

SCIENCES PO

Developing & Emerging Countries during the 2007-2009 Financial Crisis

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The 2001-2002 Crisis vs. the 2007-2009 Crisis: Different Causes this Time

2001-2002 Crisis

- Higher sovereign risk: Argentina, weak sovereigns (Brazil and uncertainty concerning Asia)
- Bullet maturities
- Lack of liquidity

2007-2009 Crisis

- Lower sovereign risk: decreasing public debts during 2002-2007
- Excess of liquidity and private debt crisis: undercapitalization, over leveraging
- Non-competitive businesses
- Risky derivative plays and speculation



The Stronger Resilience of Emerging and Developing Countries in 2007-2009

The Stronger Resilience of Emerging and Developing Countries in 2007-2009

■ Lesser vulnerability to the structured finance crisis

| Fitch ratings - All Regions Structured Finance One-Year Transition Matrix: 2008 (in %) | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | AAA | AA | A | BBB | BB | B | CCC | CC and below |
| AAA | 87.21 | 1.15 | 1.77 | 2.24 | 2.64 | 2.03 | 1.82 | 1.13 |
| AA | 1.85 | 63.67 | 6.64 | 4.25 | 4.35 | 4.28 | 6.09 | 8.87 |
| A | 0.25 | 1.42 | 58.02 | 9.32 | 5.42 | 4.07 | 6.52 | 14.98 |
| BBB | 0.04 | 0.10 | 0.87 | 52.86 | 10.40 | 5.62 | 5.92 | 24.18 |
| BB | 0.00 | 0.02 | 0.05 | 0.47 | 46.70 | 11.22 | 5.61 | 35.93 |
| B | 0.00 | 0.00 | 0.03 | 0.10 | 0.14 | 42.86 | 4.85 | 52.01 |
| CCC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.21 | 34.09 | 65.71 |

| Fitch ratings - Asia-Pacific Structured Finance One-Year Transition Matrix: 2008 (in %) | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | AAA | AA | A | BBB | BB | B | CCC | CC and below |
| AAA | 89.96 | 0.00 | 2.87 | 2.51 | 1.43 | 2.15 | 1.08 | 0.00 |
| AA | 1.77 | 81.42 | 2.65 | 2.65 | 0.88 | 5.31 | 4.42 | 0.88 |
| A | 1.80 | 0.00 | 76.58 | 1.80 | 0.00 | 9.91 | 7.21 | 2.70 |
| BBB | 0.00 | 0.86 | 1.72 | 88.79 | 3.45 | 2.59 | 0.86 | 1.72 |
| BB | 0.00 | 0.00 | 0.00 | 3.03 | 87.88 | 6.06 | 0.00 | 3.03 |
| B | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 76.47 | 5.88 | 17.65 |
| CCC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 50.00 | 50.00 |

| Fitch ratings - Latin American Structured Finance One-Year Transition Matrix: 2008 (in %) | | | | | | | | |
|---|---------------|---------------|---------------|--------------|--------------|--------------|------|--------------|
| | AAA | AA | A | BBB | BB | B | CCC | CC and below |
| AAA | 100.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| AA | 0.00 | 100.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| A | 0.00 | 0.00 | 100.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BBB | 0.00 | 0.00 | 8.00 | 88.00 | 2.00 | 2.00 | 0.00 | 0.00 |
| BB | 0.00 | 0.00 | 0.00 | 57.14 | 28.57 | 14.29 | 0.00 | 0.00 |
| B | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 50.00 | 0.00 | 50.00 |
| CCC | NR | NR | NR | NR | NR | NR | NR | NR |

Sources: Fitch 2009.

The Stronger Resilience of Emerging and Developing Countries in 2007-2009

■ Foreign exchange reserves

- China (\$2273 bil.), Russia (\$434 bil.), Saudi Arabia (\$395 bil.), India (\$286 bil.), Brazil (\$235 bil.)
- Sovereign wealth funds

