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Opening remarks
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Let me first thank Bieito Rubido, the Editor of ABC, Yolanda Gómez, the Deputy Editor, Fernando Ruiz, the Chairman of Deloitte and Juan Fernández-Aceytuno, the General Manager of Sociedad de Tasación, for their invitation to the opening of this Encuentro del Sector Financiero forum.

In my address I shall briefly set out the situation of and outlook for the Spanish economy in the European setting; I shall review monetary policy developments in the euro area; and I shall conclude with some thoughts on the connection between political tensions and the functioning of the Monetary Union which, today, as a legacy of the crisis dating back to 2007, are evident and significant.

The Spanish economy

I shall begin with the situation of the Spanish economy. Recent figures confirm the momentum and strength of our economic recovery, against a background in which the correction of the macroeconomic imbalances and the improvement in the external environment continue.
The policies deployed at home and in Europe are underpinning this sound performance. But there are other factors contributing to the recovery: the fall in oil prices, which is translating into a boost to household incomes and into a reduction in firms' production costs; the very significant depreciation of the euro; and the favourable economic activity figures of some of our trading partners within the Monetary Union.

Turning to prices, the annual rate of inflation has been negative in the first three months of 2015, running at -1.3%, -1.1% and -0.7%, respectively, although the non-energy CPI and the core inflation index have been more stable, posting positive figures. In particular, in March, on preliminary figures, the annual rate – though still negative – is estimated to have stood at -0.7%, an increase of 0.4 pp on February, which largely stemmed from the correction in oil prices.

Following several quarters of sluggish growth, a recovery is discernible in the euro area. Most member countries are posting positive GDP growth rates, although there are significant differences. Among the major economies, the pace of economic activity is highest in Spain and Germany.

In 2014, euro area GDP grew by 0.9%, compared with a decline of 0.4% in 2013. Driving this recovery has been the increase in private consumption, in a setting of improved household confidence and income. Other favourable factors have been the contribution of exports and gross fixed capital formation, the latter due to the pick-up in construction.

The data available on the Spanish economy suggest that, during the first quarter of 2015, the expansionary trajectory observed in 2014 has stepped up. GDP is estimated to have increased by 0.8% in quarter-on-quarter terms, which would place the year-on-year rate of change for the first quarter at 2.5%, a higher level than expected.

The recovery in the Spanish economy this year and in 2016 will be underpinned by the strength of private domestic demand and by stronger exports. Moreover, the decline in the tax burden, following the reform that came into force in January, and the monetary policy measures recently adopted by the ECB – including most notably the asset purchase programmes – will also support growth. The projections published by the Banco de España in its Economic Bulletin two weeks ago point to GDP growth of 2.8% this year, followed by similar growth in 2016, at a rate of 2.7%.

As to the labour market, the projections of the Banco de España are for growth in employment of 2.7% this year and 2.6% in 2016. The increase in employment will enable the unemployment rate to continue shrinking at an even greater pace than in 2014, to stand at around 20% of the labour force in the fourth quarter of 2016. These projections, which do not appear to be overly optimistic given the figures – published on Monday – for the decline in unemployment and the rise in Social Security registrations in March, highlight the need to continue pursuing policies geared to boosting competitiveness, investment and exports, the only foundations suitable for sustainable job creation.

Price developments in 2015 and 2016 will be greatly influenced by oil prices. Consumer prices might fall by 0.2% on average in 2015, and rise by slightly more than 1% in 2016. Stripping out the energy component, consumer prices are expected to rise modestly, in line with the scenario of growing household expenditure, the lessening of surplus capacity in the economy and the depreciation of the euro. The risk of deflation appears to have been clearly averted in the Monetary Union and, consequently, in Spain.

Recent monetary policy conduct

Let me turn now to recent monetary policy conduct.

Monetary policy in the euro area has been progressively adapted to medium- and long-term inflation expectations, in a setting marked by the weakness of economic growth in the area.

The armoury of instruments used by the ECB includes conventional or standard measures – such as interest rate movements and the provision of liquidity in its ordinary refinancing operations – together with non-standard or extraordinary measures, among which the setting of negative interest rates on the discount facility, and long-term liquidity-provision and asset-purchase programmes.

The need to keep the deflationary risk at bay, i.e. to keep inflation expectations anchored in the proximity of the ECB's objectives, has been pivotal in determining the successive steps to be taken in terms of monetary easing.

In June 2014, the ECB cut its official interest rates, setting the main refinancing operations rate at 0.15%. Also, for the first time, it set the interest rate on the deposit facility in negative territory, at -0.10%.

In addition, it announced new long-term refinancing operations maturing in September 2018, with the specific aim of boosting lending. It is worth noting that these operations combine credit-enhancing elements, as they link the granting of liquidity to bank lending, with quantitative easing, through the expected increase in the Eurosystem balance sheet.

In September 2014, the ECB adopted new measures. First, it made a fresh cut to interest rates, whereby the MRO rate stood at 0.05%, its technical minimum, and the deposit facility rate became even more negative, reaching -0.20%.

