Miguel Fernández Ordóñez: Presentation of the Annual Report 2009

Address by Mr Miguel Fernández Ordóñez, Governor of the Bank of Spain, to the Governing Council of the Bank of Spain on the Presentation of the *Annual Report* 2009, Madrid, 16 June 2010.

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Ladies and gentlemen,

The presentation of the *Annual Report* for 2009 is taking place at a particularly complex juncture for Europe and, most especially, for the Spanish economy. What began as an isolated fiscal crisis episode in a euro area Member State has turned into an event of systemic scope that has obliged the European authorities and national governments to adopt measures on an unprecedented scale to defend the stability of the area.

At the same time, the spread and heightening of tensions have firmly focused analysts' and markets' attention on the situation and on economic policy responses in those countries which, like Spain, face comparatively more demanding challenges and are, consequently, perceived as potentially more vulnerable.

This is a demanding conjunctural situation, for which it is difficult to find points of reference in our recent past. And more than ever before, it is important to diagnose accurately the true scale of the challenges our economy faces, to prepare promptly the tools needed to meet the challenges and to use them as decisively and forcefully as the situation requires. We must, moreover, act with the urgency demanded by our responsibilities as active members of the common European project in defence of stability and the success of this project. The report I present today is specifically geared to contribute to this task.

From spring last year, the economic indicators offered signs that the world economy was emerging from the most critical phase of the gravest real and financial crisis since the Great Depression. Progress since along the path to recovery has been much more evident in the emerging economies, for which the latest projections indicate growth rates above 6% for 2010. By contrast, the developed countries' economies are recovering at a considerably less dynamic rate, of around 2%.

This turnaround confirms that the rapid and energetic economic policy action to support financial systems, to stimulate demand and to sustain confidence was pivotal in halting a spiral of recession and financial instability which, had it continued, would have undoubtedly had disastrous consequences for the world economy.

Halting this recessionary spiral was crucial for placing the world economy once again on a path of sustained output and employment growth. But if the incipient recovery – still subject to considerable uncertainty and risks – is to take root, further measures on various fronts will be needed.

The bulk of the measures adopted to check the accelerated economic and financial downturn were exceptional. Accordingly, they have to be withdrawn. The proper timing of the withdrawal of these impulses that have sought to progressively restore economies' capacity to generate growth autonomously is a challenge of the first order for national economic policy management. And the challenge is heightened by the adverse effects that the crisis has had on economies' growth potential, which will call for measures and structural reforms that enable such potential to be restored and increased.

Complicating matters, moreover, is the pressing need to tackle the effects that the sharp economic contraction and the emergency measures applied have had on public finances. This means ambitious and credible fiscal consolidation processes will have to be set in train which, while needed to prevent an unprecedented and practically irreversible deterioration in public finances, will tend to slow recovery.

Unfortunately, the sequence which begins with a financial crisis evolving into a real crisis and ultimately prompting a fiscal crisis is a fairly common and recurrent pattern of behaviour in past crises. Tensions like those witnessed in recent months on European sovereign debt markets in the wake of doubts over the sustainability of Greek public finances are sufficiently illustrative of the scale of the risks that may arise from such a sequence.

In particular, the euro area had to face a crisis of unexpected proportions. As in other regions, this meant large-scale emergency solutions had to be activated to check the downturn in the economy and curb expectations of a deepening of the recession and an outbreak of financial instability. The euro area is over the worst phase of the recession, but if ambitious supply-side policies are not pursued, recovery will prove particularly slow. All that has been said on the need to revitalise potential growth through structural reforms and to prevent a fiscal crisis through credible fiscal consolidation programmes is a particularly pressing concern for the euro area.

The emergence of the fateful "financial crisis-real crisis-fiscal crisis" sequence in one of the Member States, namely Greece, is a particularly serious and important development. Its effects have spread not only to other countries but also to the euro area as a whole, thus turning it into a new epicentre of global financial instability. This episode has highlighted the weakness of the economic governance arrangements for the euro, and is forcing some of its working mechanisms to be reconsidered, with a view to setting sounder foundations in place.

Events triggered by the Greek fiscal crisis have ultimately exacerbated significantly the complex framework in which the Spanish economy operates. Allow me to depart from the traditional structure of this address to tackle the important issues raised by the Greek crisis in terms of the consequences for the Spanish economy in this exceptional situation, which poses a welter of challenges to Spain's medium- and long-term growth possibilities.

