Floor Discussion of "The Global Implications of Financial Crises in Emerging Market Economies"

Information and the Spread of Crises

Alexandre Lamfalussy began the discussion by commenting on the availability of information. "It is at the heart of the matter. Mr. Park is entirely right in saying that there was a lot of factual information available and that it was not used. I am primarily referring to the maturity profile of bank borrowing and bank lending. It was known by the end of 1995, and widely publicised by early 1996, that the very substantial increase in bank borrowing by most of the Southeast Asian countries was at the short end. I wrote a letter to the *Financial Times* about this and the BIS report in June 1996 spelled it out in great detail and in very strong words. The same situation had occurred in the early 1980s. By 1979, it was quite clear that almost 50% of sovereign bank borrowing was at the short end. This did not come as a surprise to the bankers in 1982. So it would be unwise to think that by improving this kind of information, you would necessarily improve the whole financial scene.

There is, however, one very difficult area concerning information where a kind of asymmetrical information problem exists which has no easy remedy. This is the uncertainty about how the affected countries will, in fact, react. How will the political reaction develop? This is not a very helpful remark, and the information is not entirely asymmetrical because I doubt that the countries themselves know how they will react. There is a sort of global uncertainty about how the policy reactions will develop inside the countries, how the international community will react, and so forth. And this is the more fundamental information problem; the information problem is not just a problem of basic statistics."

Lamfalussy continued by relating the issue of information to the spread of crises throughout a region. While he thought it unlikely that regional contagion could be avoided, he suggested that efforts still needed to be made in this regard. "During the crisis in the 1980s, I was at the BIS. When it began in Mexico the BIS package and the US package were put together in 24 hours and they were not conditional. The response was extremely quick, yet three months later the crisis spread to Brazil. I think that what happens in many instances is that financial market participants have a very bizarre way of looking at these things. They do not ask wheth-

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er the same conditions are emerging in country Y as in country X which experienced a crisis. Instead, they ask whether there are not *other* conditions that would justify a fear. In other words, if you have macroeconomic mismanagement, for instance, they don't necessarily look at another country and ask, 'is it also mismanaged from a macroeconomic point of view?' They ask instead whether it is mismanaged from *another* point of view – structural problems, lack of transparency in corporate balance sheets, etc. If they are satisfied that this is not the case, then they ask whether political problems are emerging, and if there are no political problems, then they wonder whether the weather might be responsible. Corporations and lenders seek to cover their responsibility."

Jack Boorman suggested that we would never be able to answer whether the Korean crisis could have been avoided if Thailand had been dealt with successfully. "The issue of why Thailand was not quickly and successfully dealt with goes back to Mr. Lamfalussy's point. A lot of what went wrong in Thailand between July and November was political. The government did not come to grips with the situation, so whether a large financing would have made a difference is certainly a question, but it also raises a deeper question. Would even more financing for Thailand and other similar cases have been appropriate, and if so, how do you square this with calls that the private sector be called into these operations at an earlier stage? I happen to agree with Mr. Lamfalussy about the fact that once the investors' fascination with Asia had ended, they began looking around, but they were not looking at exactly the same kinds of problems that fostered the crises in Thailand, among others the current account deficit. Instead, they were looking at structural issues and so forth."

Barbara Stallings made the point that the containment of regional contamination is crucial. "It has been mentioned a couple of times that it is impossible to contain regional contagion once it starts. But there are a number of examples in Latin America, back in the middle of the decade and more recently, that show that if you act quickly and in a draconian manner if necessary, then you can stop the contagion. In the mid-1990s, it hit Mexico and Argentina and despite initial fears, the rest of the region had no serious contagion effects. Recently, Brazil and Chile raised interest rates very rapidly and at least up until now, this seems to have worked in stopping the contagion this time as well."

