



*Real Academia  
de Ciencias Económicas y Financieras*

Macroguidance of the financial markets  
in transition

La realización de esta publicación ha sido posible gracias  
a la colaboración de las siguientes entidades



Barcelona 2010



Publicaciones de la Real Academia de Ciencias  
Económicas y Financieras

# Macroguidance of the financial markets in transition

Discurso de ingreso en la Real Academia de Ciencias Económicas y Financieras leído,  
el 20 de Mayo de 2010  
por la Académica Correspondiente para Finlandia

EXCMA. SRA. DRA. DÑA. SIRKKA HÄMÄLÄINEN-LINDFORS

Y contestación del Excelentísimo Sr. Académico de Número

EXCMO. SR. DR. D. RAMÓN POCH TORRES

Barcelona, Mayo 2010



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EXCMA. SRA. DRA. DÑA. SIRKKA HÄMÄLÄINEN-LINDFORS



## RESUMEN

La crisis de los mercados financieros se inició por causas macroeconómicas mundiales, pero la falta de reacciones apropiadas por parte de los bancos centrales y los supervisores para garantizar una mayor liquidez y seguimiento del crecimiento bancario hicieron posible la escalada de la crisis.

Los objetivos de una inflación flexible ofrece espacios para la puesta a punto de la política monetaria para reaccionar ante la expansión crediticia y el incremento del precio de los bienes. No obstante es la supervisión el área principal que precisa modificarse. Junto a considerables mejoras en la regulación y supervisión de los mercados financieros se deben fortalecer las regulaciones macroeconómicas entre bancos centrales y supervisores. La conexión de los bancos centrales en contacto permanente con los mercados financieros así como su gran competencia para realizar análisis macroeconómicos, los convierte en candidatos naturales para hacerse cargo de la política de estabilidad macroeconómica ubicada entre la política monetaria y el sistema de supervisión

**Palabras clave:** Crisis del mercado financiero, Política monetaria, Regulación y supervisión de los mercados financieros



## ABSTRACT

Global macroeconomic factors initiated the financial market crisis, but lack of proper reactions from central banks and supervisors to increased liquidity and growing shadow banking made the escalation of the crisis possible.

Flexible inflation targeting offers some room for fine-tuning of monetary policy to react to credit expansion and asset price increases. Main area for a change is, however, supervision: Together with considerable improvements in micro-prudential supervision, intensified macro-prudential cooperation between central banks and supervisors is necessary. Central banks with their close market contacts and macro-analysis capabilities are natural candidates for taking charge of macro-prudential stability policy, that lies between monetary policy and micro-prudential supervision

**Palabras clave:** : Financial market crisis, Monetary policy, Macro-prudential supervision



## SALUTACIÓN

Your Excellency Señor Presidente,  
Your Excellencies Señores Académicos,  
Señoras y Señores,  
Distinguished Audience,

I want to express my deep gratitude for the magnificent honour bestowed upon me. I very much appreciate my appointment as Foreign Academician for Finland in the prestigious Royal Academy, whose centuries-long history constitutes an important part of Spanish history. Your institution has lent and continues to lend valuable support to economic, scientific and cultural development both in your own country and internationally. Your work for the benefit of solidarity, progress and freedom in the societies represented in the work and membership of the Academy is truly impressive and highly appreciated.

Ties between Spain and Finland have always been important on many levels and in many ways. The common currency and monetary policy, which was initiated 11 years ago, has significantly increased and reinforced ties and co-operation between our two countries. I myself have very pleasant and precious memories from numerous dialogues and discussions with representatives of your universities and financial markets. I think especially warmly of my Spanish central bank colleagues during my time at the European Central Bank as it began its operations as a new institution.

My respectful thanks for the recognition and trust you have placed in me!



## INTRODUCTION

The worldwide crisis has prompted questions about how such a resolute failure in the development and guidance of the markets could take place. Why did the circulatory system of the market economy become so clogged that its rescue, and the rescue of the global economy's vital functions, required electric shock therapy and the help of an artificial heart in the form of massive public aid?

There has been extensive research into the subject, and it has been treated in numerous publications, seminars and discussions by both academic and industry actors. Many answers have been found, and there is a consensus on many matters. But numerous questions remain open, and even explaining the past presents no shortage of challenges.

The most important thing is, however, to look ahead. Fairly wide consensus prevails that the financial market's steering and regulatory systems should be improved in order to avoid a similar catastrophe in future. But there is much populism in public discussion and different opinions among researchers as to the actual content of the required changes.

Building for the future must always be based on an understanding of the past, but we also need visionaries and innovators to look forward with an unbiased vision. It is not enough to avoid the mistakes of the past – it is vital to be alert and recognise the new risks connected with emerging developments.

The first part of my presentation briefly notes the most essential factors behind the financial market crisis. The second part deals with monetary policy, its potential in preventing a crisis, and changes to policy goals and instruments that may be required. The third part provides a general overview of changes and improvements needed in the macroprudential framework of the financial markets. The final part deals with challenges in other areas of economic policy.

## I HOW DID THE CRISIS EMERGE?

Right from the outset it should be emphasised that there is nothing new under the sun: Financial crises of different magnitude have always occurred, and at quite frequent intervals, in fact<sup>1</sup>. I'm sure we all have personal experience of some degree of crisis – my own includes the particularly deep and severe national financial crisis in the beginning of the 1990s, when, as Governor of the Bank of Finland, I was quite deeply involved in resolving it.<sup>2</sup>

Cyclical patterns are a part of the market economy, and recessions a natural phenomenon. Schumpeter's creative destruction ensures that viable companies survive and unproductive ones die. Financial institutions can similarly be subject to the beneficial force of that creative destruction when failures are individual, limited and small-scale.

But the crisis now experienced has been exceptional in terms of its economic and regional dimensions, its impact on growth and its social burden, almost on the scale of the Great Depression of the early twentieth century. Even the firmest defenders of the market economy see it as a severe failure.

