

Bank Assets, Budget Deficits, and Growth

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Garanti Masters Conference
Istanbul

October 2010

Reality Check

- **Conclusion of EU bank stress test (July 23, 2010)**

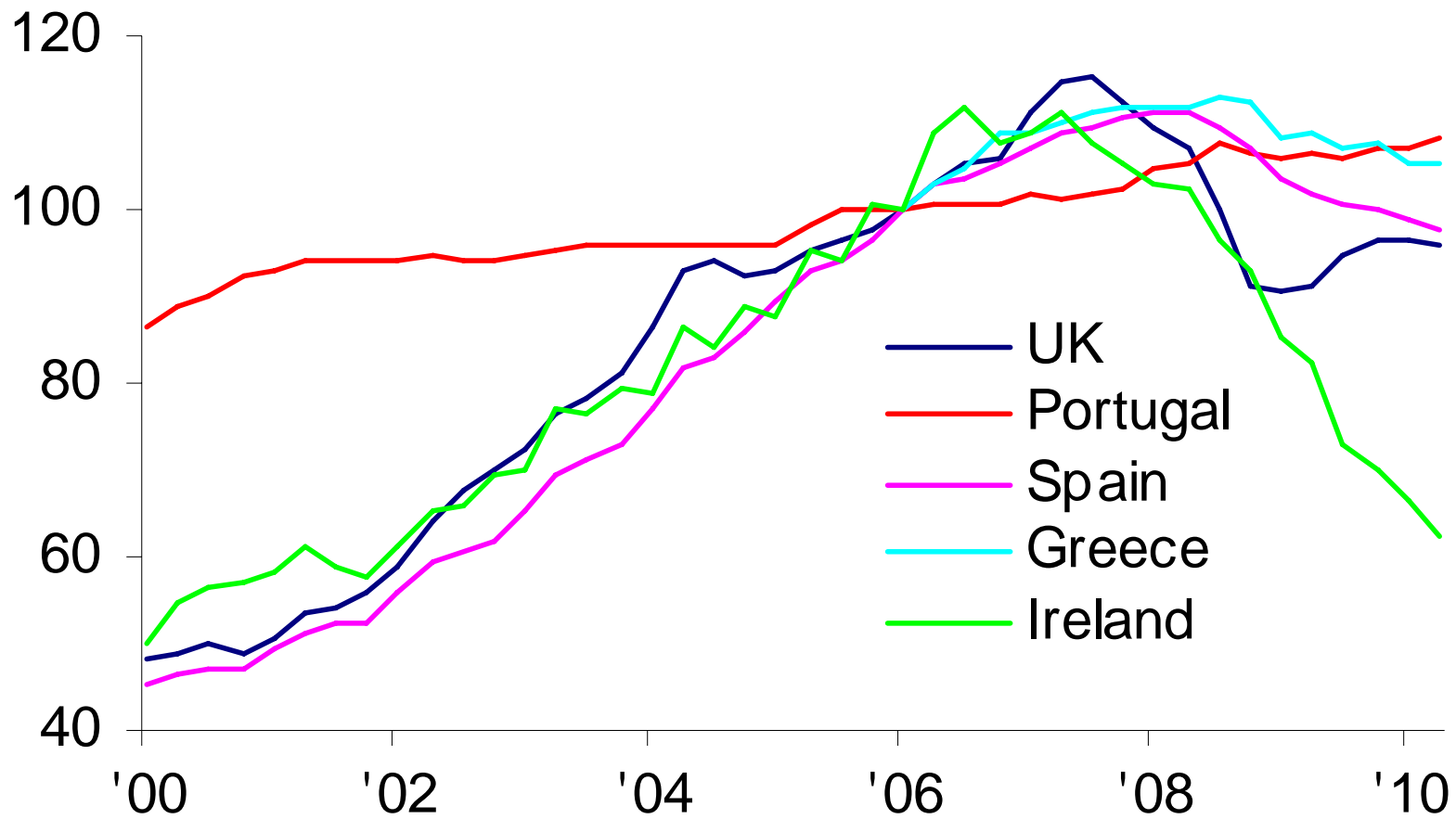
“7 banks would see their Tier 1 capital ratios fall below 6%, with an overall shortfall of €3.5 billion of Tier 1 own funds” (CEBS)

- **Basel III Reality**

- **Irish Reality (September 30, 2010)**

Allied Irish:	€3 billion
Irish Nationwide Building Society	€2.7 billion
Anglo Irish	€6.4 billion
(+ €5 billion more in adverse scenario)	

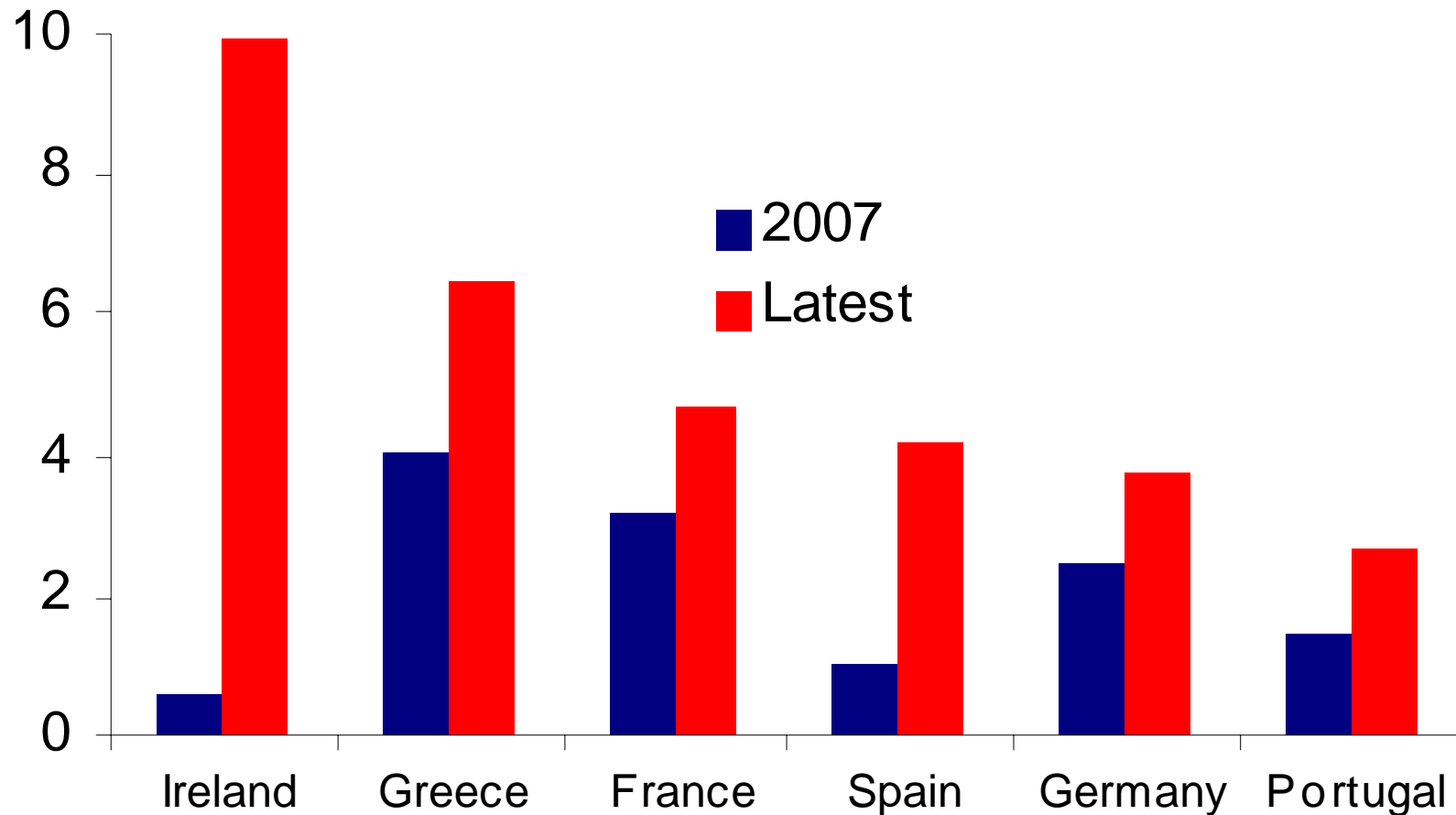
Residential Property Prices of GIPS and U.K. index, Mar 2006 = 100



Source: BIS and IIF calculations

Selected German, French and GIPS Banks: NPL Ratios

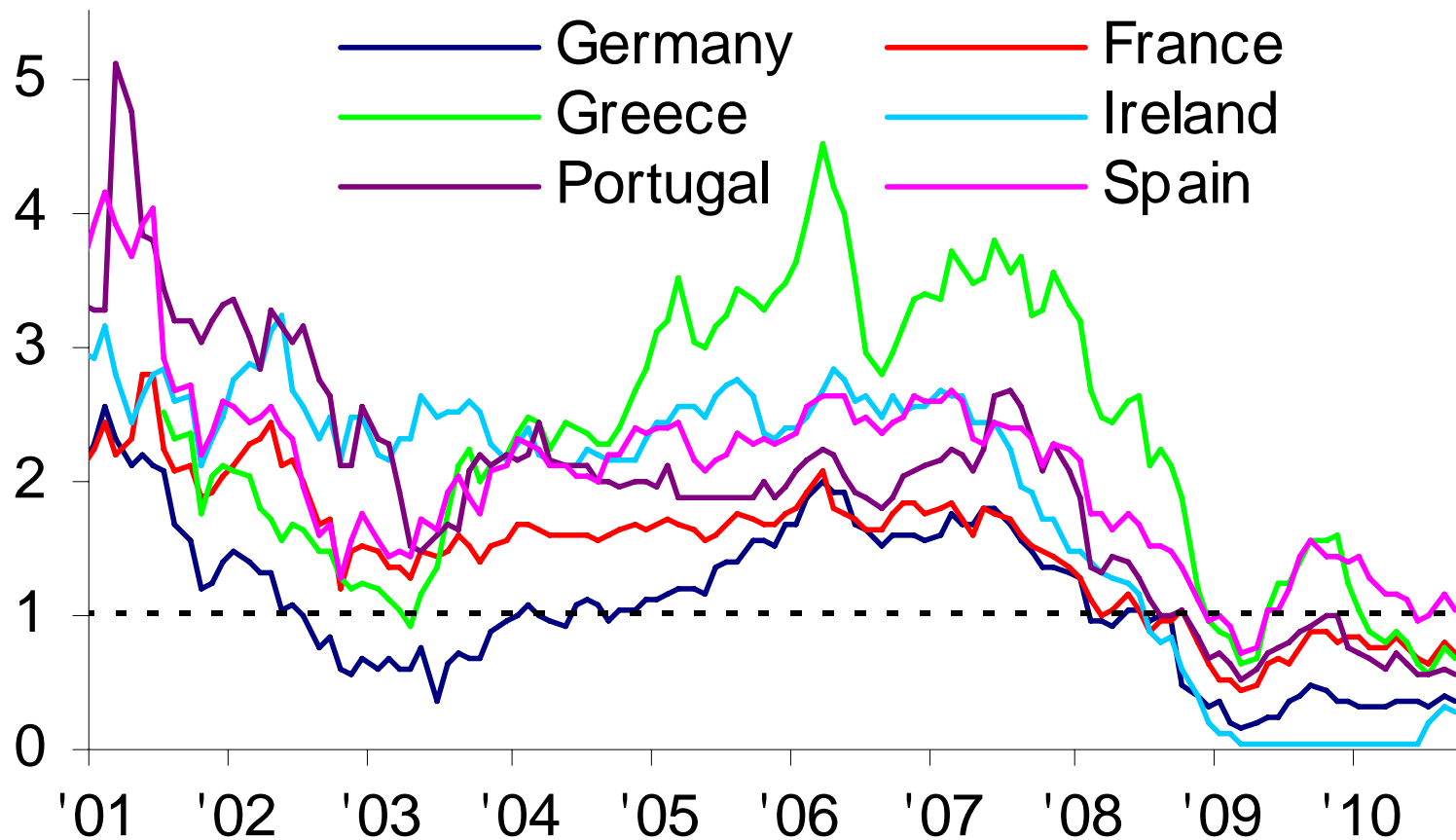
percent, weighted avg. of top 3 banks by asset size



