

# **Implications of global financial turmoil for financing energy investment**

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# Key Messages

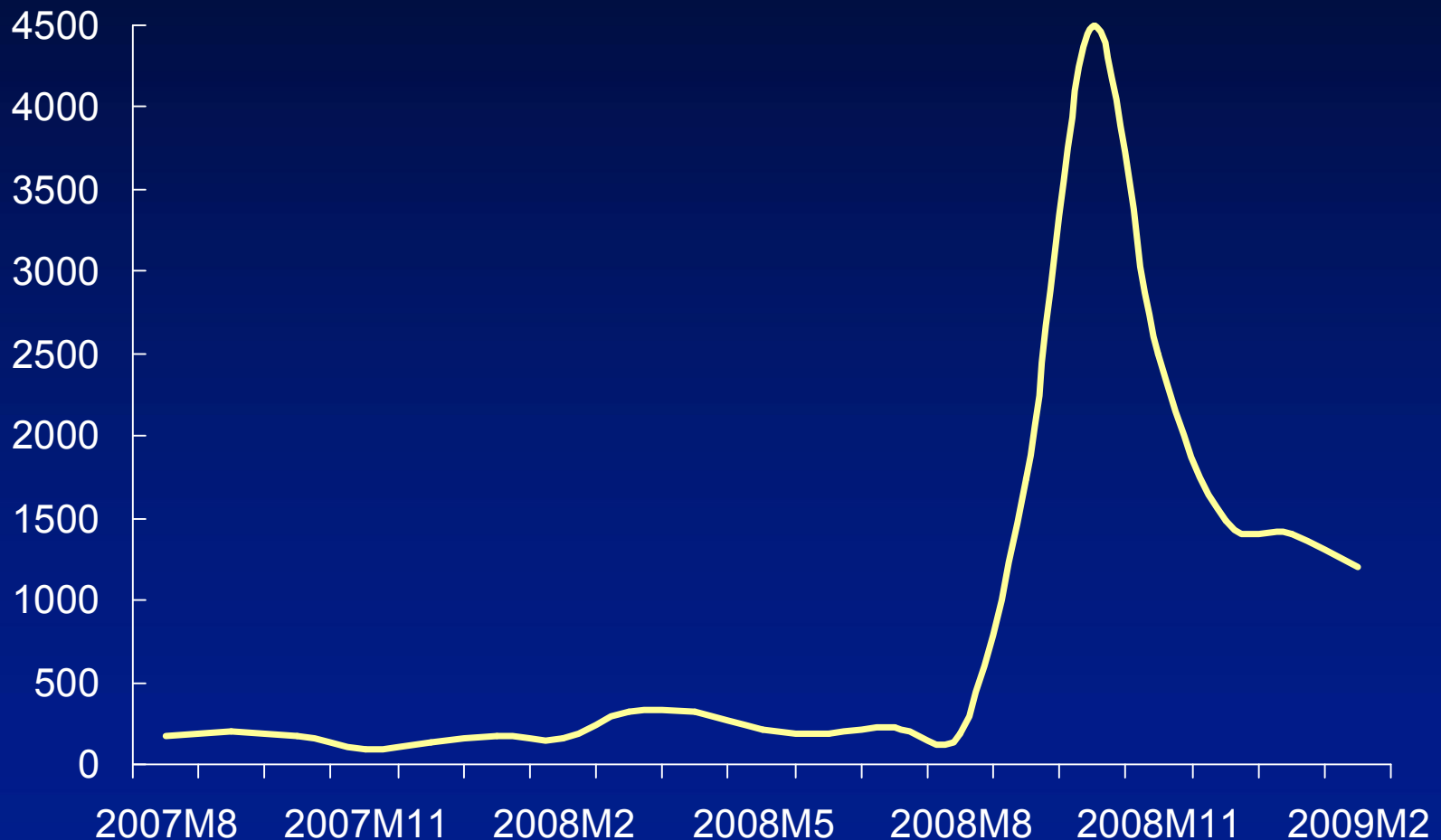
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- **A perfect storm – interaction between global recession, credit crunch and deflated confidence**
- **Financing conditions have deteriorated , with syndicated bank lending virtually drying up**
- **Energy finance will be affected as markets adjust to the new policy landscape -- - cyclical and structural forces will be at play**



# Financing climate changed dramatically after September 2008 as confidence sunk

## Financial media coverage of crisis



Source: World Bank, DEC Prospects Group.

