

# Navigating High Debt in Low Visibility

ASEAN+3 Financial Stability Report Launch

Press Conference

December 5, 2023

**Presented by Kevin C. Cheng**



**Part One:**

# Conjunctural Update: Low Visibility of Challenges Ahead

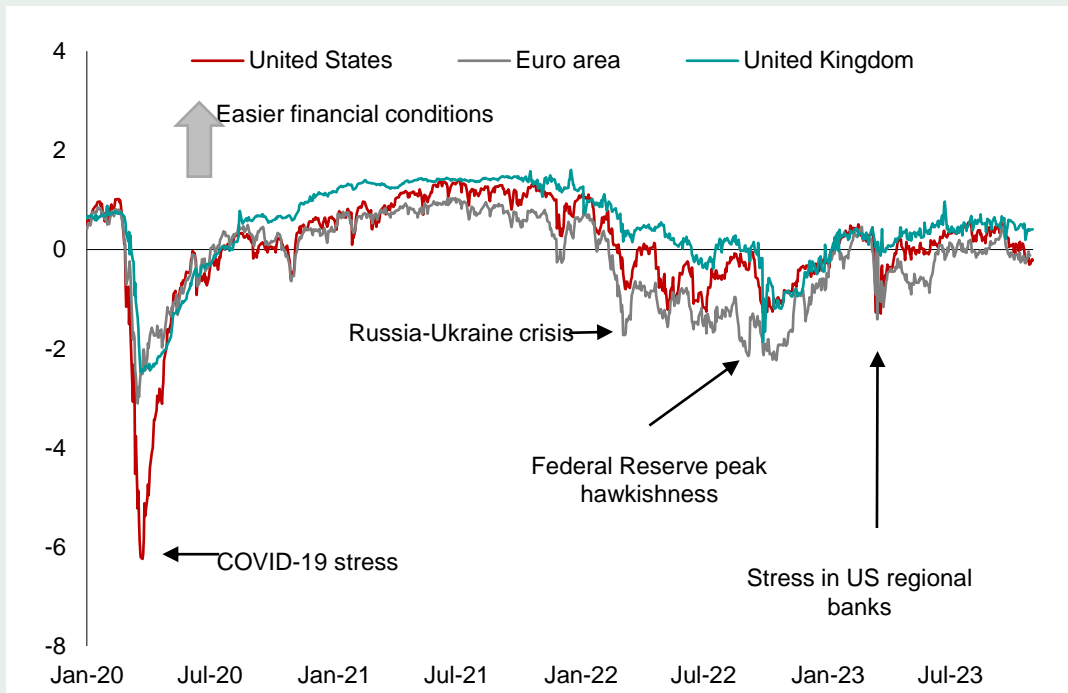
*“Fog is more dangerous  
than dark, as it gives the  
illusion of seeing.”*

*Aleksandra Ninković, Author*

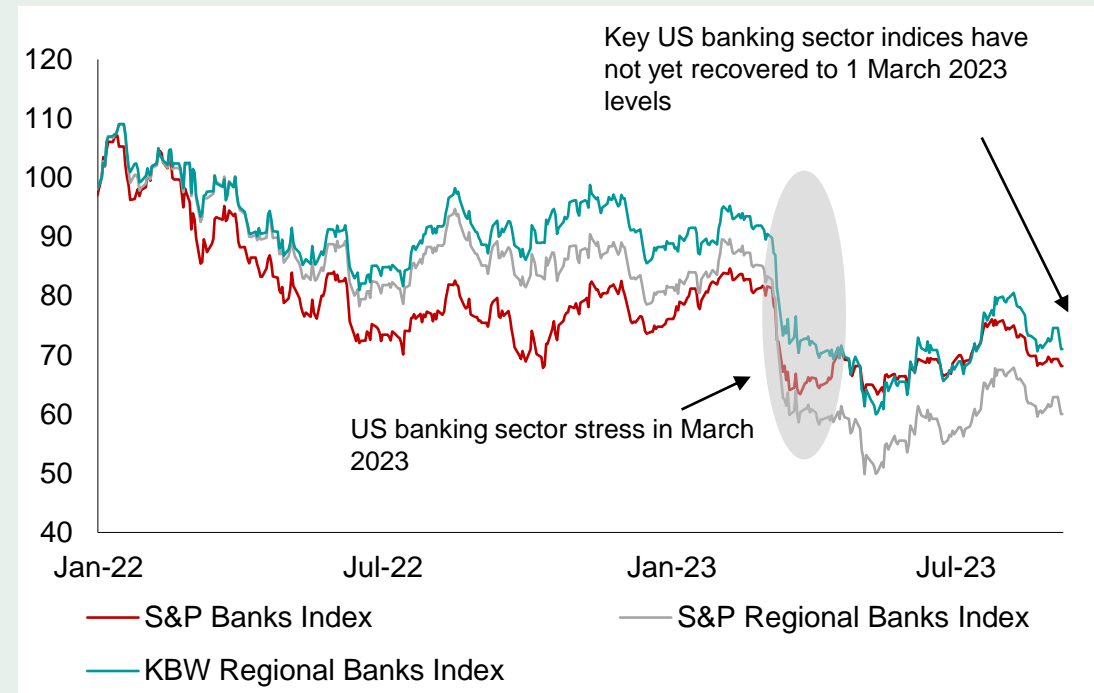
# Global financial conditions have eased since November 2022, albeit with lingering risks

*Recent Developments*

**Selected Advanced Economies: Financial Conditions Index (FCI)**  
(Index)



**United States: Banking Sector Stock Indices**  
(Index, 1 January 2022 = 100)



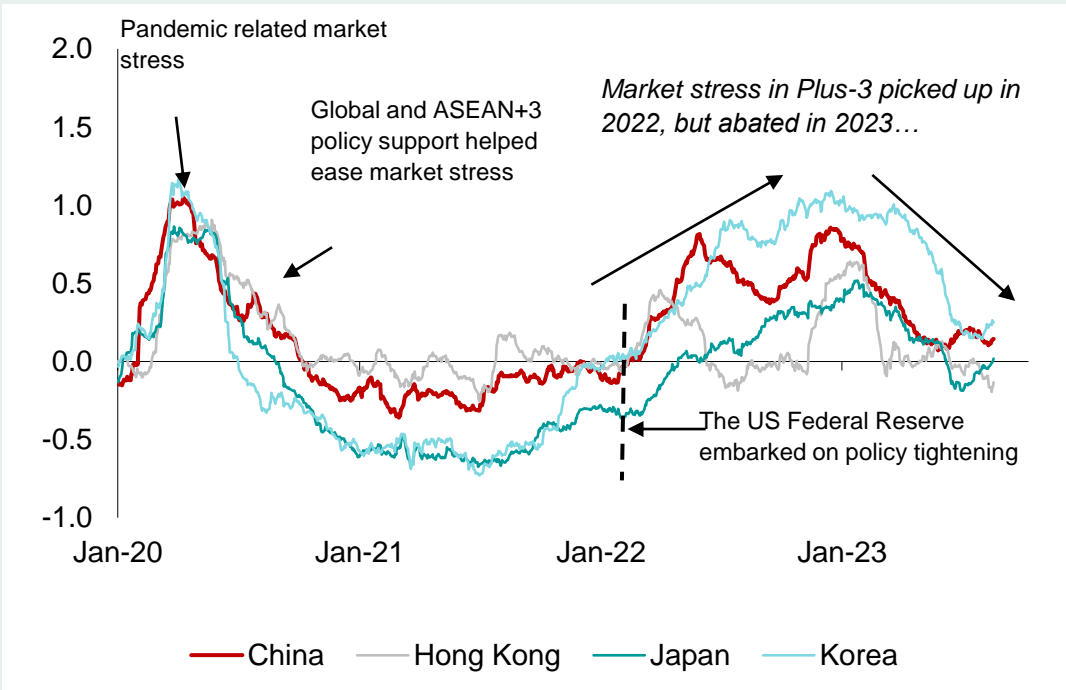
Source: Bloomberg Finance L.P.; AMRO staff calculations.  
Note: EU = European Union, FCI = Financial Conditions Index; UK = United Kingdom; and US = United States.

