# a financial crisis brought on by volatile capital flows

## A Financial Crisis Brought On By Volatile Capital Flows: A Deep Dive

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Editor: Dr. David Chen, PhD, oversaw the editing and review of this report. Dr. Chen has extensive experience in financial risk management and has held senior positions at several major international banks. His expertise in the complexities of a financial crisis brought on by volatile capital flows makes him ideally suited to ensure the accuracy and clarity of this analysis.

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1. Introduction: The Perilous Dance of Capital Flows

The global financial landscape is characterized by the constant ebb and flow of capital. While these movements can fuel economic growth and development, sudden shifts – often described as volatile capital flows – can trigger devastating consequences, leading to a financial crisis brought on by volatile capital flows. This report examines the mechanisms through which volatile capital flows precipitate financial crises, analyzes historical examples, and explores potential mitigation strategies.

1. Mechanisms of Crisis: How Volatility Breeds Instability

A financial crisis brought on by volatile capital flows can manifest in several ways. Sudden inflows of capital can lead to asset bubbles, inflating prices beyond sustainable levels. When these bubbles burst, often triggered by a shift in investor sentiment or macroeconomic shocks, the resulting correction can wipe out substantial wealth and trigger a financial crisis. Similarly, rapid capital outflows can cause currency depreciations, leading to increased debt burdens for businesses and governments, exacerbating existing vulnerabilities and potentially triggering a debt crisis. The speed and scale of these outflows can make it difficult for policymakers to respond effectively.

Data and Research: Numerous studies, including those published by the IMF and the Bank for International Settlements (BIS), have demonstrated a strong correlation between volatile capital flows and increased financial instability. For example, the 1997-98 Asian Financial Crisis and the 1998 Russian financial crisis are prime examples of a financial crisis brought on by volatile capital flows, demonstrating the devastating consequences of sudden capital flight. Empirical evidence consistently shows that economies with greater dependence on external financing and less developed financial institutions are particularly vulnerable to these shocks.

1. Case Studies: Learning from Past Crises

3.1 The East Asian Financial Crisis (1997-98): This crisis dramatically illustrated the dangers of a financial crisis brought on by volatile capital flows. Rapid capital inflows in the preceding years fueled asset bubbles and excessive borrowing in several East Asian economies. When investor confidence eroded, massive capital outflows ensued, triggering currency depreciations, banking crises, and sharp economic contractions.

3.2 The Argentinian Peso Crisis (2001-02): Argentina experienced a protracted period of capital inflows followed by a sudden reversal, highlighting how a financial crisis brought on by volatile capital flows can be exacerbated by fixed exchange rate regimes. The inability to devalue the peso in the face of declining reserves ultimately led to a sovereign debt default and a deep recession.

3.3 The Global Financial Crisis (2008-09): While the 2008 crisis originated in the US subprime mortgage market, volatile capital flows played a significant role in its global transmission. The interconnectedness of financial markets facilitated the rapid spread of the crisis, with capital fleeing riskier assets and exacerbating financial distress in vulnerable economies.

1. Vulnerability Factors: Identifying at-Risk Economies

Several factors contribute to a country's vulnerability to a financial crisis brought on by volatile capital flows:

High levels of external debt: Economies with substantial foreign currency debt are particularly exposed to currency depreciations.
Weak financial institutions: Poorly regulated and supervised financial sectors are more susceptible to contagion and panic withdrawals.
Fixed exchange rate regimes: Maintaining a fixed exchange rate can deplete foreign reserves during capital outflows, making a crisis more likely.
Lack of macroeconomic stability: High inflation, fiscal deficits, and current account deficits can erode investor confidence and attract volatile capital flows.

Regulatory Gaps: Inadequate supervision and enforcement of financial regulations can amplify the impact of volatile capital flows.

