

## Another “Unprecedented” Crisis? This, Too, Shall Pass<sup>1</sup>

September 18, 2020

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*“About every 10 years, we have the greatest crisis in 50 years.”*

*Paul Volcker  
Chairman of the US Federal Reserve, 1979–1987*

### I. Introduction

1. **The world has seen at least three “unprecedented” crises over the past quarter of a century.** The Asian financial crisis (AFC) in the late-1990s was the result of a sudden reversal in unprecedented amounts of unhedged short-term capital inflows that led to “twin” currency and banking crises (Kaminsky and Reinhart, 1999). The global financial crisis (GFC) a decade later was caused by excesses in financial innovation, and spurred unprecedented policy actions to bail out financial institutions and support markets ([Fender and Gyntelberg, 2008](#)). The current pandemic—we will call it the “Covid Crisis”—is unprecedented in that the lockdowns brought global economic activity to virtual standstill never before seen, and is now expected to cause the worst recession since the Great Depression, far worse than the GFC ([Gopinath, 2020](#)).

### II. Anatomy of a Crisis

2. **Each crisis has unfolded differently across the ASEAN+3 region.** The manner in which the shocks manifested followed varied timelines (Table 1):

- The AFC was precipitated by concerns over current account imbalances and “overheating” of individual economies. It is widely considered to have begun on July 2, 1997, when the Thai baht de-pegged from the US dollar and depreciated by almost 20 percent within a day. Most economies started posting negative (year-over-year) growth 2–3 quarters into the crisis.
- The GFC was sparked when lenders and investors lost confidence in the quality of US sub-prime mortgages, resulting in a liquidity crunch. The crisis is seen to have started in Q3 2007—when BNP Paribas and Bear Stearns had to close down funds exposed to the sub-prime market, and Northern Rock sought emergency funding from the Bank of England—but took some time to manifest in economic activity. The

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<sup>1</sup> Prepared by Li Lian Ong and Edmond Choo (both Regional Surveillance), with growth projections from country teams; reviewed and authorized by Hoe Ee Khor (Chief Economist). The views expressed in this note are the authors’ and do not necessarily represent those of the AMRO or AMRO management.

Japanese economy contracted 3 quarters into the crisis, but for many countries in this region, negative (year-over-year) growth only showed up between 4–6 quarters after the crisis initially hit. The impact was, in part, attributable to spillovers from the West, which intensified following the bankruptcy of Lehman Brothers in Q3 2008.

- The Covid Crisis struck out of the blue, just as the region was seeing signs of a pick-up in economic activity that had been weakened by the US-China trade conflict and slower global growth in 2019. The pandemic hit economic activity immediately, as economies around the world went into lockdown in the weeks following the World Health Organization’s declaration of a global pandemic on March 11, 2020.

**3. The extent of the economic recessions and the recovery profiles have varied across crises.** The AFC hit the ASEAN+3 region much harder and over a longer period than the GFC (Table 1). The region went into the GFC in better shape, with stronger GDP growth and buffers, having benefited from the adoption of more prudent macro-financial policies in the wake of the AFC (Figure 1). ASEAN was the epicenter of the AFC as the region sank into a deep recession in 1998, but was resilient throughout the GFC. The jury is still out on the Covid Crisis:

- The recovery in growth from the AFC was largely U-shaped. Many economies were mired in negative year-over-year growth for 5–6 quarters; the Philippines and Singapore posted 3 quarters of contraction, while Korea recorded 4 quarters of decline. Indonesia, Malaysia, and Thailand each posted at least one quarter of double-digit contraction. Although China did not experience a recession, it grew at its weakest pace during this period.
- In contrast, the impact of the GFC was relatively “light.” The majority of regional economies experienced V-shaped growth recoveries, following 3–4 quarters of contraction. The recession was comparably shallow in Korea, bottoming at –1.8 percent year-over-year, compared to –7.2 percent during the AFC, while China, Indonesia, and the Philippines continued to record positive growth throughout. Japan was the exception, posting 7 quarters of negative year-over-year growth, in line with the extended downturn experienced by the advanced economies in Europe.
- Negative growth rates from the Covid Crisis to date have already surpassed those of the previous two crises. While AMRO staff are now projecting a “Nike swoosh” -type V-shaped recovery in (year-over-year) growth, the trajectory will depend on whether further, sustained, waves of the pandemic can be staved off, as failure to do so may result in protracted U- or even W-shaped growth profiles. The Q2 2020 (quarter-over-quarter) growth numbers indicate that all regional economies, save China and Indonesia, are already in technical recession (Figure 2).

**4. ASEAN+3 equity markets have also behaved very differently across the three crises.** While the AFC saw prolonged weakness in regional markets, the downturn was shallower and much shorter during the GFC. In contrast, the Covid Crisis triggered an acute, almost immediate, plunge in equity markets, followed by a quick rebound (Figure 3):

- Almost all regional equity markets declined from the onset of the AFC and remained in the doldrums for a protracted period. Most regional equity markets troughed 4–5 quarters after the start of the crisis, in line with their growth profiles. The majority

recovered their losses 7 quarters into the crisis, but Malaysia, the Philippines, and Thailand remained below pre-crisis levels 10 quarters out.

- The GFC saw a clear divergence in behavior between the G3 and regional markets. While the equity markets of the former began softening almost from the outset, the majority of Asian markets actually strengthened and only began to turn down between 2–4 quarters into the crisis. All markets troughed 5–6 quarters after the crisis commenced, and rebounded following the release of details of the US bank crisis stress testing exercise. Almost all regional markets had recovered by 8–10 quarters after the start of the crisis, but the Euro Area, United Kingdom, and United States remained well-below pre-crisis levels even 10 quarters later.
- Global equity markets registered a cliff-like plunge in March 2020, as investors grappled with the unknown caused by the COVID-19 pandemic. All markets—except China—quickly fell into bear territory as investor confidence evaporated. Announcements of containment measures to control infections, paired with massive economic and market support packages calmed investors. Similar to the United States, equity markets in China, Japan, Korea and Malaysia have since returned to, or even surpassed, pre-crisis levels.

5. **The apparent rebound in growth following each crisis can be deceptive.** In part, the strong growth numbers that tend to follow a recession are attributable to the low base effect. What is usually less obvious is the damage wrought on an economy during a severe crisis. Some economies may take a long time to recover their previous growth potential, while others suffer permanent impairment to GDP **levels** (Figure 4):

- Based on 1993–96 pre-AFC simple linear trends—which assume declining growth rates over time—Hong Kong, the Philippines, and Singapore would have “recovered” back to their previous GDP level trajectories, while Indonesia and Malaysia would have taken some 20 years to revert.
- In contrast, the application of pre-AFC log-linear trends—which assume constant growth rates—show that the GDP levels of all regional economies, with the exception of the Philippines, started diverging away from trend following the shock of the AFC. The negative effects were exacerbated by the GFC and now, the Covid Crisis. In comparison, the GDP levels of the advanced economies in the West were severely impacted by the GFC, and the Covid Crisis has moved them further away from trend.

### III. Conclusion

6. **There are still many pitfalls to traverse in the current crisis, but as with previous crises, it will eventually pass and economic activity will recover—to varying extent across economies.** But, even if an effective vaccine is found, the pandemic will likely have permanently changed the structure of each economy in some way. The lockdowns and necessity for social distancing have revealed the vulnerabilities and stress points; however, they have also motivated new—and potentially more efficient—ways of conducting economic activity. Some economies may never fully recover their pre-pandemic levels of activity, and others will have shifted onto different paths. Ultimately, the trajectory that each economy takes in its recovery from the pandemic will depend on its ability to adapt to evolving developments and capacity to seize new opportunities that arise.

