Spain
Macroeconomic & Financial Outlook

CaixaBank Research

October 2024

Prepared with information available as of October 8th, 2024

CaixaBank

Key messages

Activity

- **ECB has cut interest rates in September and markets see an acceleration in the pace of cuts**. The latest inflation data have been encouraging which along modest activity indicators have pushed market expectations towards a 25bp ECB cut in October (over 90% implied probability) and another one in December (fully priced). By the end of 2025, markets see the depo rate at 1.75%. The increase in tensions in the Middle East poses upward risks for inflation via higher oil prices but the uncertainty is high.
- **We revise GDP growth in 2024 upwards to 2.8% (+0.4pp)** due higher than expected growth in Q2 (0.8% q-o-q) and INE's upward revision of GDP figures for 2023 and Q1 2024.
- **We maintain our GDP growth forecast for 2025 at 2.3%**. While a gentle slowdown is anticipated, growth will remain dynamic supported by robust tourism and demographic trends, moderating inflation, expected ECB rate cuts, strong employment generation, and increased traction in investments linked to the NGEU.
- **GDP growth is projected to stay above 2% over 2024-2025, rebalancing towards internal demand**. We expect private consumption and investment to gain prominence. Tourism will continue to support growth, albeit to a smaller extent.
- **Q3 indicators** have moderated somewhat compared to the previous quarter but we still expect dynamic GDP growth.
- **Headline inflation declined 0.8 pp. to 1.5% in September,** below our expectations due to lower gasoline and food prices while underlying inflation declined 0.3 pp. to 2.4%. We revise slightly inflation downwards in 2024 by 0.2 p. p. to 3.0%, driven by better-than-expected performance in food, energy and industrial goods prices in the last months.
- **We improve our forecasts for the real estate market for 2024-2025**. We expect house prices to increase +8.9% accumulatively in 2024-2025 (prev. 7.3%). Positive net job creation, favourable demographics, 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 3.5% of GDP in 2023 to 2.6% of GDP in 2025. The upward revision of GDP has lowered the **public debt** ratio by almost 3 percentage points in 2023 and it will fall to c.103% in 2024.

Banking Sector

- **New lending shows positive dynamics.** In terms of new credit, activity recovers in the months to date in 2024, so the stock of credit to the Spanish resident private sector is stabilizing. Domestic NPL ratio stands at 3.4% in July, lower than in dic'23, and 140 bps below pre-covid level of February 2020. Profitability improves and ROE reaches 14.2% in 2Q24 (vs. 10.9% in uro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

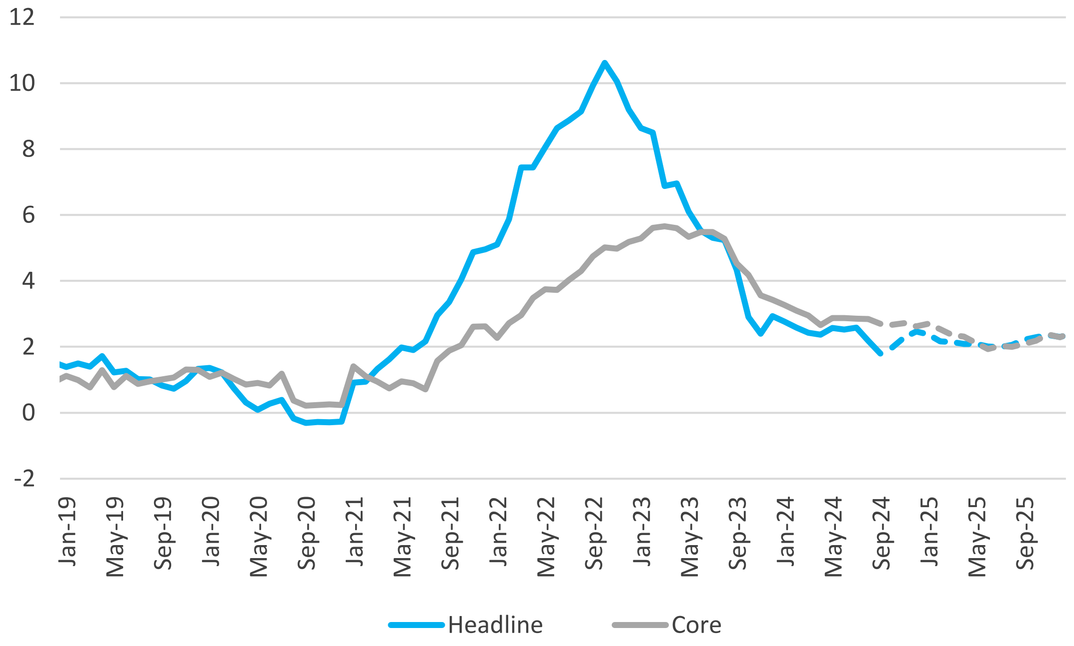
%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023 (Forecast)	2024 (Forecast)	2025 (Forecast)
GDP	4,1	2,9	2,9	2,4	2,0	-10,9	6,7	6,2	2,7	2,8	2,3
Private Consumption	2,9	2,6	3,1	1,8	1,0	-12,2	7,2	4,9	1,7	2,5	2,5
Public Consumption	1,9	0,9	1,0	2,1	2,2	3,5	3,6	0,6	5,2	3,6	1,6
Gross Fixed Capital Formation (GFCF)	5,3	2,0	6,8	6,5	4,9	-8,9	2,6	3,3	2,1	2,7	3,4
GFCF - equipment	9,3	1,6	9,1	4,2	1,7	-13,5	3,3	2,9	1,1	1,8	4,3
GFCF - construction	2,4	0,9	6,8	10,1	8,4	-8,4	0,5	2,2	3,0	3,5	3,0
Exports	4,4	5,4	5,6	1,7	2,3	-20,1	13,4	14,3	2,8	3,0	2,3
Imports	5,1	2,6	6,7	3,9	1,3	-15,1	15,0	7,7	0,3	1,9	2,8
Unemployment rate	22,1	19,6	17,2	15,3	14,1	15,5	14,9	13,0	12,2	11,6	11,2
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	3,1	2,8	1,9	2,1	0,8	0,8	0,4	2,7	3,1	3,1
General Government Balance (% GDP)	-5,3	-4,3	-3,0	-2,6	-3,0	-10,0	-6,7	-4,6	-3,5	-3,0	-2,6
General government debt (% GDP)	102,4	101,9	101,1	99,7	97,6	119,2	115,6	109,4	105,0	102,9	102,2
Housing prices	1,1	1,9	2,4	3,4	3,2	-1,1	2,1	5,0	3,9	5,1	3,6
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	83	80
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	0,5	1,8

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

ECB: further cuts ahead amid greater confidence in the inflation outlook

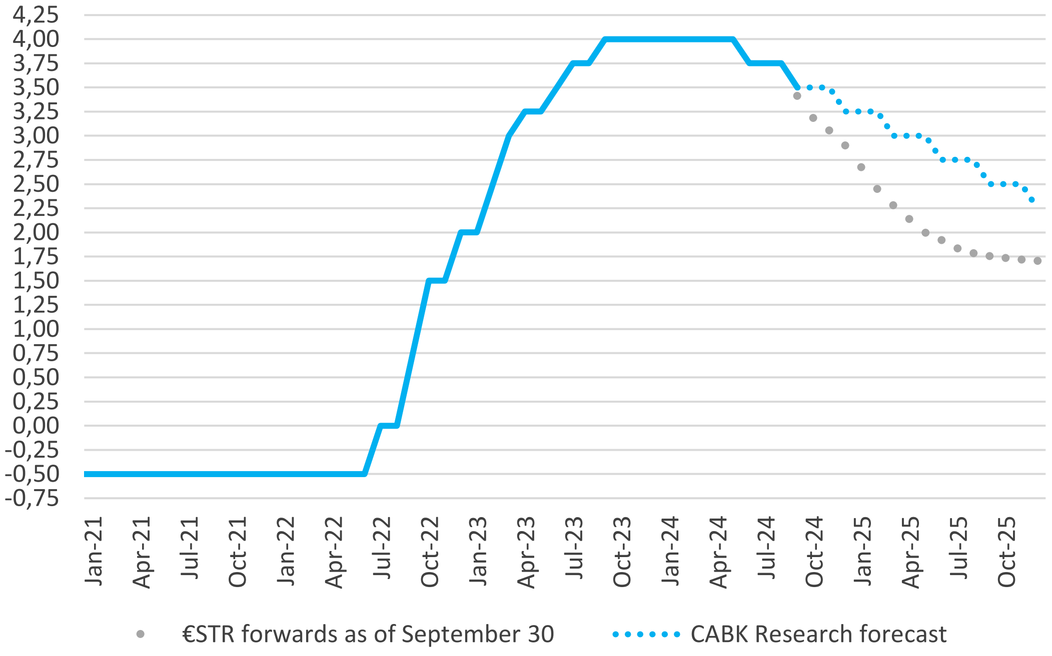
Euro area: HICP inflation

(%)



