and that some might better have been delayed cannot, the study acknowledges, be entirely dismissed. And, indeed, as the programs evolved, the focus on the key financial and corporate issues sharpened. At the same time, the urgency of the crisis and complementarities among different reforms called for many steps to be taken simultaneously. Lasting recovery, the study asserts, hinged on comprehensive structural change. Nevertheless, such concerns may point to a need for further consideration of the appropriate pace and sequencing of reforms.

Preliminary Conclusions

Given that events are still unfolding and programs are still in the process of revision, any conclusions must necessarily be tentative, the report cautions.

Of the three crisis countries, Korea and Thailand have been rather successful in implementing the programs as agreed, whereas in Indonesia, partly because of the severity of the underlying political crisis, the program has repeatedly veered off course and required substantial modification. While this period has been very difficult for all three countries, developments have been much more favorable in the two that have been able to stick with their programs. In Korea and Thailand, the challenge is to persevere with their adjustment and get through the difficult phase where measures have begun to bite but their credibility has not yet been established, into the phase where they can start to reap the benefits. Indonesia faces a more difficult task, due to the need to repair repeated policy slippages and arrest a slide into an increasingly difficult social situation. Its recent progress in this direction, the study notes, has, however, been encouraging.

At this time, there remain risks to all the programs, with regard to both developments within the countries themselves and the external environment. The recession has continued to deepen in these countries, and the success of reforms in tackling structural weaknesses and reestablishing growth on a sustainable basis is still not assured. Global economic developments, including the weakness of the Japanese economy, turbulence in other regions, and the sharp decline in commodity prices also pose risks to the stabilization process and could delay economic recovery. The IMF study concludes, however, that financial market conditions are stabilizing and there are now signs that the recessions in these countries are bottoming out, with some resumption of growth expected in the course of 1999. ■

The text of *IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment*, by Timothy Lane, Atish R. Ghosh, Javier Hamann, Steven Phillips, Marianne Schulze-Ghattas, and Tsidi Tsikata, is available on the IMF's website (www.imf.org).

Press Conference

IMF Finds Design of Policy Recommendations "Broadly Appropriate" in Asian Crisis Review

On January 19, in a videoconference with Asian journalists in Singapore and at a press conference in Washington, Jack Boorman, Director of the IMF's Policy Development and Review Department, summarized the findings of the IMF's first evaluation of the IMF-supported programs in Indonesia, Korea, and Thailand. The following are edited excerpts of his opening remarks and some of the questions asked in the sessions. The full text of both press conferences is available on the IMF's website (www.imf.org).

BOORMAN: In essence, this study says that the IMF's policy recommendations, which Indonesia, Korea, and Thailand have followed to varying degrees, were broadly appropriate in the circumstances, given what was known at the time the programs were formulated and as they have been revised. The paper draws a few basic conclusions:

• Higher interest rates were needed at the outset of these programs to prevent the currencies from going into a worse downward spiral than in fact occurred.

• Tighter budgets appeared to be justified at the outset based on the IMF's—and others'—initial assessment of the prospective depth of the recession. But a loosening in those fiscal policies was seen to be needed as the crisis unfolded. There is surely a question, however, as to whether this loosening of policy should have been implemented somewhat sooner.

• The emphasis on structural policies—financial sector reform, corporate restructuring, and the other key elements—was appropriate.

This crisis differed from so many other cases involving the IMF in that it did not arise from profligate government spending and monetary financing of that spending. The crisis mainly reflected financial fragility in a world where volatile financial markets can move with devastating speed. If emerging problems—as was evident in Thailand, for example—are not dealt with in a timely manner, the room for maneuver shrinks dramatically. Once the period for timely action has passed, the challenge for the countries concerned—and indeed for the IMF and the international community—has to be to find policies that quickly halt the crisis and then promote lasting economic growth.

Stemming a crisis of confidence that is manifested in the collapse in the value of a currency, with the attendant risk of hyperinflation, leaves a government little choice but to take tough monetary policy actions. All

three countries increased interest rates somewhat to make holding the domestic currency more attractive, but in the view of the report, they did not act soon enough or boldly enough to head off a full-blown crisis. All the countries are now, however, seeing the benefit of tightened monetary policy, as the restoration of currency stability allows interest rates to decline. In Korea and Thailand, those interest rates have now declined to precrisis levels. The report concludes that if we were making these decisions again, we would, if anything, call for prompter and more aggressive action along similar lines.

On the fiscal side, a degree of budget tightening was envisaged at the outset of each program, in part to pay for some of the substantial and inevitable costs of reforming the financial sector. This tightening was planned at a time when the IMF, like most other observers, envisioned a comparatively mild slowdown in growth.

The tightening was put into reverse once it became apparent that the recessions these countries faced were going to be deeper than expected and that expansive budget policies would be needed to help cushion the economies as the recessions developed. The message here is twofold. First, there was good reason from the standpoint of halting the slide in confidence to guard against fiscal slippage initially; and second, the extent of the actual tightening of budgets should not be overstated. But the budget targets in the programs were predicated on a view of macroeconomic prospects that turned out, in hindsight, to be mistaken, and the easing of policy could have come more promptly as circumstances changed.

