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*Ognjen Radonjić**
*Miodrag Zec***

A FRESH VIEW TWENTY YEARS ON: THE ASIAN FINANCIAL DEBACLE AND THE MINSKYAN LESSONS LEARNT BY THE INTERNATIONAL MONETARY FUND***

ABSTRACT: *In this paper we shall sketch the anatomy of the Asian financial crisis which erupted twenty years ago. In order to answer the question of how and why this crisis developed and what went wrong in its aftermath we embrace the Financial Instability Hypothesis of the seminal post-Keynesian economist Hyman P. Minsky. The real causes of the Asian crisis were endogenously developed euphoric expectations that followed financial liberalisation and deregulation and propelled the creation of an inverted capital structure and financial fragility. After the initial crisis and subsequent abrupt reverse of investor's sentiments, the International Monetary Fund intervened and multiplied financial difficulties that strangled regional economies. Fortunately, gradually and in line with the Minskyan approach to financial crises, the International Monetary Fund learned from its Asian mistakes, and starting from the outbreak of the global financial crisis in 2008 and the succeeding financial crisis in Eastern Europe in 2009, dropped its opposition to capital controls and its support for austerity measures in crisis-hit emerging market economies.*

KEY WORDS: *Asian Financial Crisis, Financial Instability Hypothesis, Minsky, Capital Account Liberalisation, International Monetary Fund*

JEL CLASSIFICATION: E12, F34, F41, F53, 053

* Department of Sociology, Faculty of Philosophy, University of Belgrade, oradonji@f.bg.ac.rs
** Department of Sociology, Faculty of Philosophy, University of Belgrade, mzec@f.bg.ac.rs
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1. INTRODUCTION

It is a striking fact that in the last 35 years, crises have predominantly struck emerging economies that are not fully integrated into global financial markets.[1] The consequences of these crises in all affected countries (except in Eastern Europe) were immense and severe. Due to rising uncertainty, fear, disbelief, and investor panic, intensive capital flight took place that resulted in a devastating, vicious debt-deflation cycle: sharp exchange rate depreciations, substantial and sudden rises in nominal interest rates, further capital flight, a sharp decrease in production, investment, consumption, employment, and the general standard of living, and often a drastic rise in violence.

Interestingly enough, mainstream (orthodox) and Minskyan analytical approaches to this phenomenon are irreconcilable. Consequently, diametrically different problem diagnoses result in different preventative and different emergency measures in the face of the eruption of a crisis. Erroneous diagnosis implies the implementation of incorrect remedies, which doubtlessly result in worsening the condition of the economy in crisis. The aim of this paper is to provide a more general framework for understanding financial crisis in five Southeast Asian countries (SEAC – Thailand, Malaysia, South Korea, the Philippines, and Indonesia) and to discuss the concrete policy implications of the Minskyan analytical approach in comparison to the mainstream approaches and the subsequent criticism of the latter which focuses on the imperfections of international capital markets. Our other task is to show how the IMF, building on its Asian experience and through its experience in dealing with subsequent financial crises in emerging markets, gradually shifted its policy stance from one grounded in mainstream accounts of the financial crises in emerging markets towards one grounded in imperfect international capital markets theory and – while not yet officially acknowledged – Minskyan views. This change in the position of a formerly fierce proponent of free markets and financial openness gives hope that the debacle experienced in Asia will not be repeated, to the benefit of global prosperity.

In the next section we discuss mainstream accounts of the financial crisis in Asia and the challenges posed by critiques focused on the imperfections and endemic information asymmetries of international capital markets. In the third section

[1] The great debt crisis in 1982, the Tequila crisis in Mexico in 1994, the Asian financial crisis in 1997, and the financial crises in Russia in 1998, Brazil in 1999, Ecuador in 1999, Turkey in 2000, Argentina in 2001–2002, Uruguay in 2002, and Eastern Europe in 2009.

we present the Minskyan account of the endogenous development of financial fragility, which denies deviations from the free market model or market imperfections as necessary preconditions for financial crises to emerge. In the fourth section we present the Minskyan view of the boom–bust episode in Asia, and in the fifth we chronologically follow shifts in the policy position of the IMF, from that embodied in mainstream accounts of financial crises towards ones rooted in international capital market imperfections and the alternative Minskyan concept of inherent financial instability. The final section concludes.

2. THE MAINSTREAM ACCOUNTS OF THE ASIAN FINANCIAL CRISIS AND THE IMPERFECT INTERNATIONAL CAPITAL MARKETS CRITIQUE

The theory of efficient markets (Fama 1970) is based on the assumption that economic agents are perfectly rational, perfectly informed, and capable of forming rational and, on average, true expectations. According to this neoliberal view, held strongly by the IMF during the 1980s and 1990s, self-regulated financial markets led by Smith's "invisible hand" are the optimal mechanism for the rational and productive allocation of scant resources to the most productive uses. Market-clearing equilibrium is an aggregate outcome of choices made by myriad rational decision-makers (Shleifer 2000; Davidson 2009). Thus, the prescription for the stable and rapid growth of the economy and living standards is simple: a balanced fiscal policy, an anti-inflationary monetary policy, privatisation of state-owned enterprises, deregulation and liberalisation of financial flows and international trade, and stable foreign exchange rates. Consistently, according to the efficient markets model, once these market-led stabilization policies implemented by developing countries deliver the first positive results, investor confidence grows, and capital inflow gains momentum (Wolfson 2002). Rational investors, who seek new opportunities to earn profit, respond to the improved economic prospects in countries which up to that moment were excluded from major capital centres. In such a way, improved economic conditions precede investment inflows (Pettis 2001). On the other hand, according to this view, financial crises might emerge as the consequence of the sudden effect of an unanticipated exogenous shock, which implies that in the case of financial turbulence the problem is not rooted in systemic flaws in the functioning of free markets but in the lack of freedom for omniscient market forces. In the case of the Asian financial crisis the three most widely presented exogenously oriented explanations are the 'fundamentalist–crony', 'dirigisme', and the 'panic view'.