ECB deposit rate

(%)



- **The ECB cut rates by 25bp in September**. On the back of favorable inflation figures and improved confidence in the outlook for disinflation, officials delivered the second interest rate cut of the cycle –bringing the depo rate at 3.50% (the refi rate declined to 3.65% as the ECB implemented the narrower refi-depo spread that had been announced in March). Going forward, the ECB reiterated the intention of dialing back the restrictive monetary policy stance in a data-dependent way –refusing to pre-commit to a rate path.
- **Markets see an acceleration in the pace of rate cuts**. The latest inflation and activity figures –at 1.8% in September, headline inflation stood below the 2% target for the first time since June 2021, while the euro area's PMI Composite [49.6pts in September] dipped into contractionary levels- have pushed market expectations towards a 25bp ECB cut in October (over 90% implied probability) and another one in December (fully priced), leaving the depo rate at 3.00% by year-end. By the end of 2025, markets see the depo rate at 1.75%.
- **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 the PEPP portfolio is already declining as reinvestments drop from 100% to ~50% in the second half of 2024 (and to 0% in 2025).

Geopolitical tensions weight on commodity prices

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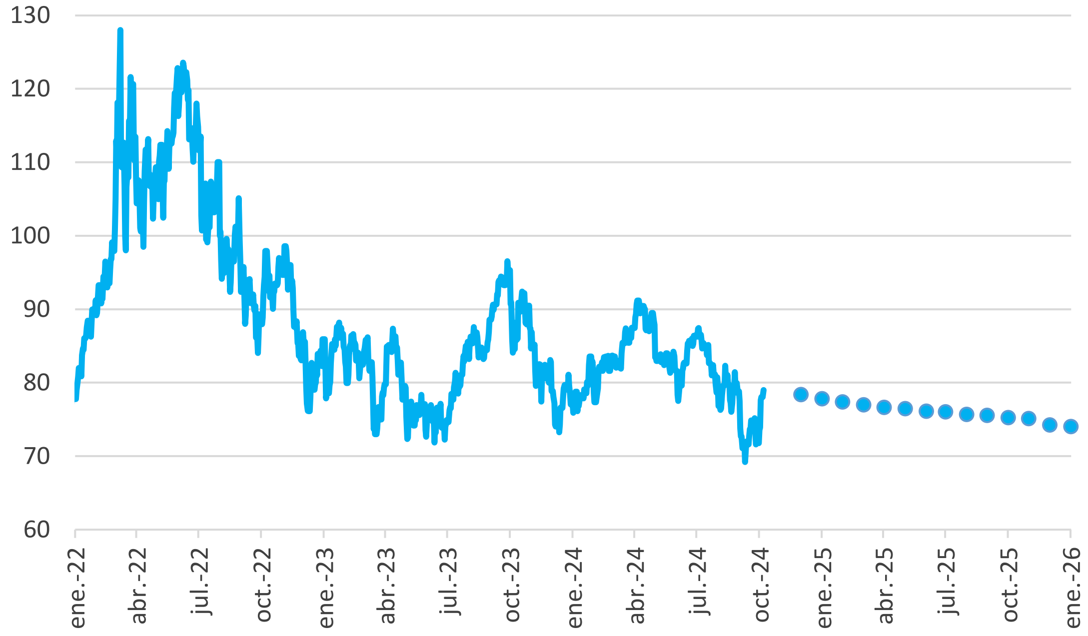
Brent oil prices (and futures)

$ per barrel



Commodity prices

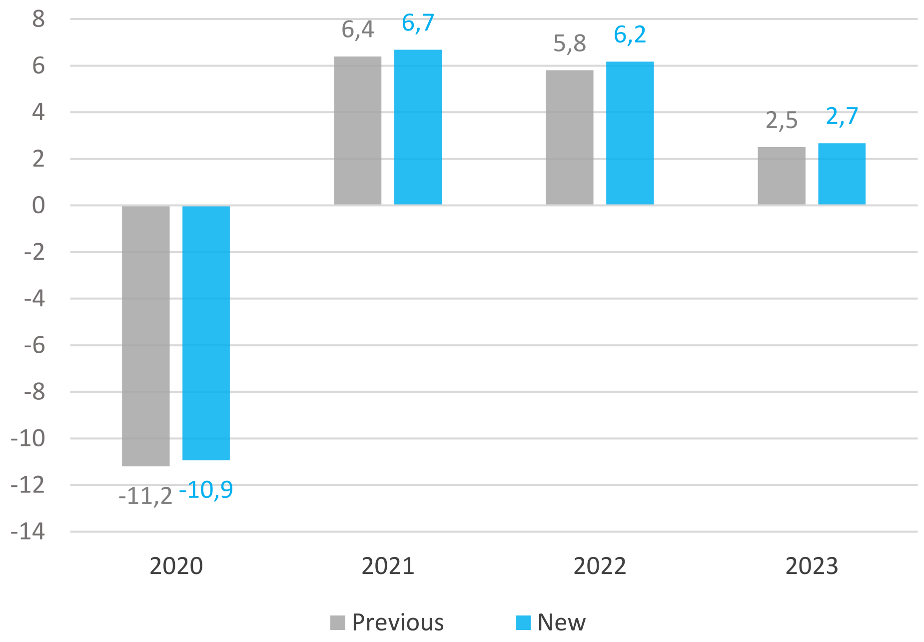
	Metric	Price	Change (%) Last Month	Year to Date	2022	2023
Commodities	**index**	**102,0**	**8,8**	**3,4**	**13,8**	**-12,6**
Energy	**index**	**29,8**	**10,5**	**-2,9**	**33,5**	**-25,6**
Brent	$/barrel	79,0	11,2	2,6	10,5	-10,3
Natural Gas (Europe)	€/MWh	40,6	11,3	25,5	8,5	-57,6
Precious Metals	**index**	**277,8**	**7,8**	**24,1**	**-1,9**	**4,1**
Gold	$/ounce	2652,2	5,8	28,6	-0,3	13,1
Industrial Metals	**index**	**156,2**	**13,2**	**9,5**	**-4,4**	**-13,7**
Aluminum	$/Tm	2653,0	10,7	11,3	-15,3	0,3
Copper	$/Tm	9943,5	11,0	16,2	-13,9	2,2
Agricultural	**index**	**57,5**	**6,0**	**-7,9**	**13,2**	**-9,3**
Wheat	$/bushel	589,0	6,5	-6,2	2,8	-20,7

- **The concerns over a wider war in the Middle East could impact on oil prices.** In September, Brent oil prices fell nearly 9% reaching $72 per barrel, a three- year low, as market expectations pointed to an increase in the supply of oil. However, in the first days of October, the Brent price rose to $80 driven by fears of a broader war in the Middle East.
- Our current forecasts feature an average **Brent** price of $80.4 per barrel in 2024 ($76 in December 2024) and $74.6 in 2025 ($73.5 in December 2025), in line with current market expectations. This price moderation is supported by prospects of oversupply, driven by higher non-OPEC production and expectations of increased OPEC output, alongside a limited impact from the Middle East conflict. While the disruptive potential through the Strait of Hormuz is significant, Iran’s contribution to the global market is below 5%, and several countries have substantial idle productive capacity. However, if the conflict escalates into a broader war with Iran playing a central role, it could sharply increase oil prices. Current geopolitical uncertainty remains high.

