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Introduction

The Asian financial crisis of 1997 involved significant economic and social costs for the affected economies, but also highlighted fundamental weaknesses in the structure and operations of their financial systems. Not only were financial systems often underdeveloped, the financial liberalization which had occurred was not well founded. The type of deregulation which had occurred was not compatible with the underlying financial infrastructure, and led to severe problems of systemic risk.

Affected economies reacted to the crisis in the short term with a variety of regulatory measures which included capital controls, blanket (100%) deposit insurance, intervention in and recapitalization of problem banks etc. But over the longer term, a more proactive approach has emerged as emphasis has grown on the need to build the core financial infrastructure necessary for financial sector development and economic growth. As well as concerns about the core financial infrastructure, there has been region-wide involvement in a number of policy initiatives to develop specific parts of the financial sector, which are found in more developed financial systems and seen to be increasingly relevant to a strong and efficient financial system.

Underpinning these developments has been the emergence of a range of standards and codes of "best practice" for financial regulation emanating from multinational organizations which emerging economies feel pressure to adopt. Progress against such standards and codes, and in strengthening financial systems generally, may also be assessed by IMF-World Bank task forces undertaking FSAP and ROSC evaluations. Notably, although the FSAP approach was introduced largely in response to the Asian crisis, Asian countries have been under-represented in its activities to date (IMF and World Bank, 2005).

One difficulty facing financial sector reformers is that feasible and desirable reform paths are likely to be country specific, not always readily apparent, and subject to opposition from powerful forces who stand to lose as a result of change. Although there is a well established correlation between financial sector development and economic growth, there

is limited evidence in the empirical literature on what types of changes are most effective. In part, this may be because the continual evolution of financial sectors makes outcomes path-dependent. Policy-makers need to make changes which have desirable consequences for the evolutionary path of the financial system, rather than viewing change as involving a shift from one static equilibrium position to another.

Another difficulty facing policy makers is the one of assessing whether policy reforms are achieving desired outcomes. One argument of this paper is that policy assessment to date has focused largely on measuring actions and market perceptions of improvement. There appear to have been relatively few studies focusing on specific measures of financial sector performance of its key economic functions, and how those have changed in response to financial reform agendas.

Section 1 of this paper briefly reviews a small part of the recent literature on the linkages between finance and growth, to identify possible lessons for financial reform policies. This is followed in Section 2 by a brief overview of the emerging international conventional wisdom on essential requirements for financial sector stability, reflected in codes and standards of best practice. Section 3 identifies a number of specific policy initiatives across a range of countries which have focused on developing parts of the financial sector which are seen as important for future growth. Given the range of activities, this is (at best) a cursory overview. Section 4 raises the question of how progress in financial reform agenda might be measured, identifying the need for further research in this area. Section 5 provides some concluding comments.

1. Finance, Growth and Policy

The role of "financial development" as an important determinant of a country's economic growth has been widely accepted for many years[1], and has been an important influence upon the acceptance of policies of financial liberalization and reform throughout the world in the latter part of the 20th Century. Notably, as Rosseau and Wachtel (2005)

[1] The views of exponents of a reverse causation hypothesis, such that it is economic growth which leads to financial sector development, are briefly surveyed by Levine (2005).

observe, the influence of this view on policy largely preceded the accumulation of empirical evidence (using cross-country data from the 1960s to the 1980s) supporting it. As they also note, using recent data, the strength of the cross-country relationship between financial sector development and economic growth appears to be somewhat less robust (although still apparent) in recent years.

One possible explanation is that policies of financial liberalization which were adopted in many emerging (and other) economies in the latter part of the 20th Century did not have sound underpinnings in the form of financial market infrastructure, sound financial institutions, legal frameworks, etc., necessary to achieve the desired outcomes. While, as Wachtel (2003) notes, empirical evidence is beginning to emerge on specific characteristics of financial sector development which are beneficial to economic growth, the implication is that the path and sequencing of change is an important determinant of the resulting benefit-cost ratio. His conclusion is that "the research does not yet tell us enough about development strategies and processes. It provides little in the way of rigorous guidance about how best to develop the financial sector."

Similar arguments to those of Wachtel are made by Levine (2005) in a comprehensive review of the literature on "finance and growth". A causal link from financial sector development to economic growth is, he argues, well established. (Sylla, 2006, makes a similar observation). However, much further work remains to be done in two regards. First, better understanding is needed of how political and legal factors influence the path of financial sector development. Second, more micro-economic studies are needed to develop understanding of the mechanisms through which financial sector development affects economic growth (and thus potentially guide policymakers).

