

APPEARANCE BEFORE THE PARLIAMENTARY COMMITTEE
ON ECONOMIC AFFAIRS AND DIGITAL TRANSFORMATION

CHALLENGES AND GOALS 2024-2030*

* English translation from the original in Spanish

JOSÉ LUIS ESCRIVÁ

GOVERNOR

21/11/24

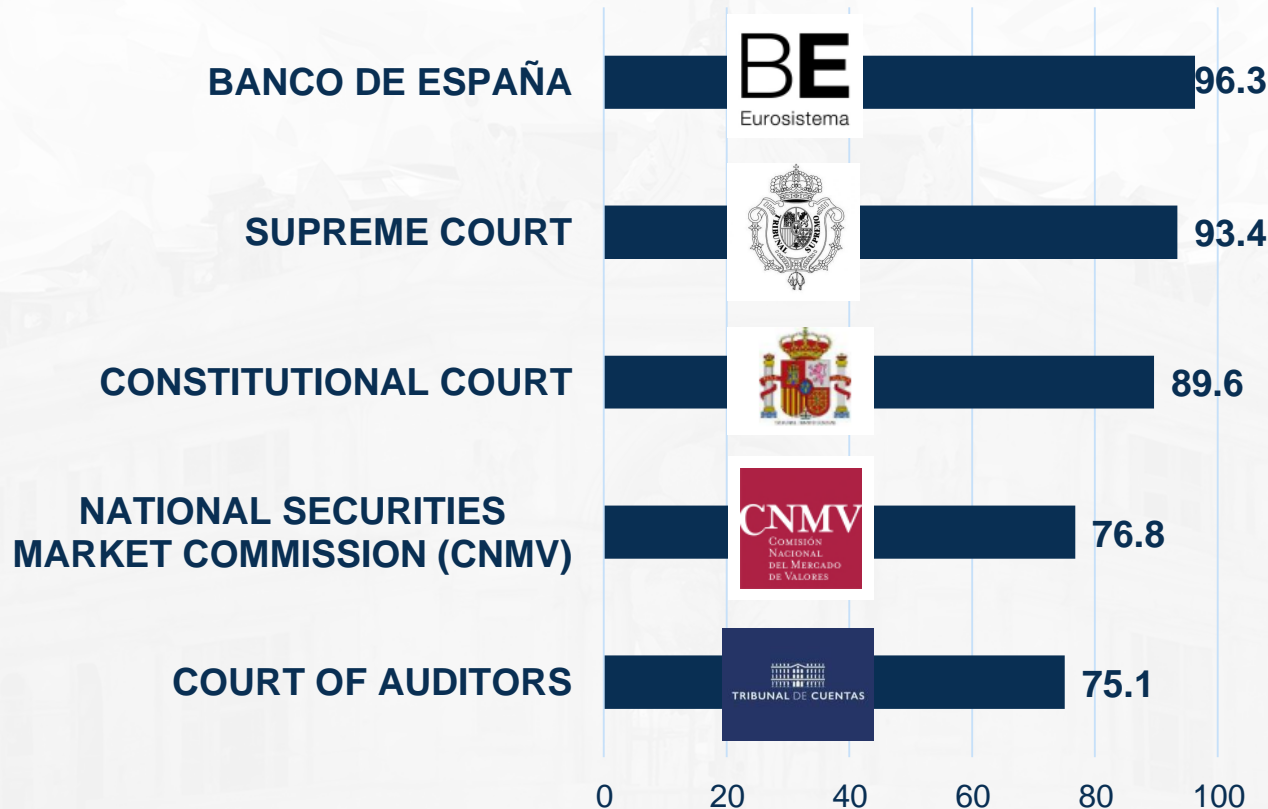
BANCO DE ESPAÑA
Eurosistema





The Banco de España is very well known on the outside ...

Level of awareness of Spanish public institutions (%)





... but less so on the inside;
surveys reflect a certain lack of awareness of our functions

The Banco de España's activity comprises the following 11 functions:

DESIGNING AND IMPLEMENTING MONETARY POLICY

1 Contributing to interest rate decisions

2 Instrumenting monetary policy

GUARANTEEING THE SOUNDNESS AND SOLVENCY OF THE FINANCIAL SYSTEM

3 Regulation

4 Banking supervision

5 Overseeing financial stability and designing and implementing macroprudential policy

6 Bank resolution

OVERSEEING THE CORRECT FUNCTIONING OF PAYMENT SYSTEMS

7 Payments

8 Cash

9 Protecting bank customers

10 Financial agent of the Treasury

11 Analysing the Spanish economy



We aim to improve how we perform our functions, with more:

DESIGNING AND IMPLEMENTING
MONETARY POLICY

GUARANTEEING THE SOUNDNESS AND
SOLVENCY OF THE FINANCIAL SYSTEM

OVERSEEING THE CORRECT
FUNCTIONING OF PAYMENT SYSTEMS

Efficiency and innovation

Openness, transparency
and accountability



⑨ Protecting bank customers

⑩ Analysing the Spanish economy

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Contributing to interest rate decisions

Monetary union (1999) →

Monetary policy decisions pass to the ECB →

**BANCO DE ESPAÑA
PARTICIPATION:**

LEVEL 1



The Governor takes part in the collegiate decision-making of the ECB'S GOVERNING COUNCIL:

- Decisions on key policy rates
- Decisions on the deployment of other monetary policy instruments

LEVEL 2

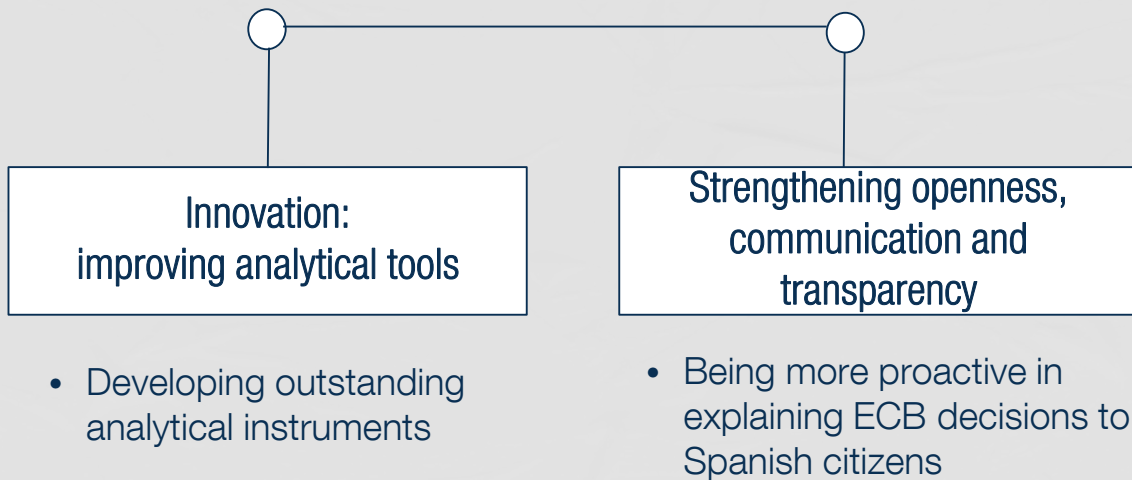


Banco de España staff on COMMITTEES:

- Preparatory work for European Central Bank (ECB) meetings
- Most importantly: the Monetary Policy Committee
- Numerous working groups => Several of which are led by Banco de España staff (monetary policy strategy review working groups, working group on econometric modelling (WGEM), the ChaMP research network on the challenges facing monetary policy transmission)



Challenges:



Instrumenting monetary policy



A

We are the “commercial banks’ bank”: we grant loans to them and open deposits for them for the purpose of implementing monetary policy in Spain (we also buy securities and demand collateral from them)



The Banco de España’s monetary policy portfolio amounts to almost **€600** billion (40% of GDP)

B

We manage Spain’s foreign reserves and gold reserves and perform delegated portfolio management for the ECB



Assets totalling some **€100** billion (7% of GDP)

Challenges:



Innovation: assessing firms

Extending the use of **in-house credit assessment systems** for Spanish firms:

- Using more bank loans as guarantees
- Improving funding conditions for SMEs, with greater branch office involvement