**Table 1. Selected Economies: Quarterly Year-over-Year GDP Growth Profiles Relative to Start of Crises,  $t = 0$**

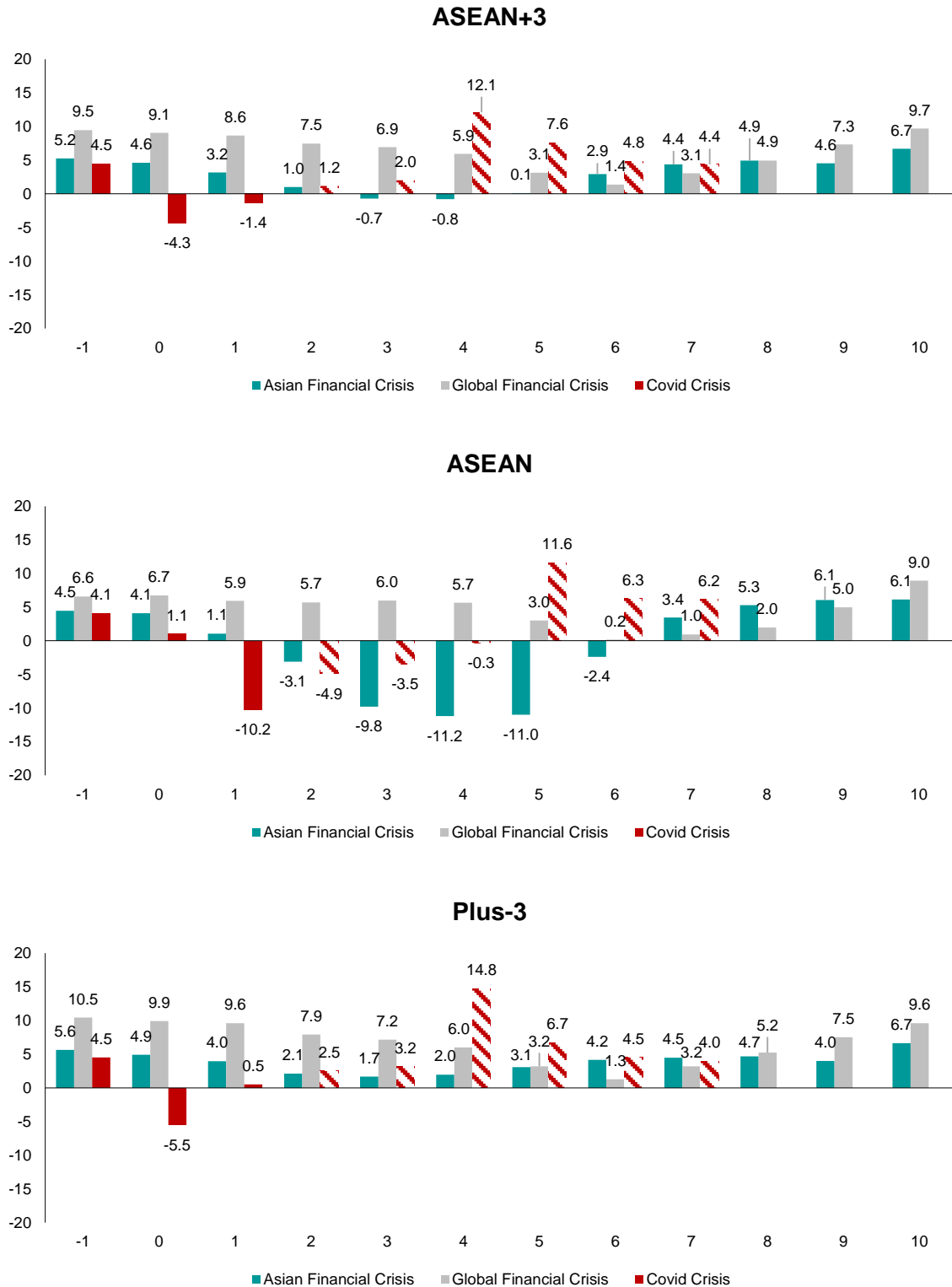
Crisis  Economy	Asian Financial Crisis					Global Financial Crisis					Covid Crisis				
	Growth				Bottom of Equity Market	Growth				Bottom of Equity Market	Growth				Bottom of Equity Market to Date
	First Negative Quarter	Worst Quarter	Worst Growth (Percent yoy)	Number of Negative Quarters		First Negative Quarter	Worst Quarter	Worst Growth (Percent yoy)	Number of Negative Quarters		First Negative Quarter	Worst Quarter to Date	Worst Growth to Date (Percent yoy)	Number of Negative Quarters to Date	
<b>ASEAN+3</b>	<b>t = 3</b>	<b>t = 4</b>	<b>-0.8</b>	<b>2</b>	<b>n.a.</b>	<b>-</b>	<b>t = 3</b>	<b>+1.4</b>	<b>0</b>	<b>n.a.</b>	<b>t = 0</b>	<b>t = 0</b>	<b>-4.3</b>	<b>2</b>	<b>n.a.</b>
<b>Plus-3</b>	<b>-</b>	<b>t = 3</b>	<b>+1.7</b>	<b>0</b>	<b>n.a.</b>	<b>-</b>	<b>t = 6</b>	<b>+1.3</b>	<b>0</b>	<b>n.a.</b>	<b>t = 0</b>	<b>t = 0</b>	<b>-5.5</b>	<b>1</b>	<b>n.a.</b>
CN	-	t = 3	+6.9	0	t = 0	-	t = 6	+6.4	0	t = 5	t = 0	t = 0	-6.8	1	t = 0
HK	t = 2	t = 4	-8.3	5	t = 4	t = 5	t = 6	-7.8	4	t = 5	t = 0*	t = 0	-9.1	2	t = 0
JP	t = 1	t = 2	-1.5	6	t = 5	t = 3	t = 6	-8.6	7	t = 6	t = 0*	t = 1	-9.9	2	t = 0
KR	t = 2	t = 3	-7.2	4	t = 3	t = 5	t = 6	-1.8	3	t = 5	t = 1	t = 1	-2.7	1	t = 0
<b>ASEAN</b>	<b>t = 2</b>	<b>t = 4</b>	<b>-11.2</b>	<b>5</b>	<b>t = 4**</b>	<b>-</b>	<b>t = 6</b>	<b>+0.2</b>	<b>0</b>	<b>t = 6**</b>	<b>t = 1</b>	<b>t = 1</b>	<b>-10.2</b>	<b>1</b>	<b>t = 0***</b>
ID	t = 2	t = 5	-18.3	5	t = 4	-	t = 8	+4.1	0	t = 5	t = 1	t = 0	-5.3	1	t = 0
MY	t = 3	t = 2	-11.2	5	t = 4	t = 6	t = 6	-5.8	3	t = 5	t = 1	t = 1	-17.1	1	t = 0
PH	t = 3	t = 5	-3.4	3	t = 4	-	t = 8	+0.9	0	t = 5	t = 0	t = 1	-16.5	2	t = 0
SG	t = 3	t = 4	-5.0	3	t = 4	t = 5	t = 6	-7.7	3	t = 6	t = 0	t = 1	-13.2	2	t = 0
TH	t = 0*	t = 3	-12.5	6	t = 4	t = 5	t = 6	-4.3	4	t = 5	t = 0	t = 1	-12.2	2	t = 0
<b>Other</b>															
EA	-	t = 5	+1.8	-	-	t = 5	t = 6	-5.6	5	t = 6	t = 0	t = 1	-15.0	2	t = 0
UK	-	t = 7	+2.6	-	-	t = 4	t = 6	-5.8	6	t = 6	t = 0	t = 1	-21.7	2	t = 0
US	-	t = 3 & 4	+4.1	-	-	t = 5	t = 7	-3.9	4	t = 6	t = 1	t = 1	-9.1	1	t = 0

Sources: National authorities; and AMRO staff calculations.

Note: The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis). \* GDP growth for Hong Kong, China (hereafter "Hong Kong") and Japan were already negative before  $t = 0$ .

\*\* Refers to MSCI AC ASEAN Index.

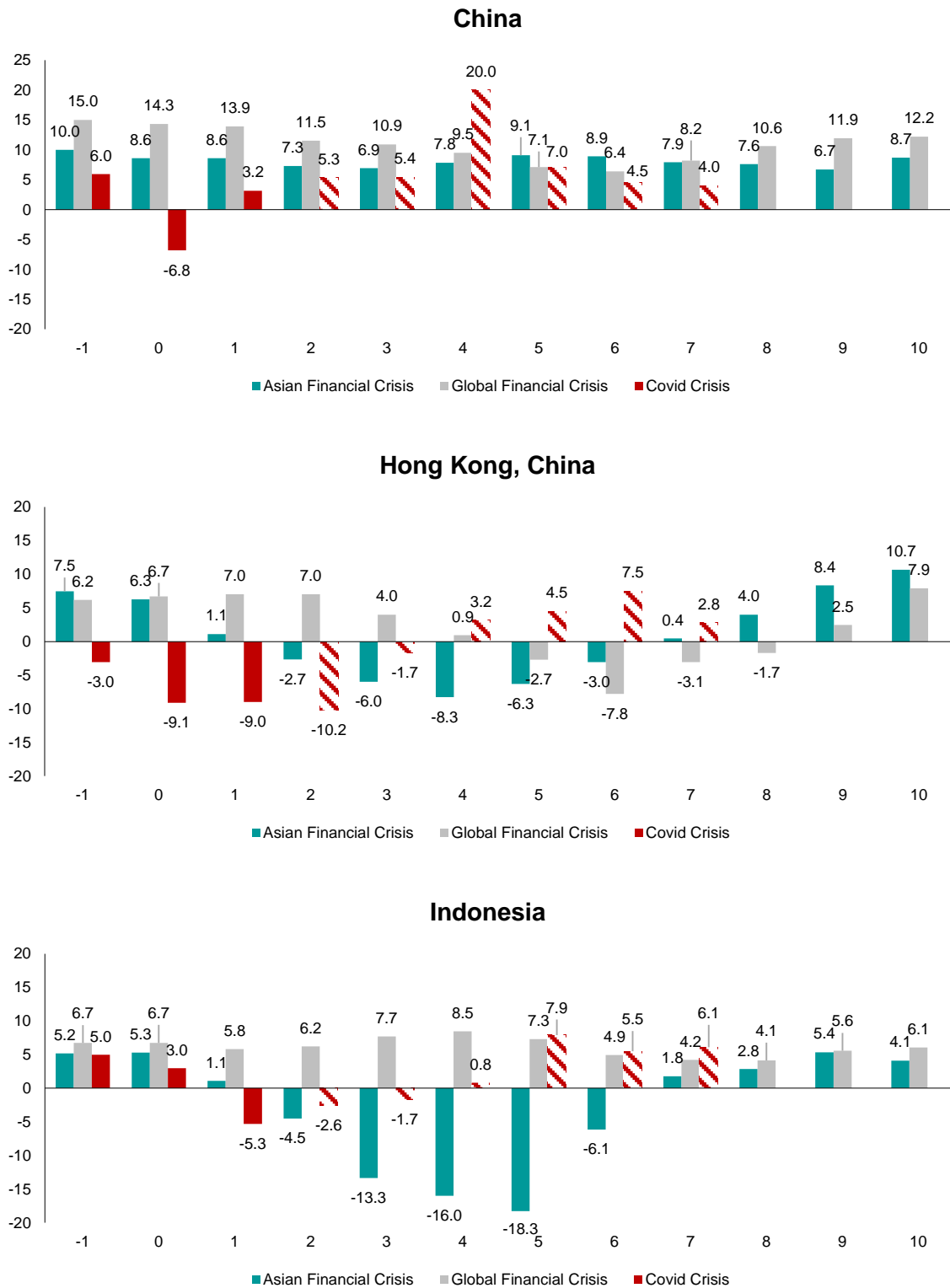
**Figure 1. Selected Economies: Quarterly Year-over-Year GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



Sources: National authorities; and AMRO staff calculations and projections.

Note: The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis). ASEAN+3 includes Plus-3 (China; Hong Kong; Japan; Korea) and ASEAN (Indonesia; Malaysia; the Philippines; Singapore; and Thailand).