In understanding issues involved in policy reforms aimed at development of the financial sector, a classification of types of financial regulation by White (1999) is useful. He identifies three types of regulation:

- "economic regulation"— such things as controls on prices, profits, entry/exit,
- "Health-safety-environment (HSE) regulation" – such things as prudential regulation, the development of corporate governance and bankruptcy systems, safeguards in securities markets

- "Information regulation" - requirements for specific types of information, often in a standardized format, that must be provided with the product or service.

Much of the early financial deregulation focused on reducing "economic regulation" without giving due attention to whether the economic, financial, legal, and political infrastructure was sufficiently robust or developed to underpin a more open and competitive financial sector. Thus, for example, Abiad and Mody (2005) studied financial liberalization in 35 countries between 1973 and 1996 and focused on changes in: credit controls, interest rate controls, entry barriers in the banking sector, operational restrictions, privatization in the financial sector, and restrictions on international financial transactions. Notably, their indicator variables for liberalization do not have a major role for changes which involve strengthening the financial infrastructure.

Since then, the focus (both in developed and emerging economies) has shifted to HSE and information regulation, reflecting a recognition that not only does economic deregulation create an increased need for those types of regulation, but also that the financial infrastructure provided by such regulation is necessary if economic deregulation is to work effectively. While a general sequencing of financial reform is implied, involving an early focus on strengthening financial system infrastructure, there is little guidance regarding the specific components for various stages of a financial reform program.

This changing focus of emphasis is reflected in views of multinational organizations about financial reform strategies following the Asian crisis. There was a "retooling of strategy in 1997 ..[which]…stresses that successful financial sector reform is, foremost, a longterm, sustained endeavor…[which]…touches on a country's fundamental institutions…[and] forceful targeting of … well-known, determinants of success…. The third critical emphasis of the new strategy is on information" (World Bank Operations Evaluation Department, 1998).

Appropriate sequencing of policy reforms has become an important issue, albeit one on which there is limited guidance beyond some general principles. The IMF (2005, Chapter 12) stresses the need for sound and sustainable macroeconomic policies and for an institutional infrastructure capable of dealing with macroeconomic and financial risks.

Development of markets needs to have a logical coherence and be accompanied by prudential and supervisory ability to manage risks emerging from such developments. The pace of reform needs to reflect institutional soundness and development of good governance structures is a key early stage development.

In this approach to financial reform policies in the Asian region, two goals appear apparent. One is the development of more efficient financial systems to enhance economic growth and development. The second is the desire to "safety-proof" the financial systems (and economies) to avoid a recurrence of the Asian crisis experience. And although much of the initial debate about appropriate sequencing of reforms reflected the latter macroeconomic concerns, the sequencing of reforms needed to achieve a more efficient financial system has become an issue of equivalent importance. Perhaps fortuitously, both perspectives generate largely similar approaches.

2. The Core Financial Infrastructure

Although the precise nature of the linkages between financial development and economic growth are not well established, and may be specific to institutional, social, and legal arrangements within any country, an apparent consensus has emerged on a set of necessary characteristics for a financial sector to contribute effectively to economic development and growth. The importance of some components of this "core financial infrastructure" has been subject to empirical studies, but in other cases, their importance has emerged as a form of "conventional wisdom" based on a range of informal and formal theorizing and analysis.

At the risk of oversimplification, the informal analysis underlying the conventional wisdom can be explained in the following way. Economic agents require reliable information if they are to make value-enhancing decisions. To follow through with those decisions, they need to have confidence that their ownership rights in investments made are protected. And because investments will generally require delegation of management and decision-making responsibility to agents, willingness to undertake such investments will depend upon the legal, institutional and social structures in place to minimize resulting agency costs. Those structures should facilitate monitoring and disciplining

actions, including opportunities for both "exit" (via market transactions) and "voice" (effective voting rights). Because of impediments to private sector monitoring (such as imperfect information and free-rider problems), there is a role for some level of public sector regulatory and supervisory activities. Finally, because the risk taking essential to an effective financial system can lead to failures involving spillover effects and economic and social disruption, there is a role for development of a "financial safety net" to mitigate some of the adverse consequences of such failures.

