

# The Financial Crisis and the responses to it in developed countries

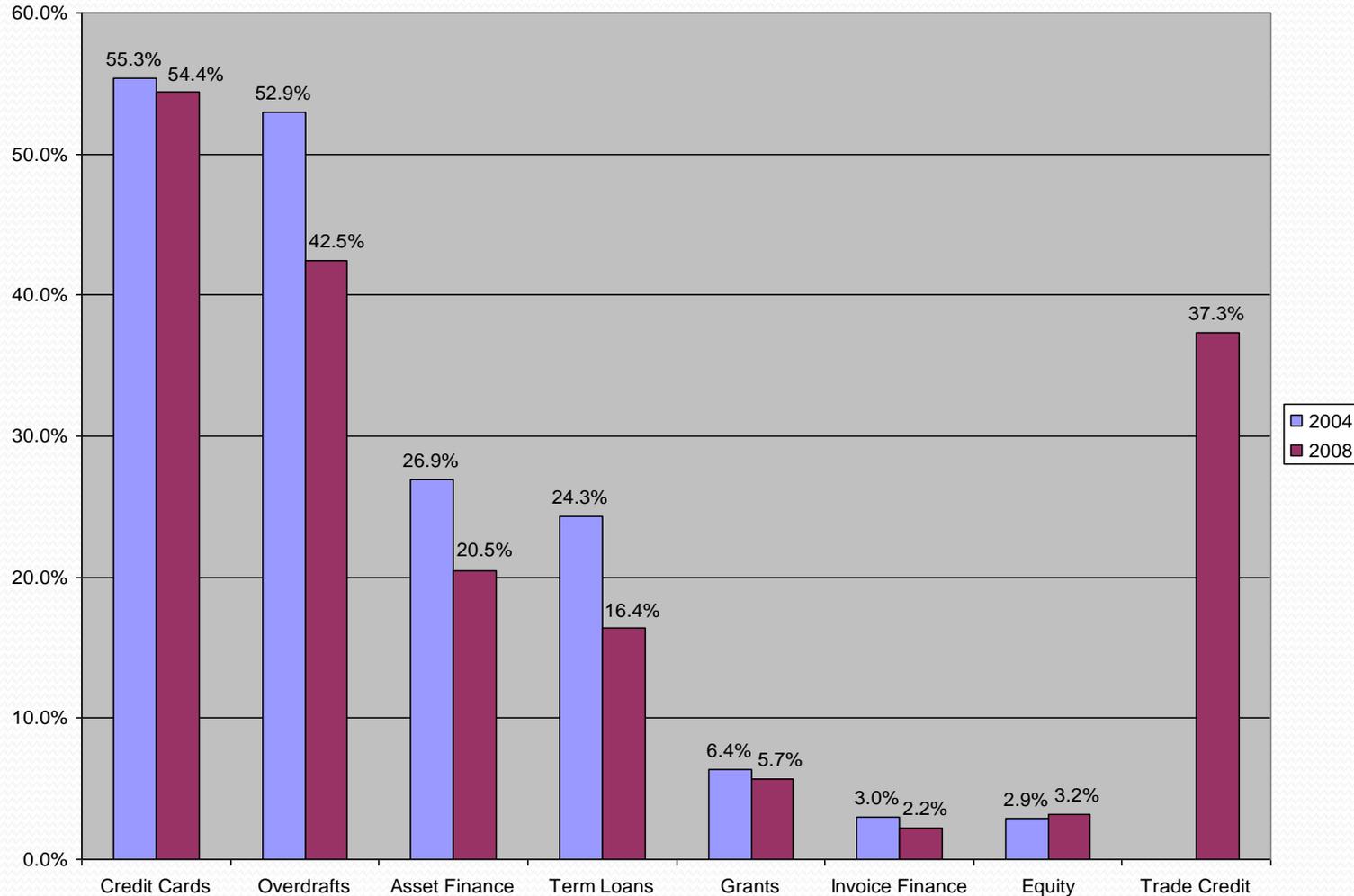
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# Structure

- The impact of the financial crisis on bank lending to SMEs : theory and practice
- The response of governments in the short term
- Some creative examples
- The nuanced response : Project Merlin
- Reflections

