

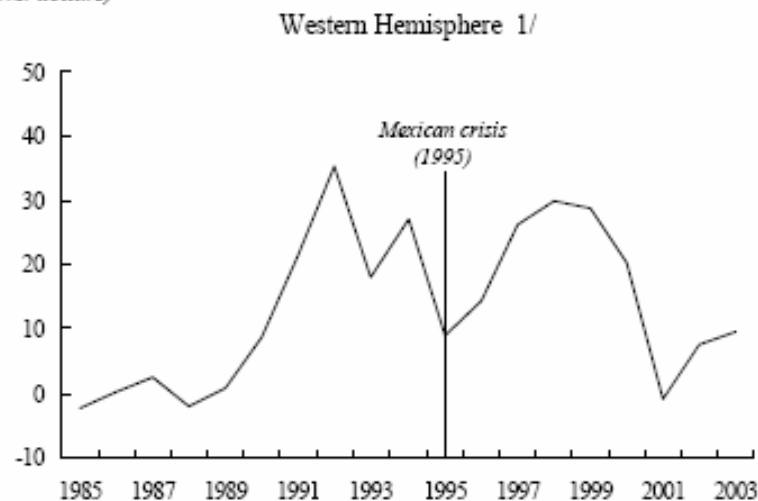
Devaluations and Regime Changes

	6-Months Period Following a Devaluation	All Other 6-Month Periods
Change observed	31 (22.0%)	492 (11.5 %)
No change observed	110 (78.0%)	3,792 (88.5%)
Total	141	4,284

Note: “Own turnover”—reference set is only for those developing countries which have experienced currency crash at some point. *P*-value for the difference is **0.002**.

Net Private Capital Flows

(Billions of U.S. dollars)



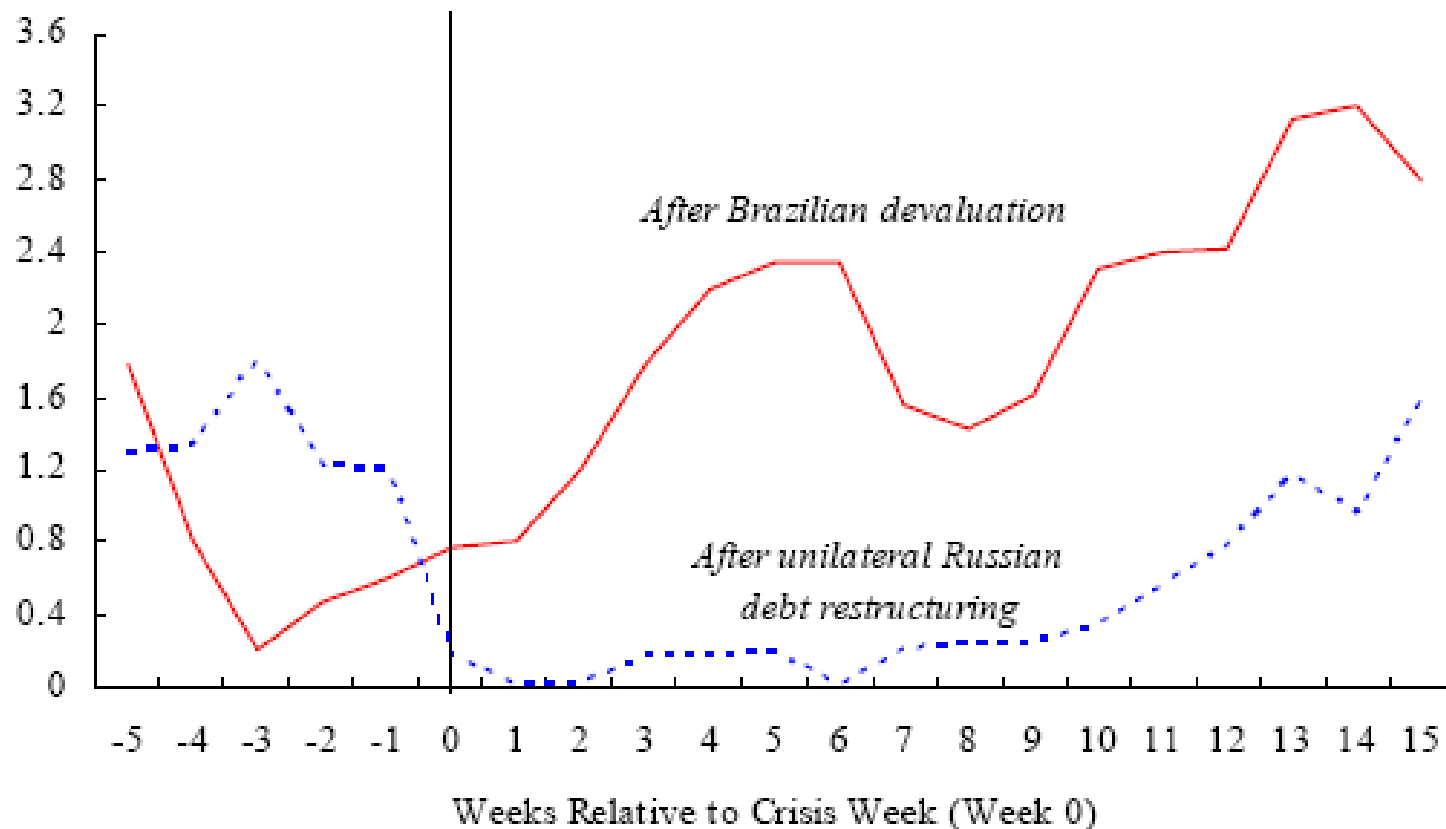
1/ Includes Argentina and Mexico.

2/ Includes Indonesia, Malaysia, Philippines, South Korea, and Thailand.

Source: IMF, *World Economic Outlook*.

Emerging Market Bond Issues

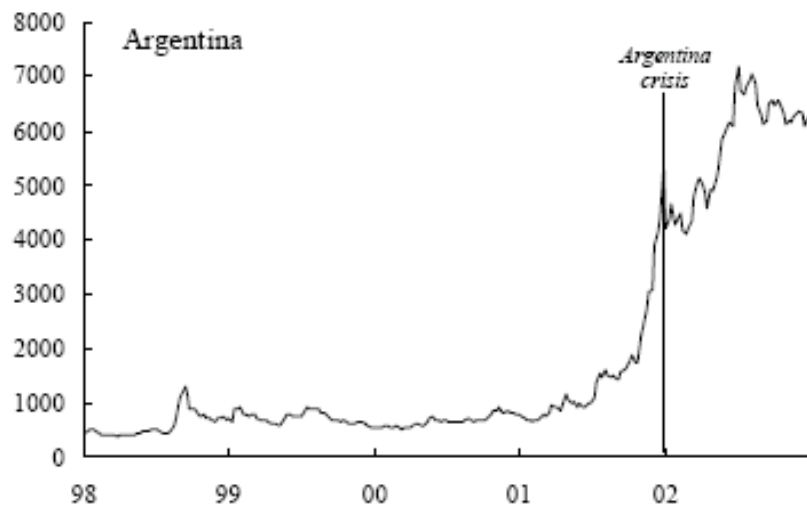
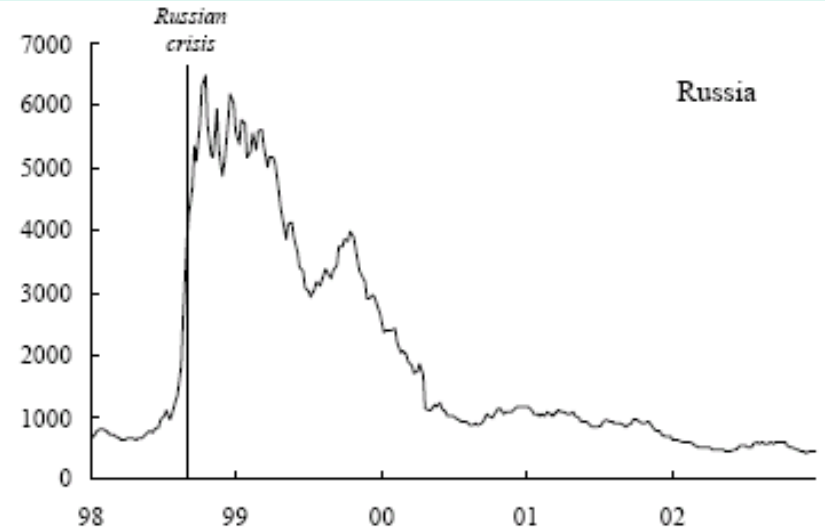
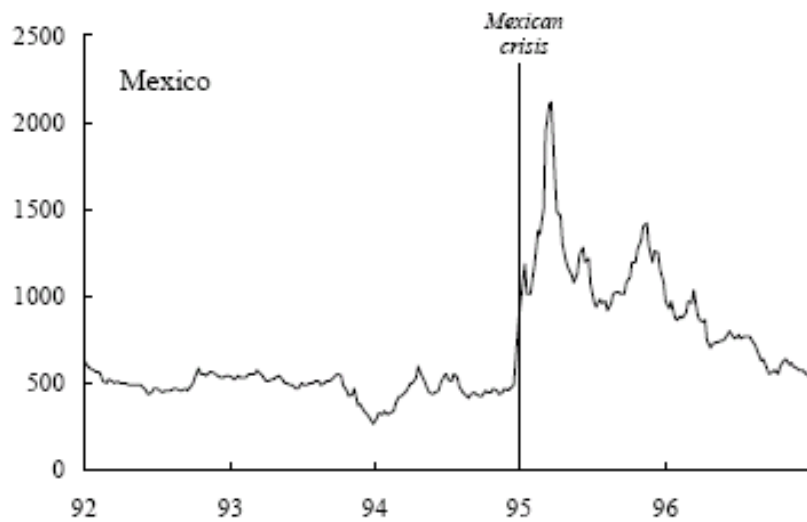
(In billions of U.S. dollars; weekly data, centered three-week moving average)



1/ Data prior to Russian default exclude the July 1998 Russian debt exchange.

