



BANK FOR INTERNATIONAL SETTLEMENTS

Short-Term Policy Responses to the Crisis and Risks to Medium-Term Policy Frameworks in Asia: Complications Arising from Global Imbalances

By Andrew Filardo
Bank for International Settlements

Prepared for the ADBI Conference on “*Global Financial and Economic Crisis: Impacts, Lessons, and Growth Rebalancing*”, 22-23 April 2009, Tokyo, Japan

* The views are those of the author and do not necessarily represent those of the Bank for International Settlements

The views expressed in this paper are those of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.



Introduction

**The international financial crisis
could have been a lot worse for Asia!**

- 1. Medium-term trends prior to the crisis**
- 2. Timeline of the international financial crisis on Asia**
- 3. Macroeconomic-financial policy responses**
- 4. Lessons for global rebalancing**
- 5. Trade-offs going forward**



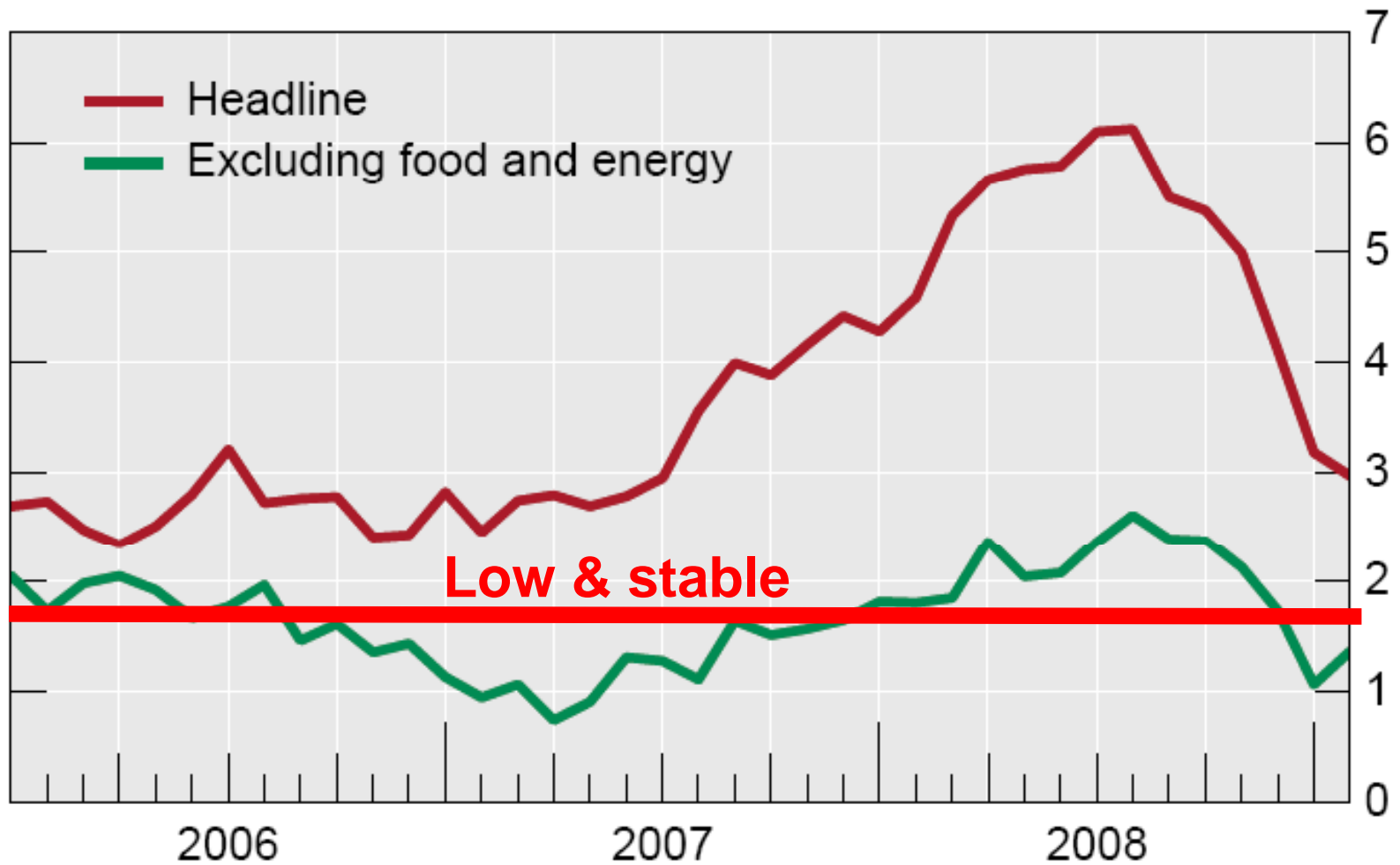
