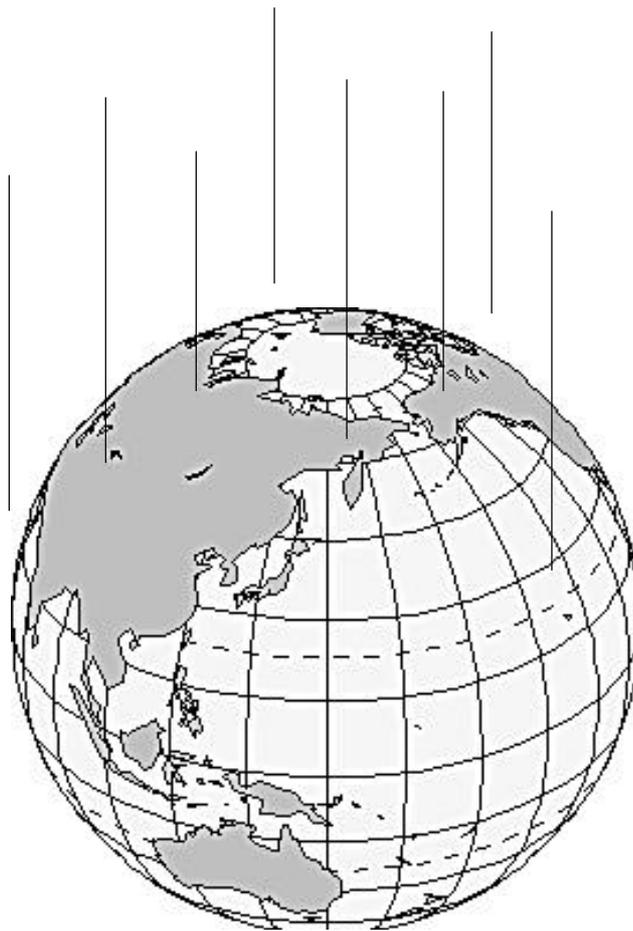


The Asian Crisis:

What has happened and why?



Edited by

Kar-yiu Wong

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(13 August 1998)

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Preface

The Asian crisis became official on July 2, 1997, when the Bank of Thailand realized that it could no longer defend the baht and allowed it to float (devalue). The subsequent surrenders to currency attacks in Malaysia, the Philippines, Indonesia, South Korea, and Taiwan were like falling dominos. Many people, however, might not be aware of the severity and extend of the crisis until the crash of the stock market in Hong Kong in October, 1997, a few days after the letting go of the Taiwan dollar, and the announcement by the government of South Korea its decision to seek assistance from outside world in November, 1997, a few days before the APEC meeting was held in Vancouver, Canada.

I remembered that back in last October, the Asian crisis suddenly became a common topic of conversation among my colleagues and friends, as everyone was trying to find out why the stock market in Hong Kong could fall so much and so quickly, and why the United States would be interested in what was going on in a small economy like Hong Kong. The bailout plan provided by the IMF to South Korea, which was dramatized by the government's initial denial of the need of outside assistance and the subsequent steps of expansion of the size of the plan, provided a good idea of the seriousness of the crisis: If one of the four little dragons got into a trouble so big that it has to seek a foreign assistance package as large as US\$57 billion, one can easily imagine what kind of problems other Asian countries are facing.

When I talked about the Asian crisis to the students in my graduate trade class at the University of Washington, all of them showed great interest in knowing more about it. However, there was not much literature on this crisis except magazine and journal articles. So I organized those who wanted to devote time to this project and formed a study group, which is named *Economic Research Group on Southeast and East Asia (ERGSEA)*, to try to find out what has happened in these countries. The group was later joined by other graudate and undergraduate students of the department of economics.

The group proceeded in three stages. First, they collected revelant articles and information about the events in different countries. Second, they were devided into several subgroups, with one to three in each, to study various countries in the current crisis. These countries and the corresponding people responsible for are:

Indonesia: Sweta Saxena

Malaysia: Idanna Kaplan and Avery Ke

Taiwan: Shuan-Tung Peng and Yi-Chi Chen

Japan: Lorne Johnson, Ayumi Orito, and Maiko Tajima

Hong Kong: Ming Chien Lo and Jerry Chow

Thailand: Chia-Wei Hong

South Korea: Hyun Jeon

Each subgroup searched for articles and information about the country, and tried to find out what has happened and why. By the end of March, all of them have finished a chronology of the country. This provides a very good idea of the events. In the third stage of the project, each group would write up a report on the country under study. Starting from May 5, they presented earlier drafts of the reports at the Department of

Economics, University of Washington. So far, six country reports have been presented. Each meeting was well attended by faculty members and students.

At the same time, I established a home page on the Asian crisis. This home page contains not only the chronology of the countries and some country reports, but also relevant articles on the crisis, links to other Asian home pages and official and unofficial home pages of various countries, a reference list of economics papers on Asian growth and a separate one on the Asian crisis. Establishing the home page helps me understand more of the crisis, and also provides a service to others who want to get information about the crisis, as various pieces of information are scattering around many places and are time consuming to collect. The Asian home page is at

<http://weber.u.washington.edu/~karyiu/Asia/index.htm>

In this manuscript, I am happy to include four of the country reports that have been completed, chronology of the seven countries, and reference lists of economics papers on Asian growth and the crisis.

Updated information, and other information related to this crisis such as articles and commentaries, links to different Asian home pages, pages with downloadable statistical data, official and unofficial home pages of different countries, and a conference on this crisis are available on my Asian home page.

The information in this manuscript and the Asian home page is not complete. I would appreciate any comments and information related to this crisis so that a better home page can serve others. Please e-mail me.

In publishing the present manuscript, generous help has been provided by the City University of Hong Kong where I am visiting. I would like to take this opportunity to thank the Faculty of Business and the Department of Economics and Finance, in particular, to Richard Ho and Stephen Cheung, for their hospitality and assistance.

Kar-yiu Wong
<karyiu@u.washington.edu>
August, 1998.

Other Asian Home Pages

In addition to my Asian home page at <http://weber.u.washington.edu/~karyiu/>, the followings are some other home pages related to the Asian crisis.

Asia Point Network

<http://www.asiapoint.net/galleria/news/economy.htm>

BBC News Online

http://news.bbc.co.uk/low/english/special_report/1998/asian_economic_crises/newsid_45000/45468.stm

Megastories

<http://www.megastories.com/seasia/>

NewsWorks

<http://www.newsworks.com/NewsWorks/static/asia/index.htm>

Nouriel Roubini's Asia Homepage

<http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html>

SHAPS Asian resources (School for Hawaiian, Asian and Pacific Studies)

<http://russia.shaps.hawaii.edu/economic/asian-crisis.html>

USIA International Homepage

<http://www.usia.gov/regional/ea/asiafin/asiafin.htm>

Yahoo Asian Economic Woes

http://headlines.yahoo.com/Full_Coverage/World/Asian_Economic_Woes/

Other Resources and Links

For links to the home pages of newspapers and magazines where articles on the crisis can be found, various home pages where statistical data can be downloaded, and official and unofficial home pages of different countries that describe their economies, please visit my Asian home page.

I Chronology

Chronology – Thailand

April 1997

Some banks and finance companies have been persuaded by the Bank of Thailand (TL's central bank) to avoid giving loans to property. The loans to property of total loans in the banking system is 9% at this point, which is thought being under-reported. [E, 4/12/97]

May 9, 1997

The Bank of TL denies the plan to change the exchange-rate formula. [BW, 5/26/97]

May 15, 1997

In order to defend the baht's peg to the US dollar, the central bank has spent nearly 10 billion dollars by then. [E, 5/17/97]

Mid-May, 1997

Local banks are told not to provide foreign speculators with the baht. [E, 5/24/97]

May 20, 1997

Banks are told not to buy back baht-denominated commercial paper from offshore. [E, 5/24/97]

May 1997

Finance One, the largest Thai finance company which holds 23% of Securities One, collapses. [FEER, 6/26/97]

May 1997

At this point, Thailand totally owes about \$90 billion foreign debt and \$70 billion in which is owed by the private sector, mostly financial institutions. [E, 5/17/97]

Jun 1, 1997

The central bank reassures the policy of defending the baht's peg. [FEER, 6/19/97]

Jun 10, 1997

Central bank bans foreign investors' repatriation of baht funds when they sell Thai shares. At the same time, it also plans to forbid securities lending. [FEER, 6/19/97]

Jun 24, 1997

New Finance Minister Thanong Bidaya submits a package of emergency measures, including an up to 25% foreign ownership of banks and finance firms is allowed to ease TL's fiscal crisis. [BW, 7/7/97]

Jun 1997

Government still keeps high interest rates and effectively imposing currency controls by limiting access to baht by currency traders. [FEER, 6/12/97]

July 2, 1997

IMF teams arrive Bangkok to help resolving the economic crisis. The bank of Thailand starts to float the baht and raises the discount rate by 2 percentage points, to 12.5%, because of the pressure from massive baht selling by foreigners. By the end of the day, the currency devalues 18% from the rate at Baht 25/USD and the stock market rises almost 8%. [BW, 7/14/97, FEER, 8/14/97]

End of July, 1997

Foreign reserves by then is \$30.4 billion. [FEER, 9/25/97]

July 1997

The central bank suspends operations at 16 finance companies and announces that foreign lenders have to shift for themselves. [BW, 7/21/97]

Aug 5, 1997

Thailand's government announces to accept an IMF-guided rescue plan with a credit line of \$15 billion. The plan includes increasing the national value-added tax to 10% from 7%, cutting the national

budget, holding inflation to a maximum of 9%, and whittling the current-account deficit to 5% of GDP from last year's 8.2%. [*FEER*, 8/14/97]

Aug 21, 1997

IMF approves a \$16.7 billion rescue package with requiring the central bank to stop intervening the operations of troubled financial institutions, tighten the classification of nonperforming loans and reveal the size of the reserves ever two weeks. [*FEER*, 9/4/97]

Late Aug 21, 1997

Central bank commits \$23.4 billion to forward contracts to defend the baht against currency speculators. [*FEER*, 9/4/97]

Aug 1997

Foreign reserves drops to \$27.9 billion in the mid-August. It continuously falls to \$25.9 billion in the latest two weeks of August because an estimated \$1.6 billion cash injection from the IMF. [*FEER*, 9/25/97]

Aug 1997

Another 42 finance companies are closed. [*FEER*, 9/4/97]

Sep 4, 1997

The baht reaches an all-time low rate of 38.4 to the US dollar. [*FEER*, 9/18/97]

Sep 1997. This year, only about \$7 billion of \$16.7 billion credit approved by IMF is expected to be received by Thailand. [*FEER*, 9/25/97]

Sep 1997

Bangkok's stock market has fallen almost 30% since July 2. [*BW*, 9/8/97]

Nov 1997

In APEC summit at Vancouver, 18 governments endorse the plans to deal with further regional shocks in South-East Asia under the leadership of the IMF. [*E*, 11/29/97]

References:

BW: *Business Week*

E: *The Economist*

FEER: *Far Eastern Economic Review*

Chronology – Malaysia

late March, 1997

“Bank Negara Malaysia (central bank) announced pre-emptive measures for high levels of private sector lending, namely that (1) as of April 1st, credit facilities must not exceed 20% of total outstanding loans (financing for houses and apartments costing less than M\$150K, infrastructure projects and acquisition of industrial bids are exempted. More exemptions are added a week after initial statement.) Also, (2) no more than 15% of the total outstanding loans for commercial banks and 30% for merchant banks can be secured by stocks and bonds.”

[Economist Intelligence Unit]

May 15, 1997

“Three month interbank rate surges, amid pressure on ringgit triggered by imposition of exchange curbs in Thailand.

[Economist Intelligence Unit]

May 15-16, 1997

“Three month interbank rate rises to 8.62%.”

[Economist Intelligence Unit]

mid-May, 1997

“Rumors that Bank Negara Malaysia (the central bank) has ordered banks to stop undertaking swap transactions.”

[Economist Intelligence Unit]

mid-May, 1997

“Ringgit experiences heavy selling pressure, triggering massive intervention by central Bank Negara, which sells close to M\$1.5 billion in the foreign exchange market to protect the ringgit. The bank also orchestrated a liquidity squeeze in the swap market, to stamp out speculators who had shorted the ringgit and tried to borrow it back from the swap market.”

[Far Eastern Economic Review]

May 28, 1997

“Three month interbank rate goes down to 7.8%.”

[Economist Intelligence Unit]

May 29, 1997

Economists warn that unless Thailand takes steps to deal with the country's financial woes, speculators will soon launch a new attack.”

[Far Eastern Economic Review]

early June, 1997

Pacific Economic Cooperation Council issues annual economic forecast for Asia-Pacific, including 8% growth in 1997 and 1998 for Malaysia.”

[Far Eastern Economic Review]

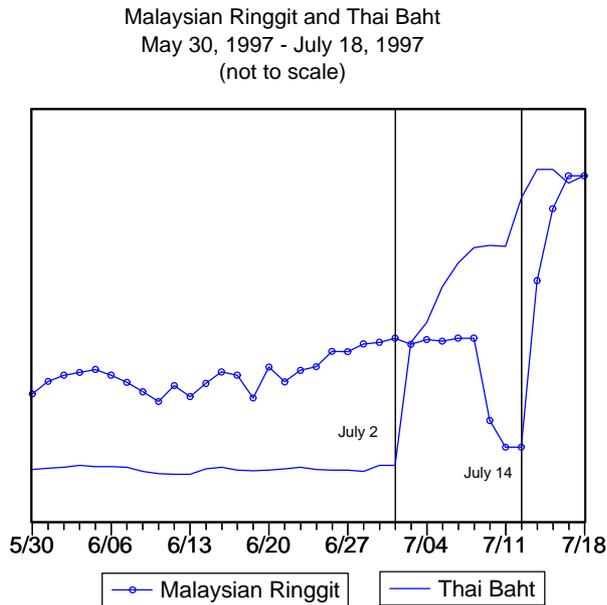
June 19, 1997

“Acting Prime Minister Anwar Ibrahim cracks down on corruption in government.”

