Spain
Macroeconomic & Financial Outlook

CaixaBank Research

April 2024

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CaixaBank

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. At its March meeting the ECB began discussions on future rate cuts but, as officials called for greater confidence in the disinflationary process before adjusting rates, the ECB hinted at a June cut as it stated that “much more data” would be available by then. 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 (in line with markets).
- **Geopolitics and supply-demand imbalances put upward pressure on oil prices**. Rising tensions in the Middle East together with stronger-than-expected demand in the US, China and India and an extension of OPEC+ supply cuts have pushed oil prices up to c. 90$/barrel. Given this turn of events, we do not rule out an upward revision of our oil price forecast (of 79$/barrel on average in 2024).
- **Upside risks around our Q1 2024 GDP growth forecast.** Employment (as measured by workers registered to the S. S. system) grew 0.7% qoq in Q1-24, above the 0.4% qoq figure of Q4 2023. The composite PMI averaged 53.6 in Q1-24, far more than the 50.1 average of the previous quarter. Considering all the available information, GDP growth in Q1-24 could be higher than our current forecast of 0.3% qoq.
- **Headline inflation increased 0.4pp in March to 3.2%.** This increase can be attributed to a temporary increase in electricity VAT from 10% to 21% and higher gasolines prices. More stable food prices, on the other hand, contributed negatively to inflation. Underlying inflation (which excludes energy and non-processed food) declined 0.2pp to 3.3% (3.5% in February).
- **The public deficit declined to 3.6% in 2023, down from 4.7% in 2022.** The deficit in 2023 landed below the 3.9% target of the Government, owing to the dynamism of fiscal revenues. Looking ahead, we expect that reaching the 3% target for 2024 is reasonable considering the removal of the anti-inflation fiscal measures, which we estimate amount to 0.7% of GDP.

Banking Sector

- **The banking system remains strong with robust capital and liquidity positions.** Profitability improves and its ROE reaches almost 13% in 4Q23 (vs. 10.3% 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 recovers in the first months of 2024. Asset quality remains resilient despite materially higher interest rates, domestic NPL ratio stands at 3.6% in January, slightly higher than in dic’23, but 121 bps below pre-covid level of February 2020.

Main economic forecasts

%, 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	2.6	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	-3.6	-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)	-19.4	-2.9	-1.9	-2.6	-1.2	2.5	0.5	-0.4	-3.4	-1.1	1.1

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

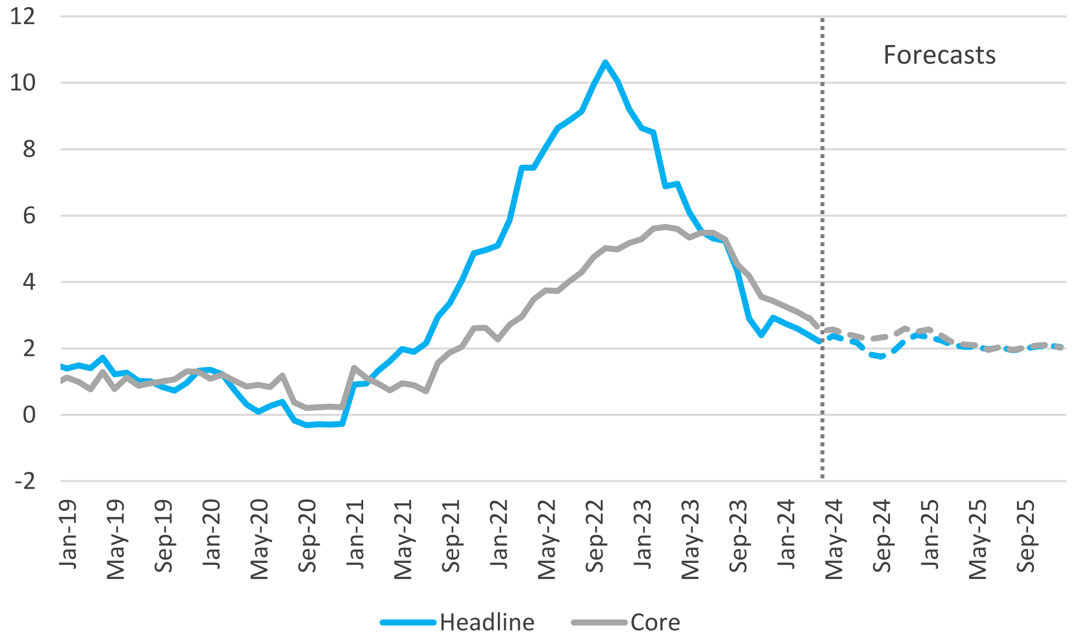
1/ The general government deficit excludes one-off bank restructuring costs of 3.7% of GDP in 2012, 0.3% of GDP in 2013, 0.1% in 2014, 0.05% in 2015, 0.2% in 2016, 0.04% in 2017 and 0.01% in 2018.
2/ General government debt includes ESM/FROB related borrowings equivalent to 3.9% of GDP in 2012.

Source: *CaixaBank Research.*

The ECB aims at a cautious and gradual policy normalization

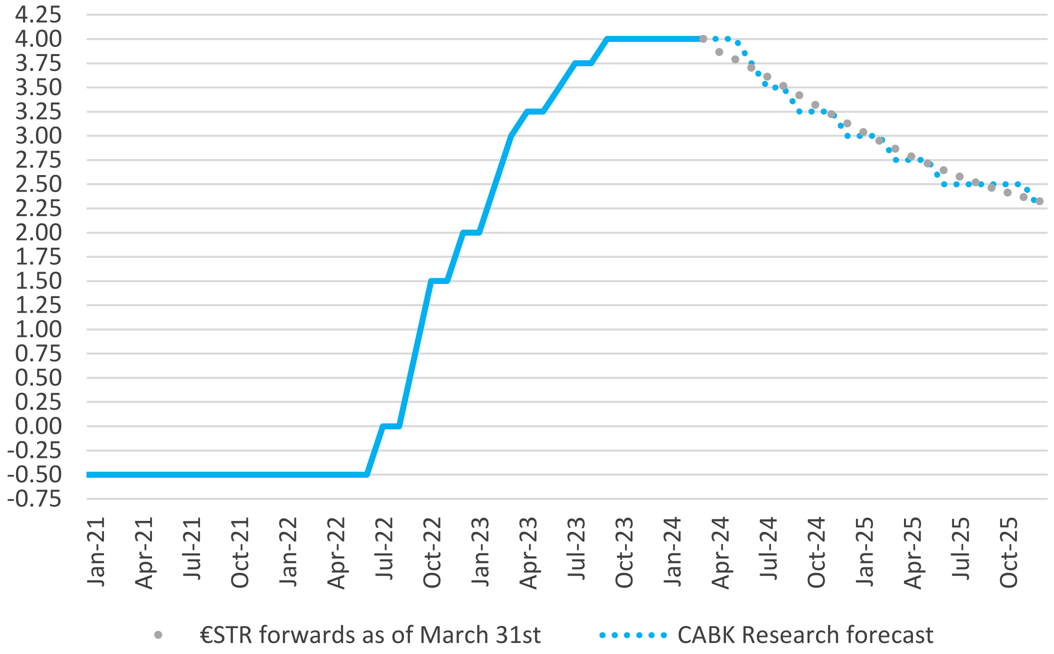
Euro area: HICP inflation

(%)



ECB deposit rate

(%)

