

ECONOMIC POLICY: THE CHALLENGE OF FUTURE CRISES

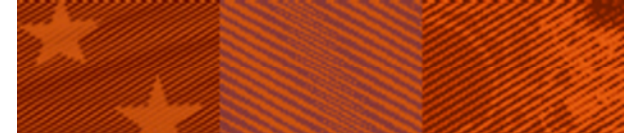
Pablo Hernández de Cos
Governor

TEN YEARS SINCE THE LEHMAN BROTHERS COLLAPSE

Círculo de Economía de Barcelona

14 December 2018

HEADWAY IN SUPRANATIONAL ECONOMIC POLICIES AND THE CHALLENGES INVOLVED



REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM



Reforms adopted

➤ Microprudential area

- Increase in the quantity and quality of minimum capital
- Limits on major exposures
- Leverage ratio and liquidity standards
- Calculation of RWAs

➤ Macroprudential area

- ESRB and national macroprudential authorities
- Macroprudential instruments

➤ International Accounting Standards

- Expected loss model

➤ Resolution

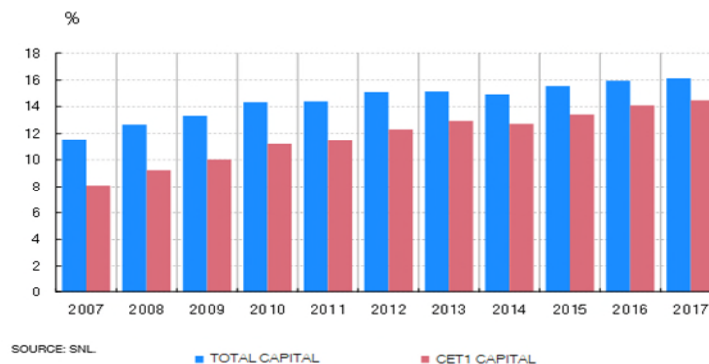
- Orderly resolution, including bail-in tool

Results

- Financial institutions that are better and more capitalised, less leveraged and with higher liquidity ratios
- Reduction in risks associated with systemic institutions
- Simplified and more transparent OTC markets
- Monitoring of non-bank financial intermediation risks.