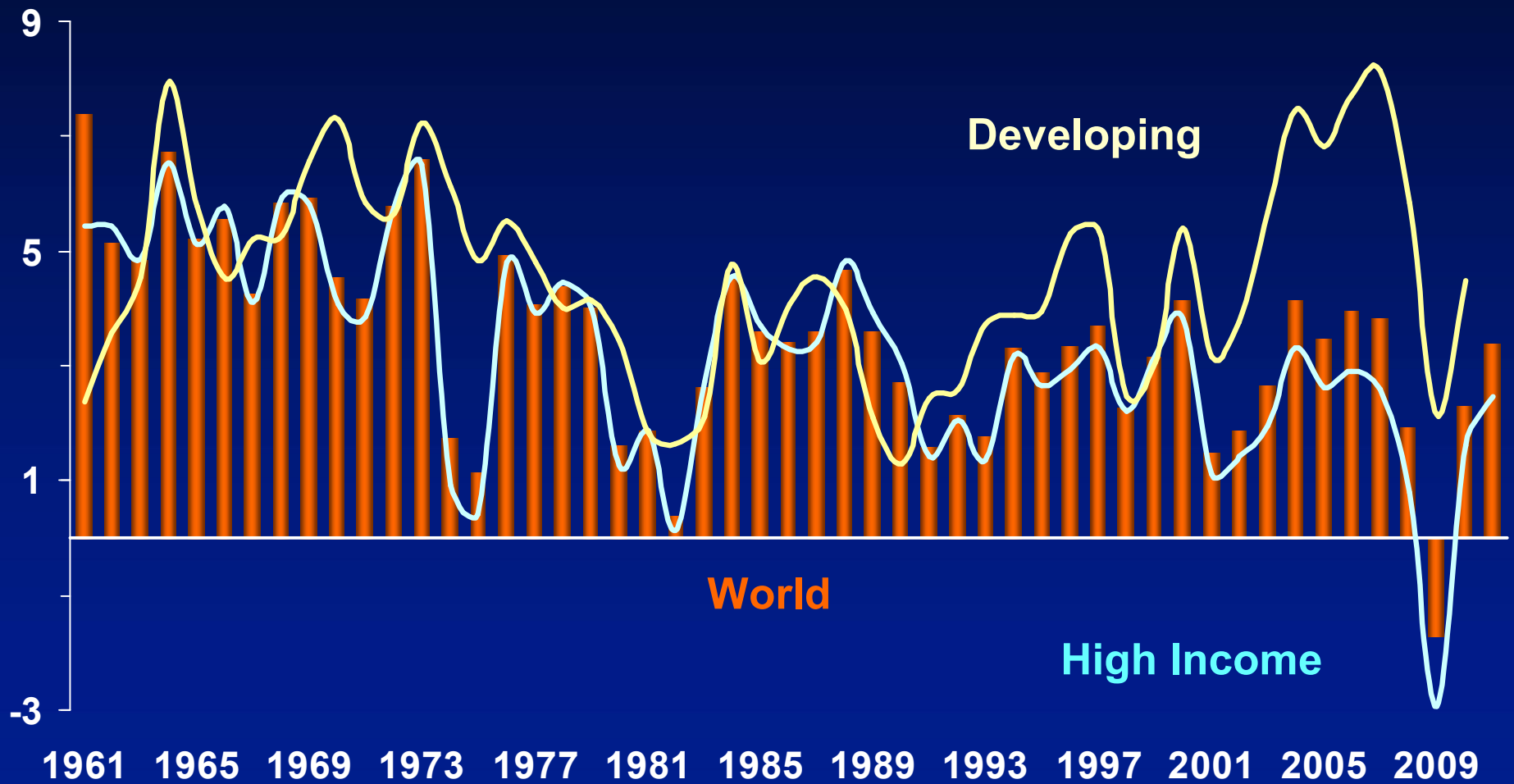
# Four Dimensions of Investor Confidence

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# World economy contracting or the first time on record

Growth of real GDP, percent



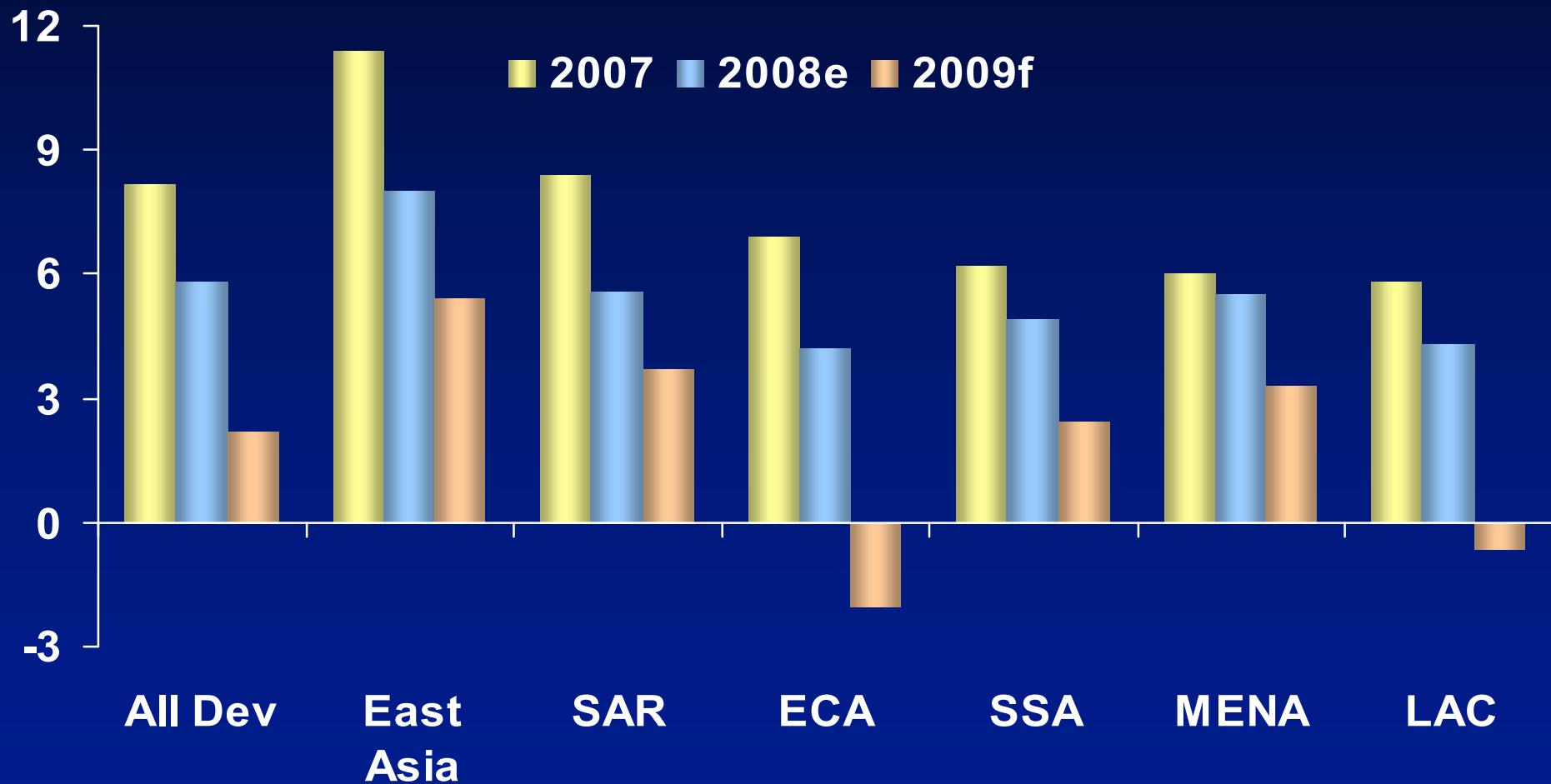
Source: World Bank data and projections.



DEVELOPMENT PROSPECTS

# In emerging markets, some regions will experience economic contraction

GDP growth, percent



Source: World Bank, DEC Prospects Group.



