Introducing the Revised and Updated Financial Reform Database
Sawa Omori*

ABSTRACT

This article introduces a revised and updated version of the Financial Reform Database, which is widely used by economists and political economists. In this revision, country coverage is extended from 91 to 100 economies. Also, the time period covered is extended from 1973–2005 to 1973–2013. Furthermore, the coding rule relating to the enhancement of banking supervision is revised to enhance the clarity of the coding criteria used to measure the independence of a banking supervisory agency, taking into account the concepts of institutional independence and supervisory independence. In addition, in order to systematically compare policy changes across time and countries, seven dimensions of financial policies are further divided into 20 financial policy subdimensions, and each of these subdimensional policy scores is separately coded in this revision. This allows researchers to utilize each subdimension depending on their interests. The detailed policy description of each subdimensional policy reform for all countries and all years is made publicly available. In this article, an overview of the updated Financial Reform Database is provided.

KEYWORDS: financial reforms, banking supervision, banking supervisory agency, banking

I. THE UPDATED FINANCIAL REFORM DATABASE

The Financial Reform Database includes the following seven dimensions of financial reform:

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Table 1. Differences between the original and the revised versions of the Financial Reform Database

<table>
<thead>
<tr>
<th></th>
<th>Original version</th>
<th>Revised version</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country coverage</strong></td>
<td>91 economies</td>
<td>100 economies</td>
</tr>
<tr>
<td><strong>Coded financial reform dimensions</strong></td>
<td>Seven dimensions only (questions that code each of the seven dimensions or policy subdimensions are not separately coded)</td>
<td>Seven dimensions and each of the 20 policy subdimensions used for coding those seven dimensions are separately coded</td>
</tr>
<tr>
<td>(1) Basel standards (0/1)</td>
<td>(1) Basel standards (0/1/2/3)</td>
<td></td>
</tr>
<tr>
<td>(2) Banking supervisory agency’s independence from country’s executive (0/1/2)</td>
<td>(2) Banking supervisory agency’s independence from country’s executive and financial industry (0/1/2)</td>
<td></td>
</tr>
<tr>
<td>(3) Effective supervision (0/1/2)</td>
<td>(3) Supervisory power (0/1/2)</td>
<td></td>
</tr>
<tr>
<td>(4) No exception (0/1)</td>
<td>(4) Effective supervision (0/1/2)</td>
<td></td>
</tr>
<tr>
<td>(5) No exception and cross-border supervisory cooperation (0/1/2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Policy description for policy reform for each policy subdimension</strong></td>
<td>Not available</td>
<td>Available</td>
</tr>
</tbody>
</table>

(i) the elimination of credit controls; (ii) interest rate liberalization; (iii) the liberalization of the banking sector; (iv) financial account liberalization; (v) the privatization of banks; (vi) security market development; and (vii) the enhancement of banking sector supervision. Each dimension is coded using a scale that ranges from 0 to 3 points. The first six dimensions gauge financial policy changes toward liberalization and are coded from 0 (fully repressed) to 3 (fully liberalized). The seventh dimension, i.e., the enhancement of banking supervision, measures the regulatory dimension of the enhancement of banking supervision and is coded from 0 (not regulated) to 3 (highly regulated).

Table 1 shows the differences between the original version and the revised version of Financial Reform Database. The country coverage is expanded from 91 to 100 economies in the updated version, as listed in Table 2. The time period covered is also extended from 1973–2005 in the original to 1973–2013 in the revised version. Therefore, using the revised version it is possible to analyse long periods of financial policy reforms over four decades, including those that occurred after the Global Financial Crisis of 2007–09. Additionally, given that Euro countries adopted the common banking supervisory rules of the European Central Bank as a single supervisory mechanism implemented in November 2014, the last year in which researchers can analyse Euro area countries’ banking supervisory agencies independently is 2013.

