



## Financial Sector Challenges following the Recent Global Financial Crisis

Tokyo  
February 3, 2011

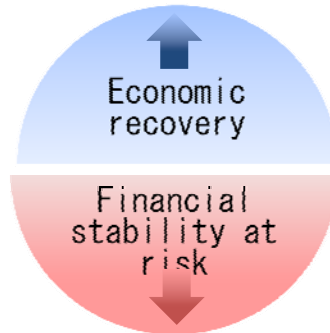
**Shogo Ishii**  
**Regional Office for Asia and the Pacific**

### **Outline of presentation**

- Where are we now?**
- Recent developments in Asia**
- Challenges for Asia**
- Concluding remarks**

## Where are we now?

Dichotomies



3

## Where are we now?

Recovery is set to continue at multi speed

### WEO Real GDP Growth Projections *(percent change from a year earlier)*

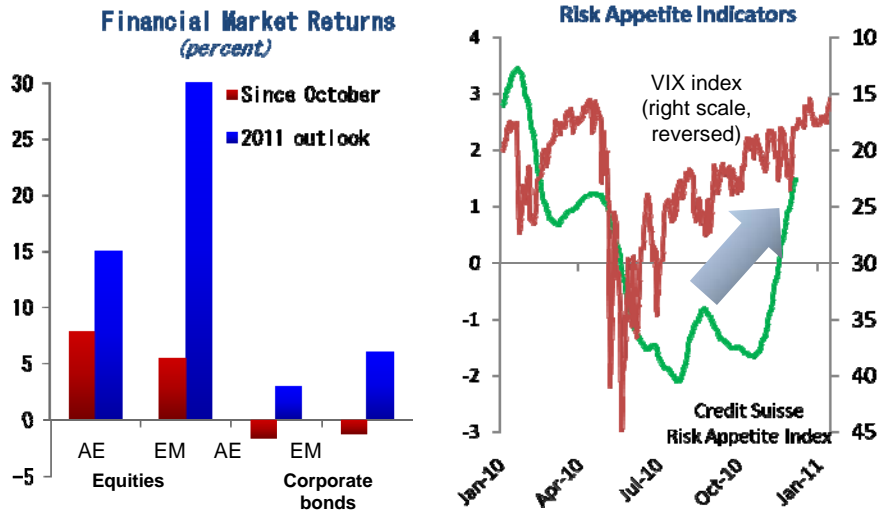
	World	U.S.	Euro Area	Japan	Developing Asia	Latin America
2009	-0.6	-2.6	-4.1	-6.3	7.0	-1.8
2010	5.0	2.8	1.8	4.3	9.3	5.9
2011 (Current)	4.4	3.0	1.5	1.6	8.4	4.3
2011 (Oct. 2010)	4.2	2.3	1.5	1.5	8.4	4.0
2012 (Current)	4.5	2.7	1.7	1.8	8.4	4.1
2012 (Oct. 2010)	4.5	3.0	1.8	2.0	8.4	4.2

Source: IMF, World Economic Outlook.

4

Where are we now?

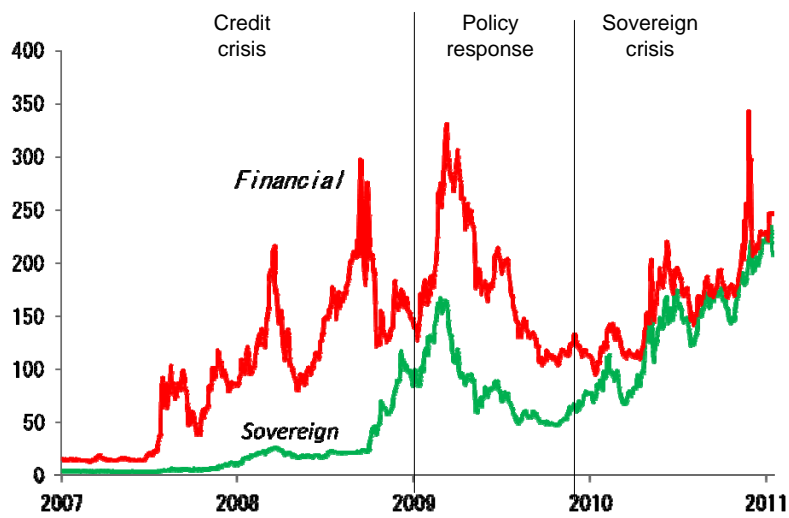
Markets - positive side: Bullish prospects



Where are we now?