Rating Agencies

The issues of information and contagion led the participants to examine the role of the rating agencies. Paul Cantor elaborated on their specific activities. "With the evolution of the flows of capital in the markets today,

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I want to make two general points about how lenders grapple with the credit risk issue. The first is that disintermediated assets tend to be more dependent on the rating agencies' interpretation of creditworthiness than intermediated assets. The second point is that the shorter the term, the more likely it is that the rating agencies will be the crucible on which the investment is made. So in an environment where there is a large flow of short-term lending and that lending is disintermediated, there is a much greater likelihood of the kind of volatility that we have seen in recent years. The growth of the financial institutions, which now span the investment as well as the commercial banking format, also creates additional volatility in these circumstances. One tends to find that the short-term disintermediated assets are run by the institution's trading room, and that the credit departments, which have a greater ability to do their own assessments, have had less of a role to play. Or to put it another way, while investment bankers are good at doing deals, they do not have a high level of credit skills. In this environment, the rating agencies have played a fairly significant role, as we have seen, and are open to some doubt as a result of their failure to effectively foresee and predict the circumstances that have now arisen."

György Szapáry suggested that rating agencies are basically market-driven institutions trying to anticipate market sentiment. "They try to second-guess what the markets think and want. For instance, if markets think that a country is not doing well, rating agencies will find various indicators which will prove that the country is not doing well. On the other hand, if capital is flowing to a country, in spite of that country's weak macroeconomic fundamentals, rating agencies will find other reasons to give it a positive rating. Korea is an example. Within a few weeks, they downgraded Korea by several notches after the markets had precipitated the crisis. But what was there about Korea which the agencies did not know before? In my view, a credit rating agency which reacts like the market is not a good guide for markets to follow. We need independent objective agencies which are not paid by the market and which are not trying to second-guess the markets."

Yung Chul Park agreed with the notion that the rating agencies do not always base their ratings on a country's macroeconomic fundamentals. He elaborated on Korea's rating in 1997. "In January 1997, Moody gave us a rating of A-1. On November 28, 1997, it dropped to A-3; ten days later it was BAA-2 and after another ten days, it was BA-1. Did they discover some new fundamentals in the span of one week? On what were they basing their ratings? Standard and Poors gave us a AA- in January 1997. On October 24, 1997 it was A+. On November 25, 1997, it was A-; ten days later it was BBB-; and ten days later B+. For heaven's sake, what were they doing?"

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Charles Wyplosz responded to Park. "I have been very critical of rating agencies in the past, so I find myself in a strange position. However, when we have self-fulfilling attacks, we cannot ask credit rating agencies to come up with an accurate assessment because *nobody* has this assessment. The problem lies in awareness of this fact and the recognition that they are unable to predict a crisis."

The IMF Response to the Crisis

Jack Boorman explained how the IMF responded to the situation in Korea "The Korean authorities chose an initial policy defense mechanism which was fundamentally flawed. Not only did it delay their willingness to involve the Fund, but by the time we did get involved, the situation was dire.

In early November, the Korean authorities were still refusing to accept assistance from the Fund. A mission was invited to Korea only on Monday, November 24th. On Thursday, the 27th, I received a call that they were effectively out of reserves. We had not known that. In fact, we thought that they had 50 billion dollars in reserves at the end of September. But this was misleading because 20 billion turned out to be claims on Korean banks, which were not usable. So they had 30 billion in usable reserves. During the course of November, because of a flawed policy of the Bank of Korea, they wasted, I would say, another 20 billion. So by the time we started discussions, they had 7 billion left.

I use the term wasted because the Bank of Korea opened its window to its own banks and made foreign exchange available to them at 100 points above Libor. As soon as the banks came under pressure from their own short-term claimants, mostly overseas banks, they adopted the totally passive posture of going to the Bank of Korea and taking down loans of 100 basis points above Libor – which was more attractive – and paying off their creditors. They never engaged their creditors to keep them in, they didn't have to, they had a cheap, alternative source of funds.