Source: Bankscope, latest available data

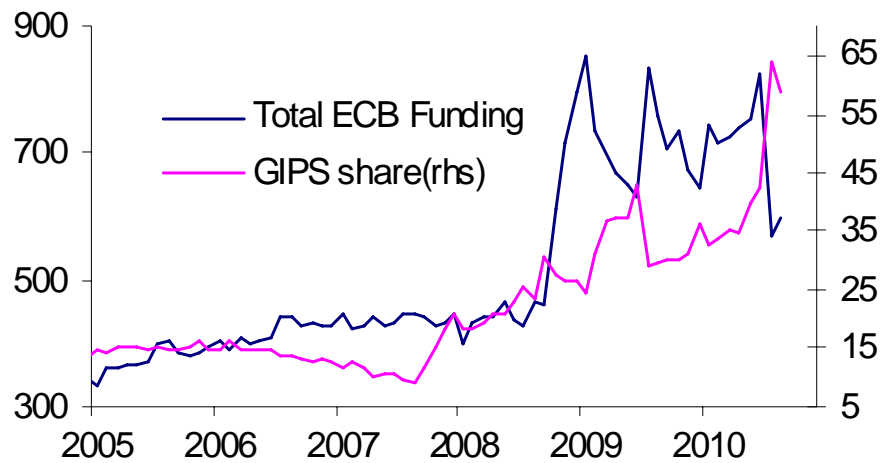
GIPS Countries, France & Germany Bank Valuation: Price to Book Ratio

MSCI indices, price to book ratios



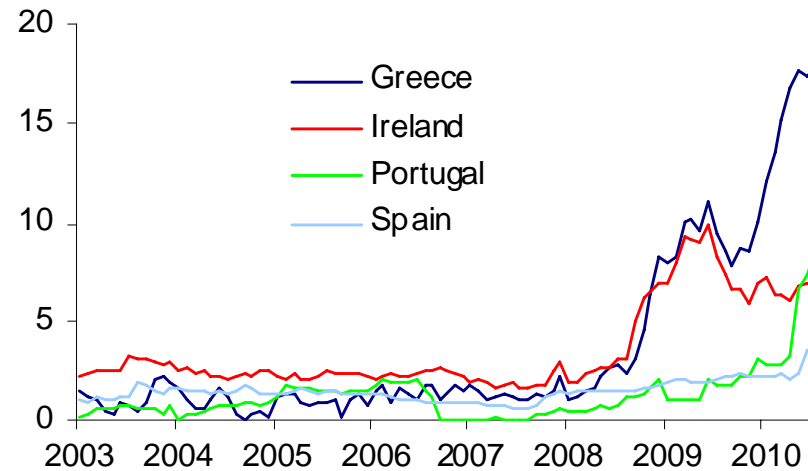
Reliance on ECB Funding

Total ECB Funding and GIPS Share in ECB Funding
EUR billions *percentage*



Source: ECB, National Central Banks, and IIF calculations

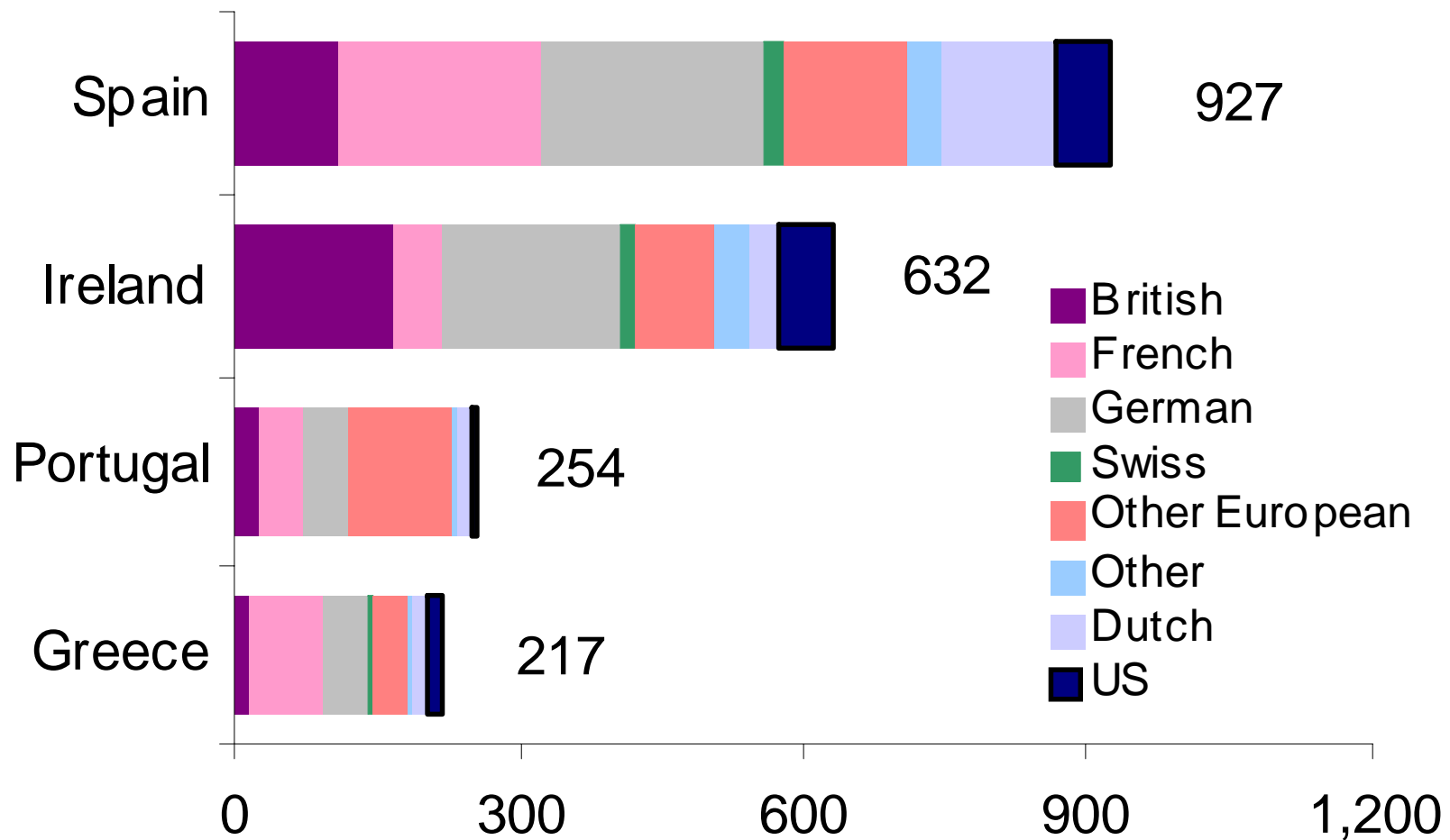
ECB Funding to Greece, Ireland, Portugal and Spain
percent of total banking system assets



Source: National Central Banks, ECB, IIF calculations

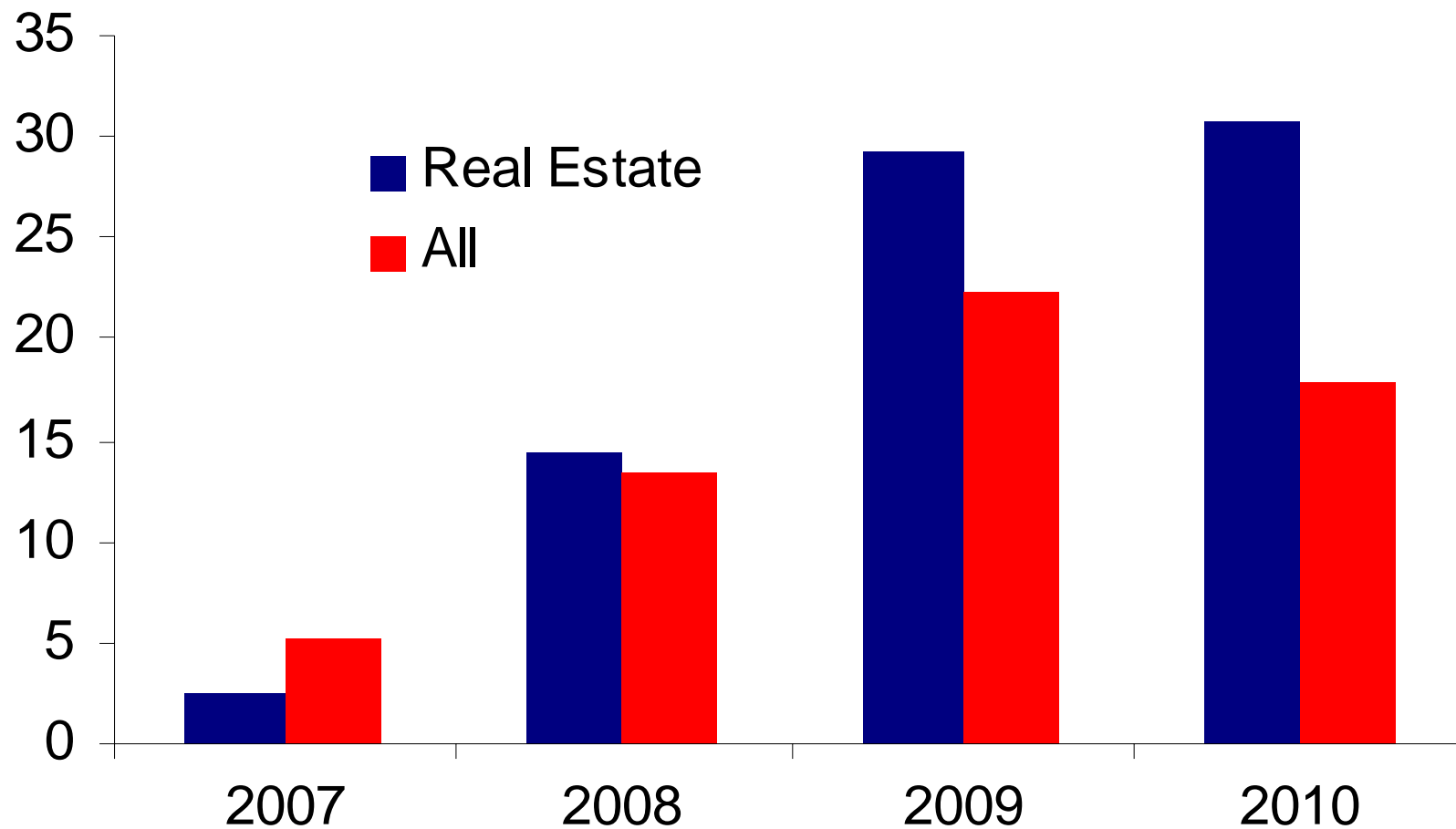
Int'l Bank Claims on Selected European Countries

