

## **Impact of the Asian Economic Crisis on Toll Road Development in Selected Countries**

**China.** Of the Asian case study countries, China appears to have been the least affected by the recent financial crisis; its annual GDP growth was 7.8 percent in 1998, just off its 8 percent target, but down from 8.8 percent in 1997. There has also been little indication of toll road project suspensions or postponements in China due to the economic crisis. There has thus far been no currency devaluation against the United States dollar as the Government has maintained its exchange rate controls. Also, the central government has ordered state banks to increase lending in order to achieve its growth targets. At least for the short term, these developments are expected to cater to the financing requirements of ongoing infrastructure projects across the country. Foreign financiers are, however, becoming extremely cautious about investing in new toll road projects in China.

**Indonesia.** The private sector participation-based approach to toll road development was considered to have a promising future in Indonesia until the onset of the financial crisis. But the collapse of the domestic commercial banking sector brought all ongoing Indonesian toll road projects to a halt. Both construction work and land acquisition has stopped on all sections. Without revenue from completed facilities, many concession companies are either facing bankruptcy or suspension of funding support, or are close to default on their concession agreements with Jasa Marga, the state toll road corporation. The collapse of the banking sector has also forced a number of concession companies to consider re-capitalizing their toll roads that are under construction.

**Malaysia.** As of January 1, 1999, concession agreements had been signed for 24 toll bridge and expressway projects in Malaysia. Of these, 13 projects are open to traffic, four are under construction, and the remaining have yet to begin construction. The current financial crisis has affected many of these projects, and the Government has so far been amenable to adjusting the terms and conditions of concession contract in response. In December 1997, for instance, the Government invited all project proponents that were negotiating concessions to submit alternative proposals for restructuring their projects in view of the financial crisis. In addition, the Malaysian central bank has recently increased restrictions to the country's exchange control regulatory regime, with the intent of limiting speculation in the Ringgit.

**Philippines.** The Philippine economy is perhaps stronger than many of the other developing countries affected by the Asian crisis in the sense that it had already reformed its financial markets and "graduated" from International Monetary Fund reforms. In 1993 the Philippine central bank was made independent, the financial system was liberalized, foreign exchange controls were removed, and new foreign banks were allowed for the first time since 1949. There have been no major bank closures (only 1 or 2 percent), nor a collapse in the real estate sector (which has been attributed to a low rate of speculative construction).

However, the currency was devalued, and the real GDP for 1998 declined by 0.5 percent from 1997. Ongoing toll road projects have seen no construction suspensions or slowdowns as a result of the economic crisis.

**Thailand.** The banking sector crisis in Thailand has had some impact on toll road projects, but to a much lesser extent than in Indonesia. At about 12 percent per annum, commercial interest rates are presently only 1 to 2 percent higher than they were before the crisis. However, banks are in general less willing to lend at present due to continuing problems with non-performing loans. The consensus view is that Thai banks intend to address their internal problems first, before taking on additional complex project finance commitments. Reduced traffic and an inability to win governmental approval for toll increases has also led to a growing cash flow problem for the primary toll road operator—portending difficulties with debt repayment, which has not been an issue before now.

*Source: Asian Toll Road Development Program: Review of Recent Toll Road Experience in Selected Countries and Preliminary Tool Kit for Toll Road Development.*