So the Bank of Korea violated one of the key principles of the lender of last resort, i.e. lending to institutions at anything other than a penalty rate. This was an absolutely key issue, and it unfortunately went on for several days and weeks – even after the approval of our programme. The government finally changed this policy and increased its rate first to 400 basis points, then 600 basis points, and finally 1000 basis points. Then the Korean banks finally started dealing with their creditors and indeed some of the creditors, at that high of a spread, showed a willingness to stay in.

I remain concerned about this critical issue of willingness on the part of country authorities to ask for assistance in a timely manner. You cannot deal with a situation like this when there are effectively no reserves left and

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you are staring default in the face. It forces you to take decisions, it limits your ability to analyse and it limits negotiating capacity. There has to be an earlier approach.

I also remain concerned because of the arguments that are being made by Martin Feldstein in his article in *Foreign Affairs* (March/April 1998). He argues that we have probably worsened the situation of the willingness of countries to come to the Fund early, because of the way in which these cases in Asia have been dealt with. In other words, having finally come to the Fund for assistance, the Fund then crafted programmes which go to the heart of some of the structural, political, some would say cultural, ways of doing business in these countries. To be crude, a 'kick them while they're down' syndrome on the part of the international community. If this indeed has the effect of making middle-income countries and emerging market countries reluctant to come to the Fund, I think that we have a real problem on our hands that we have to confront quite seriously."

H. Johannes Witteveen compared the current crisis to 19th century crises experienced in Europe. "While I think it is quite right that there is nothing new in history, there are always variations. We have a long history of business cycles, the whole 19th century had many crises. These crises were often characterised by overinvestment and this is also the character of the current Asian crisis. It is not a case of government overspending and government deficits, as was often the case after the war when the IMF applied its remedies. And while the current Asian crisis is a case of overinvestment, it is much more dangerous than generally was the case in 19th century Europe, because it is financed by foreign bank credit in foreign currency. Previously in Europe, these overinvestment situations were mostly financed internally by the domestic banking system, and this left a certain amount of room for bank credit to expand, but there were also limits and it could not be withdrawn so easily. The great danger of the current Asian crisis was not only that the flow of credit could not be stopped, but that it went back the other way, it had to be repaid. This determined the character and the difficulty of this crisis. It also holds some lessons for how it could have been prevented. I think we should look at how the international community might restrain this type of international credit in certain cases or in general.

What I would like to ask is: Why didn't the IMF try to bring in an element of rescheduling from the beginning? I think that the 1982 crisis in Latin America was handled well because IMF funding went hand in hand with rescheduling. The IMF could influence the banks by saying, 'We will provide this kind of credit if you agree to this kind of rescheduling.' I understand that in the case of Asia, it was much more difficult because it was not credit to the government but to many different private business.

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Nevertheless, I wonder whether rescheduling shouldn't have had more priority from the beginning with IMF support and the support of the main central banks. This ultimately happened when the crisis had become much more serious. The difficulty, as we have seen, is that once these bank loans have to be repaid and not enough reserves are available, then exchange rates are put under tremendous pressure and the whole repayment problem becomes considerably more difficult. This is also a feature which was not present in most of these earlier 19th century crises. To some extent perhaps it was present in the 1873 crisis in the US where a substantial amount of European capital was withdrawn. Probably, for that reason, that crisis was then the beginning of a rather serious depression in the American economy.

So my question is: Couldn't more have been done to coordinate some rescheduling by the banks and the financial support? The next question, which was also raised by Dr. Park is: Couldn't the financial support by the Fund be adjusted to the remaining repayment needs? Of course the IMF has the purpose of disbursing the money over time based on performance criteria, but in this case, does that not mean that not enough money was available to prevent this disastrous foreign exchange crisis?"

Park agreed with Witteveen. "The IMF was concerned about building up reserves. A larger amount of reserves would convince international creditors. I thought at that time that the IMF or the G-7 countries should get into the rescheduling right away instead of doing it 2 months later. We finished the rescheduling only on March 15th. Of course, in hindsight, we should have done it but everyone was so preoccupied with building up reserves."

