

Recap strategies – two opposing alternatives

1. Recap through temporary **monopoly rents**

- + forbearance (to hide losses on legacy assets, “zombie problem”)
- Idea: Ex-post: recap ex-ante: insurance
- Competition is less fierce when balance sheets are impaired
 - Profit margins ↑
 - Volume ↓ ⇒ spillovers to others in GE (“spillbacks”)
depends how crucial sector is, intern. competition
abroad: Latin America in 1980s
domestic: Japan 1990s

2. Attract **new risk-bearing capital**

- Attract foreign competition S-Korea late 1990s
- (Forced) equity issuance
- Establish new efficient markets
 - Profit margins ↓
 - Volume ↑ ⇒ new credit to real economy