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THE MONETARY STABILITY AFTER THE FINANCIAL CRISIS*

Abstract:

Great inflation observed during the period 1965-1984 is the event final monetary (monetary climate the event) in the twentieth century (Meltzer, 2005). Three types of explanations have been developed - all highlighting the importance of monetary policy:
• Defects in the institutional and governance at origin sitting temporal incoherence (Barro – Gordon model);
• Monetary policy errors committed in an unconscious: it would have been too lax, or because the authorities have overestimated potential output growth (Orphanides, 2003) or because there has been insufficient attention to anchor expected inflation (Clarida , Gali and Gertler, 1999); However, combined with a sharp drop in productivity undoubtedly led to accelerating inflation persistence (Collard and Dallas, 2007);
• Monetary policy errors committed in a conscious, namely the adoption by the authorities of a non-monetary approach to inflation; this is the result of an analysis of the experience of the United Kingdom and the United States (Nelson, 2005; DiCecio and Nelson, 2009).
Inflation dynamics has seen a change in the early eighties, with the change that had profound monetary policy. After the Volcker experience, central bank reaction to inflation shocks became more aggressive. In this context, central banks have not hesitated to increase real interest rates to prevent triggering an inflationary spiral and the emergence of second round effects. For example, a sudden drop in inflation in the United States in the early eighties could be explained by EDF aggressive response to inflation shocks combined with lesser technological shocks (Carlström, and Paustian Fuerst, 2009).

Keywords:

Monetary stability, financial stability, supervision, macro prudential policies

JEL Classification: E52, E50, E49

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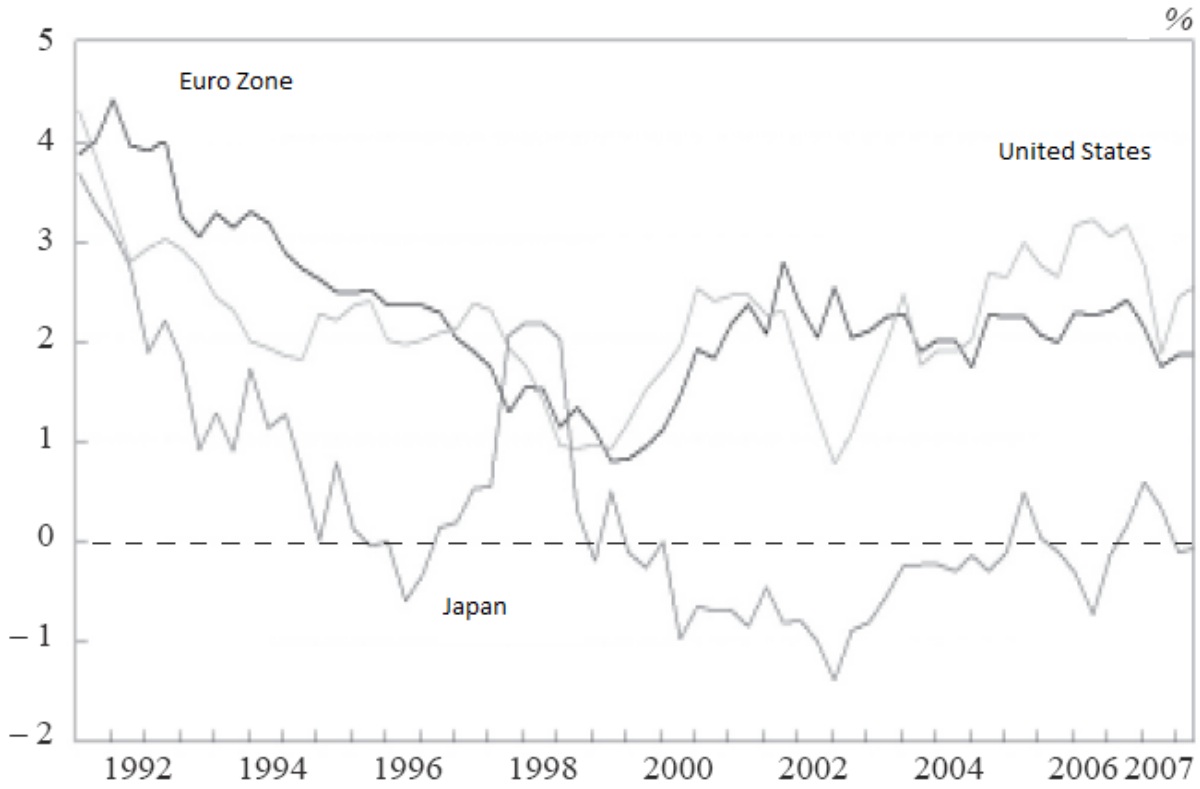
Introduction

Developments in inflation rates present in G3 countries for the period nineties are shown in Figure 1. There is an upward trend in prices. This has had an unusual character in that low inflation rate in the context of expansion of business scale and increase tensions on the labor market. This movement ended in 1999, after a slight recovery, inflation has stabilized - especially in the euro area - around 2%.