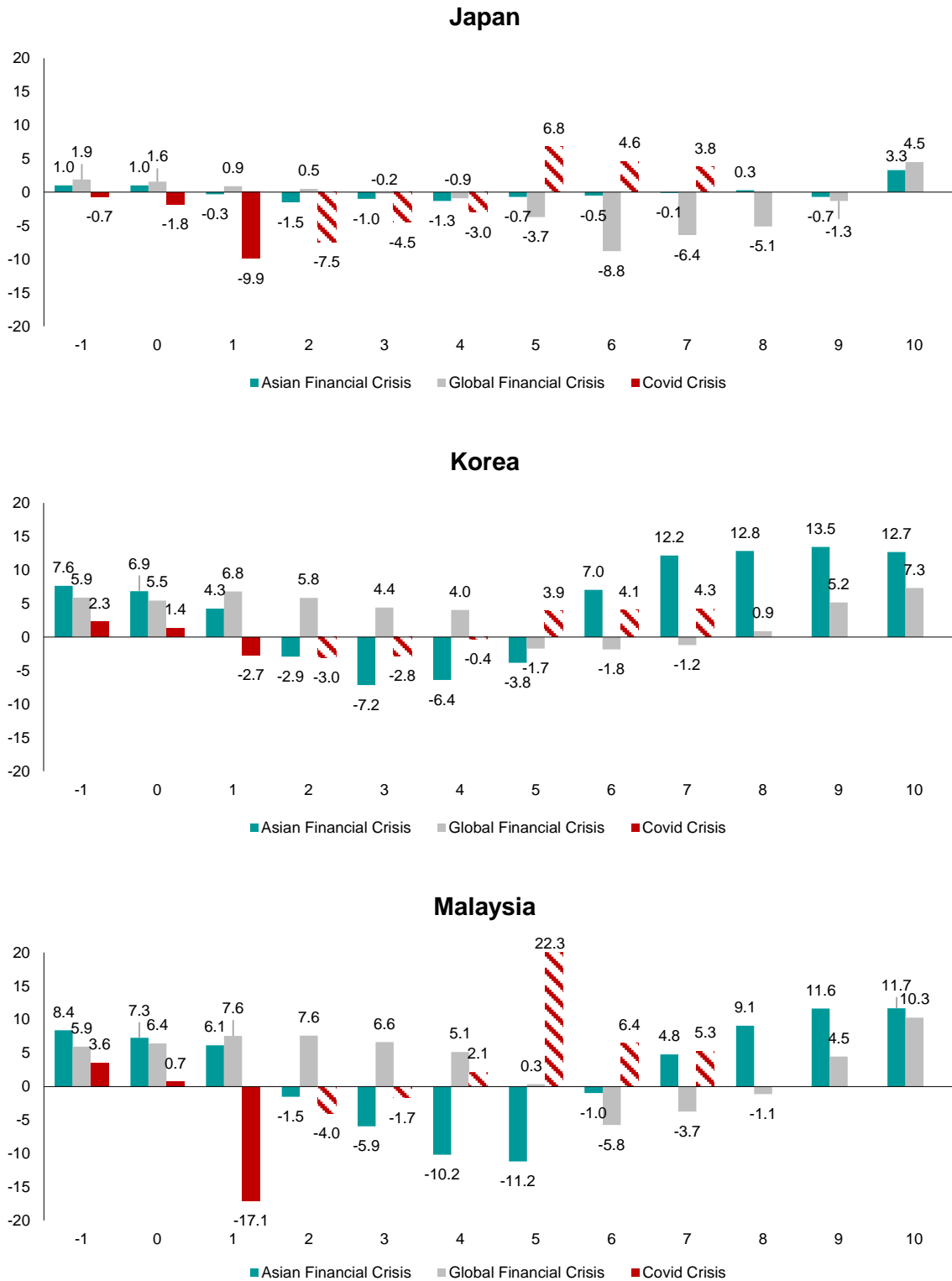
**Figure 1 (cont'd). Selected Economies: Quarterly Year-over-Year GDP Growth during Crises**  
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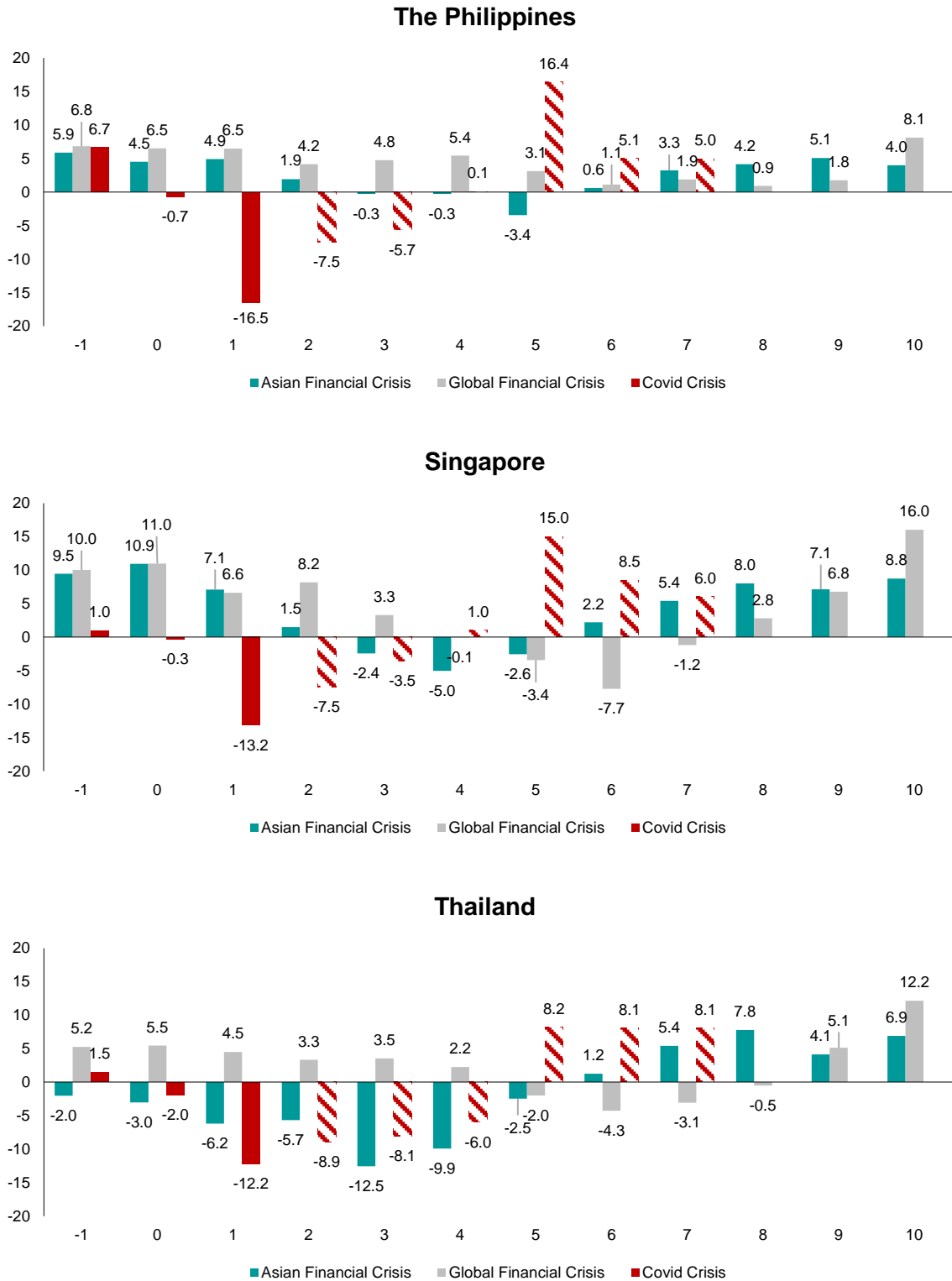
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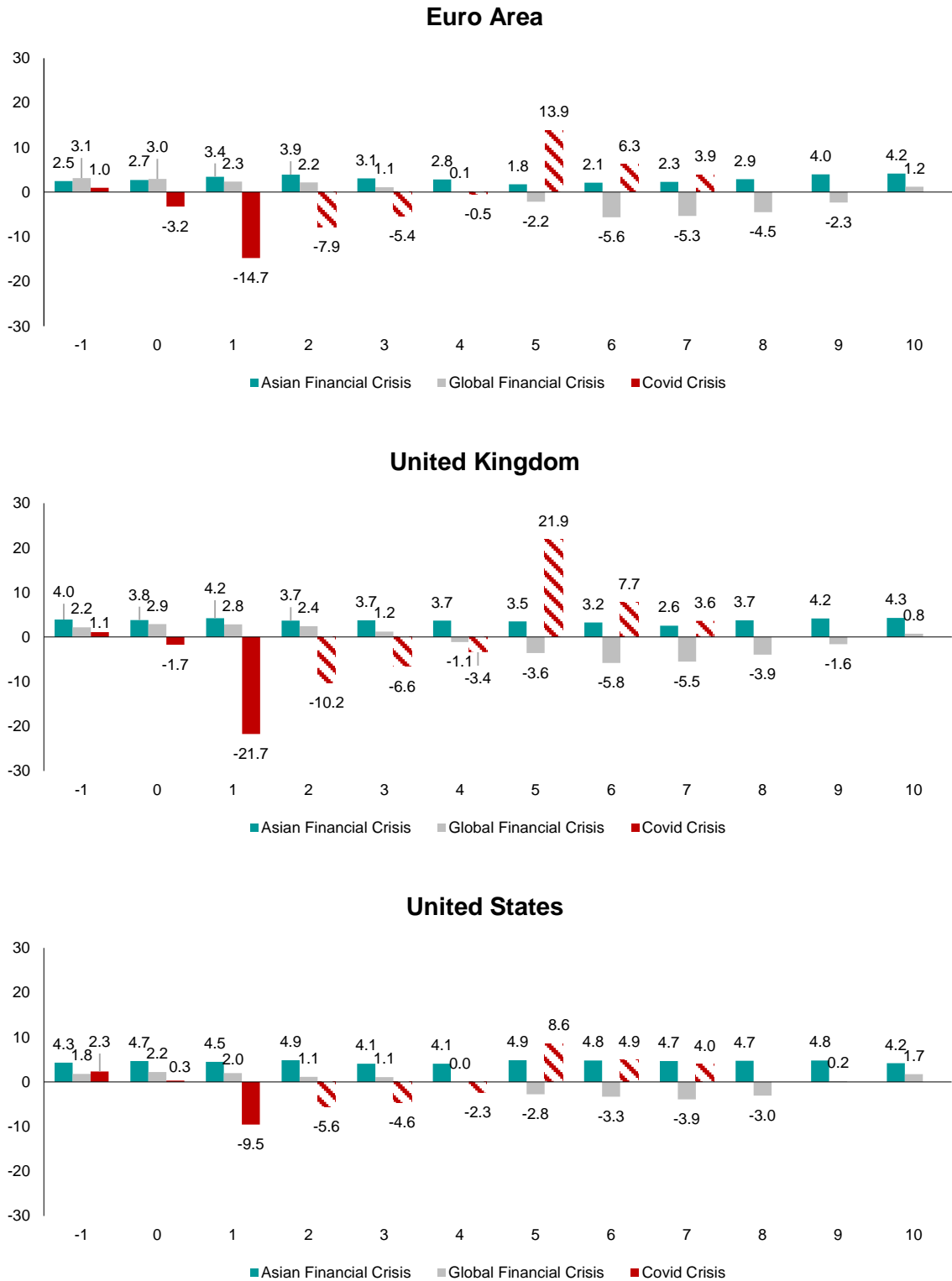
**Figure 1 (cont'd). Selected Economies: Quarterly Year-over-Year GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



Sources: National authorities; and AMRO staff calculations and projections.  
Note: Brunei, Cambodia, Lao PDR, Myanmar and Vietnam are excluded because their data either do not do back far enough for comparison purposes, and/or are only reported in annual frequency. The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis).

