

# ECONOMIC POLICY PRIORITIES IN THE CURRENT ECONOMIC SETTING

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CLOSE OF THE 38TH UNIVERSIDAD INTERNACIONAL MENÉNDEZ PELAYO SEMINAR ORGANISED BY APIE (SPANISH FINANCIAL PRESS ASSOCIATION): “THE PANDEMIC ECONOMY”

Santander  
25 June 2021



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1. The euro area and monetary policy
2. The Spanish economy and economic policies
3. The Spanish banking sector and prudential policy
4. Main economic policy messages



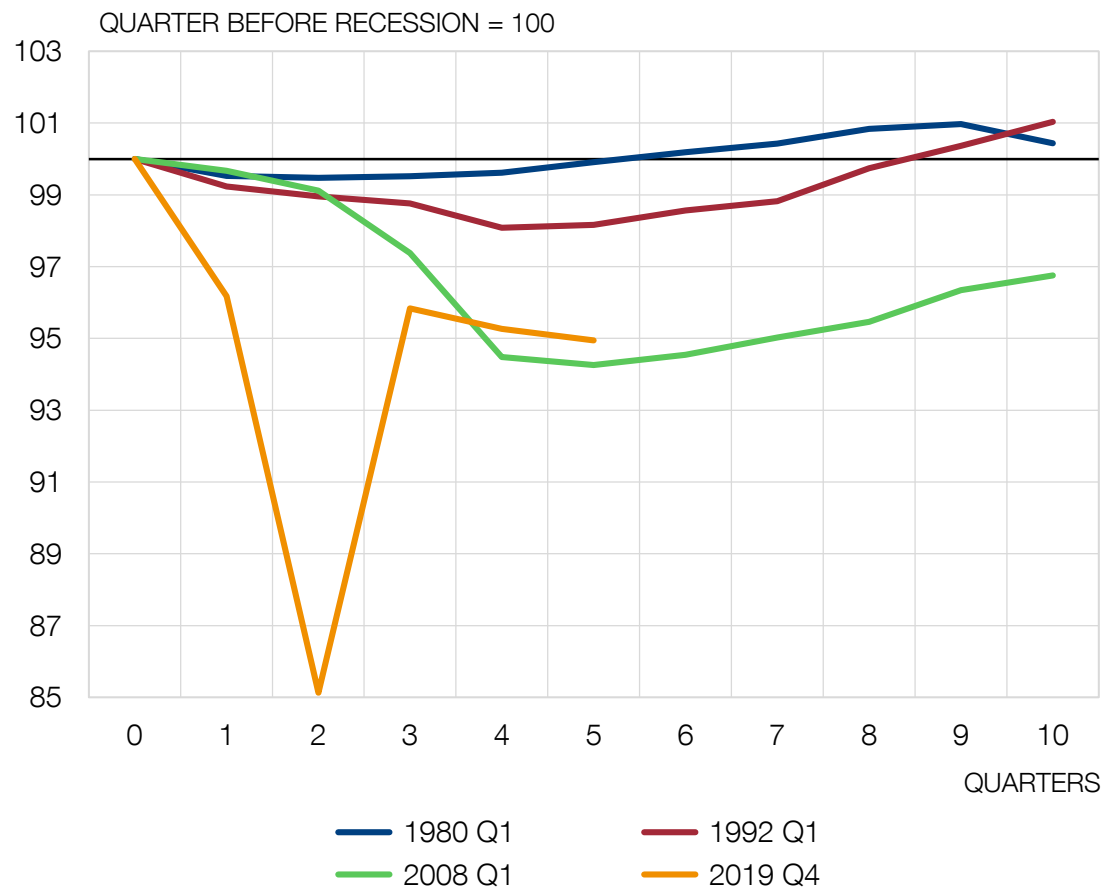
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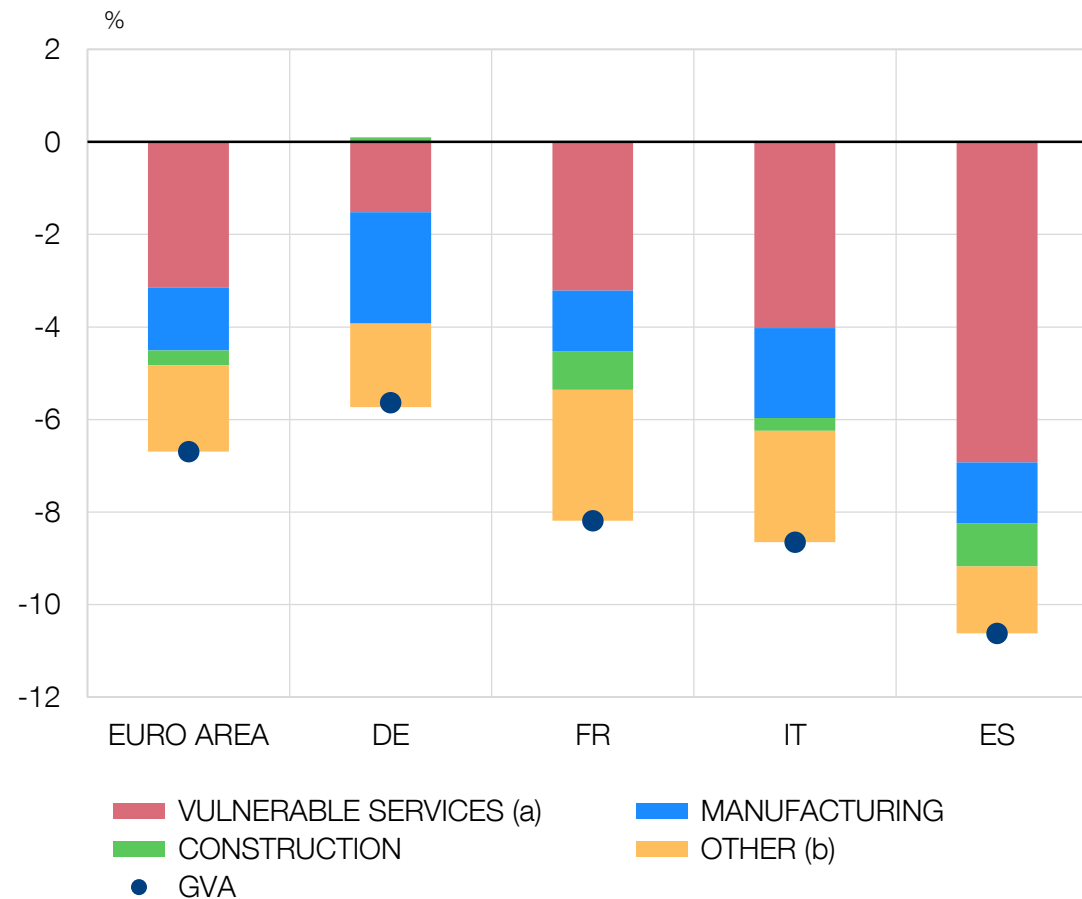
# STARTING POINT: A SEVERE CRISIS IN THE EURO AREA, UNEVEN ACROSS SECTORS AND COUNTRIES...