Spain: INE revises annual GDP up in 2020-2024

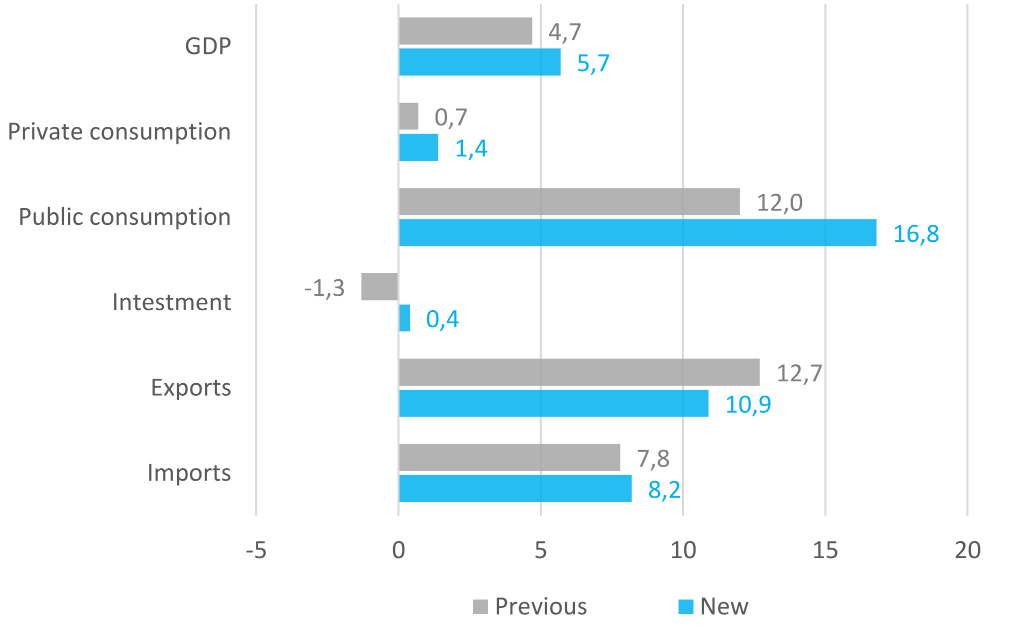
GDP growth

Percentage change (%)



GDP and components: 2024 vs 2019

Percentage change with respect to 4Q 2019



- **INE has revised upwards GDP growth for 2020-2023**. According to the new data, GDP declined by 10.9% in 2020 (previously -11.2%) and increased by 6.4%, 5.8%, and 2.7% in the following years (+0.3pp, +0.4pp, and +0.2pp, respectively). As a result, GDP in Q2 2024 stands 5,7% above its Q4 2019 levels (previously 4,7%).
- **All components of internal demand have been revised upward**, indicating a more dynamic behavior than previously thought. The strongest upward revision relative to Q4 2019 levels has been in public consumption (+4.8pp). Private consumption in Q2 2024 stands 1.4% above Q4 2019, twice as high as previously estimated, while investment is now 0.4% above, instead of 1.3% below.
- **INE has also revised GDP growth in Q1 2024 upwards by 0.1 p. p. to 0.9% quarter-on-quarter, while keeping the Q2 2024 untouched at 0.8%**.

Update of macroeconomic scenario

New macroeconomic scenario

Annual variation (%), unless otherwise stated

	2014-19	2023	2024	2025	Cum. 24-25
GDP	2.6	2.7	2.8 *(2.4)*	2.3 *(2.3)*	**5.2** ***(4.8)***
Unemployment rate (% labor force)[2]	18.8	12.2	11.6 *(11.6)*	11.2 *(11.1)*	**-1.0** ***(-1.1)***
Inflation rate (average of period, %)	0.6	3.5	3.0 *(3.2)*	2.5 *(2.5)*	**5.6** ***(5.8)***
House prices	1.6	3.9	5.1 *(4.4)*	3.6 *(2.8)*	**8.9** ***(7.3)***

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 (Sept. 30th)	2.8	2.3	5.2
Bank of Spain (Sept. 17th)	2.8	2.2	5.1
OCDE (Sept. 25th)	2.8	2.2	5.1
Government (Sept. 24th)	2.7	2.4	5.2
Panel de funcas (Sept. 11th)	2.6	2.1	4.8
BBVA Research (June 14th)	2.5	2.1	4.7
Consensus forecast (Sept. 12th)	2.5	2.0	4.5
Funcas (July 4th)	2.5	1.8	4.3
IMF (July 19th)	2.4	2.1	4.6
Airef (July 18th)	2.4		

- **We revise GDP growth for 2024 upwards to 2.8% (+0.4pp) due to higher than expected growth in Q2 (0.8% q-o-q)** and INE's upward revision of GDP figures for 2023 and Q1 2024. These two factors more than offset the slightly less dynamic growth forecast for the second half of the year, leading us to revise growth in 2024 upwards to 2.8%.
- **We maintain our GDP growth forecast for 2025 at 2.3%.** While a gentle slowdown is anticipated, growth will remain dynamic, supported by robust tourism and demographic trends, moderating inflation, expected ECB rate cuts, strong employment generation, and increased traction in investments linked to the NGEU.

Consumption and investment will gain importance in 2024-2025

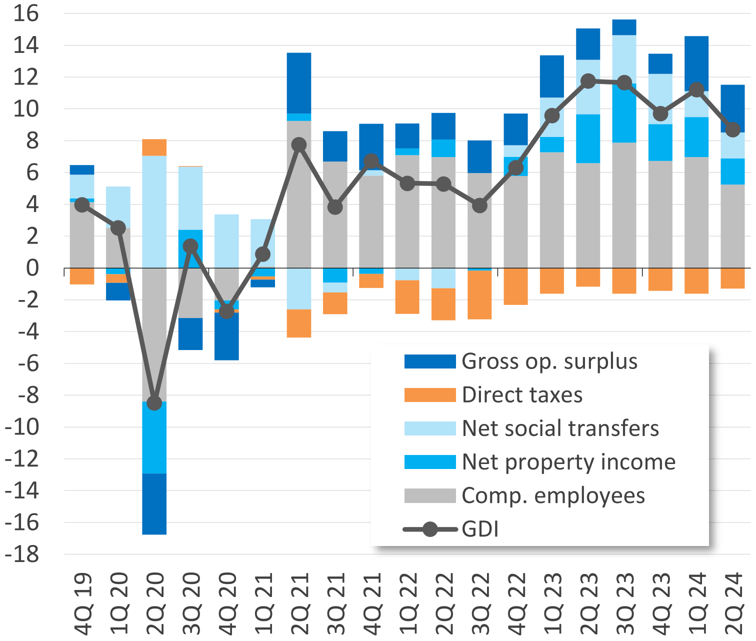
Macro forecasts growth components

Year-on-year (%)

	2014-19	2023	2024 (f)	2025 (f)
GDP	2.6	2.7	2.8	2.3
Private consumption	2.2	1.7	2.5	2.5
Public consumption	1.3	5.2	3.6	1.6
Investment	4.8	2.1	2.7	3.4
Exports	3.9	2.8	3.0	2.3
Imports	4.4	0.3	1.9	2.8

