

03.02.2022

Getting into gear for 2022. Economic and technological challenges

Opening address/Madrid Network

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Good morning everyone.

I would like to thank the organisers (the Madrid Network, Enable and SAP) for inviting me to participate in this event, at which the main economic and technological challenges facing Spanish firms in the coming years will be addressed.

Let me point out that we are at present subject to the “quiet period” that precedes monetary policy meetings of the ECB Governing Council. This means that I cannot refer to issues that could influence expectations about future monetary policy decisions. Therefore, my thoughts should not be interpreted as insight into the monetary or economic outlook that might shape expectations regarding these decisions.

I would like to begin by outlining the macroeconomic setting in which Spanish firms will have to operate in the future. I shall then highlight some challenges that are also business opportunities for our firms.

The Banco de España’s projections published last December envisage the economic recovery continuing throughout 2022, with a growth rate of more than 5%. Beyond the specific forecast figures which, as we are witnessing, quickly become obsolete in such an uncertain environment, we are all aware that, globally, the year has got off to a shaky start. In the words of Kristalina Georgieva, Managing Director of the IMF, the recovery in 2022 could prove to be an obstacle course.

In the very near term, the Spanish and global economy will continue to lose momentum as a result of the spread of the Omicron variant and the uncertainties threatening Europe’s eastern boundaries, among other factors. However, unless there is a serious escalation in the Ukraine conflict, stronger growth is expected thereafter, as the supply chain disruptions and inflationary pressures abate and tourist flows gradually normalise.

The latter is of great significance given the weight of this sector in our economy. In figures, the number of overnight stays in 2021 overall was 49.8% lower than in 2019, and 63.4%, if only non-residents are taken into account. That is why it is so important that the pandemic situation stabilises and foreign tourist flows return to normal.

This analysis should also include the impetus from the projects funded through the Next Generation EU (NGEU) programme, which I shall discuss later in greater detail, and from financing conditions foreseeably remaining favourable.

In any event, this outlook is still subject to major uncertainties, which obviously include the pandemic. That said, we must acknowledge that after almost two years of living with the virus, we have shown a notable capacity to adapt to it. This adaptation has gradually increased with each successive wave, allowing us to be relatively optimistic. Nonetheless, the behaviour of international tourism and household consumption will continue to be strongly influenced by pandemic restrictions and the progress made in combating COVID-19.

Also linked to future epidemiological developments are some of the uncertainties surrounding the duration of the disruptions observed in the global supply chains, known as “bottlenecks”.

Naturally, it would be remiss not to mention the recent surge in inflation. This added element of uncertainty, which has emerged in recent months, could alter the macroeconomic scenario projected for this year. In the most likely scenario, inflation in Spain could rise to an average of around 4% in 2022, albeit probably on a declining path over the year. This expected price moderation during the year is explained by the fact that the surge owes to a combination of

largely transitory factors. For example, the base effects stemming from the pandemic, the supply difficulties, or the steep rise in the prices of some intermediate goods (especially electricity).

In the current circumstances we cannot rule out scenarios in which inflationary pressures last longer than initially projected. There are two main sources of risk, which are interrelated.

First, the possibility of a less marked energy price correction than anticipated, which might be prompted, for example, by a flare up in geopolitical tensions.

Second, to date, the pass-through of the rise in production costs to firms' selling prices and of the rise in consumer prices to wages has been fairly moderate. We must therefore avoid a scenario in which price and wage increases generate a feedback loop.

In this connection, allow me to repeat the message that the Banco de España has been sending about the need for social agents to reach agreements that will prevent so-called second-round effects. After all, the inflationary shock is largely due to the rise in the prices of imported goods and thus entails a loss of purchasing power for Spanish households and firms. How this is distributed among these two groups needs to be determined.

These short-term factors should not distract our attention from the presence of undertows in which all economies are caught to a greater or lesser degree and which the Banco de España has been highlighting for some time.¹

The effects of these structural trends, such as population ageing, climate change or digitalisation, will require an effort to adapt by all economic agents, but will also bring new business opportunities.

Given the theme of this event, I would like to focus particularly on the challenge of digitalisation.

The digitalisation of society is at the heart of economic and social changes in the 21st century and has an impact on all human activity. These changes have already left their mark in areas as diverse as trade, finance, the media or transport.² Like any major technological change, digitalisation poses adaptation challenges for individuals, firms and governments. Such changes normally involve long periods of structural change, which take longer the more we resist them.

In the case of firms, their ability to adapt depends on their individual circumstances. Here, our starting point is perhaps less favourable than that of other economies. Compared with other developed countries, the business ecosystem in Spain is dominated by small, relatively less productive firms with little investment in R+D or employee training and less integration of digital technologies.³ However, these factors are not immutable. They can and must be improved.

This is precisely why it is crucial that the funds from the NGEU programme are used as a lever to drive forward the process of adapting to the digital transformation (and to other challenges, such as climate change) and thus pave the way for the structural transition that lies ahead. The size of the funds that will be mobilised make this programme a key factor that will determine economic developments not only in 2022 but also in the medium term... in other words, it represents a major opportunity.

