Spain
Macroeconomic & Financial Outlook

CaixaBank Research

November 2024

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CaixaBank

Key messages

Activity

- **The ECB cut rates in October by 25bp (depo at 3.25%)** on the back of weakening activity data and greater confidence in the inflation outlook. It is likely to be followed by another 25bp cut in December. Markets see the depo rate at 2.00% by end-2025.
- **The tariff increases advocated by elected US President Donald Trump could have negative effects on the economies of the European Union**, especially Germany and Italy which are more dependent on exports to the U.S. In Spain, exports of goods and non-tourism services to the US represent 1.3% and 0.7% of GDP, respectively.
- **Spanish GDP grew by 0.8% qoq in the third quarter of the year** (3.4% yoy), well above the eurozone's growth (0.4% qoq) and better than expected. Domestic demand was the main driver of growth thanks to private and public consumption. This strong performance poses some upward risks to our current GDP growth forecast of 2.8% in 2024.
- **Growth will remain dynamic in 2025, despite a gentle slowdown**. We forecast 2.3% GDP growth in 2025 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 funds.
- **Good performance of the labour market and PMIs in October** underscore that the economy continues to be dynamic at the beginning of Q4.
- **Headline inflation increased 0.3 pp. to 1.8% in October** due to an upward contribution of the energy component, in line with our expectations. This uptick in inflation does not pose upside risks to our outlook featuring decreasing inflationary pressures.
- **The insufficient supply of housing is the main imbalance in the housing market putting pressure on prices**. The latest housing indicators show that housing supply is starting to increase.
- **The Government has unveiled its medium-term fiscal targets to comply with European fiscal rules**. It projects a reduction of public deficit from 2.5% of GDP in 2025 to 0.8% in 2031 and of public debt from 101.4% in 2025 to 90.6% in 2031.

Banking Sector

- **New lending shows positive dynamics.** Activity is recovering in 2024 and the stock of credit is stabilizing. Domestic NPL ratio stands at 3.4% in August, lower than in dic'23, and 138 bps below pre-covid level of February 2020. Profitability has improved and ROE has reached 14.2% in 2Q24 (vs. 10.9% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

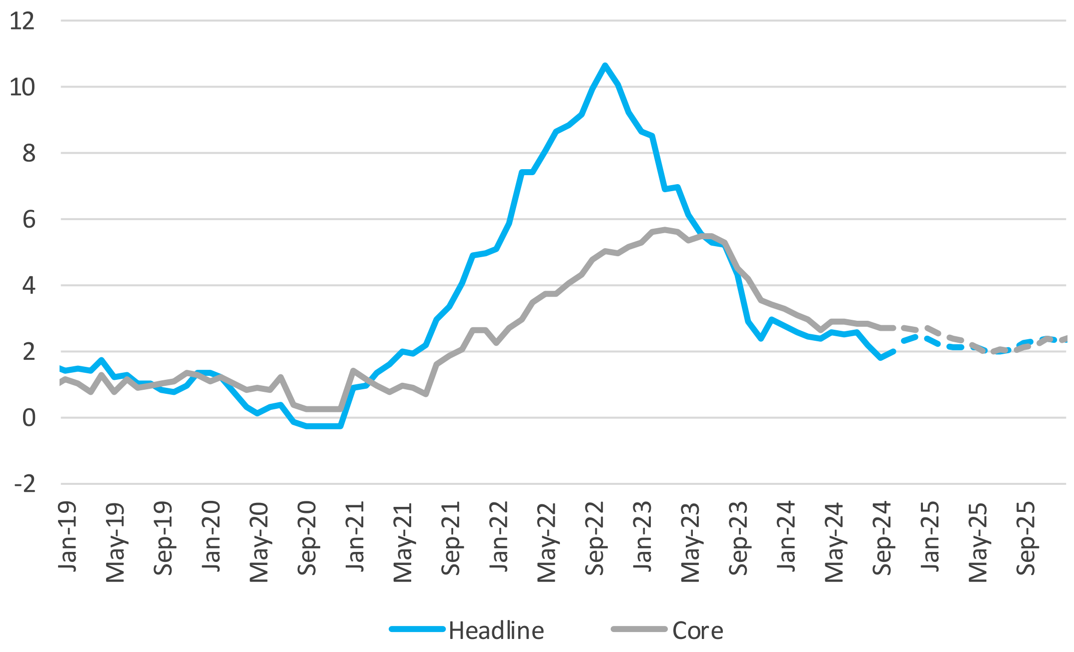
%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Forecast)	2025 (Forecast)
GDP	4.1	2.9	2.9	2.4	2.0	-10.9	6.7	6.2	2.7	2.8	2.3
Private Consumption	2.9	2.6	3.1	1.8	1.0	-12.2	7.2	4.9	1.7	2.5	2.5
Public Consumption	1.9	0.9	1.0	2.1	2.2	3.5	3.6	0.6	5.2	3.6	1.6
Gross Fixed 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

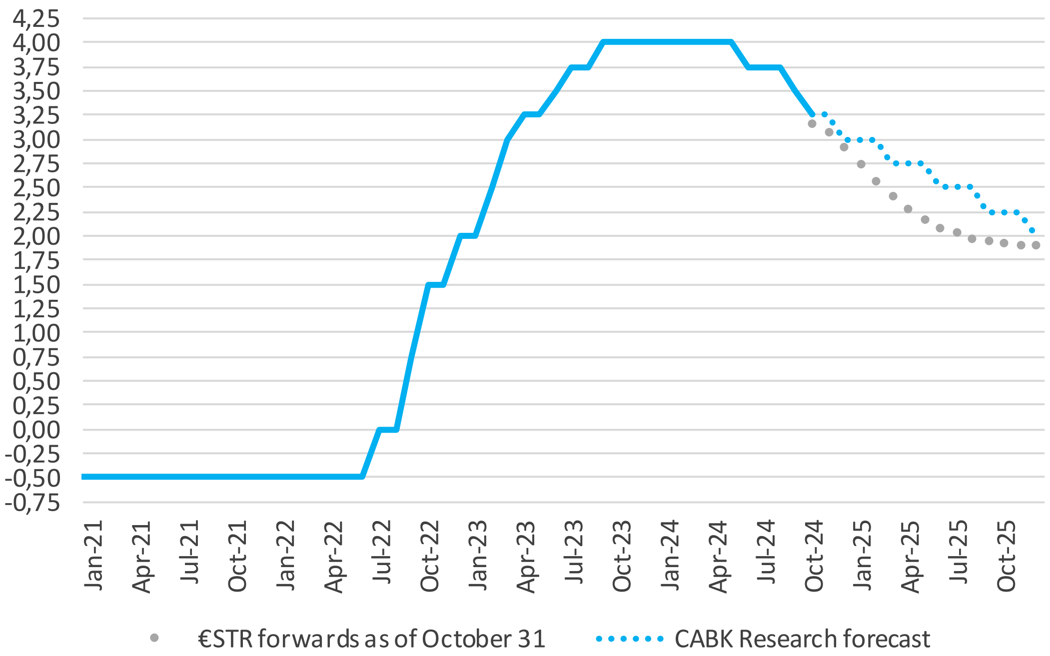
Euro area: HICP inflation

(%)



ECB deposit rate

(%)

