The Role of the Financial Sector in Promoting Economic Growth in Asia

Naoyuki YOSHINO

Director , FSA Institute

Professor, Keio University

yoshino@econ.keio.ac.jp

1, Macro Policies

Too much liquidity

Easy Monetary Policy

2, Asset Price Appreciation → Housing Bubble

2-1, [Corporate Finance]

2-2. [Asset Finance]

→ Securitization

→ New Financial Technology

→ Credit Rating

Unexpected Large Shock

(i)Credit Rating did not work.

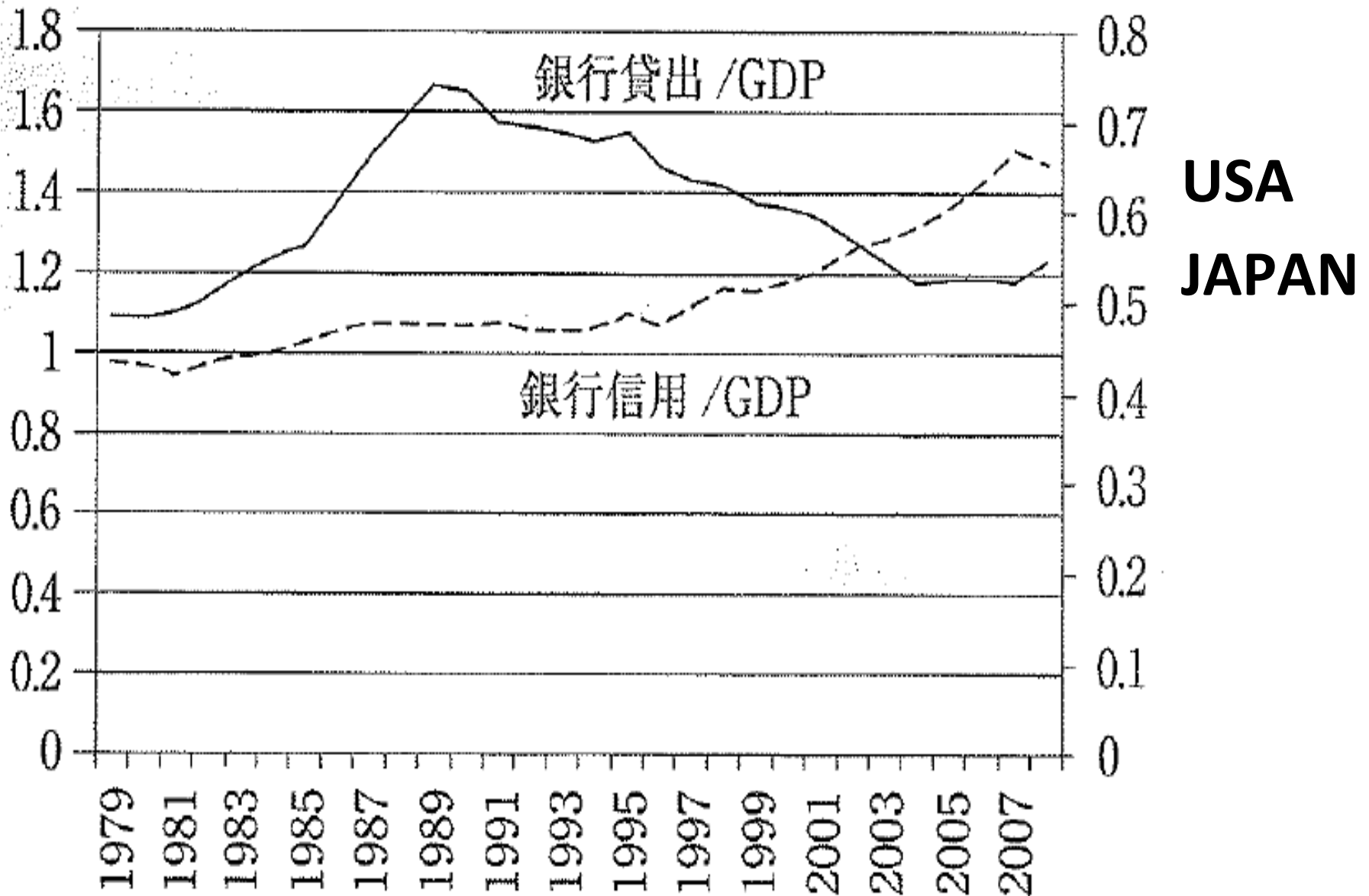Use past Data

(ii)All the assets move in the same downward direction.

(iii)Asset Portfolio Allocation did not work.

(iv) Emergent Policy Response will be important. (SME guarantee)

Bank Loan/GDP Ratio (Bubble)

銀行貸出 /GDP

銀行信用 /GDP

USA

JAPAN

3, Massive short-term Capital Inflows

4, Stable Financial Institutions (ASIA)

   Shadow Banks

   (Nonbank financial institutions}

   Public Sector Banks (Credit. Fiscal Policy)

