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## Financial System Standards and Financial Stability: The Case of the Basel Core Principles

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### Abstract

The relationship between the observance of financial system standards and financial stability is complex owing to the multitude of macroeconomic and structural factors affecting stability. Assessments of standards need to be interpreted using information on other factors affecting risks. Preliminary evidence from data on observance of Basel Core Principles (BCP) suggests that credit risk and bank soundness are primarily influenced by macroeconomic and macroprudential factors and that direct influence of compliance with BCP on credit risk and soundness is insignificant. Compliance could, however, have a sizable indirect influence through its impact on the marginal effect on soundness of macro factors.

**Keywords:** standards and codes, Basel Core Principles, financial system soundness**JEL Classification:** E42, E44, G21[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/WPIEA0622001.pdf?abstractid=879547&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/WPIEA0622001.pdf?abstractid=879547&mirid=1)[Open PDF in Browser \(Delivery.cfm/WPIEA0622001.pdf?abstractid=879547&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/WPIEA0622001.pdf?abstractid=879547&mirid=1&type=2)

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