The crisis began in the United States, triggered by the bursting of the twin bubbles of American housing prices and subprime mortgages in 2007, and it was further fuelled by the default of the Lehman Brothers bank in September 2008. Wall Street greed, misguided incentive systems in financial institutions and irresponsible bankers have received a lot of publicity and political blame. They certainly played a significant role, but the roots of the crisis and its true causes are substantially broader and deeper<sup>3</sup>.

### 1. Too easy monetary policy?

The crisis was preceded by an exceptionally long period of steady growth and low inflation in both developed and emerging market countries. The pol-

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1. Concerning past crises and their anatomy, see e.g. Reinhart & Rogoff, Ferguson

2. Honkapohja

3. This crisis, its reasons, contributing factors, gradual development and other associated phenomena have been extensively treated in several works and publications, including e.g. Krugman, Reinhart & Rogoff, Ferguson, Sorkin, Paulson, Münchau, Stiglitz

icy goal of central banks around the world was low inflation, and when it was achieved, interest rates remained low. Low inflation and low inflationary expectations were widely perceived as a monetary policy success.

But low inflation was not solely the result of monetary policy and its credibility. Cheap goods and strong price competition from Asian and other low-labour-cost countries kept price levels in check in developed countries, too. It is argued that monetary policy preceding the crisis was too loose, particularly in the United States but also in the UK, and that interest rates were too low in view of the circumstances<sup>4</sup>.

Low interest rates, and confidence that they would remain low, led to increasing demand for assets and a large appetite for credit. Low returns from the traditional financial market instruments prompted investors to seek higher-yield investment instruments in housing, property, business, derivative and other markets.

In addition to each country's own domestic demand, financial instruments in developed countries – in the United States above all others – were subject to strong demand from emerging markets which had plenty of resources to invest as a result of high savings rates, but few investment opportunities due to their underdeveloped financial systems. Strong demand led to a rise in the prices of assets, and to a fall in long-term interest rates.

Innovative financial market institutions responded to demand for higher-yield assets by developing both very short-term and longer-term market instruments that were complex and external to the banking system. These “shadow banking markets” functioned in the same way as banks, and contributed to credit expansion and money creation. The complicated and opaque markets noticeably intensified the growth in market volume and overall liquidity, and altered the transmission mechanism of monetary policy.

Within central banks and academic circles, strong credit growth and asset price increases were viewed with concern. But the message from the central banks was that, first of all, monetary policy makers were not able to evaluate and

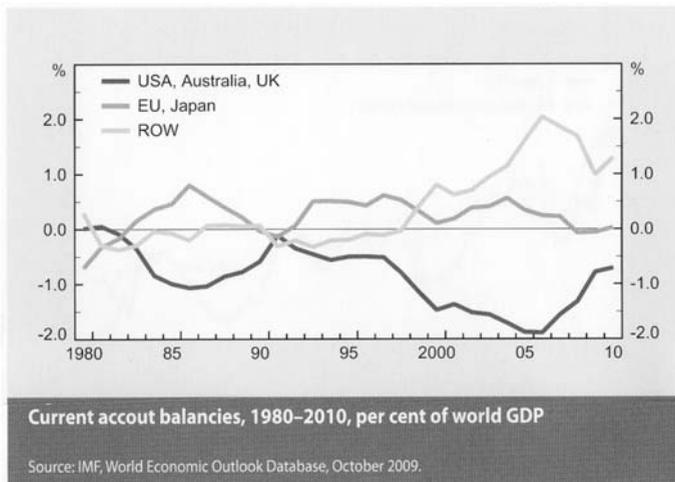
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4. Taylor

decide when a genuine bubble had emerged in asset prices, and that, secondly, the only instrument available to monetary policy, interest rate, can only aim at one objective: low increase in consumer prices. In addition, the monetary policy and communication of the US Federal Reserve, in particular, bolstered the markets' confidence in central bank rescue. The markets believed that should problems arise and a recession threaten, the Central Bank would act aggressively to provide support. A serious case of moral hazard had emerged.

## 2. Global imbalances

According to theory, the economic growth and international integration of China, India, Brazil and other emerging market countries should have entailed large current account deficits for those developing countries and current account surpluses for the developed countries. i.e. the flow of capital from the advanced countries to the emerging countries. In reality, since the beginning of the 1990s, the situation developed in the opposite direction. The United States' current account deficit exploded, and the surplus run by Asian countries – China especially – grew steeply.



There are differing interpretations of this current account imbalance. Some point the finger at over-consumption in the United States, and at the resulting overall indebtedness of the US economy. Others see an explanation in the high sav-

ings rate and weak investment opportunities in Asian countries. The truth may lie somewhere inbetween. In all cases, China's exchange rate policies have been of key importance. An exchange rate, which in practice is fixed between the Chinese renminbi and the US dollar, has prevented a market readjustment.

Significant capital flows from emerging markets, in particular from China to the United States, made it possible for American consumers to continue borrowing and for the United States to finance its current account deficit. And as stated above, capital flows searching for profitable and safe investment opportunities fuelled innovation within American financial institutions in an unprecedented manner.

Regardless of the precise causality relationships, the development we have seen confirms that in a world of free capital flows, monetary policies tailored to national and domestic goals easily lead to global imbalances and problems.

### **3. Lagging regulation and supervision**

The fact of life is that regulation and supervision always and necessarily lag behind the innovative financial market industry. Over the last two decades or so, changes linked to globalisation and market structures have been rapid. Regulators and supervisors have faced substantial difficulties in keeping abreast of developments.

