



A Delphi study on the future of finance

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FESSUD Workshop: Mapping the Future of Finance

Bank of England, London May 25th, 2016

1. Design and methodology

The Delphi study was based on the responses of 49 experts to a questionnaire that included 33 questions about their opinion about the future (5-10 years) of certain economic issues. For each question a closed list of possible (2-5) answers was provided, but experts could give qualitative comments and opinions

Delphi study comprised two stages:

- A preliminary report was elaborated with the responses and comments obtained in the first round of the study.
- At a second round, we sent to experts that responded the questionnaire, the same questionnaire with the preliminary report, giving them the possibility to change their responses
- A final report was made using the responses given in this second round

Participants:

- 114 experts: 34 experts members of Fessud partners + 77 external experts
- 51 questionnaires were collected at the first round of the study
- 49 questionnaires (27 internal + 22 external) were collected at the second round

Questions:

- Fessud partners leaders and work package leaders were invited to send proposals of questions
- The final list of questions was elaborated by the leader of the Delphi study in collaboration with Professor Giuseppe Fontana (University of Leeds)

Final report is based the responses obtained at the second round:

Quantitative information:

- Average level of experts' knowledge
- Percentage of each response on total responses
- Number of responses
- Descriptive statistics of the responses: mean, median, standard deviation, quartile 1 and quartile 3.

Qualitative analysis of the data combined with the analysis of the reasons and comments behind experts' answers (including quotations of comments and arguments provided by the experts)

2. Experts' opinions about financial system and the financial crisis

92% of experts think that before the 2008 crisis, academic economists overestimated the benefits of the financial system

94% of experts thought that the financial crisis was due to a combination of wrong regulation and excessive size of the financial system

73% of experts think that regulation of the financial system was based on wrong economic models

43% experts think that current size of the financial system will remain unchanged, and 45% think that it will increase

100% of experts think that financial institutions exert a strong influence on regulators, leading to rules and norms that consolidate the power of financial sector

63% of experts think that this influence will remain in the next 5 to 10 years, and 22% think that the influence will increase

88% of experts think that non-bank financial system will cause a financial crisis in the next 5 to 10 years (probability > 50%)

94% of experts think that strong growth of non-bank financial system will remain in the near future (probability > 50%)

66% of experts think that Basel regulations concerning liquidity and capital arrangements will not lead to a more robust financial system

93% of experts think that European banking union will promote a larger concentration of the banking sector

For 42% of experts, developed countries will not separate commercial and investment banks

For 66%, only some developed countries will introduce new forms of control on non-bank financial institutions

For 60%, only some developed countries will introduce controls on over-the-counter derivatives

For 66%, only some developed countries will introduce controls on off-balance sheet operations

For 54%, only some developed countries will introduce controls on offshore financial centres

For 52%, only some developed countries will introduce limits to leveraging of financial institutions

67% of experts think the the declining trend of locally-oriented saving and cooperative banks will remain

3. Experts' opinions about economic activity and economic policy

INCOME DISTRIBUTION

62% of experts think that income and wealth inequality will rise (only 12% think it will decline)

51% of experts think that wage share will decline, 45% think it will not change

NON-FINANCIAL AGENTS

38% of experts think that consumption-investment will depend less of external funding;
51% think that the dependence will remain at current levels

41% of experts think that corporate profits will gain relevance in the funding of
investments by non-financial corporations

75% think that in Europe banks will be the main source of external funding for non-
financial corporations, though with a declining share

41% of experts think that in the near future, households' saving rates will be higher than
before the crisis; 39% think will be the same

61% of experts think that an increase in households mortgage lending is a risk for
financial stability

52% of experts think that the constraints suffered by non-financial corporations regarding
access to bank funding will negatively affect wage growth

ECONOMIC PERSPECTIVES

92% of experts expect a long period of low growth (<2%) for developed countries

98% of experts expect in the Eurozone a long period of low growth (2%)

71% of experts expect in the Eurozone a low inflation (0.5-1.5%); only 22% expect an inflation rate close to target (1.5-2%)

MONETARY POLICY

80% of experts think that Central Banks (CBs) whose main objective is price stability will pay more attention to real economic activity, with price stability remaining the main objective

60% think that the European Central Bank (ECB) will in the future pay more attention to real economy, with price stability being the main objective

81% of experts think that CBs of developed economies will not change current inflation rate targets

39% of experts think that non-conventional monetary measures will be the norm of future monetary policy, and 45% think that they will be used but only during deep recessions

90% of experts think that CBs of developed countries will adopt a financial stability objective

EUROZONE

47% of experts think that in the next 5-10 years the composition of Eurozone will be the current one; 14% think that some countries will exit the euro; 4% that some will exit but others will join; and 35% think that some countries will join, and no country will exit

70% of experts think that the exit from the Eurozone of one country would lead to another financial crisis (41% think that it would be less severe than that of 2008; 25% think it would pose a threat to the existence of the Eurozone)

59% of experts think that ECB will write-off some of the debt of peripheral euro countries (some countries and in some circumstances)

54% of experts think that fiscal rules will become more flexible, though 88% of these experts thinks that will come with tighter sanctions

4. Summary

Most experts think that financial crisis was the result of an ill-designed regulation and an excessive size of financial system. Since there has not been a significant change in the regulatory framework, and there is no reversal in the rising trend of financial system (shadow banking), most experts foresee a new financial crisis in the near future

For a high number of experts, there will be in the near future a smaller dependence of external funding of non-financial agents

Regarding economic activity, experts foresee a period of low economic growth and inflation.

Regarding monetary policy, experts think that CBs will pay more attention to real economic activity and financial stability, though price stability will remain the main objective

Regarding the Eurozone, there is no consensus about the future membership of euro area, though a majority of experts foresee that the exit of a country would have a negative (economic and political) impact on the Eurozone