



Asia's Financial Future and Interconnectness

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Agenda

I. Stocktaking

II. Challenges Ahead

III. Role of Finance



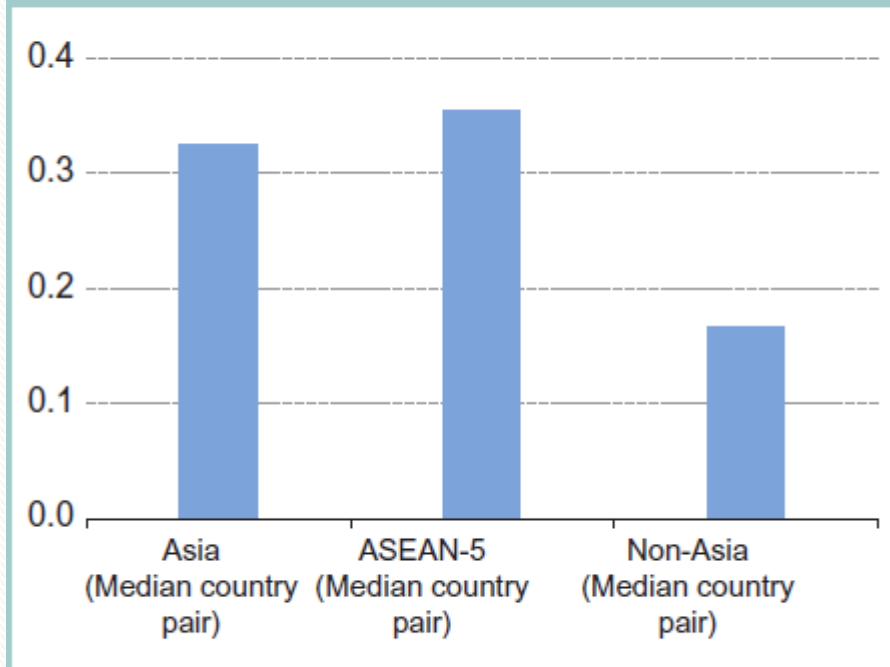
I. Stocktaking:



Trade Integration and Synchronization of Business Cycles in Asia

Estimated Impact of 1 Percent Growth Surprise in China on Partner Country Growth¹

(Median GDP growth impact after one year, in percentage points)



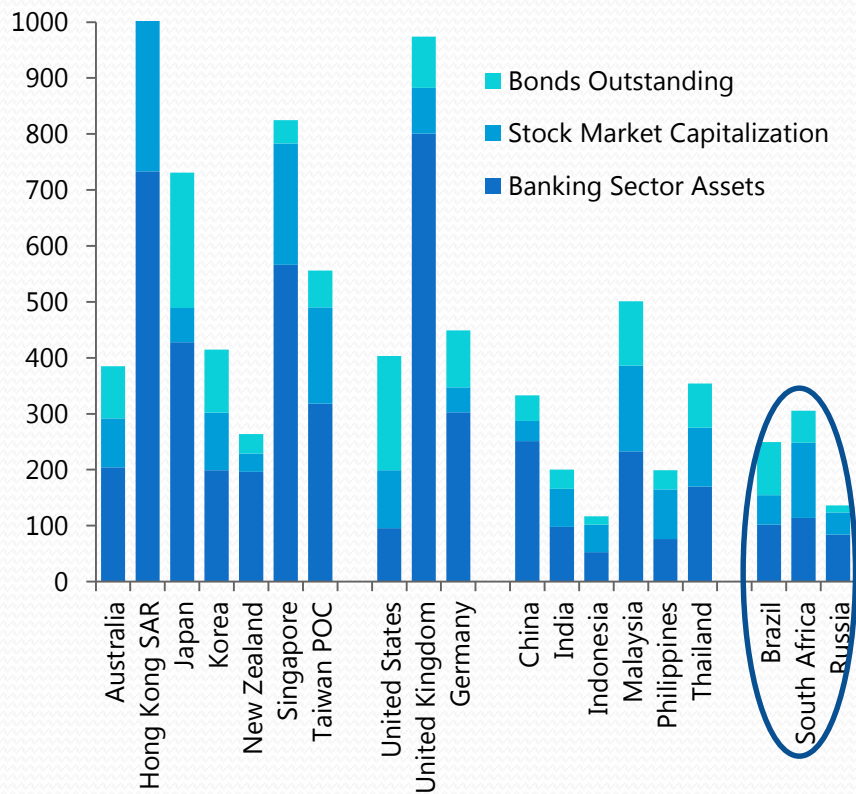
Source: IMF staff estimates.

¹ Estimates based on column (3) of Table 5 in Duval and others (2014).

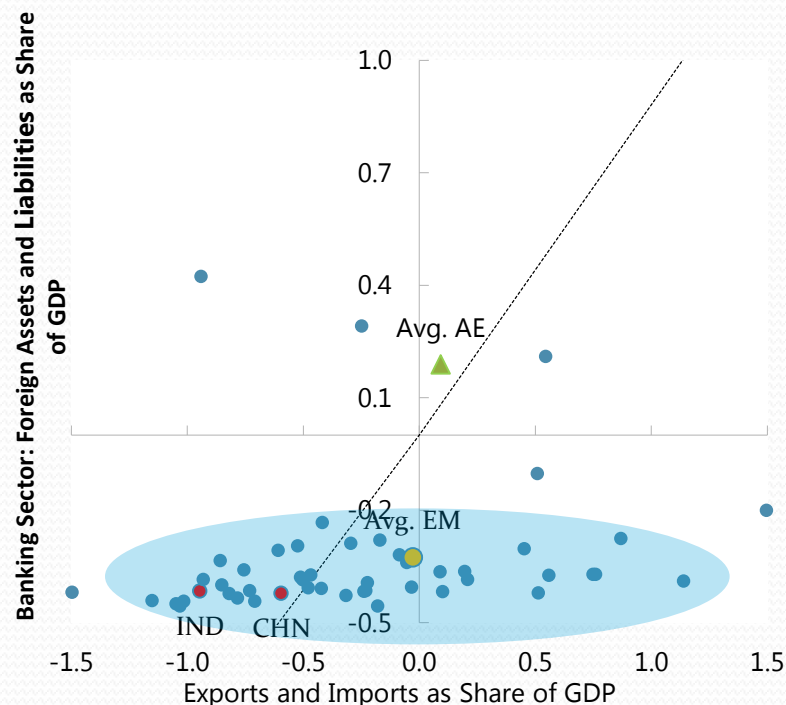


Main Features of Asia's Finance: Large Size, but Mostly Domestic

Large financial sectors.but integration lags trade.



