



# Is there a consensus on the crisis prevention toolkit?

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Oesterreichische Nationalbank and Reinventing Bretton Woods Committee  
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## Sixty years of Bretton Woods

Objectives remain valid today

But sea change in the global economic system

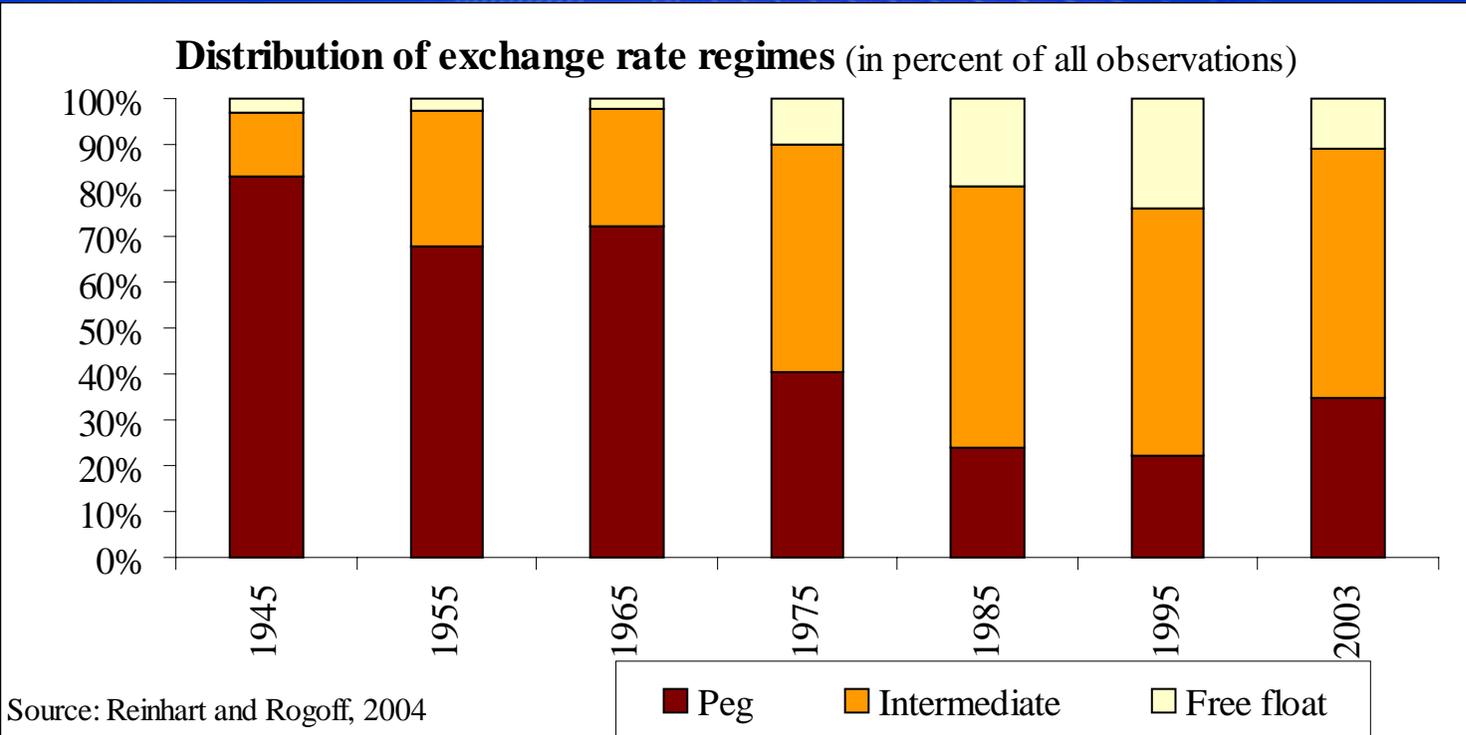
Structure of presentation:

