

Foreword by the governor Pablo Hernández de Cos



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The commitment of the Banco de España to report on our main activities in a transparent manner is reflected, inter alia, in the annual publication of the Banco de España's Institutional Report, which seeks to paint a simple and graphic picture of our structure and organisation, and of our main activities. The format of this report, with numerous references to other articles and publications of the Bank, provides a more accurate and clearer picture of our organisation and of the variety of activities we carried out in 2022. In short, it is a practical guide to the Banco de España and its functions and actions.

The unjustified invasion of Ukraine by Russia in February 2022 and its economic, political and social consequences greatly shaped the course of economic activity, the design and implementation of economic policy, as well as the evolution of risks affecting financial stability, all of which had a direct bearing on the functions of the Banco de España. In particular, the invasion gave rise to a highly significant increase in the prices of energy and other commodities that the euro area economies need to import, against a backdrop of a pronounced spike in world inflation, which, overall, led to significant falls in real incomes. Furthermore, the necessary resounding monetary policy reaction needed to contain inflationary pressures led to a tightening of financial conditions in the world's major economies.

Against this backdrop, the outlook for economic growth in the euro area countries was gradually revised downwards over the course of 2022. Nevertheless, both in the European economy as a whole and in Spain, greater resilience than expected was observed, stemming, inter alia, from the fact that the extraordinary increase in energy prices observed in the wake of the Russian invasion of Ukraine and the bottlenecks in global value chains that arose after the opening of the restrictions associated with the pandemic, were significantly corrected. In any event, in 2022 policy action was implemented in an environment of extreme uncertainty due to both the developments in the war in Ukraine and the level and degree of persistence of inflationary pressures.

To respond appropriately to the new challenges of this milieu, we conducted a mid-term review of our Strategic Plan, focusing our analytical and research priorities, inter alia, on the analysis of inflationary episodes, the impact of the energy crisis,

structural reforms, the implementation of the European Next Generation EU programme, the effects of the war in Ukraine, and the impact of increases in interest rates and inflation on the financial vulnerability of households and firms. These priorities were embodied both in the contents of periodic publications — for example, the Annual Report or the Financial Stability Report — and in numerous specific studies on these issues. The result of these analyses provided information to, on the one hand, internal and Eurosystem decision-making in the fight against inflation and, on the other, contributed to the advisory work entrusted to the Banco de España.

In 2023, tensions in financial markets arising from the difficulties at some US regional banks and at Credit Suisse have contributed to the high level of uncertainty, although the swift and assertive decisions taken by the US and Swiss authorities have been essential to ensure financial stability and restore suitable market conditions.

The Spanish banking sector, as that of the euro area as a whole, is facing this scenario with a high degree of resilience and solid capital and liquidity positions. The good standing of the banking sector, together with the forceful response of the authorities, has enabled banks to continue providing financing to the economy despite the onset of such serious shocks such as first, the pandemic, and then the war in Ukraine. Moreover, they have improved their solvency levels over this period and continued to reduce their default ratios. They have also increased their profitability, so that in 2022 it exceeded the cost of capital, and have benefited from the positive effect of rising interest rates on net interest income. The results of the stress tests we conducted confirm the sector's high degree of resilience, even in hypothetical highly adverse scenarios.

As regards the Banco de España's supervisory activity within the framework of the Single Supervisory Mechanism, throughout 2022 it focused on pre-empting and mitigating the potential adverse effects of the macroeconomic environment even before the most recent tensions became apparent. Indeed, priorities included strengthening banks' solvency and stability by assessing banks' interest rate and liquidity risk management, business model, credit risk, digital transformation strategy and governance, all of which are crucial in a context of rising interest rates. These actions were combined with the monitoring of emerging risks, particularly climate, cyber and outsourcing risks.

With the aim of increasing the contribution of value to society, the creation of the Directorate General for Financial Conduct and Banknotes in April 2022 will, on the one hand, enable us to strengthen supervision of the conduct of institutions, which has a direct impact on financial stability, the reputation of the sector and the confidence of its customers; and, on the other, it will help us to coordinate and reinforce our commitment to economic and financial education, which is vital for the well-being

of citizens. In addition, it will allow us to harness all the potential of our various offices in Spain.

Specifically, in the area of supervision of the institutions' conduct, numerous actions were carried out in relation to advertising and distance marketing of banking products and services, payment services, consumer credit and real estate credit. Of particular note in the area of financial education were the actions in various fields, such as personal finance, economic education, the use of means of payment and training on banknotes and coins. The ability to access the target population in most of these initiatives relies on an extensive network of partner organisations and agreements, such as, for example, the one entered into with RTVE to disseminate financial literacy.

In order to promote continuous improvement and increase the transparency of our institution, in 2022 the first three external evaluations commenced as part of the systematic programme of independent evaluations, which will address the Banco de España's research activity, the preparation of macroeconomic projections and the use of supotech tools in prudential supervision. Also, to bring our institution closer to the public, the Bank participated for the first time in Open Government Week, offering workshops in which, among other aspects, the functions of the institution and its publications were explained.

Modernising the Banco de España to make it more efficient, flexible and innovative is one of our strategic objectives. As regards digitalisation, our institution continued with the robotisation of processes and the automation of tasks, which enabled resources to be allocated to the performance of actions with greater added value. The Digital Data Analytics Hub was also launched, offering new cross-cutting data analytics capabilities, aimed at the exploitation and visualisation of data through the use of new technologies and artificial intelligence systems.

In the area of environmental sustainability, the analysis of the implications of climate change for the economy and the identification of the risks associated with climate change for the financial system also constituted analytical and research priorities for our institution. As part of our institutional social responsibility, we continued to make the Bank's Collection available to society. In view of the success demonstrated by high visitor numbers, the period to visit the exhibition "*2328 reales de vellón. Goya and the origins of the Banco de España Collection*" -which opened our permanent exhibition space-, was extended. Subsequently, the exhibition "Flowers and fruits" was held.

This Institutional Report contains many more data and references, which show, once more, the great work that the staff of the Banco de España has performed, in an efficient and committed manner, to ensure that our institution fulfils the functions assigned to it and promotes stable economic growth. To this end, it is necessary to

persevere in the pursuit of price and financial system stability, and to continue contributing with our analysis to the formulation of other economic policies.

Pablo Hernández de Cos
Governor of the Banco de España