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Will the CRIS Committee be relevant for the banking sector - or: Why CRIS makes sense

In October, the European Parliament has established its Special Committee on the Financial, Economic and Social Crisis. In this Committee, which recently started working, we will have to analyse the reasons and the effects of the crisis. Furthermore, and based on this analysis, we have to draw conclusions; we have to look for lessons to be learnt from this crisis to prevent a new one. Of course the CRIS does not have legislative competences; the outcome is therefore restricted to analysis and recommendations. On the other hand this Committee can thus be much more open minded and draw much broader conclusions than regular Committees.

In the current crisis, first signs of improvement in the economic situation have become increasingly apparent. However, these signs should not let us forget that the recession has proved to be the deepest, longest and most broad-based recession in the EU's history. The current upturn in EU and global economy is largely driven by temporary factors. In particular, the favourable impact of inventory adjustment and stimulus measures are expected to fade away in the course of next year. This crisis is the worst downturn for the last 70 years - and some effects like rising unemployment are yet to be expected.

Having its causes in the financial and economic area, this crisis has a much broader impact and affects not only financial and economic matters but regional policy, social policy, fiscal policy or development policy as well. It is therefore much more than just an economic crisis which needs just an economic recovery plan: This crisis is not only an economic problem; it's a political challenge as well. Politicians on national level have reacted with short term measures to stop the downturn and to prevent the most severe effects of the recession. But we as politicians need to deal with the long term perspective and the deeper roots of this crisis as well, and we need to do that on a larger level than the single nation states. We need

to ask more basic questions on how this crisis could emerge and we need to draw lessons on how we can avoid a new crisis.

Some lessons might affect the way we use to deal with risk in the financial world. Of course, risk is an integral element of market economy, we can therefore not totally ban risk from our economic system. However, we need to make sure that risk stays within reasonable limits and that the kind of systemic and inter-connected vulnerabilities we have seen and which have carried such contagious effects are prevented.

Amongst others, banks and how they handled risk issues have had their share in causing the crisis: Exceptionally low interest rates combined with fierce competition have pushed banks to search for higher returns through an increase in leverage or investment in more risky financial products. The complexity of financial products together with lacking supervision and transparency requirements led to heightened systemic risk - a complexity which was developed also in banks and over which also banks lost control. Some long-standing policies such as the definition of capital requirements for banks placed too much reliance on both the risk management capabilities of the banks themselves and on the adequacy of ratings. The pro-cyclical nature of some aspects of the regulatory framework helped trigger a negative feedback loop.

To change these mechanisms could be amongst the lessons we need to draw from the crisis. We will have to discuss measures like the introduction of a leverage ratio as a supplementary measure to the Basel II risk-based framework, or the introduction of a framework for countercyclical capital buffers above the minimum requirement. The CRIS Committee will be the place for the debate on this and other issues in the upcoming months.