



Overseas Development
Institute

The global financial crisis and developing countries

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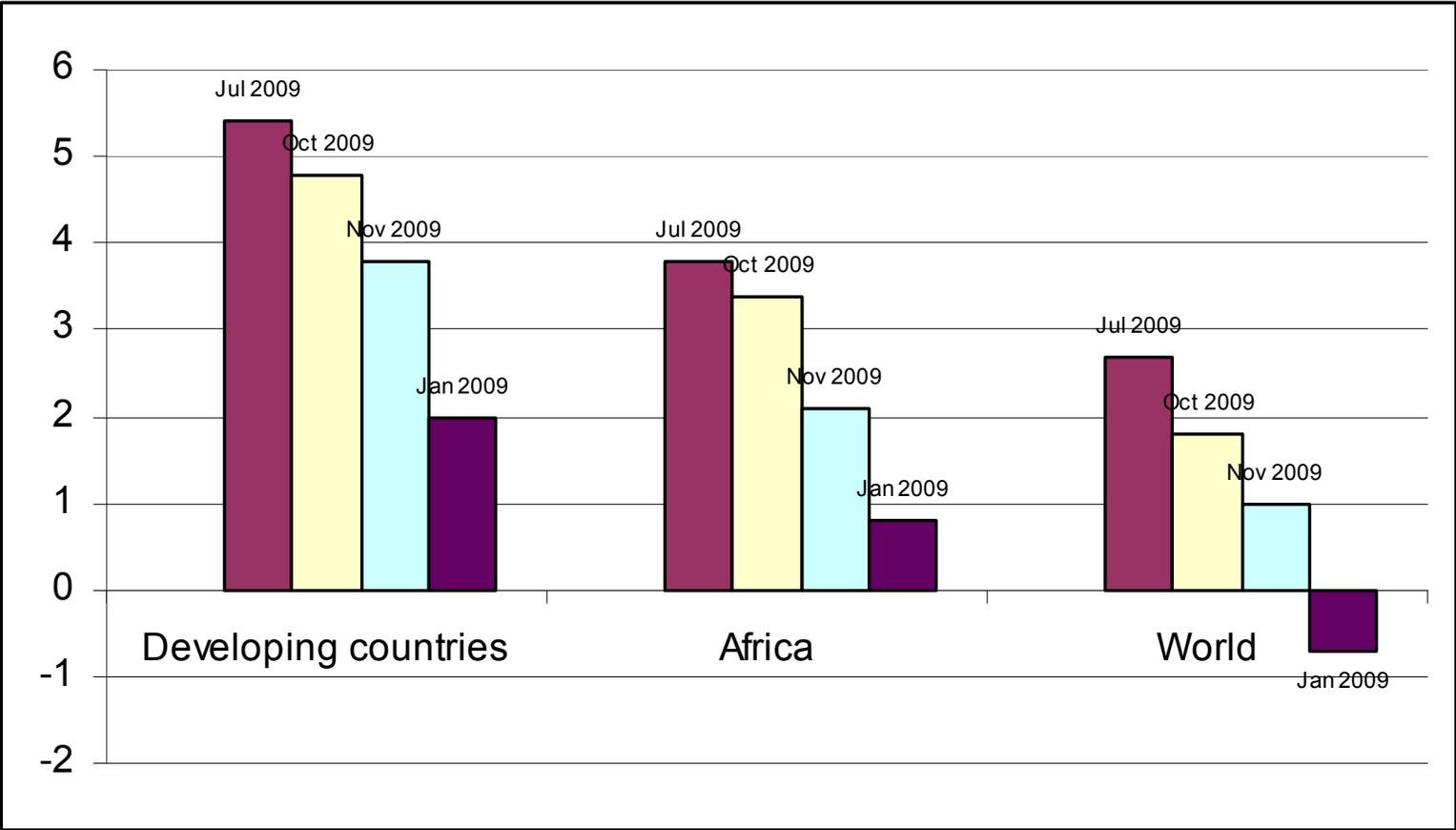
Introduction

- ❑ Research project on the effects of the crisis funded by DFID and Dutch Ministry of Foreign Affairs, co-ordinated by team of 6 ODI researchers in 10 countries / 3 regions.
- ❑ Aims:
 - ❑ Monitoring effects of the GFC; to feed into global development policy (e.g. G20).
 - ❑ Promoting policy discussions on growth and development in developing countries
 - ❑ Networking amongst development research institutes and think tanks and build on partnerships for future research on economic policy