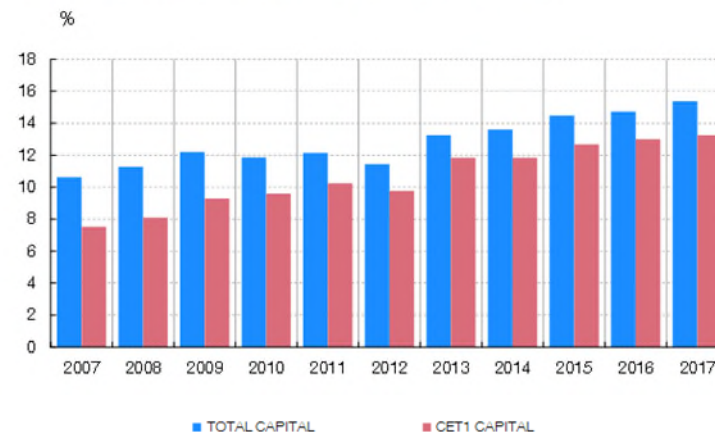
G-SIBs

HISTORICAL EVOLUTION OF CET1 AND TOTAL CAPITAL RATIOS



Total Spanish banking system

HISTORICAL EVOLUTION OF CET1 AND TOTAL CAPITAL RATIOS



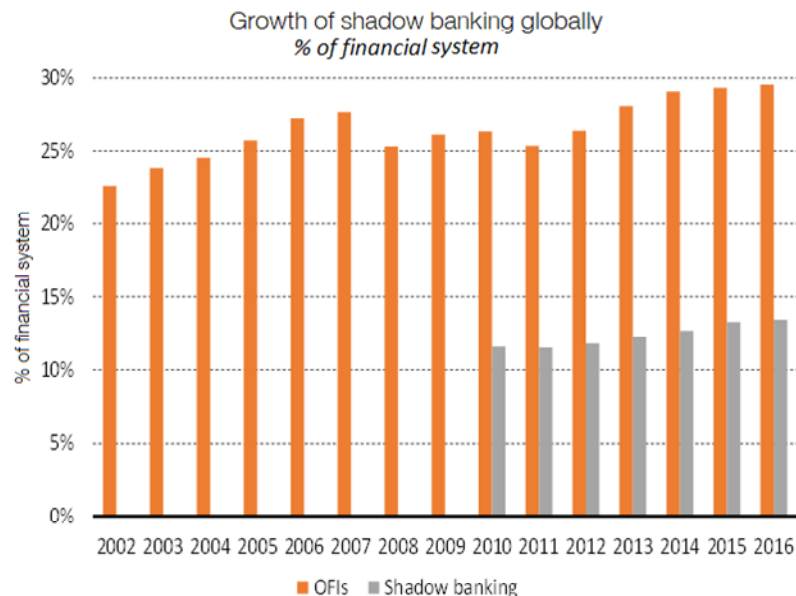
SOURCE: Banco de España.

REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM

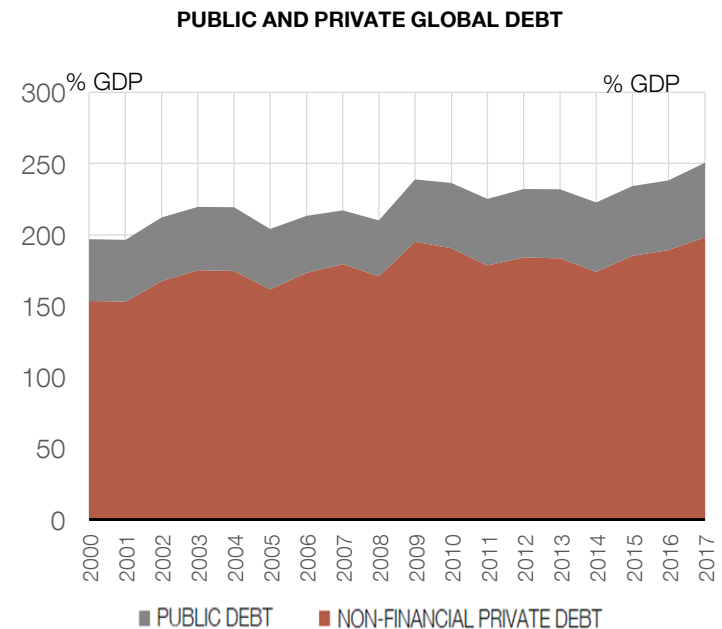


Challenges outstanding

- Very high global debt.
- Increase in financial disintermediation.
- Implementation challenges in respect of certain reforms approved (in particular Basel III).
- Evaluation of reforms approved. The FSB shall assess whether the too-big-to-fail problem has been adequately mitigated by the reforms.



Source: Global Shadow Banking Monitoring Report 2017.



Source: IMF-Global Debt Database, World Bank-WEO, USITC, Historical Statistics of the US. Latest figures: 2016



Protectionism as a risk factor for the global economy

Post-crisis global trade policies

➤ Proliferation of protectionist measures

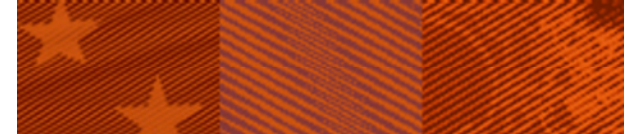
- Short and medium-term adverse effects for activity in the economies on which the measures are imposed and for those that adopt them.
- Increase in the vulnerability of economies in the face of negative domestic shocks.
- Long-term adverse effects on competition, productivity, technological innovation and potential growth.

➤ Possible revision of world trade rules and reform of the World Trade Organization (WTO).

