

1 Introduction

This chapter of the Annual Report, devoted to the management of the Banco de España, is an overall summary of the most notable aspects of the institution's activity in 2008. Some of these aspects will be addressed in greater detail in the monographic reports published annually by various departments of the Bank (Banking Supervision, Balance of Payments, Complaints Service, Central Balance Sheet Data Office, Central Credit Register, Research Activities, Oversight of Payment Systems and Public Debt Market).

2 Activities of the Banco de España as a member of the Eurosystem

During 2008 the EU continued with the ratification process of the Lisbon Treaty, which has now been signed by 25 of the 27 Member States, the exceptions being Ireland and the Czech Republic. The Council's aim is for the Treaty to come into force before the end of 2009.

Slovakia adopted the euro on 1 January 2009

At the request of the Slovak authorities, the European Central Bank (ECB) examined whether this Member State fulfilled the conditions necessary to adopt the euro, in a convergence report published on 7 May. On the basis of the convergence reports from the ECB and from the Commission, and upon a proposal of the Commission, the Council decided on 20 June to abrogate the derogations of Slovakia, allowing it to adopt the euro on 1 January 2009.

With Slovakia, the number of Member States which have adopted the euro increased to 16 and the number of members of the ECB's Governing Council to 22. The ECB's Governing Council adopted a Decision on 18 December 2008 suspending the entry into force of the rotation system of its members' voting rights until the number of NCB governors on the Council exceeds 18.

Tenth anniversary of the ECB and the ESCB

1 June 2008 marked the tenth anniversary of the creation of the ECB and the European System of Central Banks (ESCB). The ECB and the national central banks in the euro area celebrated this anniversary with various events.

As in previous years, in 2008 the Banco de España's activity as a Eurosystem member was intense. The Governor participated in the regular meetings of the Governing Council and of the General Council of the ECB at which, among others, decisions on monetary policy were taken, as explained in detail in Chapters 1 and 4 of this Annual Report. Noteworthy this year was the high number of extraordinary meetings of the Governing Council held, via conference call, in 2008 Q4 as a result of the financial crisis.

An extensive group of professionals from the Banco de España participated in the various committees, working groups and other Eurosystem bodies to prepare for and assist in the taking of decisions by the ECB's governing bodies. In this area, the appointment of the Deputy Governor of the Banco de España as chairman of the ECB's International Relations Committee (IRC) is particularly noteworthy.

Together with a consolidated structure of committees and working groups, the task forces, which are created to perform tasks in a very specific area and with a limited time span, provide the system with added flexibility. Accordingly, in response to the financial crisis, two high-level task forces (HLTF) were created, one on collateral and the other on financial crisis management. The Banco de España is represented on these task forces by the corresponding Director General.

The Bank participated in the Eurosystem macroeconomic forecasting exercises, and in the drafting of the report on public finances and of reports on structural issues, such as corporate

finance in the euro area (sent to the European Parliament in 2008) and developments in the housing loans market in the euro area.

As a member of the ESCB, the Banco de España participated on the Banking Supervision Committee (BSC). As part of its task to monitor structural and conjunctural financial system developments, the BSC prepared two reports, one on banking structures and the other on banking sector stability. It also contributed to the ECB's Financial Stability Review and to the Financial Stability Table of the Economic and Financial Committee (FST-EFC). Additionally, a series of more in-depth analyses of special interest was undertaken, including, most notably, papers on the "originate-to-distribute" banking model, developments in the covered bonds market and the review of banking sector practices in relation to liquidity stress testing and contingency plans.

As regards cooperation between central banks and supervisory authorities, the BSC developed, in cooperation with the Committee of European Banking Supervisors (CEBS), a common analytical framework for assessing the systemic implications of a crisis. Lastly, the joint initiative in collaboration with the Statistics Committee and the CEBS to harmonise statistical and prudential reporting requirements for institutions is also noteworthy.

The staggered migration by country to TARGET2 was completed

During 2008 the staggered migration by country to TARGET2, the second generation TARGET payments system, was completed satisfactorily. TARGET remains a key feature for the integration of euro money markets and the development of the single monetary policy. With a single centralised technical platform and a single price structure, TARGET2 offers a broad range of basic services to its participants and a homogeneous set of functions to those systems that use it for settlement. Following the appropriate technical and legal developments by the Banco de España and the corresponding tests, the Spanish banking community satisfactorily migrated to TARGET2 on 18 February (see Section 6.2).

As for the creation of the Single European Payments Area (SEPA), more than a year after it was launched the Banco de España has continued to strive to make a success of this initiative, which is key for the greater integration of retail payment markets in Europe. Thus, the Bank's task within the framework of the Eurosystem and in Spain, centred on the assessment of the transition to the SEPA and on encouraging actions to make the migration easier.

The Eurosystem decided to implement TARGET2-Securities

In July, the Eurosystem decided to set up a new service to settle securities transactions in euro and other European Union currencies in central bank money (TARGET2-Securities), assigning the development and operation of this service to the central banks of Germany, Spain, France and Italy. The preparatory work, which began in 2006, continued throughout 2008, in close collaboration with the market. It was also decided to launch the CCBM2 project, a new system for management of the collateral provided by counterparties in Eurosystem refinancing operations.

In cooperation with the national central banks, the ECB continued to develop, compile and disseminate a wide range of statistics useful for monetary policy implementation in the euro area and for the various functions of the ESCB. In addition, in December, the ECB adopted the Regulation (EC) No 24/2009 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30), which will make more reliable statistics on these financial intermediaries available from 2010. The recast version of regulations concerning the balance sheet of the monetary financial institutions sector was also adopted through Regulation (EC) No 25/2009 (ECB/2008/32), which includes greater detail on credit and reporting on securitisations undertaken by credit institutions.

The Banco de España produced 885 million euro banknotes

In 2008, the Banco de España was responsible for producing a total of 885 million 50, 20 and 5 euro banknotes, in compliance with Eurosystem banknote production agreements in a joint and decentralised framework. The banknotes were produced according to schedule and met all the quality requirements (see Section 6.3).

The Banco de España collaborated very actively with other Eurosystem members in the preparation of the second series of euro banknotes, which will foreseeably be issued in the near future, and in the custody of the Eurosystem strategic stock. In this respect, the Banco de España played an important role in the organisation of international consignments of banknotes.

As in previous years, the Bank was chosen to perform tests to measure the quality of banknotes in circulation in the euro area countries, in collaboration with the central bank of the Netherlands.

3 International activities

For some years, one of the Bank's key objectives has been to build its international presence and raise its international profile, to project an image of excellence that will facilitate dialogue with other central banks and supervisors, financial regulators and multilateral organisations in this area. The crisis that began in the summer of 2007 and that is affecting the financial stability of all countries, to a greater or lesser degree, requires global solutions, underlining the importance of an appropriate and smooth dialogue.

The work of the international committees was marked by the need to reform the financial systems to improve their functioning and their solvency

In general, the work of the international committees with global reach was highly influenced in 2008 by the specific actions proposed in the Financial Stability Forum's report, approved at the meeting of G7 ministers and central bank governors in April 2008, and, subsequently, by the action plan included in the declaration of the G20 summit held in Washington on 15 November. A commitment arose from this summit to improve cooperation and to work together to identify and implement the reforms necessary to improve the functioning and solvency of the world's financial systems. In the European arena, in addition to these proposals and recommendations, road maps were established by ECOFIN and a work programme was approved by EU Ministers within the Economic and Finance Committee, further conditioning the tasks of the international committees.

Activity in the sphere of the Eurosystem has already been referred to in Section 2 above, so this section focuses particularly on other European and international fora in which the Bank participates. It then goes on to mention bilateral relations, technical cooperation with other central banks, supervisory agencies and bank regulators, and international seminars and conferences organised.

3.1 INTERNATIONAL RELATIONS

In the European Union, the Banco de España participated, as part of the Spanish delegation, in diverse Community working groups and committees.

As in previous years, the Governor took part, together with his European counterparts and economy and finance ministers, in the informal ECOFIN meetings, the first held in Ljubljana in March and the second in Nice in September, under the Slovenian and French presidencies, respectively. At these meetings, priority EU economic and financial matters were discussed, including most notably issues related to financial stability and supervision.

The Banco de España participated in the work of the EFC and the EPC

The Economic and Financial Committee (EFC), which prepares the meetings of the Council of Economy and Finance Ministers (ECOFIN) in which the Deputy Governor participates, worked in 2008, firstly, on the regular review of the economic and financial situation, examining the

stability and convergence programmes. The work on financial stability and European financial architecture continued, with specific monitoring of the road map drawn up by the ECOFIN in October 2007 in response to the financial crisis (including, inter alia, issues relating to financial transparency, asset valuation, the prudential framework for supervision and rating agencies). Furthermore, national financial support plans were coordinated and followed (including the review of deposit guarantee funds) and a European position was adopted at the G20 summit on international financial architecture. Also within the EFC, the Bank took part in ad hoc working groups on specific subjects, such the procyclicality of the financial system.

The working agenda of the Economic Policy Committee (EPC) placed particular emphasis on the analysis of the economic instruments available for meeting the targets set for energy and climate change, the methodological aspects of assessing countries' progress in relation to the Lisbon Agenda, the quality of public finances and their long-term sustainability and the integration of these two aspects in the Community fiscal supervision framework. Adopting a conjunctural perspective, the EPC focused on analysing developments in energy and food prices and on national and Community economic policy responses to the economic crisis.

The contributions made by the Bank in European financial supervision committees, particularly the CEBS, are also noteworthy. In 2008, the activity of the CEBS was focused mainly on the following areas:

- Technical advice to the European Commission on own funds, the reduction of the areas open to national discretion in the new solvency regulations, analysis of supervisory powers in Europe, liquidity, large exposures, transparency and the development of common supervisory financial statements.
- Cooperation and convergence in supervisory practices.
- Work related to the financial turmoil, with surveys of its impact on European banks.
- Projects related to the implementation of the review of the Lamfalussy approach.

The Bank was also involved in the work of the Interim Working Committee on Financial Conglomerates, which reports to the CEBS and the CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) and which, in 2009, changed its name to the Joint Committee on Financial Conglomerates. One particularly noteworthy project, inter alia, in 2008 was the beginning of the review of the Financial Conglomerates Directive. In addition, there has been a growing trend in Europe for analyses to be conducted jointly by the three level 3 committees of European supervisors, that is, the above-mentioned CEIOPS and CEBS, on the one hand, and the CESR (Committee of European Securities Regulators) on the other. Thus, for example, noteworthy among the work undertaken by these 3L3 committees are studies on the delegation of tasks and responsibilities among supervisors and the study on rating agencies, corporate governance and the valuation of illiquid instruments.

