



The Future Role of Financial Markets in Creating Affluence

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Debt grew in most mature economies



Domestic private and public sector debt¹ by country, % of GDP



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.

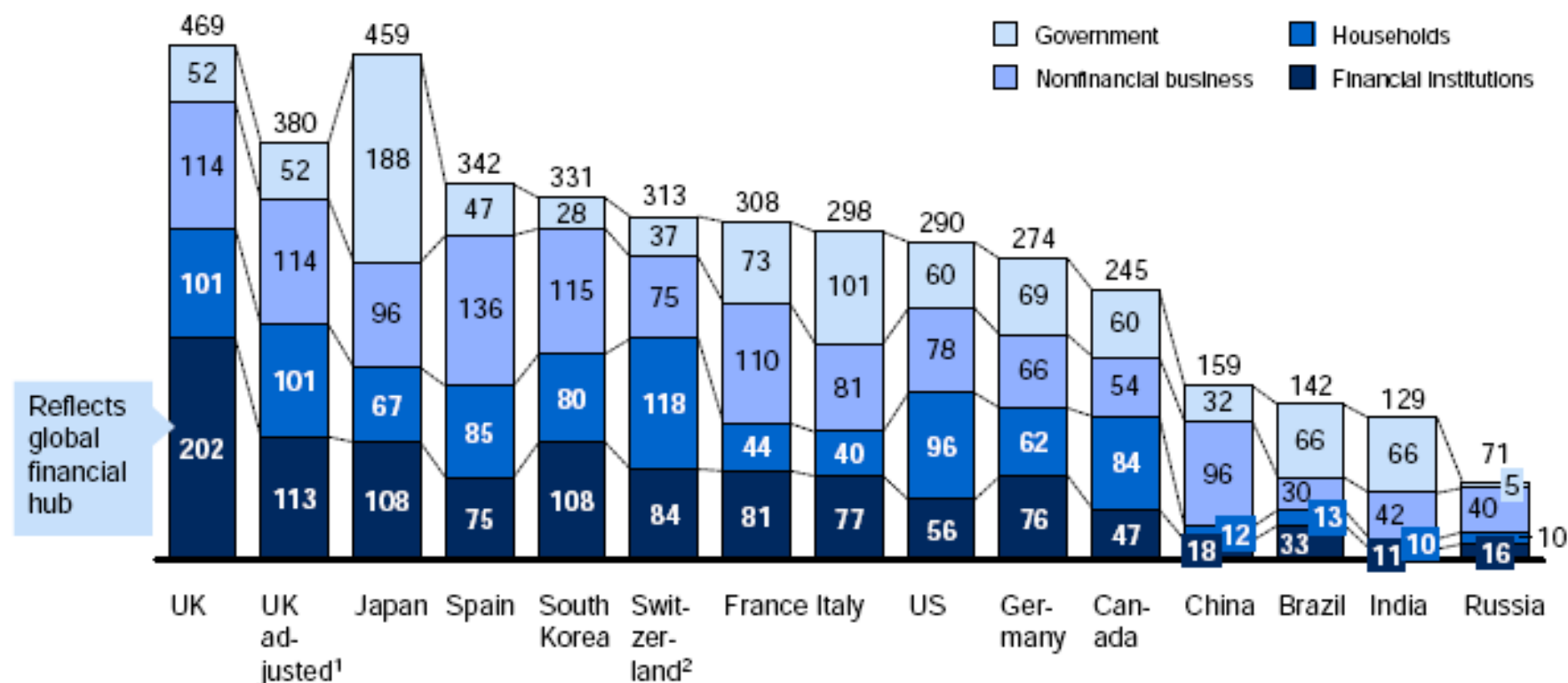
3 Even after removing foreign lending by UK banks, UK debt/GDP remains higher than every country except Japan.

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



Compound annual growth rate of debt in local currency, %

2000-08 (10.2) (0.3) (14.5) (10.8) (4.5) (7.7) (6.3) (8.1) (2.5) (6.1) (15.1) (15.1) (16.5) (31.6)

¹ The UK financial sector was adjusted to reflect its position as a financial hub. See the technical appendix for details.

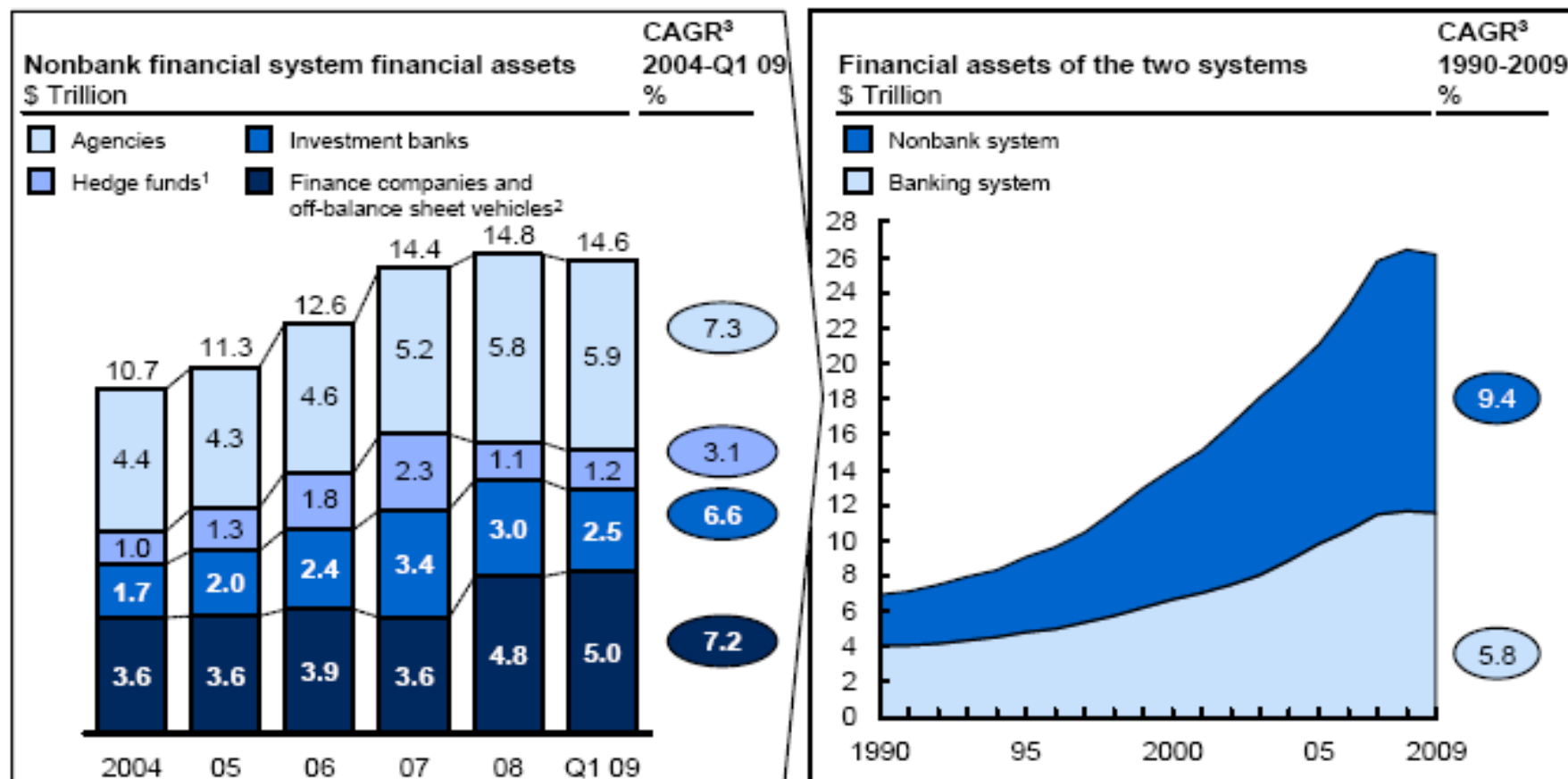
² Data for Switzerland represent year-end 2007.

