

Cross-Cutting Themes in Economies with Large Banking Systems

Presentation to WTO, June 29, 2010

Tam Bayoumi (IMF)

Risks from Large Banking Systems

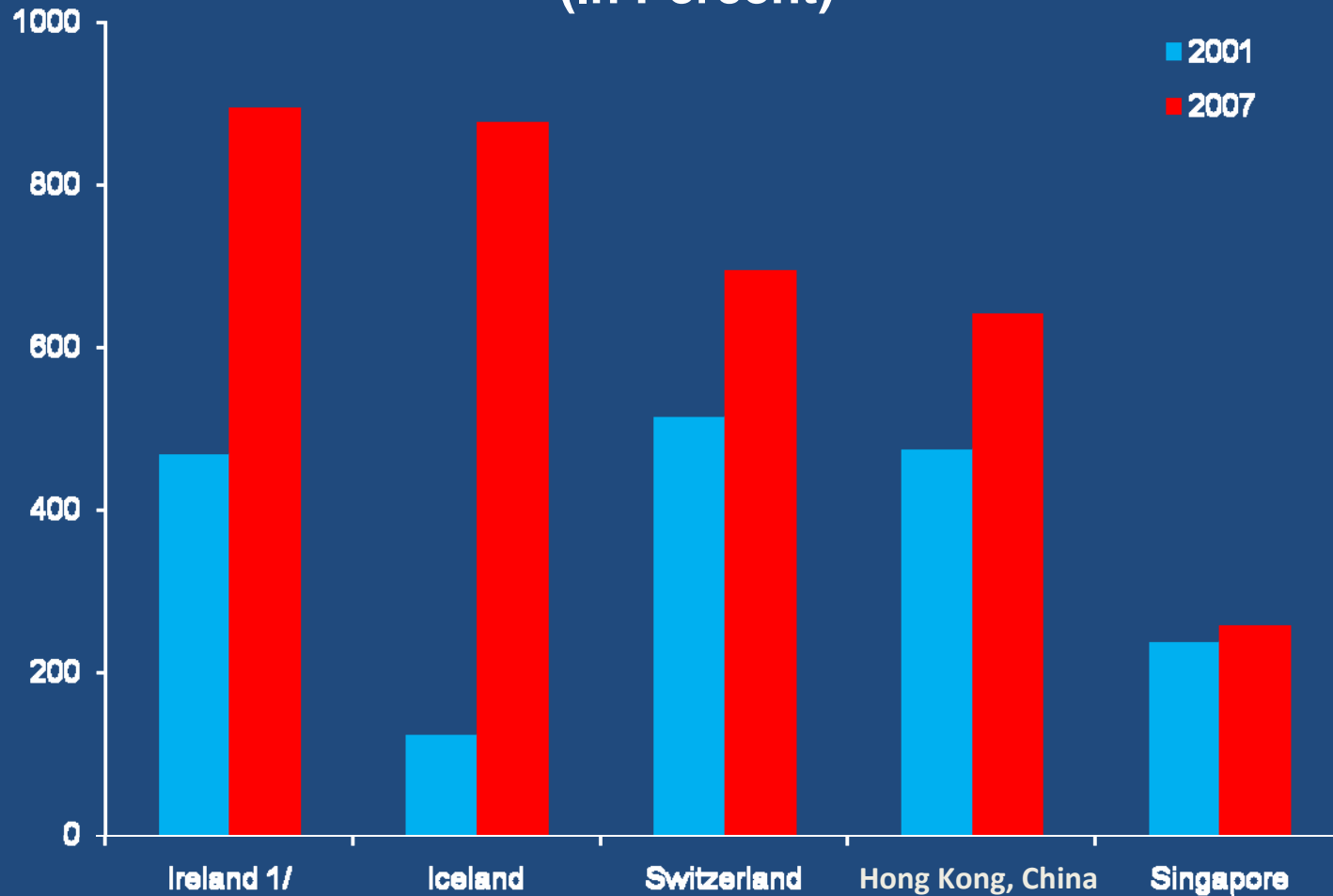
- **Cross border loans**
- **Limited fiscal resources**
- **Lack of reserve currency**

What drove outcomes in Iceland; Ireland; Swiss; Hong Kong, China; and Singapore?

