



# Spain:

## Macroeconomic and financial outlook

**CaixaBank Research**

July 2021

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## Activity

- ▶ **The recovery intensified in June.** The rapid pace of vaccination since April and the removal of mobility and activity restrictions has been accompanied by a rapid bounce back in activity that strengthened in June following the reactivation of tourist related sectors.
- ▶ **Contagions are increasing but impact is expected to be muted.** The Delta variant has triggered a new bout of contagions, particularly among those under 30s. However, the stress induced on the health system is forecast to be limited as the high-risk group of population is already vaccinated, vaccines appear to be effective to prevent severe symptoms and the deployment of vaccines to the remainder of the population is progressing fast.
- ▶ **Tourist activity should pick up in coming quarters.** Progress with vaccination is expected to contribute to a strong pick-up in tourism activity during the Summer (we expect it to be about 30% below pre-covid levels). In addition, the recovery plan financed with European funds should boost growth by c.1pp (based on an execution rate of c.50% of the government's plan).
- ▶ **The central scenario is under revision,** awaiting for further clarity regarding the evolution of epidemiological data, the extent of the rebound in consumption and the strength of the tourist season kick-off.

## Banking sector

- ▶ **The banking system is facing the crisis from a solid financial position, with enough reserves to cover risk and contribute to the recovery.** Loan moratoria are expiring without a significant increase in NPLs, while stage 2 exposures of guaranteed loans remain contained. Grace periods of guaranteed loans will expire in 2022, once the economic recovery is well under way. First signs of a rebound of activity in mortgages (exceeding pre-covid levels) and consumption loans.

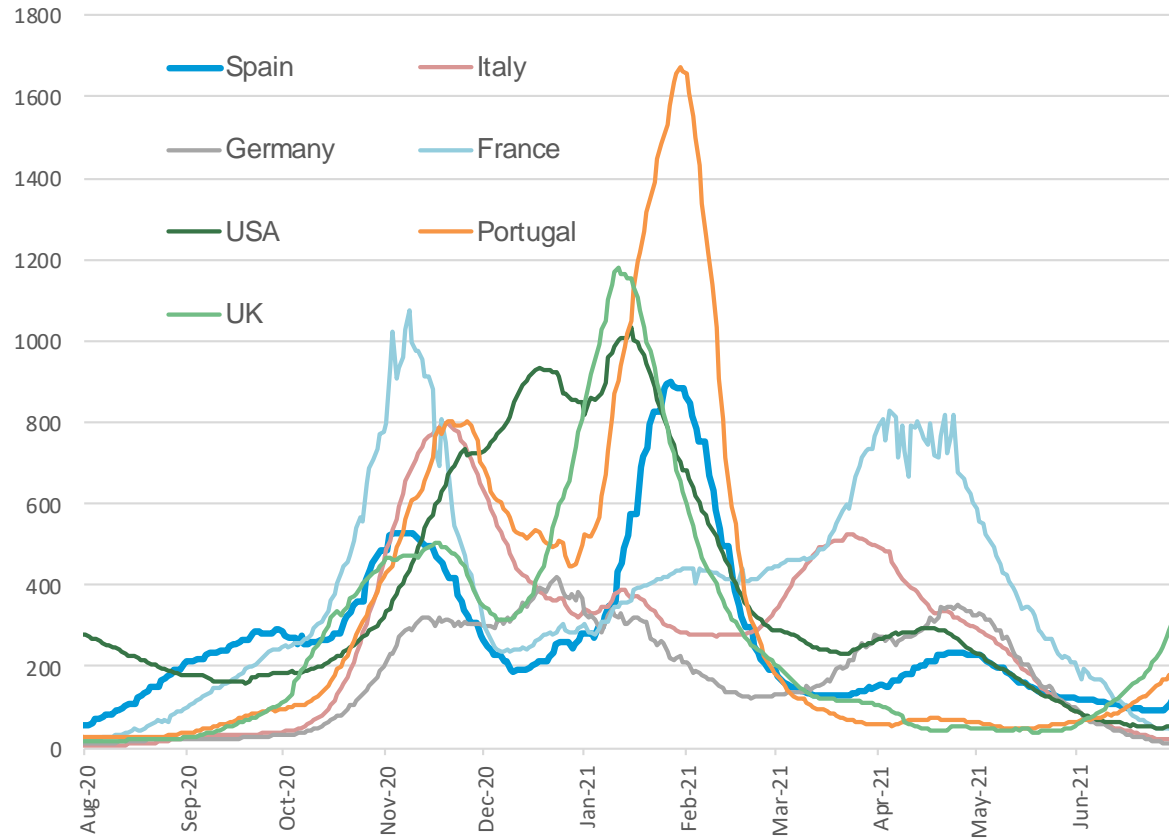
## Policy

- ▶ **Domestic restrictions have mostly been removed.** The night curfew and mobility restrictions across regions have been withdrawn, although other restrictions, such as limits to capacity, remain in place. Regional governments are responsible for tightening or easing restrictions. Restrictions to international mobility are the main hurdle that prevent full normalization of economic activity.
- ▶ **The policy response is offering significant support to the economy** with a portfolio of direct measures, tax deferrals and public guarantees. Furlough schemes (which have been extended until the 30<sup>th</sup> of September) are proving very effective in cushioning the shock. The government also approved last March an aid package of c.1.0% of GDP for the most affected sectors encompassing direct transfers and other solvency support mechanisms (debt restructuring and capital injections).
- ▶ **The government funding needs should be covered without difficulties,** helped by ECB purchases, plenty of liquidity available and low interest rates. Public debt stands at c.120% of GDP (30pp in the hands of the ECB).
- ▶ **The Government has revised its projections and now envisages a decline in the fiscal deficit to 8.4% in 2021** (2020: 10.1% excluding Sareb one-offs), reasonably close to our own projection. For next year, the Stability Plan forecasts a deficit of 5.0% without measures (which have not been specified yet), which appears optimistic (GDP growth of 7% seems high). NGEU spending targets are ambitious: above 2% of GDP in 2021 and 2022.

# Delta variant unlikely to induce severe stress on the health system

## COVID-19 cumulative incidence

Infections per 100k inhabitants accumulated in 14-day



### 14 days cumulative incidence\*

	01-jul	24-jun	
Andalusia	166	167	↓
Aragon	91	82	↑
Asturias	98	73	↑
Balearic Islands	114	48	↑
Canary Islands	129	102	↑
Cantabria	218	107	↑
Castilla La Mancha	55	61	↓
Castilla Leon	111	70	↑
Catalonia	238	110	↑
C. Valenciana	121	43	↑
Extremadura	95	61	↑
Galicia	64	43	↑
Madrid	92	77	↑
Murcia	62	56	↑
Navarre	96	99	↓
Basque Country	112	98	↑
La Rioja	130	136	↓
<b>Spain</b>	<b>134</b>	<b>93</b>	<b>↑</b>

### ICU occupancy rates (COVID)

	30-jun	23-jun	
Andalusia	6%	7%	↓
Aragon	6%	8%	↓
Asturias	4%	4%	=
Balearic Islands	4%	2%	↑
Canary Islands	5%	5%	=
Cantabria	1%	1%	=
Castilla La Mancha	7%	7%	=
Castilla Leon	8%	11%	↓
Catalonia	10%	11%	↓
C. Valenciana	2%	1%	↑
Extremadura	2%	2%	=
Galicia	1%	2%	↓
Madrid	13%	15%	↓
Murcia	1%	1%	=
Navarre	5%	7%	↓
Basque Country	8%	9%	↓
La Rioja	15%	9%	↑
<b>Spain</b>	<b>6%</b>	<b>7%</b>	<b>↓</b>

