



Spain

Macroeconomic & Financial Outlook

CaixaBank Research

January 2024

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Activity

- ▶ **Financial markets see early rate cuts**, encouraged by Q4 2023 inflation data, signals of a soft landing in U.S. activity, and sluggish eurozone activity. If sustained, positive inflation figures could bring forward the first ECB rate cuts with respect to our current forecasts (from Sept-24 to June). Markets are more aggressive, but we think that central banks favor erring on the side of caution (anti-inflationary bias) and, given a solid performance in U.S. activity and high uncertainty around euro area inflation, may ease policy more gradually than currently priced by markets.
- ▶ **Risks around our 2024 GDP growth forecast tilted slightly to the upside.** A stronger-than-expected household savings rate in 2023, a faster-than-expected decline in inflation, and the increased likelihood that the ECB will start lowering rates before what is envisaged in our scenario pose upside risks. On the downside, were the Israel-Hamas conflict to escalate, this could trigger a further surge in oil prices and undermine sentiment. We will revise our macro forecasts in February.
- ▶ **Growth in Q4 likely to post same figure as in Q3.** The composite PMI index remained unchanged with respect to the previous quarter (at 50.1 points). Affiliation to the social security system added c.23k workers in December, driving the QoQ growth rate to 0.2% (same figure as in Q3). Our GDP forecast is for a 0.3% qoq growth for Q4 2023.
- ▶ **Headline inflation decreased 0.1pp in December to 3.1%**, owing to lower growth in food and electricity prices compared to one year ago. Underlying inflation (excl. energy and non-processed food) decreased to 3.8% (4.5% in November). Our forecast of an average inflation of 3.6% in 2024 was based on the removal of food and energy subsidies in January 2024. However, the government has extended some of these subsidies which, together with recent better-than-expected data, poses clear downside risks around our forecast.
- ▶ **House prices, based on appraisal values, increased 1.1% qoq in Q3.** In yoy terms, prices accelerated (for the first time since the beginning of 2022) from 3.0% in Q2 to 4.2% in Q3. While we still expect some slowdown going forward, the most recent data pose clear upside risks to our forecast of 1.4% growth in 2024.

Banking Sector

- ▶ **The banking system remains strong with robust capital and liquidity positions.** The deposit base is dominated by household deposits (71% in 2Q23, 6 pp above EU levels) and a high proportion of all deposits are either stable or operational (>60%). Liquidity ratios remain high after the repayment of nearly 90% of TLTROs, with LCRs of top 5 banks ranging from 143% to 259%. Regarding credit risk, domestic NPL ratio stood at 3.60% in October, largely stable since dic'22 and 122 bps below pre-covid level of February 2020.

Main economic forecasts

% , YoY, unless otherwise specified	2014	2015	2016	2017	2018	2019	2020	2021	Forecast		
									2022	2023	2024
GDP	1.4	3.8	3.0	3.0	2.3	2.0	-11.2	6.4	5.8	2.4	1.4
Private Consumption	1.7	2.9	2.6	3.0	1.8	0.9	-12.4	7.2	4.8	2.2	1.9
Public Consumption	-0.6	2.0	1.0	1.0	2.3	1.9	3.6	3.4	-0.2	2.6	1.4
Gross Fixed Capital Formation (GFCF)	4.1	4.9	2.4	6.8	6.3	4.5	-9.0	2.8	2.4	1.9	2.5
GFCF - equipment	5.6	9.1	1.8	9.2	4.7	2.0	-12.6	4.4	1.9	-0.1	3.7
GFCF - construction	3.0	1.5	1.6	6.7	9.5	7.2	-9.2	0.4	2.6	3.1	1.5
Exports	4.5	4.3	5.4	5.5	1.7	2.2	-20.1	13.5	15.2	0.6	-1.6
Imports	6.8	5.1	2.6	6.8	3.9	1.3	-15.0	14.9	7.0	-0.7	-0.7
Unemployment rate	24.4	22.1	19.6	17.2	15.3	14.1	15.5	14.8	12.9	12.1	11.8
CPI (average)	-0.2	-0.5	-0.2	2.0	1.7	0.7	-0.3	3.1	8.4	3.7	3.6
External current account balance (% GDP)	1.7	2.0	3.2	2.8	1.9	2.1	0.6	0.8	0.6	1.8	1.7
General Government Balance (% GDP)¹	-6.2	-5.4	-4.3	-3.1	-2.6	-3.1	-10.1	-6.8	-4.7	-4.2	-3.6
General government debt (% GDP)²	105.1	103.3	102.7	101.8	100.4	98.2	120.3	116.8	111.6	108.2	107.0
Housing prices	-2.4	1.1	1.9	2.4	3.4	3.2	-1.1	2.1	5.0	3.7	1.4
Risk premium (vs. 10Y Bund, bps, Dec.)	149	120	124	120	97	88	86	67	104	104	105
Bank credit (to the private domestic sector)	-15.8	-4.3	-2.9	-1.9	-2.6	-1.2	2.5	0.5	-0.4	-3.3	-1.5

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

1/ 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.

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

Source: CaixaBank Research.

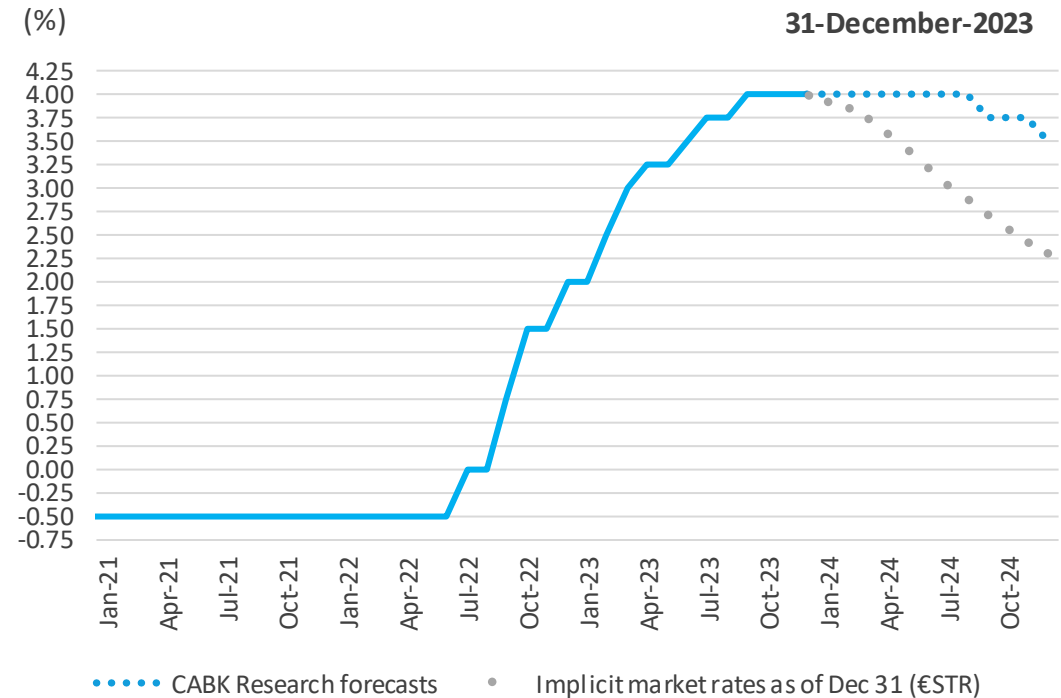
Monetary policy has set a “high for long” course, but how long?