UNITED STATES: IMPORT TARIFFS



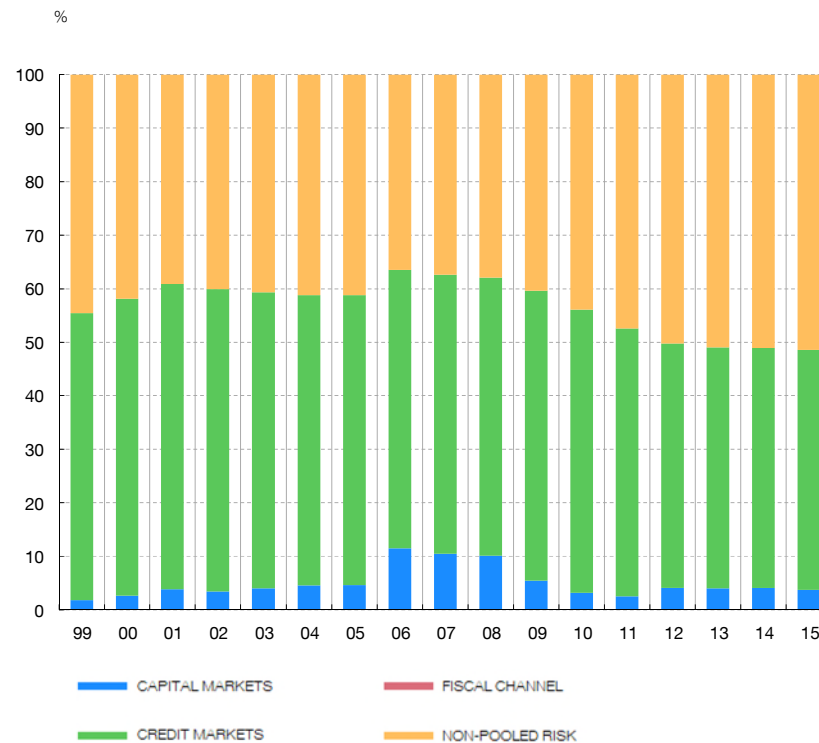
Source: IMF-Global Debt Database, World Bank-WEO, USITC, Historical Statistics of the US. Latest figures: 2016.



PROGRESS

- Strengthened surveillance of macroeconomic and fiscal imbalances
- Creation of the ESM
- Creation of the SSM
- Creation of the SRF

STRENGTH OF RISK-POOLING CHANNELS IN THE EURO AREA

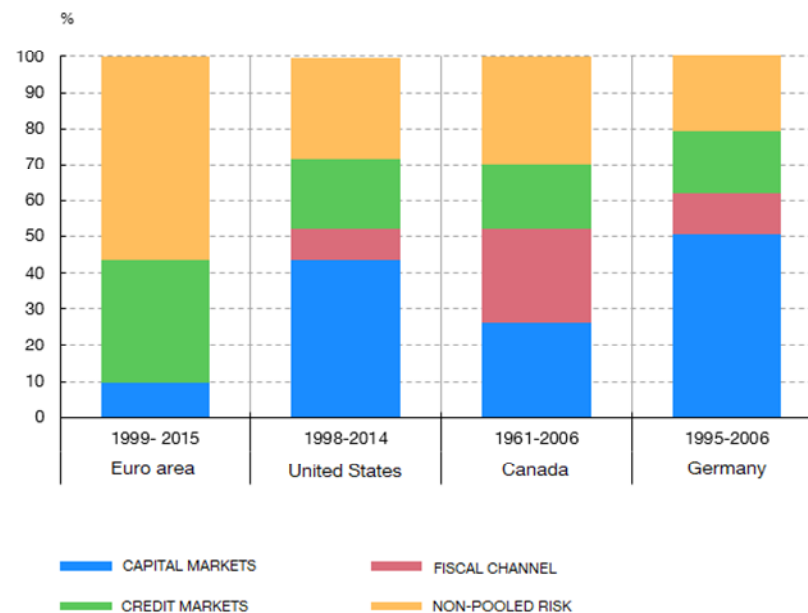


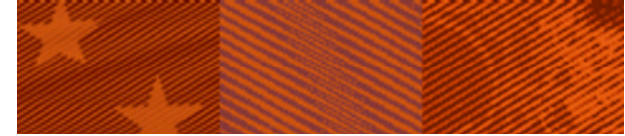


TASKS OUTSTANDING

- Deepening of the banking union
 - Common financial backstop to the SRF
 - European Deposit Insurance Scheme
- Capital Market Union
- Fiscal Governance Framework and Fiscal Union

