

2

MAIN ACTIVITIES

SINGLE SUPERVISORY MECHANISM

The SSM supervises
117 significant institutions,
12 of which are Spanish

ECONOMIC ANALYSIS

48 Working Papers
16 Occasional Papers
63 articles in academic journals

OFFICIAL REGISTERS

393 institutions with an establishment
in Spain
1,336 institutions without an
establishment in Spain

REGULATION

The Banco de España approved
4 external circulars in 2019

END OF EXCHANGE OF PESETAS FOR EURO

The period for exchanging pesetas
for euro ends on **31 December 2020**

COMPLAINTS

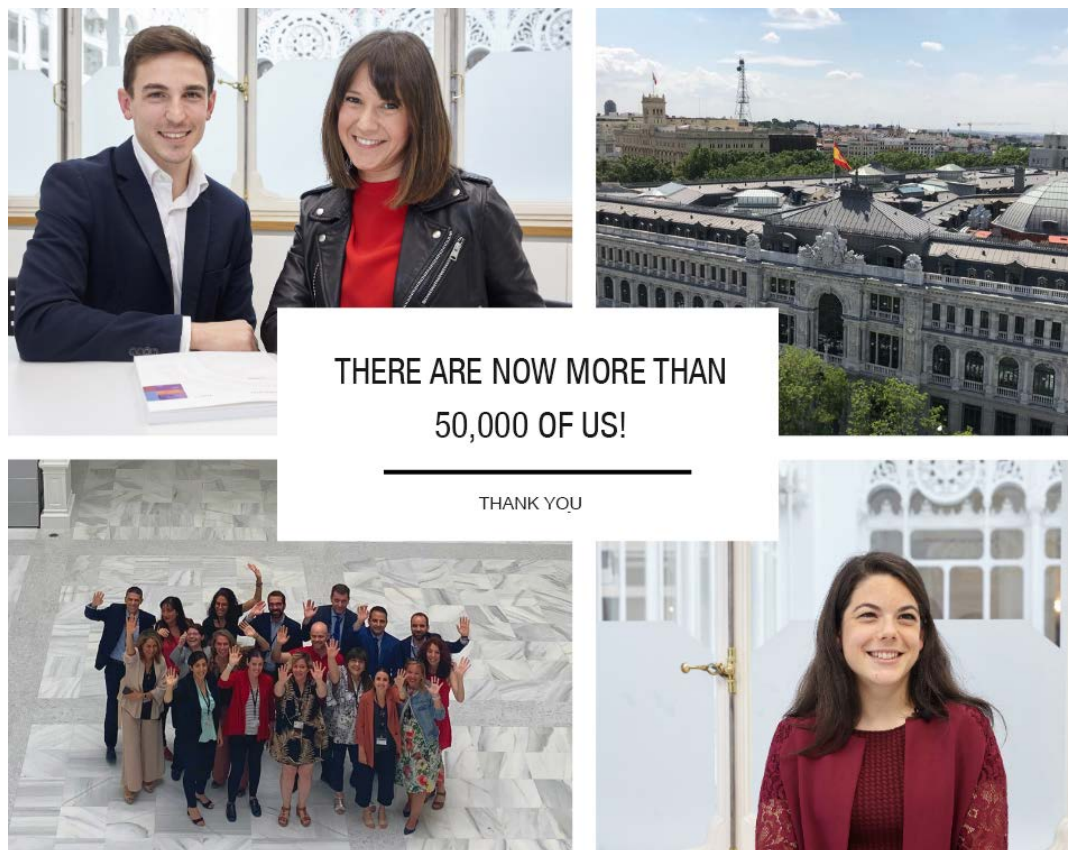
14,641 complaints were filed
by users of bank services

1 INTERNAL ORGANISATION AND ADMINISTRATION

1.1 Main activities of internal services

To improve its staff selection procedures, the Bank continues to prioritise the development and dissemination of the Banco de España brand as an employer. In this context, the activities carried out in 2019 are noteworthy. The Bank's presence and activity on LinkedIn were increased, through more frequent posts (72) that had a greater variety of content, including information of general interest, unrelated to job offers. As a result, the number of followers increased by 46% (to more than 54,000 followers). Also, the channels for disseminating job offers, like Twitter, were expanded.

More than 8,400 job applications were received in 2019 in the Bank's selection processes for permanent and temporary employees. A total of 190 permanent employees were recruited, of which 36 were administrative staff and employees for various support services, and 154 were managerial staff, mainly senior specialists and specialists.



The Banco de España's LinkedIn account had more than 54,000 followers at the end of 2019.

The Bank continued to act as a beacon in its collaboration with university internship programmes, hosting 135 interns during the academic year. Worth highlighting, in this respect, is the prize awarded by the Economics and Business and Documentation Sciences faculties of the Complutense University of Madrid, in recognition of the Banco de España's efforts to forge closer links between academic education and its practical application in the employment sphere and to foster talent and skills in the corporate sphere.

In the same vein, of making the Bank and its activities more accessible to the public, staff were given more protagonism as "brand ambassadors", with direct involvement in the development and publicising of the Bank's employer value proposition and in the Bank's relationship with universities and employment forums.

In 2019, 95.8% of employees participated in some kind of training activity, committing on average a total of 28 hours to such activities. The range of training activities was expanded by 51%, although the average duration of each activity was slightly reduced, to 3.5 hours. Thus, more training took place, in the form of more specialised courses designed to meet the specific training needs of staff members. In particular, skills training was increased, to foster the development of competencies such as leadership, time management, productivity and teamwork.

In 2019, the second edition of the management development programmes was held, with the aim of aligning the management style of middle managers and experts with the Banco de España's dictionary of competencies, and therefore with a management model based on empowering and collaborative leadership. 101 employees participated in these programmes.

Also, internal mobility continued to be promoted, with the publication of vacancies, which aroused considerable interest among employees.

Lastly in this area, employees' international mobility continued to be promoted and, at the end of 2019, 178 persons were working at other organisations.

Turning to other areas, teleworking, based on the use of new technologies, continued to be rolled out to an ever larger group of staff; its implementation has contributed to improving employees' work-life balance and boosting productivity and motivation, while enhancing management systems and organisational structures.

Although no collective bargaining agreement was reached in 2019, Banco de España employees' 2019 salaries were raised in line with the wage increase agreed for the civil service. In relation to the collective agreement under negotiation, the Bank proposed an important update, to modernise and increase the flexibility of the internal employment framework, so as to adapt it to the current requirements of the institution and its employees.

The Banco de España has for many years organised a programme of internships for university students during the academic year. In 2019, 135 internships were arranged as part of this programme.

At the same time, employees' international mobility continued to be promoted and, at the end of 2019, 178 persons were working at international organisations, 13 temporarily and 165 on unpaid leave. Also, another 18 Bank employees are working at other public sector entities and agencies, 7 of them temporarily and 11 on unpaid leave. Finally, 82 Bank employees are currently assigned to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Sepblac).

Turning to information systems, notable were the introduction of new working methods (Agile Methodology, Application Life Cycle, Software Development Quality Plan, etc.) and projects relating to the replacement of one of the Banco de España's data processing centres. Also, important technological and organisational measures were implemented to achieve the degree of cyber resilience needed to protect the Banco de España from growing cyber threats.

The Banco de España continued to participate very actively in the IT development of European projects in different areas, in collaboration with other central banks. The launch of the European central credit register (AnaCredit), in collaboration with two other central banks, should be highlighted.

One of the main actions in the Cibeles building was the project to restore the vaulting of the main staircase. This consisted in ensuring the stability of the plastering and of the ornamental mouldings of the interior of the vaulting, in addition to its restoration, cleaning and painting. In June, work commenced on the construction of a new data processing centre, which, given the extent of the work, will affect at least three different financial years.

The two Madrid buildings and the branches have been included in the facade conservation plans. A review timetable has been drawn up, while the reviews carried out last year have led to new restoration projects, which are currently subject to a tendering process.

One of the projects completed in 2018 (the restoration and refurbishment of the library by the architect Matilde Peralta del Amo) was awarded a prize for interior design by Fostering Arts and Design (FAD). The FAD architecture and interior design prizes, promoted by the architect Oriol Bohigas, have been celebrating, year after year, the best architectural work since 1958.



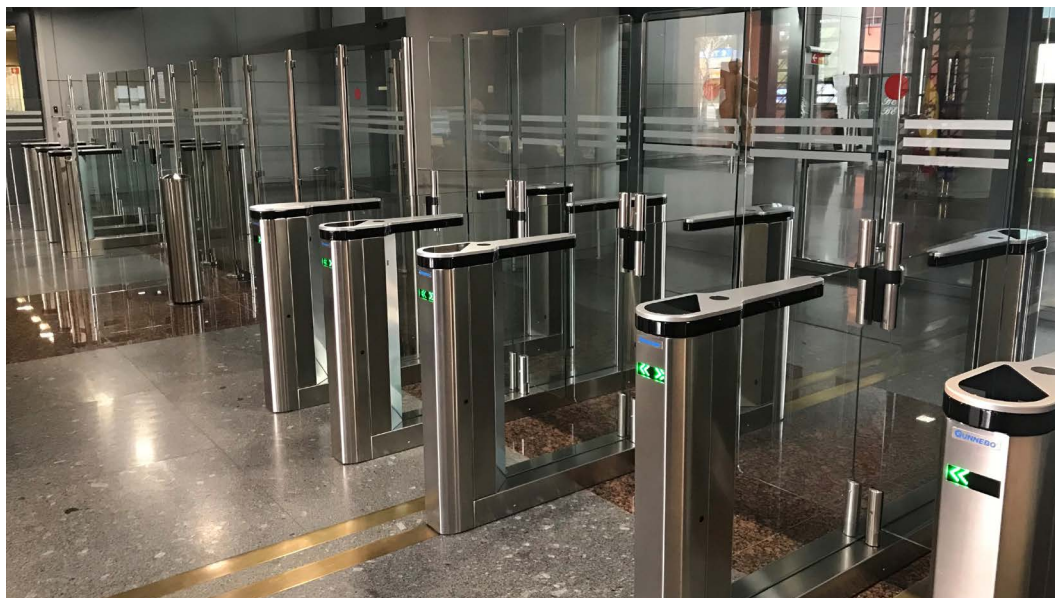
View of the vaulting of the main Paseo del Prado staircase, from the gallery.

Energy efficiency projects continue to be in the process of design and implementation, at both the Madrid buildings and at branches. Energy efficiency is considered in all spatial reforms and building work, while new LED lighting systems have been installed in Module C of the building at Calle de Alcalá 522, and energy efficiency projects have been developed for other spaces in various buildings.

Measures taken to enhance and restore our headquarters (the well-known Plaza de Cibeles building) in 2019 included restoration of the vaulting of the main staircase.

Also in 2019, the restoration and refurbishment of the Bank's library, completed in 2018, was awarded the interior design prize by the association Fostering Arts and Design (FAD).

Progress has also been made on accessibility solutions for persons with reduced mobility. Recent work on lifts has taken into consideration measures to facilitate their use by persons with reduced mobility, as also has the renovation of bathrooms and changing rooms, which incorporate accessibility solutions wherever possible.



Access control speed gates in the Banco de España's building at Calle de Alcalá 522.

Lastly, as in previous years, work has been carried out on the security facilities of our buildings, including those for cash transport and for access control, the recent completion of the speed gate system for access to the building at Calle de Alcalá 522 being a case in point.

1.2 Activity of branch offices

In 2019, the Banco de España continued the process (commenced in 2016) of renewing the banknote handling and sorting machines used at its 15 branch offices, with the installation of new sorters, briquetting systems and automatic weighing and packaging equipment. This project modernises and automates banknote management-related processes, increasing their security and efficiency.

In coordination with the central office departments, the inspection of the operational centres of the Banco de España ancillary banknote deposit system continued.

Also, the branch offices took part in the launch campaign for the new Europa series €100 and €200 banknotes.

Apart from their functions relating to cash distribution and processing, the branches continued to provide support to the different departments of the Bank by offering various decentralised services to the government and to the public. Notable among others are: the exchange of pesetas for euro, the exchange of damaged banknotes and coins, public debt subscription, responding to complaints, receiving requests for Central Credit Register reports and collaboration with the Central Balance Sheet Data Office. In the area of financial education and



Governing Council meeting held on 28 May 2019 at the branch offices of the Banco de España in Oviedo.

training, the branches hosted visits from 545 schools and more than 14,000 students during the year.

Meetings of the Governing Council and of the Executive Commission of the Banco de España were held on 28 May 2019 at the branch offices of the Bank in Oviedo, following the custom established in recent years of some meetings being held at branch offices.

At this meeting the Governing Council approved the *Annual Report* and met representatives of institutions, businesses and other important sectors of the Asturias region. Also, the Governor met the president of the regional government and gave a speech in the historic Oviedo University assembly hall, to numerous representatives of the region's academic world, in which he analysed the Spanish economy's current situation and outlook.

At the end of 2019, the Banco de España's branch offices employed 442 staff. There is a director in charge of each branch, who represents the Banco de España and is responsible for its facilities and administrative and support services. Two units report to the director: Cash-Operations, which carries out cash and bank operations, and Financial Control, which audits and accounts for such operations.

2.1 Economics and Research

The activity of the Banco de España in 2019 in the area of economic research and analysis is reflected in various publications and projections:

- A total of 48 Working Papers and 16 Occasional Papers were published. As regards external publications, a total of 32 articles by Banco de España staff were published in anonymously refereed academic and professional journals, and another 31 articles were accepted and are pending publication. A further 28 articles were published in other journals and books, and another four are pending publication. Mention should also be made of the participation of Banco de España’s researchers in international initiatives, such as the joint research conducted annually with the Center for Latin American Monetary Studies (CEMLA) or the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), and in numerous expert seminars and conferences.

