Spain
Macroeconomic & Financial Outlook

CaixaBank Research

June 2024

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Key messages

Activity	▸ **Significant progress in the fight against inflation has opened the door for the ECB to begin rate cuts in Q2**. The ECB has started cutting rates in June (-25bp) and it is projected to dial back its tight policy stance in a gradual but sustained way. ▸ **We revise Spanish GDP growth in 2024 upwards to 2.4% (prev. 1.9%)**, owing to a strong carry-over effect of the Q1 GDP growth figure (+0.7% qoq growth vs. forecast of 0.3%) and an upward revision of investment and external demand prospects. GDP growth will remain dynamic supported by the moderation in inflation, expected cuts in ECB rates, robust employment generation and greater traction in the NGEU investments. Available Q2 indicators reveal a positive performance. ▸ **In 2024-2025, we forecast cumulative GDP growth of 4.7% (prev. 4.1%). Domestic demand will be the main growth driver**: investment cum. growth in 2024-2025 of 6.2%, spurred by energy transition needs and NGEU funds, and household consumption cum. growth of 4.6%. **Migration inflows and tourism** will still be important supporting factors, but with a smaller growth contribution than in 2023. ▸ **Inflation will be reduced at a gradual pace in 2024-2025**. Headline inflation will remain above 2.0% in 2024-2025 due to the persistence of services inflation and to energy and food, which will be affected by tax increases due to the removal of measures implemented in 2022. Headline inflation increased in May, reaching 3.6% (3.3% in April), a smaller-than-expected uptick driven by transitory factors in the energy component. ▸ **We improve our forecasts for the real estate market for 2024-2025**. We expect house prices to increase +6.9% accumulatively in 2024-2025 (prev. 5.3%). Positive net job creation, sizable migration flows, resilience of foreign demand, the favorable financial situation of households, and a relaxation in financial conditions offer support. ▸ **Public deficit is forecast to decline to from 3.6% of GDP in 2023 to 2.6% of GDP in 2025.** Public debt in GDP terms will also decline but a slow pace.
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 100% repayment of TLTROs, with LCRs of top 5 banks ranging from 151% to 294%. In terms of new credit, activity begins to recover in the first months of 2024. Asset quality remains resilient despite materially higher interest rates, domestic NPL ratio stands at 3.6% in March, 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	2023 (Forecast)	2024 (Forecast)	2025 (Forecast)
GDP	3,8	3,0	3,0	2,3	2,0	-11,2	6,4	5,8	2,5	2,4	2,3
Private Consumption	2,9	2,6	3,0	1,8	0,9	-12,4	7,2	4,8	1,8	2,2	2,4
Public Consumption	2,0	1,0	1,0	2,3	1,9	3,6	3,4	-0,2	3,8	1,4	1,0
Gross Fixed Capital Formation (GFCF)	4,9	2,4	6,8	6,3	4,5	-9,0	2,8	2,4	0,8	2,5	3,6
GFCF - equipment	9,1	1,8	9,2	4,7	2,0	-12,6	4,4	1,9	-1,6	2,1	4,6
GFCF - construction	1,5	1,6	6,7	9,5	7,2	-9,2	0,4	2,6	2,3	3,1	3,1
Exports	4,3	5,4	5,5	1,7	2,2	-20,1	13,5	15,2	2,3	2,7	2,4
Imports	5,1	2,6	6,8	3,9	1,3	-15,0	14,9	7,0	0,3	1,8	2,5
Unemployment rate	22,1	19,6	17,2	15,3	14,1	15,5	14,7	12,8	12,2	11,6	11,1
CPI (average)	-0,5	-0,2	2,0	1,7	0,7	-0,3	3,1	8,4	3,5	3,2	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	2,7	2,7
General Government Balance (% GDP)	-5,3	-4,3	-3,1	-2,6	-3,1	-10,1	-6,7	-4,7	-3,6	-3,0	-2,6
General government debt (% GDP)	103,3	102,7	101,8	100,4	98,2	120,3	116,8	111,6	107,7	106,0	105,0
Housing prices	1,1	1,9	2,4	3,4	3,2	-1,1	2,1	5,0	3,9	4,0	2,8
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	85	82
Bank credit (to the private domestic sector)	-4,3	-2,9	-1,9	-2,6	-1,2	2,5	0,5	-0,4	-3,4	-0,4	1,7

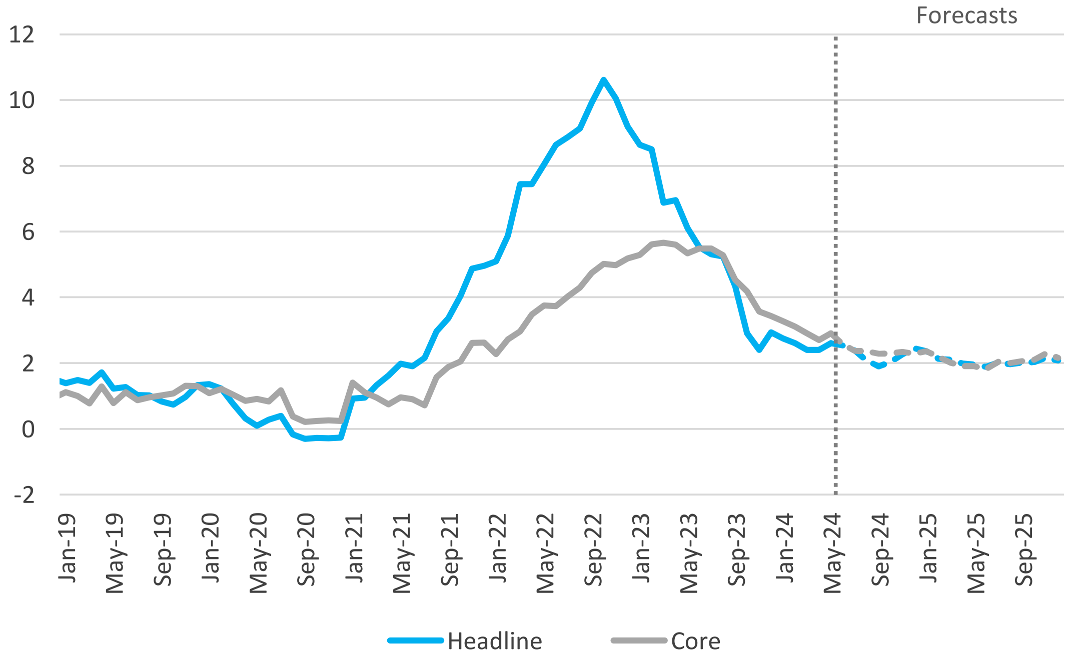
Note: *All GDP figures are based on ESA-2010 methodology.*

Source: *CaixaBank Research.*

The ECB is ready to start a gradual policy normalization

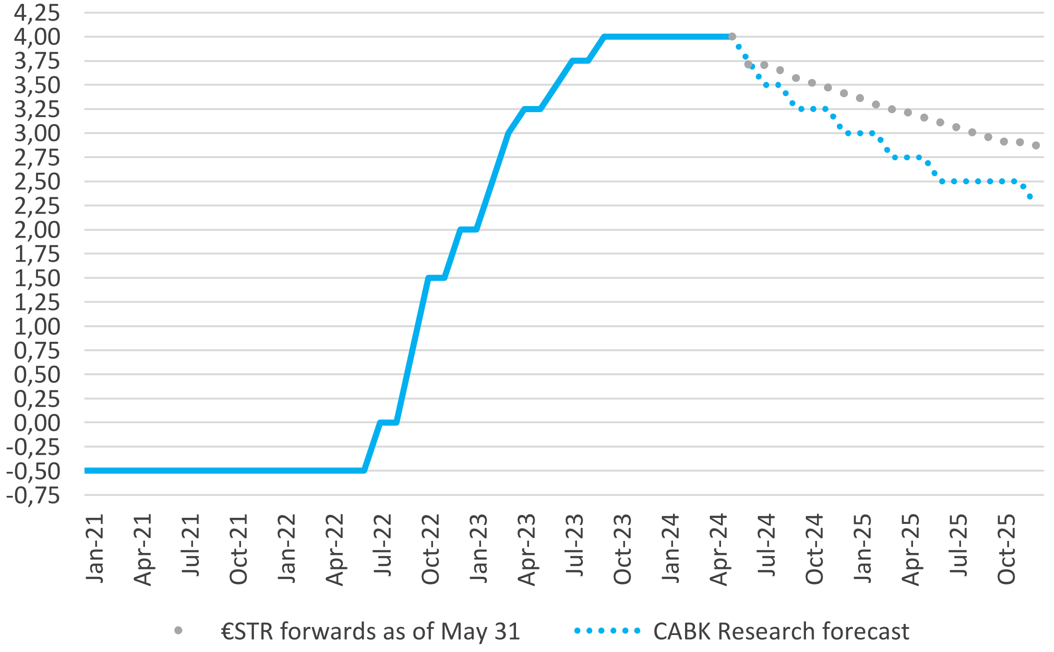
Euro area: HICP inflation

(%)



