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Financial markets turmoil and impact on real economy: looking beyond the crisis

22nd IPMA World Congress

Fabio Gallia

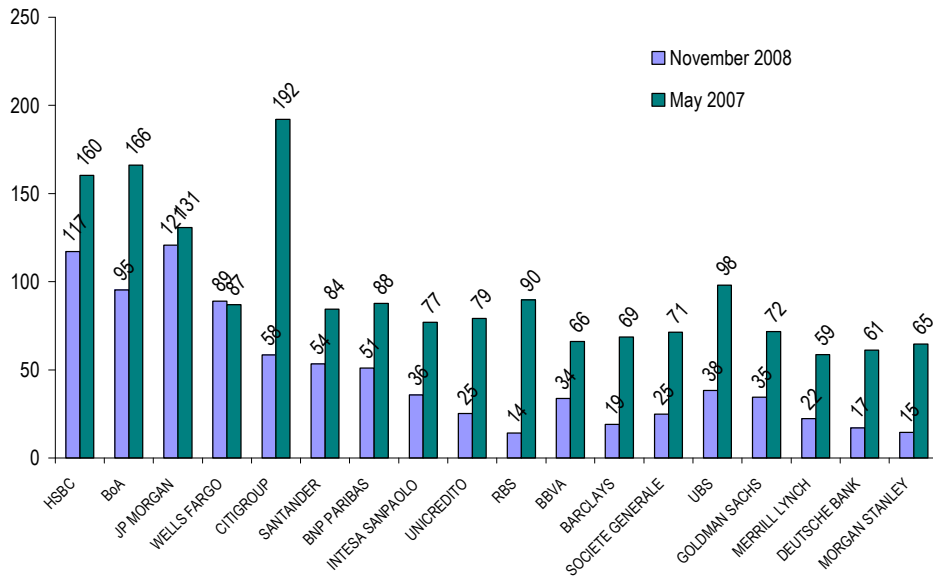
Chief Executive Officer
BNL - BNP Paribas Group

Rome November 9, 2008

Two snapshots of the crisis

The Financial Sector

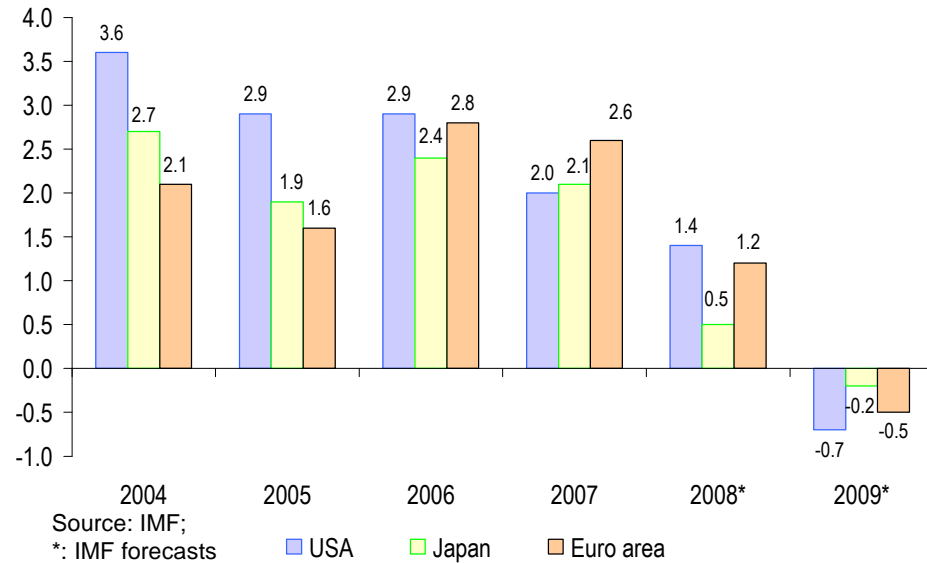
Market capitalization of major financial institutions (billions of Euro)



Source: calculations on Bloomberg

The Real Economy

The Growth of Real GDP (y/y; %)



Bank capital goes **DOWN** by 50% from May 2007 to November 2008

US GDP growth goes **DOWN** from +2% in 2007 to -0.7% expected for 2009

What does crisis mean?