Jack Boorman responded by reviewing each of the cases and their negotiations with the IMF. "We approached each of the cases differently because they were different. Thailand was the first. In July, in Thailand we were dealing with heavy short-term bank exposure and some corporate exposure. The approach taken there was an informal "moral persuasion" and, partly because of Japanese subsidiaries of corporations operating in Thailand, there was the opportunity to use the authority of the Japanese and the others to talk to the banks, to explain the situation, and to maintain exposure as one means of working through it. So there were these informal approaches, and even though the situation emerged rather problematically, partly because of the political uncertainties with the Thai government until the new government came in November, a case can be made that that approach has pretty much worked. The roll-over rate and the maintenance of exposure in Thailand has been pretty good.

We were dealing with a completely different situation in Indonesia. It was something with which we had little experience, i.e. massive exposure,

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including short term, in the corporate sector. It was not a bank problem in the first instance. Dealing with corporate sector debt, particularly in Indonesia, is extremely difficult partly because the domestic institutions which are necessary to induce debtors to behave themselves do not exist. There is a bankruptcy law, but it is the 1904 Dutch law, and while it is not a bad law, there was no effective judicial system in Indonesia to enforce it. So there is a problem with debtor discipline. What we have done is to set up a body which is attempting to bring a voluntary case-by-case solution to this issue. It is working dreadfully slowly, so I think there is no doubt that we have to consider alternatives.

In Korea, the situation was basically short-term bank exposure. We debated this matter when we were coming to a conclusion regarding the arrangement at the end of November with Korean authorities as to what ought to be done. We shied away from what would have been a default or moratorium at that stage. This leads to my point that we must keep in mind what the situation was at that moment in the individual country and in the world. We should not forget this when we try to look back at these 'post mortems'.

Latin America and Brazil, in particular, were under tremendous pressure. Thailand had spread to Malaysia, Indonesia, the Philippines and then Korea. Then it seemed to be jumping the Pacific and pressures were developing in Latin America. I can only speak for myself in those deliberations, but I was greatly influenced in that discussion by the risk to the markets of calling a halt to payments in Korea, with the fear that everybody would pick up their phone with instructions to their traders and dealers about what to do in Latin America. Maybe it was right, maybe it was wrong, but it was part of what was in the back of my mind.

The other aspect of it, which I think has turned out to be correct, was that you have to deal in an environment where there is some receptivity on the part of the private creditors. I remain sceptical as to whether we would have had that receptivity at the end of November, given the host of second-tier institutions that were involved in lending to the banks in Korea and given the exposure levels of even the big institutions. This is not to say that this is the best that could have been done, but the fact that some of those second-tier institutions got out and that some of the big institutions had the opportunity to work down their exposure led to a situation whereby, when we finally did approach the banks on December 21st or 22nd, we were playing into a slightly more receptive environment."

Alexandre Lamfalussy expressed concern about the issue of lender behaviour and moral hazard. "There is a serious moral hazard problem on the lending side which needs to be put on the record. It is difficult to draw conclusions, but my instinctive feeling is that the way in which the 1994-

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1995 Mexican crisis was handled – which didn't seem to have caused any loss to any lender – may have had an impact on current lending behaviour. While I think that what was done in the 1980s was a rather long, drawn-out process and while banks may not have lost very much in the end, they were kept very uncertain about the losses for a very long time indeed."

Ariel Buira suggested that the process in Latin America was drawn out because the authorities in the industrial countries did not want their banks to take such losses since they had not yet made the necessary loan-loss provisions and were unable to immediately absorb such losses. "So they drew out the process and Latin America lost a decade. I think we need some other arrangement, in fact, if we had had a Chapter 11 option, the banks would have taken the losses, some banks would have gone bankrupt, somebody else would have bought the banks and the thing would have gone on as happened in any country that has had a banking crisis. This is the normal procedure and if it had been followed, Latin America would not have lost 10 years and endured all sorts of problems."

