

44° coloquio anual

Argentina



un trabajo de todos

Mar del Plata / 29 al 31 de octubre de 2008



idea

El Desarrollo del Mercado de Capitales Locales

Un Enfoque Macroeconómico

31 de Octubre, 2008
44 Coloquio Anual IDEA

Gustavo Cañonero
Director Gerente
Jefe de Investigación para Mercados Emergentes
Deutsche Bank



Gustavo.Canonero@db.com

A Passion to Perform.

Deutsche Bank



Agenda

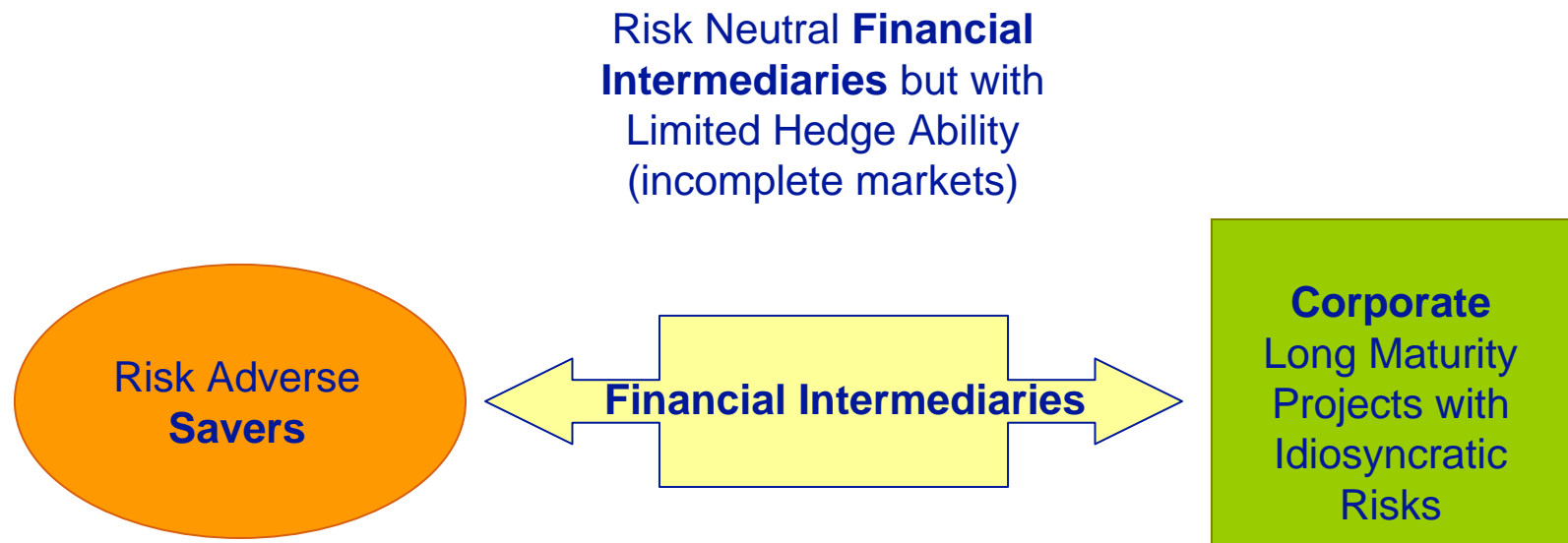
- I. La microeconomía del financiamiento
- II. Los sistemas y/o equilibrios alternativos
- III. El rol fundamental de la estabilidad macroeconómica
- IV. La nueva realidad financiera internacional y su efecto sobre la oferta crédito global





I. The Microeconomics of Financing

The Eternal Mismatch of Preferences



The greater the uncertainty, the shorter assets **savers** demand and the less ability **financial intermediaries** have to diversify risks



II. Alternative Systems/Equilibria in Coping with Uncertainty

- Public collateral, hedge, or direct lending
- Private equilibrium with the appropriate macro stability and adequate market structure
- For developed open economies, global diversification could facilitate mixed systems, not an option for emerging economies

An efficient and transparent public system could foster investment growth internalizing social returns, but hardly match private sector allocation efficiencies absent externalities. Among a number of collateral effects from a public system, budget constraints are the most noteworthy, as inappropriate incentive schemes. Likewise, the lack of effectiveness of monetary policies and the potential cost in terms of high equilibrium real interest rates is still an open discussion in countries like Brazil

