





# FINANCIAL STABILITY AND FINANCIAL SECTOR SUPERVISION: LESSONS FROM THE PAST DECADE AND WAY FORWARD

DECEMBER 17, 2007 TOKYO, JAPAN

# BANKING AND FINANCIAL SECTOR REFORM AFTER THE CRISIS—COMMENTS

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Paper presented at the Conference: FINANCIAL STABILITY AND FINANCIAL SECTOR SUPERVISION: LESSONS FROM THE PAST DECADE AND WAY FORWARD Organized by IMF Regional Office for Asia and the Pacific (OAP), Keio University-21 Century COE-Market Quality Project and The Financial Research and Training Center (FRTC) of Japan's Financial Services Agency (FSA) December 17, 2007 Tokyo, Japan

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### Session 1: Banking and Financial Sector Reform after the Crisis — Comments

2007.12.17

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## Presentations by Mr. Fiechter and Mr. Vanikkul

#### ♦Overview

- The financial sector in East Asia is much stronger today.
- In Thailand, extensive reform measures have been adopted, resulting in better figures in the banking sector.

#### **♦**Concerns

 Business cycles and economic downturns might result in banks facing problems related to asset quality and earnings.

#### ♦ Challenges forward

- An increasingly complicated financial sector
- Cycles of greater risk-taking and falling risk premiums

#### Crisis-Prevention Efforts

## Banking Sector

Strong capital base
Quality of management
(risk management)

## Financial Markets/Corporate Activities

- Reducing the vulnerabilities to liquidity and balance-sheet risk
- Effective corporate governance and bankruptcy code
- Improving transparency

#### Regulatory Framework

- •Basel II (risk-based regulation)
- Risk awareness
- Enhancement of supervision

#### Macroeconomic Policy

- Sound and stable macroeconomic policy
- Appropriate exchange rate regime

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## Effective Crisis Response

- ☐ Prompt action to maintain financial stability
- ☐ Coherent policy adjustment package to provide confidence to markets and investors
- ☐ Cost-minimizing steps in the adjustment process
  - · · · The exact actions are still under debate
- ♦ Possible issues for effective financial sector supervision;
- Cyclical implications of risk-based regulatory measures
- Allowing diversity from the regulatory perspective
- Use of macrofinancial approach