



Nonperforming Loans in Asia: Issues and Challenges

Keynote Address

Bambang Susantono

Vice President for Knowledge Management and
Sustainable Development
Asian Development Bank

Workshop on NPL Resolution in Asia and Europe

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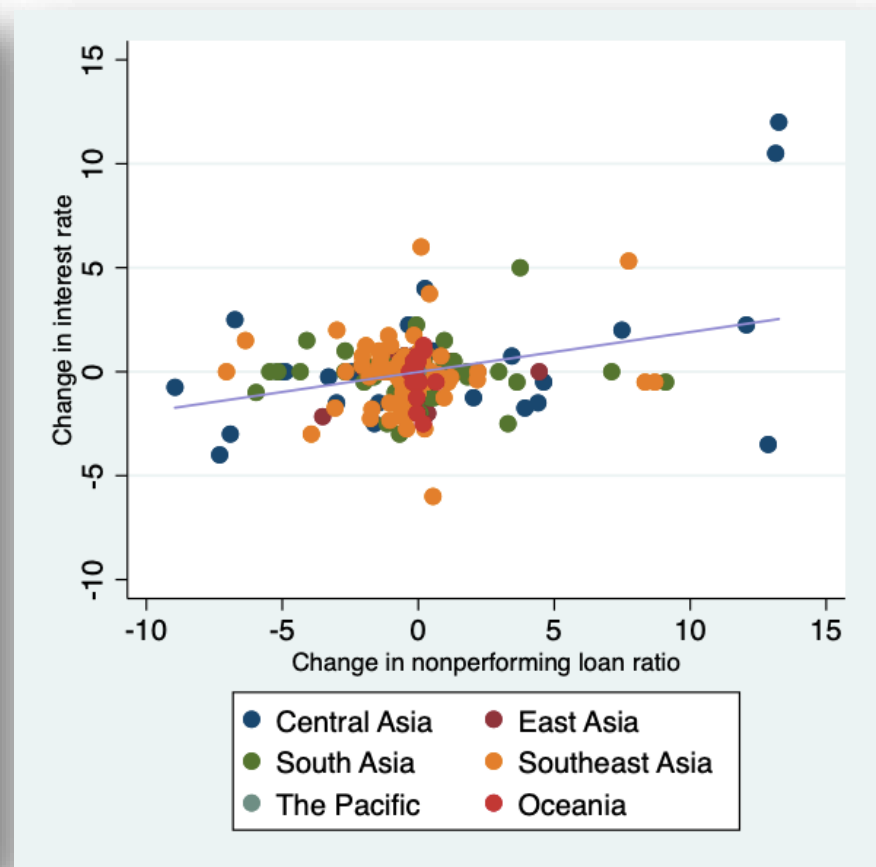
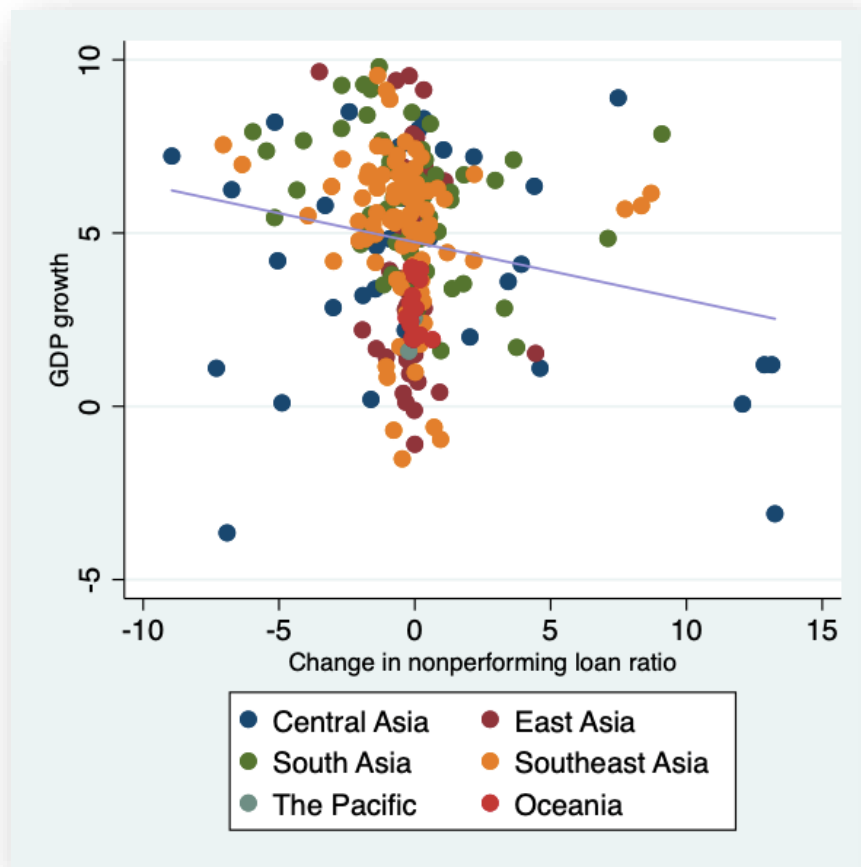
Developing Asia's growth is slowing

