

Asian Financial Crisis and Its Lessons -Indonesia-

RIET/ADBI
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Table-1 Interest Rate Arbitration

	Rp Deposit Rate 3months	LIBOR 3 months	Change Rp/US\$ end period	i*+change e	Risk Premium
1986	14.6	6.86	45.9	52.7	-38.1
1987	17.5	7.18	0.5	7.7	9.8
1988	17.8	7.98	4.9	12.9	4.9
1989	17.1	9.28	3.8	13.1	4
1990	17.53	8.31	5.8	14.1	3.4
1991	23.32	5.99	4.8	10.8	12.5
1992	19.6	3.86	3.5	7.4	12.2
1993	14.55	3.29	2.3	5.6	8.9
1994	12.53	4.74	4.3	9	3.5
1995	16.72	6.04	4.9	10.9	5.8
1996	17.26	5.51	3.2	8.8	8.5
1997	20.01	5.76	95.1	100.9	-80.9

Source: IMF, IFS Yearbook 2005 and IFS May 2006

Figure 1 (a) Tight Monetary Policy

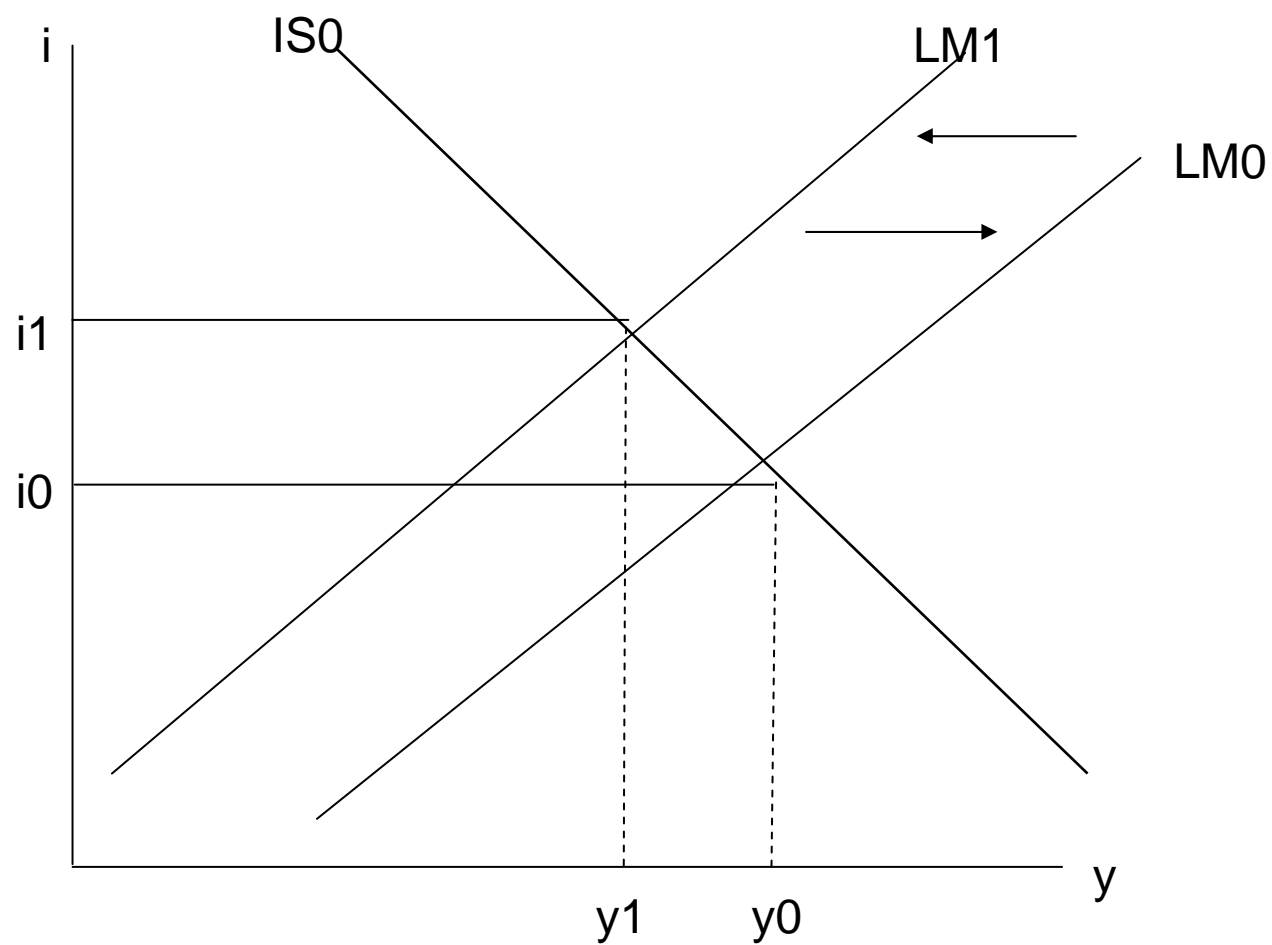


Figure 1 (b) Tight Fiscal Policy

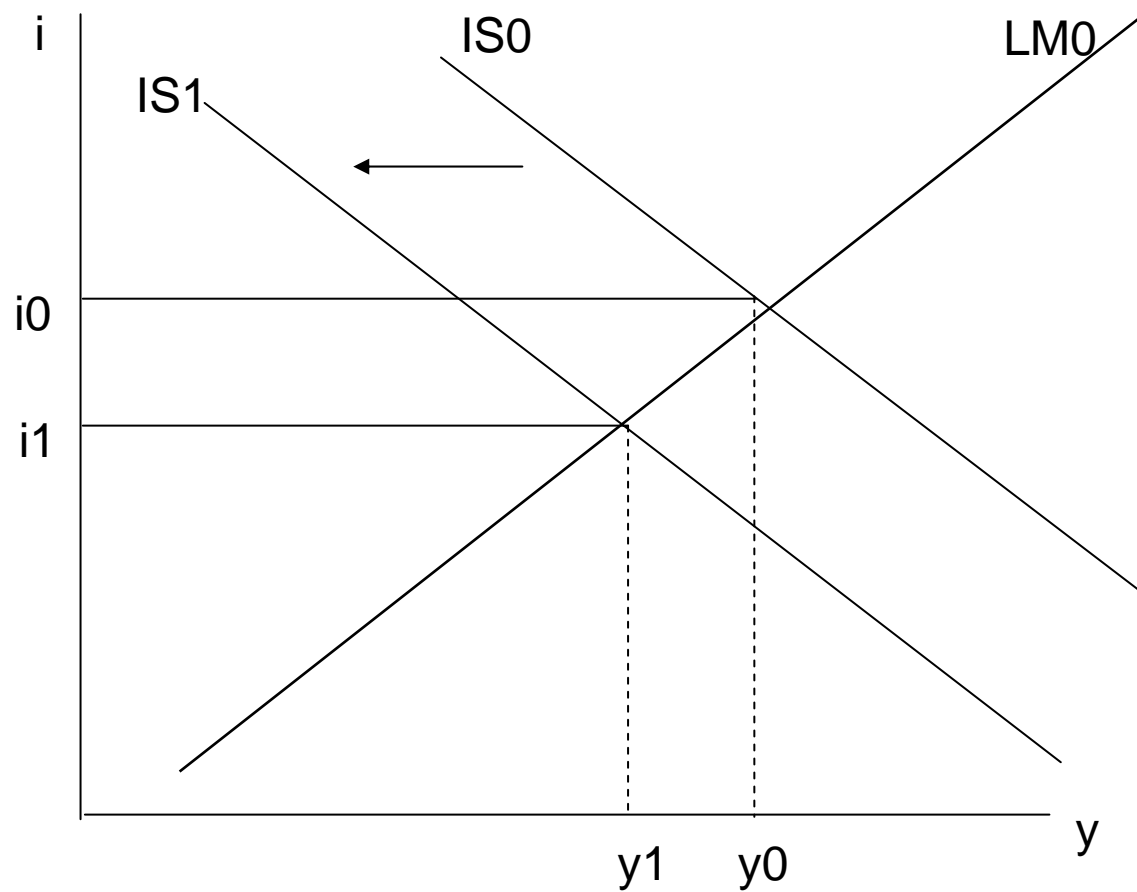


Table-2 Macroeconomic Policies and Problems -Before the Crisis-

	<u>Actual Policy Taken</u>	<u>Problems</u>
Exchange rate Policy	USD peg	If float Rp. appreciated
Monetary policy	Tight	Monetary policy not effective
Fiscal policy	Not tight	Political pressures Fiscal incrementalism
Debt management /capital control	No capital control	Many big projects Massive capital inflows
Aid policy	CGI commitment continued	CGI not monitoring

Table-3 Saving-Investment, Export- Import and Current Account GDP (%)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2003</u>
<u>Current Account</u>	<u>-3.37</u>	<u>-2.27</u>	<u>4.29</u>	<u>4.13</u>	<u>5.32</u>	<u>3.62</u>
Private consumption	62.36	61.68	67.78	73.94	61.65	67.07
Government consumption	7.57	6.84	5.69	6.6	6.53	8