Medium-Term Trends Prior to the Crisis

1. Inflation control
2. Fiscal rectitude
3. Ample foreign reserves
4. Healthy financial systems



Inflation Control

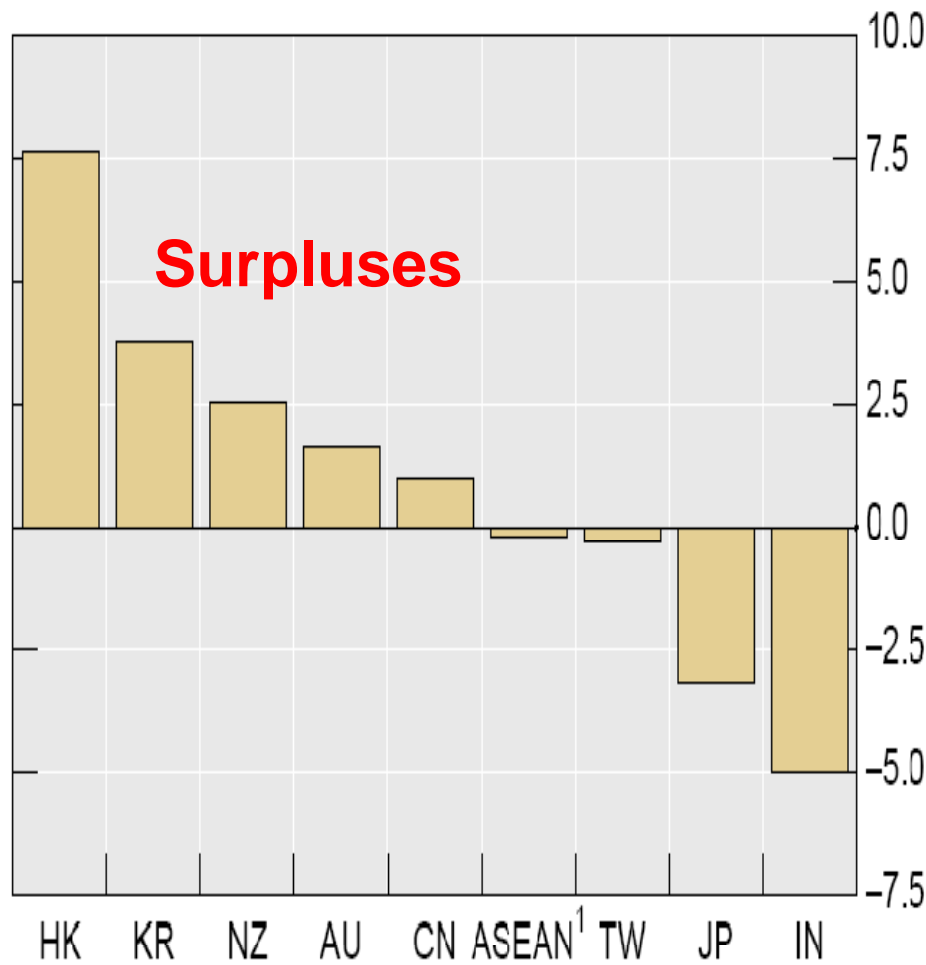
Asia²



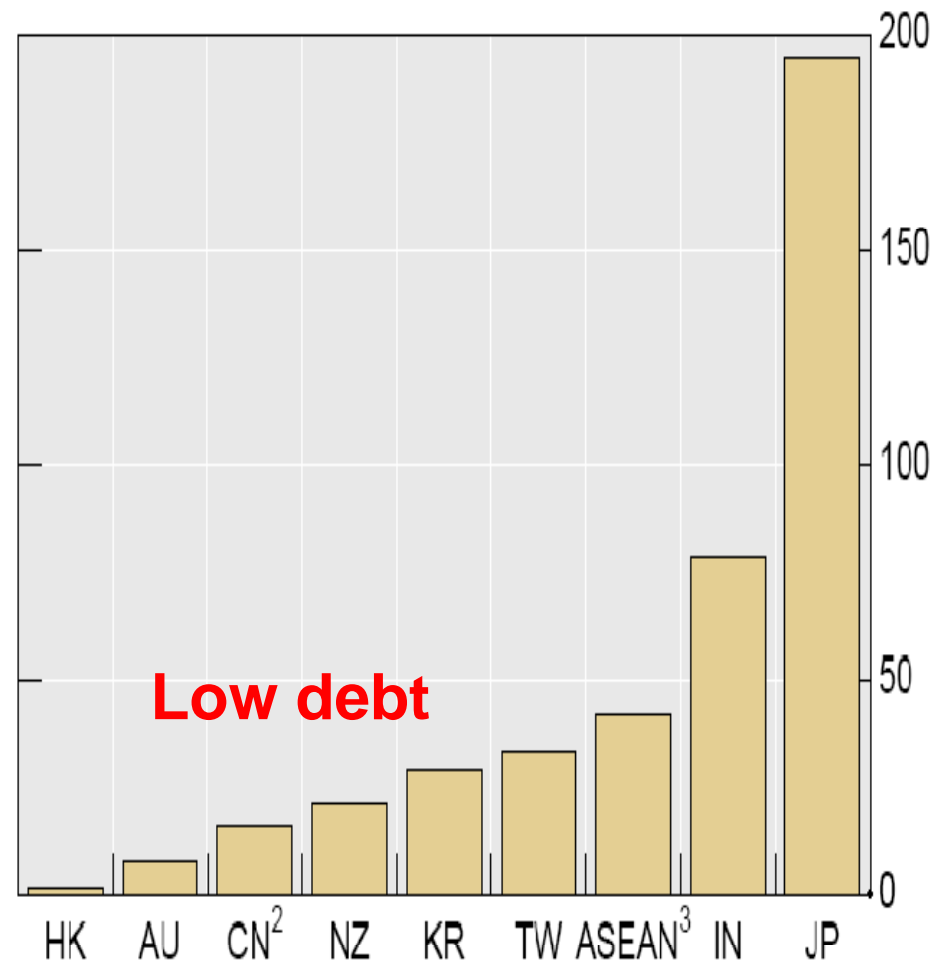


Fiscal Rectitude

General government balance



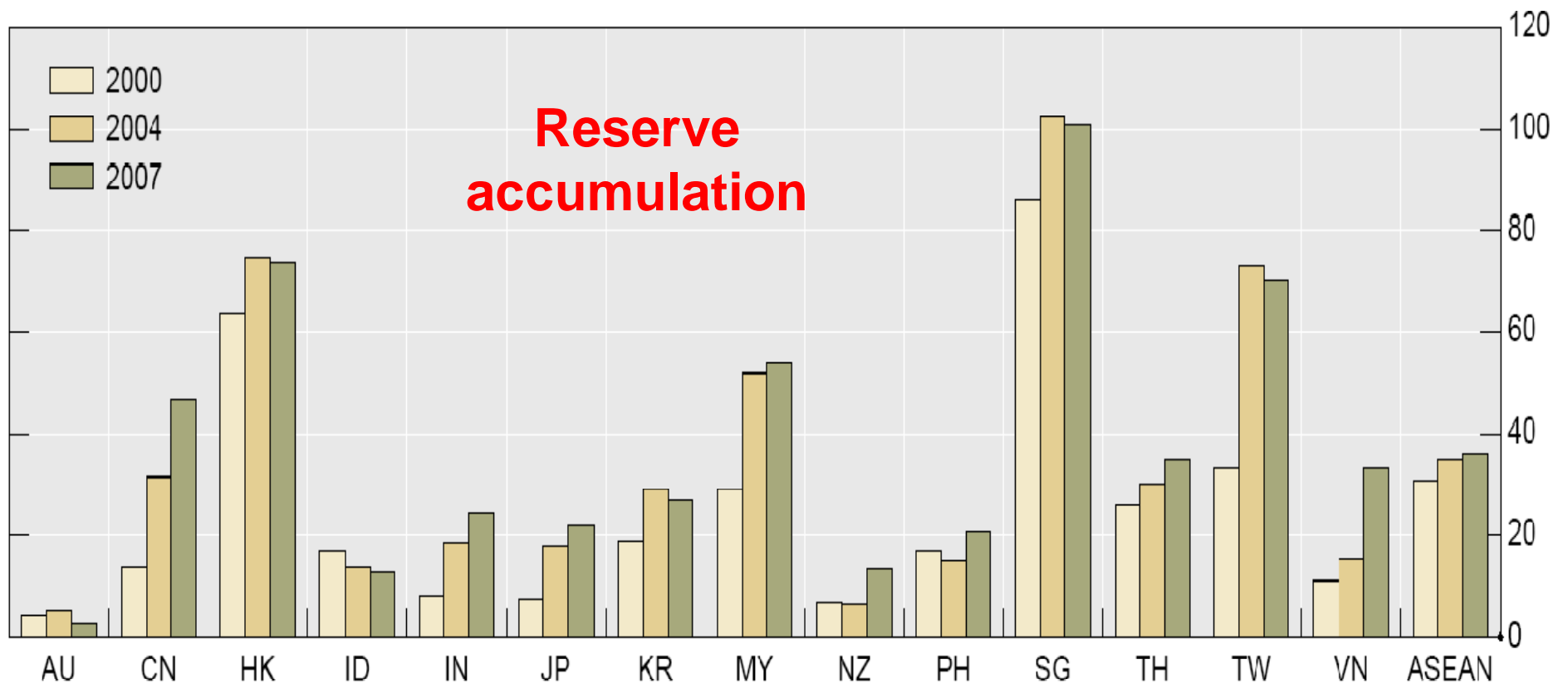
General government gross debt





Ample Foreign Reserves

As a percentage of GDP

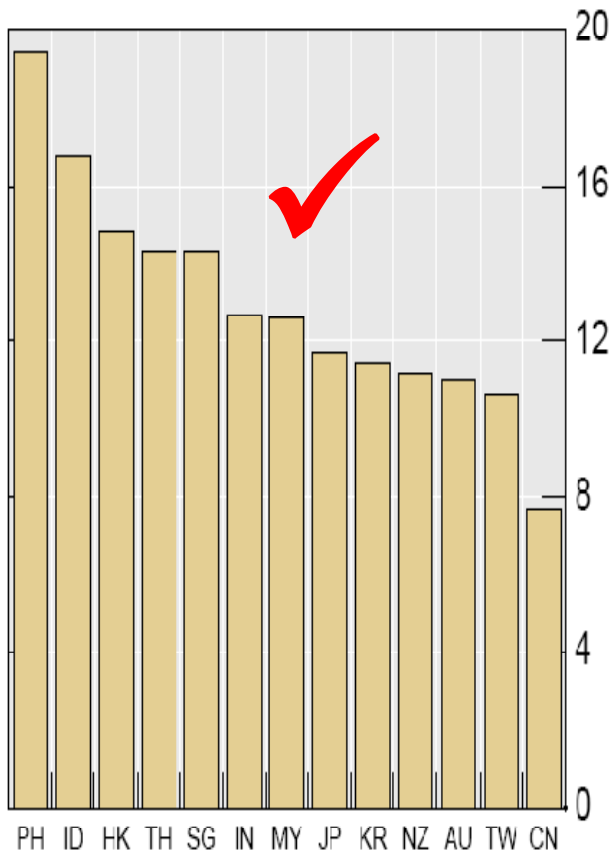




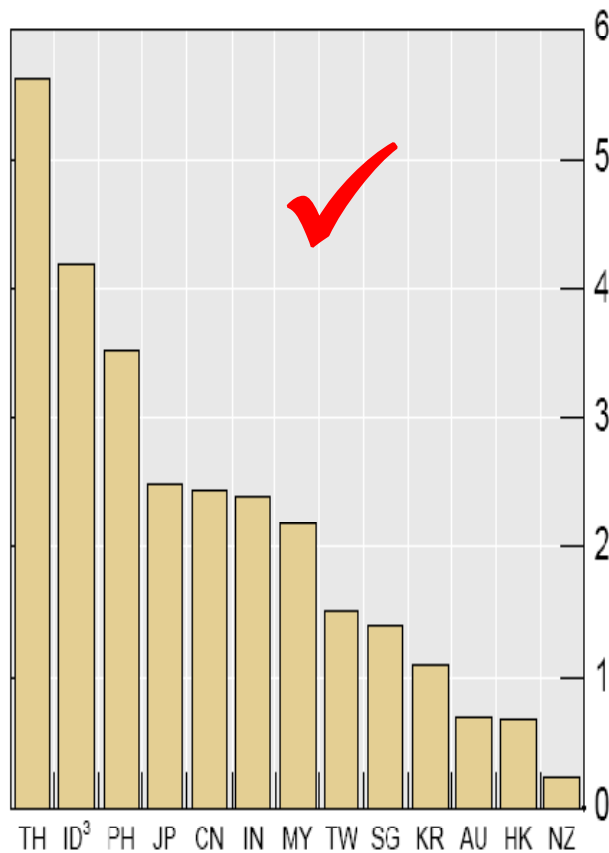