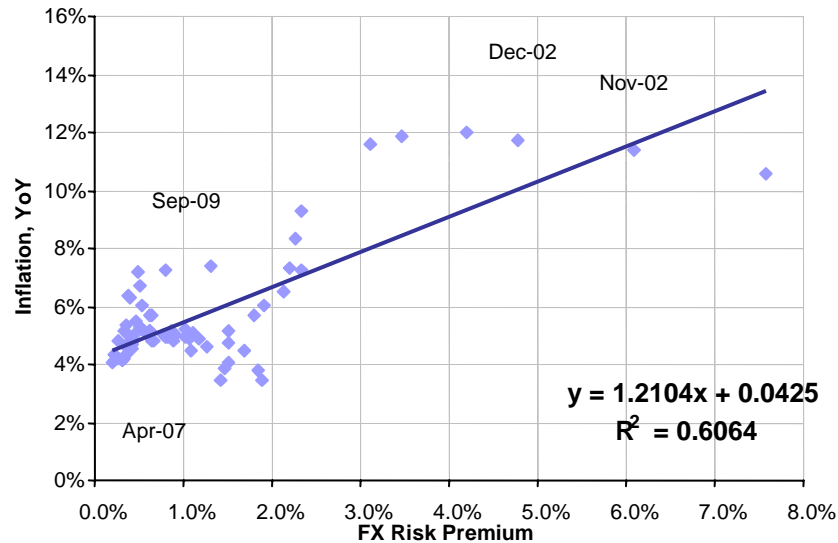
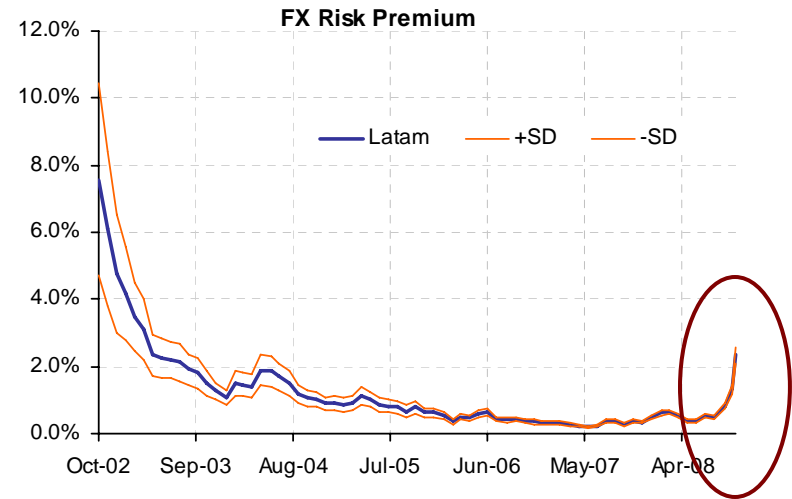
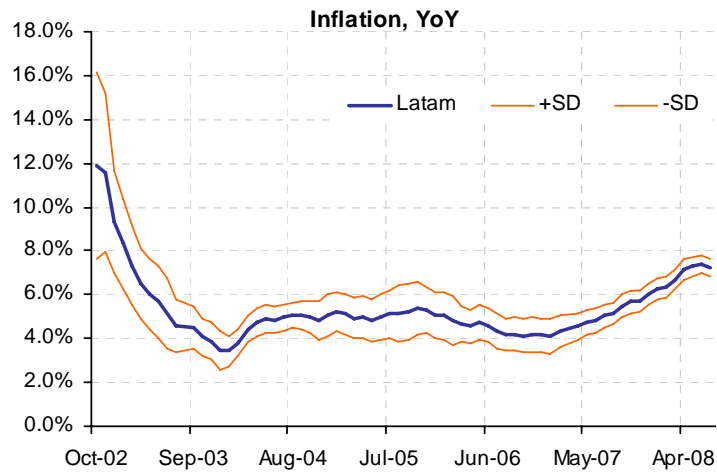


III. The Fundamental Macro Stability and Market Structure

- **The need for local based markets.** The stabilization ability of the monetary authority in local markets (meaning local currency markets) is key for robustness and sustainability
- **Price and growth stability are fundamental** to foster the development of local markets for debt, equity, and any other type of credit. The last 5 years of LatAm are a great example of these key factors
- **Hedge mechanisms could be complementary** in case macro stability is costly to achieve. Inflation indexed assets in Chile as well as in many other countries is a good example of such an alternative
- **Institutionalized long term savers are big help too** (capitalized pension systems with forced contributions for example)



