

2013-12-05

PRESS RELEASE

The BIS and the Latin American debt crisis of the 1980s

by Piet Clement and Ivo Maes

NBB Working Paper No 247 - Research Series

The Latin American debt crisis of the 1980s was the first postwar global financial crisis. Although the crisis started in the "periphery", it constituted a threat to the "core" of the world economy, as the banking system was under severe pressure. The G10 central banks acting through the Bank for International Settlements (BIS) played an important role in the management of this crisis, especially in the provision of "bridging loans" (before IMF stabilisation loans could be granted). Moreover, BIS statistics were invaluable for policy-makers to quickly identify the banks involved in the debt crisis and the extent of their exposures. The crisis management was quite successful, at least by preventing it spreading from the periphery to the core of the world economy.

This paper clearly shows that there was a high degree of concern in the central banking community in the 1970s about the debt build-up in the periphery. Alexandre Lamfalussy, the BIS Economic Advisor, from early on emphasised that a borrowers' market had been developing, stimulated by loose monetary policies and the US current account deficit. However, in the analysis of the debt build-up, the role of financial innovations was not really captured. There were several BIS-coordinated efforts at slowing down foreign lending. In 1976, Lamfalussy proposed to create a "risk office" at the BIS in order to collect crucial information on a limited number of systemically important banks. The BIS took the lead in the "Burns' checklist" initiative, aimed at raising awareness among the main international banks about sovereign risks. Furthermore, Lamfalussy argued strongly for the use of prudential instruments (like capital ratios) to moderate credit growth, and was thus an early proponent of a macroprudential approach to financial stability. However, policy-makers did not succeed in agreeing on any concrete initiatives. This was partly related to differences in analysis and policy objectives. A major stumbling block was also the competitive position of the banks of the different countries. Moreover, the Basel Committee on Banking Supervision was keen not to be distracted from its micro-prudential mission. It proved impossible to reach a consensus on macroprudential measures.

The Latin American debt crisis was at the origin of significant efforts at strengthening the international financial system. The authorities, also the BIS, improved their monitoring efforts, especially the statistical apparatus. Furthermore, there were efforts to make the banking system more resilient. This would eventually lead to the 1988 Basel Capital Accord. However, attempts to strengthen liquidity in the banking system faded. The rapid build-up of external debt in the periphery in the late 1970s was also the first occasion on which the central bank community at the BIS reflected on a macroprudential approach to financial stability. These discussions proved to be influential in shaping the BIS view. Over time, the BIS developed a broad approach to financial stability, "marrying" the micro- and macroprudential dimensions. A crucial lesson from the Latin American debt crisis is certainly the need to combine microprudential information (for instance on financial innovations) with the macroprudential approach.