



Financial innovation and financial stability

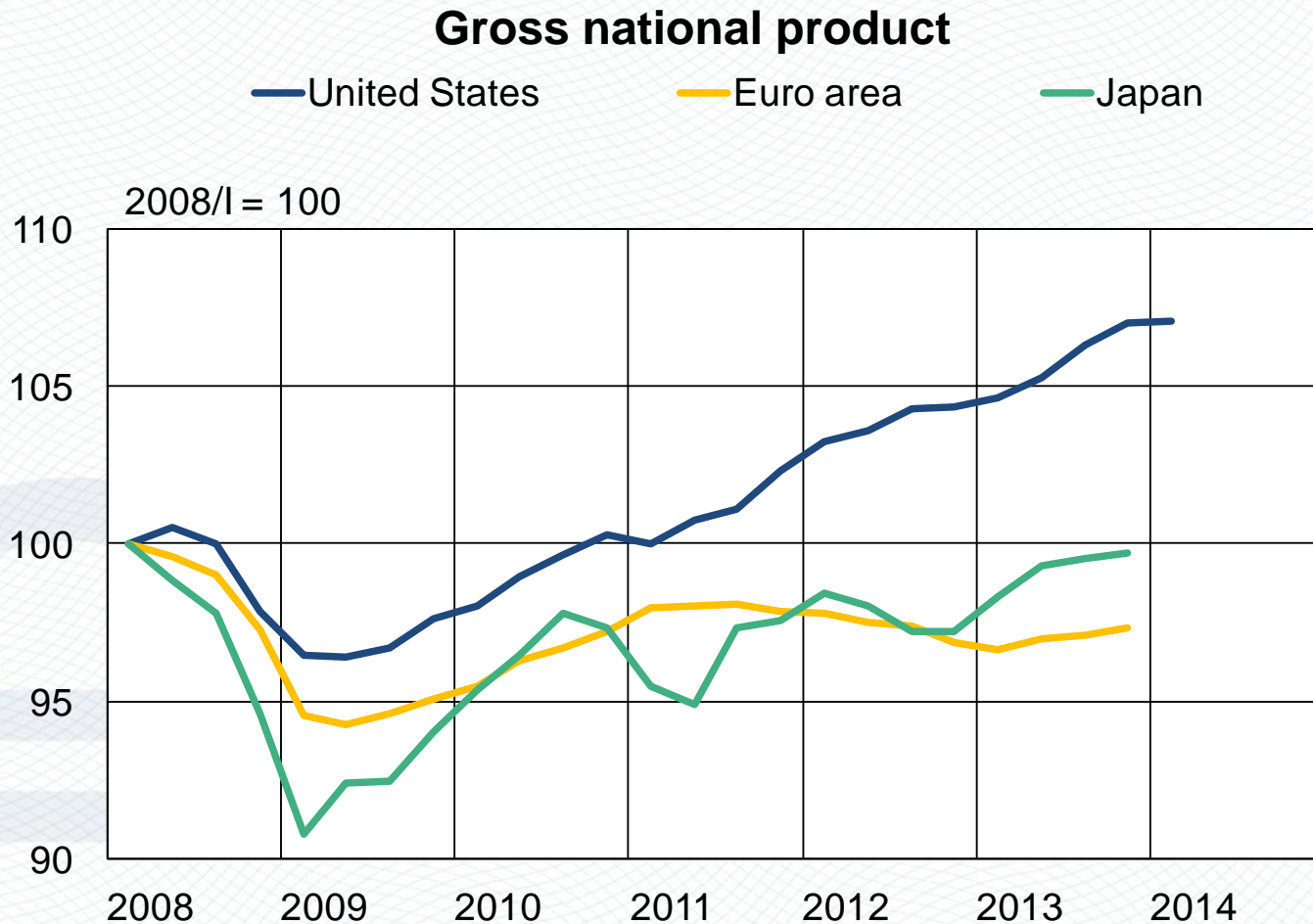
Seppo Honkapohja, Member of the Board,
Bank of Finland

