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Regulatory Response to Liquidity and Systemic Risks

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Abstract. **The problems of banking monitoring system are discussed within the scope of the liquidity and systemic risks concepts. The author addresses several responses by policy-makers to financial crises and highlights the need for their improvement. The actions and decisions that may be taken to mitigate systemic risk and control the development of crises are presented by the author at the following three levels: bank level, banking system level and supervisory authority or governor's level. The introduced policies can be used as tools to control the development of financial crises at each level.**

Keywords: financial regulation, liquidity risk, systemic risk, macroprudential supervision

I. INTRODUCTION

The current financial crises have demonstrated in exemplary fashion that defaults are of major practical relevance to the banking and financial sectors. Financial crises can be damaging and contagious, prompting calls for swift policy responses.

The World Bank's various cross-country analyses on measures and timing of systemic banking crises show that from March 2000 onwards the global banking system has experienced various shocks with different significant adverse effects on the banking and financial markets. The most prominent examples of such shocks in the last decades are the banking defaults of Argentina in 2001, the financial crises in the USA in 2007 and 2008, and the economic crisis in the United Kingdom in 2008. Recession in Estonia and Latvia in 2008, and in Lithuania in 2009 is yet another example.

These examples prove that global financial crises, including liquidity crisis, and related systemic risks are not just a theoretical possibility or an illusion, but they may constitute a real danger for banks and financial systems.

To control liquidity and stability is a legitimate and central objective of central banks and supervision authorities. Lately the blame for the ongoing crises is sometimes laid on regulators. There are those who believe that current supervisory and regulatory concepts and approaches are inadequate and do not help to understand, forecast and mitigate financial crises nowadays. Such inadequacy is among the major concerns of the European Commission, the European Central Bank and all central banks around the world.

Policy-makers and regulators are actively developing approaches and indicators that would capture realistic features of the macroeconomy and help to address financial risks.

In this paper the author aims to analyse the banking regulatory response policies and to lay out the financial policies that can help to protect economies from the global financial turbulence that the world is currently experiencing.

The paper contributes to the growing amount of literature and reports on macroprudential supervision, liquidity risk and systemic risk by analysing developments in the monitoring regulatory system and proposing tools to control the development of financial crises

The most closely related study is the report by Brunnermeier, Crockett et. al. who analyse problems of the current regulatory system and present the fundamental principles of financial regulation. They identify criteria for macroprudential supervision approach and requirements for capital adequacy and transparency. Milne also examines macroprudentail approach and addresses its pros and cons. The author of this paper adopts a similar approach for the analysis of changes in regulatory reporting and policy-makers' responses.

The need for regulatory policy improvements can be explained by Bernanke's speech and the need for an International Lender of Last Resort by Fischer's presentation at the Centre for Financial Studies Conference. Both of them address financial reforms and systemic risk in international financial markets.

The report of the Committee of European Banking Supervision presents the network approach in capturing financial systemic risk and shows aggregated outcome and estimates of the 2010 EU-wide stress test exercise.

The author applies several scientific methods during the research - starting from the literature review and financial data analysis the author continues by defining variables and measures them using logical, synthesis, induction and deduction methods, as well as expert judgment method, and finalises with generalization.

The main sources of data used for the research are publicly available reports; an additional source of a number of facts is Bloomberg market data provider.

The rest of the paper is organized as follows: section 2 introduces problems of banking system and regulatory responses to financial crisis; section 3 describes the policy implications and recommendations how to prevent and control development of the (or a, or plural – financial crises?) financial crisis. The last section 4 summarizes the study and provides an outlook for further research.

II. PROBLEMS OF BANKING MONITORING SYSTEM AND REGULATORY RESPONSES

There are a number of arenas in which policy-makers act and make a dozen decisions that affect banking markets' vulnerability to crisis and an economy as a whole. Each decision involves a different set of difficult analytical issues, and different economic and political tradeoffs. Despite these complications and heterogeneity, the author evaluates changes

on regulation and faces supervision challenges with four broad objectives in mind: (1) macroprudential supervision, (2) capital transparency and adequacy, (3) interconnections and interdependencies, (4) network approach, and (5) liquidity management practices.

