

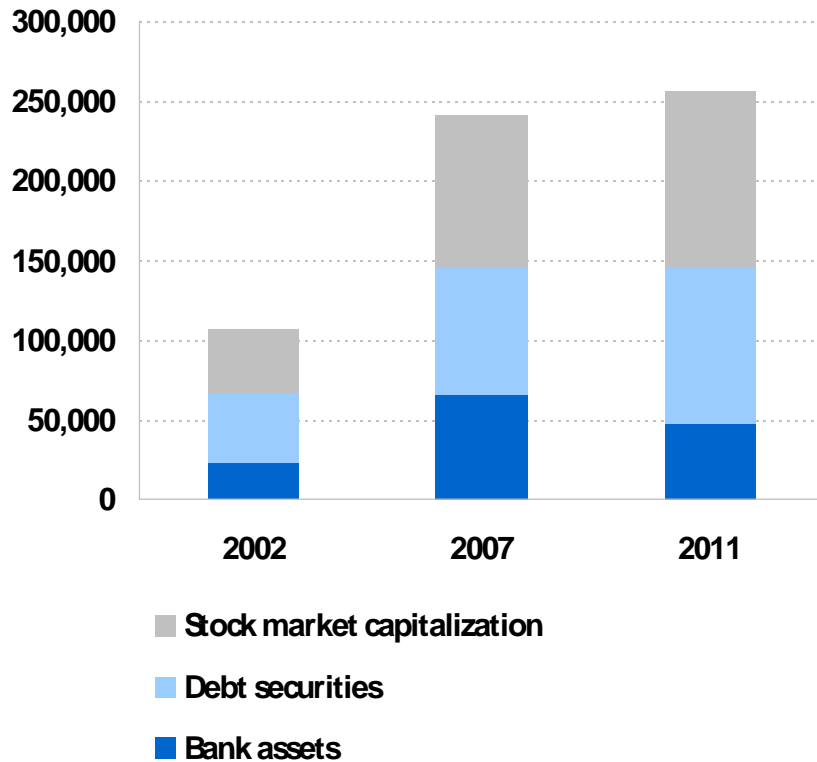
# *Current Issues*

## *... in Global Financial Market*

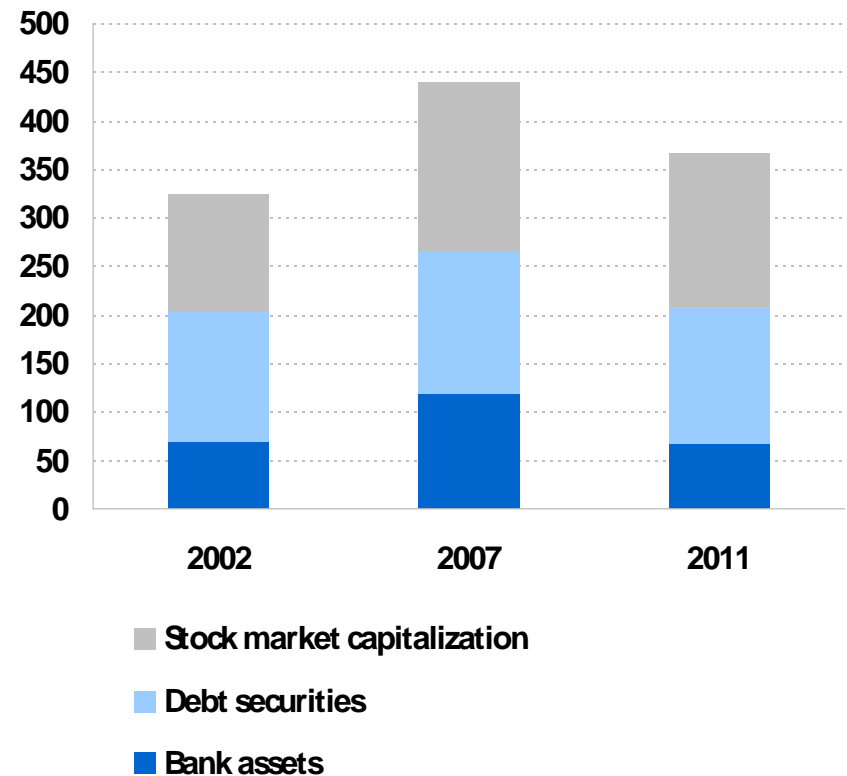
Prepared by: TMB Analytics

Date: October 31, 2012

In billions of US dollar



In percent of GDP



**Financial Landscape I. Unconventional Monetary Policy**

**Financial Landscape II. European Banking Union**

**Financial Landscape III. ASEAN Economic Community**

**Financial Landscape I. Unconventional Monetary Policy**

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- The European Central Bank defines **global imbalances** as ‘ *external positions of systematically important economies that reflect distortions or entail risks for the global economy* ’

➤ **External positions.**

*This refers not only to current account balances but also financial positions.*

➤ **Systematically important economies.**

*These are economies whose macroeconomic and financial developments may have a significant impact on the global economy.*

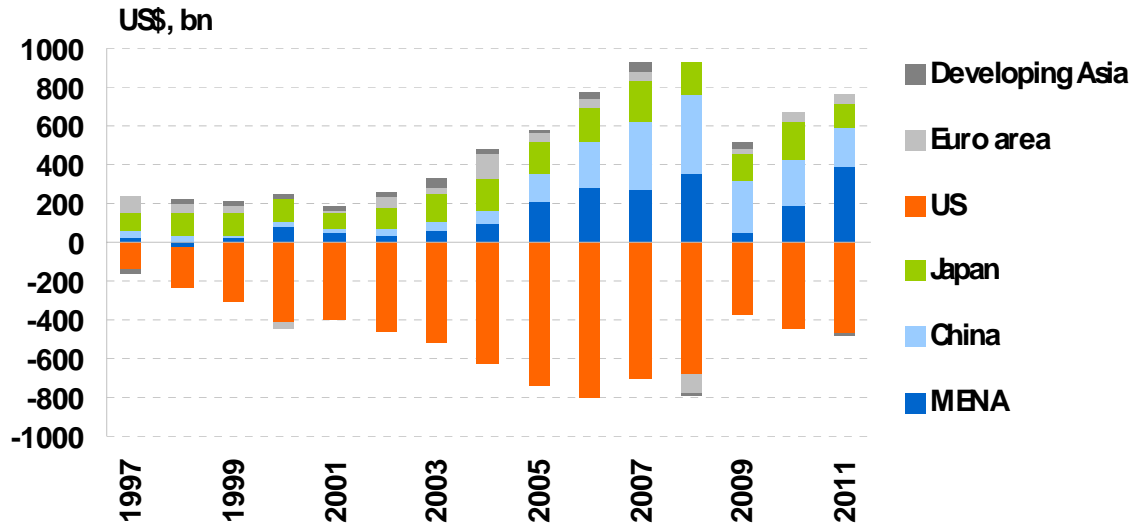
➤ **Reflect distortions.**

*The build-up of external positions may (partly) reflect distortions, i.e. deviations from the equilibrium that would prevail in an environment of full price flexibility and perfect competition.*

