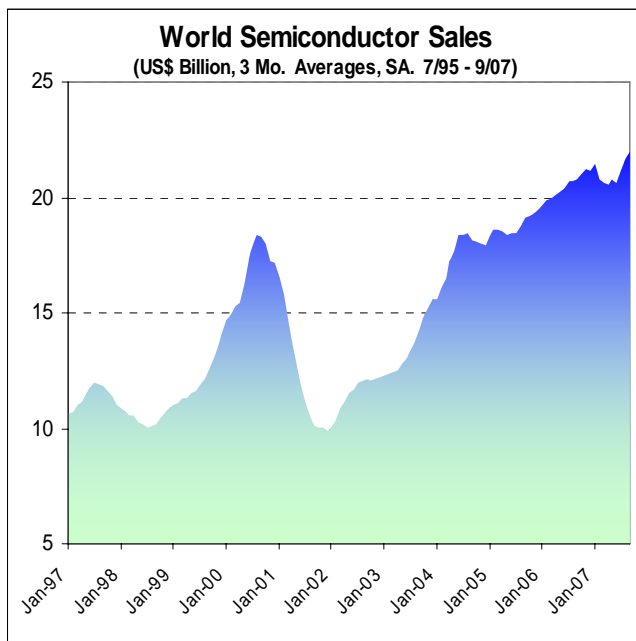


quarter. (Exhibit 14). The Semiconductor Industry Association noted that, in terms of end-products using semiconductors, demand for consumer electronic products remained robust. Demand for personal computers and cell phones, the two biggest drivers for semiconductors, remained very healthy. Orders for high tech goods in the G3 countries also picked up from a 9 percent decline in the first quarter to a 21 percent increase by July.

As the earlier discussion of exports indicates, the revival in global high tech demand has already been reflected in a rebound in high tech exports from East Asian economies. (Exhibit 5b above). Growth in high tech exports from 7 East Asian economies picked up to 21 percent (saar) in the three months through July, after having been virtually stagnant in the first quarter.

Exhibit 14



4.0 Domestic trends and policy challenges

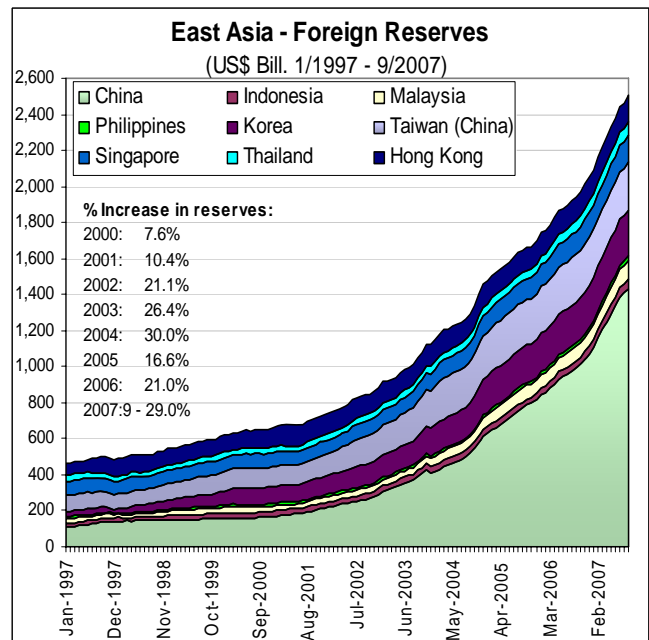
4.1 Balance of payments and financial markets

Emerging East Asia looks on the way to by far its largest ever increase in foreign exchange reserves (an overall balance of payments surplus) during 2007. Foreign reserves for the 9 largest economies increased by \$451 billion in the 9 months to September 2007, reaching \$2.5 trillion, compared to an increase of \$357 billion in all of 2006. (Exhibit 15). About four-fifths of the regional reserve increase was in China (\$365 billion in the first 9 months), but reserves were also rising at solid rates in most other economies.

The increase in regional reserves or overall balance of payments (BOP) surplus amounted to a 12.1 percent of regional GDP in the first half of 2007 – the period for which detailed balance of payments data are available - with BOP

inflows reaching an astonishing 19.2 percent of GDP in China. (See Appendix Tables 10a and 10b for details.) Overall inflows were not so large in most other economies, (although Malaysia came close with inflows worth over 18 percent of GDP), with most middle income economies in South East Asia seeing overall surpluses worth 4-5 percent of GDP. Overall inflows to the region have been running at over 5 percent of GDP since 2002. We look at the macroeconomic management challenges and potential risks posed by balance of inflows on this scale in the next section of this report, asking whether it amounts to “Too Much of a Good Thing?”

Exhibit 15

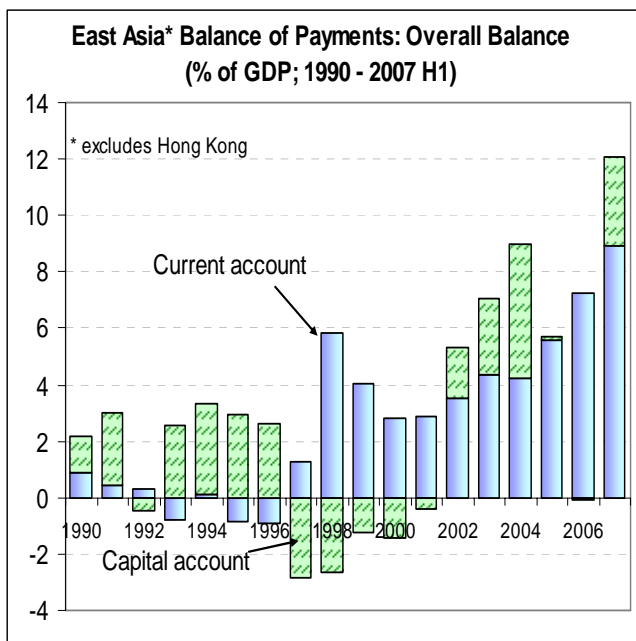


As in the last couple of years, the bulk of Emerging East Asia’s reserve accumulation in the first half of 2007 came from current account surpluses, which reached an aggregate \$322 billion (8.9 percent of GDP), almost as large as the regional current account surplus of \$356 billion in all of 2006. China’s current account surplus reached \$163 billion, or close to 12 percent of GDP. Current account surpluses on this scale are relatively recent in China, emerging only in 2005-06 as a result of large increases in domestic savings (especially in the business enterprise sector) outpacing exceptionally strong domestic investment. Growing technological sophistication has allowed firms to switch from imports to lower cost domestic sources for a growing range of industrial products, resulting in slower overall import growth (despite strong growth in domestic demand and a rising import bill for oil and other primary commodities).