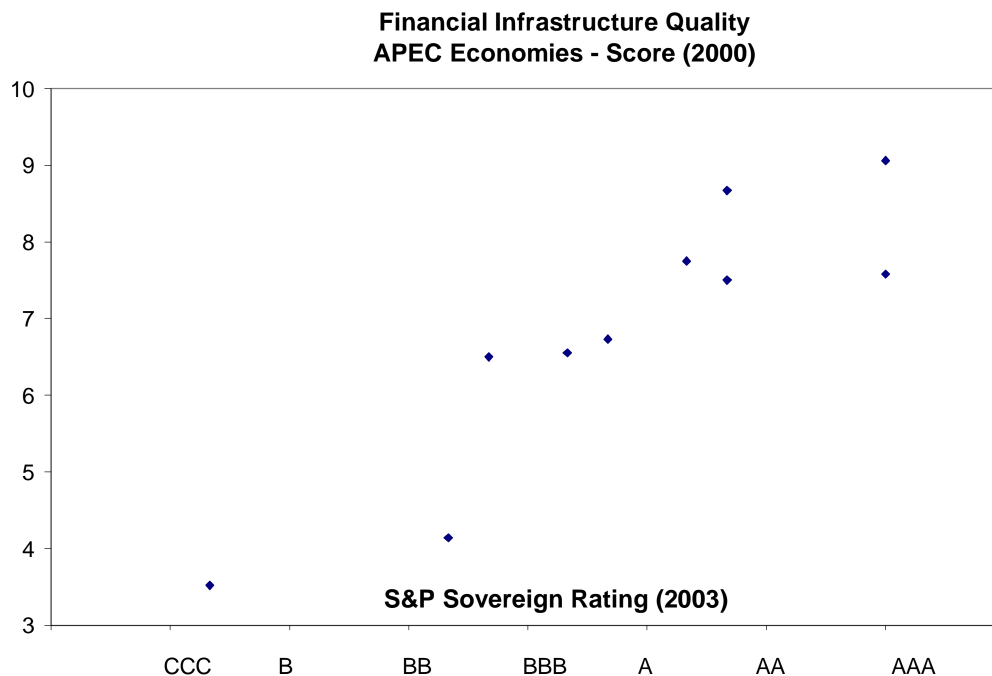
This perspective leads to a set of "core infrastructure requirements" seen as necessary for effective financial sector development which, of themselves, do not dictate the precise institutional shape of the financial sector (such as the relative roles of financial intermediaries versus capital markets). They are:

- Strong Corporate Governance Standards and Practices
- Effective Legal Protection and Enforcement of Property Rights
- Enforcement of Reliable Accounting and Auditing Standards
- Appropriate Information Disclosure Requirements and Practices
- Strong and Effective Supervisory Agencies

The benefits to countries with stronger financial infrastructure should be reflected in a lower cost of capital for governments and companies, and other measures of financial efficiency. A number of studies using cross-country data find support for this view, and some examples follow.

DeBrouwer and Corbett (2005) provide indirect evidence of such an effect by examining the relationship between the quality of a country's financial infrastructure and ratings agency assessment of Sovereign credit worthiness, which is reproduced in graphical form below. The quality score is based on measures of: contract realization; lack of corruption; rule of law; bureaucratic quality; accounting standards; press freedom – with a higher measure indicating better quality.

FIGURE 1



With regard to corporate governance, IFC (2006) provides a brief summary of a number of studies which present results consistent with the view that good corporate governance attracts a premium from investors. These studies include surveys of investors, examination of the relationship between governance indicators and the stock market value/book value ratio, and also the cost of debt finance.

In the case of protection of investor property rights, La Porta et al (2002) undertake a cross-country study and conclude that "better shareholder protection is empirically associated with higher valuation of corporate assets". Luzi and Leuz (2003) similarly find that the cost of equity capital implied from analyst forecasts is lower in "countries with extensive securities regulation and strong enforcement mechanisms" and "strongest for institutions providing information to investors and enabling them to privately enforce their contracts."