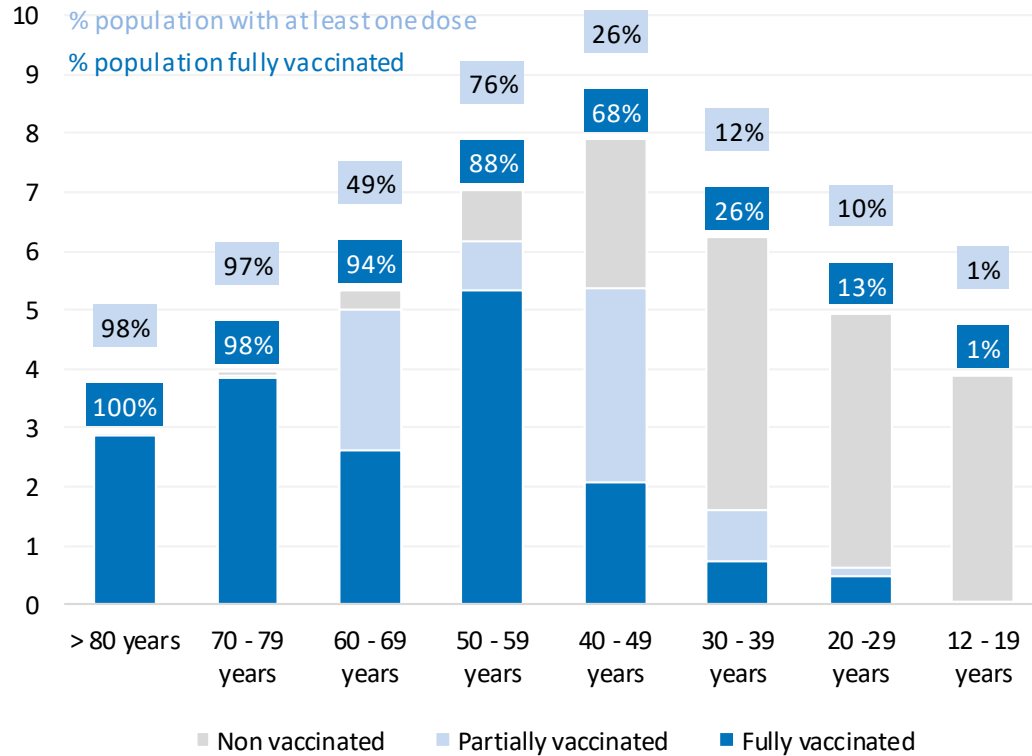
Notes: \* COVID-19 infections per 100k inhabitants accumulated in 14 days.

- ▶ **14-day cumulative incidence in Spain increased to 134 cases per 100k inhabitants** on July 1<sup>st</sup>, due to a significant increase in contagions among population aged below 30, which are the least vaccinated age group. However, pressure on the Health System remains moderated in almost all regions (6% of ICU beds are occupied by COVID-19 patients in Spain). Vaccination proceeds rapidly and at the prevailing rate over 70% of the population will be vaccinated in August.
- ▶ **The Delta variant is causing a new wave of contagions in the UK despite a large share of the population has already been vaccinated.** The Delta variant is very contagious among partially vaccinated people (effectiveness against contagion of AstraZeneca's first dose is 33% and Pfizer's is 50%). Nevertheless, there has not been an increase in hospitalizations of COVID patients in the UK as one dose vaccine is still very effective against severe cases (AstraZeneca avoids 71% of severe cases and Pfizer 94%). On the other hand, full vaccination appears to be almost as effective to prevent contagion and develop severe symptoms against the Delta variant as against the Alfa one.

# Vaccination proceeds rapidly

## Vaccinated population by age

Million of inhabitants

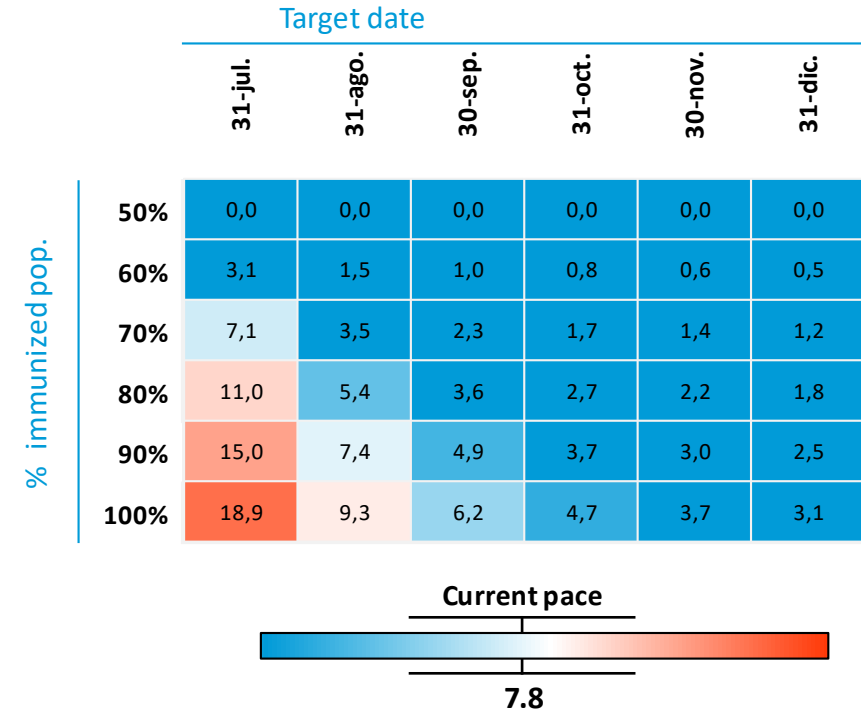


**Key take-away:**

Risk groups have already been vaccinated and inoculations are progressing fast among people between 30-49. The 60-69 age bin group is expected to be fully vaccinated in the coming weeks.

## Vaccination pace for pop. > 16 years old

Millions of weekly doses



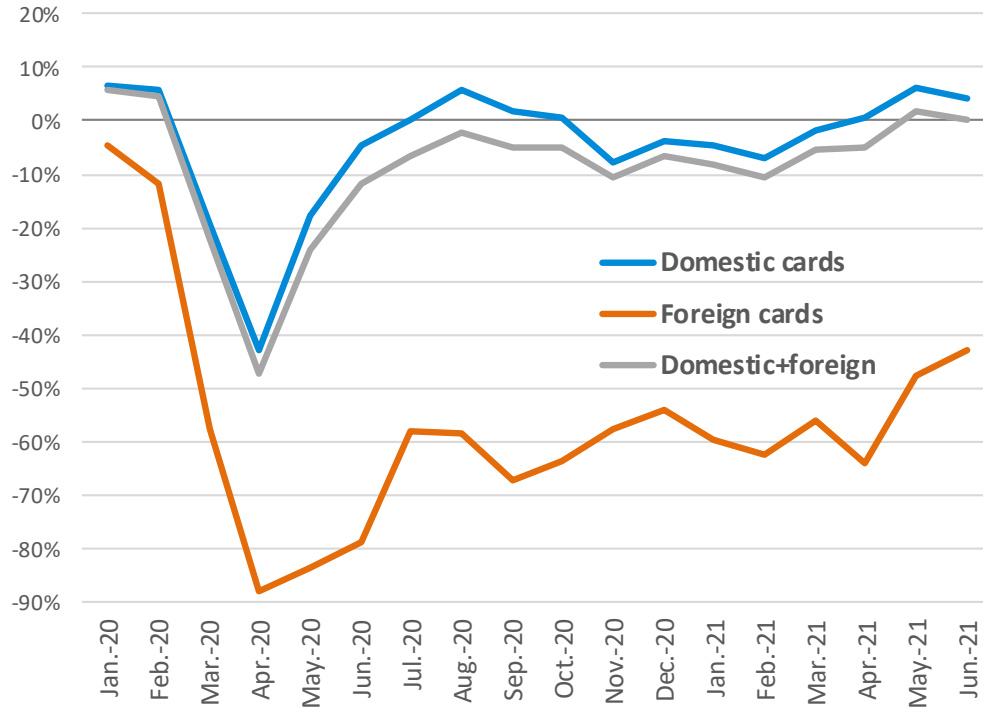
**Key take-away:**

At the prevailing rate, 70% of the population above 16 years will be vaccinated by the end of July.