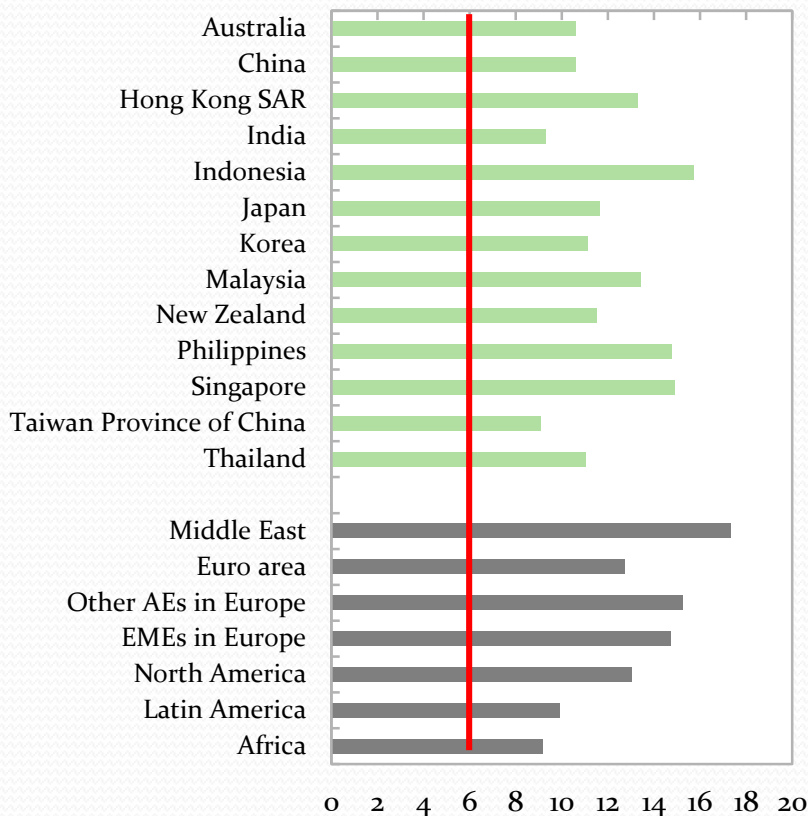
Z-Scores: Trade Openness versus Financial Integration (Avg. 2009-11)





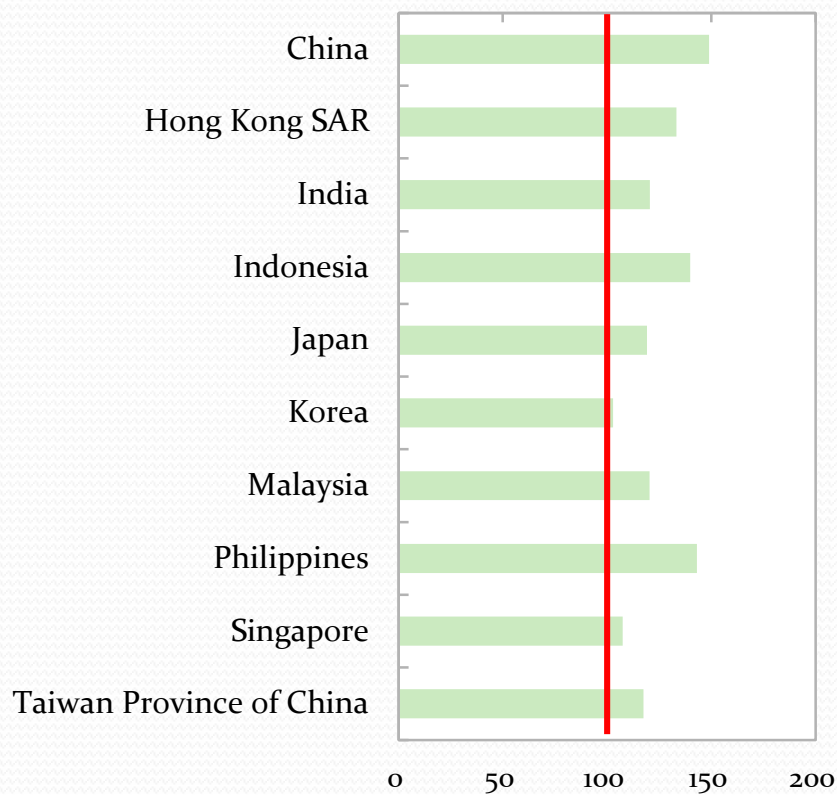
Main Features of Asia's Finance: Banks have Strong Capital and are Quite Liquid

Tier 1 Capital Adequacy Ratio
(In percent of risk-weighted assets)



Sources: IMF Financial Soundness Indicators; Authorities' websites; and IMF staff calculation.

Weighted Average Net Stable Funding Ratio
(In percent)



Sources: Bankscope; and IMF staff calculation.

