

# Asia Recovery Report 2000

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<http://aric.adb.org>

The Asia Recovery Report (ARR) is a semi-annual review of Asia's recovery from the crisis that began in July 1997. The analysis is supported by high-frequency indicators compiled under the ARIC Indicators section of this web site.

This inaugural issue of the ARR focuses on the five countries most affected by the crisis: Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand. The recovery process in these five countries together with its strengths and weaknesses are discussed. The theme of this ARR is the most immediate and complex challenge to the recovery process—the restructuring of banks and the corporate sector.

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## Highlights

- Asia's recovery has been encouraging and faster than expected but incomes and living standards have still a way to go to reach pre-crisis levels.
- The recovery is uneven—Korea has experienced the strongest recovery, while Indonesia is furthest behind—and it is not yet broad-based.
- Asset markets have led the recovery, with exchange rates and equity valuations at the forefront, but property markets have yet to recover.
- Exports and public spending have driven recovery in the real economy so far; private consumption and investment are beginning to track upward as well.
- Bank re-capitalization and restructuring is proceeding at an uneven pace, fastest in Korea and Malaysia, at a moderate pace in Thailand and slowest in Indonesia; recovery is mainly cyclical not structural.
- Corporate restructuring and resolution of corporate debt have proceeded more slowly than bank restructuring in all the affected countries; however, there are signs of progress in resolving more cases.
- The social dimensions of the crisis cannot be ignored if the Asian economies are to achieve their growth potential; investments in education, health and improved social safety nets are essential.
- The recovery process will be further consolidated and possibly strengthened in 2000, driven mainly by domestic demand.
- Some have suggested that a more cautious approach to reforms is now needed to allow growth to take root; this "growth first" approach is risky and may invite a recurrence of problems at a later date.
- There is no room for complacency or for slackening reform efforts; if reforms are continued, in the long run, the crisis may indeed appear to be a relatively moderate disturbance in Asia's rise and dynamism.

*Continued overleaf*

## Acronyms, Abbreviations, and Notes

ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
BI	Bank Indonesia
BIS	Bank for International Settlements
BLBI	Bank Indonesia liquidity credits
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CAMEL	Capital, Asset Quality, Management, Earnings and Liquidity
CAR	capital adequacy ratio
CDRAC	Corporate Debt Restructuring Advisory Committee
CDRC	Corporate Debt Restructuring Committee
CIF	cost, insurance, and freight
CPI	consumer price index
CRCC	Corporate Restructuring Coordination Committee
EIU	Economic Intelligence Unit
EPF	Employee Provident Fund
FDI	foreign direct investment
Fed	Federal Reserve Board
FIDF	Financial Institutional Development Fund
FOB	free on board
FRA	Financial Sector Restructuring Authority
FSC	Financial Supervisory Committee
FSS	Financial Supervisory Service
GDP	gross domestic product
GIR	gross international reserves
IBRA	Indonesian Bank Restructuring Authority
IMF	International Monetary Fund
INDRA	Indonesian Debt Restructuring Agency
JCI	Jakarta Composite Index
KAMCO	Korean Asset Management Company
KDIC	Korean Deposit Insurance Corporation
KLCI	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
MOF	Ministry of Finance
MOFE	Ministry of Finance and Economy
NPL	non-performing loan
OECD	Organisation for Economic Co-operation and Development
PHISIX	Philippine Stock Exchange Composite Index
PRC	People's Republic of China
ROA	return on assets
ROE	return on equity
S&L	savings and loan
S&P	Standard & Poor's
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SME	small and medium enterprises
WPI	wholesale price index
WTO	World Trade Organization
B	baht
P	peso
RM	ringgit
Rp	rupiah
W	won
...	not available
p	preliminary
Q	quarter
y-o-y	year on year

## Country-specific Recovery Prospects

- Indonesia's recovery has been constrained by political uncertainties and instability, but with a new democratically elected President it is poised to begin recovery in earnest this year.
- Korea is back with the strongest recovery in the region, but *chaebol* reform remains to be accomplished.
- Malaysia's selective capital controls policy may have provided the authorities with breathing space to stimulate the economy through expansionary macroeconomic policies and structural reforms; but the jury is still out on the efficacy of capital controls.
- Philippine banks report recovery in lending activities and a decline in the share of NPLs, indicating the recovery is gathering momentum; but fiscal consolidation and governance issues have to be addressed.
- Thailand's market-led approach to financial restructuring is finally starting to pay dividends as banks report progress in clearing bad debts.

The *Asia Recovery Report 2000* was prepared by the Regional Economic Monitoring Unit of the Asian Development Bank and does not necessarily reflect the views of the ADB's Board of Governors or the countries they represent.