The Future Role of Financial Markets in Creating Affluence

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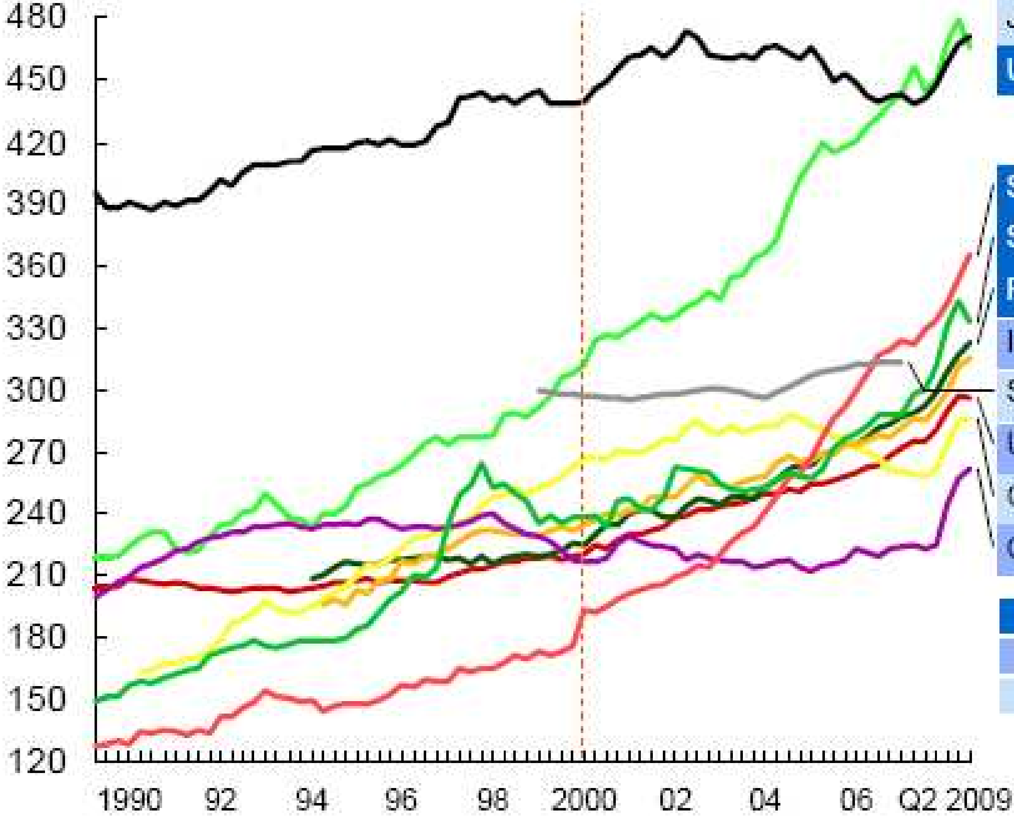
LSE Asia Forum 2010

Beijing

26 March 2010

Debt grew in most mature economies

Domestic private and public sector debt[1] by country, % of GDP



	CAGR[2], % 1990-00	CAGR[2], % 2000-08	Change, p.p. 2000-08
Japan	1.2	0.5	19
UK[3]	3.3	5.2	157
Spain	4.1	7.4	150
S. Korea	4.3	4.2	93
France	1.2	3.9	83
Italy	2.9	3.1	64
Switzerland	N/A	0.8	17
US	0.6	3.5	70
Germany	5.6	0.3	7
Canada	0.3	1.5	28

Rapid growth

Moderate growth

Slow/negative growth

1 "Debt" is defined as all credit market borrowing including loans and fixed-income securities.

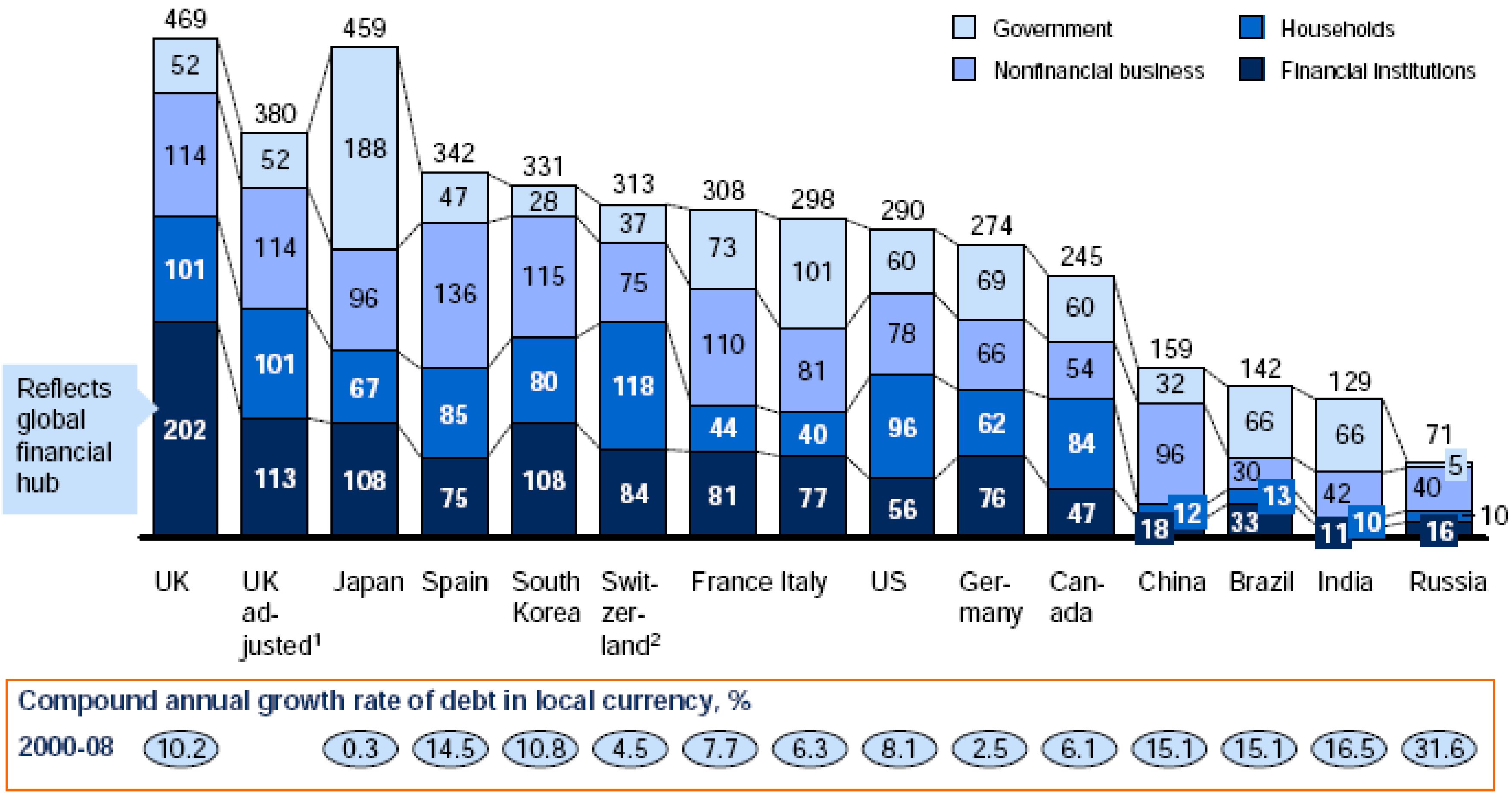
2 Compound annual growth rate. Where data are unavailable, the longest possible period is used.