The effects expected to be serious especially for developing countries

Revisions of forecasts for GDP per capita for 2009 (annual change, %)





We should understand

1. What are the likely elements of the shock at national level
 2. What are the actual and likely effect on growth and development
 3. What are actual, possible and optimal policy responses
- *Country reports to be structured in this way*

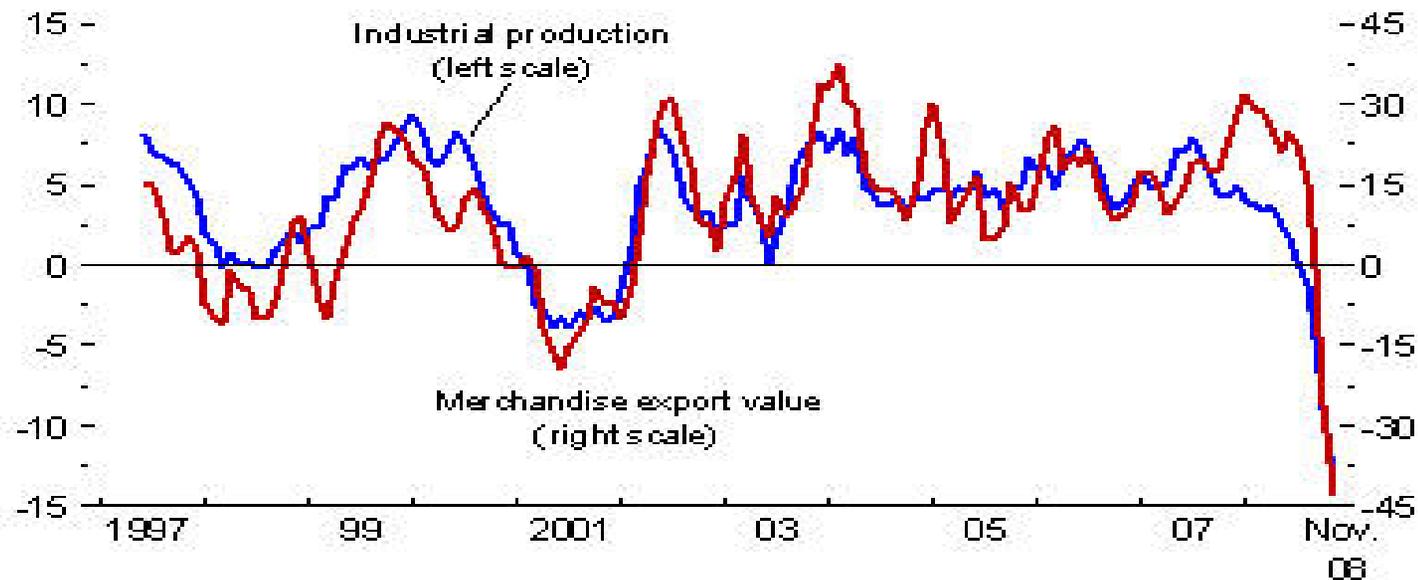
Shock at national level

- ❑ Private capital flows (ODI, WB and IIF forecasts, e.g. from more than US 900 bn to US 165 bn)
 - ❑ Trade (shocking drops for Asia, 20% y-on-y drops in exports, copper export values, tourism)
 - ❑ Remittances (Mexico, Kenya etc – including migration issues)
 - ❑ Aid (under pressure – will not grow as much as thought in 2005)
- *Reports to include before / after comparison and compare magnitude with previous crises*

Trade and production in freefall

Figure 2. Growth in Global Industrial Production and Merchandise Trade

(Annualized three-month percent change)



Sources: Haver Analytics; and IMF staff estimates.