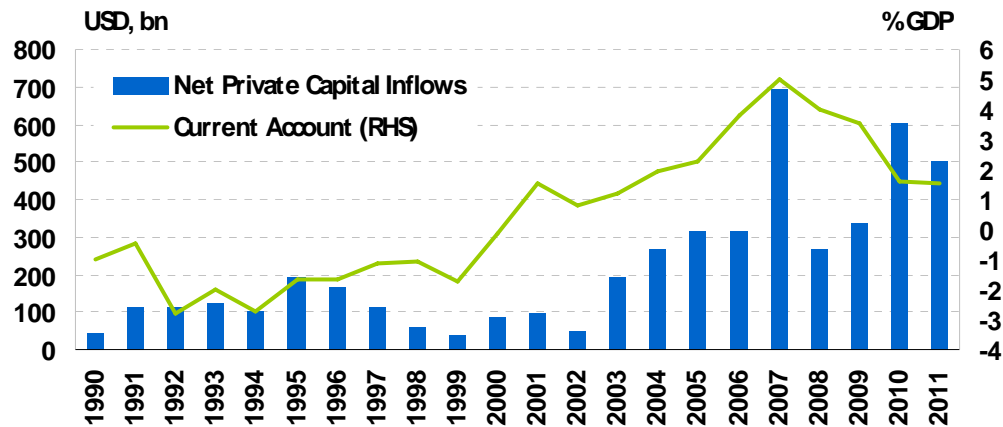
➤ **Entail risks for the global economy.**

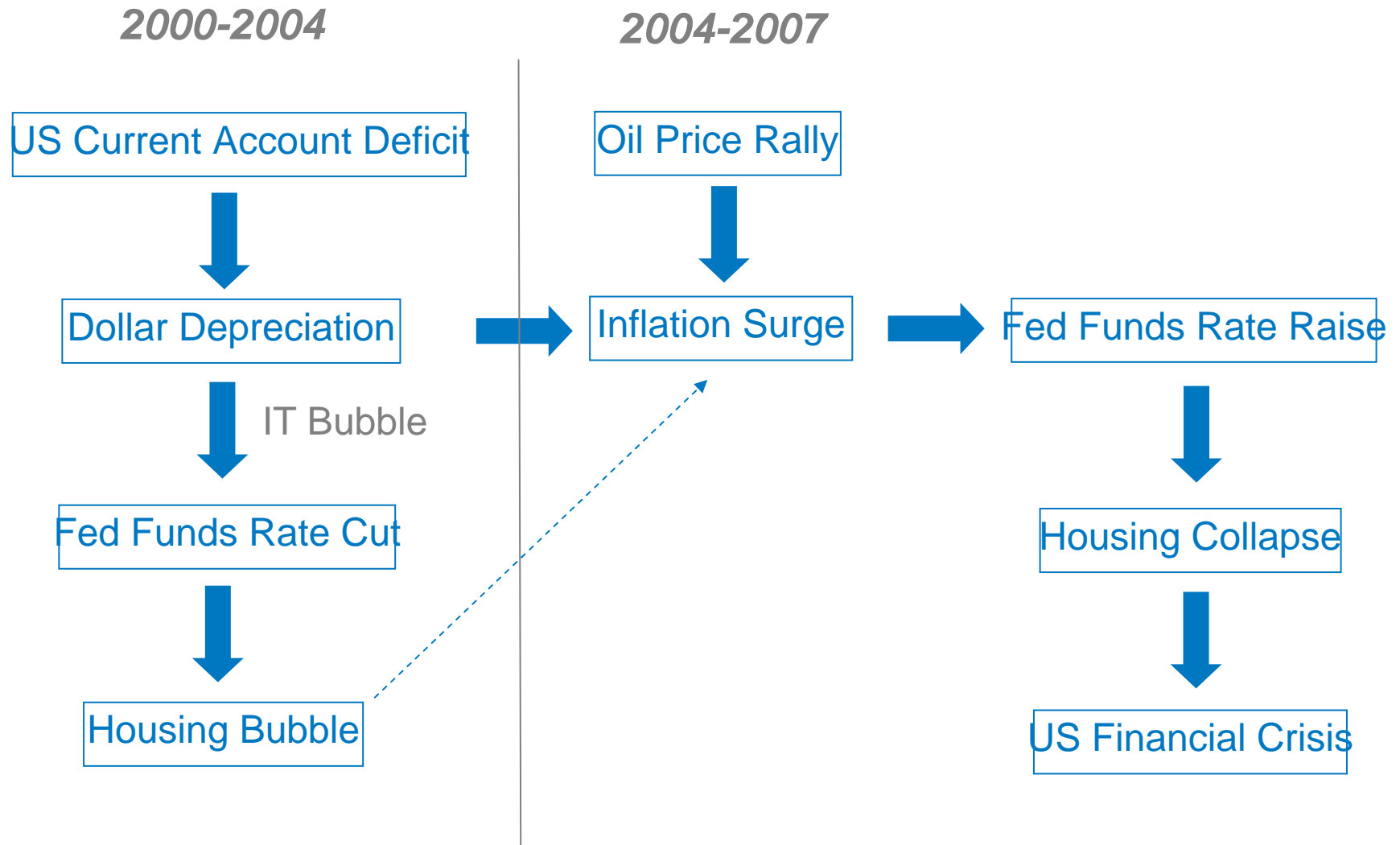
*The existence of external positions may pose risks for the global economy, both under a scenario unwinding (risk of disorderly unfolding with disruptions to macroeconomic and financial stability) and a scenario of further increasing imbalances (risk of a protectionist backlash).*

