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Macro-Financial Links and Monetary Policy Management
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**Globalized Banking, Shock Transmission, and
Implications on Domestic and International
Monetary Policy Stances of the Local Economy**

CeMCoA



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Globalized Banking, Shock Transmission, and Implications on Domestic and International Monetary Policy Stances of the Local Economy

- *What is globalized banking?*
- *What are the roles they play in the local economy?*
- *How extended are the globalized banking network in Asia?*
- *How do shocks get transmitted?*
- *How do they respond to domestic and international monetary policies?*

What is globalized banking?

- **Globalized banking expanded by servicing and leveraging on the globalization of the world economy which can be characterized as follows:**

“A dynamic and multi-dimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent.” (OECD, 2005*)

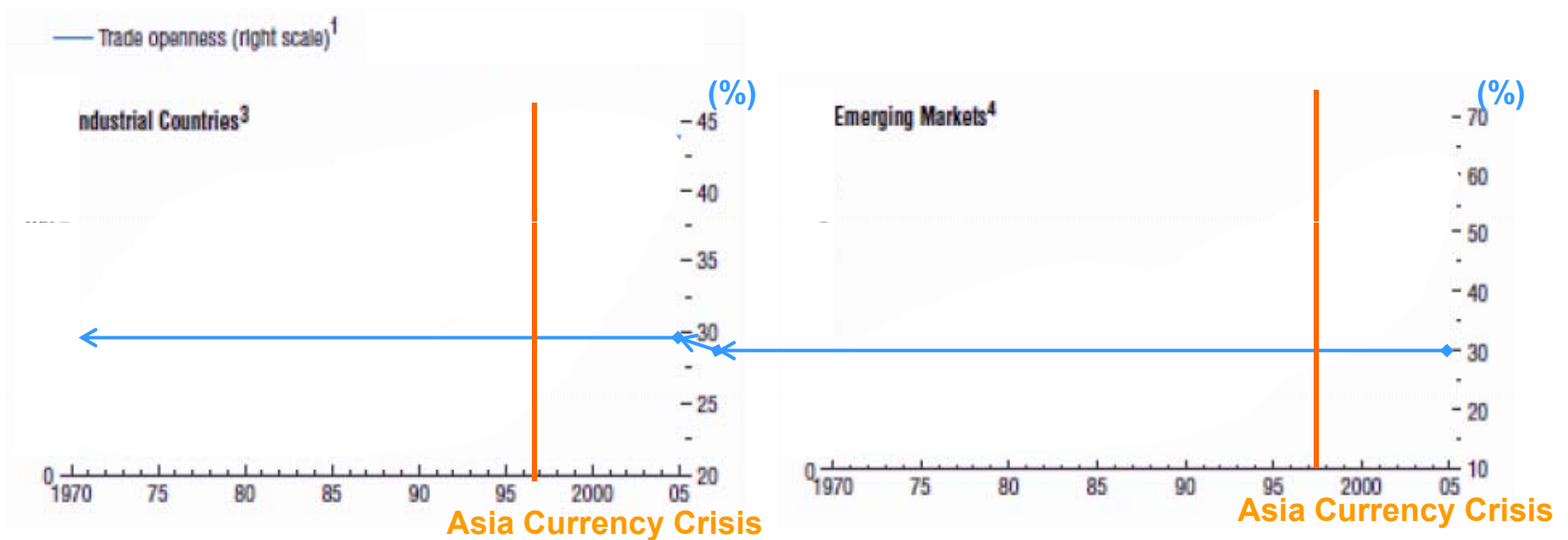
“The acceleration in the pace of growth of international trade in goods, services, and financial assets relative to the rate of growth in domestic trade.” (IMF, 2006)**

Notes: * OECD, *Handbook on Economic Globalization Indicators*, June 2005.

** IMF, “How Has Globalization Affected Inflation?,” Chapter III, *IMF World Economic Outlook*, April 2006.

What is globalized banking?

Banking on Trade Openness



Source: IMF (2006)

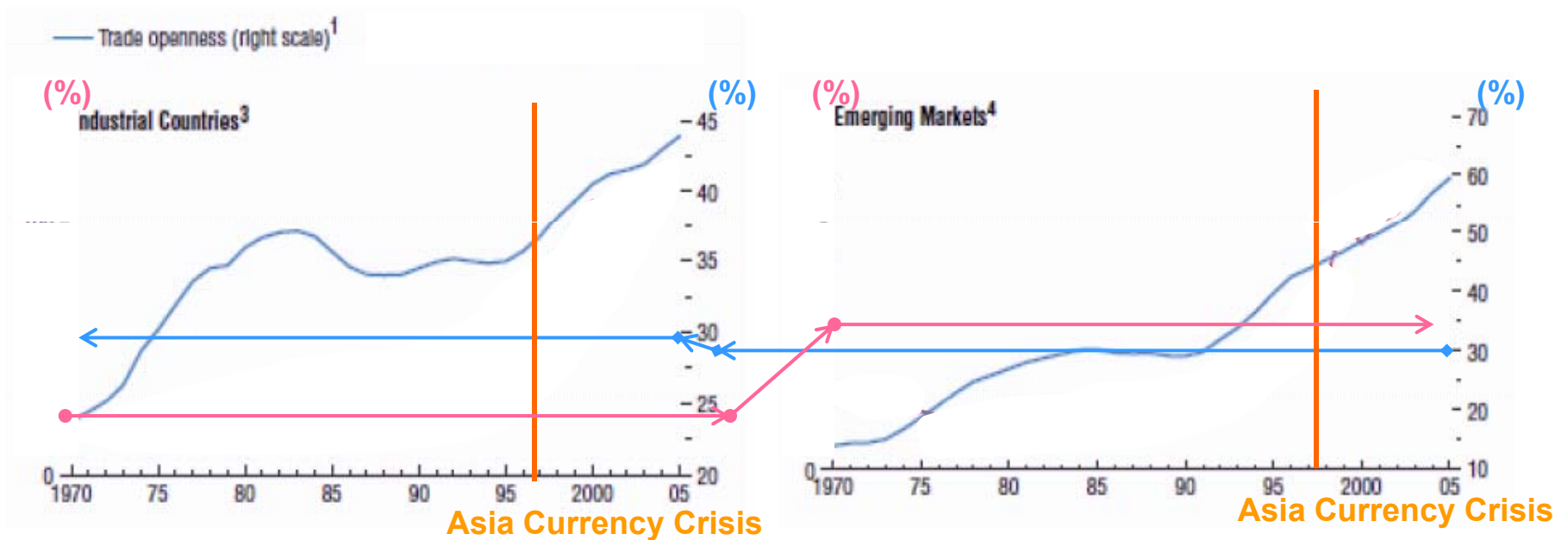
Notes: 1. Trade openness = (Exports + Imports) / GDP x 100 (%)

3. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, USA

4. Argentina, Brazil, Chile, China, Colombia, Czech Republic, Dominica, Ecuador, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa, Turkey

What is globalized banking?

