

# IV. International Monetary Study II for KUINEP

*The Asian crisis and its background*

*21<sup>st</sup> century-type crisis as a “country run”*  
*21世紀型通貨危機——「国の取付け」*

April-July 2004

# 1. The outbreak and spread of the currency crisis

## 通貨危機の発生と拡大

### (1) Thailand: the baht

- Thai bahts were de facto pegged to US dollar at the rate of baht 23-25 since 1981. 事実上のドルペッグ制だった
- There were omens of crisis: real estate bubble and its burst, bankruptcy of the largest financial company “Finance One” in March 1997 危機の予兆 (バブルの崩壊など)
- Speculators sell bahts heavily in May/June 1997. The Thai central bank is the only buyer of bahts. 投機の激化
- 2<sup>nd</sup> July 1997, Thai bahts are forced to move to managed floating rate system. ドルペッグ制の放棄
- US\$1=baht 25.8 (June 97)→baht 50 (Jan 98), devaluation of 48.4% 半年でバートの価値は半分に
- August 1997 IMF financial rescue package of US\$17.2<sub>2</sub>bio

## (2) Indonesia: the rupiah

- Jun 1997 the World Bank reports Indonesian economy is in good shape.
- Sep 1997 Indonesian companies fail to repay US\$ CPs.
- Nov 1997 IMF rescue package US\$41.2 bio is signed. The United States joins the package. 米国参加でIMF金融支援策
- Nov 1997 IMF orders bank closure, and a bank run (銀行取付け) breaks out, and triggers the worst crisis in Indonesia. 通貨・金融・経済危機の本格化
- Jan 1998 President Suharto clashes with IMF. The rupiah drops to US\$1=rupiah 16,500 (Jun 97 rupiah 2,500, devaluation of 84.9%) ルピアの価値六分の一に
- May 1998 a riot against ethnic Chinese and Suharto resigns. 華僑ターゲットの暴動発生、スハルト大統領退陣

### (3) Korea: the won

- Omen of crisis: collapse of “chaebols” (財閥) like Hanbo (韓宝) , Jinro (真露) , Kia (起亞) groups
- (Nov 1997 the Japan’s financial system faces crisis due to collapse of Hokkaido Takushoku Bank and Yamaichi Securities.)
- Nov 1997 Korean banks face difficulty in repaying US\$ debt because of **liquidity shortage** 外貨流動性の危機
- **Dec 1997 IMF rescue package US\$57.0 bio, the largest in history** 過去最大のIMF金融支援策
- Dec 1997 the won moves from the managed floating rate system to the free float (**US\$1=won 2,000, 55.0% devaluation since won 900 early 97**)