ECB macroeconomic projections

	2022	2023	2024	2025
GDP growth	3.5	0.6 (0.7)	0.8 (1.0)	1.5 (1.5)
Headline inflation	8.4	5.4 (5.6)	2.7 (3.2)	2.1 (2.1)
Core inflation	3.9	5.0 (5.1)	2.7 (2.9)	2.3 (2.2)
Unit labor costs	3.2	6.1 (5.8)	4.1 (3.5)	2.6 (2.4)
Compensation per employee	4.3	5.3 (5.3)	4.6 (4.3)	3.8 (3.8)

Note: Current projections correspond to December 2023 forecasts. Previous forecasts (September) in brackets.

ECB deposit rate

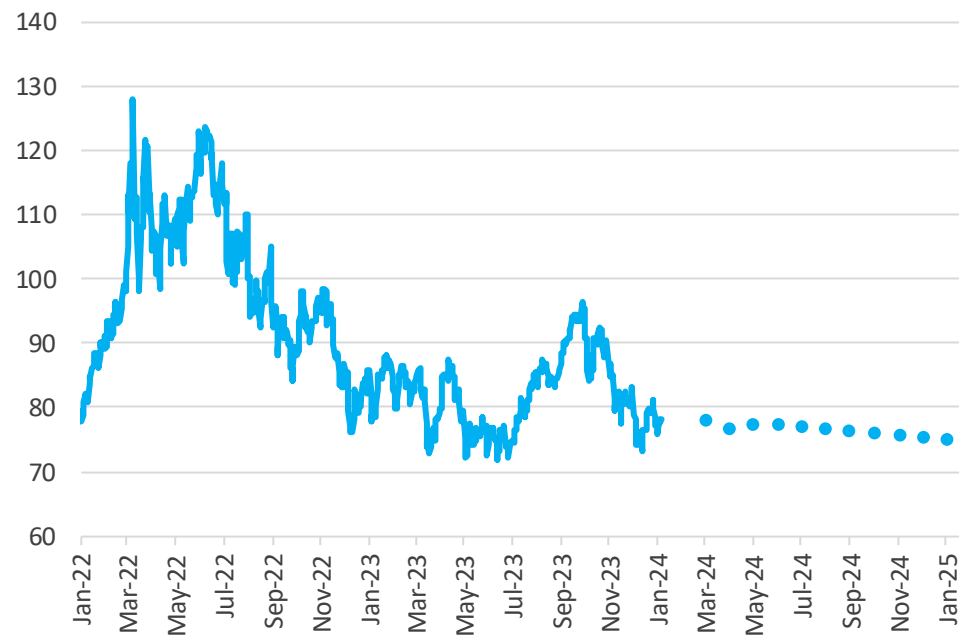


- ▶ **Financial markets see early rate cuts**, encouraged by Q4 2023 inflation data, signals of a soft landing in U.S. activity, and sluggish eurozone activity. If sustained, positive inflation figures could bring forward the first central bank rate cuts with respect to our current forecasts (from September 2024 to June). At the same time, central banks favor erring on the side of caution (anti-inflationary bias) and have reasons to keep policy tighter than currently priced by markets. In Europe, inflation forecasts remain surrounded by a high degree of uncertainty due to the reversal of base effects, slow-moving 2024 wage negotiations, and a poor performance of euro area labor productivity in the last few quarters.
- ▶ **The ECB remained cautious in December and refused to ‘pivot’**. The ECB kept rates unchanged (depo: 4.00%; refi: 4.50%) and official communication reiterated the need for a restrictive policy stance for a “sufficiently long” period. Lagarde warned of limited progress in “domestic inflation” and pointed that the ECB projections (which see 2% inflation by mid-2025) were conditional on tighter policy than the one priced by markets in December (in particular, the ECB used forwards as of November 23rd, when markets had been pricing cumulative cuts of 75 bp in 2024). The ECB also outlined the end of PEPP reinvestments: they will continue in full in H1 2024, while in H2 2024 the PEPP portfolio will decrease by €7.5bn per month and reinvestments will be fully discontinued in 2025.

Oil markets will continue subject to a high degree of volatility

Brent oil prices (and futures)

\$ per barrel



Commodity prices

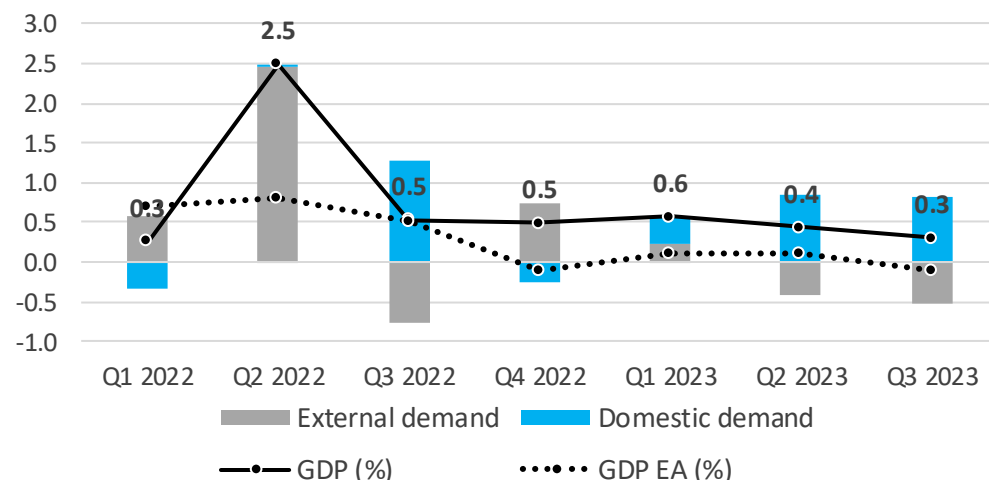
		Price	Change (%)			
	Metric		Last Month	Year to Date	2022	2023
Commodities	index	98,4	-1,1	-0,2	13,8	-12,6
Energy	index	31,7	0,4	3,2	33,5	-25,6
Brent	\$/barrel	78,1	1,1	1,3	10,5	-10,3
Natural Gas (Europe)	€/MWh	33,2	-12,9	2,6	8,5	-57,6
Precious Metals	index	220,1	-0,7	-1,6	-1,9	4,1
Gold	\$/ounce	2042,5	1,1	-1,0	-0,3	13,1
Industrial Metals	index	138,0	2,3	-3,2	-4,4	-13,7
Aluminum	\$/Tm	2281,0	4,5	-4,3	-15,3	0,3
Copper	\$/Tm	8466,5	0,3	-1,1	-13,9	2,2
Agricultural	index	61,7	-5,1	-1,1	13,2	-9,3
Wheat	\$/bushel	619,8	-0,2	-1,3	2,8	-20,7

- ▶ **Commodity prices could increase in the second half of 2024.** Most commodity prices drifted down in Q4 2023, despite the crisis in the Middle East, due to the slowdown in developed market's activity and concerns about China's growth. However, as major central banks loosen their monetary policy, activity starts to pick up and China's property sector stabilizes, most commodity prices should rise in the second half of 2024. We expect that industrial metal prices could lead significant increases boosted by cyclical demand and the renewable energy sector.
- ▶ **Energy prices likely to remain volatile.** The extension of oil supply cuts by OPEC+ in Q1 2024 (another 2 Mn barrels per day, which will bring the total cut to around 6% of global production) should fuel imbalances in the oil market. However, the increase in production from non- OPEC countries, mainly the US, should reduce upward pressures on crude oil prices. Energy prices are likely to remain volatile as the environment is highly uncertain (due to geopolitical risks). We expect the oil price will trade between \$70 and \$80 per barrel for much of the year.

