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The Role of Capital, Liquidity and Credit Growth in Financial Crises in Latin America and East Asia

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e cons r c d se of n c p deq cy nd q d y o es he r re ons ps o cr ses n As nd L n A er c E en s d es, og nd OC es ons s gges hese r es re e e d ng nd c ors of cr ses hey c n e sed o pro e E r y rn ng ys e des gn ho g here re r de offs e een ode s p c y, c p es ess on or ng cos s nd co p e y c y pro pr p r o

n rod c on

ecen y, o f nd en s of n ng oper ons e rece ed despre d en on fro reg ors nd r e s c p nd q d y Aggreg ed croecono c n deq c es n ese o r es gener ed sys e c f n nc ns y c ed o e os cos y nd g o sed cr s s nce e re Depress on C essens e

Ano o s y, fe s d es e e ned e d rec p c of c p deq cy nd q d y on n ng cr s s pro es nd cer n y none, o o r no edge, on L n A er c n nd As n n ng sys e s nce g er n ern on s nd rds n ese r es re d oc ed y reg ors, ere s o d e e s r e red c on n n ng cr s s pro es cross reg ons, nc d ng n e erg ng r e s , o s, s r c er c p nd q d y req re en s y cred pro s on nd c se ore d s n er ed on n so e reg ons co p red o o ers

e n ng cr s s er re o d e gener es d fferen nd of en conf c ng conc s ons so e of c e een sed o nderp n po cy ers c nges o e s ng reg ons n r es c s d es re y on d erse r nges of cross sec ons, e per ods, r es nd es ors nd ye , ern e ode s re no ro ne y co p red n ny sys e c y f c ors s c s e ype of es or, e nfor on con en of co pe ng nd c ors nd e forec s ng e of ode s e e n ng on reg ors c s s r c er c p nd q d y s nd rds re necess ry o red ce f re sys e c f res

s p per ddresses so e of ese def c enc es n e er re y foc s ng on e ro e of c p nd q d y spec f c y n L n A er c nd As , e e p ns ng y co ec ed c p deq cy d for s p e of n ng sys e s co er ng As pre n ry ssess en of ese ne ser es nd s nd rd cr s s de er n n s e se n e en s dy ppro c c den f es r es e e s gn f c n y d fferen y d r ng per ods of ns y nd r nq y

C p nd q d y re en n rod ced n og fr e or ongs de s nd rd n ng cr s s de er n n s o see f s B se ss es, e er c p nd q d y pos ons red ce cr s s pro es n ese reg ons , e f nd c p nd q d y do g e cr ses on y n poo ed s p e s nce e re e por nce of e c d ffers e een

As n cr ses ere preceded y nce of p y en s pro e s n

Section 2: Capital, Liquidity and the Asian and Latin American Crises

n his sec ion e re e he re ions hips be een c pi , iq idi y nd b n ing cri ses O r re ining r b es h e been e ensi e y di sc ssed in he e n i er re s ch s De irg c n nd De r gi c he , D i s nd r , B rre e nd D i s, r nd L dze e hen o ine he e en s of he Asi n nd L in A eri c n cri ses before rni ng o di sc ssi ons of o r d nd e hodo ogi es in he s bseq en sec ion

he o e of C pi in is ed c ion

A i s os b sic e e he r ion e for c pi b ffers i s in i e nd no ni q e o b n ing fir s by e r r ing por ion of f nds c pi o co er de eri or ions on he sse si de of he b nce shee , fir c n red ce i s inso ency r es o e er desi gni ng pr c ic r es o r ns e his in o op i c pi r ios is no s in i e for reg ors ince heory s gges s c pi i be ri s red ci ng on y nder speci fi c condi ions hi ch re no e si y e ec b e s reg ory r es, he f benefi s y no be obser ed in pr c ice As e i di sc ss, his di ergence be een heory nd re i y i ffec he e pi ri c re ionshi p be een c pi nd cri si s ri s