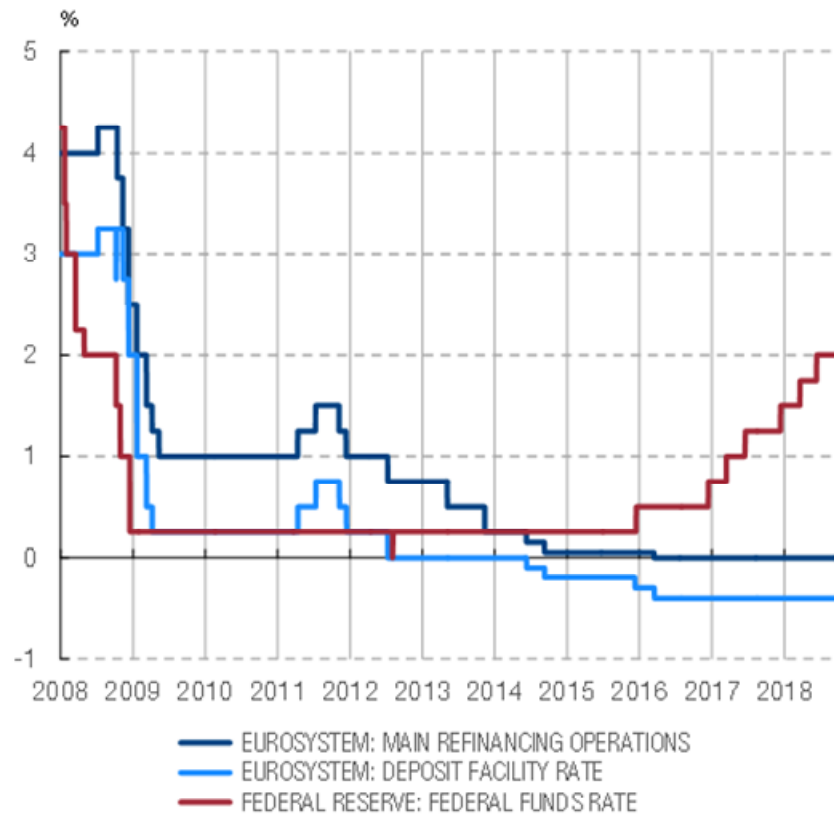
STRENGTH OF RISK-POOLING CHANNELS: INTERNATIONAL COMPARISON



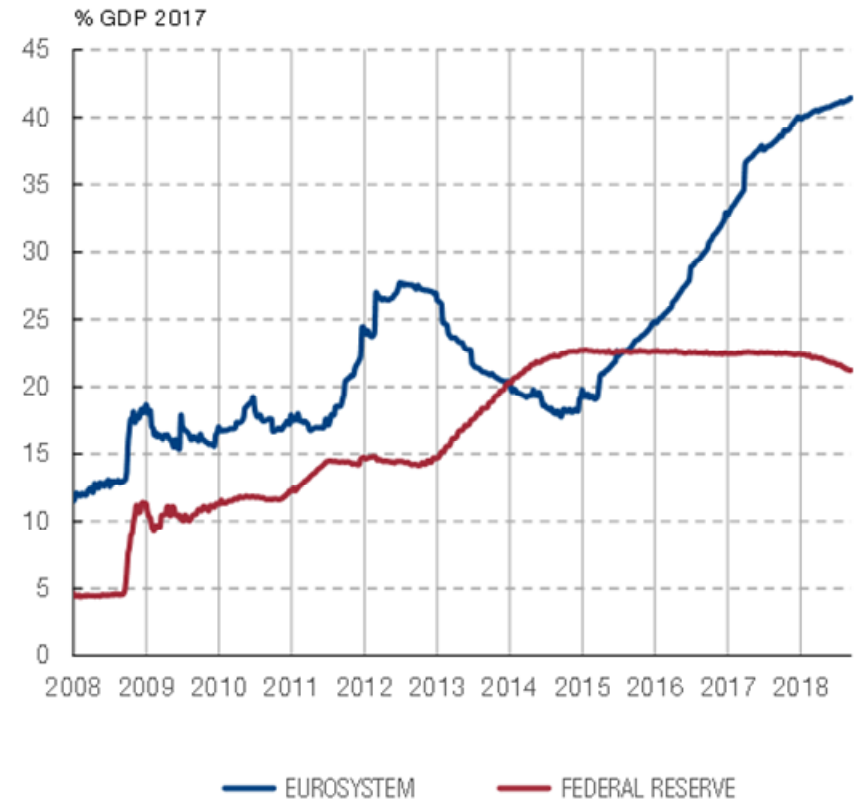


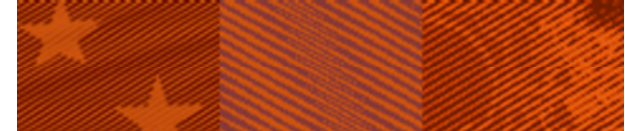
Monetary policy in the face of the crisis.

