



## SEACEN-AMRO Joint Seminar

# ASEAN+3 Region: 20 Years after the Asian Financial Crisis

**11 August 2017, Kuala Lumpur**

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ASEAN+3 Macroeconomic Prospects and Challenges



Thematic Chapter: ASEAN+3 Region 20 Years after the Asian Financial Crisis



ASEAN+3  
REGIONAL  
ECONOMIC  
OUTLOOK 2017

ASEAN+3 Region:  
20 Years after the  
Asian Financial Crisis



2017 marks twenty years after the Asian Financial Crisis (AFC), a landmark event in the ASEAN+3 region

### **20 Years post-AFC**

**Shaped the subsequent foundations and trajectory of economic growth and regional integration**

**Shaped policymakers' perspectives on crisis management and resolution**

- Highlighted the urgent need for regional financial cooperation
  - ➔ CMI (2000-09), CMIM (2010 onwards)
  - ➔ Establishment of AMRO as independent macroeconomic surveillance unit supporting the CMIM (2011)

## Causes of the AFC

### External/Financial:

- Strong capital inflows & rapid credit growth
- Excessive short-term foreign currency borrowing (lured by the false comfort of fixed or quasi-pegs)
  - ➔ Leading to twin mismatches
    - (1) Currency mismatches
    - (2) Maturity mismatches
- Speculative activities in the currency markets by global hedge funds

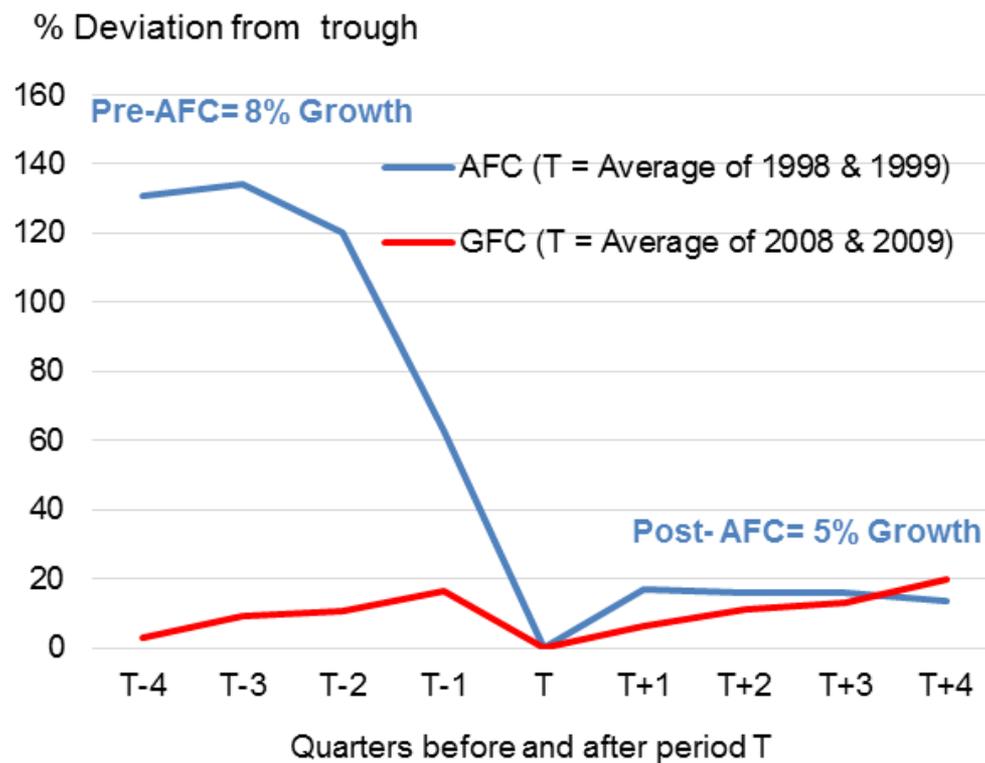
### Domestic institutional framework

- Weaknesses in financial and corporate systems
- Lax regulation and inadequate supervisory oversight

Affected economies were able to rebuild the foundations for economic growth, with exports leading the recovery

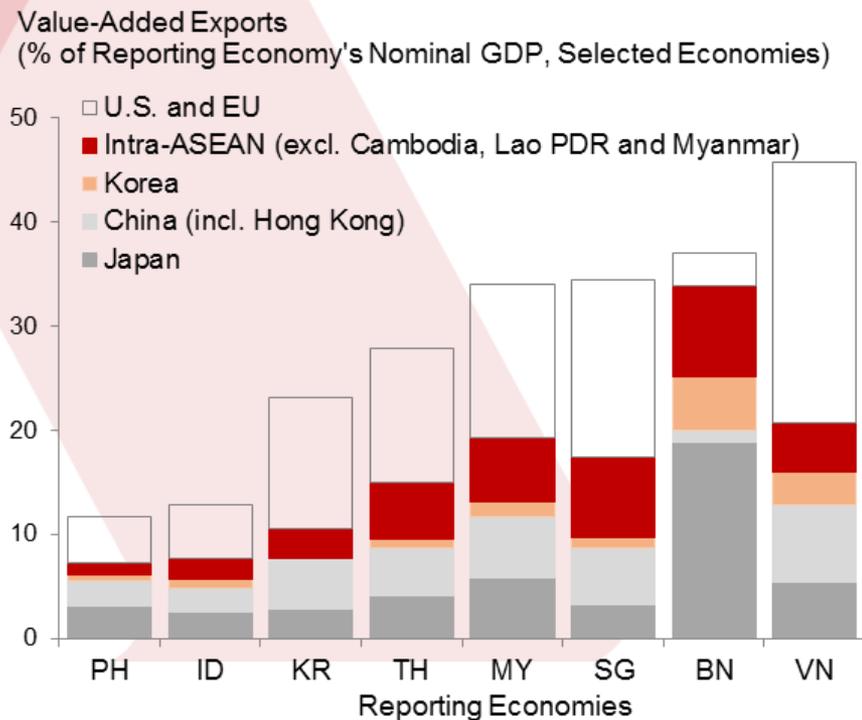
- **Economic consolidation** after a sharp negative shock
- **Painful policy adjustments** in exchange rate regimes, fiscal consolidation
- **Reforms** of corporate and financial sectors (incl. reforms in prudential regulation)