Healthy Financial Systems

Asian banks¹

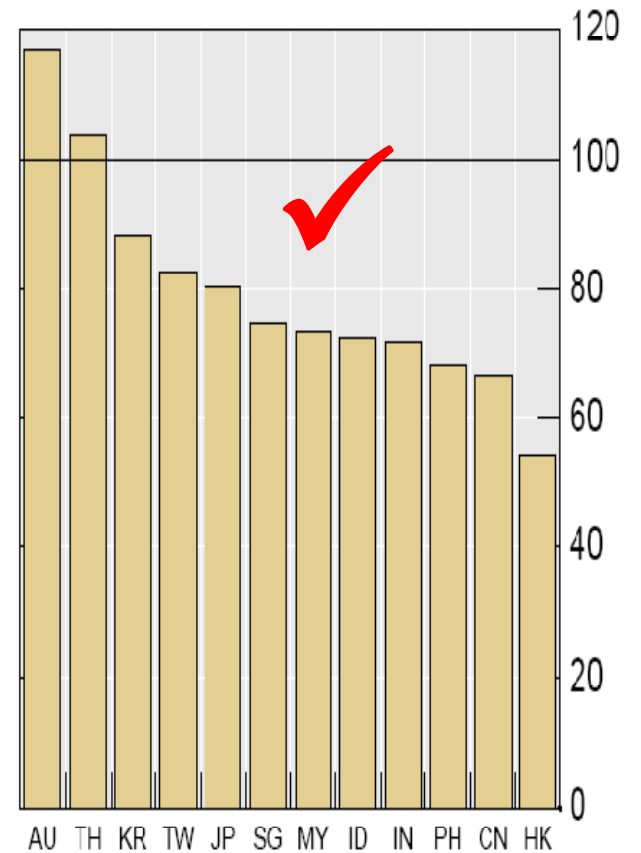
Capital adequacy ratios²



Non-performing loan ratios³



Loan to deposit ratios





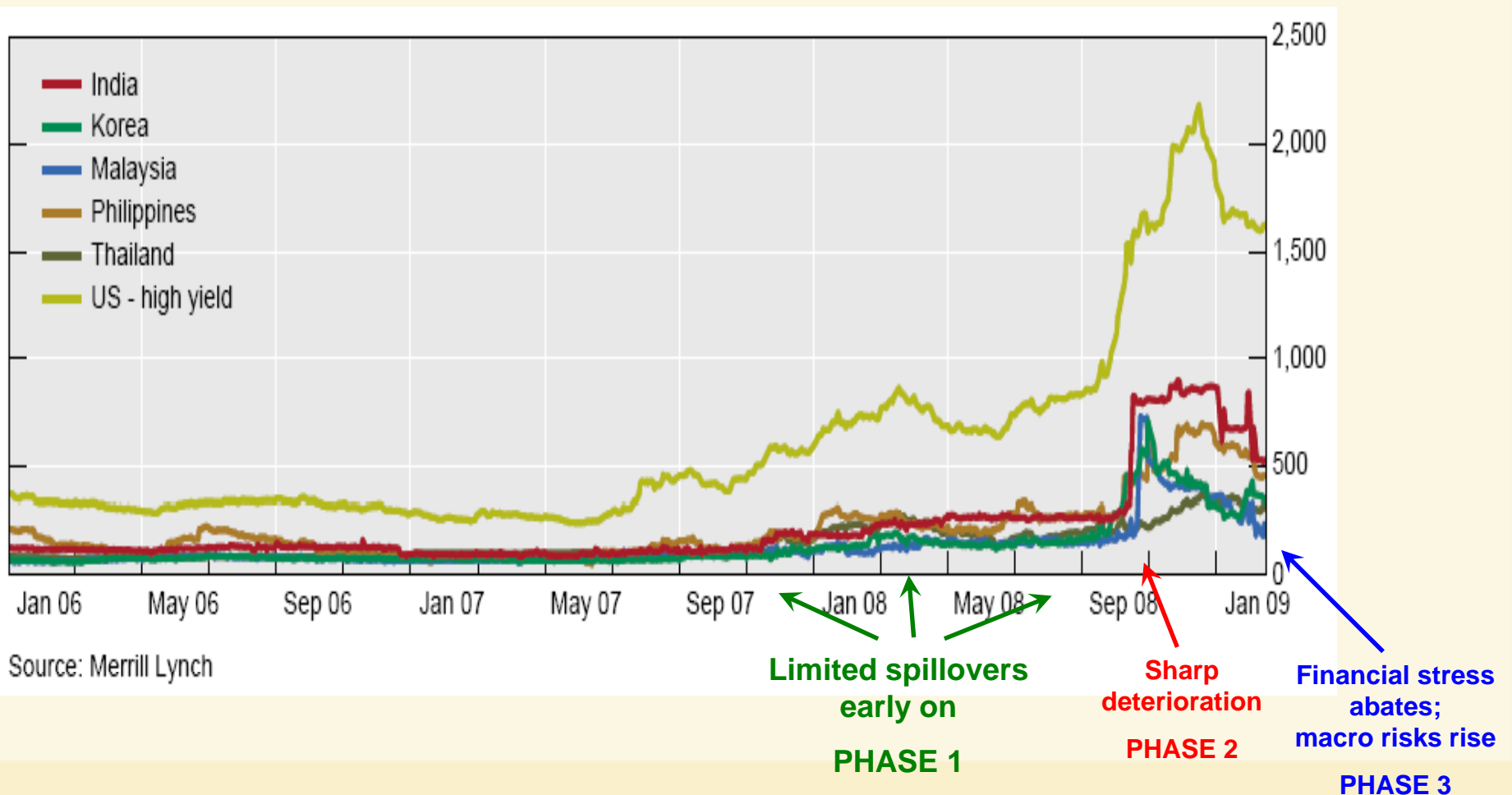
Timeline of the International Financial Crisis on Asia

- 1. Phase 1 – initial financial turmoil in the West**
- 2. Phase 2 – sharp intensification of financial conditions**
- 3. Phase 3 – regional macroeconomic fallout**
- 4. Phase 4 – stabilisation and recovery**