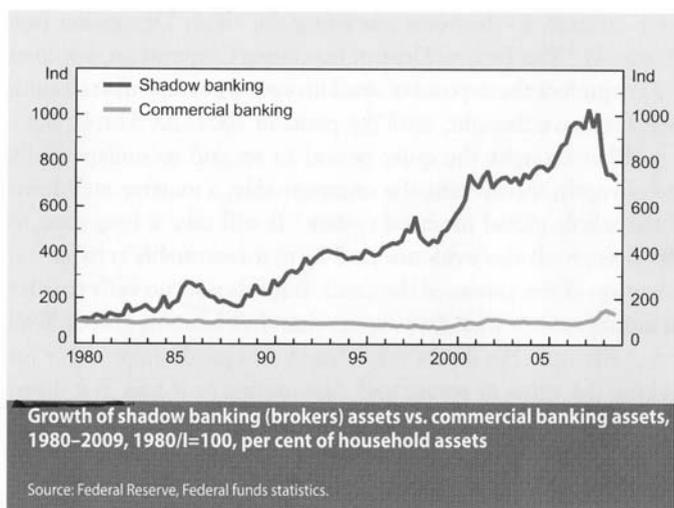
Fast securitization and the shift of financial intermediation from traditional banks to the markets for shares, bonds, funds and numerous other new financial instruments have created a complex and difficult-to-monitor shadow banking sector. Supervision is primarily national, and even nationally, supervision of various sectors is dispersed among different authorities. There has been significant investment in co-operation, and global integration has been supported by the activities of such bodies as the Bank for International Settlements and its Committees, as well as the Financial Stability Board, which operates under the G-20. Nevertheless, overall supervision has remained fragmented, also within the EU.

The inherently delayed response of supervision does not in itself explain why developments in the financial markets reached a point of profound crisis without any reaction from the supervisory bodies. When, regardless of inter-

national co-operation efforts, regulatory and supervisory solutions are subject to the national political authority, they naturally reflect national interests and ideologies.

In the period preceding the crisis, free market philosophy and faith in the supreme wisdom of market actors became stronger, notably in the Anglo-Saxon countries. The efficient-market hypothesis was widely adopted and accepted both in the academic field and among market actors. Faith in markets meant opposition to wider supervision and regulation, and opposition was well received by decision-makers, notably in the United States. Regulation and supervision were in fact weakened in the United States from the turn of the millennium onwards.

An important phenomenon in the mechanism which resulted in the crisis was the strong growth in shadow banking, outside of all regulation and supervision<sup>5</sup>. In 1980 the value of assets in the shadow banking sector was 10% of the value of assets in traditional banks, but in 2007 it exceeded the assets in the banks.<sup>6</sup>



5. Tucker (Jan.2010)

6. Nordics in Global Crisis

The shadow banking sector functions very much in the same way as traditional banking, and predominantly under the implicit responsibility of banks, but entirely outside of supervision. There was little transparency on how these markets functioned and no precise data on their scope. Just as a loss of confidence in traditional banks' operations triggers panic or a bank run, so the loss of confidence in shadow banking triggered panic and loss of liquidity. The shadow banking sector played a key role in the escalation of the crisis, and tight interlinkages between these markets and traditional bank markets rapidly infected the banking sector, too.

#### **4. What about wider shared responsibility?**

For a couple of decades preceding the crisis, in both academic and policy debate, faith in the ability of politically independent central banks to guide the economy had reached excessive proportions. The responsibility of fiscal policy in promoting economic stability, and thus also the stability of financial markets, was displaced by monetary policy.

For political decision-makers, high economic growth is the primary goal. They tend to have a strong bias towards growth-promoting policies, and thus also towards budget deficits. During the extended period of growth leading up to the crisis, public sectors should have achieved surpluses, if nothing else, just by allowing automatic stabilisers to work. Only a few countries achieved surpluses, and very few countries deliberately curbed growth by discretionary measures.

Expansionary fiscal policies - supported by tax structures with strong incentives in favour of indebtedness - contributed to asset price increases. When bubbles burst and collapse of the financial system threatened, the point of departure in state finances for tackling the crisis and stimulating the economies was generally poor.

The background to the subprime mortgage bubble which triggered the financial market crisis was also political: There was strong political support for private home ownership during the 1990s in the United States. This initiated radical lending growth by Fannie May and Freddie Mac, the house financing companies which operated under the state's implicit guarantee. And this led to strong growth

in overall housing financing and overheating in housing prices. The bubble began to burst as early as 2007 with the mortgage crisis, and by 2008, the crisis had spread to the entire financial market sector.

The reasons for the crisis have been summed up as Bad Policy, Bad Behaviour, Bad Luck.

I have above covered Policy. I am not discussing the role played by Bad Behaviour in this presentation, I just note that it was significant both in the emergence of the crisis and in its breadth and depth. The number of actors behaving badly has been frighteningly large: It has included many of the market participants – both providers of financial market instruments and services and investors who buy these instruments and services. The moral aspects of the crisis merit a thorough analysis, and they should be systematically taken into account when improving the regulation and microprudential supervision of the financial institutions.

I would not like to include Bad Luck at all in the rational evaluation of the global crisis. But as a matter of fact, the case of some individual countries can specifically be described as bad luck. Many small countries which were not guilty of either Bad Policy or Bad Behaviour – like Finland, for example – still ended up badly bruised by the crisis.

## **II SHOULD MONETARY POLICY CHANGE?**

Discussion on the possible need to changes in monetary policy can be divided into two main themes: The goals and instruments of monetary policy on the one hand, and the monetary policy channels or transmission mechanisms on the other.

### **1. A rethink of the goals of monetary policy?**

Both academic and central banking circles have traditionally been discussing the goals and objectives of monetary policy. Following the crisis, this discussion has naturally become livelier. Price stability as such is accepted as the primary goal of monetary policy, but differing views prevail on more specific questions such as

- whether any limits or targets should be set with regard to asset price increases
- how high a price increase should be regarded as price stability
- what is the timeframe for price stability targeting, and how much divergence from the target within this timeframe could be permitted
- which consumer price index should be used as a measure of price stability: the core inflation index (excluding e.g. food and energy prices, interest rates or housing prices) or the overall consumer price index.

