

The Sixth International Conference

“A Perspective of Asian Financial Sector under the Global Financial Crisis”

Session I Micro prudential policy and the business model for banks in Asian region

Impact of Global Financial Crisis on Asian Financial Sector

Susumu Okano

Executive Officer and Head of Research
Daiwa Institute of Research, Ltd., Japan

Abstract

- 1 Direct Impact – Relatively small losses related to the subprime mortgage problems.
 - 1-1 Direct impact of the subprime problems on financial institutions was incomparably small in Asian countries including Japan.
 - 1-2 Shortage of the U.S. Dollar in major markets. Some of Asian financial institutions were in short of liquidity in the U.S. Dollar.
 - 1-3 Accumulation of currency reserves among Asian countries prevented 1997 type of currency crisis.
- 2 Financial Reforms in Asian Countries after the 1997 Currency Crisis
 - 2-1 Financial reforms in Asian countries after the 1997 Currency Crisis has introduced more robust financial systems in the region.
 - ⊙ Recapitalization of banks
 - ⊙ Consolidation of financial institutions
 - ⊙ Introduction of more foreign capital and participants into the financial sector
 - ⊙ Improvement in supervision
 - ⊙ Enhancement of insolvency legislations
 - 2-2 Exchange rates of Asian currencies have been stable except for Korea. Asian stock markets were struck by the Lehman Shock but are recovering near to the recent peak of 2007.
- 3 Indirect Impact through Real Economy
 - 3-1 Shrink of demand for durable goods, especially autos in the United States led to a drastic decline in manufacturing production in Asian countries.
 - 3-2 Japan’s manufacturing sector suffered from a decrease in exports.
 - 3-3 Despite an increase in the number of bankruptcies, the amount of their debt is not huge. Real estate price appreciation was relatively modest in Japan in the recent business expansion, so NPLs related to the real estate industry is not huge.
 - 3-4 The magnitude of the impact on financial markets in Japan is negligible in comparison to that in Japan’s post-bubble era.