## (4) A Simple Illustration of Currency Speculation

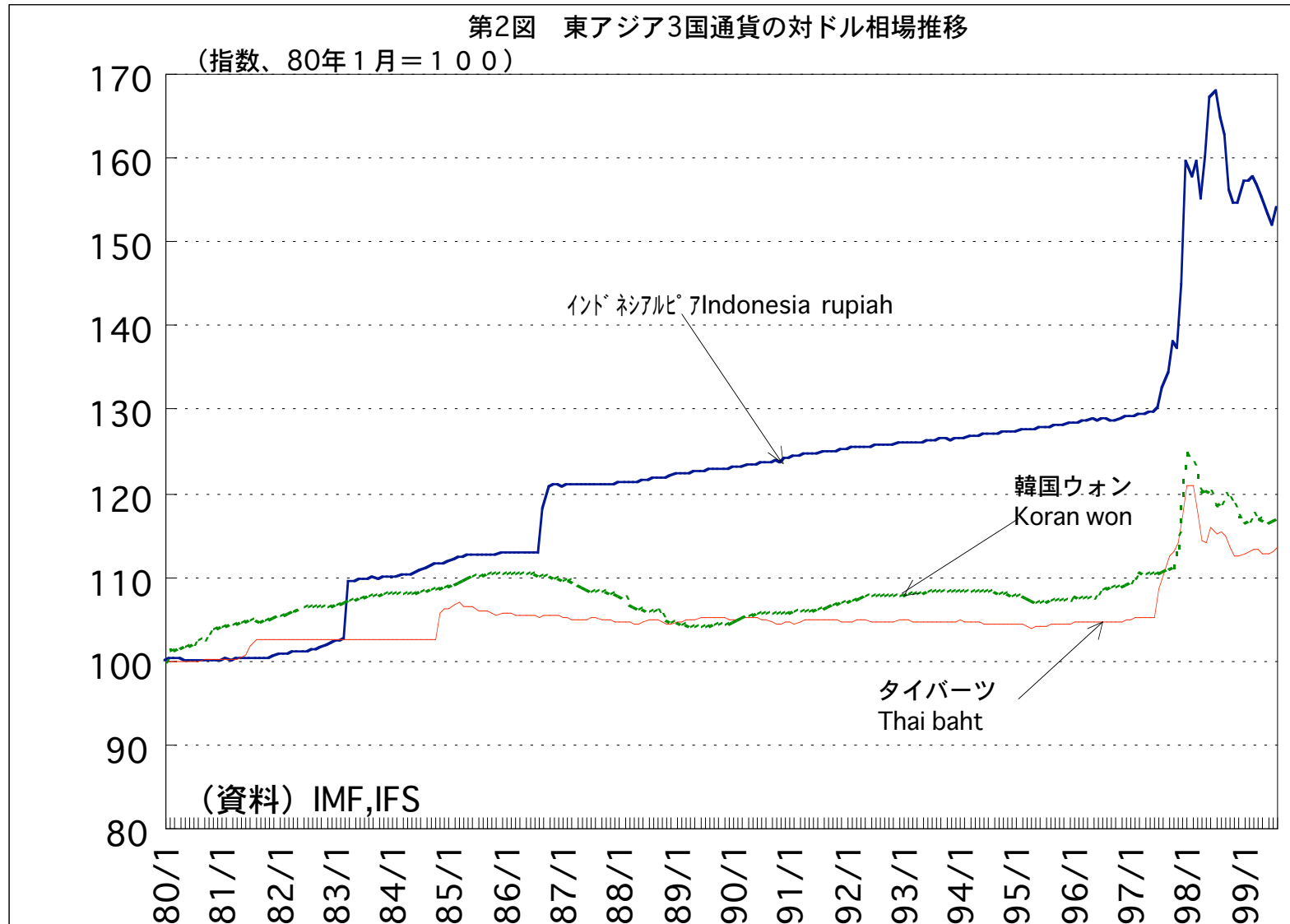
Day1) Speculators borrow baht 25mio and sell it against US dollar at US\$1=baht25.

Asset	Liability
Bank Deposit US\$1 mio	Borrowed Money baht 25mio

DayX) The baht is devalued to US\$1=baht30. Speculators buy back baht30 mio against UD dollar at the new exchange rate, repay the loan and realize the exchange profit of baht5 mio.

Bank Deposit baht 30 mio	Deposit Withdrawal US\$1 mio
Loan Repayment baht25 mio	Deposit Withdrawal baht25 mio
<i>Bank Deposit</i> <i>baht5 mio</i>	<i>Exchange Profit</i> <i>baht5 mio</i>

# Exchange rates of 3 East Asian countries over 20 years



## 2. From currency crisis to economic crisis 通貨危機から経済危機へ

### (1) Current account improves, real economy deteriorates.

国内実体経済を犠牲に對外均衡を回復

- 3 countries achieves trade account surplus within months due to **a sharp drop of import** in the paralysis of economic activities. 不況で輸入急減
- GDP drops to **a minus growth rate, and the jobless rate rises.** マイナス成長、失業者急増

Indonesia: population under poverty line doubles from 11% in 97 to 19.9% in 98.