### EURO AREA GDP IN DIFFERENT RECESSIONS



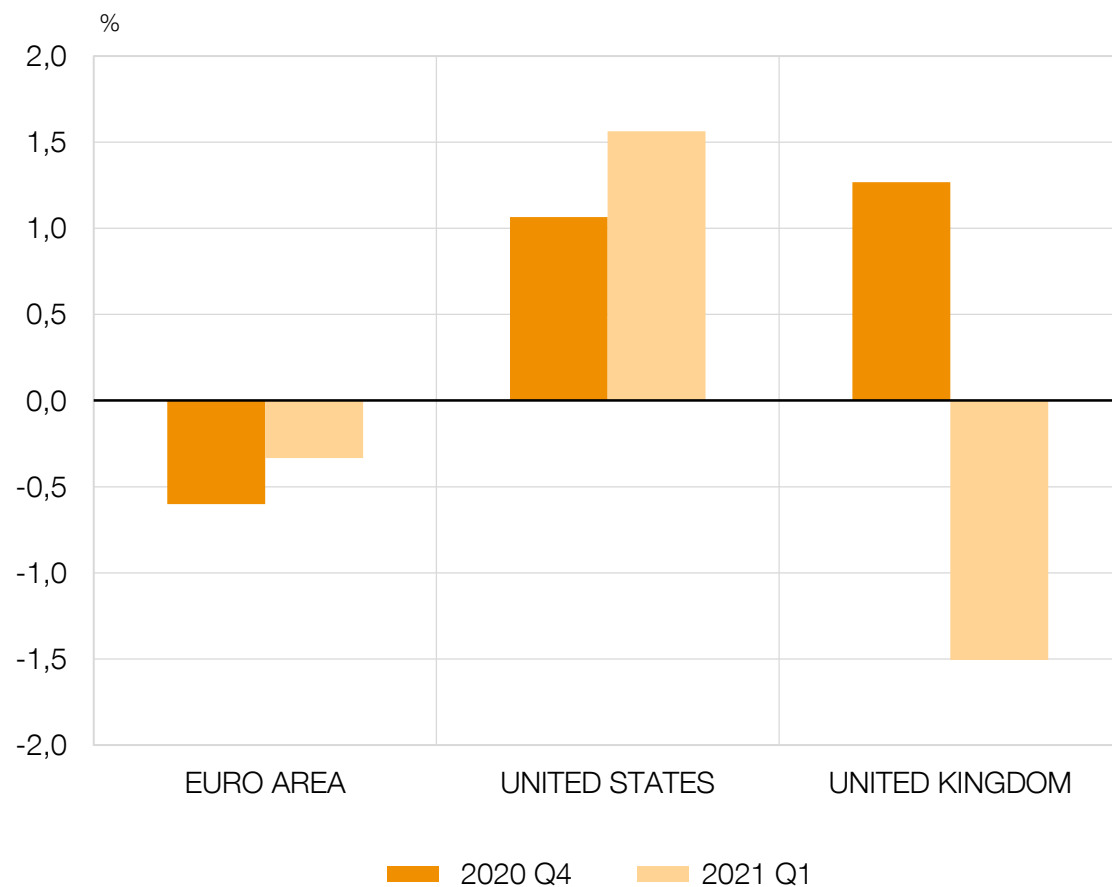
Sources: Eurostat and ECB

### EURO AREA. GVA AND CONTRIBUTIONS Change on 2020

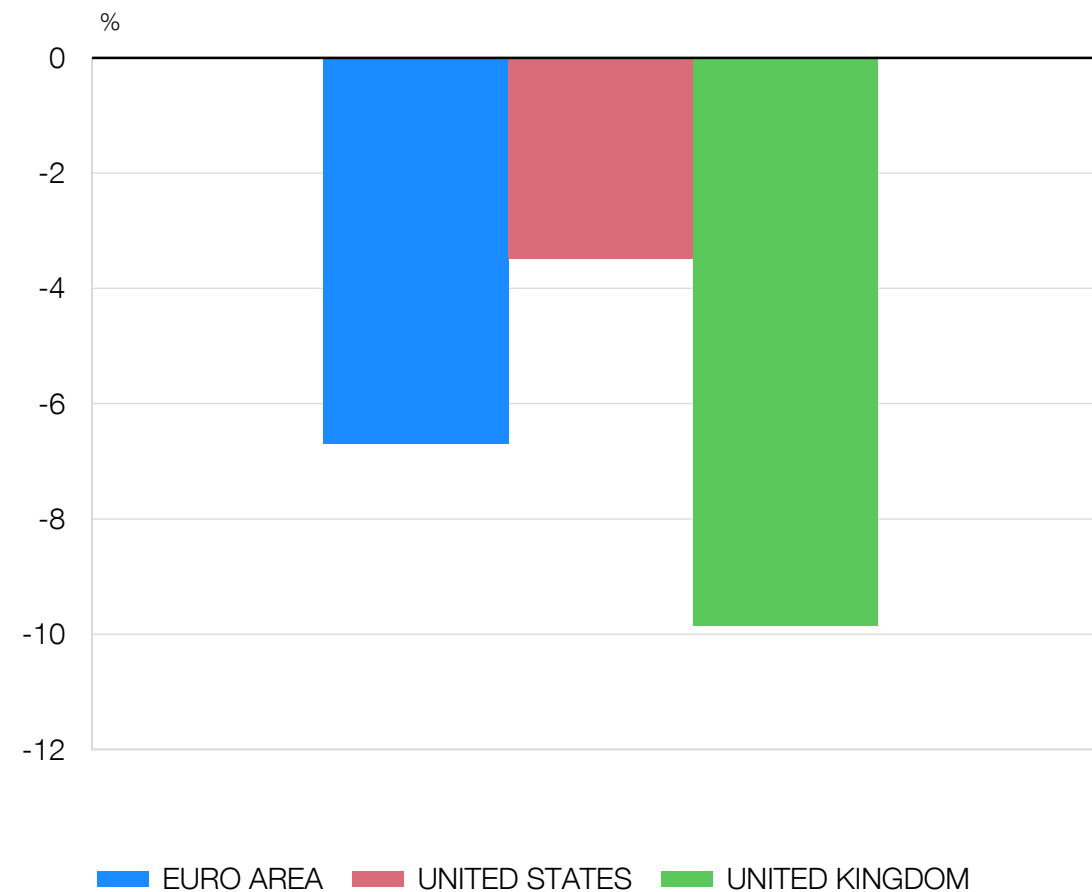


# ... AND PERSISTENT: UNLIKE IN OTHER DEVELOPED ECONOMIES, GDP IN THE EURO AREA CONTRACTED IN THE LAST TWO QUARTERS

### QUARTER-ON-QUARTER GDP GROWTH



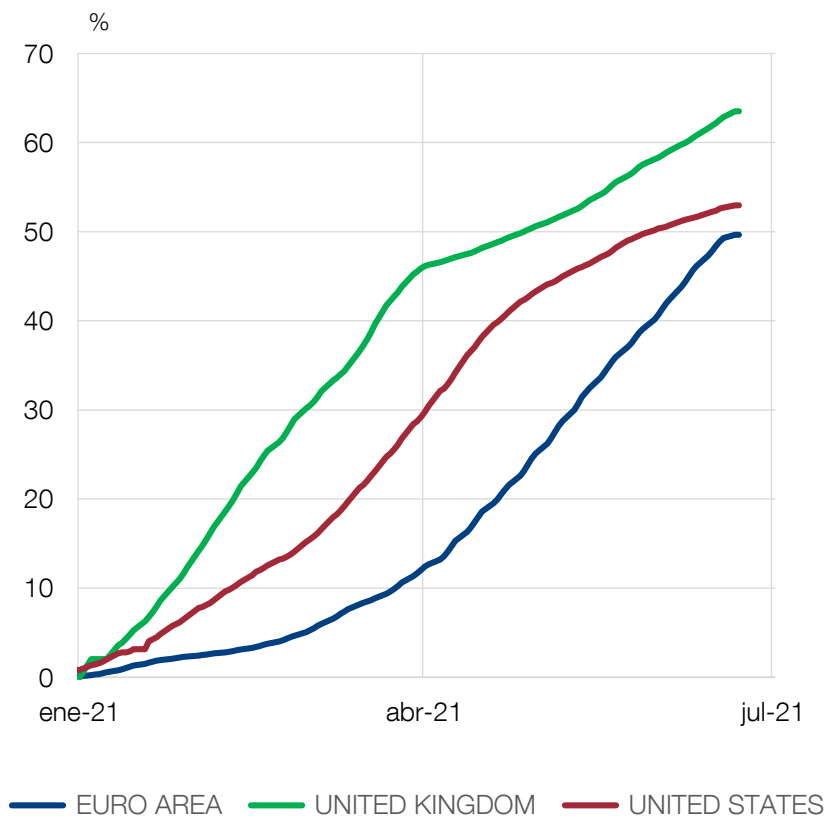
### FALL IN GDP IN 2020



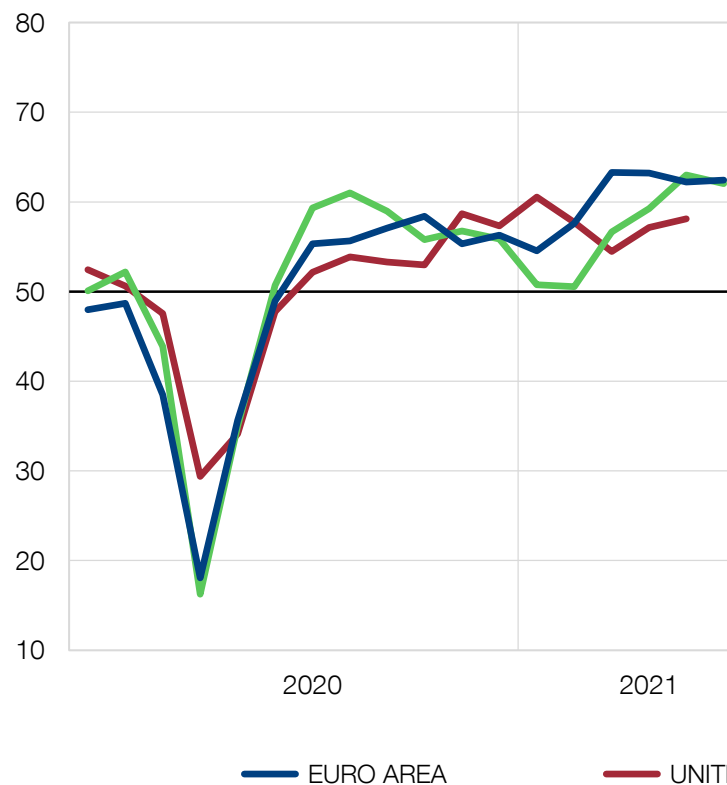
Sources: Eurostat and Thomson Reuters

# BUT THE PACE OF VACCINATION HAS STEPPED UP, GIVING RISE TO A SIGNIFICANT IMPROVEMENT IN ACTIVITY INDICATORS IN Q2

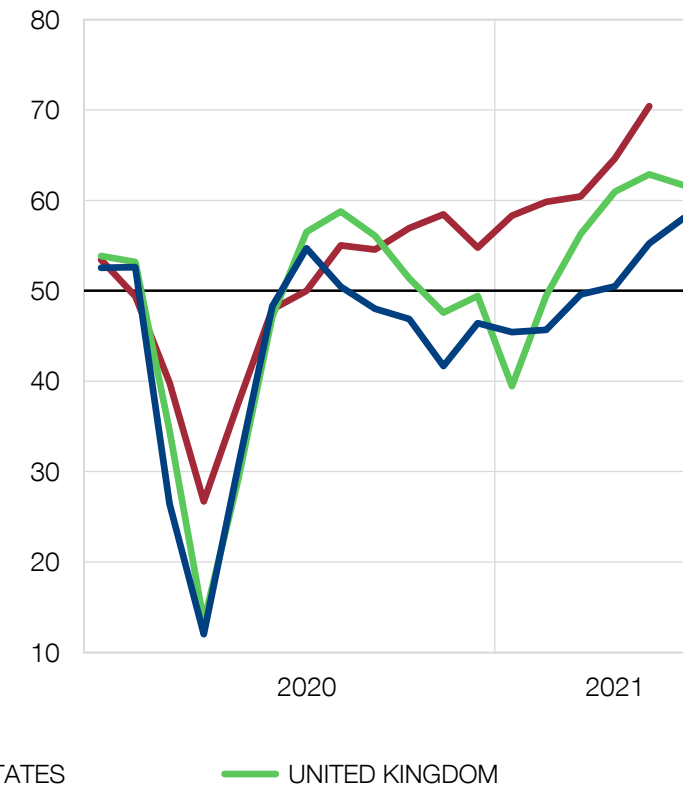
**% OF THE POPULATION THAT HAS RECEIVED AT LEAST ONE DOSE**



**PMI MANUFACTURING OUTPUT**



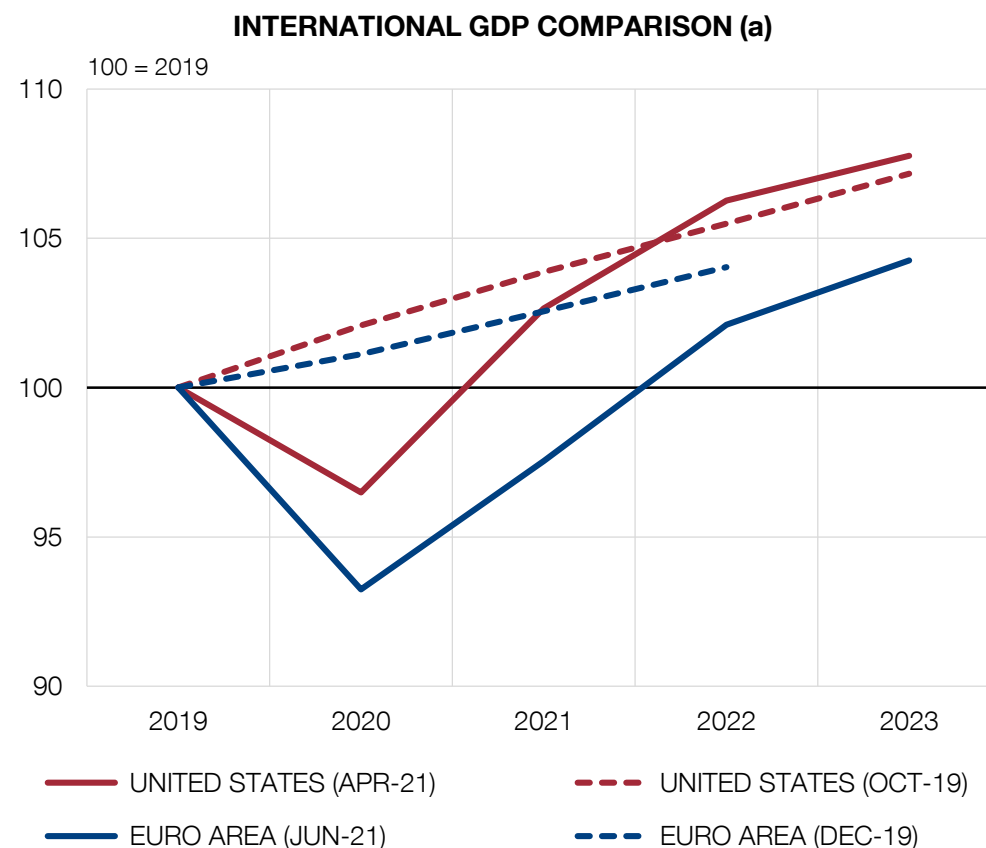
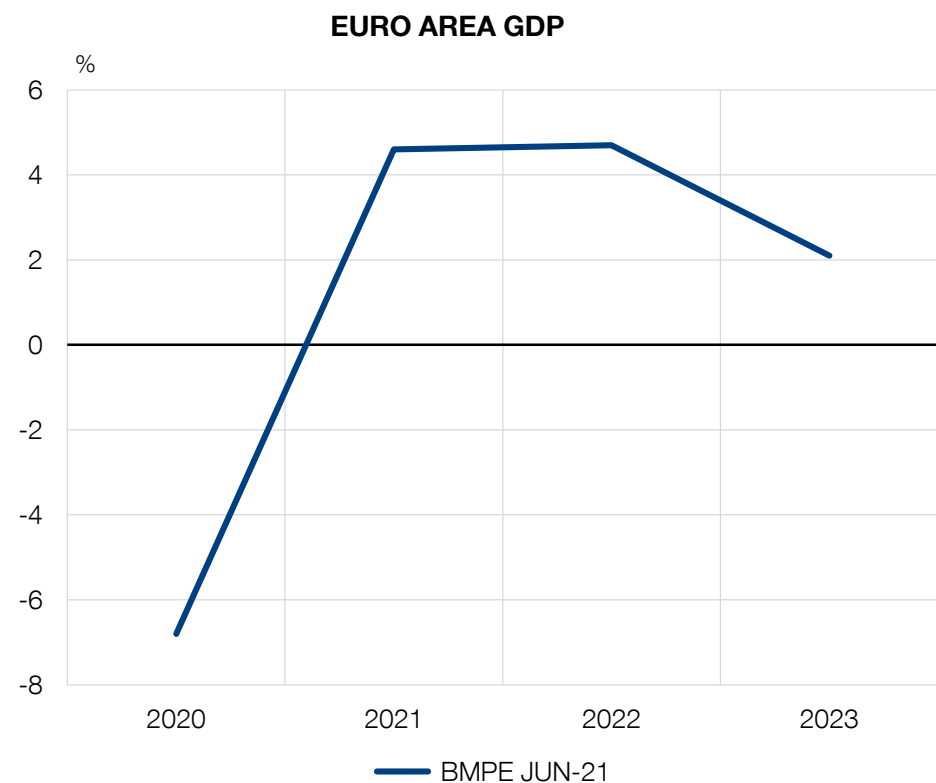
**PMI SERVICES**



Sources: Johns Hopkins Coronavirus Resource Center and Markit

# A PICK-UP IN ACTIVITY IN THE EURO AREA IS EXPECTED IN THE SECOND HALF OF 2021, CONTINUING INTO 2022...

- The euro area will return to pre-pandemic levels later than the United States, specifically in early 2022, although with cross-country differences; pre-crisis trends will also resume later than in the United States, and not before 2023
- The projected dynamism is based on the expected improvement in the epidemiological situation, growth in world demand, expansionary policies in the euro area and the United States, and strong consumption growth

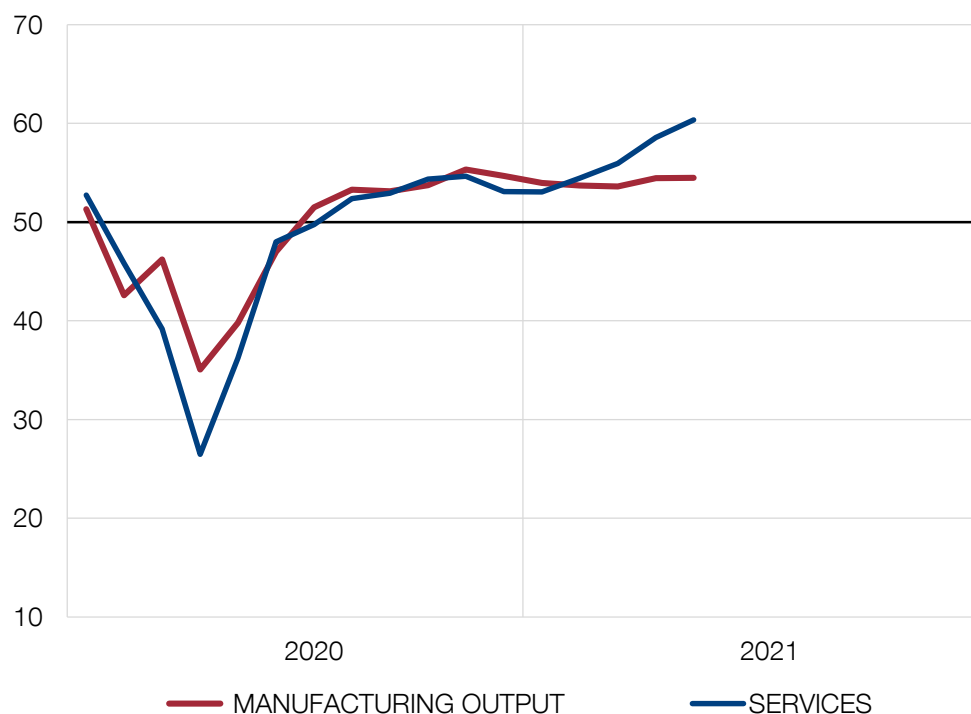


Sources: IMF and Eurosistem.

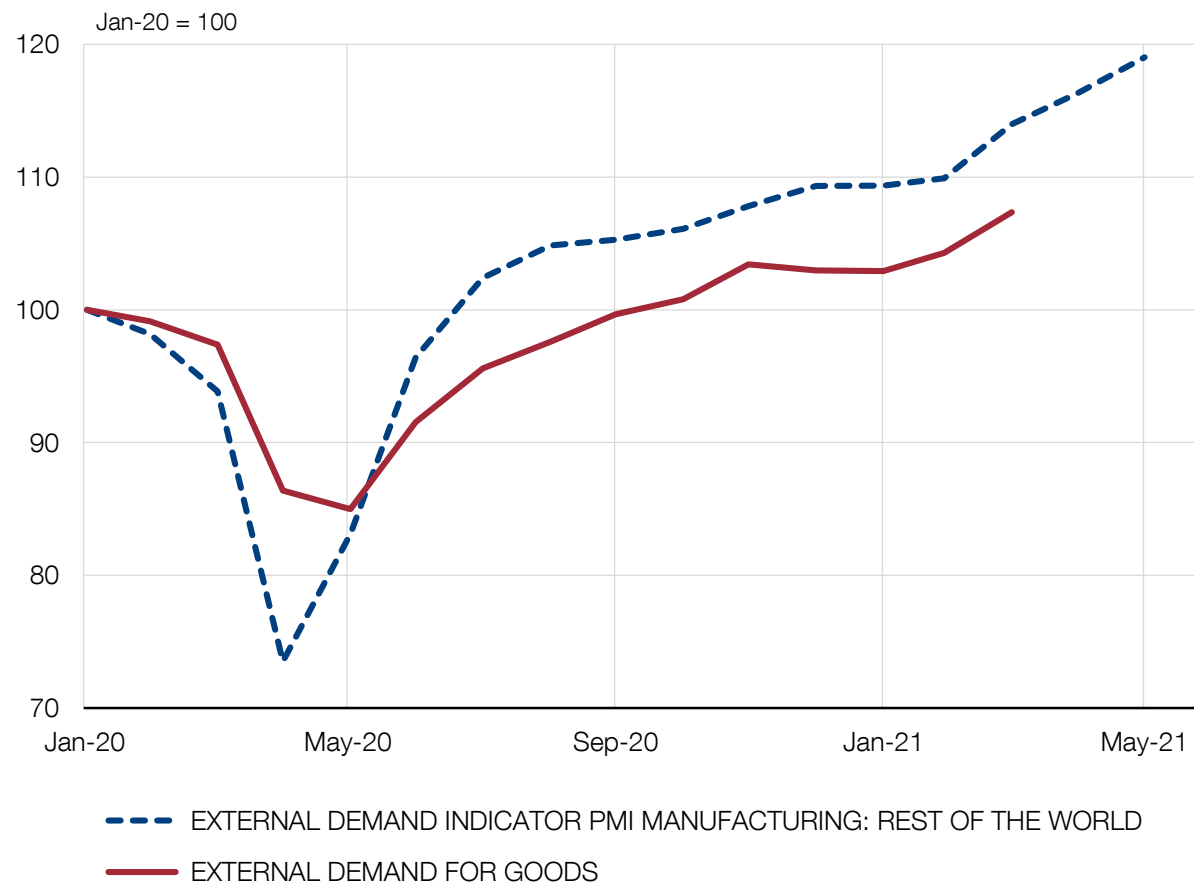
(a) IMF data for the United States and Eurosistem data for the euro area.

- Indicators point to a more dynamic international environment, in manufacturing and services, and with a recovery in world trade

GLOBAL PMI EXCLUDING THE EURO AREA



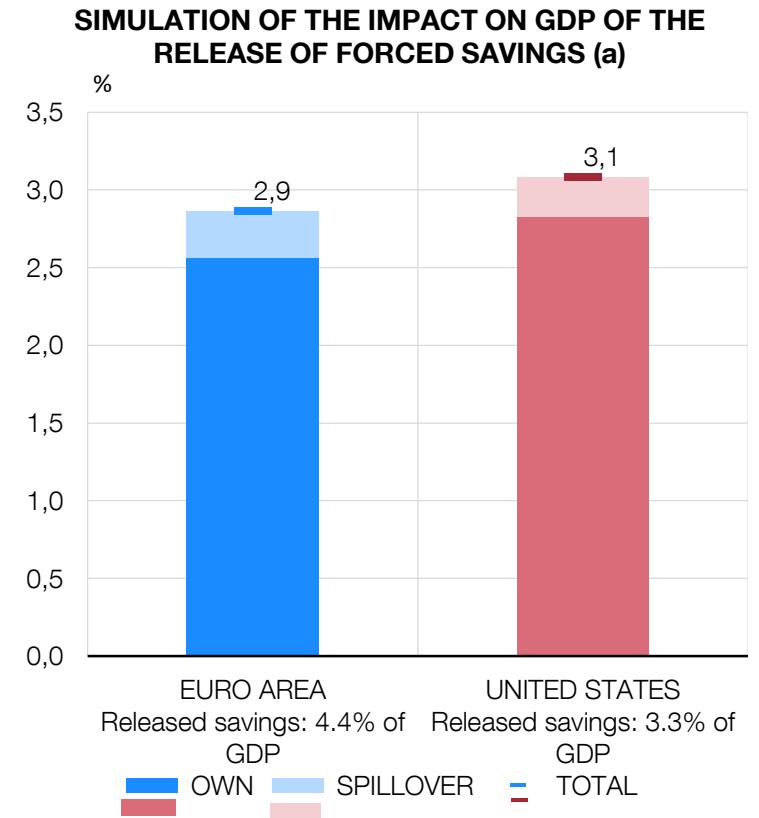
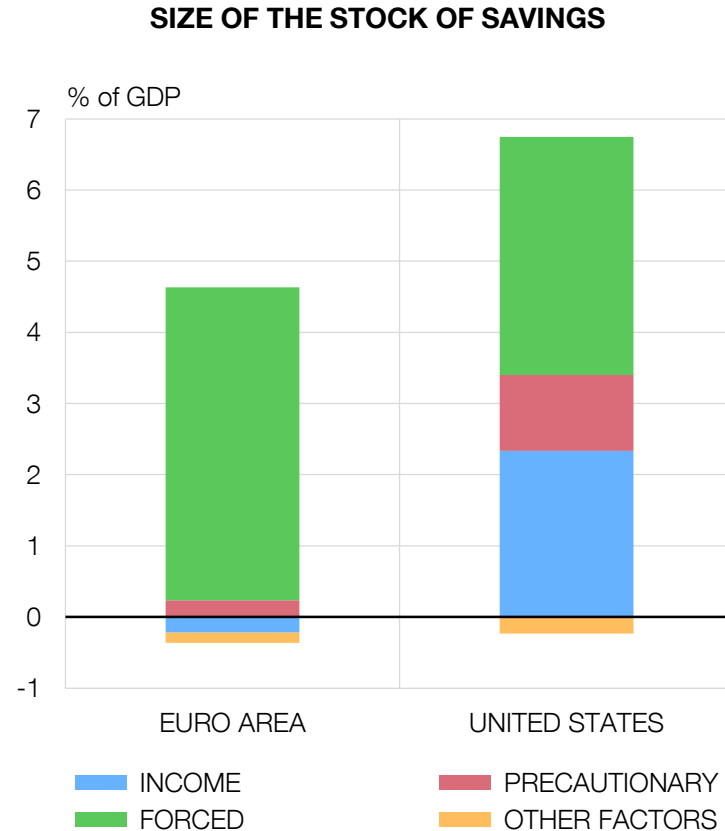
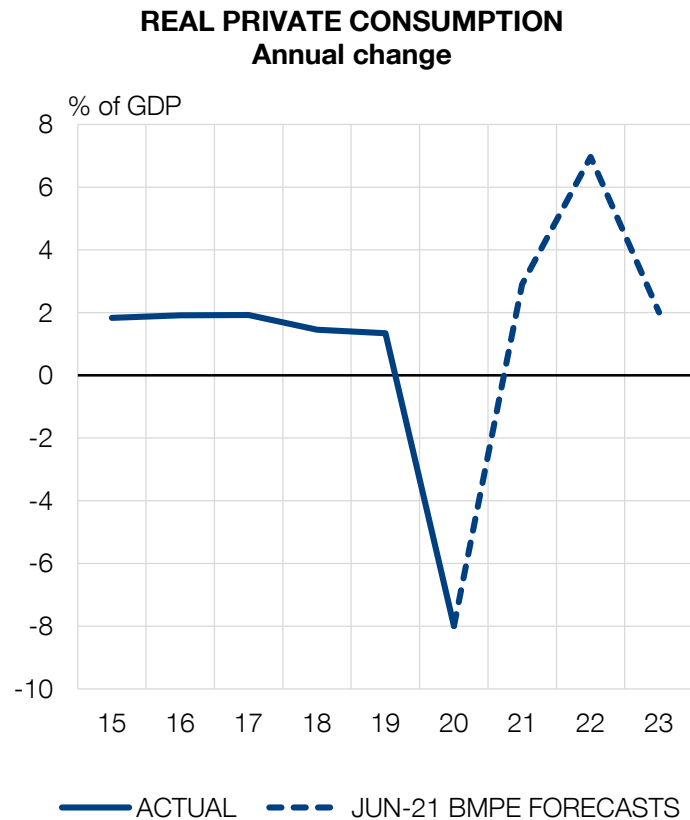
EURO AREA. GOODS EXPORT MARKETS



Source: IHS Markit. Latest observation: May.



- The gradual normalisation of both consumption and the saving rate explains a large part of the pick-up expected in private demand, following the big build-up in “forced” saving (4.4% of GDP) during the worst stages of the pandemic



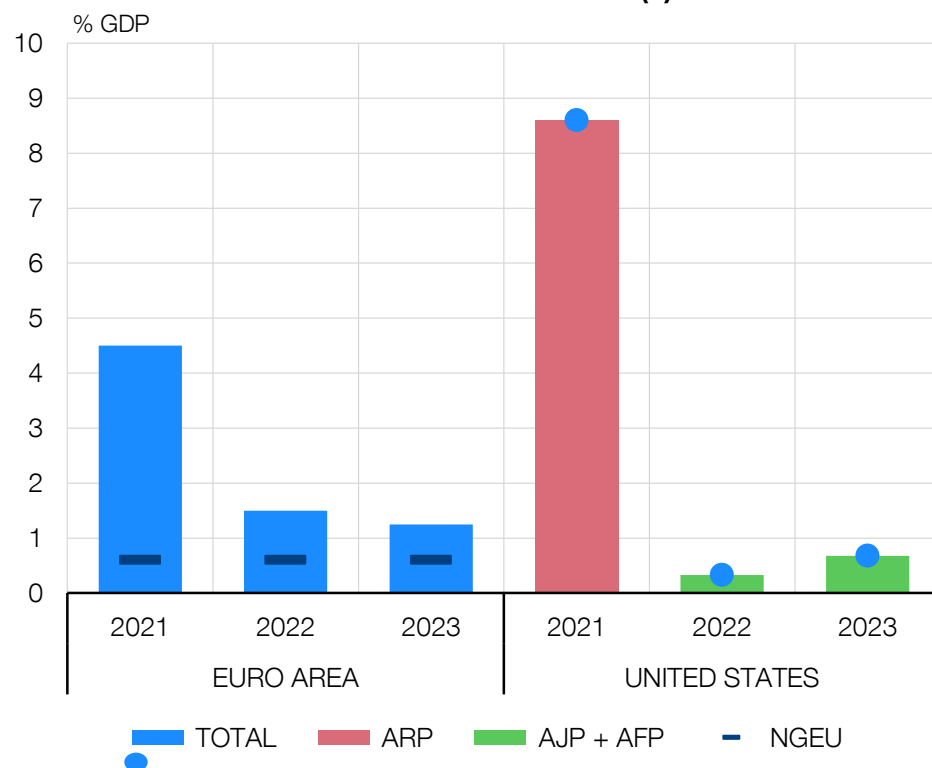
Source: Eurostat and ECB.

Source: Banco de España.

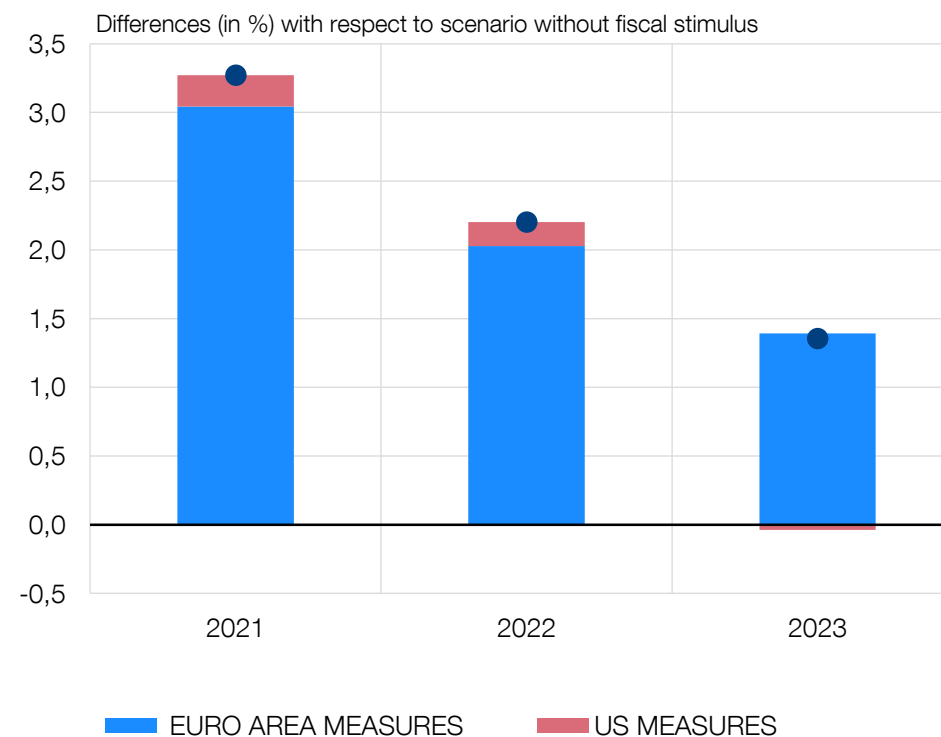
(a) Estimation based on the NIGEM model assuming that the stock of savings identified as “forced” in 2020 (4.4% of GDP for the euro area and 3.35% for the United States) is released in full. The results show the impact on GDP in 2022.

