

Press release

Press enquiries:
Basel +41 61 280 8188

Press.service@bis.org

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Financial Stability Forum concludes its European regional meeting

The Financial Stability Forum (FSF) held a European regional meeting on 22-23 January in Stockholm. Senior representatives from finance ministries, central banks and supervisory and regulatory authorities from 7 FSF member countries and 16 regional non-member countries attended the meeting. Senior officials from international and regional financial institutions also took part. A list of institutions represented is attached.

Participants exchanged views on strengths and vulnerabilities in the global and regional financial systems. They noted the current benign global financial conditions. This has fostered and reflected robust global growth, rising corporate profitability, financial innovation and structural reforms. At the same time, markets are characterised by a very low level of risk premia, especially in credit markets. While this reflects healthy fundamentals and innovation in the management of risk exposures, participants expressed concern that market pricing may not currently incorporate the full range of potential risks. Financial market participants need to take account in their risk analysis and pricing of the full implications of a possible reversal of the current benign conditions, including less liquid markets.

Cross-border financial flows, rapid credit expansion and current and prospective membership in the European Union have provided additional impetus to market growth in Central and Eastern Europe. Financial systems are developing rapidly and are generally in good condition. One by-product of these developments has been rapid growth of private sector credit, a significant share of which in some countries is denominated in foreign currency. Sustained high credit growth largely reflects robust domestic demand, low real interest rates and a catching-up process with the levels of private sector credit in advanced economies. But participants noted several sources of potential risk, including the consequences of strong competition in lending markets, developing credit assessment processes, and exposure to foreign exchange risks by un-hedged borrowers. Participants discussed the effectiveness of policy measures that have been taken to mitigate these risks.

Greater economic integration has been accompanied by an increasingly prominent role for cross-border financial groups. This poses a number of issues for home and host authorities. The presence of foreign banks in domestic financial systems enhances efficiency, improves risk pricing and transfers expertise. Participants discussed the need and scope for enhanced cross-border supervisory co-operation. In particular, they pointed to the need for further improvements in the cross-border exchange of supervisory information and for effective coordination in contingency planning for financial crises.

Participants exchanged views and experiences on prioritisation of financial system reforms, including the role of international standards. Prioritisation of reforms is a particular challenge when countries were faced with multiple reform goals internationally and domestically (including in some cases EU entry requirements), given resource limitations. Participants noted the potential usefulness of exploring region-wide initiatives, such as regional stability analysis, to address common issues and spillover effects faced by countries in the region.

Finally, participants discussed progress in developing domestic capital markets, which would help diversify financing sources and reduce the dependence of some economies on capital inflows. They agreed on the need to further enhance market foundations, including trading infrastructure, legal frameworks supporting collateral and securitisation, and corporate governance requirements.

Notes for editors. The FSF brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It was established by the G7 finance ministers and central bank governors in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. The FSF is chaired by Mario Draghi, Governor of the Bank of Italy. The FSF's Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

The objective of the FSF's regional meetings is to promote wider exchanges of views on financial vulnerabilities and the work underway nationally and internationally to address them. For further information on the FSF, its membership and previous FSF meetings, visit the FSF website at www.fsforum.org.

Institutions and Groups attending the FSF European Regional Meeting

Stockholm, 22-23 January 2007

Chairman: Mr Mario Draghi

Austria

Federal Ministry of Finance
Austrian National Bank
Austrian Financial Market Authority

Belgium

National Bank of Belgium

Canada

Bank of Canada

Czech Republic

Ministry of Finance
Czech National Bank

Denmark

Danmarks Nationalbank
Danish Financial Supervisory Authority

Estonia

Ministry of Finance
Bank of Estonia
Estonian Financial Supervisory Authority

Finland

Bank of Finland
Finnish Financial Supervision Authority

France

French Banking Commission
L'Autorité des Marchés Financiers

Germany

Deutsche Bundesbank

Hungary

Ministry of Finance
Magyar Nemzeti Bank
Hungarian Financial Supervisory Authority

Iceland

Central Bank of Iceland
Icelandic Financial Supervisory Authority

Israel

Bank of Israel

Italy

Bank of Italy

Japan

Bank of Japan

Latvia

Ministry of Finance
Latvijas Banka
Financial and Capital Market Commission

Lithuania

Ministry of Finance
Bank of Lithuania

Netherlands

De Nederlandsche Bank

Norway

Bank of Norway
Norwegian Financial Supervisory Authority

Poland

Ministry of Finance
National Bank of Poland

Russia

Ministry of Finance

Sweden

Ministry of Finance
Sveriges Riksbank
Swedish Financial Supervisory Authority

Turkey

Central Bank of the Republic of Turkey
Capital Markets Board of Turkey

United Kingdom

HM Treasury
Bank of England
UK Financial Services Authority

International Financial Institutions

Bank for International Settlements
European Bank for Reconstruction and
Development
European Central Bank
International Monetary Fund
Organisation for Economic Co-operation and
Development
World Bank

International Regulatory and Supervisory Groupings

Basel Committee on Banking Supervision
International Association of Insurance
Supervisors
International Organization of Securities
Commissions