Fixed capital formation	29.6	28.31	25.43	20.14	19.85	18.88
Stock Change	1.09	3.44	-8.65	-8.77	1.45	-1.57
Exports	25.82	27.86	52.97	35.51	40.98	30.65
Imports	26.44	28.13	43.22	27.43	30.46	23.02
Net factor income	-2.68	-2.92	-5.64	-7.62	-6.63	-3.89
Domestic saving	30.08	31.48	26.52	19.45	31.82	24.93
(X-M)GDP	-0.62	-0.28	9.75	8.08	10.52	7.63
(X-M+NPIFA)/GDP	-3.3	-3.2	4.11	0.47	3.89	3.74

Table-4 Balance of Payments (million US \$)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2003</u>	<u>2005</u>
Current account	-7663	-4889	4096	5783	7992	8107	929
Exports of goods & services	56787	63239	54850	55841	70621	69402	99105
Imports of goods & services	-59379	-62830	-43903	-42974	-56002	-56946	-87584
Income net	-6008	-6332	-8189	-8996	-8443	-6218	-11849
Transfer net	937	1034	1338	1914	1816	1869	1258
Capital & financial account	10847	-603	-9638	-5944	-7896	-949	-4515
Foreign direct investment net	5594	4499	-356	-1866	-4550	-597	2195
Portfolio investment net	5005	-2632	-1878	-1792	-1911	2251	4237
Other investment net	248	-2470	-7404	-2286	-1435	-2604	-11280
Net errors & omissions	1319	-2645	1849	2077	3829	-3510	-2024
Overall balance	4503	-8137	-3693	1916	3926	3647	-5610

**Table- 5 Macroeconomic Policy and Problems
-After the Crisis-**

	<u>Actual policy taken</u>	<u>Problems</u>
Exchange rate policy	Float	Free fall
Monetary policy	Tight	Liquidity problems of healthy banks/firms
Fiscal policy	Tight	Further contraction of the economy
Debt management /capital control	No capital control	Massive capital flight
Aid policy	Assistance from IMF and donors	Prompt assistance necessary