

# **Progress and challenges in Asia's Financial Cooperation**

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Manila, The Philippines

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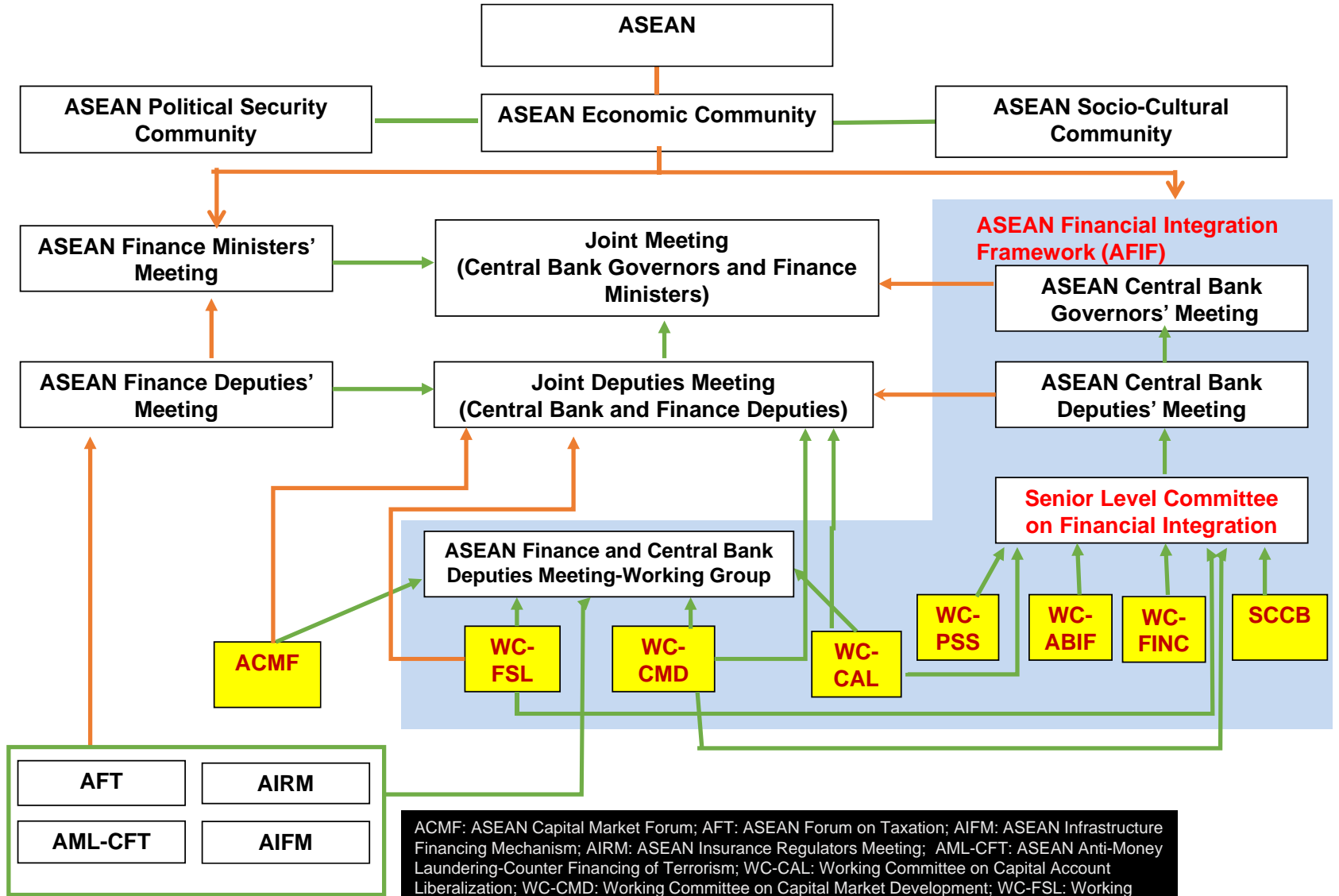
Asian Development Bank

# Financial Cooperation & Integration

- Financial *integration* involves risks as well as benefits
  - Allow cross-border capital flows while: a) making efficient use of resources, b) taking advantage of scale economies and c) providing better access to financial services.
  - Could require weighing of regionalism against sovereignty, e.g., eurozone
- Requires commitment among participating countries.
  - The current three pillars: ASEAN Financial Integration; ASEAN+3 Financial Cooperation; and APEC Financial Cooperation
- ASEAN-centric because ASEAN has a strong drive for regionalism
  - ASEAN is the only “association” of countries with a dedicated and permanent secretariat with financial and human resources.
  - ASEAN Economic Community.

# ASEAN Financial Integration

- ASEAN Central Bank Senior Level Committee (SLC)
  - Plan and guide the implementation of the ASEAN Financial Integration Framework (AFIF) with six Working Committees and SCCB.
  - Implementation of Qualified ASEAN Banks (QABs)
  - The Steering Committee for Capacity Building (SCCB) to guide the capacity building (particularly of BCLMV) to move together on integration
- ASEAN Capital Market Forum (ACMF)
  - Challenge in ASEAN Trading Link and harmonization of disclosure standards
  - Dispute resolution
- Coordination with ABMI of ASEAN+3
  - ABMF to harmonize bond market conventions / regulations
  - Cross-border Settlement Infrastructure Forum (CSIF)
  - Green bond

