

1

THE BANCO DE ESPAÑA FROM THE INSIDE



PARLIAMENTARY APPEARANCES

Six by the Governor
One by the Deputy Governor



GOVERNING COUNCIL

10 voting members
Women 60% Men 40%



PROFIT FOR THE YEAR

€2,135 million, which was paid to the Treasury



STAFF

Total employees: 3,345
Women 50.70% Men 49.30%



PUBLICATIONS

13 regular publications
129 occasional publications



STRATEGIC PLAN

The Strategic Plan 2020-2024 was launched

1 MAIN FUNCTIONS OF THE BANCO DE ESPAÑA

The Banco de España is a public law entity which performs the functions of a national central bank in Spain. It is also responsible for the supervision of the Spanish banking system and of other financial intermediaries operating in Spain.

The Banco de España performs these functions as a member of the following **European institutions**: the European System of Central Banks (ESCB), the Eurosystem, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

At the national level, the Banco de España is regulated by **Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España (the “Law of Autonomy”)**. This law is implemented through the Internal Rules of the Banco de España (“IRBE”), approved by the Banco de España Governing Council Resolution of 28 March 2000. At the European institutional level, the Banco de España is subject to, among others, the Treaty on the Functioning of the European Union (TFEU), the Statute of the ESCB and of the European Central Bank (ECB) and Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions.

The legislation acknowledges the Banco de España’s **separate legal personality and autonomy** from the central government, affording it the status of an independent institution. This means that neither the government nor any national or EU body may issue the Banco de España with instructions, and the latter may not request or accept such instructions in the exercise of its functions, except for those that derive



Panoramic view of the Banco de España.

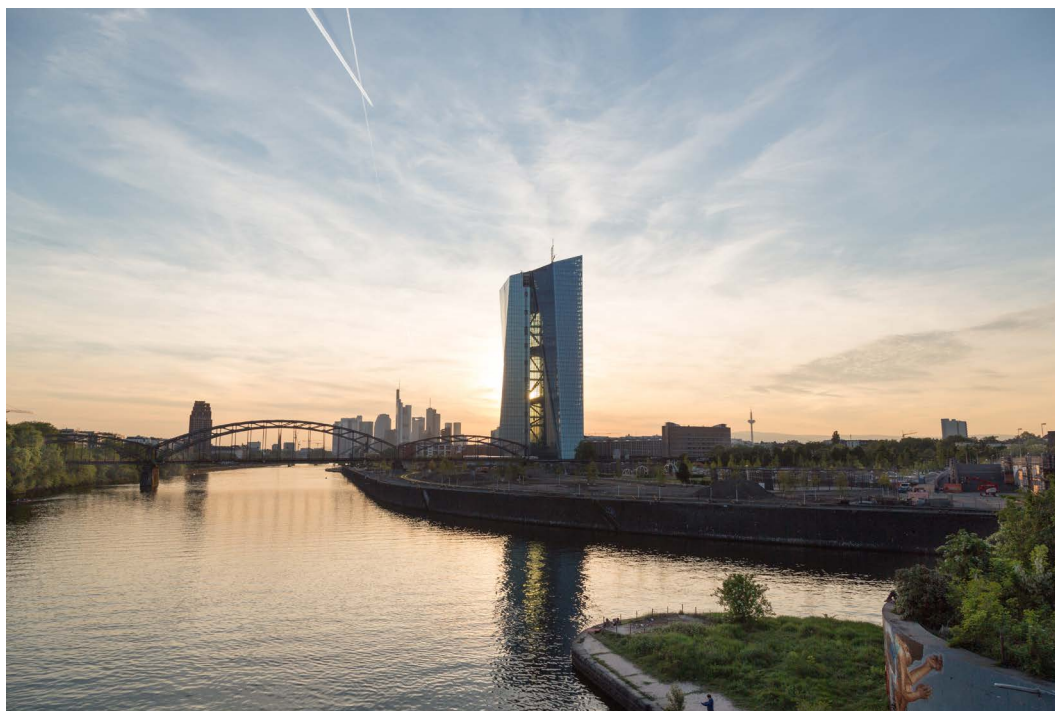
from its membership of the ESCB, the exercise of which must follow the guidelines issued by the ECB.

Although the Banco de España is a public institution, its actions are subject to private law, except where exercising its administrative powers, which include those related to its supervisory functions.

1.1 Functions as a member of the ESCB and as a national central bank

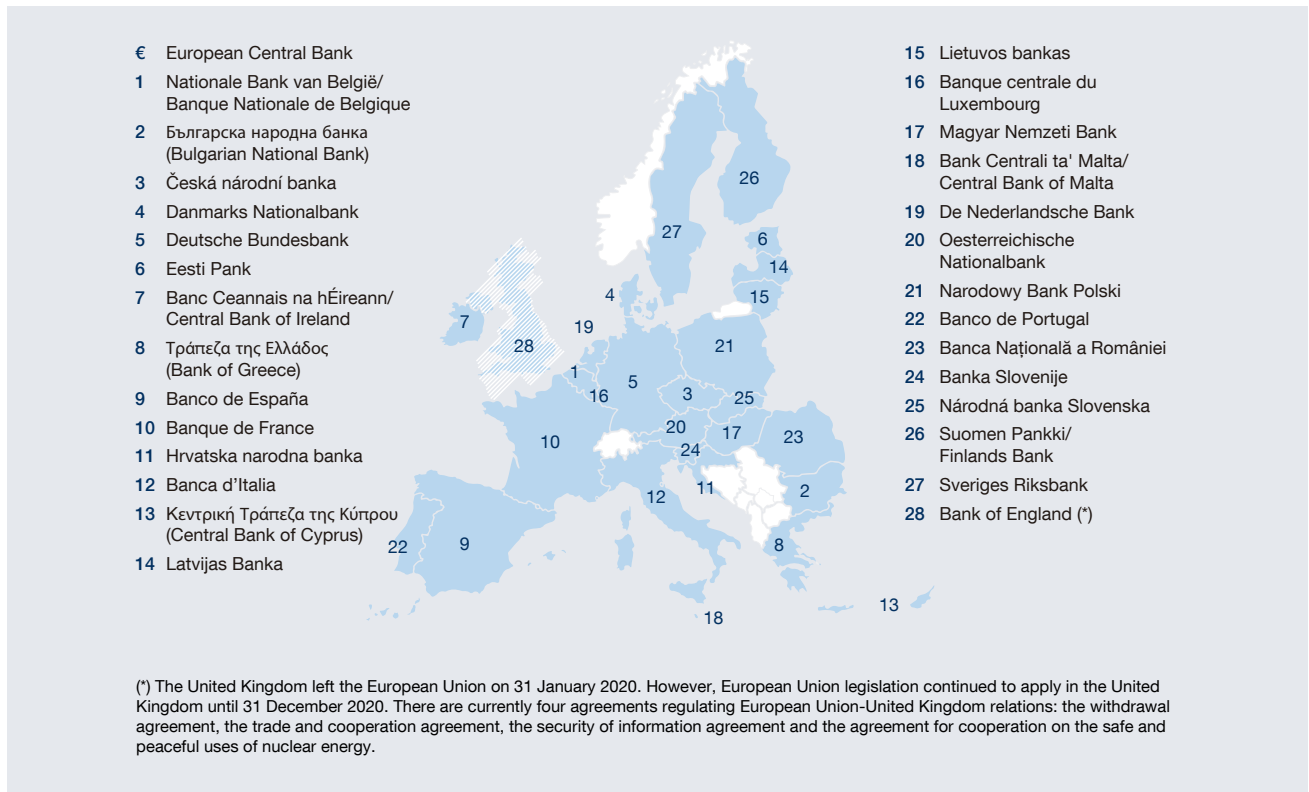
The Banco de España, the ECB and the central banks of all other Member States of the European Union (EU) make up the ESCB, established pursuant to the TFEU and regulated by the Statute of the ESCB and of the ECB. The ESCB lacks separate legal personality and is governed by the ECB's decision-making bodies, in which the Governor of the Banco de España participates.

Alongside the ESCB, the **Eurosystem** groups together the ECB and the national central banks (NCBs) of the 19 EU Member States that have adopted the euro. The Eurosystem is the monetary authority of the euro area entrusted with the following core functions: i) to define and implement the Eurosystem's monetary policy, with the primary objective of maintaining price stability; ii) to carry out foreign exchange transactions; iii) to hold and manage the official currency reserves of euro area countries; and iv) to promote the sound functioning of payment systems. It also carries out additional tasks related to banknote issuance, statistics, supervision and



View of the ECB's main building, Frankfurt am Main, Germany.

EUROPEAN SYSTEM OF CENTRAL BANKS: THE ECB AND THE 28 NATIONAL CENTRAL BANKS OF THE EU



THE EUROSISTEM: THE ECB AND THE 19 NATIONAL CENTRAL BANKS IN THE EURO AREA



financial stability. Further, the Eurosystem has a consultative role regarding financial legislation, and European and international cooperation functions.

Since 1 January 1999, as a member of the Eurosystem the Banco de España has helped perform the following **basic functions entrusted to the ESCB**: implementation of the euro area's single monetary policy; management of the settlement of national and cross-border payments through the TARGET2 system; and management of foreign currency reserves as an agent for the ECB. As part of the ESCB and the Eurosystem, the Banco de España also carries out tasks relating to the compilation and dissemination of statistical information and the issuance and processing of euro banknotes in Spain.

In the performance of the aforementioned functions, the Banco de España, as a member of the ESCB and the Eurosystem, is subject to the guidelines and instructions issued by the decision-making bodies of the ECB.

Lastly, as an NCB, the Banco de España discharges other functions assigned to it directly by its regulations. These include: i) holding and independently managing the foreign reserves which have not been transferred to the ECB; ii) putting coins into circulation; iii) providing State treasury services, for which the Banco de España holds accounts for the Treasury and the regional governments if they so request; and iv) acting as a financial agent for government debt.

1.2 Functions as a supervisory authority

The Banco de España is entrusted with supervisory functions aimed at preserving the solvency and sound functioning of different financial intermediaries, with the ultimate goal of safeguarding the stability of the financial system. These functions are mainly discharged in the following areas: i) microprudential supervision; ii) macroprudential policy; and iii) market conduct supervision and transparency.

More details on the supervisory functions performed by the Banco de España in 2020 can be found in the *Supervision Report 2020*.¹

The Banco de España also collaborates with the Commission for the Prevention of Money Laundering and Monetary Offences and its Executive Service (Sepblac, by its Spanish abbreviation), to supervise compliance with the legislation on the prevention of money laundering and terrorist financing by the institutions supervised by the Banco de España.

¹ Link to the *Supervision Report 2020*: https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/Memoria_de_la_Su/.

1.3 Other functions

The Banco de España's regulations confer other tasks on it in addition to its functions as a central bank and supervisor.

First, **advising the Government**, for which it produces a variety of reports and studies.

The Banco de España is also entrusted with compiling and publishing **economic and financial statistics** related to its functions, such as those included in the National Statistics Plan. In addition, it compiles and provides the ECB with monetary, banking and financial statistics, and figures on interest rates and the balance of payments.

The Banco de España is responsible for promoting the smooth operation and **stability of the financial system**. To fulfil this function, it analyses the risks and vulnerabilities of the Spanish financial system and monitors financial stability.

Since 2014, the Banco de España has also been the designated authority responsible for implementing the **macroprudential policy** instruments provided for in the legislation on the supervision of credit institutions, in order to address systemic risks which may affect the stability of the banking system. In this connection, the Banco de España participates in the Spanish macroprudential authority (AMCESFI). The goal of AMCESFI is to contribute to preserving the stability of the Spanish financial system as a whole.

The Banco de España is also tasked with the **preventive resolution** of credit institutions. This function is exercised independently of its supervisory tasks.

Lastly, the Banco de España performs other tasks related to its role as a regulator and to matters which include the management of the Central Credit Register; the resolution of complaints filed by users of bank services; keeping the official registers of the Banco de España; ensuring the quality and authenticity of banknotes and coins; and the management and administration of internal services and functions.

2 FINANCIAL INFORMATION OF THE BANCO DE ESPAÑA

Having set out our institution's key functions, this section aims to show how most of these functions are reflected in the Banco de España's financial statements (balance sheet and profit and loss account). To do so, a comprehensive analysis of the main headings of the Bank's balance sheet and profit and loss account is conducted, reflecting changes over the last five years and linking them to the main events and monetary policy measures adopted in that period.² Lastly, the risks and uncertainties the Bank faces as a result of its activities are described and information on the policies pursued to mitigate them is provided.

2.1 Balance sheet

The balance sheet of the Banco de España provides a true and fair view of its economic and financial position. It reflects, on the asset side, its available resources, and, on the liability side, the sources of funding used.

The functions and activities of the Banco de España are reflected in its balance sheet as follows:

The **Eurosystem's monetary policy operations** are the result of the decisions adopted by the Governing Council of the ECB. They are recorded in the financial statements of the euro area NCBs, reflecting the principle of decentralised implementation of monetary policy in the Eurosystem. Thus, the asset side of the Banco de España's balance sheet reflects the purchase of monetary policy securities and the loans granted to Spanish credit institutions, and the liability side reflects the deposits held by Spanish credit institutions.

