Contents

Preface		vii
ı	Overview Timothy Lane and Marianne Schulze-Ghattas	1
	References	8
II	Background to the Crisis Javier Hamann	9
	Financial Vulnerabilities Macroeconomic Considerations Asset Price Deflation and Bank Failures References	10 12 14 16
Ш	Program Design Timothy Lane	18
	Basic Strategy Exchange Rates References	18 19 19
IV	Program Financing and Market Reactions Timothy Lane and Marianne Schulze-Ghattas	20
	Official Financing and Program Projections Market Reactions	20 22
V	Macroeconomic Environment Timothy Lane and Steven Phillips	27
	Output Decline and Its Causes Program Projections References	27 30 34
VI	Monetary and Exchange Rate Policies Atish Ghosh and Steven Phillips	35
	Monetary Program Design and Implementation Program Design	35 36 38
	Program Implementation Monetary Policy Stance Conclusion	42 50
	Appendix 6.1. Monetary and Exchange Rate Policies References	50 54
VII	Fiscal Policy Timothy Lane and Tsidi Tsikata	56
	Initial Dationale for Fiscal Adjustment	56

	External Adjustment	57
	Financing	57
	Bank Restructuring	58
	What Was Done?	59
	Original Programs	59
	Revisions and Current Prospects	62
	Assessment	64
	Appendix 7.1. Coverage of Reported Fiscal Accounts	64
	Appendix 7.2. Fiscal Adjustment and Current Account Adjustment	65
	Appendix 7.3. Financial Sector Restructuring Costs in the Fiscal Accounts	66
	References	66
	References	00
VIII	Structural Reforms	67
	Javier Hamann and Marianne Schulze-Ghattas	
	Financial Sector and Corporate Restructuring	67
	Governance and Competition Policy	72
	Current and Capital Account Liberalization	73
	Social Sector Policies	74
	General Observations	76
	References	76
IX	Taking Stock	77
	Timothy Lane	
3oxe:	•	
		2
ı	1.1. Thailand: Crisis and Adjustment	2 4
	1.2. Indonesia: The Deepening Crisis1.3. Korea: Crisis and Adjustment	6
iV	4.1. Involving Private Sector Creditors	22
• •	4.2. Projected Private Capital Flows in the Three Programs	24
Vi	6.1. A Currency Board for Indonesia?	40
	6.2. High-Frequency Contagion in the Exchange and Equity Markets	45
	6.3. Episodic Evidence on the Interest Rate-Exchange Rate	
	Relationship	46
	6.4. High Interest Rates in International Perspective	47
	6.5. Was There a Credit Crunch?	51
VIII	8.1. The World Bank and the Asian Crisis	68
	8.2. Indonesia: Improving Governance and Competition	74
	8.3. Social Sector Policies in Indonesia, Korea, and Thailand	75
Table		
14	4.1. Official Financing 4.2. Exchange Rate Assumptions	21
VI		25
٧.	Developments Surrounding Episodes of	
	Devaluation or Depreciation	40
	6.2. Required Monetary Contraction to Offset Given Risk	49
	Premium Shocks	52
	6.3. Pass-Through Coefficients and Implied Expected Real	32
	Overnight Rates	53
	6.4. Effect on GDP Growth of a Decrease in Money Growth	54
VII	7.1. Financing of Fiscal Deficits	59
	7.2. Fiscal Policy in Original Programs	60
	7.3. Sources of Changes in the Fiscal Balance	61

Figures

Н	2.1. Indonesia, Korea, and Thailand: External Debt and	
	International Reserves	1
	2.2. Indonesia, Korea, and Thailand: Growth and Unemployment	12
	2.3. Indonesia, Korea, and Thailand: Exchange Rate Developments	13
	2.4. Indonesia, Korea, and Thailand: Competitiveness Indicators	14
	2.5. Indonesia, Korea, and Thailand: Central Government Balances	1.5
	2.6. Indonesia, Korea, and Thailand: Domestic Credit Expansion	
	in Comparison to Nominal GDP Growth	10
	2.7. Indonesia, Korea, and Thailand: Stock Market Prices	17
٧	5.1. Indonesia, Korea, and Thailand: Domestic and External	
	Demand	28
	5.2. Indonesia, Korea, and Thailand: Components of	
	Domestic Demand	29
	5.3. Indonesia, Korea, and Thailand: Net Exports	30
	5.4. Indonesia, Korea, and Thailand: Real GDP Growth	3
	5.5. Indonesia, Korea, and Thailand: Current Account Balance	32
	5.6. Consensus Forecasts and Program Forecasts of Real	
	GDP Growth in 1998	3.
	5.7. Indonesia, Korea, and Thailand: Consumer Price Inflation	34
۷I	6.1. Indonesia, Korea, and Thailand: Nominal Exchange Rates	30
	6.2. Indonesia, Korea, and Thailand: Reserve and Broad Money Growth,	
	Initial Program Expectations and Outcomes	3
	6.3. Korea and Thailand: Differences Between Net International	
	Reserves (NIR) and Net Domestic Assets (NDA)	
	Outturns and Performance Criteria	4
	6.4. Indonesia, Korea and Thailand: Expected Monthly Rates of	
	Return in U.S. Dollar Terms	4
	6.5. Indonesia, Korea, and Thailand: Nominal and Estimated Real	
	Interest Rates	4
	6.6. Indonesia, Korea, and Thailand: Money and Domestic Credit	
	in Real Terms, July 1996–June 1998	4
/11	7.1. Indonesia, Korea, and Thailand: Sectoral Savings-Investment	-
	Balances	5