

# Regional Financial Integration

**Kieran Marnell**

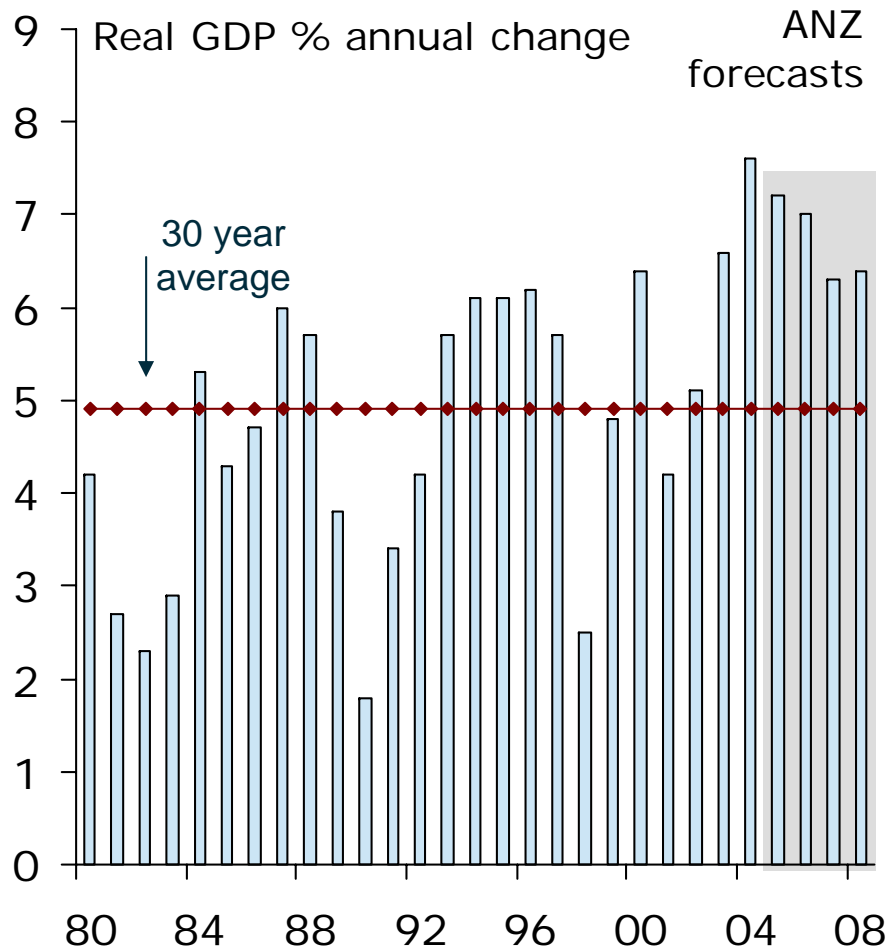
**Regional Head, Financial Institutions – N. Asia**

**October 2006**

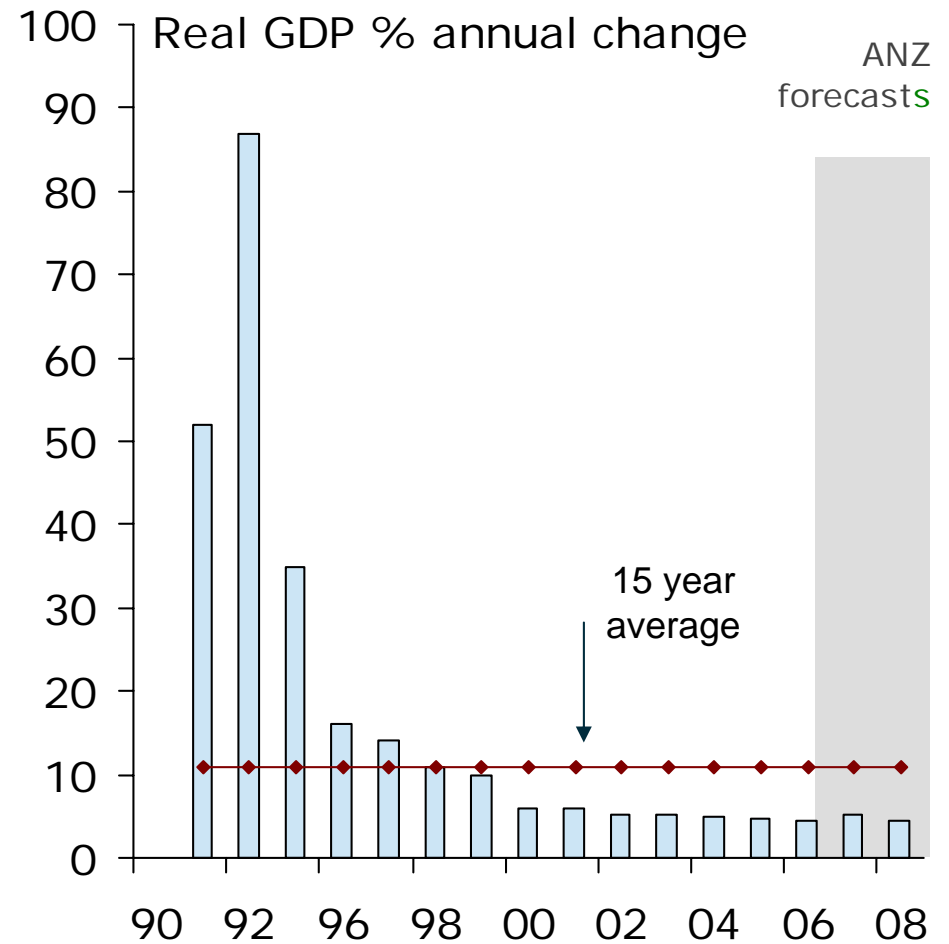


# Setting the stage: Unprecedented stability in EM

## “Emerging” countries GDP growth



## “Emerging” countries CPI



*Note:* GDP based on 50 countries aggregated using ‘purchasing power parity’ weights. Inflation based on CPI in the G7 countries aggregated on a PPP basis.

*Sources:* National agencies, Datastream, OECD and Economics@ANZ.

# Thanks to globalisation

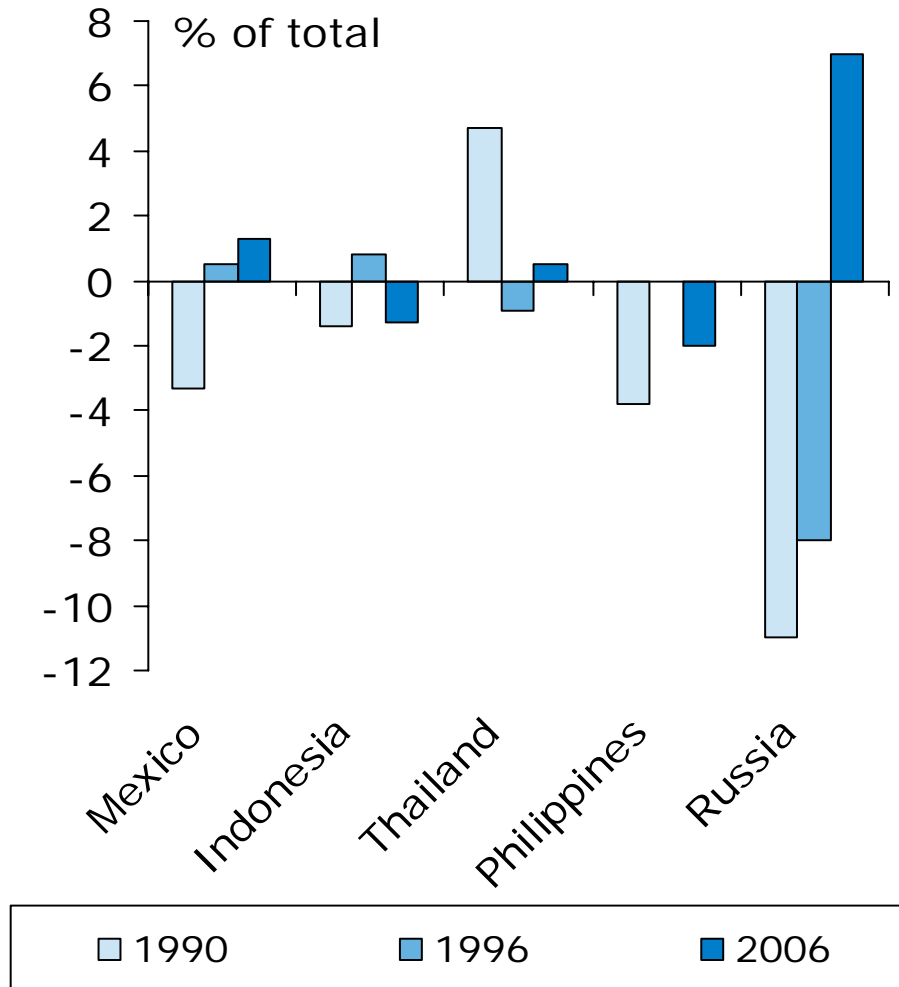
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Source: Datastream, IMF