Real GDP: ASEAN-4 and Korea

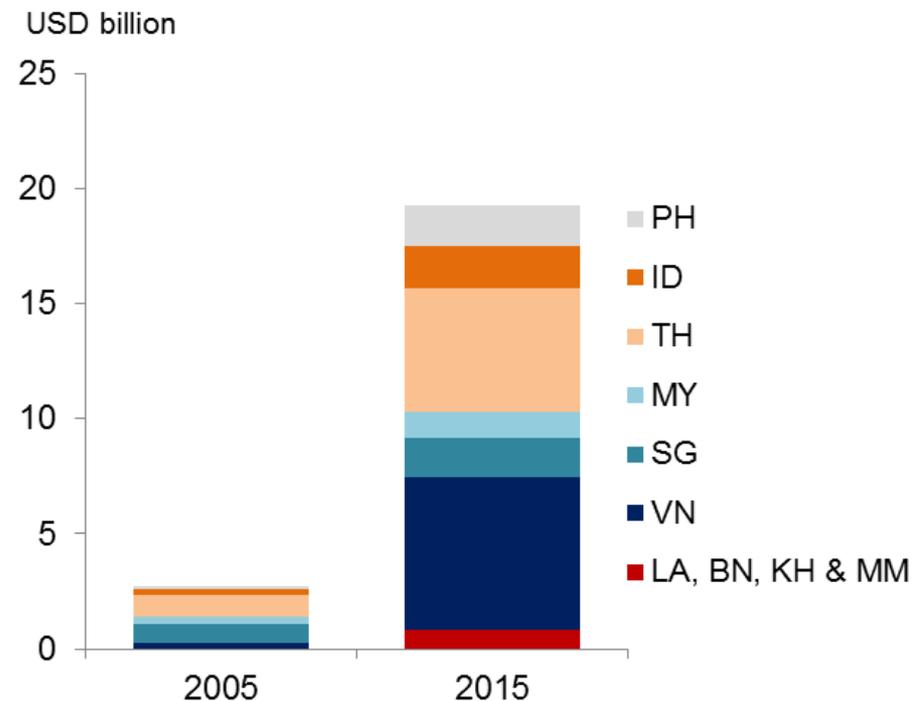


Openness to trade (including FDI and capital flows) post-AFC enabled the region to reap the benefits from growing regional integration and the emergence of China

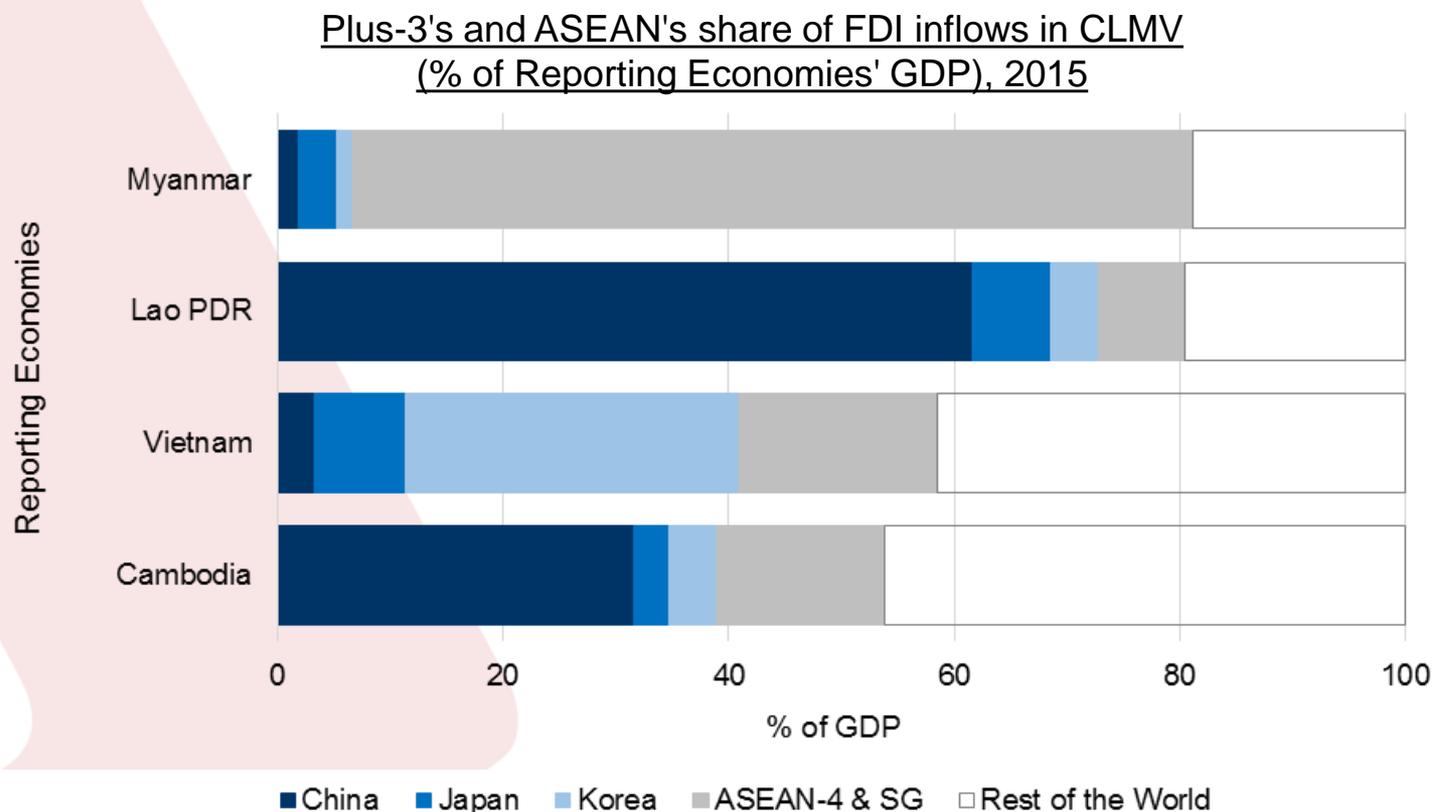
Share of Exports Destined for Final Demand in the Region  
(2015 Estimates)