The shockwave of the Greek fiscal crisis hit the Spanish economy when we were facing the consequences of the deterioration in the labour market and in public finances and the need to complete the banking restructuring process under way. To understand the implications, the starting point must be a sufficiently broad-sighted diagnosis of the current situation of the Spanish economy.

An idea central to the *Annual Report* I present to you today is that exiting the recession in Spain involves the need to absorb and overcome the imbalances that built up during the long expansionary phase. That is a prerequisite if the new growth path is to be underpinned by a model capable of generating employment and by a more efficient use of productive resources than in the past. This process can only be successful if economic policies adopt an active and ambitious role removing the obstacles that have emerged and restoring confidence in the Spanish economy's capacity to negotiate this critical juncture. This message, which I have attempted to convey in recent years, is now a matter of the utmost urgency. Indeed, the government's latest fiscal, labour market and pensions measures are in keeping with this urgency.

Let me begin by summarising those aspects of the recession in Spain that are key to understanding the scale of the challenges we face. In 2009, there was an abrupt decline in Spanish economic activity, the biggest in recent decades. Furthering the fall in activity that had begun in the second half of 2008, this placed the level of GDP in the opening months of 2010 at 4.6% below its peak in the second quarter of 2008.

On the basis of this figure, the scale of the recession in Spain appears to have been in line with global trends. However, taking into consideration the magnitude of the decline in domestic spending (8% over the same period), the intensity of job destruction (over 2 million jobs lost since employment was at a peak) and the rise in the numbers unemployed (over 4.5 million at the start of this year), it is clear there are singular factors involved in the contraction in Spain. These mirror the major imbalances built up during the expansionary phase – in particular, the excessive concentration of resources in the real estate sector and high private-sector debt – and the persistence of serious structural deficiencies in the functioning of the labour market.

This series of factors has prompted a reduction in household spending, driven by the slowdown in income and the losses in wealth accumulated since the start of the crisis, and furthered by the deterioration in confidence and in expectations of future income, the tightening of lending standards and households' perception of the need to restore health to their financial position. That explains the rapid increase in the household saving rate, which reached an alltime high in 2009 of close to 19%.

The fall-off in household spending compounded the contraction in external demand and the highly adverse conditions for business investment, namely high uncertainty, a rise in the cost and availability of financing, and falling profits. The upshot was an unprecedented reduction in investment, with significant effects on the economy's level of capitalisation.

Nonetheless, in late 2009 and early 2010 there was some improvement, especially in household consumption, which began to respond to the major stimulus packages adopted. The slight rise in consumption combined with the positive contribution of the external sector enabled Spain to join in the recovery already under way in other developed countries. The signs of recovery are still very muted and are largely sustained by temporary factors that will tend to peter out in the coming months. The recovery will foreseeably be gradual and take some time to gather the momentum sufficient to generate employment.

Accompanying the incipient stabilisation of the economy are certain developments which, while they may be interpreted as the counterpoint of the contraction in domestic demand, contribute to creating conditions conducive to a return to growth. The sharp fall in domestic spending has contributed significantly to altering the dynamics of inflation, the pace of which has clearly slowed to the extent of posting negative differentials with the euro area for most of last year, something unprecedented since the start of EMU. The disinflationary process has continued in 2010 to date, and there have even been falls in core inflation in a setting in which the slowdown in services prices has continued to intensify. It is too early yet to know to what extent this development is in response to a greater sensitivity of cost and price-setting to cyclical conditions. But this would be a significant step towards improving the competitive foundations of the Spanish economy, a vital ingredient for any sustained recovery scenario. This is why it is essential to see through the liberalisation processes under way in the sector further to recent legislative initiatives and, in particular, to the transposition of the Community Directive on services.

Diminished domestic demand has also exerted an influence on the reduction in the external deficit, on a scale difficult to imagine only two years back. As explained in the *Annual Report*, this correction is largely due to the reduction in the trade deficit as imports ground to a halt and, from this standpoint, it appears to be chiefly attributable to cyclical factors. It should be stressed, however, that goods exports have shown a strong capacity for recovery in recent months, as has trade in services. Both developments are promising and need to firm in the future if the nation's net borrowing is to be permanently reduced and if growth is to pivot on an export sector that is stronger and less reliant on imports.

Despite this progress, substantial adjustments have still to be made, and as promptly as possible, if they are not to act as a drag on the recovery. I refer in particular to the need to complete the absorption of excess capacity in the residential construction sector, to continue the financial restructuring of the private sector and to improve the Spanish economy's competitive position. And this must be done in tandem with tackling the problems that have arisen as the economic crisis has unfolded: the decline in employment and the deterioration of public finances.