Macroprudential supervision

There is much experience in how micro-prudential regulation affects the stability of financial intermediaries and markets and little knowledge on macroprudential regulation. To establish the financial system as whole is much more complex matter.

Brunnermeier, Crockett and et. al in their report present overview of the fundamental principles of financial regulation and highlight that the regulatory system does not rely on the idea that micro and macro behaviour of financial market participants should coincide.

Milne assess macroprudential policy and argues that this new approach can help reduce vulnerabilities emanating from within the financial system that are due to the cross-sectional dimension of systemic risk associated with "network" linkages and so make another financial crisis less likely.

Starting from 2011 macroprudential supervisors will collect all the information that is necessary to identify systemic risks early. As Jean-Claude Trichet[1] stated in his lecture in Economics and Public Policy in 2009, "It requires combining some micro-level data with aggregate data from components of the financial system by covering major types of intermediaries, in particular large and complex ones, key markets and wholesale market infrastructures. To contain systemic risk, macroprudential supervisors need to have a good understanding of all parts of the financial system that are relevant for the risks of contagion, the endogenous build-up and unravelling of widespread imbalances and macro shocks". As an essential element of the supervision the effective exchange of information should be establish between micro and macro supervisors.

Capital transparency and adequacy

Second problem discussed by Brunnermeier, Crockett and et al. al is capital transparency. They say that "the traditional approach to financial regulation rests on identifying solvency with capital. In particular, "solvency regulation has come up short in ensuring stability of the financial system" [3]. The case of Bear Stearns is an example of a default which occurred even though "it had a capital cushion well above what is required to meet supervisory standards calculated using Basel II standard" [3].

Regulators have to face that in many situations actions that ensure the soundness of one institution (e.g., solvability, liquidity capacity, etc.) may not be consistent with ensuring the soundness of another. Local shocks can have systemic repercussions and the requirement to have sounder individuals can have the counterintuitive effect to make the whole system more fragile.

There is an intertwined proposal on bank capital adequacy requirements: policy-makers required setting significantly higher capital adequacy ratios in order to deal with crises and liquidity problems.

Let me introduce some data on the capital adequacy requirements. For the non-EU big banks regulatory capital were raised massively again at the end of 2008. Banks within EU area have additional capital buffer of 20 per cent (please see Basel II, Pillar 2). In addition to higher standards in terms of risk-weighted minimum capital requirements pursuant to Basel II, a leverage ratio was also introduced. However, the benefits that a leverage ratio brings in terms of simplicity and transparency must be weighed against the lack of risk-sensitivity and risk effects such as asset substitution.

Milnes agrees with the arguments and states that policy-makers must ensure that higher capital and liquidity requirements – do not add further stress to already strained bank balance sheets and hence provoke a renewed global downturn.

There are various revision projects of the Basel Committee on Banking Supervision that address specific weaknesses of Basel II regulation. In particular, amendments to capital adequacy regulation should take the danger of a procyclical impact into account.

The author argues that in terms of systemic stability the effects of tighter capital adequacy requirements are not unambiguous from either theoretical or an empirical perspective. Microeconomic considerations and empirical evidence show that capital adequacy provisions, particularly above a certain level, can have counterproductive impact on the risk behaviour of regulated banks. These considerations suggest that any tightening of capital adequacy requirements should be governed by caution and sound judgment. This is particularly significant in terms of the potential impact on the credit markets. The higher capital adequacy requirements on banks may restrict banks' ability to grant loans, which would be undesirable from an overall economic perspective.

Second, regulators are trying to make up for lost times and discuss policies not only on capital efficiency, but now on capital robustness. They believe that transparency of financial activities will help to limit the adverse effects of imperfect and asymmetric information on systemic stability.

To author's knowledge, there is neither clear definition nor criteria presented by regulators for capital transparency. Additional clarifications and measurement criteria are required to overcome these obstacles.