USD billions, March 2010



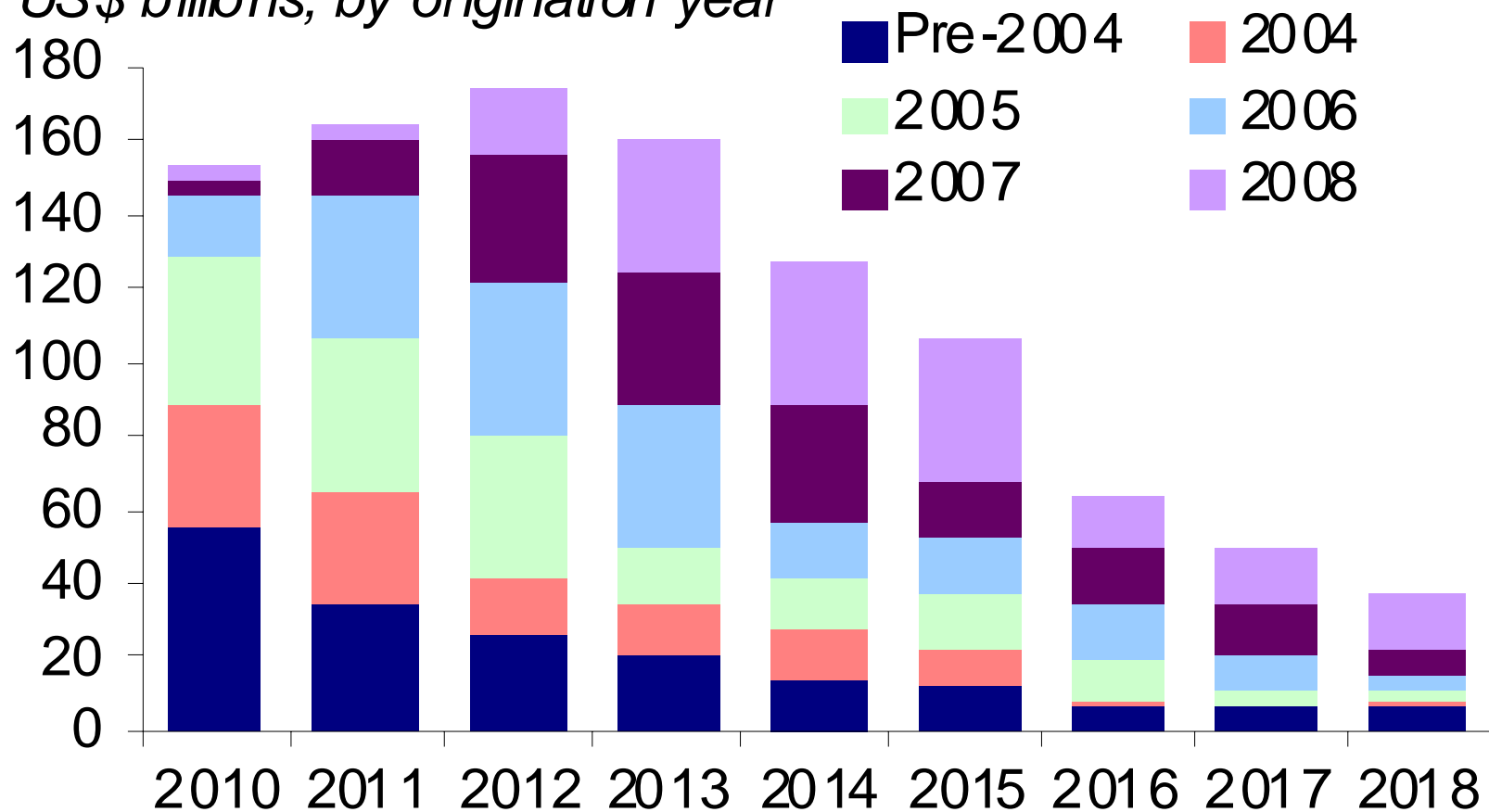
Source: BIS. * Consolidated foreign claims, ultimate risk basis.