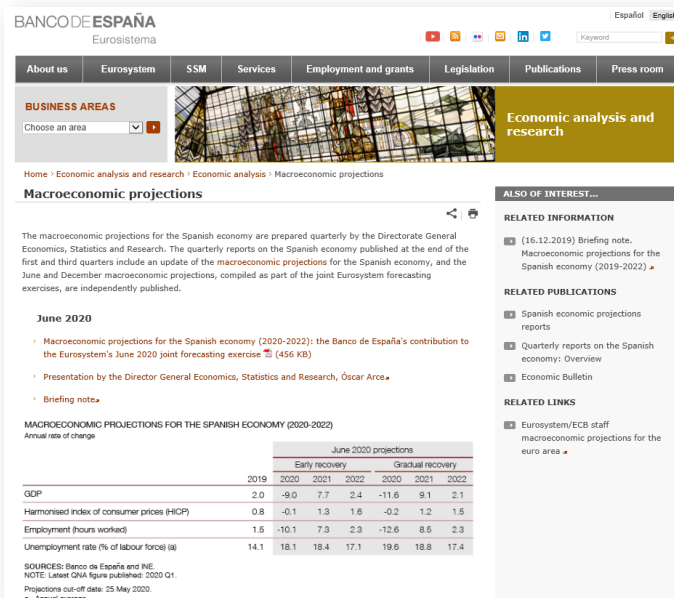
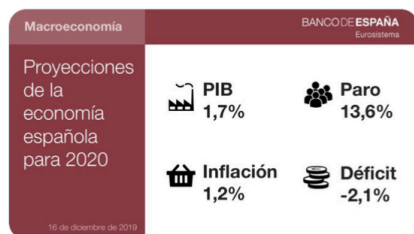
The Banco de España publishes its macroeconomic projections on a quarterly basis, providing its view of the economic outlook for the next three years.

It also publishes every six months the *Financial Stability Report*, which reviews the main risks to financial stability, analyses the resilience of banks and considers the potential macroprudential policy responses.

- The Banco de España publishes its macroeconomic projections for the Spanish economy on a quarterly basis, which provide its view of the economic outlook over a horizon of around three years. On the day of their release, these projections are presented to the media at a press conference and published on social media. The June and December macroeconomic projections, compiled as part of those published by the Eurosystem for the euro area as a whole, are released separately.
- In March and September, the projections are published in the *Economic Bulletin*, in one of the special boxes included in the “Quarterly report on the Spanish economy”, a report that presents the most recent developments in the Spanish economy and its external environment.



Banco de España · 16/12/19
Hemos publicado las
#ProyeccionesMacroeconómicas
de la economía española
2019-2022. Puedes acceder al
informe completo en el siguiente
enlace: bde.es/bde/es/seccion...
#bdePublicaciones
#EconomíaEspañola #Economía
1/5



The Banco de España publishes its macroeconomic projections for the Spanish economy on a quarterly basis, presenting them to the media and publishing them on its website and on social media.

- Apart from the “Quarterly report on the Spanish economy”, the *Economic Bulletin*, which has been published four times a year since 2017, also includes links to the publications in the Analytical Articles and Economic Notes series that have appeared during the quarter. Both series seek to bring the analyses of the Banco de España to the attention of a broad audience, ranging from experts in economic analysis to the general public. In 2019, a total of 38 Analytical Articles and 8 Economic Notes were published.
- Every six months (in the spring and autumn), the Banco de España publishes the *Financial Stability Report*, which reviews the main risks to financial stability, analyses the resilience of banks and considers the potential macroprudential policy responses, where necessary.
- The *Financial Stability Review* is also published half-yearly; in 2019 it included 17 articles by in-house and external researchers. One of the subjects gaining some renown in the Review relates to climate change issues and their interaction with the financial system.

Research activity in 2009 covered a broad range of areas, including the following:
i) analysis of the Spanish economy; ii) analysis of the euro area economy; iii) international issues; iv) financial issues; v) monetary policy; vi) microeconomic issues; and vii) macroprudential policy and financial stability.



The director of the CEMFI, Rafael Repullo, with Lars Peter Hansen, of the University of Chicago, at the Second Conference on Financial Stability, held at the headquarters of the Banco de España.

As regards the focus of economic research and analysis during the year, a wide range of areas can be mentioned:

- In relation to analysis of the Spanish economy, notable were the characterisation of recent developments in the housing market, and in particular, in the rental market, house price developments across provinces and the divergence of such prices from long-term equilibrium levels, and the estimation of models of expected growth in real estate asset prices. Also, studies were carried out in 2019 of the effects of the rise in the minimum wage on the labour market, the relationship between private consumption and employment during the recovery, the impact of protectionist measures on the sales of Spanish exporting firms and the impact on Spanish economic growth of various Brexit scenarios. In addition, progress was made in the regional dimension of analysis of the Spanish economy, with the development of tools to estimate short-term regional GDP, the study of local government finances and the analysis of the differences in business cycles across European regions. Among the advances made in the area of macroeconomic modelling, tools were developed to detect turning points and to estimate recession probabilities, and various general equilibrium models of the Spanish economy were launched, which have been used to analyse issues such as monetary policy design and the effects of negative interest rates.
- In the case of the euro area, notable efforts were made to study the role of the external sector in the macroeconomic adjustment process in euro area

countries and inflation dynamics. In particular, in this latter area, the Banco de España, in collaboration with the ECB, led research into the inflation effects of euro exchange rate movements, promoted by the Eurosystem's Monetary Policy Committee. The governance reform currently under way in the Monetary Union also required special attention, particularly in relation to the need to complete the Banking Union and for progress towards Fiscal Union.

- In the international area, the analytical work focused on improving understanding of the effects of increased protectionism on the EU economies and world trade, and on the Brexit process. Thus, the Banco de España continues to lead, in collaboration with the Banca d'Italia, analysis of the economic and trade effects of Brexit, carried out by the Eurosystem's International Relations Committee. Other research projects, included, *inter alia*, the effects of the slowdown in China on world growth and, in particular, on the Latin American economies; the determinants of capital flows to emerging economies; the process under way at the US Federal Reserve to review the monetary policy framework; the relationship between growth, institutional quality and financial development in middle-income countries; and the international transmission of monetary policy shocks. The short-term forecasting models for the euro area and the emerging economies relevant to Spain were reviewed and two econometric models, one to validate the analysis of the vulnerabilities of these economies and the other to validate global interdependencies, are under development.
- With regard to research on financial issues, the following areas were analysed in 2019: the impact of the ECB's targeted longer-term refinancing operations (TLTROs) on euro area banks' lending policies; Spanish banks' internationalisation strategies and comparison with other areas; the effects on lending and financial stability of Spanish banking system consolidation; changes in the supply of credit by banks in the context of negative interest rates; the financing channels of Spanish banks through affiliated investment funds; the effects of macroprudential regulation on the capital ratios of euro area banks; and developments in financing and bank lending to the non-financial private sector in Spain.
- Research in the area of monetary policy focused on its medium and long-term design, the analysis of its impact on business investment and financing, the international transmission of monetary policy and its interaction with the global financial cycle, the identification of monetary policy shocks, the role of asset reinvestment and forward guidance when the asset purchase programmes have been completed and optimal public debt management by maturity.
- As regards microeconomic research, the main contributions can be grouped into seven major areas. In the area of household decisions, the theoretical

and empirical modelling of the response of household spending to changes in credit conditions should be noted. In relation to firms' decisions, the measurement and behaviour of mark-ups was analysed, as well as the effect of competition on price discrimination. Third, research continues on the measurement of the inequality of opportunities for men and women in central banks and in academia. Fourth, the aggregate consequences of demographic changes and robotisation on employment and output were modelled. Fifth, in relation to the labour market, the behaviour of certain important population groups, such as the young, the elderly and the self-employed was described, and the consequences of certain labour policy proposals, such as the increase in the national minimum wage and employment subsidies, were analysed using individual data. Sixth, with regard to housing-related policies, a compendium was prepared that describes the most relevant rental-market policies and their effects, with an international comparison, as well as the differences in the regulation of appraisal activity internationally. Finally, the micro-simulation tools for the analysis of personal income tax and VAT were updated and progress was made creating another tool for unemployment benefit and pensions.

- In the area of macroprudential policy and financial stability, research covered a range of areas. On one hand, the role played by the conditions of loans in the probability of mortgage defaults to activate the macroprudential tools that affect borrowers was analysed. Also, the early warning properties of certain systemic risk indicators providing information for calibration of the countercyclical capital buffer were reviewed. In addition, the factors determining bank productivity and the optimum level of capital banks should hold to absorb shocks was investigated. Finally, the relevance of market liquidity to financial stability was also analysed.

These are some examples of the economic analyses carried out in 2019:

- The Spanish Survey of Household Finances (EFF, by its Spanish abbreviation) 2017: methods, results and changes since 2014.
- Lending policy adjustments in the context of negative interest rates.
- The characterisation of recent housing market developments (in particular, in the rental market), and house price developments across provinces.
- The study of the effects of the minimum wage increase on the labour market.
- The analysis of the economic and commercial effects of Brexit.

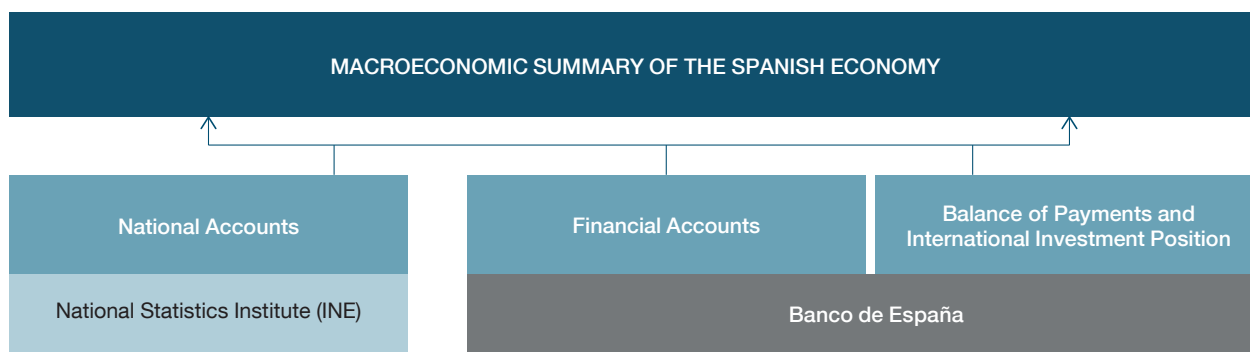
2.2 Statistics

Statistical activity during the year was along two specific avenues: the benchmark revision of the macroeconomic statistics and improved service for users.

- In 2019 the Banco de España undertook a benchmark revision of the official macroeconomic statistics under its responsibility (Financial Accounts, Public Debt, Balance of Payments, International Investment Position and External Debt), in compliance with European agreements on revisions of these statistics. These benchmark revisions may include new sources and changes in methodology, and are carried out every five years. The Banco de España and INE have worked closely and in coordination on this revision. As a result, for the first time ever, full consistency has been achieved between the Balance of Payments and National Accounts statistics. This has been a priority goal at the European level which, to date, has been achieved in only a few countries. In parallel, explanatory notes have been published, both in advance (to warn users) and simultaneously with the revision, including the main results and explaining the methodology in detail. The changes introduced have led to better-quality macroeconomic statistics that are better adapted to international standards and more consistent.
- There was a drive to improve the service offered to Banco de España statistics users in 2019. Between 2018 and 2019, the Bank undertook a series of actions to compile the opinions of users, whose needs have been considered in the implementation of these improvements. They are mainly three-pronged: access to microdata, the reorganisation of the information in the Statistics website section and the availability to users of interactive tools to view the data.

Figure 2.1

THE CONSISTENCY OF SPANISH MACROECONOMIC STATISTICS



SOURCE: Banco de España.



BELab, the data laboratory room, located in the Banco de España building on Calle de Alcalá 522, Madrid.

- Regarding microdata, the Banco de España launched its data laboratory, BELab. Its aim is to offer access to researchers to microdata (or itemised data), in line with a practice set in place in other central banks and institutions. For access to the data, a physically secure data room has been constructed, isolated from the rest of the Banco de España's IT work sites. Initially, accessible data will be those in the Central Balance Sheet Date Office¹, although the laboratory's stated mission is to extend the databases available to users and the means of access.

Also in relation to microdata, there was significant headway in 2019 in two surveys of the Spanish population: the Survey of Household Finances (EFF) and the Survey of Financial Competences (ECF, by its Spanish abbreviation). Concerning the EFF, the data editing process has concluded, as has the allocation of the main variables of the EFF 2017. The main results of this survey were published in late 2019, and the data from the EFF 2014 and 2017 waves were forwarded to the ECB as part of the Spanish contribution to the *Household Finance and Consumption Survey*. Further, revision and programming work has begun on the EFF 2020 questionnaire. As regards the ECF, all its microeconomic data have been made available to researchers.

- The Statistics website section has been revamped, with the aim of offering users more straightforward access to the information. The section is now organised on the basis of subjects, which are identified by an icon as well as by their name. The content under each subject has been standardised.

¹ https://www.bde.es/bde/en/areas/analisis-economi/otros/que-es-belab/Que_es_BELab___fase_piloto_.html.

(Updated information, March 2020)

By sub-sector

2019/Q3

Sub-sector	Millions of euro	% of GDP mp
Central government	1.070.283	86,7 %
Regional (autonomous) governments	298.076	24,1 %
Local governments	25.244	2,0 %
Social security funds	52.445	4,2 %
Consolidation	-242.230	-19,6 %
Total	1.203.819	97,5 %

→ Reg. (aut.) gvt. Breakdown

→ Local gvt. Breakdown

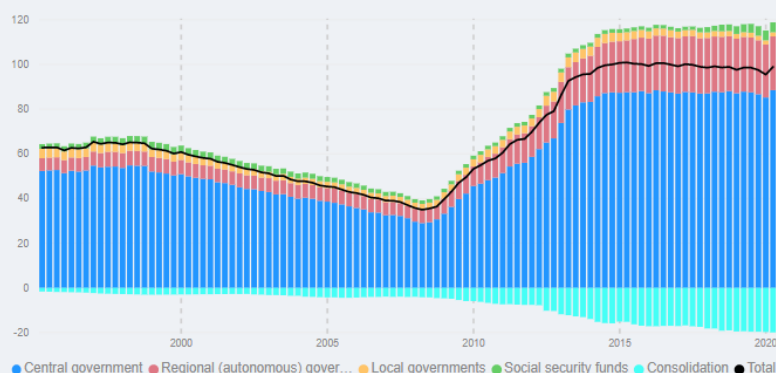
Changes over time

Select unit

Percentage of GDP mp Millions of euro Year-on-year growth rates

Select dates

1995 2020



The publication of interactive charts and maps relating to the Public Debt statistic has begun. Access can be had from the Statistics website section using the BExplora icon.

