



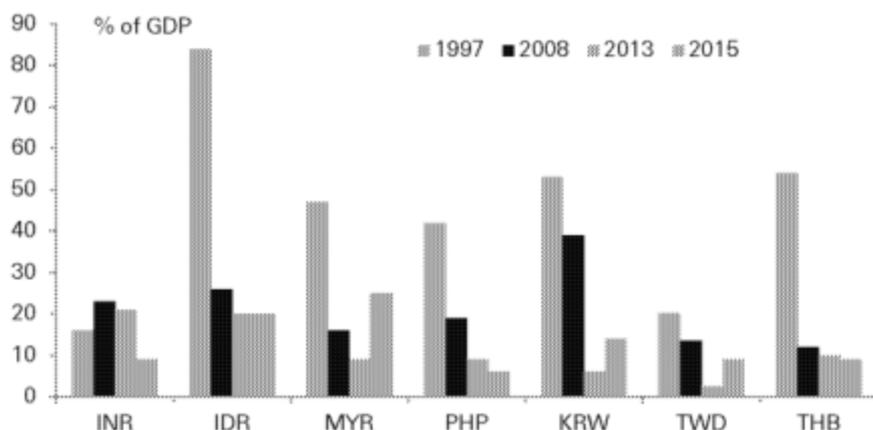
Indonesia and Malaysia which have large external debts and low levels of foreign exchange reserves relative to external financing requirements.

Is this a crisis?

At what point do we start calling this a crisis? Perhaps not yet – there’s no evidence yet of systemic difficulties in meeting external debt payments anywhere in Asia but we expect that even if the equity market settles down currency markets will remain a key focus of investor concern.

Comparisons to 2008 or 1997/98 are inappropriate for most Asian economies. In most cases, currencies haven’t depreciated anything like as much as they did during the Asian Financial Crisis or during the Global Financial Crisis – Malaysia and Thailand are exceptions in the latter episode, but their experience during 2008 was comparatively benign. The “taper tantrum” in 2013 is a reasonable parallel for Asian currencies over the past year or so – and we think the logic is similar too in the link between weak currencies and the prospects for US rates. Note, though, the relative outperformance of the INR both compared to most currencies today and compared to its own history. Having a current account deficit of only about 1.4% versus 4.7% in the year to March 2013 is a tremendous advantage.

Figure 3: Asian currency movements during “crisis” times



Source: Deutsche Bank

A quick survey of external balances in 1997 compared to today show that a repeat “Asian Crisis” is unlikely. Current account balances are much improved – where there were deficits there are now generally surpluses. Only Indonesia today has a current account deficit that is comparable to 1996 and it is, we think, heading down to 2% of GDP this year.

External debt/GDP ratios are not much different from 1996 – higher in Malaysia and to a lesser extent South Korea and lower elsewhere. Moreover, we calculate an external financing requirement ratio for each economy (short-term debt plus amortization payments on medium- and long-term debt minus the current account surplus all as a ratio to foreign exchange reserves) and one can see immediately in Figure 5 that external financing pressures are vastly improved in most economies, thanks to the reversal of current account deficits.