PRESENTATION BY VINCENZO LA VIA

AT THE FORUM:

"MARKET LEADERS AND SCENARIOS FOR THE 21ST CENTURY"

March 13, 14 and 15, 2009
"Villa d'Este" – Cernobbio (Como)

Implications of global financial turmoil

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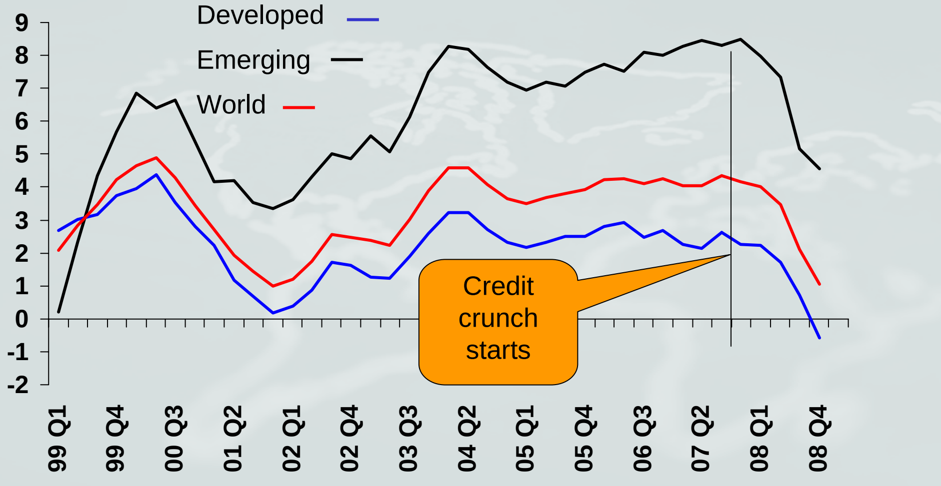
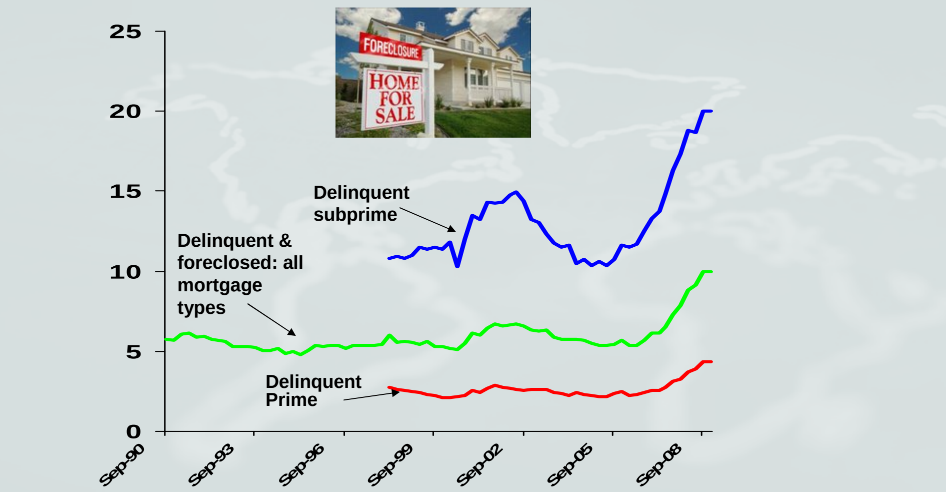
March 2009