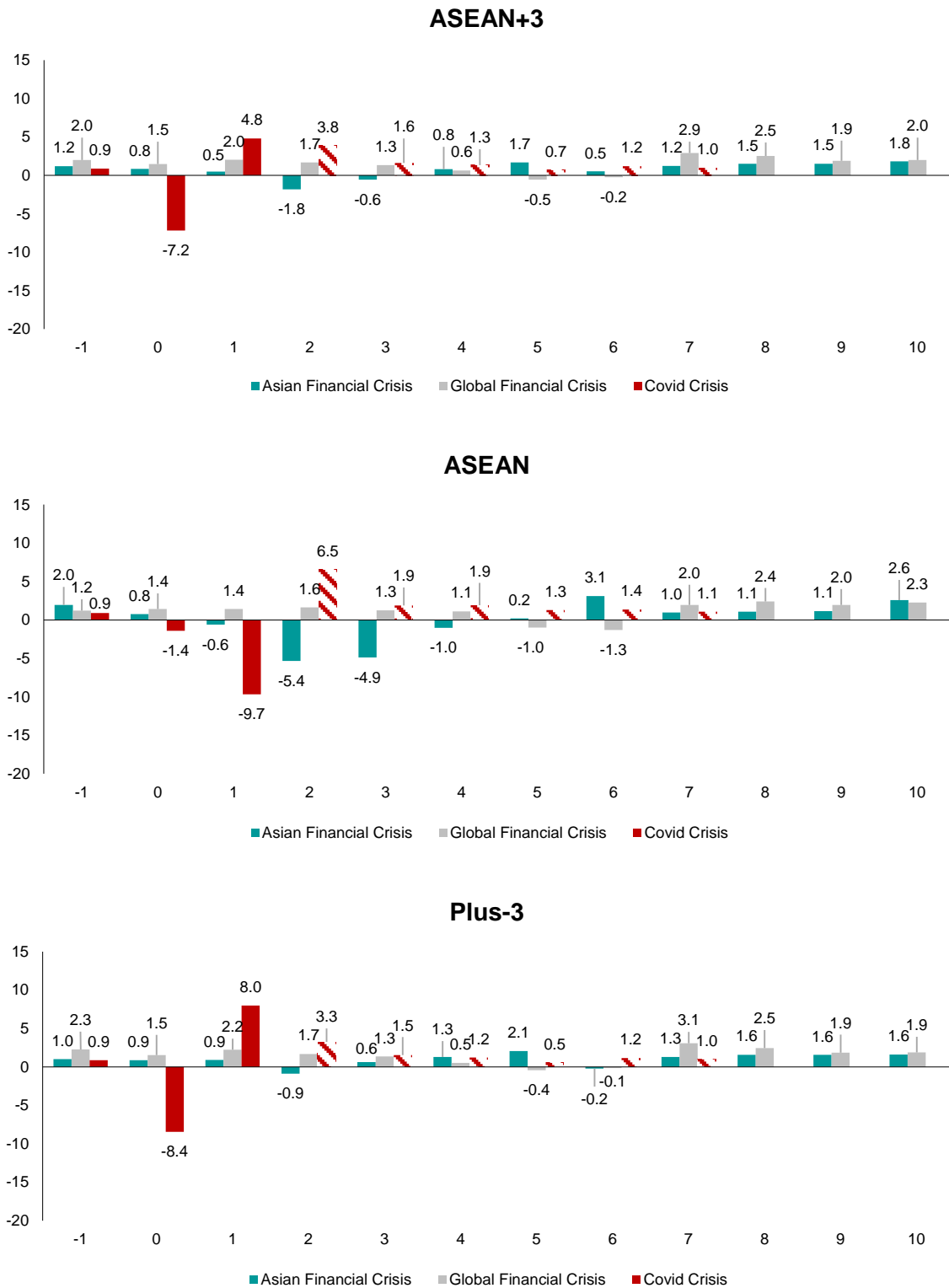


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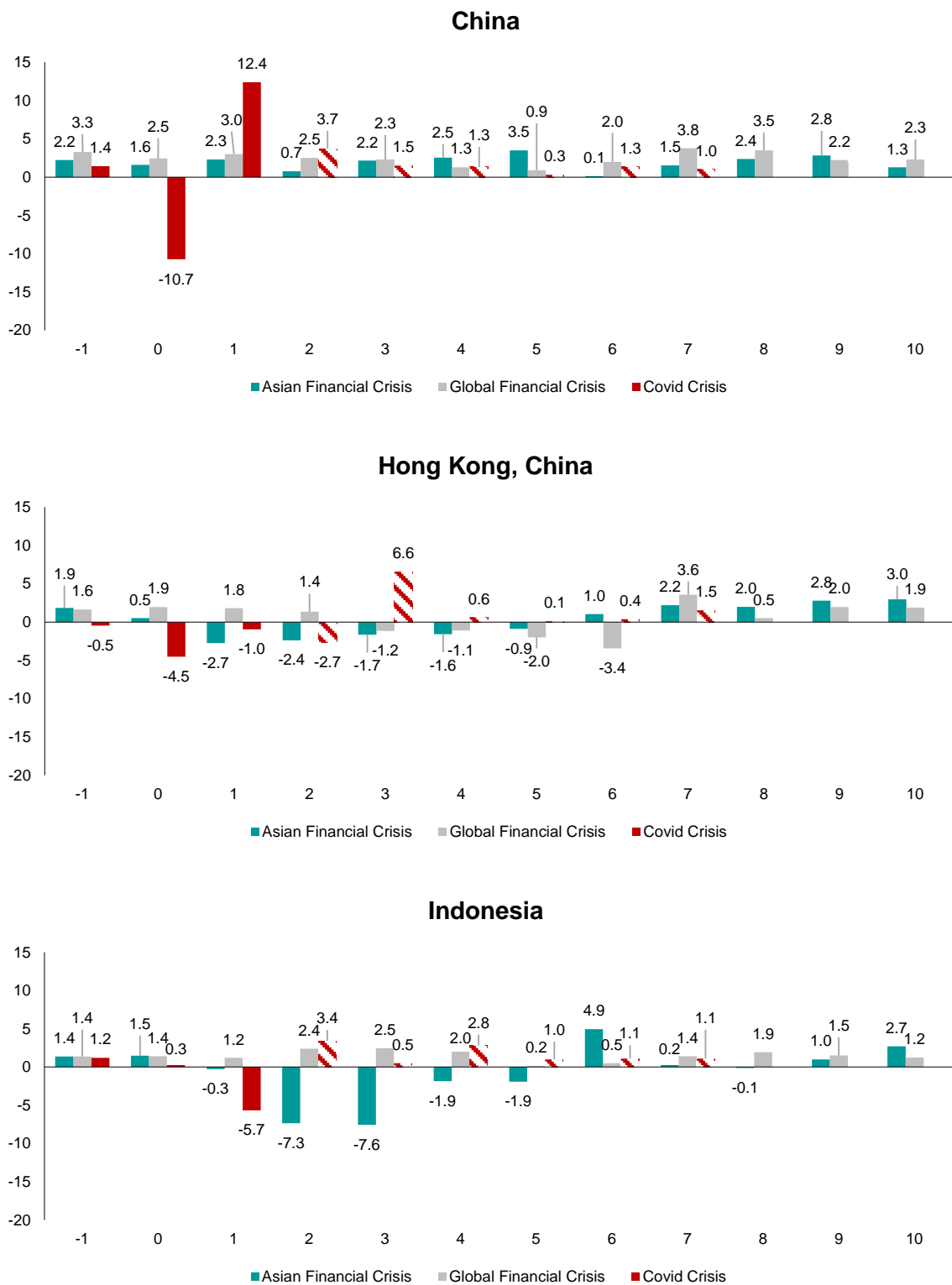
Sources: National authorities; Bloomberg Finance L.P.; and AMRO staff calculations.  
 Note: The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis).

**Figure 2. Selected Economies: Quarter-over-Quarter Seasonally-Adjusted GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



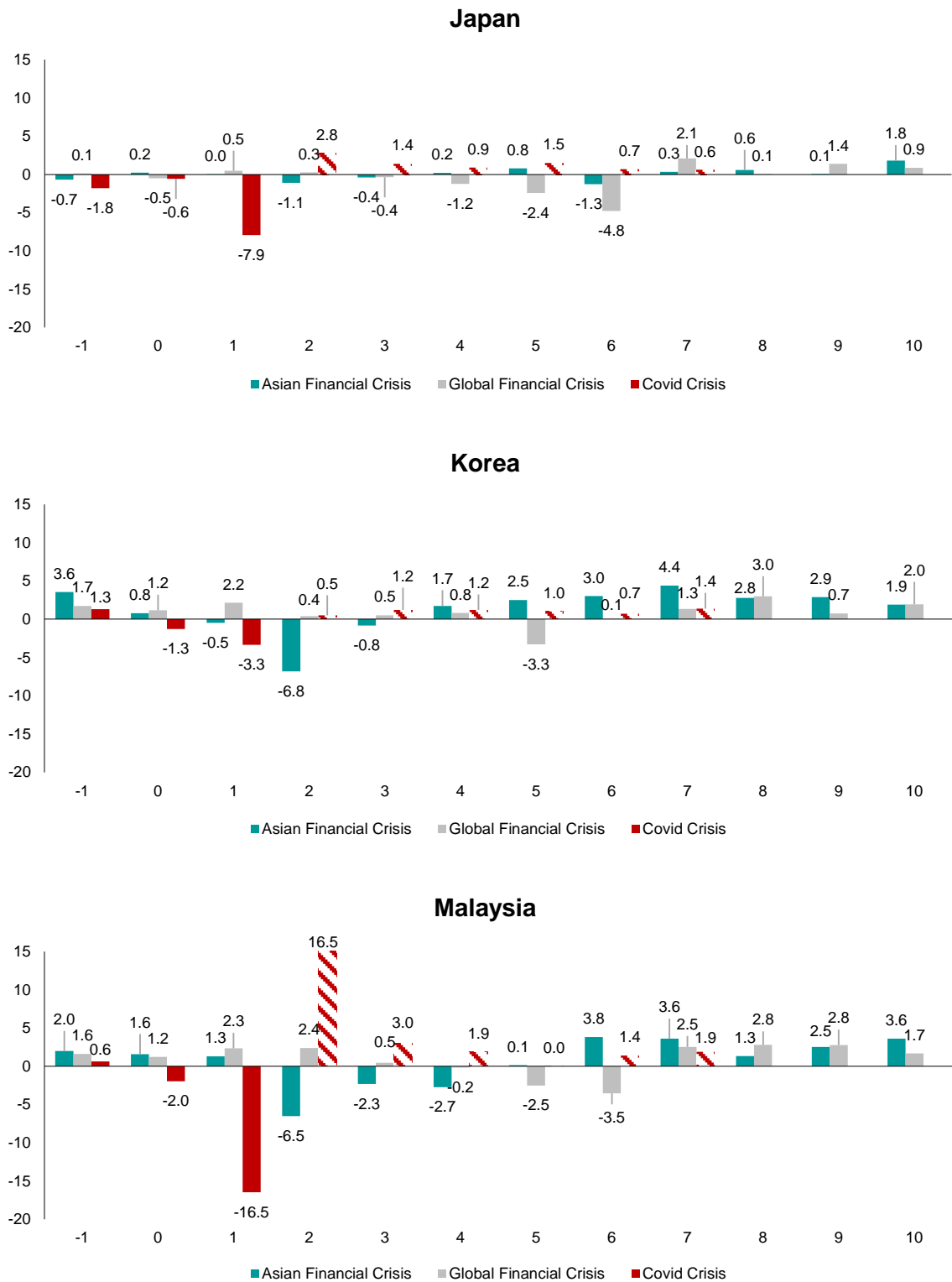
Sources: National authorities; and AMRO staff calculations and projections.  
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**Figure 2 (cont'd). Selected Economies: Quarter-over-Quarter GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