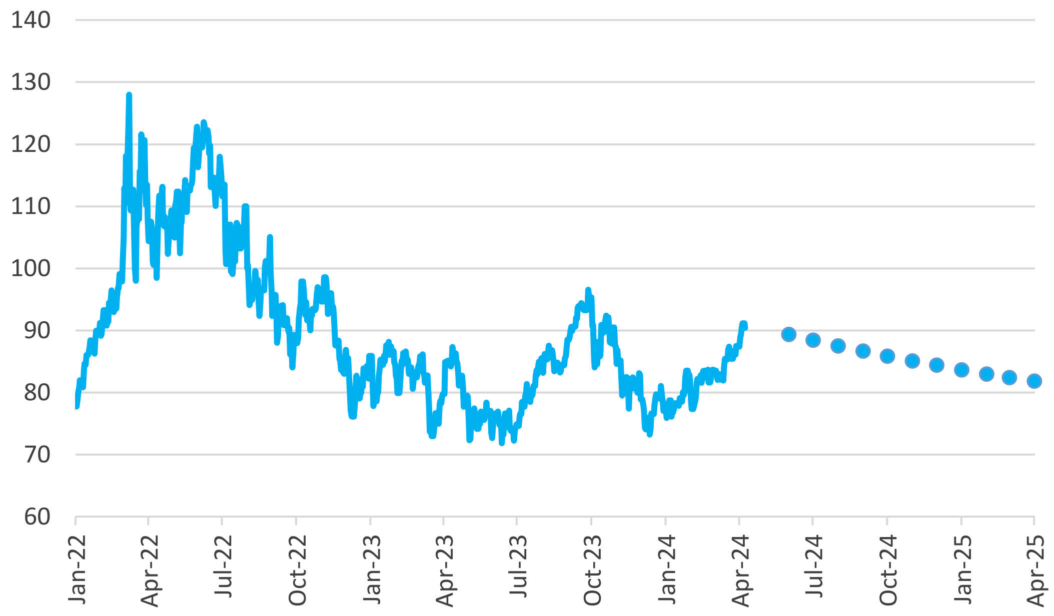


- **Significant progress in the fight against inflation opens the door for the ECB to begin rate cuts in Q2**, while solid labor markets, inertia in wage growth and the expectation of a pick-up in EA activity throughout 2024 favor a gradual approach to policy normalization. We expect a sequence of gradual 25bp cuts to begin at the end of Q2 2024 and we see the depo rate at 3.00% by end-2024. 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.). Thus, at its March meeting the ECB began discussions on a future rate cut (as acknowledged by President Lagarde) but, as officials called for greater confidence in the disinflationary process before adjusting rates, the ECB hinted at a June cut as it stated that “much more data” would be available by then.

Geopolitical risks and supply put upward pressure on oil prices

Brent oil prices (and futures)

$ per barrel



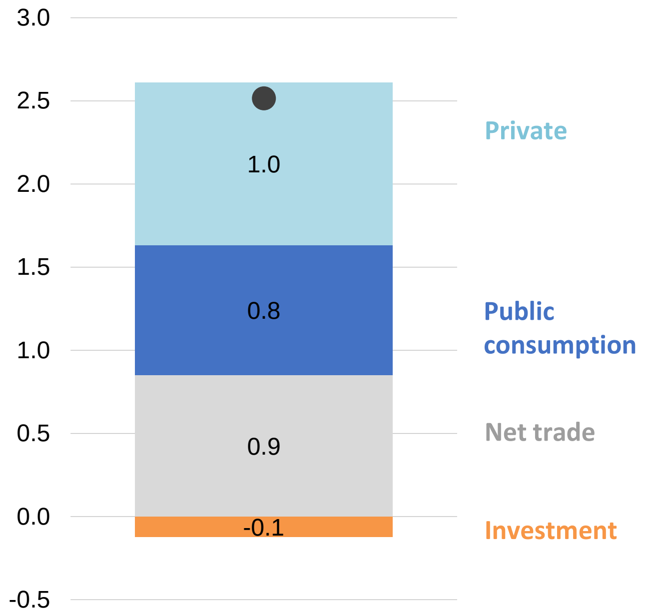
Commodity prices

	Metric	Price	*Change (%)* Last Month	Year to Date	2022	2023
Commodities	**index**	**102,4**	**4,5**	**3,8**	**13,8**	**-12,6**
Energy	**index**	**32,5**	**5,5**	**5,9**	**33,5**	**-25,6**
Brent	$/barrel	89,7	9,3	16,4	10,5	-10,3
Natural Gas (Europe)	€/MWh	26,3	-0,5	-18,9	8,5	-57,6
Precious Metals	**index**	**251,5**	**8,4**	**12,4**	**-1,9**	**4,1**
Gold	$/ounce	2338,0	7,3	13,3	-0,3	13,1
Industrial Metals	**index**	**147,2**	**5,3**	**3,2**	**-4,4**	**-13,7**
Aluminum	$/Tm	2450,5	10,0	2,8	-15,3	0,3
Copper	$/Tm	9329,5	9,9	9,0	-13,9	2,2
Agricultural	**index**	**60,0**	**1,7**	**-4,0**	**13,2**	**-9,3**
Wheat	$/bushel	563,8	7,0	-10,2	2,8	-20,7

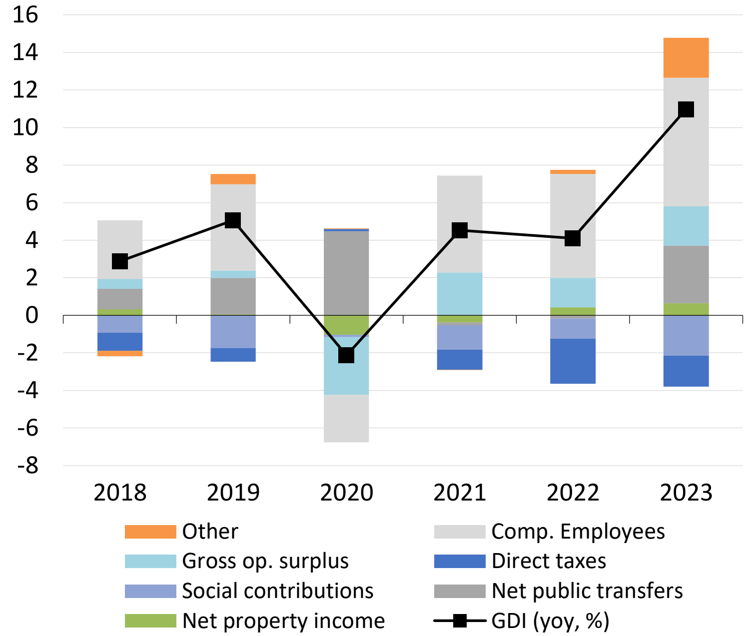
- **Rising oil prices could pose a new threat on inflation.** Since mid- March, the drivers of the crude oil market have changed noticeably. The oil deficit is expected to be higher for much of the year, due to a further increase in demand in US, China and India. Meanwhile, OPEC+ will extend the supply cuts, at least, until June, and some non- OPEC producers (as Mexico) threaten to reduce their exports. Furthermore, geopolitical risks have enhanced in the last month. Given this turn of events, we do not rule out an upward revision in oil prices. Currently, 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).

