Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

The Evolution of the Financial Stability Mandate from its Origin to the Present Day

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Introduction

- Reviews evolution of the FSMs in six countries:
  - Canada, Columbia, France, Italy, UK and US.
  - (Why these countries?)

- A lot of detail; less "big picture."
  - What can we learn from country differences?

- Will do two things:
  1. Draw some speculative conclusions.
  2. Raise some additional questions.

Expected 4 conclusions

1. Common trend but diverse country experiences.
    - Is there a pattern to these country differences?

2. FSMs have been reactive and lagging behind.
    - Three stages: (i) safeguarding currency; (ii) ensure soundness of individual banks; and (iii) guard the overall financial system.
    - Growth of finance and measures to circumvent regulation drove the gradual expansion of FSM.

3. Occasional discrete changes:
    - Episodes of financial instability and crises.
    - Broader political developments (eg. war-time finance).

4. The modern FSM is a recent invention:
    - Historically, micro focus (notes and banks); now macro focus.
    - The long period of financial stability after WW2 not due to purposeful FS policy but side effect of other policies.
        - Facilitate government finance.
        - Maintenance of fixed exchange rates.
        - Greater government control of the economy after WW2.

Additional questions

- The incidence of crises and the design of FSMs influenced by political factors:
  - These factors vary across countries and time.
  - Consider housing bubbles:
    - High rates of house ownership political objective but implies FS risks because of "marginal borrower."
    - Makes bubbles popular, as are their effects on governments' fiscal position.
    - May be reflected in the design of the FSM.
    - Seems likely that political backing is crucial for success.

- Better understanding of changes in FSM:
  - Reinterpretation of the legal mandate or changes in that mandate?
  - Role of personalities?

- What are the lessons for current policy?
  - *"Improve [our] understanding of why central banks and policy regimes in the past succeeded or failed to meet their FSM."*