Spillovers to the Region

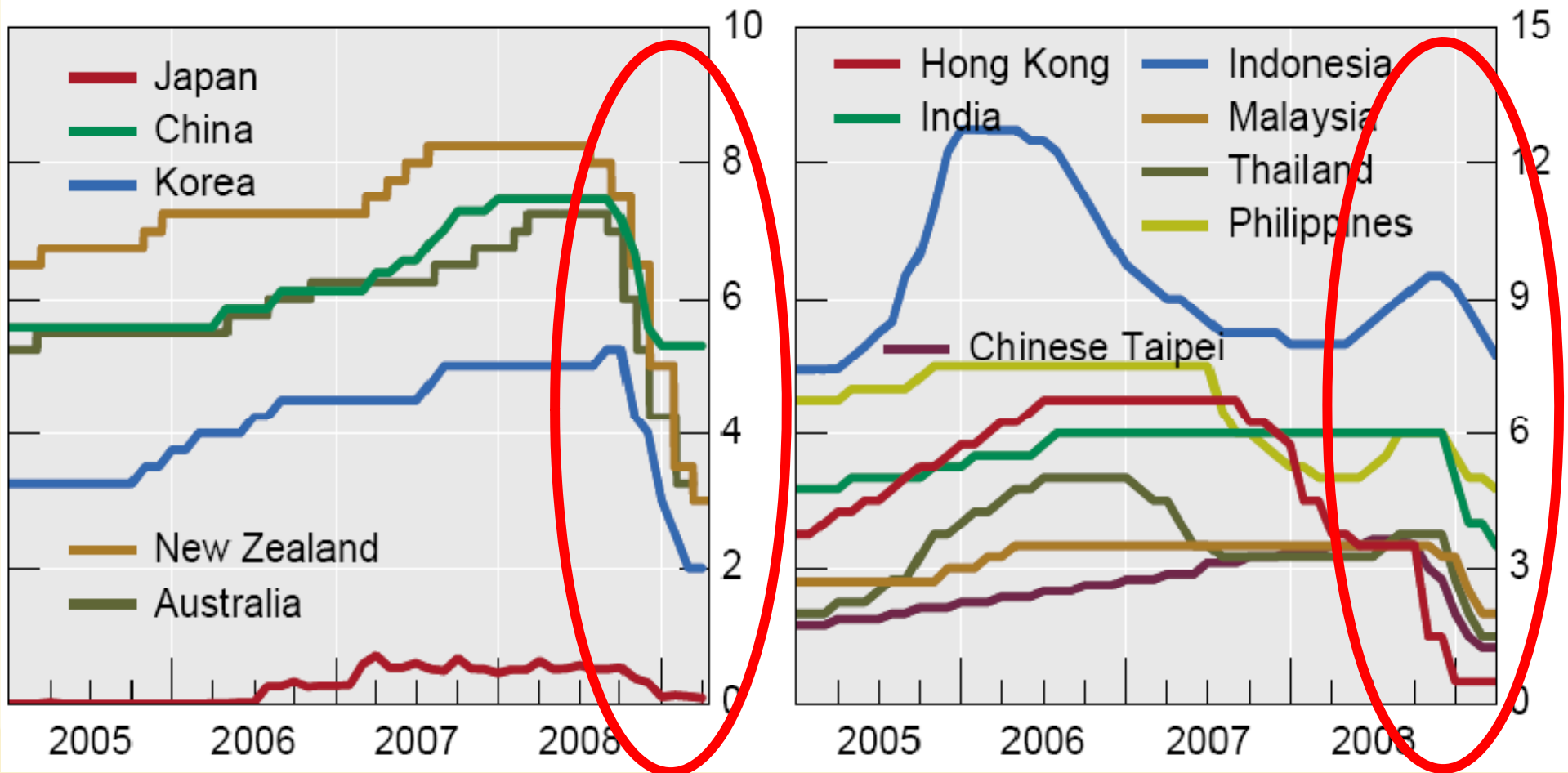
Sovereign bond spreads (over US Treasuries)





