Financial Stability the Business Cycle & Macro-Prudential Regulations

46th Annual Monetary Studies Conference
November 18th-20th
Amar Ramlogan

Republic Bank
We're the One for you!

Outline

- Definitions
- Indicators of Systematic Risk
- Business Cycle
- Macro-prudential Measures
- Role of Regulators

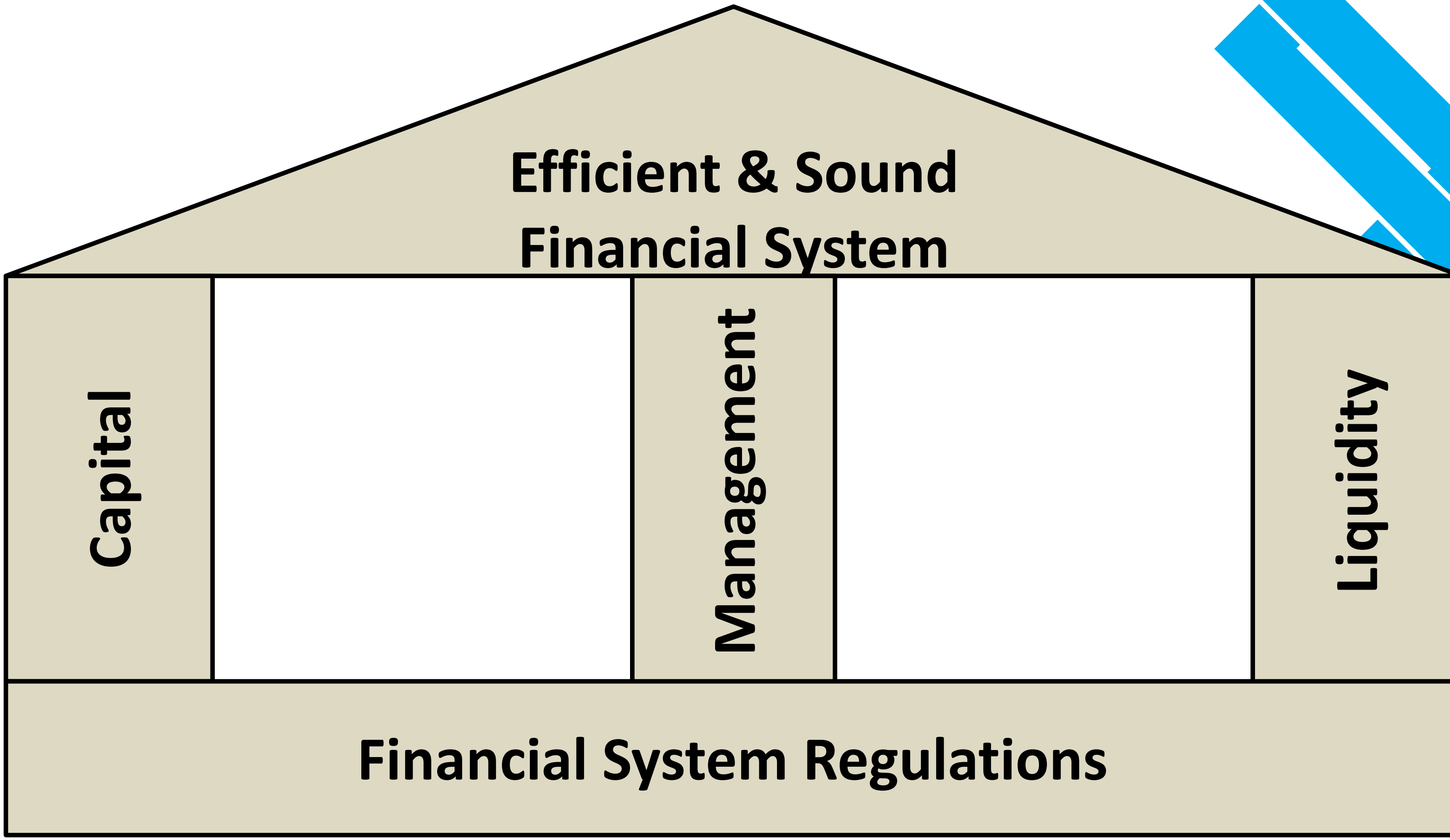
Republic Bank
We're the One for you!

Definition

- Financial Stability
  - Financial System operates with no undesirable impact on the present and future development of the economy as a whole (Frait & Komarkova 2011)
- Micro-prudential Policies
  - Policies aimed at improving the the resilience of individual financial institutions to exogenous events (Frait & Komarkova 2011)
- Macro-prudential Policies
  - Policies designed to mitigate against systemic risk adversely impacting the overall financial sector and reducing the cost to the whole economy (IMF 2012)

Republic Bank
We're the One for you!