Most of the other large economies in the region also continue to run significant current account surpluses - a median 5.7 percent of GDP in the first half of 2007 in the 8 main economies other than China. Most of these economies

experienced a large swing of current accounts into surplus at the end of the 1990s and in the early 2000s as investment fell steeply after the 1997-98 financial crisis. (Exhibit 16). More recently, however, the underlying trends affecting current accounts have become more diverse. In Indonesia, for example, current account surpluses are running at a modest 2-3 percent of GDP as growing inflows due to strengthening non-traditional exports and higher commodity prices are offset by stronger domestic demand leading to faster import growth, and by rising investment income payments on foreign direct investment in the country. In Thailand, on the other hand, the current account surplus is rising sharply as the weak domestic economy has led to slower import growth, while exports remain robust. The current account surplus in the Philippines has also risen by more than 3 percentage points of GDP since 2005, but in this case mainly because of rapidly growing inward remittances from Filipinos working abroad. In Malaysia the current account swung to and has remained in a surplus worth 10-15 percent of GDP ever since the financial crisis, as investment spending has remained around 20 percentage points of GDP lower than in the pre-crisis period.

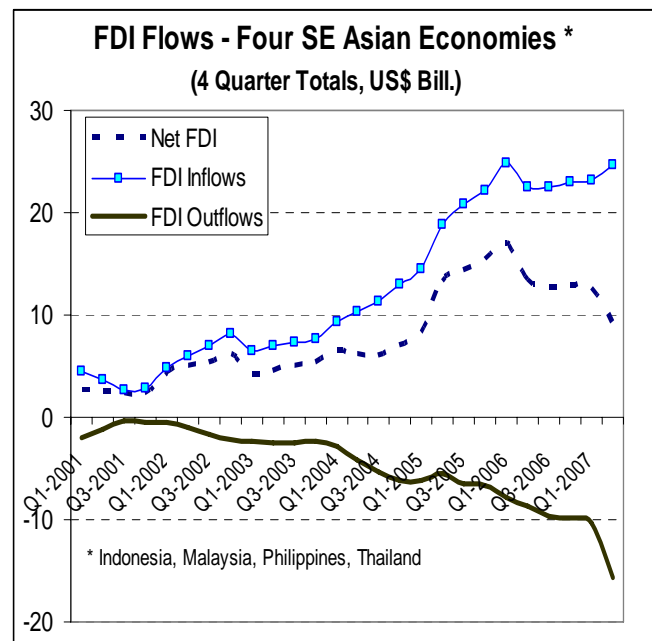
Exhibit 16



Net capital inflows (inclusive of errors and omissions) made little contribution to the region's overall balance of payments surplus in 2005 or 2006, but they increased substantially in the first half of 2007. China in particular saw its capital account move from virtual balance in 2006 to a surplus of a little over \$100 billion in the first half of 2007, the result of strong FDI and net other capital inflows, as well as a fall in net portfolio capital outflows (although swap operations and other ad hoc transactions appear to have played a significant role in 2006 and the first half of 2007). Net capital inflows to economies such as Indonesia, Malaysia and Philippines also increased, principally because of higher portfolio capital inflows.

Looking at the main types of capital flows in the economies other than China in more detail, net FDI inflows to the main South East Asian economies have been flat to slightly declining over the last 1-2 years in both dollar terms and as a percentage of GDP. This however is more a reflection of the growing financial integration of the region rather a decline in gross FDI inflows. As Exhibit 17 indicates, gross FDI inflows to the main South East Asian economies have revived strongly from around \$5 billion per year in 2001 to around \$25 billion in the year to the middle of 2007. These trends have reduced concerns that the large volumes of FDI flowing to China in recent years would preclude significant flows to other parts of East Asia. At the same time gross FDI outflows from these economies have also been growing quickly in the last 2-3 years, as firms implement cross-border investment and production strategies. Such FDI outflows are even more prominent in the high income economies of the region such as Korea and Taiwan (China). Taiwan (China) has been a net supplier of FDI for many years, whereas Korea became one in 2006, with net FDI outflows continuing to grow in the first half of 2007.

Exhibit 17



Emerging East Asia has been an aggregate net supplier of portfolio capital to the rest of the world over the last decade. The high income NIEs are the principal sources of these outflows, supplemented in recent years by portfolio outflows from China, while the South East Asian economies are net recipients of such inflows. Net portfolio outflows from Emerging East Asia fell significantly in the first half of 2007, principally as gross inflows to the region rose sharply, reflecting the surge in portfolio flows to emerging markets as a whole this year.

BOP inflows: too much of a good thing?

The emergence of large balance of payments inflows in several East Asian economies – both current account surpluses and capital inflows – draws attention to potential macroeconomic challenges that could develop as a result, such as possible domestic overheating pressures, asset price bubbles, loss of competitiveness and a build up of vulnerability to sudden reversals of capital flows down the road.

Such inflows place upward pressures on the exchange rate. The trade-off that countries then face is either to allow the exchange rate to appreciate—with possible consequences for the competitiveness of exports—or to intervene in the foreign exchange market to keep the exchange rate from appreciating, leading to rising foreign exchange reserves, and, other things equal, to an expansion of the domestic monetary base. Banks are then able to increase lending to domestic firms and consumers (unless there is a 100 percent reserve requirement). With rising domestic expenditures and asset prices, the value of firms' and households' collateral rises.¹⁹ This creates the potential for banks to lend further, and the potential for a reinforcing cycle of lending and higher asset prices. Under conditions of weak regulation and supervision, financial institutions could undertake increasingly risky lending and become vulnerable (Exhibit 18).

