

ASEAN+3 Financial Stability Report Press Conference



Strengthening Resilience to Challenges Ahead

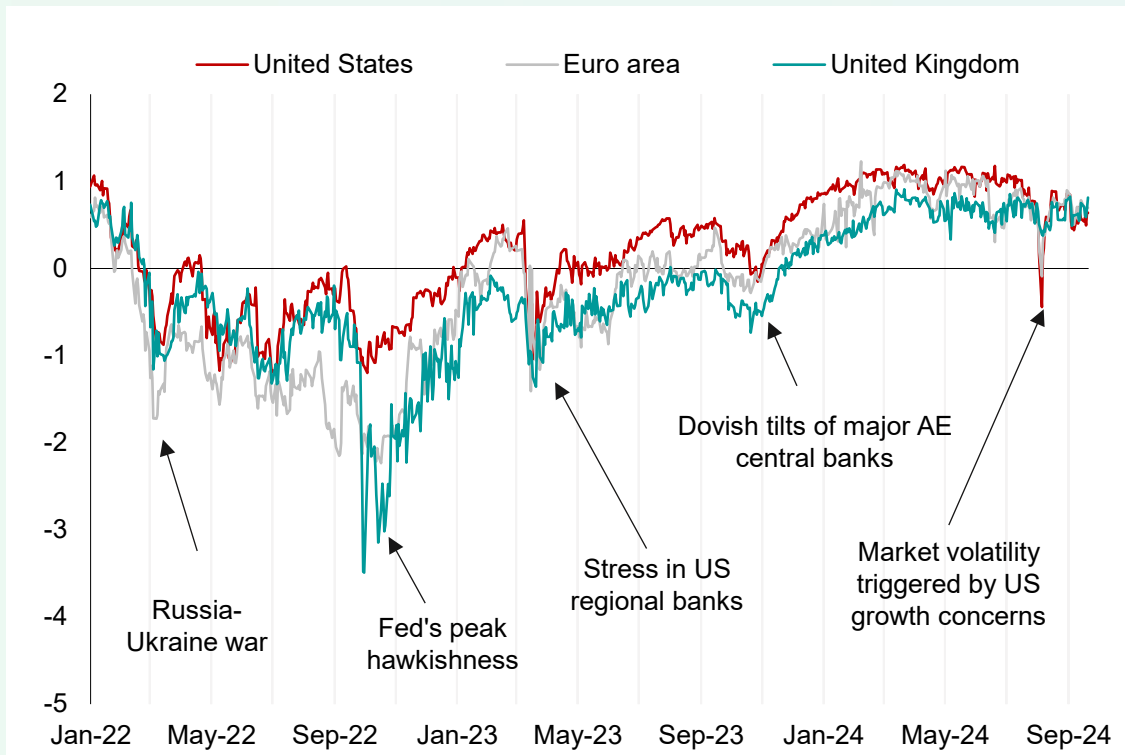
October 10, 2024
Presented by Kevin C. Cheng



Markets are navigating the bifurcated risks of US growth slowdown and sticky inflation.

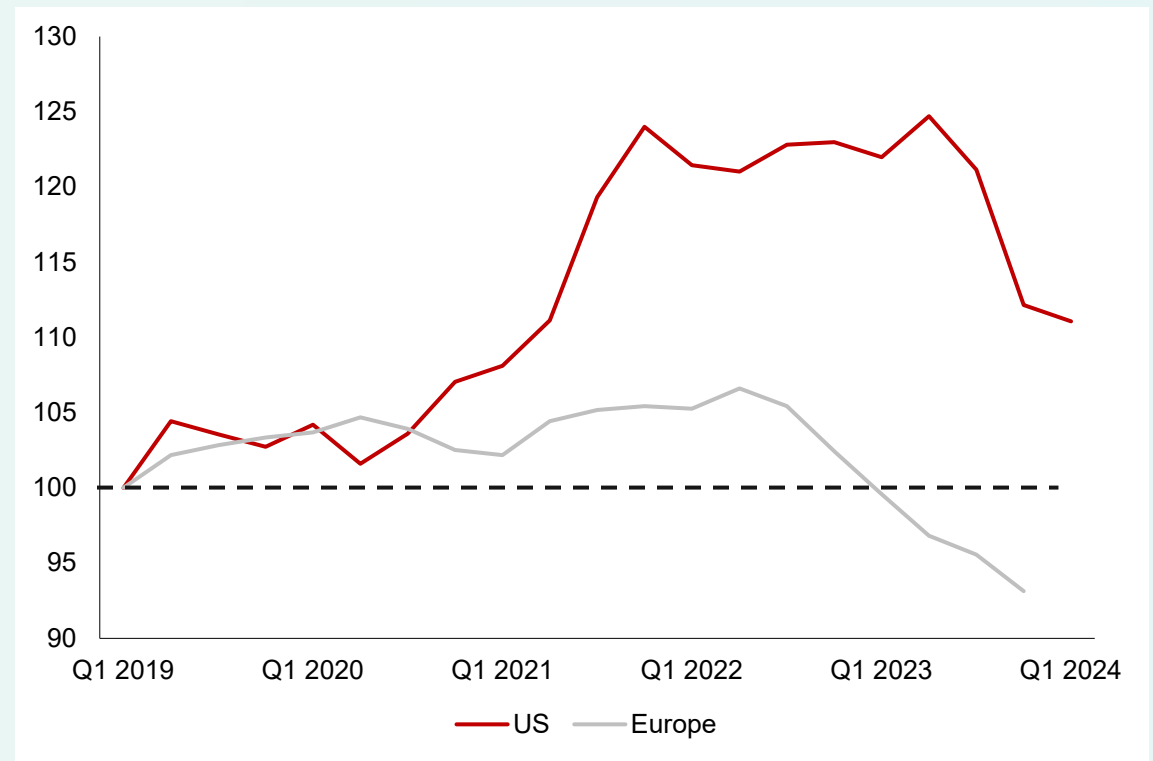
**Recent
Developments**

Selected Advanced Economies: Financial Conditions Index (FCI)
(Index: *positive is easy financial conditions*)



Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Data as of 20 September 2024.

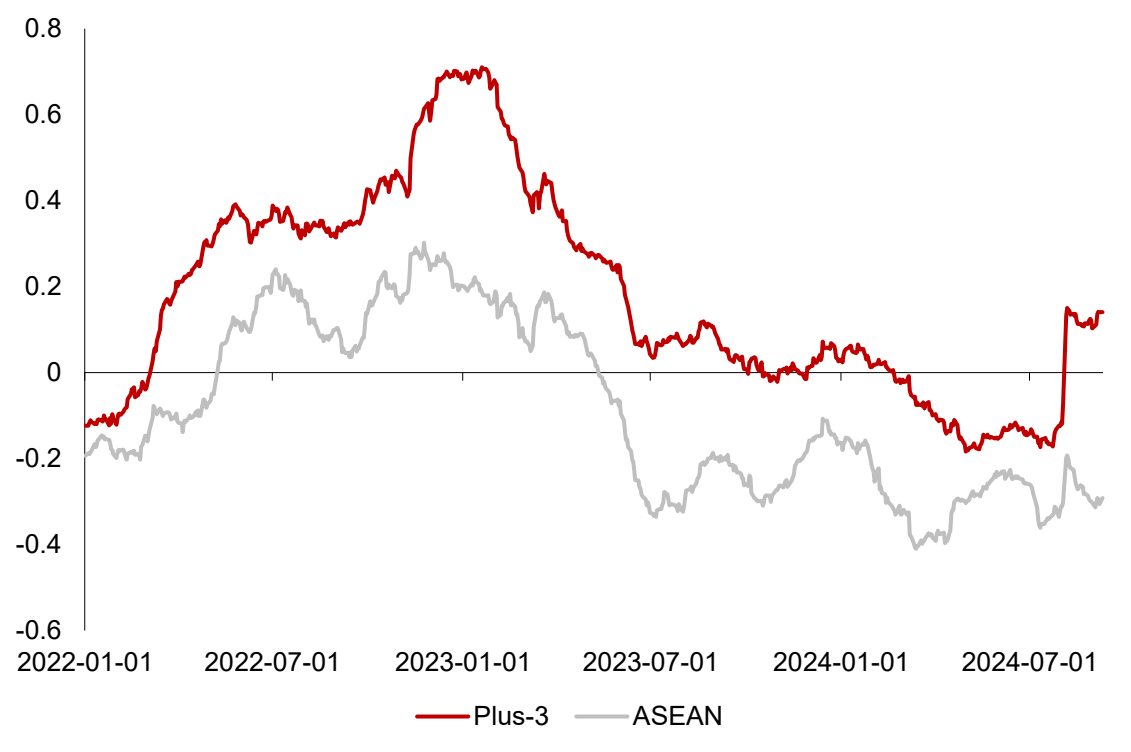
US and Europe: Corporate Real Estate Price Indices
(Index, 2019 = 100)



Source: Bank for International Settlements via Haver Analytics; AMRO staff calculations.
Note: Data as of Q1-2024 for the US and Q4-2023 for EU.

