Adjustment costs, 347	stock market, 31, 32, 34, 35, 73, 78–79
Argentina	sudden stops, 169, 491
banks, 104, 124	Tequila crisis and, 3, 121
capital account balance, 70	tradable goods, 153
capital inflows, 21, 26, 82, 83, 84, 125	un-leveraged absorption, 154
central bank, 462–463, 471	volatility of selected indicators, 456
Convertibility Program collapse, 143–	Arrow-Debreu prices, 222–223
147, 169–171	Asian crisis of 1997/1998, 10, 183, 227,
current account balance, 152, 153	243, 313, 461, 488
current account deficit, 155, 285	Asset return assessments, indicators of
debt/GDP ratio, 157	information and, 260-263
debt management policy, 12, 171-173	Australia
de la Rua administration, 164, 165, 168	borrowing ability, 395
dollarization, 507	exchange rates, 360, 391, 393, 435-440
Duhalde administration, 168	fear of floating, 394
EMBI index, 165–166	inflation, 391
exchange rate policy, 170, 173–174	interest rates, 455
exports, 88	Austria, 105–106
financial crises, 3, 9, 243, 299, 346, 390,	
461, 479, 488, 522	Balanced current account, with BOP crises,
financial open system, 235, 237	285-291
fiscal policy, 12, 171–172	Balanced sheet shocks, 508
fiscal sustainability, 155-163, 165	Balance of payments (BOP)
fixed exchange rate, 167-168, 466, 479	Latin America, 26–28
GDP, 158	model (See Krugman model)
interest rates, 31, 33-34, 455	nonreserve capital account, 23, 25
M3, 104	United States, 38, 39
net capital inflows, 68	Balance of payments (BOP) crises, 196-
nonsterilization in, 58-59	197. See also specific countries
private sector debt, 517	anticipated, 338–341
privatization in, 72	with balanced current account, 285-291
public sector debt, 101-103, 156, 157, 164	causes, 6
real exchange rates, 30, 47–54, 154–155	debt rollover and, 11, 100-101
relatively closed economy, 144	domestic debt, 194
reserves, 29, 47–54, 72, 74, 104, 341, 344	in emerging markets, 283-309
secondary-market prices for loans, 24	financial vulnerabilities and, 100, 101
as segmented emerging market, 270–272	global policies after, 497–500

Balance of payments (BOP) crises (cont.) Krugman-type, 190–191	Brady bond markets, 404–406, 493–494 Brazil
macroeconomic mismanagement and,	bank vulnerability, 104
313	BOP crisis, 390
mechanics of, 238-241	borrowing ability, 395
open debt repudiation, 3	capital account balance, 70
policy response, 107, 237–238	capital inflows, 21, 26, 72, 73, 78–79, 82–
prevention, polar view of, 10–11	84
probability of, 105–107	current account balance, 152, 153
sovereign governments and, 284, 291–	debt/GDP ratio, 158
293	devaluation in, 122
standard theory of, 188-189	exchange rates, 361, 386, 392, 507
"tolerable" minimum reserves level and,	exports, 88, 101-102
110–111	fear of floating, 394
U.S. interest rates and, 13	fiscal sustainability, 155-159, 163
Balance-sheet effects, 144	floating exchange rate, 431, 476
Bank runs, 192–193, 384–385	inflation, 392
Bankruptcies, 231–232, 237, 240, 395, 494	interest rates, 31, 33–34, 455
Banks. See also Central banks	privatization in, 72
bailout, 164, 300	public sector debt, 101–102, 156, 157
balance sheets, 467	real exchange rates, 28, 30, 31, 47–54,
BOP with balanced current account, 290–	155–159, 163
291	reserves, 29, 47–54, 72, 74, 104
credit contraction, 294–295	secondary-market prices for loans, 24
deposits, 109, 206	as segmented emerging market, 270–272
investments, regulated, 60	stock market, 31, 32, 34, 35, 73, 78–79
loans, 117	un-leveraged absorption, 154
reserves and, 123–124	volatility measurements, 437, 438
role in Tequila effect, 116–118	Bubbles, speculative, 55–56
Benchmark Survey of U.S. holdings of Foreign	Bulgaria, 456
Securities, 274	Bunching phenomenon, 5–6
Bolivia	CAC- (11titi1) F2F
BOP crisis, 390	CACs (collective action clauses), 525
capital account balance, 70	CAD. See Current account deficit
capital inflows, 68, 82, 83, 84	Calvo-Mendoza money demand analysis,
dollarization, 507	106–108, 133–134 Canada
exchange rates, 30, 47–54, 359, 360, 361,	
391–393, 435–440 exports, 88	borrowing ability, 395 central bank, 471
inflation, 391, 392	exchange rates, 359, 360, 391, 435–440
interest rates, 31, 33–34, 455	fear of floating, 394
reserves, 29, 47–54, 72, 74	inflation, 391
secondary-market prices for loans, 24	interest rates, 455
stock market, 34, 35	Capital account
Bonds	balance, 68–72
maturity lengthening, 206	Latin America, 26–28
redemption of, 194–197	United States, 38–40
speculative attacks and, 199–205	Capital flows. See also Capital inflows;
BOP. See Balance of payments	Capital outflows
BOP crises. See Balance of payments crises	accounting, 23, 25
Borrowing, external, 26, 28	capital-market crises and, 227–241
Borrowing, net external, 72, 73	to emerging markets, 404, 405, 488–490
0,	0 0