Openness and transparency: heeding sustainability concerns

- Taking account of the fight against climate change and efficient funding of the **green transition**

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Regulation and drawing up implementing legislation: what we do



- Contribute to the design of regulatory policies: **participating in international fora** at different levels:
 - ✓ **Global:** Financial Stability Board (FSB) and Basel Committee (BCBS)
 - ✓ **European:** European Banking Authority (EBA)
- **Advise the Government** in the formulation of regulations (at European and national level)
- **Draft implementing regulations** (Circulars)
- **Resolve queries** and **publish criteria** for interpreting regulations (49 queries resolved in 2024, on average in less than ten days)

Challenges:



- Contributing to the implementation of **prudential banking regulations**:



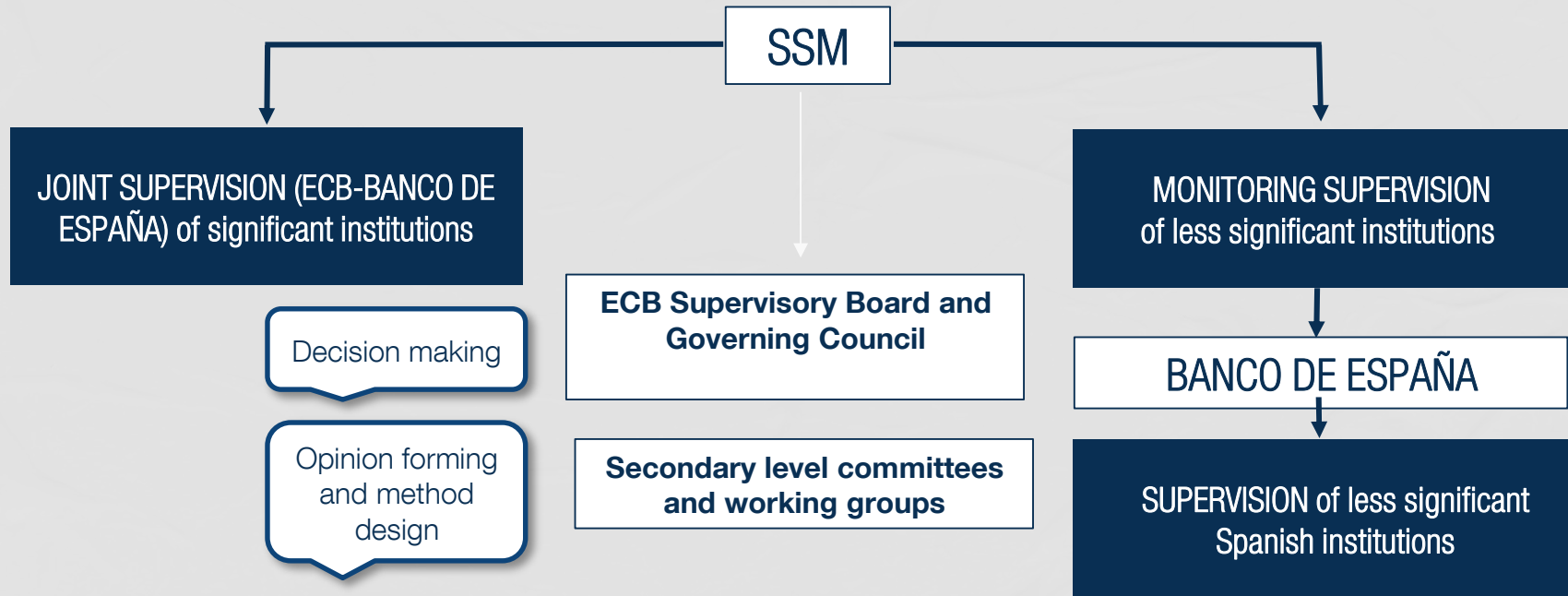
Implementation of CRR III, which implements the Basel III international framework in the wake of the global financial crisis



Transposition by the legislator of CRD VI, which strengthens prudential banking supervision and regulation

- Contributing to the **drawing up and implementation of regulations** to address **new challenges**:
 - ✓ **Regulatory perimeter** (relationship between banking and non-banking financial activities)
 - ✓ **Climate change**
 - ✓ **Crypto-assets** (MiCA Regulation)
 - ✓ **Operational resilience** (DORA Regulation)
 - ✓ **Artificial intelligence (AI)**

With the launch of the Single Supervisory Mechanism (SSM) in 2014, the banking supervision framework changed



Joint supervision of significant institutions

Spain has 10 significant institutions:

Santander
CaixaBank
Bankinter
Kutxabank
Cajas Rurales Unidas

BBVA
Sabadell
Unicaja
Abanca
Ibercaja



90% of banking system assets

WHAT DOES THE BANCO DE ESPAÑA DO?

- **2/3** of staff (149 in total) on joint supervision teams
- **3/4** of staff (93 in total) engaged in on-site inspections
- **Over 140 staff** on SSM horizontal teams, committees and working, development and support groups for the Banking Supervision Committee

Total: almost 400 staff dedicated to significant institutions



FUNCTION**4**

Direct supervision of less significant institutions and other activities

Less significant credit institutions (66)

Banks

20 with various business models (retail, private banking, export trade ...)

Savings banks

2 small ones engaged in commercial banking

Credit cooperatives

- SIP AECR (30 + Banco Cooperativo)
- Solventia (8 + Banco Depósitos)
- 4 independents: Caja Laboral, Eurocaja, Ingenieros and Guissona

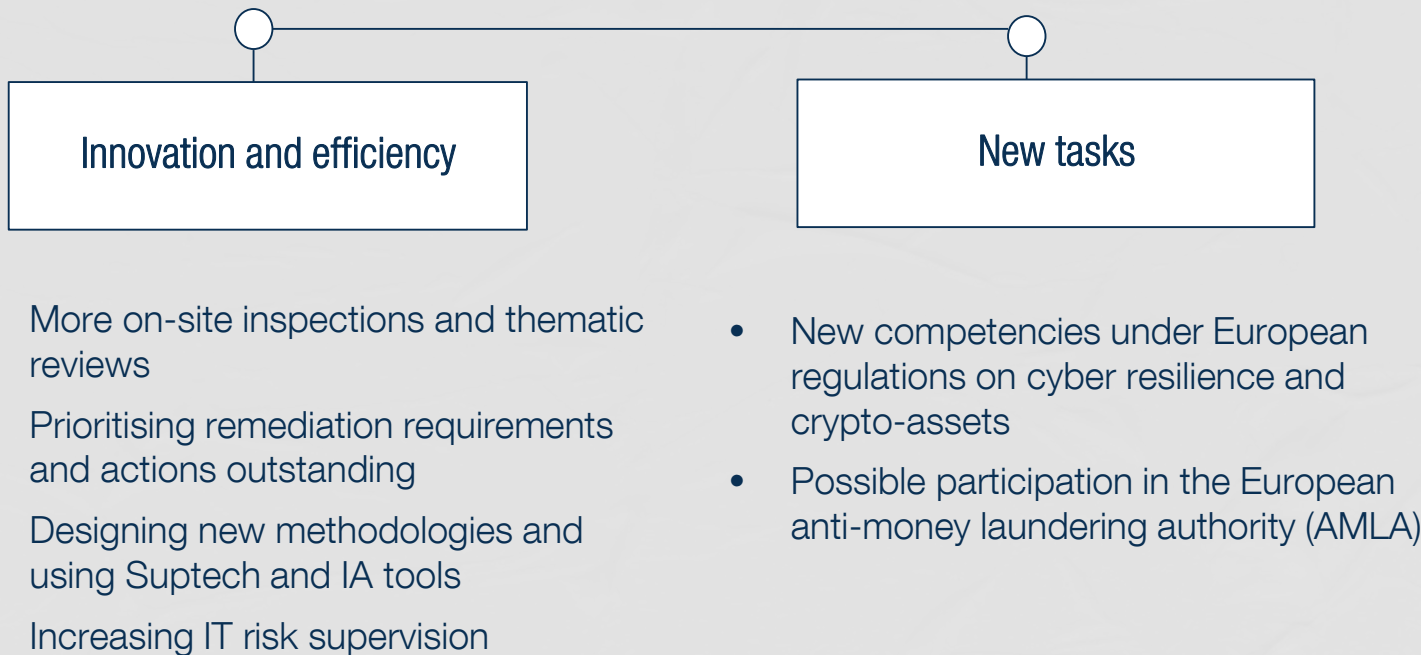
Other institutions and activities

- Specialised lending institutions, Official Credit Institute (ICO) and mutual guarantee schemes
- Payment and electronic money institutions and currency-exchange bureaux
- Appraisal firms and Sareb
- Money laundering in coordination with Sepblac
- Covered bonds and securitisations