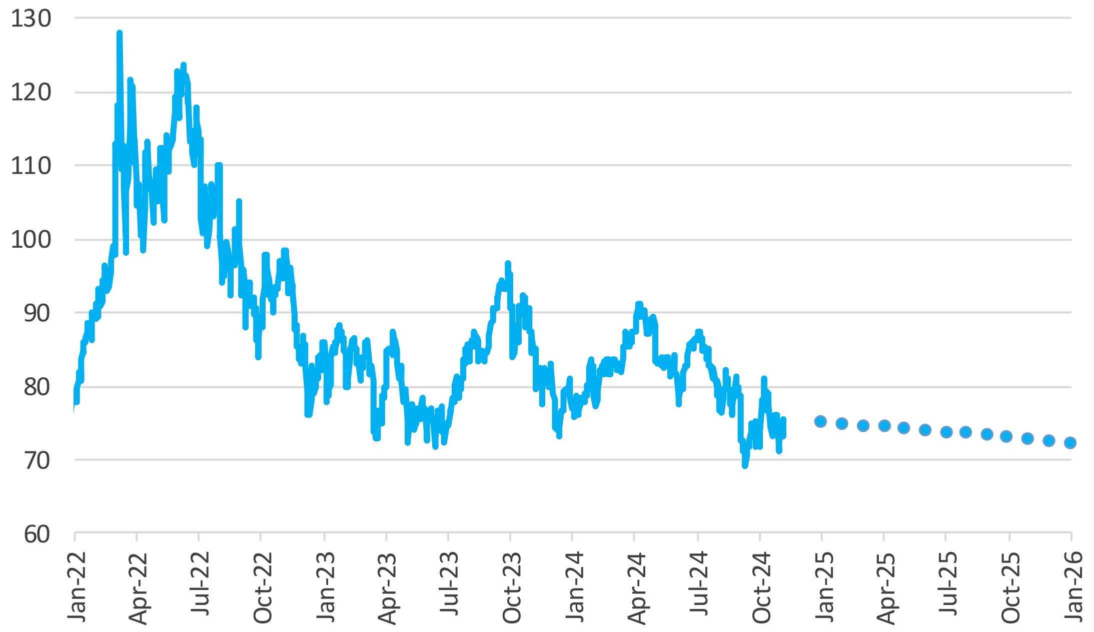


- **The ECB cut rates in October by 25bp** (depo at 3.25%) on the back of weakening activity data and greater confidence in the inflation outlook. The move had been little anticipated just a month ago (market odds were 25% by mid-September) and it is likely to be followed by another 25bp cut in December (100% priced in by markets, which also see some probability of a 50bp cut). While this highlights the risk of a faster cycle of ECB cuts if the outlook for euro area activity deteriorates while inflation continues to ease, the ECB pushed against the idea of a change in strategy. Officials reiterated that they will not pre-commit to a particular rate path: the ECB will continue to stick to a "data-dependent, meeting-by-meeting" approach that should deliver a gradual decline in interest rates under the baseline scenario for the euro area economy (markets see the depo rate at 2.00% by end-2025).
- **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 risks weigh on commodity prices

Brent oil prices (and futures)

$ per barrel



Commodity prices

	Metric	Price	*Change (%)* Last Month	Year to Date	2022	2023
Commodities	**index**	**99.3**	**-2.8**	**0.6**	**13.8**	**-12.6**
Energy	**index**	**27.7**	**-6.7**	**-9.7**	**33.5**	**-25.6**
Brent	$/barrel	75.4	-3.4	-2.1	10.5	-10.3
Natural Gas (Europe)	€/MWh	41.0	0.0	26.7	8.5	-57.6
Precious Metals	**index**	**285.2**	**2.6**	**27.4**	**-1.9**	**4.1**
Gold	$/ounce	2742.1	3.8	32.9	-0.3	13.1
Industrial Metals	**index**	**150.7**	**-3.4**	**5.6**	**-4.4**	**-13.7**
Aluminum	$/Tm	2620.0	-1.2	9.9	-15.3	0.3
Copper	$/Tm	9696.5	-2.5	13.3	-13.9	2.2
Agricultural	**index**	**55.9**	**-3.5**	**-10.6**	**13.2**	**-9.3**
Wheat	$/bushel	570.5	-3.3	-9.2	2.8	-20.7

- **Uncertainty prevails over market fundamentals.** In October, Brent oil prices continued to be very volatile, mainly due to fears about a wider war in the Middle East and the concerns about sluggish oil demand growth, particularly slack crude use in China. Brent average monthly price was $75.4 per barrel, erasing the year-to-date profits. In the first days of November, the barrel price fell to $72 despite OPEC+ delayed (for second time in a row) the rolling back in supply cuts for January.
- We consider **the effects of Trump's policies** on energy prices should be limited in the short and medium term, as his proposal relies on the development of domestic oil and natural gas production, which would contribute to an increase in global energy supply.
- 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. 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.

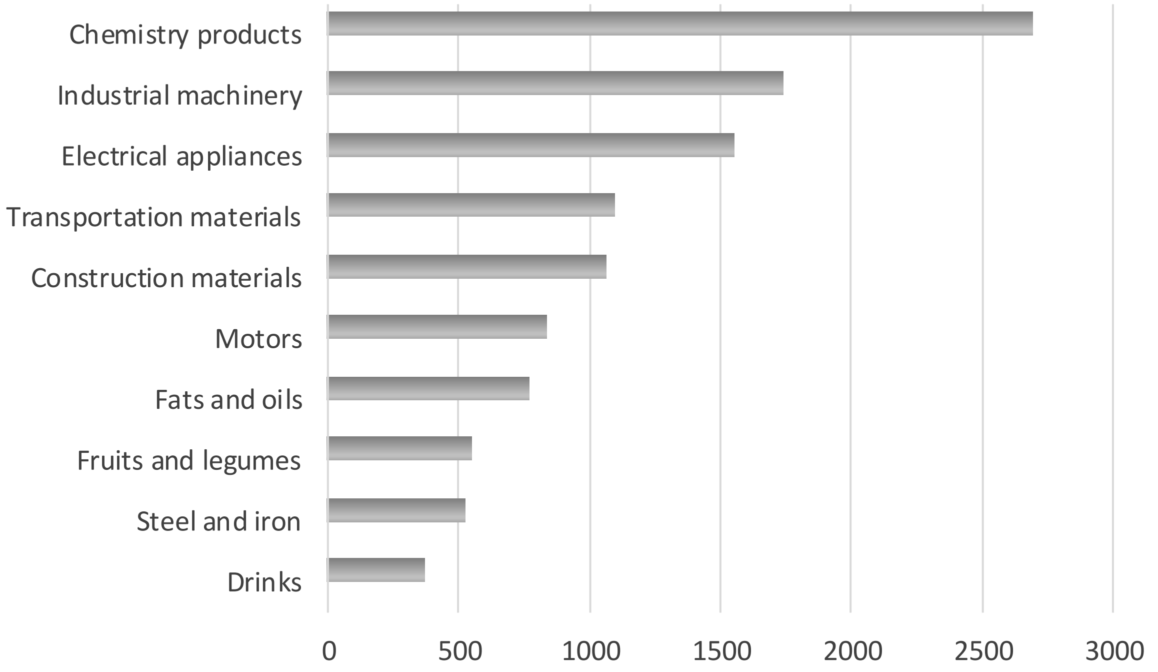
Spain's exposure to the US is relatively low

Spain: goods exports by sectors to the United States

	Total		To the US		
	mill. €	% /total	mill. €	% /total	% /Spain
Food	67,210	17.5	2,796	14.8	4.2
Energy products	30,399	7.9	2,442	12.9	8.0
Raw materials	8,135	2.1	268	1.4	3.3
Semi-manufactures	102,453	26.7	4,975	26.3	4.9
Equipment	74,834	19.5	6,229	32.9	8.3
Automobile sector	53,972	14.1	617	3.3	1.1
Durables	5,943	1.5	272	1.4	4.6
Manufactured consumer goods	33,357	8.7	1,147	6.1	3.4
Other goods	7,385	1.9	160	0.8	2.2
TOTAL	**383,689**	**100.0**	**18,904**	**100.0**	**4.9**