Spain: 2023 recap

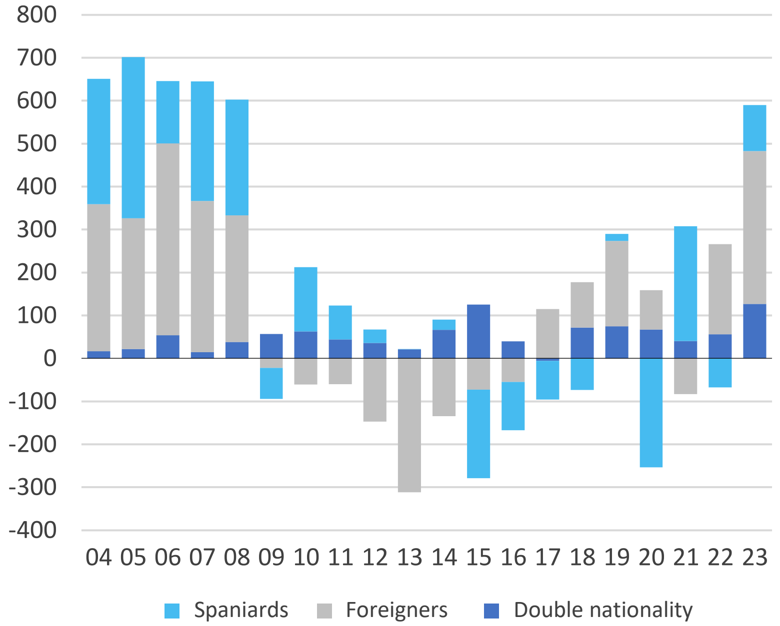
Contribution to annual GDP growth
Percentage points and percentage change (%)



Household's gross disposable income
Percentage points and percentage change (%)



Labor force
Annual change (thousands)



- **GDP grew 2.5% in 2023**, substantially above the euro area (0.5%). 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, growth in internal demand was driven by growth in private consumption 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.
- **Robust household's gross disposable income (GDI) growth supported private consumption growth**. GDI grew 11.0% yoy in 2023, substantially above inflation, which averaged 3.5%. A robust labor market was the main driver of growth, with compensation of employees growing 8.8%.
- **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).

Macroeconomic scenario

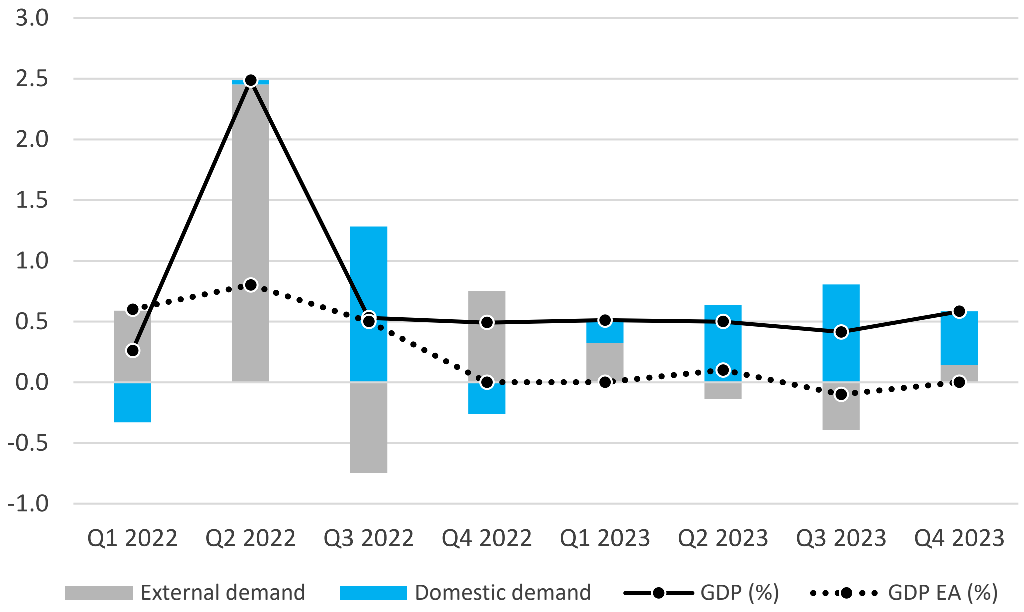
Macroeconomic scenario

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

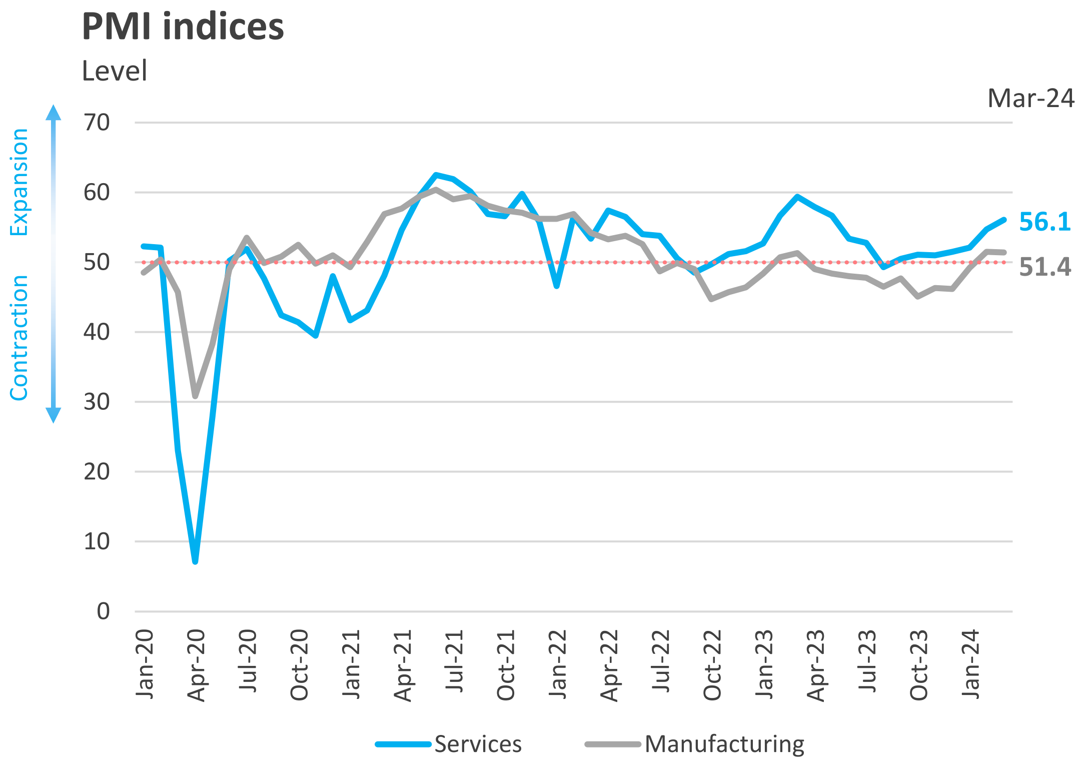
Spanish GDP: breakdown and comparison vs Euro Area

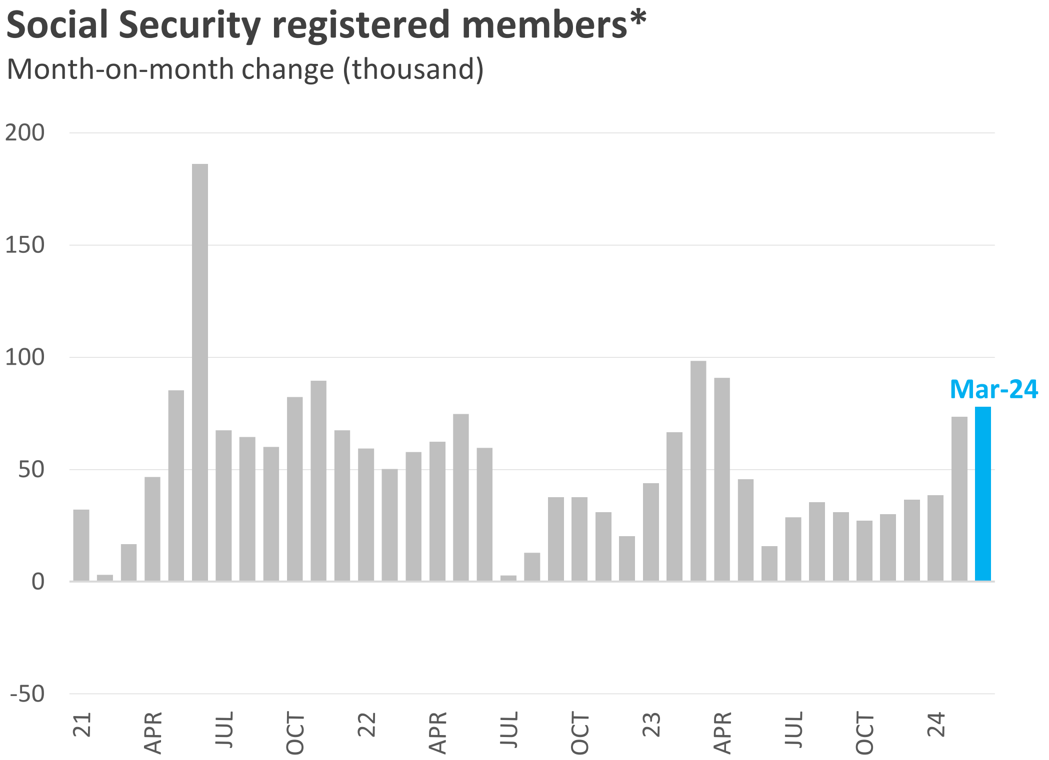
Quarter-on-quarter contribution (in p. p.) and change (in %)