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.

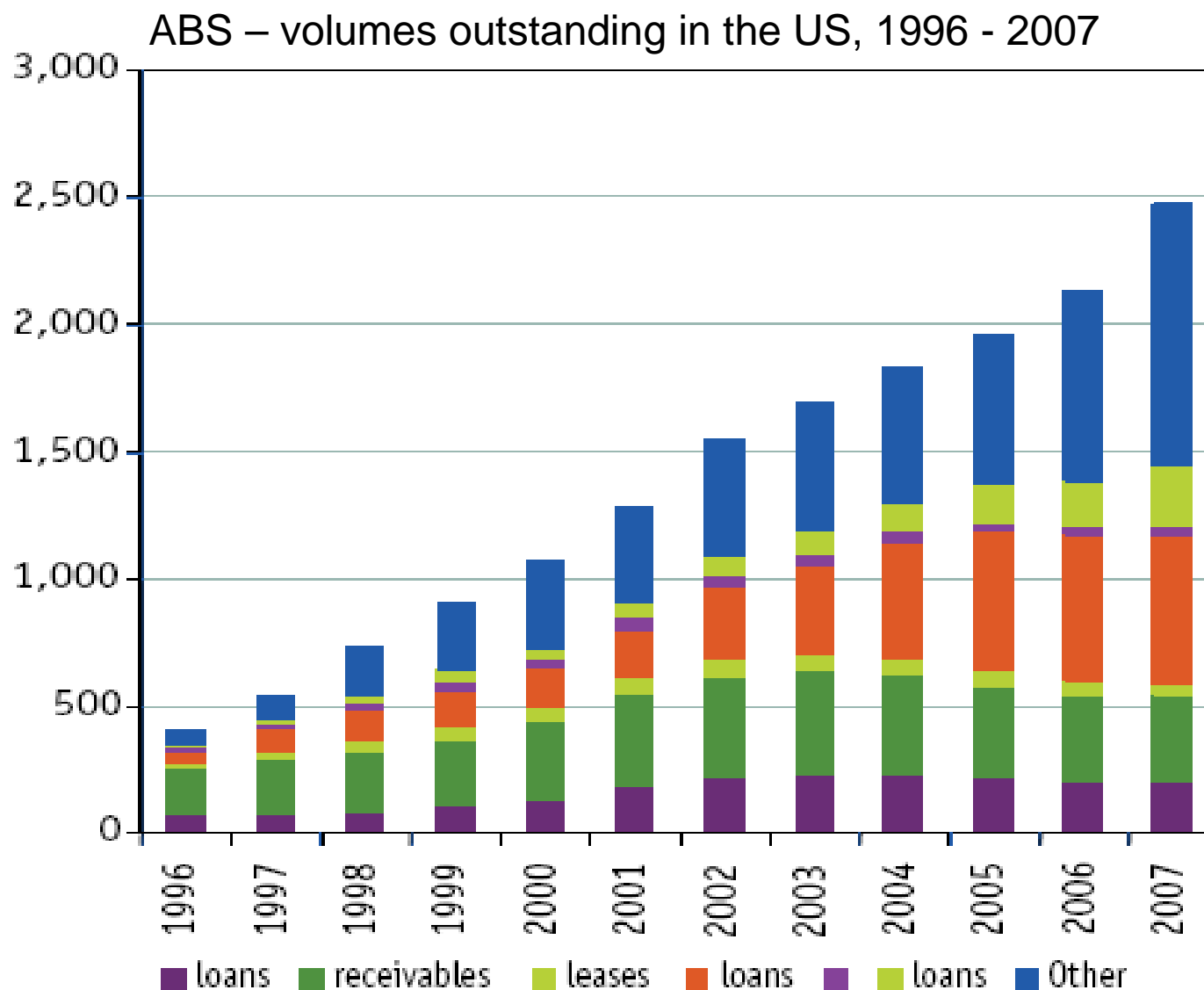
² Calculated as the difference between the total size of the "nonbank" financial system (via fed funds) and agency, broker-dealer, hedge fund estimates.

