

# 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



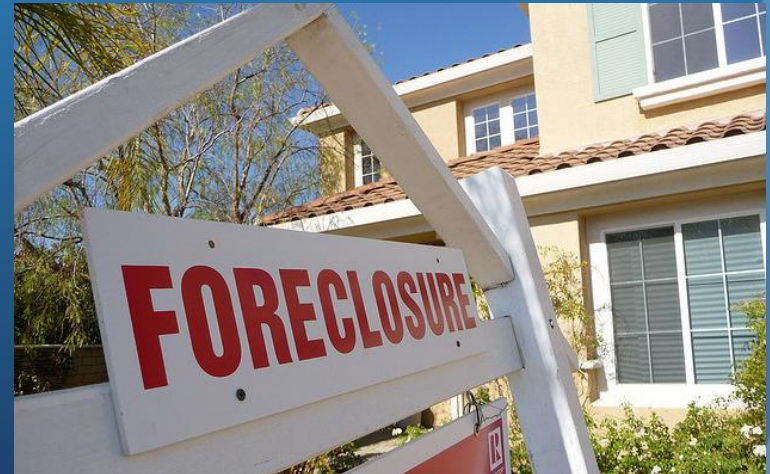
# Causes: Asian Financial Crisis



- 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

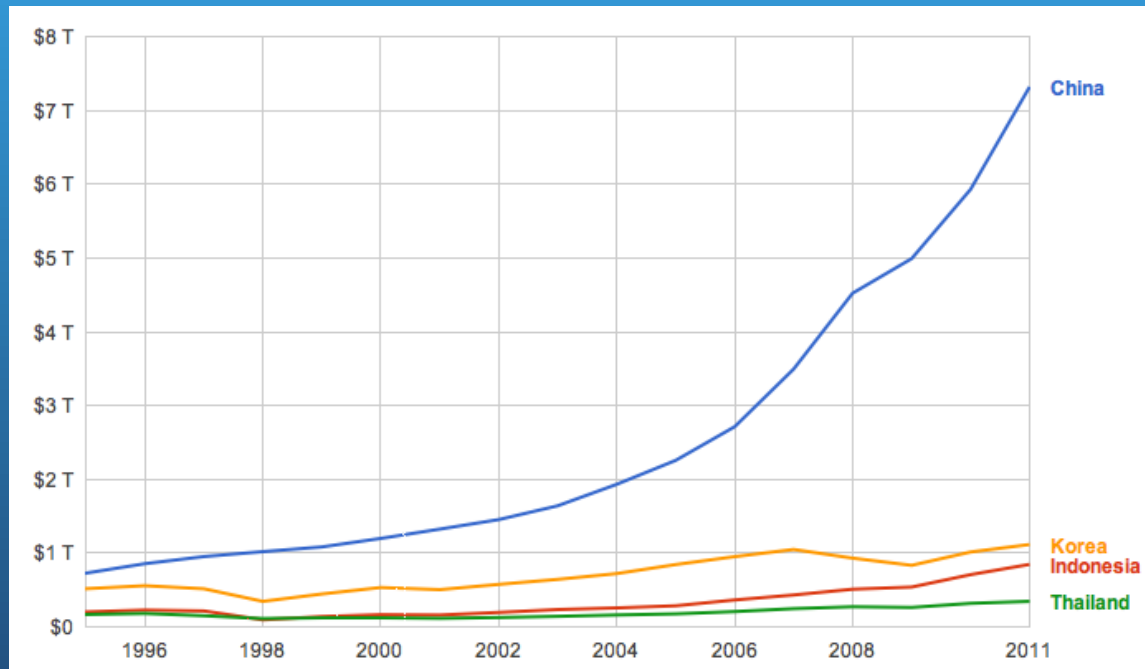
- Thailand
  - July 2, 1997: Thai government forced to float baht
  - August 5, 1997: Adopts IMF measures for \$17 billion loan
  - Dec 8, 1997: Government closes 56 insolvent finance companies
- South Korea
  - Nov 17, 1997: Bank of Korea allows won to drop- 1000 to USD
  - Dec 3, 1997: IMF approves \$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
  - Oct 31, 1997: IMF gives loan package of \$40 bill. Gove closes 16 banks
  - 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