The word “crisis” comes from ancient Greek:

κρίσις

and means

separation

A crisis is an interruption on a given scenario with a substantial change of consolidated trends, regulatory frameworks and business models

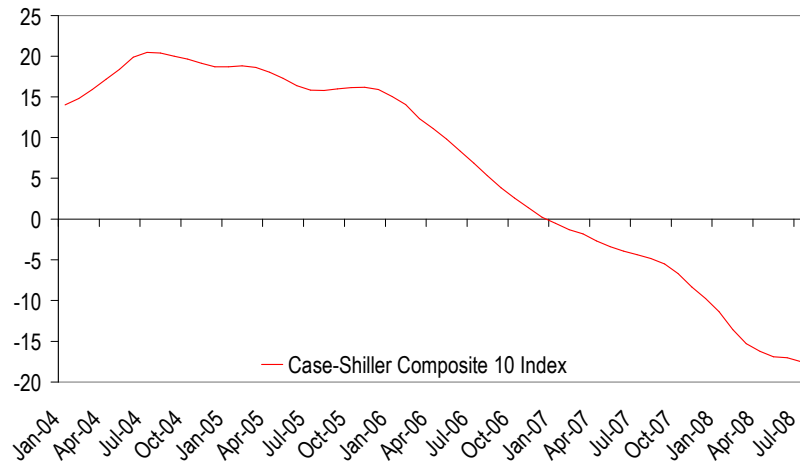
What has gone into crisis?

1. Loose monetary policy fuelled a liquidity excess that largely contributed to inflate asset prices; the emergence of BRICO and commodity trends.
2. A deteriorated risk culture in assessing and monitoring credit, market and reputational risks
3. As a consequence, a trend of excessive leveraging and extended use of securitization and structured finance
4. Hedge, private equity and proprietary trading
5. A system of managerial incentives excessively focused on the short-term without an adequate emphasis on rewarding long-term returns on a risk-adjusted basis
6. A framework of rules, regulations and controls unable to tackle the global dimension of the financial markets

The consequences of the crisis

The burst of the US housing bubble

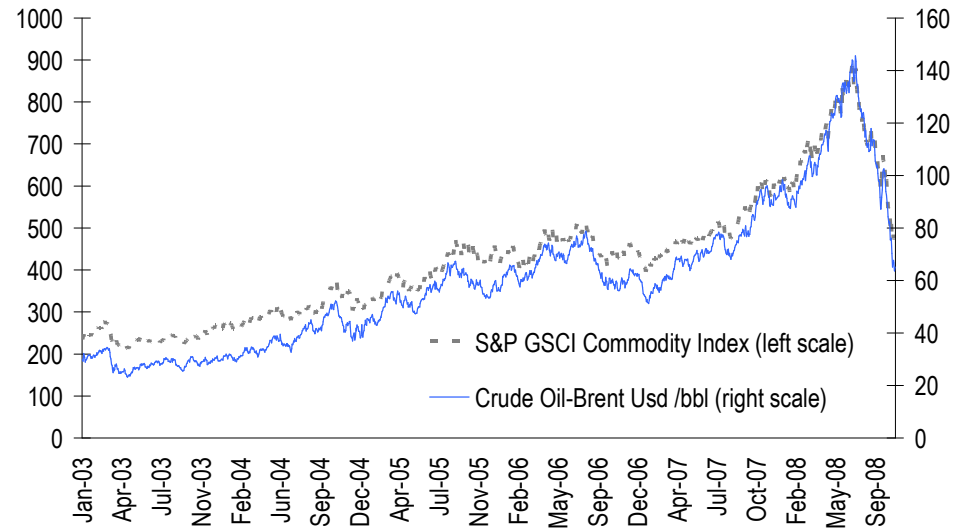
U.S. home prices
(% change y/y)



