4

Concluding Remarks and an Action Agenda

Gone are the days when efforts to prevent international financial crises could focus almost exclusively on the industrial countries. In the wake of the Mexican economic crisis, the official sector has moved decisively to fortify the existing crisis prevention/management architecture by obtaining agreement on a new international standard for the publication of economic and financial data, doubling the size of the IMF's emergency credit line from creditor countries (the New Arrangements to Borrow and the General Agreement to Borrow), and clarifying the ''rules of the game'' for the resolution of sovereign liquidity crises.

But the largest gap in existing crisis prevention arrangements has yet to be filled. The last 15 years have witnessed an unprecedented wave of banking crises in developing countries. Current international banking agreements were not designed to deal with most of the major sources of banking crises in developing countries. Nor is it likely that technical assistance and/or market discipline will on their own be capable of motivating serious banking reform. A voluntary international banking standard offers a way to increase the scope and pace of banking reform in both developing and industrial countries. An IBS will not end banking crises—that is not a realistic objective. But if an IBS lowered the frequency of serious banking crises, the potential payoff would be significant.

During the past nine months, the scope and severity of the banking problem in developing countries seem to have become visible on the radar screens of policymakers. At the Lyon Economic Summit in June 1996, G-7 heads of state asked their officials to make maximum progress on ''. . . encouraging the adoption of strong prudential standards in emerging economies,'' and to report on this progress at the June 1997 G-7 Economic Summit in Denver. In keeping with that mandate, over the next few months the Basle Committee on Banking Supervision, the IMF, and a joint G-10/developing-country working group most likely will each issue reports on banking supervision and financial stability in emerging-market economies. It is likely that each of these three reports will contain a list of minimum or best-practice guidelines on banking supervision. What then should be the next steps?

In the next six months leading up to the Denver G-7 Summit and 1997 IMF-World Bank Annual Meeting in Hong Kong, four tasks should be high on the policy agenda.

First, the sets of banking guidelines coming out of the Basle Committee, IMF, and joint G-10/developing-country working group need to be analyzed and debated, with the aim of reaching a consensus within the official sector on which individual guidelines should be accorded the highest priority and merged into a consensus IBS. As part of that debate and search for common ground, the guidelines put forward by the official sector ought to be compared to those produced by independent outside experts, such as the IBS proposal advanced in this study. Such a comparison would determine whether the guidelines suggested by the official sector have tackled the most thorny problems that have been so prevalent in past developing-country banking crises, specifically: Do those guidelines encourage the kind of public disclosure that would enhance market discipline? Do they call for an end to lax asset classification and provisioning practices? Do they suggest mechanisms that over time will reduce excessive government involvement in the banking system? Do they call for higher capital for banks operating in countries with volatile environments? Do they reform incentives in official safety nets? Do they establish countervailing protection against pressures for regulatory forbearance? And do they provide for international monitoring of those guidelines, along with a mechanism to disqualify countries that are not meeting their obligations? If a number of these tough issues have been ducked, the official guidelines ought to be revised to include them.

Second, the commercial banking industry ought to be brought into the picture to get the benefit of its suggestions and criticisms on the design of an IBS. Are the guidelines too demanding or not demanding enough? What would be the costs to banks of implementing these reforms? Do the guidelines afford banks enough flexibility in meeting the objectives of an IBS? What are reasonable transition periods for meeting the guidelines? Should the guidelines be more like minimum standards or best practice? Which of the activities assigned to bank supervisors in an IBS could be handled better by the private market? If necessary, the draft guidelines should again be revised to take account of the banking industry's input.

Third, IFIs should intensify their discussions and preparations for implementing an IBS. If an IBS were agreed on, how could the IMF and

World Bank make best use of their competitive advantages in allocating responsibilities for implementing it? What staffing requirements would the IFIs face in advising countries on and in monitoring their compliance with an IBS? How could collaboration with the Basle Committee and national bank supervisors be strengthened? Are there ways in which the BIS and the Eurocurrency Standing Committee could contribute to a concerted effort for earlier detection of banking problems? If the IMF were to share its assessments of banking-sector problems with the private capital markets, how could that best be accomplished (without casting the IFIs into the role of bank credit-rating agencies)?

Finally, after further discussions at the Interim and Development Committee meetings in April 1997 and at the Denver G-7 Summit in June 1997, a proposal for an IBS should be taken up at the September 1997 IMF-World Bank Annual Meeting in Hong Kong. By the Hong Kong meetings, there ought to have been enough debate and revision on the IBS to put forth a consensus proposal.

That proposal should contain an opening date for countries to start subscribing to the IBS. If by that time, securities regulators (i.e., IOSCO) and the International Accounting Standards Committee have international standards of their own to put forward, consideration could even be given to folding the three sets of standards together into a broader (voluntary) international banking and securities standard.

To be sure, an IBS is an ambitious undertaking that would push banking supervisors and the IFIs beyond where they have gone before. Nevertheless, the stakes involved in reducing the frequency and severity of banking crises in the developing world and the absence of superior policy options suggest to me that we should get on with the job—and with a sense of urgency. This is the time to look for your key where you lost it—not under the lamp post.