Interconnections and interdependencies

Ben Bernanke[2] in his speech stated another problem of current regulatory system - the old approach focused too much on individual risks and too little on interconnections and interdependencies across intermediaries and markets.

There are connections and interdependencies between preventative, e.g. equity capital, liquidity and curative, e.g. lender of last resort or depositor protection, regulation.

The desired structure of the curative regime is primarily dependent on the impact of preventative instruments. Fischer stated that depositor protection measures should be designed to take account of the extent to which any risks they are

[1] President of the European Central Bank

[2] Chairman of the United States Federal Reserve

intended to cover are reduced by complying with capital and liquidity standards. Conversely, however, it must also be assumed that curative regulation may influence bank's risk behaviour. That means that preventative tools should ideally also pay adequate attention to the incentive effects of curative measures (for details, please see [4]).

Although the full complexity of these mutual dependencies can scarcely be grasped and operationalised, their very existence suggests that the regulatory response to the financial crisis must be derived from the most integrated and holistic perspective possible and evaluated on the basis of the cumulative or expected effects.

This is especially relevant with regard to limiting systemic risks and ensuring the stability of the system. In particular, the potential impact of regulation (equity capital, liquidity, depositor protection, etc) on credit financing in the face of stricter rules in a variety of areas must also be assessed. The trade-offs involved must be analysed in depth.

In this context, the improvement of regulation and supervision with the limitation of systemic risk as a prime consideration should be supported. From both an economic and a politico-economic perspective, the plain scope of the economic programmes launched to date is impressive. The key now is to ensure that the regulatory response does not result in the ultimate long-term legacy of the financial crisis being less the crisis itself and more the government and regulatory interventions made in response to it.

This can be done by differentiating between regulation and supervision, which helps to distinguish appropriately between market participants with systemic relevance and the rest of the market. A very good example is two different regulatory approach of the US and Switzerland. The strongly rules-based regulatory approach taken in the United Sates obviously failed to prevent the financial crisis. This is encouraging with respect to the approach taken in Swiss banking and financial market regulation, which is traditionally been more principle-based. Therefore the system stability calls for differentiation, and not for one approach that fits to all.

2.1. Network approach in risk reporting

Addressing systemic risk Bernanke highlighted the need for developing an integrated and network-oriented approach in liquidity measurement and systemic risk modelling invoked.

Many recent solutions are found through dialogue and network between financial industry regulators and central bank experts.

First, the European Central Bank has officially called for (i) more integrated information systems, (ii) a systemic approach that takes into account the network of financial exposures, (iii) and new appropriate liquidity and systemic risk indicators.

Second, it is the creation of the EU European Systemic Risk Board (ESRB) with macroprudential responsibility seems to be a step in the right direction. The running project improves supervisory structures and architectures and contributes to boosting systemic stability. In the envisaged set-up, the European Central Bank, at the heart of the ESCB involves in the systemic risk reports, analyses specific risks to the stability of the EU financial system in depth. A great deal of work is going on at the Financial Stability Board, the Basel Committee on Banking Supervision and at other competent bodies to strengthen the financial regulation.

The existence of such regulatory and monitoring structure allows capture systemic risks on both national and international dimensions.

Third, the Committee of European Banking Supervisors (CEBS) in cooperation with the European Central Bank coordinates the EU wide stress test exercise.

The exercise has been carried out on the basis of the consolidated year-end 2009 figures and the scenarios have been applied over a period of two years - 2010 and 2011. As a result of the exercise, under the adverse scenario 7 banks would see their Tier 1 capital ratios fall below 6%, which is a threshold, with an overall shortfall of 3.5 bn € of Tier 1 own funds (source: Bloomberg).

The aggregate results suggest a rather strong resilience for the EU banking system as a whole and may appear reassuring for the banks in the exercise. Although it should be emphasized that stress test outcome is partly due to the continued reliance on government support for a number of institutions. However, given the uncertainties over the actual path of the macro-economic recovery, the result should not be seen as a reason for complacency.

