ADB

Asia Recovery Report 2000

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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 issue of the ARR focuses on the five countries most affected by the crisis: Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand. The recovery processes in these five countries together with their strengths and weaknesses are discussed. The theme of this ARR is external risks facing Asia's rebound from the crisis.

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Highlights

- This year has seen the five countries most affected by the Asian financial crisis firmly in recovery mode, a process that began in 1999. However, although recovery has consolidated further, it is still far from complete.
- Recovery is proceeding on three tracks—the Republic of Korea (henceforth, Korea) has already surpassed its precrisis per capita income peak, Malaysia and Philippines are expected to do so this year, while Thailand will take about another year or so and Indonesia possibly even longer.
- Recovery is maturing—quarterly GDP growth rates (y-o-y) have basically stabilized in Indonesia, Philippines, and Thailand, and tapered off a little in Korea and Malaysia. The growth outturn for this year is projected to be higher than in 1999 in four of the affected countries. Korea's growth in 2000 is expected to moderate to a more sustainable pace.
- In Korea, recovery is improving cash flow positions of banks and corporates, prompting the flow of bank credit, which in turn is fueling further recovery. Lately, Malaysia also appears to be experiencing this "virtuous circle," but other countries are still behind.
- External and internal factors are responsible for the retreat in equity markets and exchange rates in the affected countries this year; but there are no reasons to suggest that Asia may plunge into a renewed financial crisis.
- Net private capital outflows predicted from the affected countries this year will not approach the levels seen in 1997 and 1998. The composition of capital being withdrawn is also different and does not reflect investor panic.
- The quality of recovery is improving, adding resilience to the affected countries, which are now in a much stronger position to absorb shocks.
  - While net exports had generally led recovery, domestic demand and intraregional trade are now starting to kick in. The recovery is thus becoming relatively less susceptible to gyrations in external demand outside the region.
  - There is now a greater clarity and coherence in macroeconomic management policies.
  - Headway is being made on structural rehabilitation of banks and corporates. In most countries, NPLs are falling and real bank credit is starting to stabilize or rise.

Continued overleaf

Acronyms, Abbreviations, and Notes

ADB	Asian Development Bank
AMC	asset management company
ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
BNM	Bank Negara Malaysia
BOP	balance of payments
BPS	Badan Pusat Statistik
CAR	capital adequacy ratio
CDRAC	Corporate Debt Restructuring Advisory Committee
CDRC	Corporate Debt Restructuring Committee
CSIP	Capital Structure Improvement Plan
DOSRI	Directors, officers, stockholders, and related interests
EU	European Union
FDI	foreign direct investment
FRA	Financial Sector Restructuring Authority
FSS	Financial Supervisory Service
GDP	gross domestic product
HITS	Hyundai Investment Trust & Securities Co.
IBRA	Indonesian Bank Restructuring Authority
IMF	International Monetary Fund
IT	information technology
ITC	investment trust company
JCI	Jakarta Composite Index
JITF	Jakarta Initiative Task Force
KAMCO	Korea Asset Management Corporation
KDIC	Korea Deposit Insurance Corporation
KLCI	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
MSCI	Morgan Stanley Capital International
NASDAQ	National Association of Securities Dealers Automated Quotation
NPL	nonperforming loan
OPEC	Organization of Petroleum Exporting Countries
PHISIX	Philippine Stock Exchange Composite Index
PRC	People's Republic of China
PSE	Philippine Stock Exchange
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SME	small- and medium-sized enterprise
SOE	State-owned enterprise
TPI	Thai Petrochemical Industry Plc
US	United States
WEO	World Economic Outlook
B	baht
P	peso
RM	ringgit
Rp	rupiah
W	won
y-o-y	year-on-year
Note:	"$" refers to US dollars, unless otherwise stated.

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- External positions have improved significantly. Foreign exchange reserves provide ample cover for short-term obligations and the maturity structure of external debt is improving.

- Property markets are starting to bottom out.

- But weak spots remain.

    - Fiscal positions are a cause for concern in Indonesia, Philippines, and to a lesser extent, Thailand.

    - Restructuring still has a long way to go.

    - Political uncertainties are hampering reform and recovery in several countries.

    - Social recovery needs to be accelerated.

- Earlier this year, there were concerns that US growth could slow sharply and impact adversely on Asia's recovery. This risk has receded somewhat, although it cannot be ruled out entirely. Even if US growth were to slow more sharply than most expect, say to about 2 percent rather than 3-4 percent in 2001, economic recovery would be impaired, but not derailed.

- The adverse impacts arising from the present high oil price levels would be manageable if they are maintained only up to the first quarter of next year. However, a prolonged period or further price increases could cause significant disruptions to the region's recovery.

- The recovery process should move forward further during the balance of this year and in 2001. But reforms should be continued in order to place Asia on the path to a new era of high growth and reduced vulnerability to external shocks.

Country-Specific Recovery Prospects

- Indonesia's recovery has consolidated further in the first half of the year. But financial restructuring, the number one item on the reform agenda, continues to be painfully slow.

- Korea is experiencing the strongest recovery in the region. However, the continuing problems of major *chaebols* and other conglomerates raise the risk of further banking problems.

- Malaysia is also growing quickly. It has made good progress on banking and corporate rehabilitation, but FDI, an important driver of Malaysia's growth in the past, still languishes.

- The pace of economic reform legislation in the Philippines has accelerated this year. Budgetary woes and the conflict in Mindanao are adversely affecting investor confidence, while the quality of governance remains a concern.

- Political uncertainty about the outcome of the forthcoming elections and the future direction of reforms continues to impact on Thailand's financial markets and economic performance.