



CENTRAL BANKS' NEW CHALLENGES

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CENTRAL BANK (R)EVOLUTION

POLICY CONFERENCE HOSTED BY BANCO DE ESPAÑA AND THE WORLD BANK

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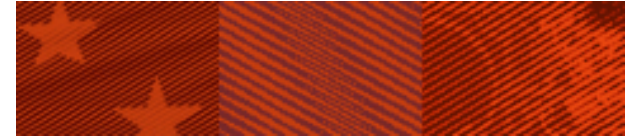
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DIRECCIÓN GENERAL DEL SERVICIO DE ESTUDIOS

SUMMARY



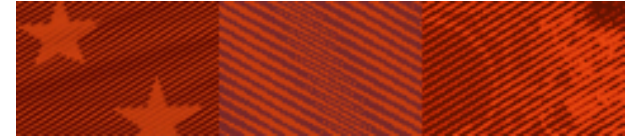
- 1. The crisis demands for Central Banking evolution, NOT revolution**
- 2. Central Banks have reacted in quite similar ways**
- 3. The only case where the crisis requires a revolution is in the euro area, but NOT in monetary policy**



Challenges for Central Banking

- **Big liquidity shock**
 - **Downside risks to price stability**
 - **Deflation?**
 - **Zero lower bound**
 - **Lack of macroprudential supervision**
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- **Standard problems for monetary policy makers**
 - **Need for fine tuning the toolkit**
 - **NOT for a change in paradigm**

CENTRAL BANKS' REACTIONS



- **Changes in counterparty and collateral policies**
 - **New lines to provide liquidity**
- **Evolutionary innovations, NOT revolutionary:**
- Expanding and changing the composition of Central Bank balance sheets by buying long term assets. QE
 - Forward guidance
- **The ECB idiosyncrasy**

THE CRISIS OF THE EURO AND IMPLICATIONS FOR THE ECB



- **Incorrect policies in many euro area countries**
 - **Financial markets failed to penalize**
 - **Weaknesses in the institutional design**
 - **Financial risks and sovereign risks fed off each other**
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- **The spiral was stopped thanks to:**
 - Domestic policy reactions
 - OMT and other monetary policy actions
 - Overhaul of economic governance (Banking Union)

 - **But a real revolution in the euro area institutional framework IS needed.**



THANK YOU FOR YOUR ATTENTION

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