GDP growth slows down in Q3, but remains above euro area average

Contribution to quarterly GDP growth

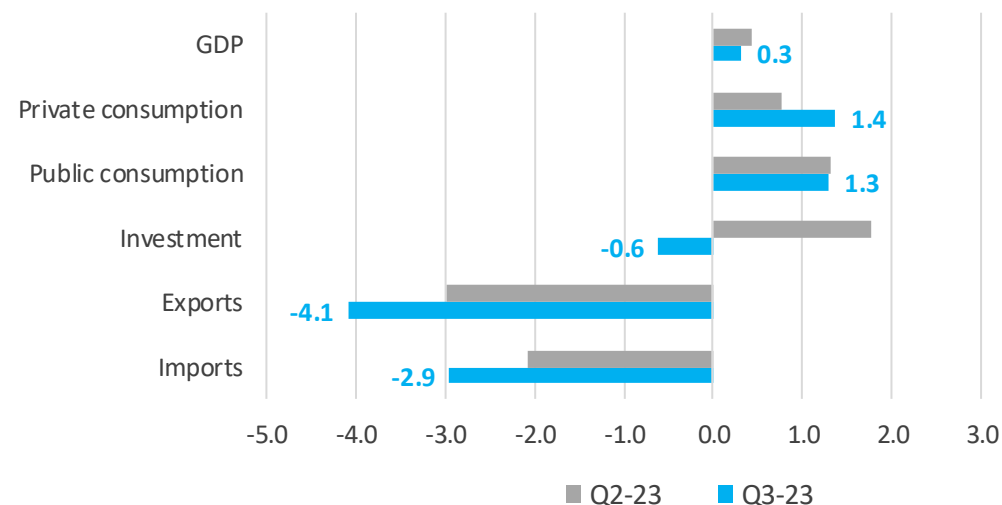
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

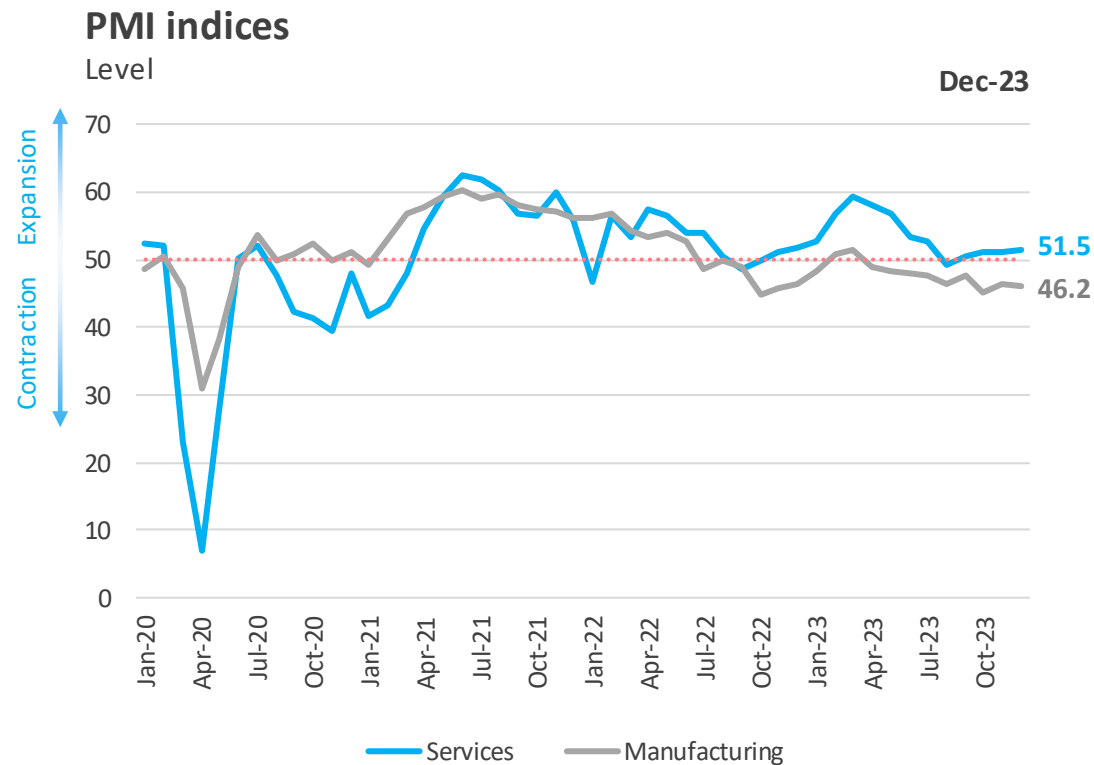
GDP and its components

Quarter-on-quarter variation (%)



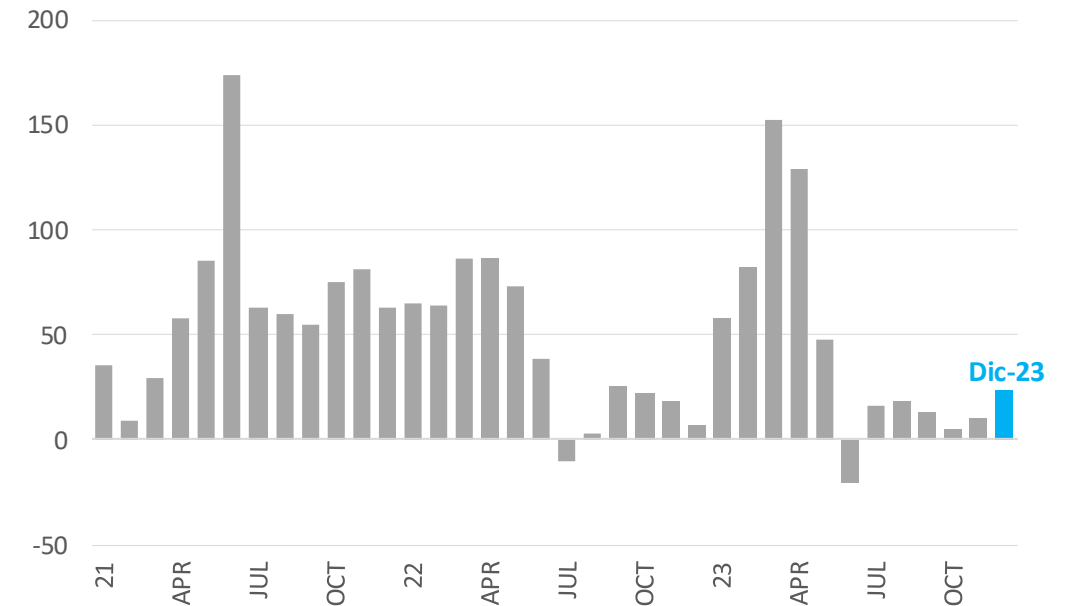
- ▶ **GDP grew 0.3% qoq in Q3 2023 (1.8% yoy)**, driven by domestic demand. Private consumption grew 1.4% qoq, powered by the recovery of gross disposable income and the moderation of inflation. As a result, private consumption now stands 0.4% above the pre-pandemic level of Q4-19 (GDP is now 2.1% above that level). Instead, private investment retreated a little (-0.6% qoq), as the decline in investment in construction outweighed growth in investment in equipment. Net trade deducted from growth, as exports declined more than imports. Despite the slowdown, GDP growth remains above that of the euro area (0.3% qoq vs -0.1%).
- ▶ **We expect GDP growth of 2.4% for 2023 and 1.4% in 2024.** Growth in 2024 is forecast to slow down as the economy feels the brunt of the impact of the increase in interest rates in the twelve months ranging from Q3-23 to Q2-24. Topping it up, the economy will also be dragged down by weaker growth from the Euro Area and China. The strength of the labor market as well as ongoing NGEU-related investments will continue to support activity.
- ▶ **Risks around our forecast tilted slightly to the upside.** After our revision of the scenario (in Sept.), INE revised the household savings rate for recent quarters, indicating that it was higher than previously thought –this poses some upside risks to our projections as there is some additional room for increases in private consumption. In addition, a faster decline than expected in inflation -owing to the drop in oil prices, better-than-expected dynamics of core inflation and the deferral of the withdrawal of some fiscal support measures-, and the increased likelihood that the ECB will start lowering rates before what is envisaged in our scenario (currently we expect two cuts of 25bp each, starting after summer 2024) also add upside risks. On the downside, were the Israel-Hamas conflict to escalate, this could trigger a further surge in oil prices and undermine sentiment.