1. Changes in the global economic system
2. Changes in the prevention toolkit
3. Three open issues

# Changes in the global economic system

## 1. From a global system of pegged exchange rates to a (non-?) system with a variety of regimes

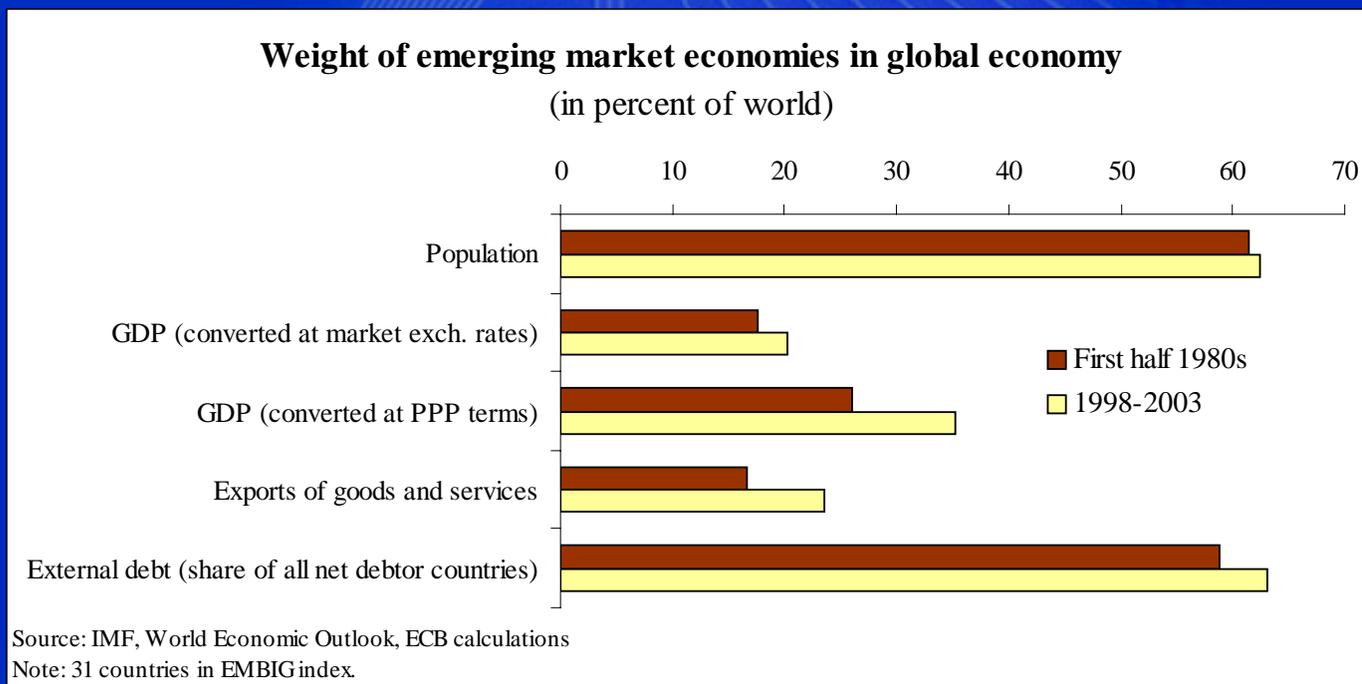
- Initially: Pegged (though adjustable) exchange rates
- Now: Wide dispersion of exchange rate regimes, but no single regime provides immunity to crisis



