

ECONOMIC OUTLOOK

Globalcaja corporate breakfast meeting*

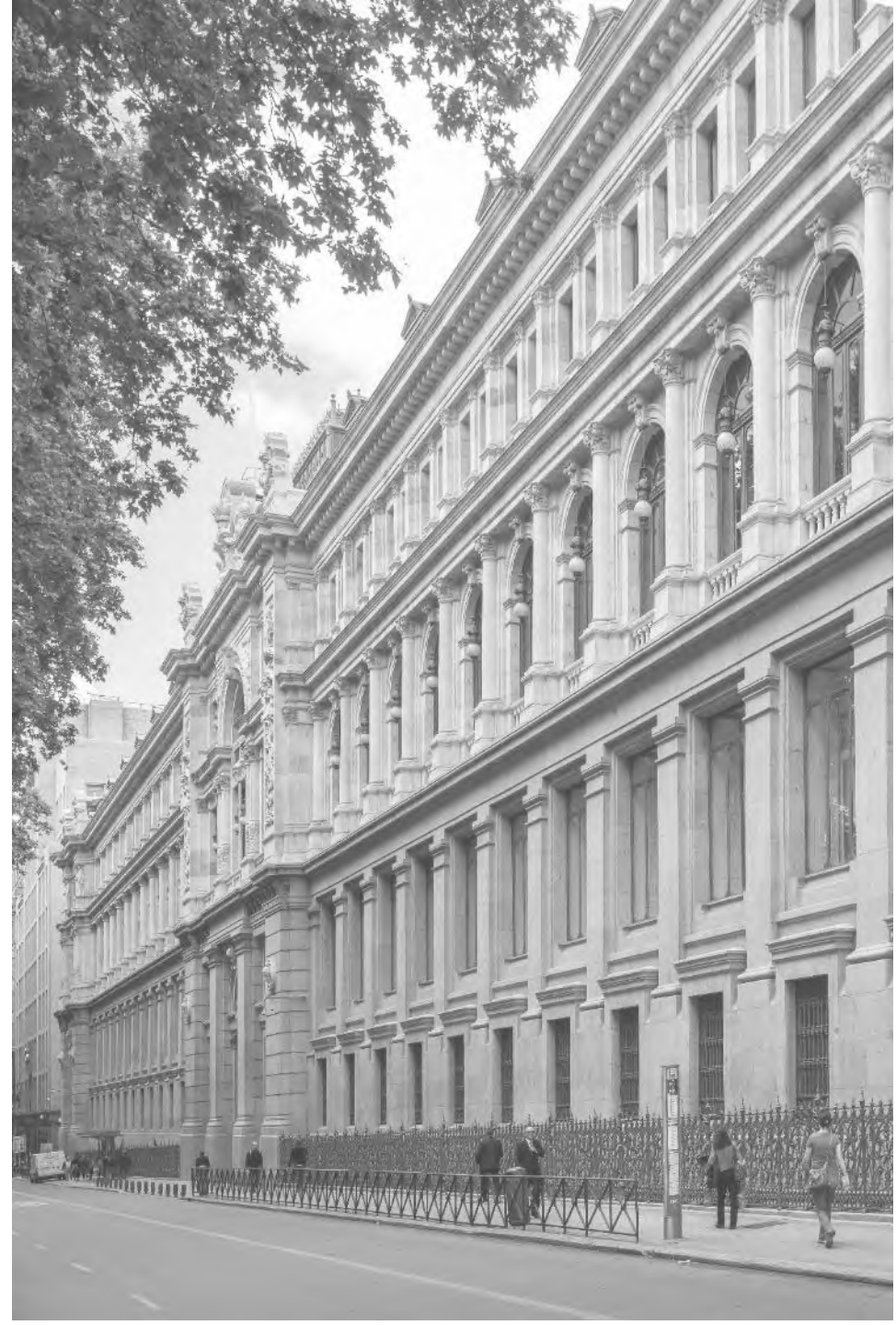
Margarita Delgado

Acting Governor

* English translation from the original in Spanish.

