

# **A DECADE AFTER THE GFC: LESSONS AND POLICY IMPLICATIONS FOR EMERGING ECONOMIES**

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# THE SETTING....

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- Credit growth fueled by loose monetary policy, lending standards, on the background of longer and more global intermediation chains
- “Perfect storm”? Or simply ignorance on what has been brewing?
- Variation in policy reactions across the Atlantic:
  - Monetary policy (swift action in US)
  - Fiscal policy (swift actions on both sides)
  - Bank resolution (swift action in US, delay in Europe)
- Consistent with history, prolonged recession, though 2<sup>nd</sup> Great Depression was avoided
- A decade later: fallout in form of populist and fascist movements and governments rising

# LESSONS IN ADVANCED COUNTRIES

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- Strengthening of capital requirements and intro of liquidity requirements
- Need for effective and incentive-compatible bank resolution frameworks
- Need for more effective cross-border supervisory coordination
- Need for macro-pru!
- Need for better monitoring of intermediation activities outside the regulatory perimeter!

# WHAT LESSONS FOR EMDES?

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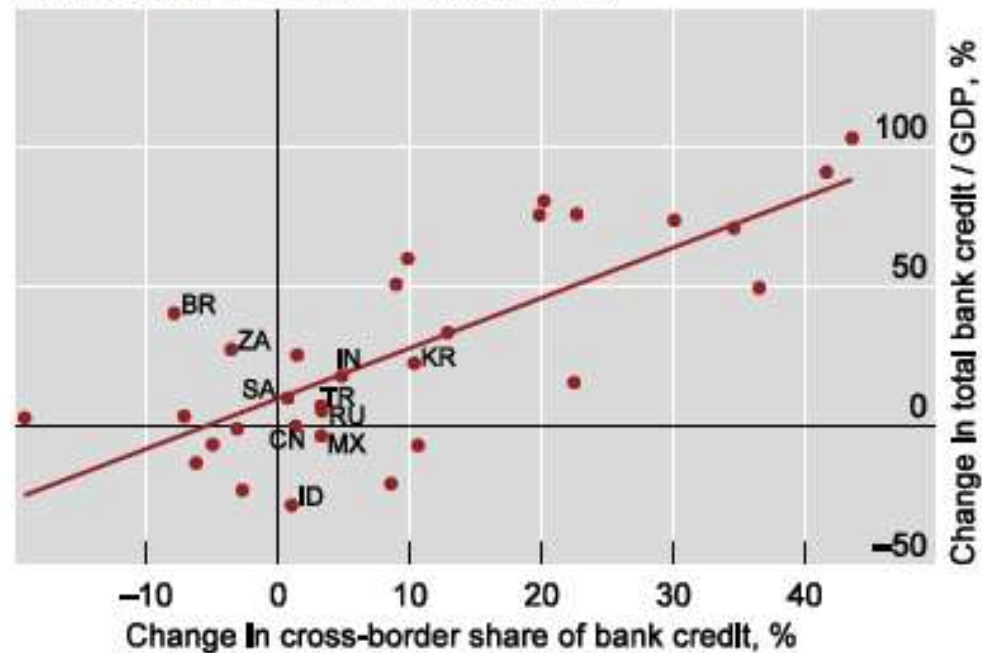
- Most EMDEs less affected than advanced countries
  - Does Basel III really meet the needs of EMDEs?
- BUT: rise in private sector indebtedness in both local and foreign currency due to low interest rates in advanced countries
- This might be coming to an end...
- How well prepared are EMDEs for the next predictable shock (tightening of monetary policy in US and possibly in Eurozone), less predictable shocks (trade war) and the unknown unknowns?