Source: Bloomberg Finance L.P.; AMRO staff calculations.  
Note: EA = euro area; UK = United Kingdom; US = United States. The latest and 2023 ytd (year-to-date) average is as of 7 September 2023

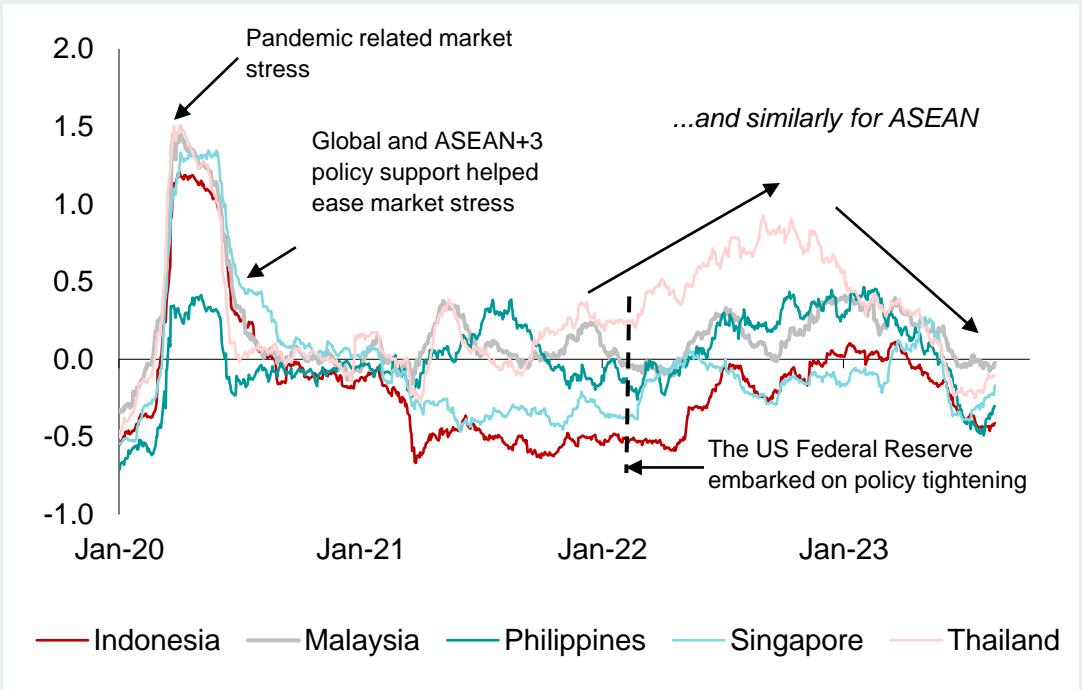
# For ASEAN+3, market stress has also eased.

*Recent  
Developments*

## Market Stress: Plus-3 Economies (Index)



## Market Stress: ASEAN Economies (Index)



Source: Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations.

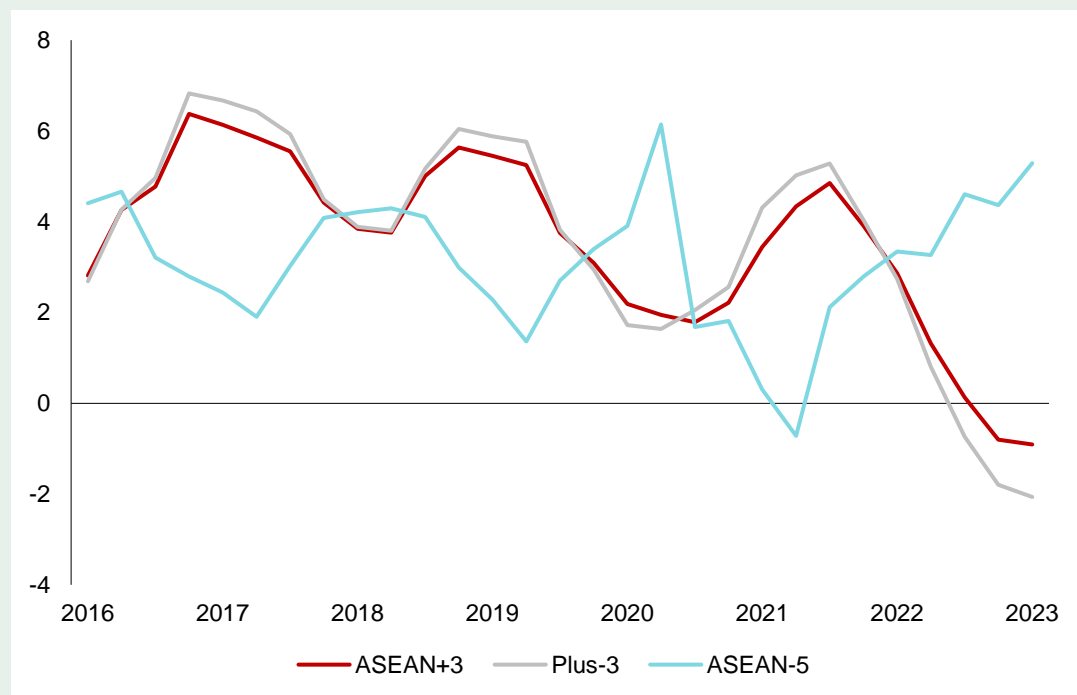
Note: CN = China; HK = Hong Kong, China; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = Philippines; SG = Singapore; and TH = Thailand. Based on refined mispricing risk defined in Predicting Financial Crises: The Role of Asset Prices (Hennig, Iossifov, and Varghese, 2023). Data as of August 18, 2023.

A rise in stock market volatility, real domestic government yield, domestic government bond yield volatility, sovereign FX risk spread, and FX market volatility; and a fall in real stock market returns, growth of REER and real house price growth contribute to higher mispricing risks

