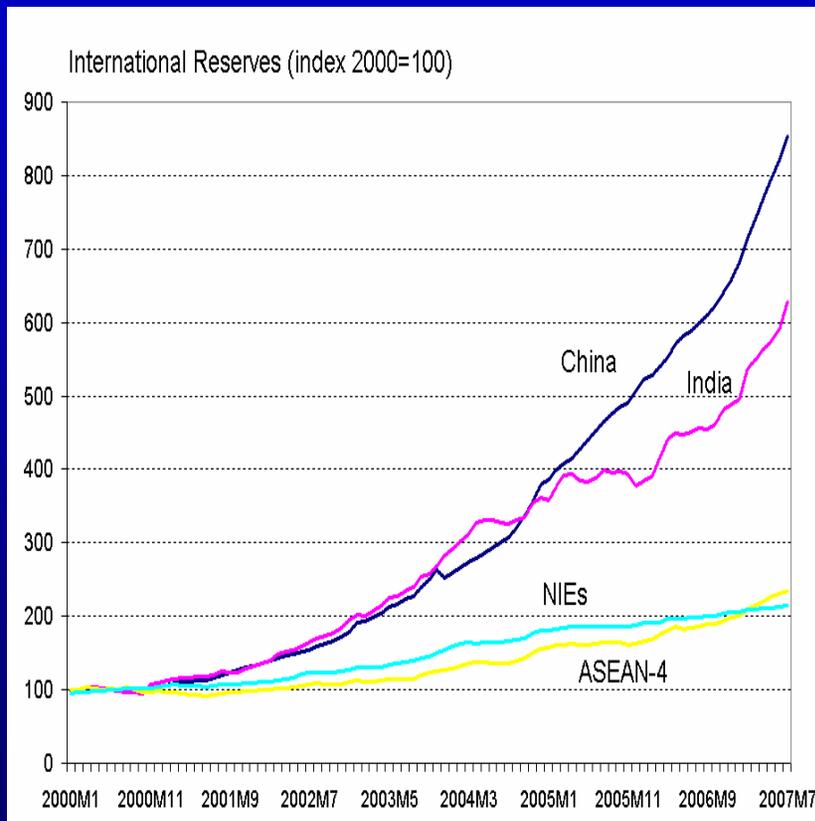
Source: IMF Balance of Payment Statistics and IMF staff calculations.  
Values for 2007 are IMF staff projections

# Developing Country Multinationals are becoming global investors



Source: UNDP

# Reserve Accumulation



Source: IMF, International Financial Statistics, and IMF staff calculations