## Current account balance

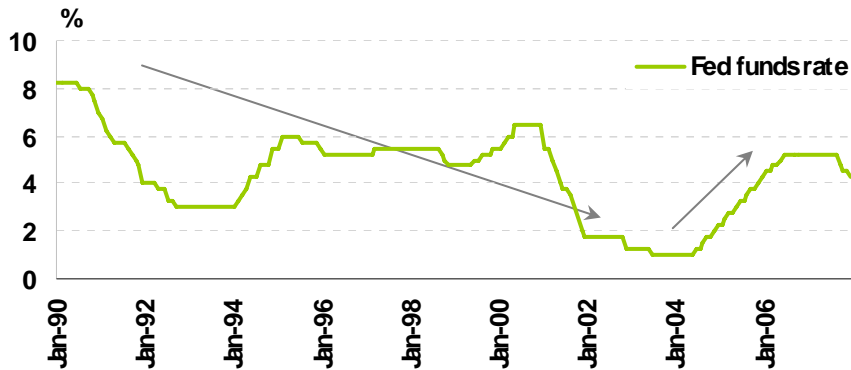


## Net capital flows to emerging & developing economies

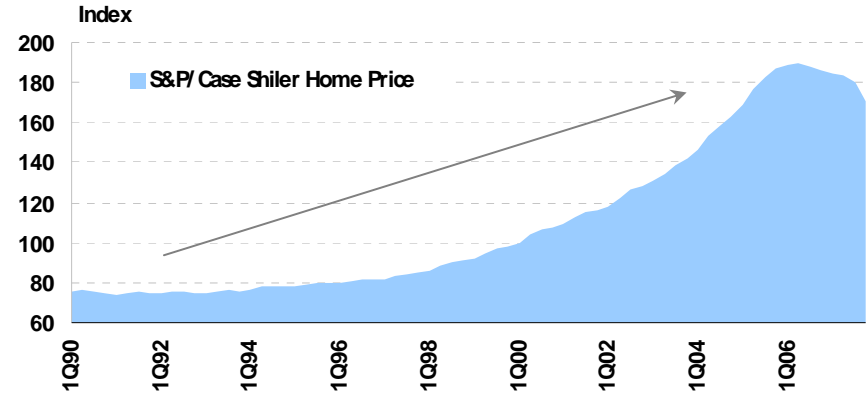




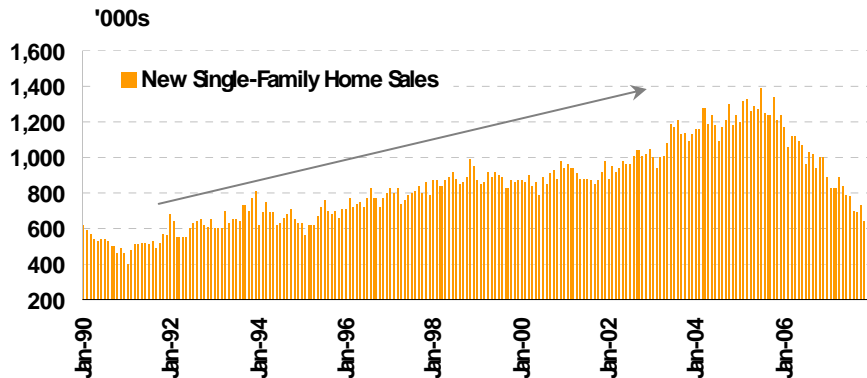
## Fed funds rate



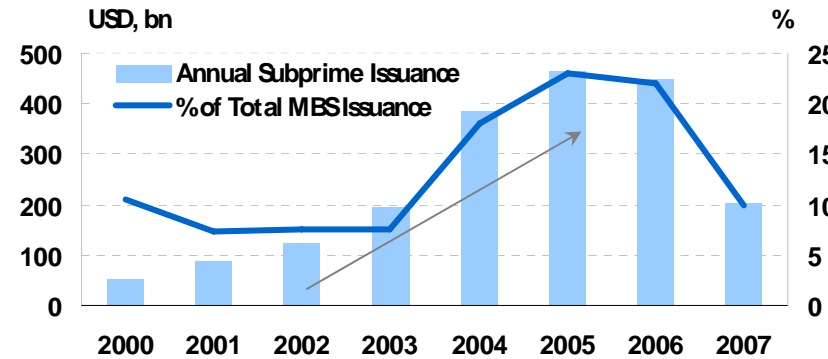
## Housing price



## Home sale

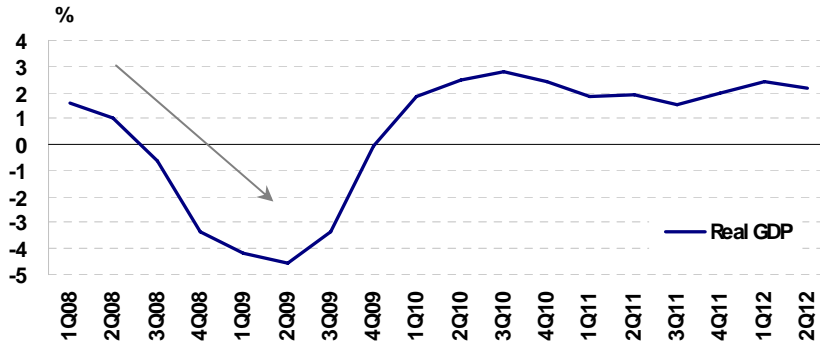


## Mortgage-backed securities issuance

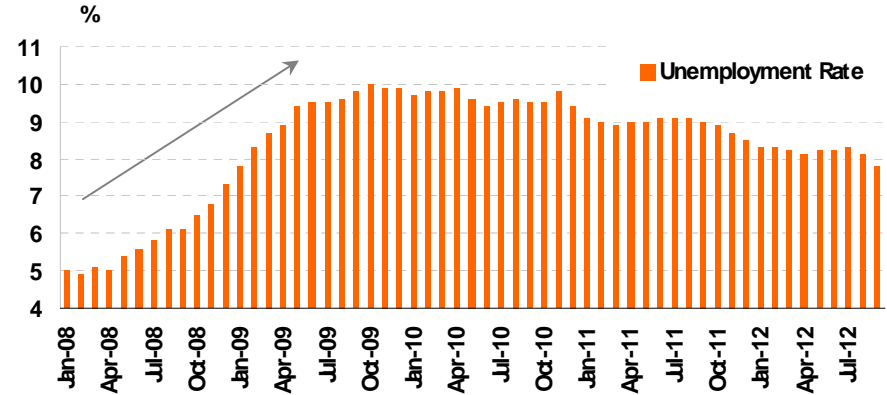




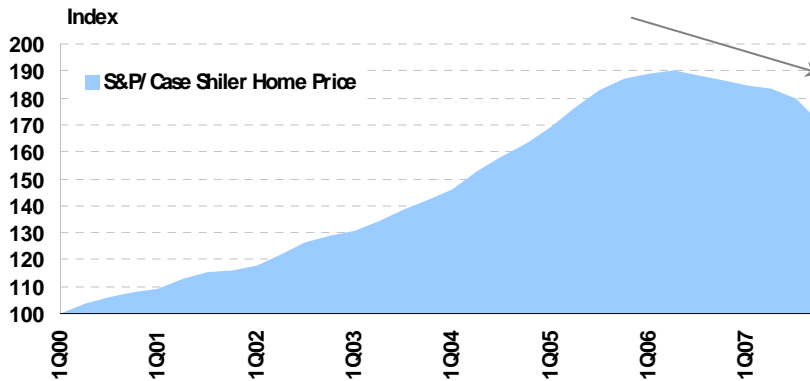
## GDP



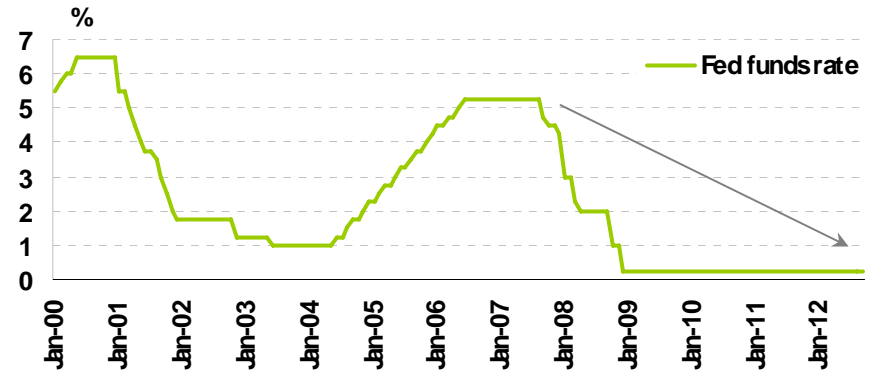
## Unemployment



## Housing price



## Fed funds rate



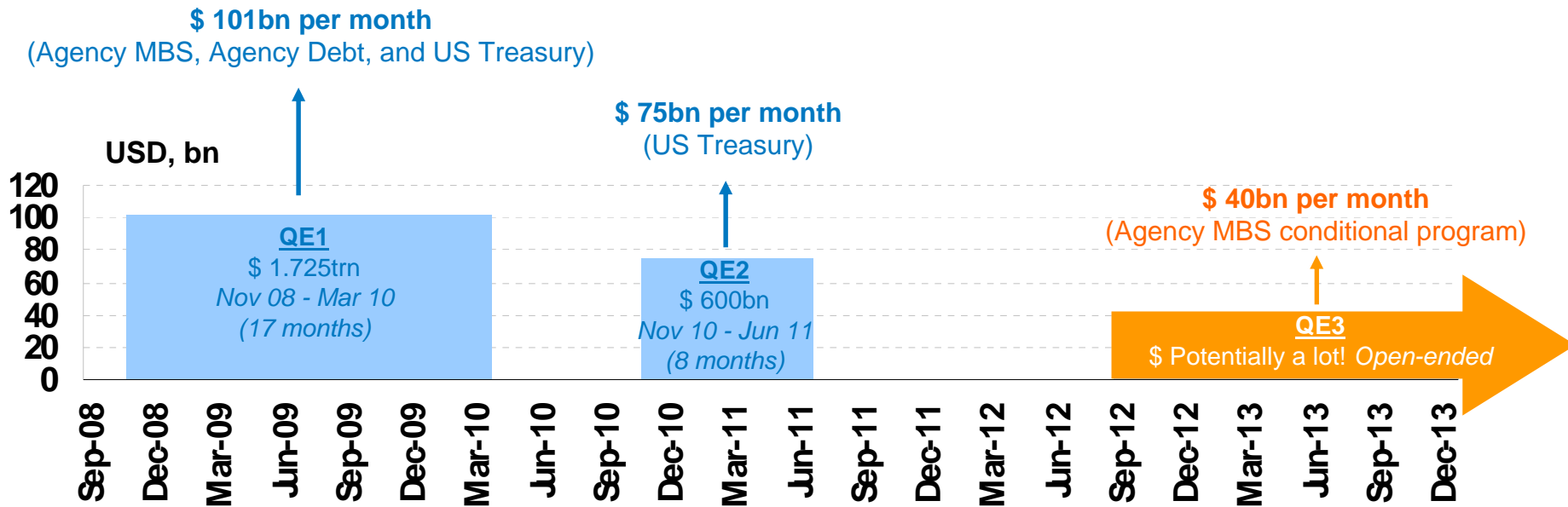
- **Conventional monetary policy; e.g.**