Banking on Trade and Financial Openness



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What are the roles they play in the local economy?

As branches

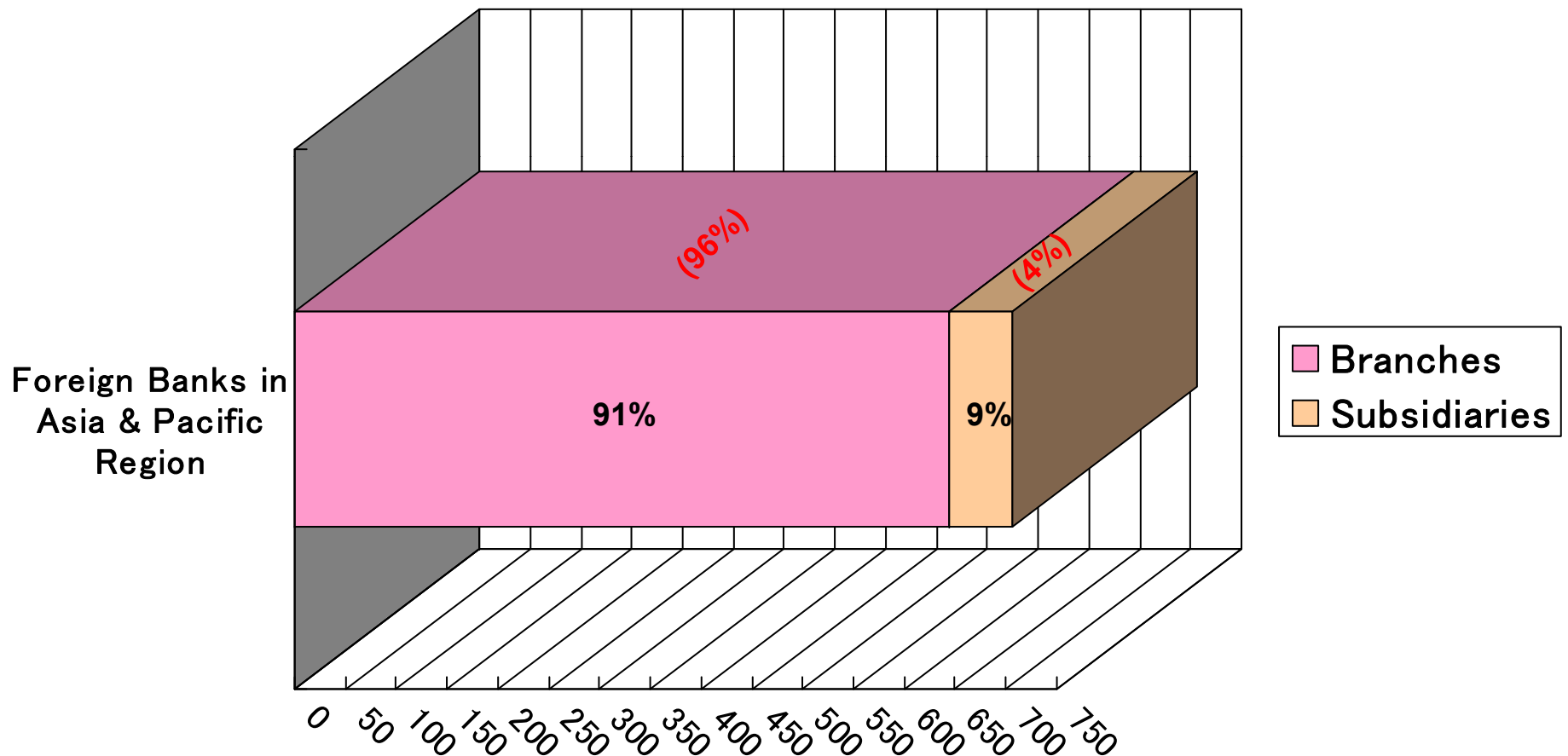
- **Servicing trade and local distribution finance to mainly resident home country clients (B2B)**
- **Servicing resident investment capital to home country (B2B)**
- **Acting as a non-domestic market player in the domestic financial markets (B2B)**
- **Servicing resident home country clients' remittances to home country (B2C)**
- **Servicing resident clients' home country related banking needs (B2C)**

As subsidiaries

- **Acting as a domestic market player in the domestic and global financial markets (B2B)**
- **Servicing resident clients' general banking needs (B2B, B2C)**

How extended are the globalized banking network in Asia?