A large part of the global international activity of the Banco de España revolves around the Bank for International Settlements (BIS), the main nexus of cooperation between the world's central banks. In addition to regularly attending meetings of governors and the Annual General Meeting, the Bank played an active role on the Committee on the Global Economy, the Committee on the Global Financial System and the Markets Committee, and in the complex structure of working groups arising from such committees.

The Banco de España has played a very active role on the Basel Committee

The Bank also participated actively on the Basel Committee on Banking Supervision (BCBS), directing some of its actions. This Committee piloted the work aimed at strengthening those elements of the new Capital Accord which, in view of the lessons drawn from the current situation, may be improved upon. In particular, proposals were developed to:

- Strengthen the capital requirements of certain complex financial products and instruments included in the trading portfolio.
- Bolster liquidity management standards.
- Improve institutions' risk management, emphasising, for instance, stress testing and the problems involved in valuing certain instruments.
- Enhance the quality of information that institutions supply to the market.
- Improve supervisory cooperation for international banks via the creation of colleges of supervisors.
- Shore up the macro-prudential approach to supervision.

This is also without forgetting the implementation of Basel II and the monitoring of its impact on capital requirements and its possible procyclicality. The work of the International Liaison Group, set up to foster dialogue with supervisors not included in the BCBS, on matters related to the exchange of information and supervisory coordination, should also be mentioned. Particularly noteworthy, among this group's work, are its analyses of risk-based supervision, the importance of adequate accounting provisions and microfinance.

The Bank was also involved in the work of the Joint Forum, which brings together banking, insurance and securities supervisors worldwide. Its agenda was also affected by the financial crisis, which has emphasised the growing degree of interconnection between the activities of the different financial sectors. Accordingly, the Joint Forum focused on preparing reports on issues at the epicentre of the financial crisis, such as risk concentration and customer suitability in the retail sale of financial products and services, together with update of its previous papers on credit risk transfer and analysis of the degree of implementation of the principles for the supervision of financial conglomerates and the main areas in which these principles would benefit from being updated.

The International Monetary Fund (IMF) is another traditional catalyst of the Bank's global activity. As has become customary, the Bank expended considerable effort preparing the briefing notes for the Spanish representatives at this institution on the main matters discussed by the Executive Board. During 2008 the Bank paid particular attention to the reforms required for the Fund to adapt to the challenges posed by the financial crisis. These reforms were given a considerable boost after the G20 summit. Particularly noteworthy among the issues that received most attention in 2008 were: (i) the need to refine supervision of the Fund and, especially, to work in closer collaboration with the Financial Stability Forum and other multi-lateral organisations; (ii) resources and the ability to provide financial assistance to member countries; and (iii) the review of financial instruments. The Bank also participated in discussions on the customary Article IV reports, namely those relating to the countries of most interest to Spain. Finally, opinions and comments were contributed on the main reports published by the Fund, the Report on World Economic Outlook and the Report on Global Financial Stability.

Remaining on the subject of the IMF, the Bank also took part in the meetings of the International Monetary and Financial Committee in the spring and in the autumn, on the occasion of the Annual Meeting. These meetings reviewed the global economic outlook and the key aspects of the institution's policy and governance, all of which require orientation from its members at the highest level.

With regard to the Centre for Latin American Monetary Studies (CEMLA), which serves as the main forum for coordination of Latin American central banks, the Bank has participated actively in the meetings of governors, of the Alternates Committee and of the Audit Committee. In 2008 important matters for the Centre were addressed, such as the approval of internal rules governing the operation of the Reserve Fund and the election of the Director General for the five-year period running from 2009 to 2013. Furthermore, the Bank continued to collaborate with the Centre's training activities, especially with the courses on operational risk, financial instruments and international financial reporting standards, and accounting and valuation of central bank financial instruments, and with the seminar on the application of XBRL. Lastly, the Bank played a leading role in a number of CEMLA's initiatives, for example, the organisation of the VIII Meeting on Central Banking Human Resources Management, the creation of information exchange systems for remittances, human resources and banknotes, and the work of the accounting, banknote and IT technical committees.

Collaboration with American supervisors was stepped up

In 2008, collaboration with the Association of Supervisors of Banks of the Americas (ASBA), to which all the entities in charge of banking supervision in the American continent belong, was also stepped up. The Bank, as an associate member since October 2006, participates actively in the Association's governing bodies, training plans, working groups and other activities. In 2008 a meeting of the Association was held for the first time at the Banco de España, four seminars on subjects of shared interest were organised jointly and the Bank took part in the working groups on good consolidated supervision practices and operational risk and in the group that is to develop an information system on financial markets in the region.

In 2008 the Bank increased its collaboration with the main multilateral development banks (the World Bank, the Asian Development Bank and the Inter-American Development Bank) and, at a bilateral level, with other central banks and bank supervisors, through high-level and technical meetings. The list of central banks and supervisors with which bilateral meetings were held in 2008 includes Brazil, China, India, Japan, Mexico and Russia. In the same vein, senior officials of the BIS, IMF and IDB visited the Banco de España. Also, as in previous years, the Bank was included in the Spanish delegations participating in the periodic meetings of the Paris Club and in OECD and EU working groups on export credit.

The Bank's cooperation with and technical assistance given to other central banks and supervisory and regulatory bodies, be it bilaterally or through joint projects with multilateral organisations, makes a decisive contribution to its external profile. The aim of this cooperation, which has grown continuously over recent years, is to increase the Bank's presence and international prestige through the transfer of knowledge and experience amassed by the Bank and its employees.

Most of the technical cooperation was focused on Latin America

As has become customary, the core of the technical cooperation was the programme of courses and seminars for Latin America, where the Bank is on the way to becoming the benchmark for many central banks and bank supervisors. This cooperation, facilitated by the common language and culture, has stimulated continuous demand for technical cooperation, which rises year by year and takes the form of organising numerous study visits to Madrid, sending Bank experts to missions in situ and attending to almost constant consultations.

As for other geographical areas, such as the Mediterranean and eastern European countries, the Banco de España's cooperation is mainly in conjunction with that of other central banks and supervisory agencies, for participation in joint projects, some of which are coordinated within the Eurosystem and financed by European Union funds. Noteworthy in 2008 was the Bank's Internal Audit Department's involvement in a TACIS III project (Technical Assistance for the Commonwealth of Independent States) in collaboration with the Central Bank of Russia together with another eight central banks in the Eurosystem and the ECB.

Mention should also be made of the Bank's ongoing collaboration with different multilateral organisations to provide technical assistance and, most especially, that channelled through CEMLA, ASBA, the Central American Monetary Council, the IMF, the World Bank and the BIS Financial Stability Institute. Likewise, collaboration with agencies responsible for securities markets, both in Spain and in Latin America, was stepped up.

Lastly, *Billetteria*, the international review on cash management published by the Bank in Spanish and English was presented in 2008 at the main international fora and has become established as an important instrument for communication and collaboration among specialists in this field.

3.2 CONFERENCES, MEETINGS AND SEMINARS ORGANISED BY THE BANCO DE ESPAÑA

During 2008, the Banco de España continued its efforts to become an international benchmark in the organisation of high-level meetings and events designed to share and disseminate knowledge and experience in the most topical subjects in its areas of competence. With this purpose, it worked in collaboration with international agencies and intensified bilateral relations with other central banks of the G7 countries, the ESCB, Latin America and Asia. This type of activity contributes to establishing the Bank's prestige abroad and to disseminating its central-banking and financial-regulation know-how.

In December an international conference was organised to commemorate the 50th anniversary of Spain's membership of the IMF and the World Bank

The most significant event in 2008 in this area was the celebration of the 50th anniversary of Spain joining the IMF and the World Bank. For this reason, in December the Banco de España and the Ministry of Economic Affairs and Finance organised a conference entitled "Spain in the International Monetary Fund and the World Bank: fifty years on" to mark the 50th anniversary of Spain's membership of both institutions, attended by senior Spanish officials and senior officials of the IMF and the World Bank, along with academics and representatives of the banking industry and organisations linked to the IMF and the World Bank. The conference provided the opportunity to examine Spain's relationship with both institutions over the last 50 years, to reflect on the changes experienced by them, to analyse the role they have played in the world economy over this period and to look at how future challenges, considering the present setting, may be addressed.

Earlier, in April, a roundtable was held in Madrid on the World economic outlook: beyond financial turmoil. The main issues discussed were the impact of financial turmoil on the real economy and global financial stability, economic policy responses, the outlook for emerging economies, analysis of global imbalances and the role of exchange rates in their adjustment. On the following day, the participants in the roundtable joined the wide-ranging panel of speakers, from universities, central banks, international financial institutions and the financial sector, at the seminar, jointly organised with the Reinventing the Bretton Woods Committee, entitled *Bretton Woods II Under Stress?* The seminar consisted of four sessions, covering: (i) the current financial situation and its implications for Bretton Woods II; (ii) the market outlook; (iii) analysis of the resilience shown by emerging markets and whether this is permanent or transitory; and (iv) sovereign wealth funds and their possible role as a stabilising factor of global imbalances.

Within the framework of the 41st Annual Assembly of the Asian Development Bank, held in Madrid in May, and as part of the country day dedicated to Spain, the Banco de España and the Ministry of Economic Affairs and Finance organised a high-level seminar in which authorities from central banks, multilateral organisations, universities and the financial sector participated. The seminar consisted of two successive sessions, the first on the role of the financial system in the moderation of growth in Asia, and the second on the restructuring of the banking system from the perspective of the Spanish experience.

A roundtable on Latin America at the crossroads: challenges, risks and outlook, whose participants included senior officials from the World Bank and from some governments in the region, along with experts from the Spanish government, the financial sector and the Banco de España, was held at the Bank's headquarters in June.

Lastly, the Bank hosted CEMLA's VIII Meeting on Central Banking Human Resources Management, whose objective was to analyse the role of human resources as a promoter of central banks' effectiveness and social responsibility. Representatives of most Latin American central banks and of Eurosystem central banks and certain international organisations attended the meeting.

4 Economic analysis and research

In 2008 various departments of the Banco de España carried out analysis and research on the Spanish economy and its international environment, in order to give advice to the Bank's governing bodies in relation to the performance of their functions.

