

“Reforms to Financial Sector in South Asia to promote Economic Growth with Financial System Stability”



THE FUTURE OF FINANCIAL SECTOR REFORMS

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Line up...



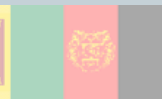
Major Financial Sector reforms in South Asian economies – Strengths & Weaknesses

Lessons for future reforms from the current crisis

Regulatory measures to contain pro-cyclicality



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Current Financial Architecture

• Strengths

- Banking reforms introduced with opening up of the financial sector for domestic and foreign competition
- Expansion in the availability of credit information and other infrastructure
- Changes in the conduct of monetary policy
- Efficient and secure Payments & Settlements system
- Enhancement of the access to finance
- Strengthening of regulatory and supervisory framework
- Implementation of Basel II framework and improvement in the risk management mechanisms.



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Domestic Saving and Capital Formation as a % of GDP

Country	Domestic Savings					Capital Formation				
	1990	1995	2000	2005	2008	1990	1995	2000	2005	2008
India	22.8	24.4	23.7	34.2	N/A	26.0	26.2	24.3	35.5	N/A
Pakistan	13.5	15.8	16.0	15.2	11.0	18.9	18.5	17.2	19.1	22.0
Bangladesh	12.9	13.1	17.9	20.0	20.3	17.1	19.1	23.0	24.5	24.2
Sri Lanka	12.0	14.6	15.2	17.2	14.1	20.7	25.6	25.4	26.1	27.1
Nepal	7.3	13.8	14.1	11.6	11.2	17.2	23.5	22.6	26.5	31.8
Bhutan	N/A	39.8	23.3	27.8	N/A	N/A	46.7	47.3	51.2	N/A

Source: Asian Development Bank



Banking Sector Indicators (%)

Country	NPL to Total Loans			Bank Regulatory Capital to Risk-Weighted Assets			Bank Provisions to Nonperforming Loans		
	2003	2005	2008	2003	2005	2008	2003	2005	2008
India	8.8	5.2	2.3	12.7	12.8	13.0	46.4	60.3	52.6
Pakistan	17.0	8.3	9.1	8.5	11.3	12.2	63.9	76.7	74.7
Bangladesh	22.1	13.2	11.2	8.4	7.3	10.1	18.3	28.3	50.1
Sri Lanka	12.3	7.1	6.3	11.9	13.2	12.5	56.1	65.8	60.8

Source: International Financial Statistics - June 2009



Selected Economic Indicators for South Asian Countries -2007

	Afganistan	Bangladesh	Buthan	India	Maldives	Nepal	Pakistan	Sri Lanka
GDP per capita (\$)	350.1	486.8	1664.8	1028.7	3470.5	390.8	910	1616.1
GDP Growth	11.5	6.4	17	9	7.6	2.6	6.8	6.8
Inflation	13	7.2	5.2	4.7	7.4	6.4	7.8	15.8
Fiscal balance	-1.8	-3.2	-3.4	-5.4	-7.8	-2	-4.3	-7.7
Current Account Balance	0.9	1.4	10.5	-1.5	-40.1	-0.1	-4.8	-4.2
Gross International Reserves (month of imports)	3.6	3.3	12.9	15	3.1	8.9	4.5	2.9
M2/GDP	21.6	45.3	59.2	85.2	73.8	54.4	50.6	39.2
Bank Deposits/GDP	10.9	39.5	46	68	64.9	29.9	79.4	65.3

Source: ADB review on South Asia's Financial Sector

Current Financial Architecture...

- **Weaknesses**

- Major share of banking sector is state-owned, requiring better management
- Non-availability of appropriate regulatory environment for the development of non-bank institutions/market
- Non-availability of an institutional investor base
- Non-availability of derivative markets and securitization markets



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Lessons from the Global Crisis

- Need for greater co-ordination and consistency between economic stability policies and regulatory framework
- Need for further strengthening the banking sector by allowing Mergers & Acquisitions
- Bringing the unregulated shadow banking system into the regulatory regime
- Development of non-bank financial institutions



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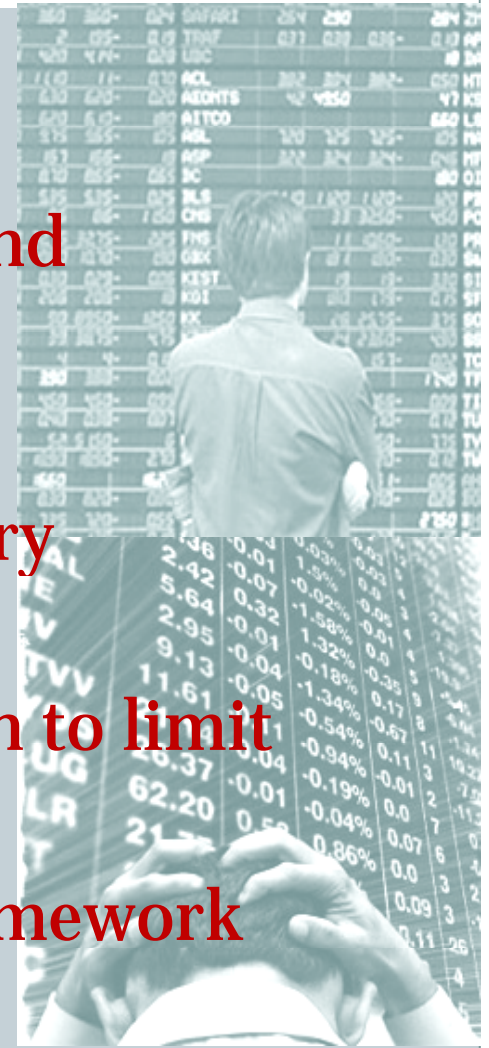


Lessons from the Global Crisis...

- Need for developing capital markets
- Promoting long-term funding sources and derivative
- Improving access to finance
- Strengthening regulatory and supervisory framework
- Introduction of consolidated supervision to limit regulatory arbitrage
- Need for well-established resolution framework



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Lessons from the Global Crisis.....

- Improving Corporate Governance
- Strengthening of disclosure requirements and introducing standards for compliance monitoring
- Developing a regional alliance to facilitate intra-trade, excess funds investments
- Disclosure of information with proper standards
- Improve the financial literacy and awareness among investors



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Challenging the pro-cyclical risk taking behaviour of banks



- Having counter cyclical capital buffers and stronger quality of capital in the banks
- Introduction of leverage ratios
- Forward-looking provisioning
- Retaining a meaningful share of underlying assets
- Determining fair value measurement methodology



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Challenging the pro-cyclical risk taking behaviour of banks.....



- Curtail over-reliance on external credit ratings and enhance internal rating capability
- Implementation of Pillar2 – ICAAP & SRP under Basel II Framework
- Controlling of systemic risk in outsourcing internal control systems and the technical models



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Concluding Remarks

- Sound and stable financial system is crucial
- Prudent monetary policy supported by fiscal policy is essential to contain inflationary pressures
- Striking balance between development of markets and sound regulations



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Thank you