ECB deposit rate

(%)

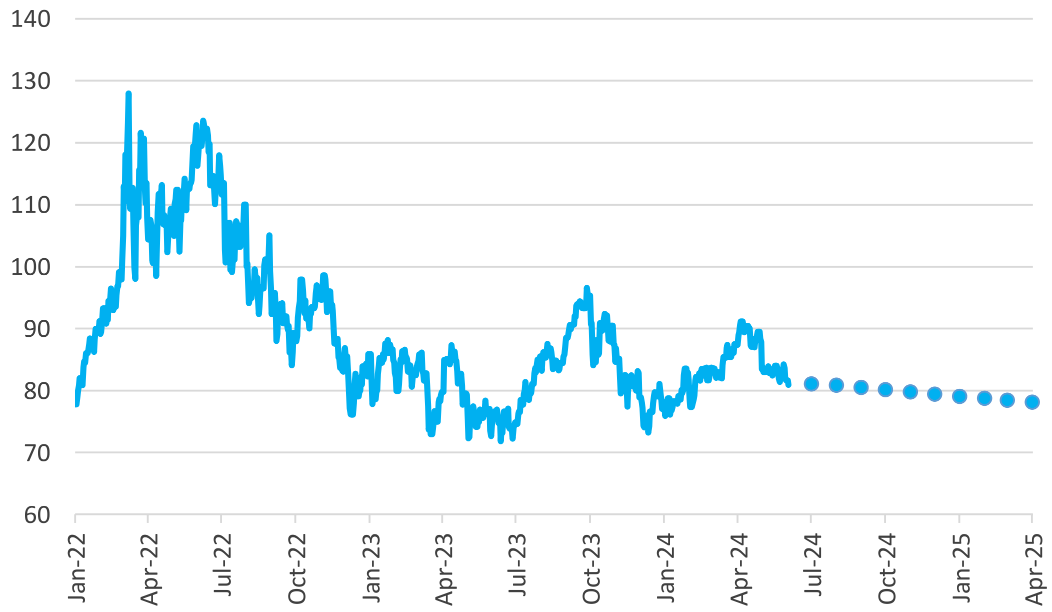


- **Significant progress in the fight against inflation has opened the door for the ECB to begin a sequence of rate cuts**. On the one hand, ECB cuts are supported by a significant and sustained progress in the euro area's disinflation as well as the expectation that the inflation outlook will improve further. On the other one, the ECB is likely to keep an antiinflationary bias – responding to a long period of above-target inflation, inertia in some prices (e.g., services), short-run volatility in data (e.g., due to the withdrawal of energy-related support measures) and the fact that second-round effects (limited and moving in the right direction) play out with a lag (data on second-round effects are also released with a long lag). We think the Fed's cautiousness need not alter the ECB's course of direction (FX inflation passthrough is estimated to be small), but it does pose a risk of a more gradual decline in interest rates.
- **As expected, a first cut of 25pb has already been made** in June but the ECB is being more cautious in its communications regarding post-June decisions. As for its next steps, the ECB once again remarked future decisions will be "data-dependent", noting that the inflation path will not be exempt from surprises. We expect a sequence of gradual 25bp cuts after this first cut 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).

Geopolitical risks and supply put upward pressure on commodity prices

Brent oil prices (and futures)

$ per barrel



Commodity prices

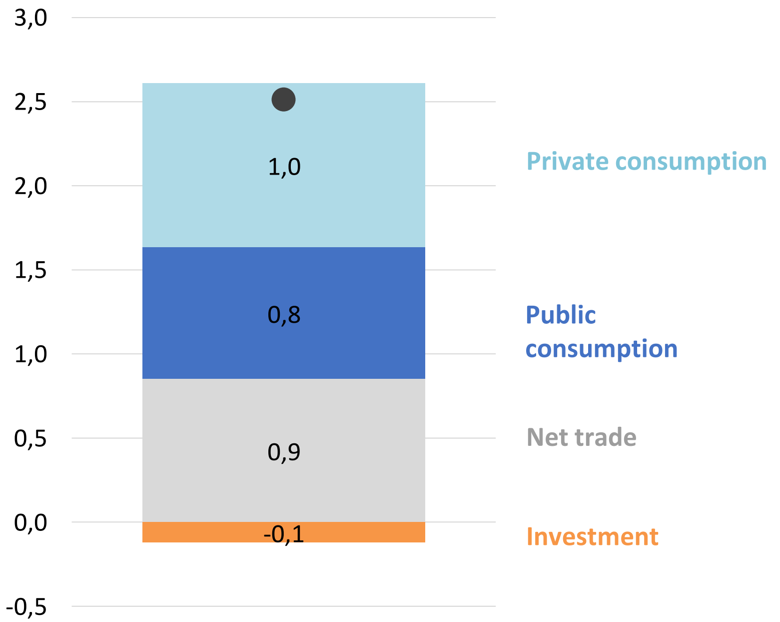
	Metric	Price	Change (%) Last Month	Change (%) Year to Date	Change (%) 2022	Change (%) 2023
Commodities	**index**	**103.4**	**2.0**	**4.8**	**13.8**	**-12.6**
Energy	**index**	**31.4**	**1.3**	**2.4**	**33.5**	**-25.6**
Brent	$/barrel	81.2	-2.2	5.4	10.5	-10.3
Natural Gas (Europe)	€/MWh	37.2	21.7	14.8	8.5	-57.6
Precious Metals	**index**	**254.1**	**4.0**	**13.6**	**-1.9**	**4.1**
Gold	$/ounce	2328.2	1.1	12.9	-0.3	13.1
Industrial Metals	**index**	**161.3**	**2.5**	**13.1**	**-4.4**	**-13.7**
Aluminum	$/Tm	2652.5	2.4	11.3	-15.3	0.3
Copper	$/Tm	10040.0	0.5	17.3	-13.9	2.2
Agricultural	**index**	**60.8**	**1.6**	**-2.6**	**13.2**	**-9.3**
Wheat	$/bushel	687.5	13.4	9.5	2.8	-20.7

- **Oil prices to remain elevated.** In May, Brent price declined to about $81 a barrel (+5% YTD) amid a challenging medium-run economic outlook in China and doubts about the pace of interest rate reductions in developed economies. However, Brent oil prices will remain under pressure the rest of the year due to a tight demand-supply balance driven by increasing oil demand from the main emerging economies and by the OPEC+ agreement to extend the supply cuts (roughly 2 million barrels a day) in full the Q3 and then gradually phase out over the following 12 months. Although market concerns about tensions in the Middle East have eased, geopolitical factors remain a key risk and will keep an upward pressure on prices. We have raised our Brent oil prices to capture these factors. We forecast oil price for 2024 of $86.9 a barrel (avg. price of $86.0 at Dec-24).
- **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 30.3 €/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 after a good 2023

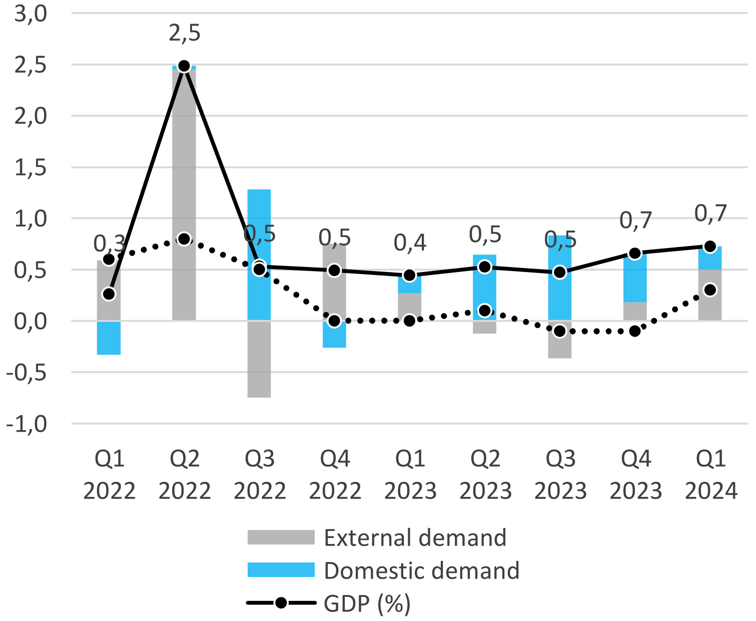
Contribution to annual 2023 GDP growth

Percentage points and percentage change (%)



Contribution to quarterly GDP growth

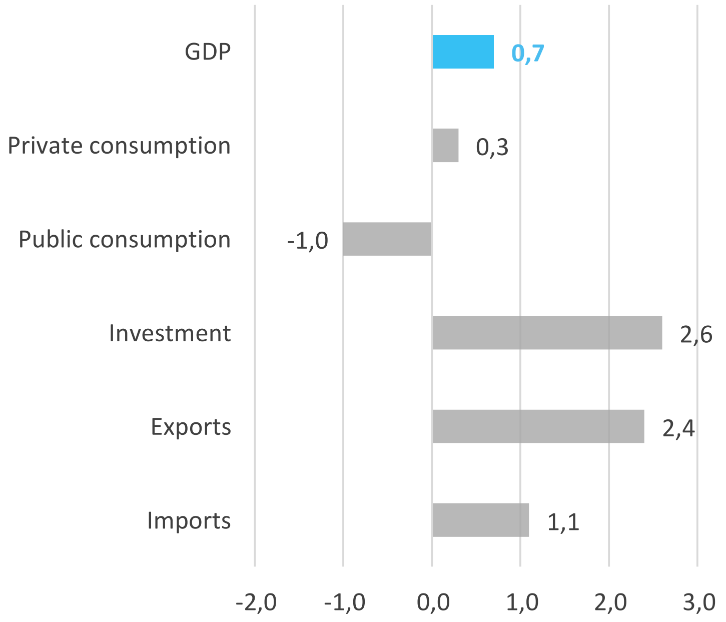
Percentage points and percentage change (%)



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.

