



Overseas Development
Institute

The global financial crisis and developing countries

Taking Stock and Taking Action

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Outline

□ Taking stock

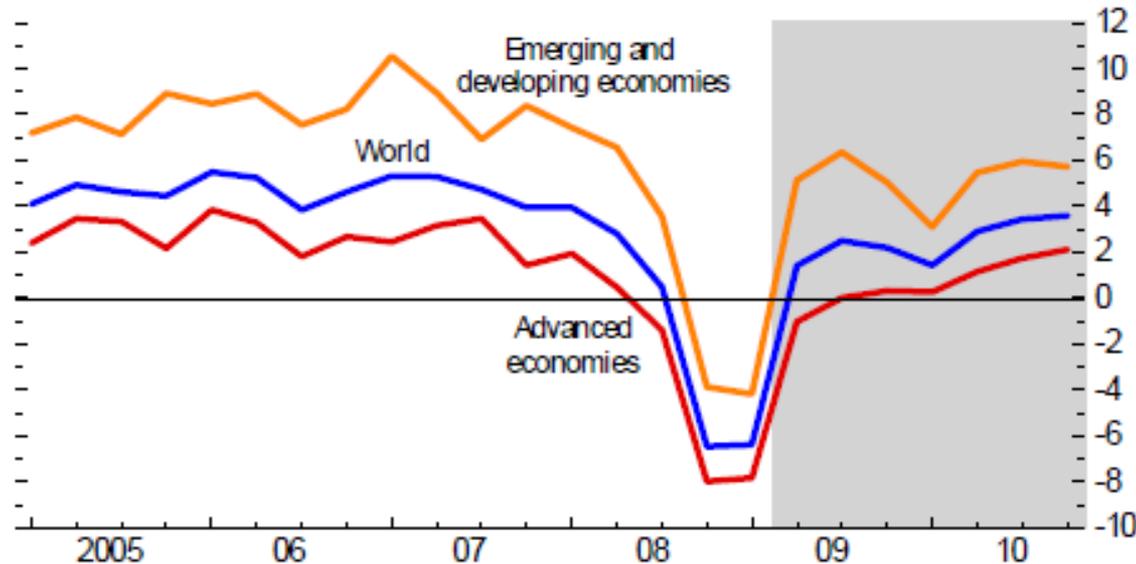
- Global economy
- Low-income countries
- Policy responses (developed, developing, donors)

□ Taking action

- Getting out of the crisis: rainbow recovery
- Preventing future crises: regulation and imbalances
- Living with crises: crisis-resilient growth

Global economy: Recovery?