- **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.
- **The unemployment rate is forecast to decline at a moderate pace**, as strong employment growth is partially offset by strong growth of the labor force driven by higher immigration flows.
- **The balance of risks is slightly tilted to the upside, but large downside risks can't be discarded**. The better-than-expected evolution of the labor market and conservative assumptions on the macroeconomic impact of NGEU funds pose upside risks on our forecast. However, the fragile geopolitical landscape could at any point turn for the worse and prompt a downward revision of our scenario.

Upside risks around our Q1-2024 GDP growth forecast





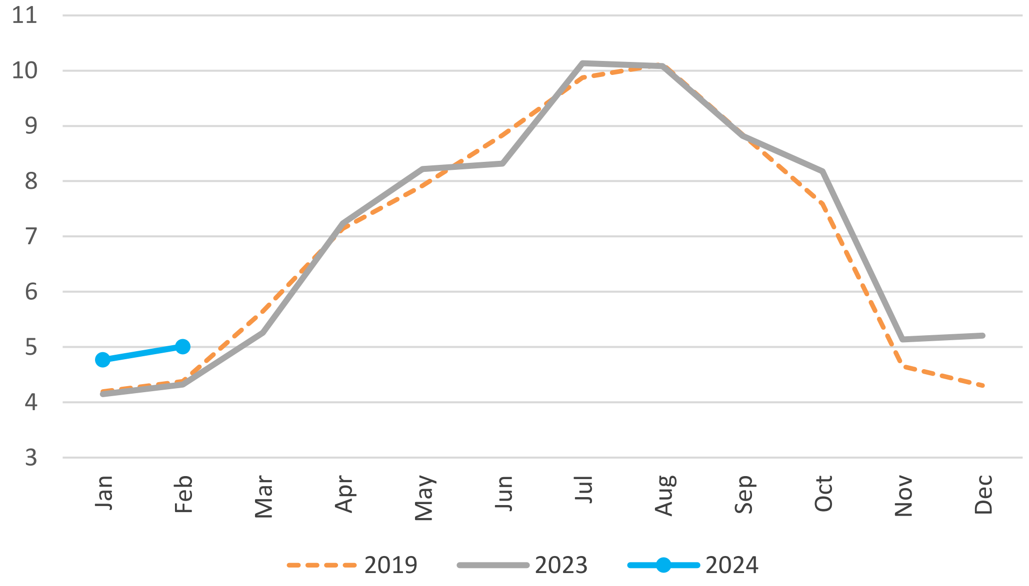
Note: (*) Seasonally adjusted.

- **Q1 2024 activity indicators are coming in stronger than expected**. Activity indicators have outperformed expectations so far, driven primarily by strong performances in sentiment, employment, and tourism metrics. Employment (as measured by workers registered to the S. S. system) grew 0.7% qoq in Q1 2024, above the 0.4% qoq figure of Q4 2023. The Service Sector PMI continued its upward trend in March, achieving a score of 56.1, indicating significant expansion. The manufacturing sector's PMI scored 51.4, consolidating the gains from the previous month and indicating a departure from previous weakness. Industrial production also showed an uptick, growing 0.8% on the January-February average compared to the previous quarter (growth in previous quarter was 0.6% qoq). Tourist arrivals and spending in February surged by 15.9% and 25.8% yoy, respectively. Finally, on a slightly less upbeat note, while retail sales grew 0.5% month-on-month in February, the January-February average still reflects a minor 0.3% drop from Q4 2023.
- Considering the aforementioned information, **GDP growth in Q1 2024 could be higher than our current forecast of 0.3% qoq**.

Positive outlook for the tourist sector in 2024

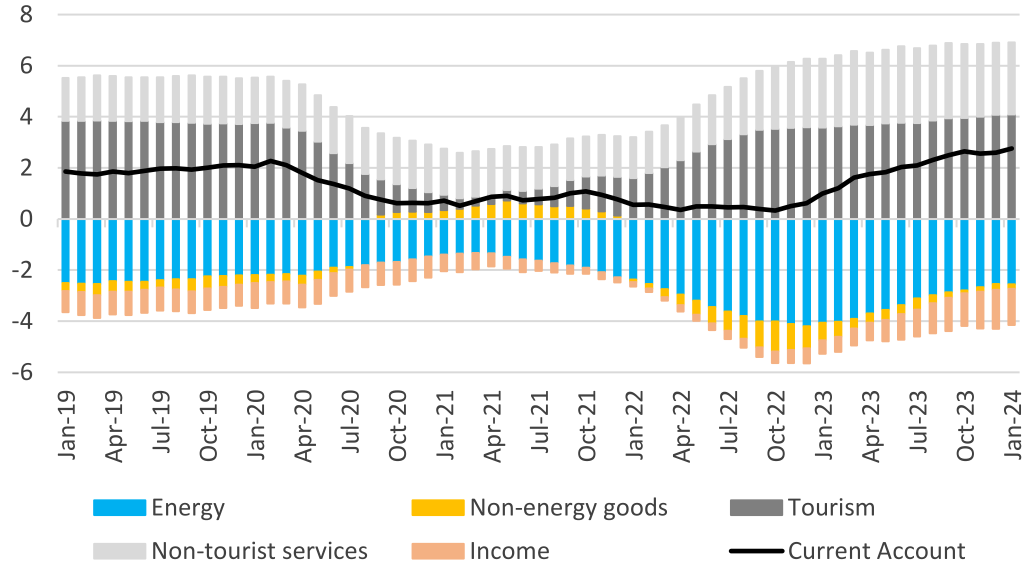
Tourism GDP (real)

Annual change (%)



