

Foreword by the Governor Pablo Hernández de Cos



As I have already had the opportunity of highlighting on a number of occasions, transparency and accountability are basic principles governing the functioning of the Banco de España as a public institution, central bank and national banking supervisor. The trustworthiness and credibility of independent public authorities stem, among other things, from the exercise of these principles, which also form part of the values defined in our Strategic Plan 2024.

The commitment to report on our main activities in a transparent manner is reflected, inter alia, in the annual publication of the Banco de España's *Institutional Report*, which seeks to paint a simple and graphic picture of our structure and organisation, and of our main activities. This report's digital format, with its many references to other Banco de España articles and publications, has also proved to be an appropriate channel for readers to learn in more detail about our organisation and the wealth of activities carried out in the preceding year.

In 2021, following the strong declines observed in 2020 as a consequence of the pandemic, the global economy embarked on a path of recovery, whose pace, however, was uneven across different sectors, geographical areas and population groups. In addition, the strength of the recovery was subject to a high degree of uncertainty arising from the course of the pandemic itself, the extent of the scarring that the crisis may have caused to employment or the productive system, the global supply chain disruptions and inflation surprises, among other aspects.

In step with economic developments, the Bank published various specific studies in the year to complement the periodic publications that provide analyses and projections about the economy or financial stability, such as the *Annual Report*, the *Economic Bulletin* or the *Financial Stability Report*. These specific studies focused on the Bank's analysis and research priorities and addressed significant issues such as the medium and long-term implications of the pandemic crisis, the economic and financial consequences of climate change, the impact of Next Generation EU or the digital euro, among others.

Supervisory activity in 2021 was affected by the impact the pandemic had on banking sector operations. Thus, prudential supervision actions centred on important aspects

such as appropriate risk management by banks, the soundness of their capital positions, the sustainability of their business models as regards the sector's digital transformation process or the improvement of banks' governance. Numerous activities were also carried out in the framework of the supervision of institutions' conduct, in such diverse areas as consumer credit, real estate credit, the marketing of banking products through digital channels or the advertising of banking products and services. Lastly, a number of actions were performed relating to the supervision and oversight of market infrastructures, essential for the proper functioning of the financial system.

With the aim of improving our internal organisation and incorporating various measures to enable us to enhance our effectiveness, the Strategic Plan promoted the creation of an evaluation programme and its governance framework. During 2021, as part of this evaluation programme, a self-assessment exercise was performed by the Governing Council, aimed at jointly defining possible improvements and practices, which has resulted in a plan that will be reviewed and monitored. An external evaluation of the dissemination and publication of the Banco de España's economic and financial reports was also carried out. This evaluation was undertaken by three independent experts who were tasked with making recommendations for improvement.

To help advance the modernisation and digital transformation of our institution, major steps were taken in 2021 for the deployment of new robots to automate tasks, and a new cyber security framework was created to address the new cyber risks.

Also, to achieve our goal of being a leading central bank, we enhanced the availability of information for research by incorporating new databases into the Banco de España's Data Laboratory (BELab). New options were made available for researchers (for example, the opening of a data room at the Barcelona branch office) and collaboration with other government agencies for joint access to information was encouraged.

Other areas of activity in which our institution has proactively promoted a number of initiatives include environmental sustainability and financial education. Regarding the former, through internal initiatives (such as establishing a corporate sustainability policy) and also by looking at the potential impact of climate-related risks on financial

stability or economic growth. In the area of financial education, in addition to signing a new cooperation agreement for the Financial Education Plan, numerous activities were carried out targeted at the education community or banking product users and consumers.

I would also like to highlight the impetus the Bank gave in 2021 to activities in the context of institutional social responsibility and patronage, notably making our artistic heritage more accessible to the general public. A permanent exhibition space has been opened in the Cibeles building, the Bank's central offices in Madrid. This new exhibition gallery will allow for a variety of selected items from our artistic and documentary heritage and our bibliographic and numismatic collections to be displayed as part of a permanent exhibition programme. The inaugural exhibition "*2328 reales de vellón. Goya and the origins of the Banco de España's art collection*", was extremely well received by the general public.

None of this, or any of the other data and information found throughout this report, would have been possible without the valuable work of our employees, who have continued to accomplish the day-to-day tasks entrusted to them with their customary high level of efficiency and responsibility.

Although this report focuses mainly on 2021, I would also like to highlight a few more recent developments which will affect the way we work and the service we provide to society.

First, at the end of April 2022, the Governing Council approved the restructuring of the Banco de España's internal organisation with the creation of the new Directorate General Financial Conduct and Banknotes, which will combine functions that were previously performed by different organisational areas, and will also be responsible for the management and coordination of the activities of the Banco de España's network of branches located throughout Spain. The primary objective is to improve the Bank's ability to adapt to new trends, enhance its efficiency and bring value to society. In recent years, the use of cash by the general public has declined, a trend that has been compounded by the pandemic. At the same time, the crucial importance that good bank conduct with customers and enhanced general financial

literacy have for financial stability, for the sector's reputation and for confidence therein (the key to financial relationships) has become ever clearer. In response to this changing environment, the new internal organisation will enable us to better harness the synergies and the closer contact with the public provided by the branch network. Accordingly, without ceasing to perform cash-related functions, the Banco de España's branches will gradually refocus their activities to increase support for our work in the area of conduct supervision and financial literacy, ensuring they reach a wider audience.

Lastly, I wish to mention one of the key developments of recent months, given its major economic and social consequences, that is, the Russian army's invasion of Ukraine. Two years after the outbreak of the pandemic, the world economy has been hit by this extraordinary event. In addition to the human drama it poses for the people of Ukraine, the consequences of the invasion will foreseeably be global and extremely severe, for both the geopolitical and the economic and financial situation.

This new shock impacted the Spanish economy in a setting of gradual recovery, which was incomplete and uneven across sectors and continued to be influenced by the course of the pandemic and continuous upside inflation surprises. The invasion of Ukraine and the western authorities' reaction, which led to the imposition of unprecedented economic sanctions on Moscow, introduce a great deal of uncertainty which will have adverse consequences for economic activity and will generate increased inflationary pressures worldwide.

Our commitment as a Eurosystem central bank is to ensure fulfilment of the price stability mandate and to continue to perform our functions efficiently and responsibly to help minimise the negative impact that these events may have on the prosperity and well-being of Spanish society.

Pablo Hernández de Cos

Governor of the Banco de España