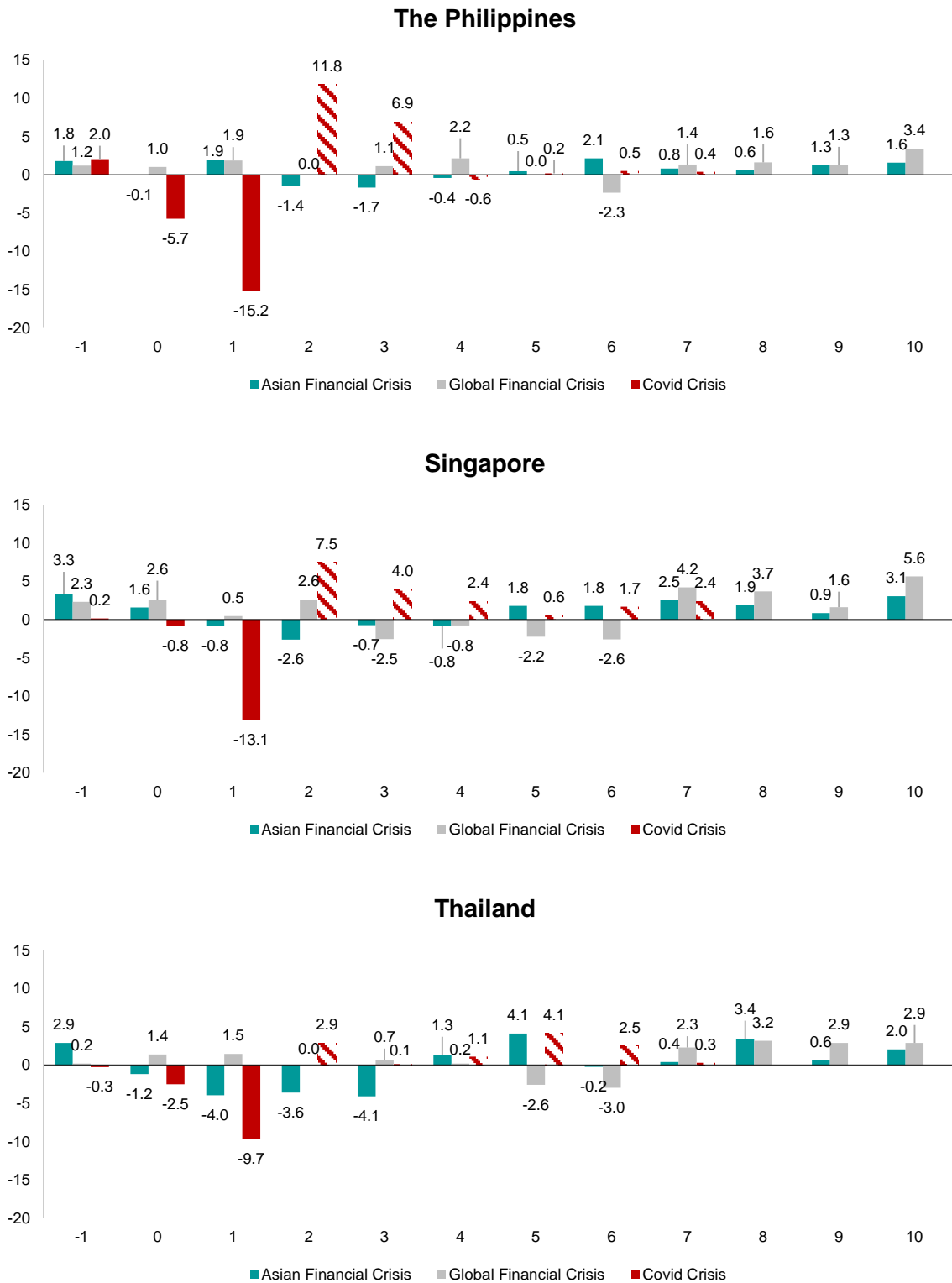
Sources: National authorities; and AMRO staff calculations and projections.  
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**Figure 2 (cont'd). Selected Economies: Quarter-over-Quarter GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



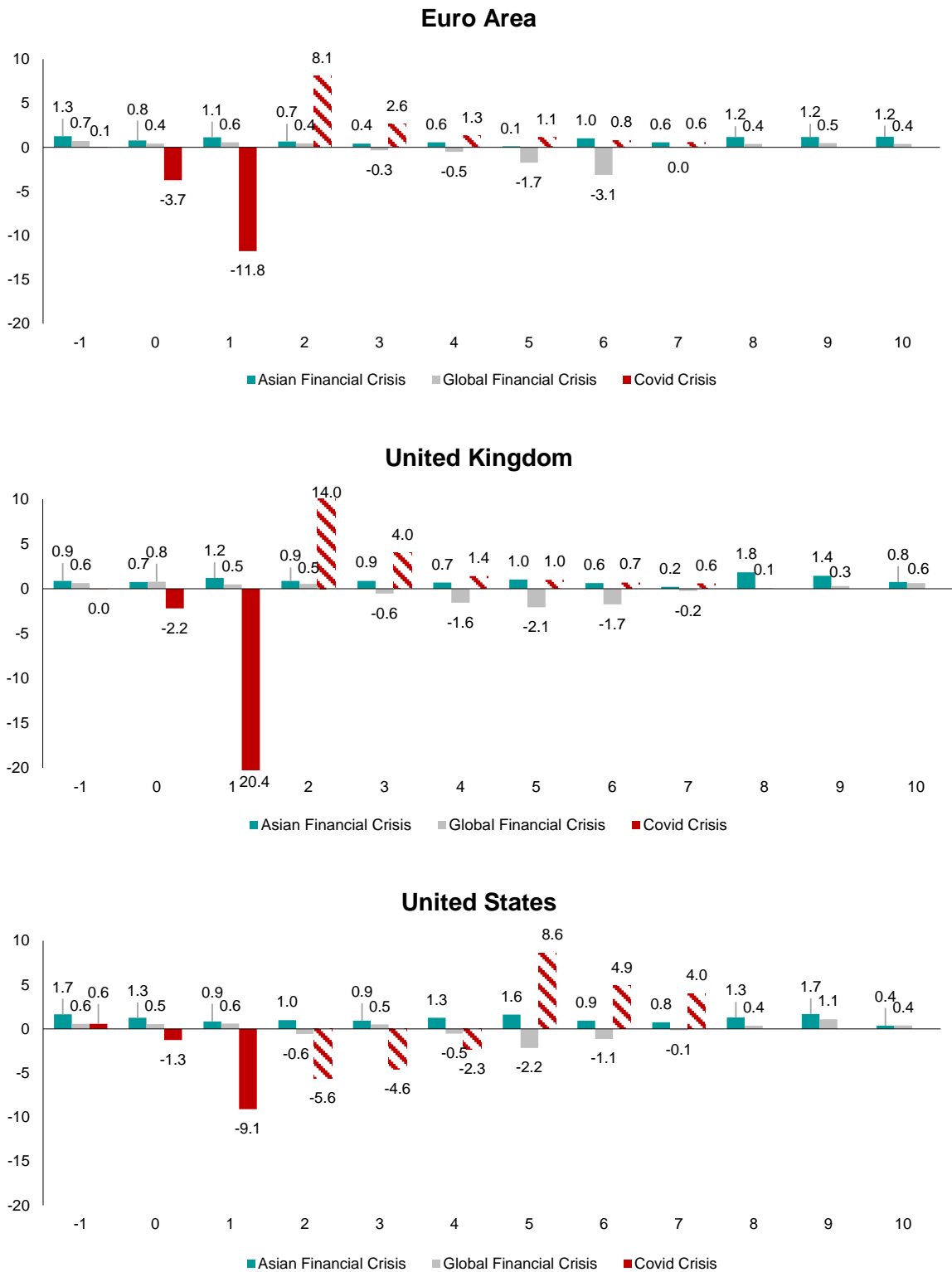
Sources: National authorities; and AMRO staff calculations and projections.  
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**Figure 2 (cont'd). Selected Economies: Quarter-over-Quarter GDP Growth during Crises**  
(First quarter of crisis  $t = 0$ ; percent)



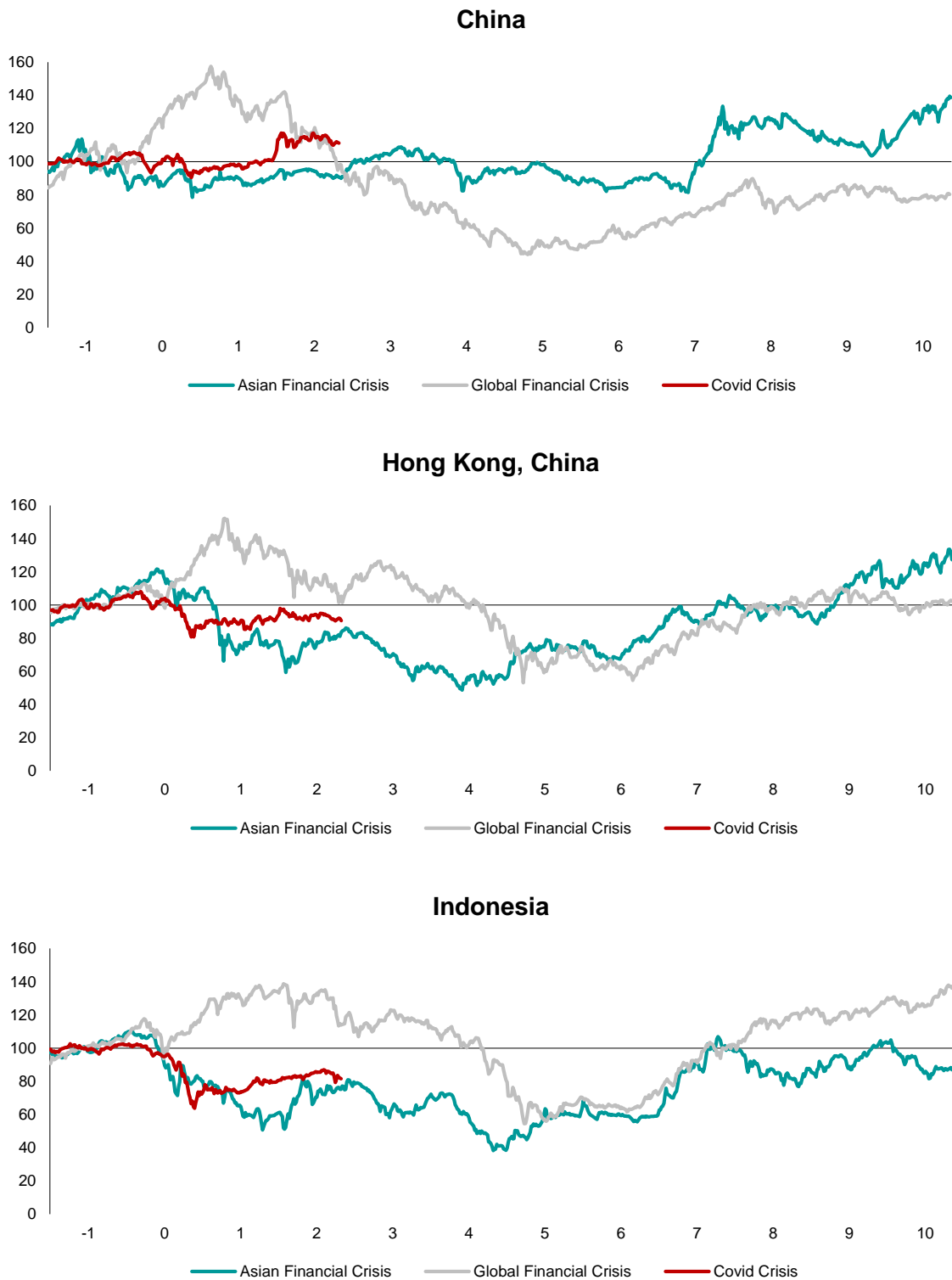
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 (First quarter of crisis  $t = 0$ ; percent)