We are a benchmark institution in credit and IT risk supervision



Challenges:



Financial stability: our work

Overseeing financial stability

Identifying and assessing **systemic risks** and their transmission channels



INSTRUMENTS

- **Early risk detection tools**
- **Risk transmission models and interconnections**
- **Macroprudential stress tests (FLESB)**
- ***Financial Stability Report***

Designing and applying macroprudential policy

- **Selecting, calibrating and, where appropriate, activating** the appropriate macroprudential instruments
- ✓ **New framework for setting the countercyclical buffer**, which envisages a buffer rate of 1% when cyclical systemic risk is at a standard level
- **Ex post assessment** of measures taken

Participation in the **Spanish macroprudential authority** (AMCESFI) and the **key European bodies**: the European Systemic Risk Board (ESRB) and the ECB, which can strengthen the measures adopted by national authorities



Challenges:

- **Developing risk indicators and the macroprudential framework:**
 - ✓ Tools that limit lending conditions that do not comply with prudent requirements
 - ✓ Systemic risk buffer to address risks associated with climate change, the structure of the banking system, sectoral financial imbalances, etc.
- **Strengthening the exchange of information at AMCESFI to oversee interconnections** with the non-bank financial intermediation sector and developing analytical tools (system-wide stress test)



Monitoring the effects of the flash floods: 11.7% of branches in the area affected are still non-operational



BRANCH OFFICES
IN AFFECTED AREA

298

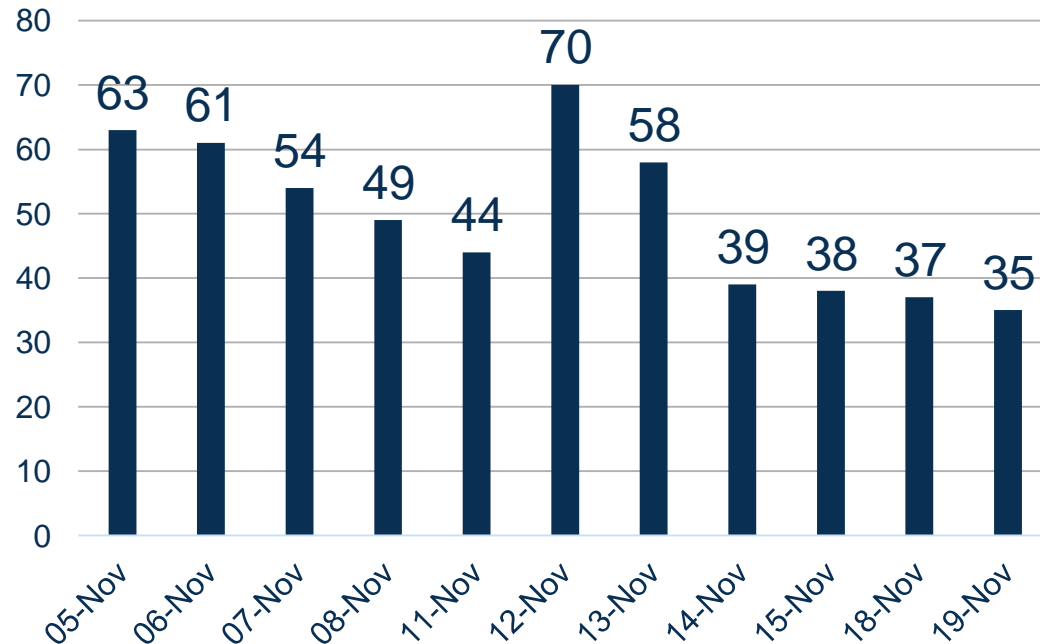
BRANCH OFFICES
NON-
OPERATIONAL

35

BRANCH OFFICES
NON-
OPERATIONAL

11.7%

Branch offices closed in the area affected

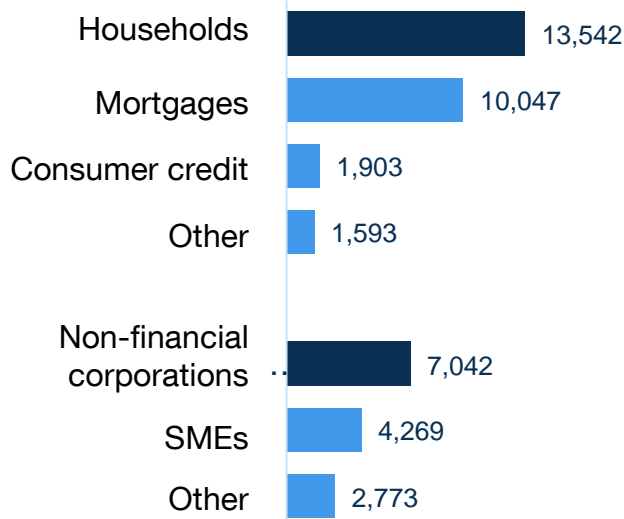


Source: Daily data from institutions

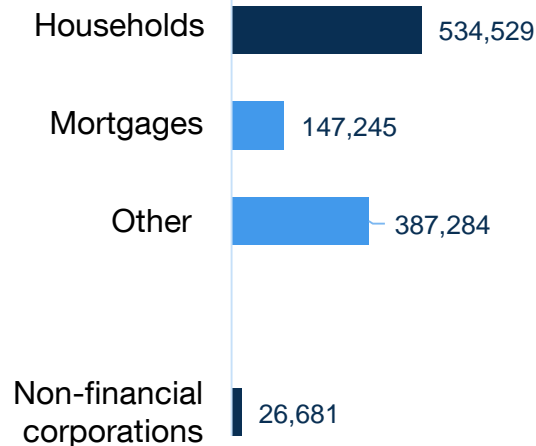
Total credit exposure in the area affected

€20,584 million: 1.8% of credit
Total credit exposure in the area affected

By sector



561,210
customers affected



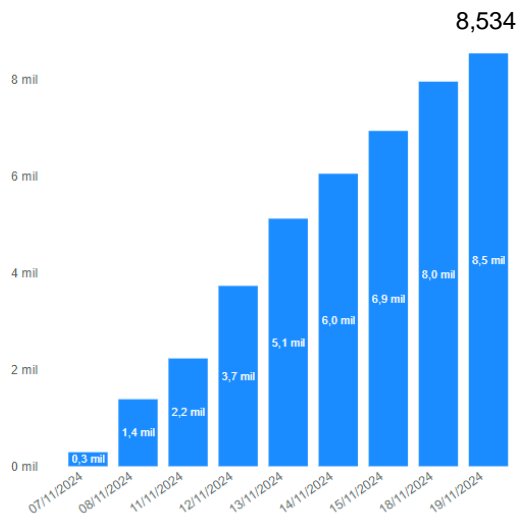
Source: Central Credit Register



We are also monitoring the measures deployed on a daily basis

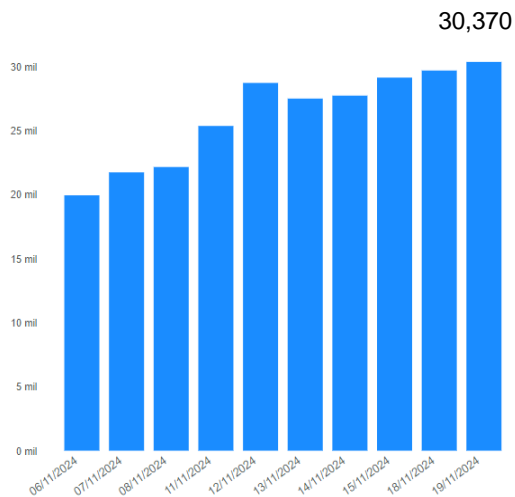
Loan moratoria

Cumulative requests for loan moratoria



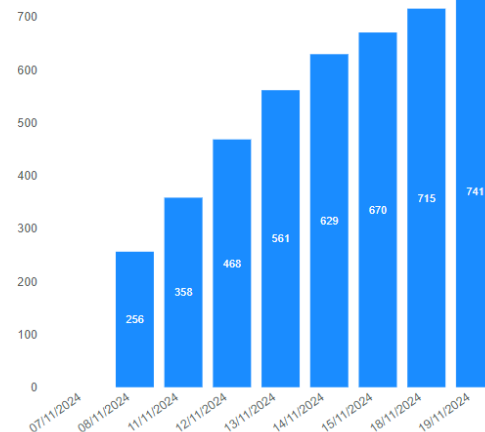
Insurance claims (Insurance Compensation Consortium)

Cumulative claims processed



ICO guarantees

Cumulative applications for ICO guarantees



Source: Daily data from institutions



Preventive resolution: our work

- **Drawing up and updating bank resolution plans**, preparing banks so that, should they fail, the situation can be ...