Share of Criticized Credits *percentage*



Maturity Schedule for Commercial Real Estate Loans Held by Banks

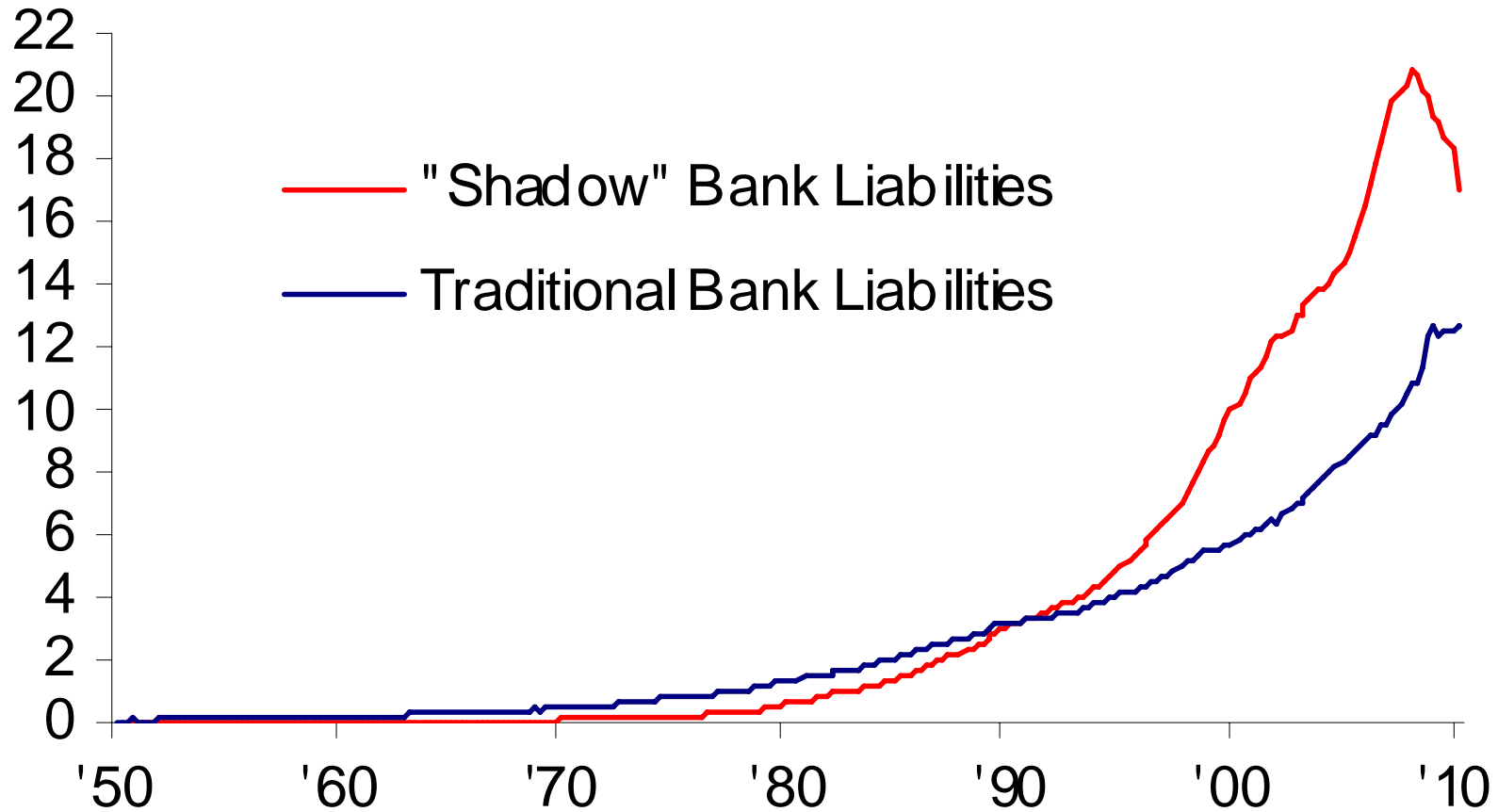
US\$ billions, by origination year



Source: Congressional Oversight Panel

U.S. Bank Liabilities: "Shadow" vs Traditional Banking

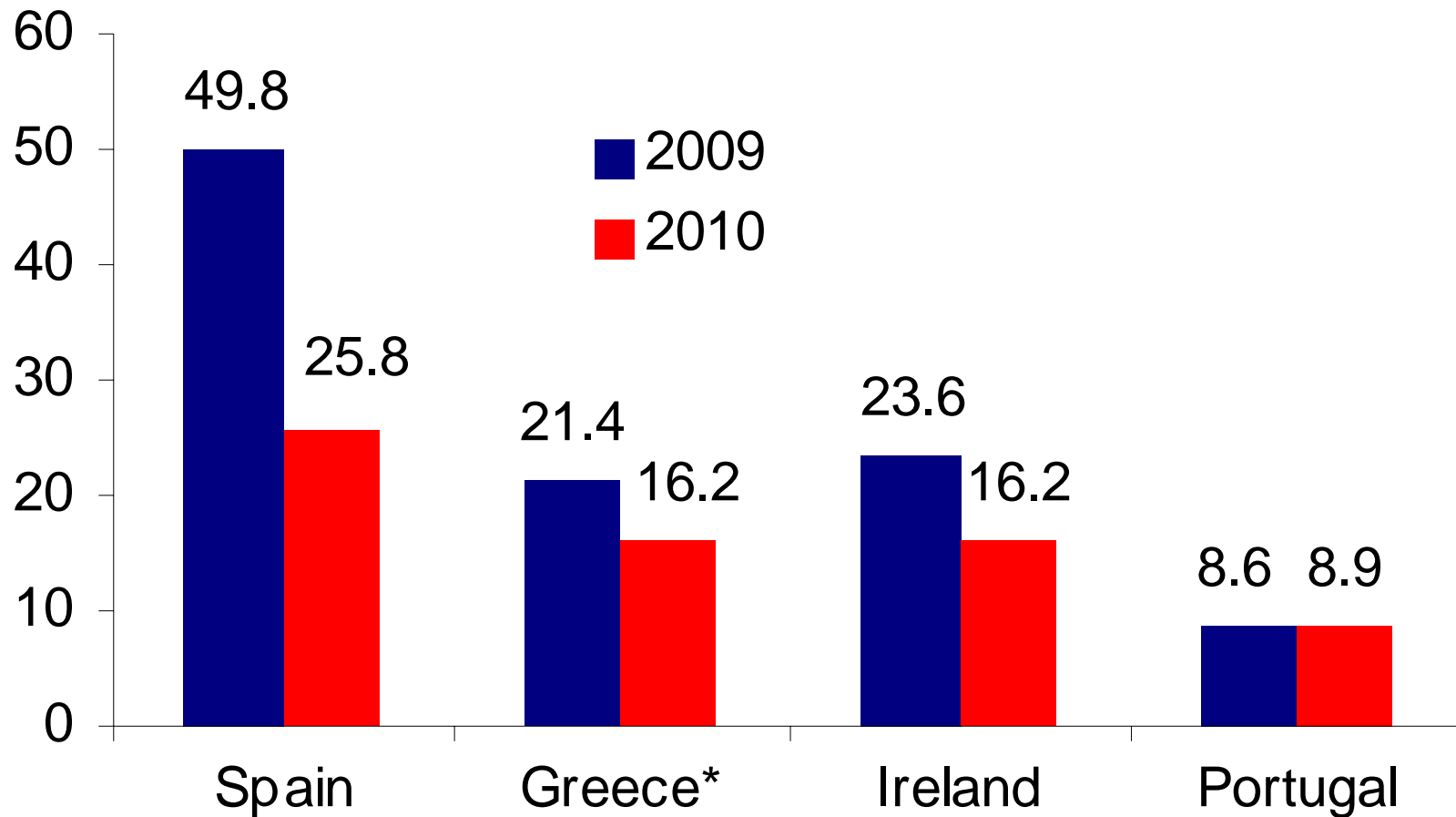
USD trillions



Source: Federal Reserve of New York, U.S. Flow of Funds

Euro Area: Central Government Cash Deficits

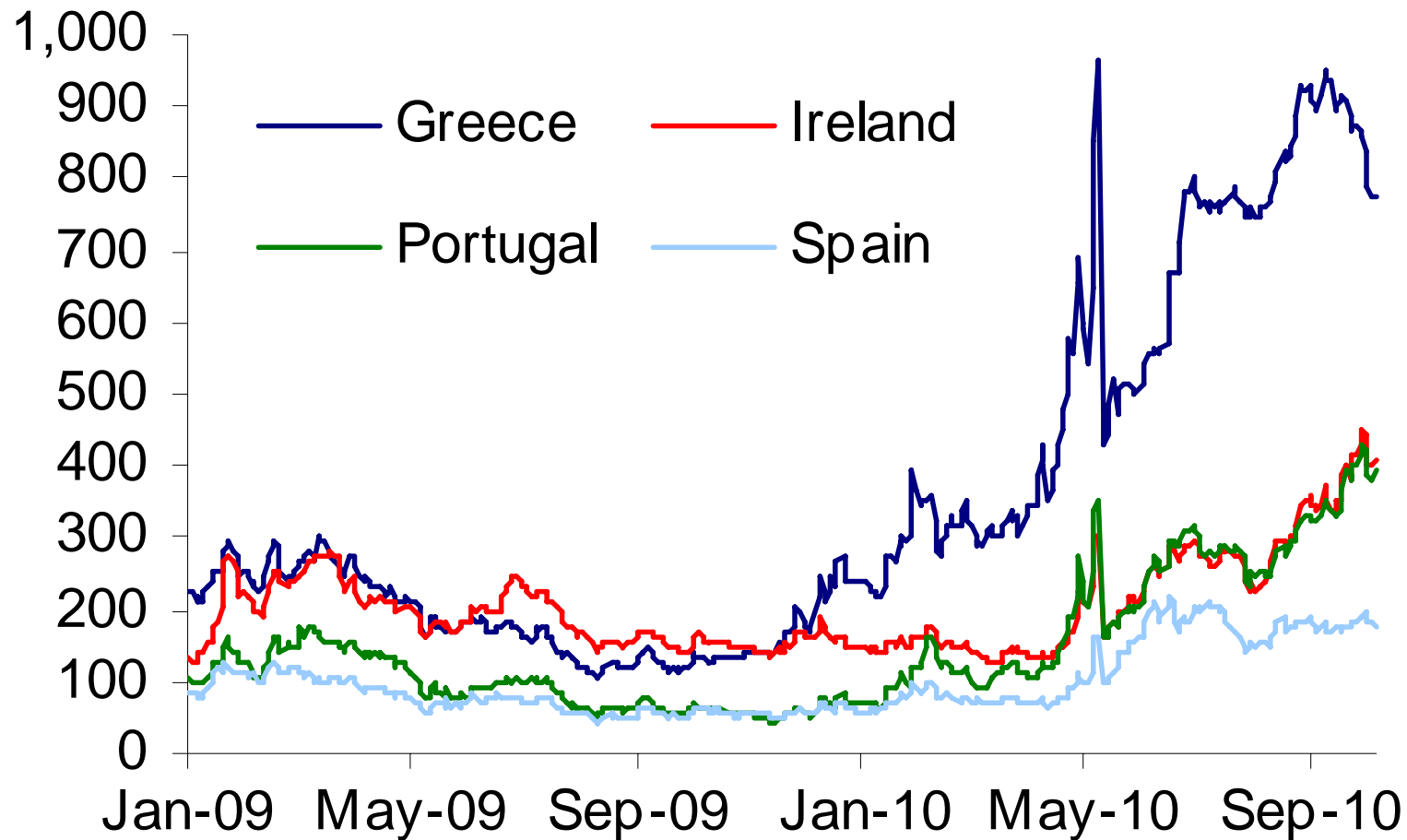
EUR billion, January - August cumulative



*Jan-Sep cumulative

European Government Bond Spreads*

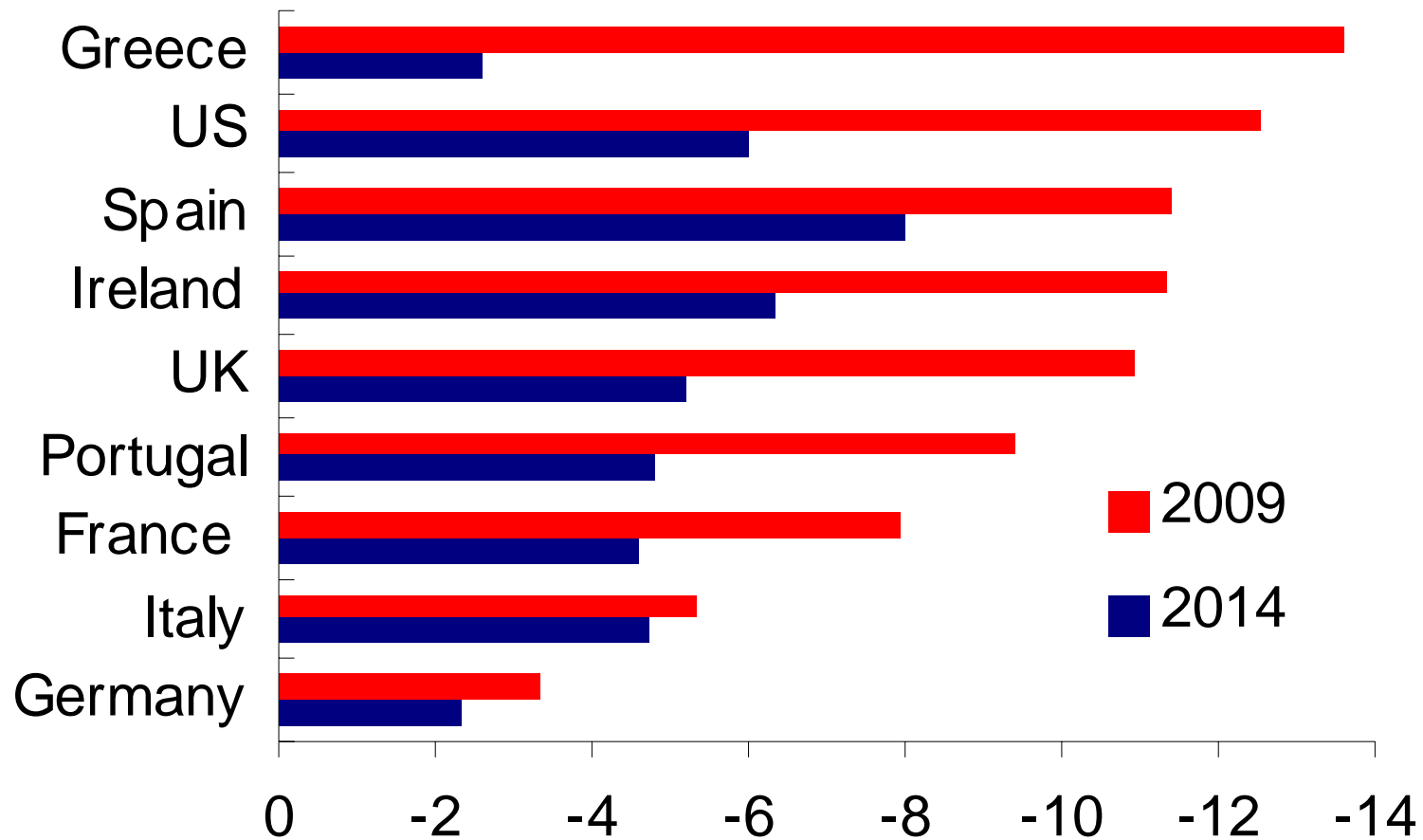
spread over German bunds, bps



* 10-year government bonds.