In line with output in recent years, 38 Working Papers and 10 Occasional Papers were published in 2008. Moreover, Banco de España staff published 45 papers in academic journals and specialised books, 35 of which in anonymously refereed journals.¹

4.1 PRIORITY AREAS OF ANALYSIS

The research agenda of the Banco de España revolves around five major areas:

- Macroeconomic modelling and forecasting.
- Monetary policy and its transmission mechanisms.
- Financial stability.
- International economy.
- Spanish economy.

During 2008, more emphasis was placed, in all areas, on analysis of the macroeconomic and financial causes and consequences of the international crisis.

The Bank's avenues of research focused on the international financial crisis

As regards macroeconomic modelling and forecasting, the dynamic, stochastic general equilibrium model of the Spanish economy and the rest of the euro area (BEMOD) was estimated and similar smaller scale models were developed which included financial restrictions or certain institutional aspects of the Spanish labour market. The possibility of including financial variables in other short- and medium-term forecasting models, such as the Banco de España's quarterly model and real-time forecasting models of economic activity in the euro area and in Spain, was also investi-

¹ The Banco de España's *Research Memorandum, 2008*, available at www.bde.es, provides further information on these publications. It also describes in greater detail the other research activities carried out by the Banco de España during the year.

gated. Furthermore, available macroeconomic models were used to assess the effects on the Spanish economy of lower oil prices and government economic stimulus measures. During the second half of 2008, the third wave of the Survey of Household Finances (EFF) 2008 was prepared and designed; the preliminary results of this survey will be available at the end of 2009.

The avenues of research on monetary policy and its transmission mechanisms continued to focus on analysis of the consequences of financial frictions for monetary policy transmission and the implications of price and wage rigidities and of the sources of oil price shocks for optimal monetary policy design.

Research in the area of financial stability and banking analysis was also mainly orientated at addressing aspects relating to the crisis. Thus, the role of the “originate-to-distribute” banking model was studied, on the basis of analysis of the determining factors of securitisation in Spain, the characteristics of the main relationships observed in the Spanish interbank market were described, the existence of the credit channel in Spain was explored and the use of stress tests in supervision was discussed. Also, research into the relationship between competition and financial stability was extended and the role played by banks in the development of firms’ financial situation was analysed.

Research on the international economy was also influenced by the financial instability. In addition to the traditional lines of work, amidst new concerns about the global economy, other areas arose such as:

- Capital flows to emerging economies, including the role of remittances, financial vulnerabilities and the impact of commodity prices in Latin America, the financial and banking implications of capital flows in Asia and the impact of these flows for the transition to EMU in new EU Member States.
- A historical perspective of global financial turbulence, analysing structured finance and the consequences for emerging economies. There was also a paper on the exposure and external interdependence of the Spanish economy.
- Global imbalances and financial stability, in particular how they are linked to the globalisation process (possible scenarios for adjustment of imbalances, implications of the build-up of reserves and sovereign wealth funds on global stability, foreign investment, etc.).
- Foreign trade, also addressing more institutional and macroeconomic aspects.
- Breakdown of nominal interest rates in the euro area and in the United States into their three basic components: real risk-free rates, risk premium and inflation expectations.
- Analysis of the impact of various indicators of financial pressure (indebtedness, debt burden and profitability) on the investment decisions of non-financial corporations in the euro area.
- Decisive factors in national and cross-border bank acquisitions in the EU.
- International financial architecture: reform of the IMF and its implications for Spain, IMF financing facilities and their possible simplification, IMF policies and sovereign debt restructuring processes.

Finally, as regards avenues of research on the Spanish economy, a broad set of topics relating to its structural characteristics were considered, such as the situation and quality of public finances, regional governments' fiscal behaviour, the consequences of demographic changes (with special emphasis on migratory flows), productivity developments and the quality of the labour factor, the degree of competition and the functioning of the factor and product markets (in particular, the housing and labour markets), business financing and households' financial situation, and the impact of regulatory and institutional changes.² Decisions regarding the location of Spanish firms' direct investment abroad were analysed and progress was made with exploring the determinants of business investment and foreign trade.

4.2 RELATIONS WITH ACADEMIA

The Banco de España's connections with academia and the economic analysis and research units at other central banks and international institutions were maintained through the four traditional channels. First, the analysis and research produced by the Banco de España was presented and discussed at national and international seminars, congresses and academic conferences and published through the profession's usual channels. Second, the Banco de España holds a number of regular seminars, in which members of the Spanish and international academic community participate, including a weekly economic research seminar. It also organises national and international conferences, sometimes in collaboration with other organisations. In 2008, the Banco de España participated, in conjunction with other institutions, in the organisation of three international conferences: the 41st Annual Assembly of the Asian Development Bank; the European Summer Symposium in International Macroeconomics (ESSIM), held in Roda de Bará (Tarragona); and the international conference held to mark the 50th anniversary of Spain's membership of the International Monetary Fund and the World Bank (see Section 3.2).

Third, the Banco de España continues to contribute to the research networks organised within the Eurosystem for analysis of the euro area economy, such as, in 2007 and 2008, the Wage Dynamics Network and the Euro Area Business Cycle Network (organising a course given by Larry Christiano) and, in Latin America, within CEMLA. Since 2008, the Bank has also participated as a partner in a consortium of European universities and institutions aimed at developing the EFIGE (European Firms in the Global Economy) project, as part of the European Commission's 7th Framework Programme (FP7). The purpose of this project is to understand the interaction between globalisation and the European economy for EU firms. The regular visitor and external adviser programmes also continued; these promote projects that may be considered strategic in different areas of analysis and research.

Lastly, during 2008 the Banco de España launched its programme *Excelencia en Educación e Investigación en Economía Monetaria, Financiera y Bancaria* (Excellence in Teaching and Research in Monetary, Financial and Banking Economics) which spans several years and envisages subsidies for hiring lecturers and for research projects in a number of fields – macroeconomics, monetary policy, finance and the financial system, financial regulation and supervision, and international economics – in Spanish universities and research centres.

4.3 DISSEMINATION AND COMMUNICATION

As mentioned above, the three main channels for the dissemination and communication of the Banco de España's research findings are the Working Paper and Occasional Paper series and the monthly Economic Bulletin which, along with regular articles on the economic situation, includes summaries of research conducted or under way. All these activities are included in the

² In relation to the financial situation of Spanish households, in 2007 the preliminary results of the Survey of Household Finances were published [see "Survey of household finances (EFF) 2005: methods, results and changes between 2002 and 2005", *Economic Bulletin*, January 2008, Banco de España].

Economic Research Portal, a section on the Bank's website, whose content was extended and enlarged in the year.

The Bank's Library commenced the computerisation of 60,000 bibliographical references

In order to continue to facilitate public access to the Banco de España's bibliographical resources, the Library implemented a plan to improve its services and the way in which these resources are kept. One of the first measures to be adopted under this plan is to incorporate, in a computerised file that may be accessed via the Internet, approximately 60,000 works that were previously catalogued only on index cards. This project was conducted, with external backing, throughout 2008 and is expected to be completed in 2009 Q4. In addition, an electronic edition was created of all the material on which Pedro Martínez Méndez was working prior to his death, relating to "The Labour Market from 1914 to 1925" and "The Treasury and the Banco de España: 1900-1936". As a result, a CD-ROM entitled "Pedro Martínez Méndez. Unpublished works" was published and was presented to the public on 20 May 2008.

5 Banking supervision and regulation

5.1 SUPERVISORY ACTIVITY

In total, 505 institutions are supervised by the Banco de España

As at 31 December 2008, a total of 505 diverse institutions were subject to Banco de España supervision, of which 362 were credit institutions (see Table 7.1). The Bank is also responsible for supervising the activity of foreign credit institutions whose parent is a Spanish credit institution, within the confines of its role as supervisor on a consolidated basis.

The Banco de España's ongoing supervision process relative to these institutions was affected in 2008 by the crisis that began in summer 2007. In consequence, the Bank's actions in the year were largely aimed at carefully assessing the situation of Spanish banks in this new scenario, and specific analyses of sector risks and of factors of fragility at institutions were stepped up considerably. The Bank also continued to conduct ordinary ongoing supervision, consisting of permanent monitoring backed up by a programme of on-site inspections. In terms of actual supervision, a total of 166 inspection visits were made in 2008, of which 48 were under way as at 31 December, as shown in the breakdown in Table 7.2.

The downward pattern of the data in Table 7.2 reflects, in addition to the above comments, the changes being introduced by the Banco de España in its ongoing supervision of institutions, aiming to achieve greater and more efficient supervision. The traditional on-site inspections, which are the only activities recorded in the above-mentioned table, have been increasingly accompanied by close, ongoing monitoring, prompted by the increase in the amount and quality of the periodic and management information reported by institutions. Moreover, use of the form of supervision known as "ongoing on-site monitoring" has become more widespread. This entails the permanent presence of inspection personnel in the institutions, combining analysis and checks; originally used in the two big Spanish banking groups, this form of monitoring has recently been extended to include other institutions, on the basis of their size or complexity.

Ongoing monitoring, whether or not conducted on-site, now consumes a considerable portion of the supervisory resources available; these activities are not reflected in the inspection visits statistics.

In 2008, the Banco de España's activities, within its supervisory functions, were strengthened in two areas.

First, relative to implementation of the Capital Accord, commonly known as Basel II. With the publication of Circular 3/2008 on determination and control of minimum own funds, in 2008 the Banco de España completed the process of adapting banking regulations on solvency to the regulatory framework stemming from the new Capital Accord. For this pur-

	31.12.2008
CREDIT INSTITUTIONS	362
Banks	66
Savings banks	46
Credit cooperatives	85
Branches of foreign credit institutions	89
Specialised credit institutions	75
Official credit institutions	1
OTHER	143
Mutual guarantee and reguarantee companies	25
Currency-exchange and money-transfer bureaux	62
Appraisal companies	56
TOTAL	505

INSPECTION VISITS IN 2008

TABLE 7.2

	INSPECTION VISITS					
	Completed			Ongoing at 31 December		
	2006	2007	2008	2006	2007	2008
CREDIT INSTITUTIONS	69	125	98	80	44	37
Banks	36	63	52	37	12	20
Savings banks	11	17	19	21	18	10
Credit cooperatives	10	18	8	12	4	0
Branches of foreign credit institutions	1	6	7	2	1	1
<i>Of which: EU</i>	1	6	2	2	1	1
Specialised credit institutions	11	21	12	8	9	6
OTHER	12	22	20	16	11	11
Mutual guarantee and reguarantee companies	3	5	1	5	1	0
Currency-exchange and money-transfer bureaux	7	9	11	5	3	3
Appraisal companies	2	8	8	6	7	8
TOTAL	81	147	118	96	55	48

pose, it assigned the necessary human and technical resources to the process of supervisory validation of the advanced internal models for measuring risk, including the necessary collaboration with foreign supervisory authorities. It also published a guide setting out the criteria to be applied by credit institutions in their internal capital adequacy assessment processes and conducted a general pilot programme to assess the suitability of these processes.

