



Financial Restructuring in Asia the Remaining Issues

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Outline



- ◆ What went wrong?
- ◆ What was done?
- ◆ What remains to be done?

What went wrong?

- ◆ Macro factors
- ◆ Institutional factors
 - Dominant role of the banks
 - Excessive corporate debt to banks
 - Limited bank lending to personal sector and government
 - Government support, often implicit

Poor risk management



- ◆ Government support led to
 - Lack of risk assessment by banks and companies
 - Primitive disclosure
 - Poor accounting and poor auditing
 - Poor supervision

Asian Myths

- ◆ High investment
 - But often in non-remunerative assets
- ◆ High savings
 - But backed by claims of doubtful value
- ◆ Low government deficits
 - But contingent liabilities ignored
- ◆ Current account healthy
 - But exporters helped by freely available credit

What was done

- ◆ Macro – exchange rate policies
- ◆ Structural
 - Repair bank balance sheets
 - Repair corporate balance sheets
 - Prudential rules
 - Legal and accounting infrastructure

Attributes of Successes



- ◆ Importance of political leadership
- ◆ Infrastructure is the key
 - Good basis before the crisis
 - Successful improvements afterwards

Remaining Agenda



- ◆ Corporate profitability
 - In the absence of government support
 - Exit of the ‘zombies’
 - Business restructuring takes longer than financial restructuring

Competition



- ◆ Entry and exit policies
- ◆ Handing of bank closures
- ◆ Contagion
- ◆ Safety nets

Capital Markets



- ◆ Need to remove bank dependency
- ◆ Creation of long term debt market
- ◆ Strengthening of equity market
- ◆ Foreign investment, direct and portfolio
- ◆ Mortgage and consumer credit

Infrastructure



- ◆ Legal systems
 - Laws and lawyers, courts and judges
 - Insolvency law reform – balance between rights of debtors and creditors
- ◆ Accounting
 - Principles vs. rules
 - Standard setting procedures
 - Audit processes
 - Disclosure
- ◆ Governance

Supervision

◆ Risk

- Information
- Assessment techniques
- Internal controls – audit and boards
- External audit – audit committees
- Supervision not regulation – understanding, not controlling the business

Ownership

- ◆ ‘State’ banks
 - History and tradition
 - Europe and Latin America
 - Asian experience
 - ☞ Japan
 - Specialized financial institutions
 - ☞ Another myth?

Privatization

- ◆ Need for both buyers and sellers
 - Dearth of good buyers
- ◆ Conflicts
 - When to sell - Increase value or lose franchise
 - Competition vs. profitability
 - Insiders vs. foreigners

Privatization – the Buyers

- ◆ Foreign banks
- ◆ Foreign portfolio investors
- ◆ Domestic non-financial corporates
- ◆ Market offerings

A bit of all, but timing is the key

Role of the IFIs

- ◆ Extension of Surveillance to the financial sector
- ◆ And to the Corporate sector
- ◆ Bank/Fund financial sector assessments (FSAPs)
- ◆ Supervisory standards (ROSCs)
- ◆ Training
 - Techniques, skills and management