[Far Eastern Economic Review]

late June, 1997

“Interest rates eased, though they were still higher than before the May 97 crisis.”
 [Far Eastern Economic Review]



July 2, 1997

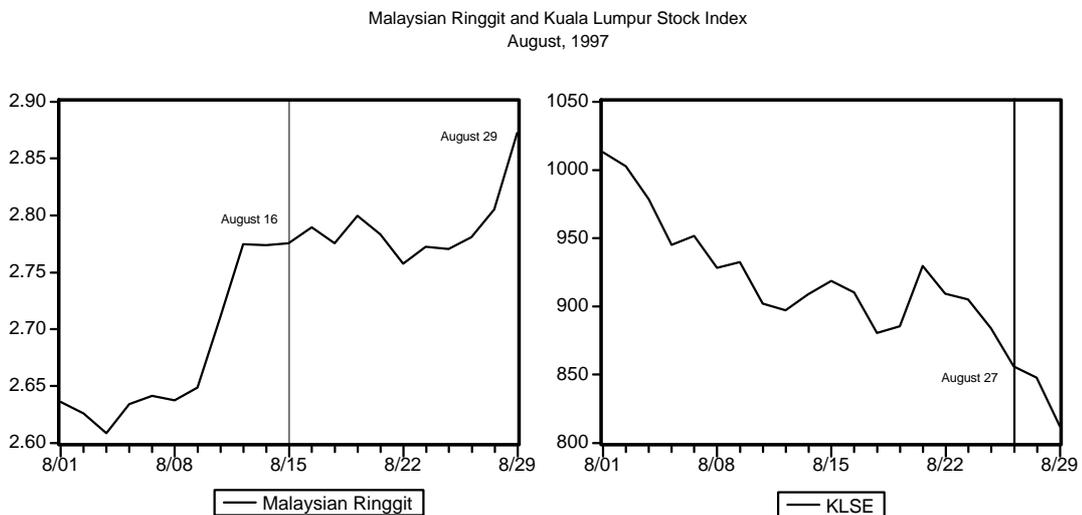
“Thailand floats the baht. Bank Negara steps in to try to support the ringgit -- causing foreign exchange reserves to drop nearly 12%, to M\$61.9 billion in the first two weeks of July.”
 [Economist Intelligence Unit]

July 14, 1997

“Bank Negara lets ringgit float; ringgit drops to a 33 month low.”
 [Business Week]

July 23, 1997

Mahaftir returns from a 2 month working vacation in Europe and renews tirade against greedy foreign speculators. Several days later he names George Soros. This sets off a wave of accusations by Mahaftir and his ministers and denials by Soros that is never completely resolved.
 [Associated Press and Dow Jones News Service]



July 28, 1997

“Secretary of State, Madeleine Albright, criticizes Mahatir for blaming the West for a decline of Southeast Asian currencies.”

[*Associated Press*]

July 29, 1997

“A U.S. State Department Official denies allegations by Mahatir that Soros is behind the recent currency fluctuation.”

[*Wall Street Journal*]

August 3, 1997

“Bank Negara announced that effective from August 4th, there would be a cap on non-commercial currency swaps.” (BLR cap set at same time.)

[*Economist Intelligence Unit*]

August 16, 1997

The Malaysian ringgit hit new lows of M\$2.8210 to the dollar. The currency fell more than 6% after the central bank allowed the currency to float freely outside of its trading band. ‘Economists said that in Malaysia’s case, recent conflicting statements by Dr. Mahathir Mohamad, the Prime Minister, and his deputy, Mr. Anwar Ibrahim, over whether to delay some large infrastructure projects had contributed to selling pressure.’”

[*Malaysian and Indonesian currencies fall. Financial Times: London. pg. 3.*]

August 20, 1997

Standard & Poor’s downgraded Malaysia’s sovereign rating from ‘positive’ to ‘stable’ and said that Malaysia was unlikely to receive an upgrade within the next 3 years. The reasons given by Standard & Poor’s were that the current account deficit was 6% of GDP, the ringgit remained under threat, and their prediction that total credit to public and private enterprises would reach 170% of GDP.

[*S&P says it is unlikely to upgrade Malaysia’s debt. Financial Times: London. pg. 24.*]

August 21, 1997

“Approvals for investment in manufacturing in the first half reached only 5.4 billion ringgit, of which 43% was from foreign firms. This pace is down sharply from the 1996 full year level of 17.1 billion ringgit.” Other fears include the rising cost of labor in Malaysia and a looming property glut.

[*Malaysia’s economy needs a dose of discipline. Far Eastern Economic Review. pg. 80.*]

August 26, 1997

Mahathir Mohamad has not given up on his large infrastructure projects that have been the hallmark of his leadership. These include the M\$13.6 bn Bakun dam, the Multimedia Super Corridor (at least M\$35 bn), a new administrative capital for the state of Sarawak, and the longest bridge in the world linking Malaysia to Sumatra.

[*Mahathir’s whitewater ride. Financial Times: London. pg. 11.*]

August 27, 1997

Maybank, Malaysia’s largest commercial bank, increased bad debt provisions to 71% of outstanding loans in the year to June 30. S&P downgraded Maybank’s outlook to “negative” from “stable”.

[*Cautious Maybank lifts provisions for bad debt. Financial Times: London. pg. 19.*]

August 27, 1997

The ringgit fell to M\$2.7850 and the stock exchange fell to its lowest level since 1993. The Kuala Lumpur Stock Exchange’s (KLSE) benchmark index fell 3.16 % closing at 856 points.

[*Fresh turmoil hits rupiah, ringgit. Financial Times: London. pg. 3.*]

August 28, 1997

“Malaysia is today due to abolish a levy on foreigners’ purchases of property in an attempt to support real estate prices before an expected glut materialises next year.” The levy was originally intended to

reduce foreign speculation in the real estate sector. The property index of the KLSE did not react to the news. Rents in the capital have already started to fall.

[*Malaysia ends levy to help property market. Financial Times: London. pg. 6.*]

August 29, 1997

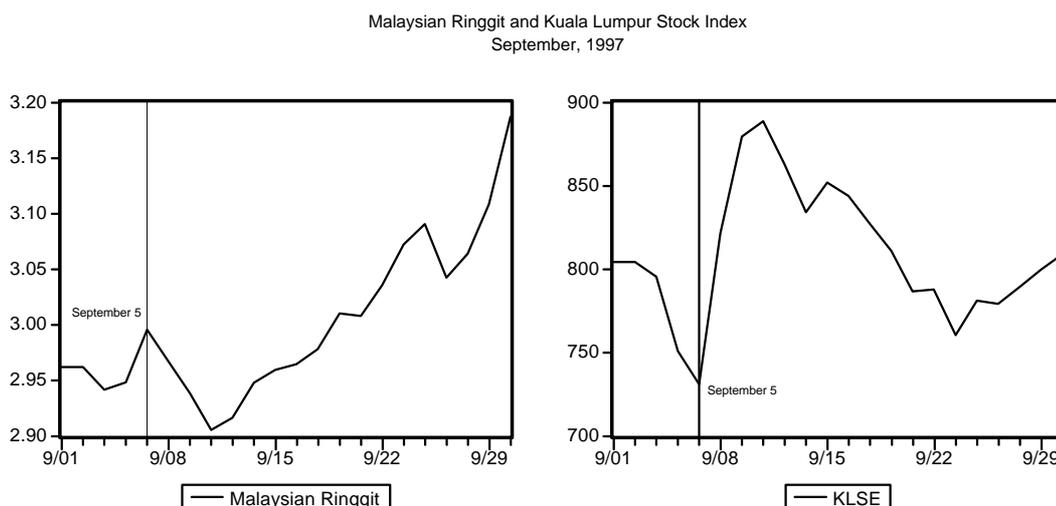
“The ringgit hit a new all-time low after the KLSE effectively banned the short-selling of shares. The main KL Composite Index fell 4.22% to a four year low.” The ringgit was at M\$2.8920 to the dollar—it has lost 15% since July 1.

[*Ringgit leads renewed Asian turmoil. Financial Times: London. pg. 25.*]

August 30, 1997

Economic growth figures released by Bank Negara yesterday were met with skepticism. “The bank said that growth was an annualised 8.4 % in the second quarter of this year. It also revised upward the growth rate in the first quarter to 8.5 %, from an earlier reported 8.2%. ... Authorities have asked some local banks to desist from calling in their margin loans to stock market investors, even when collateral limits have been exceeded. ...Stocks are also regularly used as collateral for new loans, with investors borrowing up to 60% of the value of the shares they hold. ... The most vulnerable companies are believed to be those listed on the second board of the KLSE, which has declined 45% from its peak this year in March. The average gearing of second board companies is 195%—massively overborrowed by universal standards, official figures show.”

[*Malaysia s credibility takes a battering. Financial Times:London. pg. 3.*]



early Sept. 1997

“Construction delayed on Putrajaya (a new city to anchor the Multimedia Super Corridor (MSC).)”

[*Economist Intelligence Unit*]

September 4, 1997

“Malaysia’s PM Mahathir Mohamad is setting up a M\$60bn fund to support the plunging national stock market and put up defenses against “racist” foreign speculators who planned to impoverish the country. The key element of the new plan—announced yesterday after the KLSE’s main index closed down 5.65% to a four year low of 750.76—is that shares sold by Malaysians will be bought by the fund at a premium, while those sold by foreigners will fetch only market prices.” State agencies have already been buying stocks to stem the market’s decline. The PM said yesterday, “I say openly, these people are racists. They are not happy to see us prosper. They say we grow too fast, they plan to make us poor.”

[*Malaysian PM sets up GBP 12bn fund to support market. Financial Times:London. pg. 1.*]

September 5, 1997

Dr. Mahathir reversed the ban on the short selling of shares and put on hold several large projects, including the Bakun Dam project. He left in place the plan to build a fund to shore up key stocks. [*Fragility of Mahathir's vision is exposed. Financial Times: London. pg. 3.*]

September 5, 1997

The composite index was down 2.6% to 731.12. "Anwar Ibrahim, deputy prime minister, has said that Malaysia might use the draconian Internal Security Act to punish locals who aided foreigners in selling down Malaysian shares."

[*Kuala Lumpur's 10-day fall reaches 21%. Financial Times: London. pg. 35.*]

September 6, 1997

The KLSE's main index rose to 821.59, a gain of 12%, its biggest single day gain since January 1994. The ringgit also strengthened against the dollar to M\$2.94. The gain was attributed to the policy reversals announced by Dr. Mahathir. One reversal against banning short sales on the KLSE was reinstated, however.

[*Mahathir U-turn flues surge in KL market. Financial Times: London. pg. 3.*]

September 8, 1997

The government is likely to spend much less than its announced M\$60bn to prop up the KLSE. "Dr. Mahathir acknowledged that a stock-market recovery would reduce the urgency of raising rescue funds and called the plan a 'standby' measure."

[*Malaysia spending to boost stocks is likely to be limited. Wall Street Journal. pg. A15.*]

September 8, 1997

"Mahathir Mohamad, Malaysia's PM, toned down weeks of anti-foreign rhetoric at the weekend after a meeting with foreign fund managers. He described them as 'serious investors' rather than manipulators of the local stock market."

[*Mahathir tries to reassure foreigners. Financial Times: London. pg. 4.*]

September 22, 1997

At the annual meetings of the World Bank and International Monetary Fund, Mahathir Mohamad, lashed out against George Soros (international investor/speculator) and blamed him for Malaysia's troubles. He said, "I am saying that currency trading is unnecessary, unproductive and immoral. It should be stopped. It should be made illegal. Quite a few people who are in the media and in control of the big money seem to want to see these Southeast Asian countries and, in particular Malaysia, stop trying to catch up with their superiors and to know their place." Mr. Soros replied that Dr. Mahathir's comments were "so inappropriate that it doesn't deserve serious consideration" and that the PM is "a menace to his own country. Interfering with the convertibility of capital at a moment like this is a recipe for disaster." [*Soros and Malaysia's Mahathir cross swords. The Wall Street Journal. pg. A16.*]

September 22, 1997

"Anwar Ibrahim, deputy prime minister and finance minister, is winning credit as the calm voice of economic reason, particularly among the foreign traders and investors who may matter most to Malaysia's economic stability. .. Last week, while Dr. Mahathir was traveling abroad, Mr. Anwar appeared to consolidate his grip on economic management. He confirmed the postponement of several huge infrastructure projects, vowed to reduce Malaysia's current account deficit and said Malaysia would cut public spending by 2%."

[*Malaysia's finance chief gains in stature: Anwar emerges from economic crisis as voice of reason. The Wall Street Journal. pg. A18.*]

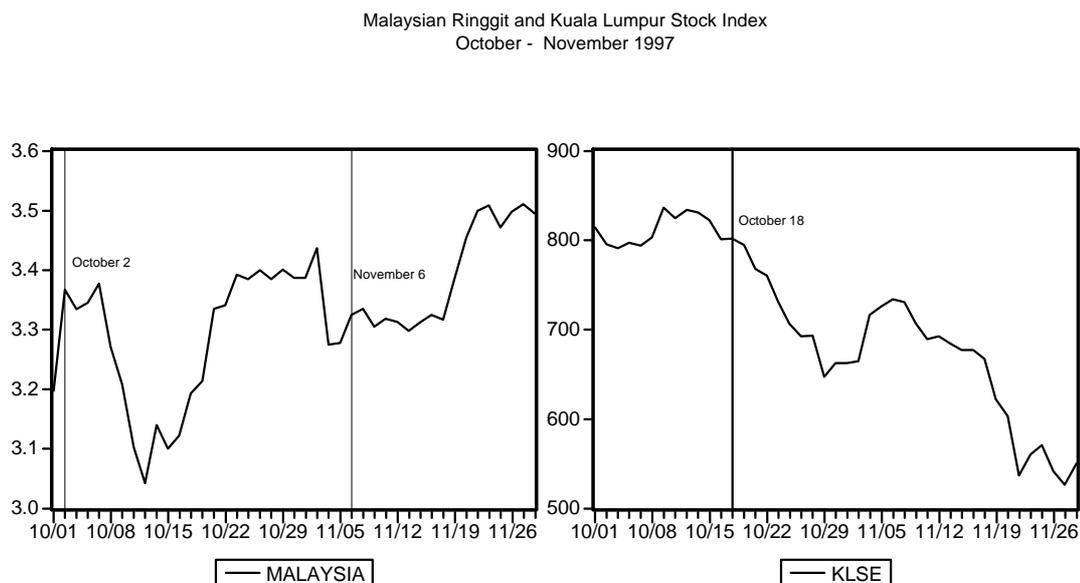
September 25, 1997

Depositors initiated a run on Malaysia's largest finance company, MBF Finance, yesterday. Bank Negara urged depositors to remain calm and pledged the funds to protect depositors if necessary. They stated, "Bank Negara Malaysia would like to reassure depositors that there is no cause for alarm. The public should remain calm and not resort to premature withdrawals which could cause them to lose interest accrued." The run was attributed to rumors that MBF Finance's chairman was ill or had died.

[*Depositors flee Malaysian finance group. Financial Times: London. pg. 3.*]

September 25, 1997

In an interview with Michel Camdessus, Managing Director of the IMF, he gave his outlook on the East Asian countries. In regards to Malaysia he stated, "They know pretty well that we will certainly tell them that it is prudent in the present context to slow down spectacular investments, strengthen the monetary stance to prepare themselves better against speculation. But I believe that they should take this approach and not rely too much on administrative controls which wouldn't be helpful in establishing confidence and in promoting the long-term development of Kuala Lumpur as a financial centre." [Interview Michel Camdessus: *The art of control. Far Eastern Economic Review. pg. 64.*]



October 2, 1997

"The ringgit's collapse to all-time lows, and PM Mahathir Mohamad's renewed call either to regulate or ban foreign exchange dealings sent KLSE down 2.3 %. At the close, the composite index was 18.7 lower at 795.83."

