Origins of the crisis in the region

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Capital inflows and fixed exchange rates

The economies of Southeast Asia had grown rapidly for a decade before 1997. Foreign capital flowed in, attracted by high growth, high interest rates and exchange rates that were fixed or closely managed against the US dollar. Much of it took the form of short-term borrowing in foreign currency by banks and companies, which lent the proceeds for longer periods and often to property developers. The arrangement worked as long as investors believed that the exchange rates would hold. Once that belief weakened, borrowers with dollar debts and local-currency income faced ruin, while foreign lenders rushed to withdraw their funds.

The danger signs appeared well before the crisis broke. In its review of the year, MAS noted that the sanguine outlook of early 1997 had masked the coming crisis, signs of which had emerged in the second half of 1996. Speculative attacks on the baht arose from concerns over Thailand's widening current account deficit, rising external debt and the over-exposure of its financial sector to a flagging property market, while several Korean conglomerates defaulted on their debts in the first half of 1997. Later analysts described the episode as a capital account crisis, driven by investor panic and sudden shifts in market expectations and compounded by weak fundamentals in the affected countries.[1]

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The fall of the baht

The Bank of Thailand defended the baht for more than a year. After capital controls adopted in May 1997 had failed, it floated the currency on 2 July 1997, when it fell immediately by 15 per cent. The baht, which had started 1997 at 25.6 to the US dollar, reached 47.2 by the end of the year.[2] The float ended the illusion of fixed exchange rates throughout the region. Investors who had lent to Thai finance companies on the assumption that the peg was safe now asked which of Thailand's neighbours shared its weaknesses.

The answer came quickly. The Philippine peso fell by 12 per cent on 11 July after its trading range was widened. Bank Indonesia floated the rupiah on 14 August, while the ringgit and the Singapore dollar also weakened against the US dollar.[3] Central banks raised interest rates and imposed restrictions on capital movements, but they failed to restore confidence.

Contagion: Indonesia, Korea and Malaysia

In October 1997 the contagion reached Northeast Asia. Hong Kong defended its link to the US dollar by allowing interest rates to rise sharply. The New Taiwan dollar was allowed to depreciate, while Korea widened the band for the won, sought recourse to the IMF on 21 November and floated the currency on 15 December. In January 1998 the ringgit, the baht and the peso fell to their historic lows. The Indonesian crisis deepened into a political crisis that ended with the resignation of President Suharto in May 1998.[4]

The losses in value were extreme. Between June 1997 and July 1998 the baht lost about 40 per cent of its value against the US dollar and the rupiah about 83 per cent. Real output collapsed in 1998, by 13.1 per cent in Indonesia, 7.6 per cent in Thailand, 7.4 per cent in Malaysia and 4.9 per cent in Korea, according to the series of the World Bank. The five most affected economies lost around 30 per cent of their combined output.[5]

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The IMF programmes

The IMF responded with programmes for Thailand, Indonesia and Korea. The Thai package of August 1997 amounted to US$17.2 billion, including loans from the Fund and from Asian countries. Indonesia received a stabilisation package of US$23 billion on 31 October 1997. Korea sealed a package of US$57 billion on 3 December 1997, the largest in the Fund's history to that date. The programmes combined financing with conditions on fiscal policy, interest rates, bank restructuring and structural reform. Critics in the region regarded the conditions as too stringent and poorly adapted to the circumstances of each country.[6]

Malaysia chose a different path. Its government rejected the orthodox IMF approach and imposed exchange controls on 1 September 1998, fixing the ringgit at 3.80 to the US dollar.[7] The Malaysian decision had direct consequences for Singapore, which are examined below.

Notes

1. Monetary Authority of Singapore, *Annual Report 1997/98*, Singapore, MAS, 1998, p. 34 (“The Asian Currency Crisis: Early Warning Signals”); Beomhee Han, “The CMI and CMIM”, chapter 26 in a publication of the ASEAN+3 Macroeconomic Research Office (AMRO), 2023, p. 711: the crisis was viewed “as a capital account crisis driven by investor panic and an erratic shift in market expectation”. ↩
2. MAS, *Annual Report 1997/98*, p. 34: “the Baht was eventually floated on 2 July 1997, when it depreciated immediately by 15%”; calendar of events, p. 23; MAS, *Annual Report 1997/98*, p. 52. ↩
3. MAS, *Annual Report 1997/98*, p. 34; calendar of events, pp. 23–24. ↩
4. MAS, *Annual Report 1997/98*, p. 35 and calendar of events, p. 25; MAS, *Annual Report 1998/99*, Singapore, MAS, 1999, section “Equity Market”, on “political instability in Indonesia after President Suharto's resignation in May 1998”; MAS, *Annual Report 1997/98*, p. 35. ↩

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5. Wikipedia, "1997 Asian financial crisis" (accessed November 2026), table of exchange rates per US dollar, June 1997 and July 1998: Thai baht 24.5 to 41 (−40.2 %), Indonesian rupiah 2,380 to 14,150 (−83.2 %); World Bank, World Development Indicators, indicator NY.GDP.MKTP.KD.ZG (GDP growth, annual %), data for 1996–1999 retrieved through the World Bank API, November 2026; Han, "The CMI and CMIM", p. 711, citing the Asian Development Bank (1998). ↩
6. MAS, *Annual Report 1997/98*, calendar of events, pp. 24–25; Han, "The CMI and CMIM", p. 711, citing Feldstein (1998), Sussangkarn (2010) and Park (2008). ↩
7. MAS, *Annual Report 1998/99*, calendar of events (1 September 1998) and section "Exchange Rate Developments" (ringgit pegged at 3.80 to the US dollar); Lee Hsien Loong, "Coping with the Asian Financial Crisis: The Singapore Experience", speech at the Nomura Securities Singapore Seminar, Tokyo, 30 September 1998 (mas.gov.sg), para. 7. ↩

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