■ Willingness and ability to support the private sector

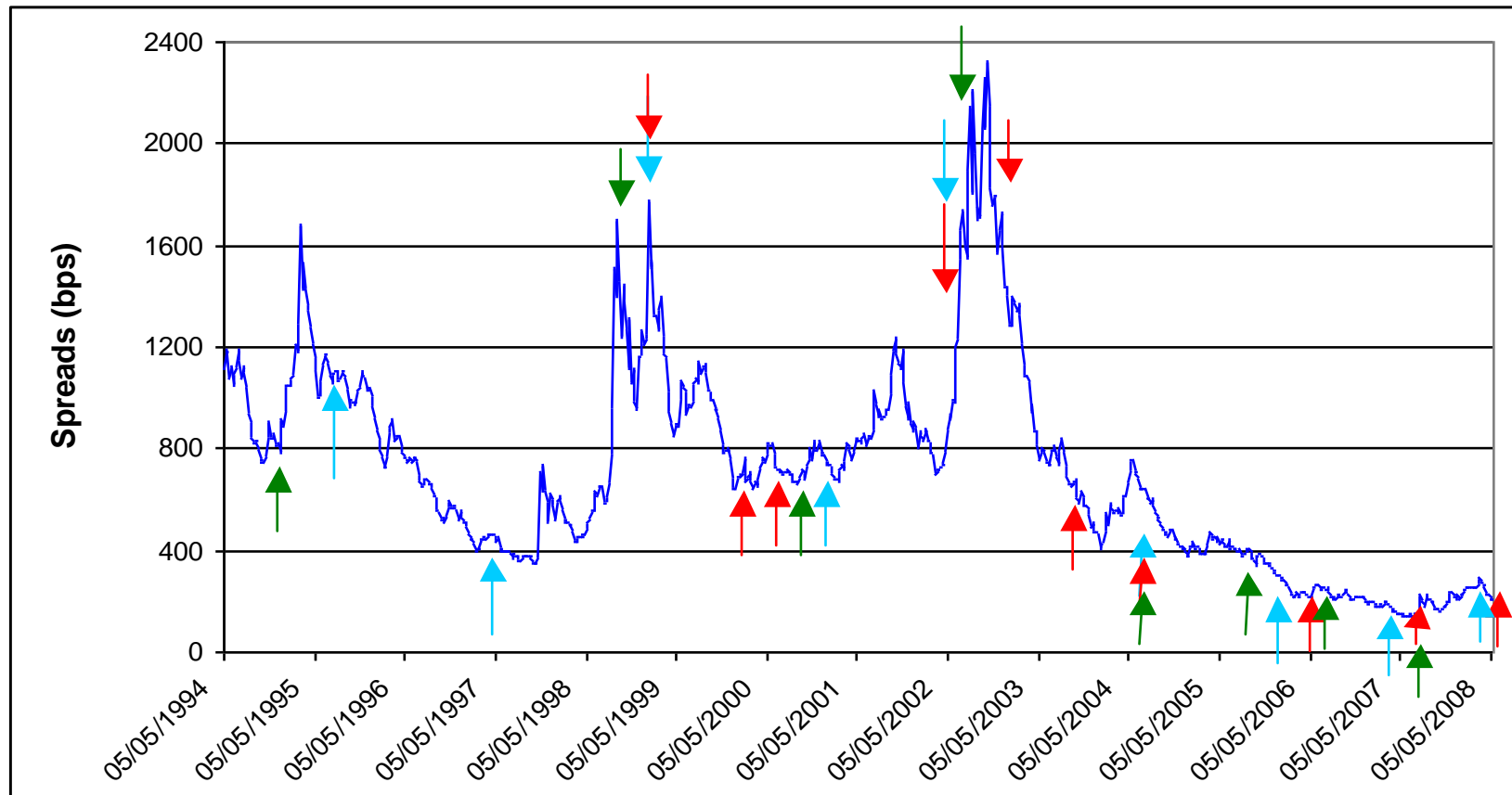
- Stimulus plans
- Guarantees

■ Two leaders supporting the GDP growth of their region

- China
- Brazil

The Stronger Resilience of Emerging and Developing Countries in 2007-2009

■ The new role played by Brazil: spreads and rating changes for Brazil



▲ Fitch upgrade

▲ Moody's upgrade

▲ S&P's upgrade

▼ Fitch downgrade

▼ Moody's downgrade

▼ S&P's downgrade



The Consequences of the Crisis

The Consequences of the Crisis