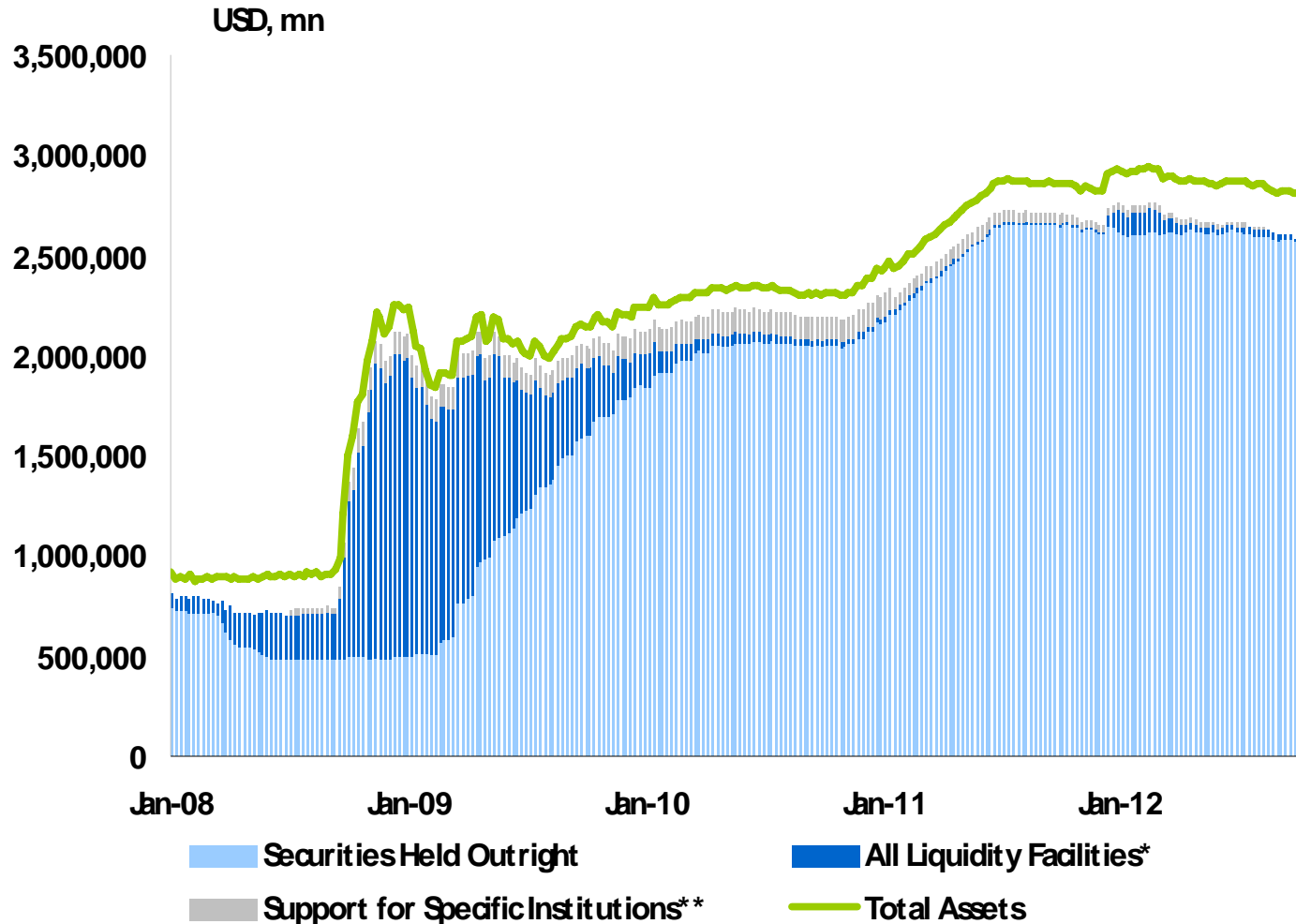
- Interest rates
- Monetary base
- Reserve requirements
- Discount window lending