Spain: More exported goods to the US

Millions of euros

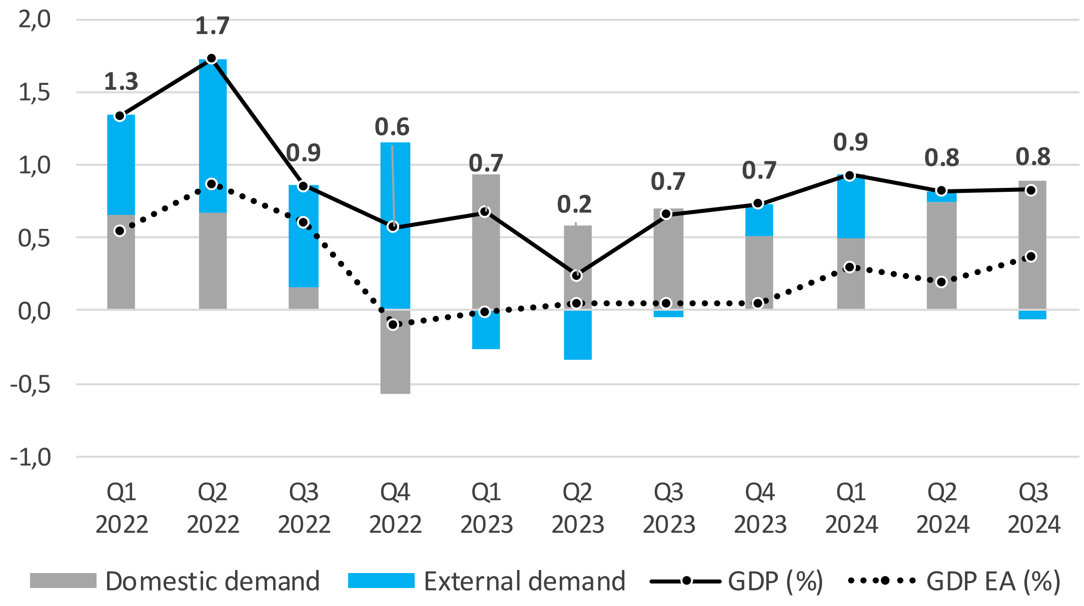


- **Donald Trump won the presidential election** in a Red Sweep, with the Republican Party gaining majority in both chambers of US Congress. A cornerstone of the new Trump administration will be a **restrictive trade policy**, which could include a proposed 10-12% universal tariff on al imports, along with a 60% tariff on Chinese imports. Current US tariffs on European imports are low (c.3% on agricultural products and 1-2% for the rest) so the implementation of the tariffs would have a negative impact on Europe.
- **The United States is the main destination for the European Union's goods exports**, around 20% of the total, with notable growth in recent years, reaching a value of around 500 billion euros in 2023, compared to around 350 billion euros in imports.
- Among the main economies of the European Union, **Germany and Italy have the highest percentage of goods exports to the United States in terms of their GDP**, 3.8% and 3.2%, respectively. Portugal goods exports to the US represent 2.0% of GDP while in France the percentage is 1.6% and in Spain just 1.3%.
- **In Spain**, exports of goods and non-tourism services to the US represent 1.3% and 0.7% of GDP, respectively. Hence Spain's exposure to the US is relatively low although there is substantial heterogeneity across sectors.

GDP growth surprised to the upside in Q3

Contribution to quarterly GDP growth

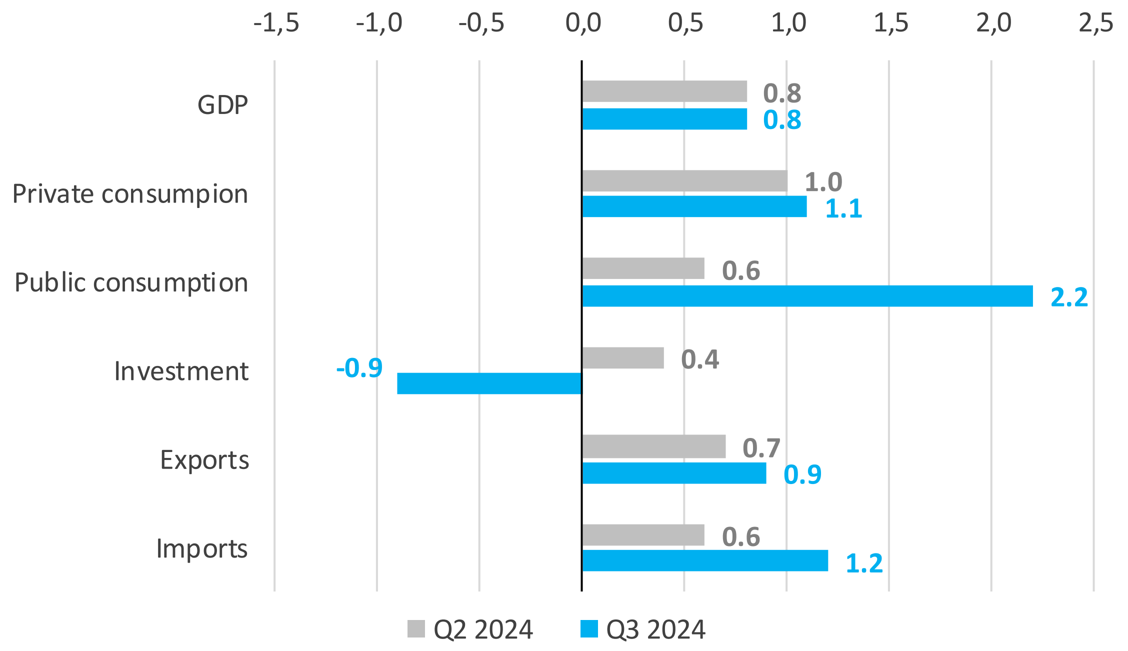
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

GDP and its components

Quarter-on-quarter variation (%)



- **GDP grew 0.8% qoq in Q3 2024 (3.4% yoy),** above what we expected (0.5% qoq), driven by domestic demand. Private consumption grew 1.1% qoq, in line with the good evolution of retail sales and the Consumption Monitor of CaixaBank Research. Instead, private investment retreated (-0.9% qoq), due to the decline in transportation and in non-residential construction. Public consumption took a leap and was one of the drivers of good GDP performance.
- **Net trade** deducted a little from growth, as exports grew less than dynamic imports fueled by strong internal demand.
- **Q3 GDP growth was more dynamic in Spain than in the Euro Area** (0.8% qoq vs 0.4%). Spanish GDP stands now 6.6% above the pre-pandemic levels of Q4-19 while in the Euro Area sits 4.6% above.
- **Better than expected Q3 GDP** data introduces upward risks to our 2.8% GDP growth economic forecast for 2024.