China's Imports of Consumption Goods from ASEAN



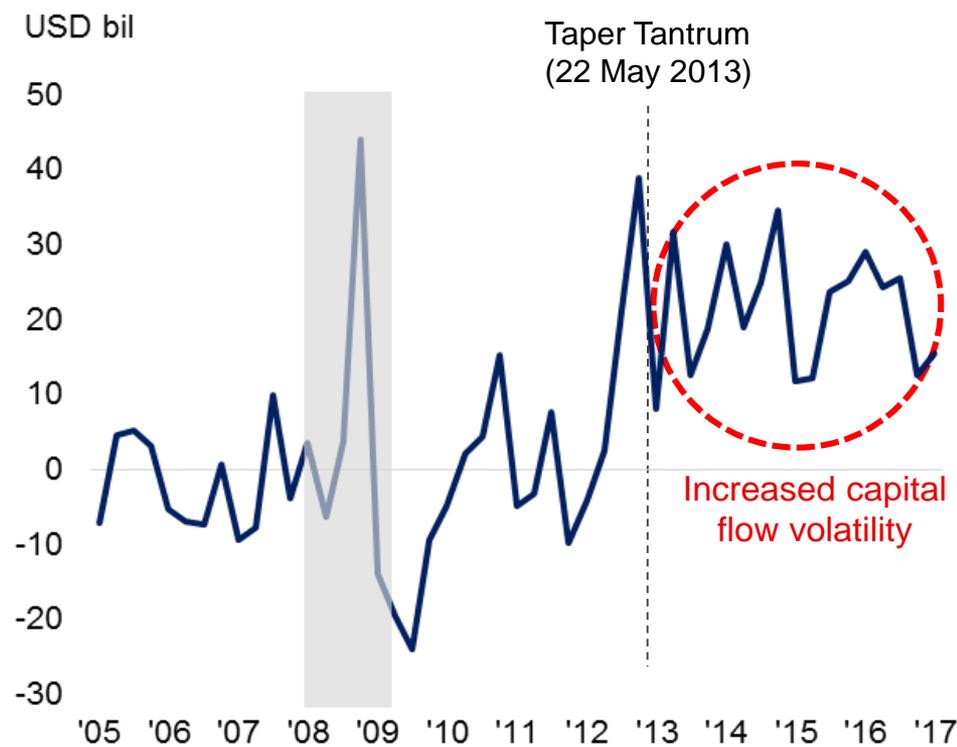
Smaller ASEAN economies (CLMV) have also benefited from the deepening of intra-regional investment, reflecting the recycling of regional savings to productive investment in the region



## Challenges Post-GFC: Dealing with Volatile Capital Flows

- Openness to capital flows eased rebalancing towards domestic demand, but posed risks to financial stability
- Lessons from AFC:
  - I Focus on risks arising from financial markets and capital outflows (inter-connectedness and contagion risks)
  - II Flexible and responsive policy framework (incl. macropru), and strengthening of buffers
  - III Greater financial cooperation within the region to deal with external shocks

Portfolio and Other Investment Capital Flows (Net), (ASEAN-4 & Korea)

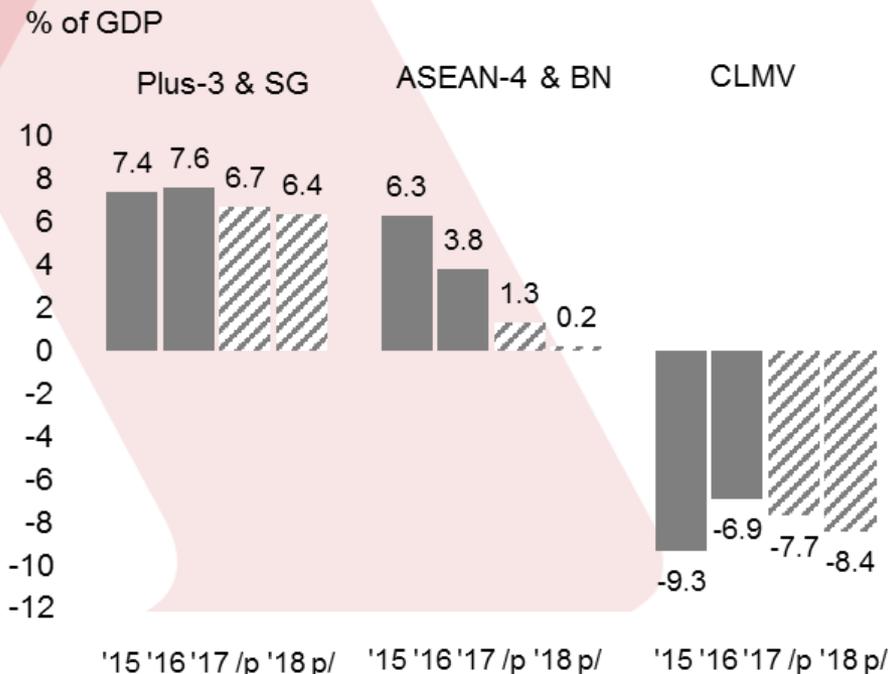


## I. Short Term Macroeconomic & Risks Management

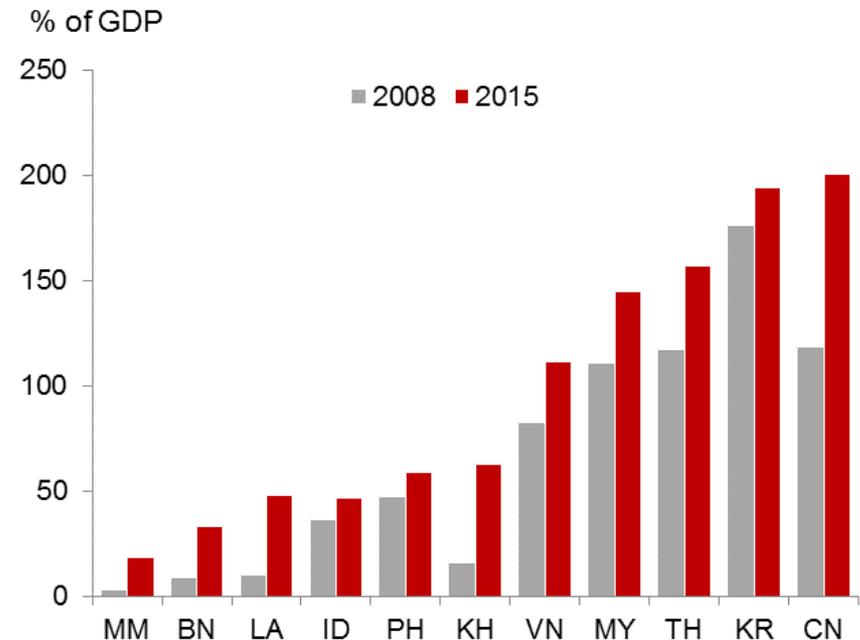
➔ Rising tensions between growth and financial stability objectives