The effectiveness of monetary policy requires stability in the financial system. Central bankers argue that monetary policy best protects the stability by guaranteeing low inflation. With the help of a single instrument, the interest rate, central banks can aim at only one goal: consumer price stability.

But, even in the absence of external factors, low consumer price inflation and low inflationary expectations can lead to asset price bubbles and endanger financial market stability. Low interest rates encourage market actors to borrow and to seek higher returns from assets outside traditional banking markets. Low interest rates further support growth and income expectations, and reinforce the appetite for debt and asset price increases. Price stability is a necessary condition for the stability of the financial system, but it is not a sufficient one.

During the long period of price stability preceding the crisis, many monetary policy experts were concerned about the likelihood of an asset price bubble<sup>7</sup>. There was debate about whether or not central banks should “lean against the wind”, react on credit growth and asset price developments in the framework of medium term inflationary targeting. Since the crisis, these views seem to have received increasing support<sup>8</sup>.

Central banks generally apply flexible inflation targeting. The price stability target is not pursued every month or year but in the longer term while short-term price development may diverge from the target. Some central banks have set pre-

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7. E.g. Borio and Lowe, Borio and White

8. E.g. Wellink, Kohn (2009)

cise limits to the deviations from the target (the Bank of England, Swedish Riksbanken), but many have not set or published any tolerance thresholds. The longer the horizon for the price stability goal is, and in particular, the less its fluctuation is explicitly limited beforehand, the greater weight can be given to credit growth and asset price developments in monetary policy decision making<sup>9</sup>.

However, this sort of approach inevitably risks jeopardising confidence in the anchoring of inflationary expectations. In a market-based environment, communication by central banks is an important channel for exercising monetary policy and for influencing price expectations. “Leaning against the wind”-policy would markedly increase the challenges in communication<sup>10</sup>.

Right from the outset, the framework of the European Central Bank’s monetary policy has been based on a flexible price stability goal and on a so-called two-pillar strategy. The primary objective of monetary policy has been to keep the rate of consumer price rises below but near to two per cent over the medium term. In making decisions on interest rates, the Central Bank follows both economic developments (the economic pillar) and monetary developments, including credit growth indicating risks in asset price development (monetary pillar). The ECB has been able, in principle, to apply a policy of “leaning against the wind” on the basis of its strategy.

With its steady hand policy, i.e. relatively rare interest rate changes, the European Central Bank has aimed at strengthening the impact of interest rate changes on the economy. In order to avoid jeopardising market confidence in price stability, it has also clearly held back from committing beforehand to any sort of interest rate trajectory<sup>11</sup>. In fact, the criticism of too loose monetary policy in the period running up to the crisis has not been directed towards the ECB.

The US Federal Reserve Bank follows a so-called “core inflation index”, which excludes food and energy prices. It is argued that it was precisely the use of this measure which led to overly loose monetary policy during the early

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9. Svensson, Kohn (2008)

10. Filardo, Carney

11. Trichet

2000s<sup>12</sup>. The European Central Bank defines price stability by more comprehensive price index. More important than the index used, however, is the timeframe for the price stability goal and monetary policy decisions: Under the ECB's longer-term, steady hand policy, the index used does not have the same importance as it possibly has in the US Federal Reserve's more active policy, where interest rate changes are more frequent.

As one solution to the conflict between the double goal of consumer price and asset price stability, and to the consequent confidence risk, the use of the medium term price level instead of the inflation rate as the objective of monetary policy has been suggested<sup>13</sup>. This form of targeting is, however, not based on a sufficient body of analysis. The two-pillar approach adopted by the ECB still appears to be a viable one.

The crisis has also once again raised a debate on the definition of price stability. A question has been raised whether the price stability target should be raised from the 2 per cent generally applied by central banks to 4 per cent. It is suggested that in spite of known detrimental effects of inflation, 4 per cent would offer greater room for manoeuvre to stimulatory monetary policy in a crisis situation<sup>14</sup>. These kind of proposals are dangerous: After the recent crisis and the exceptional measures associated with it, we must look further ahead to more normal times and aim at preventing the emergence of new crises. Changing the price stability definition in the manner proposed would run counter to this goal<sup>15</sup>.

## **2. Changes in monetary policy instruments and transmission?**

When financial markets were deregulated and central banks made politically independent, the tool box of monetary policy was limited: the only instrument available is the interest rate. Monetary policy steers very short-term interest rates, and the yield curve and longer-term interest rates are left to the markets. With deregulation, instructions and guidelines on banks' lending and lending conditions, used earlier at least in some countries, disappeared entirely from the arsenals of central banks.

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12. Taylor

13. Carney

14. Blanchard etc.

15. Bean

Over the last couple of crisis years, central banks have resorted to unorthodox measures, and aimed, for example, at guiding various parts of the yield curve. Experience is certainly useful in developing and innovating tools to be applied also in normal conditions, particularly taking into account the important lesson from the crisis: The real-life markets do not function according to efficient market hypothesis, as theory assumes.

The interpretations of monetary policy transmission mechanism that prevailed before the crisis have been severely challenged, also by central bankers themselves<sup>16</sup>. The general conception has been that monetary policy actions are transmitted to the markets and economies via interest rate and yield arbitrage. The main role in transmission has been limited to banks and their “credit channel”. Consequently the rest of the financial system has been excluded from the analysis, and the cross-sectional connections within the entire financial system have not been evaluated. There is a need to deepen and widen the analysis to include such factors as changes in regulation, in moral hazard attitudes, in financial market innovations, or in the balance sheet structures of the private sector.

A study currently under way will undoubtedly improve our understanding of monetary policy transmission. There cannot, however, be any fundamental change in the primary monetary policy objective to guarantee the value of money.