DEVELOPMENT PROSPECTS

# As policy rates have been lowered, funding pressures have eased

Average of Euro area, U. K. and U.S. rates, percent



Source: World Bank, DEC Prospects Group.

# Emerging market bond spreads have narrowed since the turn of the year

## Emerging-market bond spreads, basis points



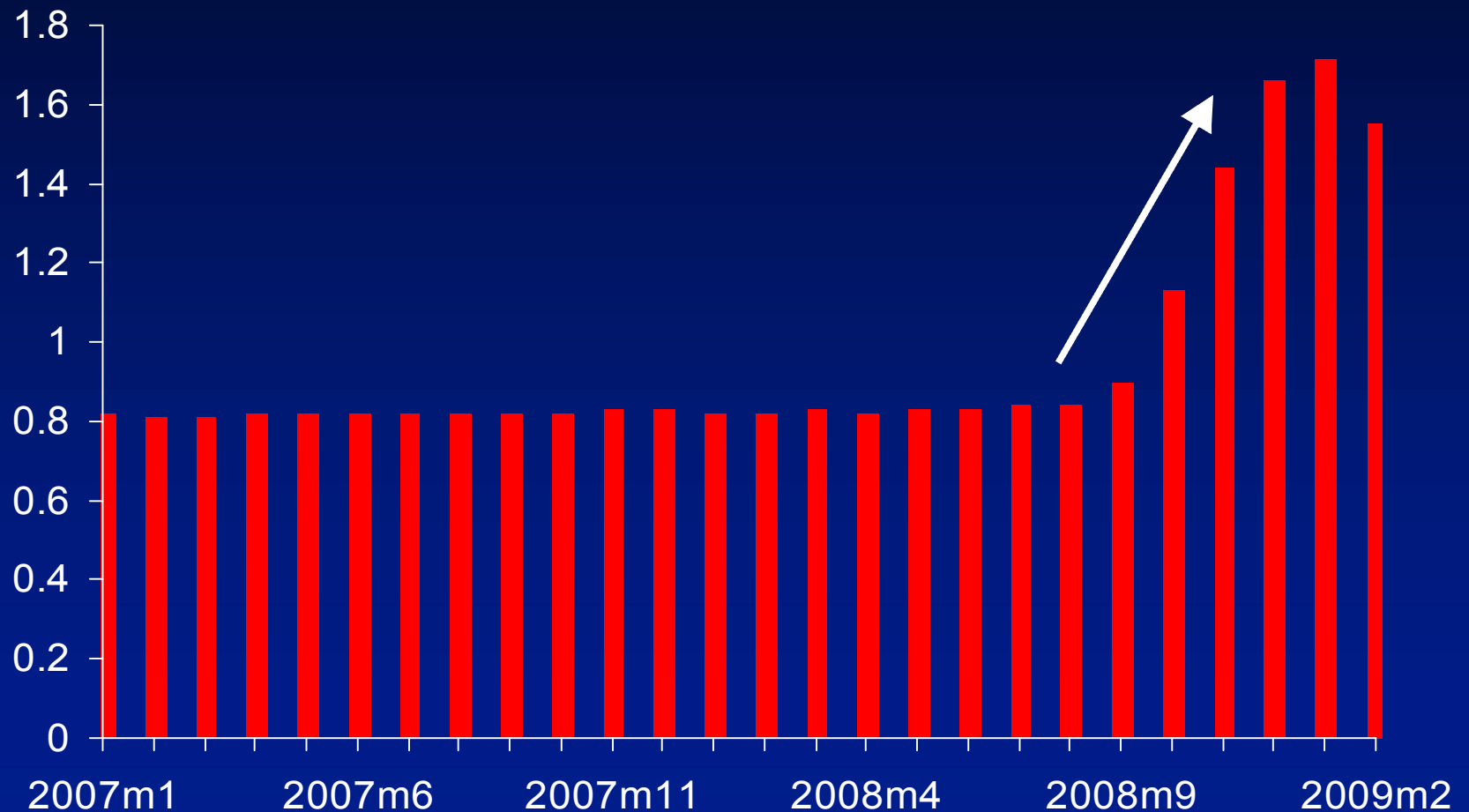
Source: World Bank, DEC Prospects Group.