In a challenging external environment

- Growth in developing Asia should moderate to 5.2% in 2019 and 2020 amid the global slowdown in trade and economic activity and weakening domestic investment
- Continued trade tensions between the US and PRC remain the main risk to the forecast. Uncertainty over meaningful resolution impacts business sentiment and economic activity in Asia
- Despite subdued global oil and food prices, regional inflation projections have been revised upward to 2.8% for 2019 and 3.1% for 2020

NPLs are negatively related with GDP growth

→ Tend to increase in tandem with interest rates



Change in NPL loan ratio, GDP growth, and changes in policy rates, 2000 to 2017 (in %)

Source: ADB calculations using data from S&P Global Market Intelligence, CEIC, and World Bank World Development Indicators.

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed September 2018)

Evolution of NPLs in Asia

Bank Nonperforming Loans (% of gross loans)

| Economy | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|

Central Asia

| | | | | | | | | | | | | | | | | | | | | | | |
|-----------------|--|------|------|------|------|------|------|------|-----|------|-----|-----|------|------|------|------|------|------|------|------|------|------|
| Afghanistan | | | | | | | | | | | | | | 49.9 | 4.7 | 5.0 | 4.9 | 7.8 | 12.1 | 11.4 | 12.2 | 8.9 |
| Armenia | | 6.0 | 8.0 | 17.5 | 24.4 | 9.9 | 5.4 | 2.1 | 2.0 | 2.4 | 2.4 | 4.3 | 4.9 | 3.0 | 3.4 | 3.7 | 4.5 | 7.0 | 8.0 | 6.7 | 5.5 | 4.8 |
| Azerbaijan | | | | | | 28.0 | 21.5 | 15.1 | 9.5 | 7.2 | | | | 3.5 | 4.7 | 6.0 | 5.7 | 4.5 | 4.4 | 5.3 | 13.8 | 12.2 |
| Kazakhstan | | | | | | 11.9 | 8.4 | 4.3 | 3.3 | 2.4 | 2.7 | 7.1 | 18.9 | 20.9 | 20.7 | 19.4 | 19.5 | 12.4 | 8.0 | 6.7 | 9.3 | 7.4 |
| Kyrgyz Republic | | 10.1 | 30.9 | 30.9 | 13.4 | 13.3 | 11.2 | 8.0 | | 6.2 | 3.6 | 5.3 | 8.2 | 14.8 | 9.4 | 6.6 | 5.1 | 4.2 | 6.7 | 8.5 | 7.4 | 7.3 |
| Tajikistan | | | | | | | | | | 11.3 | 4.8 | 5.4 | 9.6 | 7.4 | 7.2 | 9.5 | 13.2 | 20.4 | 19.1 | | | |

East Asia

| | | | | | | | | | | | | | | | | | | | | | | |
|-------------|------|------|------|------|------|------|------|------|-----|-----|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|------|
| Korea, Rep. | 5.8 | 7.4 | 8.3 | 8.9 | 3.4 | 2.4 | 2.6 | 1.9 | 1.2 | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.4 | |
| Mongolia | 19.7 | 31.0 | 50.5 | 21.9 | 6.7 | 5.1 | 4.8 | 6.4 | 5.8 | 4.9 | 3.3 | 7.2 | 17.4 | 11.5 | 5.8 | 4.2 | 5.3 | 5.0 | 7.4 | 8.5 | 8.5 | 10.4 |
| PRC | | | 28.5 | 22.4 | 29.8 | 26.0 | 20.4 | 13.2 | 8.6 | 7.1 | 6.2 | 2.4 | 1.6 | 1.1 | 1.0 | 1.0 | 1.0 | 1.3 | 1.7 | 1.7 | 1.7 | 1.8 |

