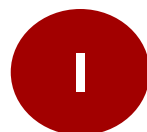


20 Years After the Asian Financial Crisis – A Retrospective and the Way Forward

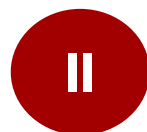
12 October 2017, Washington DC

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Contents



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 Asian Financial Crisis

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

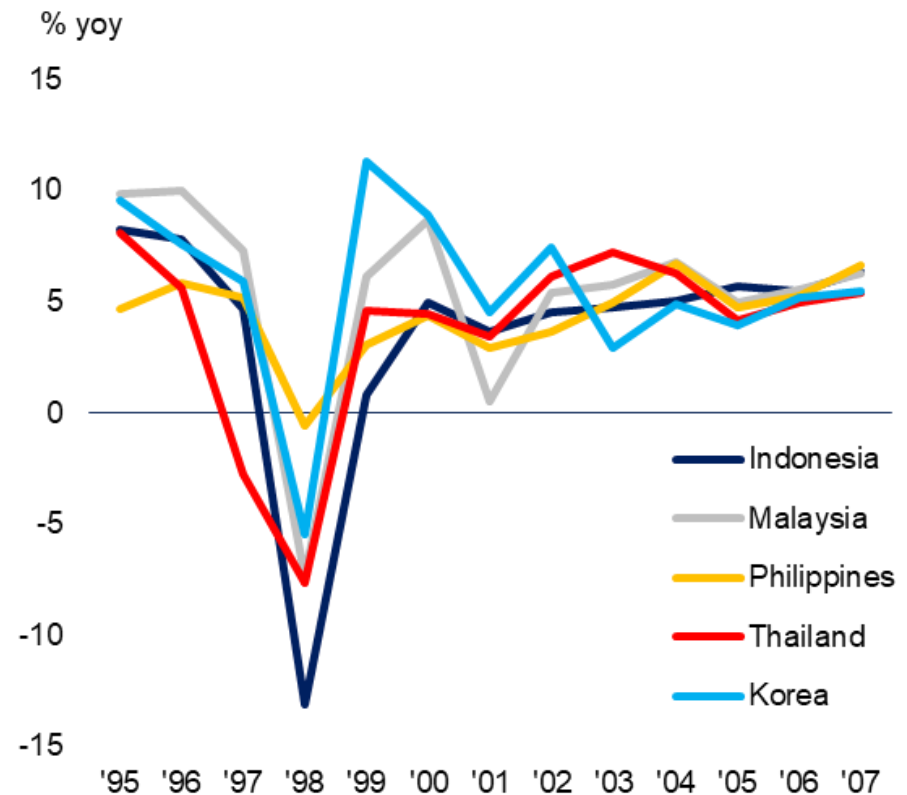
- Weaknesses in financial and corporate systems
- Lax regulation and inadequate supervisory oversight

I First Decade Post-AFC: Rebuilding Foundations

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

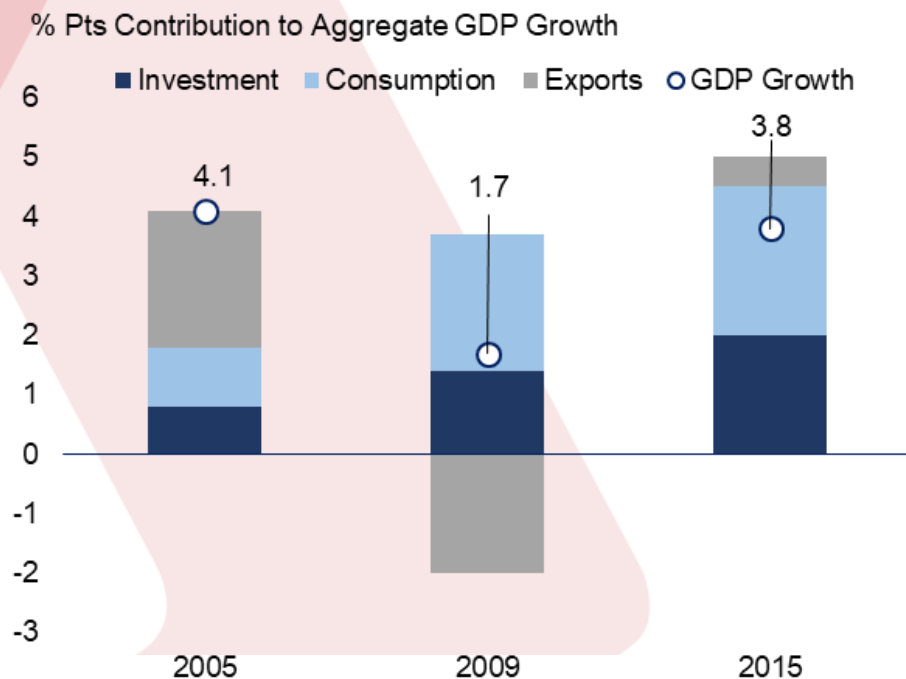
- **Economic consolidation** after a sharp negative shock
- **Painful policy adjustments** in exchange rate regimes, fiscal consolidation
- **Reforms** of corporate and financial sectors (incl. reforms in prudential regulation)