- Implementation of the Stability Pact has been delayed for another year; the discussions on its subsequent application should be held at the same time as the debate on its review

**DISCRETIONARY FISCAL STIMULUS MEASURES IN THE EURO AREA AND THE UNITED STATES (a)**



**IMPACT OF FISCAL MEASURES ON EURO AREA GDP (b)**

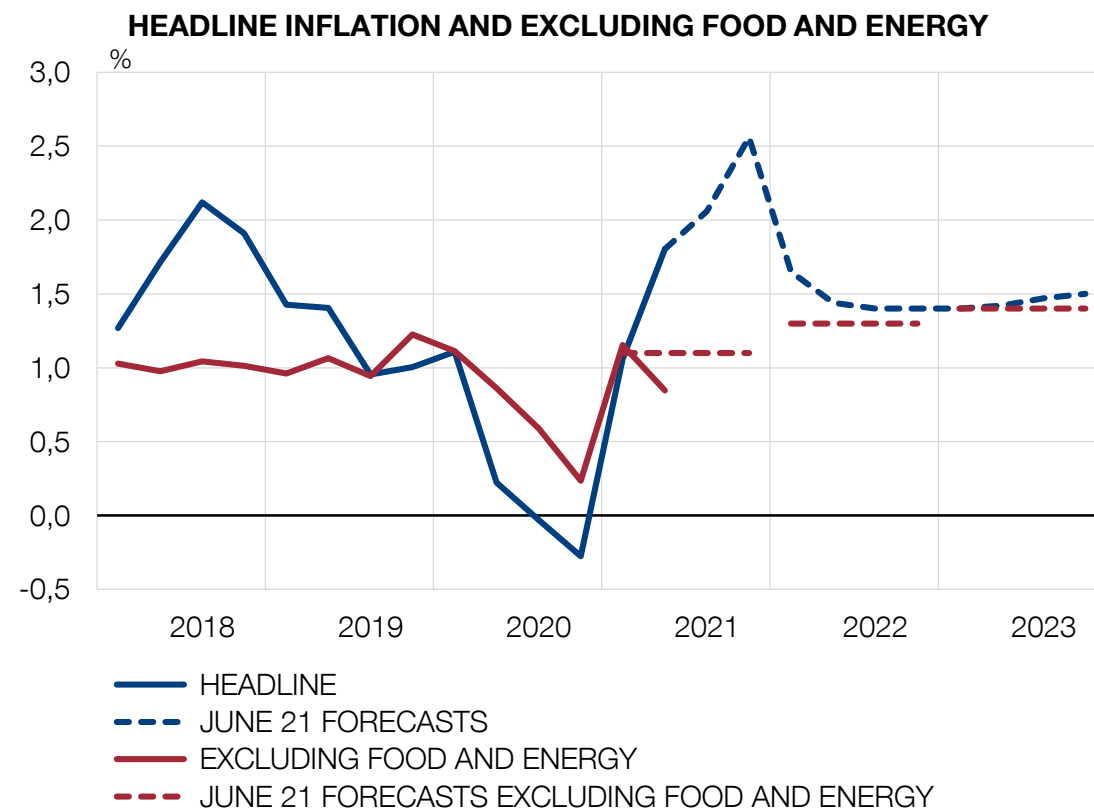
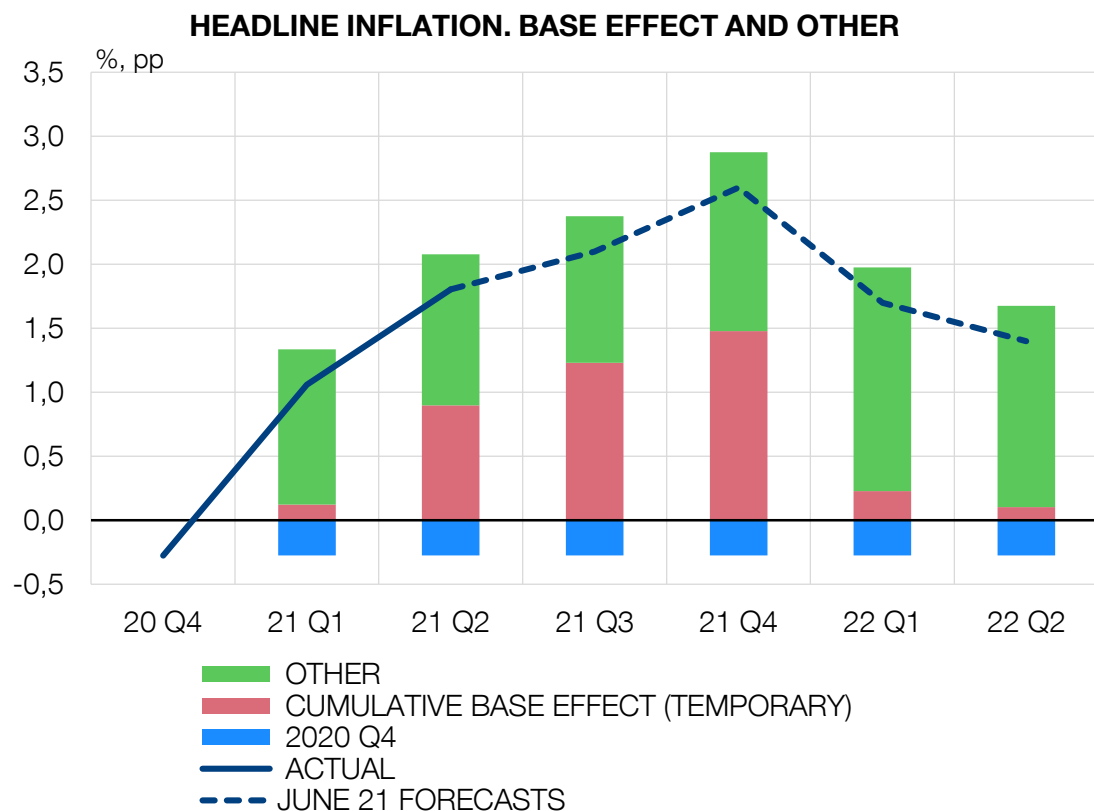


Sources: Banco de España and Eurosistema, drawing on Committee for a Responsible Federal Budget, Congressional Budget Office, the White House, Tax Policy Center, Tax Foundation and Penn Wharton Budget Model.

(a) The fiscal stimulus in each year is depicted. ARP (American Rescue Plan). AJP ( American Jobs Plan). AFP (American Families Plan).

(b) Own estimation of impact. The impact of the euro area measures has been estimated in accordance with a standard multiplier, and that of the US measures drawing on NIGEM model simulations.

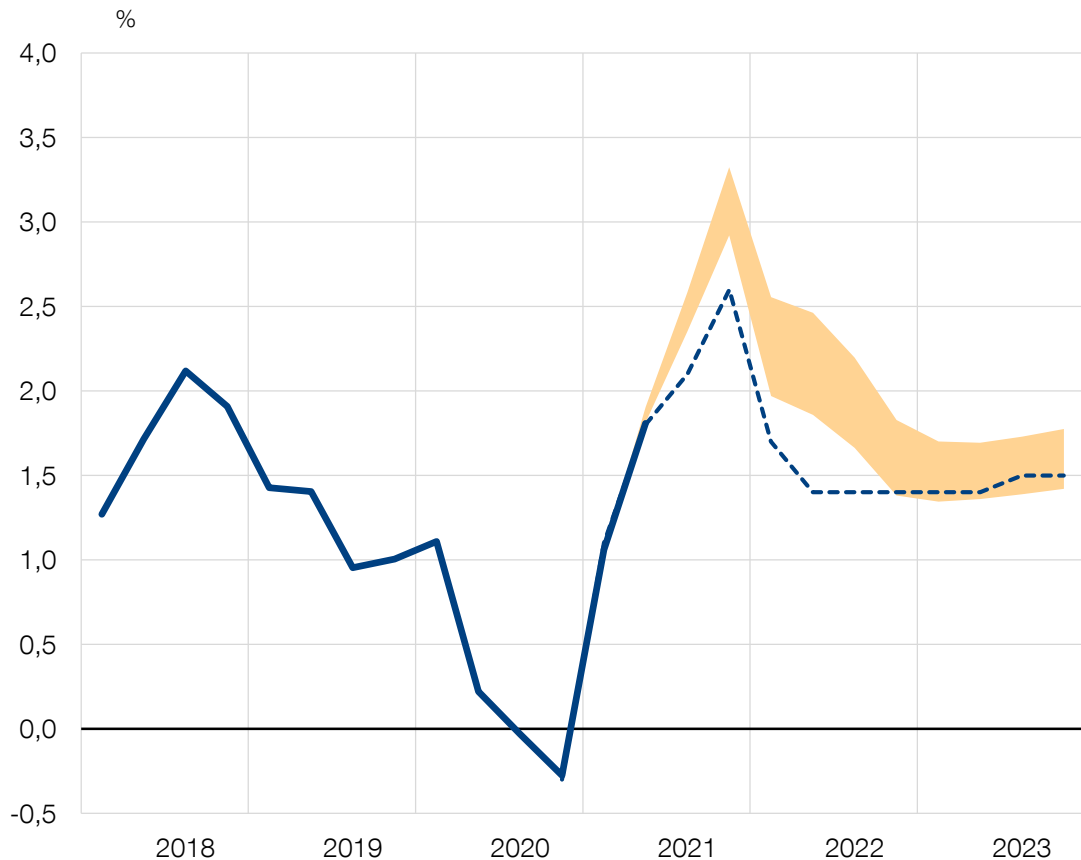
- Inflation will peak at 2.5% at end-2021, owing to temporary factors such as rising energy prices and the base effects of the VAT reduction in Germany in 2020



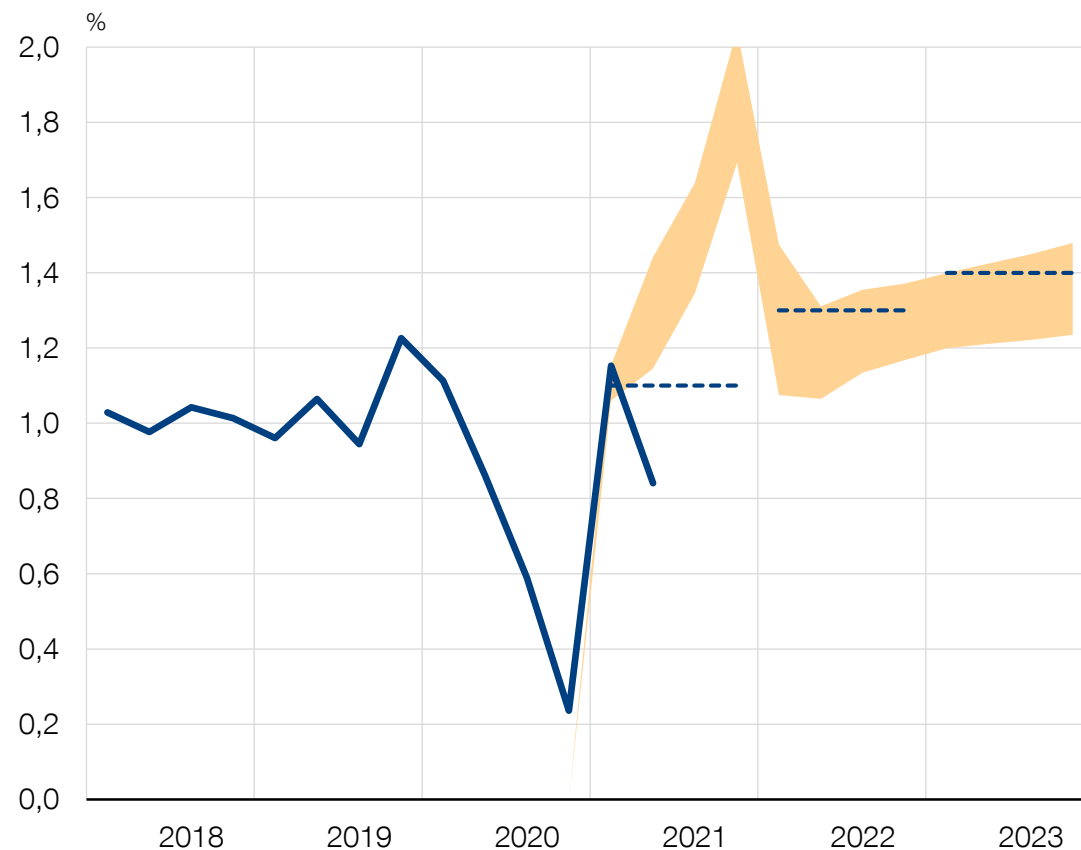
Sources: Eurostat, ECB and Banco de España

**MEDIUM TERM, THE GRADUAL REDUCTION IN THE DEGREE OF SLACK IN THE ECONOMY AND THE RECOVERY IN DEMAND WILL DRIVE UP CORE INFLATION, ALTHOUGH THE MEDIUM-TERM FORECAST IS STILL DISTANT FROM OUR AIM**

**HEADLINE HICP**



**HICP EXCLUDING FOOD AND ENERGY**

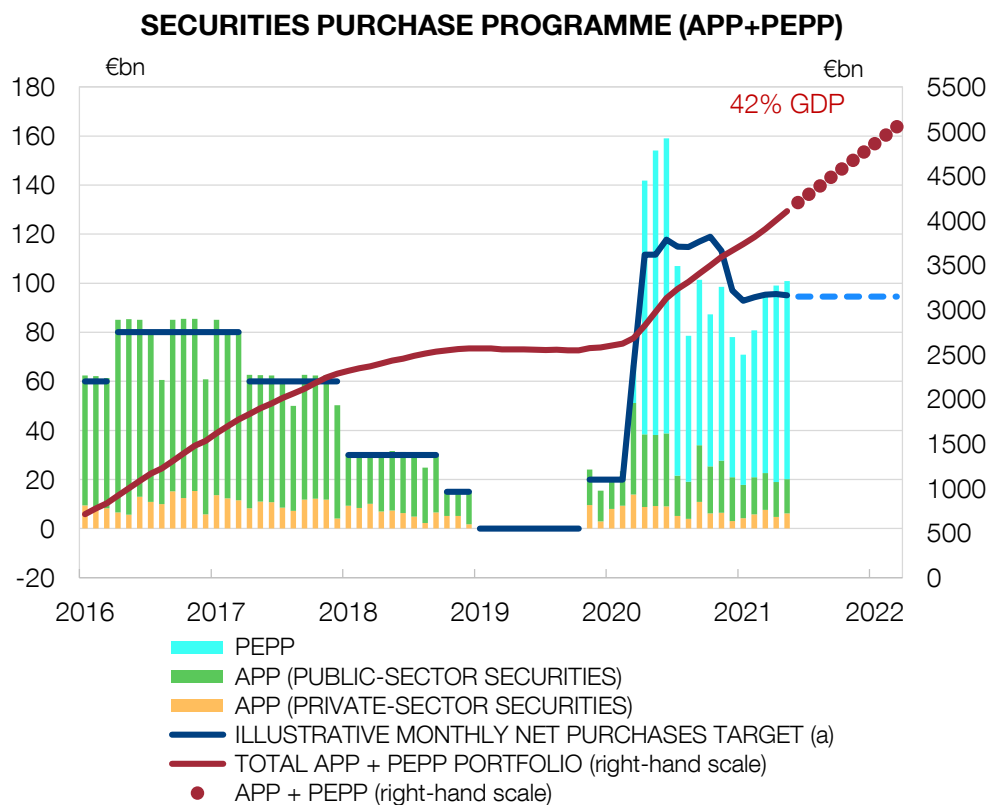


PHILLIPS CURVE (a) ACTUAL JUNE 21 FORECASTS

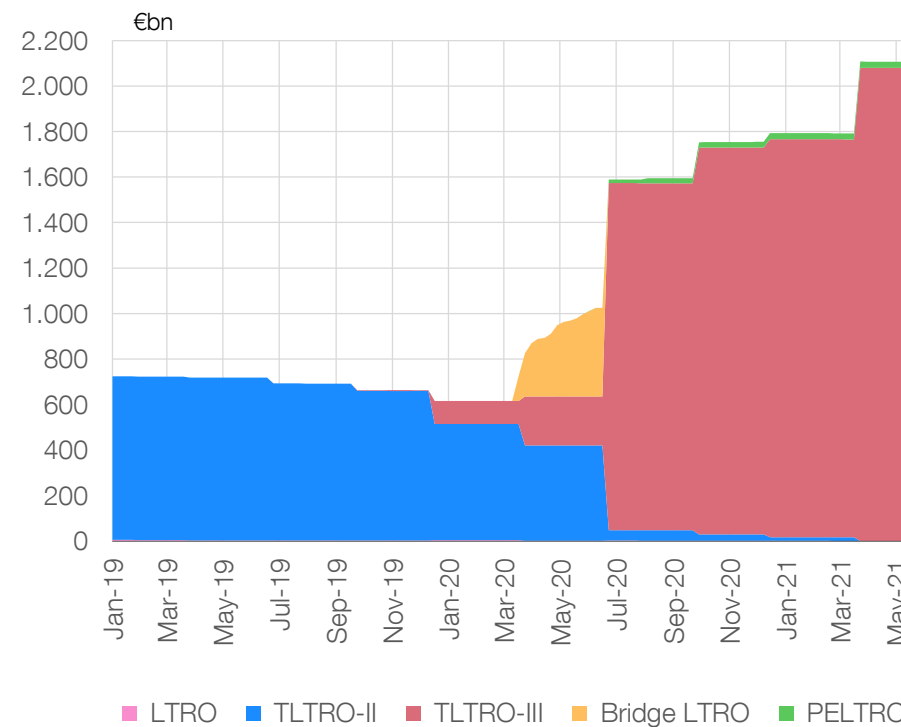
Sources: Eurostat, ECB, Consensus and Banco de España.

(a) The average of nine models that consider different measures of inflation expectations (consumer, producer, financial market and trend inflation expectations), structure in expectations formation (backward-looking, forward-looking and hybrid) and slack (output and unemployment gap).

# MONETARY POLICY HAS PLAYED A FUNDAMENTAL ROLE DURING THE CRISIS: THE PEPP AND THE TLTRO-III HAVE PREVENTED FINANCING CONDITIONS FROM TIGHTENING



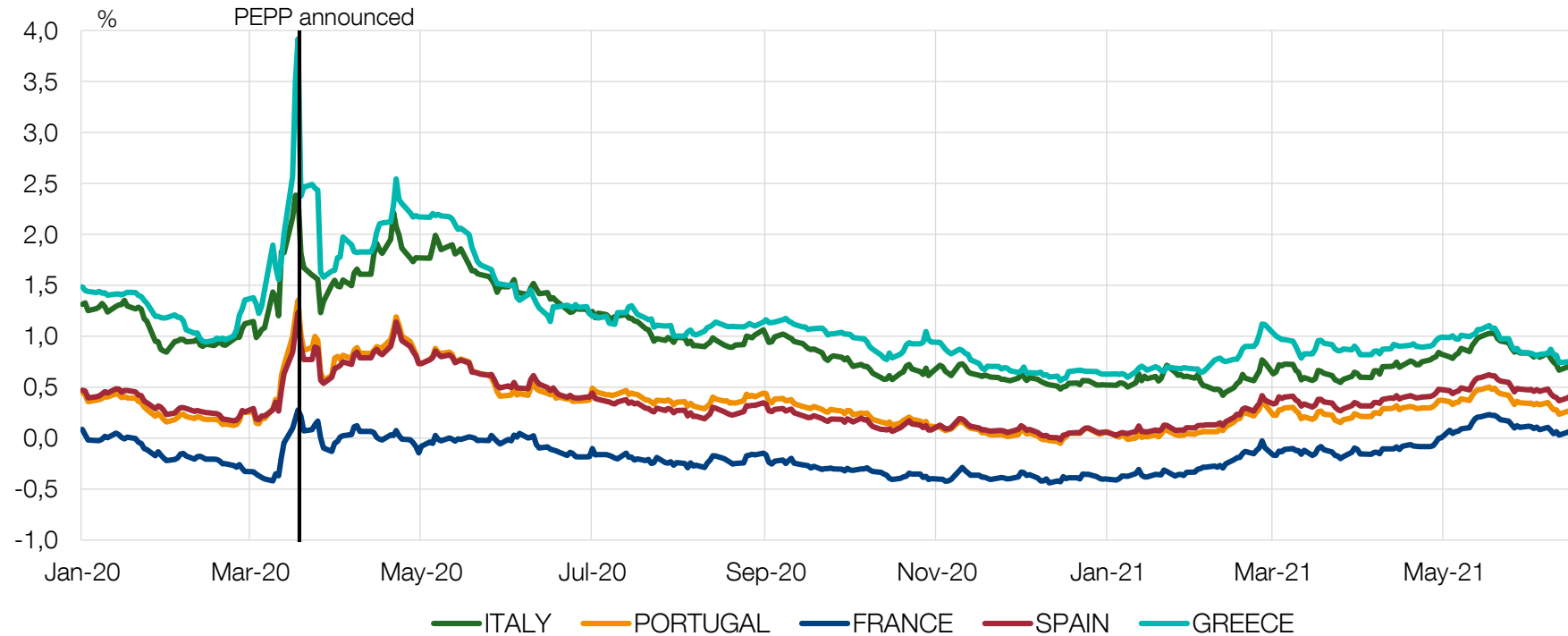
### EUROSYSTEM LONG-TERM REFINANCING OPERATIONS (OUTSTANDING AMOUNTS)



Sources: ECB and Thomson Reuters Datastream. Latest observation: May 2021 (left-hand chart) and 4 June 2021 (right-hand chart).