# And improved macroeconomic management

## Prudent fiscal management and floating FX rates



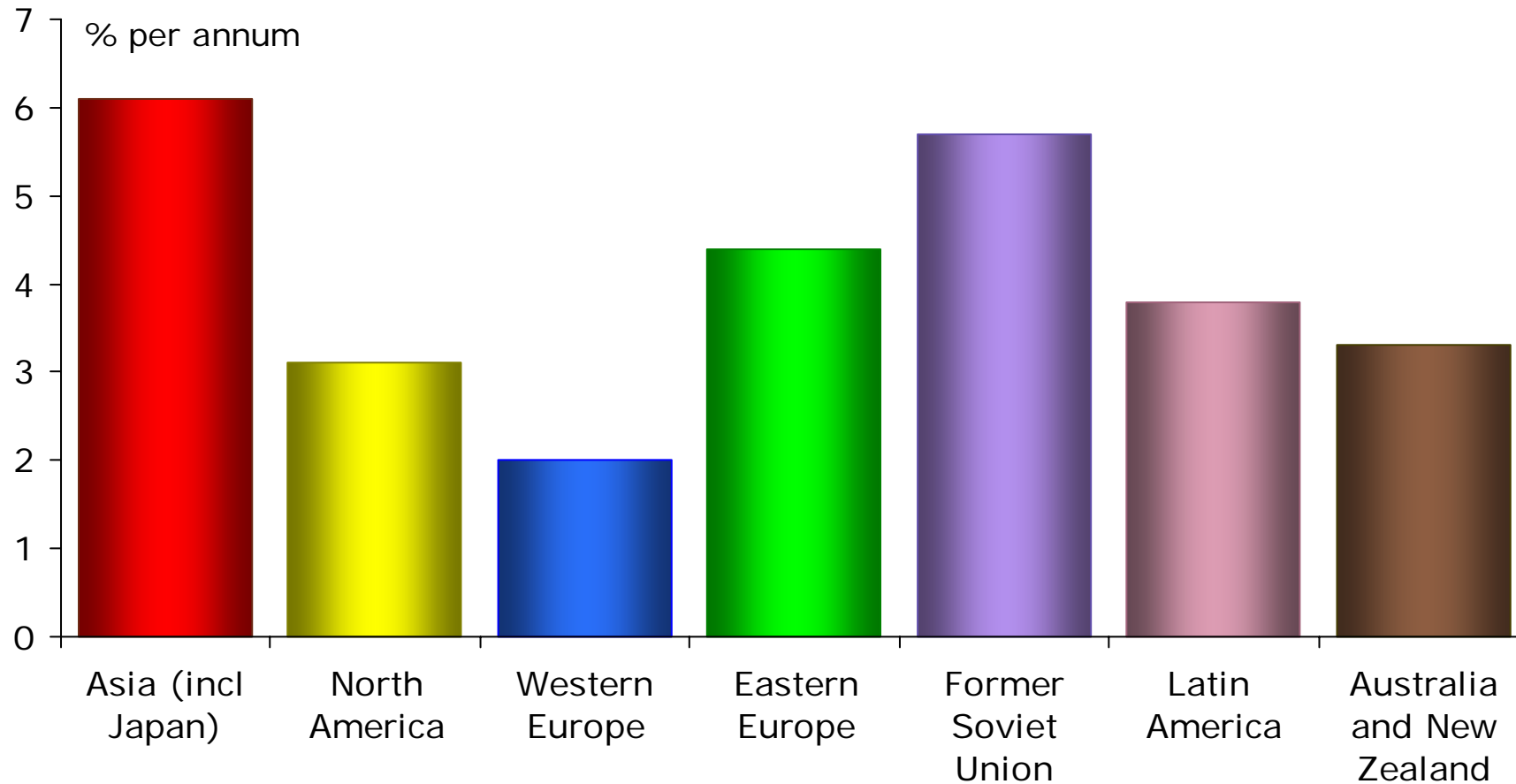
APEC economies shift to floating exchange rate regime

- 1994 **Mexico**
- 1997 Asia – **Indonesia, Thailand, Korea**
- 1998 **Russia**
- 1999 Brazil
- 2000 Turkey
- 2002 Argentina
- 2002 Uruguay
- 2002 Venezuela (now back to fixed)
- *Since 1996, 21 EM countries have moved toward or adopted floating exchange rate regimes*
- *Of the 21 APEC economies, only 6 have a fixed or formally managed exchange rate regime*

# Asia will continue to be the world's fastest growing region over the next decade

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## Expected real GDP growth rates 2005-2015



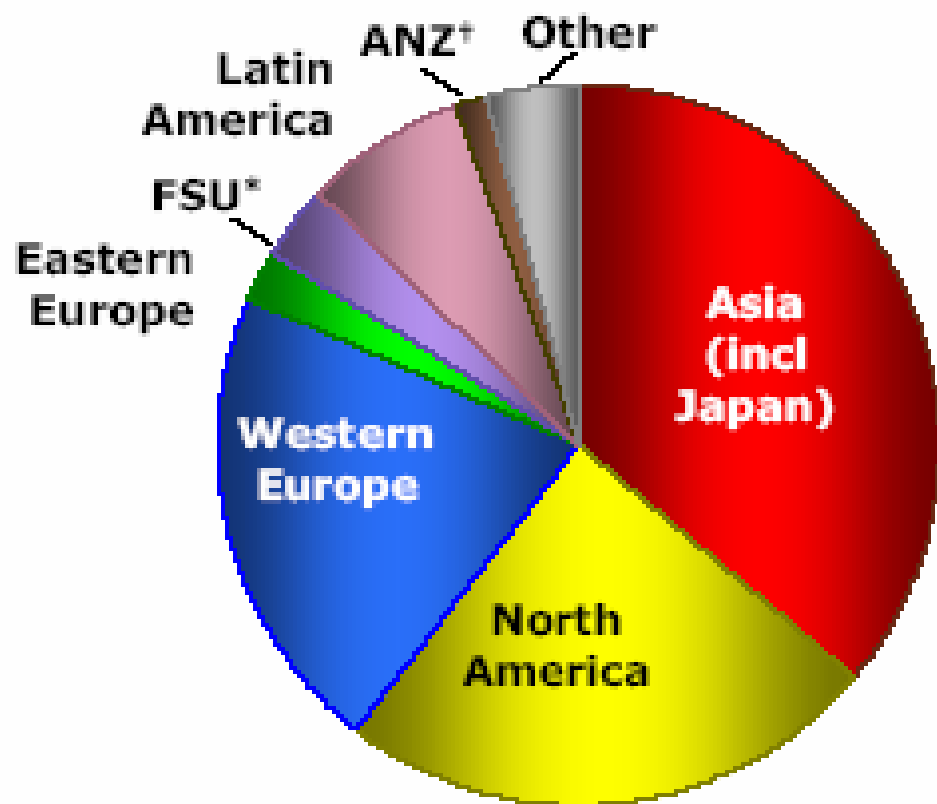
Sources: Consensus Economics; Economics@ANZ

Asia will account for around 42% of world GDP in ten year's time, up from 36% in 2005

