

Luis M Linde: United Kingdom and Spain – assessing current issues

Intervention by Mr Luis M Linde, Governor of the Bank of Spain, at the dinner opening the 25th Tertulias Hispano-Británicas, Madrid, 26 October 2012.

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Almost a quarter of a century back, following the visit by her Majesty Queen Elizabeth II to Madrid in 1988, a group of Spanish and British diplomats, politicians, academics and civil servants had an excellent idea. They took advantage of the Gibraltar dispute not to further cool relations between Spain and the United Kingdom, or to squabble some more, but rather to seek to be closer friends and try and understand one another better.

Today marks the 25th edition of the Tertulias. Let me welcome all those taking part, firstly and especially our British friends, who honour us with their presence.

A few days ago, perusing James Boswell's legendary book on the life of Samuel Johnson, one of European culture's literary giants, I came across several paragraphs in which Boswell relates Dr Johnson's interest in Spain. He was convinced that Spain was a greatly unknown country in England and in Europe, and he suspected it could teach much to those taking the trouble to travel there. Samuel Johnson made this statement around the mid-1760s.

Today, Spain is no doubt much better known in the United Kingdom than in Johnson's time, as it is also the case for the United Kingdom being better known in Spain. But everything is relative and I believe it's not difficult to spot black holes, mistaken notions and errors of understanding on both sides. While these Tertulias are usually an opportunity to overcome some of these problems, they most importantly allow us to understand our respective stances on current, important or pressing issues. And we also enjoy ourselves. Because, unlike other meetings, the Tertulias are, from my experience, a rather entertaining event. I still have fond memories of the meetings I attended and the discussions we had in the now distant 1990s in Santiago de Compostela, in Seville, in Santander and also in Oxford and in Edinburgh.

The Tertulias were instituted at what was a key time in recent European history: the disappearance of the Berlin Wall, German reunification, the collapse of the Soviet Union and the start of the European Monetary Union project. Next came the great economic expansion at the onset of the 21st century, the international financial crisis and the serious economic problems that have affected all of us, Spain and the United Kingdom included. The European Union and the Monetary Union are today at a difficult crossroads. They face a problem which, when the Maastricht Treaty was negotiated, we knew might arise: that the Monetary Union without fiscal integration would be an edifice with weak foundations. And although attempts were made to head off the risk with public deficit and debt rules, it was known that these were merely shoring up the building and that they could not resolve its fundamental weakness.

But the difficulties we are encountering in the European Union and in the Monetary Union have not only to do with the weak fiscal foundations of this edifice. They are also related to problems of what we call "governance".

Clearly, we have extremely complex negotiating and decision-making procedures in the European Union and the Monetary Union. And, irrespective of or in addition to macroeconomic imbalances, these problems affect the stability of the markets and the perception of risk regarding the area's future.

Most Britons are sceptical about Monetary Union and its future. Although it is not very politically correct to say so, the truth is that this scepticism is really not too bad for us since it helps those of us who are members of the Monetary Union to see ourselves from outside and to take, perhaps, a more realistic view. Sceptics or not, we can agree that the

fallout from a failure of the Monetary Union would certainly affect the future of the European Union as a whole.

The United Kingdom chose not to participate in the Monetary Union and holds firm to this position. Indeed, it would be strange if it were to change its mind in the current circumstances. But it's clear to me that the United Kingdom has no interest in European Monetary Union failing. That is why I am convinced that our British friends are true allies when it comes to overcoming the current euro area problems, and that we can count on their help and cooperation – albeit from a different position than ours – for our initial steps regarding the Banking Union, including the steps towards single supervisory arrangements and the functions of the European Banking Authority. The United Kingdom has one of the world's most sophisticated financial industries, and a wealth of regulatory and supervisory intelligence and experience. Quite frankly, we wish to avail ourselves of their help and advice.

The current economic situation is not an easy one in either the United Kingdom or Spain. There are serious imbalances in our public finances and problems in our banking systems, but unemployment is much more severe in Spain than in the United Kingdom and, moreover, we are suffering from a bout of distrust regarding the future of the euro area, which affects our external financing, but naturally not the United Kingdom's. What is more, the restrictions on the European Central Bank differ from those to which the Bank of England is subject. Finally, we should note that the latest news on economic activity in the United Kingdom appears to be positive, and that in Spain we are implementing a very harsh adjustment that is already yielding appreciable results in terms of fiscal consolidation, competitiveness and correction of the current account deficit.

As you will have so many other matters to discuss, apart from the economy and the euro, you must forgive me for dedicating so much time to my own specific subjects.

To conclude, I am sure these present Tertulias will, as in all the previous meetings, be successful, that the participants will enjoy themselves, and that our British friends will have very good memories of this visit to Madrid.

Thank you.