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Emerging Markets Queries in Finance and Business

New challenges in the management of banking risks

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Abstract

The recent financial and economic crisis has negatively affected the entire economy, especially the banking system, causing a reduction of economy growth, an increase of non-performing loans, a deterioration of financial stability indicators and an increase of inflation. From this experience have been extracted a number of lessons, but also new challenges to the monetary authorities on the management of such situations in the future. The measures taken to reduce the vulnerabilities of the banking system have led to actions at both micro and macroeconomic level, being accompanied by additional costs and new risks. The objective of this article is to emphasize the risks propagated on the banking system in the recent economic and financial crisis, the measures who have been undertaken to reduce them and the evaluation of the level in which one adequate risk management can ensure the positive development of banking activity and the stability of the economy.
Into crisis context we could identify a number of destabilizing factors that have affected the performance of banks and created the instability in the entire system. As a reaction to these events, monetary authorities have acted by implementing legislative measures that have targeted the business model implemented in banks, but also the liquidity and capital level. However, to achieve the proposed goals is required the adoption of some actions on banks level, taken individually, which were materialized in the modification of investment policies, mergers, corporate governance, entry into other markets and so on. The analysis shows that the banking system is characterized by a high level of sensitivity, subjected to vulnerabilities caused by the recent international crisis and the increase of risks at his structure. The measures taken to reduce the risks were differentially according to the level of development of each country, but the compliance therewith has reduced the negative effects of the crisis and provided a better risk management to help avoid such situations in the future.

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1. Introduction

Financial stability is a feature of the financial system and is considered stable if it satisfies two fundamental requirements namely: is able to lead to improved economic performance and allows the elimination of imbalances caused by endogenous factors of unanticipated or adverse events. It is generally accepted that central banks play an important role in ensuring financial stability, but the role of central banks in financial stability returns to the forefront and should be expanded beyond the traditional functions of stability, which determined that monetary and stability policies to converge.

One of the most significant lessons learned from the global financial crisis that began in 2007 was that banks' information technology (IT) and data architectures were inadequate to support the broad management of financial risks. Many banks lacked the ability to aggregate risk exposures and identify concentrations quickly and accurately at the bank group level, across business lines and between legal entities. Some banks were unable to manage their risks properly because of weak risk data aggregation capabilities and risk reporting practices. This had severe consequences to the banks themselves and to the stability of the financial system as a whole.

Many in the banking industry recognize the benefits of improving their risk data aggregation capabilities and are working towards this goal. They see the improvements in terms of strengthening the capability and the status of the risk function to make judgments. This leads to gains in efficiency, reduced probability of losses and enhanced strategic decision-making, and ultimately increased profitability *(BIS, 2013).*

For central banks, one of their key mandates is to ensure financial system stability. A key partof this is to make certain that banks and financial markets perform their functions efficiently,and that their business poses no systemic threat to the financial sector and the economy. Hence, for a long time now, the main focus of bank regulation and supervision have been to ensure that banks manage their exposure to risk effectively. These include exposure to creditrisk, market risk, liquidity risk, and operational risk. Much progress has been made in honingthe approach for a more accurate assessment and a more effective management of risk,culminating in the Basel II, which is a global standard for bank's risk management. But, in spite of what has been achieved, mishaps can and do happen. From time to time, westill read about banks suffering large losses that originate from the under-management ofthese risks. More often than not, the losses are linked to a breach of internal controls orsystems that have been put in place to rein in excessive risk-taking in the first place *(Nijathaworn, 2008).*

The article is structured as follows: in the second part is presented the relation between central banks and financial stability; the third one presents the challenges for central banks in maintaining financial stability during the crisis; the forth part which presents the risks and costs of central banks to combat situations of severe financial stress and the fifth part evidence the risk managemnt in banking system. The work ends with several conclusions.