# Lower use of financial products in 2008 Stuart Fraser

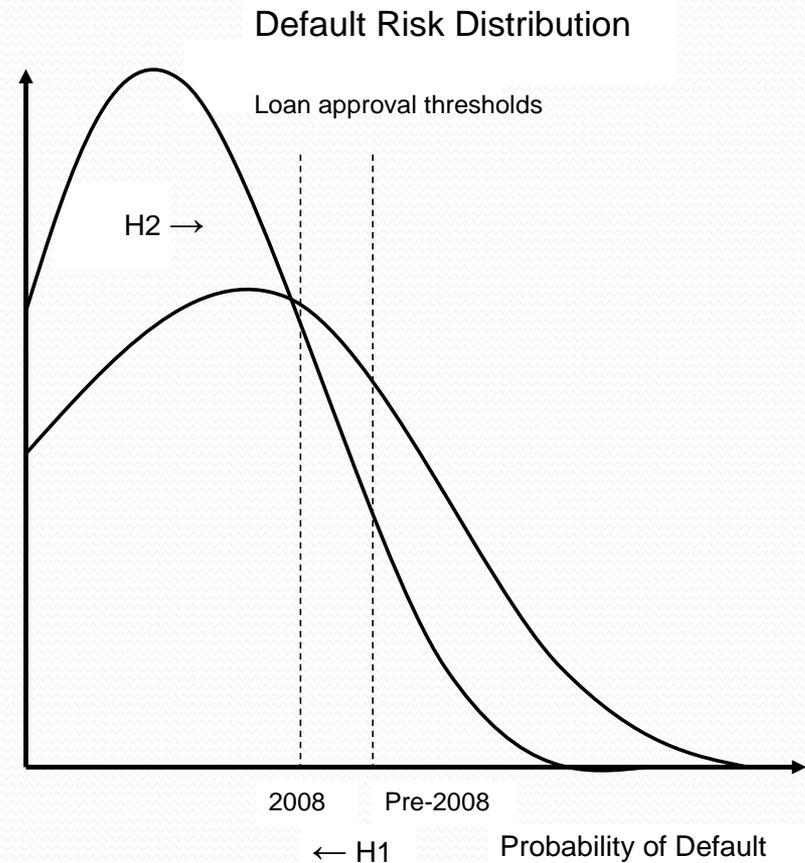
## Use of Financial Products



# Hypotheses

Stuart Fraser, University of Warwick 2009

- H1: (Credit Crisis) Tighter lending criteria, due to conditions in capital markets, have increased the likelihood of rejection among businesses applying for loans in 2008.
  - Tests direct effect of the credit crisis on availability of finance.
- H2: (Recession) Businesses have a higher likelihood of default in 2008. This has led to further increases in the likelihood of loan rejection.
  - Tests indirect effect of the credit crisis on availability of finance.



# Assistance Programmes, 2008-10 in selected G20 countries

	Government Loan Guarantee Programmes		Strengthening capital base of support institutions	Direct Credit	Export facilitation			Credit Mediation and monitoring
	Working Capital (Short-term)	Investment Capital (Long-term)			Increased capital of export support institutions	Export Credits	Export Guarantees or Insurance	
Australia			✓			✓ <sup>b</sup>	✓ <sup>b</sup>	
Brazil <sup>a</sup>	✓	✓				✓	✓	
Canada	✓	✓	✓	✓	✓	✓	✓	
European Commission	✓	✓						
France	✓	✓	✓	✓		✓	✓	Mediation
Germany	✓	✓		✓	✓	✓	✓	Mediation
Italy	✓	✓	✓			✓	✓	Monitoring and collective agreement
Japan	✓	✓	✓	✓	✓	✓	✓	
Mexico <sup>a</sup>	✓	✓	✓			✓	✓	
Russia <sup>a</sup>	✓	✓				✓	✓	
Turkey	✓	✓		✓		✓	✓	Mediation
UK	✓	✓		✓				
USA	✓	✓		✓				Monitor

Source: Country Responses to the OECD WPSMEE Questionnaire on the Impact of the Global Crisis on SMEs and Entrepreneurship Financing and the Policy Responses: follow-up, launched November 2009, updated in June-August 2010 and publicly available information (in particular, for the United States)

<sup>a</sup> Results are taken from the original Questionnaire on the Impact of the Global Crisis on SMEs and Entrepreneurship Financing and the Policy Responses, which was launched in January 2009 and responses received in March 2009.

<sup>b</sup> In 2009, Australia provided extra AUD 50 million to the Export Market Development Grants which encouraged SMEs to develop export markets by reimbursing up to 50% of expenses incurred on eligible export promotion activities.

# Credit mediation

Operates in Italy, Belgium and France

SMEs rejected for funding or those given what they see as inappropriate terms can appeal to an official mediator

In about half of cases the mediator accepted there was a result such as :

- the originally requested loan amount granted in part or in full
- Credit application dealt with but involving another bank
- a revision of the level of guarantee required by the bank
- a revision of the interest rate on an existing loan
- Acceptance of a refinancing plan

# Project Merlin UK

Banks agree to

- lending of £190 billion to business [76 billion to SMEs]
- Bonus restraint -£ 6 billion will be paid this year
- Fund a Big Society bank

Government agrees to:

- Limit bank tax to £2.5 billion
- Reduce regulation
- Stop “bank bashing”

# Going forward

- Balance political and economic considerations
- Not easy to decide how quickly to exit from “intensive care”
- Still major decisions such as can banks be “too big to fail”
- The balance between creating competitive conditions and losing financial institutions to country’s with more benign regimes