The severity of job destruction has been due to the persistence of serious structural deficiencies in the labour market that were not corrected during the previous upturn, amid far-reaching changes in demographics and in the composition of labour supply. As explained in detail in the 2009 Annual Report, these shortcomings have meant that the labour market adjustment has fallen disproportionately on employment. This is a result, above all, of the prevalence of collective bargaining at the industry or territorial level which, naturally, is not sufficiently tailored to the different environments that different companies face. An institutional characteristic such as this is particularly harmful in a situation like that the Spanish economy has undergone in the past two years, in which the crisis has very unevenly impacted firms and industries. Indeed, the crisis has ultimately driven a large number of companies and workers out of the market, causing lasting damage to productive capacity and human capital. The bargaining system tends to aggravate cyclical oscillations and contractionary spending trends, and it is not consistent with harmonious integration into the euro area.

The events of recent months have highlighted the problems posed, as regards exiting the crisis, by the rapid fiscal deterioration which took place during the recession and which was exacerbated by the contagion of the Greek fiscal credibility crisis to other potentially vulnerable economies, including Spain.

To put the scale of this challenge in context, I shall review the factors which led the Spanish general government deficit to a level of 11.2% of GDP, from a surplus position of 1.9% of GDP two years earlier, and which increased the public debt ratio by around 17 pp of GDP over this same period.

An initial factor, while not the most important one, is that stemming from the economic contraction which accelerated expenditure on unemployment benefits and on other items linked to the cycle, and dented tax bases, causing a sharp reduction in revenue from certain taxes linked to labour and corporate activity and to spending. Adding to this was the impact of the exceptional support measures adopted by the government in the face of the depth of the recession, in line with agreed global action, and which in our country exceeded those in other developed countries. But what proved of great importance was the loss of tax revenue as a consequence of the sharp adjustment in the real estate sector and which, unfortunately, has a very high permanent component. All these developments combined with a rising trajectory of public spending systematically higher than that of the economy’s trend growth.

Accordingly, much of the burgeoning fiscal deficit that emerged during the crisis is eminently structural. And correcting this means the unavoidable adoption of a far-reaching budgetary consolidation process that bears down precisely on the most permanent and inertial components of public spending. This process is all the more urgent given the seriousness of the repercussions of the Greek fiscal crisis and the pressing need to halt the deterioration in the perception of Spanish public finances.

Indeed, the worsening of the fiscal crisis in Greece has substantially altered the conditions governing the design and execution of a fiscal consolidation programme. Systematic and substantive non-compliance with the commitments acquired by the Greek authorities in respect of public finances, added to a repeated lack of informative transparency, resulted in a strong loss of confidence by the markets in the Greek government’s capacity to meet its payment commitments. That gave rise to a completely new situation and, what has finally proved most telling, one not foreseen in the institutional arrangements underpinning the euro area: the perception of a potential risk of insolvency of one of its members.

This lack of foresight translated into difficulties in promptly setting up a sufficiently forceful institutional response. These difficulties were clearly identified by the markets and meant that the specific risk of insolvency of a Member State rapidly turned into a systemic risk for the whole of the area.

Evidently, the spread of fiscal difficulties in one specific country to other Member States can run through many channels, which may include the exposure of financial institutions to sovereign debt, the correlation between risk premia on markets and the effects associated with changes in trade flows. The importance of these mechanisms is unquestionable. But the speed at which tensions have spread in this case and their initial and sharp impact on those Member States whose public finances have most deteriorated suggest that the weaknesses perceived in the institutional arrangements for governance of the euro area may have played a central role.

As has been brought home to us in these months, the rapid spread of tensions has meant difficult and far-reaching decisions have had to be adopted on two fronts: the common European front and the domestic front of each Member State.

On the European front, the Heads of State and of Government and the Ecofin outlined a powerful programme of financial support for the Greek authorities. Implementation of the programme was conditional upon Greek economic policies being redressed with regard to their fiscal consolidation strategy, which had to be strengthened and accelerated, and to the need to undertake ambitious structural reforms to move back onto a path of sustained growth.