2. Central Banks and Financial Stability

Financial stability is a feature of the financial system, reflecting its ability to determine an efficient allocation of resources and to manage financial risk throught autocorrect mechanisms. The financial system is considered stable if it satisfies two fundamental requirements namely: is able to lead to improved economic performance and allows the elimination of imbalances caused by endogenous factors of unanticipated or adverse events.

Thus this definition, the concept of "financial stability" includes financial markets and their infrastructure, and since they are in a permanent interrelation and connection, any imbalance in the operation of one propagates over the other and vice versa. Since state financial systems change over time, due to various shocks that components suffers, financial stability is a dynamic feature, but the system itself is constantly attempting to recover under the action of specific autoregulatory mechanisms.

From a practical perspective, ensuring financial stability is important because this state has beneficial

effects on economic and social life. A stable financial system reduces information and transaction costs for all participants in economic life. All this features helps define financial stability "as the feature of the financial system, which consists of its ability to absorb financial imbalances that occur due to endogenous or exogenous events, significant and unanticipated, facilitating the achievement of economic performance". A stable financial system does not necessarily imply the absence of crisis, but preventing imbalances that could affect the integrity of the financial system, with consequences for real economic processes.

It is generally accepted that central banks play an important role in ensuring financial stability, there are a number of specific features that can help them achieve financial stability like management and monitoring the payment system, regulation and banking supervision, deposit insurance, function of lender of last resort.

Recent phenomena such as deregulation, globalization, the intensification of innovation, and so on, have supplemented the functions of central banks and at the same time, led to an intensification of links between the banking sector and other large sectors of the financial system: insurance and financial markets. What prompted the central bank to take on new tasks and functions and those that require a greater involvement of central banks in ensuring financial stability are monitoring financial asset prices and supervision of financial conglomerates *(Patat, 2000, p.17).*

The role of central banks in financial stability returns to the forefront and should be expanded beyond the traditional functions of stability, which determined that monetary and stability policies to converge. The crisis has exposed the limits of preventive policy held by central banks and macroeconomic models supported by them and therefore they will have to expand an important role in financial regulation and supervision exercising prudential*(Caruana, 2011, p.10).* In 2012, *Choongsoo Kim* said that the most important lesson extracted from recent financial crisis was that the monetary authorities have analyzed their ability to establish and choose options of monetary policy to counteract the negative effects caused by the crisis and is to avoid future financial perturbations; all this correlated with a profound awareness of the link between the real and financial sector. This link requires creation of a new international architecture and a new economic policy framework *(Kim, 2012, p.3).*

Economic and financial crisis had the main outcome attaching a new mandate of the central bank with price stability namely the responsibilities that should be fulfill in terms of financial stability. Awareness of the importance of financial sector soundness held in the economy leads some authors to express their views saying that the ultimate goal should be to replace the first or central banking to be authorized to respect the two targets simultaneously. However, extending the powers of central banks should be accompanied by a series of appropriate monetary policy instruments, whereas handling the interest rate is proved insufficient in the current conditions. At present, it places special emphasis on the powers of the central bank in the activities of micro- and macro-prudential supervision, their relationship with government institutions and reform the institutional framework to facilitate future action. However, it is generally accepted that central banks play an important role in ensuring financial stability.

Financial stability depends on endogenous factors such as walking of real economy foreign connections, operational risk, but also by external factors like natural disasters, bankruptcy of big companies. In the long term, the central bank aims to achieve a low and stable inflation which helps long-term sustainable growth. This objective is both an end in itself and a means to achieve sustainable economic growth. Effectiveness of monetary policy in achieving this goal, however, is limited if there is not existing financial stability. Financial stability is a prerequisite for achieving the objective of price stability, their dependency relationship manifests itself in reverse.

Basic components of the financial system as market, institutions and infrastructure are subjected of the action of vunerabilities;but also economic environment in which they operate can be an exogenous source of vulnerability that can endanger the stability of the financial sector. If the existing vulnerabilities are not eliminated by appropriate corrective measures, the risks facing the financial system spread, trickles systemically. In order to ensure financial stability should be pursue a number of issues, including: identifying potential risks and vulnerabilities, designing preventive and remedial mechanisms previously instability issue, and if preventive measures fail, are applied to the disposal of the consequences of instability.

