The recent financial crises in several emerging market economies only confirm that a satisfactory explanation of financial and currency crises remain elusive. The first-generation crisis model pioneered by Krugman is no longer compelling as many of the actual crises seem to lack the crucial fiscal disequilibriums. Similarly, Obstfeld's "second generation" model, while appropriate for the European Rate Mechanism is at odds with the Mexican peso and Asian crisis. This paper reviews the various currency crisis models to understand the conditions under which an economy can become vulnerable to a currency crisis. Specifically, it argues that the Asian crisis can be best understood from the lenses of the evolving third-generation models.

Key words: models of currency crisis, the Asian financial crisis, third-generation models
JEL Classification: F30, F32, F33, F43
ABSTRACT

In determining the maturity structure of bank loans in the presence of pre-determined short-term international liabilities, we show that maturity mismatches in banks’ balance sheets are fully consistent with the assumption of banks acting as self-interested, optimising agents. Although often attributed to the moral hazard associated with safety nets, the analysis shows that financial crises can occur in their absence.

Key words: banks, currency crisis, East Asia, maturity mismatches, moral hazard
JEL Classification: F34, F39, G21
This study argues that the political considerations were an important factor behind the crisis of the Brazilian real in January 1999. The divided coalition government and a president facing impending elections eschewed the correction of external misalignments and the fiscal austerity at a time when the markets were already excited by the 1997-98 East Asian and 1998 Russian financial crises. The hypothesis is established after confirming the vulnerability of Brazilian economy to currency crisis through Masson’s model of multiple equilibria and then it is tested by running a maximum likelihood logit regression.

JEL Classification: F31, F41
After eight years of strong growth of output with stable prices, in 1999 Argentina entered a recession which culminated at the end of 2001 in a deep economic and social crisis. At first sight the crisis was brought about by the fixed exchange rate peso-dollar which had previously stopped inflation and spurred growth. This because the increase in the international value of the dollar between 1995 and 2001, and the depreciation of the Brazilian real in 1999, had a strong negative impact on the competitiveness of Argentine products.

A deeper analysis shows that the lack of competitiveness of Argentina goes back to the early nineties, and that the negative effects of the dollar’s appreciation were to some extent compensated by a substantial reduction in the average prices of Argentina’s products with respect to American ones. One major determinant of the crisis seems to have been the structural excess of public expenditures over revenues, aggravated by very low private savings. Particularly negative were the effects of substantial increases in public sector wages.

Keywords: Argentina, Financial crisis, Sovereign default
JEL Classification: E62, F31, F34
The paper seeks to analyze various contemporary theories in the measurement of real exchange rates and the associated problematics involved in each case particularly for a developing economy. It then focuses on the estimation of real exchange rate for the developing economy of Turkey using the world price index as the basis of measurement. The misalignment of Turkey’s real exchange rate is calculated with reference to the equilibrium real exchange rate. The paper comes to the broad conclusion that for an inordinately long time, Turkey had been suffering from the problem of appreciated real exchange rate, and the trend continues unabated till recent years.

JEL Classification: F31, F41, O24
M.J. HOLMES

THE SUSTAINABILITY OF AFRICAN CURRENT ACCOUNT DEFICITS: A PANEL COINTEGRATION ANALYSIS

ABSTRACT

This study tests for the sustainability of current account deficits for a sample of twenty six African countries. For this purpose, a new test procedure advocated by Pedroni is employed which allows one to test for cointegration between exports and imports in heterogeneous panel datasets. This test uses more observations and exploits the cross-country variations of the data in estimation thereby yielding higher test power than alternative cointegration tests. An additional advantage associated with the Pedroni methodology is that we are able estimate the long-run relationships using fully modified and dynamic ordinary least squares and then test country-specific restrictions for long-run sustainability. Using annual data covering the period 1960-2000, this study finds strong evidence in favour of current account sustainability for eight African countries.

Keywords: LDC, current account, panel data, cointegration
JEL Classification: F3, F4, O0
This paper investigates the behaviour, from October 1999 to May 2001, of spreads on sovereign debt issuance from 15 countries located in Asia, Latin America and Eastern Europe using a homogeneous secondary market database. The research integrates standard Principal Components Analysis procedures with a VAR impulse response investigation. The latter provides information which is instrumental for the economic interpretation of the Principal Components. Convincing evidence is found of spread co-movements, within and across geographical areas, possibly due to cross-market “contagion” phenomena. Latin American and Asiatic spreads seem to be somehow interlinked whereas Eastern European spreads, but for the Turkish one, seem to react to idiosyncratic factors only. Our findings suggest that portfolio managers should take their investment decisions according to both cross-market and cross-(geographical) area diversification rules. At the same time emerging market countries should be aware of the danger of sudden capital outflows due to regional contagion.

Keywords: Yield Spreads, Contagion, PCA, VAR
JEL Classification: F30, F40, G15