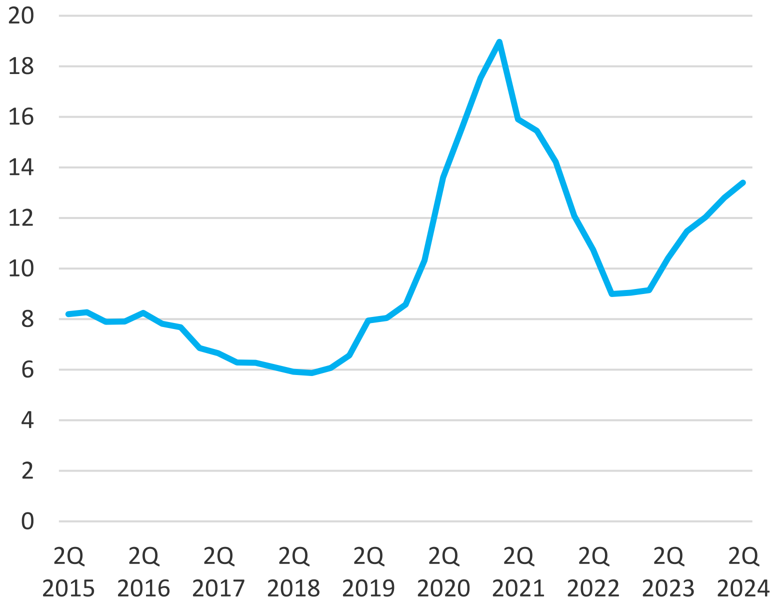
Gross disposable income (GDI)

Year-on-year variation (%) and contributions



Savings rate

% Gross disposable income



Note: Cumulative four quarters, average 2015-2019: 7.3%

- **GDP is expected to sustain growth above 2% over** 2024-2025 as it rebalances towards internal demand. While GDP growth between 2022 and 2023 was largely driven by public consumption and external demand, the coming years will see stronger growth in private consumption and investment. There is room for these two components to expand: investment in Q2 2024 is just 0.4% above its Q4 2019 level, while private consumption is 1.4% higher, despite a 3.1% increase in population.
- **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 2.5% against the backdrop of **dynamic gross disposable income** growth led by a buoyant labour market that has placed the savings rate at 13.4% in 1S 2024, above its historical average (c.8.5% 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. Despite private consumption growing at 2.5% on average in 2024-2025, it will take time for the savings rate to normalize and we expect it to sit in 2025 still above its 2023 level (12.0%).

Q3 indicators of economy activity suggest growth may moderate slightly

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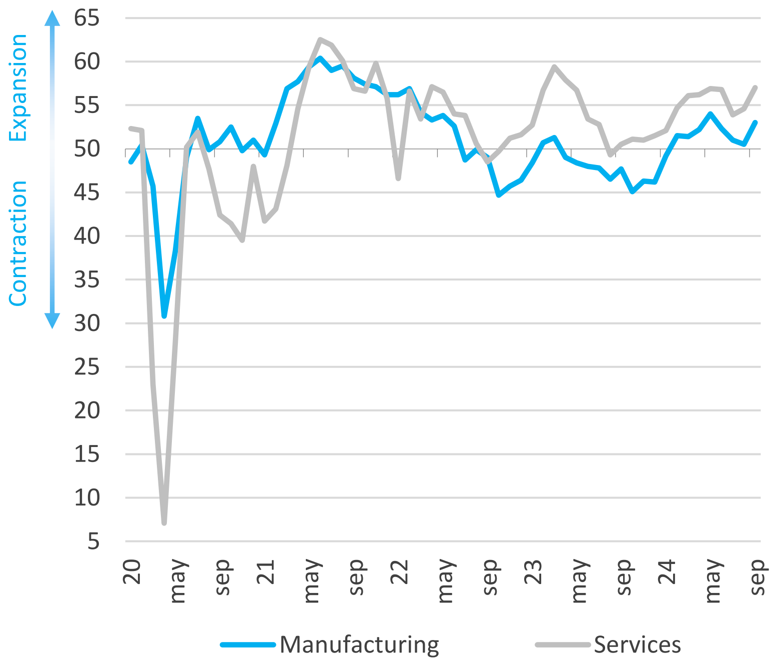
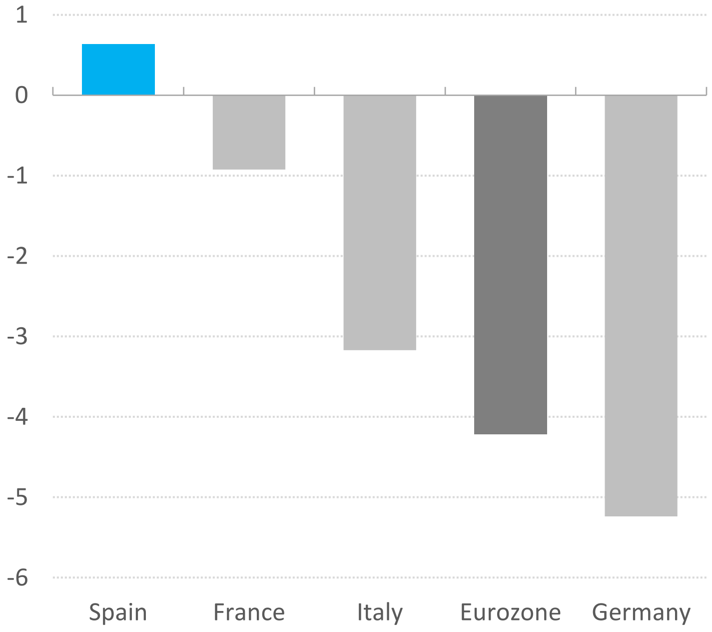
PMI indices

Level



Production in manufacturing industry*

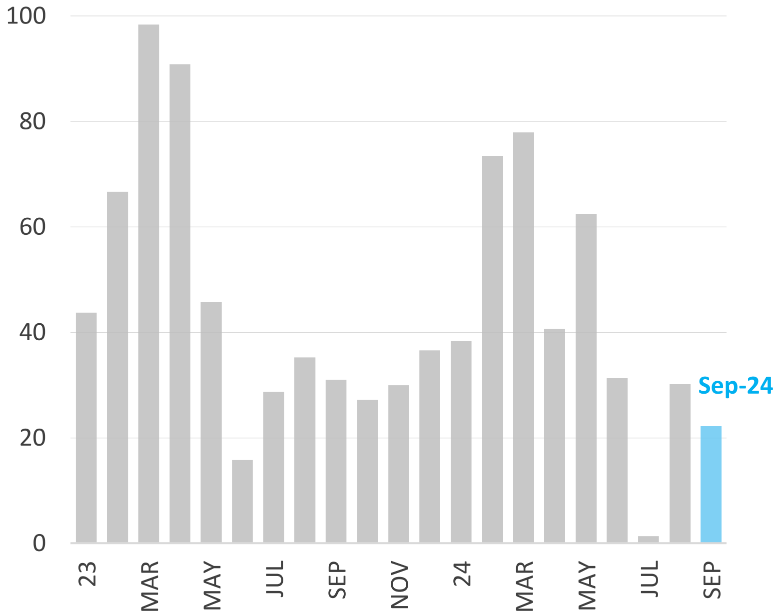
Year-on-year change (%)



Note: Seasonally and calendar adjusted data. (*) January-July.

Social Security registered members*

Month-on-month change (thousand)



Note: (*) Seasonally adjusted.

- **Q3 indicators have softened somewhat relative to the previous quarter.** In Q3 2024 employment has grown 0.3% qoq, below the 0.8% qoq rate of Q2. Employment in Spain stands at 21.2 million people, with an increase of 473k workers in the last year.
- On the supply side, the **manufacturing PMI** index has sat on average at 51.5 points in Q3 vs. 52.8 in Q3 despite an important rebound in September after three months of declines. It is worth mentioning that the manufacturing sector is outperforming the rest of Europe: **industrial production** has grown in year-on-year terms in Spain in the first seven months of 2024 while dropping in the rest of main European economies. The **services PMI** has averaged 55.2 points in Q3 vs. 56.6 in Q2. However, the services PMI index rebounded strongly in September reaching 57 points, the best figure since April 2023.
- **We expect GDP growth of 0.5% qoq in Q3**, a solid figure, albeit more moderate than the rates of growth posted during the first half of 2024 (of 0.8% qoq on average).