Focusing specifically upon banks (using a cross country World Bank data base), Barth et al (2004) find that "that policies that rely on guidelines that (1) force accurate information disclosure, (2) empower private-sector corporate control of banks, and (3) foster incentives for private agents to exert corporate control work best to promote bank development, performance and stability." Podpeira (2004) finds that compliance with the

Basel Core Principles for effective banking supervision "has a significant positive impact on asset quality of banks (as measured by the ratio of nonperforming loans), …[and] that a higher degree of compliance … is associated with lower net interest margin." Similarly Tressel et al (2006) find that compliance enhances bank soundness and that significant benefits flow from enhanced transparency and disclosure.

Etty and Rahman (2004) use cross country data on the perceived quality of accounting standards and enforcement. They find support for the proposition that the quality of accounting standards and enforcement are related to the ability of changes in accounting earnings to explain changes in shareholder returns. The implication is that relevant information is more accurately reflected in share prices, such that the signaling role of prices for guiding resource allocation decisions is better performed.

Empirical research such as that cited above, provides some basis for the conventional wisdom that improving the core financial infrastructure is important for financial development and growth. There is thus some empirical support for the various "good practice" codes and standards issued by multilateral agencies, which influence national policies, and which are shown in Table 1.

TABLE 1
Core Financial Infrastructure requirements

Areas	Sources of Advice
Strong Corporate Governance Standards and Practices	OECD "Principles of Corporate Governance" 2004
Effective Legal Protection and Enforcement of Property Rights	
Insolvency Laws	World Bank "Draft Principles for Effective Insolvency and Creditor Rights Systems" 2005 World Bank "Creditor Rights And Insolvency Standard" Draft, 2005
Appropriate Information Disclosure Requirements and Practices	
Banking	Basel Committee "Enhancing Bank Transparency" 1998
Insurance	IAIS "Guidance Paper on Public Disclosure" 2002
Enforcement of Reliable Accounting and Auditing Standards	
Accounting	IASB "International Accounting Standards " 2002
Auditing	IFAC "International Standards on Auditing" 2002
Strong and Effective Supervisory Agencies	
Strong Agencies	
Effective Supervision	
Banking Supervision	Basel Committee "Core Principles for Effective Banking Supervision"
Insurance Supervision	IAIS "Insurance Core Principles"
Securities Regulation	IOSCO "Objectives and Principles of Securities Regulation"
Payments and Settlements Systems	CPSS "Core Principles for Systemically Important Payment Systems" IOSCO "Recommendations for Securities Settlement Systems"

There has been considerable action in the Asian region to move towards implementation of such principles and to develop this financial infrastructure, both at multilateral and national levels. Some illustrative examples are as follows

- *Corporate Governance:* the OECD in conjunction with the IFC/World Bank established The Asian Corporate Governance Round Table, and the initial White

Paper (OECD, 2003) identified a comprehensive action plan for achieving conformity with the OECD Core Principles. A "Stock-Take" Report on progress is (apparently) due out shortly.

- *Insolvency Laws:* The OECD in conjunction with PECC and the ADB has set up the Forum for Asian Insolvency Reform.[2]. Commenting on developments, Vassiliou (2006) notes that

> "The period of significant change in the last eight years in Asia is perhaps best described as a restructuring revolution rather than an insolvency revolution, as most of the progress has centred on the development of corporate rescue regimes and informal workout practices"
>
> "The real challenge in many of these countries is to create an insolvency system that actually works in the prevailing environment, not just one which should work if everything else is fixed."

- *Accounting Standards:* The development of International Financial Reporting Standards has been a major initiative in this area, providing the opportunity for economies to align accounting standards with "best practice".

> "Australia, Hong Kong, Malaysia, Pakistan, the Philippines, Singapore and Sri Lanka have already substantially adopted IFRS. Countries which have yet to set firm dates for full convergence include Japan, India, South Korea and Taiwan. Meanwhile, China plans convergence with limited exceptions from 1 January 2007. Indonesia, Thailand and Vietnam are adopting certain IFRS provisions but not planning full convergence."[3]

[2] https://www.oecd.org/document/34/0,2340,en_2649_34845_2383970_1_1_1_1,00.html
[3] http://www.pwc.com/extweb/ncpressrelease.nsf/docid/E8B1040C113180E7CA25725A00138CBD

- *Financial Information Disclosure:* Progress is perhaps best summarized by the title of the CFA institute 2004 survey of analysts regarding disclosures by listed companies: "Quality Of Corporate And Financial Reporting In Asia-Pacific Rated As Average But Improving"[4]

These few (selective) comments suggest that despite much discussion and action there is still scope for substantial improvements in the core financial infrastructure in many of the region's economies.