here re o ypes of heore ic s di es h foc s on b n c pi , por fo io b sed ppro ches nd ode s h foc s on he speci fi c re ionshi ps be een b n ing fir s, deposi ors nd borro ers Bo h ppro ches re reconci b e in h hey s gges c pi i ig e b n s sys e i c ri s e pos res b by o ing for de i ber e ri s ing by b n n gers hey predi c i i ed benefi ci effec s

nd rd por fo io heory s gges s h por fo io consi s ing of s ffi ci en y rge n bers of ncorre ed sse re rns i req ire no c pi b ffers d e o perfec di ersi fi c ion n re i y b n por fo ios i be i perfec y di ersi fi ed nd h s con in eno gh sys e i c nd idi osyncr i c ri s o s i fy he need for c pi b ffers si ng he er ino ogy of Frei s nd oc he e c n defi ne he reg ors prob e he ob ec i e i s o se desi red b n so ency prob bi i y nd hen deri e he ppropri e c pi r io hi ch h nges on he b n s sse e pos res nd hei r corre ions

Le be he prob bi i y of so ency so h 1 i s he f i re r e E ch b n i h e e pos res o credi or nd hi s e pos re i s s b ec o s och s ic oss per do r of e pos re defi ned s Le be he ggreg e oss on por fo io of sse s he o oss on he por fo io i s hen gi en by

$$\sum \qquad 1$$

o oi d b n r pcy, s ffi ci en c pi s be he d s ch h does no occ r n er s of reg ory c pi r ios , hi s inso ency condi ion c n be re e pressed s

$$\overline{\sum} \qquad \overline{\sum} \qquad 2$$

ʰe reg or c n no se s cʰ ʰ

1 3

As ordy s gges s, b n por fo ros of cons er o ns y be gr n ed eno gʰ o
d ers fy y cons der b e o n s of d osyncr c r s b bec se borro er n bers r ed ʰ r

once ed y depos ns r nce e s s, oc he s o s r s sed c p r es c nno e n e or z rd ence s c p heore c y red ces cr s s r s n pr c ce s effec e s ec o he pr c ces of he n ng sys e nd he ns on fr e or oper es nder ence he e pec ed neg e re ons p e een c p deq cy nd cr s s pro y y no ys o d e p r c y

L q d y s nd B n ng Cr ses

L q d y s por n for n s y fro o perspec es he f nd ng s de nd he r e s ssess en of n s sse q y he o c nne s re s rong y n ed n de er or ons of sse pr ces c n co pro se n s y o r se f nds n he r e A he s e e, ccep nce of s q d y r s s n n eren p r of n s c es s q e sse r nsfor ers n he process of pro d ng q d y ns r nce o depos ors

n he se n p pers of Bry n nd D ond nd Dy g n s re ode ed s q d y ns r nce pro ders Ass ng depos ors re r s erse, n s re r s ne r nd n he f ce of po en q d y s oc s, he P re o op oc on of endo en occ rs hen depos ors oc e f nds o n s nder fr c on reser e sys e s o co e do n es r y nd ond r e oc ons res s n n eren y ns e s on s nce n s s n es n q d pro ec s s n n ng so ency nder he ss p on n n ggreg e, hdr s s sfy no n pro y y he e hood of q d y s oc ' o e er, f p en depos or n c p es o her depos ors hdr s he s so forced n he sence of q d y s oc s o hdr , s nce e r y q d on of q d pro ec s e ns n s sse es re ess n n s y es

hdr of f nds d e o c of co ord n on ongs depos ors e ds o n neff c en oc on, n r ns c re ssoc ed sys e c n ng cr ses De rg c n nd De r g c he, nd s rong y dependen on e pec ons s er c nne cre es

Ne er he ess , s re son e o ss e here n d d en er he s , o d e een sys e c y , por n n he oo g o f sense nd s s c p r o o d e corre ed n he he of he f n nc sys e ence ho g o r c p d y no con n he r nce ssoc ed n p r c r n ng sys e , s ho d e ro d y represen e of s c p so ndness F de s of he n co er ge for e c co n ry re g en n he d ppend