financial liberalization and, 237	contingent liabilities, 184
imbalances, 110–111	credibility, 479
to Latin America, 20, 21–23, 72, 73	credit expansion, 174–175
management policies, 300–301	domestic credit from, 6–7
performance cost-triggered, 272–276	expansionary policy, 342
recovery in, 151	increased capital inflows and, 25, 26-28
sudden stop in (See Sudden stop)	interventions, sterilized vs. nonsterilized
variability, costs from, 204–205	58–59
volatility of, 244	as lender of last resort, 60, 191
Capital inflows (KI)	Cete rate, 134–135
anatomy of, 26–29	Chiapas uprising, 1
central bank and, 25, 85	Chile
current account deficit and, 305-307	bank vulnerability, 104
external factors, 37–40	BOP crisis, 390, 461
fear of reversals, 67	borrowing ability, 395
financial inflows and, 191-193	capital account balance, 70, 152, 153
large, 293–297, 307–309	capital inflows, 21, 26, 72, 73, 78-79, 82-
to Latin America, 37–40, 68–79, 89–90,	84, 125
147	central bank, 237
monetary aggregates and, 114	current account deficit, 155
negative, 298–299, 468–469	debt/GDP ratio, 158
policymakers and, 52, 55-60, 124-126	exchange rates, 361, 392, 507
real exchange rate appreciation and, 72-	exports, 88, 101-103
73, 76–77	fear of floating, 394
regional co-movement, 79-81	fiscal sustainability, 155-163
response, initial conditions and, 81-86	floating exchange rate, 476
reversals, 56, 491-492	inflation, 392
side effects, 67	interest rates, 31, 33-34, 455
slowdowns, 228-233, 236, 299-300	liability dollarization and, 468
sticky prices and, 234-235	public sector debt, 101-103, 156, 157
stock market booms and, 73, 78-79	real exchange rates, 30, 31, 47-54, 155-
sudden stop in (See Sudden stop)	163
Capital market	reserves, 29, 47–54, 72, 74
after Russian crisis, 147-150	secondary-market prices for loans, 24
contagion, Lemon Problem and, 140-142	as segmented emerging market, 270-272
deficit cover-up, 193-197	sterilization in, 58, 59
domestic, 237	stock market, 31, 32, 34, 35, 73, 78-79
volatility, 137	sudden stop, 475
Capital-market crises, 205–207	UDIs, 385, 386
capital flows and, 227-241	un-leveraged absorption, 154
EMs and, 183	volatility measurements, 437, 438
exchange rates and, 183	CLL (contingent credit line), 500
international, 235–236	Clusters of specialists, 314–315
Capital outflows, 56, 246	Cole, H., 283, 505
CCRs (country credit ratings), 245, 261-	Collateral constraints, 340–341
263	Collective action clauses (CACs), 525
CDM economies, 169–170	Colombia
Central banks	BOP crisis, 390
balance sheet identity, 232-234	borrowing ability, 395
bank credit contraction and, 294-295	capital account balance, 70
capital inflow and, 300	capital inflows, 21, 82–84
certificates of deposit, 111	current account balance, 152, 153

Colombia (cont.)	lack of, 221, 357, 365-366, 440-449
exchange rates, 123, 361, 507	managing monetary policy and, 378–380
exports, 88	partial dollarization and, 407–408
fear of floating, 394	of policy, 7, 57
fiscal sustainability, RER depreciation and, 155–159	Credit, vanishing, 301–304 Credit and trust systems (C&T), 303–304
inflation, 392	Credit expansion
interest rates, 31, 33–34, 455	Argentina, 174–175 Mexico, 104, 107, 108, 109, 132, 133
public sector debt, 156, 157 real exchange rates, 30, 47–54, 155–159	
reserves, 29, 47–54, 72, 74	monetary aggregates and, 118
	Crisis model architecture 185
secondary-market prices for loans, 24	Crisis model architecture, 185
as segmented emerging market, 270–272	Crisis theory, 1
sterilization in, 58, 59	C&T (credit and trust systems), 303–304
stock market, 31, 32, 34, 35	Currency
un-leveraged absorption, 154	Austrian Schilling, 105
volatility measurements, 437, 438	depreciation, 166
Colosio, Luis Donaldo, 1, 132	devaluation (See Devaluation)
Co-movement, regional, 79–81	DM, 434
Complete markets, 222–223	Mexican peso, devaluation of, 1, 2, 99,
Consumption, dynamics of, 215–221	100, 114, 120, 125–126, 129–133, 168, 183
Contagion, 243–279, 293	over-appreciation, 339
bunching and, 5	overvaluation, 89
capital market, Lemon Problem and,	substitutions, 413, 467
140–142	Current account
causes, 293	changes in, 491–492
definition of, 5, 244	definition of, 4
in emerging markets, 313–326	high, 516–517
fixed information costs and short-selling	level, 516–517
constraints, 248–254	reversals, 516
game-theoretic models, 258–259	Current account deficit (CAD), 239, 241,
global portfolio diversification and, 247–	284–285, 339
259	capital inflow and, 305–307
incentives, 244–245	debt sustainability analysis, 7–8
informational frictions and, 277	GDP and, 11, 364–365
magnitude of, 245–246	increase, 25
numerical simulations, 259–276	large/high, 136, 230, 236, 516–517
performance-based incentives, 254–258	low, 227
performance costs and, 273–274	sudden stop and, 149–154, 230
range, sensitivity analysis, 275–276	T-bill rates and, 106
in securities markets, 244	without capital inflow, 297, 300
Contingent credit line (CCL), 500	Czech Republic, 390, 394, 395
Contingent liabilities, real exchange rate	Debtheeden in mehlie eesten 04
and, 163–167	Debt burden, in public sector, 84
Convergence for their 172, 174	Debt Crisis of 1982, 205
Convergence factor, 173–174	Debt deflation (Fisher effect), 494
Cote D'Ivoire, 456	Debt/GDP ratio, 156–157, 164
Country credit ratings (CCRs), 245, 261–	Debt instruments. See Tesobonos
263 "Country risk" factor 205, 206	Debt management policy, 171–173
"Country risk" factor, 295–296	Debt maturity, 2, 230
Credibility, 1, 2, 419	Debt rollover 11 100 101 200
inflation targeting and, 419, 422–426	Debt rollover, 11, 100–101, 299

