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Opening Remarks

NABE (National Association for Business Economics)/Banco de España Symposium

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Governor

Welcome to the Banco de España.

We are very honoured to host the fourth international symposium of the National Association for Business Economics (NABE). This edition of the symposium is entitled "Global Recovery: The Good, the Bad and the Ugly"; a suggestive title to stress the challenges faced by the current economic recovery. Over the next two days, a selected group of panelists and invited speakers, together with the rest of the participants, will have the opportunity to discuss the roots, weaknesses and risks of the current recovery.

Today we will start the debate with an overview of the main determinants of the current global recovery, followed by three sessions focusing on a number of relevant questions.

These will range from the role of the banking sector as opposed to the capital markets in financing the real economy, to the challenges faced by central banks in delivering on their price stability mandates.

During the reception dinner, this evening, we will have the opportunity to learn about the views on the global recovery of a very distinguished speaker: Peter Praet, Executive Board Member of the ECB. The symposium will continue tomorrow with Jordi Gual, Chairman of CaixaBank, who will present his views on current banking developments. Following several panels, touching on a number of interesting and timely topics, we will conclude with the US Policy Keynote delivered by John Williams, President of the Federal Reserve Bank of San Francisco and President of the Federal Reserve Bank of New York next June.

I think that the format of the meeting will ensure a fruitful debate. Indeed, the interaction between economists from the areas of central banking, business, finance and academia, representing so many institutions with a global scope, should provide us with a rich and diverse set of views of the world economy. But before you start your discussions, let me share with you some thoughts on the current situation of the global economy, with a brief summary on the recent developments and the main challenges ahead for the Spanish economy.

Global growth in 2017 has been stronger than initially expected and widespread across regions. The incipient recovery of investment and the expansion of international trade explain a significant part of this positive surprise, which reveals, once more, the role of international trade as a source of growth and prosperity. Hence, in the words of the conference's title, I think it would be fair to say that the strong pace of global trade has been the 'Good' over the recent period.

But, the current positive mood of the global economy should not lead us to be complacent. Indeed, the global economy faces significant risks. In particular, there are three 'Ugly' factors of risk of a global nature, whose materialisation could take us to some really 'Bad' scenarios.

First, the rise of protectionism that is becoming evident with the approval of new tariffs and threats of trade wars. We have learnt extensively from economic history on the global costs of trade wars and their implications in terms of international economic, financial and political instability. We know that in trade wars there are no winners, only losers, as my ECB Governing Council colleague, Benoît Coure, put it a few days ago.

Second, the uncertain outcome of the Brexit process entails risks not only to the European Union, but also to the global economy. A disorderly exit resulting in financial instability and the economic isolation of the UK would have serious negative effects on the whole European economy that would quickly spread worldwide. The slowdown in economic growth in the UK economy in 2017, against a global background of strong growth, should be seen as an indicator of those risks.

Finally, the current calm reigning on international financial markets, in a context of high asset valuations, low volatility levels and risk premiums, and investors' high appetite for risk, should warn us of the risk of a potentially abrupt adjustment. Indeed, we already received some warnings a couple of months ago, when global markets overreacted in synchrony to news about the US economy. Certainly, the recent re-emergence of certain geopolitical conflicts should, if anything, make us –policy-makers and market participants alike – more aware of the risks and vulnerabilities down the road of recovery.

Let me connect these reflections to brief comments on the recent economic experience of Spain.

Few economies experienced the severe consequences of the global downturn initiated in 2008 as Spain. Between 2008 and 2013, real GDP fell by 9% and the unemployment rate was above 27%. Yet, Spanish exports demonstrated amazing resilience. Following the collapse of global trade in late 2008 and early 2009, Spanish goods and services exports grew between 2009 and 2013 by 28%, largely buffering the drop in domestic demand. The openness of the global economy and the security afforded by being part of the euro area acted as first-order levers for the recovery of Spanish sales abroad and, hence, of our economic activity and job creation.

The ratio of exports to GDP in Spain jumped from 23% in 2009 to 34% in 2017. The greater internationalisation and competitiveness of the Spanish economy allowed it to turn its 2007 current account deficit of close to 10% of GDP into the stream of surpluses that have been recorded since 2013. No doubt, protectionism and isolation would only have worsened the economic and financial crisis in Spain, and prevented its strong recovery.

In addition to the significant contribution of the external sector, the Spanish recovery has greatly benefited from the normalisation of its financial landscape thanks to the conjunction of both national and European initiatives.

The recapitalisation and restructuring of a major portion of our financial sector was complemented by the – still incomplete – construction of the European Banking Union.

Action on these fronts provided some of the necessary conditions for the recovery: the normalisation of capital and credit markets, and the gradual removal of financial fragmentation in the euro area, an aim towards which the monetary policy of the ECB made a crucial contribution. Against this backdrop, Spanish non-financial corporations and households were able to reduce their debt by 63 points of GDP up to the end of 2017, with a contained contractionary effect on aggregate demand.

But, as I said before, there is no room for complacency. In addition to the aforementioned factors of uncertainty for the global economy, to which our country is of course not immune, the Spanish economy faces its own challenges, including, most notably, a rapidly aging population, a relatively low level of productivity and the need to significantly reduce the level of public debt over the coming years. Your discussions and reflections on these and other issues will prove to be a very valuable input for all of us.

Let me conclude by thanking the panelists, speakers and organisers for their contribution, and wishing you all a fruitful and productive debate and a happy stay in Madrid.

Thank you.