

JEAN-CLAUDE TRICHET

Vice Chairman of the *Académie des sciences morales et politiques*, former Chairman of the European Central Bank, Honorary Governor of the Bank of France

My dear colleagues, we said that we would give the previous panel five minutes more, but the five minutes are over, so I suggest we start. Perhaps we will be as expeditious in our messages and our exposition, but I count on the audience to be as vivid, alive, and aggressive, if I may, as possible in their questions. Again, we have perhaps even more stuff to discuss than was the case before. I do not want to take too much of the time myself, I will only say we had a dramatic inflection point starting in the middle of last year with the return with a vengeance of inflation in the advanced economies, and as a result in the entire world. Of course, that has progressively – with some lags to be frank – changed the monetary policy of the central banks of the advanced economies, and as a result many others. Even if it was relatively recent, because after all, the first interest rate increase in the US was, if I am not mistaken, in March this year, but this really marked the inflection point, so we are in a totally different universe compared to what we experienced for around 10 years since the post-Lehman Brothers start of the recovery. We are in a different universe and that has a number of considerable consequences for the financial world and all the issues I suggest we could discuss. I thought it would be useful to reflect on what is going on at the global level in terms of non-bank finance and the very active way the Financial Stability Board, the IMF and the international institutions and governments have tried to regain control of this intermediation, taking into account that the commercial banks and investment bank intermediation has considerably improved over the last 12 years since Lehman Brothers. That is not the case at all for non-banks and all that kind of intermediation coming from non-banks. It is probably the area where we have the most dramatic threats to financial stability in the world. To cut a long story short, let me tell you that I consider that we are still in a world that is still extraordinarily fragile on the financial front and that substantial new crises should not be excluded.

It remains only for me to give a list of questions, it is not exhaustive, there are many others, but I want to be sure that I convey some of the questions that seem interesting and stimulating myself. However, I count on everyone to be as imaginative and creative in their own questions.

First, what is the likelihood of central banks of the advanced economies succeeding in regaining control of inflation? They are committed to deliver inflation of around 2% on both sides of the Atlantic and in the other advanced economies, and by a result in many other economies. In the medium-term, which I would interpret as being in three years' time, normally – if the central banks are credible and making the right decisions, if no new dramatic events occur – it seems reasonable to say that in the US and Europe as a whole we could be around 2% in three years' time. Nevertheless, there is a question mark and many of us might disagree with this statement



of the central bank, which again has been done very forcefully by Jay Powell, Christine Lagarde, and others.

Second, as always, do we have any comment on the present projections for global growth from international institutions? Some of us certainly have comments that will be interesting.

Third, are we correctly assessing the divergences between the advanced economies, the developing world, and emerging countries? What about the fragility of the developing countries and the probability of major disruptive issues? What is the likelihood of a financial crisis triggered by major market corrections? As I already mentioned, sudden stops in major markets functioning or some of the non-bank intermediation, abrupt loss of public or private credit worthiness, asset bubble corrections, etc. Four, another issue should be addressed, crypto assets and what are the causes and consequences of what happened in the crypto world? Can we expect much more drama in this domain and what judgement can we make? I have to say, I do not understand with the benefit of hindsight how we could let such instruments, at least those that are purely speculative, prosper as they have. Another issue linked to this one is cyber insecurity and is it a major threat to financial stability? What kind of correction can we imagine?

Five, can we exclude a major financial disruption caused by climate change, and what would be the consequences? Associated with that, do we share the judgement that it is very likely that the green transition will trigger much higher real interest rates at a global level than in the past, taking into account that it is very likely that the savings glut will progressively evaporate, and the immense new amount of investment associated with the green transition, as well as the replacement of the stock of capital that is made obsolete because of the green transition.

These are important issues and of course I conclude with that because if on top of the change of the monetary policy of the major central banks we also have higher real interest rates than they have been in the last 10 or 12 years, from the financial stability standpoint it will probably aggravate the situation. This is just to be sure that I have asked a number of questions that it would be very interesting to have responses to if possible. I am mentioning the speakers, but also the audience because I know that a number of you also have remarks to make that are important for all of us.