Central Bank Cooperation in Times of Crises: Lessons from the Recent Experience

Pedro Duarte Neves
Conference on the occasion of CEMLA’s 60th Anniversary
Mexico, 19-20 July 2012
Central Bank Cooperation in Times of Crises: Lessons from the Recent Experience

Outline

1. What is central bank cooperation about?
2. How is it working during the current crisis?
   2.1. Emergency responses to the crisis
   2.2. Increasing the resilience of the financial system
3. What are the implications for future cooperation?
4. Concluding remarks
1. What is Central Bank Cooperation About?

• Cooperation: process whereby different actors work together for a common purpose

• In the case of central banks, ultimate “common purpose” is to safeguard monetary and financial stability (CB primary objectives).

• In an interdependent world, cooperative solutions can lead to superior outcomes (internalize spillovers from national policies).

• CB cooperation has been gaining importance in the past century, alongside the trend increase in economic and financial integration.
1. What is Central Bank Cooperation About?

“Taxonomy” of CB Cooperation

- Bilateral *versus* multilateral
- Global *versus* regional cooperation
- Advanced economies *versus* advanced + emerging economies
- International financial institutions *versus* informal groupings
1. What is Central Bank Cooperation About?

Cooperation may involve different degrees of delegation

- Information sharing, standardization of concepts and exchange of views
- Standard-setting and adoption of common rules
- Common agreed actions (e.g. cooperation within Eurosystem)
2. How is it worked during the current crisis?

In the current crisis

- Enhanced information sharing and collective monitoring of market developments
- Coordinated steps to provide liquidity and restore confidence
- Joint action with financial regulators and supervisors to reform the financial system
2.1. Emergency responses to the crisis

CB cooperation at the global level

(i) **Inter-CB swap facilities that developed into swap networks**
2.1. Emergency responses to the crisis

CB cooperation at the global level

(ii) Coordinated monetary and foreign exchange policy actions

- 8 Oct 2008 – Fed, ECB, CBs of Canada, UK, Sweden and Switzerland cut interest rate

- 18 Mar 2011 – G7 concerted intervention in JPY
2.1. Emergency responses to the crisis

CB cooperation at the regional level – The Eurosystem

(i) Interventions in securities markets for bank and sovereign funding
   - CBPP – Covered Bond Purchase Programmes
   - SMP – Securities Market Programme

(ii) Acceptance on non-euro denominated collateral in contingency situations

(iii) ELAs – Emergency Lending Assistance
2.2. Increasing the resilience of the financial system

Cooperation at the global level

- **G20** is becoming increasingly relevant as a forum for international economic cooperation (Heads of State / Ministers of Finance / CB Governors)

- **Financial Stability Board** established in 2009 with aim of shaping new standards for promoting strong regulatory and supervisory policies and global financial stability

- **IMF** has improved analysis of spillover effects and overhauled its lending framework
2.2. Increasing the resilience of the financial system

Cooperation within the European Union

2011 – New institutional framework for financial supervision

- ESAs – European Supervisory Authorities
  - Banking
  - Insurance
  - Securities markets

- European Systemic Risk Board – Brings together CBs and financial supervisors (with leading role for CBs)
3. What are the implications for future Central Bank Cooperation?

Crisis will have lasting effects on CB cooperation

- Less liquidity risk and better insurance against FX liquidity risk: Could swap lines become a permanent feature of CB cooperation?

- Systemic risk will become part of analysis and policy actions of CB and financial supervisors – A lot still to be done, e.g.:
  
  - At the global level: cross-border aspects of crisis prevention and management need greater attention
  
  - Within euro area: complementing monetary union with a banking union
4. Concluding remarks

- Crisis has shown the need for enhanced international cooperation, better governance, strengthened market supervision and increased transparency.

- Central bank cooperation proved valuable, both for putting in place emergency measures to avoid a credit crunch and for developing a more robust global financial system.

- Going forward, cooperation will be crucial for designing and implementing adequate exit strategies from the current very accommodative stance of monetary policy and leveraged central banks’ balance sheets.
4. Concluding remarks

“… The world’s monetary authorities and its regulatory and supervisory financial authorities can and must do much better in the future to reduce the chances of events like these happening again.”

(de Larosière report, February 2009)
Central Bank Cooperation in Times of Crises: Lessons from the Recent Experience

Comments / Questions are Welcome!