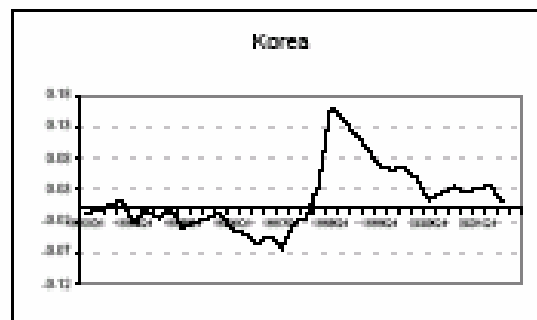
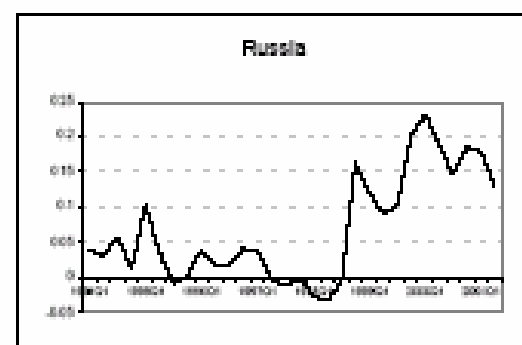
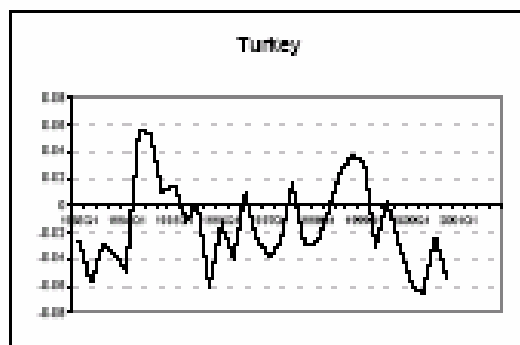
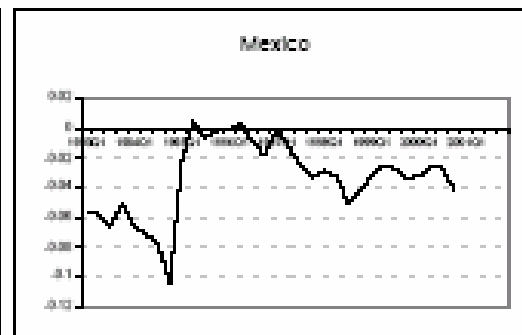
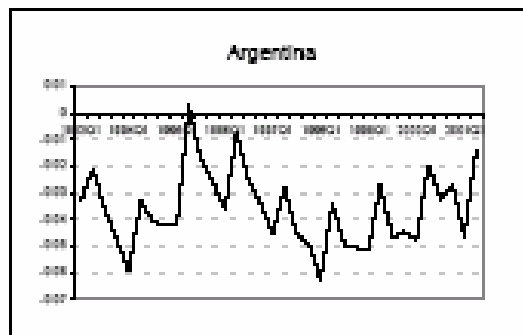
Source: IMF staff calculations based on data from Capital Data.

Emerging Market Yields

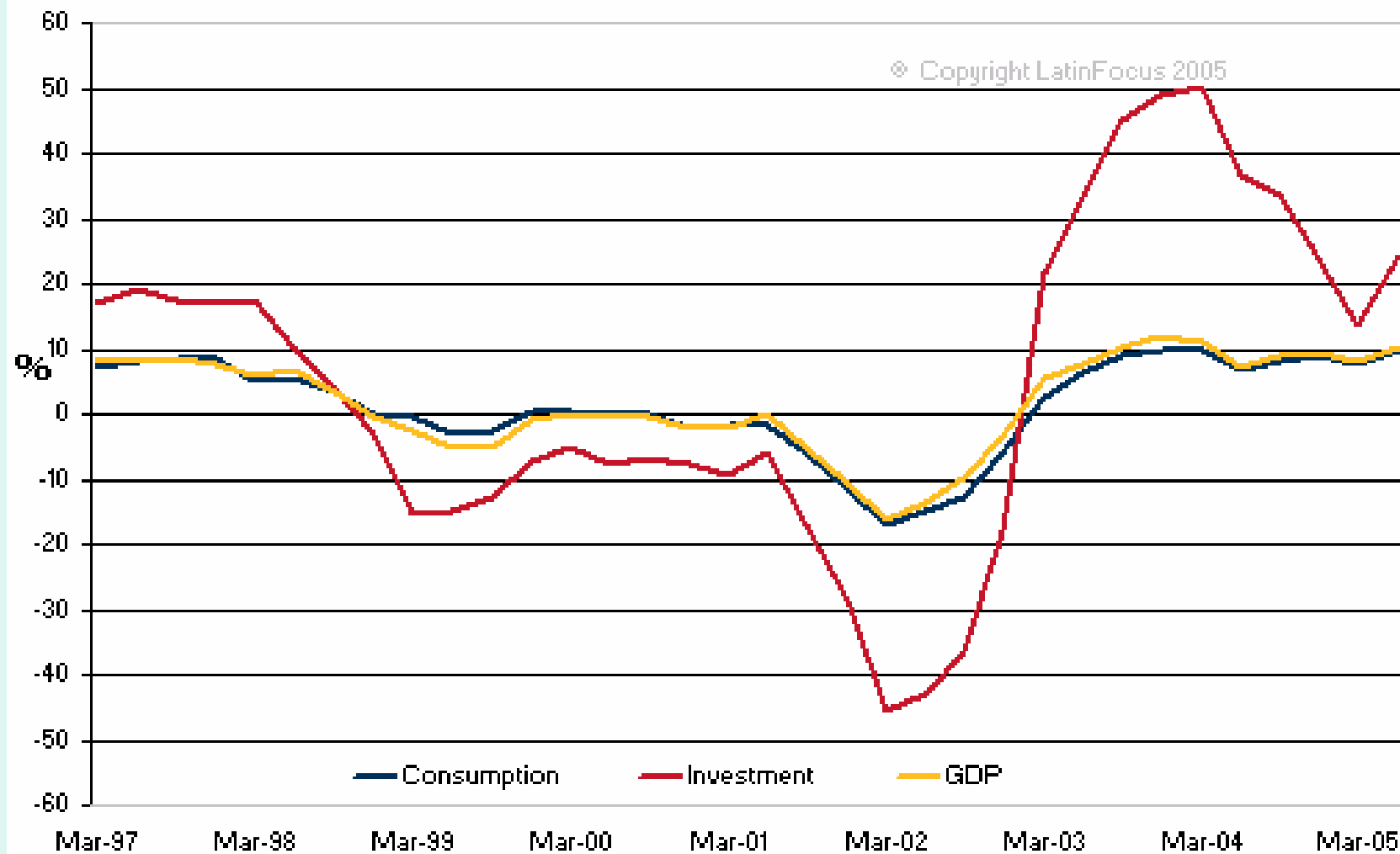


1/ Emerging market bond index plus (EMBI+) spreads are plotted.
Source: JP Morgan Chase.