According to the fundamentalist–crony view, the origins of the crisis are to be found in deficient domestic economic policies and institutional weakness, which caused local economies to severely deviate from the free market model pursued in mature, developed countries. The basic model is one of moral hazard induced by an exchange-rate-pegging policy (Krugman 1998a): since SEAC governments were fully committed to defending the value of local currency pegged or tied to the U.S. dollar, local financial institutions and businesses were highly motivated to pursue a balance sheet currency mismatch and raised massive foreign-currency-denominated debts. Additionally, due to low interest rates abroad they pursued a maturity mismatch by increasing short-term debt in order to finance long-lived assets. Most funds raised in this way were then directed toward highly speculative activities such as property and portfolio investments. Since financial assets performed the role of collateral at the same time, a rise in the value of collateral further stimulated and justified the rise in indebtedness. Unfortunately, this self-fulfilling dynamic went unnoticed by incompetent local regulators. It also went unchallenged due to pervasive crony relations between government officials and local businesses, mirrored in granting monopoly rights and determining loans, bail-outs, and privatizations in favour of relatives and cronies of the political elite. All these inefficiencies combined ended up in an excessive accumulation of risks at the private sector and government levels. The bubble was ready to burst. The triggers of the crisis were the appreciation of the U.S. dollar against the yen and parallel increases in U.S. interest rates, both of which adversely affected local business balance sheets. Also, the export prices of key local products such as computer chips and commodities like rubber, rice, and wood declined, severely impairing the revenue-generating capacity of local producers leading to a further deterioration of their ability to meet their foreign debt obligations (Krugman 1997). Once investors became aware of this massive accumulation of excessive risk, the self-fulfilling expectations reversed and they started to leave the region en masse, bursting the bubble and causing local currencies to abruptly depreciate resulting in widespread bankruptcies and the collapse of local economic growth (Krugman 1998b, 1998c; Kang 2002). Hence, after flourishing for nearly two decades, the East Asian model of economic development was suddenly and pejoratively renamed "crony capitalism".

The dirigisme view is closely related to the fundamentalist–crony approach, and while it too blames corruption for the Asian collapse, it focuses on the dirigiste economic policies of local governments, such as the selective promotion of industries backed by government-led capital allocation. Proponents of this view say that regrettably, since the majority of capital was allocated via the

government (lack of a functioning free market), the majority of it was not directed towards the most productive projects but instead towards those that were most speculative and risky. Specifically, this view argues that governmentally coordinated allocation of capital (as in South Korea) led to price distortions and misallocation and thus was doomed from the very beginning (Greenspan 1998a, 1998b, 1998c).

Be that as it may, according to efficient market proponents if a crisis erupts the only way to regain the confidence of investors, domestic and foreign, is the imposition of austerity measures of "depreciations and deflations" (Radonjić and Zec 2015). In the case of SEAC (except Malaysia, which refused to cooperate with the IMF), IMF loans were conditional on enforcement of austerity adjustments, and the results were devastating – which raises doubts as to whether the real causes of the Asian debacle were correctly identified.

The most serious challenges to the fundamentalist–crony and dirigisme theories have been posed subsequently by authors who argue that emerging markets are crisis-prone due to grave imperfections in international capital markets, characterized by pervasive information asymmetries. They note, for instance, that advocates of capital account liberalization and financial deregulation promote currency pegs as a desirable foreign exchange rate policy, and they wonder how those countries succeeded in becoming economic miracles and attracting massive capital inflows prior to the eruption of the crisis, despite the predominant role of government in allocating credit and ubiquitous crony capitalism (Chang 1998; Wyplosz 1998; Stiglitz 2002).

Chang, Park and Yoo (1998) claim that in the two decades that preceded the crisis there is no evidence that the South Korean government bailed-out any failing *chaebol* (large industrial conglomerate). There were occasions when the government assisted in takeovers or restructuring of some failing *chaebol* units: however, assistance was conditional on measures that severely impaired managerial autonomy. They also claim that although in those countries there were visible signs of corruption and cronyism, the situation was by no means worse than in emerging markets that did not experience financial turmoil; or at least not such severe turmoil. Moreover, at the beginning of the 1990s similar financial and currency crises hit some developed economies, such as those in Scandinavia, which were largely free from the assumed Asian malaises (Wyplosz 1998).

Therefore, the fundamentalist–crony and dirigisme explanations of the Asian crash are neither sufficient nor adequate. These critics assert that the true problem lies in the malfunctioning of international capital markets and in endemic information asymmetries, further exacerbated by the government guarantees implicit in maintaining a fixed exchange rate and in bailing-out local businesses facing liquidity and solvency problems. In addition, the premature and inappropriate pace of capital account liberalisation and subsequent financial deregulation dissolved investment coordination and rule-based relations between the state and local businesses. The results were over-capacity in some industries, a decrease in transparency, and poor and inadequate financial supervision and regulation, leading to an over-extension of credit and unsound business and banking practices. Therefore, what is needed are domestic policies which promote adequate timing and an adequate pace of capital account liberalization (capital controls) and financial deregulation, with a parallel increase in the competence and capacity of domestic regulators. Since emerging financial markets are susceptible to self-fulfilling prophecies, in the case of a crisis, local governments and the IMF should opt for gradual adjustments, provide ample liquidity to the financial sector, and refrain from restrictive policies.

Among mainstream approaches the panic view of Radelet and Sachs (1998) is also interesting. According to this view, corruption and implicit state guarantees are only partial explanations of the roots of the crisis, since weaknesses in the institutional and legal system, corruption, and certain macroeconomic imbalances were already known to foreign investors before those countries experienced massive capital inflows. No less important is the fact that many of the loans were directed toward businesses that did not enjoy any state guarantees. In their opinion, the crisis erupted after lenders launched a massive withdrawal of funds from the region. Since the fundamentals of SEAC were in general sound there were no apparent signs of deteriorating fundamentals and the crisis was thus unexpected; the massive capital flight from the region was due to irrational behaviour on the part of the lenders, which, after the crisis erupted, was reinforced by the overly harsh economic policies imposed by the IMF in return for international financial aid. As Radelet and Sachs see it, there was some truth in the IMF's claims that the credit ratings of crisis economies collapsed after the IMF's intervention due to unanticipated contagion effects, political uncertainty, and insufficient implementation of the prescribed programme by local governments. However, they also argue that the prescribed remedies increased financial difficulties in the region due to inadequate timing

and the pace of bank closures and recapitalization, absence of the central bank as a lender of last resort and the imposition of too high interest rates, and insistence on fiscal surplus instead of a policy of small deficits fully backed by foreign exchange inflows that supported the IMF remedy programme. As Arestis and Glickman (2002) argue, this view implies that most of the time investors are rational, that fundamentals determine the value of the assets, that investors are capable of accurately pricing fundamentals, and that their decisions do not affect future outcomes. However, it does not explain why from time to time a large number of investors are possessed by irrationality.