Shanghai Forum, 26 May 2014



EUROJÄRJESTELMÄ
EUROSYSTEMET

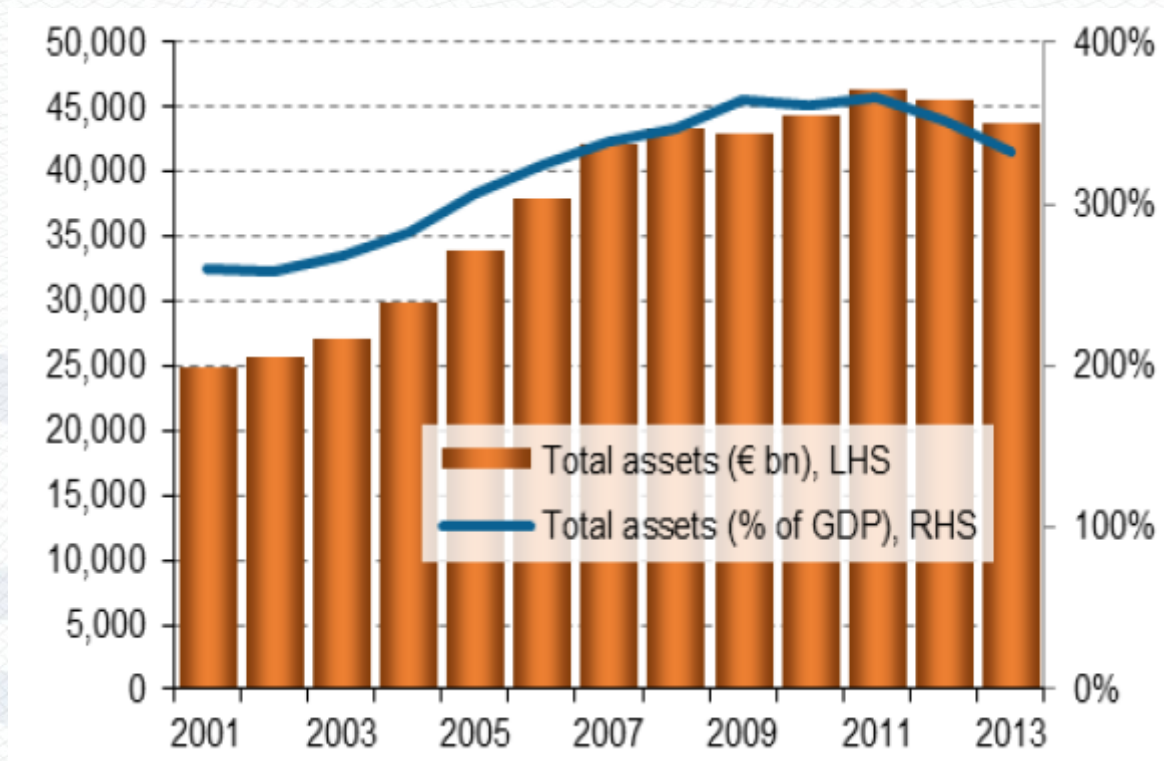
Substantial crisis impact on the real economy, particularly in Europe



Sources: National statistical authorities and Eurostat.

