Postgraduate Certificate in Risk Management for Central Banks (Bangladesh)

Financial Stability And Systemic Risk

Accelerated Resolution Mechanism refers to a process that allows for the rapid resolution of a financial institution in distress, aiming to minimize the risk of systemic instability, it involves a range of tools and strategies to manage the failure of a financial institution, including the use of bridging institutions, asset management companies, and guarantee schemes, the goal is to protect the financial system from the potential contagion effects of a failing institution.

Adverse Selection occurs when one party in a transaction has more information than the other, and this information asymmetry leads to a situation where the party with less information is at a disadvantage, in the context of financial stability, adverse selection can lead to a decrease in the quality of loan portfolios, as lenders may be more likely to lend to borrowers who are more likely to default, this can increase the risk of systemic instability.

Asset Correlation refers to the relationship between the values of different assets, in the context of financial stability, asset correlation is important because it can affect the diversification benefits of a portfolio, if assets are highly correlated, a portfolio may not be as diversified as it appears, which can increase the risk of losses during times of stress.

Asset Management Company is a company that manages assets on behalf of a financial institution, in the context of financial stability, an asset management company can play a crucial role in resolving a financial institution in distress, by taking over the management of the institution's assets and maximizing their value, this can help to minimize the risk of systemic instability.

Asset Price Bubble occurs when the price of an asset exceeds its fundamental value, often due to speculative demand, in the context of financial stability, asset price bubbles can be a source of instability, as they can lead to a sharp decline in asset prices, which can have a negative impact on the balance sheets of financial institutions.

Bank for International Settlements is an international organization that promotes financial stability, it provides a forum for central banks to discuss and address issues related to financial stability, and it also provides guidance and support to central banks in their efforts to maintain financial stability.

Banking Union refers to a system in which multiple countries share a common banking system, in the context of financial stability, a banking union can help to reduce the risk of contagion across borders, by providing a framework for the resolution of failed banks and the provision of liquidity to the financial system.

Basel Accords refer to a set of international standards for banking regulation, the accords aim to promote financial stability by setting minimum capital requirements for banks and providing a framework for the supervision of banks, the Basel Accords have been updated several times, with the most recent version being Basel III.

Capital Adequacy Ratio is a measure of a bank's capital in relation to its risk-weighted assets, the ratio is used to determine whether a bank has sufficient capital to absorb losses and maintain stability, in the context of financial stability, a bank's capital adequacy ratio is an important indicator of its resilience to shocks.

Central Bank is a national institution that is responsible for managing a country's monetary policy, including setting interest rates and regulating the money supply, in the context of financial stability, the central bank plays a crucial role in maintaining stability in the financial system, by providing liquidity and support to the financial system during times of stress.

Clearing House is an institution that provides a centralized platform for the settlement of trades, in the context of financial stability, a clearing house can help to reduce the risk of counterparty failure, by providing a guarantee of settlement for trades.

Collateralized Loan Obligation is a type of securitized loan that is backed by a pool of loans, in the context of financial stability, collateralized loan obligations can be a source of instability, as they can lead to a concentration of risk in the financial system.

Contagion Effect occurs when a shock to one part of the financial system leads to a decline in confidence in other parts of the system, in the context of financial stability, contagion can lead to a widespread loss of confidence in the financial system, which can have a negative impact on economic activity.

Counterparty Risk is the risk that a counterparty will fail to meet its obligations, in the context of financial stability, counterparty risk can be a source of instability, as it can lead to a loss of confidence in the financial system.

Credit Default Swap is a type of derivative that provides protection against default by a counterparty, in the context of financial stability, credit default swaps can be a source of instability, as they can lead to a concentration of risk in the financial system.

Credit Rating Agency is an organization that provides credit ratings for issuers of debt securities, in the context of financial stability, credit rating agencies can play a crucial role in assessing the creditworthiness of issuers, but they can also be a source of instability if their ratings are not accurate.

Credit Risk is the risk that a counterparty will fail to meet its obligations, in the context of financial stability, credit risk can be a source of instability, as it can lead to a loss of confidence in the financial system.

Deposit Insurance is a system that provides insurance to depositors in the event of a bank failure, in the context of financial stability, deposit insurance can help to maintain confidence in the banking system, by providing a guarantee of repayment for depositors.

Derivative is a financial instrument that derives its value from an underlying asset, in the context of financial stability, derivatives can be a source of instability, as they can lead to a concentration of risk in the financial system.

Early Warning System is a system that provides indicators of potential risks to financial stability, in the context of financial stability, an early warning system can help to identify potential risks and allow for timely intervention to prevent a crisis.

Emergency Liquidity Assistance is a type of liquidity support that is provided by a central bank to a financial institution in distress, in the context of financial stability, emergency liquidity assistance can help to prevent a liquidity crisis from developing into a solvency crisis.

Financial Crisis is a situation in which the financial system is under stress and there is a risk of systemic instability, in the context of financial stability, a financial crisis can have a negative impact on economic activity and financial stability.

Financial Stability is a situation in which the financial system is stable and able to withstand shocks without adverse effects on the real economy, in the context of financial stability, financial stability is a key objective of macroprudential policy.

