Spain
Macroeconomic & Financial Outlook

CaixaBank Research

May 2024

Prepared with information available as of May 6th, 2024

CaixaBank

Key messages

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% by end-2024. Given the differences in the macroeconomic outlook of the US and the euro area, we do not expect the Fed's cautiousness to alter the ECB's course of direction.
- **Oil prices to keep elevated due to global demand, tight supply and geopolitical risks**. In April, the surge in oil prices stood out. Despite the decrease in prices in the first days of May, Brent oil prices will likely stay above 80$ per barrel in the next months since a tighter supply-demand balance and heightened geopolitical tensions will still be present.
- **Risks around our Spain growth forecast of 1.9% for 2024 are tilted to the upside after strong Q1 GDP data.** A strong GDP growth of 0,7% qoq in Q1 2024 driven by investment and services' exports pose upside risks to our forecast. This month we will be revising our scenario.
- **Early Q2 2024 indicators have come in strong.** In April employment growth continued to be dynamic and the composite PMI index sat comfortably at 55.7 points, well above the no-change threshold (50 points), indicating expansion in the economy.
- **Headline inflation** increased 0.1pp in April to 3.3%. This slight increase can be attributed to a temporary increase in gas VAT from 10% to 21% and higher food prices. It is very remarkable that **underlying inflation** (which excludes energy and non-processed food) **declined 0.4pp** to 2.9% (3.3% in March).
- **The housing market starts 2024 on a high note.** In February, housing transactions increased by 5.8% year-on-year, a significant improvement after having been falling at double-digit rates throughout the second half of 2023. In January-February, 107,000 operations have been closed, which represents the best start in activity since 2008.

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 99% 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 February, slightly higher than in dic'23, but 120 bps below pre-covid level of February 2020.

Main economic forecasts

UNDER REVIEW

%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	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]	-5.3	-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	3.7	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)	-4.3	-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.

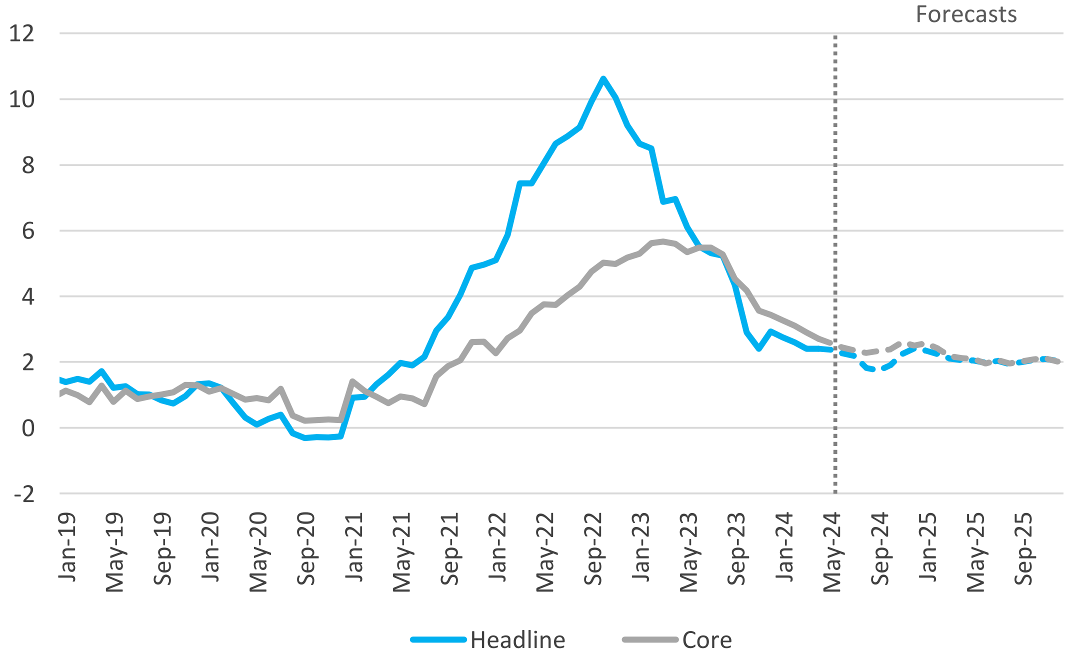
1/ The general government deficit excludes one-off bank restructuring costs of 3.7% of GDP in 2012, 0.3% of GDP in 2013, 0.1% in 2014, 0.05% in 2015, 0.2% in 2016, 0.04% in 2017 and 0.01% in 2018.
2/ General government debt includes ESM/FROB related borrowings equivalent to 3.9% of GDP in 2012.

Source: CaixaBank Research.

The ECB aims at a gradual policy normalization

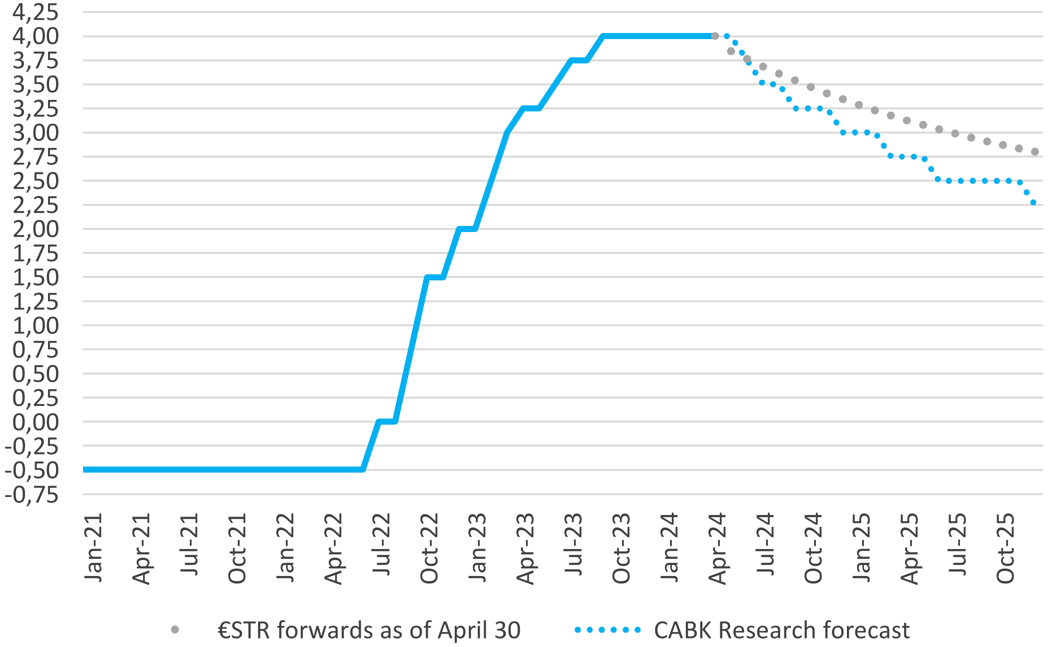
Euro area: HICP inflation

(%)



ECB deposit rate

(%)