As a result, users will always find the information organised in the same way, irrespective of the subject selected. The renewal of the website has also seen graphical features incorporated for the most significant series, and it continues under way, with the integration of additional functionalities.

The publication of interactive tables has also begun, including the Public Debt statistic, under the BExplora brand name. These tools enhance user accessibility to data and the information they contain.

As regards the dissemination of the Banco de España’s statistical activity, media relations have been stepped up by means of several briefing sessions, the aim of which is to explain methodological issues that make for easier interpretation of the statistics produced by the Bank and to present the tools available for consulting the information.

STATISTICS

One of the main functions of the Banco de España is to provide useful data, indicators and statistics for economic analysis, thereby contributing to the decision-making of the Bank itself, of the ESCB and of other national and international agencies. This information is also of great relevance for researchers and the public at large.

In some cases, statistics are prepared based on the information the Bank itself draws from agents (such as credit institutions and non-financial corporations). In other instances the underlying information is from other institutions (such as INE and the CNMV). For most

statistics, compilation procedures follow internationally set methodologies or regulations specified by the Eurosystem for statistical production, on the definition of which the Bank actively collaborates. Indeed, the Banco de España participates in numerous international working groups that analyse which statistics need compiling, at what level of detail, how the concepts they incorporate are defined and which are the most appropriate information sources and methods in this connection. The outcome is ultimately reflected in standards set by the IMF and the OECD and, at the European level, the Parliament, the European Commission and the ECB. Nationally, there is

Statistics by subject**Financial accounts**

Financial accounts of institutional sectors

**Financial corporations**

Monetary and non-monetary financial institutions

**General Government**

Debt and deficit according to the EDP and other public sector statistics.

**Non-financial corporations**

Central Balance Sheet Data Office's non-financial corporation statistics

**External statistics**

Balance of payments, international investment position and other external statistics

**Surveys of households and individuals**

Spanish Survey of Household Finances and Survey of Financial Competences

**Financial markets**

Securities, currency and derivatives financial markets

**General economic statistics**

General economic statistics and indicators

**Interest rates**

Legal, benchmark and market interest rates

**Exchange rates**

Rates of exchange and competitiveness indexes

**Payment systems**

Statistics on payment systems

**Financial and prudential information from credit institutions**

Balance sheet, profit and loss, and other information on a consolidated basis

close collaboration with other institutions (largely under the National Statistical Plan), which ensures the optimal distribution of tasks and consistency across statistical products.

Within the financial sector, the Bank's statistics offer detailed information on the activity of financial institutions and financial markets. They further track exchange rates and interest rates, both legal rates and benchmark rates (used, above all, in loan agreements), and the interest rates applied by financial institutions to their customers. The payment systems used and the financial and prudential information on credit institutions are also integrated into the extensive list of statistics produced and disseminated by the Banco de España.

Notable among the macroeconomic statistics prepared by the Bank are the financial accounts. These record all the financial transactions and financial positions between

the resident sectors of the domestic economy, and between the latter and the rest of the world. The Bank also compiles the Balance of Payments and the International Investment Position, which are statistics that relate to Spain's foreign transactions and to Spanish agents' balances with the rest of the world. In the general government area, the Public Debt according to the Excessive Deficit Protocol statistic is fundamental for monitoring fiscal sustainability. Further, the Banco de España compiles information on households: the Spanish Survey of Household Finances (EFF) includes information on households' saving and investment decisions, while the aim of the Survey of Financial Competences is to measure the adult population's knowledge and understanding of financial concepts. Finally, the Banco de España's statistics offer valuable information on non-financial corporations (individual firms and groups alike) through the databases managed by its Central Balance Sheet Data Office.

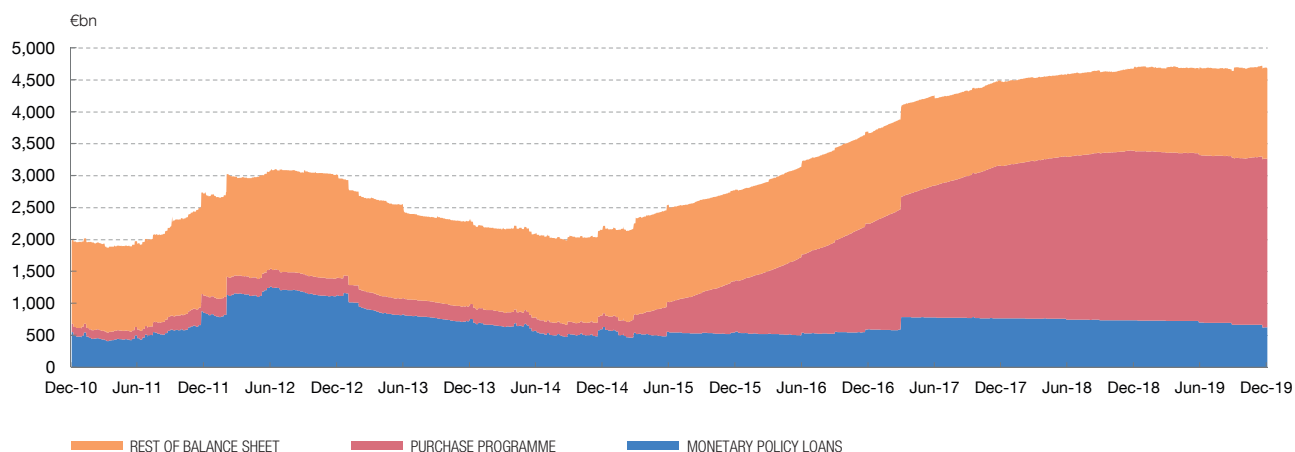
3.1 Monetary policy implementation

In 2019, there were several notable developments in relation to monetary policy implementation. A new targeted longer-term refinancing operation (TLTRO III) was launched, the deposit facility interest rate was reduced by 10 basis points (bp) to -0.50% , and a new reserve remuneration mechanism was introduced. Also, net purchases were restarted under the asset purchase programme.

- As regards liquidity providing operations, the major development was the launch of TLTRO III. This new series consists of seven quarterly three-year operations, with the potential volume of 30% of total eligible loans as at 28 February 2019 (deducting the amount of TLTRO II) and remuneration that can be as low as the average deposit facility interest rate during the life of the operation, depending on the growth of eligible loans. Since June 2018, and in parallel with the new TLTRO III operations, institutions may repay funds allocated under TLTRO II early, so that funds can be transferred from one series to another. In 2019, Spanish institutions repaid €63.9 billion early (the figure for the euro area as a whole was €208.7 billion), while €27.1 billion was allocated to Spanish institutions under TLTRO III (€101.1 billion in the Eurosystem as a whole). In net terms, outstanding amounts were reduced by €36.8 billion in Spain (€106.9 billion in the Eurosystem).
- As regards the setting of key ECB interest rates, it was decided in September 2019 to reduce the deposit facility rate by 10 bp to -0.50% , while keeping the rates applicable to main refinancing operations and to the marginal lending facility unchanged, at 0.00% and 0.25%, respectively.
- At the same time it was decided to implement, from 30 October 2019, a new two-tier system for remunerating excess reserves held in current accounts. One of these tiers receives an improved treatment, since it is no longer remunerated at the deposit facility rate, which currently stands at -0.50% . The Governing Council of the ECB decided that this tier, equal to six times the minimum reserve requirements, should be remunerated at 0%. Both variables (the multiplier and the remuneration) may be changed in future, should the Governing Council consider it appropriate.
- In relation to the asset purchase programmes, in December 2018, the Governing Council of the ECB took the decision to end the net purchase

Chart 2.1

THE EUROSISTEM'S BALANCE SHEET



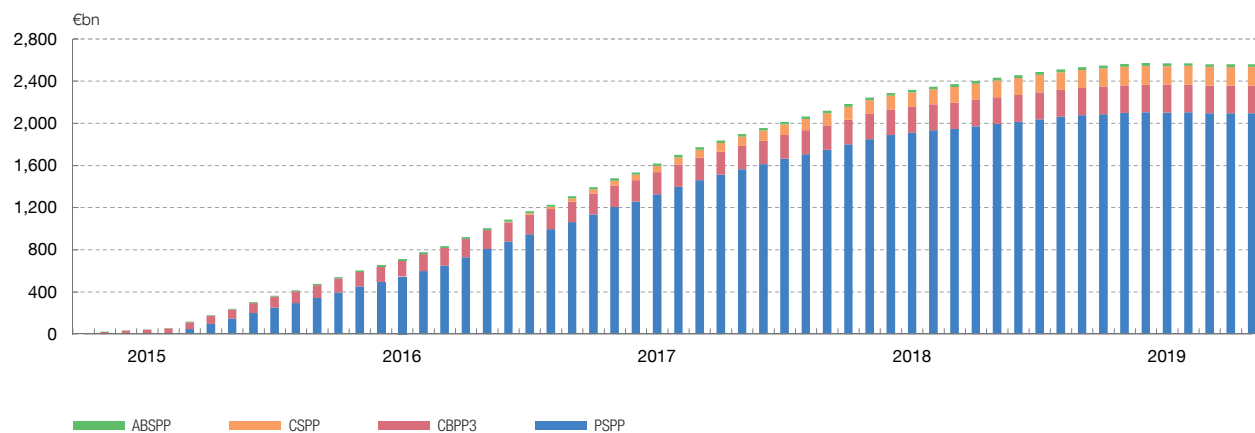
SOURCE: Banco de España.

phase. Between January and October 2019, the Eurosystem reinvested all principal payments on maturing assets in monetary policy portfolios. The intention was to maintain the volume of the assets at the December 2018 levels (see Chart 2.2).

In September 2019, the Governing Council of the ECB decided to restart net purchases as from November 2019, at a rate of €20 billion per month. This phase will continue for as long as necessary to reinforce the

Chart 2.2

CUMULATIVE NET PURCHASES, BY PROGRAMME, AS AT 31.12.2019



SOURCE: European Central Bank.

accommodative impact of the ECB's policy rates, and is expected to end shortly before the ECB starts to raise its key interest rates. It is also intended to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Within the monetary policy portfolios, the public sector (PSPP) portfolio continues to be the largest in terms of cumulative volume. As regards the private-sector programmes, the corporate sector purchase programme (CSPP) gained weight relative to the covered-bond purchase programme (CBPP3). Lastly, it should be noted that the smooth functioning of the public sector purchase programme securities lending facility helped to ease repo market tensions at quarter and year ends.

Although they correspond to 2020, it should be noted in any case that the ECB has adopted various monetary policy measures, given the exceptional situation arising from the COVID-19 pandemic, which can be consulted on its website (<https://www.ecb.europa.eu/ecb/html/index.en.html>).

The most notable developments in relation to monetary policy implementation in 2019 were the launch of a new targeted longer-term refinancing operation (TLTRO III), the 10 basis point reduction in the deposit facility interest rate and the introduction of a new reserve remuneration mechanism. Also, net purchases were restarted under the asset purchase programme.

3.2 Asset management

As regards the management of own portfolios, the process of diversification of foreign currency-denominated portfolios and across issuers with high credit ratings was continued in 2019. Notably, the principles of sustainability and responsibility were incorporated as basic principles in the Banco de España's investment policy. Other tasks for third parties continued to be undertaken, such as the management of part of the ECB's foreign reserves and acting as a financial agency in relation to the portfolios of the Social Security Reserve Fund and the Deposit Guarantee Scheme.

GREEN FINANCES

The consequences and transformations wrought by what is known as “climate change” on the development of our societies are among the key factors that should be analysed from any area of economic activity, given their influence on the very sustainability of the social structures and systems currently in place in the 21st century.

In this connection, the contribution the financial sector may make in this global fight against climate change assumes great importance. Admittedly, the sector’s participation has been fairly limited to date, insofar as it was not considered as a direct pollutant and its contribution to these environmental sustainability criteria was understood as something outside its competences.

But this has changed for the sector itself and for the public authorities with competences in the financial field. The turning point was the so-called “Paris Agreement” in 2015, part of the United Nations Convention against climate change, which encompasses, among other issues, the recognition of a direct interest in climate risks on the part of banking regulators and supervisors.

This is so, firstly, because the 2015 Paris Agreement stressed for the first time the importance of the financial system as a point of reference for channelling the resources needed to convert the economy towards a sustainable model. Secondly, in 2018, and as a result of the first report of the Network for Greening the Financial System (NGFS), which draws together central banks and

supervisors from various countries, it was pointed out that climate-related risks were a source of financial risk, and that these monetary and supervisory authorities had to strengthen the system’s solvency in the face of such risks.

This means that the transition process will entail two types of risks to the financial system, which will consequently require different treatment: i) the physical risks caused by the direct effects of climate change on the planet and, therefore, on its economy; and ii) transition risks, referring to the effect that the aforementioned contingencies will have on specific bank borrowers.

The foregoing may also take shape through another specific element of the banking system, namely its contribution to the transition of the economy. This is so given that, if banks incorporate climate risks in terms of cost and capital into their structure and conduct, they indirectly become change “facilitators”, by lowering the cost of the funding of those firms and activities that most contribute to the sustainable transformation of the economy, while discouraging the most polluting activities.

Accordingly, supervisors expect all banks, in the short and medium term, to clearly and resolutely incorporate the environmental dimension into their strategic approach, and also into the analysis and monitoring of risks. This is on the understanding that their contribution to environmental sustainability will be one of the sustaining factors of economic activity.



The Deputy Governor of the Banco de España, Margarita Delgado, at the opening of the conference “Climate Change. Challenges for the Financial System”, organised on the occasion of the Madrid Climate Summit.

The Banco de España incorporated the principles of sustainability and responsibility as basic principles in its investment policy. Also, it continued to exercise strict control over financial risks when managing its portfolios.

In 2019, strict control continued to be exercised over financial risks and the monitoring and measurement of the new risks assumed in monetary policy and own portfolios were incorporated into the process. Financial risks, and credit risk in particular, have declined as a consequence of the improved credit quality of Spanish sovereign debt, reflected in the rating agencies' rating upgrades. The financial hedges to cover the risks assumed have also been increased.