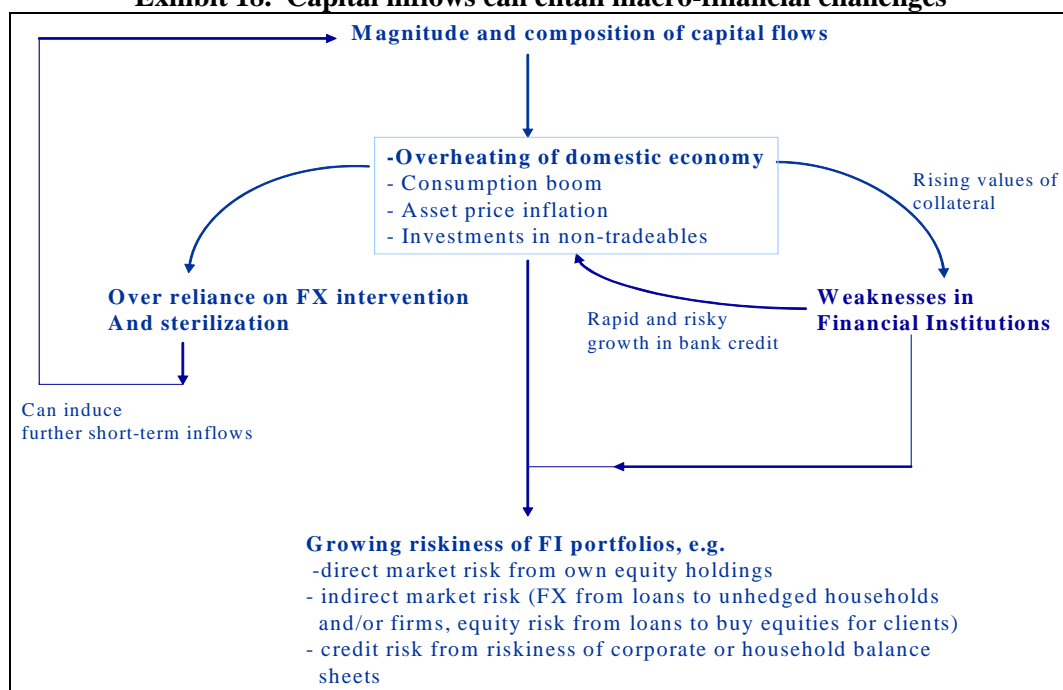
Countries often attempt to mitigate the monetary impact of exchange rate intervention by sterilizing—selling bonds to mop up liquidity through open market operations,

raising bank reserve requirements, or removing government deposits from the banking system and placing them with the central bank. However, sterilization entails quasi-fiscal costs—since the interest rates typically paid on the domestic assets are generally higher than those earned on international reserves. Sterilization through higher bank reserve requirements can also act as a tax on banks, which they pass on through higher lending rates and lower deposit rates. That in turn can contribute to disintermediation from the banking system to the non-bank financial sector which is generally more weakly regulated and supervised. Most importantly—from the perspective of managing balance of payments pressures—since sterilization prevents domestic interest rates from falling, it generally induces further capital inflows, especially portfolio flows or short-term flows that are particularly responsive to interest rate differentials.

These issues were also at play during the years leading up to the 1997 Asian financial crisis. This section examines whether such challenges are re-emerging in the region, the sources and magnitudes of balance of pressures, how these pressures are playing out in the domestic economy and policy responses so far.

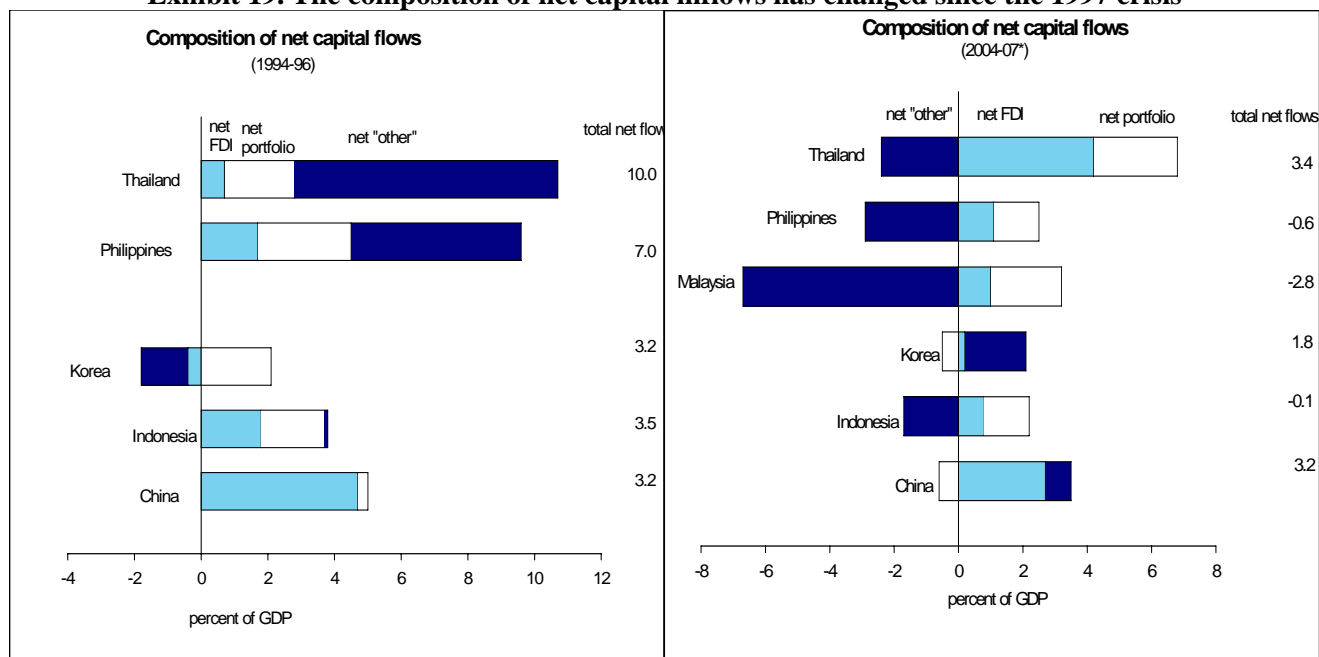
Large balance of payments pressures

There are two important differences between BOP inflows in the recent period and the pre-1997 crisis period. The first is that in the recent period, while countries have been receiving inflows, they have also become exporters of

Exhibit 18. Capital inflows can entail macro-financial challenges

¹⁹ In the presence of credit market frictions, cash flows and the conditions of balance sheets are important determinants of

Exhibit 19. The composition of net capital inflows has changed since the 1997 crisis



Source: World Bank data and staff estimates.

capital, both repaying external debt, and also investing abroad in the form of portfolio debt and equity flows. In some economies such as Korea, outflows have also included direct equity investment (FDI). On a net basis, East Asian economies have been receiving significant inflows of portfolio and FDI, while other flows (mainly commercial bank borrowing) have been negative (Exhibit 19).²⁰ The exception to the latter has been Korea which has recorded very significant net inflows of bank borrowing of around 6 percent of GDP during 2004-2006²¹. Total net capital inflows in countries in developing East Asia during 2004-first half of 2007 ranged from 0.7 percent of GDP (Indonesia) to 3.8 percent of GDP in China. (The exception is the Philippines which recorded a slight negative in capital flows on a net basis²²). These magnitudes are considerably lower than the net capital inflows that these economies received during 1994-96.

