Spain
Macroeconomic & Financial Outlook

CaixaBank Research

March 2024

Prepared with information available as of March 7th, 2024

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Key messages

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Activity	▶ **Significant progress in the fight against inflation opens the door for the ECB to begin rate cuts in Q2,** while solid labor markets, inertia in wage growth and the expectation of a pick-up in EA activity throughout 2024 favor a gradual approach to policy normalization. We expect a sequence of gradual 25bp cuts to begin at the end of Q2 2024 and we see the depo rate at 3.00% by end-2024 (a scenario that markets converged to by the end of February). ▶ **We revise Spanish GDP growth in 2024 upwards to 1.9%** (prev. 1.4%), owing to a strong carry-over effect of the Q4 GDP growth figure and improved outlook for consumption growth due to stronger growth of real disposable income. Lower inflation in 2024 and a steeper decline in interest rates in H2 2024 trigger an upward revision of GDP growth in 2025, from 2.0% to 2.2%. ▶ **Early available indicators point to a strong start of the year**. The composite PMI registered 53.9 points in February, up from 51.5 in January. Employment added, in seasonally adjusted terms, c.75k new workers, the highest reading since April 2023 and one that drives the quarter-on-quarter growth rate of employment up to 0.5% (0.4% last quarter). ▶ **We revise headline inflation downwards to 3.0% (-0.6pp) in 2024 and upwards to 2.5% (+0.3pp) in 2025.** Better-than-expected inflation dynamics at the end of 2023 and the gradual phase out of fiscal measures trigger a downward revision of inflation in 2024, which is partially, but not completely, compensated by an upward revision of inflation in 2025, as some of the fiscal measures will be removed (subsidies on transport and VAT electricity) in January 2025. ▶ **We revise house price growth upwards to 2.7% in 2024** (prev. 1.4%). The resilience of the real estate market in 2023, the improvement in the economic outlook and the expectation that the ECB will lower interest rates in mid-2024 suggest that the real estate market will gain traction in 2024. We improve our forecasts for the Spanish real estate market for 2024 and 2025 to 2.7% and 2.5%, respectively (prev. 1.4% and 2.2%). ▶ **The public deficit is forecast to decline to 3.4% of GDP in 2024**, a fiscal adjustment of 0.7 p. p., driven by the removal of anti-inflation measures: in 2023 they represented 1% of GDP and the partial extension to 2024 represents a cost of 0.3% of GDP.
Banking Sector	▶ **The banking system remains strong with robust capital and liquidity positions.** Profitability improves and its ROE reaches almost 13% in 3Q23 (vs. 10.9% in Euro Zone), driven mainly by good performance of the interest margin. Liquidity ratios remain high after the repayment of nearly 92% of TLTROs, with LCRs of top 5 banks ranging from 143% to 228%. In terms of new credit, activity begins to recover in January 2024. Asset quality remains resilient despite materially higher interest rates, domestic NPL ratio stands at 3.54% in December, stable since dic'22 and 128 bps below pre-covid level of February 2020.

Main economic forecasts

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%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	Forecast 2023	Forecast 2024	Forecast 2025
GDP	3.8	3.0	3.0	2.3	2.0	-11.2	6.4	5.8	2.5	1.9	2.2
Private Consumption	2.9	2.6	3.0	1.8	0.9	-12.4	7.2	4.8	1.7	2.4	2.3
Public Consumption	2.0	1.0	1.0	2.3	1.9	3.6	3.4	-0.2	3.8	2.9	1.6
Gross Fixed Capital Formation (GFCF)	4.9	2.4	6.8	6.3	4.5	-9.0	2.8	2.4	0.6	0.3	3.1
GFCF - equipment	9.1	1.8	9.2	4.7	2.0	-12.6	4.4	1.9	-1.8	-0.2	3.8
GFCF - construction	1.5	1.6	6.7	9.5	7.2	-9.2	0.4	2.6	2.2	-0.2	2.8
Exports	4.3	5.4	5.5	1.7	2.2	-20.1	13.5	15.2	2.4	0.2	2.1
Imports	5.1	2.6	6.8	3.9	1.3	-15.0	14.9	7.0	0.3	1.2	2.3
Unemployment rate	22.1	19.6	17.2	15.3	14.1	15.5	14.8	12.9	12.1	11.8	11.4
CPI (average)	-0.5	-0.2	2.0	1.7	0.7	-0.3	3.1	8.4	3.5	3.0	2.5
External current account balance (% GDP)	2.0	3.2	2.8	1.9	2.1	0.6	0.8	0.6	2.5	2.3	2.5
General Government Balance (% GDP)[1]	-5.4	-4.3	-3.1	-2.6	-3.1	-10.1	-6.8	-4.7	-4.1	-3.4	-2.9
General government debt (% GDP)[2]	103.3	102.7	101.8	100.4	98.2	120.3	116.8	111.6	107.7	106.8	106.3
Housing prices	1.1	1.9	2.4	3.4	3.2	-1.1	2.1	5.0	3.9	2.7	2.5
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	92	85
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	-3.4	-1.6

***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.*

The ECB aims at a cautious and gradual policy normalization

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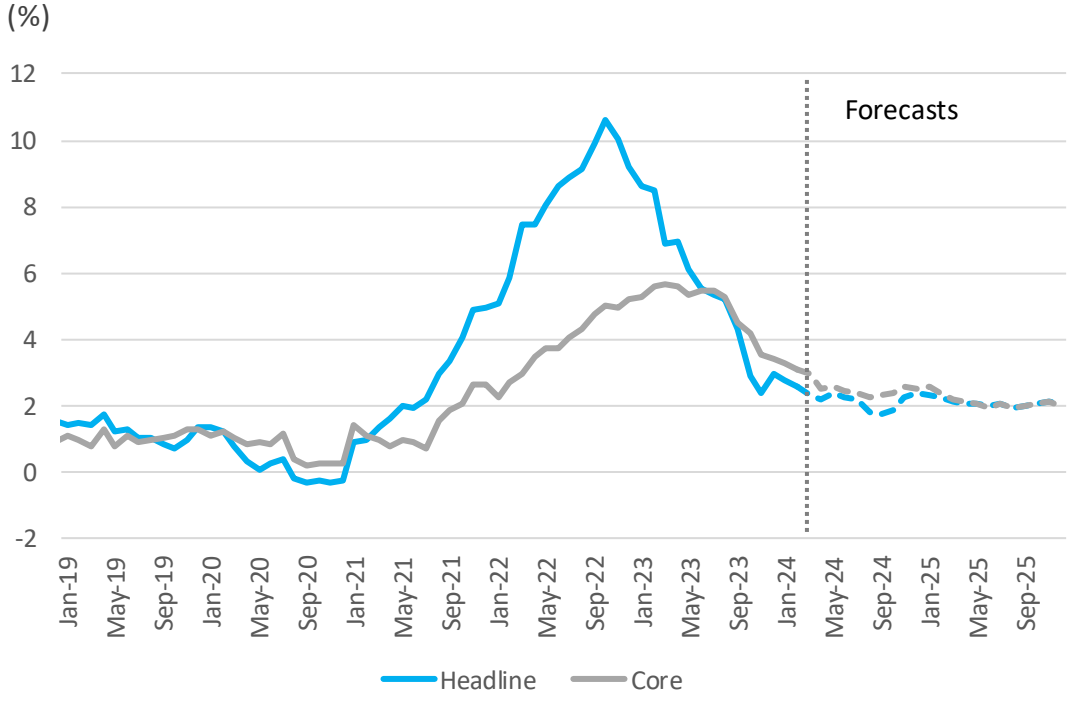
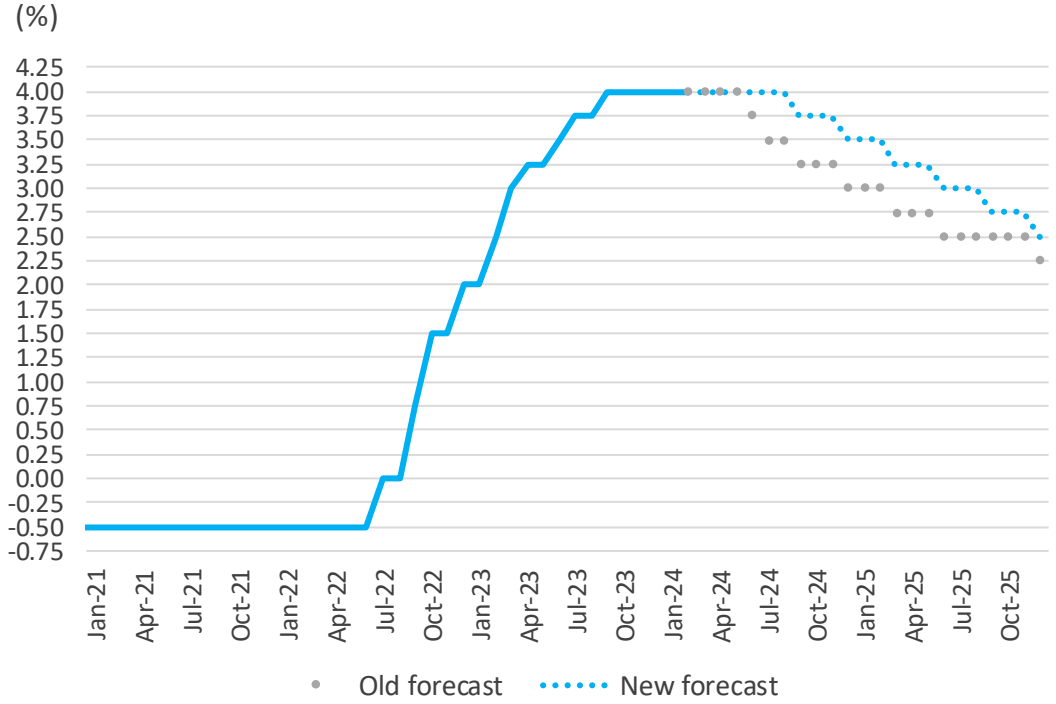
Euro area: HICP inflation