CEBS will continue with testing the resilience of the EU banking sector by means of periodic EU wide and thematic risk assessments and stress testing exercises, and will continue its work on improving convergence in supervisory practices across Europe by addressing the topics both from a policy and practical perspective.

Liquidity management practices

There is literature summing up the problems of practical approaches of banks liquidity analysis. One of such publication assigns the liquidity stress testing process of Deutsche Bank and outlines a few broader surveys of banking sector practices. Martin argues that, in practice, main challenges are not methodological ones but the parameterisation of the model, scenario design and the estimations of scenario impact (for details, please see [6]).

Matz provides critique of current liquidity management practices and defines three key problems of traditional approaches: first, traditional approaches rely on historical accounting data, which only contain information about the risk, was and not what it may be in the future. Second, few of traditional ratios take off-balance sheet items into account. (for more details, please see [7]). Considering the ongoing financial market turmoil, this approach is clearly no longer adequate. Finally, traditional ratios do not capture the temporal nature of liquidity risk. Matz points out that there is need to turn away from retrospective approaches and focus on prospective approaches. Prospective approach would include multi-period cash flow projections on set of deterministic forecasts, the quantification of banks' liquidity reserves and the use of key risk indicators such as maturity profiles, concentration profiles.

The economic models in place at present do not necessarily capture all relevant dimensions of the systemic risk. For example, there are still limitations in how economic analysis captures the two-sided interaction between financial instability and the performance of the broader economy.

In the small European countries such as Baltic States the extent of econometric and stress tests on bank liquidity and systemic risk effects seems to be extremely limited.

The focus on the paper is present regulatory policy implications and recommendations for liquidity and systemic risk mitigation rather than econometrical modelling of liquidity and systemic risk.

III. Recommendations on Policy Implications for Liquidity and Systemic Risk Mitigation

There are many factors influencing the level of liquidity and systemic risk in banking. These factors can be classified at three levels: individual bank level, interbank market level and governor's level. Actions and decisions that may be taken to mitigate systemic risk and control the development of crises can also be classified at the same three levels: bank level, banking system level and supervisory authority or governor's level. The following subsection introduces policies that can be used as tools to control in the development of financial crisis at each level.

Policy implications and actions at the individual bank level

Problem 1

One of the major problems banks face during financial crisis is a volatile money demand which courses large liquidity shocks.

At the individual bank level liquidity indicators are an important control tools which can help predict and assess a bank's future vulnerability to liquidity shocks. Liquidity indicators are intended to measure the adequacy of a bank's working capital, i.e., an excess of current assets over current liabilities, assess their current obligations in a timely manner and conduct their operations effectively without financial constraints.

Response

One possible response is periodically to produce and to examine liquidity indicators.

The central bank standards suggest using five basic indicator categories for defining a bank's current and potential liquidity level: (1) bank's internal indicators (2) bank's credit capacity, (3) bank's securities, (4) bank's funding deterioration, (5) bank's current position.

Bank's internal indicators. An early liquidity problem may first show up in the bank's financial monitoring system as a descending trend with potential long-term consequences for earnings or capital. Examples of internal indicators are: concentration in liabilities or assets, weighted average maturity of liabilities and assets, a decline in indicators of asset quality, and a decline in earnings performance or projections.

Bank's credit capacity. For assessing the bank's credit capacity third-party evaluations such as downgrades of credit ratings by rating agencies can be used.

Bank's securities. Bearish secondary market activity in the bank's securities may signal their declining value. Examples of these market events include: drop in stock price, increase in secondary spreads on the bank's senior and subordinated debt.

Bank's funding deterioration. Bank's funding market may begin to contract or demand credit support, better credit terms or shorter duration lending, any of which may increase liquidity costs. Examples of funding deterioration are:

- Increase in liquidity mismatches
- Counterparties begin to request collateral for accepting credit exposure to the bank
- Correspondent banks eliminate or decrease credit line availability, causing the bank to make larger purchases in the brokered funds market
- Rating sensitive providers, i.e. trust managers and public entities abandon the bank
- Transaction size and short-dated transactions are decreasing
- Bank receives requests from depositors for early withdrawal of their funds.