3 Even after removing foreign lending by UK banks, UK debt/GDP remains higher than every country except Japan.

Source: McKinsey Global Institute, Debt and Deleveraging: The Global Bubble and its Economic Consequences (January 2010).

The historical composition of debt differs across economies

Debt by country, % of GDP, 2008

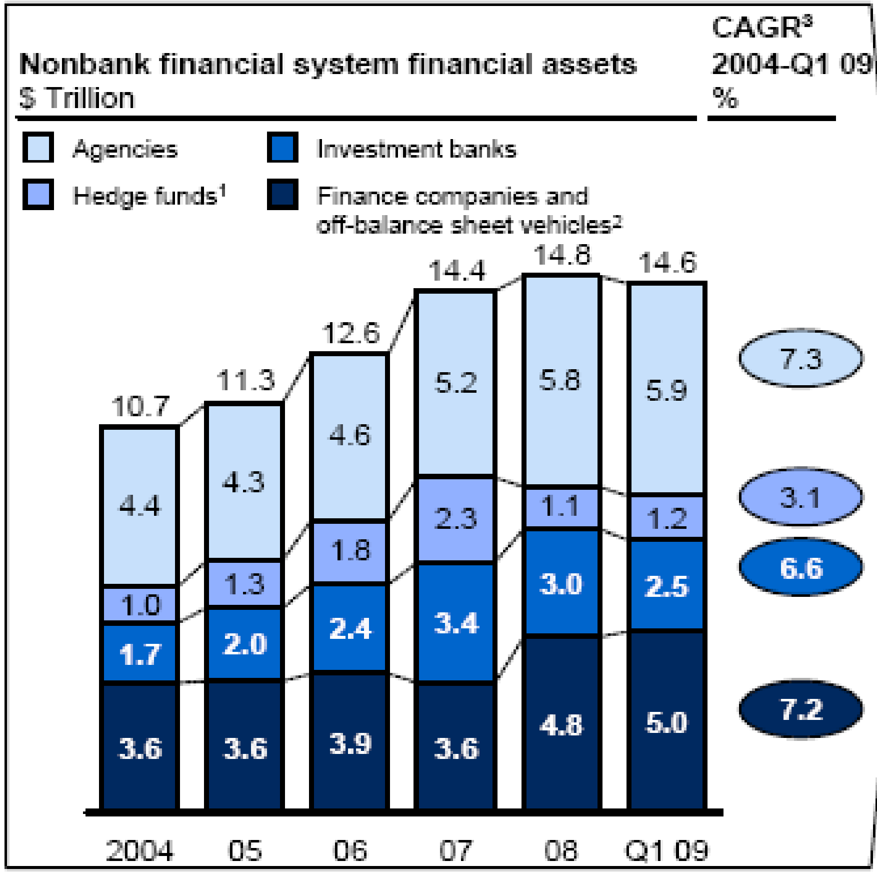


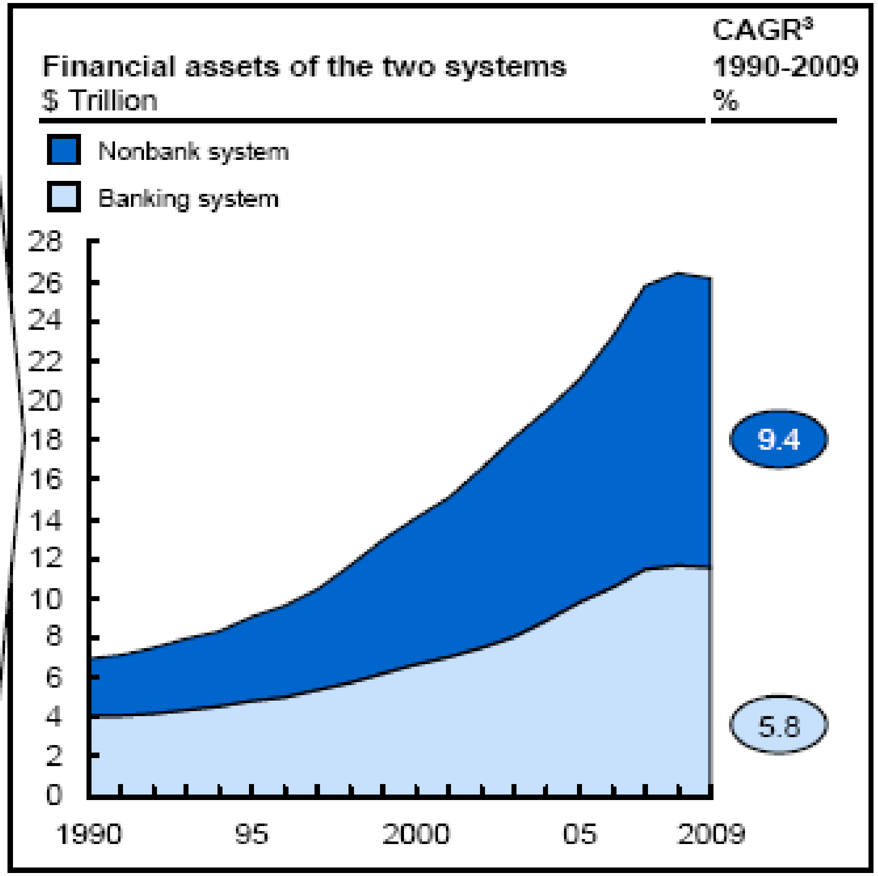
1 The UK financial sector was adjusted to reflect its position as a financial hub. See the technical appendix for details.
2 Data for Switzerland represent year-end 2007.

Source: McKinsey Global Institute, Debt and Deleveraging: The Global Bubble and its Economic Consequences (January 2010).

The nonbank financial system has surpassed the banking system in size

Size of components of US leveraged financial institutions





[1] IFSL estimates (assets under management, unleveraged) from hedge fund industry report, Q2 2009.

[2] Calculated as the difference between the total size of the "nonbank" financial system (via fed funds) and agency, broker-dealer, hedge fund estimates.

