Asia
India
Indonesia
Malaysia

Economics

Update

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Asia's currency laggards need policy clarity and some breathing room

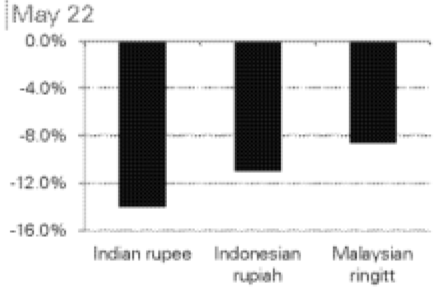
INR, IDR, and MYR are under pressure, but some perspective is warranted about their vulnerability metrics

We take stock of the three Asian currencies that have depreciated the most since taper-related volatility began on May 22, namely the rupee, rupiah, and ringgit. Despite the ongoing volatility and heightened level of concerns, our analysis shows that the currencies ought to be defensible. While vulnerability to outflows remains and the negative spillover from the recent, sharp deprecation could be considerable, reserves cover is still ample and scope for orderly fiscal and external balance adjustment exists. There is policy room is restore stability in the currency markets in all three economies, provided measures are taken expeditiously, and with clarity and credibility.

The rupee, rupiah, and ringgit have depreciated the most among Asian currencies since taper-related volatility began on May 22. While the focus has been on the rupee and the rupiah, concerns about the ringgit have also been rising. Below, we analyze the associated economies' vulnerability metrics.

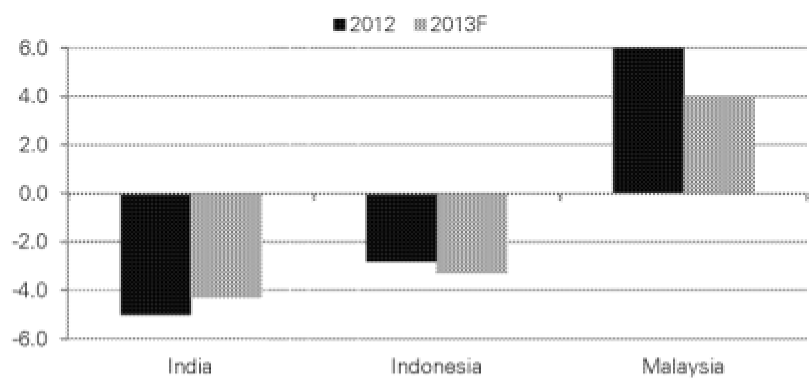
India and Indonesia's stories are similar in that both economies have current account deficits that are struggling to be financed under the prevailing market environment, and both economies have seen a number of policy measures this year (chronicled extensively by us in earlier publications) which have so far not yielded the desired result. Malaysia, running an external account surplus (although it is declining), is in a different camp.

Depreciation against the USD since May 22



Source: Bloomberg Finance LLP, Deutsche Bank

Current account balance (% of GDP)



Source: CEIC, Deutsche Bank

But India and Malaysia are similar in two areas. First, both economies have large budget deficits (5% and 4.2% of GDP, respectively) and public sector debt (68% and 67% of GDP), thus limiting the fiscal space for maneuverability in the face of financial market and economic difficulties. Second, both economies have sizeable short-term debt on a residual maturity basis that could face roll-over difficulties if global market unrest persists.