5, Improvement of efficiency and Innovation of banking sector

   (i) Real Sector Channel

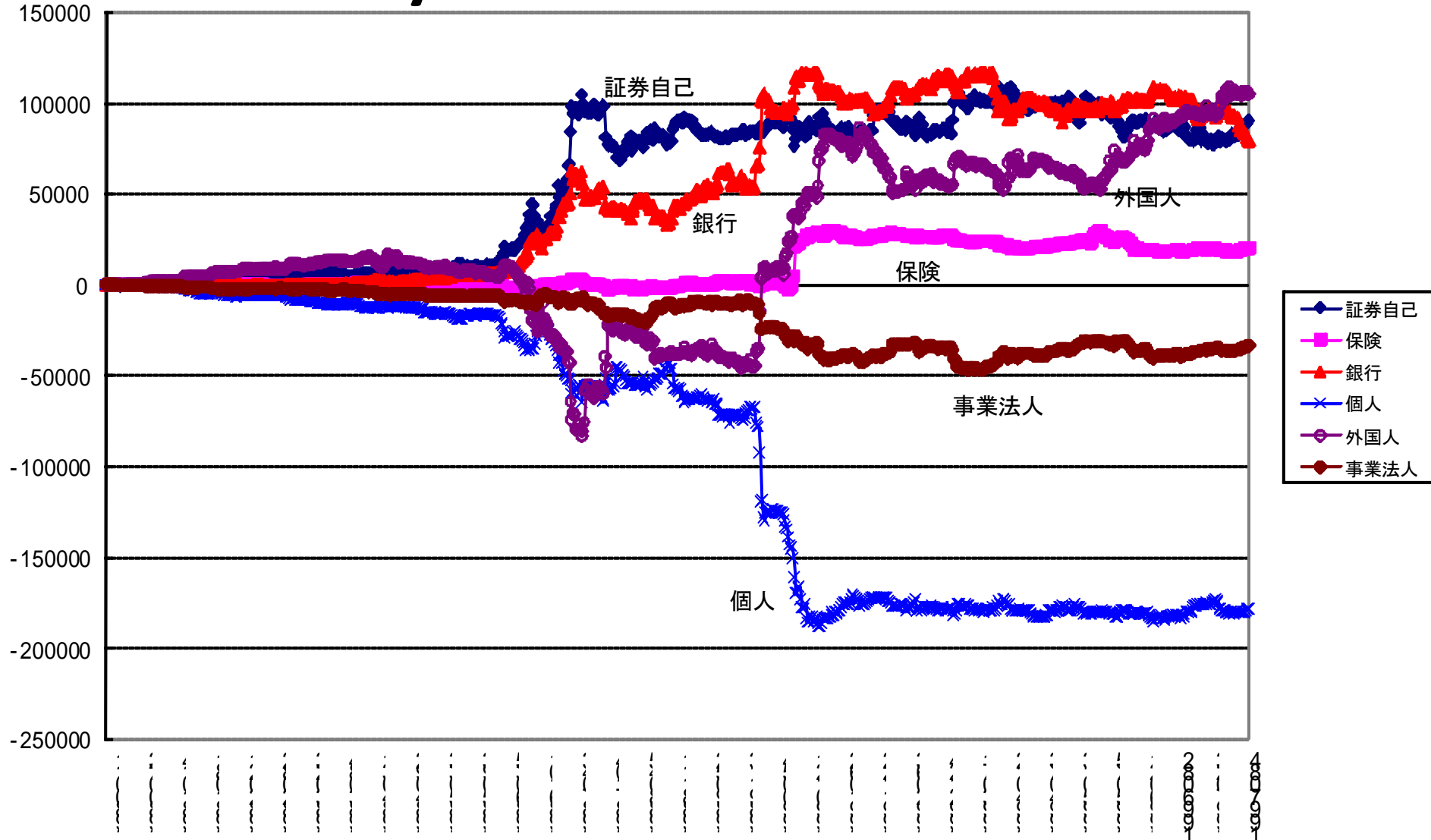   **(ii) Financial Sector Channel**

   (iii) Confidence-Channel

Interest & Dividends Income / Disposable Income

Japan	USA	Germany	UK	France
0.0395	0.1852	0.2476	0.1217	0.0945

Who gained most from Stock Market?
By Professor Kamesaka

図４　投資家別累積追跡利益(単位：百万円）

証券自己

銀行

外国人

保険

事業法人

個人

証券自己	
保険	
銀行	
個人	
外国人	
事業法人	

Asia

6, Access to finance --- Microcredit

Deposits Taking or not

Access to credit --- SMEs

International Discussions

7, FSB members, Non-FSB members

Common International Rules

8, Basel Capital Requirement (ex.)

National Discretion

Empirical Results of Optimal Minimum Capital Requirement