Second, relative to international supervisory cooperation. In 2008, fluid collaboration with European, Latin American and North American supervisory bodies intensified, through the supervisory colleges. In this respect, the meetings organised by the Banco de España relating to the two big Spanish banking groups, and the Bank's attendance, as the host country supervisor, at several meetings of colleges of foreign banking groups, are particularly noteworthy.

In 2008, no particular precautionary measures were required in relation to the supervised institutions.

5.2 IMPOSING OF SANCTIONS

In 2008, 14 cases were opened against supervised institutions and 33 against their directors

In 2008, the Bank opened 14 sanctioning proceedings against institutions or individuals subject to Banco de España supervision, and 33 against their directors or managers, to be conducted jointly with the aforesaid proceedings. Of this total, three cases were opened against appraisal companies and six against currency-exchange and money-transfer bureaux. Proceedings were also opened against one institution and one individual for pursuit of activities reserved to credit institutions, and against one institution for pursuing currency-exchange and money-transfer bureaux activities without the necessary authorisation. A case was also opened against one individual and one legal person for acquisition of significant holdings in the capital of a credit institution without the necessary advance notice to the Banco de España.

In addition, three proceedings were opened for failure to comply with the ECB's minimum reserve requirements.

These data are similar to those of previous years, both in terms of the number of cases and the types of supervised institutions and individuals subject to these proceedings.

In 2008, nine cases against supervised institutions and 42 cases against their directors were resolved, with the imposition of 157 sanctions

In 2008, nine cases against supervised institutions were resolved and 42 cases against members of their boards of directors or management. These resolutions involved imposition of: 12 sanctions on institutions and 26 on directors, relating to very serious infringements; 26 sanctions on institutions and 87 on directors, relating to serious infringements; and six sanctions on institutions for minor infringements, there being no provision in Spanish law for sanctions on directors in the event of minor infringements.

By type of institution, the sanctions were imposed on a bank, an appraisal company and seven currency-exchange and money-transfer bureaux.

Also in 2008, a case brought against a company and its director for pursuit of activities reserved to credit institutions was resolved, with imposition of the corresponding sanction.

In addition, proceedings were brought to withdraw the authorisation granted to three currency-exchange bureaux, on account of their having relinquished such authorisation. Strictly speaking, such cases do not involve exercise of the Banco de España's sanctioning power, but they do represent a form of control over supervised institutions, insofar as they enable entities which, for the reasons established by law, are liable to have their authorisation withdrawn, to be prevented from forming part of the system.

Sanctions were imposed on a bank for failure to comply with accounting regulations ...

As regards the nature of the infringements sanctioned in the year, in the proceedings brought against a bank and its directors, sanctions were imposed for a serious infringement, relating to failure to comply with accounting regulations and with rules on preparation of balance sheets and income and other financial statements that must necessarily be reported to the competent administrative authority.

... and on an appraisal company and seven currency-exchange and money-transfer bureaux

In the case of proceedings brought against supervised institutions other than credit institutions, the case against an appraisal company and its directors is noteworthy. Sanctions were imposed for a very serious infringement, relating to failure to comply with the requirements for authorisation, consisting in having the organisational resources and internal control measures necessary to conduct appraisal activities. The company was also sanctioned for serious infringements, consisting, respectively, in issuing appraisal certificates and reports whose contents were inconsistent with the data and evidence obtained in the appraisal activity or which departed, without expressly indicating as such, from the procedures, checks and instructions

envisaged in the applicable regulations, and in failing to report the necessary data to the Banco de España. A third serious infringement was also identified, relating to failure to comply with the sectoral regulations that require that appraisal companies must hold civil liability insurance cover, an infringement for which the company had been sanctioned in the two previous years.

In the case of the currency-exchange and money-transfer bureaux, the infringements analysed in the proceedings opened may be grouped under three main headings: (i) failure to comply with the regulations governing the activity and organisation thereof, resulting in five very serious, eight serious and four minor infringements; (ii) failure to comply with the regulations on appropriate capitalisation, recording thereof and reporting to the Banco de España of accounting and activity data, resulting in five very serious, eight serious and two minor infringements; and (iii) failure to comply with the regulations on relations with customers and with the public in general, resulting in five serious and one minor infringement.

Most of the sanctions imposed, within the range available, were in the form of fines. However, in some cases it was decided to opt for sanctions involving public or private reprimand, or disqualification from serving as a director, and, in the case of three foreign-currency bureaux, it was even deemed necessary to revoke the authorisation granted.

5.3 REGULATORY CHANGES

The transposition of Community regulations on solvency and provision of financial services was completed

As regards the organisational and disciplinary rules applicable to credit institutions and other financial intermediaries subject to Banco de España supervision, 2008 may be divided into two distinct parts. The first half of the year saw completion of the transposition into the Spanish legal framework of the Community regulations on solvency (basically by means of the implementing regulations of Law 36/2007, of 16 November 2007), and on provision of financial services (the Markets in Financial Instruments Directive (MiFID), whose incorporation into the Spanish legal framework prompted Law 47/2007, of 19 November 2007, which amended the Spanish Securities Market Law). In the second half of the year, and especially in the last quarter, regulatory activity focused, almost exclusively, on the design and implementation, within the framework of the concerted European action plan of the euro area countries, of a series of regulatory measures aimed at preserving the stability of the European financial system in general, and of the Spanish financial system in particular.

Regarding the first of these two periods, the following regulations are especially noteworthy:

- Royal Decree 216/2008, of 15 February 2008, on financial institutions' own funds. This legislation implements Law 36/2007, of 16 November 2007, specifying the basic principles on which the new solvency regime for financial institutions deriving from the Basel II Accord is based.
- Banco de España Circular 3/2008, of 22 May 2008, on determination and control of minimum own funds. This Circular culminates development of the new legislation on own funds and supervision of credit institutions on a consolidated basis, setting out all the technical specifications whose complexity and level of detail are inappropriate for inclusion in higher-ranking provisions.
- Banco de España Circular 5/2008, of 31 October 2008, on minimum own funds and other obligatory reporting of mutual guarantee companies, which culminates the development of the new solvency regime for MGCs.

- Royal Decree 217/2008, of 15 February 2008, on the legal regime of investment firms and other investment services entities. For the purposes of this section, this Royal Decree develops several rules on internal organisation and rules of conduct applicable to all institutions providing investment services, including, in particular, credit institutions.

Notable among the main regulatory changes seen in the final stretch of the year in connection with the stability of the financial system are:

- Royal Decree Law 6/2008, of 10 October 2008, creating the Fund for the Acquisition of Financial Assets, with an initial allocation of funds of €30 billion, extendable to €50 billion.
- Royal Decree Law 7/2008, of 13 October 2008, on urgent economic and financial measures in relation to the concerted European action plan of the euro area countries, which authorised State guarantees of new lending transactions made by credit institutions resident in Spain.
- Royal Decree 1642/2008, of 10 October 2008, which set at €100,000 the guaranteed amounts under credit institutions' deposit guarantee funds and investor compensation schemes.

Circular 6/2008 updated the accounting framework of institutions

Banco de España Circular 6/2008, of 26 November 2008, updated the credit institutions' accounting framework by amending Circular 4/2004, of 22 December 2004, on public and confidential financial reporting rules and formats, to adapt it to the changes made both in Spanish mercantile legislation and in international financial reporting standards (IFRS).

Also in the year, Royal Decree 322/2008, of 29 February 2008, implementing Article 21 of Law 44/2002, of 22 November 2002, on financial system reform measures, set out the legal framework for electronic money institutions (ELMIs), a new type of credit institution.

Lastly, a notable development in the EU regulatory framework was the Directive 2008/48/EC of the European Parliament and of the Council, of 23 April 2008, on credit agreements for consumers. This Directive regulates these agreements at the Community level, aiming to contribute to the development of an efficient internal market and to achieve appropriate consumer protection mechanisms; it must be transposed into the Spanish legal framework before 12 May 2010.

5.4 FINANCIAL AND PRUDENTIAL INFORMATION

5.4.1 Analysis of the impact (cost-benefit) of financial regulation

Together with the consultation document on the new general chart of accounts, the Banco de España published a qualitative analysis of the impact of the measures proposed, in line with the commitment to make this practice more widespread in the design of regulatory measures. This analysis means that regulatory intervention may be based on market failures and includes cost and benefit considerations in policy preparation, from the initial design stages.

In this respect, the Banco de España collaborated actively with the CEBS in the pilot programme, headed by the European Commission, for introduction of this approach in European financial regulation, specifically in the review of the regime for large exposures. Given the success of this trial, the Commission decided to extend this approach to other regulatory initiatives, such as, for example, possible harmonisation of the areas open to national discretion, in the Capital Directive, an initiative in which the Bank also played an important part.

5.4.2 Financial reporting and XBRL

As a consequence of its supervisory and statistical functions, the Banco de España receives financial information from the institutions it supervises. The following paragraphs contain a summary of the main initiatives taken in 2008 affecting the information received or the way in which it is handled.

Publication of Circular 6/2008, of 22 December 2008, on public and confidential financial reporting rules and formats, signified a change in much of the accounting information that must be submitted by credit institutions, including the public financial statements. This entailed the need for a change in the language used (XBRL taxonomy: eXtensible Business Reporting Language) in these financial statements for exchange of information.

Approval of Circular 3/2008, of 22 May 2008, on determination and control of credit institutions' own funds signified the entry into force of the new statements required for control of credit institutions' own funds. To facilitate receipt of this information, development in XBRL of the Spanish extension of the COREP (COmmon REPorting) taxonomy was completed. The information corresponding to June 2008 was received and processed for the first time in XBRL.

As a result of the publication of Circulars 3/2008 and 6/2008, electronic signatures became obligatory in certain statements, replacing autograph signatures. The process is based on inscription in the Register of Senior Officers of the authorisation for electronic signature, by means of a legal person certificate issued by the National Mint.