In conclusion, mainstream accounts of the financial crisis in Asia put the blame on exogenous factors such as deficient domestic policies, institutional weaknesses, corruption, or irrational behaviour on the part of lenders All of these represent some kind of deviation from free market principles and rational choice, implying that if the market-based policies and rational decision-making had been fully and consistently implemented the Asian economies would have not collapsed. On the other hand, critics of mainstream accounts of the crisis place the blame on imperfections in international capital markets and omnipresent asymmetric information which are as well exogenous factors, and focus on adequate timing of changes in domestic policy and the pace and timing of capital account liberalisation and financial deregulation.

However, for centuries financial crises have been regular occurrences in both developed and developing countries, well before the concepts of a neoliberal agenda, fixed exchange rates, intensive international capital movements, liberalization and deregulation, state coordination of investments, and selective industry promotion were developed. Therefore, the question arises of whether the financial markets are innately instable, i.e., whether financial crises are inherent to the capitalist mode of production, or in other words whether the normal operation of free market economies leads endogenously to financial boom and bust episodes. This, brings us back to the very beginning, to identifying the problem and the need to embrace an alternative theoretical framework.

3. THE MINSKYAN PATTERN OF THE FINANCIAL CRISES IN EMERGING MARKETS

In sharp contrast to the mainstream model, Pettis (2001) holds that real-world experiences do not support the efficient market model and that there is little

evidence that capital flows respond to the desired policy decisions in developing countries. On the contrary, what history has taught us is that movements of capital towards financial outlets are highly synchronized, although there is no evidence that different developing economies around the world push for market reforms simultaneously. Therefore, as Pettis (2001) argues, capital movements to poor countries are better explained by the 'liquidity model' which emphasises the source and not the destination – the spark that initiates massive capital movements towards developing countries is Minskyan liquidity expansion in rich countries.

The interpretation of Keynes' General Theory by the seminal post-Keynesian economist Hyman P. Minsky (1975, 1977, 1986) stands in total opposition to the mainstream model. In his Financial Instability Hypothesis (FIH), a work widely neglected by mainstream economists, Minsky argues that financial markets are the heart of modern capitalist economies, which are prone to fragility thanks to the non-neutrality of money, the division of ownership and management in big corporations and financial institutions, the ever-growing and massive debt financing of uncertain investment projects over the business cycle, continual financial innovation, and fundamental uncertainty. In a word, ups and downs are the natural product of unregulated free markets, or, more precisely, if left alone, endogenous market processes generate financial and economic instability in an upward phase of the business cycle.

As Minsky sees it, during a prolonged period of prosperity, conditions emerge endogenously that cause the system to transit from an environment of stability towards an environment of unstable financial relations (Radonjić and Zec 2010). The core thesis of the FIH is that stability is destabilizing because, in an environment of fundamental uncertainty, ignorant human beings have no other choice but to extrapolate stability into infinity. Naturally, with the flow of time, when agents extrapolate stability to infinity they become more confident ("endogenous disequilibrating forces"; Minsky 1986, p.238) and, as their aim is to pursue ever-higher profits, they become more and more willing to increase their liabilities relative to income and exploit arbitrage opportunities created in an environment of initially sound financial relations. "However, success breeds a disregard of the possibility of failure; the absence of serious financial difficulties over a substantial period leads to the development of a euphoric economy in which increasing short-term financing of long positions becomes a normal way of life" (Minsky 1986, p.237). Furthermore, the endogenous rise in market optimism might not be gradual but rather abrupt when triggered by

some outside shock powerful enough to cause displacement of the system and consequently a dramatic change in profit horizons and agents' expectations. Such a shock might be the beginning or end of a war, an abundant or insufficient harvest, a revolutionary far-reaching invention (the railway, automobiles, radio, film, computers), a political event (Kindleberger and Aliber 2015) or, most frequently, an expansion of liquidity in major financial centres (Pettis 2001). An expansion of liquidity might take the form of an increase in traditional measures of money (as the result of a switch to an easy monetary policy) or of more complex changes in the financial structure induced by a change in the regulatory framework or the profit-seeking (lending and borrowing) activities of "merchants of debt" (Minsky 1986, p.279), i.e., financial mediators.

Although primarily devised to study the economic behaviour of a closed, advanced capitalist economy, by making several amendments, Minsky's theory of speculative markets and financial instability is also applicable to open emerging markets in which a period of financial robustness and optimism leads to a state of fragile finance and instability (Kregel 1998; Pettis 2001; Arestis and Glickman 2002; Wolfson 2002; Frenkel and Rapetti 2009). In contrast to the rich country case where factors that trigger booms develop endogenously, in the developing country case the boom cycle starts with liquidity expansion in developed countries. As liquidity in rich countries rises, financial markets take off, the real interest rate drops, and a growing number of assets become more money-like, which further reinforces liquidity expansion (Pettis 2001). New liquid assets can now perform the function of collateral and a rise in the value of collateral justifies the increased value of loans demanded. As the liquidity of financial markets and thus turnover increases, the volatility of risky assets starts to decline, which makes them a more attractive investment destination compared to traditional assets. In response to this lower volatility, over-optimistic investors systematically underestimate risks or overestimate prospective earnings in nontraditional sectors. As, in time, investors start to exhaust local higher-risk investment opportunities, some capital finds its way toward developing countries in order to 'make on the carry'.[2]

Capital inflows then propel economic growth in the destination country, and in general create a sense of macroeconomic stability and strength in the local

[2] In the case of open economies, "making on the carry" means borrowing short-term funds in developed low-interest rate markets and investing them at higher interest rates in developing countries.

economy. Economic growth, growing self-confidence, a sense of macroeconomic stability, and an expectation of permanent capital inflows then reinforce and stimulate policy reforms which are in line with the preferences of the international financial community. In other words, capital inflows precede economic reforms such as macroeconomic and foreign exchange rate stabilization, financial liberalisation, deregulation, and tax cuts, which are necessary to support the absorption of increasing capital inflows launched by profit-seeking financial mediators from the developed world.

Therefore, the very same marked-led macroeconomic policies recommended by mainstream economics create incentives which end in the generation of a boom–bust cycle, since the dynamic capital inflows, the resultant deepening of internationally preferable economic reforms, and the growing economy combine to create the impression of improved economic conditions that further reinforce the inflow of capital and the optimism of market participants (Arestis and Glickman 2002). The extrapolation of good times and stability into an infinite future, in concert with flourishing optimism and confidence, usually leads to the endogenous accumulation of financial fragility, i.e., an inverted capital structure is seen as a rational way to lower financing costs over time. An inverted capital structure amplifies the intensity of external shocks so that debt obligations balloon in the short run, while at the same time, due to the dramatic increase in uncertainty, business revenues enter free fall. An inverted capital structure in a developing country appears when most of the debt is foreign short-term debt or debt set on a roll-over basis (floating-rate debt), and debt denominated in foreign hard currency (Kregel 1998; Pettis 2001).

