

An Asian Perspective



The financial crisis and role of savings banks in economic recovery

Although Asia is not at the epicentre of the global financial crisis, it has been affected indirectly. The crisis in Asia is an economic crisis rather than a financial one, as Asian economies are pulled down due to the shrinking of demand from the EU and US. The shocks are the result of Asian economics' high reliance on foreign trade and consumption, which on the other hand has led to spectacular development in recent decades.

The distress of the Asian banking industry is not as severe as in other parts of the world. This means that the government has not been forced to bail out or nationalize tremendously troubled banks. Most of the Asian banks are not exposed to a large portion of US toxic financial assets. They have maintained their retail financial services at a stable and profitable level, though some mega banks have suffered from a large fall in net profit. Quite the contrary, the savings banks in Asia are receiving more deposits, as they are trusted to be sustainable and stable in their business model during the current financial turbulence.

Weak exports have already pushed Japan, Hong Kong and Singapore into recession, while in the fastest growing countries in economic terms, China and India, economic growth has been slowing for several consecutive quarters.

Potential Threat to Banks from Weaker Economies

However, the credit crunch can threaten the banking sector in Asia. As the ratio of bad loans in portfolios increases, banking sector actors are more cautious in lending. The credit crisis has also already resulted in stock market volatility. In stock markets in Hong Kong, Korea, etc. investors have been the biggest victims of the financial crisis. Bank runs and public protests against declining asset values as well as

panics have taken place in some parts of the region. Asian currencies have also weakened, which could worsen the stability of the region.

Asia is facing greater risk if the global economic and financial crisis becomes severe and long-lasting. Export levels have dropped by double-digit percentages since 2008, while the number of unemployed is rising by millions. Weak exports have already pushed Japan, Hong Kong and Singapore into recession, while in the fastest growing countries in economic terms, China and India, economic growth has been slowing for several consecutive quarters. Australia seems to be one of few countries well positioned to weather the crisis with minimal disruption, expected to sustain more than 2% GDP growth in 2009. The pressure of intensified international competition and the potential rise of trade and investment protectionism in international markets may put Asian exports in a more difficult situation.

An Opportunity to Boost Domestic Demand

Every coin has two sides. The crisis time could also be an opportunity to boost domestic demand in Asia. In this sense, Asia's policymakers can view the crisis as an opportunity to expand investment in desperately needed public goods which would allow Asia to continue to grow even as exports decline.

Governments across Asia and around the

world are pushing to cut interest rates, come up with economic stimulus packages to support their economies, stimulate growth and avoid slipping into recession. Asia is undertaking a leading role in the global recovery process. The government leaders of Asian countries have already responded to the challenges of the tough economic times and have started to strengthen domestic demand through the announcement and implementation of a set of monetary and fiscal policies.

Despite economic stimulus plans, in order to prevent the situation from deteriorating, policy makers should take care to monitor the financial markets and ensure there are adequate provisions of liquidity to prevent a credit crisis. Savings banks in the region, whose core business is retail banking with unrivalled geographical and social outreach, have played a key role in the national economy recovery process by:

- increasing loans to individuals and SMEs to rescue them from bankruptcy;
- offering preferable loan rates to exporters to help them survive through difficulties;
- restructuring loan conditions for those whose income has shrunk;
- restoring investors' confidence in the banking industry.

From this perspective, I would encourage savings banks in Asia to:

- continue their commitment to social and financial inclusion and help the poor to cope with the crisis;
- provide sufficient financial resources to stabilize the financial market and prevent any credit crunch;
- assist in the implementation of their country's stimulus plan.

2009 is a year full of tremendous chal-

allenges for Asia. However, I believe that Asian economies are dynamic and will recover from the gloom of the financial crisis. This will occur as long as policy makers undertake timely and effective policies to shift from an export led model to a domestic demand model, act quickly to stop liquidity from drying up, stabilize the domestic financial market, and continue with regional collaborations - which certainly is not an overnight job but will occur over several years.

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WSBI/ESBG is beginning a social networking group focused on retail/ savings banks called “Responsible Retail Banking” through LinkedIn.

- If you are not registered with LinkedIn, go to www.linkedin.com to register, fill in your details (as much or as little as you would like), and then you can join the group
- If you are registered, you can search for “Responsible Retail Banking” on www.linkedin.com and join after clicking on the group.
- Forward this information to colleagues and contacts who are interested in Responsible Retail Banking.

The virtual network can serve as a global listserve, a document posting site, a resource to identify consultants, an advertising venue for events, and many other possibilities.

By being a part of the “Responsible Retail Banking” online group, participants will have the opportunity to:

- network and communicate informally with each other at various levels of organizations around the world on topics related to retail banking – sharing experience, expertise, opinions, opportunities, etc.
- be informed about the services, resources, and people within WSBI/ESBG
- advertise events, meetings, etc. to a wider audience than previously possible.

For questions, contact: Seth Landau at seth.landau@savings-banks.com.