Debt sustainability, 516–517 liability (See Liability dollarization) Debt sustainability analysis, 7–8 partial, 387, 404-408 Debt swaps, 498 Domestic banks Debt-to-export ratio, 36–37 bank runs, 192–193 Debt-to-GDP ratio, 8 credit expansion, 108-109 Debt valuation, 155-163 Domestic debt, 193-197 Deflation, 418 Domestic factors, financial globalization, Delayed reform, 505–509 and partial dollarization, 407-408 Demand for emerging markets securities, Domestic foreign interest rate differential, 319 - 320Denmark, 390 Domestic inflation rate, regional co-Denomination, 2 movement, 79-81 Domestic monetary policy, exchange rate Depreciation, 357, 374, 388 Devaluation, 374, 516-517 regimes and, 470-472 in Brazil, 122 Domestic policy, 22, 137 capital flows and, 300-301 Domestic reforms, capital flow and, 21 capital-market crises and, 183, 184 Dominican Republic, 394, 395 capital mobility and, 381-384 Dornbusch, R., 105 dollarized systems and, 414 Drazen, Allan, 211–225 Duration of reform, uncertain, 211-223 in emerging markets, 357, 358 incomplete, 168 East Asia inflation tax and, 506 large, 237 BOP crisis, 10, 183, 243, 461 liability dollarization and, 144, 467-468, borrowing ability, 396 475 trade, 374 loss of access to capital markets and, 388 Econometric methods, standard, 109–110 of Mexican peso, 1, 2, 99, 100, 114, 120, Economic institutions, exchange rate 125-126, 129-133, 168, 183 regimes and, 477-480 model of sudden stops and, 519-520 Economies of scale, informational, 139 real, 330 Economy sudden stop and, 468, 469, 474, 518-520 monetary, 232-235, 337-338 non-monetary, 228-230 theory, 518 Developed countries. See also specific Ecuador countries BOP crisis, 461, 488 differences from EMs, 363-371 capital account balance, 70 trade, exchange rate volatility and, 371capital inflows, 72, 82-84 currency risk, 474 Developing countries. See also specific current account balance, 153 countries debt revaluation, 152, 153, 158 borrowing ability, 396 dollarization, 431 Diamond-Dybvig model, 295, 384–385 exports, 88 Distortionary output taxes, 329-349 fiscal sustainability, 155-159 DM, 434 GDP, 158 Dollar debt, 340 interest rate spreads, 31, 33-34 Dollarization, 284, 414-416, 507 public sector debt, 156, 157 capital flows and, 300, 301 real exchange rates, 30, 47-54, 155-159 debate, 416-419 reserves, 29, 47-54, 72, 74 de facto, 169 secondary-market prices for loans, 24 of deposits, 385-386 stock market, 34, 35 in emerging markets, 389 sudden stop, 491 full, 10, 403, 462 un-leveraged absorption, 154 hard pegs and, 478 Egypt, 360, 361, 390, 392, 437, 438, 455