3. Policy Initiatives

Ensuring that the core financial infrastructure is in place is a necessary, but not sufficient, condition for rapid development of an efficient, robust, financial sector, Consequently, a substantial number of specific policy initiatives have been considered and undertaken in various countries, and multilaterally, in order to hasten development. Some of the multilateral initiatives reflect the perspective that lack of regional diversification was one of the factors adding to the severity of the Asian crisis (Ghosh, 2006). A brief outline of some these is given below.

Design and implementation of Financial Safety Nets

One of the major developments in financial sector policies world wide has been the increased attention paid to implementing suitable financial safety nets, incorporating deposit insurance, lender of last resort arrangements etc., and this could perhaps be regarded as part of the core financial infrastructure. Deposit insurance, partly prompted by insistence from multinational agencies (IMF, World Bank), has spread rapidly with many Asian countries adopting some form of limited coverage scheme (and winding back blanket guarantees instituted after the crisis).[5]

[4] http://www.cfainstitute.org/aboutus/press/release/05releases/20050111_02.html
[5] Information is available at:
http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20699211~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html

Capital Market Development

There has been substantial activity directed towards the development of bond markets in Asia,[6] reflecting the perception that corporate bond markets may act much like a "spare tire" to the banking sector in enhancing financial sector resilience to shocks. This has included the development of the Asian Bond Fund 2 as a mechanism for facilitating the growth of sovereign bond markets in the region, and creation of a web site (asianbondsonline.adb.org) to promote interest in the development of Asian bond markets. (Ghosh, 2006, provides further information, as well as on developments in Asian equities markets).

Institutional Investor Development

Reflecting both the concern after the Asian crisis of excessive reliance on banking rather than capital markets, and the implications of an ageing population for development of a funds management industry, individual economies have paid significant attention to the regulatory changes needed to develop funds management. Park et al (2006) provide a comprehensive study of how the funds management industry has grown rapidly in the East Asian economies in recent years, as well as reviewing the various policy initiatives and developments.

Enhanced Risk Based Supervision

The Basel 2 initiative has focused attention on risk based bank supervision, and generated substantial capacity building activities for bank supervisors. Naturally, different economies have different timetables for transition to Basel II, reflecting different levels of banking sector sophistication. As at mid 2006, Australia, Korea, Singapore, and New Zealand were planning full implementation at the scheduled initiation date, Hong Kong, Japan, Indonesia, Thailand were planning immediate adoption of the "standardized approach" with the "IRB" approach available one or two years later, and China, India, Malaysia, and Philippines also adopting the standardized approach but with plans for the introduction of the IRB approach much further distant.[7] It is interesting to note the widespread adoption of the Basel 2standardized approach by countries not represented on

[6] http://www.bis.org/publ/bppdf/bispap26.pdf provides an overview.
[7] http://www.bis.org/review/r060512b.pdf

the Basel Committee when one of the principal members, the USA, has rejected this approach (in favor of maintaining Basel 1) for most of its banks.

Other Initiatives

The range of further specific policy initiatives is too large to be considered in detail here. They include attempts to promote *Regional Credit Ratings Agencies*, reflecting concerns that the major ratings agencies do not focus on smaller Asian companies (thus inhibiting bond issuance) and provide ratings from an international perspective, whereby corporate ratings are constrained by the upper bound of sovereign ratings – and therefore of limited value for purely domestic bond market development. *Credit Bureaus*, providing information on consumer credit-worthiness to potential lenders, is another area where many Asian economies have lagged international practice, and where some attention is being focused – in recognition of the importance of reliable information for development of effective credit markets. *Microfinance* initiatives and *Financial Literacy and Education* programs are also worth noting.

Reflecting international trends, there has been attention paid to the design and structure of regulatory agencies, including choices between integrated and specialist supervisors (Ghosh, 2006, Chapter 8), as well as governance, accountability, independence and financing issues.

4. Assessing Progress

The level of activity and initiatives in financial policy and reform in the Asian region since the Asian crisis has been impressive (although lack of involvement in FSAPs may be an issue of some concern). But an important question is the one of how to assess whether valuable progress has been made.

Ultimately, the point of financial reform is to develop a better functioning financial system. In this regard, Levine (2005) points to five key economic functions performed by the financial system, which he describes as

- ex ante information generation and capital allocation

- monitoring and corporate governance
- facilitate trading, diversification and management of risk
- mobilize and produce savings
- ease exchange of goods and services.