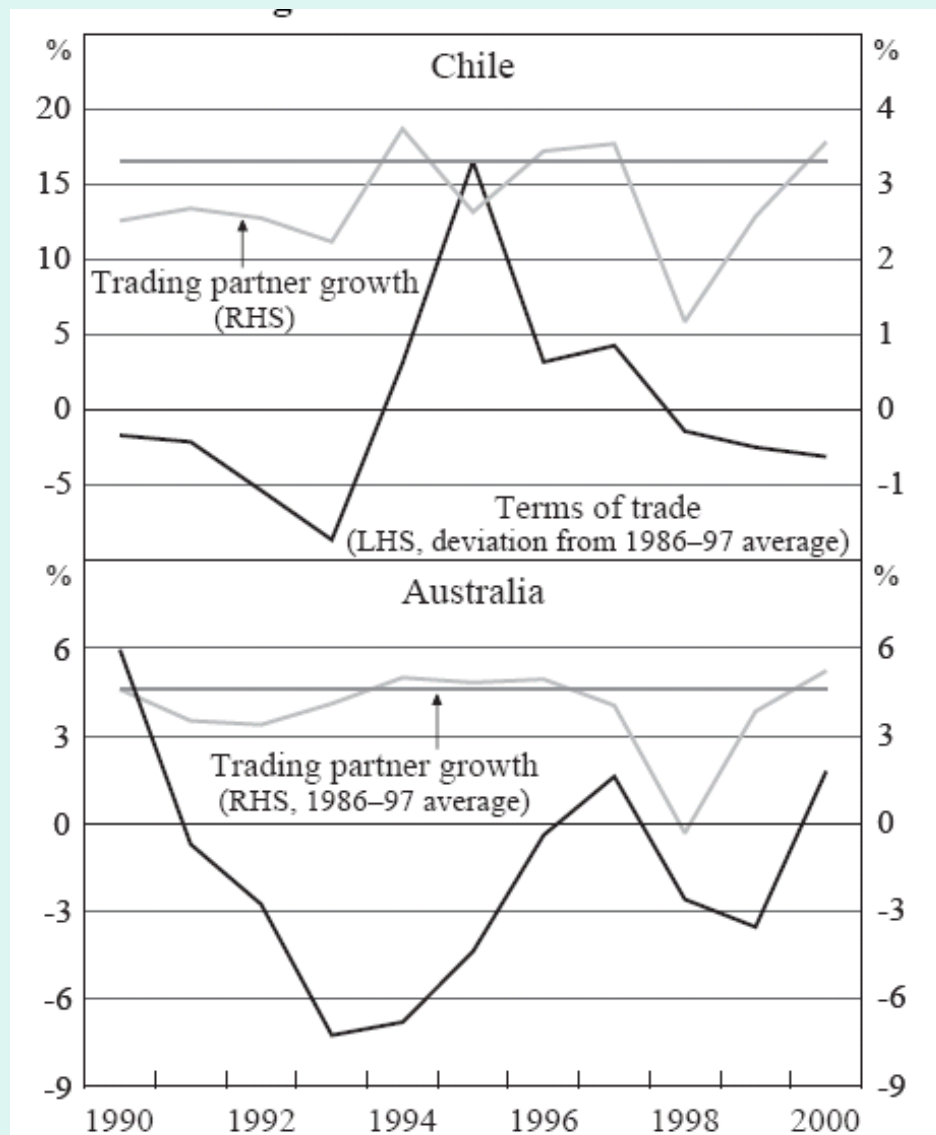
Sudden Stops in Current Accounts



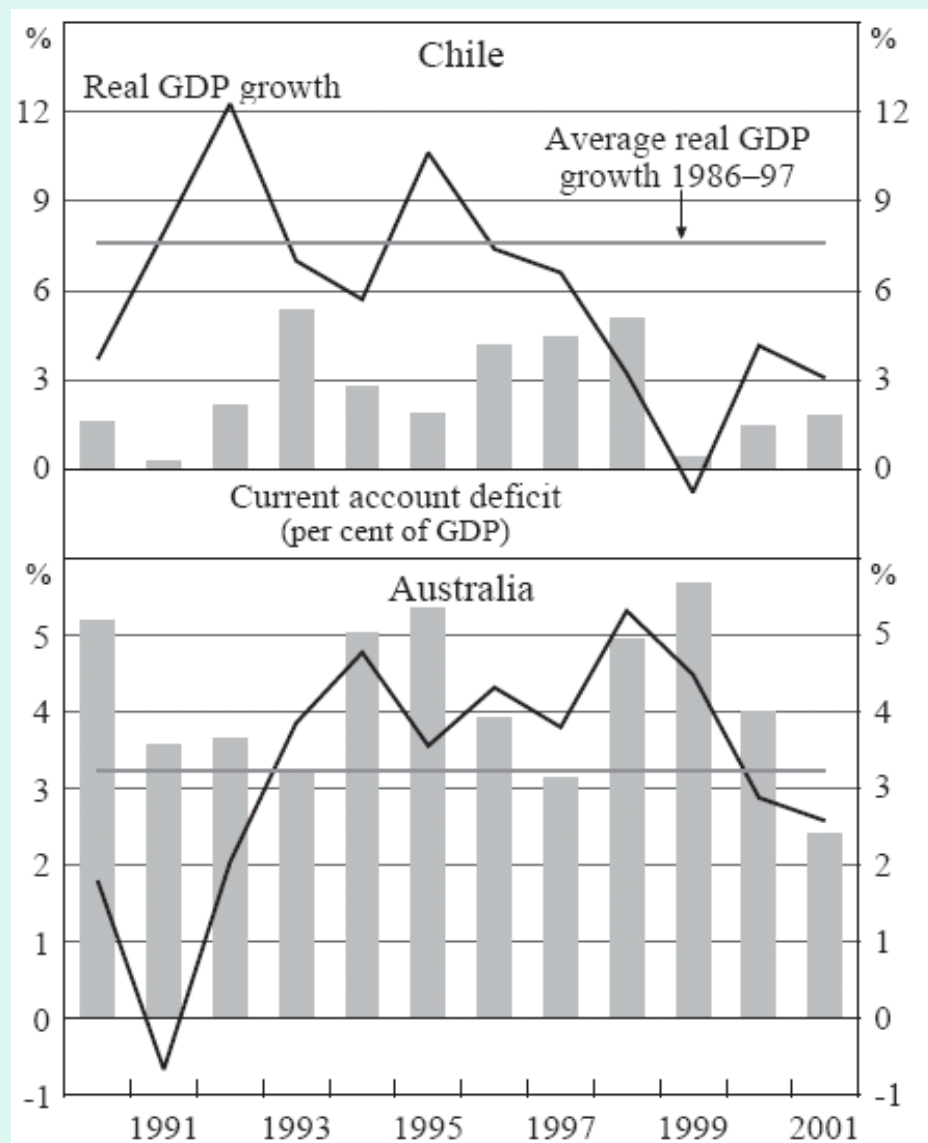
Argentina



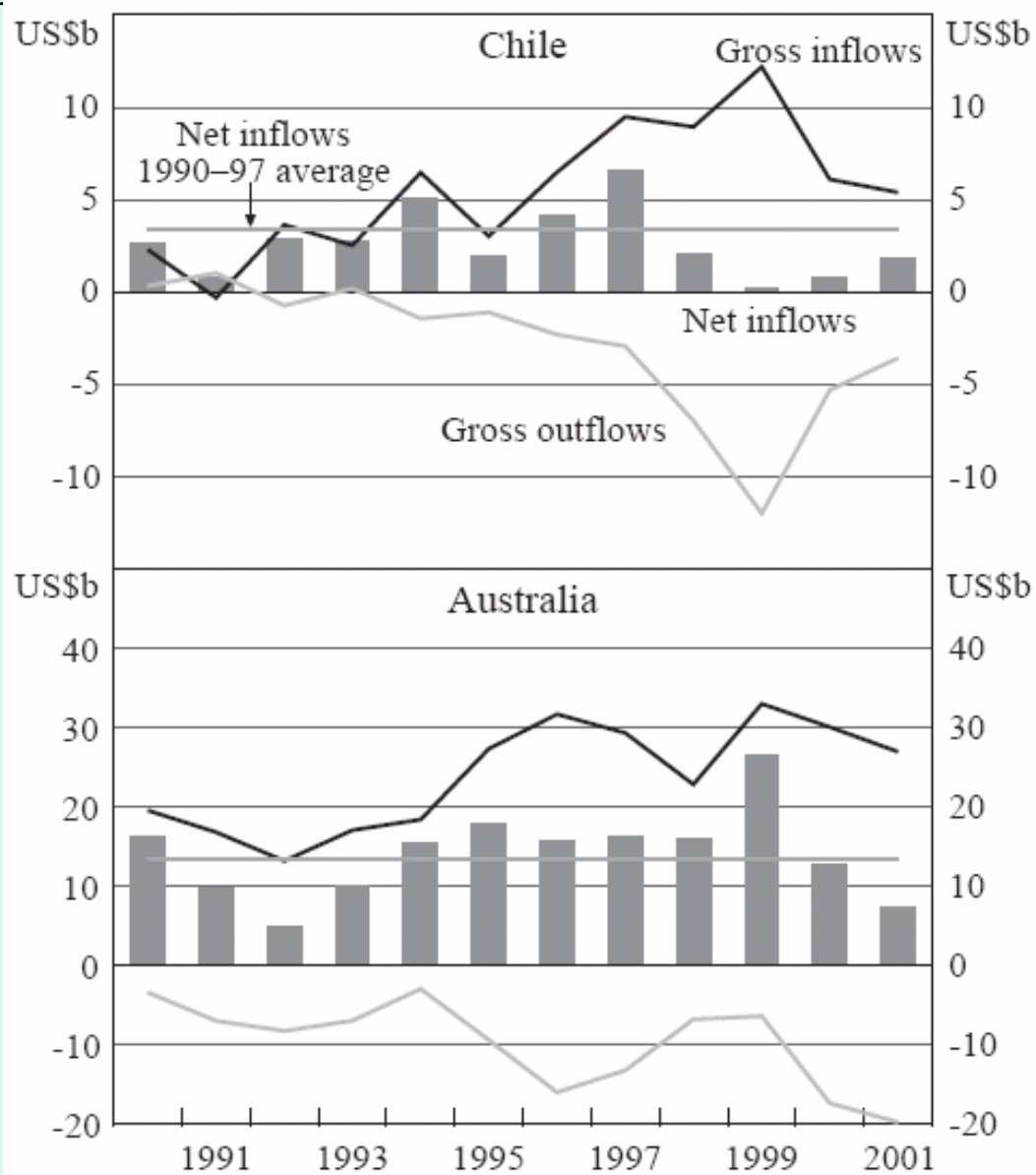
External Shocks



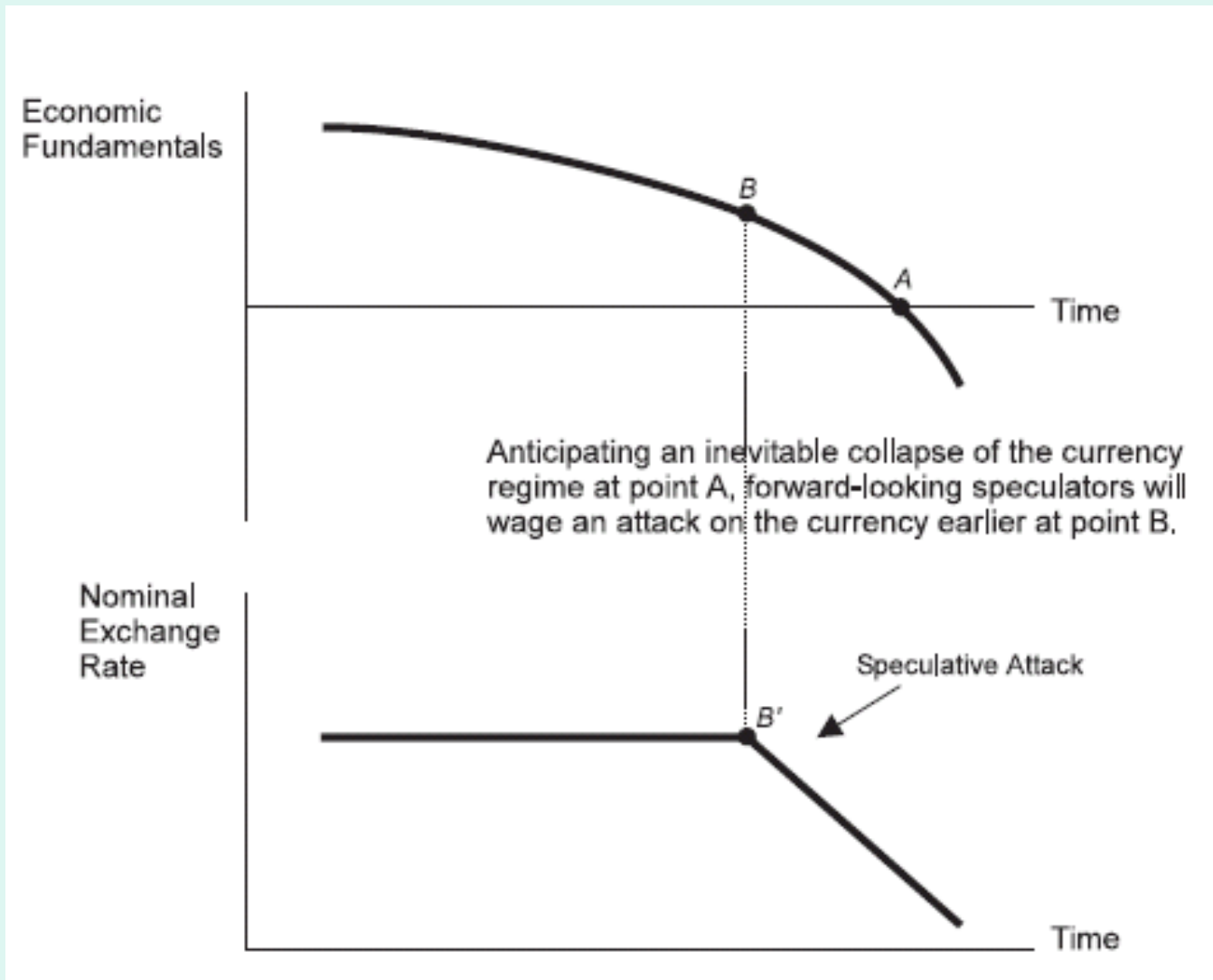
GDP and Current Account



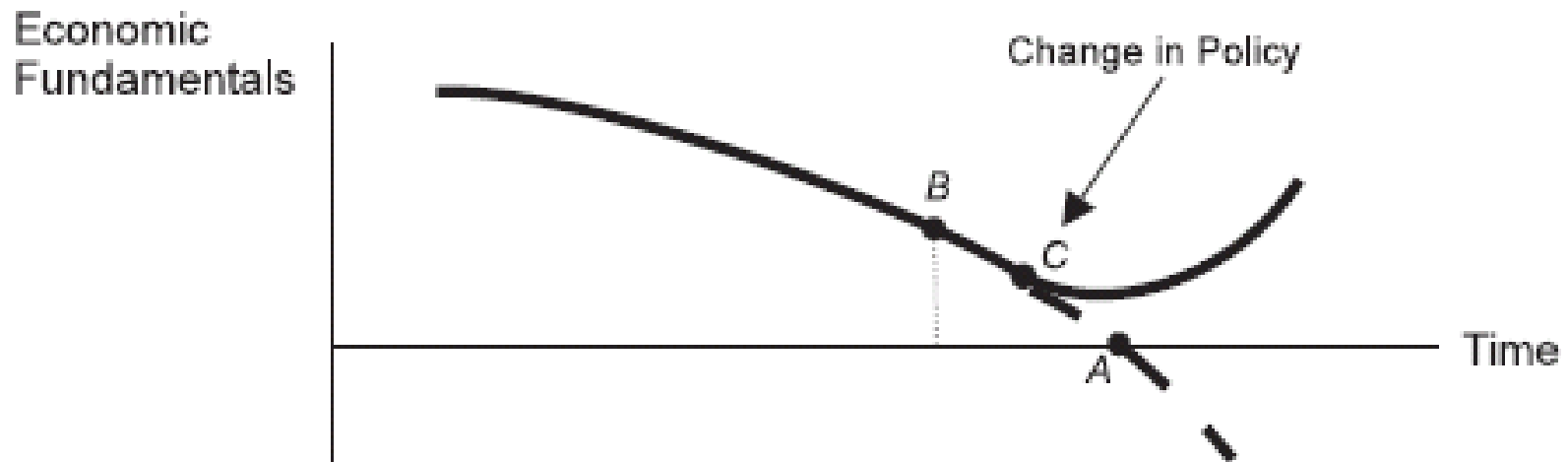