Subsequently, the agreement to create a European stabilisation mechanism strengthened this firm commitment of the Member States to maintaining the stability of the euro area. Although the details of this programme are still being worked out, the volume of the funds involved, which including the IMF contribution could amount to as much as €750 billion, seems sufficiently illustrative of the determination of governments to defend the common European project. Naturally, as in the case of the initial support package for Greece, the possible financial support will always be subject to a strict principle of conditionality, as an indispensable factor to ensure that the underlying problems are addressed with sufficient ambition and determination, and to avoid possible situations of moral hazard which could degenerate into the accumulation of new risks for the future.

The European Commission and the European Central Bank have also contributed decisively to this task of strengthening the common pillars of the area. In this respect important steps have been taken to establish a sounder framework of policies to preserve the smooth functioning of the euro area. I refer in particular to the Commission's recent proposals to strengthen in various ways the Stability and Growth Pact and to extend the areas of mutual oversight and consultation within the EU. The ultimate aim of these proposals is the early detection and redressing of those imbalances which, as has become clear to us in these last few months, will put the stability of the euro area at risk if allowed to continue and accumulate.

In this respect, the European Central Bank has also reacted to the emergency situation. It has done this by adjusting its schedule for withdrawing the extraordinary crisis-combating measures put in place, so as to attune it to developing financial market tensions. It thus re-established its six-month liquidity-providing operations, resumed its fixed-rate full-allotment tender system for three-month tenders and recommenced dollar-denominated liquidity-providing operations.

Furthermore, the ECB started up a public and private asset purchase programme with a view to remedying the dysfunctions in certain financial market segments which were endangering the normal operation of the monetary policy transmission mechanism that is essential to ensure price stability.

Along with these actions on the common European front, the other essential component of the response to the emergency situation is the reaction of national governments to ensure the sustainability of their finances and to undertake the reforms needed to restore vigorous and stable growth of both output and employment.

In this regard, the sequence and content of the fiscal consolidation packages adopted by the Spanish government have naturally been influenced by recent developments. The Spanish government took a first step towards fiscal consolidation when it defined the State budget for 2010 and, later, when it presented the Updated Stability Programme in January this year, following the recommendations of the ECOFIN. In this programme it committed to reducing the budget deficit to 3% of GDP by 2013, by means of sharp cuts in public spending, although the programme was based on a relatively benign macroeconomic scenario, thereby raising the question of the need for additional efforts should budget deviations arise, an eventuality expressed by the ECOFIN Council in its recommendation on the programme.

The scale of the fiscal crisis in Greece has led the Spanish government to strengthen and accelerate its fiscal consolidation programme in order to prevent market deterioration and the attendant serious consequences for the economy and the stability of the euro area. The package of measures approved on 20 May brings forward a significant portion of the effort to be made to reduce the deficit in 2011, when it should stand at 6% of GDP, and acts directly on its structural component, which is projected to fall by somewhat more than half with respect to the estimated 2009 levels.

The government's unprecedented austerity drive reflects the exceptional nature of the situation and the resolve to set public finances on the right track and thereby dispel the doubts which were fomenting contagion and instability. The unquestionable costs this will entail for society will be compensated by the enhanced protection from instability and by a sounder position on which to base recovery.

It is thus absolutely essential to meet the new targets set, even if the macroeconomic scenario ultimately proves to be less dynamic than envisaged by the government. In the current circumstances any deviation from projections could have serious consequences for the credibility of the fiscal consolidation efforts. To ensure strict compliance with targets, monitoring and supervision procedures will have to be strengthened and contingency plans designed to ensure that targets are met and certain expenditure items are behaving adequately. The cooperation of local and regional governments is essential if the ambitious process of fiscal consolidation facing us is to be tackled successfully.

The fiscal effort to be made by the Spanish economy, in a situation in which the available projections point to moderate growth, is considerable, and may become even more so if nothing is done to correct the upward path of interest rates triggered by the Greek fiscal credibility crisis and the contagion spreading it to other vulnerable economies. To make this effort feasible, the fiscal consolidation programme has to be accompanied by structural measures designed to strengthen the potential growth of the economy, since this largely determines the sustainability of public finances. In this respect, it is vital to correct the inefficiencies which have grown up in the labour market, since here the required reform will largely determine Spain's ability to become more competitive and generate employment. Nor should it be overlooked that a relatively significant part of the increase in the budget deficit in the last two years is directly or indirectly related to the rise in unemployment. The priority of the labour market reform in no way detracts from the importance of pushing ahead with reforms in the product markets, particularly in the services sector, aimed at ensuring more flexible and efficient overall functioning of the economy that will permit continued productivity growth. This is a field in which numerous initiatives have been adopted and in which the policy followed in recent years has earned a good reputation. The main challenge lies in timely and rigorous implementation of the measures announced and in maintaining the pace of reform.