Thailand: Rural economy absorbed part of the unemployed, and played the role of social cushion.

Korea: IMF stands for “I am fired!”

## Main economic indicators during the Asian crisis

	Thailand		Indonesia		Korea	
	1997	1998	1997	1998	1997	1998
Real GDP growth %	-1.3	-9.4	5.3	-13.7	5.0	-5.8
Consumer price %	5.6	8.0	6.6	58.4	4.5	7.5
Unemployment rate %	1.9	4.4	4.7	n.a.	2.6	6.8
Export US\$ billion	57.6	54.6	53.5	48.8	136.2	132.8
Import US\$ billion	62.2	43.0	41.7	27.2	144.6	93.2
Trade balance US\$ billion	-4.6	11.6	11.9	21.6	-8.5	39.6
Current a/c balance US\$ bio for I & K, baht bio for T	-43.5	591.6	-5.0	4.0	-8.2	40.0
Short-term interest rate %	17.8	18.8	28.5	39.6	25.0	7.7

(出所: 経済企画庁「アジア経済1999」など)



## (2) The mechanism of economic deterioration

- **IMF imposes austerity policy (緊縮政策).**

Monetary policy (金融政策) : high interest rate

→demand squeeze, rise of NPL (不良債權) by highly indebted companies →economic activities drop.

Fiscal policy (財政政策) :budgetary surplus

→demand squeeze →economic activities drop.

- **Foreign exchange loss (為替差損) :** Companies with borrowing in foreign currencies become insolvent  
→rise of NPL

- **Rise of NPL**→banking crisis(金融危機) →financial intermediary function (金融仲介機能) stops  
→real economic activities stop without finance經濟停滯

(3) IMF made grave mistakes in diagnosis and prescription of problems of crisis-hit countries.

- **Macro-economic policy: one-size-fits-all austerity policy**

The causes and developments of 3 countries were not the same. お仕着せの緊縮政策

- **Structural policies:** IMF ordered to remove 3 Cs (corruption, collusion and crony capitalism), but is such a conditionality appropriate to solve currency crises

構造政策は適切・必要だったか？

What happened in 1998.	Balance of current account	GDP growth rate
Target of IMF programs for 3 crisis-hit countries	-2.2%~-3.0% of GDP	+2.5%~+3.5%
Actual performance	+4.5%~+12.8%	-6.7%~-13.2%

### 3. The background of the Asian currency crisis

#### アジア危機の背景

(1) 20<sup>th</sup> century-type crisis vs. 21<sup>st</sup> century-type crisis

20世紀型の危機と21世紀型の危機

(i) 20<sup>th</sup> century-type Latin American crisis during 1980s

Problem lies with current a/c deficits 経常収支が問題

→austerity policy

(a) increase of international capital (Euro market, oil recycle)

(b) low savings rate (20% of GDP), and twin deficits of fiscal and current account balance

© low level of capital investment (10% of GDP) and domestic bank credit (10-20% of GDP)

(d) international loans mostly to the public sector due to the weak private sector

(ii) 21st century-type crisis as a “country run” 国の取付け

Problems lie with movements in capital a/c.

資本収支が問題→emphasis on the importance of sound financial sector

(a) massive short-term capital movement 短資の流出入

Fund flow to 5 E.A. countries	1995	1996	1997	1998
Private fund flow (net) US\$bio	60.6	62.9	-22.1	-29.6
foreign direct investment	7.5	8.4	10.3	9.7
portfolio investment	17.4	20.3	12.9	-7.3
bank lending and others	35.7	34.2	-45.3	-32.0
Public fund flow (net)	0.7	-4.6	30.4	20.2
Change of foreign reserves (minus means increase)	-18.3	-5.4	30.5	-52.1