Inflation down to 1.5% in September

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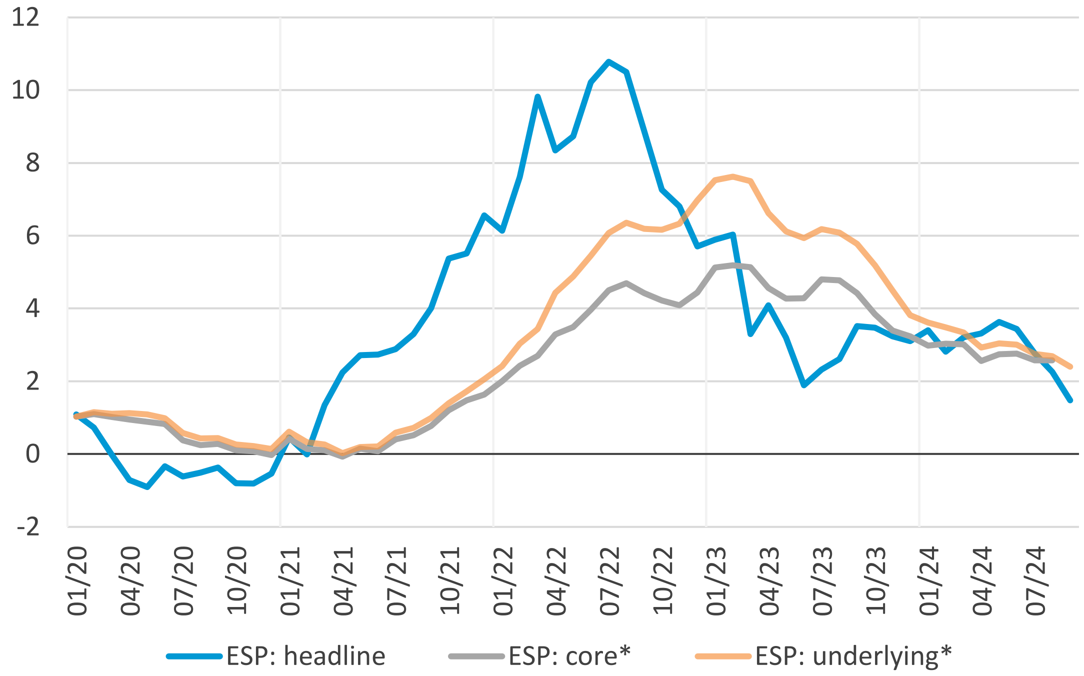
Inflation forecasts

Year-on-year change (%)

	2023	2024 (f)	2025 (f)
Headline inflation	3.5	3.0	2.5
Underlying inflation (excl. energy and non processed food)	6.0	3.0	2.5
Core inflation (excluding energy and food)	4.4	2.7	2.2
- Industrial goods	4.2	0.9	0.8
- Services	4.3	3.6	2.9
Food, beverages & tobacco	11.1	3.9	4.0
Energy	-16.3	2.1	1.1

Headline, underlying and core CPI

Year-on-year change %

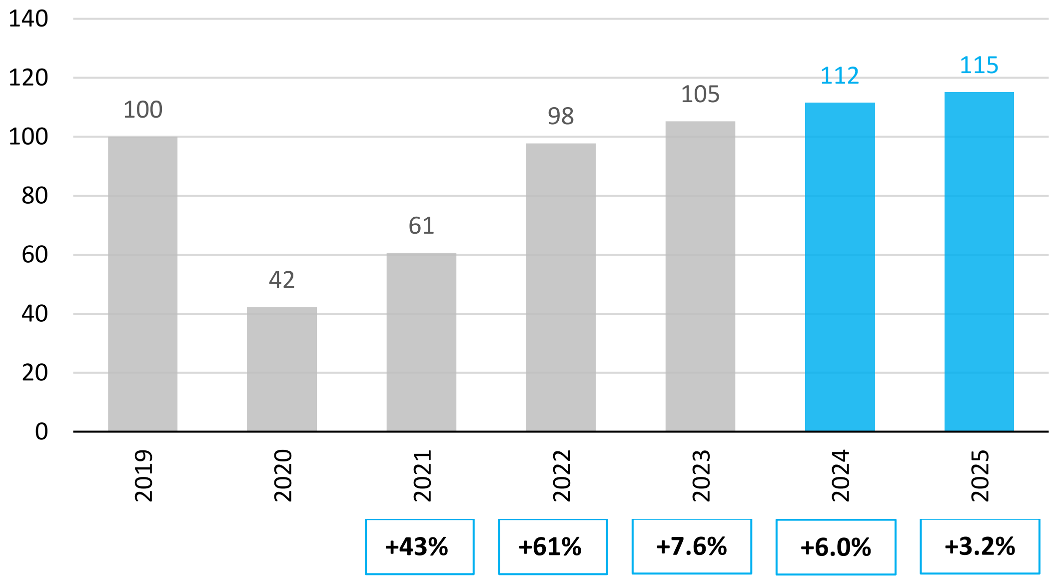


- **Headline inflation declined 0.8 pp. to 1.5% in September, below our expectations**, driven by lower gasoline and food prices. At the same time, underlying inflation declined 0.3 pp. to 2.4%.
- **We revise slightly inflation downwards for 2024 by 0.2 p. p. to 3.0%,** driven by a downward revision in our Brent price forecasts, and the incorporation of the more gradual removal of the VAT reduction applied to selected food items announced by the government. The impact of the removal in 2025, which drives up food price inflation, will be partially offset by the moderation in the rate of growth of food prices that we have witnessed in the last few months, and which we expect will go forward.
- We forecast services inflation to remain higher during the next two years, while we expect industrial goods inflation to reach its lowest in the next year, before gradually converging to a higher steady state driven by deglobalization trends.

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

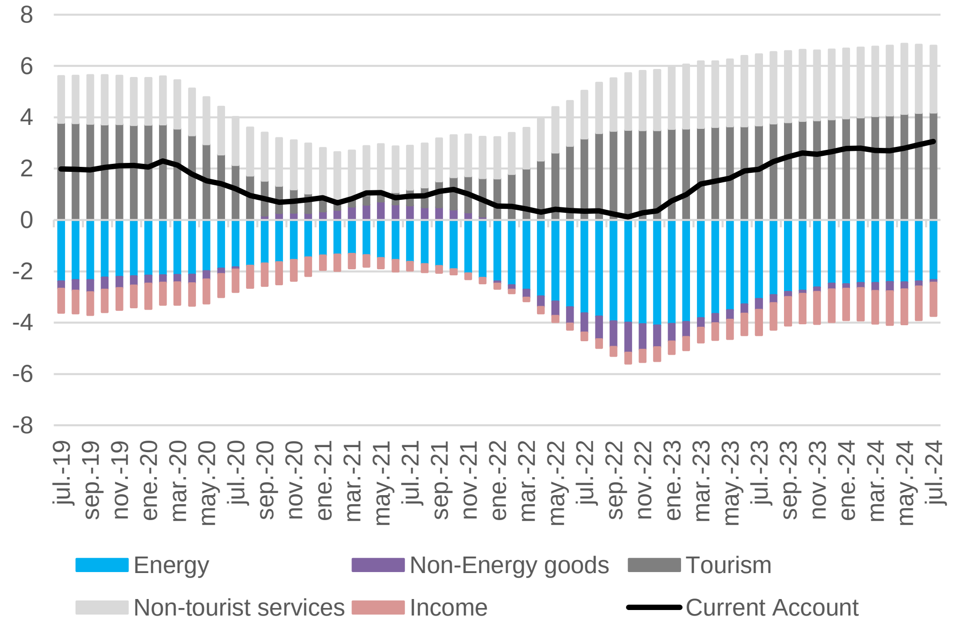
Tourism GDP (real)

Index (100 =2019)



Current Account Balance

Accumulated of the last 12 months (% 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 had a GDP growth contribution of c.0.9pp. Given the tourism sector has recovered to its pre-pandemic level, we expect growth to normalize to a still strong 6% in 2024, and to add 0.76pp 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 2024 shows robust growth both in-season and off-season.** International arrivals are up 13.4% in the first six months of 2024, and up 8.9% in July and August. Domestic overnight stays in the first eight months of 2024 are up a modest 0.3% as Spanish tourists travel more abroad. Inflation in tourism services has moderated to 5.2% in the first eight months of 2024 but remains elevated.
- **The current account will keep posting positive figures in 2024-2025**. The new forecasts for 2024 and 2025 imply a 3.1% of GDP surplus in the current account for both years with a decreasing energy deficit and a stable services surplus. The latest data portrait a good scenario for the external sector; the July surplus (accumulated 12 months) of 3,06% of GDP has been the highest figure in the last 7 years.

