

UNDERSTANDING FINANCIAL STABILITY

COMPLETE VOLUMES ON THEORY AND PRACTICE OF FINANCIAL STABILITY

- Volume 1: Understanding Financial Stability
- Volume 2: The Banking Sector under Financial Stability
- Volume 3: The Corporate, Real Estate, Household, Government and Non-bank Financial Sectors under Financial Stability
- Volume 4: Economic Areas under Financial Stability
- Volume 5: Tools and Techniques for Financial Stability Analysis

Praise for *The Theory and Practice of Financial Stability*

Indranarain Ramlall's proposal is a great attempt at giving a comprehensive view of financial stability from a theoretical, practical and policy perspective. It aims at providing future students with the tools to understand the framework in which financial stability is assessed and understood today by international organisations and central banks across the world. To my knowledge, this is the only book that covers such a wide range of topics related to financial stability. It, therefore, has the potential to become a good reference book on the topic. I believe that Indranarain Ramlall has made a great proposal to provide a "big picture view" on financial stability. I look forward to reading the textbook!

Celine Tchong, Central Bank of France

Financial stability has become a major concern for central banks, after the 2008 global financial crisis. More and more research is tackling topics regarding the role of the financial system in macroeconomic models and the implementation of macroprudential policy. Therefore, a comprehensive overlook of financial stability issues, such as the one offered by *The Theory and Practice of Financial Stability* can prove particularly useful for experts working in the financial system, central bankers included. The textbook covers a diverse set of topics from policy matters to risk assessment analysis.

Elena Banu, Central Bank of Romania

This book is a comprehensive work on one of the most actual topics in the aftermath of the Great Recession. It covers a wide range of topics on financial stability complementing theoretical frameworks with practical examples.

Starting with a conceptual description on financial stability, the book overviews a history of the major financial crises and Basel regulation rules. Particularly useful is an inquiry of the financial stability perspectives across different asset classes and economy sectors. Another beneficial feature of this book is a complete oversight of stress testing methodologies.

The book is a thorough compilation of topics on financial stability and definitely deserves a place on the bookshelves of central bankers, government and private institutions' officials.

Vaidotas Sumskis, Bank of Lithuania

Dr Indranarain's book is an actual textbook for interpreting interrelations between all aspects and sectors of the international economy and will surely be a highly useful tool for credit institutions, investors, practitioners as well as academics. From a Central Bank's point of view this book provides an integrated approach to macroeconomic environment and the interactions between the various factors and an actual tool for assessing and measuring leading circumstances and indicators that affect financial stability and may cause vulnerabilities.

Vasiliki Vlachostergiou, Central Bank of Greece

This is a monumental work! I didn't find anything missing. I think it will be useful for students, economic and finance professionals and policymakers.

Christophe Andre, OECD

Financial stability was always a priority for financial sector regulators and it has surpassed other objectives since the global financial crisis. Given various complexities associated with the financial stability and rapid developments over time, existing literature tends to deal with specific aspects of financial stability. It is very difficult to get a comprehensive book dealing with the wide range of concepts, different segments of financial sector, ever increasing variety of financial instruments and regulations associated with financial stability. The current book is a very good attempt to fill this gap through its comprehensive coverage of almost the entire gamut of financial stability related topics. This book should be useful for financial sector regulators, related ministries in the governments, researchers, multilateral institutions, other financial sector stakeholders and general public who are interested to know the complexities of the financial sector and financial stability.