Elasticity of substitution, 212 Exchange rate policy, 170, 173–174, 494, El Salvador, 387, 431 505-508 EMBI index, 161, 165-166 Exchange rate regimes, 463, 466 EMBI+ index, 148, 499 choosing, 469-477, 480 Emerging market fund (EMF), 12, 499–500 domestic monetary policy and, 470-472 Emerging markets (EMs). See also specific economic institutions and, 477-480 emerging markets expanding gains from trade, 473-474 balance-of-payments crises in, 11, 283fixed (see Fixed exchange rate regimes) flexibility of wages/prices, 474–475 BOP crises, characteristics of, 283 flexible, 472 borrowing ability, 396 floating (see Floating exchange rate capital flow, 19 regimes) capital-market crises and, 183 free floating, 431 chronic credibility problem, 376-377 interdependence with institutions, 472contagion in (See Contagion) crises, 329 lender of last resort, 476-477 delayed reform in, 487-509 limited flexibility, 358-359, 362, 392, 434, differences in, 363-371 equilibrium-multiplicity (See Multiple loans in foreign currency, 475 equilibrium) pegged, 358 fear of floating, 394 reducing inflation, 472 financial markets, information gathering reducing risk premium in interest rates, for, 139 474 Lemon Problem, 140-141 reserves, 475-476 portfolio diversification, 116 standard theory of selection, 464-469 prolonged stop in capital flows to (See Exchange rates, 120–121. See also specific Sudden Stop) types of exchange rates realities of, 466-469 bilateral, 454 regional financial coordination, 142 capital markets and, 183, 403-426 securities, demand for, 319-320 credibility, 414 segmented, 270-272 flexibility, 170, 227, 417, 464 misaligned, 472-473 trade, exchange rate volatility and, 371– 377 nominal, 167–169, 464 vs. developed economies, 357 reserves and, 435-440 vulnerability of, 20, 494-495 stability, 362 EMF (emerging market fund), 12, 499-500 targeting, 506-507 EMs. See Emerging markets volatility, 359-363, 371-377 Endogeneity, of random shocks, 411 Exports, 55, 57, 67, 88, 101–103 Endowment economy, 289-290 External debt indicators, 81-82 Endowment-increasing policy, 215–217 External factors, 13 Equity markets, 245 capital flows in Latin America and, 106 ERM (Exchange Rate Mechanism), 359, capital flows to Latin America and, 22, 23 434, 438 capital inflows to Latin America, 37-40, 86-89 Estonia, 456 co-movement of reserves and real Exchange rate flexibility index, 449–453 Exchange rate hedge contracts, 343 exchange rate, 40-44 Exchange Rate Mechanism (ERM), 359, financial globalization and partial 434, 438 dollarization, 404-407 Exchange rate pass-through, 375–376, 393 in getting rid of excess money supply, Exchange rate pegs, 342, 358 hard (see Hard pegs) quantifying role of, 44–54 soft, 10-11, 461 External shocks, 5

FDI (foreign direct investment), 230, 488-Forecasting errors, 115–116 Foreign currency debt ratings, 366–367 Fear of floating, 419, 454-456, 463, 494 Foreign direct investment (FDI), 230, 488devaluation and, 168 490 evidence of, 394-395, 432-443 Foreign exchange regimes, crisis-proof, exchange rate flexibility index, 449-453 inflation targeting and, 443-449 Foreign exchange reserve changes, 439lack of credibility and, 443-449 varieties of, 377-387 Foreign exchange system, traditional Financial crises selection approach, 408-411 international, characteristics of, 292 France, 362, 392, 455, 456 mechanics of, 238-241 Free floating exchange rates, 10, 110, 358, Financial globalization, partial dollarization and, 404-408 Financial sector, 1, 313-314 G-3 countries, 394, 396, 433, 499 Finland, 390 G-7 countries, 141, 142, 488, 497 Fiscal accounting, under high capital flows GDP. See Gross domestic product volatility, 125 General equilibrium model, 315, 322-326 Germany, 359, 392, 394, 395, 455 Fiscal deficit, 118, 189, 193–199 Globalization hazard, 492-497 Fiscal policy, 170–172, 237 Fiscal sustainability, RER depreciation definition of, 487 and, 155-163 general policy considerations, 508–509 Fiscal tightening, 57–58 vs. moral hazard, 488-493 Fiscal transfers, 465 Global portfolios, 260 Fischerian channel, 364 Government Fisher, Irving, 364, 494 bank credit contraction and, 294-295 intervention, speculative bubbles and, Fisher effect (debt deflation), 494 Fixed exchange rate regimes, 167-168, 55 - 56288, 359, 456, 479 profligacy, 8 inflation and, 472 Great Britain, 187 Krugman model and, 110, 111 Greece BOP crisis, 390 shifts to floating regimes, 477 Fixed exchange rates, 120, 121, 357–396, borrowing ability, 395 473 exchange rate and reserve volatility, 437, fiscal disequilibrium and, 167 438, 456 minimum "tolerable" level, 110 exchange rates, 361, 362, 392 reserves and, 189, 330-331 fear of floating, 394 Talvi effect, 197–199 inflation, 392 Flexibility, 520–527 interest rates, 455 Flexible exchange rate regimes, 472 Gross domestic product (GDP), 145, 283, Flexible exchange rates, 120, 388–389, 474 Floating exchange rate regimes, 358-360, capital formation and, 34, 36-37 391, 435–438, 478 capital inflow reversals and, 491-492 Floating exchange rates, 168–169, 189, 357, capital inflows and, 68, 69 current account deficit and, 112, 364advantages of, 59-60 365 Argentina, 462–463, 479 exports and, 57 fear of (see Fear of floating) in Latin America, 85 Krugman model and, 110 Mexico, 7-8, 131 reserves and, 475-476 slowdown, 133-135 Floating-roles regime, 190 sudden stop and, 330, 363-364 Flow of goods, 301–302 Growth collapse, 329–349