Consumption and investment will gain importance in 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

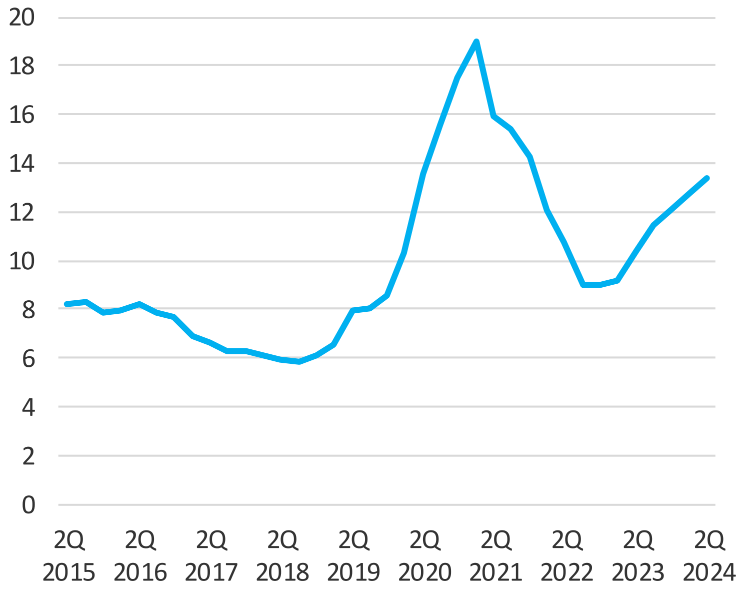
GDP: analysts' forecast

Year-on-year change (%)

Ordered by forecasts in 2024	2024	2025	Cum. 24-25
Funcas (October 21th)	3.0	2.1	5.2
IMF (October 22th)	2.9	2.1	5.1
Airef (November 5th)	2.9	2.3	5.3
BBVA Research (October 15th)	2.9	2.4	5.4
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
Consensus forecast (Oct. 10th)	2.7	2.0	4.8
Panel de funcas (Sept. 11th)	2.6	2.1	4.8

Savings rate

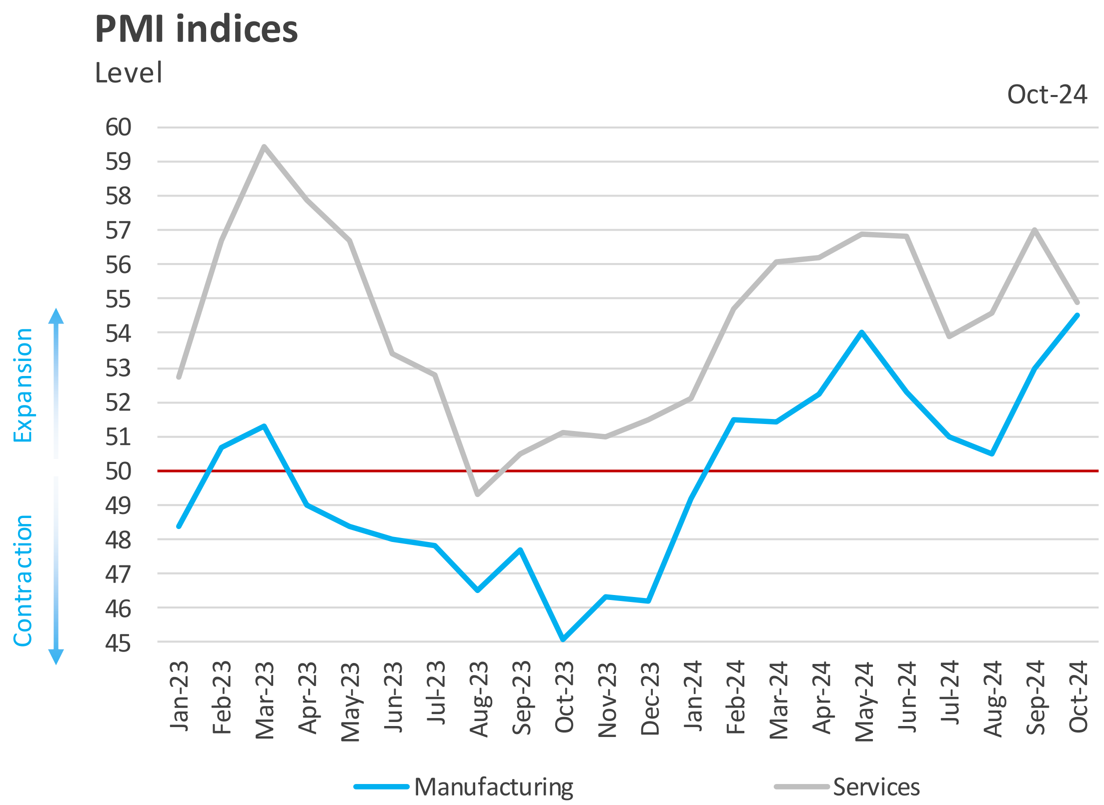
% Gross disposable income



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

- **We forecast that the Spanish economy will grow by 2.3% in 2025**. Growth will remain dynamic in 2025, in spite of a gentle slowdown, 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. **Tourism and migration inflows** will contribute to growth in 2024-2025 albeit to a smaller extent than in 2023.
- **In 2025 the economy will rebalance 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 Q3 2024 is 0.5% below its Q4 2019 level, while private consumption is 2.6% above despite a 3.6% 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%.
- **Dynamic gross disposable income** growth led by a buoyant labour market has placed the savings rate at 13.4% in 1S 2024, above its historical average (c.8.5% in 2000-2019). 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%). If the savings rate declined faster or to lower levels, this could imply some upside risk to GDP growth (fueled by higher consumption growth).

Early activity indicators show a good start to Q4.



Note: (*) Seasonally adjustment.

- **Early Q4 sentiment indicators suggest growth will remain dynamic in Q4 2024**. The PMI index for the manufacturing sector increased in October and reached 54.5 points, the highest figure since March 2022. On the other hand, the services PMI index decreased 2.1 points but remains well above the 50-point mark that indicates expansion with a reading of 54.9 points. As a result of the drop in the services PMI, the composite index decreased 1.1 points but remains above the Q3 average (55.2 in Oct. vs. 54.5 points in Q3).
- **Job creation gained strength in October**. Affiliation to the Social Security system (seasonally adjusted) added 67,772 workers in October, the largest rise since March, and well above the monthly average for Q3 (+18,000).
- At the end of October, the **DANA** that hit a large part of the province of Valencia caused great human and economic devastation in the area. The destruction caused by DANA will take a toll on Q4 GDP growth that will be limited at the aggregate level but very important in the affected area (affected municipalities represent 22% of total population in the Valencia province and 1.2% of Spain's population. GDP of the province of Valencia represents c.5% of Spanish GDP).