1. Mitigation Strategies: Building Resilience

Addressing the threat of a financial crisis brought on by volatile capital flows requires a multi-pronged approach:

Strengthening macroeconomic fundamentals: Implementing sound fiscal and monetary policies is crucial for building macroeconomic stability and attracting sustainable capital flows.
Developing robust financial institutions: Improving financial regulation, supervision, and corporate governance helps mitigate risks and enhance the resilience of the financial sector.
Adopting flexible exchange rate regimes: Flexible exchange rates can act as a shock absorber during periods of capital volatility.
Implementing prudent debt management strategies: Limiting reliance on short-term foreign currency debt reduces vulnerability to sudden capital outflows.
Utilizing capital controls strategically: In some cases, carefully designed capital controls can help manage the speed and volume of capital flows, although they should be implemented cautiously and transparently.
International cooperation: International cooperation is essential for addressing cross-border financial contagion and fostering global financial stability.

1. Conclusion

A financial crisis brought on by volatile capital flows poses a significant threat to global economic stability. Understanding the mechanisms through which these crises unfold, identifying vulnerable economies, and implementing effective mitigation strategies are crucial for safeguarding against future crises. A collaborative approach involving international organizations, governments, and the private sector is essential to building a more resilient global financial system and preventing future economic devastation stemming from the unpredictable nature of volatile capital flows.

FAQs

1. What is the difference between volatile capital flows and stable capital flows? Stable capital flows are predictable and sustainable, supporting long-term economic growth. Volatile flows are characterized by sudden surges and reversals, creating instability and risk.

1. How can governments predict volatile capital flows? Precise prediction is impossible, but monitoring macroeconomic indicators, investor sentiment, and global economic trends can provide early warning signals.

1. Are capital controls always a bad solution? While capital controls can restrict economic efficiency, they can be a valuable tool in managing extreme volatility, particularly for emerging markets. Careful design and implementation are crucial.

1. What role does the IMF play in mitigating crises? The IMF provides financial assistance, policy advice, and technical expertise to countries facing financial crises.

1. How do volatile capital flows affect ordinary people? Crises caused by these flows can lead to job losses, reduced incomes, and increased poverty.

1. Can technology exacerbate volatile capital flows? Yes, technology has increased the speed and scale of capital movements, making markets more susceptible to rapid shifts in sentiment.

1. What is the role of international cooperation in preventing crises? International collaboration is vital for sharing information, coordinating policy responses, and providing financial support during crises.

1. How can investors protect themselves from volatile capital flows? Diversification, risk management strategies, and understanding market risks are crucial for investors.

1. Are developed economies immune to volatile capital flows? No, even developed economies can be affected, although their generally more robust financial systems provide greater resilience.

Related Articles:

1. "The Asian Financial Crisis: A Case Study in Capital Flow Volatility": This article provides a detailed analysis of the 1997-98 Asian crisis, examining the role of capital flows and the policy responses implemented.

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1. "Debt Sustainability and Capital Flow Volatility: A Cross-Country Analysis": This article examines the relationship between a country's debt levels and its susceptibility to crises triggered by volatile capital flows.

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1. "The Role of Exchange Rate Regimes in Mitigating Capital Flow Shocks": This article analyzes the effectiveness of different exchange rate regimes in absorbing the impact of volatile capital flows.

1. "International Cooperation and the Prevention of Financial Crises": This paper discusses the importance of international cooperation in preventing and managing financial crises caused by volatile capital flows.

1. "Early Warning Systems for Financial Crises: The Role of Capital Flow Data": This article examines how data on capital flows can be used to develop early warning systems for financial crises.

**a financial crisis brought on by volatile capital flows: Capital Flows and Financial Crises** Miles Kahler, 2018-09-05 Capital flows to the developing economies have long displayed a boom-and-bust pattern. Rarely has the cycle turned as abruptly as it did in the 1990s, however: surges in lending were followed by the Mexican peso crisis of 1994-95 and the sudden collapse of currencies in Asia in 1997. This volume maps a new and uncertain financial landscape, one in which volatile private capital flows and fragile banking systems produce sudden reversals of fortune for governments and economies. This environment creates dilemmas for both national policymakers who confront the mixed blessing of capital inflows and the international institutions that manage the recurrent crises.The authors—leading economists and political scientists—examine private capital flows and their consequences in Latin America, Pacific Asia, and East Europe, placing current cycles of lending in historical perspective. National governments have used a variety of strategies to deal with capital-account instability. The authors evaluate those responses, prescribe new alternatives, and consider whether the new circumstances require novel international policies.