The economy set to grow at a rate like that of the previous quarter



Social Security registered members*

Month-on-month change (thousand)



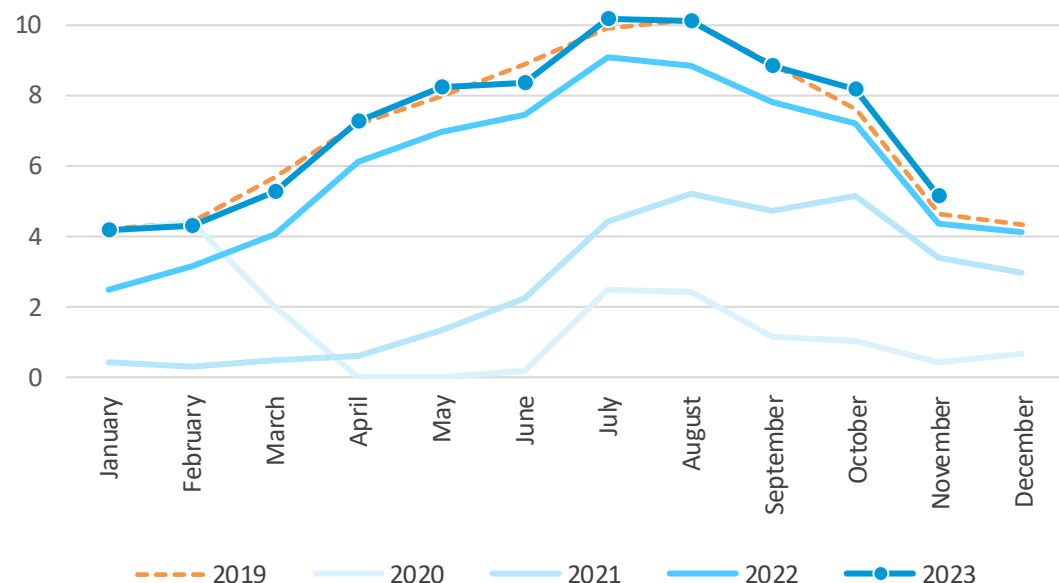
Note: (*) Seasonally adjustment.

- **Growth in Q4 likely to post same figure as in Q3.** The composite PMI averaged 50.1 points in Q4, the same reading as in Q3. Behind the figure, there is a slight improvement in the services sector (average services PMI of 51.2 points in Q4, vs 50.9 points in Q3) offset by a deterioration in the industrial sector (manufacturing PMI averaged 45.9 points in Q4 vs 47.3 in Q3). Employment truncated the trend of deceleration witnessed from August to October and growth accelerated along the quarter: employment added c. 5,100 workers in October, c. 10,300 in November and c. 23,300 workers in December. As a result, employment grew 0.2% compared to the previous quarter, the same reading as in Q3. Retail sales, with data up to November, grew 0.6% qoq (0.8% in Q3) and industrial production, with data up to October, has remained flat in quarterly terms (-0.6% qoq in Q3).
- **We expect growth of 0.3% qoq in Q4 2023 (same growth rate of Q3).** Airef's nowcasting model predicts 0.4% qoq growth.

A strong end to 2023 for the tourist sector

International tourists that visit Spain

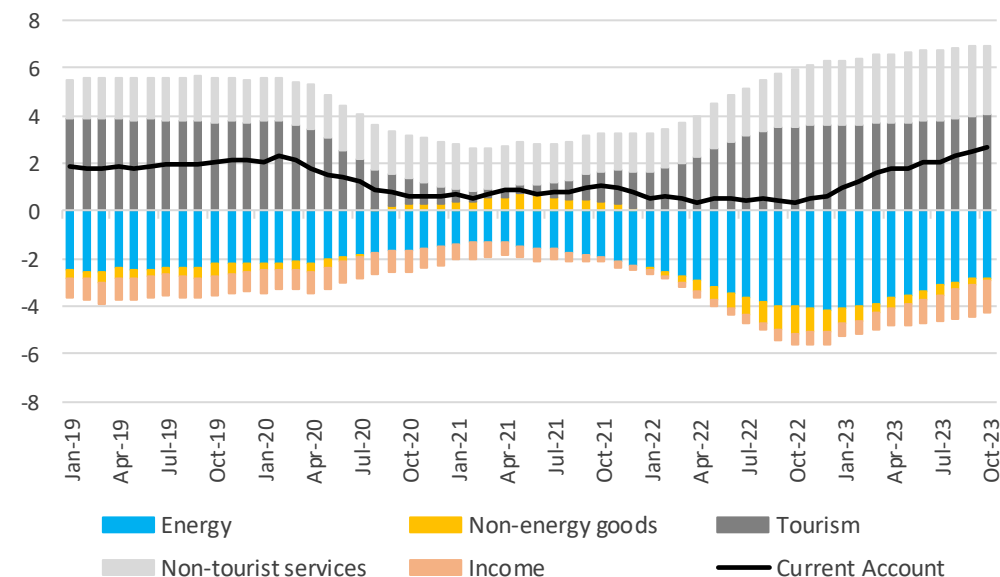
Millions of people



Current account balance

% of GDP

Oct-23



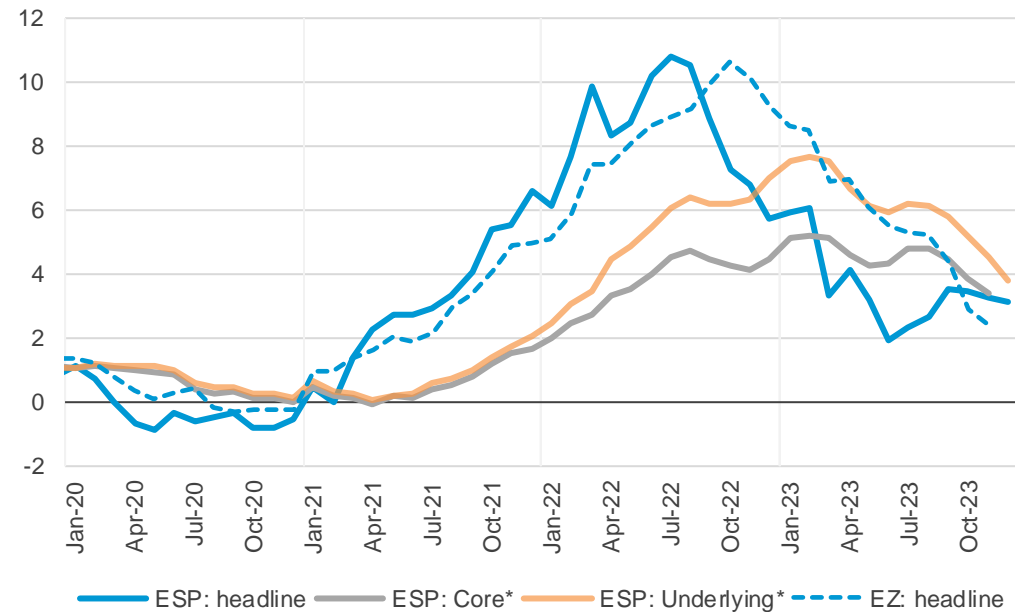
Note: 12-months cumulative rolling window.