# Changes in the global economic system

## 2. From a limited “club” to a global institution

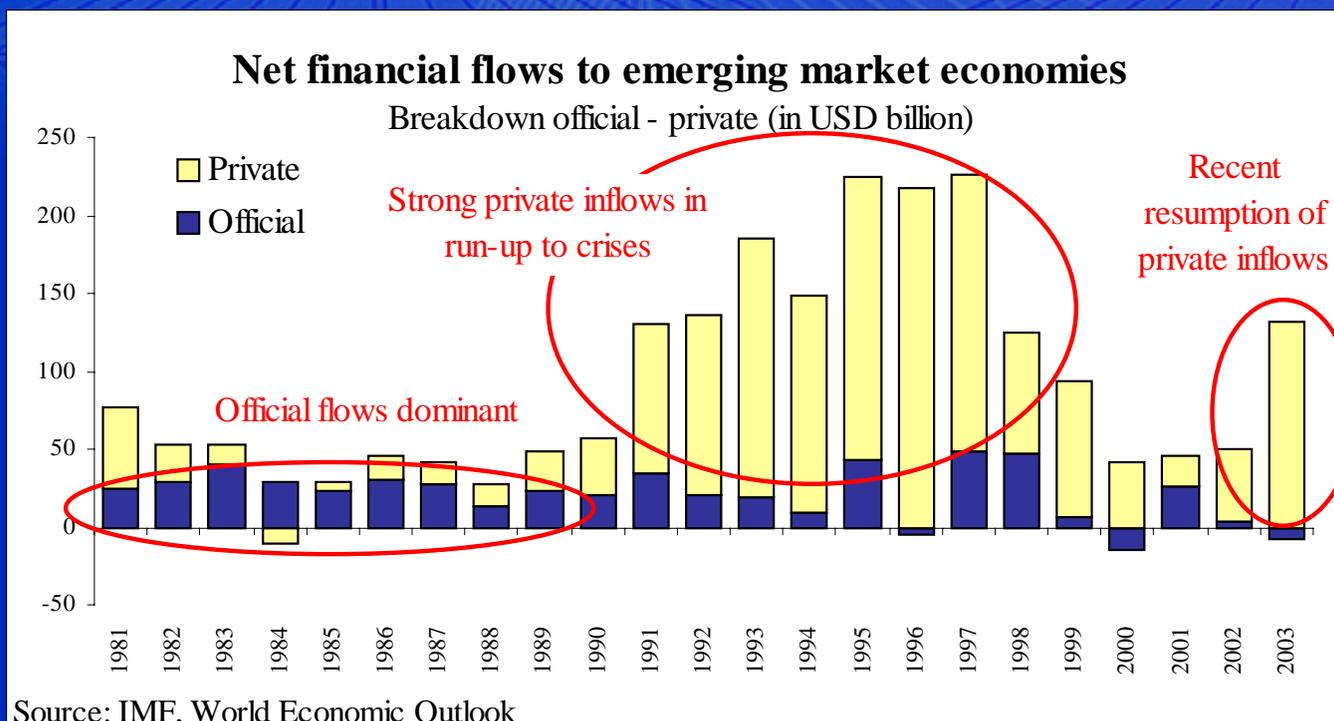
- Initially: Limited membership, mainly industrial countries
- Now:
  - Nearly universal membership: from 29 to 184 members
  - Integration of emerging market economies in global economy (but imperfect integration in global institutional framework?)



# Changes in the global economic system

## 3. From official to private financing

- Initially: Limited financial flows (extensive capital controls)
- Now: Growing importance of private sector on creditor's and debtor's side

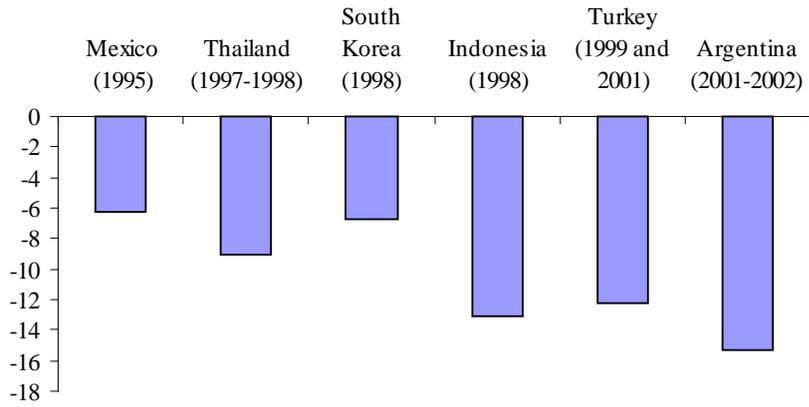


# Changes in the global economic system

## 4. From current account to capital account crises

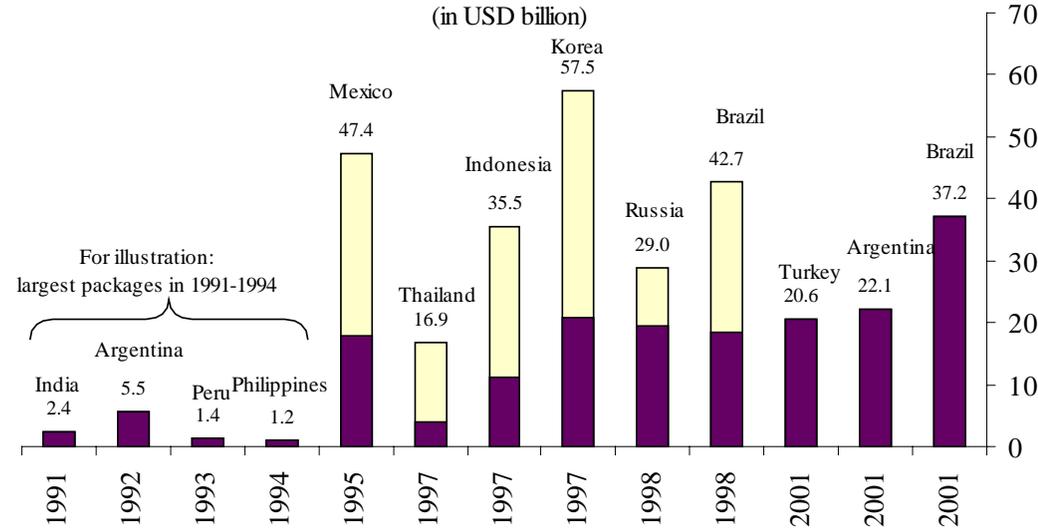
- Initially: Mainly strains on the current account
- Now: Growing incidence of capital account crises
  - higher frequency
  - more complex causes (e.g. balance sheet weaknesses)
  - more complex resolution (private sector involvement)
  - more disruptive economic consequences
  - more protracted (at least in case of official sector debt problems)
  - larger financing needs

