Issues of financial stability have worldwide been the subject of economic research and analyses and are a burning topic for financial market regulators, central bankers and private business subjects. The aim of this article is to widen awareness of international financial and economic standards and codes, an initiative of supranational financial institutions and sectoral organisations whose main role is to support the stability of the international financial system. This initiative naturally reflects ongoing changes in global financial markets and thus contributes to the new architecture of the international financial system.

Financial stability is the state where individual components of the financial system (financial markets, financial institutions, payment and settlement systems, clearing systems) function smoothly, without any disruption to their activity, and are able to resist potential shocks. In other words financial stability is a state without systemic failures, such as the bursting of financial bubbles, excessive asset price volatility, liquidity shocks, bankruptcy of financial institutions, etc. Under these circumstances nothing can prevent the efficient allocation of resources made by the financial system (inter alia) by means of directing the flow of free financial resources into investment projects ensuring their productive use.

Macroeconomic and financial stability

The relationship between macroeconomic and financial stability is very close and bilateral. Macroeconomic stability is an essential condition for ensuring the stability of the financial system and its development. Stability of the financial sector may be disrupted even by the inappropriate use of macroeconomic policy instruments (tax measures, monetary policy instruments). On the other hand, it is clear that only a stable and efficiently functioning financial sector is able (by means of mobilising domestic savings, through the transfer of domestic and foreign free funds into efficient investments, through the control of these funds’ utilisation, pressure on the good corporate governance, through transfer of risks, through the generation of information on resource prices, etc.) to create the conditions for sustainable economic growth and the efficient use of macroeconomic instruments of individual policies.

For transforming, or new market economies it is therefore important to concentrate efforts and resources on:

- building and reforming infrastructure and legislation that ensures financial stability and reduces the level of risk in the business environment (enforceability of contracts, a functioning judiciary, efficient bankruptcy and liquidation, protection of creditors and minority shareholders, publication of information, correct corporate governance, accounting and auditing standards),
- constructing a framework for financial regulation and supervision and its effective enforcement (accounting and auditing standards for financial institutions, publication of information by financial intermediaries, prudent conduct rules, issues of supervision infrastructure, safety nets – depositor protection with minimal implications for moral hazard, etc.),
- creating conditions for improving the management of banks and other financial institutions (abilities of management, know-how in the field of evaluating client creditworthiness, risk management, determining responsibilities of managerial staff and owners, etc.)
- implementing macro-economic policies aimed at stability and growth.

Stability of the international financial system and international financial standards and codes

In consequence of technological advances, financial innovations and the trend of liberalising the international movement of capital and the provision of financial services national financial systems are becoming interconnected to the international financial system. The international financial system is characterised by a growing volume of capital flows (see graph) and mainly a rapid growth of private financial flows in relation to developing economies. However not only has the volume of capital flows grown, but also their volatility, evidence of which has been the recent financial crises in Mexico, South-East Asia, Russia, and Brazil, etc. Mutual financial interconnection of national financial systems furthermore creates the possibility of a

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1 According to the World Bank (World Bank Global Development Finance 2000) the total volume of net capital flows to developing countries in 1990 represented USD 88.5 billion, of which USD 42.6 billion was private and USD 55.9 billion were official funds. In 1999 the total volume was USD 290.7 billion, of which USD 238.8 billion private and USD 52 billion official funds. 1997 prior to the Asian crisis these values peaked and net capital flows reached the level of USD 343.7 billion, with 88% share of private funds (USD 303.6 billion).
is increased several-fold; the overspill of crises between countries from the same geographical area or different developing economies is limited.

A stimulus for implementing the standards and codes into the national legislations of developing countries should be their participation in the creating these principles as well as in assessing countries' observance of them (FSF, for example, also accepted experts from countries that are not members of the FSF into the working group for implementation of standards). It is of a great concern of the standard and codes setting bodies to encourage market participants to take into account the assessment reports on the extend of standard and codes observance by countries in their future investment strategies and risk analysis. The publication of these assessments would thus create market incentives for developing countries for the fast and thorough implementation of codes into their legislations, which is otherwise voluntary for them.

The varied range of financial standards and codes in terms of its orientation corresponds largely to the above-mentioned four main spheres, on the building and reforming of which developing countries should concentrate. System changes in these fields facilitate the incorporation of developing countries into the international financial system with the liberalised movement of capital, contributing to the stability of their internal environment, their economic growth and in the final result to the development of the global economic and financial system, more resistant to crisis.

**Slovakia and the standards**

Slovenia is in the process of legislative and institutional convergence in relation to the European Union. EU directives (including those governing financial regulation) are founded on internationally accepted standards and codes and are updated so as to be as far as possible in accordance with the regularly (depending on the changing conditions) re-evaluated standards and codes. Slovenia thus in the abovementioned fields, important for macroeconomic and financial stability, is in the process of legislative and institutional standardisation.

To this standardisation of the financial market environment in Slovenia are contributing also assessments from the International Monetary Fund and World Bank. The assessment report of the International Monetary Fund of September 2002 aimed at evaluating the stability of the financial system in Slovenia (in the framework of the Financial Sector Assessment Program – FSAP) contains also an assessment of the rate of adherence to standards and codes (Reports on the Observation of Standards and Codes – ROSC) in the following fields: transparency of financial authorities (central banks, ministries of finance, institutions responsible for supervision of the financial sector), international financial institutions, international groupings of financial regulators and surveillance agencies, expert panels of central banks and the ECB. The activity of FSF is coordinated by the Secretariat, which is located in the Bank for Internal Settlements (BIS) in Basle, Switzerland.

2 FSF associates the leading representatives of national financial authorities (central banks, ministries of finance, institutions responsible for supervision of the financial sector), international financial institutions, international groupings of financial regulators and surveillance agencies, expert panels of central banks and the ECB. The activity of FSF is coordinated by the Secretariat, which is located in the Bank for Internal Settlements (BIS) in Basle, Switzerland.

3 Countries with a developing economy may also perform their own assessment on themselves. This contributes to a better understanding of the significance of the standards at the national level, it accelerates and facilitates the assessment process performed by international organisations and enables national authorities to take measures in the case that no assessment yet has been made for the given country e.g. by the International Monetary Fund.
monetary and financial policy, banking supervision, regulation of securities and investing, insurance market regulation, correct corporate governance, supervision over systemically important payment systems and measures against money laundering and the fight against financing terrorism.

Besides this, the assessment report contains also a brief summary on the assessment of the accordance of our legislation with the Principles and Guidelines for Effective Insolvency and Creditor Rights System. Slovakia's ROSC for fiscal transparency was published in August 2002 and in November 2001 the ROSC for the accounting and auditing modules was published. Apart from this, the Slovak Republic is a participant in the IMF project on the publication of data according to Special Data Dissemination Standards (SDDS) and overall has publicly available publications in all the 12 ROSC modules.

Conclusion

The complete elimination of financial crises is probably an unrealistic aim. The recent crises of a financial nature that affected developing economies however instigated debates on a new international financial architecture that would reduce the frequency and scope of subsequent financial crises. One of the solutions for preventing the emergence of financial instability is the creation and implementation of international standards and codes. This is an ongoing process, which undoubtedly consumes considerable resources before contributing in any significant extent to the strengthening of national financial systems, and increases their resilience to shocks. The advantages ensuing from reliable, smoothly functioning and efficient financial markets are, however, a great appeal.