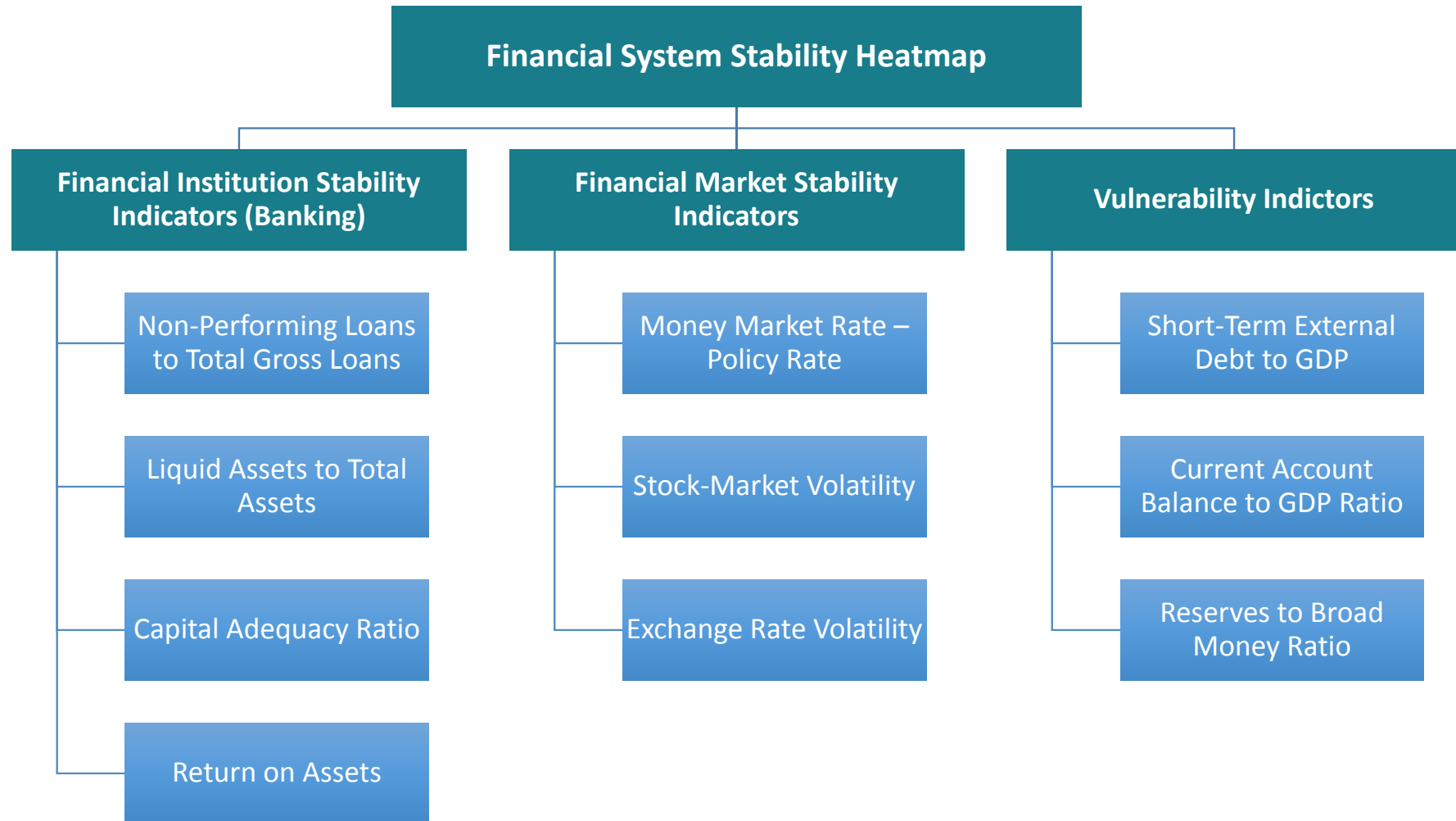


ACMF: ASEAN Capital Market Forum; AFT: ASEAN Forum on Taxation; AIFM: ASEAN Infrastructure Financing Mechanism; AIRM: ASEAN Insurance Regulators Meeting; AML-CFT: ASEAN Anti-Money Laundering-Counter Financing of Terrorism; WC-CAL: Working Committee on Capital Account Liberalization; WC-CMD: Working Committee on Capital Market Development; WC-FSL: Working Committee on Financial Services Liberalization; WC-PSS: Working Committee on Payment and Settlement Systems; TF-ABIF: Task Force for ASEAN Banking Integration Framework; SCCB: Steering Committee for Capacity Building Initiative

# Guiding policy documents

- *“Implementation Plan to Promote the Development of Integrated Capital Markets to Achieve the Objectives of AEC 2015”*, 2009
  - ASEAN Capital Market Forum (ACMF)
- *“Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN”*, 2012
  - ASEAN Central Bank Senior Level Committee (SLC), six working committees (WCs) and the Steering Committee for Capacity Building (SCCB)
- Strategic Action Plan
  - Qualified ASEAN bank (QAB)
  - Key performance indicators (KPIs) for stability, inclusion and integration
- Capacity building (mainly for BCLMV) to move together on integration
  - SCCB co-chaired by ADB and SEACEN
  - Learning roadmaps for the six WCs.

# Key Performance Indicators of ASEAN financial integration



# Strategic Action Plan and QABs

- SAP along:
  - ABIF/QAB; financial liberalization; interconnected capital markets; deep and liquid capital markets; Access to capital markets; private sector engagements in financial markets; fund passport; payments system linkages; capital account liberalization; financial inclusion; retail access to bond market; consumer welfare; harmonized banking regulation; financial resilience with
- QAB status is to be granted based on common principles but negotiated bilaterally based on a reciprocity principle.
  - Malaysia and Thailand; Malaysia and Philippines; Malaysia and Indonesia; and Thailand and Indonesia
- SAP's QAB targets
  - Two QABs by 2019, addition two QABs by 2025
- Easily achievable?

## Banks of ASEAN5 in ASEAN

<u>Institution name</u>	<u>Country of origin</u>	<u>Indonesia</u>	<u>Malaysia</u>	<u>Philippines</u>	<u>Singapore</u>	<u>Thailand</u>	<u>Vietnam</u>	<u>Brunei</u>	<u>Cambodia</u>	<u>Laos</u>	<u>Myanmar</u>
PT Bank Mandiri (Persero) Tbk	Indonesia	2109	1		1						
PT Bank Rakyat Indonesia (Persero) Tbk	Indonesia										
PT Bank Central Asia Tbk	Indonesia	1214									
PT Bank Negara Indonesia (Persero) Tbk	Indonesia	1489			1						
PT Bank Tabungan Negara (Persero) Tbk	Indonesia	825									
Malayan Banking Bhd.	Malaysia	450	362	75	21		2	2	21	2	1
CIMB Group Holdings Bhd.	Malaysia	532	303		2	121	1		13		
Public Bank Bhd.	Malaysia		262						29	4	
RHB Bank Bhd.	Malaysia		215		7	3		1	10	2	
Hong Leong Financial Group Bhd.	Malaysia		296				4		1		
BDO Unibank, Inc.	Philippines			1020							
Metropolitan Bank & Trust Company	Philippines			947							
Bank of the Philippine Islands	Philippines			815							
Land Bank of the Philippines	Philippines	1	1	406							
Philippine National Bank	Philippines			662	1						
DBS Group Holdings Ltd.	Singapore	34	2	1	91		1				
Oversea-Chinese Banking Corporation Ltd.	Singapore	675	42		45	1	1				1
United Overseas Bank Ltd.	Singapore	181	46	1	54	159	1	1			1
Bangkok Bank PCL	Thailand	1	8	1	1	1120	2		1	2	1
Siam Commercial Bank PCL	Thailand				1	1251	1		4	1	
KASIKORNBANK PCL	Thailand					1077			1	2	
Krung Thai Bank PCL	Thailand				1	1182			2	1	
Government Savings Bank	Thailand					1074					
JSCB for Investment and Development of Vietnam	Vietnam						660				1
Vietnam Bank for Agriculture and Rural Development	Vietnam						2253				
Vietnam Joint Stock Commercial Bank for Industry and Trade	Vietnam						1105			3	
Joint Stock Commercial Bank for Foreign Trade of Vietnam	Vietnam						491				
Sai Gon JSCB	Vietnam						236				
Australia and New Zealand Banking Group Ltd.	Australia	23	1	1	4	1	8		17	2	1
Citigroup Inc.	USA	10	11	3	17	3	2				
Deutsche Bank AG	Germany	1	2	1	1	1	1				
HSBC	United Kingdom	97	72	8	12	1	17	3			
Mitsubishi UFJ Financial Group, Inc.	Japan	72	3	1	2	689	2		59	1	1
Mizuho Financial Group, Inc.	Japan	1	2	1	1	2	2		1		2
Standard Chartered Plc	United Kingdom	23	33	6	19	14	3	7			
Sumitomo Mitsui Financial Group, Inc.	Japan	1	2	1	1	2	2				2