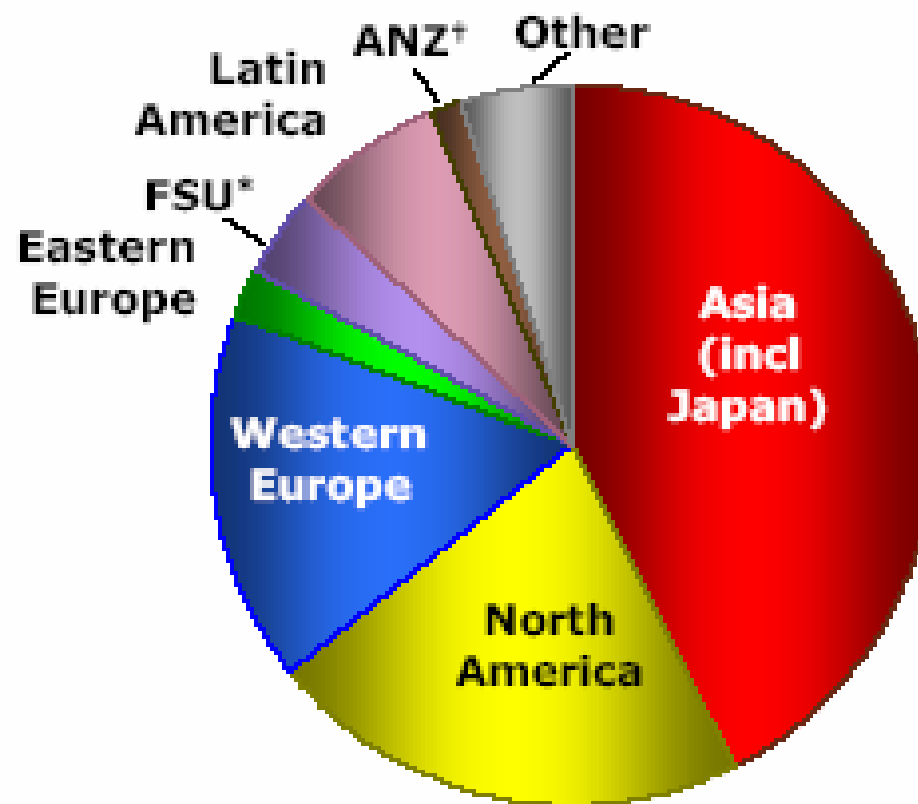
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**Shares of world GDP (at purchasing power parities)**

**2005**



**2015**

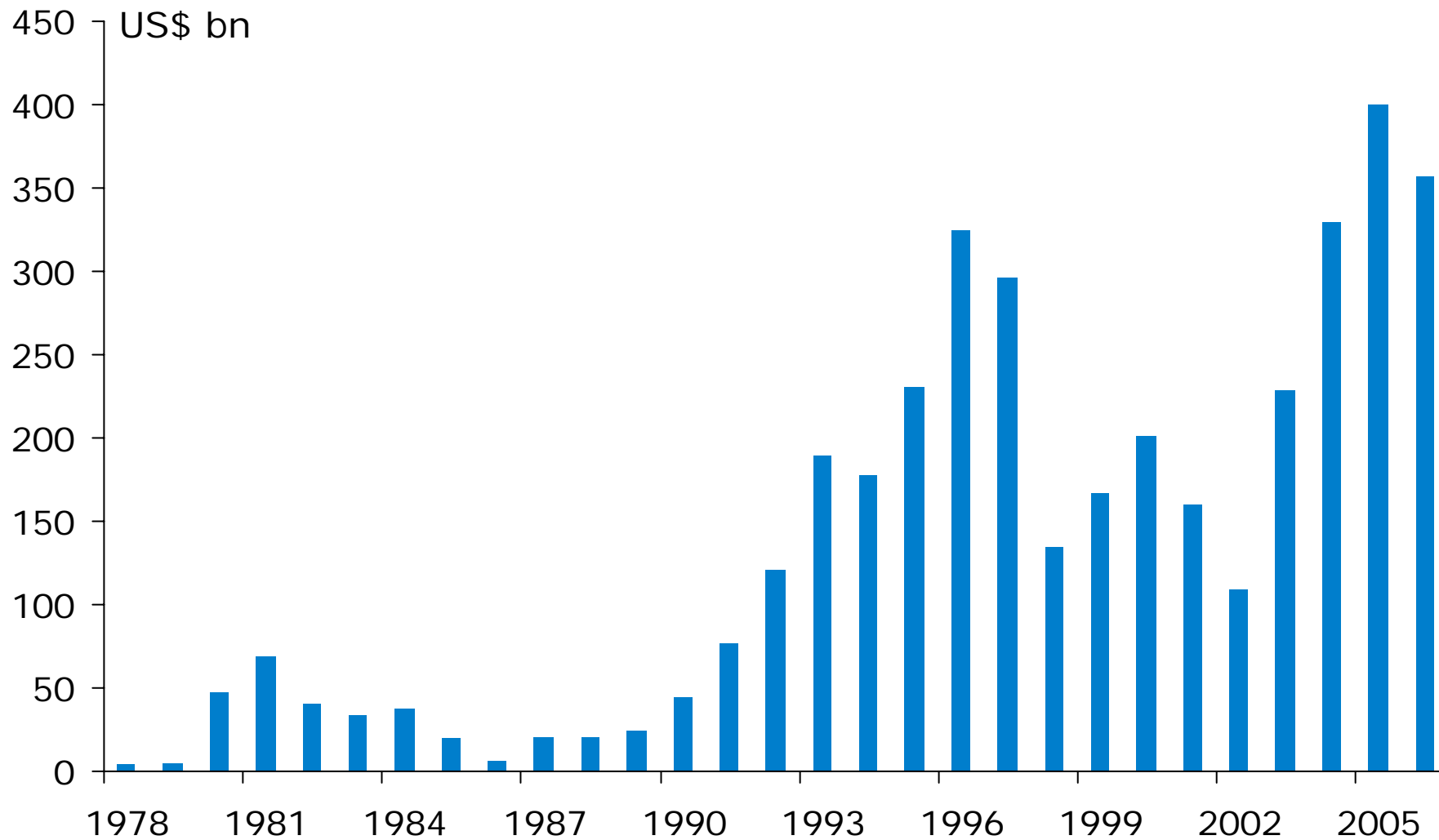


\* Former Soviet Union † Australia & New Zealand  
Sources: IMF; Consensus Economics; Economics@ANZ

# EM becoming a growing destination for investment

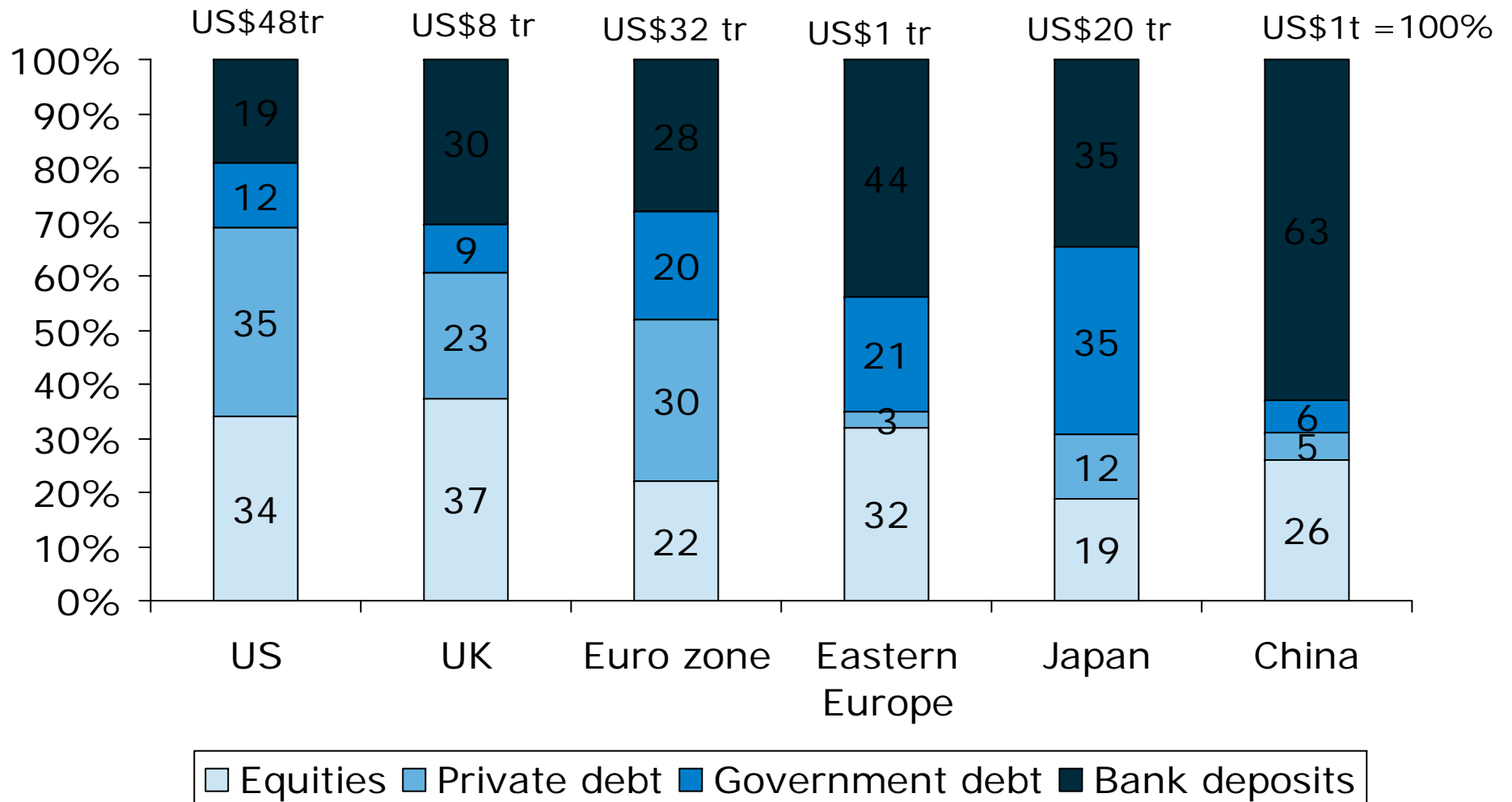
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Net external private capital flows to emerging market economies



