Madrid, 17 de octubre, 2018

Buenos días,

Good morning,

- Querido Gobernador, Querida Subgobernadora
- Authorities,
- Ladies and gentlemen,
- Mr. Peter Praet, Dear Peter,

On behalf of CaixaBank, it is my pleasure to welcome you to a new event organized by Cátedra ”la Caixa” Economía y Sociedad.

I would like to thank and welcome Mr. Peter Praet, who has been so kind to accept our invitation and who will be talking this morning about “Economic policy making under uncertainty”.

Uncertainty is the talk of the town and has been so for the last ten years. Last month marked the tenth anniversary of the bankruptcy of Lehman Brothers, the event which, in the collective imagination, dates the beginning of the biggest global financial crisis since 1929. Much has been done to correct the deficiencies that led to that crisis. Today, the financial system is safer, the global economy grows at a reasonably solid pace and the scars of the recession have started to heal. But the outlook is also surrounded by important sources of risk, such as those related to rising populism and protectionism, high debt, vulnerabilities in emerging economies, and instability in global financial markets.

In such a complex scenario, it is fortunate to have with us a top economist who has been at the forefront of economic policymaking throughout the financial crisis, and who holds a prominent role in the design and implementation of euro area economic policies.

Mr. Praet has been, since 2011, a member of the Executive Board and the Governing Council of the ECB, where he serves as the Chief of the Directorate General for Economics –in simpler words, the Chief Economist, a key position in shaping the intellectual debate within the ECB and, hence, the design of its monetary policy.

Before becoming a central banker, Mr. Praet developed a career both in academia (as a professor of Economics at the Université Libre de Bruxelles from 1980-1987, where he had earned his PhD in Economics) and in the private sector, as Chief Economist of Générale de Banque (subsequently Fortis Bank) between 1988 and 1999. He then served as Chief of Cabinet for the Belgian Minister of Finance (1999-2000) and moved on to be Executive Director of the National Bank of Belgium from 2000 to 2011 before joining the top ranks of the ECB.

His term at the ECB has coincided with a challenging environment for central banking and, in particular, for Eurozone central banking. Throughout his years in office, the ECB has emerged almost as the single policy institution able to stabilize the European economy and, with that goal, it has effectively embraced the use of unconventional monetary policy tools after some understandable initial hesitation.

He joined the Executive Board of the ECB as the European sovereign debt crisis was unfolding and the ECB had just announced the launch of a “Securities Market Programme” (SMP), which allowed for the discretionary purchase of sovereign bonds in secondary markets for the first time in the ECB’s history.

In 2012, the ECB boosted the SMP by transforming it into the Outright Monetary Transactions programme. This was a key step (I’d say the key step) to put an end to the fears of a Eurozone-breakup without never actually needing to implement the program (a development that you might best recall by Mario Draghi’s “whatever it takes” statement).

Markets calmed down and financial tensions eased, but there remained concerns with the transmission of monetary policy to peripheral countries, as well as with low inflation rates and sluggish growth. The ECB pushed forward. It lowered interest rates to historical lows and adopted the U.S. and the UK’s central banks’ crisis-fighting tools by implementing a full-fledged quantitative easing program. Thus, it brought about today’s low rates and compressed risk premiums environment.

All these were extraordinary measures in extraordinary times. There is no doubt that the ECB's expansionary monetary policy has been instrumental in taming episodes of financial turbulence and has provided support to the recovery of activity in the Eurozone. However, an environment of extraordinarily low interest rates –in fact, negative in real and nominal terms– and flattened yield curves also has well-known negative side effects and potential implications for financial instability.

When confronting the unwinding of unconventional monetary policies, central banks need to walk through a narrow path between doing too much too soon and doing too little, too late. The former might lead to problems of low growth and low inflation, and the need to implement even further unorthodox policies in the near future. The latter, to problems of financial instability, distortions in capital allocation and increased indebtedness.

Another way to think about the choice of the policy mix is in terms of the diagnosis of the underlying economic situation.

One prevalent view among monetary policymaking holds that there are structural forces –such as population ageing, low productivity growth or higher risk aversion– that force central banks to keep interest rates at relatively low levels: a so-called "new normal". Thus, this view fears tightening too soon and too fast.

However, one should also consider the risks of doing too little too late. The experience of the last decades tells us that easy financial conditions in times of firm economic growth might lead to excessive risk taking, increased leverage, asset overvaluation, and, eventually, financial instability. Hence, if the prevalent view is mistaken and we are not in a "new normal", a slow normalization of the monetary policy reinforces an environment of large risks for the international financial system, which could also result in large costs.

Furthermore, as we rethink the optimal design of economic policies, we should broaden our scope and analyze how different policy areas interact with each other. In the last decade, monetary policy has borne most of the policy burden –to the point that it has been labeled "the only game in town". To some extent, this only shows that monetary policy is a powerful tool, but it is no without side effects.

Stabilizing an economy and, just as importantly, doing so in a way that the next expansion advances on the tracks of a sustainable growth pattern are complex tasks that are best achieved when the different policy areas (regulation, fiscal policy, monetary policy, structural reforms) work jointly. Now that the economy has firmed up and we are at the beginning of policy normalization, embarking on this process with a long-term view will be key to avoid past policy mistakes.

All this sounds and is difficult and complex and we are blessed to have Peter Praet with us to shed light on it. Mr. Praet's career is not only an impressive one but it is also multifaceted: he has contributed to the understanding of economics from an academic point of view as well as from his experience in the private sector, and has himself shaped the workings of the economy as a high-profile policymaker. I am sure his thoughts and insights will prove a most useful guide to understanding the challenges ahead of us.

Thank you very much.

The floor is yours, Peter.