Bank Soundness And Macroeconomic Policy By Lindgren Carl Johan Garcia Gillian Saal Matthew I 1996 Paperback

October 1998 In the new globalized financial market environment facing developing countries, volatility has become an increasing fact of life. Faced with such volatility, what broad principles should guide their macroeconomic management? Most people agree that the soundness of macroeconomic policies should be judged by their efficacy in meeting the objectives of steady growth, full employment, stable prices, and a viable external payments situation. What people debate about are the links between macroeconomics and economic structure-and in the current environment, the openness to foreign capital flows. As developing countries become more integrated into international financial markets, volatility may become an increasing fact of life. Faced with such volatility, how should these countries frame their macroeconomic policies? What broad principles should guide their macroeconomic management? In many developing countries, the openness of the capital account has been significant. Many countries have made the transition toward an open-economic paradigm. As a result, fluctuations in international capital and currency markets, as well as shifts in foreign investors' attitudes and confidence, have greatly affected local stock market prices, the level of foreign exchange reserves, and the scope for monetary and interest rate policy. Capital controls and foreign exchange restrictions have been significantly dismantled in a number of developing and transition economies. In 1970, only 34 countries-or 30 percent of the International Monetary Fund's membership-had assumed Article VIII of the IMF Articles of Agreement, declaring their currency convertible on current account transactions. By 1997, this figure had increased to 77 percent. Does financial integration make it more difficult to achieve macroeconomic stability? Apparently not, on the whole, although at times large short-term capital flows can lead to misaligned asset prices, including exchange rates. What financial integration does do is limit how far countries can pursue policies incompatible with medium-term financial stability. The disciplining effect of global financial and product markets applies not only to policymakers-through pressures on financial markets-but also to the private sector. Rather than constrain the pursuit of appropriate policies, globalization may add leverage and flexibility to such policies, easing financing constraints and extending the time during which countries can make adjustments. But markets will provide this leeway only if they perceive that countries are undertaking adjustments that address fundamental imbalances. This paper-a joint product of the Regulatory Reform and Private Enterprise Division, Economic Development Institute, and the Research Department, International Monetary Fund-was presented at the conference South Asia Beyond 2000: Policies for Sustained Catch-Up Growth, March 19-20, 1998, Colombo, Sri Lanka. The authors may be contacted at mdailami@worldbank.org or nhaque@imf.org.

Banking sector problems have plagued over 130 of the IMF's member countries since 1980. Developing and industrial market economies alike have been affected, as have all the economies in transition. This volume, by Carl-Johan Lindgren, Gillian Garcia, and Matthew I. Saal, discusses the linkages between macroeconomic policy and bank soundness. It takes a global view of the causes and consequences of banking sector problems and discussses how the banking system can be strengthened, nationally and internationally.

In a model where all banks are initially solvent, an exogenous shock affects confidence, causing a flight from deposits into domestic and foreign currency. Real interest rates increase unexpectedly, affecting firms and raising the share of the banks' nonperforming assets. This increase causes genuine solvency problems and accelerates the bank run. Policy simulations show that compensatory monetary policy (increasing currency supply when deposits fall) mitigates the bank run but causes inflation and external imbalances. Combining compensatory monetary policy with tight fiscal policies also slows the bank run and mitigates insolvency, but at a lower macroeconomic cost. A devaluation is shown to have little positive impact.

A payment system encompasses a set of instruments and means generally acceptable in making payments; the institutional and organizational framework governing such payments, including prudential regulation; and the operating procedures and communications network used to initiate and transmit payment information from payer to payee and to settle payments. This book, by Omotunde E.G. Johnson, with Richard K. Abrams, Jean-Marc Destresse, Tony Lybek, Nicholas Roberts, and Mark Swinburne, identifies main policy and strategic issues in payment system reform, describes the structure of payment systems in selected countries, highlights areas of consensus, and suggests the direction for future policy analysis.

This book covers financial sector stability issues in the following areas: risk management and governance in financial institutions; financial crises and contagion; domestic monetary and financial policies; and international cooperation. The papers were presented at the IMF's eighth Central Banking

Seminar by authors from academia, investment banks, government, and international institutions. The papers discuss such subjects as bank soundness, systemic bank restructuring, and the safety and efficiency of systemically important payment systems and their interaction with the macroeconomic environment.