Casino Primitivo de Albacete

26 June 2024



CONTENTS

1. Recent developments in the Spanish economy: activity, employment, financial conditions and profit margins
2. Inflation
3. Spain's financial system
4. Castile-La Mancha



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National Accounts 2024 Q1

- **GDP growth in 2024 Q1 surprised on the upside** (up by 0.7% vs the 0.4% expected), mainly on the back of **services exports** (tourism). Private consumption remains somewhat sluggish and investment accelerated slightly
- Furthermore, **GDP growth rates in 2023 H2 were revised upwards**

Employment

- **Job creation continued in line with Q1**
- As in previous quarters, **employment among large firms** and in services was **noteworthy**

Confidence indicators

- **Services and manufacturing PMIs have grown continuously**, with the latter even rising into expansionary territory

Banco de España Business Activity Survey

- The firms surveyed point to an **increase in turnover in 2024 Q2** (relative to Q1) and a **slightly less negative impact** of some of the factors limiting their activity

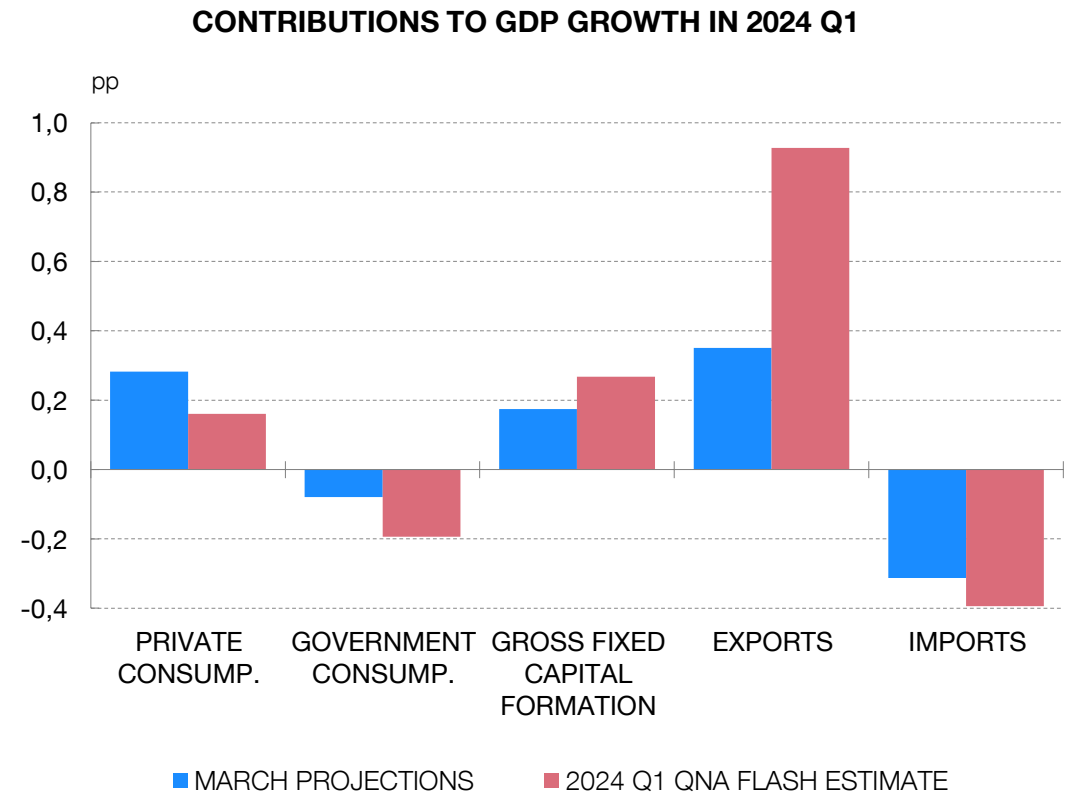
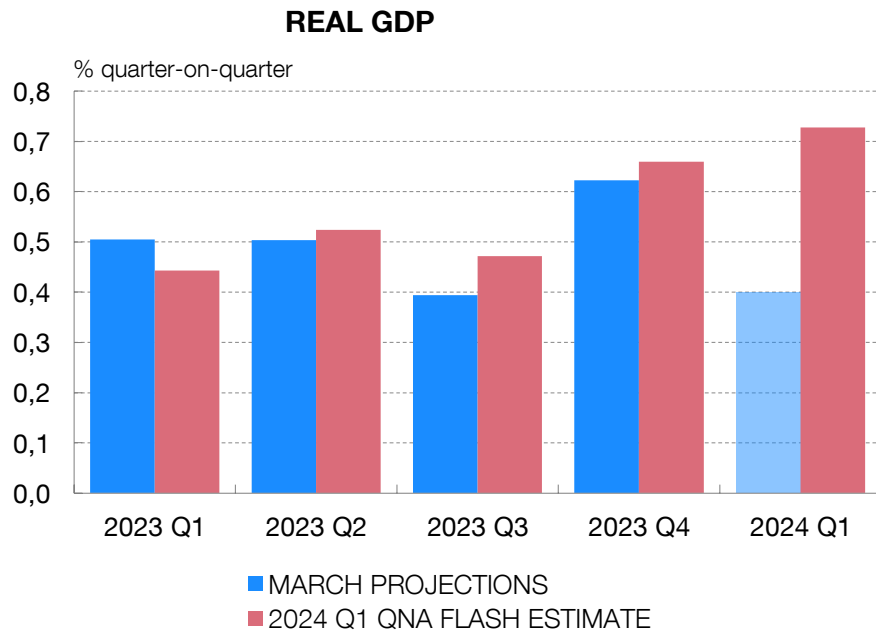
Financial conditions