- **Unconventional monetary policy; e.g.**

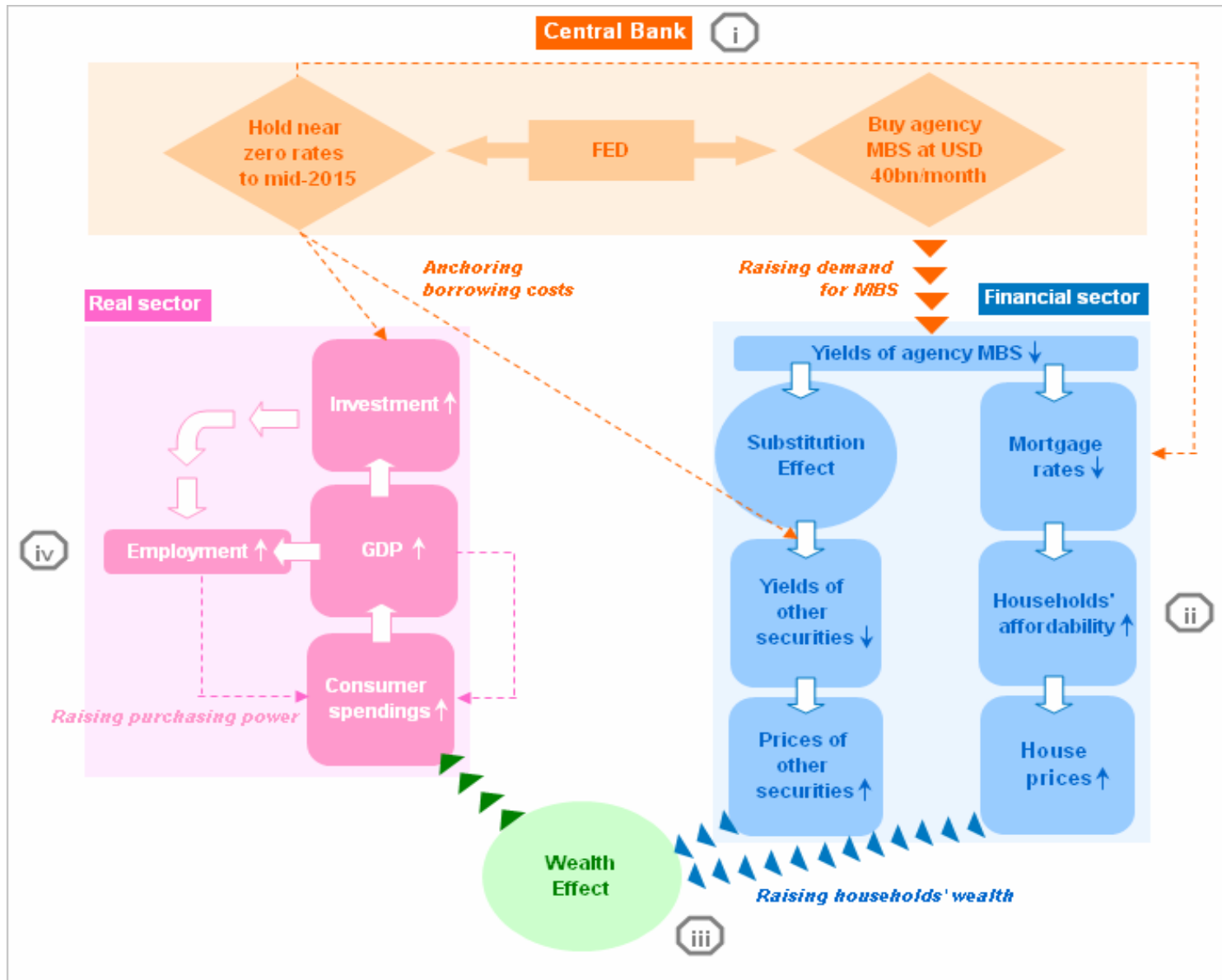
- Quantitative/Credit easing

## Timeline of FED's securities purchase





*Note* : \*All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; and central bank liquidity swaps. \*\*Support to Specific Institutions includes: Maiden Lane LLC; Maiden Lane II LLC; Maiden Lane III LLC; and support to AIG.



- During abnormal times, conventional monetary policy tools may prove insufficient to achieve the central bank's objective.
- For example, the economic shock is so powerful that the nominal interest rate needs to be brought down to zero. At that level, cutting policy rates further is not possible, so any additional monetary stimulus can be undertaken only resorting to unconventional monetary policy tools.
- When the central bank's objective can no longer be achieved by conventional measures, policy makers are confronted with a number of issues (European Central Bank; April 2009):
  - **First**, the unconventional tools include a broad range of measures aimed at easing financing conditions. Having this menu of possible measures at their disposal – which are not mutually exclusive ones – monetary policy-makers have to clearly define the intermediate objectives of their unconventional policies. These may range from providing additional central bank liquidity to banks to directly targeting liquidity shortages and credit spreads in certain market segments. The policy-makers then have to select measures that best suit those objectives.
  - **Second**, they should be wary of the possible side-effects of unconventional measures and, in particular, of any impact on the financial soundness of the central bank's balance sheet and of preventing a return to a normal market functioning.

**Financial Landscape I.** Unconventional Monetary Policy

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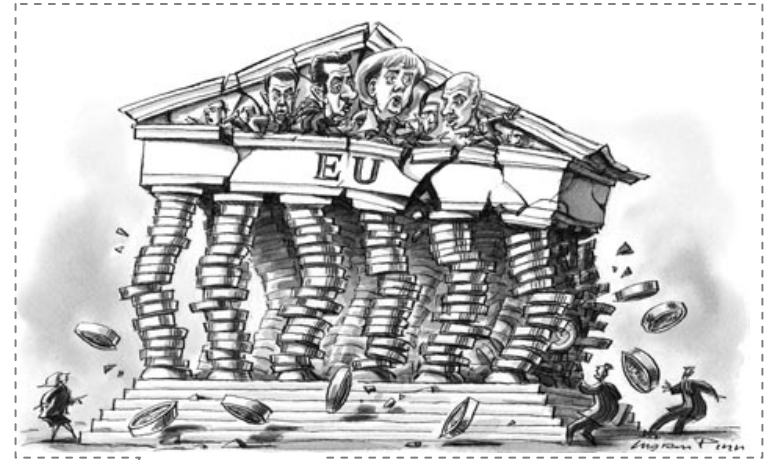
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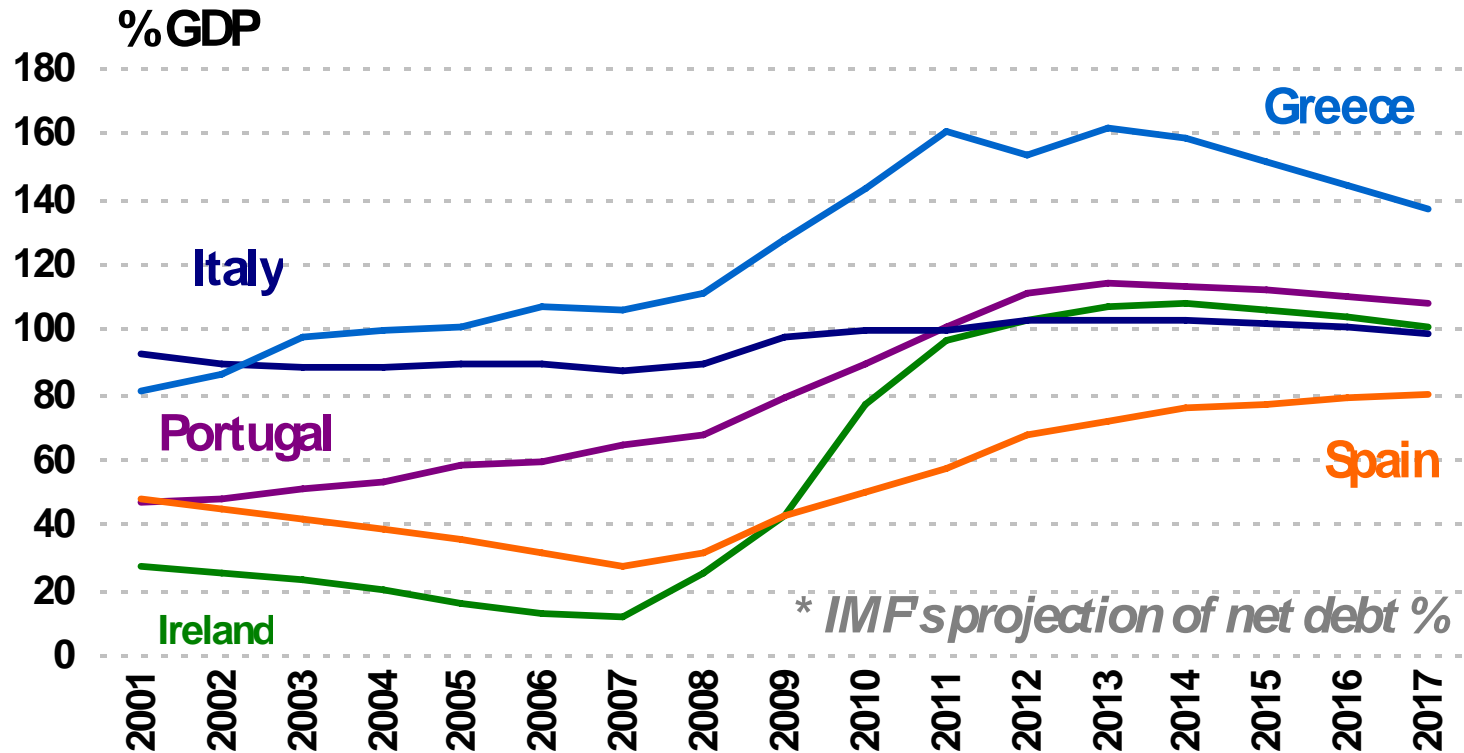
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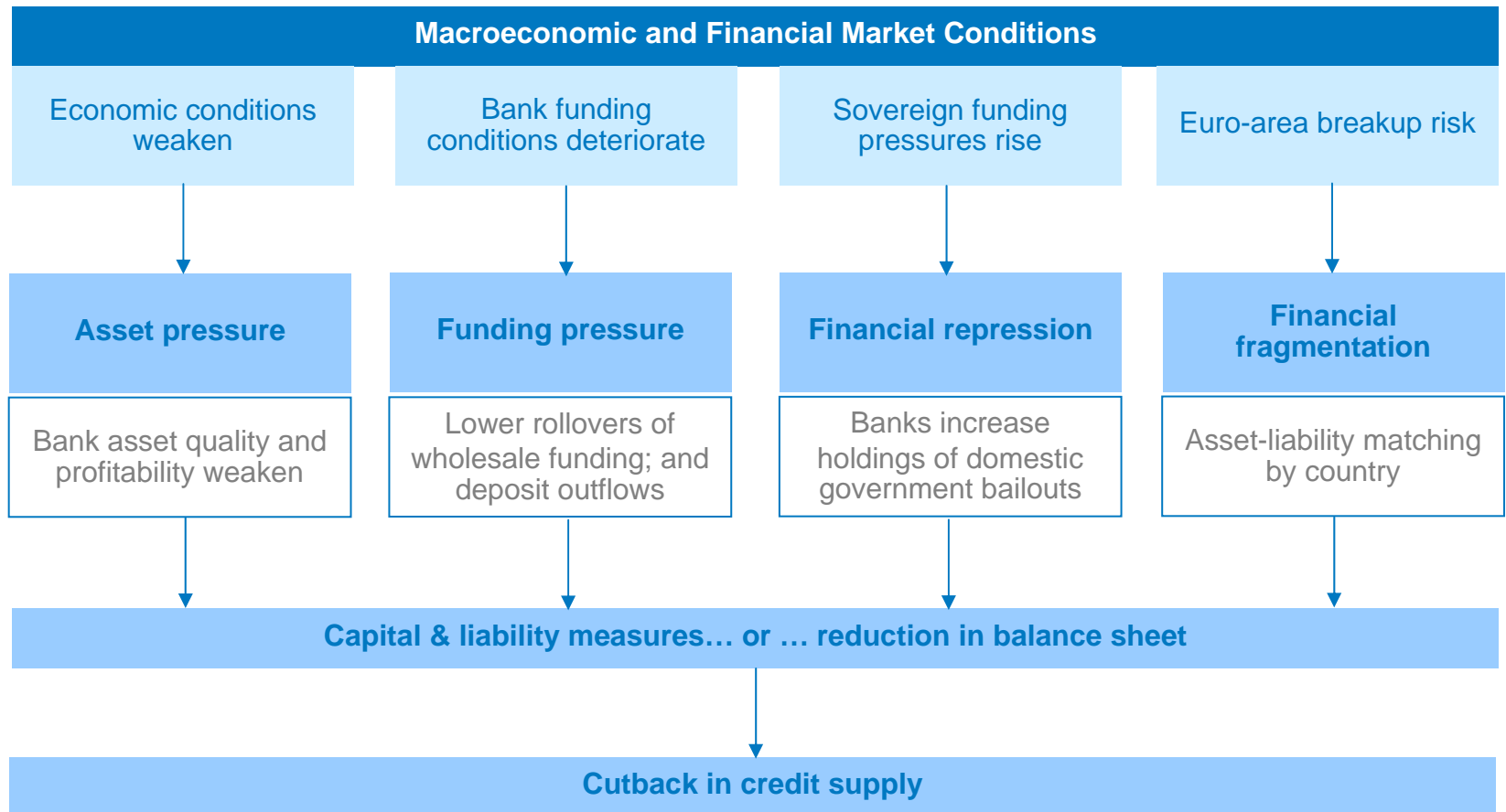