A global crisis…



GDP growth, % year on year

…with its origins in the US mortgage markets

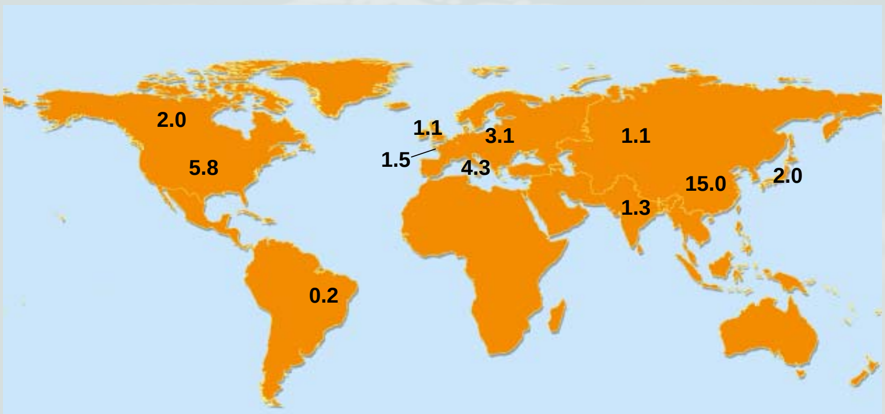


% of total mortgages

Source: Mortgage Bankers Association

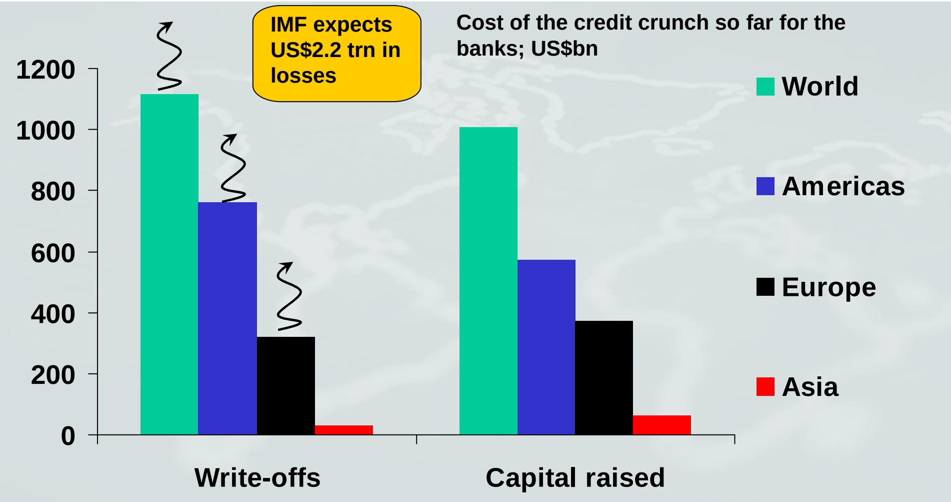
Governments are responding

Announced fiscal and financial support in G7 and BRICs (% GDP)



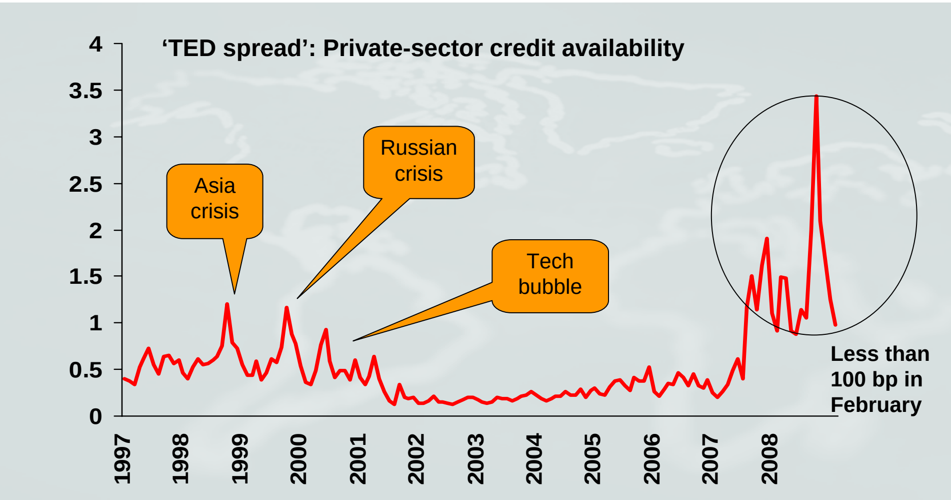
Source: IMF

Central Banks support Bank recap effort



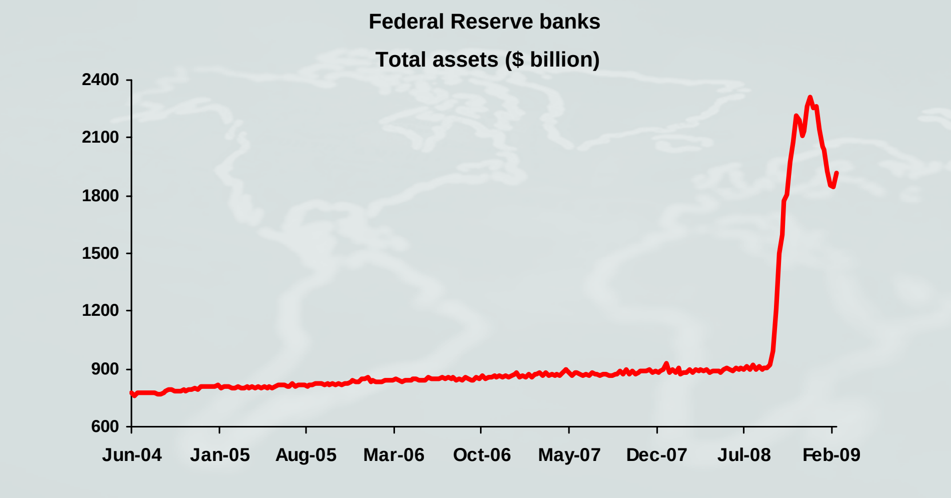
From 3Q 2007 to January 2009.
Source: Bloomberg.