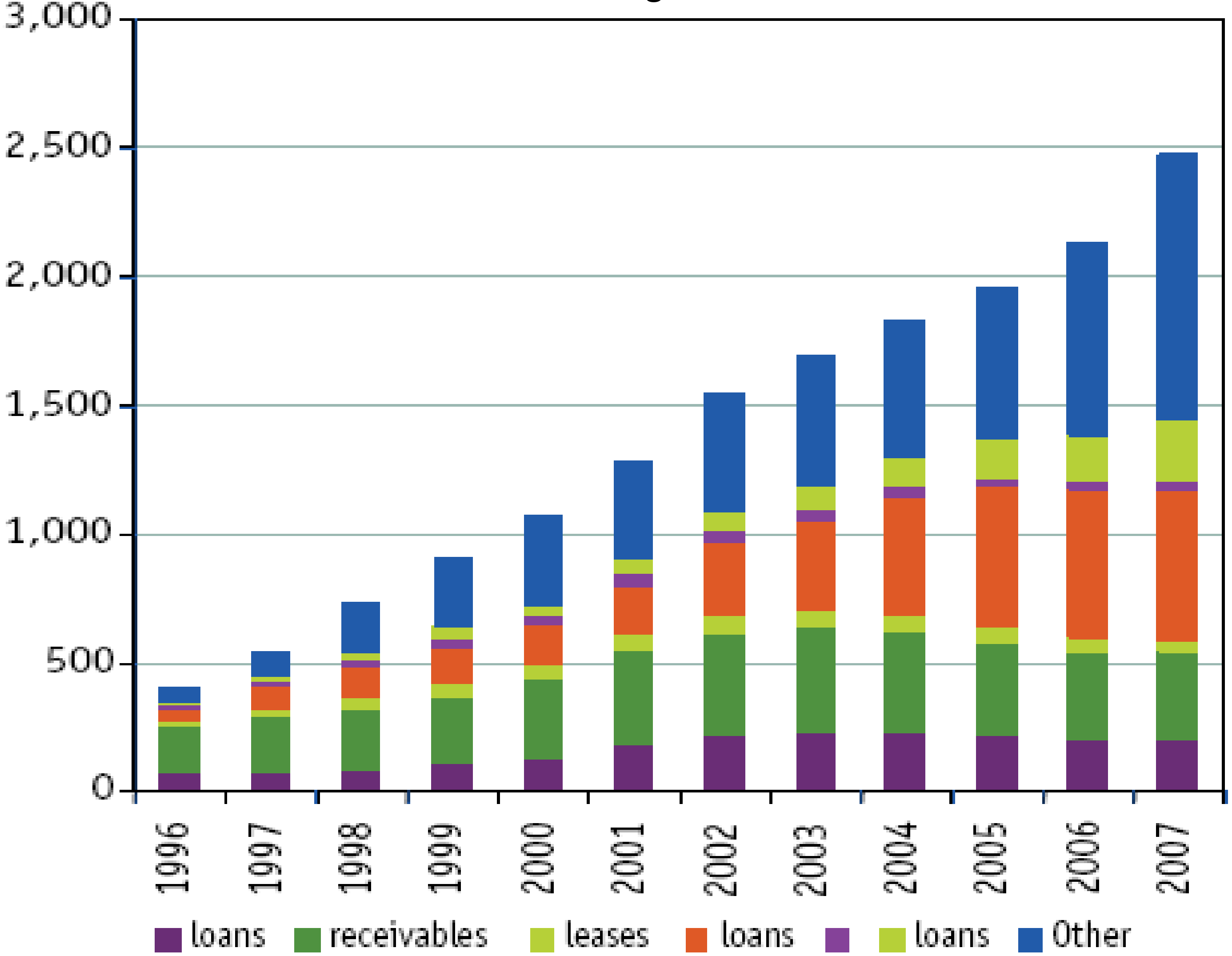
[3] Compound annual growth rate.

Note: Figures may not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Asset-based securitisation expanded dramatically

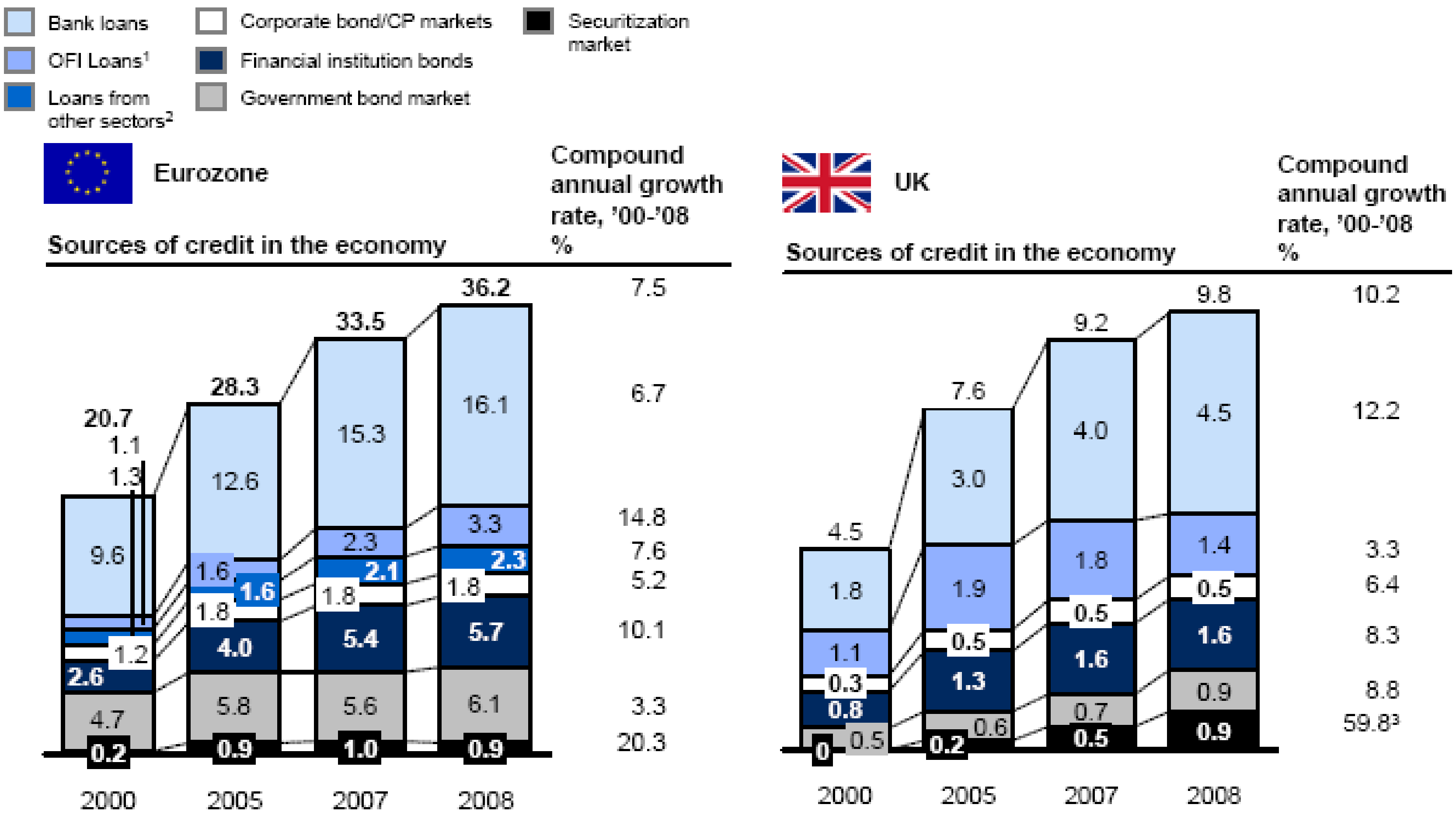
ABS – volumes outstanding in the US, 1996 - 2007



Source: The Turner Review. A regulatory response to the global banking crisis (March 2009).