[Collapse of ringgit hits Kuala Lumpur. *Financial Times: London. pg. 51.*]

October 7, 1997

"Mahathir Mohamad, Malaysia's Prime Minister, dismissed speculation that he may resign, and criticised foreigners for allegedly trying to oust him by sowing discord between him and his deputy, Anwar Ibrahim."

[Malaysian PM denies rumours. *Financial Times: USA edition. pg. 1.*]

October 18, 1997

Malaysia yesterday announced a new budget that is designed to cool the economy. In the 1998 budget, they projected 7% growth, a 1.9% increase in government spending, and a cut in corporate taxes from 30% to 28%. Financial markets did not react strongly to the news, the KLSE's main index was down .9% by 7.22 to close at 794.80. The ministry of finance also announced in its annual economic report that they expected M\$13.9 bn in short-term capital to leave the country in 1997.

[Malaysia moves to cool economy. *Financial Times: London. pg. 3.*]

October 30, 1997

Critics of the new budget argue that it is mildly expansionary. Also independent estimates project GDP growth to be between 5 and 6%. Critics argue that they worry the government will increase spending to reach their growth targets. The government expects a surplus of 3% of GDP.

[Is Malaysia's budget what the doctor ordered? *Far Eastern Economic Review. pg. 61.*]

November 6, 1997

ASEAN has set up a central bank forum to “formalise co-operation between member central banks and financial institutions such as the IMF.”

[*Central bank forum set up. Financial Times: London. pg. 3.*]

November 20, 1997

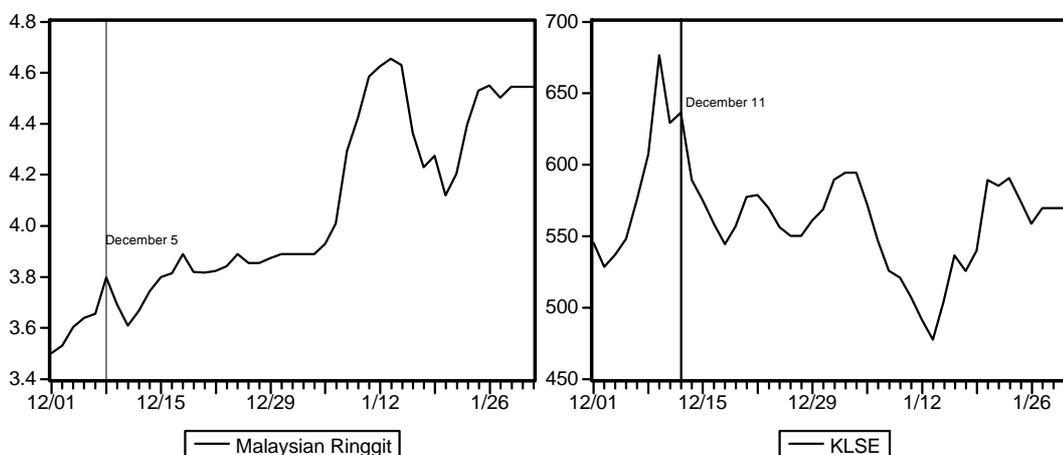
Of all of the East Asian countries involved in the economic crisis, Malaysia’s Mahathir has the least to fear politically. Mahathir is the head of United Malays National Organization (UMNO) the dominant party in the United Front government. UMNO’s platform is based on a plan to bring Malaysia to developed country status by 2020 by raising the income of the bumiputra class. The first signs of whether the crisis will affect Mahathir will be in April when the UMNO holds its first party polls to elect the delegates who will vote in the 1999 election.

[*Southeast Asia: the next battle. Far Eastern Economic Review. pg. 18*]

November 27, 1997

A recent increase in tension between the United States and Malaysia is helping Mahathir politically. The US has responded to Mahathir’s previous remarks by suggesting that Malaysia’s national oil company, Petronas, could face sanctions if it invests in Iran. Additionally, a US congressman drafted a bill asking Mahathir to resign over his alleged anti-Semitic remarks. A sign that these recent remarks may have helped Mahathir is Anwar’s announcement that he is initiating an unprecedented parliamentary vote of confidence for Mahathir. The vote is expected to be passed unanimously. The US Ambassador to Malaysia, Ambassador Malott, reminded Malaysia of the special role played by the United States in Malaysia. He stated, “Let us remember the facts. The U.S. buys more Malaysian products than any other county... We’ve invested more here in manufacturing, energy and services than anyone else... We’ve transferred more technology and educated more Malaysian children than any

Malaysian Ringgit and Kuala Lumpur Stock Index
December 1997 - January 1998



other nation.” Ambassador Malott also reminded Malaysians that if their Multimedia Super-Corridor has any chance of success it will require the co-operation of the United States.

[*Two-edged sword: anti-American mood angers U.S. but helps Mahathir. Far Eastern Economic Review. pg. 22.*]

November 27, 1997

Clifford Herbert, the secretary-general of Malaysia’s Ministry of Finance will resign at the end of the year.

[*Intelligence. Far Eastern Economic Review. pg. 14.*]

December 4, 1997

PM Mahathir has announced the formation of a National Economic Action Council that will review all economic matters. He compared this Council to the National Operations Council, which suspended the

Malaysian constitution in 1969 following the country's race riots. This action along with a ban on senior government officials from taking vacation, and postponement of major projects, are all seen as methods to prevent the IMF from intervening. Analysts believe that the IMF would force a rethinking of the country's long-time development plan: the New Economic Policy. This program is designed to raise the living standards of the bumiputra class (60% of the population) with subsidies and special access to government projects and education.

[*Anything but that: Malaysia's worst fear: a visit from the IMF. Far Eastern Economic Review. pg. 82.*]

December 5, 1997

"Malaysia's currency plunged to a new low against the U.S. dollar here after PM Mohamad reportedly confirmed that the country will proceed with a 10 billion ringgit road, rail and pipeline project [the land bridge project between Malaysia and Thailand]... The currency fell about 1.7% yesterday to a record low of 3.73 ringgit to the dollar."

[*Malaysia's currency drops to new low after costly freight plan is revived. The Wall Street Journal. pg. A15.*]

December 11, 1997

"On November 30, the KLSE clamped down on five brokerages believed to be facing cash-flow problems. At least another seven are suspect, say bankers and analysts. Most carry huge loans to favored clients who pledged paid-up shares as collateral."

[*Boom and bust: Asia's finance firms are headed for a shake-out. Far Eastern Economic Review. pg. 64.*]

December 18, 1997

On December 5, Anwar announced a reversal of economic policy. He revised downward growth estimates for 1998, cut government spending, and postponed all megaprojects including the land bridge. It was unusual for Anwar and not Mahathir to make this kind of policy change. Some analysts suspect that Anwar wanted to pre-empt measures that might be taken by the newly formed National Economic Action Council. Analysts worry that well connected businessmen will be appointed to the council and that they may take steps to protect their interests. "It's clear that the crisis of confidence was reaching dangerous proportions. ... According to several bankers, huge amounts of money were withdrawn from at least five local banks and placed with foreign banks incorporated in Malaysia. [*Malaysia: Hit the brakes: Deputy Premier Anwar decisively halts the high-growth policies that have left Malaysia's financial system overextended; He is now firmly in charge of the economy. Far Eastern Economic Review. pg. 15.*]

January 3, 1998

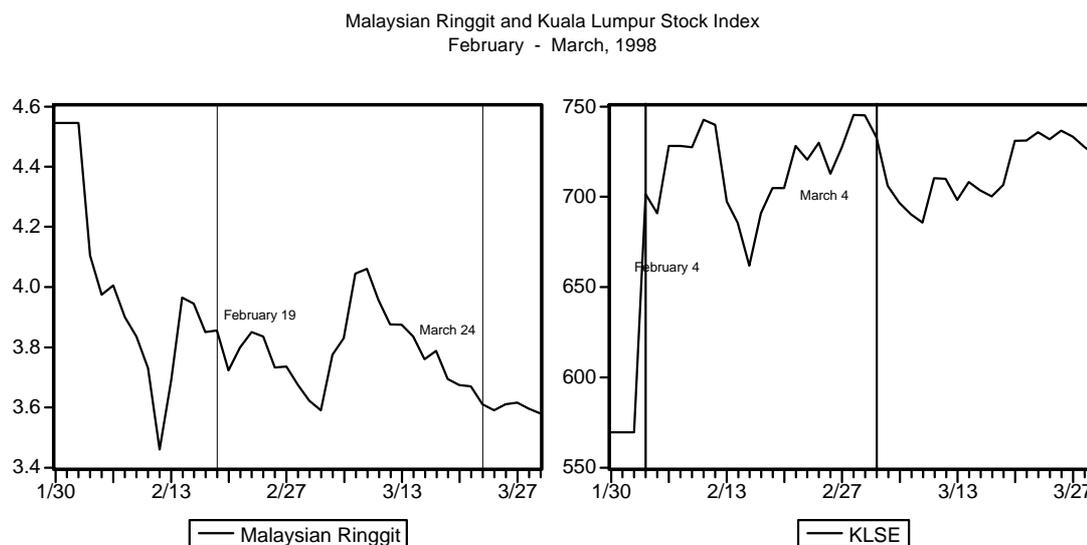
In an attempt to restore confidence in the banking system, Malaysia's central bank proposed merging finance companies and commercial banks to create healthier institutions. While no explicit plans were announced, Bank Negara said that 70% of business was concentrated in 5 or 6 finance companies and that by the end of the first quarter it would be 90%. The central bank stated, "With merger plans well on track, depositors should be assured their deposits would be in bigger, hence stronger, finance companies," and that "all deposits plus accruing interest would be safe, irrespective of finance companies involved in the mergers."

[*Malaysia sets out finance sector reforms. Financial Times: London. pg.3.*]

January 12, 1998

"Malaysian authorities have taken the controversial step of reaffirming a waiver granted to UEM, which excuses the road toll company from having to make a general offer for the shares of its parent Renong, a politically well connected infrastructure company... The question of whether stock market rules would be waived for UEM has been seen as a test of the Malaysian government's commitment to institutional regulations and transparent corporate governance... The UEM deal, for which the road toll operator had to borrow M\$2.4 bn was seen as a forced bailout of a heavily indebted parent company by its subsidiary."

[*Malaysia waives share rules. Financial Times: London. pg.4.*]



February 4, 1998

The KLSE's main index rose up 23% to close at 701.31. This represented a gain of 131.80 points since January 26. The market had been closed for 5 trading days for Ramadan.

[*Investors pour into Malaysia. Financial Times: London. pg.4.*]

February 6, 1998

In the Finance ministry's consolidation plan, the 39 finance companies will have to merge into 6 groups by March 31. Each group will be centered on an anchor firm. The government cannot force the firms to merge, but has announced that any firm that refuses to merge will not be bailed out if they run into trouble. Industry officials expect that the consolidation will cost about 25,000 jobs.

[*Malaysia prods banks to merge. The Wall Street Journal. pg. A17.*]

February 6, 1998

Although Moody's Investor's service "changed to negative the outlook on some of Malaysia's bond and bank deposit ceilings," financial markets were not adversely affected. The currency weakened initially, but soon recovered. One possible reason, analysts say, is "that rating agencies and multilateral organizations have become less credible." [*Malaysia's Markets Shrug Off Moody's Outlook Changes. Dow Jones Online News.*]

February 7, 1998

"Bank Negara Malaysia is reducing the statutory reserve requirements (SRR) of banking institutions, in what economists say is an attempt to ease the liquidity constraints of the smaller institutions and more, important, to lay the groundwork for a series of mergers." The reserve requirement would be cut from 13.5% to 10% of their eligible liabilities. "Bank Negara said reducing the SRR would release about M\$14 bn to the banking institutions."

[*Reserve requirement cut. Financial Times: London. pg. 2.*]

February 9 1998

"Seemingly paradoxical interest-rate moves announced by Malaysia's central bank late last week are aimed at stabilizing the interest rates at which exporters borrow access funds, and were brought on by a rapidly deteriorating liquidity situation ... Bank Negara took a two-pronged approach which it admitted appears to be contradictory. On Friday, it announced that the statutory reserve requirement for central banks would be cut to 10% from 13.5% effective Feb. 16... The second part of the strategy was to convey the message that Bank Negara was still tough on economic policy, despite its apparent easing. To do this, the central bank said it was increasing the rate at which it lends to commercial banks."

[*Malaysia's Interest-Rate Moves Aimed At Boosting Exports. Dow Jones Online News.*]

February 10, 1998

“Shares on the Kuala Lumpur Stock Exchange finished mostly lower Tuesday, but selective buying in key blue-chip stocks pushed the benchmark Composite Index higher... Dealers said gains in regional currencies against the dollar encouraged some institutional investors to purchase blue-chips stocks in Malaysia, although this was offset by profit-taking on shares of small and medium-sized companies. The Composite Index, which tracks 100 blue-chip stocks, closed at 742.57 points, up 15.17 points from Monday.”

[*Malaysian Shares End Lower, But Key Stocks Push Index Higher. Dow Jones Online News.*]

February 18, 1998

“Sensing a widening split in opinion on where Malaysia's economy is heading, the country's central bank is beginning to cast off its secretive image and has launched a charm offensive to win over the naysayers. ... ‘The market's perception is that there is a conflict in policy between the central bank and the Finance Ministry,’ Morgan Stanley economist Tim Condon said. ‘The central bank is trying to tighten monetary policy but they're not able to because of the pressure to provide liquidity.’”

[*Malaysia's Central Bank Turns On The Charm To Dampen Fears. Dow Jones Online News*]

February 19, 1998

“Daim [executive director of the newly created National Economic Action Council] has been given carte blanche to scrutinize Malaysia's economy because the NEAC's job is to fix it -- before the crisis gets worse. And according to insiders, he has been given the sweeping powers to do just that. From what Daim has said so far, he could use those powers to sacrifice some fundamental aspects of Malaysia's near-sacrosanct New Economic Policy.”

[*Malaysia: Calling Doctor Daim. Far Eastern Economic Review.*]

February 19, 1998

“Many economists predict a year of stagflation -- low growth accompanied by unemployment and inflation. It's still not clear, however, just how hard the Malaysian economy -- accustomed to year after year of 8% growth -- will be hit. Growth estimates from private economists range between zero and 5%; the government forecasts 4%. ... The only good news is on the currency front. ... The ringgit has strongly rebounded over the last two weeks, after falling to a historic low of 4.88.”

[*Malaysia: Not in the Clear Yet: A stronger ringgit, but job losses and inflation prevail. Far Eastern Economic Review.*]

February 19, 1998

“Malaysia's tycoons are taking a hammering. ... ‘All of them are in trouble,’ Daim Zainuddin says bluntly. He should know. Many of them are his proteges. They worked with him when he ran the ruling party's investment outfits, beginning in the late 1970s. How many will survive? ‘Very few,’ Daim predicts.”

[*Malaysia: Oh for a Bailout: Few tycoons will survive the economic crisis. Far Eastern Economic Review*]

February 27, 1998

“Malaysia's decision to lift the ceiling on foreign ownership in local telecommunications companies to 49% from 30% is seen as a move to actively help some cash-strapped players in the industry, analysts said Friday. Malaysia's Minister Of Energy, Telecommunications and Post, Leo Moggie, Thursday said the cabinet had decided to allow the increase in foreign equity participation in the telecommunications sector.”