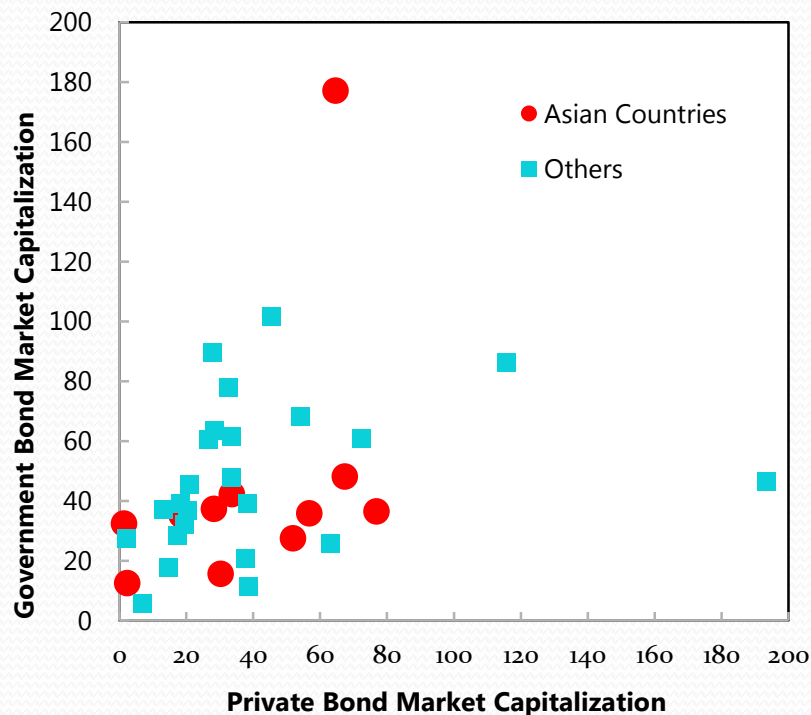
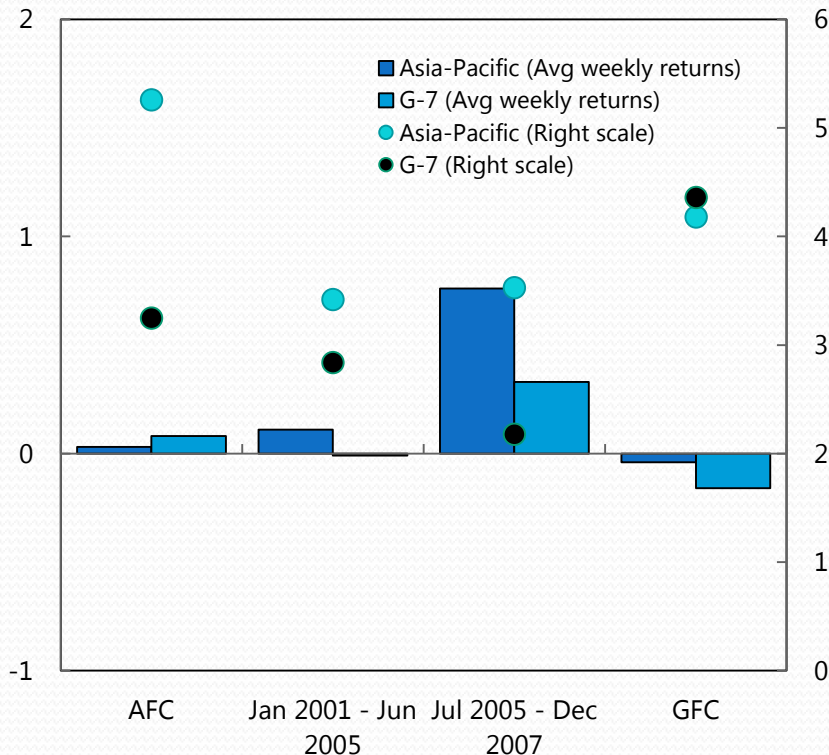




Main Features of Asia's Finance: High and Volatile Equity, Good Corporate Bonds

Equity returns are higher and more volatile and...

...bond markets less dependent on government.

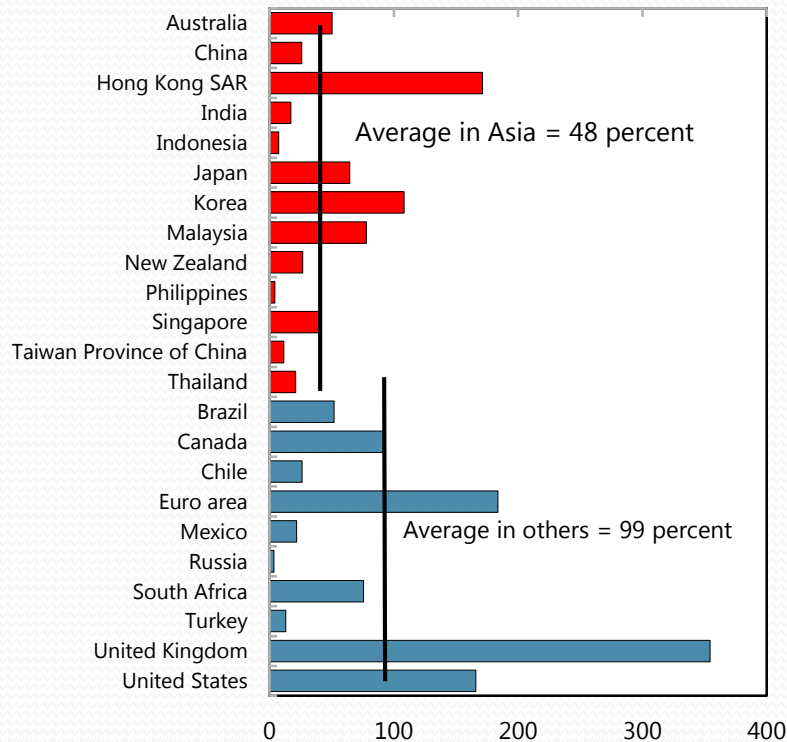


Sources: BIS; and IMF staff calculations.



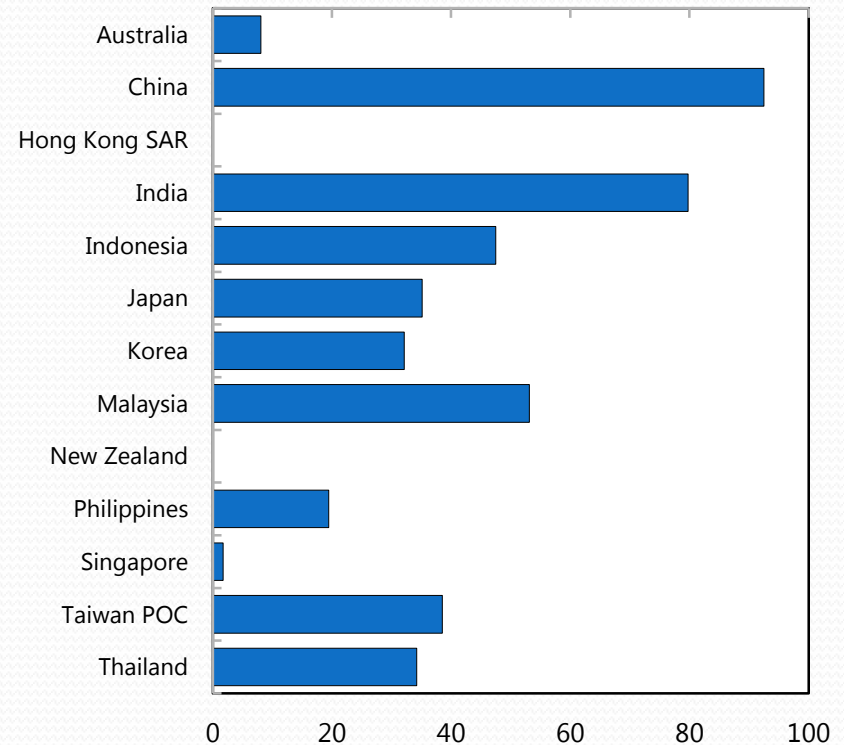
Main Features of Asia's Finance: Still Bank-Centric with Large Government Involvement

Size of Shadow Banking (In percent of GDP)



Sources: Bank for International Settlements; and IMF staff estimates.