Financial Stability Board is an international organization that promotes financial stability, it provides a forum for regulators and supervisors to discuss and address issues related to financial stability.

Guarantee Scheme is a system that provides a guarantee to depositors or investors in the event of a bank failure, in the context of financial stability, a guarantee scheme can help to maintain confidence in the banking system, by providing a guarantee of repayment for depositors.

Hedge Fund is a type of investment fund that uses leverage and derivatives to invest in a range of assets, in the context of financial stability, hedge funds can be a source of instability, as they can lead to a concentration of risk in the financial system.

Insurance Company is a company that provides insurance to policyholders against risk, in the context of financial stability, insurance companies can play a crucial role in managing risk and providing stability to the financial system.

Interconnectedness refers to the links between different institutions and markets in the financial system, in the context of financial stability, interconnectedness can be a source of instability, as it can lead to a rapid transmission of shocks across the financial system.

Leverage is the use of debt to finance investments, in the context of financial stability, leverage can be a source of instability, as it can lead to a concentration of risk in the financial system.

Liquidity Crisis occurs when a financial institution or market is unable to meet its short-term obligations, in the context of financial stability, a liquidity crisis can have a negative impact on economic activity and financial stability.

Macroprudential Policy is a type of policy that aims to promote financial stability by regulating the financial system, in the context of financial stability, macroprudential policy can help to prevent the build-up of risk in the financial system and reduce the likelihood of a financial crisis.

Market Risk is the risk that a financial institution will incur losses due to changes in market prices, in the context of financial stability, market risk can be a source of instability, as it can lead to a loss of confidence in the financial system.

Microprudential Regulation is a type of regulation that focuses on the safety and soundness of individual financial institutions, in the context of financial stability, microprudential regulation can help to prevent the failure of individual institutions and reduce the risk of systemic instability.

Monetary Policy is a type of policy that aims to promote economic growth and stability by regulating the money supply, in the context of financial stability, monetary policy can help to prevent the build-up of risk in the financial system and reduce the likelihood of a financial crisis.

Moral Hazard occurs when a party takes on more risk than they would otherwise, because they are insured against the consequences of that risk, in the context of financial stability, moral hazard can be a source of instability, as it can lead to a concentration of risk in the financial system.

Non-Bank Financial Institution is a type of financial institution that is not a bank, but provides financial services, in the context of financial stability, non-bank financial institutions can play a crucial role in providing financial services and stability to the financial system.

Off-Balance-Sheet Item is an item that is not included on a company's balance sheet, but can still have a significant impact on the company's financial position, in the context of financial stability, off-balance-sheet items can be a source of instability, as they can lead to a concentration of risk in the financial system.

Operational Risk is the risk that a financial institution will incur losses due to inadequate or failed internal processes, in the context of financial stability, operational risk can be a source of instability, as it can lead to a loss of confidence in the financial system.

Pension Fund is a type of investment fund that provides retirement benefits to beneficiaries, in the context of financial stability, pension funds can play a crucial role in providing stability to the financial system, by investing in a diversified portfolio of assets.

Regulatory Arbitrage occurs when a financial institution takes advantage of differences in regulatory requirements to minimize its compliance costs, in the context of financial stability, regulatory arbitrage can be a source of instability, as it can lead to a concentration of risk in the financial system.

Resolution Mechanism is a process that allows for the orderly resolution of a financial institution in distress, in the context of financial stability, a resolution mechanism can help to minimize the risk of systemic instability, by providing a framework for the resolution of failed institutions.

Risk Management is the process of identifying, assessing, and mitigating risk, in the context of financial stability, risk management is crucial for maintaining stability in the financial system, by identifying and mitigating potential risks.

Securitization is the process of packaging loans or other assets into securities that can be traded on the market, in the context of financial stability, securitization can be a source of instability, as it can lead to a concentration of risk in the financial system.

Shadow Banking System refers to a system of financial institutions that are not regulated by traditional banking regulators, in the context of financial stability, the shadow banking system can be a source of instability, as it can lead to a concentration of risk in the financial system.

Stress Testing is a process of analyzing the resilience of a financial institution to shocks and stress, in the context of financial stability, stress testing is crucial for identifying potential risks and vulnerabilities in the financial system.

Systemic Risk is the risk that a financial institution or market will have a material impact on the stability of the financial system, in the context of financial stability, systemic risk is a key concern, as it can lead to a widespread loss of confidence in the financial system.

Systemically Important Financial Institution is a financial institution that is considered to be systemically important, due to its size, complexity, and interconnectedness, in the context of financial stability, systemically important financial institutions are subject to stricter regulation and oversight.

Too Big to Fail is a concept that refers to a financial institution that is so large and interconnected that its failure would have a material impact on the stability of the financial system, in the context of financial stability, too big to fail institutions are considered to be a source of systemic risk.

Value at Risk is a measure of the risk of a portfolio of assets, it is defined as the potential loss of a portfolio over a given time horizon with a given probability, in the context of financial stability, value at risk is a key metric for measuring and managing risk in the financial system.

Venture Capital is a type of investment that is made in start-up companies or small businesses, in the context of financial stability, venture capital can play a crucial role in promoting innovation and growth in the real economy.