
Summary of General Discussion on “Origins and Resolution of Financial Crises: Lessons from the Current and Northern European Crises”

The key message in the paper by Finn Østrup, Lars Oxelheim, and Clas Wihlborg was that to reduce the adverse real economic effects of financial crises, losses needed to be allocated swiftly and on a permanent basis. Sayuri Shirai pointed out that there are typically two ways to deal with financial crises. One was to take non-performing assets of financial institutions' balance sheets and the other was for governments to provide guarantees. In the case of the United States, a mixed approach seemed to have been adopted. In response to a question by Iris Claus on how the United States might be able to improve on the Swedish model, Finn Østrup reiterated that the crucial task was to apply swift resolution procedures that allocated losses efficiently. Once wealth was redistributed, economic recovery could begin. In his view, neither the United States nor Europe was dealing with their financial sector problems in a timely manner, which exaggerated the adverse economic effects and delayed recovery.

The rest of the discussion focused on the future of the European Union and its common currency, the euro. Claus asked whether a common currency was desirable in Europe given the difficulties of financial markets and the important role of exchange rates in reducing the real effects when adjusting to shocks. Kwanho Shin also noted the possible additional difficulties that could arise from not all countries in the EU having adopted the euro. Fredrik Sjöholm raised concerns about the possible threats to European integration following financial market difficulties and expanded on this point. He considered it unlikely that

countries would drop out of the common currency because the costs of disestablishing the euro would by far exceed the benefits. Undoubtedly though, the euro will cause tension in Europe. Sjöholm noted Finland's discontent with the depreciation of the Swedish krona and subsequent gain in export market share that followed the Swedish financial crisis. Østrup agreed that governments would likely come under great pressure to abandon the common currency as unemployment in Europe continued to rise. However, he was unwilling to speculate on whether a monetary union would be maintained in Europe.

Prema-chandra Athukorala stressed the importance of good management of financial crises. In his view, the depreciation of the krona helped speed up the recovery from the Swedish financial crisis, but the combination of the depreciation, the taking out of toxic assets from banks' balance sheets, and their recapitalization are the ingredients that led to recovery. None of these measures would have worked in isolation. Based on the history of previous financial crises, Bhanupong Nidhiprabha conjectured that it could take the United States and Europe 5 years or longer to recover. This meant that Europe and the United States could not be relied upon to pull the world out of economic recession. It is time for Asia to mobilize its forces.