DEVELOPMENT PROSPECTS

# Major central banks have moved to unconventional quantitative easing

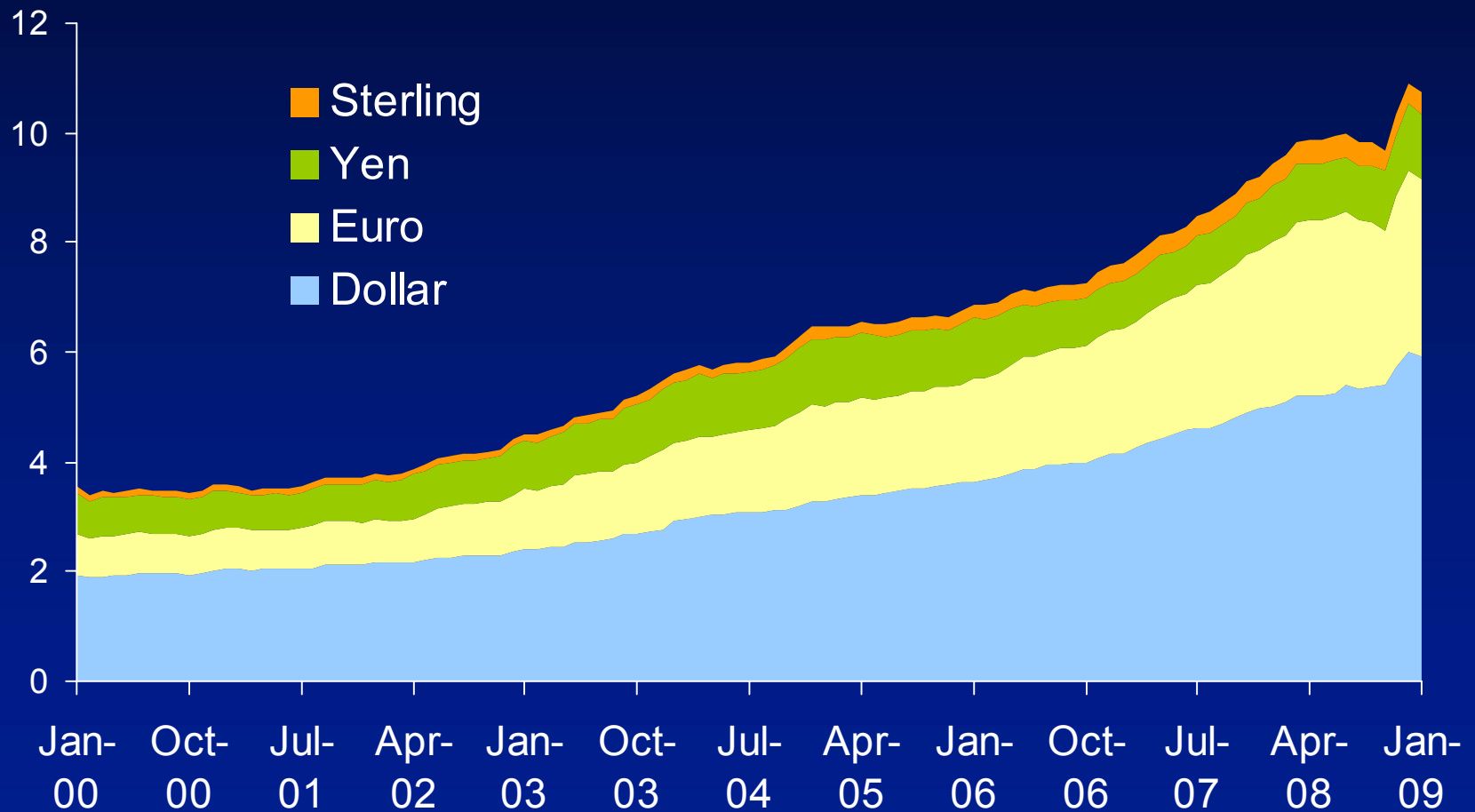
Dollar Liquidity (M0) 2007-2009 Feb, \$ trillion



Source: World Bank, DEC Prospects Group.

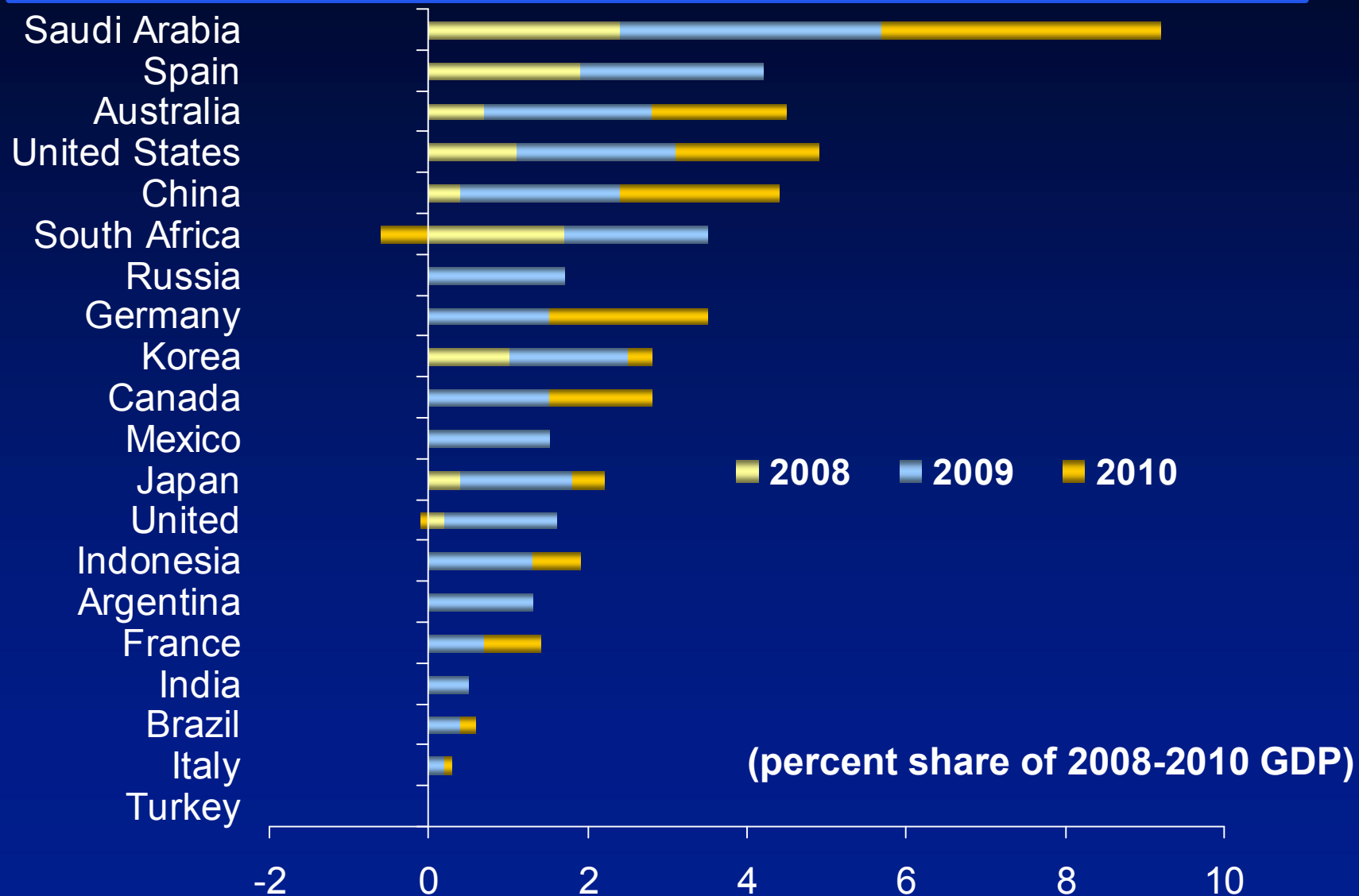
# ..contributing to global liquidity expansion