In contrast, banks have provided the majority of the credit in the eurozone and the UK

Credit outstanding, $ Trillion, using 2008 exchange rates for all years

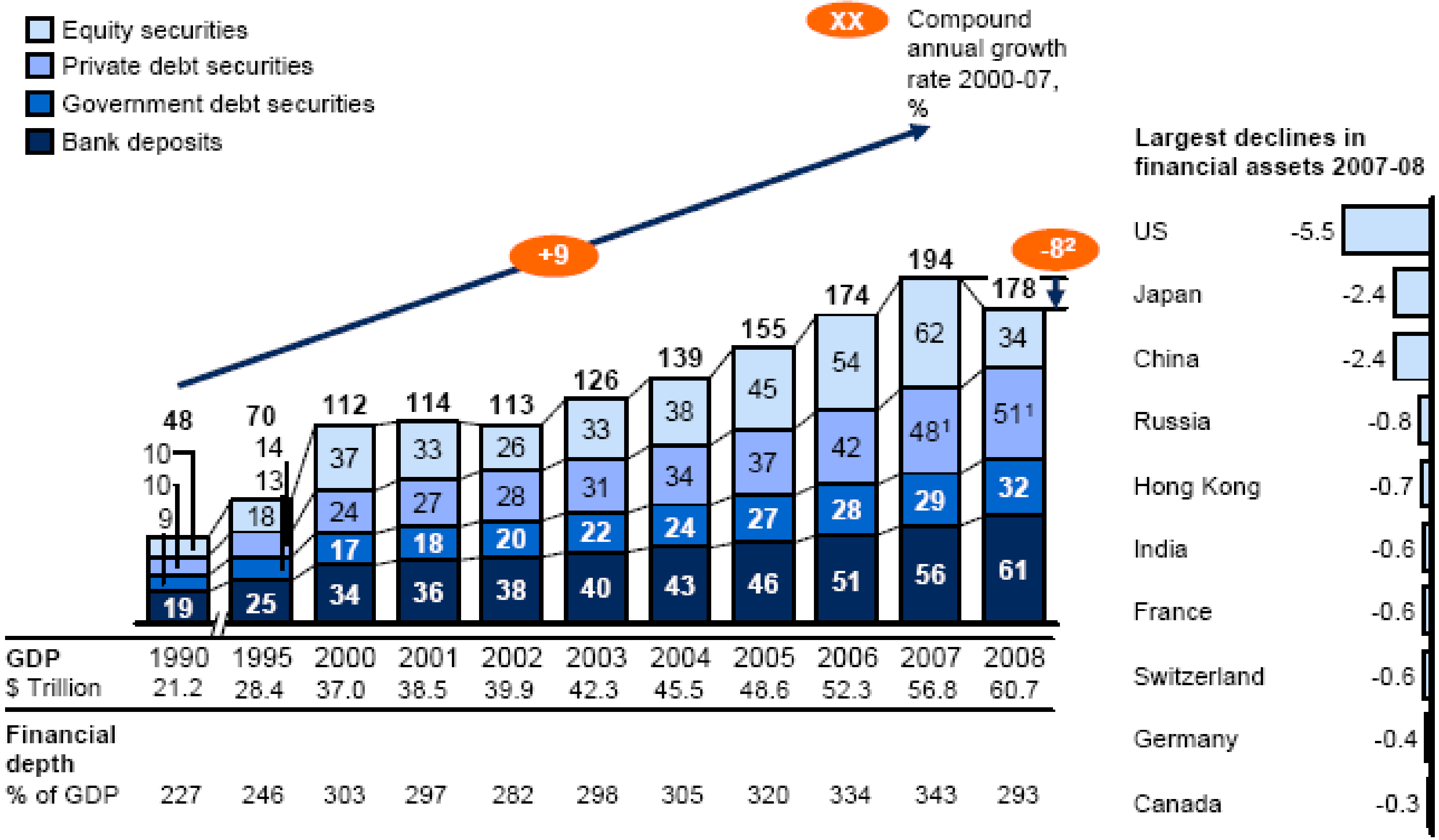


[1] Other financial institutions include finance companies, broker-dealers, funding corporations, REITs, insurers, and pension/retirement funds.
[2] Includes loans from households, nonfinancial corporations, and foreign institutions.
[3] Computed over 2005-2008 since data is unavailable for 2000.
Note: Figures may not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Global financial assets fell by $16 trillion in 2008

Global financial assets, $ Trillion, using 2008 exchange rates for all years



	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Equity securities	10	14	37	33	26	33	38	45	54	62	34
Private debt securities	10	18	24	27	28	31	34	37	42	48[1]	51[1]
Government debt securities	9	13	17	18	20	22	24	27	28	29	32
Bank deposits	19	25	34	36	38	40	43	46	51	56	61
GDP $ Trillion	21.2	28.4	37.0	38.5	39.9	42.3	45.5	48.6	52.3	56.8	60.7
Financial depth % of GDP	227	246	303	297	282	298	305	320	334	343	293

[1] Excludes debt write-downs of $0.28 trillion in 2007 and $0.98 trillion in 2008.

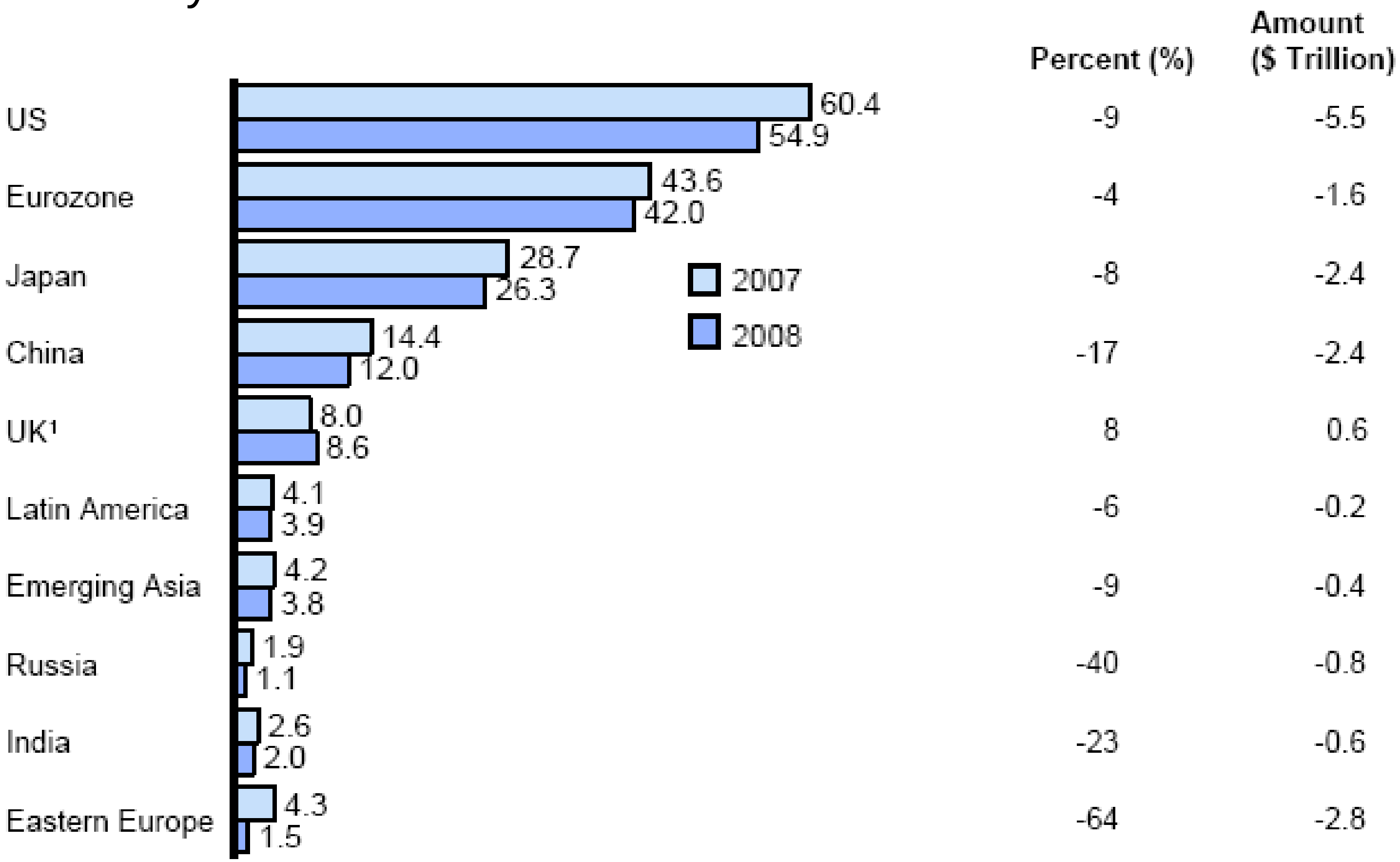
[2] In current exchange rate terms the drop in global financial assets would have been $22 trillion in 2008, or 11 percent of global financial assets.