POLICY INTEREST RATES

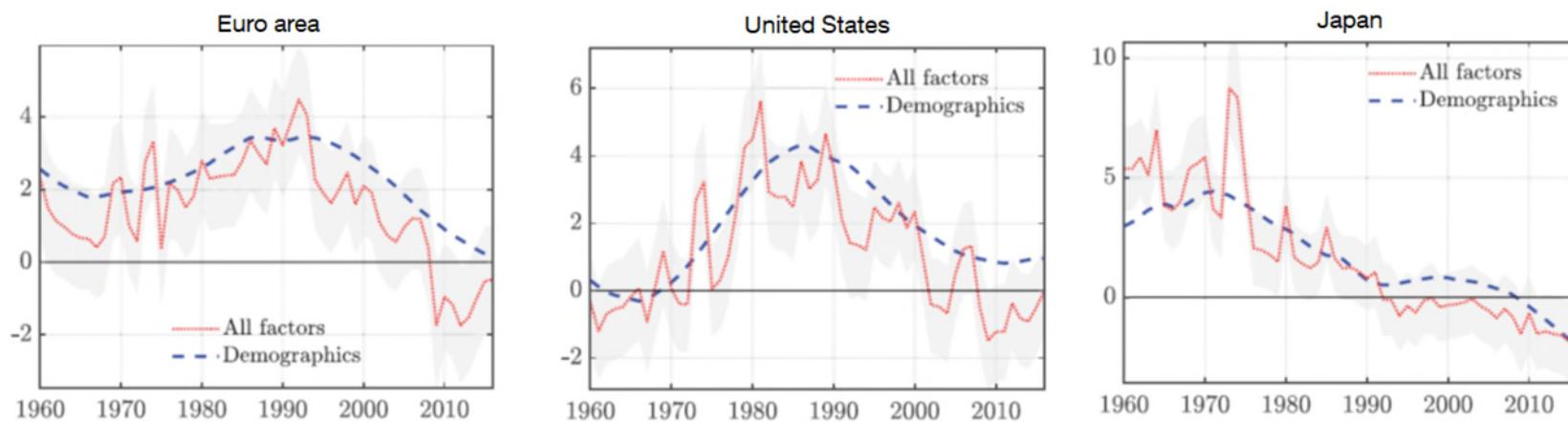


CENTRAL BANK'S BALANCE SHEET





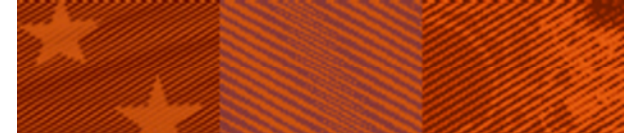
Long-term challenges of monetary policy



Note: Estimates of the natural interest rate and its determinants.