... resolved in an orderly manner

with no impact on financial stability

at no cost to the taxpayer

- **Determining and monitoring the necessary resources** that banks need to hold in order to be able to **absorb losses in the event of failure** (MREL and TLAC regulations)
- Monitoring and assessing **banks' funding conditions**
- **Participating in leading European and global fora**: Single Resolution Board (SRB), EBA and FSB



Challenges:

- **Defining and implementing a multi-year field assessment programme** on the efficacy of the plans and measures designed to guarantee banks' resolvability
- **Contributing to improving regulations and the institutional architecture:**



Completing the **Directive** on enhancing **crisis management** mechanisms and the use of deposit insurance (CMDI)

Creating a **European Deposit Insurance Scheme** (EDIS) and **strengthening liquidity support arrangements for banks under resolution**



Resolving:

The **regulatory gap** in terms of administrative **liquidation** processes tailored to **banks**

Unification of **bank resolution responsibilities** at the Banco de España, removing the current separation



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FUNCTION**7**

In the payments area we perform three functions:



Oversight

Ensuring that the Spanish and European INFRASTRUCTURE for wholesale payments (between financial intermediaries) and retail payments (between firms, households, general government ...) is FUNCTIONING CORRECTLY

Management

In WHOLESALE PAYMENTS, providing and managing (in a coordinated manner with other central banks) some of this infrastructure, particularly TARGET services

Supervision

In RETAIL PAYMENTS, supervising payment services PROVIDERS (banks, electronic money institutions ...) and overseeing that the payment instruments used (transfers, cards, debit entries ...) function correctly

Challenges:

In our services to citizens, we need to address the **rapid digitalisation** of means of payment safely and securely:

In domestic payments



Bizum:
2018: 2.5 million users
2024: 27 million users

In international payments



Digital euro project



Interconnection between
domestic or regional
payment platforms



Digital euro project timeline

January 2020

Creation of a high-level task force. Goals:

Analysis
Public consultation
Experimentation

October 2021

Investigation phase

Goals:

Design
Distribution
Prototypes

November 2023

Preparation phase

Goals:

Completion of design
Selection of providers

November 2025

Decision on move to next phase:

Developments for launch

We are here



Reasons to issue a digital euro



MONEY AS A PUBLIC GOOD

Providing an electronic version of cash that preserves the role of money as a public good in a digital world (versus risky private alternatives such as cryptocurrencies)

EUROPEAN MEANS OF PAYMENT

Providing citizens with a genuinely European means of payment that is available for use at any time, in any euro area country and in any kind of transaction (in-store or e-commerce)

PUBLIC-PRIVATE COLLABORATION

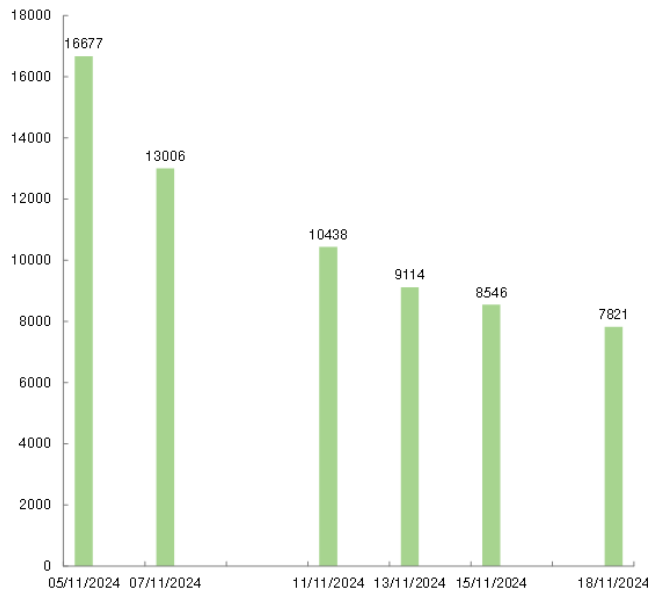
Encouraging innovation and efficiency in the European payment system, incentivising competition and private provision of complementary added-value services

In the area affected by the flash floods we are monitoring the impact on payments

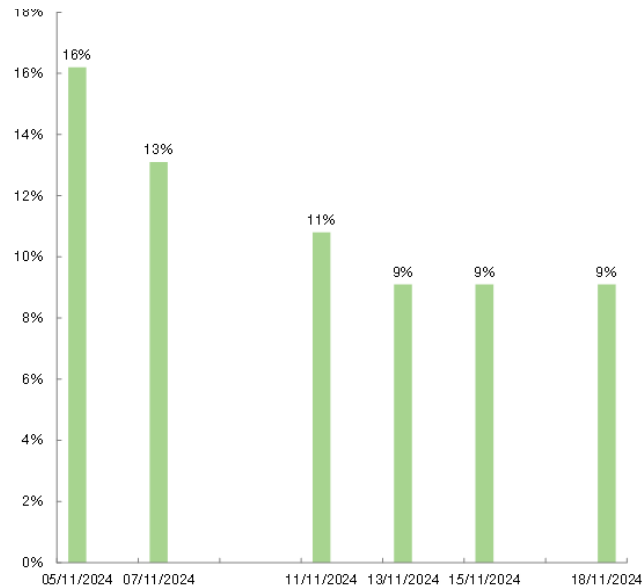


Impact on points-of-sale (POSs): 9% of POSs in the area remain non-operational

NON-OPERATIONAL POSs: TOTAL



NON-OPERATIONAL POSs AS A PERCENTAGE OF TOTAL IN AREA AFFECTED

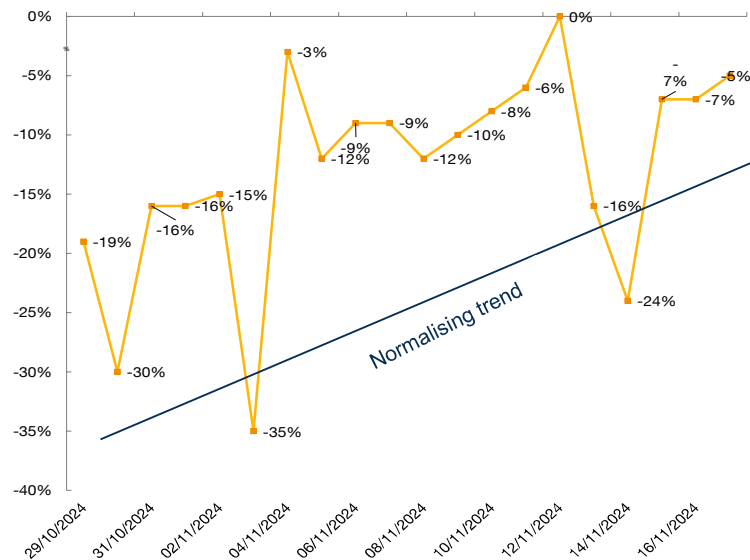


Source: Redsys. (1) Areas affected in Valencia (the worst-hit area), Albacete, Málaga, Cádiz and Seville