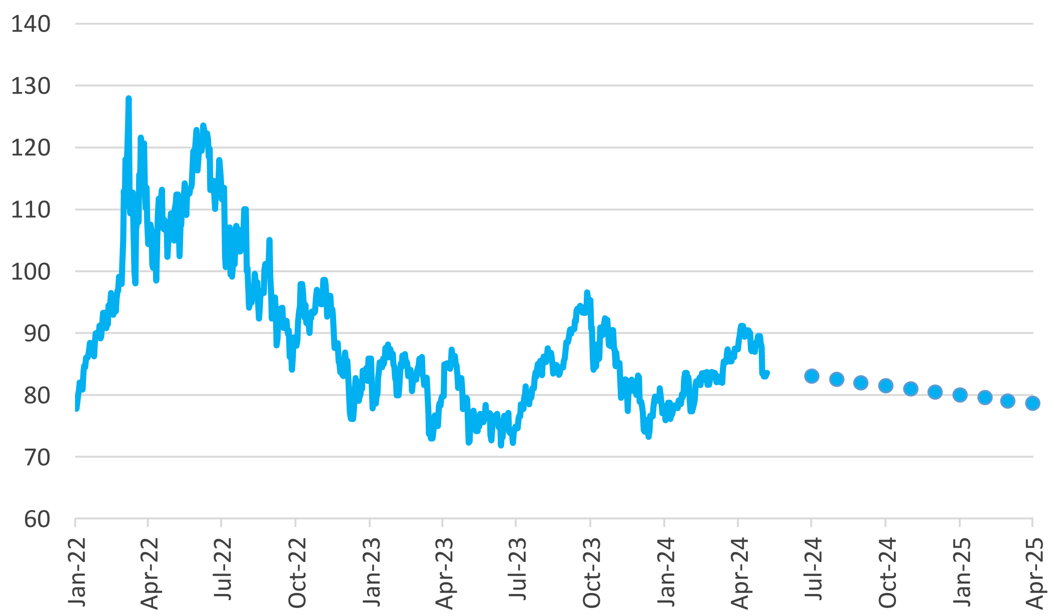


- **Significant progress in the fight against inflation opens the door for the ECB to begin rate cuts in Q2**, while solid labor markets, inertia in wage growth and the expectation of a pick-up in EA activity throughout 2024 favor a gradual approach to policy normalization. We expect a sequence of gradual 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).
- **The ECB signals a June cut and reiterates that it is "[eurozone] data-dependent, not Fed-dependent"**. As it adjusted the communication at its April meeting, the ECB also acknowledged that more cuts should follow in the future, but it reiterated that it would stick to a strategy of data-dependency (instead of pre-committing to a sequence of cuts). Markets see a 90% probability of a June cut and bet on total cuts of 75bp in 2024 (vs. our forecast of 100bp). Last, and in a context of a more cautious Fed (markets do not see Fed cuts until Autumn), the ECB pushed back against Fed-dependency. Given the differences in the macroeconomic outlook of the US and the euro area, we do not expect the Fed's cautiousness to alter the ECB's course of direction (the euro area disinflation in the pipeline should be stronger than inflationary risks from exchange-rate passthrough).

Geopolitical risks and supply put upward pressure on commodity prices

Brent oil prices (and futures)

$ per barrel



Commodity prices

	Metric	Price	*Change (%)* Last Month	Year to Date	2022	2023
Commodities	**index**	**102.3**	**-0.6**	**3.7**	**13.8**	**-12.6**
Energy	**index**	**31.2**	**-5.4**	**1.8**	**33.5**	**-25.6**
Brent	$/barrel	83.5	-8.4	8.4	10.5	-10.3
Natural Gas (Europe)	€/MWh	30.8	15.6	-4.9	8.5	-57.6
Precious Metals	**index**	**247.2**	**-1.0**	**10.5**	**-1.9**	**4.1**
Gold	$/ounce	2314.7	-1.0	12.2	-0.3	13.1
Industrial Metals	**index**	**157.9**	**6.8**	**10.7**	**-4.4**	**-13.7**
Aluminum	$/Tm	2551.5	5.0	7.0	-15.3	0.3
Copper	$/Tm	9910.0	7.0	15.8	-13.9	2.2
Agricultural	**index**	**60.7**	**1.1**	**-2.8**	**13.2**	**-9.3**
Wheat	$/bushel	635.0	11.9	1.1	2.8	-20.7

- **Oil prices to keep elevated.** In April, Brent price rallied to about $90 a barrel (+16%YTD) due to robust consumption (driven by US and China), a tight supply from OPEC+ countries and a slowdown in US production. International agencies expect these factors to remain in place in the coming months and keep the oil market in a tighter supply-demand balance. Also, uncertainty from heightened tensions between Israel and Iran, added some risk premium to oil prices since Iran has a ca.3% of global oil supply and a strategic edge over chokepoints (Hormuz and indirectly Bab el-Mandeb). However, in the beginning of May, Brent price declined to $83 with the conflict loosening in the Middle East. Nevertheless, we consider that risks are on the upside. Factoring in all the elements at play, we will likely raise our oil price forecast closer to current market pricing (2024 avg. in the range of $85-$90 a barrel).
- **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).

Strong start of the year for the Spanish economy

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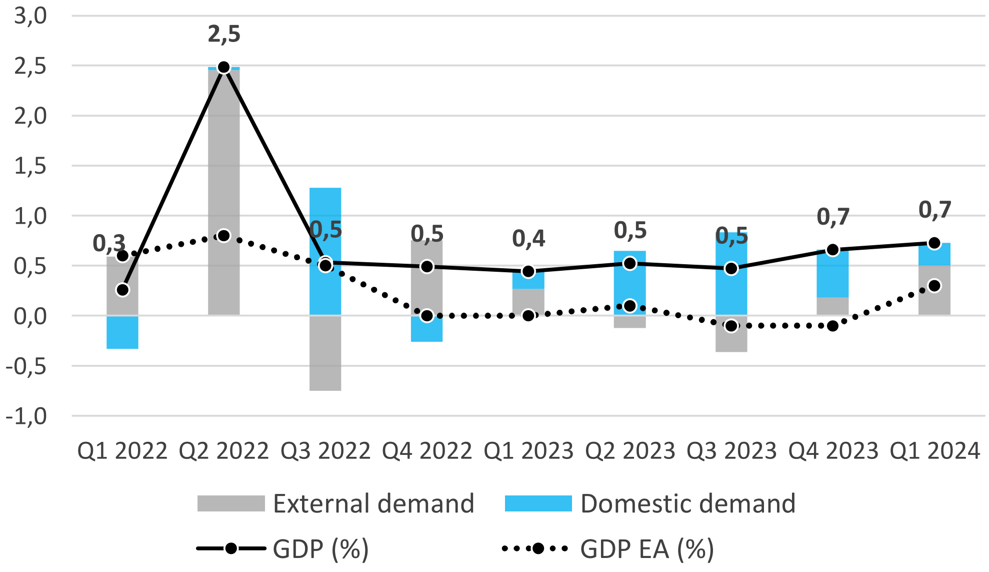
Contribution to quarterly GDP growth