Macroeconomic-Financial Policy Responses

Monetary policy actions

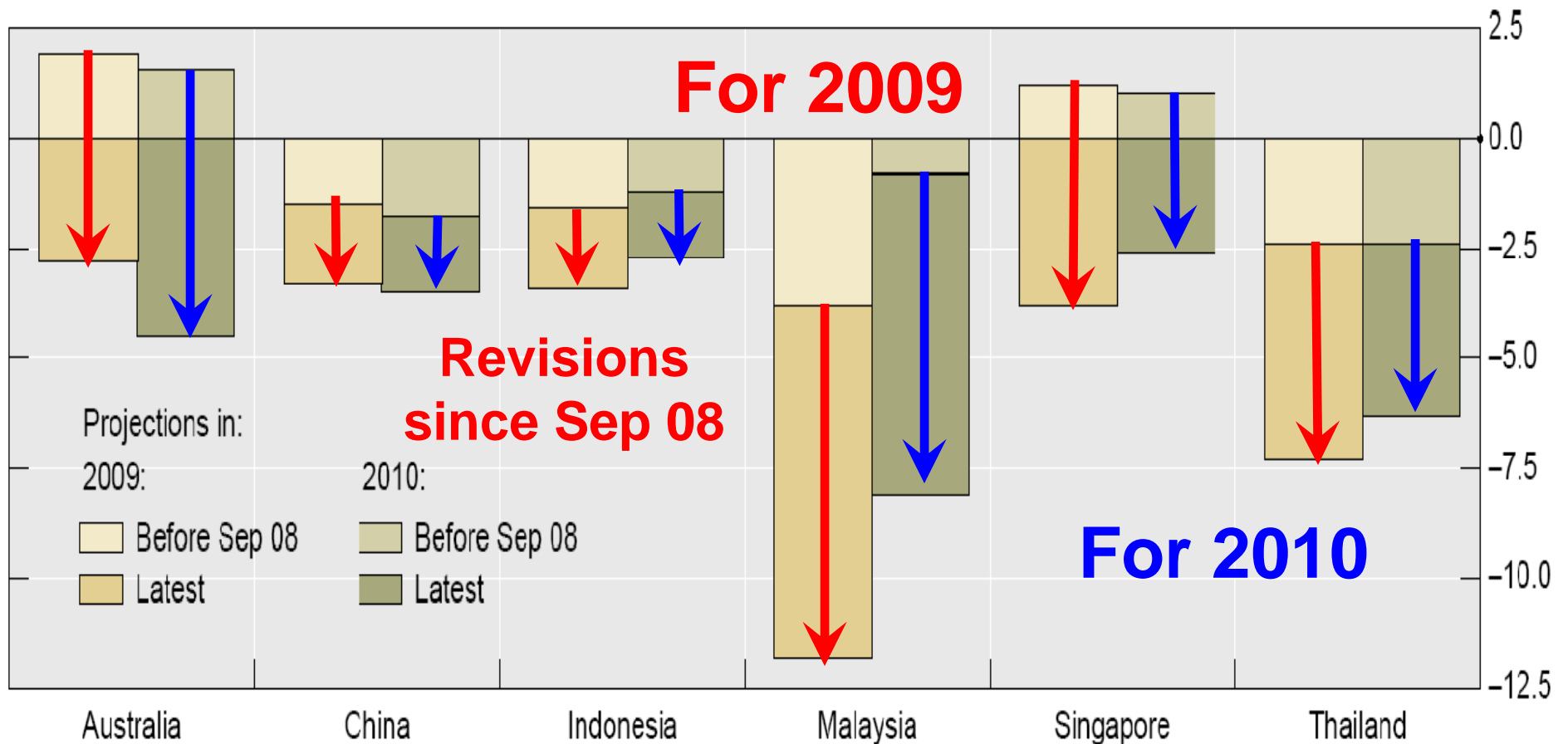




Macroeconomic-Financial Policy Responses

Fiscal policy actions

Fiscal balance, budget as a percentage of GDP





Macroeconomic-Financial Policy Responses **Strengthening Financial Systems**

- ✓ **Deposit insurance**
- ✓ **Capital injections**
- ✓ **Purchase of assets and guarantees**
- ✓ **Special trade credit support**
- ✓ **FSB, Basel Committee commitments**
- ✓ **...**



Lessons For Global Rebalancing

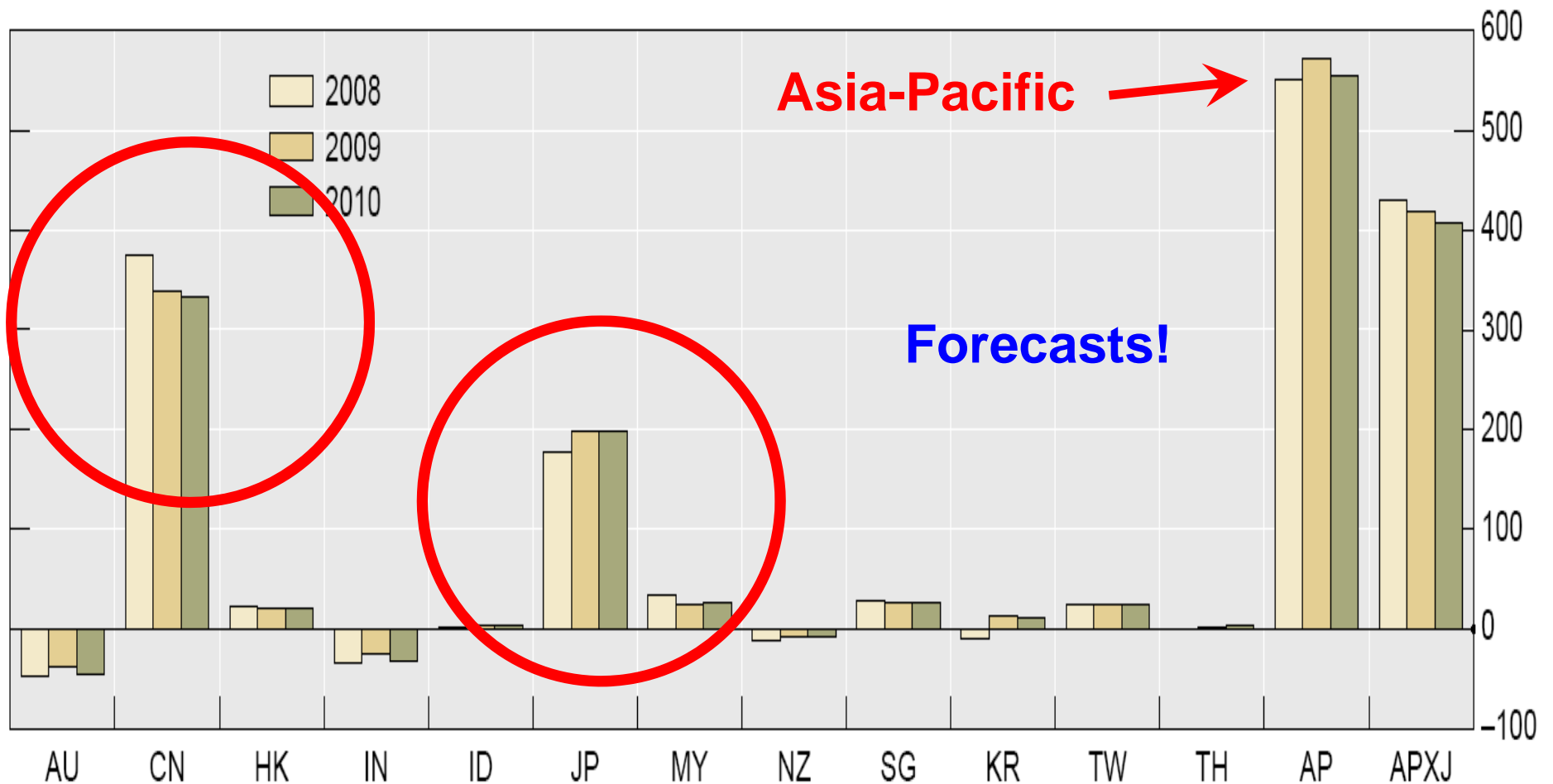
Narrow lessons

- 1. Global imbalances have proven to be very resilient**



Global Imbalances Largely Intact!