Lessons from low inflation and local currencies markets in LatAm



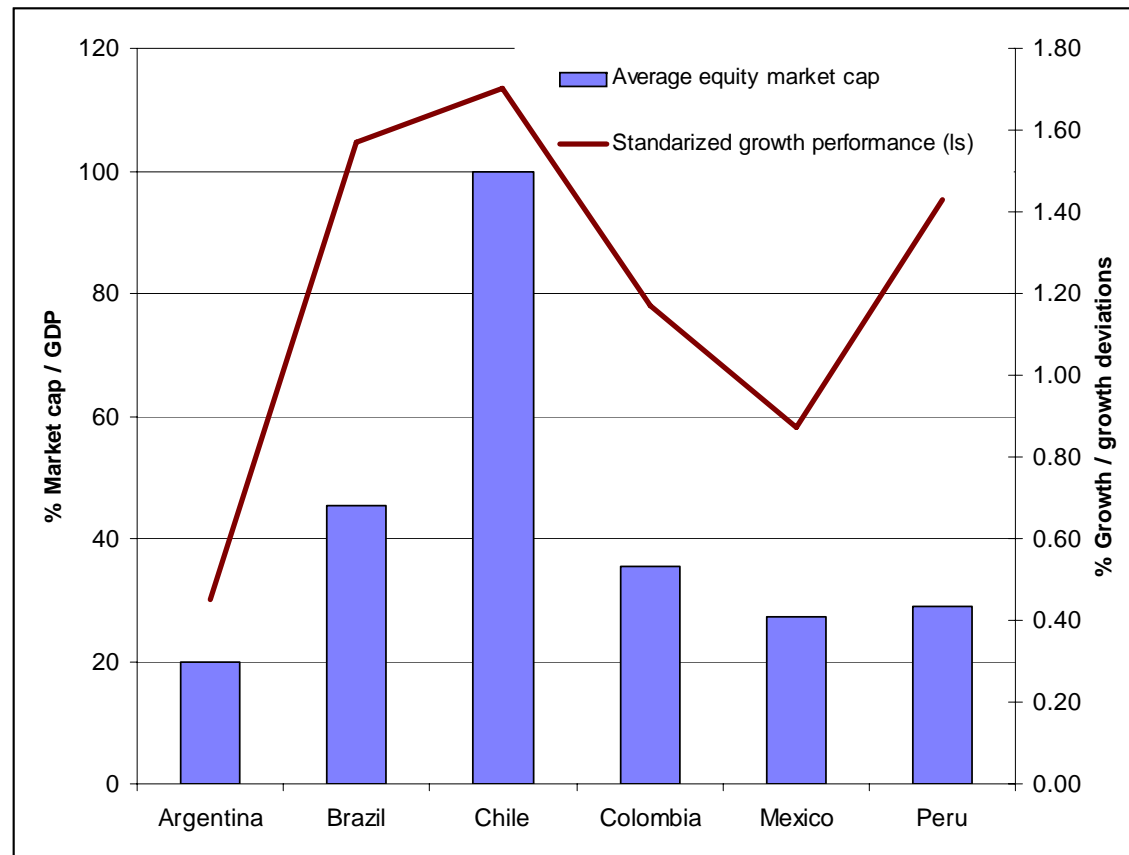


Not a miracle: increased institutionalized guarantees for low inflation reveals the preference of a society, solidifying the pillars for nominal stability

- ❑ - **Central Bank Independence**, legally or de facto, was achieved by most of the major monetary authorities in the region by the end of last decade, introducing a healthy separation of policies and the very first institutional commitment to low inflation regimes.
- ❑ - **Inflation Targeting** introduced by Brazil, Chile, and Colombia in 1999, by Mexico in 2001, and Peru in 2002 further reinforced the anti-inflationary policy commitment in a solid and accountable way.
- ❑ - **Floating Exchange Rate Regimes** adopted by all major countries (with the exception of Ecuador and Venezuela) before the Argentine 2002 devaluation/default (the last comer to the floating regimes) were also fundamental for monetary authorities to comply with their anti-inflationary goals in an effective way and without major policy straight-jackets.
- ❑- **Fiscal Sustainability** or a significant improvement in fiscal positions in recent years have added the final ingredient to make low inflation regimes both politically viable and sustainable.



