Recent Initiatives to Improve the Regulation and Supervision of Private Capital Flows

Presentation by William R White
Economic Adviser
Head of the Monetary and Economic Department
Bank for International Settlements

Reserve Bank of India
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BANK FOR INTERNATIONAL SETTLEMENTS

Changing Attitudes to Capital Flows (I)

- Long-term cycles in capital flows.
- Attitudes remain conditioned by the "impossible trinity".

Changing Attitudes to Capital Flows (II)

- Under the gold standard.
- Under Bretton Woods.
- Post Bretton Woods.

Changing Attitudes to Capital Flows (III)

- Domestic credit excesses in Mexico (1994), East Asia (1997).
- Exacerbated by international capital flows.
- Led to suggestions in the Rey Report (1996), the Willard Report (1999) and the Capital Flows Group of the FSF (2000).

Changing Attitudes to Capital Flows (IV)

- Today's "conventional wisdom".
- Corner solutions for exchange rates.
- An independent monetary policy (yours or someone else's).
- Liberalised capital flows.

Measures to Cope with “Excessive” Flows

- Improved data, disclosure and indicators of vulnerability.
- Measures directed to creditors.
- Measures directed to debtors.

Measures to Improve Data, Disclosure and Indicators of Vulnerability (I)

- Transparency should leave both debtors and creditors less exposed.
- Yet transparency may not be sufficient.
- The downsides?

Measures to Improve Data, Disclosure and Indicators of Vulnerability (II)

- The need for better debtor side statistics (liabilities and FX assets).
- The need for better creditor side statistics (improvements to BIS data).
- Both debtors and creditors are exposed.
- The downside?

Measures to Improve Data, Disclosure and Indicators of Vulnerability (III)

- The desirability of improving disclosure concerning position taking.
- The Patat and Fisher initiatives.
- The downside?

Measures to Improve Data, Disclosure and Indicators of Vulnerability (IV)

- The need for better indicators of exchange rate “vulnerability”
- Shorter-term vulnerability vs longer-term vulnerability.
- Vulnerabilities in the banking system; a related problem.

Measures Directed to Creditors (I)

- Need for better internal governance.
- Need for more market discipline.
- Need for better supervisory incentives.
- The downside?

Measures Directed to Creditors (II)

- The role of the old Capital Accord.
- The role of the new Capital Accord.
- Procyclicality and the role of the supervisors.
- The downside?

Measures Directed to Debtors (I)

- Any domestic bias to short-term inflows should be removed.
- Monitor closely the FX exposure of the government, banks and corporate sector.
- The downside?

Measures Directed to Debtors (II)

- Develop domestic bond markets.
- The downside?

Implementing Policy Recommendations

- The role of the FSF.
- The role of the IMF and World Bank.
- The role of the market.
- The role of self-interest.
- Technical assistance.