

Financial system reform in APEC economies: What do we know and how do we know it?

By Wendy Dobson

1. The problem of immature financial systems

- Domestic and regional: Bank dominated/ debt finance
- Address domestic by:
 - **Work off post-crisis debt overhangs**
 - diversify instruments and institutions
 - Strengthen oversight
 - Modern infrastructure: accounting, legal etc
 - New technologies and trained human capital
 - Better corporate governance/ transparency/ shareholder rights
 - Foreign participation
- Address regional (bond markets):
 - Government regulations: issue bonds in foreign currencies
 - Government regulations: issue local currency instruments
 - Competition among domestic bond markets
 - Create regional infrastructure (payments and settlement systems etc)

Working Out Debt Overhangs

A. Nonperforming Amounts and Reductions, 2004

(US\$ billions)

Economy	NPLs in all Financial Institutions	NPLs in AMCs	Gross Reductions in NPLs Since Financial Crisis
Japan	330	112	600
China	307	107	200
Indonesia	16.9	5	37
Korea, South	15	45	125
Philippines	9	NA	NA
Thailand	18.8	5	95
Taiwan	19.1	NA	50
India	29.9	NA	NA
Total	746	274	1,107

B. Cumulative Transfers of Non-Performing Assets (NPAs) to AMCs

(Book Value, US\$, Dec. 31, 2002)

Economy	Total	% GDP	% Total Loans	% Total NPAs
China	170	14.5	20.7	40.9
Indonesia	35	19.5	76.4	90.4
Japan	290	7.0	8.1	46.5
Korea, South	90	19.5	29.8	85.0
Malaysia	15	14.3	7.4	91.6
Thailand	17	13.7	18.7	29.0
Total	370			

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2. Evaluating Financial Reforms

Data sources:

- FSAPs
- ROSCs
- Analyst reports: Ernst & Young on NPLs
- Financial Stability Forum reports
- World Bank database on bank regulation and supervision
- ADB websites

3. What do we know?

- World Bank database data on some APEC economies
 - Scorecard (1998-2000 survey)

Scorecard on bank oversight in APEC economies

	1. Capital Soundness	2. Supervisory Stringency	3. Private Monitoring Index
China	4	7	7
Hong Kong	NA	NA	NA
Indonesia	5	14	8
Japan	Approx. 7	15	8
Korea, South	6	11	6
Malaysia	3	9	9
Philippines	4	14	8
Singapore	5	NA	9
Thailand	5	8	6
Taiwan	4	6	9
Canada	4	4	7
Chile	5	10	8
Mexico	7	11	6
US	6	15	8
India	7	5	6
Total possible	8	17	10

Capital Soundness

	1. Capital Regulatory Variables	2. Risk-adjusted Capital Ratio	3. Capital Stringency	4. Capital Regulation Index
China	2	NA	1	4
Indonesia	2	1	2	5
Japan	NA	NA	4	7
Korea, South	2	1	5	6
Malaysia	2	2	1	3
Philippines	3	2	3	4
Singapore	3	2	4	5
Thailand	3	2	3	5
Taiwan	2	2	3	4
Canada	3	2	2	4
Chile	2	2	3	5
Mexico	2	2	5	7
US	2	2	4	6
India	2	2	5	7
Total possible	3	3	6	7

Supervision Stringency

	1. Supervisory Powers	2. Prompt Corrective Action	3. Restructuring Powers	4. Declaring Insolvent Powers
China	3	0	3	1
Indonesia	4	6	2	2
Japan	4	6	3	2
Korea, South	3	3	3	2
Malaysia	3	1	3	2
Philippines	3	6	3	2
Singapore	1	0	NA	NA
Thailand	3	0	3	2
Taiwan	3	2	NA	1
Canada	2	0	1	1
Chile	3	2	3	2
Mexico	3	3	3	2
US	4	5	3	2
India	3	0	2	0
Total possible	4	6	3	2

Supervisory Discretion

	1. Forbearance	2. Move to private sector
China	2	3
Indonesia	1	2
Japan	1	0
Korea, South	1	1
Malaysia	0	2
Philippines	1	3
Singapore	2	3
Thailand	2	2
Taiwan	1	2
Canada	3	2
Chile	0	3
Mexico	1	1
US	1	1
India	3	1
Total possible	4	3

4. Conclusions

1. Value of scorecard's comparative approach

- Independent, public comparisons
- Progress evident? Variations?
- Possibilities to extend to capital market reforms?
- To regional institutions and infrastructure creation?

2. Availability of information

- If not available, how to obtain?

3. A thousand flowers blooming

- Desirability of consolidation?
- Information and analysis as the basis for deeper regional cooperation/ platform?