Global Liquidity, \$ trillion



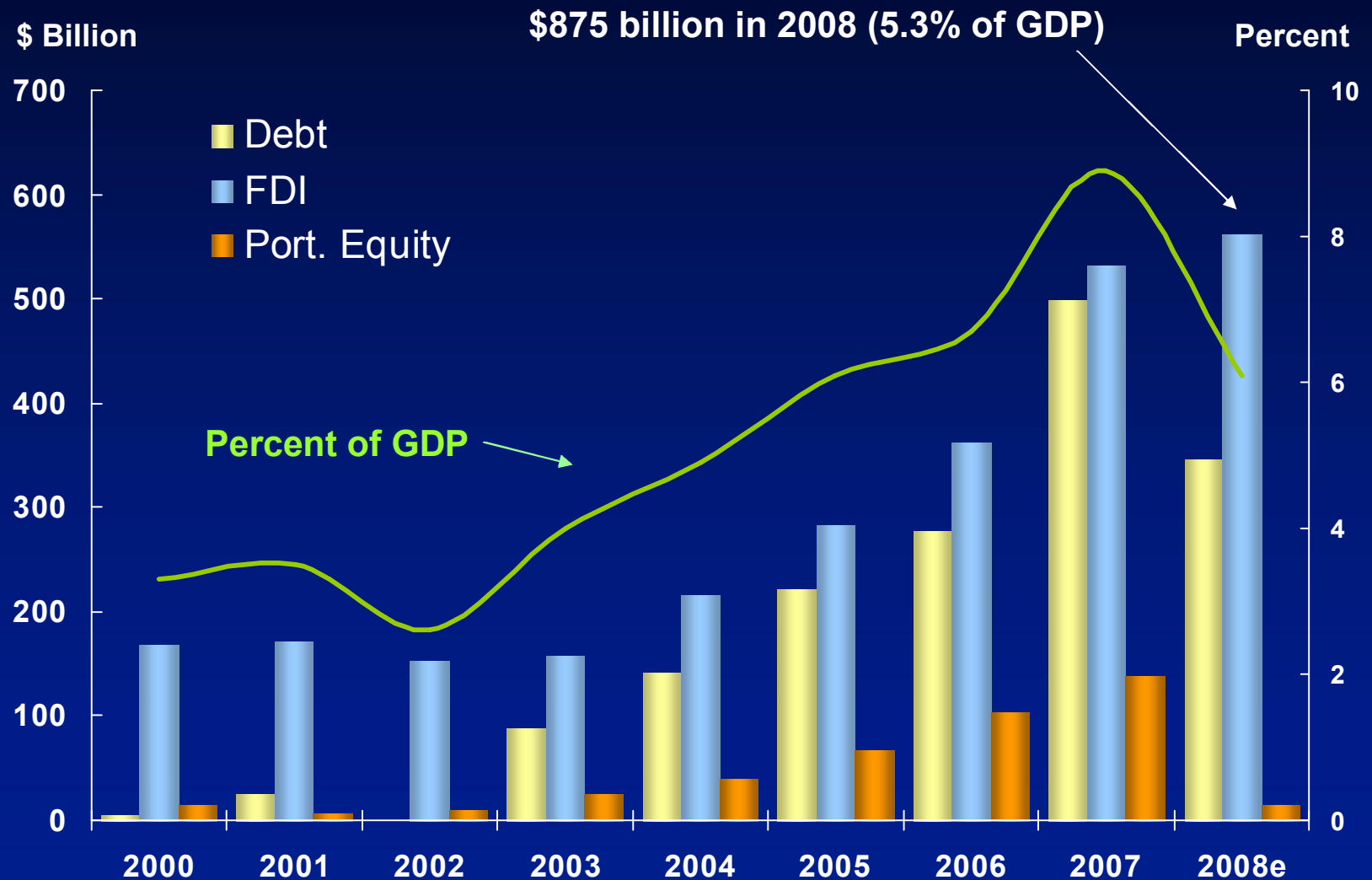
Source: World Bank, DEC Prospects Group.

# Fiscal policy to the rescue: G-20 stimulus measures



Source: World Bank, DEC Prospects Group.