Bank's current position. When evaluating a bank's potential liquidity risk the following ratios are calculated: loans to deposits, short-term liabilities to total assets or short-term liabilities to total debt, dependence or reliance on wholesale funding.

Analysis of key liquidity indicators may contain the following actions:

To investigate liquidity funding gaps. Cash flow mismatches are a signal of a funding deficit. Note that gap analysis is a good tool for capturing funding liquidity risk, however, not very well suited for capturing interest rate risk.

To measure cash flows through duration, i.e., to calculate the weighted average maturity of cash flows. The weighted average maturity of liabilities is the weighted average time of all maturities of bank's liabilities. The measure is calculated by totalling each liability value represented by the maturities. The weights of each liability are found by dividing the value of each by the total of all liabilities. To arrive at the WAM number the weight of each liability is multiplied by the time until maturity of each liability, and then all the values are added together:

$$WAM = \sum_i maturity_i \frac{L_i}{\sum_i L_i}$$
$$i - maturities \quad groups$$
$$L_i - liabilities \quad with \quad maturity \quad i \qquad (1)$$
$$\sum_i L_i - total \quad liabilities$$

The higher the WAM, the longer the banks' obligation. Generally, a decrease of WAM of liabilities is considered a source of bank' funding liquidity risk.

To inspect concentration in liabilities and assets. Liquidity risk problems can arise from increasing concentration. Hence it is crucial to measure the sensitivity of funding concentration at any time horizon. Concentration is defined as a position in an asset or liability that is large relative to a bank's own financial position. It is calculated as maturity class asset and liability divided by total number of assets and liabilities respectively. Growing concentration in assets or liabilities can

be considered as an early warning indicator. Since growing concentration in short-term liabilities gives rise to substantial illiquidity problems it is more risky than growing concentration in long-term liabilities. The opposite holds for growing concentration in assets.

To evaluate a bank's current debt position. Ratio of short-term debt to total liabilities helps indicate potential debt-related risks and relative reliance on short-term financing. The ratio should be considered in conjunction with key economic and financial variables, in particular, interest rates.

Recommendations

In order to cope with liquidity shocks it is highly recommended to feature formalised liquidity risk management processes focused on dynamics of liquidity exposures.

Liquidity risk management can be based on the regulatory mandate developed by the Basel Committee on Banking Supervision (BCBS) "Principles for Sound Liquidity Risk Management and Supervision" and the "Second Part of the Committee of European Banking Supervisors (CEBS) Technical Advice to European Commission on Liquidity Risk Management".

Policy implications and actions at the banking system- and supervisory authorities level

There are a number of policy areas in which authorities and policy-makers must act and make decisions affecting the banking system's and economy's vulnerability to a crisis. Each such decision involves a different set of difficult analytical issues, and different economic and political tradeoffs. Apart from such complications and heterogeneity the author of this paper describes a set of tools that can help control the development of a financial crisis at the banking system- and supervisory authorities' levels. Policy alternatives are formulated based on the following criteria: be solvent and be liquid.

Problem 2

Banks are preeminently vulnerable to liquidity crises, generated by bank runs or by reserve outflows during a temporary breakdown of the international banking system. Liquidity shortages caused by these events may force banks abruptly and unexpectedly to contract credit, putting both their borrowers and the economy under strain, and eventually undermining the stability of the entire banking system.

Responses

To apply strict bank liquidity requirements

It is essential element of the solid regulatory framework, whether they are needed for purposes of monetary control or not. Where the volatility of the demand for bank deposits is high, liquidity requirements should also be high. To prevent these requirements from unnecessarily raising the cost of credit, they should be remunerated. A substantial portion of the reserves should be in the form of liquid foreign currency assets that can satisfy any sudden demand for international liquidity in the event of a shock.

To discourage intermediation of short-term capital inflows by requiring that banks hold substantial reserves against all of their short-term liabilities, foreign and domestic [5]. The Baltic States banking markets are more volatile than international, therefore higher reserve requirements should be applied.