As part of the measures needed to successfully exit the crisis and overcome the problems of credibility spread by contagion, the orderly restructuring of the financial system is vital in order to complete the adjustment of the accumulated imbalances and pave the way for the recovery of economic growth, competitiveness and job creation.

I will therefore devote the last part of my address to the challenges posed by the restructuring of our financial system, a process which has to be set against that of restructuring the regulatory and supervisory frameworks of the international financial markets. In my presentation of the 2008 *Annual Report*, I explained in some detail why such an in-depth revision of the regulatory framework was necessary, so here I will limit myself to the key changes proposed in the work currently under way.

Two main areas of change can be distinguished: the supranational organisational framework and a new regulatory system.

With regard to how the supranational institutions competent in this area are being reorganised, special mention should be made of the political impetus from the new extended G20, since without its contribution the reform of international regulation would have been unlikely to advance so strongly. Also, the recently created Financial Stability Board (FSB), which replaces the Financial Stability Forum and of which Spain has become a full member, is playing a central role in this process of change. The FSB is charged with identifying vulnerabilities of the international financial system and coordinating the responses of the national authorities and other international fora. In addition, it oversees the international application of regulatory and supervisory standards, promotes the development of the colleges of supervisors and prepares the contingency plans required for managing international financial crises.

Sweeping changes are also afoot within the European Union in micro-prudential and macro-prudential supervision. In the first, although ultimate responsibility will continue to lie with national supervisors, the European System of Financial Supervisors will be in charge of improving the quality and consistency of supervision, strengthening that of cross-border groups and establishing a single set of rules applicable to all European financial institutions. In the macro-prudential area, which can be defined concisely as that entrusted with identifying systemic risks, responsibility will lie with the European Systemic Risk Board, which also makes the recommendations or proposes the corrective measures it considers appropriate.

Noteworthy in the area of regulation are the proposals made by the Basel Committee for Banking Supervision, which directly address the need to increase the amount and quality of capital held by institutions to absorb potential losses, the advisability of introducing minimum liquidity standards, and the usefulness of creating capital cushions to help moderate credit cycles. Specifically with regard to the aim of dampening the tendency of markets to amplify economic cycles, headway is being made in the design of provisioning systems which, in essence, are similar to those in place in Spain since mid-2000 (the dynamic or countercyclical provision). International accounting regulators, particularly the IASB, also seem to be converging towards these systems. Also with the aim of mitigating excessively procyclical behaviour of financial markets, management compensation guidelines have been drawn up to discourage excessively risky strategies.

Also in the pipeline are major regulatory changes to mitigate the moral hazard problems posed by institutions which in various ways ultimately acquire what has come to be known as systemic significance.

Naturally, this regulatory adjustment will have a significant impact on financial institutions. That means that, irrespective of how long a transition period is deemed appropriate, financial intermediaries should now set in motion the adjustment process, to ensure the least possible upheaval. Spain's financial institutions have understood this and are notably strengthening both the level and quality of their capital.

The restructuring process of the Spanish banking system runs alongside the reform of the global financial system. As part of this essential restructuring, all institutions, according to their individual characteristics and circumstances, must strengthen their solvency, resizing and improving their efficiency in the medium term. In short, the challenge consists in adapting to the new reality in which the financial sector will have to operate in the future.

The Spanish banking system is generally in a sound position from which to approach this restructuring process. But the present situation is complicated. On the one hand, the need for loan loss provisions will continue to dent profit and loss accounts, as defaults persist against a continuing weak economic backdrop. And on the other, the competition to secure retail funding pushes up the cost of borrowing and drives down margins. Strains in the wholesale funding markets add further pressure. They also entail higher risk premia and, if they persist and intensify, could make access to the wholesale markets more difficult.

Moreover, the sector must absorb the internal imbalances that built up in the years of strong growth in the economy and in banking activity. These imbalances, which are greater in some Spanish deposit institutions than in others, are essentially threefold.

The first imbalance derives from their over-reliance on wholesale market funding. Although the term structure of Spain's financial institutions' debt is mostly medium and long-term, the severity of the crisis and investor flight in view of a widespread loss in confidence put pressure on institutions, which responded by stepping up their efforts to attract deposits. But changing deposit structures is a lengthy process.