All sources of risk analysis aims to establish the impact of vulnerabilities that result from those factors, have on the entire financial system. It is accepted that a risk in one component can quickly spread throughout the financial system, the most obvious example being the failure of non-financial savings or a bank. Financial stability does not necessarily mean the absence of crisis, but by adopting regulations and other specific measures, financial activities can be controlled in a manner to limit the propagation of shocks and disturbances. Identify risks and vulnerabilities that may affect financial stability serve to facilitate the development and adoption of the best decisions in allocating resources, flexible enough to provide asset prices and institutional structures may be adopted in time. Along with the traditional risks, the phenomenon of globalization has generated new vulnerabilities and led to the spread of risk and manifestation of chaotic behavior dictated by the individual in a tense and uncertain environment.

Generating sources of instability are varied, with roots in banking systems, asset price volatility, macroeconomic trends, financial market liquidity and the features according to national economies, the degree of exposure to toxic products, the level of development and historical experience. To capture the extent of damage and the potential impact of the provision of destabilizing factors, they should be evaluated by groups of countries with similar infrastructure and developments. The need for a comprehensive national architecture and global coordination is particularly important for the financial stability.

Financial stability is particularly important for any economy and for this reason, to ensure it is not left only to realize their own risk management systems belonging market participants (banks, capital market companies, and so on). Is specific to all countries the existence of institutions which have the role to authorize access to markets, to develop and implement regulations and rules under which to operate financial oversee compliance and, ultimately, to exclude non-market those actors who, through non prudential behavior, endangering the interests of the general public or the system.

The remedies brought to financial crisis showed that official intervention "is a necessity to restore / promote financial stability", which is equivalent to promoting financial stability should become an explicit objective of public policy. In one of his essays dedicated to financial stability, *Andrew Crokett* shows that "there is no doubt regarding the fact that financial stability is a good thing." On the basis of this statement lies the idea that financial stability creates a favorable political and economic environment for those who saving and investing respectively to enter into contracts in which money are used in achieving the ideas of others. Moreover, this environment improves financial intermediation and efficient allocation of resources, ultimately helping to facilitate the implementation of macroeconomic policies in the executive task.

Financial sector stability is a prerequisite for the successful conduct of monetary policy and maintain payment systems without disturbances, which are major responsibilities of a central bank. One of these imperfections arise from the fact that participants in financial markets have often, distorted informations or asymmetric information and the lack of transparency in the market are likely to result in the mistake of investor decisions with negative consequences in volatility of market prices.

The rapid development of the innovative process, coupled with the emergence of new financial instruments can provide remedies for the shortcomings of many traditional instruments and markets, leading to increased efficiency of the financial system, but at the same time can be new risks to financial stability. Financial innovations present problems, especially when their behavior has not been tested under severe financial disturbance. These developments affect also the supervision of financial institutions, it is more difficult to obtain adequate information to make a comprehensive and effective monitoring of risk positions. Another disturbing element in stability of the financial sector is the lack of an international framework for crisis prevention and resolution.

The financial system is in constant surveillance, meeting the need for a continuous assessment of strengths and vulnerabilities involved in its development. In response to financial instability which increased in most countries, policy makers have become interested in a better understanding of existing vulnerabilities in financial systems, especially in banking systems.

The role of central banks in financial stability returns to the forefront and has expanded beyond the traditional functions of stability, which determined that monetary and stability policies to converge. In addition,

developing functions in monetary policy , central banks provides a macroeconomic perspective and knowledge of financial markets, institutions and infrastructure necessary for the exercise of prudential functions.

Into global financial crisis was generalized the conception that central banks and financial regulators should adopt a greater macro prudential measure to protect the financial system against disturbances. Furthermore, although the objectives of prudential policies have an systemic vision, currently them focused and on solidifying the balance sheets of individual institutions to withstand the shocks.