Update of the macroeconomic scenario

New macroeconomic scenario

Annual variation (%), unless otherwise stated

	2014-19	2023	2024	2025	Cum. 24-25
GDP	2.6	2.5	2.4 *(1.9)*	2.3 *(2.2)*	**4.7** ***(4.1)***
Unemployment rate (% labor force)[2]	18.8	12.2	11.6 *(11.8)*	11.1 *(11.4)*	**-1.1** ***(-0.8)***
Inflation rate (average of period, %)	0.6	3.5	3.2 *(3.0)*	2.5 *(2.5)*	**5.8** ***(5.6)***
House prices	1.6	3.9	4.0 *(2.7)*	2.8 *(2.5)*	**6.9** ***(5.3)***

Note: (1) old scenario in parenthesis. (2) Cumulative is difference between 2025 and 2023.

GDP: analysts' forecast

Year-on-year change (%)

Ordered by forecasts in 2024	2024	2025	Cum. 24-25
CaixaBank Research (New)	**2.4**	**2.3**	**4.7**
BBVA Research (March 6th)	2.1	2.0	4.1
Funcas Panel (May 22nd)	2.1	2.0	4.1
European Commission (May 15th)	2.1	1.9	4.0
Airef (April 12th)	2.0	1.9	3.9
Government (April 30th)	2.0	1.9	3.9
IMF (June 6th)	2.4	2.1	4.6
Bank of Spain (March 12th)	1.9	1.9	3.8
Funcas (May 22nd)	2.1	2.0	4.1
OCDE (May 2nd)	1.8	2.0	3.8

- **We revise GDP growth in 2024 upwards to 2.4% (prev. 1.9%)**, owing to a strong carry-over effect of the Q1 GDP growth figure (+0.7% qoq growth vs. forecast of 0.3%) and an upward revision of investment and external demand prospects (+1.9pp and +0.7 pp, respectively).
- **GDP growth will remain dynamic in 2024 and 2025** supported by the moderation in inflation, the expected cuts in ECB rates, the robust employment generation and the greater traction in the investments linked to NGEU.
- **We revise downwards our forecast of the unemployment rate** in 2024 (-0.2pp) and 2025 (-0.3pp), owing to the better prospects in GDP growth.

Spain: Consumption and investment will gain importance in 2024-2025

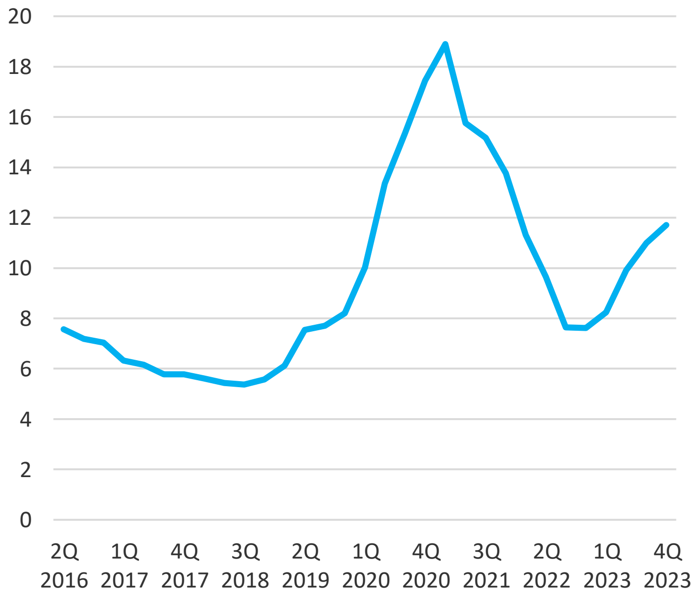
Macro forecasts growth components

Year-on-year (%)

	2014-19	2023	2024 (f)	2025 (f)
GDP	2.6	2.5	2.4	2.3
Private consumption	2.2	1.8	2.2	2.4
Public consumption	1.3	3.8	1.4	1.0
Investment	4.8	0.8	2.5	3.6
Exports	3.9	2.3	2.7	2.4
Imports	4.4	0.3	1.8	2.5

Savings rate

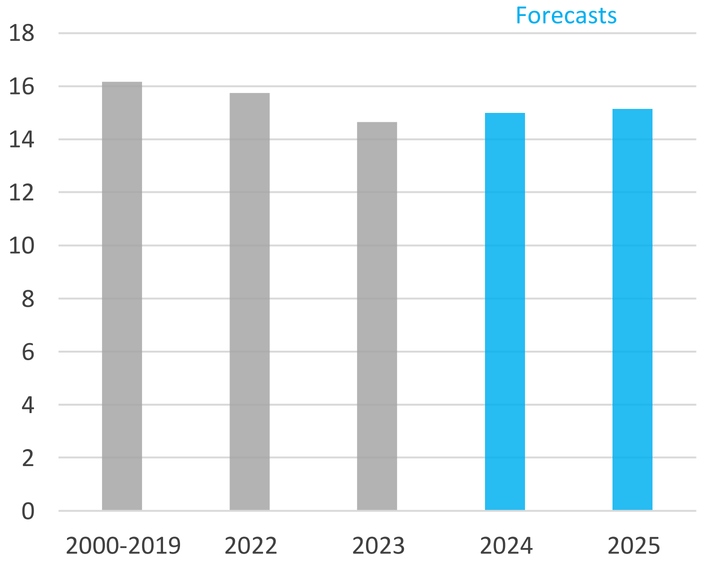
% Gross disposable income



Note: Cumulative four quarters, average 2015-2019: 6.8%

Investment/GDP*

(%)



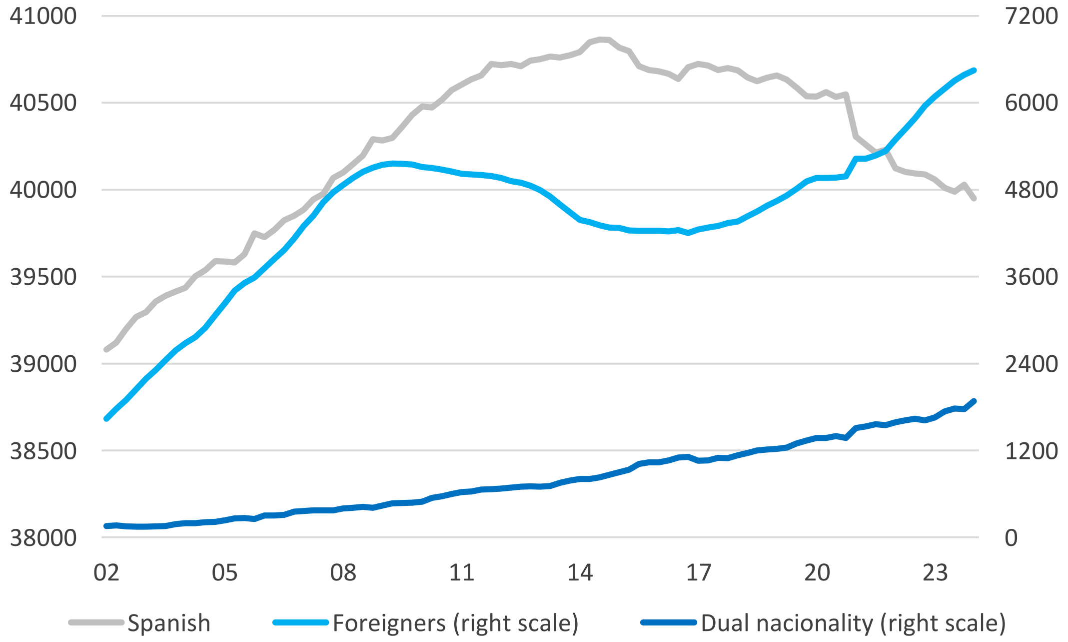
Note*: Excluding real estate investment.