Current account balance

% of GDP

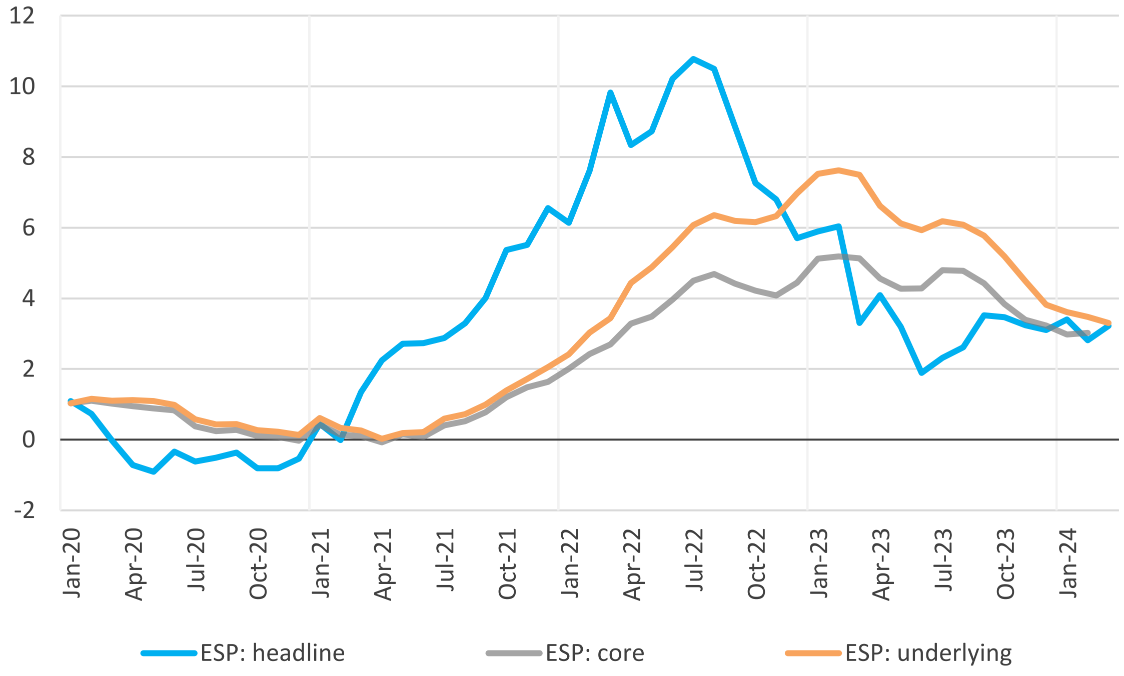


- **The tourism sector has had a strong start to 2024.** International arrivals in February were 15.9% above the same month of 2019, while international tourist expenditure attained a level 26.7% above February 2019. Demand for tourism services is holding up despite the strong increase in tourism related prices: CPI hotel prices in February increased by 9.0% year-on-year, attaining a level 32.2% above the same month of 2019. Tourist arrival figures in February were boosted by stronger tourist flows from the Americas (+26.9% w.r.t. February 2019) and by tourism from the EU (+17.7% w.r.t. February 2019). On the domestic side, following resilient figures last summer, overnight stays by residents in touristic accommodations rose by a solid 4.4% year-on-year in February, landing at a level 0.02% above February 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 2.8% of GDP surplus in the twelve months to January 2024, 0.2pp above the 2023 figure and the largest surplus since December 2017. Compared to the 2023 figure, the 0.2pp improvement can be attributed to a 0.05pp improvement in the balance of non-energy goods and a 0.1pp improvement of the income balance, the latter possibly driven by the slight decline in market interest rates since October 2023. 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.53% in 2023.

Increased electricity VAT brings headline inflation above 3%

Evolution of inflation 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 increased 0.4pp in March to 3.2%.** This increase can be attributed to a temporary increase in electricity VAT from 10% to 21% and higher gasolines prices. More stable food prices, on the other hand, contributed negatively to inflation. Underlying inflation (which excludes energy and non-processed food) declined 0.2pp to 3.3% (3.5% in February).
- **The evolution of fuel prices and temporary increases in electricity VAT pose upside risks to our inflation forecasts.** The electricity VAT was to remain at 10% all throughout 2024 unless wholesale electricity prices plunged below 45€/MWh on average in a month, in which case the VAT rate would increase to 21% until wholesale prices increased above the threshold. Low wholesale electricity prices in March have brought forward the increase in electricity VAT (which is expected to go down again in July) and has more than offset the decline in wholesale prices itself. At the same time, recent increases in oil prices also pose upside risks to our forecast.

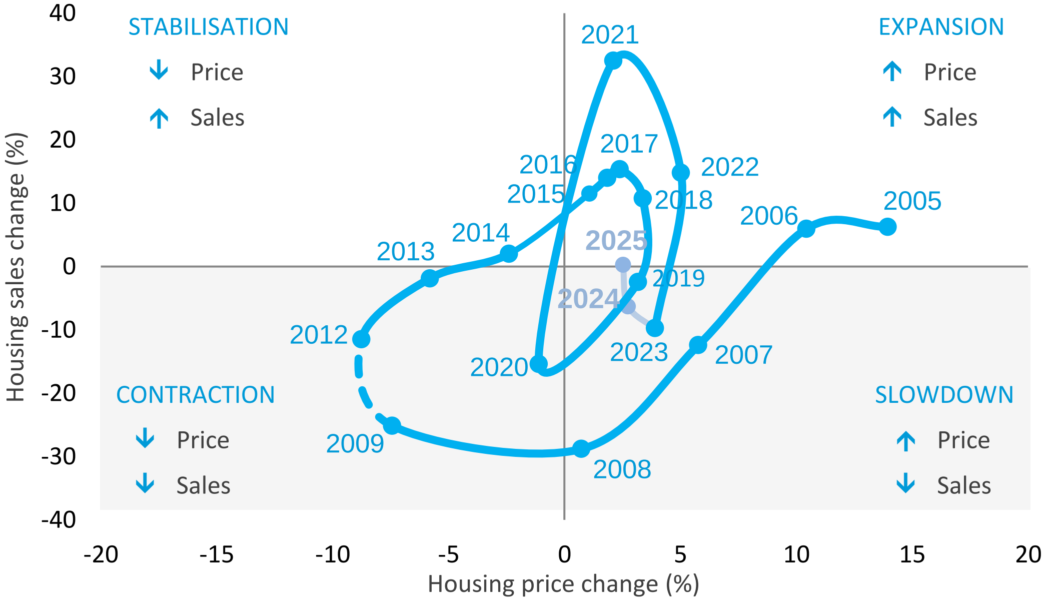
Housing market: positive outlook

Forecasts for the real estate market

	2022	2023	2024	2025	2026	2027
Housing sales *(Thousand)*	650	592	550	552	553	553
New building permits *(Thousand)*	109	110	115	125	130	135
House price (appraisal, MIVAU) *Year-on-year (%)*	5.0	3.9	2.7	2.5	2.4	2.4
House price (transaction, INE) *Year-on-year (%)*	7.4	4.3	3.5	2.5	2.4	2.4

Source: CaixaBank Research, based on data from INE, Registrars 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. Data for the first months of 2024 continues to be fairly positive:**
  - The number of housing sales decreased by 2.1% yoy in Jan.-24, a much smaller rate of decline than the average of 9.7% in 2023.
  - New building permits increased by 11.7% in Jan. 24, a positive trend that is expected to continue through the year.
  - Housing prices published in real estate online listings (asking price) posted significant increases in Q1 2024 (Fotocasa: 7.4% yoy; Idealista: 6.2% yoy). No official data has been published yet.
- **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 have recently improved 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.

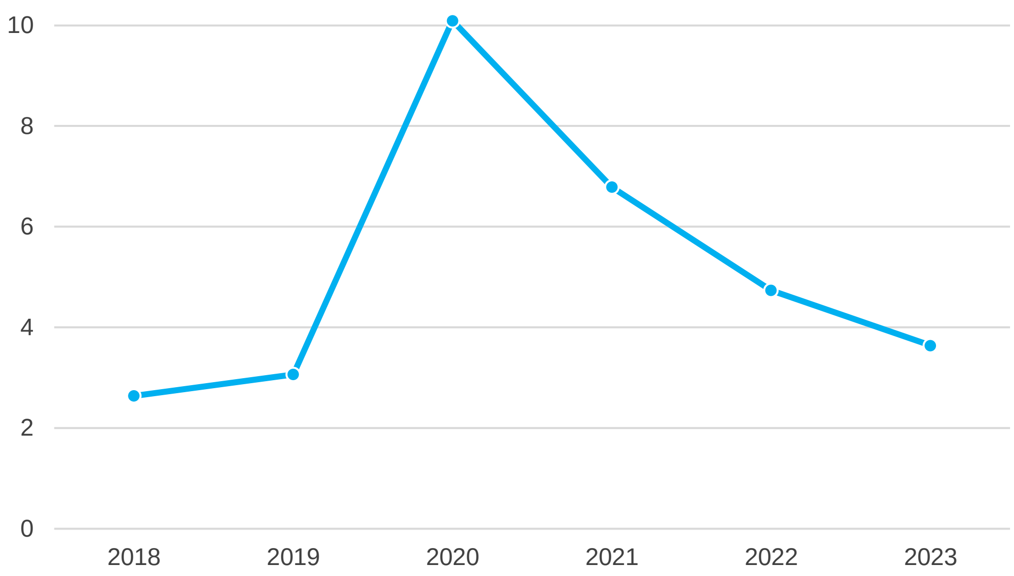
Public deficit in 2023 has been lower than expected