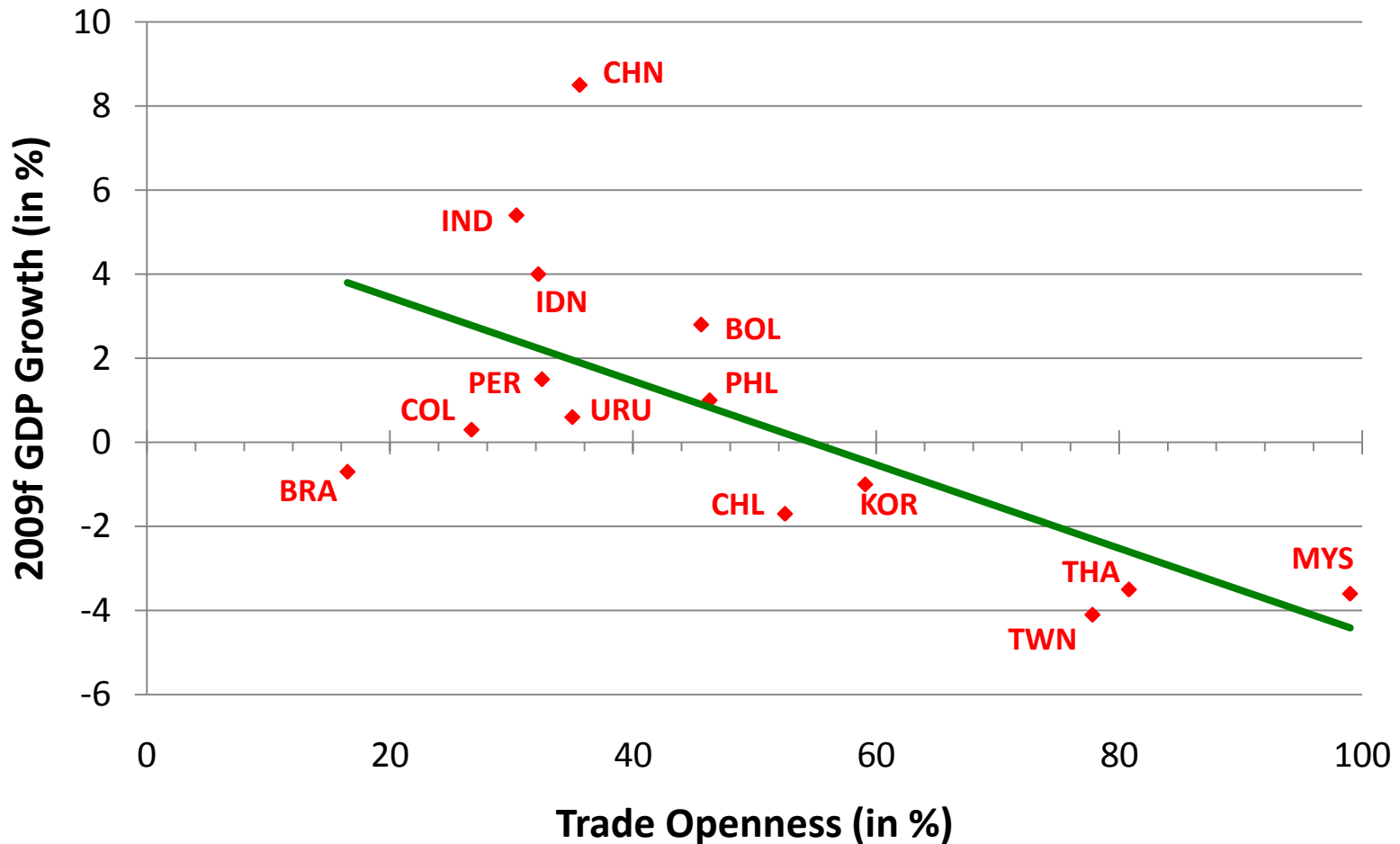
■ Slower GDP growth...

| | 2003-2007 avg | 2008 | 2009 |
|-------------|---------------|------|-------|
| China | 11.0 | 9.0 | 6.5 |
| India | 8.9 | 6.5 | 6.0 |
| Thailand | 5.6 | 2.6 | -4.5 |
| South Korea | 4.4 | 2.5 | -3.2 |
| Venezuela | 7.9 | 4.9 | -1.3 |
| Colombia | 5.9 | 2.5 | -0.3 |
| Brazil | 3.8 | 5.1 | -1.0 |
| Mexico | 3.3 | 1.3 | -5.5 |
| Latvia | 9.7 | -4.5 | -18.0 |
| Ukraine | 8.1 | 2.1 | -10.0 |
| Romania | 6.4 | 7.1 | -4.5 |
| Czech Rep. | 5.4 | 3.2 | -3.0 |

Source: IMF.