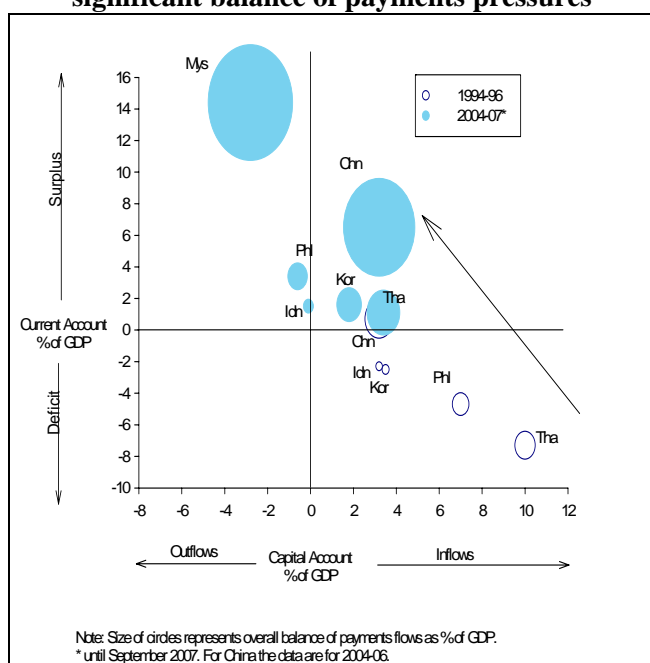
economic agents' ability to borrow and lend.

²⁰ The very large net other outflows in Malaysia also reflect residents' transactions with Malaysia's own Labuan Financial Center established in 1996. There were 53 banks operating in Labuan as of end 2006, as well as mutual funds, insurance companies and SPVs.

²¹ Korea's large net "other" inflows reflect hedging by Korean shipbuilders (a major source of exports) who have only begun to hedge their activities since 2004. Typically, exporters sell expected dollar receipts forward to domestic banks and foreign bank branches in Korea which then borrow dollars abroad to match their own currency exposure, thereby creating a capital inflow.

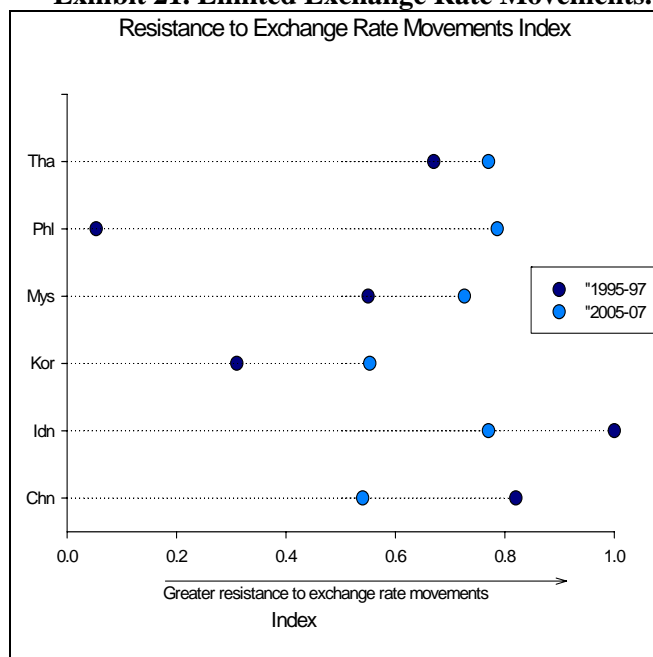
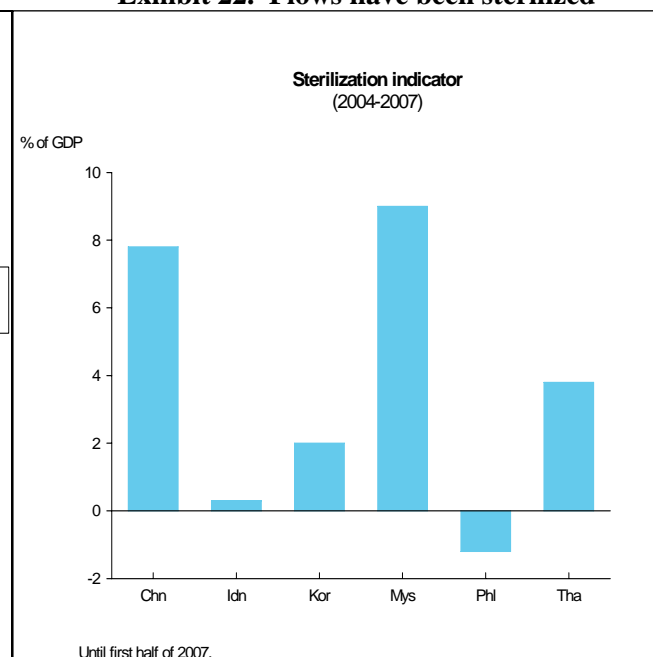
²² The decline in net other investment in the Philippines is due in part to the lower recourse to external borrowing given large remittance inflows.

Exhibit 20. Most economies are experiencing significant balance of payments pressures



Source: World Bank data and staff estimates

A second important difference is that East Asian economies have been running large current account surpluses since the 1997-98 financial crisis, whereas most countries were running large current account deficits before the crisis. Malaysia's current account surplus averaged over 14 percent of GDP from 2004 to the second quarter of 2007, while that of China averaged 7.3 percent of GDP. Other

Exhibit 21. Limited Exchange Rate Movements.**Exhibit 22. Flows have been sterilized**

Source: World Bank data and staff estimates.