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

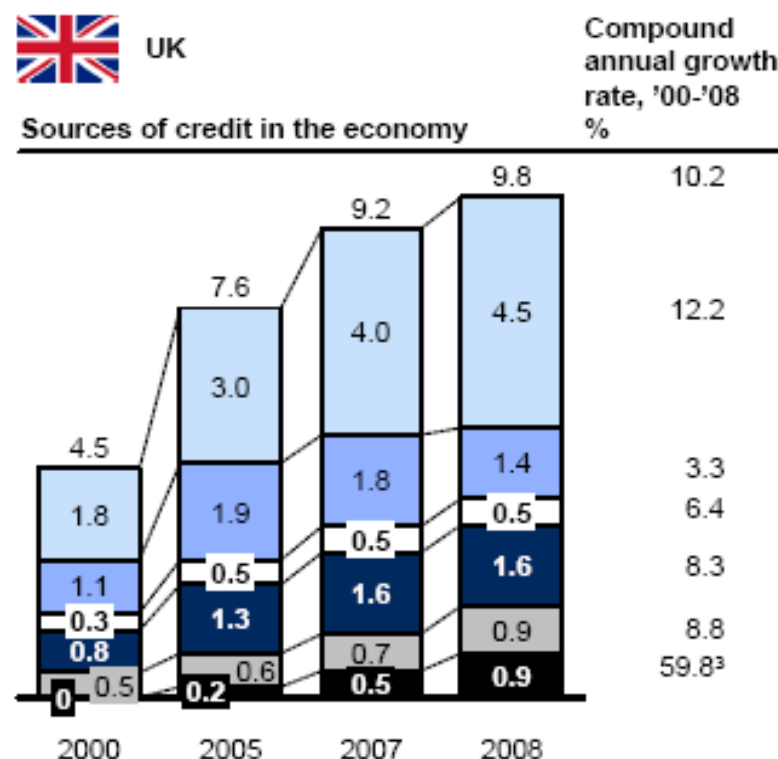
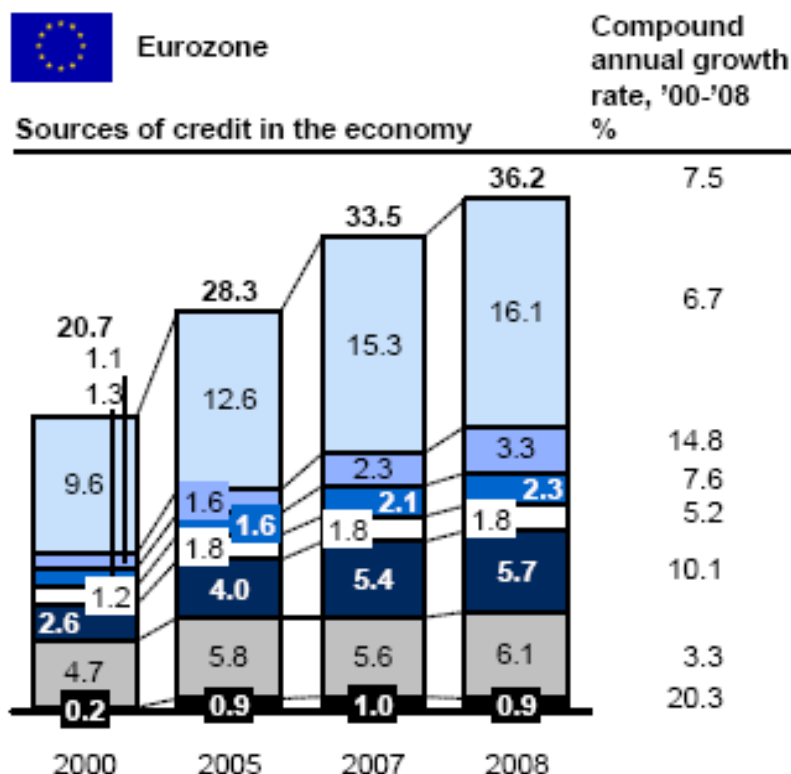
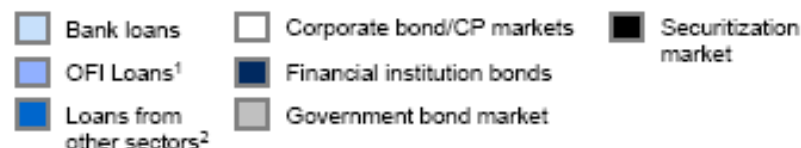


Source: The Turner Review. A regulatory response to the global banking crisis (March 2009).

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.

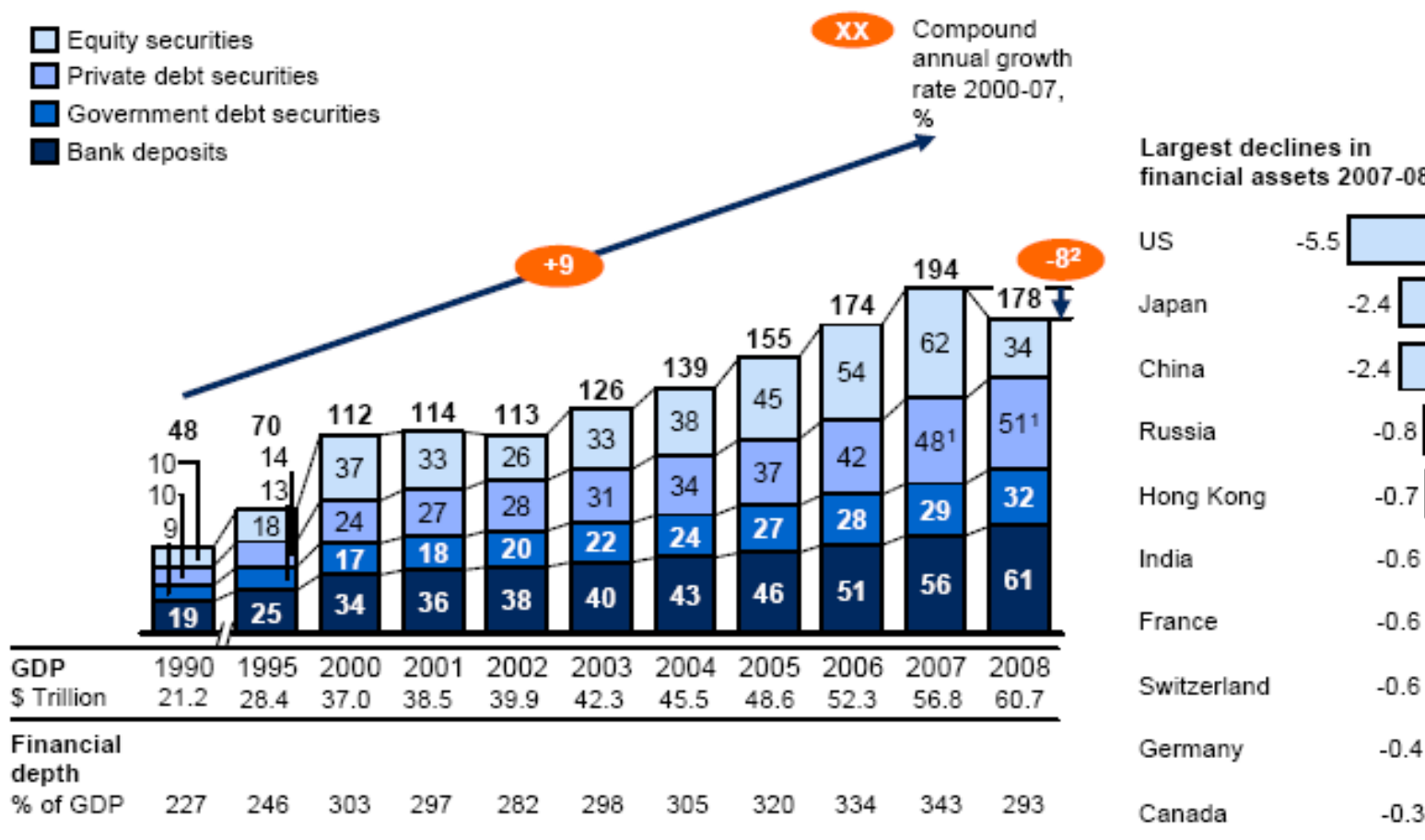
Note: Figures may not sum due to rounding.