# Activity bounced back in Q2

## Card activity (point of sale + e-commerce + ATMs)

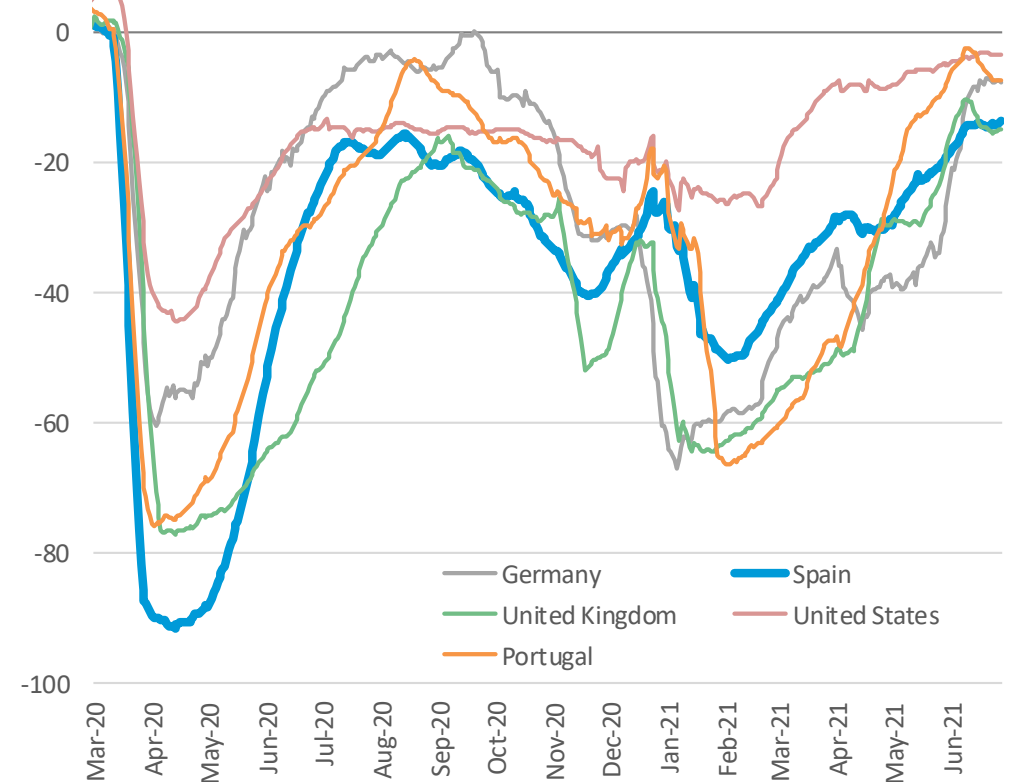
Year-on-year change (%)



**Notes:** From the second week of March onwards, the yoy rate is computed using the level of the same week of 2019 adjusted by the average yoy growth of February 2020.

## Population mobility: retail and recreation places

Deviation from base level (%)



- ▶ **CaixaBank card data points to a rapid recovery of consumption.** Following a dip in Q1 2021 where expenditure declined 8% yoy, card activity recovered swiftly in Q2 and almost reached pre-crisis levels (-1% yoy). The bulk of the recovery was due to the domestic expenditure component, although foreign expenditure picked up substantially in June, which bodes well for the upcoming tourist season. Along the same line, mobility indicators are at their highest level since the pandemic began.
- ▶ **The recovery intensified in June.** Both manufacturing and services PMI continue to reach new historical highs, sitting at 60.4 and 62.5 points in June, respectively (highest readings since April 1998 and March 2000, respectively). Most importantly, June labor market data came back roaring on the back of the reactivation of tourist related sectors. Workers registered to the Social Security System increased by 233k, the highest increase in a month of June, and workers on a furlough scheme decreased by 84k (now remain 460k workers in ERTE). In year-on-year terms, correcting for base effects and excluding furloughed workers, employment declined 4.3%, substantially below the previous month's rate (-5.5%).

# Activity monitor



Year-on-year change (%)

Domestic cards activity<sup>1</sup>

Foreign cards activity<sup>1</sup>

Goods Exports<sup>2</sup>

Cement<sup>2</sup>

New registrations of passenger cars<sup>2</sup>

Electricity consumption<sup>2</sup>

Industrial production<sup>3</sup>

Retail Sales<sup>3</sup>

Registered employment<sup>3,4</sup>

	Domestic cards activity <sup>1</sup>	Foreign cards activity <sup>1</sup>	Goods Exports <sup>2</sup>	Cement <sup>2</sup>	New registrations of passenger cars <sup>2</sup>	Electricity consumption <sup>2</sup>	Industrial production <sup>3</sup>	Retail Sales <sup>3</sup>	Registered employment <sup>3,4</sup>
Q1 2020	-2.5	-26.3	-3.0	-13.4	-31.0	-2.6	-6.6	-3.7	-1.4
Q2 2020	-22.9	-83.8	-27.7	-23.2	-67.7	-12.7	-24.2	-18.3	-19.0
Q3 2020	2.3	-60.6	-5.7	-2.1	-6.3	-3.8	-5.2	-3.5	-7.2
Q4 2020	-3.5	-59.2	-2.3	-0.3	-12.7	-1.1	-2.0	-3.0	-5.9
Q1 2021	-4.5	-59.5	-0.4	-3.1	-38.7	-2.4	-1.5	-6.5	-6.4
Q2 2021	3.7	-51.6			-27.9	-2.8			-5.3
April	0.6	-64.0	4.3	-1.5	-34.2	-3.5	-0.1	-4.6	-6.1
May	6.1	-47.8		3.5	-24.1	-2.6		-5.0	-5.5
June	4.3	-43.0			-25.8	-2.2			-4.3

**Note:** (1) From the second week of March onwards, the yoy rate is computed using the level of the same week of 2019 adjusted by the average yoy growth of February 2020. (2) From March 2021 onwards, the yoy rate is computed relative to 2019 values. (3) From March 2021 onwards, the yoy rate is computed using the level in the same month of 2019 adjusted by the average yoy growth of January-February 2020. (4) Monthly average figures. It does not include workers affected by a furlough scheme.



