



Asset and risk management seminar

6 February 2020, London

Summary of discussions
Full meeting programme
List of participants



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Seminar

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The day long seminar formed part of OMFIF's 10th anniversary commemorations launched at the Gherkin in the City of London on 5 February 2020. We thank members and friends who have supported us since OMFIF's foundation in January 2010



Central bankers 'running out of tools' to solve problems

The seminar at London's Painters' Hall heard central bankers' concerns that they are running out of tools to solve world economic problems. Three big worries were fading Chinese growth, negative interest rates in Europe and US pre-election divisions.



MARK Sobel, OMFIF's US chairman, set a gloomy tone in opening remarks. He outlined a mediocre outlook for Japanese growth, projected annual expansion of only 1.3% for the euro area and a further likely China growth decline – perhaps to as low as 2-4% in coming years from around 6% in 2018-19 and 10% during the now-ended 30-year economic spurt. China had been responsible for one-third of world output growth, but this was now fading, exacerbated by the coronavirus. Moreover, the country possibly faced a 'great wall of capital outflow'. A lack of 'vision and will' from world leaders was hampering policy coordination. Faltering steps towards further deepening of economic and monetary and doubts over final settlement of the UK's divorce from the European Union. Among

the offsetting factors were US success in lowering dependence on oil imports as well as breakthroughs in areas like artificial intelligence that brought hopes of a technologically driven upswing.

There was general concern – including from policy-makers closely associated with the European Central Bank's quantitative easing – that markets were pressuring central banks into providing a permanent 'safety net' that constrained their room for policy action. A leading central banker described as 'very worrisome' the view that central banks could carry out fine-tuning of the inflation rate. There was little 'internationalisation' of economic policy. In the absence of fiscal policy coordination, central banks were being asked to do too much - but were running out of effective instruments. ●

World overview: opening session led by Mark Sobel, US Chairman, OMFIF





Peter Praet, Executive Board Member, ECB (2011-19)

AMONG international aspects, the seminar witnessed a discussion of rising geopolitical tensions including in the Middle East and increasing inequality amid continuing worries about trade impediments, in spite of the latest lowering of US-China strains. A glimmer of light came from efforts by Saudi Arabia and other Middle East economies to diversify away from oil. Alongside possible ways of ‘greening’ monetary policy, the seminar discussed the potential introduction of ‘helicopter money’ through direct injection of spending power into individuals’ bank accounts as a means of adding to central bank efficacy at the lower bound of interest rates. This could be ‘QE for the people’. However, delegates voiced deep concerns about lack of progress in normalising monetary policy, with low or negative interest rates in Europe now seen as potentially lasting until 2025-26. ●

Global economic outlook: risks and responses – Pierre Blanchet, Head of Investment Intelligence, Amundi



DELEGATES were told about dangers to central banks' credibility from interference in the process of monetary creation. Another participant spoke of threats stemming from two sides: monetisation of fiscal policy as well as 'fiscalisation' of monetary policy. The ECB on the other hand was defended at the seminar as trying to stick to its inflation remit.

A representative of one large sovereign fund said low or negative interest rates had a counterproductive effect on his institution's portfolio. It was taking on more risky assets such as private equity and equities, but was also balancing this by adding to risk-free portfolio though larger purchases of low-yielding bonds from creditworthy governments, so overall risk-taking had not increased. He added that negative interest rates were 'a major risk to societies... How can capitalism work with negative interest rates?'

Some scepticism was voiced about 'greening' of monetary policy through using central banks' asset purchases to steer official financing towards activities specifically regarded as countering climate change. 'The public doesn't understand monetary policy. So you get popular when you [central bankers] talk about climate change,' one central bank veteran said. 'To what extent should central bankers take responsibility as saviours of the world?'

You should never take responsibility for something you cannot control.' On the other hand, there was plentiful discussion of various methodologies around the world for climate-friendly asset management, as well as exposition of the Network for Greening the Financial System, which as of December 2019 counted 54 members among central banks and regulators. •



Katrin Assenmacher, Monetary Policy Strategy Division, ECB, and Edoardo Reviglio, Adviser, Italian Ministry of Economy and Finance



Zeti Akhtar Aziz, Governor, Bank Negara Malaysia (2000-16), and Niels Thygesen, Chairman, European Fiscal Board

THE ISSUE of central banking dependence was fiercely debated. ‘Keeping up independence will be very difficult,’ one official said. Another official at a major central bank denied that independence was under threat. He underlined how policy-makers needed to use instruments flexibly to boost the inflation rate and to show that their strategy was ‘beyond reproach’. He pointed to the danger that central banks were seen as ‘the only game in town, charged with doing more than they possibly can.... We don’t feel comfortable with this. It’s too large a share of responsibility.’ One long-time central banker asserted the importance of the appointment process for senior officials, where politicisation might easily colour selection choices. ‘Governance process and structure’ were other important touchstones, as was the practice of central bank communications. Officials needed to be able to speak out ‘without fear or favour ... not just in crises but in normal times’, in ways that might be unfavourable for politicians. Another central banker said long-term interest rates at relatively low levels in key jurisdictions provided a sign that independence was still kept alive as a concept. If interest rates started to rise, that would be a warning signal.