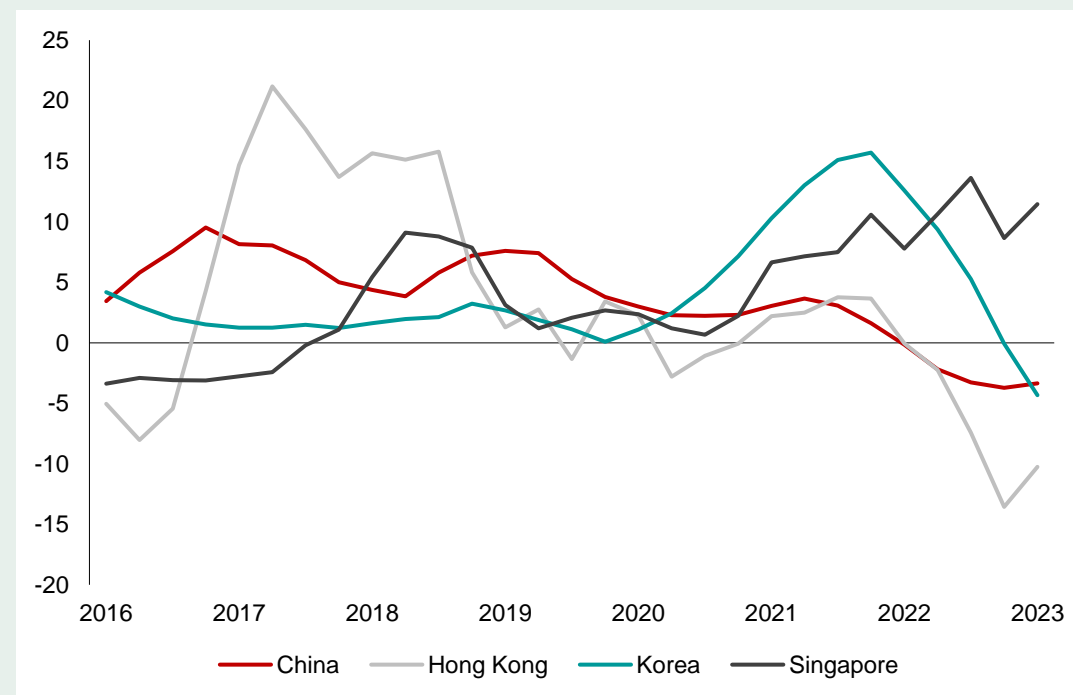


# The residential housing market cycle in ASEAN+3 turned in Q2 2021 and prices further declined.

**ASEAN+3: Nominal Residential Housing Prices**  
(Percent, year-on-year)



**Selected ASEAN+3: Nominal Residential Housing Prices**  
(Percent, year-on-year)

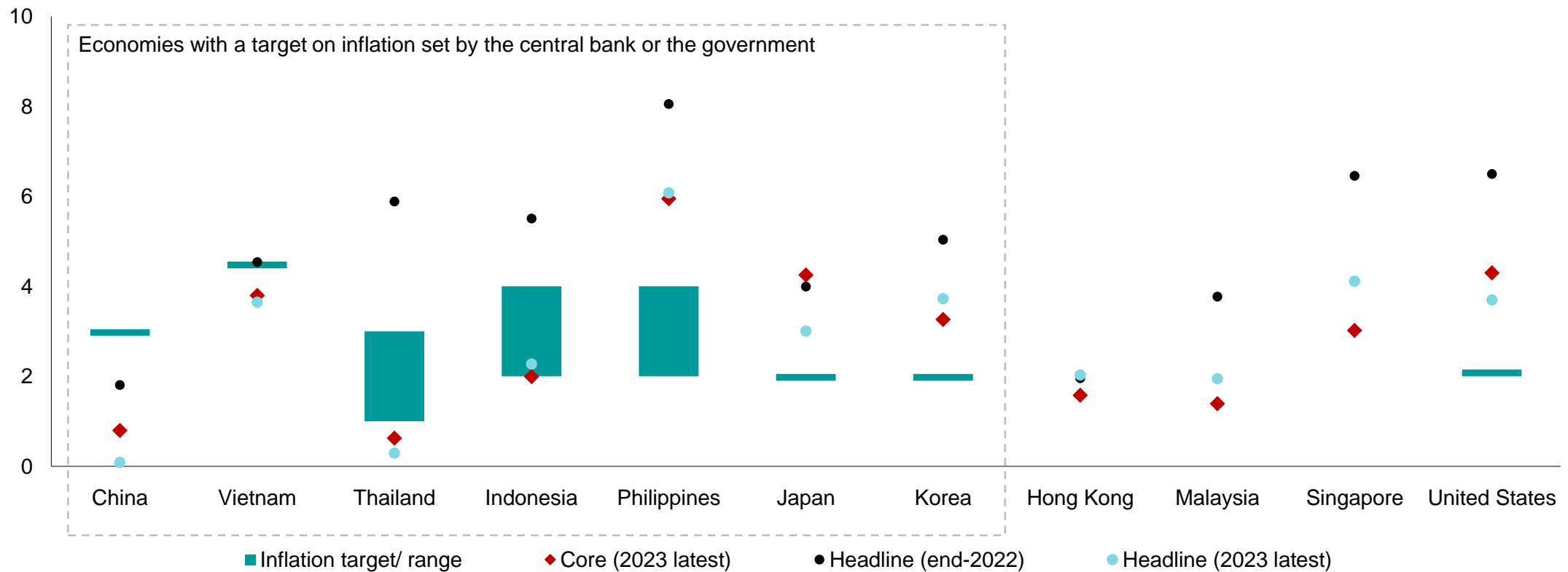


Source: BIS; Haver Analytics.

Note: ASEAN+3 comprises China, Japan, Korea, Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand. Plus-3 includes China, Japan, Korea and Hong Kong. ASEAN-5 includes Indonesia, Malaysia, Philippines, Singapore, and Thailand. Weights in the groupings are quarterly GDP in the US dollar. Data is as of Q1 2023.

# Risk #1: Inflation provides a challenging backdrop for ASEAN+3 authorities in safeguarding financial stability.

**Selected ASEAN+3 and United States: Headline and Core Inflation, and Inflation Targets**  
(Percent, year-on-year)

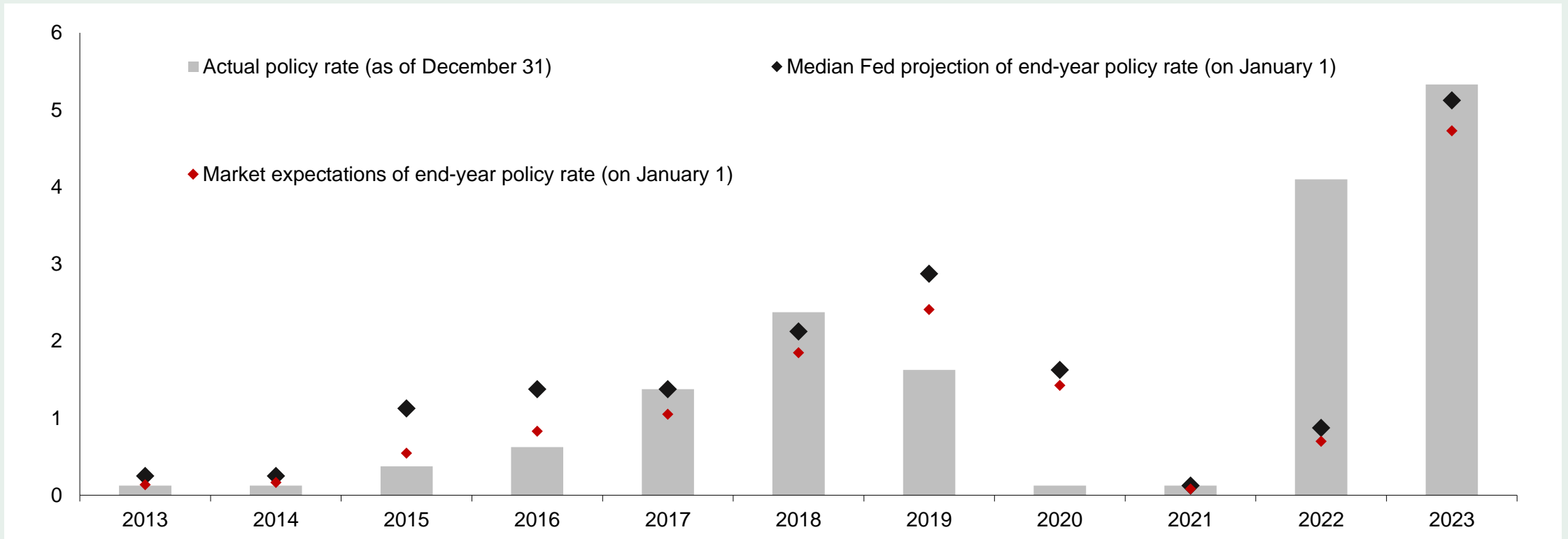


Source: National authorities via Haver Analytics

Note: Malaysia, Singapore and Hong Kong do not have an inflation target. Headline and core inflation data for China, Korea, Indonesia, the Philippines, Thailand and Vietnam are as of August 2023. Data for the rest of the economies are as of July 2023.

# Risk #2: More hawkish “realized” policy action than market expectations

Projected (at the Start of Year) vs. Actual (at the End of Year) Policy Rates (Percent)

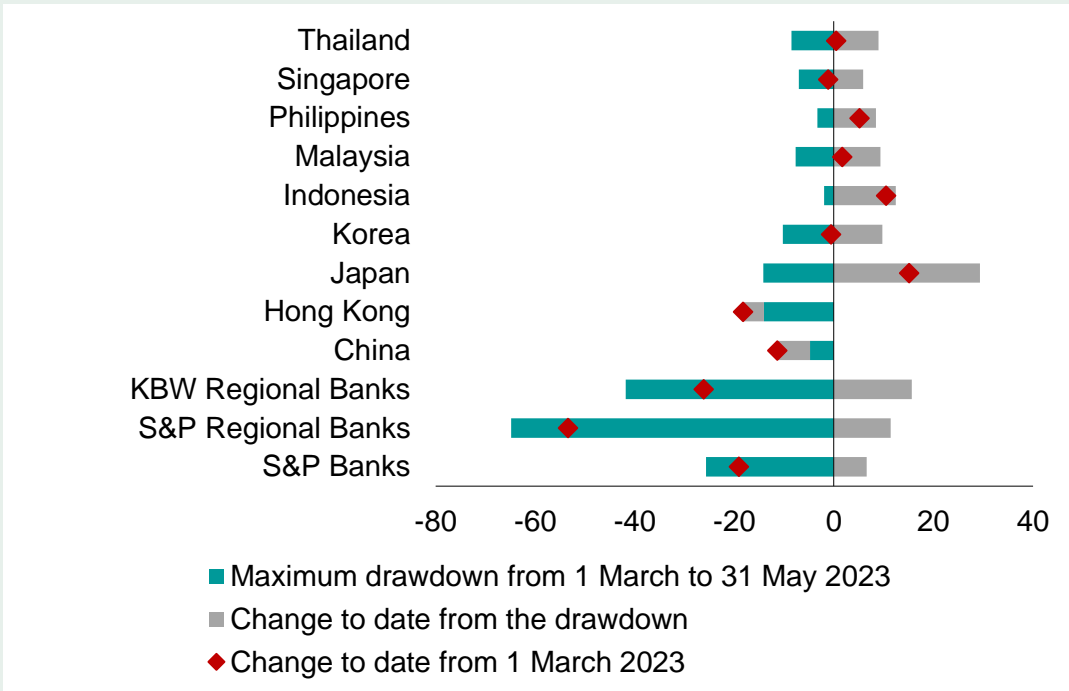


Source: Bloomberg; Haver Analytics; AMRO staff calculations.

