

WELCOMING REMARKS
Remarks by Robert P. Forrestal
President and Chief Executive Officer
Federal Reserve Bank of Atlanta
Delegation of Chinese Bankers
August 8, 1994

- It is my pleasure to welcome you to the Federal Reserve Bank of Atlanta this morning. This November, I will have the equivalent pleasure of visiting your exciting city.

- I will travel to Shanghai to be a speaker at the Fifth International Economics Conference on China. This conference is co-sponsored by the American Committee on Asian Economic Studies and a number of Shanghai organizations, including the Shanghai Academy of Social Sciences.

- One of the topics for discussion will be the Shanghai-Pudong Development Project. I am sure that many of you here today could give me some insight into that project.

- I see from your schedule that you have already visited a number of commercial banks. Today, you are visiting a different kind of bank. We are part of the central bank of the United States. Its formal name is the Federal Reserve System.

- You will be hearing from three of our Bank officers. They will talk about monetary

policy, current banking and regulatory issues, and the operation of our Bank. I sincerely hope that the information discussed here today will be useful to you. And if any of these talks is "ma ma hoo hoo" (pronounced with the last two syllables sounded on a higher note than the first two), I want you to let me know. "Ma ma hoo hoo" is a Chinese figure of speech that means "mediocre," but when translated word for word means horse-horse, tiger-tiger. Larry Schulz assures me that if you use this phrase, you will get an appreciative--or at least a surprised--laugh because rarely does anyone but a native Chinese know how to use this figure of speech.

- However, before I turn the program over to the next speaker, I would like to say a few words about the importance of an independent central bank.
- In my view, the key to long-term, stable growth in China depends on a strong financial structure. And a strong financial structure requires an independent central bank or something that serves the same purpose. It does not matter what it is called. The most important point is that this central bank must be independent from the government.
- Why is such a structure so critical? First, because a strong and independent central bank would take steps to hold inflation down.

- The most immediate benefit of a central bank would be relief from hyperinflation. That is because with a central bank in place, the government could no longer print money to pay its debts.
- Second, because countries that do not have a sound financial structure cannot be equal partners with those countries that do have a sound financial structure. Free and open trade, for instance, depends on a strong banking system--not only in the United States but also in each of our trading partners. That means there must not be only strong U.S., European, and Japanese banks but also strong Chinese banks.
- A central bank should be independent from the government. It should administer monetary policy. It should oversee the payments system. And it should supervise the banking industry. I believe that an independent central bank is the best way to create an environment for an economy to grow at a stable rate.
- In addition, technology now joins countries in the world more closely. This means that unsound banking practices create problems in more than the home country. The collapse of BCCI is an example of unsafe banking practices that have the potential to harm global banking. In order to keep the international banking system safe, it is important that all countries have an independent supervisory authority. Also comprehensive and consolidated examinations must be carried out at all

financial institutions.

- Besides appropriate supervision, another important part of any financial structure is the payments system. For instance, financial markets in every country depend on a reliable payments system to ensure their liquidity and efficiency. Central banks usually oversee the payments system for two reasons: because they have account relationships with commercial banks and because they supervise these same banks.
- During bank examinations, the central bank gets advance warning of potential major problems for the payments system. That is why it is extremely important for a central bank or a supervisor to be able to conduct comprehensive and consolidated examinations of commercial banks.
- I do not wish to get overly technical, but this issue has become more intense since the U.S. Congress passed the Foreign Bank Supervision Enhancement Act. This act governs whether the Federal Reserve can accept an application for an international bank to do business in the United States. Our judgment is based largely on whether the bank is subject to comprehensive supervision and regulation in its home country.
- I believe the rules of the Foreign Bank Supervision Enhancement Act are sensible.

I also believe, however, that countries should overhaul their banking laws not merely because of this U.S. law. Rather, they should recognize that creating a strong financial structure simply is an excellent idea--whether or not there is a U.S. law.

- In conclusion, I see from your schedule that you are a little more than halfway through the Training Program. My best wishes to you as you leave the Southeast to travel to New York City and Los Angeles before leaving for home.
- Now let me turn you over to Sheila Tschinkel, our senior vice president and director of research. She will be speaking with you about the Federal Reserve and the role it plays with monetary policy.