Note: Figures may not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Financial assets decreased in all regions except the UK

Total financial assets per major region, $ Trillion, using 2008 exchange rates for all years



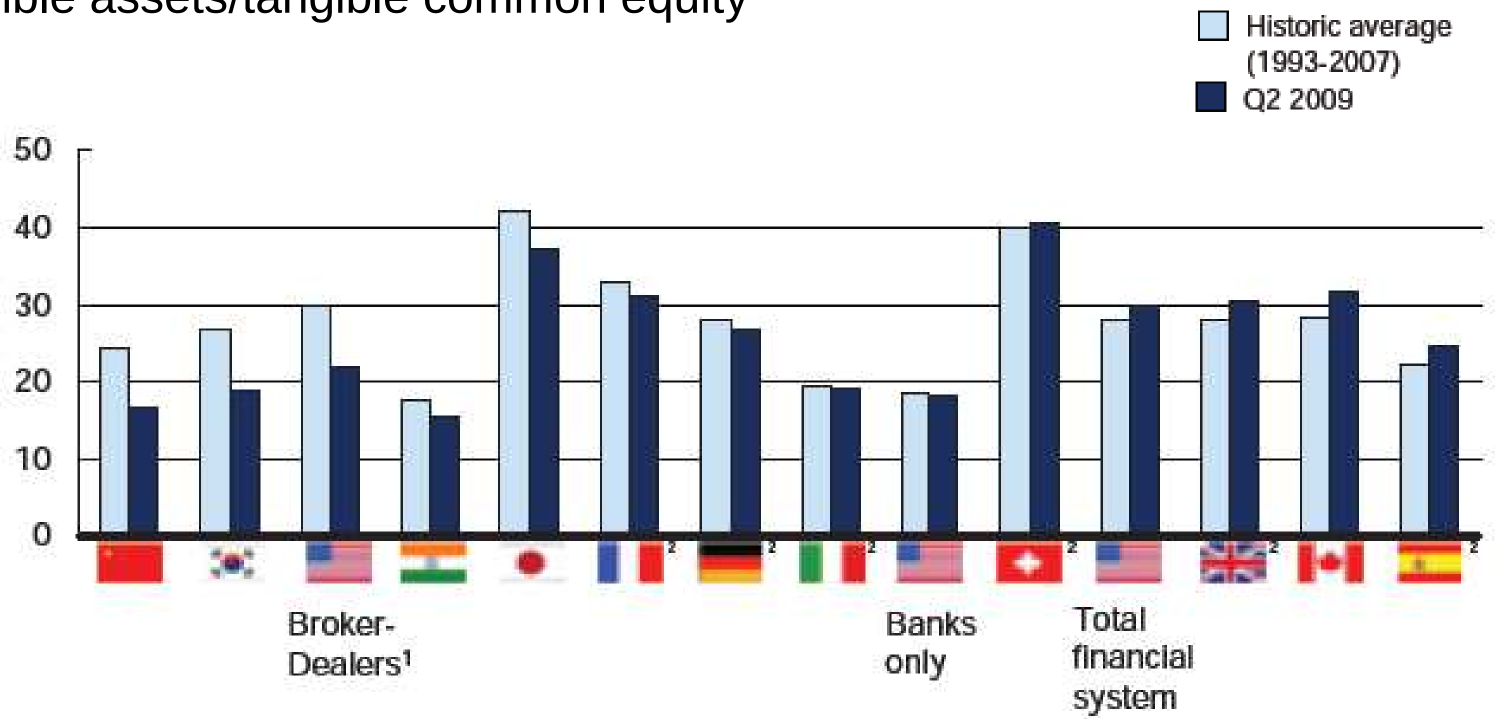
[1] Assets increase primarily due to an increase in international financial institution debt, reflecting a surge of securitization activity in response to the Bank of England's accepting securitized assets as collateral for repurchase agreements.

Note: Figures may not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Financial sector leverage has fallen below the historic average in most countries

Cross-country comparison of financial sector leverage, tangible assets/tangible common equity



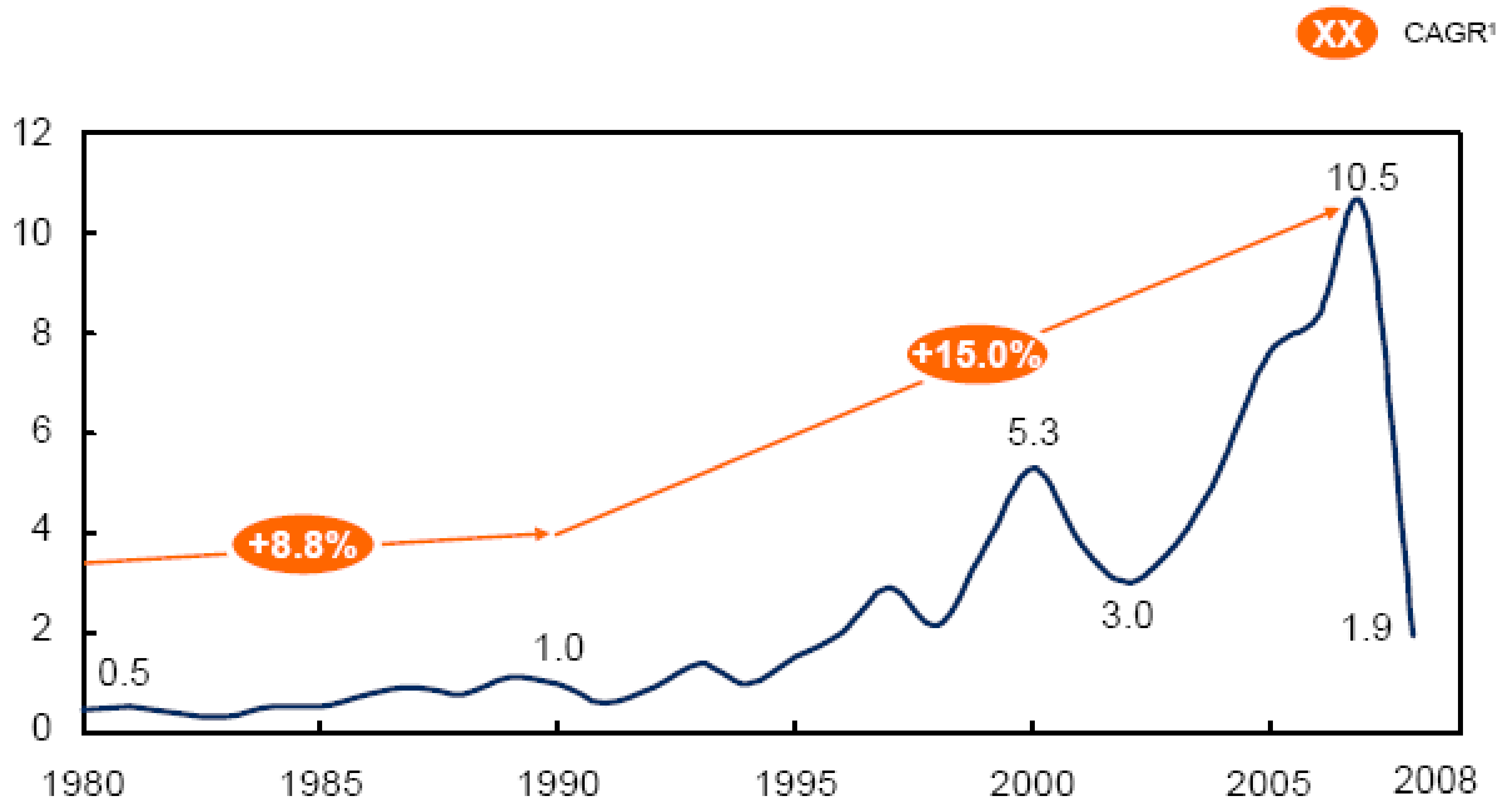
2009 vs. historic average %	-31	-30	-27	-13	-11	-6	-4	-2	-1	1	5	8	11	11

