



Spain

Macroeconomic & Financial Outlook

CaixaBank Research

July 2024

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Activity

- ▶ **Following up the rate cut in June, the ECB is expected to move cautiously.** The ECB has refused to label June's cut as the start of a "dialing back phase". Financial markets see the ECB skipping the July meeting and cutting rates (25 b. p.) in both September and December 2024.
- ▶ **We expect GDP to grow 4.7% in cumulative terms between 2024 and 2025 (prev. 4.1%).** Domestic demand will be the main engine of growth: investment is expected to grow 6.2% in 2024-2025, spurred by energy transition needs and NGEU funds, and household consumption is expected to grow, in cumulative terms, 4.6% in a context of still strong migration inflows and high disposable income growth. Tourism will still be an important supporting factor but with a smaller growth contribution than in 2023.
- ▶ **Indicators of economic activity are coming in strong.** Employment accelerated its rate of growth in Q2 and reached 0.8% on a qoq basis, up from 0.7% in Q1. The composite PMI averaged 56 points in Q2, up from 53.6 in Q1. We expect GDP will grow 0.5% qoq in Q2, albeit the strength of the labor market figures pose slight upside risks around our forecast.
- ▶ **Headline inflation declined 0.2 pp. to 3.4% in June,** below our expectation, on the back of lower gasoline prices and more contained food prices. Underlying inflation remained stalled at 3.0%. The extension of the reduction in VAT for selected food items until 2025 may shave 0.1 p. p. off our headline inflation forecast for 2024.
- ▶ **Better-than-expected house price data in Q1 2024 pushes up our forecasts for 2024.** House prices grew 4.3% yoy in Q1, according to appraisals (MIVAU), and 6.3% according to transaction prices (INE). Following the introduction of this data, we increase house price forecasts to 4.4% (appraisal value) and 5.0% (INE) from a previous forecast of 4.0% in both indices.
- ▶ **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

- ▶ **New lending shows positive dynamics.** In terms of new credit, activity begins to recover in the first months of 2024, so the stock of credit to the Spanish resident private sector moderates the pace of decline. Domestic NPL ratio stands at 3.6% in April, slightly higher than in dic'23, but 122 bps below pre-covid level of February 2020. Profitability improves and its ROE reaches 12.4% in 1Q24 (vs. 10.6% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

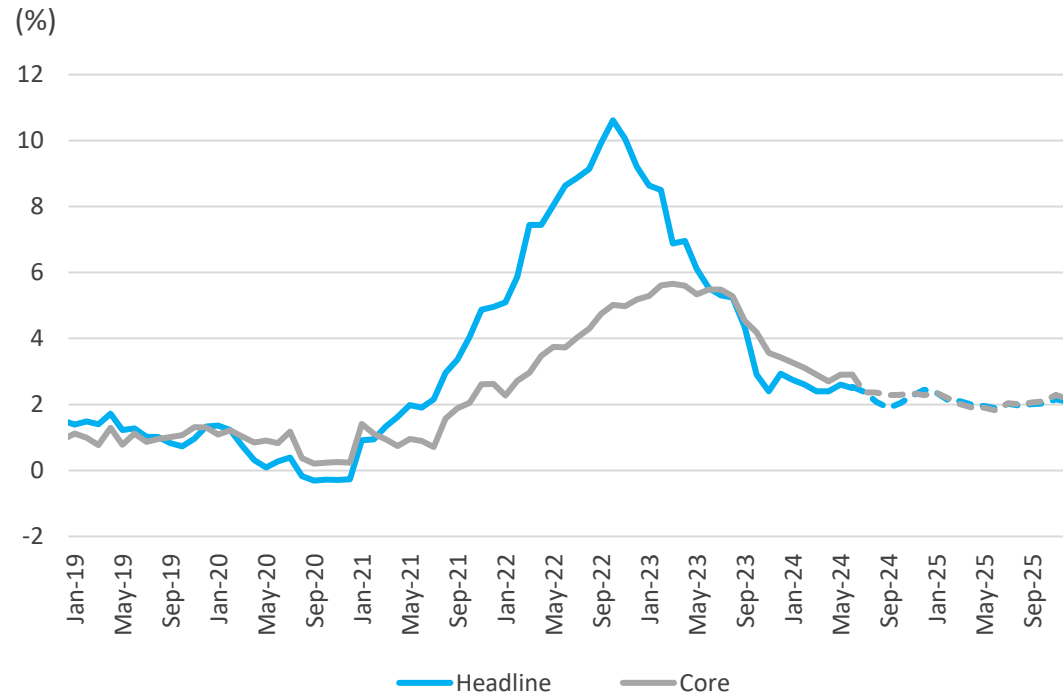
% YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	Forecast		
									2023	2024	2025
GDP	3.8	3.0	3.0	2.3	2.0	-11.2	6.4	5.8	2.5	2.4	2.3
Private Consumption	2.9	2.6	3.0	1.8	0.9	-12.4	7.2	4.8	1.8	2.2	2.4
Public Consumption	2.0	1.0	1.0	2.3	1.9	3.6	3.4	-0.2	3.8	1.7	1.0
Gross Fixed 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	2.2	4.6
GFCF - construction	1.5	1.6	6.7	9.5	7.2	-9.2	0.4	2.6	2.3	2.9	3.1
Exports	4.3	5.4	5.5	1.7	2.2	-20.1	13.5	15.2	2.3	3.6	2.4
Imports	5.1	2.6	6.8	3.9	1.3	-15.0	14.9	7.0	0.3	2.9	2.5
Unemployment rate	22.1	19.6	17.2	15.3	14.1	15.5	14.9	13.0	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	4.4	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.

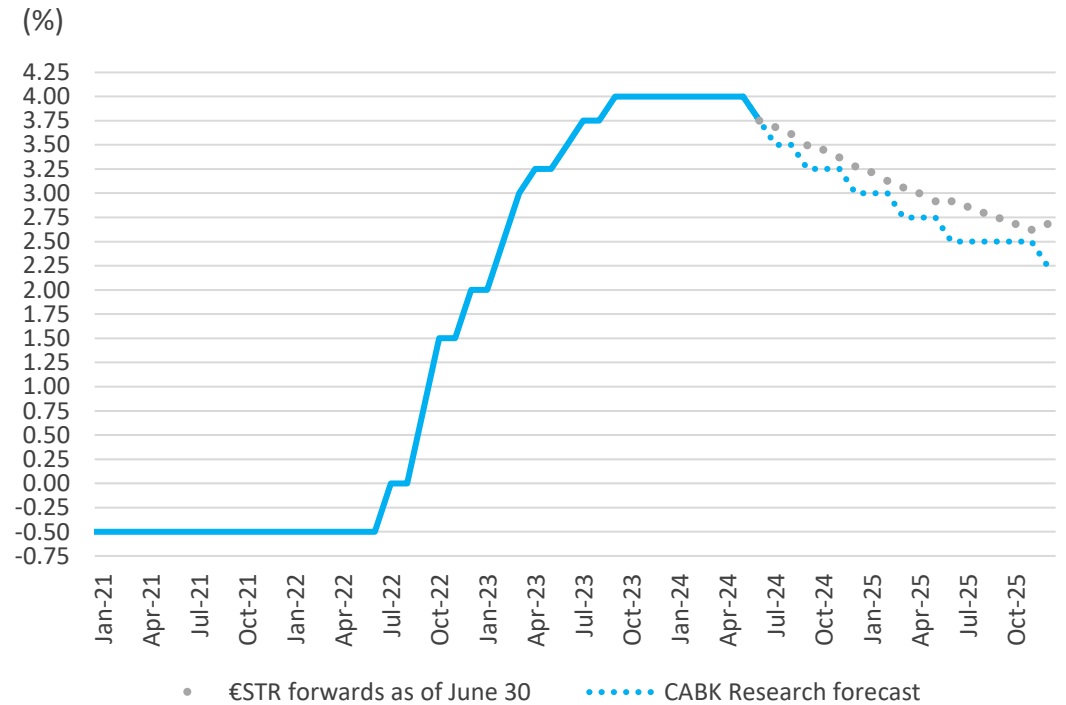
Source: CaixaBank Research.