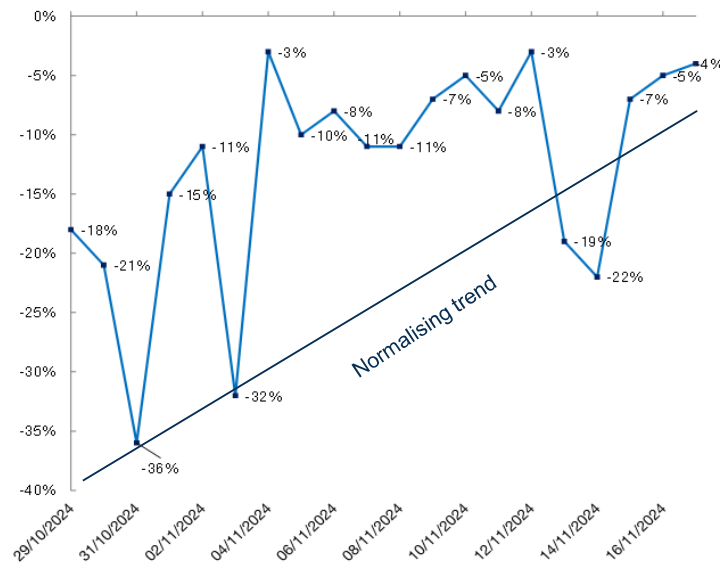
In the area affected by the flash floods we are monitoring the impact on card payments

The increase in **card payments** in the affected areas is lower than in the rest of the country (compared with the same day a year earlier)

Volume of payments



Number of transactions



Source: Redsyst

Functions in the area of cash



1) Issuance and circulation of banknotes



- In coordination with the ECB
- Pooling of banknote production via IMBISA-own resource
- 16 Banco de España custody and distribution centres + 42 auxiliary deposit system (SDA) operational centres
- Ensuring good quality, genuine banknotes (fight against counterfeiting)

Ensuring that cash is available: in normal situations and in response to a crisis (e.g. flash floods)



2) Circulation of coins

(issued by the Treasury)



Banco de España branch offices



Cash custody and distribution centres



Challenges:



Technological innovation

- Participating in the development of the new ES3 banknote series
- Fomenting the provision of CashTech services and statistical data to other central banks
- New uses of AI (counterfeit banknote sorting, banknote printing, chatbot ...)

Optimisation

- Optimising the new banknote production plant
- Modernising cash management logistics

We have set in motion a fast-track procedure for exchanging cash damaged in the flash floods and ongoing monitoring of cash distribution



Credit institutions

- A fast-track **procedure** for **exchanging damaged banknotes** has been put in place

Banco de España branch office in Valencia

- **Fully operational**, with all employees coming to work
- Calm situation. **Footfall is still low**, with few damaged banknotes being exchanged
- The first **damaged banknotes from credit institutions** were deposited on 15 November. **To date, the value of damaged banknotes amounts to €1,405,000** (43,000 banknotes)

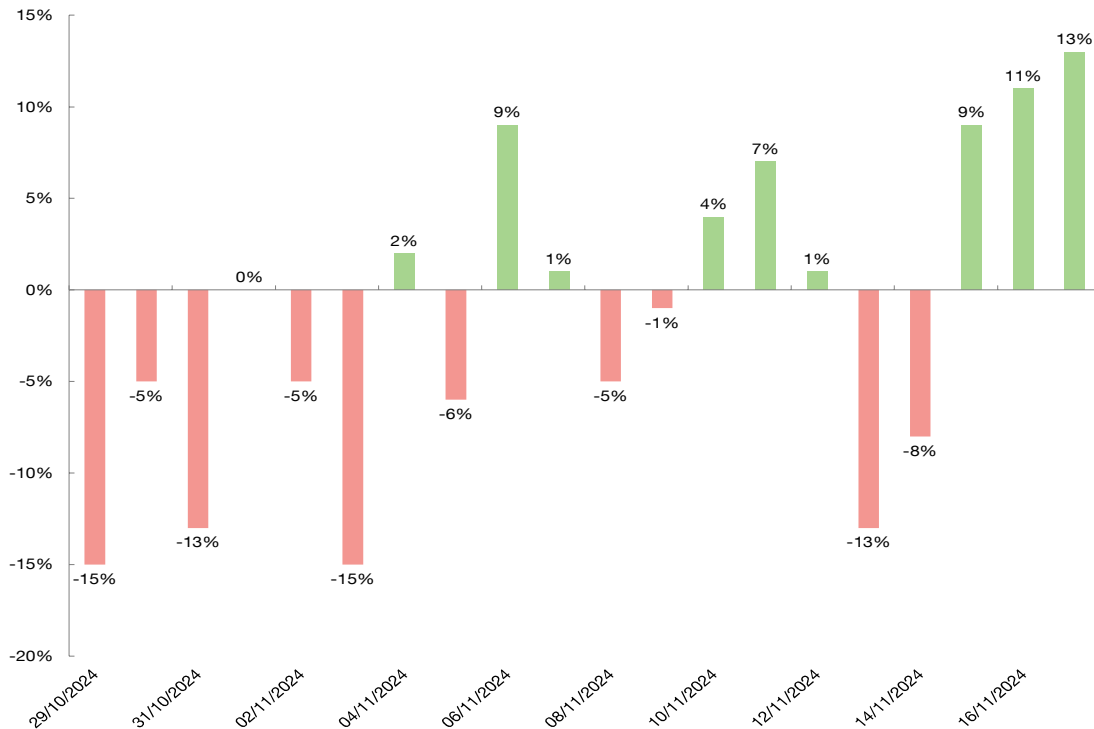
Cash-in-transport companies (CITs)

- **Loomis and Prosegur** are **fully operational**, with 100% of their ATMs in good working order

Impact on ATM cash withdrawals



The increase in the affected areas is lower than in the rest of the country
(compared with the same day a year earlier)



Source: Redsys

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Protecting bank customers

Banking supervision Preventive / ex ante

- Verifying that bank customers receive fair and transparent treatment in accordance with customer banking regulations, through:
 - Drawing up implementing regulations (Circulars)
 - Reviewing advertising and settling complaints
 - **Responding to 50,000 queries**
- Growing supervisory field

1,067 institutions

**New types: loan
servicers or
consumer credit
institutions**

Complaints Corrective / ex post

- **Settling disputes** between banks and their customers

**Over 33,000 complaints
settled per annum in recent
years**



**New draft legislation assigns this function to
the Financial Ombudsman Service**

Need for coordination => The Banco de España will still be responsible for:

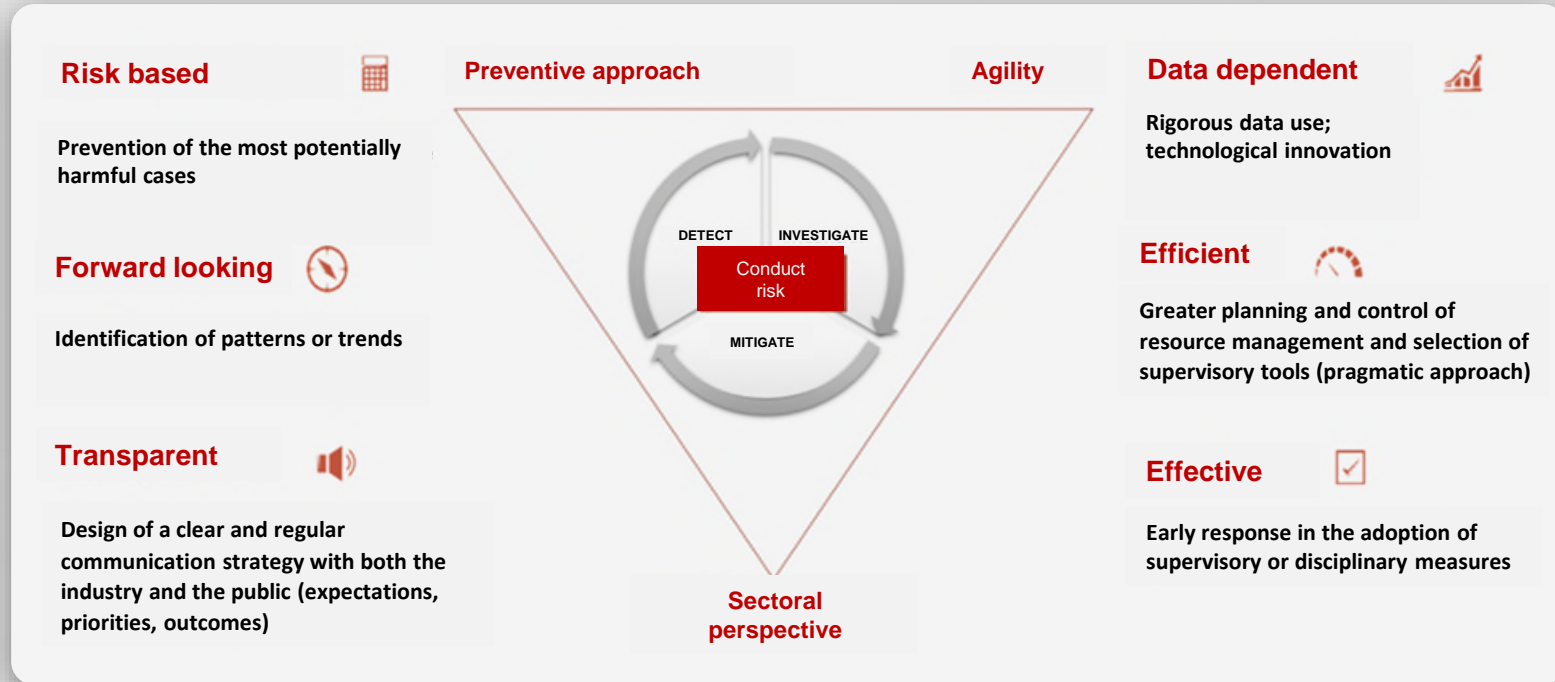
- Supervision
- Defining best practice criteria