Capital Flows



First Generation Type Crisis

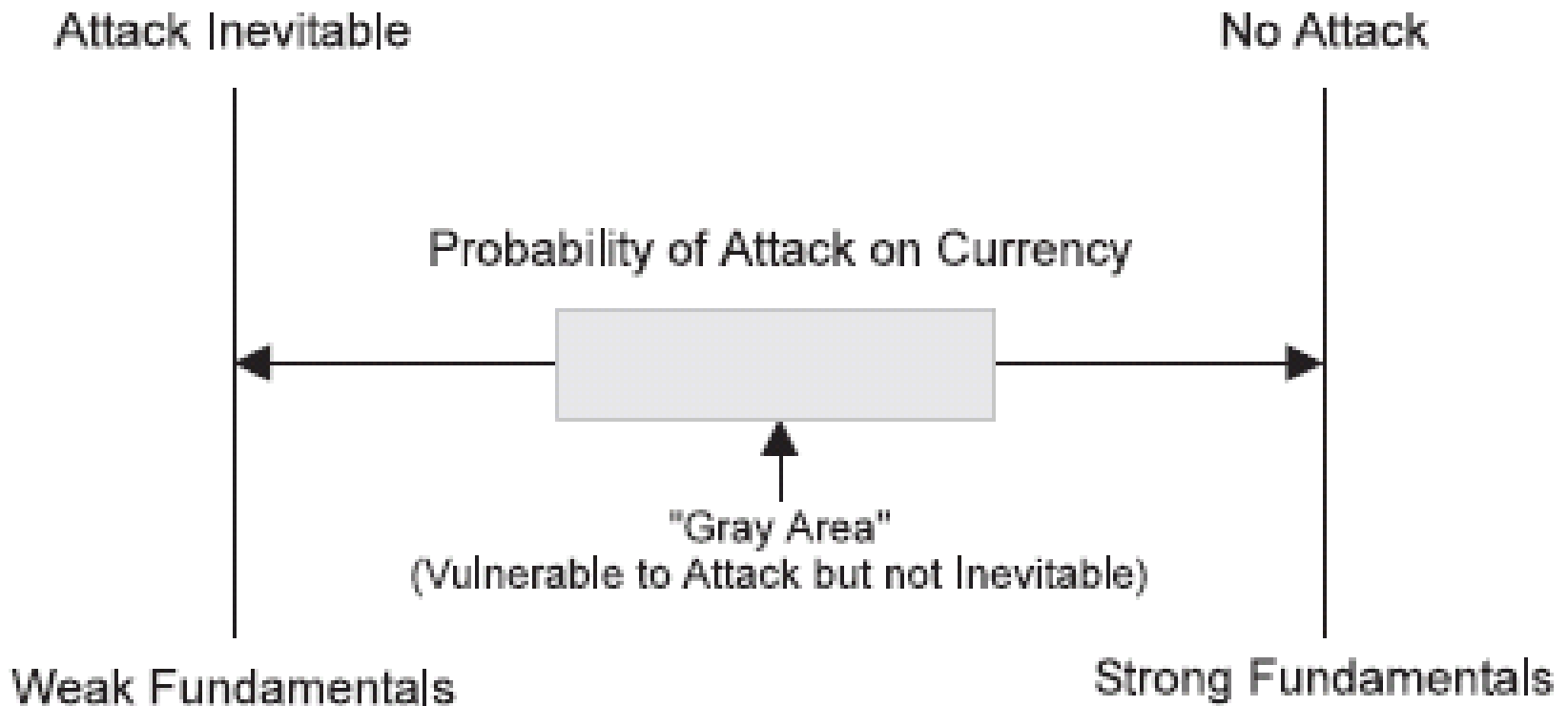


Uncertainty Complicates Matters



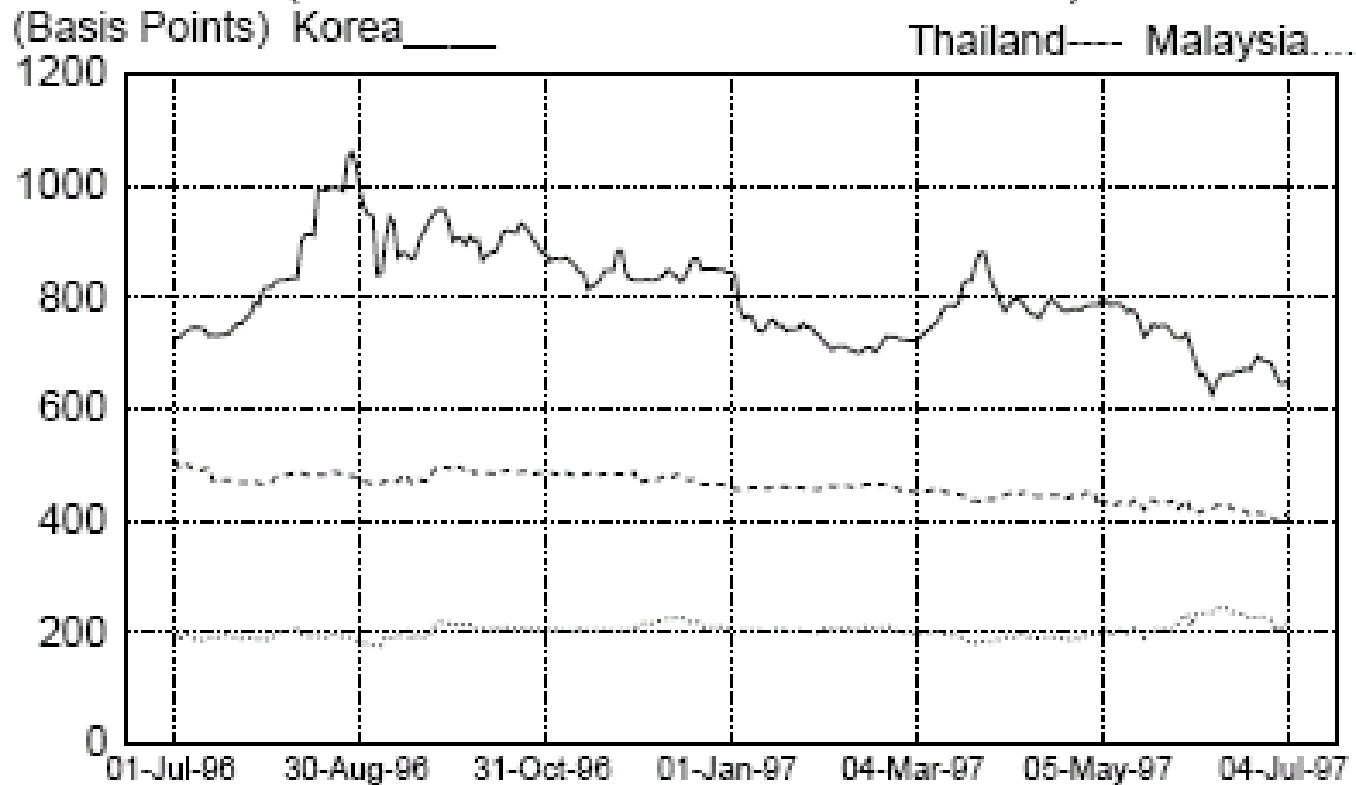
Although economic fundamentals appear to be deteriorating in a steady and predictable manner (at point B), making it likely that an attack will occur (at point A), a sudden change in policy (at point C) could shift the trend in fundamentals in a favorable direction,

Second Generation Models



Investors Caught By Surprise

**Asian/U.S. Short-Term Yield Spreads
Prior to the 1997 Asian Currency Crisis**
(Local 3-Month Rates less U.S. T-Bill Rate)