Figure 1. Inflation rate in G3 countries



There are three types of explanation of the changes that took place at that time on the dynamics of inflation:

• Factors affecting the inflation process, or you can change on a constant term, becoming the Phillips curve model; arbitrage between growth and inflation adjusted by the structural changes made, especially regarding globalization (Aglietta, Berrebi and Cohen, 2009);

• The traditional Phillips curve continues to explain inflation provided to account for various temporary shocks and potentially reversible, as the sharp decline in commodity prices in the 90s, followed by their rise in early 2000;

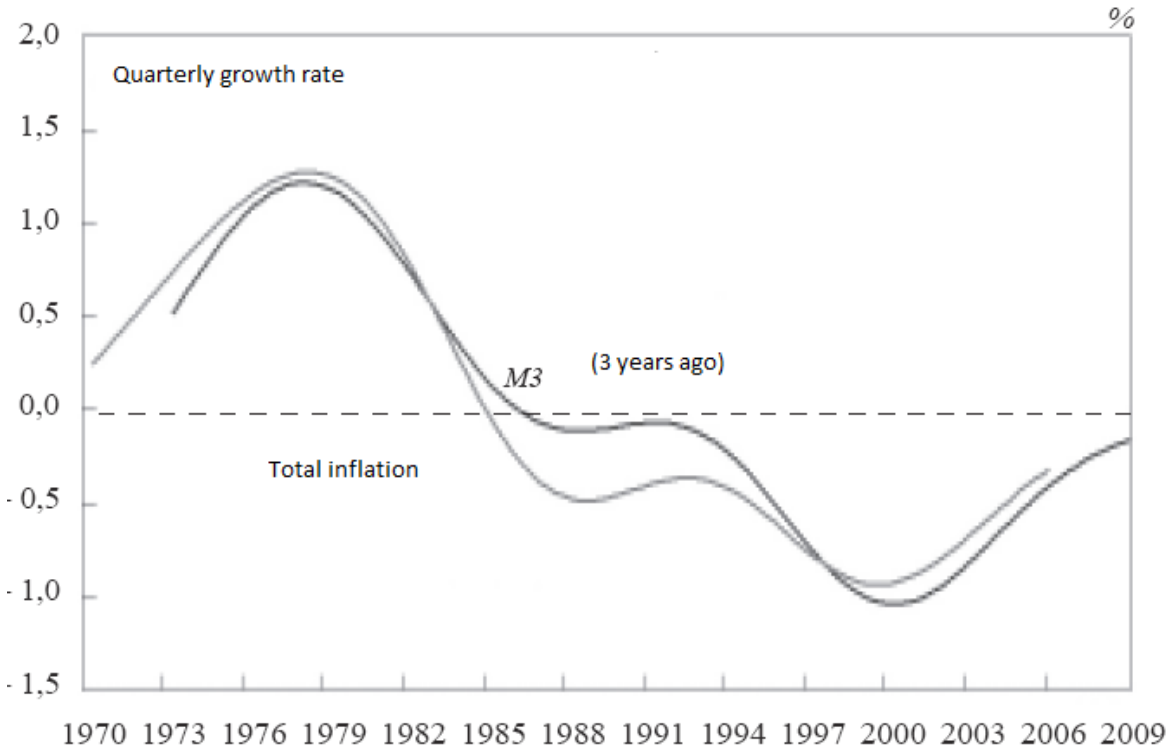
• An explanation interim believes that the traditional model is still relevant if one takes into

account the effect of monetary policy on inflation expectations, which is similar to that used later.

Filtered values of price increases and the growth rate of the monetary aggregate M, delayed by three years, are plotted in Figure 2. Euro area (M = M3) and figure 3. for the United States (M = M2). If it is considered cycles of 10 years, we can see that:

• Euro area there is a strong correlation between the two series; money growth is a good indicator of expected inflation next three years (within normally expected monetary policy decisions to be able to exert its effect on inflation);