Credit markets stabilizing



TED spread denotes US 3m-LIBOR minus
US 3m-Treasuries. Percentage points.

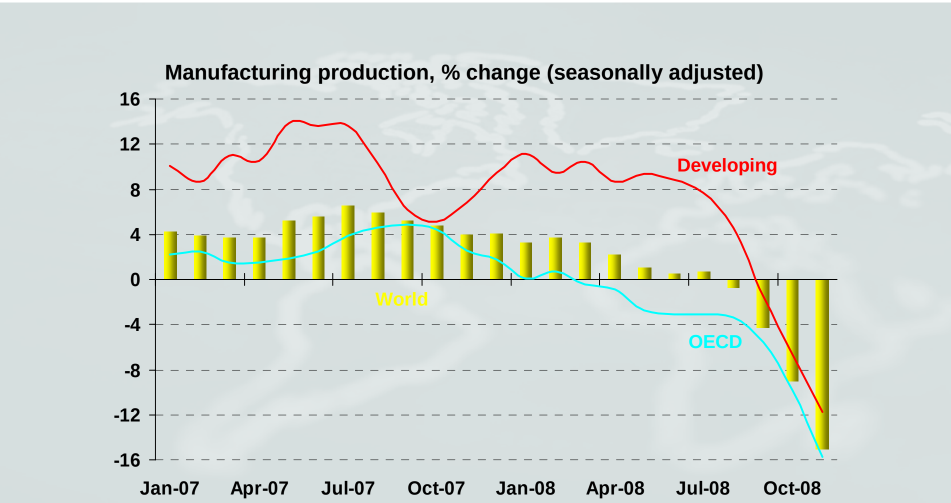
Central bank finance appears to have peaked



US$ bn

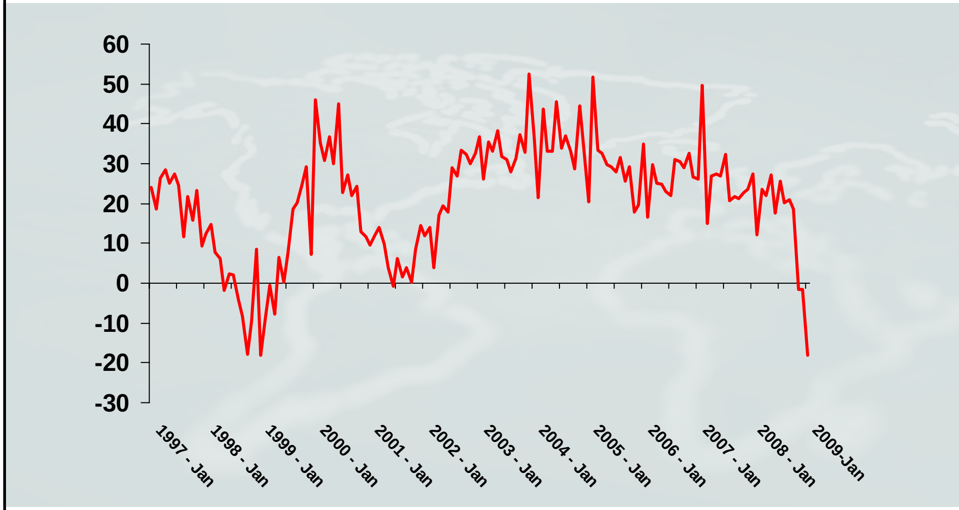
Source: Federal Reserve

But global industrial production is plummeting...