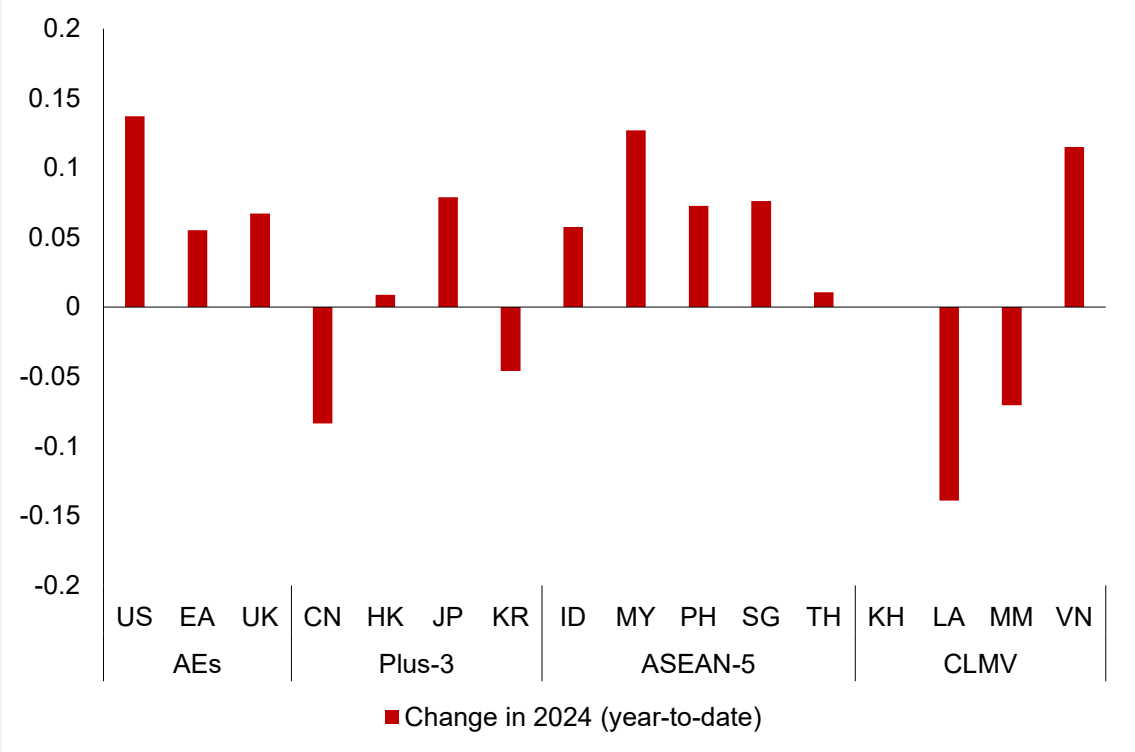
Turning to ASEAN+3, financial market stress declined broadly in ASEAN+3 but rose in early August.

ASEAN+3: Market Stress indicator
(Index: *positive is tightening relative to the average between 1-Jan-2010 to 9-Sep-2024*)



Source: Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations.
Note: The Market Stress Index is based on the Mispricing Risk (Refined) proposed in Hennig, Iossifov, and Varghese (2023) which attempts to capture the slack in financial conditions. Data as of 9 September 2024.

Selected ASEAN+3: Changes in Equity Markets
(Percent, log changes)

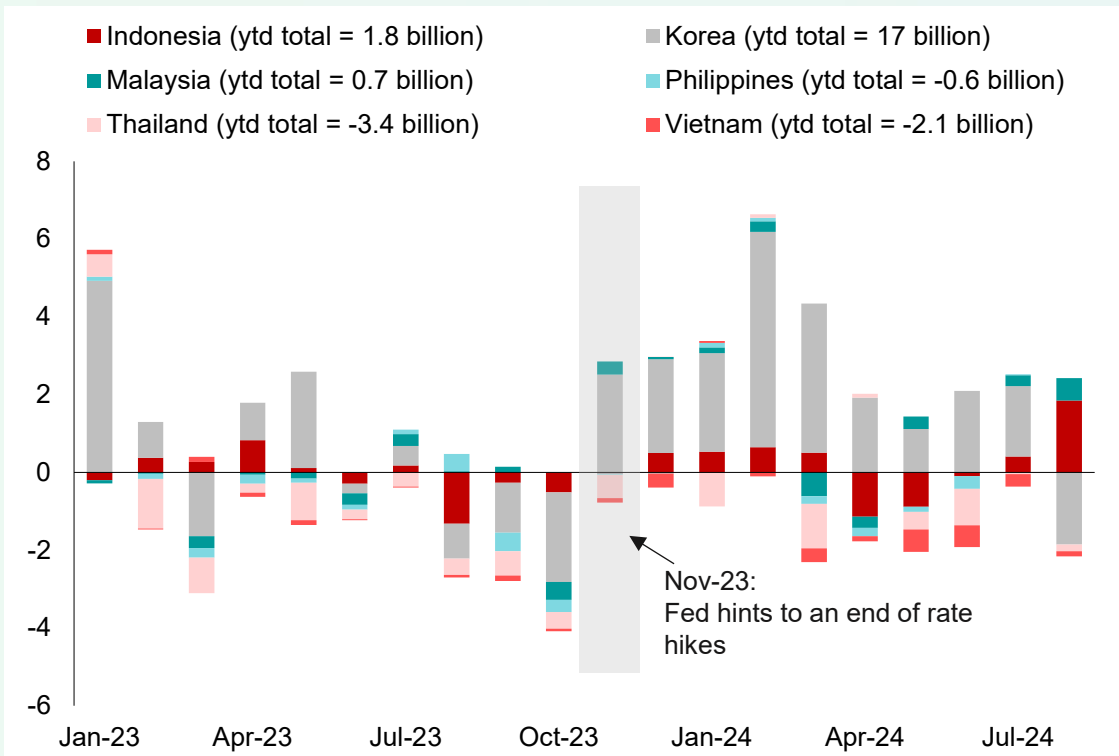


Source: National authorities via Bloomberg Finance L.P.; Bank for International Settlements; Haver Analytics; AMRO staff calculations.
Note: The DXY Index is used to determine the change in the US dollar. AEs = advanced economies; CN = China; EA = euro area; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; UK = United Kingdom; US = United States. VN = Vietnam. Data for 2024 (year-to-date) as of 9 September 2024.

Portfolio inflows into ASEAN+3 markets have not been as strong as other EM, except Korea.