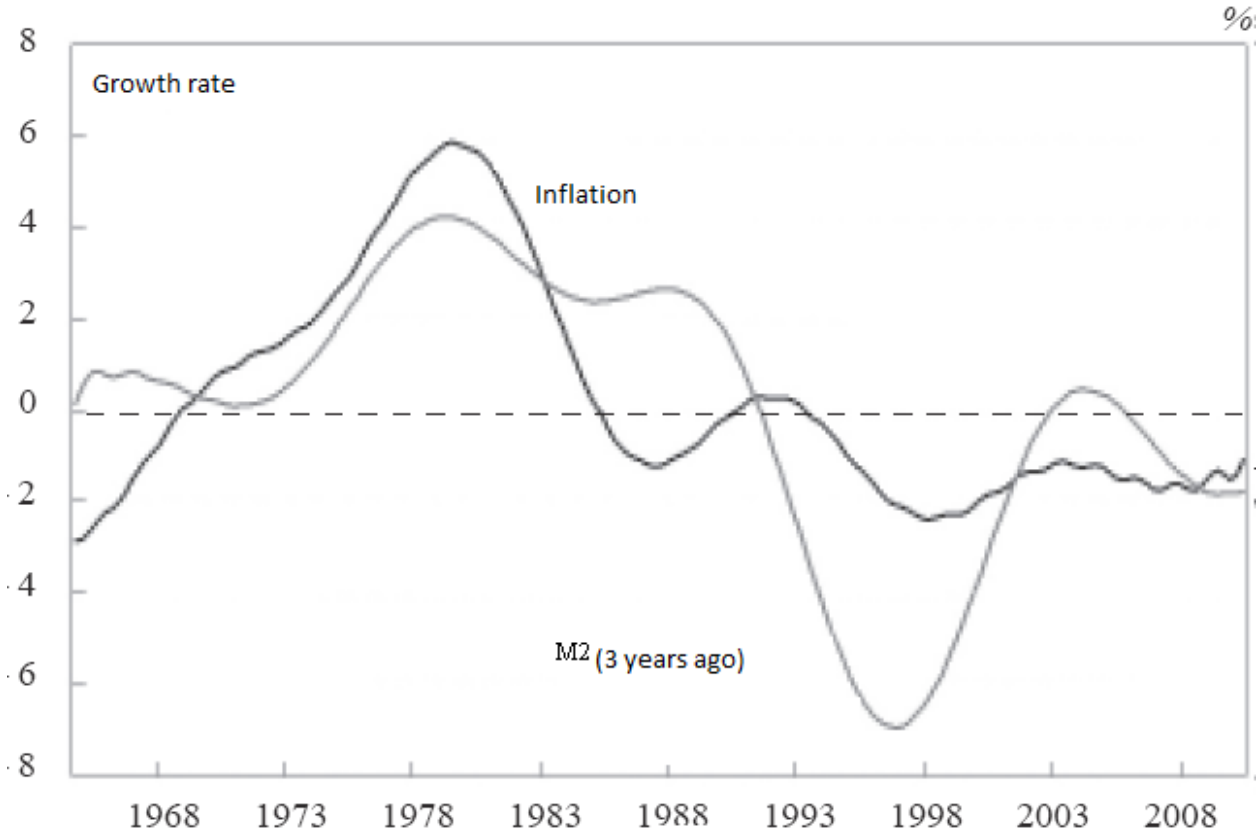
Figure 2. The relationship between the filtered values of growth of monetary aggregates and inflation in the Eurozone



• In the United States the correlation is significantly less good than in the Eurozone, and the gap between inflation and the growth of monetary aggregates is variable, indicating that it should consider the longer cycles.

Monetary policy has emerged, therefore, as a fundamental factor in the long term dynamics of inflation. But using currency in the conduct of monetary policy in real time is difficult and also increase the monetary aggregates evolution is difficult to interpret. The difficulties encountered by the ECB using its monetary pillar, as was intended from the beginning were clear. The quantity theory of money remains true in modern economies; but in a low inflation regime, the relationship between money and inflation deteriorates in the future held by central banks with inflation targeting strategy.

Figure 3. The relationship between the filtered values of growth of monetary aggregates and inflation in the United States



During the 90's, inflation targets were set by central banks near 2% according to the results of theoretical and empirical studies available on the optimal inflation rate. Among the first on the costs and benefits of price increases, that inflation should not be any great (because there would be difficulties in the economic operation) or very low (increasing prices easier functioning of the economy). Similarly, numerical inflation objective usually has been chosen according to the results of empirical studies available at that time. Central bank transparency helps to anchor expectations at an appropriate level of inflation target.

Anchoring expectations was more firmly established in the euro area - where the target (the price) is clearly displayed - in the United States is not the case. In the first case the real rate went slightly above the threshold of 2%; and in the second case, the actual rate fluctuated around 2% until 2004 and then at around 2.5% thereafter. In Japan, where the central bank began to give indications on the target inflation, the real rate of inflation remained well above the optimal.

Case study

In economic theory, the optimal rate of inflation - which corresponds to - a nominal interest rate of zero - will be negative (Milton Friedman, 1969). For the euro area, leading economic growth rate as an indicator of long-term real interest rate, this would mean that the ECB should try to reduce the general price with 1.5 to 2% per year. In practice there