With regard to the financial system stability central banks’ key challenge is to prevent and avoid a moral hazard phenomenon. In the aftermath of the extraordinary support measures taken during the crisis, the elimination of moral hazard will require definite changes to microprudential supervision and legislation. All systematically important financial institutions must be covered. And the changes need to include tools for the restructuring and dissolving of institutions that have run into difficulty. The moral hazard can be wiped out only by getting free from the straitjacket of “too big to fail”.

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16. Carney, Tucker (Febr.2010), Blanchard etc, Kohn (2009)

### III MACROPRUDENTIAL GUIDANCE NEEDED

Microprudential supervision of the financial markets has been passed in many countries to separate and independent supervisory authorities as a counterbalance to the fully independent role of the central banks. Aiming at price stability has been seen to be in conflict with activities linked to microprudential supervision. There has also been a desire to avoid concentration of power in politically independent central banks. The separation of supervisory functions from the Bank of England, and the debate over the tasks of the European Central Bank, have been examples of this<sup>17</sup>.

Fragmentation has had its drawbacks. No single actor has had a sufficiently clear, holistic picture of changes in the financial markets and of the associated risks. The supervisory authorities have concentrated on the risks faced by individual institutions, primarily traditional banks, while the central banks have focused on the macroeconomic effects of interest rate policy.

Central banks have, however, long scrutinized macroeconomic and financial factors influencing financial market stability. Since the turn of the millennium this macroprudential aspect has assumed greater prominence<sup>18</sup>. The stability reports published regularly by central banks on system-wide developments and risks are evidence of this.

But although central banks perceived – or would have perceived – the trends threatening market stability, they had no powers comparable to those of regulatory and supervisory authorities to provide guidance or instructions to financial institutions. It should be admitted that even the mandate of supervisory authorities would not necessarily have been wide enough to prevent the crisis. Without authority, warnings have no effect.

The crisis has produced a broad consensus on the necessity of macroprudential policies<sup>19</sup>. A macroprudential approach, which lies between micropru-

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17. Padoa-Schioppa, ECB

18. Crockett

19. Bank of England, N'Diaye, Tucker (Febr.2010)

dential supervision and monetary policy, should focus on the financial system as a whole, its system-wide risks, cross-sectional connections, and dynamic feed-back chains between the financial system and the real economy.

But there is still a long way to go before this consensus is translated into concrete activity and practical organisation. In many countries, the crisis triggered active preparatory work to tighten and widen the scope of microprudential regulation and supervision in such areas as risk taking, capital ratios, taxation, rules connected with size etc. – This work is not as such covered by this presentation. – It will be a huge additional challenge to supplement this microprudential work with macroprudential elements. As in the area of microprudential supervision, the Committees of the Bank for International Settlements as well as the Financial Stability Forum under the G-20 are in a key position in this development work, both in combining different aspects and in sustaining global coordination.

Macroprudential policy reacts to system-wide cyclical conditions. This sort of cyclical regulatory policy can be implemented by making fixed microprudential ratios and rules flexible, i.e. flexibly changing or changeable according to the economic cycle, assumed risk, indebtedness, growth in lending, development of asset prices or other macrofactors. Policy instruments might include, for example, capital ratios, liquidity ratios, specification of conditions on lending such as loan-to-loan ratios, or haircut rules applied to securities used as collaterals<sup>20</sup>.

The aim of such measures is both to create cyclical buffers for the financial system and to moderate cyclical amplifying or multiplier effects between the financial market and the real economy.

Implementing macroprudential policy and developing its instruments face numerous challenges. The policy instruments need to cover the entire financial system as comprehensively as possible, and they should be internationally harmonised and neutral<sup>21</sup>. It is also important that the approach is as far as possible rule-based rather than discretion-based – even if powers for discretionary mea-

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20. Blanchard etc.

21. Trichet

asures must not be ruled out either. A difficult task with the rule-based approach is to find macrofactors which correctly depict the risk developments and amplifier effects, and to which rule-based tools could be tied.<sup>22</sup>

Another interesting issue which has prompted discussion is the institutional setup of macroprudential policy. Tight co-operation and extensive exchange of information is needed between regulators, supervisors and central banks. But there is also a need for one organisation in charge, with chief responsibility. This was one of the clear lessons from the crisis.

I personally strongly share the view that central banks would be a natural choice of organisation in charge. Both monetary policy and macroprudential policy constitute macro-oriented financial market policy, and require a comprehensive macro-perspective. The central banks' constant close connection and contacts with the markets, and their broad capacity and resources for macroeconomic analysis put them in a good position to carry out the duty, in close co-operation with microprudential supervisors<sup>23</sup>.

In both the EU and the United States, new proposals have been drawn up for the organisational structures of both micro and macroprudential supervision. In the EU the European Commission has submitted a proposal on the task of macroprudential oversight, which is now under consideration by the European Parliament. The intention is to charge a new, independent organ with the task: the European Systemic Risk Board. The members of the ESRB would comprise the Governors of each EU member state's central bank and representatives of the ECB, as well as the chairpersons of new supervisory organs responsible for microprudential supervision of the EU financial system, and a representative of the Commission. The European Central Bank would provide secretarial and analytical services for the ESRB.

The task of the ESRB would be to analyse changes and risks in the financial market, conduct stress tests, and build early warning systems. Where and when required, it should issue warnings and recommend measures concerning identi-

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22. Caruana, Bank of England.

23. Blanchard etc, Hämäläinen.

fied risks to the EU, the EU's member states or national supervisory authorities. According to the proposal, the responsibility for the measures and for reacting to the warnings would be left to the EU's organs, to the member states and to their supervisory authorities.

When improving the control of the financial system, pragmatism is important. It is important to avoid complex, sophisticated solutions which are expensive to both the supervised and the supervisors. Practical and easily applied measures which focus on the essential are needed. As in many areas, it is worth noting that aiming at fully-fledged international harmonisation easily leads to decisions being dangerously delayed or even prevented altogether.

