

## Luis de Guindos: Closing remarks - VIII High-level Policy Dialogue between Eurosystem and Latin American central banks

Closing remarks by Mr Luis de Guindos, Vice-President of the European Central Bank, at the VII High-level Policy Dialogue between Eurosystem and Latin American central banks, Cartagena, 29 November 2019.

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After two days of fruitful discussions, I would like to thank you for a lively and honest exchange of views. I am grateful for your openness in sharing experiences and for the positive discussions on topics that are highly relevant for policymakers everywhere.

Let me briefly summarise the key topics we addressed and give you my main takeaways from this meeting:

- ♦ We looked at fostering growth and trade. Protracted weakness and the persistence of prominent downside risks are not only common factors in many of our economies, but are also global phenomena. The weakness in global trade growth – which has decelerated sharply in recent quarters<sup>1</sup> – is particularly pronounced. Trade tensions and increased protectionism are key drivers of the observed weakness in trade and can also explain part of the subdued momentum in global activity. While some countries might have benefited from positive trade diversion effects, such benefits may have been more than offset by elevated trade policy uncertainty.
- ♦ Current subdued GDP growth rates are, however, also homemade. Not sufficiently addressed fiscal and structural weaknesses and low levels of investment typically explain subdued growth figures. In addition, political events – and sometimes tensions – aggravate the situation. Still, the specific country experiences with policy mixes targeted towards increasing potential growth, productivity and investment, while also addressing inequality, are among the most interesting takeaways for me. And the important role of institutions in the reform process has once again come to the fore.
- ♦ On the positive side, there are pockets of opportunity. There are, for example, efforts in both the euro area and Latin America to open up further and to facilitate trade, though the situation differs significantly across countries. There are clear benefits of opening up and facilitating trade and integration – which seem too often forgotten in the public domain these days. However, it is also evident that the most sustainable overall welfare gains are only seen when sufficient attention is given to redistribution. Inequality is a cause for concern, not just in many Latin American countries but also in the euro area.
- ♦ We also reflected on global financial governance and the Eminent Persons Group (EPG) report. The EPG recommendations are comprehensive and far-reaching. Reform proposals cover many issues:
  - ♦ Development
  - ♦ Capital flows and financial stability
  - ♦ Risk surveillance
  - ♦ Enhancing the Global Financial Safety Net and
  - ♦ Governance.
- ♦ The proposals have varying degrees of ambition and detail, and the same is true for the follow-up work in the G20 and in other fora.
- ♦ We reviewed the proposals on the table, most notably on strengthening global financial resilience through increased surveillance, particularly of risks, and through better integrated advice on monetary policy, macroprudential policy and capital flow measures.

While we acknowledged that all of the topics covered in the report are clearly relevant, approaches to address them are at times controversial.

- ♦ We also discussed the role of central banks, which is limited given their domestic mandates. Still, there is recognition that, for example, capital-sending countries have a stake in global financial stability. Major central banks, including the ECB, are therefore analysing the impact of monetary policy spillovers on financial markets and international capital flows. Driving forces behind many topics discussed are international organisations, often cooperating with each other.
- ♦ There were also some concerns on the process and the fact that it is mostly driven by the G20. Given the large number of topics, there was also some discussion on whether some prioritisation is desirable. More generally, in some areas further work and analysis is needed to strengthen our understanding of underlying issues, before the right reforms can be formulated.
- ♦ But don't get me wrong: more analysis cannot be a pretext for inaction. In fact, there was a general consensus that progress is needed on many issues mentioned in the EPG report. The discussion also highlighted that cooperation and multilateralism are key to finding solutions, even if many of the problems also need to be addressed at the domestic level.
- ♦ Turning to global financial stability, its environment is challenging. Risks are increasing and economic growth in many countries is slowing.
- ♦ We identified some of the major vulnerabilities, many of which, common to most countries around the table, such as high indebtedness, signs of mispricing of financial assets and increased risk-taking in the non-bank financial sector. Risks differ in some cases and include political instability, capital flow volatility, high levels of non-performing loans or low bank profitability.
- ♦ It is crucial for us to not only directly address the visible vulnerabilities, but also to prepare for the unpredictable events by strengthening resilience in the financial sector. Important actions in this regard are:
  - ♦ the full and timely implementation of international bank regulation standards;
  - ♦ countercyclical macroprudential policies for banks;
  - ♦ appropriate regulatory and macroprudential frameworks in the non-banking sector.
- ♦ We finally also widened the concept to include not only financial but also economic resilience to promote economic and financial stability. There is no one-size-fits-all solution, but any policy mix requires adequate macroprudential, fiscal and structural elements. Finding the right policy mix is a complex exercise, but the real obstacles are usually institutional, i.e. getting political approval and ensuring implementation.
- ♦ We also reflected on the role of central banks and international organisations in helping to strengthen resilience. While acting within their mandate central bank tasks have generally widened and expectations for action on a wide range of issues have increased.
- ♦ Our discussions were not only pleasant but insightful. The meeting also confirmed that Latin America is an important partner for us in Europe in this changing world and demonstrated the value of our bilateral and multilateral cooperation.

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<sup>1</sup> Bobasu, A, Manu, S. and Quaglietti, L. (2019) "What is behind the decoupling of global activity and trade?" *Economic Bulletin*, Issue 5, ECB.