

Evaluation Report

The IMF and Recent Capital Account Crises

Indonesia, Korea, Brazil



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Contents

Foreword	vii
Abbreviations and Acronyms	ix
THE IMF AND RECENT CAPITAL ACCOUNT CRISES: INDONESIA, KOREA, BRAZIL	
Executive Summary	I
MAIN REPORT	
I Introduction	9
2 The Three Crisis Cases	11
Indonesia	11
Korea	16
Brazil	20
3 Precrisis Surveillance	25
The Diagnosis Role of Surveillance	25
The Impact of Surveillance	27
The Role of Transparency	27
Recent Initiatives and Further Steps to Strengthen Surveillance	28
4 Program Design and Implementation	30
Macroeconomic Framework and Projections	30
Fiscal Policy	32
Monetary Policy	33
Official Financing and Private Sector Involvement	36
Bank Closure and Restructuring	39
Structural Conditionality	41
Communications Strategy to Enhance Ownership and Credibility	43
5 Internal Governance	45
Human Resource Management	45
The Role of Major Shareholders and the Executive Board	46
The Relations with Other International Financial Institutions	46
6 Conclusions and Recommendations	48
Conclusions	48
Recommendations	51

Appendix 1. The IMF's Financial Arrangements with Three Crisis Countries, 1997–2002	55
Appendix 2. List of Interviewees	56
Box	
4.1. Conditionality for Structural Reforms in an IMF-Supported Program	42
Figures	
2.1. Indonesia, Korea, and Brazil: Exchange Rate Movements Against the U.S. Dollar Under IMF-Supported Programs	12
2.2. Indonesia: Key Economic Variables	14
2.3. Korea: Key Economic Variables	19
2.4. Brazil: Key Economic Variables	22
Tables	
2.1. Indonesia: Key Economic Indicators	13
2.2. Korea: Key Economic Indicators	17
2.3. Brazil: Key Economic Indicators	21
4.1. Real GDP and Investment Projections and Outturn in Crisis Countries	31
4.2. Real Interest Rates in Selected Countries	34
4.3. Official Financing Assumed in Initial IMF-Supported Programs	38
ANNEXES	
I Indonesia	61
Introduction	61
Precrisis Surveillance	61
Program Design	65
The Mode of Operations	79
Conclusions	83
Appendix A1.1. Indonesia: Selected Conditionality Under IMF-Supported Programs: Evolution and Implementation, 1997–98	87
Appendix A1.2. Indonesia: Timeline of Major Events	91
2 Korea	93
Introduction	93
Precrisis Surveillance	93
Program Design	99
Program Financing and the Debt Rollover	111
Conclusions	115
Appendix. Korea: Timeline of Major Events	118
3 Brazil	120
Introduction	120
Precrisis Surveillance	120
Program Design	129
Conclusions	140
Appendix A3.1. Brazil: Selected Conditionality Under IMF-Supported Programs, 1998–2000	142
Appendix A3.2. Brazil: Timeline of Major Events	144

Annex Boxes

A1.1. Indonesia: Was Monetary Policy Tight?	70
A2.1. Merchant Banks in Korea	94
A2.2. The IMF-Supported Program in Korea	100
A2.3. Recent Studies on the Impact of High Interest Rate Policy in Korea	103
A3.1. Brazil: The Real Plan	121
A3.2. Brazil: The Evolution of Exchange Rate Policy	124

