

# Three Decades of International Financial Crises: What Have We Learned and What Still Needs to be Done?



សាកលវិទ្យាល័យភូមិន្ទនីតិសាស្ត្រ  
និងវិទ្យាសាស្ត្រសេដ្ឋកិច្ច

ROYAL UNIVERSITY OF LAW AND ECONOMICS

Course: World Economy  
G5 Member:

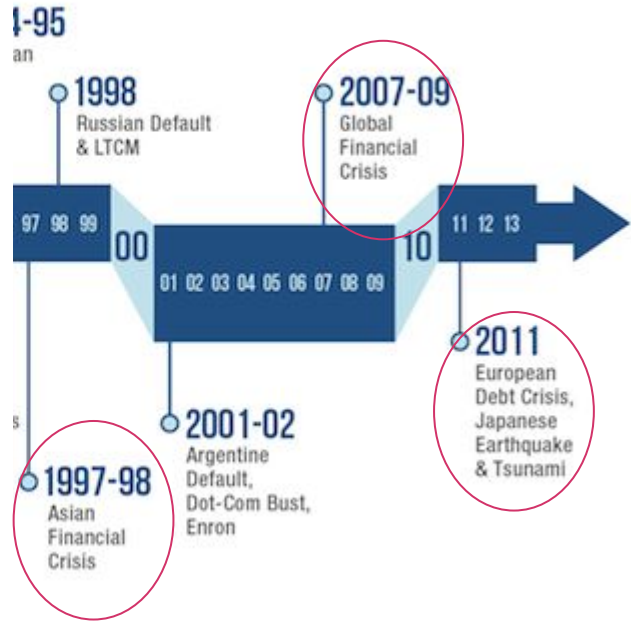
- SOK Sorady
- SOK Sotheara
- TEANG Sotheary

# AGENDA

- Introduction
- Understand the Cause and Impact of (What have we learnt):
  - The Asian Financial Crisis
  - The Global Financial Crisis
  - The Eurozone Financial Crisis
- Comparison
- Looking Forward



# INTRODUCTION



- Fragility that periodically erupts into a full-blown financial crisis appears to be an integral feature of market-based financial systems despite the emergence of sophisticated risk-management tools and regulatory systems.
- This paper compares the three major crises of the past 3 decades to distill the lessons they offer and to identify what remains to be done. Its findings are especially pertinent as policy makers tackle the financial impacts of coronavirus disease (COVID-19).

# THE ASIAN FINANCIAL CRISIS



# THE ASIAN FINANCIAL CRISIS

## ● Cause

- Short Term Debt
- Fixed Exchange Rate
- Financial Sector Weakness (Crony Capitalism)
- Contagion (Regionwide loss of confidence)

## ● Impact

- Net Capital Outflow (sensitive to adverse new of economy)
- Currency Crisis: Local Currency Depreciation, impact on Export

- Accumulate Non Performing Loan (NPL) lead to Bank Closure
- Currency exchange rates, stock markets, and prices of other assets all plunge.
- The GDPs of the affected countries even fell by double digits.

# THE ASIAN FINANCIAL CRISIS

## - Response



Asset Management Companies was introduced

\$110 billion in short-term loans were advanced by IMF to Thailand, Indonesia, and South Korea to help them stabilize their economies.

In exchange, they had to follow strict conditions including higher taxes and interest rates, and a drop in public spending. Many of the countries affected were beginning to show signs of recovery by 1999.

# THE ASIAN FINANCIAL CRISIS

## ● Lesson Learnt

- Fixed Exchange rate is highly risk strategies
- The high risks of foreign currency borrowing
- The need for long-term local currency capital

- The need to develop the local market
- International Capital Flows and Trade Imbalance
- Contagion (Loss of confidence can be easily spread)

- Foreign exchange reserves to hedge against external shocks

- Crisis as a result of government intervention and crony capitalism
- Weaken the relationship between the government and capital market

# THE GLOBAL FINANCIAL CRISIS

- **Cause**

1. Excessive leverages
2. Malfunction credit markets
3. Disconnect between regulatory and the financial systems
4. Global transmission of systems risk

- **Impact**

1. Economic
2. Social
3. Long term





# THE GLOBAL FINANCIAL CRISIS

- **Response**

1. Lower interest rate
2. Increased government spending
3. Stronger oversight of financial firm

- **Lesson Learnt**

1. Securitization regulation should mitigate market risks
2. Comprehensive regulation of financial system is needed
3. Designing regulations which are not Procyclical in crisis condition
4. Effective Detection and Mitigation of System risk

# THE EUROZONE FINANCIAL CRISIS

- **Cause**

1. No transnational supervisory (fiscal & bank)
2. Flaws in Home-country Control & Minimum Harmonization law
3. Single currency

- **Impact**

- Can't prevent or resolve when crisis occurs
- Many loopholes in the law
- Easily widespread disease (contagion risk)
- Contradiction in each state policy
- Slow to encounter crisis



# THE EUROZONE FINANCIAL CRISIS

- **Response**

- Need to do something to prevent:
  - Banks collapse
  - Sovereign bankruptcies
  - European Union from falling apart
- By means of:
  - Counter crisis methods
  - Bailout fund

- **For Instance**

- European Financial Stability Facility (now known as European Stability Mechanism)
- Stability and Growth Pact (fiscal control)
- Structural reforms
- Six-pack (austerity measures) aim to reduce deficit
- European Banking Union
- Quantitative Easing Program
- Outright Monetary Transactions
- Mandatory bail in
- **\*Single Supervisory Mechanism**
- **\*Single Resolution Mechanism**
- **\*EU Rulebook**

# THE EUROZONE FINANCIAL CRISIS

- **Lesson Learnt**

- Need to improve monetary, fiscal, and financial policies
- Reminder of contagion risk
- Expose weakness of nation level regulative structure when dealing with cross-border
- Important of sovereignty concessions
- *\*Insight to risks and mistakes in integrated market*
- *\*Centralization of bank supervision and resolution*
- *\*The needs of fiscal union.*

- **Taught ASEAN 3 things**

- Harmonization of domestic regulatory
- Supervision of cross-border financial
- Address cross-border financial failures.



# COMPARISION

## CRISIS PREVENTION & MANAGEMENT

- **Commonalities**

- Levels of Legal Autonomy in designing Bank rescue Policies
- Augmented governance, compensation, and Prudential standards

- **Different**

- Non-Performing Loan (Strengthening Supervision & Resolution)
- Deposit and Currency Runs
- Central bank intervention
- New Structural and Resolution Frameworks to limit too-big-Fail institution
- Derivative Markets reform (Not so much impact for Asia and Europe)

# LOOKING FORWARD

- All three crisis have more different than commonality→ next crisis (COVID-19) could will be happen its causes and consequences than any of these three.
- In the context of the COVID-19 crisis, the focus is initially the latter in order to avoid a health and economic crisis becoming a financial crisis.
- Nevertheless, three important lessons and recommendations for Asia standout.
- Create a fertile ground to augment interaction between national regulatory authorities, central banks, and governments in Asia, giving rise to a wider economic cooperation impetus for the benefit of all nations in the region.



Thank You  
for your attention!

Any Question?