3.3 Payment systems and market infrastructures

In 2019, the Banco de España undertook various actions in relation to the supervision of payment services and of the entities that specialise in their provision: payment institutions, electronic money institutions and account information service providers. Certain processes required to monitor the obligations deriving from Royal Decree-Law 19/2018 on payment services were developed, such as for reporting serious operational and security incidents and fraud data. Also, an ad hoc informal procedure was designed to verify compliance by ASPSPs (account servicing payment service providers) with the conditions established in the legislation for the application programming interfaces (APIs) implemented to give the providers of new payment initiation and account information services (third party providers, TPPs) access to payment accounts; and the process was launched to assess the migration plans of payment service providers for adapting e-commerce card-based payment transactions to the new security requirements (strong customer authentication), under the supervisory flexibility announced by the European Banking Authority (EBA) in its Opinion of 21 June 2019, supplemented by its Opinion of 16 October 2019.

In relation to financial market infrastructures, the Banco de España, under the Eurosystem's Oversight Policy Framework, oversees payment systems and instruments in Spain. In 2019, it carried out oversight tasks in relation to the Spanish retail payment system (the National Electronic Clearing System, SNCE, by its Spanish abbreviation), operated by Iberpay, and the national payment card scheme (Sistema de Tarjetas y Medios de Pago, SA). Also, as a member of the Eurosystem and under the leadership of the ECB as primary overseer, the Banco de España participates in the cooperative oversight of pan-European payment systems (TARGET2, EURO1, STEP2 and RT1), and of payment instruments of the Single Euro Payments Area (SEPA) and of the VISA Europe card scheme. Turning to securities, the Banco de España, within its responsibilities, and acting on behalf of the

Eurosystem (as the central bank of issue and the central bank whose post-trade infrastructures clear and settle the cash leg of its transactions), has undertaken various actions in relation to Iberclear and BME Clearing.

As the operator, the Banco de España manages the Spanish component of the large-value euro payments system TARGET2 (TARGET2-BE). In 2019, TARGET2-BE settled 6,282,368 transactions, with a total value of €16 billion. With respect to 2018, these figures represented an increase of 3.42% in the number of transactions and of 2.17% in their total value.

The Banco de España, as a member of the Eurosystem and under the ECB's leadership, participates in the cooperative oversight of pan-European payment systems (in particular TARGET2, EURO1, STEP2 and RT1), SEPA instruments and the VISA Europe card scheme.

The Banco de España also plays a leading role in the provision of services to the ESCB in relation to financial market infrastructures and the development of platforms shared with other central banks in the market operations area. These activities are performed in conjunction with the central banks of Germany, France and Italy, and contribute notably to the harmonisation and integration of European financial markets. Notable, in this respect, was the work to develop a unified system for managing the collateral in the monetary policy operations of Eurosystem central banks (ECMS), due to be launched in November 2022. Turning to European securities market services, the Banco de España worked on adapting the Eurosystem's TARGET2-Securities (T2S) settlement platform to include a mechanism to calculate penalties for failed settlement instructions. With respect to market operations, the Central Bank of Cyprus selected the common technical platform of the Banco de España and the Banque de France to process market operations (MAPS). This platform offers services including portfolio trading and management, risks, settlement, accounting and reports. Other Eurosystem central banks are evaluating MAPS as an integral solution for their market operations.

4 BANKNOTES AND COINS

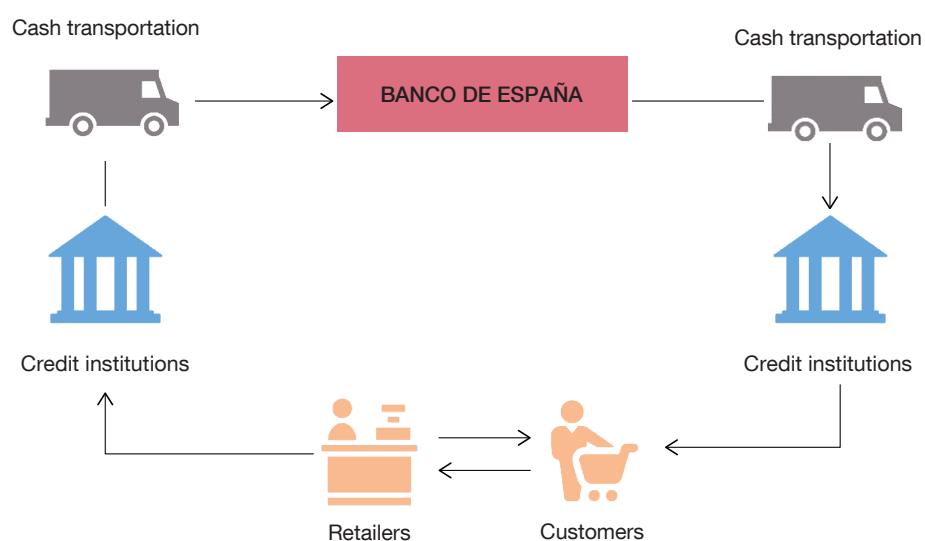
4.1 Banknote and coin management

As a member of the ESCB, the Banco de España, together with the ECB and the other euro area NCBs, is responsible for issuing euro banknotes. It also puts euro coins into circulation, on behalf of the Spanish State, and manages the cash cycle, ensuring that demand for banknotes and coins is met throughout Spain. Lastly, the Banco de España is responsible for safeguarding the integrity of banknotes and coins, by means of controls on the processing and recirculation of cash and the fight against counterfeiting.

Figure 2.2 depicts the cash cycle in Spain.

On 28 May 2019 the new Europa series €100 and €200 banknotes were put into circulation, thus completing the series. New and enhanced security features have been added to the new banknotes, incorporating the latest technological advances, to make counterfeiting more difficult. Various events were organised to raise awareness of the new banknotes and their security features, both for professional cash handlers and the general public.

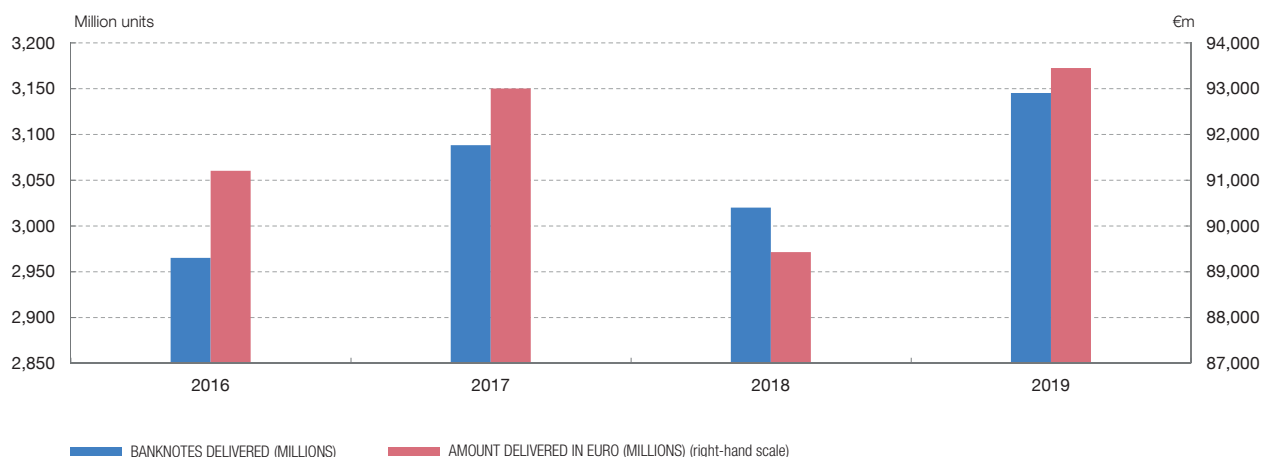
Figure 2.2
CASH CYCLE



SOURCE: Banco de España.

Chart 2.3

BANKNOTES PUT INTO CIRCULATION BY THE BANCO DE ESPAÑA



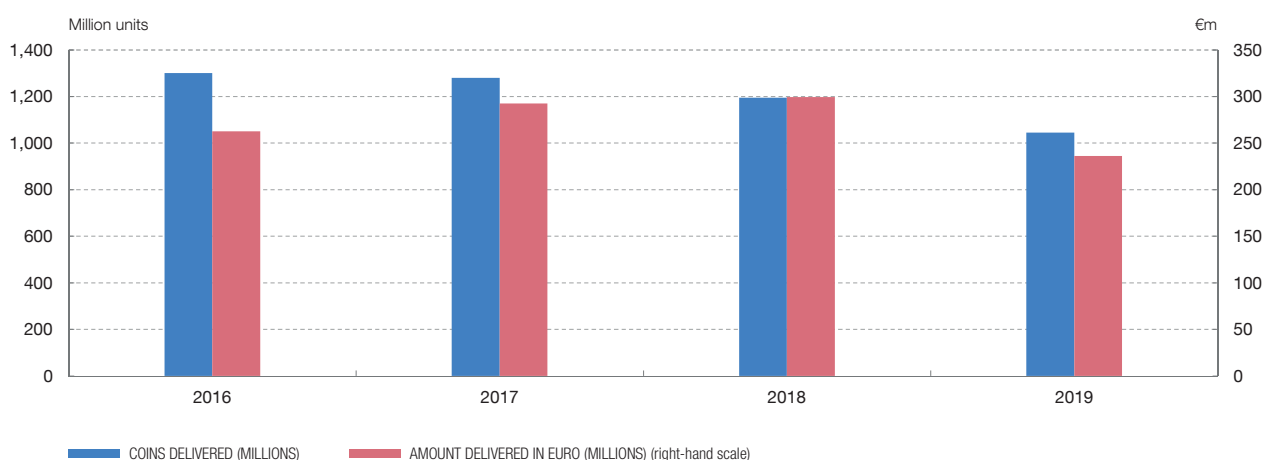
SOURCE: Banco de España.

In 2019 credit institutions demanded a total of 3,145 million banknotes, amounting to €93,446 million. These banknotes are subsequently distributed by the credit institutions, over the counter and through cash dispensers, ultimately reaching the general public to be used to meet their payment needs.

Also in the year, credit institutions demanded 1,044 million coins, amounting to €237 million. In order to optimise the coin cycle, various initiatives were launched,

Chart 2.4

COINS DELIVERED BY THE BANCO DE ESPAÑA



SOURCE: Banco de España.

seeking to mobilise coin stocks and encourage the return of coins to the Banco de España.

To protect the integrity of the banknotes in circulation, in 2019 the Banco de España, using automated systems, examined the authenticity and fitness of approximately 3,467 million banknotes from deposits made by credit institutions. It also made 235 inspection visits to professional cash handlers, to verify compliance with the procedures established by the ECB for checking the authenticity of euro banknotes and their fitness for recirculation.

In addition, to ensure the authenticity and optimal fitness of the coins in circulation, in 2019 the Banco de España made inspection visits to 30% of coin processing centres, checking the correct functioning of the coin processing machines which handled around 1.2 billion coins overall.

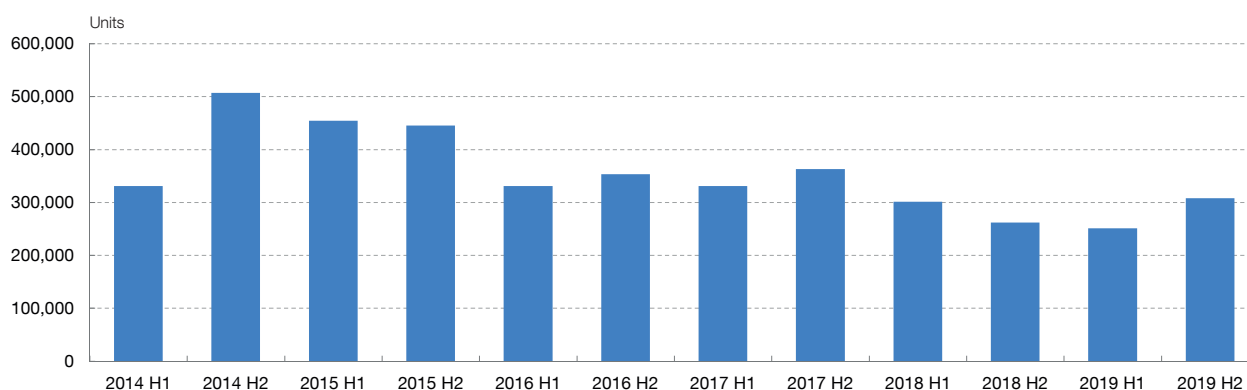
4.2 Fight against banknote counterfeiting

Safeguarding the authenticity of the banknotes in circulation is one of the cornerstones for ensuring banknote integrity and, therefore, the trust of the general public. To this end, the Banco de España works unremittingly to combat counterfeiting, in coordination with the police and the judicial authorities, at both the national and the European level. In this setting, in the second half of 2019 a total of 308,000 counterfeit banknotes were withdrawn from circulation in the euro area countries; this is 22.7% more than in the first half of the year and 17.6% more than in the second half of 2018. The bulk of the counterfeits (approximately 70% of the total) were €20 and €50 banknotes, which are the denominations most used in commercial transactions.

Chart 2.5

COUNTERFEITS WITHDRAWN FROM CIRCULATION IN THE EUROSYSTEM

Half-yearly data



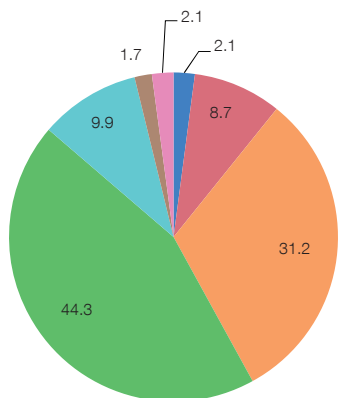
SOURCE: ECB.

Chart 2.6

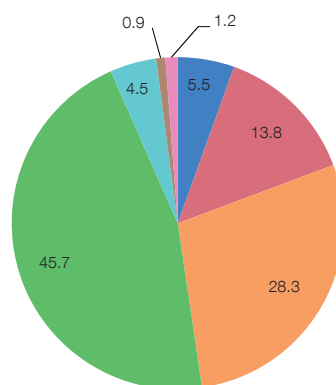
COUNTERFEITS BY DENOMINATION

2019 data (%)

1 EUROSISTEMA



2 SPAIN



■ €5 ■ €10 ■ €20 ■ €50 ■ €100 ■ €200 ■ €500

SOURCES: ECB and Banco de España.

