
Comments on

“What is the Impact of the Global Financial Crises
on the Banking System in Asia?”

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Basically agree with the paper's assessment regarding the impact of the global financial crisis on Asia

■ financial contagion limited

- capital flows not linked to domestic financial intermediation
- limited domestic imbalances due to different credit cycles
- underdeveloped money markets proved resilient to rising concern over counterparty risk
- ✓ limited market function in redistributing uneven reserve balances among market participants
- ✓ central bank plays the role of central counterparty

■ shocks through trade linkages very serious

- “decoupling” is no longer discussed
- export-oriented growth, industrial structure
- deterioration in the quality of banks' balance sheets is a concern
- but the impact on growth prospect is another issue
- ”Will credit slowdown lead to a negative feedback between the financial system and the real economy in Asia?”

How significant is the role of banks in financial

intermediation? What happened after the Asian crisis?

Many economies

- 1) experienced a V-shaped recovery while the recovery of the banking system took several years
- 2) enjoyed robust growth while private domestic credit declined as a ratio of GDP and only loans to households and SMEs increased

Size of Private Domestic Credit

		% of GDP	
		1997	2007
Korea	Stock market capitalisation	8	117
	Domestic debt securities	29	117
	Private domestic credit	63	109
Thailand	Stock market capitalisation	15	80
	Domestic debt securities	7	53
	Private domestic credit	166	84
Malaysia	Stock market capitalisation	92	174
	Domestic debt securities	56	83
	Private domestic credit	158	105
Indonesia	Stock market capitalisation	12	49
	Domestic debt securities	2	21
	Private domestic credit	61	25

(Source) Committee on Global Financial System (2009), "Credit flows and emerging market economies," *CGFS Publications* No.33.

How significant is the role of banks in financial intermediation? Equity, non-bank debt, internal market and FDI

Findings on capital structure of Thai firms by Mieno (2009)

- ✓ Share of capital account in the total liabilities of major firms is around 45%.
- ✓ But not necessarily funded in equity market. Only 20% of top 1,100 firms are listed. Most of the firms with foreign equity participation are not listed.
- ✓ Firms with higher foreign shares are apt to depend on internal market and self-financing, rather than on financial intermediation

Fumiharu Mieno, "Foreign Ownership, Listed Status and Financial System in East Asia: Evidence from Thailand and Malaysia", Discussion paper No.63, APEC Study Center, Columbia University forthcoming in 2009

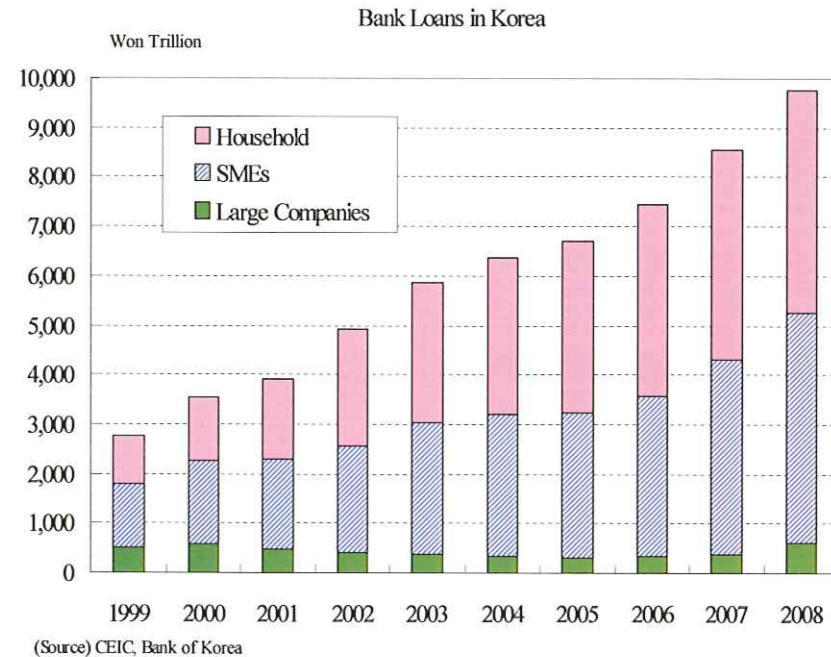
Possible Implications

- ✓ FDI-led industrialization process in the past might not have relied so much on local financial intermediaries.
- ✓ Deterioration in local banks' financial intermediary function may not have a serious impact on growth.
- ✓ There might be a spare tire other than financial intermediation through market.

Korean banking system: fierce competition has forced banks to take higher liquidity and credit risk

Background

- ✓ Government vs. Chaebol
 - large companies rely on own funds and capital markets
- ✓ only SMEs and households are left for banks
- ✓ concern over further consolidation increased volume competition
- ✓ historically under strong government influence on credit allocation



Decisive policy responses creating new credit bubbles ?

China

- ✓ sharp increase in bank lending

Fueling future NPLs?

Risk management capacity and governance structure strengthened?

Lending piled up in deposits?

- ✓ recovery in real estate prices

Real recovery

or

investment demand against the background of monetary easing and deregulation?

Korea

- ✓ political pressure to support SMEs

Distinction between SMEs and households is blurred

Fierce volume competition with weak risk management capacity

remember credit card problems?

- ✓ concern over excess liquidity

Thank you for your attention.

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