The exploitive growth in the credit derivatives market will also be self-limiting, or so we hope. Underlying technological mechanisms are adopted to introduce genuine competition. Given the evolution of the system, one Lehman Brothers type of failure will be accompanied by a number of smaller, relatively contained failures. The risk is that the system will become too large and too complex to fail without the development of some of the systemic risks associated with the current situation.

The crisis will have a dramatic impact on capital market development in several emerging economies. Foreign bank lending has been an important component of the capital inflows and overall development. Countries with large domestic institutional capacity and lack the ability to further develop domestic bond markets are therefore likely to be hit hard by the crisis. The significant retrenchment in cross-border bank lending—plus the impact of a possible financial crisis of global dimensions—will prove painful in the emerging (and developed) economies, particularly in markets with high exposure to global financial standards, shrinking role of the state in financial systems, and rising share of cross-border ownership of financial institutions—may reverse over the foreseeable future. In Asia, the story of financial systems, particularly in the case of China and India, will likely become less oriented to capital markets and more oriented to what I call ‘domestic’ lending, or activities that are less commercial and credit oriented and more focused on domestic credit. What will be the implications of these changes? The literature has still to be written on what private pension funds in emerging economies, particularly in Latin America and Central and Eastern Europe, are oriented toward. For example, how are pension funds going to be used? Does it imply more domestic credit?

While in some sectors the decline in asset prices could be less, in others, it could lead to important social costs. Some government measures may question the viability of the new private pension systems and be tempted to use the returns, stimulating all the participants to the public pension system. 

The risk of private pension funds could be a major tool in the attempt to develop a private sector in alternative and expanding markets. The number of private pension funds could be a major tool in the attempt to develop a private sector in alternative and expanding markets.
The crisis has begun to prompt a global rebalancing of the financial system. This rebalancing is likely to be a large-scale, a long-term process that will be driven by a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.

The crisis has led to a significant reduction in the size and complexity of financial institutions, particularly in the United States and Europe. This reduction has been achieved through a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.

The crisis has led to a significant reduction in the size and complexity of financial institutions, particularly in the United States and Europe. This reduction has been achieved through a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.

The crisis has led to a significant reduction in the size and complexity of financial institutions, particularly in the United States and Europe. This reduction has been achieved through a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.

The crisis has led to a significant reduction in the size and complexity of financial institutions, particularly in the United States and Europe. This reduction has been achieved through a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.

The crisis has led to a significant reduction in the size and complexity of financial institutions, particularly in the United States and Europe. This reduction has been achieved through a combination of factors, including 

- greater state involvement in the financial system; 
- a reduction in the size and complexity of financial institutions; 
- a greater focus on risk management and regulation; 
- a shift away from reliance on market-based financial systems toward more regulated systems; 
- a greater emphasis on financial stability and risk management; 
- a greater emphasis on financial inclusion and access.
global wealth, the transition toward market-based and interest-rate-oriented economic systems, the progressive dismantling of state controls and the processes of globalization and financial liberalization. In the region, the pace of the transition appears to be more rapid than in the rest of the world, particularly among household production and service-oriented economic systems, the population and pace of globalization and financial liberalization.

The sharp ongoing declines in capital market prices and issuance volumes has already begun to reverse the growth trend and—along with restrictive policies that may reduce risk, innovation, and a broader range of financial instruments and financial institutions in some countries’ home country arrangements will prove challenging in these circumstances. Moreover, the regulatory and supervision of capital market instruments in these circumstances will be significantly reduced in size, broken up, and replaced by new institutions and business models—such as mortgage lenders, finance companies, and asset-backed conduits. As a result of these changes, a smaller securitization market characterized by higher-quality issuance and simpler structures.

The crisis has led to a fundamental reconfiguration of the state’s role in the financial system. This role has been in retreat around the world in recent decades, a response to its documented inability to manage its own financial affairs. The state’s direct involvement in financial systems has been in retreat around the world in recent decades, a response to its documented inability to manage its own financial affairs. The state’s direct involvement in financial systems has been in retreat around the world in recent decades, a response to its documented inability to manage its own financial affairs. The state’s direct involvement in financial systems has been in retreat around the world in recent decades, a response to its documented inability to manage its own financial affairs.
global wealth, the transition raised market-based and more efficient economic institutions, the population managing developed countries, and the forces of globalization and financial liberalization.

