**Philequity Corner (07/09/2007)**
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## Asian Financial Crisis … Ten years after

Last week marked the 10-year anniversary of the Asian Financial Crisis. We remember it vividly because it was the first time that a financial crisis contagion happened in Asia. As a fund manager, the crisis brought forward an important realization. It taught us that in an economically integrated world, prosperity in faraway countries can create opportunities elsewhere, but instability in a distant economy can also create uncertainty and instability at home. This is why we in Philequity find it essential to monitor the global economic cycle, the movement of other currencies and the performance of other stock markets, especially that of the US.

### Anatomy of a crisis

Since the early 1990s, investment and credit flows to the so-called "Asian tigers" had been increasing rapidly in response to strong growth and steps toward economic modernization. These developing countries had privatized state-owned industries and liberalized their financial markets. Over time, the capital flows to these countries became speculative excesses. Meanwhile, complacency and inappropriate fiscal and monetary policies (overvalued currencies, current account deficits financed by short-term borrowings and poorly regulated financial systems) have led to serious vulnerabilities to these countries.

After the Thai baht's collapse in July 3, 1997, the financial crisis swept the region like wildfire. In a few weeks, the currencies of Malaysia, Singapore, Philippines and Indonesia came under attack as investors pulled out their money. Despite the IMF announcement of a $17.2 billion support package for Thailand in August, the currencies and stock markets of these countries continued to plunge. In August 28, 1997, the Philippine Composite Index went down 9.3 percent, while the Jakarta Composite Index declined 4.5 percent. By October of that year, the turmoil turned toward Hong Kong, where the Hang Seng Index lost 23 percent of its value over four days starting October 20. South Korea was also coming under pressure as the Korean won dropped as investors dumped Korean stocks. The aftershocks were felt across emerging markets such as Russia, Brazil, Mexico and Argentina, and even in the industrialized world. In November 1997, the IMF announced a $40 billion stabilization package for Indonesia with the US pledging a $3 billion standby credit. By December, Korea and the IMF agreed on a $57 billion support package. By early 1998, the crisis ebbed and most currencies and stock markets recovered.

A look at the table below shows that the countries who received IMF support packages seemed to have recovered first. The Korean won, for example, bottomed out in December 1997 after dropping 126 percent. This was followed by the Thai baht which reached its low of 56.45 against the US dollar in January 1998.

**Fall & Recovery from Crisis Lows**

| Asian Currencies vs. US Dollar | Price as of July '97 | Post-Crisis Low Date | Post-Crisis Low Price | % Chg from July '97 | Current Price | % Chg from July '97 |
|---|---|---|---|---|---|---|
| Korean Won | 884.80 | Dec-97 | 2,000.00 | -126.0% | 921.01 | -4.1% |
| Singapore Dollar | 1.43 | Dec-01 | 1.86 | -30.1% | 1.52 | -6.3% |
| Thai Baht | 25.30 | Jan-98 | 56.45 | -123.1% | 30.99 | -22.5% |
| Malaysian Ringgit | 2.52 | Jan-98 | 4.89 | -94.0% | 3.45 | -36.9% |
| Philippine Peso | 26.38 | Mar-04 | 56.45 | -114.0% | 46.08 | -74.7% |
| Indonesian Rupiah | 2,430.88 | Jun-98 | 16,950.00 | -597.3% | 9,010.00 | -270.6% |
| **Asian Stock Indices** | **Price as of July '97** | **Post Crisis Low Date** | **Post Crisis Low Price** | **% Fall** | **Current Price** | **% Chg from July '97** |
| Thailand SET | 264.98 | Sep-98 | 204.59 | -22.8% | 823.93 | 210.9% |
| Indonesia JCI | 716.83 | Sep-98 | 255.46 | -64.4% | 2,220.93 | 209.8% |
| South Korea KOSPI | 746.89 | Jun-98 | 277.37 | -62.9% | 1,847.79 | 147.4% |
| Singapore STI | 1,974.40 | Sep-98 | 800.27 | -59.5% | 3,551.68 | 79.9% |
| Philippines PSEI | 2,835.03 | Oct-01 | 978.19 | -65.5% | 3,758.84 | 32.6% |
| Malaysia KLSE | 1,070.06 | Sep-98 | 261.33 | -75.6% | 1,369.30 | 28.0% |

*Source: Technistock*

In the case of stocks, the Korean stock market also bottomed out first when the KOSPI index reached 277.37 in June 1998. Other markets hit their lows in September 1998, except for the Philippines which made a double bottom in October 2001 (due to a political crisis in 2000-2001) and in March 2003 (due to a deteriorating fiscal balance).

In retrospect, the swiftness of the restoration of public confidence in South Korea, Indonesia, Thailand, and also in the case of Malaysia, was due to their government initiated financial restructuring. Their governments provided for the liquidity support to banks, guarantees of bank liabilities, the provision of public funds for the recapitalization of financial institution, and the creation of publicly owned centralized asset management companies.

In contrast, the Philippines took the longer rout. While our banking system were relatively healthier (post-crisis) compared the countries mentioned above, the fiscal constraints of the government left the private sector to spearhead the cleanup of the banking system. But now that the fiscal reforms are in place and the economy back on its track, public confidence has been completely restored.

**More room to go for peso and Philippine stocks**

Fast forward ten years, Asia is once more at the forefront of investors' radar screens. Investment and portfolio inflows are back. Gone, however, are the shortcomings of the past. This time around, most of the fallen "Asian tigers" have significant current account surpluses, limited external debt and huge foreign exchange reserves. Moreover, their currencies have been strengthening against a generally weak US dollar. This is the reason why we continue to be bullish on Asia, especially the Philippines. Note that despite the peso's recent strength and the PSEi Index (PSEi) reaching new highs, the Philippines have yet to recover lost ground when compared to other countries hit during the Asian crisis.

The chart below reveals that the peso is still 74.7 percent off its pre-crisis level of 26.38. Meanwhile, the Korean won and the Thai baht are just 4.1 percent and 22.5 percent off their pre-crisis levels, respectively. This means that the peso potentially has more room to appreciate.

**Peso- US Dollar Chart (1995 to present)**


*Source: Technistock*

Similarly, the Philippine stock market still has plenty of room to catch up given that the stock markets of Thailand and Indonesia are up more than 200 percent from their pre-crisis levels, while Korea is up 150 percent. At the current value of 3,758, the PSE Index is only up 32.6 percent from its pre-crisis level of 2,835. Thus, given the country's accelerating economic growth and an appreciating peso which should attract more investment capital, the Philippine stock market has the potential to gain more ground.

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