Financial development means that these functions are better provided, although there is no presumption that one particular type of financial sector structure will be preferable.

Measuring financial sector performance of those ultimate economic functions is problematic. It is thus useful to identify a set of intermediate targets for an efficient financial system, consistent with performance of those functions which constitute generic goals to which policy changes can aspire and be measured against.

A diagrammatic perspective on the link between policy initiatives aimed at improving financial infrastructure and those aimed at developing specific financial market characteristics, and some general intermediate targets and economic functions is given in Figure 2.

Figure 2: A Schematic Depiction of Financial Reform Policy Effects

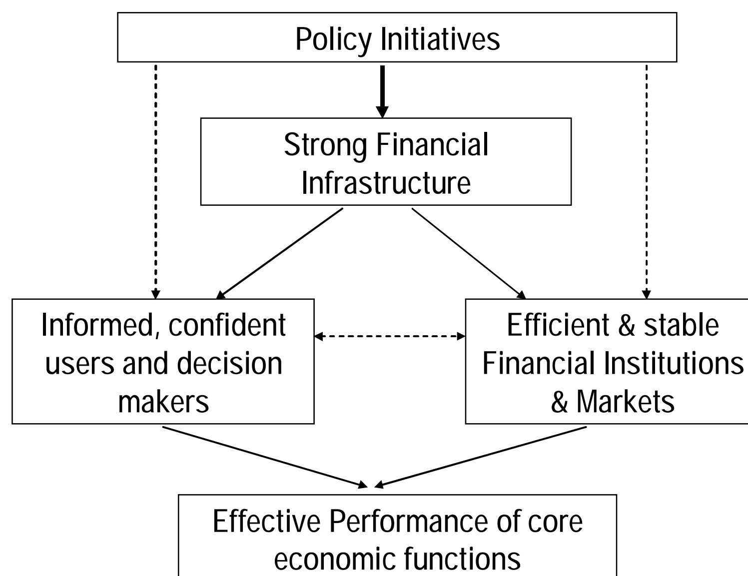


Figure 2 collapses the intermediate targets of policy into two categories of informed participants and efficient and stable markets. Those intermediate targets could be expanded to include such things as:

1. Informed End Users - regarding properties (risk, costs, expected return) and suitability of financial contracts they may enter, and appropriate financial strategies best suited to their own needs
2. Informed Financial Services Providers - regarding risk characteristics of potential counterparties for informed decision-making.
3. Good Governance Structures - which promote informed and good decision and generate institutional objectives (towards risk taking and achieving legitimate stakeholder objectives) consistent with the perceived role of that institution in the economy.
4. Contract Credibility - Legal and institutional arrangements which enable contracts to be efficiently written and enforced, and which protect property rights.
5. Failure Risk Mitigation and Management - Mechanisms to minimize and/or deal with market outcomes which are viewed as failures having adverse and unacceptable social consequences
    a. Ex ante – prudential regulation, supervision, development of markets for risk transfer and hedging
    b. Ex post – financial safety nets
6. Economic and Financial Stability - Creation of a "benign" economic environment (economic stability) within which efficient financial contracts can be written, and an institutional structure which minimizes risk of financial crises.
7. Minimizing Market Distortions - Minimization of distortions which prevent mutually (and socially) beneficial transactions between economic agents and which impede, economic development, innovation, and financial inclusion of groups of potential end-users of financial services.

8. Cost Efficiency - Incentives for (risk adjusted) minimum cost – efficient production of valuable financial services

Adopting the framework depicted in Figure 2, suggests several methods by which progress of financial reform and effectiveness of specific policies might be assessed. (The FSAP approach incorporates several of these, IMF, 2005). The taxonomy of possible methods given below starts with measures based on "actions" and progresses through to measures based on "outcomes".

The simplest form of assessment is by way of a scoring an economy's progress against a "checklist" against the components of the "good/best practice" standards and codes given in Table 1. However, because of their determination through consensual processes and acceptance of the principle that the details of suitable practices are most likely to be country specific, they provide at best a base level against which progress can be assessed. Deviation from the standards may provide useful information, but meeting the standards is, given their quite general nature, consistent with a wide range of outcomes on financial sector development.