[*Malaysia Lifts Foreign Ownership Limits In Telecommunications Sector. Dow Jones Online News.*]

March 03, 1998

“Malaysia's ministry of finance has laid to rest expectations that the government will return anytime soon to Japan's bond market, and made clear that for the time being, it will maintain its distance from the international debt market. Banking sources and analysts say Kuala Lumpur is wary of the high rates that would be demanded at a time of financial crisis in Asia. So loans that come due are being repaid, with little sign that they will be replaced by new sovereign borrowings in the near term. ... And Kuala Lumpur looks set to pay other outstanding issues on maturity, without issuing new paper in their place, analysts said.”

[*Malaysia's Government Avoids New Borrowing, Repays Foreign Loans. Dow Jones Online News*]

March 03, 1998

"Malaysia's central bank Tuesday gave an indication of the extent of the country's financial crisis, revealing that its fifth-largest commercial bank, Sime Bank Bhd., soaked up a massive 1.57 billion ringgit (\$435.5 million) loss in the second half of 1997. Meanwhile, Finance Minister Anwar Ibrahim said financial-services giant Rashid Hussain Bhd. has asked for the green light to start discussions with Sime Bank on a possible merger."

[*Malaysia's 5th-Largest Bank Suffered \$435 Million Loss. Dow Jones Online News*]

March 03, 1998

"Malaysian stocks gained 49% in February, the best performance of the 34 countries covered by the Dow Jones Global Indexes."

[*Malaysian Stock Market Led Dow Jones Global Indexes In February. Dow Jones Online News*]

March 04, 1998

Shares on the Kuala Lumpur Stock Exchange finished sharply lower on concerns over the health of local financial institutions, analysts said. The Composite index, which tracks share prices of 100 key stocks, shed 27.09 points, or 3.7%, to close at 705.94.

[*Malaysia Shares Tumble On Banking Concerns; Composite Index Falls 4%. Dow Jones Online News*]

March 12, 1998

"Sime Darby, Malaysia's biggest multinational, is poised to score a set of dubious firsts. One, its subsidiary Sime Bank registered the biggest loss in Malaysian banking history -- 1.6 billion ringgit (\$431 million) -- for the half year to December, according to figures released by the central bank. Two, that sea of red ink will result in Malaysia's first major bank rescue during the current financial crisis. Three, analysts believe the massive hole created by the bank is likely to see parent Sime Darby record a loss -- its first ever -- for the year to June 1998."

[*Kuala Lumpur: First Blood. Far Eastern Economic Review, p. 56*]

March 12, 1998

"Asia's financial crisis has hammered confidence in local banks. Thousands of retail depositors have rushed into the warm embrace of foreign banks such as Citibank, Hongkong Bank, Britain's Standard Chartered and the Netherlands' ABN-Amro. The effect is a regionwide run on local banks taking place in slow motion."

[*Banking: Flight to Quality. Far Eastern Economic Review p. 42*]

March 13, 1998

"Malaysia's Securities Commission has presented representative offices of foreign brokerage firms in Malaysia a proposal to liberalize the local financial market and, to some extent, legalize various activities in which they are already engaged, say industry sources who have seen the proposal."

[*Malaysia May Lift Curbs On Foreign Brokerage Houses, Sources Say. Dow Jones Online News*]

March 19, 1998

"Malaysian shares prices closed sharply higher Thursday, with the main index gaining 3.5%, as a flurry of speculative buying in finance stocks drove the market higher, dealers said... 'People are beginning to think merger plans are going to be laid sooner rather than later, and this is encouraging some buying in the finance sector,' a local trader said. Bank Negara, Malaysia's central bank, has set a March 31 deadline for the country's 39 finance companies to make provisional agreements for their eventual consolidation into five main groups. The buying was sparked by comments from Finance Minister Anwar Ibrahim earlier in the week, who said the merger program was progressing at a good pace."

[*Malaysian Shares Surge On Speculative Finance Stocks; Index Up 3.5%. Dow Jones Online News*]

March 19, 1998

"Malaysia's Prime Minister Mohamad Mahathir says he is concerned that policies ordered by the International Monetary Fund may accelerate bankruptcies, but said his country is trying to keep in step with the general guidelines the IMF has laid down for troubled East Asian economies."

[*Malaysian Prime Minister Says IMF Policies Accelerate Bankruptcies. Dow Jones Online News.*]

March 20, 1998

"International rating agency Fitch IBCA Friday cut the ratings on four leading Malaysian banks, citing a deterioration in their operating environment since the beginning of the year. 'Three of the four banks being downgraded are among Malaysia's strongest and, to a large extent, the agency's downgrades reflect the deteriorating economic environment,' Fitch IBCA said. "Malaysia's economic growth is now expected to fall more sharply than earlier predictions and patterns are emerging in the property sector that bear a strong resemblance to the period before the mid-1980s recession.'"

[*Fitch Cuts Ratings On Four Leading Malaysian Banks. Dow Jones Online News.*]

March 23, 1998

"Malaysian Prime Minister Mohamad Mahathir said he sees slower economic growth and continued currency vulnerability for his country, according to an interview with the German daily Handelsblatt newspaper published Monday. 'We can no longer have (economic) growth of 8%; we have much to rebuild,' Mahathir said in the interview. 'Our currency can be attacked again at any time,' he added. Mahathir also said the country's finance and banking systems must be restructured to permit international competition and foreign stakes in Malaysian banks."

[*Malaysian Prime Minister Mahathir Says Currency Threat Not Over. Dow Jones Online News*]

March 23, 1998

"Nonperforming loans held by banks located in Labuan, Malaysia's offshore tax haven, were a surprisingly low 1.1% of loans outstanding at the end of 1997, but the percentage is likely to rise by midyear, the Labuan Offshore Financial Services Authority said in its annual report released Monday. Projections of the increase weren't provided."

[*Malaysian Tax Haven Sees Growth In Bad Bank Loans In '98. Dow Jones Online News.*]

March 23, 1998

"Malaysian Finance Minister Anwar Ibrahim is expected to offer a relatively realistic assessment of where Malaysia stands and what needs to be done to counter the effects of the currency and economic turmoil when he speaks in parliament Tuesday. Most observers expect Anwar, who is also deputy prime minister, to cut the official growth forecast for 1998 to around 3%, down from earlier calls for 4% to 5% growth made in December and 7% before that. Most private economists predict Malaysia's economy will grow at most 2.5% this year."

[*Malaysia's Anwar Seen Offering Realistic Measures To Boost Economy. Dow Jones Online News*]

March 24, 1998

"Malaysia edged closer to embracing a more rugged monetary policy Tuesday, but failed to win over the markets, which had hoped for sweeping liberalization of foreign shareholding limits in the banking and telecommunications industries. Malaysian Finance Minister Anwar Ibrahim unveiled a package of measures to fight the ongoing financial crisis in an address to the country's parliament. Analysts said the package had overtones of the tough International Monetary Fund-type policies pursued in Thailand and South Korea. The finance minister said interest rates would be allowed to rise 'temporarily to stabilize the exchange rate.'"

[*Malaysia Anwar Sees Tighter Money, Higher Rates, Slower Growth. Dow Jones Online News.*]

March 25, 1998

"Malaysia's central bank said Wednesday it will keep monetary policy tight in 1998 to contain inflation, while still ensuring that banks can lend to productive sectors within existing limits for credit growth and monetary expansion."

[*Malaysian Central Bank Plans Tight, But Flexible, Monetary Policy. Dow Jones Online News.*]

March 25, 1998

"International Monetary Fund Managing Director Michel Camdessus said Wednesday he welcomed Malaysia's recently announced "strong package of measures" that takes a "comprehensive approach" to the country's economic and financial situation."

[*IMF Chief Applauds Malaysia's 'Strong Package' Of Economic Measures. Dow Jones Online News*]

March 27, 1998

“Eight immigrants and a policeman are killed in rioting as Malaysian authorities put nearly 1,500 Indonesians on boats in mass deportation; deaths stem from clash between police and hundreds of inmates at detention camp for illegal immigrants near capital; rioting also breaks out in two other camps when police move in to repatriate Indonesians.”

[*Malaysia Riots Kill 8 Immigrants And An Officer. New York Times Abstracts, p. 4, col. 4*]

March 30, 1998

“Deputy Prime Minister Anwar Ibrahim told Malaysia's Parliament Monday that it is wrong to say the government's move to merge banks and financial institutions was to bail out ailing institutions, Japan's Kyodo News Service reported. Anwar said the government had encouraged banking institutions to merge since the late 1980s. ‘It is an ongoing move to boost the competitive edge and enhance the position of the country's banking system,’ he said.”

[*Malaysian Official Reportedly Says Bank Mergers Aren't Bailouts. Dow Jones Online News.*]

March 31, 1998

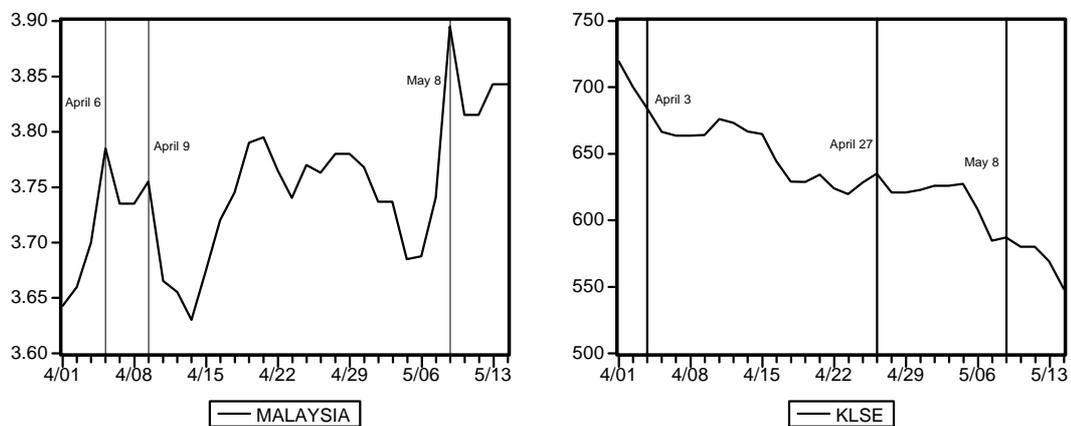
“The Malaysian central bank's hardball play to consolidate the country's finance sector has scored an initial success, but economists warn that there are still major obstacles in the way of bolstering the country's finance companies. Whittling down Malaysia's 39 nonbank lenders to just eight by Tuesday was made easier by the number of them - 14 - being absorbed into their parent banks. That leaves six anchor companies: Mayban Finance Bhd., Public Finance Bhd., Hong Leong Finance Bhd., Arab-Malaysian Finance Bhd., EON Finance Bhd. and Credit Corp Malaysia Bhd., and United Merchant Finance Bhd - assuming the bulk of work in the tricky merger talks.”

[*Malaysia's Shaky Finance Companies Announce Merger Deals. Dow Jones Online News.*]

April 01, 1998

“Expanding loan-loss provisions caused most Malaysian banks to report sharp declines in their 1997

Malaysian Ringgit and Kuala Lumpur Stock Index
April - May 14, 1998



profit, and analysts are warning that a possible slump in local property market this year could make the situation worse. ‘At this point, things are manageable, but if the collateral value of property decreases, then loan losses will increase, forcing banks to increase provisioning,’ a banking analyst with a local research house said.”

[*Malaysian Banks' Loan-Loss Provisions May Rise If Property Slumps. Dow Jones Online News.*]

April 02, 1998

“Bankers believe regulators have been scrutinizing the Labuan financial park more closely since the March revelation of Sime Bank's huge losses and of its Labuan unit's reported loans of \$300 million-400 million to companies and individuals in Thailand and Indonesia.”

[*Banking: Clouded Vision: Could Labuan be the weak spot of Malaysian finance? Far Eastern Economic Review, p. 51*]

April 03, 1998

“Shares on the Kuala Lumpur Stock Exchange finished sharply lower Friday despite a 2.51 billion ringgit (\$1=MYR3.7770) trade surplus posted in February as announced by Malaysia's statistic department Friday. Analysts said investors' sentiment remain weak as they continue to worry about corporate defaults and the bleak economic outlook for the region despite the strong trade figures.”

[*Malaysian Shares End Sharply Lower Despite February Trade Surplus. Dow Jones Online News.*]

April 06, 1998

“Deputy Managing Director of the International Monetary Fund Stanley Fischer Monday said Malaysia's latest 1998 economic growth forecast is in line with IMF estimates. ... Meanwhile, Fischer commended Malaysia's latest efforts to consolidate its financial sector. ‘They are a good set of measures,’ he said in reference to the country's merger program, in which the number of finance companies will be reduced to eight from 39.”

[*IMF Says Malaysia's 1998 Growth Forecast In Line With Estimates. Dow Jones Online News.*]

April 09, 1998

“As Jakarta neared a new accord with the IMF, violence in Malaysian camps holding illegal Indonesian migrants provided a stark reminder that economic contagion can take many forms. A bloody riot broke out as Malaysia stepped up deportation of detainees, beginning with immigrants from Aceh province who say they are political refugees.”

[*This Week: Nervous Neighbours. Far Eastern Economic Review, p.16.*]

April 27, 1998

“The IMF said its executive board sees a need for "more forceful" interest-rate actions by Malaysia to buttress the ringgit and dampen potentially inflationary credit growth, and agrees that banking-sector recapitalization is a key ingredient of the government's economic program.”

[*IMF Doesn't Expect Dramatic Reduction In South Korean Interest Rates. Dow Jones Online News.*]

April 27, 1998

“Shares on the Kuala Lumpur Stock Exchange fell sharply Monday... The Composite Index slid 14.32 points, or 2.3%, to close at 620.79. ... Traders and analysts say investors were selling down the market on the perception that Rashid Hussain's purchase of Sime Bank is a bailout not only of one of Sime Bank's major shareholders - KUB Malaysia Bhd.- but also of Rashid Hussain as the purchaser. They explain that the complicated financing structure of the deal has made investors jittery.”

[*Malaysian Shares End Sharply Lower; Composite Index Falls 2.3%. Dow Jones Online News.*]

May 01, 1998

“Japanese Foreign Minister Keizo Obuchi is visiting Thailand, Malaysia and Singapore to explain Japan's policy on the crisis and to ask leaders what steps they want the Group of Seven top industrial powers, plus Russia, to adopt at the May 15-17 summit in Birmingham, England.”

[*Asian Development Bank To Set Up Economic Surveillance Group, Dow Jones Online News.*]

May 04, 1998

“Malaysia will accept official development assistance loans from Japan for the first time in four years, a Japanese embassy official said Monday. Motokatsu Watanabe, director of the Japan Information Service at Tokyo's embassy here, told Dow Jones that the amount of the loans should be determined within three or four months. As official development assistance, the interest rate will be set at a nominal 0.75% per year, he added. Some other features of the loans are also known. After a 10-year grace period, Malaysia will have 40 years to repay the loan, Motokatsu said. The loans are to enable Malaysian students currently in Japan to continue their studies there.”