- **GDP is expected to sustain growth above 2% over** 2024-2025 as it rebalances towards internal demand. GDP growth was largely based on public consumption and external demand between 2022 and 2023 and will give way to stronger growth in private consumption and investment in the next years. There is room for these two components to grow: investment remains in Q1 2024 2.2% below its 4Q2019 level, whereas private consumption is just 0.3% above. **Investment** will grow at an average of 3.1% in 2024-2025 spurred by energy transition needs and NGEU funds. **Private consumption** will grow at an average of 2.3% against the backdrop of dynamic gross disposable income growth that has placed the savings rate at 11.7% at the end of 2023, above its historical average (8.2% in 2000-2019). **Tourism and migration inflows** will contribute to growth in 2024-2025 albeit to a smaller extent than in 2023.
- **There is further upside potential over the next years in private consumption and investment** that could be partially materialized. First, despite private consumption growing at 2,3% on average in 2024-2025, it will take time for the savings rate to normalize and we expect it to sit in 2025 clearly above its historical average. Second, investment to GDP ratio still remains below its 2000-2019 average.
- **NGEU will be an important contributor of economic growth in 2024 and 2025** where we expect NGEU investments above 20bn in each year. We estimate the NGEU contribution to GDP growth in 2024 and 2025 to be close to 0.5 pp per year with some upward risks.

A new demographic and macroeconomic impulse coming from immigration

Population

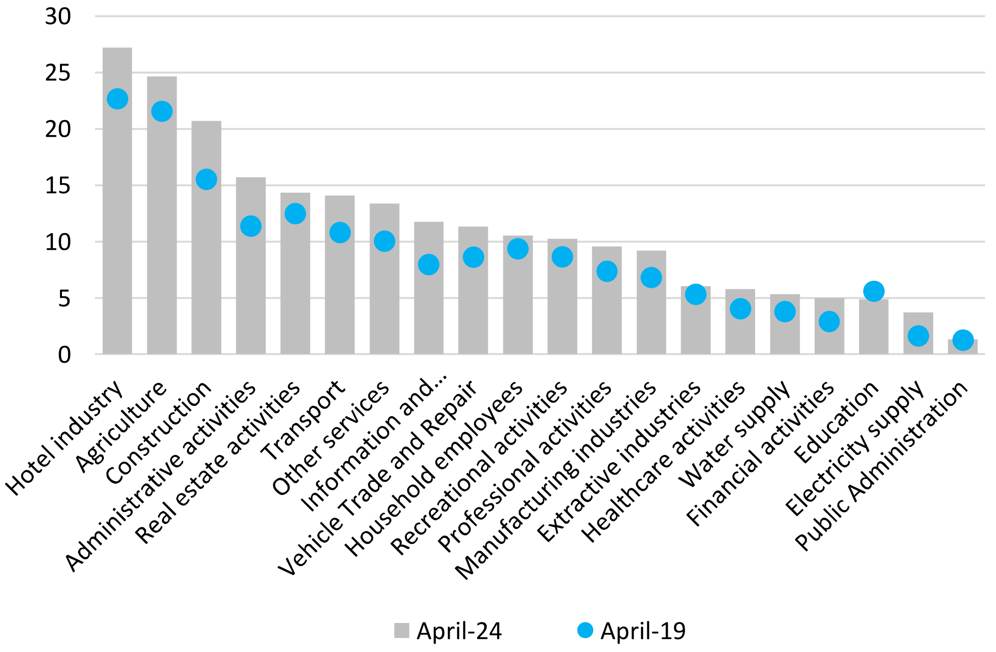
Thousands



Source: CaixaBank Research, based on data from the INE (EAPS).

Weight of foreign workers

% of total workers in the sector



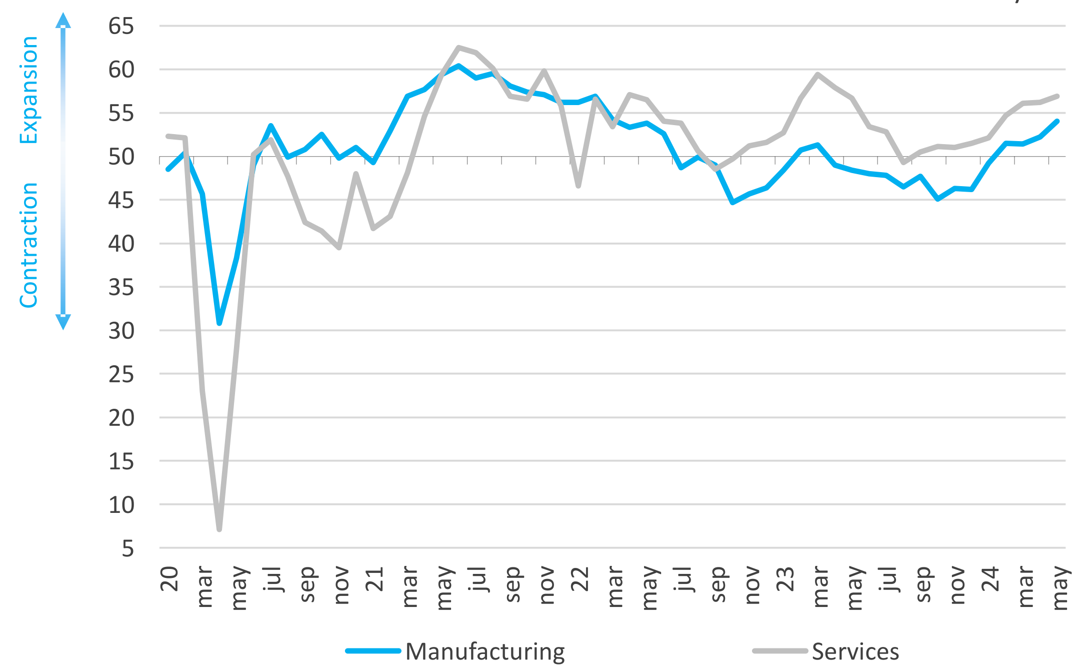
Note: Average workers registered to the Social Security system.
Source: CaixaBank Research, based on data from the Ministry for the inclusion, Social security and migration.

- **In the last two years (from Q1 2022 to Q1 2024) the population in Spain has grown by 1,070M**. Of which: foreigners, +956 thousand; dual nationality, +291 thousand; and Spanish -175 thousand.
- **In 3 sectors, the percentage of foreign workers exceeds 20%:** hotels (27%), agriculture (25%) and construction (21%).
- **Strong population growth, driven by immigration, will continue to be an important growth factor for the Spanish economy although not as much as in 2023**. INE projections point to average annual population growth of 0.8% until 2027, thanks to migratory flows (+482,000 people on avg. per year), while the population born in Spain will continue to fall (-100,000 on avg. per year). Although this growth rate is somewhat lower than the exceptional increase in 2023 (1.2%), it is much higher than the average annual increase in the period 2016-19 (0.4%).

Early available Q2 indicators show a positive trend

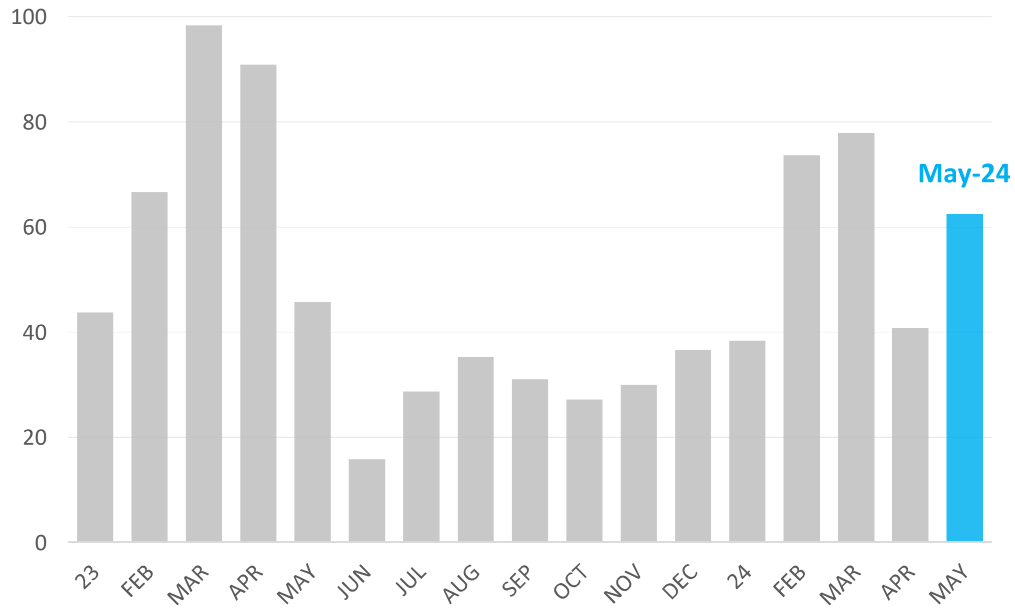
PMI indices

Level



Social Security registered members*

Month-on-month change (thousand)



Note: (*) Seasonally adjusted.