**a financial crisis brought on by volatile capital flows: Capital Flows at Risk: Taming the Ebbs and Flows** Mr.R. G Gelos, Lucyna Gornicka, Mr.Robin Koepke, Ms.Ratna Sahay, Ms.Silvia Sgherri, 2019-12-20 The volatility of capital flows to emerging markets continues to pose challenges to policymakers. In this paper, we propose a new framework to answer critical policy questions: What policies and policy frameworks are most effective in dampening sharp capital flow movements in response to global shocks? What are the near- versus medium-term trade-offs of different policies? We tackle these questions using a quantile regression framework to predict the entire future probability distribution of capital flows to emerging markets, based on current domestic structural characteristics, policies, and global financial conditions. This new approach allows policymakers to quantify capital flows risks and evaluate policy tools to mitigate them, thus building the foundation of a risk management framework for capital flows.

**a financial crisis brought on by volatile capital flows: Taming the Tide of Capital Flows** Atish R. Ghosh, Jonathan D. Ostry, Mahvash S. Qureshi, 2018-01-12 A comprehensive examination of policy measures intended to help emerging markets contend with large and volatile capital flows. While always episodic in nature, capital flows to emerging market economies have been especially volatile since the global financial crisis. After peaking at $680 billion in 2007, flows to emerging markets turned negative at the onset of crisis in 2008, then rebounded only to recede again during the U.S. sovereign debt downgrade in 2011. Since then, flows have continued to swing wildly, leaving emerging market policy makers wondering whether they can put in place policies during the inflow phase that will soften the blow when flows subsequently recede. This book offers the first comprehensive treatment of policy measures intended to help emerging markets contend with large and volatile capital flows. The authors, all IMF experts, explain that, in the spirit of liberalization and deregulation in the 1980s and 1990s, many emerging market governments eliminated capital inflow controls along with outflow controls. By 2012, however, capital inflow controls were again acknowledged as legitimate policy tools. Focusing on the macroeconomic and financial-stability risks associated with capital flows, the authors combine theoretical and empirical analysis to consider the interaction between monetary, exchange rate, macroprudential, and capital control policies to mitigate these risks. They examine the effectiveness of various policy tools, discuss the practical considerations and multilateral implications of their use, and provide concrete policy advice for dealing with capital inflows.

**a financial crisis brought on by volatile capital flows:** Managing Volatile Capital Flows: Experiences and Lessons for Sub-Saharan African Frontier Markets Cheikh A. Gueye, Mr.Javier Arze del Granado, Mr.Rodrigo Garcia-Verdu, Mr.Mumtaz Hussain, Mr.B. Jang, Mr.Sebastian Weber, Mr.Juan S Corrales, 2014-03-26 During the past three years the frontier markets of sub-Saharan Africa have received growing amounts of portfolio capital flows, with heightened interest from foreign investors. Compared with foreign direct investment, portfolio capital flows tend to be more volatile, and thus pose challenges for sub-Saharan African frontier markets. This study examines the evolution of capital flows since 2010 and discusses the policies these countries have designed to reduce risks from the inherent volatility of these flows.

**a financial crisis brought on by volatile capital flows: Staff Guidance Note on Macroprudential Policy** International Monetary Fund, 2014-06-11 This note provides guidance to facilitate the staff's advice on macroprudential policy in Fund surveillance. It elaborates on the principles set out in the “Key Aspects of Macroprudential Policy,” taking into account the work of international standard setters as well as the evolving country experience with macroprudential policy. The main note is accompanied by supplements offering Detailed Guidance on Instruments and Considerations for Low Income Countries

**a financial crisis brought on by volatile capital flows: Financial Crises Explanations, Types, and Implications** Mr.Stijn Claessens, Mr.Ayhan Kose, 2013-01-30 This paper reviews the literature on financial crises focusing on three specific aspects. First, what are the main factors explaining financial crises? Since many theories on the sources of financial crises highlight the importance of sharp fluctuations in asset and credit markets, the paper briefly reviews theoretical and empirical studies on developments in these markets around financial crises. Second, what are the major types of financial crises? The paper focuses on the main theoretical and empirical explanations of four types of financial crises—currency crises, sudden stops, debt crises, and banking crises—and presents a survey of the literature that attempts to identify these episodes. Third, what are the real and financial sector implications of crises? The paper briefly reviews the short- and medium-run implications of crises for the real economy and financial sector. It concludes with a summary of the main lessons from the literature and future research directions.