South Asia

| | | | | | | | | | | | | | | | | | | | | | | |
|------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----|
| Bangladesh | | 40.7 | 41.1 | 34.9 | 31.5 | 28.1 | 22.1 | 17.5 | 13.2 | 12.8 | 14.5 | | | | 5.8 | 9.7 | 8.6 | 9.4 | 8.4 | 8.9 | 8.9 | 9.9 |
| India | 14.4 | 14.7 | 12.8 | 11.5 | 10.4 | 9.1 | 7.2 | 4.9 | 3.3 | 2.5 | 2.3 | 2.3 | 2.4 | 2.3 | 2.8 | 3.2 | 3.8 | 4.3 | 7.5 | 9.3 | 11.2 | 9.1 |
| Maldives | | | | | | | | | | | | | | | | 20.9 | 17.6 | 17.5 | 14.1 | 10.6 | 10.5 | 8.9 |
| Pakistan | 24.0 | 23.0 | 26.0 | 24.0 | 23.0 | 22.0 | 17.0 | 12.0 | 8.3 | 6.9 | 7.6 | 10.5 | 12.6 | 14.7 | 15.7 | 14.6 | 13.3 | 12.3 | 11.4 | 10.1 | 8.4 | 8.0 |

Southeast Asia

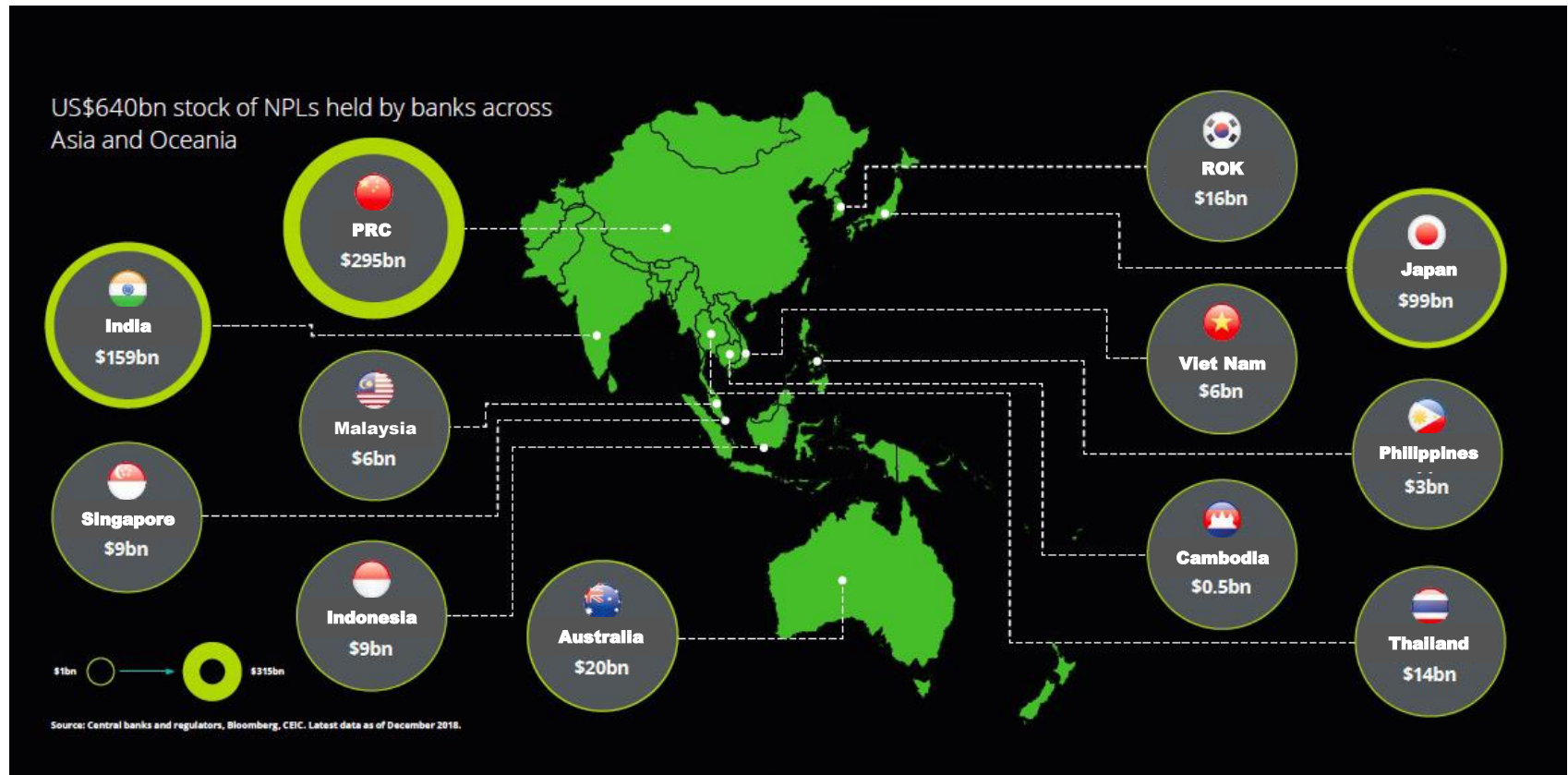