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



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.

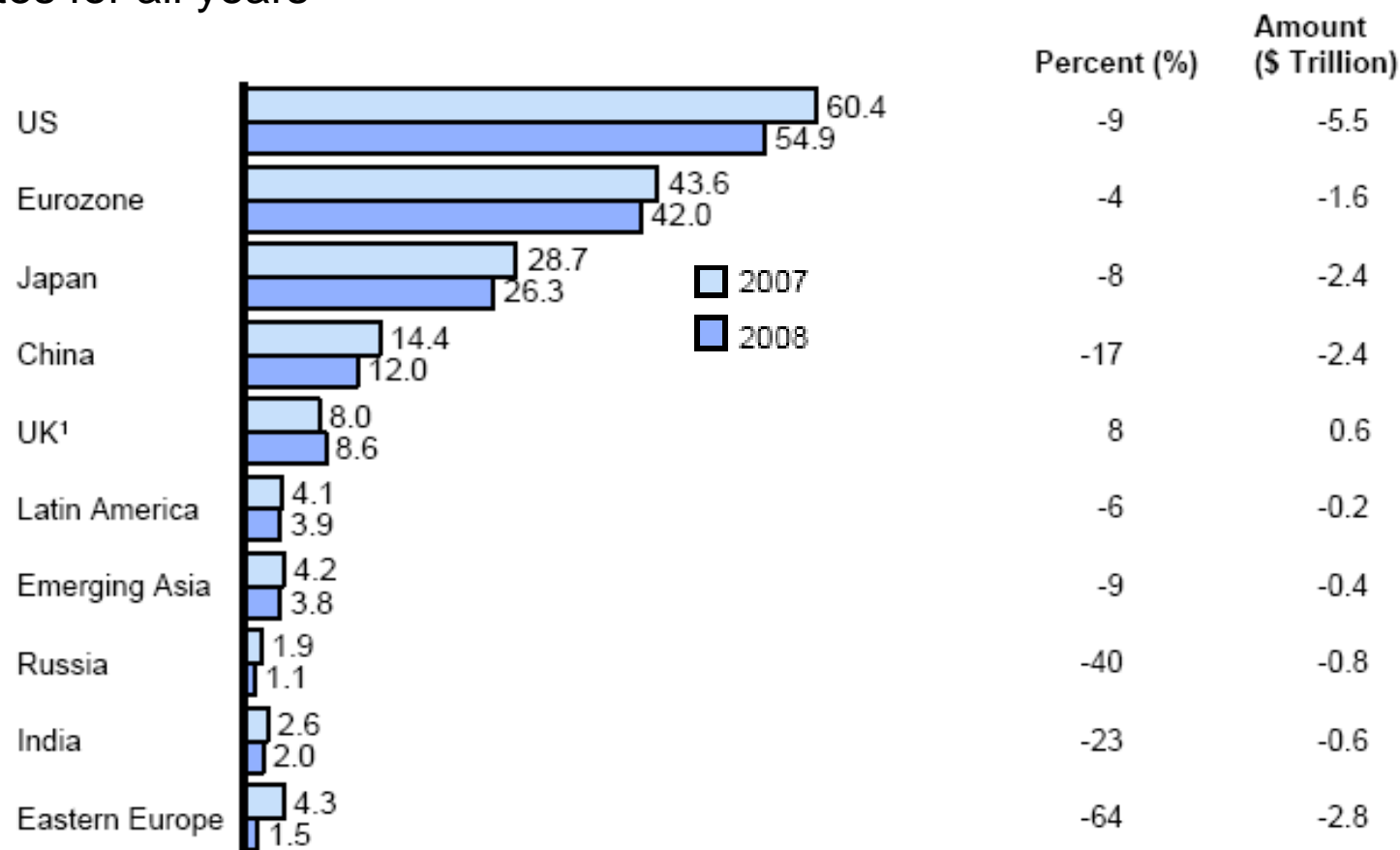
Note: Figures may not sum due to rounding.

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.

