

**31.082017**

**Welcome address**

First Annual Research Conference of the Banco de España

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Governor

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Buenos días, good morning to everybody.

Let me welcome you all to the first Annual Research Conference of the Banco de España. We plan to make this conference our main research event each year. So, we hope that today's edition is the first of many to come. Our aim is to bring together scholars and policy-makers to express views and discuss on the key policy questions for central banking, both from an academic and a practical perspective.

The conference reaffirms the Banco de España's commitment to research as an indispensable tool for economic policy-making. Good research strengthens the foundation of our policy framework and lays the groundwork for the models we use in our economic and monetary policy analysis.

The Banco de España commits significant resources to research. Let me give you some figures. Currently, according to the IDEAS database, our Bank ranks third in research among national central banks in the Euro zone. In 2016, researchers at the Bank published more than 30 working papers. Indeed, research is not a matter of quantity, but of quality; in the last few years our researchers have published in top journals such as *Econometrica*, the *American Economic Review*, the *Journal of Political Economy*, the various *American Economic Journals* and the *Journal of Monetary Economics*, just to mention a few examples. Over the last three years, fifteen young economists holding PhDs from renowned international universities have joined the Bank's staff. I am pretty confident that our research output will be improved and enhanced in the future.

### **Challenges for macroeconomic research**

Today and tomorrow you will be talking essentially about macroeconomics. Looking forward, macro policies, monetary, fiscal, and macroprudential policies, are facing a number of challenges that require deep theoretical and empirical analysis.

Perhaps, first of all, we need to understand the causes and consequences of the current levels of low inflation in most developed economies, despite the fact that most major central banks have introduced unprecedented monetary measures to support activity and growth.

Several explanations, ranging from a "debt supercycle" to a secular stagnation have been proposed. If natural rates at very low or even negative levels are here to stay, central bankers will have to rethink our standard toolbox and to decide which policy measures put in place during the last decade should be maintained. In this respect, I think that the first paper of the conference, which analyzes the effects of negative nominal interest rates, will offer new insights on this important topic.

Secondly, we need to improve our understanding of the links between monetary policy, macroprudential policy and financial stability.

The financial crisis underlined how an impaired financial system could cause severe economic damage and disrupt the transmission of monetary policy. Moreover, following the financial crisis, many central banks have provided with new macroprudential tools that remain largely untested. The question of which should be the role of central banks in

financial crisis prevention or mitigation is still far away from reaching any definite answer. Several papers in this conference will deal with this important issue.

Third, we need to have a better understanding of how monetary policy and other macroeconomic policies are transmitted.

By now, it is clear that the standard new Keynesian framework, which still shapes our general view of the basic elements of monetary policy, has some relevant shortcomings. For example, recent research has underlined how additional channels related to household and firm heterogeneity may provide a more realistic depiction of how monetary and fiscal policies affects the economy, modifying –or even overturning- some of the prescriptions derived from models with representative agents. This is a line of research linking both empirical and theoretical work that may have consequences for our work as central bankers. Your discussions over the next couple of days will help to improve our understanding of some of these complex issues, ranging from the emergence and consequences of bubbles in asset markets, to the role of individual heterogeneity in the transmission of macro policies and in the aggregate incidence of financial frictions.

### **Conclusion**

To conclude, I would like to say that both policymakers and academics face new challenges in our understanding of how central banks should act in order to fulfill our mandates and maximize the welfare of the citizens we work for. Meetings such as this Conference provide an excellent opportunity to strengthen the links between central bankers and academics.

I wish you a very productive meeting and a pleasant stay in Madrid, expressing my gratitude for your attendance to this First Annual Research Conference of the Banco de España.

Thank you very much for your attention.