Sudden Stop, Financial Factors and Economic Collpase in Latin America: Learning from Argentina and Chile

Guillermo A. Calvo & Ernesto Talvi

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This paper shows that the Russian 1998 crisis had a big impact on capital flows to Emerging Market Economies, EMs, especially in Latin America, and that the impact of the Russian shock differs quite markedly across EMs. To illustrate this statement, we compare the polar cases of Chile and Argentina. While Chile exhibited a significant economic slowdown after August 1998, it did not suffer the excruciating collapse suffered by Argentina, where even the payments system came to a full stop. We attribute their difference to the fact that Chile is more open to trade than Argentina, and that it appears to suffer much less from balance-sheet currency-denomination mismatch that was rampant in Argentina before the 2002 crisis (due to large domestic liability dollarization). The paper is essentially descriptive but is in line with and, thus, complements econometric studies like Calvo, Izquierdo and Mejia (NBER Working Paper 10520). The final section addresses policy issues in light of the paper's findings and conjectures.

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Serra, Narcis and Joseph E. Stiglitz (eds.) The Washington Consensus Reconsidered: Towards a New Global Governance (Initiative for Policy Dialogue Series). New York: Oxford University Press, 2008.

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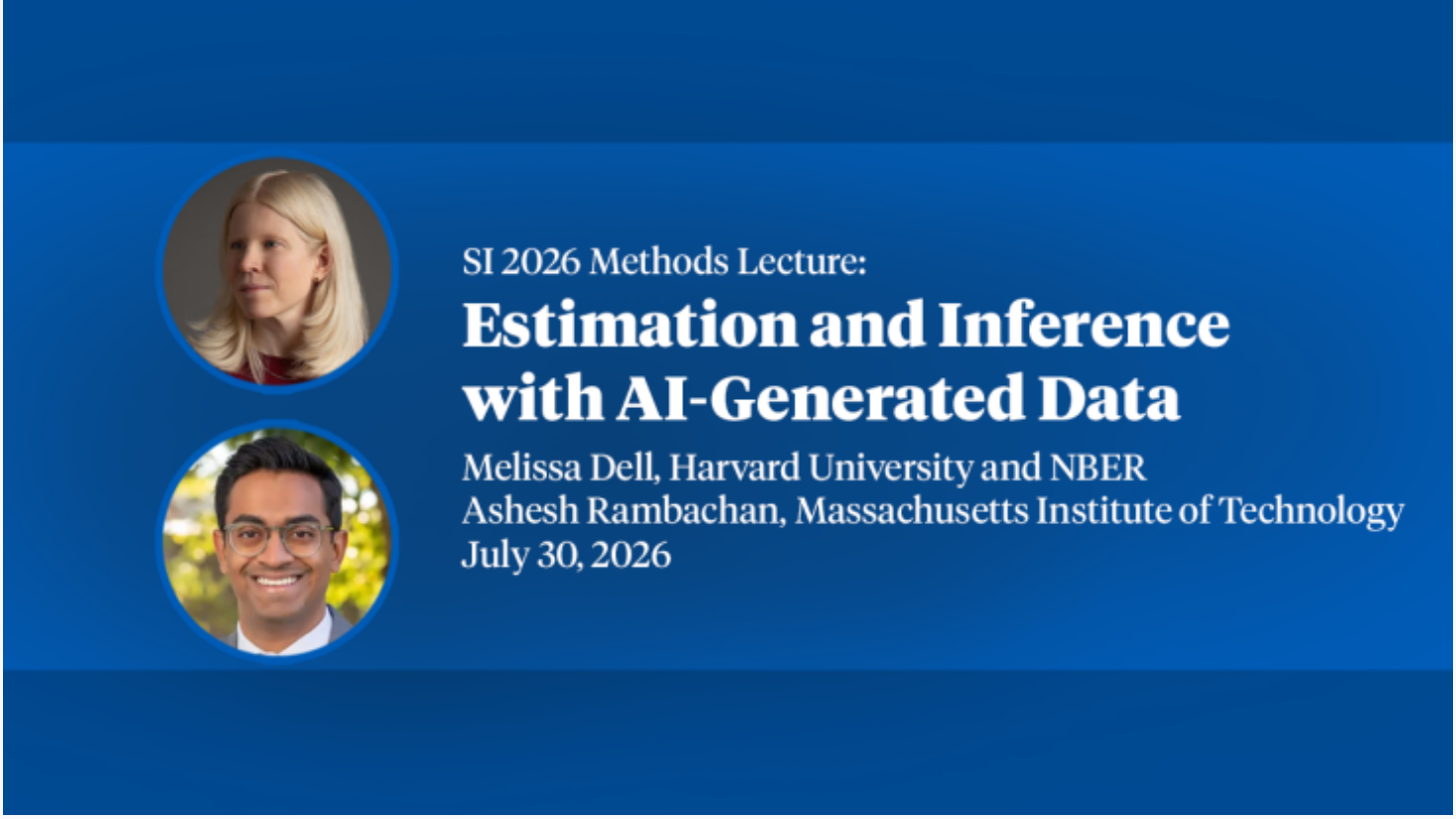


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Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

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