Real GDP Growth: ASEAN-4 and Korea

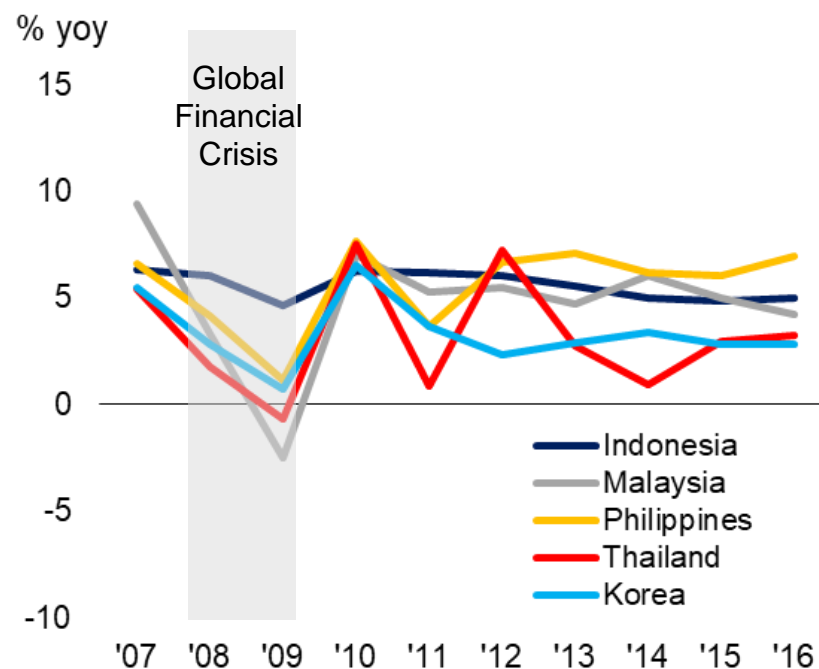


With the onset of the GFC and the European sovereign debt crisis, external demand collapsed, compelling regional economies to rebalance sources of growth

Contribution to Aggregate GDP Growth of ASEAN-4
(Import-Adjusted GDP by Expenditure Component)



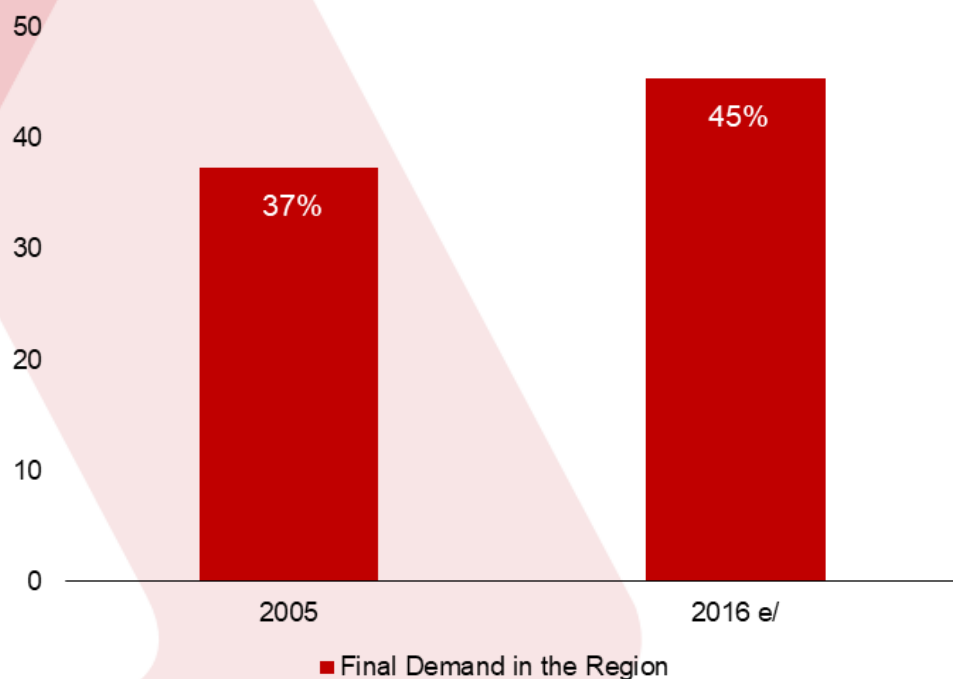
Real GDP Growth: ASEAN-4 and Korea



Continuous openness to trade enabled the region to reap the benefits from growing regional integration and the emergence of China