Sources: National authorities; Bloomberg Finance L.P.; and AMRO staff calculations.  
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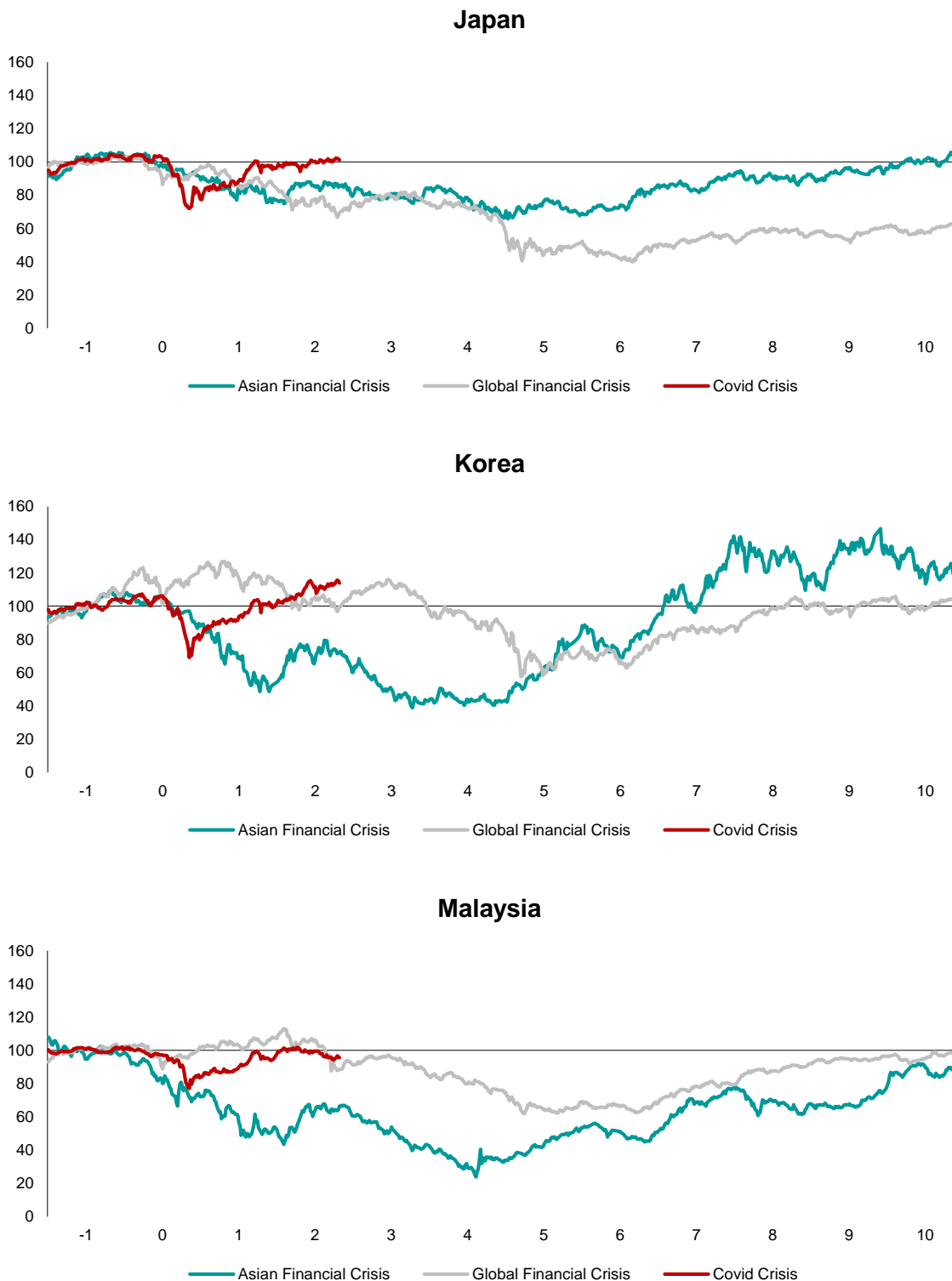
**Figure 3. Selected Markets: Equity Market Levels during Crises**  
(First quarter of crisis  $t = 0$ ;  $t_{-1} = 100$ )



Sources: National exchanges; and AMRO staff calculations.

Note: The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis). Equity indices are normalized to  $t = -1$  instead of  $t = 0$ , to enable a clearer visualization of the plunge relative to pre-crisis levels, given that market prices tend to react instantaneously to events.

**Figure 3 (cont'd). Selected Markets: Equity Market Levels during Crises**  
(First quarter of crisis  $t = 0$ ;  $t_{-1} = 100$ )



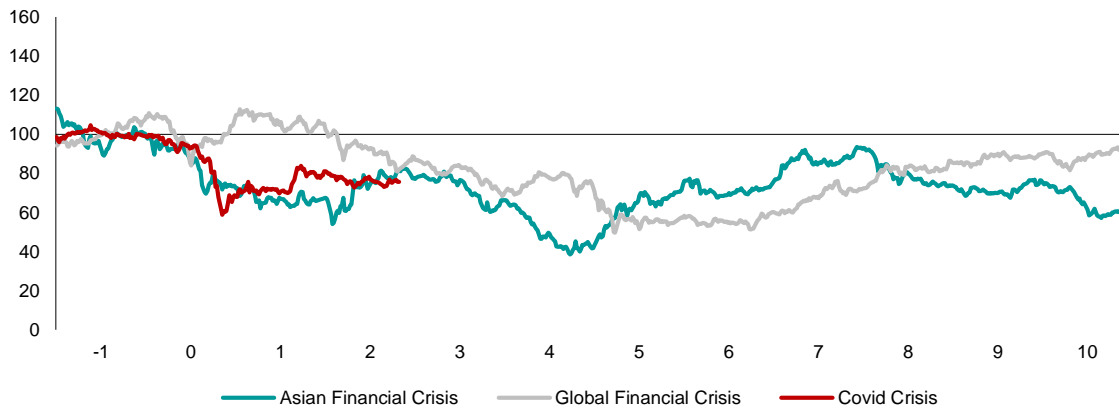
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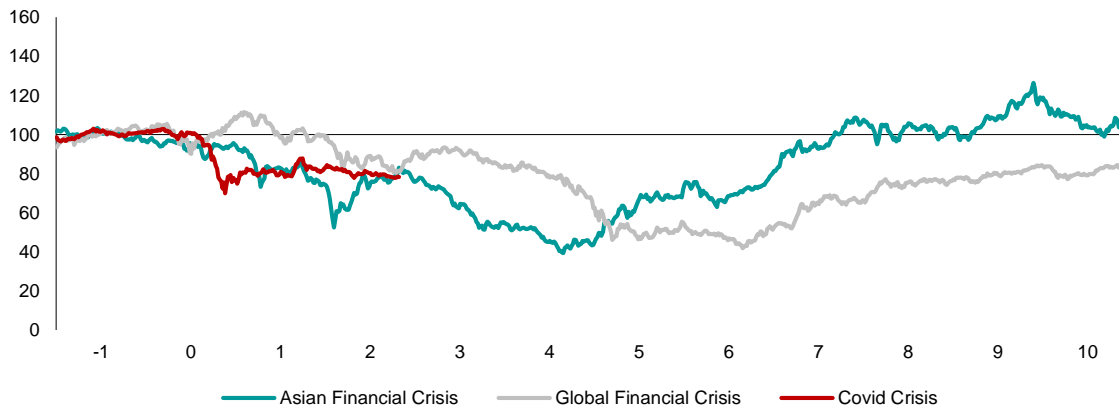


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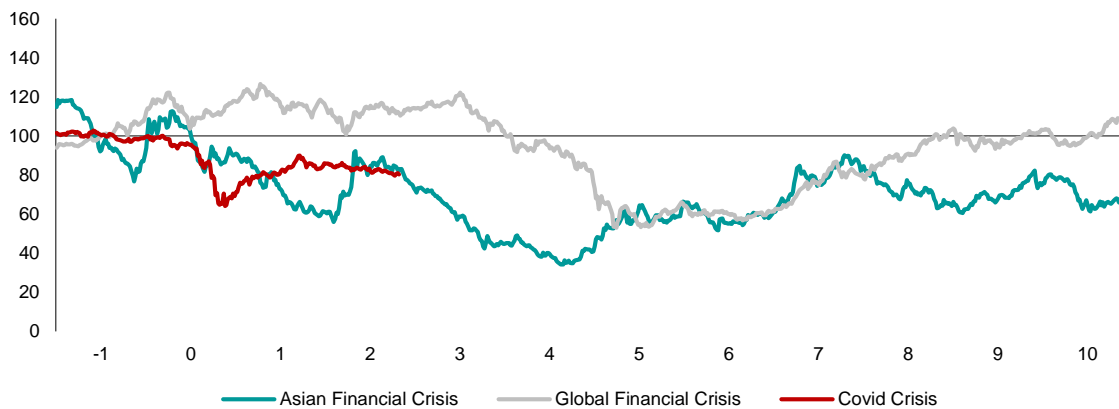
### The Philippines