As you all know, the digital transformation is one of the four cross-cutting priorities of the various initiatives included in Spain's Recovery, Transformation and Resilience Plan, the strategy in place for channelling NGEU funds. Digitalisation will absorb almost a third of the total funds,

¹ Hernández de Cos (2020): "[The main post-pandemic challenges for the Spanish economy](#)", Appearance before the Parliamentary Committee for the Economic and Social Reconstruction of Spain after COVID-19 / Congress of Deputies.

² Tirole (2017): *Economics for the Common Good*, chapter 14.

³ See, for example, <https://digital-strategy.ec.europa.eu/en/policies/desi-spain>.

some €20.5 billion, allocated to several initiatives that promote digitalisation in the business world and in general government.

An aspect of this strategy's design that I would like to mention is that it recognises the heterogeneity of Spain's business sector, avoiding a "one-size-fits-all" approach. A clear example of this is its particular focus on promoting the participation of SMEs. The strategy includes specific initiatives for SMEs, one of which has been funded with close to €5 billion. This amount is earmarked for specific actions in the areas of mobility, renewable energies, skills training and development, industrial projects, digitalisation, financing entrepreneurship and, lastly, tourism and trade.

In short, the extraordinary transformative potential of this Plan cannot be denied. But for this potential to be fully unlocked, it is essential to ensure that the funds are absorbed at an appropriate pace and that the plan is designed to guarantee the effectiveness of the projects undertaken, accompanied by ambitious structural reforms that reinforce its impact on activity and employment.

I would now like to reflect on the nature of the digital transformation we find ourselves in. This transformation has gained momentum in recent years, in step with two interrelated phenomena. First, there has been a substantial increase in the quantity and quality of available data, accompanied by a parallel increase in our capacity to store, process, and analyse such data. Second, social connectivity has been further enhanced with new ways of accessing and communicating information and interacting with others, including the Internet of Things.

A key element of this digitalisation process is our ability to fully harness the benefits of these technologies while minimising their risks. In my view, digital transformation confronts us with a difficult choice that requires a complex response.

On the one hand, personal data (on individuals' behaviour, choices, "likes", etc.) have become a key input not only in today's productive process but also in the innovation that has powered new products and services. On the other, these same data are key for the development of mass surveillance systems that could hypothetically be used by third parties, including large technological platforms,⁴ to influence our lives.

From an economic standpoint, these data have a key characteristic that renders them a very powerful factor of production. They are what is known in economic theory as a "non-rival goods",⁵ that is, data that may be consumed by multiple firms at the same time, undiminished by congestion. Physical assets, such as a storage room or a computer, are rival inputs, since they can only be used by a single firm or employer at the same time. By contrast, a database may be used by countless firms simultaneously. Giving broad access to personal data can therefore generate enormous financial gains but can also threaten privacy and heighten other economic and financial risks.

For all these reasons, we are moving towards a paradigm in which the rules and regulations governing access to personal data are emerging as a new pillar of the structural policies that matter for growth, equity and financial stability.

In my opinion, this underscores the need to ensure a high degree of trust in the digital ecosystem on at least two levels. First, as users, we need guarantees that the data we provide are not used against us, either through misuse by firms or insufficient protection, which requires that we all

⁴ See, for example, <https://www.economist.com/leaders/2022/01/22/big-techs-supersized-ambitions>.

⁵ Jones and Tonetti (2020): "[Nonrivalry and the Economics of Data](#)", *American Economic Review*, 110 (9): 2819-58.

pay attention to cybersecurity. Second, appropriate property rights over personal data must be introduced to strike a balance between economic efficiency and individuals' need for privacy.

We are all aware that these are very complex tasks that will require unprecedented cooperation among regulators and government agencies with mandates on areas such as competition, financial stability, consumer protection or privacy. Moreover, international cooperation takes on an even greater significance here, given the global nature of the main digital platforms and the different sources of existing geopolitical tensions.⁶

Allow me to conclude with a specific digital challenge that affects central banks. As I imagine you already know, a few months ago, the Eurosystem launched an ambitious initiative to create the digital euro,⁷ in order to support the digitalisation of the European economy and to actively encourage innovation in retail payments, which are crucial, for example, for SMEs. We are not the only central bank that has explored the creation of a digital currency.

Returning to the use of personal data, we are going to have to coordinate with our peers in other countries to set standards for enabling the interoperability of different digital currencies, when these can be used across borders, for developing digital wallets, and for data flows, including a method for digitally identifying individuals. As you will appreciate, it will not be easy to reach agreements on these issues.

To conclude, the Spanish economy must be prepared to tackle the changes that lie ahead. Our firms will have to compete in a more digital, more interconnected and changing environment. The strategic use of the European funds will be key to strengthening the productivity and resilience of our business sector and thus place us in a better position to enhance the wealth and well-being of our citizens.

Thank you very much for your attention.

⁶ See, for example, the analysis and proposals of the IMF (2021): "[Toward a Global Approach to Data in the Digital Age](#)", Staff Discussion Note 2021/005.

⁷ See https://www.ecb.europa.eu/paym/digital_euro/html/index.en.html