



How to deal with a banking crisis

Minsk
1 July, 2015
Mr Göran Lind

A Typical Crisis

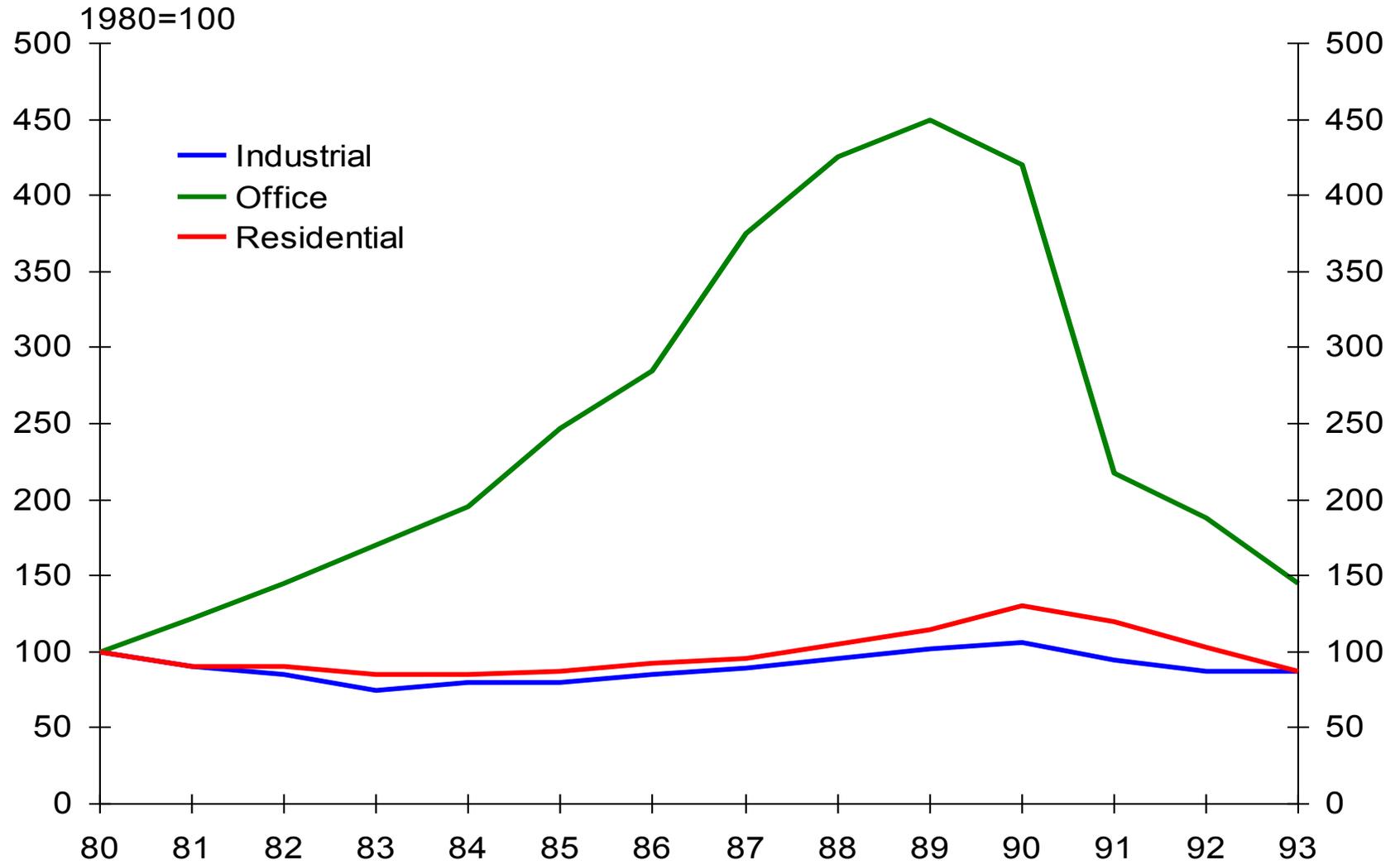
- Underlying weaknesses
- Supervisory responses
- Trigger
- Crisis Management
- Resolution
- Systemic Crisis?



Underlying Weaknesses

- Lax lending standards
 - Bubbles (property and other)
 - Self-dealing or fraud
 - Weak corporate governance in banks
 - Concentration risk
 - Cross-currency lending
 - Vulnerable funding situation
-

Real Property Prices



Supervisory Rules

- Capital adequacy
 - Liquidity planning
 - Corporate governance
 - Risk management
 - Concentration risk
 - Insider lending
-



Supervisory Action

- Early action – before formal violations occur
 - Proportionate action to the problem
 - Act on the REAL problem
 - Rapid follow-up on supervisory requests
 - Independent and skilled supervisors
 - A good system of legislation and regulations
 - Add Financial Stability and MacroPrudential Oversight and tools.
-

Underlying Weakness



Crisis Trigger

- MacroEconomic Event
 - Bubble bursting
 - A group of stakeholders gets worried
 - Violation of a bank rule
 - Fraud detected
 - Event abroad, e.g., on international markets
-

Crisis Management

- Deal with the trigger and the underlying
 - Be transparent and fair
 - Achieve political agreement
 - Extend ELA but only if appropriate
 - Owners should contribute or lose the bank
 - Bail-in instruments could be used
-

Bank Resolution

- Criterion: If not likely to be viable
 - Liquidation
 - Merger
 - Bridge bank
 - Good bank/Bad bank (AMC)
 - Selling assets and liabilities
 - Support from the State
-

Systemic Importance?

- If critical to the financial system or to part of it
- If systemic: More drastic tools may be used

Aims:

- Reduce impact on financial stability
 - Minimize cost to taxpayers
-



Financial Stability

- And Macro Prudential Oversight
 - Different from microprudential supervision
 - Ensure that the overall system is strong and that there are no threats to stability.
 - E g bubbles or risk concentrations
 - Individual banks may look strong, even if the system is vulnerable.
 - Tools
-

Conclusions

- Crisis causes are mostly similar
 - Crisis management is mostly similar
 - Prepare your authorities for crises
 - Adopt generally agreed principles
 - Be pre-emptive
 - Attack the underlying problem
 - Be transparent
 - Protect taxpayers
-