Government Ownership of Banking Sector (In percent of total assets)



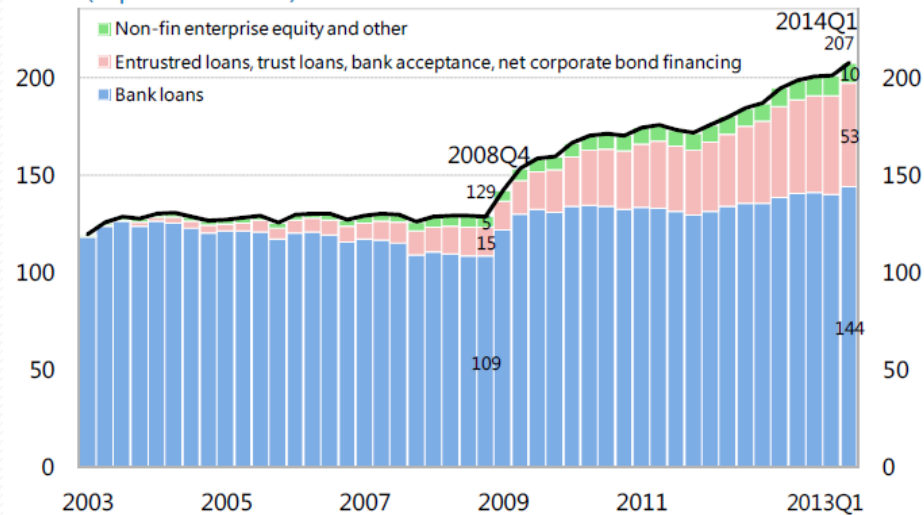
Sources: Bankscope; and IMF staff calculation.



China: Rapidly Growing Non-Bank Sector

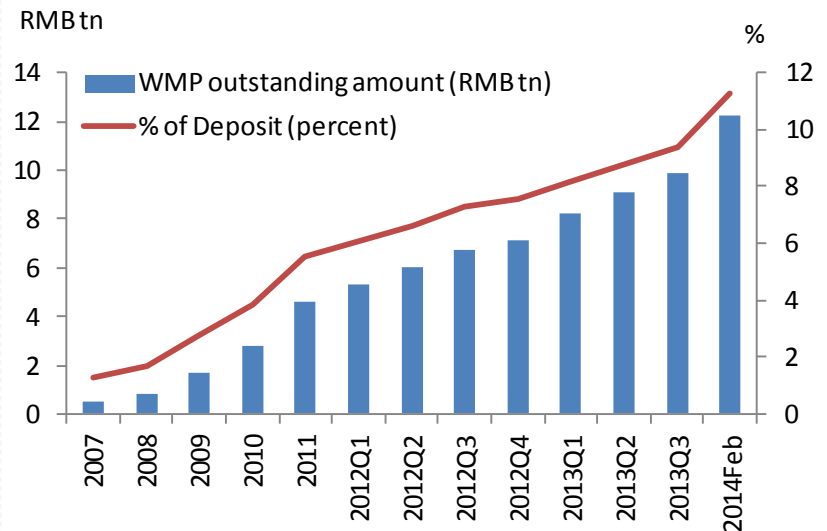
China: Social Financing Stock

(In percent of GDP¹)



Sources: CEIC; and IMF staff calculations.
¹In percent of 4Q rolling sum of quarterly GDP.

WMP outstanding amount and share of deposit



Source: CBRC, CEIC, local media, IMF staff calculations

China: Growth in Internet Banking

Internet Banking

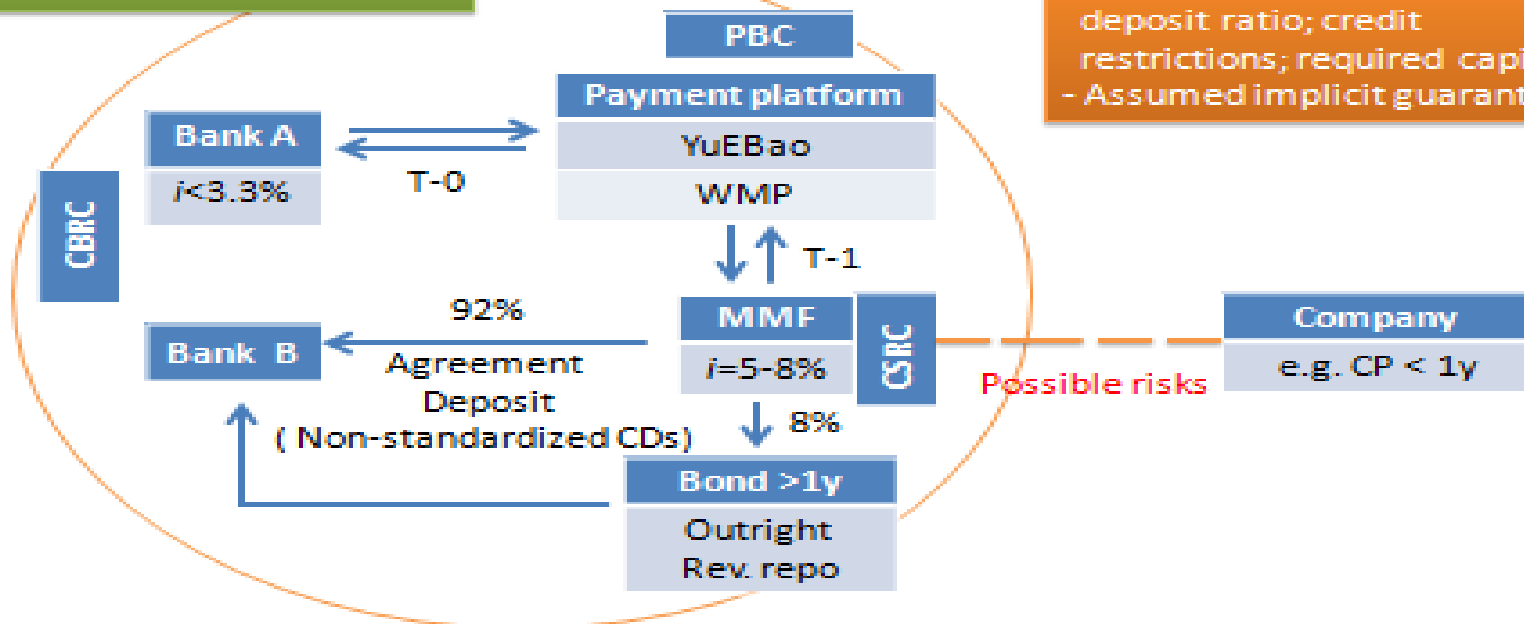
MMMFs: since June 2013, RMB 600 billion; >85 million customers