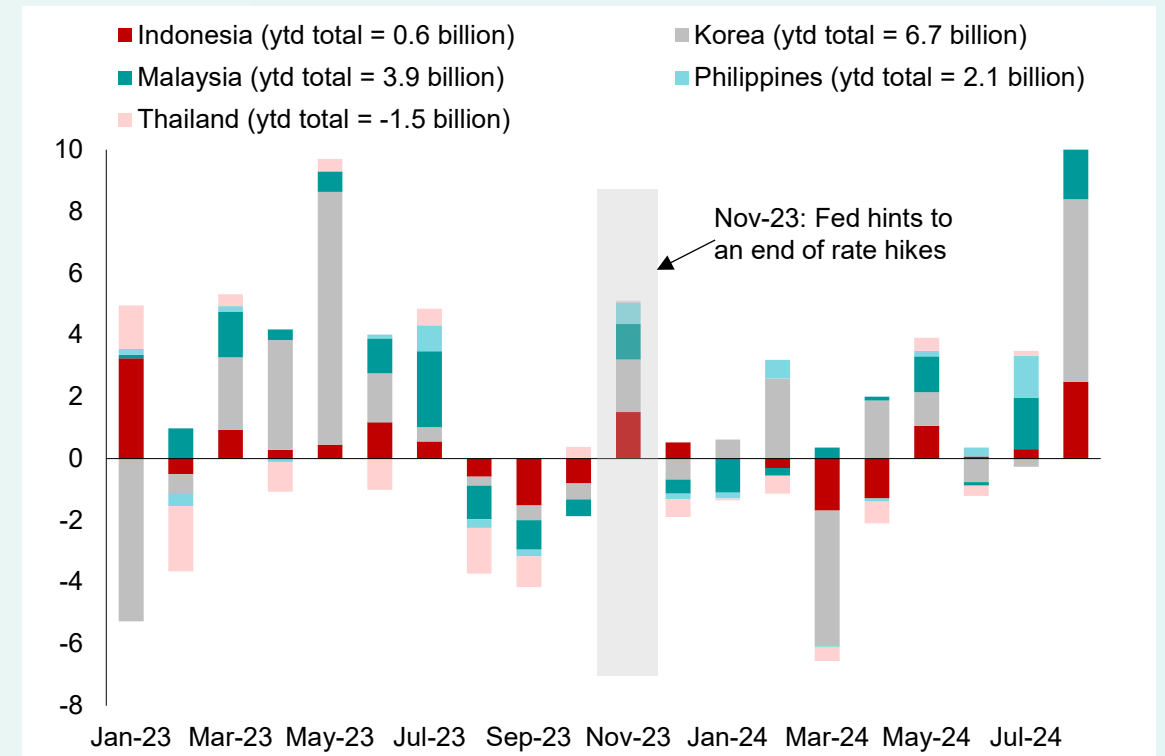
**Recent
Developments**

Selected ASEAN+3: Monthly Equity Flows
(Billions of US dollars)



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

Selected ASEAN+3: Monthly Debt Flows
(Billions of US dollars)

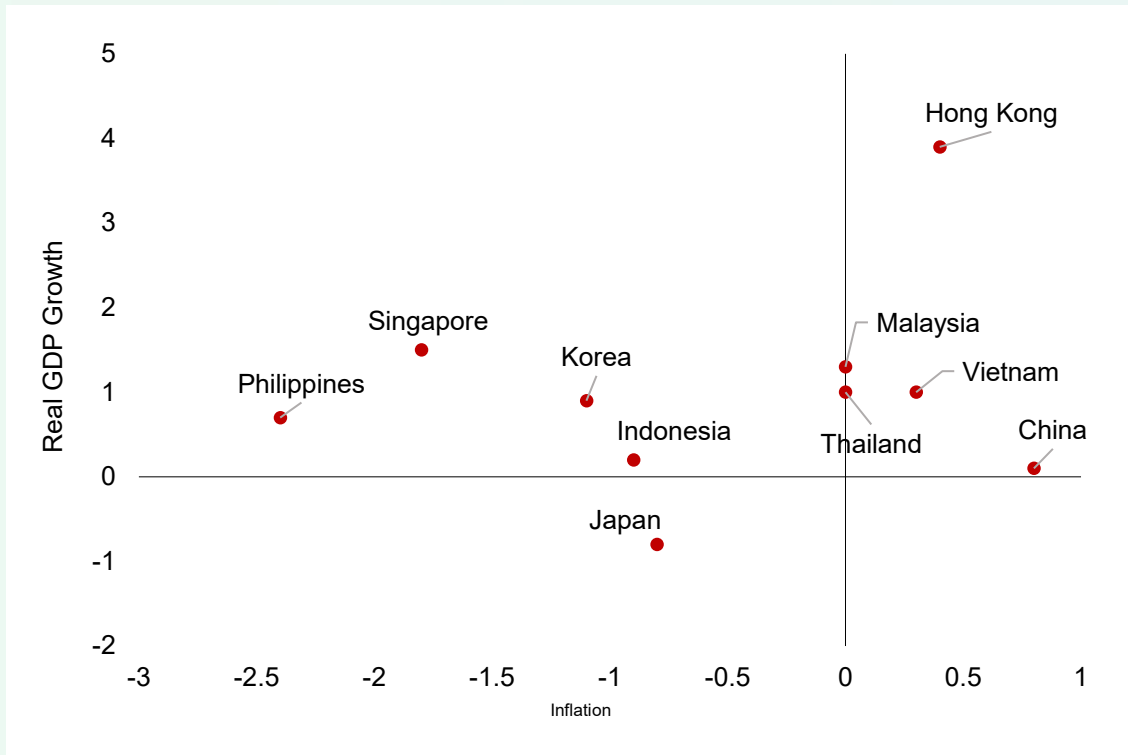


Source: National authorities; Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations.
Note: The debt flows data includes foreign investments in local currency debt only. The data consists only of government bonds for Indonesia and the Philippines; and government and corporate bonds for other markets.

Similar to the Fed, most regional central banks have either started or are expected to start policy easing.

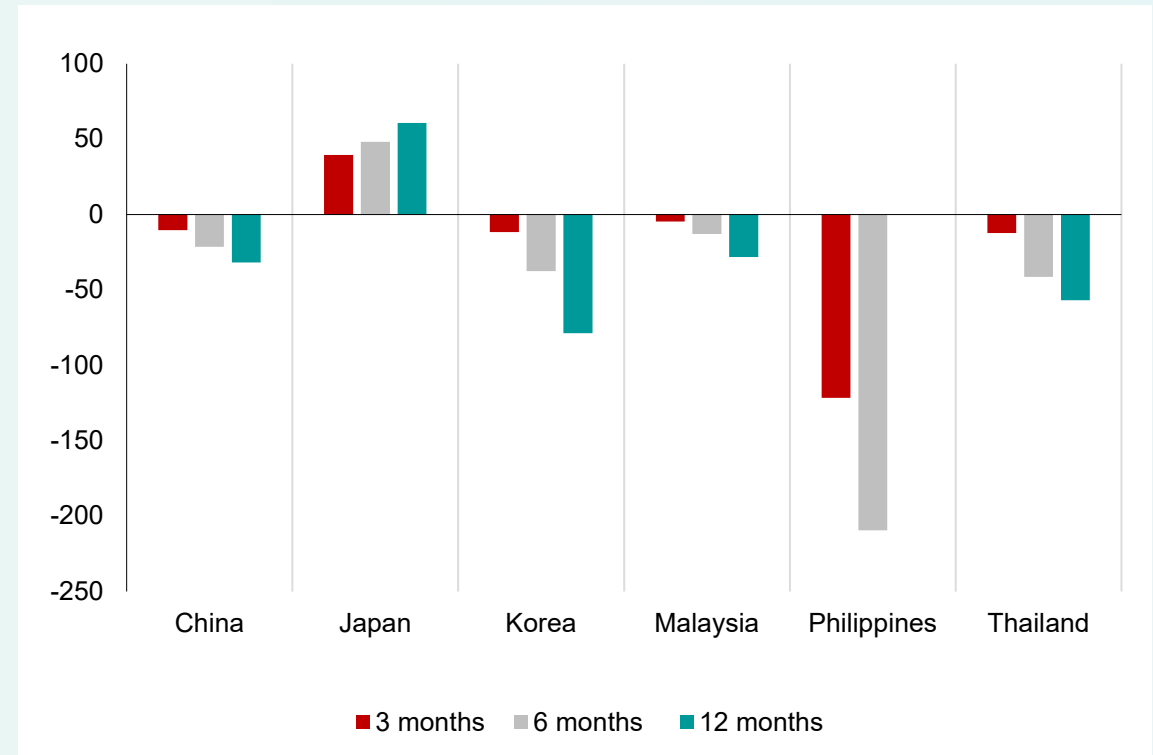
**Recent
Developments**

Selected ASEAN+3: Expected Changes in Real GDP Growth and Inflation from 2023 to 2024
(Percentage points)



Source: AMRO ASEAN+3 Regional Economic Outlook 2024 July.
Note: The difference is calculated as 2024 forecasts minus 2023 actual data.