Guatemala, 394, 395	credibility problems and, 422-426, 443-
Guidotti, P., 411–414, 449	449
	Inflation tax, 188
Harberger-Laursen-Metzler effect, 38	Information
Hard pegs, 331, 431, 462, 507	collection, 139, 321
Argentina, 146	collection disincentives, 263–265
disadvantages of, 476, 478	fixed costs for, 263–265
misaligned exchange rates and, 472–473	imperfect, 184
trade openness and, 474, 479–480	value of, 265–267
Herding, 235–236, 245	Informational cascade models, 258–259
financial diversification and, 200, 203	Informational frictions, 277–278
game-theoretic models, 258–259	Institutional Investor, 261–263, 366–371
by global investors, 135–136	Interenterprise credit, 304
High-growth equilibrium (HGE), 329–330,	Interest rates
336–337 Highly in deleted many sountries (HIDCs)	credibility problems and, 376, 377
Highly indebted poor countries (HIPCs),	international, 117–118
debt obligations, 12–13	policy, 454
Home goods, 154, 335–341	real ex post, 455
Hong Kong SAR, 341, 344	reducing risk premium in, 474 spreads, 1–2, 31, 33–34
IFIs (international financial institutions),	volatility of, 440–442
329, 345, 498–499	Internal factors, financial globalization
IMF (International Monetary Fund), 9–10,	and partial dollarization, 407–408
20, 167, 358, 487	International banks, 124
IMF/World Bank 1994 Spring Meetings, 2	International capital markets, loss of
India	access to, 366–371, 380–384
borrowing ability, 395	International financial institutions (IFIs),
exchange rates, 359, 360, 361, 391, 392,	329, 345, 498–499
435-440	International Monetary Fund (IMF), 9-10,
fear of floating, 394	20, 167, 358, 487
inflation, 391, 392	International reserves. See Reserves
interest rates, 455	Intertemporal contracts, time
Indonesia	inconsistency and, 521
BOP crisis, 390	Investors, highly diversified, 203
borrowing ability, 395	Israel
country risks, 235	BOP crisis, 390
current account deficit, 227	borrowing ability, 395
exchange rates, 360-361, 391, 392, 393,	exchange rates, 361, 392, 437, 438
437, 438	fear of floating, 394
fear of floating, 394	inflation, 392
inflation, 391, 392	interest rates, 455
interest rates, 455	reserves, 437, 438
reserves, 437, 438	Ivory Coast, 455
Industrialized countries, fear of floating,	Izquierdo, Alejandro, 143–179
394 Inflation 110 147 107	I 204 20E
Inflation, 110, 146–147, 197	Jamaica, 394, 395
anticipated, 339	Japan
exchange rate pass-through and, 375–376	borrowing ability, 395
rate, 190	exchange rates, 360, 391, 435–440
reducing, 472	fear of floating, 394
Inflation targeting, 418–419	inflation, 391
adoption of, 388, 479	interest rates, 455

J.P. Morgan Emerging Markets Bond dollarization and, 414-416 Index Plus (EMBI+), 148, 499 ineffective, 384-386 Lending and deposit interest rate spreads, 31, 33-34 Kehoe, P., 283, 505 Kenya LGE (low-growth equilibrium), 332–333, exchange rates, 360, 361, 392, 435-440, 335, 337 456 Liability dollarization, 10-12, 144, 145, inflation, 392 185, 475, 494, 517 interest rates, 455 balance sheet breakdown, 169 reserves, 456 currency devaluation and, 467-468 Keynes, John Maynard, 187, 243, 246-247, definition of, 340 domestic, 517 fear of floating and, 443 Keynesian channel, 364 KI. See Capital inflows fixed exchange rates and, 386-387 Korea microeconomics, 420-422 devaluations, 235 partial dollarization and, 403, 407-408 exchange rates, 361, 437, 438, 453 theory of, 411-414 sudden stop, 491 Limited flexibility exchange rate regimes, 358-359, 362, 392, 434, 456 taxes, 292 Liquidity crisis, 101 Krugman-Flood Garber model, 341 Krugman model, 187, 188-191, 287-288, Lithuania, 456 293, 520 Loan interest rates, 321–322 BOP crises and, 110-112, 118 Loans, secondary-market prices, 23, 24 domestic debt and, 195, 196 Low-growth equilibrium (LGE), 332-333, Mexican peso collapse and, 132-133 335, 337 Low-probability events, 503–505 Latin America. See also specific countries Low-savings phenomenon, 10 balance of payments, 26-28, 69 borrowing ability, 72, 73, 396 M2, 133-134, 191 capital account, 72, 73 M2r, 105, 106, 107, 109 capital inflows, 20, 21-23, 68-79, 147 M2\$, 103-104 capital market after Russian crisis, 147-M2\$/reserves ratio, 105-107 150 Macroeconomic crises, financial co-movement of reserves and real considerations, 104-109 exchange rate, 40-44 Macroeconomic indicators, Latin America, current account deficit, 38 34,36-37dollarization debate, 403-426 Malaysia external debt, 36 BOP crisis, 390 capital controls, 244, 406 gross domestic product, 85 macroeconomic indicators, 34, 36–37 exchange rates, 361, 362, 392, 393, 437, rates of return differentials, 31-34 438, 456 re-entry into international capital fixed exchange rate, 461 markets, 67 inflation, 392 stock market, 85-86 interest rates, 455 reserves, 437, 438, 456 terms of trade changes, 38 variability of country credit ratings, 261-Managed floating exchange rate regimes, 360-361, 392, 438 Lawson, Nigel, 199 Marginal reserve requirements, on bank Leiderman, Leonardo, 21-66, 67-92 deposits, 60 Lemon Problem, 140-141 Margin calls, 5, 184-185, 315, 316 Lender of last resort, 416, 476-477 Market equilibrium discontinuity model, central bank as, 191 329-330, 331-335