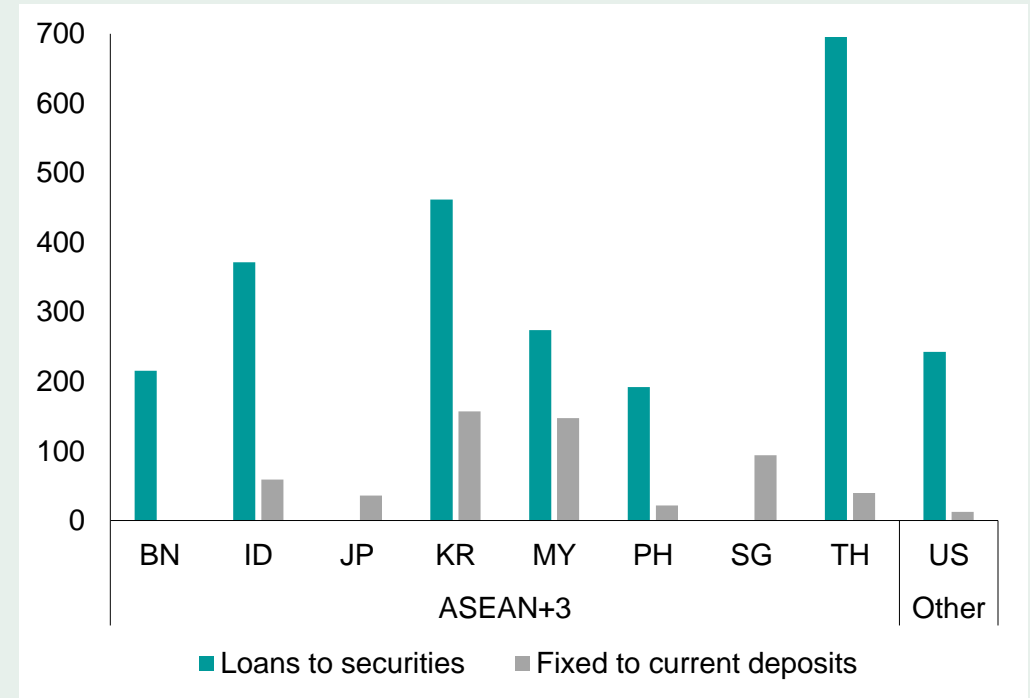
Note: The Projected (at the start of year) is the latest available market pricing and median dots on 1 January for end-year policy rates. The intra-meeting change in market projections shows the average and median change in the market projections for the policy rates of each meeting during the year from the day after the previous meeting. Data for 2023 is as of 7 September 2023.

# Risk #3: While ASEAN+3 banks weathered the spillovers from the US banking turmoil, a subsequent spillover to ASEAN+3 cannot be ruled out.

**US and Selected ASEAN+3: Decline and Recovery in Banking and Financial Indices**  
(Percent, log returns)



**Selected economies: loan to securities and fixed deposit to current deposit ratios**  
(Percent)



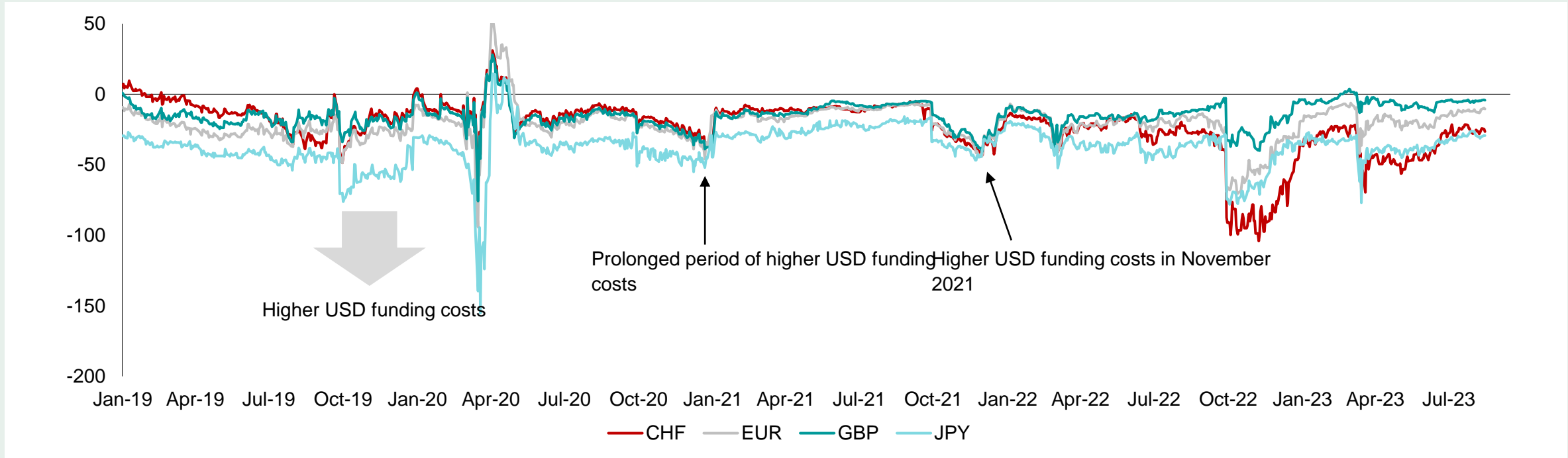
Source: Bloomberg; IMF International Financial Statistics; Haver Analytics; AMRO staff calculations.  
BN = Brunei; ID = Indonesia; KR = Korea; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand.

Source: IMF International Financial Statistics; Haver Analytics; AMRO staff calculations.  
BN = Brunei; ID = Indonesia; JP = Japan, KR = Korea; MY = Malaysia; PH = the Philippines; SG = Singapore;  
TH = Thailand; US = United States; FR = France; DE = Germany  
Note: Data on the ratio of fixed to current deposits is unavailable for BN; and data on the ratio of loans to securities is unavailable for JP and SG.



# Risk #4: US dollar liquidity squeeze is a noteworthy possibility.

**Selected Major Currencies: Cross Currency Basis**  
(Basis points)



Source: Bloomberg; Haver Analytics; National authorities and AMRO staff calculations.

Note: CP = commercial paper; LIBOR = London interbank offer rate; RRP = Federal Reserves' overnight reverse repo program; SOFR = Secured overnight financing rate; T-bill = treasury bill.

***Risk #5: Technological advancements present new opportunities and new challenges.***

Speed of contagion

Spreading of misinformation

Spillovers from digital assets

# Policies should continue to address inflation and persist with efforts to guard against potential financial stability risks



Central banks should continue to prioritize inflation stability



Monetary authorities should stand ready to provide liquidity support to both banks and non-banks when needed



Monetary and financial stability can be compatible at the current juncture



Authorities continue to be ready to provide temporary US dollar liquidity support during times of stress



Transitioning away from dollar dominance will be a multi-year initiative requiring close cooperation of the regional authorities



Authorities should stay abreast of the changes in the financial technology landscape