The **management of foreign reserves** is reflected in the foreign currency assets and liabilities (the latter being immaterial) on the balance sheet.

The Bank manages **the settlement of national and cross-border payments** denominated in euro through the TARGET2 system,³ which are recorded as intra-Eurosystem claims or liabilities (in the case of the Banco de España, a net liability position).

2 The *Annual Accounts of the Banco de España* provide more detailed disclosures on the components of the Bank's balance sheet and profit and loss account. They can be found here https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/cuentas-anales/.

3 TARGET2 is the platform owned and operated by the Eurosystem for processing large-value payments in euro in real time. It is used by both EU central banks and commercial banks to initiate transactions, either on their own behalf or on behalf of their customers. More information can be found at the following link https://www.bde.es/f/webbde/INF/MenuVertical/SistemasDePago/t2/ficheros/Target_Annual_Report_2019.pdf.

Figure 1.1

SIMPLIFIED BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2020

€m

ASSETS		LIABILITIES	
Gold and other assets denominated in foreign currency	70,212	Banknotes in circulation	157,373
Lending related to monetary policy	261,210	Deposits	274,312
Securities held for monetary policy purposes	471,202	Intra-Eurosystem liabilities	499,019
Euro-denominated own funds portfolio	25,976	Financial resources	48,594
Intra-Eurosystem claims	153,254	Other liabilities	10,255
Other assets	7,700	TOTAL	989,554
TOTAL	989,554		

SOURCE: Banco de España

Legal tender **banknote issuance** is recorded on the liability side of the balance sheet under “Banknotes in circulation”. The allocation of euro banknotes among the euro area NCBs, according to their banknote allocation key, gives rise to intra-Eurosystem balances (in the case of the Banco de España, an intra-Eurosystem claim).

The Banco de España provides **the treasury service** to the Treasury (and to other public institutions and bodies) through accounts recorded on the liability side of the balance sheet, under “Liabilities to other euro area residents denominated in euro”.

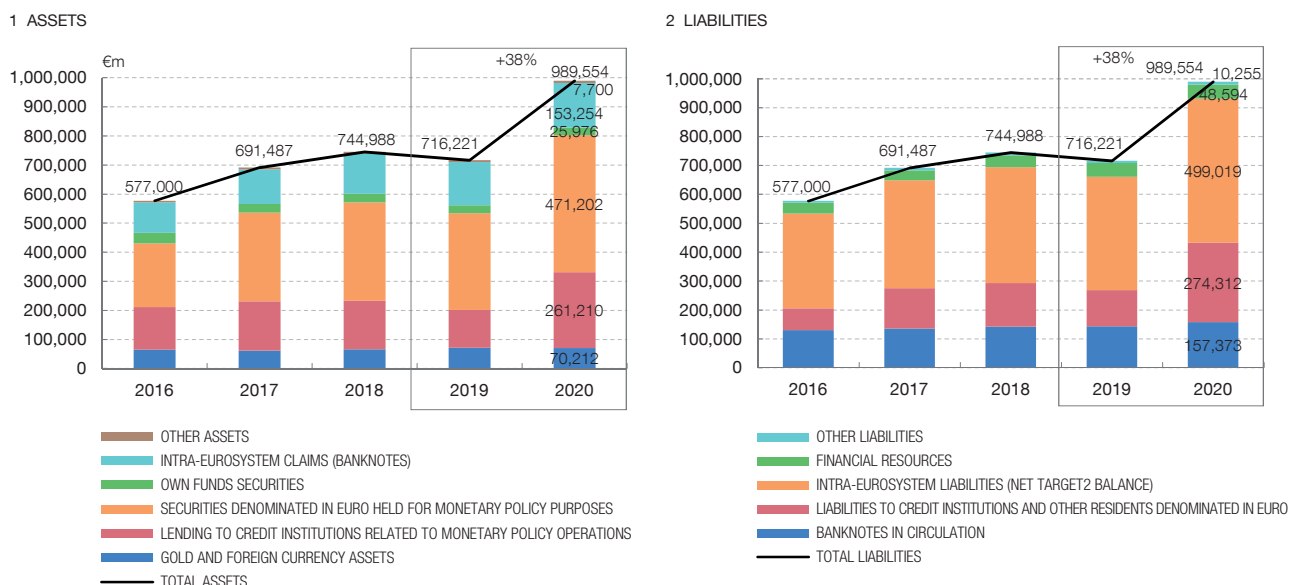
The Banco de España also manages its own **financial assets denominated in euro**, comprising debt securities. This is reflected under “Euro-denominated own funds portfolio” on the asset side of the balance sheet.

Figure 1.1 depicts the Bank’s simplified balance sheet.

Chart 1.1

BALANCE SHEET OF THE BANCO DE ESPAÑA

The main asset and liability accounts are analysed in greater detail below. The chart depicts the changes in the asset and liability sides of the balance sheet over the last five years.



SOURCE: Banco de España.

Between 2016 and 2020, the Banco de España’s balance sheet has grown markedly, increasing by more than €400 billion (71%). The main reason for this growth is the ECB’s expansionary monetary policy implemented via the “non-standard measures”. Among other actions, this policy has been characterised by the provision of abundant long-term liquidity to credit institutions and by the launch of various asset purchase programmes.

On the **asset side of the balance sheet** of the Banco de España, the direct consequence of these actions has been, respectively, the increase in “Lending to credit institutions related to monetary policy operations” and in “Securities denominated in euro held for monetary policy purposes”. Meanwhile, over the same period liabilities recorded under “Intra-Eurosystem liabilities (net TARGET2 balance)” and “Liabilities to credit institutions and other residents denominated in euro” have increased.

Particularly noteworthy is **the growth in the Bank’s balance sheet in 2020 (38% compared with end-2019)**, which is primarily attributable to the intensity of the measures adopted by the ECB to address and attempt to mitigate the effects of the economic crisis triggered by the COVID-19 pandemic (see Chart 1.1).

2.1.1 Assets

At end-2020, the euro-denominated securities held for monetary policy purposes accounted for almost half of the Banco de España's total assets (48%). Under the related balance sheet heading, the Bank records the assets purchased under the different asset purchase programmes launched by the Eurosystem forming part of the non-standard monetary policy measures. These programmes have been launched at different points since 2009 and each one has been aimed at a specific type of security, all of them issued by euro area residents. Chart 1.2 depicts the changes in this item over the last five years.

The pandemic emergency purchase programme (PEPP) was launched in March 2020 to counter the serious risks posed by the COVID-19 pandemic to the monetary policy transmission mechanism and the outlook for the euro area. Section 3 of Chapter 2 of this Report breaks down this programme in greater detail and provides a broader explanation of the monetary policy operations set out below.

The **asset purchases** conducted as part of these monetary policy decisions are made by the Eurosystem NCBs in accordance with the principle of decentralised implementation. Between 2016 and 2020, the Banco de España made sizeable purchases under these programmes and, at end-2020, its holdings totalled €471,202 million.⁴

Euro-denominated lending to Spanish credit institutions related to monetary policy operations accounted for 26% of the Banco de España's total assets at end-2020. Its balance was €261,210 million, €130,695 million (100.1%) more than in the previous year. This is the highest level of demand for credit from Spanish institutions since 2013 and represents 14.6% of the Eurosystem total (see Chart 1.3).

In 2020 the balance relates in full to long-term loans extended to Spanish credit institutions, the majority granted under targeted longer-term refinancing operations (TLTROs). TLTROs provide financing to credit institutions for periods of up to four years.⁵ Conversely, main refinancing operations, whereby weekly financing is provided to credit institutions and which historically have been the main liquidity-providing mechanisms, have lost relevance in recent years.

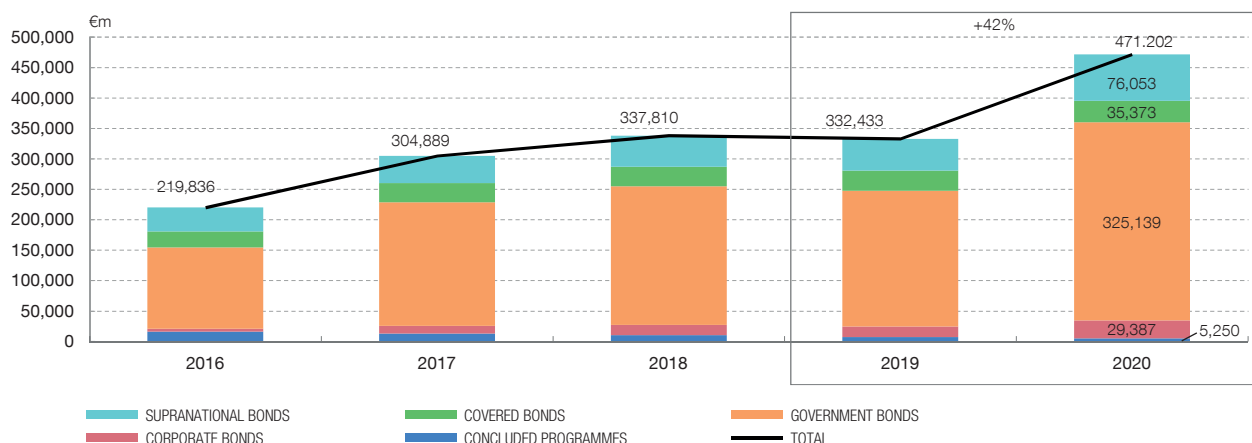
TLTRO loans were granted to banks at attractive terms in order to encourage lending to the real economy. Specifically, in 2020 the average rate applied to these loans was -0.8%, incurring interest expense (negative interest income) for the Banco de España of close to €1.7 billion.

4 For detailed information, see Note 7.a) to the balance sheet in the *Annual Accounts of the Banco de España*. https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/cuentas-anales-/.

5 More information on TLTROs can be found on the ECB's website. <https://www.ecb.europa.eu/mopo/ implement/ omo/titro/html/index.en.html>.

Chart 1.2

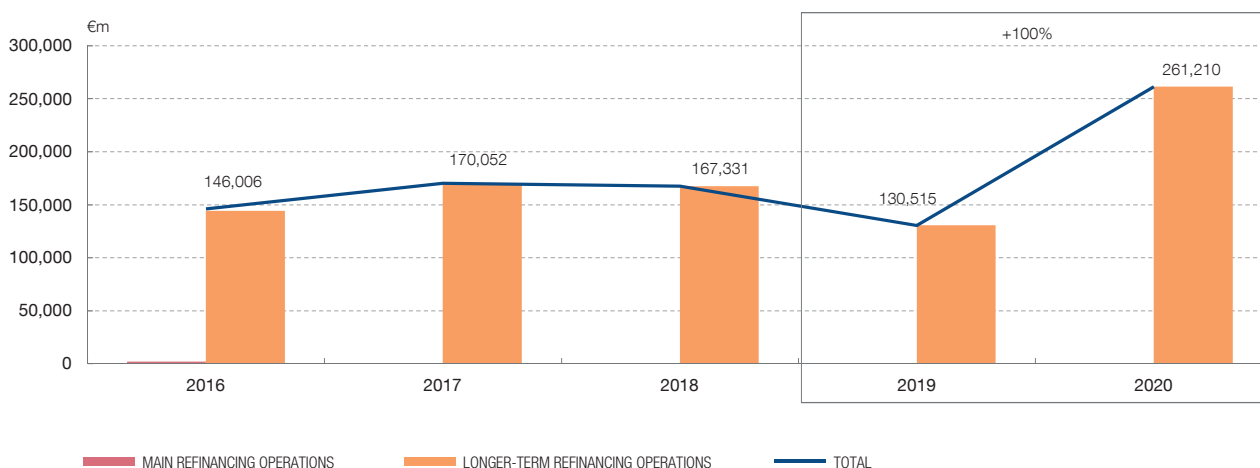
SECURITIES HELD FOR MONETARY POLICY PURPOSES



SOURCE: Banco de España.

Chart 1.3

LENDING TO CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS



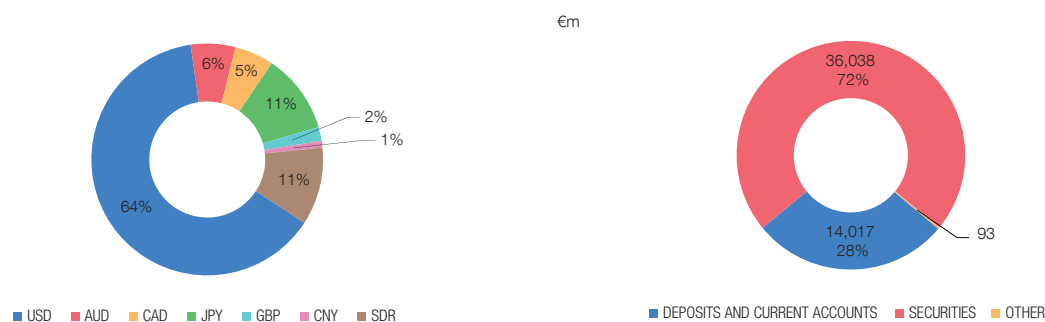
SOURCE: Banco de España.