Mendoza, Enrique G., 106–108, 129–138, stability, financial vulnerability and, 105 243-282 stock, domestic credit expansion and, Mexico, 292, 299, 413, 454, 475 108-109 volatility of, 107 BOP crisis (see Tequila crisis) borrowing ability, 396 Monetary economy capital account balance, 71 loss of reserves, 232-234 capital inflows, 21, 26, 73, 78-79, 82-84, sticky prices, 234-235 sudden stop, 337-338 central bank, 104, 107–109, 132, 133, 237, Monetary policy 294-295 in Argentina before Convertibility correction of perceived currency Program collapse, 174-175 overvaluation, 2 management of, 378-380 crash, 129-130 sudden stop and, 341-344 current account deficits, 8, 129, 130, 285 Money-centered banks, 124 debt imbalance, 131 Money demand analysis, 133–135 devaluation of peso, 1, 2, 99, 100, 114, Money supply, excess, 189 Moody's Investor Services, 366-371 120, 125–126, 129–133, 168, 183, 235 domestic debt, 100 Moral hazard, vs. globalization hazard, exchange rates, 360, 361, 391, 392, 393, 488 - 493435-440 Morris-Shin approach, 4 Multilateral Financial Institutions, 2 exports, 88, 101–102 fear of floating, 394 Multiple equilibrium, 245, 293 floating exchange rate, 476 emerging markets and, 314, 319 GDP, 7-8, 131 Mexican crisis and, 113-114, 119 inflation, 391, 392 models of, 283, 314, 496 interest rates, 31, 33-34, 442, 455 Multiple optimal portfolios, performance M2\$, 103–104 costs and, 272-276 Multiplier effect, 315, 318-320 monetary-aggregates imbalance, 130-131 net capital inflows, 68 Mundell, Robert, 408, 464, 465–466 peso collapse, 130-133 Mundell challenge, 465–466 privatization in, 72 Mundellian challenge, 355-356 Mutual funds, U.S.-based, 246 public sector debt, 101–102 public sector liabilities, 3 real exchange rates, 30, 47-54, 129-130 Net foreign indebtedness, 7-8 New York Stock Exchange (NYSE), 244, recession in, 129 reserves, 29, 47-54, 72, 75, 100, 111-112 279 secondary-market prices for loans, 24 New Zealand, 237 as segmented emerging market, 270borrowing ability, 396 272 exchange rates, 360, 391, 393, 435-440 short-run fiscal adjustment, 113 fear of floating, 394 stock exchange, 272 inflation, 391 stock market, 31, 32, 34, 35, 73, 78-79 interest rates, 455 success of market-oriented reforms, 129 Nigeria sudden stop, 491, 495 exchange rates, 360, 391, 435-440, 456 inflation, 391 Minimum tolerable limits, 114 Mishkin, Frederic S., 461-484 interest rates, 455 Monetary aggregates, 296 reserves, 456 capital inflows and, 114 No-bailout policy, 12 credit expansion and, 118 Nominal exchange rate, 167–169 demand for, 106, 107, 117 Nominal interest rates, 454 imbalance, 130-131 Nonmonetary economy, basic model, 212ratio to reserves, 123 215

Nonsterilized intervention, by central bank, 58–59	as segmented emerging market, 270–272 stock market, 34, 35
Nontradable goods, 153, 229	Philippines
demand for, 229–230	BOP crisis, 390
nominal price, 364	borrowing ability, 396
	exchange rates, 360, 391, 435–440
price misalignment, 417–418	
Norway	fear of floating, 387, 394, 453
BOP crisis, 390	inflation, 391
borrowing ability, 396	interest rates, 455
exchange rates, 360, 361, 391, 392, 435–	Poland, 394, 396, 431
440, 456	Policy
fear of floating, 394	capital inflows and, 52, 55–60, 124–126
inflation, 391, 392	credibility of, 516
interest rates, 455	decisions, consensus for, 2
reserves, 456	implications, from Tequila crisis, 120–126
NYSE (New York Stock Exchange), 244,	response to BOP crises, 107
279	Political fiscal gap, 376–377
G1 (411.14) (40 -	Poor creditor protection, 521
Obstfeld, M., 4, 187, 283	Portfolio allocations, 245
OCA (optimal currency area), 355, 418, 464	Portfolio diversification, 113, 116, 135–136, 200–203, 244
OECD countries, 261–263, 265, 267–269	Portfolio flows, to emerging markets, 404,
Olivera-Taniz effect, 1978	405
Optimal currency area (OCA), 355, 418,	Portugal, 265
464	PPP (purchasing power parity), 189
Optimal exchange rate system theory, 507	Price flexibility, 474–475
Output collapse, 284	Price indexation, 410–411
	Price stickiness, 234–235, 299, 343–344,
Pakistan, 361, 392, 437, 438, 455	417
Paraguay, 394, 396	Private sector involvement, after financial
Pareto inefficiency, 292	crises, 497–499
Partial dollarization, credibility and, 407-	Privatization, 72, 84
408	Production economy, 290
Pegging, exchange rate. See Exchange rate	Public debt
pegs	forms of, 206
Performance costs, 272–276	holders of, 122
Peru, 440, 454	issuing to cover loss of reserves, 193–197
BOP crisis, 390	length of maturity for, 205–206
borrowing ability, 396	real exchange rate adjustment and, 121-
capital account balance, 71	123, 164
capital inflows, 82, 83, 84	short-maturity, 121–123
dollarization, 507	Public sector involvement, rationale for,
exchange rates, 360, 391, 393, 435–440	500–503
exports, 88	Public sector liabilities, short-maturity, 3.
fear of floating, 394	See also Tesobonos
floating exchange rate, 478–479	Punishment capital markets, in Mexico,
inflation, 391	130
interest rates, 31, 33–34, 455	Purchasing power parity (PPP), 189
privatization, 233	Family (111)/107
real exchange rates, 30, 47–54	Random shocks, endogenous, 411
reserves, 29, 47–54, 72, 75	Rates of return differentials, 31–34
secondary-market prices for loans, 24	
secondary-marker prices for todats, 24	Rational speculation, 246–247