**Cumulative output loss in recent crises**  
(in percent)



Source: IMF.

**Size of international rescue packages**  
(in USD billion)



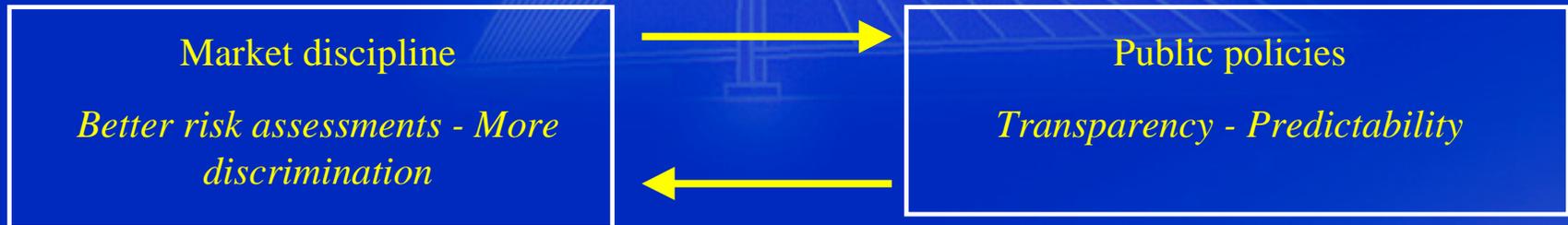
Note: Dark areas = IMF; light areas = other contributors (World Bank, Development Banks, bilateral)

# Changes in the prevention toolkit

## *The response to the growing role of market discipline: Transparency and best practices*

- Initially: Surveillance behind closed doors
- Now: Growing role of the private sector

Markets provide incentives  
for sound policies



Public policies facilitate  
functioning of market discipline

- ✓ Enhanced transparency (e.g. publication IMF reports)
- ✓ Standards and codes approach (e.g. ROSCs)
- ✓ Data dissemination standards
- ✓ Crisis prevention elements of Code of Conduct

# Changes in the prevention toolkit

## *The response to the growing importance of financial systems: Promote financial stability*

- Initially: Quasi-exclusive focus on fiscal, monetary and exchange rate policies
- Now: More specific attention for financial stability

- ✓ IMF's FSAP
- ✓ Basel II
- ✓ In Europe: supervisory co-operation (e.g. MoUs)

# Changes in the prevention toolkit

## *The response to balance sheet problems: More intensive monitoring of balance sheet vulnerabilities*

- Initially: Focus on individual policies/sectors
- Now: More intergrated national balance sheet approach

- ✓ Debt sustainability analyses
- ✓ Early warning systems

## Three open issues

### *Balance transparency - confidentiality?*

- Transparency: promote market discipline
- ...vs confidentiality: promote frank policy discussion