In addition, in April 2020, as a specific measure in response to the pandemic, the Governing Council of the ECB (as detailed in Section 3 of Chapter 2 of this Report) decided to conduct a series of pandemic emergency longer-term refinancing operations (**PELTROs**). A negative interest rate (-0.25% in 2020) was also applied to these loans. Spanish institutions have made scant use of the PELTROs (€371 million at end-2020).

Claims denominated in foreign currency mainly comprise assets denominated in US dollars, special drawing rights (SDRs), Japanese yen, Australian dollars, Canadian

Chart 1.4

BREAKDOWN OF CLAIMS DENOMINATED IN FOREIGN CURRENCY, BY CURRENCY AND BY TYPE OF INSTRUMENT, AS AT 31 DECEMBER 2020



SOURCE: Banco de España.

dollars, pounds sterling and Chinese renminbi. The composition of these assets, by currency, has remained quite stable over recent years, with the US dollar being the main component. As regards their composition by type of instrument, claims denominated in foreign currency mainly consist of debt securities (mostly denominated in US dollars) and, to a lesser degree, fixed-term deposits and current accounts (see Chart 1.4).

The Banco de España's **gold and gold receivables** are also recorded on the asset side of its balance sheet. Between 2016 and 2020, holdings of ounces of fine gold have remained stable (9.054 million troy ounces of fine gold), while the market price has been on an upward path. The market value at end-2020 was €13,978 million.

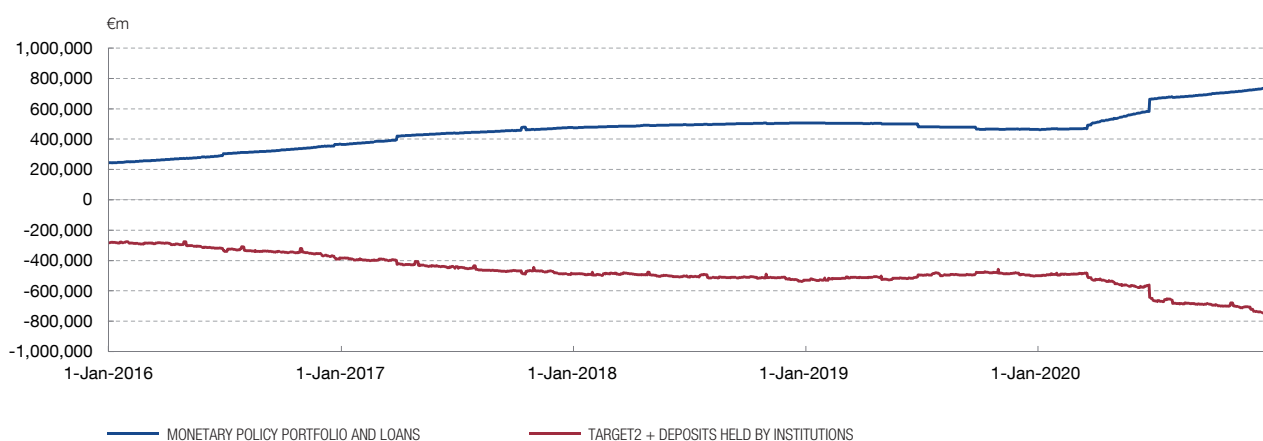
Lastly, the Banco de España has a series of financial assets denominated in euro that are not held for monetary policy purposes and which are recorded as the **euro-denominated own funds portfolio**. These investments comprise debt securities, 70% of which are issues by Spanish residents and the remaining 30% are issues by residents in other euro area countries. This heading totals €25,976 million. Its balance has continually fallen between 2016 and 2020, mainly due to the avoidance of interferences with the purchases of securities for monetary policy purposes.

2.1.2 Liabilities

On the liability side of the balance sheet, these non-standard monetary policy measures have impacted the two headings that have mainly helped fund them: **intra-Eurosystem liabilities (net TARGET2 balance) and the deposits held by credit institutions**.

Chart 1.5 depicts the overall change in the asset items in which these measures have materialised and the two aforementioned liability items, and the clear relationship between them.

Chart 1.5

MONETARY POLICY AND TARGET2 BALANCE

SOURCE: Banco de España.

At end-2020, deposits held by credit institutions and intra-Eurosystem liabilities accounted for 26.5% and 50.5%, respectively, of the liability side of the balance sheet.

At the beginning of 2016, **deposits held by credit institutions** (including the current accounts in which they keep their minimum reserve requirements and the overnight deposits made under the deposit facility) did not exceed €20 billion and they largely related to the minimum reserve requirements. These deposits surged in 2020 and now total more than €250 billion, reflecting the excess liquidity in the system (see Chart 1.6).

Intra-Eurosystem liabilities mainly reflect the Banco de España's net TARGET2 balance vis-à-vis the Eurosystem. They have risen from €254,102 million at the beginning of 2016 to close to €500 billion at end-2020.

Since 2015 the central banks' net TARGET2 balances have been linked to the monetary stimulus measures adopted by the ECB (mainly the implementation of the aforementioned asset purchase programmes).

Banknotes in circulation on the liability side of the balance sheet reflects the share allocated to the Banco de España of the total value of euro banknotes put into circulation by the Eurosystem, in accordance with its banknote allocation key.⁶ The difference between this amount and the banknotes actually put into circulation by the Banco de España is recorded under "Intra-Eurosystem claims - Net claims

⁶ The banknote allocation key is that which results from applying 92% to the Eurosystem subscribed capital key (the other 8% is attributed to the ECB). At end-2020 the Banco de España's banknote allocation key was 10.97%.

Chart 1.6

DEPOSITS HELD BY CREDIT INSTITUTIONS

SOURCE: Banco de España.

related to the allocation of euro banknotes within the Eurosystem”.⁷ In the case of the Banco de España, this is recorded on the asset side of the balance sheet because the Bank put fewer banknotes into circulation than its share of total euro banknotes in circulation, in accordance with the aforementioned allocation key.

2.2 Financial resources

The Banco de España’s financial resources consist of its capital and reserves, general provisions and revaluation accounts.

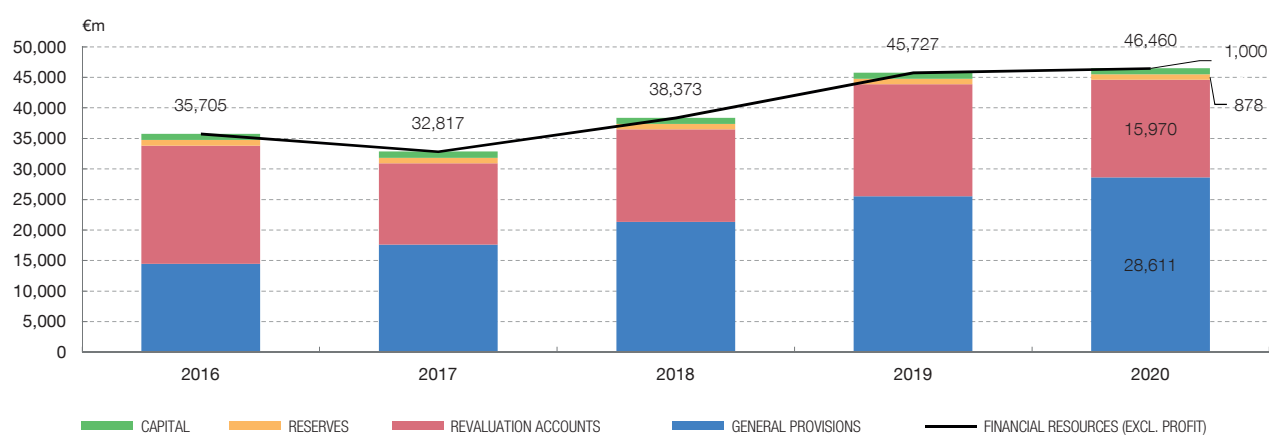
Except for 2017, financial resources have grown continuously in recent years (see Chart 1.7).

General provisions include the provision for financial risk and for operational risk. The balance of these provisions is reviewed annually on the basis of the Bank’s assessment of its exposure to these risks, using methodologies consistent with those used by the Eurosystem.⁸ The provision for financial risk has increased in recent years as a result of the significant increase in risk facing the Bank, triggered in turn by growth in the balance sheet (specifically, on account of the asset purchases under the Eurosystem’s monetary policy programmes).

⁷ For more information, see Note 14 to the balance sheet in the *Annual Accounts of the Banco de España*. https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/cuentas-anales-/.

⁸ For further information on risk management at the Banco de España, see Section 3.5 of the Notes to the *Annual Accounts*. https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/cuentas-anales-/.

Chart 1.7

FINANCIAL RESOURCES (excl. profit)

SOURCE: Banco de España.

As regards the **revaluation accounts**, in accordance with Eurosystem accounting rules, unrealised gains (the difference between the market value and the carrying amount) on gold, foreign currencies and securities that are subject to price revaluation are not recognised as income in the profit and loss account, but are recorded directly in revaluation accounts on the liability side of the balance sheet. The balances in these accounts can be used to absorb the impact of any future unfavourable movement in the respective prices and/or exchange rates, and thus strengthen the Banco de España's resilience against the underlying risks. The revaluation accounts balance has performed unevenly in recent years since it is strongly linked to movements in exchange rates and the price of gold.

The foregoing is depicted in Chart 1.8.

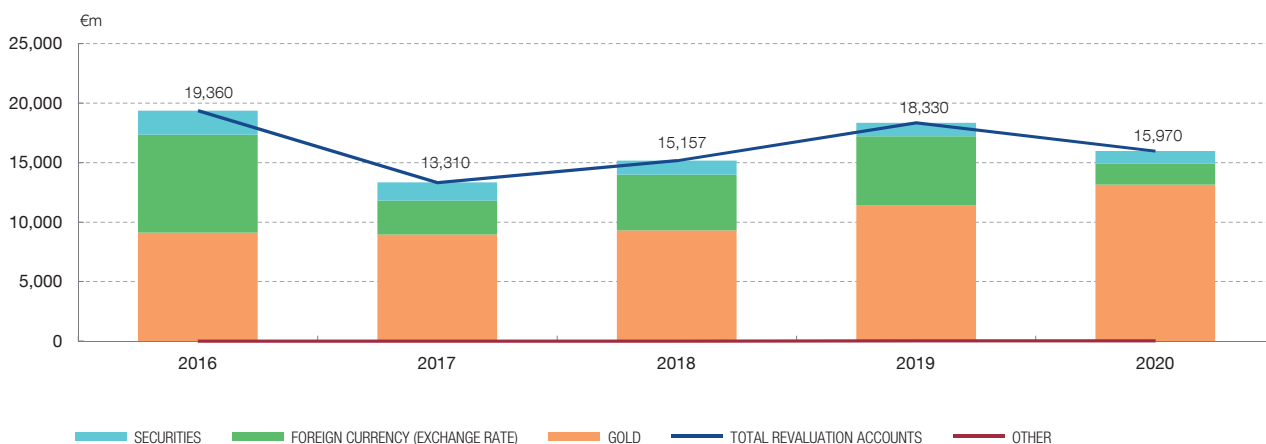
Lastly, capital and reserves totalled almost €1.9 billion at end-2020, remaining basically unchanged since 2006.

2.3 Profit and loss account

Each year, the Banco de España's profit is transferred in full to the Treasury, such that the earnings from its activity benefits the general public as a whole.

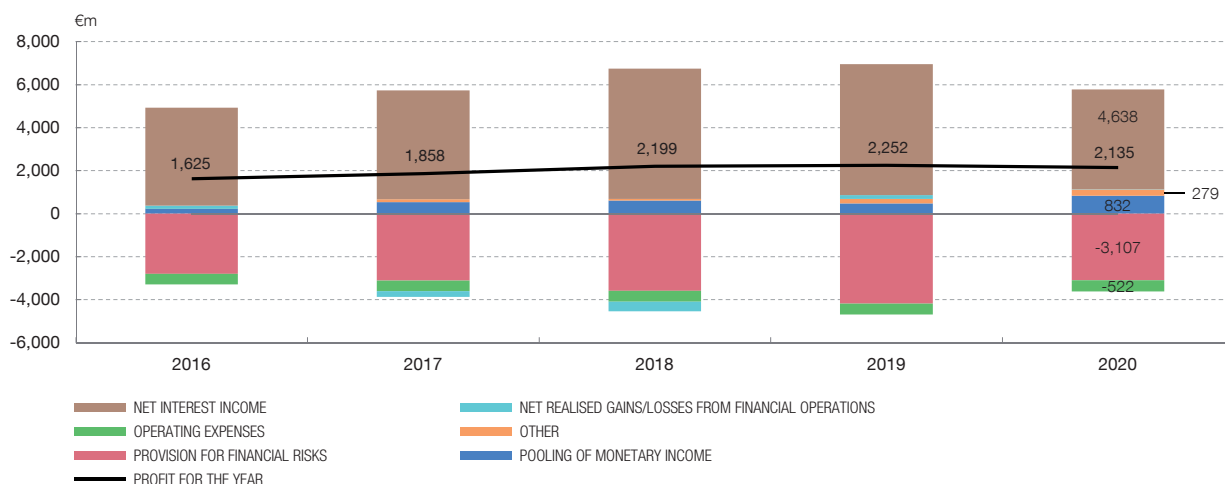
Between 2016 and 2019, the Banco de España's earnings were on an upward path. However, they fell slightly in 2020, with **profit for the year totalling €2,135 million** (see Chart 1.9).

