

Malaysia, Indonesia try to shore up defences post-Asian financial crisis

The Malaysian Insider

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Southeast Asia has spent the best part of two decades shoring defences against a repeat of the Asian financial crisis, including building up record foreign exchange reserves, yet is now feeling vulnerable to speculative attacks again.

Officials are growing increasingly concerned as souring sentiment has made currencies slide and investors reassess risk profiles in an environment where China is slowing and US interest rates will rise at some point.

And while economists have long dismissed comparisons with the 1997/98 currency crisis, pointing to freer exchange rates, current-account surpluses, lower external debt and stricter oversight by regulators, lately there has been a change.

Malaysia and Indonesia, which export oil and other commodities to fuel China's factories, are looking vulnerable as the world's second-largest economy heads for its slowest growth in 25 years and the prices of their commodity exports plunge.

"We are worried about the contagion effect," Indonesian Finance Minister Bambang Brodjonegoro said last week, using a word widely used in 1997/98.

In 1997, "the thing happened first in Thailand through the baht, not the rupiah. But the contagion effect became widespread", he said.

Taimur Baig, Deutsche Bank's chief Asia economist, said unlike 1997, when pegged currencies were attacked as overvalued, today's floating ones were "weakening willingly" in response to outflows.

But there can still be contagion, as markets lump together economies reliant on China or on commodities. "If you see a sell-off in Brazil, that can easily spread to Indonesia, which can spread to Malaysia, and so on."

Foreign funds have sold a net US\$9.7 billion of stocks in Malaysia, Thailand and Indonesia this year, with the bourses in those three countries seeing Asia's largest net outflows, Nomura said on October 2.

Baig said as in 1997/98, falling currencies would naturally pose balance-sheet problems for companies with dollar debts and local-currency earnings.

This year, the ringgit has fallen nearly 20% against the dollar and its reserves dropped by about the same percentage, to below US\$100 billion.

"It's almost like a perfect storm for Malaysia," Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar said.

Malaysian officials insist the economic fundamentals are stronger than two decades ago, but some economists aren't sure.

Chua Hak Bin of Bank of America Merrill Lynch said he draws "little comfort" from comparisons with 1997. While in many ways Malaysia's economy is stronger now, for example by having a current account surplus, its external debt is 70% of gross domestic product, compared with 44% in 1997, and there's "significant downside risk even after the sharp ringgit correction".

None of the three main credit-rating agencies has downgraded Malaysia's creditworthiness in response to market ructions, but Moody's said in September the currency's fall was a symptom of declining exports and other factors negatively impacting key credit buffers.

Souring sentiment

Indonesia, Southeast Asia's largest economy, has a lower external debt relative to GDP – 32% – but foreigners also own a large share its local-currency bonds.

This makes the rupiah, down 13% against the dollar this year after jumping yesterday, vulnerable to souring sentiment.

"We are trying to differentiate ourselves from Malaysia," Bambang said. "At least we can get the inflows, we can still create positive sentiment."

At end-February, Indonesia's reserves topped US\$115.5 billion. On September 21, they were US\$103 billion.

Today, the central banks of Indonesia and Malaysia are due to announce fresh reserve figures. – Reuters, October 7, 2015.

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