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Summing Up by the Acting Chairman
Systemic Bank Restructuring and Macroeconomic Policy
Executive Board Meeting 97/12
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Executive Directors welcomed the opportunity to consider the relationship between systemic bank restructuring and macroeconomic policy, and commended the papers for providing a timely and very useful contribution to the understanding of a complex and increasingly important issue. While welcoming the papers' approach of reviewing the experiences of a large number of countries to distill "best practices," a few Directors cautioned that, in some cases, the experience with bank restructuring was too recent to allow firm conclusions to be drawn.

Directors broadly agreed with the main conclusions of the staff papers. They noted that a wide range of member countries had undertaken systemic bank restructuring programs in response to banking sector crisis or financial sector distress. As the costs of widespread banking problems could be very high, Directors stressed the need to contain those costs through effective resolution strategies. Recognizing the importance for the Fund of linkages between systemic bank restructuring and macroeconomic policy, as well as the potential for spillover effects in an environment of globalized financial markets, Directors considered that there was a need for the Fund to give greater attention to those issues and for further work, especially on the implications for Fund operations.

Directors generally agreed that the Fund was uniquely placed, through its activities related to surveillance, program design, and technical assistance, to play an important role in alerting members to weaknesses in their banking systems and their legal and regulatory regimes, and in encouraging and monitoring adherence to internationally set supervisory and prudential guidelines. The focus of that role should be on the macroeconomic implications of systemic bank restructuring strategies. The Fund should exercise caution in making an assessment of members' banking systems so as not to be, or appear to be, a "rating agency." It was also emphasized that responsibility for monitoring and implementation of banking standards and bank restructuring rested in the first instance with national authorities.

Directors stressed that the Fund should avoid duplicating the work of the World Bank and other international and regional organizations, and most Directors indicated that the World Bank and other multilateral financial organizations should take the lead in the microeconomic and operational aspects of bank restructuring. Directors looked forward to the active exploration of mechanisms for enhanced cooperation with the World Bank and other international organizations. I note the suggestions for a clear joint statement by the two institutions delineating their respective roles, and we will consider the feasibility of this, either through a joint statement by the Managing Director of the Fund and the President of the World Bank or by a joint paper. I note also the suggestion for more consultations with the private sector.

Directors agreed on the importance of early detection of systemic banking problems and the prompt implementation of comprehensive policies to address them in order to avoid substantial increases in their costs. In that context, it was observed that successful restructuring strategies, besides addressing macroeconomic and structural problems and their implications, should include both financial and operational restructuring of banks. Implementation of a successful restructuring strategy required strong political support, a clear institutional framework, and a thorough diagnosis.

Directors noted that country experiences showed that a variety of instruments were available to implement banking system restructuring policies. They agreed that the instruments chosen in individual country cases should ideally be cost effective and simple to implement, distribute losses equitably while minimizing the public sector burden, avoid generating future moral hazard problems, promote good governance, and be consistent with sound macroeconomic management. Directors also agreed on the importance of designating an agency with lead responsibility for bank restructuring, monitoring the process closely, applying firm exit policies, and putting in place appropriate asset management and loan-recovery policies. Directors emphasized the need to correct weaknesses of the legal and institutional framework, including banking supervision. Directors agreed that banks' tax obligations should not be arbitrarily reduced, but that the opportunity should be taken to reform inadequate tax treatment of loan losses and provisioning.

Directors noted the importance of building sound banking systems by promoting a competitive, open environment with a level playing field. In that context, some Directors urged that special attention should be given to the privatization of state-owned banks. Some also called for more liberal entry of foreign banks to enhance competition. Others recommended that, in the context of the transition economies, enterprise and banking sector restructuring could usefully be pursued in parallel.

Directors emphasized the need for an assessment of the macroeconomic implications of bank restructuring programs and their medium-term implications for debt sustainability. Ensuring consistency with macroeconomic stability, many Directors noted, often required substantial fiscal adjustment. Moreover, Directors underscored that any public sector financial assistance to banks should only be provided in conjunction with a comprehensive and credible restructuring program. Directors generally agreed that, for countries with major bank assistance operations, the proposed "augmented" fiscal balance, which incorporated the major quantifiable costs of bank assistance operations, would usefully complement standard fiscal measures and would facilitate comprehensive, transparent, and consistent recording of such operations, but cautioned that the "augmented" balance should not be used as a performance target. In view of the linkages between banking and nonbank financial institutions, the design of bank restructuring programs should also take into account the impact of bank restructuring on nonbank financial institutions so as to ensure macroeconomic stability.

Directors observed that systemic bank restructuring complicated the conduct of monetary policy because the effectiveness of particular monetary instruments could be reduced and because the information content of particular monetary and credit aggregates could become distorted. A number of Directors considered that those complications could necessitate more reliance on fiscal policy, but others wondered whether shifting the stabilization burden to fiscal policy was feasible in many cases. In addition, Directors noted that, while the central bank might need to extend substantial liquidity support to viable banks, it should not be drawn into providing solvency support or long-term financing of bank restructuring operations.

On the question of a trade-off between bank restructuring and the timetable for achieving macroeconomic objectives, some Directors agreed with the staff that, if the pursuit of tight macroeconomic policies exacerbated solvency problems and ultimately raised the overall cost of bank restructuring, the possibility of lengthening the timetable for achieving certain macroeconomic objectives should be considered. A number of other Directors, however, suggested that there might not be an inherent trade-off, unless liquidity was scarce or the capacity for fiscal adjustment was limited. They were of the view that bank restructuring was best undertaken in the context of a monetary policy geared to price stability. A tight overall policy stance, through its beneficial effects on confidence and interest rates, could lead to higher growth and better conditions for the banking sector, possibly even in the short run.

Directors supported publication of the staff papers after revision to take into account the Board discussion.