### Singapore



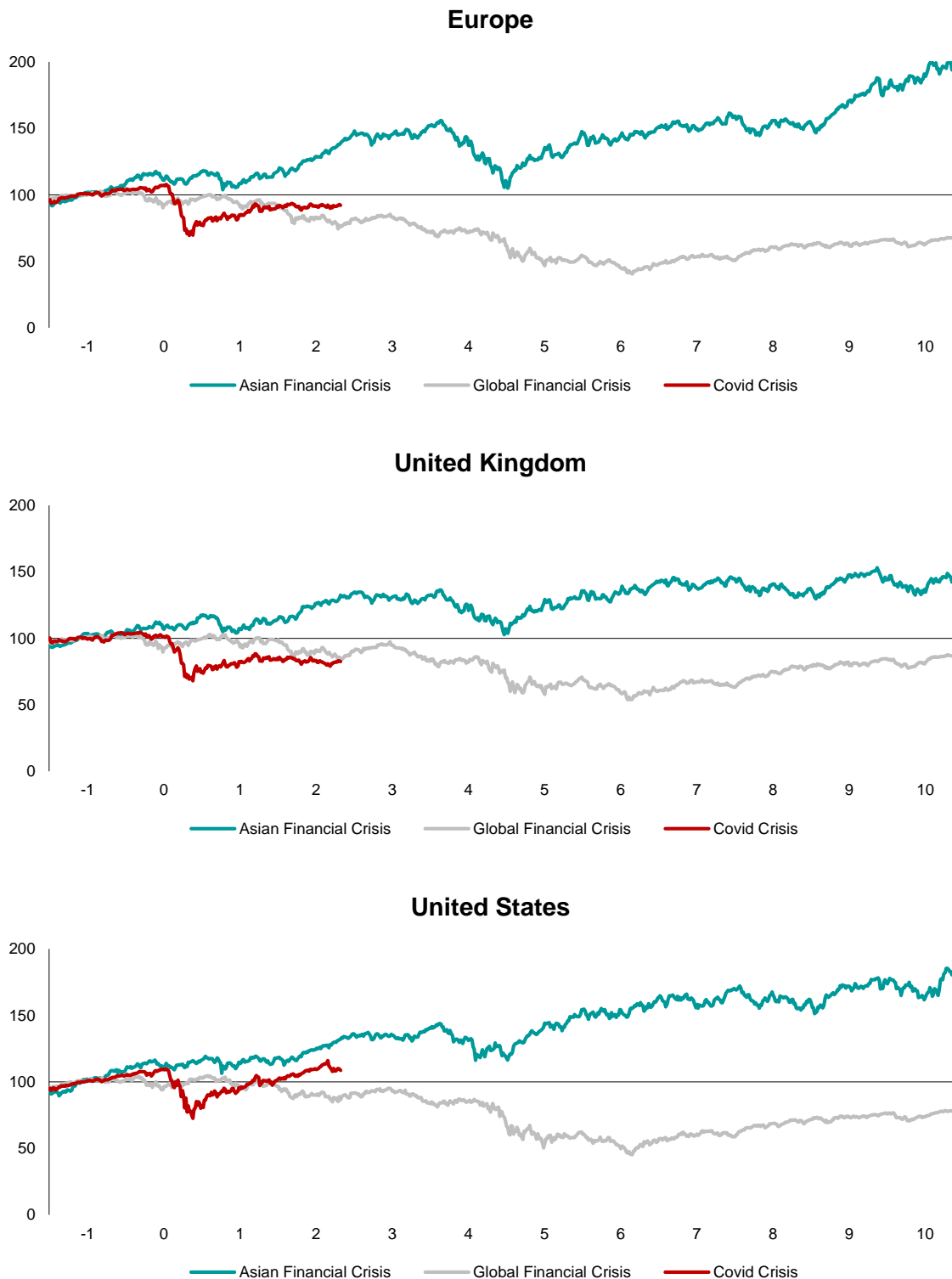
### Thailand



Sources: National stock exchanges; and AMRO staff calculations.

Note: The first quarter of each crisis ( $t = 0$ ) comprises Q3 1997 (AFC); Q3 2007 (GFC); Q1 2020 (Covid Crisis). Equity indices are normalized to  $t = -1$  instead of  $t = 0$ , to enable a clearer visualization of the plunge relative to pre-crisis levels, given that market prices tend to react instantaneously to events.

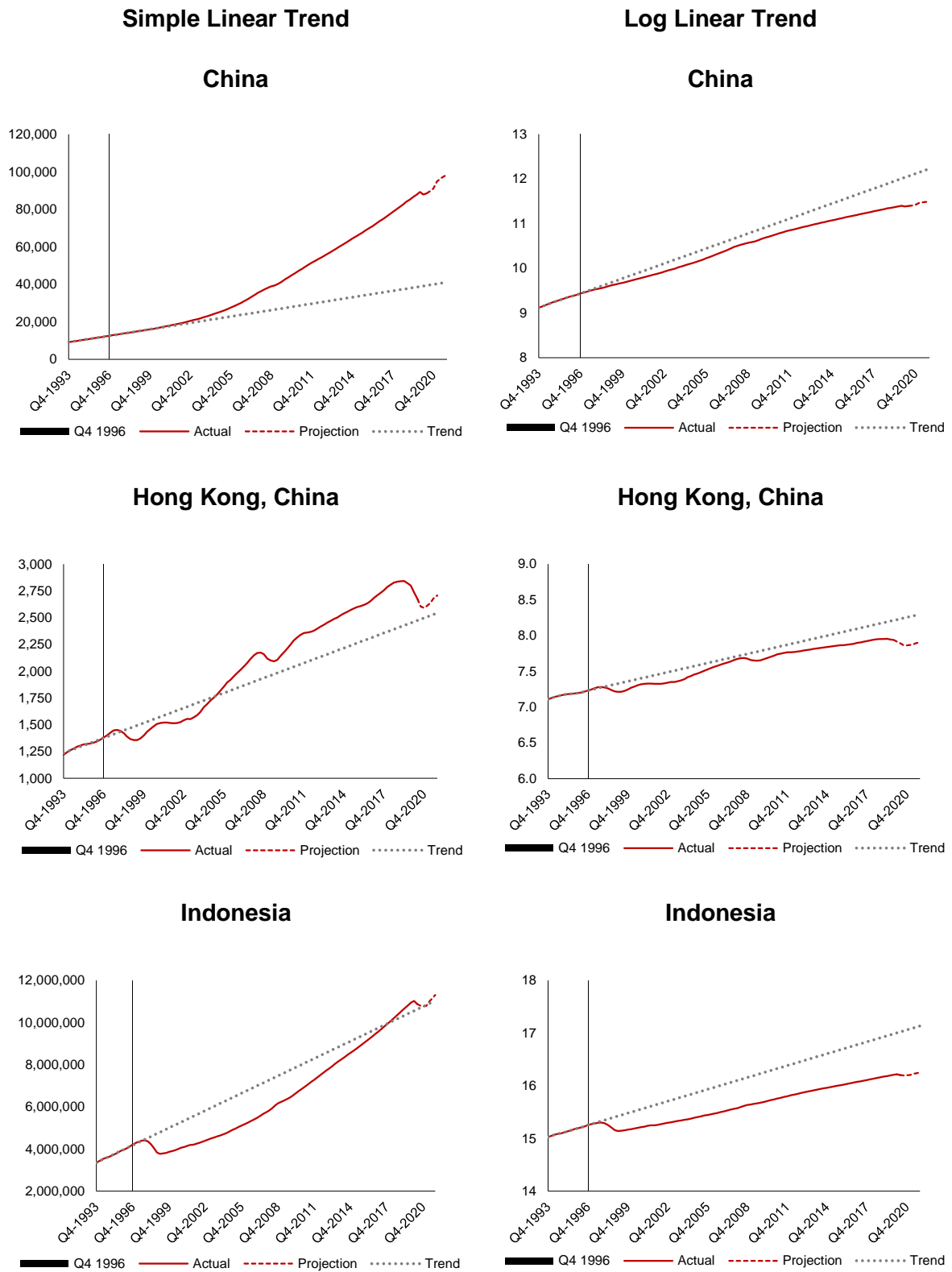
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Sources: National stock exchanges; and AMRO staff calculations.

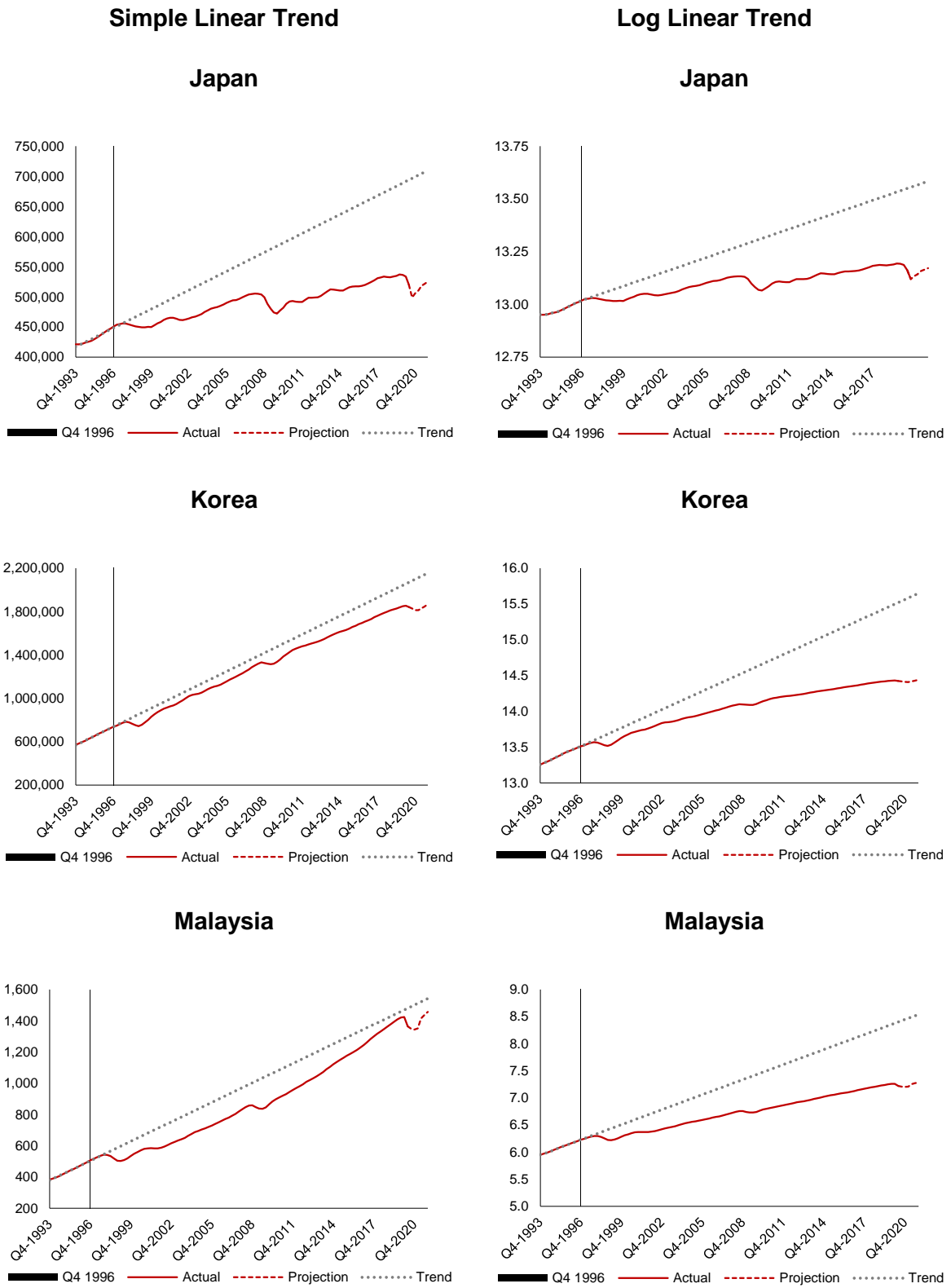
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**Figure 4. Selected Economies: Real GDP Levels**  
(Billions of local currency units; rolling 4-quarter sum)



Sources: Haver Analytics; and AMRO staff calculations and estimates.

