

4

FINANCIAL INFORMATION OF THE BANCO DE ESPAÑA



951 billion euros
Total assets

The Banco de España's total assets decreased in 2023 to 951 billion euros, as a result of the restrictive monetary policy stance adopted in mid-2022 due to the major increase in inflation



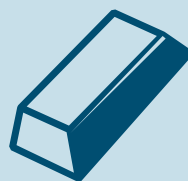
606 billion euros
Securities held for monetary policy purposes

Since 2015 the Banco de España has acquired a significant volume of securities in the framework of monetary policy decisions, which at the end of 2023 had reached a value of 606 billion euros



-5.8 billion euros
Result of monetary policy operations

The result of monetary policy operations in 2023 was -5.8 billion euros, compared to 4.2 billion euros obtained in 2022, due to the continuous increase in official interest rates, which have a faster impact on the cost of liabilities than on the return on assets



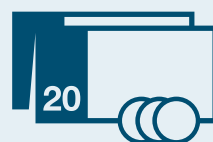
16.9 billion euros
Gold and gold receivables

Holdings of ounces of fine gold have remained stable over the last few years, although they have steadily increased in value, reaching a market price of €16.9 billion at the end of 2023



51.4 billion euros
Financial resources

Capital and reserves, general provisions and revaluation accounts, which comprise the Banco de España's financial resources, increased steadily over the period 2019-2022, but fell in 2023 due to the application of general provisions to cover losses



0 million euros
Earnings

The Banco de España did not report a profit in 2023. The purpose of a central bank is not to make a profit, but to discharge its mandate to maintain price stability

Chapters 1 and 2 of this Report describe the most important functions and activities of the Banco de España. This chapter aims to show how many 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 balance sheet and profit and loss account headings of the Banco de España is presented, showing the changes over the last five years and linking them to the main events and monetary policy measures adopted in that period.¹ To conclude, the risks and uncertainties the Banco de España faces as a result of its activities are described and information on the policies pursued to mitigate them is provided.



The *Annual Accounts of the Banco de España* show a true and fair view of the institution's wealth, financial and economic position.

¹ The *Annual Accounts of the Banco de España* provide more detailed information on the composition of the balance sheet and profit and loss account and can be accessed on the institution's website.

The Banco de España's balance sheet provides a true and fair view of its economic and financial situation. On the asset side, it contains its resources and, on the liability side, the sources of funding used.

The Banco de España's financial functions and activities are reflected on its balance sheet as follows:

The Eurosystem's **monetary policy operations** are the result of the decisions adopted by the ECB's Governing Council. These decisions are executed in a decentralised manner by the euro area national central banks and are included in their respective financial statements. Thus, the asset side of the Banco de España's balance sheet reflects the purchases of monetary policy securities and the loans granted to Spanish credit institutions, and the liability side reflects the deposits held by those entities.

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. These payments are recorded as intra-Eurosystem claims or liabilities (in the case of the Banco de España, a net liability position).

Legal tender **banknote issuance** is recorded on the liability side of the balance sheet and the allocation of euro banknotes among the euro area national central banks, according to their banknote allocation key,³ gives rise to intra-Eurosystem balances (in the case of the Banco de España, they are reflected on the asset side because the banknotes put into circulation are less than those that correspond to it under the allocation key).

The **treasury service** provided to the Treasury (and to other public institutions and bodies) is performed through accounts opened at the Banco de España recorded on the liability side of the balance sheet under euro-denominated liabilities to other euro area residents.

² TARGET is the platform owned and operated by the Eurosystem for processing large-value payments in euro in real time. It is used both by European Union central banks and commercial banks to make transactions, on their own behalf or on behalf of their customers.

³ The "banknote allocation key" is the result of applying 92% to the Eurosystem participation key —the remaining 8% is assigned to the ECB—. At end-2023, the Banco de España's banknote allocation key was 10.88%.

SIMPLIFIED BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31.12.2023

Million euros

ASSETS		LIABILITIES	
Gold and foreign currency-denominated assets	94,120	Banknotes in circulation	170,553
Euro-denominated own funds portfolio	26,819	Deposits held by credit institutions	257,756
Lending related to monetary policy	22,777	Intra-Eurosystem liabilities	391,269
Securities held for monetary policy purposes	605,536	Other liabilities	79,863
Intra-Eurosystem claims (banknotes)	184,850	Financial resources	51,445
Other assets	16,784		
TOTAL	950,886	TOTAL	950,886

SOURCE: Banco de España.

The Banco de España also manages its own euro-denominated **financial assets**, comprising debt securities and set out in the balance sheet.