Selected ASEAN+3: Market-implied Changes in Policy Rates
(Basis points)

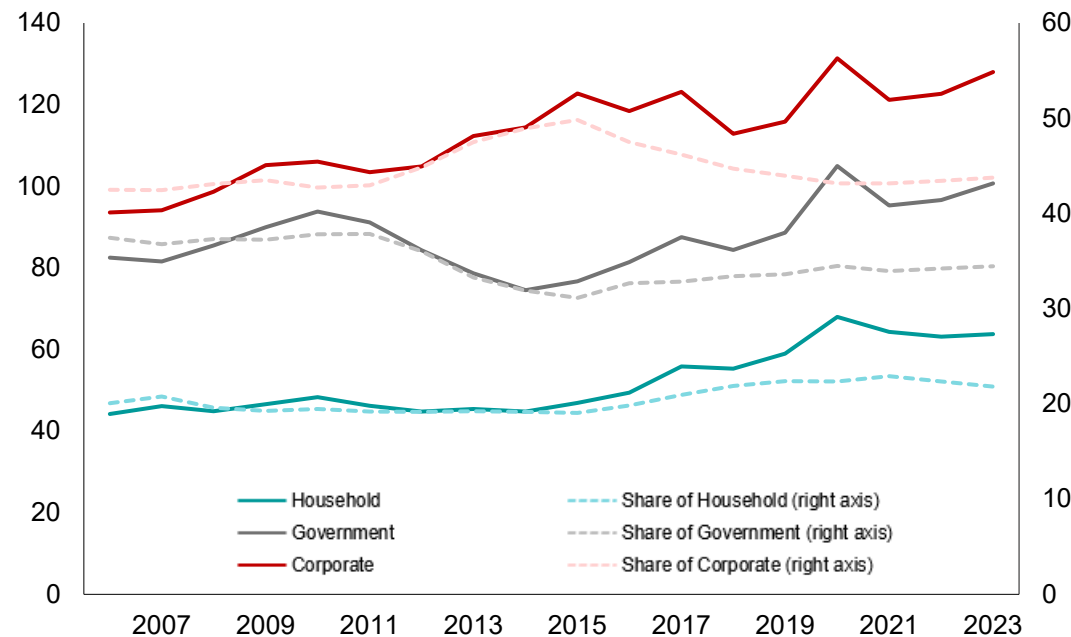


Source: Bloomberg Finance L.P.; AMRO staff calculation
Note: Bars denote the cumulative changes in market-implied policy rates in a respective time horizon. We do not use the 12-month data point for the Philippines due to its pricing irregularities. Data as of 9 September 2024

Meanwhile, the debt-to-GDP ratio continues to rise in ASEAN+3 and vulnerability in high corporate debt arises from certain firm types and sectors.

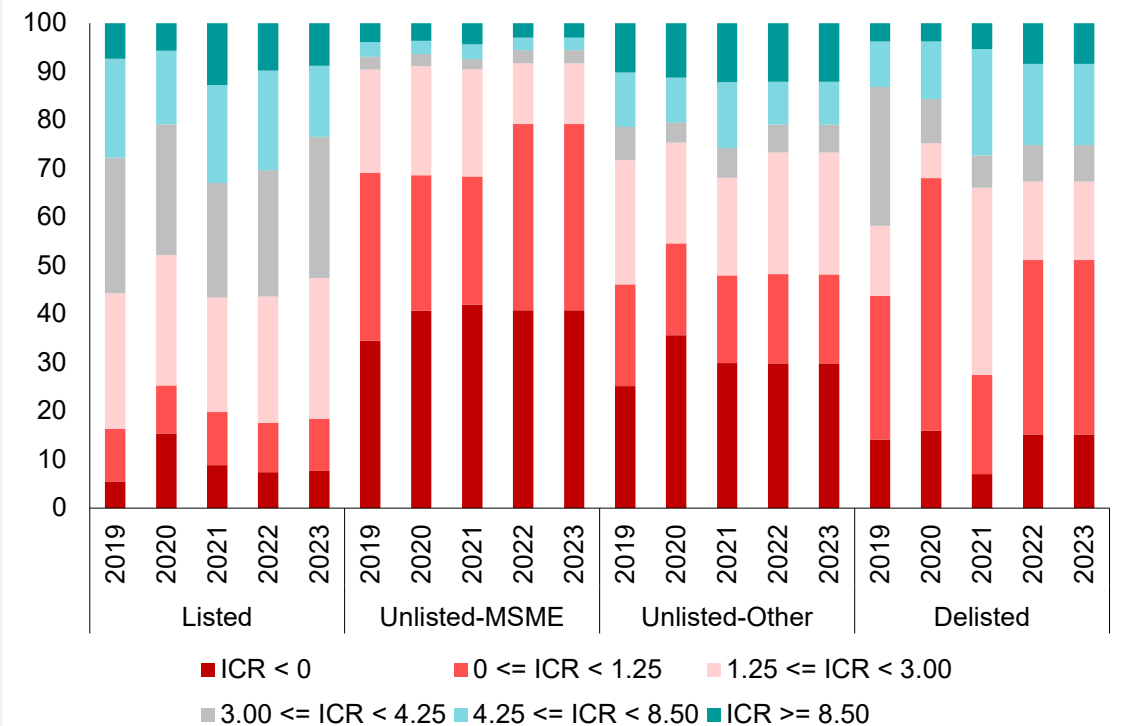
**Recent
Developments**

Selected ASEAN+3: Corporate, Government and Household Debt
(Percent of GDP, percent)



Source: Bank for International Settlements (BIS); AMRO staff calculations.
Note: Data covers all economies reporting nonfinancial debt data to the BIS. Selected ASEAN+3 includes China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, and Thailand. Government debt data include all the above economies except Korea which reports market value instead of nominal by others.

ASEAN: Interest Coverage Ratio, 2019-2023
(Percent of Debt)



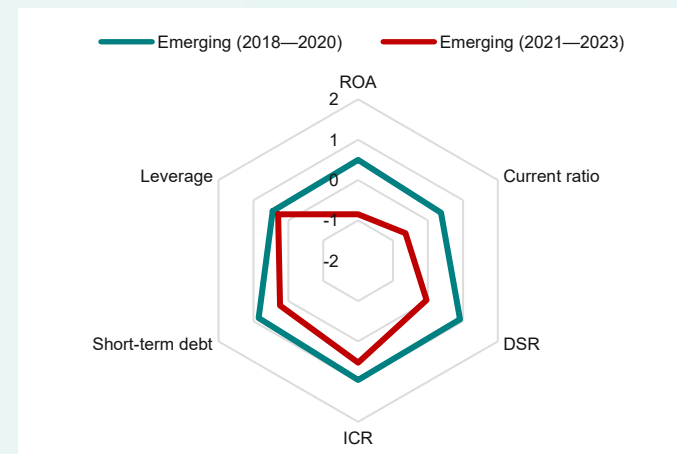
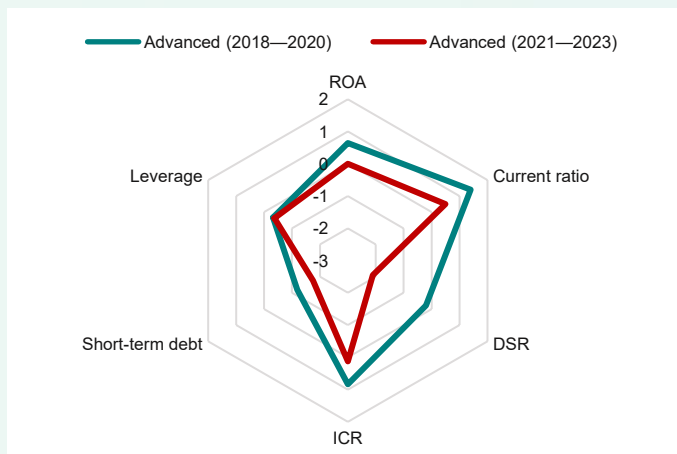
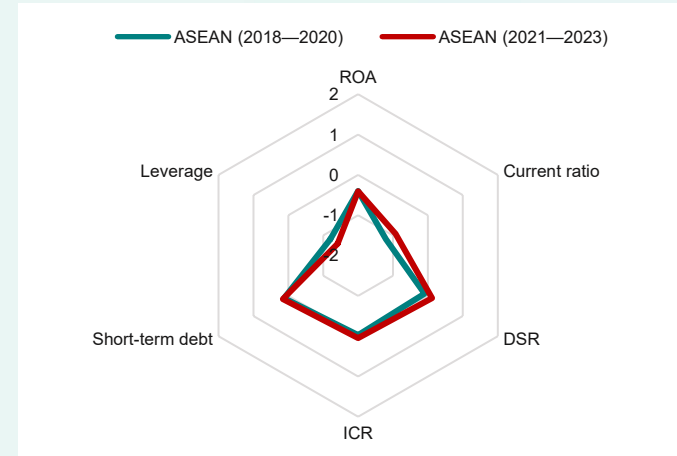
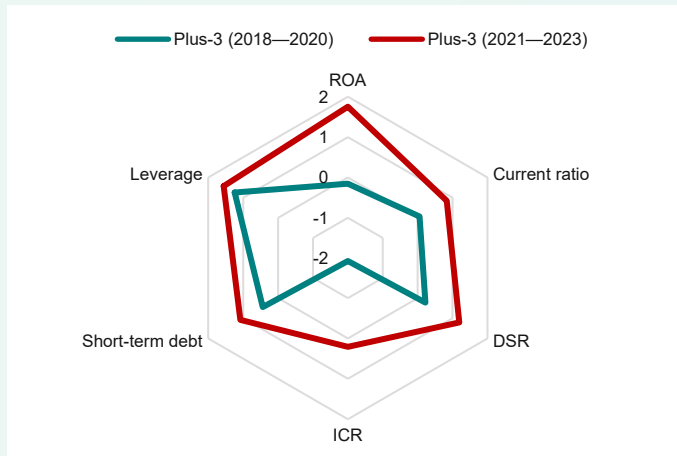
Source: Orbis; AMRO staff calculations.
Note: MSME = micro, small, and medium enterprise; ICR = interest coverage ratio.