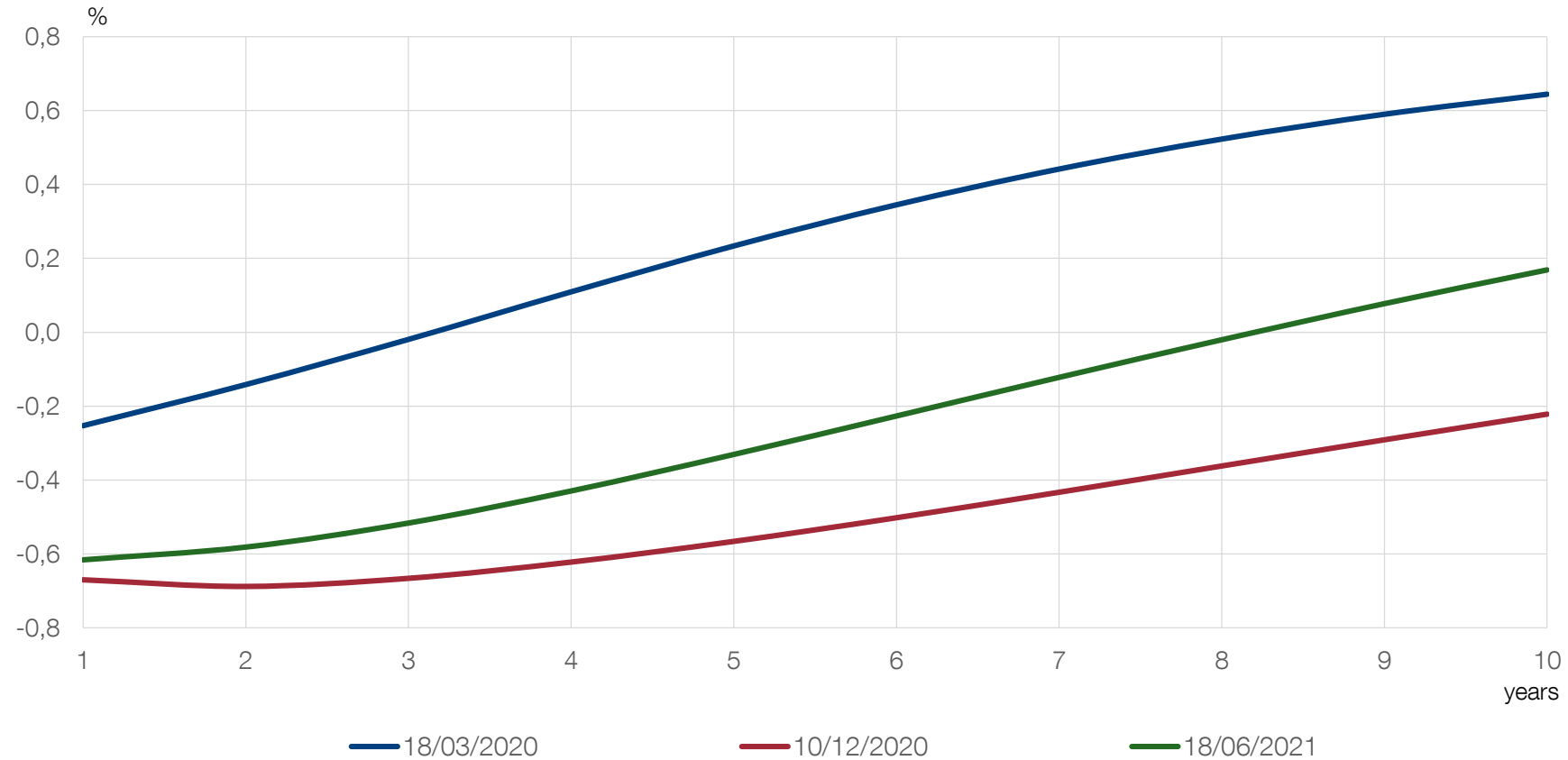
(a) The monthly net purchase target as from June 2021 (broken blue line) includes, in addition to the €20 billion per month approved last year and ratified at the Governing Council in December 2020, the unused portion of the maximum amount of €1,850 billion under the new Pandemic Emergency Purchase Programme (PEPP, approved on 18 March and extended and increased on 4 June and 10 December), assuming, for illustrative purposes, that the purchases will be distributed uniformly until March 2022 (in practice they may be distributed flexibly over time) and that full use will be made of said maximum amount (in practice, this maximum amount might not be used in full).

## 10-YEAR SOVEREIGN BONDS



Source: Refinitiv Datastream. Latest observation: 18/06/2021

**YIELD CURVE FOR EURO AREA GOVERNMENT BONDS (a)**



Source: Refinitiv Datastream.  
(a) Yields weighted by the GDP of Spain, France, Italy and Germany.

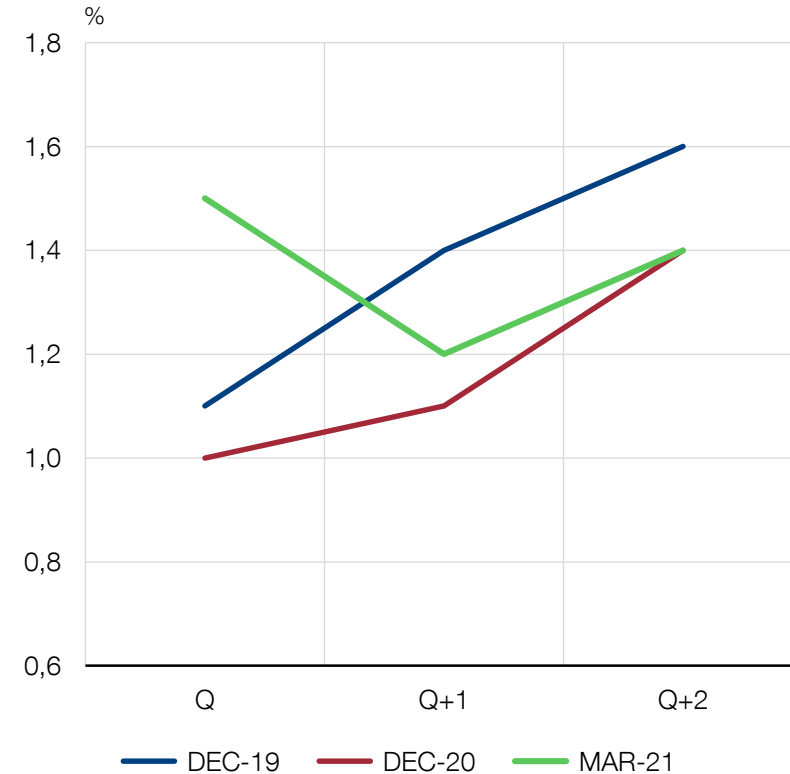
# IN MARCH, AFTER LONG-TERM YIELDS ROSE, IN A SETTING IN WHICH INFLATION FORECASTS REMAINED UNCHANGED AND BELOW THEIR PRE-PANDEMIC LEVELS, WE DECIDED TO INCREASE OUR MONTHLY PURCHASES

**10-YEAR OIS AND SOVEREIGN YIELDS TO 10 MARCH 2021.  
EURO AREA**



Sources: Refinitiv Datastream and ECB. Latest observation: 10/03/21.  
(a) 10-year sovereign yield weighted by the GDP of the four major economies (Germany, France, Italy and Spain).

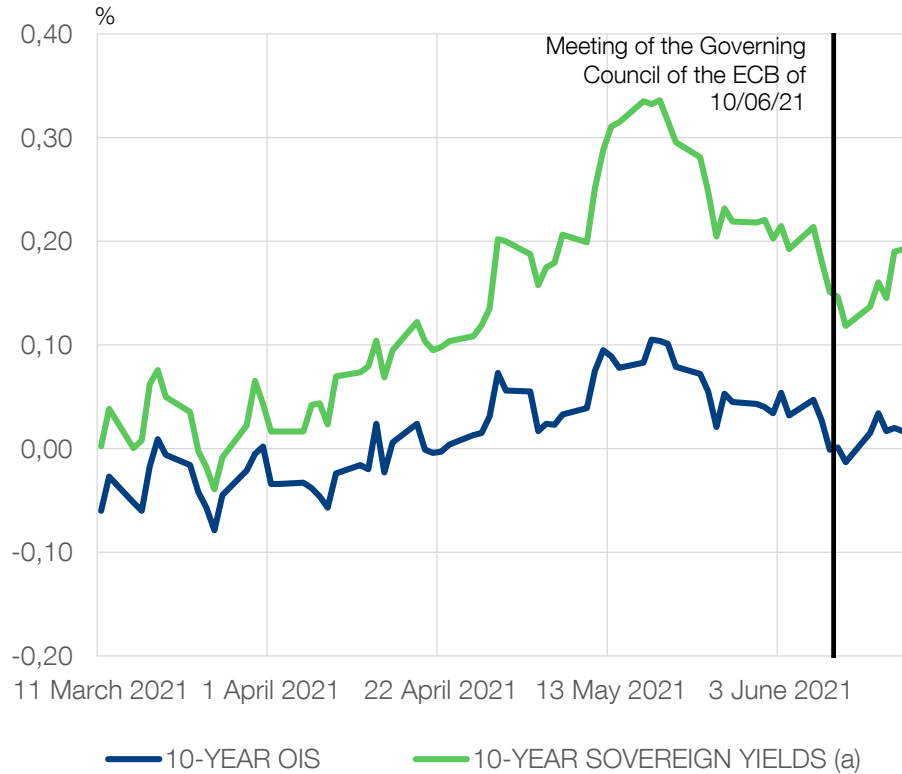
**ECB/EUROSISTEM INFLATION PROJECTIONS FOR THE  
EURO AREA**



Source: ECB

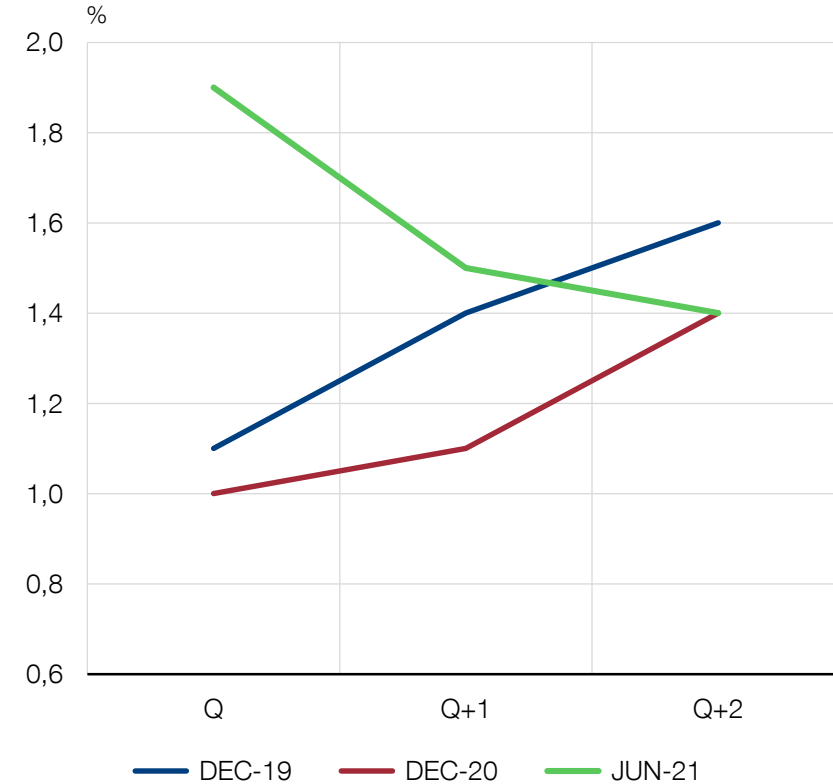


**10-YEAR OIS AND SOVEREIGN YIELDS SINCE 11 MARCH 2021.  
EURO AREA**



Sources: Refinitiv Datastream and ECB. Latest observation: 18/06/21.  
(a) 10-year sovereign yield weighted by the GDP of the four major economies (Germany, France, Italy and Spain).

**ECB/EUROSISTEM INFLATION PROJECTIONS FOR THE EURO AREA**



Source: ECB

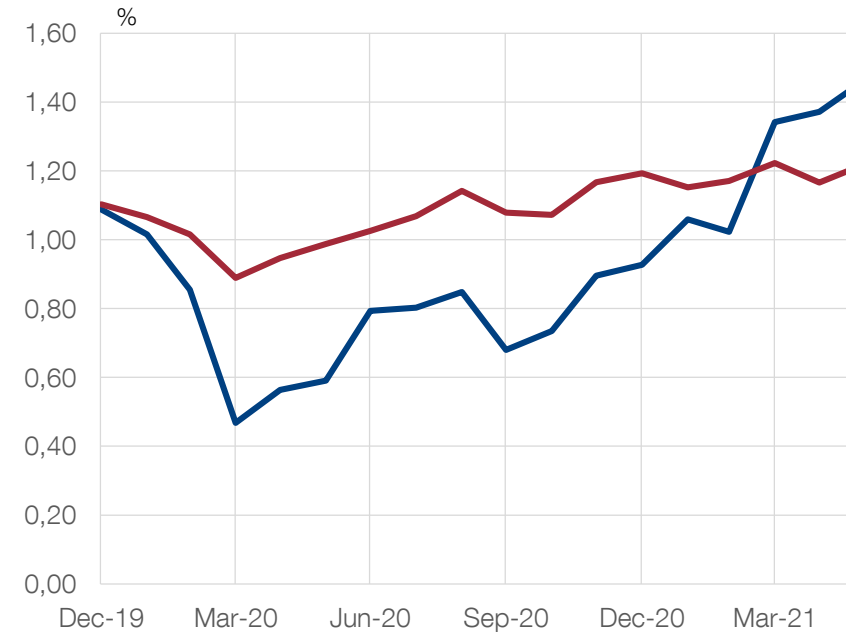
- **Market indicators point to an increase in inflation compensation; this could reflect an increase in inflation risk premia rather than an increase in genuine inflation expectations**

**INFLATION COMPENSATION. EURO AREA (a)**



Source: Refinitiv Datastream. Latest observation: 18/06/2021  
(a) 2-year forward rates 2 years ahead implied by inflation swaps.

**INFLATION COMPENSATION AND INFLATION EXPECTATIONS. EURO AREA (a)**



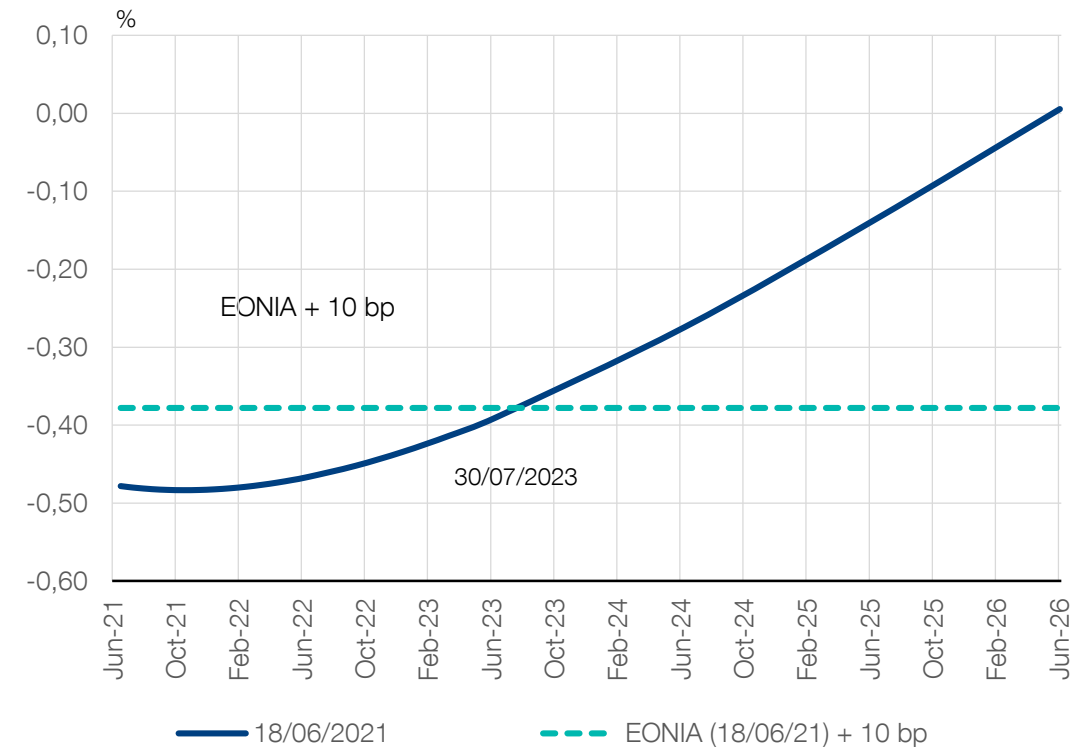
— INFLATION COMPENSATION (b)  
— INFLATION EXPECTATIONS (c)

Source: Refinitiv Datastream and Banco de España calculations  
Latest observation: May 2021.  
(a) Implied 2-year forward rates 2 years ahead.  
(b) Calculated using Datastream inflation swaps.  
(c) Calculated using a similar model for inflation swaps.

# OUR FORWARD GUIDANCE SUGGESTS THAT THE DEGREE OF MONETARY ACCOMMODATION WILL LAST

- The Governing Council expects the **ECB's policy rates to remain at their present or lower levels**, until the **inflation outlook robustly converges** to a level sufficiently close to, but below, 2% within the projection horizon, and such convergence has been **consistently reflected in underlying inflation dynamics**.
- Net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion. The Governing Council continues to expect **monthly net purchases under the APP to run for as long as necessary** to reinforce the accommodative impact of its policy rates, and **to end shortly before it starts raising** the key ECB interest rates.
- The Governing Council also intends to **continue reinvesting, in full, the principal payments from maturing securities purchased under the APP** for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

INSTANTANEOUS FORWARD OIS. EURO AREA



Source. Refinitiv Datastream. Latest observation: 18/06/2021.

