Annual Doctoral Conference 2018

Abstract

Macroprudential regulation in Southeast Asian countries

The 2007 – 2009 global financial crises showed that a financial system can fail even if financial firms individually seem to act prudently and function soundly. This drew the attention of researchers and regulators to the analysis of systemic risks and the health of the overall financial system, as well as on macroprudential regulatory solutions. Macroprudential regulation is defined as a counterpart of microprudential regulation: while the latter is aiming to limit the distress of individual financial institutions, the goal of former is to minimise system-wide distress. The conceptual distinction between these two regulatory approaches is rather clear despite of the fact that no common definition of systemic risk – the core concept of macroprudential regulation – has emerged so far.

Although, the idea of macroprudential regulation became part of the mainstream discourse only after the 2007 – 2009 financial crises, its history goes back to the 1970s and it has been promoted by the Bank of International Settlements since the early 2000s. Hence, a wide range of macroprudential policy tools have been defined, which are all aiming to address diverse aspects of possible systematic risk.

The current paper is aiming to analyse the macroprudential policy tools in the Asian context. After the Asian financial crises in 1997, regulators and policy makers in the region started to examine the shortcomings of the system and possibly policy tools to prevent another similar crises. This gave momentum to the idea of the macroprudential regulation and as a result regulators across the region started to implement diverse macroprudential policy tools. This paper will provide a historical overview of these policy tools in order to understand the emergence and current state of macroprudential regulation in Southeast Asia. Such an overarching analysis will show the steps the regulators in the region have taken to counter the aspects of systemic risk that played an important role in the 2007 – 2009 global financial crises.

Keywords: financial regulation; systemic risk; macroprudential regulation; financial crises; Southeast Asia