In due course, within an already fragile environment, the occurrence of some endogenously or exogenously generated shock could launch massive capital flight. An example of an endogenous shock is the failure of a prominent financial institution or corporation (Wolfson 2002). There are several potential sources of an exogenous shock, such as a sudden switch to a restrictive monetary policy by the central bank in order to constrain inflation or prevent local currency depreciation and the depletion of foreign exchange reserves, since monetary authorities see higher interest rates as a powerful weapon against a weak currency and the subsequent evaporating confidence of foreign investors. However, a policy of monetary tightening is counterproductive, since the rise in short-term interest rates increases financing costs as well as debt payment commitments on floating-rate debt in the short run, whereas a rise in long-term interest rates means a rise in the discount factor which leads to a decline in the

net present value of assets (and thus the value of collateral) and a consequent increase in solvency risks (Minsky 1986).

On top of that, there are three more potentially dangerous exogenous shocks that could push a financially fragile, open developing economy into instability: an increase in interest rates and interest rate differentials in international financial markets, depreciation of the local currency, and a worsening of terms of trade or decrease in demand for core export products (Kregel 1998). All three shocks have a negative impact on the margin of safety (net worth of private sector institutions, or foreign exchange reserves in the case of a state). A rise in international interest rate differentials and foreign interest rates increases short-term debt commitments, while revenues are unchanged or drop in the event of a looming crisis. The depreciation of the local currency implies a rise in the value of debt denominated in foreign hard currency in local currency terms. Also, if a local industry is dependent on imports, a depreciation of the local currency raises the costs of production and consequently lowers the margin of safety. Furthermore, profits may continue to fall if import costs rise by the full amount of depreciation when producers attempt to increase income from abroad by increasing foreign sales. In most cases an increase in foreign sales leads to decreasing prices in international markets. Lastly, worsened terms of trade or a fall in demand of core export products directly decreases income and narrows the margins of safety.[3]

4. THE ASIAN BOOM

The financial crisis in SEAC demonstrates the validity of the Minskyan approach. Massive capital inflows into SEAC were certainly not stimulated by successful implementation of free market reforms. If anything is obvious it is that credit for their high rates of output growth, savings and investment, low unemployment, balanced or surplus fiscal balances, moderate inflation, and foreign exchange rate stability goes to several decades of government economic planning and the implacable promotion of production and exports at the expense of severe restrictions on imports and consumption.

[3] It is important to make a sharp distinction between the nature of exogenous shock in mainstream economic theory and in Minsky's theory. In the mainstream theoretical approach, exogenous shock directly causes financial turbulence, whereas in Minsky's theory only in the case of system-wide endogenously developed financial fragility does exogenous shock have the power to push the system off-track.

The liquidity boom in developed countries in the late 1980s and early 1990s that preceded the Mexican 'Tequila' crisis and the Great Asian crisis can be explained as the consequence of three events (Pettis 2001). First, American savers switched their savings from equity in their homes to stocks and bonds, especially mortgage-backed securities – a financial innovation used to monetize illiquid real estate assets. Second, Japan (along with the other Asian countries) recycled huge trade surpluses in the early and mid-1980s by investing in foreign financial assets, primarily U.S. Treasury debt instruments and large-cap U.S. stocks. Third, Pettis (2001) assumes that Russian tycoons, who looted their country during a process of wild and nontransparent privatization, pilfered a significant share of export earnings and found safe haven for their money in European banks.

In time, as investors started to exhaust local higher-risk investment opportunities, expanding SEAC's markets with low-risk and positive interest rate differentials suddenly took a central place in the minds of Western financiers. Simultaneously, the end of the Cold War and the consequent evaporation of the willingness to economically support and tolerate the closure of SEAC's markets to Western commodities and financial capital intensified the pressure from Western and local businessmen for their preferred economic reforms (Chang, Park and Yoo 1998). SEAC finally capitulated, deregulating and fully liberalising capital accounts at the beginning of the 1990s. Additionally, through fiscal policy (tax relief), local governments stimulated the raising of funds in the international market by domestic agents (Corsetti, Pesenti and Roubini 1998a). At the same time, lulled by effectively fixed currencies, foreign and domestic investors failed to hedge against foreign exchange risks.

All in all, the combined effect of these liquidity displacement factors and the changed political agenda resulted in a massive movement of capital towards developing countries in the early 1990s. As can be seen in Table 1, between 1991 and 1996 official flows to developing countries declined drastically and became outflows, whereas in the same period the rate of total flows increased by more than 30% annually.

Table 1. Capital Flows to Developing Countries ($bn)

	1991	1992	1993	1994	1995	1996	1997	1998
Net official flows	37	22	20	2	26	–1	24	42
Net private flows	124	119	182	153	193	212	149	64
Net direct investment	31	36	57	83	97	116	143	131
Net portfolio investment	37	51	114	106	41	81	67	37
Other net investment	56	33	11	–36	55	15	–60	–103
Net capital flows	160	142	202	154	219	211	173	106
Change in reserves	–62	–52	–76	–67	–120	–109	–61	–35

Source: Pettis (2001).

Aberrant investors' expectations and the subsequent economic reforms resulted in extremely intensive private capital inflows into the region. However, during this booming period of optimistic sentiment, investors did not give much weight to current account problems because capital inflow was so intense that it not only financed the current account deficit but also, as we will see below, continually put pressure on local currencies to appreciate (Table 2).