The second imbalance that the Spanish banking sector must overcome derives from its continuing high exposure to the construction and real estate sector, which after a lengthy period of excessive growth is now undergoing a severe adjustment. The Banco de España's latest Financial Stability Report laid bare both the potential scale of the exposure to this sector of activity and the coverage existing to meet any associated risks.

In this respect, the Banco de España has just published, for public consultation, an amendment of its financial reporting standards, in particular those relating to estimation of necessary credit risk coverage. Without going into further details here, suffice it to say that the reform deals with transparency and with the establishment of minimum criteria for institutions; criteria which have been simplified and made more consistent and which primarily respond to the lessons learned during the crisis. Moreover, and although in this respect there was no need for regulatory reform, the changes clearly reaffirm the understanding that certain banking practices, such as asset foreclosures, despite being legitimate problem management tools, cannot in any circumstances warrant delaying the recognition of losses.

The third imbalance is connected with the Spanish banking industry's excess capacity. During the growth years, banking sector activity rose very significantly. In a retail banking model based on proximity to customers, this continued upsurge in activity prompted sharp growth in organisational structures and in new branch openings. Moreover, in a highly competitive environment, many institutions whose customer base was typically linked to a specific region responded by looking for new markets, opening branches beyond their traditional geographical area.

Clearly there was no sense in maintaining these organisational structures and such a dense branch network, with all the associated costs, at a time when the future outlook for banking activity was considerably less favourable than previous to summer 2007, and considering also the impact of possible margin squeezes.

Restructuring is clearly the responsibility of the banks themselves. But the authorities designed the FROB (Fund for the Orderly Restructuring of the Banking Sector) as a mechanism to further this process in a way that would minimise the burden for the taxpayer. As a result, and as the banking sector overall is in a healthy position, Spain has been spared the voluminous and widespread recapitalisations, with no commitment to restructuring, seen elsewhere.

The FROB envisaged action on two fronts. On the one hand, it gave the Banco de España broad powers to take control of any institution that were to fail. And on the other, on what we could call the preventive side, it allowed financial support to be provided for the restructuring of viable institutions and their management teams, and helped them digest the process; that said, the institutions themselves, and especially those that had experienced management failures, would have to bear the attendant cost. This meant that private sector solutions were prioritised, as has been seen in the processes that have unfolded in the past few months.

Today, it is fair to say that the restructuring and recapitalisation of Spain's financial institutions is well under way. It is now just a case of formalising and implementing the agreements reached. As a result, Spain's deposit institutions that did not already have sufficient capital have now secured it, either from the markets or from the FROB. The Banco de España has conducted stress tests to verify that all institutions – banks, savings banks and credit co-operatives – will actually have sufficient capital available, not only for what would currently seem to be the most reasonable scenarios, but also for complex growth scenarios in the near future. Accordingly, before end-June, the Banco de España will take the steps necessary to formalise the processes already agreed and to ensure they are correctly implemented. If, by month-end, any of these processes has failed, or any institution has been left behind, the Bank will act, using the mechanisms envisaged for this purpose in the FROB legislation.

Moreover, the Bank intends to publish the results of these stress tests, to reveal the deterioration estimated, the consequent capital requirements and the capital funding committed, to provide the markets with a perfectly clear idea of the situation of the Spanish banking system.

Thus, before the summer, the restructuring of the banking system should be complete, save for a legal reform allowing savings banks to obtain high-quality capital on the market, to meet the new Basel standards. The government has the agreement of Spain’s main opposition party for the successful passage of this legal reform through Parliament.

The restructuring and reform of the financial system, along with the budgetary adjustment, the public pension reform and the labour market reform, are the most urgent measures needed to restore confidence in the Spanish economy, and, as such, should be passed before the summer recess. But the process must not stop there, as further measures are needed to stimulate the recovery in growth and the modernisation of the Spanish economy. Vital tasks remain, such as: educational reform; the modernisation of general government and the removal of overlaps between the different tiers of government; guiding investment in infrastructure towards projects that enhance the competitiveness of Spanish firms; privatising or streamlining public corporations; increasing competition in network industries and particularly in energy; promoting collective bargaining agreements in the private sector that raise the competitiveness of the Spanish economy and thus create employment, etc. And not only at national or central government level, but also among regional and local governments, trade unions, employers’ associations and other economic and social agents. At this point in time, we must all face up to our responsibilities, with the corresponding costs and sacrifices. Accordingly, let me conclude by expressing the Banco de España’s firm commitment to play its part, and to urge others to do the same.