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|-------------|-----|------|------|------|------|------|------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Cambodia | 7.2 | 16.2 | 14.5 | 12.4 | 8.4 | 14.8 | 13.9 | 10.3 | 7.8 | 9.9 | 3.4 | 3.7 | 4.8 | 3.1 | 2.4 | 2.5 | 2.7 | 2.2 | 2.0 | 2.4 | 2.4 | |
| Indonesia | | 48.6 | 32.9 | 34.4 | 31.9 | 24.0 | 6.8 | 4.5 | 7.3 | 5.9 | 4.0 | 3.2 | 3.3 | 2.5 | 2.1 | 1.8 | 1.7 | 2.1 | 2.4 | 2.9 | 2.6 | 2.3 |
| Malaysia | 4.1 | 18.6 | 16.6 | 15.4 | 17.8 | 15.9 | 13.9 | 11.7 | 9.4 | 8.5 | 6.5 | 4.8 | 3.6 | 3.4 | 2.7 | 2.0 | 1.8 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| Philippines | 4.7 | 12.4 | 14.6 | 24.0 | 27.7 | 14.6 | 16.1 | 14.4 | 10.0 | 7.5 | 5.8 | 4.6 | 3.5 | 3.4 | 2.6 | 2.2 | 2.4 | 2.0 | 1.9 | 1.7 | 1.6 | 1.7 |
| Thailand | | 42.9 | 38.6 | 17.7 | 11.5 | 16.5 | 13.5 | 11.9 | 9.1 | 7.8 | 7.6 | 5.6 | 5.2 | 3.9 | 2.9 | 2.4 | 2.3 | 2.3 | 2.7 | 3.0 | 3.1 | 3.1 |