## Indebtedness and leverage in selected advanced economies

	General Government			Households		Nonfinancial firms		Financial Institutions			External Liabilities			
	Gross debt	Net debt	Primary balance	Gross debt	Net debt	Gross debt	Debt over equity	Gross debt	Bank leverage	Bank claims on public sector	Gross	Net	Government debt held abroad	
Euro area	Greece	171	n.a.	-1.7	69	-58	73	235	40	n.a.	13	204	96	95
	Ireland	118	103	-4.4	117	-74	289	109	706	8.3	28	1750	99	71
	Italy	126	103	2.6	51	-174	114	138	105	5.2	38	146	24	46
	Portugal	119	113	-0.7	104	-125	158	154	59	4.5	24	285	108	64
	Spain	91	79	-4.5	87	-74	186	143	115	4.9	35	225	92	25
	Belguim	99	83	0.1	55	-202	186	52	123	n.a.	24	404	-65	57
	France	90	84	-2.2	67	-134	134	68	172	2.5	18	296	16	58
	Germany	83	58	1.4	58	-122	64	96	97	2.2	23	219	-38	51
	Euro area	94	73	-0.5	71	-130	138	107	145	n.a.	n.a.	194	12	26
Rest of the world	United Kingdom	89	84	-5.6	99	-185	116	85	232	4.2	8	692	9	28
	United States	107	84	-6.5	86	-235	89	83	88	7.1	8	161	26	32
	Canda	88	36	-3.2	91	-154	54	44	59	3.3	15	103	12	18
	Japan	237	135	-9.0	76	-241	145	176	188	2.8	83	73	-57	18

## PIIGS' sovereign debt





## Definition

*‘ In my view it involves a transfer to the European level of the regulatory and institutional framework responsible for safeguarding the robustness and stability of the banking sector ’*

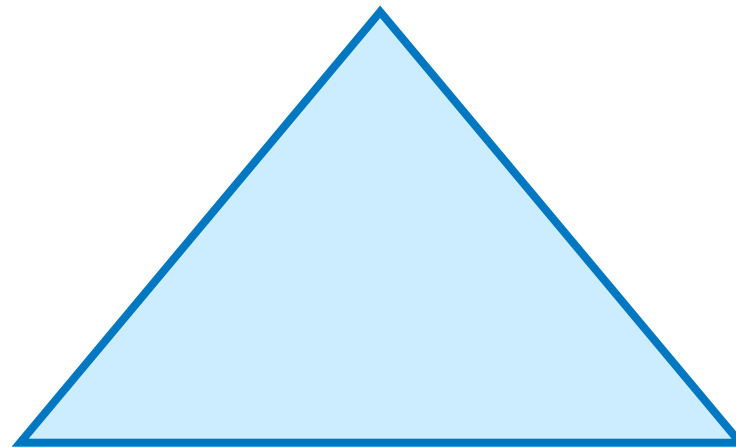
**Vítor Constâncio, Vice-President of the ECB**

## Main components

- The single supervisory mechanism
- Deposit Guarantee Schemes
- Bank Recovery and Resolution