Rate >= avg. prev. quarter

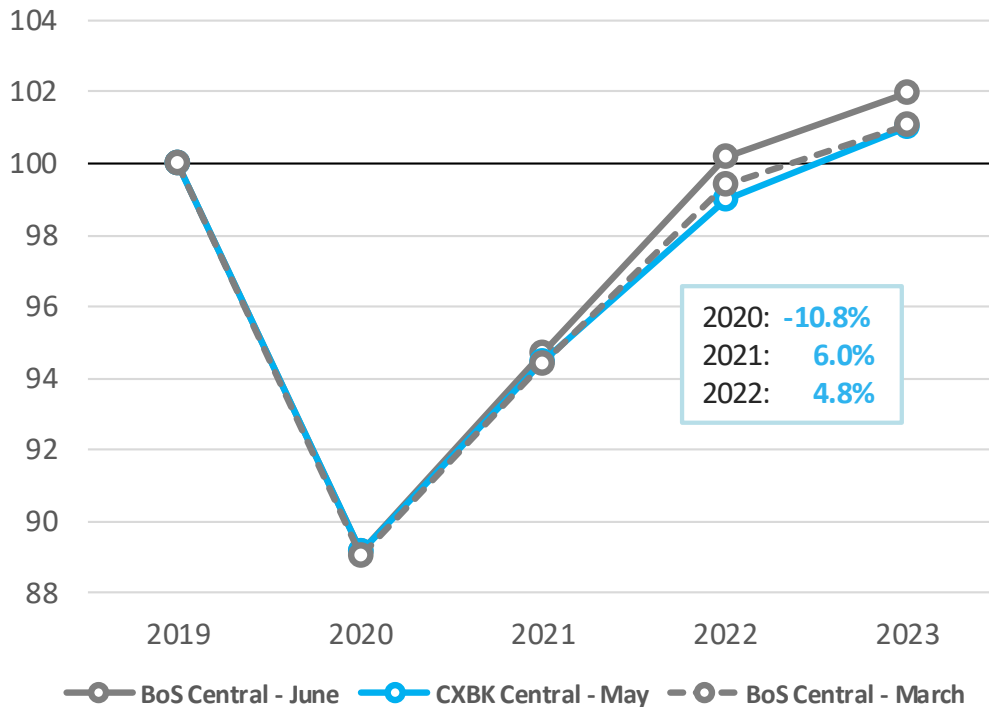


Rate < avg. prev. quarter

# The recovery is forecast to intensify during the second half of the year

## GDP projections: comparison Bank of Spain vs CXBK

Index (Q4 2019 = 100)



## Analysts' forecasts

GDP ( $\Delta$  %)

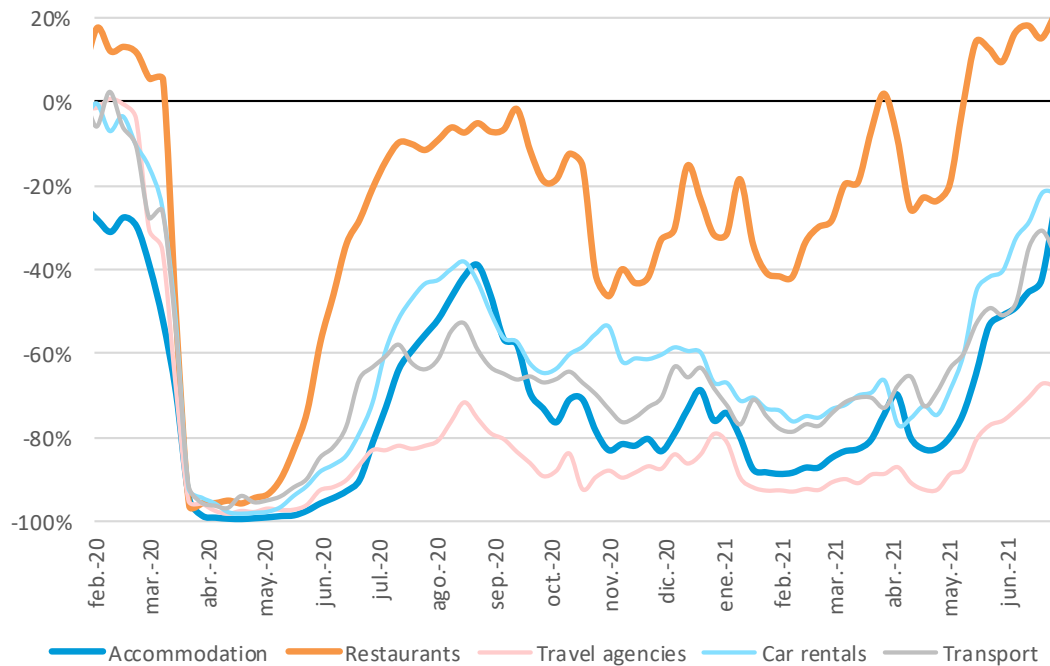
	2020	2021	2022	Cum. 20-22
<b>Government</b> (April 09)	-10.8	6.5	7.0	1.6
<b>European Commission</b> (May 12)	-10.8	5.9	6.8	0.8
<b>AFI</b> (as of May)	-10.8	6.4	5.8	0.4
<b>Funcas</b> (May 13)	-10.8	6.0	6.2	0.4
<b>OECD</b> (May 27)	-10.8	5.9	6.3	0.4
<b>Bank of Spain</b> (June 14)	-10.8	6.2	5.8	0.2
<b>Panel de Funcas</b> (May 20)	-10.8	5.8	5.7	-0.3
<b>Consensus forecast</b> (May 10)	-10.8	5.5	5.7	-0.7
<b>IMF</b> (April 06)	-11.0	6.4	4.7	-0.8
<b>CaixaBank Research</b> (March)	-10.8	6.0	4.8	-1.0

- ▶ **The rapid deployment of vaccines is supporting a recovery of activity in Q2 2021, which will intensify in H2.** In addition to medical advances, economic activity will also be supported in H2 by the execution of the European recovery plan (which we conservatively estimate could boost growth next year by more than 1pp based on an execution rate of c.50% of the government's plan).
- ▶ The Delta variant is triggering a new bout of contagions, particularly among those under 30s. However, the stress induced on the health system will be limited as the high-risk group of population is already vaccinated, vaccines appear to be effective to prevent severe symptoms and the deployment of vaccines to the remainder of the population is progressing fast. As a result, the need for stringent restrictions will be diminished.
- ▶ **Bank of Spain recently revised the macroeconomic projections upwards.** GDP now reaches pre-crisis levels in 2022 rather than 2023, as in previous forecast from March.
- ▶ **We are keeping forecasts unchanged until next month,** to better evaluate the evolution of epidemiological data, to gauge the extent of the rebound in consumption and to calibrate the tourist season kick-off. On another note, the Government recovery plan has received the approval of the European Commission, a positive milestone, and now needs to be ratified by the European Council, which appears to be very likely.