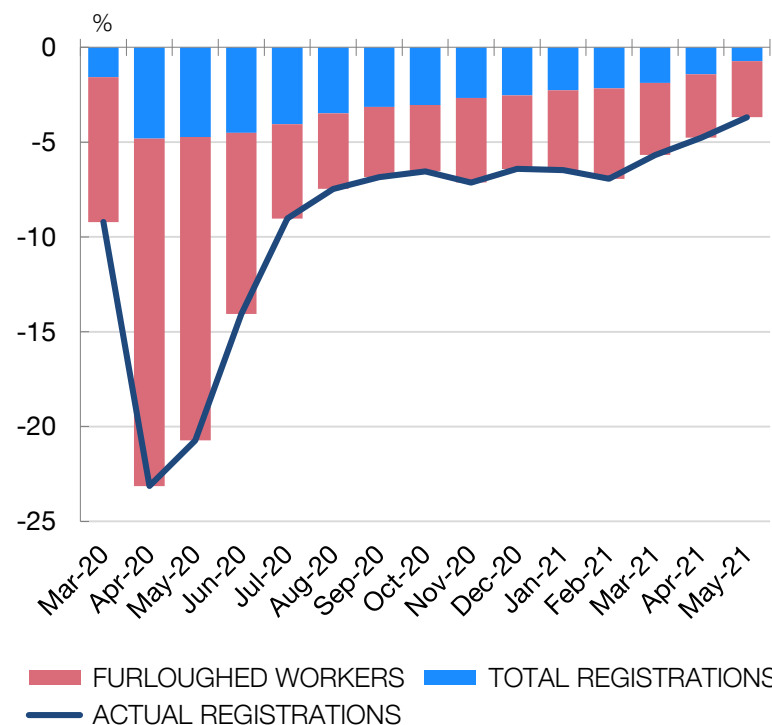
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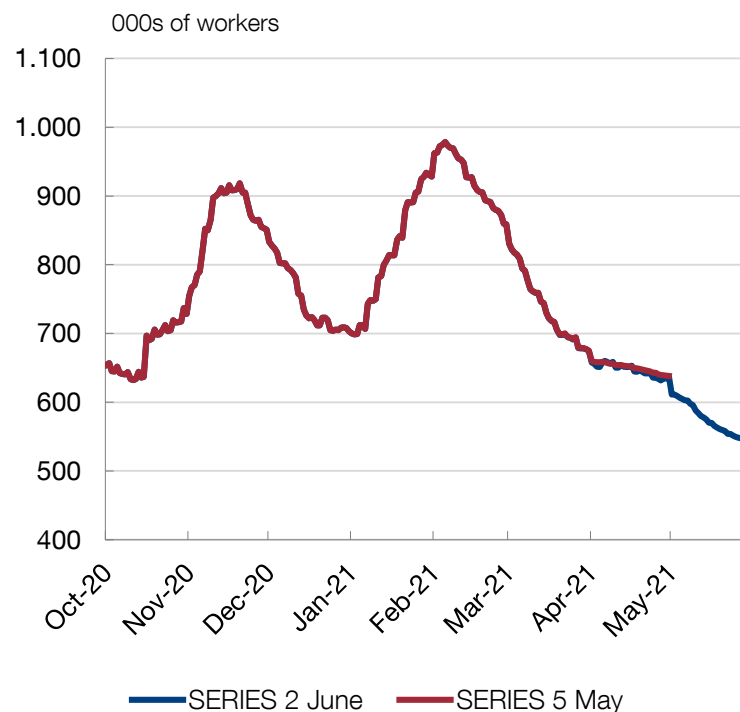
# IN SPAIN, ACTIVITY AND EMPLOYMENT HAVE REGAINED MOMENTUM SINCE THE END OF Q1, AS THE EPIDEMIOLOGICAL SITUATION HAS IMPROVED

- In general, short-term activity indicators show an improvement since March, which has accelerated in the last two months
- The incidence of COVID-19 is falling, both in terms of cases detected and deaths, and the aim to have 70% of the population vaccinated by end-August seems feasible

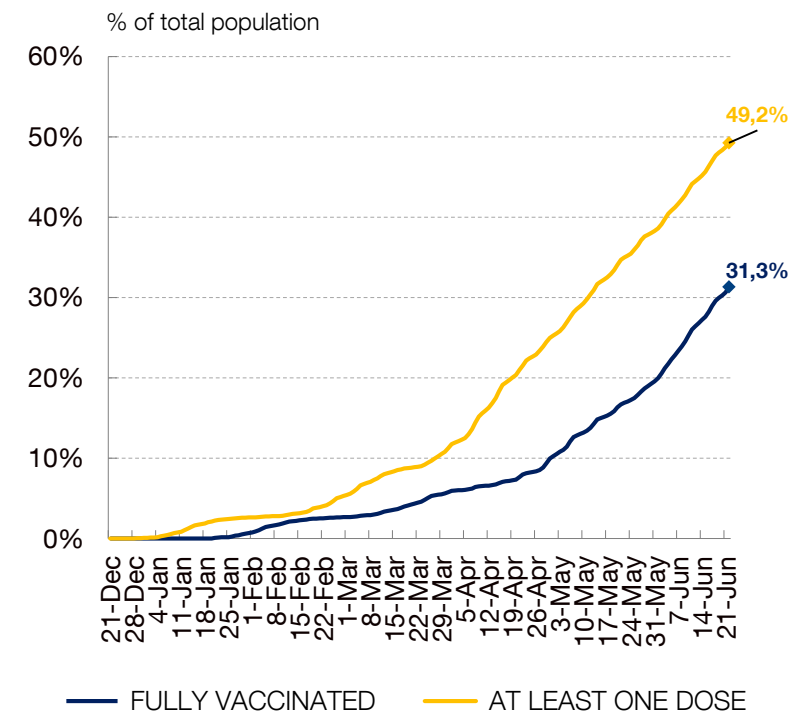
CHANGE IN TOTAL REGISTRATIONS, FURLOUGHED WORKERS AND ACTUAL REGISTRATIONS VS FEBRUARY 2020



FURLOUGHED WORKERS



VACCINATION IN SPAIN (a)

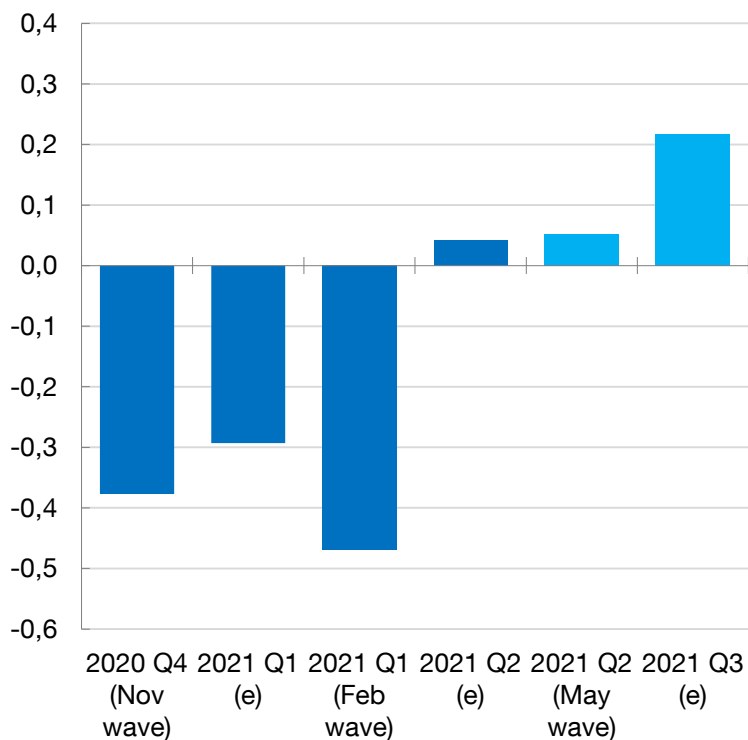


Sources: Banco de España and Ministerio de Inclusión, Seguridad Social y Migraciones. Latest observation: May (left-hand and middle charts) and 22 June (right-hand chart).

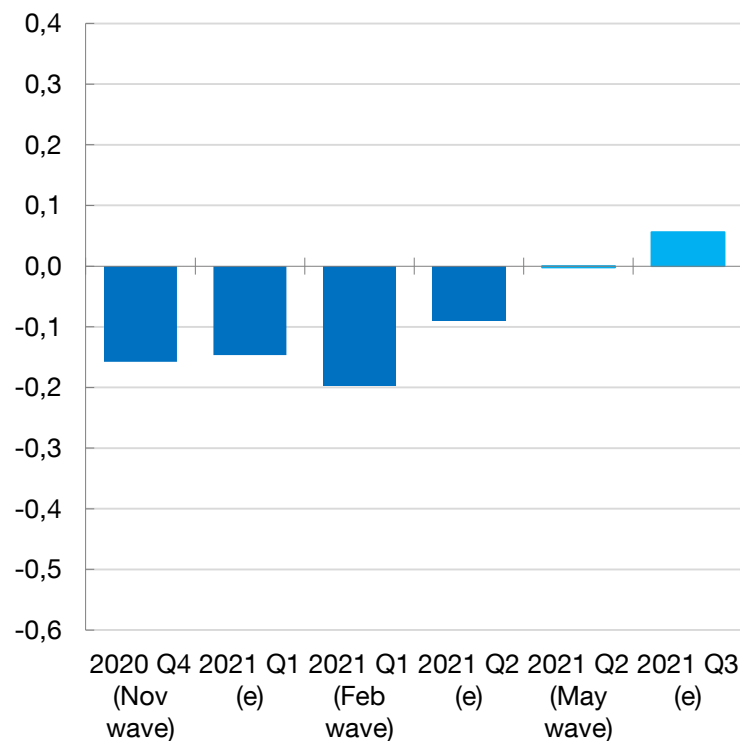
# THE IMPROVEMENT IN BUSINESS EXPECTATIONS IN Q2 IS WIDESPREAD AND IS SPILLING OVER INTO THE MEDIUM TERM

- Firms report an uptick in business turnover in Q2 and expect a further significant increase in Q3
- They also expect to see some improvement in employment over the next three months
- Their expectations for a return to pre-crisis turnover levels in 2022 have risen, as uncertainty has dissipated

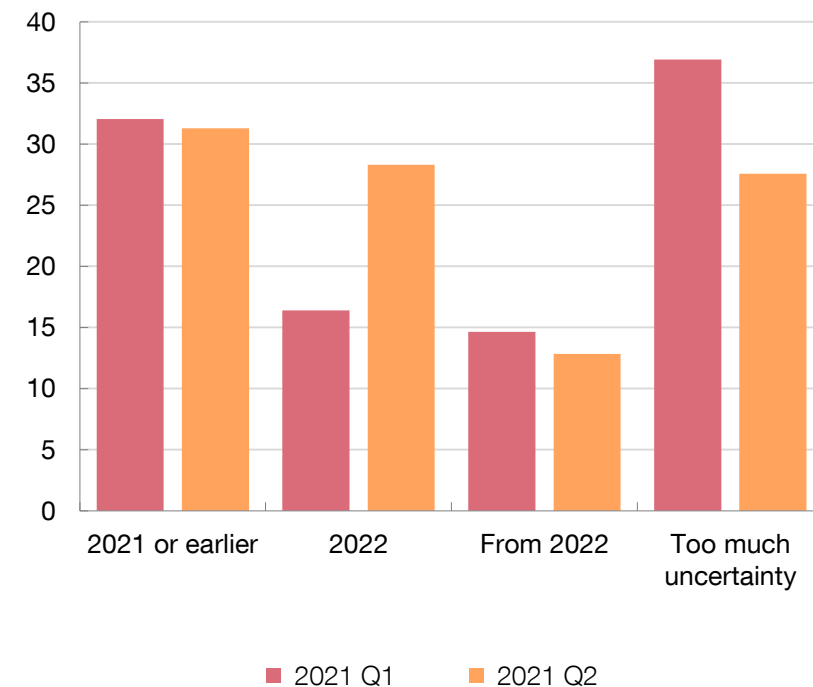
TURNOVER, QUARTERLY (a)



EMPLOYMENT, QUARTERLY (a)

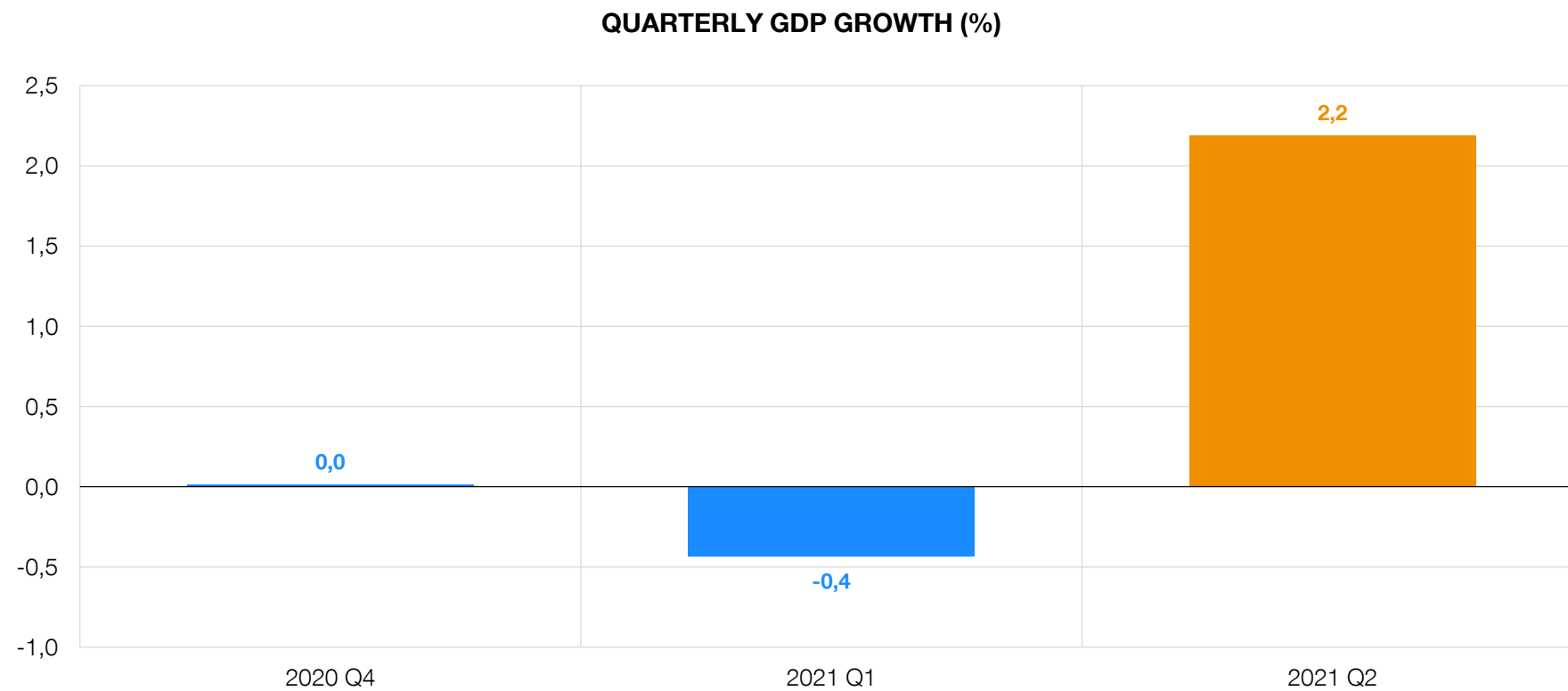


EXPECTATIONS OF RETURN TO PRE-CRISIS TURNOVER LEVEL (%)



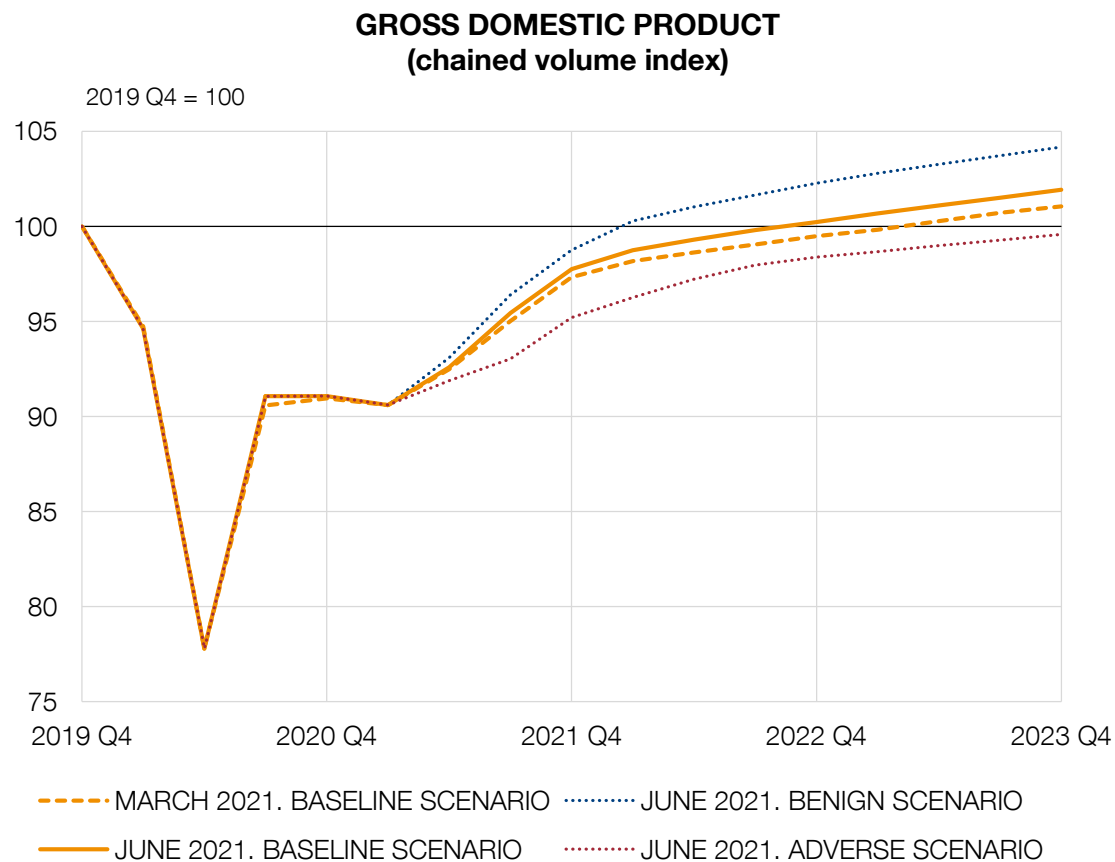
Source: EBAE (Banco de España).

a) Index calculated as: Significant decline = -2; Slight decline = -1; Stability = 0; Slight increase = 1; Significant increase = 2.



Sources: Banco de España and INE.

- **GDP growth has been revised up for 2021, owing to better than expected epidemiological and economic developments, and for 2022, on a higher estimated impact of the NGEU funds**

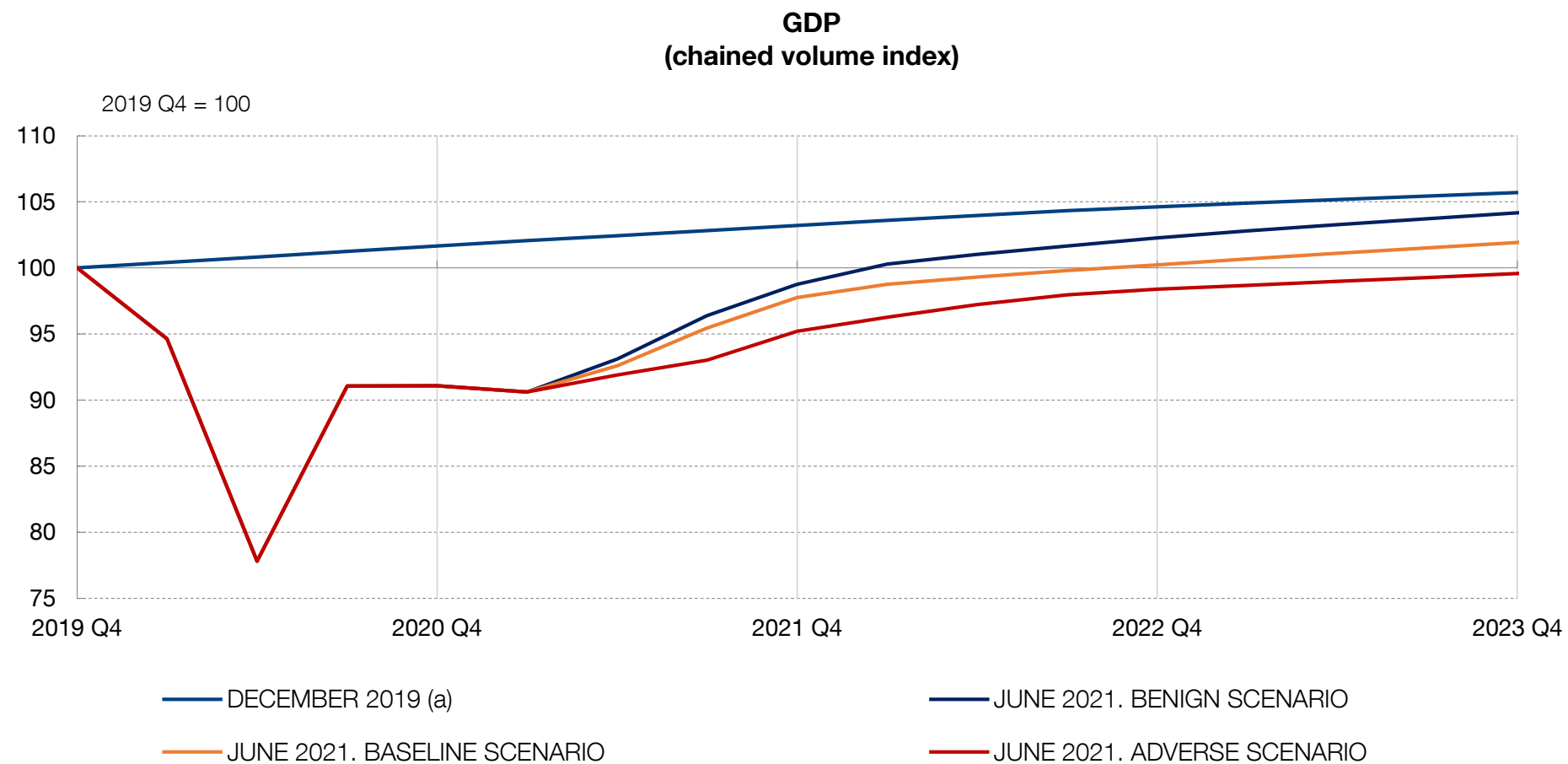


Sources: Banco de España and INE.