Source: Datastream

The burst of the oil & commodity bubble

The oil price and the commodity prices

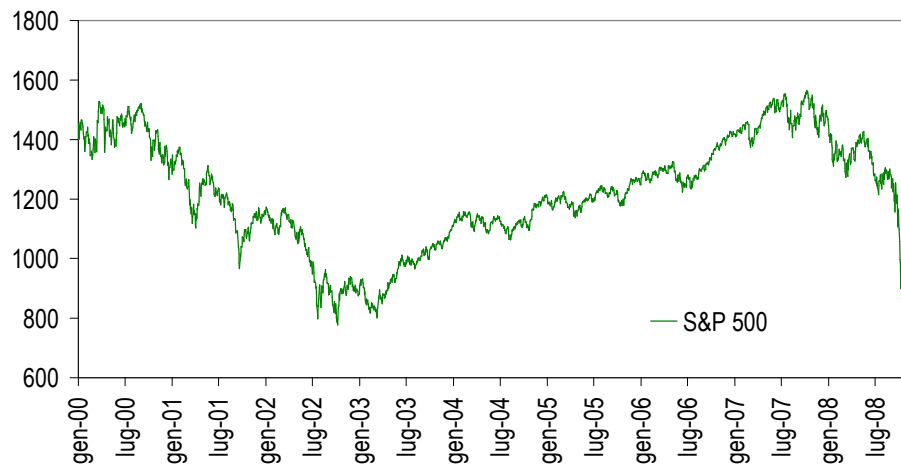


Source: Datastream

The consequences of the crisis

The downturn of the stock exchange in the US

The stock exchange in the US



Source: Datastream

Leading indicators of global growth turn down

The Baltic Dry Index – BDI

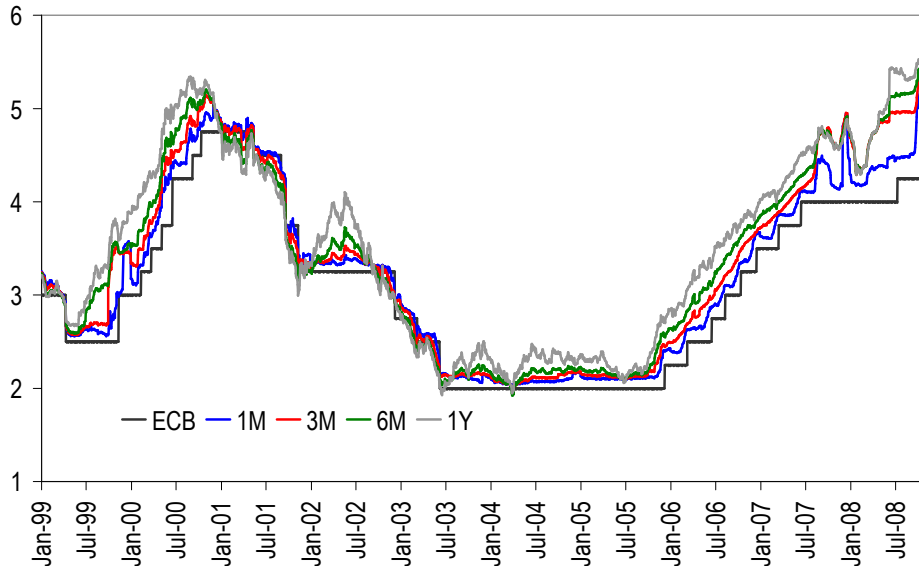


Source: Bloomberg

The consequences of the crisis

Interbank rates up due to liquidity squeeze