# Tourism could recover swiftly as vaccination progresses

## Card activity (point of sale) in tourism related businesses

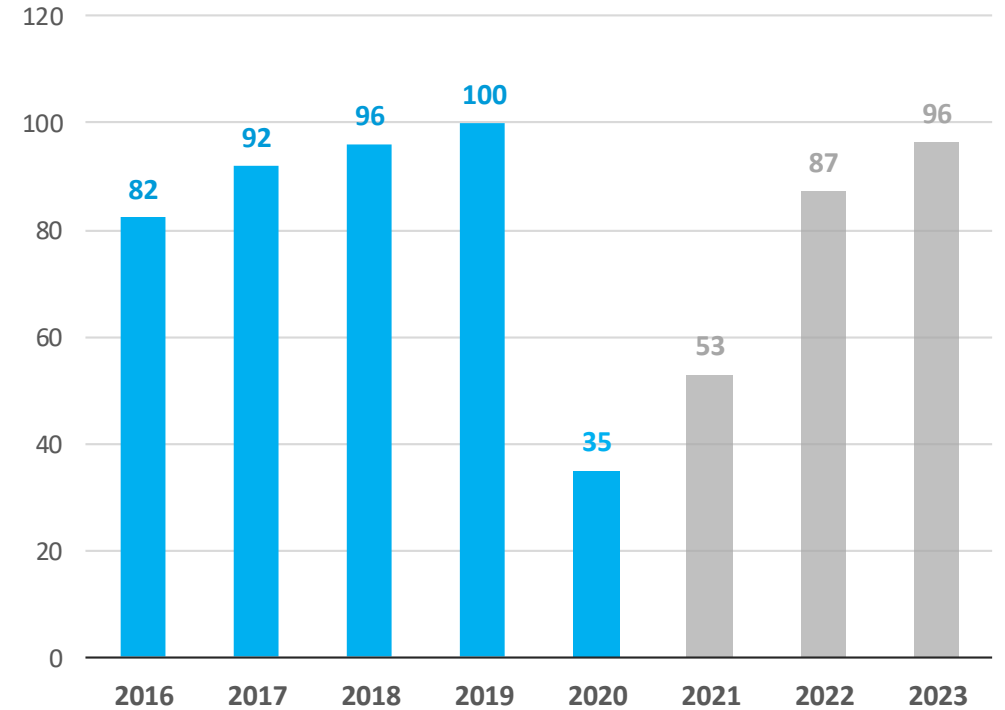
Year-on-year change (%)\*



Notes: \*From the second week of March onwards, the yoy rate is computed using the level of the same week of 2019 adjusted by the average yoy growth of February 2020.

## Tourism GDP forecasts

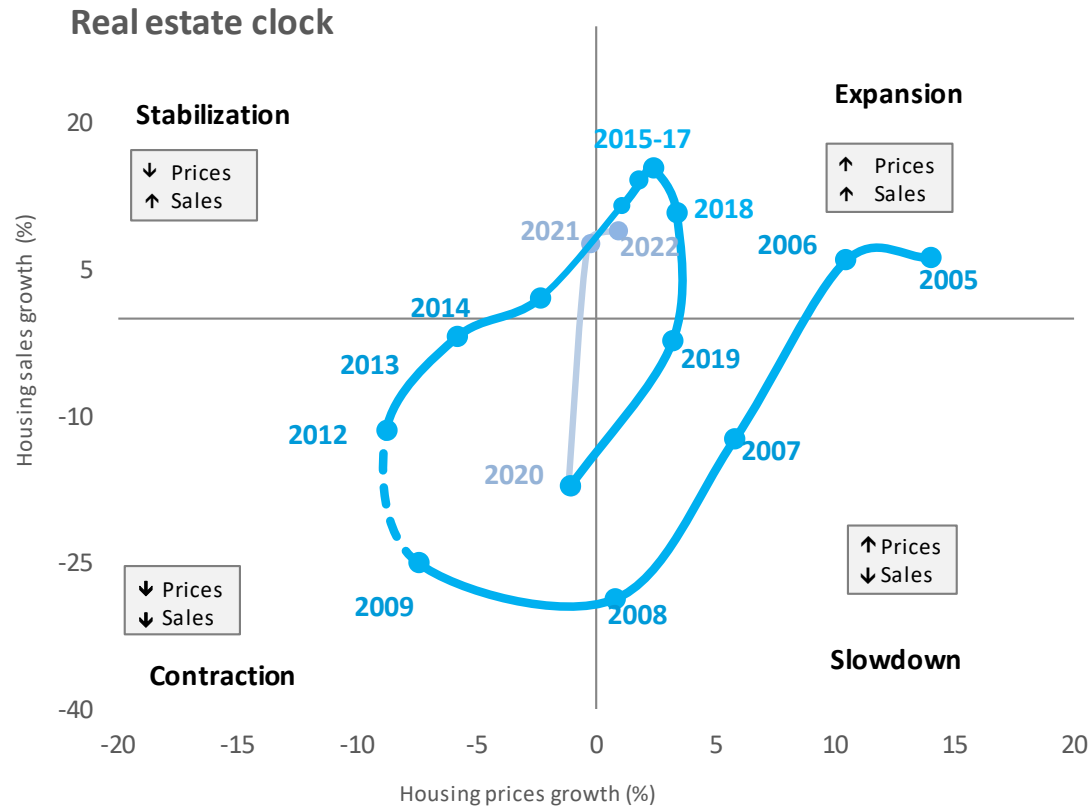
Index (2019 = 100)



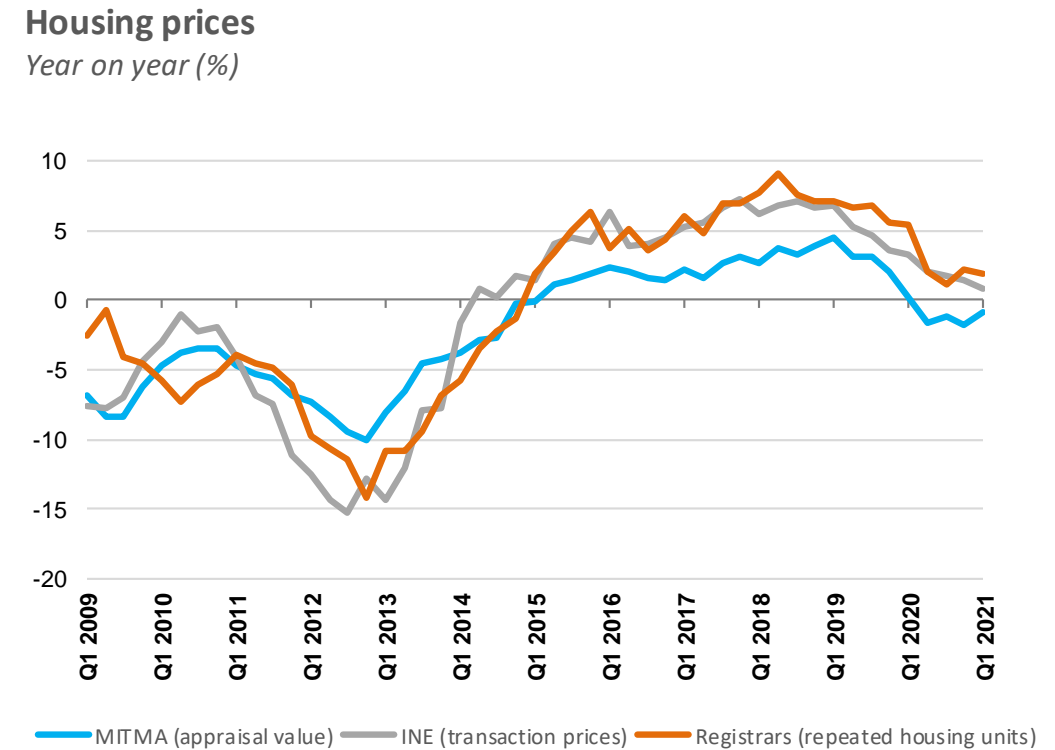
- ▶ **Tourism activity is recovering at a fast pace:** CaixaBank internal data shows that expenditure on tourism related activities improved significantly in the last two months. At the end of June, credit card payments in accommodation (hotels and similar) was “only” 25% below the 2019 reference while at the end of April it was 80% below. This recovery was driven by domestic tourism and EU tourism, while arrivals of UK tourists remained subdued by travel restrictions. In the coming months, tourist activity is expected to improve further, as advances in the vaccination campaign will allow a strong recovery of European tourists’ mobility.
- ▶ **Tourism GDP is expected to increase by around 50% in 2021** as a result of a significant improvement in tourism activity in the second half of the year.
- ▶ **Fundamentals remain strong in spite of the current shock.** The Spanish tourism industry is one of the most competitive worldwide and its recovery ought to be swift once vaccines are distributed and quick tests widespread –although it will take time to return to pre-pandemic levels.