Also with a view to greater automation, Circular 6/2008 established that all documentation that was previously requested on paper (such as financial statements and actuarial studies) must be sent electronically. For this purpose, an IT project was begun, aiming to permit receipt by electronic means of all this information as from that corresponding to December 2008.

Likewise, as a result of publication of Circular 5/2008, of 31 October 2008, on minimum own funds and other obligatory information for mutual guarantee companies, the statements for control that these requirements are met must also be received in XBRL, for which purpose a taxonomy had to be developed for them. The first information sent by this means is that corresponding to December 2008.

5.5 CENTRAL CREDIT REGISTER

The Banco de España manages the Central Credit Register (CCR), which contains individualised information on the credit exposure of reporting institutions (basically credit institutions) to their customers. This information is used by the institutions for granting and monitoring exposure, and by the Banco de España, in conjunction with the data from credit institutions' accounting and own funds statements, for prudential supervision, maintaining the confidentiality of the individual data.

During 2008, growth in the number of exposures declared to the CCR slowed considerably, going from 33.5 million at end-2007 to 33.9 million at end-2008 (up 1.18%), while the total amount of these exposures rose slightly, from €3.6 trillion at December 2007 to €3.7 trillion at December 2008 (up 2.7%), and the total number of different borrowers remained virtually unchanged on December 2007 at 17.6 million.

Growth in the number of registered exposures decelerated notably

The CCR issued a total of 302.9 million automatic reports, in comparison with 291.2 million in 2007 (an increase of just 3.8%), while, for the first time, there was a marked decrease in the number of requests for reports for new lending transactions, from 6.9 million in 2007 to 6.1

million in 2008 (a drop of 11.8%). In turn, requests for reports by borrowers rose from 117,000 in 2007 to 132,900 in 2008 (up 13.9%).

As regards the quarterly exchange of information with the central credit registers managed by six other central banks of EU Member States (Germany, Austria, Belgium, France, Italy and Portugal), to September 2008 the CCR received information on exposures of 3,905 Spanish legal persons (an increase of 14.28% on the same period a year earlier) recorded in the other central credit registers, amounting to €238,435 million (up 7.18%). In turn, the CCR sent to these registers information on 1,844 legal persons resident in the other six countries (up 5.86%), relating to exposures amounting to €63,074 million (down 11.61%). During 2009, improvements in the frequency of these exchanges, and in their processing and scope, will be addressed.

The CCR started work on granting the public access to their data via the Internet

Lastly, it should be highlighted that in 2008 the work began to grant borrowers access to their CCR reports via the Internet, to adapt to the provisions of Law 11/2007, of 22 June 2007, on electronic access to public services.

6 Operational functions

6.1 MANAGEMENT OF THE BANCO DE ESPAÑA'S ASSETS

In the euro area, the implementation of monetary policy is carried out in a coordinated fashion by the European Central Bank and the national central banks; the former takes the monetary policy decisions, while the latter perform the liquidity providing/absorbing operations and deal with aspects relating to the provision of collateral with the credit institutions within their purview. In 2008, the Eurosystem, in collaboration with the Federal Reserve Bank of New York and the Swiss National Bank, also made liquidity injections in US dollars and Swiss francs.

The ECB made changes in its tender procedure to meet credit institutions' demand for financing as market liquidity dried up

Monetary policy operations in the Eurosystem as a whole grew in 2008, and especially in 2008 Q4. As market liquidity virtually dried up, credit institutions had to apply to central banks for the financing they needed, and they did so in very large amounts. Against this backdrop, the European Central Bank made changes in its tender procedure for liquidity injections in the Eurosystem, adopting a fixed-rate tender procedure with full allotment. Thus, Spain's share rose from €25,094 million in 2007 to €49,153 million in 2008. At the same time, the flow of funds between the Spanish banking system and institutions situated in other euro area countries changed direction: while in 2007, Spanish institutions received, on average, funds totalling €18,835 million, in 2008 they repaid funds totalling €18,621 million, signifying a complete turnaround in this flow of financing in 2008.

The Banco de España's portfolio of euro-denominated fixed-income bonds recorded an average balance of €77,905 million in 2008, marginally higher than in 2007, while holdings of foreign currency denominated assets stood on average at €7,960 million, somewhat less than in 2007, due to the exchange rate effect. As at 31 December 2008, manageable assets in euro, foreign currency and gold totalled €94,314 million.

Throughout 2008 the Banco de España continued to manage a portion of the ECB's foreign reserves, managing, on average, a portfolio of \$5,050 million.

6.2 MANAGEMENT OF PAYMENT SYSTEMS

As regards the Spanish large-value payment system, the main landmark in 2008 was the transformation of the Banco de España Settlement Service (SLBE) into TARGET2-Banco de España, the Spanish component of TARGET2. After much work, both by the Banco de España and the Spanish banking community, on the necessary technical and legal adaptations and the corresponding trials, migration of the Spanish system to TARGET2, the European real-time gross settlement system in euro, was successfully completed on 18 February 2008.

TARGET2-Banco de España has worked fully satisfactorily

TARGET2-Banco de España has worked fully satisfactorily, with no major incidents. In 2008 the system processed more than 11 million transactions (down 8% on 2007), with a value of more than €93 trillion (down 4% on 2007). These decreases are due, on the one hand, to changes in the way in which certain transactions for ancillary systems are settled, and, on the other, to new functionalities available in TARGET2 that permit rationalisation of back-office tasks and more efficient liquidity management by credit institutions.

With regard to retail payments, the Banco de España is developing the oversight of the National Electronic Clearing System (SNCE), which is managed by Iberpay, a private company owned by the system participants. In 2008, the SNCE processed 1,510 million transactions, representing a rate of growth of 5%, similar to that seen in previous years, with a total value of almost €2 trillion, a slight decrease (1.7%) on 2007.

After several years of design and preparation, in 2008 the Single Euro Payments Area (SEPA) was effectively launched, allowing consumers, firms and other economic agents to make electronic payments in euro to any beneficiary in the European Union, subject to the same basic conditions and with the same rights and obligations, using one single bank account and a single set of payment instruments.

During 2008 the Banco de España continued to collaborate with and support the Spanish banking community in the necessary developments for successful transition to the SEPA in Spain. Thus, the Bank has offered to act as the representative and settlement agent, of all those institutions that have requested these services, in what is to date the only pan-European retail payment clearing house, thus enabling these institutions to access transactions in – and receive transactions from – any part of the euro area. Moreover, through its participation in the groups created to this effect, the Bank has contributed to the preparation of the Spanish banking community's Action Plan for SEPA which sets out a schedule for the steps to be taken to encourage the migration of Spanish payment instruments.

In this respect, the Banco de España will continue to work with all interested parties in those areas in which issues have still to be resolved, encouraging competition and giving top priority to ensuring that the SEPA meets the needs and expectations of users, without entailing any deterioration in existing levels of service.

6.3 BANKNOTE MANAGEMENT

The Banco de España takes all the necessary measures to comply with its functions in this respect, controlling banknote circulation, ensuring that a safe and flexible supply of banknotes is available to meet demand and monitoring and controlling the integrity, quality and authenticity of euro notes. The Bank also assumes its share of production of the euro banknotes needed in the Eurosystem to meet the new demand for notes and to replace those that are damaged and withdrawn from circulation.

As a result of the Eurosystem agreements for banknote production, in 2008 the Banco de España was responsible for producing a total of 885 million 50, 20 and 5 euro banknotes.

The upward trend seen in recent years in the distribution and withdrawal of banknotes continued

Over the year, the Bank delivered 2,567 million banknotes to credit institutions, 11.6% more than in 2007; in turn, 2,774 million banknotes were withdrawn from circulation, an annual increase of 10.7%. It is important to note, in this respect, the large numbers of notes entering Spain from other euro area countries, basically as a result of tourism; this is one of the reasons behind the fact that the number of 10 and 20 euro notes received by the Banco de España exceeds the number of 10 and 20 euro notes it puts into circulation, resulting in what is known as "negative net issuance".

The Bank is working on developing agreements with the private sector that will ease and improve the system of custody and distribution of cash throughout Spain, endeavouring to ensure that operating efficiency and cost management targets may be met without impairing the quality and authenticity of the banknotes in circulation.

The number of banknotes processed, that is, counted, authenticated and checked, at the Banco de España amounted to 2,593 million, a minor increase on the previous year; of this total, around 40% were declared to be unfit to be returned to circulation. Damaged banknotes were destroyed and replaced by others (new or used banknotes) that complied with the strict quality standards set by the Eurosystem, to assure the legitimacy and quality of the notes in circulation. The Bank continues to invest in state-of-the-art technology for automatic banknote processing, counting, checking and control.

Regarding the Eurosystem's Framework for euro banknote recycling, 2008 saw the completion of the process whereby credit institutions signed up to the General Clauses applicable to the Banco de España ordinary cash service, which were published in the Official State Gazette (BOE) at end-2006. The Technical Applications for Cash, which develop these Clauses, were updated to include new statistical data on banknotes that credit institutions and other professional cash handlers have to send to the Banco de España. Also under the terms of the Framework, approval was granted for private banknote processing and recycling facilities to be opened, in Spain's four main cities (Madrid, Barcelona, Seville and Valencia).

To comply with the task entrusted to it by the Treasury, in 2008 the Banco de España put coins worth 1,165 million into circulation and withdrew from circulation coins worth 266 million.

6.4 IMPLEMENTATION OF THE TRANSACTIONS OF THE FUND FOR THE ACQUISITION OF FINANCIAL ASSETS (FAFA)

The measures adopted by the Spanish government within the framework of the lines of action established by the Economic and Financial Affairs Council (ECOFIN) of the European Union, aimed at encouraging financial institutions to lend to households and firms, included the creation, in October 2008, of a Fund for the Acquisition of Financial Assets (FAFA), assigned to the Ministry of Economy and Finance and with an initial allocation of funds of €30 billion, extendable to €50 billion.

The Banco de España was charged with implementing the FAFA created by the government

In accordance with the regulations for creation of the Fund, the Banco de España is responsible for implementing the transactions, acting as agent and custodian bank for the Fund. To perform this task with the urgency required, the Treasury Special Schemes Support Service was created in the Bank, within the Directorate General Operations, Markets and Payment Systems.