ECB deposit rate



- **Significant progress in the fight against inflation opens the door for the ECB to begin rate cuts in Q2**, while solid labor markets, inertia in wage growth and the expectation of a pick-up in EA activity throughout 2024 favor a gradual approach to policy normalization. We expect a sequence of gradual 25bp cuts to begin at the end of Q2 2024 and we see the depo rate at 3.00% by end-2024 (a scenario that markets converged to by the end of February). Balance sheet reduction will accompany the gradual downward adjustment to policy rates in a passive way: the last TLTROs will be repaid in 2024, the APP portfolio is mechanically declining under a zero-reinvestment strategy, and PEPP reinvestments will drop from 100% to 50% in the second half of 2024 (and to 0% in 2025).
- **ECB officials are arguing for "patience and caution"**. While acknowledging a faster-than-expected disinflation in the near term, officials keep an antiinflationary bias, require greater confidence about the last disinflation mile, and call for a cautious approach due to remaining hurdles (e.g., activity recovery, wage and profit developments, geopolitical uncertainty, etc.).

Oil prices to moderate slightly in 2024

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Brent oil prices (and futures)

$ per barrel

Commodity prices

	Metric	Price	Change (%)			
			Last Month	Year to Date	2022	2023
Commodities	**index**	**97,6**	**1,2**	**-1,0**	**13,8**	**-12,6**
Energy	**index**	**31,5**	**3,2**	**2,7**	**33,5**	**-25,6**
Brent	$/barrel	82,7	6,1	7,4	10,5	-10,3
Natural Gas (Europe)	€/MWh	28,1	-0,9	-13,2	8,5	-57,6
Precious Metals	**index**	**226,7**	**4,9**	**1,3**	**-1,9**	**4,1**
Gold	$/ounce	2123,5	4,9	2,9	-0,3	13,1
Industrial Metals	**index**	**138,1**	**2,4**	**-3,2**	**-4,4**	**-13,7**
Aluminum	$/Tm	2234,0	0,0	-6,3	-15,3	0,3
Copper	$/Tm	8542,5	0,7	-0,2	-13,9	2,2
Agricultural	**index**	**58,1**	**-4,0**	**-6,9**	**13,2**	**-9,3**
Wheat	$/bushel	563,5	-6,0	-10,3	2,8	-20,7

- **We expect a slight decline in oil prices in 2024.** Oil prices have so far shrugged off disruptions to shipping in the Red Sea and the risk of a wider conflict in the Middle East. The extension of OPEC's voluntary cuts are seen to keep the market tight in the Q2, but we consider that tightness won't last long as increased production from non-OPEC countries, especially USA, should outweigh higher oil demand from India and China. We forecast the Brent price for 2024 at $79 per barrel (avg. price and $78 at Dec-24) and $75 per barrel in 2025 ($73 at Dec-25).
- **European natural gas prices to stabilize around 30€/MWh.** Ample supply of LNG, high level of reserves in Europe and the mild weather should maintain the TTF price (European natural gas benchmark price) trading in the 27€ -32€/MWh range, for much of the year. We forecast European natural gas price for 2024 of 30.7 €/MWh (avg. price and 35.5€/MWh at Dec-24) and 32.8€/MWh in 2025 (34.3€/MWh at Dec-25).

Conflict in the Red Sea pose moderate upside risks on inflation

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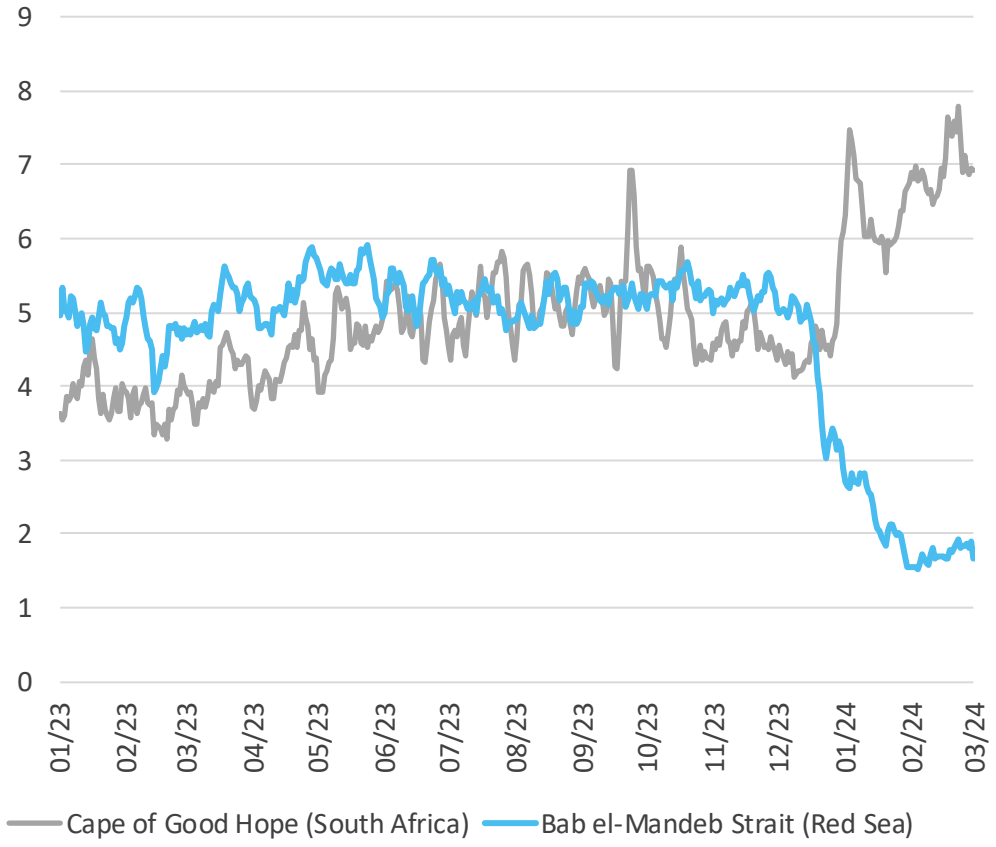
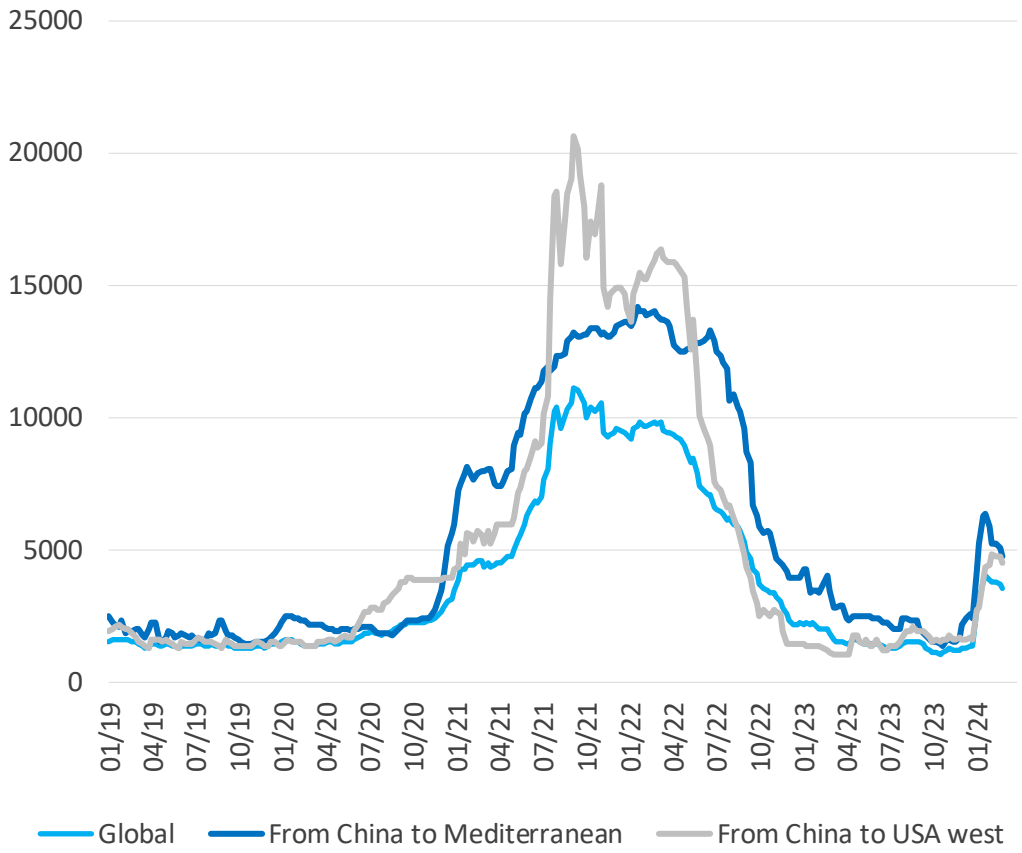
Sea freight

Volume (million tones)