Changes to regulation and supervision need to be implemented regardless of opposition from financial institutions. Such concerns presented by financial institutions as additional costs, a rise in the cost of financing and slower economic growth, are natural and understandable. But the task of political decision-makers is to pursue the long-term interests of society as a whole. A balance should be sought between moderate cost burden, on the one hand, and more stable and less crisis-prone economic development over the long-term, on the other. There is no need to continue supporting the experienced trend in the financial system growth in isolation from the real economy.

#### **IV SOCIETY-WIDE RESPONSIBILITY FOR GUARDING STABILITY**

Safeguarding the financial market from crisis cannot be entirely left to central banks and supervisors. Fiscal policy is a key instrument in maintaining balanced macroeconomic development in good times just as much as in bad. It is important that political decision-makers are able to look beyond election terms and aim at maximising balanced, long-term growth.

Although the fiscal policy lags are long in many regards, fiscal policy is a more important tool than monetary policy in smoothing out cyclical fluctuations and, in particular, dampening cyclical overheating. It is true that fiscal policy

activism has often failed due to problems with timing. Timing problems can be avoided by enhancing the role and impact of automatic budgetary stabilisers.

Fiscal policy can be used not only to steer macroeconomic development, but also directly to guide individual market segments, such as the housing market. Again, the right timing of these kind of measures, which are primarily aiming at social or other political goals, is important, if by no means easy.

The crisis demonstrated the problem connected with the deficit bias of political decision-makers: The bias fundamentally limits room for manoeuvre even in normal recessions, but especially in crises and for a long time thereafter. The necessary stimulus and financial market support measures during the crisis have led to budget deficits that will increase financing costs and make a significant tightening of fiscal policy necessary in the near future. When further the fiscal pressure from the ageing population is taken into account, it is quite clear that the governments will not in the near future be able to create room for manoeuvre for possible future crises. Nevertheless, it is of vital importance to bring about a necessary change in attitudes among political decision-makers towards acceptance of “room for manoeuvre”- thinking.

One important lesson of the crisis is the need to improve co-ordination in international macroeconomic policies. All decision-makers in all countries, and in the big countries especially, should understand the international significance of their national policies, and global feedback-effects on their own economy over the long term. An understanding of global interdependence is necessary to securing economic growth.

## **V IN CONCLUSION**

At the end of the twentieth century, many countries experienced difficult local or national crises in connection with the liberalisation of their financial markets. The crisis experienced now has simultaneously affected the entire globe and been reflected in all countries. Mastering it has proved challenging, its costs will be paid for a long time to come, and it is not yet possible to evaluate or predict all of its consequences.

In many quarters, globalisation has been identified as the cause of the crisis, and thus as a phenomenon to be opposed. It would prove fatal to world wide growth, to global environmental protection, to justice in international income distribution, and also to world peace, were negative attitudes vis-à-vis the globalisation trend to gain ground. Support for globalisation, adaptation to it, and strengthening of its rules are the core challenges that lie before us.

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Discurso de contestación por el Académico de Número  
EXCMO. SR. DR. D. RAMÓN POCH TORRES



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Excmo. Sr. Presidente,  
Excmos. Sres. Académicos,  
Señoras y Señores,

Sean mis primeras palabras para agradecer a nuestro Presidente, el Excmo. Sr. Dr .D. Jaime Gil Aluja, el honor que me ha concedido para recibir, en representación de todos los que formamos nuestra Real Corporación, a la nueva académica correspondiente para Finlandia, la Excma. Sra. Dra. D<sup>a</sup>. Sirkka Hämäläinen-Lindfords, una figura excepcional por su gran talla intelectual y cualidades personales

Sirkka Hämäläinen-Lindfords nació en Hinkkala en 1939, convulso año en Europa con el estallido de la II Guerra Mundial y en especial para Finlandia con la *Guerra de Invierno* de noviembre de 1939 contra la URSS.

Inicia sus estudios universitarios en la Facultad de Derecho de Helsinki, pero pronto se da cuenta que su futuro está en la economía y se gradúa en Ciencias Económicas, obteniendo posteriormente el título de Doctor, con una documentada tesis sobre los *Patrones de ahorro en los hogares de Finlandia*.

Desde muy joven le atraen las temáticas económico/monetarias y en su primera singladura profesional recorre el circuito más sensible en su país: El Banco Nacional de Finlandia, desde el Departamento de Estudios Económicos que ingresa a los 22 años a la Presidencia de la entidad (cuyo cese se produjo por jubilación) y en su trayectoria de economista pasa por todos los cargos directivos de responsabilidad en la política económica-monetaria de Finlandia.

Su acreditada experiencia la hace adalid en el proceso de integración europea, participando en la Comisión negociadora para la incorporación de Finlandia en la zona euro (en la que figuraba asimismo nuestro académico de número el Excmo. Sr. Dr. Francesc Granell), y también como miembro del Comité Ejecutivo del Banco Central Europeo, durante muchos años, siendo por tanto responsable del Sistema de Política Monetaria Europea, que tiene por objetivo apoyar el crecimiento económico de la Unión Europea. Y es precisamente la Junta de Gobernadores del Banco Central Europeo, la auténtica sala de máquinas de los bancos

nacionales, el centro de poder de Europa. Y hablar de mujeres en los centros de poder es casi imposible, ya que ninguna mujer ha gobernado o presidido alguno de los bancos centrales más importantes del mundo, excepto Sirkka Hämäläinen-Lindfords, un icono feminista dentro de la asimetría masculina de los bancos centrales (la austríaca Tumpel sustituyó a la nueva académica en el Comité Ejecutivo del Banco Central Europeo).

Su relación de conferencias, trabajos y publicaciones sobre política económica, mercados financieros, política monetaria y prácticas de buen gobierno es interminable y no tienen cabida por razón de espacio y tiempo en la contestación del discurso de ingreso.