The ECB starts lowering rates in a very cautious way

Euro area: HICP inflation



ECB deposit rate

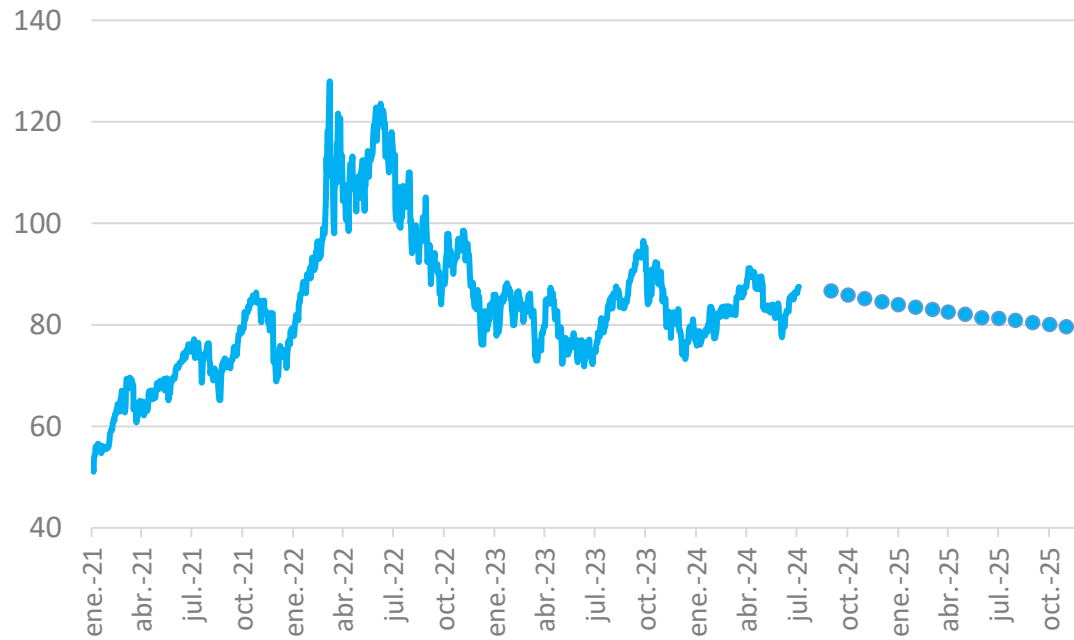


- ▶ **The ECB is geared towards lower rates, but it will move cautiously.** ECB cuts are supported by a significant progress in the euro area’s disinflation as well as the expectation that the inflation outlook will improve further. Yet, the ECB is likely to keep an antiinflationary bias and move slowly –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 play out with a lag (they remain limited and moving in the right direction, but they cannot be dismissed yet). The Fed’s cautiousness need not alter the ECB’s course of direction (FX inflation passthrough is small), but it does pose a risk of a more gradual normalization. On the other hand, balance sheet reduction will continue 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 accompanied its first rate cut in June** (-25pb; depo at 3.75%) **with a somewhat hawkish communication.** While hinting that rates should decline further in the future, it refused to label June’s cut as the start of a “dialing back phase”. In fact, the ECB emphasized that it is not pre-committing to a particular rate path, and it reiterated a data-dependent approach (calling for “enough data to make a relevant analysis”). Echoing these messages, financial markets see 25bp rate cuts in both September and December 2024 (when the ECB updates its macroeconomic projections). In 2025-26, markets see an additional decline of 100bp per year in ECB rates (to a depo rate of 2.5%).

Geopolitical risks and supply put upward pressure on commodity prices

Brent oil prices (and futures)

\$ per barrel



Commodity prices

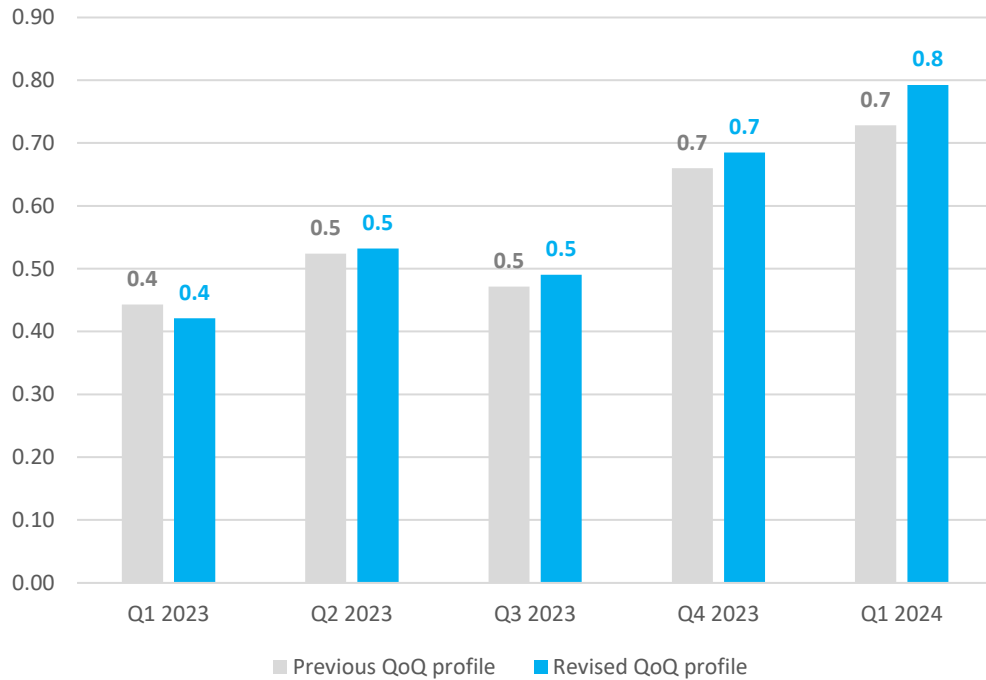
	Metric	Price	Change (%)			
			Last Month	Year to Date	2022	2023
Commodities	index	102,2	0,9	3,6	13,8	-12,6
Energy	index	32,4	7,4	5,5	33,5	-25,6
Brent	\$/barrel	87,5	11,6	13,6	10,5	-10,3
Natural Gas (Europe)	€/MWh	33,4	0,0	3,1	8,5	-57,6
Precious Metals	index	256,3	1,7	14,5	-1,9	4,1
Gold	\$/ounce	2366,4	0,5	14,7	-0,3	13,1
Industrial Metals	index	154,7	-2,4	8,4	-4,4	-13,7
Aluminum	\$/Tm	2522,5	-5,3	5,8	-15,3	0,3
Copper	\$/Tm	9882,5	-0,6	15,5	-13,9	2,2
Agricultural	index	57,6	-4,2	-7,7	13,2	-9,3
Wheat	\$/bushel	554,5	-17,6	-11,7	2,8	-20,7

- ▶ **Oil prices to remain elevated.** Brent prices have been on a slow and steady increase since the beginning of June (trading above \$87 in early July, +14% YTD) due to a positive outlook for demand over the northern hemisphere summer and amid doubts about the pace of interest rate reductions in developed economies. We consider Brent prices will remain under pressure the rest of the year due to a tight demand- supply balance, driven by the OPEP+ supply cuts (around 2 million barrels a day) in Q3 and then gradually phase out over the following 12 months. Also, we think current risk premium is likely to remain in place as geopolitical risks are present, including concerns over elections in France and US, and as the situation in the Middle East remains volatile with the worsening of the conflict between Israel and Hezbollah (backed by Iran). We forecast oil prices to average \$85.9 a barrel in 2024 (\$86 at Dec-24).
- ▶ **European natural gas prices 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 prices to average 30.3 €/MWh in 2024.