High and stable growth have also correlated strongly with equity capitalization in LatAm in recent years (1995-2007)



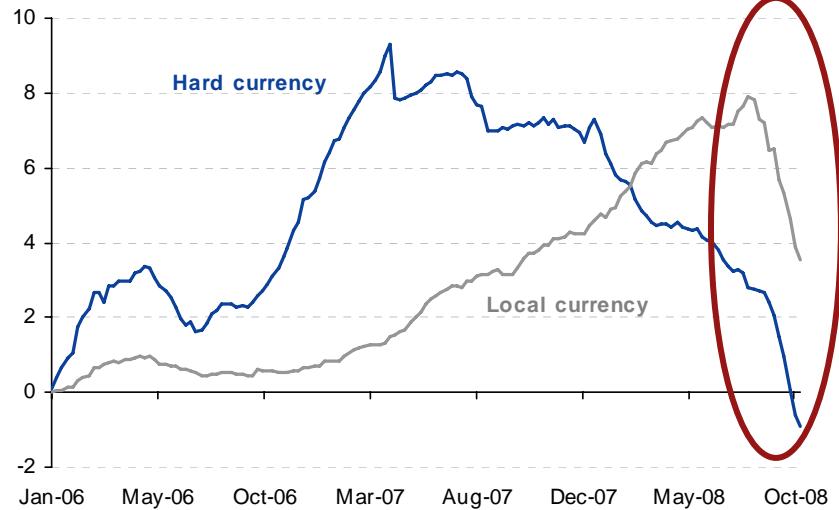
Source: DB Global Markets Research



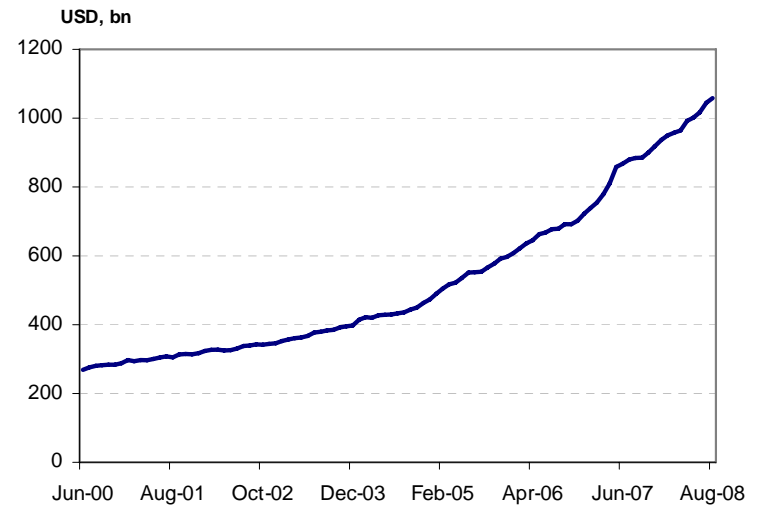
Other factors explaining local markets growth in EM

Even relative
resilient to the
recent mega shock

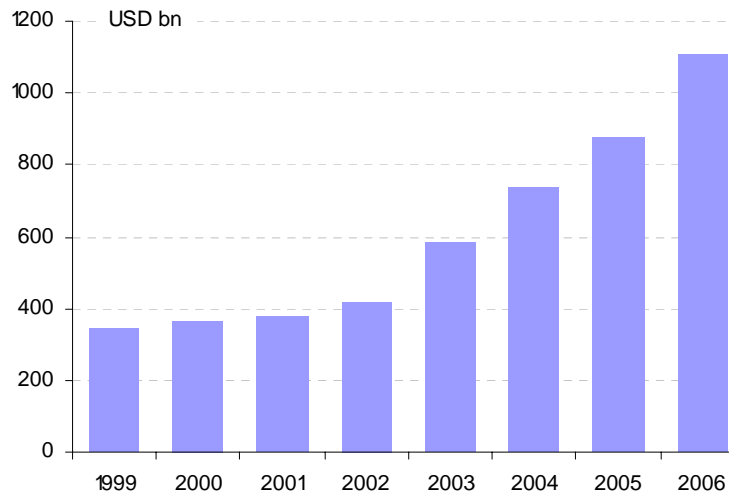
Cumulative fund flows (USD bn)



A hefty buffer: EM reserves surged



EM pension funds are increasing in importance



Source: DB Global Markets Research

IV. The Global Supply of Credit from the Emerging Financial World



A Passion to Perform.