- **Tourism demand remains strong.** International arrivals in November were 10.2% above the same month of 2019, while international tourist expenditure attained a level 31.3% above November 2019. Demand for tourism services is holding up despite the strong increase in tourism related prices: CPI hotel prices in November increased by 13.3% year-on-year, attaining a level 27.6% above the same month of 2019. Tourist arrival figures in November were boosted by stronger tourist flows from the Americas (+24.8% w.r.t. November 2019) and by tourism from the EU (+15.5% w.r.t. November 2019). On the domestic side, following resilient figures last summer, overnight stays by residents in touristic accommodations fell by a modest -0.4% year-on-year in November, landing at a level 1.9% below November 2019. Looking ahead, we expect robust rates of growth in low season and more modest growth in high season, both from high levels.
- **The current account surplus keeps improving.** The current account registered a 2.6% of GDP surplus in the twelve months to October 2023, the largest surplus since March 2018. The decline in energy prices is an important driver: the deficit on the energy balance took 4.2% of GDP in 2022, while in the twelve months to October the bill declined to 2.8% of GDP. Another important driver are services. The surplus on the tourist balance reached 4.0% of GDP in October 2023, slightly above that of 2019 (3.7%), and the surplus on non-tourist services reached 2.9% of GDP, far exceeding the figure of 2019 (1.8%).

Underlying inflation dynamics continue to moderate according to December data

CPI in Spain and the Eurozone

Year-on-year change (%)



Note: * Core inflation excludes energy and all food products.

Inflation forecast by component

Annual change (%)

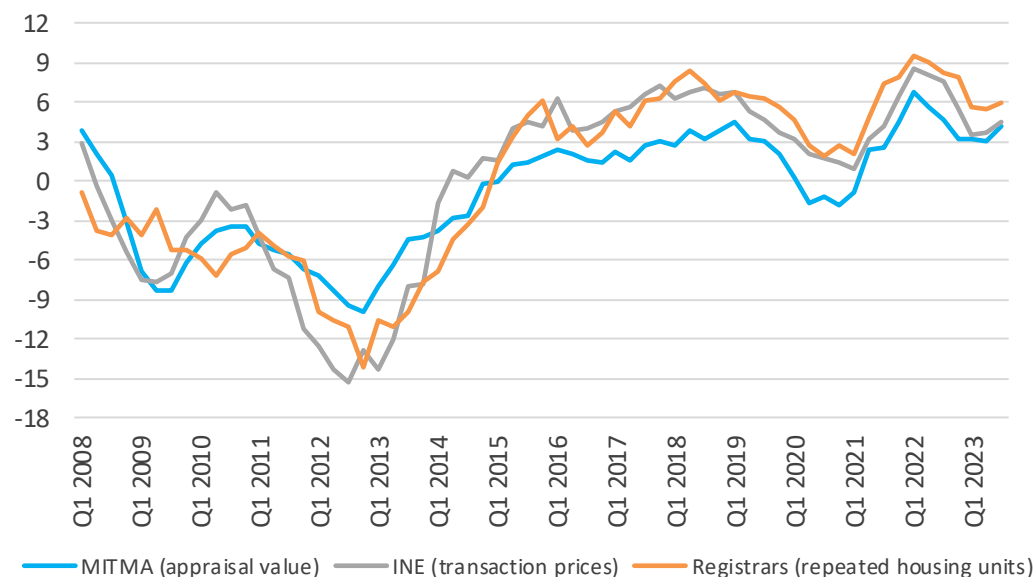
	2022	Forecast		
	2022	2023	2024	2025
Headline inflation	8.4	3.5	3.6	2.2
Underlying inflation (excl. energy and non processed food)	5.2	6.0	3.1	2.3
Core inflation (excluding energy and food)	3.7	4.5	2.9	2.3
- Industrial goods	4.2	4.6	2.4	2.0
- Services	3.3	4.3	3.2	2.5
Food, beverages & tobacco	10.7	11.1	4.4	2.6
Energy	27.9	-15.8	6.4	-0.2
- Electricity	26.8	-37.0	11.6	0.2
- Fuel	25.6	-4.1	2.8	-0.4

- ▶ **Headline inflation decreased 0.1pp in December to 3.1%.** The decline can be attributed to lower growth in food and electricity prices compared to one year ago. Underlying inflation (excluding energy and non-processed food) declined substantially, to 3.8% (4.5% in November). We expect further declines in underlying inflation in 2024, as the *momentum* (i.e. the three months-on-three months CPI change, seasonally-adjusted and annualized) declined further (from 2.6% to 1.0%).
- ▶ **Downside risks around our 2024 headline inflation forecast (of 3.6%),** as the removal of the food and energy subsidies will be more gradual than incorporated in our scenario (see slide on fiscal policy below) and recent data has been better-than-expected.

Housing market: housing price exhibits notable resilience despite higher interest rates

Housing prices

Year-on-year (%)



Source: CaixaBank Research, based on data from INE, Resistrars and Mitma.

Forecasts for the real estate market

	2021	2022	2023	2024	2025
Housing sales (thousand)	566	649	550	510	511
New building permits (thousand)	108	109	105	105	110
House price (appraisal, Mitma) Year-on-year (%)	2.1	5.0	3.7	1.4	2.2
House price (transaction, INE) Year-on-year (%)	3.7	7.4	3.3	1.4	2.2

- ▶ **Housing prices are showing notable resilience despite the significant increase in interest rates.** In Q3 2023, the housing price based on appraisal values (Mitma) increased by 1.1% qoq compared to 0.3% in Q2. In yoy terms it accelerated, from 3.0% in Q2 to 4.2% in Q3. The INE house price index (based on transaction prices) also showed a similar behavior: +2.5% qoq in Q3 2023 (2.1% in 2Q) and the yoy rate also accelerated, from 3.6% in Q2 to 4.5% in Q3. Going forward, we still expect some slowdown (2024 forecast is 1.4% in both indices), but we may improve this forecast if incoming data remains positive and the expectation of interest rate reductions in 2024 is confirmed.
- ▶ **Housing sales have declined due to the impact of higher interest rates** (-8.7% YoY cumulative Jan.-Oct.), but they are still well above 2019 figures (16.6% cum Jan.-Oct. with respect to the same period of 2019). We expect housing sales to continue to decrease in 2024 as they approach its pre-pandemic levels.
- ▶ **New housing construction remains very limited, but the latest data is quite positive** (+2.6% YoY cum. Jan.-Oct.). We expect new building permits in 2023-2024 to remain at a similar figure than in 2022.

Fiscal policy: changes to inflation-related fiscal measures for 2024

- ▶ The extension of **fiscal discounts in energy and food plus the transport aid** will have a fiscal cost above 4.000M€ and contribute to an increase of 0.3 p. p. to the public deficit.
- ▶ The **changes in special taxes** will raise 2.900M€ and reduce the public deficit by 0.2 p.p.

