Ivan Iskrov: Central banks and the overhaul of banking regulation

Welcome address by Mr Ivan Iskrov, Governor of the Bulgarian National Bank, at the international conference "Central Banks and the Overhaul of Banking Regulation", on the occasion of the 135th Anniversary of the Bulgarian National Bank, Sofia, 6 June 2014.

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Dear guests of the conference,

Ladies and gentlemen,

It is my privilege and honour to open today this international conference, dedicated to the commemoration of the 135th Anniversary of the BNB. The central bank of Bulgaria is one of the oldest in the world, 13th by order of establishment.

First of all, I would like to extend a very warm welcome to all of you, and especially to our international guests, some of whom visit our country for the first time. You will meet here not only experts with whom you could exchange ideas and know-how, but also friends. We are a very hospitable nation and I am sure that during your stay here you will have a valuable professional experience with plenty of knowledge-sharing, brainstorming and networking opportunities. You will also have a chance to catch a glimpse of the great history, culture, customs and natural beauty of our country.

The topic of today's conference – "Central Banks and the Overhaul of Banking Regulation" – is of significant importance to our central banking community. The recent deep reforms in banking regulation around the world have brought new responsibilities and new challenges for our institutions. The mandates of central banks are changing, as they are strengthening their macro-prudential powers and embracing more explicitly the objective of financial stability. Some major central banks have for the first time assumed the direct supervision of credit institutions. Thus, this period of changes is going to be a landmark in the history of central banking.

The current overhaul of banking regulations globally is also fundamental by nature. The scale of reforms in the regulatory framework for the banking industry, after the collapse of Lehman Brothers and the outbreak of the euro area sovereign debt crisis, could be compared only with the major reforms undertaken in the aftermath of the Great Depression in the 1930s. The sheer magnitude of this changeover, however, does not guarantee the elimination, once and for all, of the regulatory gaps and loopholes for the risk taking activities of banks. Moreover, while the wide-ranging changes in banking regulation certainly improve banks' capital, liquidity, operations and governance, they are sometimes feared to have a discouraging effect on banks' lending and other services in the public interest.

What caused the recent wave of banking reforms, what issues regulators still need to consider, and how are banks expected to respond on a global or national level? Such questions will be discussed during the first panel of our conference by our renowned key speaker Professor Martin Hellwig, Director of the Max Planck Institute for Research on Collective Goods and Vice-chair of the ESRB Advisory Scientific Committee, and by his distinguished discussant Professor Marek Belka, President of the National Bank of Poland.

Later this morning we will focus on how the redesign of the regulatory framework impacts the central banks. The honourable General Manager of the Bank for International Settlements, Mr. Jaime Caruana, is our key speaker for the second panel. His presentation will be discussed by our highly respected colleague and long-time Governor of the Central Bank of Luxembourg, currently Member of the Executive Board of the ECB, Mr. Yves Mersch. They will talk about the new challenges in the governance and accountability of central banks, the compatibility of traditional and recently assumed goals, as well as about newly emerging reputational, communication or related issues. I also hope that Mr. Mersch will share with us some fresh observations on the Single Supervisory Mechanism in the euro area, from an insider's point of view.

The discussions today will also be facilitated by our well-known colleagues Professor Boris Vujčić, Governor of the Croatian National Bank, and Mr. Kalin Hristov, Deputy Governor of the BNB.

Dear colleagues,

- Before proceeding with the presentations and discussions today, let me share a few words on the experience of the BNB which provides examples, relevant for the topic of today's conference.
- We have seen that the compatibility of monetary, micro- and macro-prudential policies is possible in reality, and not only in theory. The BNB has successfully implemented such a policy mix for many years, during all stages of the economic cycles, before and during the recent global crisis.
- We have also seen that it may take years and perhaps at least one serious financial or banking crisis, to design and then enforce central banking policies which are optimal for a country. In Bulgaria the policymakers, legislators and the public at large came to the consensus of introducing the currency board regime and the very strict banking supervision and regulations. This happened only after our own deep financial and banking crisis which took place in the mid-1990s.

Our experience has convinced us that there are no universally superior or "one-size-fits-all" frameworks. Neither in the areas of monetary policy and banking supervision, nor in the design of regulatory structures or the governance of central banks. Alongside the processes of financial integration and global regulations and practices, which are inevitable, we believe that countries should be allowed to retain sufficient levels of flexibility to apply country-specific solutions. This is especially valid with respect to the area of macro-prudential tools and instruments, in view of the significant differences across countries in their initial conditions or stages of development and convergence.

Starting with the obvious focus of interest for every central bank – namely monetary policy – I would like to remind you that the BNB is among the few central banks in the world with such recent know-how in two remarkably contrasting monetary policy regimes. Since the start of transition from the centrally planned economy 25 years ago and the restoration of the traditional two-tier banking system in Bulgaria, we initially practiced discretionary monetary policy, and then after our crisis, we introduced the currency board arrangements in 1997.

In addition to conducting monetary policy aimed at maintaining price stability, the BNB was traditionally entrusted with the regulation and supervision of the Bulgarian banking system. The banking regulations in Bulgaria and the supervisory powers of the BNB were strengthened after our crisis in the mid-1990s. The BNB has ever since persisted in implementing highly conservative supervisory standards. As a result, today the banking system of Bulgaria remains one of those in the EU where no single bank needed to be rescued or supported with taxpayers' or central bank money. Furthermore, our banking system is already in full compliance with the new Capital Requirements Directive and the Capital Requirements Regulation. For us the new rules, effective as of 1 January 2014, actually represent a loosening of the regulatory framework with respect to the capital requirements for banks. That is the reason why we have decided to implement the highest possible levels of capital buffers as of 2014 – a capital conservation buffer of 2.5% and a systemic risk buffer of 3%.

And last but not least, I should not miss to say that since our crisis of the mid-1990s the tradition of the Bulgarian governments to stick to budgetary discipline and prudent fiscal policies has been an important supplementing part to our overall set of financial stability policies. That is the reason why, from a financial stability point of view, Bulgaria weathered the recent global crisis exceptionally well.

I conclude my remarks here. I am now looking forward to a lively discussion and a fruitful exchange of views and ideas today.

Thank you very much for your attention. Without further delay, I give the floor to Mr. Hristov and the speakers in the first panel of the conference.