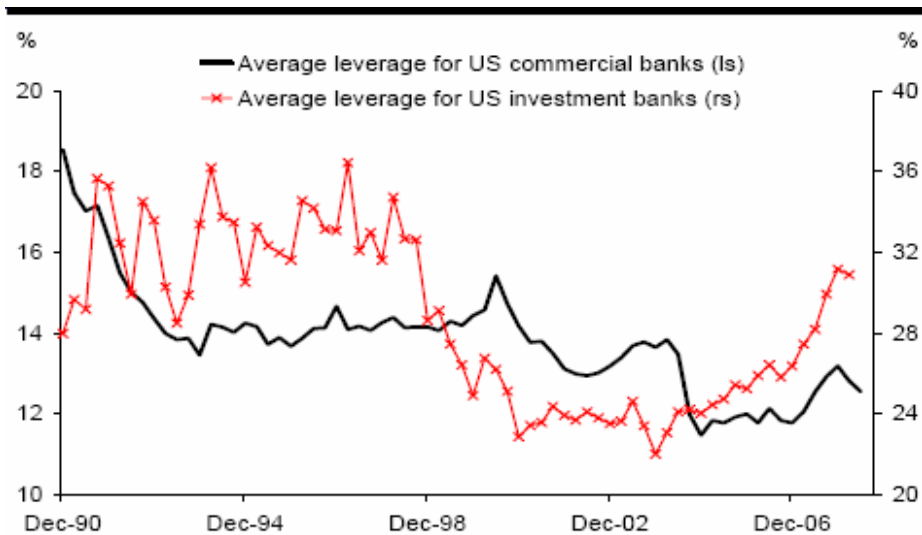
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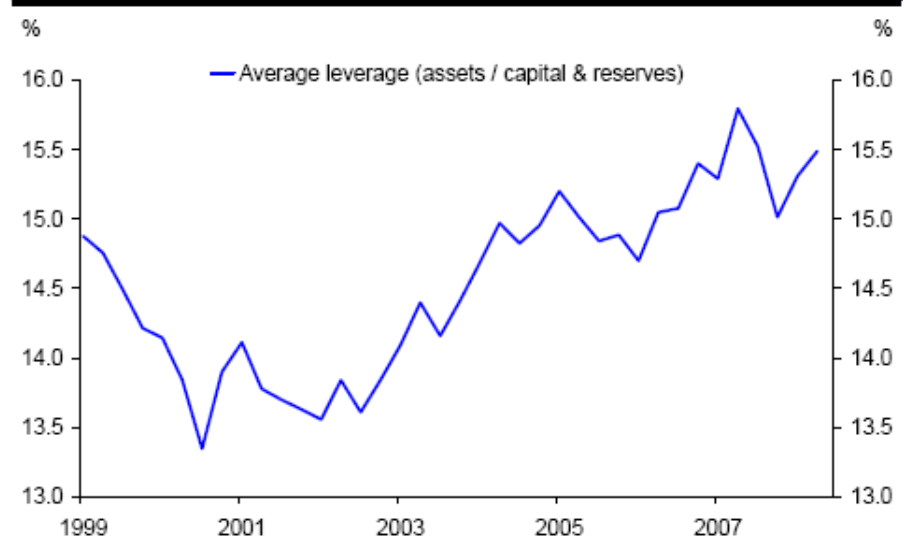
Deleveraging is the game (a likely cut in 15%-20% lending would shave global growth by 1.5ppt)