Table 9. Reserve levels are high

	Measures of Optimal or Adequate Reserves (US\$ Billion)						Excess reserves (actual minus optimal or sufficient) US\$ Billion					
	Months of imports ^{1/}		Greenspan-Guidotti Rule ^{2/}		Jeanne-Ranciere Model ^{3/}		Months of imports		Greenspan-Guidotti Rule		Jeanne-Ranciere Model	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
China	213.2	266.2	63.1	80.0	265.7	303.0	608.3	802.3	758.4	988.5	555.8	765.5
Indonesia	23.7	26.7	20.3	21.8	36.8	42.0	11.0	15.9	14.4	20.8	-2.1	0.5
Korea	93.5	106.2	62.7	100.0	89.8	99.5	116.9	132.6	147.6	138.8	120.5	139.4
Malaysia	36.8	40.1	17.3	22.1	15.1	16.5	33.4	42.0	53.0	60.1	55.1	65.7
Philippines	14.1	15.1	12.9	10.0	11.8	12.7	1.8	4.96	3.1	10.0	4.1	7.3
Thailand	36.0	41.3	12.8	14.4	20.9	22.69	14.7	24.0	37.9	50.8	29.8	42.4

^{1/} Three months of imports of goods and services (period-ahead). ^{2/} 100% of short term debt (debt due within one year).

^{3/} Optimal reserve measure taking into account fundamental factors such as indebtedness, extent of financial integration and previous real exchange rate appreciation by Jeanne and Ranciere (2006).

countries have also recorded current account surpluses ranging from 2-4 percent of GDP.

While the large current account surpluses reduce the vulnerability to sudden stops and reversals in capital flows, they also add to the macroeconomic management challenges associated with foreign currency inflows. As Exhibit 20 shows, overall balance of payments inflows (from current account surpluses and capital inflows) are significantly larger than they were in the run up to the 1997 crisis.

Macro developments and policy response to date

One of the policy choices that countries have to make in the face of large balance of payments inflows is

how much to let the nominal exchange rate appreciate and how much to intervene in the foreign exchange markets (which of course results in an accumulation of foreign reserves). The choice that countries in the region have effectively made so far can be gauged by an index of resistance to exchange market pressures (EMP), based on a combination of movements in the exchange rate and international reserves. The index ranges from zero (no resistance to exchange rate movements) to 1 (full resistance to exchange rate movements)²³. As Exhibit 21 shows, in

²³ The precise definition of the Exchange Market Pressure (EMP) index varies across authors, but usually combines changes in the exchange rate with changes in reserve movements as a fraction of the monetary base. If countries were to allow the exchange rate to float freely, this index would be driven entirely by changes in the

most economies the extent of resistance to exchange rate movements in the recent period (2004-06) has actually been somewhat greater than during 1994-96. The exceptions are Indonesia and China where the resistance to exchange rate movements was greater in the earlier period.

Given the magnitude of balance of payments inflows and foreign exchange interventions, the level of reserves is at an all-time high in most economies. Most economies in the region hold reserve levels that are well in excess of “optimal” levels suggested by various criteria, although Indonesia and the Philippines are only marginally above these levels. (Table 9. The optimal reserve measure estimated by Jeanne and Ranciere (2006) explicitly takes into account the probability of a sudden stop in capital flows, based on factors such as the extent of financial integration, public and external indebtedness and the extent of previous real exchange rate appreciation).²⁴

Concerned with the potentially inflationary implications of foreign exchange market interventions and associated reserve accumulation, economies in the region have also engaged in significant sterilization. Exhibit 22 shows an indicator of sterilization (measured as the difference between changes in foreign reserves and changes in reserve money, as a percent of GDP). Several economies have undertaken close to full sterilization during 2004-07.

There has not been any clear indication of a marked pickup in the underlying trend of inflation in most economies, although in several cases there have been increases due to specific supply side factors, such as the recent rise in imported food prices. Staff calculations suggest that the large “negative output gap” created after the financial crisis (with actual output running well below potential output) has now been closed, and that actual output is now modestly higher than potential in most of the economies of the region. Even though these output gaps are significantly smaller than those during the pre-crisis boom period of 1994-95, policy makers now do need to be aware of the potential for domestic overheating. In addition, asset prices, especially stock market prices have increased significantly across countries in region. Exhibit 23 shows stock market prices and price-earnings (P/E) ratios during the run up to the 1997 crisis and during the more recent period (January 2005-September 2007). Both series are

exchange rate. At the other extreme, if the exchange rate was fully pegged, the exchange rate would not move and the change in this index would be driven by changes in reserves. Dividing the changes in foreign reserves by the EMP yields a ratio measuring the proportion of exchange market pressures that are resisted through intervention which has then been standardized to create an index of the degree of resistance to changes in the exchange rate that ranges in value between 0 and 1, where a value closer to 1 implies a greater degree of resistance. See for example Evan Tanner: “Exchange market pressure, currency crises and monetary policy”. (2002). IMF WP/02/14

²⁴ Olivier Jeanne and Romain Ranciere: “The optimal level of reserves for emerging market countries: formulas and applications.” (2006). IMF WP/06/229

