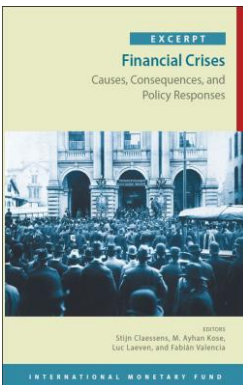


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FINANCIAL CRISES: CAUSES, CONSEQUENCES, AND POLICY RESPONSES (WORLD ECONOMIC OUTLOOK)

Authors: Stijn Claessens, M. Ayhan Kose, Luc Laeven, and Fabian Valencia

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Book Review contributed by DeLisle Worrell.

The causes of crises vary, including terms of trade, capital flows, international interest rates, policy failures, domestic and external shocks. Chapter 2 of the book provides a database of the starting dates of financial crises. Successful crisis resolution features transparency, steadfastness, full disclosure of bad assets and recognition of losses, and recapitalisation of viable institutions. Following global crises, governments tend to keep interest rates low, rather than default on debt. Advanced economies have also converted high-yield short term public debt into low-yield long term debt.

In terms of predicting financial crisis, useful early warning indicators of financial turmoil are hard to come by. The authors conclude that credit default swaps do not give sufficient warning of a crisis. The deviation of credit from its long term trend is "more useful", but it is difficult to determine the trend until after the crisis has hit.

They also note that recessions associated with financial crises are especially severe in the short term, but in the medium term, growth usually returns to the pre-crisis rate.