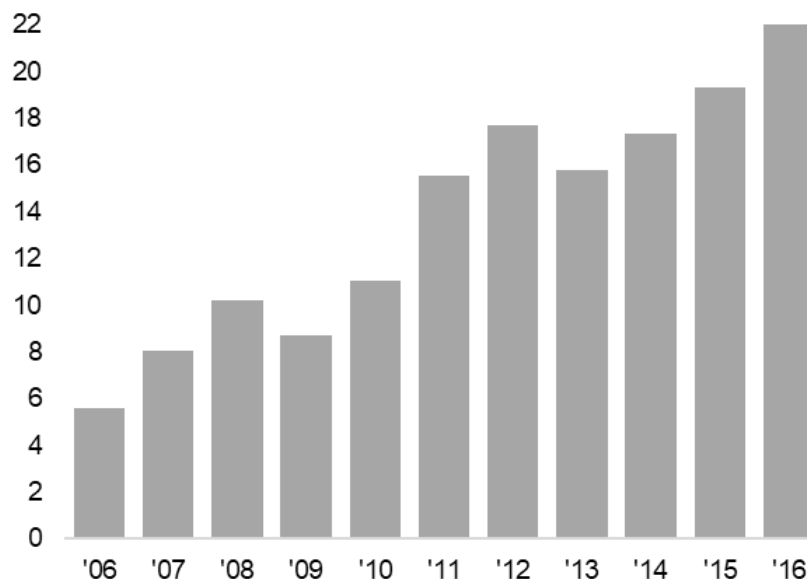
Share of Regional Exports Destined for Final Demand in the Region

% Share of Total Regional Exports (in Value-Added Terms)



China's Imports of Consumption Goods from ASEAN

USD bil

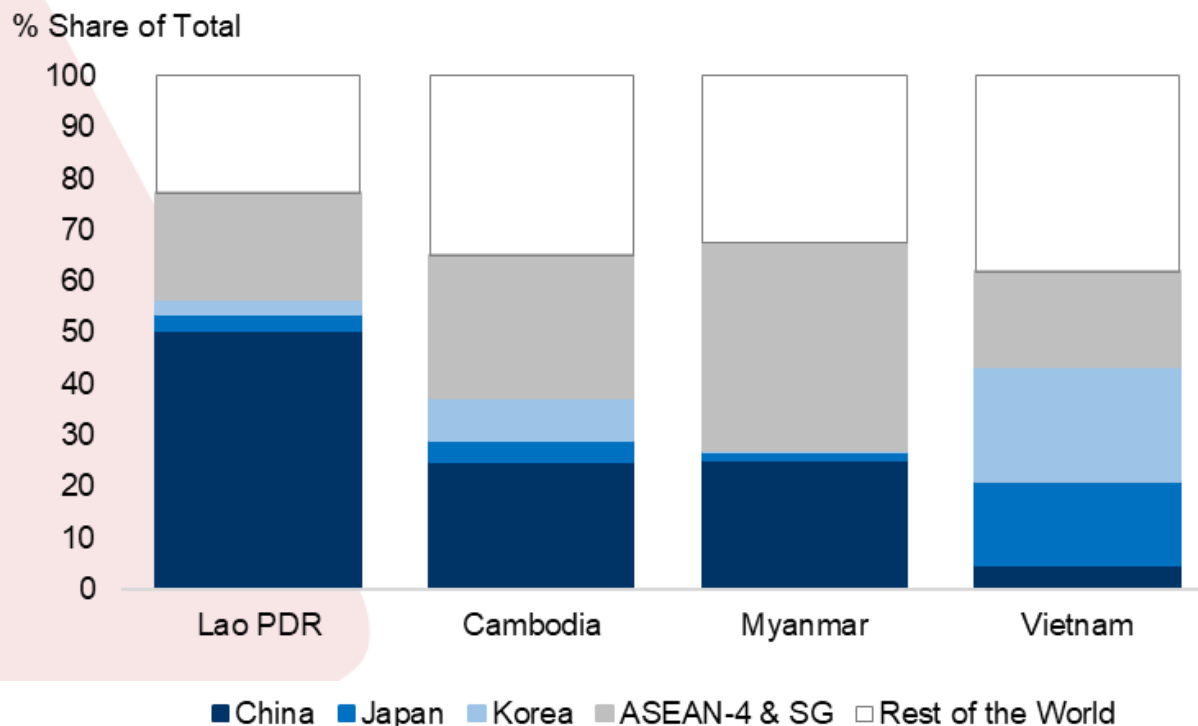


* Regional value-added exports refer to the aggregate of Japan, China, Hong Kong, Korea, Brunei, Cambodia and ASEAN-5 and Singapore.