Among the macroprudential policy tools we can mention the capital requirements of banks and financial institutions and their changes over time, or lending restrictions, focusing on value of loans. Application of the macro-prudential policy does not substitute the micro prudential policy and do not affect its importance, but on the contrary a strong microprudential remain in the center of the efforts of central banks to ensure the stability of the financial system. The exercise by the central bank of prudential supervisory function is essential not only to ensure financial stability, but also to ensure monetary stability.

2.1. Challenges for central banks in maintaining financial stability during the crisis

In order to ensure financial stability, central banks have a number of traditional features, called financial stability functions. The contents of these functions relate to the ability of central banking to deposit-guarantee operation, of payment systems, the function of lender of last resort, supervision and regulation of the banking sector. An weak exercise of the these functions can lead to adverse economic phenomena and thus to submitting financial system to risks and vulnerabilities.

The recent financial crisis has called into question the role of central banks in the prevention, management and combating serious financial imbalances. In the context of the crisis, several central banks have had to deal with unusual situations calling for a strong expansion of tranditional intervention measures and the introduction of new tools. At the same time, has intensified public debate, about the role of central banks in financial stability and their relationship with other relevance organizations.

The root causes of the financial crisis are both macroeconomic and microeconomic nature. In the category of the first one can be mentionated the abundant liquidity created by the world's major banks (FED, BOJ) and the willingness of oil and gas exporting countries to limit currency appreciation, and the existence of supersaturation with savings generated by increasing integration into the global economy a country with high rates of accumulation and global redistribution of wealth and income to exporters of goods countries. In addition to these causes have operated, as aggravating, a series of microeconomic causes: securitization rampant externalities in terms of rational but socially inefficient, cracks in the business model of rating agencies and increased international competition for deregulation.

In response to these situations, both in the U.S. and in some European countries, governments and central banks have acted by improving liquidity, recapitalize financial institutions, providing government guarantees for loans, ensuring the latest issued by insured banks, preventing disorderly collapse of large interconnected firms, buying shares in banks, coordinated interest rate reductions. Many central banks to support the functioning of financial markets and financial stability, have resorted to a number of non-standard measures. It was intended primarily to maintain the monetary policy transmission channel and support the flow of credit in the economy at this critical time, acting through:

→providing liquidity in foreign currency;
→providing unlimited funding for banks, with maturities of up to one year;
→bond purchase;
→expanding the list of eligible collateral;
→debt market interventions, particularly in the euro area through the Securities Market Programme.

In addition to these measures, it was pointed out the need for monetary policy in advanced economies is geared to support, in the medium term, price stability, but also to consider the risks which can be propagated over this objectiv in long term, as a result of destabilizing factors. In the circumstances of the crisis, central banks have had to avoid spreading any doubts about their commitment to maintaining price stability and

independence from political factor. In this respect, it is important for central banks to refrain from any sort of monetary financing, to allow tax authorities to take appropriate action to ensure both a credible fiscal sustainability. This led to the strengthening of positions already held by the central bank and to add new ones to ensure the stability of the entire financial sector.

In the short term, the main challenge to the central banks in financial stability is to find solutions to restore the confidence of investors and consumers, and in the long term, the adjustment of the principles which guides the reform of the international financial system, mainly on transparency, improving accounting rules titles, ensuring proper regulation of markets, firms and financial products, ensuring the integrity of financial markets (market manipulation and fraud) and closer cooperation between the world's financial institutions (modernizing governance structures of the IMF and world Bank).

2.2 Risks and costs of central banks to combat situations of severe financial stress

In achieving its objective of financial stability, the central bank is subjected to the action of various factors and at the same time, she must assume some costs, the more that their atributions in financial stability are extending.

Thus, in terms of acting as lender of last resort, the supply of credit from the bank is subject to the solvency of the applicant and, in the first instance, it must be covered by solvent assets. This means implies that, a priori, the financial costs incurred by the central bank does not exceed the tolerance level conventionally assumed by the function of it as lender of last resort and within their own financial resources. Along the way, some of these losses are transferred to the government.