Rapid growth in the EU banking sector pre-crisis

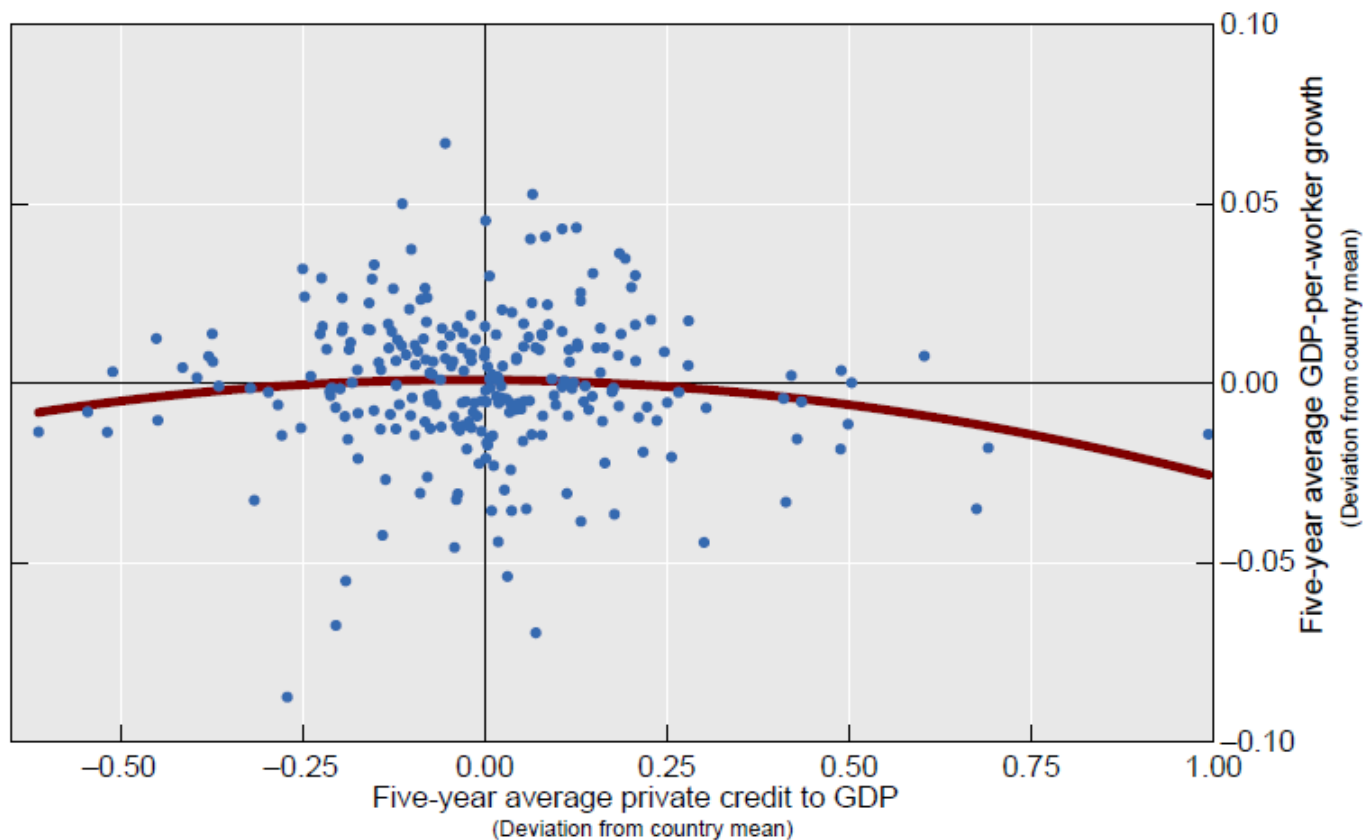
Total assets of EU monetary financial institutions



Source: ECB data as presented in Commission Staff Working Document Accompanying the Commissions Communication "A reformed financial sector for Europe" 15 May 014