In the process, financial globalization has an important role. Part of this trend emerged from the remarkable buildup of global financial assets, 1989–2007

Private debt securities

Public debt securities

SMALLER BUT SAFER?

THE SHAPE OF FINANCIAL SYSTEMS TO COME

“utility banking”—will probably contain future

tion, and profitability by promoting a return to

prices and issuance volumes has already begun

be a sizable shift in the composition of financial

system. As a result of the fiscal fallout from the crisis, there will also

be an increase in foreign ownership (figure 3). This

draw attention to the rise of new institutions and business models—

stakeholders (such as mortgage lenders, finance companies,

eties—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,

ies—such as mortgage lenders, finance companies,
The proposal for a broad-based financial crisis response appears at best to be a Pipe Dream. 

Many of the measures that have been considered or adopted have failed to prevent the collapse of one major subprime mortgage bank after another. In the absence of a common crisis management framework, the crisis was already spreading, starting in the United States and moving subsequently to the United Kingdom and across Europe. This was the reason for the call for a broad-based financial crisis response.

The crisis response will be too piecemeal, too timely, too limited, and too slow. It will also be too short-term oriented, too myopic, and too shortsighted. It will not be able to prevent the next financial crisis and it will not be able to prevent the next financial crisis. It will not be able to prevent the next financial crisis.

We have to make a decision: do we want to have a broad-based financial crisis response or do we want to have a piecemeal financial crisis response? The choice is not between the two, but between the two. The choice is between the two.

The choice is between the two. The choice is between the two. The choice is between the two.
Emerging economies

The basic structure of the financial systems of most emerging economies is well understood: globalization has advanced significantly, but financial crises are not an infrequent event. But these countries should not be placed in a special category when it comes to the risk that turmoil in advanced countries could affect them. These crises usually involve a combination of shocks—from rising oil prices to capital flight to high interest rates to local currency devaluation—and their impact can be much more severe than in advanced economies because financial systems are less integrated, with deposits in banks remaining a dominant source of funding for firms, and a lack of liquid secondary markets for government securities that makes governments more vulnerable when faced with a fiscal crisis.

The crisis will have an adverse impact on capital market development in several emerging economies, making it more difficult for important participants in local markets, including pension funds and other major institutional investors, to diversify their portfolios and overall development. Countries with large domestic institutional investors are more likely to be affected by the crisis. Indeed, the return of large domestic corporations to local capital markets for funding might not even be the key driver of developments in emerging markets, as occurred in Latin American and Central and Eastern Europe (CEE).

Hence, the crisis in advanced countries, particularly in terms of financial flows, will have far less impact on the promise of financial sector development in emerging economies, particularly in Latin America and Central and Eastern Europe (CEE). Capital controls will continue to play an important role, and the financial crisis in advanced countries will likely become one more tool for controlling capital inflows and thus improve economic performance, particularly in CEE countries, which will continue to face disruptions in key markets, as occurred in Chile in the late 1990s.

In summary, the financial crisis will have a number of consequences, particularly in emerging economies, but it is likely to have only limited effects on advanced economies.

Economic trends

The shape of financial systems to come

Global trends for greater participation in recent decades—such as globalization, rapid financial innovation, and the rise in cross-border ownership of financial institutions—may reverse over the foreseeable future. And it will spark a debate about whether each of them is desirable and appropriate under most circumstances. And it will spark a debate about whether each of them is desirable and appropriate under most circumstances.

In the case of financial globalization, one of the main economic characteristics of emerging economies is the declining share of cross-border ownership in the financial sector compared with developed countries, which has hit hard the portfolios of pension funds in emerging economies. This suggests that the effects on economic growth and overall welfare are likely to be negative. The literature on finance and growth strongly suggests that the effects on economic growth and overall welfare are likely to be negative—perhaps the price we have to pay for living in a brave new world.