This enhanced review of Senegal's financial sector is one of several pilot reviews called for by the Executive Board in May 2012. The purpose of the reviews is to go beyond the traditional surveillance focus on banking system soundness and solvency by analyzing in more depth the interplay between financial development, macroeconomic and financial stability, and effectiveness of macroeconomic policies in low-income countries. Senegal is a member of the West African Economic and Monetary Union; a number of key macroeconomic and financial policies are designed and implemented at the union level. This study focuses on Senegal-specific issues. Another pilot study, to be prepared in the context of the next annual consultation on regional policies in early 2013, will focus on union-wide issues.

Any economies in the modern world are defined by their ability to deal with the crisis situation. The crisis is interest rate fluctuation, credit risk, and other financial anomalies. This risk can be avoided by proper planning and executing it at the right time, the growing market of Asia especially the China and India provides enough opportunity to strengthen the market Financial stability in developing countries depends on, among other things, the robustness of their domestic financial sector, the soundness of their macroeconomic policies, the volatility of international capital flows, and the overall stability of the global financial system. There is the need of the hour to have a good contingency plan to have a robust structure to deal with the crisis. There are many steps taken by the Asian market to ensure enough stability to the financial sector. The economic activity like liberalization, opening of the domestic market for international firms also help indirectly to strengthen the banking system. Policy insights include that: Asia should and will play a much larger role in global financial governance; to achieve stability and growth in emerging economies, more is needed than just a better regulated and supervised domestic financial system; in Argentina and Brazil, the recent financial crises cannot be attributed to a poorly regulated banking system as regulation had been already stricter than in the United States. In the present situation of crisis and the poor performance of the Eurozone, the need for stronger economies in the Asian region is must have a better balance in the world economies. Banking crises in emerging markets in the 1990s were associated with major macroeconomic disruptions: sharp increases in interest rates, large currency depreciations, output collapses and lasting declines in the supply of credit. Bank credit has since recovered in a number of countries, and there have been significant changes in banking structure, performance and risk management capacity.

In late 1994, several Latin American economies, particularly Mexico and Argentina, experienced sharp reversals of international capital inflows that had characterized the previous four years. The immediate cause of the reversals was the loss of international investor confidence in these countries' ability to defend their exchange rate and in the authorities' ability to service their external debt on a timely basis. Short-term interest rates rose to extraordinarily high levels. Because many borrowers could not afford to service their debts at these high interest rates, the credit quality of domestic banks' loan portfolios deteriorated dramatically, creating

concerns about the solvency of the banking systems in these economies. The current crisis has occurred during a period of economic and financial reform in Latin America. After almost a decade of macroeconomic and financial difficulties, since the last part of the 1980s and the beginning of the 1990s, many Latin American countries have undertaken major transformations of their economic structures. These efforts have included not only comprehensive stabilization programs aimed at correcting macroeconomic imbalances but also deep structural reforms designed to improve the efficiency of market mechanisms in pricing and allocating resources among the different sectors of these economies. In addition, the paper analyzes policy issues associated with the long-run health of the financial system: (1) the proper design of policies to respond to large and volatile flows of capital having the complementary objectives of maintaining long-run macroeconomic stability and a healthy financial system; and (2) the effect on bank soundness of increased competition from recent developments in domestic capital markets.
The global financial crisis has magnified the role of Financial Sector Surveillance (FSS) in the Fund's activities. This paper surveys the various steps and initiatives through which the Fund has increasingly deepened its involvement in FSS. Overall, this process can be characterized by a preliminary stage and two main phases. The preliminary stage dates back to the 1980s and early 1990s, and was mainly related to the Fund's research and technical assistance activities within the process of monetary and financial deregulation

embraced by several member countries. The first "official" phase of the Fund's involvement in FSS started in the aftermath of the Mexican crisis, and relates to the international call to include financial sector issues among the core areas of Fund surveillance. The second phase focuses on the objectives of bringing the coverage of financial sector issues "up to par" with the coverage of other traditional core areas of surveillance, and of integrating financial analysis into the Fund's analytical macroeconomic framework. By urging the Fund to give greater attention to its member countries' financial systems, the international community's response to the global crisis may mark the beginning of a new phase of FSS.

This paper analyzes the origins, implications, and solutions for the Asian financial crisis. From the perspective of a member of the Executive Board of the IMF, as Asian problems were building, the IMF overlooked weaknesses in bank and corporate balance sheets in much of Asia: the IMF was unaware of the extraordinary leverage of Korean companies, which in some cases reached a ratio of 600/1 debt to equity. The IMF did not focus on the weak accounting and disclosure practices of banks and nonbanks or generous rollovers of banks to their key clients.