Annex Figures

A1.1. Indonesia: Selected Macroeconomic Indicators	62
A1.2. Indonesia: Monthly Nominal Interest Rates	69
A1.3. Indonesia: Monthly Real Interest Rates	71
A1.4. Indonesia: Daily Movements of the Rupiah–U.S. Dollar Exchange Rate	71
A1.5. Indonesia: Base Money Outcomes and Targets Under IMF-Supported Programs	72
A2.1. Won–U.S. Dollar Exchange Rate and Korean Equity Prices	96
A2.2. Korean and Emerging Market Borrowing Spreads	98
A2.3. Won–U.S. Dollar Spot and Forward Rates	98
A2.4. Korea: Overnight Call Money Rate and Inflation	102
A2.5. Daily Volatility of U.S. Dollar Exchange Rates Against Korean Won, Japanese Yen, and Deutsche Mark	105
A3.1. Brazil: Real Effective Exchange Rate	125
A3.2. Brazil: Foreign Exchange Reserves	127
A3.3. Brazil and Emerging Markets Bond Index Spreads	129
A3.4. Brazil: Debt Sustainability Projections	132
A3.5. Brazil: Composition of Federal Domestic Securities	132
A3.6. Short-Term Interest Rate and Real–U.S. Dollar Exchange Rate	134

Annex Tables

A1.1. Indonesia: Fiscal Outcomes and Targets	66
A1.2. Indonesia: Balance of Payments Projections and Outcomes	73
A2.1. Korea Balance of Payments and Financing Requirements	112
A3.1. Brazil: Fiscal Developments	122
A3.2. Brazil: Factors Affecting Net Public Debt	133
A3.3. Brazil: Financing Assumptions and Outturns	137
A3.4. Brazil: Macroeconomic Projections	139

Bibliography**I 45**

**MEMORANDUM FROM FIRST DEPUTY MANAGING DIRECTOR,
STATEMENT BY MANAGING DIRECTOR, IMF STAFF RESPONSE,
AND SUMMING UP OF IMF EXECUTIVE BOARD DISCUSSION
BY ACTING CHAIR**

Memorandum from First Deputy Managing Director	I 55
Statement by Managing Director	I 56
IMF Staff Response	I 57
Summing Up of IMF Executive Board Discussion by Acting Chair	I 60

The following symbols have been used throughout this report:

- between years or months (e.g. 2000–01 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g. 2000/01) to indicate a fiscal (financial year).

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Thus, they have not been listed in the bibliography. However, under the current policy on public access to the IMF’s archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available ten or twenty years after their issuance depending on the series.

Foreword

This report, *The IMF and Recent Capital Account Crises*, is the second evaluation report produced by the Independent Evaluation Office (IEO). The report focuses on the role of the IMF in three recent currency crises in Indonesia (1997–98), Korea (1997–98), and Brazil (1998–99).

The three cases exemplify the new type of balance of payments crisis, characterized by a sudden reversal of capital flows, which are increasingly seen as posing special risks for emerging market countries. All three cases have been the subject of considerable debate both within and outside the IMF and, in revisiting these episodes, this report covers ground that will be familiar to many readers. However, it also brings a fresh perspective because of the IEO's access to internal IMF documents which cast new light on various aspects of each crisis, both in the buildup to the crisis and in the crisis management phase.

The primary purpose of the evaluation, in keeping with the IEO's mandate, is to draw lessons for the future. The report therefore recommends a number of steps aimed at making the IMF's surveillance and program design more effective in the prevention and management of future capital account crises. The report recognizes that many important lessons have already been learned from the cases studied and a number of changes have been made in IMF procedures and policies. The recommendations in the IEO report seek to build on the many steps already taken.

The preparation of the report followed the IEO's established procedures. A draft issues paper was posted for comments on the IEO's website (www.imf.org/ieo) and was later revised, on the basis of inputs from a range of groups and individuals, to form the final terms of reference for the evaluation. This was posted on the website and interested parties were invited to submit material relevant to items included in the terms of reference. Several seminars were held to interact with outside experts and stakeholders and comments on early drafts were obtained from staff. The final IEO report, as approved by the Director, was submitted to management for comments and also circulated simultaneously to Executive Directors. The report was discussed in the Executive Board on May 30, 2003, along with comments from management and staff.

In line with IEO procedures, the report, as discussed in the Board, is being published along with the Summing Up of the Executive Board discussion by the Acting Chair and the statements by management and staff to the Board. The staff statement draws attention to positive developments in Indonesia and Brazil in the period following the end of the programs covered by this report. The IEO was precluded from evaluating these developments because our mandate does not allow us to review ongoing programs.

