

DEBATE

Meir SHEETRIT, Member of the Israeli Knesset

I did not hear a clear answer about interest rates. The situation in which interest rates are staying at zero or negative is causing a lot of economic damage to countries. Speaking of my country, the fact that we have zero interest rates is causing people to draw all their savings out of banks and put them on the stock market, and the people who lose their money on the stock market are the poor people, and because they do not know what to do with their money they go to stockbrokers or go into real estate investment on the advice of other people who have money, as risk is higher so profit can be higher.

Finally, in this situation, at least in my country, the President of the Bank of Israel bought USD 70 billion to USD 80 billion from the market in order to try to influence the exchange rate between the Dollar and the Shekel. I personally think that this is stupid to try to influence it like this. I do not agree with it, because over this period of five or six years of buying Dollars, the exchange rate remained almost the same, but at the same time, this kind of buying from the market caused a lot of damage. I would ask you why you are waiting for the Federal Reserve in order to raise interest rates. My country cannot do it for itself. Why are you waiting for the Federal Reserve if you think it is a good thing to do?

Jean-Claude TRICHET, former President, ECB

We are not the Federal Reserve, and we all expect that it will increase rates, obviously, because they pre-announced to the market that they had all their options open, and the market now understands that it is very likely. They cannot say that they are 100% sure, because no central bank would do that, but it is clearly prepared for and preannounced. Regarding the rest, I would only say that the central banks are not happy with what they do. What they do is because it is necessary under circumstances that are obviously made very difficult by the other partners, governments, parliaments, and I must also say the private sector in some respects.

Marek BELKA, President, National Bank of Poland

Hopefully this is the last year that such a question can be asked, because now we are really talking about the US literally moving to the exit. However, you do raise an important issue, that there really is a different set of considerations when it comes to giant central banks like the Federal Reserve and the European Central Bank versus the considerations of two or three small countries, and they need to decide whether to hook themselves to one of the large countries or just become unguided missiles in that space. I assume that one of the fears in Israel is the loss of competitiveness - if you raise your rate on its own the currency will appreciate, and this is another issue to consider. Hopefully, the big boys will get their act together, and then your question will be redundant.

Riad Tabet, President, Berit International Holding SA

Nous comprenons que le rôle premier d'une banque centrale, c'est de gérer la politique monétaire. C'est d'être le chien de garde de la monnaie. Cependant, il y a des cas où la banque centrale, comme c'est le cas, par exemple, au Liban, où elle crée sur ses réserves des leviers de financement de *start-up* ou créations d'emplois.

Ma question : quelles sont les limites du rôle de la banque centrale dans le développement économique du pays. Ça, c'est ma première question.

Ma deuxième question à Monsieur Trichet est la suivante. Il y a des pays de la Communauté Européenne qui n'ont pas l'euro comme monnaie et il y a des pays qui ne sont pas dans l'euro qui ont l'euro comme monnaie. Je donne l'exemple du Monténégro. Quelles sont les conditions pour un pays qui ne fait pas partie de l'Union Européenne d'avoir une monnaie comme l'euro comme monnaie nationale ? Merci.

Marek BELKA, President, National Bank of Poland

The case of Poland is not unusual in the context of Europe as a whole. Our mandate is clear; we have to be the guardian of currency stability, meaning low inflation, which we define as 2.5%, slightly above what the ECB has at around 2%. It has to support the policy of the government if this does not contradict the main aim of the national bank. What does this really mean in practice? The Constitution prohibits the Central Bank in Poland from directly financing state expenditure. What we can do is to indirectly help finance growth, but on the secondary market, which is exactly what the ECB is now doing, and we have all the instruments to do it. There is no problem, really; the only difference between countries like Poland and Romania and the Eurozone is that the banks are over-liquid. When the crisis erupted in 2008, the Central Bank of Poland offered instruments to commercial banks which were very similar to LTRO. Nobody showed up; there was zero interest. You have to work for years to create such a situation.

Mugur ISĂRESCU, Governor of the National Bank of Romania, Former Romanian Prime Minister

We have the same mandate on price stability in Romania, like any other central bank in the ESCB. My answer is the same as Marek Belka's. What we added last year was a little more in the direction of financial stability, which is related to our functions, but there is also a special committee consisting of the central bank, the Ministry of Finance and the institutions responsible for supervising the non-bank financial sector. This is a kind of replica of the European Systemic Risk Board.