Cost of shipping containers

Dollars per 40-feet containe

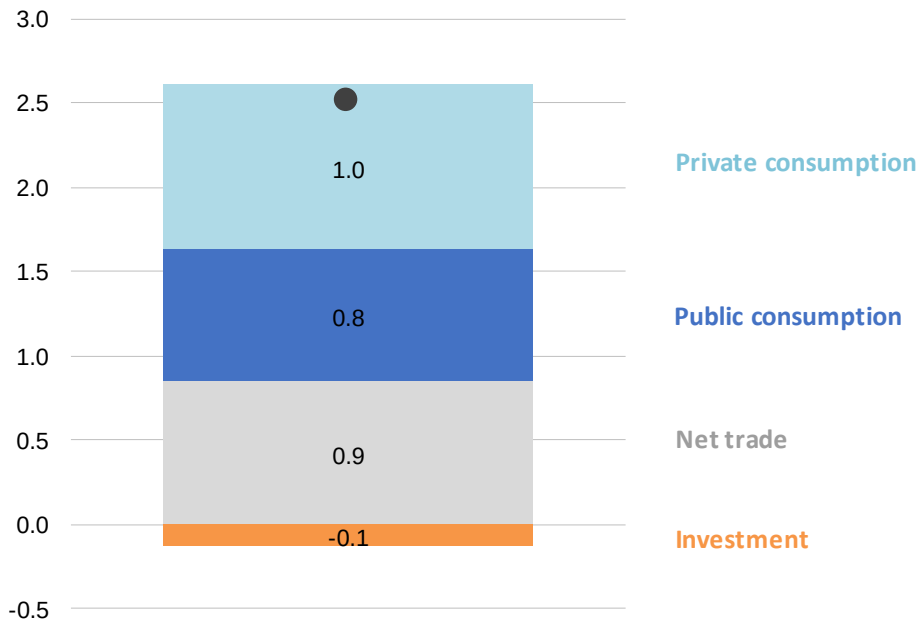


- The increase in cost of shipping goods pose slight upside risks on our 2024 core inflation forecast, but **it does not trigger a new inflationary cycle**.

Spain: 2023 recap

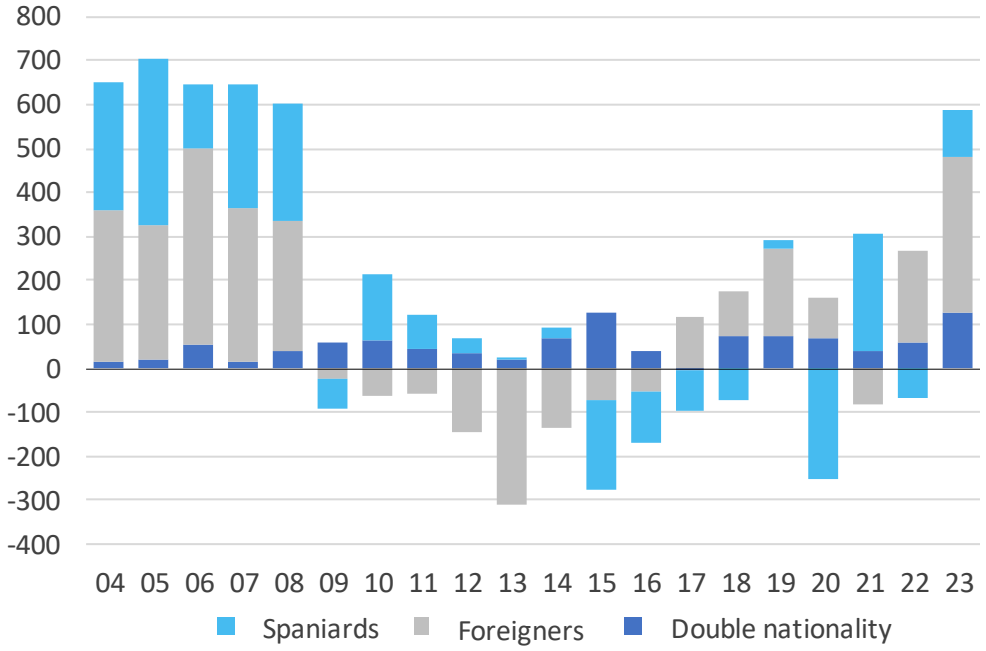
Contribution to annual GDP growth

Percentage points and percentage change (%)



Labor force

Annual change (thousands)



- **GDP grew 2.5% in 2023**, substantially above the euro area (0.5%) and above what we expected at the end of 2022 (+1.0%). The economy benefitted from a faster-than-expected decline of energy prices, a strong performance of the external sector and a dynamic labor market. Looking at the GDP components, both internal and external demand contributed to growth in 2023. Growth in internal demand was driven by growth in private consumption (owing to the strength of the labor market) and public consumption, while investment disappointed. Net trade contributed 0.9pp to GDP growth, owing to the strength of services exports (both tourist and non-tourist), that more than offset weakness in goods exports (due to weakness in our main trading partners), and subdued import growth.
- **Strong growth of the Spanish labor force in 2023 owing to demographics**. The labor force increased by c.600k people between Q4-22 and Q4-23, of which c.356k were foreigners. In 2023 immigration flows gathered strength and are now similar to those witnessed before the great financial crisis. Despite the increase in population, employment growth has been strong enough to drive the employment rate to a maximum (71.2% of the population between 20-64 years old worked in Q4 2023 vs 68% avge. 2019).

Update of macroeconomic scenario

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New macroeconomic scenario

Annual variation (%), unless otherwise stated

	2023	2024	2025	2026
GDP	2.5	1.9	2.2	2.0
Unemployment rate (% labor force)	12.1	11.8	11.4	11.0
Inflation rate (average of period, %)	3.5	3.0	2.5	2.0
House prices (appraisal)	3.9	2.7	2.5	2.4

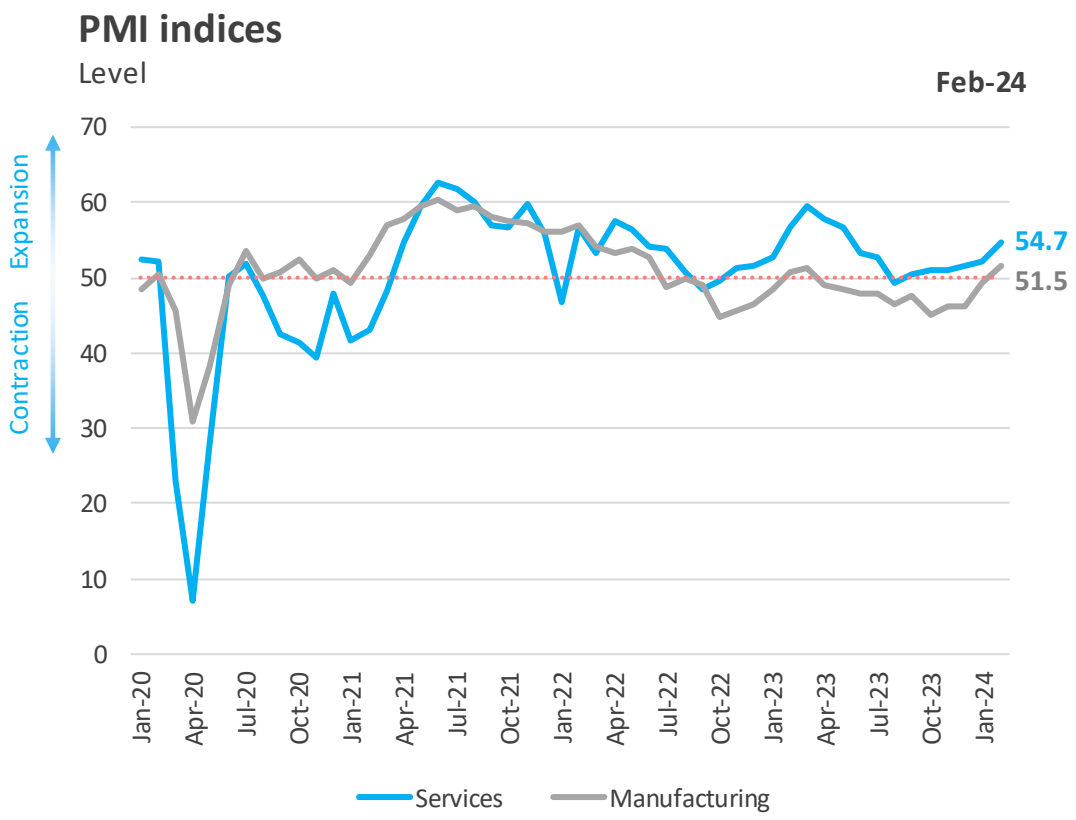
Previous macroeconomic scenario (Sept.-23)

