

The contents of this document are preliminary and subject to change.

GRAY/05/2993

September 16, 2005

**Statement by Ms. Phang and Mr. Wesaratchakit on
Progress Report on Crisis Resolution
(Preliminary)
Executive Board Meeting 05/80
September 16, 2005**

1. Like other Directors, we welcome staff's concise progress report on developments which are relevant to crisis resolution. On the whole, we are encouraged by the progress made on many areas of crisis resolution associated with sovereign debts. However, we are somewhat concerned with the report's narrow coverage as it was widely acknowledged that the Asian crisis was triggered by private-sector debt flows. In this connection, we encourage staff to also examine ways in which a proper framework can be created to promote the orderly restructuring process of private-sector debts.
2. On collective action clauses (CACs), we join other Directors in welcoming the increase in the proportion of emerging market sovereign bonds that include CACs. This augurs well for a higher probability of orderly debt restructuring. In particular, we are encouraged by the lack of adverse impact on bond prices from the inclusion of CACs since this probably reflects that investors now view CACs as a generally accepted trend, not something that sends a negative signal. Like Messrs. Lynch and Kruger, we are concerned about the issue-specific feature of CACs which therefore puts into question its effectiveness in yielding an orderly debt restructuring in the case of a large number of bond issues. In this regard, we would appreciate if staff could look into the benefits of the 'aggregate clause'.
3. We welcome the efforts by the Institute of International Finance to broaden the consensus on the principles for stable capital flows and fair debt restructuring in emerging markets (the Principles). In particular, we would like to stress the importance of making the Principles operational by integrating them within private sector firms' day-to-day operations. With the enormous size of capital flows, emerging markets as well as the global financial system are always exposed to the risk of disorderly movement of capital.
4. On assessing the determinants and prospects for the pace of market access by countries emerging from crises, we agree with staff that an appropriate communication strategy is a critical element of the country's effort to emerge from the crisis. In this regard, we emphasize that staff should not insist on countries having to publish IMF staff reports when the authorities feel that the reports contain market sensitive information that can cause confusion and panic in the markets, since they are in the best position to assess the sensitivity of country specific information. In addition, we encourage staff to conduct further studies on

the movement of capital flows as countries, despite maintaining good macroeconomic policies to prevent crises, could still be faced with crisis situations owing to contagion effects which are exogenous and outside their control.

5. On banking crises and sovereign debt restructuring, we reiterate our position that prevention is the first and foremost line of defense. The Fund should continue to strengthen its surveillance to highlight to the authorities, vulnerabilities and weaknesses in the banking sector, either through bilateral surveillance or in a wider context of the WEO and the GFSR. We again stress the importance of efficient coordination and integration of the work among the functional departments and the area departments and as such, look forward to the findings and recommendations of the Financial Market Review Group.