## Financial Trilemma

*Financial Stability*

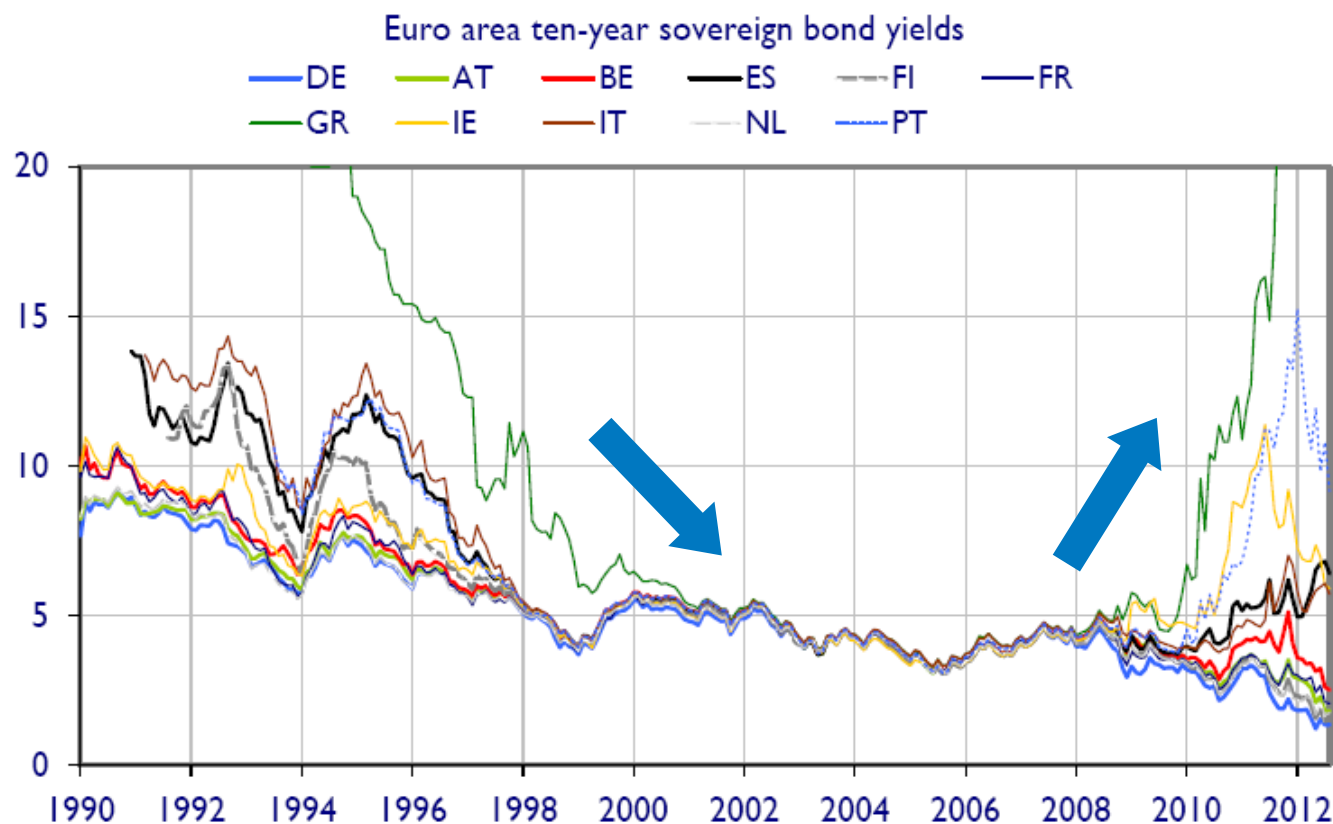


*Financial Integration*

*National Financial Policies*

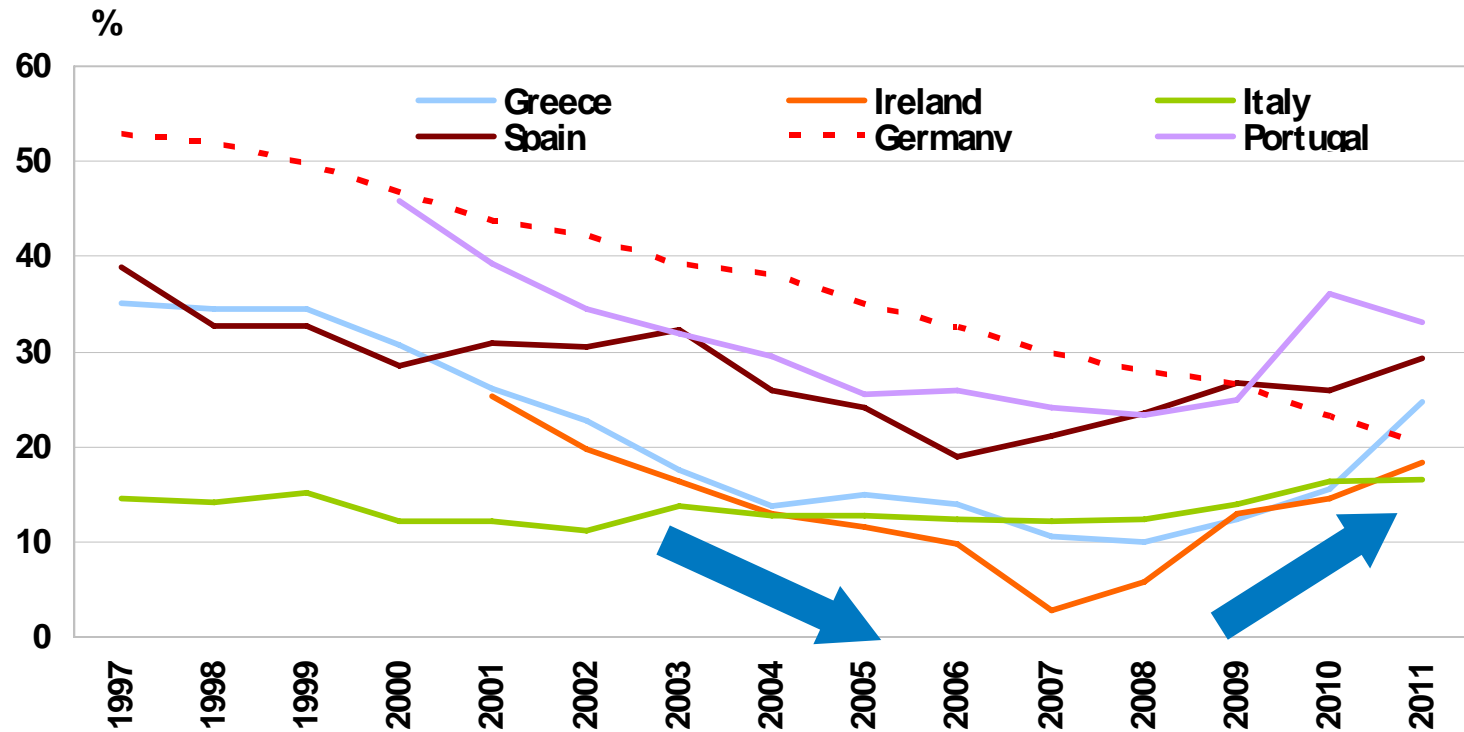
- With increasing financial integration, pursuing national financial policies will generally not lead to financial stability because ***national policies (e.g., whether to refund or to liquidate a bank in financial distress)*** seek to benefit national welfare, not taking into account externalities on other countries (under-provision of financial stability as a public good).

## Convergence of sovereign debt rates (monthly; percentage points)



- A Banking Union will foster the financial integration, after more disintegration due to the crisis.

## Domestic sovereign debt held by resident banking sector (% of total)



- The large macro imbalances in euro area are caused by the natural bias of national supervision (both in lender and borrowing countries).

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Single Market	<b>Free Flows of Goods (AFTA)</b> <ul style="list-style-type: none"> <li>6 Old ASEAN liberalized in 2010: TH, MY, PH, ID, SG, BN</li> <li>4 New ASEAN will liberalize in 2015: KH, LA, MM, VN</li> </ul>
	<b>Free Flows of Services (AFAS)</b> <ul style="list-style-type: none"> <li>Allow investment in service sectors by ASEAN members up to 70% by 2015.</li> </ul>
Single Production-Base	<b>Free Flows of Investment (ACIA)</b> <ul style="list-style-type: none"> <li>Deals with investment in non-service sectors: Agriculture, Fisheries, Forestry, Mining, and Manufacturing</li> </ul>
	<b>Freer Flows of Capital</b> <ul style="list-style-type: none"> <li>Deepen Capital Market Development and cross-border investments and fund seekings.</li> </ul>
	<b>Free Flows of Skilled Labor</b> <ul style="list-style-type: none"> <li>Recognize qualifications of Engineers, Architects, Surveyors, Doctors, Dentists, Nurses, Accountants.</li> </ul>
Other Principles	<b>Competitive Economic Region</b> <ul style="list-style-type: none"> <li>Competition policy</li> <li>Intellectual Property Rights</li> <li>Infrastructure Development</li> <li>Taxation</li> <li>E-commerce</li> </ul>
	<b>Equitable Economic Development</b> <ul style="list-style-type: none"> <li>Reduce development gaps among ASEAN-6 and CLMV (IAI).</li> <li>Establish <b>SME Development Fund</b> by 2015, led by TH and LA.</li> </ul>
	<b>Integration into the Global Economy</b> <ul style="list-style-type: none"> <li>Coherent approach to economic relations with non-ASEAN.</li> <li>Participate in Global Supply Networks.</li> </ul>

