Ladies and gentlemen,

It is my pleasure to welcome you all at the National Bank of Belgium for the 9th edition of our biennial conference.

As you may know, we have a Governing Council meeting next week. Therefore, my remarks should not be seen in any way as relating to – or having any direct implications for - the current or future course of monetary policy. Rather, I would like to share with you some general reflections on how I think this conference can help us in conducting our monetary and macroprudential policies in the best possible way.

Indeed, for this edition of the NBB conference, we decided to focus on "The Transmission Mechanism of New and Traditional Instruments of Monetary and Macroprudential Policy". Although we selected this conference topic and the associated research projects of the Belgian academic teams almost two years ago, the issue remains more relevant than ever today. How the non-standard monetary policy measures affect the real economy and inflation is one of the most important topics at our Governing Council discussions in Frankfurt. In order for our monetary stimulus measures to reach households and firms - and in order to stabilise output, employment and inflation dynamics - we rely to a very large extent on the financial sector. Banks, in particular, are key in transmitting our monetary easing to the economy. In that respect, a healthy and well-capitalised financial sector should be able to translate the abundant liquidity and extremely low funding costs into a larger credit supply. Monetary policy and macroprudential policy therefore interact directly: the monetary policy stance – which is a key determinant of *nominal* incomes – has an impact on the credit quality of borrowers. At the same time, macroprudential policy has a first-order impact on banks' balance sheets. Therefore, the instruments and decisions in these two policy domains affect and potentially complement each other, and this explains why the conference topic was so broadly defined.

It is important that we improve our understanding about the transmission channels through which the new instruments of monetary and macroprudential policy work. There is an impressive research effort ongoing in both academia and policy institutions. Ever more experience is becoming available. And yet there is - unfortunately I would say - still much uncertainty about the relevance of alternative models and the underlying mechanisms at work, and certainly no precise quantification of the different channels. I believe that makes this conference all the more relevant.

As a first example, there is ample evidence that non-conventional policy measures have helped to stabilise the tensions in the financial markets, led to lower risk-free rates and supported the valuation of riskier asset classes. Yet, even here many questions remain unanswered: what is the exact impact of monetary policy actions on real rates and inflation expectations? What does that imply for the reaction of the nominal long-term rate? In fact, could it not be that the preferred outcome of announcing QE or forward guidance would be a *rise* – rather than a decline - in long-term nominal rates, as such polices should provoke higher inflation expectations? Other key questions of greatest concern to central bankers these days are the role of risk premiums – including inflation risk premiums – in explaining the dynamics of bond yields, and whether more QE has any further impact on long rates and inflation. I am sure the papers and the keynote presentation this afternoon will shed light on these issues.

While the financial market impact of monetary policy announcements is relatively easy to observe and evaluate, the impact on the rest of the economy is much harder to identify and to quantify. Indeed, why inflation remains subdued despite all the measures taken by the central bank is a question which the ECB President very often encounters in the Q&A session following the Governing Council. The answer involves a counterfactual economic impact assessment – in other words, it entails estimating how inflation would have looked if the central bank had not taken any action. To do that, we need models.

An important element in such an assessment is why bank lending has grown by less than 2 %, despite the ECB balance sheet growing from about 2.2 trillion EUR prior to the APP to some 3.4 trillion EUR today. This is especially important in the euro area where households and firms typically borrow through banks. Weak demand may be at the root of this moderate credit growth, though for some countries there are also credit supply factors. In fact, even though the Eurosystem's various credit support measures have alleviated funding constraints for banks, and the APP frees up space on their balance sheets and pushes up asset prices, the financial sector remains exposed to various challenges. Some institutions in the euro area are still struggling with the legacies of the financial and economic crisis, such as the large pools of non-performing loans or, in some cases, insufficient (re)capitalisation. Moreover, several new developments such as a persistently low – and even negative - interest rate environment could in the longer term weigh on the banks' profitability, and eventually on the financial sector's intermediation capacity. I am firmly convinced that delivering on our mandate is crucial for the health of banks: it is only when inflation is back on target in a durable way that nominal interest rates will revert to a sustainable higher level. That said, we should be – and we are - aware of our policies' potential side-effects on banks, for instance when the banks obtain most of their funding from retail deposits.

Other examples are the efforts to reduce leverage in the banking system or, more generally, the more stringent regulatory requirements that banks have to comply with. As the crisis taught us, there is no doubt that we need resilient banks. But we also have to take care to avoid any undue harm to the credit supply.

The first keynote speaker will discuss the relationship between monetary policy and financial stability in more detail. In this context, monetary policy today seems to be performing a difficult balancing act: the various measures that central banks have taken over the past years aim at reviving the credit creation process. At the same time, we should also realise that "too much" or "the wrong type of credit" growth may also be harmful. Fortunately, the new macroprudential instruments developed after the crisis make that balancing act less difficult. In Belgium too, we have experience with this type of macroprudential measures. For mortgage lending we have already introduced an add-on for the risk-weights used by banks with internal risk models, and we recently decided, subject to approval by the ECB and the European Commission, to supplement it by an additional targeted capital add-on for riskier loans with a relatively high loan-to-value ratio. These measures will help to safeguard banks' resilience in the face of dynamic mortgage credit growth. Our first session today will present research on how Belgian prudential measures have affected the behaviour of Belgian banks.

Such empirical research on how prudential policy works – both at the bank level and at the macroeconomic level – is essential to inform policy makers. At the same time, it is also essential to make progress in theoretical models with a role for macroprudential policy, including its interaction with monetary policy. I am sure tomorrow's sessions will offer useful insights on that. These models can help us in assessing the potential impact and reach of the various macroprudential instruments such as countercyclical buffers on both banks' resilience and the macro-economy at large; and may help us in optimally assigning these instruments to the final objectives of the Bank as the macroprudential authority. This question of effectiveness of macroprudential instruments seems especially relevant for the euro area where monetary policy is centralised at the level of the euro area, while macroprudential responsibilities are shared between the national and supranational levels.

Before I conclude, and at the risk of raising even more questions, I would like to share one more thought with you. I am fully aware that high-level research about how monetary policy and macro-prudential policy work and interact is already very challenging, but I think we should not neglect how monetary policy and financial stability also interact with fiscal policy.

The financial and sovereign debt crisis learnt us the hard way how inappropriate fiscal policies can undermine financial stability and complicate the job of central banks. Against that background, the Stability and Growth Pact should continue to guide fiscal policy in the euro area. Adhering to the rules creates trust in the sustainability of public finances, and therefore also in the sustainability of the pension system.

At the same time, it allows governments to exploit the room for fiscal stabilization that the Pact provides. Moreover, *all* countries should consider a more growth-friendly composition of expenditures, for instance by redirecting them towards public investment. Because such policy actions help resolving the investment-deficit and support potential growth, they would not only give a welcome boost to aggregate demand and inflation, but also financial stability could benefit because it is very likely that long-term nominal interest rates would be higher under such a scenario. This is just one example of clear and important synergies between monetary, financial and fiscal policies. More research on such policy coordination issues would be highly valuable, particularly in the euro area context.

But let's take one step at a time and first try to find answers to the questions that we tackle today and tomorrow about how monetary and macroprudential policy are transmitted. I am convinced that work that will be presented here by the teams from Belgian universities and our own researchers, together with the keynote presentations and discussions of internationally renowned personalities will yield many valuable insights. A better understanding of the transmission mechanism of our policy measures is essential for the appropriate design and implementation of our policies in both the monetary and macroprudential domains.

Ladies and gentlemen, may I wish you a very fruitful conference and most interesting discussions today and tomorrow.