Source: SNL Financial

8

\*Top 5 banks (Top 3 for Singapore); figures combine branches, subsidiaries, representative office, remittance office



**Slide 8**

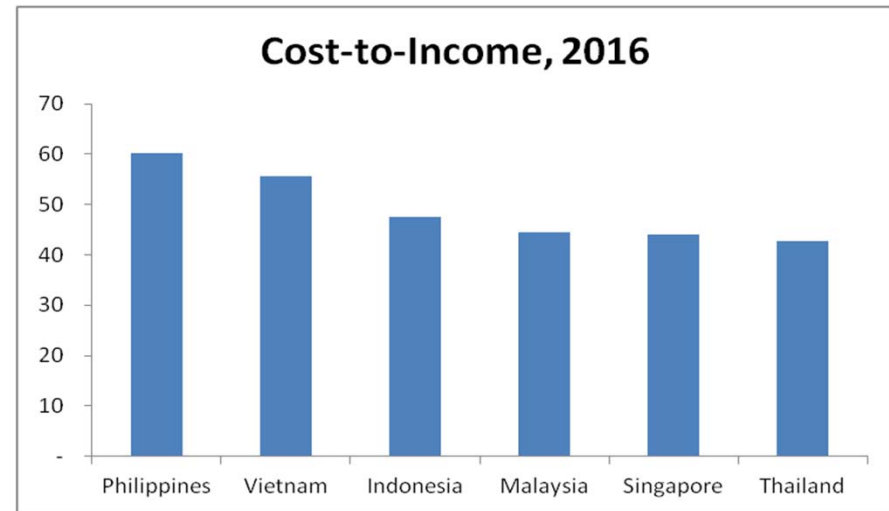
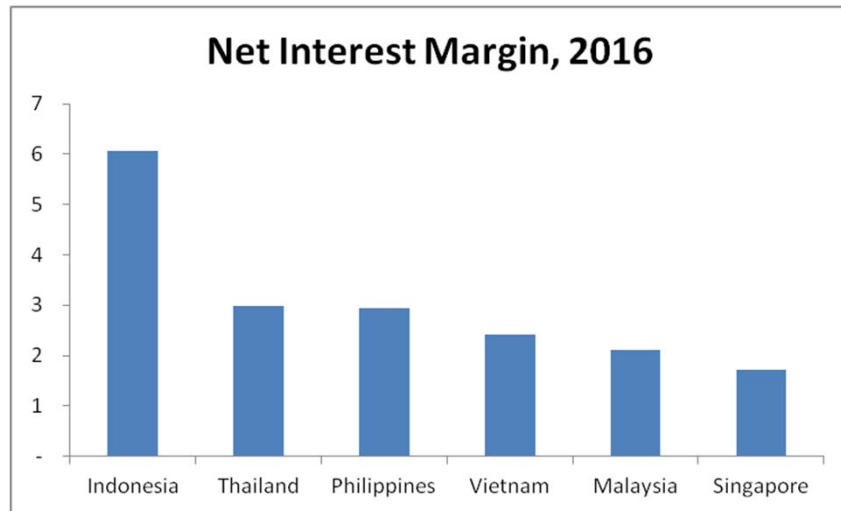
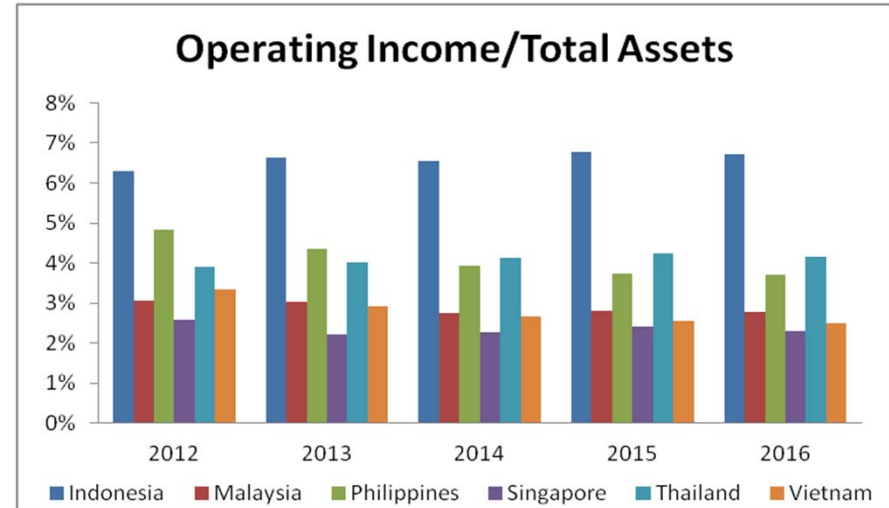
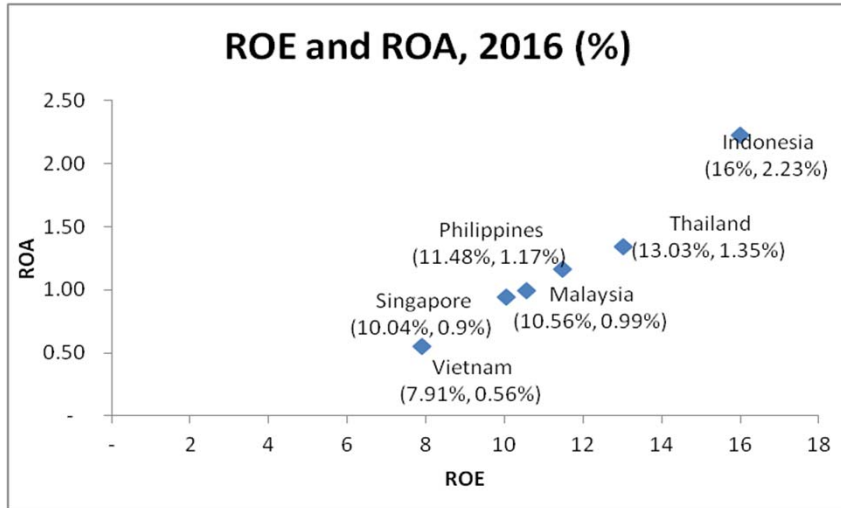
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**MT3**

**Not updated.**

Margarita Tirona, 26/11/2015

# ASEAN 5 bank profitability



Source: SNL Financial  
\*Top 5 banks (Top 3 for Singapore)

## Slide 9

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**MT4** I used Bank Capital to Assets Ratio instead of Asset Turnover Ratio (not available).