Slight increase of inflation to 1.8% in October

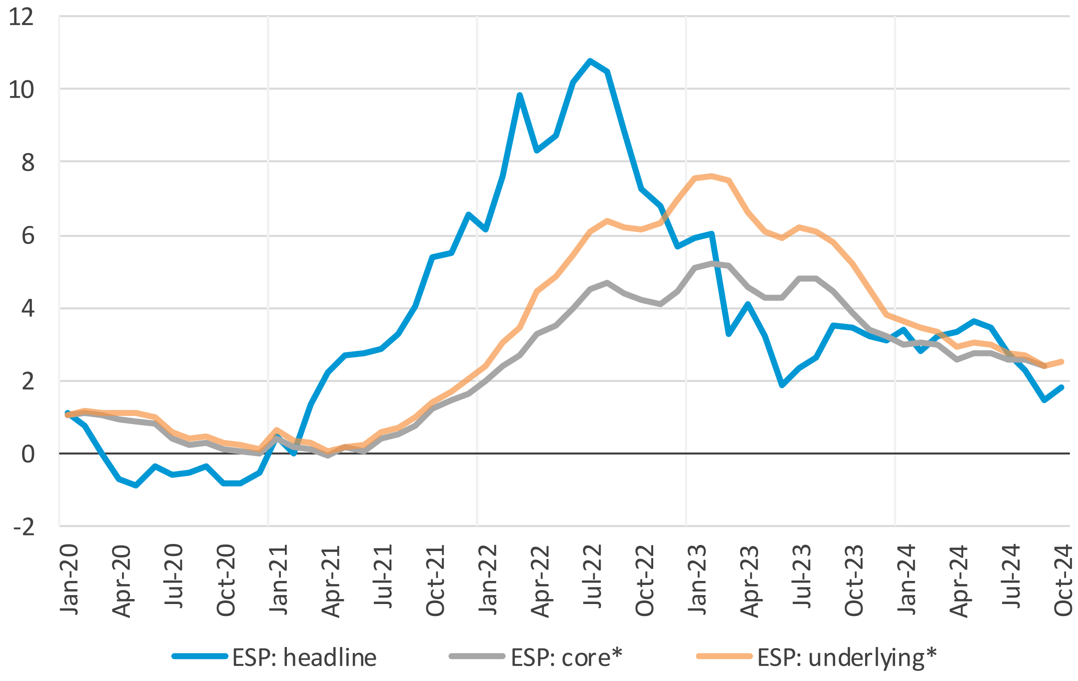
Inflation forecasts

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 up 0.3 pp. to 1.8% in October**. At the same time, underlying inflation (which excludes energy and non-processed food) increased 0.1 pp. to 2.5%.
- **This uptick in inflation does not pose upside risks to our inflation forecast.** The energy component was the main driver of the uptick: the upward contribution from fuel is in line with our forecast that oil prices would stabilize in the fourth quarter, while electricity prices faced unfavorable base effects. Finally, the VAT increase of 2.5 percentage points on certain essential food items covering 6% of the CPI basket could also have played a part in the inflation increase.
- Despite the positive surprises in activity, **inflationary pressures will decrease** and, in fact, inflation could be even lower than expected in 2025.

Strong tourism demand in 2024

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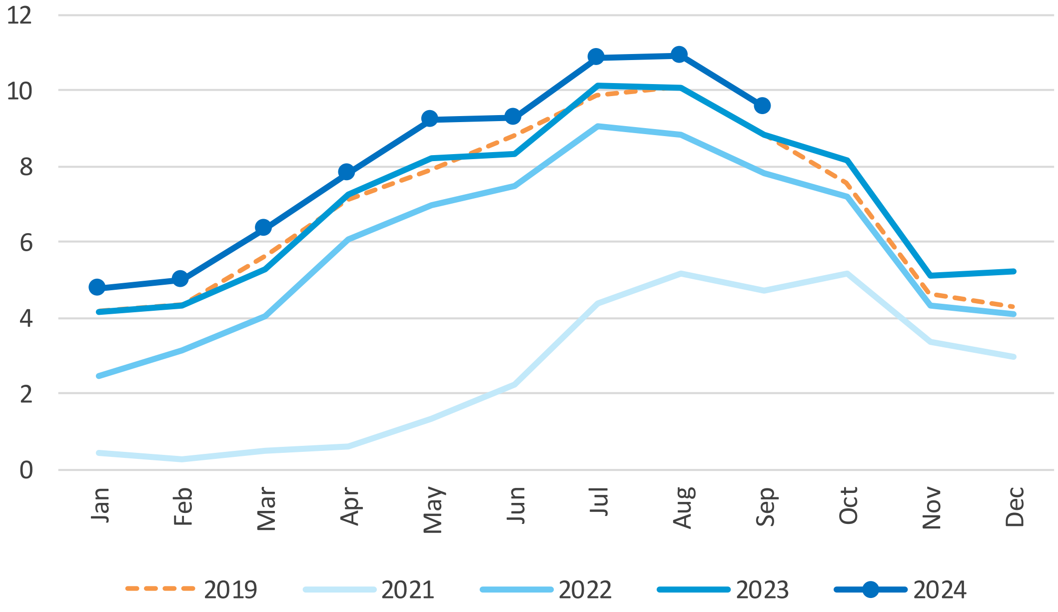
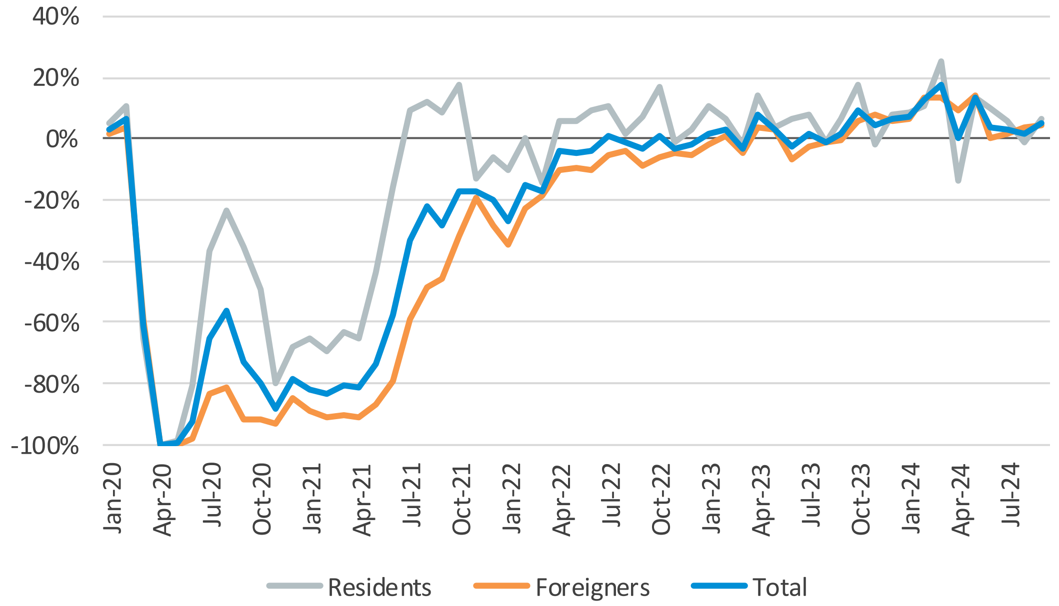
International tourists that visit Spain

Millions of people



Overnight stays in touristic accommodation

Gap with respect to 2019



- **International tourism demand remains strong.** International arrivals in September were 9.1% above the same month of 2019, while international tourist expenditure attained a level 30.0% above. Tourist arrival figures in September were boosted by stronger tourist flows from the Americas (+27.1% w.r.t. September 2019) and by tourism from the EU (+14.5% w.r.t. September 2019).
- **The sector continues to break records**: between January and September, Spain has received 73.9 million international tourists, 7.4 million more than in the same period last year.
- **Total overnight stays** increased more in Q3 2024 (+2.4% yoy) than in Q3 2023 (+1.7%).
- **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.