- **The conditions of access to financing stabilised or improved**. Flows of financing showed signs of recovery. **Borrowing costs continued the easing trend that they began in late 2023** – although they remain at relatively high levels

Overall, the various indicators suggest that in 2024 Q2 GDP will grow quarter-on-quarter by 0.5%, consistent with a year-on-year rate of 2.4%, as observed in Q1

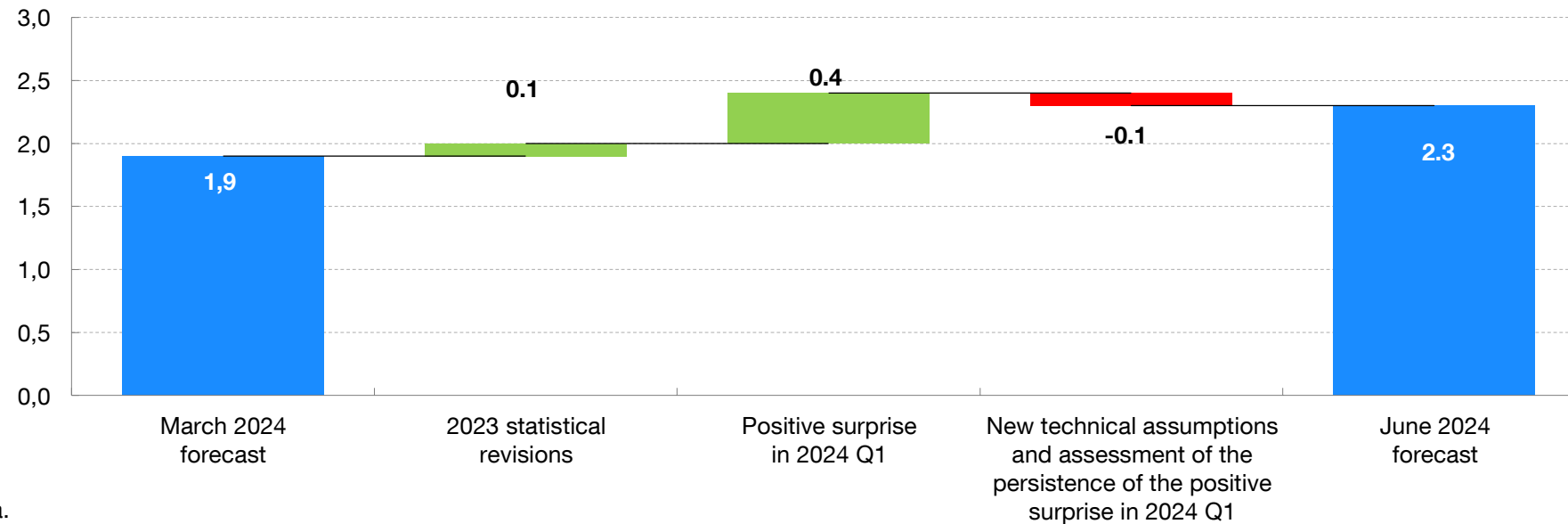
GDP GROWTH SURPRISED ON THE UPSIDE IN Q1, WITH SERVICES EXPORTS MAKING A VERY SIGNIFICANT CONTRIBUTION

- In the first quarter **travel services exports** grew by 19% quarter-on-quarter, while **non-travel services exports** rose by 6.1% and **goods exports** fell slightly (by 1.7%)



- GDP growth rates projected for the coming quarters are similar to those forecast in March. Rates are expected to converge with Spain's potential growth capacity.
 - The **technical assumptions** entail oil prices and short-term interest rates above the March projections → conditions less conducive to growth in activity in the coming quarters
 - The upside surprise in GDP growth in 2024 Q1 was founded on the **extraordinary robustness of travel services exports**. The new projections take the majority of this surprise into account

