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ECONOMY | CENTRAL BANKS

Janet Yellen and Mario Draghi Warn Against Regulatory Cuts, Trade Moves

Central bankers defend financial regulations, urge against protectionist trade measures



Federal Reserve Chairwoman Janet Yellen and European Central Bank President Mario Draghi at the Jackson Hole, Wyo., economic-policy symposium on Friday. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

By Ben Leubsdorf, Tom Fairless and Kate Davidson

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JACKSON HOLE, Wyo.—The world's top two central bankers warned Friday that undoing postcrisis banking rules or pursuing protectionist trade measures threatens to unravel a fragile and hard-fought global economic expansion.

Federal Reserve Chairwoman Janet Yellen and European Central Bank President Mario Draghi offered few new clues on plans both central banks are putting in place to gradually ratchet back unprecedented stimulus. Instead, they used high-profile speeches at the Fed's annual retreat here to defend the financial regulatory and global trade architecture that has come under threat by governments unhappy with the slow pace of economic growth that has followed the 2007-09 recession.

Neither official mentioned Donald Trump by name, but the U.S. president has put the withdrawal from and amendment of multilateral trade agreements and the dismantling of postcrisis regulation at the center of his agenda to stimulate faster U.S. growth.

Ms. Yellen said a growing body of research showed "that the core reforms we have put in place have substantially boosted resilience without unduly limiting credit availability or economic growth."

Congressional Republicans and the Trump administration have said banking and consumer-protection rules have made it harder for families and business to borrow money, hurting growth.

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borrow money," Mr. Trump said in February. "They just can't get any money because the banks just won't let them borrow it because of the rules and regulations."

Ms. Yellen was careful to note areas where the Fed should seek to improve and possibly roll back regulation, particularly on smaller banks that weren't seen as major contributors to the 2008 global financial crisis. The new rules' scope and complexity "demand that policy makers and researchers remain alert to both areas for improvement and unexpected side effects," she said.

Still, Ms. Yellen said even those areas where credit had become harder to access—particularly in the mortgage market, the epicenter of the financial crisis—weren't primarily due to new bank-capital or liquidity standards. Instead, they reflected other forces that had prompted a rethink of the risks associated with such lending.

Financial stability has emerged as a growing issue for the Fed to watch in part because the unemployment rate has fallen to 4.3%, a 16-year low. Yet weak inflation pressures have suggested there may be less urgency to raise short-term rates.

Ms. Yellen's term as Fed chairwoman expires next February, and Mr. Trump has said he is considering asking her to serve a second term because she has done a good job. Mr. Trump has signaled he prefers a low-interest rate policy, which he has said he believes Ms. Yellen supports, but Friday's address showed he may be less in sync with her views on regulatory policy.

A White House spokeswoman didn't respond Friday evening to a request for comment about the two speeches.

Mr. Trump has nominated Randal Quarles, an investment-fund manager and ex-Treasury official, as the Fed's vice chairman of supervision, a powerful post that was created in 2010 but never formally filled by President Barack Obama. Daniel Tarullo, a Fed governor who de facto held the job, resigned earlier this year.

Mr. Quarles, who told lawmakers last month that postcrisis financial rules require "some refinements," is awaiting confirmation by the Senate.

Mr. Draghi, meanwhile, criticized a tilt toward protectionism that he said could jeopardize the recent upturn in synchronized global growth. "To foster a dynamic global economy we need to resist protectionist urges," he said. He praised multilateral organizations like the World Trade Organization and the Group of 20 for helping to ensure global trade is fair and equal.

The ECB chief also warned that loosening financial regulations as central banks are providing easy money risks stoking financial imbalances and could re-create incentives that led to the financial crisis.

The focus on regulation and trade moved monetary policy out of the spotlight of the economic-policy symposium held every year in the Grand Teton National Park. Central bank chiefs “opted for coordinated silence at Jackson Hole” about monetary moves, said Lena Komileva, chief economist at G+ Economics in London.

Mr. Draghi said the ECB’s €60 billion-a-month (\$71 billion) bond-buying program had been “very successful,” but said a “significant degree of monetary” stimulus was still needed to support the 19-nation eurozone economy.

That echoes the language used by the ECB chief after the bank’s latest policy meeting in July. Still, the euro jumped to a 2½-year high of \$1.1930 against the dollar Friday afternoon after Mr. Draghi didn’t mention the single currency’s recent strength. Traders took that as an invitation to buy it, betting that ECB officials don’t object to the euro’s current level.

Investors are watching closely for any signal that the ECB will start winding down its so-called quantitative-easing program, which is due to run at least through December. Mr. Draghi has said policy makers will discuss the future of QE in the fall, which could include its next policy meeting on Sept. 7.

Markets also expect the Fed to announce at its next policy meeting, Sept. 19-20, when it will start to shrink its \$4.5 trillion balance sheet of Treasury and mortgage bonds.

The relative silence on monetary policy from Ms. Yellen and Mr. Draghi “was probably not random,” said Roberto Perli, an analyst at Cornerstone Macro. “When central bankers avoid a certain topic, it’s often because they are comfortable with what markets are expecting.”

Mr. Draghi used his last speech at Jackson Hole in August 2014 to lay the groundwork for the ECB’s QE program, which was launched in early 2015.

Still, investors had expected little in the way of fresh policy cues this time, anticipating that the Fed and ECB would be reluctant to front-run policy makers’ discussions—particularly in the thinly traded month of August.

In a question-and-answer session, Mr. Draghi acknowledged that the eurozone’s economic recovery is gaining ground, but said policy makers still hadn’t seen the “self-sustained convergence” of inflation toward the bank’s medium-term objective. Several factors are slowing that process, he said, mostly having to do with the labor force.

“We see the recovery is proceeding,” he said. “So on one hand, we are confident as the output gap closes, inflation will continue to its objective over the medium term. On the other hand, we have to be very patient, because the labor forces that are slowing down and the low productivity are not factors that are going to disappear any time soon.”

The eurozone economy has accelerated in recent months, outpacing the U.S. in the first quarter of the year and keeping pace in the second. Growth is spreading beyond traditional powerhouses like Germany and the Netherlands to Italy and Spain, the latter of which saw its economy expand by 0.9% in the second quarter, the fastest pace in almost two years. Eurozone unemployment has fallen to an eight-year low of 9.1%, and consumers and businesses are buoyant.

At the ECB’s July meeting, some policy makers had expressed concerns about the risk that the euro would “overshoot” in the future, according to the minutes. The common currency has appreciated sharply this year, especially as the risk of an anti-euro candidate’s victory in France’s presidential elections this spring receded. Stronger economic growth also has helped to drive the euro higher.

Against the dollar, the euro has risen by more than 10% this year, taking it to a 2½-year high, to levels last seen before the ECB's asset-purchase program began.

—Nick Timiraos contributed to this article.

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