BANCO DE ESPAÑA
Eurosistema

16.11.2018

Remarks - First panel: "Central banks, macroeconomic stability and economic growth"

Banco de España and European Institute of the Mediterranean with the support of the Central Bank of Tunisia

Pablo Hernández de Cos
Governor

In this first session of the conference we will focus on the role of central banks on both shores of the Mediterranean in contributing to the achievement of sustainable growth in the long term.

Before giving the floor to our distinguished speakers, let me say a few words about the current global outlook and their implications for economic policymaking.

At present, the global economy seems to be approaching its cyclical peak while the process of monetary policy normalization in the advanced economies continues, particularly in the United States. This process should normally precede the tightening of global financial conditions.

At the same time, tensions in international trade remain, with the risk that disputes in this area will be solved with a greater use of protectionism to the detriment of a multilateral approach to the resolution of these conflicts; and, elsewhere, the markets of some emerging economies that had significant macroeconomic imbalances have undergone episodes of severe turbulence.

We are therefore facing a phase of growth moderation with limited scope for economic policies. It would seem necessary to harness the current moment in which growth records are still satisfactory in order to generate margins that allow a certain countercyclical gearing of economic policies in the future.

In the fiscal area, the post-crisis recovery has not been accompanied in a significant number of countries, advanced and emerging alike, by a sufficient reduction of structural deficits in public accounts and the halting of the process of rising public debt. More generally, in many cases it may be necessary to move forward with fiscal reforms that seek to reduce the distortions to growth while allowing the most vulnerable sectors of society to be supported more decisively.

The limited fiscal space available is exacerbated in the longer run in many economies, principally but not exclusively the advanced countries, owing to the adverse demographic prospects. Ageing populations pose significant challenges for public finances, as they bear on both the revenue and the expenditure sides. On the expenditure side, ageing will considerably affect pension and healthcare spending which, in many cases, will require re-thinking pension systems to guarantee their sustainability. On the revenue side ageing leads to changes in the composition of tax bases as it does to lower labour income shares, to capital deepening and to changes in the composition of consumption.

In the area of monetary policy, many advanced economies are still in a situation of zero lower bound. More generally, in most countries the room currently available to face a hypothetical recession is less than that existing at previous similar cyclical junctures.

Monetary policy also needs re-thinking, on the basis of more long-term challenges for the economy. The natural interest rate has been falling since at least the 1980s. Population ageing, by increasing the relative supply of savings, explains most of the fall across several advanced economies. A low or even negative natural interest rate poses new challenges for stabilisation policies. The lower bound on the nominal policy interest rate may more frequently be binding, and not just in episodes of acute crisis. This leads to the conclusion that non-conventional monetary measures may ultimately be used more frequently than originally expected.

In addition, many emerging economies face the gradual tightening of global financial conditions in a context of slowdown in their economic activity. In particular, this context is especially challenging for the economies that receive capital flows. In these cases, economic authorities must foster a stable macroeconomic environment and sound institutions that attract permanent capital flows.

The widespread scant room for manoeuvre for the traditional stabilisation tools we have witnessed calls for the development of other policies to relieve monetary policy of the excessive role it has played post-crisis in maintaining financial stability.

One of the lessons of the crisis is the importance of including new instruments in the policy toolkit, namely macroprudential policy. Therefore, it is essential to identify risks and vulnerabilities to the economy that may stem from the financial system affecting the real economy or vice versa. In any event, it is of paramount importance to develop the appropriate macroprudential instruments covering both bank and non-bank financial intermediation to tackle these risks in order to have a stable financial system with countercyclical buffers that support sustained economic growth.

The favorable cyclical juncture at which a number of economies still find themselves is a propitious time for tackling structural reforms aimed at fomenting increase in potential growth. This is especially relevant in the case of advanced economies that have seen a significant decrease in productivity growth in recent years. We should not forget that in the downturn phase of the cycle the introduction of structural reforms is much more costly.

The global financial crisis led to a regulatory wave aimed at achieving a more stable international financial system. Much progress has been made in this area, but challenges still remain. At the European level, it is necessary to complete the institutional architecture of the euro area, bringing the Banking Union to fruition and strengthening the fiscal framework. On a global scale, there are multiple challenges: the reinforcement of the regulation of non-banking intermediaries, the emergence of new risks (cybersecurity) and the creation or expansion of global and regional backstops.

Finally, the recent tensions in international trade and the recent proliferation of protectionist measures should serve as a reminder for us to defend the benefits of trade liberalisation as a means of strengthening growth in the economy and the reduction of poverty. This defence must be accompanied, on the one hand, by a reform of the rules of world trade so as to include more effective mechanisms to guarantee a more balanced playing field; and, on the other, by domestic policies (flexibility of the labour market, a sound social security network, and the creation of educational and training opportunities) that adequately address the distributive problems that may stem from trade exchanges. It is also worth mentioning the promotion of trade openness in new sectors, mainly services, where the potential profit margin is significantly higher.

Without further ado, let me introduce the panelists. We are honoured to have with us today three very experienced representatives of the central bank community of the Mediterranean region.

Mr. Abdellatif Jouahri, Governor of the Bank Al Maghrib.

Mr. Sadiq al-Kabir, Governor of the Central Bank of Libya.

Mr. Marc-Olivier Strauss-Kahn, Managing Director and Special Adviser of the Governor.

They are very well suited to address the topics of this panel as they have a far-reaching knowledge of the economies of the region and long-dated experience as policymakers.

Governor Jouahri, the floor is yours.