Spain: slight upward revision of Q1 2024 GDP growth

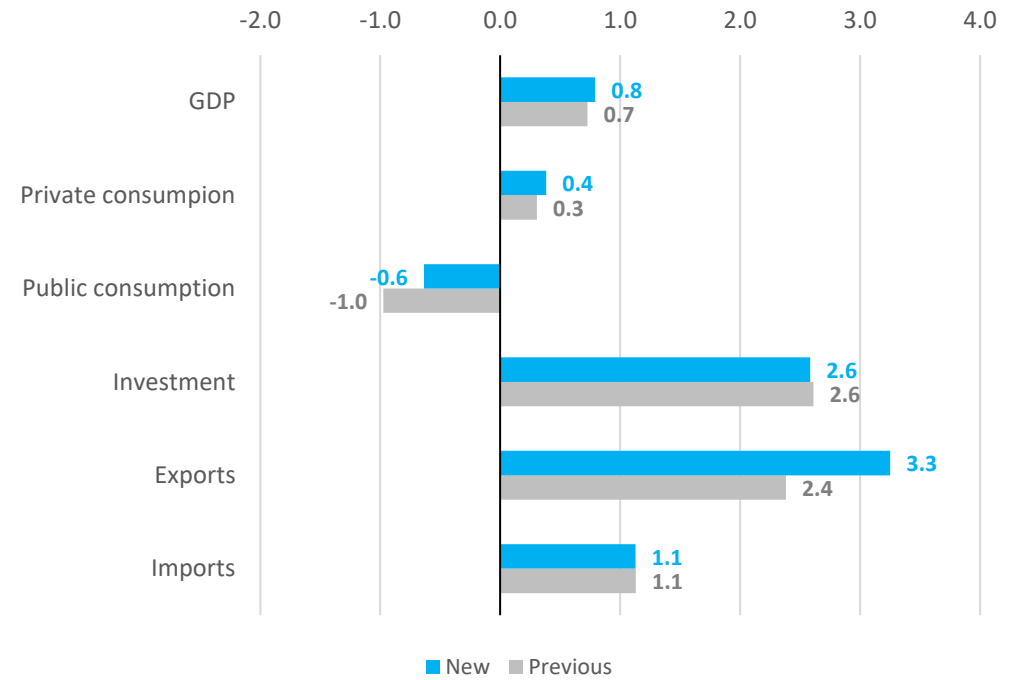
GDP growth: revisions

Quarter-on-quarter change (%)



Components of GDP: revisions in Q1 2024

Quarter-on-quarter change (%)



- ▶ **INE revised quarterly GDP growth upwards in Q1 2024 by 0.1 p. p. to 0.8%** (2.5% in yoy terms). By components, private and public consumption were revised slightly upwards, by 0.1pp and 0.4pp to 0.4% and -0.6% qoq, respectively. As a result, the contribution of domestic demand to quarterly GDP growth increased 0.1pp to 0.3pp. The contribution of external demand remained unchanged, at 0.5pp. Although INE revised the seasonally adjusted GDP series all the way back to Q1 2023, the changes to the quarterly profile growth were minor.