I. Run-up to the crisis

Evolution of Banking Systems

Banking Assets to GDP (In Percent)



Banking Systems in Crisis Run-up

	Rapid growth of bank assets	Rapid growth of foreign bank assets	Reliance on trading income	Reliance on external funding	Reliance on wholesale /short-term funding
Iceland	✓	✓	✓	✓	✓
Ireland	✓	✓	NO	✓	NO
Switzerland	NO	✓	✓	✓	✓
Singapore	NO	NO	NO	NO	NO
Hong Kong, China	NO	NO	NO	NO	NO

Macroeconomic characteristics

	Rapid growth of House Prices	Rapid credit growth	Current Account Deficits	Structural Fiscal Weakness	Weak External Liquidity Buffers
Iceland	✓	✓	✓	✓	✓
Ireland	✓	✓	✓	✓	✓
Switzerland	NO	NO	NO	NO	✓
Singapore	NO	NO	NO	NO	NO
Hong Kong, China	NO	NO	NO	NO	NO

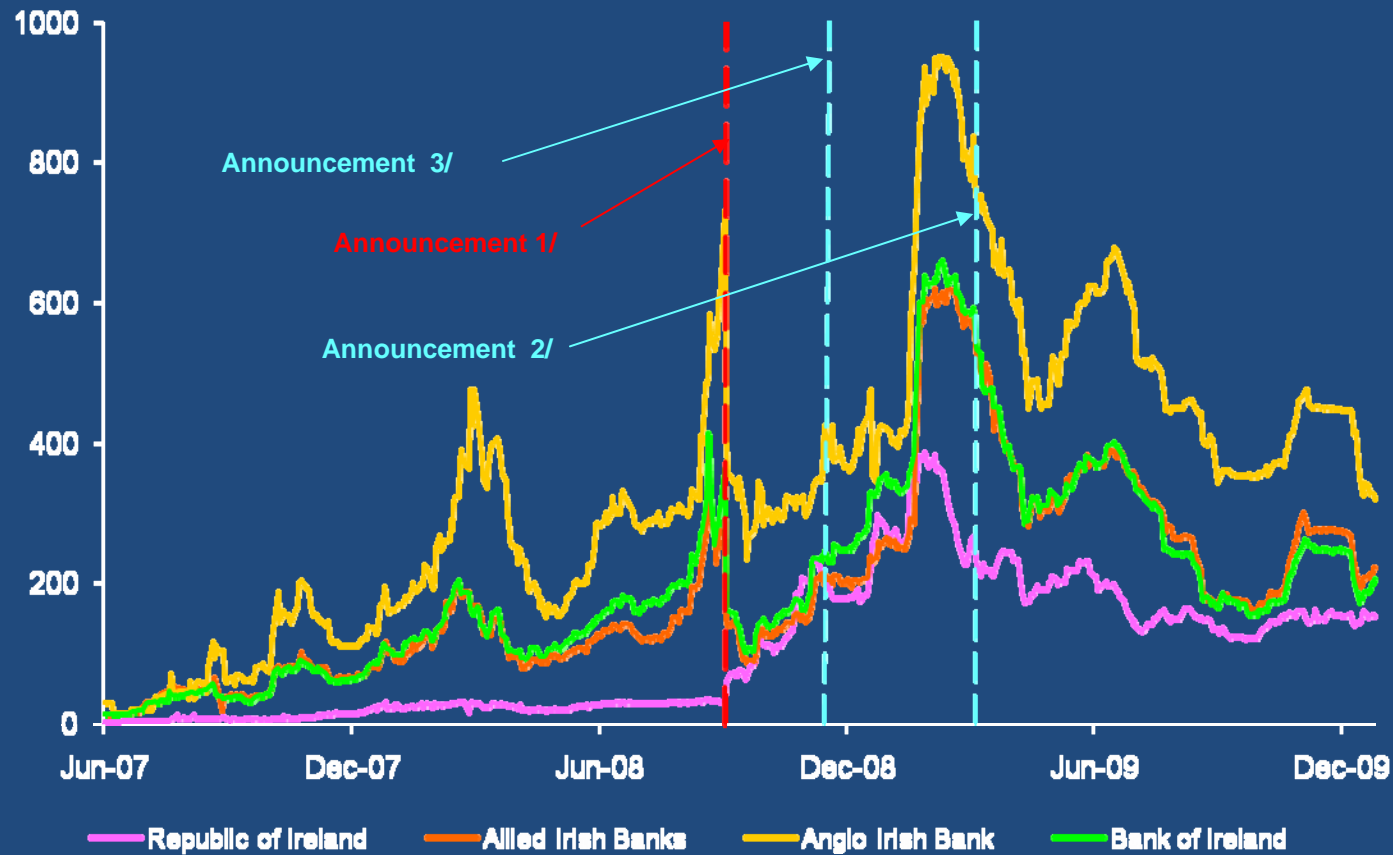
II. Policy Responses

Range of Policy Responses Varied

	Extension of retail deposit insurance	Debt Guarantees	Liquidity Support (Int'l)	Liquidity Support (Domestic)	Capital Injections	Asset purchases/ Swaps
Iceland	✓	✓	✓	✓	✓	✓
Ireland	✓	✓	✓	✓	✓	✓
Switzerland	✓	NO	✓	NO	✓	✓
Singapore	✓	NO	✓	NO	NO	NO
Hong Kong, China	✓	NO	With PBoC	NO	NO	NO

Impact of Liability and Asset Policies

Irish Sovereign and Bank CDS Spreads



1/ Blanket bank liability guarantees.
2/ Purchase of bad assets (NAMA).
3/ Recapitalization of major banks.