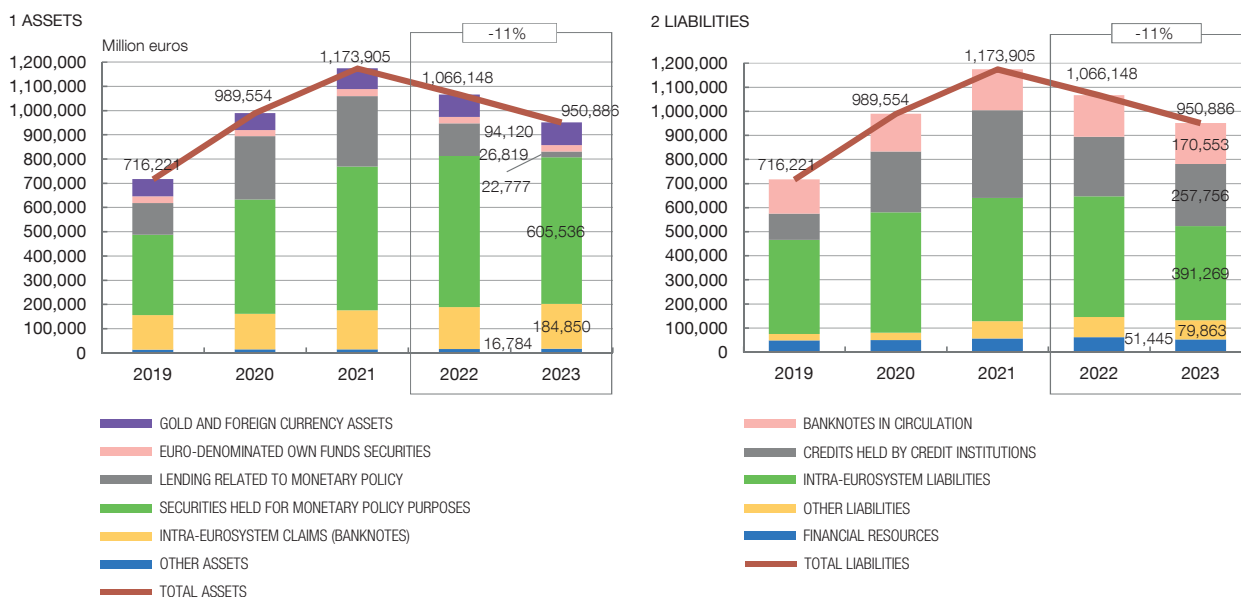
Schema 4.1 depicts the Banco de España’s simplified balance sheet.

After a cycle of monetary policy adjustment that lasted more than a decade, in 2022 the ECB began a process of progressive normalisation of monetary policy. During the expansionary phase, the Banco de España’s balance sheet, like that of the rest of the Eurosystem, often experienced significant annual growth. Specifically, large scale asset purchase programmes and the provision of abundant long-term liquidity to credit institutions resulted in annual increases of more than 20% between 2015 and 2017, which were more contained in 2018 and 2019. Subsequently, the outbreak of the pandemic and the ECB’s implementation of additional measures to mitigate the effects of the economic crisis caused by it brought significant annual increases back to the balance sheet, close to 40% and 20% in 2020 and 2021, respectively.

Chart 4.1

BALANCE SHEET OF THE BANCO DE ESPAÑA

The main asset and liability headings 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.

The expansionary trend was interrupted in 2022 when, in view of rising inflation, the ECB initiated a process of monetary policy normalisation, raising official interest rates and adjusting a number of other monetary policy parameters. Between July 2022 and September 2023, the ECB increased its reference rate from the 0% established in March 2016 to the 4.5% in effect at the end of 2023, through ten consecutive increases. As far as the balance sheet is concerned, normalisation is taking place gradually, in line with the design previously announced by the ECB. In 2022, the reduction in the Banco de España’s balance sheet was 9%, and in 2023, it was 11%. A similar reduction also occurred in the Eurosystem’s overall balance sheet.

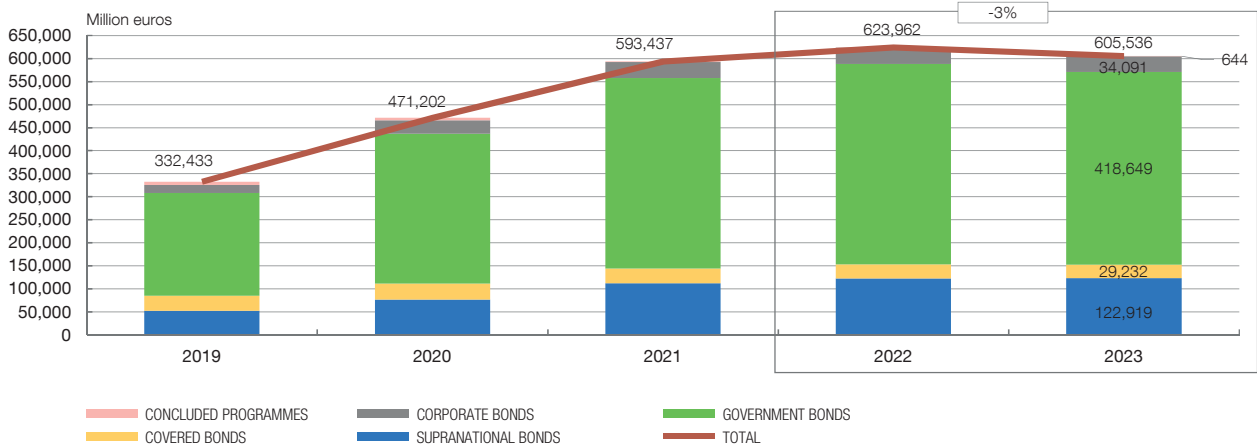
In particular, on the Banco de España’s balance sheet, the expansionary actions of the first phase were directly reflected in a significant increase in monetary policy loan items and monetary policy portfolios, on the asset side, and in deposit items from credit institutions and Intra-Eurosystem liabilities (TARGET), on the liability side. In the new restrictive monetary policy stance, the reductions largely concentrated on two of these items: monetary policy loans in assets and Intra-Eurosystem liabilities (TARGET) on the liability side. Chart 4.1 shows the evolution of the Banco de España’s balance sheet over the last five years.