# The real estate sector: temporary contraction but solid fundamentals



Source: Mitma, INE and CaixaBank Research forecasts.

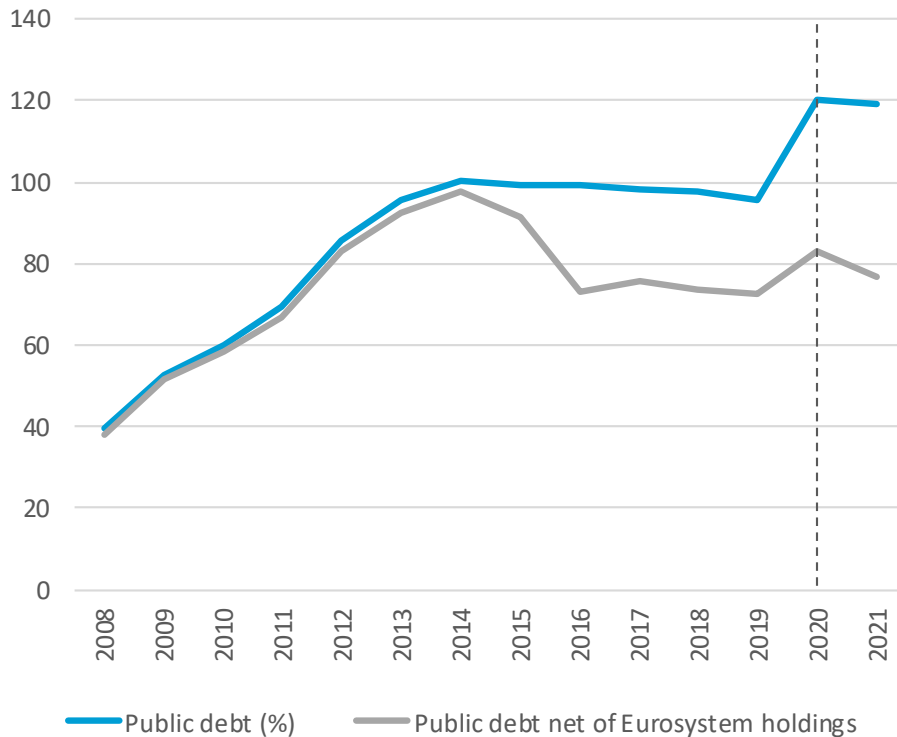


Source: INE, Ministry of Public Works, Association of Registrars.

- ▶ **The housing sector experienced a sharp contraction in activity in 2020** (housing sales declined by 17.3% and building permits by 19.5% in 2020), but it is recovering quite swiftly thanks to (1) its solid fundamentals (no excess indebtedness of families and real estate companies, and no excess capacity on the supply side), and (2) policy support (fiscal and monetary policy measures).
- ▶ **Housing sales picked up in April 2021** (+2.5% compared to April 2019). New housing sales are increasing at a faster pace (+12.7% in April vs. April 2019) than sales of second-hand housing (0.2%). We expect that housing demand will remain robust in the coming months.
- ▶ The recovery of building permits has been fairly muted so far (-14.7 cum. Jan-Mar 2021 compared to Jan-Mar 2019) and we expect this trend will continue in 2021 (~90k building permits compared with 86k in 2020 and 106k in 2019).
- ▶ **Housing prices have decelerated significantly but the adjustment has been limited** (Q1 2021: -0.9% yoy appraisal value, +0.9% yoy transaction prices, +1.9% registrars' index based on transactions on the same housing units). We expect house prices to increase gradually starting in H2 2021.

# In spite of a strong increase in public debt, funding needs are well covered

**Public debt**  
(% GDP)



## Government's Stability Program

Key elements	% GDP 2020	% GDP 2021	% GDP 2022	2019-2021 change (EUR millions)	2019-2021 growth rate (%)
<b>Total revenue</b>	<b>41.3</b>	<b>40.5</b>	<b>39.5</b>	<b>1,839</b>	<b>0.4</b>
Indirect taxes (VAT,...)	11.2	11.3	11.1	-6,513	-4.5
Taxes on income and wealth	11.2	11.1	10.8	4,761	3.7
Social contributions	14.4	13.6	13.2	3,871	2.4
<b>Total spending</b>	<b>51.4</b>	<b>48.9</b>	<b>44.5</b>	<b>68,348</b>	<b>13.1</b>
Worker salaries	12.5	12.1	11.3	11,874	8.8
Social transfers	23.3	21.5	19.8	30,993	13.5
Public investment	4.5	4.3	3.5	17,141	49.2
Interest payments	2.2	2.0	1.9	-4,447	-15.5
<b>Balance</b>	<b>-10.1*</b>	<b>-8.4</b>	<b>-5.0</b>	<b>-66,509</b>	<b>186.6</b>

Note: Projections incorporating the macroeconomic impact of the NGEU plan. \*Deficit in 2020 would amount to 11% of GDP including Sareb.

- ▶ **Public deficit in 2020 was 11.0% of GDP** (includes 0.9% of Sareb losses after Eurostat reclassification), a bit lower than forecasted (-1.2 p. p. without Sareb). Public revenues decreased by 5% and public spending (excluding interest) increased by 11.4%.
- ▶ **The government new budgetary scenario envisages a decline in the public deficit to 8.4% in 2021 (previously 7.7%)** with much higher public spending than in 2019. The new 11bn€ package for companies will have an impact on 2021 deficit of almost 1 p. p. The decline in deficit in 2022 (up to 5% of GDP), appears optimistic.
- ▶ **The public debt increased to 125% of GDP in Q1 2021** (120% at the end of 2020 and 95.5% at the end of 2019). **The government funding needs for 2021 are well covered**, helped by ECB purchases, plenty of liquidity available and low interest rates.

# Assessment of Spain's Recovery Plan

## Content

- ▶ The 2021-2023 ≈€70bn in non-refundable transfers of the Recovery Mechanism will be **invested in key sectors**.
- ▶ **Reforms touch on the most relevant domains** (pensions, labor market, modernization of public administrations, education, business creation...).

## Priorities

- ▶ **Frontloading of projects with a fast implementation and significant knock-on effects** (housing refurbishment, electrical vehicles, energy, infrastructures...).
- ▶ In parallel, medium-run projects will be started (5G, renewable hydrogen...)

## Reforms

- ▶ **The plan lacks important details (pending negotiations).**
- ▶ Labour market: Simplification of labour contracts and a new mechanism of labor adjustment (structural ERTE) to reduce duality.
- ▶ Pensions: Raise retiring age, workplace pension schemes (but no detail on incentives and no NGEU investments in sight), raise maximum SS contributions, incorporation of life expectancy in the sustainability analysis.
- ▶ Fiscal reform: Tax hikes once the recovery is well on track.

## Governance

- ▶ **Little participation of external experts.**
- ▶ A thorough mechanism of monitoring and assessment of the projects would be helpful.

The final Plan was submitted to the EC on April 30. The European Commission has endorsed the Plan in June with a positive assessment and the European Council will give the final approval by mid-July. After that, Spain will receive a first payment of €9bn as pre-financing.