Pros

- Diversification
- Low transaction cost
- No minimum investment

Cons

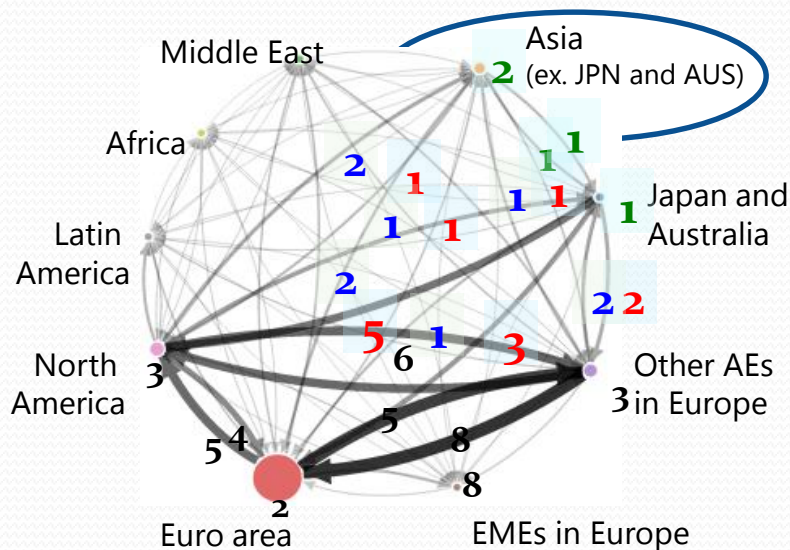
- Interest rate arbitrage
- Regulatory arbitrage (reserve requirements; loan-to-deposit ratio; credit restrictions; required capital)
- Assumed implicit guarantee





Main Features of Asia's Finance: Less Interconnected and Less Complex

Global Financial Interconnectedness^{1/ 2/, 3/}
 (In percent of global portfolio flows and banking claims at end-2012)

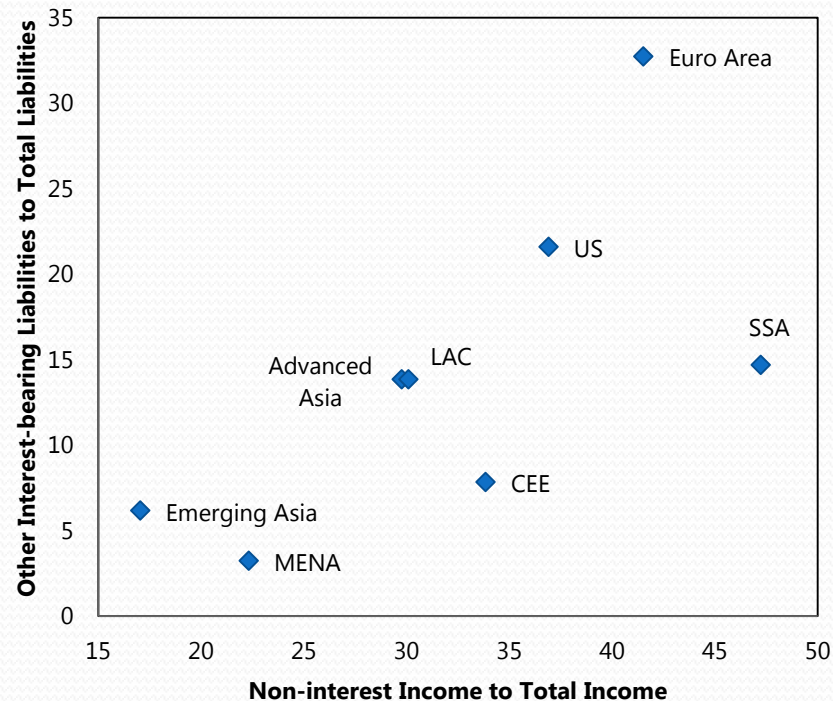


Note: 1/ The size of circles, width of arrows, and numbers represent the relative size of financial interconnectedness in percent of global portfolio flows and banking claims at end-2012.

2/ The size (number) of circles shows intra-regional interconnectedness, while the width (number) of arrows denotes inter-regional interconnectedness.

3/ Numbers in red, blue, and green color are financial flows from, to, and within Asia, respectively.

Sources: Coordinated Portfolio Investment Survey; BIS Locational Banking Statistics; FNA; and IMF staff calculation.



Source: The World Bank, Global Financial Development Database; Bankscope; and IMF, FSI. Weighted averages are taken for countries in each world region.
 CEE = Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Latvia, Lithuania, FYR Macedonia, Poland, Romania, and Turkey.
 LAC = Argentina, Brazil, Colombia, Costa Rica, Mexico, Paraguay, and Peru.
 Euro Area is lack of Luxembourg.
 MENA = Pakistan.
 SSA = Sub Sahara Africa.
 Advanced Asia = Australia, Hong Kong SAR, Japan, Korea, and Singapore.
 Emerging Asia = China, India, Indonesia, Malaysia, Philippines, and Thailand.