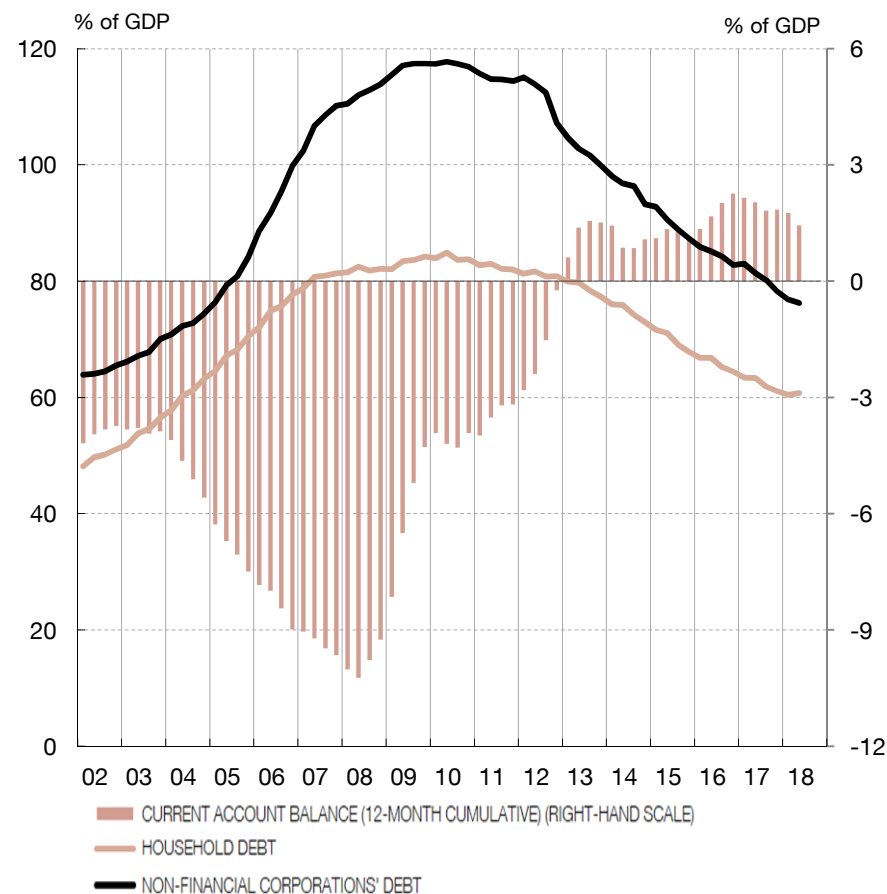
Source: Fiorentini, Galesi, Pérez-Quirós & Sentana (2018).

THE POST-CRISIS SPANISH ECONOMY: ACHIEVEMENTS



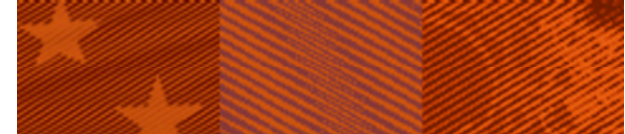
- Private-sector deleveraging
- Improved competitiveness
- Current account surplus
- Adjustment of the real estate sector
- Restructuring and clean-up of the financial sector

PRIVATE DEBT AND CURRENT ACCOUNT BALANCE IN SPAIN

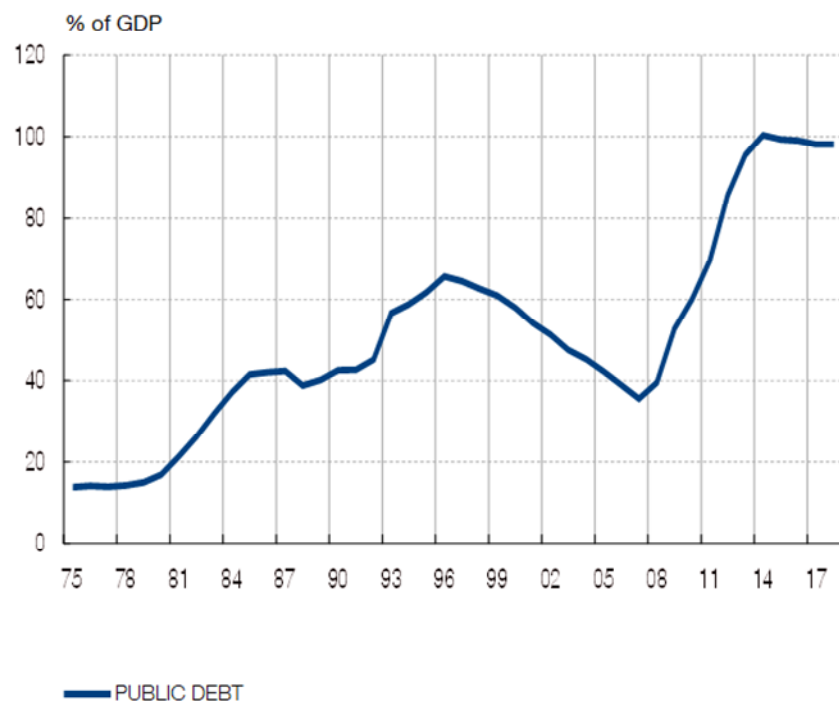


Source: Banco de España. Latest figures: 2018 Q2.