Financial Stability



Republic Bank
We're the One for you!

Indicators of Systemic Risk

- Reliance of other financial institutions for continued financial services
- Excess risk taking in non-core business activities
- Unrealistic rates of return
- Significant asset size growth over the short-run
- Direct exposure to stricken financial institution

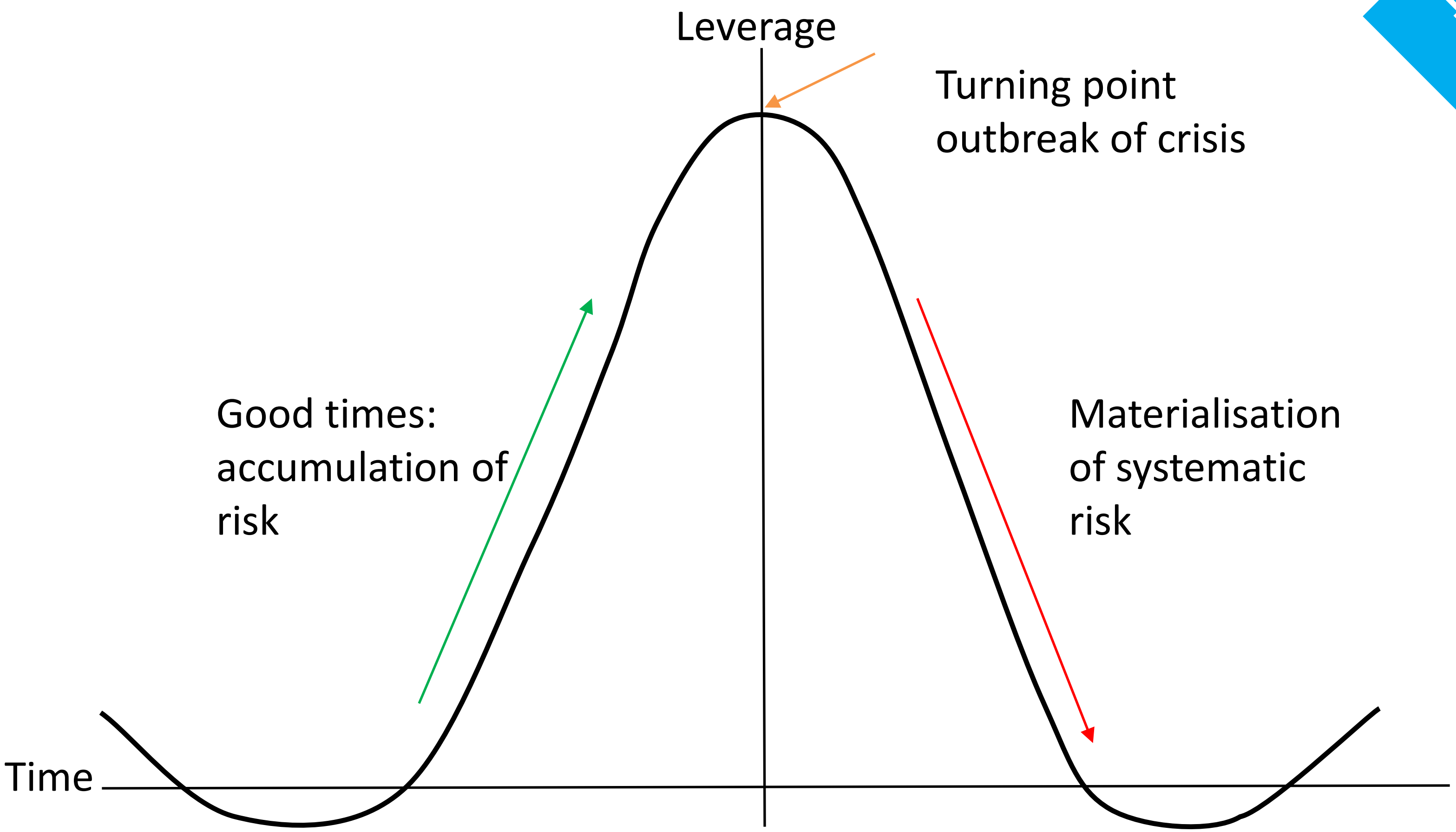
Republic Bank
We're the One for you!

Measures of Systemic Risk's

- Excessive Credit Growth
- Non-performing Loan Ratio
- Provisioning rate
- Stress test of the financial system

Republic Bank
We're the One for you!