Chart 1.8
REVALUATION ACCOUNTS



SOURCE: Banco de España.

Chart 1.9
PROFIT OF THE BANCO DE ESPAÑA



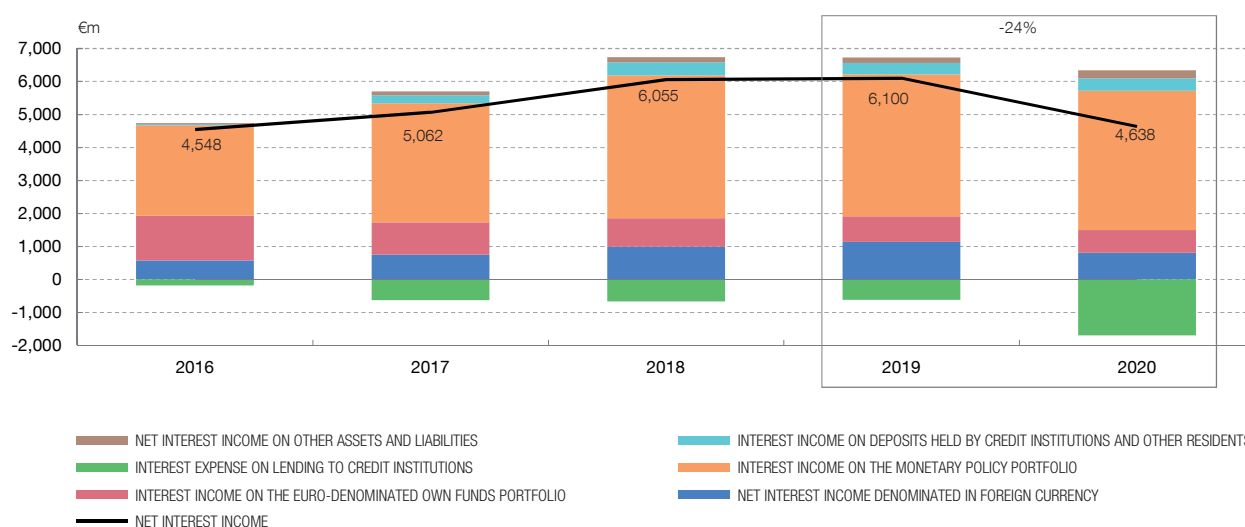
SOURCE: Banco de España.

The main component of the Banco de España's earnings is the net interest income generated on the assets and liabilities held on its balance sheet. These are a secure and relatively stable source of income (see Chart 1.10).

The interest generated on the portfolio of securities held for monetary policy purposes, on claims denominated in foreign currency and on the euro-denominated own funds portfolio stands out due to its significance. Negative interest rates are being applied to the bulk of long-term loans to credit institutions, incurring interest

Chart 1.10

NET INTEREST INCOME OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

expense as a result (around €1.7 billion in 2020). Except for part of the deposits held by credit institutions, as established under the two-tier system for remunerating excess liquidity holdings, negative interest rates are also being applied to the deposits on the liability side of the Bank's balance sheet. This generates interest income for the Bank (around €380 million in 2020).

Intra-Eurosystem claims (banknote allocation key adjustment) and liabilities (net TARGET2 balance) are remunerated at the main refinancing rate (0% since March 2016).

Realised gains/losses arising from financial operations are those generated on the sale of own funds portfolio securities (monetary policy portfolio securities may only be sold by decision of the Governing Council) or when buying/selling foreign currency. They are somewhat volatile and are not usually significant.

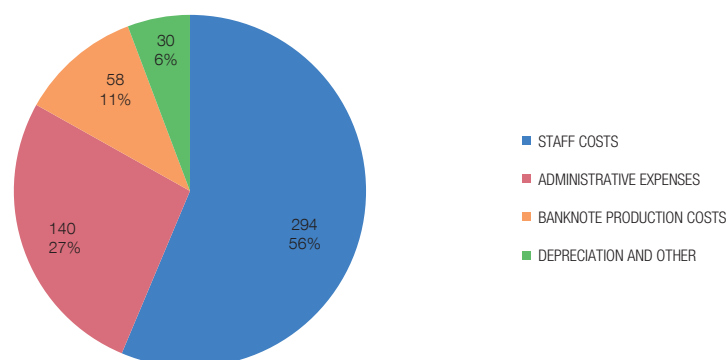
The pooling of monetary income reflects the allocation among the NCBs of the net income obtained in the year from the Eurosystem's monetary policy function, in accordance with their respective ECB capital keys. In 2020 the net result of this pooling was positive for the Banco de España, meaning that the net income generated on its monetary policy assets and liabilities was less than its share, on the basis of its capital key, of the aggregate income generated on the Eurosystem's monetary policy assets and liabilities taken as a whole.⁹

⁹ For more information, see Note 8 to the profit and loss account in the *Annual Accounts of the Banco de España*. https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/cuentas-anales/.

Chart 1.11

OPERATING EXPENSES OF THE BANCO DE ESPAÑA IN 2020

€m



SOURCE: Banco de España.

The operating expenses incurred by the Bank to discharge its functions are recorded under “**Total operating expenses**”. This heading includes banknote production costs and depreciation of fixed assets (see Chart 1.11).

2.4 Risk management

The Banco de España is exposed to financial and operational risks as a result of its activity. These may have a financial and reputational impact and affect its ability to attain its objectives.

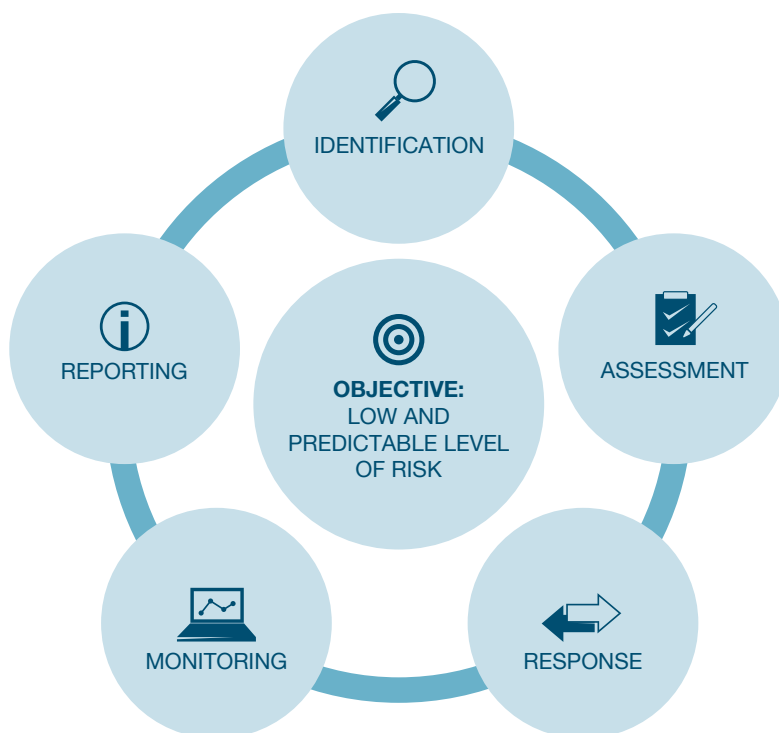
The Bank’s risk policy aims to maintain a low and predictable overall risk level to preserve its reputation and solvency, without detriment to its priority compliance with the statutory tasks under the Law of Autonomy of the Banco de España, or to the fulfilment of its objectives.

The Banco de España manages all its risks taking into account their differing nature. It has a risk management framework comprising a set of core principles, a management and control model, and its governance arrangements.

The risk management and control model used by the Banco de España features a comprehensive risk map covering the main risk categories to which it is exposed. This model envisages a five-phase management cycle for all risks: identification, assessment, response, monitoring and reporting (see Figure 1.2). Lastly, the model includes the definition of limits for all the risks assumed by the Bank, defined according to the methodology adopted for each type of risk and expressed in quantitative and qualitative terms.

Figure 1.2

RISK MANAGEMENT AND CONTROL MODEL



SOURCE: Banco de España.

These limits are reviewed periodically in an ongoing process of improvement and adaptation to the Bank's objectives and needs.

The comprehensive risk map distinguishes between **financial risks and operational risks**. A detailed explanation of how these risks are configured can be found in Boxes 1.1 and 1.2.

FINANCIAL RISKS

The financial risks taken by the Banco de España stem from the financial transactions carried out in order to perform its functions and achieve the objectives set for it by law. They are essentially the following:

- **Credit risk:** the risk of incurring losses as a result of total or partial non-compliance with the contractual obligations of the issuers, counterparties or depositaries of its financial assets.
- **Market risk:** the risk of incurring losses as a result of fluctuations in the price of financial assets (including foreign exchange rates and interest rates) and gold prices.

Structural balance sheet risk (i.e. the risk of adverse variations in the Bank's profits in the long term owing to higher costs of liabilities or a lower return on assets) is also monitored.

The risks to which the Bank is exposed arise both from its monetary policy operations and from other financial

investments in various portfolios, which may be denominated in euro, foreign currency or gold. The number of portfolios, their desired net changes and the asset allocation targets are determined annually according to the currency of denomination. In addition, the currencies in which investments may be made, the eligible financial instruments and transactions, the eligible issuers, guarantors and counterparties and any limitations on each of these for prudential reasons are regularly reviewed.

The Credit Risk Committee proposes measures to be adopted for managing financial risks and their provisioning levels, and monitors them.

Credit and market risk are quantified by the 99% expected shortfall metric, estimating the average loss that may arise from changes in the risk factors in the worst 1% of the simulated scenarios and with a one-year time horizon. The resulting figure is used as a benchmark to assess the financial risk provisioning needs.

OPERATIONAL RISK

The Banco de España defines operational risk as the risk of incurring losses due to the inadequacy or failure of internal processes, personnel and systems, or due to events outside the organisation. The Operational Risk Management System developed by the Bank following the guidelines set in the document entitled “International Convergence of Capital Measurement and Capital Standards” (Basel II, revised framework) sets out policies, functions and internationally accepted procedures for proper operational risk management.

This system takes as its starting point **an inventory of the functions, processes and activities** of each organisational area of the Bank, which make up the **Process Map**. This inventory is needed to subsequently identify the attendant risks, which together constitute the **Risk Map**. This identification is based on an analysis of possible contingencies which may affect the Bank’s functioning and of the specific measures taken to prevent them from occurring and to reduce damage if they do occur.

To determine the relative importance of the risks identified, these are assessed qualitatively according to: 1) the impact or damage they may cause, and 2) how often they may occur, bearing in mind the existing control environment. The risks thus assessed are placed in the Risk Matrix, classified into categories according to their impact and frequency. The business areas inform the Risk Management Committee of the most significant risks and of the possible mitigation measures to reduce the severity and frequency of the contingencies identified. This committee is responsible for approving them and accepting the residual risks. The results of the self-assessment conducted by the areas are compared with the information drawn from the systematic register of loss events in order to adjust their impact and/or frequency of occurrence in line with actual events.

The level of operational risk is estimated by VaR methodology with a 99.9% confidence level and a one-year time horizon.

3 GOVERNING BODIES OF THE BANCO DE ESPAÑA

According to the Law of Autonomy, the governing bodies of the Banco de España are the Governor, the Deputy Governor, the Governing Council and the Executive Commission. They are detailed below.

3.1 The Governor

The Governor directs the Banco de España. He acts as the institution's legal representative, chairs its collegiate governing bodies (the Governing Council and the Executive Commission) and represents it at international organisations and institutions.

The Governor is appointed by the King, at the proposal of the Prime Minister, for a non-renewable six-year term. Pablo Hernández de Cos' term of office as Governor of the Banco de España began on 11 June 2018.

3.2 The Deputy Governor

The Deputy Governor stands in for the Governor when the post is vacant or in the event of the latter's absence or illness, and performs the duties established by the IRBE or delegated by the Governor or the governing bodies of the Banco de España. She is a member of the Banco de España's Governing Council and Executive Commission and is an ex officio member of the other collegiate bodies to which she has been appointed under current legislation.

The Deputy Governor is appointed by the Spanish Government, at the Governor's proposal, for a non-renewable six-year term. The current Deputy Governor is Margarita Delgado. Her term of office commenced on 11 September 2018.

3.3 The Governing Council

The Governing Council is one of the Banco de España's two collegiate governing bodies. It is composed of the Governor (who chairs the Council), the Deputy Governor, six elected Council Members and two ex officio members (the General Secretariat of the Treasury and International Financing and the Vice-Chair of the National Securities Market Commission (CNMV)).