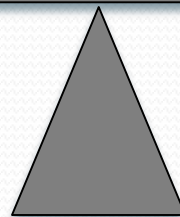
Main Features of Asia's Finance: Overall Scorecard

✓ Strengths

Strong and well capitalized banks
High compliance with international standards
Macprudential supervision
Robust crisis management and resolution

✗ Areas for improvement

Heavy government involvement
Independence and resources of regulatory agencies
Connected lending
Inter-agency and cross-border coordination
Shadow banks
Data collection and reporting



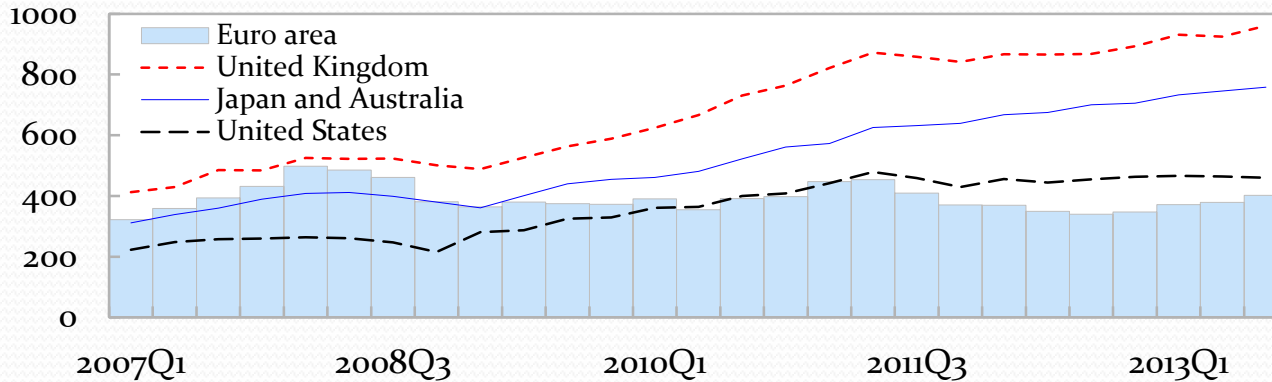


II. Challenges Ahead



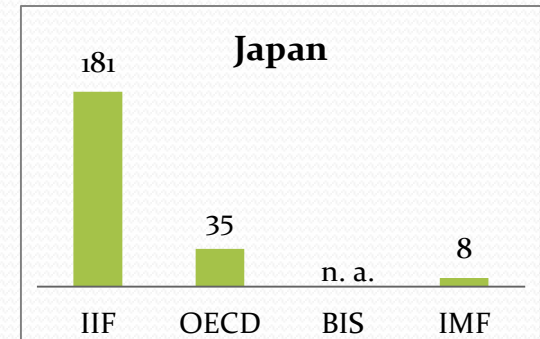
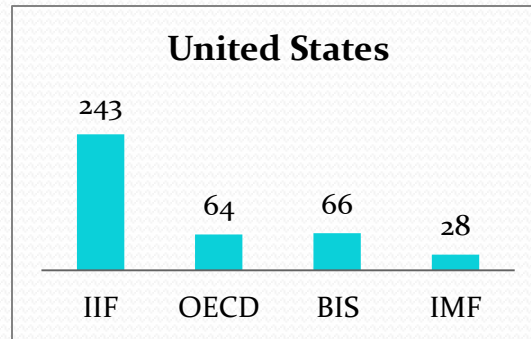
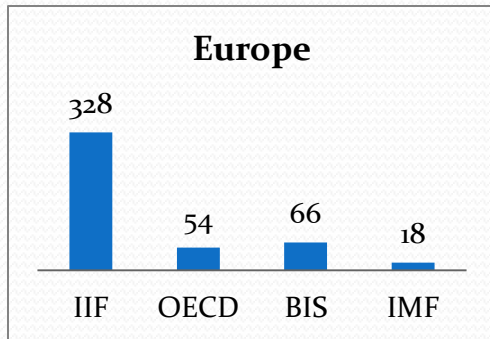
Challenges Ahead: Impacts of Global Regulation

Foreign Claims to Asian Countries (excluding Japan and Australia)
(In billions of US dollars)



Note: Asian countries include Asian offshore (Hong Kong SAR and Singapore).
Sources: BIS Consolidated banking statistics on ultimate risk basis; and IMF staff calculation.

Projected Impacts on Lending Rates by Various Studies
(In basis points)



Sources: The Institute of International Finance; Organization for Economic Co-operation and Development; Bank for International Settlements; and IMF staff calculation.

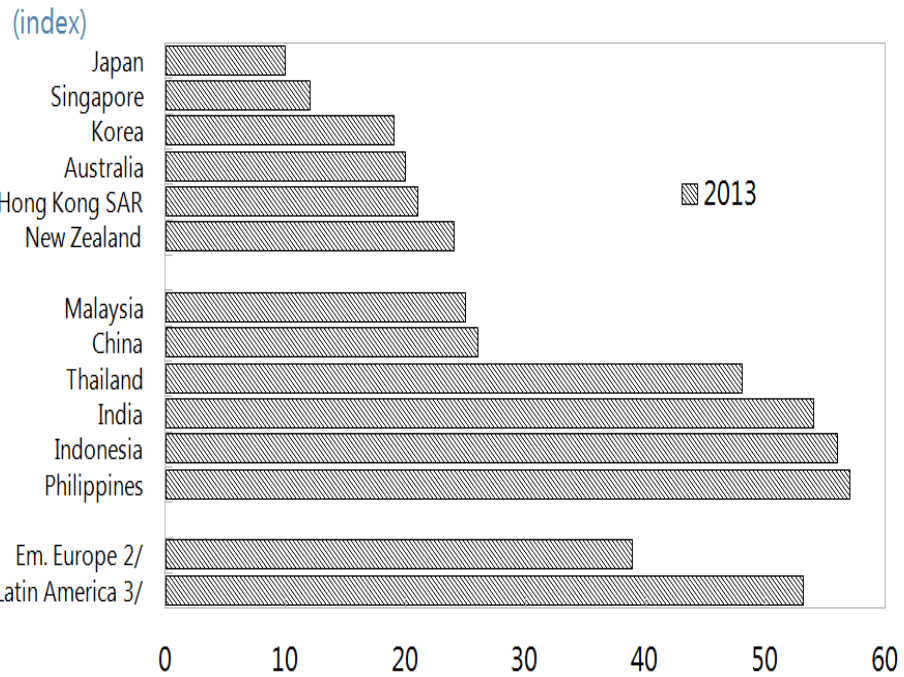




Challenges Ahead: Investment Needs and Aging

Efficient channeling of capital flows could help address challenges — infrastructure needs and demographic changes—facing Asia

Sizeable Infrastructure Needs in Emerging Asia ^{1/}



Source: IMD, *World Competitiveness Online*.

