

# Towards a more sustainable financial architecture?

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- To me it looks like always: "mucho ruido y pocas nueces"
- Or like Windows 7.0: not sure what is new!
- SDRM/Calvo/GSM/CM/Regional hubs/PCL/FCL/SBA, etc...
- Theoretical issues are well known: MH/Accessibility/Signalling/Size
- Personal constraints are more relevant than "architecture" (Krueger, 2001)

- In fact there are as some similarities but many dissimilarities
- Similarities
  - Exchange rate peg
  - Exposure of the financial sector to sovereign risk
- Dissimilarities:
  - Argentina lacked solvency and liquidity.
  - In Europe liquidity is not (should not be) an issue.
  - In Europe only some countries have (and will continue to have) a solvency problem
  - No currency mismatches
  - Size of the financial sector
- Current european solution seems to create a problem that Europe does not have

- Europe does not have a liquidity problem. Why create it?
- What did Argentina do after financial crisis?
  - Exposure to sovereign risk was limited
  - Temporarily reduced capital requirements (Argentina started at 11% rather than Basilea's 8)
  - Liquidity requirements were eased ( + cash + money in transit was included)
  - Accounting procedures for valuing public bonds were changed
  - Judicial claims were allowed to count as assets
  - Dividend distribution forbidden until accounting was back to normal
- Provided sufficient time for recapitalization

- Maximum lending 30% of assets
- Maximum lending 75% of net worth
- Of this, national government is capped at 50%, states at 10%, cities at 3%
- Lending to states and cities must have a tax collection guarantee
- Any authorization of public sector lending by any bank must be authorized by BCRA and Ministry of Finance
- There was a waiver for banks over target, together with a prohibition on further lending

	Market Haircut	Debt Relief
Russia GKO, residents	46.7	31.8
Russia GKO, non residents	60.0	47.9
Russia Minfin	63.2	40.0
Russia Prins/lans	52.6	33.2
Ukraine OVDP, nonresidents	56.4	43.3
Ukraine Chase Loan	30.7	15.8
Ukraine ING Loan	38.0	4.8
Ukraine External	28.9	10.2
Pakistan Eurobond	31.0	11.2
Ecuador External	28.6	24.8
Argentina Phase I	40.5	30.8
Argentina External	73.0	70.9
Uruguay External	13.4	-5,3
Uruguay Domestic	22.3	0.0

Source: Sturzenegger and Zettelmeyer (2006)