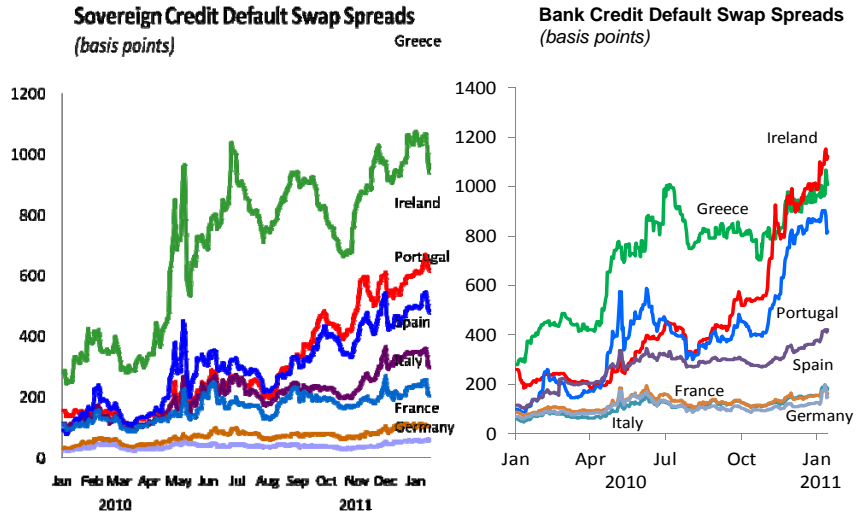
Markets - Negative Side: Sovereign turmoil

Credit Default Swap Spreads (in basis points)



## Where are we now?

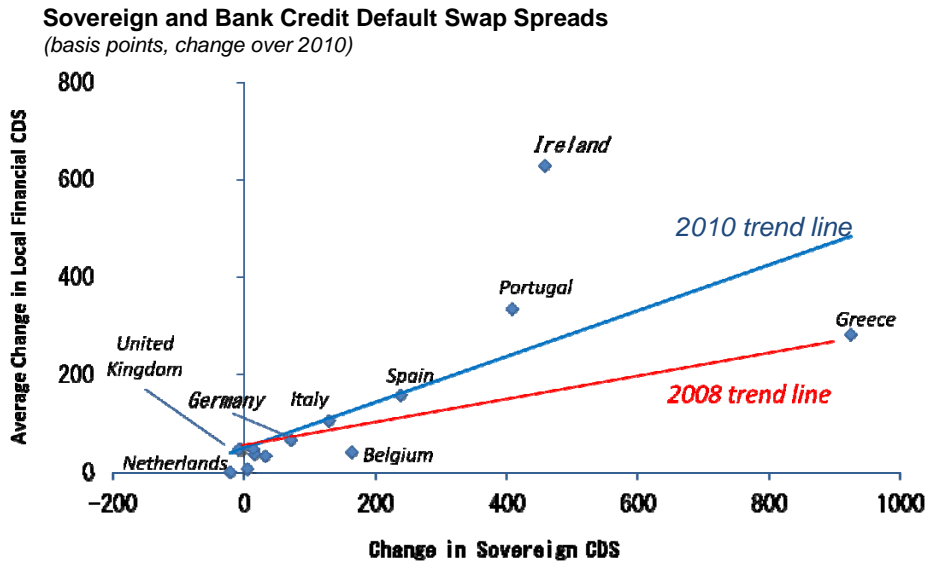
### Elevated sovereign and bank risks in Europe



7

## Where are we now?

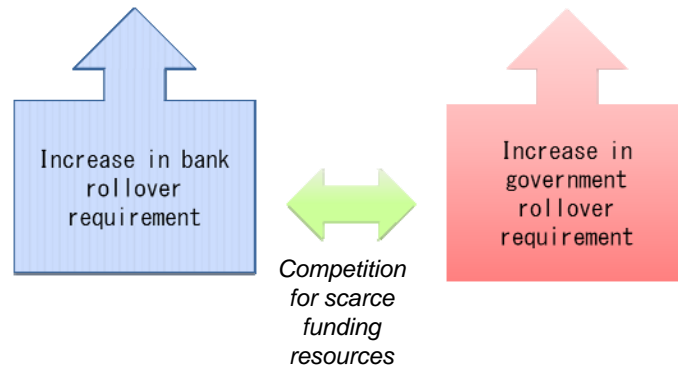
### Increased interaction between sovereign and bank risks