The elected Council Members are appointed for a six-year term, renewable once, by the Spanish Government at the proposal of the Minister for Economic Affairs and

COMPOSITION OF THE GOVERNING COUNCIL IN 2020

In 2020, the Governing Council was composed of:

- **Governor:** Pablo Hernández de Cos.
- **Deputy Governor:** Margarita Delgado.
- **Council Members:** Fernando Eguidazu, Soledad Núñez, Carmen Alonso, Núria Mas, Paz Andrés¹ and Carles Manera.²
- **General Secretary for Treasury and International Financing:** Carlos San Basilio.
- **Vice-Chair of the CNMV:** Ana Martínez-Pina, until 15 December 2020 and, subsequently, Montserrat Martínez Parera.
- **Non-voting participants:** i) the General Secretary of the Banco de España, Francisco-Javier Priego; ii) the Directors General of the Bank (in 2020: Juan Ayuso, Concepción Jiménez, Óscar Arce, Jesús Saurina,³ Mercedes Olano, Alejandro Álvarez and Ángel Estrada), and iii) the staff representative, Mariano Serrano.

1 Paz Andrés stepped down as council member of the Banco de España on 26 November 2020, following her appointment as a permanent member of the Council of State.

2 Carles Manera was appointed council member of the Banco de España on 1 July 2020.

3 Jesús Saurina resigned from his post on 1 March 2020 following his appointment to the European Single Resolution Board, at which date he was replaced by Ángel Estrada.

Digital Transformation, following consultation with the Governor. To be designated, candidates must have Spanish nationality and recognised competence in the fields of economics or law.

Governing Council meetings are attended in a non-voting capacity by the General Secretary of the Banco de España, who acts as secretary to the Governing Council, the Bank's Directors General and a staff representative.

By gender, in 2020 women accounted for 60% of the voting members on the Governing Council, and men 40%. Voting members are equally represented by men and women on the Executive Commission.

In this regard, the Banco de España was ranked first in the OMFIF Gender Balance Index 2020 on gender diversity in central banks.

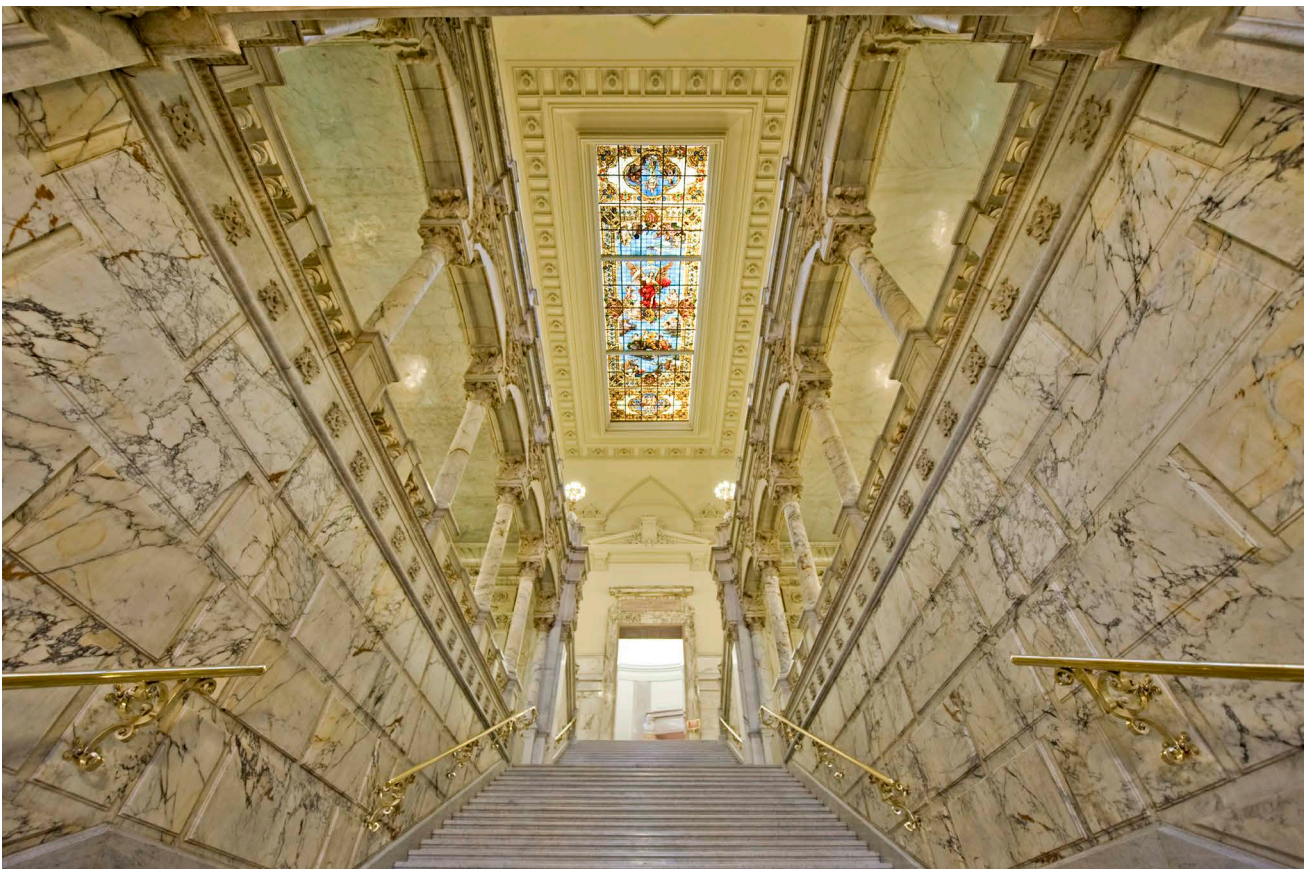
The functions of the Governing Council are established in the Law of Autonomy, which confers on it the approval of the general guidelines for the Bank's activity so that it may fulfil its functions. It also discusses matters relating to monetary policy, supervises the Bank's contribution to the implementation of ESCB monetary policy (in keeping with the ECB's guidelines and instructions) and approves Banco de España circulars. It is also responsible for imposing the penalties adopted in sanctioning proceedings against supervised institutions.

The Governing Council's other functions include appointing the elected Council Members and the Audit Committee members; ratifying the appointments of the Banco de España's Directors General and Associate Directors General; and approving the Banco de España's annual accounts, its budget proposals and certain reports, including the *Annual Report*.

In 2020 the Governing Council of the Banco de España **held 22 meetings**. This is 30% more than in 2019, on account of the need to closely monitor the fallout from the COVID-19 pandemic at different levels. After the Spanish Government declared the state of alert on 14 March 2020, and as a result of the health situation caused by the pandemic, the meetings of the Governing Council of the Banco de España were held online in 2020.

3.4 The Executive Commission

The Executive Commission of the Banco de España is formed by the Governor, as Chair, the Deputy Governor and two elected Council Members appointed by the Governing Council, at the proposal of the Governor, from the Council's elected members, for the period that remains in their ordinary term of office as elected



Grand staircase and stained-glass skylight in the Cibeles building, taken from the ground floor.

Council Members. Fernando Eguidazu and Soledad Núñez continued as elected Council Members in 2020.

The Executive Commission meetings are attended, in a non-voting capacity, by the General Secretary of the Banco de España, who acts as ex officio secretary thereto, and the Directors General.

The Executive Commission discharges the functions conferred on it by the Law of Autonomy. Under that law, it decides on the management of the internal organisation and administration of the Banco de España in the private sphere; approves the internal circulars; helps implement ESCB monetary policy; resolves administrative authorisations granted by the Bank in connection with credit institutions and other financial agents; adopts intervention measures relating to the appointment of administrators and replacement of the directors of supervised institutions; brings sanctioning proceedings and issues recommendations and requests to supervised institutions under the SSM; and submits draft resolutions to be subsequently adopted by the Governing Council.

In 2020 the Executive Commission **held 52 meetings**. After the Spanish Government declared the state of alert on 14 March 2020, and as a result of the health emergency caused by the COVID-19 pandemic, the Executive Commission's meetings from that date onwards were held online.

3.5 The Audit Committee, the Steering Committee and other committees

In addition to the aforementioned collegiate governing bodies, the Bank's organisational structure has another level, which comprises the Audit Committee and its other committees.

The **Audit Committee** is made up of three members, appointed by the Governing Council from among its elected Council Members. In 2020 the members of the Audit Committee were Carmen Alonso (as Chair), Paz Andrés (to November 2020) and Carles Manera (from October 2020).

This committee is entrusted with reviewing the draft annual accounts of the Banco de España and other tasks, which include: i) supervising the internal control and audit services; ii) supervising relations with the external auditors; iii) being cognizant of the risk-management decisions adopted; and iv) preparing the reports pertaining to the committee's sphere of competence for the Governing Council.

The **Steering Committee** is comprised of the Governor, the Deputy Governor and the Directors General. Its main functions are advising the Governor and the Deputy Governor on matters or decisions, as required, and assisting in the preparation of

COMMITTEES OF THE BANCO DE ESPAÑA

- **Financial Stability Committee:** this committee analyses the situation of the risks and vulnerabilities for financial stability and the macroprudential measures for mitigating them.
- **Risk Management Committee:** this committee proposes the adoption of measures for managing financial and operational risks and their appropriate level of provisioning, and monitors the risks.
- **Information Systems Committee:** this committee approves and monitors the annual information systems plan of the Banco de España.
- **International Cooperation Committee:** this committee defines the lines of action for international cooperation and carries out the necessary coordination.
- **Financial and Prudential Reporting Committee:** this committee coordinates the Banco de España's position and internal procedures regarding the financial and prudential reporting requirements to which institutions are subject.
- **Budget Committee:** this committee performs functions relating to the Banco de España's annual budget, including its adequate monitoring.
- **Comprehensive Security Committee:** this committee is responsible for proposing the adoption of decisions by the Banco de España relating to corporate security matters.
- **Documentary Policy and Assessment Committee:** this committee is responsible for defining the characteristics for the classification, use and preservation of Banco de España documents.
- **Other committees:** the Committee Receiving Reports on Suspected Money Laundering, the Leave of Absence Assessment Committee, the Workplace Health and Safety Committee, the Committee for the Assessment of BSF Financial Assistance and the Independent Experts' Committee for the Assessment of Supervised Institutions' Senior Officers.

matters to be submitted to the Governing Council and the Executive Commission for approval. It also coordinates the activities of the different Directorates General.

There is a further organisational level, comprising the internal committees set up by the Executive Commission to perform tasks related to examining and resolving any matters considered appropriate. The most important committees are detailed in Box 1.4.

4 STRUCTURE OF THE BANCO DE ESPAÑA

4.1 Organisation chart and structure

The Banco de España performs its functions through its governing bodies, as described in Section 3 above, and through its Directorates General and General Secretariat, as detailed below.

The **Directorate General Economics, Statistics and Research** is mainly responsible for conducting the necessary studies and research on economic and financial matters within the sphere of the Spanish, European and international economy.

It also compiles the statistics entrusted to the Banco de España and drafts the reports and publications within its remit, the foremost of which is the *Annual Report*. It takes the necessary action to disseminate analysis of economic developments and of monetary policy.

In addition, it conducts the preparatory, advisory and monitoring work relating to the Banco de España's participation in European institutions, and develops and manages the international relations of the Banco de España outside the scope of the European institutions and with the main international organisations and multilateral institutions, coordinating international cooperation by the Bank with other NCBs, financial supervisors and other similar public agencies. Lastly, it should be noted that it is responsible for running the Banco de España Library. The Director General Economics, Statistics and Research is Óscar Arce.

The **Directorate General Cash and Branches** is responsible for, inter alia: i) controlling the process of euro banknote production corresponding to the Banco de España, entrusted to the special purpose entity IMBISA; and ii) issuing these banknotes and putting coins into circulation, along with tasks relating to the withdrawal, exchange and safekeeping of both banknotes and coins, in coordination with the Eurosystem and the European Commission, respectively.

Additionally, it is entrusted with overseeing and monitoring those involved in the processing and handling of cash, and with detecting and analysing counterfeit banknotes and coins through the National Analysis Centres for banknotes and coins in coordination with the Eurosystem and the Banco de España Monetary Offences Investigation Brigade. It is also responsible for managing the Bank's branch network and for carrying out certain operations for the general public, such as the exchange of pesetas for euros until 30 June 2021, and of unfit banknotes. The Director General Cash and Branches is Concepción Jiménez.



Banner on the Cibeles façade of the Madrid central headquarters, part of the campaign to communicate the deadline for exchanging pesetas.

The **Directorate General Financial Stability, Regulation and Resolution** is responsible, inter alia, for analysing and monitoring financial stability, analysing and formulating macroprudential policy proposals (in coordination with the ECB's Financial Stability Committee and the European Systemic Risk Board (ESRB)), and preparing the half-yearly *Financial Stability Report*.

It is also entrusted with drafting reports and proposals relating to rules on the regulation and discipline of supervised institutions, helping define regulatory policy on technical and economic aspects in the framework of the Financial Stability Board, the Basel Committee on Banking Supervision and the European Banking Authority. Also worth noting are the tasks relating to: i) the preparation of draft rules on periodic reporting to the Banco de España by institutions supervised by it or the SSM; ii) management of the Central Credit Register; and iii) preventive resolution. The Director General Financial Stability, Regulation and Resolution is Ángel Estrada.

