



Embargo

Not to be released until 10:00 am
Central European Summer Time on
Tuesday 14 June 2011.

Press release

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Central bank governance and financial stability

The recent financial crisis has raised important questions about the role of the central bank in financial stability policy and how the execution of such a function influences the central bank's governance. *Central bank governance and financial stability*, a report released today by the Central Bank Governance Group, explores these questions.

Produced by a study group of central bankers chaired by Stefan Ingves, Governor of the Sveriges Riksbank, the report explores the implications of the crisis for the financial stability mandates of central banks. The report focuses on the governance arrangements needed for the effective and sustainable conduct of core monetary policy functions in combination with an additional mandate to contribute to financial system stability.

It concludes that:

- central banks must be involved in the formulation and execution of financial stability policy if such policy is to be effective;
- whatever the central bank's financial stability mandate is, it needs appropriate tools, authorities and safeguards;
- central banks' financial stability mandates and governance arrangements need to be compatible with their monetary policy responsibilities; and
- clarity about the roles and responsibilities of all authorities involved in financial stability policy is of paramount importance for effective and rapid decision-making, for managing trade-offs and for accountability.

Mr Ingves said today, "There needs to be clarity about the financial stability responsibilities of central banks. This is needed to reduce the risk of a mismatch between what the public expects and what the central bank can deliver, as well as to promote accountability. Even though it is difficult to define and operationalise financial stability concepts, it is important from the viewpoint of proper governance arrangements for the central bank to have an explicit mandate."

The report provides extensive coverage of new arrangements that are being put in place in a number of countries, and that are planned for others. Stanley Fischer,



who chairs the Central Bank Governance Group, said that “strong and effective governance of the wider powers now being given to the authorities responsible for systemic stability is essential. The report sets out the details of important new arrangements for macroprudential policy that are being developed in several countries, in the context of a wider discussion of relevant governance issues.”.



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