From the 20th to the 21st Century: The Increasing Complexity of International Financial Crises

James M. Boughton
October 2014
Background:
Four Types of Creditor

- Domestic
- External commercial
- Bilateral official
- Multilateral
Different objectives?

- All want to help country recover and repay debts
- **Some** commercial creditors may have long-term business interests
- Bilaterals have strategic interests
- Multilaterals have mandates to fulfill
Best recent example: Greece

- Government debt of at least €300 billion, or 125% of GDP
- Ongoing deficit of 15%+ of GDP
- Thus financing need > €100 billion to gradually reduce debt ratio
Early History: Suez 1956

- First major lending by the IMF
- No other major creditors were involved
- Issue was whether US would let IMF act
- Set tone for next 20 years
More Early history:
Experimentation 1976-81

- Zaïre (Dem Rep Congo) 1976; trilateral meetings with bank creditors
- Sudan 1978: IMF demands elimination of arrears to banks
- Turkey 1980: IMF relies on voluntary participation of bank creditors
Mexico 1982: The First PSI

- 13 August: Mexico cannot repay banks
- Bilaterals (mainly US Treasury) get them through the 1st week
- 20 August: large banks roll over loans for 90 days
- 16 Nov: 90 days later, Jacques de Larosièrè strong-arms the banks
- 23 Dec: critical mass; IMF approves loan
Concerted lending, 1982-86

- 4 large countries
  - Argentina (1982, 1984-86)
  - Brazil (1983)
  - Chile (1983, 1985)
- 3 smaller countries
  - Uruguay (1983)
  - Ecuador (1983)
  - Ivory Coast (1984)
Attempts to save concerted lending:

- MYRA's
- Enhanced surveillance
- Baker Plan
Taking control over the banks

- Lending into commercial arrears
  - Bolivia
  - Costa Rica

- Brady Bonds
Mexico 1994: the focus shifts

- Banks are no longer the major creditors
- No one figures out how to “involve” the bondholders
- US Treasury takes a more active role
  - As creditor
  - In determining policy conditions
Thailand 1997: Bilateral creditor role deepens

- US is sidelined in financing package by the “d’Amato restrictions”
- But Greenspan insists on revealing the “hole in reserves”
Korea 1997: US Flexes Muscles

- US flexes its muscles
- IMF and G7 put PSI back on the table
Russia 1998

- Ever since independence in 1992, G7 had insisted on active IMF role.
  - “Less shock and more therapy”
- Extended arrangement in 1996 was aimed partly at ensuring Yeltsin’s reelection
- Large-scale disbursement in July 1998 was made at US insistence
- But crisis response got muddled in August
Argentina 2001-02

- Stalemate with bond holders
- Anne Krueger proposes SDRM
- Increased use of CACs by sovereigns
- IMF adopts new rule: restructure debt at outset when necessary
- Meanwhile, Argentina defaults
Fast forward back to Greece

- Europe lacked both resources and political will
- Six decades of ill will toward IMF role in Europe had to be overcome
- Troika was unprecedented but probably sui generis
Did EU and IMF have different views?

- How much financing vs how long an adjustment process
- Preservation of the euro zone
- How to deal with overhang of debt owed to private creditors
Concluding thoughts

- It took the IMF 13 years (1976-89) to corral undue influence of commercial creditors.
- Corralling undue bilateral influence is far more difficult, both to define and to do.
  - 20 years (1994-2014) and counting.