- **Available Q2 2024 indicators show a positive performance**. Employment (as measured by workers registered to the S. S. system) added 62.5k workers in seasonally adjusted terms in May. As a result, with data up to May employment has grown 0.7% with respect to the first quarter of 2024, a very dynamic pace (in Q1 the qoq growth was 0.7% too). With these data, employment in Spain sits at 21.3 million with an increase of 506.4k workers in the last year.
- **The manufacturing sector PMI continued its upward trend in May**, achieving a score of 54.0 (52.2 in April), indicating significant expansion. Thus, the manufacturing PMI index reached its highest level since March 2022 and further consolidated its departure from previous weakness. **The service sector PMI continued its upward trend in May**, achieving a score of 56.9 (56.2 in April).
- From the consumer side, **CaixaBank's domestic consumption indicator (based on Bank's data on card expenditure) grew by 4.4% yoy in the first 3 weeks of May**, above the growth rate in April (3.2%) and similar to Q1 (4.3%). Moreover, **retail trade** (excluding gas stations) increased by 1.8% mom in real terms in April, its highest figure since November 2023.

Inflation will gradually converge to 2%

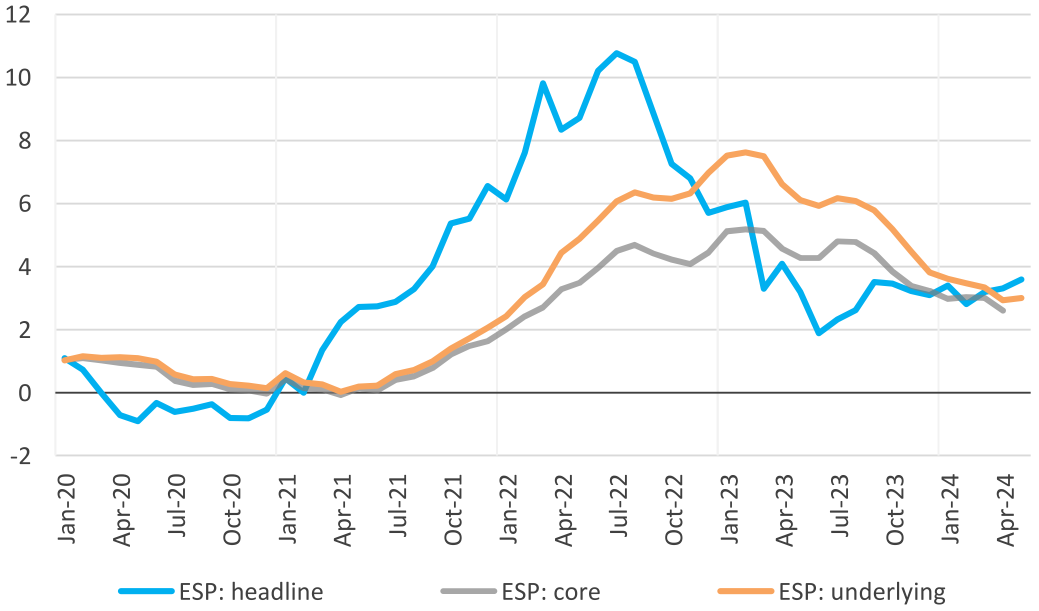
CPI and its components in Spain

Average year-on-year change (%)

	2023	2024	2025
Headline inflation	**3.5**	**3.2**	**2.5**
Underlying inflation (excl. energy and non processed food)	6.0	3.0	2.4
Core inflation (excluding energy and food)	**4.4**	**2.7**	**2.3**
- Industrial goods	4.2	1.2	1.1
- Services	4.3	3.3	2.8
Food, beverages & tobacco	11.1	4.3	3.3
Energy	-16.3	4.3	1.8
- Electricity	-36.8	14.4	10.2
- Fuel	-5.1	-1.1	-2.9

Headline, underlying and core CPI

Year-on-year change %

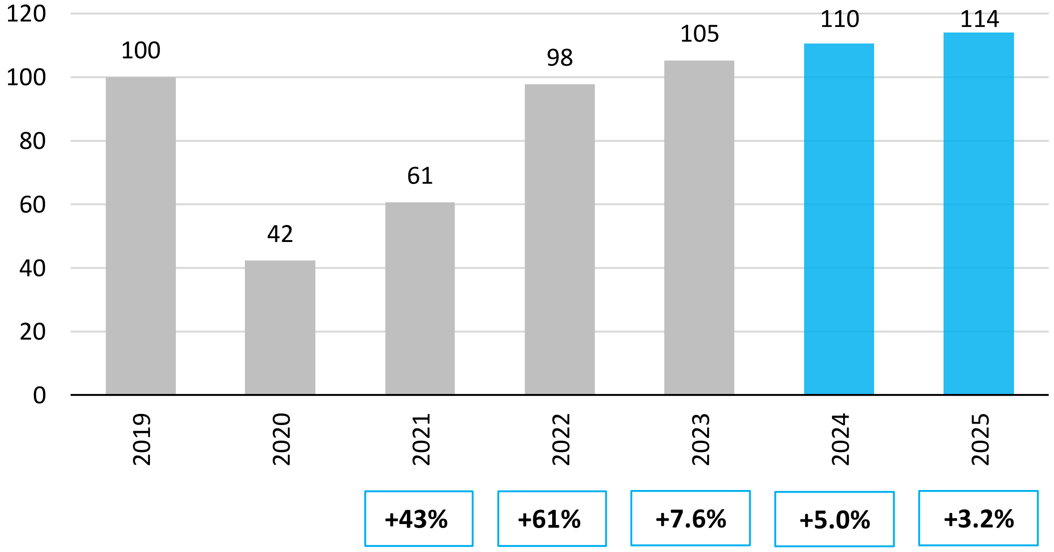


- **Headline inflation up 0.3 pp. to 3.6% in May, a lower-than expected increase**. Although the prices of the electricity in the wholesale market remain relatively low, prices have increased in recent months due to the hikes in the different taxes that regulate the electricity bill. Meanwhile, underlying inflation increased by 0.1 pp. to 3.0%.
- **Headline inflation will remain above the 2% target in 2024 and 2025**. Inflation will decline very gradually due to the persistence of services inflation close to 3% over 2024-2025 and to non-core components (energy and food), which will be affected in 2024-25 by tax increases due to the removal of measures against inflation implemented in 2022. In particular, electricity (whose VAT will return to 21% at the beginning of 2025) will be the component with the greatest inflation in 2024 and 2025.
- **Core inflation will return gradually to the 2.0% objective**. Among the two components of core inflation (which excludes energy and food), non-energetic industrial goods will decline rapidly in 2024. The price of services, whose weight in the CPI basket currently stands at 46%, will decline at a slower pace. We expect wages to grow slightly above inflation in 2024 to make up for lost purchasing power although their growth will slow down with respect to 2023. In any case, we don't expect significant second-round effects.
- **Food prices pose an upward risk.** Food inflation is expected to decrease in 2024 mostly due to base effects, but our forecasts indicate that food prices will still experience price increases above those of the period 2015-2019.

Positive outlook for the tourist and external sector in 2024-2025

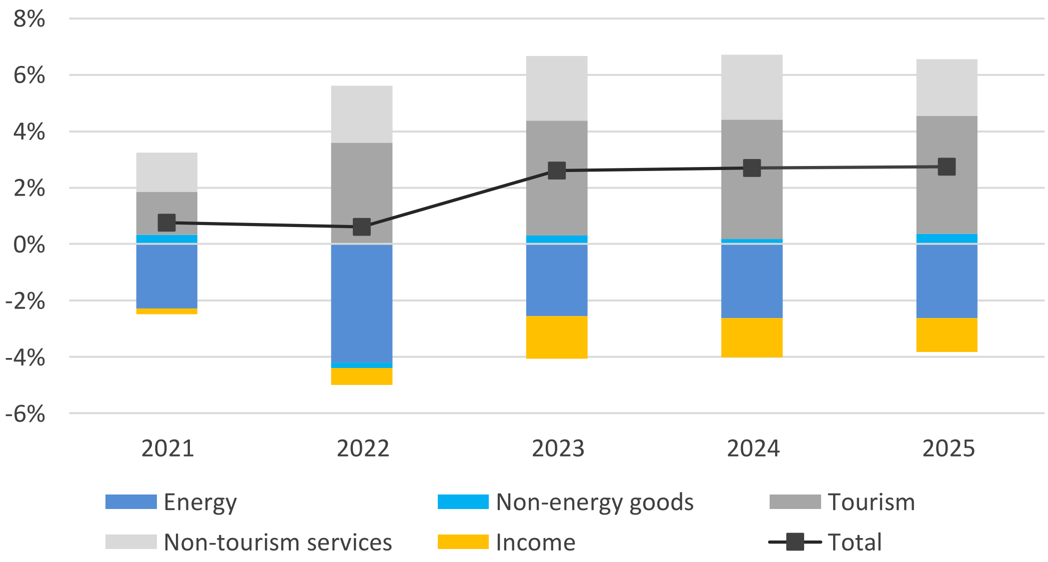
Tourism GDP (real)

Index = 100 (2019)



