

Foreword by the Governor Pablo Hernández de Cos



The Banco de España's *Institutional Report* focuses particularly on one of the Strategic Plan 2024 objectives approved in early 2020: to increase the institution's transparency in its relationship with society. In this report, interested readers will find a summary of the main activities carried out by the Bank in 2020 to discharge the different functions conferred on it by law, as well as a wealth of information about its structure and organisation.

Much of the Bank's activity in 2020 was without doubt marked by the impact of the COVID-19 pandemic, with its effects on people's health, society and the economy and financial system. The response of national, European and international authorities to this unprecedented shock, which in Spain triggered the steepest fall in economic activity in peacetime, was also extraordinary in the various facets of economic policy (fiscal, monetary, prudential, etc.).

Thus, in the area of European monetary policy, the European Central Bank responded swiftly by implementing a broad raft of forceful and flexible measures which enabled the early signs of tightening on the financial markets to be countered and ensured favourable financing conditions. This context of accommodative financing conditions gave the fiscal authorities of all Member States room for manoeuvre to respond and contribute to sustaining the income of other economic agents. In addition, along with the prudential measures adopted, it helped financial institutions fulfil their key role of supplying credit to the rest of the economy.

Moreover, to complement the national measures adopted, the response of the European Union (EU), with the approval of different programmes (notably including Next Generation EU), was also unprecedented, both in terms of scale and its drive to transform the economy, and the financing mechanisms used.

The ultimate aim of these economic policy measures has been to ensure that the duration of the pandemic's adverse effects on the economy is as short as possible and to enable a strong recovery as the restrictions on the normal course of economic activity are eased. The EU's concerted response may also prove a substantial boost for the common European project.

The European authorities with powers in the areas of prudential supervision and financial stability adopted a series of decisions to, on the one hand, relax the regulatory frameworks applicable to supervised institutions, in order to adapt them to the exceptional circumstances that were unfolding, and, on the other, implement specific measures, such as limiting dividends, to increase the financial system's solvency and thus strengthen its capacity to support the economy.

Nationally, the authorities deployed different measures, notably the introduction of a public guarantee scheme, the implementation of special moratoria arrangements and certain regulatory changes to mercantile and labour legislation, which also contributed to mitigating the pandemic's negative impact on the economy and limiting its duration.

In any event, the development of effective vaccines against the virus has contained some of the risks to the economy and, in turn, equipped the authorities with the best economic policy tool available: the roll-out of vaccination programmes that allow for the gradual easing of the restrictions on economic activity, which have particularly affected the sectors more reliant on social interaction, such as tourism and many services sectors.

The current status of the recovery (still partial, uncertain and uneven) warrants maintaining many of the exceptional economic support measures, targeting the hardest-hit firms and population groups (specifically viable firms with solvency problems), and applying a flexible approach as regards the volume of earmarked funds, which should be adapted in line with how the pandemic unfolds and whether or not the risks materialise.

At the same time, economic policy should adopt a medium and long-term perspective in order to tackle the structural challenges faced by the Spanish economy. A medium-term outlook would provide economic agents with greater certainty, increase the impact of short-term support measures and facilitate the recovery as the vaccinations progress and the restrictions on activity are gradually lifted. Specifically, the following are needed: i) the design of a medium-term fiscal consolidation plan to be rolled out once the recovery phase has taken hold, foreseeably spanning several legislatures,

and ii) the immediate implementation of an ambitious programme of structural reforms aimed, among other things, at reducing temporary contracts and structural unemployment, improving productivity dynamics and, ultimately, increasing the economy's growth potential.

I would not wish to conclude the foreword to this *Institutional Report* without specifically mentioning the internal workings of the Banco de España and the efforts made by its employees. All of those working at the Banco de España have had to adapt in record time to these unprecedented circumstances. Remote working has been deployed for virtually all “teleworkable” tasks, and the safety of essential services requiring the physical presence of employees has been strengthened, both at the Bank's head offices and branches. Cross-team coordination has been achieved in exceptional conditions, and new forms of management and new technologies have been used.

The results have been highly satisfactory and we have been able to fulfil our tasks efficiently. None of this would have been possible without the high degree of responsibility and spirit of public service shown by all employees, with their work, dedication and pursuit of excellence. I would like to express my gratitude and admiration to all of them. I believe that, despite all the difficulties and challenges faced, we ended 2020 closer to becoming the leading, dynamic central bank committed to society that we set out in our Strategic Plan at the beginning of 2020 as the vision for the future Banco de España. The activities described in this report are a good indication of how we have delivered on the commitment undertaken with Spanish society.

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Governor of the Banco de España