

# Spain

The performance of the Spanish economy was markedly positive in 2023, with GDP growing by 2.7%, well above the euro area average, mainly supported by (i) touristic services exports and (ii) significant migration flows, thanks to which the labour market has proved resilient. Headline inflation continued to decline to 3.4%, heading towards its medium-term target, while core inflation is slightly higher (4.1%) due to the stickiness of services inflation. In the first half of 2024, the Spanish economy continued to show resilience, with continuous upward revisions to expected GDP growth, while the disinflationary process is on track. However, some challenges remain in the medium term: (i) high debt and deficit ratios, which need to be addressed through a multi-year fiscal consolidation plan; (ii) double-digit unemployment, despite recent progress in the labour market; (iii) subdued investment (below end-2019), dragging productivity growth; and (iv) housing supply shortage, which could act as a bottleneck to economic growth.

With regard to the structure of the Spanish banking system, it is made up of 149 credit institutions, of which 10 are significant institutions directly supervised by the ECB. The remaining 139 are directly supervised by the Bank of Spain, of which 47 are less significant institutions and 92 are subsidiaries or branches of foreign institutions.

The Spanish banking sector is based on a retail-centric business model in a highly competitive and dynamic market. For this reason, Spanish banks operate on an omni-channel basis. On the one hand, the branch network, the second largest in the euro area in terms of number of branches per inhabitant, with around 18,000 branches in Spain, provides an enormous capillarity to banking activity. On the other hand, banks continuously invest in digitalization, safety and innovation to adapt their activities to a fast-changing environment. New digital sales account for almost 70% of total sales and digital customers represent close to 80% of the customer base. In addition, banks are developing innovative solutions to provide better services for their customers. An illustrative example is Bizum, a successful initiative for instant payments thanks to the collaboration of private banks, with 27 million customers and almost 950 million transactions per year.

Banks also contribute to economic and social progress by providing financing to the real economy, enabling households and businesses to meet their financial needs. In this context, loans to households' amount to more than €1,300 billion and loans to NFCs approx. €850 billion. Besides, nine banking groups (87% of the system by total assets) are members of the NZBA and the amount of green loans, which has increased significantly in recent years, has surpassed that of green bonds, thus reinforcing the banks' commitment to financing the green transition.

In 2023 the sector's activity has been impacted by a restrictive monetary policy. Against this background, new financing to households for house purchase and financing to large corporates, which postponed investments, declined year-on-year. Nonetheless, this trend has reversed by mid-2024 in the context of a loosening monetary policy, as new loan volumes are growing in all segments (SMEs, large corporates, house purchase and consumer loans), acting as a lever to counterbalance the negative impact of declining interest rates on margins.

Compared to the EU average, the Spanish banking system provides new financing at a lower cost than its European peers, with an average rate on new loans to households for house purchase

and to SMEs 26 basis points and 29 basis points lower respectively in Spain as of December 2023. On deposits, despite a lower remuneration than European peers, both retail and corporate customers increased their deposit base by 7% and 8% year-on-year, respectively.

As a result of its business model, the Spanish banking sector ranks better than most of its European peers in 2023 in key metrics, as reflected by a significant improvement in profitability, with double-digit ROE (around 12%) and efficiency below 48%. Capital (13.21% CET1) and liquidity (186% LCR) ratios remain well above regulatory requirements and asset quality ratios have stabilized at low levels with NPLs (3.16%), despite increasing pressure on debt repayment capacity due to higher interest rates. The results of the 2023 EBA stress test show the resilience of the banking sector in a potentially adverse scenario, being the banking system with the lowest CET1 depletion among the major EU economies. The outlook for 2024 looks promising, with all of the above metrics improving by mid-2024, supported by a better-than-expected operating environment.

In May 2024, the Bank of Spain announced a revision of its framework for setting the CCyB. As a result, a positive CCyB rate of 1% will be set when cyclical systemic risk is at a standard level and will be imposed only on Spanish exposures. This buffer will apply phased-in (50 basis points) from 1st October 2025 and fully loaded (100 basis points) from 1st October 2026.

In conclusion, the Spanish banking system is more profitable, better capitalized and better prepared to weather through an uncertain environment.