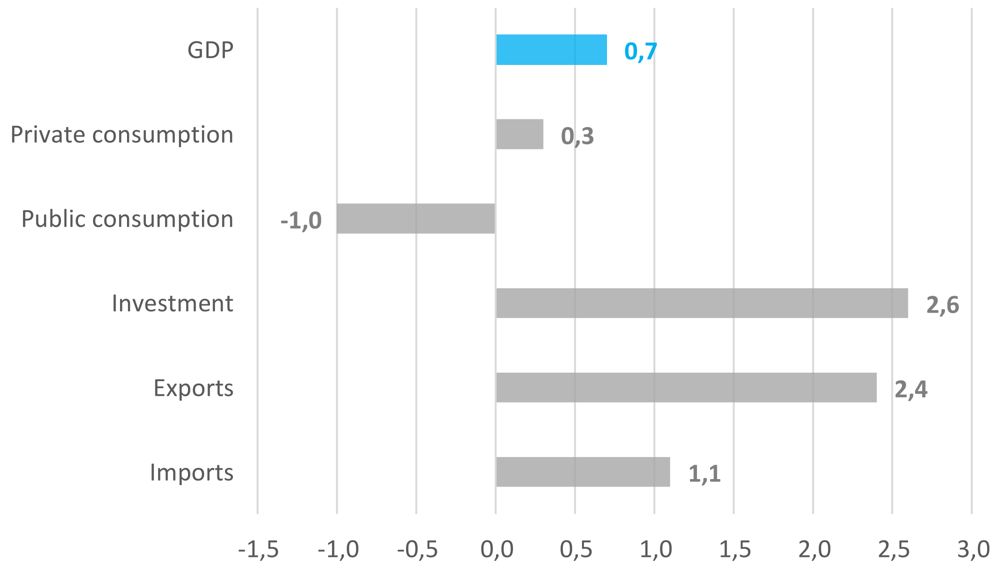
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

Q1 2024 GDP and its components

Quarter-on-quarter variation (%)



- **GDP surprised on the upside and grew 0.7% qoq in Q1 2024** (2.4% yoy), substantially above the euro area (0.3% qoq). External demand was the main driver of growth (contributed 0.5pp to qoq GDP growth) powered mainly by the dynamism of exports of services. Internal demand growth was driven mostly by investment and, to a lesser extent, by private consumption. Investment rebounded 2.6% qoq following a weak Q4 (-1.6% qoq). After growing sustainedly throughout 2023, public consumption fell 1.0% qoq.
- **Upside risks to our 2024 growth forecast.** Despite already robust GDP growth in 2023 compared to the euro area, the 2024 first quarter data has continued to surprise upwards. The good GDP data in Q1 along with a better-than-expected evolution of households' gross disposable income at the end of 2023 and the improvement of households' financial position pose upside risks to our forecast, which we will revise upwards this month. On the downside, were the Israel-Hamas conflict continue to escalate, this could trigger a further surge in oil prices and undermine sentiment.

Early Q2 2024 indicators show a positive trend

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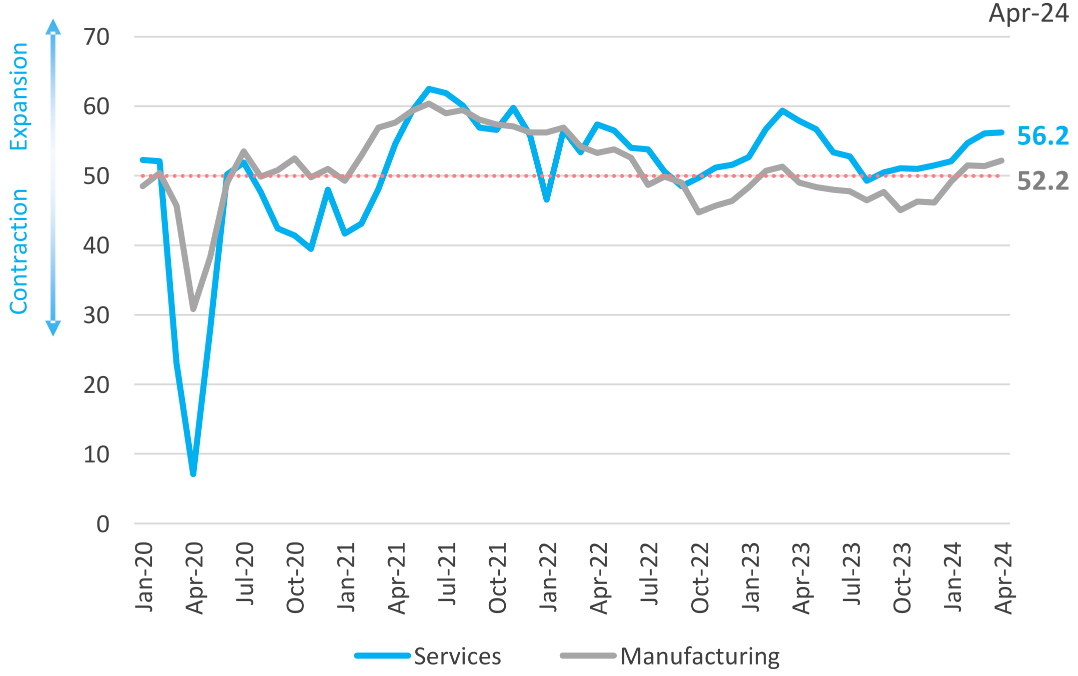
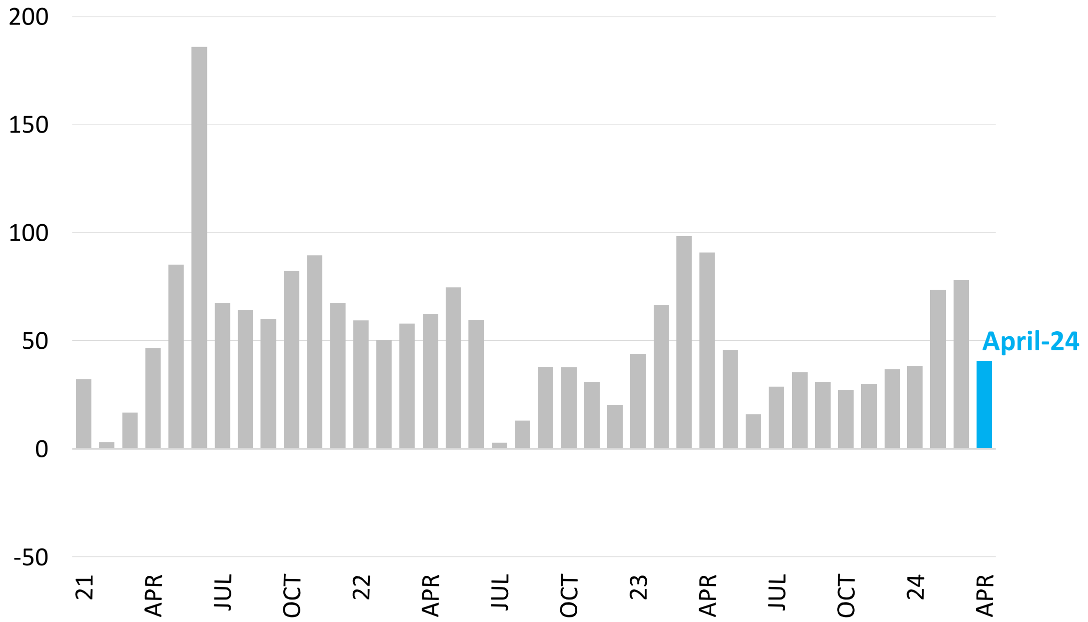
PMI indices

Level



Social Security registered members*

Month-on-month change (thousand)