1.1 Assets

At the 2023 close, **the monetary policy portfolio accounted for more than half (64%) of the Banco de España’s total assets.** The assets purchased by the Banco de España under the various Eurosystem asset purchase programmes, which form part of the non-standard monetary policy measures, are recognised under the corresponding balance sheet heading. These programmes were launched at various points in time since 2009. Each one was aimed at a specific type of security and all are issued by euro area residents. Chart 4.2 depicts the changes in this heading over the last five years.

The **asset purchases** made as part of these monetary policy decisions are performed by the Eurosystem national central banks in accordance with the principle of decentralised implementation. Since 2015, the Banco de España has made sizeable purchases under these programmes and, at end-2023, its holdings totalled 605,536 million euros.⁴ These assets were essentially acquired under the APP, launched in 2014, and the PEPP, launched in 2020 in response to the pandemic. In 2022, the ECB Governing Council resolved to end net purchases of securities under both programmes, and to continue reinvestment of the principal of maturing securities in both cases, as part of a new monetary policy direction. As of June 2023, the reinvestments of the APP programme, which had already been partial since March of that year, ended. In the PEPP programme, total reinvestments were

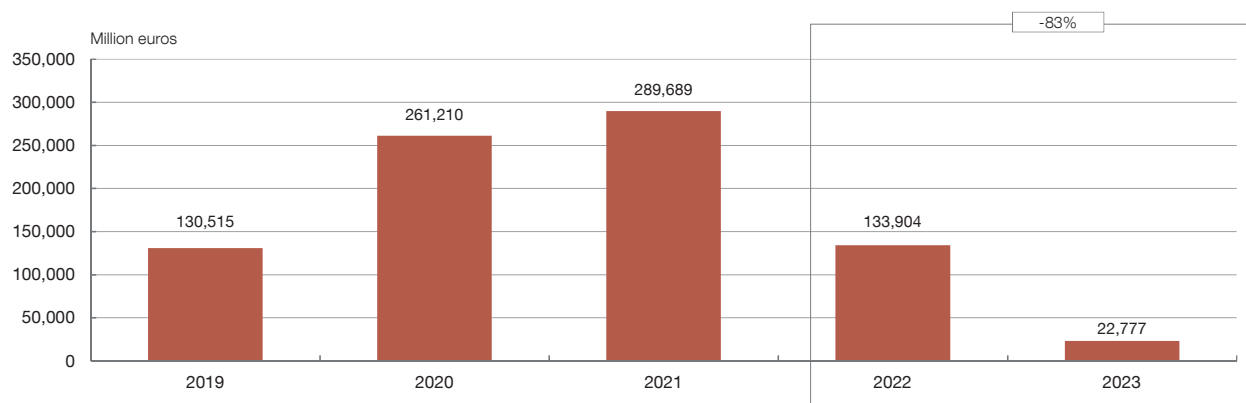
Chart 4.2
SECURITIES HELD FOR MONETARY POLICY PURPOSES



SOURCE: Banco de España.

4 Detailed information on the composition can be found in balance sheet explanatory note 7.a) of the *Annual Accounts of the Banco de España*.

Chart 4.3

LENDING RELATED TO MONETARY POLICY OPERATIONS

SOURCE: Banco de España.

maintained during 2023 and it was announced that, starting in July 2024, they would begin to be partial and that they would foreseeably cease completely by year end. All this meant that the decline in this item over the year was limited (-3%).

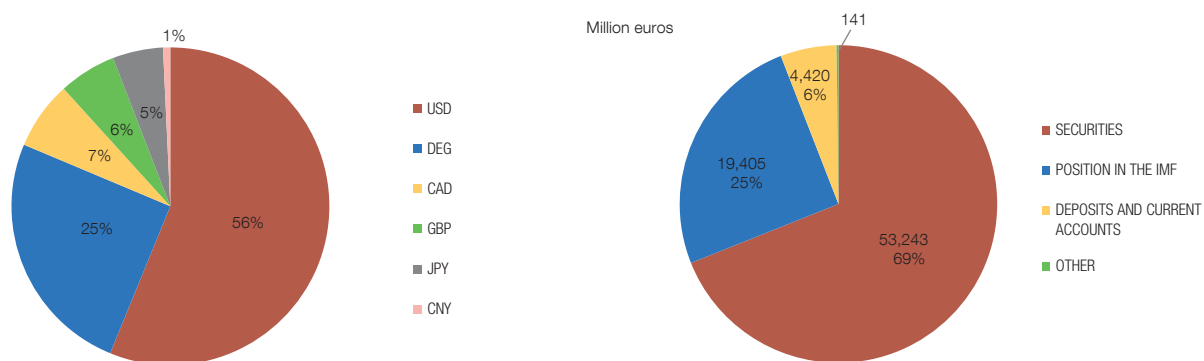
Monetary policy loans constituted just 2% of Banco de España's total assets at the end of 2023, as opposed to previous years in which they accounted for around 25% of total assets. The balance of 22,777 million euros at close 2023 is 6% of the Eurosystem total. In 2022, however, there was a considerable and continued decrease in their balance (155,785 million in 2022, -54%; 111,128 million in 2023, -83%) as a consequence of the maturity of several operations and, in particular, the early repayments made by institutions (see Chart 4.3).

