MACROPRUDENTIAL REGULATION - NEW FUNCTION OF THE CENTRAL BANKS
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We will try to formulate a new national regulator for financial stability - macroprudential regulation in our report along with the brief analysis of the causes of the crisis, as well as the proposed international controls of capital movements (for details see [1-5]).

The main element of the global financial system is the global banking system, which permanently and immediately moves capital, due to the modern technologies (SWIFT, internet banking, online trading), despite the different currencies emitted by two hundred central banks of the world. Such mobility of capital is provided by the liberal regulations on capital flows and stock markets and speculative interests of financial institutions but not by information and communication technologies, not by banks, not even by their core - the transnational banks.

The main reason for the crisis according to the theory of global excess of savings in developing countries is the weakness of the financial sector in developing countries which leads to the massive demand for non risky assets in developed countries (authors - J. Sachs, F. Mishkin, R. Caballero, G. Calvo ). Surplus of current accounts of 142 developing countries (BIS. Capital flows and emerging market economics. CGFS Publications N 33, January 2009).

Payment imbalance. USA trade deficit with the rest of the world (about 800 billion dollars annually during last 10 years) giving rise to current deficit is covered by the emission of dollars (for example, in 2008 the FED increased the monetary base by 97%) and by the dollar nominated financial instruments (T-bills of the federal government).

Mechanisms which regulate payment imbalances between the countries have not been offered yet. Function imbalance of the dollar as national and global currency (the reserve currency monopoly). The combination of U.S. dollar functions as the national and the global reserve currency (only cash dollars outside the U.S. accounted for more than 0.5 trillion at the end of 2009) brings the FED hundreds of billions U.S. dollars through seniorage and inflation every year. US dollar being the reserve currency fulfills not only function of means of payment in international trade and capital flows, but also fulfills the function of pricing currency for main commodities in the global markets. An important advantage of an over national global currency (eg, SDR with the IMF as a world central bank) is the reduction of foreign exchange reserves of developing countries and their protection against inflation and devaluation of the dollar.

The imbalance between the financial and real sector. Dozens of the virtual financial instruments (mortgage options, currency futures, stock and commodity derivatives) have created a virtual money bubble 12 times bigger than the global GDP.

In this case the old methodology for assessing the credit risk which was used by the rating agencies showed complete failure during the crisis in 1998 and 2008. The subjectivity of rating agencies and the inadequacy of the rankings is due to the developed countries monopoly on rating information.

The aim of the international reform discussed by the G20 is the raise of stability of transnational capital
flows, the reduction of their speculative character, the creation of effective regulatory system, unified for all international financial institutions and adequate to the current transparency of financial markets, which will limit and localize the impact of the crisis.

As part of national reforms it is proposed to strengthen the traditional (applied on the micro-level) class of prudential regulations and to give them a dynamic character (norms, changing over time in dependence of the macroeconomic situation). In other words, along with fiscal, budgetary, monetary and credit policy the state should have a third equally important tool - macroprudential policy which could be supported by 10 proposed regulators:

1. Capital flows in the mortgage may be regulated by the dynamic ratio of mortgage assets to the bank’s capital, and in some cases debt to equity proportion may be imposed by the regulator on the mortgage transactions.

2. Central banks should have an effective system of foreign exchange monitoring, foreign currencies deficit management and governance (currency swaps, cross-border deposits).

3. Short-term capital inflows (foreign loans, trade credits and portfolio investment) in the critical situation may be regulated by introducing reservation rules (Chilean experience - 30% of capital for 1 year).

4. There should be introduced dynamic risk rates for financial institutions, which take into account the risk on derivative instruments and the current financial situation (it is necessary to create a new theory of risk).

5. Capital ratios (leverage) should be linked to fluctuations in economic dynamics within the economic cycle and, of course, should take into account off-balance obligations and derivative’s systemic risks.

6. It is necessary to have tools for monitoring and regulating the participation of internet traders in the financial markets.

7. New concept of foreign exchange reserves should be implemented as on the structure, and on the instruments and mechanisms of control (the principle of national reserves, rather than the central bank’s gold and exchange reserves).

8. National stock exchange rules may limit speculative portfolio investments inflows, particularly foreign capital in the event of a significant separation of the stock indexes from the macroeconomic indicators (small countries can enter a time ban on the sale of shares after the acquisition by a foreign investor (this time period may be increased from 3 to 5 years for the banks in China)).

9. The monitoring of net savings is necessary and in some cases the introduction of the dynamic ratio deposits to individual loans is possible. Liquidity ratios can become dynamic.

10. It is necessary to revise the target indicators for external debt (including government debt) to GDP.