Before Borrowing

Assets

Loans: 1,000 million pesos

Liabilities and Net Worth

Deposits: 800 million pesos

Capital: 200 million pesos

Liability Dollarization

1 peso = 1 dollar

Assets

Loans: 1,500 million pesos

Liabilities and Net Worth

Deposits: 800 million pesos

Borrowed: 100 million dollars

Capital: 200 million pesos

Balance Sheet After Depreciation

5 pesos = 1 dollar

Assets

Loans: 1,500 million pesos

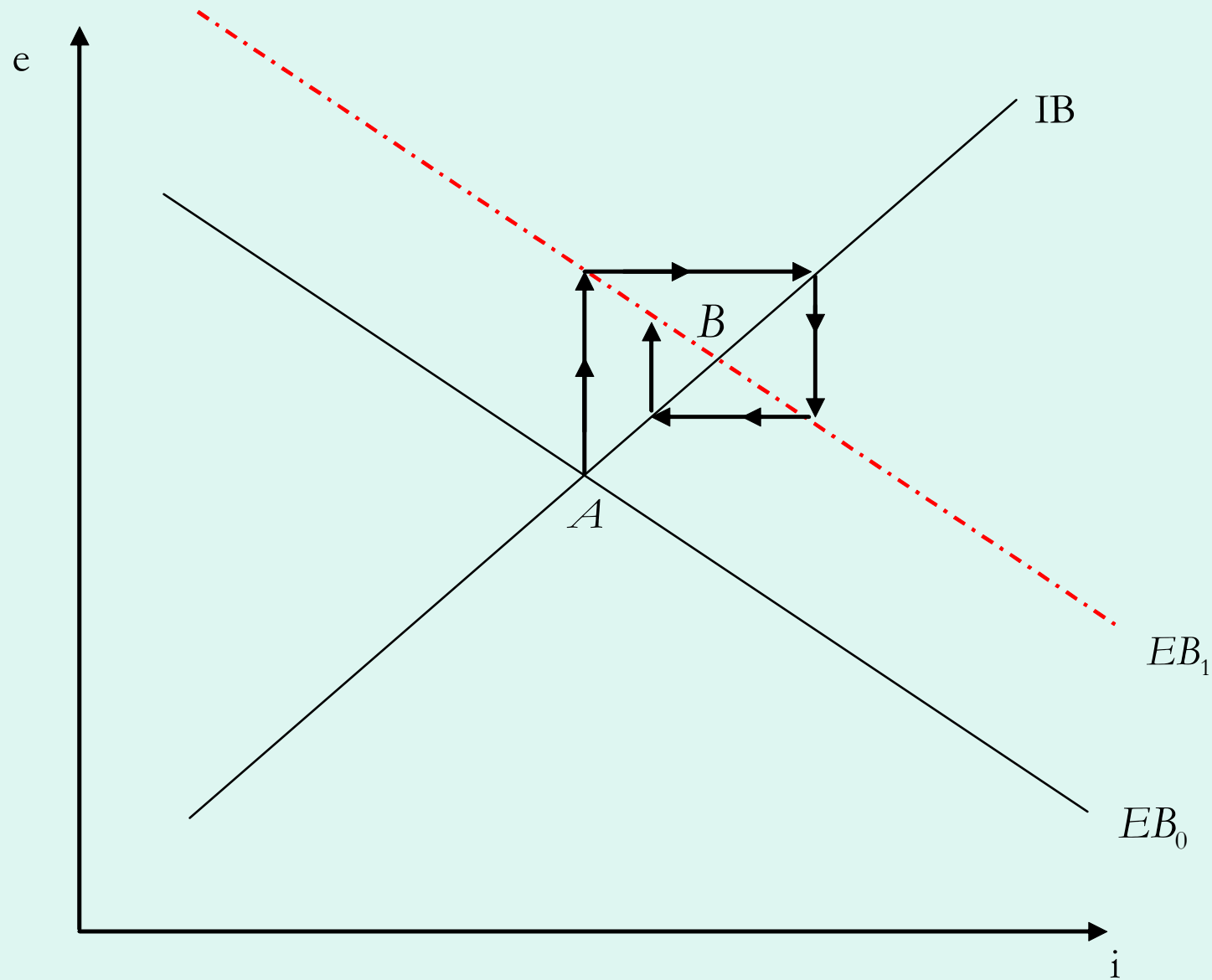
Liabilities and Net Worth

Deposits: 800 million pesos

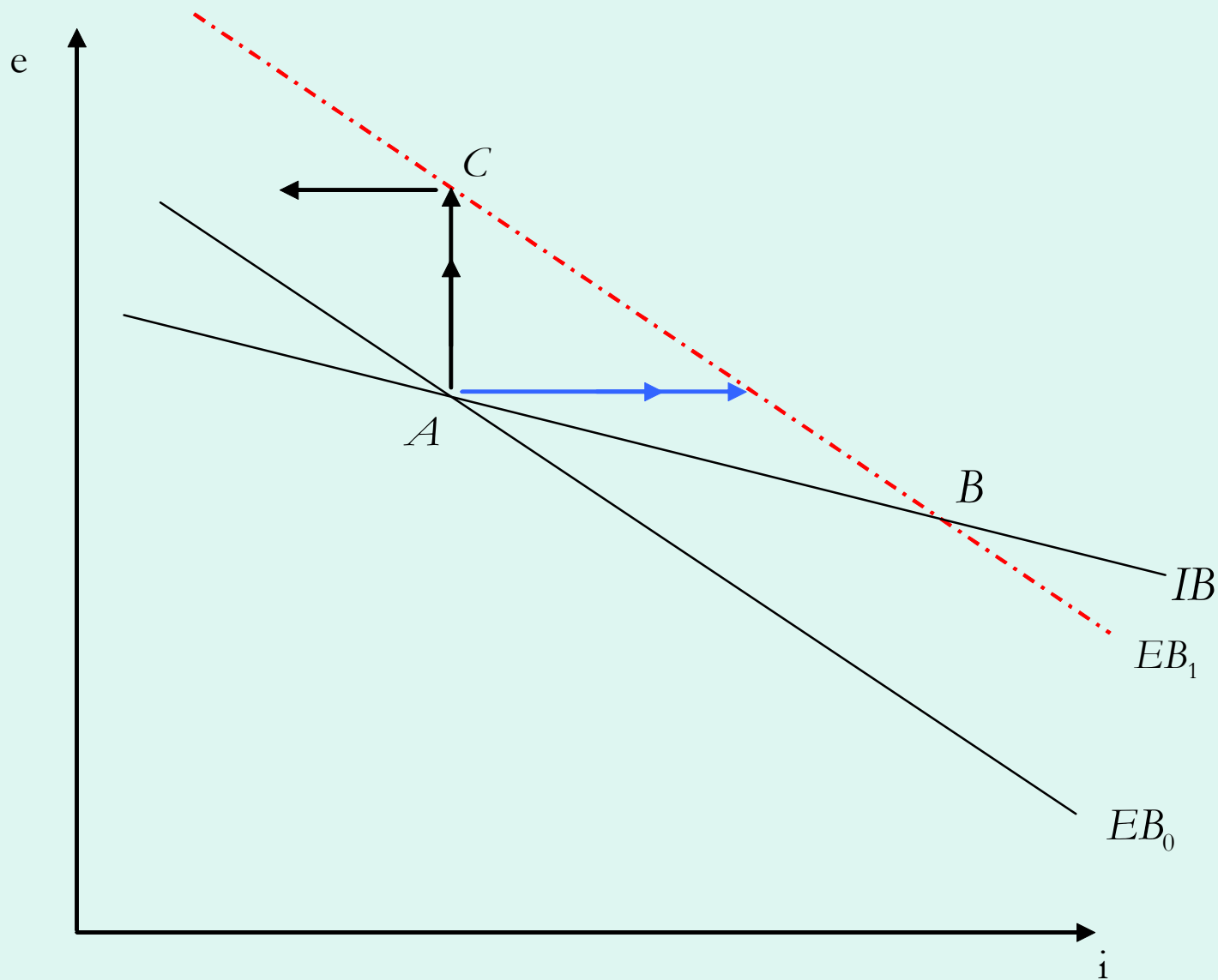
Borrowed: 100 million dollars

Capital: -300 million pesos