At close 2023, the main part of the balance of this item (99%) corresponded to long-term loans granted to Spanish credit institutions, virtually all under the third TLTRO programme (TLTRO III). In addition, in 2023, the granting of loans resumed through the main financing operations, through which weekly financing is provided to credit institutions; these operations had become irrelevant in recent years, although their relative importance remains small.

The TLTRO III loans were awarded through quarterly auctions between September 2019 and December 2021, and provided funding to credit institutions in three-year periods. The loans were granted on attractive terms and conditions for the entities, in order to stimulate bank lending to the real economy. However, at the end of 2022, the Governing Council of the ECB decided, as part of the monetary policy measures taken to restore price stability over the medium term, to revise the remuneration thereon, rendering them less attractive to institutions. This allowed banks to carry out the above-mentioned early repayments (around 130,000 million in 2022 and

Chart 4.4

BREAKDOWN OF CLAIMS DENOMINATED IN FOREIGN CURRENCY, BY CURRENCY AND BY TYPE OF INSTRUMENT, AS AT 31 DECEMBER 2023



SOURCE: Banco de España.

33,000 million in 2023). The evolution of the interest rates applicable to these loans resulted in interest income of more than 2,100 million being generated for the Banco de España in 2023 (an average return of 3%), compared to expenses of close to 1,500 million recorded in 2022 (an average cost of -0.5%).



For more information on the asset purchase programmes and monetary policy operations, see Section 4 of [Chapter 2](#) of this Report.

Assets denominated in foreign currency mainly comprise assets denominated in US dollars, special drawing rights (SDRs), Canadian dollars, pounds sterling, Japanese yen, Australian dollars, 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 consist mainly of debt securities, mostly denominated in US dollars (see Chart 4.4).

The Banco de España's holdings of **gold and gold receivables** are also recorded on the asset side of its balance sheet. Between 2019 and 2023, the holdings of ounces of fine gold remained stable (9.054 million troy ounces), while the market price showed an upwards trend. The market value at end-2023 was 16,911 million euros.

Lastly, the Banco de España has a series of euro-denominated financial assets that are not held for monetary policy purposes and are recorded as the **euro-denominated own funds portfolio**. These investments consist in their entirety of debt securities, 81% of which are issues made by Spanish residents and the

remaining 19% issues made by residents of other euro area countries. This heading, which has been quite stable in recent years, totalled 26,819 million euros at end-2023. These investments are managed in such a way that there is no interference with monetary policy operations.

1.2 Liabilities

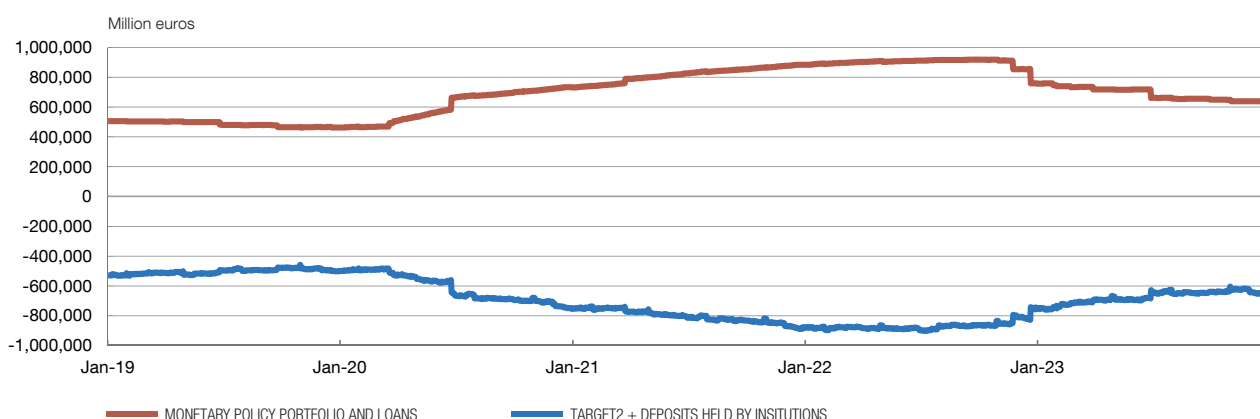
As already mentioned, on the liability side, the non-standard monetary policy measures have had an impact on the two balancing items: the balances of the **“Intra-Eurosystem liabilities (TARGET)”** and **deposits held by credit institutions**.

Chart 4.5 illustrates the overall change in the asset items in which these measures materialised and in the two aforementioned liability items, as well as the clear relationship between them.