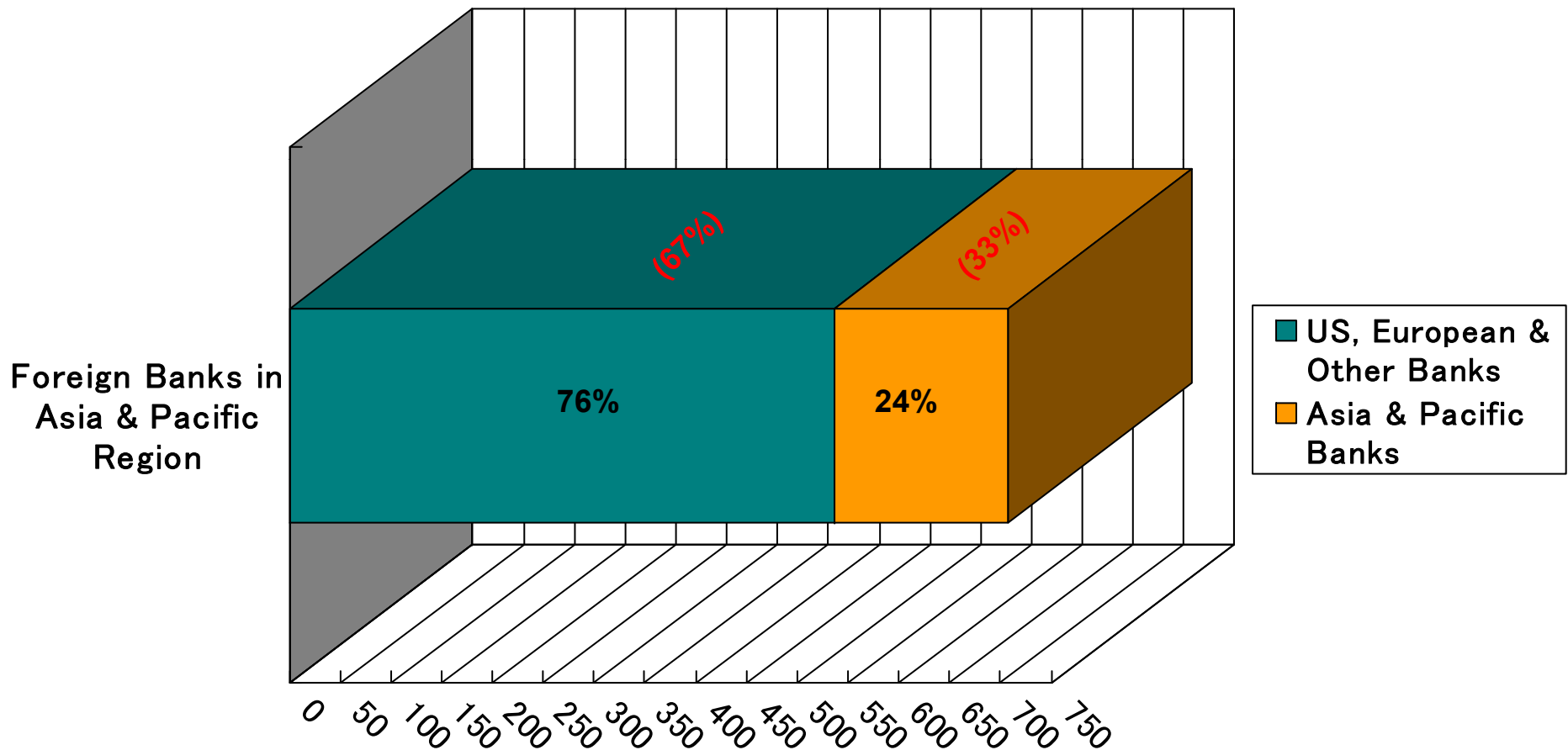
Globalized banking network resident operation style



Note: The data cover Australia, China, Hong Kong, Indonesia, **Japan, Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand**

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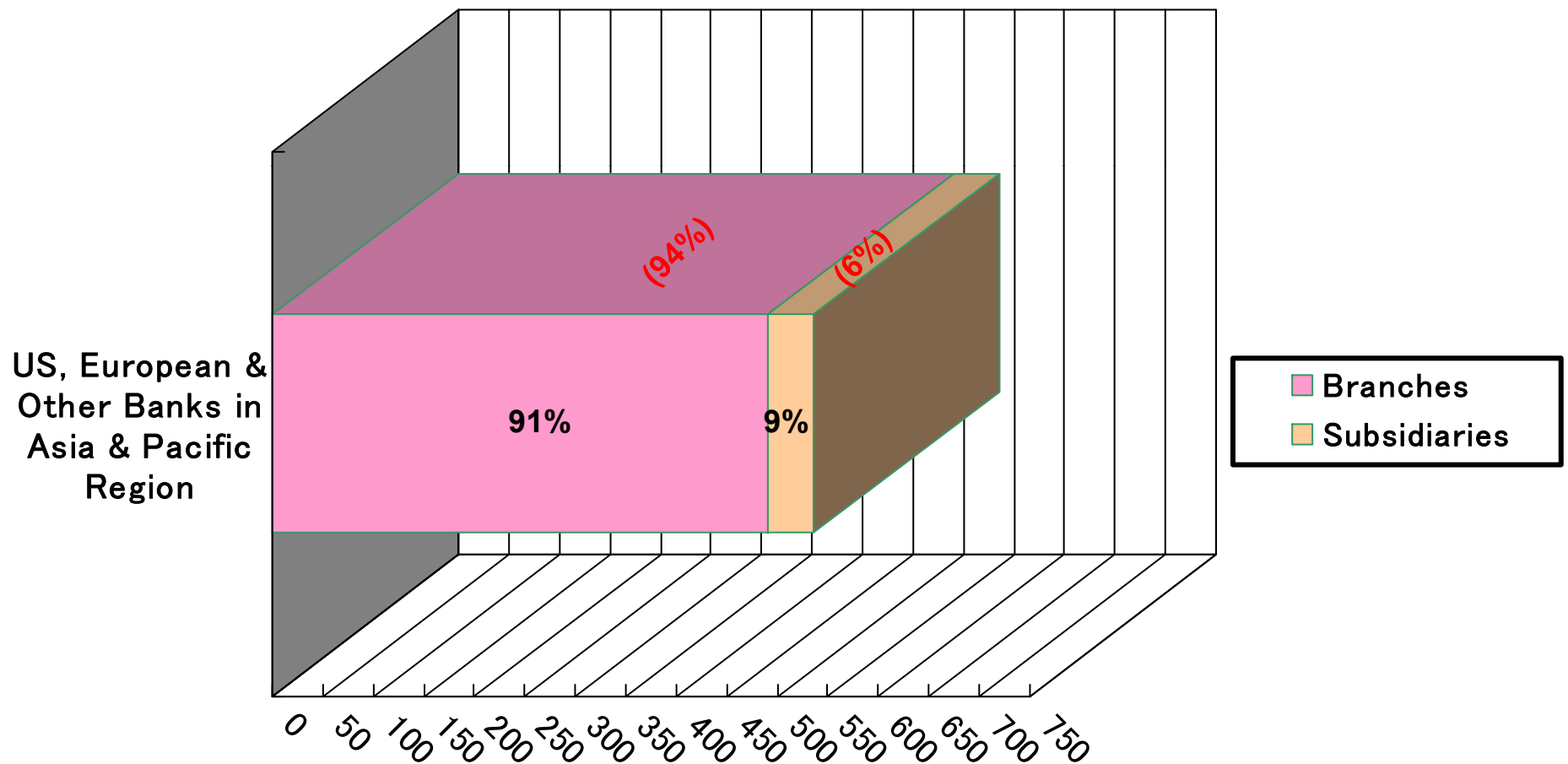
Globalized banking network head-office origin