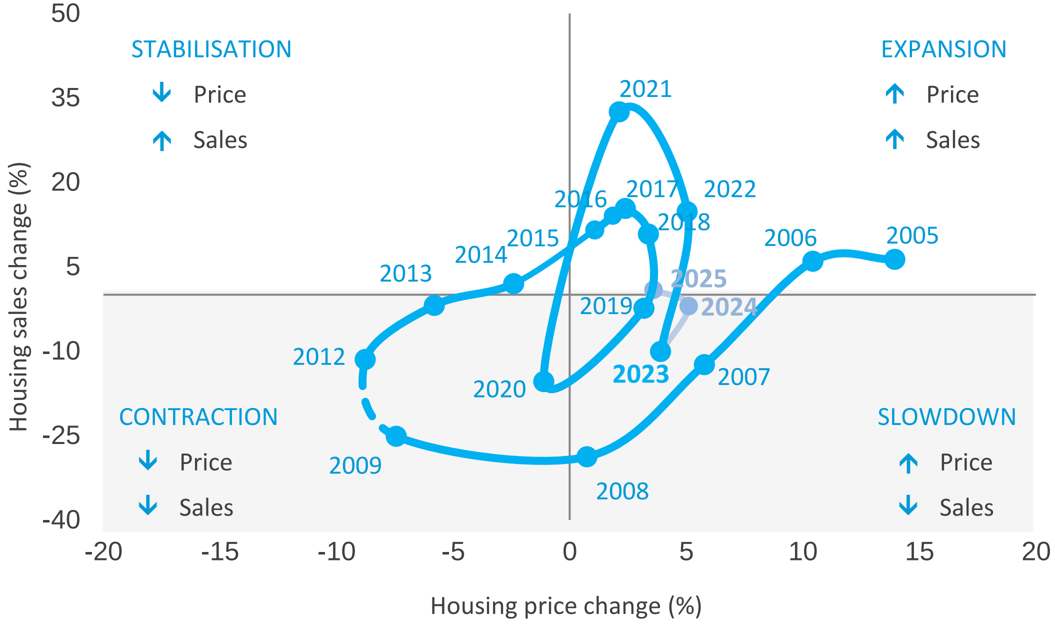
Renewed momentum in housing prices

Updated forecasts for the real estate market

	2014-19	2022	2023	2024	2025
Housing sales (Thousand)	428	650	586	572 *(565)*	578 *(566)*
New building permits (Thousand)	73	109	109	115 *(=)*	125 *(=)*
House price (appraisal, MIVAU) Year-on-year (%)	1.6	5.0	3.9	5.1 *(4.4)*	3.6 *(2.8)*
House price (transaction, INE) Year-on-year (%)	4.4	7.4	4.0	7.1 *(5.0)*	4.1 *(2.8)*

Note: Previous forecast in parenthesis (July 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.

- **Housing price growth picked up in Q2 2024:** 7.8% YoY according to INE price index (transaction price), 5.7% YoY according to MIVAU (appraisal value) and 9.4% YoY according to Registrars (repeated sales). The introduction of this data, above expectations, leads to a new **upward revision of the housing prices forecast** for 2024 and 2025. We are now expecting housing price to appreciate by 8.9% (MIVAU) and 11.6% (INE) in cumulative terms in 2024-25.
  - The number of **housing sales** has decreased by 1.3% YoY in Jan.-Jul. 2024. Despite this slight decline, housing sales continue to be at elevated levels from an historical perspective (579k cum. 12 months) due to strong demand factors, especially population growth.
  - **Housing supply** continues to be very limited and well below net household creation, which is pushing up housing prices. New building permits increased by 14.6% YoY in Jan.-Jul. 2024 (119k cum. 12 months) 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 will continue to support price growth. Positive net job creation supporting growth in households' labor income, dynamic migration flows although somewhat lower than in the past 2 years, resilience of foreign demand, favorable financial situation of households and a relaxation in financial conditions will further support 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 path of public deficit reduction in the medium term, and lower public debt ratio after the GDP revision

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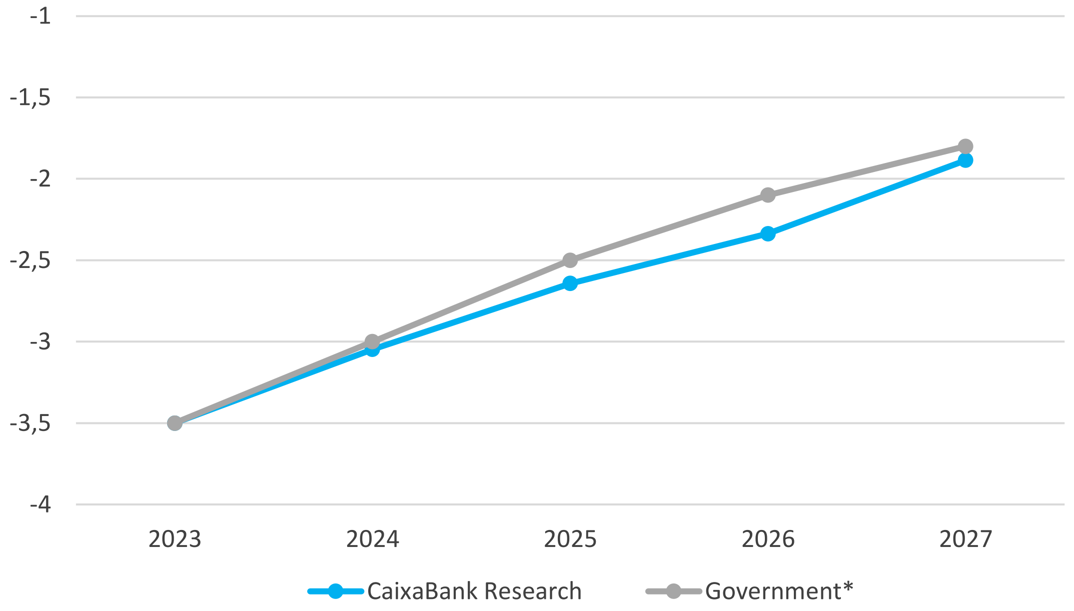
Public balance

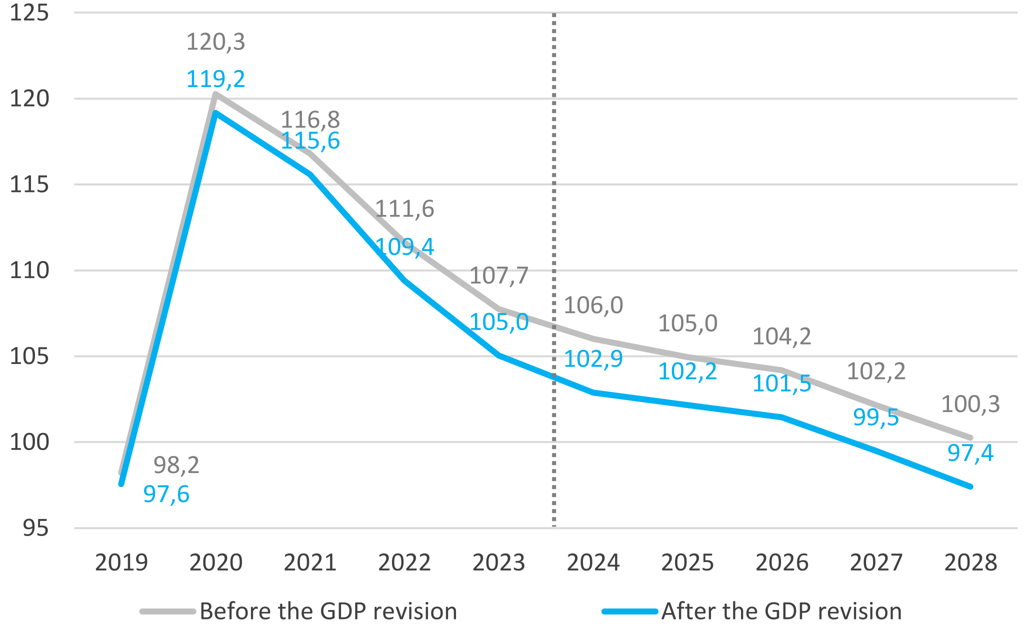
In % of GDP



Note: Deficit targets for 2025-2027 approved by the Council of Ministers, but subsequently rejected by Congress.
Source: CaixaBank Research.