- ❑ Vulnerabilities from sharp rise in borrowing cost (esp. regional economies with large external financing needs)
- ❑ Distress from stretched private sector balance sheets, in some sectors

Baseline Current Account Projections



Private Sector Credit-to-GDP Ratio (Selected Economies)



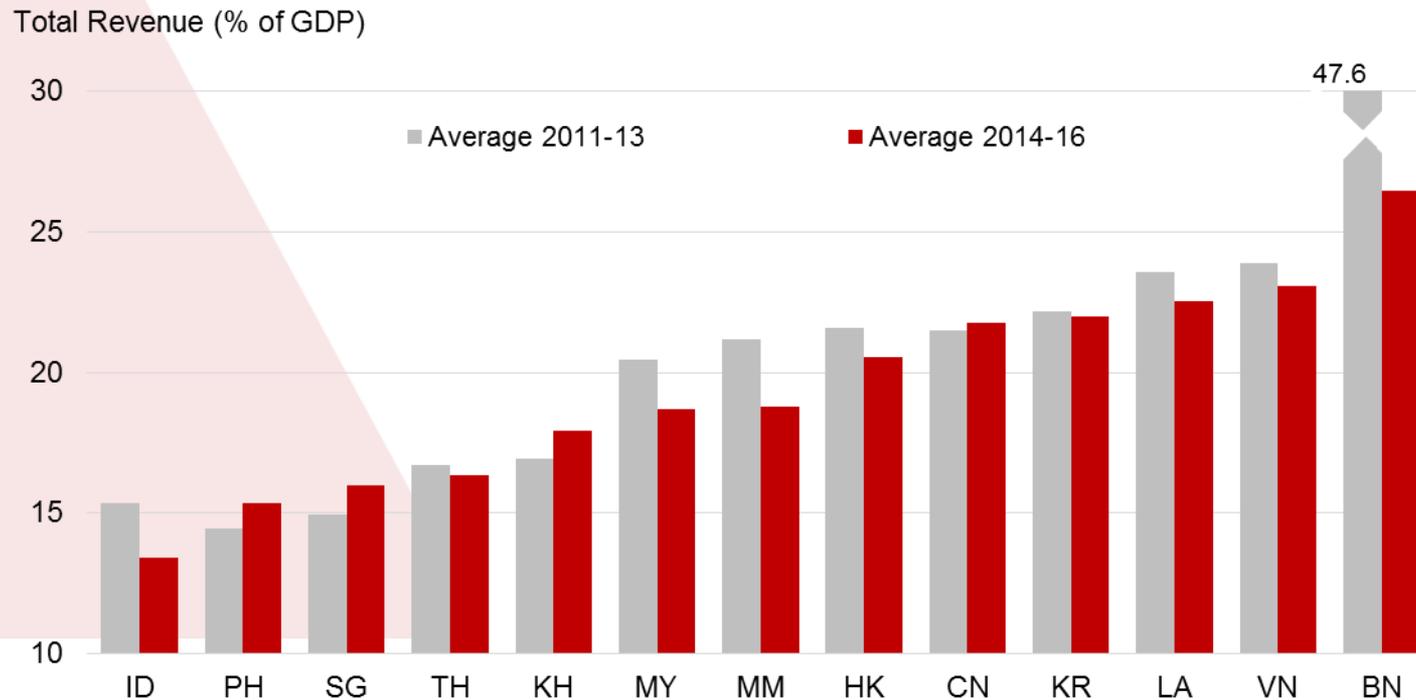
Note: Private sector credit refers to loans and advances extended by the banking system to non-financial companies and households.  
 Source: National Authorities, World Bank, Bloomberg

## I. Short Term Macroeconomic & Risks Management

### → Narrowing policy space

- ❑ Tighter fiscal conditions from revenue shortfalls
- ❑ Constrained monetary policy (for economies with built up of financial vulnerabilities)

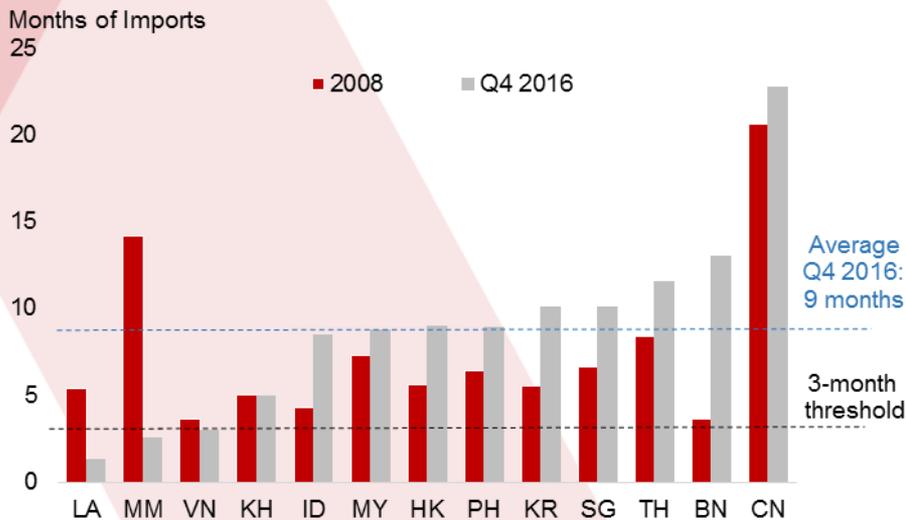
#### Central Government Fiscal Revenue Performance