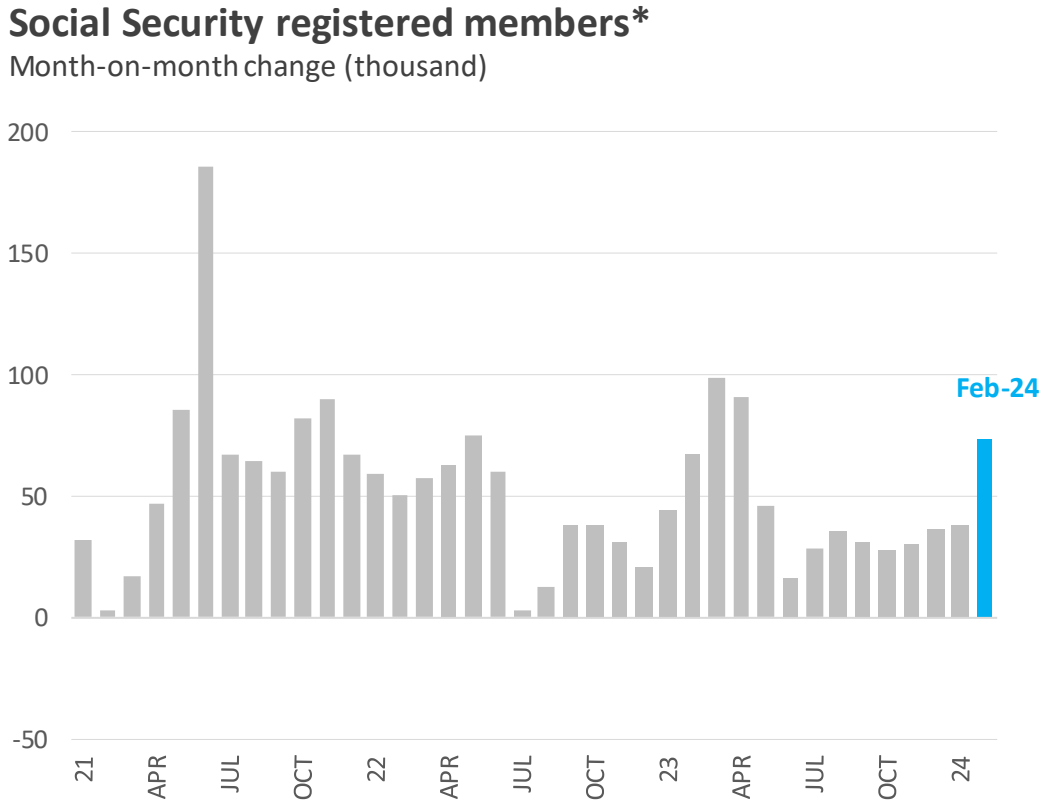
Annual variation (%), unless otherwise stated

	2023	2024	2025	2026
GDP	2.5	1.4	2.0	2.0
Unemployment rate (% labor force)[1]	12.1	11.8	11.4	11.0
Inflation rate (average of period, %)	3.5	3.6	2.2	2.0
House prices (appraisal)	3.9	1.4	2.2	2.4

- **We expect Spanish GDP growth to moderate in 2024 relative to 2023 as the economy experiences the peak impact of higher interest rates at the beginning of 2024**. Thereafter, growth will pick up speed, as the impact of the monetary policy tightening cycle fades away and the economy taps on lower inflation, a resilient labor market and ongoing NGEU-related investments.
- **We revise GDP growth in 2024 upwards to 1.9% (prev. 1.4%)**, owing to a strong carry-over effect of the Q4 GDP growth figure and improved outlook for consumption growth due to stronger growth of real disposable income. Lower inflation in 2024 and a steeper decline in interest rates in H2 2024 trigger an upward revision of GDP growth in 2025, from 2.0% to 2.2%.
- Our forecast of the unemployment rate has remained unchanged, as the upward revision of employment growth has been offset by a similar upward revision of growth of the labor force (largely driven by higher immigration flows).

Early available indicators point to a strong start of the year

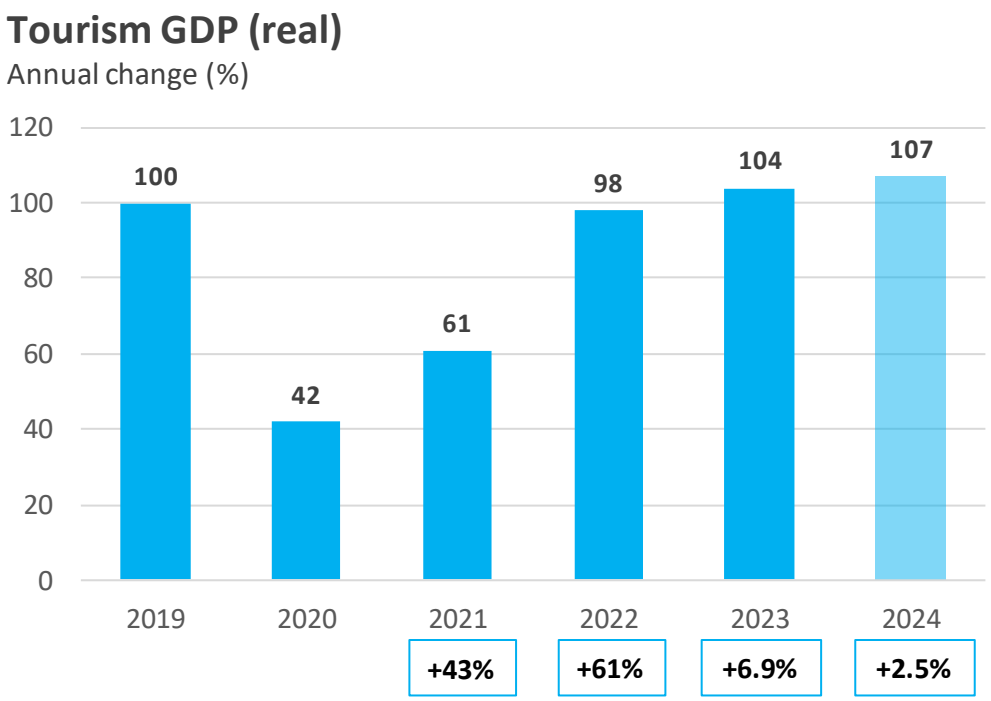


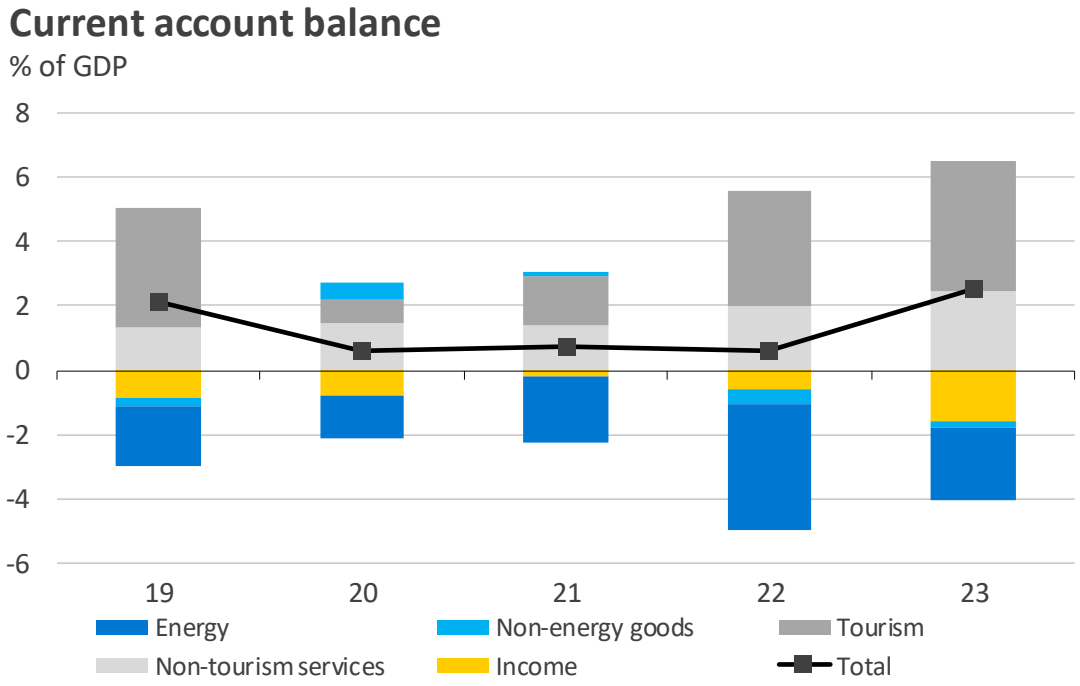


Note: (*) Seasonally adjusted.

- **There are still few indicators available for Q1, but those that are, are coming in strongly**. The composite PMI took a leap in February and registered 53.9 points, up from 51.5 in January, driven by improvements in both the services and manufacturing PMIs. Employment added, in seasonally adjusted terms, c.75k new workers, the highest reading since April 2023 and one that drives the quarter-on-quarter growth rate of employment up to 0.5% (0.4% last quarter).

Positive outlook for the tourist sector in 2024





- **Following a strong 2023, the tourist sector still boasts room for growth in 2024.** After the sharp downturn in the sector caused by the pandemic, the recovery of international tourism in Spain can now be considered almost complete. Among the world's top 10 tourism destinations, Spain was the second to exceed its number of pre-COVID international tourists, behind only Türkiye and has become the world's number one tourist destination in 2023, overtaking France for the very first time, a remarkable milestone. In 2024 we expect the positive trend in Spain's tourism sector to continue but growth rates will gradually normalize. Main factors that support Spain's tourism sector include the improved purchasing power in the main residence countries of Spain's inbound tourism, and Spain's greater geopolitical stability compared to its rival countries. Nevertheless, factors such as the euro area's weak economic growth and the recovery of Spanish tourism abroad will limit its expansion.
- **The current account posts the highest surplus since 2017.** The current account registered a 2.5% of GDP surplus in 2023. Barring the income account, which has been affected by the increase in interest rates, all sub-accounts have improved. We highlight the surplus on both the tourist and non-tourist services, which have reached historical maximums, at 4.1% and 2.4% of GDP, respectively. In addition, the goods trade deficit has improved on the back of lower energy prices. Following twelve years in a row of current account surpluses, the deficit in the net international investment position, a traditional weakness of the Spanish economy, has almost halved, from c.100% of GDP in 2012, to c.55%. We expect the current account to remain in surplus in 2024 (forecast of +2.3% of GDP).