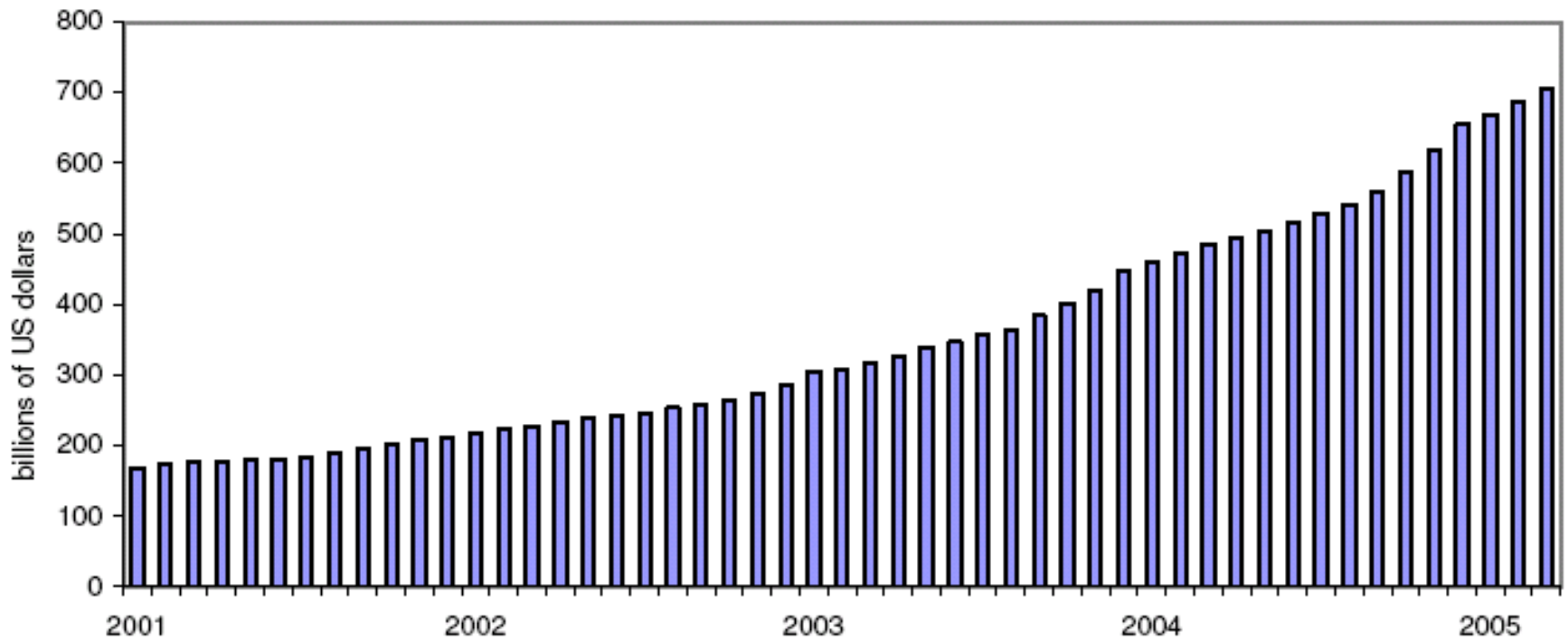
Adjustment in the Normal Case



Adjustment with Original Sin

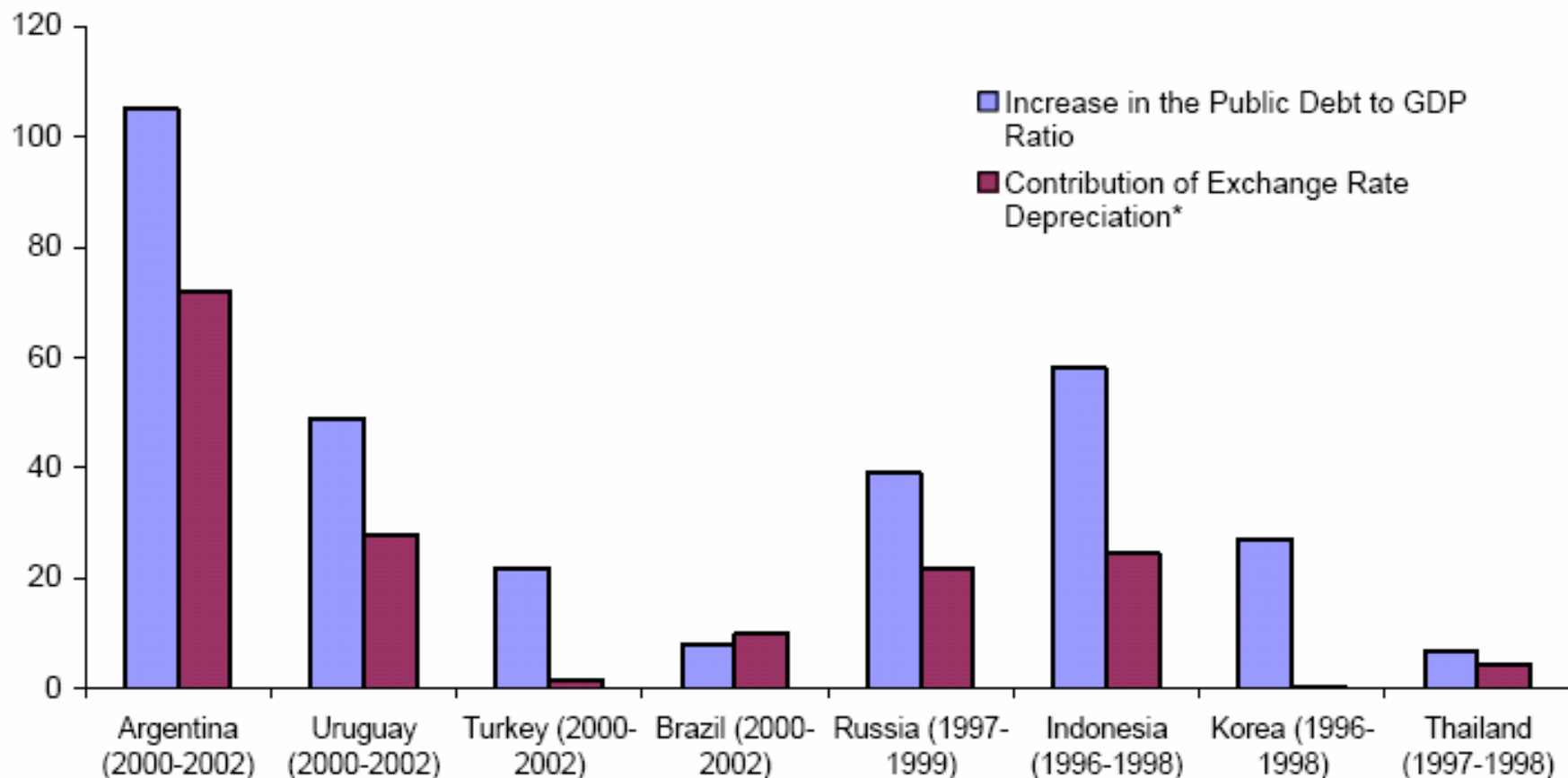


China's Foreign Exchange Reserves



Note: After 12/2003, foreign exchange figures are adjusted to reflect \$45 billion transfer to SOCB.

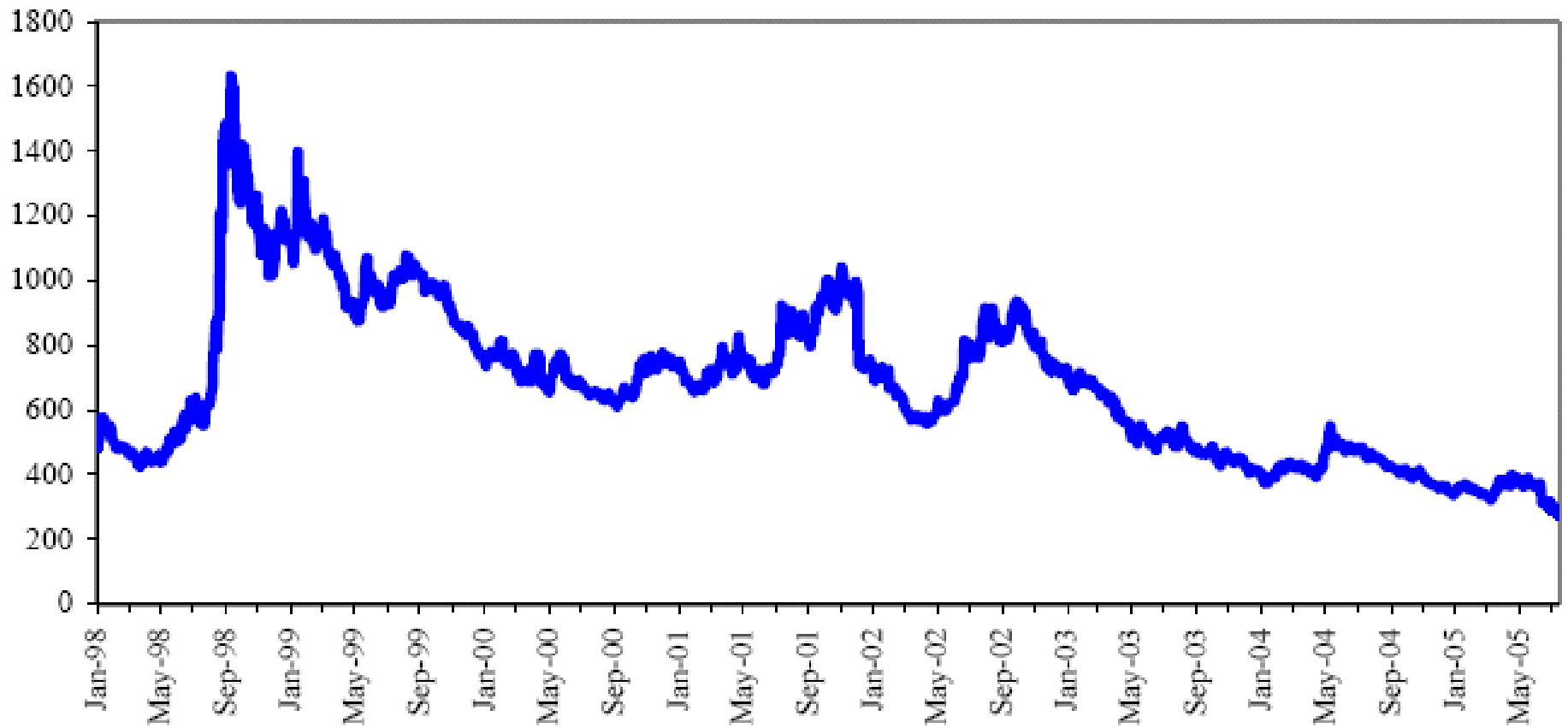
Impact of Exchange Depreciation on Debt/GDP Ratio

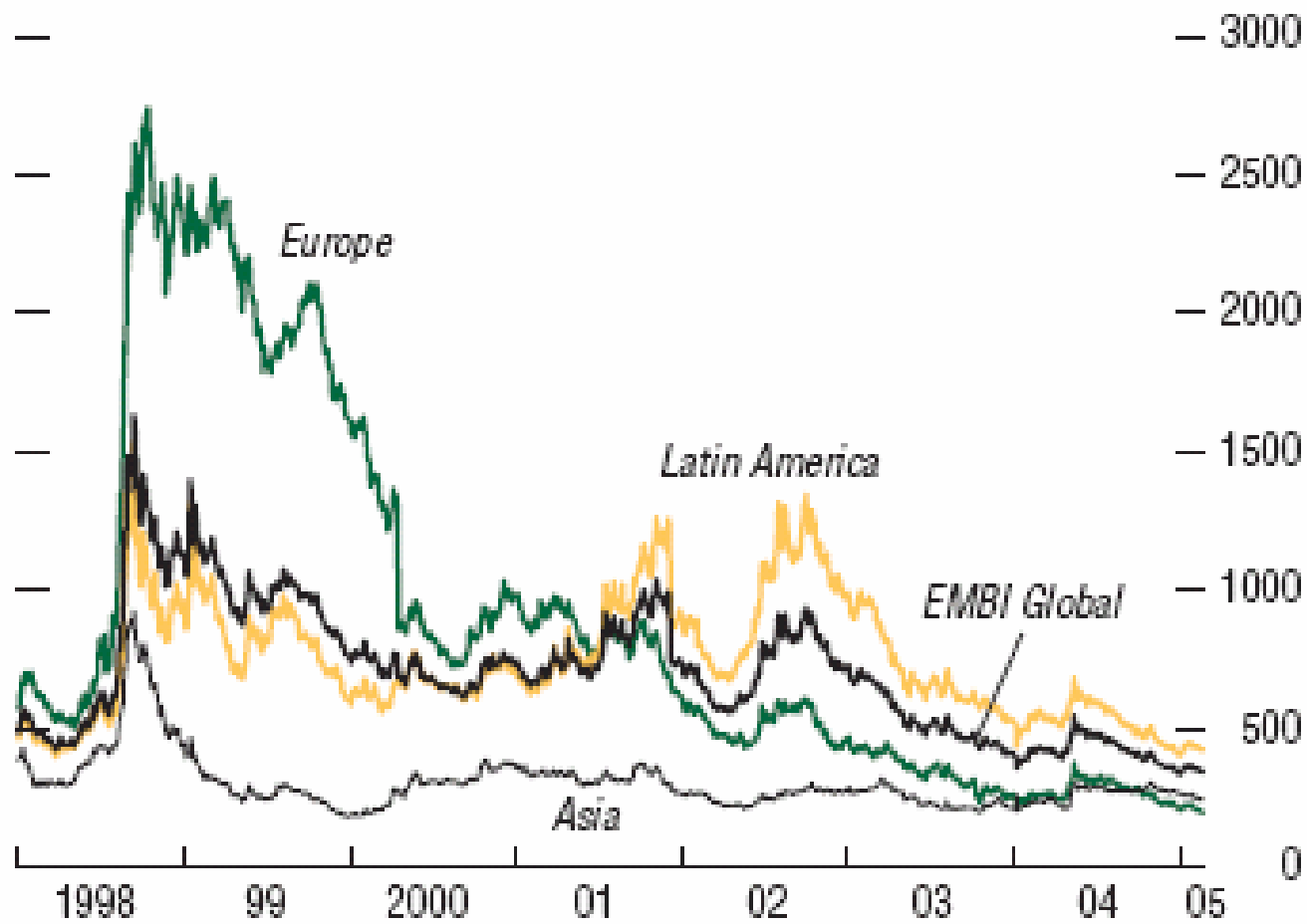


* Contribution of exchange rate depreciation is measured as the increase in the pre-crisis debt to GDP ratio that results from setting the pre-crisis real exchange rate to its post-crisis level.