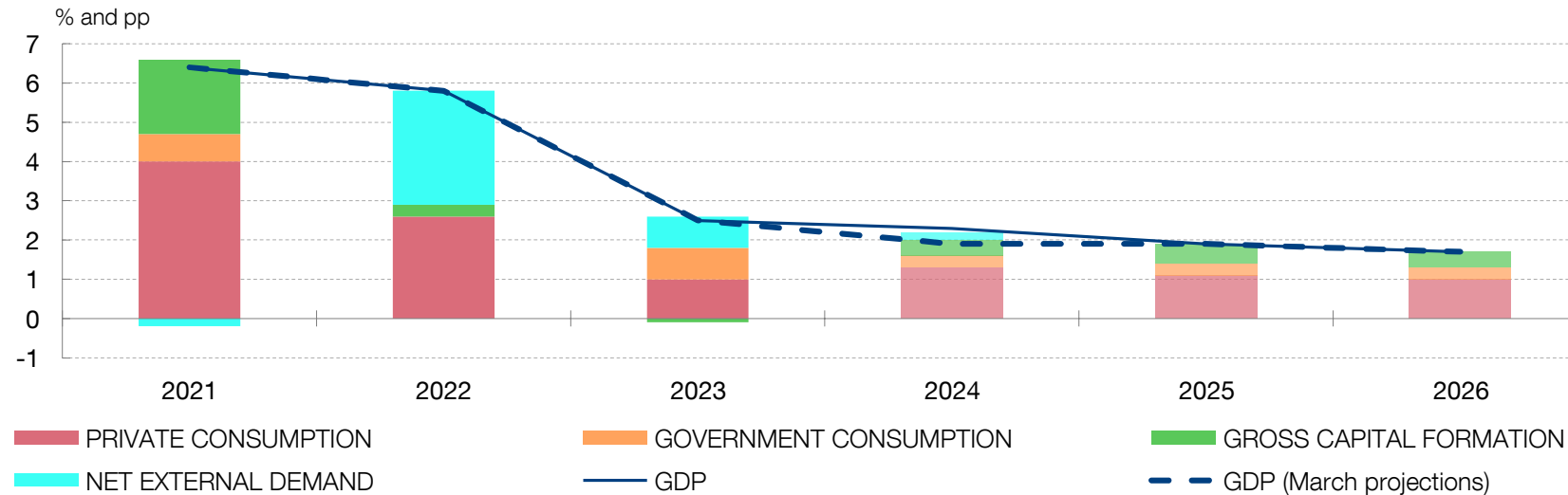
CHANGES IN THE GDP GROWTH FORECAST FOR 2024



Source: Banco de España.

- **Household consumption will show increasing dynamism**, buoyed by rising real incomes (job creation, wage and population growth and improving household confidence). Per-capita consumption is unlikely to return to pre-pandemic levels until 2025
- **Investment – which is still below its pre-pandemic level – will also increase**, bolstered by the **NextGenerationEU** programme and a slight improvement in financing conditions. By the end of 2026, investment will be the demand component with the lowest cumulative growth since 2019
- **Net external demand** will contribute to GDP growth in 2024, but will be neutral in 2025-2026, partly because **imports are expected to accelerate more than exports**, which is consistent with the greater momentum that will be seen in **gross fixed capital formation** and goods exports, which are the **final demand components with a higher import content**

