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mies. Indeed, Japan and emerging Asia in the 1990s appear in many ways to have replayed the roles of U.S. banks and Latin America in the late 1970s and early 1980s.

To sum up, this is an interesting paper which helps us understand the traumatic events of 1997 and 1998 in several Asian economies. Furthermore, the analysis is sufficiently general to provide insights into the more generalized features of financial vulnerability.

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Comment Aaron Tornell

This very interesting paper belongs to a class of recent papers which show that currency crises do not spread randomly. Although it is not possible to predict the timing of crises, it is possible to explain an important proportion of the cross-country variation in the intensity of the crisis in the event that a generalized crisis hits emerging markets.

This paper focuses on the Asian 1997 crisis and shows that the lending boom and real exchange rate appreciation go a long way in explaining the cross-country variation in the crisis index. These results confirm the findings of earlier papers and provide reinforcing evidence that the behavior of private banks has important macroeconomic effects.

A lending boom is an acceleration of credit from the banking system to private and state-owned firms. During a lending boom, the fast growth of credit might overwhelm both the monitoring capacity of banks and the regulatory capacity of authorities. As a result, a greater share of loans may

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end up in low-return projects or excessively risky activities. Therefore, over the span of a few years, the share of bad loans in the banks' portfolios will increase dramatically. When this occurs, the country becomes an attractive target for a currency attack.

Similarly, a severe real exchange rate appreciation reflects macroeconomic imbalances, and might lead to a greater nominal depreciation in case of an attack. Interestingly, this effect is more pronounced in Latin America than in Southeast Asia.

Unconditionally, a lending boom need not be a bad thing. It might reflect financial deepening, which is important for long-run economic growth. However, as mentioned earlier, it might also reflect overinvestment in low-return projects or excessively risky activities. It is thus important to investigate whether a given lending boom reflects the former situation or the latter. This paper takes a step in this direction by investigating the effects of higher investment on productivity growth. I look forward to further results along these lines in future work by the authors of this paper.