Es Comendadora de la Orden de la Rosa Blanca de Finlandia y posee la Medalla al Mérito de la Orden de la Estrella Blanca de Estonia. Es doctora *honoris causa* por la Universidad finlandesa de Turku.

Su multidisciplinariedad intelectual la lleva a campos tan distintos como la economía o el arte y nuestra recipiendaria desde muy niña ama la música y ha venido colaborando en grupos teatrales y musicales de relieve en Helsinki, Savonlinna, etc., llegando a ocupar puestos destacados en el Teatro Nacional de Finlandia, Orquesta de Cámara y Ópera y Ballet Nacional de Finlandia, de la que es Presidenta.

Permítanme, señoras y señores, destacar unos aspectos de la Dra. Sirkka Hämäläinen-Lindfords que desbordan la reflexión analítica de su excelente discurso para evaluar su alta condición humana.

Sirkka Hämäläinen-Lindfords es una mujer, una mujer cultísima y brillante, que ha figurado y figura en todos los *rankings* de las cien mujeres más influyentes e importantes del mundo. Una de las mujeres europeas que más han imperado en la Europa de los últimos tiempos. Gracias Sirkka Hämäläinen-Lindfords por contribuir a la unidad económica, social, política y monetaria de nuestro continente.

Sirkka Hämäläinen-Lindfords ha sido una incansable trabajadora. Trabajo duro que debieron soportar los niños y niñas de una Finlandia rural en una posguerra traumática. Gracias por dar testimonio de que el esfuerzo en el estudio y el trabajo serán las únicas virtudes que prevalecerán en una sociedad tan competitiva como es esta *sociedad del conocimiento*.

Era en la década de los 90 Gobernadora del Banco de Finlandia. Un día le preguntaron porque en las fotos no sonreía. La respuesta fue *hay 200.000 desempleados en el país y hay temores de que se eleven a 600.000 ¿cómo la Gobernadora del Banco de Finlandia puede sonreír?* Gracias Sirkkä Hämäläinen-Lindfords por la sensibilidad ante los más desfavorecidos y que muchos gobernantes deberían mirarse en este espejo ejemplar que distes y lo apliquen ante esta crisis sistémica que padece el mundo y que es un cáncer para nuestro país

En su vertiente empresarial aporta sus sabios conocimientos en los Consejos de Administración de Kone, Investor y Sanoma, entre otras importantes empresas finlandesas.

Sirkä Hämäläinen-Lindfords es, en definitiva, una personalidad poliédrica, comprometida con la política, con la economía, con la música, con el teatro, con altas cotas de inquietudes sociales. En una perspectiva histórica es y será también un excelente modelo de dirigente en esta *sociedad del conocimiento* que se ha iniciado con el siglo XXI.

El discurso de ingreso de la Dra. Sirkka Hämäläinen-Lindfords sobre los factores desencadenantes de la crisis sistémica del mercado financiero y las propuestas para prevenir o mitigar en el futuro las mismas, es un estudio muy elaborado del que todos los gobernantes deberían tomar buena nota. Es una visión, como ella mismo ha dicho en otras ocasiones, básicamente europea, por su condición de responsable en su día desde la Junta Ejecutiva del Banco Central Europeo y también desde el punto de vista de un país pequeño, (*Finlandia es un gran pequeño país, joven, de 338.000 km<sup>2</sup> de extensión, cubierto en su mayor parte por lagos y con una población de 5 millones de habitantes*) con el peso que estos

países tienen en el concierto internacional. Pero sus recomendaciones para implementar mejoras y cambios en un *marco prudencial* de los mercados financieros tienen un alcance global.

Hace unos años, Carles Gasòliba (eurodiputado y académico de número de esta Corporación) preguntaba a nuestra nueva académica cómo creía posible coordinar los sistemas de los bancos centrales con el Banco Central Europeo ante posibles crisis asimétricas. De manera premonitoria la Dra. Hämäläinen-Lindfors respondió que sólo había una política monetaria común y era el Sistema Europeo de Bancos Centrales el que tenía que actuar. La progresiva integración de Europa, añadía, es muy importante, no solamente por el crecimiento y el empleo, sino también para la estabilidad, condición básica para el crecimiento y el empleo.

A la formulación de cómo surge la crisis financiera, apunta sobre las experiencias cíclicas que han ocurrido a lo largo de los últimos años. (*Reinhart y Rogoff, en un documentado estudio del año 2008 tienen documentadas 18 crisis del sistema financiero mundial, desde el término de la II Guerra Mundial*). Su experiencia personal la vivió siendo Gobernadora del Banco de Finlandia a inicios de la década de los 90 del siglo pasado, y se ha repetido con la crisis sistémica que estalló en 2007. En ambas situaciones las causas se pueden resumir en: mala suerte; mal comportamiento de las instituciones financieras y mala política.

En aquella grave crisis que padeció Finlandia la *mala suerte* se atribuyó al colapso de la Unión Soviética que arrastró con su caída el 10% del PIB de Finlandia, El mal comportamiento del sector bancario que entró en crisis debido a préstamos de alto riesgo y al aumento de morosidad por las quiebras empresariales y los impagos familiares. Y la mala política fue el resultado de una negación de la crisis por parte del Ejecutivo que no tomó las medidas adecuadas, cuando la situación de crisis era evidente y no reaccionó adecuadamente al peligro inminente para la economía finlandesa, con una clara dejación de funciones y grave negligencia.

En medio de este túnel tenebroso de recesión, el gobierno la eligió como Gobernadora del Banco de Finlandia. La solución vino por imponer su política monetarista, una política fiscal estricta, acuerdos salariales muy restrictivos

y estabilidad de precios. La economía finlandesa se recuperó con fuerza y ahora deslumbra como uno de los modelos más exitosos de la llamada *sociedad de la información*, conjugando bienestar social y modernidad económica. No fue un milagro económico, sino la evidencia de una construcción humana inteligente y solidaria gracias al esfuerzo de esta *dama de hierro* finlandesa que es Sirkka Hämäläinen-Lindfords.