## I. Short Term Macroeconomic & Risks Management

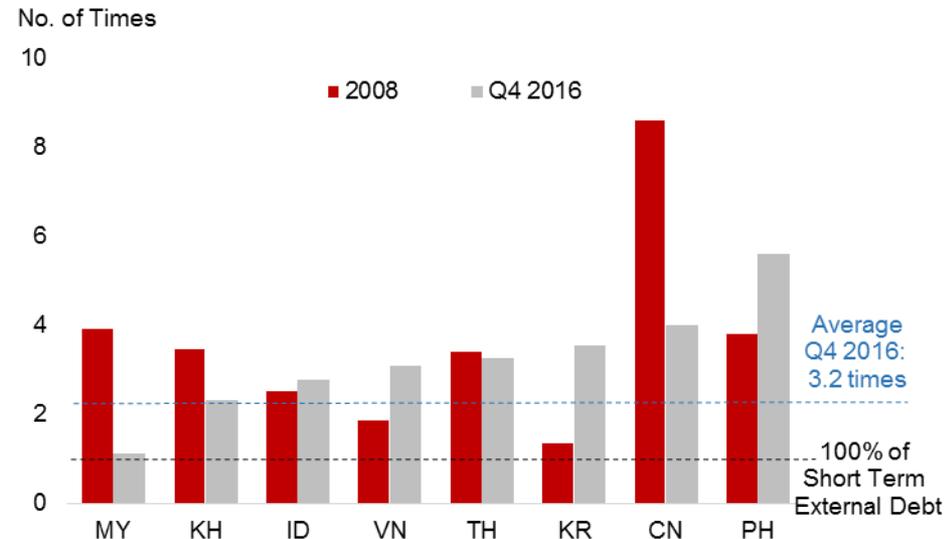
➔ The region's reserve buffers remain adequate by conventional metrics

FX Reserves (in Months of Imports)  
(Selected Economies)



Note: Latest data refers to 2012 (for Vietnam), 2014 (for Cambodia), 2015 (for Brunei), Q3 2016 (for Myanmar). For Myanmar and Lao PDR, data reflect imports of both goods and services based on AMRO's calculations. Japan is not included as the JPY is used as one of the reserve currencies.

FX Reserves / Short-Term External Debt Ratio  
(Selected Economies)



Note: Latest data refers to 2012 (for Cambodia), Q3 2016 (for China), and 2014 and 2016, respectively (for Vietnam). Some member economies have adopted the latest BPM6 (such as Malaysia), which includes local currency-denominated debt held by non-residents in their short term external debt data.

## II. Strengthening Regional Financial Safety Net

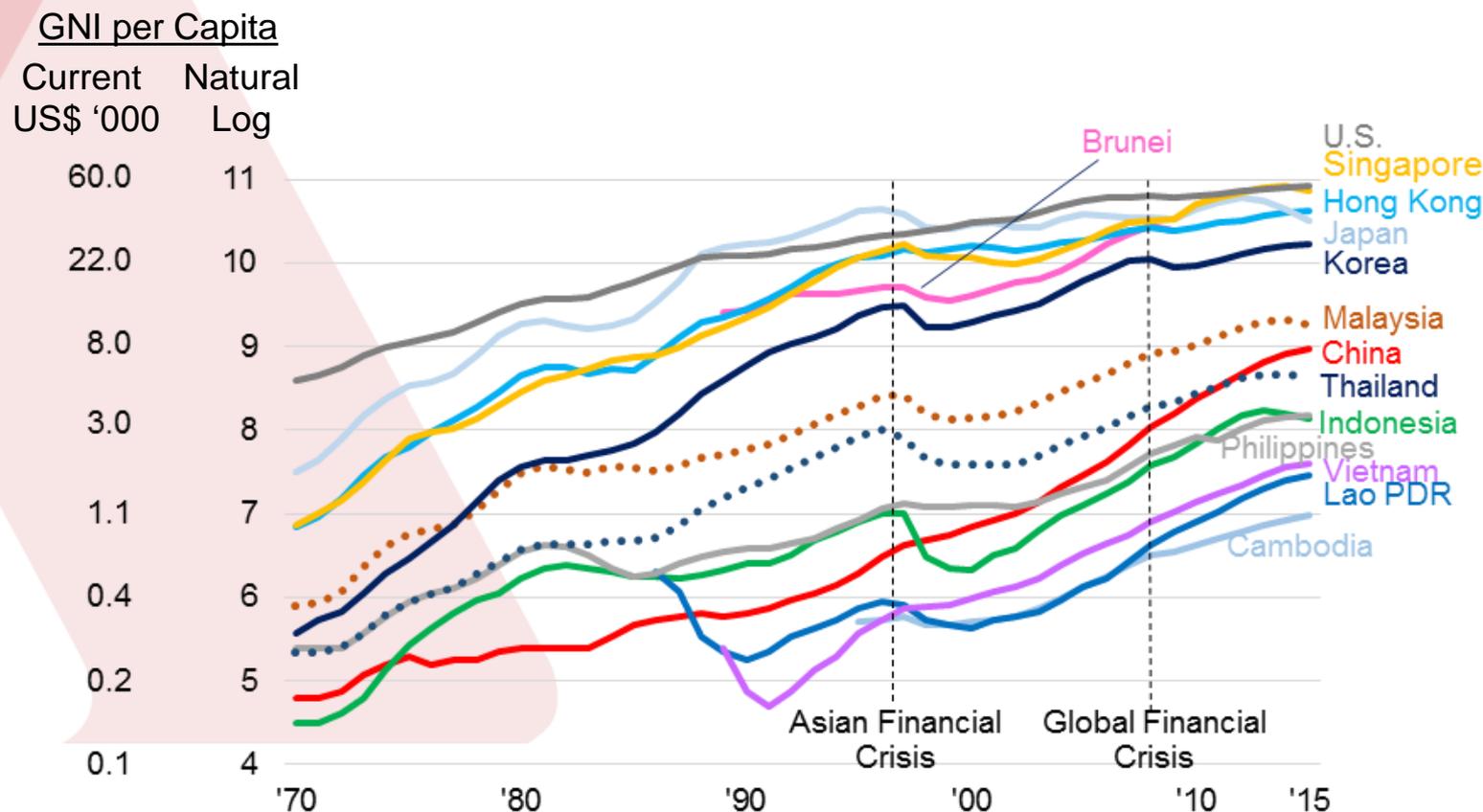
→ The region is confronted with increasing challenges, warranting continuous CMIM enhancements in order to support regional financing arrangements



## III. Accelerating Structural Reforms

➔ Stepping up reforms to foster growth potential, ensuring continuous income convergence

Income Convergence and Catch-up



Note: Data for Myanmar are not available

Source: World Bank

# Malaysia's Experience

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Malaysia was not spared in the crisis that began in Thailand in 1997