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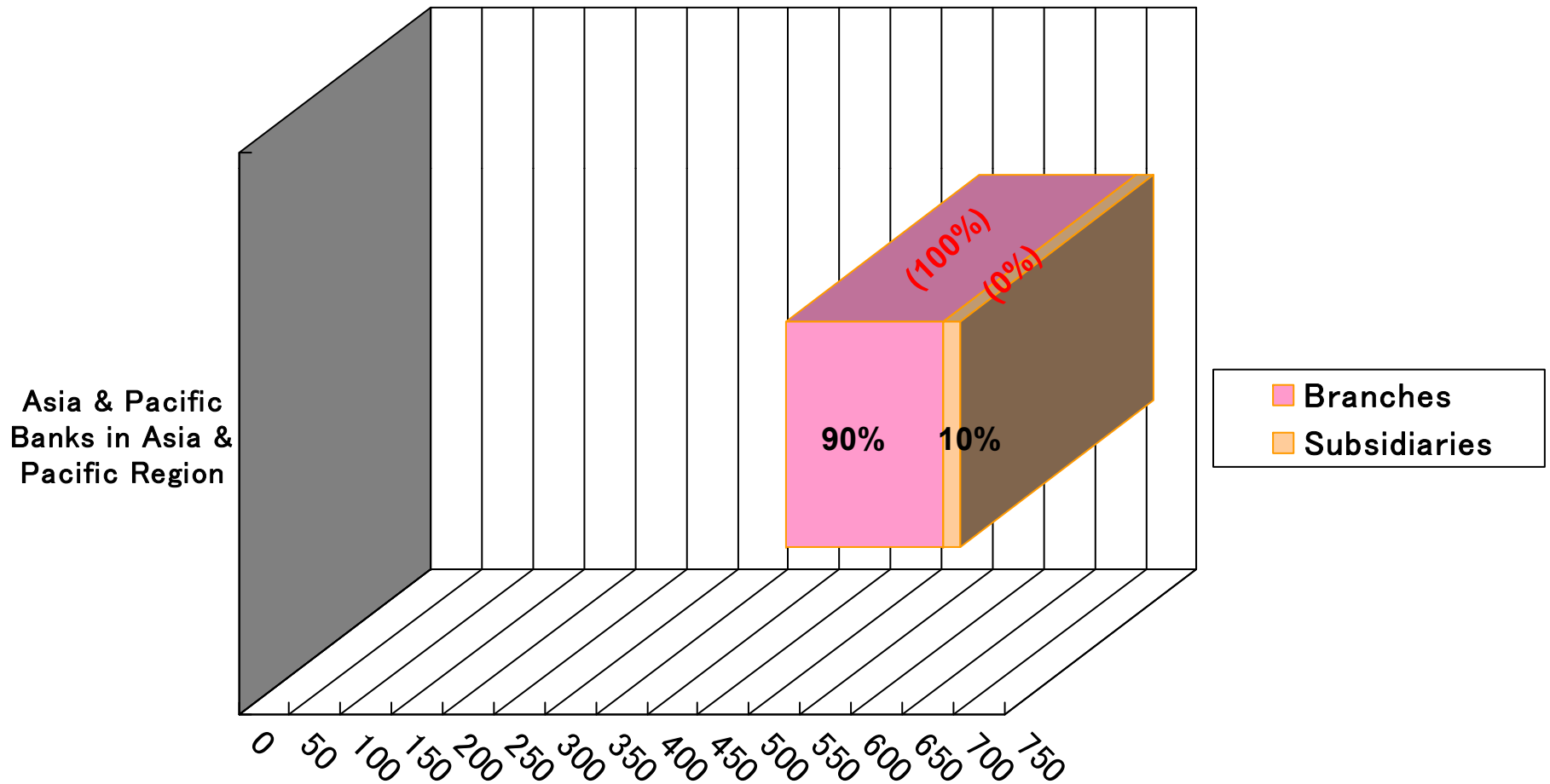
Branches/Subsidiaries Breakdown of US, European & Other Banks in Asia & Pacific Region



Note: The data cover Australia, Hong Kong, Indonesia, **Japan**, Korea, Malaysia, New Zealand, Singapore and Thailand

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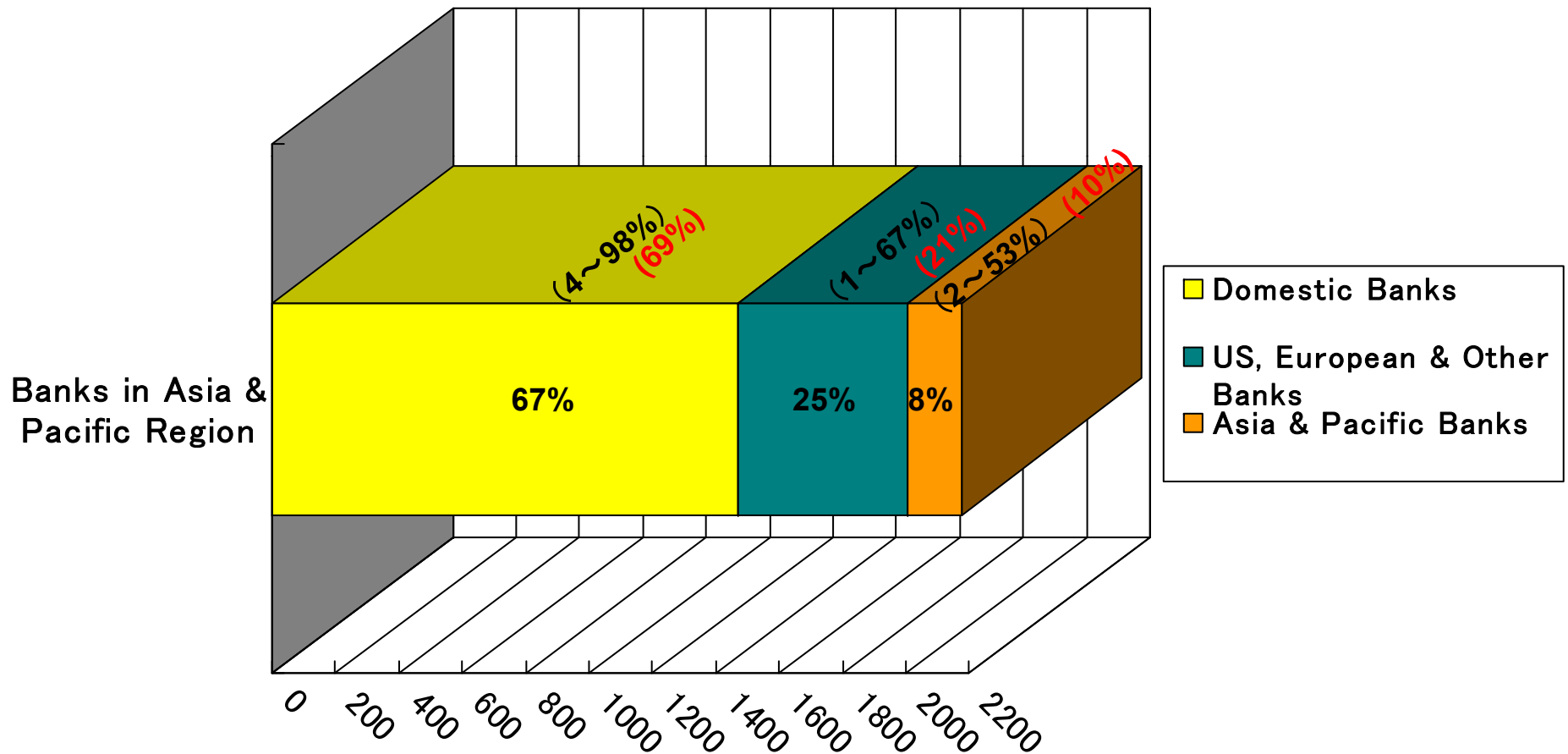
Branches/Subsidiaries Breakdown of Asian & Pacific Banks in Asia & Pacific Region