Effects on growth and development

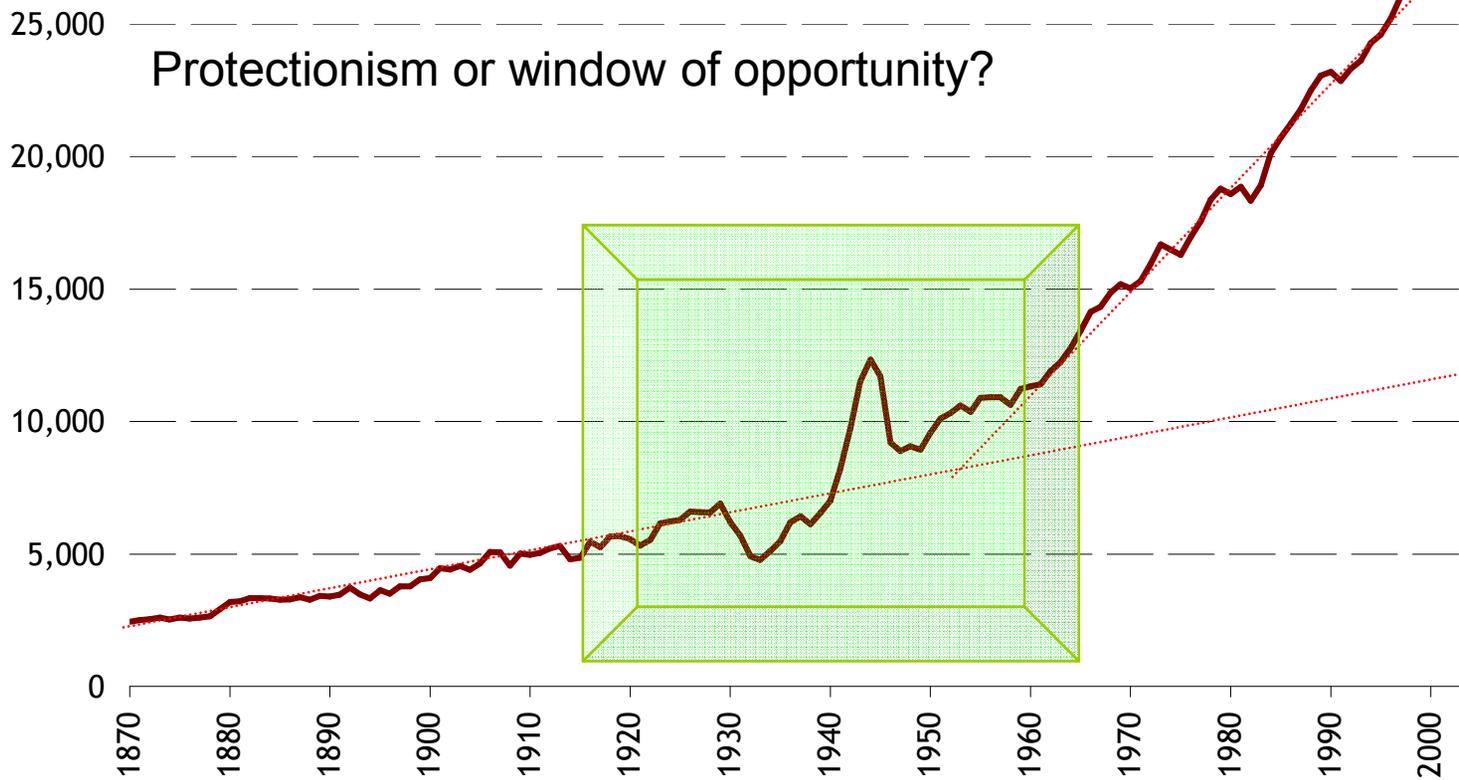
- ❑ Effects on growth (WB forecasts, own CGE, logical thinking / CCA etc). Output loss for 2008/9 at least \$50bn in SSA, \$800bn in developing, \$2.4tr in world
 - ❑ Employment, investment, poverty, social effect
 - ❑ Targeted discussions (e.g. rural-urban / gender effect in Cambodian garments, Zambian copper, or Kenyan Tourism)
 - ❑ Social protection baseline (e.g. examine government budgets)
- *Reports to distinguish between actual and possible effects, short-term and long-term*

Policy responses

- ❑ Economic policy measures (e.g. fiscal stimulus, early disbursements, need for IMF/BoP shock facilities, monetary easing, changed reserve requirements, eg Cambodia or Mauritius)
 - ❑ Social policies (e.g. social protection, lending to SMEs)
 - ❑ Normal growth and development policies (acceleration of investment climate support, trade liberalisation)
- *Reports to discuss actual, possible and optimal policy responses*

What will happen in/after crises?

USA GDP per capita (1990 \$)



Source: WB

Time scale and future activities

- ❑ Collaboration between ODI and country researchers, in-country workshop
- ❑ Tight deadlines: 15 March 2009 for first draft (25 pages, excl. any appendices); syntheses by ODI
- ❑ This study for monitoring; in future we need to build on our partnerships to
 - ❑ *Global, cyclical*: Examine global financial rules and shock facilities to dampen cyclicalities
 - ❑ *Global, structural*: Examine optimal way for countries to engage with the global economy (trade, FDI, bank lending, state-business relations etc)
 - ❑ *National, cyclical and structural*: Examine effective social and growth policies to get us through the crisis