US banks



Source: DB Global Markets Research

Euro area banks

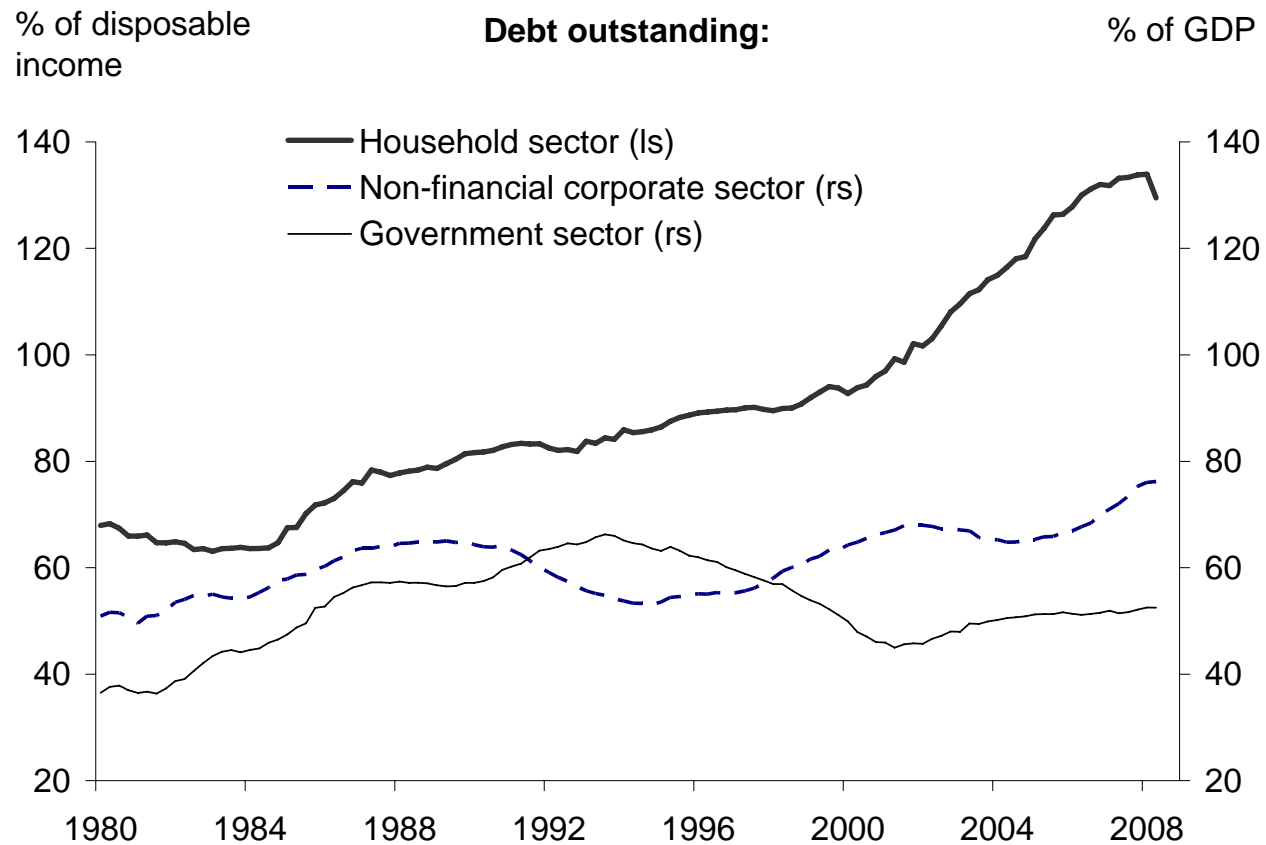


Source: ECB, DB Global Markets Research

Worth highlighting: leverage took place while the FED was hiking rates from 1% in 2002 to 5% in July 2006 and kept rates there for one full year: a sign of financial innovations



