

“Firms stress tests have been very lax”

INTERVIEW WITH PROFESSOR VIRAL ACHARYA

The financial crisis does not belong to the past yet. Viral Acharya, Professor of Finance at Stern School of Business, has been recently been awarded with the Jaime Fernández de Araoz Award. He states that we have already witnessed the worst of the crisis but we have not begun to overcome it. In his view, the full stabilization of the financial sector will not take place before six to nine months. Afterwards, he foresees the economy will not begin to grow at a good rhythm after several quarters.

The author of “Restoring the financial stability”, in which he gathers the views of several Stern School of Business Professors of Finance, points out that the United States have achieved its main goal: to calm down the public opinion panic towards banking and to stabilize the financial system.

Banking reorganization

The professor says that “one of the main problems of this crisis is that banks are reluctant to assume responsibilities”. Thus, he thinks stress tests have been too lax. He believes that banks top managers are now aware of governments keeping an eye on them and so they will carry out a more cautious management. But he considers that the United States used very lax assumptions on the stress tests made to banks and so there are still some risks.

Acharya believes this recession is unusual. The crisis has affected banks, homes and firms severely, a situation never seen before. This expert thinks we will need very tough measures to sort out this situation.

“Bankers are not the only ones to blame but also regulators”, This is the title of the first chapter of Acharya’s book. The expert points out that there is still too much work to do in the regulatory field. Firstly, the surveillance of systemic risks and the development of a clear procedure for regulating the possible collapse of some firms. Secondly, it is essential to enhance the financial system transparency. Finally, he believes it is necessary to convince firms to be more far-sighted.