	2020	JUNE 2021 PROJECTIONS			MARCH 2021 PROJECTIONS		
		2021	2022	2023	2021	2022	2023
<b>GDP</b>	-10.8	6.2	5.8	1.8	6.0	5.3	1.7
<b>Harmonised index of consumer prices (HICP)</b>	-0.3	1.9	1.2	1.2	1.4	0.8	1.2



# GDP IS EXPECTED TO RETURN TO ITS PRE-CRISIS LEVEL AT END-2022, BUT NOT TO ITS PRE-CRISIS TRENDS BEFORE THE END OF THE PROJECTION HORIZON



Sources: Banco de España and INE.  
a. For 2023, trend path projection.

**CHIEF UNCERTAINTIES:**

Pandemic

NGEU

Private consumption/saving

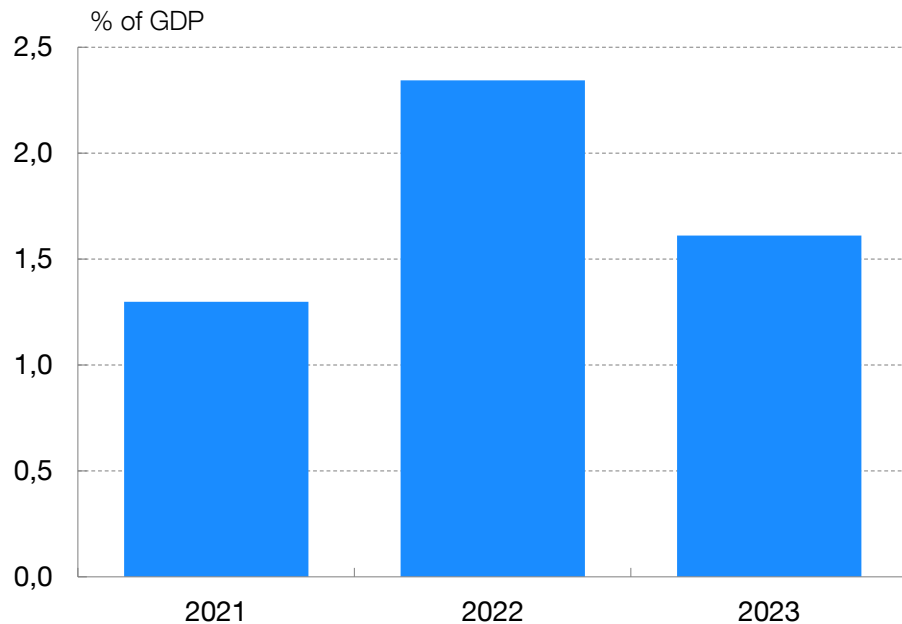
Tourism

Destruction of the productive system

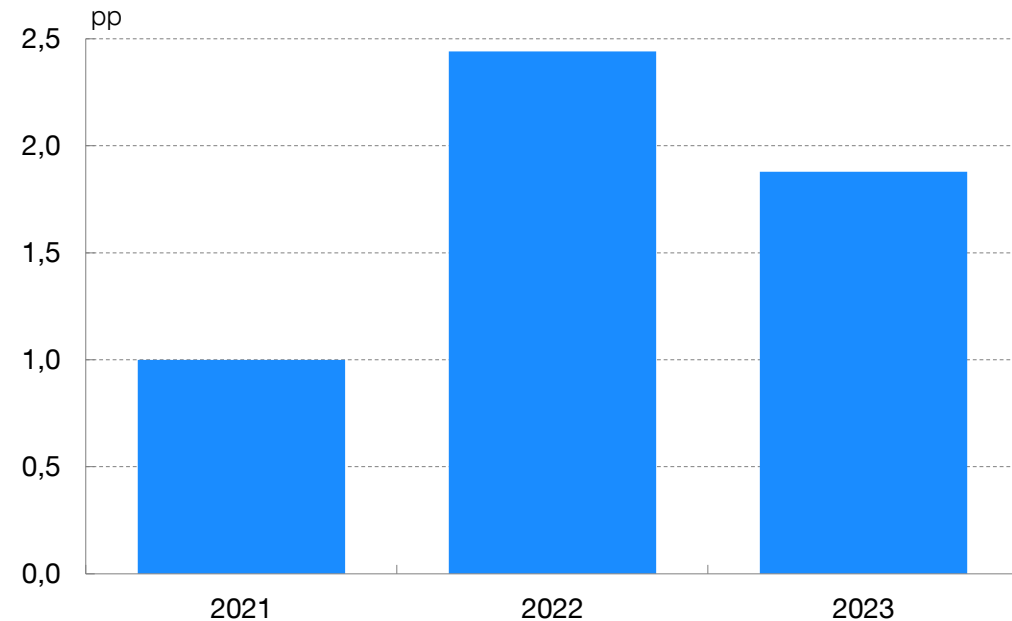
# THE NGEU FUNDS ARE EXPECTED TO MAKE A SIGNIFICANT CONTRIBUTION TO GROWTH IN THE COMING YEARS, BUT THE FINAL IMPACT WILL DEPEND ON THE EXTENT TO WHICH THEY ARE USED TO FUND PROJECTS THAT ARE ABLE TO BOOST POTENTIAL GROWTH

- According to Spain's Recovery, Transformation and Resilience Plan (RTRP), 96% of the grants available between 2021 and 2023 (€66.8 billion) will be absorbed, and loans will also be used, but with no specific details
- A detailed analysis of the RTRP calculates a significant potential fiscal impulse between 2021 and 2023
- Drawing on the Banco de España's Quarterly Macroeconometric Model, it is estimated that GDP will grow by up to 1.8 pp in 2021-2023 in annual average terms

### SIMULATED NGEU FISCAL IMPULSE



### IMPACT OF NGEU ON GDP

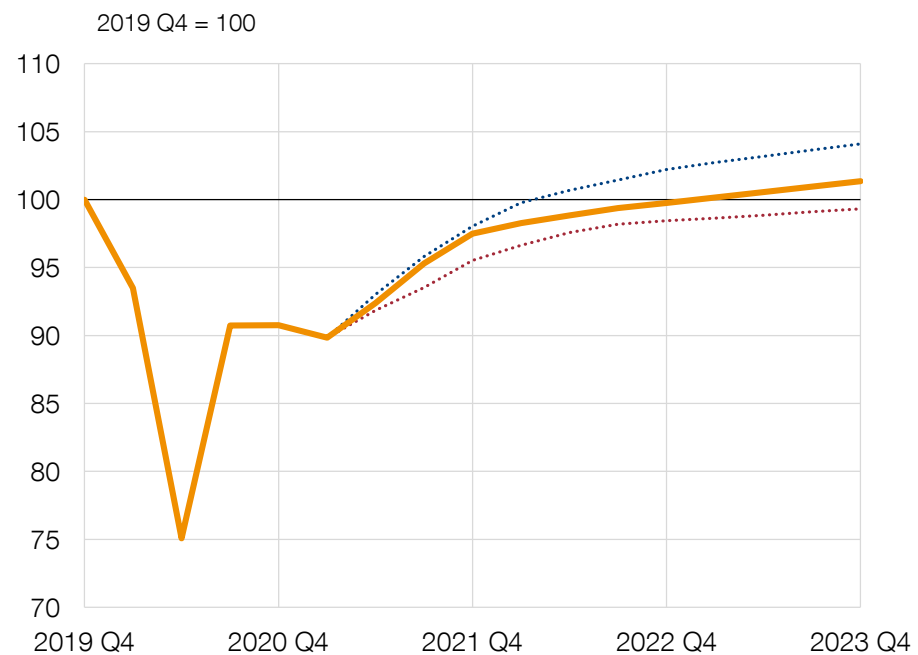


Source: Banco de España.

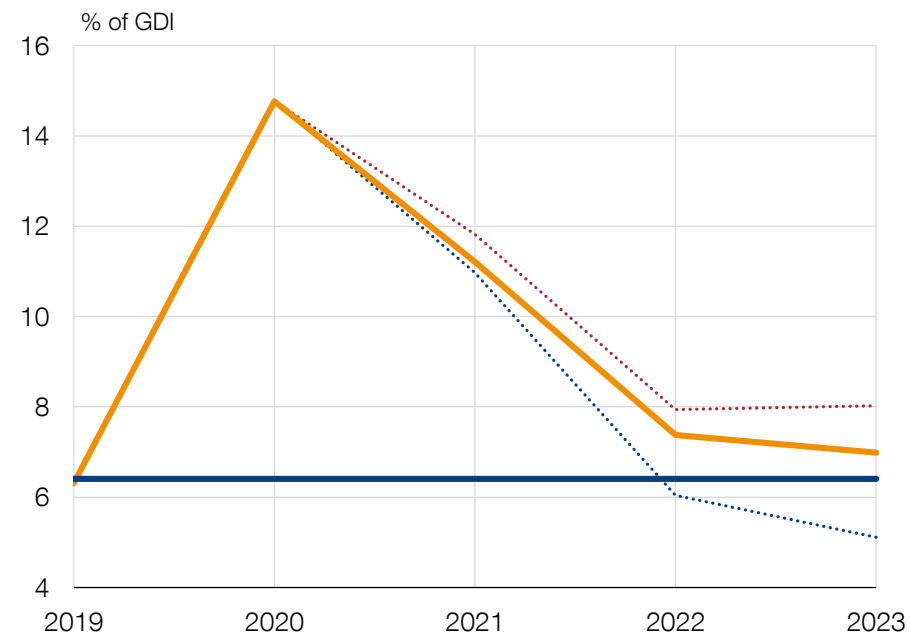
# CONSUMPTION IS EXPECTED TO DRIVE THE RECOVERY, BUT THERE IS UNCERTAINTY REGARDING THE SAVING RATE AND THE USE OF THE “FORCED” SAVING BUILT UP DURING THE CRISIS

- The strength of the recovery will largely depend on the release of household savings built up since the onset of the pandemic
- But the intensity of this factor is far from certain, considering:
  - *The doubts as to how long the increase in precautionary saving as a result of the crisis will last*
  - *The asymmetrical distribution of the increase in saving among different groups of households and possible Ricardian effects*

### PRIVATE CONSUMPTION



### SAVING RATE

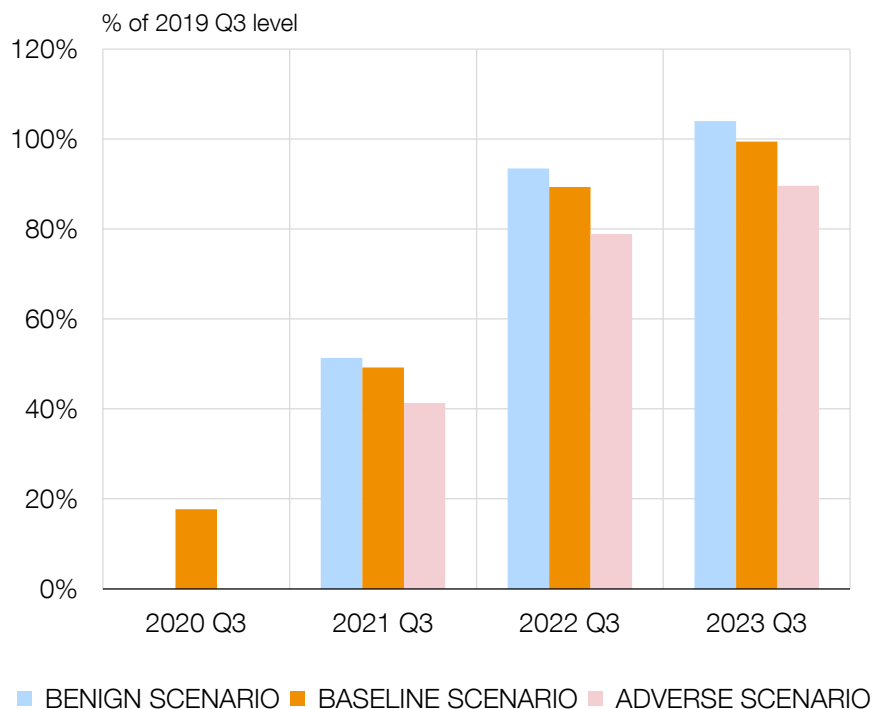


..... BENIGN SCENARIO    ——— BASELINE SCENARIO    ..... ADVERSE SCENARIO    ——— AVERAGE 2015-2019

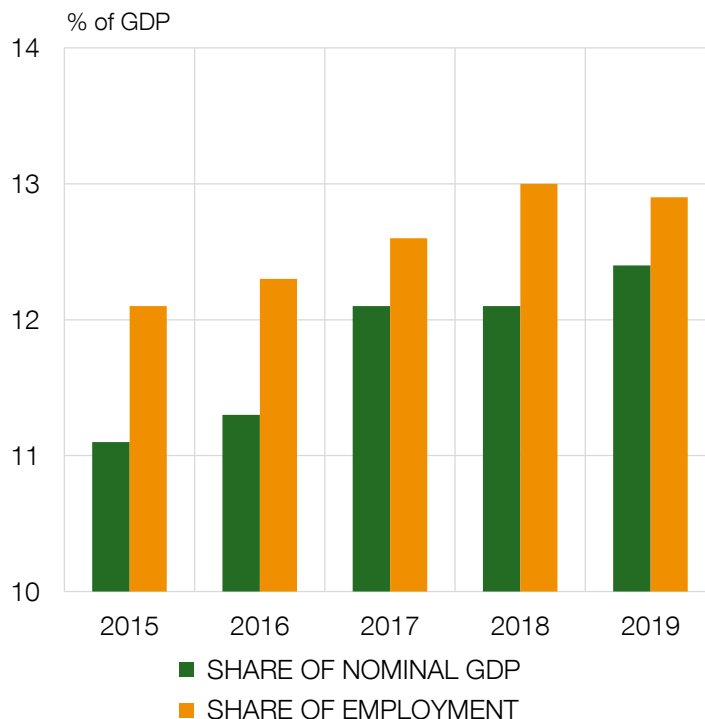
Sources: Banco de España and INE.

- A gradual recovery is expected from the second half of 2021, assisted by the vaccination campaign and the introduction of the European vaccine passport
- However, considerable uncertainty still shrouds the summer tourism season, the possibility of domestic tourism being able to offset a potentially poor performance of international tourism being limited

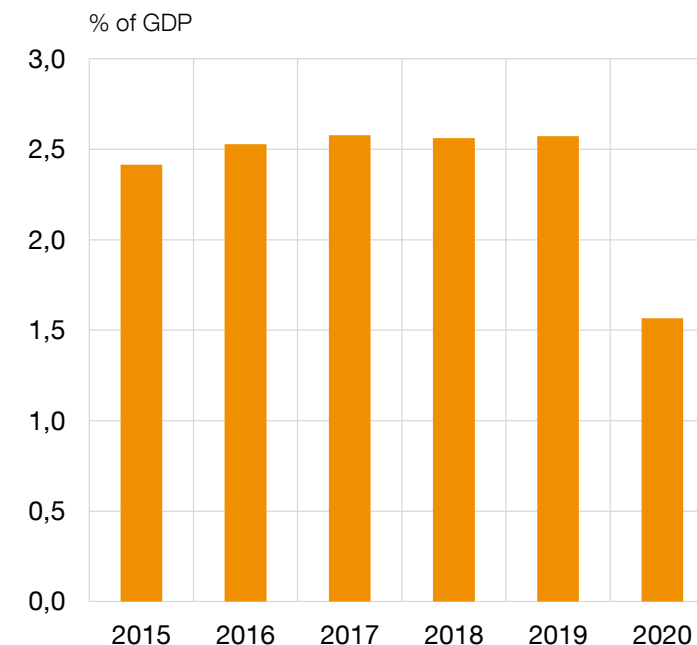
### TOURISM EXPORTS



### SHARE OF TOURISM IN THE SPANISH ECONOMY



### DOMESTIC TOURISM SPENDING

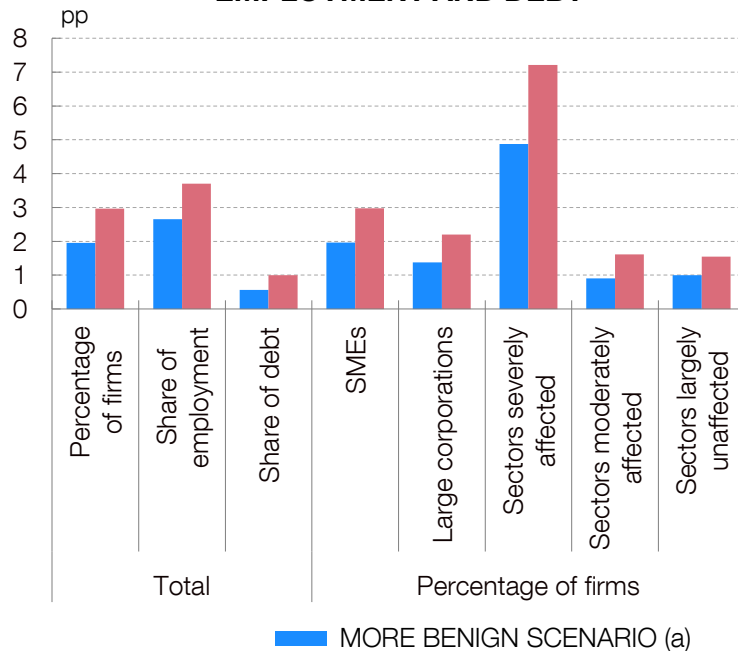


Sources: Banco de España and INE (Cuenta Satélite del Turismo, (central panel) and Encuesta de Turismo a Residentes (right-hand panel)).