8

### Where are we now?

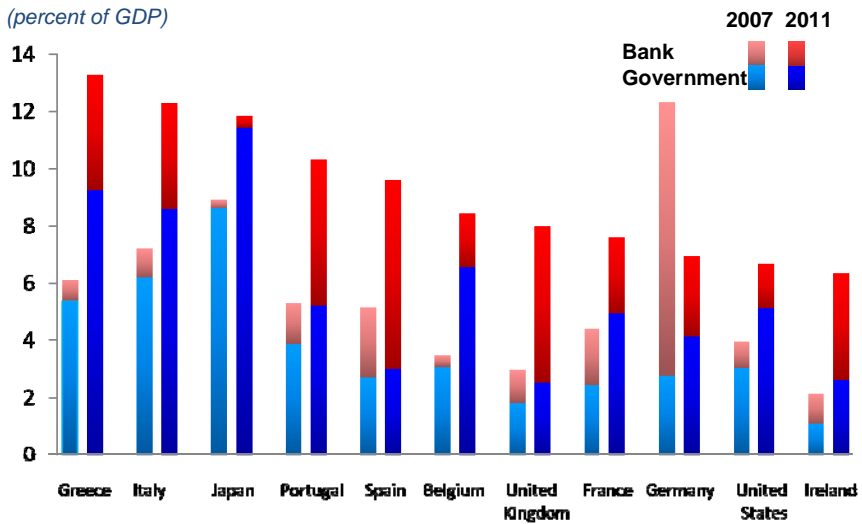
#### Funding: Competition from sovereigns



### Where are we now?

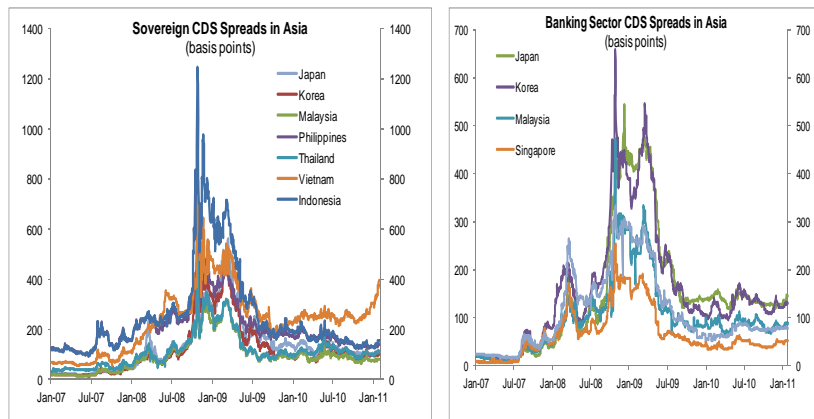
#### Funding: Competition from sovereigns

Government and Bank Bonds Due  
(percent of GDP)



## Recent developments in Asia

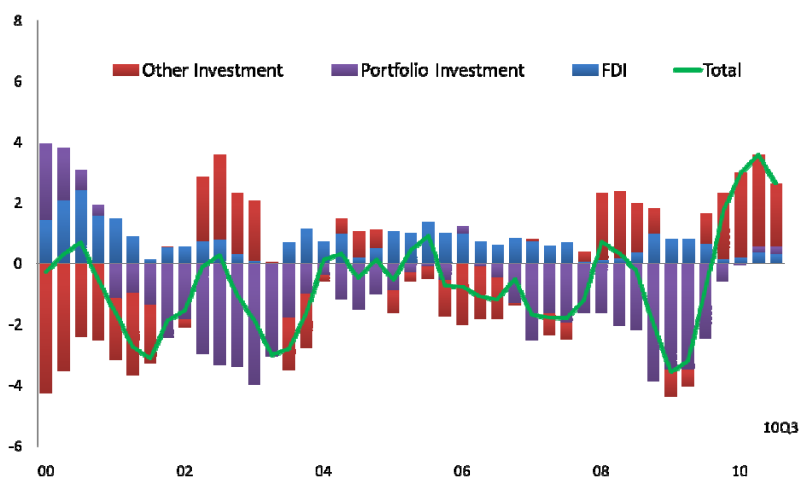
**Spillover effects from Europe has been limited in Asia...**



11

## Recent development in Asia

**... and capital inflows have rebounded strongly**  
*(percent of aggregate GDP, 4-quarter moving averages)*



NIEs, ASEAN-4, and India.