Charles Wyplosz suggested that the notion of moral hazard for lenders was an argument in favour of a moratorium which would not be as lender friendly as practice had been so far. Age Bakker wondered "whether the way we are dealing with this crisis is not giving the wrong signals to the lenders, because what we are doing is in fact bailing out those who have given dollar-denominated loans, while those who took a real interest in these countries by investing in companies in domestic currency are being substantially penalised. One could argue that the way we are dealing with this crisis is giving the wrong incentives to lenders and perhaps encouraging moral hazard."

Liberalisation, Sequencing and Exchange Rates

As the participants continued to examine the causes of the crisis, the discussion turned to the issues of liberalisation and sequencing. György Szapáry responded to the suggestion that some countries liberalised too early. "Some of the benefits we in Hungary are enjoying are directly related to liberalisation. Some Central and Eastern European countries have attracted a fairly important amount of FDI as a result of liberal rules which have allowed the multinationals to manage their financial transactions efficiently. In Hungary, for instance, we have been quite successful in attracting foreign banks to set up business, which has been facilitated by the liberalisation of the capital markets. However, we have been very conscious in the area of short-term capital flows, we have kept restrictions and we would like to liberalise them last.

I have been involved in the market reforms in Hungary from the very

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beginning and one of the things that I have learned is that the simultaneity of reforms is in fact a necessity. For instance, if one wants to privatise the banking system, one has to strengthen supervision at the same time. If it is not possible to strengthen the supervision of the banking system because of a lack of adequate expertise or because there is political quibbling about whether supervision should be done by the Central Bank or by a separate institution, then it is better to postpone liberalisation. But keep in mind that it would be ideal to do this all at the same time. As for liberalisation and crises, it is clear that you will not have a crisis if you have not liberalised, but neither will you have efficiency and potential for rapid economic growth. Postponing liberalisation makes sense only if there is a lack of human and institutional back-up to implement and live with liberalisation. In other words, sequencing is the second-best solution, which one has to accept sometimes."

Roy Culpeper took issue with the notion that without liberalisation, one suffers on the growth side. "The whole Asian miracle took place among countries that were highly non-liberal over three decades. If you look within Asia, I find it interesting that the two countries that have not been affected by contagion, China and Taiwan, are relatively closed economies. Finally, the limits on short-term flows that Chile and other countries have imposed have not only protected them from the 'tequila' effect, but have not resulted in a penalty on their growth performance either. Deferring, especially short-term, liberalisation does not seem to have a growth penalty."

Szapáry emphasised the importance of differentiating between countries and regions when one is talking about liberalisation. "The Asian countries range in population and markets from 35 million to over 100 million, let alone China which is over 1 billion. They are rich in natural resources and they can afford a cautious approach to liberalisation, since they can live on their own markets if they need to. They have more room for manoeuver and more time to implement some of the liberalisation. But in Eastern Europe, countries like the Czech Republic, Slovakia and Hungary are small countries, 10 million people or so, with no vast natural resources and substantial integration into the neighbouring European markets. We face different problems and some of the things that are being said about postponing liberalisation and sequencing do not apply to us or would be much more difficult to implement."

Louis Kasekende commented on the issue of sequencing as one of the lessons from the crisis. "We have been liberalising the current account, have moved forward towards liberalising the financial sector and, at the moment, we are enjoying some benefits. Still, I do not want to underrate the risks. For some African countries, we have to think about measures for assisting them because when we maintained the controls, it did not stop

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capital flight during the 1970s. When we came to the 1980s and the 1990s, we had all of these big problems of monitoring and identifying what was coming back in the various countries. There is a study financed by UNCTAD which revealed numerous problems of recording. We found no use in maintaining controls and we moved very fast in liberalising. We need to develop some measures for highly liberalised countries that remain in this category of developing countries with all of its attendant problems with regulation and the effectiveness of that regulation."

Stephany Griffith-Jones supported Kasekende's point with a reference to Chile. "Chile liberalised very quickly and is very committed to a market economy, but it has imposed reserve requirements for short-term inflows, which seem to work because they have helped to discourage short-term flows."

