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Address on the award of the XIV King Juan Carlos Economics Prize

Luis M. Linde
Governor

Your Royal Highness, Rt Hon Minister, Ladies and Gentlemen,

Allow my first words to be for His Majesty the King, who has been a constant presence at the ceremony since 1986, the first time we held it at the Banco de España. I would kindly request that your Royal Highness convey to His Majesty our most respectful and cordial wishes for his swift and full recovery.

This is the first time, your Highness, that you are presiding over the award of the King Juan Carlos Economics Prize, but it is not your first visit to this Institution. You first came here in March 1989 as part of a group of students from the Madrid Autónoma University. And the second occasion was in October 2001, when you shared a sitting with our Executive Commission. We are very honoured to have you here today.

The King Juan Carlos Economics Prize was instituted by the José Celma Prieto Foundation. I would like to thank them, in the person of their President, José Celma, who is accompanying us today, for their generous and steadfast patronage.

The Prize is intended to acknowledge the academic or professional career of a Spanish or Ibero-American figure in the field of economics. The Banco de España is honoured to host this award ceremony for a Prize whose prestige is measured by the stature of those who have previously received it: Pedro Schwartz (2010), Joaquín Muns (2008), Gonzalo Anes (2006), Xavier Sala Martí (2004), Juan Velarde (2002), Guillermo Calvo (2000), Enrique Fuentes (1998), Salvador Barberá (1996), Gabriel Tortella (1994), Miguel Mancera (1992), Julio Segura (1990), Andreu Mas-Colell (1988) and Luis Ángel Rojo (1986).

According to the statutes governing the Prize, the Governor of the Banco de España presides the jury, which for this 2012 edition was made up by Mr. José Ramón Álvarez Rendueles, Mr. Gonzalo Anes, Mr. Rodolfo Martín Villa, Mr. Andreu Mas-Colell, Mr. Aurelio Menéndez and Mr. Juan Velarde. The jury decided on 28 September to award the 2012 King Juan Carlos Economics Prize to Professor Jaime Terceiro Lomba.

The foregoing list of prize-winners shows the variety of the fields of expertise they cover, with the only common denominator being excellence. The academic and professional contribution by Professor Jaime Terceiro adds a new and outstanding profile to the list.

Professor Jaime Terceiro is a Doctor Cum Laude in Aeronautical Engineering from the Madrid Politécnica University. After turning to the economy, he gained a degree in Economics (also cum laude) from the Madrid Autónoma University. And in 1980, he was appointed Chair of Econometrics and Statistical Methods of the Madrid Complutense University.

In his capacity as a mathematician-economist, Jaime Terceiro was one of the forerunners in Spain of dynamic state space models, the passage of which from the field of engineering to that of economics has yielded and continues to yield substantial results in economic forecasting, the analysis of the dynamic relationship between macroeconomic variables and the estimation of unobserved components. These techniques are a fundamental tool for analysis and forecasting in most research units (including that of the

Banco de España) and university departments pursuing avenues of research in these fields. Professor Terceiro himself has applied these techniques to the Spanish economy in several studies on consumer price index forecasting, the relationship between broad money, credit and industrial production, and causality between macroeconomic variables. Some of Professor Terceiro's teachings and research in the 1980s are included in his 1990 English-language publication, in Springer-Verlag, which focuses on the application of dynamic macroeconomic models when there are measurement errors in variables.

Backtracking some years, Professor Terceiro's working life began immediately after completing his studies in engineering. He took up a post in Germany, in the Simulation and Control Department at Messerschmitt-Bölkow-Blohm, where he worked on identification, estimation and control procedures for complex systems, a job that lay at the root of those contributions to econometrics I have mentioned.

On returning to Spain, Professor Terceiro held various senior management positions in financial institutions, initiating a career that culminated in 1988 with his appointment as Executive Chairman of Caja Madrid.

Under his leadership, Caja Madrid embarked on a phase of expansion and financial and technological modernisation. Those years also saw the creation of Corporación Financiera Caja de Madrid and of the Caja de Madrid Foundation, which significantly increased the funds assigned by Caja Madrid to welfare projects. They were, in short, years of vigorous modernisation of Caja Madrid, in step with the general modernisation of the Spanish financial system.

Professor Terceiro soon transcended his management role, developing a new vision for savings banks in which he dissented from the prevailing orthodoxy that the high solvency and earning capacity of savings banks in those years validated the system.

In his analysis, Professor Terceiro held that the apparent solidity of the sector was due to strong regulation and the entry barriers protecting its geographical markets. For Professor Terceiro, the crux of the question was the ability of savings banks to compete with other banks in the new environment emerging from the process of banking system liberalisation and from Spain's membership of the European Union. In short, Professor Terceiro was a groundbreaker in analysing the problems of savings banks and an early advocate of sectoral reform.

Professor Terceiro also made significant contributions in the currently highly topical area of governance. Examples are his study of institutional problems in savings banks, published by the Real Academia de Ciencias Morales y Políticas (Royal Academy of Moral and Political Sciences) in 1988 and his paper *Las Cajas de Ahorro en la década de los 90* (Savings banks in the 1990s), published by Fundación El Monte in 1994. That work is a seminal analysis of the problems of savings banks associated with the indefiniteness of their legal form and property rights and, consequently, the weaknesses in their governance.

Knowledge and action, theory and practice, blended in the most effective manner, are the two poles of the personality of Professor Terceiro, which are readily apparent right through his outstanding and exemplary academic and financial career.

My thanks once again to His Royal Highness Prince Felipe for his presence at this ceremony. It only remains for me, with the permission of Your Highness, to ask the prize-winner to come forward to be awarded the King Juan Carlos Economics Prize for 2012.