## Part Two

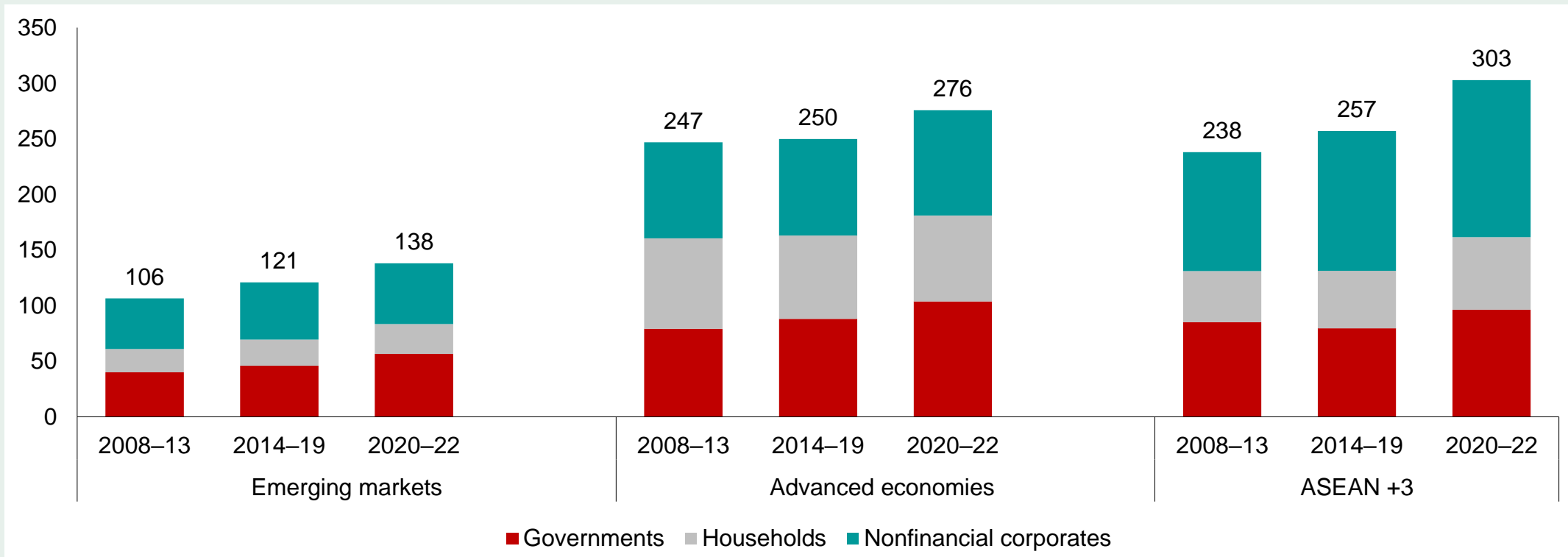
# Thematic Studies: Navigating High Debt in Low Visibility

*“Fog is more dangerous  
than dark, as it gives the  
illusion of seeing.”*

*Aleksandra Ninković, Author*

# Nonfinancial debt in the ASEAN+3 region has steadily increased since GFC

**EMs, AEs, and Selected ASEAN+3: Nonfinancial Debt Ratios**  
(Percent of GDP)

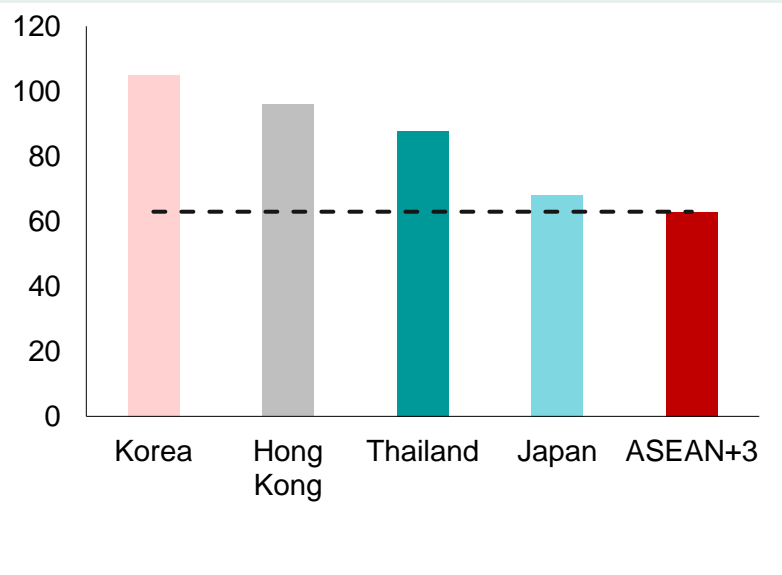


Source: BIS; IMF; AMRO staff calculation.

Note: Emerging markets (EMs) data exclude emerging market economies in ASEAN+3. Advance economies (AEs) data excludes Japan. Selected ASEAN+3 data include China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand.

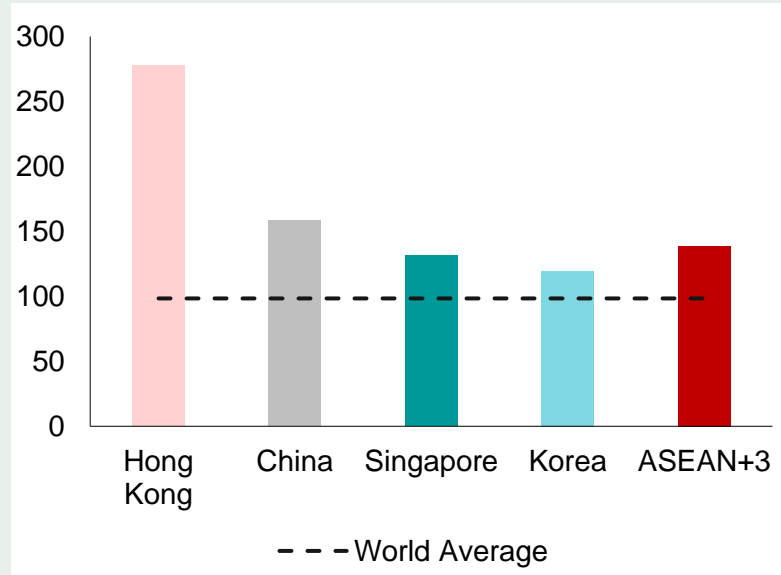
# The debt level and distribution vary across the ASEAN+3 economies

**Selected ASEAN+3: Household Debt-to-GDP Ratios**  
(Percent, end-2022)



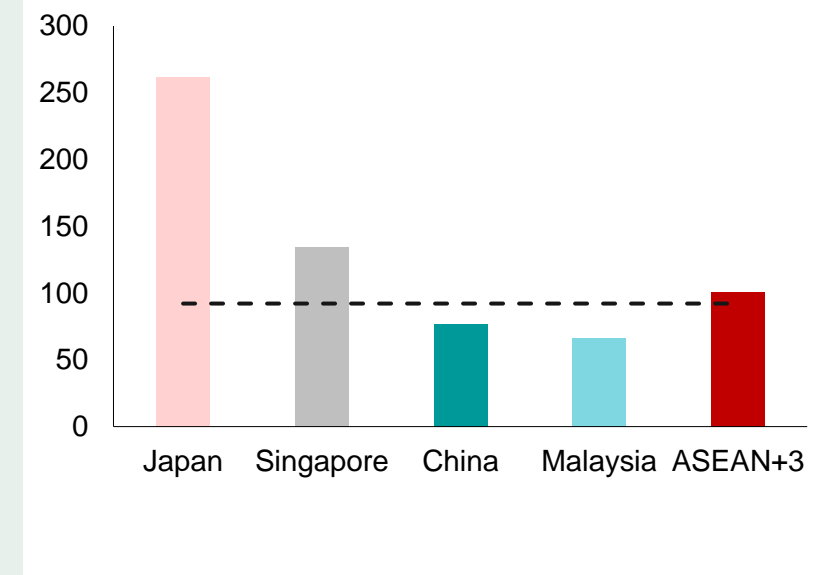
Source: BIS, AMRO staff calculation.  
Note: ASEAN+3 refers to the average household debt-to-GDP ratio of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand.

**Selected ASEAN+3: Corporate Debt-to-GDP Ratios**  
(Percent, end-2022)



Source: BIS, AMRO staff calculation.  
Note: ASEAN+3 refers to the average corporate debt-to-GDP ratio of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand.

**Selected ASEAN+3: Government Debt-to-GDP Ratios**  
(Percent, end-2022)

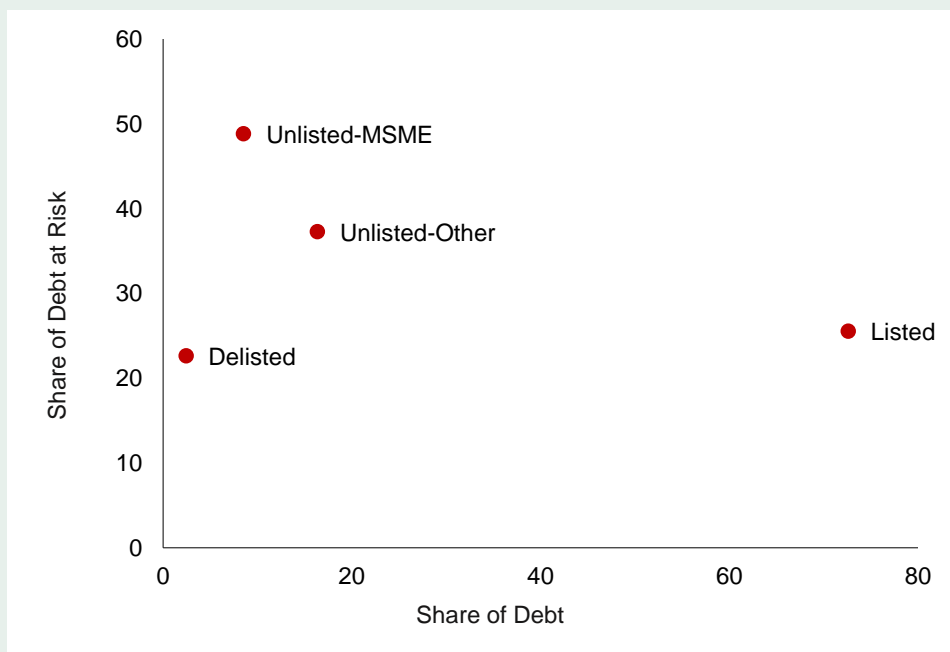


Source: IMF, AMRO staff calculation.  
Note: ASEAN+3 refers to the average government debt-to-GDP ratio of all ASEAN+3 economies..