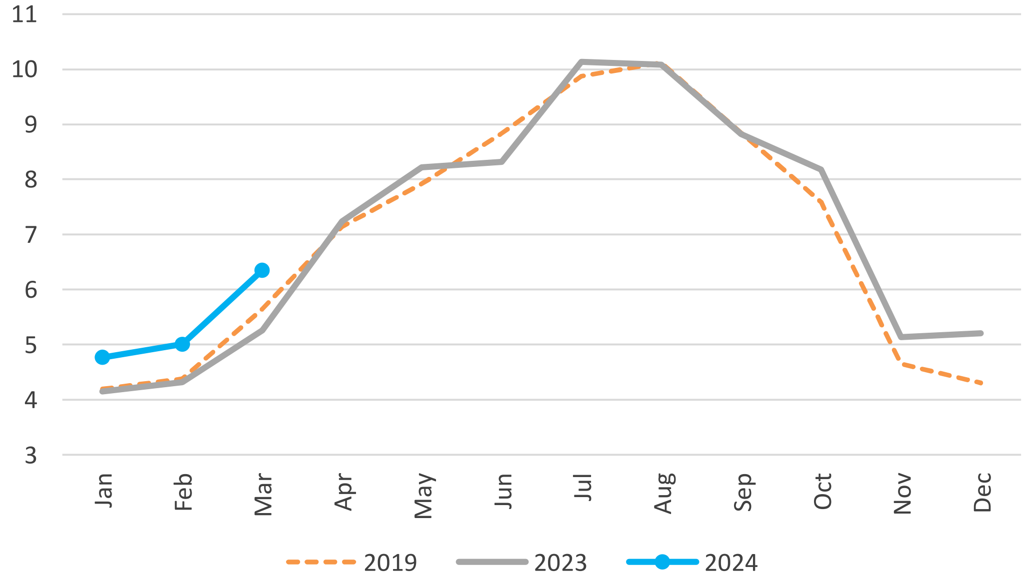
Note: (*) Seasonally adjusted.

- **Although limited data is available for Q2 2024, the indicators show a positive trend**. Employment (as measured by workers registered to the S. S. system) grew 0.6% qoq in April, slightly below the 0.7% of Q1. With these data, **for the first time employment in Spain sat above 21 million** with an increase of 486.5k workers in the last year.
- **The service sector PMI continued its upward trend in April**, achieving a score of 56.2, indicating significant expansion. **The manufacturing sector's PMI scored 52.2**, reaching its highest level since June 2022 and further consolidating its departure from previous weakness.
- From the consumer side, **CaixaBank's domestic consumption indicator (based on Bank's data on card expenditure) grew by 3.2% yoy in April**, slightly below the growth rate in March (3.3%).

Positive outlook for the tourist sector in 2024

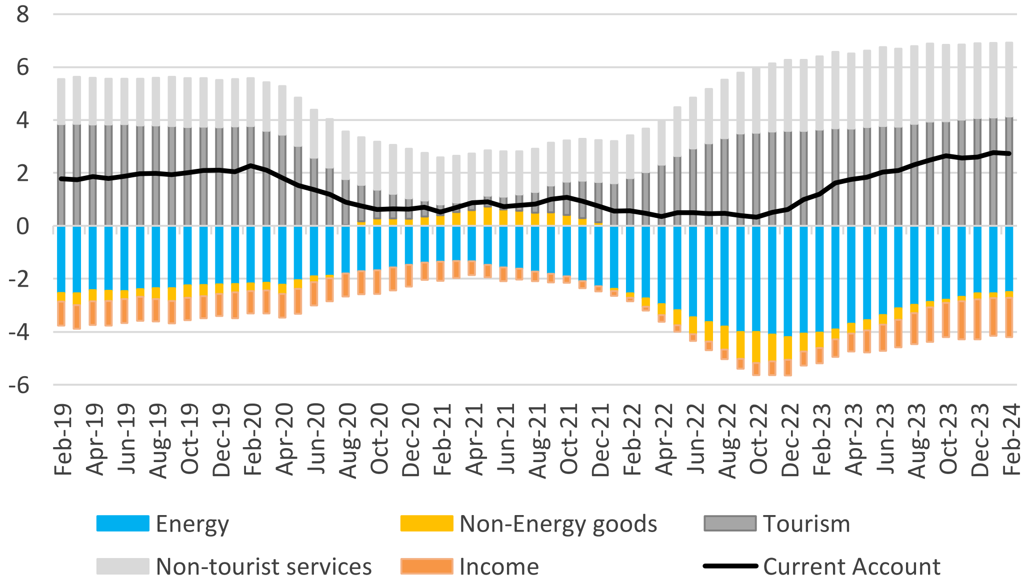
Tourism GDP (real)

Annual change (%)



Current account balance

% of GDP

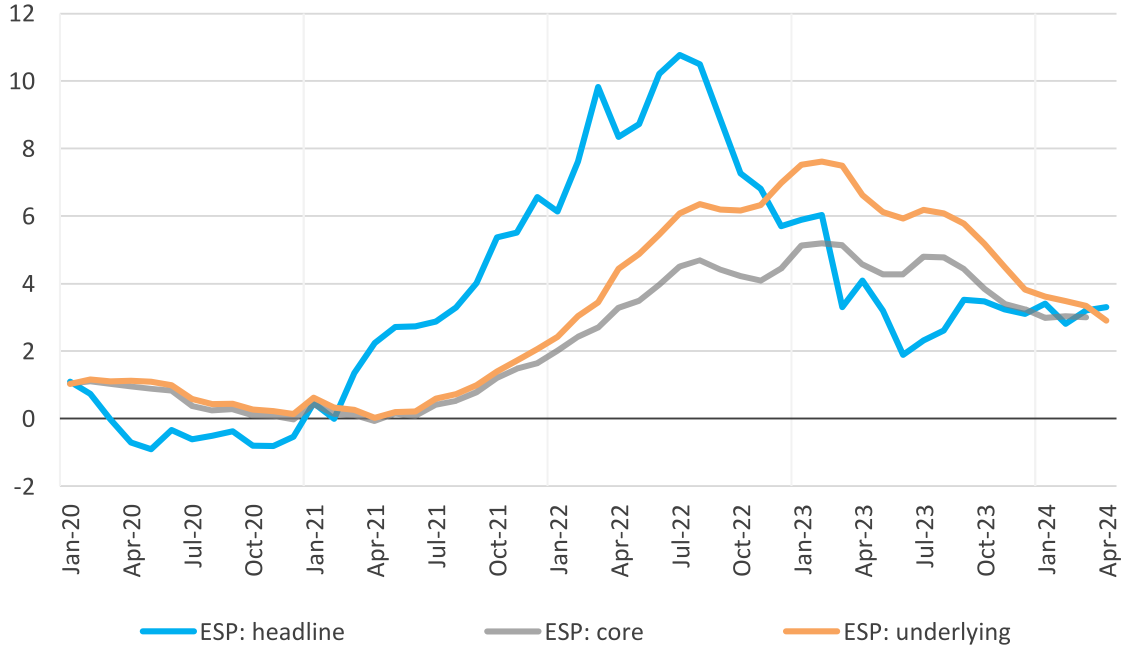


- **The tourism sector has had a strong start to 2024.** International arrivals in March were 12.4% above the same month of 2019, while international tourist expenditure attained a level 43.4% above March 2019. Demand for tourism services is holding up despite the strong increase in tourism related prices: CPI hotel prices in March increased by 8.9% year-on-year, attaining a level 35.1% above the same month of 2019. Tourist arrival figures in March were boosted by stronger tourist flows from the American continent (+21.6% w.r.t. March 2019) and by tourism from the EU (+17.8% w.r.t. March 2019). On the domestic side, following resilient figures last summer, overnight stays by residents in touristic accommodations rose by a 27.8% year-on-year in March, landing at a level 25.5% above March 2019. The domestic data is particularly distorted by Easter being in March in 2024, while it was in April in 2023. 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 keeps posting good figures.** The current account registered a 2.7% of GDP surplus in the twelve months to February 2024, 0.1pp below the January figure and the largest surplus in February since 2017. Compared to the January figure, the 0.1pp decline can be attributed to a 0.04pp decline in non-energy goods and a 0.07pp decline of the income balance, the latter possibly driven by the slight increase in market interest rates in the last month. Both the tourism and energy balance improved in February, with the remaining components staying stable or showing minor improvements.

