

G-20 Split on Bank Tax Means IMF to Review Further (Update1)

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(Adds comments from Brookings Prasad, banking group, from fifth paragraph.)

By Sandrine Rastello

April 24 (Bloomberg) -- Group of 20 finance chiefs were split on whether to tax banks for the cost of bailouts and pushed back talks by ordering the International Monetary Fund to study the issue further.

"Some countries are in favor of that, some countries quite clearly are not, it depends whether a country has had to use taxpayers' dollars to bail out banks," Canadian Finance Minister Jim Flaherty, who co-chaired the closing news conference, said in Washington yesterday. "There was agreement that options would continue to be developed."

In a preliminary report, the IMF recommended taxing financial institutions' non-deposit liabilities and the sum of profit and compensation to help pay for future bailouts of the industry. G-20 leaders, who commissioned a feasibility study last year, will get the final report at their meeting in June.

Policy makers are weighing proposals to have banks shoulder the costs of rescues after governments and central banks provided an estimated \$11 trillion to institutions including New York-based Citigroup Inc. and Edinburgh-based Royal Bank of Scotland Group Plc.

"There is sufficient momentum in many countries behind the idea of taxing the financial sector that it is likely to remain a G-20 agenda item for the remainder of this year," Eswar Prasad, a senior fellow at the Brookings Institution in Washington, said in an e-mail. "A more plausible scenario than an internationally consistent tax is that a few countries that are strongly in favor of such a tax will go ahead with some version on their own."

U.S. Support

The U.S. may be one of them. Treasury Secretary Timothy F. Geithner said his country will move forward with its plan of "a fee on risk" to be paid by the banks over time to cover the costs of the U.S. rescue.

"We're going to do what's necessary for the United States, what's in our interest and I think the world's going to want to watch what we do, and I suspect that'll provide a basis for other actions across some of the other major economies," he told reporters.

While U.K. Chancellor of the Exchequer Alistair Darling, one of the strongest supporters of a levy, said talks are advancing, his Brazilian counterpart, Guido Mantega, said the tax was the biggest point of disagreement during discussions. Brazil, India, Russia and China don't want to implement the IMF tax proposals, he said.

'Making Progress'

Darling said the situation is now one where "we are making progress," compared with the outlook in November when "people gave us cold shoulder."

"There's an agreement we have to strike the right balance between a tougher regulatory and supervisory regime and a tax system that means banks meet their obligations to the society they operate in," he said.

Flaherty, who's opposed a levy, said he's won the backing of other nations, though he declined to identify them. He suggested financial institutions instead carry contingent capital.

The idea on such capital -- debt banks could convert into equity -- is worth exploring, the Institute of International Finance, a banking industry group, said in a letter to the G-20.

"The IIF sees no merit in the idea that any levy on the financial sector should be paid into general revenue," its managing director Charles Dallara wrote. "Neither do we believe that an ex-ante levy on the banking system should be used to finance the bailing out or recapitalization of failing institutions."

Crisis Costs

The IMF said in its report that the fiscal costs of direct support to the financial system, excluding the amounts recovered so far, have averaged 2.7 percent of gross domestic product for advanced G-20 economies.

In some cases, unrecovered costs remain "very high," the IMF said, citing 5.4 percent of GDP in the U.K., 3.6 percent in the U.S. and 4.8 percent in Germany. As a result of the crisis, public debt in G-20 advanced economies is projected to rise by almost 40 percentage points of GDP by 2015 from 2008, the institution forecast.

"There might be resistance to bank taxes now, but when the G-20 ministers go home to confront angry taxpayers, they won't have forgotten who should be paying to clean up this mess," aid organization Oxfam International said in a statement.

Any tax on the industry should be considered in addition to new Basel rules, Financial Stability Board head Mario Draghi said, warning that the G-20 must make bank capital standards a priority this year and next.

"Neither surcharges nor levies substitute for the key priority of strengthening capital and liquidity requirements in the wider banking system through implementation of the Basel proposals," Draghi said in a letter to G-20 officials.

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