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The Baht Heard Round the World

The Asian Financial Crisis of 1997

East & Southeast Asia · 1997 · v1.0 · July 2026

On 2 July 1997, Thailand gave up defending its currency, and the baht collapsed. Within months the “Asian miracle”, the fastest-growing region on Earth, was in free fall, from Bangkok to Seoul to Jakarta, as the same hidden fragility, short-term dollar debt behind a fixed exchange rate, detonated country by country.

Key Facts

Event	The Asian Financial Crisis — a regional currency and banking collapse
Location	Thailand, Indonesia, South Korea, Malaysia and the Philippines
The Trigger	2 July 1997 — Thailand floats the baht, abandoning its dollar peg
The Weakness	Fixed pegs plus large short-term foreign-currency (dollar) debt
The Rescue	Large IMF programmes, with tens of billions committed to South Korea and Indonesia
The Fallout	Deep recessions; in Indonesia, the crisis helped end the Suharto regime

By the Numbers

Thailand floats the baht on 2 July 1997, triggering regional contagion

The Indonesian rupiah lost the great majority of its value, roughly 80% at the worst

IMF programmes ran into the tens of billions for South Korea and Indonesia

The South Korean won roughly halved before stabilising

The Miracle's Hidden Mismatch

The “Asian Tigers” looked unstoppable: fast growth, high savings, booming exports. Underneath, companies and banks had borrowed heavily in dollars at short maturities to fund long-term local projects, all resting on the assumption that the currency peg would hold. It was a maturity and currency mismatch on a national scale, and when the peg went, the mismatch turned a growth story into a solvency crisis overnight.

> *“ Contagion is the moment the market stops pricing countries and starts pricing a region. ”*

How It Happened

Through the 1990s, capital poured into Southeast Asia chasing the “miracle”. Local banks and companies borrowed cheaply in dollars, confident that pegged exchange rates removed the currency risk, and funnelled the money into property and industrial expansion.

The result was a classic mismatch: short-term, foreign-currency liabilities funding long-term, local-currency assets. It was profitable while the pegs held and the money kept coming.

By 1997 speculators and lenders began to doubt Thailand could defend the baht given its deficits and dwindling reserves. Pressure built until, on 2 July, Thailand let the currency float.

The Collapse

The baht collapsed immediately, and the panic jumped borders. Investors looked at Indonesia, South Korea, Malaysia and the Philippines, saw the same dollar-debt-behind-a-peg structure, and pulled out en masse.

As each currency fell, the local value of dollar debt exploded, bankrupting companies and banks and forcing further selling. The Indonesian rupiah lost the bulk of its value; the Korean won roughly halved.

The IMF assembled huge rescue programmes tied to austerity and reform. Recessions were severe, and the social and political fallout was immense, most dramatically in Indonesia, where the crisis helped bring down President Suharto in 1998.

Timeline

Early–mid 1990s	Capital floods the “Asian miracle”; dollar borrowing behind fixed pegs builds
2 Jul 1997	Thailand floats the baht — the crisis begins
Aug–Dec 1997	Contagion hits Indonesia, South Korea, Malaysia and the Philippines
Late 1997	Large IMF programmes for South Korea and Indonesia
1998	Deep recessions; Indonesia's Suharto resigns amid the turmoil
1999	Recovery slowly begins across the region

Mind · Method · Money — What This Means for You

MONEY · Currency and maturity mismatch is leverage in disguise
Borrowing short and in dollars to fund long-term local assets is a bet that the exchange rate and the lenders both stay put. When a currency falls, the local cost of dollar debt multiplies. Match the currency and duration of what you owe to what you own.

METHOD · A miracle narrative can hide a fragile balance sheet
The growth was real, but so was the mismatch beneath it. Impressive top-line numbers told you nothing about the funding structure that supported them. Always look at how a boom is financed, not just how fast it is growing.

MIND · Contagion is confidence collapsing across a whole region at once
Rational investors, seeing one peg break, reassessed every economy with the same structure simultaneously. When markets stop distinguishing between countries and start selling a category, individual fundamentals can be swept aside by the tide.

Modern Parallels

The 1997 crisis is the definitive study in contagion and the fragility of fixed exchange rates built on foreign-currency debt. Its DNA reappears wherever cheap dollar funding chases high growth behind a peg, and it feeds directly into the next episode, Argentina 2001, where a rigid currency board met the same reckoning.

Read & Listen

Read the full write-up and listen to the episode: The Asian Financial Crisis, 1997 (EP12)

Related Research

Previous episode: EP11 · The Mexican Peso Crisis (1994)

Next episode: EP13 · The Dot-Com Bubble (2000)

The next one forming: The Next Market Crash — 5 Scenarios

Sources & Further Reading

Paul Blustein, The Chastening: Inside the Crisis That Rocked the Global Financial System (2001)

Charles P. Kindleberger, Manias, Panics, and Crashes: A History of Financial Crises

Market Mayhem: When Greed Meets Gravity, The Complete Trader's Edge

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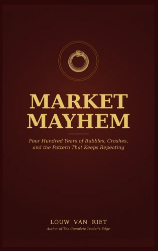
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LOUW VAN RIET
Author of The Complete Trader's Edge