Mike Kennedy suggested that we may never get the sequencing right. "It is always easier politically to start with financial liberalisation. However, then the real issue is, how do you create some sort of forcing mechanism to undertake structural reform as well? Most models emphasise macroeconomic fundamentals of 'getting it right' and helping prevent speculative attacks. I think we are going to see a third generation of speculative attacks' literature coming from Paul Krugman on the role of structural features. The point is, we know that there are always going to be attacks, but would flexible exchange rates have been better for these countries? Would that have made creditors and debtors look more carefully? As Mr. Lamfalussy pointed out, information was available about these things. Did the existence of the peg or the crawling peg lend them some sort of complacency so that they kept on lending since they presumed that there would be some sort of bailout?

At the OECD, we pointed out in our Korean survey that there were structural problems, but it is difficult to do more than that. You are dealing with sovereign governments and you can only use peer pressure to try to create some sort of forcing mechanism."

Yung Chul Park explained the exchange rate policy of Korea. "We had a long discussion about exchange rate policy before the crisis and whether we should expand the adjustment band from 2.5% to 10% or 15%. The IMF could not give us an answer. I suggested 10%, but that might be a sign of weakness. What about 5%? And in fact, I was very surprised when after we agreed to the IMF programme sometime between December 3rd and Christmas, the IMF suddenly came to us and said we had to go to the floating exchange rate system, 100% flexible system. When we asked why they didn't suggest that before, they said that the situation had changed."

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Macroeconomic Fundamentals and Coping with Crises

The issue of macroeconomic fundamentals remained an important topic for the participants as illustrated by Charles Wyplosz. "Restrictions to capital movement are only useful in crisis time when things move so rapidly that the authorities don't have time to think through their options or they cannot negotiate with the IMF because things are moving so fast. But I don't know of anything that can prevent a crisis if the fundamentals are wrong, and I think it would be a mistake to rely on restrictions to capital movement to deal with wrong fundamentals. Even if the fundamentals are right but the market, for some reason, is going into crisis, restrictions would not work."

Szapáry also stressed the importance of good macroeconomic fundamentals. "Clearly there are some countries which suffer attacks without apparent reason since their macroeconomic fundamentals are good. Good fundamentals help to discourage attacks. If attack, nevertheless, takes place, a country with strong macroeconomic fundamentals is in a better position to withstand it."

Miroslav Hrnčíř added the institutional dimension to the macroeconomic fundamentals argument. "I can perhaps make this point by looking at Czech development. While our macroeconomic figures were considered the success story of transition economies for a long time, it is also true that there was some loss of momentum in developing an institutional framework. As you perhaps know, we were subject to quite heavy speculative attacks in 1997. We became vulnerable from two points of view. Certainly our macroeconomic figures deteriorated at that time, but it was a result of microeconomic and institutional weakness in the allocation of resources. And at the same time, we liberalised considerably more than our neighbouring countries, so Czech currency became more exposed to currency trading than any other currency in Central and Eastern Europe. So we were also vulnerable because of our success.

In any case we have been fairly successful in coping with the currency crisis we faced and one of the reasons for our success was that we didn't hesitate to act quickly. We raised the interest rates immediately, which was a clear signal. So we were able to cope with the crisis without any external help, with very modest depreciation of the currency and with a soft landing of interest rates. What is even more important for our case, the other side of the coin of the currency crisis was that there was a reconsideration of government policy. We determined that it was necessary to go ahead with the privatisation of the banking sector, with the legal framework and the institutional framework, with cultivation of the market institutions and I

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think this is the crucial point for further conditions of how to cope with the next crisis."

Moratoria, Chapter 11 and Bailouts

Yilmaz Akyüz presented the UNCTAD view on moratoria. "In the 1980s it was discussed in the context of sovereign debt and in the mid-1990s also in the case of the Mexico crisis. In Asia, as we know, the issue is largely a private debt crisis. Usually, private creditors are protected by insolvency court according to the provisions of their contracts regarding choice of law, choice of forum. But in a case like Korea, it is very difficult to expect every individual creditor to try to benefit from the two principles that Chapter 11 of the US Bankruptcy Code formulates, i.e. the automatic standstill principle and 'debtor in procession' financing.

