



## PRESS RELEASE

### MACRO-PRUDENTIAL RESEARCH NETWORK REVIEWS FINDINGS AFTER TWO YEARS' WORK

The European Central Bank (ECB) is publishing a report today that summarises the work of the Macro-prudential Research Network (MaRs). Since its establishment in spring 2010, MaRs has been pursuing and promoting research in three areas:

- macro-financial models linking financial stability and the performance of the economy (work stream 1);
- early warning systems and systemic risk indicators (work stream 2); and
- assessing contagion risks (work stream 3).

In response to experiences of the crisis, MaRs has the goal of developing models and analytical tools to broaden the basis for research in support of macro-prudential oversight in the European Union.

The work carried out by the researchers in work stream 1 has produced several new theoretical and empirical frameworks that integrate widespread financial instability into aggregate models.

This line of research addresses one of the main weaknesses of contemporaneous economics laid bare by the crisis. Five years into the crisis, economic research has made only a few sufficiently decisive efforts in this direction, which underlines the importance of the MaRs agenda. The absence of widely accepted and used frameworks in this regard weakens the scientific foundations of central bank and financial regulatory policies. Therefore, MaRs research puts particular emphasis on extending the newly developed frameworks for the quantitative assessment of macro-prudential regulatory policy instruments.

Research in work stream 2 has been more operational, with the aim of providing tools that could be of more immediate use for macro-prudential oversight in the EU. The objective of this research has been to improve indicators of current systemic stress and to identify key early warning indicators for systemic financial instability and widespread imbalances, both for the EU as a whole and at the individual country level.

One of the important contributions that the researchers in work stream 2 have made is the production of a database of crises in the EU countries, which provides a homogeneous basis for assessing the performance of early warning and systemic stress indicators. The database is available online to interested researchers.

The main focus of the research in work stream 3 is the assessment of cross-border bank connectedness and contagion risk across EU countries, complementing previous research on contagion risk within EU countries and considering, in particular, the transmission of instability via interbank markets.

Taking into account the current crisis developments in Europe, a special initiative focusing on sovereign contagion was launched. Several research projects analysed the origins of the instability that is being transmitted across different sovereigns and provided a range of models for identifying and assessing contagion effects in the euro area.

MaRs involves more than 180 researchers from all EU national central banks and the ECB. They are working on 126 individual projects (64 in work stream 1, 41 in work stream 2 and 21 in work stream 3) and two joint cross-country projects involving multiple central banks. Out of the 81 research papers produced so far, 41 have been published as ECB Working Papers.

Overall, MaRs has made significant progress over the last two years, in terms of both individual and cross-country projects. At the same time, participating central banks would find it desirable to see the wider economics profession, in particular academic research and teaching, take up more decisively some of the main directions pursued in MaRs – notably aggregate frameworks incorporating widespread financial instability and their use for the assessment of macro-prudential regulatory instruments. MaRs will remain in place until the end of 2013, with a final report being envisaged for the spring of 2014.

The present MaRS report, as well as research papers presented at a MaRs conference held at the ECB's premises on 30 and 31 October 2012, can be downloaded from the ECB's website.

**European Central Bank**

Directorate Communications, Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

**Reproduction is permitted provided that the source is acknowledged.**