Regulatory consistency needed to avert crisis repeat

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SINGAPORE — Experts have called for a global central bank and financial authority to monitor and regulate markets to help avoid a recurrence of the 2008 to 2009 worldwide crisis.

Speaking at a conference organised by the Singapore Management University (SMU) yesterday, central bankers and academics said that leveraging by so-called “shadow banks”, such as hedge funds and investment banks, had made it difficult to track money globally.

Mr Ravi Menon, managing director of the Monetary Authority of Singapore, called for greater global consistency in regulation.

“This high degree of interdependence means that governments in major economies can no longer act in isolation. Regulatory policies must be globally consistent to minimise the risk of arbitrage. Although global policies should be consistent, regulation and supervision must also cater to domestic context and circumstances to be effective.

Mr Ravi Menon, MAS managing director

Supervisory actions must be internationally coordinated to maximise their effectiveness,” he said.

Mr Menon added that regulators used to worry about institutions that were too big to fail but now they are more worried about those too interconnected to fail.

This is because cross-border bank lending has exceeded 40 per cent of world gross domestic product. He stressed, however, that although global policies should be consistent, regulation and supervision must also cater to domestic context and circumstances to be effective.

Mr Andrew Sheng, chief advisor to the China Banking Regulatory Commission, said, “Finance has created a life of its own. It has become very abstract, very virtual and we can create liabilities as if there’s no tomorrow, because we can leverage this. And the result is, of course, that we now have a crisis of fiat money, money created by the shadow banking system, global credit creation, with no global institution to maintain the hard budget constraint. And the reflexivity between credit creation globally drives interest rates lower and lower and then creates that asset bubble.”

Participants also noted that the rebalancing in the global economy is still ongoing, with the right recipe of regulation, capitalisation and minimising risk still to be addressed.