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Presentation of the book "La Historia de Foment del Treball 1771-2011"

Foment del Treball Nacional, Barcelona

Luis M. Linde
Governor

Mr. President of Fomento del Trabajo Nacional, distinguished authorities, ladies and gentlemen:

Let me begin by thanking Fomento del Trabajo Nacional and its president, Joaquín Gay de Montellá, for their invitation to take part in this event which has seen the presentation of the two books that compile the history, over more than two centuries, of this great institution. Thank you to Jordi Gual for his opening address. And my congratulations to the authors, Manuel Millán and Francesc Cabana, and to all the managers and associates of Fomento del Trabajo.

Foment del Treball Nacional, the oldest employers' association in Europe, remains fully active today, with a significant presence in our economic and business life. As the epilogue to the study presented today states, it is a story without an ending, and we are all happy that this should be so.

The role of this private, independent and not-for-profit institution has always been to defend the interests of its associates and of all Catalonian entrepreneurs. Fomento has been a liaison with the authorities, but also with the representatives of civil society. Its objective, the compass steering its initiatives and taking of positions, has been to maintain an environment conducive to the pursuit of productive activities and the sound functioning of companies. And this has been its major contribution to the economic development of Catalonia and of Spain.

Our Constitution acknowledges the pivotal role of employers' associations. Article 7 of the Preliminary Title recognises their role (along with the trade unions) as organisations key to the defence and promotion of economic and social interests, a point further bolstered in Article 22 and in the freedom of association it advocates.

Our Constitution also details specific requirements in respect of the internal structure of employers' associations, their ends and their functioning. It is emphatically important that employers' associations should be exemplary institutions, both for society and for their associates. Among their obligations is, of course, to ensure this exemplary role, which includes defending the common good, good corporate governance and, in all instances, strict compliance with the law.

Fomento has always been open to collaboration with other employers' organisations. Notable proof of this, in the none-too-distant past, was its participation and drive, at the onset of the democratic transition some 40 years ago, to reconstruct the Spanish employers' association framework with the creation of the Confederación Española de Organizaciones Empresariales (CEOE – the Spanish Confederation of Employers' Organisations) and its participation in and contributions to the pursuit of the attendant activities. The first president of the CEOE, Carlos Ferrer Salat, was from Fomento, as was indeed the current president, Joan Rossel.

The international economic and financial crisis

The year 2017, which has recently begun, will mark 10 years since the first episodes of the crisis from which the global economy is still recovering.

In 2008, scarcely a year after the onset of the first tensions in August 2007, the initial turmoil resulted in a deep-seated global crisis, interrupting the global economy's longest growth phase since the 1960s and making way for the most serious economic recession since the Great Depression.

In the euro area, vulnerabilities that had not been perceptible against the background of the relative good times that followed the launch of Monetary Union began to emerge.

On one hand, the crisis uncovered a series of imbalances in the economies of certain member countries: losses in competitiveness, high debt levels and weak banking systems. These imbalances showed that the national economic authorities have not sufficiently assumed that, in a monetary union, domestic economic policies must be equipped with the necessary flexibility to compensate for the lack of some of the traditional instruments used in national economic policies, such as the interest rate, the exchange rate and, indeed, fiscal discretionality.

On the other, it became evident that the euro area's institutional design and governance arrangements lacked the appropriate mechanisms for the early identification and correction of macroeconomic imbalances, and ultimately for crisis management and resolution.

The sovereign debt, banking and balance of payments crisis episodes in 2011 and 2012, and the emergence of the risk of the common currency falling apart further highlighted the inadequacies of the financial integration model.

The cost of the crisis across the euro area as a whole was greater than that incurred by the United States; and exit proved slower. From end-2007 to mid-2009, US GDP fell off by more than 4 pp; in the case of the euro area, the loss between the first quarter of 2008 and the second quarter of 2009 was close to 6 pp. After the double-dip recession, which ran until the first quarter of 2013, a slow recovery ensued, with modest but sustained rates of increase in output.

Only in the second half of 2015, seven years after the first recession began, did the euro area regain overall the pre-crisis levels of income and consumption, levels which even today have still to be restored in the case of gross capital formation. As to the euro area unemployment rate, while it has moved on a declining trend since the current recovery phase began, it remains at close to 10%, almost 2.5 pp above the level prevailing in early 2008, and double the rate in the US economy.

In Spain, which had built up most significant imbalances, the depth and seriousness of the crisis was unprecedented. From 2007 to 2013, GDP fell by close to 8 pp and, foreseeably, it will only be this year, in 2017, that income will reach its pre-crisis levels.

As in other episodes of our economic history, the most severe costs were felt in the labour market. In the 2007-2013 period, employment declined by over 18%, taking the unemployment rate, four years back, to 26% of the labour force. Although the economic recovery has provided for an appreciable reduction in this rate, it still stands at around 19%. Foreseeably, several years must go by before unemployment in Spain falls to levels comparable with those of other developed economies. Of note in Spain's case is the heterogeneity of the unemployment rates in different regions, from levels slightly over 12%

in Navarre to close to 29% in Andalusia, with Catalonia in the lower part of the table at around 15%.

Monetary and financial policy in the face of the crisis

The recovery in the developed economies, and in particular in the euro area and of course in Spain, has necessitated far-reaching actions in all economic policy areas.

Early efforts by the central banks focused on alleviating the liquidity problems affecting the financial system. But the serious worsening of the situation opened the way for more powerful plans, both in the financial and monetary realms and in terms of fiscal initiatives to boost aggregate demand.

