Foreword by the Governor Pablo Hernández de Cos

The coronavirus (COVID-19) pandemic and the effects of the measures required to prevent it from spreading are having a profound impact on our societies and economies. The domestic and international economic policy response is aimed mainly at ensuring that the effects of the shock are temporary. To achieve this, the banking system's contribution will be key to ensuring that firms, the self-employed and families are able to adjust to the temporary loss of income and to resume their prior levels of activity, consumption and investment as swiftly as possible.

In Europe, this crisis has shown us – once again – that, through coordinated responses and joint action, we are in a stronger position to tackle the difficulties and take advantage of the opportunities we encounter. On this occasion, in the design of the economic policy response, the euro area has been able to count on the important enhancements that have been made to its governance and institutional framework since the previous financial crisis. Indeed, November 2019 marked the fifth anniversary of the launch of the Single Supervisory Mechanism (SSM), the first milestone in the creation of the Banking Union. The experience of those five years means we can make an initial assessment of the new prudential supervision model adopted in Europe.

As expected, the implementation of single supervisory arrangements in Europe – bringing together the various euro area countries' systems, and adopting and combining each system's strengths – has been a complex process that necessitated the adaptation of supervisory models to the new reality. Today, it is safe to say that the goal of achieving a consistent supervisory framework, with a level playing field for institutions, has largely been fulfilled. Furthermore, it has proven to be flexible enough to adapt to the extraordinary circumstances that the impact of COVID-19 has entailed.

At the same time, the single supervisor's action over these years, together with the adaptation to the new regulatory framework, has contributed to reinforcing the banking system. In particular, the new prudential regulatory framework includes a set of microprudential and macroprudential buffers specifically designed to be used in situations such as those banking systems are currently facing.

Spanish banks are better capitalised and, importantly, they have cleaned up their balance sheets. This stands them in good stead to help instigate a swift recovery in the Spanish economy once the health emergency has ended. Nevertheless, there is still room for improvement to increase their strength and ability to compete and provide services to customers in an evolving and very competitive environment. Furthermore, there are numerous pre-existing and new challenges to be tackled. In particular, the economic environment that will confront them in the coming months will pose a challenge for institutions which, for some years, have been having to change their traditional business model and face new competitors and challenges.

We, the supervisors, must be mindful of the importance of such challenges, be ready to anticipate the attendant risks and provide answers that enable banks' soundness and financial stability to be preserved. Furthermore, we must not forget the highly interconnected and globalised nature of the banking industry. And nor, as the previous crisis revealed, can national supervisors act alone, either in normal times or, needless to say, in times of crisis. The Banco de España is aware of this and regards participation in international banking supervision and regulation fora a strategic priority. Holding the chair of the Basel Committee on Banking Supervision (BCBS) and of the European Systemic Risk Board (ESRB) Advisory Technical Committee confirms the Bank's growing influence in such fora, which have played a significant role in designing and implementing the economic policy response to the coronavirus crisis at the global and European levels.

Lastly, there can be no doubt that over the last five years huge strides have been made in the creation of the Banking Union through harmonised supervision and through the creation of the Single Resolution Mechanism (SRM). However, we must not forget that the third pillar of the Banking Union (a fully pooled European Deposit Insurance Scheme) is incomplete, that the Capital Markets Union is yet to be developed and that progress needs to be made in the creation of a safe asset in the euro area. Achieving these goals would represent an important step in the institutional strengthening of the EU and in the unity of action and the effectiveness of the response to the coronavirus crisis.

Pablo Hernández de Cos

Governor of the Banco de España