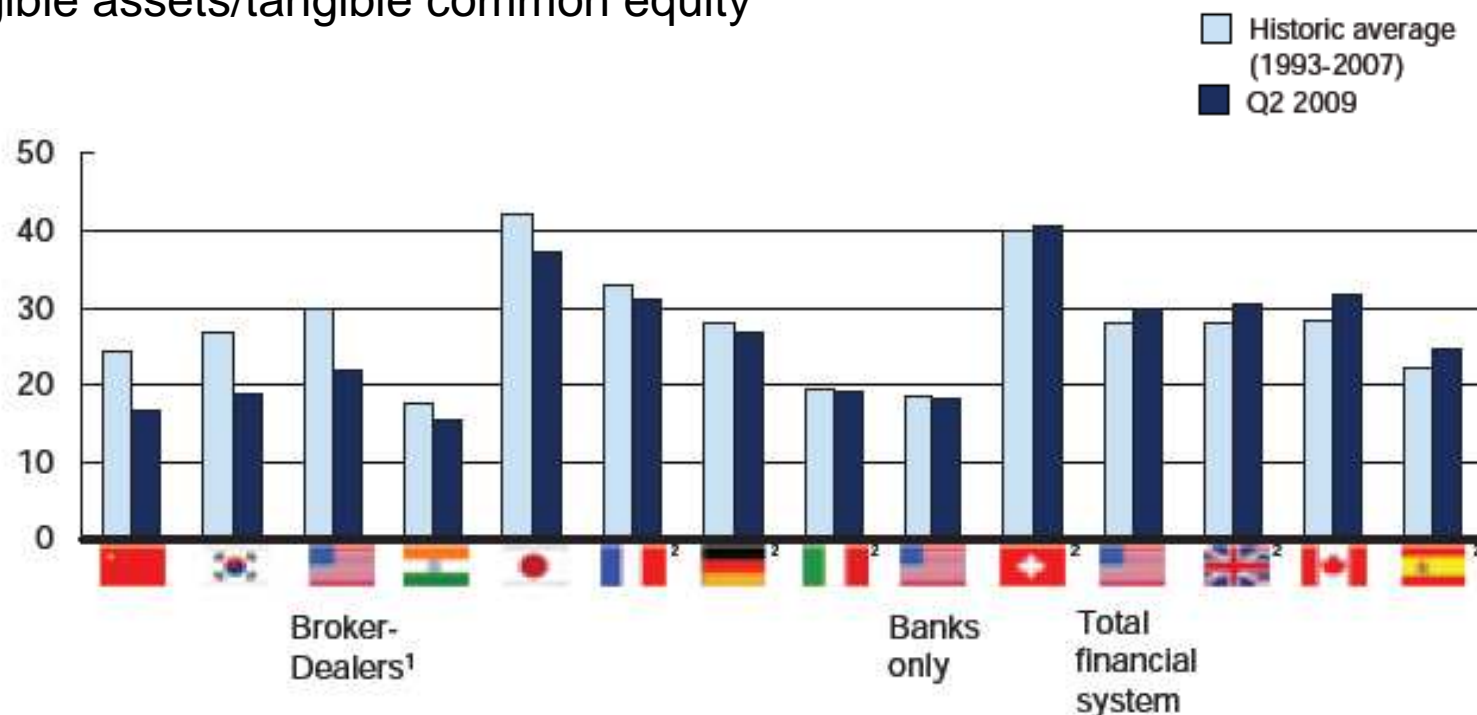
Note: Figures may not sum due to rounding.

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.

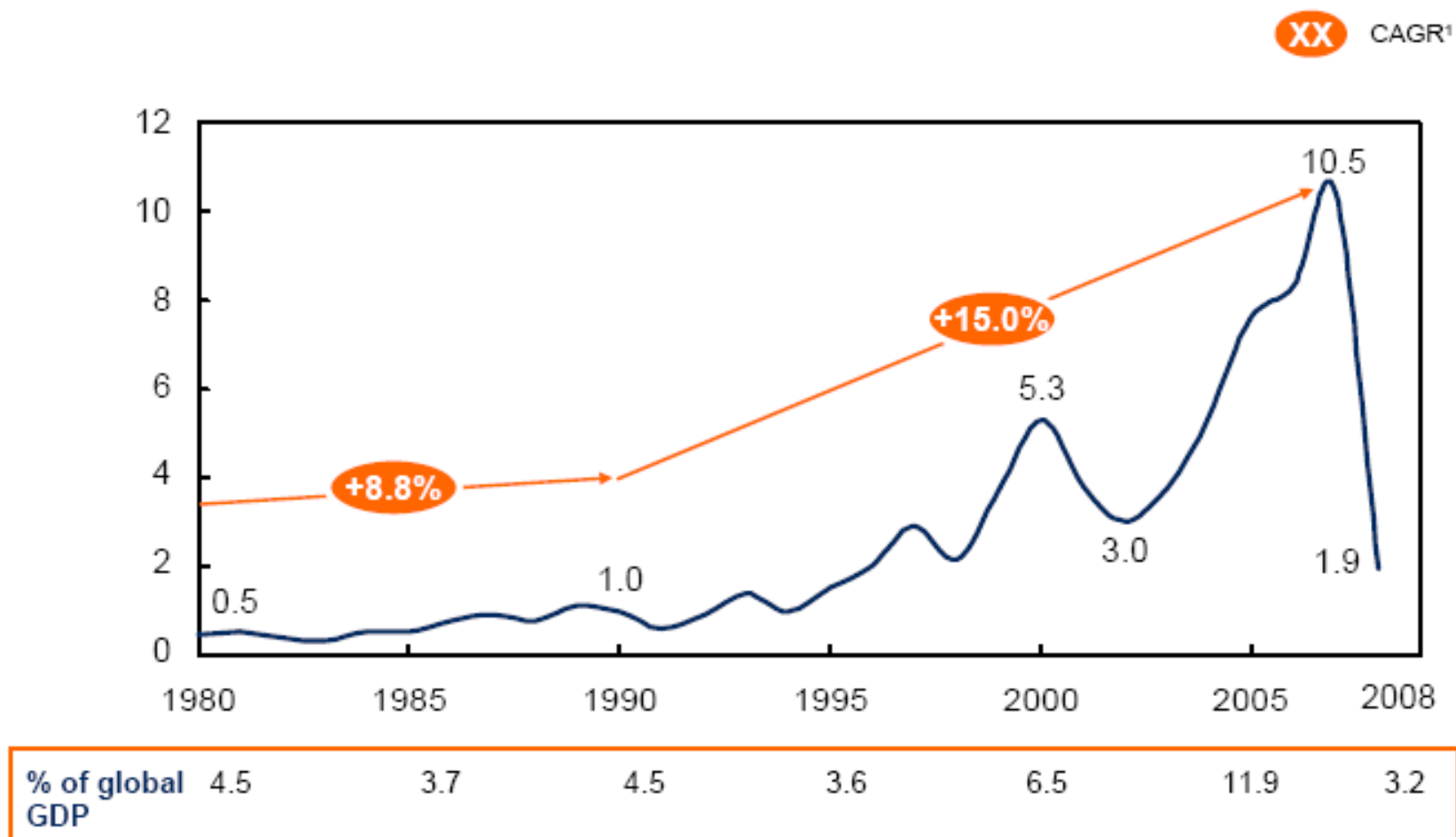
² Leverage based on an estimate of GAAP assets (converted from IFRS).