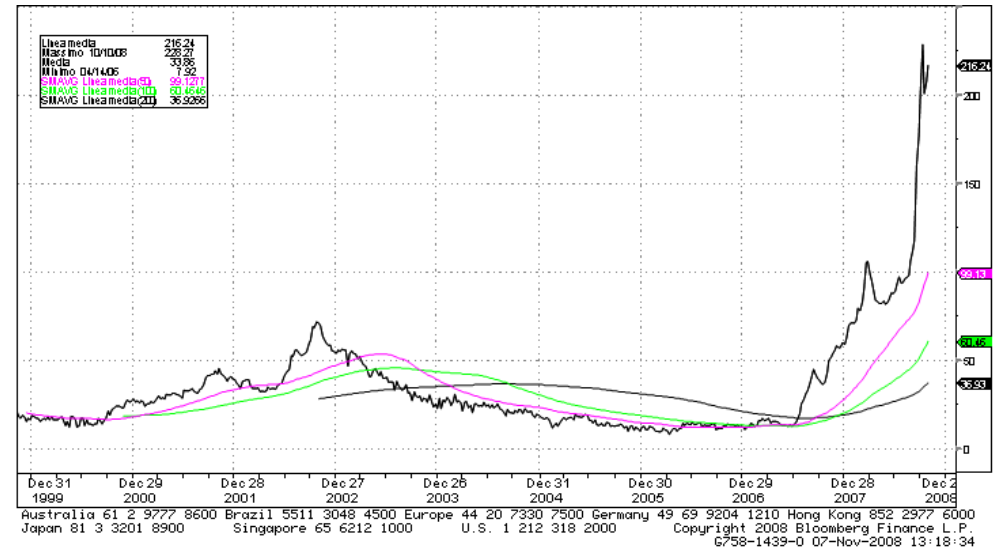
European interbank rates and ECB policy rate (%)



Source: Datastream

The credit spreads are spiking

JP Morgan Credit Index Financial Asset Swap Spread (basis points)

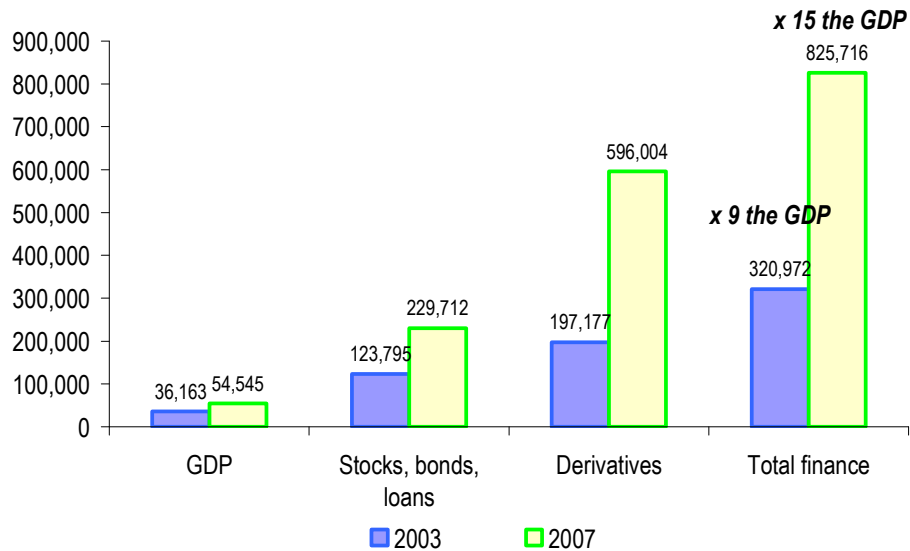


Source: Bloomberg

The consequences of the crisis

The end of financial excesses

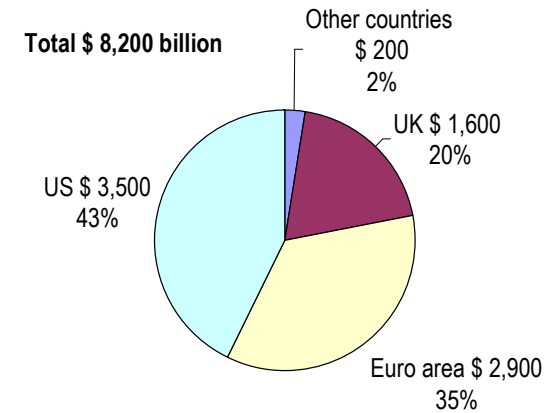
Selected indicators on the size of world capital markets
(in billions of US dollars)