Public debt

In % of GDP



Source: CaixaBank Research.

- Slight reduction of the **public deficit** in 1H 2024. We expect the deficit to end the year at 3.9% of GDP, compared to 3.5% in 2023.
- Notable increase in **fiscal revenues** in H1: 7.5% year-on-year growth, above the 6.2% increase in nominal GDP. Direct taxes and social contributions are growing at a good pace due to the behavior of employment, and indirect taxes are increasing due to the gradual end of tax discounts.
- The upward revision of GDP has reduced the **public debt** ratio by almost 3 points in 2023. Forecast of 102.9% of GDP in 2024 and below pre-pandemic levels in 2028.

NGEU: The Recovery Plan keeps being deployed

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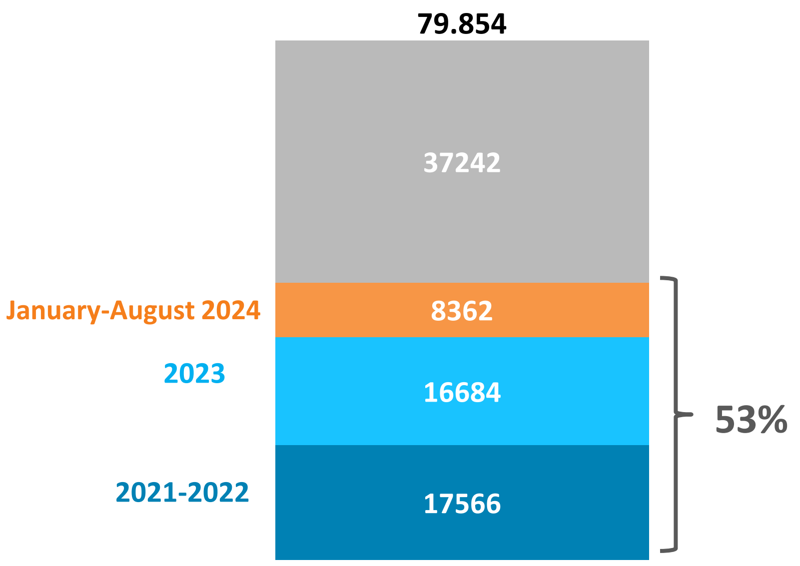
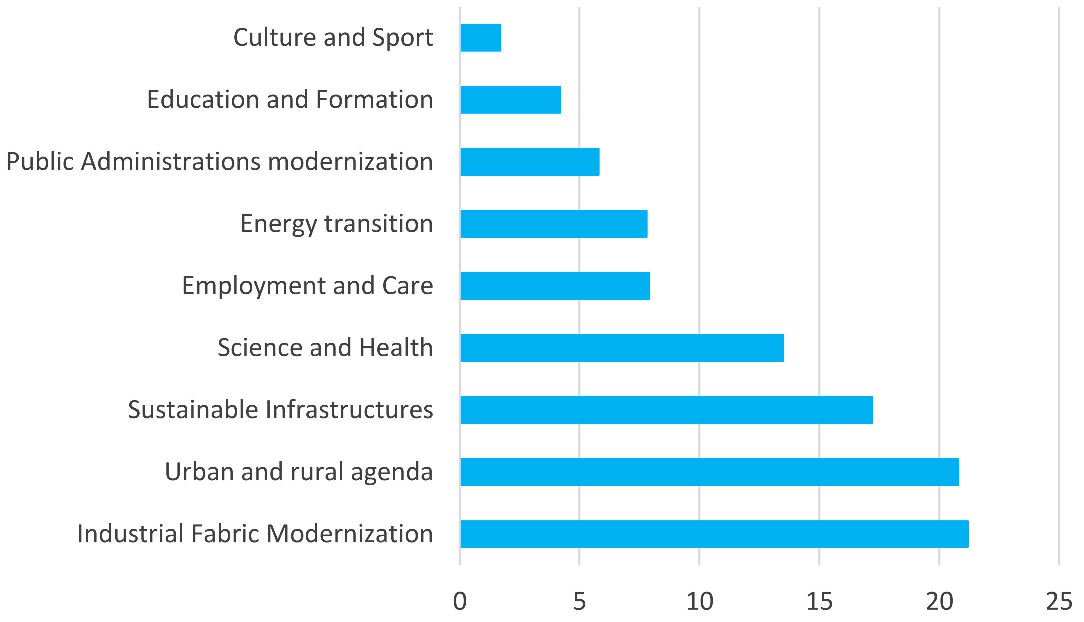
Execution of PRTR
Phase 1 (Million euros)



Note: Execution is defined as the awarding of tenders and grants.
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

Resolved calls by area
% over the total resolved



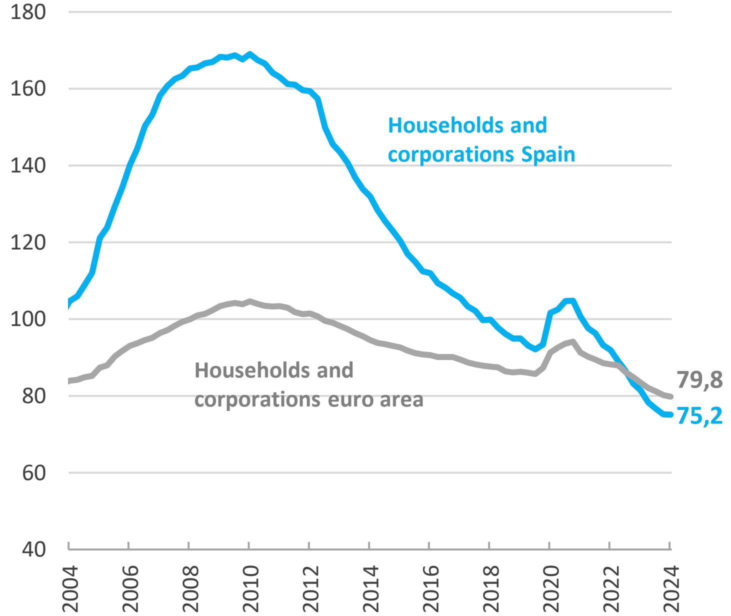
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

- As of August 31, tenders and grants have been resolved for **€42.6 billion**, 53% of the total NGEU grants of the Recovery Plan. In the first 8 months of 2024, €8.36 billion have been executed, a similar amount than in the same period in 2023 and much higher than in 2021 and 2022.
- The Government has activated €22 billion from the **ICO Green line** and €8.15 billion from the **ICO for Companies and Entrepreneurs**, as part of loans from the Addendum. It has also activated the first €3.4 billion from the **Regional Resilience Fund**: notably, €2 billion managed by the EIB in long-term loans for large projects (both public and private), €700 million managed by the EIB with financial intermediation for sustainable tourism, and €500 million managed by the EIF with financial intermediation for loans to SMEs and midcaps.
- So far, 528,800 SMEs have received some form of aid from the Recovery Plan, most of them through the **Digital Kit. In total**, they have received €16.8 billion out of the €42.6 billion allocated thus far.

