

0320 | 2019

# ASIA CHART OF THE WEEK

## Asian banks have come along way and remain healthier than most

The peak of the Asian Financial Crisis was characterized by corporations who ran into problems servicing bank loans. Overall, non-performing loans (NPLs) rose to peak levels in 1997-1998 as mismatches in currency and tenure wreaked havoc on the liquidity and solvency of Asian corporations.

After banks were recapitalized and put on lending watch, the average Asia NPL ratio gradually stabilized to the relatively low levels of today.

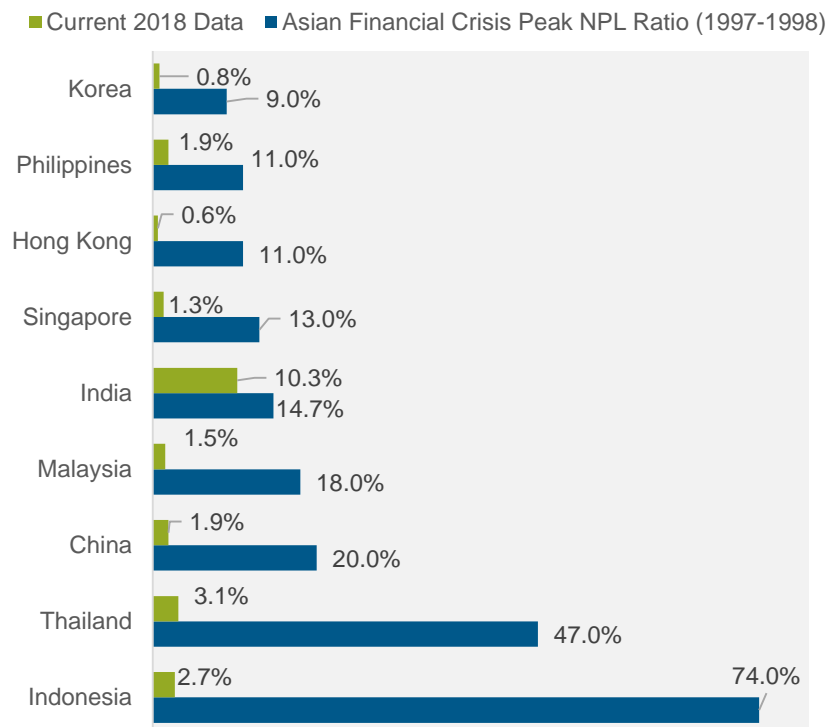
The systematic and active reduction of NPLs enabled the injection of fresh credit which invigorated businesses after the crisis. Asian authorities and banks have also been moving towards harmonizing lending and NPL resolution standards across the region, promoting better transparency and quality control\*.

Due to the tighter standards and clearer NPL resolutions, Asian banks currently experience less NPLs stress when compared to counterparts in the Group of Seven (G7) and Peripheral Europe (PE). However, over the last two years, G7 and PE have managed to reduce NPLs while Asia remained unchanged.

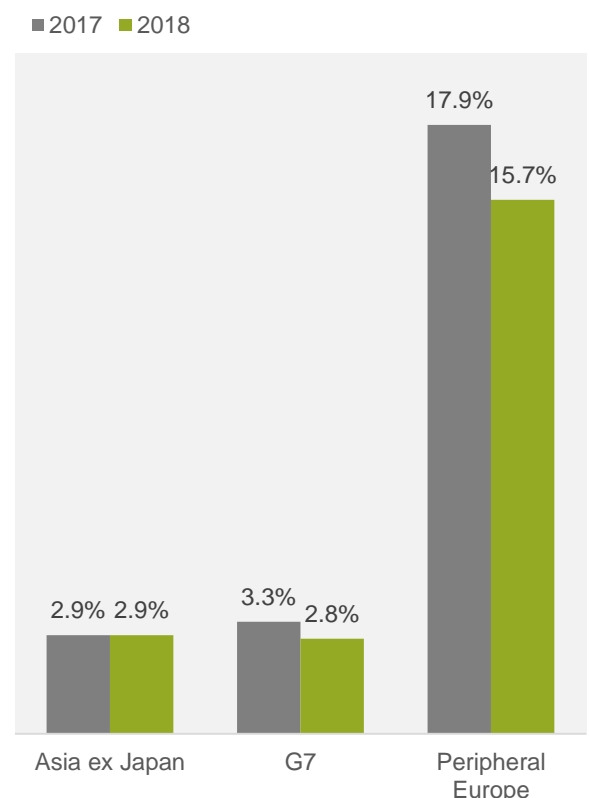
### The bottom line

A healthy banking sector is crucial to the sustainable growth of an economy. Keeping tabs of NPLs is one of many measures to determine the health of a bank as an excessive NPLs depresses profitability, restricts the issuance of new loans and encourages contagion from one stressed sector to another.

**Chart 1 :** Non Performing Loans in Asian Banks have decreased dramatically over the last 20 years (% of Total Loans)



**Chart 2 :** Non Performing Loans as a % of Total Loans



Source: Legg Mason, 20 March 2019. Chart Source: IMF, Financial Soundness Indicators, CEIC. Latest available 2018 Data drawn on 12 March 2019. \* OECD, Jung (2003), Forum for Asian Insolvency Reform (FAIR), International Standardization in the Resolution of NPLs (Non-Performing Loans). Asia ex Japan refers to China, India, Indonesia, South Korea, Malaysia, Philippines, Singapore and Thailand. Peripheral Europe refers to Italy, Greece, Ireland, Portugal and Spain. G7 refers to the group of seven countries which includes Canada, France, Germany Italy, United Kingdom, United States, and Japan.

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