## Selected Indicators

Exchange Rate  
(MYR/USD)

**2.5 → 4.7**  
(2 Jan '97) (9 Jan '98)

Int'l Reserves (Gross)  
(USD bil)

**27.1 → 20.9**  
( '96) ( '97)

Stock Market Index (Pts)

**1,231 → 594**  
(2 Jan '97) (31 Dec '97)

Banking Sector NPL (%)

**3.6 → 5.7**  
(Jun '97) (Dec '97)

A National Economic Action Council (NEAC) was set up in early 1998, to centralized decision making and policies

## Setting up of NEAC

Launched National Economic Recovery Plan (July 1998)

AIMS

- 1 Stabilize Local Currency
- 2 Restore Market Confidence
- 3 Maintain Financial Market Stability
- 4 Restructure Corporate Debt
- 5 Restructure and Recapitalized the Banking Sector
- 6 Revitalize Economy

Alternate policies were adopted, and were successful in restoring macroeconomic and financial stability

Policy	Measures (Non-Exhaustive)
Fixed Exchange Rate Regime	<ul style="list-style-type: none"> <li>Fixed the MYR exchange rate to USD1 to MYR3.8 on September 1998 (including banning offshore market trading of the ringgit).</li> </ul>
Imposition of Selective Capital Controls	<ul style="list-style-type: none"> <li>For foreign institutions and persons, a 1-year moratorium from the purchase date of shares was imposed on repatriation of proceeds from the sale of those shares.</li> <li>MYR loans to non-resident banks and stock-broking firms were stopped.</li> <li>Restrictions imposed on transfers of MYR funds in external accounts held by non-residents</li> </ul>
Expansionary Fiscal Policy	<ul style="list-style-type: none"> <li>Fiscal stimulus package of MYR2 billion which turned the budget from a surplus of 2.5 percent of GDP in 1997 to a deficit of 1.8 percent in 1998 and 3.2 percent in 1999.</li> </ul>
Setting up Debt Restructuring Agency	<ul style="list-style-type: none"> <li>Danaharta (debt restructuring agency) was set up to take over NPL from banks, and to restructure and manage them (Jun 1998).</li> <li>Danamodal was set up to recapitalize and restructure troubled financial institutions (Aug 1998).</li> <li>Corporate Debt Restructuring Committee was established to assist corporations in negotiating and restructuring debt with their creditors.</li> </ul>

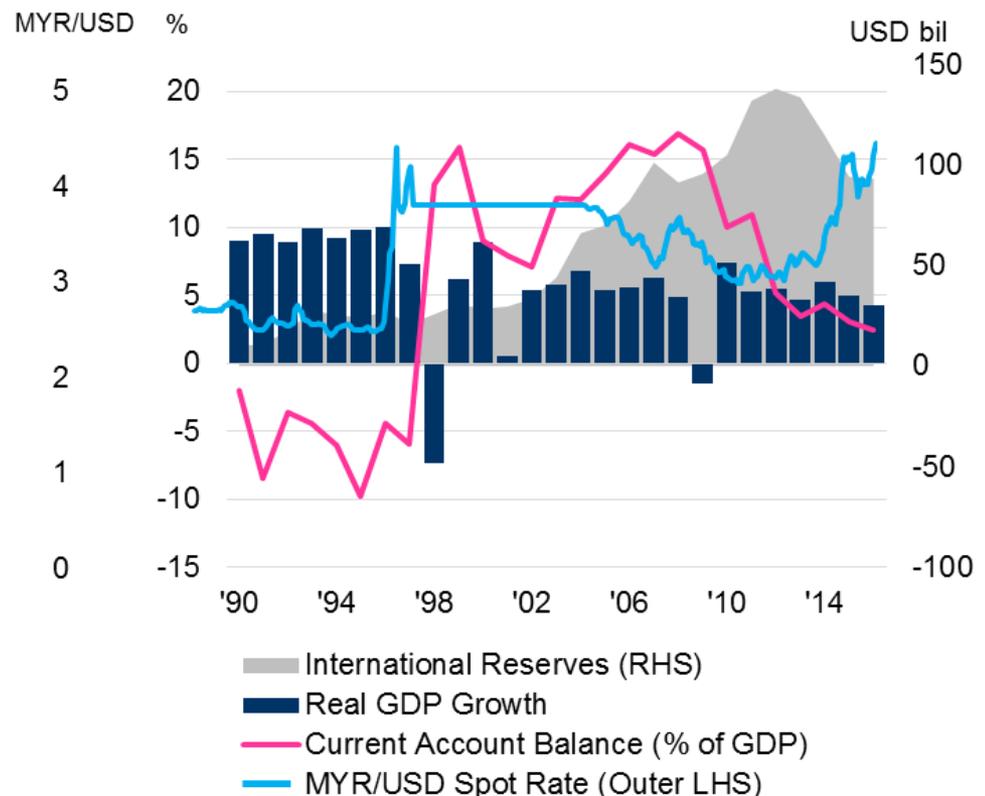
# Malaysia's Experience

The reforms undertaken post-AFC enabled Malaysia to weather the GFC (and post-GFC) challenges from a position of strength

➔ Growth sustained at around 5 percent, while current account remains in surplus

Malaysia: Selected Indicators

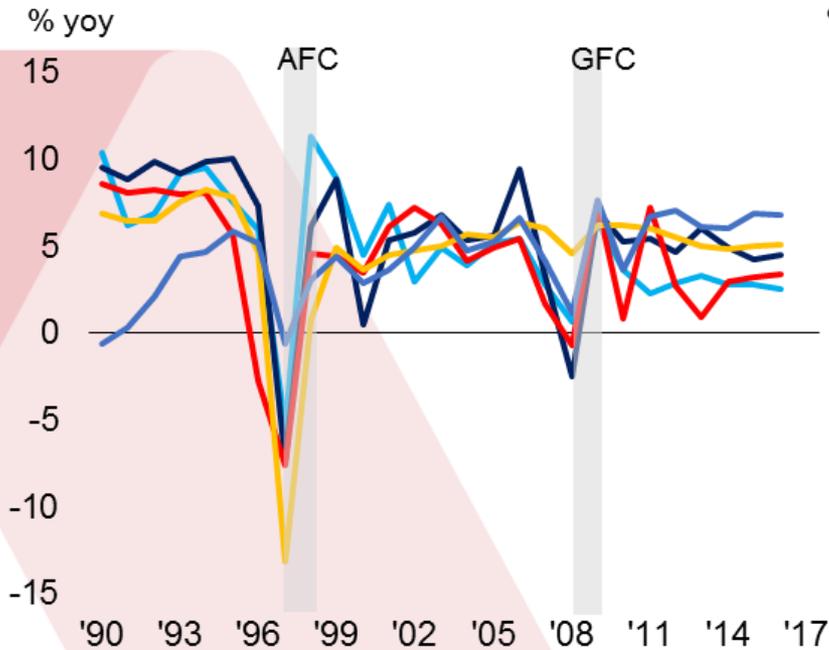
	Average 1991-96	Average 2011-16
Growth	10%	5%
Current Account Balance (% of GDP)	-6%	5%
MYR/USD Spot Rate	2.5864	3.4348
International Reserves (USD bil)	27.1 (end-1996)	93.1 (end-2016)
Banking Sector: Risk-Weighted Capital Ratio (%)	10.8	16.0*