Table 2. Current and financial account deficit/surplus (percentage of GDP)

Country/Year		1990	1991	1992	1993	1994	1995	1996	1997	1998
Indonesia	Current account	–2.5%	–3.1%	–2.0%	–1.3%	–1.5%	–3.0%	–2.9%	–1.6%	3.8%
	Financial account	3.5%	3.2%	0.7%	2.6%	4.0%	3.0%	4.6%	1.6%	–3.8%
South Korea	Current account	–0.7%	–2.6%	–1.2%	0.2%	–0.9%	–1.6%	–4.0%	–1.5%	11.2%
	Financial account	1.5%	2.5%	1.0%	0.1%	1.4%	1.9%	3.9%	2.6%	–9.5%
Malaysia	Current account	–2.1%	–8.5%	–3.7%	–4.5%	–7.4%	–9.6%	–4.4%	–5.8%	13.0%
	Financial account	–0.5%	8.8%	3.6%	–0.8%	5.8%	10.4%	6.8%	8.1%	–9.6%
Philippines	Current account	–6.1%	–2.1%	–1.9%	–5.5%	–4.4%	–2.6%	–4.6%	–5.2%	2.3%
	Financial account	4.9%	1.4%	4.6%	5.1%	5.8%	5.7%	8.3%	11.9%	–1.3%
Thailand	Current account	–8.3%	–7.5%	–5.5%	–5.0%	–5.4%	–7.9%	–7.9%	–2.1%	12.8%
	Financial account	6.7%	7.3%	6.0%	5.3%	5.6%	8.8%	9.5%	4.2%	–10.3%

Source: Author's calculations based on International Financial Statistics (1999)

For example, in 1996, $55.2 billion or 58% of aggregate net capital inflows to SEAC were used to cover the current account deficit, $21.6 billion (23%) for reinvesting abroad in nonequity assets and $18.4 billion (19%) for augmenting countries' international reserves. During the same year, financial capital predominantly entered in the form of a commercial bank loans when the share of net debt issued by foreign commercial banks in total external private net debt amounted to 60% (Institute of International Finance 1998).

Due to high risk aversion and fear of an unexpected sharp depreciation, foreign banks predominantly issued debt denominated in foreign hard currency. As expected, when local banks were flooded with money they downgraded lending standards and massively expanded credit activity (Table 3).

Table 3. Credit to private sector (percentage of GDP)

Country/Year	1982	1990	1994	1995	1996
Indonesia	14	47	52	54	56
South Korea	55	65	69	69	75
Malaysia	47	71	115	130	142
Philippines	46	22	36	45	54
Thailand	46	83	128	139	100

Source: World Bank (1998).

What is more, because of the exceptionally high aversion to illiquidity as well as the opportunity to make on the carry, foreign banks predominantly granted short-term debt. For instance, the share of SEAC's short-term external debt in total external debt to foreign banks in the first year of the crisis (mid-1997) equaled 64% (Radelet and Sachs 1998). As a result, the ratio of total external short-term debt to foreign exchange reserves, and summation of debt service and external short-term debt to foreign exchange reserves – indicators of currency risk (Grabel 2003) – depicted a very fragile financial environment, not to say a looming liquidity crisis. In 1996 the average ratio of total external short-term debt to foreign exchange reserves in SEAC was 1.2 and the ratio of summation of debt service and external short-term debt to foreign exchange reserves was 1.74 (Corsetti, Pesenti, and Roubini 1998a).

Meanwhile, over-optimistic domestic borrowers, certain of increasing returns on investment, were more than ready to enter the short-term debt market and to direct those funds towards massive long-term investments in manufacturing

and short-term-oriented speculation in stock markets and the property sector, which ended in the emergence and, not long after, the bursting of the speculative bubble (Corsetti, Pesenti and Roubini 1998a). Apart from the attractive short-term capital gains, a significant motive for the dynamic flow of funds into the stock and real estate markets was a sharp decrease in the incomes of SEAC's exporting sector. Several factors negatively influenced SEAC's export earnings. Sluggish aggregate demand and globally excessive production capacity, which had been built during the struggle for shrinking markets, had a profoundly negative influence on their current accounts. Also, in 1994, China, another fierce competitor of SEAC, sharply devalued its currency (Kregel 1998).

Consequently, an inverted capital structure was set up and illiquidity problems spread progressively through the system. One of the most important indicators of the coming crisis, the proportion of non-performing loans in total bank loans, soared to extremely high levels in all five countries. At the end of 1996 the share of non-performing loans in total bank loans amounted to 8% in South Korea, 13% in Indonesia, 10% in Malaysia, 14% in the Philippines, and 13% in Thailand (Corsetti, Pesenti and Roubini 1998a).

When it comes to inflation, the factor that kept domestic inflation rates above those in developed countries was incompletely sterilized capital inflows due to the high fiscal or quasi-fiscal costs related to the sterilization. Consequently, the money supply increased rapidly: in the period between 1990 and 1996 SEAC's average annual growth in monetary aggregate M_2 reached 15.7% and a cumulative 180%, and was lowest in Thailand (143.7%) and highest in Indonesia (241%) (Obiyathulla 1997). Sterilization, again, encouraged even more short-term inflows via high interest rates paid on domestic-currency-denominated assets.

The inflation differential, the credit boom, the surge in the price of local assets and non-tradable goods, as well as the appreciation in 1995 of the U.S. dollar, to which most of the regional currencies were pegged, caused these countries to experience a significant real exchange rate appreciation against the currencies of their main trading partners, notably Japan and other Asian countries (Table 4). The real exchange rate appreciation also contributed to a deterioration of SEAC's current accounts.

Table 4. Real Exchange Rate Index (1990=100)

Country/Year	1991	1992	1993	1994	1995	1996	1997	1998
Indonesia	100.8	100.5	94.6	91.6	90	90.5	103	233.9
South Korea	98.8	102	103	99.7	94.1	96.3	111.6	157.2
Malaysia	101.5	92.5	93	93.8	87.4	87.2	97.2	129
Philippines	99.3	91.1	85.7	80.4	81.2	85.8	102.5	105.5
Thailand	100	98.7	98.2	94.5	92.4	91	140.8	134.6

Source: Author's calculations based on International Financial Statistics (1999).
Notes: A decrease means appreciation.

The dynamic growth of the indebtedness of domestic banks and the private non-financial sector, predominantly short-term debt denominated in foreign hard currency, and adverse movements on the side of export earnings, exposed SEAC to the risk of a sudden change in foreign investor's sentiments caused by the unexpected occurrence of an endogenous and/or exogenous shock. As a result of the cumulative effects of the destabilizing factors, at the beginning of the second half of the 1990s, SEAC became extremely fragile.

5. BUST, AND THE IMF FUELING THE FIRE

The scene was set for the occurrence of an event that had the power to provoke a complete reversal of investors' sentiments. At this point we can mark two endogenous and one exogenous shocks as possible triggers of investor panic. These shocks occurred simultaneously during the winter and spring of 1997.