The coding of the updated and revised Financial Reform Database intends to gauge policy changes rather than economic outputs. For instance, there are many policy initiatives that aim to develop security markets in developing countries. However, these policy initiatives do not always result in an increase in stock market capitalization which measures the depth of stock market. Thus, it is imperative to look at policy changes so that we can assess their effects on...
Table 2. Coverage of the Financial Reform Database

Albania, Algeria, Argentina, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Cameroon, Canada, Chile, China, Columbia, Costa Rica, Côte d’Ivoire, Croatia, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Finland, France, Georgia, Germany, Ghana, Greece, Guatemala, Hong Kong (Special Administrative Region, China), Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kyrgyz Republic, Latvia, Lithuania, Madagascar, Malaysia, Mexico, Morocco, Mozambique, Nepal, Netherlands, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Senegal, Singapore, Slovak Republic, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Venezuela, Vietnam, Zambia, Zimbabwe

Economic outputs. Apart from the privatization of banks, which considers the percentage of private ownership of banks as a criterion, as far as possible the coding is based on policy reforms. In order to code the financial policy reforms of seven dimensions systematically in a comparable manner across over four decades and 100 economies, the coding is based on further more detailed policy questions or policy subdimensions, which account for 20 policy subdimensions in total. For instance, coding of the dimension of banking sector entry is based on the following four subdimensional policy changes: (i) foreign bank entry allowed; (ii) domestic bank entry allowed; (iii) branching restrictions lifted; and (iv) diversification of bank activities allowed. Although the previous version of the dataset used very similar subdimensional policy questions to code each of the seven dimensions, the subdimensional policy changes were not separately coded within each dimension. Hence, the previous method of coding tended to result in missing values, and it was difficult to detect where those missing values were located given that description of policy changes were only provided for each dimension for each country overall in text format, and not separated at the sub-dimensional level. To address these shortcomings, each of these 20 sub-dimensional financial reform policy scores is now separately coded in order to compare the values of financial reforms across countries more systematically, and each of the 20 sub-dimensional policy scores is made available. In addition, in the revised version an effort has been made to ensure that there are very few missing values. Moreover, as explained in the next section, the coding rule for the dimension of banking sector supervision has been revised to enhance the clarity of the coding criteria for the independence of a banking supervisory agency, using the concepts of institutional independence and operational independence. Moreover, while the previous version of the database did not make available descriptions of the policy changes that are coded as financial reforms, in this revision, this information for all subdimensional financial policy changes is made available in Excel format, which accounts for 7408 rows in total.

To update the Financial Reform Database, I conducted extensive archival research on various kinds of International Monetary Fund (IMF) documents, including for each country: Article VI staff reports (various years); Recent Economic Developments (various years); Selective Issues (various years); Annual Reports on Exchange Arrangements and Exchange Restrictions (various years); and reports from the Financial Sector Assessment Program (FSAP), particularly

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2 The existence of a credit ceiling as the sub-dimensional criterion for credit controls and reserve requirements was dropped due to extensive missing values in the previous dataset.
the Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision, when available. In addition, I collected information from the websites of central banks and banking supervisory agencies, particularly legal documents pertaining to banking supervisory agencies’ institutional information, credit controls and reserve requirements. Scholarly datasets, as well as books and academic journals, were also utilized to obtain country-specific information.

II. REVISED CODING RULE FOR THE ENHANCEMENT OF BANKING SUPERVISION

The coding rule for the enhancement of banking supervision has been revised based on the following five subdimensions, which are used to enhance the clarity of the coding rule for the degree of independence of a banking supervisory agency by operationalizing the related concepts of institutional independence and operational independence. The first subdimensional indicator looks at the adoption of the Basel standards as the international regulatory framework that defines the capital adequacy ratio, and other relevant regulations for internationally operating banks’ liquidity and risk calculation. The coding is based on the implementation of Basel I (1 point), Basel II (2 points), and Basel II.5 (3 points). The second subdimensional indicator captures the institutional independence of a banking supervisory agency. Quintyn, Ramirez, and Taylor defined ‘institutional independence’ as ‘the status of the agency as an institution separate from the executive and legislative branches of government’. Extending this definition, the coding focuses on whether a banking supervisory is independent not only from the executive branch of the government, such as the Ministry of Finance (MOF), but also from financial industries’ interests. Institutional independence is coded based on the following two criteria (ranging from 0 to 2 points): (i) the composition of the Board of Directors of a banking supervisory agency; and (ii) the conditions for removal of the head of a banking supervisory agency.

The third subdimension aims to gauge supervisory independence. Quintyn, Ramirez, and Taylor defined ‘supervisory independence’ as ‘the independence with which the agency is able to exercise its judgment and powers in such matters as licensing, on-site inspections and off-site monitoring, sanctioning, and enforcement of sanctions (including revoking licenses), which are the supervisors’ main tools to ensure the stability of the system’. To measure supervisory independence, the following three criteria are used: (i) whether a banking supervisory agency has a legally defined wide range of remedial and sanction measures; (ii) whether proactive early intervention by a banking supervisory agency is possible; and (iii) whether a banking supervisory agency can exercise supervisory measures independently and without interference. The subdimensional score ranges from 0 to 2 points.

