APPENDIX D

Managing Bank Crises in Other Countries Panel

The rapid rise of private banking in Eastern Europe and around the world and the emerging financial crises occurring in the Far East raise issues regarding how other countries deal with banking failures. This panel will focus on the resolution strategies used by other countries and how they differ from those typically used in the United States.

Issues for Discussion

Past Crises—Other nations have had banking crises over the past several decades. Sweden in the 1980s, Latin America and Eastern Europe in the mid 1990s and most recently Japan and other countries in Southeast Asia. One issue is how these nations have chosen to address these past or current crises in their banking systems. In some countries the private sector has taken a much more active role, while in others, the government has been the primary architect behind the solution. In addition, the range of responses is broad, ranging from forbearance to liquidation. Some nations have relied primarily on "open bank" type assistance while others have chosen to actively close failing institutions and dispose of the assets. Finally, some countries follow a judicial liquidation approach (bankruptcy laws), while other countries, like the U.S., have their own liquidation system for failed institutions.

Current Crises—The Japanese government recently announced a multi-trillion-yen package to strengthen its banking system and lessen the risk of global financial crisis. Certain troubled banks would be aided through temporary capital assistance and/or the purchase of over one billion yen in troubled assets by the government. Other troubled banks would be allowed to fail. This raises issues about how the government plans to resolve the troubled banks and dispose of these troubled assets and what effects, if any, it could have on banking in other countries, especially those in southeast Asia. In the past, the Japanese government has been reluctant to take over troubled institutions but instead has relied on private sector assistance.

Consistency of Approach—With the continuing globalization of financial markets, some have called for a uniform system on resolution, receivership, and bankruptcy practices. The intent of a uniform approach is purportedly to reduce the impact of failures in one country on another, to recognize insolvency proceedings in each country, and permit the orderly and timely liquidation of assets located in another country. Is consistency really the best solution for each country?

PREVIOUS CHAPTER NEXT CHAPTER TABLE OF CONTENTS