# CROSS-BORDER FLOWS AND CREDIT BOOMS

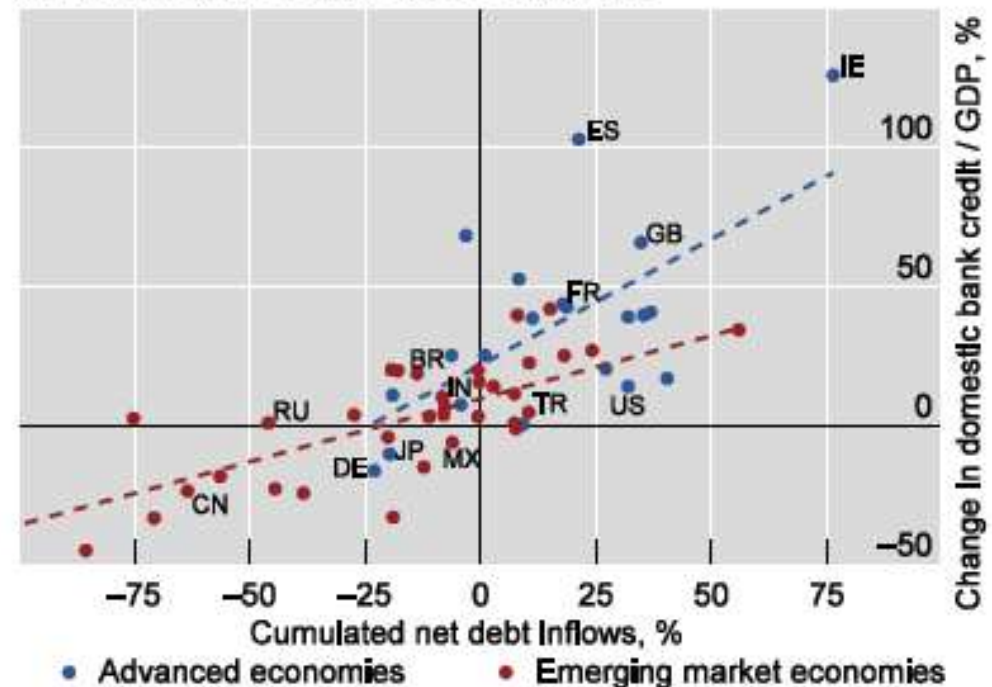
Capital flows contributed to domestic credit growth during the boom ...

Figure 12

... through cross-border bank credit<sup>1</sup> ...



... and through broader net debt inflows<sup>2</sup>

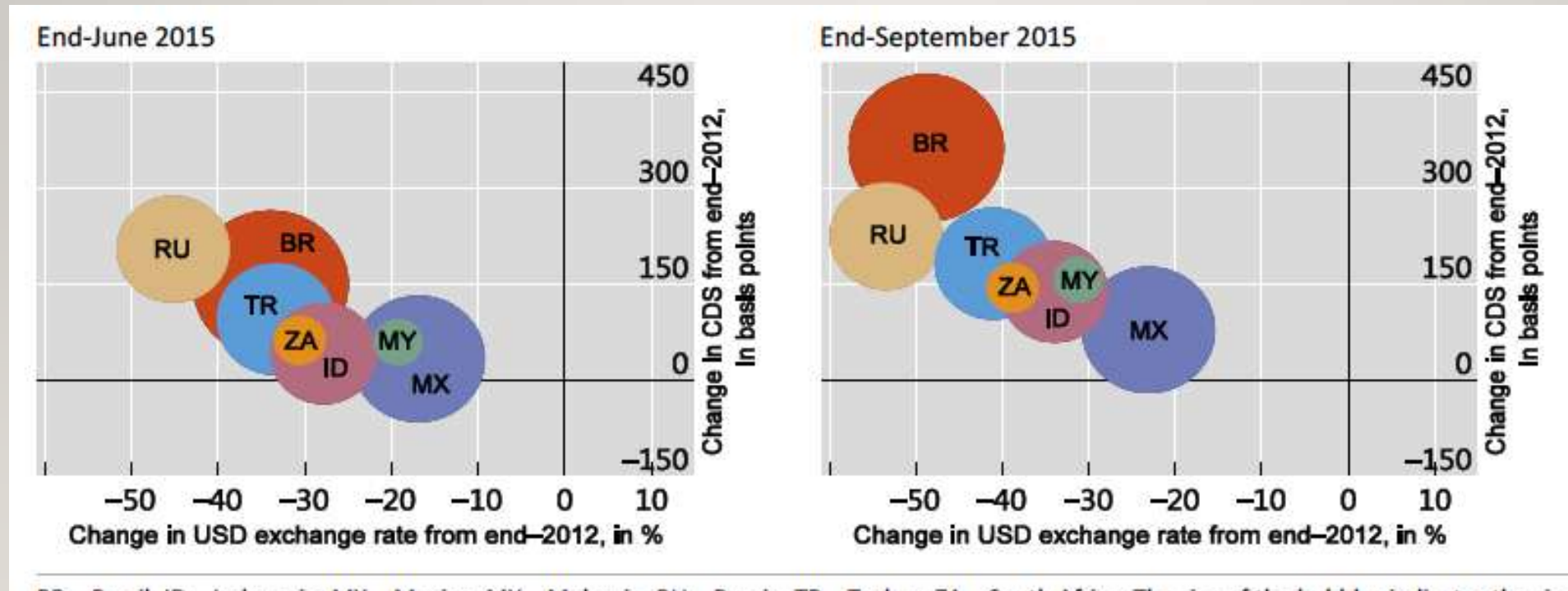


Source: Avdjiev, McCauley and Shin (2016)