# Private debt and portfolio equity have declined sharply ... FDI has been resilient

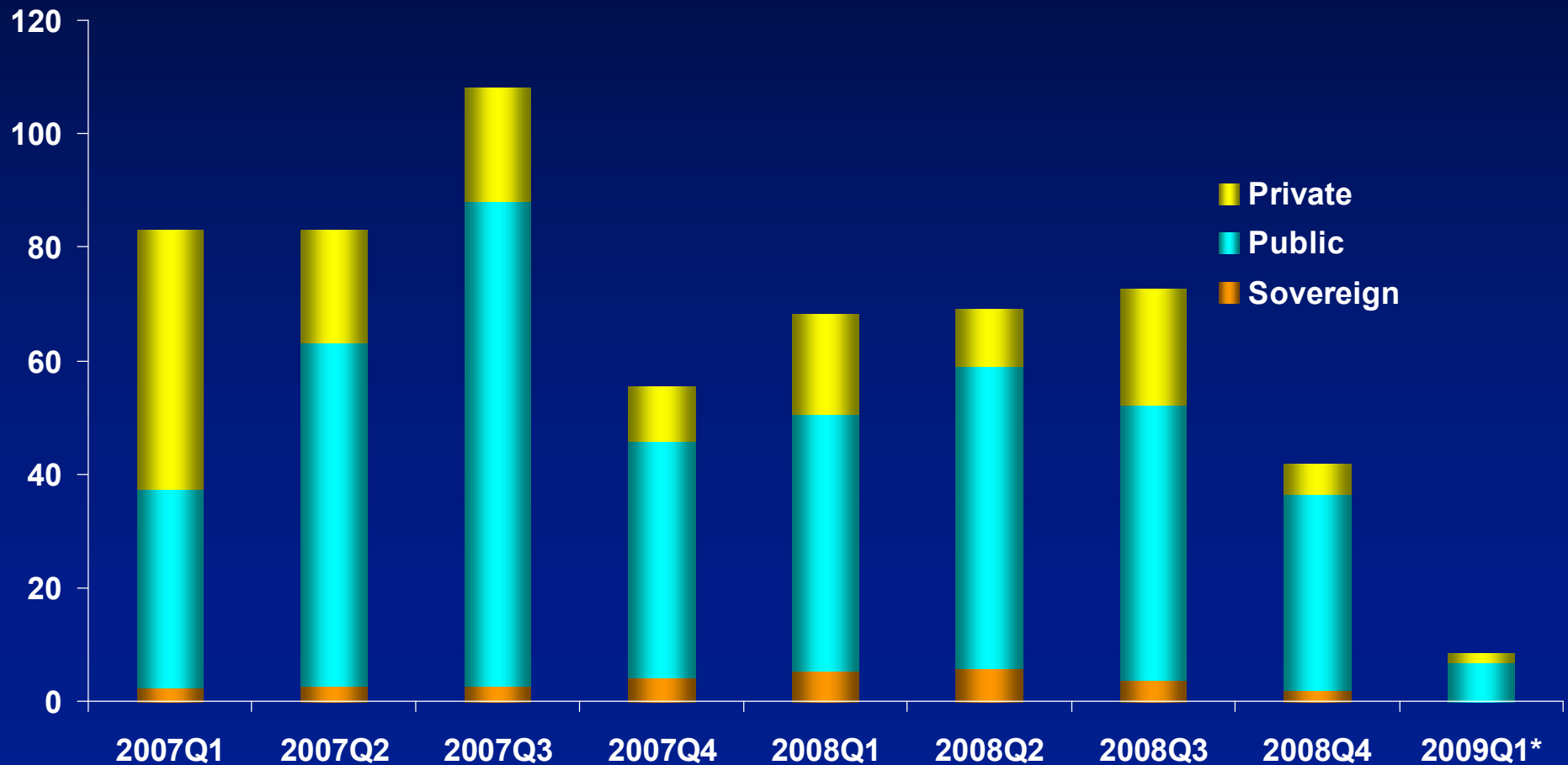


Source: World Bank, DEC Prospects Group.



# ...and syndicated bank lending dropped sharply in 2009

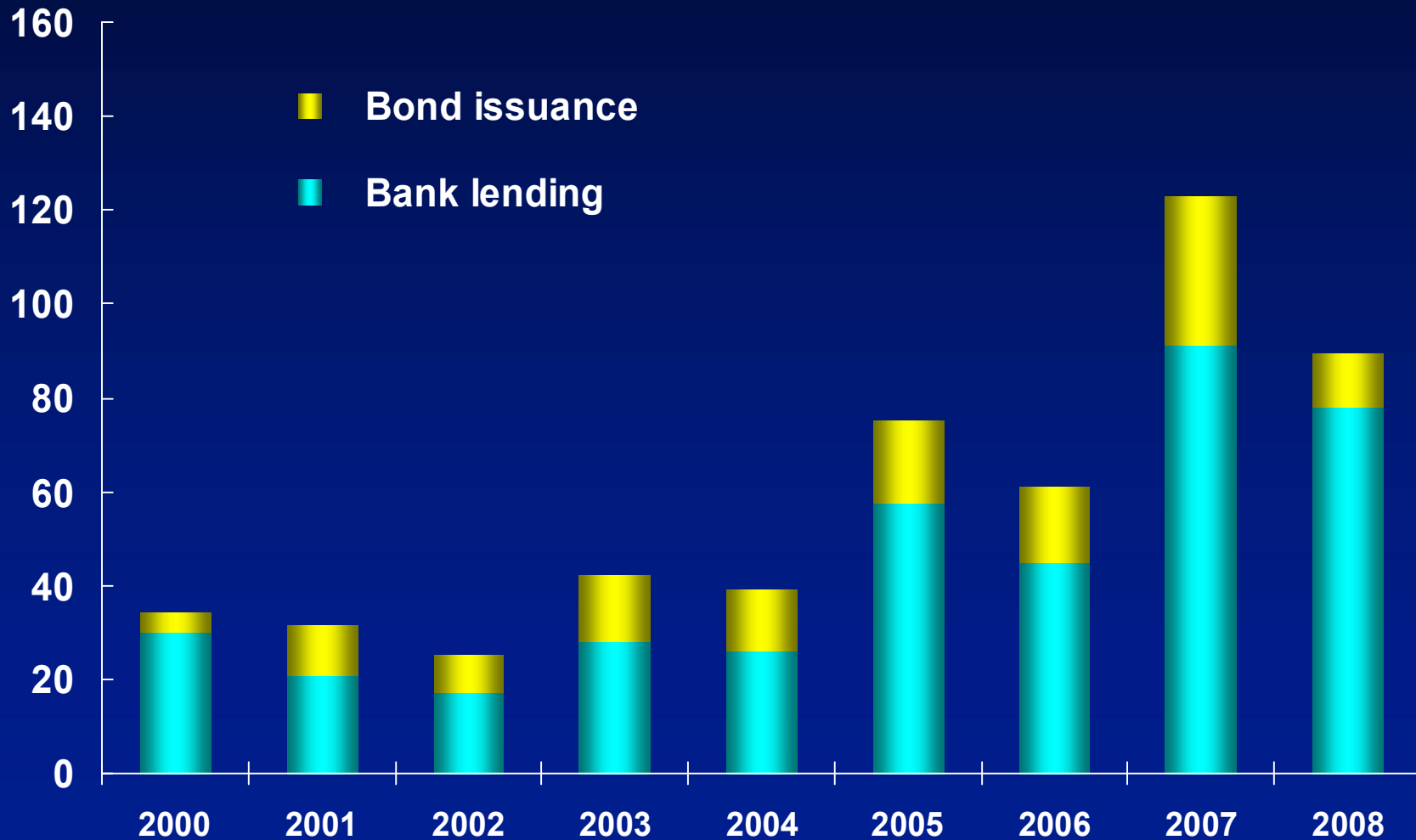
Syndicated bank loans by borrower type (\$ billions)