In particular, financial soundness of property-related companies in ASEAN+3 has shown notable vulnerabilities, especially in Plus-3.

**Recent
Developments**

Changes in Financial Soundness of Property-Related Corporates

(The larger the shape, the greater the vulnerabilities)

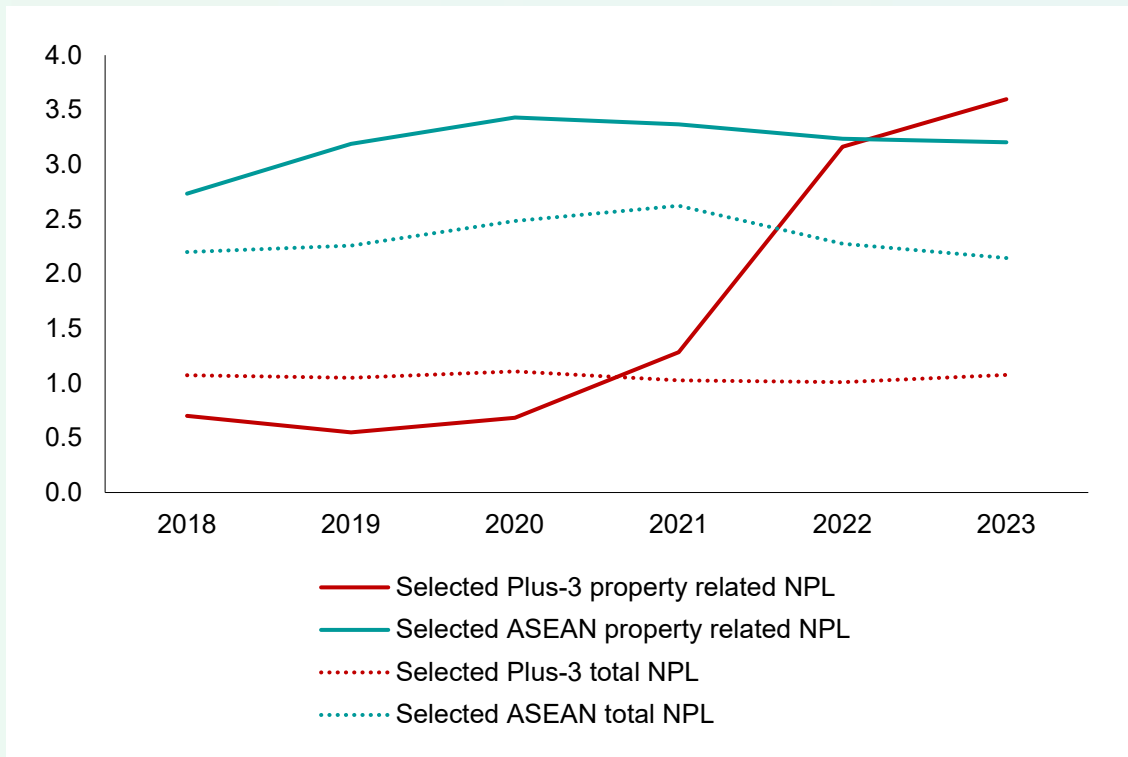


Source: Orbis and AMRO staff calculations.

Property-related loan quality remains stable in ASEAN but is declining in Plus-3.

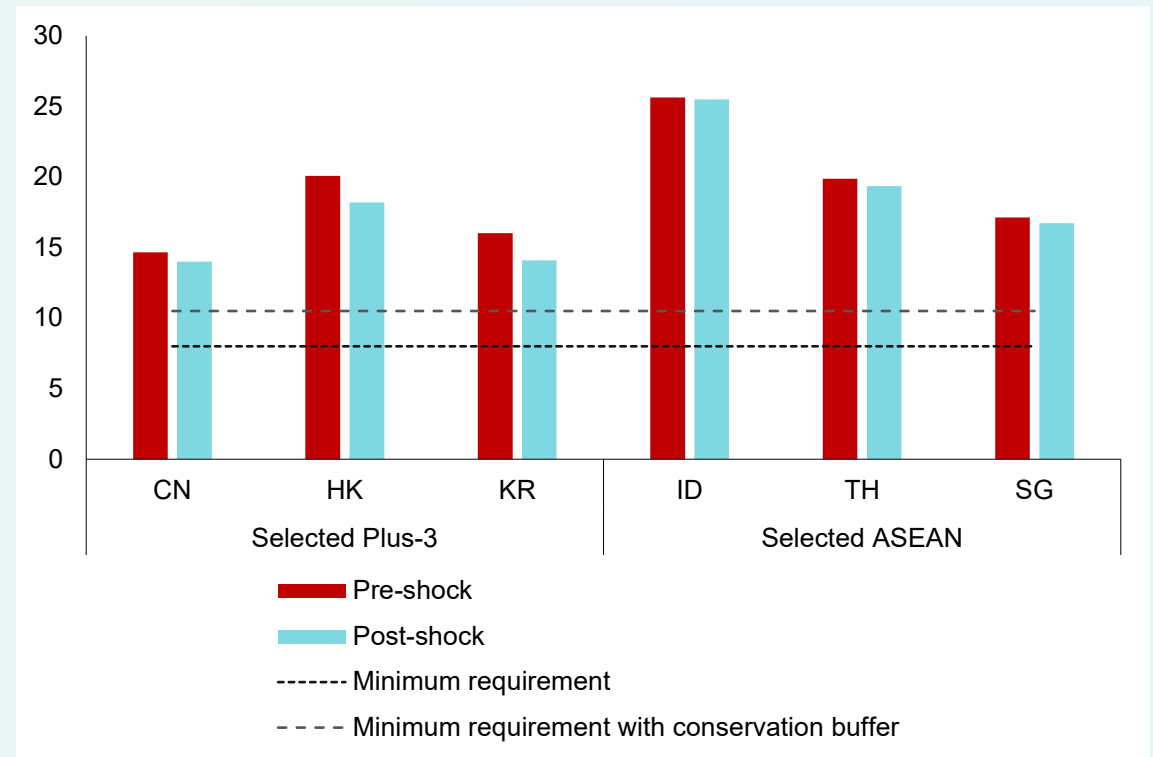
**Recent
Developments**

**Property-related NPLs out of Property-related Loans
(Percent)**



Source: CEIC; Wind; Haver Analytics; national authorities; AMRO staff calculations
Note: Simply average across available economies. Selected Plus-3 includes China, Hong Kong, and Korea. Selected ASEAN includes Indonesia, Singapore, and Thailand. Property-related loans are commercial bank loans to construction and real estate activities (CN, TH, KR, ID); Construction, property development and investment (HK); and building and construction (SG). Property-related NPL ratios refer to property-related NPLs out of all property-related loans. For Korea, Q3 data is used for 2023.