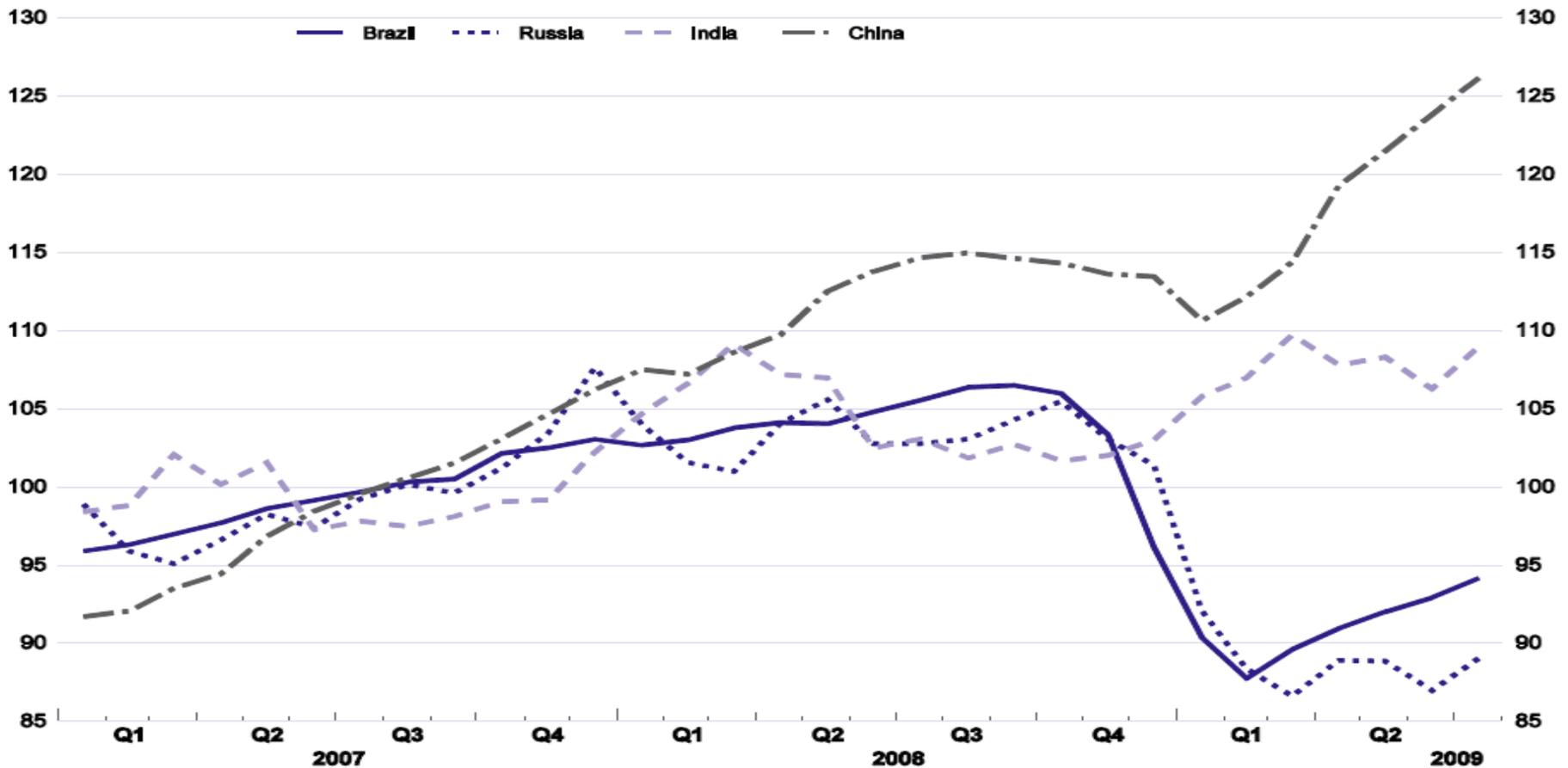
Q-Q GDP Growth forecasts (IMF)



- ❑ OECD report: OECD countries coming out of recession;
- ❑ Shape of recovery not yet known:
 - V- shape (or Square Root)
 - L (long term correction) or W (double dip, e.g. if oil prices rise, consumption remains depressed, higher inventories, and stimulus / easing undone)?

