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George Soros says it's all the regulators' fault [1]

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That's the upcoming collapse of the European banking system that is. George Soros says that the main cause of the current and coming problems is the very odd decision that the regulators made about capital weights on sovereign debts [3].

> When the euro was introduced the regulators allowed banks to buy unlimited amounts of government bonds without setting aside any equity capital; and the central bank accepted all government bonds at its discount window on equal terms. Commercial banks found it advantageous to accumulate the bonds of the weaker euro members in order to earn a few extra basis points. That is what caused interest rates to converge which in turn caused competitiveness to diverge.

I do take Soros to be a very bright man and a very knowledgeable financier. I don't take him to be quite the great economic guru that some seem to think he is.

But this does explain so much. I think it was Basel II which brought tis rule in: that soverign bonds needed no capital assigned to them and there was no haircut in repoing them with the ECB. And that does indeed explain why so many banks lent so much money at such low interest rates to countries that clearly were not as creditworthy as some others under the same rules.

It also explains why it all fell apart so quickly: as soon as the ECB was applying credit based haircuts to such bonds then the flood into the southern nations became a flood out again.

It also leaves us with a very important question. If it was indeed the regulators that caused this then what is the argument behind giving the regulators greater powers?

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