Fro on rds, e re er o he MF s o F n nc y epor s o o n c p deq cy r os for he en re n ng sys e L e he B n er, hese d re r s e g ed ccord ng o B reg ory req re en s he f n

de cr ses here ha e been re ve y fe e en s d es on n ng cr ses, o r nch s nd
Ob s fe d be ng recen e cep on

here Y, is he n ng cr s s d y for co n ry e , β is he ec or of coeff c en s, X, is he ec or of e p n ory r es nd F β X, is he c e og s c d s r on he og e hood f nc on h c h s sed o o n c p r e er es es s g en y

$$Log_e\ L = \sum_{i=}^{n} \sum_{t=}^{T} \left[\left(Y_{it}\ \ og_e\ F\left(\beta\ X_{it}\right)\right) + \left(\ - Y_{it}\right)\ og_e\left(\ - F\left(\beta\ X_{it}\right)\right)\right]$$

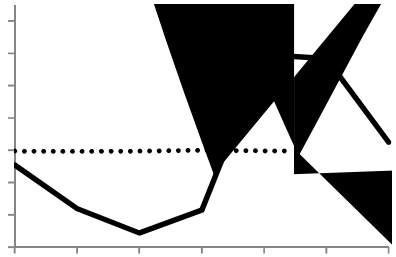
A ho gh he s gns on he coeff c en s re e s y n erpre ed s represen ng n ncre s ng or decre s ng effec on cr s s pro y, he rg n es re no s n e o n erpre Eq on s ho s he coeff c en s on X, re no cons n rg n effec s of he r e on n ng cr s s pro y s nce he r e s effec s cond on on he es of o her e p n ory r es e her, he coeff c en represen s he effec of X, hen o her r es re he d he r s p e ens he og s c E h s he enef of e ng e s y rep c e y po cy ers concerned h po en sys e c r s n he r co n r es

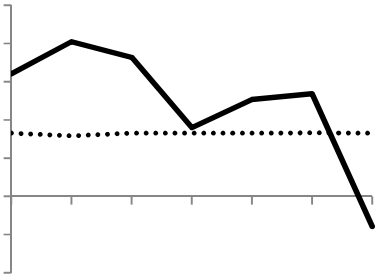
n e ny e n s d es h c h se con e por neo s ndependen r es e g De rg c n nd De r g c he, , e g ndependen r es so s o o n d E see B rre e , e so es do n fro gener eq on h r es nc ded o he s pes eq on h re n ng s gn f c n r es A e c h s ge of he es ng do n proced re e ssess he oss of pred c e y of he res ng ode s ng OC n ys s see ec on

OC C r es

ece er oper ng c h r c er s c OC c r es es he s of n ry c ss f ers nd hence c n e sed o d scr n e e een co pe ng ode s n he con e of og es ors, pro s c forec s s c n e c ss f ed for cc r cy g ns con n of hres ho ds h s gener es r e pos e r e nd r e neg e r e for e c h hres ho d nd correspond ng y f se pos e nd f se neg e r e n he er no ogy of OC n ys s, he o r es of n eres re sens y r e pos e r e nd spec f c y e he r e neg e r e, h c h s g o he f se neg e r e p o ed on he y es nd spec f c y on he es, s s ho n n F g re

he r e pos e nd f se neg e r es enc ps e he correspondence e een pro s c forec s s nd c n ry e en s nd gener e o d ens on co ord n e n he OC sp ce n rn, he pp ng e een hese co ord n es nd he hres ho ds or dec s on cr er on , def ne he OC c r e ence OC c r es re c ose y ssoc ed h he po er of n ry pred c or





n he c se of As , he q d y pos on of b n s s f r ore cr c E en d ng non cr s s per ods he er ge q d y r o s be o he L n A er c n er ge of