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



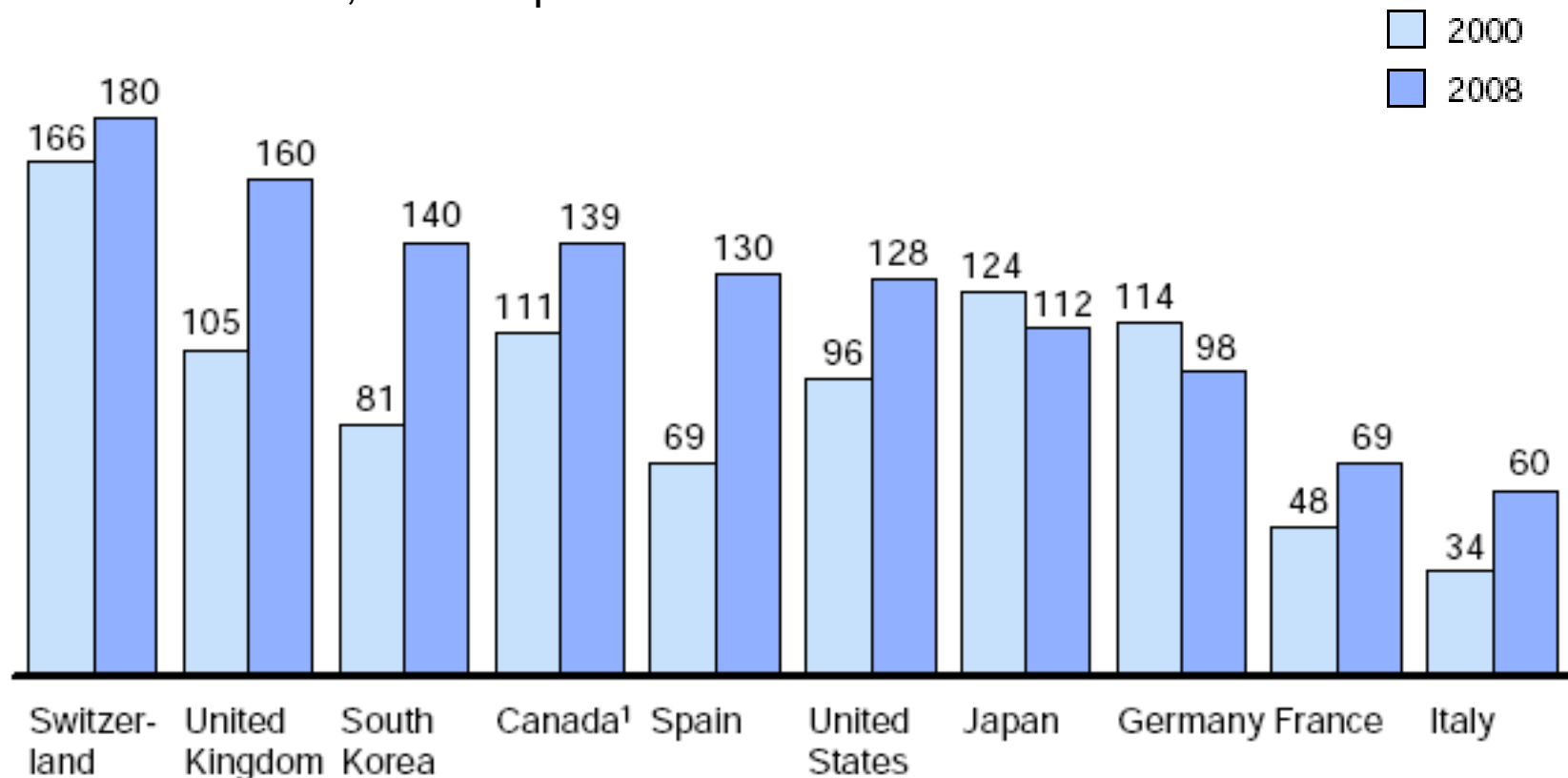
¹ Compound annual growth rate.

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
%

9 52 73 25 88 33 -10 -14 44 76

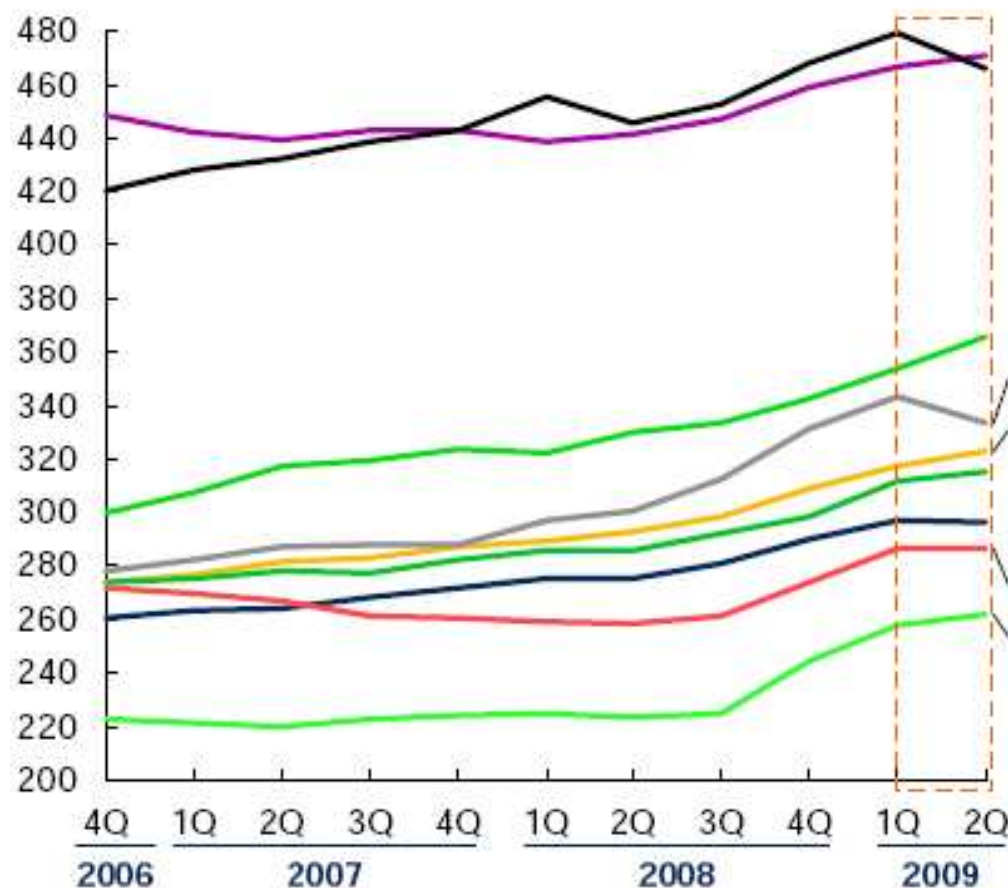
¹ Canada includes noncorporate business, which exaggerates its relative size compared to other countries.