At a somewhat tougher level, there is assessment by informed observers as to whether the core financial infrastructure has improved. This can take the form of survey data about perceptions of the quality of aspects of the financial infrastructure. Thus, for example, analysts might score countries on the quality of financial reporting, or the quality of corporate governance. Ghosh (2006, Chapter 3) for example, provides a number of indicators (drawn from various sources) on achievement of such core infrastructure components as shareholder rights, corporate governance, bank and corporate disclosure, creditor's rights etc. These indicators suggest that there is still much room for improvement in many Asian economies. However, there does not appear to be consistent time series measures of such indicators readily available which would enable assessments of progress.

At a third level of analysis, it is possible to track variables which may indicate the effects of specific policies on financial sector structure, although separating the effects of policy from other underlying economic forces is problematic. For example, changes in the size of bond market capitalization as a ratio to GDP might be used as a measure of the success

of policies aimed at developing bond markets. Similar types of indicators related to various policy initiatives could include variables such as: proportion of listed companies rated by a ratings agency; number of inquiries to credit bureaus; stock exchange turnover, size of the mutual fund industry etc. Analysis of such indicators has been facilitated by the development of cross-country databases such as those at the World Bank. But while trends in such indicators are often presented and commented upon, there do not appear to be many studies which attempt to determine how to disentangle policy induced changes from other economic determinants.

A fourth type of analysis would involve developing indicators of the intermediate targets of policy such as those listed above, and measuring the effectiveness of policy against those indicators. For example, informed end-users might be proxied by the proportion of the population active in the share market. Contract credibility and enforcement might be proxied by the time taken for resolution of failed companies. These are, admittedly, perhaps weak proxies, but relate to the following fundamental point regarding financial reform policies.

Financial reform policies should identify the expected beneficial consequences of those policies and involve specification of indicators of success which are tracked, reported, and analyzed. Although such indicators will always be imperfect, and outcomes confounded by a range of unpredictable economic factors, the discipline imposed on policy makers and accountability for policy reform implied appears warranted. There is considerable scope for improvement in this regard in most economies.

A final level of analysis involves empirical studies which assess indirectly whether the core functions of the financial system are being performed more efficiently. Thus, for example, it would be possible to use econometric event study techniques to determine whether information is incorporated into asset prices more rapidly than previously, or whether there is evidence of improved “market integrity” through less pre-announcement drift in share prices. Similarly, studies of how buy-sell spreads in markets, cost of capital, valuation of firms (market/book ratios) etc., have changed and how their relationships to other economic variables are possible – although removing the effects of other confounding factors is problematic. But effective financial reform should result in

identifiable changes in various financial market relationships which provide the opportunity to test the effectiveness (and gain guidance for future policy) of policy changes.

I would hypothesize (based on a less than complete literature search) that analysis of the effects of Asian financial sector reform programs has not progressed very far along this ladder of research sophistication. Use of checklists and surveys of market perceptions are relatively common. There is much reporting of trends in financial sector structure – although less analysis of the causes of those trends and their relationship to improved performance of the financial sector in performing its core economic functions. There is relatively limited identification of intermediate targets of financial reform policy, or use of cost-benefit analysis of policy which (however problematic) would at least impose a discipline of articulation of expected benefits upon policy makers. Finally, and perhaps reflecting a lack of adequate data, there appear to be relatively few studies which attempt to examine changes in key financial relationships (which relate to the performance of core economic functions) over time and analyze the contribution of policy to those changes. While there has been an explosion of cross-country studies attempting to identify the importance of key variables for financial development, there is a need for more analysis attempting to identify and explain the consequences of specific policy reforms.

5. Conclusion

This paper has argued that, following the Asian crisis (although influenced also by developed economy experience with financial deregulation) the conventional wisdom regarding financial sector reform has settled on a view that identifies the importance of establishing the "core financial infrastructure" if other policy initiatives are to be beneficial. Other than the desirability of establishing such core financial infrastructure there is less agreement on how policy reforms should be sequenced (other than perhaps in regard to macro-economic issues such as capital account liberalization).

There has been much activity in the Asian region in discussing and implementing financial reform, although there is still much to be done. But there has been less analysis of the effects of policy changes which have occurred. An important message of this paper is that identification of expected outcomes is a crucial component of policy such that analysis of actual against those expected outcomes can be undertaken and guide subsequent policy reforms both in those and other countries.

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