Source: BNL Economic Research calculations on IMF data

The cost of public relief

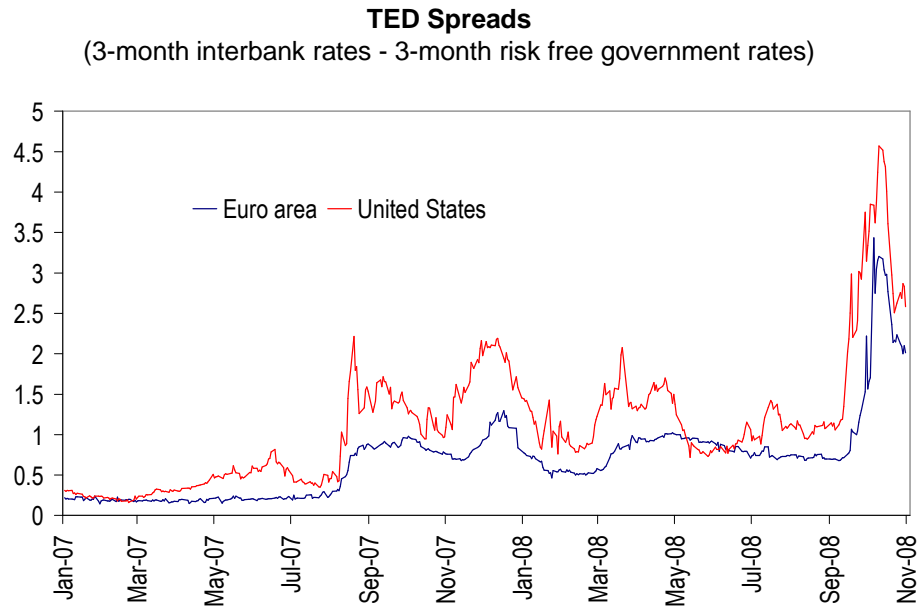
Total amount of resources made available
for rescue and relief measures by governments and central banks
(amounts in \$billion and % distribution across countries)



Source: Bank of England

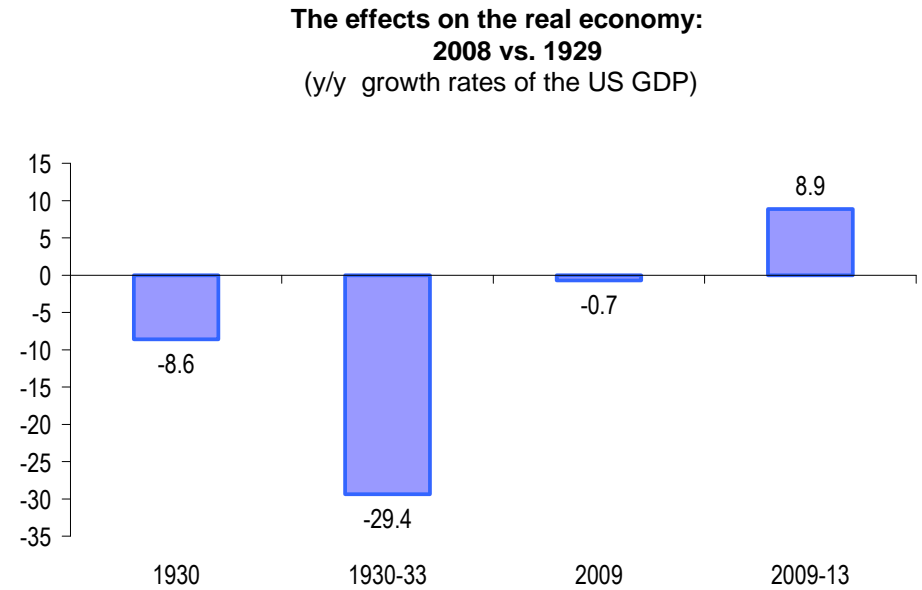
Towards a “defreezing”?

First signs of diminishing spreads



Source: Federal Reserve, ECB

2008 is not 1929



Source: BNL Economic Research calculations on BEA and IMF
For the 2009-2013 period: IMF forecasts

- Impact on the real economy
- New rules
- Government roles: long term implications
- Liquidity
- Opportunities

**Tough times don't last,
Tough people do**



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