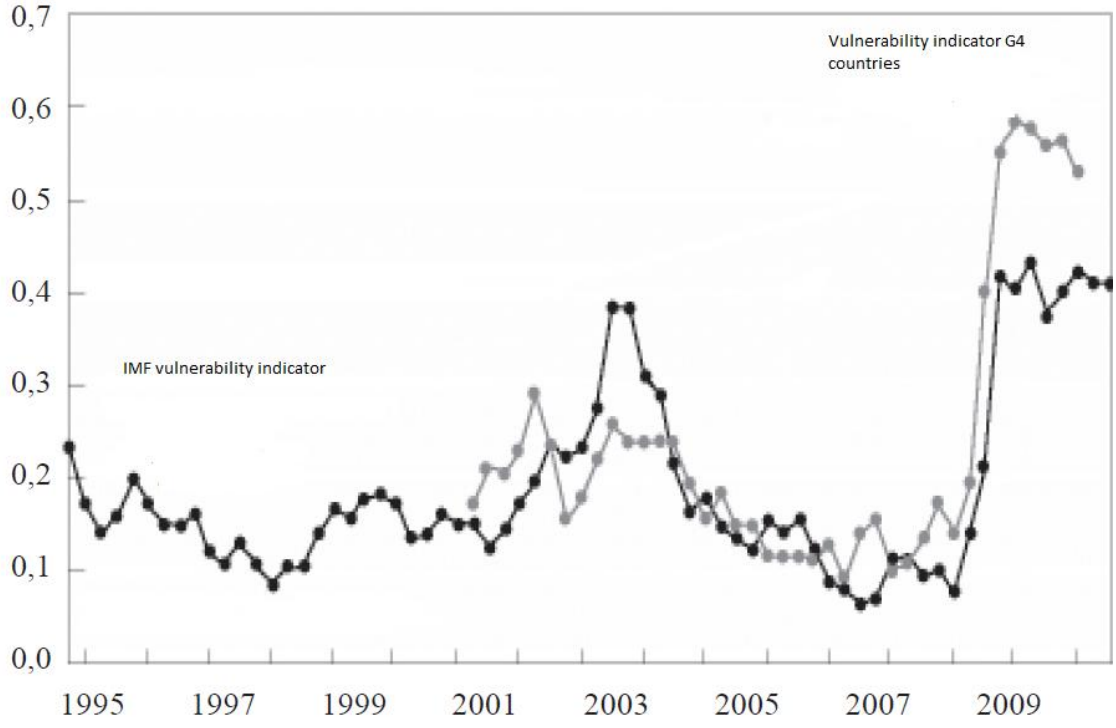
is no central bank this recommendation. Other theoretical studies showing the dangers of negative inflation results in a decrease rigid nominal wages, also the risk of a deflationary spiral and there downgrading zero if nominal interest rates. They were also present when the crisis of the 30's.

Was developed by the IMF a vulnerability indicator (short and medium term) that measures the level of deflation (Kumar, 2003). Construction is consistent with an interpretation of the dynamics term price increases. Deflationary threat is measured by four variables:

• Prices;
• Overcapacity;
• Asset prices;
• Money and credit - completed by taking into account the structural features of the economy and flexibility of economic policy authorities.

The index ranges between 0 and 1, and the risk of deflation is small appearance when this indicator has a value less than 0.3, average value of the indicator is between 0.3 and 0.5 and large when it exceeds the threshold of 0.5. It covers 80% of world production. Its evolution between 1994 and 2010 is shown in the chart below for the global economy.

Figure 4. Evolution of deflation in the global economy and countries G4



One can observe a period of increased risk of deflation in 2002-2003, and then the economy recovers in a moderate risk area. This may explain the expansionary monetary policy during the housing bubble. In the current indicator has a high value, which means that the economy is in a high risk area. During this period Japan was generally positioned

in the high risk area, with more than two periods calmer namely in 1997 and 2006 to 2007, remains by far the country's most powerful deflationary risk. By the end of 2008 remained low threat to other economies. Subsequently, the risk appeared in the United States, which accompanied Japan in the high risk area.

Under non-monetary explanation of inflation, its dynamics can be explained by structural factors unrelated to the governance and central bank actions, primarily by "globalization" (Aglietta, Berrebi and Cohen, 2009). Pressures exerted by offering basic goods production in developing economies can ensure price stability. Low inflation rates observed in the global economy after the 90 do not give credibility to central banks and so they need to reconsider the logic of actions and to focus on other objectives (eg financial stability).

Fed seeks to determine the evolution of structural inflation rates, while the ECB (and also the Bank of Canada, Bank of England and Bank of Japan) seeks total inflation.

The difference between the two economies can be clearly highlighted:

• Euro area variables are not correlated; changing relative prices of goods cannot be associated structural non headline inflation;

• In the United States, the correlation between variables is very high, meaning that an increase in the relative price of goods is associated with an acceleration of structural non identical overall inflation.

This observation appears to support the model "intermediate" inflation: its evolution may be affected by structural changes that have occurred in the real sphere, but it depends on monetary factors, in particular the central bank reactions to these shocks.

Empirical studies of economists Atkinson and Kehoe (2004) show that modern economies do not appear to be seriously threatened by deflation. This is shown in one study covering 17 developed and emerging economies, with 73 episodes of deflation. It was concluded that in almost all cases (65 of 73) growth has never been negative, but two important conclusions are highlighted:

• Inflation and its expectations can trigger brutally;

• The economic costs of deflation are high, unless resulting from favorable supply shocks;

If they respond quickly and vigorously, central banks could stop deflation. In Japan, deflation is likely to persist as structural features that predispose toward deflation economy of this country should not disappear anytime soon. In the United States, the risk of deflation is small: accountability and transparency EDF are stronger than the Bank of Japan, the population is young, and the electoral system is headed by the elderly; because the current account deficit pressures leading to structural reforms are much stronger. Eurozone is in an intermediate situation; ECB should show greater vigilance against deflation.

If we maintain the usual approach to monetary policy rate, the theory shows that the optimal response to a shock depends on the effects on expected inflation, based on the nature of the shock. Achieve other goals is possible, without sacrificing price stability by extending the target date for achieving the inflation target. This is what economists sometimes recommended to help balance monetary stability and financial stability (Bean, 2004). Time horizon for inflation targeting should be chosen more or less distant from the indicator chosen to take account of financial stability and the nature of the shocks. For example, Norway Bank economists reveal two results in their analyzes:

• As a general rule, it is possible to take into account financial stability rather extending beyond the horizon expectations used where it is concerned solely with inflation and economic activity;
• There are exceptions to this rule (in some cases, the reduction would be optimal).