Challenges:



- **Cultural shift:** from a compliance-based approach to a forward-looking, preventive and risk-based approach



- **Challenges:** sufficient consideration of growing functions; supervision acting as a customer in disguise

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Financial agent of the Treasury and other institutions



The Banco de España manages the accounts that the Treasury and other public institutions use to make and collect payments

Over 700 accounts

Over 40 million transactions per year

The Banco de España manages public debt issuance and, through its headquarters and branch offices, sells public debt directly to the public

Issuances amount to over €250 billion per year

Over 200,000 “direct accounts” (x40 in two years)

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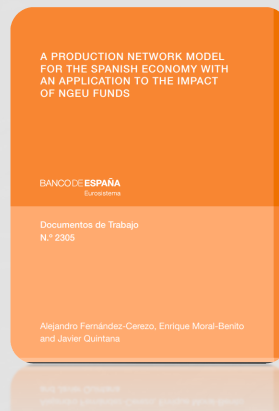


FUNCTION**11**

We analyse the Spanish economy in our own publications and research

Regular reports and own publications

- Annual Report (1)
- Quarterly reports (4)
- LatAm reports (2)
- Reports on the financial situation of households and firms (2)
- Financial Stability Reports (2)
- Survey of Household Finances (1 report every 2 years)
- Economic Bulletin articles



Economic research

Third European central bank by number of publications (IDEAS/RePEc)

In 2024:
Working Papers (43)
Occasional Papers (34)
Numerous publications in economics and finance journals

Blog posts (38 since the blog was launched in 2023)

REGULAR REASSESSMENT OF ANALYTICAL PRIORITIES TO FINE TUNE THE RESEARCH FOCUS

FUNCTION**11**

We also collaborate with other Spanish and international institutions



With the Ministry of Economic Affairs, Trade and Enterprise and the Tax Revenue Service



Training and research programmes



Forum on business competence



Programmes with multilateral institutions
(European Commission, IMF, World Bank, OECD ...)

Eurosystem research networks:
Household Finance and Consumption Network

REGULAR REASSESSMENT OF ANALYTICAL PRIORITIES TO FINE TUNE THE RESEARCH FOCUS

Challenges:

Deepening our analysis of the Spanish economy

- **Multidisciplinary approach** (since 2020, bringing in data scientists; intensifying our regular collaboration with experts in political science, energy, etc.)
- **Broadening analysis of global trends** (digitalisation, demographics, migration, geopolitical fragmentation, climate transition, health crises ...)

Improving our projections for the Spanish economy

- Greater transparency in our projection exercises and documentation on how they are prepared

Increasing our capacity for real-time analysis of the economic situation

- Using more high frequency data (for instance in the case of the flash floods)

Strengthening our collaboration with other institutions

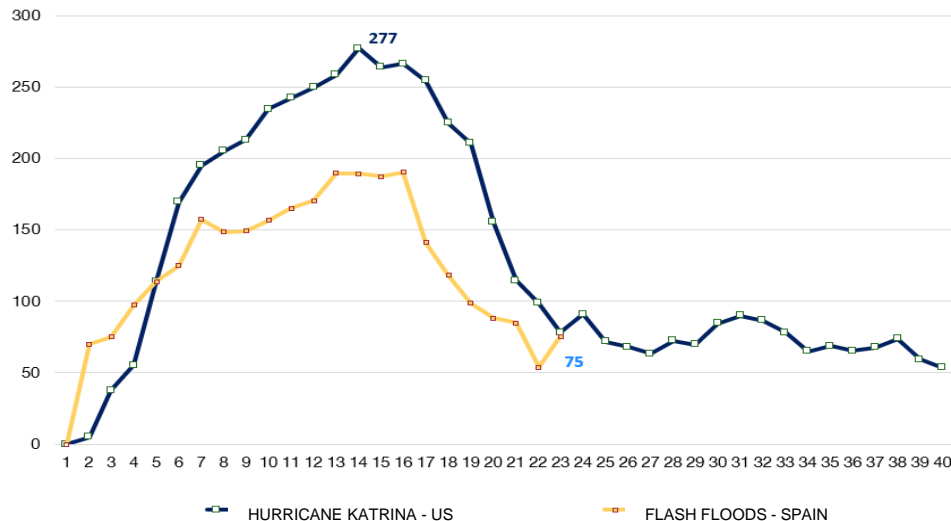
- Through agreements, MoUs ...
- Granting researchers access to our data (BeLab)
- Strengthening networks with international institutions



After the flash foods we have monitored the situation to assess the impact on the economy

The supply bottlenecks index shows a strong initial impact followed by gradual easing

Supply bottlenecks index: in the United States after Hurricane Katrina and in Spain after the flash floods



If the current pattern continues (in line with Hurricane Katrina, although slightly less extreme), the estimated impact **is around -0.2 pp in the quarterly growth rate in Q4 and +0.15 pp in the CPI**

Source: Banco de España. Burriel, Kataryniuk, Moreno-Pérez and Viani (2024). 15-day moving average. Latest observation: 20 November.

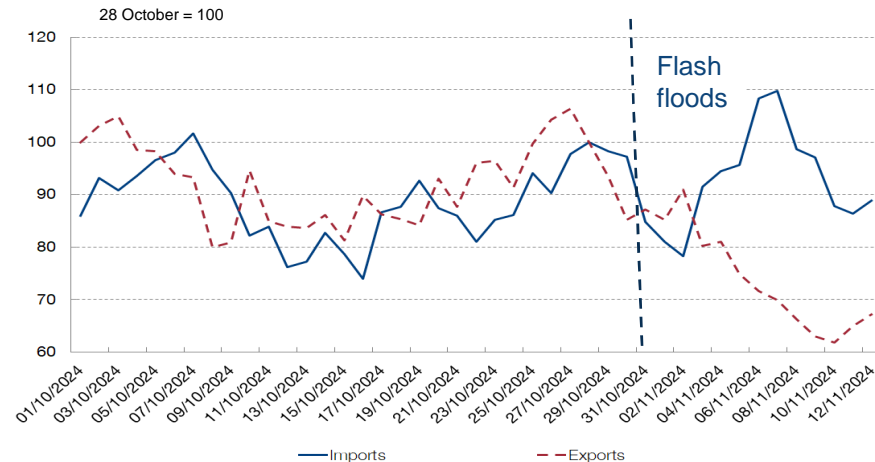


An example of data monitoring: port traffic. Impact on exports and more robust imports

Daily port activity data show a significant drop in the volume of exports from the Port of Valencia, while imports are more resilient