PRC = People's Republic of China.

Note: White cells denote nonperforming ratio less than 5%, yellow between 5% and 10%, and orange higher than 10%. Blank cells mean data is not available.

NPL stock held by banks across the region

➔ reached \$640 billion

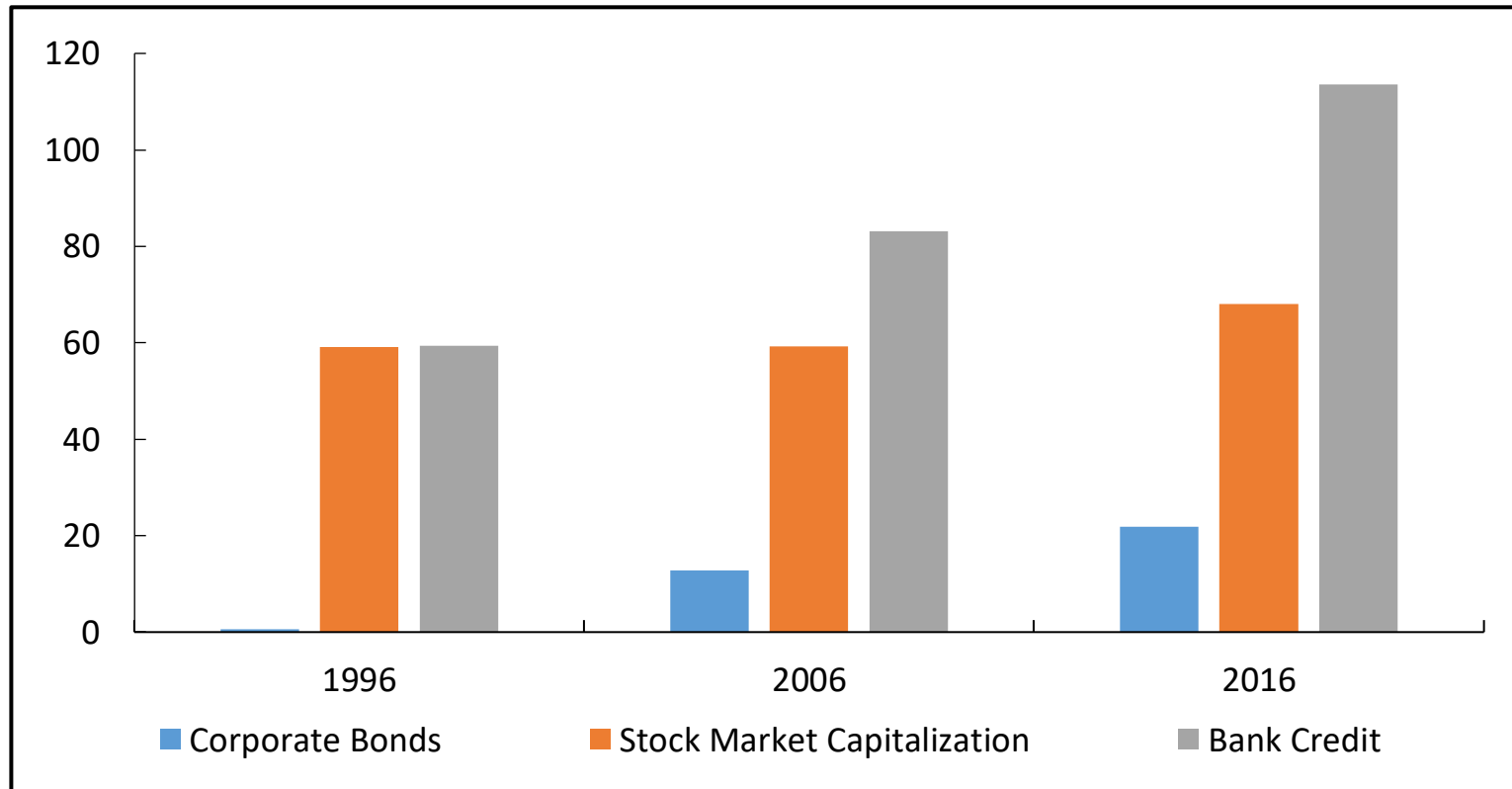


PRC = People's Republic of China, ROK = Republic of Korea.

Source: Deloitte (2019).