In January 1997 the South Korean conglomerate Hanbo Steel, burdened with $6 billion debt, went bankrupt. This was the first liquidation of a conglomerate in a decade. Sammi Steel and Kia Motors followed. At the same time the first signals that massive investments in the financial and real estate markets were going sour were emitted in Thailand. At the end of June, one of the biggest Thai financial companies, Finance One, went bankrupt (Corsetti, Pesenti, and Roubini 1998a, 1998b). Finally, at the beginning of May the widely accepted view among foreign investors was that Japan, a major creditor country of SEAC, was engaged in a full-fledged recovery after a long debt-deflation episode lasting several years (Radelet and Sachs 1998). In anticipation of the Bank of Japan raising the discount rate, short-term interest rates had increased. As a result of foreign investor's rising optimism (unjustified, as it soon turned out), the Japanese yen appreciated and the carry trade reversed its direction.

Financial problems and massive private capital outflow to Japan drew investors' attention to a problem that had been pushed into the background for several years – the problem of Thailand's high current account deficit. Once overseas investors realized that the winning strategy was to withdraw their funds before others, massive capital flight took place. A rush for the baht exit, i.e., a race to sell domestic assets before others (Keynes' (1936, p.156) infamous beauty contest), led to a rapid decline in the price of domestic assets and thus the deterioration of domestic financial conditions. At first the Thai monetary authorities tried to defend the baht, while simultaneously, due to the over-indebtedness of local businesses, monetary authorities hesitated to increase interest rates in order to regain foreign investor's confidence. In mid-May the Bank of Thailand was forced to start intervening heavily in the foreign exchange market in order to defend the baht and quickly imposed measures to discourage speculation against the baht. These measures forbid financial institutions to lend or 'short' the baht to non-residents or to buy back baht denominated bonds before maturity. However, this move did not avert market pressure against the baht, but rather intensified it. The Bank of Thailand depleted its foreign exchange reserves and on 2nd July dropped its efforts to defend the peg to the US dollar and declared a managed floating regime for baht trading. Unfortunately, soon afterwards the IMF added fuel to the fire by accusing the region's economies of crony capitalism and being nonfunctional (Stiglitz 2002). As a result the Thai economy faced an exorbitant collapse of the baht and domestic asset prices, corporate defaults, financial turmoil, and, most importantly, a severe debt-deflation cycle, also known as Fisher's (1933) paradox: the more debtors try to decrease their debt by selling domestic assets, the more the value of their debt rises and the more the value of the local currency declines.

In a matter of a few weeks the panic spread to other SEAC markets and the markets of developing countries world-wide. The mechanism of contagious devaluation was activated, when a fall in the value of one currency causes further decreases in the value of others. By the end of July the baht had fallen by 25% relative to its value at the beginning of the year, the Indonesian rupiah by 9%, the Malaysian ringgit by 4%, and the Philippine peso by 10%. The South Korean won started its rapid fall somewhat later, in November, when it lost 39% of its value compared to December 1996 (Corsetti, Pesenti and Roubini 1998b). Trading volumes in the stock markets of many developing countries dried up during this period. Mature stock markets also suffered, but the U.S. dollar exhibited significant appreciation due to flight to safety, as investors perceived it as a safe haven in difficult times.

Up until signing conditional bail-out packages with the IMF, SEAC refused to increase interest rates. However, after the IMF took over (except in Malaysia) they were forced to implement deflation and depreciation adjustments and thus to raise interest rates sharply. However, the increase in interest rates further increased the debt burden of borrowers and consequently further fueled an already severe debt-deflation process in crisis countries. Selling pressures intensified and currencies continued to free fall. By January 1998 the SEAC currencies had nominally depreciated by somewhat more than 50% relative to their July 1997 value (immediately before the onset of the crisis). Domestic stock and real estate prices plunged along with the currencies (Corsetti, Pesenti, and Roubini 1998a; Barro 2001). In other words, contrary to the desired outcome, the IMF's emergency crisis measures contributed to a further deterioration of financial conditions in SEAC. The prescription of incorrect remedies was the consequence of an erroneous diagnosis of the problem: according to the IMF, the Asian crisis was not different in nature from the classical balance-of-payments crises that had hit South American economies running high budget deficits with raging inflation and uncontrolled growth in import consumption at the end of the 1970s and the beginning of the 1980s (Stiglitz 2002).

However, SEAC never had problems with deficit budget spending, high inflation, or excessive aggregate demand. On the contrary, debt-deflation already raged in the period of IMF intervention. Nor were current account deficits in the region the product of high import consumption, but of high imports of capital goods (Kregel 1998). Thus, the IMF was not supposed to deal with a flow problem where imports are greater than exports and where in expectation of the creation of a current account surplus and attraction of foreign capital it is recommended to implement measures that decrease imports and increase exports and interest rates. In fact the problem was a stock problem, where financial intermediaries and corporations were trying, by all possible means, to pay off their foreign debts and regain their liquidity by selling their assets. "In Keynesian terms, it was a problem of a shift in liquidity preference, not a problem of a shift in spending propensities that had to be achieved." (Kregel 1998, p.14). Therefore, in line with Minsky's prescription, in a situation of raging debt-deflation the first thing that should have been done was preventing any further spread of insolvency through the system. The only way to succeed in this in a situation of stagnant global aggregate demand would have been to implement expansive fiscal and monetary policy and a lender-of-last-resort role for the regional central banks.

Instead, the IMF implemented a restrictive monetary policy, in expectation that high interest rates would attract foreign capital and thus stabilize exchange rates. However, by the time the IMF intervened, currency depreciation had already pushed over-indebted units into bankruptcy. The sharp increase in interest rates was an adverse decision in an environment where a thirst for liquidity was ubiquitous, because at that time the increased cost of capital exerted additional pressure on units that had survived currency depreciation shocks. Of course, foreign investors knew that raising interest rates in a system experiencing a widespread liquidity shortage would deepen debt-deflation. Accordingly, capital flight accelerated. In addition to a restrictive monetary policy, a restrictive fiscal policy was seen as an efficient tool for decreasing import demand and hence (along with the positive influence of currency depreciation on exports) creating a current account surplus, constraining inflation as a consequence of rising import prices (because of currency depreciation), and preventing creation of the budget deficits which would have emerged if insolvent financial units had been financed. Furthermore, the IMF ordered immediate closure of insolvent financial institutions and banks that did not meet international capital standards, which further aggravated the problem of financing business activities (Radelet and Sachs 1998).

