Financial Crises Analysis
Overview

- **Asian Financial Crisis**
  - July 1997-1999
  - Mainly South East Asian Countries
  - Started in Thailand

- **2008 Financial Crisis**
  - US housing bubble burst
  - Bailout of banks
  - Led to 2008-2012 global recession
Causes: Asian Financial Crisis

- Financial sector weaknesses
  - Large PE ratio in market
  - Borrowing in foreign currency
  - Poor supervision

- Problems in external sectors
  - Large current-account deficits
  - Dependency on exports
  - Unsound investments
    - Real Estate bubbles

- Contagion effect
  - “Wake-up call” hypothesis
Causes: 2008 Financial Crisis

- Subprime lending
  - Mortgage lenders relaxed standards to lend to risky borrowers

- Housing bubble - peak 2006
  - Risky borrowers drove prices up

- Easy credit conditions
  - Lower interest rates
    - 2000- Low fed funds rate- 1%
  - Foreign funds

- Deregulation of banking
  - 1970s onward - government policy:
    - Lack of supervision
Timeline of Economic/Political Policies: Asian Financial Crisis

- **Thailand**
  - July 2, 1997: Thai government forced to float baht
  - August 5, 1997: Adopts IMF measures for $17 billion loan
  - Dec 8, 1997: Government closes 56 insolvent finance companies

- **South Korea**
  - Nov 17, 1997: Bank of Korea allows won to drop - 1000 to USD
  - Dec 3, 1997: IMF approves $57 billion bailout
  - Dec 23, 1997: World Bank gives $3 bill
  - Jan 28, 1998: International banks agree with SK to exchange $24 bill of short-term debt to longer-term loans

- **Indonesia**
  - Jan 8, 1998: Rupiah divas with President Suharto’s state budget plan
  - March 9, 1998: IMF delays $3 bill installment of loan package because of Suharto
  - May 5, 1998: Student riots against Suharto
  - May 22, 1998: Suharto resignns
Timeline of Economic/Political Policies: 2008 US Financial Crisis

- South Korea
  - Sept 26, 2008: Bank of Korea injects into currency swap market
  - Jan 2009: Government delivers massive fiscal programme
    - Quarter of program for tax cuts and income/labour support

- Indonesia
  - Sept 15, 2008: Gov reduces overnight repo rate to 10.25%

- China
  - Sept 15, 2008: Government cuts interest rate for first time since 2002
  - Nov 9, 2008: Chinese economic stimulus plan- 4 trillion RMB
  - Nov 28, 2008: Rise in export tax rebates
    - Government trying to spur economic expansion
Statistics

- GDP
Statistics: Asian Financial Crisis
Statistics: 2008 Financial Crisis
Statistics

- GDP Growth Rate
Effects: Asian Financial Crisis

• Thailand:
  • Large unemployment rates
  • Devalue of real estate and construction
  • Baht devalued

• South Korea
  • Bank failures/bank takeovers
  • Moody downgrade- A1 to A3
  • Stock market fell

• Indonesia
  • Rupiah put on floating exchange rate
  • Rupiah drops
Effects: II Asian Financial Crisis

- China
  - Forced to devalue currency for competitiveness
  - Became largest exporter
  - Fixed many issues of financial weakness
Recovery: Asian Financial Crisis

- Thailand
  - 2001- Thailand’s economy recovered
    - Balanced budget
  - 2003- repaid IMF debts

- South Korea
  - GDP per capita tripled
  - Nation debt-to-GDP ratio more than doubled

- Indonesia
  - Rupiah never recovered- Dec 1998- 8,000 rupiah to 1 USD

- China
  - Unaffected by crisis
Economic Forecast

- Only Thailand experienced recession
- China, South Korea, Indonesia experience slowdowns
  - Dependant on exports to US
- Forecast:
  - 2012- 3.5% growth in world GDP
    - 2013- 4.1% growth in world GDP
- Emerging Asia to be economic leaders in growth
- China:
  - Trade balance decreased greatly from crisis- 2009 decreased by 10%
  - China to shift from export production to export for domestic consumption
  - Domestic consumption needs to rise as share of GDP
  - 12th 5-year plan- boosting consumption and household income
Graphs of Economic Recovery

Figure 1.2.1. Dynamics of Global Recoveries: Selected Variables
(Years on x-axis; $t = 0$ in the year of the trough; indexed to 100 at the trough; in real terms unless noted otherwise)

- World
- Advanced Economies
- Emerging Market Economies

Variables:
- GDP
- Total Trade
- Unemployment Rate