**a financial crisis brought on by volatile capital flows: Managing Capital Flows** Masahiro Kawai, Mario B. Lamberte, 2010-01-01 Managing Capital Flows provides analyses that can help policymakers develop a framework for managing capital flows that is consistent with prudent macroeconomic and financial sector stability. While capital inflows can provide emerging market economies with invaluable benefits in pursuing economic development and growth, they can also pose serious policy challenges for macroeconomic management and financial sector supervision. The expert contributors cover a wide range of issues related to managing capital flows and analyze the experience of emerging Asian economies in dealing with surges in capital inflows. They also discuss possible policy measures to manage capital flows while remaining consistent with the goals of macroeconomic and financial sector stability. Building on this analysis, the book presents options for workable national policies and regional policy cooperation, particularly in exchange rate management. Containing chapters that bring in international experiences relevant to Asia and other emerging market economies, this insightful book will appeal to policymakers in governments and financial institutions, as well as public and private finance experts. It will also be of great interest to advanced students and academic researchers in finance.

**a financial crisis brought on by volatile capital flows:** *Key Aspects of Macroprudential Policy - Background Paper* International Monetary Fund. Fiscal Affairs Dept., International Monetary Fund. Monetary and Capital Markets Department, 2013-10-06 The countercyclical capital buffer (CCB) was proposed by the Basel committee to increase the resilience of the banking sector to negative shocks. The interactions between banking sector losses and the real economy highlight the importance of building a capital buffer in periods when systemic risks are rising. Basel III introduces a framework for a time-varying capital buffer on top of the minimum capital requirement and another time-invariant buffer (the conservation buffer). The CCB aims to make banks more resilient against imbalances in credit markets and thereby enhance medium-term prospects of the economy—in good times when system-wide risks are growing, the regulators could impose the CCB which would help the banks to withstand losses in bad times.

**a financial crisis brought on by volatile capital flows:** *Policy Responses to Capital Flows in Emerging Markets* Mahmood Pradhan, Mr.Ravi Balakrishnan, Reza Baqir, Mr.Geoffrey Heenan, Sylwia Nowak, Ceyda Oner, Mr.Sanjaya Panth, 2011-04-20 Staff Discussion Notes showcase the latest policy-related analysis and research being developed by individual IMF staff and are published to elicit comment and to further debate. These papers are generally brief and written in nontechnical language, and so are aimed at a broad audience interested in economic policy issues. This Web-only series replaced Staff Position Notes in January 2011.

**a financial crisis brought on by volatile capital flows: World Economic Outlook, October 2013** International Monetary Fund. Research Dept., 2013-10-08 Global growth is in low gear, and the drivers of activity are changing. These dynamics raise new policy challenges. Advanced economies are growing again but must continue financial sector repair, pursue fiscal consolidation, and spur job growth. Emerging market economies face the dual challenges of slowing growth and tighter global financial conditions. This issue of the World Economic Outlook examines the potential spillovers from these transitions and the appropriate policy responses. Chapter 3 explores how output comovements are influenced by policy and financial shocks, growth surprises, and other linkages. Chapter 4 assesses why certain emerging market economies were able to avoid the classical boom-and-bust cycle in the face of volatile capital flows during the global financial crisis.

**a financial crisis brought on by volatile capital flows: Gross Private Capital Flows to Emerging Markets** Erlend Nier, Tahsin Saadi Sedik, Tomas Mondino, 2014-10-27 This paper assesses empirically the key drivers of private capital flows to a large sample of emerging market economies in the last decade. It analyzes the effect of the global financial cycle, measured by the VIX, on capital flows and investigates the role of fundamentals and country characteristics in mitigating or amplifying its effect. Using interaction models, we find the effect of the VIX to be non-linear. For low levels of the VIX, capital flows are driven by fundamental factors. During periods of stress, the VIX becomes the dominant driver of capital flows while other determinants, with the exception of interest rate differentials, lose statistical significance. Our results also suggest that the effect of global financial conditions on gross private capital flows increases with the host country's level of financial sector development. Finally, our results imply that countries cannot fully insulate themselves from global financial shocks, unless creating a fragmented global financial system.