(1) Japan   **Estimation 1996 Q1 – 2008 Q4**

   θ = **-2.20 %** (=**5.80%**)   **1998Q1-2008Q4**

(2) USA   **Estimation 1995 Q1 – 2008 Q4**

   θ = **+ 4.42 %** (=**12.42%**)   **2002 Q4 – 2007 Q4**

   θ = **- 1.116 %**(=**7.884%**)   **2001 Q1 – 2002 Q4**

(3) Canada

   $\theta =$ **+0.37%** (=**8.37%**)   **2003 Q1 – 2004 Q4**

   $\theta =$ **+0.96%** （=**8.96%**)   **2006 Q1 – 2007 Q4**
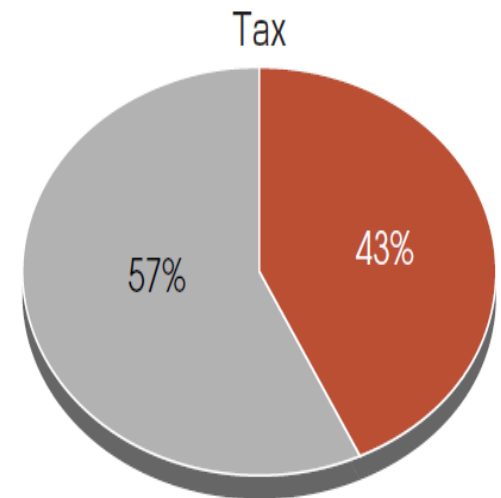
SMEs in Thailand

| Type of Enterprise	No. of Enterprises (% of total)	No. of employment (% of total)	GDP Mill. Baht (% of total)
SMEs	2,366,227 (99.6%)	8,900,567 (76.0%)	3,244,974 (38.2%)
Large Enterprise and Others	9,141 (0.4%)	2,810,767 (24.0%)	5,239,226 (61.8%)
Total	2,375,368 (100%)	11,711,334 (100%)	8,484,200 (100.0%)