The paper also discusses why original projections were overoptimistic, and here the message is a bit tricky and nuanced. Yes, there were optimistic projections, but they were predicated on the programs' working as planned. This, in turn, depended on forceful implementation and a quick return of investor confidence. These projections did not materialize for several reasons, including a lack of clarity in certain policies, hesitancy on the part of governments in carrying out their own policies, and, importantly, the reaction of financial markets.

The paper gives a lot of attention to structural policies, making the point that a major focus was needed in this area to address the root causes of the problem—notably, the vulnerabilities in the financial and corporate sectors. Structural policies take time to yield results, and it is, in my view, premature to conclude that they have been overambitious or too diffuse. In reviewing the programs, we remain convinced that comprehensive financial and corporate structural reforms were needed at the very center of the programs in these three countries. In addition, social safety nets were strengthened, and indeed in some cases created, to alleviate the human cost of the crisis. The paper highlights the collaboration between the IMF, the World Bank, and the Asian Development Bank in this important area.

Last, let me say a few words on the other document, the summing-up by the Chairman of the Executive Board. This is an attempt to pull together the views expressed by the 24 Executive Directors who represent the IMF's 182 member countries. On the main themes, the Board agreed with the staff's view of the exceptional nature of this crisis and the comprehensive focus of programs, embracing both macroeconomic and structural policies, as well as unprecedentedly large external financing.

Jack Boorman (left) and Shailendra J. Anjaria, Director, IMF External Relations Department, respond to questions at the press conference.

The purpose of this exercise has been to draw on the experience that we and the countries have had to date, to look hard and honestly at the crisis, and to provide outside observers with our own analysis and views. Lessons are emerging, a number of which are being explored in discussions of international financial architecture. Certainly, things can be done to forestall crises, such as increasing the transparency of financial information and improving financial supervision and regulation in all countries. We are also examining ways of promoting greater private sector involvement in forestalling and resolving financial crises and looking at issues regarding the adequacy of official financing.

Question: *The IMF seems to have admitted that it contributed to the bank runs that occurred in Indonesia after the closure of 16 banks in November 1997. How central was this episode to the breakdown of Indonesia's program and the subsequent economic dislocation?*

Boorman: This is one of the most difficult questions of the entire exercise. Let me take it in two parts. First, on the impact of the bank closures on the markets, I'd

encourage you to chart the pattern of the Indonesian rupiah from the middle of 1998 and time the major episodes of weakening with the closure of the 16 banks, the rumors of President Suharto's illness, the announcement of Mr. Habibie as the candidate for vice president, and so forth. The connection between the rupiah's decline and the closure of the 16 banks is relatively modest in the context of the overall decline in the rupiah.

Second, on the closures themselves, this goes to the fundamental issue—why close those banks at that time? It was no secret that there were severe weaknesses in the Indonesian banking system. There was the feeling—on both sides—that a signal had to be given that the authorities were going to come to grips with this problem by closing weak banks. The question on our mind is not so much whether those banks should have been closed, but whether the issue of deposit guarantees was properly dealt with and whether a sufficient number of banks were, in fact, closed.

The handling of the deposit guarantees is an issue that all of us who were involved in the decision agonized about greatly. The initial decision in November 1997 to limit their coverage was influenced by awareness that guarantees or perceived guarantees prior to the crisis lay behind what was at best casual, if not irresponsible, behavior on the part of certain creditors and debtors. In addition to the fact that the guarantees were limited, there were also problems in the way the guarantee was promulgated and explained. It is my impression that the existence of the guarantee was not terribly well publicized. It was not clear the extent to which people had confidence in it; even people who would have been covered by the guarantee were withdrawing their deposits.

Question: *Incredibly high interest rates hurt the whole Korean economy and may be one reason why the recession was deeper than expected. Also, some argue that rescheduling was more important in stabilizing Korea's currency than higher interest rates.*

Boorman: Perhaps the most extensive chapter in the study is devoted to monetary policy, precisely because of the questions you raise. The extent to which, and the time over which, interest rates need to be raised to counter weakening of the currency is as much an art as it is a science. This is what central bankers get paid for—to have this feel of the markets and to understand and be able to work with them to use interest rates to instill confidence. The study examines the experience and use of interest rates by other countries. You'll notice that an overnight rate of 30 percent is by no means exceptionally high in the context of a currency crisis.

As to whether interest rates and monetary policy were used properly, you have to ask two other questions: how tight did monetary conditions become and what contribution did they make to the weakening of the economy? On the first question, the evidence is particularly interesting that monetary conditions did not tighten dramatically—or for very long—either in Korea, in particular, or in Thailand.

On the second question, the report shows you cannot attribute much of the recession to tight monetary conditions. It was a result of many other things, including, in particular, certain dynamically unstable factors like the unhedged foreign currency exposure of corporations, their short-term exposure, and so forth, that weakened the corporate position dramatically.