Deposits held by credit institutions include the current accounts in which they keep their minimum reserve requirements and the overnight deposits made under the deposit facility. Until 2016, a large portion of these deposits corresponded to the minimum reserve requirements for institutions. In the following years there was a steady increase in the level of these deposits, reflecting excess liquidity in the system. However, in late 2022 there was a notable drop off, mainly as a result of institutions’ repayments of monetary policy loans. In 2023, the level of deposits held by credit institutions was maintained and even increased slightly (+4%), standing at 257,756 million euros⁵ at the end of the year, 27% of total liabilities (see Chart 4.6).

Chart 4.5

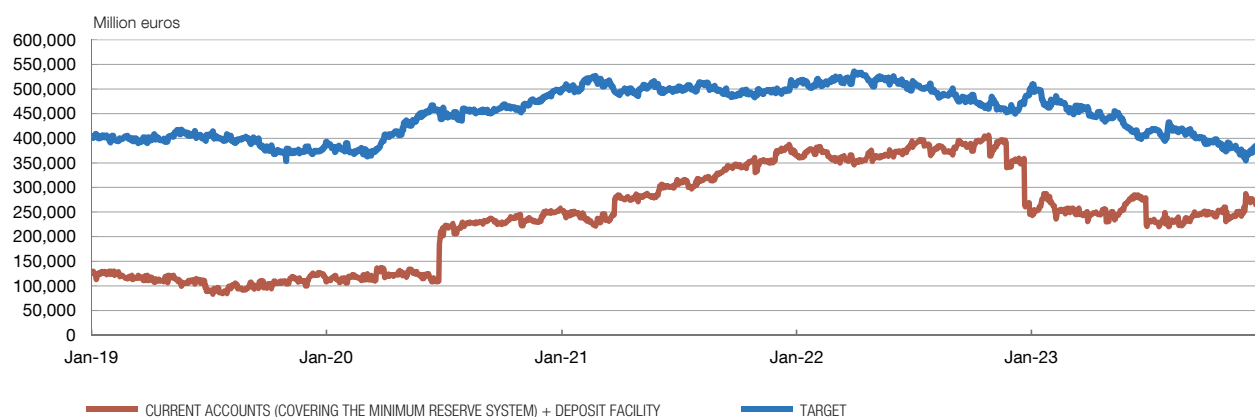
MONETARY POLICY ASSETS AND LIABILITIES



SOURCE: Banco de España.

⁵ For more information, see Note 15 to the balance sheet in the *Annual Accounts of the Banco de España*.

Chart 4.6

DEPOSITS HELD BY CREDIT INSTITUTIONS

SOURCE: Banco de España.

The balance of intra-Eurosystem liabilities basically reflects the net position of the Banco de España vis-à-vis the Eurosystem for transfers made through TARGET. Since 2015, the central banks' net TARGET balances have been linked to the monetary stimulus measures adopted by the ECB (primarily the implementation of the above-mentioned asset purchase programmes). Its balance had experienced a continuous increase in previous years, but since the end of 2022 there has been a decline; this decline was significantly accentuated throughout 2023 (-22%), reflecting the inflow of liquidity to Spain from abroad. At the end of the year, its balance stood at 391,269 million euros, 41% of total liabilities (see Chart 4.6).

Banknotes in circulation on the liability side of the balance sheet reflect the share of the total value of euro banknotes put into circulation by the Eurosystem that is allocated to the Banco de España, in accordance with its banknote allocation key⁶. 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 related to the allocation of euro banknotes within the Eurosystem⁷. In the case of the Banco de España, this account is shown under intra-Eurosystem claims. This difference is recorded on the asset side of the balance sheet, since the Banco de España puts fewer banknotes into circulation than its share of total euro banknotes in circulation in accordance with the aforementioned allocation key.

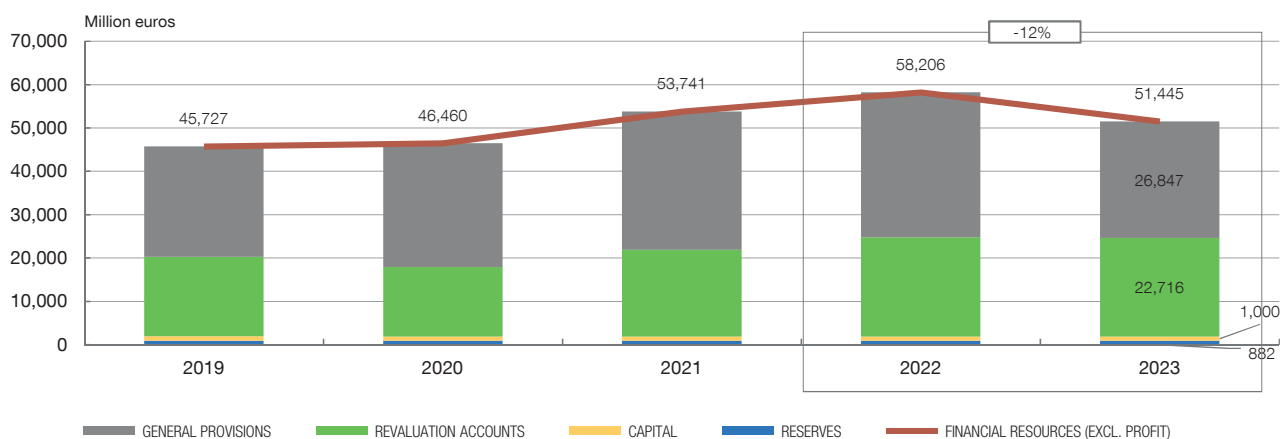
⁶ See the third footnote in this section.