Eventually, corporations which faced decreasing global aggregate demand and decreasing domestic demand (due to the restrictive fiscal policy) were unable to finance production processes (due both to the restrictive monetary policy and declining sales) and to repay their debts. Consequently, exporters were forced to sell from their inventories, which led to a rapid decrease in export prices and, since import prices increased simultaneously with the depreciation of the local currencies, the terms of trade deteriorated. While these restrictive policies did in the end create a current account surplus, they were only able to do so through a dramatic decrease in imports and a collapse in local inhabitants' living standards. In addition, the decreased aggregate demand in the region exported the crisis and caused a contagion-like spreading of recessive impulses worldwide. In the end, a combined current account deficit of $26 billion in SEAC in 1997 was transformed into a combined current account surplus of $69 billion in 1998 (Pettis 2001). These surpluses were later used for repaying debts and investing in U.S. Treasury bonds. Ironically, the recycling of Asian current account surpluses led, among other things, to a significant increase in the liquidity of financial markets in developed countries, particularly the U.S., and consequently to the global credit crunch that took place in 2007 and the global financial crisis that soon followed.

6. THE IMF'S CHANGING VIEWS

To be fair, the IMF has gradually learned from its Asian mistakes and transitioned from the mainstream view towards the imperfect international capital markets view, and in the end seems to entirely embrace the Minskyan view. Immediately after the Asian collapse, in January 1999, the IMF admitted it had underestimated the likelihood of a major economic downturn and had misjudged the market's response. However, at the same time it persisted in defending its policy of high interest rates, spending cuts, and balanced budgets (New York Times 1999). In 2003, Charles Adams, assistant director of the IMF Office for Asia and the Pacific, claimed that the IMF was still trying to find out what exactly went wrong after it intervened in Asia, and that a consensus had emerged that the conditions the IMF imposed on crisis economies were too stringent. Furthermore, the first signs of support for mainstream critics arguing for the imperfections of international capital markets emerged when he warned emerging markets to be very careful, when opening their capital accounts, to preserve their capability to deal with "very fickle" international capital markets (Sydney Morning Herald 2003). However, only after the global financial crisis escalated in 2008 and with the subsequent financial turmoil in Eastern Europe in 2009 did the IMF, in line with the imperfect international capital markets view, finally drop its opposition to capital controls and give up austerity measures in crisis-hit emerging market economies.

The potential repercussions of the financial crisis that captured Eastern European economies (EEE)[4] in 2009 were much more globally damaging than in any previous emerging market case. The massive capital inflows that preceded the crisis led to dynamic output growth, but also to a rapid increase in vulnerability to changes in investors' sentiments and subsequent capital flight: very large current account deficits, financed considerably through the use of short-term and floating-rate debt at 30% and 60% of total debt respectively, as well as widespread and high credit euroization of the real sector's balance sheets. However, given that in 2009 the global environment was much worse than in past emerging market financial crises, in stark contrast to previous experiences, the EEE, even though much more financially vulnerable, experienced a milder crisis than the economies of other developing countries that had experienced capital flight in the past.

[4] In the context of this paper the EEE are Bosnia and Herzegovina, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Romania, and Serbia.

According to the findings of IMF researchers (International Monetary Fund 2009), many of the harsh outcomes experienced previously, such as excessive devaluation or depreciation and systemic bank failure, were avoided in 2009 thanks to a timely and coordinated international policy response (by the IMF, the European Central Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the European Commission, the World Bank Group) that included large-scale balance of payments support aimed at securing financial sector stability. This helped countries in the region to avoid the disorderly currency overshooting seen so many times before, as well as to avoid interest rate surges. As a result, the real exchange rate adjustment needed for the adjustment of current account deficits was achieved in a smoother fashion. Initial programme conditionality was more focused than in the past, which resulted in better compliance. The fiscal stance in most EEE cases was accommodative and flexible, whereby the deficits were allowed to rise in response to falling revenues. Automatic stabilizers were left to operate as much as possible, given the debt sustainability. Finally, banking sectors across the region remained viable despite their large external debt, owing to the general avoidance of exchange rate and interest rate overshooting enabled by debt rescheduling and international financial assistance, as well as liquidity and deposit insurance boosts. Especially important was the Vienna Initiative, the IMF-coordinated arrangement that was put in place in Romania, Serbia, Hungary, Bosnia and Herzegovina, and Latvia. The Vienna Initiative effectively helped "bail-in" major EU-based bank groups and their EEE subsidiaries while the burden-sharing of the 'rescue operation' was spread among many participants. By preventing uncontrolled currency depreciations, panic, and bank runs, which would have wreaked havoc in the entire region, the Vienna Initiative provided strong assurance that any severe problems in banking sectors across the region would be effectively contained, thereby forestalling potential speculative attacks on banks or currencies.

The important difference in the financial crisis in EEE was the IMF's lack of 1990s' enthusiasm for imposing austerity measures and liberalising capital accounts. During the South Korea-IMF Conference in Daejon in 2010, Dominique Strauss-Kahn, managing director of the IMF, said in a speech that the IMF had learned a lot from its Asian mistakes (Hankyoreh 2010). Soon after, in 2012, the IMF officially grasped the imperfect international capital markets view by recognizing that developing countries have to be ready to use all available tools and keep an open mind concerning capital controls, in order to stem unproductive and disruptive capital inflows which exacerbate boom and

bust cycles (International Monetary Fund 2012). The IMF (2012) paper argues that although the free movement of capital is beneficial in general, it also creates a risk of destabilizing economies with insufficiently developed financial and institutional infrastructure. In these cases, rapid capital inflows might lead to subsequent disruptive outflows and therefore there is "...no presumption that full liberalization is an appropriate goal for all countries at all times" (International Monetary Fund 2012, p.1). This is why liberalisation of capital accounts "...needs to be well planned, timed, and sequenced in order to ensure that its benefits outweigh the costs" (International Monetary Fund 2012, p.1). The IMF continues to argue that economies "with extensive and long-standing measures to limit capital flows are likely to benefit from further liberalization in an orderly manner." (International Monetary Fund 2012, p.1). But most important in this paper is the initial sign of recognition of the Minskyan view, as the IMF for the first time recognised the potential perils of liquidity expansion in the developed world and consequent capital movement towards emerging markets in search of higher yields, and warned that policymakers "in all countries, including countries that generate large capital flows, should take into account how their policies may affect global economic and financial stability" (International Monetary Fund 2012, p.2). What was needed, the IMF said, was "cross-border coordination of policies" which "would help to mitigate the riskiness of capital flows" (International Monetary Fund 2012, p.2).