Inflation revised downwards in 2024 owing to better-than-expected data and the gradual phase out of fiscal measures

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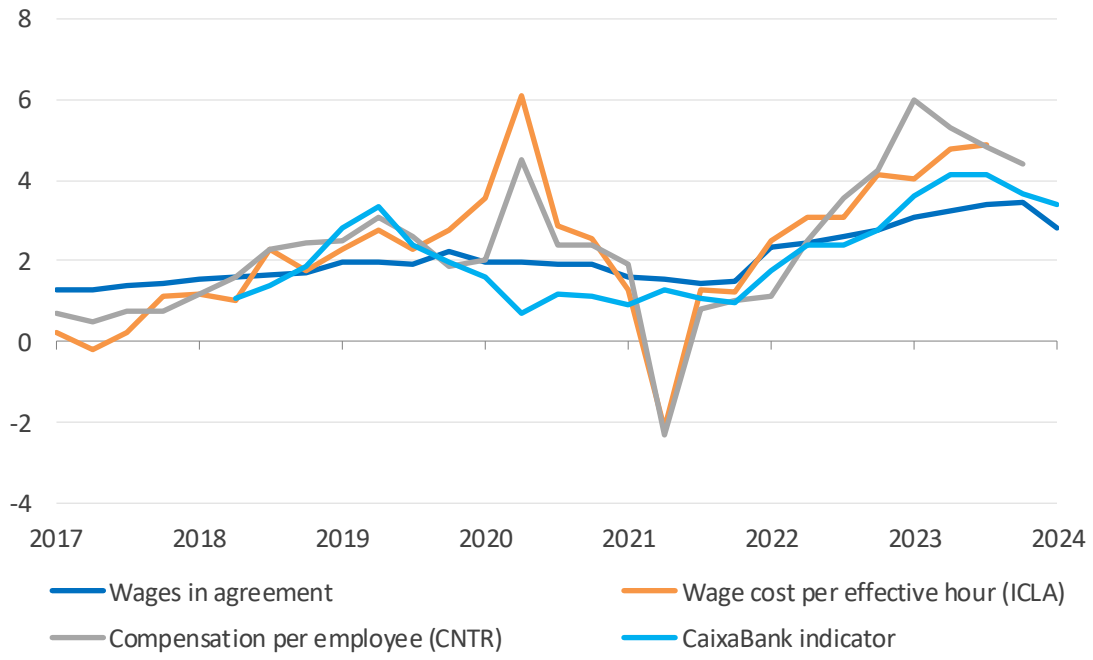
Wage indicators in Spain

Year-on-year change (%)



Inflation forecast by component

Annual change (%)

	2023	2024 (Forecast)	2025 (Forecast)	2026 (Forecast)
Headline inflation	3.5	3.0	2.5	2.0
Underlying inflation (excl. energy and non processed food)	6.0	2.7	2.5	2.2
Core inflation (excluding energy and food)	4.4	2.5	2.4	2.1
- Industrial goods	4.2	1.5	1.5	1.3
- Services	4.3	3.0	2.7	2.5
Food, beverages & tobacco	11.1	3.8	3.3	2.6
Energy	-16.3	3.1	1.4	-0.3
- Electricity	-36.8	17.7	6.3	-1.5
- Fuel	-5.1	-4.2	-1.2	0.3

- **Headline inflation decreased 0.6pp in February to 2.8%.** This decrease can be attributed to historically low electricity prices, and more stable food prices. Underlying inflation (excluding energy and non-processed food) continued to decline, albeit at a slower rate, with a 0.2pp decline to 3.4% (3.6% in January).
- **We revise headline inflation downwards to 3.0% (-0.6pp) in 2024 and upwards to 2.5% (+0.3pp) in 2025.** Better-than-expected inflation dynamics at the end of 2023 and the gradual phase out of fiscal measures trigger a downward revision of inflation in 2024, which is partially, but not completely, compensated, by an upward revision of inflation in 2025, as some of the fiscal measures will be removed (subsidies on transport and VAT electricity) in January 2025. We expect headline inflation to converge to 2.0% in 2026.
- **No signs of second-round effects in wages.** As of the beginning of 2024, the main wage-related indicators suggest wage growth has started to decelerate.

Housing market: Upward revision of forecasts

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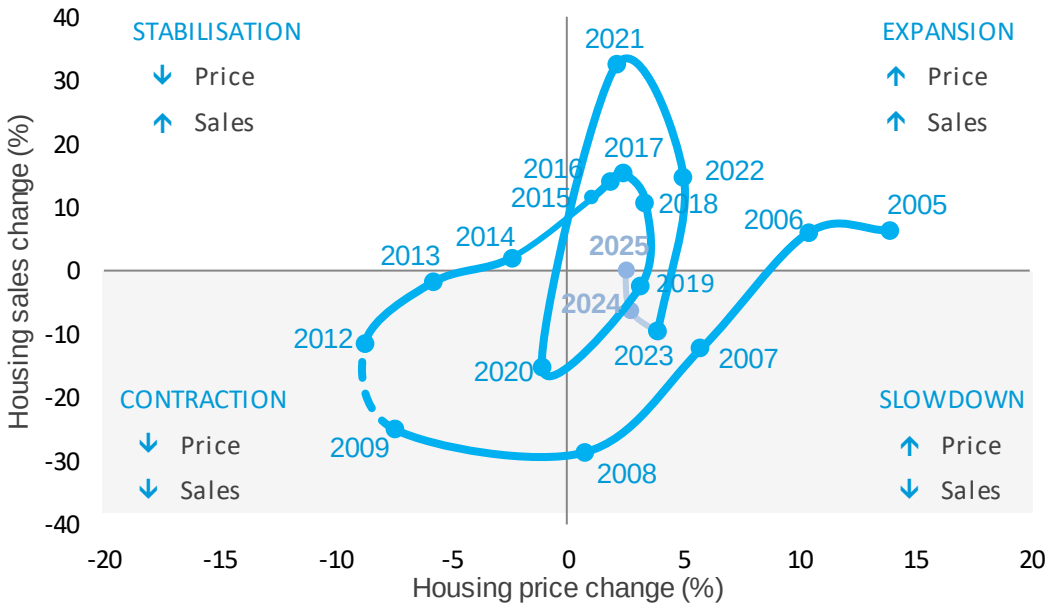
Updated forecasts for the real estate market

	2022	2023	2024	2025	2026	2027
Housing sales *(thousand)*	650	592 (550)	550 (510)	552 (511)	553	553
New building permits *(thousand)*	109	110 (105)	115 (105)	125 (110)	130	135
House price (appraisal, MIVAU) *Year-on-year (%)*	5.0	3.7	2.7 (1.4)	2.5 (2.2)	2.4	2.4
House price (transaction, INE) *Year-on-year (%)*	7.4	4.3 (3.3)	3.5 (1.4)	2.5 (2.2)	2.4	2.4

Note: Previous forecast in parenthesis.
Source: CaixaBank Research, based on data from INE, Resistrars and MIVAU.

CaixaBank Research housing clock



Note: The period 2010-2011 is excluded due to the impact of fiscal incentives.
Source: CaixaBank Research, based on data from INE and MIVAU.

- **The Spanish real estate market slowed down in 2023, but more gently than anticipated:**
  - Housing prices slowed down in the first half of 2023 but accelerated in the second half. Housing prices increased by 3.9% in 2023 (appraisal value, MIVAU, previously MITMA). According to the INE index (transaction price), house prices increased by 4.3% yoy in Q3 (lastest data). New housing units are appreciating at a much higher pace (+11.0% yoy).
  - The number of housing sales decreased by 9.7% in 2023 but are well above pre-pandemic levels (+18.5% compared to 2019).
  - Housing supply is similar to previous years (around 110.000 units) but the gap with respect to net household creation is widening (almost 300,000 in 2023).
- **Outlook:** The resilience of the real estate market in 2023, the improvement in the economic outlook and the expectation that the ECB will lower interest rates in mid-2024 suggest that the real estate market will gain traction in 2024. We are improving our forecasts for the Spanish real estate market for 2024-25: housing price increase to +2.7% and 2.5%, respectively (prev. 1.4% and 2.2%) and the number of sales to around 550,000 units per year (prev. 510,000). These forecasts contemplate a certain deceleration with respect to 2023 because the factors that have supported the real estate sector in 2023 will continue to be present in 2024, although with less intensity. Nevertheless, the absence of imbalances reduces the risk of an abrupt adjustment in house prices or in the construction sector. We are also now expecting higher growth in new building construction to reduce the gap with demand.