In the late 1990s, Korea, Thailand, Indonesia and Malaysia experienced a series of major financial crises evinced by widespread bank insolvencies and currency depreciations, as well as sharp declines in gross domestic production. This sudden disruption of the Asian economic `miracle' astounded many observers around the world, raised questions about the stability of the international financial system and caused widespread fear that this financial crisis would spread to other countries. What has been called the Asian crisis followed a prolonged slump in Japan dating from the early 1980s and came after the Mexican currency crisis in the mid-1990s. Thus, the Asian crisis became a major policy concern at the International Monetary Fund as well as among developed countries whose cooperation in dealing with such financial crises is necessary to maintain the stability and efficiency of global financial markets. This book collects the papers and discussions delivered at an October 1998 Conference co-sponsored by the Federal Reserve Bank of Chicago and the International Monetary Fund to examine the causes, implications and possible solutions to the crises. The conference participants included a broad range of academic, industry, and regulatory experts representing more than thirty countries. Topics discussed included the origin of the individual crises; early warning indicators; the role played by the global financial sector in this crisis; how, given an international safety net, potential risks of moral hazard might contribute to further crises; the lessons for the international financial system to be drawn from the Asian crisis; and what the role of the International Monetary Fund might be in future rescue operations. Because the discussions of these topics include a wide diversity of critical views and opinions, the book offers a particularly rich presentation of current and evolving thinking on the causes and preventions of international banking and monetary crises. The book

promises to be one of the timeliest as well as one of the most complete treatments of the Asian financial crisis and its implications for future policymaking.
The Web edition of the IMF Survey is updated several times a week, and contains a wealth of articles about topical policy and economic issues in the news. Access the latest IMF research, read interviews, and listen to podcasts given by top IMF economists on important issues in the global economy. www.imf.org/external/pubs/ft/survey/so/home.aspx
This book pulls together robust practices in Partial Least Squares Structural Equation Modeling (PLS-SEM) from other disciplines and shows how they can be used in the area of Banking and Finance. In terms of empirical analysis techniques, Banking and Finance is a conservative discipline. As such, this book will raise awareness of the potential of PLS-SEM for application in various contexts. PLS-SEM is a non-parametric approach designed to maximize explained variance in latent constructs. Latent constructs are directly unobservable phenomena such as customer service quality and managerial competence. Explained variance refers to the extent we can predict, say, customer service quality, by examining other theoretically related latent constructs such as conduct of staff and communication skills. Examples of latent constructs at the microeconomic level include customer service quality, managerial effectiveness, perception of market leadership, etc.; macroeconomic-level latent constructs would be found in contagion of systemic risk from one financial sector to another, herd behavior among fund

managers, risk tolerance in financial markets, etc. Behavioral Finance is bound to provide a wealth of opportunities for applying PLS-SEM. The book is designed to expose robust processes in application of PLS-SEM, including use of various software packages and codes, including R. PLS-SEM is already a popular tool in marketing and management information systems used to explain latent constructs. Until now, PLS-SEM has not enjoyed a wide acceptance in Banking and Finance. Based on recent research developments, this book represents the first collection of PLS-SEM applications in Banking and Finance. This book will serve as a reference book for those researchers keen on adopting PLS-SEM to explain latent constructs in Banking and Finance.

The relationship between the observance of financial system standards and financial stability is complex owing to the multitude of macroeconomic and structural factors affecting stability. Therefore, assessments of standards in terms of technical criteria for compliance needs to be reinforced with additional information on other factors affecting risks in order to assess financial stability. Preliminary evidence from country data on observance of Basel Core Principles (BCPs) suggests that indicators of credit risk and bank soundness are primarily influenced by macroeconomic and macroprudential factors and that the direct influence of compliance with Basel Core Principles on credit risk and soundness is insignificant. BCP compliance could, however, influence risk and soundness indirectly through its influence on the impact of other macro variables.

When Megawati Soekarnoputri became the President of Indonesia in July 2001, there were strong expectations. But so far, fundamental economic and political reforms have yet to be undertaken. The deadly Bali bombings on 12 October 2002 presented a wake-up call for the Megawati government. Terrorism on an international scale had now hit home. Now, more than ever, there is greater urgency on the part of the Megawati government to tackle the myriad of political and economic problems plaguing the country. This volume features some of the major issues that faced the Megawati government even before the devastating Bali attacks. The contributors include academics, practitioners and activists, offering a diversity of views.

The global financial crisis experience shone a spotlight on the dangers of financial systems that have grown too big too fast. This note reexamines financial deepening, focusing on what emerging markets can learn from the advanced economy experience. It finds that gains for growth and stability from financial deepening remain large for most emerging markets, but there are limits on size and speed. When financial deepening outpaces the strength of the supervisory framework, it leads to excessive risk taking and instability. Encouragingly, the set of regulatory reforms that promote financial depth is essentially the same as those that contribute to greater stability. Better regulation—not necessarily more regulation—thus leads to greater possibilities both for development and stability.

