

12.03.2013

**Opening remarks at the Conference on International Financial Integration
and Fragmentation. Drivers and Policy Responses**

Reinventing Bretton Woods Committee and Banco de España

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Good morning to all. Buenos dias a todos y bienvenidos a Madrid:

It is for me a pleasure to welcome you to Banco de España and to this *Seminar on international financial integration*. I would like to start by thanking Marc Uzan and the *Reinventing Bretton Woods Committee* for their fruitful cooperation in organizing an agenda that is indeed very promising.

More than five years into the crisis, it is still hard to grasp the real magnitude of the changes that our financial systems are undergoing. In fact, we are still trying to restore the financial channels to support the growth of internal and external demand.

While we perform such, so to say, “fire-fighter task”, it is not easy to take a step back and look at how the contours of our economic and financial landscape are evolving. But we can already distinguish some of the characteristics of the new scenario that is taking shape, and that will be our habitat as central bankers, regulators, financial intermediaries or analysts in the years to come.

It seems that one trend is towards disintermediation and a more important role of capital markets, gaining ground to banks, in a global financial system that will probably end up being smaller and more attuned to the size of the global economy.

Another trend points to a reduction of financial linkages between national financial systems, as BIS banking statistics, for example, are starting to show. Here, the role of Central Banks’ policies and operations, as well as regulators is crucial, as they must walk a fine line in promoting domestic financial stability without falling into the nets of protectionism, something that would be indeed damaging for growth and prosperity.

As we all know, the risk of fragmentation and re-nationalisation of the financial system has materialized at the European level, in the unique institutional context of European Monetary Union; and the solutions to overcome this situation are changing the foundations of the euro.

Each of the three sessions which make up the programme will focus on a particular perspective on how the new trends are shaping the global financial system.

The crisis and the policy response –in the areas of financial regulation and monetary policy- are generating new patterns of funding, new players and changes in capital flows across global markets. Those issues will be reviewed in the initial session.

As I mentioned before, the euro area has to deal with a severe crisis which has led to the fragmentation of the European financial system. While there are signs of a certain reversal in this process, a failure in this respect would be particularly harmful for the European project, since integration is at the core of the European Union itself. The policy actions of the ECB and other European authorities, including the decisive drive towards a Banking Union, have been able to overcome or dissipate the worst fears, but the road ahead is still long and difficult.

Finally, the role of central bankers should be highlighted in this new context. We are big players in the financial arena, both from the regulatory and monetary policy standpoint; and the framework for our actions --and reactions- must necessarily change and adapt to the new environment. The renewal of the set of instruments to address the price stability mandate, be it in a situation of low growth, as happens to advanced economies, or in a situation of large capital inflows, as happens to emerging market economies, is one aspect of that change. The need to take on board financial stability considerations is another aspect widely discussed. You will devote the final part of the day to this quest.

And I do not want to take more time out of the tight agenda you will follow now.

Thank you very much for your attendance to this Conference. I wish all of you and excellent day and a good discussion.