The fourth subdimensional indicator refers to the quality of on-site and off-site examinations, which is coded based on whether site examinations are effectively conducted in a risk-weighted manner (ranging from 0 to 2 points). The fifth subdimensional indicator captures the following two criteria: (i) whether a banking supervisory agency conducts banking supervision with no exceptions; and (ii) whether a banking supervisory agency enhances its international cross-border supervisory cooperation with other agencies. Coding is primarily based on whether a

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3 I considered whether all core components of Basel III were fully implemented when deciding whether to code the implementation of Basel III. In October 2013, no countries in this dataset had fully implemented the subcomponents of the leverage ratio, and therefore Basel III has not been included. See Bank for International Settlements, ‘Implementation of Basel Standards: A Report to G20 Leaders on Implementation of the Basel III Regulatory Reforms’ (Bank for International Settlements 2014).


5 Ibid 9.
Table 3. Correlations among each dimension of financial reform: level

<table>
<thead>
<tr>
<th></th>
<th>Credit controls and reserve requirements</th>
<th>Interest rate liberalization</th>
<th>Banking sector entry</th>
<th>Privatization of banks</th>
<th>Financial account liberalization</th>
<th>Security markets</th>
<th>Banking sector supervision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit controls and reserve requirements</td>
<td>1</td>
<td>0.585</td>
<td>0.662</td>
<td>0.518</td>
<td>0.605</td>
<td>0.587</td>
<td>0.622</td>
</tr>
<tr>
<td>Interest rate liberalization</td>
<td>0.563</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking sector entry</td>
<td>0.518</td>
<td>0.519</td>
<td>0.622</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privatization of banks</td>
<td>0.491</td>
<td>0.469</td>
<td>0.535</td>
<td>0.519</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial account liberalization</td>
<td>0.529</td>
<td>0.578</td>
<td>0.596</td>
<td>0.467</td>
<td>0.505</td>
<td>0.622</td>
<td>1</td>
</tr>
<tr>
<td>Security markets</td>
<td>0.562</td>
<td>0.638</td>
<td>0.644</td>
<td>0.487</td>
<td>0.587</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Banking sector supervision</td>
<td>0.529</td>
<td>0.578</td>
<td>0.596</td>
<td>0.467</td>
<td>0.505</td>
<td>0.622</td>
<td>1</td>
</tr>
</tbody>
</table>

banking supervisory agency conducts supervision for both bank and nonbank financial institutions on a globally consolidated basis, with no exceptions, and whether a banking supervisory agency signs a memorandum of understanding (MoU) with the foreign supervisory agency (ranging from 0 to 2 points). The sum of these five subdimensional scores varies from 0 to 11 points. These raw scores are coded on a three-point scale: 3 (highly regulated, 11–8 points); 2 (largely regulated: 7–5 points); 1 (less regulated: 4–1 points); and 0 (not regulated: 0 points).

III. OVERVIEW OF FINANCIAL REFORM DATABASE

Table 3 shows the correlations among the levels of the seven dimensions of financial reform, the values of which range from 0.467 to 0.622. These modest correlations suggest that each dimension captures different financial policy changes. Conversely, as Table 4 shows, the correlations between the changes in each dimension vary from 0.006 to 0.145. These correlations are low and suggest that the timing of reforms for each dimension is different depending on the dimension.

Figure 1 shows the mean level score for 100 economies for each of the seven dimensions in each year. While the trends in all dimensions over time are generally increasing, they differ depending on the dimension. Moreover, as Figure 2 shows, if one looks at the mean change scores for 100 economies for each of the seven dimensions over time, the differences among dimensions are more apparent than for the mean level score. These drop lines show that financial policy changes occur in regard to both financial policy reform and policy reversal. Furthermore, the timings of such policy changes differ from one dimension to another. The Appendix provides the coding rules governing how each dimension is divided into policy subdimensions and how each subdimensional policy score is coded and aggregated to code each dimension.