In the case of Spain, 68,623 counterfeit banknotes were withdrawn from circulation in 2019; this is 12% of the total number of counterfeit banknotes withdrawn from circulation in the euro area in the year.

Bearing in mind that there are 24 billion genuine euro banknotes in circulation in the euro area, the likelihood of receiving a counterfeit banknote is very low.

5.1 Prudential supervision

Since November 2014, euro area financial institutions are supervised by the SSM, which comprises the ECB and the different national supervisory authorities (NSAs). In this setting, the ECB is responsible for decision-making, and for direct supervision of the main credit institutions (“significant institutions”), in close collaboration with the respective NSAs. All other credit institutions (“less significant institutions”) are directly supervised by the NSAs, according to a common policy laid down by the ECB.

At 31 December 2019, the SSM supervised 117 groups of significant institutions and 2,369 less significant institutions. There are 12 Spanish groups of significant institutions², which account for 91.3% of the total assets of the Spanish banking system, and 59 Spanish groups of less significant institutions that account for 4.6%. The remainder are subsidiaries and branches of significant euro area groups (3.6% of total assets) and branches of less significant institutions, branches of institutions from EU countries not participating in the SSM and branches in non-EU countries (which total 0.4%).

The Banco de España makes an essential contribution to the supervision of Spain’s significant institutions, carrying out ongoing supervision through the joint supervisory teams (JSTs) and on-site inspections and reviews of significant institutions’ models. The Banco de España participates in the JSTs of the 12 groups of Spanish significant credit institutions – contributing not only its experience but also a large portion of the inspectors making up the supervisory teams – and in the JSTs of foreign significant banking groups that have a strong presence in Spain through subsidiaries and/or branches. In addition, in 2019, a total of 31 on-site exercises (inspections and model reviews) were carried out at Spanish significant institutions. Of these, 22 were led by Banco de España staff, four by ECB staff and five by staff from other SSM member countries, with the participation in all cases of Banco de España staff. The Banco de España also contributed to cross-border exercises, leading three and taking part in another four inspections of institutions of other SSM member countries.

The ECB’s Supervisory Board, on which the Banco de España is represented, adopted 2,356 supervisory decisions in 2019. Of this total, 247 decisions were specifically addressed to Spanish institutions (243 to significant institutions and four to less significant institutions), while a further 226 decisions, on more general matters

² Santander, BBVA, Caixabank, Bankia, Sabadell, Unicaja, Bankinter, Kutxabank, Ibercaja, Abanca, Liberbank and Banco de Crédito Social Cooperativo.

Figure 2.3

MAIN TYPES OF INSTITUTIONS SUPERVISED BY THE BANCO DE ESPAÑA

CREDIT INSTITUTIONS	Any individual or legal entity, whether Spanish or foreign, wishing to pursue the activities of a credit institution in Spain (especially, taking deposits and other repayable funds from the public) must first obtain the necessary authorisation and be entered in the Banco de España's official registers of credit institutions. Credit institutions include commercial banks, savings banks, credit cooperatives and the ICO.								
	<table border="1"> <tr> <td>Commercial banks</td> <td>Public limited companies with an initial share capital of not less than €18 million whose business consists of taking deposits and other repayable funds from the public and granting credits for their own account.</td> </tr> <tr> <td>Savings banks</td> <td>Institutions organised as foundations and with a social purpose, whose financial business is essentially geared to taking repayable funds and providing banking and investment services to retail customers and small and medium-sized enterprises (SMEs).</td> </tr> <tr> <td>Credit cooperatives</td> <td>Companies whose corporate purpose consists of serving the financial needs both of their members and of third parties by pursuing the business of credit institutions.</td> </tr> <tr> <td>Branches of foreign credit institutions</td> <td>Having no legal personality, they are part of a foreign credit institution and directly pursue all or any of the operations inherent to the business of that institution.</td> </tr> </table>	Commercial banks	Public limited companies with an initial share capital of not less than €18 million whose business consists of taking deposits and other repayable funds from the public and granting credits for their own account.	Savings banks	Institutions organised as foundations and with a social purpose, whose financial business is essentially geared to taking repayable funds and providing banking and investment services to retail customers and small and medium-sized enterprises (SMEs).	Credit cooperatives	Companies whose corporate purpose consists of serving the financial needs both of their members and of third parties by pursuing the business of credit institutions.	Branches of foreign credit institutions	Having no legal personality, they are part of a foreign credit institution and directly pursue all or any of the operations inherent to the business of that institution.
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	Credit cooperatives	Companies whose corporate purpose consists of serving the financial needs both of their members and of third parties by pursuing the business of credit institutions.							
Branches of foreign credit institutions	Having no legal personality, they are part of a foreign credit institution and directly pursue all or any of the operations inherent to the business of that institution.								
SPECIALISED LENDING INSTITUTIONS	Enterprises which, while not classed as credit institutions, professionally pursue one or more banking business activities, such as granting loans or credits or providing guarantees. They are subject to a minimum share capital requirement of €5 million. They may also provide payment services or issue electronic money, subject to prior authorisation by the Banco de España and entry in the Banco de España's Special Register, in which case they will be considered hybrid payment institutions.								
ELECTRONIC MONEY INSTITUTIONS	Legal entities authorised by the Banco de España to issue electronic money. They must have minimum initial capital of €350,000 and sufficient own funds. They may also provide payment services, whether or not linked to electronic money.								
PAYMENT INSTITUTIONS	Legal entities authorised by the Banco de España to provide and execute payment services in Spain (e.g. payment transactions, issuance of payment instruments, money remittances, payment initiation, financial information, etc.), with minimum initial capital and own funds requirements according to the payment services provided.								
MUTUAL GUARANTEE SCHEMES	Schemes established by small and medium-sized enterprises (SMEs) to facilitate their access to credit and related services and generally enhance their financial conditions. They may provide personal guarantees to their members but they may not extend credit of any kind to them.								
REGUARANTEE SCHEMES	Schemes whose purpose consists of reguaranteeing guarantees furnished by mutual guarantee schemes, to provide sufficient guarantee and cover for the risks assumed by the latter and help reduce the cost of furnishing personal guarantees to members.								
CURRENCY-EXCHANGE BUREAUX AUTHORISED TO PURCHASE AND SELL FOREIGN CURRENCY	Individuals or legal entities, other than credit institutions, that purchase foreign banknotes and travellers' cheques. Public limited companies that purchase and sell foreign banknotes and travellers' cheques.								
APPRAISAL COMPANIES	Public limited companies that provide appraisal services. They are subject to prior authorisation, independence and secrecy requirements and to a minimum capital requirement of €300,506.								

SOURCE: Banco de España.

or SSM policy or organisational issues, also affected them. The resolutions adopted notably included the corresponding capital decisions resulting from the supervisory review and evaluation process (SREP), which establishes the level of capital required of each institution in 2020.

Another key element of the operation of the SSM are the working groups and expert networks that analyse and develop technical and supervisory policy proposals, seeking to enhance the functioning of the SSM. In 2019 the Banco de España participated in the vast majority of these groups, involving some 100 staff members. The considerable effort required to contribute to the work of these groups is essential to ensure a fully harmonised and quality supervision process.

As regards the less significant institutions, which are supervised by the Banco de España, in 2019 a total of 698 ongoing supervision exercises were carried out, including regular monitoring exercises, external audit reviews and reviews of ICAAP and ILAAP reports.

At end-2019 the Banco de España adopted the corresponding capital decisions for the less significant institutions, applying the SREP methodology approved by the ECB's Supervisory Board in January 2019, which envisages a similar arrangement to that for the significant institutions.

The ECB directly supervises 12 Spanish banking groups, which account for 92% of the Spanish banking system.

The Banco de España led 22 of the 31 on-site exercises relating to Spanish significant institutions conducted in 2019, as well as three cross-border exercises. Also, 698 ongoing supervision exercises were carried out relating to less significant institutions.

In 2019, the ECB's Supervisory Board, of which the Banco de España's Deputy Governor is a member, adopted 2,345 supervisory decisions, 243 of which affected Spanish significant institutions, as well as 225 more general decisions.

As neither branches in Spain of institutions headquartered in non-SSM EU Member States, nor branches of less significant institutions of SSM countries, are subject to prudential or liquidity requirements at the branch level, the Banco de España conducts regular monitoring of their progress, holds meetings with management, and regularly exchanges information with the home country authorities, on the terms established in Commission Implementing Regulation (EU) No 620/2014.

Table 2.1

CREDIT INSTITUTIONS WITH AN ESTABLISHMENT IN SPAIN (a)

	2019
Banks	52
Savings banks	2
Credit cooperatives	61
ICO	1
Branches of EU credit institutions	78
Branches of non-EU credit institutions	3

SOURCE: Banco de España.

a Also recorded in the registers are six parent companies of credit institutions.

Table 2.1 lists the different credit institutions operating in Spain “with an establishment” that make up the Spanish banking system in 2019. It does not include institutions that operate in Spain “without an establishment”.

Within the recovery framework, the JSTs and supervisory teams of the less significant institutions have completed the review cycle of the 2018 recovery plans. In the case of the significant institutions, particular importance was attached to overall recovery capacity (ORC), which provides an overview of the extent to which each institution could restore its financial position following a significant deterioration of its financial situation. After assessing the recovery plans of both significant and less significant institutions, letters were sent to the institutions indicating the aspects to be improved in the subsequent plans and, in cases where more serious shortcomings were detected, either requesting that specific action plans to remedy the deficiencies be submitted within a reasonable period, or requiring that a new plan be submitted in the legally established period.

Beyond the scope of the SSM, the Banco de España also has exclusive supervisory powers over institutions other than credit institutions that provide financial services or perform functions related to the financial sector. In 2019 these institutions were the focus of 310 off-site monitoring exercises and three on-site inspections.

Table 2.2 lists the institutions other than credit institutions operating with an establishment in Spain that are recorded in the registers of the Banco de España in 2019, grouped by type and area of activity. The institutions other than credit institutions that operate in Spain without an establishment are shown in Table 2.3.

In 2019, two anti-money-laundering inspections were concluded. Also, participation continued in various international working groups in this field, in collaboration with other Banco de España departments and directorate generals.

Table 2.2

INSTITUTIONS WITH AN ESTABLISHMENT IN SPAIN OTHER THAN CREDIT INSTITUTIONS

	2019
Institutions operating with an establishment other than credit institutions	190
Specialised lending institutions (SLIs)	27
SLI payment institutions	9
Mutual guarantee companies	18
Reguarantee companies	1
Appraisal companies	32
Currency-exchange bureaux (a)	16
Payment institutions	42
Branches of EU payment institutions	12
Agent networks of EU payment institutions	2
Electronic money institutions	7
Branches of EU electronic money institutions	8
Agent networks of EU electronic money institutions	1
Account information service providers	1
Banking foundations	13
Sareb	1

SOURCE: Banco de España.

a Does not include establishments authorised only to purchase foreign currency with payment in euro (2,819 registered at 31 December 2019).

As a result of the different prudential supervision tasks carried out, the Banco de España issued 110 recommendation and requirement letters to less significant credit institutions (60 on capital decisions, 37 on recovery plans, 11 on inspections and 2 on monitoring) and five letters to other institutions (3 on inspections and 2 on monitoring).

Table 2.3

INSTITUTIONS OPERATING WITHOUT AN ESTABLISHMENT IN SPAIN RECORDED IN THE REGISTERS OF THE BANCO DE ESPAÑA

	2019
Credit institutions operating without an establishment	
EU credit institutions	608
Non-EU credit institutions	3
Institutions other than credit institutions operating without an establishment	
Electronic money institutions	242
Payment institutions	454
Account information service providers	16
Financial institutions subsidiaries of EU credit institutions	13

SOURCE: Banco de España.

BANKING SUPERVISION: WHAT DOES IT INVOLVE?

The Banco de España has supervisory competences over the solvency and conduct of credit institutions and other financial auxiliaries. It exercises them either independently or as part of the Single Supervisory Mechanism (SSM), in place in the euro area since 2014, and it also cooperates with other national supervisors.

Put simply, the following types of supervisory functions may be distinguished:

- The microprudential supervision of credit institutions, aimed at monitoring the solvency of these institutions. The objective is to minimise the likelihood and the effects of individual crises, given their significance for deposits, loans and payments inherent in the financial sector.
- The microprudential supervision of other institutions, other than credit institutions, that provide services or pursue activities relating to the financial sector, essentially in the area of loans and payments.
- The functions conferred on the supervisor in respect of the regulations on the recovery and resolution of credit situations, via mechanisms and instruments specifically applicable in this sector of economic activity.
- Macroprudential supervision, aimed at safeguarding the stability of the financial system and, in particular, the banking system. This is pursued under an analysis and overall assessment of these systems, irrespective of the focus applied to each institution from a microprudential perspective.
- The supervision and monitoring of market conduct and of the fulfilment of the regulations on reporting transparency and customer safeguards by the institutions listed on the Banco de España's official registers of institutions.
- Other supervisory functions, including those referring to the supervision, in collaboration with other bodies with competences in this area, of the prevention of money-laundering and terrorism financing by the institutions supervised by the Banco de España.

Regarding the suitability assessment of senior officers of supervised institutions, in 2019 the Banco de España processed a total of 497 files: 179 relating to credit institutions, 127 to payment institutions, 95 to specialised lending institutions, 52 to mutual guarantee companies, 22 to electronic money institutions, 14 to appraisal companies and 8 to currency-exchange bureaux.

Institutions' recovery plans were reviewed, attaching particular importance to overall recovery capacity.

In 2019 institutions supervised by the Banco de España other than credit institutions were the focus of 310 monitoring exercises and three on-site inspections.

Also, a total of 497 suitability assessment procedures for senior officers of supervised institutions were processed.

Lastly, Table 2.3 lists the credit institutions and the institutions other than credit institutions that operate in Spain without an establishment.

5.2 Supervision of market conduct

During 2019, the Banco de España bolstered its commitment to society by paying special attention to institutions' conduct and by bearing in mind the growing demand for consumer protection, as shown by the recent changes to banking regulations, which include most notably the new regulation on real estate credit.

For this purpose, supervisory activity in the realm of conduct has sought, in addition to identifying and correcting institutions' inappropriate conduct, to encourage the implementation of a conduct of culture and appropriate governance which, with the commitment of the institutions' governing bodies, pervades the whole organisation and especially all channels and points of sale. Accordingly, in March 2019 Banco de España employees visited a total of 189 branches of 12 institutions distributed throughout Spain in order to verify compliance with various transparency obligations.