[*Malaysia To Accept Japanese Development-Assistance Loans. Dow Jones Online News.*]

May 06, 1998

“Share prices on the Kuala Lumpur Stock Exchange finished the session broadly lower Wednesday on the back of a sliding ringgit and a fall in foreign reserves, traders said. At the close, the key Composite Index, which tracks 100 blue-chip stocks, was down 3.9%, or 23.78 points, at 584.62. [Traders] They noted that Tuesday's remark by Malaysian Prime Minister Mahathir Mohamad that lower interest rates

are desired, has prompted some market participations to take short positions in the local currency, which in turn sent the local bourse reeling.”

[*Malaysian Share End Lower; Index Tumbles 3.9%. Dow Jones Online News.*]

May 08, 1998

“Malaysia's Securities Commission on Friday suspended the licenses of two stock brokerages, MBF Northern Securities Sdn. Bhd. and Labuan Securities Sdn. Bhd., effective Tuesday. ... The commission said it had to suspend the licenses of the two brokerages to ensure that ‘investor assets are not further undermined and that any potential systemic risk is contained.’ Trading by the two brokerage houses has been restricted since Dec. 1. ... In addition, 11 other brokerages are under trading restrictions for failing to meet liquidity requirements.”

[*Malaysian Regulators Tighten Clamps On Two Brokerage Houses, Dow Jones Online News.*]

May 11, 1998

“Malaysia has loaned Indonesia \$250 million while Jakarta awaits the next installment of its International Monetary Fund bailout, Prime Minister Mahathir Mohamad was quoted as saying by the national news agency on Monday. Indonesia plans to repay the loan once the IMF releases the balance of its rescue package, Mahathir said in Cairo, where he is attending a summit of developing countries. Indonesian President Suharto is also attending, the Associated Press reported Monday.”

[*Malaysia Lends Indonesia \$250 Million, Pending Arrival Of IMF Cash. Dow Jones Online News.*]

May 12, 1998

“Malaysia is calling for an overhaul of the global financial system, including a review of how governments, journalists, businesses and the International Monetary Fund operate within the system. The recommendations figure in a special document that Malaysia prepared for a meeting of 16 developing countries, which call themselves the G-15, to discuss the Asian financial crisis. ... The document's main recommendations are for governments and businesses to maintain financial discipline and for the media to be more accurate in analyzing market moving data. The document is being studied by the G-15's heads of governments and states during their three-day summit that began Monday.”

[*Malaysia Calls For Reform Of World Financial System, Dow Jones Online News.*]

May 21, 1998

“After several months of relative silence, Mahathir has stormed back and seems to have once again seized control of the economy. Just before Anwar left for a trip in April to reassure jittery fund managers in New York and Washington, the outspoken prime minister resumed his attacks on the global financial community. ... Mahathir defended a controversial plan to restructure Malaysia Airlines that essentially would help controlling shareholder Tajudin Ramli settle his personal debts. ... the rescue of other politically connected companies could be in the works.”

[*Malaysia: Mixed Signals: Dynamic duo relays conflicting economic messages. Far Eastern Economic Review, p. 24.*]

May 21, 1998

“Malaysian share prices finished sharply higher Thursday, buoyed by both reaction to the resignation of Indonesia's President Suharto and news that Malaysia will introduce an Asset Management Company to relieve the bad-debt burden in the banking sector, dealers said. The Kuala Lumpur Stock Exchange Composite Index jumped 24.43 points or 4.3% to 593.62, from 569.19 Wednesday. Trading volumes were heavy.”

[*Malaysian Shares Surge On Suharto Resignation; Index Climbs 4%. Dow Jones Online News.*]

May 27, 1998

“Standard & Poor's said Wednesday it doesn't ‘expect anymore downgrades in the short-term’ for Southeast Asian banks. Ken McLay, S&P's director of financial institution rating services, said that nonperforming loans for these banks will rise, but they will peak by mid-1999. Currently, Singapore, Malaysian and Philippine banks are fundamentally stronger than those in Indonesia and Thailand, he said.”

[*S&P Doesn't Expect To Downgrade Southeast Asian Banks In Near Future, Dow Jones Online News.*]

May 29, 1998

“Malaysian Airline System Bhd., the country's national carrier, said Friday that foreign-exchange losses resulted in a net loss of 259.9 million ringgit (\$67.2 million) in the year ended March 31. ... The key factor was a loss of 3.49 billion ringgit caused by the Malaysian currency losing a third of its value against the dollar as a result of Asia's financial crisis. The regional malaise also played another part, with declining air traffic and rising costs both contributing to the carrier's loss.”

[*Malaysian Airlines Driven Into Red By Foreign-Exchange Losses. Dow Jones Online News.*]

June 04, 1998

“Malaysian Finance Minister Anwar Ibrahim Thursday announced the formation of a new agency to buy up banks' bad loans. The government will provide an initial 50 million ringgit (\$12.7 million) to get the bad loan bank - known as the asset management company - running. Ultimately, Anwar said, the bad loan bank will need an estimated 25 billion ringgit to buy up the loans. It will be financed by a mix of bond issues and funds from the private sector.”

[*Malaysia Forms New Agency To Purchase Banks' Bad Loans. Dow Jones Online News.*]

June 12, 1998

“Malaysia's Asset Management Co. said Friday that UBS Finanzholding AG of Switzerland and J.P. Morgan & Co. have been appointed joint lead managers for an upcoming \$2 billion bond issue. The bonds will be fully guaranteed by the government of Malaysia. Plans for the creation of the Asset Management Co., known locally as Danaharta, were announced three weeks ago. The agency is designed to buy up the nonperforming loans of commercial banks at written-down values and will then sell them off once the debts are recovered.”

[*Malaysia's Asset Management Picks Managers For \$2 Billion Bond Issue, Dow Jones Online News.*]

June 12, 1998

“International rating agency Standard & Poor's Friday affirmed RHB Bank Berhad's debt ratings following the disclosure of details regarding its acquisition of Sime Bank Berhad. S&P said it had been concerned about RHB Bank's funding for the acquisition, as well as the possible contamination of RHB Bank's loan book, given that Sime Bank's nonperforming-loan-to-total-loan ratio was 18%, at the end of February. ‘Following the disclosure of the acquisition details, S&P is satisfied that the above two concerns have been addressed and that there are no significant detriments to RHB Bank's profile,’ it said.”

[*S&P Affirms Ratings On Malaysia's RHB Bank As Merger Fears Allayed. Dow Jones Online News.*]

June 12, 1998

“The head of the company formed to lead the development of Malaysia's own Silicon Valley [Othman Yeop Abdullah], the Multimedia Super Corridor, says the project will begin the transformation of the country's current ‘input-driven’ economy.”

[*Malaysia's High-Tech Corridor Will Transform Economy, Developer Says, Dow Jones Online News.*]

mid June, 1998

“Malaysia decided to stimulate its economy with some 7 billion ringgit (\$1.7 billion) worth of public works and other spending.”

[*Malaysia Reportedly Asks Japan For Loan To Support Its Stimulus Plan. Dow Jones Online News, July 7, 1998.*]

June 16, 1998

“Malaysia's Prime Minister Mahathir Mohamad railed at the country's commercial banks Tuesday, accusing them of needlessly seeking to tighten credit conditions when extending new loans. ‘The banks have now decided to tighten the screws that people can't do business,’ Mahathir said. ‘I don't know what the banks want to do, imposing this petition. The government didn't ask them to do it. Apparently they are more interested in themselves than supporting business. If they don't believe in the economy of this country, they might as well close their banks.’ ... Mahathir has been frequently at odds with Malaysia's banking sector in recent weeks.”

[*Malaysian Prime Minister Says Reluctant Lenders Are Stifling Economy. Dow Jones Online News.*]

June 17, 1998

“The Australia & New Zealand Banking Group Ltd. sees opportunities to expand in Asia within the next year despite the economic uncertainty in the region, Chief Executive John McFarlane, said Wednesday. ‘Asia, rather than posing a threat, is now an area of opportunity for ANZ, and we are positioning ourselves for the future,’ McFarlane said in a speech at the "Australian Summit" economic conference.”

[*Australia & New Zealand Banking Sees Opportunities To Expand In Asia. Dow Jones Online News.*]

June 19, 1998

“Australia has presented a proposal to help the troubled economies of the Asia-Pacific Economic Cooperation group, Chile's senior official at the APEC preparatory talks said Friday. Australia's proposal entails "capacity building and economic governance" in dealing with the impact of the region's currency turmoil on trade, Kaime Lagos said, without elaborating on the details of the proposal.”

[*Australia Proposes Strategy To Help Troubled APEC Economies, Dow Jones Online News.*]

June 23, 1998

“Trade ministers from the Asia-Pacific Economic Cooperation forum failed to reach a final agreement Tuesday on a trade liberalization pact and said officials will continued to work on a deal before a summit in November. ... Malaysia's minister for international trade and industry, Rafidah Aziz, who chaired the meeting, said that trade liberalization within the group will take time to develop much like the way the Uruguay Round of talks were finally sealed.”

[*APEC Meeting Ends Without Trade Pact; Japan's Participation Uncertain, Dow Jones Online News.*]

June 24, 1998

“Prime Minister Mahathir Mohamad's [named] confidant Daim Zainuddin to a cabinet post with responsibility to jump-start Malaysia's struggling economy.”

[*Spotlight: Nickel and Daim. Far Eastern Economic Review, July 9, 1998, p. 79.*]

June 29, 1998

“U.S. Treasury Secretary Robert Rubin put Malaysia's economic strains under the microscope and found some reasons to be increasingly concerned about a protracted downturn. [Rubin] stopped short of directly warning Malaysia publicly about some of its more contentious issues - prominently whether monetary policy should be tighter or not. But Rubin, who met during his whirlwind visit with controversial Malaysian Prime Minister Mahathir Mohamad, suggested the nation pursue ‘sound’ fiscal and monetary policies, and take steps to open its economy to make it more efficient and productive.”

[*Rubin Put Malaysia's Economic Strains Under U.S. Microscope. Dow Jones Online News.*]

June 29, 1998

“Anwar, who had long argued that high interest rates were required to curb inflation and defend the ringgit, reversed himself and declared that Malaysia's rates were ‘prohibitively high.’... the ringgit fell 3.5% against the U.S dollar to 4.19.”

[*Spotlight: Nickel and Daim. Far Eastern Economic Review, July 9, 1998, p. 79.*]

June 30, 1998

“Treasury Secretary Robert Rubin is spreading the gospel of high interest rates to troubled Asian nations that don't want to hear it. After a one-hour meeting with Malaysia's feisty prime minister, Mahathir Mohamad, an apostle of lower rates, Mr. Rubin defended the International Monetary Fund's tight monetary policy. ‘If you had looser monetary policy, you'd run the risk of substantial depreciation of the currency,’ Mr. Rubin said at a news conference here.”

[*Treasury's Rubin Defends IMF's Tight Monetary Policy For Asia. Dow Jones Online News.*]

July 1, 1998

“Malaysia approved additional stimulus measures involving the establishment of a fund of about 5 billion ringgit to develop infrastructure.”

[*Malaysia Reportedly Asks Japan For Loan To Support Its Stimulus Plan. Dow Jones Online News, July 7, 1998.*]

July 02, 1998

“As Malaysia's dominant political party prepared for its annual meeting, the air was heavy with speculation that Prime Minister Mahathir Mohamad would be challenged by his longtime deputy, Anwar Ibrahim. ... But by the time the June 19-21 meeting was over, the storm had receded: Mahathir's thundering performance took the wind out of critics' sails and showed that he's still firmly at the helm. The coming months will determine whether he won a victory -- or just a reprieve.”

[*Malaysia: Tactical Victory. Far Eastern Economic Review, p.10.*]

July 06, 1998

“Malaysia has yet to face the fact that its banking system is near collapse, and it may soon have to go to the International Monetary Fund for help, said Philippe Delhaise, president of credit-rating agency Thomson BankWatch. “Malaysia is in denial. Its banks are in very bad shape,” Delhaise told an Asian debt conference organized by Finance Asia Monday. He told reporters Malaysia doesn't want to go to the IMF for help ‘but one day they will have to. It's very close.’ The trigger for a call for help from the IMF may be the sight of its foreign-exchange reserves being depleted, hitting a ‘dangerous low’. Delhaise also said Malaysia has a high level of investment in its stock market as a percentage of gross domestic product. Before the Asian crisis, its stock-market capitalization divided by GDP stood at 300%. Now it stands at about 50%. Malaysia's stock market is ‘a big, big casino,’ he said.”

[*Credit-Rating Agency President Says Malaysia's Banks In 'Bad Shape'. Dow Jones Online News.*]

July 07, 1998

“The Malaysian government has asked Japan to lend more than 100 billion yen (\$713 million) in support of a public works program designed to help Malaysia weather its economic crisis, the Nihon Keizai Shimbun reported in its Tuesday evening edition, citing government sources. In response, Japanese Foreign Ministry officials flew to Kuala Lumpur early this month for preliminary negotiations, the sources said. Malaysia has stated it won't seek financial assistance from the International Monetary Fund because it doesn't want to implement required IMF austerity measures. Kuala Lumpur instead reportedly plans to ask the World Bank and the Asian Development Bank for support.”

[*Malaysia Reportedly Asks Japan For Loan To Support Its Stimulus Plan. Dow Jones Online News.*]

July 08, 1998

“Tokyo and Hong Kong share prices gained, but Malaysian and Indonesian stocks closed sharply lower, the former amid continued economic woes, the latter on profit-taking.

A senior analyst at a local bank-backed brokerage house said investors were unwilling to remain in the local stock market because there are no signs of an early economic recovery for Malaysia. He said many private economists believe that Malaysia, like Indonesia and Thailand, is already in recession. Officially, Malaysia isn't in a recession yet because authorities have released economic figures for only the first quarter of 1998. Malaysia's economy contracted 1.8% in the first quarter. Finance Minister Anwar Ibrahim on Tuesday said second-quarter growth data will be released soon.”

[*World Markets: European Stocks Climb; Asian Shares Close Mixed. Dow Jones Online News.*]

July 08, 1998

“Malaysian Prime Minister Mahathir Mohamad said Wednesday that the government will provide 600 million ringgit (about \$144 million) toward financing the development of the Multimedia Super Corridor, which the country hopes to make Asia's Silicon Valley. Mahathir said Malaysia's continuing economic problems wouldn't have any impact on the development of the MSC, which the government has maintained would be financed mostly by the private sector.”

[*Malaysia To Invest \$600 Million To Finance Its 'Silicon Valley'. Dow Jones Online News.*]

July 09, 1998

“Whispers of an impending management shake-out in Malaysia's state-owned Bank Bumiputra suggest that the hapless institution faces yet another round of financial woe. ... government officials familiar with the bank's problems say that it could actually require recapitalization of up to 1.1 billion ringgit.”