6 Abdul and Mody (n 1).
Table 4. Correlations among each dimension of financial reform: change

<table>
<thead>
<tr>
<th>Credit controls and reserve requirements</th>
<th>Interest rate liberalization</th>
<th>Banking sector entry</th>
<th>Privatization of banks</th>
<th>Financial account liberalization</th>
<th>Security markets</th>
<th>Banking sector supervision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit controls and reserve requirements</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate liberalization</td>
<td>0.107</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking sector entry</td>
<td>0.087</td>
<td>0.051</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privatization of banks</td>
<td>0.036</td>
<td>0.021</td>
<td>0.034</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial account liberalization</td>
<td>0.045</td>
<td>0.145</td>
<td>0.062</td>
<td>0.073</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Security markets</td>
<td>0.052</td>
<td>0.041</td>
<td>0.042</td>
<td>0.012</td>
<td>0.107</td>
<td>1</td>
</tr>
<tr>
<td>Banking sector supervision</td>
<td>0.053</td>
<td>0.006</td>
<td>0.073</td>
<td>–0.009</td>
<td>0.063</td>
<td>0.019</td>
</tr>
</tbody>
</table>

IV. CONCLUSION

In this article I introduce the revised and updated version of the Financial Reform Database, which is widely used by economists and political economists. Due to the refinements and updates in this revised version, 20 subdimensional financial policies are now separately available, and the coding rule for the enhancement of bank supervision now presents clearer comparable coding criteria. Researchers can now use separately coded subdimensional financial policy reforms to combine some of these reforms, depending on their research interests. Policy descriptions of each of the 20 subdimensional financial reforms for all countries that are utilized as coding criteria are also available in Microsoft Excel format via my personal homepage; this data accounts for 7408 rows in total.

The war in Ukraine and the related financial sanctions on Russia that utilize the SWIFT ban show the importance of understanding financial stability and financial regulatory regimes as the products of policy choices. Researchers can use the revised Financial Reform Database to examine various types of financial reforms by looking at combinations of 20 subdimensional financial policy reforms that have been separately coded, depending on their research interests. For instance, researchers can examine whether domestic financial reforms such as the privatization of banks and the lifting of bank entry barriers for domestic banks would have different reform patterns when compared with externally oriented financial reforms such as lifting entry bans on foreign banks and allowing foreign ownership of firms on a capital market, for instance. Further, policy reforms do not always result in financial development or capital market development; thus, researchers can carry out a more detailed examination of whether and which county’s financial reforms would lead to changes in economic outputs by utilizing the revised Financial Reform Database.
Figure 1. Average levels in each of seven dimensions of financial reform.

Figure 2. Average changes in each of seven dimensions of financial reform.
Appendix Coding rule for the updated Financial Reform Database

I. Credit controls and reserve requirements

Sectoral allocation of credits
(1) Are there minimum amounts of credit that must be channelled to certain sectors?
* Coded as 0 if credit allocations are determined by the central bank or mandatory credit allocations to certain sectors exist.
* Coded as 1 if mandatory credit allocations to certain sectors are eliminated or do not exist.

Credit allocation at preferential rates
(2) Are there any credits supplied to certain sectors at subsidized rates?
* Coded as 0 when banks have to supply credits at subsidized rates to certain sectors.
* Coded as 1 when the mandatory requirement of credit allocation at subsidized rates is eliminated or banks do not have to supply credits at subsidized rates.

Reserve requirement
(3) Are reserve requirements restrictive?
* Coded as 0 if the reserve requirement is more than 20 per cent.
* Coded as 1 if the reserve requirements are reduced to more than 10 to 20 per cent or if complicated regulations to set reserve requirements are simplified as a step towards reducing reserve requirements.
* Coded as 2 if the reserve requirements are 10 per cent or less.

Fully Liberalized = [4]; Largely Liberalized = [3]; Partially Repressed = [1, 2]; Fully Repressed = [0].

II. Interest rate liberalization

Liberalization of deposit rates/lending rates
Deposits rates and lending rates are separately coded as being government set or subject to a binding ceiling (code = 0), fluctuating within a band (code = 1), or freely floating (code = 2).

FL = 4 [2, 2]

Fully Liberalized if both deposit interest rates and lending interest rates are determined at market rates.

LL = 3 [2, 1]

Largely Liberalized when either deposit rates or lending rates are freed, but the other rates are subject to band or only a part of interest rates are determined at market rates.

PR = 2/1 [2, 0] [1, 1] [1, 0]

Partially Repressed when either deposit rates or lending rates are freed, but the other interest rates are set by government or subject to ceiling/floor; when both deposit rates and lending rates are subject to band or partially liberalized; or when either deposit rates or lending rates are subject to band or partially liberalized.

