

Introducing the Panel

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LADIES AND GENTLEMEN,

It is always an honour and a pleasure to be here at the Banco de España. Today, it is a special occasion to chair the first session of this conference in tribute to José Luis Malo de Molina. It is not only because we have a very good panel of speakers; more importantly, it is also because I had the pleasure of working with José Luis for a number of years – 10 years if I include also the time before I joined the Banco de España, when I was on the Board of the Bank as representative of the Treasury. But I can say, even before that, I had already come to know and appreciate the work of José Luis, thanks to the excellent Banco de España research and publications, to which he has contributed so much.

The early years of my collaboration with José Luis coincided with the time when twelve European currencies merged into a single currency – an event full of symbolism for over 300 million people on a continent with a long and at times troubled history. The birth of the single currency was the result of a lot of work by many institutions. The national central banks worked hard in designing and implementing the new single monetary policy – together with the newly established European Central Bank. The creation of the monetary union raised a lot of expectations as well as some scepticism – from the beginning, it was clear that the EMU edifice was not complete. And it certainly triggered many interesting debates. Here I would like to quote Helmut Schmidt in the farewell event to Jean Claude Trichet. He was discussing the shortcomings of the incomplete euro framework and said that “under no circumstances can they be used as an excuse not to fulfil our obligations....” This quote highlights the responsibility of national authorities to take the appropriate domestic measures, even if they are difficult, in order to contribute to the smooth functioning of the EMU.

I remember very well some of the conversations that José Luis and I had in Madrid or on our frequent trips to Frankfurt. Let me mention here one particular conversation that may be relevant to this panel discussion. It relates to the funding of the individual economies in the euro area financial markets. One key question: how reliable would that funding be? What are the meaning and implications of running current account deficits for a long time in a monetary union?

The broader, deeper and more liquid markets in the monetary union had made for greater ease of financing – that is, until that ease suddenly reversed when financial crisis hit. I must confess that I was somewhat surprised by the speed and magnitude of the market fragmentation that materialised during the crisis. The sudden reversal of cross-border flows resembled an emerging market crisis – with the main difference being that, this time, the crisis countries are in a monetary union and subject to a single monetary policy. This reminds me that José Luis was very vocal in internal discussions on the potential fragility of foreign funding if financial imbalances have increased by too much and on the consequent need to keep current accounts and external investment positions under control.

It is now almost nine years since the beginning of the global financial crisis, and six since the start of the European sovereign debt crisis. The situation today is much better than in the crisis periods. Nonetheless, the euro area is still facing significant challenges. Some of them are economic: low GDP growth, low growth in productivity, below-target inflation, rising debt, and a financial system that is still recovering and regaining trust.

At the same time, there are social and political challenges. Europe is facing one of the worst refugee crises in recent memory. Political movements advocating radical alternatives are increasingly active. Security risks and geopolitical tensions abound. These challenges have economic consequences and are testing the cohesion of European Union on many fronts.

Should we build institutions and pursue policies that maximise our resilience to external shocks and minimise political and social risks? How can we build effective European institutions that, at the same time, reinforce public support? Are we on the right track? We all agree that problems are easier to solve if we have solid growth; how do we improve resilience and at the same time ignite sustainable growth?

Our three panellists today have spent quite a lot of time and effort thinking about and addressing these questions.

With Christian Noyer, I shared the first years at the Governing Council when he was Vice President of the ECB. Christian had contributed to steering the euro area economy through the crisis as President of the Banque de France, before retiring last year. And in a more global context, he was also my Chairman – the Chairman of the Board of the BIS – for nearly 6 years. I'm sure that his valuable experience on the frontline – or may I say, in the trenches – of European monetary policy during

one of the worst periods in post-war economic history will provide us with an enlightening perspective on the issues I highlighted earlier.

The insider view of Christian will be complemented, if not challenged, by that of Tano Santos from the Graduate School of Business at Columbia University. Tano has written extensively on the fundamental problems in the euro area. His analysis has shed light on the deep mechanisms necessary to develop a narrative of the European crisis. He has also gone further and proposed concrete remedies. Tano, I look forward with great interest to hearing your insightful views.

Last but certainly not least, we have on the panel Charles Wyplosz from the Graduate Institute of Geneva. Charles hardly requires any introduction to an audience interested in European economic issues. He has been an important voice in Europe well before the creation of the euro, and has certainly not given up during the financial and sovereign debt crisis. For example, in his recent work with Barry Eichengreen, he offers concrete proposals on institutional design “for the survival of the euro”.

I will now leave the floor to the panellists.