Furthermore, the ECB initiated asset purchase programmes. In the fourth quarter of 2014, the ECB launched its third covered bond purchase programme and, subsequently, its ABS purchase programme. By end-March, covered bond purchases had reached almost €63 billion, with slightly over €7 billion of these being made by the Banco de España. As to ABS purchases, these stood at €4.6 billion at end-March, indicating that this was evidently a less significant component of the programme.

In January 2015, the ECB decided to add a third programme, called the “Expanded Asset Purchase Programme”. This involves government bond purchases and marks the launch of quantitative easing.

Adding government securities and paper issued by supranational European institutions to the asset purchase programme was a very important step in the monetary easing and economic stimulus policy: the programme will run to September 2016 at least, with a monthly target of €60 billion for the three programmes as a whole, although government bonds will be the main component of the purchases and of the increase in the Eurosystem balance sheet.

The programme is expected to give a significant monetary boost to the economy, keeping inflation in the medium term below, but close to, 2%. The monetary stimulus transmission mechanisms include both the easing of financing conditions for households and firms and, indirectly, the depreciation of the euro.

Purchases of public securities will be allocated as follows: 88% to euro area sovereign and national government agency securities, and 12% to supranational institutions and international agencies resident in the euro area.

Of the 88% of national government securities, 8 pp will be acquired by the ECB and the remaining 80% by national central banks, according to their capital key in the ECB, with some special rules for national central banks whose government debt markets are so small that these targets cannot be met.

Purchases under the public securities purchase programme commenced on 9 March and, to 31 March, had reached over €47 billion, of which more than €5.4 billion related to purchases of Spanish public debt by the Banco de España and the ECB itself.

With this expanded asset purchase programme in train, monetary policy may be said to have exhausted its room for manoeuvre. It should be added that the programme is already yielding its first fruit in terms of wholesale funding market prices and, more importantly, signs of easier financing conditions for households and firms.

The politics of the Monetary Union

I would like to conclude with some thoughts on the political environment in the euro area and its relationship to the economic recovery and the improvement in employment throughout the area.

The crisis that commenced in 2007, which is still not completely over, has obviously exacted a high cost in terms of political support for what Monetary Union means.

The Monetary Union, whose ultimate justification lies in the advantages it brings for economic growth and welfare, entails a common monetary policy and, as a corollary, relinquishing the possibility of using devaluation of the exchange rate as a national instrument to correct monetary and fiscal imbalances, and also the possibility of central bank financing of budget deficits (known as "monetary financing"). In this situation, there is no way of correcting imbalances other than by means of an "internal devaluation", i.e. through the adjustment of domestic prices and costs relative to external ones, and by curbing government spending and revenue shortfalls, in real terms.

This is what the Spanish economy has, with great effort, been achieving since 2012. In the truly difficult circumstances of 2012, Spain avoided a bail-out that would have been very painful in many ways, and certainly from an economic and social standpoint. Spain never lost its access to the capital markets. Admittedly at very high interest rates, and with very large risk premiums, our Treasury was always able to fund itself on the markets, because the markets, while mindful of the risks involved, very quickly appreciated (I am referring to the summer of 2012) the seriousness and decisiveness of the corrective action being taken.

Spain reacted as a responsible and loyal European Union and Monetary Union member. It did not attempt to shift the blame onto anyone else, even though the euro crisis, which affected us very directly, obviously did not arise exclusively, or originally, in the Spanish economy.

To call the correction of unsustainable imbalances (like the balance of payments deficits of 2007 and 2008, of around 10% of GDP, and the budget deficits, which ranged from 9% to 11% between 2009 and 2012) austerity, is not really a very good description of reality. Changing direction when on a path towards impossible and unsustainable situations is not "austerity" but common sense and, in a very real sense, patriotism. Inevitably, correcting major imbalances comes at a very high cost in terms of employment and welfare, and that is the lesson that we can draw from the Great Expansion that ended in 2008 with the bursting of the real-estate bubble.

Imbalances have to be corrected, although obviously not anyhow or at any speed. It has been argued, with a striking image, that if you are on the twenty-fifth floor of a building and wish to descend to street level, it is better to use the lift or the stairs than to jump out of the window, even though that would definitely be the fastest way down. The reforms that have been approved in Spain – in particular the adjustment of public spending and revenues, bank restructuring and labour market reform – have been rigorous, but also prudent, and this has also contributed to the recovery. That is certainly the opinion of our European partners and of the markets.

The European Monetary Union originated more than twenty years ago in the Maastricht Treaty, and became a reality in the markets more than fifteen years back. In those days, the idea of a Monetary union was capable of mobilising extensive political support, but with time, and the crisis, this has been somewhat eroded.

The Monetary Union alters economic policy priorities and their relative importance and changes the way in which economic pressures are relieved. It is an economic construct, but also a political one, and cannot survive without political support.

If the Monetary Union – now bolstered by the Banking Union – is to remain one of the great landmarks on the road to European union, the support for it needs to be renewed and strengthened. And this naturally cannot be achieved by monetary policy, or even, I would say, by economic policy, alone. Governments must press ahead with the reforms needed to make the economies of the European Monetary Union more flexible and productive, thereby spurring innovation and investment.

Thank you very much.