# Higher interest rate environment could damage debt servicing abilities of some corporates

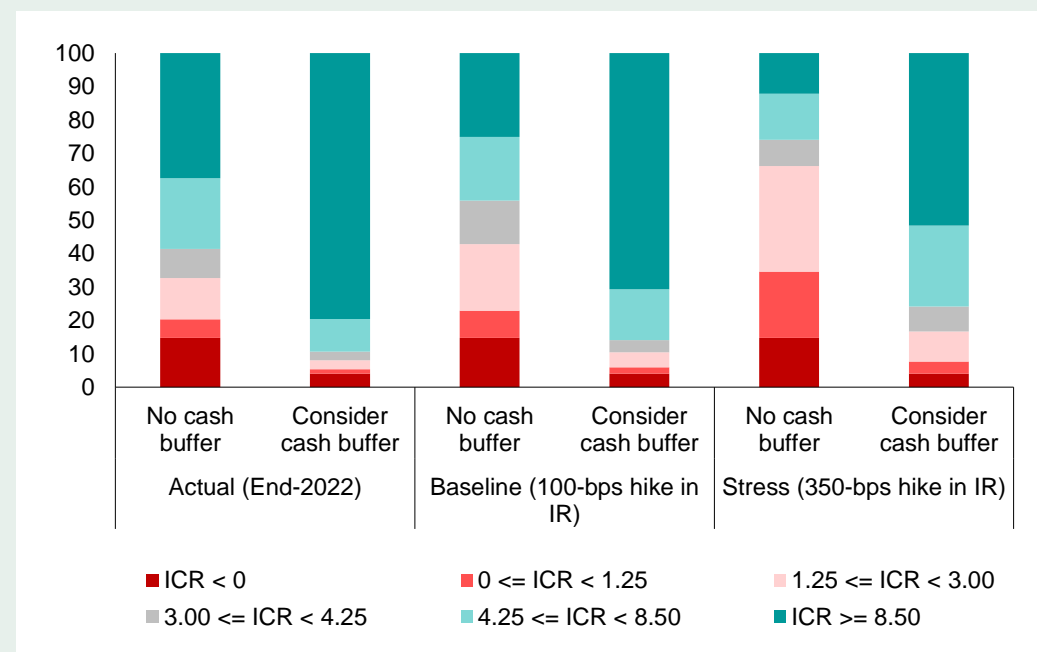
**Selected ASEAN+3: Corporate Debt and Debt at Risk, 2022**  
(Percent of Debt)



Source: Orbis; AMRO staff calculations.

Note: MSME = micro, small, and medium enterprise. Share of debt at risk refers to the share of debt held by firms whose interest coverage ratio (ICR) is below 1.25 times in the overall debt stock of a particular group of firms. Due to data availability, Brunei, Lao PDR, and Myanmar are not included in the analysis.

**Selected ASEAN+3: Stress Simulation**  
(Percent of Debt)



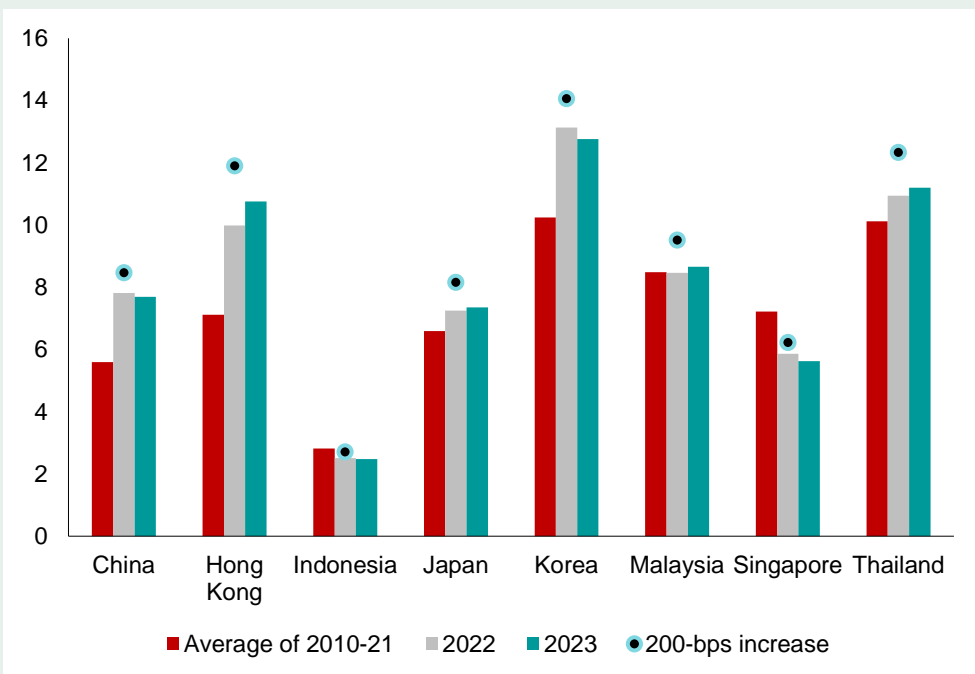
Source: AMRO staff calculations.

Notes: ICR= Interest coverage ratio (equivalent to EBIT/interest expense); IR = corporate borrowing rate. The scenarios with hikes in IR are assumed to affect interest expense but not EBIT. The scenarios indicating "no cash buffer" takes only account EBIT in servicing interest expense. Due to data availability, Brunei, Lao PDR, and Myanmar are not included in the analysis.

# Household debt burdens are rising across ASEAN+3 amid higher interest rates

## Estimated Debt Burdens and Impact of Interest Rate Rise

(Percent of GDP, scenario assumes 200-basis point rise in interest rate in 2023)

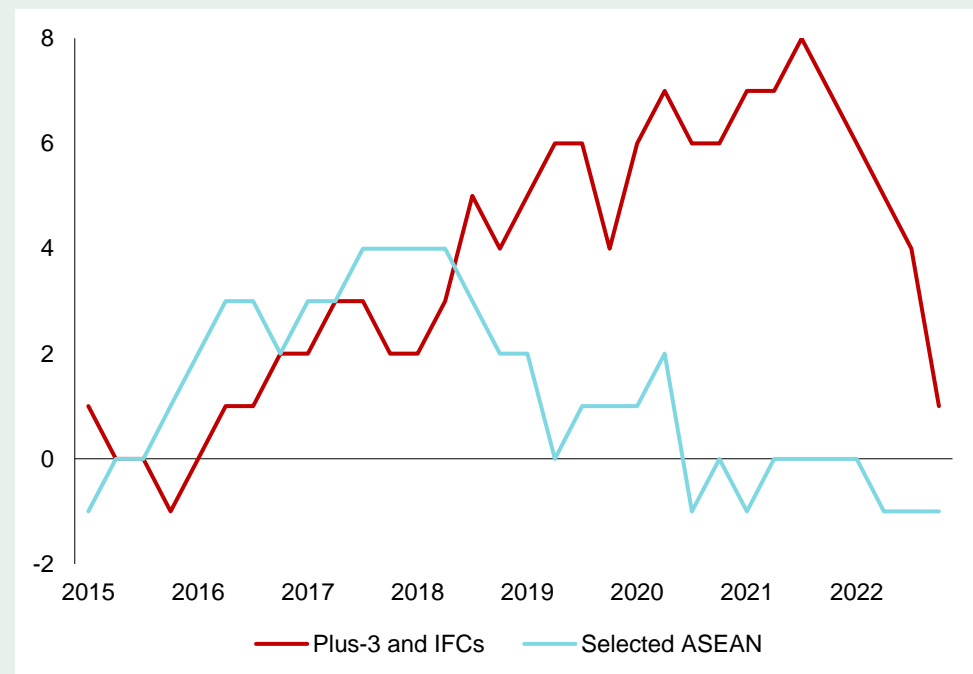


Source: BIS; AMRO staff estimates.

