Conference on “Financial Stability: Towards a Macroprudential Approach”
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Pre- and post-crisis

• Prior to the GFC
  – Implicit regulatory philosophy for Hong Kong given importance of banking sector
  – Supervisory tools deployed implicitly for macro-prudential objective (e.g. maximum LTV ratio)

• After the GFC
  – Seen as critical to safeguarding financial stability
  – Ample analyses and discussions, e.g. BIS, IMF, BoE
  – Trend toward more formal institutional arrangement
• Macro-prudential (MP) vs Macro-economic (ME)
  – MP: affect quantity and price of credit
  – ME: affect mainly price of credit
• Macro-prudential vs micro-prudential
  – Optimal actions for individual components of the financial system may collectively be damaging for the system as a whole
How?

• Efforts devoted to:
  - Enhance resilience of financial system over the cycles
  - Develop tools to monitor build-up of systemic vulnerabilities & risks

• Orientation toward:
  - Analyzing market dynamics and external shocks
  - Watching out for credit growth that outpaces economic performance
  - Monitoring of cross border fund flows

• Tools deployed for:
  - Restraining build-up of risks
Initiatives taken by HKMA

• Adequacy of expertise
  – Product risk analysis
  – Market intelligence
  – Ensure good risk management and disclosures

• Adequacy of data
  – Need for more granular data
  – Analysis with macro dimensions

• Adequacy of communication
  – Cross Department Working Group to discuss global trends, identify early warning signals and potential threats, and formulate views on possible stress scenarios
Challenges

• Build-up of risks and possible interactivity difficult to delineate

• Conventional analytical tools fail to incorporate market dynamics e.g. sudden loss of market liquidity

• Effectiveness of countercyclical/through-the-cycle regulatory tools difficult to measure

• Regulatory boundary: systemically important but unregulated FIs
Conclusion

• A more holistic view of risks: a shift of regulatory philosophy

• A more forward looking approach: judgements required, in addition to rules

• “Analysis” and “monitoring” not enough: timely action is the key

• Ownership of financial stability: institutional arrangement to ensure accountability