For the latest thinking about the international financial system, monetary policy, economic development, poverty reduction, and other critical issues, subscribe to Finance & Development (F&D). This lively quarterly magazine brings you in-depth analyses of these and other subjects by the IMF's own staff as well as by prominent international experts. Articles are written for lay readers who want to enrich their understanding of the workings of the global economy and the policies and activities of the IMF.

This Guide provides clear, up-to-date guidance on the concepts, definitions, and classifications of the gross external debt of the public and private sectors, and on the sources, compilation techniques, and analytical uses of these data. The Guide supersedes the previous international guidance on external debt statistics available in External Debt: Definition, Statistical Coverage, and Methodology (known as the Gray Book), 1988. The Guide's conceptual framework derives from the System of National Accounts 1993 and the fifth edition of the IMF's Balance of Payments Manual(1993). Preparation of the Guide was undertaken by an Inter-Agency Task Force on Finance Statistics, chaired by the IMF and involving representatives from the BIS, the Commonwealth Secretariat, the European Central Bank, Eurostat, the OECD, the Paris Club Secretariat, UNCTAD, and the World Bank.

The Annual Report to the Board of Governors reviews the IMF's activities, policies, and organization, as well as the world economy, with emphasis on balance of payments problems, international and emerging capital markets, fiscal considerations in policymaking, data issues, and the debt situation. As part of the IMF's ongoing efforts to improve transparency in its operations, the 1996 Report continues the expanded coverage of economic developments in selected countries and gives details about policy objectives in member countries using Fund resources. The 1996 Report also provides information on the IMF's new data dissemination standard. Appendices include a report on international reserves, details of the IMF's financial operations, major decisions taken by the Executive Board during the year, communiques of the Interim and Development Committees, a list of Executive Directors and their voting power, capital and administrative budgets and information on staffing, and audited financial statements of all IMF accounts and facilites. Published in September.

Because the wave of financial crises in recent years has spurred analysts' and policymakers' interest in monitoring the vulnerabilities of financial systems, the need for supporting data has increased. This paper presents survey results on the collection, compilation, and dissemination of data on a range of indicators of financial soundness in 100 countries. The paper distinguishes between the collection of financial soundness indicators for policymakers and their dissemination to the general public. It also explores the eagerness of national authorities to disseminate the information they collect and to what extent it relates to financial crisis experience.

Trata de como prevenir a crise nos bancos, estudando vários casos de bancos que quebraram no mundo.

This Manual offers guidelines for the presentation of monetary and financial statistics. It provides a set of tools for identifying, classifying, and recording stocks and flows of financial assets and liabilities, describes the standard, analytically oriented frame works in which the statistics may be presented, and identifies a set of analytically useful aggregates within those frameworks. The concepts and principles set out in the Manual are harmonized with those of the System of National Accounts 1993.

For students, researchers, and aspiring and practicing bankers, this book gives an understanding of the Asian banking crisis of the 1990s, described as a boiling point in a given situation. The interconnected and related factors reach a height of imbalanc

This important book is set to be a key document for those interested in Indonesia's recent economic and political history. There have been many unanswered questions about exactly how the regional currency crisis snowballed into a full-

scale banking crisis in Indonesia, coupled with a total loss of credibility within a short time. This record by the official in the midst of the banking crisis, the ex governor of Bank Indonesia, gives a fuller and intriguing picture of the events, including the actions of President Soeharto, as well as a balanced account of the much criticised interventions by the International Monetary Fund. The author also analyses the lessons for monetary policy to avoid future such crisis. This is essential reading for economists and Indonesia watchers.
Bank Soundness and Macroeconomic PolicyInternational Monetary Fund

Hidden behind a number of economic crises in the mid- to late 1990s-including Argentina's headline-grabbing monetary and political upheaval-is that fact that Latin American economies have, generally speaking, improved dramatically in recent years. Their success has been due, in large part, to macroeconomic reforms, and this book brings together prominent economists and policymakers to assess a decade of such policy shifts, highlighting both the many success stories and the areas in which further work is needed. Contributors offer both case studies of individual countries and regional overviews, covering monetary, financial, and fiscal policy. Contributors also work to identify future concerns and erect clear signposts for future reforms. For instance, now that inflation rates have been stabilized, one suggested "second stage" monetary reform would be to focus on reducing rates from high to low single digits. Financial sector reforms, it is suggested, should center on improving regulation and supervision. And, contributors argue, since fiscal stability has already been achieved in most countries, new fiscal reforms need to concentrate on institutionalizing fiscal discipline, improving the efficiency and equity of tax collection, and modifying institutional arrangements to deal with increasingly decentralized federal systems. The analysis