The supervision of consumer credit and of the impact of digitalisation on banking activity continued to gain importance in supervisory activity during 2019. In this area, the Banco de España paid particular attention to the activity of revolving credit, car finance and credit relating to the supply of goods or to the provision of services. The Bank has instituted a cross-cutting action aimed at ensuring correct application of transparency and consumer protection legislation, and banking best practices when granting loans in the form of overdrafts on sight deposits.

In the realm of mortgage lending, the Bank has worked to ensure transparency both in the marketing and over the life of these loans, placing special attention on the protection of those borrowers facing severe financial difficulties. Additionally, during 2019 the Banco de España has continued to check that floor clauses have been applied properly, as agreed.

Furthermore, supervisory activities in other areas continued to be important, i.e. the transparency of payment services, advertising or the activity of bureaux exchanging foreign banknotes and traveller's cheques.

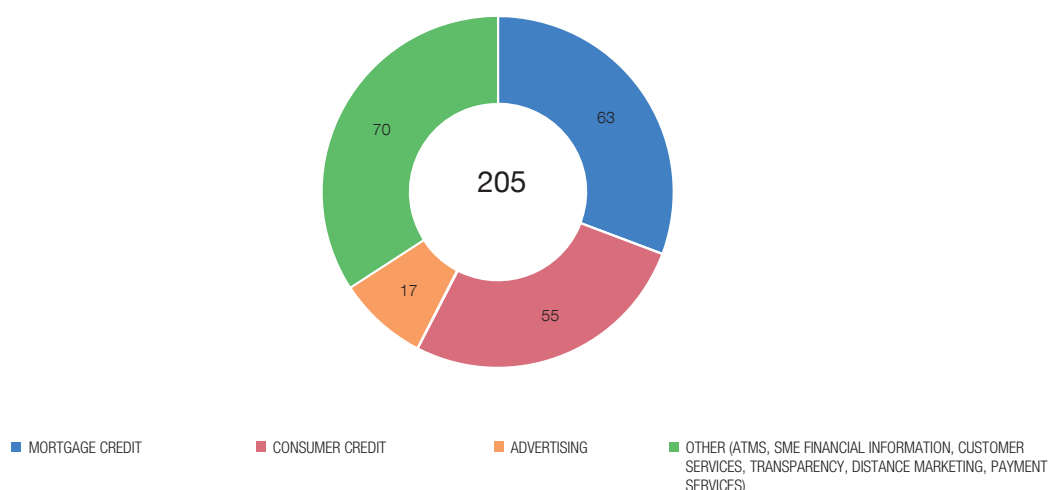
Chart 2.7 summarises the supervisory actions carried out in 2019, by area and type.

As a result of these activities, the initiation of six sanctioning proceedings was proposed, 58 requirements letters were sent, containing 222 specific requirements for institutions, and 31 letters of recommendations were prepared.

Work to verify the internal rules applicable to customer services and customer ombudsman departments resulted in the verification of 12 new sets of rules submitted by 12 institutions, and amendments, both minor and far-reaching, to the contents of a further 57 sets of internal rules.

Chart 2.7

SUPERVISORY ACTIONS RELATING TO CONDUCT IN 2019 BY TYPE (a)



SOURCE: Banco de España.

a A total of 65 of these supervisory actions were initiated before the start of 2019.

Finally, the activity undertaken regarding the monitoring and control of advertising is worth noting. There were 441 requests for the withdrawal or rectification of press and internet advertisements and all of them were handled by the institutions concerned.

5.3 Sanctioning activity

In 2019, the Banco de España agreed to initiate six sanctioning proceedings, five against banks and one against a credit cooperative, in relation to institutions' compliance with transparency and customer protection legislation. One of these proceedings was initiated regarding information on and the application of the Code of Good Practice, whereas the other five proceedings were initiated following the inspection of the respective mortgage portfolios and the detection of infringements such as: i) failing to properly deliver pre-contractual and contractual information; ii) calculating the APR incorrectly by not including the arrangement and related costs; iii) insufficient monitoring of agents; or iv) the improper charging of fees. Also, in this area, five proceedings, all of them brought against banks, were resolved with penalties being imposed. Three of them had been initiated in 2018 and two in 2019.

In the prudential supervision area, at the ECB's instruction a proceeding was brought in 2019 against 41 officers and managers of an SI pursuant to the SSM legislation, which allocates sanctioning powers to the ECB and the national authorities and establishes cases where the former, as direct supervisor of the institution in

question, directs the latter to conduct the corresponding proceeding. This proceeding, which refers to infringements relating to prudential consolidation and capital requirements, was suspended at year-end so as not to prejudice the criminal proceedings that were under way for similar events. A less significant credit institution was sanctioned in the same area of prudential supervision, as were eight of its directors (one of whom was disqualified from holding office) owing to corporate governance, remuneration policy and internal control infringements.

Sanctioning activities involving supervised institutions other than credit institutions continued in 2019, including most notably the proceeding brought against a mutual guarantee company and 32 managers and directors for failing to comply with a prior requirement concerning internal control. This proceeding, which was initiated in 2018, was concluded with penalties being imposed on the institution and 17 of its managers and directors. Similarly, in 2019 a currency-exchange bureau and its sole director were also sanctioned for breaches of its sectoral legislation (in particular, recording of transactions, performance of unauthorised transactions and book-keeping). Another institution and its sole director were sanctioned for pursuing activities reserved to payment institutions. Finally, in this same area in 2019 proceedings were instituted against: i) a payment institution, its sole director and two de-facto directors (mainly regarding own funds, book-keeping and effective administration and management in Spain); ii) an institution which performed without authorisation activities reserved to credit institutions and its director (with the temporary suspension of the aforementioned activity); iii) another institution that did not provide information to the supervisory team; and iv) an appraisal company and five of its directors and managers (regarding, inter alia, valuation methodologies and the structure and content of appraisal reports and certificates).

6 COMPLAINTS AND ENQUIRIES RECEIVED FROM BANK CUSTOMERS

In 2019, 14,641 complaints were made by users of bank services.

Chart 2.8 shows changes in the number of complaints received in the last seven years and the vigorous fluctuations in the annual figures which are generally linked to the marketing practices for mortgage loans and, specifically, to the expectations generated by several national and international court decisions.

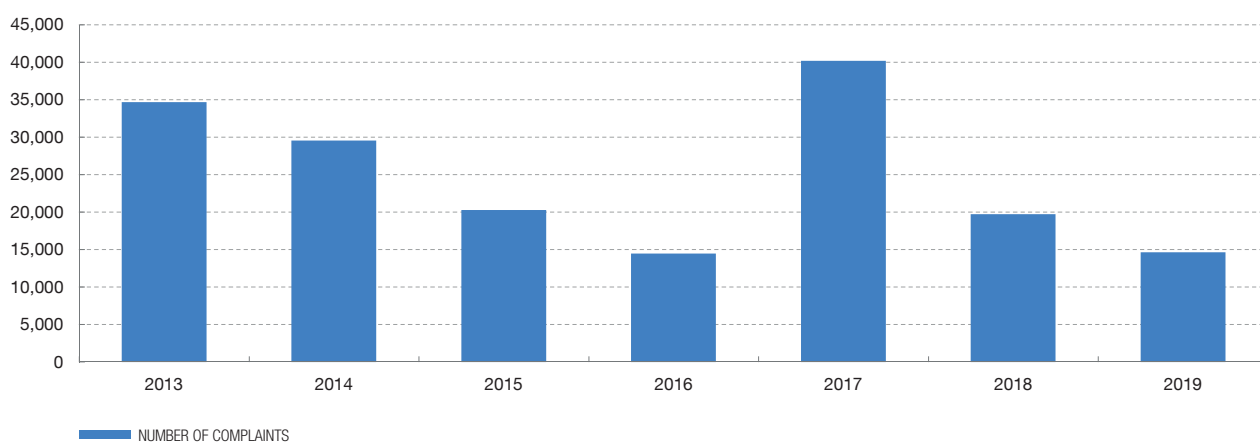
Following the sharp increase in the volume of complaints in 2013, mainly referring to clauses that limit changes in interest rates in mortgage loans (“floor clauses”, amounting to 18,387 complaints), there was a gradual decline over the following three years.

However, this decline came to an abrupt halt in 2017, owing to the complaints received in connection with the payment of mortgage arrangement fees (which numbered 23,040, surpassing the total complaints received in 2018).

In 2019, the number of complaints filed decreased from 19,695 in 2018 to 14,641 – continuing the downward trend which began in the previous year – and reached levels similar to those in 2016. This fall is mainly as a result of the continuous decline in complaints relating to mortgage arrangement fees (which stood at 23,040 in 2017, then dropped to 6,091 in 2018 and decreased to around 1,300 in 2019).

Chart 2.8

COMPLAINTS FILED IN THE LAST SEVEN YEARS 2019 data, provisional as at 31.12.2019



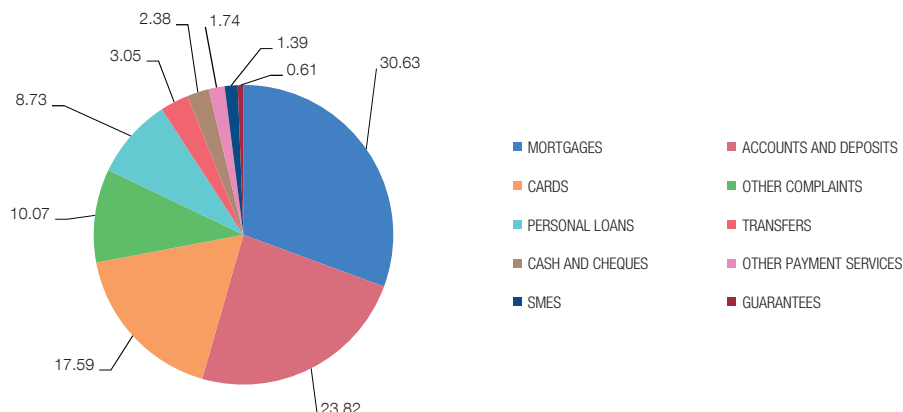
SOURCE: Banco de España.

Chart 2.9

TYPES OF COMPLAINTS

Provisional data as at 31.12.2019

% of complaints filed



SOURCE: Banco de España.

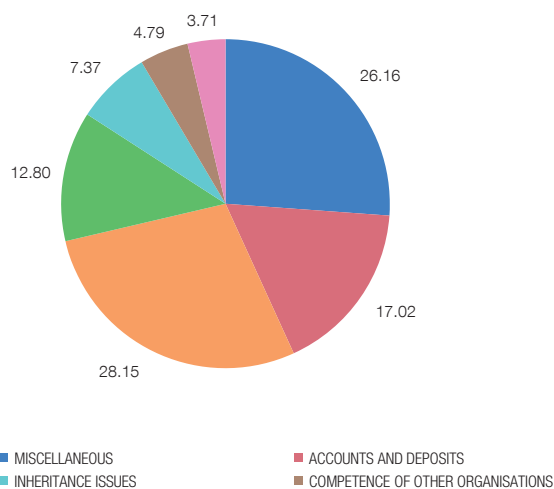
It seems that the downward trend will be maintained in 2020, although it is difficult to make projections in a setting in which new events cannot be ruled out. These events could perhaps be linked once again to legal decisions potentially having a substantial impact on the filing of complaints to the Banco de España and a particular

Chart 2.10

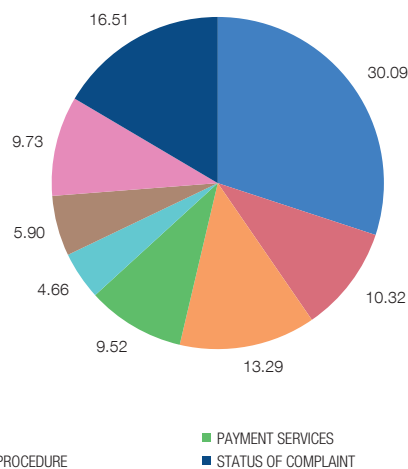
ENQUIRIES RECEIVED FROM BANK CUSTOMERS

2019 data, provisional as at 31.12.2019 (%)

1 WRITTEN ENQUIRIES



2 TELEPHONE ENQUIRIES



SOURCE: Banco de España.

effect not only in the area of mortgage loans (mortgage loan reference index clause) but also in that of revolving credit cards (interest included in the corresponding agreements).

A total of 26,743 telephone enquiries were received in 2019 (compared with 28,341 in 2018) and written enquiries surged to 3,719 (from 1,672 in the previous year) which seems to be related to the improved content and positioning on the internet of the Bank Customer Portal (96.2% of the written enquiries in 2019 were submitted electronically mainly via the above-mentioned portal).

In 2019 most enquiries and, similarly, most complaints were about loans (chiefly mortgage loans) and matters relating to accounts and deposits.

Work to verify the internal rules applicable to customer services and customer ombudsman departments continued in 2019, with the verification of six new sets of rules submitted by institutions, and amendments, both minor and far-reaching, to the contents of a further 57 sets of internal rules.

In relation to the monitoring and control of advertising there were 441 requests for the withdrawal or rectification of press and internet advertisements, all of which were handled by the institutions concerned.

7 FINANCIAL STABILITY AND PREVENTIVE RESOLUTION

7.1 Macroprudential policy

The Banco de España's efforts in the area of macroprudential analysis in 2019 focused on refining certain indicators used to take decisions on the counter cyclical capital buffer (CCyB), studying the effect of the terms and conditions of mortgage loans on the related probability of default and developing models of the impact of macroprudential tools on GDP. Specifically, it adapted the BCBS' credit-to-GDP gap to the financial cycle in Spain, consolidated the use of granular databases of the real estate sector and estimated growth-at-risk type models, among other analytical tasks, so as to include all the information regularly used to provide advice on macroprudential instruments and, in particular, on the CCyB, which held at 0% in 2019.

Also, the Banco de España conducted the corresponding annual review of Spanish global systemically important institutions (G-SIIs) and domestic systemically important institutions, and confirmed the list of institutions and their associated capital buffers announced the previous year. The transition period for fully implementing this buffer ended on 1 January 2019 and five systemically important institutions in Spain complied with this requirement in its entirety.