Jean-Claude TRICHET, former President, ECB

Je vais répondre en français, la question était en français. Sur un pays qui n'est pas membre de l'Union Européenne ou même qui est membre de l'Union Européenne et qui veut avoir l'euro comme sa propre monnaie, c'est une décision qui est possible, qui a été prise, comme vous l'avez noté, par un petit nombre de pays. Ça peut revêtir des formes diverses. Ça pourrait être une pure « euroisation », ça peut être, le cas échéant, un *currency board*, mais dans tous les cas, c'est une décision unilatérale du pays en question. C'est lui qui prend cette décision, exactement comme certains pays en Amérique Latine ont le dollar de par leur propre volonté et, jusqu'à présent, en tout cas certainement dans ma mémoire, de mon temps, nous n'avons jamais considéré que cela obligeait la Banque centrale européenne à faire quoi que ce soit. Nous avons toujours considéré que c'était totalement unilatéral.

Ça a des conséquences relatives importantes parce que, comme vous le savez, pour entrer dans l'euro, il faut remplir un certain nombre de conditions et parmi ces conditions il y a la stabilité de la monnaie dans le contexte du mécanisme de change. Si évidemment on a un *currency board* qui relie complètement la monnaie nationale à l'euro, on a une sorte de stabilité automatique, en quelque sorte. C'est la raison pour laquelle nous tenons à ce que la responsabilité soit prise entièrement par le pays en question sans implication de la Banque Centrale Européenne, ni d'ailleurs des institutions européennes.

Pour le reste, je noterai effectivement que le *targeted* « LTRO » est typiquement une opération de la Banque Centrale qui a pour objet, en effet, de faciliter certains secteurs. De mon temps, et du temps de Mario, on a eu trois programmes, deux de mon temps, un du temps de Mario, de *covered bonds* où on achète des obligations garanties et là aussi on est en présence, évidemment, d'une opération qui aide certains secteurs en particulier.

Mais c'est vrai aussi que toutes ces opérations, en tout cas dans les pays avancés, sont nées avec la crise et qu'elles eussent été considérées anormales avant la crise.

Krishan JINDAL, Chief Executive Officer of NABARD Consultancy Services (NABCONS)

There is a very large population in developing countries which is financially excluded and a good number of families which do not have accounts in the banking system. This is a major challenge faced by governments in terms of addressing poverty, employment and so on. There are certain sectors which are systemically very important, and banks are unable to take care of such sectors in terms of providing credit and so on. What could be the role of central banks in such a scenario?



Marek BELKA, President, National Bank of Poland

This is also a problem we see in the less advanced countries of Europe, such as Poland. We also have a sizeable part of population which does not participate in financial life, so to speak. Our work here is the following. Firstly, we try to limit the cost of access to banks and to electronic currency, and we are very much aided by the European Commission, because it is due to their initiative that we are now introducing so-called free basic bank accounts which we hope will encourage some of those people to become customers. However, having said this, commercial banks are not always the best partners to serve micro-enterprises. We need a highly diversified banking or financial sector for this.

I do not believe that banking sectors should be exclusively dominated by giants. We need small banks, we need specific micro-lending institutions, and again, we feel we have support from Brussels. There are regional lending schemes especially dedicated to very small enterprises. I am not sure whether they work properly, but this is the way that we work in Europe and also in Poland, and our role as central banks is really to make it more popular and make people more aware of this.

Jacob FRENKEL, Chairman of JPMorgan Chase International, Chairman of the Board of Trustees of the Group of Thirty (G-30), Former Governor of the Bank of Israel

Regarding this question, the country that you come from is now, in fact, used as the role model in terms of how to deal with these matters, how to advance microfinance programmes, how to advance financial literacy programmes, and while central banks cannot engage in these kinds of activities themselves, it can support them. I recently heard a report from the Governor of the Reserve Bank of India, our good friend Raghuram Rajan, and from the Minister, describing the way in which they almost forced millions and millions of people to have bank accounts by depositing their various allowances, subsidies, etc. into newly-created bank accounts, and therefore habits started to form. It is not a simple thing, but this is the kind of thing that has been happening. However, we should not understand this mandate as reducing the safety of the banking system. The best way that central banks can serve the population is to secure the safety of the banking system, and having said this, there is an issue of information, education and literacy.

Arthur RUTISHAUSER, Editor-in-Chief, *SonntagsZeitung*

Thank you very much.