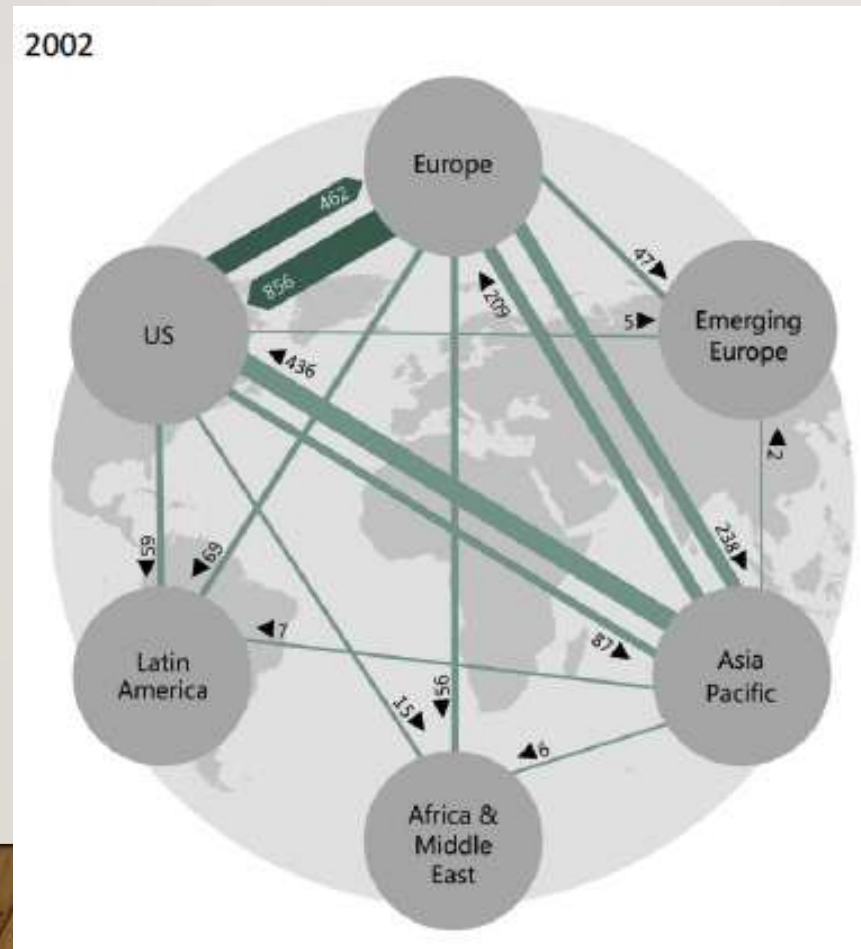
# CONSEQUENCES

- Risk-taking channel of exchange rates



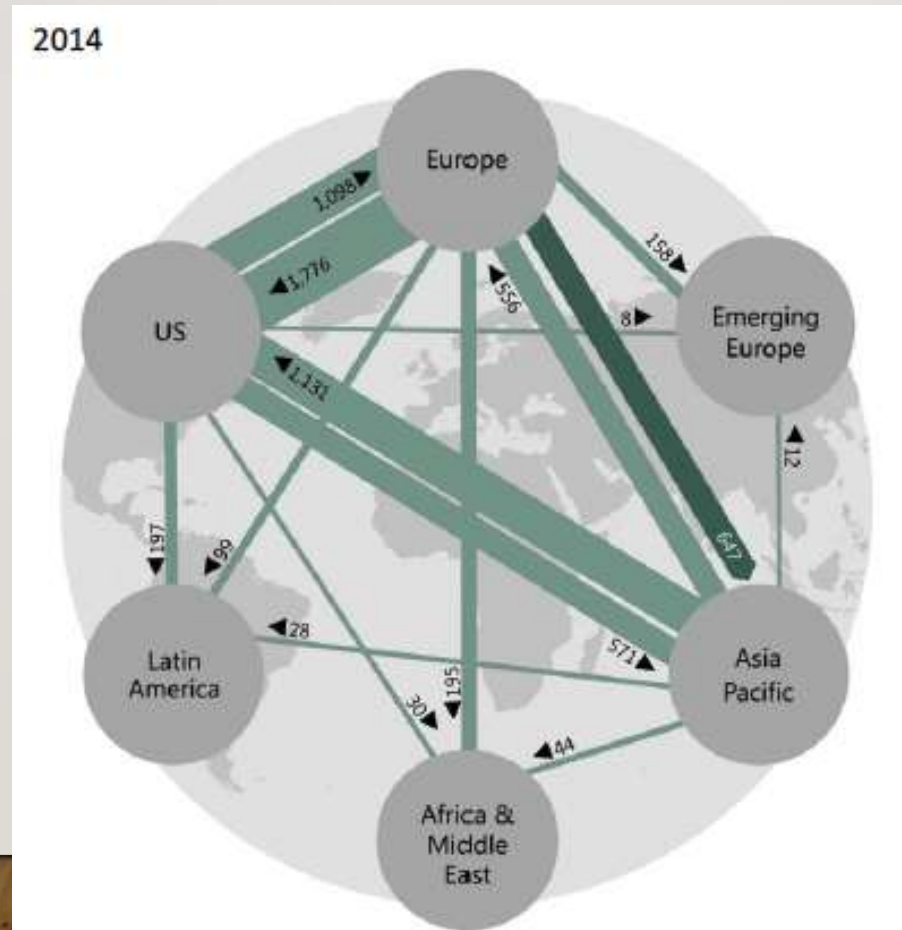
Source: Avdjiev, McCauley and Shin (2016)

