

# Foreword by the Governor Pablo Hernández de Cos



Cover

Contents

Foreword by the Governor

Introduction by the Deputy Governor

Timeline

Chapter 1

Chapter 2

Chapter 3

Chapter 4

Acronyms and abbreviations

List of photographs

Banco de España publications

Since its first publication eight years ago, one of the main objectives of the **Banco de España's Institutional Report has been to bring people closer to the reality of our institution**, in its dual role as central bank and national banking supervisor, fully embedded in the European institutional structure. To this end, we provide relevant information, in an accessible format, about our functions, structure and organisation, our main activities, actions in the area of institutional social responsibility and the financial situation of the institution. In short, with this Report we seek to fulfil our commitment to the principles of transparency and accountability that underpin the work of the Banco de España and are an essential complement to our **independence**.

In this spirit of accountability, I would like to contextualise the functions and objectives of the Banco de España, as a national central bank within the framework of the Eurosystem, in order to be able to properly interpret the causes and consequences of the fact that, for the first time in its history, the Banco de España has not reported any profits. Interested readers can delve deeper in my [Banco de España blog](#) post as well in as the publications<sup>1</sup> that address this subject, available on our [website](#).

First, with regard to the financial information presented by the Banco de España in this *Institutional Report*, it should be noted that **our objective as a central bank is not to make a profit, but to fulfil our mandate** and, in particular, to maintain price stability. The Banco de España's other decisions are part of its functions under the Law of Autonomy and are not influenced by their possible implications for the profit and loss account.

**Second, the failure to generate profits is temporary.** The very structure of our balance sheet generally implies a profit is generated, since the return on assets usually exceeds the cost of liabilities. For instance, the banknotes issued by a central bank are a zero-interest bearing liability. However, following the 2014-2022 period, during which our balance sheet expanded considerably as a result of the “unconventional” monetary policy measures adopted to combat below-target inflation, the rapid policy interest rate hikes that began in 2022 to address high

---

1 “Why a central bank's bottom line doesn't matter (that much)?”. *Economic Bulletin - Banco de España*, 2024/Q2, 01.

inflation are currently having an immediate impact on the cost of liabilities of Eurosystem central banks, including the Banco de España. Meanwhile, the income from the monetary policy portfolio is feeling the effect of higher rates much more slowly. Consequently, this mismatch between the return on assets and the cost of liabilities is temporary. How long it will last will depend on how quickly policy rates are cut, which will be determined by how fast inflation comes down. In any case, the mismatch will gradually shrink as monetary policy assets are redeemed, or are reinvested at the current higher market rates.

Third, the Banco de España's *Annual Accounts* show that **expenses outweighed income by €6,612 million in 2023. The release of provisions for this amount means that profit for the year is zero.** Financial costs also look likely to remain above financial income in 2024.

Fourth, aware from the outset of the risks inherent to unconventional monetary policy measures, **the Banco de España has followed a prudent provisioning policy to address these risks, which allowed us to accumulate provisions amounting to €33,000 million euros in 2022, before the risks materialised.** According to the foreseeable scenarios, this buffer will comfortably cover the temporary mismatch between financial income and expenses.

As a result, **at no point will our financial strength or our ability to perform our functions and act with the independence required of a central bank** be compromised.

I would also like to take the opportunity, in this foreword to what is the last Institutional Report published during my term as governor, to **discuss some of the main milestones reached so far within the framework of the first Strategic Plan,** which was launched by the Banco de España in 2020 with the horizon set at 2024.

Thus, in relation to the **first objective: to improve the capacity to identify and react promptly to risks to economic and financial stability,** the establishment and work of the Financial Stability Committee have enhanced our capacity to analyse emerging risks to financial stability in an integrated and cross-sectional way and to propose actions for their management and mitigation.

As for the **second objective: to modernise the Banco de España in order to make it more efficient, flexible and innovative,** we should highlight the automation of tasks and the implementation of robotisation and data analytics projects under the Digital Transformation Programme, which have allowed us to expand our capabilities and simultaneously achieve greater efficiency in the use of resources. Also noteworthy is the strengthening of cybersecurity and the adoption of a data governance model (including the creation of the Data Office) which, together with

the launch of a new technological platform, facilitate its operation with new technologies, such as artificial intelligence.

To achieve this modernisation objective, an **independent Evaluation Programme has been launched**, aimed at institutionalising a process of continuous improvement and to also serve as an additional element of transparency about our actions. So far, we have completed and published the results of evaluations on: a) dissemination activities; b) research activities, and c) macroeconomic projections. The results of the external evaluation of the application of technological innovation to the prudential supervision function will soon be published.

With regard to the **third, more internal objective: to promote excellence through talent management and commitment to employees**, we should note the move to more flexible forms of working, the promotion of career development and diversity management and the review of our appraisal systems. The excellence of our employees is what underpins the rigour of our analyses and actions.

As for the **fourth objective: to increase the Bank's influence over its areas of activity**, we have strengthened and clearly set out our analytical and research priorities to better understand the challenges posed by the transformations under way in the current economic and social environment, so that we can propose, based on evidence, the best public policies to tackle them. In addition, we have increased the visibility and relevance of our publications in the public debate. In order to boost the Banco de España's influence at the national, European and global levels, we have also enhanced the coordination of the work performed in the main international groups, fora and institutions.

Finally, in relation to the **fifth objective: to generate greater confidence in the Banco de España and greater value for society**, we have promoted actions in the field of financial education and strengthened conduct supervision with the creation of a directorate general that has allowed us to establish new supervisory tools to detect risks in institutions' conduct vis-à-vis their customers, as well as to reinforce the information and tools available to the public, such as simulators or guidelines. Our supervision of the conduct of financial institutions is undergoing an independent external evaluation this year, the conclusions of which will help the Banco de España to further improve this function, which is so important for citizens.

In addition, guided by the firm conviction that we need to strengthen our ties with society, we have redesigned the Transparency Portal and the Banco de España website to give it a more modern layout for more intuitive browsing, and launched an informative blog, which, as we have seen, periodically analyses economic and financial issues of key relevance to the public.

Before concluding, I would like to thank the entire staff of the Banco de España and its managers for their work in achieving the objectives we had set for ourselves, with the **vision of making the Banco de España a leading and dynamic central bank that is committed to society.**

**Pablo Hernández de Cos**  
Governor of the Banco de España