According to Akram and Oyvind (2008), independent of the chosen solution, "taking into account the financial stability when interest rate stability within a flexible inflation targeting regime is a difficult task due to the necessary information." Increasing the inflation target has been proposed for the numerical target of 4%. From a survey developed by Blanchard and Mauro in 2010 that 86% of central bankers oppose this objective while 46% approve academia. From a European perspective, the proposal is fair for all central banks. "There is no justification for the deviation from price stability and to declare that the target inflation rate of 4% would improve economic growth and prosperity. For the euro area the 4% inflation rate makes the potential growth to decline by 0.5% "(Jürgen Stark).

Governance characteristics and actions of central banks is a powerful and essential determinant in the dynamic price increases if they are influenced by other factors, monetary stability continues to be a focus. During the period that preceded the current economic crisis, central banks have generally emphasized this task, display a numeric target price growth contributes to inflation expectations. In the following the crisis was the same principles, but was much more difficult; central banks have fought against creating a deflationary spiral.

It is expected that they continue to face an increase in commodity prices and commodity of globalization. Faced with this challenge, to a secure price stability is desirable that the authorities' action to proceed in accordance with the overall inflation rate and not a reaction on structural inflation. Conversely, certain structural developments may lead to a deflationary situation thus requires vigilant reactions from the authorities. Some theorists believe that it would be better to put aside numeric growth objective of price and financial stability is taken into account.

If restricted to considerations relative price increases variability and trend developments, recovery objective numerical inflation targeting 4% in developed economies not shown to be justified, because there are incidents on financial stability and the stability of economic activity that enable delivery of this sense. Eurozone situation is such that the cost of replacing the current strategy of the ECB with an orientation towards the general price level will be much higher than the benefits by it. The situation in the United States is different: there is no implicit nominal anchor that could harm; adoption of general price

stability would eliminate this problem and this could translate to a noticeable change in the conduct of monetary policy, thus ensuring an anchor rational expectation. Even if monetary policy does not affect real variables in the long term it affects short-term developments. Stability of economic activity is a teeming capital of central bank independence is a necessary condition to ensure and maintain monetary stability.

Reducing the rate of GDP growth in G3 economies in recent years is striking. In the United States during 2000 - 2009 has declined significantly from its initial level. Shocks on aggregate demand push inflation and economic activity in the same direction, a conflict uncreated. For example, an increase in exchange rates accompanied by an explosion in demand, stimulate activity and create inflationary pressures - requesting an increase in the reference interest rate. If the central bank's response is well done, the side effects of this shock can be neutralized. It cannot be said the same for supply shocks that have effects in opposite directions on economic activity and on the price level. The central bank must arbitrate between the two.

The economic stability was observed before the economic crisis in 2000 and can be explained by supply shocks that affected small commodity prices. Evolution of prices of food and energy (measured as the difference between total inflation and structural inflation) within G3 is positive when they grow faster than prices of other goods and services. When an important impact on supply happens, it affects the stability of economic activity. The changes that have occurred lately monetary policy contributed to increasing economic volatility. A much faster and safer than allowing inflationary pressures also ensure greater economic stability. The reaction of central banks on inflation shock is an aggressive, so it acts on the real interest rate.

According to analyzes conducted by economists Sahuc and Smets (2008), European Central Bank attaches less importance to the stability of economic activity than the Fed, but the difference between the interest rate policy pursued by the ECB and the FED taken essentially explained by differences in nature, size and persistence of shocks occurring on the two economies. They cannot be attributed to governance or different preferences, especially where there is less emphasis on the ECB to stabilize the economy. From experience "arbitrary" EDF placing it in a European environment adopted a policy similar to the interest rates of the ECB.

Unconventional monetary policies could endanger price stability. The agreement is larger than in the case where there is a risk of financial stability at different levels:

• Money market risk of blocking: when the money market interest rates are near zero operational cost of monetary transactions exceeding interest charges, interest rate closely related directories; Such banks may also waive transact;

• The risk of character "counter-productive" resource cost is very low money market and thus are less attracted banks to make certain notifications on balance sheets and monitor credit risk; course, unable to refinance the financial market can thus be supported under irrigation.

These increased risks on unconventional measures. Finally, late exit from this situation could cause the creation of a bubble and also movements of capital "hot money" (Clerc, 2010).

In theory, targeting a particular general price level should allow a lower variability of inflation and economic activity. Especially in a situation where inflation is low and interest rates is close to zero, the general price level should lead to an upward revision of inflation expectations, real interest rates will become negative, which will stimulate spending and will contribute to economic recovery. In a general case, two arguments could advance as favorable inflation targeting objective and also to increase the effectiveness of central banks to stabilize economic activity:

• Greater flexibility in monetary policy for a major shock; this is the argument put forward to justify a target of 4%. At the beginning of the crisis, inflation and therefore interest rates were higher on average they should decrease drastically in recent years and as such limited production decline and deterioration of fiscal positions - Blanchard and Mauro (2010);

• Reduce the costs of fiscal consolidation; according to model simulations performed using GIMF (Global Integrated Monetary and Fiscal Model) of the IMF, where the interest rate is greater than zero and decrease freely production losses are about 0.5% after two years and If it is at zero level as a result of fiscal consolidation in production loss is twofold, namely 1% after two years.