Consumption and investment will gain importance in 2024-2025

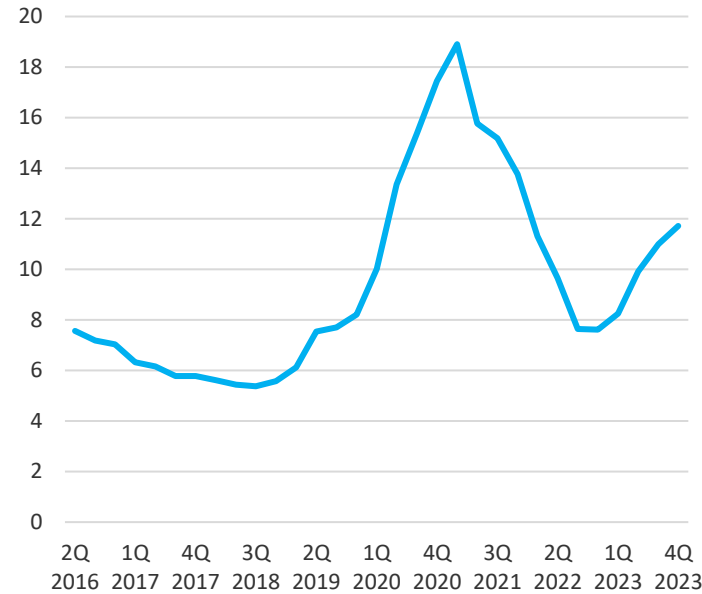
Macro forecasts growth components

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

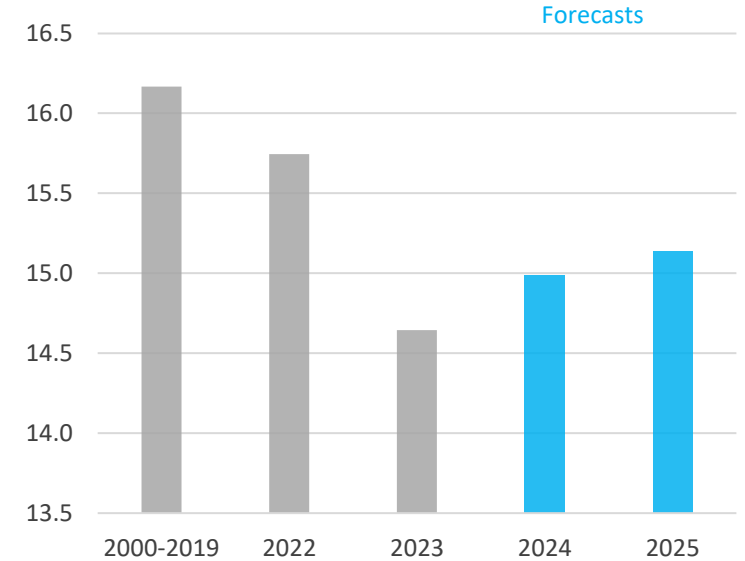
% Gross disposable income



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

Investment/GDP*

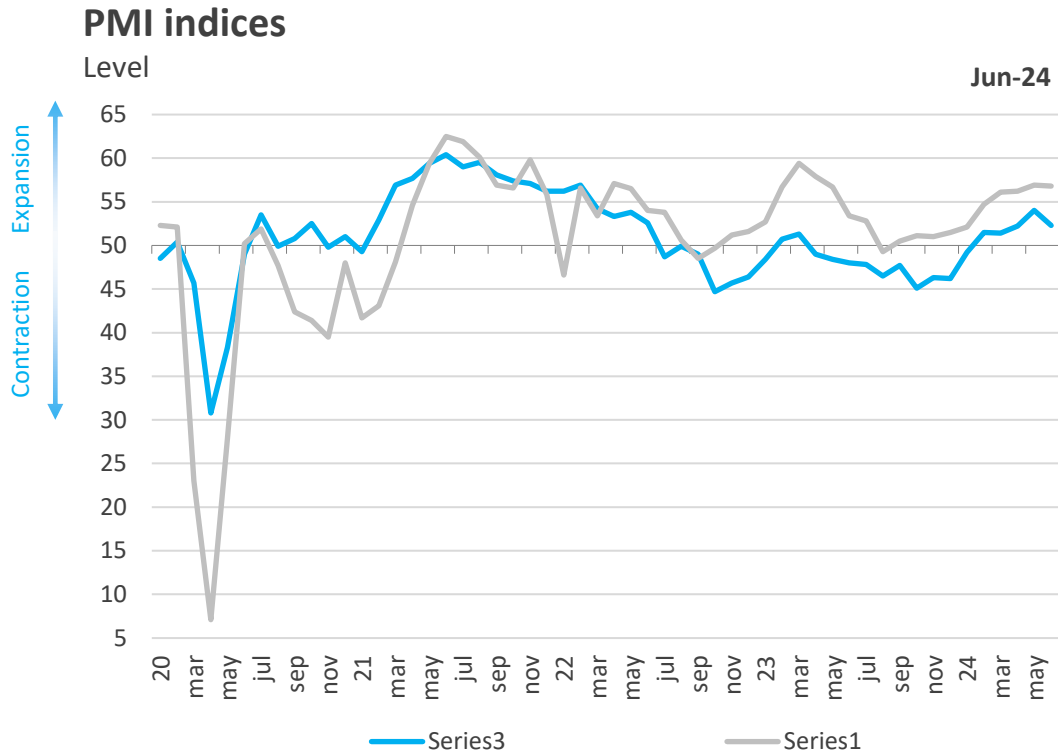
(%)



Note*: Excluding real estate investment.

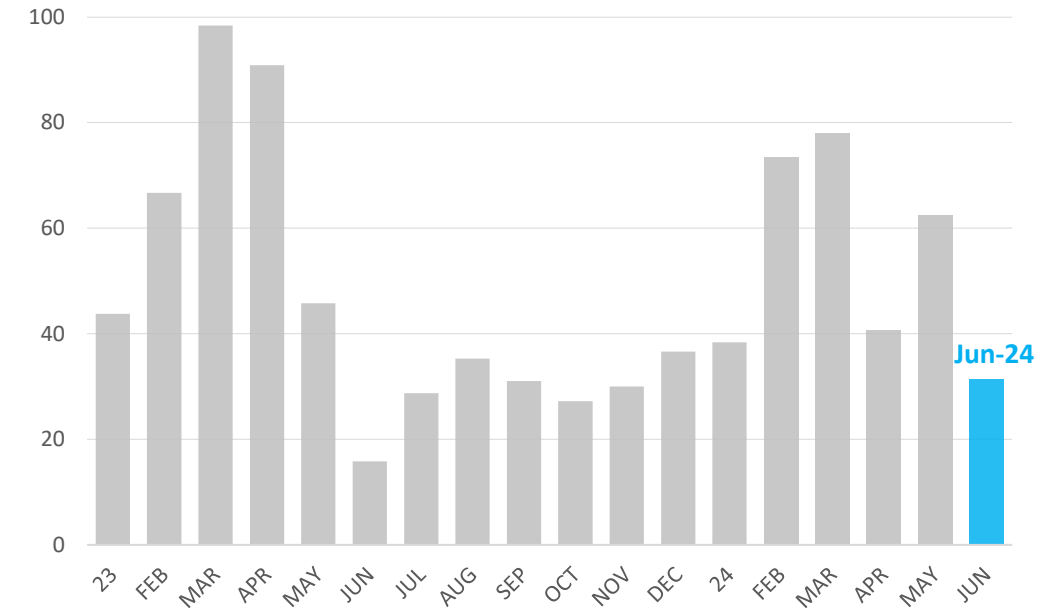
- ▶ **GDP is expected to sustain growth above 2% over 2024-2025** as it rebalances towards internal demand. In 2022-2023 GDP largely grew on the back of public consumption and external demand. Looking ahead, we expect private consumption and investment will gain prominence. There is room for these two components to grow: investment remains in Q1 2024 2.2% below its Q4 2019 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 strong migration inflows and 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** 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 will still remain 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 0.5pp per year with some upward risks.

Available Q2 indicators bode well for Q2 GDP growth



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 c. 31k workers in seasonally adjusted terms in June. As a result, employment in Q2 has grown 0.8% qoq, a slightly faster pace than that of Q1 (0.7% qoq). Employment in Spain sits at c. 21.4 million people, with an increase of 522.9k workers in the last year. In June, the manufacturing PMI declined slightly with respect to the previous month, but at 52.3 points remains well within the growth region of the indicator (> 50 points). The services PMI remained at an elevated level, 56.8 points, which suggests that growth in the sector remains strong.
- ▶ From the consumer side, **CaixaBank's domestic consumption indicator, based on the bank's card expenditure data, grew by 4.3% yoy in the first three weeks of June.** This growth rate is below May's 5.9% but matches the average rate for Q1, which was also 4.3%. Despite the slowdown in June, the Q2 average growth rate stands at 4.5% yoy, slightly higher than the 4.3% observed in Q1.
- ▶ **We expect GDP to growth 0.5% qoq in Q2,** albeit the strength of the labor market figures pose slight upside risks around our forecast.