Ajay Prakash-an expert in Financial Stability

THE THEORY AND PRACTICE OF FINANCIAL STABILITY,
VOLUME 1

UNDERSTANDING FINANCIAL STABILITY

BY

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List of Acronyms

ABCP	Asset-backed Commercial Paper
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlement
CDO	Collateralised Debt Obligations
CDS	Credit Default Swaps
CMO	Collateralised Mortgage Obligations
DTI	Debt to Income
ECB	European Central Bank
EMH	Efficient Market Hypothesis
ESCB	European System of Central Banks
EU	European Union
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FDI	Foreign Direct Investment
FSIs	Financial Soundness Indicators
FSRs	Financial Stability Reports
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
LTV	Loan to Value
OTC	Over-the-counter
QE	Quantitative Easing
SMEs	Small and Medium Enterprises
SPV	Special Purpose Vehicles
UNCTAD	United Nations Conference on Trade and Development

Preface

The aim of Volume 1 is to provide complete coverage of all key elements ingrained in the concept of financial stability by addressing financial stability in different dimensions. Focus is placed on different definitions of financial stability with particular emphasis being laid as to why financial stability constitutes an important component which weighs high in the agenda of policy-makers worldwide. Based on various definitions, we develop our own definition – financial stability pertains to a sound and proactive risk management of the financial system in view of abating down the impacts of adverse shocks susceptible to gnaw at higher GDP growth rates. A holistic approach is undertaken to cater for the interactions between financial stability and monetary policy. Focus is also being laid on the political economy as it is considered to play a preponderant role with respect to the maintenance of financial stability. The genesis of a crisis is given full consideration with no stone being left unturned as to cater for the various theories which account for the existence of financial crises in the world. A historical analysis is also performed with respect to crises which buffeted the world. Whether the predictability aspect or the resilience aspect of a crisis should be observed by policy-makers is also being given due consideration. In essence, the first volume undertakes a full-fledged analysis of all key elements embedded in the concept of financial stability.

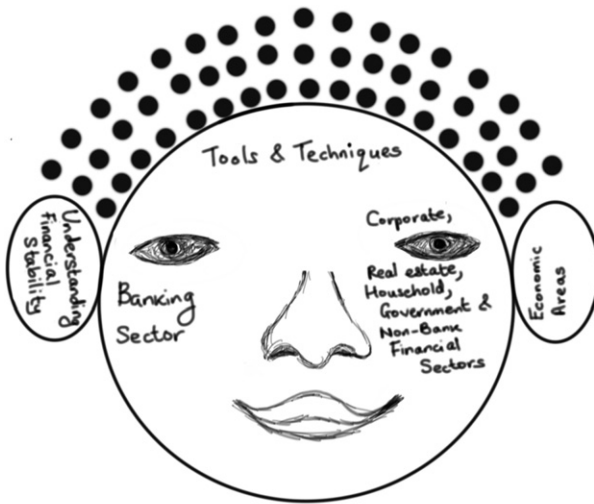
The book has been written as a reference material to cater for the needs of both new and experienced professionals such as central bankers, researchers, economists and policy-makers who are involved in the field of financial stability. As a matter of fact, many central banks now have a financial stability unit or a department but so far, there is no textbook which weaves through the various aspects of financial stability. Central bankers can use the book to beef up the analytical part of their financial stability reports by incorporating new tools of assessments. The book appeals to courses/programmes on financial stability as provided by Yale School of Management (Macroprudential Policy or Financial Stability Regulation/Master of Management studies in Systemic Risk), Goethe Business School (Financial Stability and Regulation/Executive Education course) and Florence School of Banking and Finance (Banking and Financial Stability course). To date, there are no textbooks or referenced materials which undertake an intensive and coherent approach to financial stability. For example, there is no such framework as to how financial stability, as a process, should be performed. This book attempts to provide all key issues in a highly comprehensive and critical manner. In that respect, the book is expected to be widely used worldwide, both by professionals and by researchers.

The author expects the book to be particularly useful to economists, policy-makers, researchers and students in effectively gaining insight on financial stability. As at date, there is no textbook on financial stability which weaves through

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all aspects of financial stability-from theory to practice. This series of five books on financial stability attempts to fill in such a vacuum. Comments and suggestions can be made to i.ramlall@uom.ac.mu/iiramii3@gmail.com. The author seizes this opportunity to thank an anonymous referee from the London School of Economics for his suggestions and reviews made by professionals from central banks and reputable organisations.

Dr Indranarain Ramlall
June 2018



Financial Stability as a field of its own.
Dr. I. Ramiall 20/09/18