What caused the Asian currency and financial crisis?

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Abstract

The paper explores the view that the Asian currency and financial crises in 1997 and 1998 reflected structural and policy distortions in the countries of the region, even if market overreaction and herding caused the plunge of exchange rates, asset prices and economic activity to be more severe than warranted by the initial weak economic conditions. The first part of the paper provides an overview of economic fundamentals in Asia on the eve of the crisis, with emphasis on current account imbalances, quantity and quality of financial "overlending", banking problems, and composition, maturity and size of capital inflows. The second part of the paper presents a reconstruction of the Asian crisis from the antecedents in 1995-1996 to the recent developments in early 1999 in parallel with a survey of the debate on the strategies to recover from the crisis, the role of international intervention, and the costs and benefits of capital controls.
Globalization and regional welfare regimes: The East Asian case, the

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Keywords
Asia; Moral hazard; Balance of payment crisis; Banking crisis; Speculative attacks; Capital controls; Crisis management

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