The Valencia Port Authority has asked the logistics sector to prioritise services imports as much as possible, to avoid the breakdown of corporate and industrial supply chains

Port of Valencia: import and export volumes
(14-day moving average)



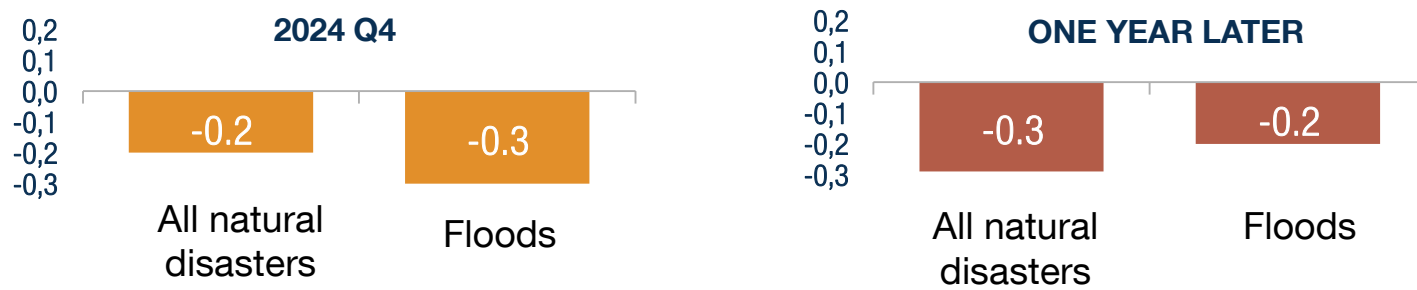
Sources: UN Global Platform and IMF PortWatch
(portwatch.imf.org). Latest observation: 12 November.



After the flash floods we have monitored banks' performance closely

- The potential **impact of natural disasters is estimated using data from the last 23 years**: 115 events, including 52 floods, which led on average to 32 casualties
- **The estimates are subject to a high degree of uncertainty** but, based on previous weather-related events, **the estimated impact on GDP is -0.2 pp in 2024 Q4, remaining negative for one year**

Impact of natural disasters on estimated GDP



The public is at the heart of all our functions

DESIGNING AND IMPLEMENTING
MONETARY POLICY

GUARANTEEING THE SOUNDNESS AND
SOLVENCY OF THE FINANCIAL SYSTEM

OVERSEEING THE CORRECT
FUNCTIONING OF PAYMENT SYSTEMS

Protecting
purchasing power

Protecting savings
and preventing crises

Overseeing
payments and cash

Combating bad
practices

Improving competition
in the debt market

Identifying areas for
improvement and
offering advice

PROTECTING BANK CUSTOMERS

FINANCIAL AGENT OF THE TREASURY

ANALYSING THE SPANISH ECONOMY



In addition, we have embraced two features that are increasingly significant for central banks

DESIGNING AND IMPLEMENTING
MONETARY POLICY

GUARANTEEING THE SOUNDNESS AND
STABILITY OF THE FINANCIAL SYSTEM

OVERSEEING THE CORRECT
FUNCTIONING OF PAYMENT SYSTEMS

Sustainability

Payments

1 Participating in international
decisions

2 Instrumenting monetary policy

4 Banking supervision

8 Cash

Financial inclusion and
social cohesion

9 Protecting bank customers

10 Analysing the Spanish economy



The new Environmental, Social and Governance Office illustrates our commitment to sustainability



Aim: structured, strategic and coordinated focus on the tasks performed by the Banco de España from the perspective of ESG concerns

Important: it reports directly to the **Deputy Governor**

We support social cohesion by backing financial inclusion



CURRENT FUNCTIONS

FRAMEWORK: Strategic Protocol to Strengthen the Banking Sector's Social and Sustainable Commitment

The sector is committed to taking steps to improve service in rural areas and for elderly people

- Resolving complaints => tackling banks that fail to explain reasons for not adopting measures
- Drafting an annual report (December 2024)

POSSIBLE FUTURE FUNCTIONS

FRAMEWORK: Draft legislation creating the Financial Ombudsman Service

Early stages of personalised banking services => strategies to preclude the exclusion of certain groups

- The Banco de España will **SUPERVISE** banks' compliance
- Additional reports and scheduled appearance of the Governor every two years

To better carry out our functions and perform our tasks, we are drawing up a new Strategic Plan

- Focused on **transforming** the **organisation** internally, boosting **talent** and **technology**
- Bolstering **cross-cutting areas** to enhance internal coordination and improve external impact, empowering our branch offices



The new Strategic Plan launches in 2025

Transformative

Focused on technological, cultural and structural changes to drive far-reaching and long-lasting impacts

Cross-cutting

Involving all the Bank's areas and staff in its design and implementation

Transparent

Committed to enhanced communication inside and outside the Bank



Strategic Plan 2025-2030 for:

Talent
echnology
ransformed organisation

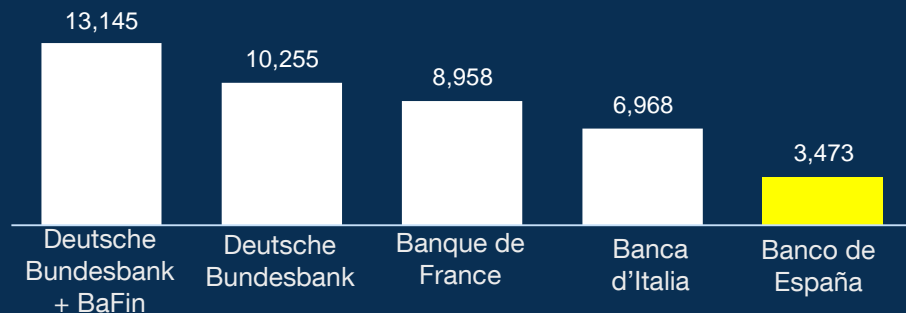


Talent: we must strengthen human capital in certain functions

Our staff count is well below that of the other comparable central banks in the Eurosystem

We will push forward with regular **selection processes** for a great number of openings and cut the number of temporary staff (currently 14%)

Employees of Eurosystem national central banks in 2023



The spotlight will be on the **expansion of technological roles** to drive innovation and data use: the Banco de España contributes 10% of the ECB's capital key, but has just 5% of the technological resources

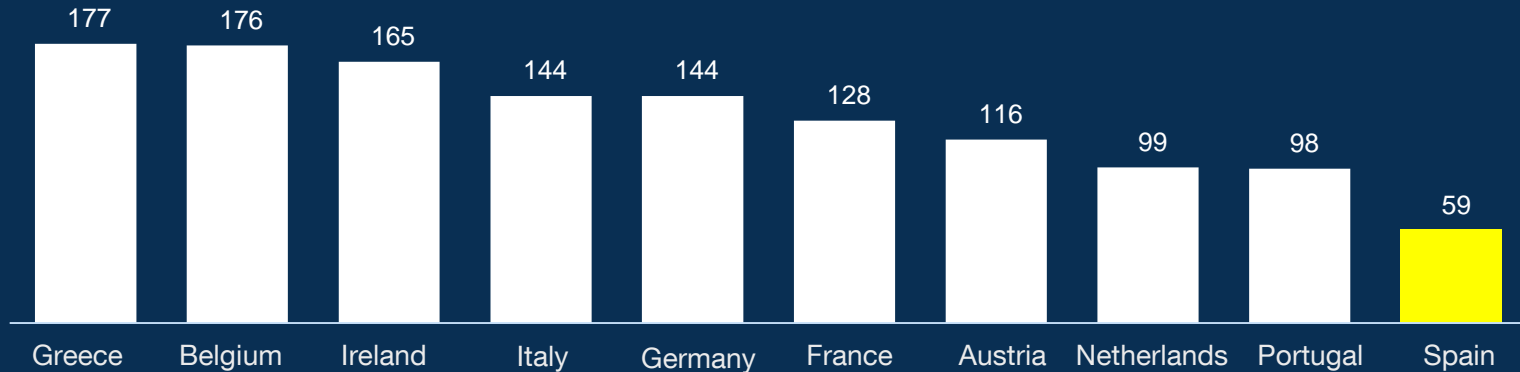


We must seek to balance efficiency and effectiveness

The Banco de España has the largest gap of any Eurosystem central bank between its actual operating costs and the level warranted by its capital key

This means that while we are the “most efficient” central bank, we are less able to respond to the challenges ahead

National central banks' operating costs relative to the size of their economy in 2023*



*Measured as capital key = GDP + population. Including only banks with a capital key greater than 2%

We want to be at the forefront of technological innovation, especially in terms of using AI

An internal and cross-cutting working group on AI has been created and is now active

SCOPE

- Market oversight authority (EU AI Act): microprudential supervision and conduct
- Efficiency and improvement of multiple internal processes
- Use cases in various Banco de España functions: monetary policy, banknote printing, operations, etc.

