Box 1.1

A comparison on economic performance between the current crisis and the 1997-98 Asian Financial Crisis

Hong Kong economy has been hard hit by the global economic crisis since 2008. The four consecutive quarters of contraction starting from the second quarter of 2008 cumulated in a 7.8% contraction in the economy in the first quarter of 2009 over a year earlier. A recession of comparable length and magnitude was Hong Kong’s performance during the Asian Financial Crisis (AFC) in 1997-98. This box article compares the economic performances during the two crises.

The natures of the two crises were different. The AFC was triggered by the burst of bubble in the asset prices across most of Asia and the fragile position in the balance of payments in many of the economies in the region. The negative effects were mainly confined in Asia. In the case of Hong Kong, the burst of the property market bubble during the AFC had substantially reduced the wealth of households and firms, and hence had severely affected the domestic sectors and employment. In comparison, the current crisis was due to the over-leveraging in the advanced economies, which mutated into the financial tsunami and slump in demand that led to collapse in international trade. In the case of Hong Kong, as the following paragraphs will show, the shocks this time came mainly from the external environment through trade and financial channels. The domestic sector in Hong Kong has held relatively firm in the current global financial tsunami.

The economic performance for the world as a whole during the two crises differs from each other notably. During the AFC, the world with the exception of the economies in Asia still performed well, and thus the world economy overall remained in the expansion phase even after the fall-out of the AFC. But in the current crisis, the recession was on a truly global scale spreading to economies worldwide from the advanced economies to the emerging economies. In short, the recession now faced by the global economy is the worst in 60 years, far more severe than the regional economic crisis experienced ten years ago (Chart 1).

Chart 1: World economy slackened more severely during the current crisis

<table>
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<tr>
<th>Year-on-year rate of change in real terms (%)</th>
<th>World GDP *</th>
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<tr>
<td>Q3 1997</td>
<td>6</td>
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<td>Q3 2008</td>
<td>-3</td>
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Note: (*) The world GDP plotted here is weighed according to the shares of trading partners in Hong Kong's total exports.
In face of the severe contraction in demand in the advanced economies, international trade contracted by a much larger degree in the current crisis. Merchandise exports of many Asian economies fell sharply by 20-40% in the early months of 2009, due to the double-whammy effect from a severe contraction in demand from the advanced economies and the ensuing collapse in intra-regional trade in Asia (Chart 2a). The fall in Hong Kong’s merchandise exports was also more severe this time (Chart 2b).

Both crises saw a sharp plunge in stock prices worldwide. For the local stock market, Hang Seng Index in mid-July 2009 was around 45% below its peak in 2007, and a similar extent of decline was seen during the AFC (Chart 3a). However, the performance in the domestic housing market fared much better this time, under the support of a much improved affordability. Residential prices in June 2009 were only around 5% lower its pre-crisis peak as compared to the cumulative fall of 45% in October 1998 during the AFC (Chart 3b). A more stable property market helped to contain the negative wealth effect. Furthermore, the monetary situation in Hong Kong was very accommodative this time round, unlike the situation during the AFC when the local currency was under speculative attack. The HIBOR stayed at a low level in the current crisis, whereas the rates spiked in several occasions during the AFC (Chart 4a). Credit conditions were also better this time (Chart 4b). These were all supportive to the domestic sector, on top of the series of relief measures introduced by the Government since last year. The discretionary relief measures amounted to some $87.6 billion, or 5.2% of GDP. These measures taken together would raise GDP by about 2 percentage points this year alone.
The domestic sector has performed relatively better in the current crisis. Retail sales volume fell by less than 10% from the pre-crisis peak compared with the fall of more than 20% in the similar period during the AFC (Chart 5a). Similar pattern was observed in the receipts of restaurants (Chart 5b).
With the more robust domestic sector, the local labour market is more resilient with less job loss this time. The seasonally adjusted employment was 0.3% lower in the three-month period ending June 2009 as compared to the pre-crisis peak ten months ago. The corresponding rate of contraction in employment during the AFC was 3.2% (Chart 6).

**Chart 6: Labour market more resilient with fewer job losses**

In conclusion, the Hong Kong economy has so far performed much better in the current crisis than the time during the AFC, despite the much more severe shocks from the external front this time especially in the form of collapse in international trade. While the relatively steady local property market and the Government’s efforts in stimulating the economy have certainly helped, the performance underlines Hong Kong’s much improved fundamentals in enduring external shocks.