# Although financial stock still small at global level

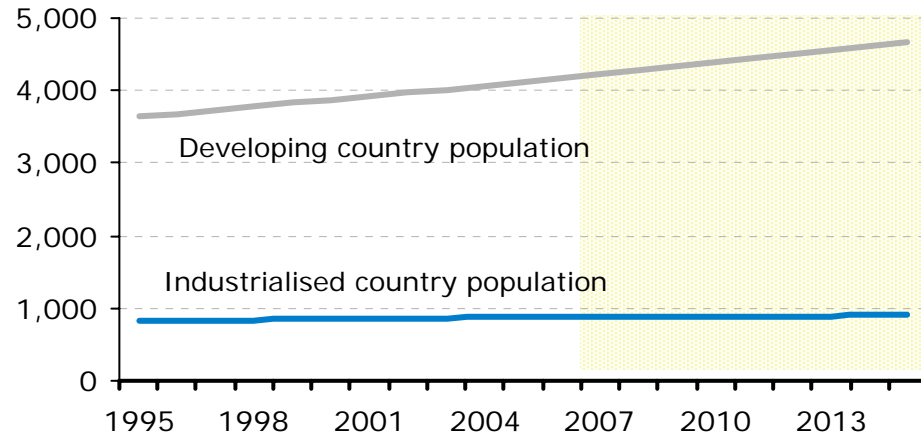
## Global financial stock – regional breakdown



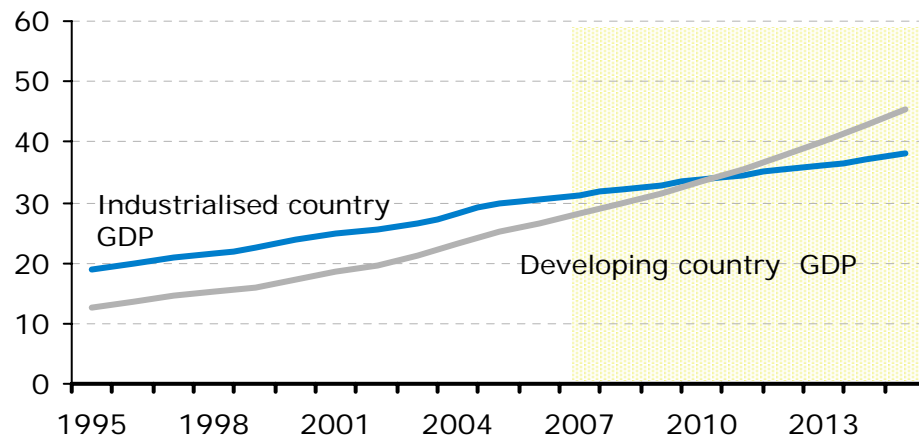


# Household wealth is also rising

**Population**  
Millions of people



**Real GDP**  
US\$ trillion

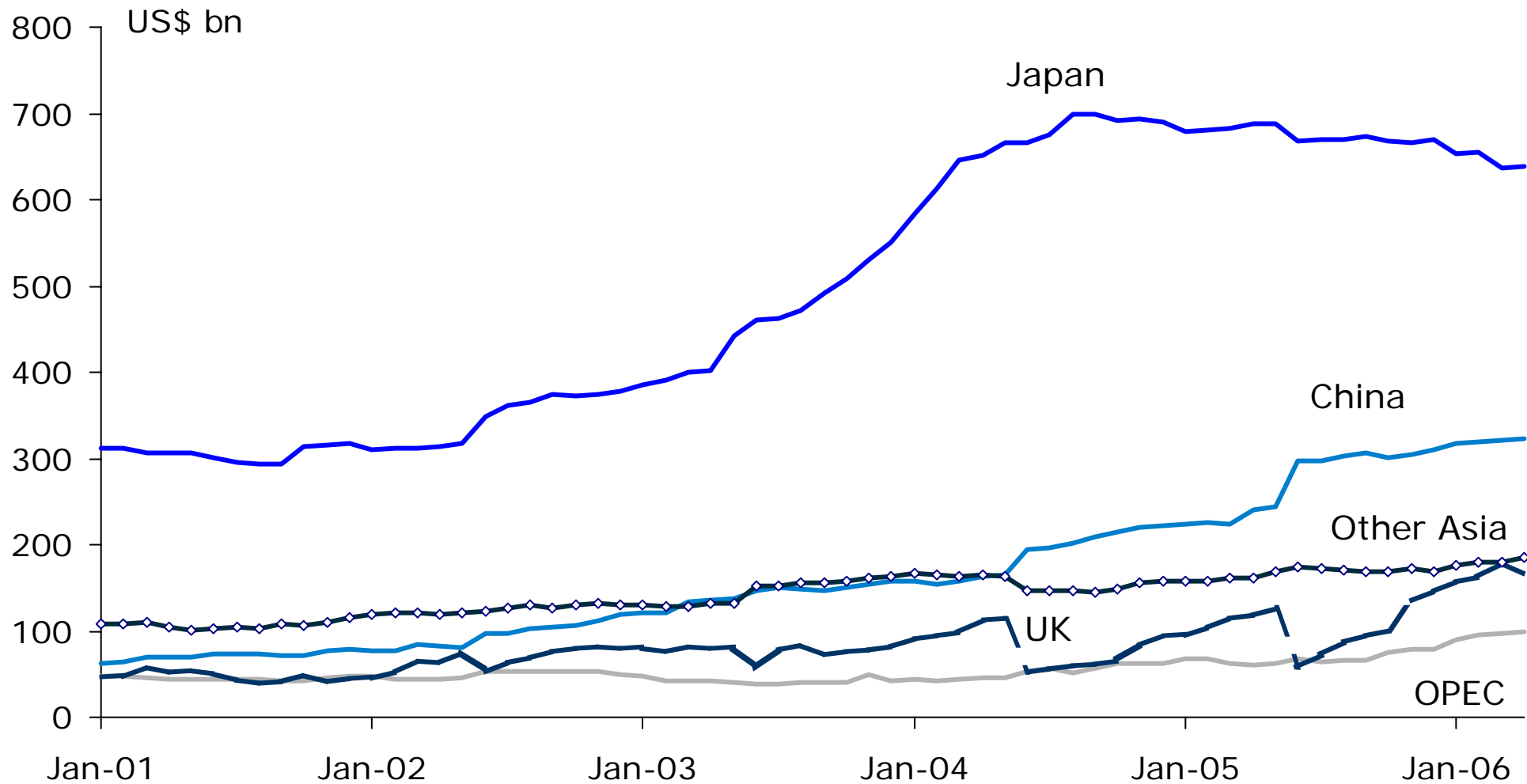


**Rankings of economies by GDP**  
Ranking and GDP in US\$ billions, PPP terms

	2015		2005	
	Rank	GDP	Rank	GDP
<i>China</i>	1	17,795	2	8,091
<i>United States</i>	2	16,816	1	12,332
<i>India</i>	3	6,763	4	3,602
<i>Japan</i>	4	4,722	3	4,009
<i>Russia</i>	5	2,895	10	1,585
<i>Germany</i>	6	2,893	5	2,498
<i>United Kingdom</i>	7	2,292	6	1,825
<i>France</i>	8	2,225	7	1,811
<i>Brazil</i>	9	2,211	9	1,552
<i>Italy</i>	10	1,966	8	1,694
<i>Korea</i>	11	1,723	12	1,099
<i>Indonesia</i>	12	1,532	15	863
<i>Mexico</i>	13	1,531	13	1,064
<i>Spain</i>	14	1,352	14	1,026
<i>Taiwan</i>	15	959	17	629
<i>Turkey</i>	16	938	18	570
<i>Thailand</i>	17	920	19	559
<i>Australia</i>	18	883	16	638
<i>Poland</i>	19	788	23	512
<i>South Africa</i>	20	750	20	532