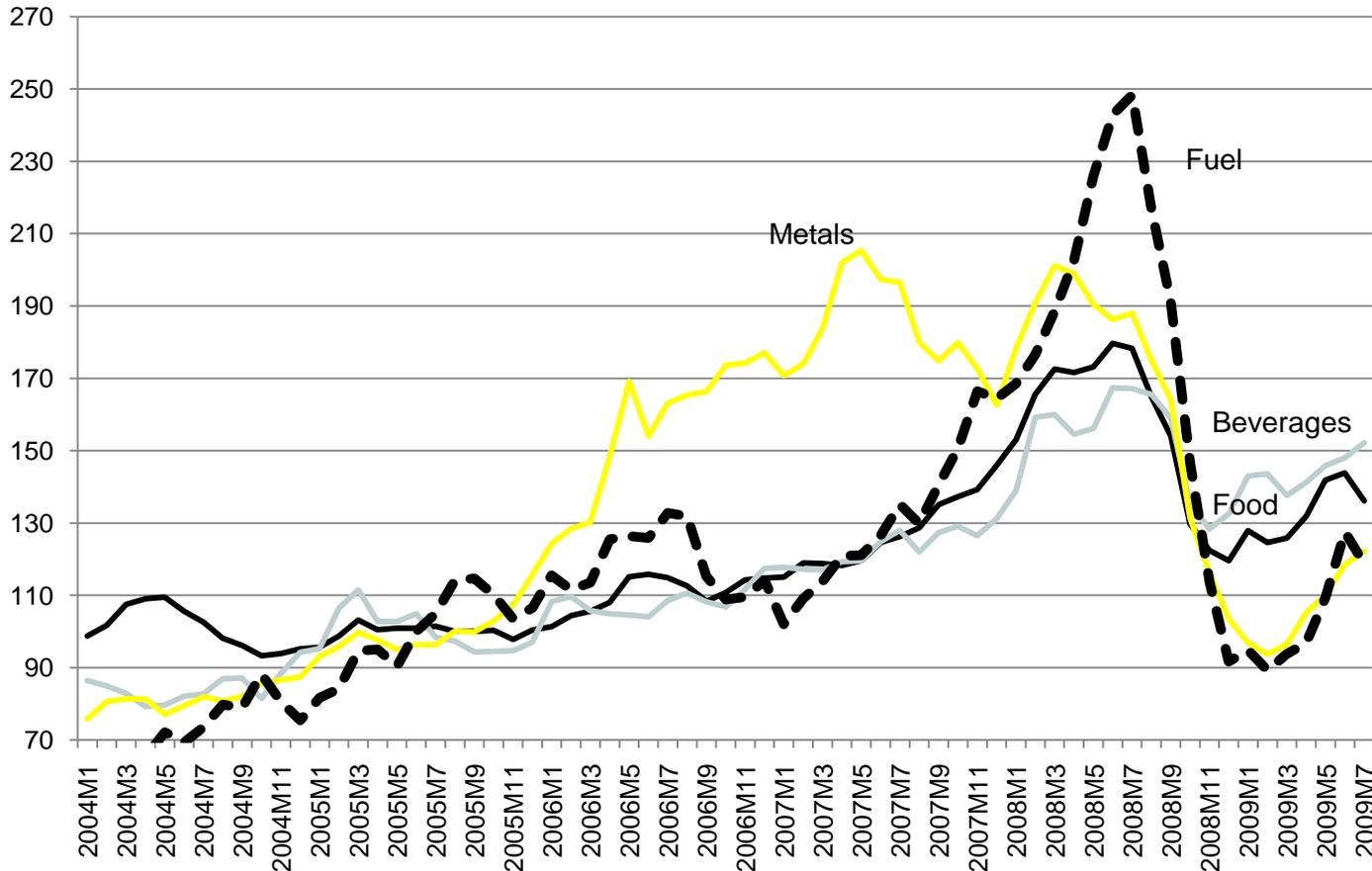
Industrial production in BRICs up

Industrial production, index, 2007 = 100, three-month averages



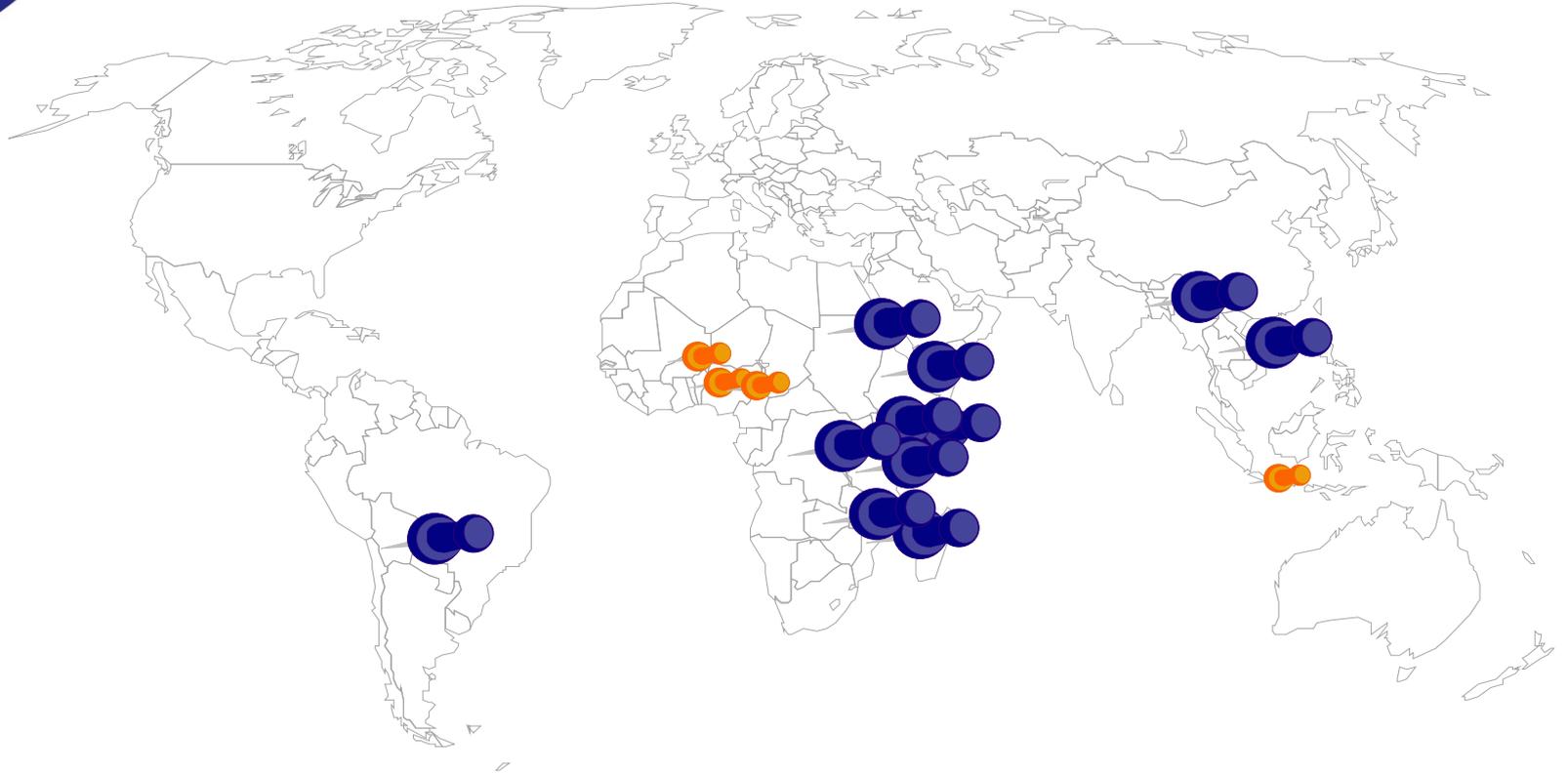
Source: OECD

Commodity prices rebounded (2004M1 – 2009M7; index 2005=100)



Source: IMF

Effects on low income countries affected?



ODI project (phase 2)

**THE GLOBAL FINANCIAL CRISIS AND
DEVELOPING COUNTRIES**

LEGEND

-  Additional in phase 1: Indonesia, Benin, Ghana and Nigeria
-  Phase 2: Sudan, DRC, Ethiopia, Uganda, Kenya, Tanzania, Zambia, Mozambique, Bolivia, Bangladesh, Cambodia

ODI's monitoring methodology

Global shock

Unprecedented since 1930s

National shock

(Same transmission belts, different effects:

Private capital flows, trade, remittances, aid)

Macro – effects

(differs: growth, development and fiscal space)

Policy responses

(range from pro-active to “business as usual”)