Underlying inflation decreases significantly in April

Evolution of inflation in Spain

Year-on-year change (%)



Inflation forecast by component

Annual change (%)

UNDER REVIEW

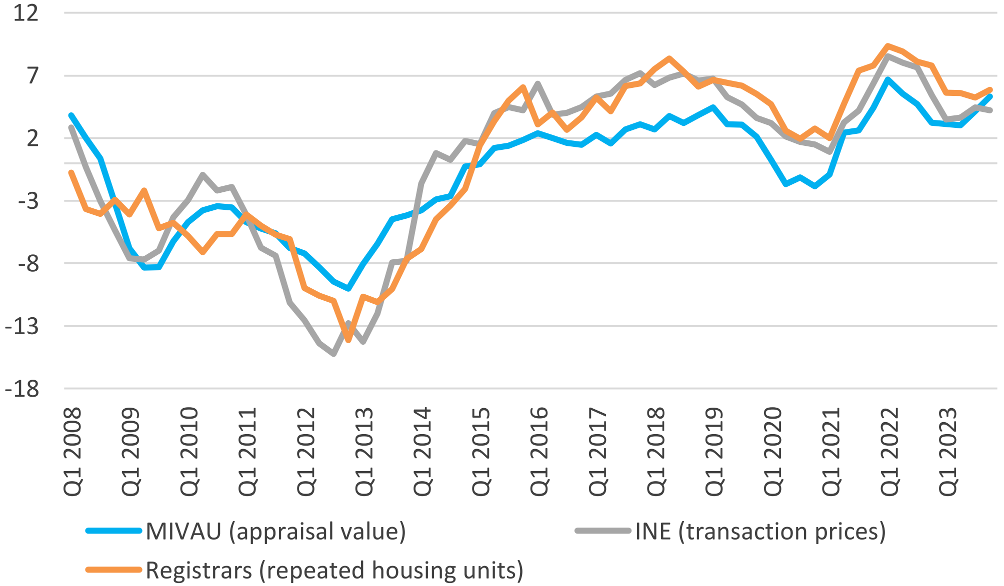
	2023	2024	2025	2026
		Forecast		
Headline inflation	3.5	3.0	2.5	2.0
Underlying inflation (excl. energy and non processed food)	6.0	2.7	2.5	2.2
Core inflation (excluding energy and food)	4.4	2.5	2.4	2.1
- Industrial goods	4.2	1.5	1.5	1.3
- Services	4.3	3.0	2.7	2.5
Food, beverages & tobacco	11.1	3.8	3.3	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 0.1pp in April to 3.3%.** This increase can be attributed to an increase in food inflation and the return of natural gas VAT to 21% (from its subsidized level of 10%). On the other hand, underlying inflation (which excludes energy and non-processed food) declined 0.4pp to 2.9% (3.3% in March).
- **The evolution of fuel prices and temporary increases in electricity VAT pose slight 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 February and March brought forward the increase in electricity VAT in March and April, respectively (the VAT is expected to go down again in July to 10% according to the futures) 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 data in Q1 2024

Housing prices

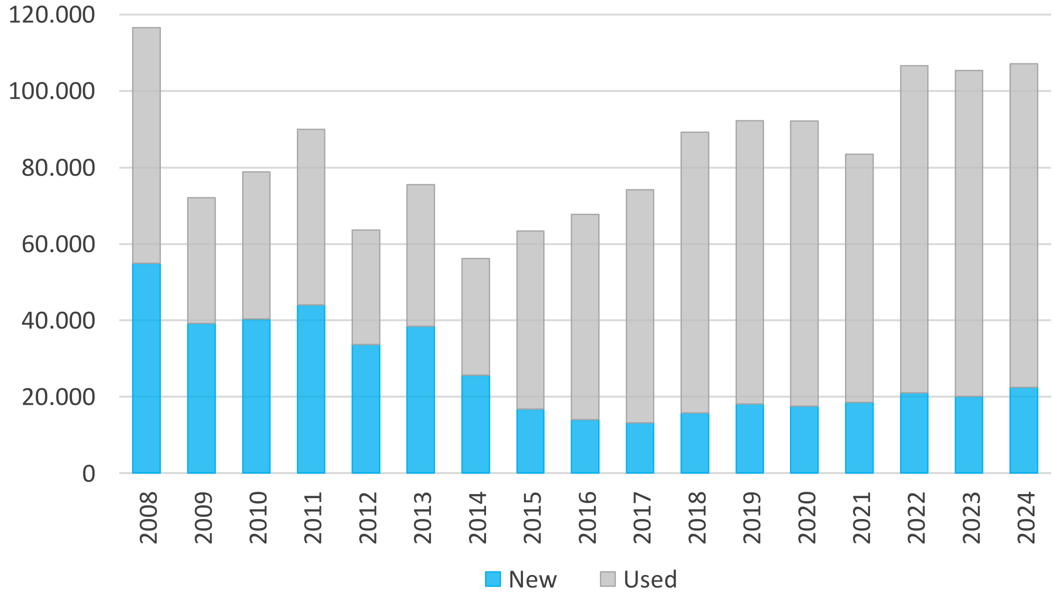
Year-on-year change (%)



Source: CaixaBank Research, based on data from INE, Registrars and MIVAU.

Housing sales in January-February

Number



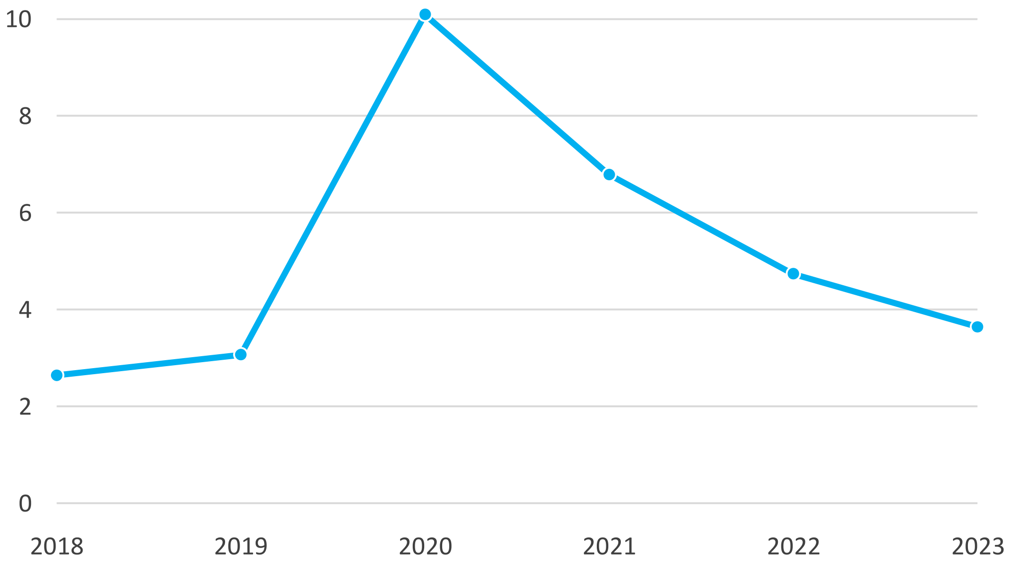
Source: CaixaBank Research, based on data from INE.