Public accounts

	Million euros			
	2019	2022	2023	2023-2022
Revenues	**488.536**	**574.095**	**625.661**	**9.0**
Tax revenues	277.651	331.047	354.254	7.0
Social contributions	160.656	180.222	196.931	9.3
Expenditures	**526.652**	**637.831**	**678.820**	**6.4**
Public employee compensation	134.769	154.894	163.376	5.5
Social transfers	196.887	229.155	252.278	10.1
Gross capital formation	27.169	37.271	43.386	16.4
Subsidies	12.435	26.965	21.507	-20.2
Interest	28.361	31.809	35.967	13.1

Public deficit

% GDP



- **Deficit 2023**: Public deficit was 53.2bn euros in 2023, 3.64% of GDP, below the 3.9% target of the Government and below our forecast (4.1%) due to fiscal revenues dynamism. Public revenues increased by 9.0% with respect to 2022 (tax revenues increased by 7.0% and social contributions by 9.3%) and public spending increased by 6.4% (public employee compensation by 5.5% and social transfers by 10.1%, after pensions increased by 8.5%).
- **Public debt** reached 1.57 trillion euros at the end of 2023, an increase of €71.9bn compared to 2022 as public expenditure remains elevated. In terms of GDP, the debt ratio was 107.7%, that is −3.9 p. p. compared to 2022, but +9.5 p. p. compared to the end of 2019.
- **2024 Outlook**: Starting 2024 with a somewhat lower than expected deficit in 2023 implies downside risks to our 2024 deficit forecast, currently at 3.4% of GDP. Public revenues are estimated to increase at a rate slightly higher than nominal GDP growth (above 5%). Expenses should grow moderately and less than revenues thanks to the softening of inflationary pressures, a containment of spending due to the extension of the 2023 budget and the gradual withdrawal of the package of measures to address rising energy prices. Thus, we expect the public deficit to continue reducing in 2024. In particular, the public deficit in 2024 could be around 3.0% of GDP, in line with the Government's objective.

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

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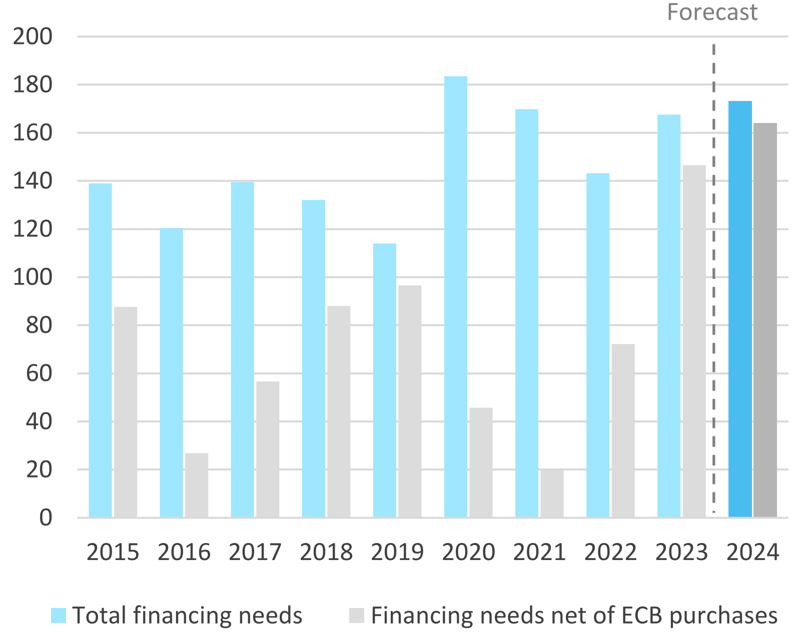
Spain: Gross financing needs

€ Bn

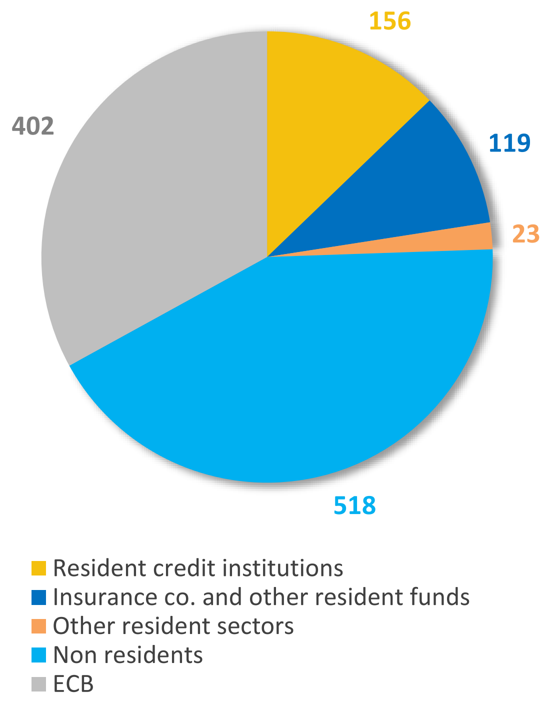


Note: *Amortisation funds do not include short-term bills. For example, bills worth 89.348 millions were redeemed in 2023 and the Treasury Strategy foresses 84.454 millions will be redeemed in 2024**.**

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

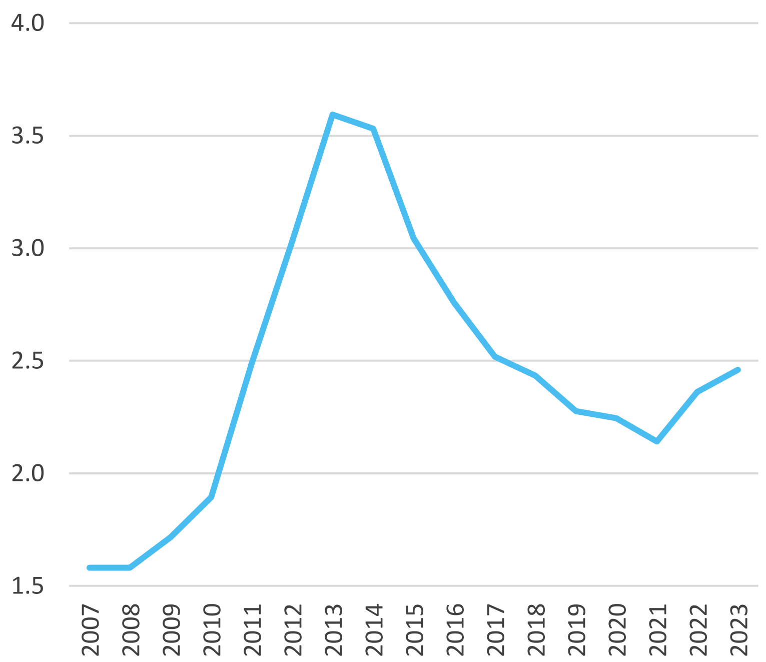
2023 Public debt holdings (excl. bills)