FR = 0 [0, 0]

Fully Repressed when both deposit rates and lending rates are set by the government or subject to a ceiling/floor.

III. Banking sector entry

Foreign bank entry
(1) To what extent does the government allow foreign banks to enter into a domestic market?

This question is coded to examine whether a country allows for the entry of foreign banks into a domestic market, whether the branching restrictions of foreign banks are eased, and to what degree the equity ownership of domestic banks by non-residents is allowed.

* Coded as 0 when no entry of foreign banks is allowed or tight restrictions on the opening of new foreign banks are in place.
* Coded as 1 when foreign bank entry is allowed, but non-residents must hold less than 50 per cent equity share.
* Coded as 2 when the majority of the share of equity ownership of domestic banks by non-residents is allowed; equal treatment is ensured for both foreign banks and domestic banks; or an unlimited number of branches is allowed for foreign banks.

Domestic bank entry
(2) Does the government allow for the entry of new domestic banks?
* Coded as 0 when the entry of new domestic banks is not allowed or strictly regulated.
Coded as 1 when the entry of new domestic banks or other financial institutions into the domestic market is allowed.

**Lifting branching restrictions**

(3) Are there restrictions on branching? (0/1)

* Coded as 0 when branching restrictions are in place.
* Coded as 1 when there are no branching restrictions or if restrictions are eased.

**Diversification of bank activity**

(4) Does the government allow banks to engage in a wide range of activities? (0/1)

* Coded as 0 when the range of activities that banks can undertake consists of only banking activities.
* Coded as 1 when banks are allowed to become universal banks.

Fully Liberalized = [4 or 5]; Largely Liberalized = [3]; Partially Repressed = [1 or 2]; Fully Repressed = [0].

IV. Financial account transactions

**Unification of exchange rate**

(1) Is the exchange rate system unified? (0/1)

* Coded as 0 when a special exchange rate regime for either capital or current account transactions exists.
* Coded as 1 when the exchange rate system is unified.

**Capital inflow openness**

(2) Does a country set restrictions on capital inflow? (0/1)

* Coded as 0 when significant restrictions on capital inflows exist.
* Coded as 1 when capital inflows are allowed to flow freely or with minimal approval restrictions.

Fully Liberalized = [3]; Largely Liberalized = [2]; Partially Repressed = [1]; Fully Repressed = [0].

**Capital outflow openness**

(3) Does a country set restrictions on capital outflow? (0/1)

* Coded as 1 when capital outflows are allowed to flow freely or with minimal approval restrictions.

VI. Securities markets

**Security market development**

(1) Has a country taken measures to develop securities markets?

* Coded as 0 if a securities market does not exist.
* Coded as 1 when a securities market is starting to form with the introduction of auctioning of T-bills or the establishment of a security commission.
* Coded as 2 when further measures have been undertaken to develop securities markets (tax exemptions, the introduction of medium- and long-term government bonds to build the benchmark of a yield curve, policies to develop corporate bond and equity markets, or the introduction of a primary dealer system to develop government security markets).
* Coded as 3 when further policy measures have been undertaken to develop derivative markets or to broaden the institutional investor base by deregulating portfolio investments and pension funds or completing the full deregulation of stock exchanges.

**Lifting foreign equity restrictions**

(2) Is a country’s equity market open to foreign investors?

* Coded as 0 if no foreign equity ownership is allowed.
Coded as 1 when foreign equity ownership is allowed, but there is less than 50 per cent foreign ownership.
Coded as 2 when a majority equity share of foreign ownership is allowed.
Fully Liberalized = [4 or 5]; Largely Liberalized = [3]; Partially Repressed = [1, 2]; Fully Repressed = [0].

VII. Banking sector supervision

Adoption of the Basel standards
(1) Has a country adopted a capital adequacy ratio and key components of the Basel standards? (0/1/2/3)
* 0 = Basel I not implemented.
* 1 = Basel I implemented.
* 2 = Basel II implemented.
* 3 = Basel II.5 implemented.

Independence of the banking supervisory agency
(2) Is a banking supervisory agency institutionally independent of the influence of executive power and/or financial industry interests? (0/1/2)

(i) Composition of the board of directors
* Is the ultimate jurisdiction of banking supervision under the ministry of finance (MOF), or are government agencies such as the MOF or financial industries’ representatives a part of the board of directors of a banking supervisory agency? When a banking supervisory agency is under the MOF’s jurisdiction or when the board of directors of a banking supervisory agency includes either a member of a government agency such as the MOF or a member of a financial institution, it is coded as 0. If not, it is coded as 1.