The Service's work has three successive phases. First, organisation of auctions among credit institutions interested in obtaining financing; these institutions may submit competitive bids (in which case financing is awarded to those offering the highest interest rates) and non-competitive bids (in which case priority is given to those that have made the most contribution to increasing lending to households and non-financial corporations). Second, settlement of the transactions for acquisition of the financial instruments that become part of the Fund's assets. And third, administration and monitoring of the Fund's portfolio created following the successive acquisition of assets.

Two auctions were held in 2008, the first involving repo transactions and the second purchase of held-to-maturity securities. The corresponding asset purchases were settled and the two portfolios created.

7 Statistics

7.1 THE STATISTICAL FUNCTION OF THE BANCO DE ESPAÑA

The statistical function of the Banco de España is established in its Law of Autonomy and in the National Statistics Plan³. The Law of Autonomy provides⁴ that the Banco de España shall compile and publish statistics relating to its functions and that it shall assist the ECB in the compilation of the statistical information needed for the fulfilment of the ESCB's functions. Since the creation of the Economic and Monetary Union, the tasks in connection with the ECB/ESCB have progressively increased the demand for resources dedicated to this function.

The main statistics compiled and disseminated by the Banco de España under the Law of Autonomy relate to financial institutions and markets and to interest rates, although the underlying information for some of the statistics included in these areas is drawn from other supervisory agencies (the Spanish National Securities Market Commission (CNMV) and the Spanish Directorate General of Insurance and Pension Funds (DGSFP)). The statistics compiled and disseminated under the current PEN are the Balance of Payments and the International Investment Position, the Financial Accounts of the Spanish Economy, the Survey of Household Finances, and Public Debt, according to the Excessive Deficit Protocol (EDP). A significant part of these statistics broadly coincides with the requirements of the ESCB, being compiled using the information that all resident units are obliged to provide by law.

In addition, the Banco de España, through its Central Balance Sheet Data Office, collects, compiles and disseminates information on the balance sheet position and the results of non-financial corporations, based on questionnaires completed voluntarily by the reporting firms and on the annual accounts filed by non-financial corporations at the Mercantile Registries.

All these statistics are published in the Boletín Estadístico, in monographic publications and on the Banco de España's website.

Apart from compiling and disseminating the above-mentioned statistics, the Bank also uses statistics produced by other Spanish agencies and supervisors (INE, IGAE, ministries, CNMV, DGSFP, etc.) and by international organisations as a source for another area of statistical work that it makes available to its own analysts and to the general public. Moreover, Banco de España representatives take an active part in international statistical fora (within the ESCB, the European Commission through Eurostat, the European Committee of Central Balance Sheet Data Offices, the IMF, BIS, OECD, etc.). The Bank also maintains databases that permit analysis of the evolution of the variables for which data are collected.

7.2 MAIN CHANGES INTRODUCED IN 2008

During 2008 the statistics for which the Banco de España is responsible were updated, in accordance with generally accepted quality levels, and the data were released on pre-announced dates, in accordance with the calendar published on the Banco de España's website. Each of these updates incorporates the methodological improvements and changes reported in each of the publications.

The most notable elements of this work are mentioned below.

7.2.1 Monetary and financial statistics

In the area of the monetary and financial statistics relating to the functions envisaged in the Law of Autonomy, the following stand out in 2008:

- Banco de España Circular 6/2008, of 26 November 2008, which amended the information to be sent by credit institutions, prompting the start of adaptation of the process of statistical compilation.

³. The National Statistics Plan is established every four years (the current Plan is for 2005-2008) by means of a royal decree, pursuant to Law 12/1989 on the Public Statistical Function. ⁴. Article 7.5.f).

- As regards the sending of information to the ECB, work was conducted on the compilation of statistics on mutual funds that have to be sent to the ECB as from February 2009, with data as from December 2008. In addition, the information that must be sent, as from 2010, by monetary financial institutions (MFIs) on credit and their securitisation transactions, and by securitisation SPEs on their own accounts, was extended, for which purpose the corresponding amendments were made in the ECB regulations.
- Work continued on the implementation of the Centralised Securities Data Base (CSDB), which was used for the first time to compile the mutual fund statistics.
- Against the backdrop of financial turmoil, work was conducted to help analyse and reflect in the EU's statistical manuals the government aid granted to financial institutions, to ensure uniform recording of these transactions in the general government deficit and general government debt, and these transactions were recorded in the Spanish general government statistics.

7.2.2 Balance of Payments and International Investment Position statistics

The main changes made during 2008 are as follows:

- Work continued on adapting the information system currently used to compile the Balance of Payments to the changes that affected it in 2008 and to those that will affect it as from 2009: mainly the raising of the reporting threshold for cross-border transactions to €50,000 from 1 January 2008; the entry into operation of TARGET2 and of other systems for interconnecting euro area settlement systems; and the launch of the Single Euro Payments Area (SEPA).
- The dissemination of the monthly Balance of Payments data was brought forward by 15 days; moreover, these data will now be revised quarterly rather than annually as before. This new dissemination and revision calendar enhances the degree of consistency between the Balance of Payments data, on the one hand, and the Financial Accounts and National Accounts data, on the other.
- The Direct Investment data drawn from the Investment Register kept by the Directorate General for Trade and Investment of the Ministry of Industry, Trade and Tourism were incorporated into the International Investment Position.

The dissemination of Balance of Payments data was brought forward by 15 days

7.2.3 Balance sheet position and results of non-financial corporations according to the Central Balance Sheet Data Office

Most of the work carried out in 2008 was connected with the adaptation of the data-collection systems to the new general chart of accounts approved in 2007, with the additional aim of alleviating the reporting burden. Specifically, in collaboration with the Spanish Accounting and Audit Institute (ICAC), the Directorate General for Registrars and Notaries Public and the Spanish Mercantile and Property Registrars' Association, the work on creation of the standard formats for filing accounts adapted to the new general chart of accounts was completed. These formats, which were published in the Official State Gazette (BOE) of 28 January 2009, include an electronic version in XBRL, whose taxonomy was also developed in 2008. Also in this connection, the Bank worked in close collaboration with the Mercantile Registries on preparation of the data-collection system to permit electronic filing in said Registries.

The questionnaires sent by the firms reporting to the annual database (which in 2008 again totalled more than 9,000 non-financial corporations) and to the quarterly database (more than 1,000 firms) were also adapted to the new general chart of accounts. In both cases, the new questionnaires include fewer additional details on the official filing formats used by the report-

ing firms. Meanwhile, collaboration with the Spanish Mercantile Registries, pursuant to an agreement with the Spanish Registrars' Association, allowed data to continue to be included on more than 500,000 firms.

At the international level, within the framework of the European Committee of Central Balance Sheet Data Offices, the Spanish Central Balance Sheet Data Office chaired the group that maintains the ERICA database of consolidated accounts of European groups, monitors the Europe-wide process for alleviation of the reporting burden and studies the quarterly databases kept by the European central balance sheet data offices.

7.3 OTHER WORK RELATING TO THE COLLECTION, MANAGEMENT AND DISSEMINATION OF STATISTICAL INFORMATION

In 2008 work was undertaken to improve the infrastructure for collecting, exchanging and accessing the Banco de España's statistical information. Part of this work has already been implicitly or explicitly referred to above. This section covers the work with a special interest, specifically:

- New electronic forms for collection of information on cross-border transactions directly from firms and individuals were installed on the Banco de España's website. Others will be added until all the existing hard-copy forms are covered.
- The infrastructure was prepared for installation on the Banco de España's website of a search system to make it easier to access the Bank's statistical information.

8 Claims Service

The number of complaints received rose by 30%, telephone enquiries by 76% and on-line enquiries by 145%

The key feature of the year for the Claims Service was the significant growth in activity. In its work of attending to the users of products and services offered by financial institutions subject to Banco de España supervision, it recorded an increase of almost 30% in the number of complaints lodged by the public. The increase in enquiries made by users of financial services was even more noticeable, as the number of telephone enquiries rose by 76% and the number of on-line enquiries by 145%.

Since April, the Virtual Office of the Claims Service enables complaints and enquiries to be handled on-line

On 18 April 2008 the Virtual Office of the Claims Service came into operation, enabling the general public to make enquiries and lodge complaints without having to go in person to a branch of the Banco de España. This new form of access to the Service has been very well received, and is used more and more by the public, who may also track their complaints through the system.

Work continued on improving the presentation and content of the information provided, via the Annual Report of the Claims Service and the quarterly reports, identifying the issues that give rise to most complaints or doubts and presenting the principles of best practice drawn up by the Claims Service and which should govern institutions' relations with their customers. For the first time, the 2008 Annual Report of the Claims Service included a comparative study of the different alternative dispute resolution systems in operation in Europe.

The Service's external profile was raised in 2008, with an increased presence and increasingly active participation in international meetings on issues relating to the protection of financial consumers. Notable at the European level was its participation on the Steering Committee of FIN-NET, the European network for settling cross-border financial disputes out of court, of which Spain is a founder member. In October 2008, Madrid hosted one of the annual plenary meetings of FIN-NET members. The Claims Service also took part in "INFO 2008", the Annual Conference of the International Network of Financial Services Ombudsman Schemes, held at end-September 2008 in New York, and in a Seminar on the Legal Aspects of Central Banking, organised by the Banque de France in early December.

Technical cooperation was also stepped up, especially in the area of Latin America, notably with the organisation of the 2nd Course on Protection of the Financial Customer, held at the Banco de España's headquarters in June 2008, in which representatives of consumer protection supervisors and agencies of numerous South American countries participated.

9 External communication

As a government agency, the Banco de España shares the obligation of accountability vis-à-vis the general public, although in the case of the Bank a balance must be found between this obligation and the discretion required of it in its financial system supervisory duties. The communication policy of the Banco de España has a twofold objective: to explain the functions and activities of the institution and to contribute to the confidence of citizens in the financial system. External communication is necessary for the Banco de España to fulfil its functions under the Law of Autonomy and as a member of the ESCB.

9.1 MEDIA RELATIONS

The Banco de España's relationship with the media focuses on enhancing knowledge of the institution's activities among information professionals, since these are a key link in the mechanism for transmitting messages to the public. Hence in 2008 information sessions were organised to explain the workings of ECB funding to institutions, the behaviour of bad debts and the new features introduced by the solvency circular, within the journalist training programme commenced in 2004. Moreover, in order to publicise the work of the various departments of the Bank, informative meetings were organised to present the results of the government debt reports (in April) and of the Central Balance Sheet Data Office surveys (in November).

