BANKING AND FINANCIAL SECTOR REFORM AFTER THE CRISIS—COMMENTS

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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