Inflation will gradually converge to 2%

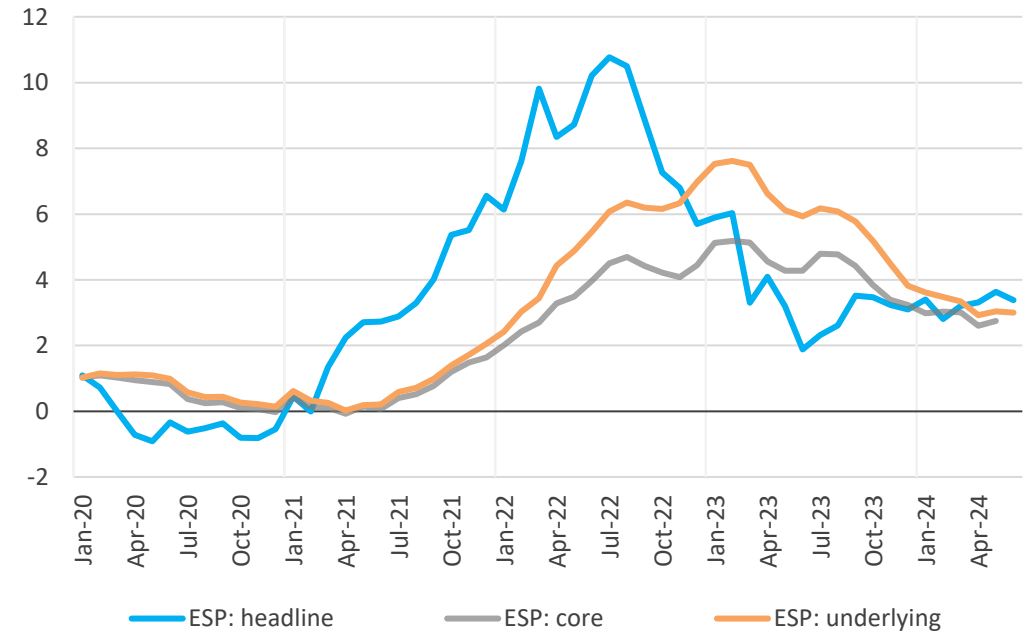
CPI and its components in Spain

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 %

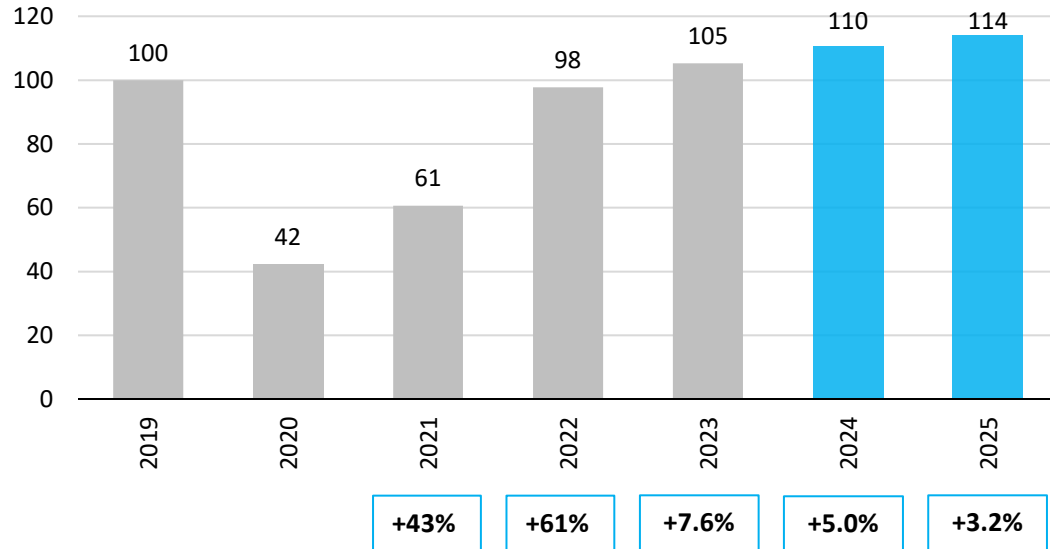


- ▶ **Headline inflation declined 0.2 pp. to 3.4% in June, below our expectation.** Lower gasoline prices and more contained food prices explain the fall in headline inflation. At the same time, underlying inflation remains stalled at 3.0%.
- ▶ **New measures affecting food items pose a slight downward risk for inflation.** In late June, the central government announced the extension of the reduction in VAT for selected food items until 2025. We expect this new calendar to reduce headline inflation by around 0.1 pp. in 2024. However, food inflation (which is the component with the second highest inflation rate, after electricity) could decrease up to 0.4 pp. compared to our May scenario.

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

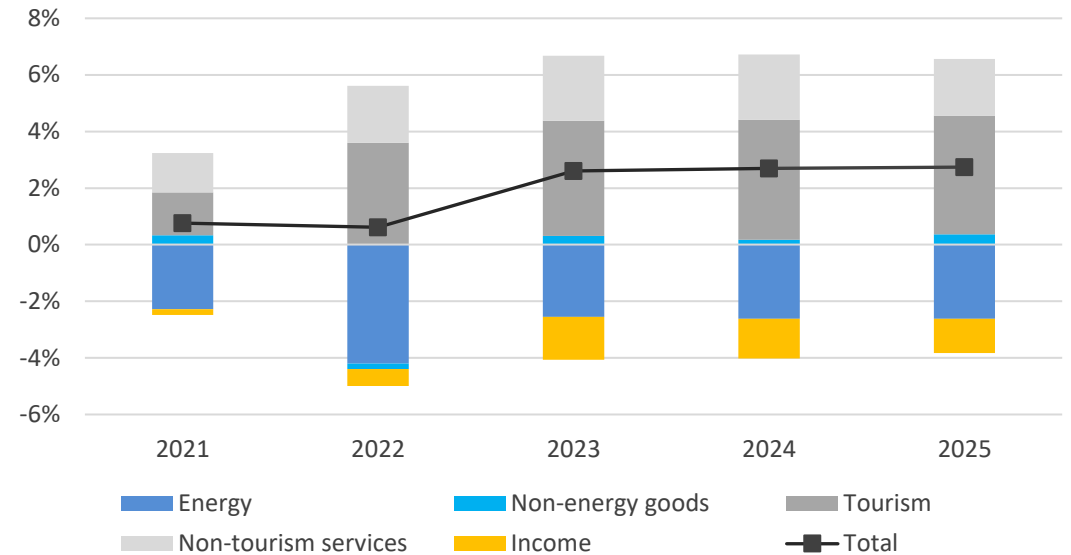
Tourism GDP (real)

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 13.8% in the first five months of 2024, and domestic overnight stays are flat at +0.0% as Spanish tourist return abroad. Inflation in tourism services has moderated to 5.4% in the first five months of 2024.
- ▶ **The current account will keep posting positive figures in 2024-2025.** We expect a 2.7% of GDP surplus in the current account in both 2024 and 2025, 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. So far, the current account has evolved broadly as expected, with a slight deterioration in the non-energy goods balance that has been more than offset by an improvement in the energy goods and the services balance, while the income balance has remained stable. As a result, the current account balance registered a 2.7% surplus in the twelve months to April 2024, above the 2.6% figure registered in 2023.

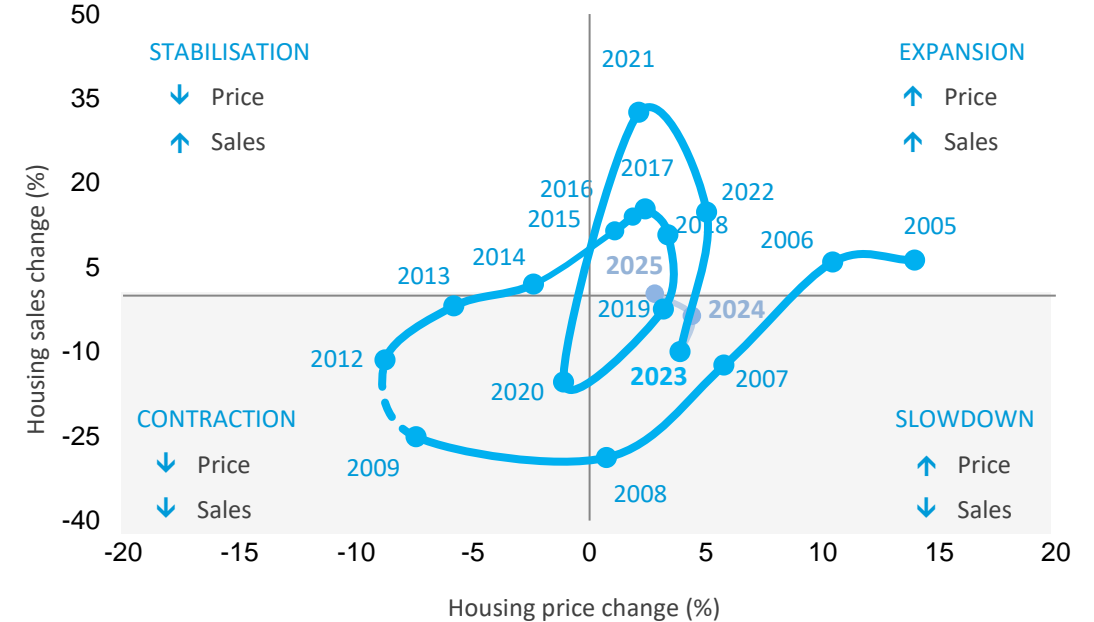
Slight upward adjustment in housing prices due to Q1 data

Updated forecasts for the real estate market

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

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.

