

Analysis and research
priorities for the Banco
de España: 2020-2024.
2021 update



Summary

One year after its approval in 2020, the Banco de España has confirmed the validity of the strategic framework for its **medium-term analysis and research priorities**. The framework has five main headings: central bank policies and their interactions; the main long-term trends in the Spanish economy; risks and opportunities arising from the international environment; the aggregate consequences of household and firm heterogeneity; the challenges of new technologies.

In the short term, efforts will continue to be concentrated on the same lines of work, although the focus will be changed to give greater importance to the following issues:

- The medium and long-term implications of the COVID-19 crisis.
- The economic and financial consequences of climate change.
- The impact of the Next Generation EU programme.
- The uneven effects of the pandemic across households and firms and the role of economic policies.
- The digital euro.

As part of the internal transformation exercise that was launched in January 2020 with the approval of the Strategic Plan 2024, the Banco de España is seeking to strengthen its analytical work. The aim is to address the challenges posed by the various changes in the economic and social environment for the performance of its functions as a national central bank and member of the European System of Central Banks.

To this end, the Banco de España, having identified the most relevant issues that may affect the economic welfare of Spanish society at different time horizons, published in 2020 the **selection of analysis and research themes** that are to be focused on during the period 2020-2024. The five priority analysis and investigation themes identified, and presented by the Governor in this **video**, are:

1. Central bank policies (monetary, microprudential and macroprudential) and their interactions.
2. The main long-term trends (climate change, digitalisation, ageing, etc.) and their implications for the Spanish economy.
3. Risks and opportunities arising from the international environment.
4. The aggregate consequences of household and firm heterogeneity and the role of economic policies.
5. New technologies and information sources: Challenges for a central bank.

One year on, after reviewing the considerable amount of work carried out last year and at the beginning of this year on these five priority themes and establishing that they continue to be relevant, the Banco de España has confirmed the validity of the strategic framework defined for its analysis and research function in 2020.

Thus, the main lines of work defined in 2020 are to be continued during the rest of 2021 and in 2022. Some of these lines have been refocused to give more importance to the areas of analysis and research highlighted below.

As regards **central bank policies (monetary, microprudential and macroprudential) and their interactions**, the emphasis will again be placed on the analysis of:

- the determinants of the **recent rise in inflation**, possible amplifying factors and the medium-term inflation outlook;
- the challenges of the current **low interest rate** environment for banking profitability, prudential supervision and financial stability, as well as its impact on resource allocation across firms, productivity, growth and inequality in Spain and Europe;
- the **interconnections** between the main components of the financial system and the impact the COVID-19 crisis has had on them;
- the costs and benefits of the application of **macroprudential tools** to the banking sector and their effectiveness in mitigating **systemic risk**.

In relation to the **long-term trends** of the Spanish economy, priority will be given to the study of:

- the **medium and long-term impact of the health crisis**, with special emphasis on its effects on the Spanish economy's growth capacity and sectoral structure, after the uneven impact of the crisis across the various productive sectors, and on the analysis of fiscal policy, including the study of agents' responses to the stimulus measures introduced during the health crisis and medium and long-term government debt dynamics;
- the **implications of climate change for monetary policy and central bank activity**, following inclusion in the ECB's new monetary policy strategy of a commitment to incorporate climate factors in the assessment of monetary policy and to adapt its operational framework. This includes renewed emphasis on the assessment of the effects of climate change on the **long-term growth** of the Spanish economy, by region and sector of activity, and its implications for **financial stability** through estimation of the sector level credit risks associated with climate change;
- In the area of **sustainable finances**, the information on sustainability and the degree of **compliance with climate risk recommendations** included in corporate annual reports, and the incorporation of **sustainability factors** in government debt markets, portfolio management and monetary policy conduct;
- the boost during the pandemic to **automation and digitalisation** of the Spanish economy in areas such as teleworking, e-commerce, education, etc. and their effects on patterns of household and firm behaviour.

In the area of **risks and opportunities arising from the international environment**, greater priority will be given to analysis of the following issues:

- measures and institutional changes activated in the European Union in response to the current crisis, in particular, the **NGEU recovery plan** and the role of **fiscal rules in the euro area**;
- the strengthening of the role of multilateral institutions, and the **global coordination of economic policies** following the health crisis;
- the impact of the crisis on the **Latin American economies** and their interaction with the Spanish economy;
- **inflationary risks** in the advanced economies, medium-term trends in **commodity markets**, the effects of the "**normalisation**" of demand and activity and the implications of the measures to contain **climate change** on inflation.

As regards the aggregate consequences of **household and firm heterogeneity and the role of economic policies**, greater priority will be given to the study of:

- the impact of the pandemic on the **liquidity, indebtedness and solvency** of Spanish firms and the role of mitigating economic policy measures (public guarantees, moratoria, direct grants, recapitalisations, etc.);
- the development of methods to **identify the most vulnerable groups in a crisis situation**, with special emphasis on the measurement of the financial position of households and the role of financial competences;
- the **heterogeneous transmission of monetary and fiscal policy** between households, firms and financial intermediaries according to their individual characteristics;
- the **geographical distribution** of access to cash and the risk of financial exclusion.

Finally, in the area of **the challenges for a central bank of new technologies and information sources**, greater priority will be given to the study of:

- the **digital euro**: implications of the introduction of a central bank digital currency for the financial system and the economy as a whole, and the determinants of crypto-asset price formation;
- The identification of **risks and good practice** in the use of new technologies by **financial institutions**;
- the widespread application of **advanced data analysis techniques (artificial intelligence, machine learning, big data)** to economic forecasting, early-warning indicators, the measurement of diverse kinds of risk, analyses of possible sources of complexity in the formulation of financial regulation, banknote quality control, etc.

By publishing this updated focus of its analysis and research priorities, the Banco de España underlines its commitment to transparency in its research activity, while aspiring to foster collaboration in these areas with the academic community and economic analysts in general.