A wake-up call from the central bankers

Diario Expansión (Spain)
Sonsoles Castillo
04 Sep 2017

The famous Jackson Hole symposium, a gathering of the most prominent central bankers (among others), was held last week in the United States and yielded very few headlines. US Federal Reserve Chair Janet Yellen and ECB president Mario Draghi have eschewed any bombastic statements. They have not even offered fresh clues on the next moves for monetary policy, which has left the markets waiting for the meetings scheduled for September. It should be recognised that they themselves had already dampened expectations. Yellen appeared in what could be her last symposium at the helm of the Fed having extensively flagged her intention to make a start on unwinding the balance sheet in the final quarter of the year. And Draghi, who is preparing the ground for pulling out of the ECB's asset purchase programme, had also alerted us before the summer to the fact that this matter would be discussed by the Bank's Governing Council in autumn. There being no further clues, we are given to understand that things are going as planned. Thus, over the next few months, more steps will be taken as part of the slow normalisation process for monetary policy in both the United States and the eurozone.

None of this takes away from the importance of Jackson Hole, where discussion has turned to how to revitalise global economic activity. It is no accident that Yellen and Draghi have chosen two topics which have begun to loom large this past year, namely financial stability and globalisation — or perhaps we ought to say deregulation and protectionism? Both of them have spoken up in favour of the benefits of both and warn of the dangers of failing to nip in the bud any policies that "threaten" free trade and international cooperation, or that raise the spectre of dismantling measures that have helped to bolster financial systems. As I said before, the chosen topic is no accident and leaves the political class, which are the ultimate decision makers on the matter, with a clear message: "don't undo what has been achieved".

With respect to free trade, Draghi reminds us that this is one of the ways in which we can enhance productivity, given that it boosts the spread of technology and improves efficiency. And this is why it is a driver of potential growth. Draghi concedes that the public perception does not reflect this, and that a natural response to the uneven distribution of benefits that trade brings can be protectionism. Yet we must stand up to this threat, hence his call to both "resist" protectionism and offer solutions to those who might be adversely affected, either via redistribution and training policies or by means of multilateral cooperation.

A similar view is shared by central bankers as regards financial stability's role in economic growth. Yellen moreover links the various reforms undertaken over the last decade in connection with oversight and regulation to the strengthening of the financial system and, by extension, to economic recovery. Even though the Fed recognises that there is room for improving regulation and that we should evaluate effects in greater depth, it has shown its commitment to prudent regulation and, above all, is warning not to take current macroeconomic or financial stability for granted. Draghi goes one step further and underscores the interplay between monetary policy and financial regulation. In a situation like the present one, with very lax policies, relaxing regulation is not an option and would be particularly "ill-timed". Put differently, if the central banks sense imminent deregulation, they will be less inclined to continue with such expansionary monetary policy.

These statements were the cherry on top of the contributions from the other participants, whose proposals for rekindling growth addressed innovation, keeping markets competitive, designing proactive policies to offset undesirable redistribution effects from trade or from technological change, and the elbow room that fiscal policy might offer without causing disruption to long term budgetary stability. In short, this year's symposium marks the end of a long decade since the global financial crisis broke out. A crisis which, quite unsurprisingly, has set the agenda for discussion at events of this kind. 2018 should mark a new phase where the central banks leave the spotlight to other institutions. They have already done their job.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.