

Sources of variations between the inflation rates of Korea, Thailand and Indonesia during the post-1997 crisis

Reza Siregar^{a,*}, Gulasekaran Rajaguru^b

^a School of Economics, University of Adelaide, Adelaide, SA 5005, Australia

^b School of Business, Bond University, Gold Coast 4229, Australia

Received 1 October 2004; received in revised form 1 April 2005; accepted 1 June 2005

Available online 8 August 2005

Abstract

Despite the large number of studies done on the recent East Asian crisis, hardly any of them has however simultaneously evaluated the roots of the inflationary pressures and unearthed the sources of sharp variations between the inflation rates of the various crisis-affected economies. To help fill in this gap, our paper examines and contrasts the sources of inflation in Thailand, Indonesia and South Korea during the period of 1985–2001. A number of potential sources of inflation will be considered in the study. But this study pays a particular attention to the possible roles of the monetary aggregates and the exchange rate uncertainties in encapsulating the rise in the inflationary pressures and the variations between the inflation rates experienced by these economies during the 1997 crisis.

© 2005 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

JEL classification: E41; E51; E52; E58; F41

Keywords: Inflation; Base money; Expected depreciation; Exchange rate policy; East Asian financial crisis

1. Introduction

The presence of more severe inflationary pressures has long been considered as a consistent feature of global financial crises in 1980s and 1990s. During the Tequila crisis in

* Corresponding author.

E-mail addresses: reza.siregar@adelaide.edu.au (R. Siregar), rgulasek@staff.bond.edu.au (G. Rajaguru).

Table 1
Inflation rates during the financial crisis of 1990s and 2000s

Country	Year	Annual inflation rate ^a (%)
Indonesia	1998	58
	1999	20
Malaysia	1998	5.1
	1999	2.8
Philippines	1998	9.7
	1999	6.7
Thailand	1998	8.1
	1999	0.3
Singapore	1998	−0.3
	1999	0.4
South Korea	1998	7.5
	1999	0.8
Argentina	2002 ^b	30
Mexico	1995	35.0
	1996	34.4

Source: *World Economic Outlook*, September 2002, IMF.

^a Based on consumer price index.

^b The rate for the first 6 months of 2002, IMF Survey, vol. 31, no. 15, August 2002.

mid-1990s, Mexico had seen its price levels to increase by around 35% annually for 2 consecutive years (in 1995 and 1996; Table 1). Similarly, with the collapse of the banking sector and the fall of the currency board in Argentina in early 2002, the domestic price level has risen by around 30% within the first six months of 2002.

Looking at the experience of Indonesia, Korea, Malaysia, Philippines and Thailand during the last few years of 1990s, the East Asian crisis is no exception (Table 1). During the peak of the crisis in 1998, the annual inflation rates of these countries were at least four to six percentage points higher than their perspective rates in 1996. However, unlike the recent crisis in Mexico and Argentina, the rise in the price level of the East Asian countries was generally less severe and less comparable. While, Malaysia, Philippines, Thailand, Singapore and South Korea had successfully kept their inflation rates at a single digit, Indonesia suffered much more severe inflation rates in 1998 and 1999. During those 2 years, the consumer price index had risen to the rates parallel to those posted by Mexico and Argentina in 1995 and 2002, respectively.¹

What are the underlying “economic explanations” behind the sharp increase in the rates of inflation experienced by these major East Asian economies during the 1997

¹ For a country that had a long reputation for its commitment to both prudent monetary policy and sound management of the fiscal policy, the inflation rates in 1998 and 1999 were in fact the worst that Indonesia had experienced in nearly 30 years.

Download English Version:

<https://daneshyari.com/en/article/10479506>

Download Persian Version:

<https://daneshyari.com/article/10479506>

[Daneshyari.com](https://daneshyari.com)