**a financial crisis brought on by volatile capital flows: In the Wake of the Crisis** Olivier Blanchard, David Romer, Michael Spence, Joseph E. Stiglitz, 2014-08-29 Prominent economists reconsider the fundamentals of economic policy for a post-crisis world. In 2011, the International Monetary Fund invited prominent economists and economic policymakers to consider the brave new world of the post-crisis global economy. The result is a book that captures the state of macroeconomic thinking at a transformational moment. The crisis and the weak recovery that has followed raise fundamental questions concerning macroeconomics and economic policy. These top economists discuss future directions for monetary policy, fiscal policy, financial regulation, capital-account management, growth strategies, the international monetary system, and the economic models that should underpin thinking about critical policy choices. Contributors Olivier Blanchard, Ricardo Caballero, Charles Collyns, Arminio Fraga, Már Guðmundsson, Sri Mulyani Indrawati, Otmar Issing, Olivier Jeanne, Rakesh Mohan, Maurice Obstfeld, José Antonio Ocampo, Guillermo Ortiz, Y. V. Reddy, Dani Rodrik, David Romer, Paul Romer, Andrew Sheng, Hyun Song Shin, Parthasarathi Shome, Robert Solow, Michael Spence, Joseph Stiglitz, Adair Turner

**a financial crisis brought on by volatile capital flows:** *Ruling Capital* Kevin P. Gallagher, 2015-02-10 In Ruling Capital, Kevin P. Gallagher demonstrates how several emerging market and developing countries (EMDs) managed to reregulate cross-border financial flows in the wake of the global financial crisis, despite the political and economic difficulty of doing so at the national level. Gallagher also shows that some EMDs, particularly the BRICS coalition, were able to maintain or expand their sovereignty to regulate cross-border finance under global economic governance institutions. Gallagher combines econometric analysis with in-depth interviews with officials and interest groups in select emerging markets and policymakers at the International Monetary Fund, the World Trade Organization, and the G-20 to explain key characteristics of the global economy. Gallagher develops a theory of countervailing monetary power that shows how emerging markets can counter domestic and international opposition to the regulation of cross-border finance. Although many countries were able to exert countervailing monetary power in the wake of the crisis, such power was not sufficient to stem the magnitude of unstable financial flows that continue to plague the world economy. Drawing on this theory, Gallagher outlines the significant opportunities and obstacles to regulating cross-border finance in the twenty-first century.

**a financial crisis brought on by volatile capital flows: Curbing the Boom-Bust Cycle: Stabilizing Capital Flows to Emerging Markets** Williamson, John, 2005

**a financial crisis brought on by volatile capital flows:** Global Waves of Debt M. Ayhan Kose, Peter Nagle, Franziska Ohnsorge, Naotaka Sugawara, 2021-03-03 The global economy has experienced four waves of rapid debt accumulation over the past 50 years. The first three debt waves ended with financial crises in many emerging market and developing economies. During the current wave, which started in 2010, the increase in debt in these economies has already been larger, faster, and broader-based than in the previous three waves. Current low interest rates mitigate some of the risks associated with high debt. However, emerging market and developing economies are also confronted by weak growth prospects, mounting vulnerabilities, and elevated global risks. A menu of policy options is available to reduce the likelihood that the current debt wave will end in crisis and, if crises do take place, will alleviate their impact.

**a financial crisis brought on by volatile capital flows:** *Capital Account Liberalization* Mr.Giovanni Dell'Ariccia, Ms.Enrica Detragiache, Mr.Michael Mussa, Mr.Barry J. Eichengreen, 1998-09-30 Capital account liberalization - orderly, properly sequence, and befitting the individual circumstances of countries- is an inevitable step for all countries wishing to realize the benefits of the globalized economy. This paper reviews the theories behind capital account liberalization and examines the dangers associated with free capital flows. The authors conclude that the dangers can be limited through a combination of sound macroeconomic and prudential policies.