SMEs in China

(Red Mark is SMEs' share)
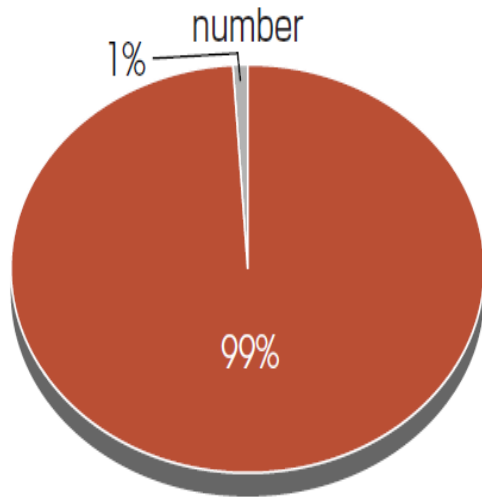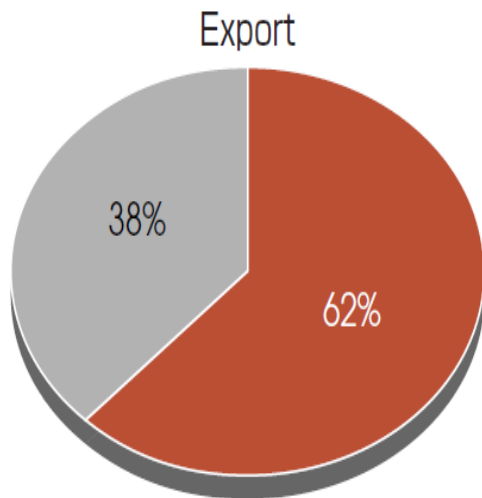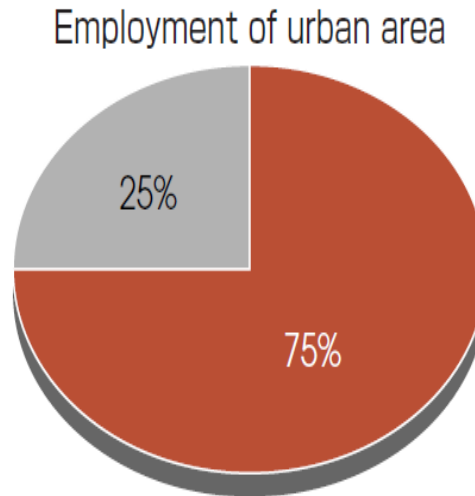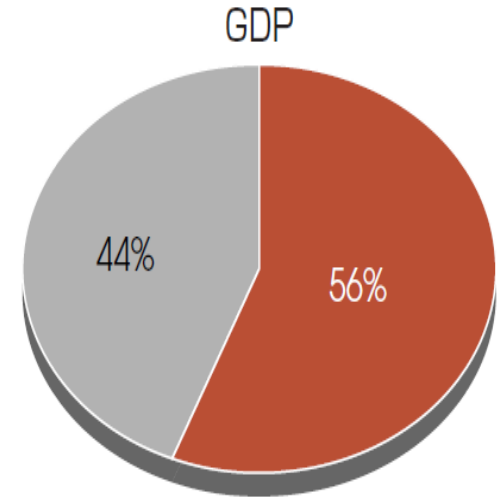
number