Margarita Tirona, 26/11/2015

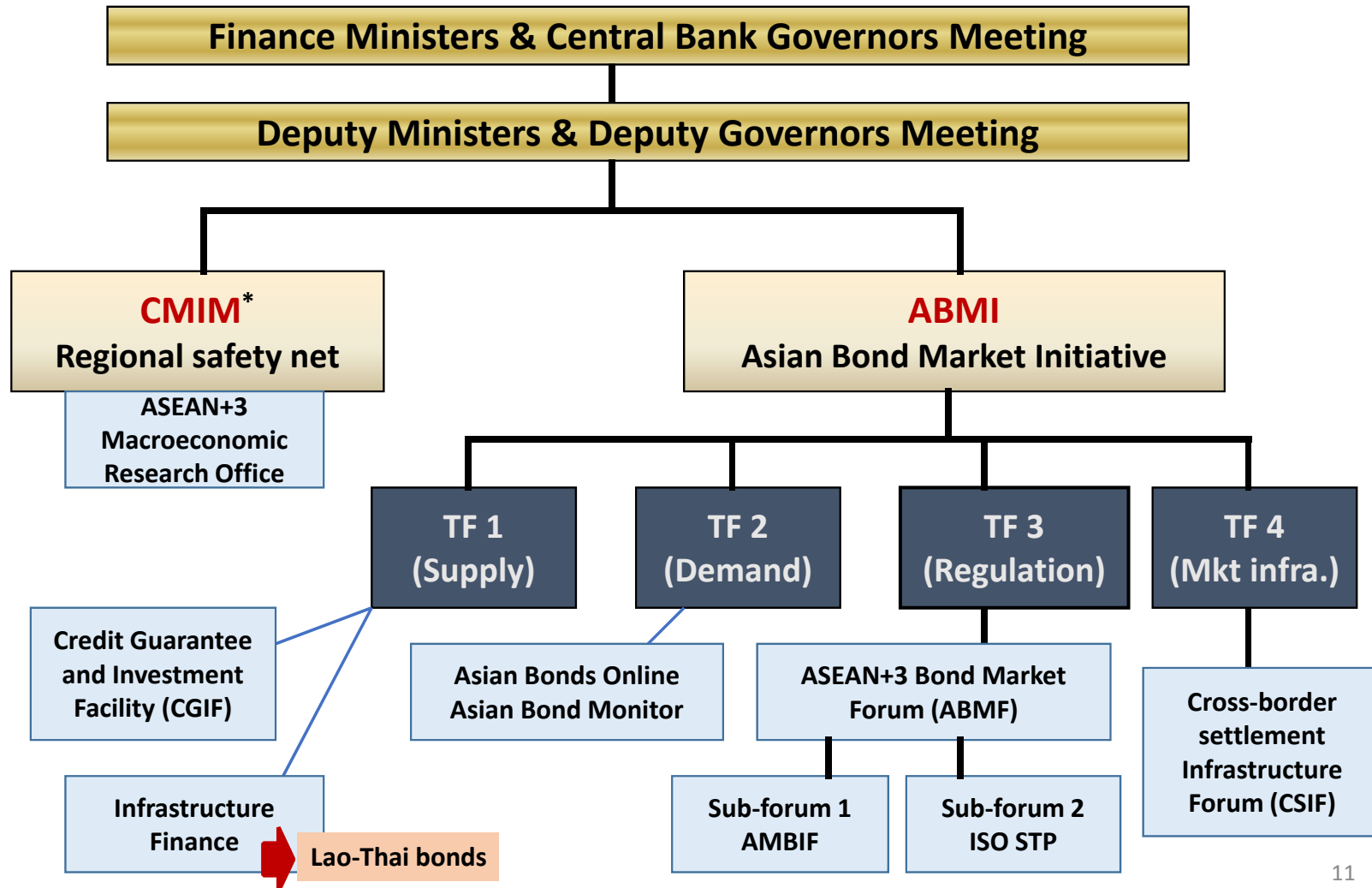
**MT5** Please note that Singapore ROA and Thailand ROE are not updated, data from old ppt were used (all the others are updated to 2014).