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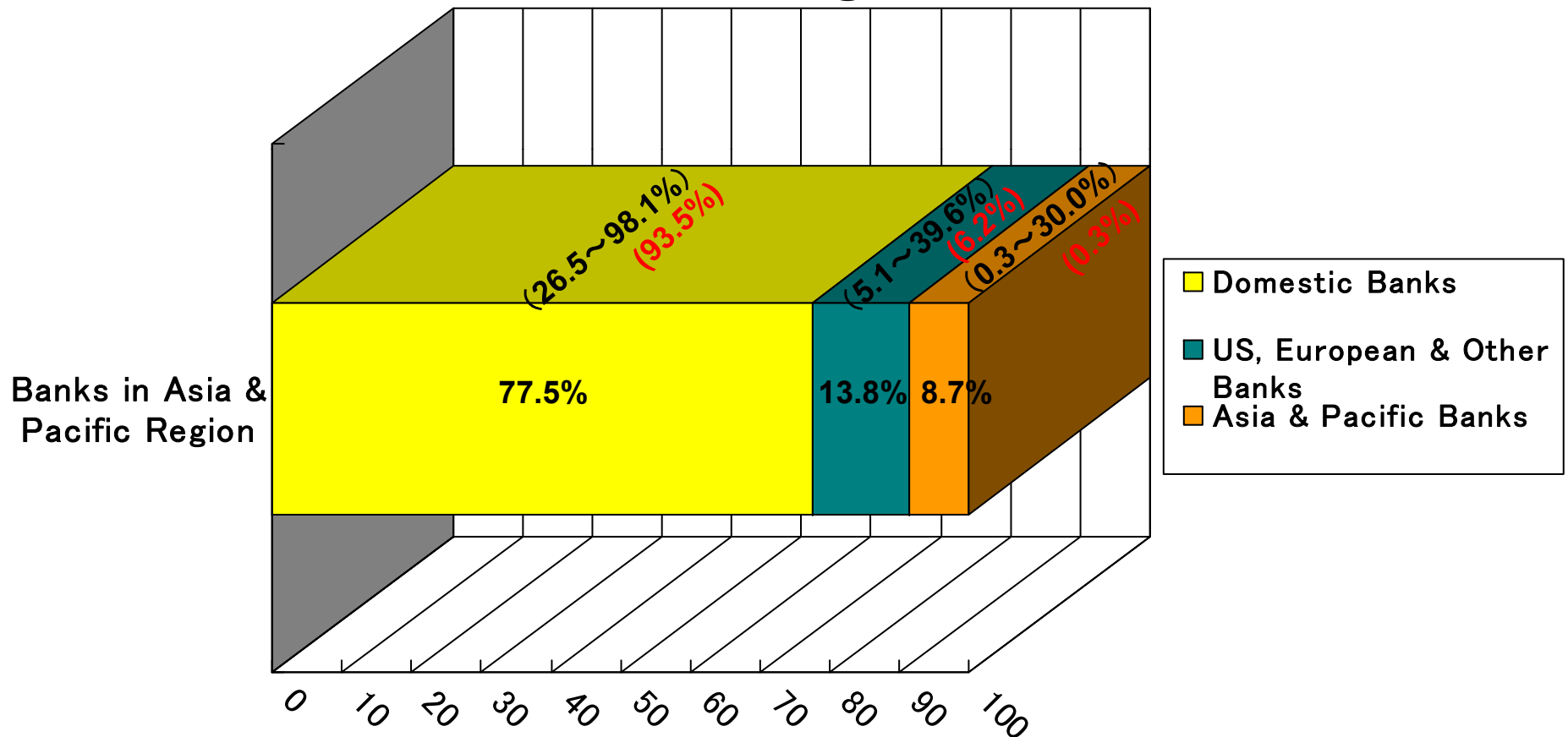
Globalized banking network's resident presence