Partial withdrawal of anti-inflation measures will lower the public deficit

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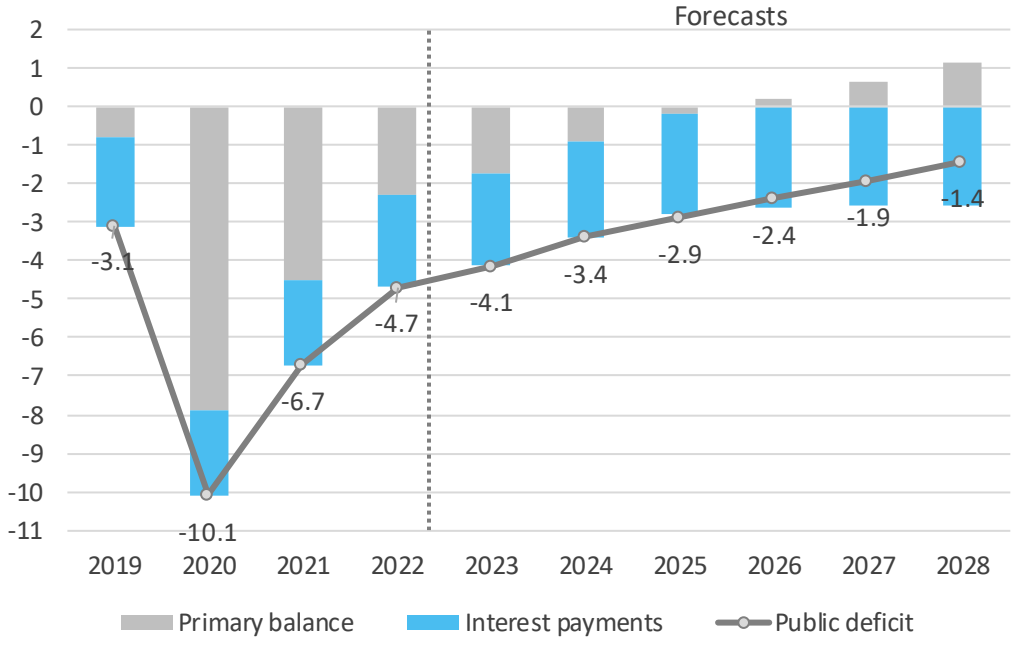
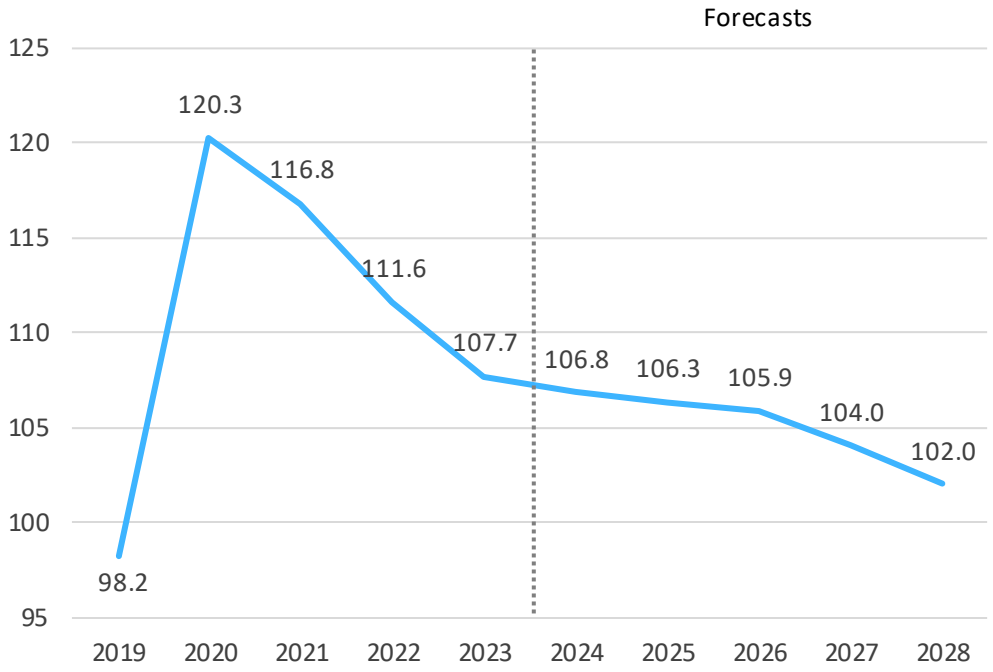
General government balance

Percentage of GDP (%)



Public debt

Percentage of GDP (%)



- **The public deficit is forecast to decline to 3.4% of GDP in 2024**, a fiscal adjustment of 0.7 p. p., driven by the removal of anti-inflation measures: in 2023 they represented 1% of GDP and the partial extension to 2024 represents a cost of 0.3% of GDP.
- **Public debt as a percentage of GDP will be reduced at a very slow pace in the coming years**. NGEU loans (Addenda) are projected to add c. 3-4pp of GDP to public debt in 2025-2026 but this effect will be more than offset by economic growth.
- Spain's primary balance will be c.-1% of GDP in 2024. Reaching a primary surplus of 1% in 2028 seems feasible and would allow compliance with fiscal rules by a narrow margin: fiscal adjustment of 0.5 pp per year on average in 2024-2028 and debt reduction of slightly more than 1pp of GDP per year on average in 2024-2028.

State's financing needs increase, but they can be absorbed by the larger participation of domestic and nonresident investors

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Spain: Gross financing needs

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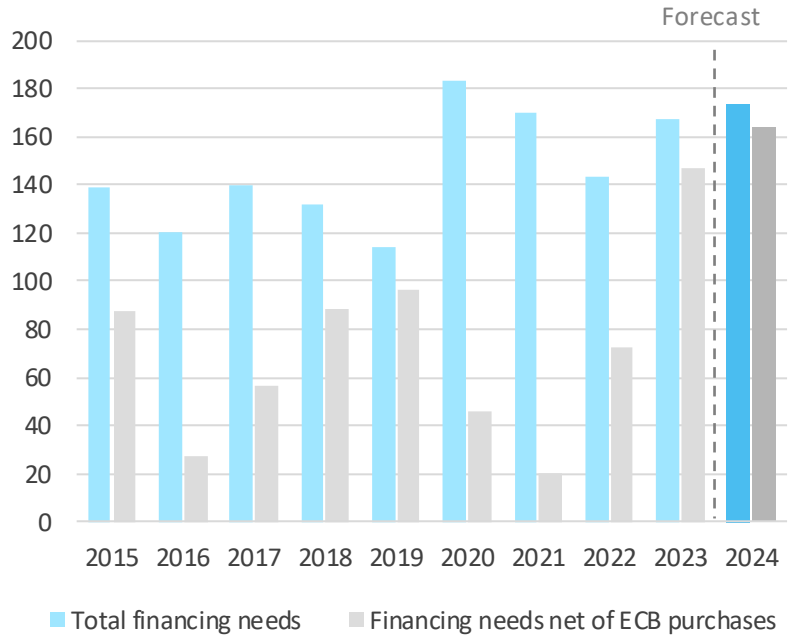

Note: *Amortisation funds do not include short-term bills. For example, bills worth 89.348 millions were redeemed in 2023 and the Treasury Strategy foresses 84.454 millions will be redeemed in 2024.

Source: CaixaBank Research, with data from the Directorate-General for the Treasury.

Public debt holdings (excl. bills)

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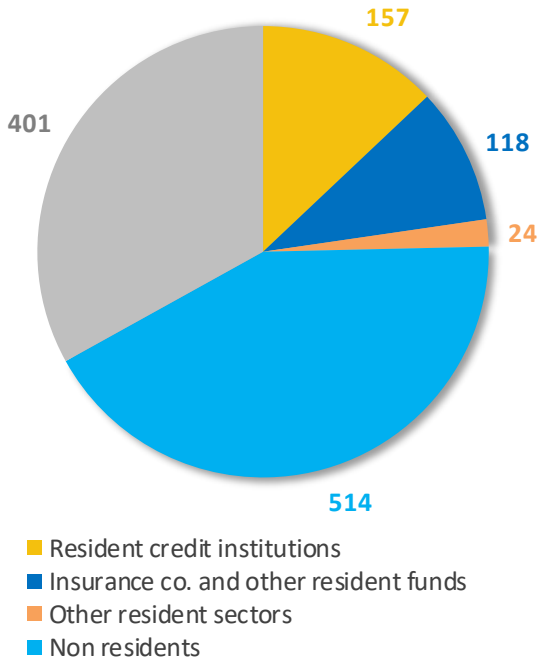
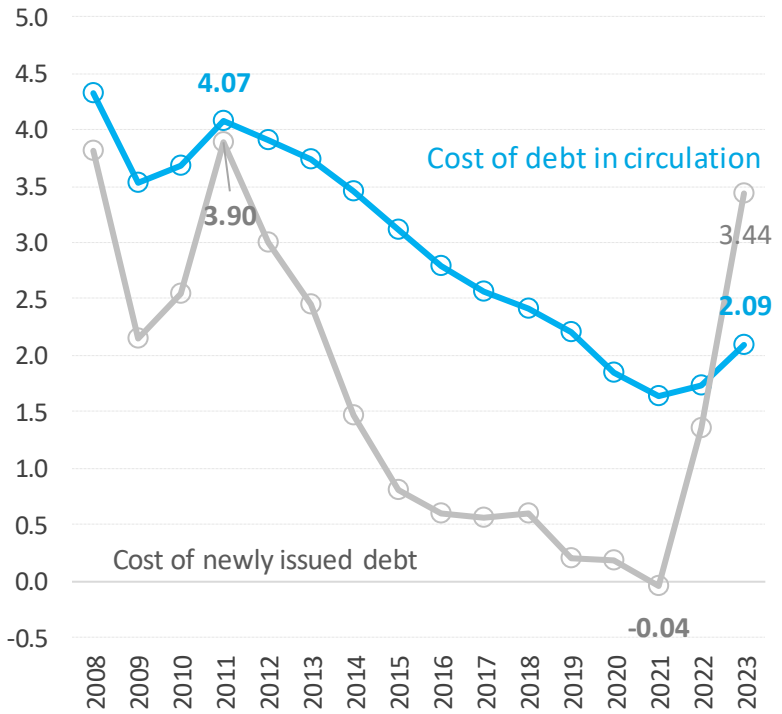


Note: November data.