Source: COMTRADE, OECD, AMRO

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

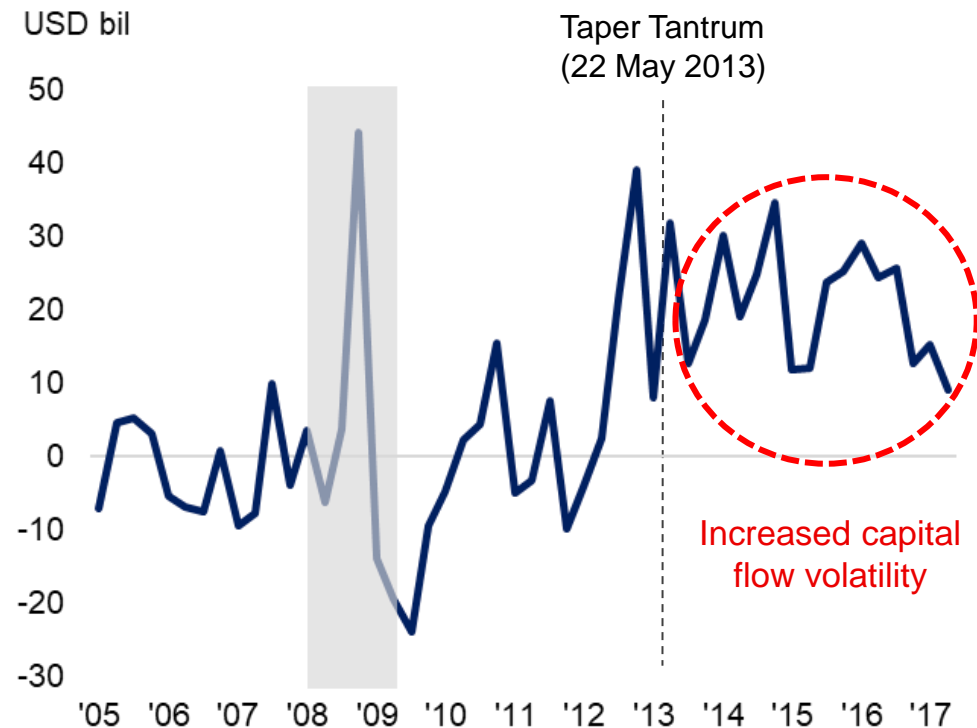
Cumulative Plus-3's and ASEAN's FDI Inflows in CLMV Economies
(% Share of Total Inflows), 2010-16



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), Q1 2005-Q2 2017



I. Short Term Risks and Challenges

The near term risks and challenges confronting the region are mostly external-related



Potential asset price and capital flow volatility as major central banks begins withdrawing monetary stimulus



Lingering uncertainties over the near term U.S. fiscal outlook, affecting risk sentiment



Uncertainties over the potential imposition of trade tariffs by the U.S., and setbacks to multilateral trade deals (e.g. NAFTA re-negotiations), weighing on global trade recovery



Global risk aversion from tail risks (escalation of geopolitics and weather disruptions)