[*Kuala Lumpur: Deja Vu. Far Eastern Economic Review, p. 80.*]

July 09, 1998

“The currency markets are unimpressed by Prime Minister Mahathir Mohamad's move to name confidant Daim Zainuddin to a cabinet post... Fears that Daim's appointment will check the pragmatic

economic policies of Finance Minister Anwar Ibrahim have hammered the ringgit since Daim was named on June 24.”

[*Spotlight: Nickel and Daim. Far Eastern Economic Review, p. 79.*]

Chronology – Indonesia

April 7-13

(E) Situation Vacant: The great Asian property bust: Commercial vacancy rates in Jakarta are 13.7% and climbing. A fifth of all bank lending is directed to the property sector, which is starting to give bank regulators heartburn.

Survey of banking in Emerging markets: Asia's fall from grace: The next crises are already rumbling. New crises, new rules: The rich world's central bankers want common standards to help emerging economies deal with their banking crises. Help is certainly needed.

April 28-May 4

(E) Losing the Midas touch: Prospecting in Indonesia

May 12-18

(BW) Suharto's Dilemma: He must move toward democracy or risk massive social unrest. Suharto's picture of bringing in modernization is tainted by his corrupt and nepotistic behavior.

May 19-25

(TE) The Baht spills over: South-east Asia: Thailand's once vibrant economy is sick. Its neighbors are worrying that the disease may be contagious. The jitters in Indonesia were combined with street violence surrounding the election campaign, and local banks were instructed not to provide foreign "speculators" with domestic currency.

June 2-8

(FEER) Indonesia seemed far from crisis, unlike the neighbor Thailand, with trade surplus of \$964 million in February, huge foreign exchange reserves of \$20.4 billion in April, and good banking sector, with non-performing loans around \$4 billion. Inflation was low. Attractive lending yields from Rupiah led to a slight depreciation of 3.2%, instead of the targeted 4-5% to aid exports.

June 9-15

(BW) Growth Not Greed, Mr. Suharto ! Despite a sound fiscal and monetary management, combined with sophisticated floating currency, and low inflation, which gave Indonesia an edge over Thailand, the trickle down was little from all the economic growth because of the investment being concentrated among Suharto's family and friends. This nepotism was tainting the reputation of Indonesia as a center for Japanese, American and European investment.

Suharto Capitalism: Will the growth engine he built survive the strains of his final years in power? There is mass resentment over Suharto's autocratic rule, which bred red-tapism, bribery and corruption.

June 16-22

(FEER) No meddling! Jakarta sends Washington a sharp defence-linked message

Japanese trading giant Sumitomo unveiled plans to build a \$640 million coal-fired thermal power plant near Jakarta with Powergen of Britain and other partners. Sumitomo will invest \$24 million for a 15% stake in the 450,000 KW project. Toshiba and U.S. based Combustion energy ABB will supply equipment. This is Sumitomo's first venture into Asia's power sector.

June 30- July 6

(BW) The currency crisis sweeping South-east Asia: Devaluation in one country after another may rein in growth.

July 7-13

(Reuter) The Rupiah starts to crumble. Jakarta widens its Rupiah trading band to 12% from 8%.

July 21-27

(Reuter) Asian currency meltdown. The Rupiah, Baht, Ringgit and Peso all slump as confidence in the region rapidly deteriorates.

August 11-17

(Reuter) Jakarta abolishes system of a managed exchange rate. The Rupiah sinks further.

September 29-October 5

(Reuter) The Rupiah saw a historic low of 3845 against the dollar, which was due to : continued strong demand for dollars on the part of domestic corporations and stop-loss Rupiah selling on the part of offshore market participants.

The Jakarta Stock Market too saw a low of 515.477.

Bank Indonesia announced new export facilities including arrangements for swaps and forward purchases for registered exporters

to encourage exporters to focus on improving export performances

prevent spills from exchange rate fluctuation.

to encourage exporters to unload their dollar holdings.

guarantee foreign currency rates for genuine export activities

provide Rupiah liquidity for production geared toward export.

The Indonesia government announced it planned to unveil tough new reinsurance rules by the end of the year aimed at bolstering the financial security of the domestic insurance industry. The new rules could take effect on January 1st 1998.

October 6-12

(Reuter) Indonesia contemplates approaching the International Monetary Fund (IMF) for financial assistance.

(FEER) Indonesia: No laughing matter : Stock market index sliding down from 700 in early August to 500; GDP target growth rates at 7.8 % and 8.1% for 1997 and 1998 slipping down to as low as 5.5% and 5%; Inflation expected to be in double-digits from 5% in early 1997; Current account deficit projection was raised from 4% of GDP to 5%

October 13-19

(Reuter) Japan's readiness to give technical and financial assistance to Indonesia boosts the Jakarta Stock Index by 0.7% (at 520.7 from a previous close of 517.1) and the Rupiah by 2.7% (at 3570 Rupiah to a dollar from its previous close of 3,665). The central bank works towards defending the Rupiah against the dollar. This Japanese aid was, though, conditional on IMF package.

October 20-26

(Reuter) Jakarta stocks closed lower with heavy selling, following the full fall in Hong Kong. The main index ended on Friday down 2.2 percent, or 11.1 points, at 494.1 from a previous close of 505.23. The Rupiah continued to weaken against the U.S. dollar (with a final close at 3585) due to contagion from the neighboring countries and also because of low interest rates (for easing liquidity)..

To ease liquidity, Bank Indonesia decided to reopen its short-term securities (SBPUs) and rediscount facilities for the first time since August 19. Short-term SBI interest rates were reduced by 100 basis points across the board. The average overnight interbank rate declined by 180 basis points, to 39.19 %. However, results from negotiations with IMF were still awaited. Singapore Prime Minister Goh Chok Tong was ready to supplement the IMF's efforts toward restoring investor confidence in Indonesia, while Australian government seemed unlikely to directly contribute to the joint-IMF-World Bank-ADB assistance package. Despite all this upheaval, president Suharto is optimistic about the strength of the Indonesian economic fundamentals to cope with the crisis and to restore public confidence.

Bank Indonesia limited the selling of its SBI notes to a maximum of 5 billion Rupiah per bank to maintain good liquidity in the system.

(FEER) Feeling the pain: Indonesia's currency crisis hits the man on the street .

Default Option: Indonesia and the IMF count the cost of the Rupiah's slide.

October 27-November 2

(Reuter) Jakarta Stock Exchange shows improvement, so does the Rupiah (closing at 3590) first as Malaysia agrees to give \$1 billion to Indonesia, while Singapore pledged \$10 billion to Indonesia to help stabilize the Rupiah, and Japan and Australia show their interest in supporting Indonesia to tide over her currency crisis, conditional on the IMF rescue package; and then as the government reveals successful negotiations with the IMF for a \$40 billion in aid, with a front line defense of \$23 billion. The package includes fiscal and banking reform, improved budget discipline, reduction of import tariffs and export obstacles, deregulation of agricultural commodities and efforts to rein in inflation.

U.S. committed a "second line of defense for Indonesia" after the IMF financial package and those from "other countries are involved" are settled at.

The ADB agreed to grant a total assistance of \$3.5 billion to Indonesia between 1998 and 2000.

One of the IMF conditionalities was to appoint a senior government official Wardijasa to the board of Timor Putra and to take over from Hutomo Mandala Putra, President Suharto's youngest son and the head of the company.

November 3-9

(Reuter) - IMF approves a \$10 billion loan for Indonesia as part of the massive international package. Alongside, a coordinated intervention by Bank Indonesia, the Monetary Authority of Singapore and the Bank of Japan brought in tight liquidity and positive sentiments, which led to a strong Rupiah all week long (3290)

Jakarta stock market rose initially due to the announcement of deregulation measures to loosen imports and export controls and enhance the climate for foreign companies operating in Indonesia. There was liberalization of the import monopolies for wheat, wheat flour and soybeans; elimination of an administrative retail price for cement; expanding export facilities; and cutting import and export taxes. However, the rumors that the Minister of Finance had resigned due to the legal action taken by Bank Andromeda, 25% owned by President Suharto's second son Bambang Trihatmodjo, to reverse its closure (when his proposal to inject 350 billion Rupiah into the was rejected), State secretary Moerdiono issuing a statement that the government will maintain its decision to liquidate 16 privately owned banks, and the drop in other regional markets, particularly the Korean stock market, resulted in the fall of the stock market considerably.

Liquidity in the inter-bank market was tight (starting from 40% and closing at 57.2%). Bank Indonesia provided steady liquidity while banks are keeping ample funds to prepare for any unexpected fall-out from the liquidation of the 16 insolvent banks.

Consumer price index inflation rose to 8.8 percent in October 1997. The trade balance for nonoil/gas sectors improved in September. During January -September 1997, total imports decline 3.4% while exports increased 15.3%, with respect to the same period in 1996.

November 10-16

(Reuter) The Rupiah was maintaining strong against the dollar initially, but declined to 3,365 to the dollar because of negative comments by Moody's on Indonesia's long-term debt. Despite moderate intervention by Bank Indonesia, Bank of Japan, and the Monetary Authority of Singapore to prevent the Rupiah from falling below 3400 against the dollar, it closed at 3440 on Friday.

Jakarta stocks went down due to regional weakness, due to announcements of poor corporate results, and because of a run on Indonesia's largest unlisted privately-owned bank, Bank Central Asia (BCA). But it was saved by the withdrawal of a lawsuit by a liquidated bank (Bank Andromeda) co-owned by President Suharto's second son.

Indonesia's consumer price index rose 1.99 percent month-on-month in October, compared with an increase of 1.29 percent in September. Year-on-year inflation now stands at 8.48 percent compared to 6.9 percent in September.

Interbank interest rates continued to diverge markedly between the top tier banks, who are experiencing better liquidity conditions, and second and third-tier banks which continue to face tight conditions. The divergence rates for top tier banks eased to 15% while other banks are still paying nearer 50% reflects continued market segmentation. However, the week closed at an average inter-bank rate of around 43%.

Customers of the 16 liquidated private banks flocked to their branches throughout the country as well as to state banks appointed to payout their deposits up to Rupiah 20 million per depositor.

The Asian Development Bank's board approved a \$130 million loan to help enhance the productivity of Indonesia's agricultural sector. The total project cost is \$217 million, out of which \$83.9 million would be borne by the Indonesian government and \$3.1 by the farmers' groups. The loan is repayable over 26 years including a grace period of six years.

November 17-23

(FEER) At the end of the week, Indonesia's exchange rate and stock market were sharply lower, due to concern over the South Korean won and a general lack of investor confidence in the region. The composite stock index fell 1.23% to 391.26 points, down 10% on the week. The Rupiah ended the day in Jakarta at 3,612 against the dollar after touching a low of 3,635 before the central bank intervened.

Investors have lowered their profit forecasts for corporates because of higher interest rates, higher external debt service and lower economic growth.

Indonesia produced crude oil at its OPEC quota level of 1.33 million barrels-per-day (bpd) but had spare capacity to produce more if its quota was increased.

Inter-bank markets began pretty liquid, again with first tier bank paying around 14.5% and second- and third-tier banks paying higher. The average rate was kept relatively stable around 38 percent. However, later in the week Jakarta interbank rates rose due to rises in short-dated swaps. Overnight JIBOR rates increased to 22%. Second-tier banks paid around 40 percent and third-tier banks were forced to pay even higher rates at 70%. SBI and SBPU rates were unchanged.

As the economic crisis was cutting real incomes and job opportunities, more Indonesians are likely to join ranks of poor, leading to political instability. The survey estimates that nearly 18 million people were expected to join the 23 million people living below the poverty line (with monthly per capita income of 38,246 Rupiah (\$10.62) in cities and 27,413 Rupiah (\$7.6) in villages).

The government was warned by the members of the Indonesian parliament to keep fuel prices at their present levels to avoid an additional burden on the people.

Finance Minister Mar'ie Muhammad forecasted a trade surplus of \$4.3 billion in the second half of the 1997/98 fiscal year, which would imply a total trade surplus of over \$9.0 billion in the current fiscal year, while the Planning Minister Ginanjar Kartasasmita expected economic growth to slow down to between 5.0-6.0 percent in the fiscal years 1997/98 and 1998/1999, and the current account deficit to be kept below 3 percent of GDP in the next two years.

According to the Finance Minister, the government did not plan to reschedule its foreign debt and continued its policy of early repayment of foreign debt since this policy will increase market confidence on Indonesia. He ruled out bailout of private companies in distress.

(BW) It's the most complex financial bailout ever, with a price tag of more than \$100 billion. At stake: Global economic health !! The cost to Indonesia : \$40 billion: Suharto regime agreed to shut down banks, break up government monopolies, and dilute the interest of ruling families and its cronies to get IMF package.

November 24-30

(Reuter) The week began with a strong Rupiah, but the central bank intervened in the middle of the week (by selling dollars) to stabilize the Rupiah at 3,640/60. Similarly, the stock market began on a high note as the president had instructed the monetary authorities to use the US\$5 billion standby loan from Singapore to improve low-interest credits to medium and large companies, but later saw a low because investors sold shares across the board as the Tokyo market crash pushed regional markets into a new wave of selling. In the interbank market, the average overnight rate was relatively stable at 41.2%.

To top the economic crisis, there was an earthquake in northern part of Indonesia's Sulawesi, measuring 6.8 on the Richter scale, damaging at least 90 buildings.

Indonesia's central bank governor Sudradjad Djiwandono reported that the property sector's total outstanding loans of 74.2 trillion Rupiah in August, accounted for 19 % of total outstanding loans in the economy. Also 1.5 % of the 74.2 trillion Rupiah loans was considered bad debt.

President Suharto's second son, Bambang Trihatmodjo and second daughter Siti Hediati Prabowo have acquired Bank Alfa, after two banks in which they had stakes were liquidated on November 1.

There was confusion about Indonesia being able to draw on a promised \$5 billion loan from Singapore, which was a back up plan, in case the other loans were exhausted. Of the total loan of \$10 billion, \$5 billion was supposed to be used for exchange rate stabilization and the rest to support the BOP.

December 1 -7

(Reuter) The week saw the weakening of the Rupiah (3960 Rp/\$, with the central bank intervention preventing it to fall below 4000) because of strong demand for dollar by the corporates, and fall in the South Korean won and the Japanese yen.

For the first three days, the stock market fell sharply because of sliding Rupiah, concern over the health of the banking system and because foreign investors were taking losses and liquidating their positions. However, the last two days saw an improvement because of the announcement of the IMF package for South Korea and because of the purchases made by state-owned enterprises.

Bank Indonesia used open market operations to raise overnight interest rates to prevent the slide of the Rupiah. In the interbank market the average rate remained stable around 37 percent. The overnight JIBOR rate was around 22 percent.

\$20 million loan was approved by the World Bank to help Indonesia improve the structure and soundness of its banking system.

Indonesian conglomerate PT Bakrie & Brothers suffered foreign exchange losses of 123 billion Rupiah in the first nine months of 1997.

Oil prices are expected to go down as OPEC decides to increase the group's output ceiling by almost 10 percent.

