

The recent crisis in the stock markets

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After the summer there were a number of disturbances in some emerging economies of south-eastern Asia (Malaysia, Indonesia, the Philippines and Thailand). These disturbances were characterised by pressure on the value of their currencies, sensible increases in the rates of interest and dramatic drops in stock prices. Later these effects were to move to Hong Kong which was to act as a catapult to export this crisis to the international stock markets.

The purpose of this article is to carry out a brief examination of the main causes of these crises, which were initially local, but then later had international repercussions, and then to attempt to analyse their future impact.

Although this crisis affects a group of countries, there was not a single cause of the disturbances, as each country has its own problems. Three common problems can however be identified, which, to a greater or lesser extent, have had an effect on the earlier described events.

The weakness of the Japanese economy. Commerce amongst the countries of south-eastern Asia is very important for the activity of the area. Amongst these countries Japan has a predominant position due to the size of its economy. The weakness of Japanese economic activity and sluggishness in its demand have therefore affected the other countries of the area over the last few years.

In order to slow down price increases, the countries of south-eastern Asia have tied the exchange rate of their currencies to the dollar. The marked increases in this currency have brought with them a decrease in competitiveness; this caused a great decrease in the balance of trade of these countries. The consequence of this was lower activity and weakness of their currencies.

There are a number of other factors which are particular to each country, and which helped to bring about the crisis. Of special importance with respect to this: decreases in property prices, immature financial systems, the entrance of China as a competitor, etc.

It is difficult to determine what the consequences of this crisis may be, since, if it were restricted to the previously mentioned countries, it would have less of an effect. The danger stems from its spreading to other countries in the area such as Korea or Taiwan. In principle, the following comments may be made:

– 35% of Japanese exports are made to the area of south-eastern Asia, and 13% to the most affected countries (Malaysia, Indonesia, the Philippines and Thailand). A drop in the demand of these countries would therefore affect Japanese activity and the economic recovery of that country.

– A decrease in the value of financial assets would inevitably lead to an adjustment in the value of the financial assets of large corporations with investments in the area. This is the aspect which had the greatest effect on the spread of the crisis from Hong Kong to the large international stock markets.

– Lastly, another effect which is occurring is the fear that a similar crisis may take place in other geographical areas; specifically Latin America. There are a number of similarities between some countries of that area and south-east Asian countries (currencies linked to the North American dollar, deterioration in the balance of payments, immature financial systems, low standard of living) which have caused analysts to assess the future development of the financial assets of South American countries with greater caution.

– There are however a series of compensatory mechanisms which, once the importance of crisis transmission is appreciated, can prevent the crisis from having too much of an international effect. These include expectations of a less restrictive North American monetary policy and the consequent depreciation of the North American dollar, and a greater willingness on the part of the International Monetary Fund to support the emerging economies of the affected area.

Given the scarce commercial relations which exist between Spain and south-eastern Asia, this crisis will only have limited effects on the Spanish stock market. It is however

having a greater effect on those companies, primarily banks, which have large Latin American interests. It should nevertheless be mentioned that the South American countries which are most at risk of being affected have much lower levels of current account deficit and are undergoing a process of rationalisation of their economies. These factors have led to macroeconomic parameters more in accord with orthodox economic views.

Recently, despite the intense stock exchange movements, it has been seen that the economic forces understand the regional nature of this crisis. As a consequence of this, despite the fact that the international stock markets and the Spanish stock market continue to be affected by the changes taking place in the south-east Asian stock markets, the news which is arriving from the Far East is treated with the necessary rationality, and primary importance is given to the fundamental factors. This fact is shown by the recent recoveries of the indexes of the principal stock markets.

This crisis will undoubtedly have a certain effect on the already depressed Japanese economy, whose economic activity is very dependent on those markets and this effect will surely also spread to large western corporations whose growth is directly or indirectly centred on the emerging markets.

Despite the fact that one should not magnify and extrapolate the recent decreases in stock market prices into the future, there is no doubt that this crisis will have a negative effect on the growth of world-wide economic activity. However, given the strength of the upward trend seen in the North American economy, this effect does not have to be excessively strong, and in any case it seems that it will not be a deciding factor in the Western economies. Unfortunately the same can not be said about the Japanese economy, which is already much weakened, and seems to have been the focal point of all of the problems of the last few years.