The Business Cycle
Evolution of Systematic Risk

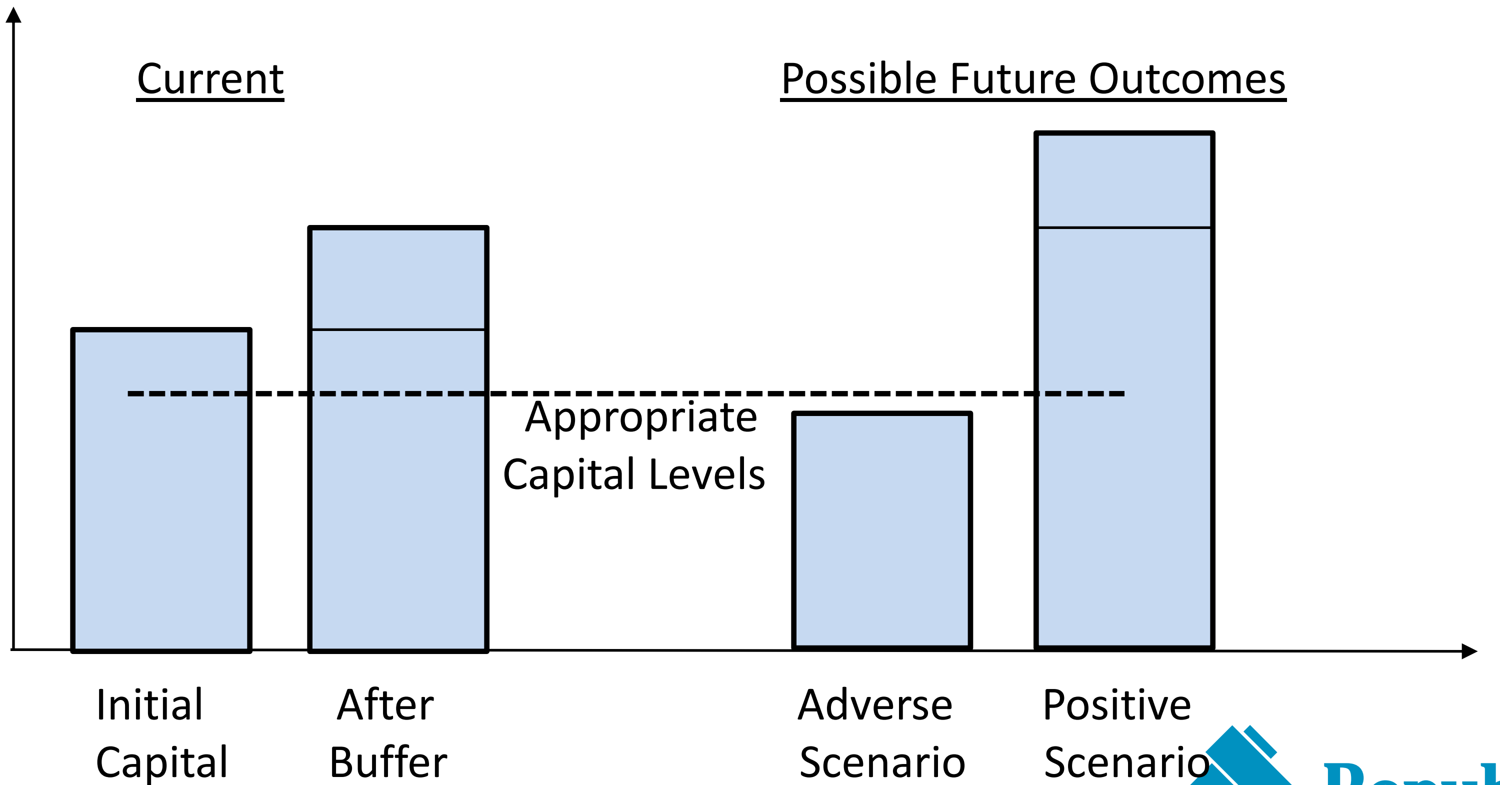


Republic Bank
We're the One for you!

Macro-prudential Measures

Dynamic Capital Buffers

- Add to there capital reserves when there are signs of unusually strong credit growth.



Republic Bank
We're the One for you!

Macro-prudential Measures Cont.

Dynamic Provisions

- Requires financial institutions to set aside funds during good times for possible loan losses during downturns .

Variation in sectoral risk weights

- Add capital to cover new loans in sectors that are building up excessive risks.

Republic Bank
We're the One for you!

Macro-prudential Measures Cont.

Loan-to-value ratios

- Limits the loan amount to below the value of the property. Limit household leverage and helps alleviate rising house prices.

Foreign Currency Lending

- Portfolio limits on foreign currency lending

Liquidity requirement and Secondary Reserve Requirement

Republic Bank
We're the One for you!

Role of Regulators

- Constant Supervision
- Create an environment for institutions to behave less pro-cyclical.
- Adopt country specific macro-prudential policies

Republic Bank
We're the One for you!

Thanks for Listening

Republic Bank
We're the One for you!