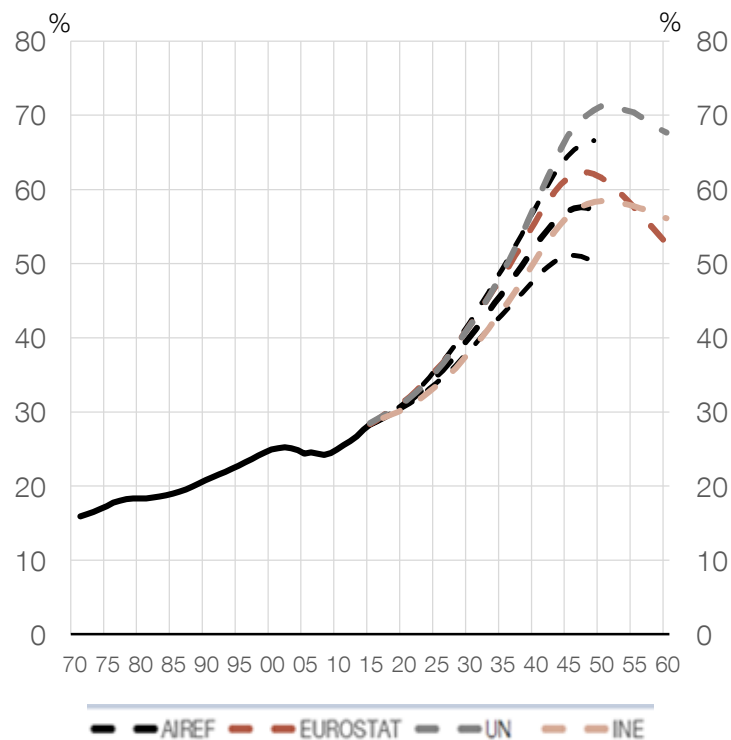
MAIN CHALLENGES FOR THE SPANISH ECONOMY: PUBLIC DEBT



PUBLIC DEBT

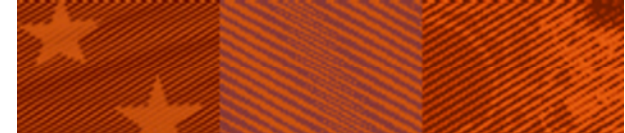


DEPENDENCY RATIO (OVER 65s RELATIVE TO
POPULATION AGED 15-64)

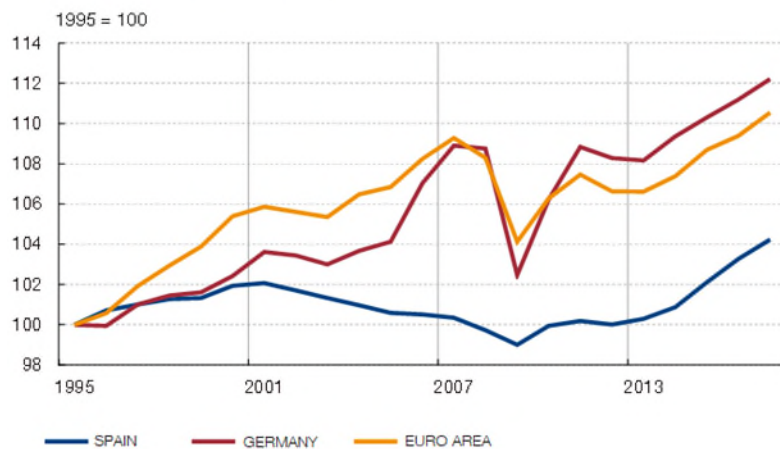


Sources: AIREF, Eurostat, INE and UN.