The situation is different in the case of the costs derived from the financial support operations that exceed conventional loans of last resort, since in this case the risks facing the bank can be substantial, affecting its status, intervening need to use the public funds. In these circumstances it is necessary to provide adequate legal protection for the central bank and its functions. Although the measures taken by central banks to ensure financial stability had satisfactory results, there is a need for improvements in the methodology used for risk identification and to evaluate the disruptive potential effects resulting if these risks materialize. For this purpose is required indicators, models and appropriate methods of analysis and their identification is more difficult as long as the financial system is in constant transformation and financial innovation.

Also, in situations of severe financial stress was observed the usefulness of having a large amount of information and, therefore, has been imposed the development of an appropriate information infrastructure to support the monitoring and evaluation activities of financial stability and, especially, the exchange of information between central banks and other supervisory bodies. The measures taken in crisis situations, in addition to favorable effects, have recorded a number of risks, such as moral hazard, if the markets believe it will act in saving the recording of important institutions in similar situations, emphasizing the "dependence to central bank". The financial crisis has created imbalances in current accounts, emphasizing more risks by resorting to protectionist policies leads by authorities.

Moreover, the net transfer of financial resources from countries with excess savings to those in need, the risks have increased due to a sudden depreciation and of a failure of the financial system to absorb these financial flows. The same gross financial flows between the balance sheet positions of financial institutions, enterprises or households can generate sectoral vulnerabilities due to lack of foreign currency and counterparty.

In order to eliminate these risks were applied macroeconomic policies aiming to achieve monetary and fiscal stability, the main danger being disorderly implementation of these measures, with negative effects on macroeconomic stability. Also, the lack of confidence in market mechanisms and measures may cause unexpected costs and measures. The domestic financial sector may experiment difficulties if, in the absence of proper regulation, financial institutions can not effectively use capital inflows. In respect to the decisions taken by the monetary authorities in the crisis situation, such as reduced interest rates on major international currencies have put in danger the lending conditions worldwide. Thus, it was registered an increase of credit to the private sector much faster than the money supply, activating it, also other non-bank lending channels.

On the situation of many central banks balance sheet, we can say that they have changed as a result of the recent financial crisis. Central banks in advanced economies have eased monetary conditions during the crisis, primarily by reducing interest rates and, secondly, by increasing balance sheet situation as a consequence of unconventional monetary policy.

These latter measures have presumed major purchases of securities issued by private and public debt, new credit facilities and the granting of loans to save important financial institutions. In emerging countries, these balance sheets increases were gradual and balance due to the accumulation of foreign exchange reserves resulting from policies to tackle their currency appreciation. Even if the central bank balance sheet policies have supported the economy during the crisis, are now exposed to major risks such as interest rate, exchange rate and credit, which could lead to significant financial losses.

Long-term growth rate may cause actual losses if central banks sell the bonds they hold in portfolio or potential losses based on their capitalization by market prices. The central banks which hold a significant volume of assets denominated in foreign currencies are vulnerable to exchange risk: an appreciation of the local currency translates as a decrease in the value of foreign exchange reserves. With regard to credit risk, it has increased since the beginning of the global financial crisis becouse central banks have accumulated assets to low quality or have offered loans granted with those assets.

Losses may occur as a result of a failure between financing costs and revenue from sales of asset valorification . Central banks who remunerate reserves of commercial banks or emitting debt securities in order to drain market liquidity drainage may face the possibility that interest rates are higher then revenues from the assets they hold. Losses resulting from unconventional monetary policy measures adopted during the crisis, and supported by their balance sheet as could expose central banks to economic policy pressures. Thus, if the asset purchase programs in the private sector, which involved the purchase of corporate bonds, central banks are likely and of be criticized as favoring certain segments of the economy to the detriment of others. Also, rescue operations leads by the central banks may give rise to suspicion of preferential treatment that could get some financial institutions than others, although monetary policy measures on rescue from bankruptcy the entire financial system.