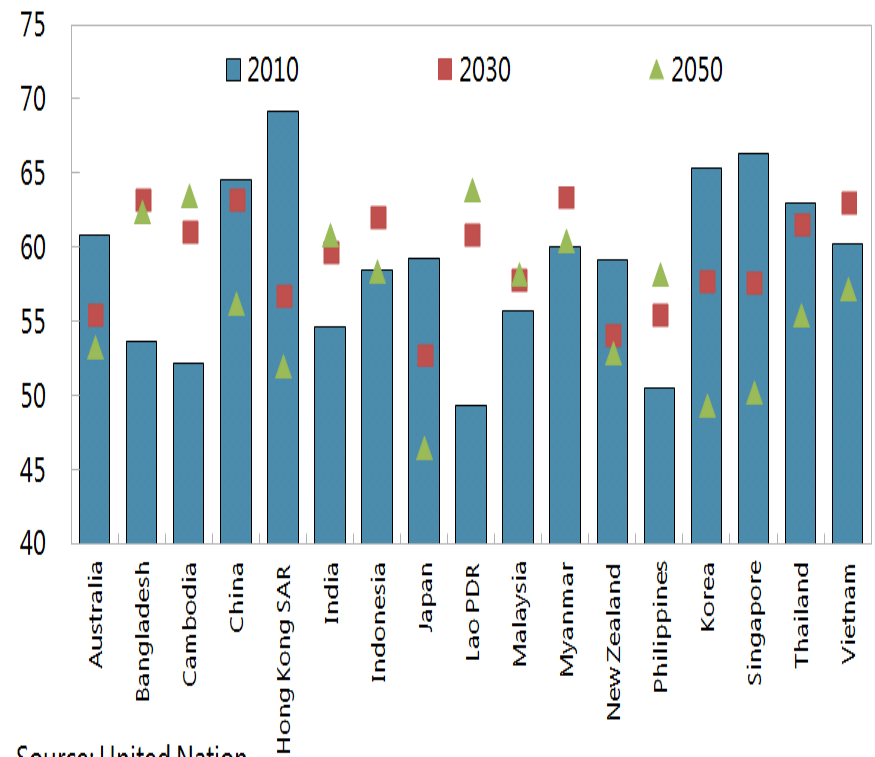
1/ A lower ranking indicates a better score out of sample countries (58 economies in 2010 and 60 in 2013, consisting of advanced and emerging economies in Europe, Asia, and Latin America.

2/ Emerging Europe: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovak Republic, Slovenia, Turkey, Ukraine.

3/ Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.

Demographic Change in Asia

(Working age population (aged 20-64) in percent)



Source: United Nation.

1/ Ranked by working age population ratios in 2010.



III. Role of Finance



Role of Finance: Serving Real Sector during the Transformation

Asia is transforming from a manufacturing hub to a group of vibrant, diverse and large markets with a rising middle-class population. The financial sector in the region needs to serve Asia's transformation to a new growth model.

More diversified financial system with a broader investor base.

- Wider range of investment instruments are needed.
- Diversified need for retirement planning and wealth planning

Encouraging private sector participation.

- SMEs need access to finance
- Consumers need access to mortgages and credit cards.

Enhancing market liquidity.

- To enhance resilience to financial market turbulence.



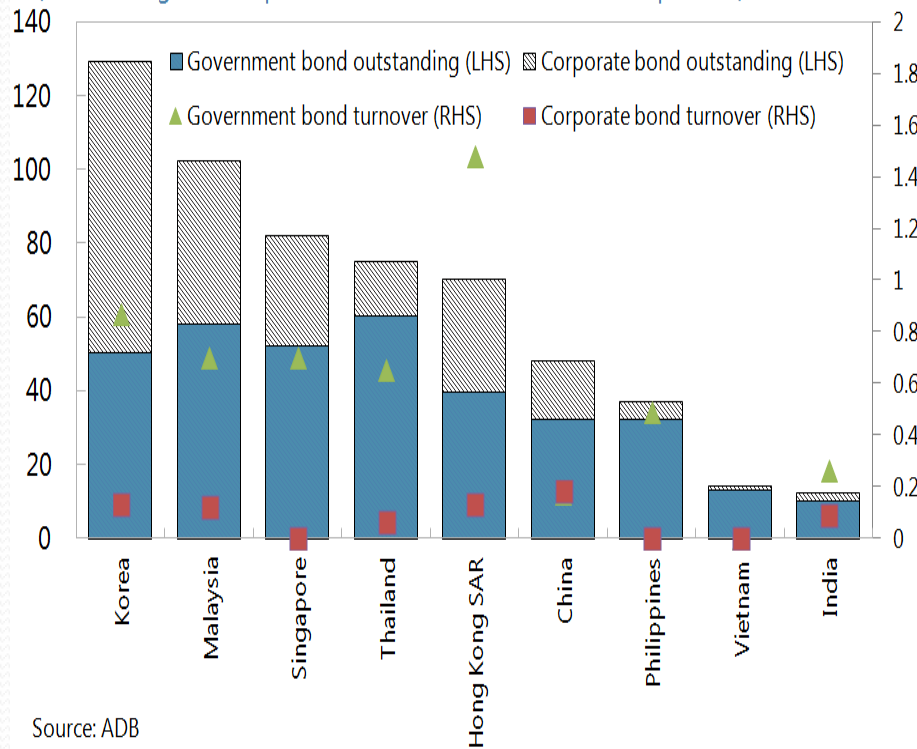
Role of Finance: Better Financial Intermediation and Inclusion

Develop corporate bond market for better access to finance for firms

Enhance financial inclusion for households through better access to financial products