Firms

- ▶ **Special taxes on Banking and Energy industries:** both taxes are to be extended to 2024.
- ▶ **Deduction on the special energy tax:** introduction of tax deductions on the special energy tax for investments which contribute to the energetic transition and the improvement of the energetic value chain at a national and European level.

Households

- ▶ **Food:** the VAT tax cuts to 0% in staple foods and to 5% in pasta are maintained until June 30th. New: oil VAT at 0%.
- ▶ **Public transportation:** extension of the 2023 measures to the whole of 2024. 1.400M€ allotted to the gratuity of Cercanías, Rodalies and Media Distancia for frequent users, as well as 30% discount for public transport with autonomic and local ownership, regardless that local/autonomic authorities complement it with an additional 20% cut to reach a discount of 50%.
- ▶ **Housing:**
- ▶ **New ICO line of guarantees** with a value of 2.000M€ for the construction and rehabilitation of energy-efficient housing for social or affordable rent. Conditions not yet detailed.
 - ▶ **Evictions:** Extension to 2024 of the suspension to evictions of vulnerable families without a housing alternative.
 - ▶ **Fiscal deductions on IRPF for energetic rehabilitations:** Up to 60% depending on property characteristics. Extended the whole year.

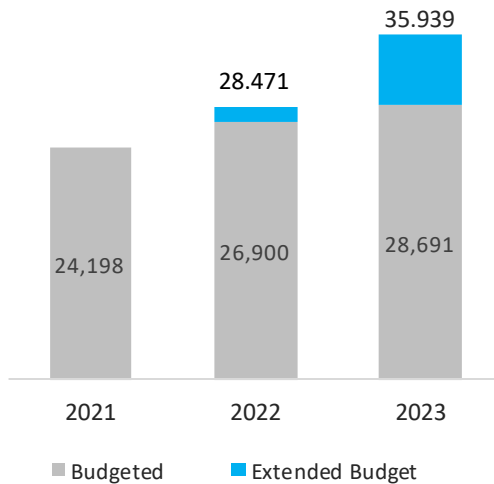
Electricity market

- ▶ **Reduction of the 2022-2023 tax cuts in the electricity bill over 2024:** VAT tax on gas and electricity increased from 5% to 10%. VAT tax on gas to increase after March 31st, most probably to 21%, the prevalent rate before inflation measures. VAT tax on electricity to stay at 10% over 2024.
- ▶ **Special electricity tax:** Before the discounts it was 5.11% (the tax base is the electricity bill determined by electricity consumption and the contracted power). Since September 2021, it was reduced to the legal minimum of 0.5%. Gradual increase: 2.5% in Q1 2024, 3.8% in Q2 2024 and then it will return (predictably) to 5.11%.
- ▶ **Electricity Production Value Tax:** its normal rate was 7% on the income obtained from the sale of electricity in the wholesale market and is reflected in the price of that market and in the final bill. In 2022 it was reduced to 0%. Gradual recovery: 3.5% in Q1 2024 and 5.25% in Q2 2024 to (predictably) stand at 7% in the second half of the year.
- ▶ **Extension of the electric social bonus** until June. These measures do not impact the budget as they are financed by companies and non-vulnerable customers.

NGEU: many projects are in the pipeline

NGEU funds

Million euros



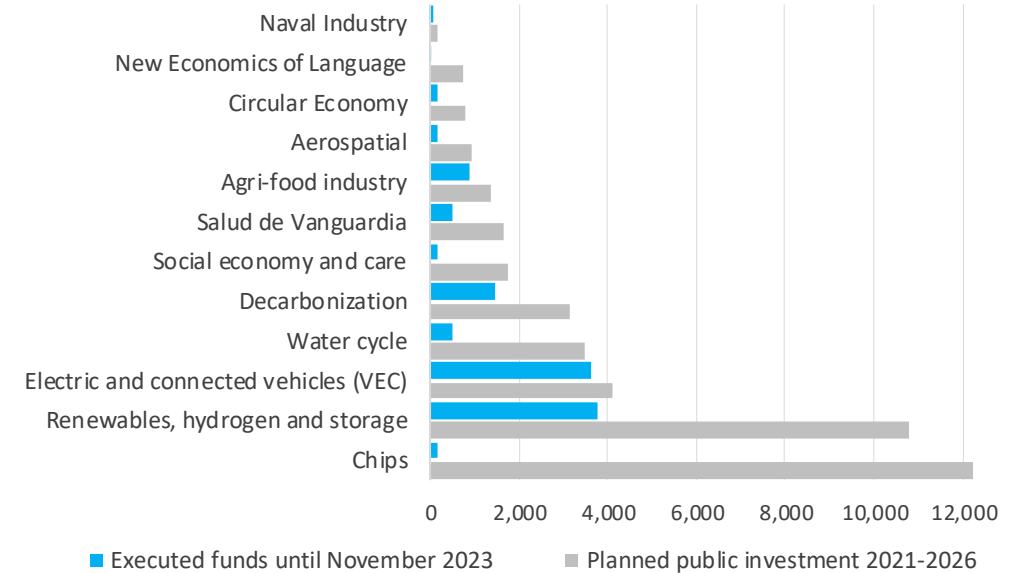
	2021	2022	2023*
Budgeted	24.198	26.900	28.691
Extended Budget	-	28.471	35.939
Authorised	22.128	25.143	25.453
Committed	20.976	21.647	19.624
Recognised	20.044	19.634	15.642
Paid	11.003	11.271	8.798

Note: *Until November 2023.

Source: CaixaBank Research, with data from IGAE and Mineco.

PERTEs

Million euros

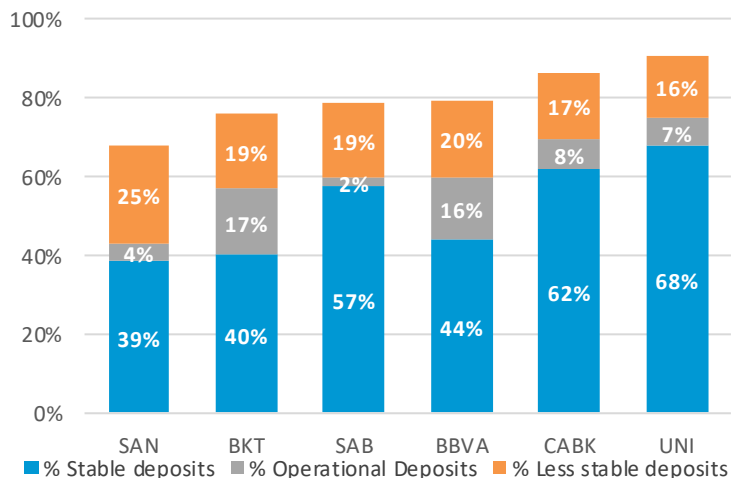


- ▶ **The European Commission has already approved the NGEU Addenda.** It involves 83 billion euros via loans, 7.7 bn via non-refundable additional transfers and 2.6 bn via transfers from RePowerEU between 2024 and 2026. Adding these funds to the 69.5 bn already approved (from which Spain has already received 37bn), Spain will receive 163bn between 2021 and 2026. The reform in the unemployment subsidy has not been approved by the Congress and its is necessary to receive the next European Commission disbursement in full(€10bn) of NGEU funds already requested.
- ▶ Some of the funds from the Addenda will be channeled through the banking system, which will have access to liquidity from ICO at favorable terms to on-lend to the private sector. 22bn will be for an “ICO green line” and 8bn for other ICO lines for businesses and entrepreneurs.
- ▶ Calls or tenders have been launched in 2021 –November 2023 for a value of 72.7bn. 62.2bn have been allocated, but these include funds channeled towards other public administrations.
- ▶ **2023:** From the amount budgeted for 2023, projects with a value of 25.4bn have been launched until November, and calls have been allocated for 19.6bn. **only 8.8bn have been disbursed.**
- ▶ On January 24, the first PERTE call will open for actions that address the challenge of decarbonizing industrial facilities. Up to nearly €1,000 million will be granted in the form of grants and loans, which may cover a maximum of 80% of financeable expenses and must provide guarantees (guarantee or other). On the other hand, the second call for PERTE for social economy has been published, with an endowment of €80 million.