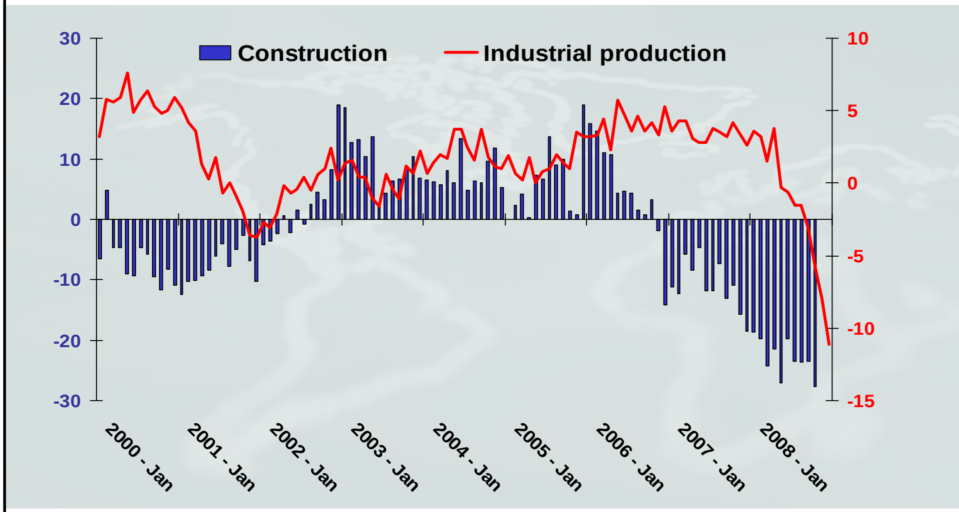
Source: DEC Prospects Group.

…and China's export growth collapses



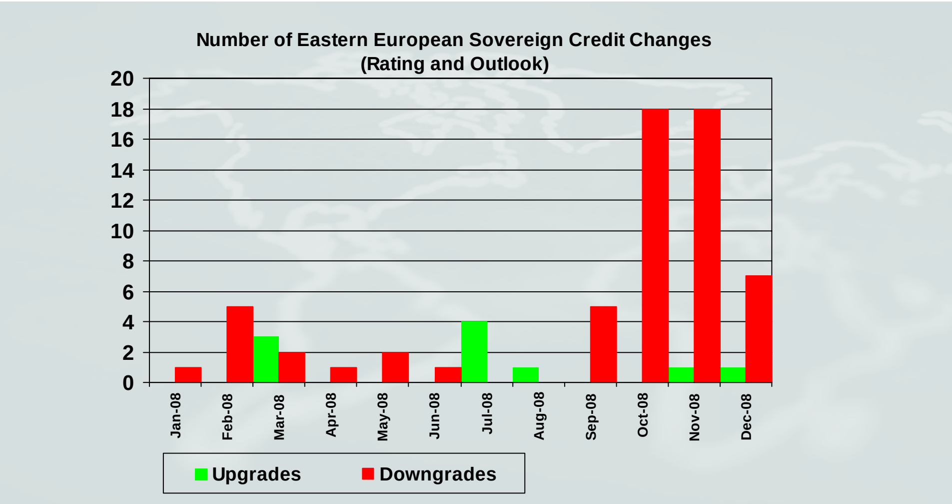
% change, year on year; US$ terms

…with a strong impact on Europe

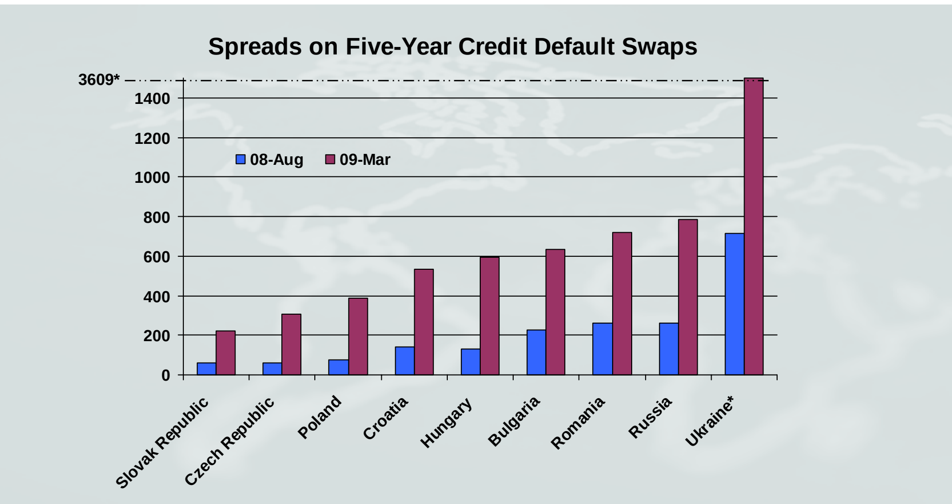


Euro zone residential building permits issued; Industrial Production, exc construction; both % change. Source: EU