# DOLLAR-DENOMINATED CROSS-BORDER FLOWS



Source: Avdjiev, McCauley and Shin (2016)

# DOLLAR-DENOMINATED CROSS-BORDER FLOWS

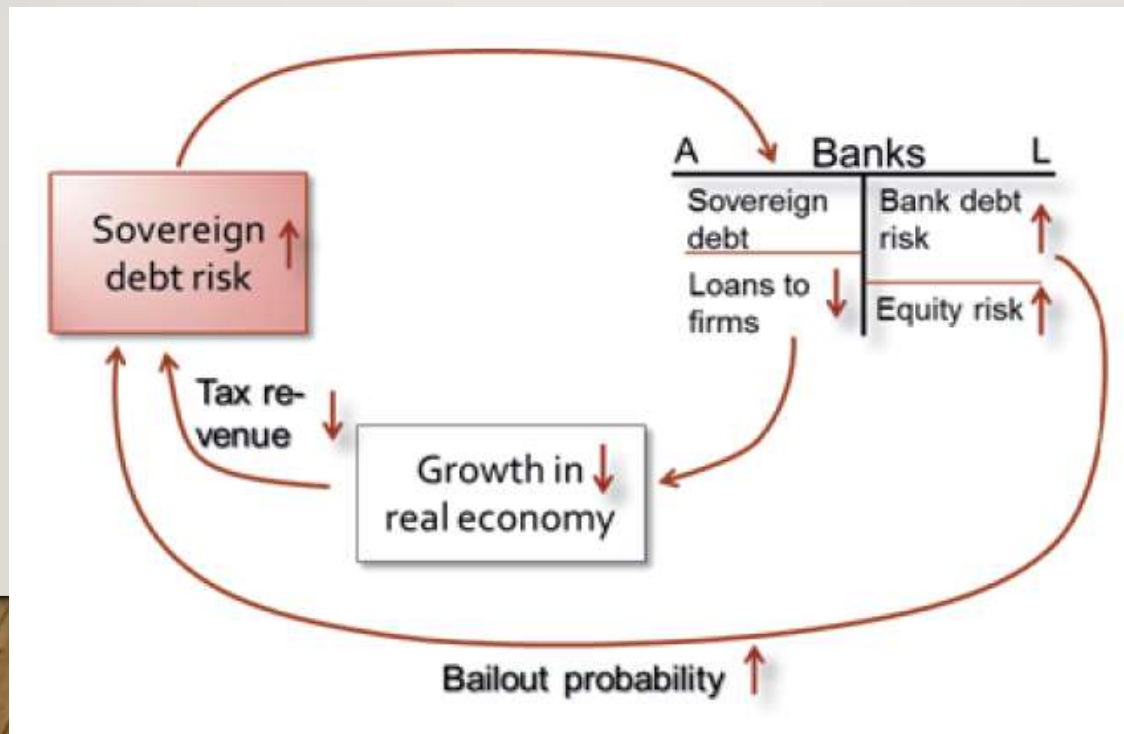


Source: Avdjiev, McCauley and Shin (2016)



# WHEN PRIVATE BECOMES PUBLIC....

- As private debtors could not repay and banks could not be resolved, bailouts remained the only option, with adverse fiscal consequences
- Examples: Ireland and Spain



# HOW MUCH GOVERNMENT DEBT?

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- Long-term sustainability
- Avoid pro-cyclicality
- When to restructure
  
- Still on-going question in the Eurozone
  - Greece
  - Italy?
  
- Important: Debt/GDP – both influence each other
- Important question: how big is the fiscal multiplier, especially in recessions?

# THANK YOU

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