Bank credit dominates corporate financing in Asia

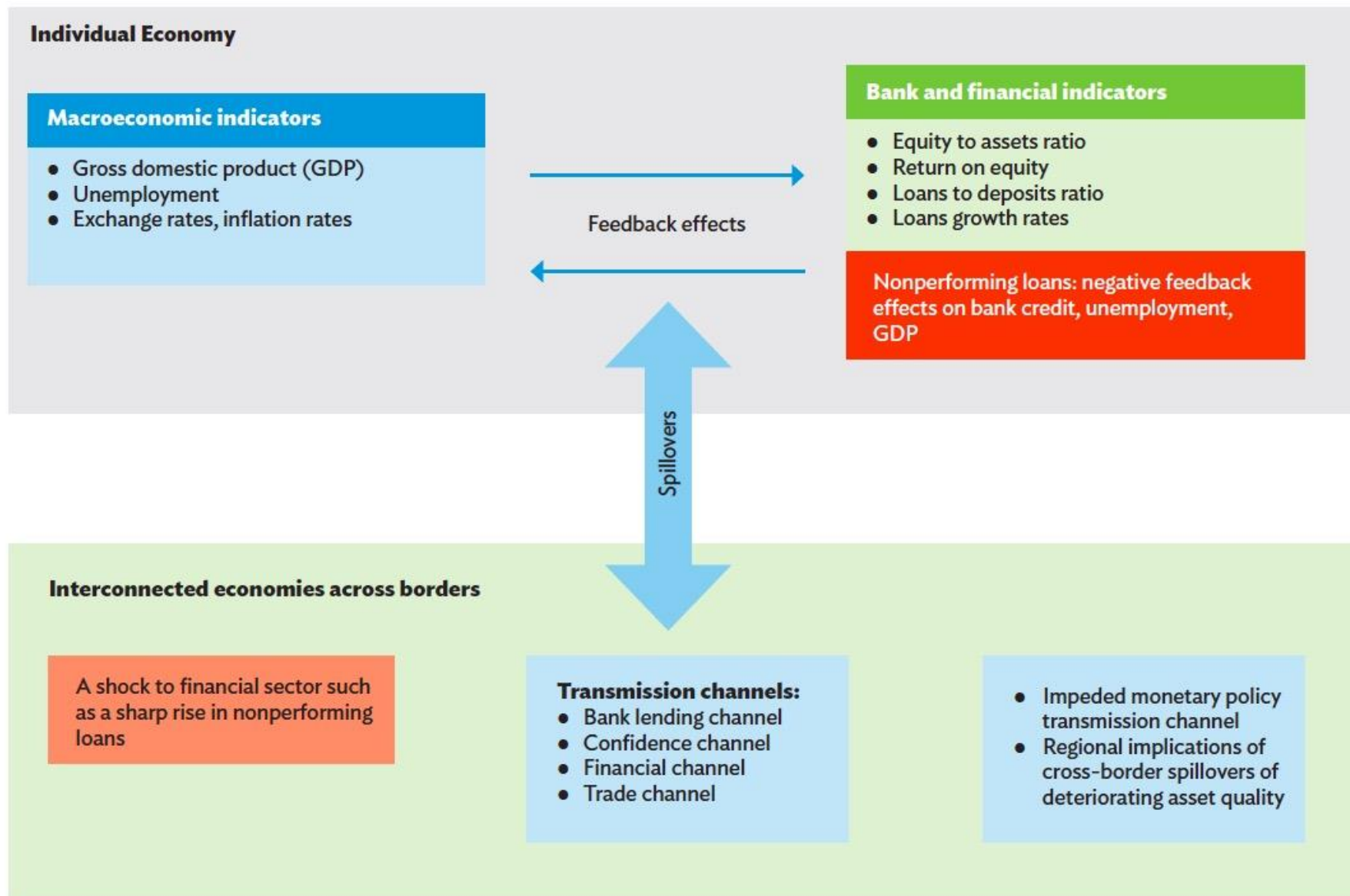
Corporate Financing as % of GDP—Emerging Asia (excluding HKG and SIN)



HKG = Hong Kong, China; Sin = Singapore.

Source: ADB estimates using data from *AsianBondsOnline*, International Monetary Fund, and CEIC (accessed March 2017).

NPLs have macrofinancial impacts



NPL resolution is hampered by 3 factors

Demand

- Wide bid-ask spreads between investors and banks
- Information asymmetries and NPL market uncertainties

Supply

- Reluctance of banks to sell at a loss
- Data gaps
- Cherry-picking assets
- Lack of expertise in asset management and asset valuation

Structural

- Insufficient legal frameworks and legislative delays
- Lengthy judicial processes and capacity bottlenecks
- Lack of transparency in collateral enforcement and insolvency proceedings

Key elements of effective resolution framework

1. Data availability, transparency and integrity
2. Bank recapitalization, tax incentives, and public asset management companies (AMCs)
3. Prevention of moral hazard
4. Strong governance, oversight and contract enforcement powers
5. Institutional quality

Support for finance sector development

ADB Finance Sector Operational Areas of Focus

| | Finance Sector Development | Inclusive Finance | Infrastructure Finance |
|--------------------------------|---|---|--|
| Financial architecture | International best practices and standards in supervision and regulation of financial markets, institutions and systems | Digital platforms and other alternative delivery channels/ distribution mechanisms to expand access to financial services | Policies and frameworks to support infrastructure finance |
| | Consumer protection | Financial literacy | Policies and frameworks to support green finance (incl. climate finance) |
| | Crisis management and resolution | | |
| | Anti-Money Laundering and Counter Terrorist Financing | | |
| | Regional financial cooperation and integration | | |
| Subsector and types of finance | Money and capital markets | Microfinance, microsavings, microinsurance | Public-private partnerships |
| | Banks | Micro, small, and medium-sized enterprises and leasing | Disaster risk finance |
| | Nonbank financial institutions, including insurance and contractual savings | Trade finance | Green Finance (including climate finance) |
| | Islamic finance | Housing finance | |
| | Municipal finance | | |
| | | | |

Source: ADB staff.