The **Directorate General Operations, Markets and Payment Systems** is entrusted with carrying out the operations of the Banco de España in its capacity as a central bank and member of the Eurosystem. Among other tasks, it is responsible for the implementation in Spain of the Eurosystem's monetary policy, the management of gold, foreign currency reserves and euro-denominated financial assets owned by the institution, and the assessment and management of the Banco de España's financial risks. Additionally, it renders payment services to the Treasury and other

public sector entities, and government debt-related services. Also worth noting are the tasks it performs to oversee the proper functioning of payment systems and instruments.

Lastly, this Directorate General has been tasked with supervising compliance with the regulations affecting payment institutions, account information service providers and electronic money institutions, and with the supervision of other payment service providers supervised by the Banco de España. The Director General Operations, Markets and Payment Systems is Juan Ayuso, and the Associate Director General Financial Innovation and Market Infrastructure is Carlos A. Conesa.

The management and administration of the internal services and functions common to the whole of the Banco de España is the responsibility of the **Directorate General Services**. Its tasks include: i) human resources and occupational health and safety; ii) hiring arrangements; iii) preparation of draft budgets and annual accounts; iv) accounting and control of the Banco de España's accounts; v) acquisition, maintenance and administration of the institution's assets; vi) information systems; and vii) and organisation and management of internal security. The Director General Services is Alejandro Álvarez.

All the tasks assigned to the Banco de España as a microprudential supervisory authority for credit institutions under the SSM are concentrated in the **Directorate General Banking Supervision**. Furthermore, it is responsible for the microprudential supervision of other institutions that render financial services or perform financial sector-related functions exclusively and outside the SSM's remit.

It is also tasked with preparing draft rules on accounting for credit institutions and other supervised institutions, and with issuing rulings in this connection when requested. The Director General Banking Supervision is Mercedes Olano and the Associate Directors General are Francisco Monzón and Alberto Ríos.

The **General Secretariat's** functions notably include: i) to provide the secretariat for the governing bodies of the Banco de España and to head the legal advice service for the governing bodies and the institution as a whole; ii) to conduct sanctioning proceedings; iii) to keep official registers and process authorisation procedures for new institutions; iv) tasks relating to supervision, supervisory and regulatory policy in respect of banking transparency and consumer protection; and v) settlement of complaints in this area.

It also heads the areas of governance, transparency and access to public information, personal data protection, website accessibility, E-Administration and Virtual Office, and the areas relating to documentation, such as the register, the archives and documentation management. The General Secretary is Francisco-Javier Priego and the Deputy General Secretary is Jaime Herrero.

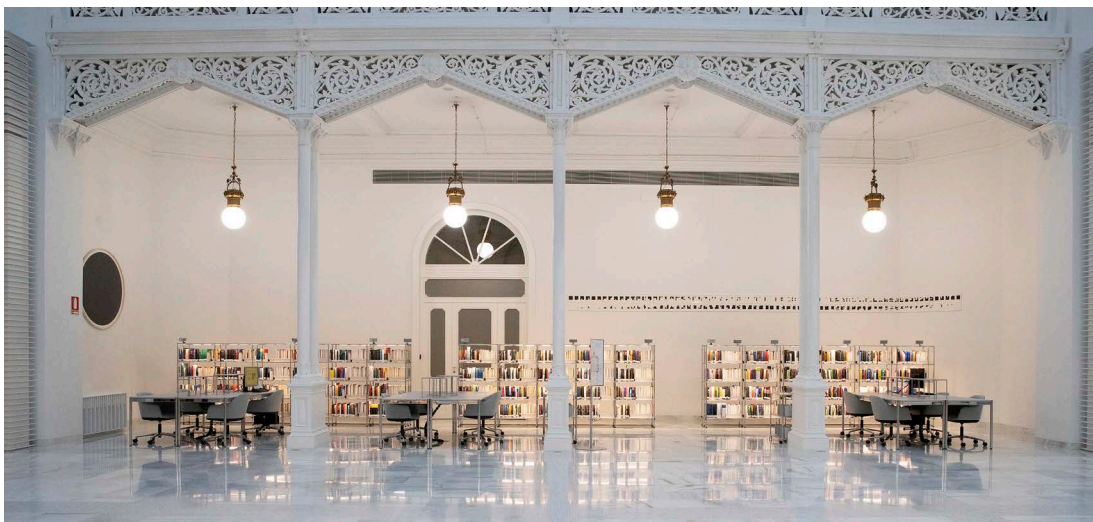
In addition to the Directorates General and the General Secretariat, and reporting directly to the Governor, there are three **other departments** entrusted with various cross-departmental functions, namely i) the Internal Audit Department; ii) the Communication Department; and iii) the Governor's Office.

4.2 Banco de España head offices and branches

The Banco de España has two head offices in Madrid: the main head office at Calle de Alcalá, 48, which hosts the Bank's central services; and that located at Calle de Alcalá, 522. It also has **15 branches** (located in A Coruña, Alicante, Badajoz, Barcelona, Bilbao, Las Palmas de Gran Canaria, Málaga, Murcia, Oviedo, Palma, Seville, Santa Cruz de Tenerife, Valencia, Valladolid and Zaragoza).

The Banco de España's main head office is one of most emblematic buildings of Madrid and of Spanish architecture in the 19th and early 20th centuries. It stands on the site of the former palace of the Marquis of Alcañices and has been extended three times. The main head office has interior spaces of great historic and artistic value, notably the grand staircase and the courtyard, formerly the banking hall and now housing the Library.

Functionally, these headquarters house the Bank's central services and are where the Banco de España's governing bodies and other senior management are located. The building at Calle de Alcalá, 522 is reserved for various general services and operational functions. Lastly, the branches located throughout Spain operate with credit institutions and provide specific services to the general public, such as the exchange of pesetas for euros, the withdrawal of counterfeit banknotes and coins, and government debt subscriptions, among others.



Two of the areas included in the institutional tours of the main head office. On the left, the Library's reading room. On the right, the Banking Hall's central clock with cash desks.



Branch offices of the Banco de España.

4.3 Staff composition

As at 31 December 2020, the total number of Banco de España employees was 3,345.

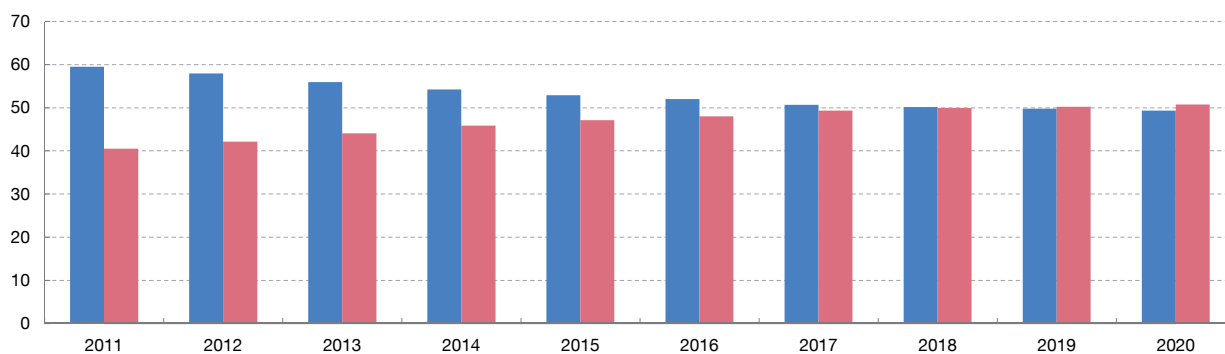
The average age (**46.24 years**) of employees rose slightly compared with 2019. By gender, **women account for 50.70%** of staff and **men 49.30%**, with the gender balance of recent years holding steady.

As Chart 1.12 shows, it should be noted that, in this decade, the proportion of total Bank staff that are women has increased by more than 10%, from 40.5% in 2011 to 50.70% in 2020.

As regards the **staff composition** by professional group, Charts 1.13 and 1.14 show the current distribution and percentage corresponding to the following: i) individuals in management positions or with responsibility over teams (managerial staff, levels 1 to 9); ii) senior experts and specialists (other managerial staff up to level 9); iii) experts and specialists (managerial staff, levels 10 to 14); iv) administrative staff; and v) various support services.

Chart 1.12

STAFF COMPOSITION



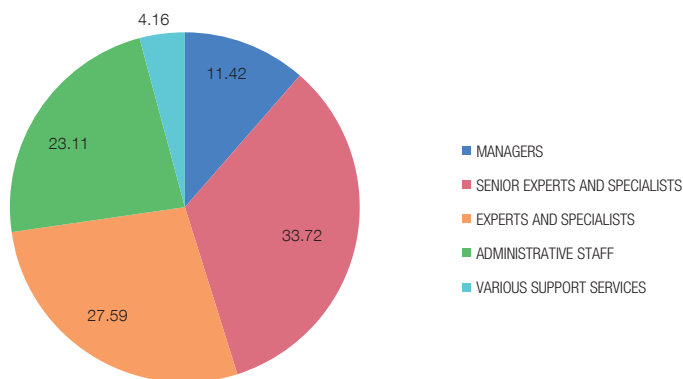
Percentage

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Men	59.49	57.90	55.92	54.21	52.89	52.01	50.67	50.11	49.77	49.30
Women	40.51	42.10	44.08	45.79	47.11	47.99	49.33	49.89	50.23	50.70

SOURCE: Banco de España.

Chart 1.13

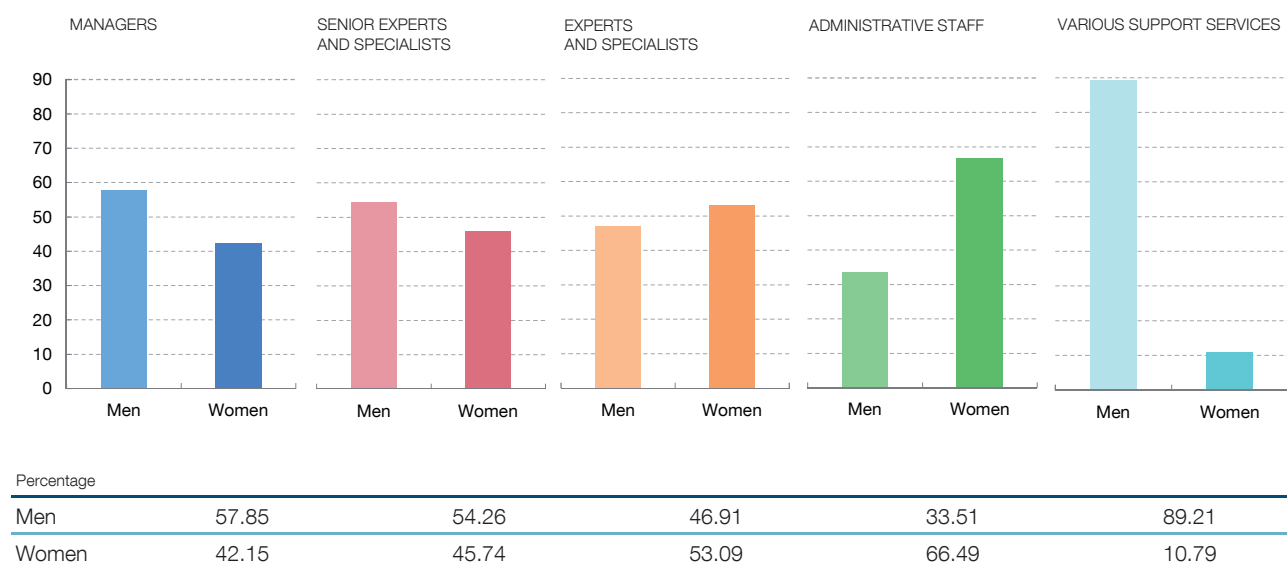
STAFF COMPOSITION BY PROFESSIONAL GROUP (%)



SOURCE: Banco de España.

At the end of 2020, there were 430 employees at the Banco de España’s 15 branch offices. There is a director in charge of each branch, who represents the Banco de España and is responsible for the infrastructure and administrative and support services. In general, two units report to this director: Cash-Operations, which carries out cash and bank operations, and Financial Control, which audits and accounts for all operations.

Chart 1.14

STAFF COMPOSITION BY GENDER (%)

SOURCE: Banco de España.

The restructuring conducted in 2020 included the reorganisation of the Institutions' Conduct Department, part of the General Secretariat, to align it with the provisions of Law 7/2017, improve efficiency, harness synergies and mitigate risks in the exercise of supervisory powers. Likewise, the tasks related to operational risk management and the business continuity framework were merged into a single division, under the Control, Budget and Accounting Department.

4.4 Special purpose entities

In accordance with ECB regulations and as provided for by the Law of Autonomy, the Banco de España is supported by two special purpose entities: i) the commercial-law company Imprenta de Billetes, S.A. (IMBISA); and ii) the Fundación Centro de Estudios Monetarios y Financieros (CEMFI).

a) Imprenta de Billetes, S.A. (IMBISA)

IMBISA is a publicly owned commercial-law company whose sole corporate purpose is the production of euro banknotes. This special purpose entity was created in response to the need to adapt to the legal framework for euro banknote production, following approval of Guideline (EU) 2015/280 of the European Central Bank of 13 November 2014 on the establishment of the Eurosystem Production and Procurement System (ECB/2014/44).



