

# An Assessment of Central Banks' Pursuit of Financial Stability

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Publications

# Thirty Turbulent Years

- The most tumultuous in monetary history
- Causes - is there a consensus?
- Achievement of approximate price stability marks huge progress
- But has not delivered financial stability



# Central banks' mandate

- Clear mandate for price stability
- Mandate for financial stability less clear-cut?
- Links between monetary and financial stability work
- Managing public expectations



# Main objectives of public policy

- Protecting savings/deposits at banks so they are available for use
- Avoid cascading of crises
- Ensure efficient payment systems
- Promote competitive and well-functioning banking and capital markets
- Other objectives specific to country



# Core tasks

- Collect information, analyse and publish
- Know your banking system and markets
- Ensure safeguard systems are in place
- Push banks to implement standards
- “Scan the horizon” for emerging risks
- Set a good example



# Instruments and powers

- Supervision and enforcement
- Payments system oversight
- Lender of last resort [LLR]
- International reserves
- “Soft power”



# Too big to fail?

- Protecting markets from failure of big institutions
- Pervasive problem with high costs
- Market discipline critical
- No bank should be TBTF



# Controversial questions

For example:

- Should monetary policy tools be used for financial stability objectives?
- Is it possible/feasible to give early warning of trouble - and act on it?
- Are arrangements for LLR in the eurozone adequate?
- How should cross-border failures be managed?
- Should supervision be hived off from central banks?





# Risks to central banks

- Balance sheet risks
- Reputational risks
- Legal risks
- Operational risks/business continuity
- Payments system risks.....



# Current threats to financial stability - international

Usual suspects:

- Swings between major exchange rates
- Synchronised asset price movements
- Fiscal policies out of control
- Long-term future of the euro?
- and so on....



# Threats to financial stability - country or region specific

For accession countries:

- Risks during process of rapid convergence
- Macro-prudential risks
- Key role for the central bank
- - but the CB cannot solve all problems!



# Future trends - what recommendations emerge from scholarly work?

- Modelling financial stability
- Early warnings of emerging instability
- How to factor financial stability concerns into monetary policy
- Impact of dysfunctional international monetary system
- ....and many others



# Towards a clearer focus for central banks' role

Need to distinguish between the following:

- What services can a central bank deliver?
- What risks to stability can it influence?
- What can central banks/supervisors do collectively (*Basel Committee, FSF, etc*)?
- What things can they do nothing about?



# Credibility and authority

- The keys to everything else
- Emphasise good infrastructure,  
good research,  
clear communication,  
public education,  
and market discipline...



# Overall Assessment

- Are we on the brink of a golden age of price and financial stability?
- Or should we prepare for a succession of worsening crises that will force us back to a far more tightly controlled financial system?