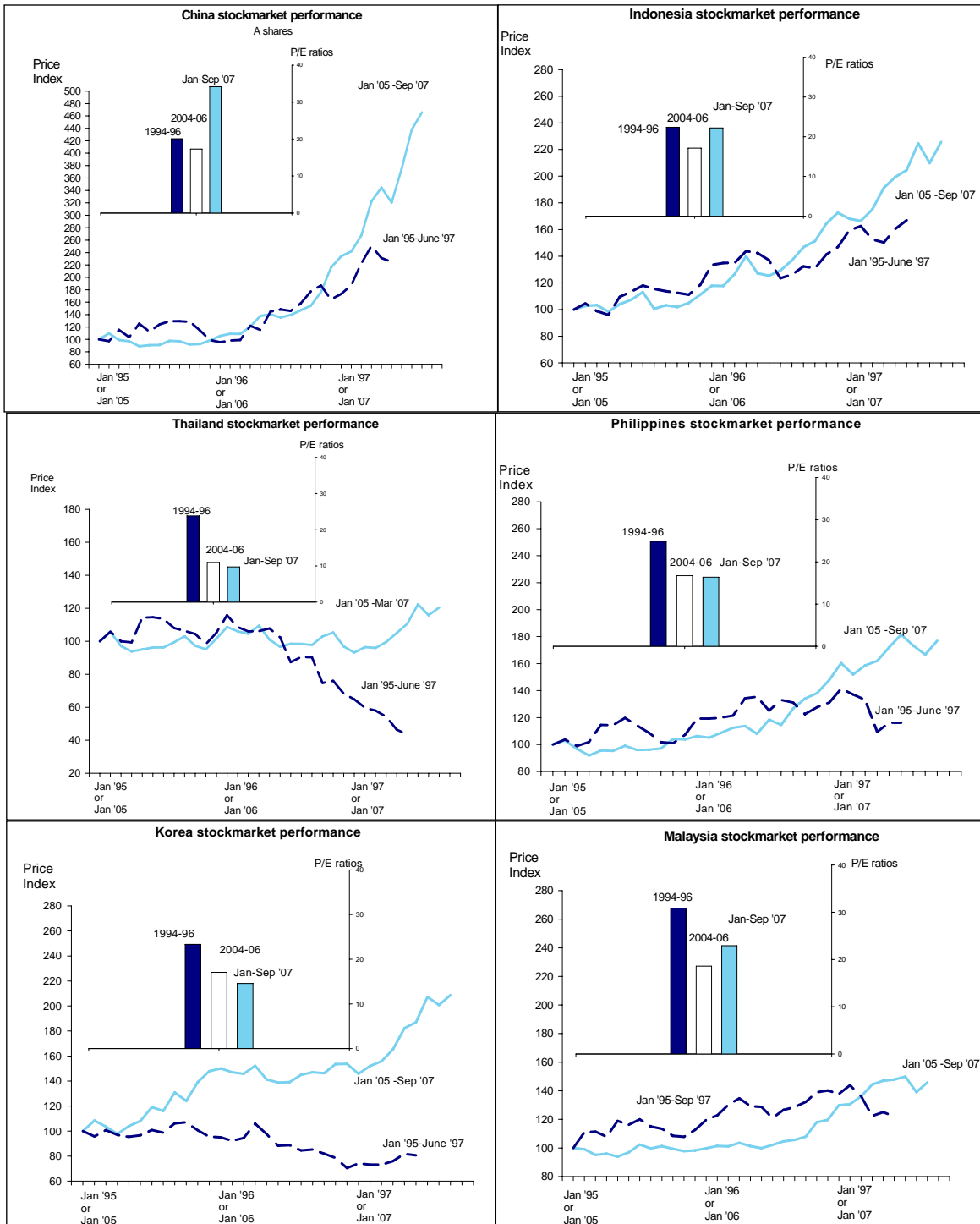
indexed to 100 at the beginning of each period. Stock market prices have increased more rapidly in the latter period, particularly since the beginning of 2007 across the board. However P/E ratios remain below the pre-1997 crisis period in all economies except China (where P/E ratios are at historic highs and Indonesia (where the average P/E ratio for January 2007-September 2007 is almost the same as it was during 1994-96).

What role have the banks been playing in this process so far? The first point worth noting is that, in the formerly crisis-affected countries, a significant proportion of commercial banks’ assets are in the form of claims on the public sector. In large part this reflects bonds that were issued for financial sector restructuring. Banks also hold a sizable share in sterilization instruments (categorized as “other” in Exhibit 24). Second, compared to 1994-96, the share of foreign assets and reserves in total assets are also higher in almost all the crisis-affected countries. Third, the share of domestic credit to the private sector in total assets has declined sizably in most economies.

In fact, domestic credit to the private sector as a percentage of GDP is significantly lower in all formerly crisis affected countries except Korea and the growth rates of domestic credit to private sector are also generally a lot lower than pre-crisis (Exhibit 25). This reflects significantly lower lending to corporations. Corporations have not borrowed as much in part because investment rates have been much lower than in the pre-crisis period and quite erratic, although more recently they have started to pick up. In part, it also reflects the broadening of sources of finance for corporations—firms have not only relied on retained earnings but have also raised capital in the equity markets and (albeit to a much lesser extent) the bond markets.

An increasing part of commercial bank lending since the crisis has been to consumers and in several economies to SMEs. The bulk of consumer lending has been for mortgage finance (although in Indonesia, housing accounts for the lower share and loans for vehicles for the larger proportion of consumer finance). Credit card lending has grown quite rapidly although it typically remains quite a small proportion of consumer lending. Despite the recent fairly rapid growth in consumer lending, household indebtedness is still relatively low in East Asia in comparison to industrial countries and so far, NPL ratios for household loans remain relatively low. In the corporate sector, leverage ratios have declined substantially, reducing the vulnerability of corporations and the credit risk that they may pose to banks.

Exhibit 23. Stock Market Prices and PE Ratios 1994-06 and 2004-06



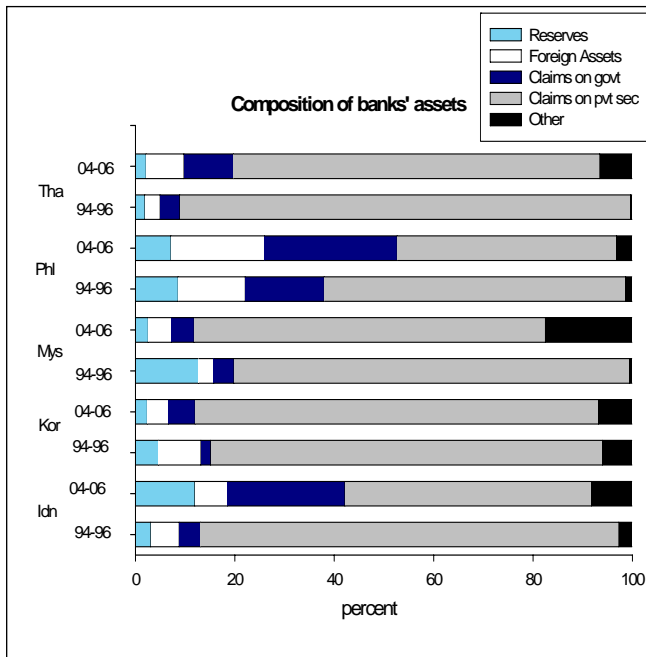
Source: World Bank data and staff estimates.

Banks' direct exposure to foreign exchange risk has decreased considerably across the region as Exhibit 26 shows. However, banks may be exposed indirectly to foreign exchange risks, especially since, in general, households, and very often SMEs, are not hedged.