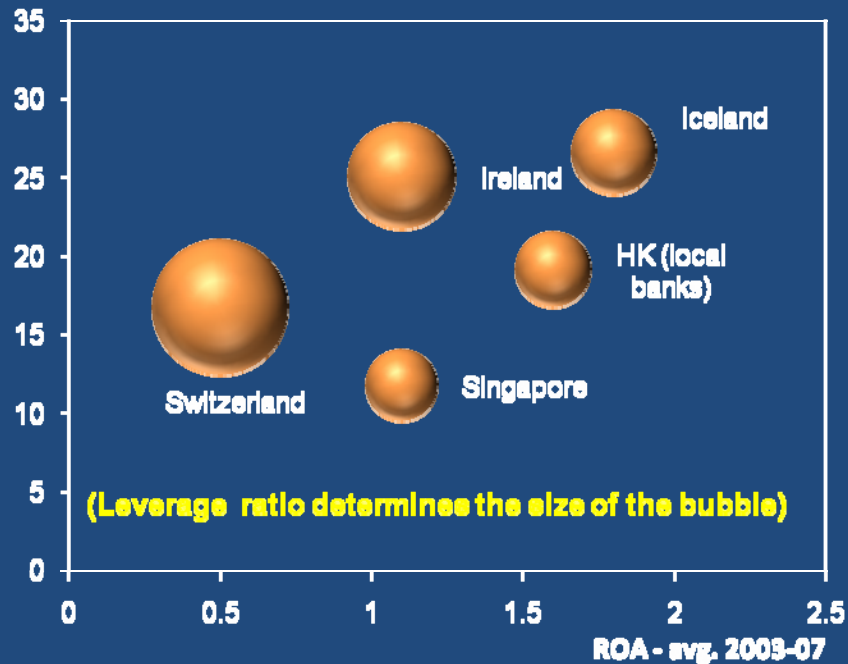
III. Explaining Outcomes: Two Issues

Why Asia fared better – Less Leverage

RoA versus RoE

Leverage

ROE -
avg. 2003-07

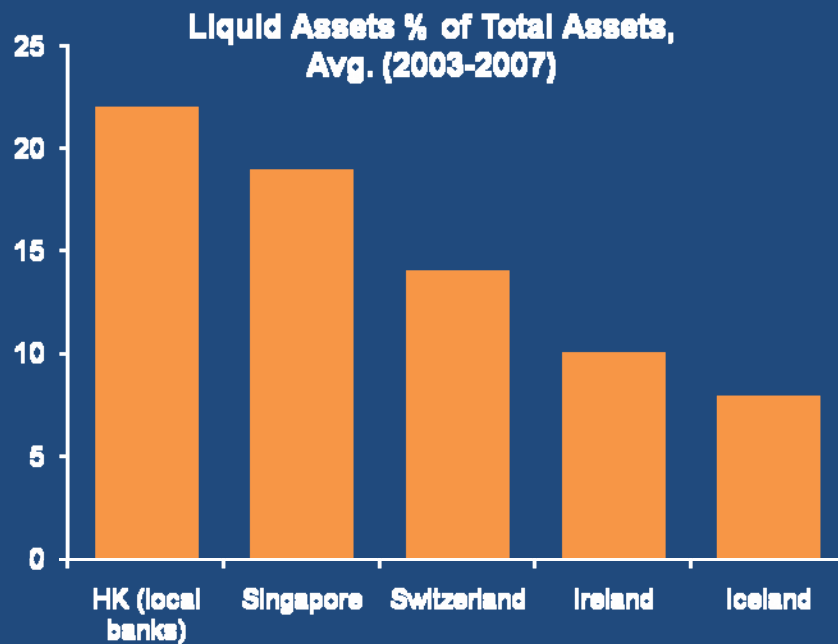


Leverage Ratio (Times, Avg. 2003-2007)