Cost of debt: State

%



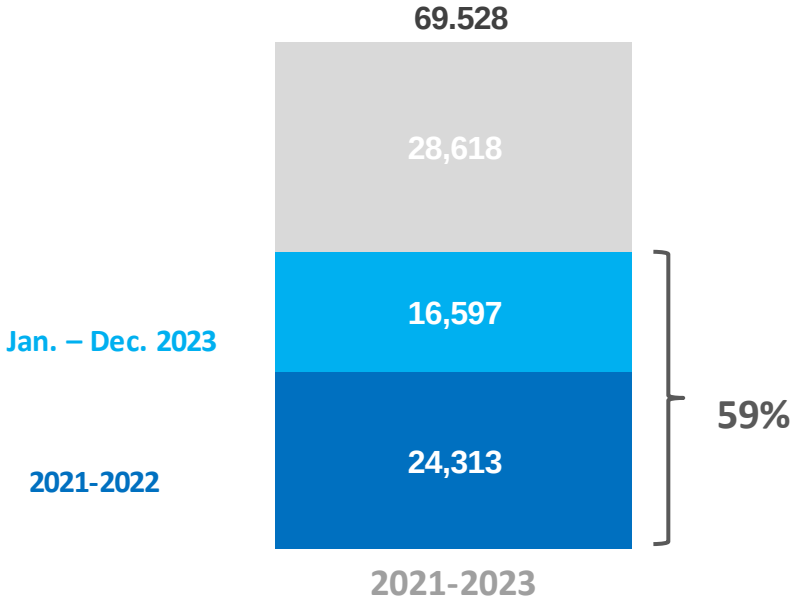
- **Funding needs not covered by ECB in 2024 will be above those of 2016-2023**. However, higher interest rates should increase the appeal of public debt holdings for investors, whether domestic or non-resident, and facilitate the absorption of Spain's financing needs, a trend that has already been observed in 2023.
- Government debt is diversified across holders. In 2023 (data up to November), foreign investors increased their holdings of Spanish debt (excl. bills) by €70bn, which suggests there is appetite for this type of investment. Retail investors have led domestic interest in Treasury Bills, becoming their main holder, with a historical increase of €22bn up to November 2023.
- **In 2024, the average cost of debt is expected to rise very moderately**. Two reasons behind this. First, there is still debt that will mature that was issued years ago at higher rates than those prevailing now. Second, the average lifespan of the stock of debt is elevated (c. 8 years), so the share of debt that needs to be re-financed every year is small. Considering current market expectations on interest rates, interest payments on debt of the public admin. could stand at 2.5% of GDP in 2024, a level similar to that of 2023 (estimated at 2.4%), but much lower than a decade ago (in 2014, it was 3.5%).

NGEU: execution is reaching cruising speed

CaixaBank

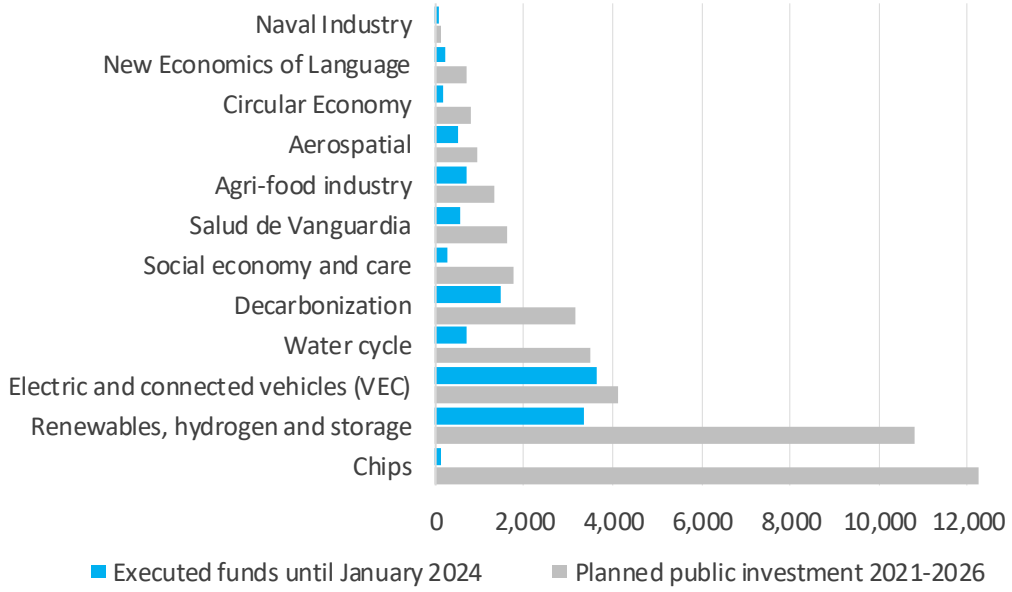
Rate of execution of RRF funds

Phase 1 (Million euros)



PERTEs

Million euros



Note: execution refers to the allocation of the right to receive the funds by the beneficiaries.

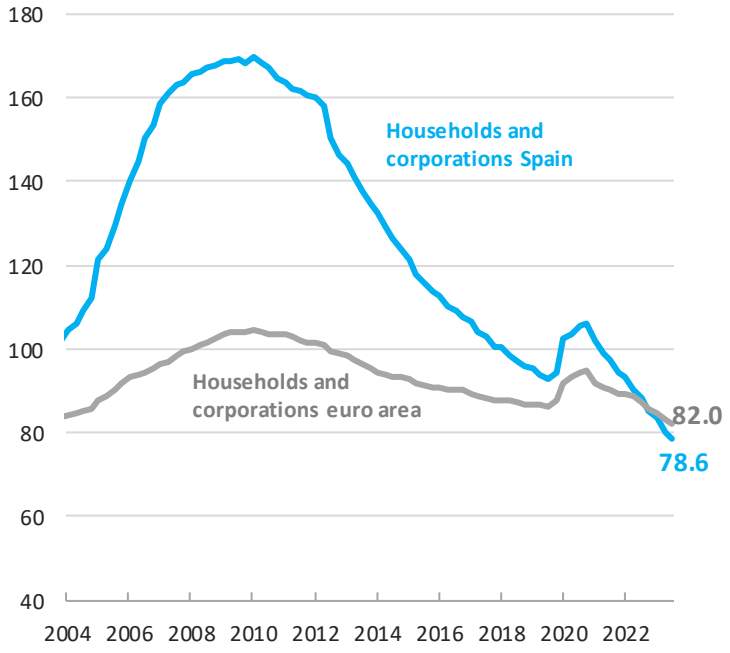
- **The European Commission has already approved the NGEU Addenda and transferred to Spain c. €1.8bn in February (c. €1bn in transfers and the rest in loans) as pre-financing.**
- The Addenda involves 83 billion euros via loans, 7.7 bn via non-refundable additional transfers and 2.6 bn via transfers 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 it 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. The loans managed by the ICO may be formalized until August 2026, although repayments may continue to be reinvested until 2036.
- Calls or tenders have been allocated thus far for a value of 66.2bn, but these include funds channeled towards other public administrations.
- **2023**: From the amount budgeted for 2023, projects with a value of 28.5bn were launched by the Central Government, and calls were allocated for 23.6bn (including funds transferred to other Administrations). We estimate total execution in 2023 was around 16bn. Thus far execution has been 40bn (59% of the 69,5bn of the grants of the first phase of the Recovery Plan).

Banking system: improved credit dynamics for mortgages

CaixaBank

Bank credit to the private sector

% GDP



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

Private domestic credit

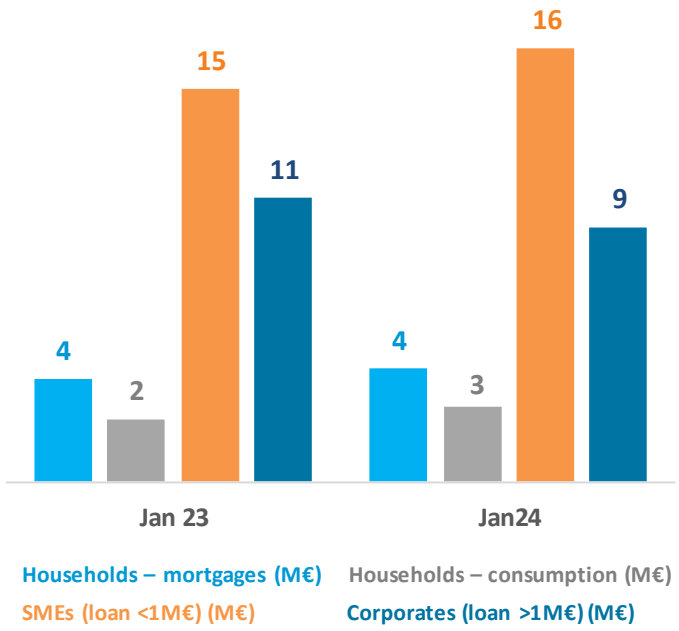
Year-on-year (%)

	Dec-23	Jan-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	**-3.4%**	**-3.1%**	-1.1%
Households	-2.5%	-2.3%	-0.8%
Housing mortgages	-3.2%	-3.0%	-1.7%
Other purposes	-0.5%	-0.4%	1.6%
Of which consumption	2.8%	3.5%	3.9%
Businesses	-4.7%	-4.3%	-1.6%
Non-real estate developers[1]	-4.1%	-4.1%	-
Real estate developers[1]	-7.7%	-7.7%	-

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

New lending activity by sector

YTD, €Bn



Source: Bank of Spain.

