

---

## Comments

---

**In Koo Lee:** This paper studies the diagnosis, remedies, and prospects of ongoing global financial turmoil with a focus on the experiences of the Nordic countries. The authors draw on a conclusion that institutional failures such as 1) protection of creditors, 2) lack of credible insolvency procedures and corporate governance system, and 3) uncertainty about the political process played a major role in amplifying the financial crisis. In particular, the Swedish model for crisis resolution is discussed to illustrate the problems policymakers face during the financial crisis without appropriate institutions.

There is no doubt about excessive expansionary monetary policy and the inadequate legal system in the financial sector causing the current global financial crisis. However, the question is why it has such a widespread impact. The appropriate answer is, as is widely accepted, the over-securitization that originated from financial innovation and led to the worldwide credit crunch and global recession, combined with capital and goods market integrations. The remaining question is if credible and effective regulations on the financial industry are enough to prevent another global financial crisis. For example, after being criticized for moral hazard and excessive risk-taking behavior, East Asian countries largely implemented a variety of institutional reforms, but they still seriously suffer from the intrinsic instability of international financial markets. This means something more should be put in motion to prevent global financial crises as long as financial innovation and liberalization are being advanced. In this sense, more focus must be placed on how to evaluate effec-

tively the soundness of financial institutions and what should be done to improve the credit rating system.

One other point is a growing protectionism of advanced economies and its implications for global trade and financial transactions. Considering these issues would provide more fruitful implications for emerging markets.