

Vítor Constâncio: Financial stability – methodological advances and policy issues

Welcome remarks by Mr Vítor Constâncio, Vice-President of the European Central Bank, at the European Central Bank conference on “Financial stability – methodological advances and policy issues”, 14–15 June 2012, Frankfurt am Main, 14 June 2012.

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General welcome

Ladies and Gentlemen

On behalf of the ECB, I am very pleased to welcome you to this high level conference on “Financial Stability: Methodological Advances and Policy Issues”. In particular, it is my pleasure to welcome our distinguished speakers, discussants and panellists.

Since the eruption of the financial crisis in mid-2007, and especially in its second, and more euro-centred phase, financial stability issues have come to the forefront of both the academic and policy-making agendas.

As a reflection of this development, with this conference we have invited a number of prominent speakers to cover a wide range of analytical areas, which we think are crucial for addressing the complex and pertinent policy issues that we are facing during these difficult times.

It is our hope and expectation that following the various presentations and discussions we will have over the next two days, our knowledge and awareness of key financial stability analytical tools and policy issues will help us overcome the challenges that we are facing in our efforts to move to a more resilient and sustainable financial system.

Conference is organised around three elements of financial stability analysis (surveillance, assessment and policy)

The conference is organised around three broad elements that characterises how financial stability analysis is conducted here at the ECB.

First, through our financial stability surveillance activities we monitor, identify and prioritise potential sources of systemic risk in the euro area and the EU financial system. This is largely done through the use of a number of quantitative tools, such as indicators to measure systemic risk and the level of stress in the financial system, as well as with early warning indicators and models to detect and predict underlying vulnerabilities.

Second, on the basis of the systemic risks identified in the context of our surveillance work we subsequently aim at assessing the potential impact of a materialisation of these risks on the stability of the euro area/EU financial system and its degree of resilience. This strand of our work likewise is based on various quantitative tools that include a top-down macro stress-testing framework and different types of contagion models using network analysis.

Third, the final element of our organisational setup consists of the analysis of policy issues relating to financial regulation and supervision, financial stability arrangements (e.g. financial crisis management and resolution) and other financial services areas (e.g. accounting). This work encompasses the regular monitoring and assessment of developments in these areas as well as contributing to European and international discussions on regulatory and supervisory issues.

This three-pronged approach allows us to focus on the distinct but complementary activities related to financial stability surveillance, systemic risk assessment and policy responses, respectively, while still ensuring that interlinkages between these elements are considered in

an integrated manner when providing financial stability advice to the decision-making bodies of the Eurosystem, the European Systemic Risk Board and to the wider public. The ECB Financial Stability Review is only one example of product where the three elements are developed.

We are living difficult times and need state of the art tools and indicators for analysis.

As mentioned before, we are currently living in an extremely complex and difficult macroeconomic situation. The financial crisis, if anything, revealed that we need to understand much better the interactions between the financial and real economic sectors. Particularly, the concepts and analytical tools underlying financial stability and macro-prudential analysis were found somewhat deficient to properly guide policymakers trying to steer through the crisis. This has underlined the need for “state-of-the-art” tools and indicators for conducting financial stability analysis. Indeed, especially during the past five years the academic research has very much enhanced the analytical toolbox that we have available to properly analyse and assess the pertinent financial stability issues of the day. Further enhancements are, of course, needed and I can only encourage the academic community to continue in this direction as it will greatly help policy makers when trying to understand and ultimately address financial stability issues of a systemic nature.

Also in this light, it is my expectation that today and tomorrow’s conference will provide us with cutting-edge research in the financial stability area; thus providing a highly useful stock taking of the progress made in recent years, while ideally also pointing towards areas where further improvements are still needed.

Need to rethink also policies and policy frameworks

The conference will conclude with a panel discussion on macro-prudential policies. Key questions in this area include the translation of systemic risk analysis into concrete policy actions and the related challenge of developing a well-functioning macro-prudential policy toolkit. In this regard, we have to ensure that once systemic risks are identified, policy actions are taken in a timely and effective way, taking into consideration in particular that risks are evolving over time and across institutions and markets.

Furthermore, I expect an interesting discussion on the macro-prudential aspects of the new capital and liquidity framework (Basel III). This topic is of paramount importance from a policy perspective, given the on-going implementation process of Basel III around the globe. In Europe, the Capital Requirements Directive IV and related Regulation are expected to substantially reshape the macro-prudential policy framework, and I hope in this regard that our panellists will help us better understand the policy implications of this new framework and to find answers to the question how we can strike the right balance between policy measures taken at the national and at the European level.

Conclusion

With these words, I open this conference on “Financial Stability: Methodological Advances and Policy Issues”, and look forward to the keynote addresses, presentations, and the discussions that, I am sure, will help us in carrying out our task of contributing to ensure financial stability.