Current account balance

% of GDP



- **Tourism will continue to contribute to robust growth, albeit to a smaller extent than in 2023.** In 2023 the tourism sector grew +7.6% and represented 35.2% of total GDP growth. Given the tourism sector has recovered to its pre-pandemic level, we expect growth to normalize to a still strong 5% in 2024, and to add 0.6pp to growth. The key factors behind this solid rate of expansion include the recovery of purchasing power in the home countries of international tourists, and the high level of geopolitical stability in Spain relative to some key competitor countries. We expect tourism to continue contributing positively to the Spanish economy in 2025, growing an additional 3.2% and adding 0.4pp to growth.
- **Tourism in the beginning of 2024 shows robust growth in the off-season.** International arrivals are up 14.3% in the first four months of 2024, and domestic overnight stays are down a modest 2.1% as Spanish tourist return abroad. Inflation in tourism services has moderated to 5.4% in the first four months of 2024.
- **The current account will keep posting positive figures in 2024-2025**. The new forecasts for 2024 and 2025 imply a 2.7% of GDP surplus in the current account for both years, with a gradual reduction in the negative contribution of the income balance and a stable outlook in the goods and service balance, forecasted to remain at their actual levels in % of GDP amidst global economic and geopolitical uncertainties. In Q1 2024, the current account has shown resilience and improvements in the services and energy balance, albeit with a slight worsening of the income and non-energetic deficit. Overall, the current account balance has remained at the same level as at the end of 2023, with a surplus of 2.6% of GDP in the twelve months to March 2024.

Upward revision of forecasts for the real estate market

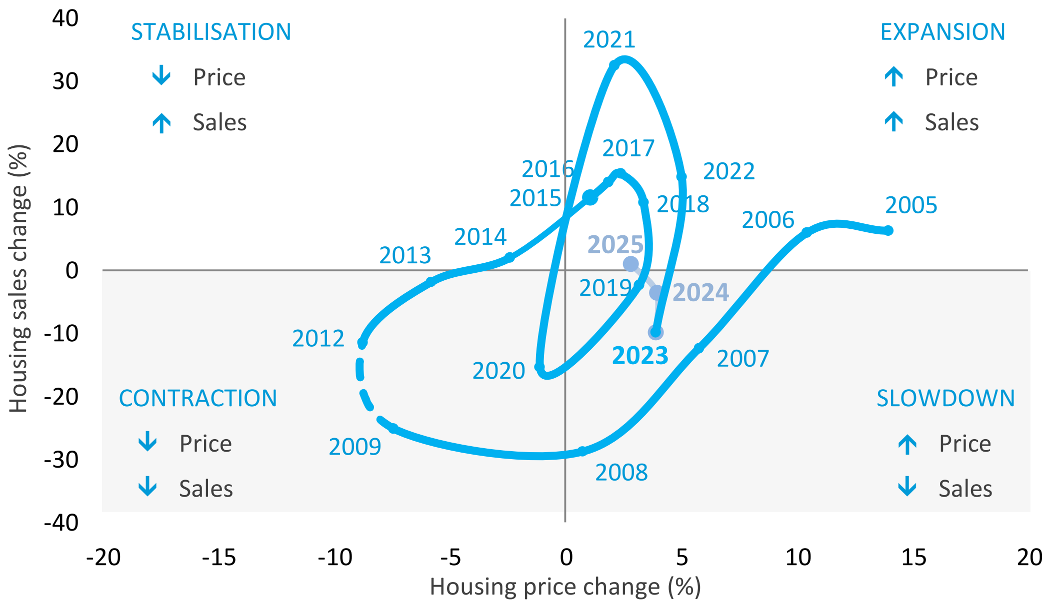
CaixaBank

Updated forecasts for the real estate market

	2014-19	2022	2023	2024	2025
Housing sales (Thousand)	428	650	586	565 (550)	566 (552)
New building permits (Thousand)	73	109	109	115 (115)	125 (118)
House price (appraisal, MIVAU) Year-on-year (%)	1.6	5.0	3.9	4.0 (2.7)	2.8 (2.5)
House price (transaction, INE) Year-on-year (%)	4.4	7.4	4.0	4.0 (3.5)	2.8 (2.5)

Note: Previous forecast in parenthesis (Feb. 2024).

CaixaBank Research housing clock

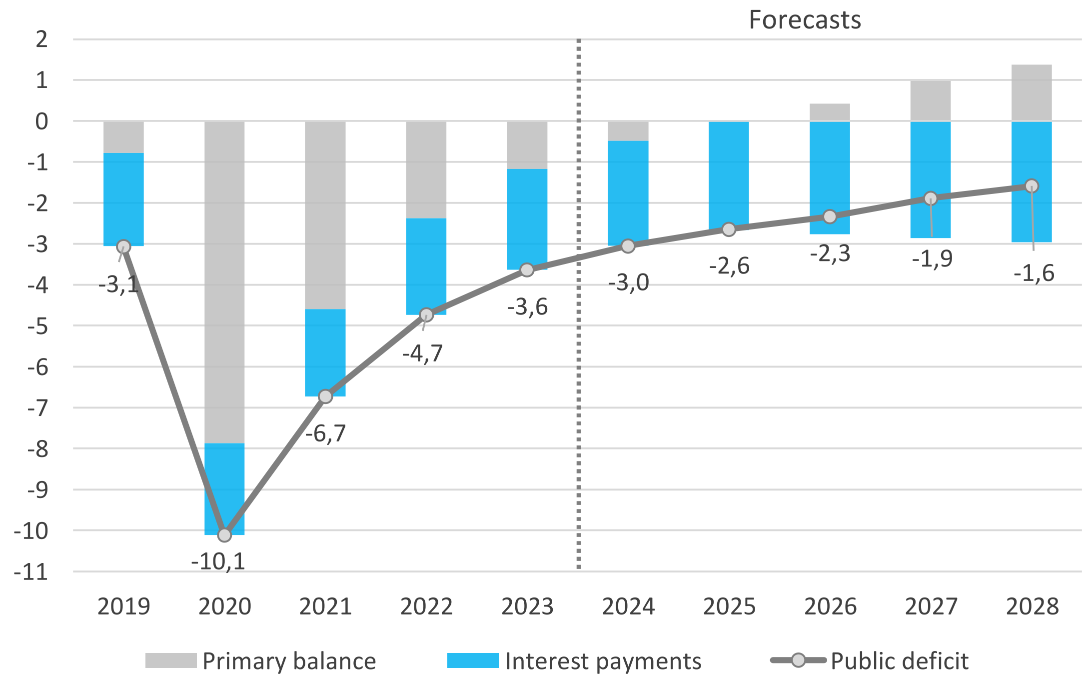


Note: The period 2010-2011 is excluded due to the impact of fiscal incentives.
Source: CaixaBank Research, based on data from INE and MIVAU.

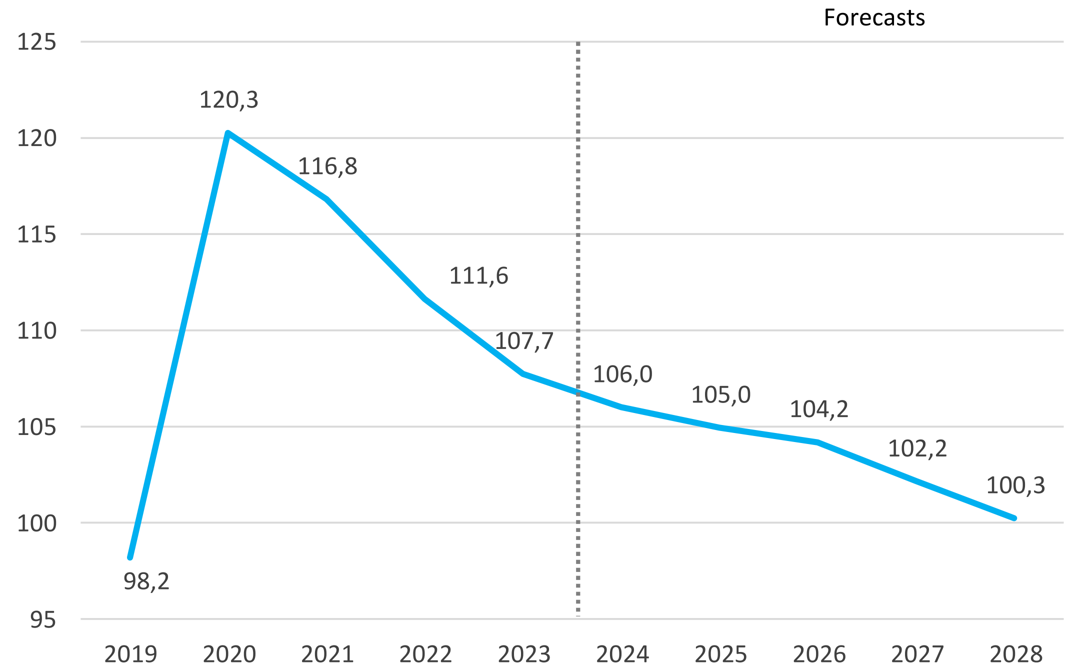
- **The Spanish real estate market has proved very resilient to the increase in interest rates**. Incoming data in Q1 2024 is quite positive on the demand side but sluggish on the supply side:
  - The number of **housing sales** declined by 5.6% in Q1 2024 due to a sharp decline in March (-19.3% yoy) because of calendar effects (Easter was in March, last year in April). Nevertheless, the overall quarterly figure remains well above pre-pandemic levels (+12.6% compared to Q1 2019).
  - **Housing supply** continues to be very limited and well below net household creation, which is pushing up housing prices. New building permits decreased by 3.1% cum. yoy in Jan-Feb. 24.
  - **Housing prices** increased by 4.3% YoY according to MIVAU (appraisal value), exhibiting a gentle deceleration with respect to Q4 2023 (5.3% YoY).
- **Outlook**: The improvement in the economic outlook and the decline in interest rates expected in the second half of the year suggest that the real estate market will gain traction in the coming quarters. We are improving our forecasts for the Spanish real estate market for 2024-25 thanks to the strength of the supporting factors: positive net job creation will support growth in households' labor income, positive migration flows, resilience of foreign demand, favorable financial situation of households (deleveraging and high savings rate) and a relaxation in financial conditions. Furthermore, the absence of imbalances reduces the risk of an abrupt adjustment in house prices or in the construction sector in an adverse scenario. We are also now expecting higher growth in new building construction to reduce the gap with demand.