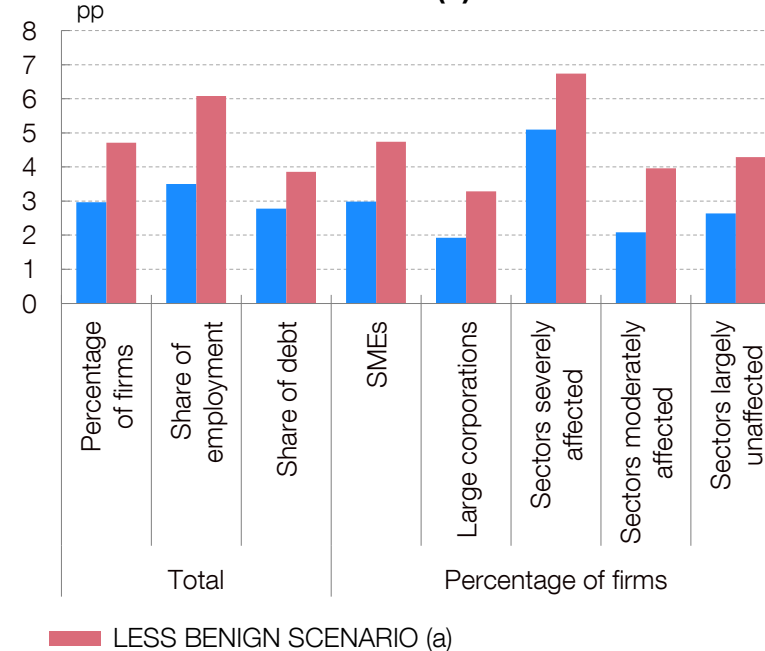
# THE COVID-19 CRISIS HAS HAD AN ADVERSE IMPACT ON FIRMS' VIABILITY AND SOLVENCY AND ON THE BUSINESS SECTOR, AND DOUBTS PERSIST REGARDING THE STRUCTURAL DAMAGE CAUSED

- As a result of the deterioration in the financial position of firms and the drop in expected future cash flows, the percentage of firms at risk of becoming non-viable, and of those that are over-indebted but remain viable, has risen
- After the decline in activity in Q1, the pick-up in April and May led to an incipient recovery in the number of firms

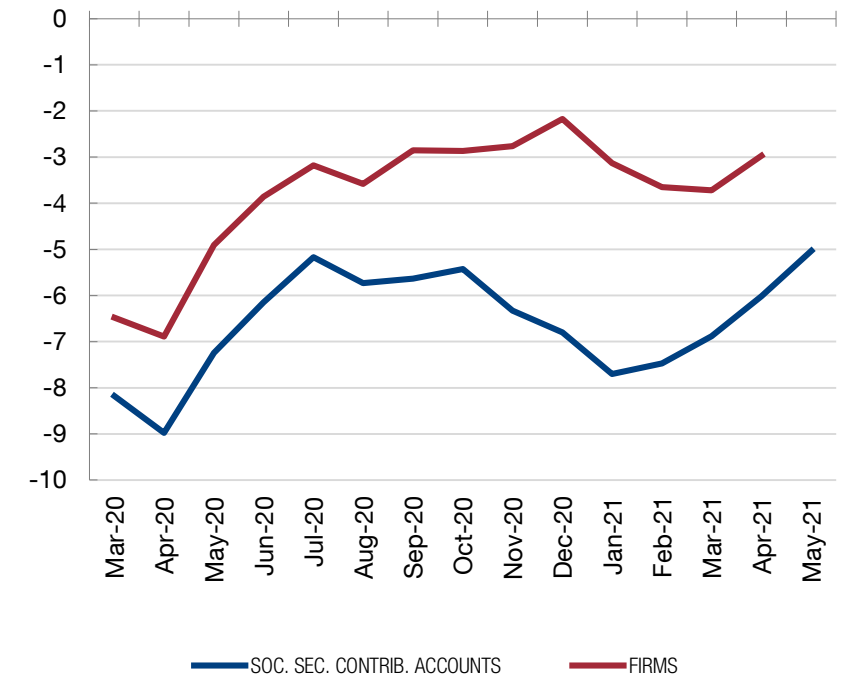
**INCREASE, OWING TO THE COVID-19 CRISIS, IN THE PERCENTAGE OF FIRMS AT RISK OF NON-VIABILITY, AND IN THEIR SHARE OF EMPLOYMENT AND DEBT**



**INCREASE, OWING TO THE COVID-19 CRISIS, IN THE PERCENTAGE OF OVER-INDEBTED BUT VIABLE FIRMS, AND IN THEIR SHARE OF EMPLOYMENT AND DEBT (b)**



**CHANGE IN NUMBER OF FIRMS SINCE FEBRUARY 2020 (%)**



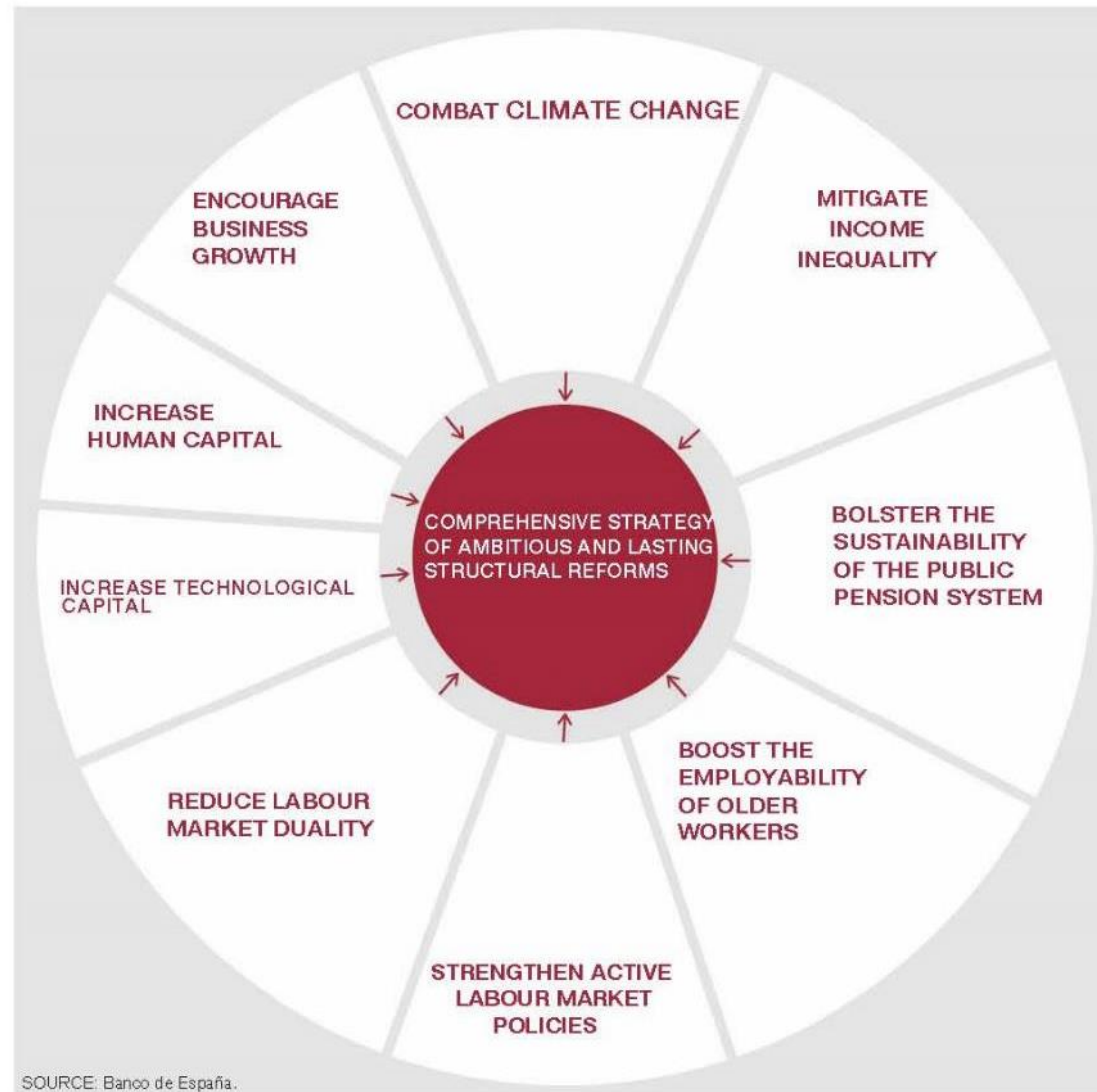
Source: Banco de España.

a. Scenarios consistent with the baseline scenario (more benign) and severe scenario (less benign) of the Banco de España's March 2021 macroeconomic projections.

b. Over-indebted firms are those whose debt ratio is > 12 in the more benign scenario and > 9 in the less benign scenario.

1. Maintain support until the recovery is sound, through focused temporary measures that do not aggravate the structural public deficit
2. Smooth structural adjustments caused by the pandemic
3. Decisively address the structural problems restricting our growth capacity
4. Speedily design the necessary post-pandemic fiscal consolidation programme

# AN AMBITIOUS, COMPREHENSIVE AND LASTING STRUCTURAL REFORM AGENDA IS NEEDED

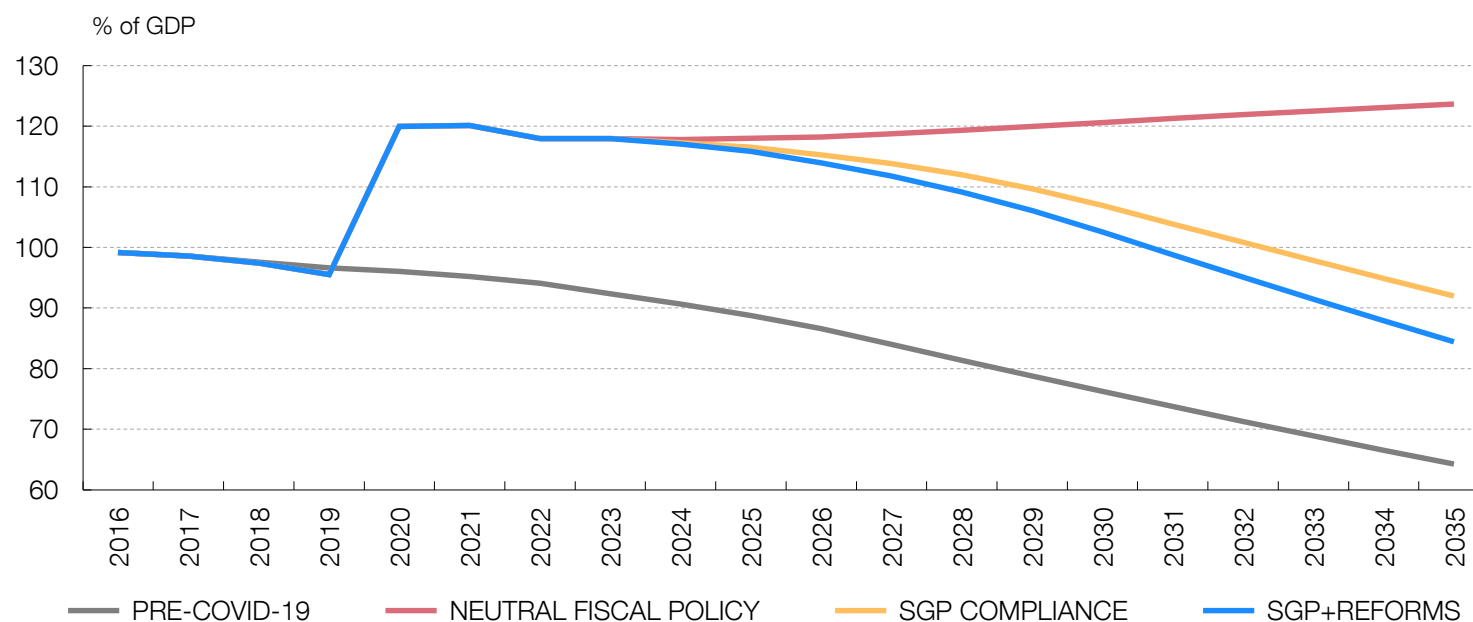




# AND A FISCAL CONSOLIDATION PROGRAMME TO REBUILD PUBLIC FINANCES MUST BE SPEEDILY DESIGNED

- The expansionary fiscal policy stance required during the present crisis must make way, when the recovery has firmly taken hold, for a **process to rebuild public finances** that will reduce the structural deficits and public debt
- To boost the credibility of this process, it would be desirable for the main details to be **defined and announced early**
- This programme should be based on a **comprehensive review of all public expenditure and revenue items** and an analysis of the implications of any fiscal policy action in terms of **efficiency and fairness**

SIMULATED PUBLIC DEBT PATHS IN THE BASELINE SCENARIO AND UNDER CERTAIN ASSUMPTIONS



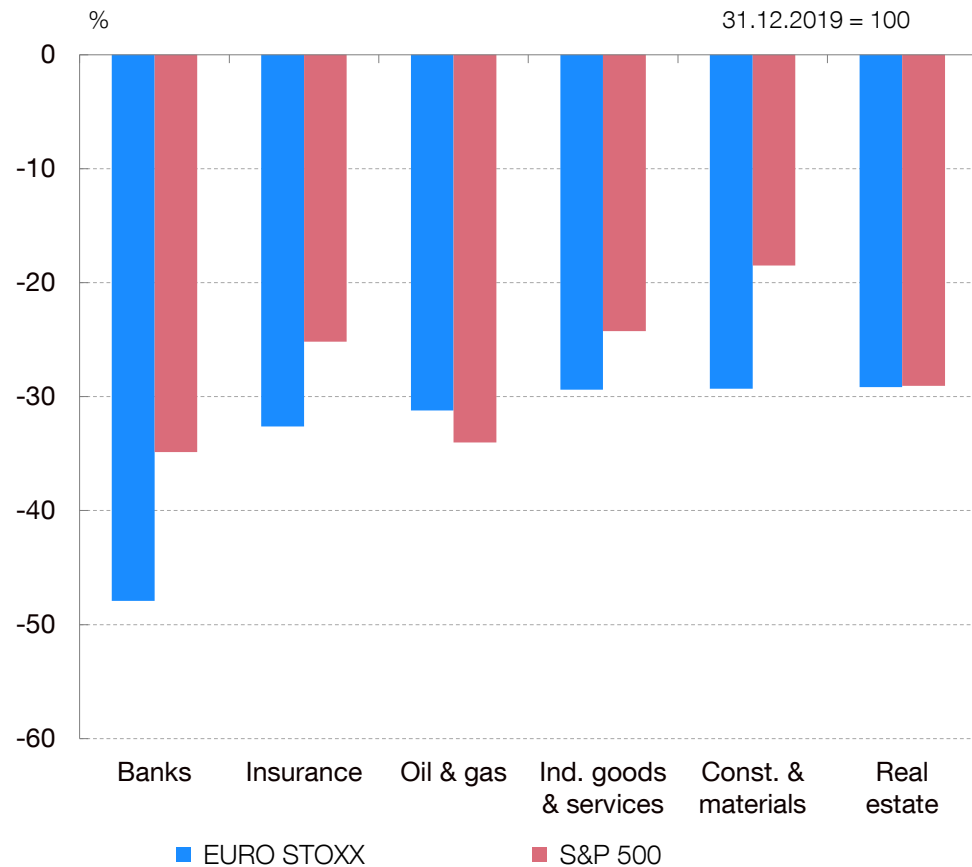
Sources: Banco de España, INE and Intervención General de la Administración del Estado.

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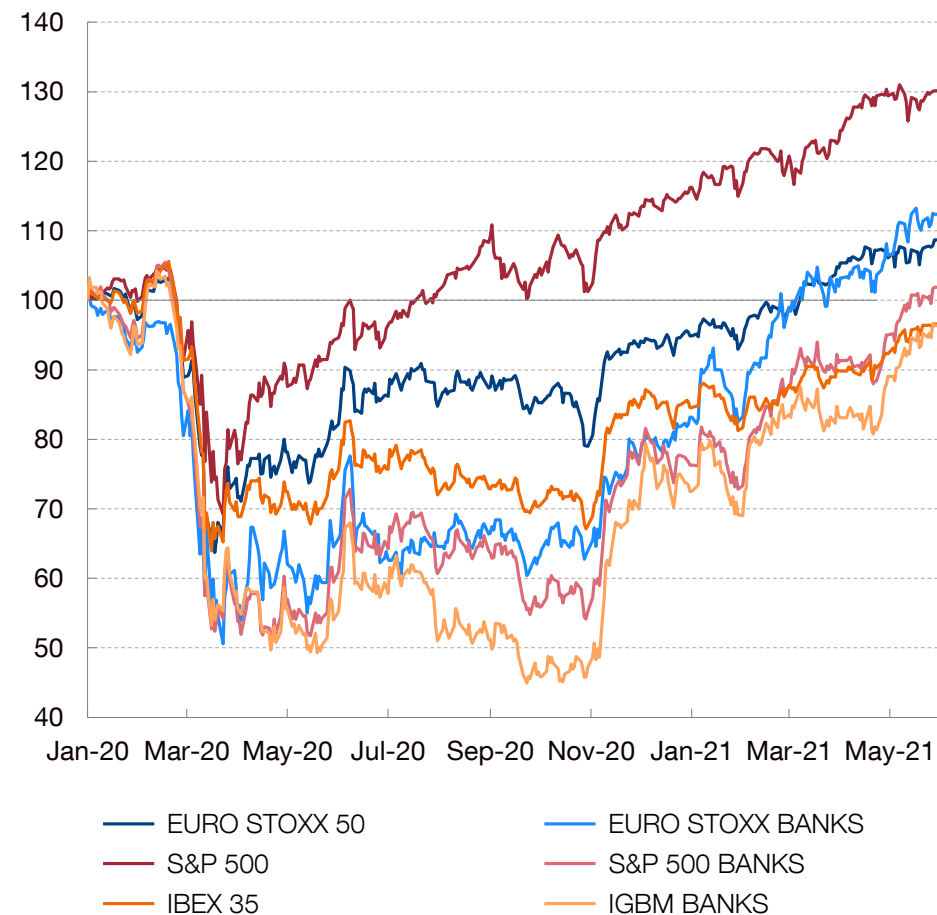
# BANK SHARES FELL SHARPLY AT THE START OF THE CRISIS, BUT HAVE RECOVERED SIGNIFICANTLY SINCE NOVEMBER

**EURO STOXX SECTORS WITH LARGEST FALLS, AND S&P 500 EQUIVALENTS**  
(from 21.02.2020 to 17.04.2020)



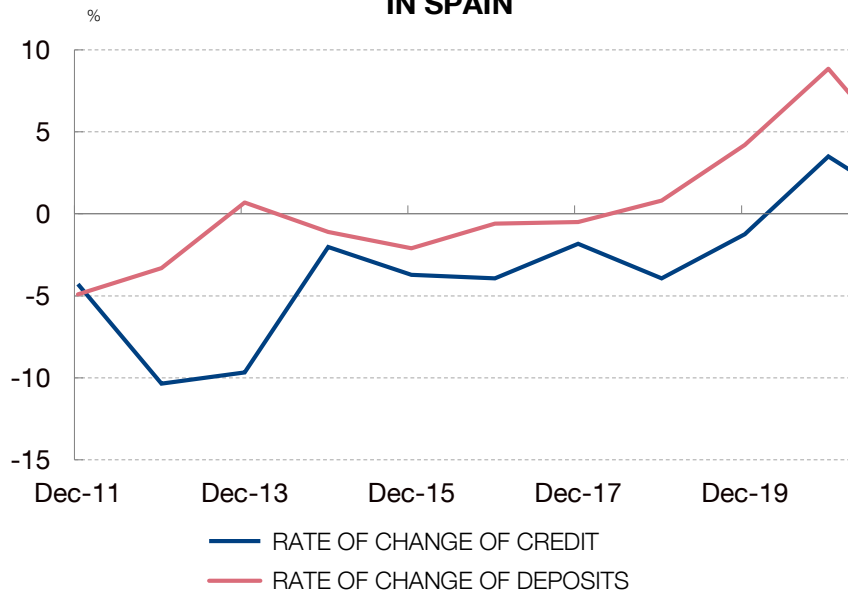
SOURCE: Thomson Reuters Datastream.

**STOCK MARKET INDICES**

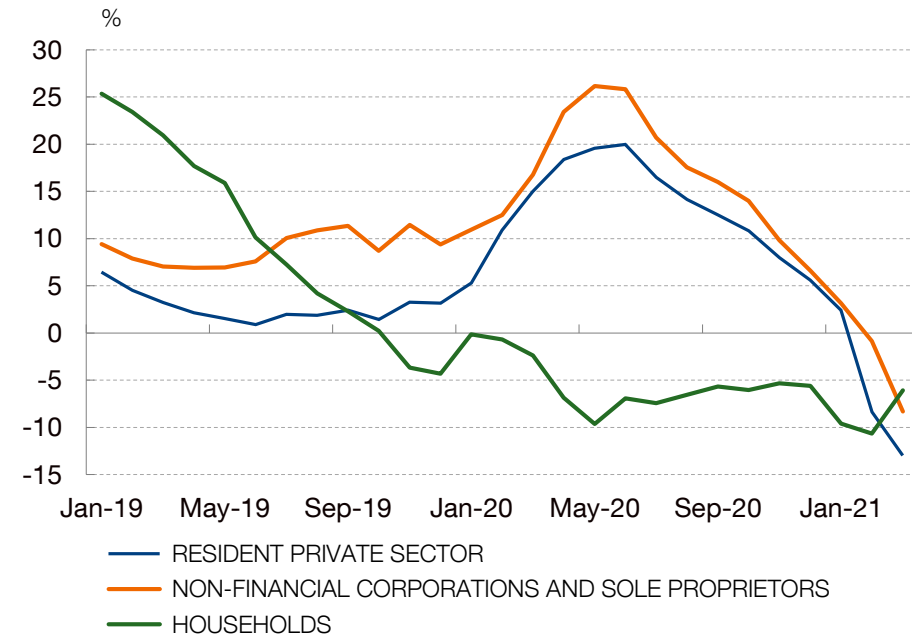


- For the first time since the global financial crisis, the **stock of bank credit to the private sector rose in Spain in 2020**
  - This was shaped by the support measures: ICO-backed credit, for instance, accounted for 34% of credit drawn in new lending to business
- **The stock of credit held steady in 2021 Q1**, giving rise to a slowdown in year-on-year growth. At the same time, the flow of new credit fell sharply compared with 2020, essentially because there were fewer transactions with firms, owing to lower demand for liquidity and some supply tightening

**YEAR-ON-YEAR RATE OF CHANGE OF CREDIT AND DEPOSITS OF THE RESIDENT PRIVATE SECTOR. BUSINESS IN SPAIN**



**YEAR-ON-YEAR RATE OF CHANGE OF NEW LENDING TO THE RESIDENT PRIVATE SECTOR**

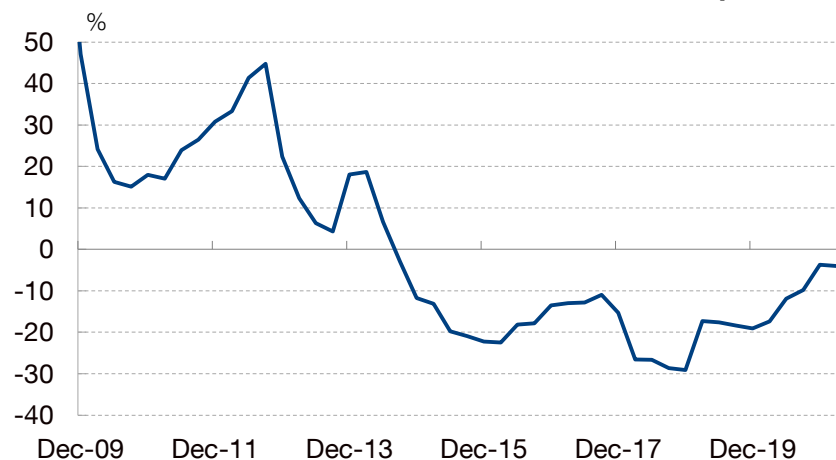


Source: Banco de España.