- (b) **Sound economic fundamentals** of E.A. countries
- High savings and investment rates (more than 30% of GDP) 高い貯蓄率・投資率
  - Balanced government budget 均衡財政
  - Manageable current a/c deficit except Thailand 小幅な經常赤字（例外はタイ）
- (c) **Fragile financial sector**, high dependence on domestic bank credit 脆弱な金融部門と間接金融への依存
- (d) **International loans mostly to the private sector**  
→difficulty in debt rescheduling 困難な債務の再編
- (e) **Problem of de facto dollar-pegged fixed exchange rate and inflexible operations** 硬直的な為替相場

(f) Rapid increase of external debt without proper statistics and **poor ALM (asset & liability management)**

		1990	1993	1994	1995	1996	1997
Indonesia	Total external debt US\$ billion	69.9	89.2	107.8	124.4	128.9	136.2
	long- and medium term debt	58.3	71.9	88.4	98.4	96.7	97.2
	short-term debt	11.1	18.0	19.5	26.0	32.2	36.0
Thailand	Total external debt balance	28.2	52.7	65.6	83.1	90.6	93.4
	long- and medium term debt	19.8	30.1	36.4	42.0	53.0	56.2
	short-term debt	8.3	22.6	29.2	41.1	37.6	34.8
Korea	Total external debt balance	47.0	62.8	94.0	115.0	164.3	158.1
	long- and medium term debt	24.2	35.0	53.9	56.1	71.4	94.8
	short-term debt	22.8	27.8	40.2	59.0	92.9	63.2

(source : World Bank "Global Development Finance")

## (2) Thailand

### (i) Problem of combining the fixed exchange rate with capital liberalization

- Mistake of BIBF (Bangkok International Banking Facility バンコック・オフショア金融市場)
- Theory of “irreconcilable triangle” (不可能な三角形) : among (a) fixed exchange rate, (b) free movement of capital, © independent monetary policy, only two policy objectives can be realized. (cf. Hong Kong’s currency board system or China’s de facto fixed rate system)

(ii) **Bubble and burst** (investment rate 41.6%, savings rate 33.8% of GDP → difference of 7.8% was financed by the short-term foreign capital inflow through BIBF.

(iii) NPL ratio 47% in 1999 (53% of GDP)

Note: why did Thailand become the first victim of currency speculation?

- The current account deficit was unsustainably large (7.8% of GDP)! Excessive investment (the bubble) was the main cause. 国内過剰投資による経常赤字の拡大

*GDP (Expenditure)  $Y=C+I+G+(Ex-Im)$*

*GDP (Distribution)  $Y=C+S+T$*

$\rightarrow C+I+G+(Ex-Im)=C+S+T$

$$(S-I)+(T-G)=Ex-Im$$

*Y: GDP, C: consumption, I: investment,*

*G: government expenditure, Ex: export, Im: import, S: saving, T: tax revenue*



### (3) Indonesia

- (i) Indonesia received the financial support and guidance of IGGI (now CGI) and the World Bank since 1960s.
- (ii) There was **no foreign exchange control and no obligation of reporting foreign transactions. →no statistics on external assets and liabilities**統計の欠如
- (iii) **The unhappy coincidence**不幸な要因の重なり:
  - (a) currency crisis arising from Thailand within ASEAN
  - (b) IMF's wrong prescription for recovery
  - © political instability at the end of Suharto regime
  - (d) outbreak of social unrest
- (iv) NPL ratio 60% in 1998 (31% of GDP) and the **complete paralysis of the financial system**金融機能麻痺

#### (4) Korea

- (i) Korea managed its exchange rate system flexibly to maintain export competitiveness against Japan's similar export items.
- (ii) The current a/c deficit was within a manageable range.
- (iii) The foreign exchange control was strict, but there was a loophole (overseas subsidiaries of business).
- (iv) Statistics on foreign financial transactions had defects, and external ALM was poor (short-term funding and long-term investment). 短期借入れと長期投資
- (v) The negative impact of Japan's financial instability
- (vi) The problem was the shortage of foreign currency liquidity (外貨流動性不足) , not currency speculation!
- (vii) NPL ratio 22% in 1998 (30% of GDP)