Gradual reduction of public deficit and debt

General government balance
Percentage of GDP (%)



Public debt
Percentage of GDP (%)

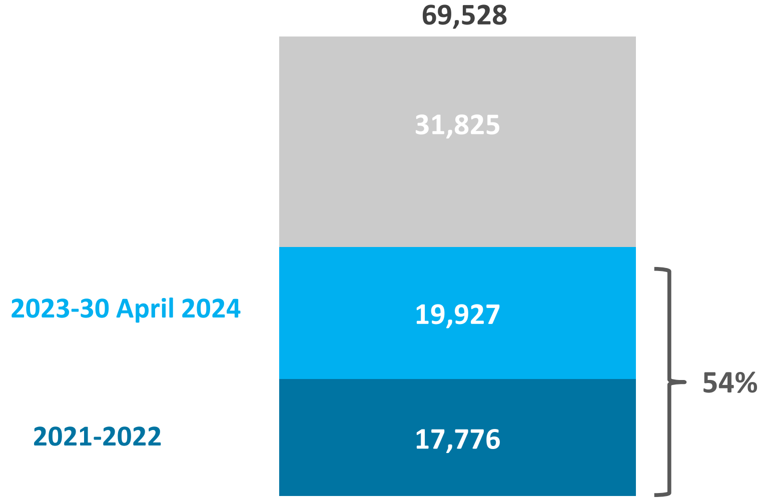


- The **public deficit** is forecast to decline to 3.0% of GDP in 2024, a fiscal adjustment of 0.6 p. p., driven by the removal of anti-inflation measures: in 2023 they represented 0.9% of GDP and the partial extension to 2024 represents a cost of 0.3% of GDP.
- **Public debt** as a percentage of GDP will be reduced at a very slow pace in the next years and will sit at around 102% of GDP in 2027, 4 points above pre-pandemic levels.
- According to our fiscal projections, **Spain should be capable of complying with the new European fiscal rules under reasonable efforts**. Compliance would imply a structural primary fiscal adjustment of 0.4 pp per year in 2025-2028 and an average public debt reduction of more than 1 point per year in 2025-2028.

NGEU: execution is reaching cruising speed

Rate of execution of RRF funds

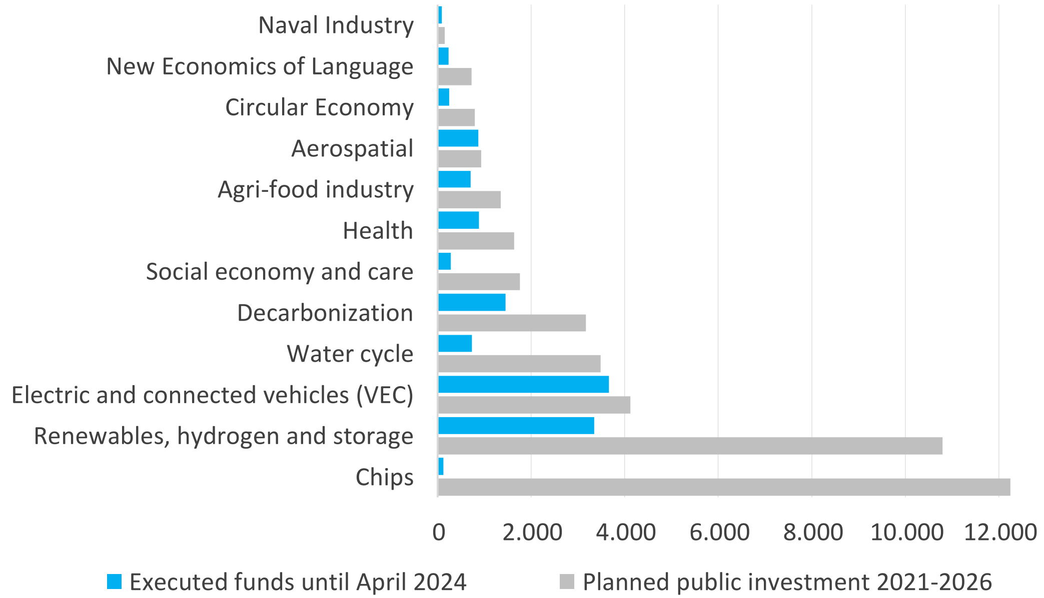
Phase 1 (Million euros)



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

PERTEs

Million euros

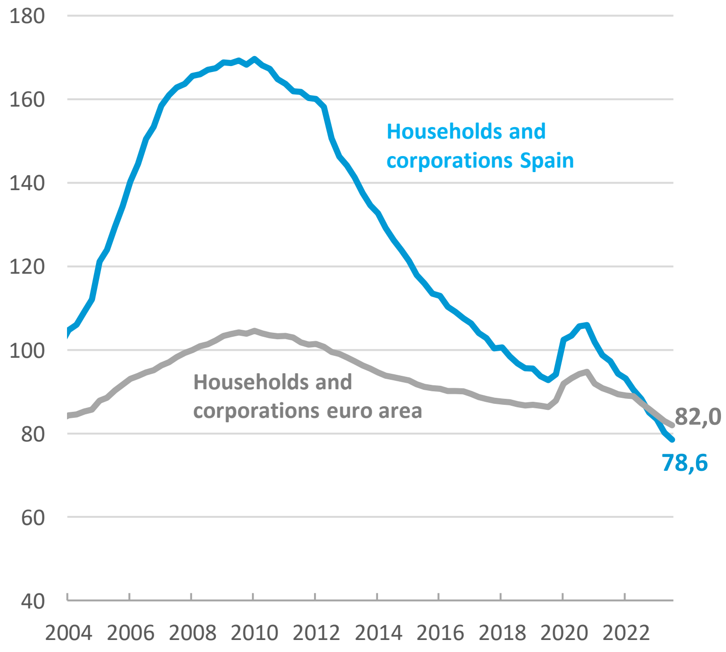


- Thus far, **tenders and grants have been allocated for a total amount of 37.7 billion euros**, which is equivalent to 54% of the first phase of the original Plan. Considering the increases of grants in the Addendum, this figure would correspond to **47%.** Execution accelerated in 2023 with respect to 2021-2022.
- **The Government requested the fourth NGEU disbursement (€10bn) in January** but the Commission is still evaluating it after the Government reached an agreement with trade unions in May to reform the unemployment subsidy. The reform features an increase in the subsidy the first 12 months along with a phase-down afterwards.
- The prorogated 2023 state budget for 2024 includes 29 billion NGEU funds for investment projects not yet allocated. The government has already assigned 96 millions of the **€**1.000M (**€**500M in grants and **€**500M in loans) of the first tranche of the **Descarbonization PERTE** to help companies to decarbonize and electrify their productive processes. Moreover, the call for investments in batteries for electrical vehicles of the **PERTE VEC III** (**€**300M: **€** 200M in grants ands **€**100M in loans) has been opened.
- Some of **the 83bn in loans from the Addendum** 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. The loans also include **€**20bn of sustainable investments made by autonomous regions in collaboration with BEI and FEI. An agreement of the functioning of this vehicle has been signed with BEI in May.