- **The Spanish real estate market slowed down in 2023, but more gently than anticipated. Incoming data in Q1 2024 is quite positive on the demand side but sluggish on the supply side:**
  - Transaction data for the first two months of 2024 is quite positive, signaling that the impact of the increase of interest rate on demand has been more muted than expected. In particular, the number of housing sales increased by 1.6% cum. yoy in Jan-Feb. 2024. This the best start of the year in number of transactions since 2008.
  - Supply, on the other hand, continues to be very limited. New building permits decreased by 3.1% cum. yoy in Jan-Feb. 24.
  - 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 expect housing prices to increase by 2.7% and 2.5% in 2024-25, respectively, and the number of sales to be around 550,000 units per year. **Risks are titled to the upside** in view of the good evolution in the first months of the year of both the Spanish economy as a whole and the real estate sector in particular (we do not rule out improving the forecasts again in the coming months).

Public deficit in 2023 has been lower than expected

Public deficit

% GDP



Government Fiscal Projections 2024-2025

Key elements	% GDP 2023	% GDP 2024	% GDP 2025
Public revenues*	**42.1**	**42.6**	**42.9**
Indirect taxes (VAT...)	11.4	11.6	11.6
Direct taxes	12.5	13.1	13.5
Capital taxes	0.4	0.4	0.4
Social contributions	13.5	13.6	13.7
Other revenues**	4.3	3.9	3.7
Public spending	**45.7**	**45.6**	**45.4**
Worker salaries	11.2	11.1	11.0
Social transfers (excl. in-kind)	17.3	17.2	17.2
Public investment	3.0	2.7	2.7
Interest payments	2.5	2.5	2.6
Subsidies	1.5	1.2	1.2
Public balance	**-3.6**	**-3.0**	**-2.5**
Primary balance	**-1.1**	**-0.5**	**0.1**

Notes: *Public revenues and spending excluding the Resilience and Recovery Facility of NGEU.
**It includes revenues linked to property income and EU transfers excluding NGEU.

- **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 recent fiscal projections.

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

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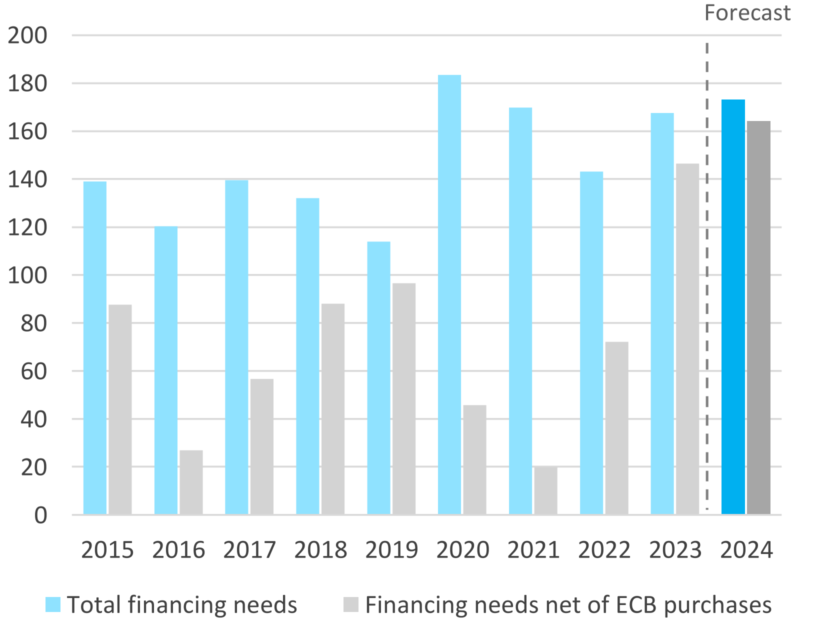
Spain: Gross financing needs

€ Bn

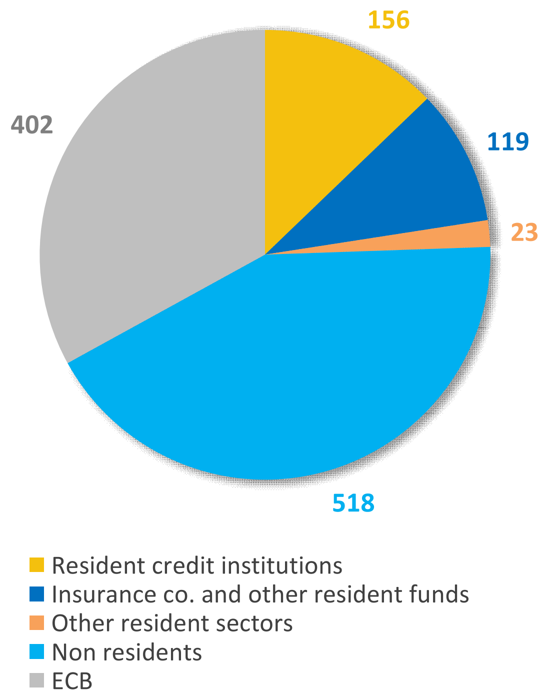


Note: *Amortisation funds do not include short-term bills. For example, bills worth 89.348 millions were redeemed in 2023 and the Treasury Strategy foresses 84.454 millions will be redeemed in 2024.

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

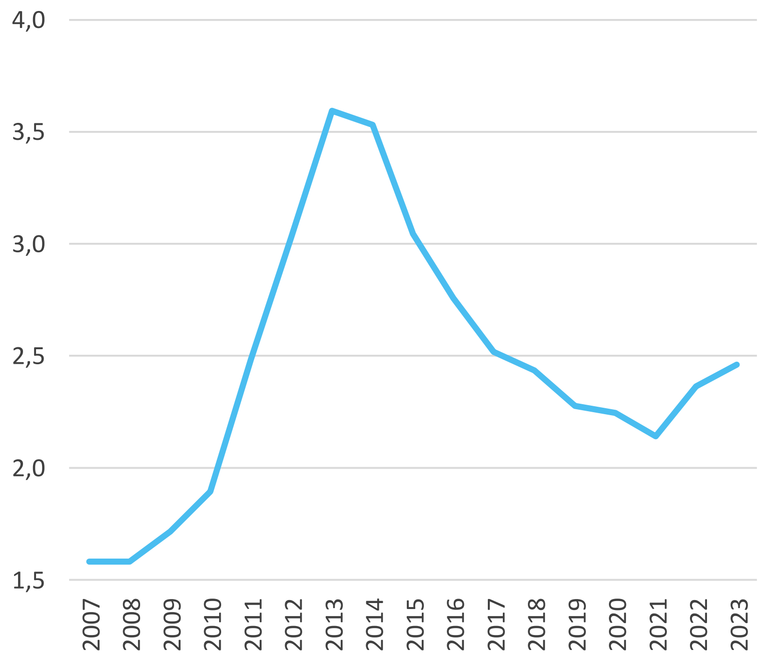
2023 Public debt holdings (excl. bills)