Banking system: strong liquidity position

Banks' deposit breakdown

% of total deposits excluding unsecured debt

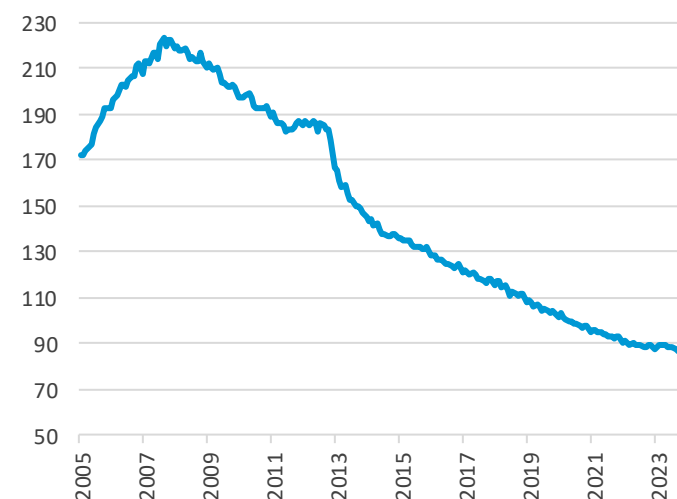


Note: Stable deposits and less stable deposits correspond to retail deposits and deposits from small business customers. Operational deposits (all counterparties and deposits in networks of cooperative banks) correspond to unsecured wholesale funding. Rest are non-operational deposits (all counterparties). Unsecured debt not included.

Source: Banks' consolidated Pillar 3 public report 3Q23..

HHs & NFCs loan to deposit ratio

Percentage (%)

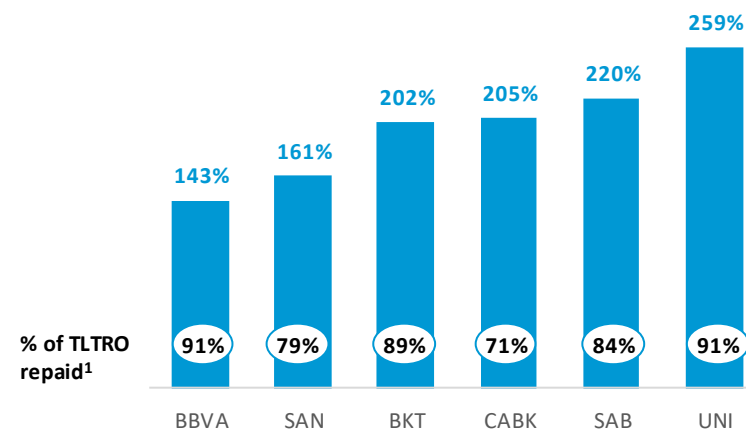


Note: loans and deposits to residents in Spain, on a non-consolidated basis. Latest data available Nov-23.

Source: CaixaBank Research, based on Bank of Spain data.

Banks' LCR

Q3 23 published ratio



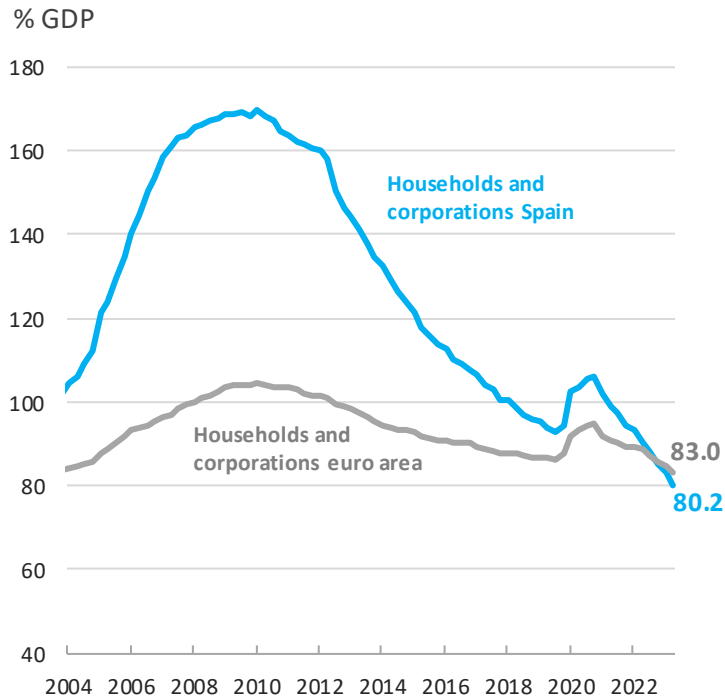
Note: (1) TLTRO repaid between the beginning of Nov'22 and the end of Sep'23 as % of total TLTROs. This includes TLTRO returned at maturity and extraordinary returns. At the beginning of Nov'22, TLTRO sector funds: €2,113 bn. As of 09.31.2023, TLTRO sector funds: €590 bn.

Source: Banks' financial statements.

- ▶ **Spanish banks are strongly focused on the retail segment, which provides a stable source of funding in the long-term.** Stable deposits and operational deposits (those that have proven to be harder to withdraw) account for over 60% of total deposits for nearly all Spanish banks. This has contributed both to a positive evolution of profitability in a context of rising interest rates, as well as to a favorable liquidity position and to the stability and diversification of their funding sources.
- ▶ **Households and non-financial corporation (NFCs) deposits peaked in August 2022.** Nov'23 data show a 0,9% decline yoy but with a clear slowdown in the last months. A large part of the decline is due to the repayment of COVID-related precautionary loans and increased early-repayments in mortgages. Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- ▶ **With data available up to Nov'23, Spanish banks had repaid around 89% of TLTROs outstanding at Oct'22.** This figure compares to a 77% for the Euro Zone banks in aggregate.
- ▶ **The Spanish banking sector faced the pending TLTRO maturities of Jun'23 from high liquidity ratios.** EBA data for 2Q23 points to an LCR ratio of 170% and a NSFR of 130% for Spanish banks (vs. an EU average of 160% and 126%, respectively).
- ▶ **The liquidity position of Spanish banks is fairly sound even in the adverse scenario.** All entities exceed the minimum LCR requirements set for 2023 in the Bank of Spain's stress test¹

Banking system: higher interest rates depress credit demand

Bank credit to the private sector



Note: latest data available as of Sep-23.
Source: ECB, Eurostat.