The Consequences of the Crisis

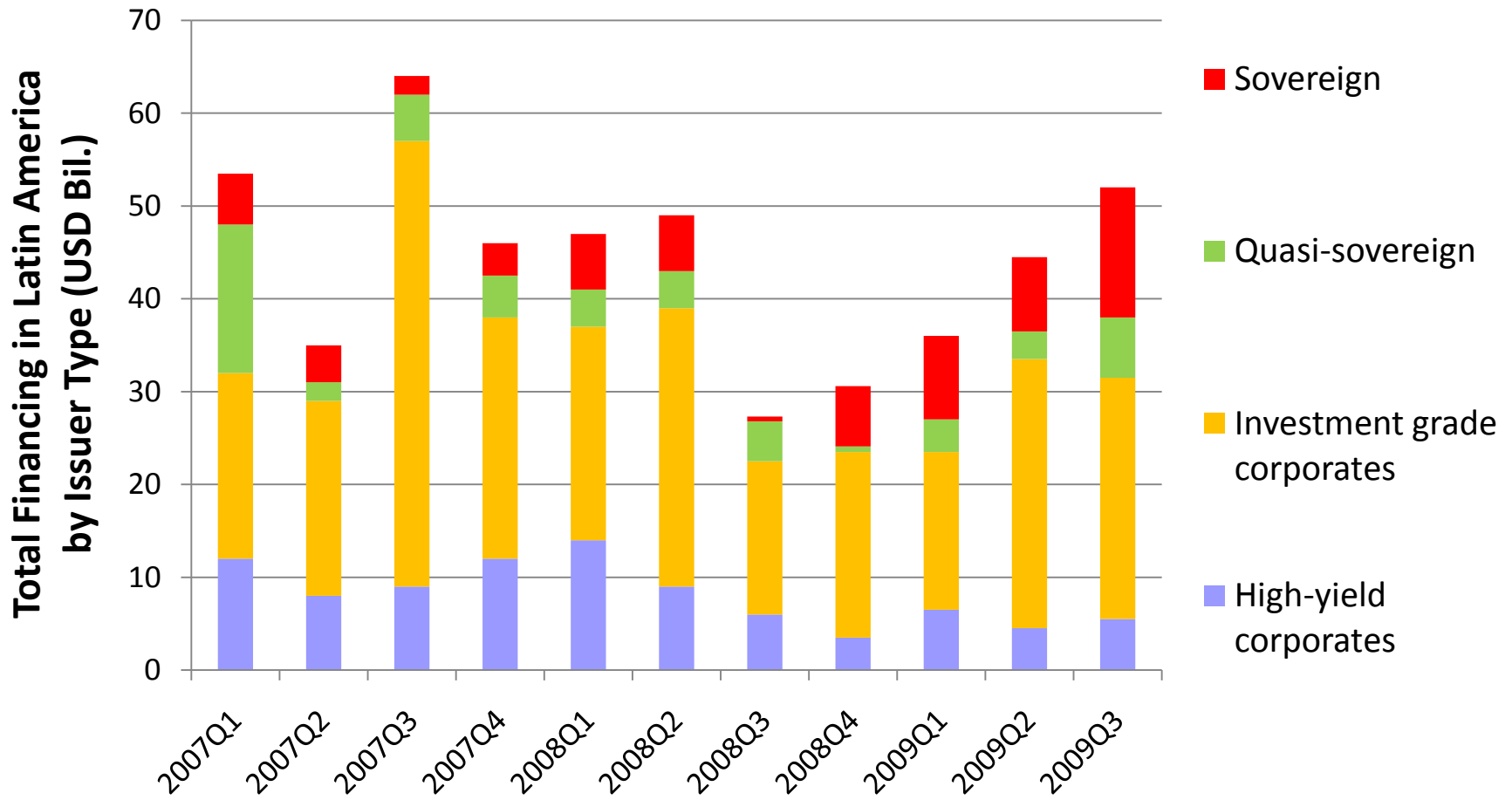
- ... Particularly for the most opened countries but those are more prone to recover



Sources: IMF and Fitch Ratings.