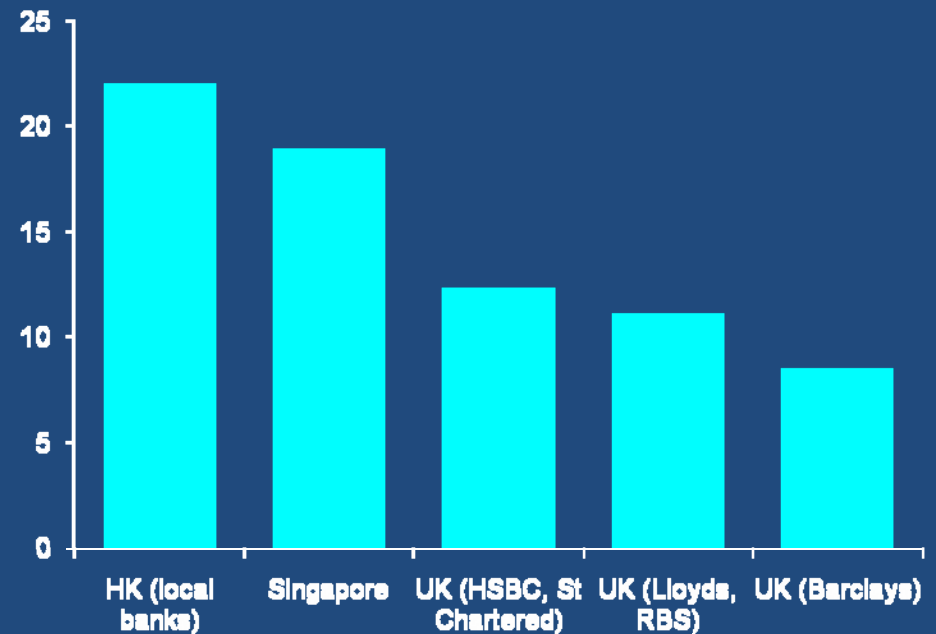


Why Asia fared better – More Liquid

Liquid Assets by economy

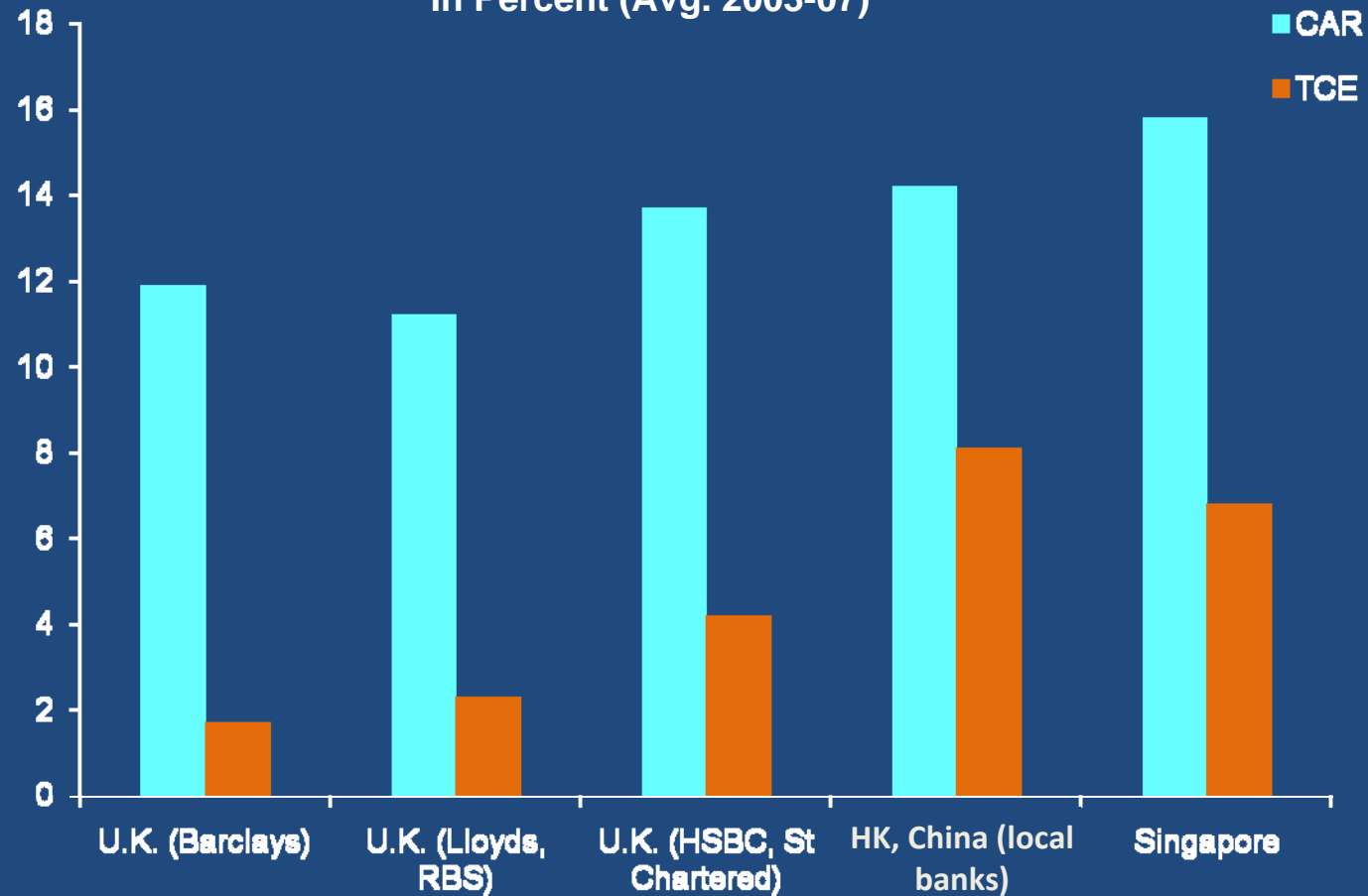


Liquid Assets – Asian/Hybrid/UK



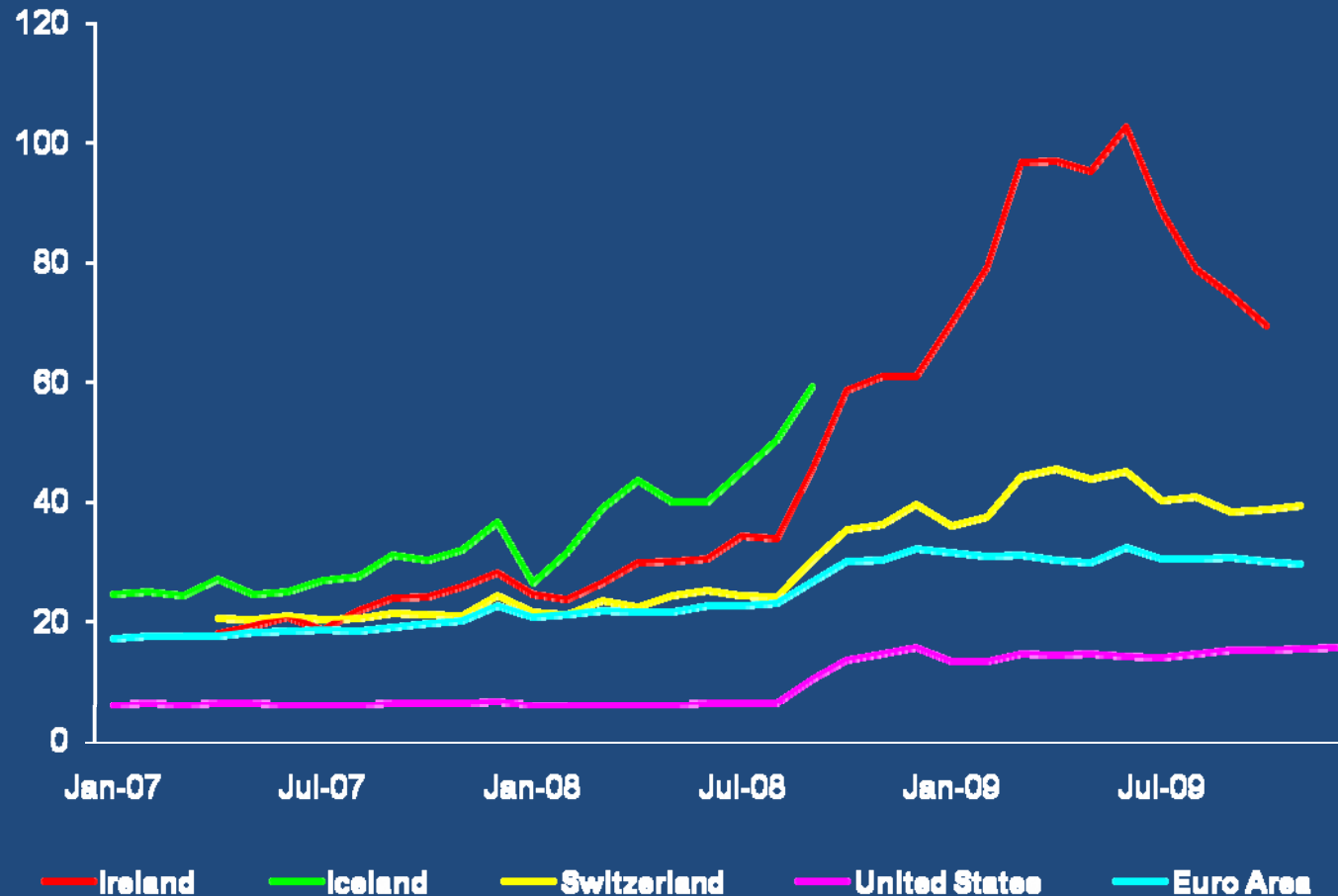
Why Asia fared better – Better Capitalized

Capital adequacy Ratio vs. Tangible Common Equity Ratio,
In Percent (Avg. 2003-07)



2. The Role of External Support

Central Banks: Total Assets to GDP
(In Percent)



Sources: Country Authorities, WEO, IFS, and Fund staff estimates.

Note : For Ireland balance sheet includes ECB support intermediated through the Central Bank.

IV. Conclusions

Policies

Best is strong cross-border resolution. Also:

- ✓ Robust Supervision and Strong Regulation.
- ✓ Case for Encouraging Subsidiarization.
- ✓ Quick Action to Clean-up Balance Sheets.
- ✓ Fiscal and Foreign Exchange Buffers.
- ✓ Supervisory Co-operation Not Enough.