**Potential Impact of Property Developers' NPL
Deterioration on Banks' CAR (Percent)**

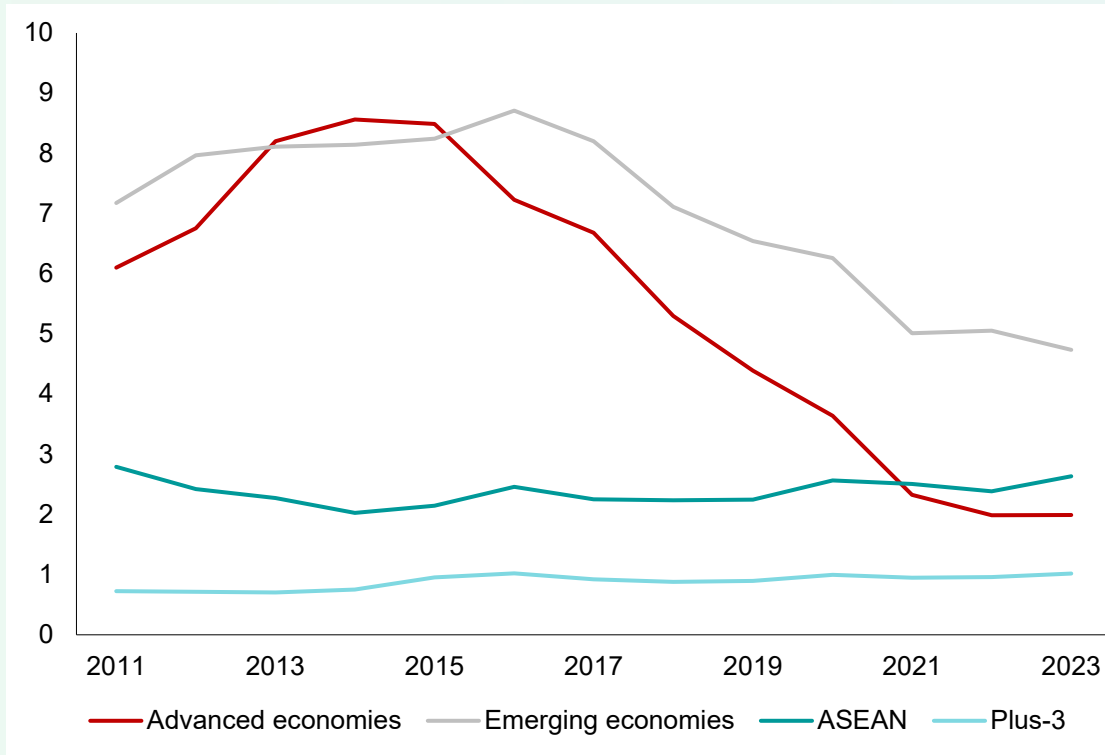


Source: CEIC, Wind, National authorities, Bank financial statements, AMRO staff estimates.
Note: Shock is equivalent to a three standard deviation increase to NPLs in each economy.

Generally, the financial sector remains resilient with low NPL ratios.

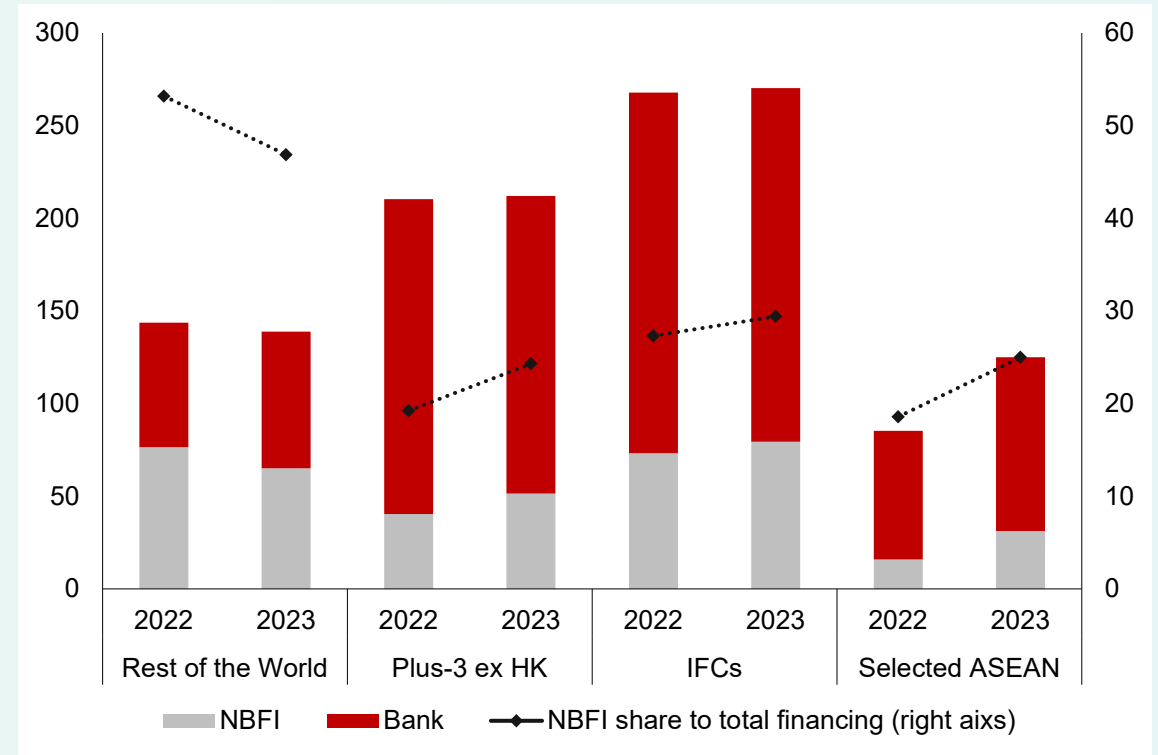
**Recent
Developments**

**Selected Regions: Nonperforming Loan (NPL) Ratio
(Percent)**



Source: National authorities via CEIC and Haver Analytics; AMRO (2024); AMRO staff calculation.
Note: The interest payments are computed based on simple averages amongst economies in the specific group. Plus-3 ex Japan = China, Hong Kong, JP = Japan, ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand, BCLMV = Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Vietnam.

**World and ASEAN+3: Financing of Nonfinancial Private Sector
by Banks and NBFIs (Percent of GDP, Percent)**

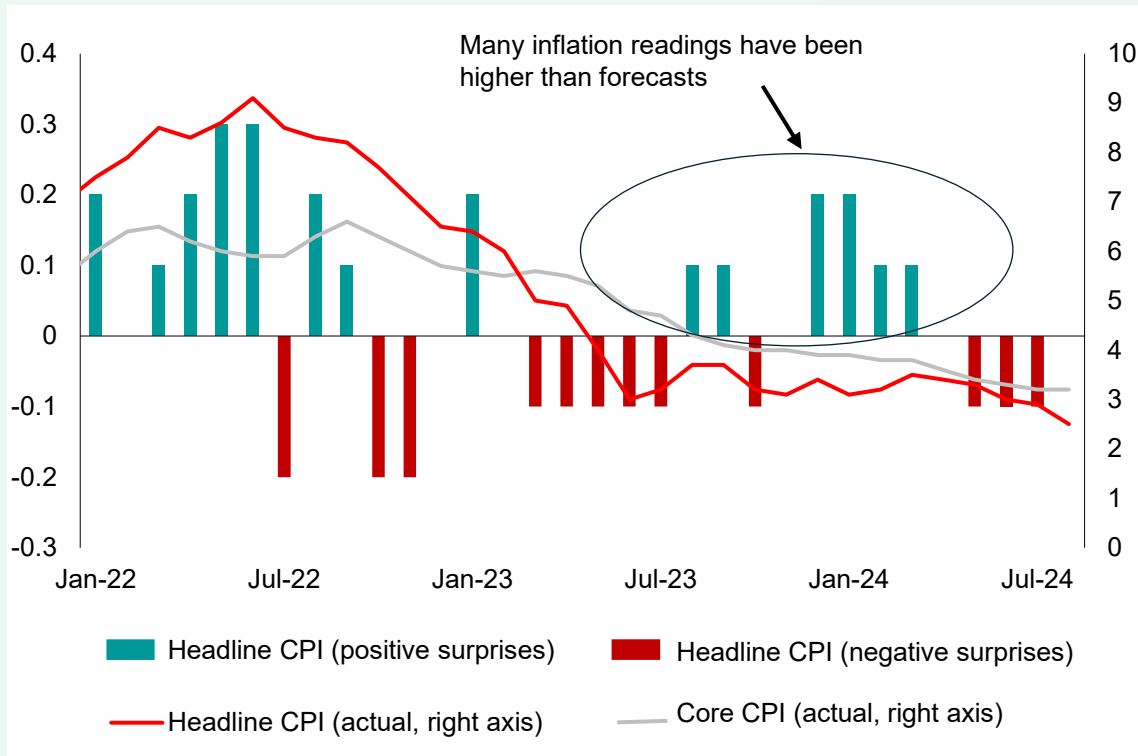


Source: National authorities; Bank for International Settlements; AMRO staff calculation.
Note: The debt burden is estimated by multiplying household debt by the interest rate and assuming a 10-year average debt maturity using the formula in Drehmann and others (2015). CN = China, HK = Hong Kong, ID = Indonesia, JP = Japan, KR = Korea, MY = Malaysia, SG = Singapore, TH = Thailand.

Risk #1: Resurgence of inflation cannot be neglected.