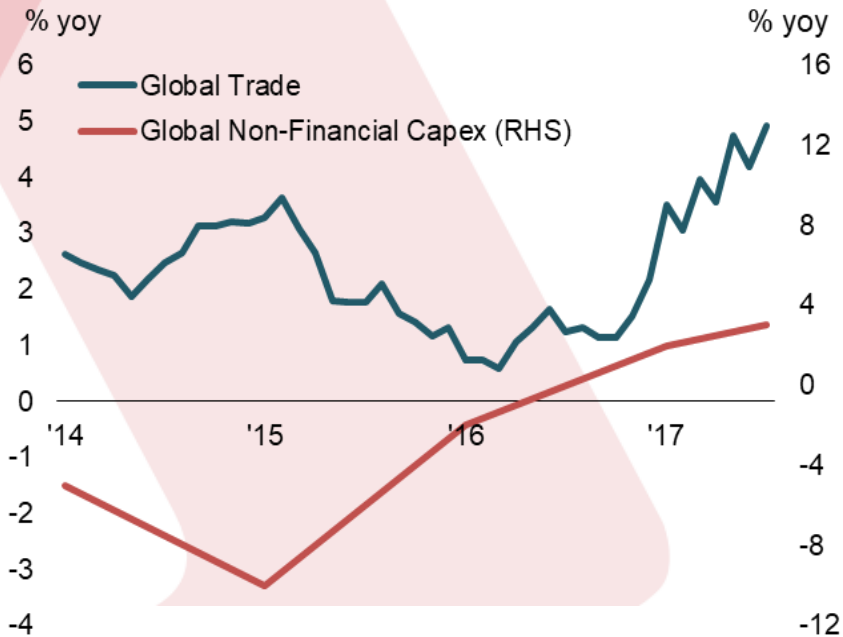


I. Short Term Risks and Challenges

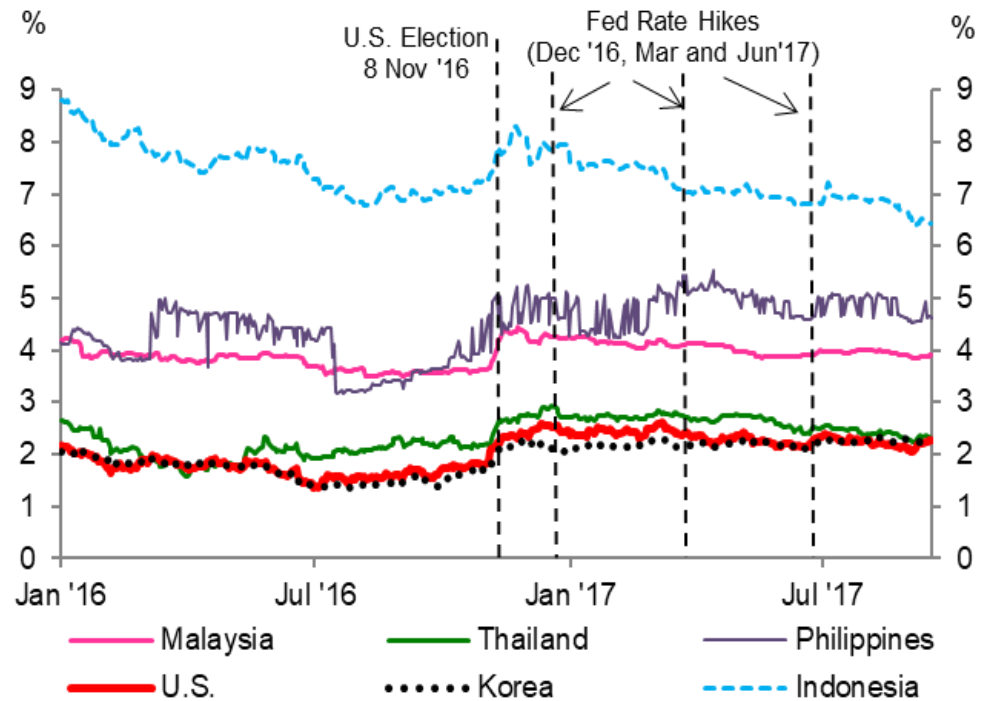
→ Balancing growth and financial stability objectives

- ❑ Improving global trade and capex helped to support regional growth
- ❑ However, there are vulnerabilities from a sharper-than-expected rise in borrowing cost (esp. regional economies with large external financing needs)

Global Trade & Global Capex



Long Term Borrowing Costs (10Y Sov Yields)