**a financial crisis brought on by volatile capital flows:** *Fear of Appreciation* Eduardo Levy-Yeyati, 2007 Abstract: In recent years the term fear of floating has been used to describe exchange rate regimes that, while officially flexible, in practice intervene heavily to avoid sudden or large depreciations. However, the data reveals that in most cases (and increasingly so in the 2000s) intervention has been aimed at limiting appreciations rather than depreciations, often motivated by the neo-mercantilist view of a depreciated real exchange rate as protection for domestic industries. As a first step to address the broader question of whether this view delivers on its promise, the authors examine whether this fear of appreciation has a positive impact on growth performance in developing economies. The authors show that depreciated exchange rates appear to induce higher growth, but that the effect, rather than through import substitution or export booms as argued by the mercantilist view, works largely through the deepening of domestic savings and capital accumulation.

**a financial crisis brought on by volatile capital flows:** *Financial Crises* Mr.Stijn Claessens, Mr.Ayhan Kose, Mr.Luc Laeven, Mr.Fabian Valencia, 2014-02-19 The lingering effects of the economic crisis are still visible—this shows a clear need to improve our understanding of financial crises. This book surveys a wide range of crises, including banking, balance of payments, and sovereign debt crises. It begins with an overview of the various types of crises and introduces a comprehensive database of crises. Broad lessons on crisis prevention and management, as well as the short-term economic effects of crises, recessions, and recoveries, are discussed.

**a financial crisis brought on by volatile capital flows:** *Increasing Resilience to Large and Volatile Capital Flows—The Role of Macroprudential Policies* International Monetary Fund. Strategy, Policy, & Review Department, International Monetary Fund. Legal Dept., International Monetary Fund. Monetary and Capital Markets Department, 2017-05-07 Capital flows can deliver substantial benefits for countries, but also have the potential to contribute to a buildup of systemic financial risk. Benefits, such as enhanced investment and consumption smoothing, tend to be greater for countries whose financial and institutional development enables them to intermediate capital flows safely. Post-crisis reforms, including the development of macroprudential policies (MPPs), are helping to strengthen the resilience of financial systems including to shocks from capital flows. The Basel III process has improved the quality and level of capital, reduced leverage, and increased liquid asset holdings in financial systems. Drawing on and complementing such international reforms at the national level, robust macroprudential policy frameworks focused on mitigating systemic risk can improve the capacity of a financial system to safely intermediate cross-border flows. Macroprudential frameworks can play an important role over the capital flow cycle, and help members harness the benefits of capital flows. Introducing macroprudential measures (MPMs) preemptively can increase the resilience of the financial system to aggregate shocks, including those arising from capital inflows, and can contain the build-up of systemic vulnerabilities over time, even when such measures are not designed to limit capital flows. While the risks from capital outflows should be handled primarily by macroeconomic policies, a relaxation of MPMs may assist, as long as buffers are in place, in countering financial stresses from outflows. Capital flow liberalization should be supported by broad efforts to strengthen prudential regulation and supervision, including macroprudential policy frameworks. The Fund has two frameworks to help ensure that its advice on MPPs and policies related to capital flows is consistent and tailored to country circumstances. The frameworks (the Macroprudential framework and the Institutional View on capital flows) are consistent in terms of key principles, including avoiding using MPMs and capital flow management measures (CFMs) as a substitute for necessary macroeconomic adjustment. The appropriate classification of measures is important to ensure targeted advice consistent with the two frameworks. The conceptual framework for the assessment of measures laid out in this paper will assist staff in properly identifying MPMs and measures that are designed to limit capital flows and to reduce systemic financial risk stemming from such flows (CFM/MPMs), and thereby ensure the appropriate application of the Fund’s frameworks, so that staff policy advice is consistent and well targeted. The Fund will continue to develop and share expertise in using MPMs, and integrate these findings into its surveillance and technical assistance, which should contribute to building international understanding and experience on these issues.

**a financial crisis brought on by volatile capital flows: Dance of the Trillions** David Lubin, 2018-08-14 In Dance of the Trillions, David Lubin tells the story of what makes money flow from high-income countries to lower-income ones; what makes it flow out again; and how developing countries have sought protection against the volatility of international capital flows. The book traces an arc from the 1970s, when developing countries first gained access to international financial markets, to the present day. Underlying this story is a discussion of how the relationship between developing countries and global finance appears to be moving from one governed by the “Washington Consensus” to one more likely to be shaped by Beijing.