Risks

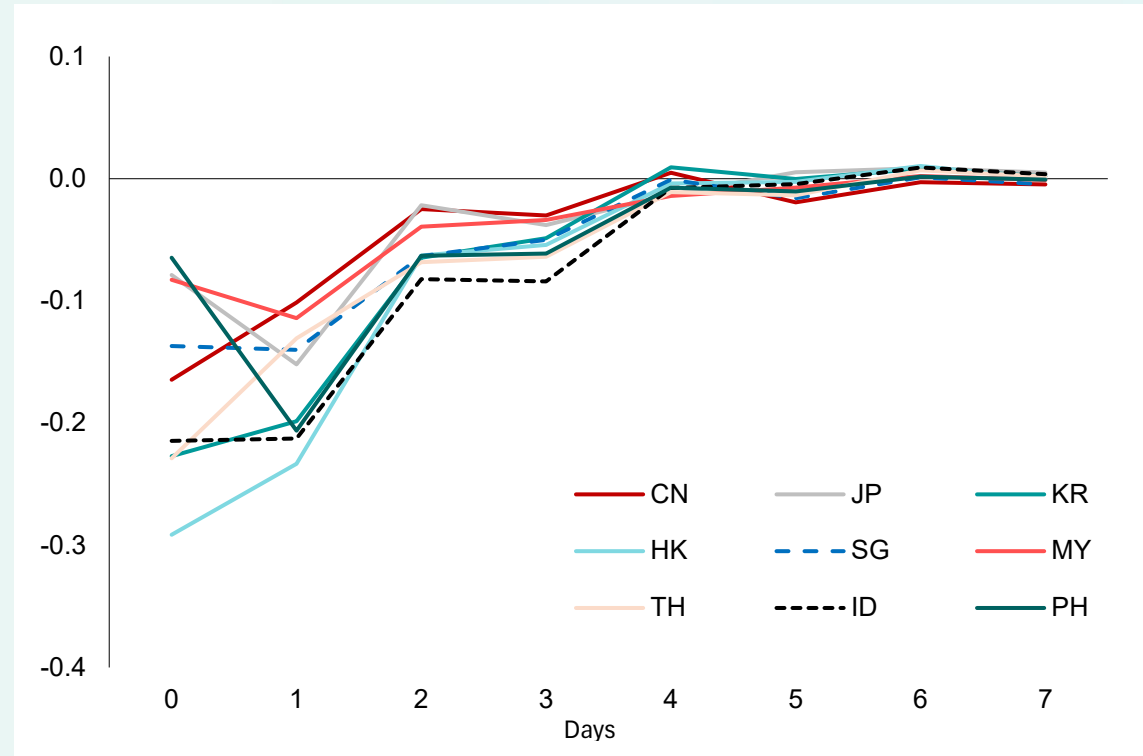
US: Inflation and Inflation Data Surprises
(Percent of GDP; percent)



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

Note: Headline CPI surprise is calculated as the difference between actual and forecast median of Bloomberg economist survey. CPI = consumer price index. Latest data as of August 2024.

Impact of USD Appreciation to ASEAN+3
Stock Market (Percent)



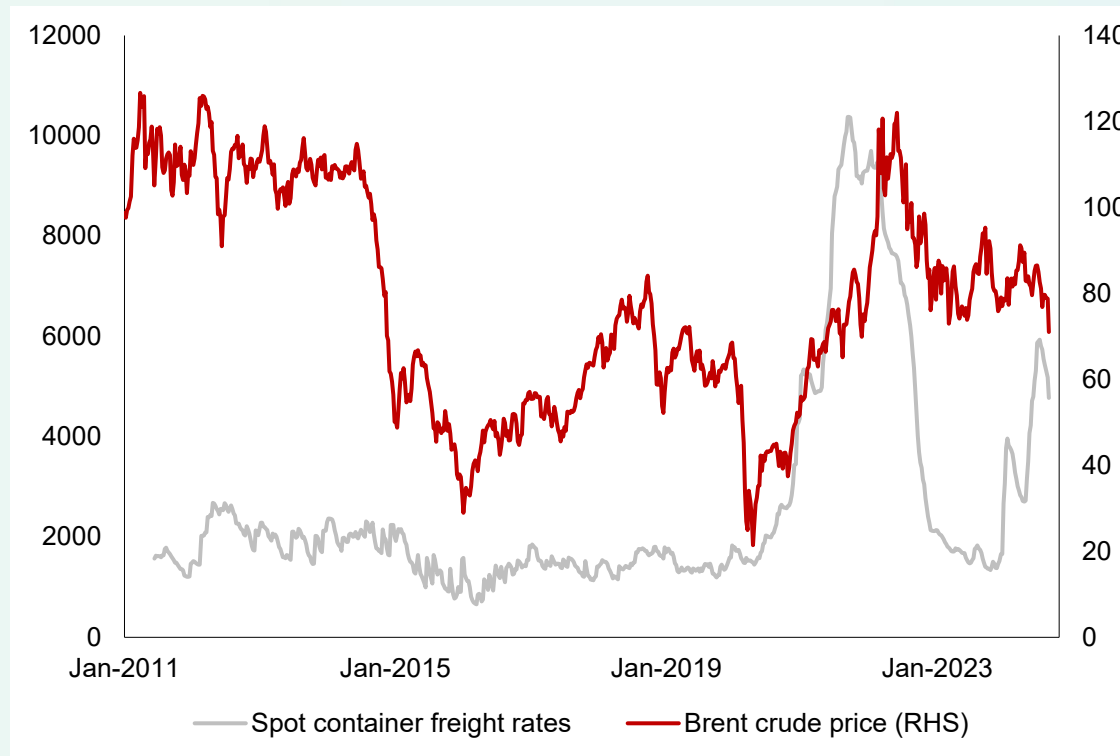
Source: AMRO staff calculation.

Note: Note: The figure depicts generalized impulse responses of stock market in ASEAN+3 economies to a 1 standard deviation US nominal effective exchange rate (NEER) appreciation, using daily data. CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; VN = Vietnam.

Risk #2: Rising geopolitical uncertainties could impact financial stability through multiple channels.

Risks

Brent Crude Oil Price and Shipment Cost
(thousands of US dollar; US dollar per barrel)

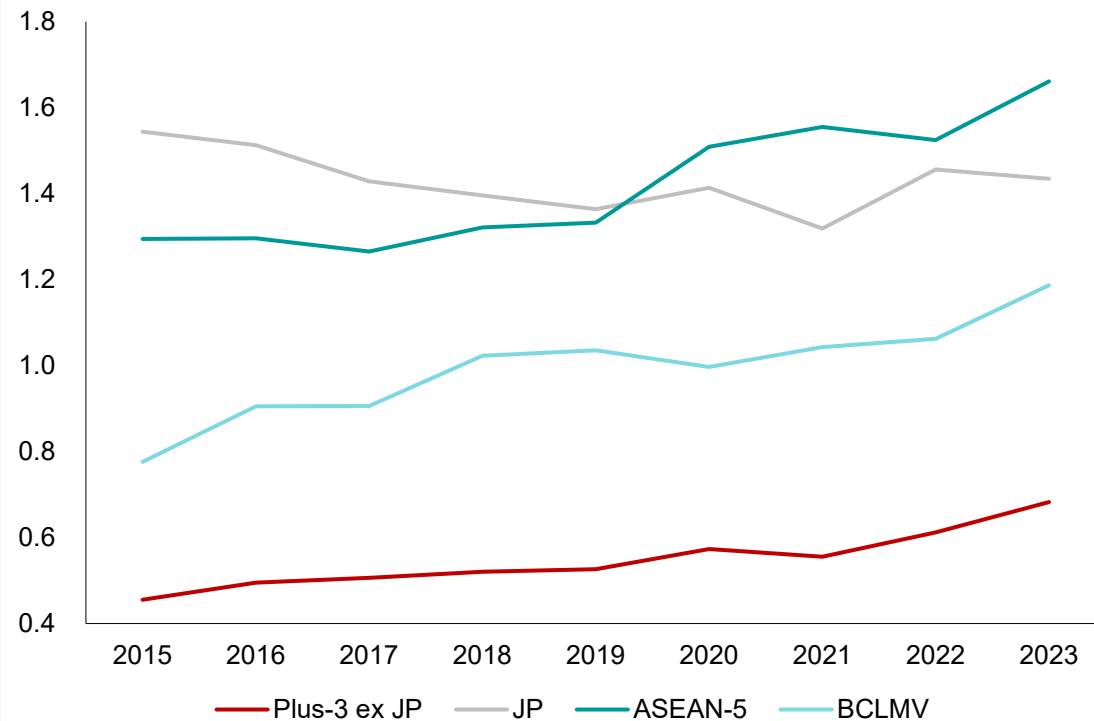


Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Data as of 6 September 2024.