Real exchange rate (RER), 114, 169, 336 adjustment, 55, 146, 168	Russian crisis of 1998, 183, 243, 461, 488, 502
appreciation, 22, 28, 30–31, 52, 57, 59–60,	aftermath of, 145
67	bunching phenomenon, 5–6
capital inflow and, 72–73, 76–77	capital market trends after, 147–150
contingent liabilities and, 163–167	moral hazard and, 495–496
definition of, 8–9	public sector debt mismatch measure,
depreciation, fiscal sustainability and,	156, 157
155–163	recovery from, 151
depreciation of, 340–341	specialists and, 406
disequilibrium, 143, 144	sudden stop and, 140–141, 143–145, 147
realignment, 154–155	149, 151, 469, 475
regional co-movement, 79–81	119, 101, 109, 110
reserves and, 40–44	Secondary-market prices, for loans, 23, 24
sudden stop and, 150–155	Second-generation models, 4
swings, 170–171	Securities market, globalization of, 243–
volatility, 410	279
Recapitulation, 118–120	Seigniorage, 190, 194, 196, 445
Recession, 129, 365–366	Self-fulfilling prophecies, 284–285, 293
"Regulation S," 40	bank-run, 384–385
Regulatory changes, in capital markets of	negative capital inflows, 298–299
industrialized countries, 40	output collapse, 232
Reinhart, Carmen M., 21-66, 67-92, 357-	sticky prices, 299
402, 431–459	Shocks, low-probability, 144
Repurchase agreements (repos), 103	Short-maturity public debt, 121–123
RER. See Real exchange rate	Short run, 346
Reserves, 118, 132, 454	Short-term bonds, 11–12
accumulation, 5	Short-term debt, 119, 132, 313. See also
banks and, 123-124	Tesobonos
exchange rates and, 435-440	Short-term interest rates, United States,
fixed exchange rate and, 330-331	37–38
fixed exchange rates and, 189, 330-331	Signal extraction, 315, 316–318, 320–321
floating exchange rates and, 475-476	Singapore
full depletion of, 339	borrowing ability, 396
loss, issuing domestic debt and, 193-	exchange rates, 361, 392, 437, 438, 456
197	fear of floating, 394
losses, 110	inflation, 392
management of, 341–343	interest rates, 455
minimum "tolerable" level of, 110–111	reserves, 437, 438, 456
real exchange rate and, 40–44	Snake ERM (Exchange Rate Mechanism),
regional co-movement, 79–81	359, 434, 438
selling, 518	Social Planner's Lagrangean, 238–239
sudden stop and, 151	Soft pegs, 10–11, 461
total, minus gold, 28, 29	Solvency, 101, 112, 118–119
Risk aversion, 200	South Africa
Robichek, E. Walter, 199	BOP crisis, 390
"Rule 144A," 40	borrowing ability, 396
Rumors, pessimistic, 272	exchange rates, 360, 391, 393, 435–440
Russia default rumors 140	fear of floating, 394
default rumors, 140	intlation, 391
exchange rates, 431	interest rates, 455