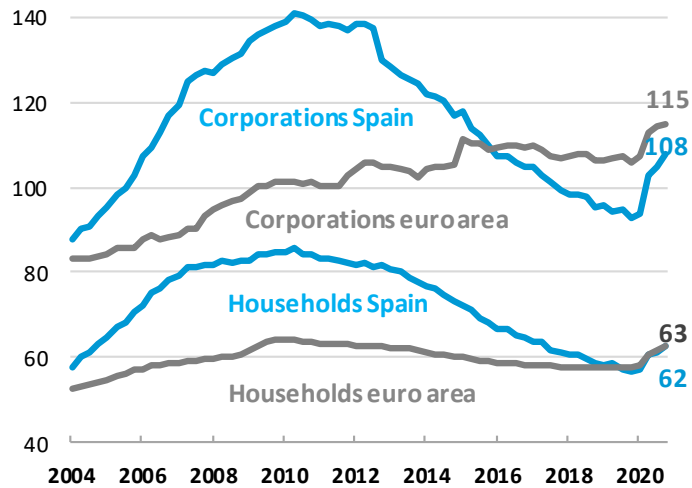
# Key fiscal and quasi-fiscal measures

	Amount (% GDP 2020)	Main measures
<b>Direct fiscal measures (2020 and committed in 2021)</b>	<b>6.0%</b>	<ul style="list-style-type: none"> <li>▶ Benefits for workers affected by temporary lay-offs (ERTEs) and for the self-employed affected by the hiatus in activity (June avg.: 460k in ERTES; Spring 2020: 3.4million). Good measure to alleviate pressure on the labor market. Extended until September 2021.</li> <li>▶ COVID-19 Fund for regional government has helped finance health and education spending.</li> <li>▶ The Government has approved a 11bn€ package to support SMEs and most hit sectors in March 2021. Not yet disbursed.</li> </ul>
<b>Deferrals and moratoria</b>	Deferrals: <b>1.1%</b> Moratoria: <b>5.2%</b>	<ul style="list-style-type: none"> <li>▶ Legislative moratoria on mortgages and consumer loans complemented by sectoral moratoria for households (the outstanding balance of loan payments suspended amounted to €57.6bn at the end of April). The majority have expired.</li> <li>▶ Legislative moratoria on loan repayments for tourism and transport sector (€2.8bn).</li> <li>▶ Deferral of tax payments for six months (from March to October) in 2021 for SMEs and self-employed (estimated amount:€2.6bn).</li> <li>▶ Utility bills moratorium and eviction ban for vulnerable families until August 9.</li> </ul>
<b>Credit guarantees</b>	<b>8.7%</b> (considering the level of use until May 2021)	<ul style="list-style-type: none"> <li>▶ €100bn on credit guarantees for companies and self-employed to guarantee liquidity with State guarantees between 70 and 80%. Level of use: €91.2bn of guarantees (end of May 2021)</li> <li>▶ €40bn on credit guarantees for companies and self-employed to boost investment activity (but also guarantee liquidity). Level of use: €5.9bn of guarantees (end of May 2021).</li> <li>▶ The concession of these guarantees has been extended until December 2021, grace periods may be extended 12 more months and the repayment period may be extended 3 years (up to a maximum of 8 years; further extensions could be granted in the package for firms).</li> </ul>

# The Spanish banking system: Economic recovery softens Covid-related concerns (1)

## Gross private debt

% of GDP, non consolidated debt.



Source: ECB, Eurostat

## Private domestic credit

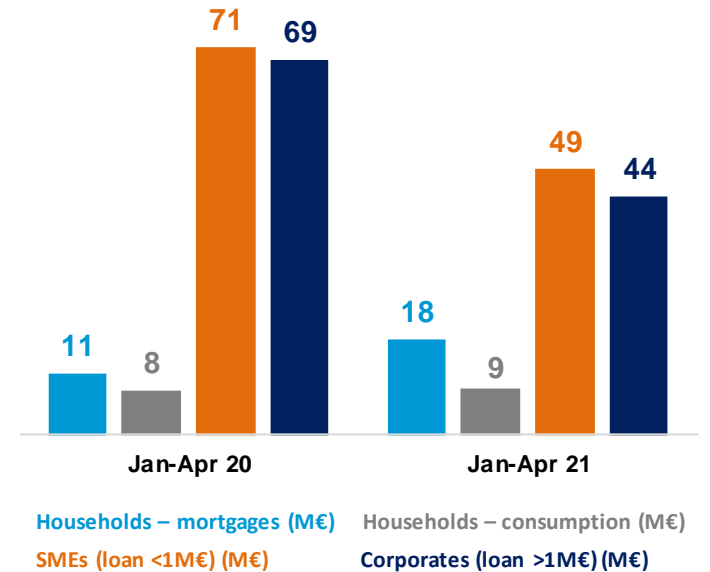
Year on year (%)

	Dec-20	May-21 (latest)	2021 (forecast)
	% yoy	% yoy	% yoy
<b>Total credit</b>	2,5%	-1,1%	-0,5%
<b>Households</b>	-1,2%	-0,3%	-1,1%
Housing mortgages	-1,3%	-0,1%	-1,1%
Other purposes	-0,8%	-1,0%	-1,2%
Of which consumption	-2,6%	1,8%	-1,0%
<b>Businesses</b>	8,2%	-2,2%	0,5%
Non-real estate developers <sup>1</sup>	12,2%	9,8%	-
Real estate developers <sup>1</sup>	-5,3%	-6,0%	-

Note: (1) latest available data Mar-21  
Source: Bank of Spain

## New lending activity by sector

Bn euros

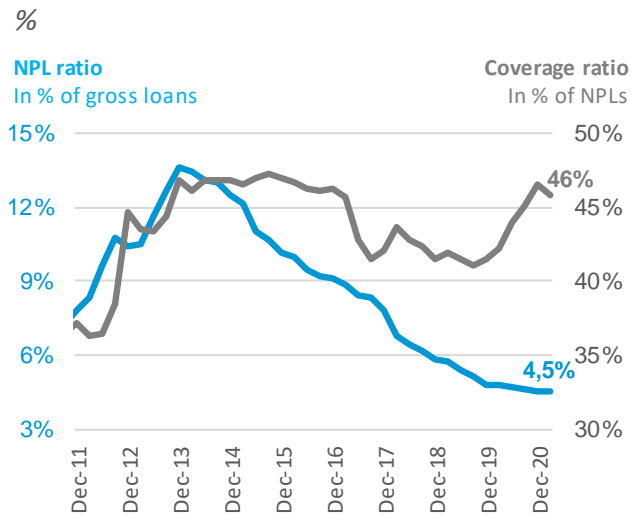


Source: Bank of Spain

- ▶ **Corporate debt levels** remain below euro area averages despite the recent strong pick-up in credit. **Household debt** has also increased as a percentage of GDP but this is due to denominator effects (debt moratoria and higher indebtedness of the self-employed have not offset headwinds from lower demand for consumption loans and continued deleveraging of housing credit). We expect a process of gradual deleveraging after the covid crisis.
- ▶ **New mortgage production** suffered a sharp contraction during the lockdowns of March-May 2020 but has rebounded strongly since and surpassed pre-covid levels, helped by pent-up demand.
- ▶ **New lending for consumption** has behaved more dynamically in recent months although remains below pre-covid levels.
- ▶ **New lending to corporates spiked in March-June 2020** but demand has now declined. We expect it to recover during 2H21 due to the impact of NGEU funds and the amount still available of the ICO lines. The extension of grace periods and maturities for existing ICO loans will also help to maintain the stock of loans.

# The Spanish banking system: Economic recovery softens Covid-related concerns (2)

## NPLs and coverage ratios<sup>1</sup>



### Non expired moratoria<sup>2</sup>

3,1% of loans to households  
1,7% of loans to NFC

### Cost of risk<sup>3</sup>

0.9% in 2020  
0.7% in Q121

Note: (1) latest available data Mar-21. (2) Based on EBA data as of Mar-21. (3) Spanish business. Accumulated 12 months based on the average of the 5 largest institutions.