12

## Recent developments in Asia

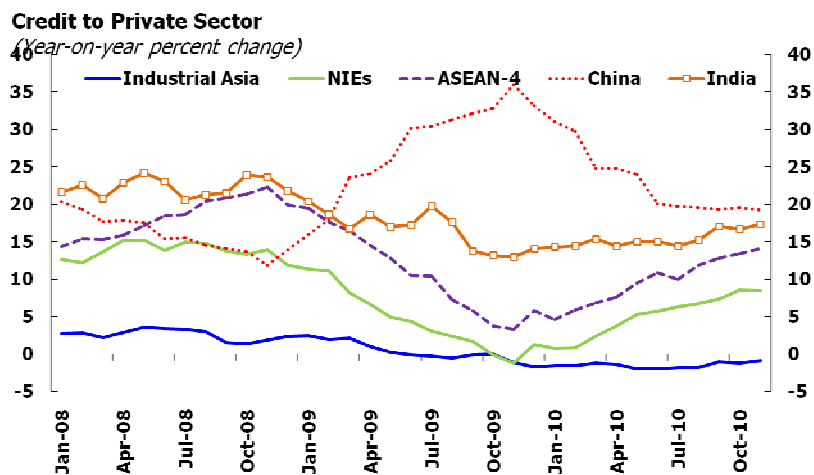
### Factors affecting capital flows to Emerging Asia

	Cyclical	Structural
Push factors	Low interest rates in AEs Global risk aversion	Weak balance sheets and weak growth prospects in AEs
Pull factors	High commodity prices Higher domestic interest rates	Stronger balance sheets and better growth prospects in EMs

13

## Recent developments in Asia

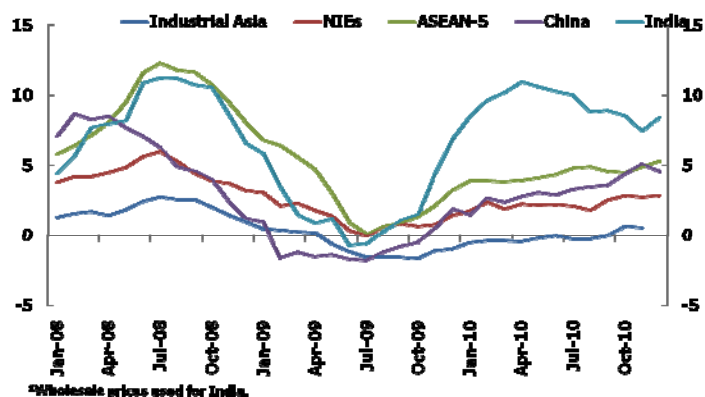
### So far credit growth has remained in general moderate



14

## Recent developments in Asia ... but inflation pressures are on the rise

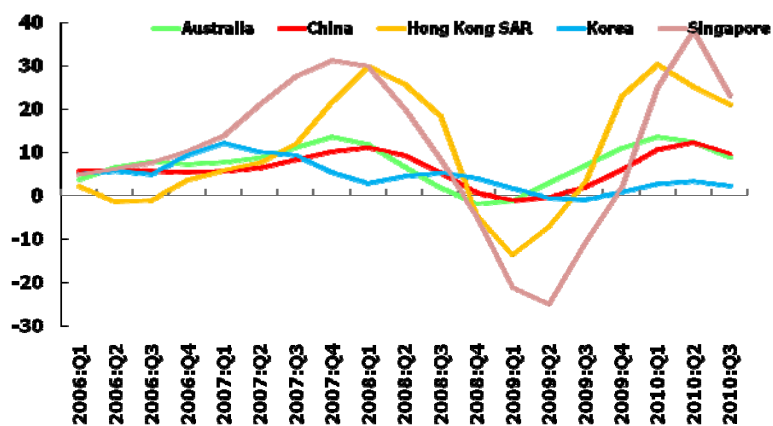
Asia: Headline Consumer Prices<sup>1</sup>  
(Year-on-year percent change)



## Recent developments in Asia

... and property market price pressures have been seen in several economies

Selected Asia: Property Prices  
(Year-on-year percent change)