Jacques de Larosière, former Banque de France governor and managing director of the International Monetary Fund, in remarks made public after the seminar, criticised the ‘self-inflicted pessimism’ of the ECB’s monetary stance. He termed this not only irrational but also dangerous for the future of money and the integrity of central banks. ‘Betting on an unattainable goal has a psychological cost. Although they cannot reach the arbitrary inflation target, they have come to believe they must create enough fiat money to force up prices. This requires re-vamping QE or even launching helicopter money to make citizens consume more.’

‘These ideas fix in the public mind the notion that interest rates will remain negative for a very long period, maybe even several decades.’ Central banks appear to have no hope for the future and this, in turn, keeps economic agents away from investing.

De Larosière welcomed the ECB’s monetary policy review under Christine Lagarde, the president. The ECB can adjust its position – including the present dramatisation of the 2% inflation target – in a ‘serene and non-dramatic way’. The review must be open-minded. It should not systematically reject ideas and solutions many see as unacceptable because they are ‘conventional’, de Larosière said. ●

Rethinking monetary policy: Jacques de Larosière, former Banque de France governor, and IMF managing director



Meeting programme

08:15

Registration and refreshments

08:45

Welcome remarks

Mark Sobel, US Chairman, OMFIF

09:00

Keynote: Future of monetary policy

Peter Praet, Executive Board Member and Chief Economist, ECB (2011-19)

09:20-10:45

Session 1: Global economic outlook – risks and responses

- Outlook for global economic growth: Europe, US and Asia
- Impact of central bank monetary policy divergence for financial markets
- European geopolitical dynamics: Risks, reforms and the changing of leadership
- Managing uncertainty: Brexit and prolonged trade tensions

Moderator

John Orchard, Chief Executive Officer, OMFIF

Speakers

Fahad Aldossari, Chief Economist, European Central Bank (1998-2006); President, Centre for Financial Studies

Pierre Blanchet, Head of Investment Intelligence, Amundi

Peter Praet, Executive Board Member and Chief Economist, ECB (2011-19)

Barnabás Virág, Executive Director, Monetary Policy and Economic Analysis, Magyar Nemzeti Bank

10:45

Refreshments

11:15-12:30

Session 2: Reserve asset management and strategic asset allocation

- Investing in an environment of low growth and unconventional monetary policy
- Benefits and challenges of asset diversification
- Approaches and tools to balancing risk and reward
- Volatility and reserve portfolio sensitivities

Moderator

David Marsh, Chairman, OMFIF

Speakers

Katrin Assenmacher, Head of the Monetary Policy Strategy Division in the Directorate General Monetary Policy, ECB

Edoardo Reviglio, Economic Adviser, Italian Minister of Economy and Finance; Head, International and European Projects, Cassa Depositi e Prestiti

Jean-Paul Villain, Director, Strategy and Planning Department, Abu Dhabi Investment Authority

12:30

Keynote: Lessons from financial crises

Jacques de Larosière, President, European Bank for Reconstruction and Development (1993-98); Governor, Banque de France (1987-93), Managing Director, IMF (1978-87)

14:00-15:15

Session 3: Principles for sustainable investing

- Developments in greening the financial sector
- Long-term portfolio construction: Factoring risk and return into ESG portfolio strategy
- Setting standards for socially responsible investing
- Best practices and lessons learned for ESG investments

Moderator

Ellie Groves, Programmes Manager Europe, OMFIF

Speakers

Robin Hu, Senior Managing Director, Head of Sustainability and Stewardship, Temasek

Otmar Issing, President, Centre for Financial Studies; Executive Board Member, Chief Economist, ECB (1998-2006)

Eila Kreivi, Director, Head of Capital Markets, European Investment Bank

Franz Partsch, Director, Treasury Department, Oesterreichische Nationalbank

15:15-15:45

Refreshments

15:45-17:00

Session 4: Scanning a murky future: short- and long-term scenarios

- Best practice in preparing for uncertainty and managing a flattening yield curve
- The rise of new and alternative asset classes
- Incorporating political risk into long-term investment strategy
- Implications of disruptive technological innovation for reserve management

Moderator

Marcin Stepan, Head of Programming, OMFIF

Speakers

Zeti Akhtar Aziz, Group Chairman, Permodalan Nasional Berhad; Governor, Bank Negara Malaysia (2000-16)

Yuko Kawai, General Manager for Europe and Chief Representative in London, Bank of Japan

Luigi Federico Signorini, Deputy Governor, Banca d'Italia

Niels Thygesen, Chairman, European Fiscal Board

17:00-17:15

Closing remarks

Mark Sobel, US Chairman, OMFIF

Attendees

Fahad Aldossari
Deputy Governor, Research and
International Affairs
Saudi Arabian Monetary Authority
Saudi Arabia