Selected Mature Market Government Fiscal Deficits

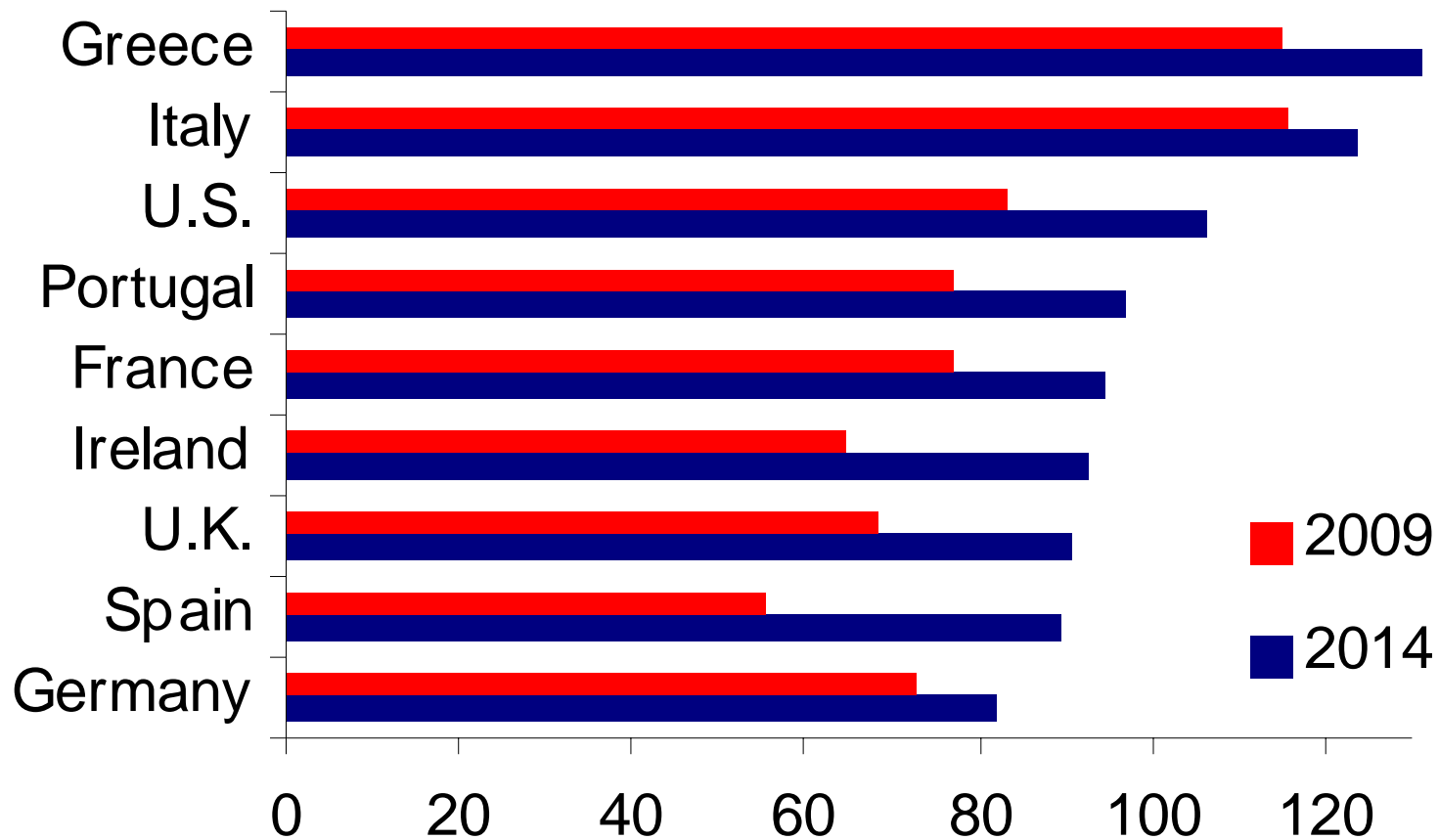
General gov't financial balances, % GDP



Source: IMF est./proj.

Selected Mature Market Government Debt Levels

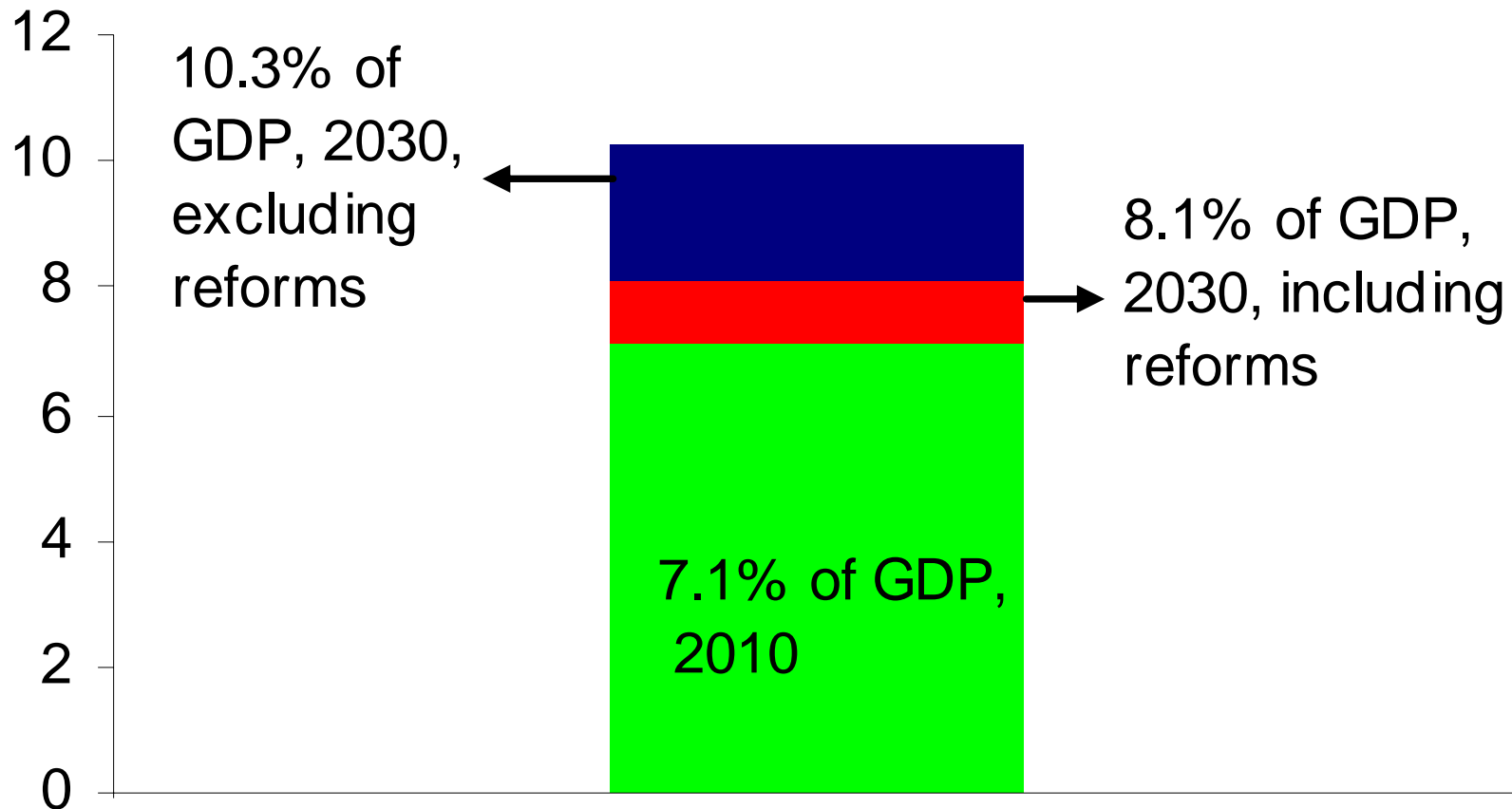
General government debt, % GDP



Source: IMF est./proj.