and commentary in this volume-authored not only by academic observers but by key Latin American policymakers with decades of firsthand experience-will prove important to anyone with an interest in the future of Latin American's continuing economic development and reform. Contributors to this volume: José Antonio González, Stanford University Anne O. Krueger, International Monetary Fund Vittorio Corbo, Pontifical Catholic University, Chile Klaus Schmidt-Hebbel, Central Bank of Chile Alejandro Werner, Bank of Mexico Márcio G. P. Garcia, Pontifical Catholic University, Rio Tatiana Didier, World Bank Gustavo H. B. Franco, former president, Central Bank of Brazil Francisco Gil Díaz, Minister of the Treasury, Mexico Roberto Zahler, former governor, Central Bank of Chile Ricardo J. Caballero, Massachusetts Institute of Technology Philip L. Brock, University of Washington Stephen Haber, Stanford University Pablo E. Guidotti, Universidad Torcuato Di Tella, Buenos Aires Vito Tanzi, International Monetary Fund Enrique Dávila, Ministry of Finance, Mexico Santiago Levy, Mexican Social Security Institute Ricardo Fenochietto, private consultant, Buenos Aires Rogério L. F. Werneck, Pontifical Catholic University, Rio Carola Pessino, Universidad Torcuato di Tella, Buenos Aires Michael Michaely, Hebrew University of Jerusalem
Edited by William Alexander, Jeffrey M. Davis, Liam P. Ebrill, and Carl-Johan Lindgren, this volume discusses cross-country restructuring experiences building on the foundation laid by its predecessor Band Soundness and Macroeconomic Policy. It discusses broad principles and actions to guide policy makers in restructuring their banking systems.
??

Banking sector problems have affected many IMF member countries, and measures to remedy these problems as well as to prevent their recurrence deeply concern central bankers and policymakers. the papers and comments published in this volume and edited by Charles Enoch and John H. Green were presented at the Seventh Seminar on Central Banking sponsored by the IMF. The topics discussed include banking soundness and the macroeconomy, prudential standards, the role of the central bank during problems of banking soundness, and bank restructuring.

This is a Chinese translation of "Rethinking Macro Policy II" (SDN/13/03). This note explores how the economic thinking about macroeconomic management has evolved since the crisis began. It discusses developments in monetary policy, including unconventional measures; the challenges associated with increased public debt; and the policy potential, risks, and institutional challenges associated with new macroprudential measures. Rationale: The note contributes to the ongoing debate on several aspects of macroeconomic policy. It follows up on the earlier “Rethinking” paper, refining the analysis in light of the events of the past two years. Given the relatively fluid state of the debate (e.g., recent challenges to central bank independence), it is useful to highlight that while many of the tenets of the pre-crisis consensus have been challenged, others (such as the desirability of central bank independence) remain valid.

"Lack of transparency increases the probability of a banking crisis following financial liberalization. In a country where government policy is not transparent, banks may tend to increase credit above the optimal level"--Cover.

This is an innovative collection of papers written by a panel of highly respected academics and financial experts. Whilst providing an insight into the phenomenology of the financial crises of the 1990s in Asia and Latin America, the book also explores possibilities for their solution.

The Global Financial Crisis of 2007-2009 has highlighted the resilience of the financial markets and economies from the developing world. This title investigates and assesses the impact and response to the crisis from an emerging markets perspective including asset pricing, contagion, financial intermediation, market structure and regulation.

the adaptation of the institutional settings of monetary policy to deal with an emerging market economy had to be carried out in the midst of an unprecedented stabilization effort and, therefore, was particularly urgent and complicated. In many of the transition countries, the transformation effort implied not just changes in procedures but the establishment of a central bank from scratch, a process that involved an important effort, precisely at a time when the whole system was in serious turmoil. While the process of reforms is not yet completed in all the transition countries, an immense amount of progress has been achieved, and many of the transition countries face today monetary and central banking conditions that are close to those of Western economies. In this volume, we collect a number of important contributions that discuss the most burning aspects of the current debates on central banking and monetary policy and draw implications for the postsocialist transition economies. The various papers included in the volume deal with a broad set of related issues, which are highly relevant not just for transition economies but for other emerging markets and for advanced economies as well. The subjects covered in the book are divided into seven major categories (Sections II to VIII), some of which overlap.