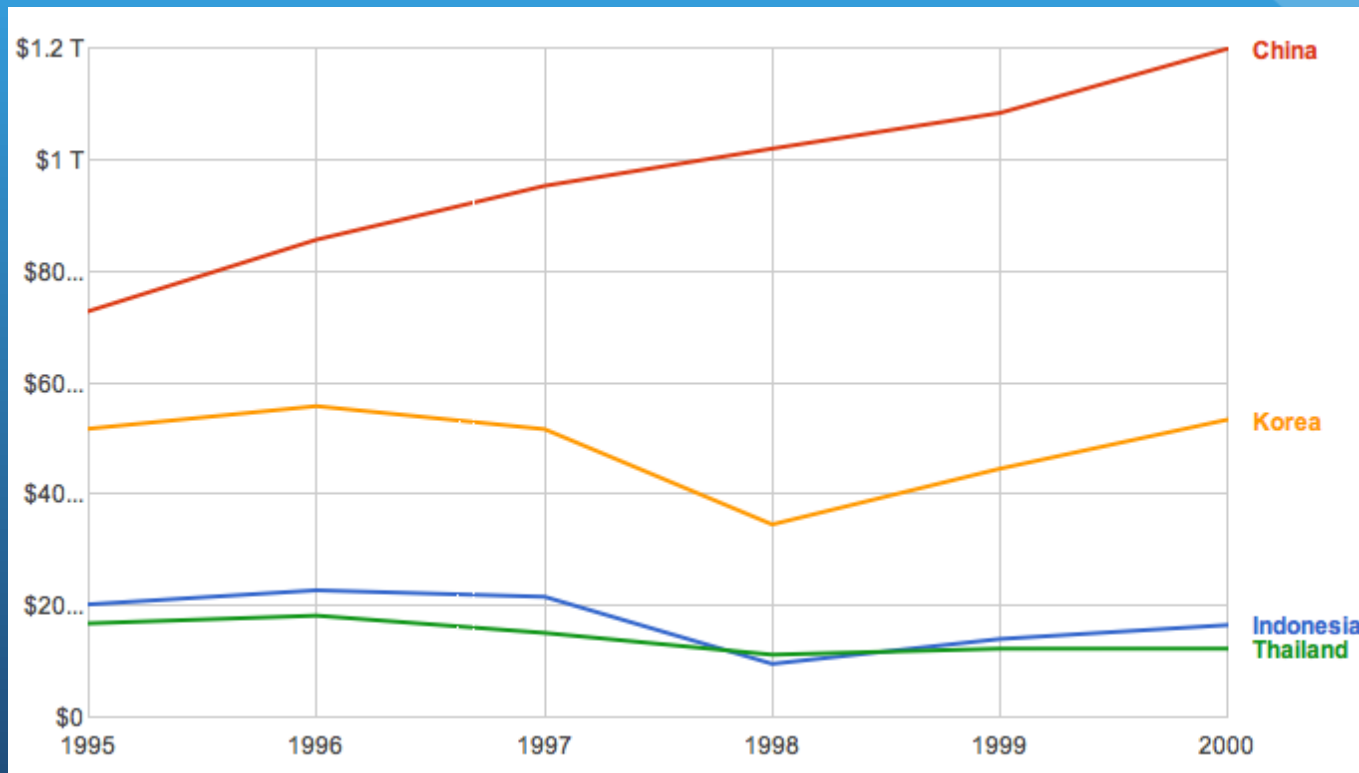
- South Korea
  - Sept 26, 2008: Bank of Korea injects into currency swap market
  - Jan 2009: Government delivers massive fiscal programme
    - Quarter of program for tax cuts and income/labour support
- Indonesia
  - Sept 15, 2008: Gov reduces overnight repo rate to 10.25%
- China
  - Sept 15, 2008: 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