The Effect of Enacted Pension Reforms, 2010-2030

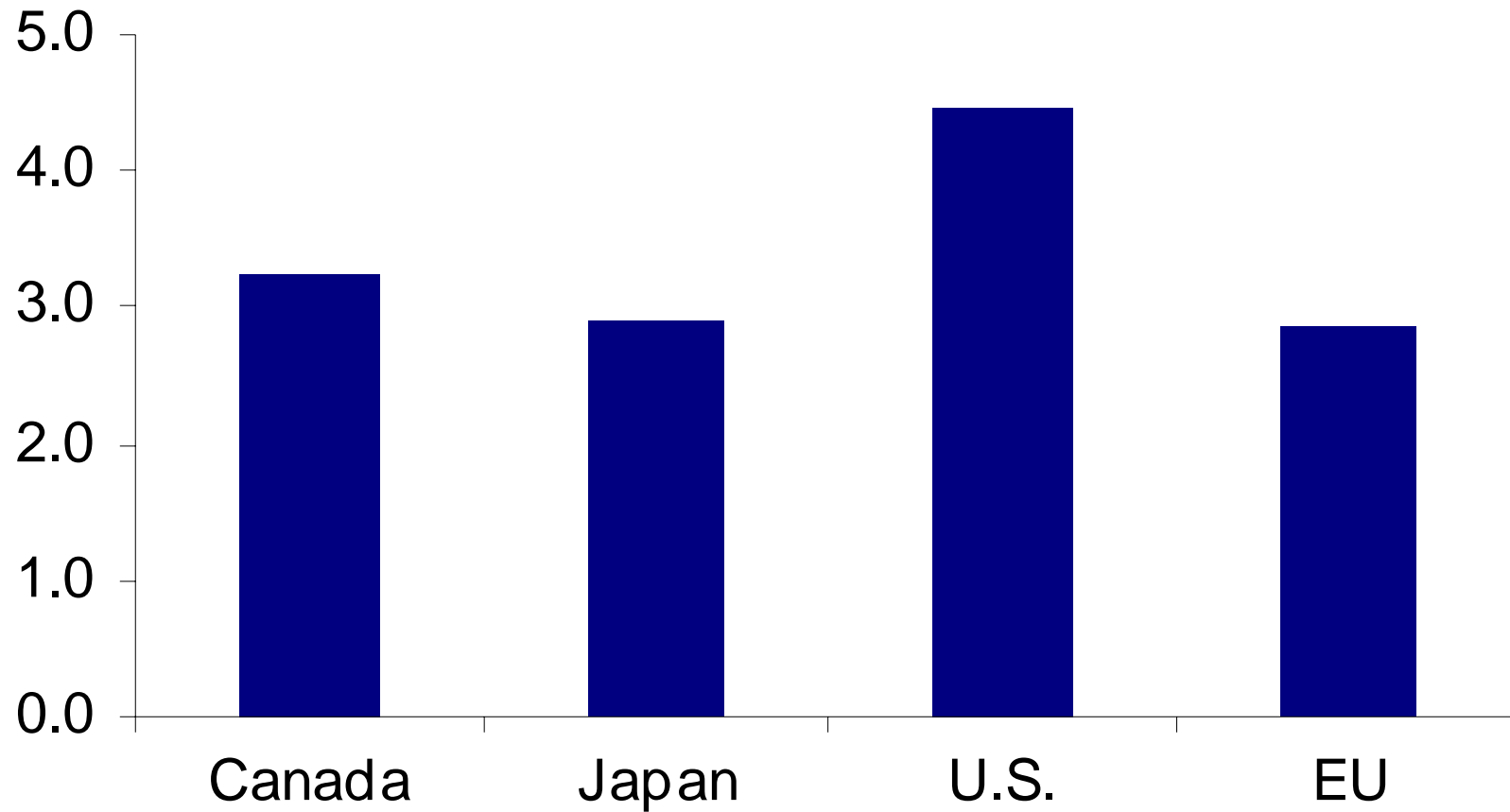
pension expenditure, percent of GDP



Source: IMF

1.00

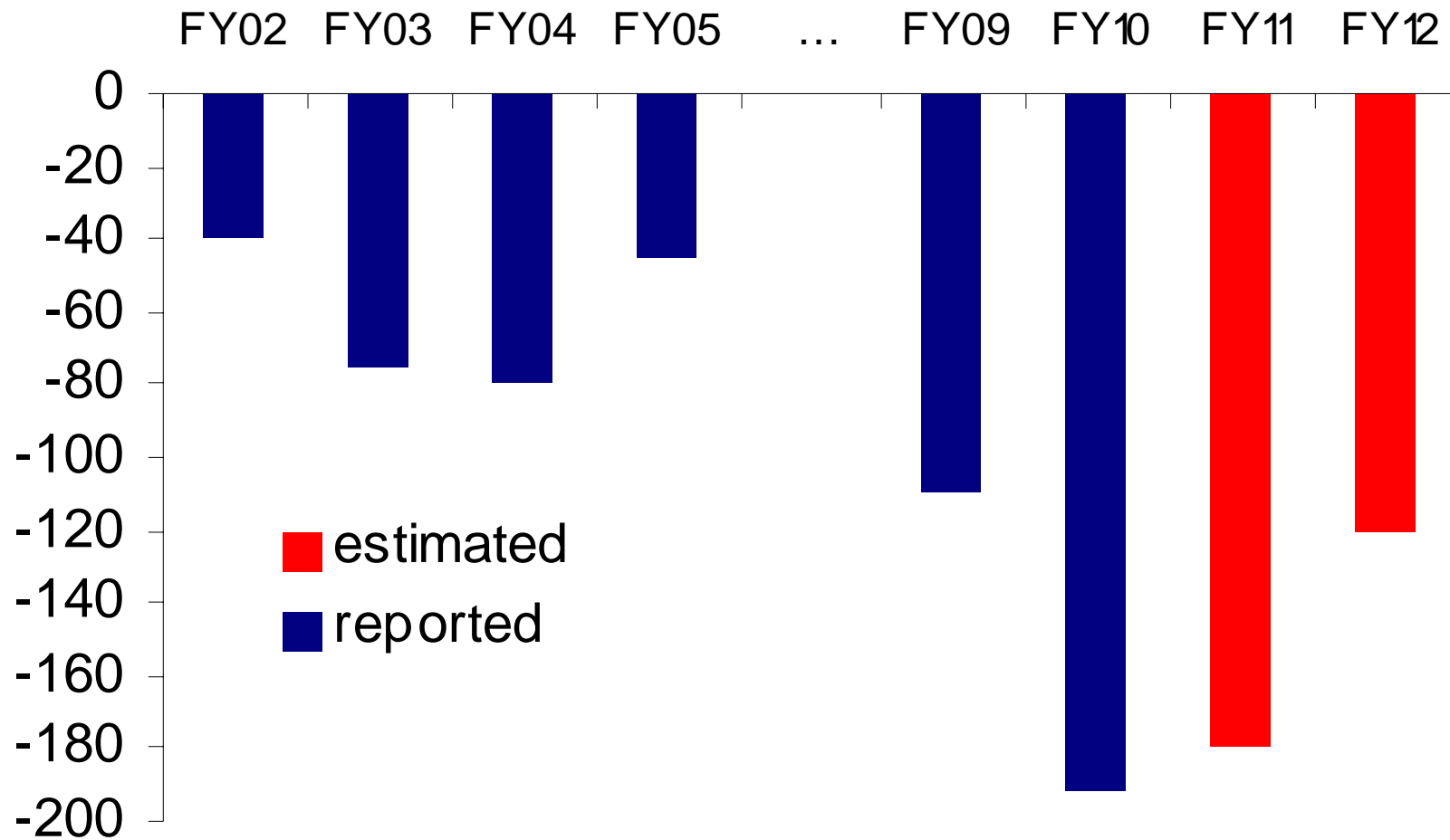
Projected Increase in Health Care Spending until 2030 *percent of GDP*



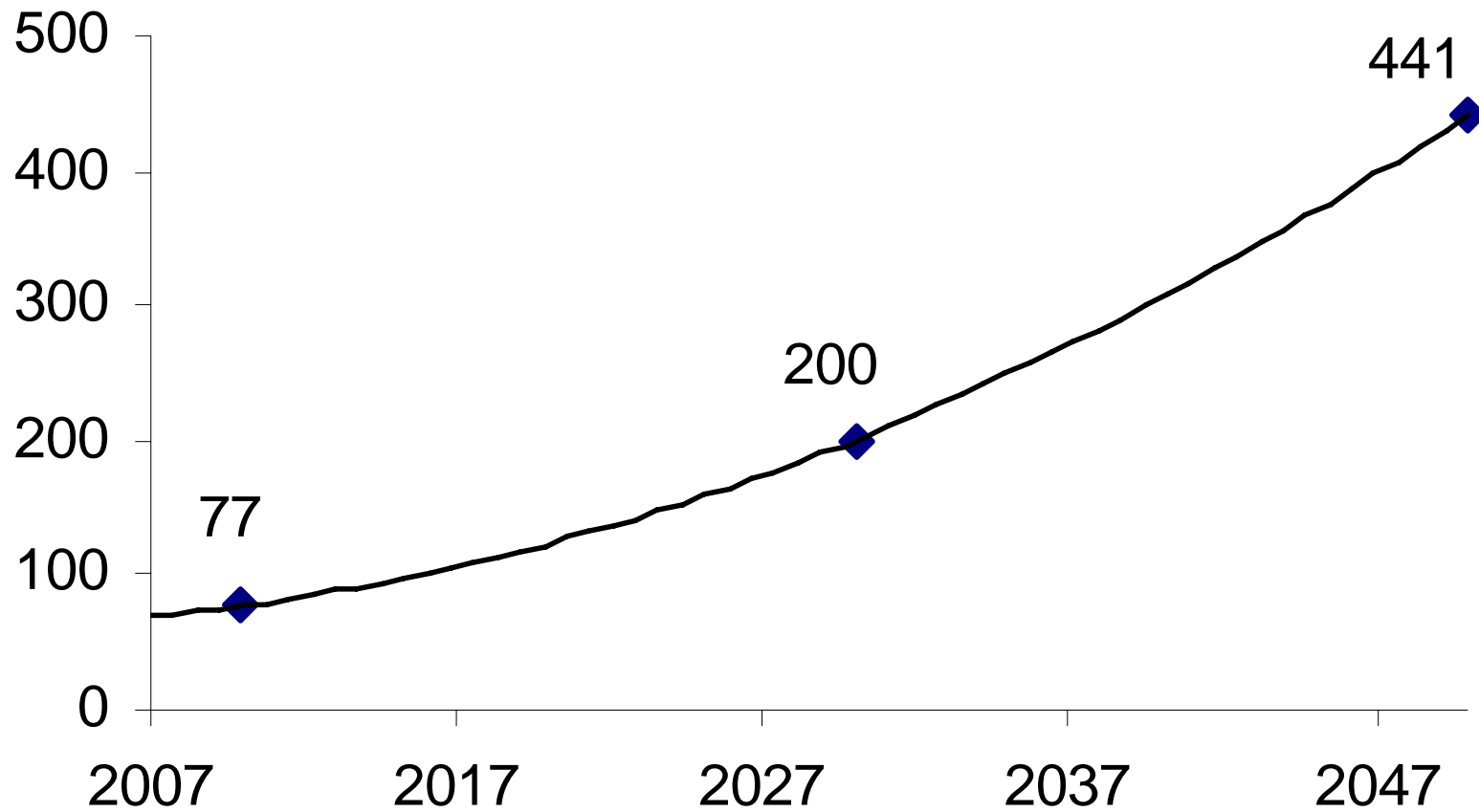
Source: IMF

Total State Budget Shortfalls

USD Billions



General Govt Net Debt Scenario under 2010 Policies *average percent of GDP for G7 countries*