To encourage the development of international standby credit facilities

Although there is no true international lender of last resort, the banking system can protect itself from the danger of systemic liquidity crises by entering into contracts with private international lenders that provide a source of contingent credit in the event of a liquidity crisis in the domestic banking system [5]. There are different innovative ways (for example, Repo Programmes) in which markets can be utilized to protect the financial system from liquidity shocks. Such programs need not be limited to the Central Bank, but could also be extended to local banking institutions.

Recommendations

In the relatively tranquil economic and financial environment of the industrial countries official safety nets are relatively broad and strong. Bank reserve or liquidity requirements are mainly tools of monetary control. Attention and additional control tools should be applied to more volatile economies. For example, in the Baltic States the risks of systemic illiquidity in the banking system are much more real and are far more difficult to handle. In the event of a run on the banking system, depositors are likely to flee into a foreign currency, which the authority cannot print, rather than the domestic currency that it can.

Problem 3

A volatile macroeconomic environment poses major threats to banking system liquidity and thus exposing it to systemic risks.

Responses

To establish effective, powerful systemic stability regulator in each country that is in charge of crises prevention, management and resolution. The main responsibilities of the regulator would be monitoring systemic risks, assessing the potential for deficiencies in financial risk management practices, broad-based increases in financial leverage, or changes in financial markets and products coursing systemic risk. The responsibilities of the regulator would also include analysing possible spillovers between financial firms or between firms and markets, caused by the mutual exposures of highly interconnected firms. Further responsibilities would be identifying possible regulatory gaps, including gaps. They also include gaps in the legal regime governing the insolvency of financial institutions that pose risks for the system as a whole. Yet further responsibilities comprise curtailing systemic risks across the entire financial system encompassing corporations, households, and capital inflows as well as arrangements for crisis management and financial institution resolution and, finally, issuing periodic reports on the stability of the financial system.

The stability regulator would also organise the immediate response to a crises, the strategy for coordinated financial and corporate sector restructuring, and the orderly resolution of failed corporations and financial institutions. The stability

regulator would thus be charged with express responsibility for containing systemic risks in the financial system.

Recommendations

Following to systemic risk analysis and regulatory proposal, Bernanke and Tarullo outlined the broad agenda of systemic events and their risks, which are effective to use for financial stability supervision [2]:

1. Undertake consolidated supervision of all systemically important banks.
2. Ensure that each systemically important bank receives oversight commensurate with the risks that its failure would pose to the banking system.
3. Analyse possible spillovers between banks.
4. Work to mitigate procyclical features of capital regulation and other rules and standards.
5. Work to mitigate the risk of sudden stops in capital flows triggering an exchange rate correction with adverse impact on banks, households, and corporations with large unhedged liabilities.
6. Identify possible regulatory gaps, including gaps in the protection of consumers and investors that pose risks for the system as a whole.
7. Provide a resolution mechanism to safety wind down failing, systemically important bank
8. Share findings in a regional and global stability forum.
9. Issue periodic reports on the stability of the financial system, in order to ensure market discipline through transparency as well as informed debate.

Problem 4

A weak information base and limited regulatory capacity undermine the effectiveness of bank supervision and regulation.

Response

Institute mechanisms to promote market discipline of local banks. In an environment that is relatively information-poor, it is particularly useful to complement official supervision with the efforts of informed investors who have a financial stake in the soundness of the bank. In this regard, the requirement that a significant portion of a local bank's capital base be in the form of subordinated debt is particularly important. This structure creates a set of informed investors who have an incentive to monitor the behaviour of the banks in which they are investing, thus complementing the efforts of the official regulatory apparatus.

Fiscal policy implications and actions at the governors level

Problem 5

Precarious access to noninflationary sources of financing creates the need for a large and destabilizing fiscal adjustment during crises.