The Consequences of the Crisis

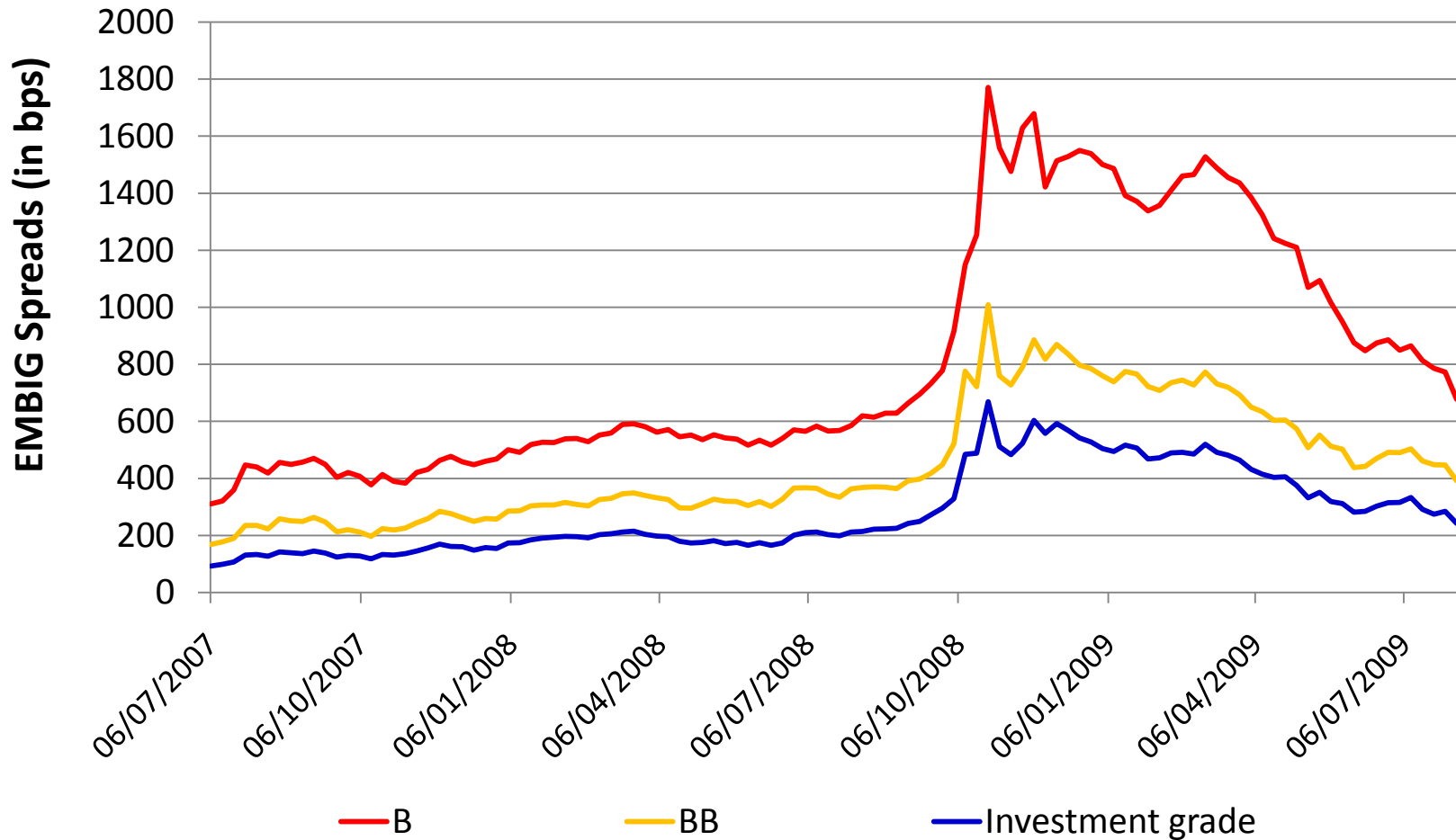
- No real drying up of markets, even in Latin America



Sources: Dealogic and IMF.