Victor Andrei
Director, Market Operations
National Bank of Romania
Romania

Yaseen Anwar
Senior Advisor
Industrial and Commercial Bank of
China
Governor, State Bank of Pakistan (2011-
14)
Singapore

Katrin Assenmacher
Head of the Monetary Policy Strategy
Division
European Central Bank
Germany

Zeti Aziz
Co-Chair
Asia School of Business
Governor, Bank Negara Malaysia (2000-
16)
Malaysia

Agnes Belaisch
Chief European Strategist
Barings
UK

Edward Bowles
Director of Public Policy, Northern
Europe
Facebook
UK

Tony Broccardo
Chief Investment Officer
Barclays
UK

Giovanni Callegari
Economist
Autonomy Capital
UK

Massimiliano Castelli
Managing Director
UBS Global Asset Management
Switzerland

Michael Cross
Global Head, Official Sector Institutions
HSBC Global Asset Management
UK

Silvia Dall'Angelo
Senior Economist
Hermes Investment Management
UK

Arnab Das
Global Market Strategist, EMEA
Invesco
UK

Jacques de Larosière
Advisor
BNP Paribas Asset Management
Governor, Banque de France (1987-93)
France

Pinar Erdem Kucukbicakci
Deputy Representative
Central Bank of the Republic of Turkey
UK

Dennis Gepp
Senior Vice President, Managing
Director
Federated Investors
UK

Patricia Haas Cleveland
President, US Operations
OMFIF
US

Robin Hu
Head, Sustainability & Stewardship
Temasek International
UK

Andy Hui
Portfolio Manager
Monetary Authority of Singapore
Singapore

Otmar Issing
President
Center for Financial Studies
Chief Economist, European Central Bank
(1998-2006)
Germany

Astrid Joost-van der Spek
Head of International Account
Management
Union Investment Institutional
Germany

Yuko Kawai
General Manager for Europe; Chief
Representative
Bank of Japan
UK

Peter Kažimír
Governor
National Bank of Slovakia
Slovakia

Wolfgang Koehler
Member of the Board of Managing
Directors
DZ BANK
Germany

Eila Kreivi
Director, Head of Capital Markets
Department
European Investment Bank
Luxembourg

Danae Kyriakopoulou
Chief Economist: Director of
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Stefan Laséen
Senior Advisor
Sveriges Riksbank
Sweden

Jasper Livingsmith
Director
European Bank for Reconstruction and
Development
UK

David Marsh
Chairman
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Willem Middelkoop
Founder; Chief Executive Officer
Commodity Discovery Fund
UK

Toshiyuki Miyoshi
Director, Planning and Administration
Division International Bureau
Ministry of Finance Japan
Japan

John (Iannis) Mourmouras
Deputy Governor
Bank of Greece
Greece

John Orchard
Chief Executive Officer
OMFIF
UK

Chris Ostrowski
Commercial Director
OMFIF
UK

Franz Partsch
Director, Treasury Department
Oesterreichische Nationalbank
Austria

Mario Pisani
Deputy Director, Debt and Reserves
Management
HM Treasury
UK

Peter Praet
Member of the Executive Board (2011-19); Chief Economist (2012-19)
European Central Bank
Germany

Gavin Ralston
Head, Official Institutions
Schroders
UK

Edoardo Reviglio
Economic Advisor, Italian Minister of
Economy and Finance
Head, International and European
Projects
Cassa Depositi e Prestiti
Italy

Nirmala Rewa
Counsellor, Economic Matters
High Commission of Republic of
Mauritius
UK

Rodney Ringrow
Head of Official Institutions
Invesco
UK

James Ronald
Managing Director, Relationship
Executive, Eastern Europe &
Eurasia
BNY Mellon
UK

Hélder Rosalino
Member of the Board of Directors
Banco de Portugal
Portugal

Philipp Salman
Director, Strategy & Advice
UBS Global Asset Management
Switzerland

Frank Scheidig
Global Head, Senior Executive Banking
DZ BANK
Germany

Luigi Federico Signorini
Deputy Governor
Banca d'Italia
Italy

Mark Sobel
Chairman, US
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Juan Solé
Senior London Representative
International Monetary Fund
US

Marcin Stepan
Head of Programming
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Tomoki Tanemura
Deputy Chief Representative in Europe
Bank of Japan
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Kurtulus Taskale Diamondopoulos
Director, Central Banks and Public Policy
World Gold Council
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Niels Thygesen
Chairman, European Fiscal Board
Professor Emeritus, International
Economics,
University of Copenhagen
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Nicolás Trillo Ezquerro
Executive Director, Public Finance, Asia
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BBVA
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Jean-Paul Villain
Director, Strategy and Planning
Department
Abu Dhabi Investment Authority
Abu Dhabi

Barnabás Virág
Executive Director
Magyar Nemzeti Bank (Central Bank of
Hungary)
Hungary

Benjamin Watt
Strategist
Brevan Howard Asset Management
UK

Jo Whelan
Deputy Chief Executive
UK Debt Management Office
UK

Andrew Wold
Global Head of Client Strategy, Official
Institutions Group
State Street Global Advisors
UK

Nadim Zaman
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