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

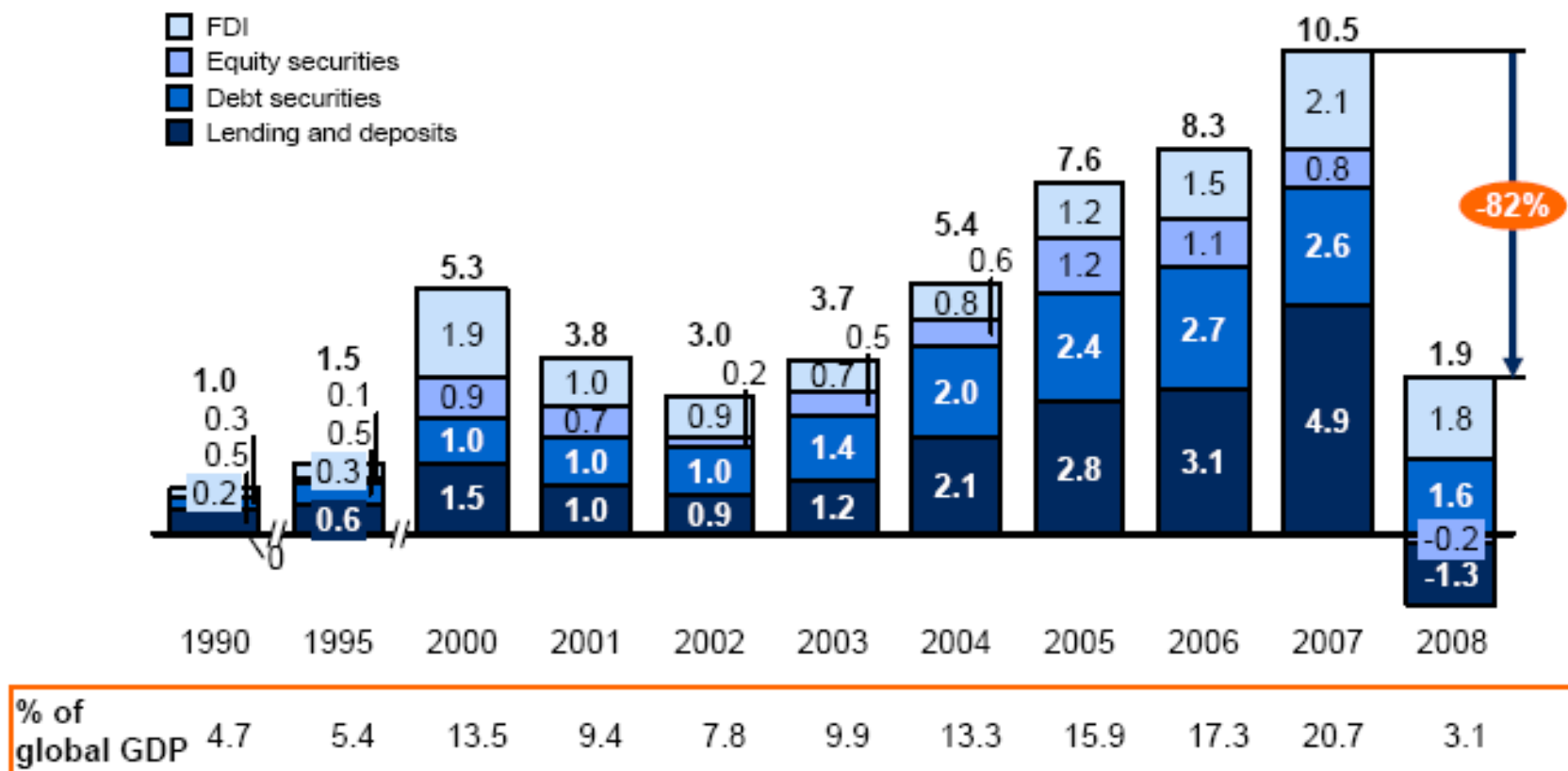
- Reduction in debt/GDP
- Stable debt/GDP
- Increase in debt/GDP

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



Total cross-border capital inflows¹, \$ Trillion, using 2008 exchange rates for all years