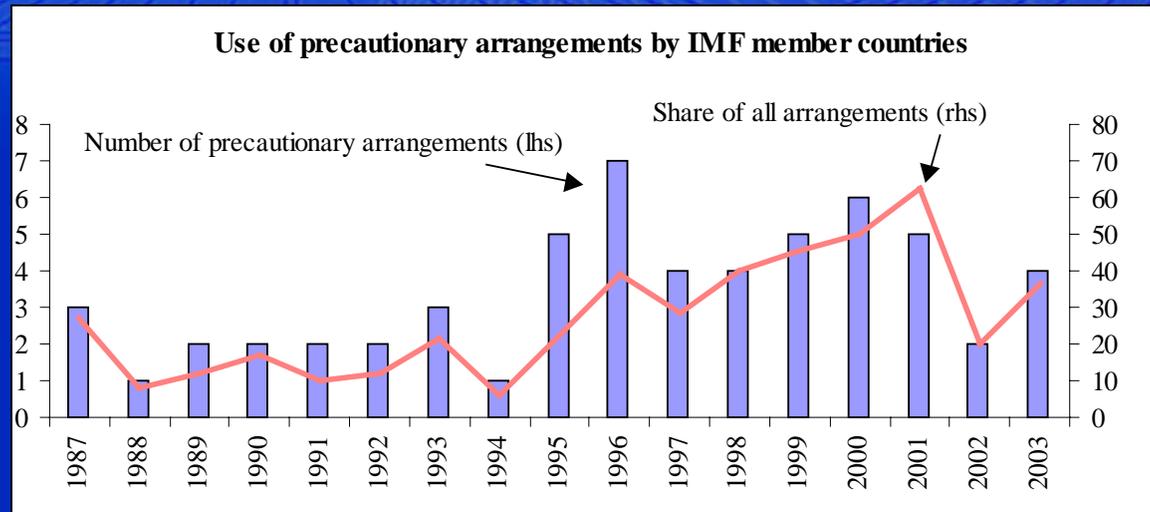
For example:

- Mandatory publication Art. IV reports?
- Mandatory participation in and publication of ROSCs/FSAPs?
- Enhanced information disclosure through creditor committees?

# Three open issues

## *Need for intermediate instruments between surveillance and lending?*

- Discussions on various intermediate instruments:
  - Contingent Credit Lines (CCL) *[abolished in 2003]*
  - Precautionary arrangements *[widely used, upcoming review in July]*

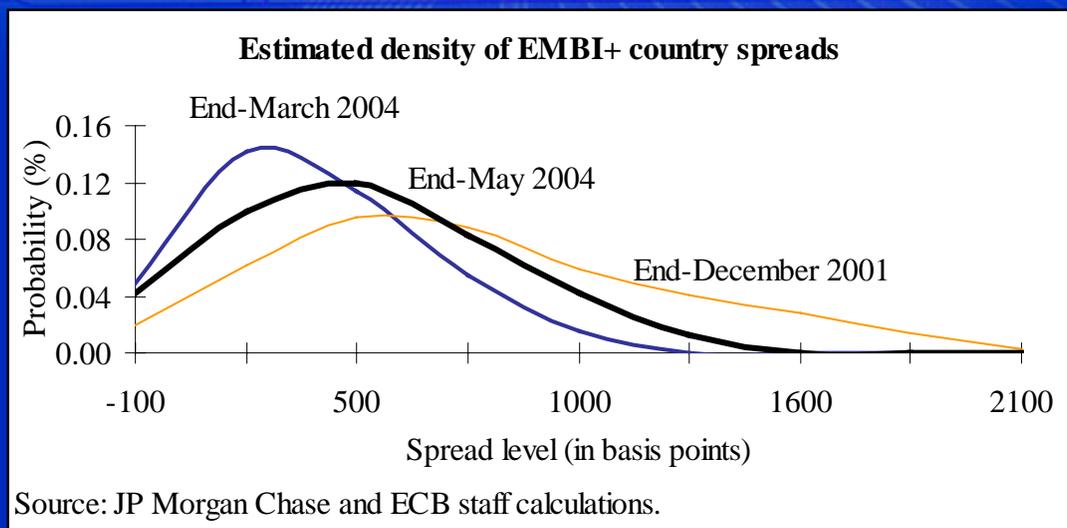


- Non-borrowing facility *[proposed at G7 Sea Island summit, 8-10 June]*
- Should emphasis be on financial insurance or on signalling?

# Three open issues

## *Have various initiatives improved crisis resilience and led to better risk assessment by private creditors?*

- Risk assessments:
  - signs of more limited contagion (e.g. Argentina)
  - spread compression until early-2004, but more discrimination recently



- Resilience to crises: possibly, but only future can tell?

# Conclusions

- Crisis prevention toolkit has largely been adapted to new global economic and financial system...
- ... but some elements are still open...
- ... and tentative signs that the new toolkit has strengthened crisis resilience will have to borne out by future evidence