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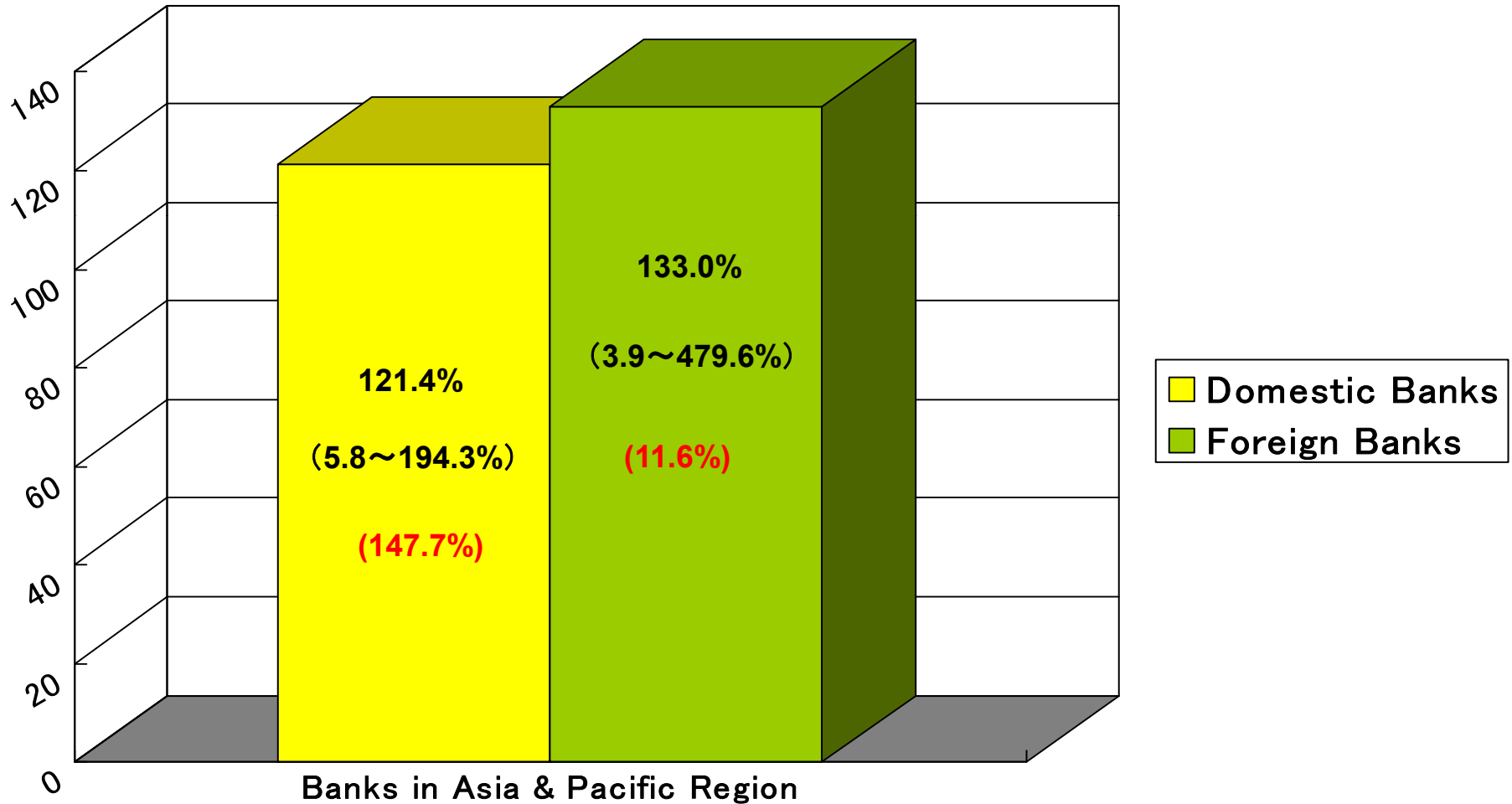
Globalized banking network's asset size presence in the banking sector



Note: The data cover Australia, China, Hong Kong, Indonesia, **Japan**, Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand

How extended are the globalized banking network in Asia?

Globalized banking network's local asset/GDP presence



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How do shocks get transmitted?

Through branches

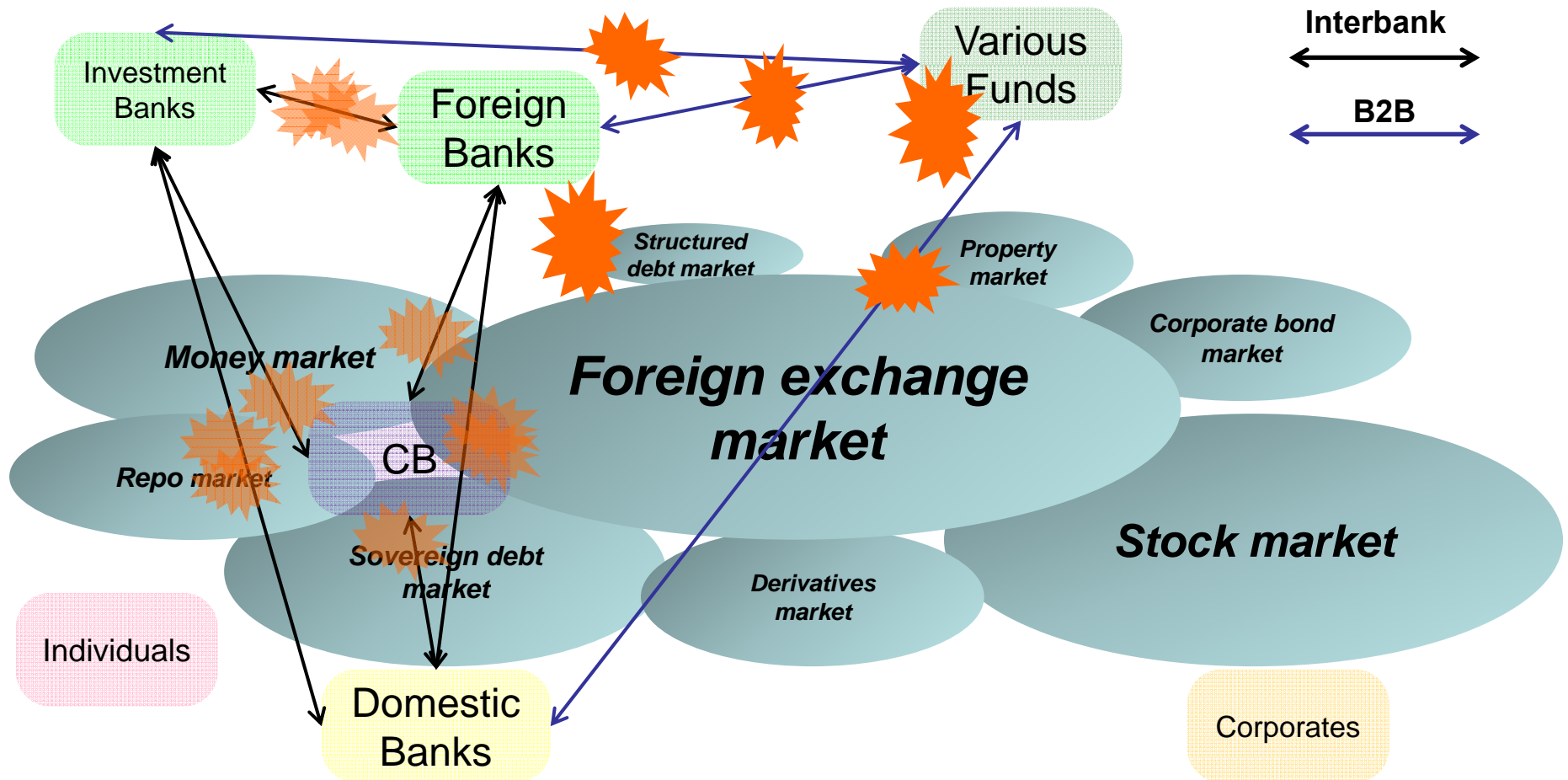
- Servicing trade and local distribution finance to mainly resident home country clients (**B2B**)
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Through subsidiaries