For the euro area, an additional argument for setting an inflation target would be that the differences observed between national inflation rates led even after a decade of the euro, important differences in competitiveness. Ireland, Spain and Greece entered the crisis with high real exchange rates compared to those in Germany. In a monetary union, the disappearance of such differences in the competitiveness can only price adjustments "internal" and the next 5-10 years will be less than inflation in these economies than in Germany.

Such adjustment may be facilitated if the target inflation should be increased from 2 to 4% of the whole area. Instead it has a number of disadvantages (anchoring expectations and credibility may suffer ECB) and the adoption of this target would thus raise practical difficulties (eg risk of crush stock). To limit these risks would need to move to a new target gradually, according to another analysis of the actual costs are lower if the adjustment is immediate (Bean, Sahuc and Matheron, 2010). Conduct of monetary policy is facilitated by conditions relatively stable in the money supply; time has become less favorable context, the early 2000s was marked by a return to supply shocks and gain side effects resulting from globalization, monetary policy stance has become more difficult. She remained still effective lever action in developed economies, where capital flows have not eliminated the transmission of monetary authorities' actions along the yield curve. However, this efficiency is low in developing economies.

During 2007 - 2008, given the simultaneity of the onset of the crisis and rising commodity prices, monetary policy in developed economies faced a dilemma. In each economy, monetary authorities are expected to take measures so that others can act and take responsibility adjustment. This type of behavior, rational when considering each individual

country results in a suboptimal equilibrium when considered as a whole. Specifically, this would suggest that the commitment of central banks to maintain price stability was stronger than in other situations. In such circumstances, it would be better to coordinate interest rate fluctuations. This is not true of the United States finally numeric growth objective of inflation targeting in order to facilitate the stabilization of economic activity is a proposal that deserves to be considered even a monetary union. Its main advantage of facilitating adjustment as required by asymmetric shock and, more generally, to facilitate economic convergence. These advantages must be balanced against the costs that would be incurred by a modification of this objective.

Conclusions

According to economists Boyer, Dehove and Plihon (2004) the role and functions of central banks have continued to evolve since their inception. This development is largely due to the economic context in which the monetary authorities must act. If limited to the postwar period, there were two generations of central banks. In the sixties, there were Keynesian central banks in order to achieve a balance between inflation and full employment, often favoring the latter. In the eighties and have emerged conservative central banks. Latter gave priority to fighting inflation when inflation appeared two figures. Currently there is a new generation of central banks in the context of economic and financial globalization has as objective monetary and financial stability. Macroeconomic regime in the seventies and eighties characterized by strong inflationary pressures founded doctrines and methods of conservative central bank intervention and gave birth to a new regime of low inflation and macroeconomic stability. Inflation volatility began to increase with the crisis in 2007 and it is too early to be able to state whether this regime will remain permanently low inflation.

Monetary policy is not her only explanation for this decline in inflation, which leads to the conclusion that the determinants of inflation are not only monetary but real and structural factors have gained importance: overproduction, competition, market purchase; all factors related to economic globalization default. This great moderation did not occur without an effect on the behavior of economic agents towards risk, the most prominent of banks significantly increased risk, and it is demonstrated that this increase bears a heavy responsibility for the financial crisis; it is assumed that monetary stability was paradoxically detrimental to financial stability.

Relatively simple and unambiguous that makes monetary stability is a necessary and sufficient condition to have financial stability does not occur. However, this relationship has justified that central banks are seeking primarily monetary stability and that it contributes indirectly or later (in case of a crisis, central banks as lenders of last resort) to financial stability. From this perspective, financial stability cannot be regarded as an intermediate target because financial stability is more difficult to define and quantify than monetary stability. Central banks, as economists have defined strict monetary stability, asset prices excluding from the definition of inflation.

Moreover, even based on a narrow definition of monetary stability, inflation targeting strategies have the advantage of simplicity both conceptual and quantitative. Instead it is

necessary for central banks to be able to determine the expected path of monetary policy based on inflation expectations and gaps in the real economy that is not easy to determine, sometimes unnoticed. The fact that financial stability requires a definition based on several factors may lead to a multiplicity of measurements, excluding the appearance of a new target that central banks need to consider. Costs real economy registered with the crisis are too important for central banks to not more be involved in prevention.

The problem facing the world economy today is threefold:

• Except where there will be a strong return to the United States and Europe, Western economies today have to fear more than a deflationary situation and inflation;

• International remains ample liquidity levels, driven by emerging economies that have a high risk of financial instability in the form of bubbles in asset prices and also has a fragile banking financial system;
• Macroeconomic and financial imbalances that have not been resolved is likely to be carried on, meanwhile rates of the major currencies.