Current account balance (in billions of US dollars)

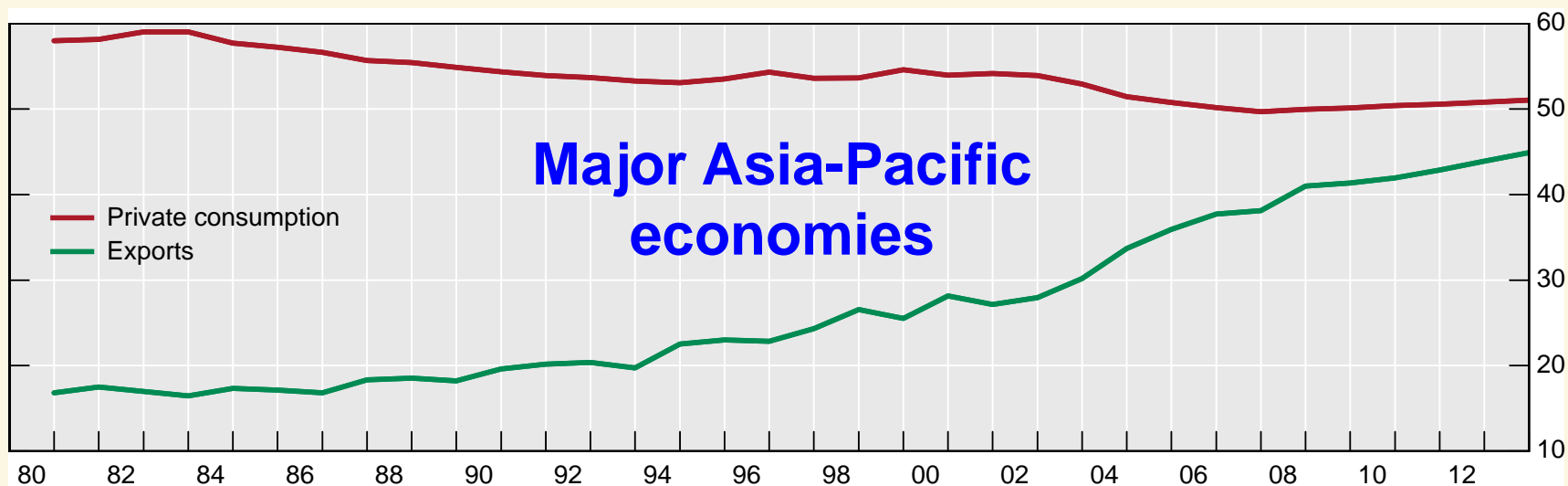




Lessons For Global Rebalancing

Narrow lessons

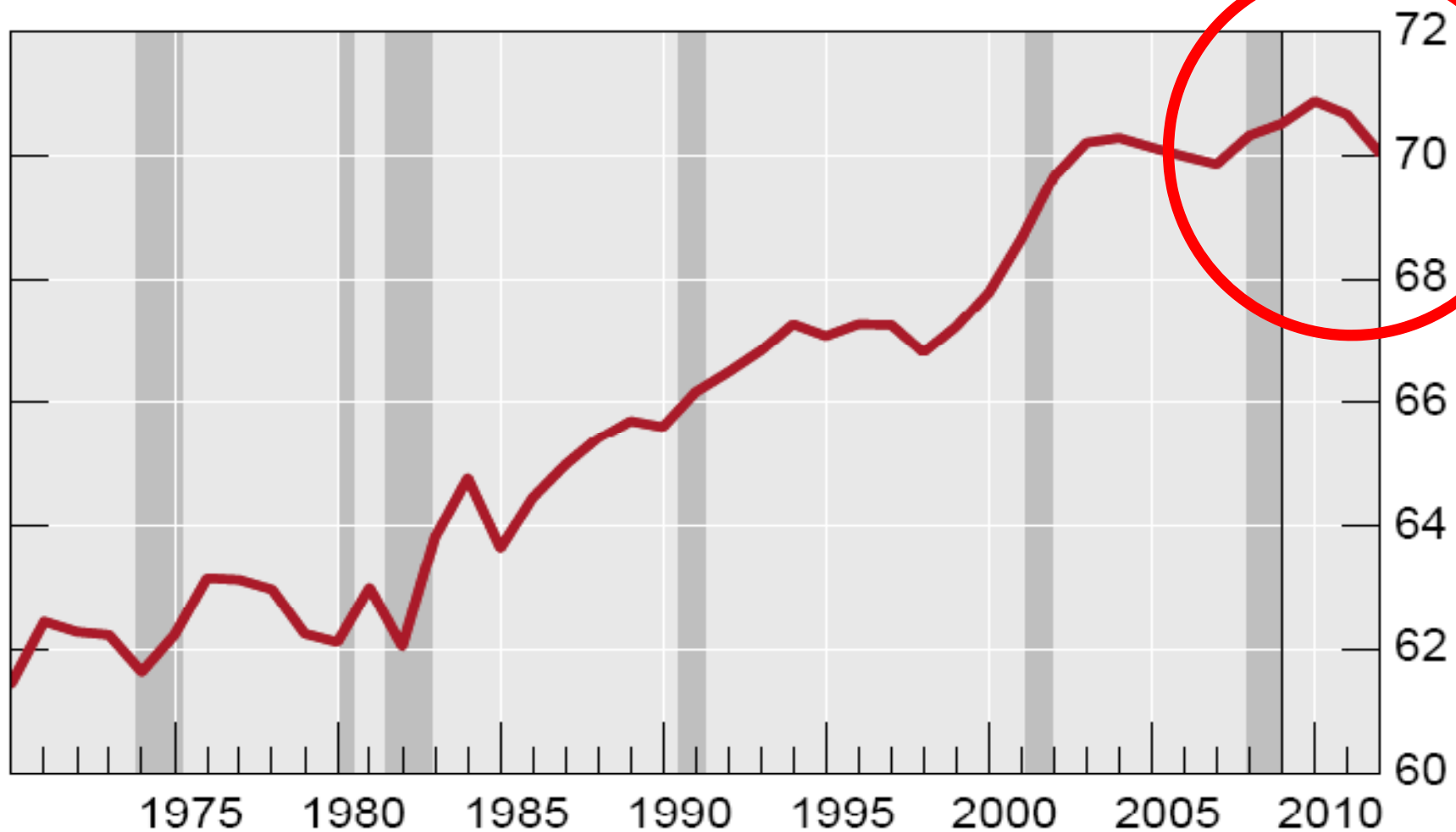
- ✓ Global imbalances have proven to be very resilient
- ✓ **Consumption trends appear to be a root cause**