- Acting as a domestic market player in the domestic and global financial markets (**B2B**)
- Servicing resident clients' general banking needs (**B2B**, **B2C**)

How do shocks get transmitted?

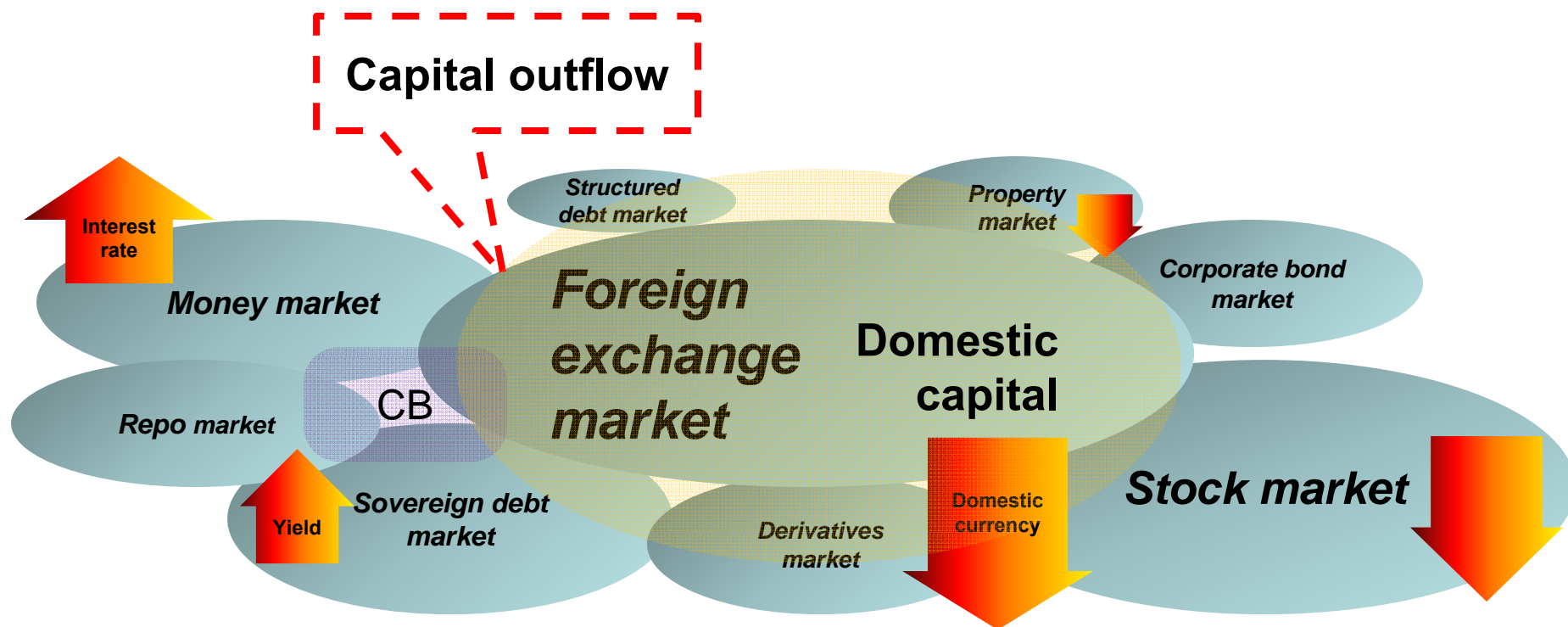
- Global banking networks' branches and subsidiaries are domestic financial market participants that dominantly supply foreign currency funds in turn for domestic currency assets.



- When a shock occurs, the global banking networks start unwinding their global asset investments from riskier, easier-to-liquidate order, trying to minimize their risk exposure.

How do shocks get transmitted?

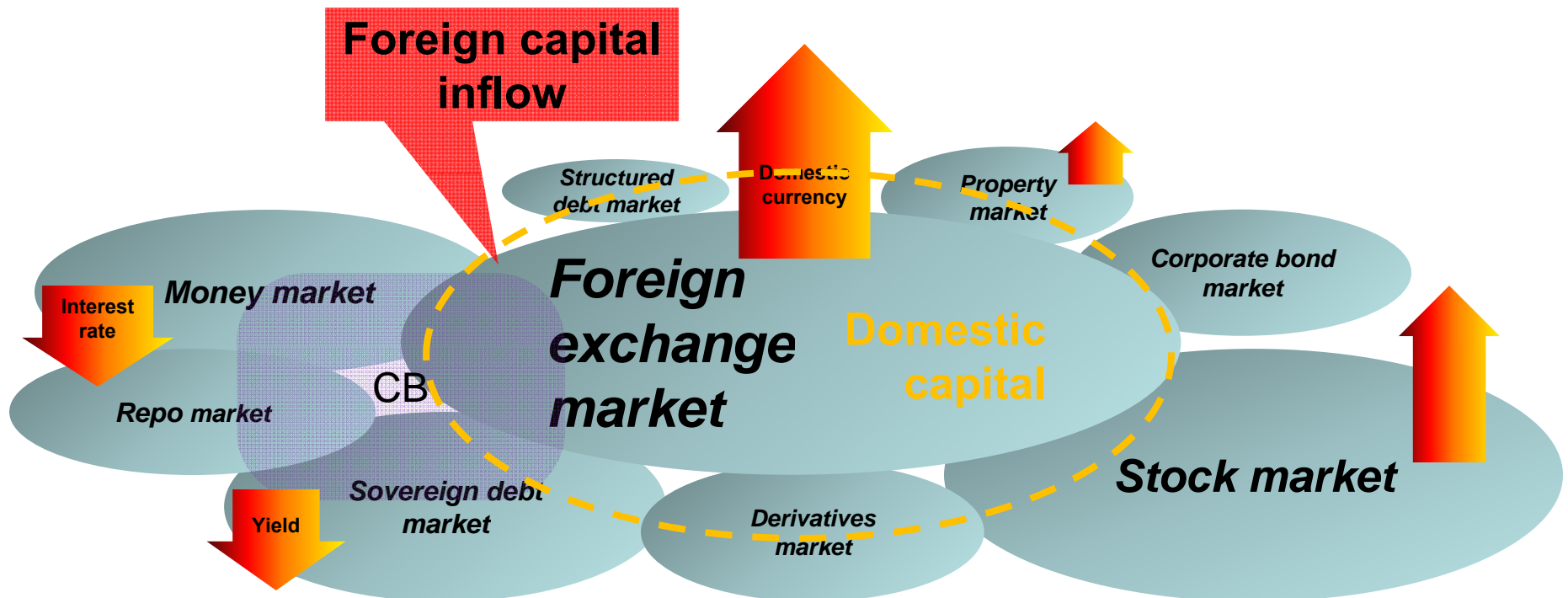
- Domestic currency drop suggests either importers heavily buying foreign currencies or huge capital outflow → If excessive, CB can intervene