It is difficult to deal at the private individual debtor level for another reason, as we have seen in Korea, because the individuals may be solvent, but the country doesn't have the reserves to make the payments. In that case, the individual debtors may be unwilling to file a petition for their protection. So the country must be allowed to unilaterally declare a debt standstill. As you may know from the 1980s, the US courts turned this down in the case of Costa Rica when the Costa Rican government introduced such a debt standstill. Initially the US District Court and the Court of Appeals accepted the case in favour of Costa Rica. However, after the hearing, the US Department of Justice intervened in the Court of Appeals and said that while it was consistent with US law, it was against the US policy of dealing with such situations through the IMF. There is an Article 6, Section 2b of the IMF which one can interpret as saying that debt payments cannot be stopped. What we need is either an amendment of that IMF article or some other mechanisms which allow countries to unilaterally declare a standstill along the lines of Chapter 11, much like the safeguard action countries can take in the WTO, subject to further negotiations and consultations with the parties concerned in order to stop the damage that external factors may be causing.

The problem here is that being itself a creditor and its main shareholders being creditors, the IMF has a conflict of interest not only vis-à-vis debtors on which the IMF placed policy conditionality, but also with other creditors because the IMF itself is a creditor with seniority. So a more independent panel could be established along the WTO lines in order to allow countries, once they unilaterally declare that kind of a standstill, to approve it and also allow 'debtor in procession' financing, that is financing that has seniority over the previous debt, while at the same time asking the country to present a restructuring plan with the debt.

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The advantage of such a procedure would be that there is no need for large sums of money for bailouts. What I want to put on the table is a proposal which follows Mr. Wyplosz' suggestion to think about an international mechanism that would allow automatic standstill and 'debtor in procession' financing which will eliminate any need for large-scale bailouts."

Witteveen suggested that the IMF would be in a very special position to give some guidance to a moratorium and rescheduling process, because it could then be coordinated as in the 1982 Latin American crisis with financial support that it is itself providing. "In those negotiations, the IMF was able to put strong pressure on the banks because it could say, if you go along with this kind of rescheduling, we will provide these financial resources, and then the loans can be serviced. It was a very logical connection.

At the same time, we need to consider how we can create some restraint on international credit. We have learned to control domestic business cycles in the advanced economies because we control bank credit. But in the international scene, international bank credit is not controlled. It can expand enormously to certain countries and regions beyond anything that is reasonable. What I think would be very important in preventing such crises is if there could be international consultation in the BIS, for example together with the IMF, to get the main central banks to restrain this kind of international credit by their banks – even if it goes through Euromarkets and not through their own economy. They control bank credit in their own economy, they control the money supply very well now, but this has no parallel in the international scene and that is what we are going to need in the future."

Griffith-Jones agreed that moratoria and standstills are very attractive conceptually "but they are very tricky because capital is more mobile and you cannot freeze all the flows. Therefore, the risks of restraining capital outflows during crisis are very high. It is much more difficult than in the 1980s when it was just medium-term debt. The emphasis should be placed on the kinds of issues that Mr. Witteveen was pointing out, what can be done both nationally and internationally to slow down the flows before the crisis? Precisely because everyone knows that these moratoria are very difficult to implement, it may not be a first-best solution, but a second-best *realistic* solution of trying to regulate excessive surges, both internationally and nationally."

Wyplosz suggested that it would be difficult to determine who should be the referee or the equivalent of Chapter 11 courts. "There have been views that the IMF is suffering a conflict of interest, there are other views that the IMF is good to internalise the externality. Jack Boorman said we could

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not call a moratorium because of concern about the externality with Latin America. That is a valid point and I understand that there is a conflict of interest between protecting one country and protecting the systemic access to markets. This is an argument that makes it even more difficult to think about how we should deal with these moratoria. It is an extremely complicated and at the same time extremely important issue."

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