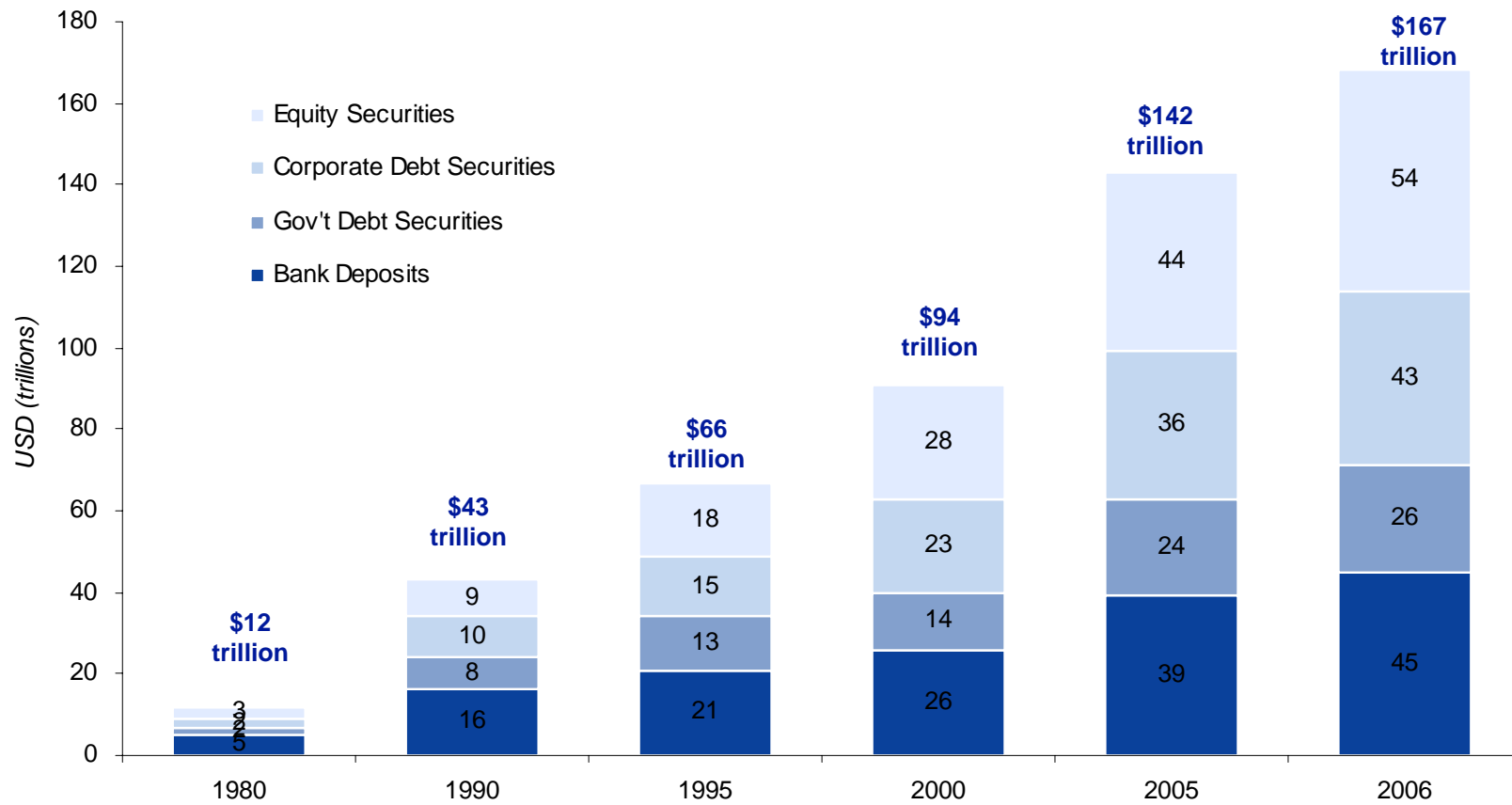
US Households and Corporate Leverage in Retrospective



Source – BLS



World capital markets grew to \$167 trillion in 2006



% of GDP:	109%	201%	223%	294%	317%	346%
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The banking/growth relationship in the last 48 episodes of banking crises

Table A.4. Average Growth of Real Value Added in Crisis and Non-Crisis Years

Crisis duration	Crisis	No. of Observations	Non-Crisis	No. of Observations
1-Year dummy	0.10	1,130	4.00	15,097
2-Year dummy	-0.92	2,167	4.45	14,060
3-Year dummy	1.70	3,059	4.20	13,168
4-Year dummy	3.33	4,012	3.86	12,215
5-Year dummy	3.84	4,851	3.69	11,376

Source: "The real effect of banking crises", G. Dell' Ariccia, E. Detragiache, and R. Rajan. IMF WP/05/63



Banking crises dependence seems similar in DC than LDC

Table 5. Differential Effects of Banking Crises on Growth in Capital Formation, Number of Establishments, and Employment