At present it appears that banks are playing a muted role in the intermediation of capital inflows. The pace

of growth of loans to the private sector—which when high is often accompanied by a deterioration in loan quality—has been relatively modest so far. Indeed, banks have still to fully resume their intermediation function in several of the economies. However, banks may be playing a more active role through their off balance sheet activities. And, in terms of overall risks in the financial sector, what is happening

Exhibit 24. Bank intermediation has declined



Source: World Bank data and staff estimates.

Exhibit 25. Growth in domestic credit to the private sector is also lower

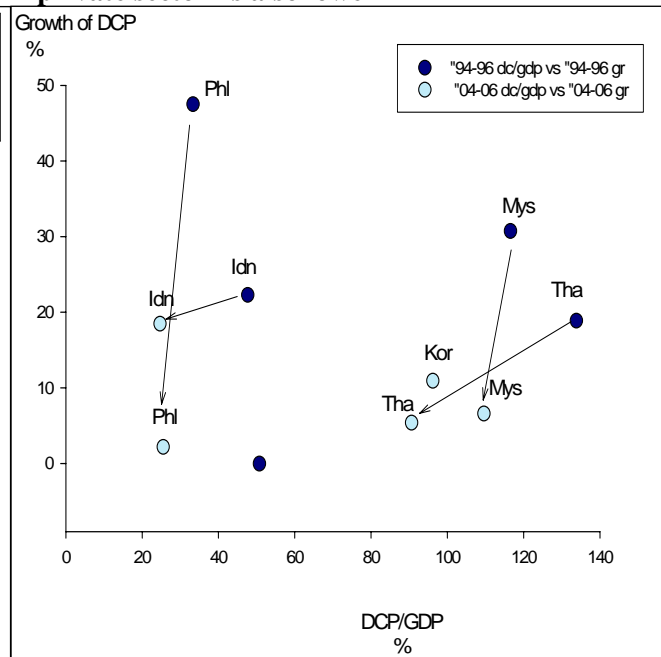
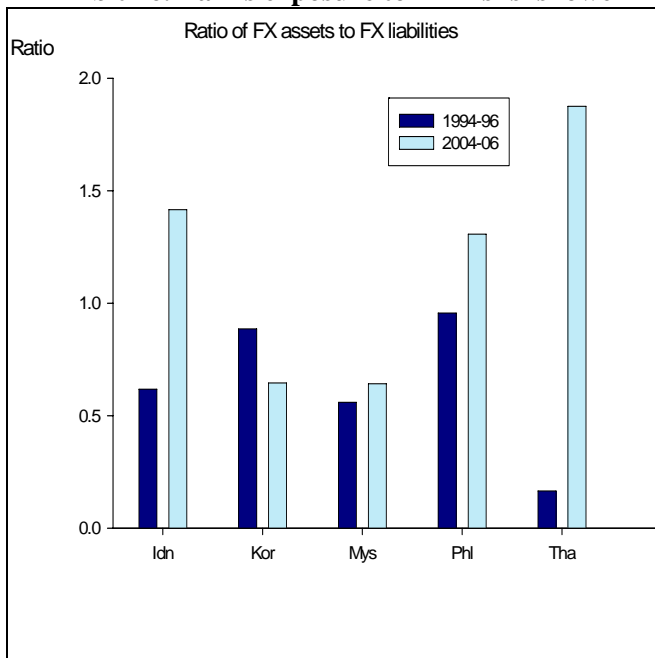


Exhibit 26. Banks exposure to FX risks is lower



Source: World Bank data and staff estimates.

through non-bank financial institutions also needs to be explored.

To sum up, many economies in East Asia are experiencing large balance of payments inflows. And, although the bulk of these pressures are coming from current account surpluses, most economies have also

received substantial capital inflows, particularly net portfolio flows. In choosing between allowing the exchange rate to appreciate and intervening in the foreign exchange markets, most economies have chosen to limit the appreciation of the nominal exchange rate. They have also undertaken significant sterilization to mop up increases in domestic liquidity that would otherwise occur. While there are few overt signs of significant overheating, asset prices, in particular those for equities, have increased significantly. On the whole the role of banks in intermediating balance of payments inflows seems to be muted so far, and growth in credit to the domestic private sector has been generally sluggish. On balance, then, the problems of economic overheating and growing banking sector vulnerability that could arise with sustained inflows do not seem to be major immediate issues, but are ones that could become so in future if they are not carefully monitored and the underlying forces contributing to these pressures are left unaddressed.

The policy measures that are appropriate in dealing with the underlying pressure of large balance of payments inflows will undoubtedly differ from one economy to the next, depending on their structure and circumstances. Nevertheless some general considerations are likely to be relevant. First, greater exchange rate flexibility will continue to provide a useful instrument in adjusting to sustained inflows in most cases. Even if countries intervene in the foreign exchange market to prevent nominal appreciation, the real rate will tend to appreciate through the more disruptive mechanism of higher domestic inflation. It should also be recognized that sterilization tends to become less effective as financial integration deepens, and is in fact

likely to encourage further inflows of short-term capital, thereby increasing both the costs of sterilization and potential vulnerability.

Another option that a number of countries are exploring is to further liberalize capital outflows. Indeed Korea implemented several measures early in 2007, including extending the ability of pension funds to invest in overseas securities. Given adequate supervisory, regulatory and market infrastructure, such measures have the additional structural benefit of fostering greater regional and global integration. Countries have also occasionally considered controls on capital inflows, in particular as a way of dealing with sudden large surges in short term and portfolio flows. Experience suggests the effectiveness of such controls tends to diminish over time as market participants find loopholes in the system. Such controls also tend to be less effective in more sophisticated financial markets. Overall the evidence suggests that such controls are, for the most part, likely to be effective as short term measures. Finally, from the perspective of reducing the potential for a buildup of vulnerability in the financial system, strengthening financial sector prudential regulation and supervision remain key.