According to some economists, the current operation of central banks (objectives, instruments) will have to evolve. Without giving up control of monetary stability, central banks should include financial stability remit and objectives of their priority, with economic growth and employment. This includes, according to Tinbergen's rule, the monetary authorities to use a wider variety of tools (dynamic provisioning, procyclical capital requirements, reserve requirements, lending selectively), most of the macro-prudential policy. Similarly, central banks will have to look closely coordinating their work with supervisors and other national central banks. Central banks make their place in this equation because of their independence, as they are best placed to support him macro-prudential policy. This provides the missing link between monetary policy and micro-prudential supervision of banks. The involvement of central banks in macro-prudential policy does not necessarily endorse the role of supervisor and micro prudential. However, there is need for ownership between central banks and supervisory authorities to prevent the risk of a systemic crisis.

Great moderation is the popular term used by economist Claudio Borio (BIS) to describe the macroeconomic environment of the late 2000 to the financial crisis of 2007 Two decades ago, the economy was characterized by low inflation and stable worldwide, almost 2% to the first turbulence of the financial crisis in the summer of 2007 roots of this great moderates are discussed yet. The very existence of these debates shows that central banks do not bear full responsibility for the inflationary regime in the 2000s - this means that inflation is not reducible to any home monetary phenomenon. The credibility gained by central banks to combat inflation contributed to this great moderation and given the destabilizing consequences of the macroeconomic environment too "quiet" central banks should consider the consequences of their actions, even for financial stability.

Two sets of factors are generally invoked to explain the economic situation in 2000:

•Conduct of monetary policy against inflation is more effective;

•A contest favorable circumstances, summarized in the literature under the term "gambling"; structural factors of globalization and the raising of large emerging countries.

One can understand the evocation of a gap between perception and reality of economic actors, but also that reality is perceived by the economic actors involved with several factors and thus contributes to greater moderation in the economy. For example, the economic policies successfully fought inflation since the late 70 It is also known that as inspiration monetarist monetary policy to combat inflation reached a priority. The labor market reform policies and determining employees led to low inflation. Can be considered continental Europe, especially France and Germany, indexing wages to inflation had success productivity, which is the main instrument of disinflation. This new rule - monetary and wage - has created a unfavorable relation of forces on wages resulting in a decisive manner and their moderate prices. Moderation trade and financial flows and globalization processes that resulted were a third vector led to a macroeconomic regime with a low inflation rate.

The result was a fundamental change in the pricing mechanism. It went from a price regime governed by bidders at a price regime dominated by buyers (Aglietta, Berrebi and Cohen, 2009). Between 70 and 2000 belonged bidders bargaining power as the economy supply was insufficient. Businesses were able to bear all the cost increases follow sales prices. Rising prices in the original manner and the risk of having an inflationary economy was what justified the monetary policy action to enhance targets on reducing inflation. Currently, due to international competition, the strength of the financial markets is happening due to cost buyers. That pressure on tenderers who had a sense in a low inflation regime is enhanced by the durability of the situation of overproduction (oversupply) in globalization. For example, competition in the labor market, numerous developing countries with a high population (China and India in particular) led to a process of lowering wages in developed countries strengthened the pressure on consumer prices.

To conclude this point, monetary policies have not been able to assign sole responsibility of globalization in the early 90s to the beginning of the crisis. The cause of this change is also structural. However this change has contributed to globalization and the credibility of central banks that have gained in fighting inflation count. By the beginning of the crisis, central banks have established strategies on the assumption that monetary stability leads to financial stability and sustainable growth. In the long term this hypothesis is correct, but the financial crisis has reduced this view, showing that a policy of monetary stability may favor bubbles and financial imbalances.

In retrospect liberates that several authors have considered that monetary stability of the years 1990-2000 revealed a factor that led to financial stability that businesses, particularly banks to take risks. According to Claudio Borio (2009) credibility of central banks has also led to a successful past and the present imbalance. Central banks by definition lead to rational expectations of economic agents on the level of inflation. But they also contribute to a release of an inflated sense of security and confidence that favor engagement risk and indebtedness. This "paradox of credibility" economist Hyman Minsky developed by 70 years as the "paradox of peace" reappeared during the current financial crisis. According to this analysis due to debt crises businesses taking advantage

of confidence and low interest rates, which appear individually rational but if a currency area, are contagious. If interest rates decrease, in particular due to the monetary policy instruments, debts that seemed sustainable given the moderate rates become unsustainable and lead to greater debt. This sequence corresponds to the steps that led to the financial crisis in 2007. According to analyzes conducted by economist Marvin Goodfriend, central bank credibility can greatly foster financial instability, but also to react with certain tools to stabilize the economic situation in the countries affected by the crisis. They are not able to achieve sufficient credibility and foster an environment of deflation and stagnation. The central banks are more reliable, rational expectations on inflation are engaged on long-term objective of price stability. An abundant liquidity can lead to an inflationary situation: central banks may delay publication of official interest rates to prevent the formation of financial imbalances.