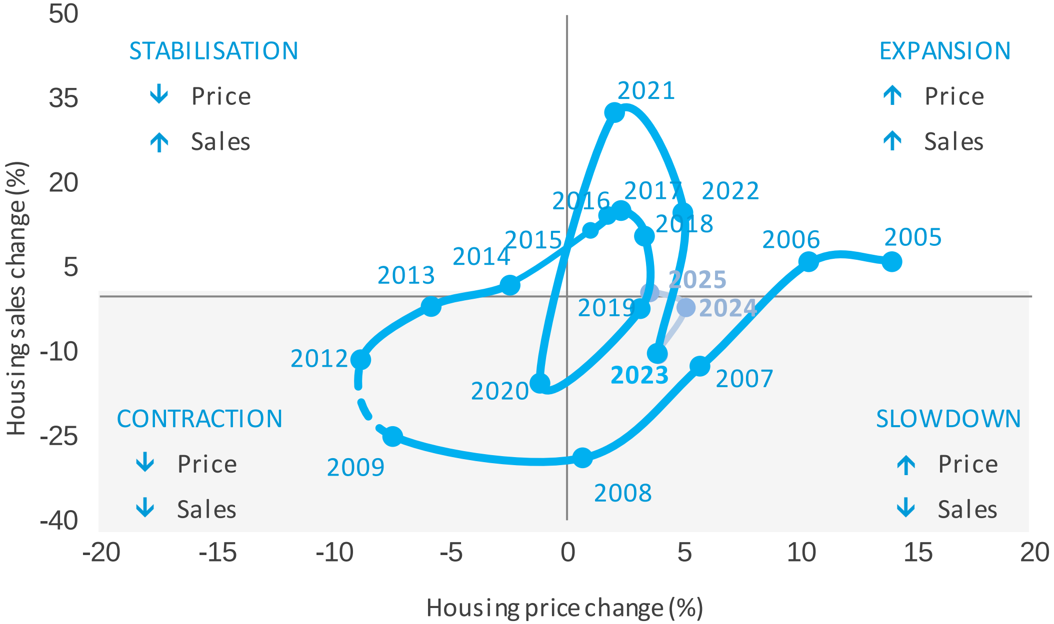
Renewed momentum in housing prices

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). Last month we revised upward our housing price forecasts for 2024 and 2025, with a cumulative increase of 8.9% (MIVAU) and 11.6% (INE) in 2024-25.
  - The number of **housing sales** has decreased by 1.0% YoY in Jan.-Ago. 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 below net household creation, which is pushing up housing prices. New building permits increased by 16.4% YoY in Jan.-Ago. 2024 (121k 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 growth than expected in our central scenario due to the accumulated supply-demand imbalance.

Gradual path of public deficit and public debt reduction in the medium term

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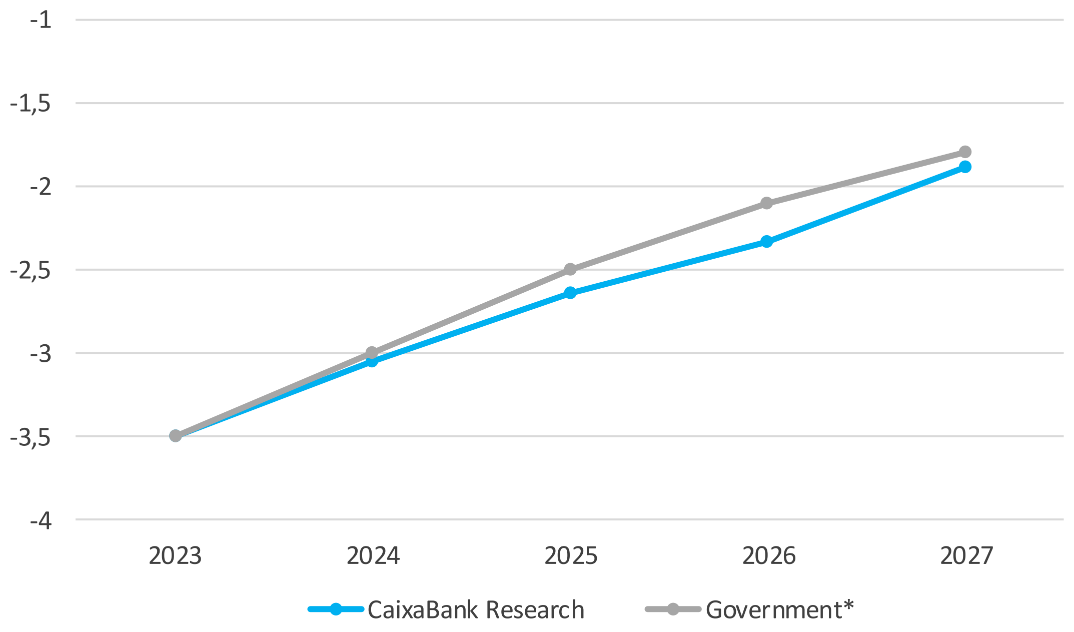
Public balance

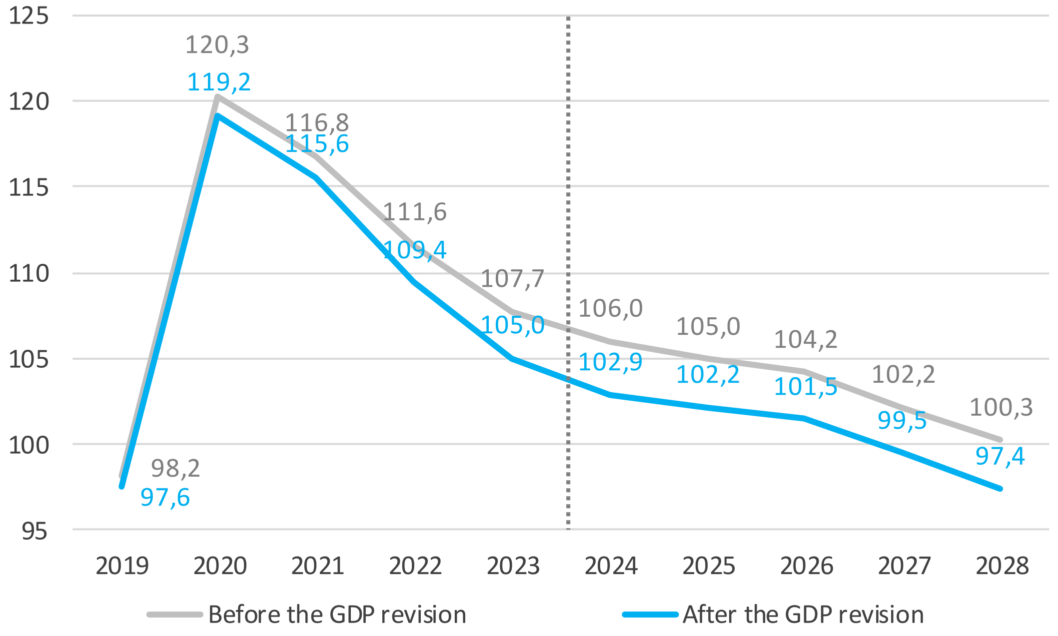
In % of GDP



Note: Deficit targets in the fiscal and structural plan.
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 **3.0%** of GDP, compared to 3.5% in 2023.
- The Government has approved an aid plan for the households and companies hit by the DANA amounting to €14.3 billion (0.9% of GDP) out of which, 5bn are guarantees for ICO credit lines. The fiscal impact of this package on the 2024 public deficit should be relatively small.
- 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 last September 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.

Spain: 2025-2031 fiscal plan aims at yearly structural adjustment of 0.4 p.p.

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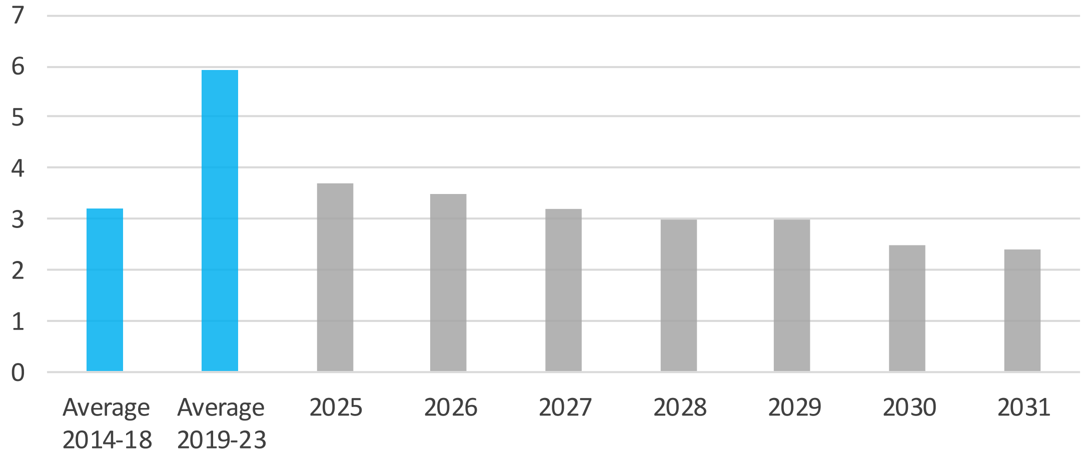
Government's fiscal and structural plan 2025-2031