US Consumption Trends Continue

Personal consumption/GDP





Lessons For Global Rebalancing

Narrow lessons

1. Global imbalances have proven to be very resilient
2. **Consumption trends appear to be at the root cause**
 - ✓ Neoclassical considerations may be misleading
 - ✓ Behaviour more consistent with “consumption norms”



Lessons For Global Rebalancing

Narrow lessons

1. Global imbalances have proven to be very resilient
2. Consumption trends appear to be at the root cause
3. **Some implications for global imbalances**
 - ✓ **Smaller likelihood of disorderly unwinding now**
 - ✓ **Mixed views on impact of policy responses on GI**



Lessons For Global Rebalancing

Broad lessons

1. What is the general prescription?

- ✓ Unchanged – surplus economies consumer more and deficit countries save more

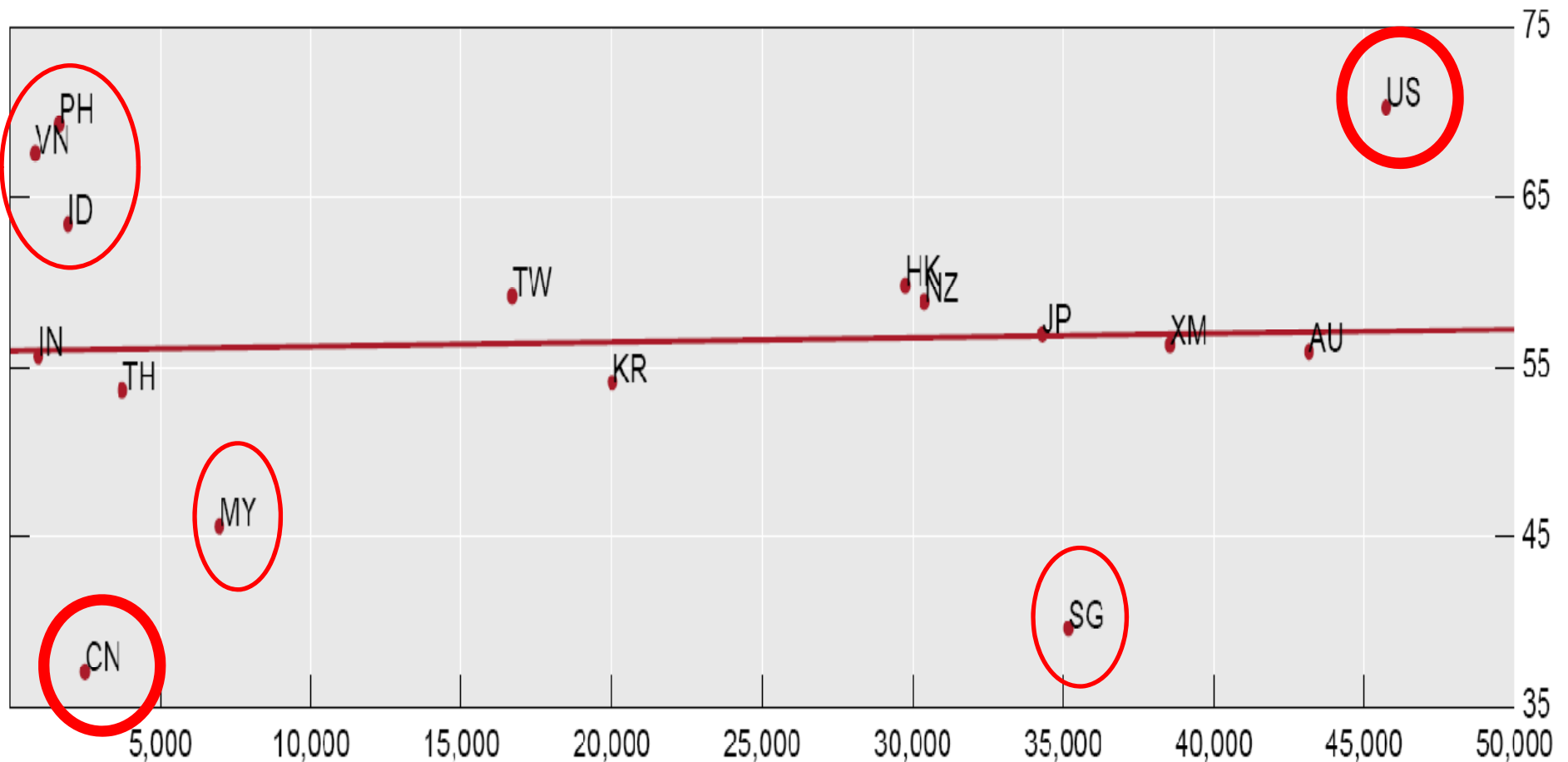
2. Who should take the lead – a consumption crowding out view?

- ✓ Less clear in the short run!
- ✓ Who is mainly involved under the CC view?



Consumption Crowding Out?

Private consumption¹ and nominal GDP per capita², 2007





Trade-offs Going Forward

1. Short term

- ✓ West: not time to save, maybe in the future
- ✓ East: go with past success, especially as West recovers

2. Medium term

- ✓ Risk of disorderly unwinding
- ✓ Implement sound medium term frameworks asap

Aligned medium term interests but short-term issues



Tentative Conclusions

- 1. Lots of open questions about rebalancing**
- 2. What is the level of international cooperation needed?**
 - ✓ Common diagnosis?**
 - ✓ Common prescription?**
 - ✓ Coordinated country-specific actions?**
 - ✓ Coordinated international actions?**



Tentative Conclusions

- ✓ International financial system has been put to the test again. 10 years ago it was an Asian experience. This time Asia has been subjected to an **outside shock**.
- ✓ Will countries in the region take the steps (domestically, regionally and internationally) to **strengthen monetary policy, fiscal and financial system frameworks** to weather the current volatility and prevent crises in the future?
- ✓ Encouraging signs indeed – lessons need to be learnt and difficult reforms need to be adopted
- ✓ The hope – **sustainable growth with low, stable inflation, orderly rebalancing and a sound international financial system**



BANK FOR INTERNATIONAL SETTLEMENTS

Thank you