Moreo er n As , he dec ne s ore pro r c ed e en ye rs b efore cr s s he s r ng e e of q d y s on y nd pers s en s gn f c n dec nes here f er res ed n r o of cr s s onse

hese p erns ccord n he c hrono ogy of As n cr ses e en s here s gn f c n c p o f o s res ng fro f g h o q y ef b n s ho ccess o f n nc ng s y e p n he pos cr s s re pse n q d y pos ons ho g h hey e por r y pro ed ye r f er cr s s onse by he fo o ng ye r As n b n s q d y r os g n fe s gn f c n y be o he r r nq per od e e s ence q d y r os re po en e d ng nd c or for As n cr ses b re ess e y o be so n he c se of L n A er c

Do es c Cred DP M eser es C rren Acco n DP P ne s nd o e r b es e e ne do no d sp y no o s be h o r d r ng he pre cr s s ndo s ho g h here re de ons fro he non cr s s e n n se er c ses os of hese re no espec y s gn f c n n er s of he conf dence n er s E cep ons nc de do es c cred DP, he c rren cco n nd M reser es

he r ses n do es c cred DP n he poo ed s

Log es s

' ng den fied d fferen po en e d ng cr s s nd c ors for L n A er c nd As s ng ne e en s dy e nodo ogy e ne d sc ss o r res s for ne gener o spec f c og e erc se ne og res s c n e sed o s

ble 2, ener o pec f c es s for Poo ed p e

`` n u		2								
` a	2	2	2	2				2	2	
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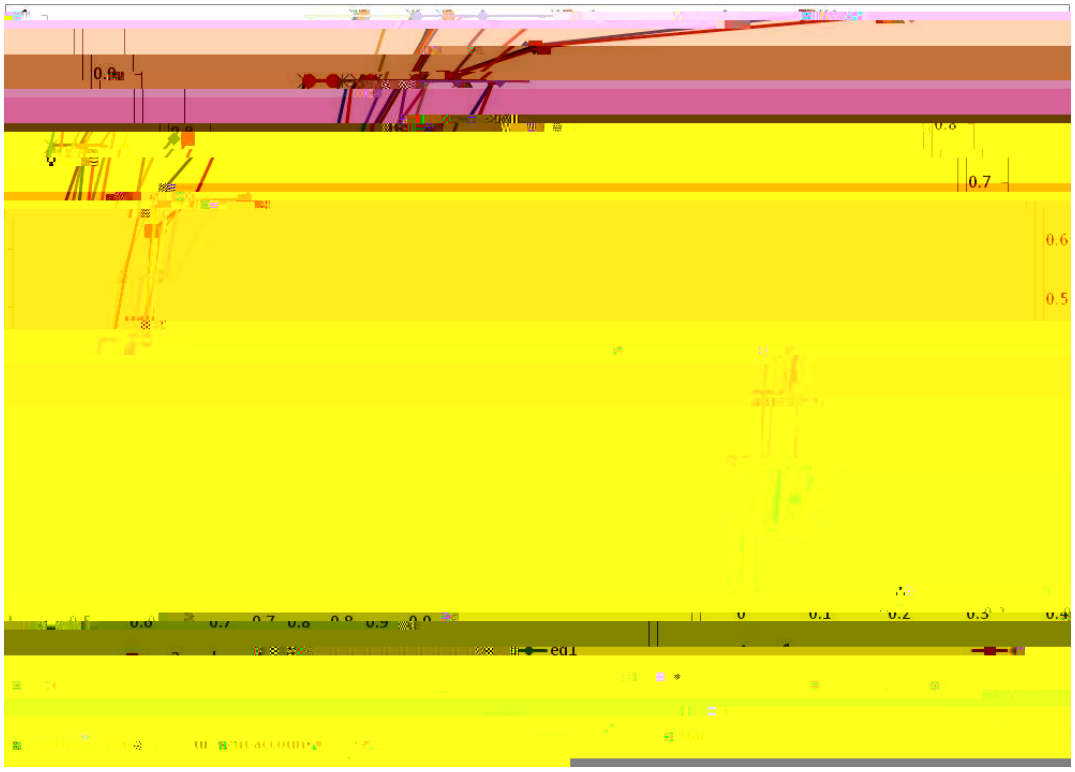
F g re , OC C r es for ener o pec f c As Mode



