

Growing concerns over capital outflows in ASEAN – a comparison with the Asian financial crisis

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While the Fed is raising interest rates at a fast pace in the US, worries about capital outflow are growing in emerging economies and ASEAN economies are no exception. Some countries have taken steps to deal with this, such as Malaysia and the Philippines, which have been carrying out rate hikes for the first time since the start of the pandemic. However, it is possible the US may take an even firmer stance towards monetary tightening, which would lead to a risk of further capital outflows and currency depreciation.

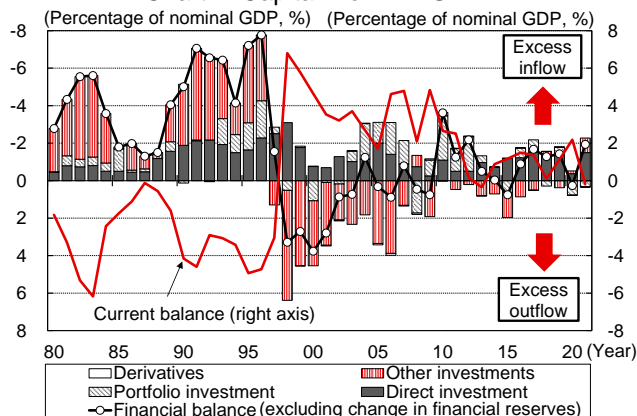
That being said, compared with the Asian financial crisis of 1997 when there was a swift outflow of capital from Asia, economies' resilience to capital outflow has increased. Capital flows show large levels of capital inflow during the period of high growth at that time, which is referred to as the East Asian Miracle. The breakdown shows the ratio of "other investment" was high. Meanwhile, local financial institutions regularly procured short-term funds denominated in foreign currencies from overseas (i.e. hot money) and lent it domestically as long-term funds denominated in local currencies. The aggressive resolution of this kind of "mismatch between currency and term" in markets deepened the currency crisis. However, the trend of "hot money" has not been pronounced in recent years and capital inflows are stable, particularly "direct investment" (Chart 1). In terms of external assets, payment capacity has increased. For example, the ratio of foreign exchange reserves to short-term external debt is now more than three to one in many countries from around one to one during the Asian currency crisis. Furthermore, frameworks for regional financial cooperation have been established, such as the Chiang Mai Initiative¹.

Since the 2000s, financial markets in ASEAN economies have experienced the global financial crisis and the "taper tantrum". Despite this, the impact was relatively mild, which seems to be due to the strengthening of countermeasures (Chart 2). The current rise in US interest rates is the fastest since the 1970s, yet the risks in terms of international finance are expected to be limited. Nevertheless, the impact on actual economies, like the huge rise in commodity and food prices, is the same as in other emerging economies, and it is important to continue to keep an eye on the real economy and political stability.

¹ When a country in the region faces a liquidity crisis that interferes with external payments, each country provides a short-term exchange of foreign currency funds in the form of currency swaps. The total

contribution to this arrangement is USD 240 billion in total (of which China, Japan and South Korea account for 80%), and the amount that can be withdrawn by each ASEAN country is about 4% of nominal GDP.

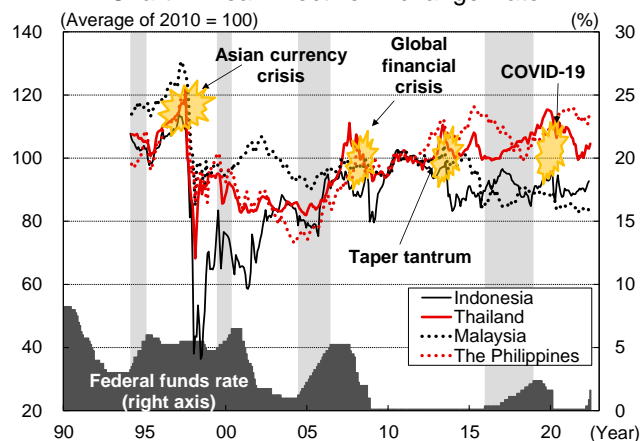
Chart 1: Capital Flow in ASEAN



Note: Total of Indonesia, Thailand, Malaysia, the Philippines and Vietnam (from 1996)

Source: IMF, MUFG Bank Economic Research Office

Chart 2: Real Effective Exchange Rate



Note: Grey shaded areas denote phases of rate hikes in the US

Source: BIS, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

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