\* The data is till mid-March

# High bank borrowing renders the energy sector vulnerable to the global credit crunch

Capital market financing for developing-country energy sector  
\$billion

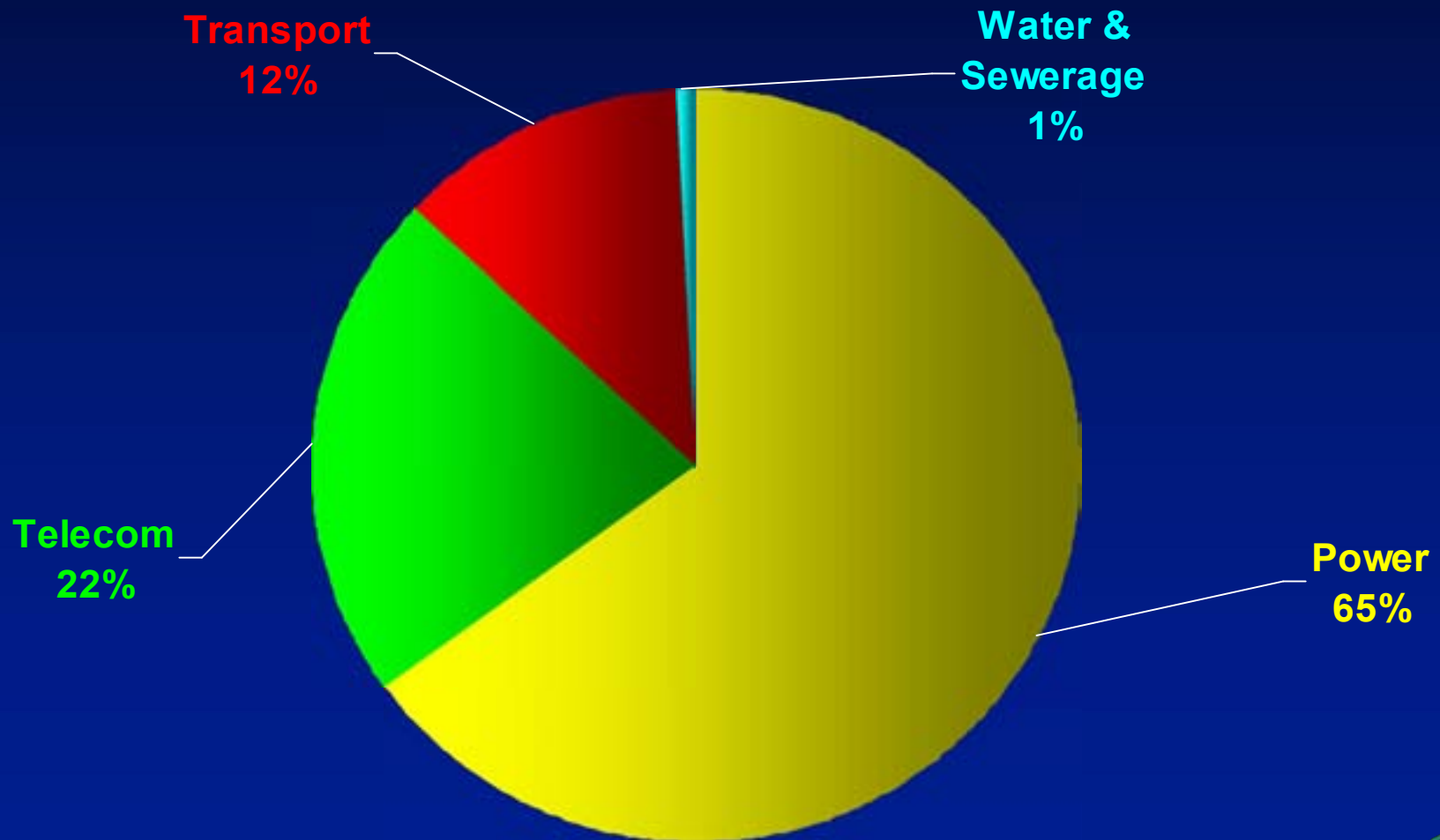


Source: Dealogic



# Bank lending to infrastructure has been largely to the power sector

Industry breakdown of developing-country infrastructure bank financing, 2000-2008 (percent)



# On the policy side difficult balancing act required

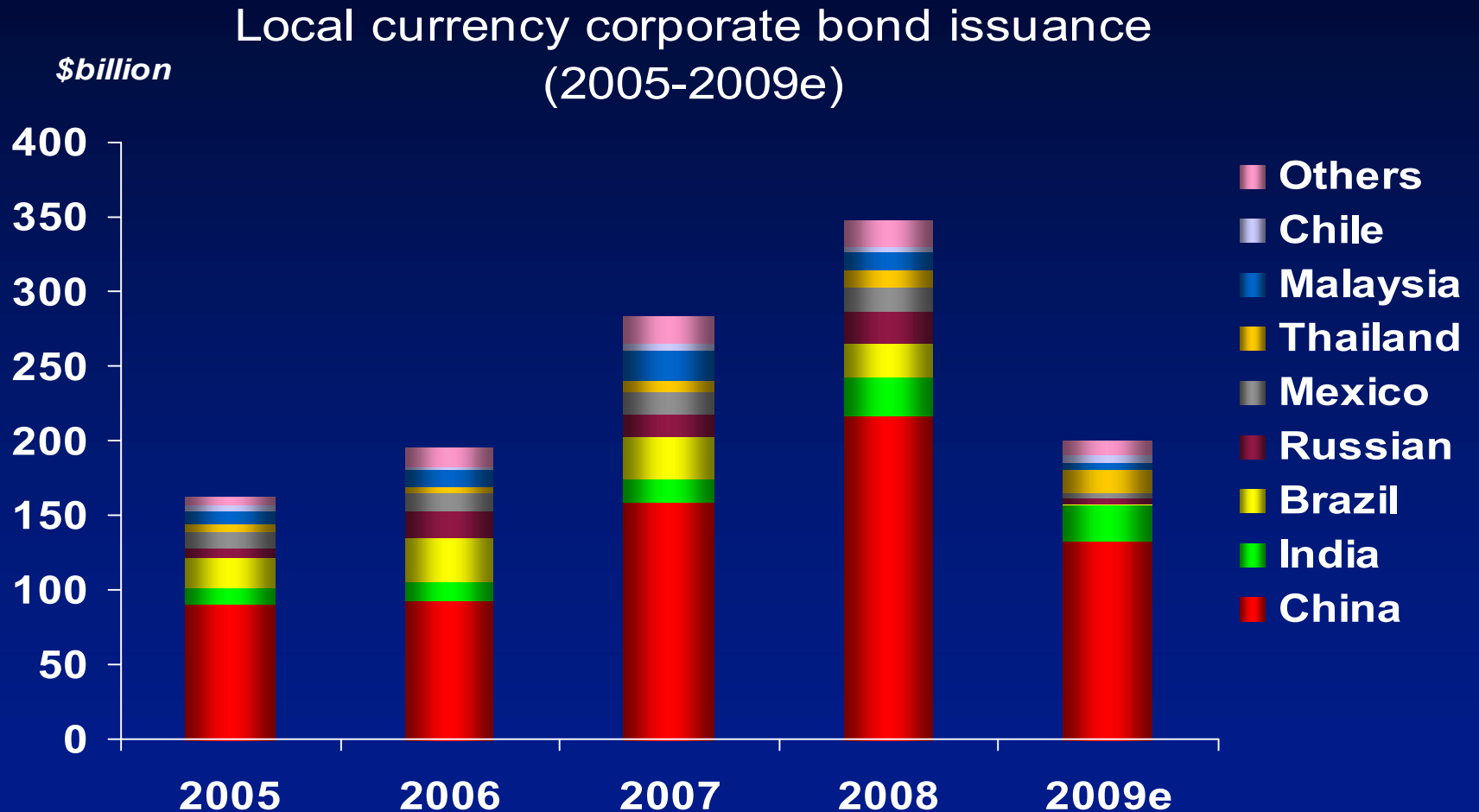
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- **Significant diversity across countries in policy scope and responses**
  - **Shift to monetary policy easing in most countries with the exception of countries trying to stem capital outflows—Russia**
  - **Despite substantial reserve draw downs, EM currencies have come under significant downward pressure, creating currency mismatches for infrastructure projects**