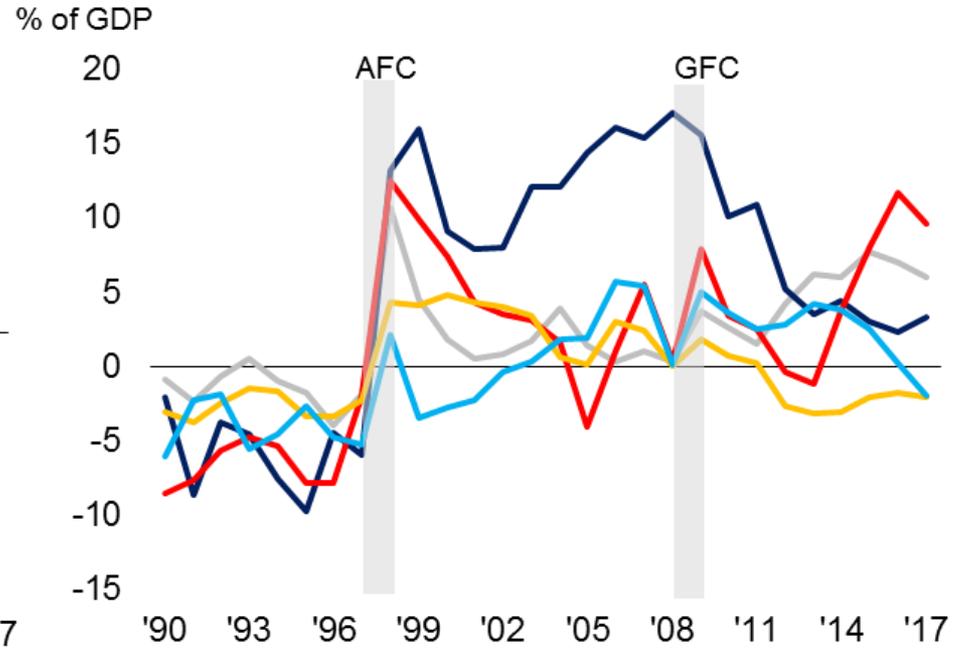
\* Refers to 2013-2016 under Basel III  
Source: BNM, Reuters, IMF

# Comparison with other Regional Peers

## Real GDP Growth



## External Current Account Balance

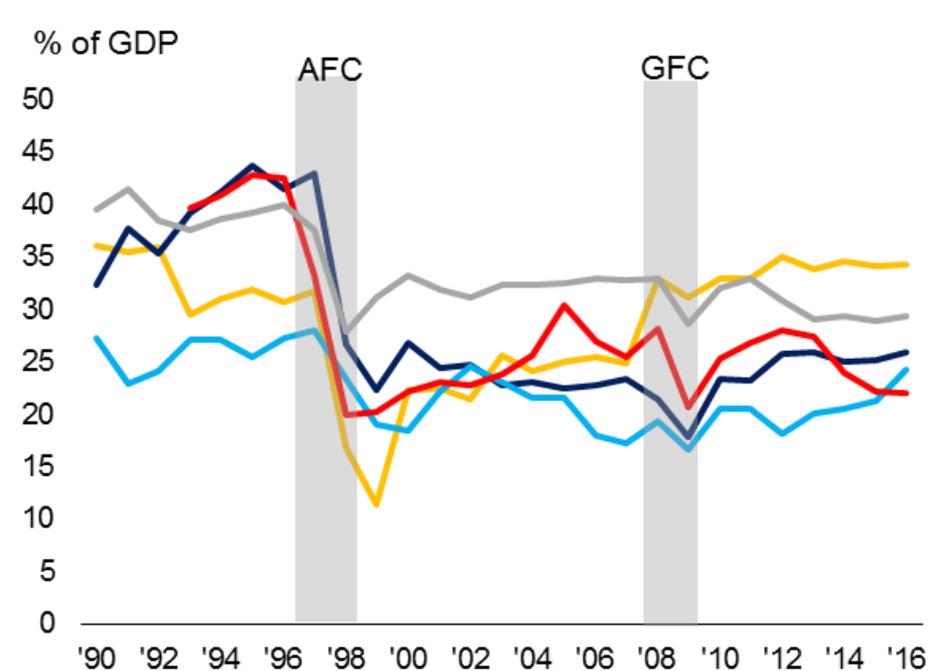
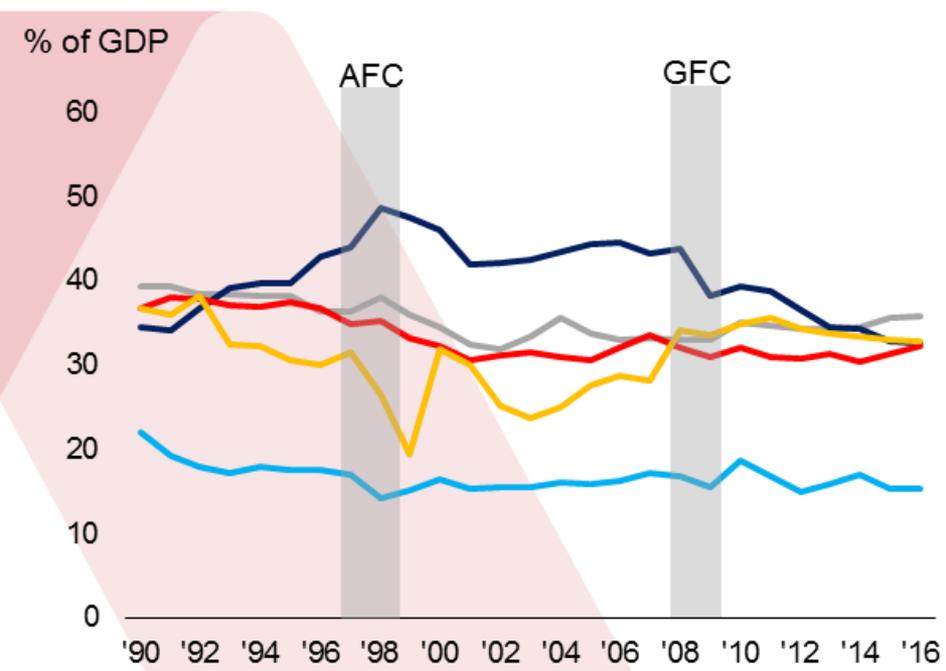