GDP GROWTH AND CONTRIBUTION OF THE MAIN COMPONENTS

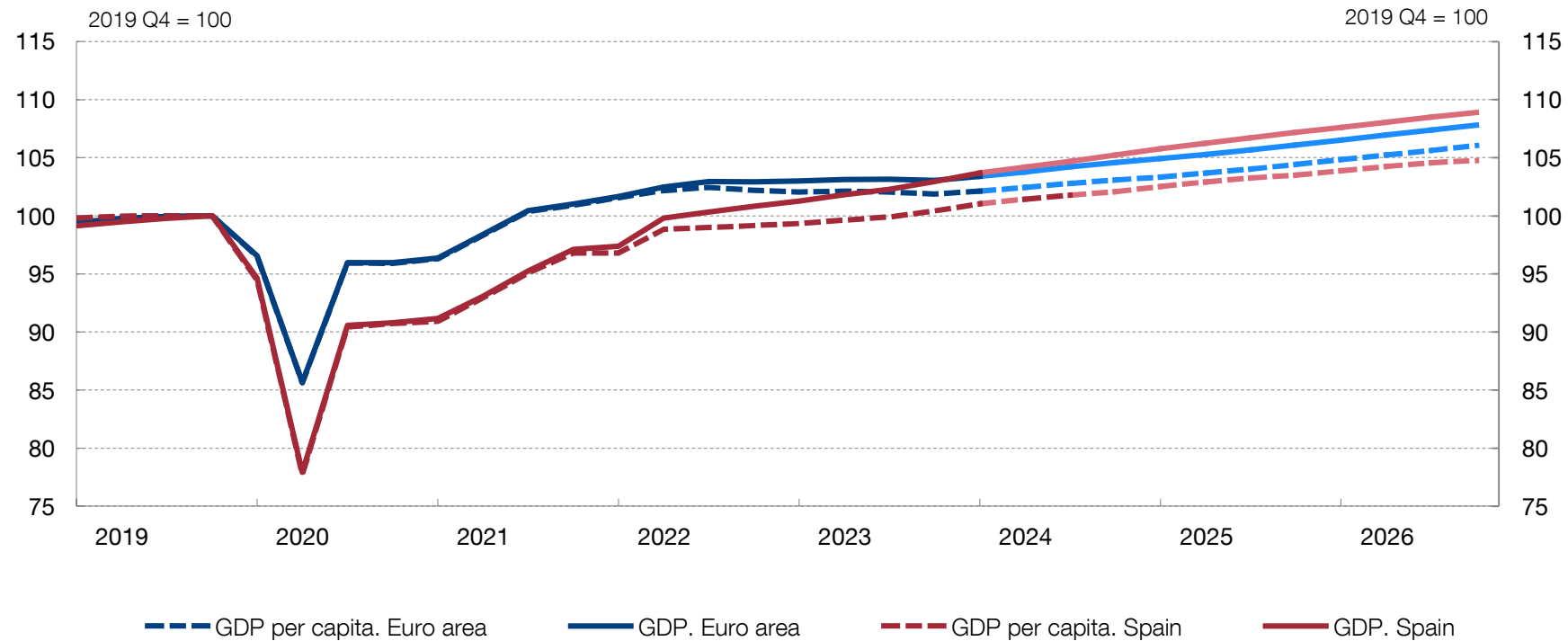


Sources: INE and Banco de España.

AT END-2026, GDP WILL STAND 8.9 PP ABOVE ITS PRE-PANDEMIC LEVEL, ALTHOUGH LESS SO IN PER CAPITA TERMS (4.8 PP)

- According to the June Eurosystem staff Broad Macroeconomic Projection Exercise, at end-2026 euro area GDP will stand 7.8 pp above its pre-pandemic level, although the per-capita gap will be 6 pp