MAIN CHALLENGES FOR THE SPANISH ECONOMY: PRODUCTIVITY AND EMPLOYMENT

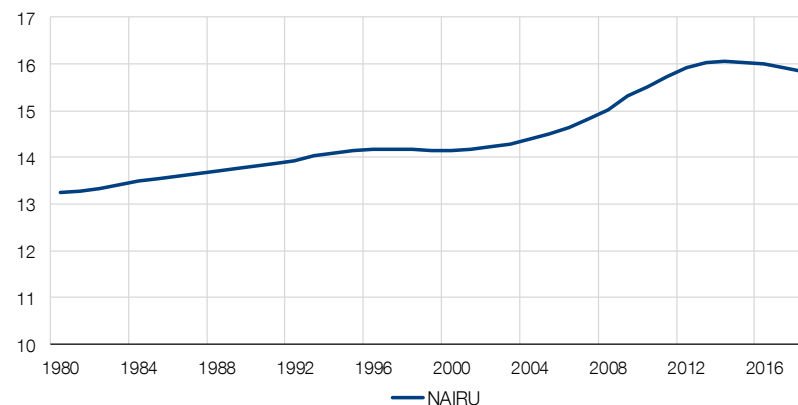


TOTAL FACTOR PRODUCTIVITY



SOURCE: Eurostat.

STRUCTURAL RATE OF UNEMPLOYMENT (%)



Source: Banco de España. Latest observation: 2018.

ACHIEVEMENTS AND CHALLENGES OF THE SPANISH BANKING SECTOR

Achievements

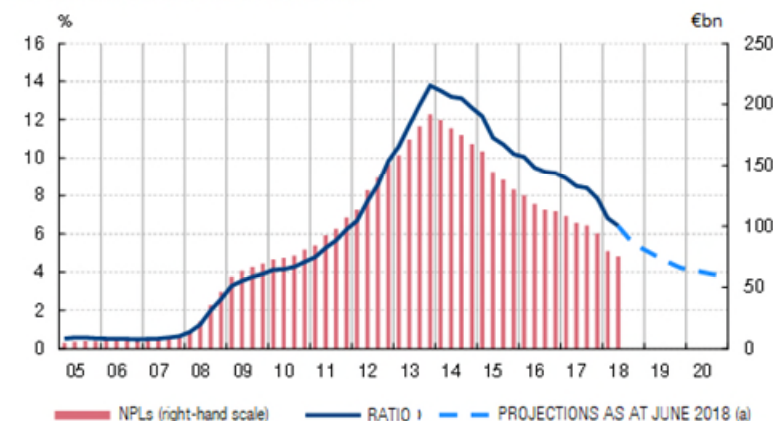
- Reduction in unproductive assets
- Increased solvency
- Recovery in profitability

Challenges

- Speeding up the reduction in unproductive assets
- Increasing profitability without undue easing of lending standards
- Strengthening the reputation of the sector
- Shoring up capital and liabilities subject to bail-in
- Adapting to the new competition and banking disintermediation framework



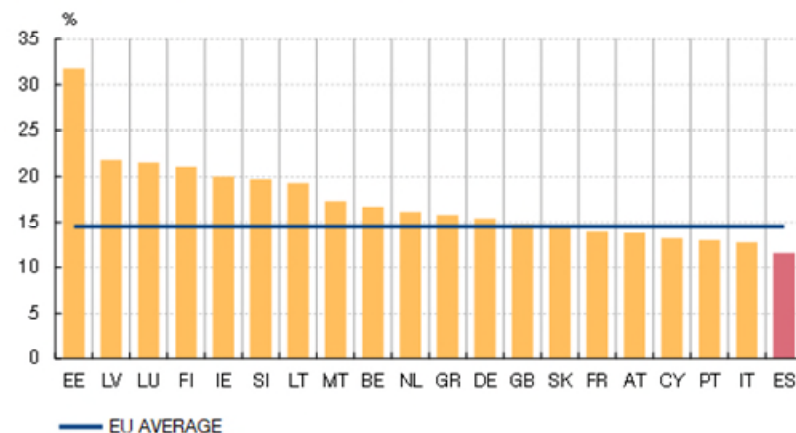
NPLs AND NPLs/LENDING RATIO



SOURCE: Banco de España.

a. Based on a single-equation dynamic model in which the volume of NPLs is related to the level of GDP, the unemployment rate, the credit/GDP ratio and the changes in real GDP and in the nominal interest rate on credit, along with dependent variable lags.

CET1 CAPITAL RATIO, JUNE 2018



Source: European Banking Authority.