Construction of the new IMBISA facility commenced in March 2020 and is expected to finish in the fourth quarter of 2021.

Since its establishment, IMBISA has been entrusted with producing the quota of euro banknotes allocated annually to the Banco de España by the ECB. IMBISA's processes are subject to extremely high quality and security requirements.

In order to adapt to the new ECB regulations on printing processes and to address the technical and banknote production limitations of the current premises, **in June 2016 IMBISA commenced work to build new banknote printing works that comply with all the security requirements and are equipped with the necessary technical means.** Construction of the new IMBISA facility commenced in March 2020 and is expected to finish in the fourth quarter of 2021. The aim is to transfer banknote production to the new printing works over the course of 2022. The new premises (Avenida de Daroca (Madrid)) are located close to important communication hubs and the airport, and also midway between the Bank's head offices at Cibeles and Calle de Alcalá, 522. This makes it ideal for logistical and security purposes.

b) Centro de Estudios Monetarios y Financieros (CEMFI)

The CEMFI is a foundation created by the Banco de España **to promote education and research in economics, focusing particularly on monetary and financial issues.**

Its activity focuses on post-graduate education and research. As regards post-graduate education, CEMFI offers, jointly with the Universidad Internacional Menéndez Pelayo, a post-graduate programme which leads to a master's degree in Economics and Finance and to a PhD in Economics and Governance. It also



Detail of the interior courtyard in the CEMFI head offices.

organises, in collaboration with the Directorate General Banking Supervision, a diploma in Banking Supervision to provide training for those aspiring to form part of the credit institutions inspectorate. With respect to research, the CEMFI obtained accreditation from the María de Maeztu Excellence Unit, a distinction granted by the State Research Agency.

5.1 Reports and other annual publications

The Banco de España periodically publishes documents providing information on the activities that it pursues.¹⁰ This section briefly describes some of the Bank's key annual publications:



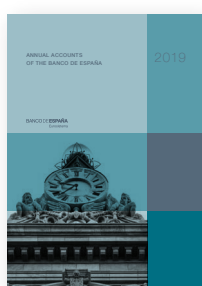
Annual Report

The *Annual Report* of the Banco de España reviews the economic and financial performance of the Spanish economy and the main risks and vulnerabilities facing it in the short and long term. The report places particular emphasis on the international context, the euro area and economic policy.



Institutional Report

The *Institutional Report* provides the public at large with an in-depth look at the organisation and structure of the Bank, and at its various functions. It also summarises the main activities carried out over the year.



Annual Accounts of the Banco de España

The *Annual Accounts of the Banco de España* comprise the balance sheet, the profit and loss account and the notes to the accounts. They are prepared in accordance with the Banco de España's internal accounting rules and policies, which are based on the accounting framework established for ESCB NCBs. In the cases not regulated by the ESCB accounting framework, the Banco de España applies its internal policies based on generally accepted accounting principles adapted to the special characteristics of the operations and functions of a central bank.

¹⁰ The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.).

The full list of Banco de España publications can be found on its website, at: <http://www.bde.es/f/webbde/Secciones/Publicaciones/Relacionados/Fic/Catalogopublicaciones.pdf>. Most of these documents are available in PDF format and can be downloaded from the Banco de España website at: <http://www.bde.es/bde/en/secciones/informes/>.



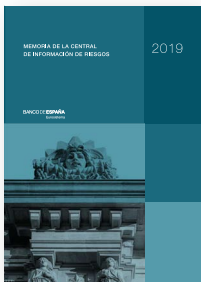
Supervision Report

The *Supervision Report* analyses the supervisory functions and actions performed by the Banco de España in the corresponding year. It includes, inter alia, a detailed description of how banking supervision is organised, the supervisory priorities and strategies adopted, the Banco de España circulars relating to supervision and the Bank's participation in international fora on banking regulation and supervision.



Annual Complaints Report

The *Annual Complaints Report* summarises the Institutions' Conduct Department's activities over the year. It includes, among other matters, a statistical analysis of the complaints proceedings conducted and a summary of the transparency legislation and best practice criteria applied by the aforementioned department during the year in question.



Central Credit Register Report

This report summarises the activities carried out by this area during the year, focusing on the salient matters affecting the credit risk information it receives and processes, and the services provided to the register's users.



Central Balance Sheet Data Office. Annual results of non-financial corporations

This Banco de España publication contains the last ten years' aggregate data of listed and unlisted Spanish non-financial corporations and corporate groups (balance sheets, income statements, employment and wages, ratios, etc.) and information compared with that of other European central balance sheet data offices.

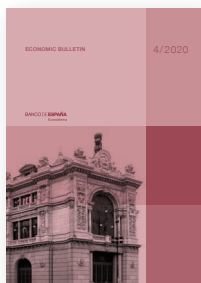


Financial Accounts of the Spanish Economy

This publication is divided into two chapters: the first summarises the non-financial national accounts prepared by the Spanish National Statistics Institute (INE, by its Spanish abbreviation) and the second contains the financial accounts of the Spanish economy. These form part of the Spanish System of National Accounts and are the statistical basis for the financial analyses of the economy, including those contained in the Banco de España's *Annual Report* and in its quarterly reports on the Spanish economy.

5.2 Other publications

In addition to the publications described in Section 5.1 above, the Banco de España publishes, with varying frequency, other documents, bulletins and reviews, which notably include the following:¹¹



Economic Bulletin

The *Economic Bulletin* is a quarterly publication analysing the macroeconomic performance of the Spanish economy. This publication comprises the “Quarterly Report on the Spanish Economy”, a chronological list of the Analytical Articles and Economic Notes published during the related quarter on the Bank’s website, together with various boxes.

The “Quarterly Report on the Spanish Economy” analyses recent developments in the Spanish economy, within the international and euro area context. The Analytical Articles present various subjects relating to the economy and finances of Spain, the euro area and the international environment. The Economic Notes focus on specific topics, linked both to the economic outlook and to methodological and statistical issues. Lastly, the boxes hone in on certain salient economic topics.



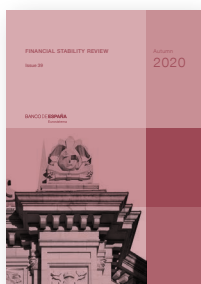
Statistical Bulletin

The *Statistical Bulletin* is a monthly publication containing the different economic statistics compiled by the Banco de España (on the credit system, other financial institutions, financial markets, general government and the balance of payments); a summary of general economic statistics, compiled by the INE and other public bodies; and a set of indicators for other countries.



Financial Stability Report

The *Financial Stability Report* is a half-yearly publication (spring and autumn) providing a forward and backward-looking analysis of the main risks to the Spanish financial system’s stability.



Financial Stability Review

The *Financial Stability Review* is a half-yearly publication that serves as a platform for communication and dialogue regarding financial stability issues, with a particular focus on matters related to macroprudential policy, regulation and financial supervision. It is an open publication featuring collaborations by Banco de España

¹¹ Box 2.2 in Chapter 2 of this Report analyses in greater detail some of the publications prepared by the Banco de España in 2020.

staff and financial sector researchers and professionals which are subject to an anonymous referee process.



Research Update

The *Research Update* summarises, every six months, the research activities at the Banco de España. It is targeted at the international research community, and is therefore published in English.

5.3 Relationship with the Spanish Parliament and other institutions. The Governor's and Deputy Governor's calendars

5.3.1 Relationship with the Spanish Parliament

The Banco de España submits some of its regular reports and publications to the Spanish Parliament. In addition, in accordance with the Law of Autonomy, the Governor, as the representative of the Banco de España, appears before the Spanish Parliament to present the *Annual Report*, a publication through which the Bank contributes to the dissemination of its economic analyses. The Governor also appears before the Spanish Parliament to report on different matters.

In 2020 the Governor appeared before the Spanish Parliament six times:

- **Appearance before the Parliamentary Economic Affairs and Digital Transformation Committee, 18 May.**

As a result of the crisis induced by COVID-19, the Governor's appearance focused on analysing the impact of the pandemic on the Spanish economy and on financial stability. He then referred to the containment role played by the economic policies — fiscal, monetary and prudential — adopted during the first phase of the pandemic, when the economy was put into hibernation. He concluded his appearance by reflecting on how economic policies should be designed and function once the first phase of the economic crisis was over.

- **Appearance before the Parliamentary Committee for the Economic and Social Reconstruction of Spain after COVID-19, 23 June.**

In his appearance, entitled “The main post-pandemic challenges for the Spanish economy”, the Governor analysed the economic consequences of the pandemic and presented the Banco de España's macroeconomic



Appearances by the Governor of the Banco de España, Pablo Hernández de Cos, before the Parliamentary Committee for the Economic and Social Reconstruction of Spain after COVID-19 (left) and the Parliamentary Economic Affairs and Digital Transformation Committee (right).

projections under various economic scenarios. Also, with a view to designing a forceful response to the COVID-19 crisis, the Governor put forward the strategic priorities that should inform economic policy during the second phase of the pandemic (marked by the gradual easing of lockdown and reactivation of the economy).

In addition to short-term measures, he concluded his appearance by stressing the need to devise an urgent, ambitious, comprehensive and assessable structural-reform and fiscal-consolidation strategy built on a broad consensus aimed at increasing the Spanish economy's growth.

- **Appearance before the Parliamentary Economic Affairs and Digital Transformation Committee to present the Banco de España *Annual Report 2019*, 6 October.**

The purpose of this appearance was to present the Banco de España *Annual Report 2019* approved by its Governing Council and published in June 2020. The 2019 report was solely concerned with the economic impact of the pandemic in Spain and the risks to financial stability.

It also set out the role that economic policies should play to minimise the impact of this crisis on citizens' welfare. The Governor concluded his appearance by providing an update on Spain's economic figures as a result of the COVID-19 pandemic.

- **Appearance before the Parliamentary Budget Committee in relation to the draft State Budget for 2021, 4 November.**

As part of the process to debate and approve the State Budget for 2021, the Governor began his appearance by describing recent developments in the Spanish economy and assessing the Government's macroeconomic projections, in light of the Banco de España's projections. He then analysed the main revenue and expenditure measures included in the draft State Budget, the general budgetary policy stance for 2021 and the expected developments in Spanish government debt. To conclude, he set out the main medium-term challenges facing the Spanish economy.

— **Appearance before the Upper House Parliamentary Budget Committee in relation to the draft State Budget for 2021, 11 December.**

As part of the passage through parliament of the State Budget for 2021, the Governor appeared before the Upper House Parliamentary Budget Committee to assess the draft State Budget. He began his appearance by describing recent economic developments and set out how the economy might perform over the coming quarters, referring to the Banco de España's macroeconomic projections. He then assessed the macroeconomic projections in the draft State Budget. Afterwards, the Governor assessed its key figures, highlighting the overall fiscal policy stance, the revenue and expenditure items, and the risks that could affect achievement of the budget deficit target. He concluded his appearance by referring to the main challenges for fiscal policy to tackle in the medium term.

— **Appearance before the Parliamentary Audit Committee on Democratic Quality, the Fight against Corruption, and Institutional and Legal Reforms, 22 December.**

During this appearance, the Governor analysed the main arguments for the independence of the economic supervisors and authorities and highlighted possible channels for strengthening the Banco de España's independence and enhancing the financial supervision model. For more details, see Box 1.5.

The Governor also conveyed to the parliamentary spokespersons on the **Committee on the Monitoring and Assessment of the Toledo Pact Agreements** the Banco de España's contribution to reflection on the pension system in the wake of the pandemic.¹²

The Deputy Governor appeared before the **Parliamentary Ecological Transition and Demographic Challenge Committee on 10 September 2020.**

¹² See "The Spanish pension system: an update in the wake of the pandemic", *Occasional Papers*, No 2106, Banco de España.

APPEARANCE BY THE GOVERNOR OF THE BANCO DE ESPAÑA BEFORE THE PARLIAMENTARY AUDIT COMMITTEE ON DEMOCRATIC QUALITY, THE FIGHT AGAINST CORRUPTION AND INSTITUTIONAL AND LEGAL REFORMS

The Governor began his appearance before Parliament by reviewing **the rationale behind the independence of economic authorities and supervisors**. He emphasised that independent authorities and supervisors provide greater legal certainty and are more effective when fulfilling their mandates, compared to other alternative institutional designs.

Next, the Governor mentioned **the elements that determine the formal independence of an institution**, and their materialisation in the case of the Banco de España. In particular, he pointed out that the independence of the Bank (legally guaranteed under its 1994 Law of Autonomy, the TFEU, the Statutes of the ESCB and the SSM Regulation) is fully recognised from an **institutional, legal, functional, staffing and financial** standpoint.

The Governor also stressed that independence is a necessary, but insufficient, condition for the sound performance of independent bodies. On this basis, he explained that the Banco de España, as a necessary complement to its independence, is fully committed to the principles of transparency and accountability to society and its representatives.