Short-term (economic and social), long-run (economic)

Monitoring update (in LICs)

- ❑ **Private flows.** Portfolio flows not returning quickly; FDI plans postponed last year, decreasing this year in several countries.
- ❑ **Trade.** Large effect. Especially price effects (commodity and oil prices) vs volume/inventory effect?
- ❑ **Remittances.** Decreasing (Kenya -10% in y to 2009H1, Bolivia -9% in y to 2009Q1) following strong increases over years. Bangladesh exception.
- ❑ **Aid.** No pull out overall so *far ...*, increase in multilateral engagement
- ❑ Likely **growth** effects 2009. Large *slowdown* up to 7% (Cambodia, DRC), moderate 3-4% (Kenya), few growth effects (Bangladesh, Zambia)
- ❑ **Poverty and employment.** Cambodia lost 63,000 garments jobs (nearly a fifth, to 2009Q1). Zambia lost 8,100 (25%) of 30,000 mining jobs 2008. DRC 200,000? *Possible* increase in number of poor due to GFC: 110,000 in Cambodia (0.8%); 233,000 in Uganda (0.8%);

Monitoring update (questions)

- ❑ **Recovery.** Will low-income countries see a lagged response?
- ❑ **Budgeting.** Why do countries such as Sudan rely on record high oil prices as basis for government revenue forecasts?
- ❑ Is the role of the **IMF** changing (DRC, Zambia)?
- ❑ **Regional trade** amongst developing countries (Uganda) holding up better than north-south trade?
- ❑ **Structural issues?** Why have garment exports from Bangladesh increased and those from Cambodia decreased? Will Zambia be in a better competitiveness position than DRC and ready for the upturn

Policy responses to GFC

Developed countries: quick and bold

- ❑ Co-ordinated bailing out of financial sector; plans for financial regulation
- ❑ Unprecedented monetary easing; co-ordinated, large stimuli and increasing government deficits
- ❑ But some increases in protectionism (labour, financial, trade)

Donor agencies: varying, but shifts visible

- ❑ Stick to existing commitments (UK), but some cutting aid volumes for different reasons (Italy, Ireland, with declines in ODA/GNI; Netherlands keeping ODA/GNI at 0.8%); Reprogramming (across / within countries)
- ❑ Multilateral responses fast (e.g. tripling in IMF lending to LICs, in IBRD lending, by 2009)

Developing countries: fewer responses

- ❑ Monetary steps (but many countries still suffered inflationary pressures)
- ❑ Fiscal steps (few, but deficits has widened, due to lower revenues)
- ❑ Other? Will poorest be able to gain from any upturn?

Taking action (1)

Ensuring rainbow recovery for all

- Keep monitoring.
- Sustain stimulus. Rainbow stimulus (red, blue, green): safeguard grant aid to LICs in 2010? Poorest & liquidity constrained part of solution.
- New trade package. Aid for Trade.
- Developing countries need to actively position themselves for future

Prevent extreme volatility

- Improve global regulation and transparency: Reduce pro-cyclicality of bank's capital adequacy ratios (Persaud, Goodhart); Bonuses / incentives in banking systems geared towards economic rates of returns (not just financial rates of returns), learn from DFIs?
- Curb global imbalances: e.g. IFIs to leverage surplus capital to LICs ?

Taking action (2)

Global compact for crisis-resilient growth

- ❑ Provision of **governance global public goods**: stronger co-ordinating role for UN and G-20; stronger trade, financial and environmental rules;
- ❑ Ensure adequate resources/facilities for the IMF, WB and other global institutions for countries to deal with crises; new roles in TA and global imbalances/challenges; governance reforms;
- ❑ Climate finance and new targets at Copenhagen to provide **environmental global public goods**;
- ❑ Support developing countries to cope with crises (institutional, policy) and prevent the worst impact through development & diversification: new growth strategies. Includes provision of **knowledge public goods**.

Thank you
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