	Capital formation		Number of Establishments		Employment	
	(1)	(2)	(3)	(4)	(5)	(6)
Crisis3*dep	-9.85 [2.34]**		-1.47 [2.18]**		-1.11 [2.23]**	
Crisis3*dep*DC		-9.32 [1.56]		-0.93 [0.87]		-1.25 [1.68]*
Crisis3*dep*LDC		-10.12 [1.85]*		-0.71 [1.95]*		-1.06 [1.65]*
Lagged share	-2.21 [3.75]***	-2.21 [3.75]***	-0.47 [5.58]	-0.47 [5.59]***	-0.83 [10.98]***	-0.83 [10.98]***
Constant	28.52 [0.76]	28.51 [0.76]	-7.80 [1.04]	17.57 [1.79]*	-0.66 [0.21]	18.73 [3.54]***
Observations	9752	9752	9684	9684	15940	15940
R-squared	0.29	0.29	0.44	0.44	0.38	0.38

Note: Robust t-statistics are in parenthesis. ***, **, and * denote significance levels of 1 percent, 5 percent, and 10 percent respectively. Crisis3 is a dummy variable for the year of banking crisis inception and two following years. Dep is a parameter measuring an industry's dependence on external finance (Rajan and Zingales, 1998). DC is a dummy for developed countries. LDC is a dummy for developing countries. Lagged share is the share of the sector's value added in total value added lagged by one period. Regressions are estimated with OLS and also include time-country, time industry, and industry-country dummy variables.

Source: "The real effect of banking crises", G. Dell' Ariccia, E. Detragiache, and R. Rajan. IMF WP/05/63



Basic historical relationships

Table A.3. Banking Crises Inception Dates

Countries	Banking Crisis Inception	Countries	Banking Crisis Inception
Argentina	1989	Malaysia	1997
Argentina	1995	Mexico	1994
Bolivia	1986	Nepal	1988
Bolivia	1994	Nigeria	1991
Brazil	1994	Norway	1987
Cameroon	1995	Panama	1988
Central African Republic	1988	Papua New Guinea	1989
Chile	1981	Peru	1983
Colombia	1982	Philippines	1981
Colombia	1999	Portugal	1986
Costa Rica	1994	Senegal	1983
Ecuador	1995	South Africa	1985
Finland	1991	Sri Lanka	1989
Ghana	1982	Swaziland	1995
India	1991	Sweden	1990
Indonesia	1992	Tanzania	1988
Israel	1983	Tunisia	1991
Italy	1990	Turkey	1982
Japan	1992	Turkey	1991
Jordan	1989	Turkey	1994
Kenya	1993	Turkey	2000
Korea	1997	United States	1980
Madagascar	1988	Uruguay	1981
Malaysia	1985	Venezuela	1993
Total number of crises = 48			

Summary of the Data

Table A.1. External Dependence Index

	External Dependence
Tobacco	-0.45
Pottery	-0.15
Leather	-0.14
Footwear	-0.08
Non ferrous metal	0.01
Apparel	0.03
Petroleum refineries	0.04
Non metal products	0.06
Beverages	0.08
Iron and steel	0.09
Food products	0.14
Paper and products	0.17
Textile	0.19
Printing and publishing	0.2
Rubber products	0.23
Furniture	0.24
Metal products	0.24
Industrial chemicals	0.25
Wood products	0.28
Petroleum and coal products	0.33
Transportation equipment	0.36
Other industries	0.47
Glass	0.53
Machinery	0.6
Other chemicals	0.75
Electric machinery	0.95
Professional goods	0.96
Plastic products	1.14

Source: Krozner, Leuven, and Klingebiel (2002).

Source: "The real effect of banking crises", G. Dell' Ariccia, E. Detragiache, and R. Rajan. IMF WP/05/63



From financial crises to global recession

World economy in recession								
	GDP growth, %				CPI inflation, %			
	2007	2008F	2009F	2010F	2007	2008F	2009F	2010F
US	2.0	1.1	-1.0	0.9	2.9	4.6	2.3	1.5
Japan	2.0	0.1	-1.2	1.3	0.0	1.5	0.1	-0.3
Euroland	2.6	0.9	-1.4	0.4	2.1	3.4	1.4	1.3
G7	2.1	0.8	-1.1	0.9	2.2	3.6	1.7	1.2
Asia								
(ex Japan)	9.4	7.6	5.7	5.9	4.4	7.3	4.1	3.2
EMEA	6.6	5.4	3.2	3.5	9.5	11.8	9.3	n.a.
Latam	5.4	4.3	2.3	3.1	6.2	8.7	6.9	5.6
Global	4.7	3.2	1.2	2.5	3.6	5.6	3.1	2.6

Source: DB Global Markets Research



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