

## Research at the Bank of Spain: An Evaluation

### Some comments

March 2012

The report on *Research at the Bank of Spain: An Evaluation* was initiated by the Governor and mandated by the Executive Committee of the Banco de España (BdE). As established in the Terms of Reference, “*the main purpose of the evaluation is to provide insights and new basis for developing further the analytical and research capabilities of Banco de España*”.

The BdE welcomes the report and is grateful to the evaluators for a review of the research activities done at the BdE which fully meets the targets established in the Terms of Reference. It is particularly valuable for an institution, such as BdE, that aspires to be an active member of the international network of central banks, and holds responsibilities in monetary policy, financial stability, banking supervision, and in the analysis of the Spanish economy and its relationships with the euro area and the rest of the world.

We agree with the report on the importance of counting of high-quality research focused on the mandate of the institution for BdE to be able to meet its tasks. In these regards the report identifies three main areas where there is a margin for effective improvement: i) building up a common vision of research, ii) enhancing collaboration among the several departments involved in research, and iii) a more homogeneous distribution in research productivity. While these issues are not specific of the BdE, and to some extent have also been highlighted in evaluation reports of other central banks (including the recent report of DG-Research of the ECB), we share the evaluators' view on the benefits of having research properly integrated in the functional tasks of the BdE, without jeopardising neither research standards nor the necessary independence of the functional units, and addressing difficult trade-offs derived from timing mismatch between the urging needs of policy decisions and the production of research.

We mostly agree too with the principles and the potential alternatives for organisation of research at BdE and with the proposals to improve the career development of the researchers at the BdE stated in the report, and notice that most, if not all, of these recommendations have already been started to be implemented.

Beyond these general considerations, there are some more specific points made in the report which may deserve some further comments. First, a remark made in the report worth emphasising is that they have focused mostly on externally-oriented research activities, and much less on their influence on the operational tasks of BdE. This is the logical result of the definition of research activities adopted by the evaluators, which as they stress at the beginning of their report “*do not include contributions to in-house publications (e.g. the Monthly Bulletin or the Annual Report). The focus of those publications, which are a key element in BdE public communication, is largely one of analysis of current economic developments, even though they occasionally draw on the academic research of BdE economists. We also exclude from our analysis the production of data, which is another important function of the BdE.*”

By following this definition, the report cannot properly take into account an important part of research devoted to improve the analytical basis that underpins BdE's both contributions to the diagnosis of the economy and economic policy recommendations. As a result, the mixed nature of

the actual research model at BdE is not fully captured in the report, which also weighs on the particular measures of productivity reported.

Also as result of this definition, it is quite natural that some detachment of some researchers from the rest of the institution is detected. Certainly, the timing and flexibility required in policy work do not always match with the timing of the production of research. This mismatch, however, can hardly be fully solved via more frequent briefings and meetings. Researchers and research managers have also a role to play to anticipate relevant topics and to efficiently allocate research resources, in collaboration with business units, to those areas where they can be more effective. The already existing procedure to design the annual work programme in the DGs more directly involved in research activities at the BDE includes, in some cases, an initial broad definition of a set of research priorities that is later used to better fit research products to key policy debate. This procedure probably provides a useful starting point and framework to further progress in reducing both mismatch and perceived detachment.

On a similar vein, the report might be underscoring the actual degree of collaboration between researchers and analysts, as shown by the large number of joint projects undertaken. Indeed, an important number of policy oriented pieces of work are co-authored every year by researchers and staff from other more policy-oriented areas. A non-negligible number of projects are also undertaken by researchers and staff from different departments and even DGs.

The report mentions several times the need to enhance cooperation between monetary policy and financial stability. While the interaction between these two fields is a thorny question not yet sorted out in many central banks (and, where sorted, it seems to have ended up in two separate fields as in the Bank of England), we agree that research on macroeconomics issues needs to focus further on the linkages between the financial and the real sectors of the economy and, therefore, that some coordination among researchers may be desirable.

Finally, another unsettled discussion relates to the time that should be devoted to research in a central bank. From the report it could be concluded at some point that researchers should better be nearly fully isolated from policy oriented issues during the first three years of their employment at a central bank. While it is sensible that the time distribution between research and policy should reflect a higher weight of the former at the beginning of researchers' careers, this cannot be done to the detriment to the general principles of flexibility and gradualism. As the report stresses managers have to commit to research. But researchers in a central bank need to keep an eye always open to policy issues. This is the only way they can be not only reactive but also proactive regarding policy-oriented work and, more generally, integration in the day-to-day working of a central bank.