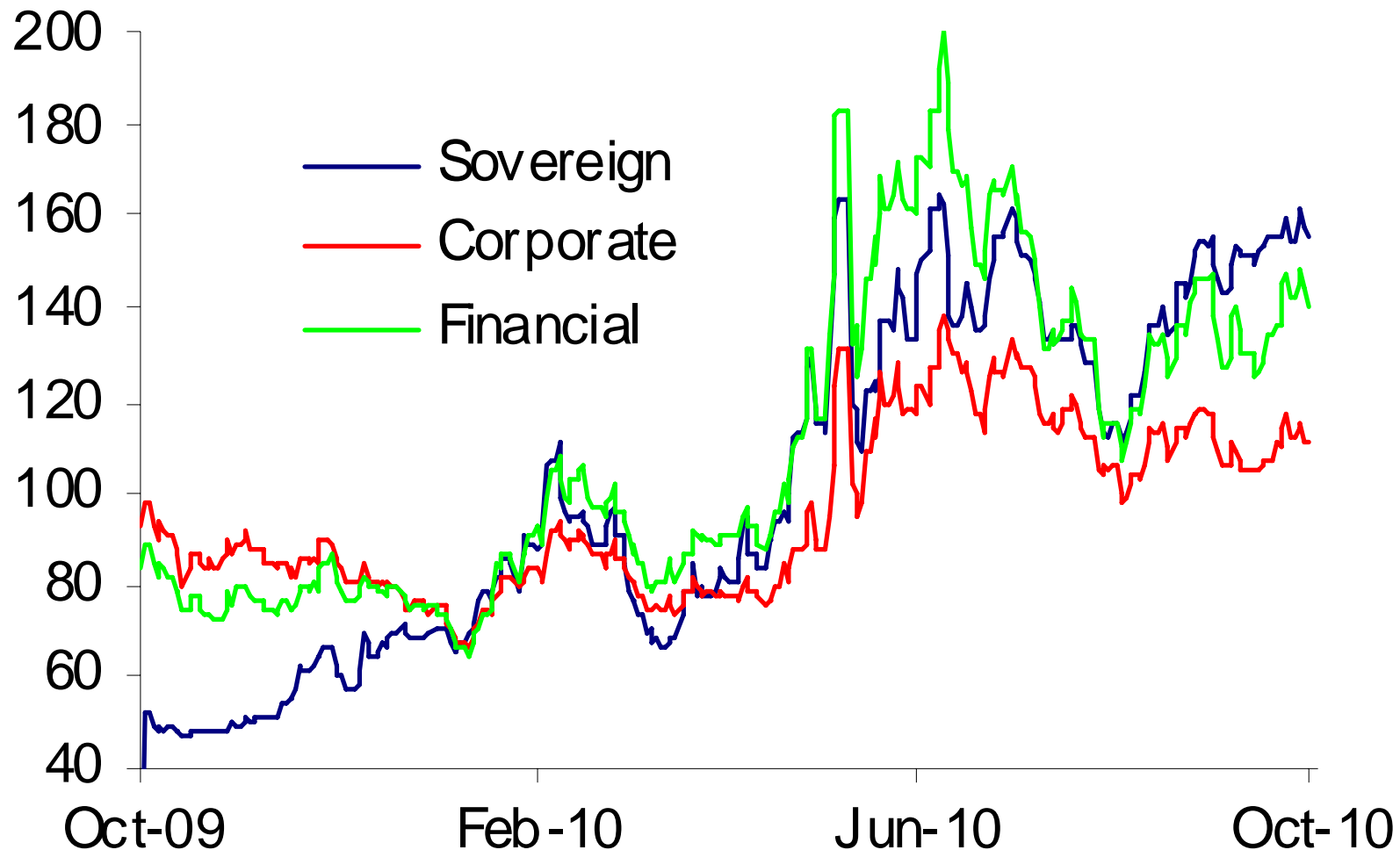
Source: IMF

Rules of 1 percent

- After major financial crises, recovery averages 1% less.
- Countries with public debt/GDP > 90% grow 1% less.
- 1% fiscal consolidation leads to 0.5% drop in GDP growth in subsequent two years. Impact doubles if policy rates are already very low and many countries are tightening at the same time.
- If growth in MMCs between 2010-15 is 1% lower than consensus, debt/GDP would be 10-15% higher.

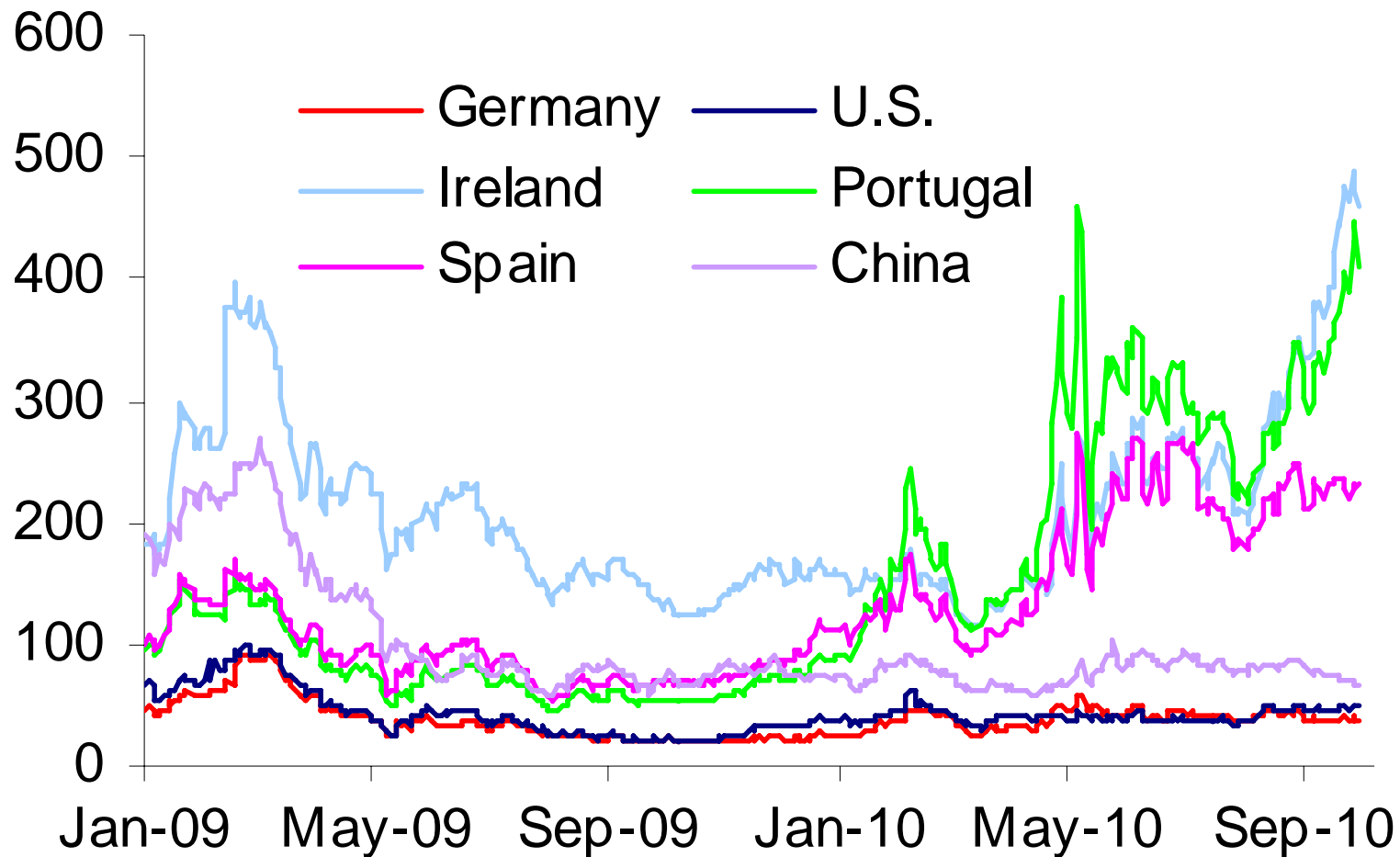
European Sov., Corp. and Financial CDS spreads

bps, ITraxx WE SovX, HG corp. & senior fin. CDS spreads



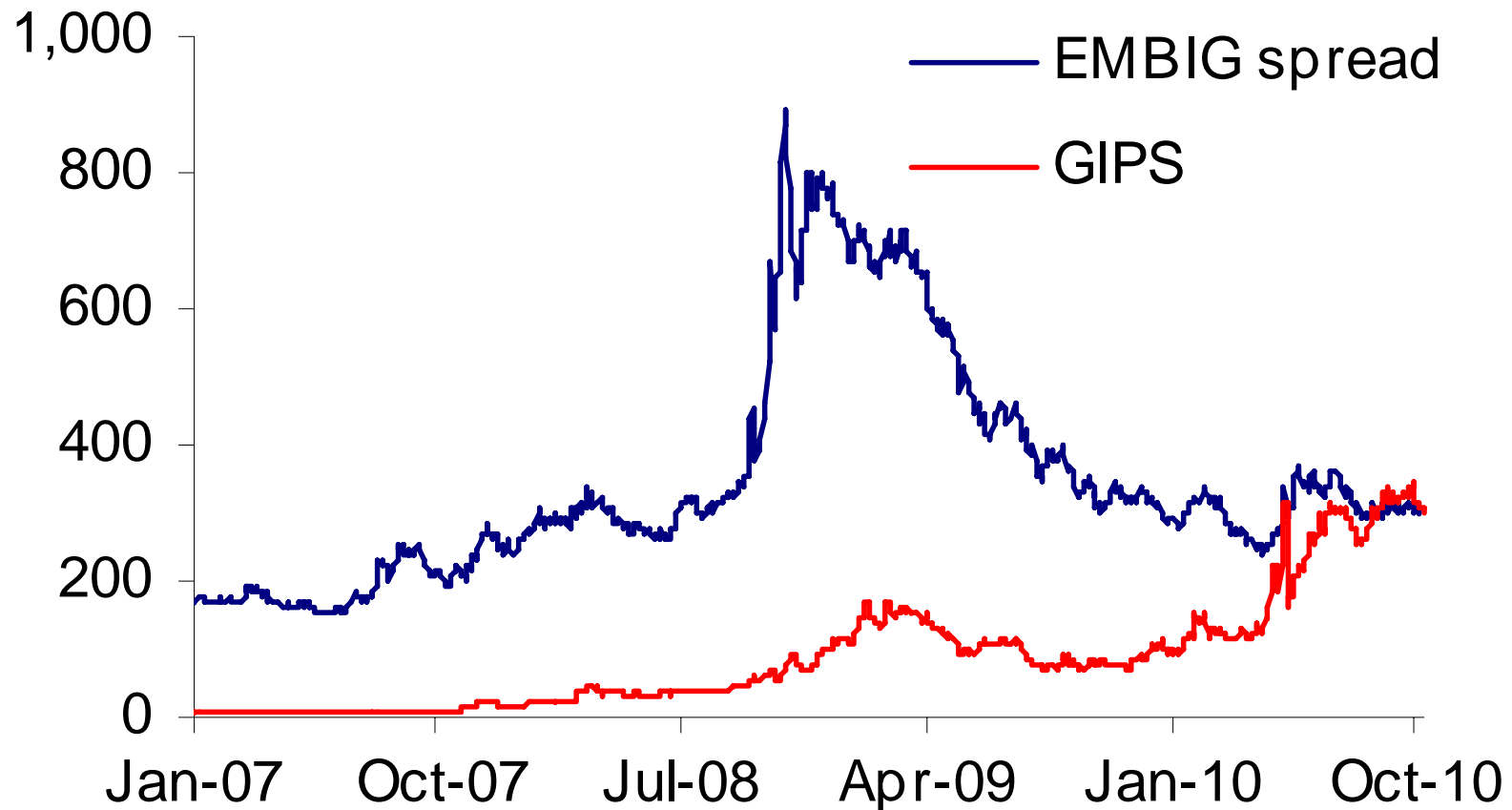
Selected Euro Area, China and U.S. Sov. CDS Spreads