€ Bn



Spain: Interest payments

% GDP

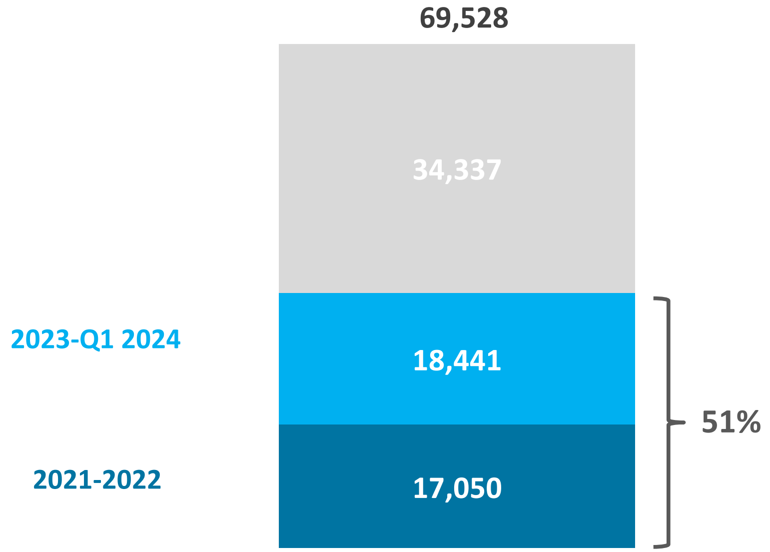


- **Funding needs not covered by ECB in 2024 will be above those of 2016-2023**. However, higher interest rates should increase the appeal of public debt holdings for investors, whether domestic or non-resident, and facilitate the absorption of Spain's financing needs, a trend that has already been observed 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

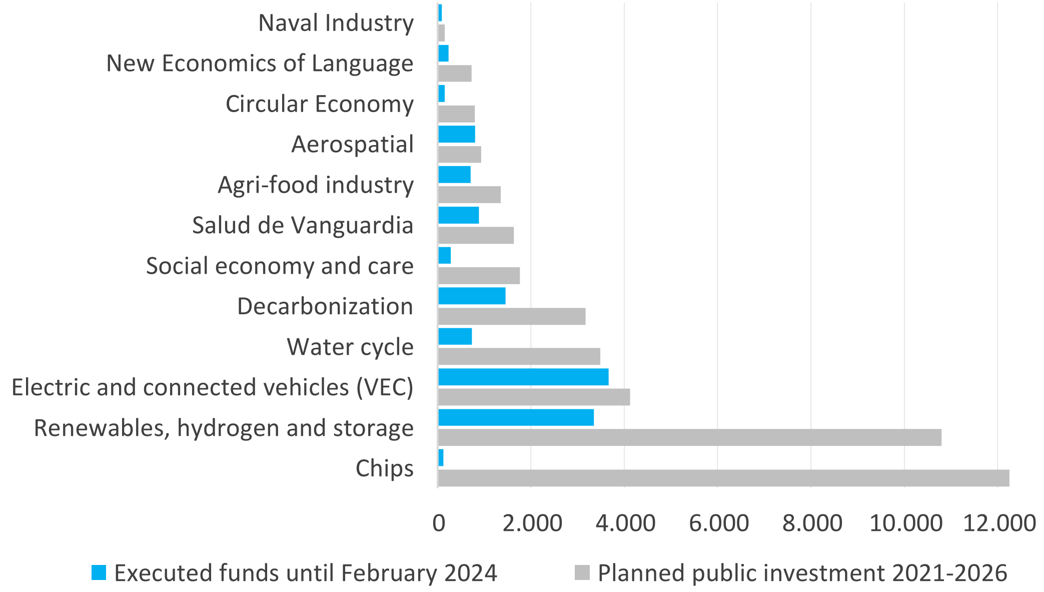
Phase 1 (Million euros)



Note: Execution refers to the allocated calls on both tenders and grants.
Source: MINECO data from the ELISA website.

PERTEs

Million euros

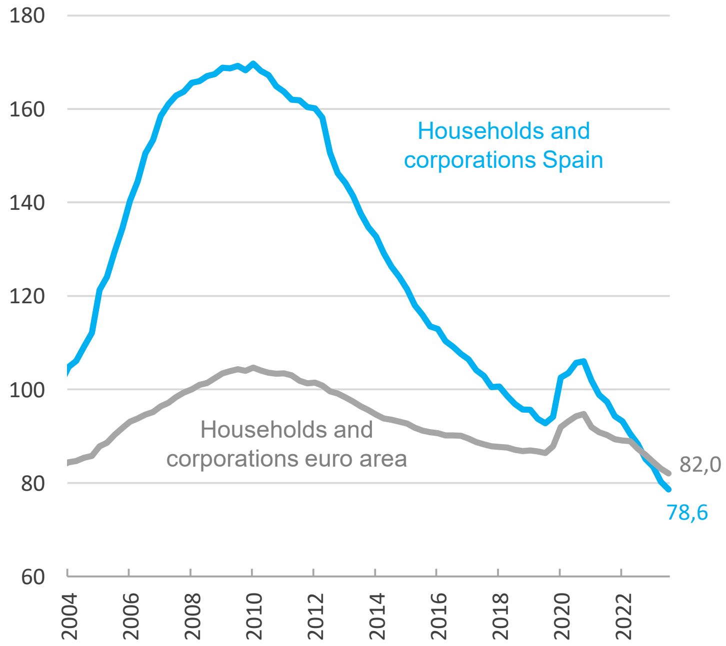


- Thus far, **tenders and grants have been allocated for a total amount of 35.191 billion euros**, which is equivalent to 51% of the first phase of the original Plan. Considering the increases of grants in the Addendum, this figure would correspond to **44%.** Execution accelerated in 2023 with respect to 2021-2022.
- **The Government requested the fourth NGEU disbursement (€10bn) in January** but the Commission has granted a 2-month extension until May 20 to evaluate it. Pending issues: approval of the unemployment benefit reform and technical adjustments, investments. It may be assumed that the disbursement is partial, although there would then be room to receive the rest if approved.
- The prorogated 2023 state budget for 2024 will include 29 billion NGEU funds for investment projects not yet allocated.
- Some of **the 83bn in loans 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

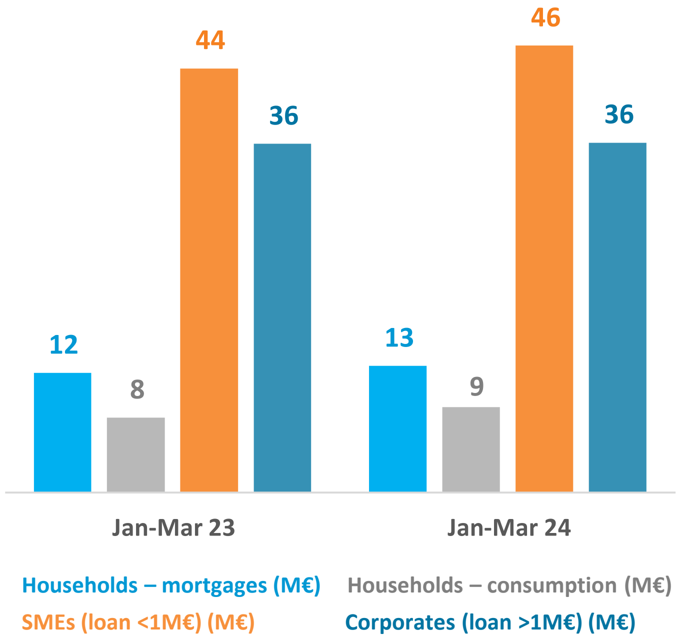
Year-on-year (%)