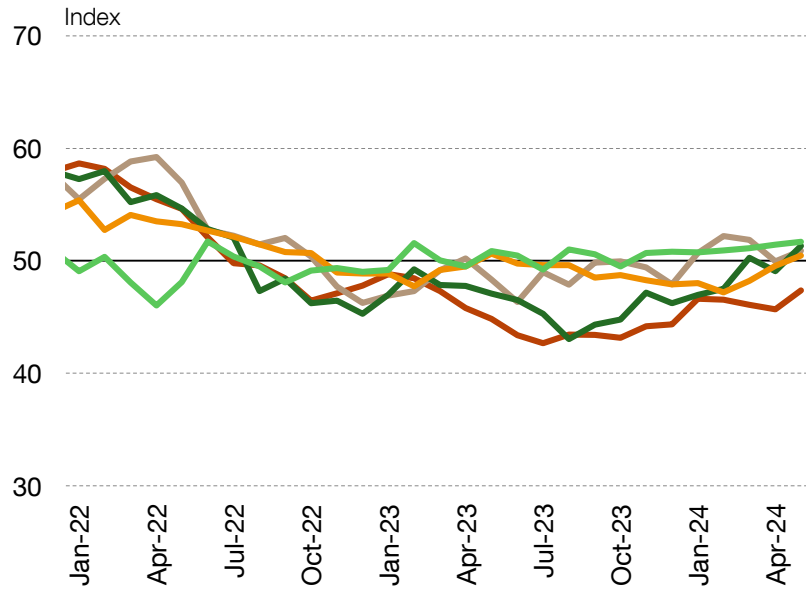
GDP AND GDP PER CAPITA IN SPAIN AND THE EURO AREA



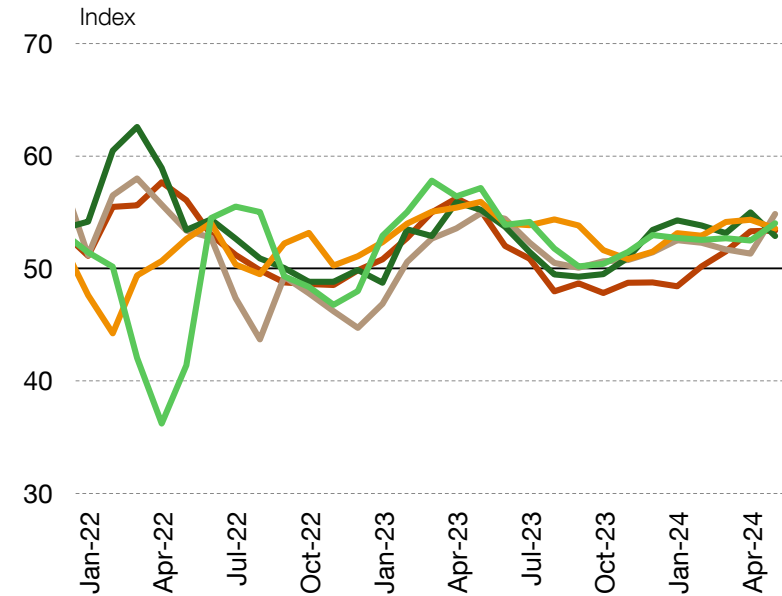
Sources: INE, Eurostat, ECB and Banco de España.

IN RECENT MONTHS GLOBAL ECONOMIC ACTIVITY HAS REMAINED UNDERPINNED BY SERVICES, ALTHOUGH MANUFACTURING IS GRADUALLY IMPROVING

MANUFACTURING PMI



SERVICES PMI



EURO AREA

UNITED STATES

UNITED KINGDOM

JAPAN

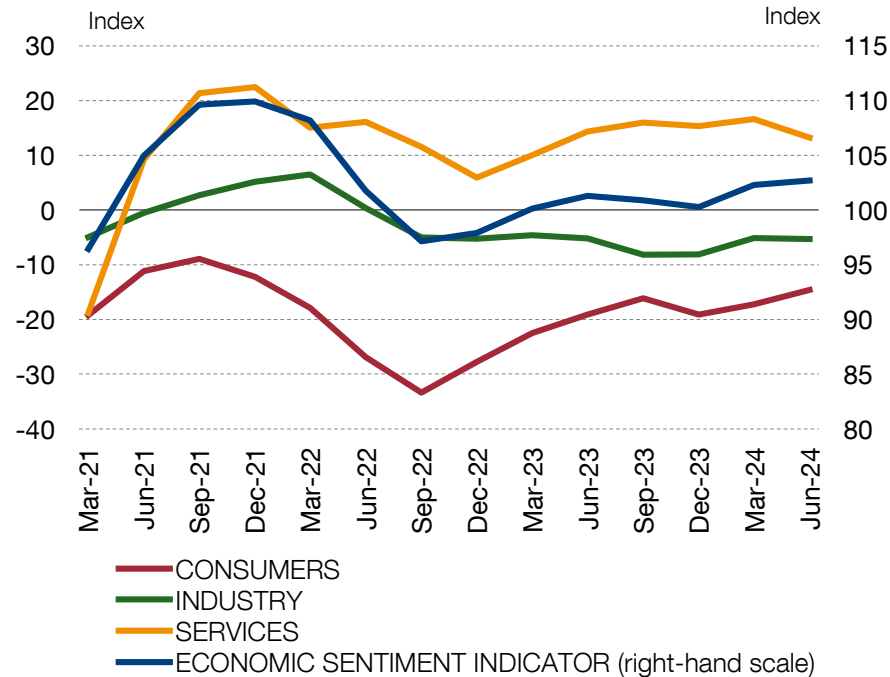
CHINA

Source: S&P Global. Latest observation: May 2024.