1 Includes Morgan Stanley, Goldman Sachs, and Merrill Lynch as of Q4 2008.
2 Leverage based on an estimate of GAAP assets (converted from IFRS).

Source: McKinsey Global Institute, Debt and Deleveraging: The Global Bubble and its Economic Consequences (January 2010).

Cross-border capital flows have reversed, falling by 82 percent

Total cross-border capital inflows, $ Trillion, using 2008 exchange rates



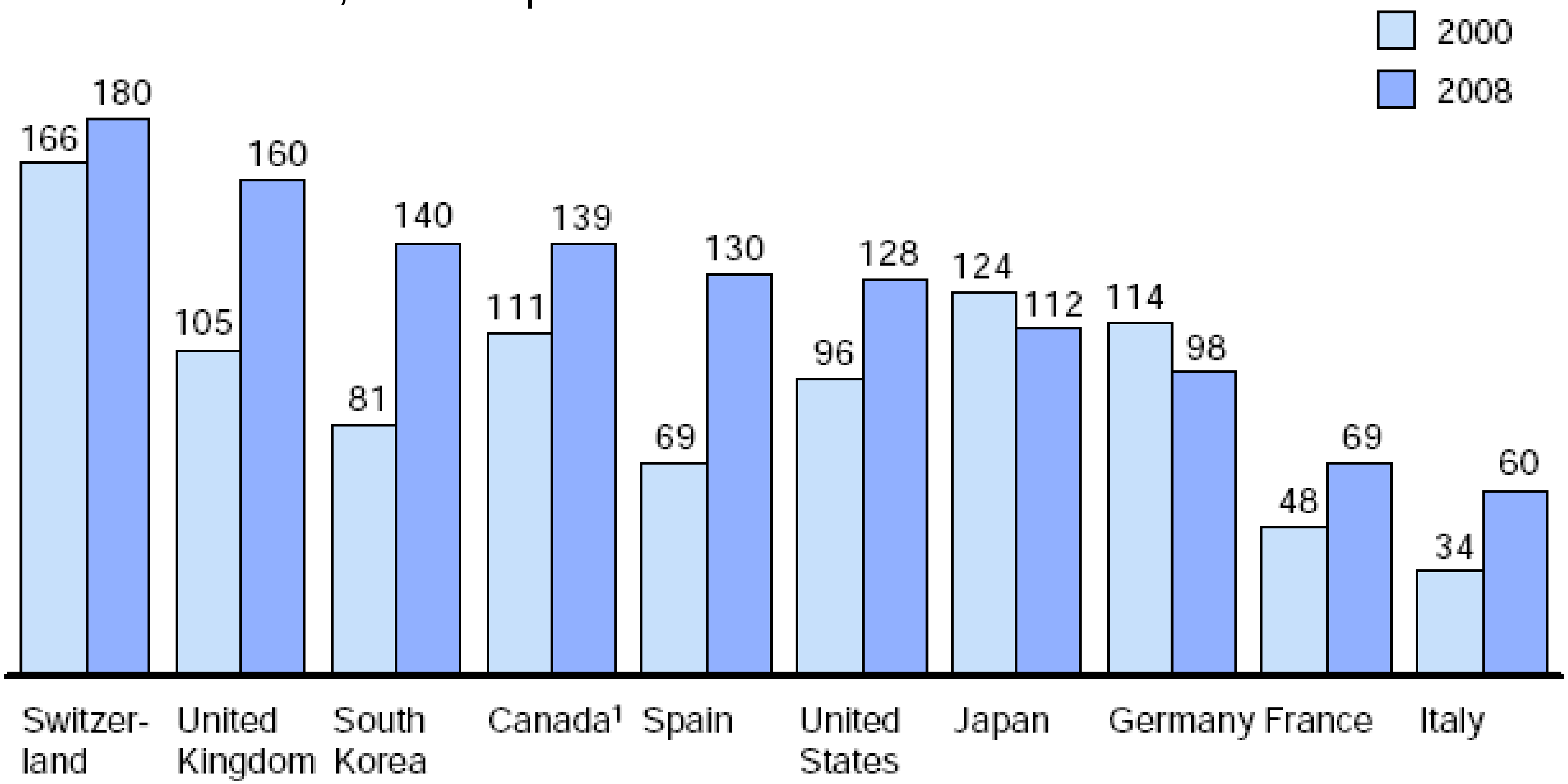
% of global GDP	4.5	3.7	4.5	3.6	6.5	11.9	3.2

1 Compound annual growth rate.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Household leverage measured as debt/income increased in most countries