The Consequences of the Crisis

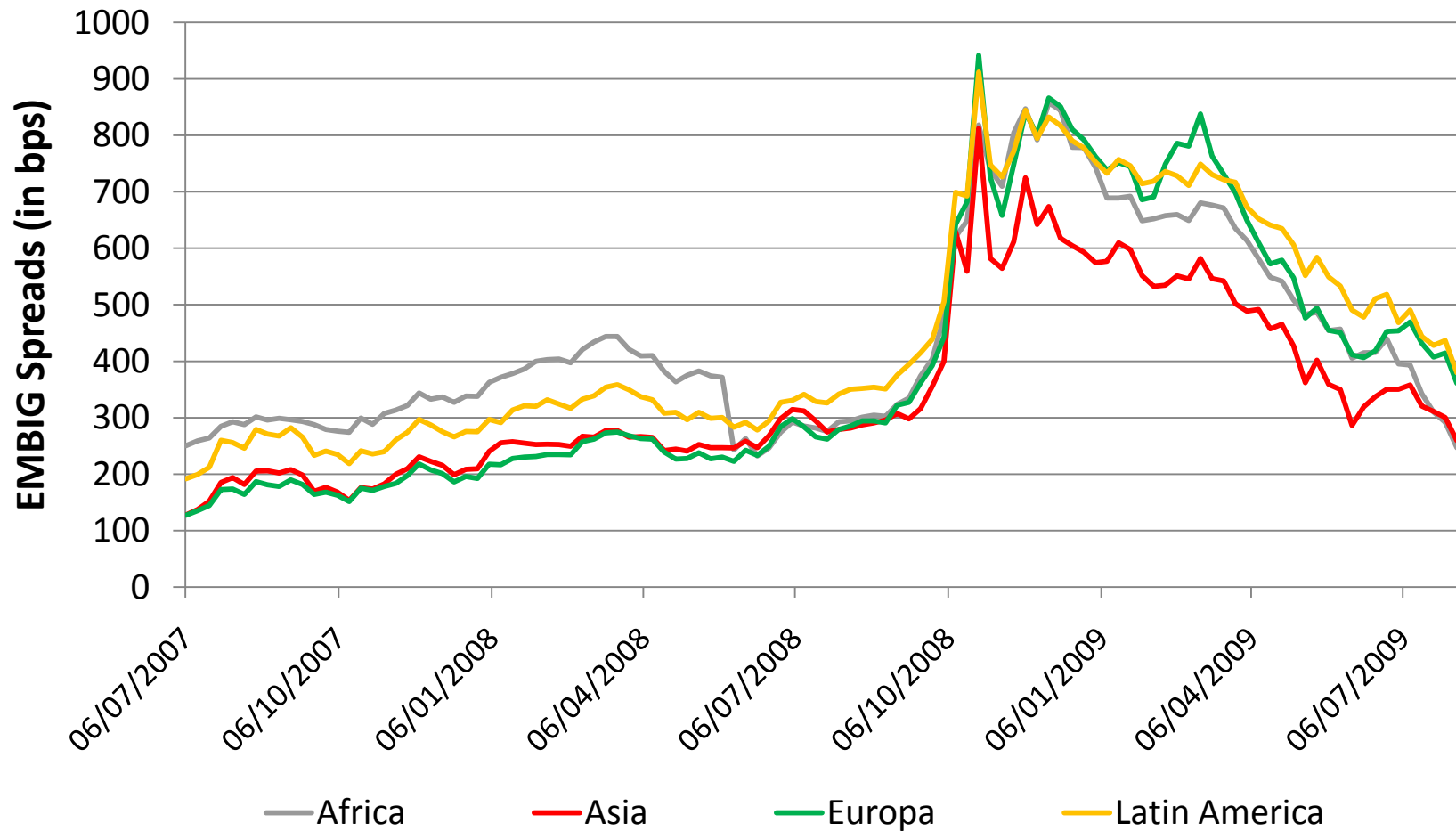
- Higher spreads in 2008Q3, 2008Q4, and 2009Q1 “only”
- Stress scenario for single-B rated countries



Source: Datastream.

The Consequences of the Crisis

■ Higher spreads in Eastern Europe and Latin America



Source: Datastream.

The Consequences of the Crisis

- Few rating downgrades until Fall 2008...
- No major rating downgrades except for:
 - Baltic countries
 - Ukraine

| | S&P | | Fitch | | Moody's | |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | January 2007 | October 2009 | January 2007 | October 2009 | January 2007 | October 2009 |
| Estonia | A | A- | A | BBB+ | A1 | A1 |
| Latvia | A- | BB | A- | BB+ | A2 | Baa3 |
| Lithuania | A | BBB | A | BBB | A2 | Baa1 |
| Ukraine | BB- | CCC+ | BB- | B | B1 | B2 |

Sources: S&P, Fitch, and Moody's.

- Nevertheless, most downgrades since Fall 2008 are relative to Latin America...



Focus on Latin American Difficulties: Two Profiles

Evolution of Ratings, September 2008-November 2009

■ Moody's:

- Ecuador downgraded in December 2008,
- Jamaica downgraded in March 2009,
- El Salvador downgraded in November 2009.

■ Fitch:

- Jamaica downgraded in November 2008,
- Ecuador downgraded in December 2008,
- Venezuela downgraded in December 2008,
- El Salvador downgraded in June 2009.

■ S&P:

- Argentina downgraded in October 2008,
- Ecuador downgraded in November and December 2008,
- Jamaica downgraded in August and November 2009,
- Honduras downgraded in September 2009.