Montek S. Ahluwalia
Director
Independent Evaluation Office

The IMF and Capital Account Crises: Indonesia, Korea, Brazil

The report was prepared by a team headed by Shinji Takagi and including Ali Mansoor, Kevin Barnes, and Benjamin Cohen. The team was assisted by Afonso Bevilaqua, Stephen Grenville, Mohamad Ikhsan, Jai-won Ryou, and Takashi Shiraishi; sections of the report have also benefited from comments and other inputs from Jeffrey Frankel, Takatoshi Ito, Yung Chul Park, and David Peretz. However, the final judgments are the responsibility of the IEO alone. Research assistance from Misa Takebe, Shauqie Azar, Minkyung Kim, and Leandro Rothmuller; administrative support by Annette Canizares, Arun Bhatnagar, and Florence Conteh; and editorial work by Ian McDonald and Esha Ray are gratefully acknowledged.

The Independent Evaluation Office (IEO) was established by the International Monetary Fund's Executive Board in July 2001. The office operates independently of IMF management and at arm's length from the IMF's Executive Board. Its mission is to provide objective and independent evaluation of issues related to the IMF's mandate and thereby support the Executive Board in its governance and oversight responsibilities, to contribute to enhancing the learning culture of the IMF, and to promote understanding of the IMF's work.

Abbreviations and Acronyms

ADB	Asian Development Bank
APD	Asia and Pacific Department (IMF)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BIS	Bank for International Settlements
BLBI	Bank Liquidity from Bank Indonesia
BOK	Bank of Korea
BPK	Supreme Audit Agency (Indonesia)
CBA	Currency board arrangement
CCL	Contingent Credit Line (IMF)
CD	Certificate of deposit
CPMF	Financial transactions tax (Brazil)
EFF	Extended Fund Facility (IMF)
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
ERM	Exchange rate mechanism
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program (IMF)
FSC	Financial Supervisory Commission (Korea)
FSS	Financial Supervisory Service (Korea)
G-7	Group of Seven countries
GDP	Gross domestic product
IBRA	Indonesian Bank Restructuring Agency
ICM	International Capital Markets Department (IMF)
IDB	Inter-American Development Bank
IEO	Independent Evaluation Office (IMF)
IFI	International financial institution
IIF	Institute of International Finance
IMF	International Monetary Fund
INDRA	Indonesia Debt Restructuring Agency
ITC	Investment trust company (Korea)
JIBOR	Jakarta interbank offered rate
KAMCO	Korea Asset Management Corporation
KDB	Korea Development Bank
KDIC	Korea Deposit Insurance Corporation
LIBOR	London interbank offered rate
LOI	Letter of intent (IMF)
LOLR	Lender of last resort
MAE	Monetary and Exchange Affairs Department (IMF) ¹
MEFP	Memorandum on economic and financial policies (IMF)

¹Effective May 1, 2003, name was changed to Monetary and Financial Systems Department.

MOF	Ministry of finance
MOFE	Ministry of Finance and Economy (Korea)
NDA	Net domestic assets
NIR	Net international reserves
NPL	Nonperforming loan
OECD	Organization for Economic Cooperation and Development
PC	Performance criteria (IMF)
PDR	Policy Development and Review Department (IMF)
PEDT	Private External Debt Team (Indonesia)
PIN	Public Information Notice (IMF)
PSBR	Public sector borrowing requirement
PSI	Private sector involvement
RES	Research Department (IMF)
ROSC	Report on the Observance of Standards and Codes (IMF)
SBA	Stand-By Arrangement (IMF)
SBI	Bank Indonesia certificate
SDDS	Special Data Dissemination Standard (IMF)
SDR	Special drawing right (IMF)
SME	Small and medium-sized enterprise
SRF	Supplemental Reserve Facility (IMF)
URV	Unit of real value (Brazil)
VAT	Value-added tax
WHD	Western Hemisphere Department (IMF)
WTO	World Trade Organization