Private domestic credit

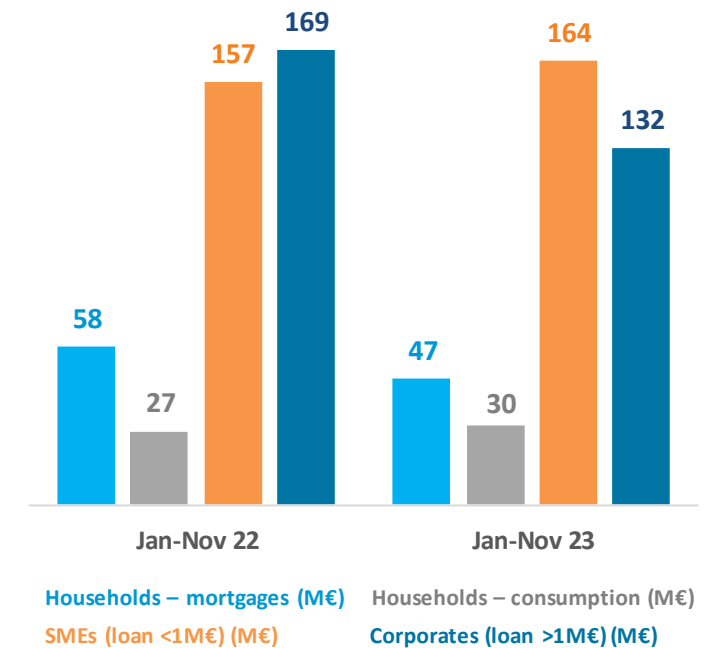
Year-on-year (%)

	Dec-22	Nov-23 (latest)	2023 (forecast)
	% yoy	% yoy	% yoy
Total credit	-0,4%	-3,8%	-3,3%
Households	-0,2%	-2,5%	-2,4%
Housing mortgages	-0,2%	-3,4%	-3,5%
Other purposes	0,0%	0,0%	0,7%
Of which consumption	1,1%	2,6%	3,4%
Businesses	-0,7%	-5,6%	-4,7%
Non-real estate developers ¹	1,3%	-4,2%	-
Real estate developers ¹	-8,8%	-7,7%	-

Note: (1) latest data available Sep-23.
Source: Bank of Spain.

New lending activity by sector

YTD, €Bn

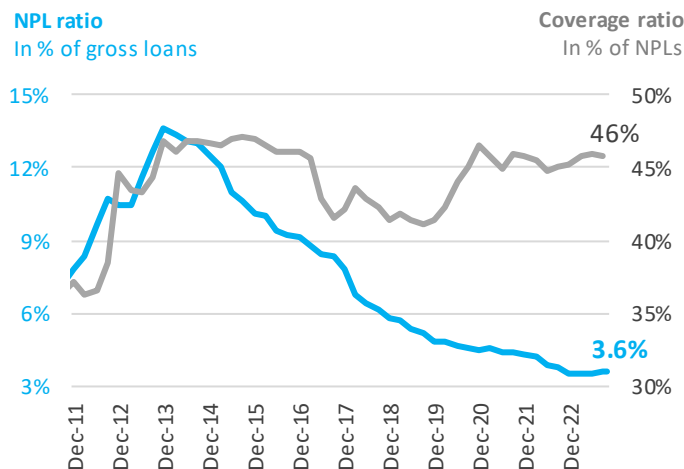


Source: Bank of Spain.

- ▶ **Households and corporate debt levels** (including debt securities) remain below euro area averages in 3Q23. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic. We expect this gradual deleveraging to continue in the coming months.
- ▶ **New mortgage production** declines in the recent months due to the rise in interest rates and its impact on home purchases.
- ▶ **New lending for consumption** increases favored by improvements of consumer confidence, although it is still below pre-COVID-19 levels.
- ▶ **New lending to corporates** decreases but only for larger loans and after an extraordinary 2022. Loans under 1M€ continue to grow but at a slower pace.
- ▶ Early repayments of mortgages and soft demand for new corporate lending combined with the repayment of covid-related borrowing will weigh on credit growth in the coming months.

Banking system: sound profitability and capital position

NPLs and coverage ratios¹



Cost of risk²

0.4% in Q2 2023
0.4% in Q3 2023

Note: (1) latest available data Oct-23 and Sep-23, respectively. (2) Spanish business. Accumulated 12 months based on the average of the 6 largest institutions.

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

Banks' profitability

% of avge. total assets (Q3 23; trailing 12M)

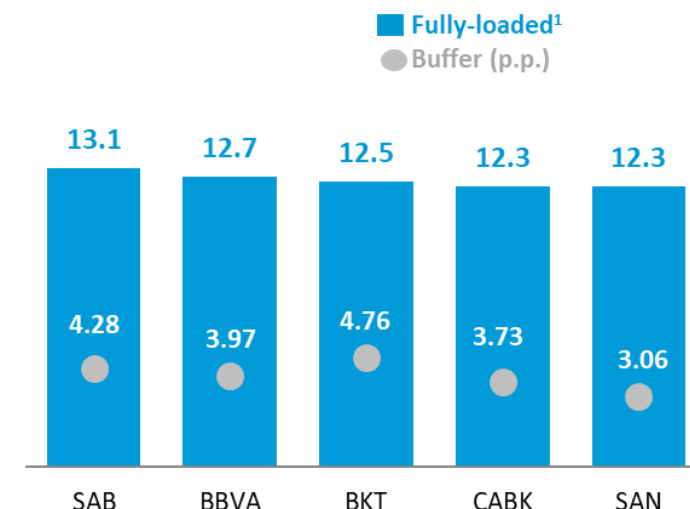
	CABK	BBVA	SAN	SAB	BKT
Net interest income	1.5%	1.2%	1.3%	1.7%	2.0%
Net fees	0.6%	0.5%	0.6%	0.7%	0.6%
Gains on financial assets/liab. and others	0.0%	0.1%	0.2%	0.0%	0.1%
Other operating income	0.0%	-0.1%	0.0%	-0.1%	-0.2%
Gross income	2.2%	1.7%	2.0%	2.3%	2.4%
Operating expenses	-0.9%	-0.7%	-0.9%	-1.0%	-0.9%
Impairment losses, tax and others	-0.5%	-0.4%	-0.7%	-0.7%	1.2%
Profit	0.7%	0.6%	0.5%	0.5%	0.8%
ROTE (%)¹	14.1	10.5	15.2	9.8	16.6

Note: Domestic businesses. ROTE based on internal calculations. (1) BBVA includes Corporate Centre (only proportion applicable to business in Spain). SAN also includes Corporate Center + Portugal. ROTES published by the BBVA and SAN groups: 17% and 14.8%, respectively.

Source: Bank's financial statements.

Banks' solvency position

In % (Q3 23)



Note: (1) CET1 FL, with IFRS9 transitional adjustments if applicable.
Source: Bank's financial statements.

- **NPLs remain below 4%**, despite the fact that both debt moratoria and the grace period for ICO loans expired in 2Q22. The share of stage 2 loans on a group level decreased to 6.8% in 2Q23, remaining below EU level. At the end of 2022, the Government and the banks agreed to expand the scope of the Code of Good Practice (CGP) to protect households under financial strain due to surging Euribor (in the first seven months of 2023, the number of applications for measures under the CGPs was low relative to the total number of existing mortgage loans, less than 0.4%).
- **Profitability is recovering (ROE stood at 12.3% in 2Q23)** thanks to the widening of the net interest margin and despite inflationary pressures and the extraordinary and temporary banking tax (4.8% on domestic net interest and fee income, where such income exceeds €800 million).
- **The capital position of Spanish banks remains comfortable with a 12.8% CET1 ratio.** Under the adverse scenario considered, the Bank of Spain's stress test¹ for 2023-2025 shows that the CET1 ratio for the Spanish banks as a whole would fall by 3.3 p.p but would remain above the regulatory minimum.