CPI rose 1.65 percent in November over October and 9.01 percent over November 96 due to an increase in food and housing prices. President Suharto said state commodities regulator BULOG would supply more rice into the market to stabilize prices.

December 8-14

(Reuters) The Rupiah declined from 4142 at the beginning of the week to 5055 at the end of the week due to concern over President Suharto's health, in addition to the contagion from the weak neighbors. Liquidity in the interbank market had been tightened to prevent fall of the Rupiah.

The stock market improved at the beginning of the week as stocks looked cheap with Rupiah falling and as downside risks were limited. However, after three days of rise, the stock market fell sharply because of the President's ill health.

The fire at the top storey of Bank Indonesia's office tower in Central Jakarta killed 14 and destroyed property worth millions of dollars.

Indonesian government and business officials are scheduled to travel to Washington and New York next week to help renew confidence in the troubled economy.

The ADB approved a total of \$240 million in cheap loans for infrastructure improvement in Indonesia. International economist Rudiger Dornbusch thought that "for the most part the crisis is over". Now the next thing to do is to decrease interest rates.

The famine in the Inrian Jaya took the death toll to 554 people.

December 15-21

(Reuters) After an initial decline to 5800 as a result of president Suharto's ill health, Rupiah stabilized at 5200 against the dollar at the end of the week, reflecting optimism about intervention from Bank Indonesia, together with the Monetary Authority of Singapore and the Bank of Japan (BOJ) after the successful BOJ intervention in boosting the yen against the U.S. currency.

After a day of decline in stock market, the index improved over the rest of the week following the appearance of President Suharto in public after two-weeks rest.

Liquidity remained tight in the interbank market, the average rate remaining relatively stable at around 45% and the JIBOR rate around 33.2%.

The severe drought leading to a famine spreads to Moluccas region, endangering 80,000 people.

A credit watch was placed on Bank Negara Indonesia, Bank Danamon Indonesia, Bank Internasional Indonesia and Bank Umum Nasional by the S&P because of deteriorating asset quality of banks, bubble in property market and growing non-performing loans.

Indonesia's CPI rose 1.65% month-on-month in November, compared with an increase of 1.99% in October. November's inflation was boosted by a sharp 3.36 percent monthly increase in food prices. Year-on-year inflation in November was 9.56 percent, compared with 8.48 percent in October.

Indonesia will impose an additional export tax of between 28 and 30 percent—temporarily for six months on palm oil, effective December 19, on producers who fail to supply 80 percent of their output to the local market. Crude palm oil is currently subject to an export tax of 5%, palm olein 2%, and crude olein and RBD palm oil 4% each.

December 22-28

(Reuters) The Rupiah plunged to a low of 5950 as a result of falling South Korean Won, leading to an increase in short-term debt. However, the stock market remained steady around 397, ignoring downgraded Moody's ratings (Bonds from Ba1 to Baa3 and bank deposits from Ba1 to Ba3).

Four central bank directors: Hendrobudiyanto, Heru Soeprapto, Mansjurdin Nurdin and Paul Soetopo (head of Foreign Exchange) are replaced by Iwan Prawiranata, Sjahril Sabirin, Miranda Gultom and Aulia Pohan.

Indonesia's National Logistics Agency, Bulog, imports rice from Thailand, Vietnam, Pakistan, India and China to fight the growing demand and higher prices due to the drought. 50,000 tonnes of rice has already been imported, while another 100,000 tonnes is expected by the end of December.

Indonesia plans to attract new capital inflows by issuing U.S. dollar denominated bonds and having large conglomerates repatriate foreign currency holdings abroad. President Suharto plans to issue new foreign currency bonds at a meeting with 57 conglomerate chiefs this week.

Indonesia introduces a new excise tax structure for alcoholic beverages (effective from January) to limit liquor consumption and because of the rising inflation following the currency crisis.

December 29- January 4, 1998

(Reuter) The Rupiah appreciated to 4,950 per U.S. dollar, with the help of central bank, at the end of the week. The stock market too ended up on a high note (above 400).

The Jakarta State Administrative Court ordered the Finance Ministry to postpone the implementation of its November 1 decree closing Bank Jakarta until the suit was decided.

Three former Bank Indonesia directors were interrogated about alleged acts of corruption at the central bank.

Indonesia's foreign debt stands at \$118 billion while additional debt from commercial paper was \$15.3 billion.

The government considers raising the minimum wages in Indonesia, following the crisis. The minimum wages were raised by an average of 10.07% since April 1st, 1997.

1998:

January 5-11

(Reuter) The Rupiah breaks through the 10,000 level and the stock market plunges, as the government announces its budget for 1998/99, which was not considered tough enough to abide by the IMF recommendations and because of the possibility of the debt moratorium. Hence the President comes under international pressures to stick to the IMF conditionalities. He announces the delay or review of 15 big infrastructure projects. IMF Deputy Managing Director Stanley Fischer arrives in Jakarta to discuss implementation of IMF's programs.

Following are highlights of Indonesia's 1998/99 (April-March) state budget:

Budget set at 133.50 trillion rupiah

Budget exchange rate 4,000 rupiah to the dollar

Economic growth forecast at 4.0 percent

Inflation forecast at 9.0 percent

Current account deficit seen \$5.396 billion

Broad M-2 money supply forecast at rise 17.0 percent

Debt-service ratio seen down to 10.9 percent

Credit expansion seen 17.4 percent to 463.61 trillion

Oil reference price set at \$17 per barrel

Fuel subsidies set at 10.07 trillion rupiah

The credit rating of the long-term foreign currency was downgraded to BB from BB+ by S&P, and to BB- from BB+ by Fitch IBCA

January 12-18

(Reuter) IMF Managing Director Michael Camdessus meets with President Suharto and signs an agreement to strengthen economic reforms. President Suharto announced a cut in fuel subsidies; revisions of the 1998/9 budget which assumes a 20 percent inflation rate, zero G.P.P. growth and an exchange rate of 5000 rupiah to the dollar; and elimination of tax benefits under the national car project.

The agreement also included the scrapping from February 1 of state monopolies on importing and distributing sugar and distributing wheat flour. The new IMF program intends to free up agricultural markets, cut tariffs, encourage foreign investment and eliminate state monopolies except for rice (BULOG).

Angry by the rising prices, people mobbed the shops in East Java.

Bank Indonesia announced that the country's gross foreign assets were at \$20.39 billion as of January 15, equivalent to five months of imports, excepting gas and oil.

January 19-25

(Reuter) The Rupiah hits 12,000 on Wednesday as the news spread that the corporates were to pay dollar debts in Rupiah. Then it reaches a record low of 17,000 on Thursday as the news about Research and Technology Minister Habibie being a preferred vice-presidential candidate spreads (who is

considered a profligate and would not stick with IMF's conservative budget measures). However, intervention by bank Indonesia pulls the Rupiah to 11,800. The Rupiah ends at 12,000 on Friday, after a revised version of the budget was presented, which showed adherence to the IMF policies.

January 26-February 1

(Reuter) Indonesia announces a temporary freeze on debt servicing but emphasised that it is not a moratorium as companies with the dollars can pay their creditors. It also announces banking reforms, whereby the government will guarantee the security of both depositors and creditors. As a result of these reforms and central bank intervention, Rupiah strengthened to 10325 against the dollar.

S&P rating of Indonesia's long-term foreign currency rating to B from BB and local currency rating to BB- from BBB. It also downgraded the ratings of 8 Indonesian's banks and put 19 corporations on credit-watch. However, the stock market survived this downgradation and went up by 2.1%.

Japan pledges a loan of \$560 million to Indonesia, while the news that IMF's APD's chief is willing to pay \$3 billion right away to help fight the economic crisis.

Another agitation to show frustration against the crisis. This time Islamic school students attacked shops and houses in two small Central Java coastal towns.

February 2-8

(Reuter) The Rupiah appreciated compared to last week (mildly because of up-trend in regional currencies), but depreciated to 9400 against the dollar despite the intervention by the Central bank and the news that joint venture companies accounted for almost half of Indonesia's private foreign debts. However, the stock market picked up as a result of economic and banking reforms.

Singapore proposes a multilateral system of guarantees for Indonesian letters of credit. Thai shipment of rice to BULOG was delayed because of Indonesia's problems with letters of credit.

Indonesian government is not so enthusiastic about the currency board proposal by U.S. economist Steve Hanke, where the Rupiah would be pegged to another currency, most likely the U.S. dollar.

President Suharto does not name a running mate in the up coming elections in March, as it was not his right, but the right of parliamentary groups, to name the candidate.

The World Bank agrees to give \$1.0 billion this month, of which \$400 million would go toward helping farmers provide food security, \$300 million would be used to create work in existing urban infrastructure projects, and \$300 million in support of jobs in rural areas.

As a part of banking reforms, the central bank proposes ceilings on growth in foreign exchange deposits, foreign exchange non-trade related liabilities, and foreign exchange trade related liabilities, including letters of credit, to avoid irregularities.

There was a trade surplus of \$1,424.1 million in November, compared with \$1,098.2 million in October. Bank Indonesia announced the country's gross foreign assets at \$19.06 billion in January, which is equivalent to 4.7 months of imports. The government expects 10% of work force to be unemployed by end of 1998. The government is expected to raise the farmgate rice price to 600 rupiah from 525 rupiah per kg. The month-on-month CPI rose 6.88 percent in January, compared with a rise of 2.04 percent in December. Indonesia's total foreign debt stands at \$137.424 billion.

A riot broke out in an East Java coastal town when rioters tried to burn down a shopping complex at a suburban market because of rising inflation, when police had to fire warning shots.

February 9-15

(Reuter) There was a signature campaign to replace President Suharto, as there was discontentment over Suharto's efforts to handle the economic crisis. Hence he signals adopting an approach to a fixed exchange rate system. The week begins with a strong Rupiah on the hope of having a fixed exchange rate. However, it gradually weakens as the IMF and D.C. oppose the currency board system and there is concern about the uncertainty over the next vice-president. The stock market plunged because of economic, political and social turmoil.

The government plans to subsidize the import of material to manufacture generic medicines and emergency equipment needs. The imports would be at 5000 Rp/\$ and the rest would be subsidized.

More riots in east Indonesia lead to a curfew. Protests due to rising food prices in Jakarta lead to detainment of over 250 people. The riots in West Java town was considered by Suharto as a plot to destabilize the government. Angry mobs looted or burnt shops in eastern and central Java and on islands of Sumbawa, Flores and Sulawesi.

The ruling Golkar party declares Habibie and parliamentary speaker Harmoko as its vice presidential candidates

Indonesia imposed an indefinite ban on crude palm oil exports, justifying it as being in line with GATT and as a measure to stabilize the domestic cooking oil prices, although it was clashing with its agreement with the IMF.

February 16-22

(*WSJ*) Finance Minister Mar'ie Muhammad says Indonesia so far faced no problem in meeting state foreign debts, while telling parliament that the government wants to maintain good ties with the IMF. Mar'ie says Suharto had instructed the finance ministry and the Central Bank to prepare for the introduction of a currency board by taking into consideration all views and development, locally and abroad.

Police brace for further unrest in Sulawesi island as no clear picture is seen on how the government would stabilise the Rupiah. Fear of unrest grows in Indonesian City: Once-thriving Surabaya faces joblessness and inflation.

(*Reuter*) Parliamentary speaker Harmono steps down from the vice-presidential race to let Habibie take over, who had been supported by the Moslem-backed United Development Party. Habibie is assured of the vice presidency.

Central bank governor Djiwandono is fired by Suharto for opposing the currency board. Sabirin replaces him.

Rising riot incidents as a result of rising food prices, leads to the shoot at sight orders.

Germany agrees to give 373 million marks (\$205.3 million) in financial aid. But feels that Indonesia should abide by IMF prescriptions. Chinese shop keepers sold commodities at discounts to Javanese poor who had rioted earlier this week with Chinese stores, their main target. China feels that Indonesia could deal with ethnic unity and the crisis. Singapore agrees to pay \$2billion if Indonesia if its plan for international guarantees for Indonesian letters of credit is implemented.

Continuing on its stand that currency board was premature for Indonesia, IMF softened by emphasizing that it should be preceded by banking reforms, corporate debt and other economic issues.

To restore falling confidence among Indonesians in their government, Suharto guaranteed a pay-out on all legal deposits in 16 banks liquidated last year, which would amount to 1.7 trillion Rupiah.

Indonesia plans to set up 80 fish flour plants worth 800 billion rupiah to reduce the price of animal feed on the local market

The Rupiah appreciated to 8800, as the news spreads that India might drop the currency board proposal.

February 23-March 1

(*WSJ*) Concern Grows over Indonesia's Clove Market: trade Monopoly would continue, which means backtracking on another term of its IMF bailout.

As social unrest grows in Indonesia (effects of drought from last year, high unemployment and soaring food prices), neighbors (Malaysia and Indonesia) fear an Indonesian exodus.

Some technocrats and leading economists have met with IMF officials to find solution for this social unrest. The currency board system has been opposed and a new two-tiered currency regime has been proposed to IMF special envoy Prabhakar Navekar; which is what the country had between 1968 and 1970. According to this regime, the price basic commodities would be determined by the stronger edge of the Rupiah (9000+) while the rest of the transactions would be done on open market. However, IMF looks at it as a "radical" approach.

(*WSJ*) Barring a surprise, President Suharto will be re-elected for the seventh term on March 10th, 1998.

(*Reuter*) The Rupiah and the stock market showed a mixed trend as investors adopt a wait-and-see attitude due to uncertainties over the implementation of currency board system, the coming presidential election and a meeting of ASEAN finance ministers

Finance Ministers of G7 countries are against the currency board system for Indonesia. Export Credit Agencies from G7 agreed to finance trade to stabilize the Asian economies.

Australia contemplates providing emergency food aid program to ease riots over food shortages and rising prices.

IMF team visits Jakarta to evaluate the progress on economic reforms so that the fund could approve the next disbursement from a bail-out program. Navekar feels that the country is trying to abide by the IMF policies.

Non-problem loans stood at 91.82 percent of all loans by state and private banks at the end of October 1997. The country's foreign debt stands at \$136.1 billion as of December 31.

Four airlines Bouraq Indonesia Airlines, Deraya Air Service, Mandala Airlines and Sempati Air are in serious danger of shutting down due to huge losses.

Philippine approves the donation of 1 million U.S. dollar worth of medicine to Indonesia which has been suffering severely under the currency crisis.

The ban on the export of crude palm oil and its by-products, except for stearin and palm kernel oil , was emphasized again.

Bank Indonesia contemplates providing special credit to help about 6,000 financially troubled poultry farmers. The consumption of Indonesia's poultry meat fell 25% in last quarter of 1997, and expected to drop another 25% in the first quarter of 1998 due to the Asian crisis and the falling Rupiah.

March 2-8

(Reuter) President Suharto, in his address to the Indonesian People's Consultative Assembly, proposes to go ahead with the currency board system, conditional on approval by the IMF.

The Rupiah initially strengthened in response to government reform package, but later weakened because of the possibility of temporary introduction of Currency Board and the rumor of delay in IMF disbursement. The stock market remained low too.