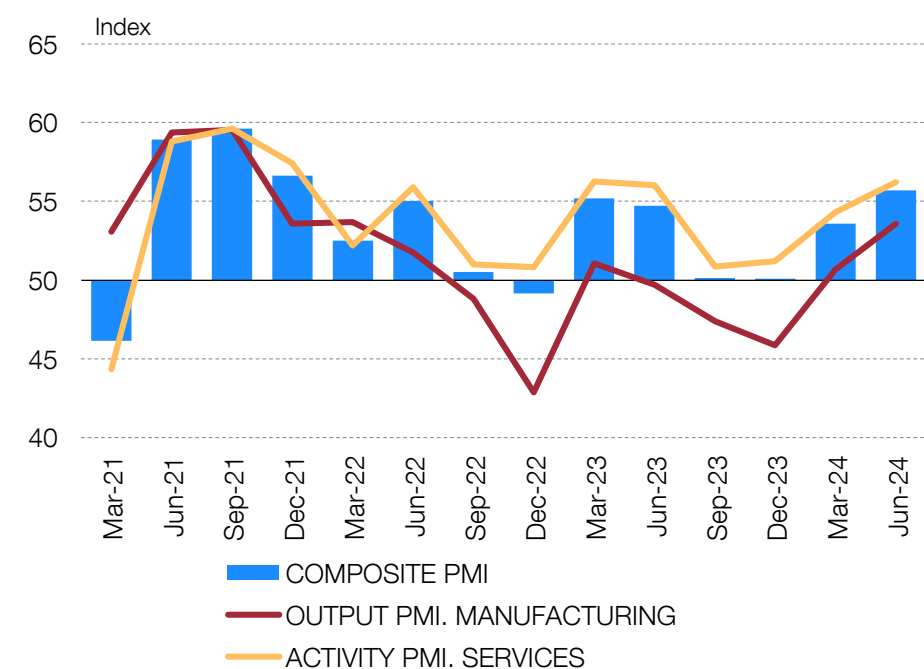


- The manufacturing PMI has proven **more dynamic in Spain** than in Germany and the wider euro area, which appears to be somewhat related to the divergence seen in their industrial production index
- Recent developments in activity levels are highly uneven across manufacturing subsectors

CONFIDENCE INDICATORS (a)