## Financial and Capital Liberalization and Integration

- Support single market and free trade area
- Financial and capital market development (regionally integrated market)

- Financial infrastructure

*Building payment and money transfer systems to support and reduce cost of any transactions e.g. ATM pool*

- Freer flows of capital

- Primary and secondary market (opportunity to either invest or raise funds)

***Promoting the ASEAN as an asset class and mutual recognition and harmonization of regulations to streamline cross-border transactions***

- Mutual recognition of prospectus for plain vanilla bond and equity issuance
- Expedited secondary listing review framework by shortening the review period down to 35 business days
- Cross-boarder offering of mutual fund for alternative investment
- ASEAN link (Singapore, Malaysia, Thailand = 70% of ASEAN market capitalization)

- **Integration into the global economy (comply with regional and/or international standard)**
  - Anti-Money laundering and counter terrorism financing
  - Good governance ————— *Upgrading corporate practice and disclosure as well as multilateral agencies e.g. OECD*
  - Laws and regulations amendment in accordance with free trade and service liberalization scheme
- **Strategic partners, mergers & acquisitions among players in financial institutions for competitiveness and business opportunities**

2010

2012

2014

2015

## AEC : Free Flows of Services

➤ Limit raised to at least 51% of foreign ownership

➤ Limit raised to at least 70% of foreign ownership

## FSMP II 2010-2014

➤ Thai CBs Strengthening

- Reduce NPL and Regulatory Costs
- Liberalization of branch network
- Expand economy of scale and economy of scope (merger, mutual fund, capital fund management)
- Upgrade retail banks (e.g., TCR & LH)
- Boost financial access via CBs' microfinance

➤ New entry to fill gaps and create value-added of financial services e.g. microfinance, Islamic bank

➤ Foreign bank branches and subsidiary upgrading >> **stronger competition in corporate and retail sectors**

➤ Possibility of new licenses

## IDP II 2010-2014

➤ Enhance distribution channels via CBs

➤ Insurance product development in line with risk profile, consumer need, and standardization of policies

➤ Tax supporting for insurance business e.g. tax deduction for policyholder

➤ Policyholder's protection development

➤ **Goal for 2014**

• **Insurance Penetration = 6%** (Y2009 = 4%)

• **Insurance Density = THB 7,500** (life = 4,200 and non-life = 3,300) (Y2009= THB 4,600)

• **Life insurance policy to total population = 40%** (Y2009=27%)

• **Micro insurance product growth rate = 20% from Y2010**

## CMDP 2010-2014

➤ Liberalize commission for large customers, not exceeding 1%

➤ Liberalize commission for all customers, not exceeding 1%

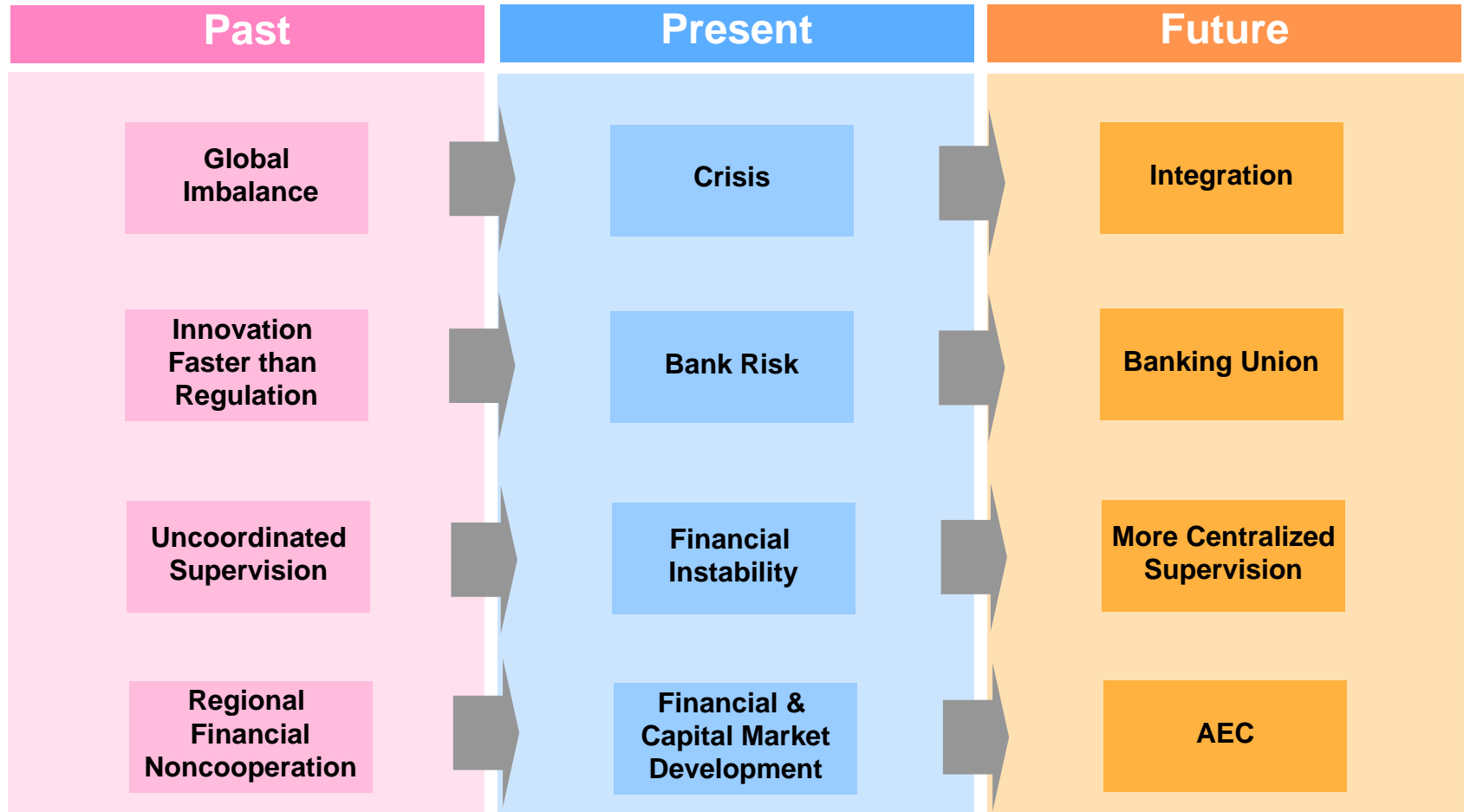
➤ Liberalize securities licenses

## Relaxation during Y2012-Y2013

- To remove amount limit for outward direct investment by Thai individuals (Thai companies already since 2010)
- To widen institutional investor base for outward portfolio investment and ease regulations for transfers of foreign currency to facilitate investment in foreign securities through ASEAN Linkage
- To remove the amount limit of foreign currency deposit (FCD) in order to provide more flexibility for importers or residents with obligations in their foreign exchange risk management
- To allow Thai residents freely unwind their foreign currency hedging of capital transactions
- To relax regulations on FX for more flexibility in exchange and transfer money
- To relax measures to prevent Thai baht speculation by non-residents (NR)

## Relaxation by the end of 2012

- Allowing companies listed on the SET to directly invest in securities and derivatives products abroad
- Allowing Thai residents to invest in foreign currency denominated bond issued and offered in Thailand
- Allowing certain institutional investors to unwind foreign exchange hedging
- Allowing Thai individuals to invest in securities abroad through securities companies or private funds without BOT approval and easing regulations to facilitate investment in foreign securities through ASEAN Linkage



# Thank you.