4.2. Financial sector trends and issues

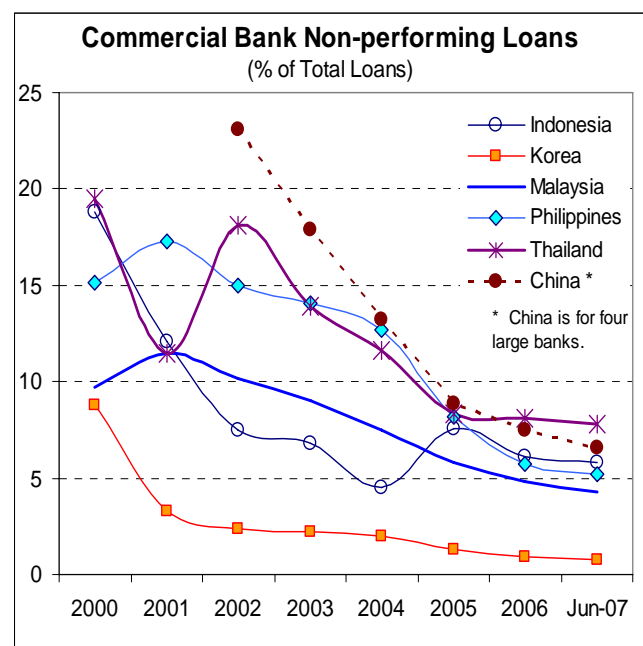
The discussion of banks in the preceding section showed that bank lending to the domestic private sector in the former crisis affected countries has diminished in importance over the last decade, while holdings of government or foreign assets have increased. This is likely to change if the recent strengthening of domestic demand gathers pace, leading to stronger loan demand, especially from the business sector. In this context it will be important to ensure that faster loan growth is not accompanied by deterioration in loan quality and a build up of new vulnerabilities. Banking sector asset quality, profitability and capital adequacy in the region have indeed improved significantly in recent years. The average non-performing loan (NPL) ratio for the five formerly crisis affected countries has fallen from over 10 percent in 2002 to under 5 percent by the middle of 2007, although NPLs remain significantly higher than in developed economies or in some other developing regions, Latin America for example. (Exhibits 27, 28). The region has also undertaken significant efforts to improve prudential regulations and supervision to strengthen the stability of the banking system, but this is a work in progress and continued efforts are needed to converge to international standards.

Looking further at developments in individual economies:

In *China*, the reshaping of the banking system continues at a fast pace. The massive restructuring and recapitalization in recent years of three out of the four major state-owned commercial banks, and to a lesser extent of second-tier banks, appears to be paying off. The NPL ratio for the major banks has fallen from near 25 percent of all loans in 2002 to under 7 percent by the end of 2006. The profitability of restructured banks has improved markedly,

with return on equity at the big 4 banks rising from less than 2 percent in 2003 to 12-13 percent in 2006. In August the Bank of China and Industrial and Commercial Bank of China disclosed exposure to US sub-prime assets of close to \$10 billion and \$1.2 billion respectively. However analysts expected the institutions to be able to absorb potential losses on these assets relatively comfortably, given rapid growth in the banks' overall profits. As part of the process of bank restructuring minority stakes of 10-25 percent in the three big restructured banks have been sold to major international banks and to public investors through IPOs. Strategic foreign investment has also been sought in smaller restructured banks, with international banks taking positions in around 25 smaller banks, mostly within the last two years.

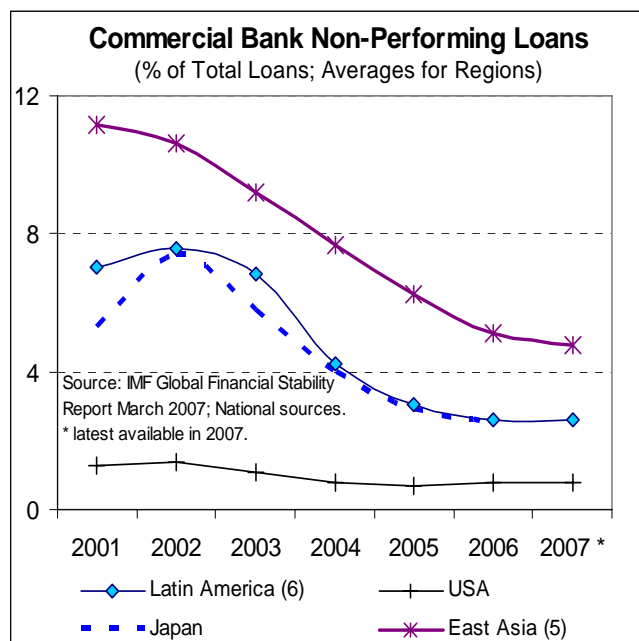
Exhibit 27



In *Indonesia*: bank loan growth accelerated from a sluggish 14 percent in 2006 to a 39 percent pace in the year to June 2007. Analysts anticipate continued strong loan growth, given growing business confidence and strengthening investment demand. Bank profitability continues to run at high levels, with interest margins close to 6 percent among the highest in East Asia. Capital adequacy ratios of over 20 percent are also among the highest in the region, while the reported non-performing loan ratio fell to below 6 percent of loans at mid-year. The government issued a second financial sector reform package in July 2007, following a first set of reforms a year earlier. Key areas covered by the packages include strengthening financial system stability including through greater coordination across regulators; improving financial intermediation through strengthening credit information systems; improving regulation and supervision of pension funds and insurance firms; increasing efficiency and liquidity of capital markets; and harmonizing regulations

and tax treatment across different segments of the financial sector. Progress on implementation has so far been largely on track.

Exhibit 28



Korea's financial sector also remains in good overall health, with asset quality, profitability and capital adequacy all continuing to rise. The commercial bank NPL ratio fell below 0.8 percent of total loans in June 2007, with NPL ratios declining for all types of loans. The capital adequacy ratio was close to 23 percent at mid-year, while banks' net income in the first half of 2007 was up 23 percent from a year earlier. Among areas of potential risk that are being more closely monitored by the authorities is mortgage lending in the housing market, where the pace of house price inflation has slowed sharply, although bank exposure is not high and NPLs are low. Lending to SMEs has also been growing quickly, but the pace is expected to moderate as tighter lending standards and stronger monitoring by regulators take effect.

Thailand's banking sector has continued to make progress despite the more challenging operating environment since 2005, when economic growth has fallen to a 4-5 percent range. Profitability has improved due to both higher net interest margins (around 3 percent in 2006 and the first part of 2007) and growth in more diversified non-interest income. The banking system NPL ratio edged down to 7.8 percent in mid 2007 from 8.1 percent at the end of 2006. The level of NPLs remains high relative to the average for East Asia or some other regions, however, and the pace of decline in non-performing and distressed assets has also been relatively slow.