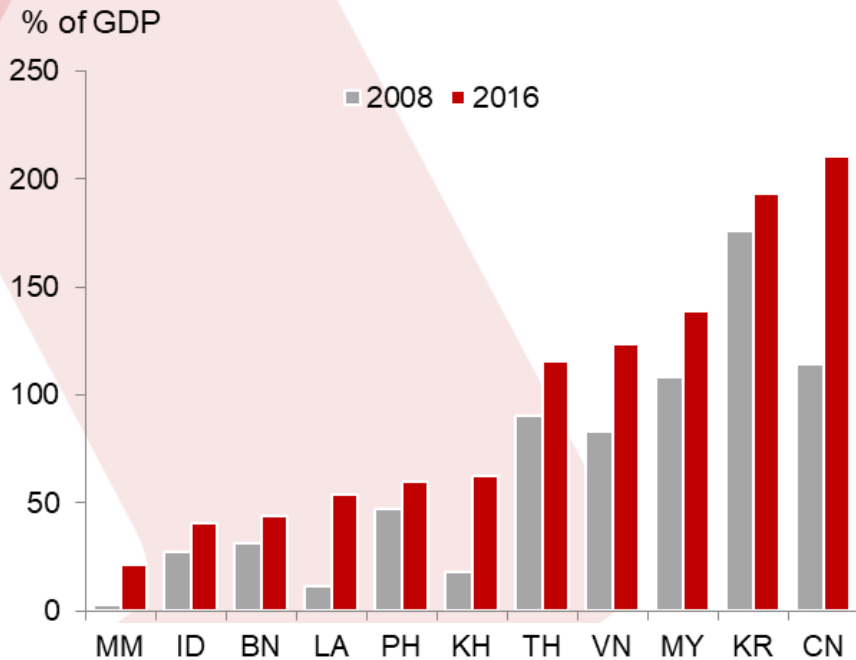


I. Short Term Risks and Challenges

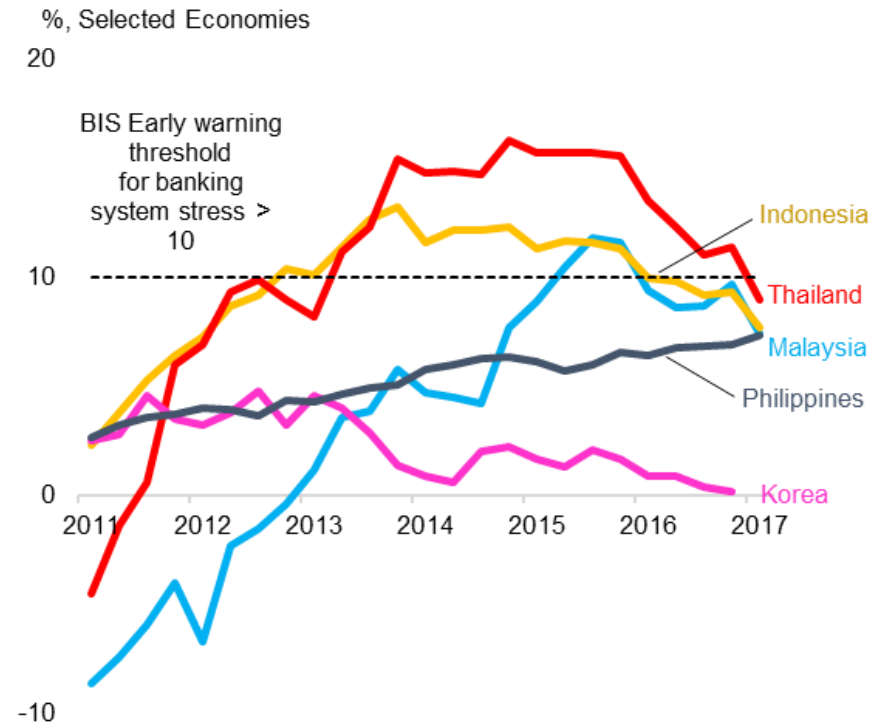
➔ Balancing growth and financial stability objectives

- ❑ Potential distress from stretched private sector balance sheets
- ❑ Some regional economies' credit-to-GDP gap remains positive although narrowing

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



Private Sector Credit-to-GDP Gaps
(ASEAN-4 + KR)