In addition to these regular meetings, mention should be made of the attention paid by the media in 2008 to other events such as the conference held in April to commemorate the XX Anniversary of the CEMFI, the presentation of the Financial Education Project undertaken jointly by the Banco de España and the National Securities Market Commission (in May) and the international conference entitled "Spain in the International Monetary Fund and the World Bank: 50 years on", organised jointly in December by the Banco de España and the Ministry of Economic Affairs and Finance.

Also given wide media coverage was the award of the Bernácer prize (in May) and the King Juan Carlos economics prize (in December), as well as the presentation of the first FEDEA report on immigration (in October).

The complicated state of the international financial system prompted greater media interest in information relating to the Banco de España's activities, with the consequent significantly higher demand for interviews by the media. Overall, representatives of the Bank gave around 30 interviews (50% more than in the previous year). A considerable number of the interviews in 2008 were given within the Bank's branch network-based communication plan, the purpose of which is to acquaint local and regional media with the Banco de España's activities. Under this plan, and continuing along the same lines followed in 2007, the report of the Claims Service was presented simultaneously in Madrid and at the A Coruña, Barcelona, Bilbao, Seville and Valencia branches.

Nevertheless, as in previous years, the main channel for communicating the Bank's viewpoint regarding the economic situation and the financial system was its regular publications, such as the Annual Report and the Economic Bulletin, and the public speeches made by its management. In addition to the Governor's regular appearances before Parliament (in June, to present the Annual Report, and in October, before the Parliamentary and Senate Budget Committees), the members of the Bank's governing bodies participated in 30 national and international fora in 2008.

9.2 INSTITUTIONAL
COMMUNICATION PROGRAMME
9.2.1 Information to the public

Visits to the Bank's website were up 25% on the previous year

The Banco de España's commitment to providing reliable information to various target groups and to the general public makes its website a very important channel of direct communication because of its efficiency and cost. The access statistics showed nearly 2.4 million visitors in 2008, up 25% on the previous year. The number of pages viewed by users exceeded 22 million, up 34% with respect to the previous year. This figure includes accesses to the Bank Customer's Portal, which amounted to nearly 2.5 million in the same period.

In line with the conclusions drawn from the study conducted in 2007 to ascertain the expectations and demands of the various target groups using this channel, the Banco de España began to revamp its website to include major improvements in technology, design, architecture, ease of use and accessibility. The aim is to enable users to consult the information in it in a way more suited to their needs.

Separately from this overall reform, as part of the process of ongoing expansion and improvement of page content and architecture of the Banco de España website, 84 improvement projects were conducted last year and progress was made in the translation of certain institutional contents into English and into the co-official languages of the autonomous regions, to enable users to navigate in the Catalan, Galician, Valencian and Basque languages.

The Statistical Information Service responded to around 10,200 telephone and e-mail requests from the public in 2008. The most commonly requested information related to interest rates and exchange rates. Also, 6,361 inquiries were handled through the Bank Customer's Portal and 29,557 by the Claims Service (25,389 through the call centre, which was reinforced in 2008, and 4,168 via electronic channels) in regard to diverse aspects of the public's dealings with banks.

In line with the Banco de España's wish to make itself better known to different social groups, the Bank distributed 117,500 brochures and 4,000 units of assorted informative materials, as well as 12,000 units of informative and educational products of the Eurosystem and of the European Commission. These items were distributed by post and at suitable times such as during visits to the Madrid headquarters and the branch network by professionals, students, senior citizens and others, and at conferences held by the Bank.

Furthermore, members of the public downloaded from the website 5,500 copies of the Banco de España informative brochures mentioned above and 4,200 Eurosystem products, the latter including 640 downloads of an educational video produced by the Eurosystem.

The Bank, in line with its commitment to communicate with the public in the co-official languages, has a policy of multilingual presentation of the materials which, since they are addressed to the residents of regions with co-official languages, require translation.

9.2.2 Educational initiatives

The Bank, jointly with the CNMV, set in motion the Financial Education Plan

The Financial Education Plan is a joint project of the National Securities Market Commission (CNMV) and the Banco de España within the framework of the integral financial education policy promoted by the government, the aim of which is to improve the level of knowledge of current and future users of financial services.

The Plan targets all population segments and will progressively cover all financial products and services. This Plan, the scope and characteristics of which are in line with the principles and recommendations of the OECD and the European Commission, aims to enlist the support of the competent governmental bodies and the various social and institutional agents.

It is a multi-year project which will last until 2012 and has various major objectives, the first of which is to launch a website concerned with financial education, which will be followed by other actions, such as the preparation of materials, their possible inclusion in the school curriculum and specific actions targeted at certain population segments.

The services contract for the website has been awarded and is in the production phase, with the contents now having been finalised. Also, the finishing touches are being put to diverse campaigns targeted at young people, immigrants and senior citizens, based on the production of specific materials for each segment, which will be distributed via the channels considered most effective in each case.

During the second year of its life, the Virtual Classroom (an educational portal for young people designed to foster knowledge of the Banco de España and spread awareness of its mission to guarantee the stability of prices, payments and the financial system) became established as a learning tool for the educational community. This is clear from the fact that 360,000 portal pages were consulted by 93,700 visitors in 2008, up 20% on 2007.

The Competition for Schools organised by the Banco de España for upper-level secondary and middle-level vocational training students is an educational instrument which fosters the entrepreneurial spirit of students and has aroused growing interest among schools. The 2nd Competition for Schools, held in the 2007-2008 academic year, merited the participation of 1,799 students from 228 schools, compared with 1,600 students from 193 teams in the first competition.

The 2nd Competition for Schools (dedicated to the 10th anniversary of the European Central Bank, the European System of Central Banks and the Eurosystem), in which 228 teams from public and private schools throughout Spain took part, was divided into a first general qualifying round and a second round consisting of a written contribution based on the theme "The Banco de España and the Eurosystem: 10 years of stability". The winner was the David Buján Secondary School located in Cambre (A Coruña). The prize of eight laptop computers was awarded on the school's premises by the director of the Banco de España branch in A Coruña. Subsequently, the students in the team were presented with certificates by the Governor, who acted as the president of the panel of judges, in a ceremony held at the Banco de España's headquarters in Madrid.

The Banco de España publishes the winning essays, issuing a bilingual edition when the school submits the contribution both in Spanish and in the relevant co-official language.

The 3rd Competition for Schools, currently under way, will be dedicated to the 10th anniversary of the euro. 214 teams registered, made up of 1,716 students from all the Spanish autonomous regions.

In 2008 the Bank began to develop an educational game targeted at upper primary school students and their teachers, which will be presented in a section of the website in June. Teachers wishing to use it in their classes can ask to have material sent to them for use in the 2009-2010 academic year.

The aim of the project is to introduce the Banco de España and the Eurosystem to students through the currency-issuance function, teaching them the features of banknotes in a game similar to Trivial Pursuits. The teams playing the game are faced with questions and problems the solution to which is generally numerical and requires a transaction in which banknotes change hands.

In addition, as indicated in Section 4.2, the Bank initiated in 2008 a programme of educational excellence, the purpose of which is to finance teacher hiring and economic research projects.

9.2.3 Institutional relations with the European Central Bank

In 2008, the Banco de España carried out communication activities as a member of the European System of Central Banks (ESCB). In addition to helping to define and implement the Eurosystem's communication strategy through its participation in the Eurosystem and ESCB Communications Committee and to publishing ECB press releases and communications on its website, the Communication Department carried out various initiatives under the Eurosystem communication plan, notably including the preparation of interactive educational materials and of a finance competition for upper secondary school students.

The Banco de España held a number of events to commemorate the 10th anniversary of the ECB and the ESCB. They began on 1 June 2008 and extended into the early weeks of 2009 to link up with the celebration of the 10th anniversary of the creation of the euro.

10 Internal organisation and administration

10.1 HUMAN RESOURCES AND ORGANISATION

The Bank's total staff numbers
2,730

As at 31 December 2008, the Banco de España employed a total of 2,730 staff, with scarcely no change with respect to a year earlier (the monthly average number of serving personnel was 2,727).

The proportion of females continued its upward trend of the last few years. This was so both at overall level, where females accounted for 37% of total staff, and among management posts, where they represented 36.3%. It is particularly significant that females account for 45% of staff aged below 45 years, so the future outlook for gender balance in the Bank's staff is highly positive.

Internal mobility was another notable feature of human resources management. In absolute terms, there were 322 movements, representing 12% of average permanent staff, up 77% on 2007. These figures include both transfers between departments and changes of duties and responsibilities.

In order to boost the level of skills of professionals being incorporated into working life, in 2008 it was decided to commence training programmes designed for grant-holders and specialised work experience contract holders at the Bank.

In the area of in-house training, the work of previous years was continued and, moreover, the Bank's educational capabilities were expanded through the inclusion of new training courses with such titles as "Enhanced team management" and "Advanced course on derivatives". Moreover, greater efforts were made in the training of employees attending to the general public at branches. Training courses were attended by approximately 28% more employees in 2008 than in the previous year and, notably, also by 29 members of other national central banks. The number of hours of training given increased by 2.3% to 43.5 hours per employee.

The collective labour agreement signed in 2008 represented a milestone in labour relations, since an agreement covering three years (2008, 2009 and 2010) was reached in advance. This will ensure the stability necessary for the Bank to carry out its functions in the current economic situation. The main points include further advances in the reconciliation of personal and professional life through additional new measures such as more flexible working hours and the extension of paid leave for the parents of children aged below 12.

Furthermore, work continued on projects aimed at making it easier for employees to carry out human resources management processes via the Intranet. These processes were made more efficient through the simplification of procedures.

10.2 ADMINISTRATION AND PROPERTIES

During 2008 the Bank continued its ambitious programme to renovate facilities and adapt buildings, both at central headquarters and at branches and recreation centres, which has been under way for the last few years.

At the Cibeles complex work began on the restoration and cleaning of the inner façades of the old building, which, along with the third and final phase of restoration of the zinc roofing under way during the year, will complete in 2009 the refurbishing work undertaken to regenerate the “skin” of this valuable building.

In the interior of the buildings of this complex, the renovation, updating and extension of the security facilities was completed and work commenced on the first stage of implementation of the Electrical Integration Master Plan, an ambitious multiyear programme to update and improve all the electrical facilities of the complex, enhancing the security, reliability and quality of the power supply.

Also, the new integral maintenance contract for the facilities of the Cibeles complex came into force at the beginning of the year. This was the solution adopted by the Bank to reorganise and rationalise the numerous partial contracts existing up till then and, as a result, improve efficiency and reduce costs.