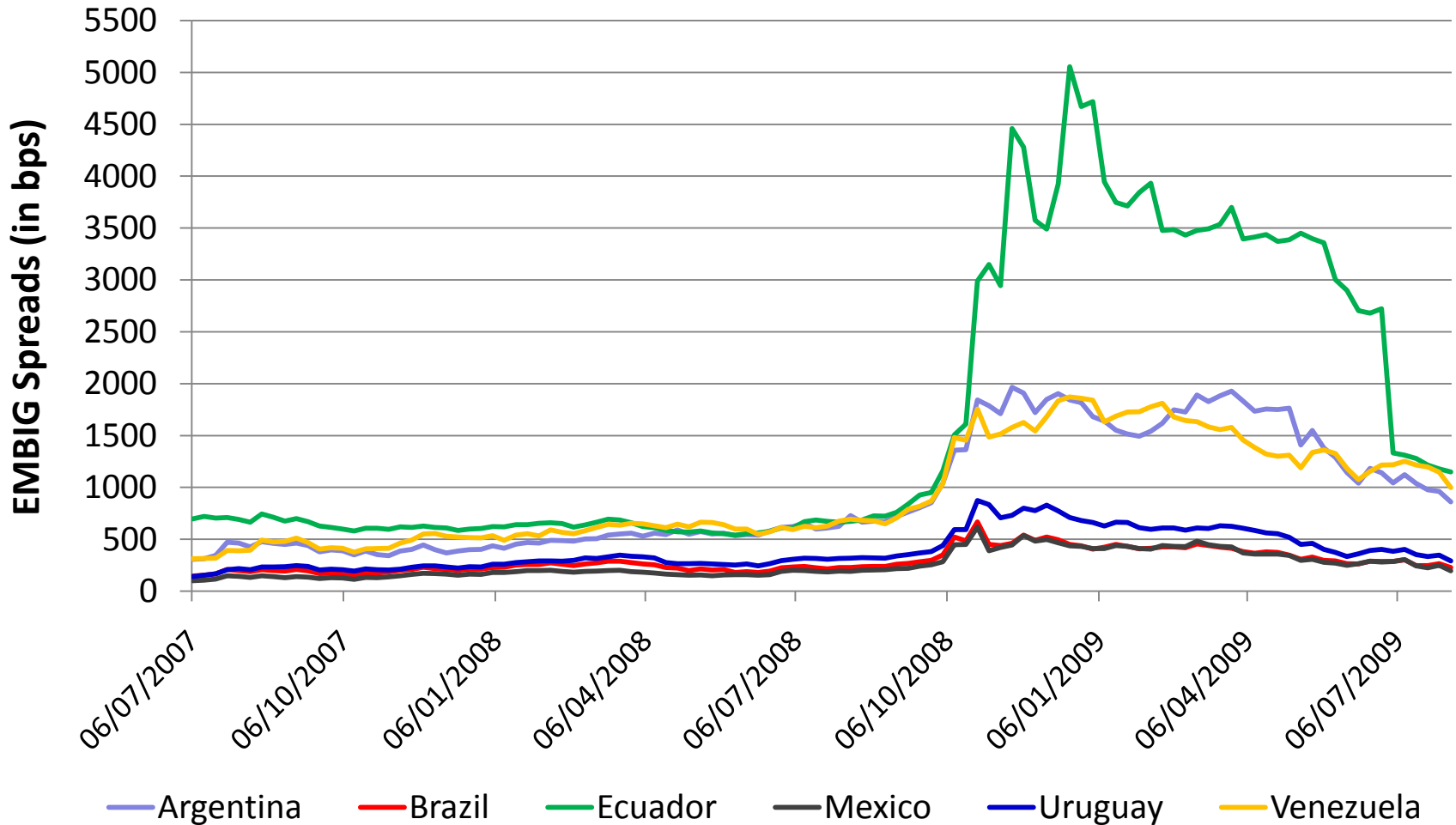
Focus on Latin American Difficulties

First profile: Argentina, Ecuador, and Venezuela

- Commodity exporting countries,
- Countries are less integrated with global financial markets,
- Ecuador is a “serial defaulter”,
- Argentina and Venezuela are not considered “market friendly” by investors: uncertain willingness to pay.