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

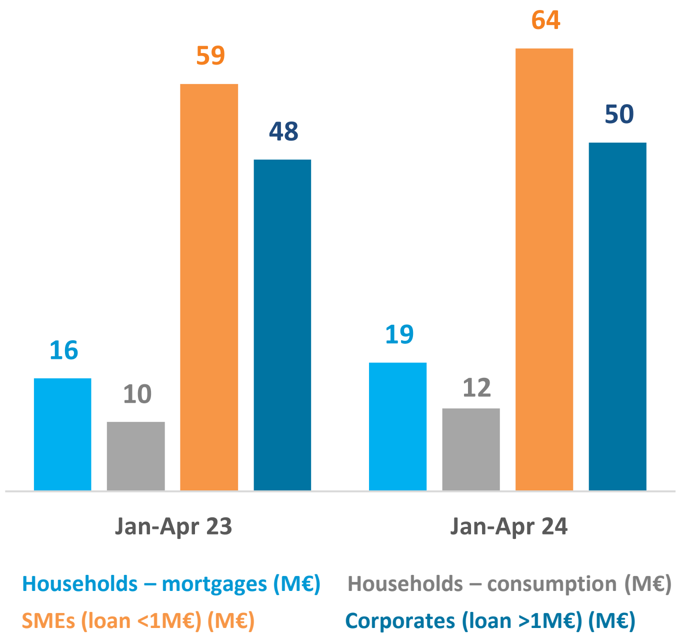
Year-on-year (%)

	Dec-23	Apr-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	**-3.4%**	**-2.4%**	-0.4%
Households	-2.5%	-1.8%	0.0%
Housing mortgages	-3.2%	-2.4%	-0.6%
Other purposes	-0.5%	-0.1%	1.6%
Of which consumption	2.8%	4.7%	4.1%
Businesses	-4.7%	-3.2%	-1.1%
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



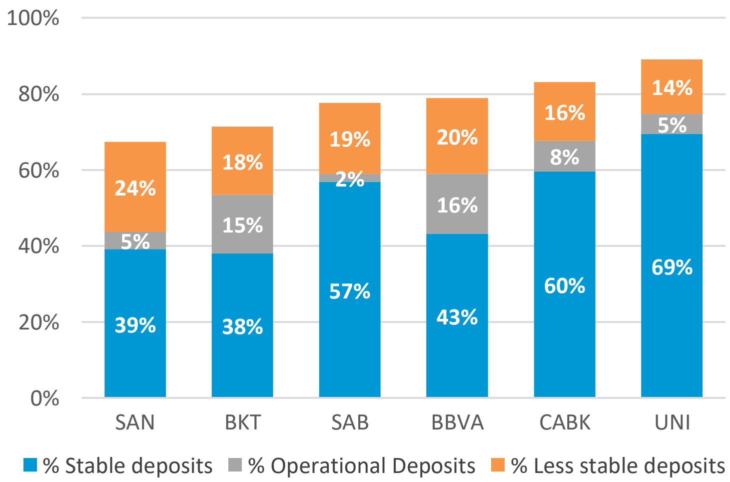
Source: Bank of Spain.

- **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 credit levels to stabilize in absolute terms during 2024 and start growing next year, albeit at a rate below nominal GDP growth.
- **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

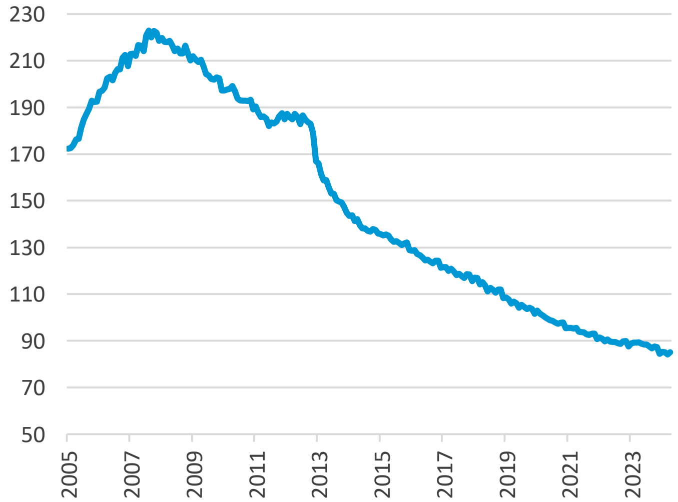
% of total deposits excluding unsecured debt



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 1Q24 (except for SAN, BKT and UNI 4Q23).

HHs & NFCs loan to deposit ratio

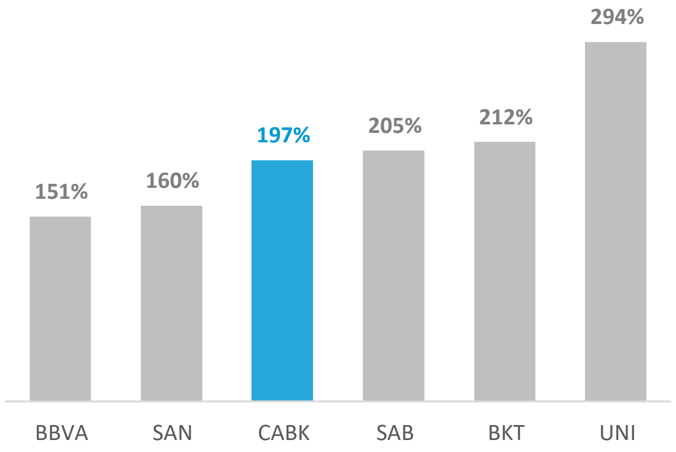
Percentage (%)



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

Banks' LCR

Q1 24 published ratio



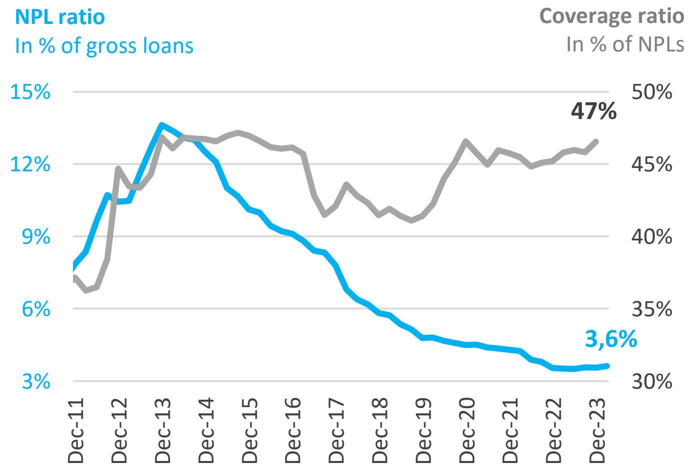
Source: Banks' financial statements.

- **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 (+2,8% yoy in Apr'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **With data available up to Apr'24, Spanish banks had repaid 100% of TLTROs outstanding at Oct'22.** This figure compares to a 89% in March 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 Q4 2023
0.4% in Q1 2024

Note: (1) latest available data Mar-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

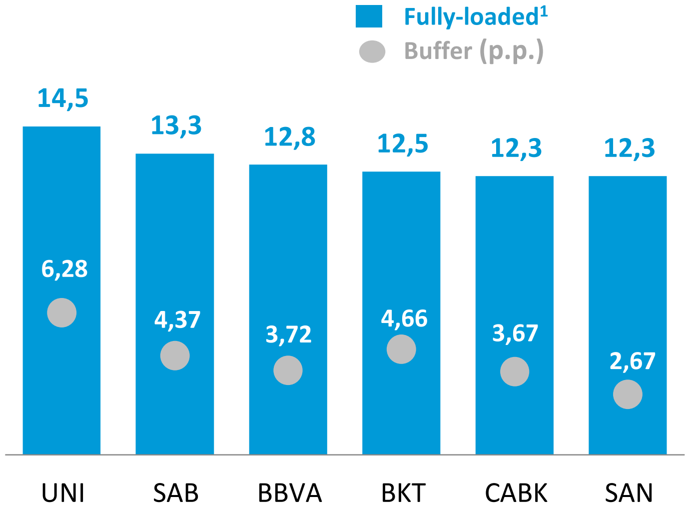
% of avge. total assets (Q1 24; trailing 12M)

	CABK	BBVA	SAN	SAB	BKT	UNI
Net interest income	**1.7%**	**1.3%**	**1.5%**	**2.0%**	**2.0%**	**1.5%**
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%	0.2%	0.0%	0.0%	0.0%
Other operating income	0.0%	-0.1%	0.0%	-0.2%	-0.2%	-0.1%
Gross income	**2.3%**	**1.8%**	**2.1%**	**2.5%**	**2.4%**	**1.9%**
Operating expenses	-0.9%	-0.7%	-0.9%	-1.1%	-0.9%	-0.9%
Impairment losses, tax and others	-0.6%	-0.5%	-0.7%	-0.7%	1.2%	-0.7%
Profit	**0.8%**	**0.7%**	**0.6%**	**0.7%**	**0.8%**	**0.4%**
ROTE (%)[1]	15.8	12.9	19.8	12.0	16.8	5.5

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: 17.7% and 14.9%, respectively.
Source: Bank's financial statements.

Banks' solvency position

In % (Q1 24)



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. The Bank of Spain has initiated the procedure to revise the framework for setting the CCyB and to establish the buffer rate from 4Q24 at 0.5% (to be applicable from Oct'25). It will foreseeably raise to 1% from 4Q25 Q4 (to be applicable from Oct'26).

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.