With the exception of Japan and Germany, all of the G7 countries were all facing a real estate bubble that has formed from 1996-1997 until mid-2007, real housing prices increased on average by 84%. This bubble has been well identified by central banks. Reports (published in 2010 by EDF) monthly meetings of the Federal Open Market Committee, which took place at that time, and studies the central banks of other countries (eg, France), convinced of this. The scenario of collapse in house prices was taken into account, but it seems that the statements made at that time by the authorities of the central banks, especially Alan Greenspan, it does not require action "preventive" from them. Central banks were content to "warn" not reacted to the situation by increasing their rates. Their monetary policy seems to have been too expansionary since 2003, not only the United States but also in other economies. Comparing the observed rate in the United States, the Eurozone, Canada, the United Kingdom between 2000 and 2007, which would be prescribed standard Taylor rule, it seems if the United States and the euro zone, but also to Canada between 2002 and 2006 and a degree more or less irregular in the UK, that short-term interest rates were kept too low for too long. In addition, the difference between the two (long and short) appears to be positively related to the increase in housing prices.
In accordance with the principle of separation, central banks have also underestimated the threat it brings financial instability on the overall macroeconomic situation. They were convinced that it would be possible to clean up the damage after hit Clean Up Afterwards - AUC)). Complementarity expected by central banks focused on the positive impact of currency stability to financial stability, but ultimately not as mutually impact the stability / instability of financial stability / instability macro. However, the robustness and efficiency of the financial system contributes to economic growth and enhances resistance to shocks. Instead, banking and financial crises translate into a slowdown in economic activity, which can make it difficult to achieve the inflation target, in extreme cases, a deflationary spiral may even trigger. This spiral of crisis was likened to that of 1929 in the USA and European countries. In other words, central banks expected where monetary and financial stability are in conflict: monetary stability of the 2000s favored financial instability. And they were surprised convergence where they did not expect: the 2007-2010 financial instability caused an economic and social crisis.

Central banks have to face many forms of instability - Monetary and financial - that interact in a complex and changing times. For this reason, the principle of separation of policy monetary stability and financial stability does not seem to rely on central banking. It

seems to be a broad consensus on this issue, after leaving the recent financial crisis. Asked about the principle of separation based on the question: "Do you think financial stability is the objective of prudential supervision only, or both prudential supervision and monetary policy?" Central banks and economists have mostly stated that financial stability posed by both. Financial stability is, however, more difficult to define and measure than monetary stability. For some economists, it should establish a hierarchy between the two stabilities can be an "objective" while financial stability would be necessary to downgrade the "mission" that central banks would, without resolving first. It is worth emphasizing, however, that monetary stability is subject to a simple and quantifiable definition as central banks in developed countries have chosen to keep their inflation targeting policies defining restrictive monetary stability, reducing it to internal monetary stability.

However, it appears surprising in the context of globalization, and it is certainly a limit to the effectiveness of monetary policy. It is also reminded that this narrow view of monetary stability is not that of most of the countries whose central banks called emerging pursuing an aim of the course/exchange rate seeking to ensure in a more or less rigid, one or more reference currencies. Financial stability poses additional definition given in the first approach. It is not subject to a single definition accepted by all economists and central banks. This comes from its opposite - financial instability - a phenomenon polymorphic and complex, and recognized as such by central banks. And that consensus on the need to evolve an objective of financial stability, in addition to the objective of monetary stability entrusted to central banks, but at the same time, central banks and economists have finally reflected the vision of financial instability, the also, the changing nature of financial instability. Financial history also shows that financial crises take very different forms depending on markets and institutions they encounter (Kindleberger, 1978, Reinhardt and Rogoff, 2009). Economists traditionally distinguished three types of crises: crises stock, currency crises and banking crises, but they can act together. This list must be completed bond crises, sovereign debt crises and real estate crises have played a role in recent decades.

These seizures are not the same degree of severity, in terms of their size systems, on the one hand, and their economic and social costs, on the other hand. Recent work suggests that financial crises are even more serious as Credit Procyclicality resonates with other assets (Boyer, 2004). In their tone, asset markets are prone to cumulative imbalances that lead to fragility, can induce a financial crisis. Credit dynamics play a role in the emergence of a large-scale speculative boom in these markets and may lead to a systemic crisis. More crisis episodes observed for the last decade shows that conclusion. A good example is the "twin crises", banking and foreign exchange, which hit in the early nineties a number of countries called "emerging" recently opened to international financing. The depth of these crises is explained, in fact, the fears of devaluation of the national currency and the loss of value of the net assets of the savings bank and nonbank concerned.

Instead, the stock market crashed in 1987 and 2000, but spectacular, has degenerated into systemic crisis in most advanced countries, since these episodes of instability were circumscribed capital and stock markets have not significantly affected stability of banking systems. Instead, Japan has experienced a deep and systemic crisis, leading to a

deflationary episode in the nineties, due to the boom simultaneously active markets (stock and real estate), and the credit market.

A double clear conclusion from this analysis:

• Financial instability is a polymorphic process successfully takes very different forms at different times and in different economies;

• Cyclical trend of credit and resonance effects with different asset markets is a major factor aggravating the financial crisis.

A recommendation arising from these conclusions: - credit which is at the heart of the worst financial crisis - should be subject to increased surveillance and changes in bank balance whose importance has been largely underestimated as a transmission channel of shocks in during the recent financial crisis, it is the Japanese crisis of the nineties, or the subprime.

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