The programs that have presumed in large-scale purchasing asset can result in complicating debt management, confronting, if that are not properly coordinated the measures of central banks with the and of debt management plans. This is possible because the links between sovereign debt management plans, monetary policy and financial stability have strengthened considerably in recent years.

All these risks calls for a reduction in the size of central bank balance sheet, although a a sudden decrease in this regard could have negative effects. In the major developed economies, a reduction in short-term face obstacles due to economic circumstances and financial fragility and uncertainty resulting from such actions. In emerging countries, there is concern of central banks if selling assets in other courrency may lead to an increase in the exchange rate and generate destabilizing capital flows. With these concerns, central banks follow to avoid long-term costs associated with balance sheet continuous expansion .

In a more optimistic vision, the traditional concern of central bank balance sheet expansion could increase inflation receives empirical support, whereas the relationship between the central bank balance sheet growth and the monetary base was quite low in 2007, both in developed countries and emerging economieswhich reflects the instability of the money multiplier over time. The same is the case of the correlation between changes in banking and consumer price inflation was zero, which concludes that changes in the central bank balance sheet is not a direct risk to inflation. Since the crisis in many countries central banking authorities kept official interest rates very low, even negative, in such circumstances should be paid to growing attention to two interrelated factors that could influence the future path of inflation: prices the raw materials used and the the level of global economic recovery.

An important factor influencing monetary policy is the expuser to inflationary risk exposure to derived from commodity prices, especially food and energy. Other influencing factor is the level of economic recovery which highlights the effectiveness of the extraordinary expansion of fiscal and monetary policy taken in response to the financial crisis and the importance to be given to the private sector.

In the current circumstances it is necessary an appropriate supervision and monetary policy tightening in the right time, regardless of the country, to keep inflationary expectations, to ensure a low inflationary environment and the global central banks increased confidence in their ability to counter inflation. Under the current circumstances the expansionary trend intensifies concerns on price stability, which can accumulate risks to financial stability, since there has been a rapid growth of credit in relation to GDP, real estate prices and actions related to capital inflows.

The existence of limits to monetary policy, required alternative measures to stop the the accumulation of financial imbalances, such as macro-prudential (eg limiting the credit relationship / value or debt service / revenue), higher capital requirements and control of them. However, those measures can not substitute monetary policy, a delay in taking action in this regard may lead to serious distortions in financial markets and in a inappropriate use of resources.

3. Risk management in the banking system

The risk management is one of the main activities carried out in the banking business. Whereas the risks faced by banks are very diversified in the literature meet more of these risk classifications. The first distinction is between risks at microeconomic level - very diversified in number and the risks of macroeconomic or systemic risk. Another fundamental distinction is made between liquidity risk - which occurs when the bank can not honoring its payment obligations to creditors and solvency risk - noticed when the total value of assets falls below the firms total liabilities.

Lending activities of banks specific causes them to be subject to credit risk, which occurs when the borrower is unable to reimburse its payment obligations. Moreover, the same activity can generate liquidity risk if the bank has to make some unexpected payments. Interest rate risk arises from maturity transformation of short-term deposits into long term loans. Market risks affecting the portfolio of assets held by banks.

The quantification of credit risk involves determining the probability of failure coming from different loan, taking into account all the possibilities for diversification and coverage provided by the financial markets. The level of risk depends on the institutional context in which banks operate, including the interbank market, with a strong influence in determining credit risk costs that entails. The credit risk is affected by the existence of collateral, by balancing the level of compensation and the amount of their approval. However and the level of information disseminated by bank to creditors and the bankruptcy process setting in banks can influence the development of credit risk.

Since in the recent financial crisis, banks have faced intense with credit risk, in response, monetary authorities have acted by amending the regulations to this risk. The main measure performed in this regard is the capital requirements materialized in the Basel Agreement.