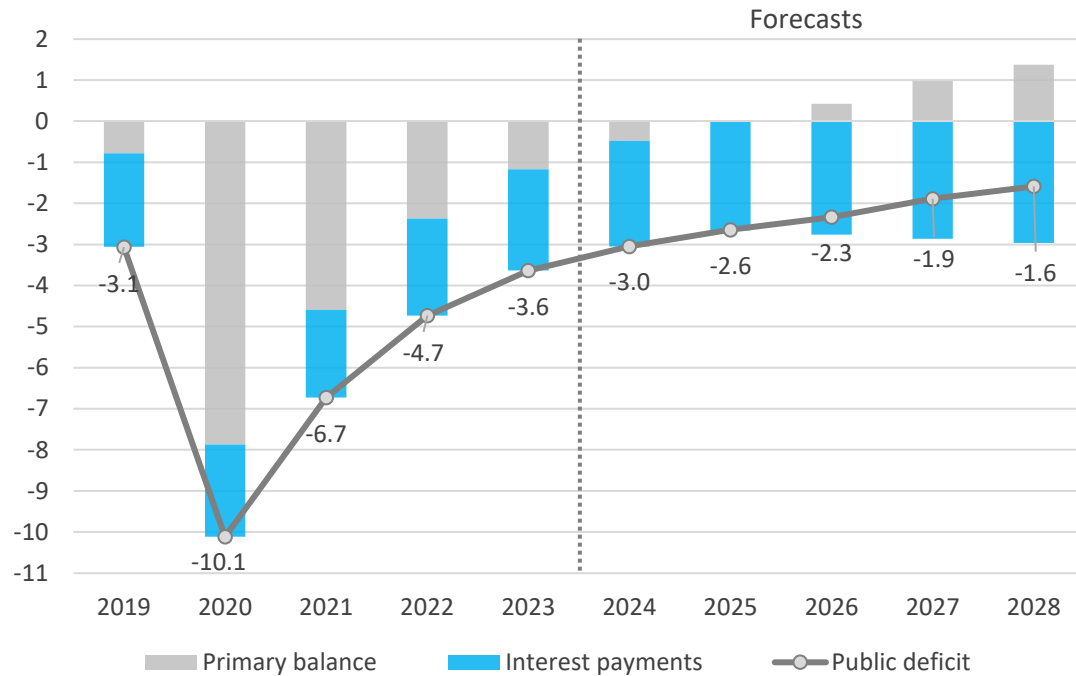
Source: CaixaBank Research, based on data from INE and MIVAU.

- ▶ **Positive evolution of housing prices in Q1 2024:** 4.3% YoY (MIVAU appraisal value), 6.3% YoY (INE transaction price). The introduction of this data, above expectations, leads to a mechanical **increase of the housing prices forecast of for 2024 to 4.4% (MIVAU) and 5.0% (INE)** from a previous forecast of 4.0% in both indices.
 - ▶ The number of housing sales has increased by 0.6% YoY in Jan.-April 2024. After a of a sharp decline in March (-19.3% YoY) due to calendar effects (Easter was in March, last year in April), housing sales spiked in April (+24.0% YoY). Housing sales will continue at elevated levels due to strong demand factors.
 - ▶ Housing supply continues to be very limited and well below net household creation, which is pushing up housing prices. New building permits increased by 14.4% YoY in Jan.-April 2024 and we expect them to continue to gradually increase but it would be insufficient to close the gap with demand.
- ▶ **Outlook:** The supply-demand imbalance in the real estate market, the improvement in the economic outlook and the gradual decrease in interest rates suggest that the real estate market will gain traction in the coming quarters. The factors that have supported the real estate market will continue to be present (positive net job creation supporting growth in households' labor income, dynamic migration flows, resilience of foreign demand, favorable financial situation of households) and a relaxation in financial conditions will further support the demand for housing. We highlight a risk of faster house price increase than expected in our central scenario if the supply of housing does not pick up as projected.

Gradual reduction of public deficit and debt

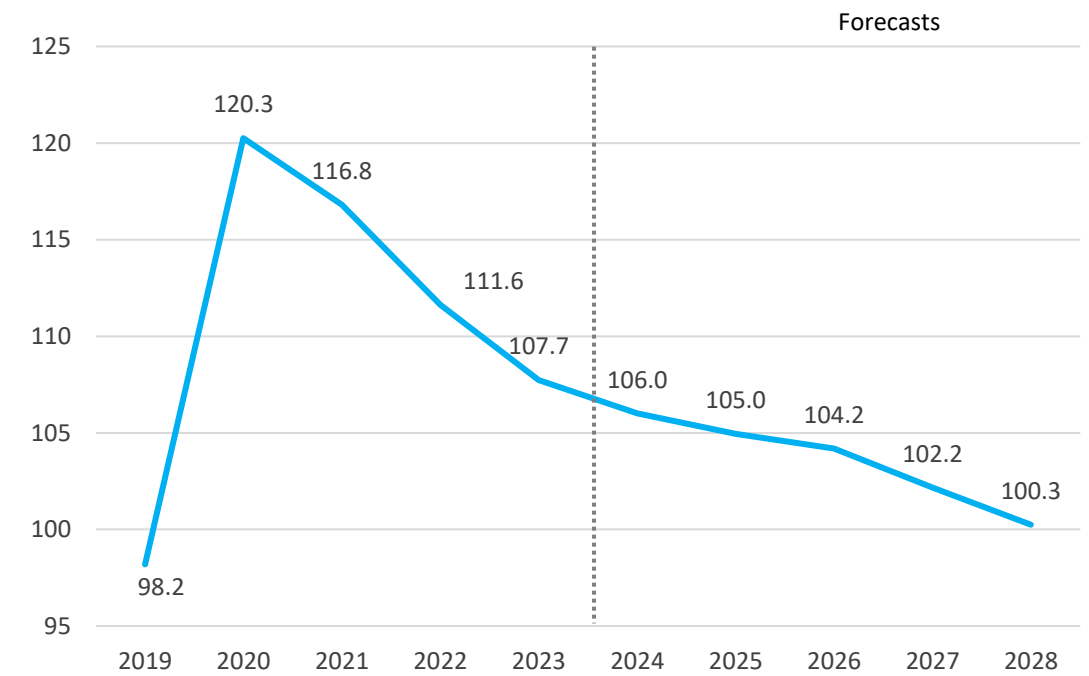
General government balance

Percentage of GDP (%)



Public debt

Percentage of GDP (%)

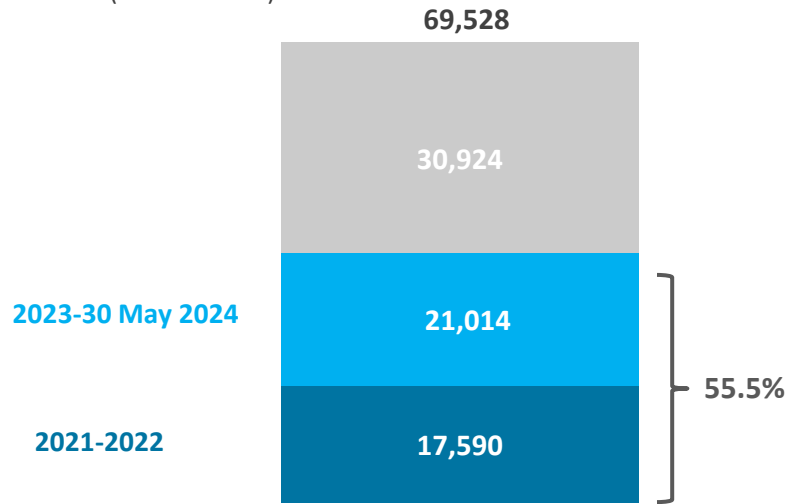


- ▶ The **public deficit** is forecast to decline to 3.0% of GDP in 2024, a fiscal adjustment of 0.6 p. p., driven mainly by the removal of anti-inflation measures: in 2023 they represented 0.9% of GDP and the partial extension to 2024 represents a cost of c.0.4% of GDP. The extension of the fiscal discounts on the food VAT in the second half of 2024 will represent c. 1bn of foregone revenues.
- ▶ **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)