Margarita Tirona, 26/11/2015

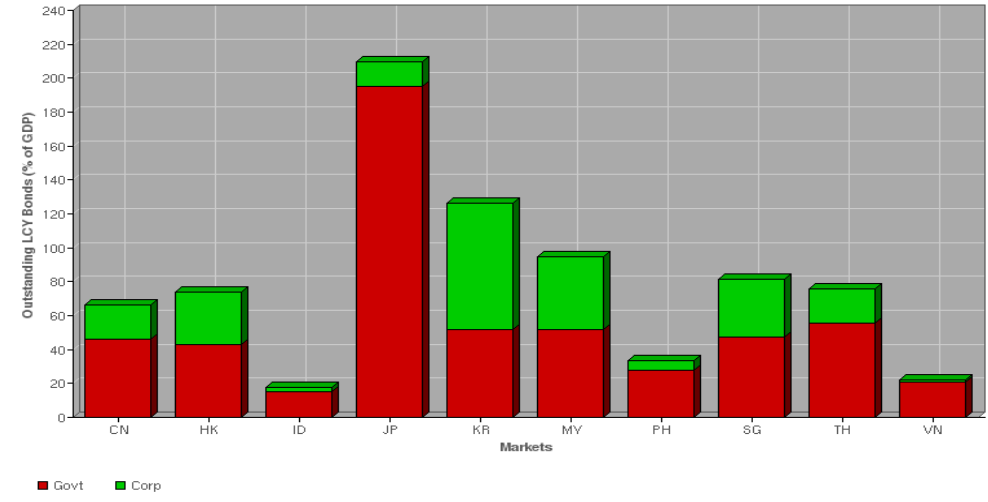
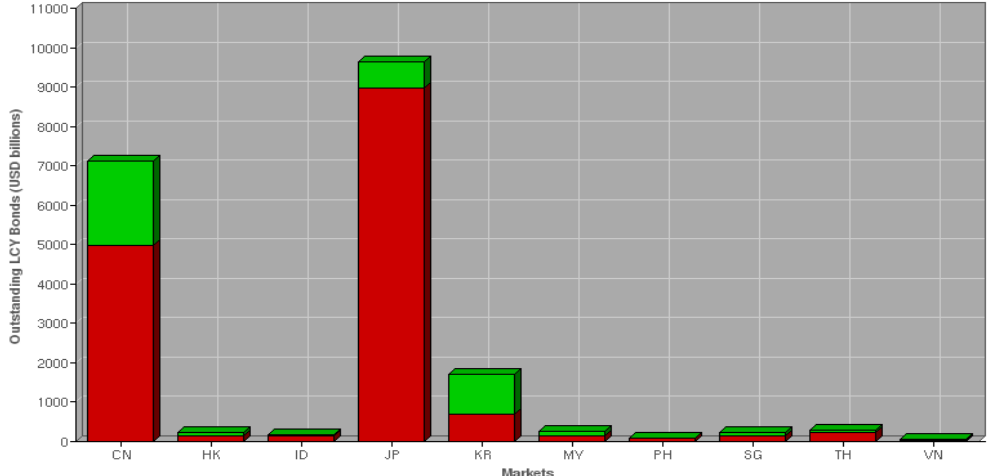
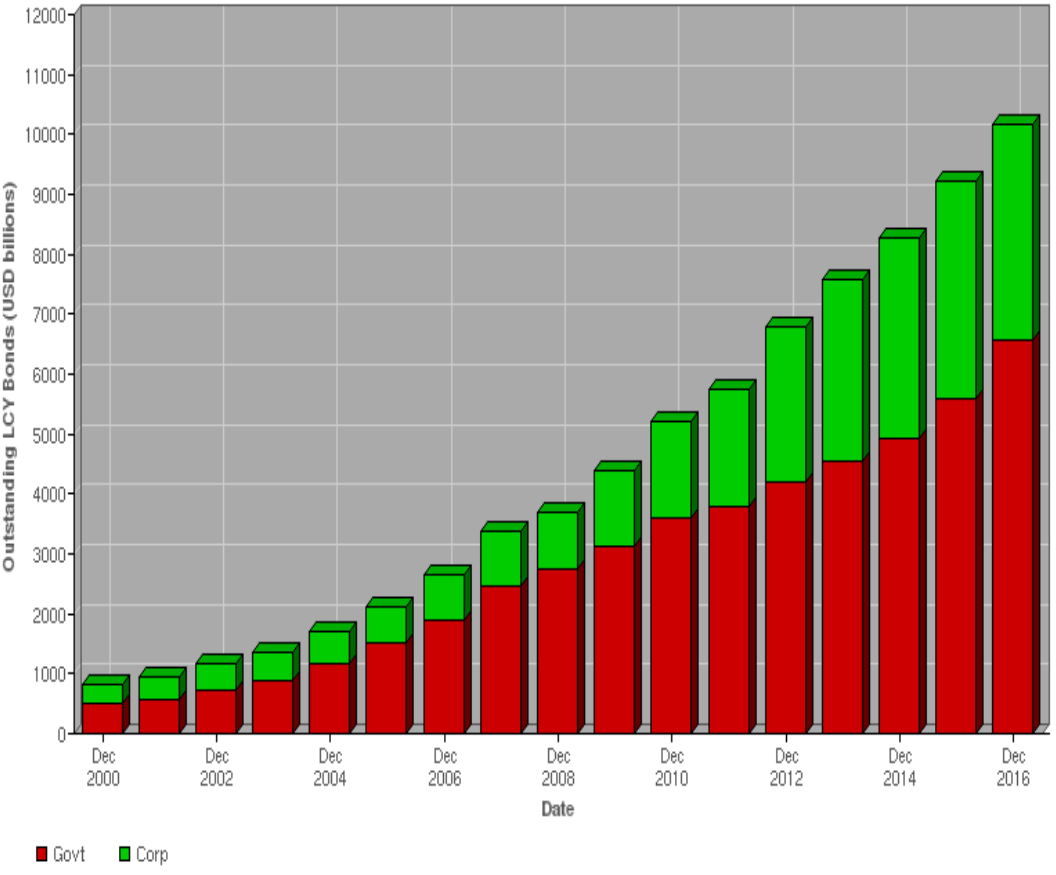
# ASEAN+3 Financial Cooperation

- Started in response to 1997 Asian financial crisis
- Two pillars
  - CMIM / AMRO: to respond to or preempt a new crisis.
  - Asian Bond Market Initiative (ABMI): to address the root cause of 1997 crisis.
- ABMI is evolving to focus on stability to financing developments
  - TF 1 (Supply): Credit Guarantee & Investment Facility (CGIF), Green bonds
  - TF 2 (Demand): AsianBondsOnline, Asian Bond Market Summit
  - TF 3 (Regulation): ASEAN+3 Bond Market Forum (ABMF)
  - TF 4 (Market infrastructure): Cross-border Settlement Infrastructure Forum (CSIF)
- Disseminate TA outcomes beyond ASEAN+3
  - Can CGIF / ABO / ABMF / CSIF accommodate non-ASEAN+3 DMCs?