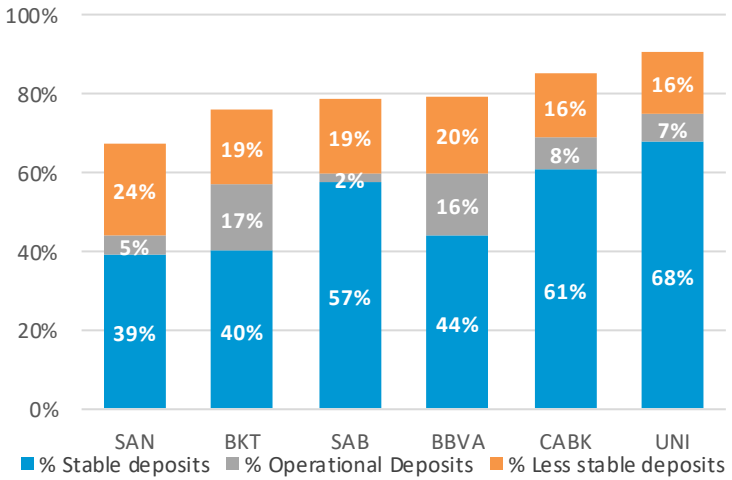
- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 3Q23. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic. We expect this gradual deleveraging to continue in the coming months.
- **New mortgage production** recovers in early 2024 with the change in interest rate expectations.
- **New lending for consumption** increases favored by improvements of consumer confidence, with January exceeding pre-COVID-19 levels for the first time.
- **New lending to corporates** decreases but only for larger loans. Loans under 1M€ continue to grow but at a slower pace.

Banking system: strong liquidity position

CaixaBank

Banks' deposit breakdown

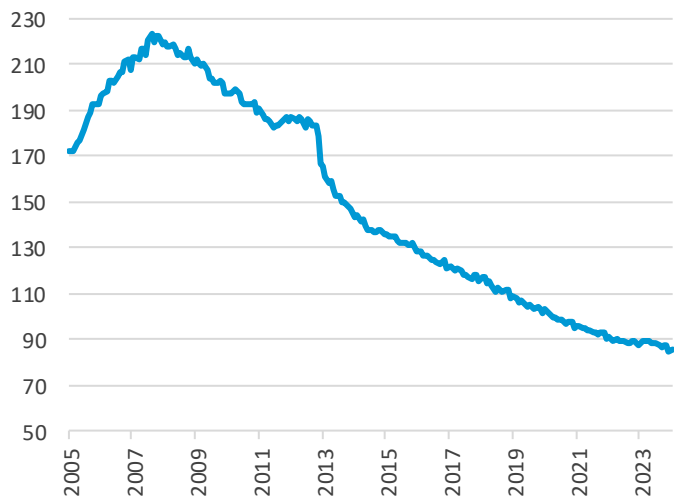
% of total deposits excluding unsecured debt



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 4Q23 (except for BBVA, BKT, SAB and UNI 3Q23).

HHs & NFCs loan to deposit ratio

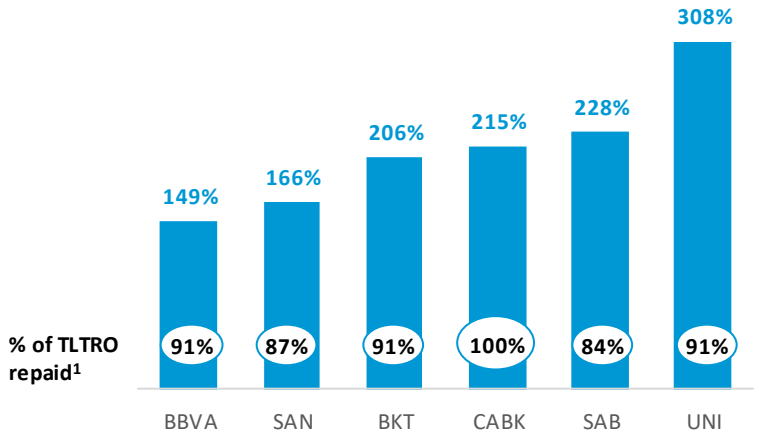
Percentage (%)



Note: loans and deposits to residents in Spain, on a non-consolidated basis. Latest data available Jan-24.
Source: CaixaBank Research, based on Bank of Spain data.

Banks' LCR

Q4 23 published ratio



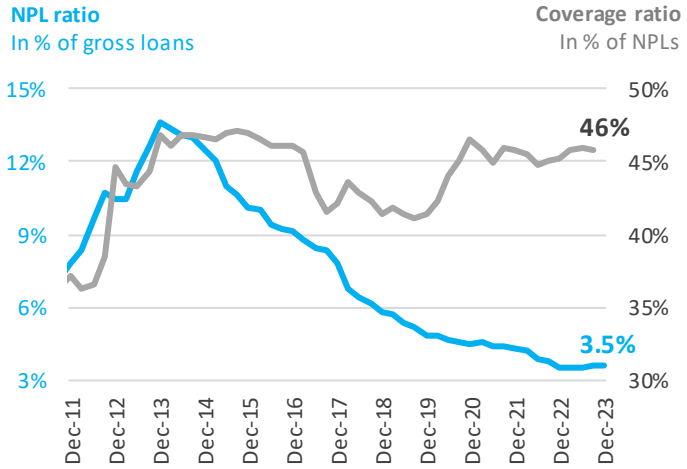
Note: (1) TLTRO repaid between the beginning of Nov'22 and the end of Dec'23 as % of total TLTROs. This includes TLTRO returned at maturity and extraordinary returns.
Source: Banks' financial statements.

- **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.** The decreasing trend shown since then seems to have changed in the latter part of 2023 and the data for Jan'24 seems to confirm (0.8% yoy). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **With data available up to Dic'23, Spanish banks had repaid around 92% of TLTROs outstanding at Oct'22.** This figure compares to a 81% for the Euro Zone banks in aggregate.
- **The Spanish banking sector faced the pending TLTRO maturities from high liquidity ratios.** EBA data for 3Q23 points to an LCR ratio of 173% and a NSFR of 130% for Spanish banks (vs. an EU average of 161% 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 test[1]

Note: (1) Forward-Looking Exercise on Spanish Banks (FLESB). Financial Stability Report Autumn, 2023. Bank of Spain.

Banking system: sound profitability and capital position

NPLs and coverage ratios[1]



Cost of risk[2]
0.4% in Q3 2023
0.4% in Q4 2023

Note: (1) latest available data Dec-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

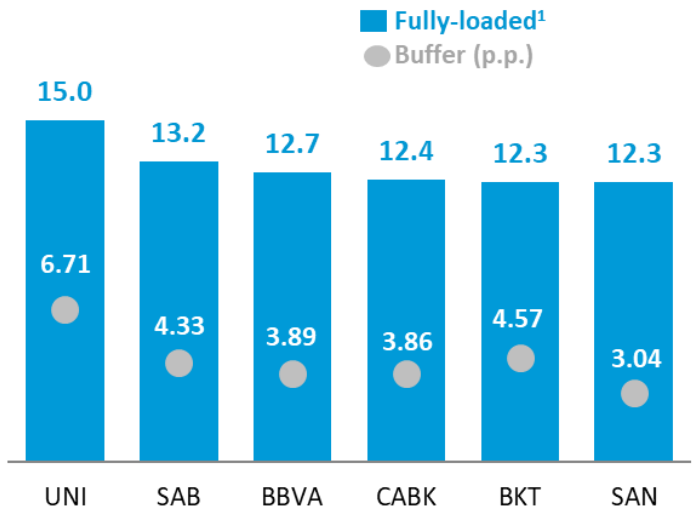
% of avge. total assets (Q4 23; trailing 12M)

	CABK	BBVA	SAN	SAB	BKT	UNI
Net interest income	**1.6%**	**1.3%**	**1.4%**	**1.9%**	**2.0%**	**1.4%**
Net fees	0.6%	0.5%	0.6%	0.7%	0.6%	0.5%
Gains on financial assets/liab. and others	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
Other operating income	0.0%	-0.1%	0.0%	-0.2%	-0.2%	-0.1%
Gross income	**2.2%**	**1.8%**	**2.1%**	**2.4%**	**2.4%**	**1.8%**
Operating expenses	-0.9%	-0.7%	-0.9%	-1.1%	-0.9%	-0.9%
Impairment losses, tax and others	-0.6%	-0.4%	-0.7%	-0.7%	1.2%	-0.7%
Profit	**0.7%**	**0.6%**	**0.5%**	**0.6%**	**0.8%**	**0.3%**
ROTE (%)[1]	15.6	11.9	17.2	11.3	16.9	4.2

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 15.1%, respectively.
Source: Bank's financial statements.

Banks' solvency position

In % (Q4 23)



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

- **NPLs remain below 4%,** despite substantially higher interest rates. The share of stage 2 loans on a group level increased slightly to 6.9% in 3Q23, 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 12.8% in 3Q23)** 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 12.6% CET1 ratio in 3Q23.** Under the adverse scenario considered, the Bank of Spain's stress test[1] 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.

Note: (1) Forward-Looking Exercise on Spanish Banks (FLESB). Additional adverse shocks are applied to credit risk under the FLESB framework compared with the EBA exercise. Financial Stability Report Autumn, 2023. Bank of Spain.