The monthly CPI rose by 12.8 percent in February. Annual inflation since last February is 31.7%. Increase in food prices was 16.1% in February and 46.9% since last February.

Bank Indonesia's gross foreign assets stand at \$16.33 billion at the end of February, equivalent to 4 month of non-oil imports.

Head of Indonesian Bank Restructuring Agency, Subianto, is dismissed officially, while Bank Indonesia Director Boediono, who opposed the currency board, was officially replaced.

Japan again proposes a scheme under which the Indonesian government or Bank Indonesia guarantees the repayment of private sector foreign debt, which could reduce the debt burden by up to 30 percent.

The exemption of further 15,000 cars from import duties -- imported from Korea and labeled the Timor—was justified as a commitment before the commitment to the IMF to cease such exemptions. The BULOG, however, would be bereft of all its import monopolies other than that for rice.

March 9-15

(*WSJ*) Indonesia's confrontation with the IMF deepened, as the fund postponed the next \$3billion tranche of its bailout package until at least April, which had been scheduled for March 11. Meanwhile, a big Indonesian bank faces seizure currency-related losses.

Foreign reserves have fallen 24% since the beginning of the year.

IMF agrees to accept the currency board in Indonesia after all, to defuse the recent tension in Jakarta, as President Suharto begins his 4th decade as the president. Habibie is elected the vice-president.

Suharto likely to name Mohammad Hasan to the cabinet as the new Industry and Trade Minister. He heads the plywood industry monopoly that the IMF ordered disbanded as a condition of the \$43 billion bailout. This appointment is read as further evidence that the reforms agreed to with the IMF won't be fully implemented.

Chronology – South Korea

Jan 1997

Hanbo bankruptcy

Feb 1997

Financial market loses credit

Mar 5, 1997

Devaluation of Yen results in greater problems for Korean economy
R&D for companies expected to decrease 50% from last year

Mar 6, 1997

Foreign Exchange Reserves fall to below \$30,000,000,000 in 20 months

Mar 12, 1997

Exchange rate starts rising : \$1 = W 878.60

Mar 15, 1997

Net Income of 30 largest firms decrease 90%

Mar 29, 1997

Investment on infrastructure start decreasing, first time in 5 years

Mar 1997

Foreign prices of Korean exports plummet
Government policy on securing foreign exchange

Apr 4, 1997

Foreign investment of firms : 50% of last year
Wage increase rate : 50% of last year

Apr 6, 1997

Total foreign debt : \$104,500,000,000

Apr 17, 1997

Unemployment rate highest since 1980 at 4.9 % (1,000,000)

Apr 1997

Sammi bankruptcy
Interest rate soars

May 20, 1997

Trade deficit \$20,600,000,000
April bankruptcy : 1,300 companies

May 31, 1997

Unemployment rate starts decreasing, prices stabilize

May 1997

Foreign debt crisis emerge
Jinro negotiations requested

July 9, 1997

Total firm bank debt : 8,000,000,000,000 won
Third quarter economic growth rate : 6.7%

July 24, 1997

Highest foreign investment in Korea reached : \$4,400,000,000

July 1997

Kia funds crisis
Kia bankruptcy extension agreement

Aug 1, 1997

July consumer prices rise 3.7 %
July trade deficit : \$800,000,000

Aug 7, 1997

S&P announced that Korean economic status is now "negative"

Aug 15, 1997

Market share of Korean products in the US decrease to 2.6 % (by .3 %)
30 largest firm total income decrease b y 26%

Aug 18, 1997

20% of firms operated with 0.6 % profit

Aug 30, 1997

Capital stock increase rate starts decreasing to 9.6% in 2 years

Aug 1997

Exchange rate soars
Foreign debt difficulty

Oct 1997

Foreigners dump stock - prices plummet
Exchange rate soars again

Nov 19, 1997

Yim Chang Yul Economic Team

Nov 21, 1997

IMF aid requested

Nov 1997

Stock prices plummet, exchange rate soars
Mid-sized corporations - domino bankruptcy

Dec 5, 1997

IMF aid agreement settled

Dec 1997

Financial market bankruptcy crisis
Savers withdraw from banks

Chronology – Taiwan

May 10, 1997

Financial problems exacerbate, Investment environment in Southeast changed: Taiwan's FDI in Thailand and Malaysia fell. [*Business Times* (Taiwan), May 10, 1997: Section 4]

Aug. 19, 1997

Taiwan has a more stable exchange rate than East Asia countries. [*Business Times* (Taiwan), Aug. 20, 1997: Section 4]

Aug. 19, 1997

Southeast Financial Crisis, Taiwan will not happen. [*Business Times*, Aug. 20, 1997: Section 4]

Sept. 6, 1997

The Central Bank of China said that it's worth stabilizing the exchange rate at the expense of 2 billion in US dollar of foreign reserves in two months. [*Economic Daily* (Taiwan), Sept. 6, 1997: Section 4]

Sept. 6, 1997

The Southeast financial turmoil has a limited impact on Taiwan, according to a research report in the Central Bank of China. [*Economic Daily*, Sept. 6, 1997: Section 4]

Sept. 25, 1997

The Economics Institute of Academia Sinica in Taiwan reported that the Southeast financial turmoil has affected Taiwan's economy, according to the survey of business cycle in August. [*Economic Daily*, Sept. 26, 1997: Section 3]

Oct. 3, 1997

Taiwan would be away from the Southeast financial storm. [*Economic Daily*, Oct. 3, 1997: Section 4]
Oct. 8, 1997: The Central Bank of China announced three monetary policies to stabilize the Taiwan exchange market. [*Economic Daily*, Oct. 9, 1997: Section 3]

Oct. 18, 1997

The Central Bank of China ("CBC") allowed the New Taiwan Dollar ("NTD") to fall on October 18, giving up defending the currency at about NTD 28.6/USD, which lasted for two and a half months. [*Global Economic Forum*, Morgan Stanley, Oct. 21, 1997]

Oct. 20, 1997

The stock markets in Asia slumped, the Taiwan Stock Index fell by 4%. [*Business Times*, Oct. 21, 1997: Section 2]

Oct. 20, 1997

"Black October" in the Taiwan exchange market. [*Economic Daily*, Oct. 20, 1997: Section 2]

Oct. 23, 1997

The New Taiwan Dollar devaluated 1.9 cents, closed at 30.23. [*China Times* (Taiwan), Oct. 24, 1997: Section 2]

Nov. 3, 1997

According to the statistics from the Central Bank of China, Taiwan's OBU increased in September which is not affected by the Southeast financial crisis. [*Business Times*, Nov. 3, 1997: Section 14]

Nov. 13, 1997

Dr. C. Fred Bergsten, the director of Institute for International Economics, speculated the motive of devaluation of the New Taiwan Dollar. [Statement given before the Committee on Banking and Financial Services, US House of Representatives, Nov. 13, 1997]

Nov. 13, 1997

Mr. Alan Greenspan, the chairman of the Federal Reserve Board, said that there is no other motives for the devaluation of the New Taiwan Dollar. [*United Daily News* (Taiwan), Nov. 15, 1997: Section 2]

Nov. 19, 1997

The Central Bank of China indicated that it would allow the market to determine the value of New Taiwan dollar ("NTD") in the wake of sharp depreciation of Korean won. [*Global Economic Forum*, Morgan Stanley, Nov. 19, 1997]

Jan., 1998

Global and Taiwan's economic growth slows down due to Asian financial crisis. [*Money Star Weekly Magazine* (Taiwan), Jan.1-Jan. 9, 1998: Vol. 1072]

Jan., 1998

The impact of Asian financial crisis emerges, Taiwan's Industry has been damaged. [*Money Star Weekly Magazine*, Jan.1-Jan. 9, 1998: Vol. 1072]

Chronology – Hong Kong

Early 1997

Red chips stocks (stocks of HK listed companies controlled by powerful Mainland Chinese state entities) surges drastically, together with other stocks. Hong Kong 1997 first quarter RGDP growth rate is 6.1%, higher than the expected 5.5%. [DJIN, August 4]

May-June 1997

An example of the current stock market with the so-called "red chip feast": Beijing Enterprises sold 125 million shares to investors at \$HK12.48 (\$1.60) each. Applications were made for 1,276 times more shares than were available. [FEER, June 5] Hong Kong stock market's capitalization has soared to \$500 billion. [BW, June 9] Blue chips of Heng Seng Index only accounted for about 30% of the volume. [FEER, June 12]

Late June 1997 – There are rumors that China will clamp down on red chips which prompted many investors to sell. China's commercial banks were banned from providing bank loans for stock-market speculation. [Economist, June 14] It is also known that during the past month, the Securities and Futures Commission (SFC) has carried out first a regulatory inquiries and then a formal investigations to mainland-linked companies listed in Hong Kong concerning potential market manipulation. [FEER, June 26]

July 1, 1997

Hong Kong becomes a Special Administrative Region (SAR) under China. Both China and the local governments promised to maintain pegging HK dollars with USD at the rate of HK\$7.8 to US\$1.00. Mid-July 1997 -- There is a speculation targeting HK dollars. In response, Hong Kong Monetary Authority (HKMA) spent at least US\$1 billion of its reserve (US\$81 billion) to defend the local currency. The Financial Secretary Donald Tsang claimed that the "so-called crisis" was basically over. [DJIN, August 23]

Summer 1997

Business executives in Hong Kong are suggesting that monetary authorities would gradually and quietly loosen the peg in 1998 to give Hong Kong a competitive lift. [BW, November 10] September 8, 1997 -- Before his trip in the United States (September 8-12), HKSAR Chief Executive C. H. Tung reassures the public that HK dollars will remain pegged with US dollars. [BW, September 8]

Late September 1997

Stock market has its most volatile week ever. HK dollars stay strong but under pressure. [FEER, September 25; DJIN, September 26]

October 1997

Financial crisis broke out in Southeast Asia. Hong Kong is calm at the beginning, but finally Heng Seng Index dropped by 23% between October 20 and October 23. [Economist, October 25] Interest rates soared in defense of the local currency. HKMA once pushed the overnight interbank loan rates up to 300%. Both China and HKSAR governments promised to protect the peg of HK and US dollars with \$88 billion reserve in Hong Kong and \$120 billion in China (made available for HKSAR.) [BW, November 10]

References:

BW - Business Week

DJIN - Dow Jones International News

Economist - The Economist

FEER - Far East Economic Review

Chronology – Japan

Mar 30, 1997

Nikkei average 18,003.40 (-186.32), The yen 123.97 (-0.31)

Apr 1, 1997

The consumption tax rises to 5% from 3%.

Apr 2, 1997

BOJ's quarterly 'tankan' survey turns better for the first time in more than five years. (predicting expansion in economy)

Apr 4, 1997

The government introduces a 10% reduction target in public works projects for FY98

Apr 6, 1997

APEC statement "agrees that misalignments in the currency markets which existed in spring 1995 have been corrected

Apr 11, 1997

Sakakibara, Japan's "Mr. Yen" (official of MOF) hints that Tokyo's low interest rates cannot last forever (*Business week*)

Apr, 1997

Tax hikes and tighter government spending are implemented by Prime Minister Hashimoto to reign in growing government deficit. (*Business Week*)

Apr 19, 1997

U.S. expresses concern over growth in Japan's car trade surplus.

Apr 25, 1997

MOF orders Nissan Mutual Life Insurance Co. to shut down operations. (first insurance bankruptcy in five decades)

May 6, 1997

Nikkei average surges (20,180.92 +667.17)

May 8, 1997

A health insurance bill that would at least double medical bills starting Sept.1 passes the Lower House – potentially hurting domestic consumption

May 14, 1997

Nomura three executives are arrested in 'sokaiya' scandal in which some stockholders were pressured out of stockholder meetings

May 15, 1997

The government finalizes plans for "sweeping" economic reform

May 16, 1997

The Diet enacts a law that ends the monopoly of banks in the foreign exchange business.

May 20, 1997

The yen continues to rise (112.42 +3.87) hit 111.98

May 30, 1997

Ex-Nomura head is arrested in connection with 'sokaiya' scandal

Jun 1997: Industrial production falls by 3.1 %, possibly portending a return to recession for Japan. (*Business Week*)

Jun 3,1997

The government Budget-reduction goal unveils a public works outlay cut of at least 7%

Jun 6,1997

Four Dai-Ichi-Kangyo Bank executives are arrested over suspicion of providing 11.78 billion yen in loans to a 'sokaiya'

Jun 11,1997

April Current account surplus up 93% from last year (1.09 trillion yen)

Jun 13,1997

Q1 GDP +1.6% q/q (from last quarter)

Jun 13,1997

The foundation for the government's "Big Bang" reform of the financial system are unveiled with the release of three advisory panel reports.

Jun 22,1997

G7 statement " Japan needs to pursue robust domestic-demand-led growth and avoid a significant increase in its external surplus, and to advance deregulation"

Jun 25,1997

EU leaders voice concern over Japan trade surplus.

Jul 4, 1997

Nikkei average falls below the 20,000 level (19,968.00 -153.41)

Jul 9, 1997

May current account surplus jumps 154.9% from a year earlier. (906.8 billion yen)

Jul 17,1997

First-half trade surplus surges 28.4%

Jul 30,1997

Yamaichi Securities raided by prosecutors for illegally compensating racketeers. (*Far Eastern Economic Review*)

Aug 21,1997

Council headed by Prime Minister Hashimoto unveils a new plan to "reinvent government", with reforms of the Finance Ministry and Ministry of International Trade and Industry. (*Far Eastern Economic Review*)

Sep 11,1997

Japanese economy is reported to have contracted by 11.2% on an annual basis in the second quarter of 1997. The worst contraction since 1974. (*Business Week*)

Mid Sep,1997

Bank of Tokyo-Mitsubishi writes of 1.1 trillion yen in bad loans. (*Far Eastern Economic Review*)

Sep 24,1997: Chairman and President of Daiwa Securities steps down, former president of Yamaichi Securities is arrested. (*Economist*)

Oct 21,1997

The ruling LDP announces a set of economic stimulus measures

Nov 3,1997

Sanyo Securities Co. goes bankrupt (First Japanese brokerage to go under in post-war history)

Nov 13,1997

The Nikkei stock index reaches 15,427, its lowest level in over two years. (*Economist*)

Nov 17,1997

Hokkaido Takushoku, a large commercial bank, collapses. (*Economist*)

Nov 24,1997

Yamaichi Securities Co, a broker with \$188 billion in investments under its care, goes bankrupt. This was the largest bankruptcy ever in Japan. (*Business Week*)

Nov 26,1997

Tokuyo City Bank collapses

Dec 17,1997

Prime Minister Hashimoto announces a \$16 billion income tax cut, reversing a tax increase announced just the previous spring. (*Economist*)

Dec 29, 1997

Nikkei stock index at 14,775

Dec 31, 1997

Yen stands at 130.5 to the dollar

Dec 1997

The ruling Liberal Democratic Party approves a plan to raise \$77 billion in government bond sales to help shore up a trembling financial system. (*Business Week*)