

# International Banking Conference 2022

## Growth in a Fragmenting World

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#### 1/ Why fragmenting?

- Welcome everyone to our banking conference. It's great to see so many of you here, in person. I'd like to thank in particular some of guest speakers – the list is long, I am not going to read it all out like they do at the Oscars.
- I've often said I am an optimist who worries a lot. And there is a lot to worry about right now, and that is reflected in our theme: growth in a fragmenting world. Is this an overstatement? Is the world really fragmenting? Trade and finance continue to flow around the world. We are probably as connected by travel and communication as any global generation of human beings have ever been. So maybe I don't need to worry!
- But then I look at the world around us, and the signs are it is fragmenting.
  - A world in which Russia and its European neighbours seem headed for a tragic and traumatic break in relations that could take a very long time to repair...
  - A world in which the US and China increasingly see their relationship in zero sum terms...
  - A world in which regulation, especially in the world's largest jurisdictions, and especially for the most contested areas of technological leadership, is as likely to be a barrier to integration as to support integration – and may even be designed that way...
  - A world in which institutions of global governance have to straddle geopolitical faultlines that can strain or even break them.

- Listing these topics, many of which we will discuss today, raises a second question, which is:

## **2/ Why growth?**

- Why put the emphasis on growth in this context? It isn't immediately obvious that growth is where you would focus if your concerns were with fragmentation.
- Except...it should be for three reasons.
  - o First, because it is what we are missing:
    - 36 countries in the world - including Italy - have a per capita income lower than in 2008.
    - 85 countries - half of the world (44%), including Spain and 4 of the G7 - have a lower income than in 2019, the year of the outbreak of the pandemic.
  - o Second, because without growth we will not be able to tackle the problems that concern people: poverty, employment, inequality, climate change and democratic stability. More than that, we badly need growth to pay down the high levels of debt that burden most countries.
- So, we need to answer some basic questions:
  - o Where will the growth come from?
  - o Where will the productivity come from?
  - o How can we ensure business drives progress and creates new opportunities?
- For we need to remember a basic point: prosperity is the basis for stable global order – and it is the best antidote to geopolitical tensions.
- Our approach to generating growth is born of an age of globalisation. As we look ahead, we need to think how we – the financial sector - will help to generate growth in a different world. Today, we will want to ask some searching questions.

- What will a stable, healthy global financial system look like in a world where regulatory cooperation has retreated from the high-water mark of the early 2010s?
- What role will new payments systems, crypto, CBDCs play in this world?
- How do we forge a co-ordinated approach to climate change, given many states see choosing net zero as choosing economic disadvantage?
- How do we fix supply chain knots; fight inflation, repair the damage done by covid and prepare for the next pandemic...all in a shifting global political landscape?

### **3/ How to grow?**

- Let me suggest some answers.
- First, we should avoid being caught in a cloud of pessimism. Some argue that "we are facing an irreversible climate apocalypse". Well, we are if we do nothing. Other say "our children have to live worse than previous generations". Why? We overcame previous crises, and we will do so again. But – and this is the key point – we need a clear plan to do so.
- And that brings me to my second point. We need a plan for skills and R&D, and business investment; a plan for the green transition; and a plan for digital.
- Education, skills and R&D are key to drive increased investment so we can rebalance our economies.
- We need to reboot our approach to reflect the needs of this century, not the last: so the next generation can prosper in a green, digital world.
- A world where many nations will have shrinking, working age populations, who will have to support growing elderly populations.

- Those nations' prosperity will depend on their workforce's skill and creativity – their ability to research, to innovate and create, so that businesses can invest and grow.
- A focus on skills and education might help address the worrying slowdown in the rate of investment we have seen in the last few decades – we are investing less, while consuming more.
- And a new approach is needed if we are to rise the challenge of the climate change – for which we need innovation, a better data, research and a workforce with the skills needed to transform our economies.

#### **4/ The need for green growth**

- And here too we need a plan – a plan for the transition. We need to accelerate the transition to net zero for what it is: a massive opportunity - not just an accounting procedure.
- We need to accelerate progress – and here finance has a key role to play in supporting nations, businesses and people go green.
- We can help unlock more investment – and there is plenty of capital ready to be deployed. But to unlock that capital, investors need confidence and certainty.
- This is why governments need to set out transition plans for their nations to get to net zero. Those plans need to show how all the levers governments have at their disposal are working to decarbonise an economy, and encourage investment in green. Tax policy, planning laws, policies around national infrastructure, market models to incentivise investment in new technology: the list is long.
- And these plans are needed for another, more immediate reason. The transition depends on growth, which needs affordable and reliable energy. And right now, that means fossil fuels - especially gas, which Europe needs more of to plug the gap created by Russia's invasion of Ukraine.

- So, we need transition plans to ensure that, if we need to use more fossil fuels in the short term, or invest in new gas infrastructure to ensure we are no longer dependent on Russia, we have a map to show how we will remain on track to getting to net zero in the long run.

## **5/ The need for digital growth**

- The same mentality applies to digital. We've seen how digital technology also offers massive opportunities for growth: but only in the foothills of its potential.
- With any new technology comes new risks. Our task is to balance the risks against the opportunities and benefits that digital can bring.
- How can we unleash its potential, and use data to lend more safely to more people? Open banking and open data are two sides of the same coin. How can we create regulatory frameworks in which innovation can flourish? How can we encourage enterprise and innovation while ensuring companies compete on a level playing field?
- How can digital technology - like blockchain, and programmable currencies - be used to cut costs in finance, especially on the wholesale side?

## **Closing**

- These are just some of the questions we will debate today. But beneath them all lies one observation. In a fragmented world, we need to be more imaginative, more flexible, more forward looking to overcome the biggest risk we face, which is lack of growth.
- Without growth we cannot fund social, educational, and health programs.
- Just as in 2008, we are in a crisis. But today's is a different kind of crisis, with different trade-offs and different, difficult choices to be made. It is a crisis away from cheap money and low inflation, to higher rates and higher inflation. A crisis against the backdrop of governments struggling to pay down their debts. We need to confront this reality.

- We should focus on these challenges, and the opportunities of the future, not carry on as though we are still stuck in the world before the financial crisis of 2008. That was 14 years ago. It was a different world, when we faced different risks.
- As the risks change, the rules should change. Regulation is not an end in itself, nor a table of stone. It is a judgement in time, made by people to manage the risks they face.
- So now, isn't it time that we thought more about the rules we need to make a success of Europe fourteen years ahead? A Europe that is greener, digital, inclusive as well as more competitive and more innovative?
- My call today is that we work together to ensure we have a financial system that is stable and secure; that is profitable, flexible and dynamic; and is able to fund investment for growth in the future. This is the best way to support growth in a fragmented world.
- With growth we can confront many challenges we face today.
- Thank you.