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TITLE: Implications of the Financial Crisis on the ICT Industry

Implications of the Financial Crisis on the ICT Industry

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World Telecommunication/ICT
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Agenda



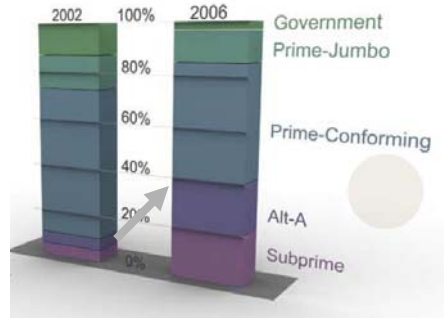
- Origins of the Crisis
- Is this Crisis any Different?
- Impact on global ICT industry:
 - Investment & Financing
 - Consumer Demand
 - Telco Strategy
 - Regulation.
- Individual Technologies



Origins of the Crisis

- Niche origins in US housing market and expansion of high-risk Alt-A & sub-prime mortgages.

Distribution of US Dollar Mortgages,
US Housing Association

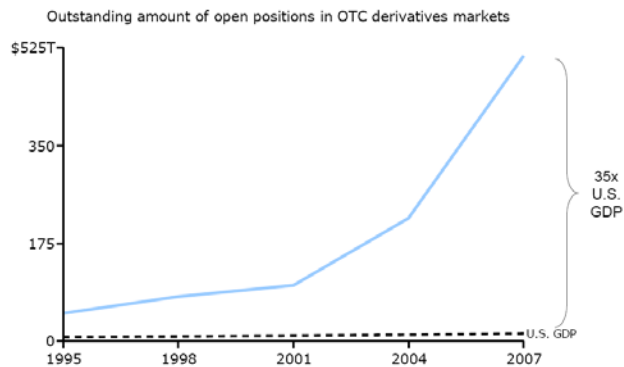


- Sub-prime mortgages rose from < 10% in 2002 to 21% of all mortgages in 2006.

Risk Pooled Around the World

- Investment banks became exposed through their holdings of derivatives mortgage-backed securities (MBS)

Source: Bank for
International
Settlements.



A Story of Crash, Crunch and Crisis



- US housing bubble **crashed** in 2006, making mortgage-backed securities 'toxic assets'.
- HSBC announced write-downs of \$10.5 bn in Feb 2007, leading to a '**credit crunch**' & massive decline in inter-bank lending.
- **Financial crisis** erupted in mid-Sept 2008 in failure of Lehman Bros & sale of Merrill Lynch.
- Situation triggered a global economic slowdown - US, EU & Japan now in recession.

Is this Crisis Any Different?



- Origins in credit market, rather than an asset bubble.
- Crisis originated & spread through systemic failures in financial regulation & banking system.
- Originated in high-income countries, but impact on developing countries is growing.
- To date, there has been unprecedented coordination in inter-governmental response - timing of interest rate cuts, etc.

But what is the impact of the financial crisis on the global ICT sector ?



Source: Sequoia.

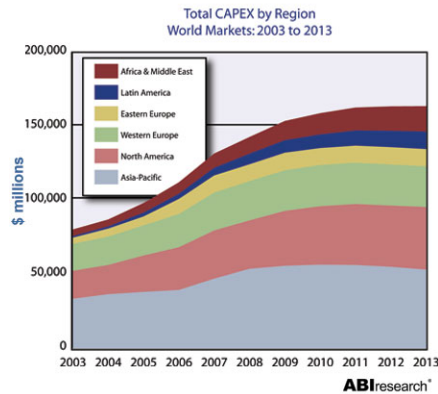


Investment & Financing

- European telcos paying 3-4% more for funding
- Investment shortfalls: *Nemertes* estimate N.American operators currently investing 60-70% of the full amount needed to upgrade Internet to keep pace with demand
- Need proven business model, established credentials & cashflows for venture cap.
- Return of State involvement in telecom?
Australia, Italy, Greece, USA and EU.

Global Capital Expenditure (Capex)

- Global mobile capex will slow, not decline



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Consumer Demand

- Demand for mobile & broadband not seriously tested during recession before as were not mass market services.
- Demand for vital telecom services income inelastic.
- Fixed-mobile substitution will rise.
- Point Topic estimates demand for new broadband connections down by 20%.



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Telco Strategy

- Capex, not opex – greater focus on controlling costs.
- Greater network-sharing to cut costs
- Telcos continuing to invest in quality of services for the future.
- Flat-rate & prepaid packages likely to grow, as popular with consumers.
- Mobile operators have greater flexibility in capex than fixed operators.

Regulation

- Greater infrastructure-sharing among operators to cut costs
- Must consider regulatory impact – active or passive sharing?
- ITU has examined infrastructure-sharing in great detail in *Trends 2008: Six Degrees of Sharing*



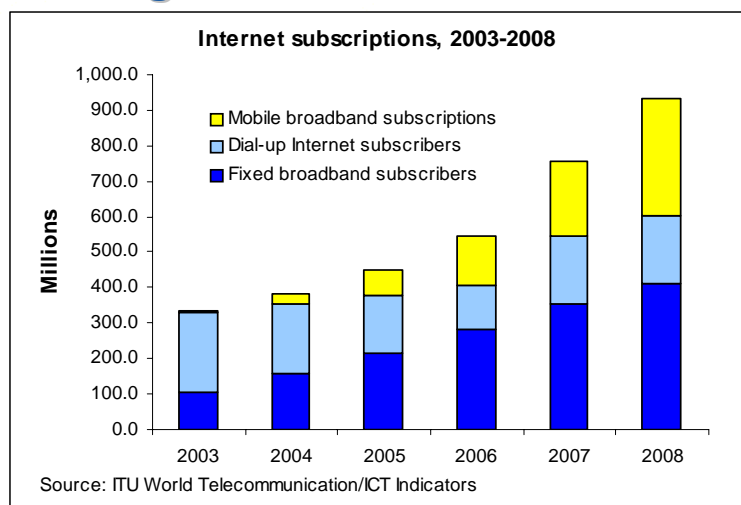


Mobile Telephony

- Globally 4 bn connections end 2008
- Strong growth in large developing markets e.g. China, India & Brazil.
- Most analysts foresee limited impact on developing country markets
- Softening in some markets (Bangladesh, Pakistan) but downturn could begin to bite Q4 2008.



Strong Growth in Internet...





... looks set to continue

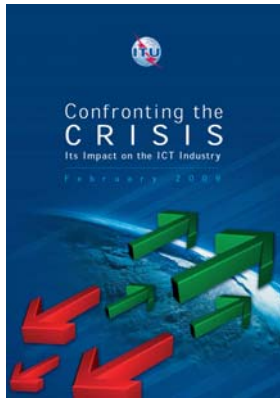
- Strong growth looks set to continue – global fixed broadband subscribers will grow at 7% annually until 2014 (ABI Research).
- Point Topic projects strong growth.
- Despite a slowing in some markets, Point Topic considers that overall, “growth in broadband is robust”.



Satellite Technologies

- High-value transactions with complex financing arrangements.
- But long lead times – activity now reflects deals agreed 2-3 years ago.
- So the full impact of the crisis could be felt in 2 years' time – so far, industry commentary still positive.
- Financing more difficult - may need to explore new sources.





Read more in

Confronting the Crisis: Its Impact on the ICT Industry

www.itu.int/crisis2009/



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Thank you for your attention

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