

Dimitar Radev: Achieving the financial stability objective through macroprudential measures cannot be sustainable without understanding the financial cycle

Opening remarks by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the Conference "The Current Global and European Financial Cycle: Where Do We Stand and How Do We Move Forward?", jointly organized by the Bulgarian National Bank and the Bank for International Settlements on the occasion of the 140th Anniversary of the Bulgarian National Bank, Sofia, 7-8 July 2019.

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Dear colleagues,

Distinguished guests,

We are delighted to have you with us to participate and share in our joint BNB-BIS conference organized on the occasion of the 140th anniversary of the Bulgarian National Bank. I would like to extend my special thanks to the General Manager Agustín Carstens and the BIS for their support in organizing this event. This is only a latest example in decades of cooperation between our two institutions.

The BNB is among the oldest central banks in the world, 13th by order of establishment¹. Today's conference, therefore, marks a long history of central banking in Bulgaria.

Evolution of a central bank's mandates

A central bank is historically associated with the goal of keeping the national currency and prices stable. After the Great Depression of the 1930^s supervision has become a function entrusted to or taken away from central banks in cycles depending on crisis experiences. With respect to supervision as a central bank function, the 2007/2008 global crisis had two effects. First, it led to bank supervision becoming the responsibility of an increasing number of central banks. Second, the focus on systemic stability led to the emergence of macroprudential supervision as an explicit concept and task for which naturally central banks have become responsible.

In Bulgaria the monetary regime can be viewed as a rather traditional one, the primary objective of the BNB being to maintain price stability through ensuring the stability of the national currency. For more than 20 years now, our regime has been based on the operation of the currency board. The BNB also conducts micro- and macroprudential policies. As a matter of fact, well before the recent global crisis we designed and applied countercyclical macroprudential measures, even though the term 'macroprudential' was still not being used. Many other countries in the region, subject to massive capital inflows at the time, did the same.

Therefore, the BNB's tasks and responsibilities, as we see them today, are an outcome of decades of evolution. And this reflects, and is consistent with, the long-term developments of central banks' mandates globally. It can be argued from a historical perspective that changes in these mandates follow common evolutionary paths which are often shaped by crises, such as the global one in 2007/2008.

The financial stability focus

That led to reassessing the importance of financial stability as a policy objective of central banks.

Before the 2007/2008 global crisis, central banks focused on price stability as their primary objective. The crisis triggered a change in the broad environment in which central banks operate

and thereby also necessitated a continued evolution of the role and governance of our institutions. Concerns were raised regarding the ability of central banks to prevent and manage financial crises. This provoked a discussion of central banks' role in safeguarding financial stability. Ultimately, there was recognition of the need to reconsider or adjust the central banks' responsibilities related to financial stability.

A major policy response since the global crisis was the enhancement of macroprudential policy framework and the assignment of additional responsibilities to central banks in the fields of financial stability. Then central banks developed tools for the practical implementation of the macroprudential framework.

Understanding the financial cycle

The new policy framework and tools, however, can only be as good as the capability to "diagnose" when their application is needed. They have limited value, if any, for the purpose of safeguarding financial stability unless the macroprudential authority can detect the accumulation of cyclical systemic risk in the financial system.

In other words, achieving the financial stability objective through macroprudential measures cannot be sustainable without understanding the financial cycle. That is why we have considered this to be a topical issue to devote our anniversary conference to.

There is no single generally accepted theoretical basis, nor a dominant method, for measuring the financial cycle. Thus the role of research becomes significant for policymaking. That is why today's conference is conceived to bring together academic research and central bank practice.

The conference structure reflects an understanding that the global financial cycle affects the euro area and its monetary policy, which in turn affects the financial cycle in Europe beyond the euro area.

Therefore, the first session of the conference is on the current phase of the global financial cycle which is to a large extent driven by the US monetary policy. We recall from the 2007/2008 crisis how the financial disruptions originated and triggered a full-scale global crisis.

The second session is focused on the euro area financial cycle, as influenced by the global financial cycle, and its implications for asset prices and financial stability.

Since the ECB policies also shape the financial cycle in Europe outside the euro area through economic and financial channels, although divergences do exist, our third session is devoted to the financial cycle in the non-euro area EU member states.

By way of example from Bulgaria, the BNB recent research and relevant estimates for the local financial cycle indeed show that we are currently in the upward phase of accumulation of cyclical risk. We have, correspondingly, decided to activate and then raised the rate of our countercyclical capital buffer.

Turning to actual policy reactions in dealing with financial cycles, our conference ends with a panel where Governors will share with us their views.

Dear colleagues and guests,

In conclusion, let me sum up my main points. First, the central banks' objective of financial stability has emerged in the course of the historical evolution of their legal mandates and responsibilities. Second, the application of macroprudential tools to safeguard financial stability requires, as a pre-condition, knowledge of the financial cycle. Third, our conference programme is organized so as to discuss this critical topic in a conceptual sequencing: starting from the global view, elaborating on the euro area, and then turning to the financial cycle in non-euro area

Europe.

I believe our speakers and discussants will provide both theoretical insights and first-hand policy experiences, from global and regional perspectives, for all of us to benefit from a frank exchange of ideas and relevant practices today.

Thank you very much once again for joining us and participating in this conference, and I wish you a very pleasant and productive stay in Sofia.

More information about the event you can find [here](#).

¹ See F Capie, C Goodhart and N Schnadt, “The development of central banking”, in F Capie, S Fischer, C Goodhart and N Schnadt, (eds), *The future of central banking: the tercentenary symposium of the Bank of England*, Cambridge University Press, 1994, p 6.