Focus on Latin American Difficulties

Evolution of EMBIG Spreads, July 2007-July 2009



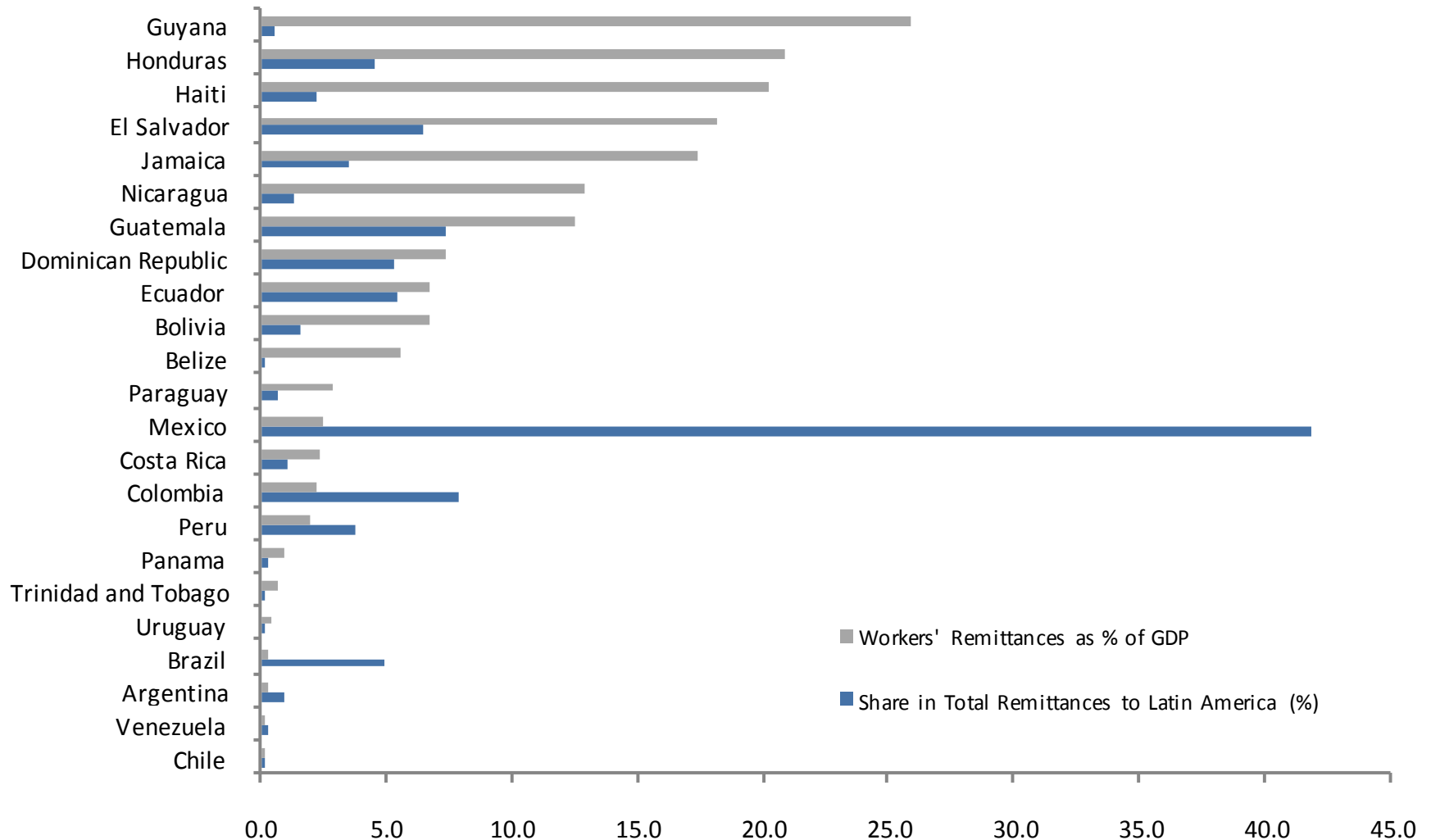
Source: Based on Datastream.

Second profile: Most Central American countries

- Commodity importing countries,
- Dependence on remittances: 6 out of the 7 rated countries with the highest remittances to GDP ratios in Latin America have been downgraded or have faced a worsening of their rating outlook (from positive to stable or from stable to negative) since September 2008
- Current account deficits.

Focus on Latin American Difficulties

Latin America and Remittances' Dependence



Source: Avendaño, Gaillard and Nieto-Parra, 2009 (OECD WP282).

Conclusion

Difficulty for lower-middle-income economies to have stable financial flows

- Low debt intolerance
- Small “middle class”, i.e. insufficient savings, to permit the development of local currency capital markets
- Reliance on remittances, which means a dependence on the U.S. growth, much higher than exporting-countries to the U.S.