€ Bn



Spain: Interest payments

% GDP

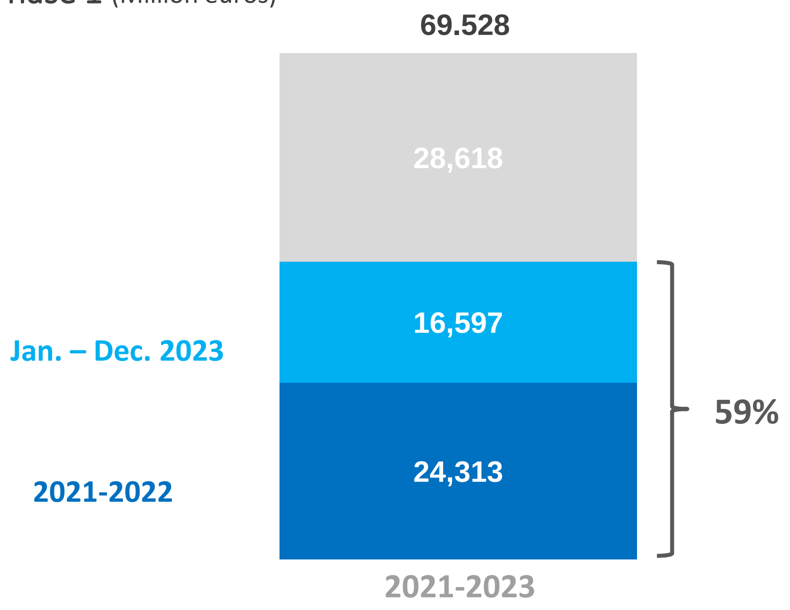


- **Funding needs not covered by ECB in 2024 will be above those of 2016-2023**. However, higher interest rates should increase the appeal of public debt holdings for investors, whether domestic or non-resident, and facilitate the absorption of Spain's financing needs, a trend that has already been observed in 2023.
- Government debt is diversified across holders. In 2023 foreign investors increased their holdings of Spanish debt (excl. bills) by €74.6bn, 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 €22.6bn.
- **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 2.6% of GDP in 2024, a level similar to that of 2023 (2.5%), but much lower than a decade ago (in 2014, it was 3.5%).

NGEU: execution is reaching cruising speed

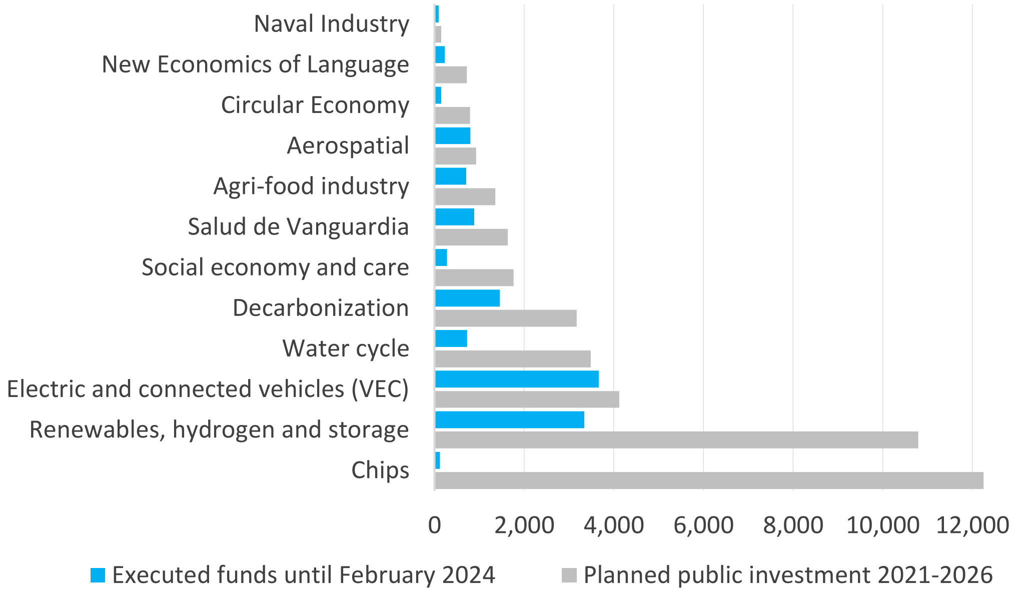
Rate of execution of RRF funds

Phase 1 (Million euros)



PERTEs

Million euros



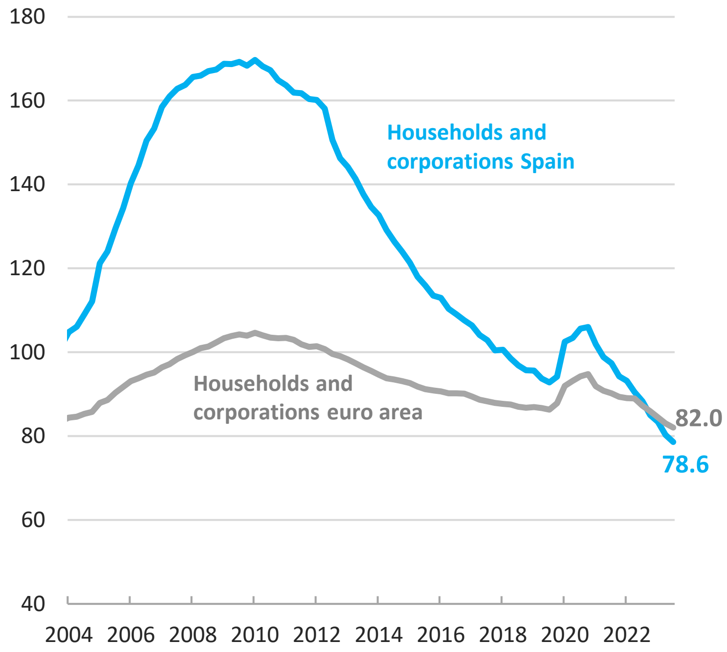
Note: execution refers to the allocation of the right to receive the funds by the beneficiaries.

- By the end of February 2024, **61.6 billion euros** in grants and tenders had been called for, which represent 88% of the total amount (69.5bn) of the first part of the Recovery Plan.
- The **prorogated** 2023 budget in 2024 will include **€29bn of NGEU** and will accommodate investments of the Recovery Planned not allocated yet.
- **2023**: We estimate total execution in 2023 was around 16bn. In 2021-2023 execution has been 41bn (59% of the 69.5bn of the grants of the first phase of the Recovery Plan).
- **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**. Moreover, Spain will have an extension until May 20 to fulfill the pending milestones for the fourth NGEU payment of €10bn (unemployment subsidy reform and technical requirements).
- 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.
- 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.

Banking system: improved credit dynamics for mortgages

Bank credit to the private sector

% GDP



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

Private domestic credit

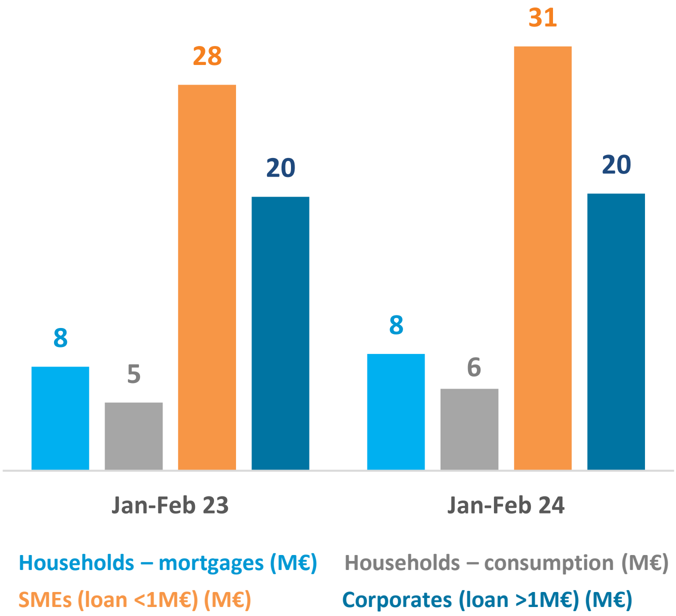
Year-on-year (%)