	Dec-23	Mar-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	**-3.4%**	**-2.5%**	-1.1%
Households	-2.5%	-1.8%	-0.8%
Housing mortgages	-3.2%	-2.5%	-1.7%
Other purposes	-0.5%	0.3%	1.6%
Of which consumption	2.8%	4.5%	3.9%
Businesses	-4.7%	-3.7%	-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



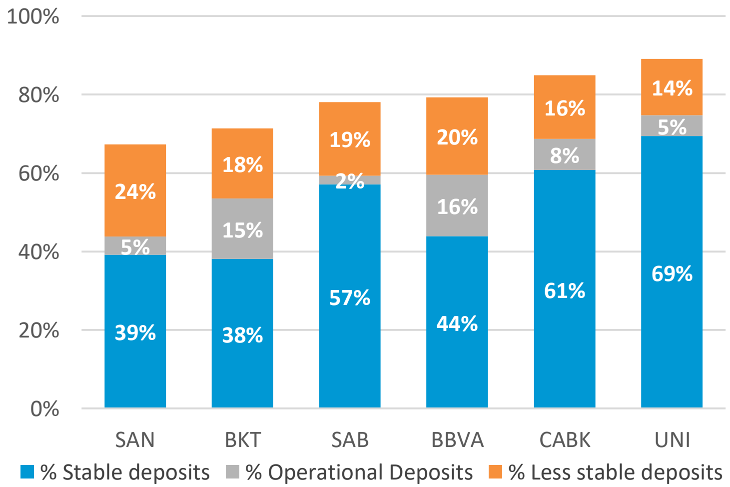
Source: Bank of Spain.

- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 4Q23. 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 and credit for consumer durables, 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

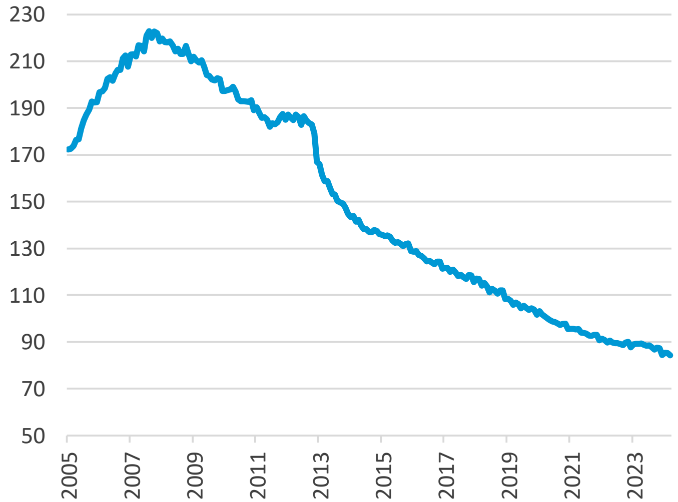
% of total deposits excluding unsecured debt



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

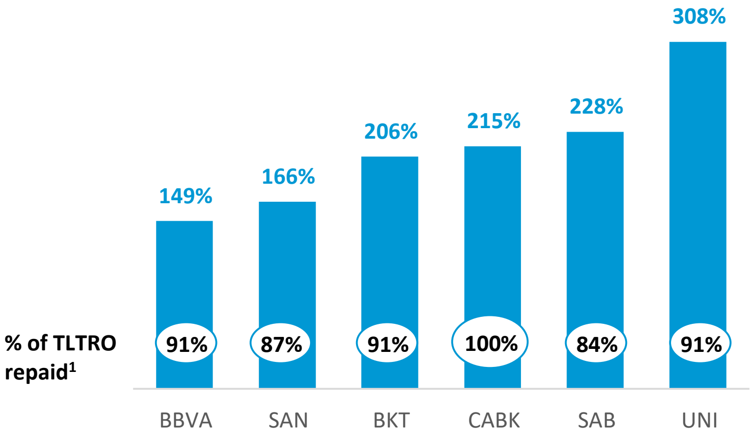
Percentage (%)



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

Banks’ LCR

Q4 23 published ratio



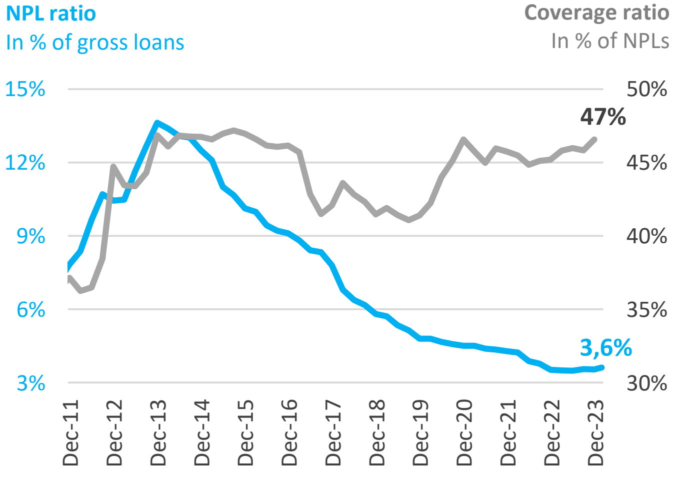
Note: **(1)** TLTRO repaid between the beginning of Nov'22 and the end of Dec’23 as % of total TLTROs. This includes TLTRO returned at maturity and extraordinary returns.
Source: Banks’ financial statements.

- **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 (+2,5% yoy in Mar’24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **With data available up to Mar’24, Spanish banks had repaid around 99% of TLTROs outstanding at Oct’22.** This figure compares to a 89% 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 Feb-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

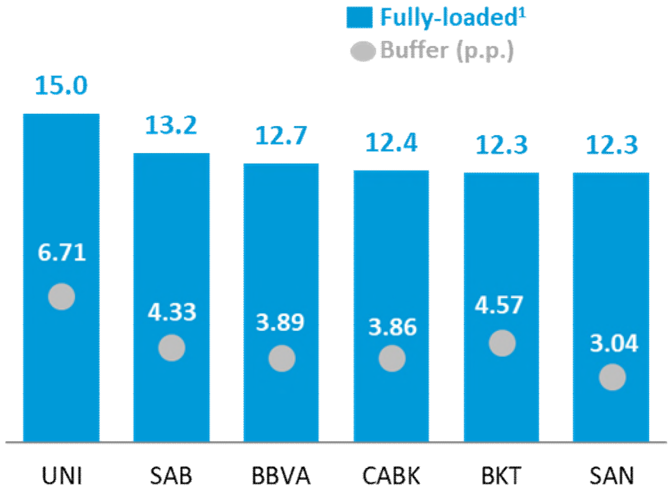
% of avge. total assets (Q4 23; trailing 12M)

	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 2023, the number of requests for measures under the CGP remained contained at 0.2% of the outstanding amount of loans for housing purchase at the end of a year earlier).
- **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 pp 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.