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

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

Let us move away a little from this issue and go back to what united most leaders of central banks in the world, which was their reaction to the financial crisis. There seems to be a common sense of how we should actually deal with crises like this one, which is completely different to what we thought about it in 2000. It seems that the Group of 30 has a new proposition, Mr Frenkel. Can you tell us a little about the learnings and what you see for the future in terms of how to deal with financial crises and their consequences?

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

Since some of you may not be familiar with the organisational setting of the Group of 30, it is composed of 30 individuals, and in fact both Jean-Claude and I are in the leadership of this group. I am the Chairman of the Trustees and Jean-Claude is the Chairman of the Group. What is unique about this group is that it is composed primarily of current and former central bank governors. The reason I mention this is that, after so many years since the beginning of the crisis, it was time to take stock and see what we have learned.

I will make one statement of modesty to begin with: in 2007, at the height of the crisis and the beginning of the unconventional monetary measures, etc., not a single governor, if you asked him to write down and put in an envelope the date he thought this detour, these unconventional measures would finish, he would not have expected that in November 2015 we would still be talking about the issues involved in unconventional policies. It was perceived at the time as more of a short-term detour to solve a problem.

It turned out to be something more fundamental, and we understand now also why it is a different character of crisis. Some colleagues like Ken Rogoff and Reinhardt even wrote books, such as *This Time It's Different*. The rationale is that some of the crisis is what we call a balance sheet crisis that requires long-term adjustment. One of the issues that came out of this report, which we called *The Fundamentals of Central Banking: Lessons from the Crisis* is, firstly, that we have learned a lot, but that the old textbook should not be thrown away, as there is still a lot of wisdom in it. There are new chapters in it; it is not a new world but a highly modified world.

This means that the basic mandate of central banks should still be medium-term price stability, that the mechanism by which central banks can exercise their capabilities is by having central bank independence from political pressures. However, it must be recognised – and this is the new part – that we are in a world in which financial markets are so important that financial stability must also be part of the mandate of central banks. However, we also observed that too many articles say that central banks are the only game in town, and we do not like it. We do not like it because, while it is a kind of complimentary thing to say that we are the only game in town, there is no way, that without the strong support of governments in both the fiscal side and, more importantly, the structural side, that we can generate growth. Sustainable growth is the ultimate objective at the end of the day, so one of the pleas in the report that, yes, the mandate should be extended to include financial stability, that the instruments should be extended to include what are called macro-prudential instruments, but to recognise, however, that central banks cannot do it alone, and so we need to have much greater involvement from governments. It should be recognised that, in the setting of an international system, the best way to shield you and others from financial shocks that happen elsewhere is through flexible exchange rates, and we should make sure that all of this is done in a very transparent and accountable way.

Therefore, communication between central banks and the economic system is key. The idea is not to surprise the markets but, in a way, to prepare them, and what we see today with the Federal Reserve is the example par excellence of how you prepare the market so that when things happen you will not be surprised anymore. Some time ago there was a surprise which did not work well, which only illustrates how important it is to have transparency and good communication with the market.