- If foreign capital reverses from money or debt markets, CB should inject
- Detect foreign capital induced asset price crush for future capital inflow

How do shocks get transmitted?

- Domestic currency hike suggests either exporters heavily selling foreign currencies or huge capital inflow → If excessive, CB can intervene



- If foreign capital is parked in money or debt markets, CB should drain
- Detect foreign capital induced asset price surge for sudden reversal risk

How do shocks get transmitted?

Through branches

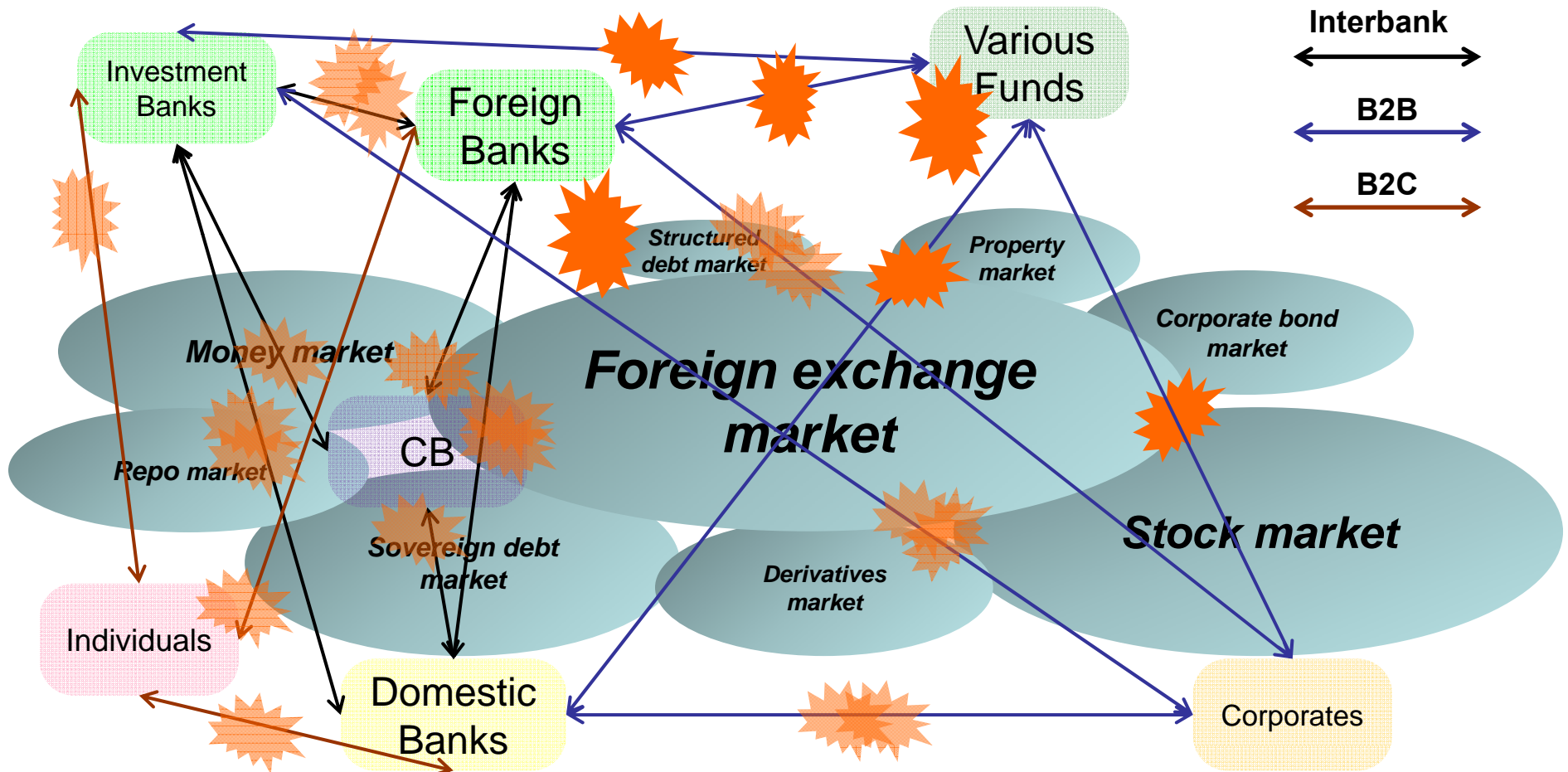
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How do they respond to domestic and international monetary policies?

Global banking network branches are generally domestic currency borrowers and foreign currency lenders in the interbank, **B2B market**



General tendency of responding vividly to differences (spreads, timing) of domestic and international monetary policies that enhance extra volatilities



Coordinated domestic and international monetary policies limit the emergence of differences that can contain extra volatilities to a certain extent

How do they respond to domestic and international monetary policies?

Global banking network subsidiaries tend to act more like domestic financial institutions in all the interbank, **B2B market and the **B2C** area**



General responses to domestic and international monetary policies tend to conform to the local behavior

The end.