# ASEAN+3 Financial Cooperation



# Growth and size of ASEAN+3 LCY bond markets

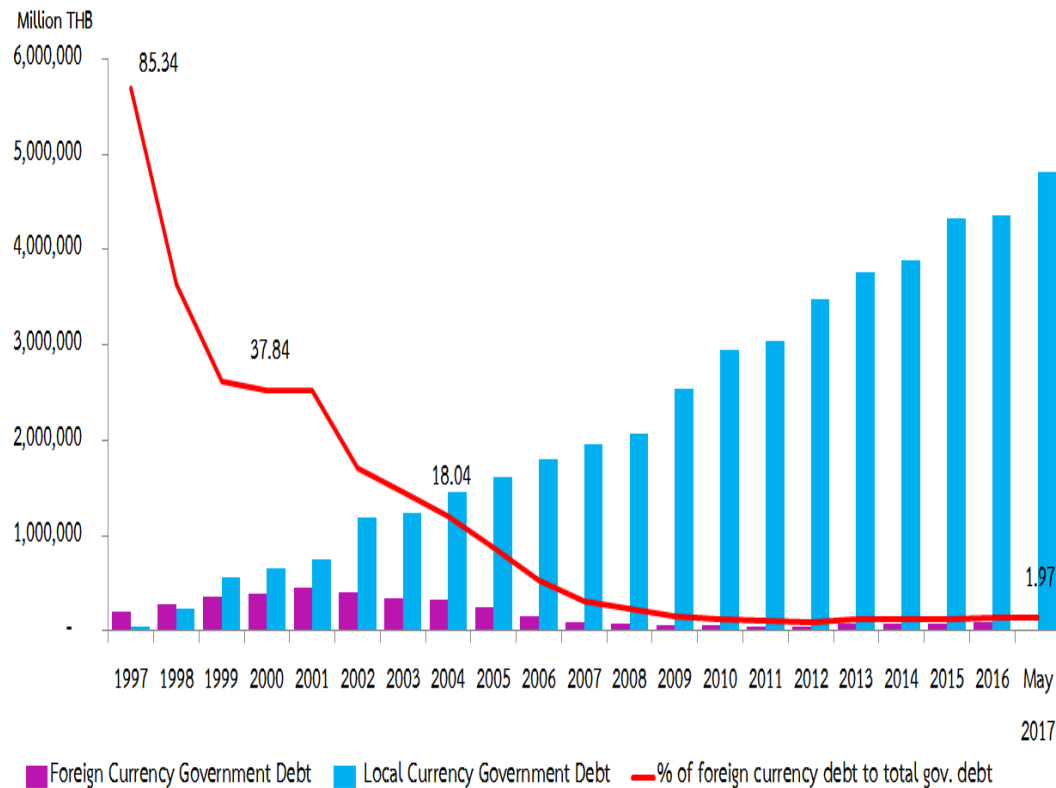


# CGIF

- Nov. 2010: Est. with \$700 mil cap., leverage ratio 1
- Apr. 2013: First guarantee
- Nov. 2013: Leverage ratio up 2.5 (i.e., guarantee capacity up \$1.75 bil)
- 14 guarantees issued so far for \$1.063 bil with \$435 mil in the pipeline.
  - Issuers from 8 economies (INO, LAO, VN, THA, PHL, SIN, MAL, HK,China) in 5 LCYs (THB, IDR, SGD, VND, PHP) with CAM and MYA forthcoming
  - i.e., supporting kick-starting of corporate bond markets in the frontier economies
  - Trading, finance, manufacturing, food, chemicals, real estate, healthcare, renewable energy (i.e., Green bond)
  - Numerous international awards as 1<sup>st</sup> project bond and 1<sup>st</sup> climate bond.
- Launched a Construction Period Guarantee to enable project bonds
- Aug. 2017: Capital increase agreed

# Case of Thailand

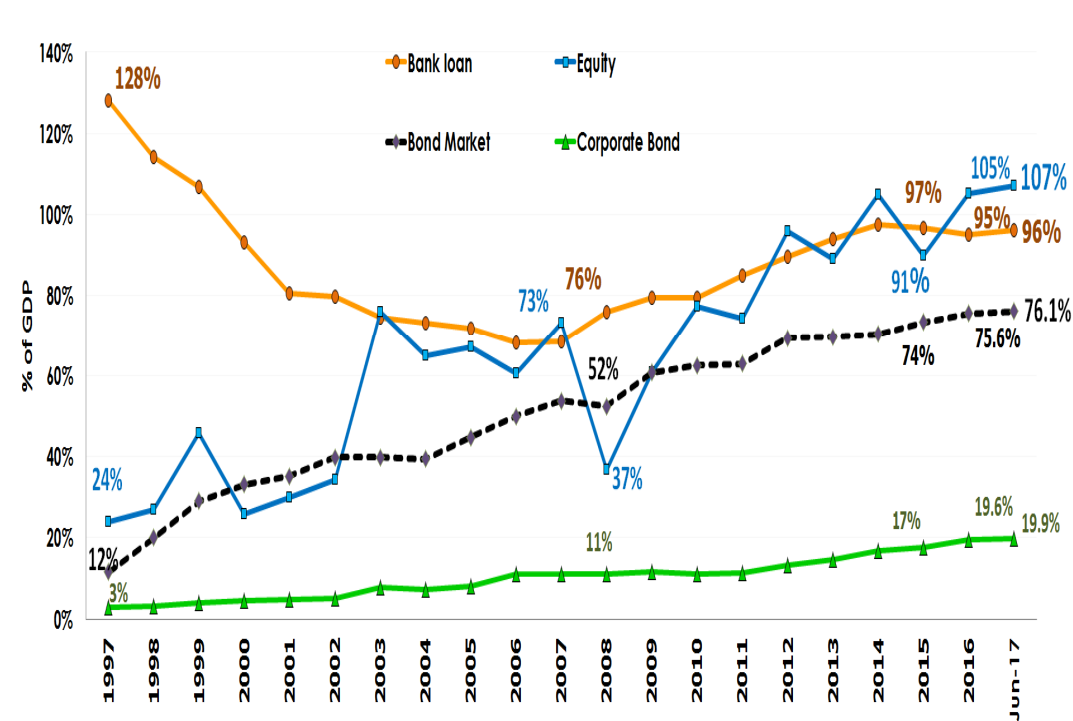
## Thai government debt financing



LCY bond market has helped the government (1) to reduce reliance on offshore funding and (2) to reduce foreign exchange risk.