Note: Mortgage or other available interest rate multiplied by household debt in 2022. Excludes repayment of principle from debt burden calculation.

## Deviation of Actual Housing Price from Fundamental Price

(Index, 2015 = 100)



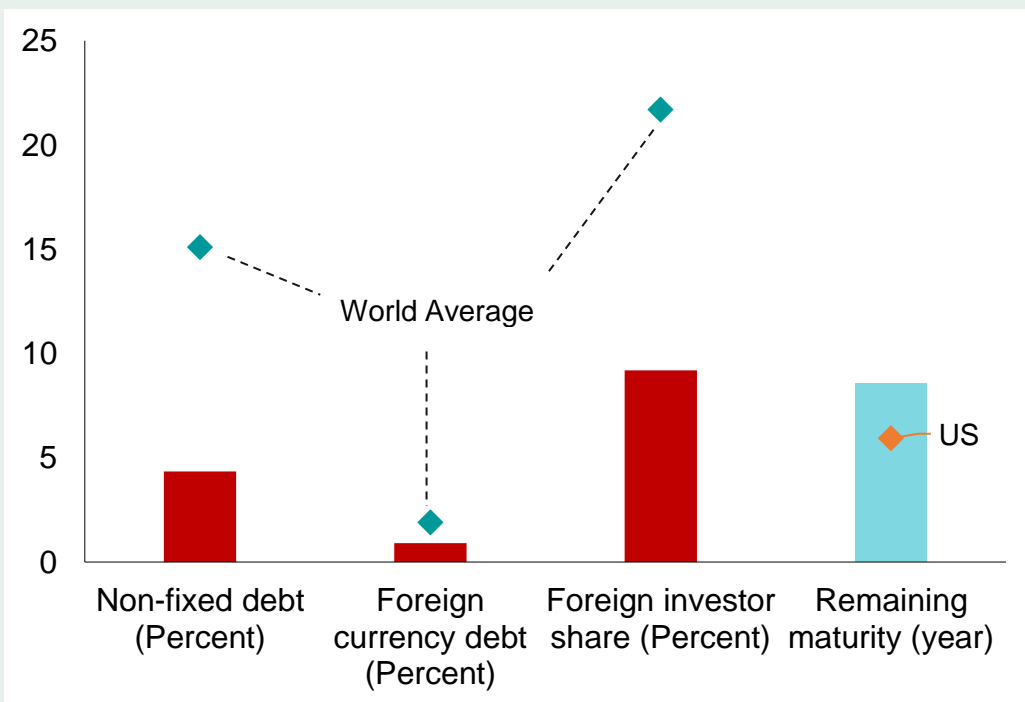
Source: National authorities; International Monetary Fund; Bank for International Settlements; AMRO staff estimates.

Note: Selected ASEAN economies included are Indonesia, Malaysia, Philippines, and Thailand. Plus-3 and IFCs include China, Japan, Korea, Hong Kong, and Singapore. The gap is calculated by taking the difference between the actual house price and the predicted house price, with 2015 as the base year.

# Risks associated structure of government debt

## Indicators Showing Interest Rate, Exchange Rate, and Refinancing Risks in ASEAN+3

(Percent, year)

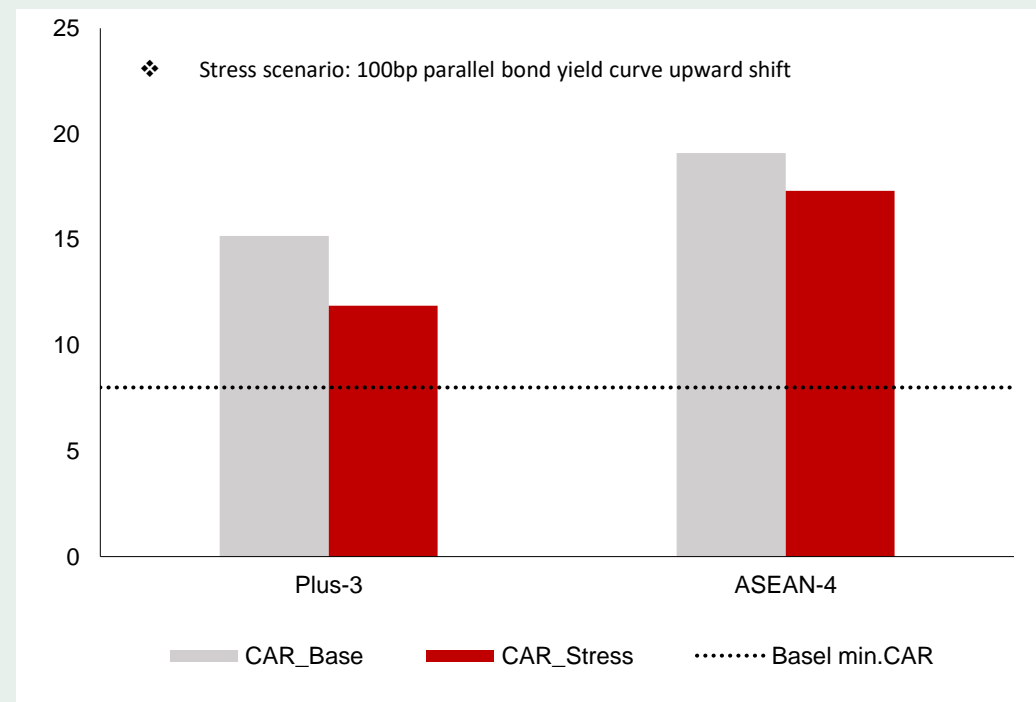


Source: BIS; IMF; Bloomberg L.P.; AMRO staff estimates.

Note: The dots represent world averages, and represent the US only for the remaining maturity of outstanding government debt. All data are as of the end of 2022, except for the remaining maturity as of Q3 2023. The coverages of debt and countries vary depending on data sources.

## Example of Interest Rate Risk for Banks Holding Government Bond – Possible Change of CAR

(Percent)

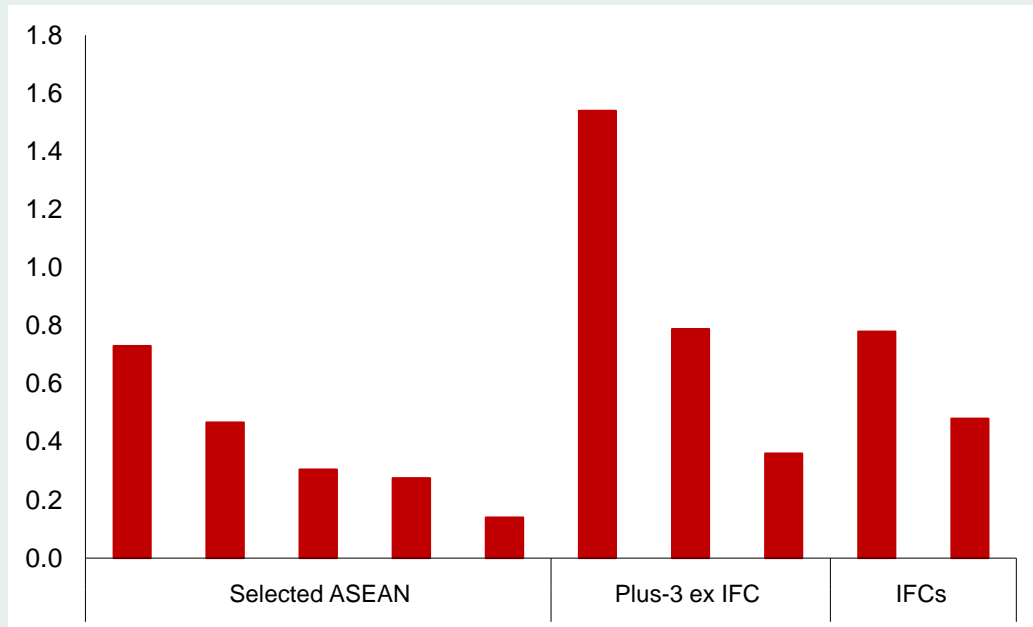


Source: IMF; S&P; AMRO staff estimates.