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

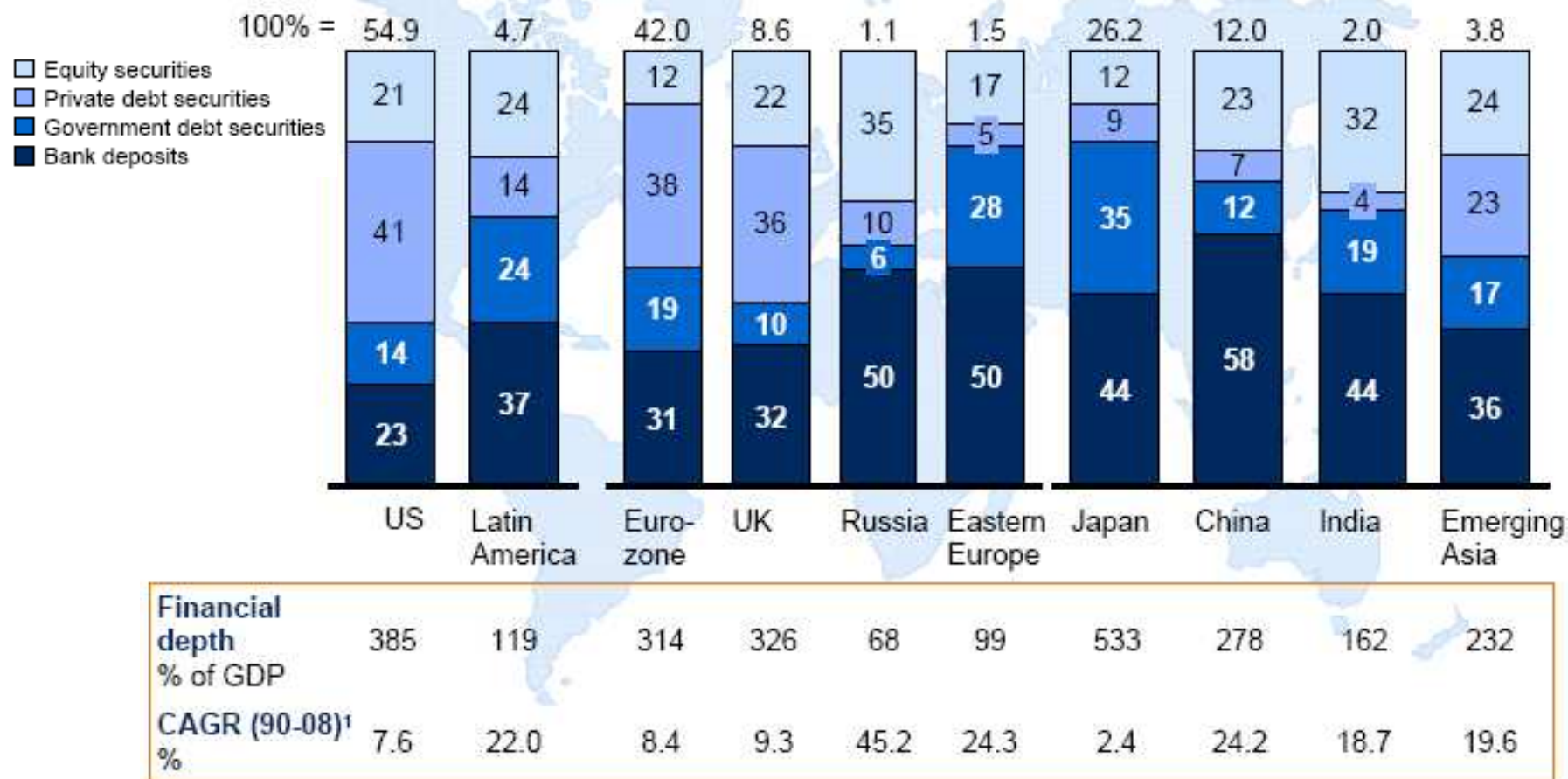
Note: Figures may not sum due to rounding.

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



¹ Compound annual growth rate using 2008 exchange rates.

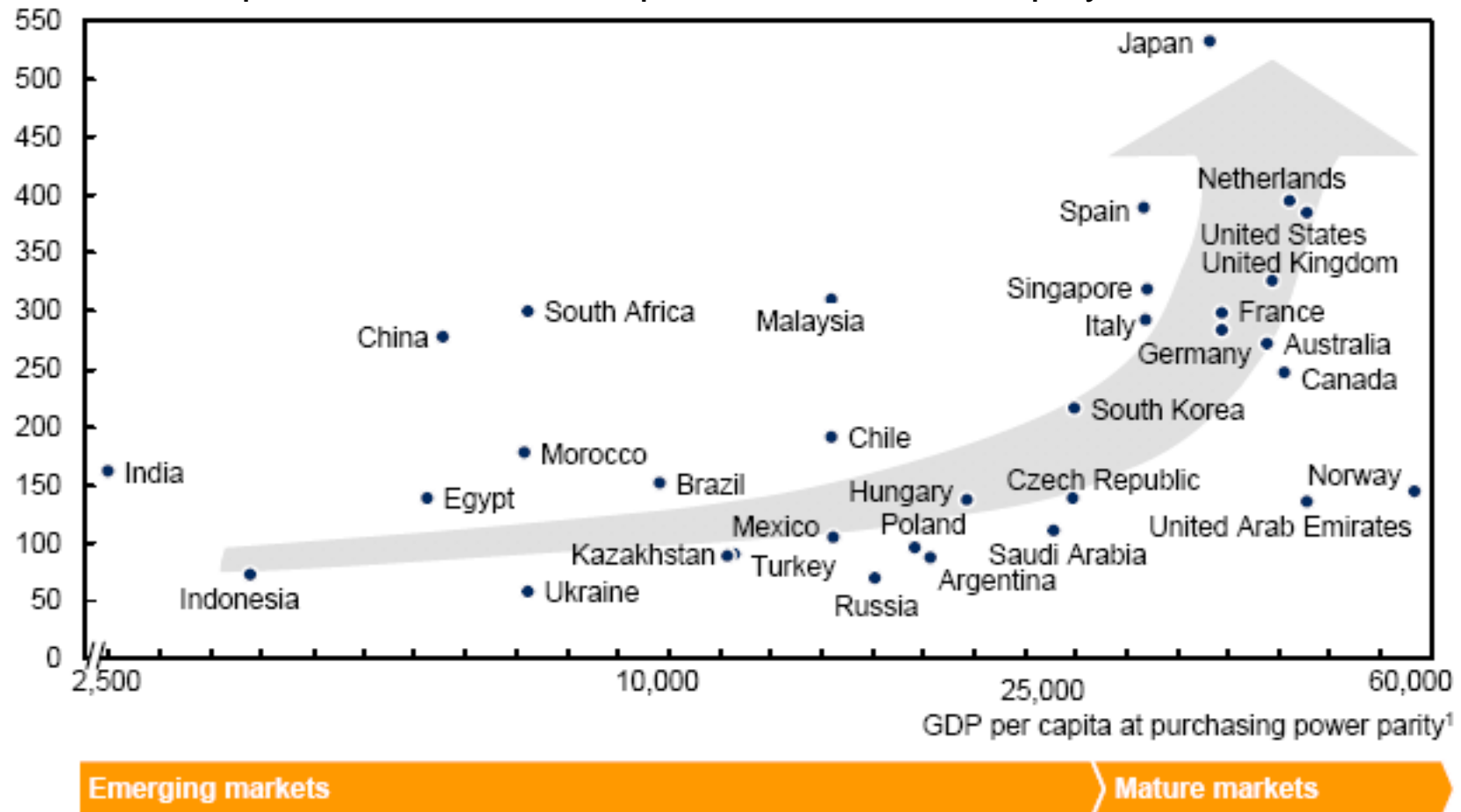
Note: Some numbers do not sum due to rounding.

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

Financial markets in most emerging economies have significant room for growth



Financial depth: Value of bank deposits, bonds, and equity as % of GDP, 2008



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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