Bond Markets in Selected Asian Economies

(outstanding stock in percent of GDP and turnover ratio in percent)^{1/}

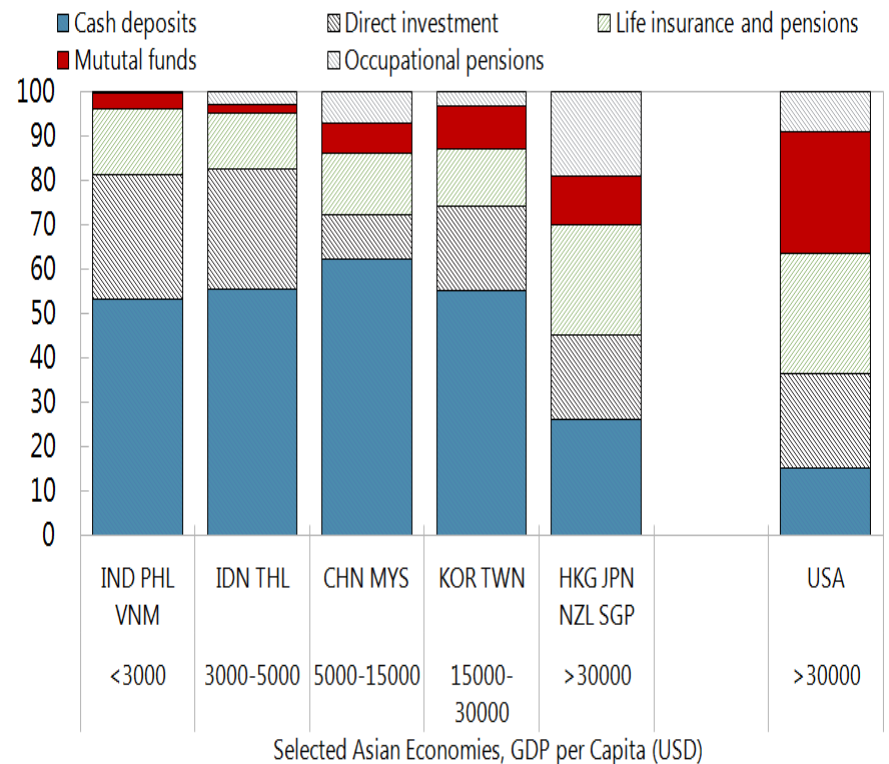


Source: ADB

^{1/} Turnover ratio is the outstanding stock of bonds divided by its turnover volume.

Limited Financial Inclusion among Emerging Asian Households

(in percent of asset allocation)



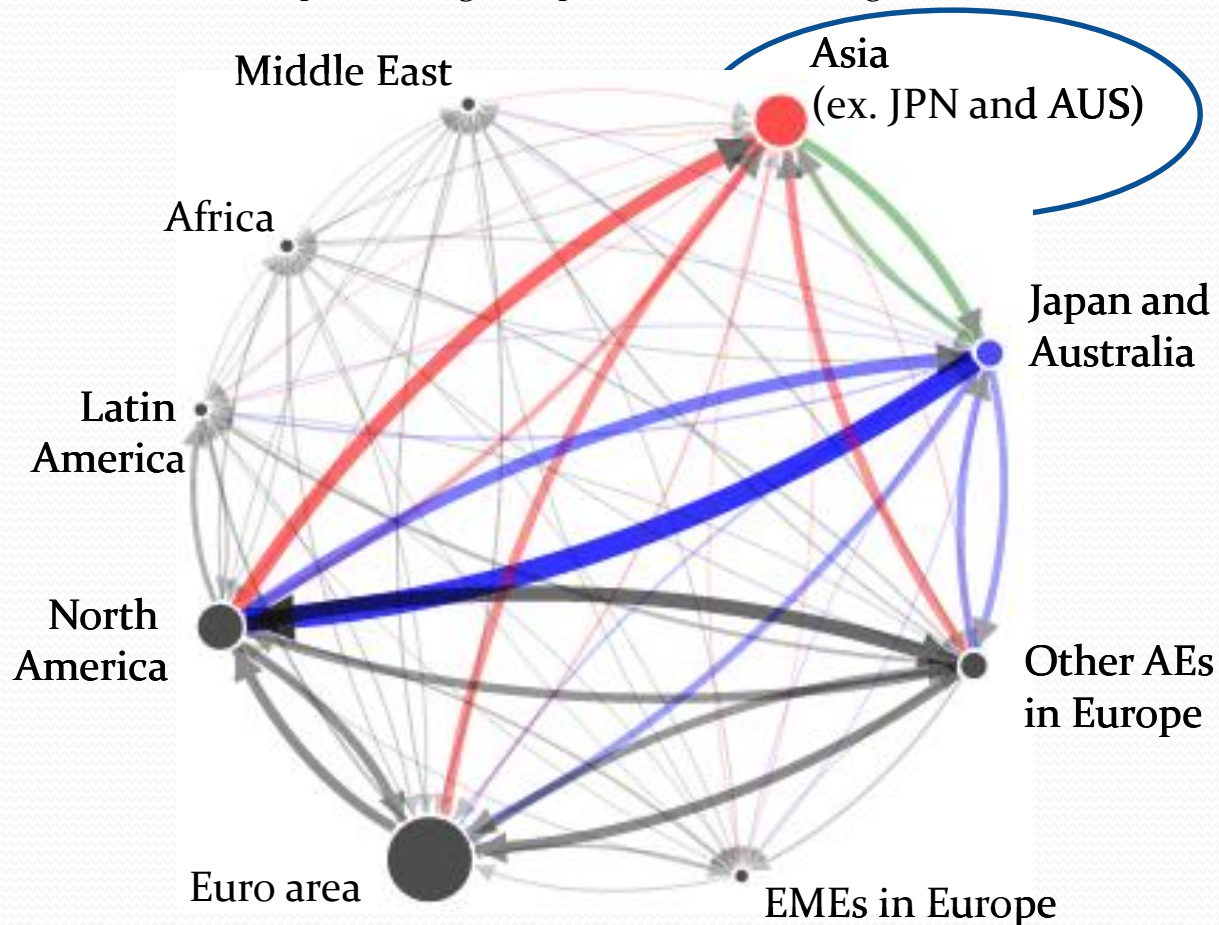
Selected Asian Economies, GDP per Capita (USD)

Sources: OECD, Oliver Wyman, and staff estimates.

Role of Finance: More Global Integration

Projection of global financial interconnectedness

(In percent of global portfolio and banking flows)



Note: Asia includes Asian offshore (Hong Kong SAR and Singapore).

Sources: Coordinated Portfolio Investment Survey; BIS Locational banking statistics; Financial Network Analytics; and IMF staff calculation.



Thank you!

Based on an ongoing IMF project on the Future of Asia's
Financial System—book to be published in 2015