

Axel A Weber: A new supervisory architecture for Europe's banking system – the view from policy makers

Introductory remarks by Professor Axel A Weber, President of the Deutsche Bundesbank, at the policy panel "A New Supervisory Architecture for Europe's Banking System: The View from Policy Makers", Frankfurt am Main, 5 June 2009.

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Ladies and gentlemen,

Policymakers are fighting on many fronts in this crisis. Around the world, central banks have responded with massive interest rate cuts and an extremely large-scale provision of liquidity, while national governments have put together significant economic stimulus packages and bank rescue measures. We are currently witnessing the fact that these extensive interventions are having some stabilising effects on financial markets and have, judging by the initial signs, probably led to a slowdown in the rapid pace of the downswing in the real economy. Nevertheless, the future outlook remains uncertain.

Green shoots in the financial markets and perhaps also an easing of the sharp downturn in the real economy should not mislead us about the shortcomings in regulation and supervision that became evident in the crisis. In the past few months, supervisors and central banks have set themselves a comprehensive agenda for strengthening financial supervision and financial regulation. That agenda now has to be implemented thoroughly and unfailingly.

This is because the present marked international will for reform has created a window of opportunity for a redesign. That window will not remain open for ever, however. Necessary reforms therefore have to be initiated as soon as possible. The current tendency towards an easing in the financial markets should be used vigorously in order to further enhance the resilience of the financial system.

One key point on the international agenda is strengthening the supervisory architecture, focusing on two aspects: first, intensifying macroprudential analysis; second – and this applies to Europe in particular – furthering the development of cross-border banking supervision.

Not least owing to the catalyst function of the euro, there has been a sharp increase in major European banks' cross-border activity over the past few years. Quite generally, an ongoing integration of the financial markets can be observed in the euro area. In terms of supervision, this process has been accompanied by greater cross-border cooperation and a gradual harmonisation of supervisory standards. A decentralised system has emerged, in which competence and responsibility lie, for the time being, with the national supervisory bodies. This system takes due account of the operations of large internationally active banks and is, at the same time, consistent with the existing political and legal facts on the ground in Europe.

This decentralised structure is not set in stone. Neither financial market integration nor the supervisory architecture has yet reached its final stage in Europe. The current set-up nevertheless represents a sustainable foundation that was not shaken even by the tremors of the financial crisis. Europe has done very well with this evolutionary approach which can be expanded further as market evolves. In my view, the cooperative supervisory model has good prospects of providing a stable setting for financial market regulation both now and in the years to come.

A redesign of the supervisory architecture does not just concern the level at which competencies for supervision of individual institutions are allocated, however. What the crisis has done, in fact, is to broaden the perspective of the institutions responsible for financial stability in terms of paying greater attention to macroprudential issues.

Not so very long ago, financial stability analysis often had the reputation of being a “fashionable” subject. But the scale of global financial crisis and the force with which it hit the real economy have made it abundantly clear how important it is to have a more detailed understanding of how institution-specific and systemic factors interact. As you know, central banks have been concerned with analysing financial stability for some years now. I strongly support the attempts to gear the regulatory and supervisory system more closely to macroprudential principles. It is in the interests of all the financial market players to press ahead with the debate on the substance, objectives and operational framework of independent analysis of financial stability.

Ladies and gentlemen: we have here a distinguished panel of three panellists who are playing a leading role internationally and within Europe in the evolution of the supervisory architecture. I am certain that the next one and a half hours will provide us with a stimulating debate on the future direction taken by the supervisory structure in Europe.