(ii) Removal conditions
* Does a law clearly list the conditions of the dismissal of the head of a banking supervisory agency and/or state that dismissal should be allowed only under limited circumstances? When the removal conditions of a head of a banking supervisory agency are not clearly listed or the removal of a head of a banking supervisory agency is not stated to be allowed only under limited circumstances, it is coded as 0. If listed, then it is coded as 1.

Then, the following two criteria are added:
* Coded as 0 when both conditions are not met.
* Coded as 1 when either one of these conditions is met.
* Coded as 2 when both conditions are met.

Supervisory power of the banking supervisory agency
(3) Does a banking supervisory agency have enough supervisory power? (0/1/2)

The third subdimension aims to capture ‘supervisory independence’ by focusing on the following three criteria:

(i) Whether a wide range of remedial and sanction measures for a bank supervisory agency—including not only hard measures, such as the revocation of bank licences, but also soft measures, such as ordering a change in bank manager or imposing fines—are legally given.

(ii) Whether the banking supervisory agency has supervisory measures that enable proactive early intervention, such as a prompt corrective action mechanism.

(iii) Whether the supervisory independence of the banking supervisory agency is ensured by the ability to use remedial and sanctioning powers without major problems. For instance, if the supervisory agency needs to ask for approval from the MOF when intervening in a troubled bank, it is not regarded as having supervisory independence.

* Coded as 0 if none of the above three conditions is met or if only one of the conditions is met. For instance, when a country has only extreme measures available, such as the revocation of a banking licence; when a banking supervisory agency does not have early intervention powers or a prompt corrective action framework; and when a significant delay in remedial actions being taken against troubled banks is apparent because of the lack of supervisory independence. Additionally, a coding of 0 is applied if only one of these three conditions is met. For instance, Algeria is coded as 0 for all years due to the frequent bailout of state banks by the MOF.

* Coded as 1 when two of the three conditions are met. For instance, a coding of 1 will be applied if laws define a wide range of both soft and hard corrective measures, and supervisory independence is legally
ensured without major problems; however, problems remain because of the lack of a clearly defined prompt corrective action mechanism, which could cause a delay in taking corrective actions.

* Coded as 2 when all three conditions are met. A wide variety of hard and soft corrective measures and early intervention measures are legally ensured, and supervisory independence is ensured by the ability to take supervisory measures.

Site supervision

(4) Does a banking supervisory agency conduct effective supervision through on-site and off-site examinations? (0/1/2)

* Coded as 0 when a country has no legal framework or when practices of on-site and off-site examinations are not conducted. Additionally, a coding of 0 will be applied if on-site and off-site examinations are conducted but in a problematic manner of site examinations is apparently indicated.

* Coded as 1 when both on-site and off-site examinations are regularly conducted by a banking supervisory agency, but problems of supervision are nonetheless indicated.

* Coded as 2 when a banking supervisory agency conducts risk-based effective and sophisticated examinations.

No exceptions of supervision

(5) Does a supervisory agency conduct supervision over the banking sector without any exceptions and enhance cross-border supervisory cooperation? (0/1/2)

(i) Do banking supervisory agencies conduct supervision over banks and non-bank financial institutions without exception on a consolidated basis?

(ii) Do banking supervisory agencies establish good cooperation with foreign banking supervisory agencies to ensure effective cross-border supervision?

* Coded as 0 if neither criterion is met. For instance, holding companies are excluded from a banking supervisory agency’s oversight due to the lack of consolidated supervision; and in addition, a banking supervisory agency does not have explicit international agreements with host and/or home supervisors by signing a memorandum of understanding (MoU) to ensure cross-border effective banking supervision.

* Coded as 1 if one of two criteria is met: when particular banks are not supervised by a banking supervisory agency while the country signs an international agreement to enhance cross-border supervision, or if banks and/or non-bank financial institutions are supervised without exception, but MoUs to enhance cross-border banking supervision are not explicitly signed.

* Coded as 2 if banks and non-bank financial institutions are supervised without exception and a banking supervisory agency has signed MoUs with home and/or host supervisory agencies.

By summing these five subdimensions, 0–11 points are coded as follows:

**Highly Regulated [3] = [11–8]; Largely Regulated [2] = [7–5]; Less Regulated [1] = [4–1]; Not Regulated [0] = [0].**