1%

99%

中小企業　大企業

GDP

44%
56%

Employment of urban area

25%

75%

Export

38%

62%

Tax

57%

43%

Development of Asian Type Capital Market Bank based financing

1, Bank Loans to relatively safer borrowers

2, Regional mutual funds / Regional fund

to provide financing to start ups

SMEs

Banking Account

Depositors

Riskier Borrowers

Regional Funds / Mutual Funds
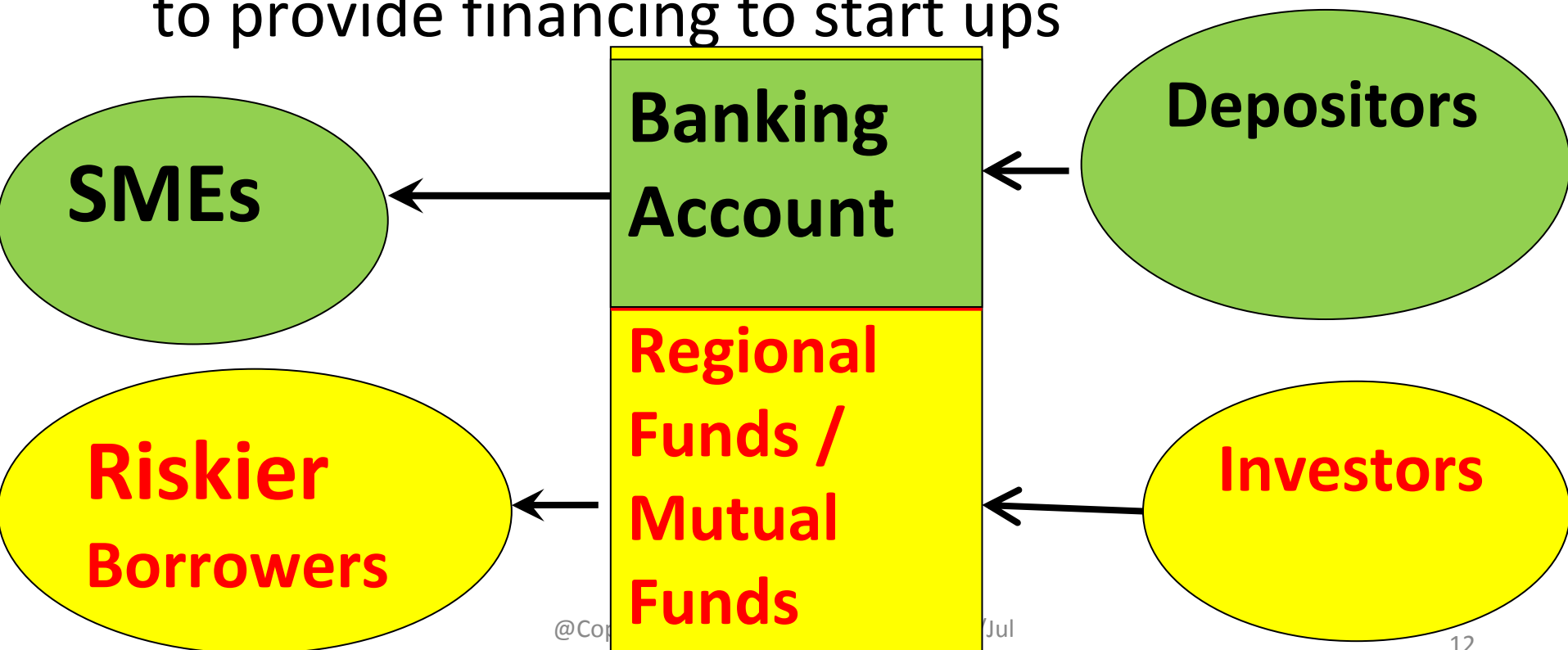
Investors

Further Issues in Asia

1, Central Settlement System

2, Consistent and Predictable Rules & Regulations,

3, Infrastructure Financing in Asia

Infrastructure Bond

Long-term Investors (pension funds)

4, Share holdings by Japanese Banks

Trust and Confidence

1, Transparency and Disclosure

2, Confidence in Financial Institutions and corporations

3, Introduce Competition

4, Prohibit Insider trading

5, Asia = capital exporter

6, Induce outside investors into Asia