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Building Strong Banks and Bonds Markets in the ASEAN+3 Countries

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Global crisis of 2007-2008 and ASEAN+3 economies

- The US sub-prime mortgage crisis that has caused global economic recession has steeply contracted both exports and imports of the export-oriented ASEAN+3 economies and slowed down their economic growth;
- Global demand contraction has also caused the collapse of intra-Asian manufacturing trade. This because the demand for imported intermediate goods is derived from demand for final goods in export markets;
- At present, this region has neither sufficiently robust domestic demand, nor large intra-regional trade to offset the impacts of falling exports to the US and Europe, the principal exports destinations from this region.

Small impacts of the global crisis on financial systems of the ASEAN+3

- Because of the following reasons, the financial systems of ASEAN+3 have not greatly affected by the recent global crisis:

  (i) a lack of significant investment of financial systems of this region on sub-prime mortgage products;

  (ii) in terms of assets and branch networks, banking system is the core of financial systems in this region. Local bond and securities markets are still in early stages of development (Table-1);

  (iii) banking systems of this region are relatively healthy, well capitalized and well supervised;

  (iv) financial safety net, including deposit insurance and resolution mechanism for troubled banks, have established in ASEAN+3 countries;

  (v) all countries adopt sound macroeconomic management and economic policy responses.

Common Potential Problems in the ASEAN+3 banking systems

- There are four common potential structural problems in ASEAN+3 financial systems, namely:

  (i) corporate structure of the financial system. Domestic privately owned banks, in many ASEAN+3 countries are owned by business conglomerates that traditionally have been used by the owners to finance affiliated non-bank companies. This violates legal lending limits regulations and potentially causes insider trading and principal-agency problems;

  (ii) dominant roles of public sector's banks in many countries of this region that are likely not fully subject to market discipline;

  (iii) shallow and narrow bond and securities markets. Central banks in many ASEAN+3 countries issue their own debt securities as instruments for open market operations. The high costs of monetary policy could affect the financial positions of the central banks and thereby their independency;

  (iv) less developed market infrastructure, including accounting and legal system. These and the legacy of the financial repression of the past have weakened corporate governance and banking supervisions.

Sound economic policies

- The structural adjustment programs adopted in countries hit by the Asian financial crisis in 1997 have removed the distorted industrial policies and export-led development strategy. The programs improve the efficiency of resource use and thereby increasing productive capacity of their economies;
- Table-2 shows that the are three main pillars of the present macroeconomic stabilization frameworks of the ASEAN+3 countries, namely: (i) an explicit target of inflation; (ii) flexible exchange rate regime and (iii) fiscal discipline to stabilize government debt-to-DGP ratio;
- The availability of currency swap facilities from the US Fed to a number of ASEAN+3 countries and their own bilateral swap currency swap facilities allow this region to stabilize their economies;
- To prevent deep recession, ASEAN+3 countries works hand in hand with international community to adopt economic policies that totally contrary to the IMF stabilization plan in 1997-98. Basic elements of present policy are: flooding the market with liquidity and reduce interest rate, stabilizing exchange rate and expanding budget expenditures. Like some other advanced economies, Japan adopts quantitative easing to flood liquidity market. These counter cyclical policies reduce bankruptcies of banks and non-bank corporations.