In 2016, IMF researchers Ostry, Loungani, and Furceri (2016) confirmed the claims of the imperfect international capital markets view. They found that financial openness in emerging countries could be beneficial in the case of long-term capital movement such as foreign direct investment, but for other, short-term flows like portfolio investment and banking, and especially speculative debt inflows, "the benefits to growth are difficult to reap, whereas the risks, in terms of greater volatility and increased risk of crisis, loom large" (Ostry, Loungani and Furceri 2016, p.40). The authors also hold that austerity policies produce high welfare costs and negatively influence demand and therefore output and employment. In combination, financial openness and austerity policies are "associated with increasing income inequality" and the rise "in inequality engendered by financial openness and austerity might itself undercut growth, the very thing that the neoliberal agenda is intent on boosting" (Ostry, Loungani and Furceri 2016, pp.40, 41).

Finally, in October 2017, in its Global Financial Stability Report, the IMF recognized Minsky's paradox that stability, even if it is the result of

policymaking, is destabilizing (International Monetary Fund 2017). The report says that the loose fiscal and monetary stance of governments in the developed world and regulatory enhancements have contributed to global economic recovery and strengthened financial stability and market confidence. However, although short-term threats to financial stability have been reduced, financial stability risks have since shifted outside the banking sector. Easy monetary policy and the consequent low borrowing costs have led to a compression of global bond yields, pushing investors into riskier investment ventures in search of higher returns. Hence, as Minsky would warn, low borrowing costs and financial market volatility "support a sanguine view of risks to the global economy in the near term. But increasing leverage signals potential risks down the road, and a scenario of a rapid decompression in spreads and volatility could significantly worsen the risk outlook for global growth" (International Monetary Fund 2017, p. xiii).

Monetary support, low yields, and rising asset prices breed complacency and stimulate further accumulation of financial excesses. The trouble is that the leverage of the non-financial sector in the developed world is higher than before the 2008 global financial crisis, thus making it vulnerable to interest rate hikes. In parallel, and not surprisingly, emerging markets strongly benefitted from Minskyan liquidity expansion in the developed world, emanating from easy monetary policy and consequently compressed bond yields. According to the IMF (2017), even just the monetary accommodation of the Federal Reserve, and the resultant 'making on the carry', have brought around $260 billion worth of portfolio investments into emerging markets since 2010. Consistently, as Minsky's model would predict, intensive capital inflows and present-day low commodity prices have made the position of emerging markets precarious as their commodity revenues declined and their debt service ratio significantly deteriorated. There is now a credible threat from monetary policy normalization in the developed world. For instance, the IMF (2017) estimates that over the next two years the steady pace of financial tightening by the Federal Reserve could reduce capital flows toward investment outlets by about $35 billion a year. Policymakers must be very cautions in this situation, since such leverage has made the non-financial sector and emerging markets more vulnerable to changes in interest rates and subdued economic activity: "The key challenge confronting policymakers is to ensure that the buildup of financial vulnerabilities is contained while monetary policy remains supportive of the global recovery" the IMF (2017, p.x) report warns. "Otherwise, rising debt loads and overstretched asset valuations could undermine market confidence in the

future, with repercussions that could put global growth at risk" (International Monetary Fund 2017, p.x). For this reason, the IMF (2017) insists that the unwinding of crisis-era policies in developed countries should be gradual, well-communicated, and internationally coordinated.

To conclude, history can repeat itself, and this is why it is important to learn some invaluable Minskyan lessons from the 1997 Asian debacle. Those who fail to learn from the mistakes of their predecessors are destined to repeat them. Fortunately for all of us, it seems that, at least in the case of emerging markets, the IMF is not one of them.[5]

7. CONCLUSION

It is clear that the primary cause of the Asian financial crisis was an abrupt change in foreign investor sentiment. The abrupt change in investor sentiment was not irrational but the result of the realisation that realized outcomes would diverge from endogenously developed euphoric expectations. The sudden and ill-designed deregulation and financial liberalisation which made the excessive debt load of euphoric local businesses possible "lent importance" (Fisher 1933, p.341) to investors' beauty contest (Keynes 1936, p.156). The external political and internal business pressures that led to financial liberalisation and deregulation enabled and stimulated the financial innovations of local profit-seeking units, which led to the rise of an inverted capital structure and a pervasive financial fragility. Endogenous disequilibrating forces inherent to modern capital markets, prompted by the financial opening of local economies, are at the root of the crisis, and not corruption or excessive speculation backed by implicit government guarantees. Massive financing of long-term investments with short-term funds and debts denominated in foreign hard currency left SEAC vulnerable to a sudden collapse of investor confidence. Moreover, instead of acting to calm the situation, the IMF aggravated it by making its loans conditional on austerity measures.

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[5] On the other hand, in the 2009 Euro Area crisis, the Troika insisted on fiscal austerity while the European Central Bank cut interest rates and responded to banking sector needs by providing ample liquidity. For example, in its recent report the IMF foresees that Greece's government debt will mount to 275% of its GDP by 2060, when its financing costs will reach 62% of GDP. Therefore, among other things, the IMF proposes automatic activation of austerity measures if Greece fails to maintain a budget surplus before interest payments of 3.5% of GDP (Bloomberg 2017).

However, since then the situation has changed significantly. Starting from the 2008 global financial crisis, the IMF (2012, 2016, 2017) has dropped its opposition to capital controls (especially on short-term and speculative debt inflows), lender-of-last-resort actions, and an easy monetary and fiscal stance in the face of financial turmoil. In recent reports the IMF (2012, 2017) has also articulated the global responsibility of developed countries and has highlighted the need for globally synchronized, gradual, and coordinated policy moves. The IMF's 2017 report points to the need for macroprudential policies that discourage riskier domestic and cross-border lending and for supervisors to focus on making profitable and sustainable business models for banks. As for the emerging markets, the IMF (2017) recommends taking advantage of benign external conditions in order to reduce vulnerabilities and boost resilience by strengthening institutional infrastructure, underwriting standards, increasing foreign exchange reserves, and building capital and liquidity buffers. In the end, the IMF (2017) stresses that it is of crucial importance to complete and implement a global regulatory reform agenda in order to minimize the likelihood of another disruptive crisis. Essentially, echoing Minsky, the IMF calls for policymakers to always be in a state of alert, and "drop their blinders and accept the need to guide and control evolution of financial usages and practices" (Minsky 1986, p.281), since "success in operating the economy can only be transitory; *instability is an inherent and inescapable flaw of capitalism* (Minsky's emphasis)." (Minsky 1986, p.134).

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