⁷ For more information, see Note 14 to the balance sheet in the *Annual Accounts of the Banco de España*.

The Banco de España’s financial resources consist of its capital and reserves, general provisions and revaluation accounts. Over the past few years and up to 2023, they experienced continuous growth. However, the existence of negative results in 2023 reversed this trend, as general provisions were used to cover the losses recorded (see Chart 4.7).

The **general provisions** include the provision for financial risk and the provision for operational risk. The balance of these provisions is reviewed annually on the basis of the Banco de España’s assessment of its exposure to these risks, using methodologies consistent with those used by the Eurosystem⁸. In previous years, there was a continuous increase in the provision for financial risk derived from the increased exposure derived from balance sheet growth – in particular, asset purchases made under the Eurosystem’s monetary policy programmes – and within a prudent policy framework for managing those risks. In 2023, there was a decrease in the level of these provisions by 6,621 million euros, mainly due to the use of the provision against financial risks to offset losses materialised in the year; this aspect is addressed in greater detail in the following section.

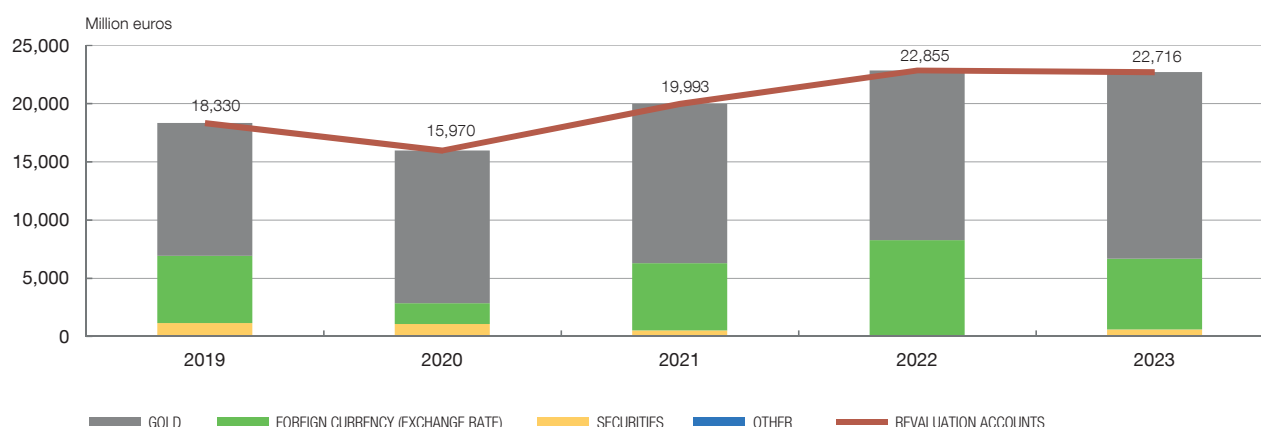
Chart 4.7
FINANCIAL RESOURCES (EXCLUDING PROFIT)



SOURCE: Banco de España.

8 For further information on risk management at the Banco de España, see section 3.6 of the Notes to the *Annual Accounts of the Banco de España*.

Chart 4.8

REVALUATION ACCOUNTS

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 prices or exchange rates. This strengthens the Banco de España's resilience to underlying risks. The balance on the revaluation accounts rose, albeit not consistently, in recent years, since it is strongly linked to movements in exchange rates and in the price of gold (see Chart 4.8).

Revaluation accounts maintained a stable balance in 2023 compared to 2022; there was a decline in foreign exchange accounts, mainly due to the slight depreciation of the dollar against the euro, which was partly offset by the increase in gold revaluation accounts.

Lastly, capital and reserves totalled almost 1,900 million euros at end-2023, remaining basically unchanged since 2006.

3 PROFIT AND LOSS ACCOUNT

In the exercise of its functions, the Banco de España obtains income and incurs certain expenses. The Banco de España has, through its activities, historically and systematically obtained positive results.

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

In 2023, this trajectory was interrupted, in a context described below. 2022 was a year of transition from a scenario of negative interest rates to one of positive rates, with gradual rises that continued throughout 2023. The rapid increase in key interest rates occurring between June 2022 and September 2023 (450 basis points) had an immediate impact on the cost of the liabilities of all the national central banks, since most of them are on demand. However, on the asset side, there was no equivalent approach to the (higher) market rates, since they consisted largely of monetary policy securities acquired with low returns and long-term maturities. This scenario, in which what is known as “structural balance sheet risk” materialised, placed the Banco de España (and other national central banks) in a foreseeable loss-making situation in the short and medium term. Although in the Banco de España, unlike other central banks in the Eurosystem, these losses did not materialise in 2022, the continued increases in interest rates that occurred throughout 2023 generated significant losses, amounting to 6,612 million euros, before the application of provisions.