Responses

To run very small deficits or fiscal surpluses in good times

These reduce the country's access to credit by lowering, over time, the public debt and thus improving over time the public sector's perceived capacity to run deficits during bad times. More immediately, a precautionary fiscal surplus provides a fiscal cushion so that the budget can absorb an adverse economic shock without generating a deficit large enough to be perceived as threatening. [5]

To introduce appropriate fiscal rules

The logical basis for such rules is the same as the case for an independent central bank, or autonomous regulatory authorities, and lies in the process of decision making and distortions limitation [5]. For example, local government can set special rules on aggressive spending or borrowing. The outcomes can be systematically improved if participants in the decision-making process agree ahead of time to bind themselves to a set of rules. The restrictions on lending that are expressed in terms of fiscal balance that is adjusted for the "cycle," like credit booms improve economic matters. Such rules may be highly appropriate for such small countries as Latvia, Lithuania and Estonia.

To develop well-structured stabilization funds to cope with large fiscal shock. Once it has accumulated a sufficiently large balance, the stabilization fund not only promotes solvency, but also provides a stock of liquid assets that may be used to address liquidity problems created by a temporary loss of access to financial markets. [5]

Problem 6

Need to refinance existing debt which creates rollover risk when money markets dry up.

Responses

To avoid short-term debt. If necessary, to extend the maturity of the debt, and if the public sector is solvent, issue indexed debt.

Issue debt in advance of cash-flow needs, even if this means paying a significant difference between the cost of borrowing and the return that can be earned on deposits.

Seek contingent sources of credit. The central bank of the country or government can enter into an agreement with other international banks that may commit them to provide the government with a financial aid when financial environment is threatened. Such insurance policies against international liquidity crises can be purchased in the market, at least in limited quantities. [5]

Problem 7

Danger of self-fulfilling inflationary expectations.

Response

Implement institutional reforms to strengthen confidence in management

Confidence can be created through reforms that provide for greater transparency, and ensure that the debate will not be skewed by unclear or flawed assumptions. Policy-makers could think about going further, and creating an autonomous

institution with responsibility for ensuring adequate forecasting developments under alternative policy assumptions, and perhaps for making recommendations about the appropriate policy stance.

CONCLUSION

The ongoing financial crises have been caused by a combination of unsustainable macroeconomic policies combined with policy paralysis that occurred due to a variety of political and economic constraints.

Policy-makers currently face extremely difficult challenges. The first one is the introduction of a macroprudential supervision approach. The second challenge is finding a compromise between capital adequacy requirements and procyclicality, as well as defining capital transparency. Possible measures include higher but more flexible capital repetition. The third one is capturing the interdependencies and interconnections between preventive and curative regulation. The fourth is developing a network approach in capturing, measuring and reporting systemic risk. Finally, regulators aim to improve practical approaches to liquidity management and to modify econometrical models.

The European Central Bank, the Financial Stability Board, central bankers and an international group of regulators have been working together to create a network for the coordination of global reforms in such areas as liquidity and systemic risk. The biggest challenge in this area will be to increase the system's resilience to the failure of giants.

All market participants, individual banks, local regulators and governors have a responsibility to excercise their authority and expertise in order to forestall financial crises including systemic disturbances in the banking system and to manage such crises once they occur.

The author presents in this paper policy implications and recommendations that can be used as control tools at the individual bank's level, the interbank market supervisory authority's level and the governor's level at times when financial cirses develop.

At the individual bank's level liquidity indicators are an important control tool which helps to predict and assess a bank's future vulnerability to liquidity shocks.

At the interbank market supervisory authority's level the following policies can be implemented to control banks' liquidity and solvency: to apply strict bank liquidity requirements, to discourage intermediation of short-term capital inflows, to encourage the development of international standby credit facilities, to establish effective systemic stability regulator in each country, to institute mechanisms to promote market discipline of local banks.

At the governor's level the following actions and policies can prevent financial crises: to run very small deficits or fiscal surpluses in good times, to develop well-structured stabilization funds to cope with large fiscal shocks, to avoid short-term debt, to issue debt in advance of cash-flow needs, to seek contingent sources of credit, to implement institutional reforms to strengthen confidence in management.

Implementation of all these policies can help to protect banking markets and economies from global financial turbulences and crises and to strengthen their solvency and transparency.

