ECONOMIC POLICY: THE CHALLENGE OF FUTURE CRISES

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HEADWAY IN SUPRANATIONAL ECONOMIC POLICIES AND THE CHALLENGES INVOLVED

- Reform of the international financial system
- Globalisation and global trade
- New institutional architecture of the euro
- Monetary policy
- Fiscal policy
- Structural reforms outstanding
- Challenges to Spanish banks
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.
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.


Protectionism as a risk factor for the global economy

Post-crisis global trade policies

➢ **Proliferation of protectionist measures**
  
  o Short and medium-term adverse effects for activity in the economies on which the measures are imposed and for those that adopt them.
  
  o Increase in the vulnerability of economies in the face of negative domestic shocks.
  
  o 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).**

NEW INSTITUTIONAL ARCHITECTURE OF THE EURO

PROGRESS

- Strengthened surveillance of macroeconomic and fiscal imbalances
- Creation of the ESM
- Creation of the SSM
- Creation of the SRF
NEW INSTITUTIONAL ARCHITECTURE OF THE EURO

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**

- **EUROSYSTEM: MAIN REFINANCING OPERATIONS**
- **EUROSYSTEM: DEPOSIT FACILITY RATE**
- **FEDERAL RESERVE: FEDERAL FUNDS RATE**

**CENTRAL BANK'S BALANCE SHEET**

- **EUROSYSTEM**
- **FEDERAL Reserve**
Long-term challenges of monetary policy

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

MAIN CHALLENGES FOR THE SPANISH ECONOMY: PUBLIC DEBT

PUBLIC DEBT

% of GDP

75 78 81 84 87 90 93 96 99 02 05 08 11 14 17

PUBLIC DEBT

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

% 70 75 80 85 90 95 00 05 10 15 20 25 30 35 40 45 50 55 60

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