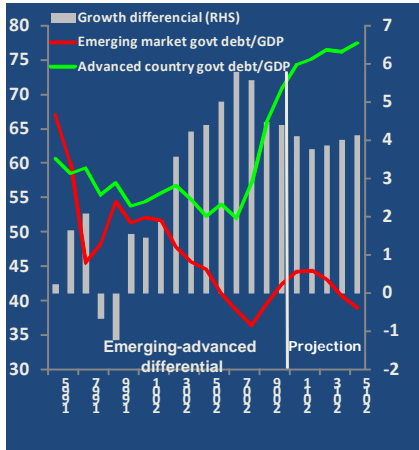




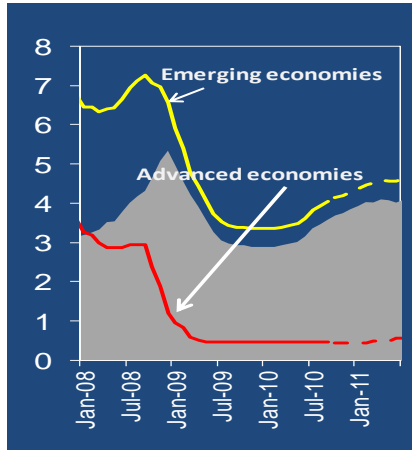
## Challenges for Asia?

**Strong fundamentals and global liquidity driving capital flows to EM**

**Government Debt and Growth Differential (In percent)**



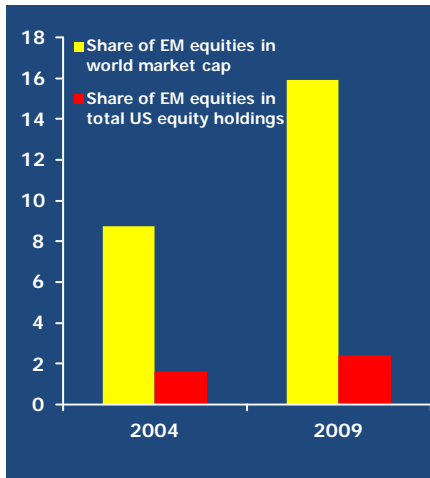
**Policy Rates (In percent)**



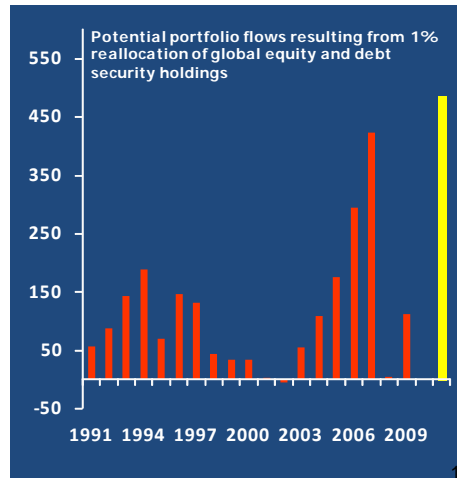
## Challenges for Asia

**Assets reallocation by global investors could increase further capital flows to EMs, risking macroeconomic and financial stability**

**EM equities market capitalization and investor allocations (In percent)**



**Portfolio flows to emerging market and developing countries (In percent)**



## Challenges for Asia

### Policy tools to cope with volatile capital flows to maintain macroeconomic and financial stability

#### Macro/Prudential/Structural

- Macroeconomic policy
- Macro-prudential policy 1/
- Develop local capital markets/infrastructure

#### Capital controls

- Last resort
- How effective?
- Multilateral consequences?

Use of prudential tools with the explicit objective of promoting the stability of the entire financial system (Clement, BIS QR March 2010)

19

## Concluding remarks

- The impact of the European turmoil has not significantly affected Asia.
- But downside risks have increased for Asia (elevated market concerns about sovereign and banking sector risk in advanced economies, rising commodities prices, etc. ).
- Capital inflows are fundamentally good, providing additional financing for productive investment, risk diversification, etc.
- But sudden surges could pose a risk to macroeconomic and financial stability.
- Asia still has macroeconomic space for conventional response
- Macro-prudential measures have complimented macroeconomic policy response in Asia.
- But macro-prudential/capital control measures alone are not likely to safeguard financial stability without consistent macroeconomic policy.

20

***Thank you***