# Making more APEC economies a source of capital

## Net foreign capital flow into the US – by region

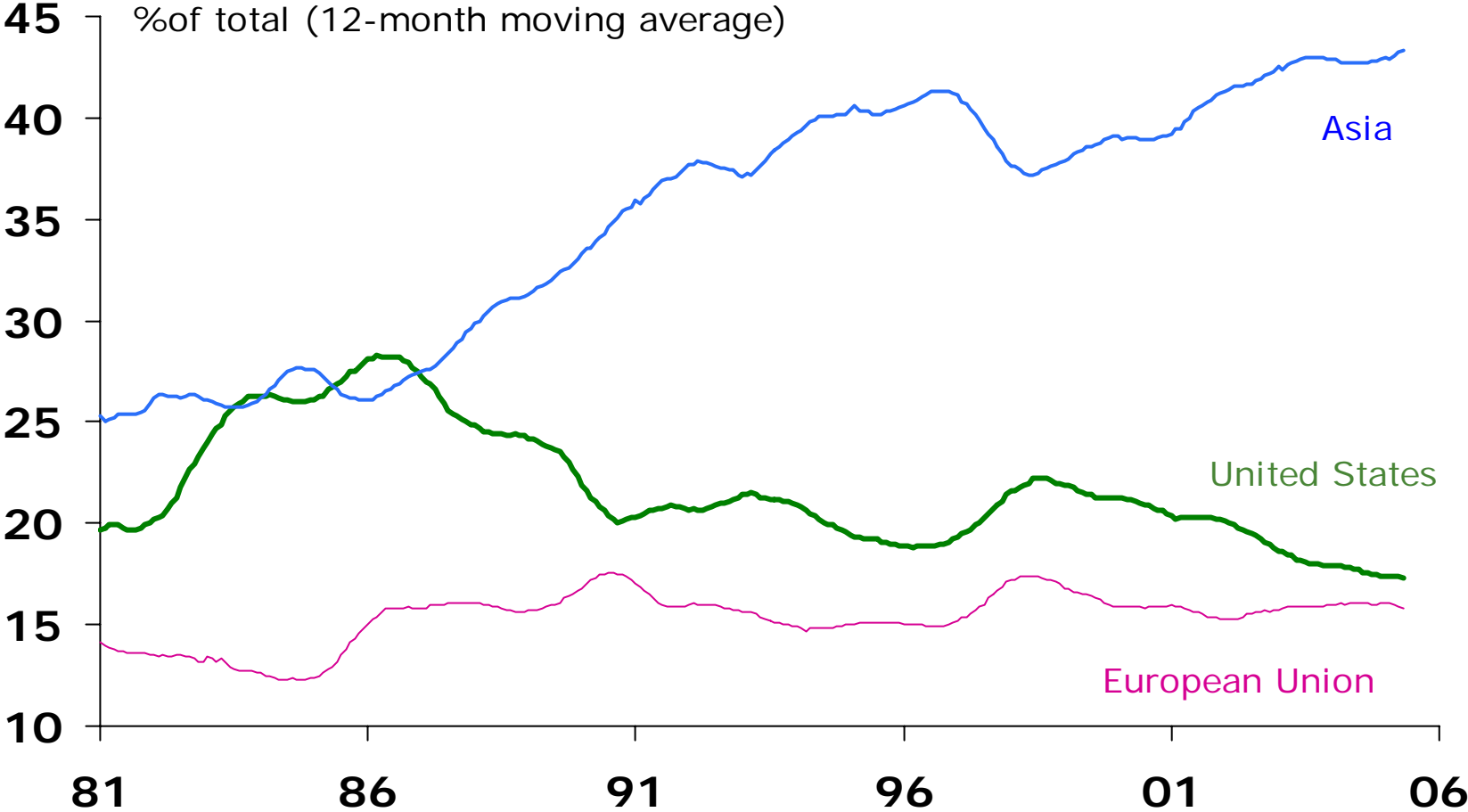


Source: US Treasury, TIC data

Other Asia: Hong Kong, Taiwan, Singapore, Thailand, India and Korea

# Asia is becoming less dependant on the US as an export market

## Destination of Asian merchandise exports

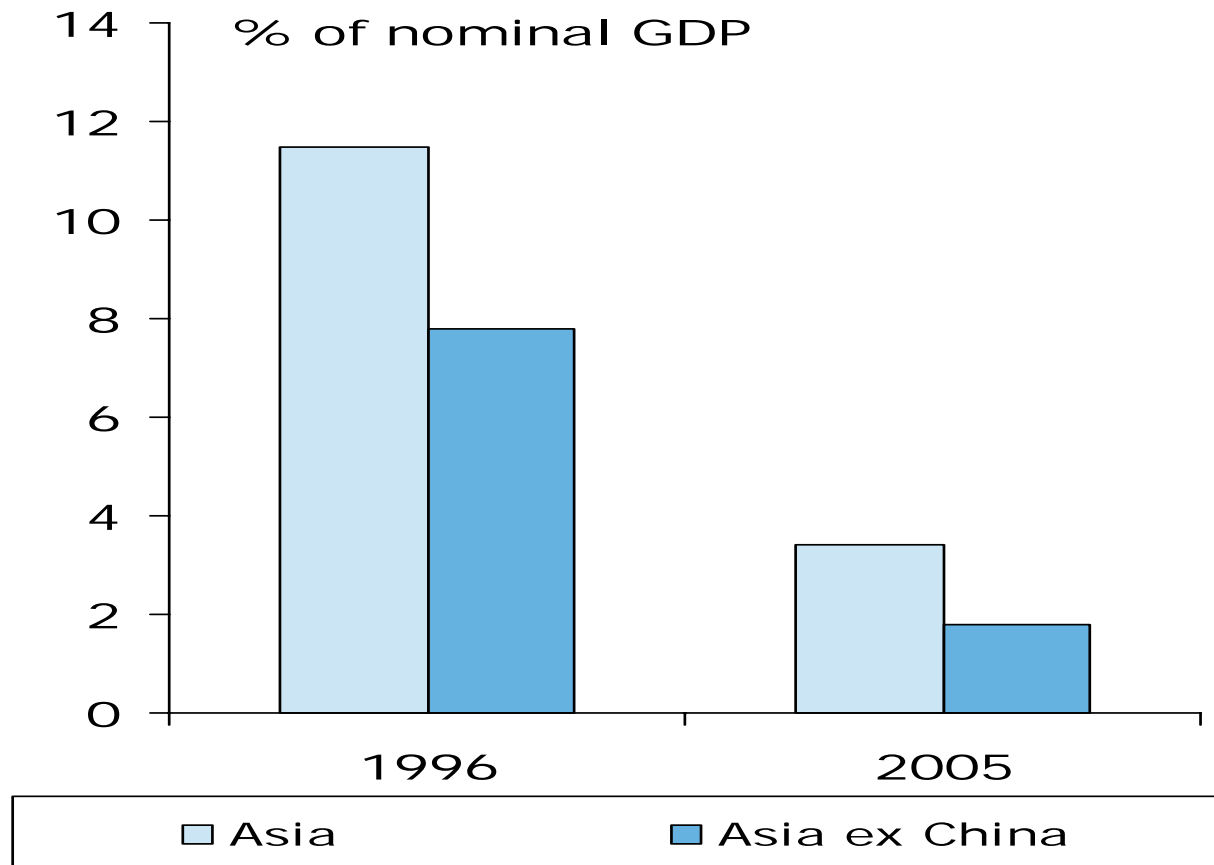


Source: IMF Direction of Trade Statistics;  
Economics@ANZ.