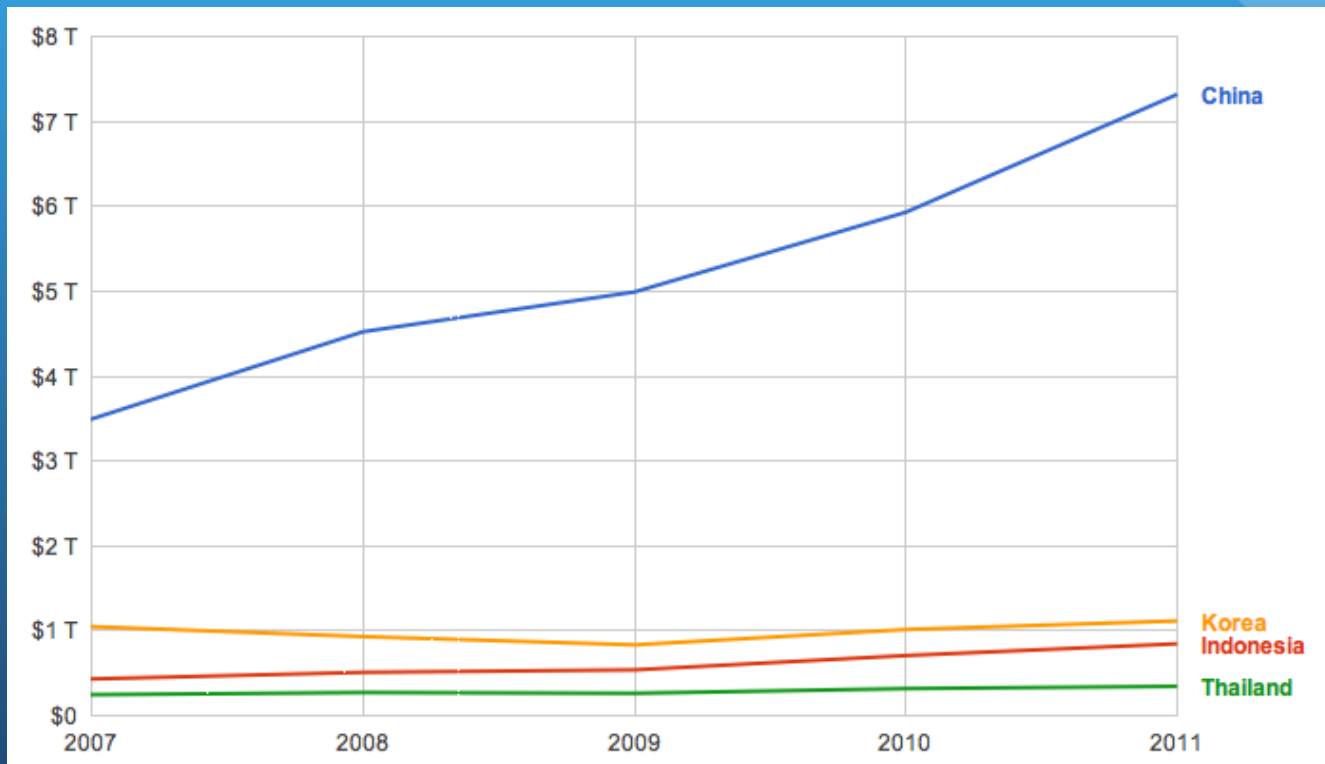


# Statistics: Asian Financial Crisis



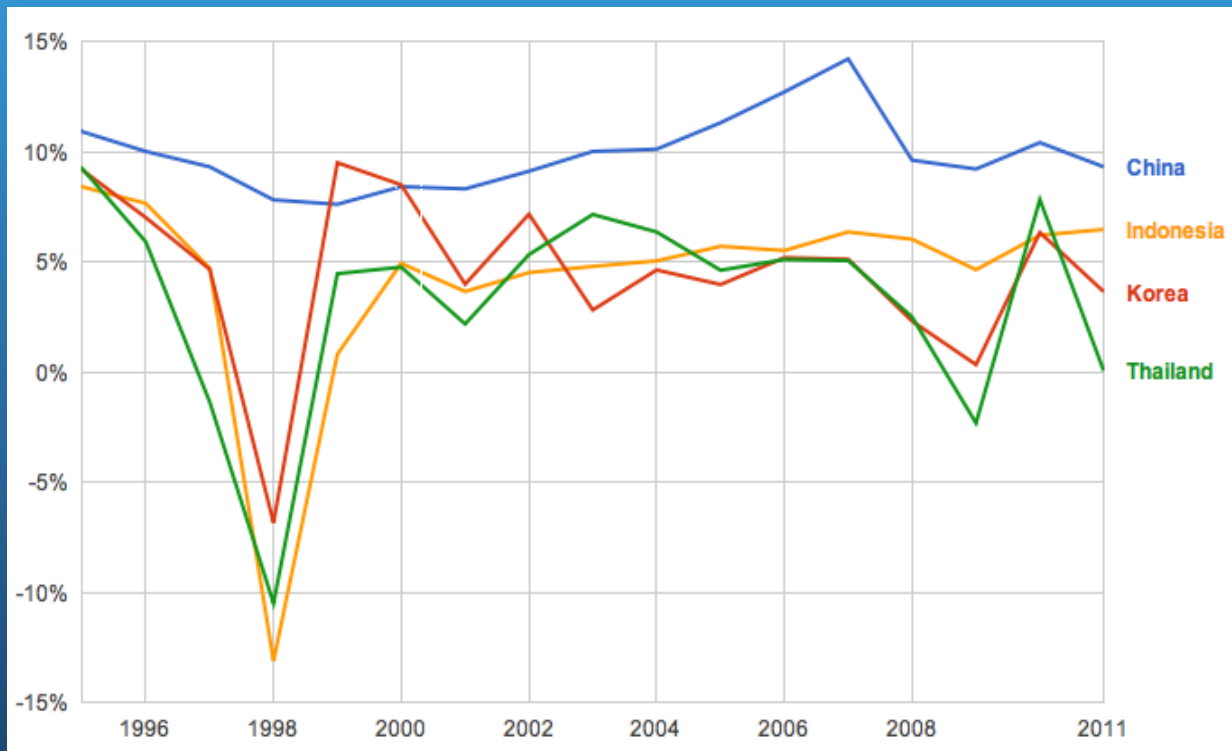


# Statistics: 2008 Financial Crisis



# 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
  - 12<sup>th</sup> 5-year plan- boosting consumption and household income

# Graphs of Economic Recovery

**Figure 1.2.1. Dynamics of Global Recoveries: Selected Variables<sup>1</sup>**

*(Years on x-axis; t = 0 in the year of the trough; indexed to 100 at the trough; in real terms unless noted otherwise)*