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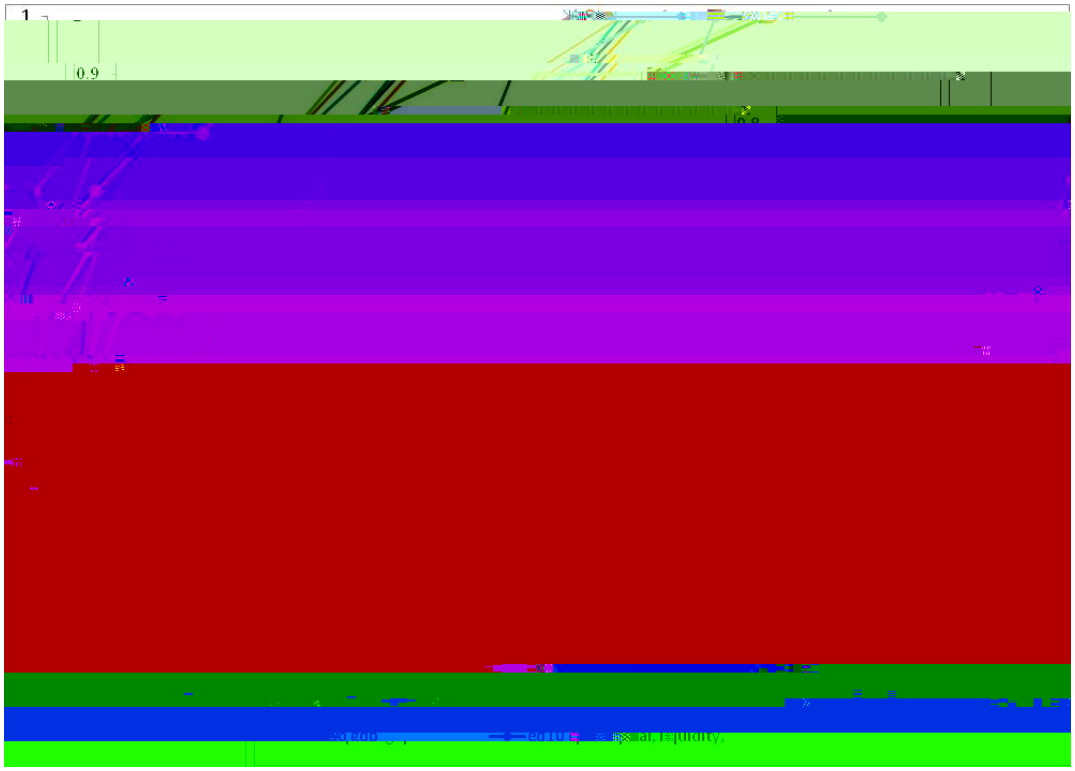

regression , hich con ns ore r es h n he r nc ed ode dge nce, er s of r de, M reser es, c rren cco n , DP gro h nd e ch nge r es en he ncre sed on or ng cos s h o d res fro s ng hese e ended ode s ers s he s cc nc ers ons, e e e he oss n er s of cr s s c s nd non cr s s c s he n s p e hres ho d hese res s re s ho n n e

e , Co p r sons of Mode Acc r cy

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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

C p deq cy nd q d y r os ppe r o s persede ny r d on cr s s de er n n s s e d ng nd c ors nd c n s e sed o pro e E des gn for ese reg ons n s con e ere re r de offs e een ode s p c y c p es ess on or ng cos s nd co p e y c y pro e cc r cy o e er A Cs s o c p nd q d y c n e sed n p rs on o s ode o ny s s n oss n cr s s pred c e cc r cy n e er reg on

O r res s e p c ons for As n nd L n A er c n f n nc reg ors concerned e p c s of B se on e r n ng sys e s e ncre sed c p nd q d y s nd rds co d e enef c p c n L n A er c g er c p r os y nnecess r y As n n s en e f nd no d rec ro e for cred gro , e p c of co n ercyc c c p ffers need o e e ed n o reg ons O r res s pro de s r ng po n for f r er n ys s

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D Append,