Rating downgrades in Eastern Europe have accelerated…



…with a corresponding rise in risk premiums



Financing needs in Eastern Europe & Central Asia are large

Total Refinancing Needs and International Reserves (US$ bill)

	2009		2008 (December)	
Country	Refinancing	% of GDP	Reserves*	% of GDP
Turkey	140.0	18	73.2	9
Poland	126.8	21	59.3	10
Ukraine	84.2	38	30.8	14
Hungary	59.4	37	33.8	21
Romania	50.3	29	36.9	21
Czech Republic	42.8	20	36.6	17
Kazakhstan	35.3	23	17.4	11
Lithuania	31.0	60	6.3	12
Latvia	28.0	80	5.0	14
Bulgaria	24.2	36	16.8	25
Slovak Republic	23.6	22	17.9	17
Croatia	23.5	36	13.0	20
Estonia	20.3	80	3.8	15
Belarus	16.5	24	3.5	5
Serbia	13.7	26	11.8	22
Montenegro	1.8	42	0.8	19
Georgia	1.4	10	1.5	11
Macedonia	0.7	9	1.9	25
Total	723.5		370.2	

* Reserves excluding gold; from IFS February 2009

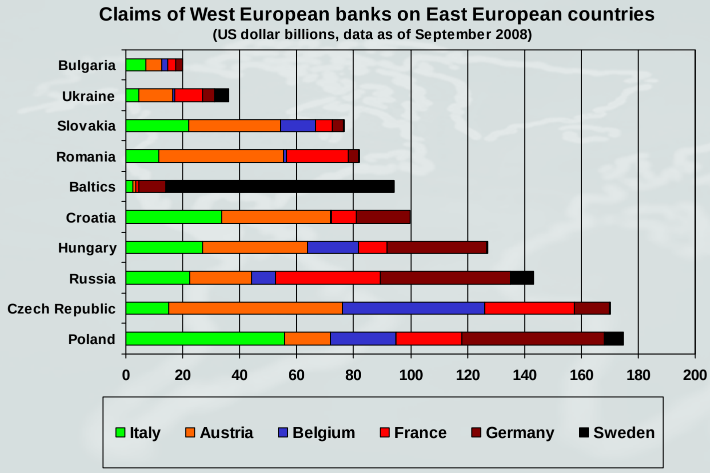
Eastern European countries vulnerable

Key Vulnerability Ratios (% of GDP)

	Eastern Europe	Other EMEs*	Asia Pre-1997 Crisis**
Public sector deficit	-2.5	1.8	-1.8
C/A balance	-9.6	3.4	-3.3
External debt	50.5	22.8	66.5
Public debt	27.1	31.0	18.5
Credit growth (%)	29.6	15.5	13.9

Note: Public sector deficit and external debt data for Eastern Europe and Other EMEs are estimated 2008 figures; other data reflect actual 2007 outturns.
*Includes Brazil, Chile, China, Colombia, Indonesia, Peru, Russia and Thailand.
** Includes Korea, Indonesia and Thailand.

Western European banks are heavily exposed



Policy makers must turn to a menu of options

The focus and instruments of policy are not always clear, so policy makers must be flexible in addressing key issues.

- **Toxic assets:** Bad Bank or ring fence?
  - From an intertemporal perspective, guarantees are relatively cheap; but coordination failure is a risk.
  - "Bad bank" involves higher short run costs, but could raise confidence in market, and lower long run costs to taxpayers
- **Financial protectionism**: How serious a risk?
  - Banking rescues which prioritize extending credits to local economy and companies could severely impact developing economies and financial institutions that rely on external financing.
  - Competitive currency devaluation is also a high risk practice.

Developed country economies should also focus on:

- Putting in place fiscal stimulus packages
- Facilitating the supply of credit to markets
- Keeping the needs of developing countries in mind

Important role for FSF, World Bank and IMF

FSF FINANCIAL STABILITY FORUM

(Elaboration of supervisory and regulatory policies; coordination across standard setting bodies)

WORLD BANK

(Surveillance - financial and private sector development; and other technical assistance)

INTERNATIONAL MONETARY FUND

(Surveillance - financial sector policies, adherence to good practice; country consultations)

National Authorities

(Implementation of financial sector policies)

The World Bank is helping with the financial rescue

- "*Not stepping in to assist developing countries will be short-sighted…because the developing countries could help to provide a growth platform to pull us out of the crisis, and if you take away the platform, you're removing one of the vital planks of the global recovery*." --- **World Bank President Robert Zoellick – G7 Finance Ministers Meeting. Roundtable with media, Rome February 13, 2009**
- The World Bank is helping with the financial rescue, and focusing on expanding safety nets, infrastructure development, and finance for small and medium enterprises and microfinance institutions.