Another important risk of banks is the liquidity risk, because identifying some liquidity problems of one bank can spread quickly over the other banks, creating systemic risk. The measures taken by monetary authorities to reduce liquidity risk during the crisis and to avoid such situations in the future followed:

→providing liquidity to banks under exceptional conditions, particularly more distant maturities in order to alleviate pressure on the interbank market;

→ interventions in certain credit markets to support liquidity in the interbank market and the price of credit;

→ purchase of bonds in order to improve financing conditions beyond what would be achieved by reducing interest rates directories.

Interest rate risk can be defined as the risk that fluctuations in interest rates affects in a adverse manner the market value of banks assets and liabilities. It is a direct consequence of the traditional business of banks in maturity transformation and has become a real concern in the management of risk achieved by banks.

Banks develop activities which can be found in the balance sheet and beyond. For this reason, banks should properly manage their assets by choosing diverse range of assets accompanied by a low level of risk. Secondly, bank liabilities should include funds but may not be excessive characterized by a discrepancy between maturities. Another important element that banks should take into account is the possession of

sufficient capital to enable their high density in the face of unexpected losses. Regarding the choice of off-balance sheet transactions recorded, banks are free to choose which operations should be reflected on or off balance, but should not be ignored as they may trigger risks that affect their later work.

In the literature we find opinions about the risks who propagate on the banking system which depends on market structure and, therefore, there must be a balance between this element and financial stability. Because this is difficult to achieve and should be made a number of compromises for this to be achieved in the banking system is required the existence of various measures of interventions of prudence, but also increased surveillance activity. These regulatory interventions are more effective if they are accompanied by effective prudential rules that depend on the stability of the economic environment and the capacity of monetary institutions.

Regarding risk management, banks adopt different techniques depending on the nature of the activities in which they engage. The Bank applies different internal models to allow a proper risk management, including JP Morgan`s CreditMetrics, Credit Suisse Financial Product`s Credit Risk+ or Credit Monitor by Moody`s KMV. The experience of the recent financial crisis has led banks to be more careful in the tasks performed, and advances have been made in the management of risks. Reports show that the reforms made competent authorities have been implemented in most credit institutions, especially in the most affected by the recent crisis.

4.Conclusions

Financial stability is a feature of the financial system, reflecting its ability to determine an efficient allocation of resources and to manage financial risk throught autocorrect mechanisms. Financial stability is important because this state has beneficial effects on economic and social life.

It is generally accepted that central banks play an important role in ensuring financial stability, there are a number of specific features that can help them achieve financial stability.

Recent phenomena such as deregulation, globalization, the intensification of innovation, and so on, have supplemented the functions of central banks and at the same time, led to an intensification of links between the banking sector and other large sectors of the financial system: insurance and financial markets. Economic and financial crisis had the main outcome attaching a new mandate of the central bank with price stability namely the responsibilities that should be fulfill in terms of financial stability.

Financial stability is particularly important for any economy and for this reason, to ensure it is not left only to realize their own risk management systems belonging market participants (banks, capital market companies, and so on). Is specific to all countries the existence of institutions which have the role to authorize access to markets, to develop and implement regulations and rules under which to operate financial oversee compliance and, ultimately, to exclude non-market those actors who, through non prudential behavior, endangering the interests of the general public or the system.

The remedies brought to financial crisis showed that official intervention "is a necessity to restore / promote financial stability", which is equivalent to promoting financial stability should become an explicit objective of public policy.

Many central banks to support the functioning of financial markets and financial stability, have resorted to a number of non-standard measures. It was intended primarily to maintain the monetary policy transmission channel and support the flow of credit in the economy at this critical time. In achieving its objective of financial stability, the central bank is subjected to the action of various factors and at the same time, she must assume some costs, the more that their attributions in extending financial stability are extending. .

The risk management is one of the main activities carried out in the banking business. The main risks faced by banks in the course of its activities are the credit risk, liquidity risk, interest rate risk and market risk.

Regarding risk management, banks adopt different techniques depending on the nature of the activities in which they engage. The experience of the recent financial crisis has led banks to be more careful in the tasks performed, and advances have been made in the management of risks. Reports show that the reforms made

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