# Emerging APEC less reliant on net capital inflows

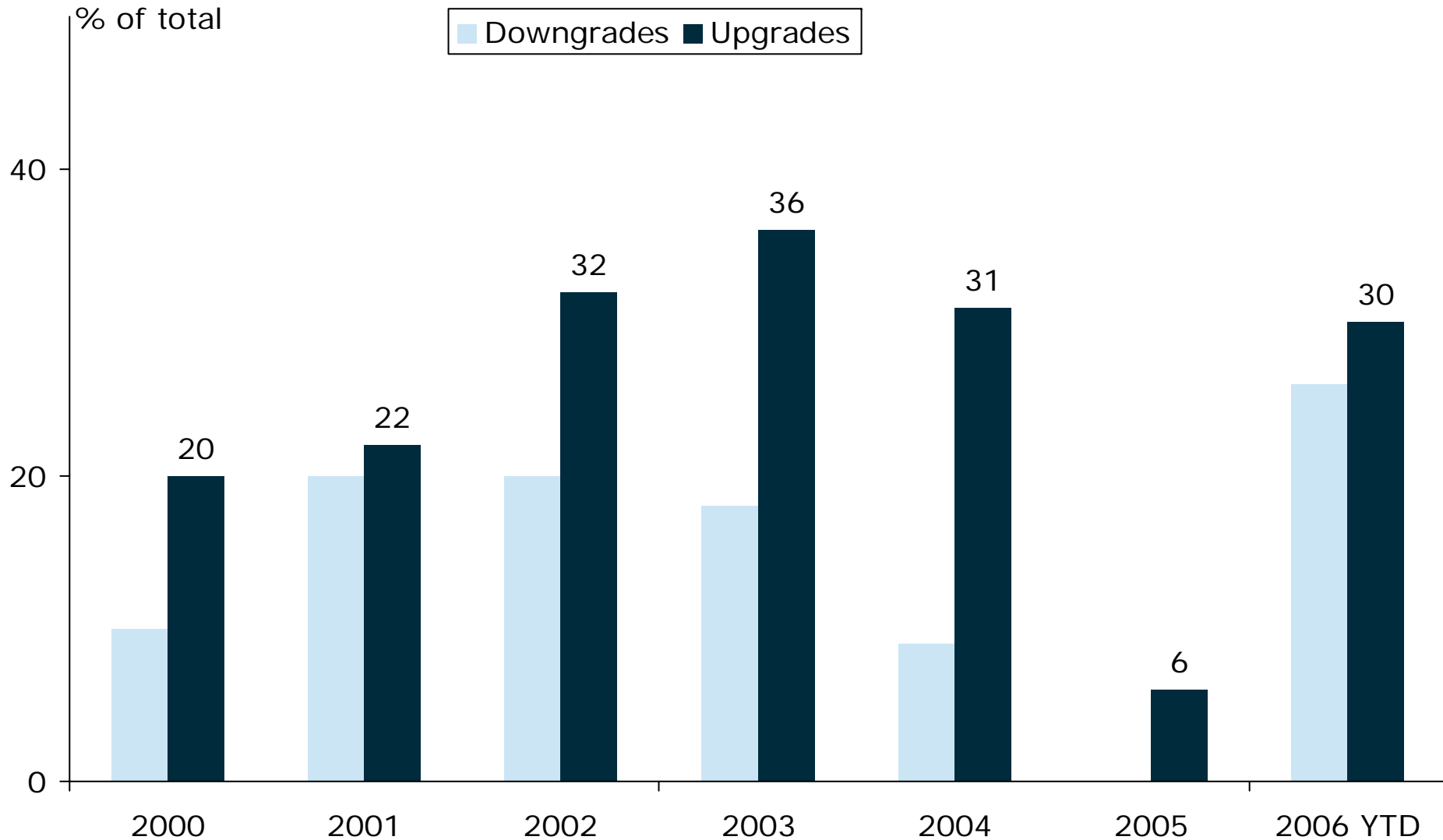
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## Net foreign capital flows



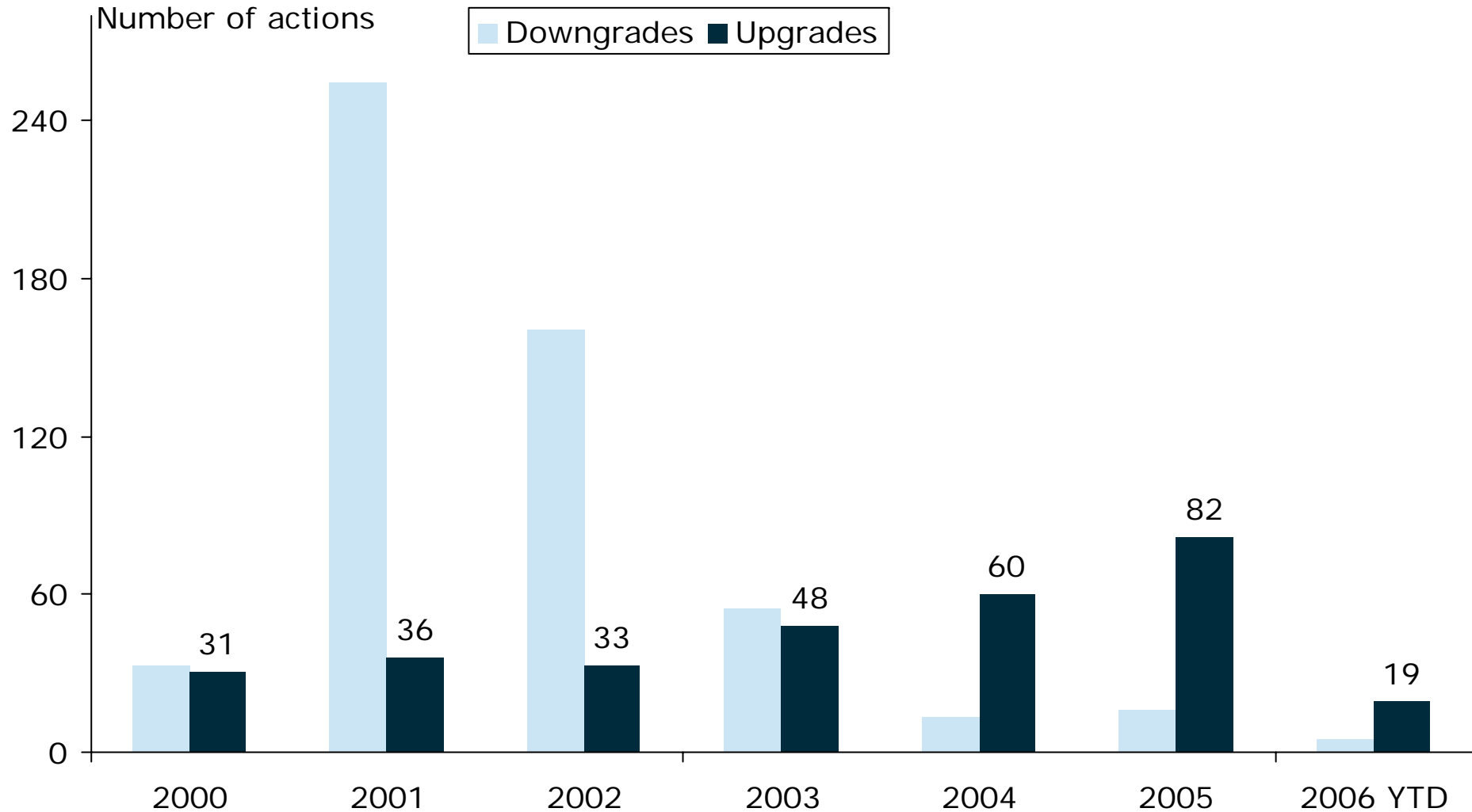
# Sovereign creditworthiness is improving