Source : ThaiBMA

## Outstanding of Thailand's Financial Market (% of GDP)

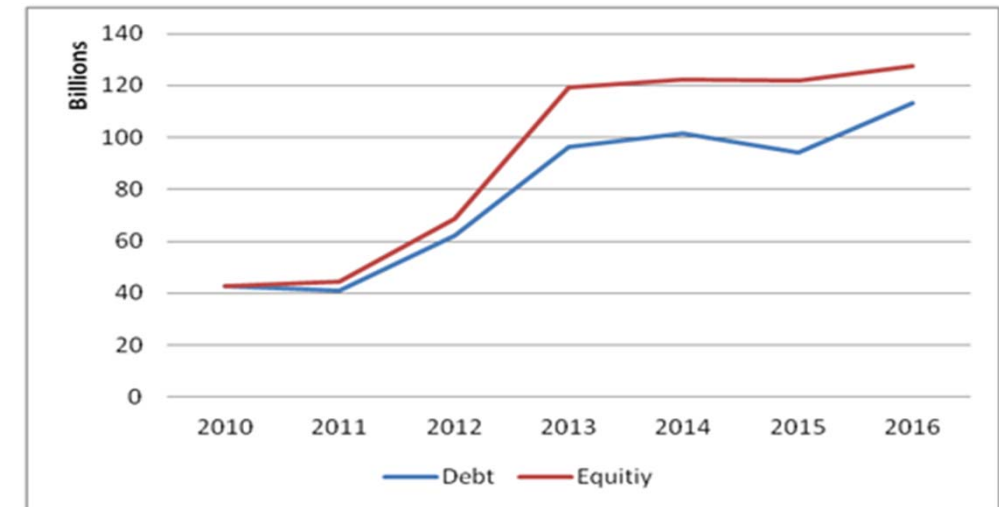
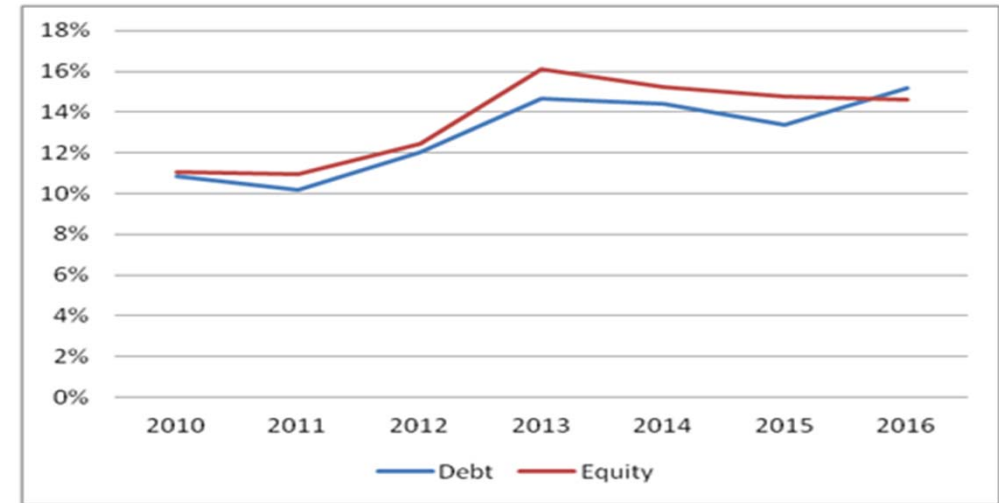
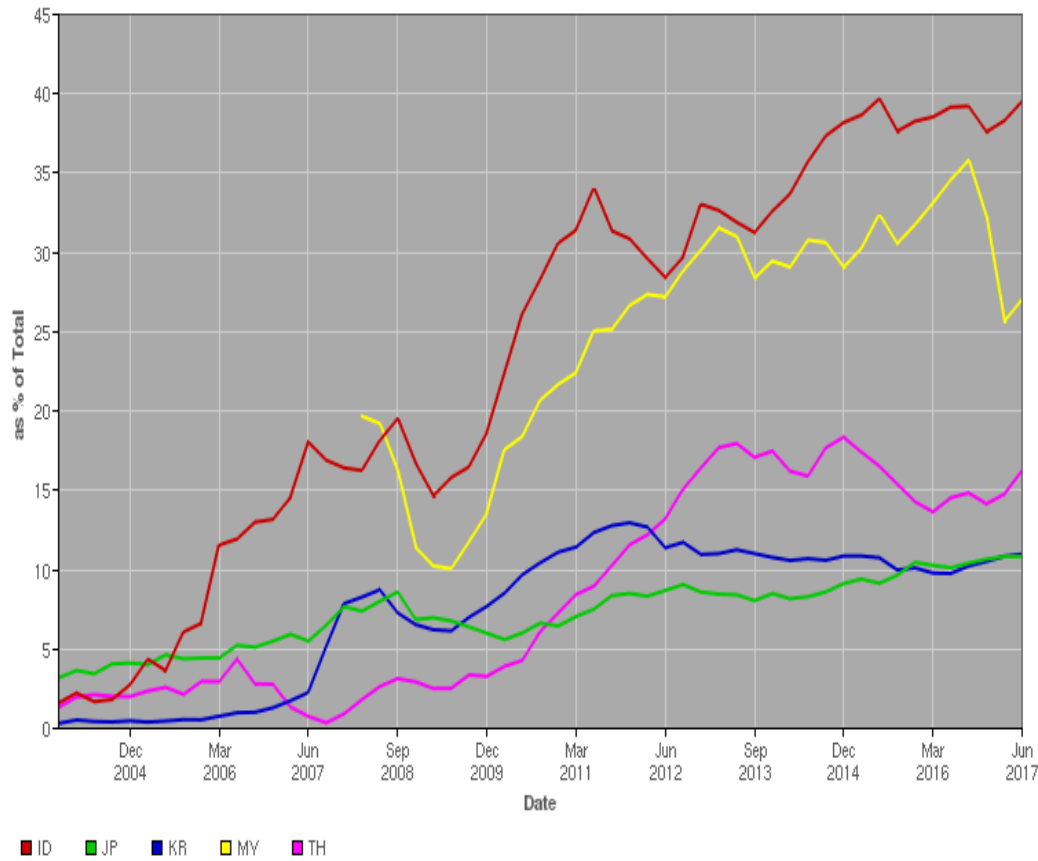


- Bond Market has grown from 12% of GDP to 76% since 1997 crisis.
- Created more balanced three financial pillars (bank loan, equity and bond market).
- Corporate bond market has been growing, unaffected by 2008 GFC.