But there are difficult issues in knowing how to manage monetary policy and interest rate policy in the context of a crisis, one that also stems from a weak financial sector. Good research needs to be done, but the experience here shows that monetary policy did work.

On the rescheduling, the rollover of short-term exposures and the restructuring of those obligations were tremendously important in relieving pressure on the foreign exchange market. But the extent to which one factor or the other contributed to the stabilization of the currency is difficult to tell. In the episodes after the January restructuring when the won came under additional pressure and the authorities used interest rates, the pattern of response suggests the importance of interest rate policy.

Question: *What specific steps should have been taken to avoid the crisis? And how do you plan to improve your growth forecasts?*

Boorman: On the first, it's not simply a matter of specific steps; it is how business is conducted and policy is formulated to prevent crisis. A number of things were done in each of these countries that warranted correction years ago. These countries opened themselves to great vulnerability by accepting short-term capital flows in a way that ultimately proved destabilizing.

The way in which Korea and Thailand opened the capital markets was the issue. Korea permitted its banks to borrow and fund themselves externally with very short-term credits and then onlend those credits on a medium- and long-term basis to Korean corporations. A maturity mismatch resulted. At the same time, foreign investors couldn't get into Korea with long-term money. The bond markets weren't developed, and there were lots of restrictions on the purchase of equity in Korea. The structure made the country tremendously vulnerable to open markets because of the bias toward short-term exposure.

On how to improve growth forecasts, part of the problem relates to the question of assumptions. Do you assume policies are going to be implemented and confidence restored? If so, you're going to have one scenario, but this scenario is at risk if markets do not react as expected. One thing you can do is to build in contingencies more explicitly than is frequently done. For

the program with Mexico, we very explicitly built in different scenarios for oil price developments. The other element is to look in as detailed and careful a fashion as you can at what happens in the neighborhood if things go wrong. Our World Economic Outlook exercise does this to a certain extent, but there are further aspects. For example, an unwinding of the Thai baht can change the competitive position of Malaysia, Indonesia, and similarly situated countries; how can you build that into your growth forecast in a more explicit way than has been done to date?

Question: *Is there more the IMF can do to inform the markets?*

Boorman: The IMF is publishing many more documents, including letters of intent on individual country programs and Public Information Notices, which summarize Board discussions on country developments.

In a world of open markets, programs for emerging market economies with access to capital markets will only work if the capital markets and private investors become convinced that the situation is going to be corrected. How do you convince markets? Well, you can't simply hold up the flag and say the country has an IMF program; therefore, trust us. It requires lots of information so that the markets can assess the programs, policies, and the commitment of the authorities. Also, policymakers need to explain the actions they are taking, as well as why they are taking these actions and what they think the initial results are going to be. They have to admit that the initial results are not always pleasant, while keeping the public focused on the objectives.

Question: *What are the principal mistakes that the IMF made in Asia?*

Boorman: Let me give you a few examples of the kinds of lessons we are learning. I've already alluded to a couple of them. With the wisdom of hindsight, we would have been more insistent on earlier and more aggressive tightening of monetary policy and raising of interest rates. In each of these countries we saw a performance on monetary policy and on interest rates that left the markets confused, after the exchange rates were floated, as to the extent to which the countries were going to defend rates and about what the conduct of monetary policy was going to be.

Another lesson is not to be too optimistic about the initial reaction of markets and of the public to the programs. In many cases, we and the authorities seem to go through a two-try approach. In Mexico, the measures the authorities committed themselves to initially had to be strengthened before markets became convinced the authorities were really coming to grips with their problems. In Thailand, only when the new government came in and Finance Minister Tarrin went public, aggressively talking about the design of the program and the things that needed to be done, did people become convinced that the authorities were going to be able to deal with the situation. In Korea, only after the elections—when Kim Dae Jung, the President-elect, came out forcefully and said these are the right policies, we're going to implement them fully—combined with the restructuring of the commercial bank debt did the course of events turn around.

Other issues include the involvement of the private sector—perhaps the thorniest of the architecture issues. In preventing crises, how can you induce the private sector to behave in a manner that is less likely to create vulnerabilities of the kind that we've seen in these countries? That relates to supervision and regulation in the host country, as well as in creditor countries.

Another lesson is not to be too optimistic about the initial reaction of markets.

It also raises possibilities that are already being experimented with, such as the lines of credit that Argentina and Mexico have with private banks, from which they can draw in the event of difficulties. That's a way for the private sector to provide support to the country in a moment of crisis rather than to be seen as running for the exits and creating further pressure on the country.

There is also the question of how to involve the private sector once a crisis has begun. There are no simple mechanisms; no institution in the world has the authority to force continued private sector participation. We have had a lot of experience over the last couple of years in Korea, Ukraine, and Russia. But a lot of questions remain, including the critical issue of how you reschedule or restructure in a world of securitized debt, where a large portion of the debt is held in bonds. We and the international community are looking at those issues to try to bring about a better situation. ■

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
January 11	3.54	3.45	3.79
January 18	3.48	3.48	3.72

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department