Finance and growth

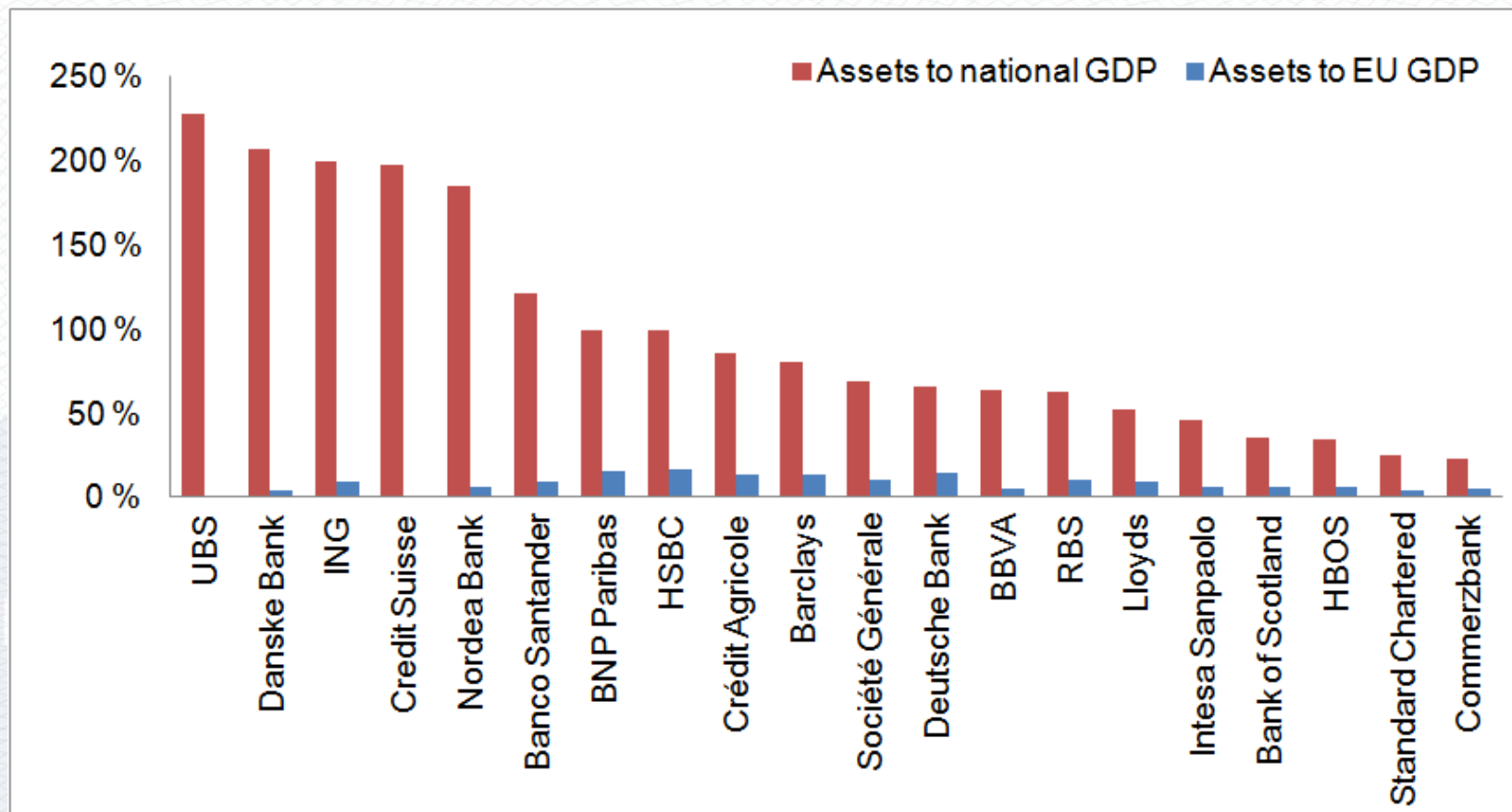
Private credit to GDP ratio and growth



Source: Cecchetti and Kharoubi (2012), Reassessing the impact of finance on growth, BIS Working Paper 381.

Size of selected European banks

Bank's assets 2013 (% of national and EU GDP)



The main building blocks of the European regulatory reform

**Capital and
liquidity
requirements**

**Structural
changes**

**Single
supervision**

Crisis resolution

**Harmonized
deposit
insurance**

Banking Union

Additional regulatory initiatives

Regulatory initiative

Review of accounting standards and disclosure practices

Risk management incl. use of ratings and corporate governance

Securities trading and infrastructure

Shadow banking

Macro-prudential analysis and tools

Objective

Increase transparency and improve data quality

Reduce incentives and opportunity for excessive risk taking

Reducing contagion and complexity

Increase transparency and reduce links to traditional banking

Address not only institution specific but also system wide risks

Thank you!