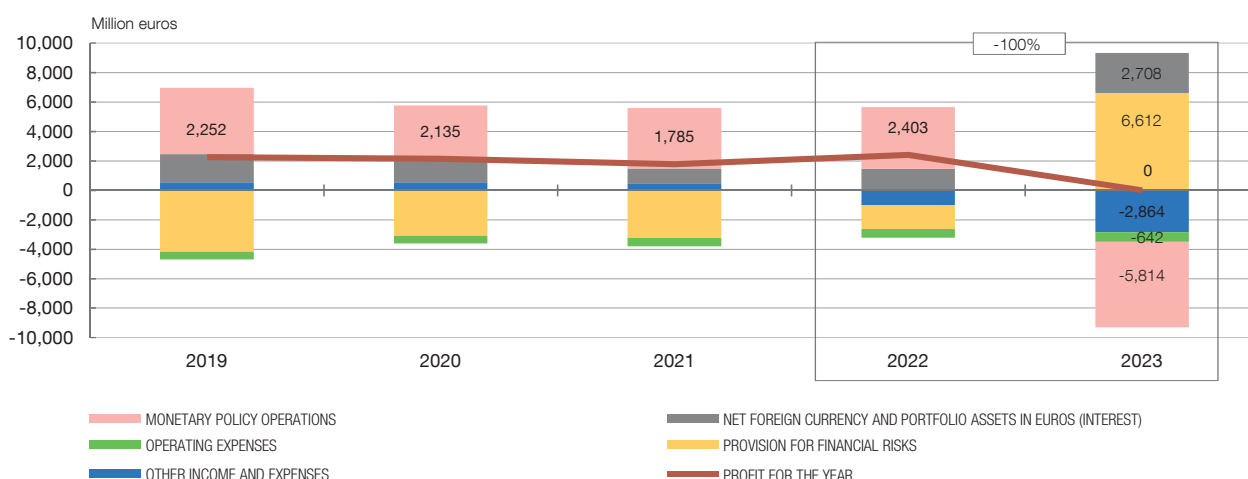
However, as indicated in the previous section, referring to financial resources, thanks to an adequate policy of provision and profit distribution carried out in previous years, the Banco de España currently has more than sufficient financial buffers to cover these losses. In particular, in 2023, the provision for financial risks was used to offset the above-mentioned losses, so that the final result for the year was zero.

It should be remembered that the appearance of losses in the income statements of Eurosystem central banks is an exceptional and transitory situation, a consequence of the monetary policy implemented to achieve the ultimate objective of the ECB, which is the maintenance of price stability in the euro area. This policy is designed regardless of the impact it may have on the financial results of national central banks, since whether or not they obtain an accounting profit does not affect their ability to execute monetary policy effectively.

In the medium term, the institution will return to obtaining positive margins. Moreover, the remaining balance in the provision for hedging financial risks remains high, meaning that the financial strength of the Banco de España is in no way compromised.

Chart 4.9

PROFIT OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

Chart 4.9 shows the composition of the Banco de España’s profit and loss account and how it has evolved over the last five years.

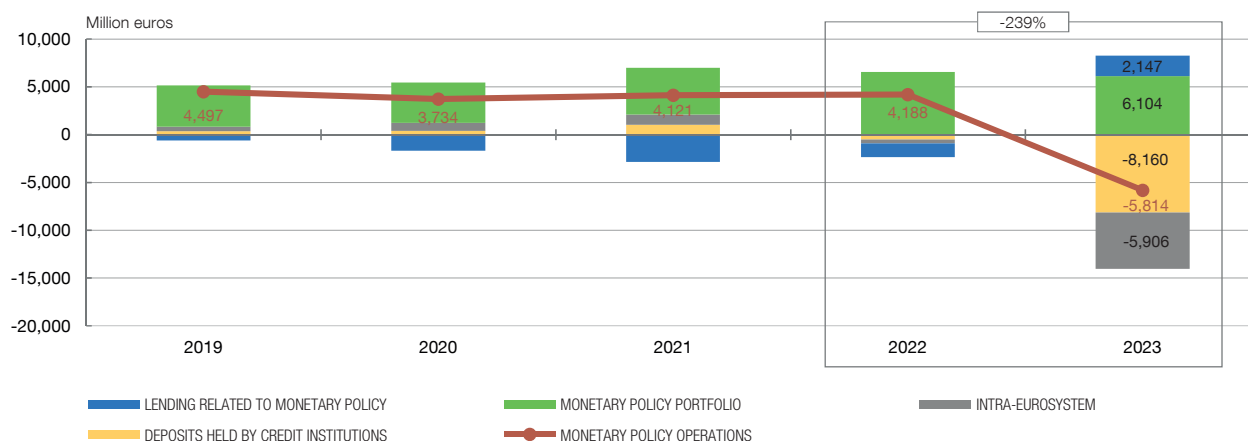
As for the composition of the results, the earnings generated by **monetary policy operations** are of particular importance. These operations comprise the monetary policy portfolio, monetary policy loans, deposits held by credit institutions and intra-Eurosystem accounts, which include the redistribution of monetary income among the national central banks of the Eurosystem generated by these operations. Overall, they represented negative net results of 5,814 million in the 2023 financial year, compared to 4,188 million in the previous year; this evolution is reflected in Chart 4.10.

In 2023, interest from the monetary policy portfolio was 7% down on the previous year, (6,104 million euros for the year as a whole).