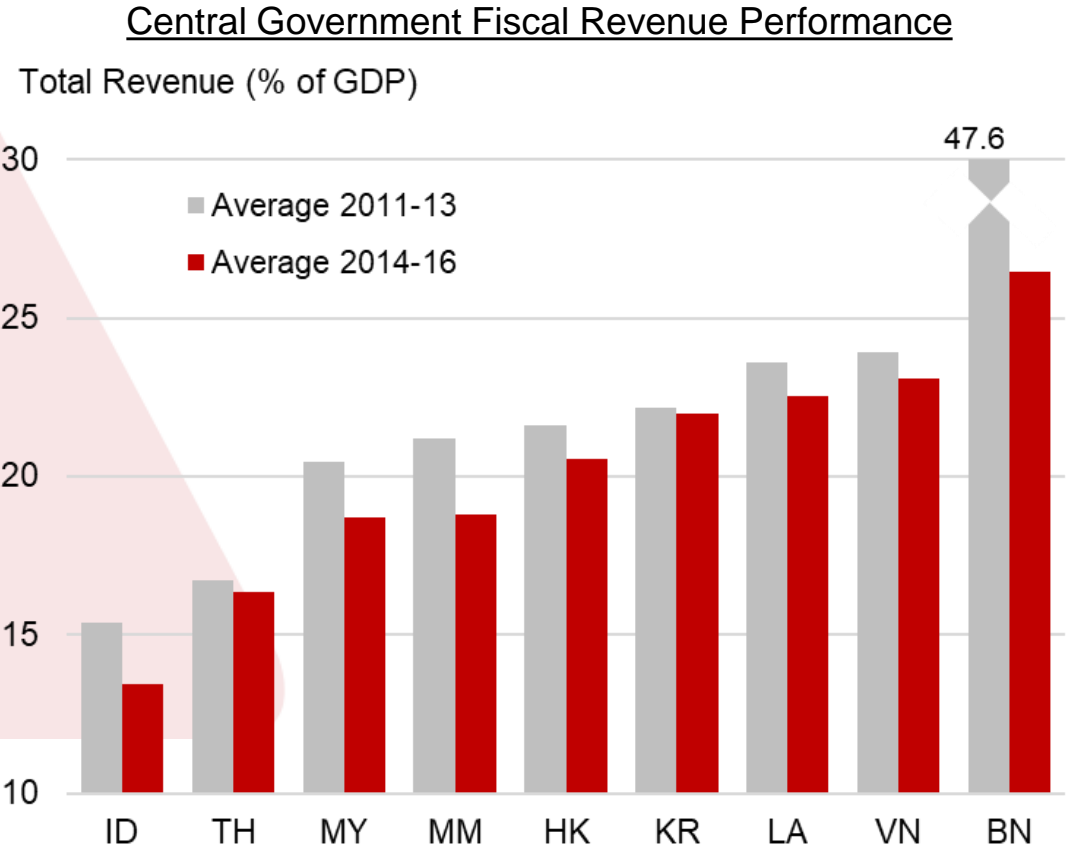




I. Short Term Risks and Challenges

→ Narrowing policy space

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

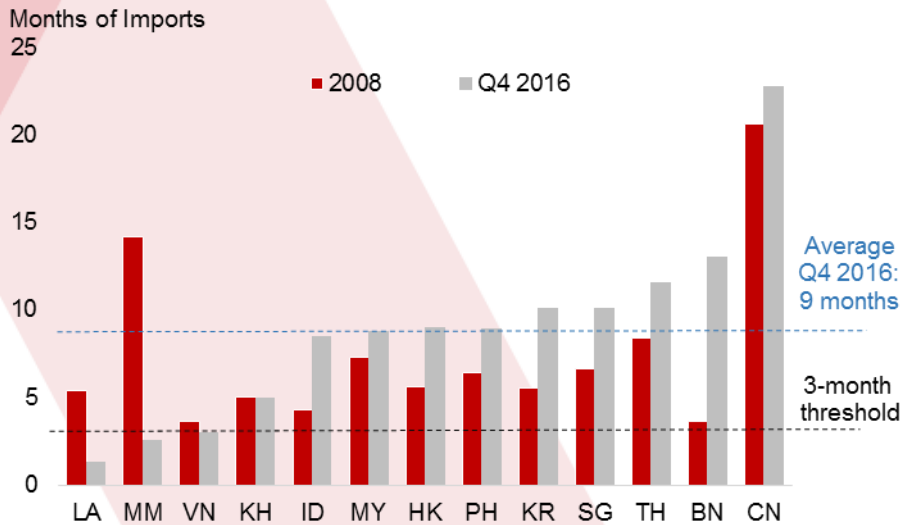




II. Buffers

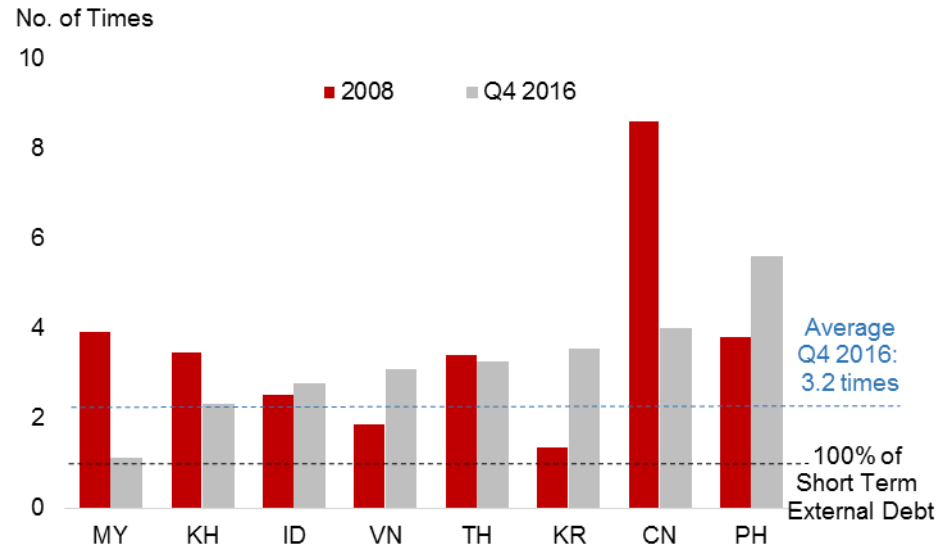
➔ The region's reserve buffers remain adequate by conventional metrics

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.