%GDP	2023	2024	2025	2028	2031	Average variation per year 2025-2031
Public balance	**-3.5**	**-3.0**	**-2.5**	**-1.6**	**-0.8**	**-0.3**
Primary balance	-1.1	-0.4	0.3	1.0	2.0	-0.3
Interest expenditure	-2.4	-2.5	-2.7	-2.6	-2.8	+0.04
Structural balance	-3.3	-3.1	-2.9	-1.5	-0.5	-0.4
Cyclical balance	-0.1	0.4	0.5	-0.1	-0.4	+0.1
Public debt	**105.0**	**102.5**	**101.4**	**96.6**	**90.6**	**-1.7**

Net primary public spending growth*

Year-on-year growth (%)



Note*: Public expenditure net of interest expenditure, discretionary revenue measures, expenditure on EU programs fully offset by revenue from Union funds, national expenditure on co-financing of programs financed by the EU, the cyclical elements of expenditure on unemployment benefits and one-off and other temporary measures.

The Government has presented a 7 year adjustment plan including the NGEU reforms and investments (without reforms, the required adjustment would have to take place in 4 years).

Macro scenario

- Reasonable: Average GDP growth of 1.4% in 2025-2031, thanks to favourable demographics and strong labour market.

Required fiscal adjustment to comply with the rules

- 0.42 p.p. on average per year in the structural primary balance in 2025-2031.
- The public deficit would decrease from 3.0% of GDP in 2024 to 0.8% in 2031, and the primary balance from -0.4% of GDP in 2024 to a surplus of +2.0% in 2031.
- With this fiscal adjustment in 2025-2031, Spanish public debt as a percentage of GDP would decrease from 102.5% in 2024 to 90.6% in 2031 and to 76.8% in 2041.

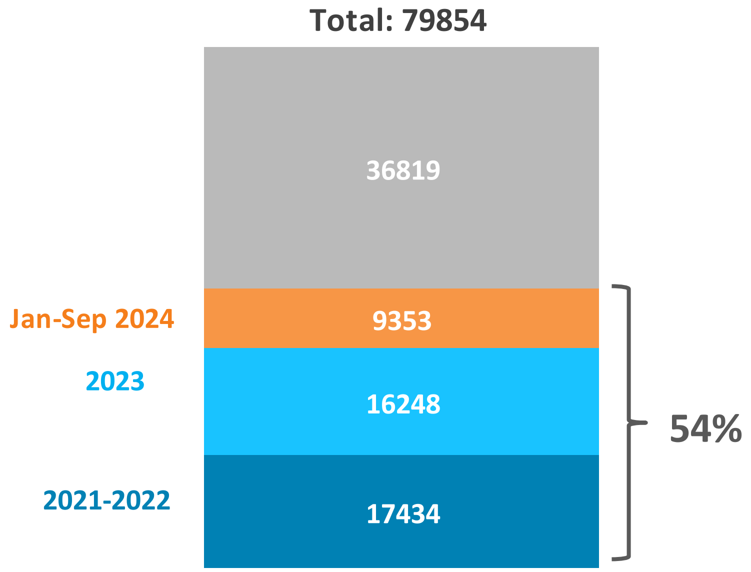
Revenues and spending

- The growth of primary expenditure net of new revenue measures consistent with this fiscal adjustment would be on average 3% between 2025 and 2031.
- New tax measures between 2025 and 2031 will increase the revenue-to-GDP ratio by 0.3 p.p. but details on the measures are yet to be announced.

NGEU: The Recovery Plan keeps being deployed

CaixaBank

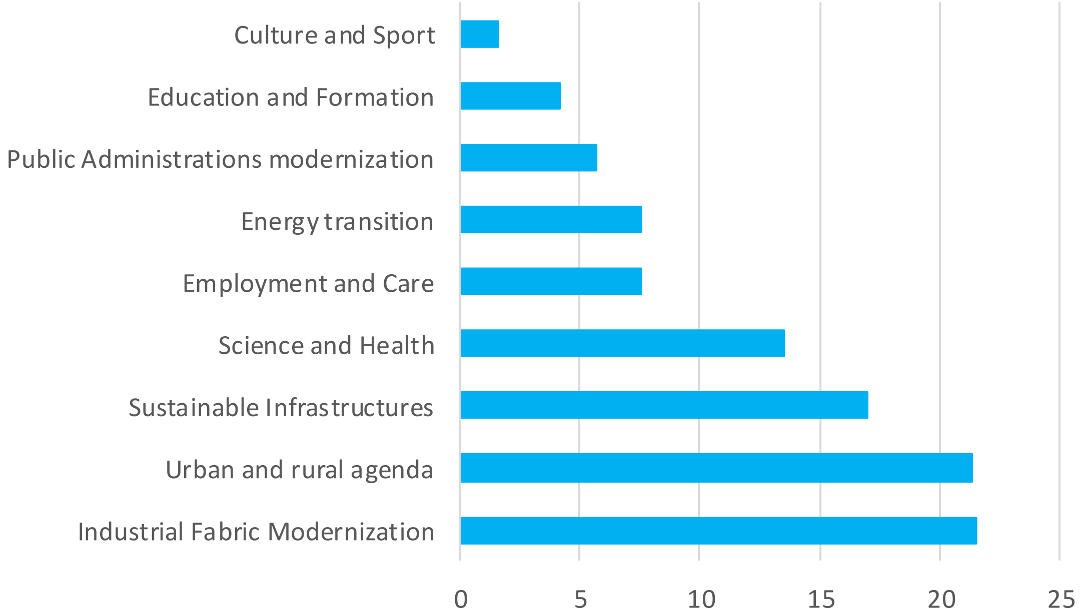
Execution of PRTR Grants (Million euros)



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



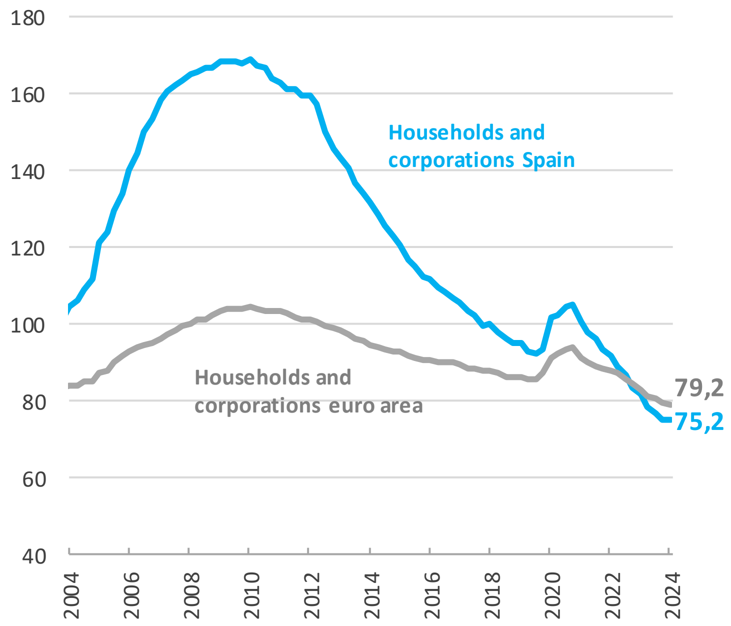
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

- As of September 30, tenders and grants have been resolved for **€43 billion**, 54% of the total NGEU grants of the Recovery Plan. In the first 9 months of 2024, €9.35 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.
- The **PERTES**, flagship projects with high potential through public-private collaboration, are moving forward. Almost €13 billion have been executed (total budget: €41 billion). Among the largest allocations, the PERTE for the connected electric vehicle (€3 billion executed) and the renewable energy PERTE (€4.5 billion) stand out positively.

