

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



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## 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

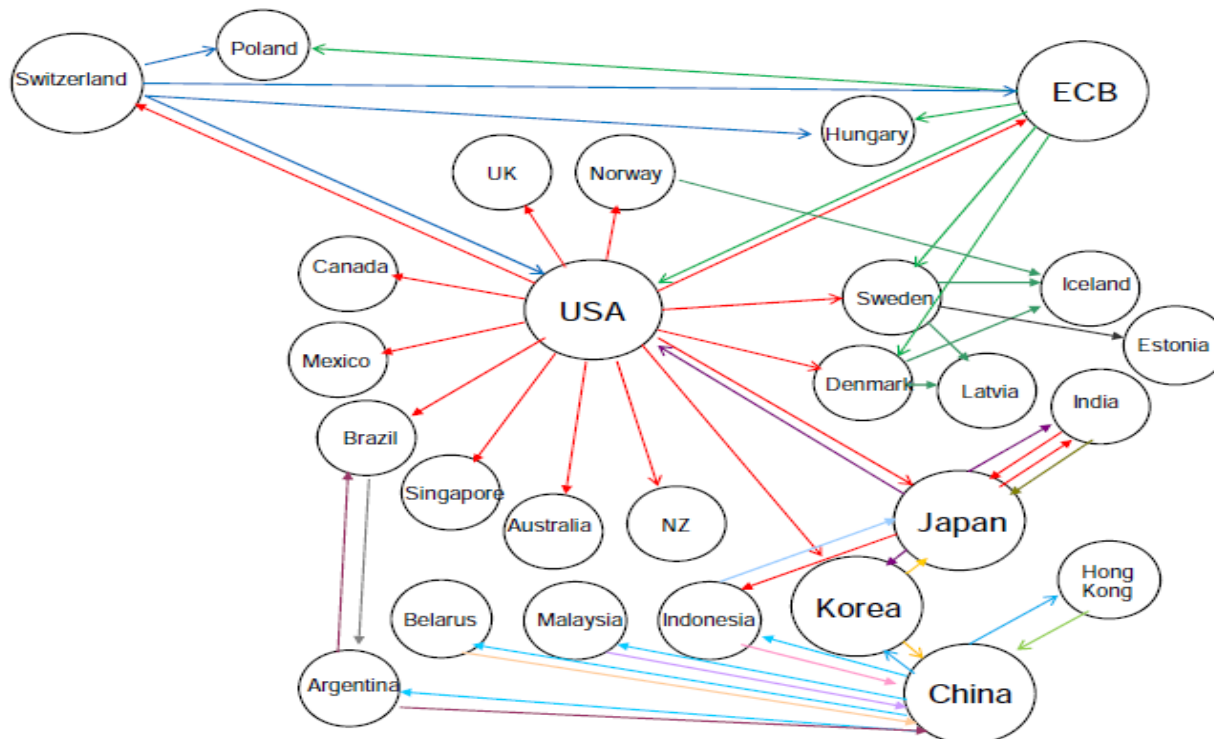
- Enhanced information sharing and collective monitoring of market developments
- Coordinated steps to provide liquidity and restore confidence
- Joint action with financial regulators and supervisors to reform the financial system



## 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)





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Comments / Questions are Welcome!