Emerging Markets Bond Spreads

(basis points)



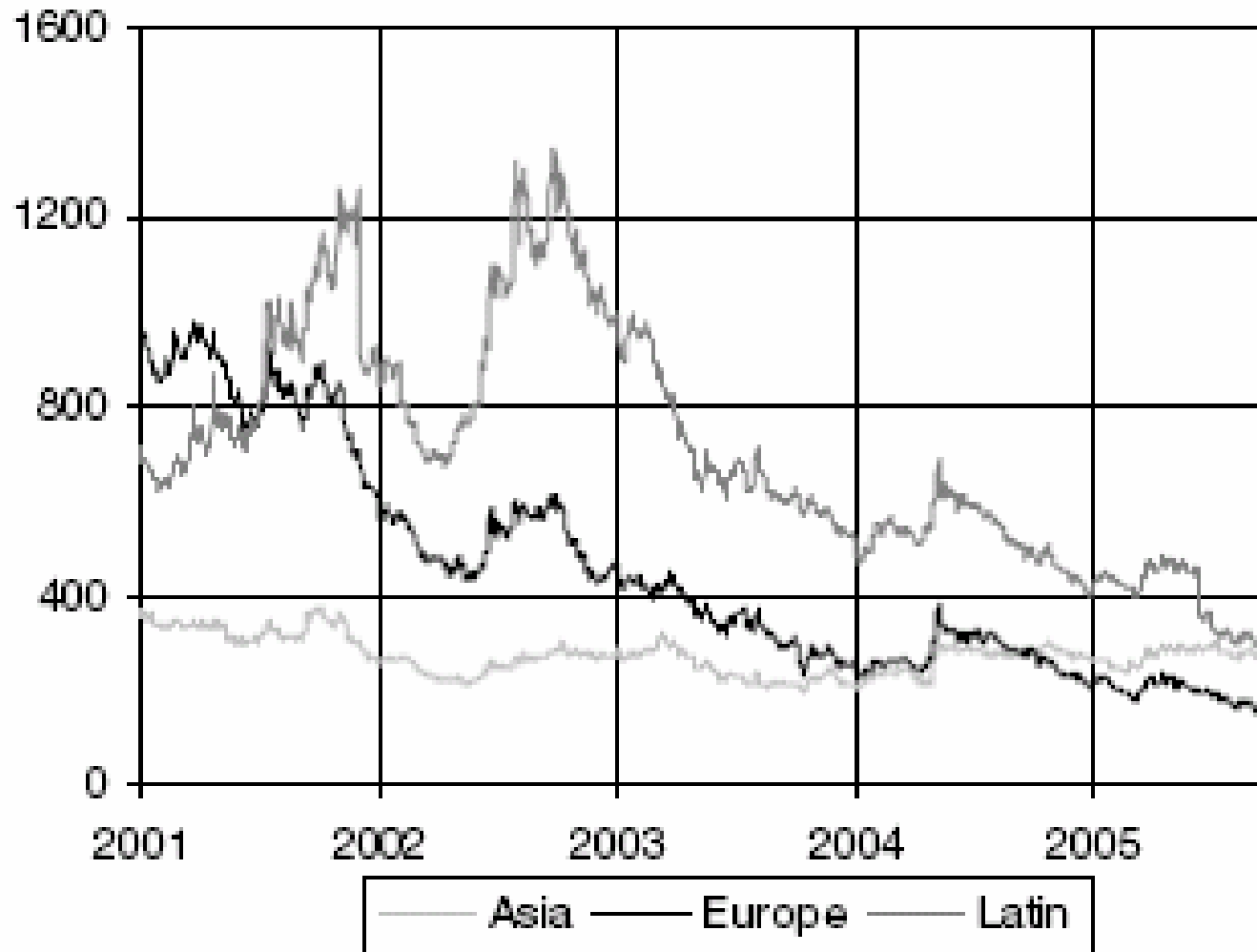


Source: J.P. Morgan Chase & Co.

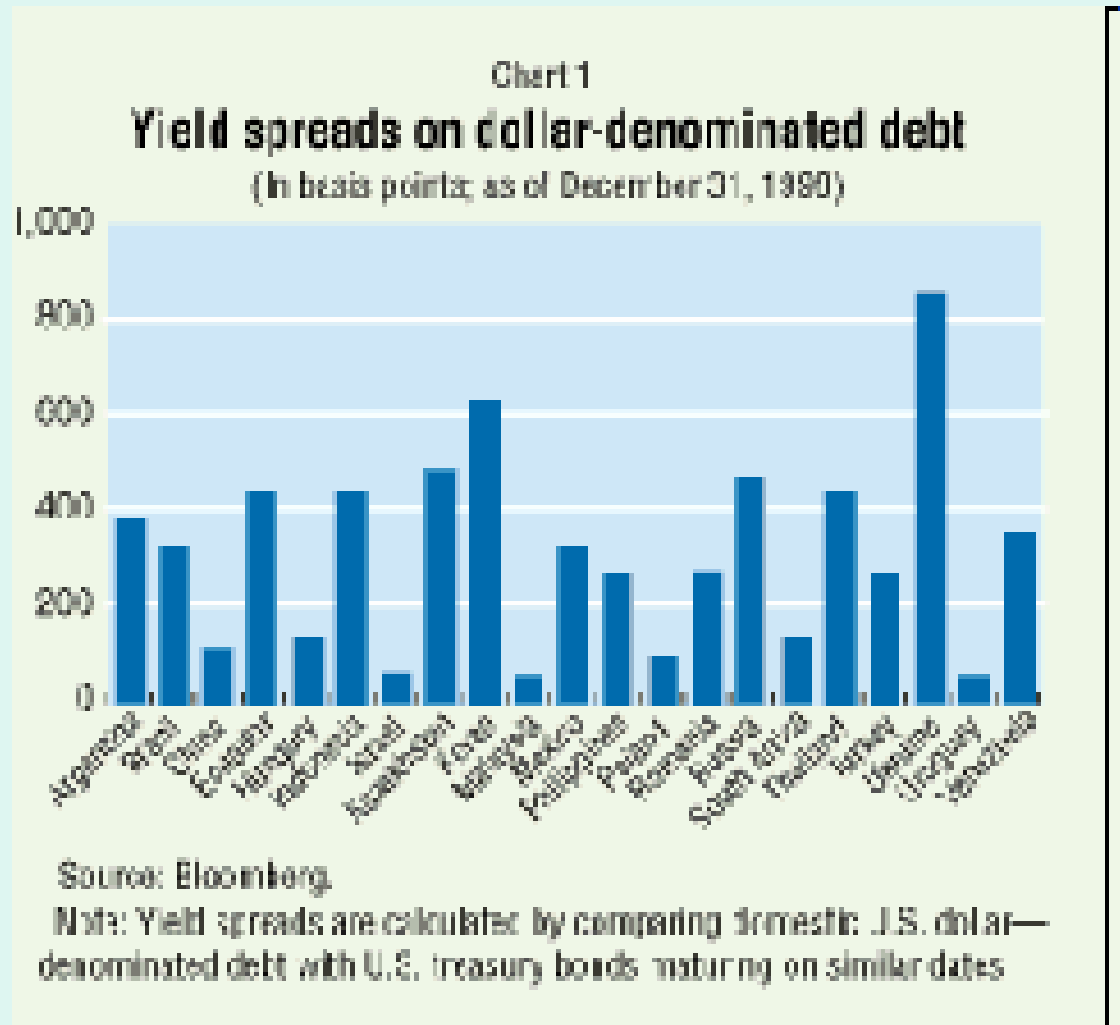
Most Recent Spreads, EMBIG



Spreads by Region



Yield Spreads on Dollar Debt



Comparison of Recent Restructurings

	ARGENTINA 2005	ECUADOR 2000	PAKISTAN 1999	RUSSIA 1998–2000	UKRAINE 1998–2000	URUGUAY 2003
Per Capita Income (\$)*	11,586	3,363	1,826	6,592	3,841	8,280
Scope (\$ Billions)	81.8	6.8	0.6	31.8	3.3	5.4
Number of Bonds	152	5	3	3	5	65
Jurisdictions Involved	8	2	1	1	3	6
Months in Default	38+	10	2	18	3	None
Minimum Participation Set	No	Yes	Yes	Yes	Yes	Yes
Recognition of Interest Arrears	Partial	Yes	Yes	Yes	Yes	N/A
Principal Forgiveness	Yes	Yes	No	Yes	No	No
'Haircut' on Discount Bond (%)	66.3	40	0	37.5	0	0
Lowered Coupons	Yes	No	Yes	No	Yes	No
Extended Maturities	Yes	Yes	Yes	Yes	Yes	Yes
Participation Rate (% of Eligible)	76	97	95	98	95	93

Note: N/A stands for not applicable.

**Adjusted for purchasing power; latest (2003) data for Argentina, otherwise data corresponds to year(s) of debt restructuring as noted.*

Source: IIF, IMF, World Bank, author's calculations.

Final Stuff

- Final Exam
 - Thursday, December 15, 2005
 - 4:40P-6:30P
 - 112 KERN
- Office Hours
 - Me: Monday 10-11, as usual
 - Dima: Tues, 10-12, Wed 2-4