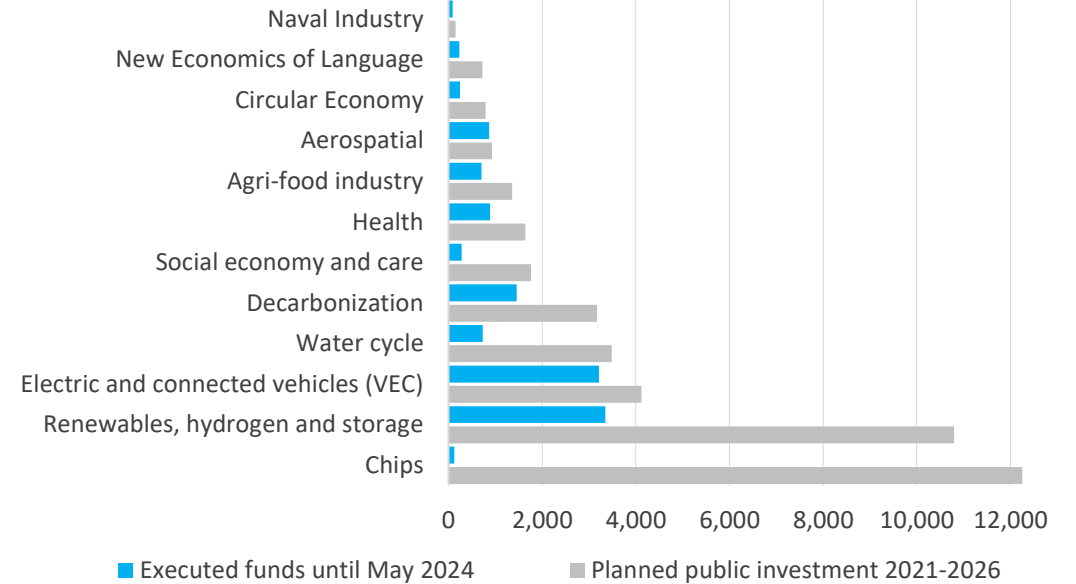


Note: Execution refers to the allocated calls on both tenders and grants.

Source: MINECO data from the ELISA website.

PERTEs

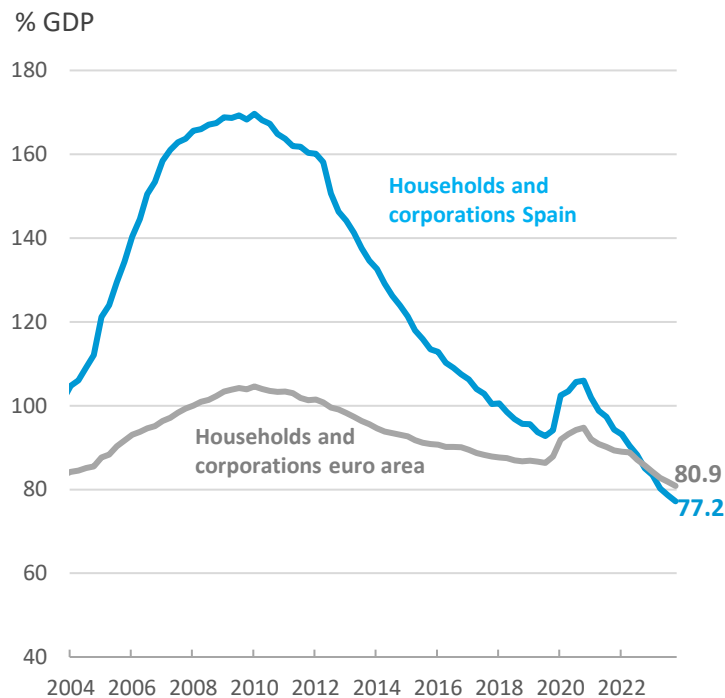
Million euros



- ▶ Thus far, **tenders and grants have been allocated for a total amount of 38.6 billion euros**, which is equivalent to 55.5% of the first phase of the original Plan. Considering the increases of grants in the Addendum, this figure would correspond to **48%**. Execution accelerated in 2023 with respect to 2021-2022.
- ▶ **The Commission has satisfactorily assessed 60 of the 61 milestones for the fourth payment**, including the reform of unemployment benefits, the housing law and the second part of the pensions reform, and will disburse €9,842M, €158M less than expected due to failure to comply with one of the conditions (hiring staff to help companies in the digital transition). Final approval of the payment will be given by the EU Economic and Financial Council in July. Spain will have 6 more months to meet the pending milestone.
- ▶ The Government has activated **€30,150M in loans from the Addendum** of the “ICO Verde” and “ICO Empresas y Emprendedores” lines. More than 70% of the funding for these initiatives will be channeled through through the banking system, which will have access to liquidity from ICO at favorable terms to on-lend to the private sector.
- ▶ 96 million of the €1,000M (€500M in grants and €500M in loans) from the first line of the **Decarbonization PERTE** have already been allocated. In addition, the **PERTE VEC III** call for investments in batteries for electric vehicles (€300M: €200M in grants and €100M in loans) and the Digital Kit for companies with less than 3 employees have been opened. There has also been an increase of 350M of the funds devoted to the **Moves III** program to support the purchase of electrical vehicles and points of charge.

Banking system: improved credit dynamics for all segments

Bank credit to the private sector



Note: latest data available as of Mar-24.
Source: ECB, Eurostat.

Private domestic credit

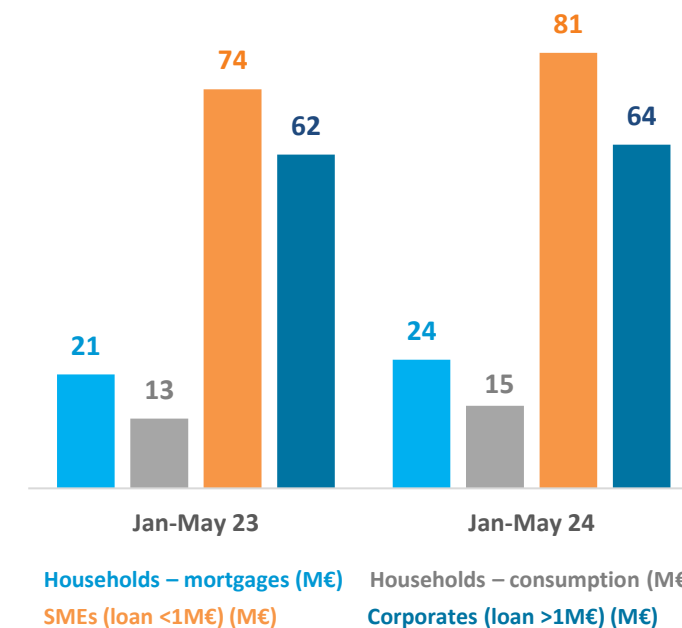
Year-on-year (%)

	Dec-23	May-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	-2.0%	-0.2%
Households	-2.5%	-1.3%	0.4%
Housing mortgages	-3.2%	-2.0%	-0.1%
Other purposes	-0.5%	0.5%	1.6%
Of which consumption	2.8%	5.6%	4.1%
Businesses	-4.7%	-2.9%	-1.1%
Non-real estate developers ¹	-3.1%	-3.1%	-
Real estate developers ¹	-5.8%	-5.8%	-

Note: (1) latest data available Mar-24.
Source: Bank of Spain.