	Dec-23	Feb-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	**-3.4%**	**-2.8%**	-1.1%
Households	-2.5%	-2.1%	-0.8%
Housing mortgages	-3.2%	-2.8%	-1.7%
Other purposes	-0.5%	-0.1%	1.6%
Of which consumption	2.8%	4.0%	3.9%
Businesses	-4.7%	-3.9%	-1.6%
Non-real estate developers[1]	-4.3%	-4.3%	-
Real estate developers[1]	-6.1%	-6.1%	-

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

New lending activity by sector

YTD, €Bn



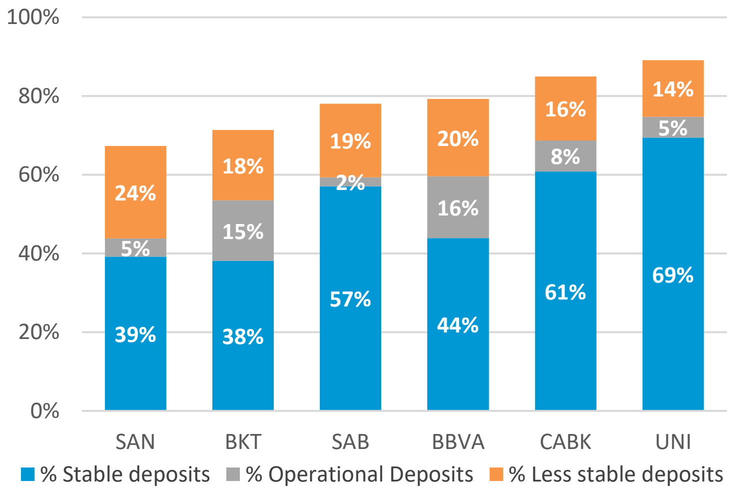
Source: Bank of Spain.

- **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, exceeding pre-COVID-19 levels.
- **New lending to corporates** grows both in loans under 1M€ and in larger ones.

Banking system: strong liquidity position

Banks' deposit breakdown

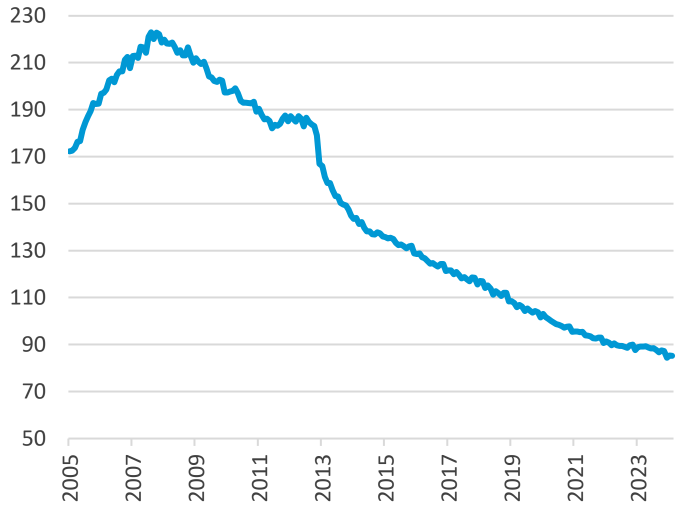
% of total deposits excluding unsecured debt



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 4Q23.

HHs & NFCs loan to deposit ratio

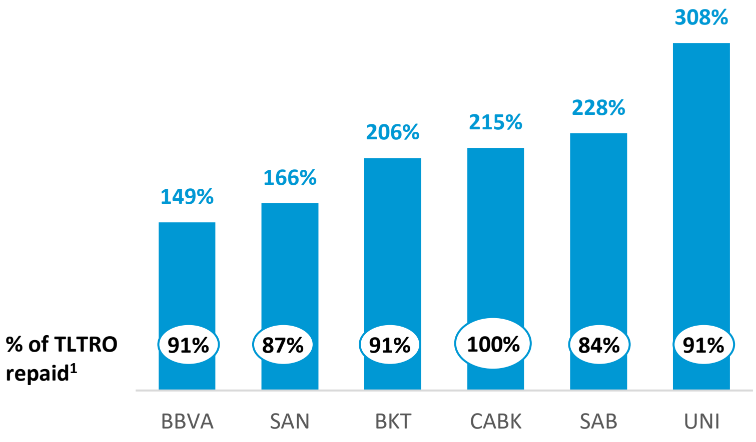
Percentage (%)



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

Banks' LCR

Q4 23 published ratio



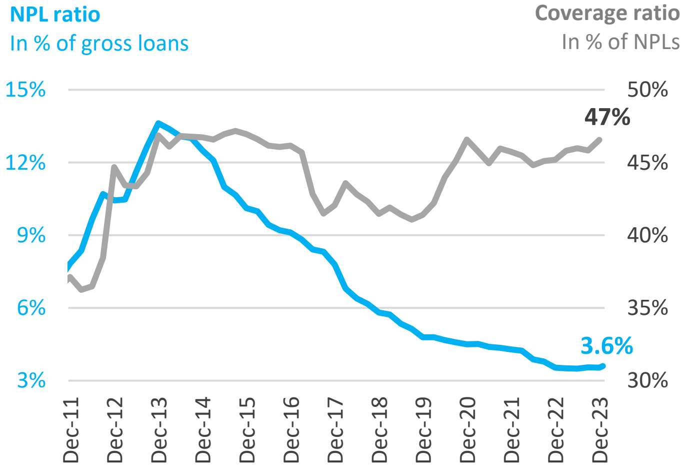
Note: **(1)** TLTRO repaid between the beginning of Nov'22 and the end of Dec'23 as % of total TLTROs. This includes TLTRO returned at maturity and extraordinary returns.
Source: Banks' financial statements.

- **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) are reaching peak levels previously attained in August 2022.** Deposits declined between 2H22 - 1H23 due to higher remuneration of other investment alternatives. Since then, seasonally adjusted data shows a positive trend (+1.8% yoy in Feb'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **With data available up to Feb'24, 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 4Q23 points to an LCR ratio of 178% and a NSFR of 131% for Spanish banks (vs. an EU average of 167% and 127%, 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 Jan-24 and Dec-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

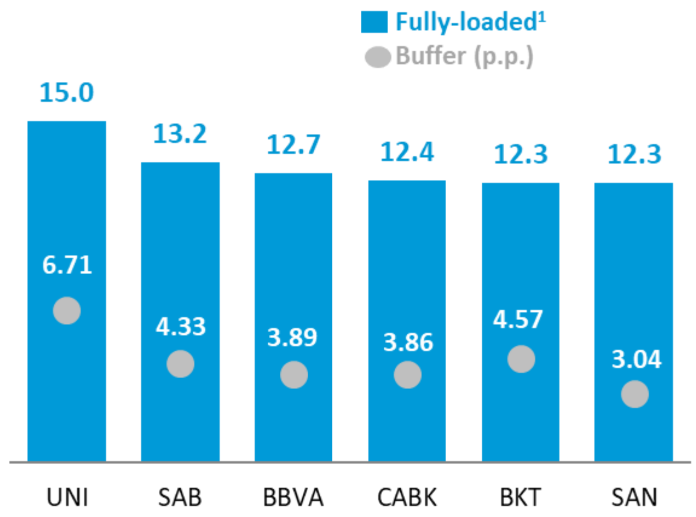
% of avge. total assets (Q4 23; trailing 12M)

	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 to 7.2% in 4Q23, 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).
- **Profitability is recovering (ROE stood at 12.7% in 4Q23)** 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 4Q23.** 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.