Middle income countries → WORLD BANK

Low income countries → IDA

Private sector → IFC International Finance Corporation

Guarantee agency → MIGA

AAA rating

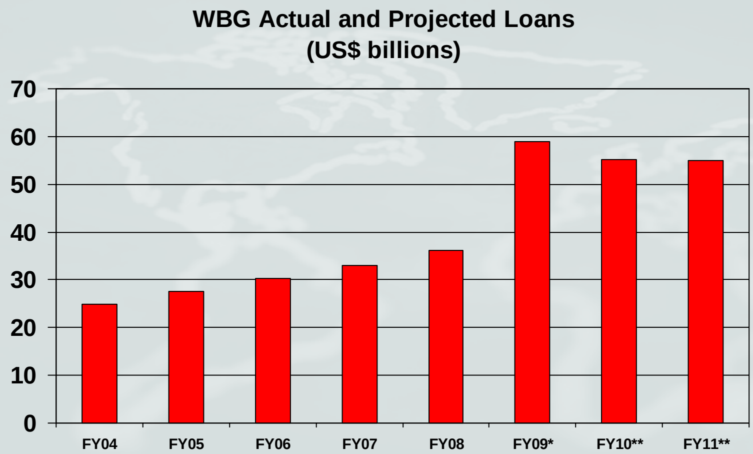
There is need for a coordinated effort to support Eastern Europe

- An effective crisis response in Eastern Europe requires fast and coordinated action by all stakeholders:
  - *Parent banks*, which own a large part of the region's key local banks
  - *Home and host country authorities* of cross-border banking groups, European institutions and the IFIs
  - *National authorities*, whose policy actions are necessary to help contain the crisis and maintain lending to the real economy.
- A **Joint IFI Action Plan** is being launched by the EBRD (up to €6 billion), the EIB Group (roughly €8.5 billion), and the World Bank (up to €7.5 billion) to support banking sectors in Eastern Europe through:
  - Rapid deployment of sizeable financial assistance
  - Mobilization of additional financial support for the region, using IFI financing as a catalyst
  - Coordination of national support packages and policy dialogue between private and public sector stakeholders.

Combined resources will support governments' macroeconomic and structural reform programs

- The Action Plan operates at three mutually reinforcing levels.
  - ***Banking groups*** will be provided assistance to underpin their continued engagement with, and lending to the local real economy.
  - ***Home-host authorities***, in close coordination with the IMF, will benefit from increased coordination among home and host supervisors of transnational banking groups
  - ***Public-private sector stakeholders*** will benefit from a coordinated policy dialogue facilitated by the Action Plan, in coordination with other bilateral and multilateral institutions.
- World Bank Group support will be delivered through:
  - Equity/quasi-equity investments in banks through the IFC Recapitalization Fund
  - Trade finance under the IFC Global Trade Finance Program
  - IBRD lending to help address banking sector issues and to provide SME/export financing in the region

Across the developing world, the World Bank is ready to substantially increase core lending…



…and is ramping up its other activities in IBRD, IDA

- The World Bank launched a $1.2 billion Global Food Response Program to speed assistance to neediest countries

- A US$2 billion facility has been established within IDA to help poorest countries quickly address needs for safety nets, infrastructure, education and health

- **The World Bank is calling for each developed country to pledge 0.7 percent of its economic stimulus package** to a vulnerability fund to help developing countries weather the impacts of the global financial crisis.

…IFC and MIGA

- New **IFC facilities** will provide up to $30 billion over the next 3 years to shore up the private sector and
  - Ensure trade flows by doubling its Global Trade Finance Program
  - Bolster distressed banking systems through a global equity fund to recapitalize distressed banks
  - Seek to ensure that viable, privately funded infrastructure projects in emerging markets have access to funding to weather the financial crisis.
  - Refinance microfinance institutions through a Microfinance Enhancement Facility created with the German development bank KfW.
- **MIGA** is providing guarantees to foreign banks that help inject liquidity into markets

“A global crisis needs a global response”