Total household debt, % of disposable income



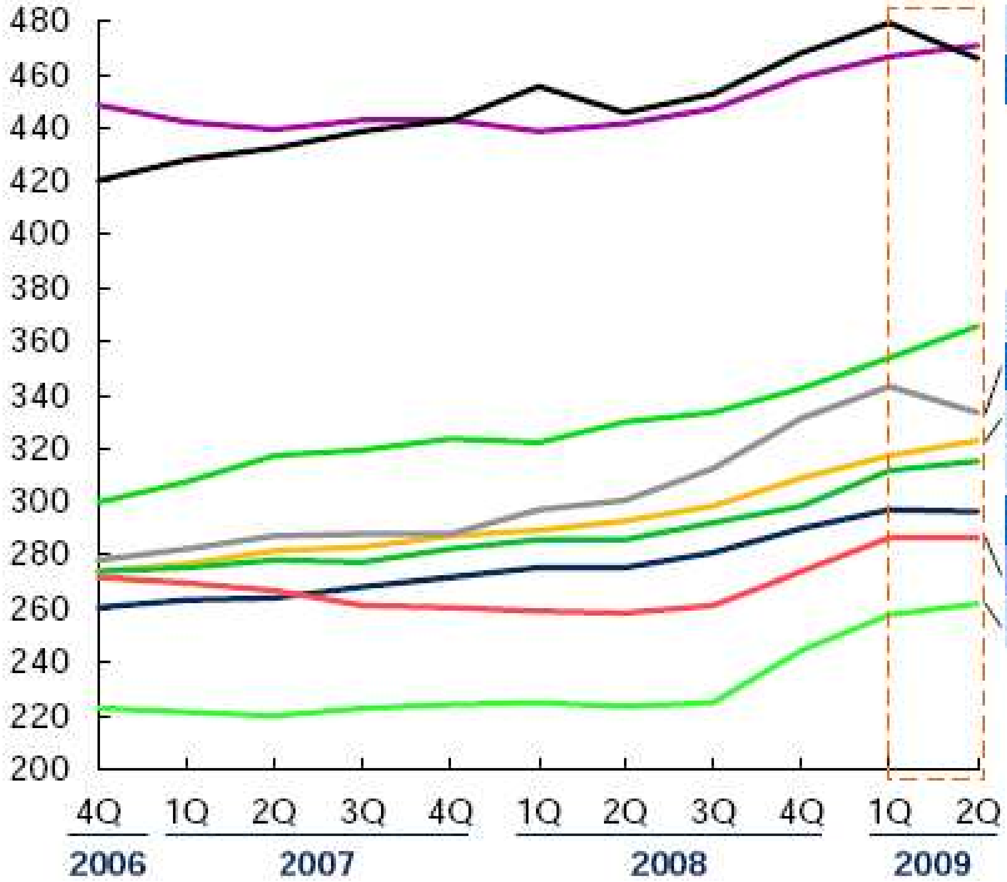
Increase %	Switzerland	United Kingdom	South Korea	Canada	Spain	United States	Japan	Germany	France	Italy
	9	52	73	25	88	33	-10	-14	44	76

1 Canada includes noncorporate business, which exaggerates its relative size compared to other countries.

Source: McKinsey Global Institute, Debt and Deleveraging: The Global Bubble and its Economic Consequences (January 2010).

The deleveraging process has only just begun

Total debt by country, % of GDP, as of Q2 2009



Change, 1Q-2Q 2009

	% of GDP	p.p. of GDP	% of real credit
Japan	+0.9	+4.1	-2.0
UK	-2.9	-13.9	-3.6
Spain	+3.5	+12.4	+2.4
S. Korea	-3.0	-10.3	-0.1
France	+1.8	+5.9	+1.3
Italy	+1.2	+3.7	+1.1
US	-0.2	-0.6	-0.5
Germany	0.0	0 .0	0.0
Canada	+1.8	+4.7	+0.8

Reduction in debt/GDP
Stable debt/GDP
Increase in debt/GDP

Source: McKinsey Global Institute, Debt and Deleveraging: The Global Bubble and its Economic Consequences (January 2010).

The fall in global capital flows in 2008 was driven by a decrease in bank lending

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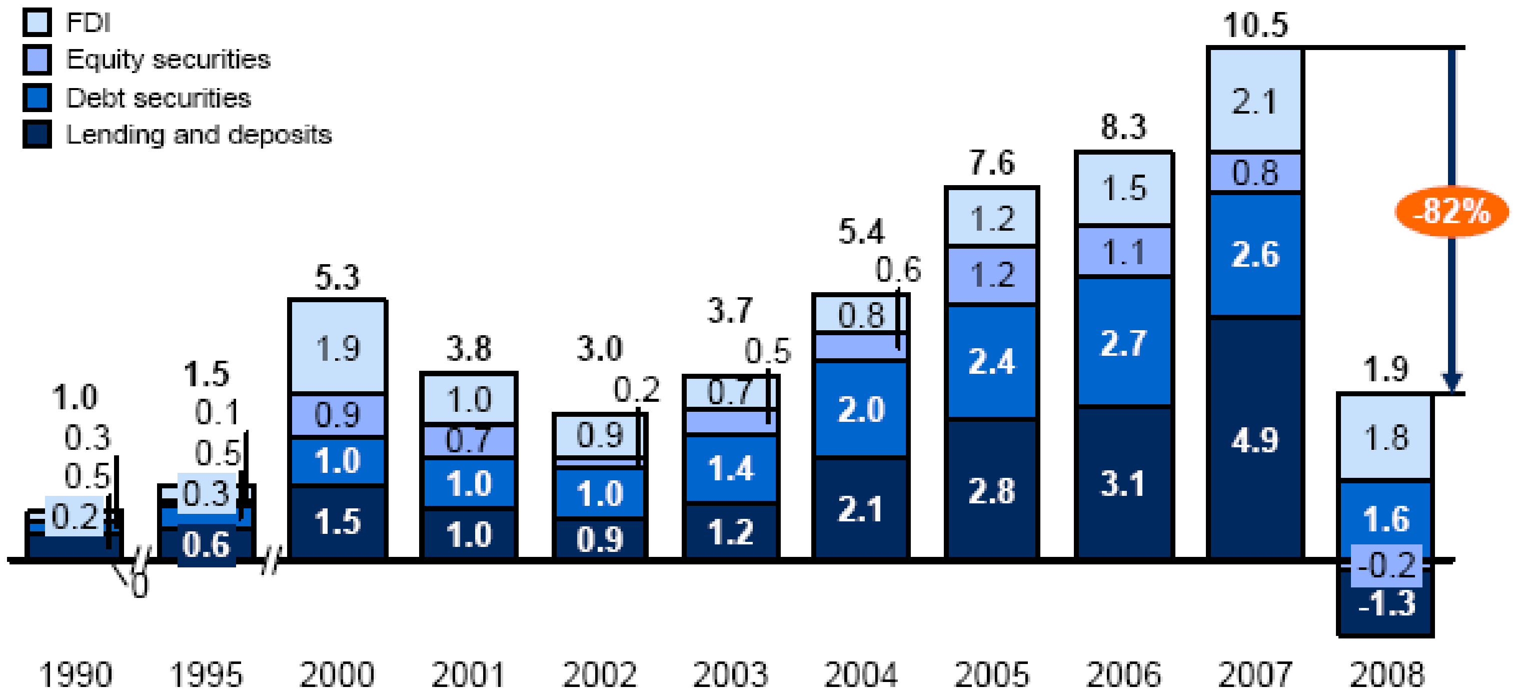
Total cross-border capital inflows[1], $ Trillion, using 2008 exchange rates for all years



