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## Defining with Precision the Concept of “Financial Instability”

### Proposed Contents

#### 1. The Concept of Financial Instability

- What is generally understood by the term financial stability/instability? Is it possible to establish a common definition of this concept for all countries?
- Macroeconomic variables and financial markets:
  - Increased volatility. What can be considered as an ‘abnormal’ or ‘exaggerated’ movement?
  - Short-term movements versus trend changes.
  - Time length of movements.
  - Transfer of these effects into the real economy.
- Stability/instability as a static concept or one in evolution. For example, comparison of a scenario classified as instable in the seventies versus the present.
- Stability/Instability as a global or differentiated concept, depending on the region or country to which it is being applied.
- Is it possible to define different levels of financial instability?
- When does a liquidity problem turn into a solvency problem?
- Bank failures: Definition, impacts of bank failures.

#### 2. Measurement of Financial Stability/Instability Situations

- Major domestic and international variables whose changes, individually or in combination with others, might be considered as triggers or evidences of financial instability. Early alert indicators.
- Aspect(s) of the movements in the variables that is (are) considered more or less determinant of an instability situation. For example, trend, volatility, frequency, etc. Frequency required for adequately monitoring each variable.
- Is it possible to define a general model based on which an up-coming situation of financial instability might be detected?

#### 3. Role of Financial Authorities

- Prevention functions versus problem solution functions (‘fire extinguishers’).
- Revision of both the legal framework and the direct actions of regulatory authorities. Other more general legal aspects such as Bankruptcy Law (or proceedings before the declaration of bankruptcy) and the Guaranty Law.
- The information provided by authorities to the markets as well as by the various relevant participants: quantity, quality, transparency, etc.
- Interaction among the various financial authorities and of authorities with the relevant private sector representations.
- Relation between the increase in transparency and the increase in financial instability.