# TO DATE THE CRISIS HAS HAD A MODERATE IMPACT ON NON-PERFORMING CREDIT AND TROUBLED ASSETS IN THE RESIDENT PRIVATE SECTOR

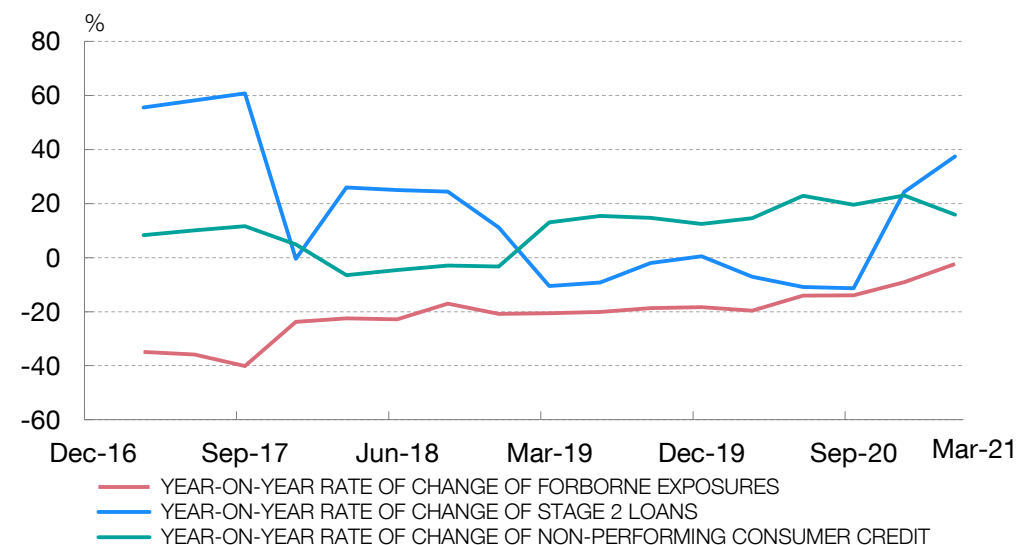
- **Non-performing loans continued to decline** in 2020 (by 3.8%), **although at a slower pace** than in previous years (19% in 2019; 29% in 2018). The public support measures largely prevented a bigger increase. But loans with significant increase in credit risk since initial recognition and non-performing loans in the consumer portfolio and in the business sectors hardest hit by the crisis (e.g. hospitality) increased significantly.
- There will be upward pressure on **non-performance in 2021-2022** owing to the expiry of some support measures and the erosion – on an uncertain scale – of the financial position of households, but the improved macroeconomic expectations should offset these effects, at least in part, as household income returns to normal
- **Continuous monitoring of credit quality is essential as uncertainty persists in this respect**

**RATE OF CHANGE OF NON-PERFORMING CREDIT IN THE RESIDENT PRIVATE SECTOR. Business in Spain**



Source: Banco de España.

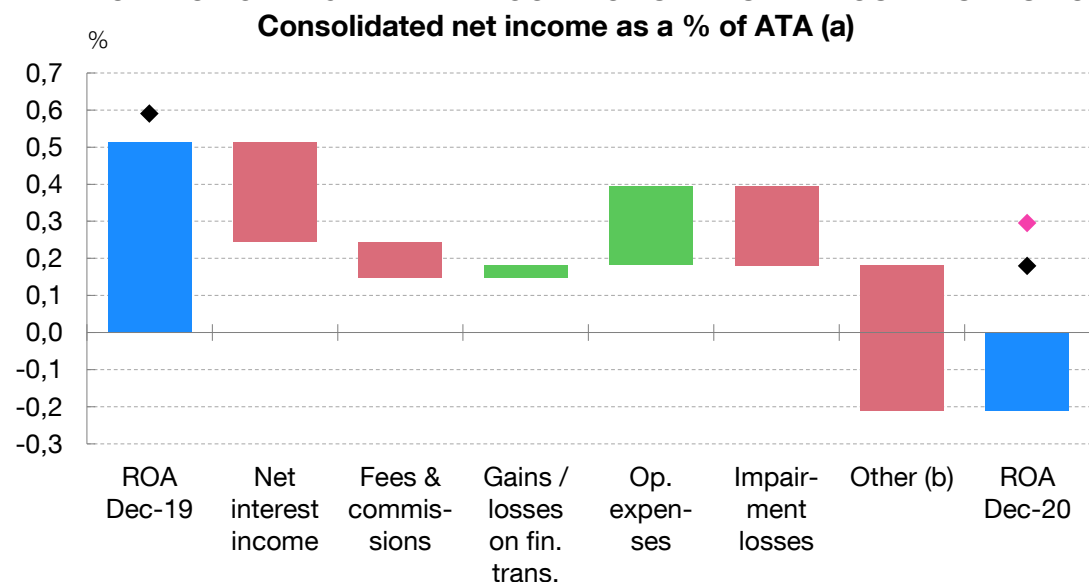
**TROUBLED EXPOSURES OF SPANISH DEPOSIT INSTITUTIONS TO THE RESIDENT PRIVATE SECTOR. Business in Spain**



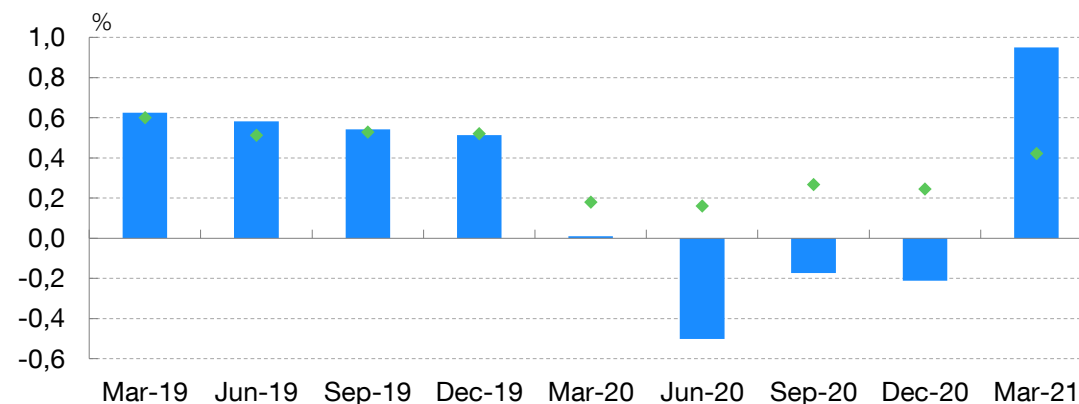
# THE INCOME BREAKDOWN AND CHANGE IN ROA BOTH CLEARLY REFLECT THE IMPACT OF THE CRISIS

- **Spanish banking sector profitability was hard hit by the pandemic in 2020:** ROA stood at -0.2% (0.3% excluding extraordinary items), compared with 0.5% in 2019
- **Negative extraordinary adjustments** (goodwill impairment, deferred tax assets and merger valuation adjustments), together with the **decline in net interest income and fees and commissions** and the **increase in provisions**, explain the losses
- **Profitability improved in 2021 Q1**, owing to the decrease in impairment charges and also to the positive extraordinary items resulting from a merger in the sector

## BREAKDOWN OF CHANGE IN NET INCOME OF SPANISH DEPOSIT INSTITUTIONS



## ROA OF SPANISH DEPOSIT INSTITUTIONS (c)



Source: Banco de España

a The red (green) colour of the bars denotes a negative (positive) contribution to the change in consolidated income as at December 2020 compared with December 2019. The black diamonds denote ROA excluding the goodwill adjustments recorded in 2019 (-€2.8 billion) and 2020 (-€12.2 billion) and the deferred tax asset adjustment in 2020 (-€2.5 billion). The pink diamond denotes ROA in 2020 excluding, in addition to the above-mentioned adjustments, the decline in value owing to the accounting reclassification (-€5.6 billion) and the positive extraordinary income for 2020 (€1.2 billion).

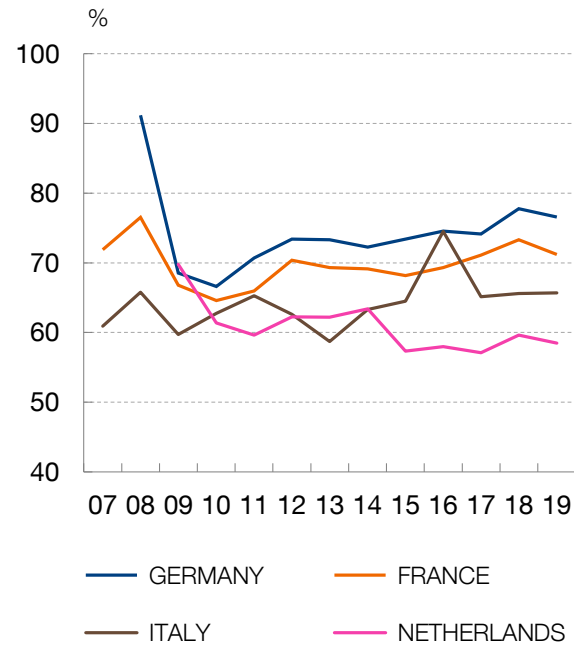
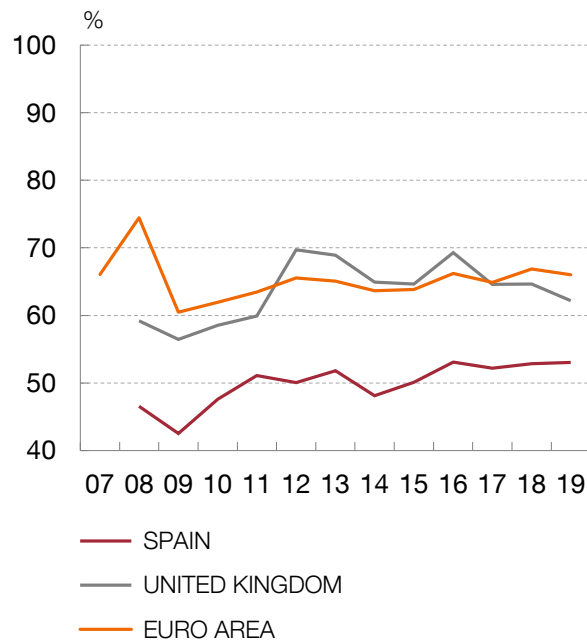
b Includes the goodwill adjustments and other extraordinary adjustments.

c The diamonds denote the ROA of the Spanish banking system, excluding the "Other operating income (net)" and "Other income (net)" headings, so as to proxy ordinary income, i.e. excluding extraordinary income that has had such an impact on income statements in the sector in recent quarters.

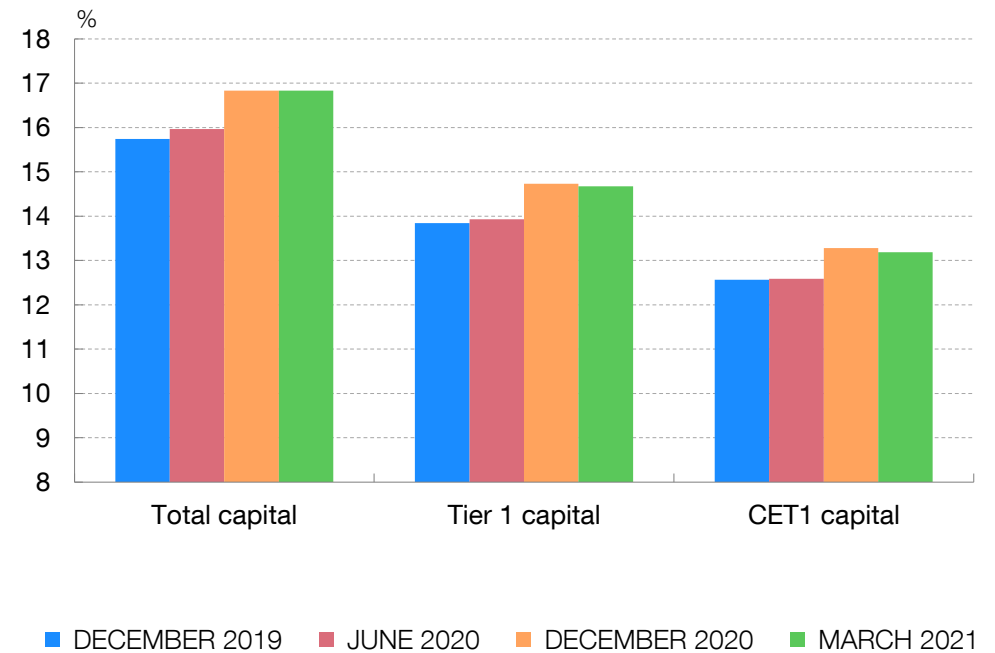
# THE COST-TO-INCOME RATIO HAS RISEN SOMEWHAT, BUT CAPITAL RATIOS HAVE IMPROVED

- In terms of efficiency, Spanish banks are better placed than their European peers, although their **cost-to-income ratio** has worsened since the global financial crisis
- The banking sector's aggregate **capital ratios rose in 2020 and held steady in 2021 Q1**
  - The positive effect of the reform of European capital requirements (the *quick fix*), the public guarantee scheme and the limits on dividend payouts are notable

**COST-TO-INCOME RATIO IN MAIN EUROPEAN COUNTRIES**



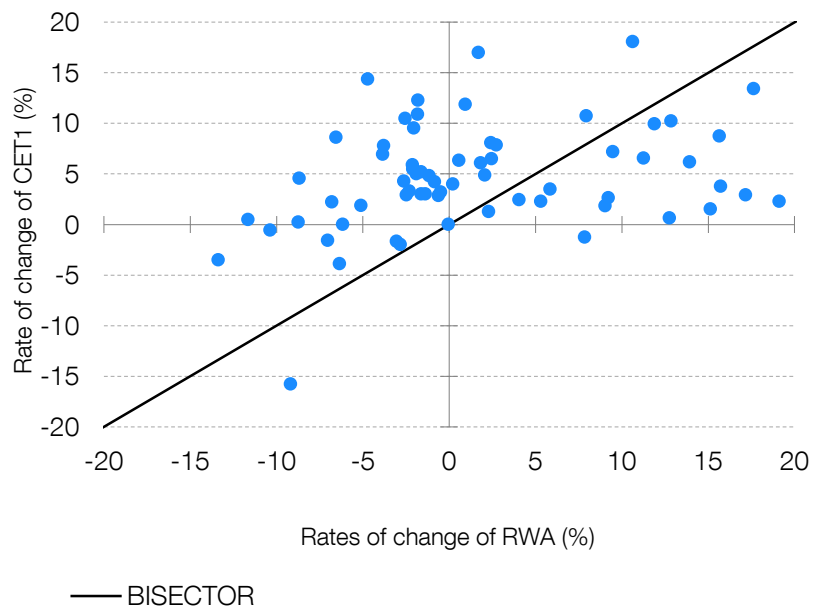
**CAPITAL RATIOS**



SOURCES: Banco de España and ECB.

- Most banks strengthened their CET1 ratio in 2020, by increasing the ratio's numerator, with greater heterogeneity observed in RWAs
- Equity instruments and reserves combined account for more than 90% of the CET1 eligible instruments
  - Deductions of goodwill and deferred tax assets fell in 2020

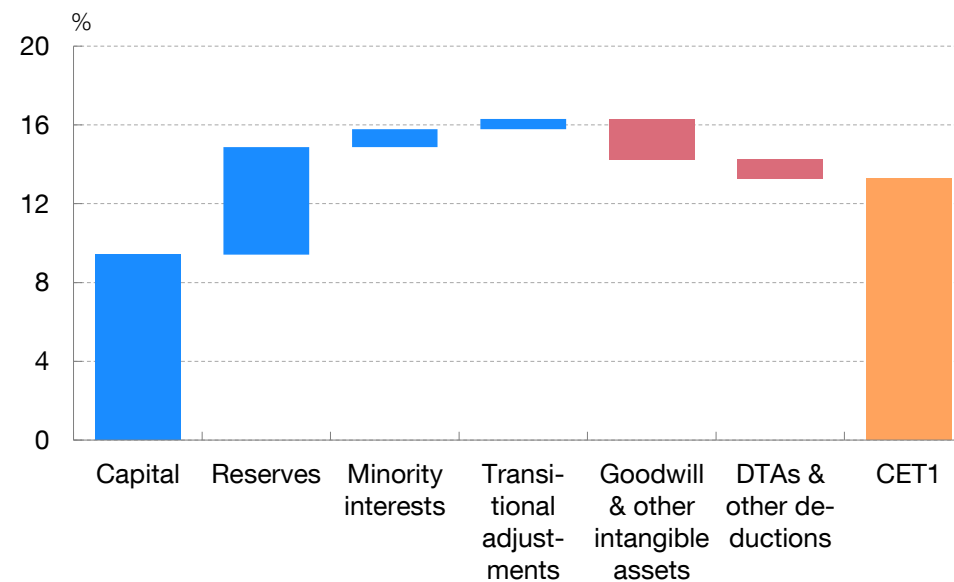
**RATE OF CHANGE OF CET1 AND RWAs BETWEEN DECEMBER 2020 AND DECEMBER 2019 (a)**



Source: Banco de España

a The dots above the bisector denote increases (decreases) in CET1 over the last year greater (smaller) than the increase (decrease) in RWAs and, therefore, relate to increases in the CET1 ratio between December 2019 and December 2020. For the dots below the bisector the reverse applies.

**BREAKDOWN OF CET1 TO RWA RATIO**





- **Prudential policy** has facilitated continued lending to the real economy during the crisis and has preserved the solvency of the European banking sector:
  - Measures taken by prudential authorities: release of capital built up in recent years. The crisis has demonstrated the importance of having **sufficient capital buffers** to absorb unexpected risks
  - The recommendation on limiting **dividend payouts** has added to these measures, boosting resilience
  - The **easing of prudential requirements** will be reversed gradually, as the recovery takes hold and according to an appropriate timeline
  - The **fiscal measures** adopted by national governments have also had a prudential aim (guarantees and moratoria)
- **Outstanding regulatory changes must be finalised:**
  - Completion of the amendments to Banco de España Circular 2/2016 to make the **new macroprudential tools** operational: (1) sectoral countercyclical capital buffer; (2) sectoral credit concentration limits; and (3) limits on credit standards
  - Full and timely implementation of the overall **Basel III reforms** that seek to streamline the way that banks calculate **risk-weighted assets**
  - Completion of **banking union** with a fully mutualised European deposit insurance scheme and progress towards the capital markets union
- A response to new risks is needed:
  - **Climate change** (physical and transition risks): banks must assess these risks correctly and include them in their risk management
  - Risks arising from **new IT developments**: cyberattacks and competition from big tech

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## Monetary and fiscal policy

- Monetary policy should continue to ensure favourable financing conditions. Our strategic review must address the challenges arising from the decline in the natural interest rate and the existence of a natural interest rate floor
- European fiscal policy must remain expansionary, to support the recovery and reduce the risk of the effects of the crisis persisting. The Stability Pact must be reformed to incorporate a supranational vision (including a permanent common stabilisation mechanism), it must adapt to the secular decline in interest rates and it must enhance the capacity to build up buffers in growth periods

## National policies: near-term support for a comprehensive fiscal policy strategy, and lasting structural reforms

- Fiscal policy support must continue until the recovery is sound. At the same time, structural adjustments caused by the pandemic must be smoothed
- The post-pandemic fiscal consolidation programme – to restore public finances and rebuild fiscal space – must be speedily designed
- It is essential to correct the structural shortcomings of the labour market (duality, active labour market policies, employability), improve productivity dynamics (by increasing human and technological capital and promoting business growth), address population ageing and its implications (financial sustainability of the public pension system) and the fight against climate change, and face up to the new challenges that have arisen with the pandemic (increased inequality, digitalisation, teleworking)

## Banking sector challenges

- Close monitoring of credit quality must continue (expectations are improving, but the effects of the crisis are still uncertain) and also a policy of early recognition of impairment losses, to ensure that this is done in an appropriate and timely manner, as established in the supervisory guidelines
- Supervisory measures that encourage the flexible use of capital buffers must be maintained until the recovery takes hold
- Pre-COVID-19 challenges remain: capacity to generate income, efficiency gains, digitalisation and climate-related risks

THANK YOU FOR YOUR ATTENTION