In parallel the Banco de España began the process of drafting the circular that will ultimately allow macroprudential measures be applied to the additional instruments conferred in Royal Decree-Law 22/2018. The legislative process to make the new instruments operational (sectoral CCyB, sectoral concentration limits and setting out the terms and conditions for loan origination) will foreseeably end this year.

As in previous years, the stress tests applied to Spanish deposit institutions in 2019 were based on a severe but plausible adverse scenario, which includes the hypothetical materialisation of macro-financial risks. In particular, the scenario used assumes that the following risks identified in the *Financial Stability Report* will materialise: a global economic downturn, an adjustment to financial asset valuations and a worsening of the profitability of banks. On this occasion, the main methodological improvements to the Banco de España's "Forward-looking exercise on Spanish banks" (FLESB) used in this testing focus on modelling institutions' statements of income, as well as the valuation of sovereign bond holdings. Lastly, the commencement of the activities of the new macroprudential authority (AMCESFI) in the national institutional realm should be noted. This authority, which through its board (whose Deputy Chair is the Governor of the Banco de España) and its technical committee (whose Chair is the Deputy

THE IMPORTANCE OF FINANCIAL STABILITY

Law 13/1994 on the Autonomy of the Banco de España attributes to the central bank, among other functions, that of promoting the sound functioning and stability of the financial system. The essential aim of this function is to ensure the soundness and efficiency of the financial system as a whole and, thereby, to provide for the flow of funds between agents, from savers to those demanding funding.

Further, Law 10/2014 on the regulation, supervision and solvency of credit institutions stipulates that the Banco de España is the designated authority for applying macroprudential instruments with which to address systemic risks that may affect the stability of all or parts of the banking system.

The Banco de España performs various tasks that are relevant to maintaining financial stability. On one hand, under the European Single Supervisory Mechanism, it exercises supervision on a micro scale, i.e. focused on the analysis of each institution and centred on controlling the individual solvency of banks. On the other, it exercises oversight on a macro scale, adopting an overall view of the entire sector aimed at ensuring the stability of the banking system as a whole through the pertinent macroprudential policy measures, with the ultimate aim of having the financial system contribute effectively to the growth and economic well-being of the country.

In addition to the foregoing, in the area of financial stability the Banco de España regularly monitors and analyses the risks and vulnerabilities that might affect the Spanish financial system, and in particular the banking sector. The results of this work are set out in

the *Financial Stability Report*. It also participates in various international and EU bodies and fora, and in the new macroprudential authority (AMCESFI), along with other national authorities with responsibility in the macroprudential area.

AMCESFI is a collegiate body attached to the Ministry of Economic Affairs and Digital Transformation. It was created in 2019 and its members are high-level representatives from this ministry and from the three authorities with sectoral responsibilities for the regulation and prudential supervision of the Spanish financial system: the Banco de España, the CNMV (National Securities Market Commission) and the DGSFP (Directorate General of Insurance and Pension Funds).

AMCESFI is structured around a Board (decision-making level) and a Technical Financial Stability Committee (CTEF, by its Spanish abbreviation) (advisory level). The Board is chaired by the third vice-president of the Government and Minister of Economic Affairs and Digital Transformation, and the vice-chair is the Governor of the Banco de España, and includes the Deputy Governor of the Banco de España among its members. Operating below the Board is the CTEF, which is chaired by the Deputy Governor of the Banco de España, and whose vice-chair is the General Secretary of the Treasury and International Financing.

AMCESFI is entrusted with regularly monitoring and analysing systemic risk factors. Its powers include issuing alerts and recommendations on any matter that may affect financial stability, and delivering opinions on proposed macroprudential measures that have been previously notified to AMCESFI by the sectoral authorities.

Governor of the Banco de España), brings together high-level representatives of sectoral supervisory authorities (Banco de España, National Securities Market Commission and the Directorate General of Insurance and Pension Funds) and of the Ministry of Economic Affairs and Digital Transformation to discuss systemic risks to the stability of the financial system and other developments of significance and common interest. Following its initial meetings in 2019, AMCESFI did not consider it necessary to issue opinions, warnings or recommendations. AMCESFI is scheduled to submit its first annual report to the Spanish Parliament halfway through 2020.

7.2 Preventive resolution

In 2019, resolution plans were drafted for a total of 40 institutions³, in close collaboration with the Single Resolution Board (SRB) and with other national resolution and supervisory authorities in the euro area, in accordance with the distribution of responsibilities established under the Single Resolution Mechanism Regulation (SRMR). Within this collaboration framework, 50 workshops were organised during the year for members of the respective Internal Resolution Teams (IRTs) to discuss the most important aspects of resolution planning and to improve the resolvability of the banks. In addition, it should be noted that in 2019, the SRB and the EU resolution authorities outside the euro area signed joint decisions relating to the resolution plans of the three significant Spanish institutions currently requiring resolution colleges.

Additionally, the recovery plans of significant credit institutions were reviewed jointly with the SRB, as were the recovery plans of less significant institutions received for consultation from the competent supervisory authority. Further, the Banco de España updated the list of less significant institutions which may apply simplified obligations in accordance with European Commission Delegated Regulation (EU) 2019/348.

To promote the effective implementation of resolution legislation, the Banco de España participated actively in the development of preventive resolution criteria and strategies as a member of international organisations and fora, notably in the working groups for the definition of criteria for implementation at the SRM and the EBA. Aspects worth mentioning due to their particular significance are: i) the adaptation of the criteria for determining the minimum requirement for own funds and eligible liabilities to absorb losses to the changes arising from Directive 2019/879 and from Regulation 2019/876; ii) the analysis and development of resolution strategies other than bail-in, prioritising tasks relating to the separation of assets and liabilities; iii) support for the SRB in updating the resolution planning manual and the document on expectations for banks; iv) the development and in-depth drafting of resolution plans for less significant institutions; and v) the preparation of valuation guidelines and procedures for implementing the resolution strategy agreed.

7.3 Financial reporting and reporting to the Central Credit Register

In 2019 a significant step was taken in simplifying the regulatory information requested from supervised institutions relating to information that specialised lending institutions (SLIs) must report to the Banco de España as from June 2020.

³ Comprising four significant institutions, one cross-border less significant institution and 35 less significant institutions.

As a result of the drafting and subsequent publication on 26 November 2019 of Banco de España Circular 4/2019 to specialised lending institutions, the scope of the information requested from these institutions had to be revised. This revision, which took into account the requirements of credit institutions, as well as business type, the scale and level of complexity of the SLIs' activities, resulted in a simplified regime whereby, after the entry into force of the circular, reporting requirements were reduced by approximately 30% in comparison with those requested from SLIs until that point and by 70% in relation to those required from credit institutions.

The work on the shadow production of the euro short-term rate (€STR), which began to be published daily by the ECB as from 2 October, was extended until September 2019. In the area of reporting, the Banco de España's contribution to the production of the €STR consists of receiving, processing and checking atypical data with institutions and sending to the ECB daily information provided by five Spanish credit institutions (of the 50 institutions which contribute to compiling the index) on individual transactions in the European money market at very short term on an arm's length basis.

As part of the commitment to transparency, in 2019 credit institutions' supervisory statistics began to be published. These statistics provide aggregate financial and prudential information, and information on asset quality, distinguishing between significant and less significant institutions.

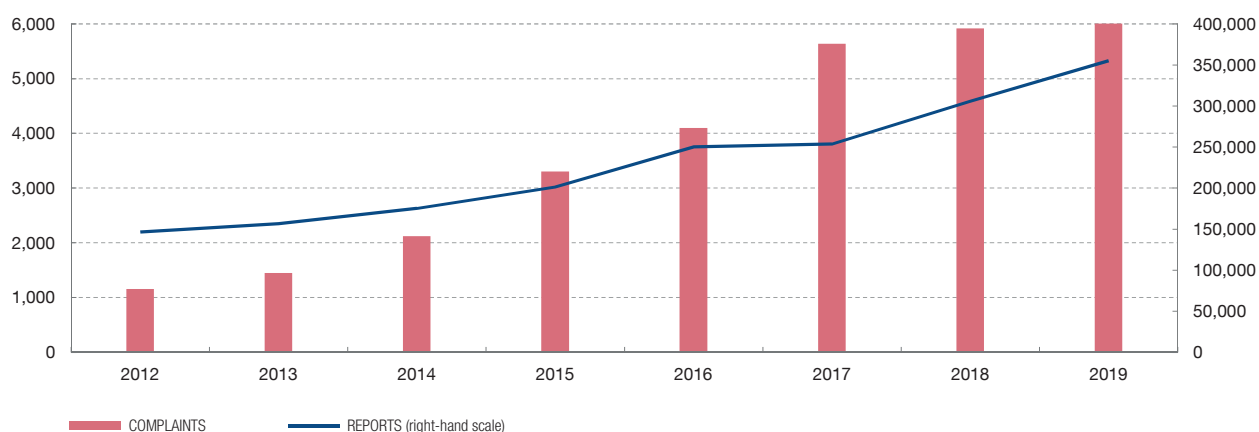
2019 was a key year in the European AnaCredit project since, after the first data was sent, the usefulness of the project was acknowledged and the quality of the data compiled by the NCBs for dispatch to the ECB was assessed. The Banco de España continued to participate very actively in the progress of the project and in the design of the quality controls. The data will be made available shortly to users of the ESCB and in the near future this may give rise to aggregate statistics of general interest on loans extended to legal persons by institutions in the Eurosystem.

AnaCredit is a Eurosystem initiative whose purpose is to set up a harmonised centralised database comprising detailed information on individual bank loans in the euro area. This information is defined in Regulation (EU) 2016/867 of the ECB of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13). In particular, AnaCredit uses equivalent information to that of national central credit registers. In November 2018, the Banco de España began to send the initial data to the ECB.

In addition, during 2019, the Banco de España prepared an amendment to Banco de España Circular 1/2013 of 24 May 2013 on the Central Credit Register

Chart 2.11

BORROWERS: REQUESTS FOR REPORTS AND COMPLAINTS



SOURCE: Banco de España.

(CCR). The main purpose of this amendment was to adapt the CCR to the changes introduced by Law 5/2019 regulating real estate credit agreements so that real estate credit lenders may provide information to the CCR and have access to CCR information, and that real estate credit intermediaries may also have access to CCR information.

The services provided by the CCR continued to expand in 2019 with a fresh increase in requests for credit reports by borrowers of the reporting institutions (natural or legal persons). Significantly, requesting credit reports from the CCR is the most frequently used procedure of the Banco de España’s virtual office. Similarly, in 2019, there was an increase in the number of complaints made by borrowers.

8 ACTIVITIES OF THE BANCO DE ESPAÑA AS A MEMBER OF THE EUROSISTEM AND OTHER INTERNATIONAL ORGANISATIONS

8.1 The Eurosystem and other European Union institutions

In 2019, the Banco de España continued to participate actively in the actions of the Eurosystem. The Governor attended the regular meetings of the ECB's Governing Council and General Council, at which decisions on monetary policy and the functioning of the Eurosystem are adopted. In addition, the Deputy Governor participated in the meetings of the Supervisory Board of the SSM, which discusses, plans and executes the supervisory tasks of the ECB, and proposes draft decisions for the approval of the Governing Council on matters of prudential supervision of credit institutions through the non-objection procedure.

The ECB's decision-making bodies are supported by the work of the ESCB's committees (such as the Monetary Policy, Market Operations, Payment Systems, Financial Stability, Legal, Statistics, Banknote and Risk Management Committees, among others) in taking decisions. The Banco de España continued to be actively involved in these committees and in their working groups. Monetary policy decisions and their implementation are worth noting among the research areas of key significance for the Eurosystem, which were approved by the Governing Council over the year. Additionally, at its meeting on 23 January 2020, the Governing Council decided to launch a review of the ECB's monetary policy strategy.

With respect to other EU institutions, the Banco de España also participated in various working groups and committees. As in previous years, it was represented at the two informal Ecofin meetings in April and September, and participated in the meetings of the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC). At these fora, initiatives to strengthen the governance of the euro area were addressed, among other matters. In this connection, mention should be made of the review of the Treaty establishing the European Stability Mechanism (ESM), in order to implement the common backstop of the Single Resolution Fund (SRF), to reform its precautionary instruments, and to shore up its role in crisis prevention and in adjustment programs, in addition to introducing the single limb model for collective action clauses (CACs) in the euro area. In addition, the characteristics of a new budgetary instrument for convergence and competitiveness (BICC) for the euro area were outlined. This instrument will have to be approved in the context of the multiannual financial framework during 2020. In the area of the banking union, work continued to create a European deposit insurance scheme (EDIS), against a backdrop of progress in risk reduction, while the European Commission created a new High-Level Forum, with the purpose of determining specific proposals in an attempt to boost the creation of an authentic single capital market in the EU (CMU).

8.2 European Banking Authority

The year 2019 was one of change for the EBA, with the selection of its new Chairman, the Spaniard José Manuel Campa; its relocation to Paris, as a result of Brexit, and the review of the European supervisory framework. The EBA continued to work intensely to achieve its goals and deliver its mandate. Spain continued to participate actively in the work in 2019, which included most notably that described below.

The year 2019 was one of change for the EBA, with the appointment of the Spaniard José Manuel Campa as Chairman.

Noteworthy among its particularly significant work in 2019, are the EBA's response to the Commission's call for advice on the implementation in Europe of the Basel III reforms as well as the work arising from the Commission's action plan to tackle NPLs.

As for prudential regulations, the EBA's response to the Commission's call for advice on the implementation in Europe of the Basel III reforms of December 2017 is particularly significant. In addition, the EBA worked actively in line with several mandates to contribute to the revival of the securitisation market.

Furthermore, the EBA continued the work arising from the Commission's action plan to tackle non-performing loans (NPLs), focusing on drawing up guidelines on loan origination and monitoring, and internal governance, as well as on the analysis of the efficiency of Member State-level loan enforcement procedures in terms of recovery rates and times to recovery.

As for its other work, the EBA paid particular attention to the following: i) sustainable finance and the incorporation of environmental, social and governance (ESG) factors in legislation – a key part of its future tasks – which it already commenced in 2019 with the publication of its action plan on sustainable finance; ii) in the market conduct and consumer protection area, it continued to focus its endeavours on achieving greater supervisory convergence in the implementation and application of rules; and iii) in payment services, it made significant efforts to achieve appropriate implementation of the Commission Delegated Regulation on strong customer authentication and secure communication, having published two opinions on authentication requirements.