- Korea
- Malaysia
- Thailand
- Indonesia
- Philippines

# Comparison with other Regional Peers

Savings Rate

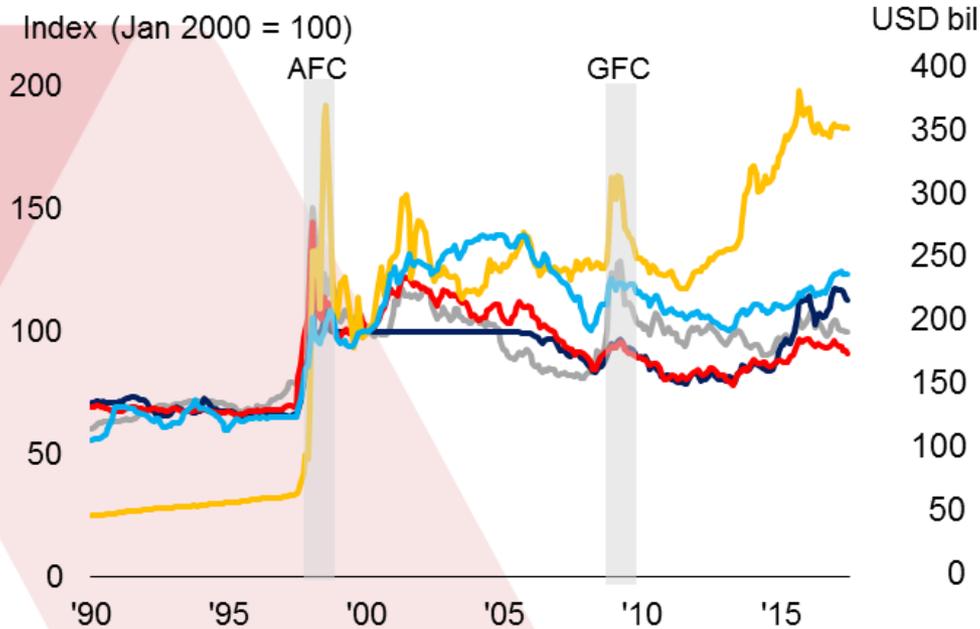
Investment Rate  
(Gross Capital Formation)



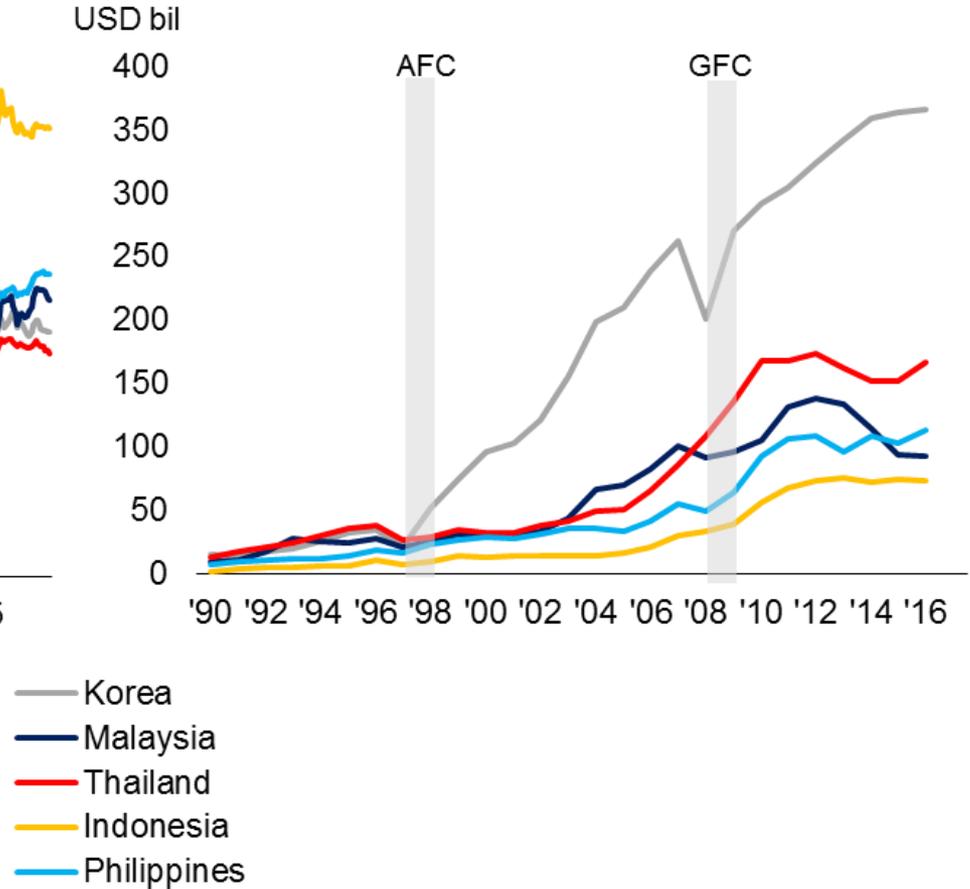
- Korea
- Malaysia
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- Indonesia
- Philippines

# Comparison with other Regional Peers

Exchange Rate (Against USD), Monthly Average



International Reserves (Gross)



- Korea
- Malaysia
- Thailand
- Indonesia
- Philippines

# Thank You

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