New lending activity by sector

YTD, €Bn



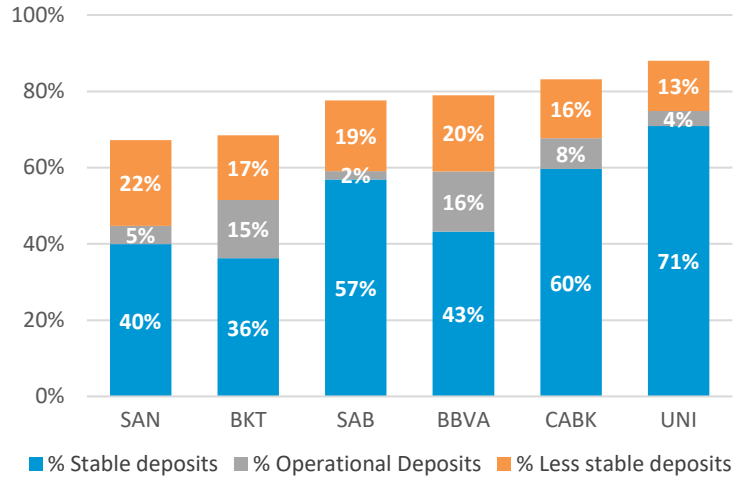
Source: Bank of Spain.

- ▶ **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.
- ▶ **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.
- ▶ **Consequently, the stock of credit to the Spanish resident private sector is moderating its fall rate.** We expect credit levels to stabilize in absolute terms during 2024 and start growing next year, albeit at a rate below nominal GDP growth.

Banking system: strong liquidity position

Banks' deposit breakdown

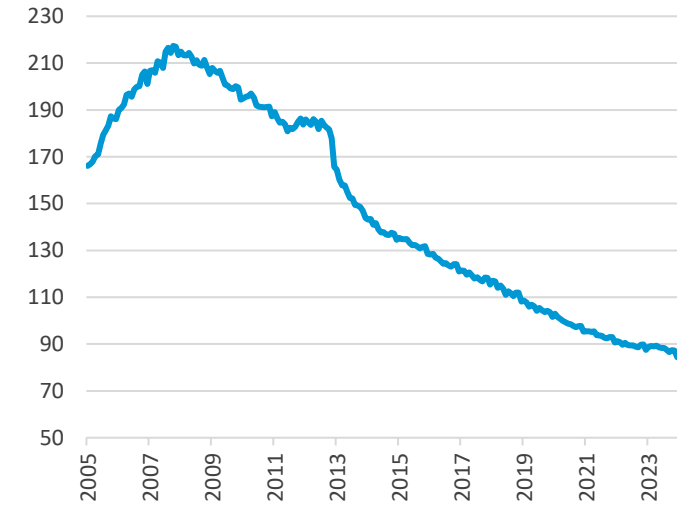
% of total deposits excluding unsecured debt



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).

HHs & NFCs loan to deposit ratio

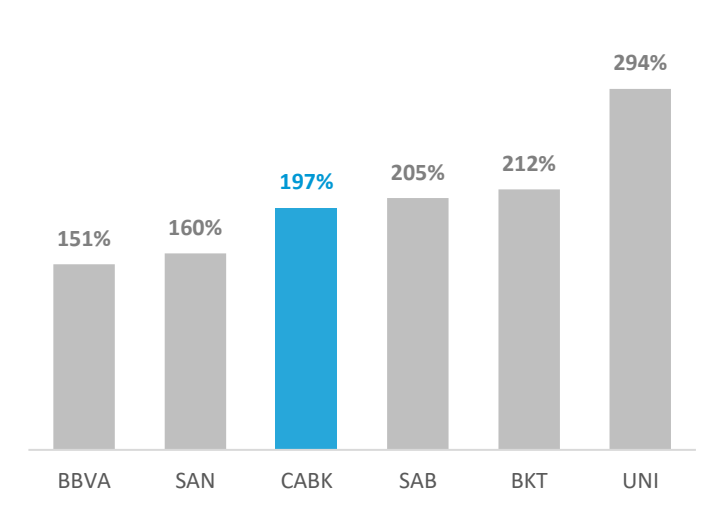
Percentage (%)



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

Banks' LCR

Q1 24 published ratio

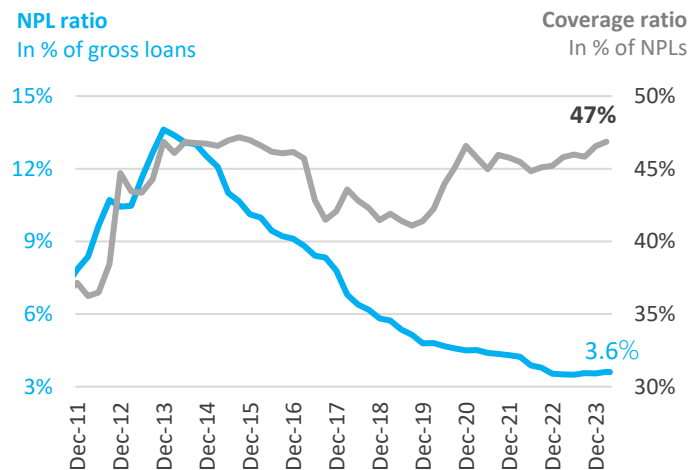


Source: Banks' financial statements.

- ▶ **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 (+3.3% yoy in May'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- ▶ **The Spanish banking sector after repaying 100% of the TLTROs outstanding as of October 22, continue to achieve high liquidity ratios.** EBA data for 1Q24 points to an LCR ratio of 171% and a NSFR of 132% for Spanish banks (vs. an EU average of 161% 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 test¹

Banking system: sound profitability and capital position

NPLs and coverage ratios¹



Cost of risk²
 0.4% in Q4 2023
 0.4% in Q1 2024

Note: (1) latest available data Apr-24 and Mar-24, 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)

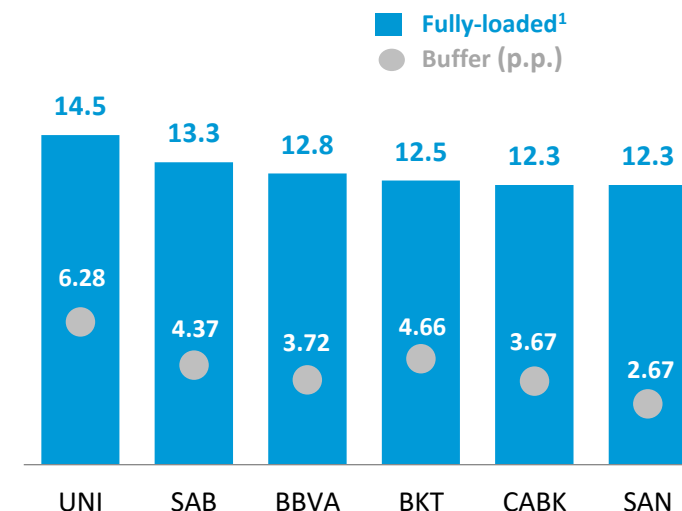
	CABK	BBVA	SAN	SAB	BKT	UNI
Net interest income	1.7%	1.3%	1.5%	2.0%	2.0%	1.5%
Net fees	0.6%	0.5%	0.6%	0.7%	0.6%	0.5%
Gains on financial assets/liab. and others	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%
Other operating income	0.0%	-0.1%	0.0%	-0.2%	-0.2%	-0.1%
Gross income	2.3%	1.8%	2.1%	2.5%	2.4%	1.9%
Operating expenses	-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 remained unchanged at 7.2% in 1Q24, 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 12.4% in 1Q24)** 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 1Q24.** Under the adverse scenario considered, the Bank of Spain's stress test¹ for 2023-2025 shows that the CET1 ratio for the Spanish banks as a whole would fall by 3.3 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).