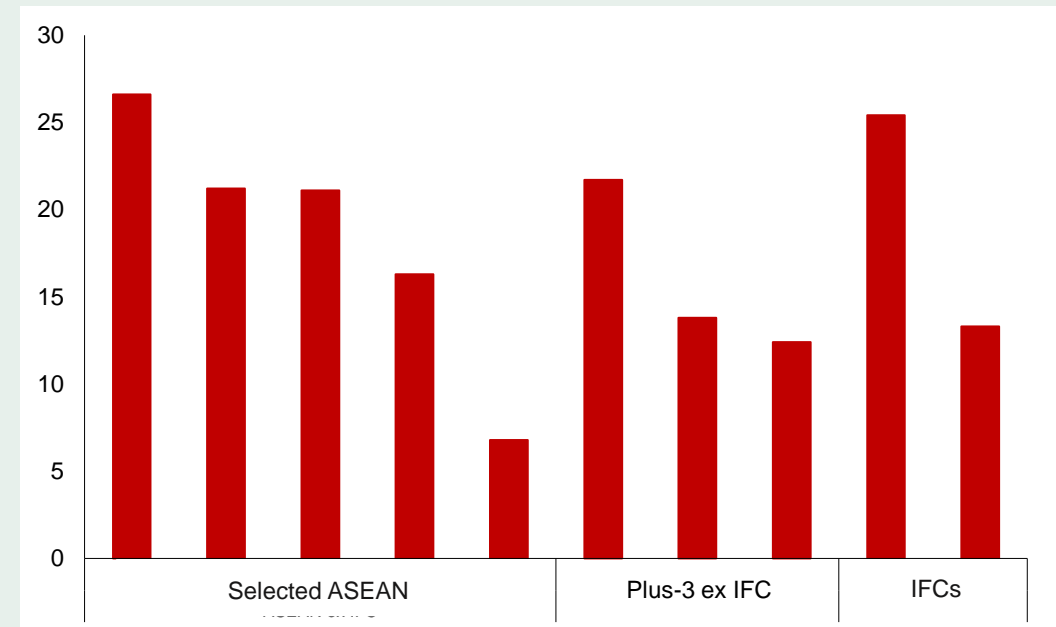
Note: The bank capital adequacy and asset figures are up-to-date data available but vary from country to country. It was assumed that all government bonds held by the banks were adjusted by marked-to-market valuation without distinguishing whether they were actually in the banking book or in the trading book.

# AMRO simulation exercise shows ASEAN+3 banking books could deteriorate in an elevated interest-rate environment

**Selected ASEAN+3: Effect of 100bps Increase in Interest Rate on NPL Ratios**  
(Percentage points)



**Selected ASEAN+3: Effect of 100bps Increase in Interest Rate on Growth in Net Interest Income**  
(Percent)

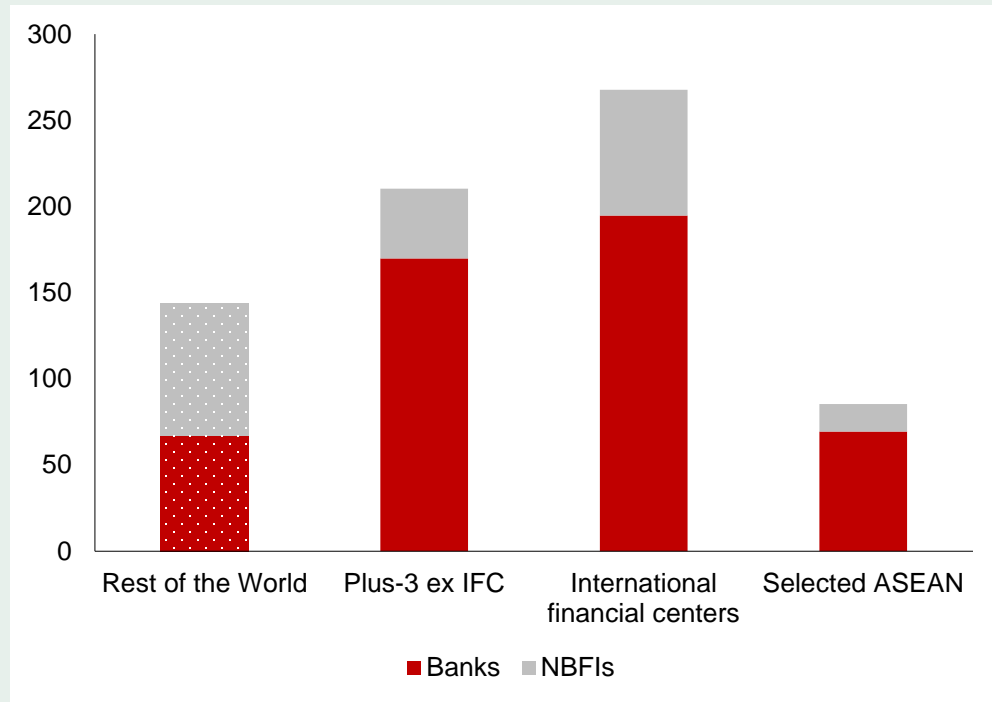


Source: AMRO staff calculations.  
Note: Selected ASEAN includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. IFCs = international financial centers, covering Hong Kong and Singapore.

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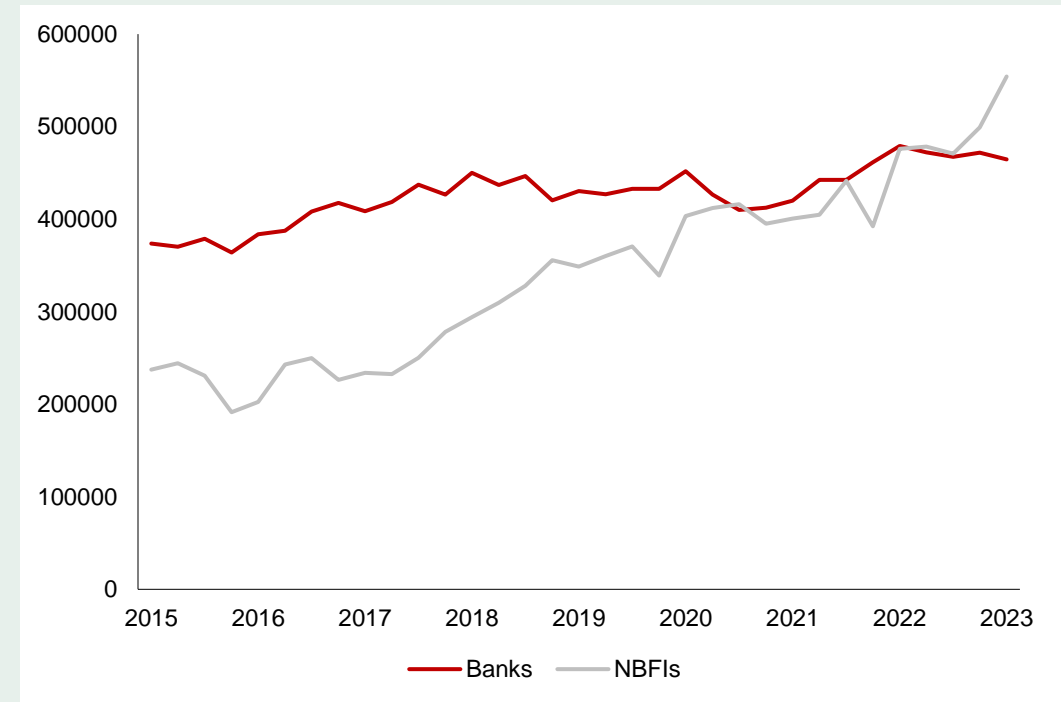
# In ASEAN+3, banks provide a larger share of financing than NBFIs to the private non-financial sector but NBFIs role has grown

**Financing of Non-Financial Private Sector by Banks and NBFIs**  
(Percent of GNP)



Source: Bank for International Settlements via Haver Analytics; AMRO staff calculations.  
Note: International financial centers (IFCs) consist of Hong Kong and Singapore. Selected ASEAN consist of Indonesia, Malaysia and Thailand.

**Selected ASEAN+3: Dollar Funding of NBFIs and Banks**  
(Millions of US dollar)



Source: Bank for International Settlements via Haver Analytics; AMRO staff calculation.  
Note: NBFIs = nonbank financial institution; Data for the year 2023 only includes information from the first quarter.

# *A policy mix is required to address vulnerabilities from higher debt and safeguard the soundness of financial intermediaries*



Policy makers should deploy a wide range of macroprudential tools to mitigate systemic risks



Fiscal authorities should build a resilient public debt framework, with sound debt structure.



Banking regulatory authorities should effectively manage bank leverage to ensure long-term financial stability.



Monetary and regulatory authorities should improve existing deposit insurance schemes to ensure depositor confidence



Authorities should strengthen NBFIs regulation and supervision, encourage data disclosure and enhance risk management







**Thank you.**

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