## Sovereign ratings actions, S&P and Moody's



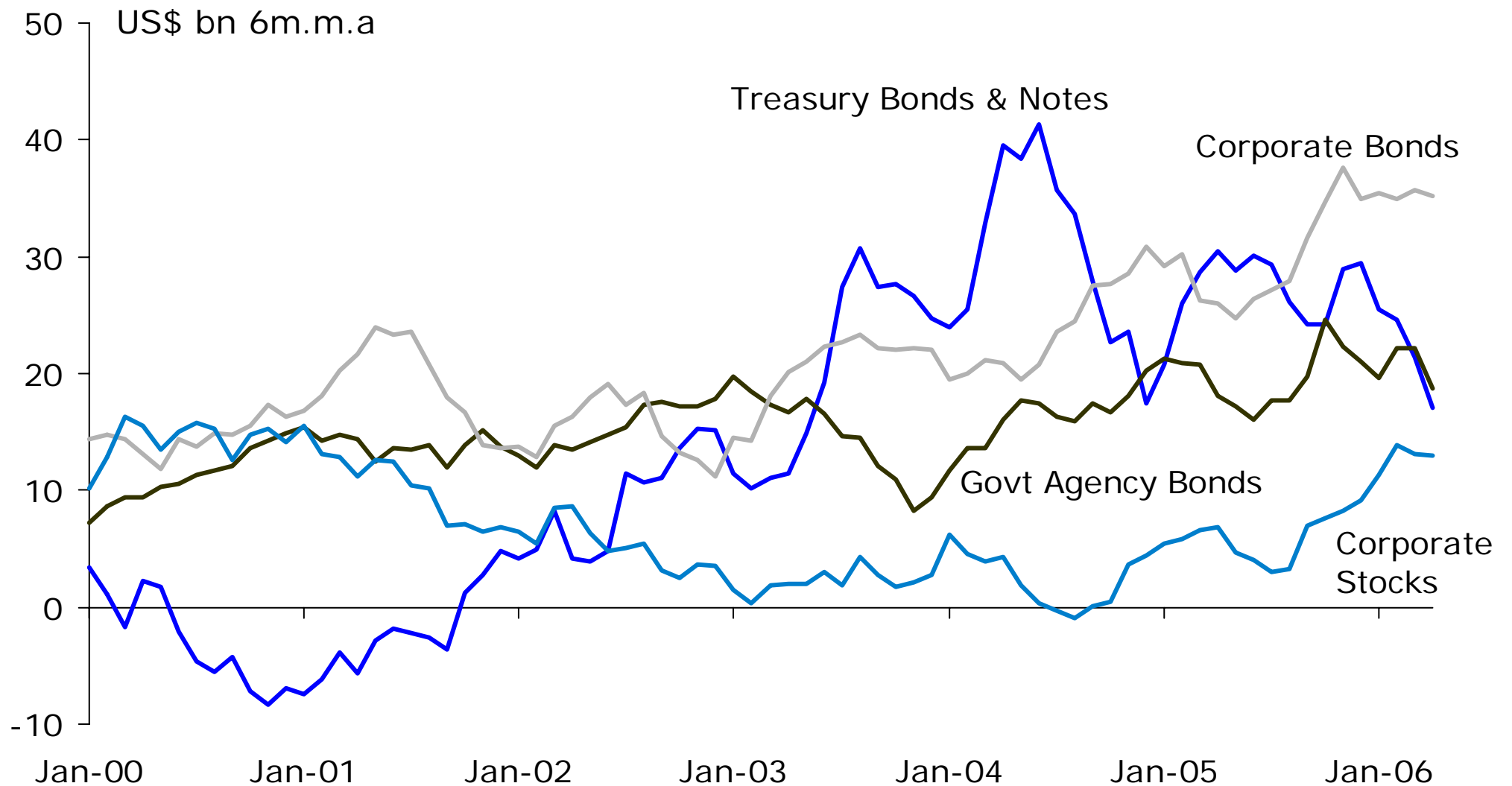
# Corporate creditworthiness is still pretty weak

## Emerging corporate ratings actions, S&P and Moody's



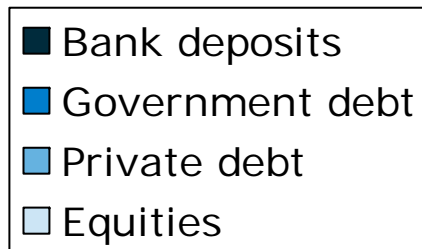
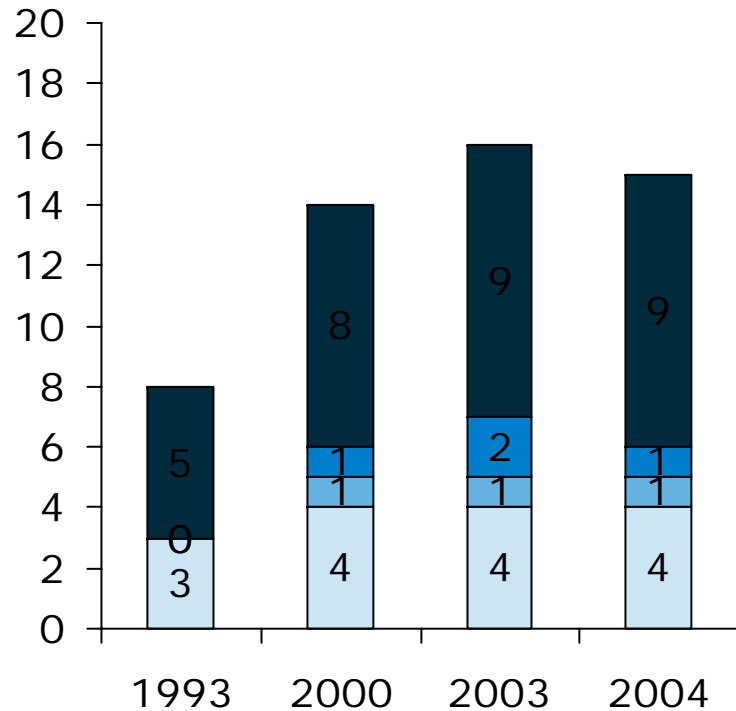
# US corporate bond market has had massive inflows

Net foreign capital flow into the US – by sector

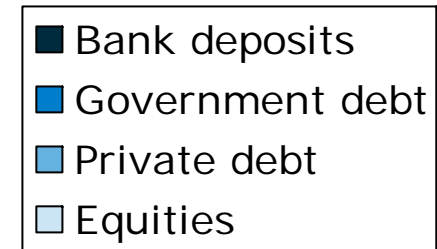
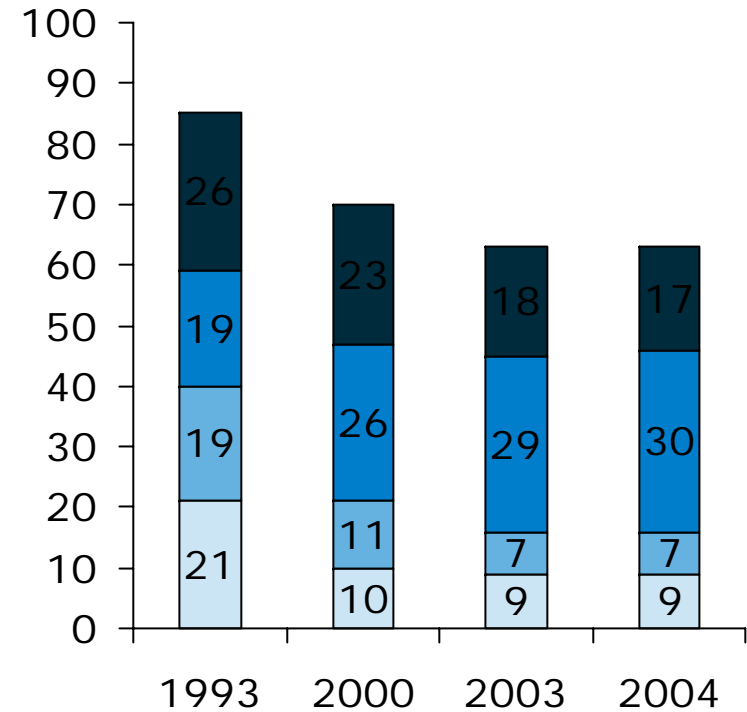