LEVERS

- Training and attracting staff specialising in AI
- Growing our computational capabilities
- Agreements with third parties and coordination with other supervisors (AESIA, ECB, CNMV)

We are committed to ethical AI and financial inclusion

Transformed organisation: restructuring to bolster internal coordination and improve external relations

New Directorate General
Institutional and European
Relations and Transparency

Directorate General Strategy,
People and Data focused on
innovation

Restructured General
Secretariat with new
coordination functions

AIMS:

**Improve coordination across the
different areas of the Bank**

**Centralise efforts relating to the
Strategic Plan**

**Strengthen the communication channels
with the public and other national and
international institutions**



Our external relations could be improved ...



Source: Sigma 2. Jun-Jul 2024

... which is why we want to cultivate openness and transparency





To do so, we want to improve ties with the outside world and demonstrate our usefulness

Improving our relationships with economic and institutional agents

- More public appearances
- Analysing the entry of technology stakeholders in banking and payment activities
- Fostering international cooperation, especially with Latin America

Improving accessibility for the public

- Centralised and easy access to ensure close attention to and clear communication with the public
- Publication of studies on financial inclusion

New communication channels aimed at non-expert audiences

- Promoting the use of audiovisual content
- Fostering new communication channels with the public

Reinforcing financial and economic education

- Signing a new Financial Education Plan (2025-2029)
- Better protecting the public against unauthorised institutions

We will also foster greater awareness of our historical-artistic heritage

Supporting work to conserve and share our heritage:

- Improving our art collection's website
- Continuing to hold temporary exhibitions
- Broadening the range of guided tours around our famous buildings



We have a network of 15 branch offices across the country that will benefit from this transformed organisation



SOURCE: Banco de España.

Core functions:

- Cash

Strategic functions:

- Institutional activities
- Outreach
- Financial education

Other functions:

- Complaints
- Risk information
- Direct accounts for public debt
- Collaboration with general government



We intend to make more and better use of our branch offices



Refurbishing and opening up spaces for use

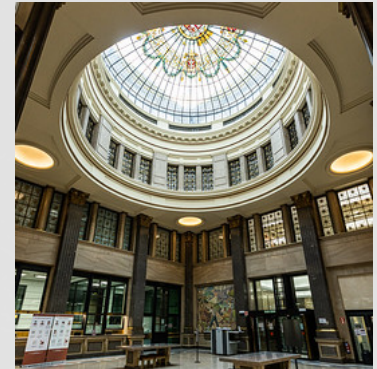
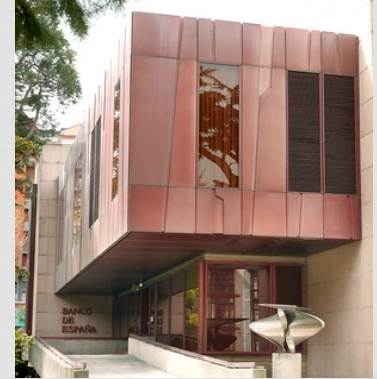
New functions:
decentralisation

Flexible structure and
bolstering of human capital

Modernising management
and internal process



Greater appreciation of our countrywide cultural heritage



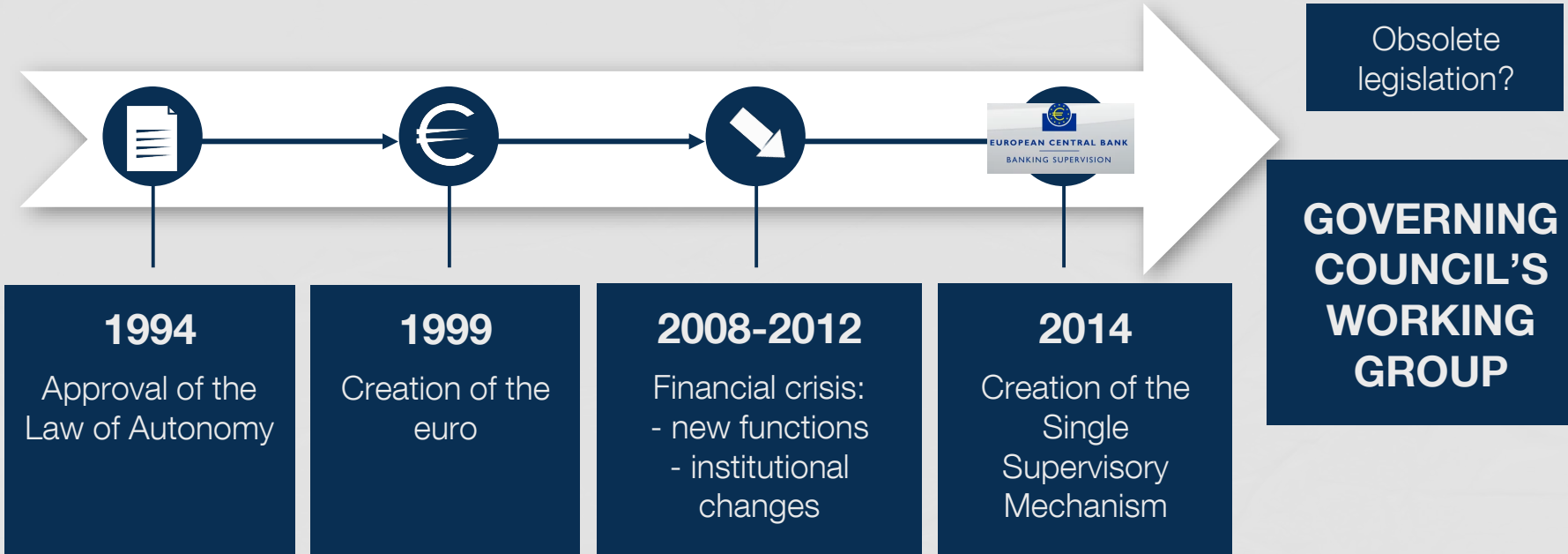


All of our functions and
challenges revolve around:

- Independence
- Evaluation



The world has changed a great deal in the last 30 years,
which is why we should review Law 13/1994



Our peers



Spain

- **Law 13/1994 of Autonomy**, no major changes since 1998
- **Internal regulations** drafted in 2000



Italy

- **Banca d'Italia** law reformed four times since 2005
- **New Statute** approved in 2022



France

- **Monetary and Financial Code** governing the Banque de France, reformed eight times since 2000

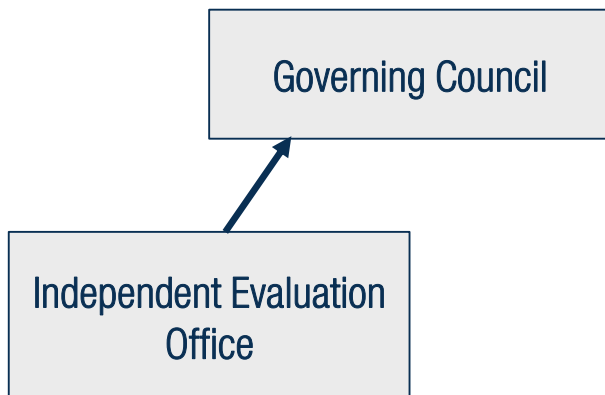


Germany

- Deutsche Bundesbank's current **organisational statute** approved in 2016
- Executive Board's **code of conduct** approved in 2023 and in force since 1 January

We have overhauled and strengthened the Independent Evaluation Office

Now reports directly to the
Governing Council



More ambitious action plans

- Fully integrated into medium-term budget planning
- Combination of early-stage evaluations and assessments of consolidated functions
- Annual evaluation plan



Thank you