As regards monetary policy loans (mainly long-term loans granted to credit institutions), at end-2022 the Governing Council of the ECB agreed on an adjustment of their remuneration conditions to ensure consistency with the process of monetary policy normalisation. In addition to the rise in rates, this resulted in interest income of 2,147 million in 2023, compared to expenses of 1,454 million in 2022.

For its part, the remuneration of credit institutions’ deposits is directly linked to official rates, so that its rapid and continuous increase led to a significant increase in expenses in this regard (8,160 million in 2023, compared to 530 million in 2022).

Chart 4.10

RESULT OF MONETARY POLICY OPERATIONS

SOURCE: Banco de España.

“Intra-Eurosystem accounts” includes the remuneration of claim accounts (basically for the adjustment of banknotes to the allocation key) and liability accounts (essentially for TARGET operations), as well as the redistribution of monetary income.

This redistribution refers to the mechanism put in place by the Eurosystem for the distribution of the income and expenses generated by all monetary policy assets and liabilities (specifically, those classified as income and risk-sharing), so that the total income and expenses obtained in the Eurosystem are distributed on an annual basis according to the respective ECB capital key, irrespective of the central bank that has them on its balance sheet. Intra-Eurosystem items as a whole resulted in a loss of 5,906 million euros. This loss for the Banco de España basically reflects the fact that the net expenses generated by its monetary policy assets and liabilities were higher than what corresponded to it, according to its subscribed capital key, in the overall net expenses of the Eurosystem.

In addition to the profit or loss on monetary policy operations, the following items are of particular interest in the composition and development of the profit and loss account.

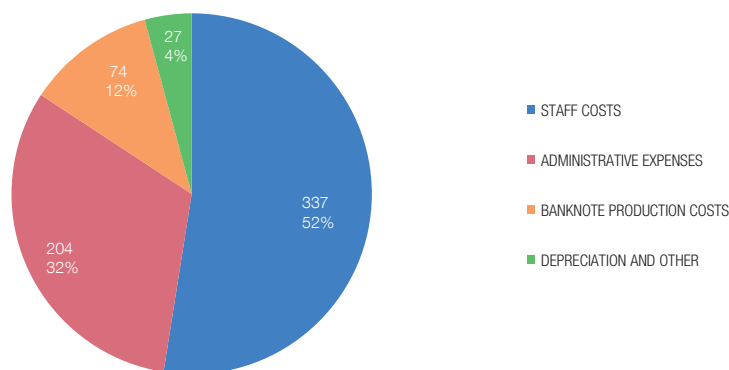
Income from the Bank’s **own investments** (net foreign currency assets and euro portfolio) amounted to 2,708 million euros, in excess of the 1,448 million obtained in 2022 as a result of the higher returns thereon.

The **operating expenses** incurred by the Banco de España to discharge its functions are recorded under operating expenses. This heading includes banknote production costs and depreciation of fixed assets (see Chart 4.11).

Chart 4.11

OPERATING EXPENSES OF THE BANCO DE ESPAÑA IN 2023

Million euros

**SOURCE:** Banco de España.

As indicated above, the Banco de España generated a negative preliminary result in the 2023 financial year. This resulted in the institution's Executive Commission approving the use of the provision for financial risks for the corresponding amount (6,612 million), meaning that Banco de España did not report a profit.



For more information on the balance sheet and profit and loss account, see the *Annual Accounts of the Banco de España* on the Banco de España's website.

In the pursuit of its activity, the Banco de España is exposed to financial and operational risks. These may have a financial or reputational impact or may affect its ability to attain its objectives. Risk management is carried out through a continuous process of: a) identification and assessment; b) response; c) controlling and monitoring, and d) communication. For this purpose, effective policies, methodologies, processes and systems are used.

The institution's risk management policy aims to maintain a low and predictable overall risk level, to preserve its reputation and solvency, without detriment to compliance with its statutory tasks under its Law of Autonomy⁹ or to the fulfilment of its objectives.

In 2023, the Bank's operational risk profile remained stable and even a slight improvement was noted. Of particular significance is the progress of mitigation plans that contribute to the strengthening of the control environment. The non-financial risks that generate the greatest concern are in line with the major challenges that must be faced in the current context.

Additionally, during the year **response structures and contingency plans** were created at the Banco de España, aimed at ensuring the continuity of its functions in the event of disruption or crisis, which increased its level of operational resilience.

With regard to the evolution of financial risks, mention should be made of the reduction in risk in monetary policy portfolios, as a result of divestment in purchasing programmes; despite this, total risk rose slightly due to the increase in interest rate risk in own portfolios. This increase in risk, together with the application of provisions to cover financial risk losses materialised in the income statement, led to a reduction in financial hedging.

Lastly, the Banco de España's in-house credit assessment system (ICAS BE¹⁰) continued to contribute to the positive evolution of the use of loans as collateral in monetary policy operations, and may favour a greater role for these assets in the future.

⁹ Law 13/1994, of 1 June 1994, on the Autonomy of the Banco de España.

¹⁰ For more details, see Sergio Gavilá and Lola Morales. (2023). "The role of loans and the ICAS BE in the Eurosystem's collateral framework in 2023". *Economic Bulletin*, 06, 2023/Q2, Banco de España.

RISK MANAGEMENT CYCLE



SOURCE: Banco de España.