Source: Bank of Spain and Bank's financial statements.

## Banks' profitability

In % of average total assets (Q1 21; trailing 12M)

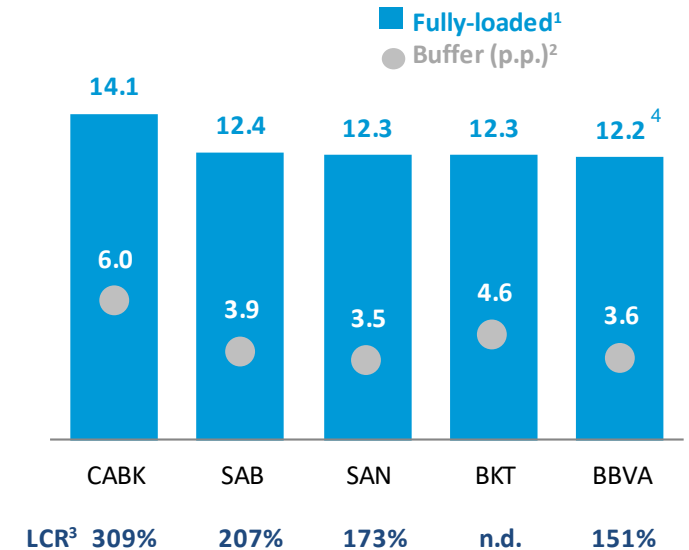
	CABK	BBVA	SAN	SAB	BKT
<b>Net interest income</b>	<b>1.1%</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.3%</b>
Net fees	0.6%	0.5%	0.6%	0.6%	0.5%
Gains on financial assets/liab. and others	0.1%	0.1%	0.2%	0.3%	0.1%
Other operating income	0.1%	0.0%	-0.1%	-0.1%	-0.1%
<b>Gross income</b>	<b>1.8%</b>	<b>1.4%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>1.8%</b>
Operating expenses	-1.0%	-0.7%	-1.1%	-1.1%	-0.9%
Impairment losses, tax and others	0.4%	-0.3%	-1.6%	-0.8%	0.5%
<b>Profit</b>	<b>1.3%</b>	<b>0.4%</b>	<b>-0.7%</b>	<b>0.1%</b>	<b>0.3%</b>
<b>Ex M&amp;A impacts</b>	<b>0.4%</b>				
<b>ROTE (%)<sup>1</sup></b>	<b>8.0</b>	<b>4.9</b>	<b>n.d.</b>	<b>n.d.</b>	<b>7.0</b>

Note: Domestic businesses. ROTE based on internal calculations. (1) Group ROTES for CABK (includes BKIA and €4.3Bn badwill). BBVA include Corporate Centre (only proportion applicable to business in Spain). SAN not available because DTAs impairment generates significant losses. The same happens in SAB.

Source: Bank's financial statements.

## Banks' solvency and liquidity position

In % (Q1 21)



Note: (1) CET1 FL transitional IFRS9. (2) Difference between CET1 ratio fully-loaded and SREP requirement 2019. (3) LCR = liquidity coverage ratio. (4) 13.6% including BBVA USA sale and 10% share buyback. Source: Bank's financial statements.

- ▶ **NPLs remain below 5%**, helped by debt moratoria and the extension of maturities and grace periods for guaranteed loans. Non-expired moratoria decreased to 2.6% of household and NFC loans in Q121 (vs a peak of 7.8% in 2Q20). Although the NPL ratio is expected to worsen as debt moratoria expire and companies start facing repayments of guaranteed loans, the increase will be limited and manageable as suggested by NPL ratios of expired moratoria (slightly above average levels).
- ▶ **Nevertheless, banking profitability remains under pressure and the need for further consolidation still exists despite the two mergers recently approved:**
  - Interest rates are now expected to remain lower for longer.
  - After a temporary pick-up in loan demand, businesses and households are expected to focus on balance sheet repair.
  - Banks booked a significant amount of provisions in 2020. Although the cost of risk already improved in Q121, it may take some time to reach pre-covid levels depending on the evolution of the pandemic.
- ▶ **The capital position of Spanish banks provides buffers to weather the COVID-19 shock.** A Bank of Spain top-down analysis estimates a CET1 erosion of 1.6 percentage points in aggregate under the central scenario and a decline of 3.9 p.p. in an adverse scenario.

# Main economic forecasts

% , YoY, unless otherwise specified	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>GDP</b>	-3,0	-1,4	1,4	3,8	3,0	3,0	2,4	2,0	-10,8	6,0	4,8
<b>Private Consumption</b>	-3,4	-3,0	1,7	2,9	2,6	3,0	1,8	0,9	-12,4	6,6	5,0
<b>Public Consumption</b>	-4,2	-2,1	-0,7	2,0	1,0	1,0	2,6	2,3	3,8	3,0	0,6
<b>Gross Fixed Capital Formation (GFCF)</b>	-7,4	-3,8	4,1	4,9	2,4	6,8	6,1	2,7	-11,4	6,6	5,3
<b>GFCF - equipment</b>	-7,1	2,4	5,6	9,1	1,8	9,2	5,4	4,4	-13,0	15,9	5,5
<b>GFCF - construction</b>	-10,4	-8,2	3,0	1,5	1,6	6,7	9,3	1,6	-14,0	-0,1	5,1
<b>Exports</b>	0,9	4,4	4,5	4,3	5,4	5,5	2,3	2,3	-20,2	11,4	7,7
<b>Imports</b>	-5,8	-0,2	6,8	5,1	2,6	6,8	4,2	0,7	-15,8	10,1	5,9
<b>Unemployment rate</b>	24,8	26,1	24,4	22,1	19,6	17,2	15,3	14,1	15,5	15,7	14,6
<b>CPI (average)</b>	2,4	1,4	-0,2	-0,5	-0,2	2,0	1,7	0,7	-0,3	1,7	1,3
<b>External current account balance (% GDP)</b>	0,1	2,0	1,7	2,0	3,2	2,8	1,9	2,1	0,7	1,5	1,6
<b>General Government Balance (% GDP) <sup>1</sup></b>	-7,0	-6,7	-5,8	-5,1	-4,3	-3,0	-2,5	-2,9	-11,0	-8,6	-6,0
<b>General government debt (% GDP) <sup>2</sup></b>	85,7	95,5	100,4	99,3	99,0	98,1	97,6	95,5	120,0	119,1	117,6
<b>Housing prices</b>	-8,7	-5,8	-2,4	1,1	1,9	2,4	3,4	3,2	-1,1	-0,3	0,8
<b>Risk premium (vs. 10Y Bund, bps, Dec.)</b>	429	295	149	120	124	120	97	88	86,3	63,9	54,6
<b>Bank credit (to the private domestic sector)</b>	-9,9	-9,4	-7,1	-4,3	-2,9	-1,9	-2,6	-1,2	2,5	-0,4	-1,0

Notes: All GDP figures are based on ESA-2010 methodology.

<sup>1/</sup>The general government deficit excludes one-off bank restructuring costs of 3.7% of GDP in 2012, 0.3% of GDP in 2013, 0.1% in 2014, 0.05% in 2015, 0.2% in 2016, 0.04% in 2017 and 0.01% in 2018.

<sup>2/</sup>General government debt includes ESM/FROB related borrowings equivalent to 3.9% of GDP in 2012.

Source: CaixaBank Research.