



## PRESS RELEASE

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### The Banco de España reported a profit of zero in 2024

The Banco de España ended the financial year with zero profit, after releasing €7,549 million from provisions for financial risks to offset operating losses, as explained in its [Annual Accounts](#), published today. As occurred last year, these temporary operating losses were due to the change in the monetary policy stance from 2022 on to combat inflation. The Banco de España had sufficient financial buffers in 2024 and also in 2023, when it used provisions for financial risks to cover losses amounting to €6,612 million, thanks to its provisioning and profit distribution policies of prior years.

The recent course of the profit and loss account owes to the conduct of monetary policy – always aimed at ensuring price stability –, which has also had the effect of shrinking the Banco de España's balance sheet. When the European Central Bank (ECB) began hiking rates swiftly in mid-2022 to tame inflation (ten consecutive hikes), this had an immediate effect on the cost of liabilities, as these were mostly sight liabilities. However, the yield on assets did not adjust to the higher market rates to the same extent, as these assets were largely made up of securities acquired at a time when yields were low and maturities long in a setting of non-standard monetary policy with strong deflationary pressures. This led to a negative net interest gap.

Despite the decision to cut interest rates in mid-2024, this mismatch between the yield on assets and the cost of liabilities remained in 2024, given that the average deposit facility rate was 42 basis points higher than a year earlier, while the yield on assets remained at levels only slightly higher than in 2023.

The sharp increase in key interest rates from June 2022 to September 2023 (450 basis points), in response to rising inflation, had an impact on the bottom line of all Eurosystem central banks. The ECB recorded losses of €7,944 million in 2024 and of €7,886 million in 2023 (before the release of the general risk provision).

It is essential to bear in mind that Eurosystem central banks' losses are exceptional and temporary, and are incurred as a result of the monetary policy pursued to maintain price stability in the euro area. This policy is designed without taking into account the impact it may have on central banks' performance, since making a profit or a loss does not affect their ability to conduct monetary policy effectively. It is estimated that net income will increase steadily, as the gradual withdrawal of excess liquidity will reduce interest expenses. Moreover, with the normalisation of the balance sheet, income from lending operations is also expected to grow in the medium and long term. The Eurosystem's net income is therefore expected to return to positive territory over time, shored up by other assets that accrue interest, along with non-interest bearing liabilities, such as banknotes.

The Banco de España is expected to report a profit again in the short term (it recorded average annual profits of €2,116 million from 2014 to 2022), as long as the normalisation of monetary policy continues. In any case, the remaining financial risk provisions remain high, meaning that the Banco de España's financial soundness is not threatened.

The current make-up of the balance sheet reflects the implementation of monetary policy in recent years, which took varying approaches and had multiple targets in response to the significant economic challenges that arose during that time. After 2008, monetary policy became accommodative in an attempt to stimulate the economy in an environment of protracted economic frailty brought on by the global financial crisis, which was followed by the debt crisis and then the COVID-19-related crisis. Owing to the non-standard measures employed to address these unprecedented challenges, including the granting of long-term loans to credit institutions and the purchase of securities under the monetary policy portfolios, the Banco de España's balance sheet expanded significantly, as did those of other Eurosystem central banks.

In mid-2022, having overcome these crises and facing rising inflation, the ECB implemented a new strategy that was characterised by the gradual normalisation of monetary policy, raising key interest rates and adjusting various other parameters of monetary policy operations. This resulted in a passive strategy, as assets bought under the non-standard monetary policy during the previous expansionary phase were not renewed upon maturity. The Banco de España's balance sheet, therefore, saw a sharp decline in 2022 and 2023 (-9% and -11%, respectively), mainly owing to the maturity and early repayment of a large portion of the targeted longer-term refinancing operations with credit institutions (TLTRO III). The normalisation of the balance sheet continued in 2024, although the reduction (-4%) was smaller than in the two previous years.

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For further information: Tel. +34 91 338 5044 / 6097 / 5318 / 8839 / 6175 / 4397 / 5936 | [www.bde.es](http://www.bde.es) Email: [comunicacion@bde.es](mailto:comunicacion@bde.es)

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