Banking system: improved credit dynamics for all segments

Bank credit to the private sector

% GDP



Note: latest data available as of Jun-24.
Source: Caixabank Research with data from ECB, Eurostat.

Private domestic credit

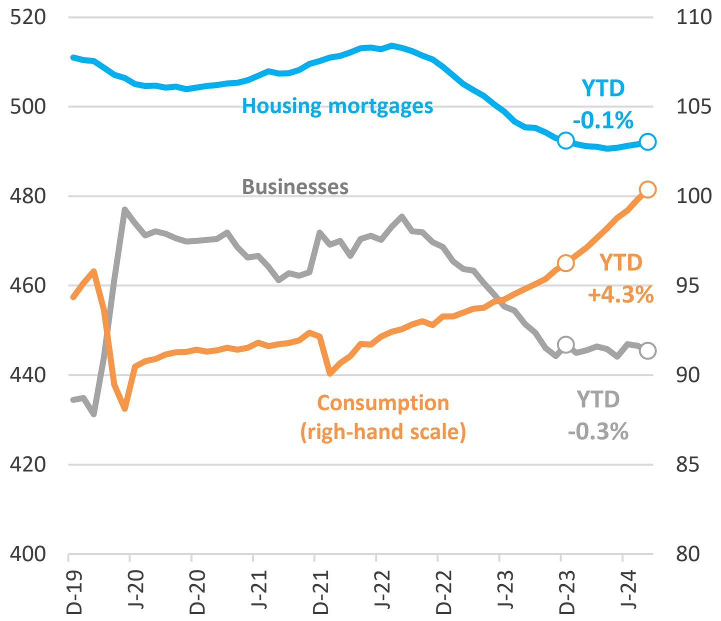
Year-on-year (%)

	Dec-23	Aug-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	-0.7%	0.5%
Households	-2.5%	-0.3%	0.6%
Housing mortgages	-3.2%	-0.7%	0.3%
Other purposes	-0.5%	0.5%	1.3%
Of which consumption	2.8%	6.0%	6.0%
Businesses	-4.7%	-1.3%	0.3%
Non-real estate developers[1]	-4.3%	-1.6%	-
Real estate developers[1]	-6.1%	-2.9%	-

Note: (1) latest data available Jun-24.
Source: Caixabank Research with data from Bank of Spain.

Private domestic credit

€Bn, Year-to-date % (seasonally adjusted)



Note: latest data available as of Aug-24.
Source: Caixabank Research with data from Bank of Spain.

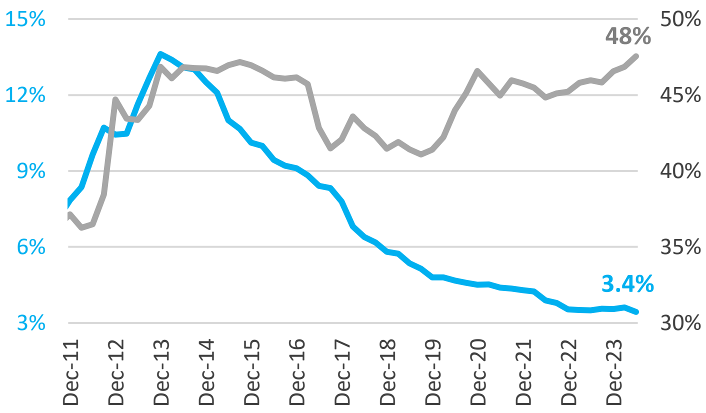
- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 1Q24. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic.
- **New mortgage production** shows notable dynamics in 2024 with the change in interest rate expectations (accumulated new lending from January to August grows +15.6% yoy).
- **New lending for consumption** increases favored by improvements of consumer confidence, and credit for consumer durables, exceeding pre-COVID-19 levels (accumulated new lending from January to August grows +17.8% yoy).
- **New lending to corporates** grows both in loans under 1M€ and in larger ones (+5.5% yoy in August. The BoE has revised the data on new loans since Aug'23 due to changes in the information submitted by the entities, which does not allow calculating the accumulated variation over the year.)
- **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: solid financials

NPLs and coverage ratios[1]

NPL ratio
In % of gross loans

Coverage ratio
In % of NPLs

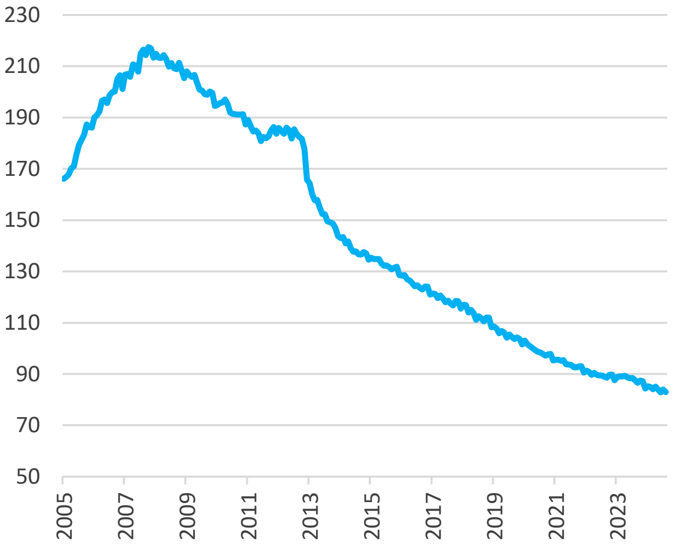


Cost of risk[2]
0.4% in Q1 2024
0.4% in Q2 2024

Note: (1) latest available data Jun-24.. (2) Spanish business. Accumulated 12 months based on the average of the 6 largest institutions.
Source: CaixaBank Research with data from BoS and Bank's financial statements.

HHs & NFCs loan to deposit ratio

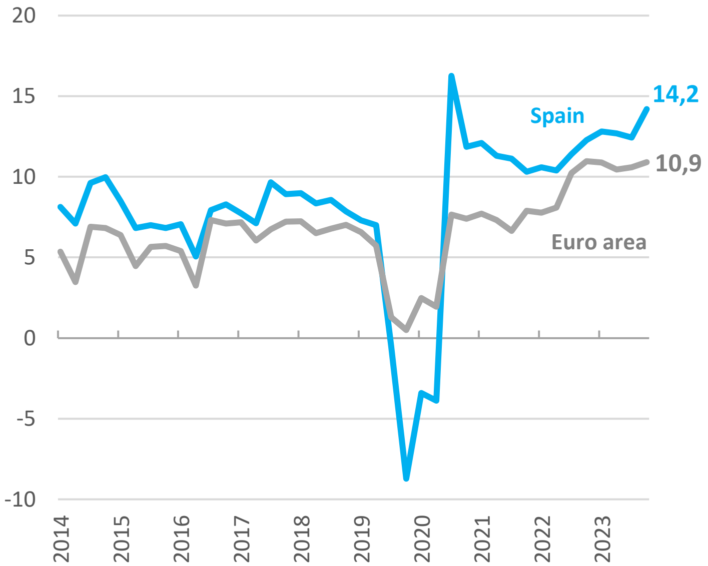
Percentage (%)



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

Banks' profitability

ROE % (Q2 24; annualised)



Source: CaixaBank Research with data from EBA (Dashboard-Q2 24).

- **NPLs remain below 4%,** despite substantially higher interest rates. The share of stage 2 loans on a group level increased sightly to 7.3% in 2Q24, 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.
- **Households and non-financial corporation (NFCs) deposits exceed the 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 (+4.3% yoy in Aug'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **Profitability is recovering (ROE stood at 14.2% in 2Q24)** 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 12.8% CET1 ratio in 2Q24.** 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 approved the new the framework for setting the CCyB and sets it for 4Q24 at 0.5% (to be applicable from October 2025). It will raise to 1% from 4Q25 (to be applicable from October 2026).

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.