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

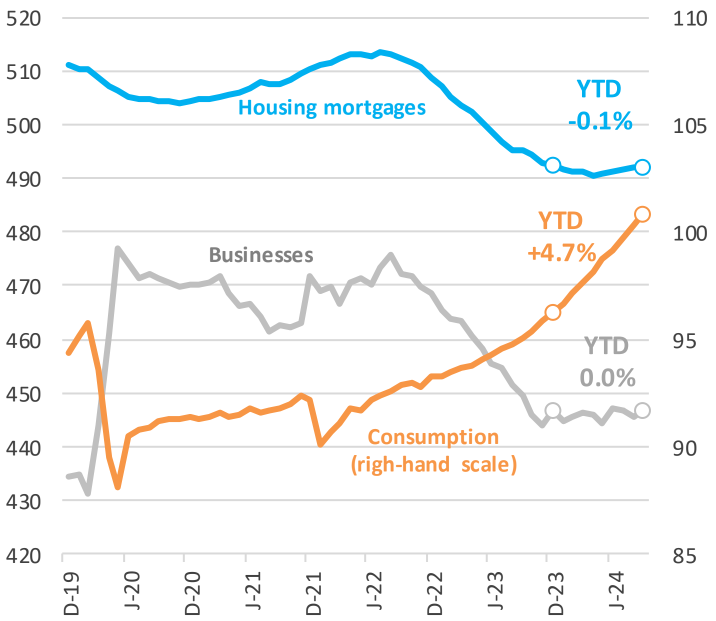
Year-on-year (%)

	Dec-23	Sep-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	-0.3%	0.5%
Households	-2.5%	-0.2%	0.6%
Housing mortgages	-3.2%	-0.7%	0.3%
Other purposes	-0.5%	1.1%	1.3%
Of which consumption	2.8%	6.1%	6.0%
Businesses	-4.7%	-0.5%	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 Sep-24.
Source: Caixabank Research with data from Bank of Spain.

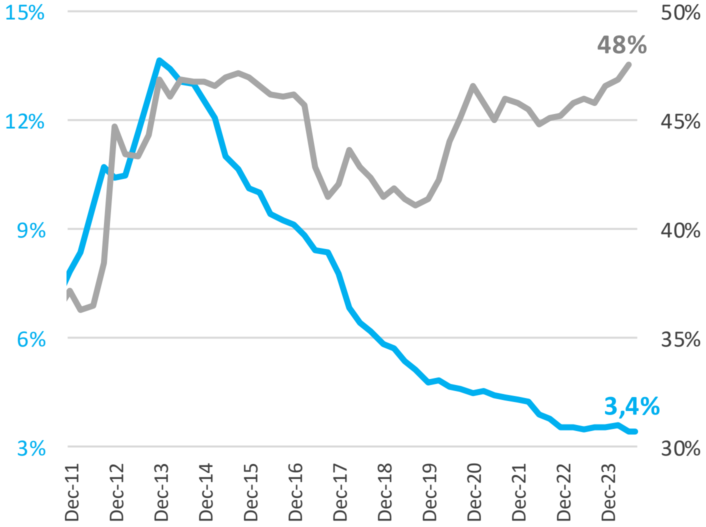
- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 2Q24. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic.
- **New mortgage production** shows notable dynamics in 2024 with the change in interest rate expectations (accumulated new lending from January to September grows +16.3% 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 September grows +18.1% yoy).
- **New lending to corporates** grows both in loans under 1M€ and in larger ones (+7.3% yoy in September). The BoS 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

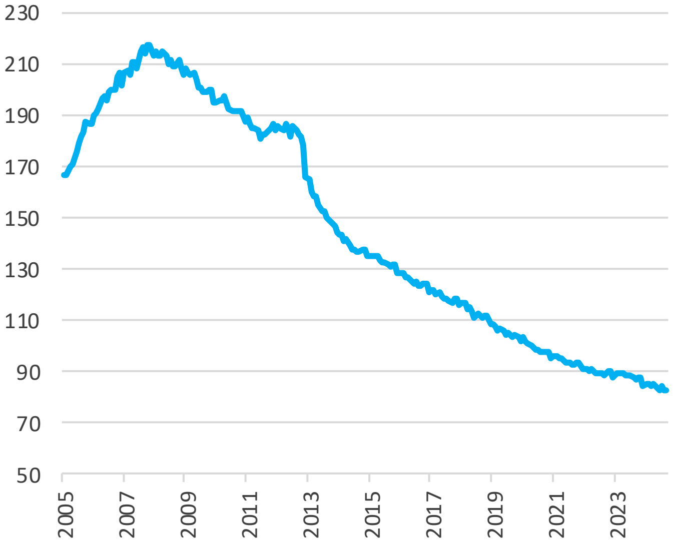
Coverage ratio
In % of NPLs



Note: (1) latest available data Aug-24 and Jun-24, respectively
Source: CaixaBank Research with data from BoS and Bank's financial statements.

HHs & NFCs loan to deposit ratio

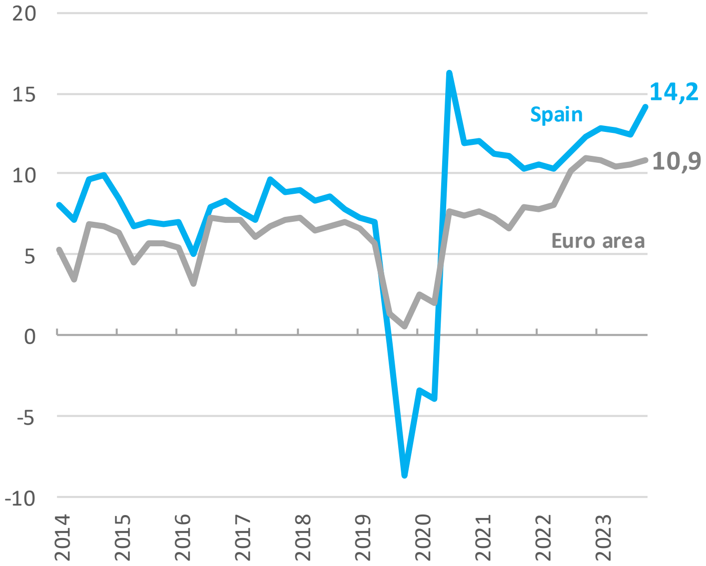
Percentage (%)



Note: loans and deposits to residents in Spain, on a non-consolidated basis. Latest data available Sep-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%.** The share of stage 2 loans on a group level increased sightly to 7.3% in 2Q24, remaining below EU level. The Government has announced a 3-month moratorium on debt payments which could be extended 9 more months for principal payments in the affected areas by the recent DANA. Affected households will also be able to benefit from the Code of Good Practices (CGP).
- **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 (+4.8% yoy in Sep'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 government has proposed to extend the tax on banks for three more years, with a rate that would range between 1%-6%. This proposal could be amended in parliament.
- **The capital position of Spanish banks remains comfortable with a 12.8% CET1 ratio in 2Q24.** The Bank of Spain's stress test[1] for 2024-2026 show under the adverse scenario the banking sector's overall resilience. The impact on capital consumption would be manageable for all Spanish institutions, specially due to the high initial capital levels and by banks' capacity to generate capital and absorb losses. The BoE has approved the new framework for setting the CCyB and raised it to 0.5% in 4Q24 (to be applicable from Oct'25). It will raise to 1% in 4Q25 (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.