**Figure 4 (cont'd). Selected Economies: Real GDP Levels, 1994–1996 Growth Trajectory**  
 (Billions of local currency units; rolling 4-quarter sum)

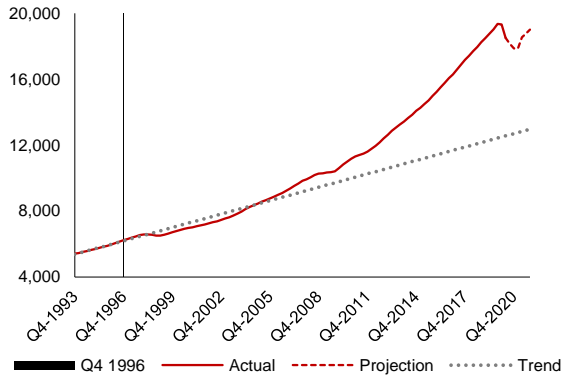


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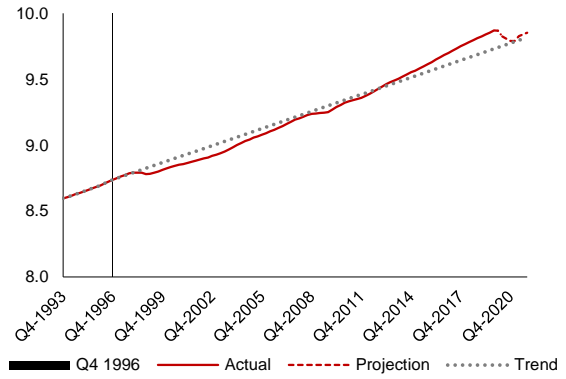
**Simple Linear Trend**

**The Philippines**

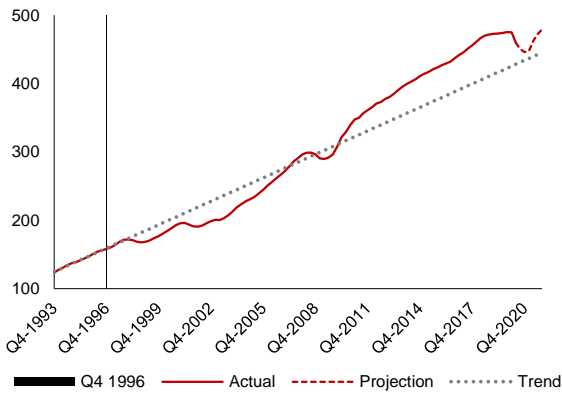


**Log Linear Trend**

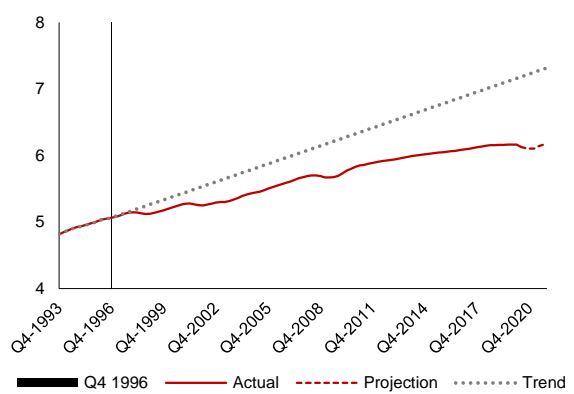
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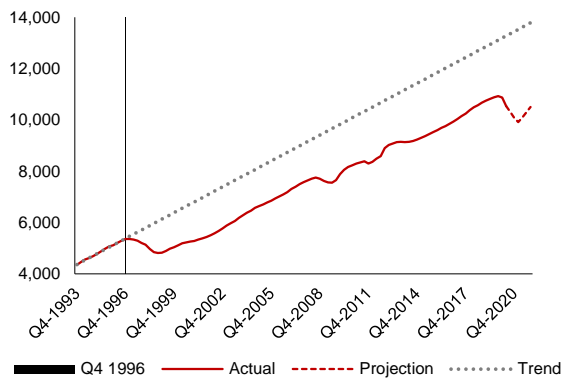
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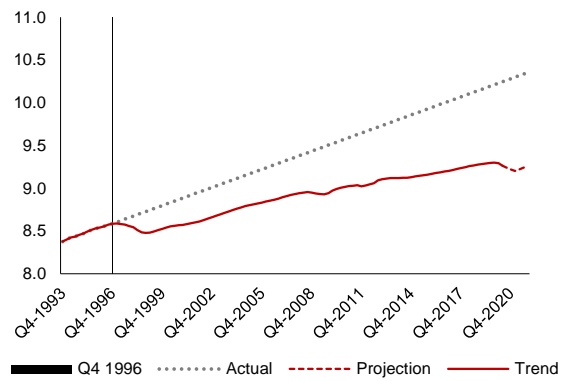
**Singapore**



**Thailand**



**Thailand**



Sources: Haver Analytics; and AMRO staff calculations and estimates.

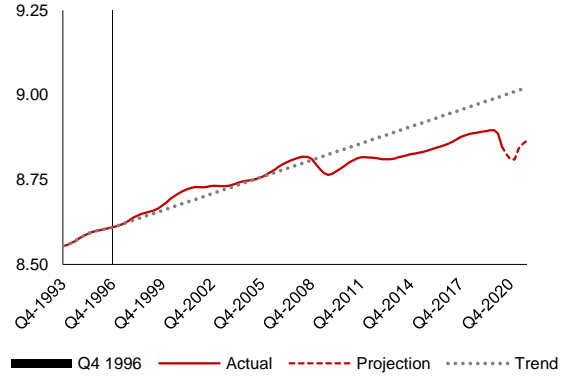
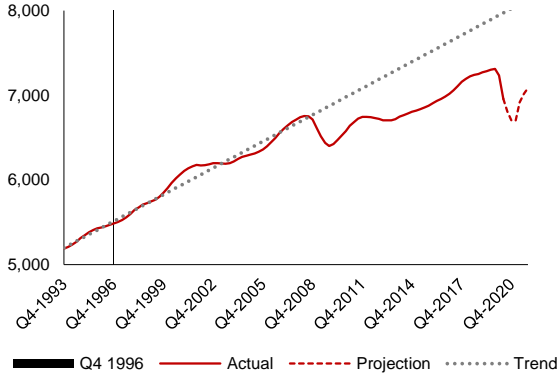
**Figure 4 (cont'd). Selected Economies: Real GDP Levels, 1994–1996 Growth Trajectory**  
 (Billions of local currency units; rolling 4-quarter sum)

**Simple Linear Trend**

**Log Linear Trend**

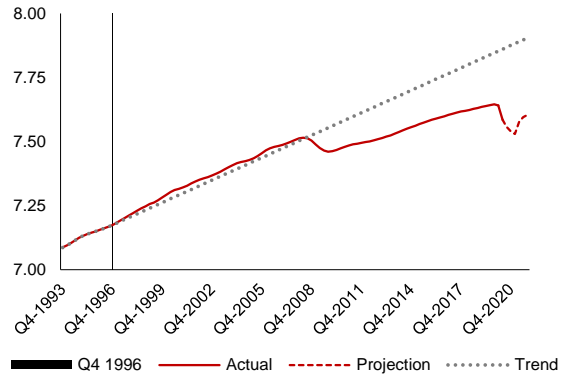
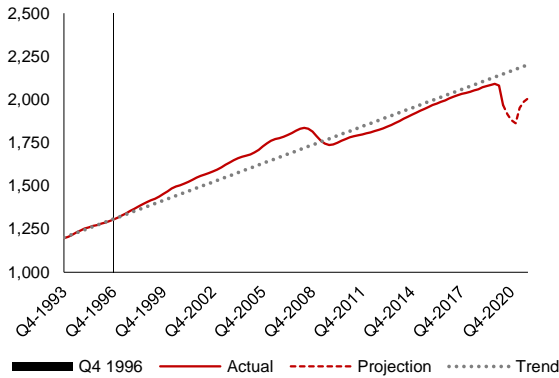
**Euro Area**

**Euro Area**



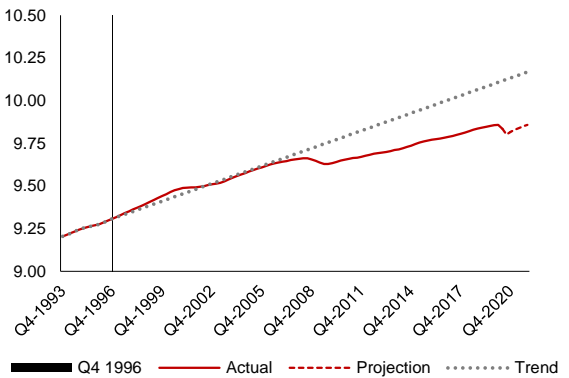
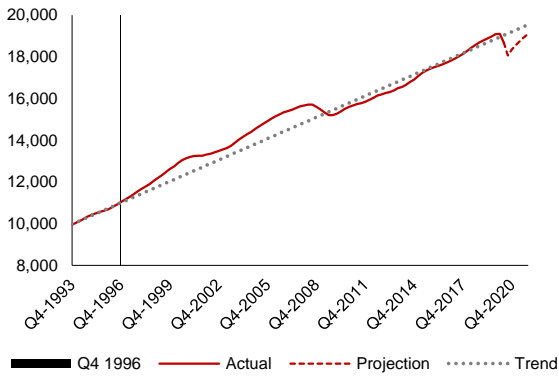
**United Kingdom**

**United Kingdom**



**United States**

**United States**



Sources: Haver Analytics; and AMRO staff calculations and estimates.  
 Note: The data for Germany, France and Italy's are aggregated as a proxy for Euro Area.

## References

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