III. Baseline Growth

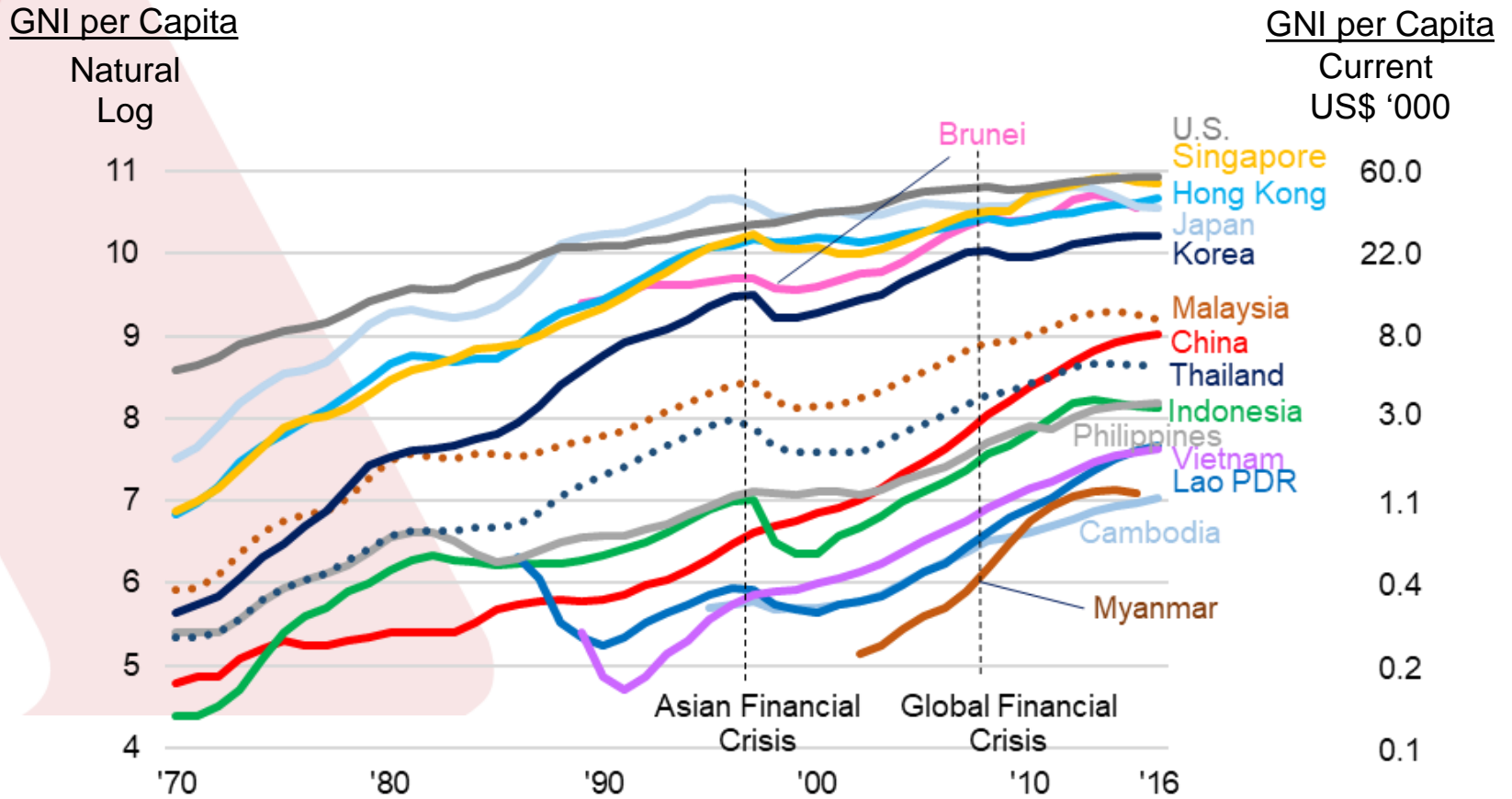
→ Growth outlook in the region has turned brighter, with growth in ASEAN+3 being revised upwards to 5.5% in 2017 and 5.2% in 2018 (Mar '17 estimates: +5.2% and +5.1%, respectively)

% yoy	2016	2017 e/	2018 p/
ASEAN+3	5.3	5.5	5.2
China	6.7	6.8	6.5
Japan (Fiscal Year)	1.3	1.5	1.1
KR, HK & SG	2.5	3.0	2.8
ASEAN-4 & VN	5.0	5.2	5.3
BCLM	5.5	6.5	6.7

III. Medium to longer term challenges

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

Income Convergence and Catch-up



Short Term Outlook

→ Are the external risks identified – monetary normalisation, trade protectionism, geopolitics – the main risks to ASEAN+3’s growth? Other risks?

Convergence

→ How can ASEAN+3 sustain its growth momentum in catching up to advanced economies?

Regional Integration

→ How can the region integrate further, and does this mean a “decoupling” of the region from the advanced economies?

Thank You

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