# Foreign holding of ASEAN+3 securities

## Govt securities

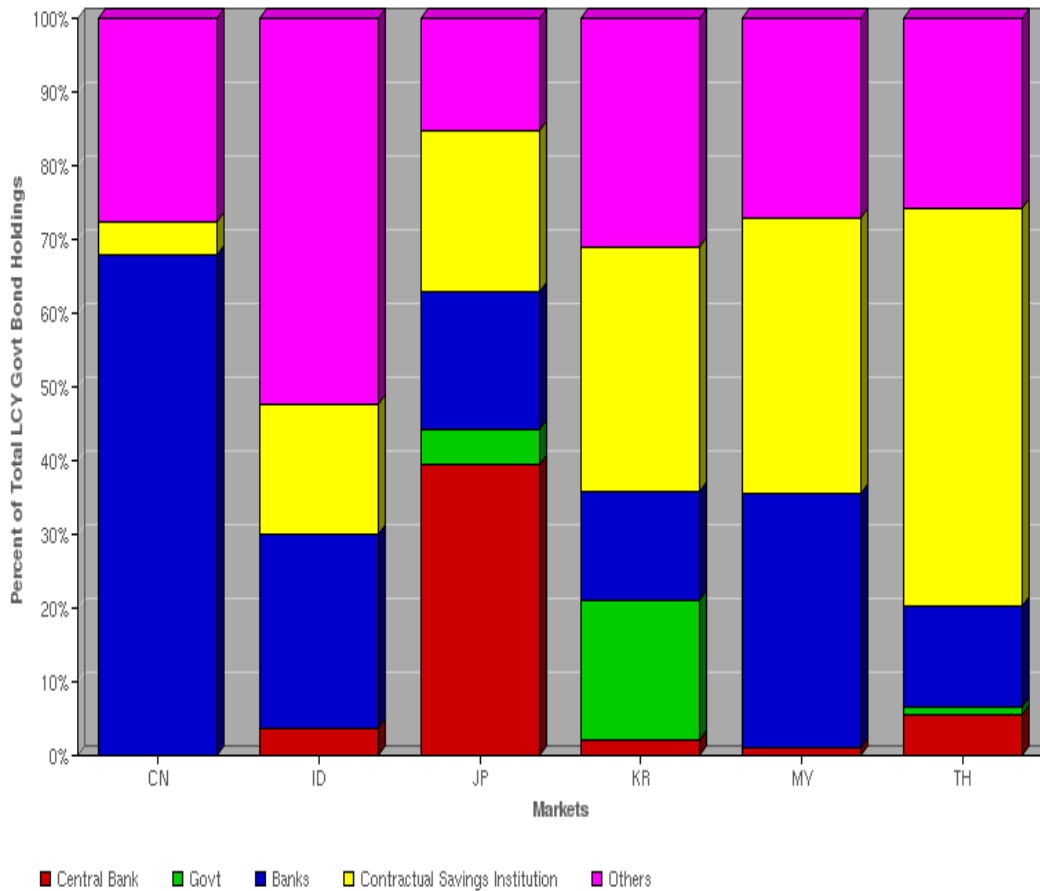


# Credit rating needs improvement by both global and local CRAs

		RATING																											
		CRAs	% Holding by CRAs	PRC		Japan		Korea		Brunei		Cambodia		Indonesia		Lao PDR		Malaysia		Myanmar		Philippines		Singapore		Thailand		Vietnam	
				LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX
CHINA	China Lianhe	Fitch (49%)			AA-	AA-	AA	AA					A+	A+									AAA	AAA	A+	A+			
	Dagong SFCER		AA+	AAA	A	A	AA-	AA-			B	B					A+	A+			BB-	BB-	AAA	AAA			B+	B+	
	Shanghai Brilliance	S&P (strategic partner)	NO SOVEREIGN RATING																										
	Golden Credit Rating																												
JAPAN	JCR				AAA	AAA	AA-	A+					BBB	BBB-			A+	A			BBB+	BBB+	AAA	AAA	A	A-			
KOREA	KIS	Moody's (sole owner)	NO SOVEREIGN RATING																										
	Korea Ratings	Fitch (73.55%)																											
	NICE						AA+	AA					BBB	BBB-			A+	A			BBB+	BBB			A-	BBB+	BB+	BB	
INDONESIA	PEFINDO		NO SOVEREIGN RATING																										
MALAYSIA	MARC (National scale only)	CARE (10%)						AAA						AA-			AAA								AAA				
	RAM	S&P (13%)																											
	Global scale			AA3		A1		A1		A1		B1		BBB2		B2		A2		B2		BBB3		AAA		BBB1		BB3	
	ASEAN & National scale			AAA		AAA		AAA		AAA		BB3		AA3		B1		AAA		B1		A1		AAA		AA1		BB1	
PHILIPPINES	Phil Ratings		NO SOVEREIGN RATING																										
THAILAND	TRIS	S&P (49%)																											BBB+

Legend (Outlook) : Positive Stable Negative

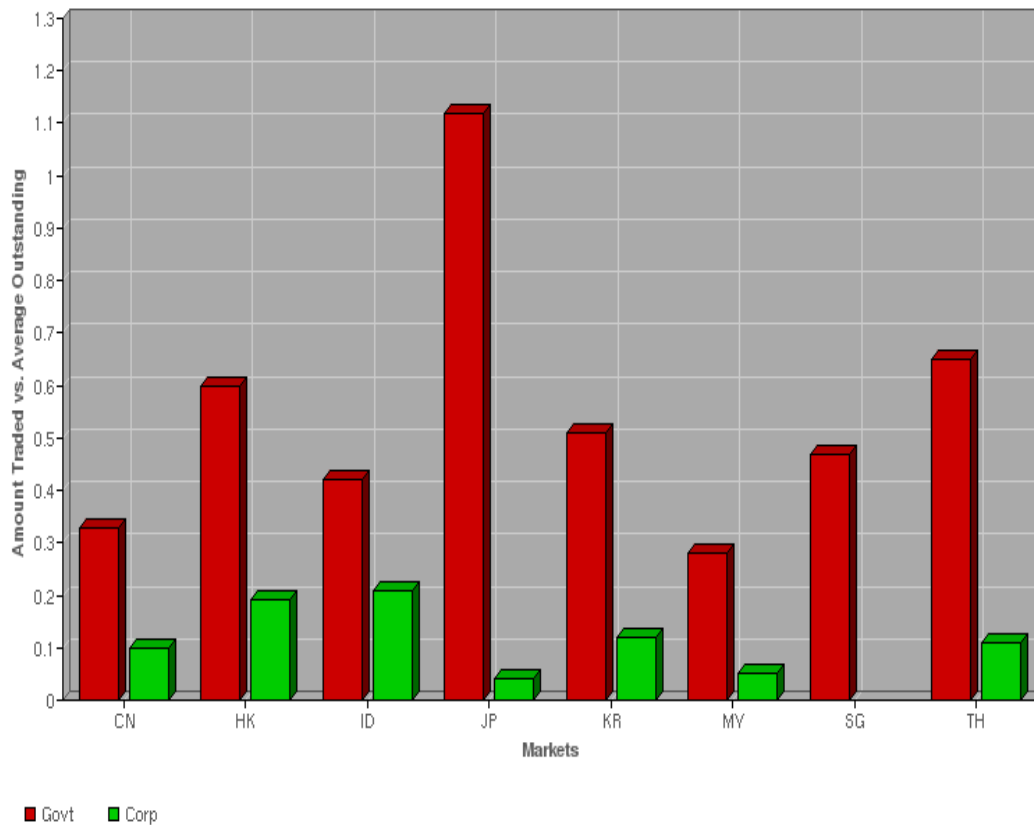
# Investor profile with signs of risk



- PRC shows strong interconnectedness between the government and banks
  - Nearly 70% of govt bonds held by banks
  - PRC banks also have high exposures to SOEs at both national and provincial levels.
  - Systemic risks? Need a joint stress test of the sovereign and the banks?
- Japan shows impacts of QQEs
  - BOJ holds 40% of govt bonds

# 2ndry market liquidity is modest

Quarterly turnover of govt bonds



- Market organization and transparency need to be improved.
- Repo markets need to be developed.
  - Repo market in PRC takes a form of pledged repos without ownership transfer
  - Prime collateral / Cross-border collateral / repo (i.e., cross-currency) is promoted with CSD-RTGS link

# ABMI New Medium-Term Roadmap

- Focus on what to finance for development beyond stability / resilience
  - Green bonds (for environmentally friendly infrastructure)
  - Municipal bonds (for urban infrastructure)
  - Covered bonds (for housing and infrastructure)
  - SME securitization
- Support for BCLM bond market
  - Good Practices for Bond Market Development
- Continuing and enhancing information dissemination and market integration
  - AsianBondsOnline, Asian Bond Market Summit
  - ABMF to promote AMBIF and cross-border STP with ISO 20022.
  - CSIF for CSD-RTGS link model with prime collateral / cross-border collateral / repos
  - Credit rating comparability
- CGIF capital increase
  - Construction Period Guarantee for project bonds (for greenfield infrastructure)

# Challenges of ASEAN+3 financial cooperation

- Supporting BCLM for market development
  - Starting with government bond market but without waiting for it (e.g., Cambodia)
- Connecting market infrastructures and developing FX derivatives for market integration
  - Facilitate the management of currency risk in cross-border bond investment while enhancing capital flow monitoring and management
- Going beyond ASEAN+3:
  - Dissemination of ASEAN+3 experiences beyond ASEAN+3
  - Expansion of ABMF to accommodate non-ASEAN+3 participants? Global/non-ASEAN+3 financial institutions are already in. How about officials of non-ASEAN+3 DMCs?
  - Disseminate Good Practices for Bond Market Development and help DMCs with road-mapping.
- Going beyond capital markets with use of technology for breakthrough
  - Blockchain to enhance CSD-RTGS link model with a virtual hub of bond custody
  - Crypto-currency to reduce the cost of cross-border bond trades, remittances and other financial transactions
  - Role of ADB: Issuer of ADB Coin? LCY govt bonds as underlying assets or capital?

Thank you !

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