Work was carried out at the Alcalá 522 complex to improve the fire prevention capability by creating sectors isolated from fire and smoke. The finishing touches were put to the refurbishing work on the outdoor facilities and large brick façades of the complex.

As to the branches, work is under way to improve the fire prevention systems, the renovation of the general facilities has been commenced in accordance with the priorities of a multiyear programme based on the technical audit conducted in previous years, and the maintenance contracts have been restructured, rationalised and their efficiency improved. As an aid in this work, reference was made to the specific technical conditions of each building. Further, 2008 saw the completion of the project to build garages for armoured cars in all the branches where it was materially possible.

10.3 CORPORATE DOCUMENT MANAGEMENT

The enactment in 2007 of Law 11/2007 on electronic access to public services, which recognises the right of citizens to use electronic media to deal with public authorities and obliges government agencies to take steps to ensure their services are available electronically by 31 December 2009, provided the decisive thrust for the electronic administration and document management system initiatives of the Banco de España.

In January 2008 the project entitled “Functional extension of Banco de España corporate document management” was started up. Its aim is “to conduct a study to define the solutions required for applying electronic administration at the Banco de España and to implement document management in the processes by which the Bank deals with the public. This project constitutes the general framework within which the Bank will adapt to Law 11/2007 through the integration of electronic administration processes and services in corporate document management systems. An implementation plan setting out various projects and lines of action was prepared and a list of 76 administrative procedures directly affected by the application of Law 11/2007 was drawn up.

10.4 INFORMATION SYSTEMS AND PROCESSES

2008 was marked by considerable activity, as evidenced by the number of projects (86) and by the 2,174 requests for work received and the 2,096 resolved by the various units of the Information Systems and Processes Department.

Work progressed apace on the main IT projects of the Eurosystem

Particularly notable were the projects relating to Europe and the Eurosystem, among which were the following:

- The inclusion of the Spanish financial system in the “SEPA for citizens” in January meant that the Bank’s entire transfers system had to be adapted to the new file formats, transactions and requirements.
- The inclusion of the Bank in TARGET2 called for major changes in the Bank’s settlement system.

In 2008 major efforts were made to increase the Bank’s part in the main IT projects currently under way in the Eurosystem and to establish the Bank as a supplier of IT services to the other central banks. As a result of this effort, the Bank is now going to participate actively in the development and construction of two projects:

- TARGET2-Securities: The Banco de España was assigned the design and development of the lifecycle management module, LCMM (of the securities settlement service to central securities depositories and to their participants), and it was designated a member of the IT Security Committee.
- CCBM2 (collateral management by central banks): The Bank is responsible for developing the repo modules and the tests to be performed on the new system for the provision of collateralised credit by Eurosystem central banks.

Similarly, work was undertaken with a view to achieving in 2009 a notable role in major Eurosystem projects such as:

- MOP (Market Operations Platform), currently in the preliminary analysis phase.
- ESI (Eurosystem Single Interface), a platform to establish access from the financial system to the services provided by the Eurosystem, the preparation phase of which is being coordinated by the Banco de España together with the European Central Bank.
- IAM (Identity and Access Management), access security services for internal and external users of the Eurosystem, divided into four subprojects. The Bank participates actively in two subprojects aimed at defining functional requirements and the architecture document.

The programmes for reorganising user application systems were given a strong boost in 2008. Given their complexity, they cannot be dealt with in a single year:

- The reorganisation of the Central Balance Sheet Data Office (new technology platform for the processing of information on the Spanish non-financial sector, in which the website communication channel and the analytical systems for conducting studies are strengthened) was finalised in 2008. Nevertheless, the systems put into operation will have to be monitored and fine-tuned in 2009.
- The implementation of the Strategic Plan for the Directorate General Banking Supervision (field applications for on-site use in credit institutions, and full development of the Integrated Supervisory Activity Management System, denoted by the

Spanish acronym SIGAS, which serves as a common framework for the work of the whole Directorate General) and the optimisation of the processes of the Directorate General Banking Regulation, based on the process optimisation plan prepared in 2005 (creation of three new applications and the modification of others, similarly strengthening the collection of information from the public and the management of administrative procedures via the website), progressed notably in 2008, although the large number of projects involved means that their development and implementation will have to continue in the coming years.

- The adaptation of the IT systems to the new regulatory provisions (Basel II and accounting regulations), where work continued on the progressive implementation of the XBRL standard, was concluded.

The capacity of the Bank's two central computers was increased in accordance with the plans established in this respect. This was necessary to meet the demand for processing power from the new software developments (implementation of TARGET2, migration of a new database technology, new accounting, etc).

The growing complexity of communications networks requires constant change in the related infrastructure. In 2008 the work carried out on connectivity with external networks was as follows:

- Interconnection with the existing network between the central banks of Germany, France and Italy. This enabled full integration of the local hardware assigned to the TARGET2-Securities project with that of the other three national central banks involved.
- Creation of two new communication channels for access to the corporate applications from other networks: the Banco de España's new private network for access to institutions and the connection with the administrative Intranet of the Ministry for Public Administration.
- Direct connectivity to the Internet of the Alcalá 48 building, so that it acts as a back-up in the event of contingencies at the Alcalá 522 building. This project also aimed at allowing Internet users to access functions of Banco de España corporate applications by robust, secure mechanisms with the electronic signature function.

Work also continued in 2008 on improvements to the new application development and implementation infrastructure. This work is making it possible to use new technologies and graphic environments and is enabling integration and sharing of processes between the different platforms used by the Banco de España and by the Eurosystem as a whole.

In 2008 approximately 50% of the banks work posts migrated to Office 2007 and, within the hardware renewal plan, 1,115 computers, monitors and printers were replaced.

The user helpdesk, which year after year continues attending to an ever-increasing number of calls and incidents with a high level of user satisfaction, was supplemented by a specialised assistance service with continuous operating hours.

In regard to business continuity, Internal Circular 5/2008 was approved and the 2008 test plan was executed. On the total of 20 days of testing, 121 processes were tested and resumption

of activity was observed in 118 of them. The Bank participated in the drafting of a common framework for Eurosystem business continuity, expected to be approved soon, and in the national business continuity plan of the financial sector, approved in November.

10.5 CONTROL, BUDGET AND ACCOUNTING

Implementation of the operational risk management system was completed

In 2008 the rules formally establishing the operational risk management system were approved and the process of implementation was completed. Hence this system is now operating and covers all areas and functions of the Bank.

Given the numerous changes in the accounting criteria of the Bank since it joined the European System of Central Banks, Internal Circular 9/2008 was approved to establish the new accounting system of the Bank and define its objectives, the characteristics of the accounting information, basic accounting policies, recognition criteria, valuation rules and the new chart of accounts. As regards the new information system which will manage the accounting system, its development has practically been completed and it will foreseeably be implemented in March 2009.

During the year the cost accounting system was refined to improve the cost allocation criteria and thus determine more accurately the cost of the various functions carried out by the Bank. All this was done within the framework of the common cost methodology used in the Eurosystem.

As regards the Bank's international presence, its influence in the areas of NCB accounting and operational risk was strengthened through the organisation of courses and seminars in these fields. Also, the Bank was active in the implementation of operational risk methodology in the Eurosystem and co-chaired, along with the Federal Reserve Bank of Philadelphia, the International Working Group on Operational Risk, of which more than 30 central banks throughout the world are now members.

10.6 CENTRAL PROCUREMENT SERVICES

Internal circular 3/2007 on public procurement rules of the Banco de España, and other supplementary internal rules, came into force on 1 January 2008.

The new rules are in line with the practices of Eurosystem central banks and ensure that procurement procedures comply with the principles of competition, equal treatment, non-discrimination, mutual recognition, proportionality, transparency and public dissemination.

In 2008 the Central Procurement Services started the centralised processing of tenders, establishing procedures to call for expressions of interest and to amend and extend contracts. In conjunction with the Legal Department, new schedules of specific requirements were developed for the procurement of construction work, goods and services. Also, active cooperation was provided to other departments of the Bank to enable the new rules to be implemented efficiently and effectively.

The procedures for procurement of construction work, goods and services were made public in the Official Journal of the European Union, in the national press and on the Banco de España website. The procurement section recently included in the Bank's website deals with the contractor profile and includes Internal Circular 3/2007 and the sub-sections "Procurements put out to tender", "Contracts awarded" and "Other information of interest". The schedule of special requirements and technical specifications of the procurement projects are available for consultation and downloading in pdf format. There is an electronic mailbox to which enquiries may be sent and which has received a large number of queries during the year.

During the year the Central Procurement Services participated in the activities of the Eurosystem Procurement Coordination Office, assisting in the preparation of the first set of accepted

good practices in procurement. The Eurosystem Procurement Coordination Office developed a joint procurement plan for 2009 and four working groups were formed to consider future joint procurement. The Banco de España is participating in a joint procurement project and in the four working groups.

10.7 INTERNAL AUDIT

According to the Statute approved by Internal Circular 4/2007 of 20 July 2007, the aim of internal auditing is to evaluate the efficacy, sufficiency and suitability of all the systems and procedures established for the management and control of risks.

The internal audit function is performed by the Internal Audit Department, which reports directly to the Governor. In addition, the Internal Audit Department must afford the Audit Committee of the Governing Council all such assistance as it may request and provide it with any information it may need.

The Internal Audit Department and its audit staff shall adhere to the principles of objectivity, impartiality, confidentiality and absence of conflict of interests, and act in keeping with the principles, standards and procedures laid down in the Internal Audit Manual approved by Ordinance 7/2008 of 15 February 2007.

The Internal Audit Department's audit activity is specified in an Annual Plan approved by the Governor and reported to the Executive Commission. In accordance with the 2008 plan, the Internal Audit Department carried out the following main audits: annual accounts of the Banco de España; the report envisaged in Law 44/2002 on financial system reform measures; security of automated information systems; counting of the strategic reserves deposited by the ECB; ancillary deposit system; Central Credit Register of the Banco de España; maintenance and construction; General Archive of the Banco de España; library of the Banco de España; second series of euro-denominated banknotes; centralised securities database; management of foreign reserves of the European Central Bank; maintenance and operations of information technology systems infrastructure; operations of TARGET2 and of the Tenerife, Las Palmas, Badajoz, Ceuta, Seville, Murcia and Palma branches. Also, it monitored the recommendations of the specific audits of the Banco de España and of those common to the ESCB.