Finally, the agreement reached in March by the European Council and Parliament on the review of the European supervisory framework was published in December 2019. As a result of this reform, the governance, powers and tasks of the three European



Headquarters of the European Banking Authority.

Supervisory Authorities were changed. Changes in the area of the prevention of money laundering and terrorist financing were of greater significance for the EBA.

8.3 European Systemic Risk Board

The most significant development for the Banco de España in the area of the European Systemic Risk Board (ESRB) was the election of the Governor, Pablo Hernández de Cos, as Chairman of the Advisory Technical Committee. In addition, Javier Suárez, lecturer at CEMFI, was appointed Vice-Chair of its Advisory Scientific Committee. There was also a new Chair of the ESRB, with the commencement of Christine Lagarde's mandate as President of the ECB on 1 November 2019 to replace Mario Draghi.

During 2019, the ESRB continued its intense activity in risk oversight and policy analysis. In particular, it published several methodological reports to identify and mitigate risks linked to the residential and commercial real estate sectors. In this setting, it published several warnings and recommendations on the risks posed by this sector for financial stability in several EU countries. The ESRB published an initial report on the conceptual framework of the macroprudential policy stance, in which it stated the need to introduce possible macroprudential measures in the future. Also worth noting are the reports on macroprudential approaches to non-performing loans, central counterparty interoperability and the cyclical behaviour of loan loss provisions in the framework of the new accounting rules (IFRS 9).

In 2019, the ESRB issued two recommendations on voluntary reciprocity for macroprudential measures adopted in Sweden and Estonia pursuant to Article 458 of Regulation (EU) No 575/2013; the Banco de España assessed both measures and, in line with the ESRB's recommendations, decided not to apply equivalent measures to Spanish banks operating in those countries.

8.4 The Financial Stability Board, the Basel Committee on Banking Supervision and the Bank for International Settlements

The Banco de España is a member of the Financial Stability Board (FSB), whose Steering Committee includes the Governor. 2019 marked the tenth anniversary of the FSB's creation. Having centred on developing and coordinating the post-crisis reforms, the FSB is now focusing on their implementation, assessing their effects and identifying emerging risks.

During 2019, the FSB continued to assess the effects of the reforms, it completed its analysis of the effects of the reforms on SME financing and launched the evaluation of the reforms to end too-big-to-fail banks. The FSB also focused on identifying and overseeing emerging risks and vulnerabilities, where it analysed, among other subjects, the possible implications of fintechs on the market structure in financial services, the risks arising from the growth of leveraged loans and collateralised loan obligations (CLO) markets and progress in climate-related financial disclosures by companies. Finally, the FSB continued to monitor bank financial intermediation and the implementation of the reforms agreed by the G-20 and published a report on potential market fragmentation.

The Banco de España also forms part of the Basel Committee on Banking Supervision (BCBS). In 2019 the term of the previous Chair (Stefan Ingves, Governor of the Bank of Sweden) ended and the Group of Central Bank Governors and Heads of Supervision (GHOS) appointed Pablo Hernández de Cos, Governor of the Banco de España, as the new Chair of the BCBS. Under the Committee's Charter, the Chair is appointed for an initial term of three years that can be renewed once. This appointment came at a time when, following completion of the Basel III post-crisis reforms, the Committee will focus on assessing the impact of those reforms and their effective implementation, on addressing emerging vulnerabilities in the global banking system and on promoting rigorous supervision.

In 2019 the Governor of the Banco de España, Pablo Hernández de Cos, was appointed as the new Chair of the Basel Committee on Banking Supervision, the organisation responsible for laying down the prudential regulations of banks and, in particular, of their solvency.

The work performed by the Committee in 2019 included, most notably, the review of the credit valuation adjustments (CVA) framework, which will end next year, and revisions to leverage ratio disclosure requirements. In addition, the Committee continued with its programme to evaluate and monitor post-crisis reforms as well as with the analysis of emerging issues, such as the possible impact of fintechs on banks and bank supervisors or the risks arising from exposures to crypto-assets. In connection with proportionality, the Committee published the results of a survey on its application in practice and a statement supporting application of the proportionality principle in a manner consistent with its core principles for banking supervision. Among other developments concerning macroprudential-related areas, the Committee published *Guiding principles for the operationalisation of a sectoral countercyclical capital buffer*.

The Banco de España continued to participate actively in different work and initiatives driven by the Basel Committee and participates in discussions and in significant technical analyses.

The Banco de España joined the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS). By participating in the CPMI, the Banco de España can be directly involved in the development of global standards for financial market infrastructures and in the analytical discussions on trends in payment systems, particularly as regards financial innovation.

Furthermore, the Banco de España participates in two BIS committees which analyse global economic developments and international financial markets: the Global Economy Meeting, attended by the Governor bimonthly, and the Committee on the Global Financial System, attended quarterly by the Deputy Governor.

8.5 The International Monetary Fund and the G-20

The Banco de España organises, in coordination with the General Secretariat of the Treasury and the Ministry of Economic Affairs and Digital Transformation, the IMF team's two annual visits to Spain to prepare the annual report on the Spanish economy known as the "Article IV" report. During the visits, the IMF team holds a number of discussion meetings with senior management, in addition to other technical meetings with the Bank's economists and inspectors, and seminars which are open to participants from other institutions. The economic outlook and the risks to that outlook are discussed and economic policies are assessed at these meetings. The foregoing is finally reflected in the publication of the corresponding report. Additionally, every five years, the Bank also participates in the preparatory visits of the Financial System Assessment Programme (FSAP). This programme is projected to take place again in 2022.

The Banco de España's senior management also participates actively in the IMF's spring and annual meetings. Its three main reports (*World Economic Outlook*, *Global Financial Stability Report* and *Fiscal Monitor*) are presented and discussed at these meetings. The Bank has a representative seconded to the seat on the IMF's Executive Board. This representative reports to the Bank and adopts positions on all matters of interest relating to, inter alia, the IMF's funding policies, loans, governance or oversight of economies and financial systems.

The Banco de España is, furthermore, a fiscal agency and depository of the IMF. In this capacity it coordinates the payment of quotas, advises the Treasury on Spain's participation in the multilateral debt framework and its bilateral borrowing agreements with the IMF and is the loan account holder of the Poverty Reduction and Growth Trust (PRGT) administered by the Fund.

As for the G-20, where Spain has the status of a permanent guest, the Banco de España collaborates with the Ministry of Economic Affairs and Digital Transformation by participating, together with the representatives of the General Secretariat of the Treasury, in several working groups of the so-called "finance circuit": the Framework Working Group which covers macroeconomic matters; the IFA Working Group which focuses on international financial architecture-related matters, the Infrastructure Working Group which handles infrastructure matters, and the Global Partnership for Financial Inclusion, which deals with financial inclusion.

9 INTERNATIONAL COOPERATION

In addition to its close ties with the ECB and the IMF, the Banco de España also has partnerships and develops alternative cooperation channels with other institutions. Noteworthy in this area are the cooperation agreements signed in April 2019 with the Banco de la República (Colombia's central bank) and in October 2019 with the Executive Secretariat of the Central American Monetary Council (SECMCA, by its Spanish abbreviation), which brings together the central banks of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. The signing of these agreements, together with the development of agreements already in force with the central banks of Brazil, Chile, Cuba, Mexico and Peru and with the Center for Latin American Monetary Studies (CEMLA), contributed to bolstering the presence and leadership of the Banco de España in Latin America in the area of international cooperation. Moreover, the Banco de España continued its cooperation with the Association of Supervisors of Banks of the Americas (ASBA), the Latin American Reserve Fund (LARF) and the Ibero-American Institute of Securities Markets (IIMV, by its Spanish abbreviation).

As for the Maghreb countries, the Banco de España pursued numerous technical cooperation activities with Bank Al-Maghrib (the central bank of Morocco) and began



Second meeting of "Fostering Women's Leadership in Central Banking", held in Marrakech.

to assist the Central Bank of Tunisia. The second meeting of “Fostering Women’s Leadership in Central Banking”, which was held in Marrakech in April 2019, was organised with Bank Al-Maghrib. The purpose of this meeting is to raise awareness of the importance of women in management posts, as a key to retaining talent and creating teams which are capable of facing the challenges which must be addressed in central banking. The Secretary General of the Central Bank of Uruguay participated in this meeting which represented the first step in the strategy of extending this initiative to three continents (Africa, Europe and America) with the backing of the Banco de España and Bank Al-Maghrib.

In 2019 more than 300 individuals benefited from the regular cooperation activities. Although participants came from a broader range of countries, most continued to be from Latin America. As for their format, the Banco de España promoted technical meetings and encounters with experts which addressed current central banking issues but it also organised seminars and courses, which are an international benchmark on account of the quality of their speakers and their markedly practical content.

A total of 18 seminars, fora, courses and encounters with experts were organised, six took place at locations outside Spain (Latin America and Morocco). Noteworthy is the first Atlantic-Mediterranean Communication Forum held in Madrid which brought together high-level communication experts from three continents: Africa, Europe and America. Similarly, the 16th International Central Banking Seminar was well attended with participants from a broad range of countries. The main current issues in various areas of central banking were reviewed at the seminar and it included a monographic session on green finance. The 12th International Course on Cash Management was held which unites central bank experts – essentially from Latin America – at the Banco de España every two years to discuss cash issuance, distribution and manufacturing matters and the Annual Seminar on Securities Payment and Settlement Systems also took place. Other activities have also been organised jointly with CEMLA, such as the Seminar on Financial Risk Management, the Seminar on Good Governance and Transparency and the Seminar on Document and File Management, the 14th Meeting of the Central Bank Researchers’ Network and the Meeting of Central Bank Librarians. Following on from the Meeting of Central Bank Librarians, the 6th Central Bank and International Financial Institutions Workshop was hosted at the Banco de España’s head offices and brought together more than 50 experts in this field.

Other cooperation activities included 46 visits to the Banco de España and 43 missions abroad, and a high level of cooperation was also maintained through dealing with the enquiries received.

Additionally, as a member of the Task Force on International Cooperation, under the auspices of the ESCB’s International Relations Committee (IRC), the Banco de



Seminar on Accounting and Valuation of Central Bank Financial Instruments, organised as part of the cooperation agreement between the Banco de España and CEMLA (left). Seminar on Financial Risk Management, held at the head offices of the Banco de España (right).

España participated, together with the ECB and another 19 NCBs in the ESCB, in the Regional Programme of Strengthening Central Bank Competences and Banking Supervisors of the Western Balkans, which was financed by the European Commission. Finally, as a member of the above-mentioned Task Force, the Banco de España was part of a working group responsible for preparing a document on the principles applicable to evaluating cooperation activities in line with the best practices in the realm of international cooperation.

The Banco de España organises and participates in numerous international cooperation activities with other countries' monetary and supervisory authorities. International seminars are arranged, technical cooperation agreements are implemented and fora, courses and meetings are organised in this area.

Traditionally, the Bank's relationship with Latin American central banks and supervisors has accounted for a large share of its cooperation activities, although in recent years it has enlarged its scope of action to other regions, such as the Mediterranean and eastern Europe.

10 REGULATORY CHANGES

The following Banco de España circulars were approved in 2019, in the exercise of the regulatory powers conferred by its Internal Rules:

- Banco de España Circular 1/2019 of 30 January 2019 amending Circular 8/2015 of 18 December 2015, to institutions and branches belonging to the Deposit Guarantee Scheme for Credit Institutions (DGSCI), on information for determining the basis of calculation of contributions to the DGSCI.
- Banco de España Circular 2/2019 of 29 March 2019 on the requisites of the Fee Information Document and Statement of Fees and on comparison websites for payment accounts, amending Circular 5/2012 of 27 June 2012 to credit institutions and payment service providers on the transparency of banking services and responsible lending.
- Banco de España Circular 3/2019 of 22 October 2019 exercising the power conferred by Regulation (EU) 575/2013 for defining the materiality threshold for credit obligations past due.
- Banco de España Circular 4/2019 of 26 November 2019 to specialised lending institutions on public and confidential financial reporting standards and formats.

During 2019, the Bank performed a general review process of the powers delegated by the Executive Commission to the Directorates General and to the General Secretariat. This process was essentially due to the need to adapt to the latest regulatory changes – among others, Law 5/2019 of 15 March 2019 regulating real estate credit agreements or Royal Decree-Law 19/2018 of 23 November 2018 on payment services and other urgent financial measures and implementing regulations – and due to the will to streamline procedures and facilitate compliance with the deadlines set in Law 19/2013 of 9 December 2013 on transparency, access to public information and good governance.

Additionally, the new powers conferred on the Banco de España by Law 5/2019 of 15 March 2019 regulating real estate credit agreements, are worth noting. Particularly significant among these powers are the management – as well as the supervision – of the Real Estate Credit Intermediaries and Real Estate Lenders Register, the processing and resolution of the proceedings arising from the application of the law (including sanctioning proceedings) and acting as the sole information point for Banco de España and regional government registers.

The Bank is entrusted with the management of the Central Sanctions Register in the area of real estate credit; the cooperation with and support for other competent supervisory authorities of other EU Member States; the promotion of measures to incentivise consumer education in this field; the drafting and updating of a *Mortgage Loan Access Guide* and a *Reverse Mortgage Access Guide*; and the supervision of these operators' compliance with conduct obligations laid down in the same law.

Royal Decree-Law 19/2018 of 23 November 2018 on payment services and other urgent financial measures conferred new competences on the Banco de España relating to the authorisation of payment institutions and other financial agents in the area of the provision of payment services.

These competences were set out in greater detail in Royal Decree 736/2019 of 20 December 2019 on the legal regime governing payment services and payment institutions which specifies, in particular, certain matters relating to the legal regime of payment institutions (e.g. creation, authorisation, modification of articles of association, etc.), to the communications that these institutions must send to the Banco de España or to the registers in which they must be entered, among others.

Various laws and the related implementing regulations granted the Banco de España new competences in the financial realm. These include most notably Law 5/2019 regulating real estate credit agreements which confers several functions on the Bank in this area of operation and Royal Decree 736/2019 on the legal regime governing payment services and payment institutions which contains new competences.