

***Opening remarks del Gobernador en la Conferencia:
Financing growth: levers, boosters and brakes***

Banco de España

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Let me welcome you all to this new edition of the International Academic Conference, jointly organised by the Banco de España and the World Bank. I would like to give a special welcome to Augusto de la Torre – Chief Economist of the World Bank for the Americas – and his team, and thank them for their efforts in putting together this event.

This year the Conference explores the link between finance and growth. As is well known, the financial sector and financial interconnections were at the centre of the crisis of 2008.

Functioning financial system and, in particular, a solvent and efficient banking system are considered essential parts of any modern economy. They are needed to intermediate financing flows between savers and borrowers, to provide funding for investment and to allocate risks. Nevertheless, in the aftermath of the financial crisis, the basic tenet that financial deepening, that is, development of banking and financial markets, is conducive to growth, was called into question. Of course, it can be argued that the crisis was the unavoidable consequence of financial excesses, and not of financial deepening. In any case, the crisis has provided a timely reminder that the form and scope of finance has implications for the sustainability and quality of growth.

I understand that the aim of this conference is to focus the discussion on these issues, by analysing the influence of finance on growth.

The present regulatory overhaul, which has been called “regulatory tsunami”, has taken place as a reaction to the crisis, both at the domestic and the international levels. The new regulations are directed at avoiding the financial excesses of the past and, therefore, have been designed to realign incentives and prevent undesired behaviours and their consequences. However, due attention and care should be paid to the overall impact of all these new regulations on real activity and growth.

In the wake of the crisis a new financial landscape is taking shape. Large parts of the financial system which had flourished before 2007 – complex securitisations, in particular – have basically disappeared. Banks in advanced economies – due in part to the new regulations – are changing their business models and scope. The weight of banking in the global financial system is declining, that of capital markets is increasing and new forms of finance are becoming more important. Understanding how these changes affect growth and the funding of growth should be a priority on the academic agenda.

The crisis has underscored the unsatisfactory way in which macroeconomic models incorporate the financial sector. In theoretical models, the mainstream has been to consider the financial system as a standard and accessory building block, usually implying soundly functioning financial markets. From an

empirical standpoint, there is an extensive literature relating finance and growth, and finance and crisis, but little has been done in terms of analyzing the links between rigidities in financial markets and the fundamentals for growth.

Today, there are signs that we are emerging from the crisis. Monetary policy in the United States is in the process of normalising, although this may take some time; this might not be the case in the euro area yet, but the worst of the sovereign crisis seems to be over and we are advancing in adopting a Single Supervisory Mechanism. Emerging markets, after enjoying several years of strong growth and capital inflows, are also coming to terms with more normal financial conditions.

Spain, which has undergone a severe financial and economic crisis, is also building its recovery on the progress made in economic reforms and financial restructuring; economic prospects have improved in the past year, although much remains to be done.

All in all, the global economy seems to be moving towards a 'new normal' stage. But this new normal will be different from that prior to the crisis. And, probably, one of the shifts will be related, precisely, to the role of finance.

In this context, the support of well-founded economic analysis is necessary to understand the upcoming economic environment. And the papers on the link between finance and growth that you are going to discuss today are important contributions to this end.

I am sure you will enjoy fruitful discussions and I wish you a pleasant stay in Madrid.

Thank you very much.