Basada en esta experiencia positiva en su país, la nueva académica nos detalla la potencialidad de la política monetaria en la prevención de las crisis y finalmente pone en evidencia que la crisis financiera global ha reactivado en todo el planeta la convicción de que los mercados funcionen impecablemente. Deben ser diseñados correctamente y bien administrados. El papel de los organismos reguladores en todas estas crisis y escándalos evidencia las deficiencias en la gestión de los sistemas públicos y en la aplicación de la normativa en la forma adecuada ya que la situación actual ha sido más de errores en la supervisión que de falta de regulación.

Las crisis en el sector bancario, en términos generales, se han producido porque en las actuaciones de los intermediarios financieros han prevalecido las normas por encima de los principios deontológicos de la profesión. Las acciones de los intermediarios deben ser moral y socialmente aceptables. La avaricia, la imprudencia y la negación de la evidencia han sido algunas de las causas de la crisis financiera.

En los próximos años asistiremos a una demanda de mayor regulación en los mercados financieros: ni el ciudadano corriente ni los gobiernos permitirán que vuelva a repetirse la crisis que estamos padeciendo. Es muy probable que, como reacción a una laxitud excesiva, la próxima ola opte por exagerar la intervención exagerada. Ello hará perder agilidad al sistema financiero en sus operaciones, aunque el sistema financiero no puede permitir que la capacidad de innovación supere a la capacidad de gestión.

Concluye la recipiendaria con un toque de atención para descartar que la globalización ha sido la causa de la crisis que padecemos. Por nuestra parte añadiríamos que la mayor amenaza del progreso de la humanidad proviene de los adversarios de

la globalización, de los contrarios de la economía de mercado que se fundamenta en la fuerza creadora de la libertad y de la iniciativa individual. Cada vez más países han adaptado políticas de economía de mercado, lo que ha permitido mejorar sus niveles de vida. No conviene olvidar que la riqueza de un país se debe mucho menos a sus recursos naturales que a la constitución política y económica que se haya dado. Pues bien, este irrefutable principio que rige para las economías nacionales, produce idénticas consecuencias en el ámbito de la comunidad internacional.

Es absolutamente falso que la globalización haga que los ricos sean cada vez más ricos y que los pobres cada vez más pobres como aseveran, sin aportar datos, los adversarios de la mundialización. No hay como repetir un error o una falsedad para convertir en verdad una mentira. Tal sucede con la idea completamente falsa de que los países ricos consiguen serlo a costa de los países pobres. Antes todos los países eran pobres, sólo los que se dotaron de democracia liberal y economía de mercado propiciaron el florecimiento de sus economías. La realidad, triste pero inapelable, es que los pobres de este mundo no son pobres a causa de los ricos. Son pobres porque no han salido todavía de su pobreza, como han salido ya los otros. Lo que nos pasa es que gracias a la globalización estamos viendo la abundante miseria que hay en el mundo, que sin globalización no veríamos.

El debate hace unas décadas era si la globalización debía ocurrir mediante la desregularización de los mercados con escasa intervención estatal o si debía tener lugar con la activa participación del Estado para garantizar y proteger los intereses de los colectivos que pueden quedar afectados por tal proceso. Es esta segunda opción la que se ha visto reforzada por la eclosión de los escándalos financieros y del sector inmobiliario.

En un mundo tan cambiante, tan agitado, tan falto de moral y de sentido ético, la única esperanza para un futuro brillante la constituye una buena política que asegure el bienestar económicamente posible para las generaciones futuras y, sobre todo, para las clases más necesitadas.

Nos parece muy acertado el apoyo que la nueva académica hace de la globalización está condicionado a la llamada eufemísticamente refundación del mercado financiero y al fortalecimiento de las regulaciones macroeconómicas en las

que personalmente y por su acreditada experiencia en el Banco Central Europeo comparte la visión de que los bancos centrales serían la elección natural de la organización a cargo de dicha supervisión. La conexión permanente de los bancos centrales, en contacto con el mercado financiero así como su amplia capacidad y recursos para realizar análisis macroeconómicos los ponen en una buena posición para llevar a cabo esta tarea.

En la Unión Europea, la Comisión Europea ha presentado una propuesta con la intención de crear un gran supervisor global financiero: el Consejo Consultivo Europeo de Riesgo Sistémico (*European Systemic Risk Board* ESRB). Los miembros del ESRB estarían integrados por los Gobernadores de cada banco central de los estados miembros y representantes del ECB, (Banco Central Europeo) así como los presidentes de los nuevos órganos supervisores responsables del sistema financiero de la Unión Europea.

Queremos felicitar a la Dra. Sirkkä Hämäläinen-Lindfords por su brillante y magistral discurso que hoy nos ha deleitado a todos. Un magnífico y bien estructurado trabajo que por su contenido debe ser objeto de profunda reflexión y esperamos de sus aportaciones en el futuro a esta Real Academia, para contribuir al prestigio de las ciencias económicas y financieras.

Dra. Sirkkä Hämäläinen-Lindfords, académica correspondiente para Finlandia, bienvenida a la Real Academia de Ciencias Económicas y Financieras de España que, desde hoy, es su casa.

*Tohtori Sirkka Hämäläinen-Lindfords, Suomen Espanjan kuninkaallista taloustiede akatemiaa vastaavan akatemian jäsen. Tervetuloa tiedeseuraamme, joka tästä lähtien on myös Teidän kotinne.*

Antes de concluir, permita Excmo. Sr. Presidente le reitere mi agradecimiento por el honor de ostentar la representación de esta Real Corporación, para dar a la nueva académica la bienvenida en su nombre y a todos ustedes por su asistencia y considerada atención a mis palabras.

Muchas gracias.