Risk #3: Rising debt levels leads to larger debt servicing obligations of both governments and corporates.

Risks

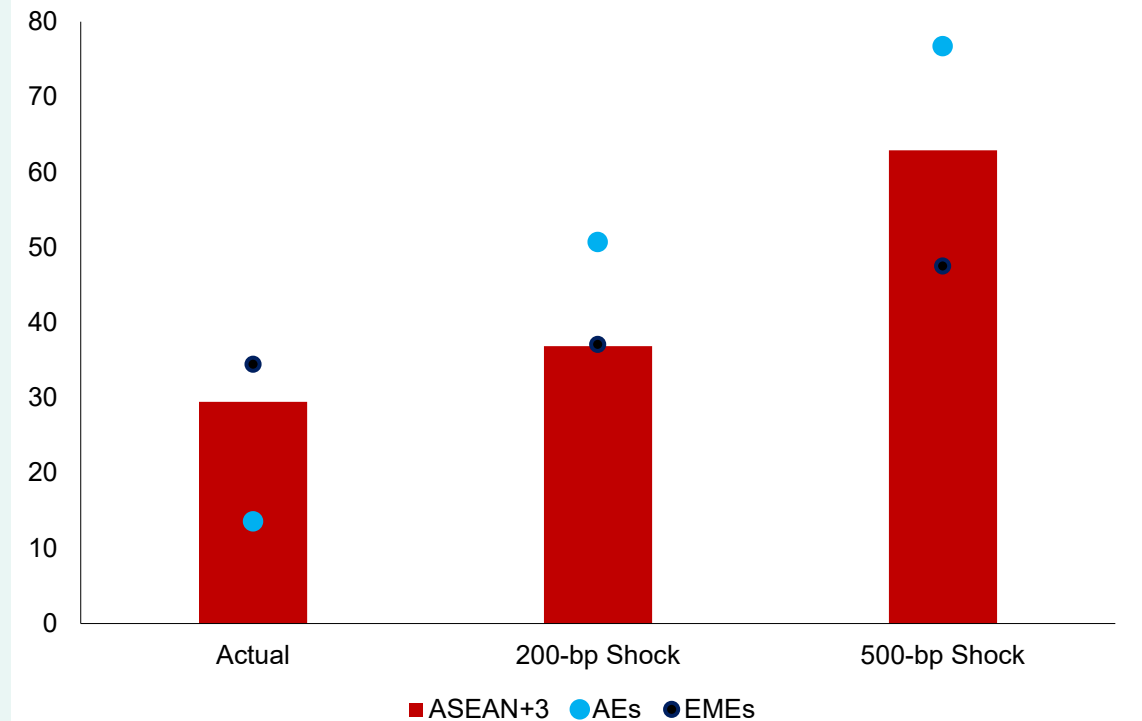
Selected ASEAN+3: Government Interest Payments
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO (2024); AMRO staff calculation.

Note: The interest payments are computed based on simple averages amongst economies in the specific group. Plus-3 ex Japan = China, Hong Kong, JP = Japan, ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand, BCLMV = Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Vietnam.

Property Developers' Share of Debt Under Stress by Funding Cost Shock, 2023 (Simulation Results, percent)



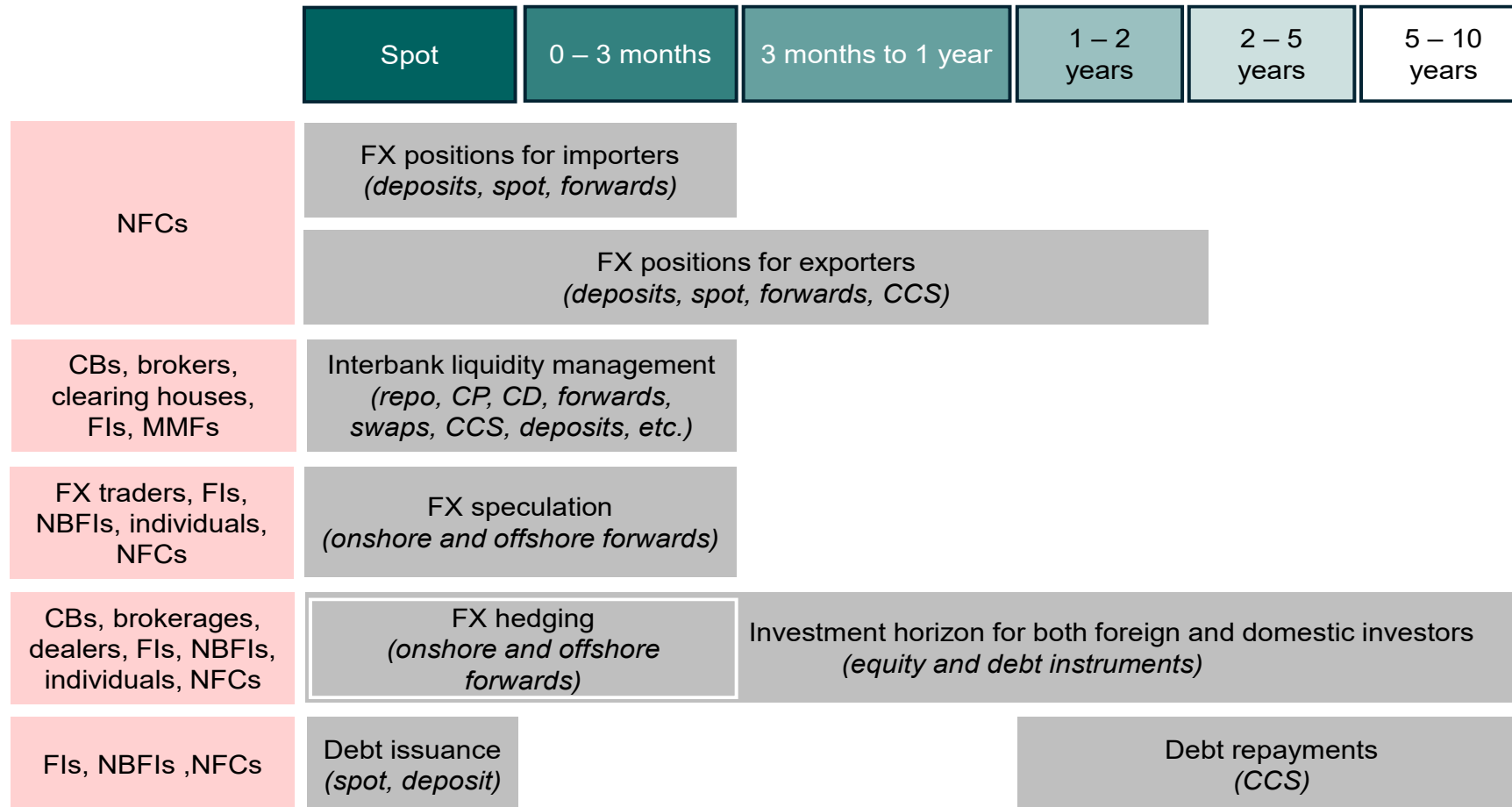
Source: AMRO staff calculations.

Note: Due to data availability, Brunei, Cambodia, Lao PDR, and Myanmar are not included in the ASEAN+3. AEs refer to selected advanced economies in Western Europe and North America. EMEs refer to selected emerging market economies in Eastern Europe and Latin America.

Risk #4: US dollar supply chain also creates some currency and maturity mismatches and could pose risks during adverse market conditions.

Risks

Interaction of Various Entities in US Dollar Supply Chain and Resultant Maturity Mismatches



Policy makers should focus on building resilience and address structural issues.

***Policy
Discussion***



Inflation Resurgence

- Remain vigilant regarding the upside risk to inflation
- Maintain price stability by both monetary and non-monetary measures



Increasing Debt

- Monitor financial imbalances and rebuild policy buffers
- Prevent a buildup of risks through macroprudential tools



Geopolitical Escalation

- Enhancing the resilience of the macro-financial system
- Swiftly facilitate orderly market adjustments to external shocks



Longer-term Risks

- Climate change and green finance
- Digitalization



Messages from the thematic topics are the followings.



US Dollar Reliance

- Build economic resilience through regional safety net
- Encourage local currency usage
- Explore technology for better regional integration (e.g. cross-border payments and transactions)



Spillovers

- Robust ASEAN+3 centric surveillance and cooperation
- Monitor macro-financial shocks from the global market



Property Developers

- Enhance the soundness of financial sectors with large property market exposures
- Improve property market practice and conduct
- Targeted support for viable projects under temporary liquidity stress



Thank you.



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