Nout Wellink: Lessons to be learned from the crisis

Introduction by Dr Nout Wellink, President of the Netherlands Bank and Chairman of the Basel Committee on Banking Supervision, at the press conference on the Bank's Annual Report 2009, Amsterdam, 25 March 2010.

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A few words by way of introduction. We are facing extraordinary challenges and painful adjustments. Moreover, many lessons can be drawn from the crisis: by bank managements, regulators, supervisors, but also by customers of financial institutions.

By pursuing an extremely expansionary monetary and fiscal policy, monetary authorities and governments have prevented the world economy from moving into a downward spiral. But the remedy also carries risks. To ward off a future wave of inflation, central banks need to return to more normal monetary conditions. Furthermore, in a great many countries, the huge budget deficits run up must be resolutely scaled back to avoid generating such a strong upward pressure on inflation rates as to stunt economic recovery. Decisive and rapid scaling-back of budget deficits is also essential to avert an explosion in governments' debt positions.

Monetary authorities worldwide have taken the first steps towards normalising monetary conditions. So has the ECB.

The restoration of confidence is key to economic recovery. A government that convincingly tackles its budgetary problems is an overriding factor in rebuilding confidence. A recent DNB survey shows that Dutch citizens acknowledge this necessity. The European agreement to narrow the deficit back to below 3% of GDP by 2013 enjoys broad support. But that alone is not enough. In addition, the Netherlands should at least aim to bring the budget close to balance by the end of the new cabinet period. Also, the rules under the Stability and Growth Pact must be tightened. The experiences with the Greek fiscal deficit have made this painfully clear.

The badly-hit financial sector faces a fundamental adjustment over the next few years. It is in everyone's interest that the sector emerges stronger from this process. The timing and method of the government's retreat from the banking and insurance world is crucial. But it is equally important that the sector regains the confidence of society. Adjustments in the pension system are needed too. The more difficult it becomes to increase contributions, the more uncertain the pension results and the greater the incentive to lower the pension target. Raising the retirement age would significantly advance the sustainability of the system. The delay arisen is therefore regrettable.

Financial stability hinges on international agreements and coordination. Major progress has been realised both globally and within Europe. Nonetheless, plenty of room for improvement remains. Authorities need wider powers to acquire or relaunch flailing institutions. Supervision should be tightened too, to ensure that a closer watch is kept on the strategy and corporate culture of supervised institutions, but also that more account is taken of the macro-environment in which financial institutions operate.

Let me conclude. People are understandably disappointed that, nationally and internationally, the supervising central banks were unable to protect financial institutions from the storm in the financial markets that blew up in August 2007. The recognition that the world is less formable than commonly thought, and that supervision can provide no guarantee that a bank will never fail, cannot allay this disappointment; nor can the notion that we were not dealing with a typically Dutch phenomenon, but that there were banks all over the world that collapsed in the wake of the credit crisis. Our response at DNB can only be that we will in future intensify our efforts to prevent misfortunes in the financial sector. And that, along with our colleagues in other countries, we will to this end do all that is humanly possible to draw every last lesson from the credit crisis.