**a financial crisis brought on by volatile capital flows: Protecting Against Volatile Capital Flows** , 1998-11 This publication is a result of a meeting in Mauritius in 1997, where, at the Commonwealth Finance Ministers' request, an Expert Group was convened by the Secretary-General to recommend measures to protect countries from the destabilising effects of volatile capital flows. The Expert Group, chaired by Mr Chris Liebenberg, met in London in 1998. Protecting Against Volatile Capital Flows summarises the Expert Group's conclusions and recommendations, including the six main lessons to be drawn from the East Asian crisis and how to reduce the probability of future crises, in terms of strengthening the surveillance of domestic financial systems in all countries, creating social safety nets, and encouraging regulatory measures. The detailed Report which was the basis for the Expert Group's discussions can be found in the Annex.

**a financial crisis brought on by volatile capital flows:** Capital Flows and the Emerging Economies Sebastian Edwards, 2008-04-15 The 1990s witnessed several acute currency crises among developing nations that invariably spread to other nearby at-risk countries. These episodes—in Mexico, Thailand, South Korea, Russia, and Brazil—were all exacerbated by speculative foreign investments and high-volume movements of capital in and out of those countries. Insufficient domestic controls and a sluggish international response further undermined these economies, as well as the credibility of external oversight agencies like the International Monetary Fund. This timely volume examines the correlation between volatile capital mobility, currency instability, and the threat of regional contagion, focusing particular attention on the emergent economies of Latin America, Southeast Asia, and Eastern Europe. Together these studies offer a new understanding of the empirical relationship between capital flows, international trade, and economic performance, and also afford key insights into realms of major policy concern.

**a financial crisis brought on by volatile capital flows: The Financial Crisis Inquiry Report** Financial Crisis Inquiry Commission, 2011-05-01 The Financial Crisis Inquiry Report, published by the U.S. Government and the Financial Crisis Inquiry Commission in early 2011, is the official government report on the United States financial collapse and the review of major financial institutions that bankrupted and failed, or would have without help from the government. The commission and the report were implemented after Congress passed an act in 2009 to review and prevent fraudulent activity. The report details, among other things, the periods before, during, and after the crisis, what led up to it, and analyses of subprime mortgage lending, credit expansion and banking policies, the collapse of companies like Fannie Mae and Freddie Mac, and the federal bailouts of Lehman and AIG. It also discusses the aftermath of the fallout and our current state. This report should be of interest to anyone concerned about the financial situation in the U.S. and around the world.THE FINANCIAL CRISIS INQUIRY COMMISSION is an independent, bi-partisan, government-appointed panel of 10 people that was created to examine the causes, domestic and global, of the current financial and economic crisis in the United States. It was established as part of the Fraud Enforcement and Recovery Act of 2009. The commission consisted of private citizens with expertise in economics and finance, banking, housing, market regulation, and consumer protection. They examined and reported on the collapse of major financial institutions that failed or would have failed if not for exceptional assistance from the government.News Dissector DANNY SCHECHTER is a journalist, blogger and filmmaker. He has been reporting on economic crises since the 1980's when he was with ABC News. His film In Debt We Trust warned of the economic meltdown in 2006. He has since written three books on the subject including Plunder: Investigating Our Economic Calamity (Cosimo Books, 2008), and The Crime Of Our Time: Why Wall Street Is Not Too Big to Jail (Disinfo Books, 2011), a companion to his latest film Plunder The Crime Of Our Time. He can be reached online at www.newsdissector.com.