ADB support for the **finance sector** averaged nearly \$2 billion annually from 2014 to 2018 and accounted for 9% of total regular ordinary capital and concessional resource commitments in 2018

ADB's support to strengthen banking sector system

- **Support for International Public Asset Management Company Forum (IPAF):**

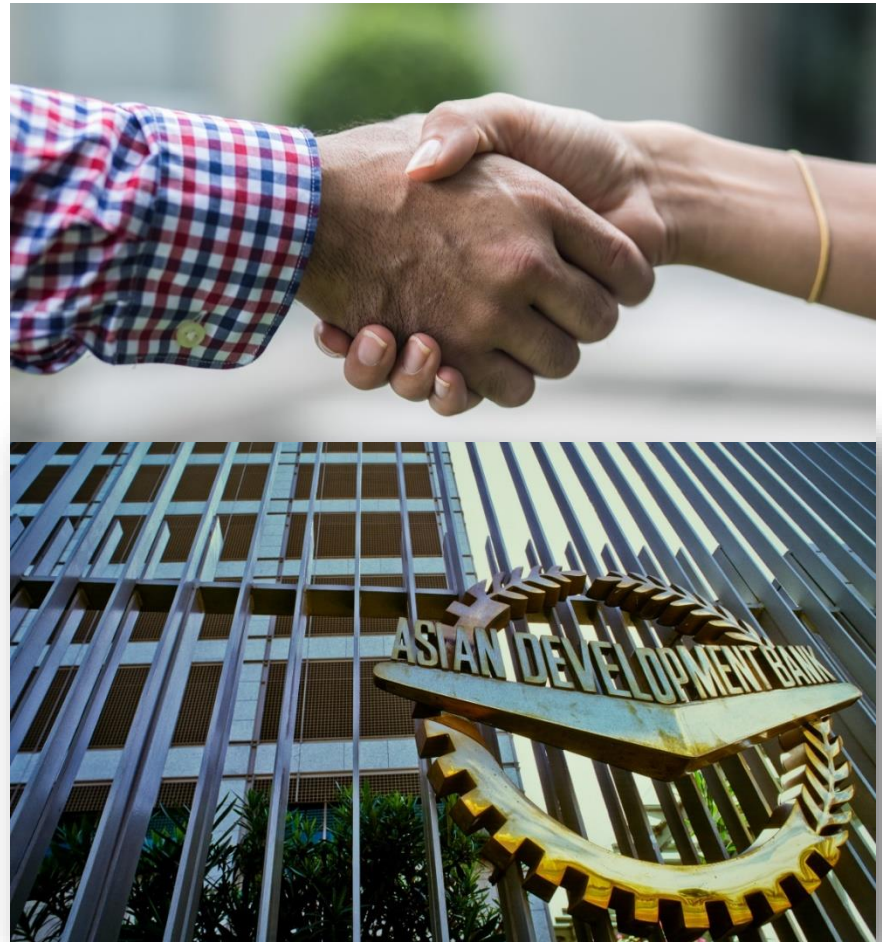
IPAF's primary mission is to strengthen crisis response mechanisms and contribute to the stability of local and regional economies

- founded in May 2013; currently 14 members
- 5 summits and conferences; 6 training seminars
- **Support to developing member countries in addressing NPLs, including Mongolia and Bangladesh**



ADB's support to Mongolia

- 2013-2014 global commodity price shock and 2016 domestic crisis hit the economy hard
- NPL ratio hit 10.4% in 2018, up from 4.2% in 2012
- ADB extended a \$100M loan in May 2017 to support government's Economic Recovery Program
 - This is part of a \$5.5 billion multi-donor financing project
- Bank of Mongolia continues efforts to improve banking supervisory and regulatory framework; has been working with ADB since 2017



ADB support to Bangladesh

- NPL ratio was just below 10% in 2018, rising and sharply higher than 2011's 5.8%, weighing on bank's profitability
- Bangladesh Bank to streamline loan classification and provisioning in line with international best practices
- Government efforts to improve existing NPL resolution frameworks
- ADB support through technical assistance, policy dialogue and capacity building at IPAF events; and a November 2019 workshop in Dhaka



Photo source: Mahmud Hossain Opu/Dhaka Tribune.

Conclusion

- High and rising NPLs require an early and preemptive response
- Policies to help develop NPL markets can help facilitate the swift NPL disposal
- Past crises have taught us that we need stronger regional financial cooperation

Thank you!