Regarding monetary policy, the depth and persistence of the crisis has required an ongoing effort by central banks. Over these years, the monetary authorities have broadened their range of instruments, resorting to non-conventional tools that have enabled monetary stimuli to be deepened and that have been conducive to their pass-through to lower borrowing costs, thereby encouraging household and business consumption and investment decisions.

With interest rates at historically low levels, and some even in negative territory, and after deploying extraordinary credit-support programmes, central banks have set about managing the size and composition of their balance sheet as a monetary policy instrument, through the so-called quantitative easing programmes. Under QE, the Eurosystem purchases outright on the secondary market private and public debt instruments, the former encompassing covered bonds, securitisations and corporate debt, and the latter securities issued by governments, European agencies and, since December 2015, regional and local governments.

Cumulative asset purchases over the period of almost two years in which the purchase programme has been in place now stand at around €1.5 trillion, with public debt securities accounting for over 80%. The extension of the asset purchase programme until the end of 2017, at least, will mean that the volume of assets acquired by the Eurosystem may exceed €2 trillion, tantamount to around 20% of euro area GDP.

European structural and governance reforms

Euro area governments have focused their reform efforts since 2010 on two fronts: i) European Union institutions and euro area governance arrangements; and ii) domestic structural reforms.

In the area of governance, the reforms were initially geared to strengthening national budgetary policy surveillance mechanisms, extending the multilateral surveillance perimeter to macroeconomic imbalances and agreeing on the creation of the European Systemic Risk Board, the new European body entrusted with macroprudential supervision.

That said, it was the risk in 2011-12 of the single currency breaking up which prompted the decision to undertake the reform of EU governance, moving towards a new model that would transfer to the area as a whole many of the responsibilities for supervising banks and managing bank crises, which we know as the Banking Union.

Following this initial momentum, which culminated in the launch of the Single Supervisory Mechanism in late 2014 and the approval of new Directives on capital requirements and resolution, political considerations are hampering further steps in financial union projects; and progress on the reform agenda considered by national governments has been uneven.

The reform agenda in Spain

In Spain, from 2010 onwards, the reforms carried out have provided for a better adjustment of labour costs to firms' cyclical position, preventing employment from being the only adjustment factor. The reforms have also been conducive to a greater degree of flexibility in the organisation of work within firms. These factors have played a significant role in improving our economy's competitiveness, which is at the very root of the recovery.

The gains in competitiveness have been clearly reflected in the pick-up in exports. From 2011 to 2016, the share of goods exports in GDP has increased by 2.6 pp, amounting to almost 23%; goods and services exports, including tourism, have climbed by almost 4 pp of GDP, rising last year to 33%.

In 2015, the last year for which full information is available, the external sector posted a positive balance of 2.4% of GDP, a figure that might improve in 2016, despite the lower growth recorded in 2016 in world trade.

The competitive gains have spurred firms' investment and hiring decisions, which have also been boosted by the decline in borrowing costs since mid-2012, to which both the efforts to clean up and restructure our banking system and the ECB's monetary policy have contributed.

Job creation, observable since the onset of this expansionary phase, has been conducive to a pick-up in household confidence and income levels which, in turn, has driven the recovery in consumption spending. As a result, private domestic demand has become the main engine of the recovery, underpinned also by certain transitory factors, such as lower oil prices and the marginally expansionary stance of budgetary policy in the two-year period spanning 2015 and 2016.

The fallout from the crisis and the challenges outstanding

Yet it should be stressed that, after more than three years of growth, some of the main scars of the crisis remain present. The high unemployment and public debt levels and the heavy dependence on external financing are areas of vulnerability for our economy that should not be underestimated. For the euro area as a whole, the current environment remains one of moderate and fragile growth.

In the current circumstances, the sustained recovery in activity, investment and employment in the euro area requires that other economic policies should complement monetary policy measures. The continuity of reform momentum – especially that geared to product and factor markets and to improving the business environment – is a key element for promoting growth.

In Spain, the recovery is providing for significant headway in restoring the main macroeconomic equilibria. But we cannot maintain our growth if we abandon, or step back from, the agenda of reforms aimed at improving our productivity, our competitiveness and the flexibility of our productive system; these are the pillars of economic growth, of lower unemployment and of the re-balancing of public finances that ensures their sustainability and provides for fiscal policy headroom to boost investment and growth.

Last but by no means least, the demographic developments our country will foreseeably face in the coming decades, like other EU members, place greater and more pressing demands on the economic policy responses to the foregoing challenges. This is because a progressively older population makes it more difficult to entrench budgetary sustainability and to ensure long-term economic growth.

Conclusion

As we all know, the economic and political context in which we must face these challenges is not exactly going to be an easy one.

The plans for European unity, in their various configurations prior to those we have today, have over the almost 60 years since the project was launched overcome highly diverse difficulties. But I believe that today the risks are high because political repudiation – attributable in part to the crisis, but not only to the crisis – is on the agenda, and this was non-existent or insubstantial only a decade ago.

For the first time since the signing of the European Union Treaty in 1992, political currents and popular movements have arisen in the EU openly contrary to the integration so far achieved and, of course, to potential further steps towards greater integration; contrary to European institutions and their current remits; and contrary to the continuity of the single currency. The announced departure by the United Kingdom, whatever its final form, is going to encourage these movements.

In this situation, national governments, European Union authorities and legislators all have a responsibility to come up with the appropriate response and to pursue the reforms that may first contain misgivings and then restore support, relatively seamlessly, for the grand European Union project.

To conclude, allow me to return to monetary policy and central bank action. As we approach the twentieth anniversary of the launching of the euro, we can have no doubts about the crucial importance of preserving and strengthening the Monetary Union and the single currency in order to sustain and give continuity to the European Union project.

Many thanks, once more, to Fomento de Trabajo Nacional for this celebratory event and to all of you for your attention. .