South East Asia. See East Asia	nominal exchange rates and, 166-167
South Korea	probability of, 517
BOP crisis, 390	real exchange rate adjustment and, 150-
borrowing ability, 395	155
exchange rates, 361, 391, 392, 393	reasons for, 230–232
fear of floating, 394	Russian crisis and, 140–141, 143–145,
fixed exchange rates, 461	147, 149, 151, 469, 475
floating exchange rates, 431	tax distortions and, 347-349
inflation, 391, 392	tradable goods absorption and, 152–154
interest rates, 455	vs. debt sustainability, 516–517
Sovereign governments, balance-of-	Sweden
payments crises and, 284, 291-293	BOP crisis, 390
Spain	borrowing ability, 396
BOP crisis, 390	exchange rates, 360, 362, 391, 392, 435-
exchange rates, 360, 362, 391, 392, 435-	440, 456
440, 456	fear of floating, 394
inflation, 391, 392	inflation, 391, 392
interest rates, 455	interest rates, 455
reserves, 456	reserves, 456
Specialists, EM	Switch time, 189–192, 195
cluster formation, 139	Switzerland, 394, 396
Lemon Problem and, 140-141	
Speculative attacks, 100–101, 115	Taiwan, 227
bonds-led, 199-205	Talvi, Ernesto, 143–179
central bank vulnerability, 233	Talvi effect, 197–199, 407
timing of, 194, 196	Tax
SS. See Sudden stop	on capital imports, 56–57
Statistical moments of asset returns, 260	distortions, sudden stop and, 347-349
Sterilized intervention, by central bank,	output effects, 101
58	raising, 145–146
Sticky prices, 234-235, 299, 343-344, 417	Tequila crisis, 1-3, 9, 383, 390, 461, 488
Stock imbalance, 111	aftermath, 243
Stock market booms, capital inflows and,	capital flow reversal and, 20
73, 78–79	early warning indicators, 7–9
Sudden stop (SS), 8, 1–84, 236, 315, 325,	fiscal factors, 104–115, 191, 227
491, 493	origins of, 100, 105–106
Argentina and, 166, 169	policy implications, 120-126
BOP crises and, 345	prevention, 9–10
bunching, 5–6	recovery from, 151
currency devaluation and, 518-520	tesobonos and, 3, 100, 102-104, 118, 119,
current account deficits and, 149–154	129–132
damage from, 229	"Tequila" effect
debt maturity and, 230	description of, 115-116
definition of, 5, 143, 329	herding behavior of global investors and
emerging markets and, 363–366	135–136
GDP and, 330	role of banks in, 116–118
home goods and, 335–341	Tesobonos
incidence of, 468, 469	maturing, refinancing of, 136
intensity, 515	Mexican crisis and, 3, 100, 102–104, 118,
model of, 517	119, 129–132
monetary policy and, 341-344	private sector refusal to refinance, 113
multiplier effect 315 318-320	redeemed 113

Thailand	interest rates, 13, 37-38, 104, 107, 455
BOP crisis, 390	recession in, 38
borrowing ability, 396	stock market, 34, 35
current account deficit, 227	stock market performance, 31, 32
exchange rates, 61, 391, 431, 453	T-bills, 106, 133
fear of floating, 394	Uruguay
inflation, 391	BOP crisis, 390
interest rates, 455	capital account balance, 71
reserves, 456	capital inflows, 72, 82–84
sudden stop, 491	dollarization, 507
Time inconsistency, 343, 409–413, 520	exchange rates, 30, 31, 47–54, 361, 392,
in financial crisis, 522	393
at individual level, 522–525	exports, 88
intertemporal contracts and, 521	inflation, 392
related literature, 525–527	interest rates, 31, 33–34, 455
Time to build model, 285, 299–300, 305–	reserves, 29, 47–54, 72, 75
309	secondary-market prices for loans, 24
Tradable goods	stock market, 34, 35
absorption, 152–154	volatility measurements, 437, 438
debt denominated in (see Dollar debt)	volatility measurements, 437, 436
demand for, 229–230	Vector autoregressive model (VAR), 375-
	376
output, 158–159 un-leveraged absorption of, 339–340	
	Venezuela, 387
Trade	BOP crisis, 390
exchange rate volatility and, 371–377	capital account balance, 71
gains, expansion of, 473–474	capital inflows, 21, 72, 82–84
liberalization, 212–215, 218–221	central bank, 237
policy, 57, 170–171	exchange rates, 30, 47–54, 361, 391, 392,
Turkey	393
BOP crisis, 390, 461, 488	exports, 88
exchange rates, 361, 392, 393, 437, 438	fear of floating, 387
inflation, 392	inflation, 391, 392
reserves, 437, 438	interest rates, 31, 33–34, 455
sudden stop, 491	privatization in, 72
***	reserves, 29, 47–54, 72, 75
Uganda	secondary-market prices for loans, 24
exchange rates, 360, 391, 393, 435–440	as segmented emerging market, 270–272
inflation, 391	stock market, 31, 32, 34, 35
interest rates, 455	volatility measurements, 437, 438
United Kingdom, 394, 396	Verification costs, 240
United States	Volatility, 520–527
balance of payments, 38, 39	in EMs, 520–521
BOP crisis, 13	floating exchange rate regimes, 435–438
borrowing ability, 396	of interest rates, 435
capital accounts, 38–40	managed exchange rate regimes, 437, 438
capital outflows to Latin America, 38–40,	of M2r, 105–106
68, 69	Vulnerability, financial, 185, 307–309
conventional wisdom after 1997, 10–12	BOP crises and, 100, 101
conventional wisdom before 1995, 9–10	exchange rate and, 120–121
exchange rates, 359, 360, 391, 435–440	indicators, 136–137
fear of floating, 394	of Mexico, 103, 104
inflation, 391	money aggregate stability and, 105

M2\$/reserves, 105 symptoms, 105 to terms-of-trade stock, 82 warnings for peso collapse, 130–133

Wages, 343–344, 474–475
Wall Street, 111, 187
contagion, 314, 315, 317, 318
scandals, 469
shocks, multiplier effect, 318–320
vulnerability and, 495
War of attrition, 146, 343
Wealth redistribution, 146
Welfare costs, 275
World fund, 247