% of global GDP	4.7	5.4	13.5	9.4	7.8	9.9	13.3	15.9	17.3	20.7	3.1

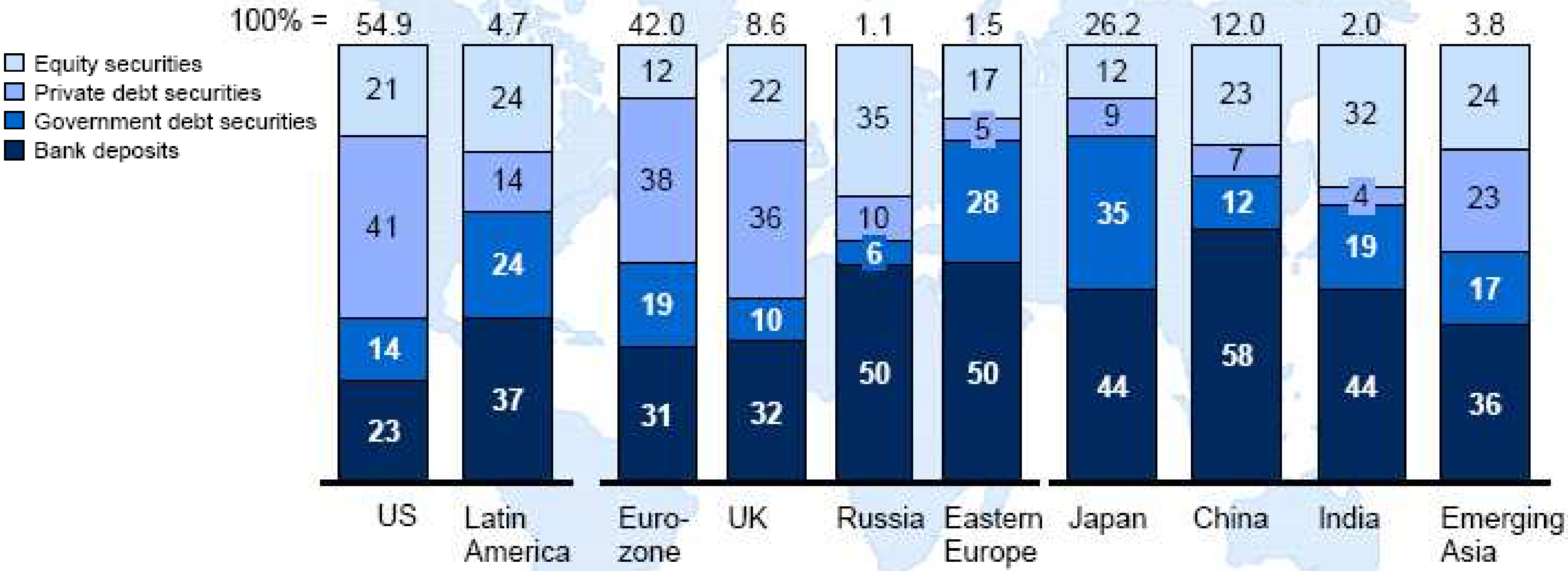
[1] Capital inflows represent net purchases by foreigners of FDI, equity, and debt securities, as well as deposits and loans to local banks.

Note: Figures may not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

In China, the banking system remains dominant

Financial assets by region, $ Trillion, %, 2008



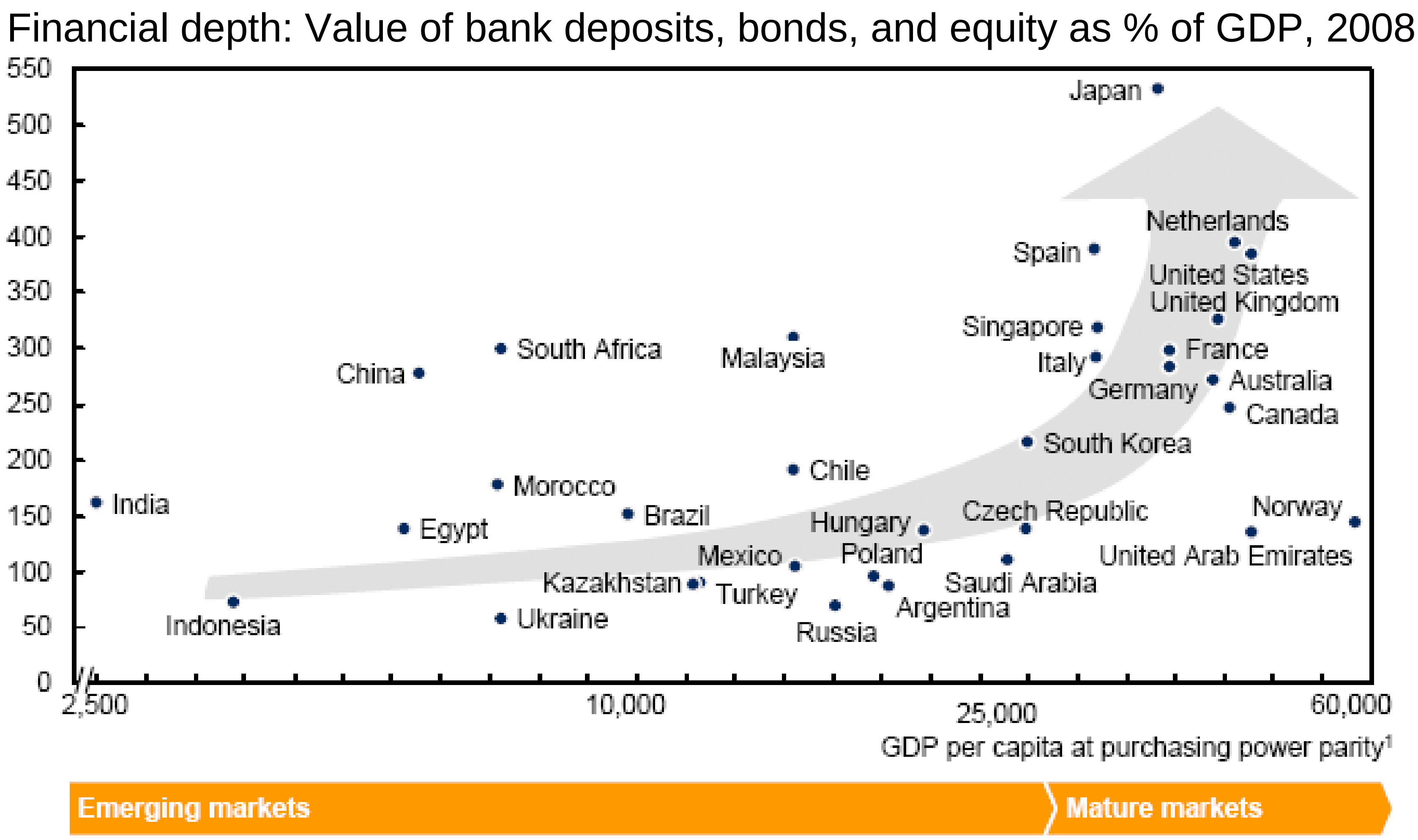
	US	Latin America	Euro-zone	UK	Russia	Eastern Europe	Japan	China	India	Emerging Asia
Financial depth % of GDP	385	119	314	326	68	99	533	278	162	232
CAGR (90-08)[1] %	7.6	22.0	8.4	9.3	45.2	24.3	2.4	24.2	18.7	19.6

1 Compound annual growth rate using 2008 exchange rates.

Note: Some numbers do not sum due to rounding.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Financial markets in most emerging economies have significant room for growth



[1] Log scale.

Source: McKinsey Global Institute, Global Capital Markets: Entering a New Era (September 2009).

Post crisis questions for China

-Does the overall reform strategy need to be rethought?

-What is the appropriate balance between bank and non-bank credit sources in the future?

-How can financial market growth be promoted without generating new imbalances and new risks?

-What lessons does the crisis offer for regulation, both content and structure?

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