**a financial crisis brought on by volatile capital flows: Capital Flows to Central and Eastern Europe and the Former Soviet Union** Stijn Claessens, 2016 Foreign direct investment and, more recently, short-term debt and portfolio flows have become important parts of private capital flows to Central and Eastern Europe and the former Soviet Union. Private flows have increased in response to reform efforts, the buildup of reserves, and prospective membership in the European Union. Private capital flows to Central and Eastern Europe and the former Soviet Union have taken off in recent years. Foreign direct investment was the most important such flow from 1991-97, but since 1993 short-term debt and portfolio flows have also been important. The increase in these potentially more volatile short-term flows raises some questions about sustainability and vulnerability. Perhaps more than in other developing countries, reform efforts appear to be the most important determinant of private flows to the region. Private flows also have responded positively to the buildup of reserves (a proxy for improvements in perceived creditworthiness) and to prospective membership in the European Union (reflecting greater economic integration with the West and a greater commitment to reform). Official flows have been associated with the financing of fiscal deficits and appear to have led, rather than followed, countries' reform efforts. This paper - a joint product of the Economic Policy Division, Poverty Reducation and Economic Management Network; and the Poverty Reduction and Economic Management Sector Unit, Europe and Central Asia Region - was prepared for the National Bureau for Economic Research study, Capital Flows to Emerging Markets, organized by Sebastian Edwards. The authors may be contacted at cclaessens@worldbank.org or rpolastri@worldbank.org.

**a financial crisis brought on by volatile capital flows: Financing Africa** Samuel Munzele Maimbo, Issa Faye, Thouraya Triki, 2011-09-07 Financing Africa takes stock of Africa's financial systems in light of recent changes in the global financial system --including the greater risk aversion of international investors, a shift in economic and financial powers towards emerging markets and the regulatory reform debate - and the increasing role of technology. Using a wider and more detailed array of data than previous publications, we observe a trend towards financial deepening, more stability and more inclusion leading up to the crisis; serious challenges, however, continue, including limited access to financial services, focus on short-term contracts and hidden fragility, related to weak regulatory frameworks, undue government interference and governance deficiencies. Our policy analysis therefore focuses on (i) expanding outreach, (ii) fostering long-term finance and (iii) improving regulation and supervision. We identify the positive role of innovation and competition, a stronger focus on non-traditional financial service providers, and more emphasis on demand-side constraints as priority areas for policy actions. Specifically, competition from new players outside the banking system, including telecomm companies can increase outreach with technological innovation that changes the economics of retail finance. Moving beyond national stock exchanges that are not sustainable in most African countries towards regional solutions and over-the-counter trades can help foster long-term finance, as can addressing governance challenges in contractual savings institutions, including life insurance companies and pension funds. Finally, there is a need to look beyond supply-side constraints towards users of financial services, focusing more on financial literacy of households and firms, but also consumer protection. In formulating policy messages, we carefully distinguish between different country groupings, differentiating -- among others -- between low- and middle-income and small and larger economies, with a special focus on resource-based economies and post-conflict countries. This book reaches out to both policy makers concerned about a more inclusive and effective financial system and other stakeholders, including practitioners and development partners. With this book we aim to contribute to the on-going financial sector debate on Africa, with the ultimate goal of faster economic development and poverty reduction.

**a financial crisis brought on by volatile capital flows:** International Capital Flows Martin Feldstein, 2007-12-01 Recent changes in technology, along with the opening up of many regions previously closed to investment, have led to explosive growth in the international movement of capital. Flows from foreign direct investment and debt and equity financing can bring countries substantial gains by augmenting local savings and by improving technology and incentives. Investing companies acquire market access, lower cost inputs, and opportunities for profitable introductions of production methods in the countries where they invest. But, as was underscored recently by the economic and financial crises in several Asian countries, capital flows can also bring risks. Although there is no simple explanation of the currency crisis in Asia, it is clear that fixed exchange rates and chronic deficits increased the likelihood of a breakdown. Similarly, during the 1970s, the United States and other industrial countries loaned OPEC surpluses to borrowers in Latin America. But when the U.S. Federal Reserve raised interest rates to control soaring inflation, the result was a widespread debt moratorium in Latin America as many countries throughout the region struggled to pay the high interest on their foreign loans. International Capital Flows contains recent work by eminent scholars and practitioners on the experience of capital flows to Latin America, Asia, and eastern Europe. These papers discuss the role of banks, equity markets, and foreign direct investment in international capital flows, and the risks that investors and others face with these transactions. By focusing on capital flows' productivity and determinants, and the policy issues they raise, this collection is a valuable resource for economists, policymakers, and financial market participants.

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