**Significant shift of capital to the public sector could crowd out EM borrowers, including infrastructure projects.**



# On the structural side, renewed emphasis on local currency finance

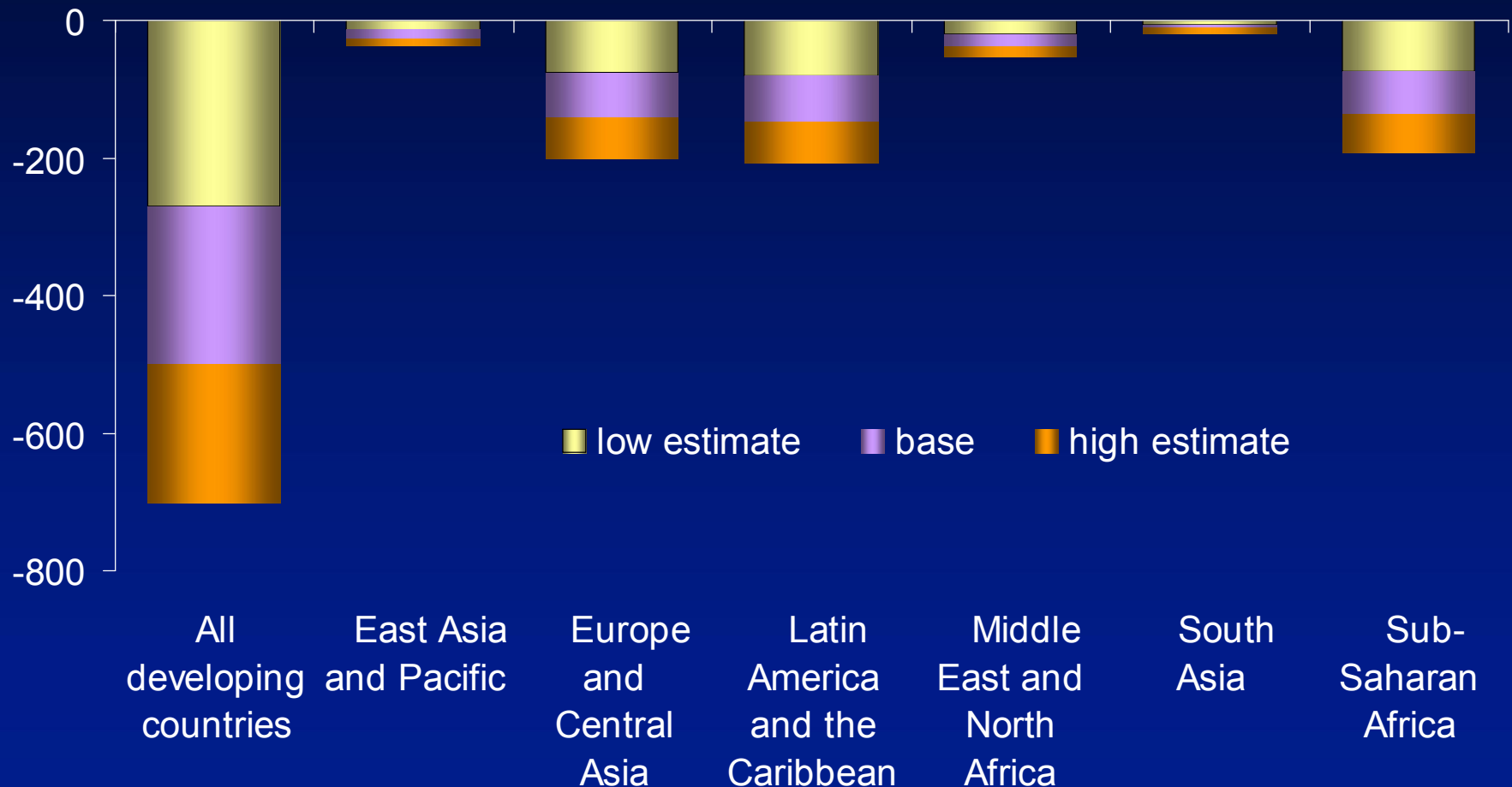


Source: Dealogic



# Large external financing gaps would require greater involvement of official lenders

Estimated external financing gaps across regions



Source: World Bank, DEC Prospects Group.

## Concluding Remarks

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- Emerging signs of improving market conditions-- medium-term outlook uncertain , much depends on international policy efforts and coordination
- In dealing with crisis, the state's role has changed to “guardian of last resort” --- *implications for competition in capital markets, interest rates , and PPI model*
- **Opportunity for renewed efforts to promote infrastructure investment**