The Governor then pointed out some possible channels for strengthening the independence of the Banco de España, in areas such as: i) the appointment of the Governor and other members of the governing bodies; ii) the term of office of the members of the decision-making bodies; iii) the resolutions of the Banco de España in the supervisory sphere, so that they bring administrative proceedings to an end; and iv) the attendance rules for the two ex officio council members.

In addition, the Governor reflected on new institutional schemes based on the principle of separating prudential and conduct supervision, as a key element of a future

debate on improving the financial supervisory model in Spain. He also advocated uniting functions relating to the resolution of credit institutions under the banking supervision authority (the Banco de España), in line with the existing framework in other European countries.

The Governor concluded his address by referring to the institution's control mechanisms and transparency standards, and to certain aspects related to its governance. In relation to these issues, he noted the advisability of reinforcing the accountability mechanism with more regular appearances by the Governor before Parliament; he mentioned the objective of improving the quality of our statistics and publications, along with their clarity and accessibility, bringing them within reach of the broadest possible audience; and he expressed the Banco de España's commitment to continue to foster the collegiate functioning of its governing bodies and to strengthen the functioning of its committees and commissions.



Appearance by the Governor of the Banco de España, Pablo Hernández de Cos, before the Parliamentary Audit Committee on Democratic Quality, the Fight against Corruption, and Institutional and Legal Reforms.

This appearance took place as part of the passage through parliament of the draft Climate Change and Energy Transition bill. The Deputy Governor began her appearance with a series of thoughts on the role of public policies in managing the energy transition. She also analysed the role that the banking sector could and should play in this process, including business, regulatory and supervisory matters. She concluded by referring to the lack of reliable and consistent information as an impediment to investment, supervision and control-related decision-making.



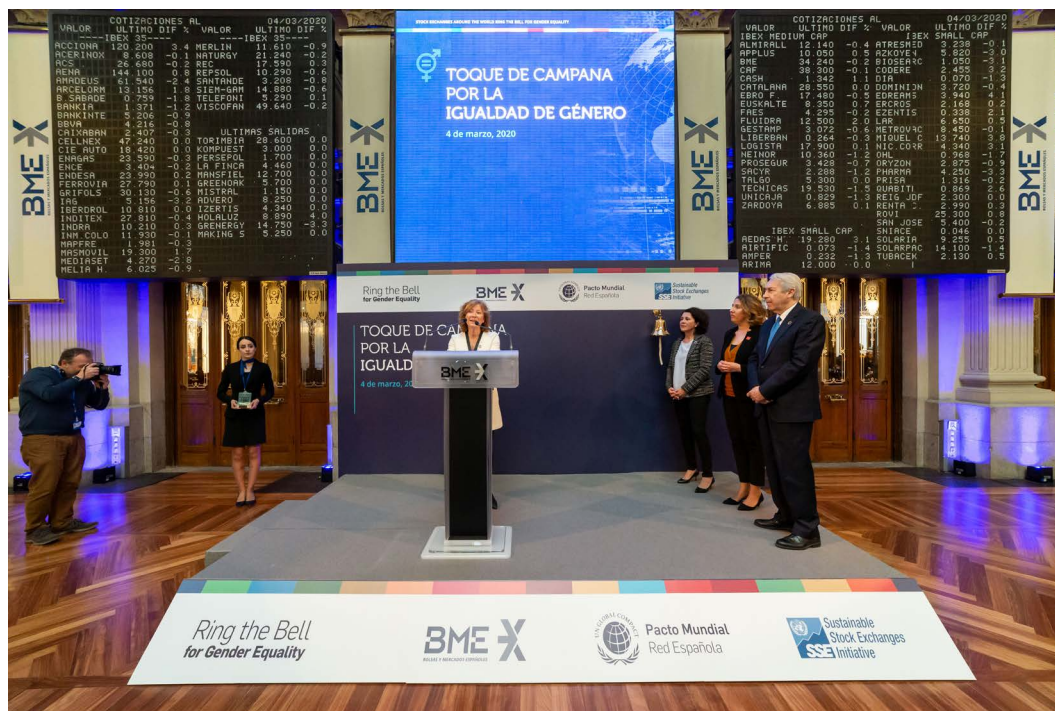
Appearance by the Deputy Governor of the Banco de España, Margarita Delgado, before the Parliamentary Ecological Transition and Demographic Challenge Committee.

5.3.2 Relationship with other bodies

In a year marked by difficulties, the Banco de España discharged its government advisory function, pursuant to the Law of Autonomy, including notably the meetings with various Spanish Government representatives.

Mention should also be made of the meetings held by the **Spanish macroprudential authority (AMCESFI)**, a collegiate body reporting to the Ministry of Economic Affairs and Digital Transformation. The Governor of the Banco de España is Vice-Chair of this authority's Council. The Deputy Governor sits on the Council and chairs its Financial Stability Technical Committee, in which the Director General Financial Stability, Regulation and Resolution, and the Director General Banking Supervision also participate. Also noteworthy are the meetings held with the **National Securities Market Commission (CNMV)**, (the Deputy Governor is an ex officio member of this body); the **Deposit Guarantee Scheme for Credit Institutions (DGS)**, (whose Management Committee is chaired by the Deputy Governor); and the **Spanish executive resolution authority (FROB)**, (the Deputy Governor is Vice-Chair of its Governing Committee). Different Banco de España Directors General are also members of the governing bodies of the aforementioned authorities.

Lastly, the Banco de España has collaborated closely with various State constitutional bodies and other institutions and bodies, including the Independent Authority for



Margarita Delgado, the Banco de España's Deputy Governor, giving a speech at the Ring the Bell for Gender Equality event at the Madrid Stock Exchange.

Fiscal Responsibility (AIReF), the National Commission on Markets and Competition (CNMC), the Official Credit Institute (ICO) and the National Statistics Institute (INE).

5.3.3 Calendars and public appearances

To boost the institution's transparency vis-à-vis society, the Banco de España publishes monthly the **Governor's and Deputy Governor's calendars on its Transparency Portal**. These calendars provide information about institutional meetings, appearances, conferences, speeches and meetings with third parties (including the media), unless the dissemination of such information should be considered harmful to the public interest.

The speeches given by the Governor and Deputy Governor at different fora and bodies are available on the Banco de España's website.

6 HEADWAY ON THE STRATEGIC PLAN 2024 IN 2020

After it was approved by the Governing Council, the Banco de España's Strategic Plan 2024 was launched in January 2020. The Plan was reviewed in the first quarter of 2020 as a result of the outbreak of the COVID-19 health crisis and those strategic projects geared towards providing a swift and effective response to the crisis were prioritised.

The impetus from prioritising those strategic projects, together with the development of the others, produced certain noteworthy results in 2020. These are bringing the Banco de España closer to attaining its strategic objectives and its vision of being an outstanding and dynamic central bank that is committed to society.

Figure 1.3 shows the most significant progress made in 2020 vis-à-vis the Strategic Plan's five objectives detailed in Box 1.6.



The Banco de España's Strategic Plan 2024 was launched in January 2020. The Plan has five objectives.

STRATEGIC PLAN

With the aim of contributing to the better fulfilment of its functions, in an increasingly changing economic, social and technological setting, in 2019 the Banco de España set about preparing a strategic plan to promote citizens' knowledge of the mission, vision and values of the

institution. To this end, on 9 January 2020 the Governing Council approved the Strategic Plan 2024. The plan defines five objectives to be attained and which will be pursued through various projects and initiatives, in which the members of the organisation will be involved.

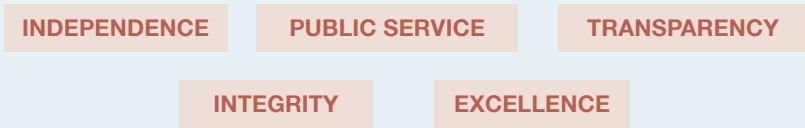
MISSION

The mission of the Banco de España is to support stable economic growth. To this end, it pursues both price and financial system stability and, through its analysis, contributes towards other economic policy-making

VISION

An outstanding and dynamic central bank committed to society

VALUES



STRATEGIC OBJECTIVES

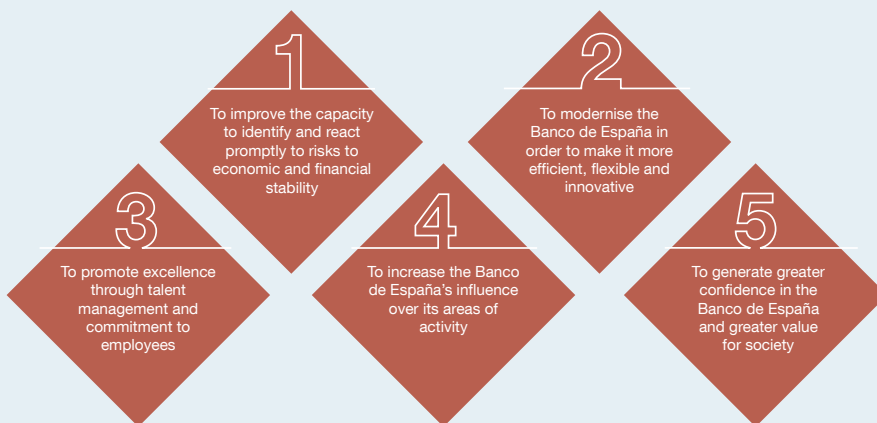


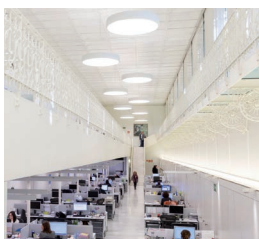
Figure 1.3

HEADWAY MADE ON THE STRATEGIC PLAN 2024 IN 2020



OBJECTIVE 1. TO REACT PROMPTLY TO RISKS TO ECONOMIC AND FINANCIAL STABILITY

The **Financial Stability Committee (FSC)** was created in the first quarter of 2020. The committee is chaired by the Governor with the mandate to identify, assess and contribute to the management of risks to economic and financial stability, and to report on the position of the Banco de España in the various relevant macroprudential and sustainable finance fora and committees in which it participates, including the Spanish macroprudential authority (AMCESFI). Also, internally at the Banco de España, the **Forward-Looking Exercise on Spanish Banks (FLESB)** took into account the impact of the economic policy measures in the wake of the pandemic and the modelling of Spanish banks' international business was completed.



OBJECTIVE 2. TO MODERNISE THE BANCO DE ESPAÑA

At the beginning of 2020, the **Digital Transformation Office** was created as part of the **Digital Transformation Programme**. Over the course of the year, nine robotic process automation applications were developed.

In response to the crisis, the scope of the project to develop the **data processing and analysis technology** platform was also extended to **improve the CCR microdata available**. The aim is to incorporate greater case-by-case monitoring capabilities for credit standards and the risk profile of the transactions for monitoring and analysis purposes.



OBJECTIVE 3. TO PROMOTE EXCELLENCE THROUGH TALENT MANAGEMENT

To boost professional development at the Bank, **employees are being encouraged to move between different areas and roles**. Training and development linked to roles and career stages are being organised and a diversity management plan is being readied.

Increased **work from home** opportunities have been afforded to staff as a result of the current remote working context. A connected devices model is being developed to facilitate the attainment of results in a more flexible environment, regardless of where they are located.

Also, the Bank conducted its **first work climate survey** in the fourth quarter of 2020. The survey will enable measurement of some of the indicators related to several Strategic Plan initiatives.



OBJECTIVE 4. TO INCREASE THE BANCO DE ESPAÑA'S INFLUENCE

As part of taking on a more important role in economic and social debates, **in the second quarter of 2020 the Bank published its analysis and research priorities for the coming years**. By doing so, the Bank aimed to strengthen its decision-making and sway in the main domestic and global economic debates. These topics are addressed in greater detail in **Section 2 of Chapter 2** of this Report.

By disclosing them, the Banco de España took a further step in its policy of research activity transparency, while seeking to promote collaboration in these areas with academia and the community of economic analysts.

Also, the fourth quarter of 2020 saw the launch of the **first non-financial corporation survey in Spain**. The survey's aim is to regularly compile qualitative information on non-financial corporation's business activity. Given the current setting, the survey included some questions on the impact of the pandemic on firms, the strategies adopted to withstand these effects and the degree of use of the various economic policy measures adopted to mitigate the effects of COVID-19 on activity and employment.



OBJECTIVE 5. TO GENERATE GREATER CONFIDENCE IN THE BANCO DE ESPAÑA

To foster bank conduct best practices, information on the measures adopted by the Government in the context of the COVID-19 health crisis was included on the Bank Customer Portal throughout 2020. Similarly, to improve the legislation on banking products and services, the Banco de España approved Circular 4/2020 on the advertising of banking products and services.

In addition, as part of the Banco de España's and the CNMV's joint drive to foster and boost the **national financial education strategy**, collaboration agreements were entered into with the Ministry of Education and Vocational Training and — in January 2021 — the Ministry of Consumer Affairs to develop the Financial Education Plan (FEP), as detailed in Section 2 of Chapter 3 of this Report.

SOURCE: Banco de España.