5-year CDS spreads, bps



EMBIG and Selected Euro Area Bond* Spreads

basispoints

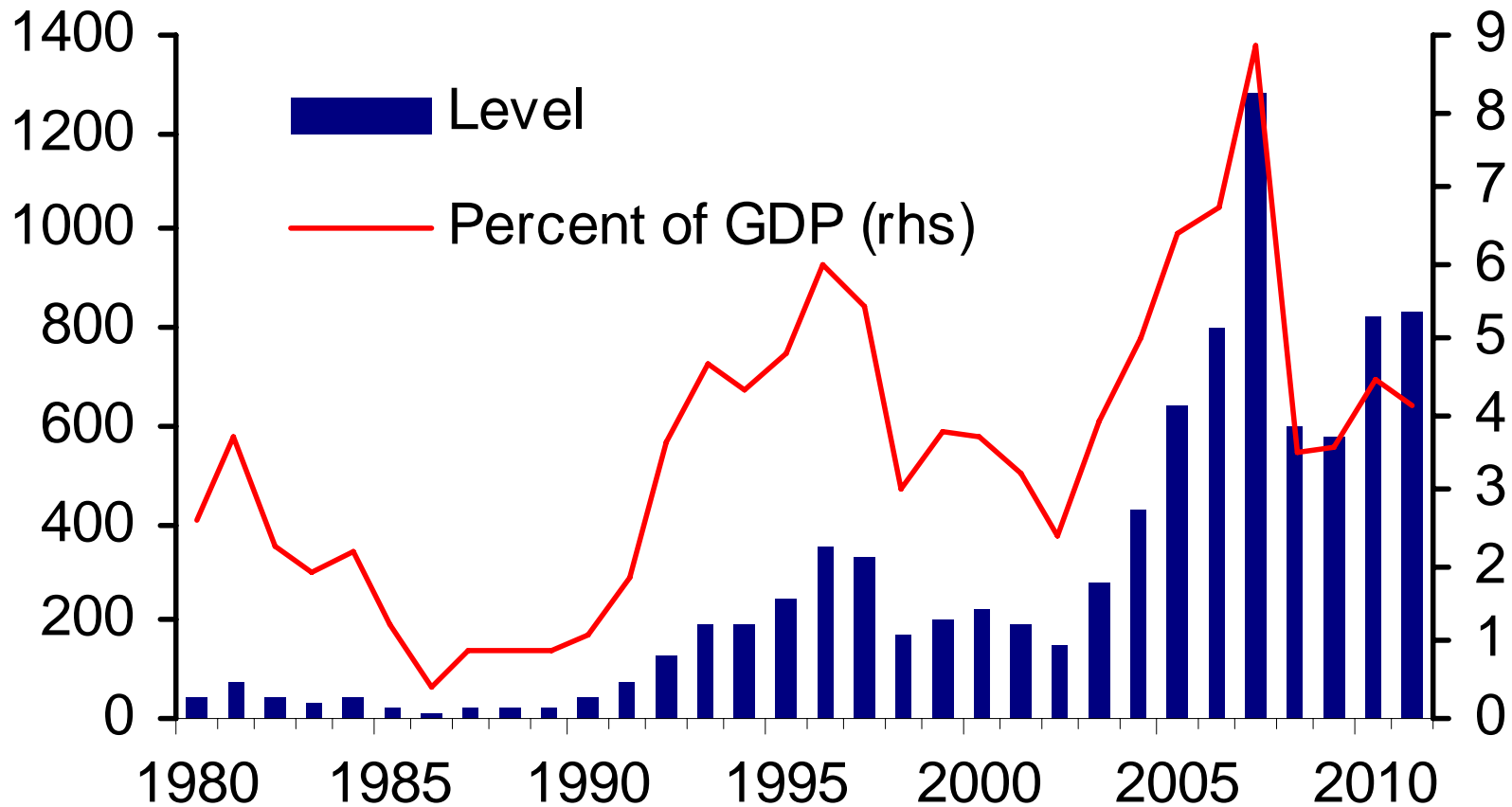


*Greek, Irish, Portuguese, Spanish 10-year bonds over German 10 years bunds, GDP weighted average

Emerging Market Private Capital Inflows, Net

\$ billion

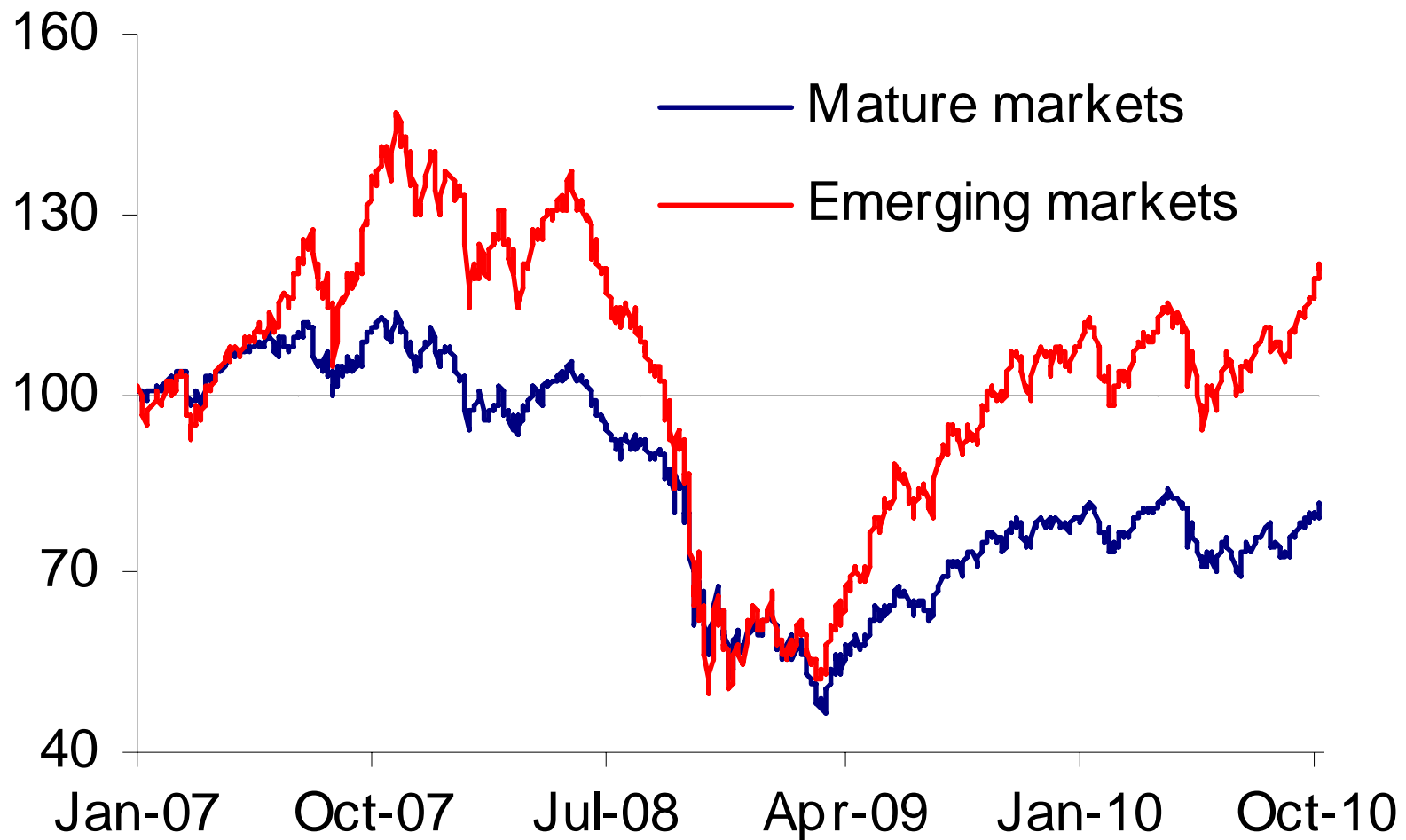
percent of GDP



Source: IIF Capital Flows

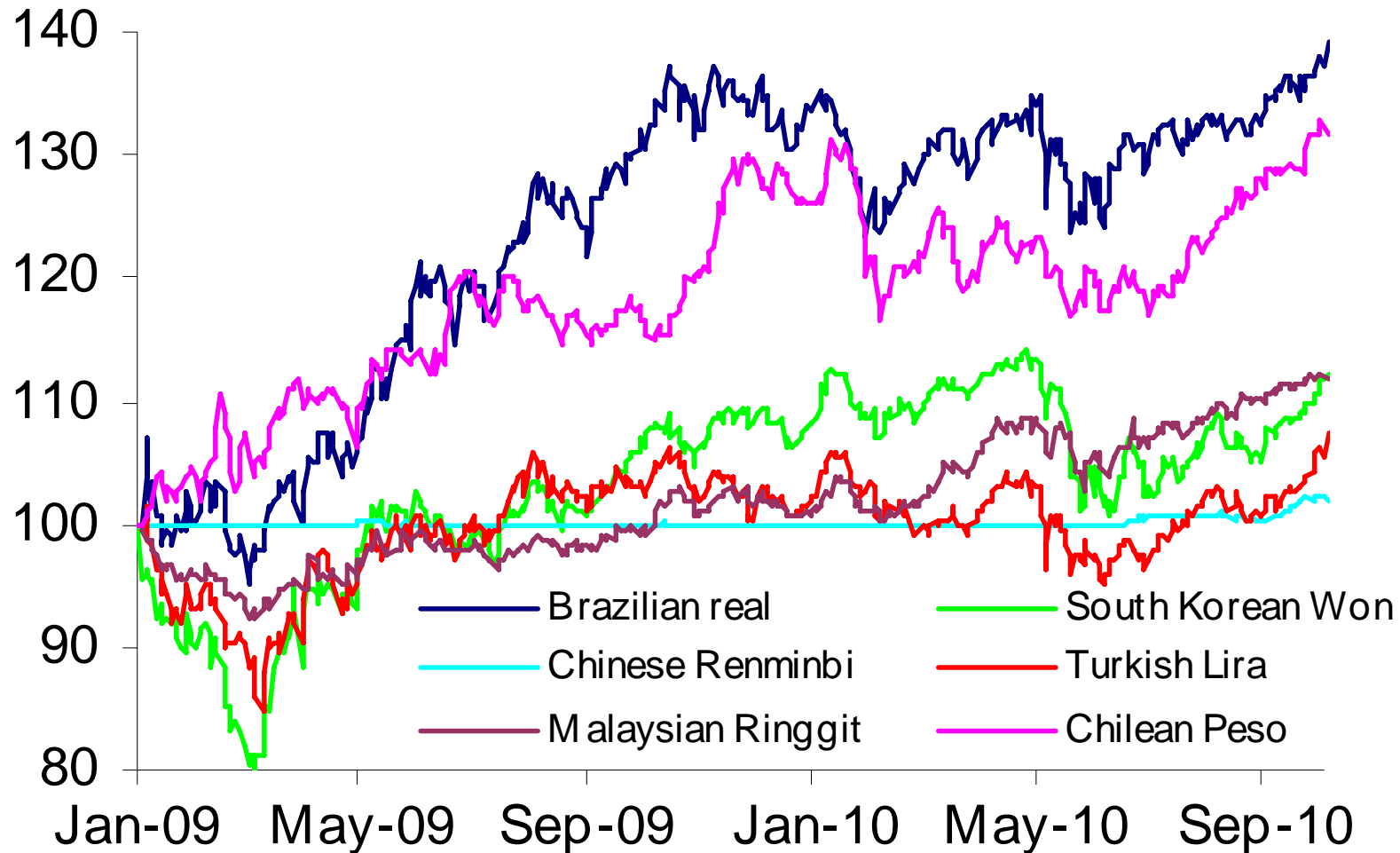
Equity Market Performance

MSCI indices (US\$ returns), end-2006=100



Selected Emerging Market Currencies

index, 12/31/2008=100, increase=USD depreciation



Conclusions

- Currently uncoordinated and largely inconsistent policy moves risk degenerating to trade wars. Leadership needed for multilateral policy coordination.
- Be aware of net cumulative impact of financial regulatory reforms on already feeble growth.

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