

In the summer of 1997, the weather was hot in Southeast Asia but it's hotter in finance markets, especially in foreign exchange markets where a US dollar fever broke out. Central banks of Thailand, Indonesia, Malaysia and the Philippines had to sell out billions of dollars in vain to reduce this fever. On July, 1997, the Thai Government decided to float the baht starting the Southeast Asian currency crisis. From early 1997 to October, the baht fell by 50.3%, the Indonesian rupiah by 49.6%, the Malaysian ringgit by 33.8%, and the Philippine peso by 33.7%. What were the causes of this crisis?

1. Unreasonable investment policies

Investment flows weren't well under control and concentrated on low-efficiency sectors, instead of on industries that could bring in foreign exchange (manufacturing industries and agriculture). Particularly Thai investors have put a lot of money in real estate, hotels, restaurants, office blocks and expressways and made prices of land and houses skyrocket.

It's worth noting that many Southeast Asian governments, especially Thai one, allowed private companies and investors to borrow loans from foreign parties without restrictions. Interest rate on foreign loans is lower than that on loan in domestic currency (6% or 7% compared with 12-13% a year) while the exchange rate of the baht to the US dollar has been kept stable for 15 years. This situation has made them feel sure to borrow foreign loans

(mainly short-term loans) and put them in real estate. That is why foreign debts increased fast. For example, Thai foreign debt increased from US\$20 billion in 1992 to 88 billion in 1996 (45 billion of which were short-term loans).

2. Badly managed banking system

The banking system borrows loans in US\$ from the international market and supplies loans in domestic currency to any customers. These loans are usually guaranteed by overvalued real estate. Many banks could decide, within minutes, on supplying loans of US\$80,000 to a customer who wanted to buy a Mercedes Benz.

3. Trade gap

Imports increased faster than exports and led to balance of payments deficit, budget deficit, low investment efficiency, high unemployment rate, unstable real estate market, large overdue debts and bad loans, decrease in foreign exchange reserve and many other bad things.

4. Inflexible exchange rate

Southeast Asian countries tied their currencies to the US dollar and at the same time, made their currencies freely convertible by liberating the finance market. The exchange rate of the baht, for example, has stayed at 24-25 to the US dollar for 15 years, although the US dollar is rising against other hard currencies such as the DEM, FRF and JPY. Thus, Southeast Asian currencies have been overvalued for a long time.

On May 15, 1997, George Soros,

a financial tycoon, predicting the rise of the US dollar against Southeast Asian currencies, bought millions of dollars (in fact he could buy some billions) from international finance market, and many speculators, including around 2,000 mutual trusts (Tiger, Ormit, Panther, Puma, etc.) followed his step. And as a result, prices of the US dollar in Southeast Asian finance markets started to rise although all central banks had to sell the US dollar in large quantities in a hope of stabilizing the market. Everybody was panicked into buying the dollar: companies and banks wanted to repay foreign debts on the due date, investors wanted to transfer profit to their home banks, the public wanted to keep the dollar when the value of domestic currencies fell. The demand for the US dollar increased so sharply that billion after billion of dollars sold by Southeast Asian central banks couldn't satisfy it. And after attaching domestic currencies to the dollar for many years, these banks had no choice but to let them float, on July 2, 1997 in Thailand, July 11 in the Philippines, and Aug. 14 in Indonesia.

In Vietnam, the price of dollar also started to rise in July 1997 when the demand exceeded the supply of dollar because many foreign debts were falling due and the supply of the dollar from the State Bank didn't increase. The State Bank had to allow the price of the dollar to have a 10% difference from the official rate, and the exchange rate increased to some VND12,300 to the dollar in early December.

CAUSES OF THE SOUTHEAST ASIAN CURRENCY CRISIS

by Dr. TRẦN HOÀNG NGÂN