# Japan and China indicate future direction of Asia

China % of global stock



Japan % of global stock

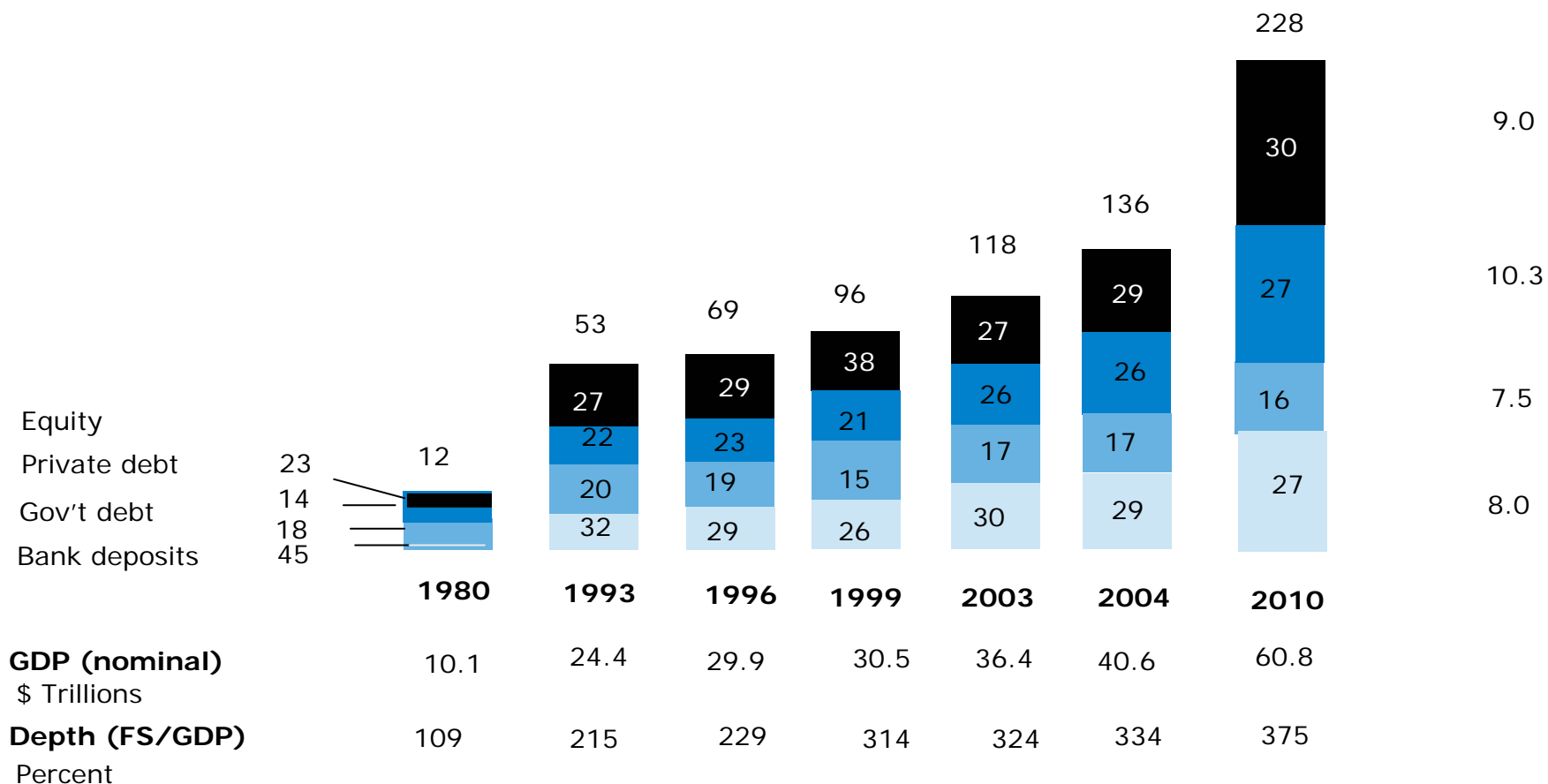




# COMPOSITION AND GROWTH OF THE GLOBAL FINANCIAL STOCK

\$ Trillions; %

CAGR Percent  
93-04

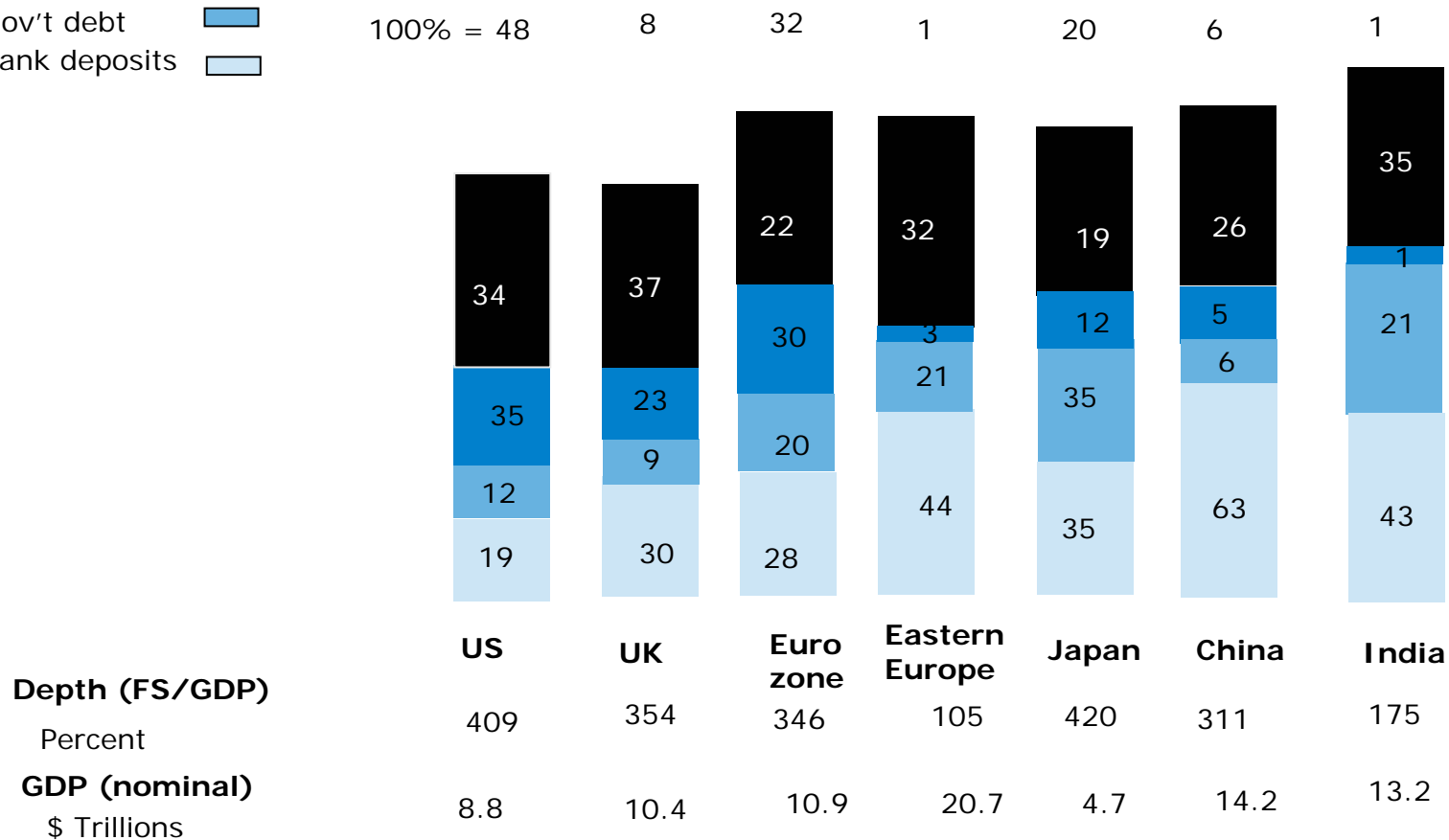
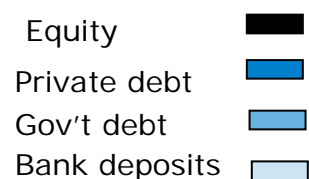


Note : Extrapolation off of 2004 base, with components grown at 1993-2004 CAGRs

Source : McKinsey Global Institute Global Financial Stock Database; World Federation of Stock Exchanges; Merrill Lynch; Global Insight

# REGIONAL COMPOSITION OF FINANCIAL STOCK, 2004

\$ Trillions; %



Note : Extrapolation off of 2004 base, with components grown at 1993-2004 CAGRs

Source : McKinsey Global Institute Global Financial Stock Database; World Federation of Stock Exchanges; Merrill Lynch; Global Insight

**ANZ**