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Tatjana Židuļina. Regulatora reakcija uz likviditātes un sistēmisko risku

Pašreizējā finanšu krīze ir radusies dažādu politisko un ekonomisko problēmu dēļ. Autore rakstā analizē Finanšu stabilitātes padomes un Starptautiskās banku uzraudzības iestāžu grupas darbības finanšu krīzes novēršanai nākotnē un likviditātes un sistēmisku risku samazināšanai. Uzraudzības eksperti saskaras ar ārkārtīgi smagiem izaicinājumiem. Viens no tiem ir ieviest makroanalītiskas uzraudzības sistēmu. Otrs izaicinājums ir atrast kompromisu starp kapitāla pietiekamības prasībām un kapitāla pieejamības korelāciju ar ekonomikas cikliem. Trešais izaicinājums ir kontrolēt un sekot līdzi savstarpējām atkarībām un ietekmēm starp finanšu institūcijām un nozarēm, kā arī novērtēt sistēmisko risku.
Autore piedāvā virkni ieteikumu, ko var izmantot kā instrumentus finanšu krīzes vadībai. Iespējamie pasākumi banku likviditātes kontrolei un regulēšanai ietver: banku likviditātes radītāju kontroli, stingru likviditātes kontroles prasību piemērošanu, īstermiņa kapitāla finansējuma lietošanas ierobežošanu, atbalstu starptautisko rezervju kredītu attīstībai, efektīvas finanšu stabilitātes regulēšanas sistēmas veidošanu katrā valstī, regulējot vietējo banku tirgus disciplīnu. Nacionālo valstu līmenī finanšu krīzi var novērst, veicot šādas darbības: labos laikos sasniegt ļoti mazu budžeta deficītu vai fiskālo pārpalikumu, laicīgi izveidot stabilizācijas fondus, kas ļautu tikt galā ar lielu fiskālo šoku krīzes gadījumā, izvairīties no īstermiņa valsts parādzīmju emisijām, kā arī īstenot organizatoriskas reformas, kuras stiprinātu uzticību valdībai.
Visu šo pasākumu īstenošana var palīdzēt aizsargāt finanšu tirgus un ekonomikas no globālajām finanšu turbulencēm un krīzēm, kā arī stiprināt to maksātspēju un caurspīdīgumu.

Татьяна Жидулина. Действия регулятора на риск ликвидности и системные риски

Нынешний финансовый кризис был вызван сочетанием целого ряда политических и экономических проблем. Автор анализирует мероприятия, проведенные Советом по финансовой стабильности и Международной группой регуляторов по предотвращению финансовых кризисов и контроля риска ликвидности и системных рисков. Органы надзора сталкиваются с чрезвычайно сложными задачами. Первая задача - это внедрение макропруденциального контроля. Вторая - это найти компромисс между требованиями достаточности капитала и его проциклічностью. В-третьих, отслеживание и контроль взаимозависимостей и взаимосвязей между разными финансовыми институтами и отраслями, и оценивание системных рисков.
Автор представляет ряд рекомендаций, которые можно использовать для управления финансовыми кризисами. Возможные меры регулирования и управления ликвидности и платежеспособности банков включают в себя следующие мероприятия: контролировать показатели уровня банковской ликвидности и применять требования строгого контроля, противодействовать посредничеству краткосрочного капитала, содействовать развитию международных резервных кредитов, в каждой стране создать эффективную систему регулирования стабильности, создать механизмы, способствующие регулированию рыночной дисциплины местных банков. На правительственном уровне следующие действия и политики могут предотвратить финансовый кризис: иметь очень небольшой дефицит в хорошие времена, подготовить структурированные стабилизационные фонды, которые будут необходимы для того, чтобы справляться с большим финансовым шоком, избегать краткосрочной задолженности, искать источники контингента кредитов для реализации институциональных реформ для укрепления доверия в области управления.
Реализация всех этих политик может помочь защитить банковские рынки и экономику от глобальных финансовых волнений и кризисов, а также повысить платежеспособность банков и прозрачность банковской системы.