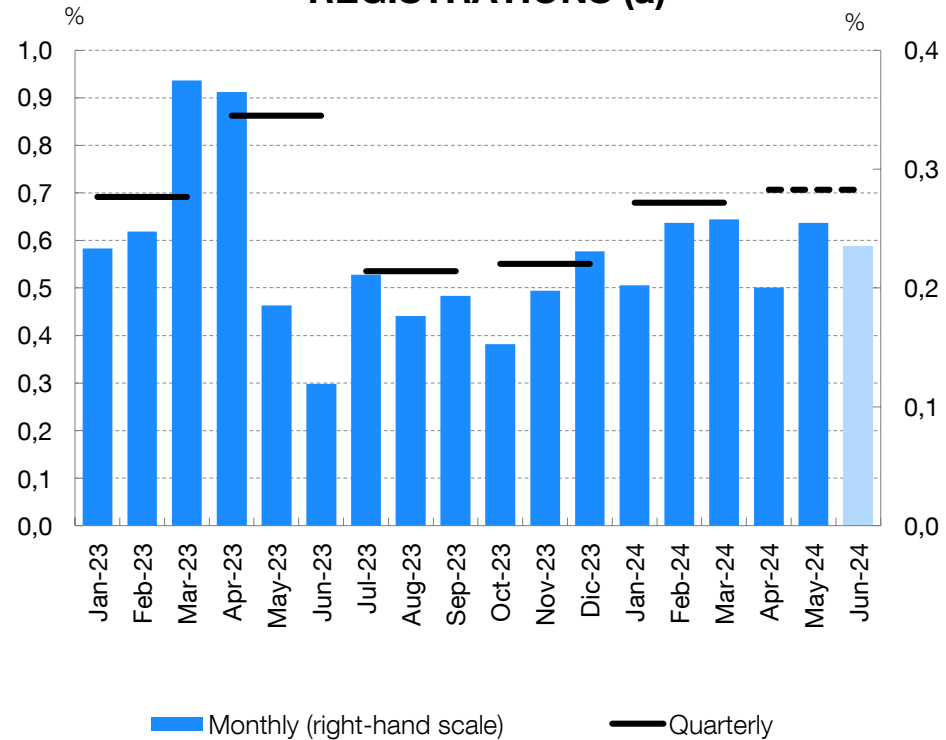
PURCHASING MANAGERS' INDEX



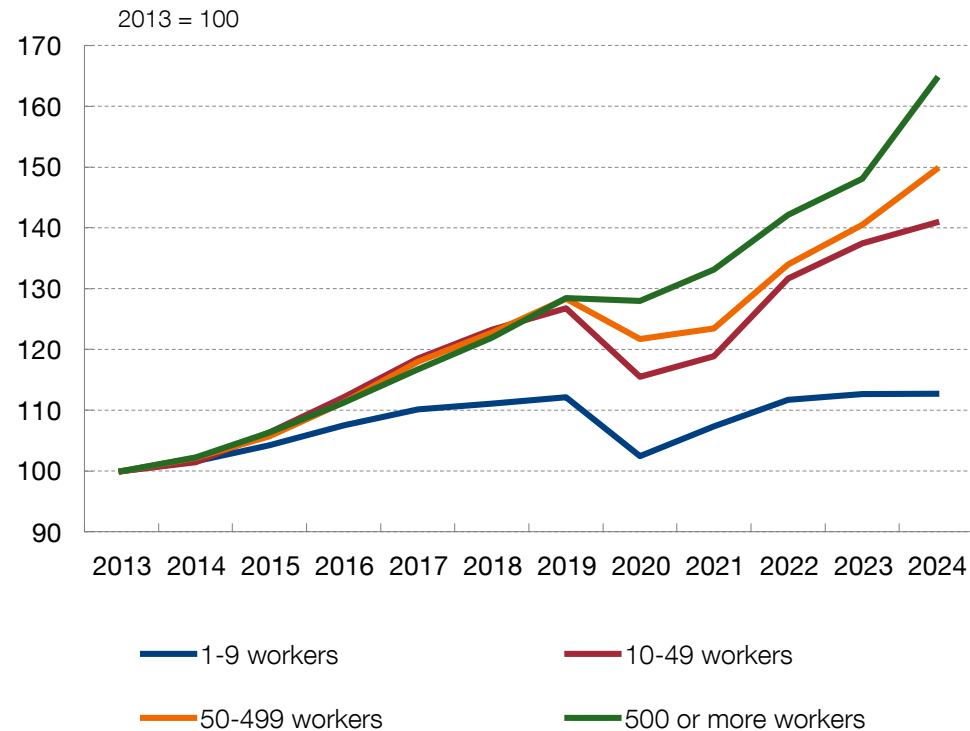
Sources: European Commission and S&P Global.
(a) Q2 represents the average of April and May.

SEASONALLY ADJUSTED SOCIAL SECURITY REGISTRATIONS APPEAR TO SHOW SIMILAR MOMENTUM TO 2024 Q1. EMPLOYMENT IS CONCENTRATED IN LARGE FIRMS

MONTHLY AND QUARTERLY CHANGE IN REGISTRATIONS (a)



SOCIAL SECURITY REGISTRATIONS, BY FIRM SIZE

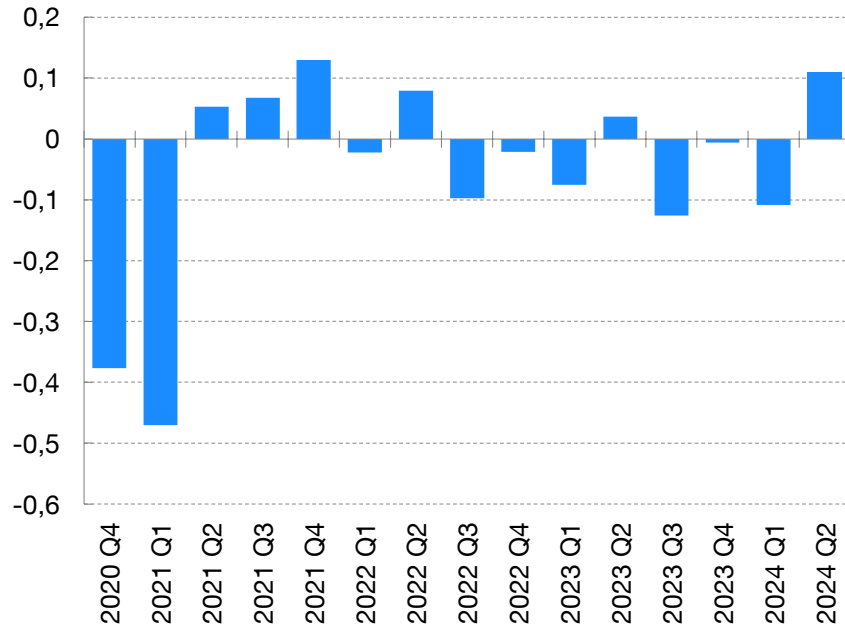


Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. (a) Seasonally adjusted monthly and quarterly rates. June data are projected.

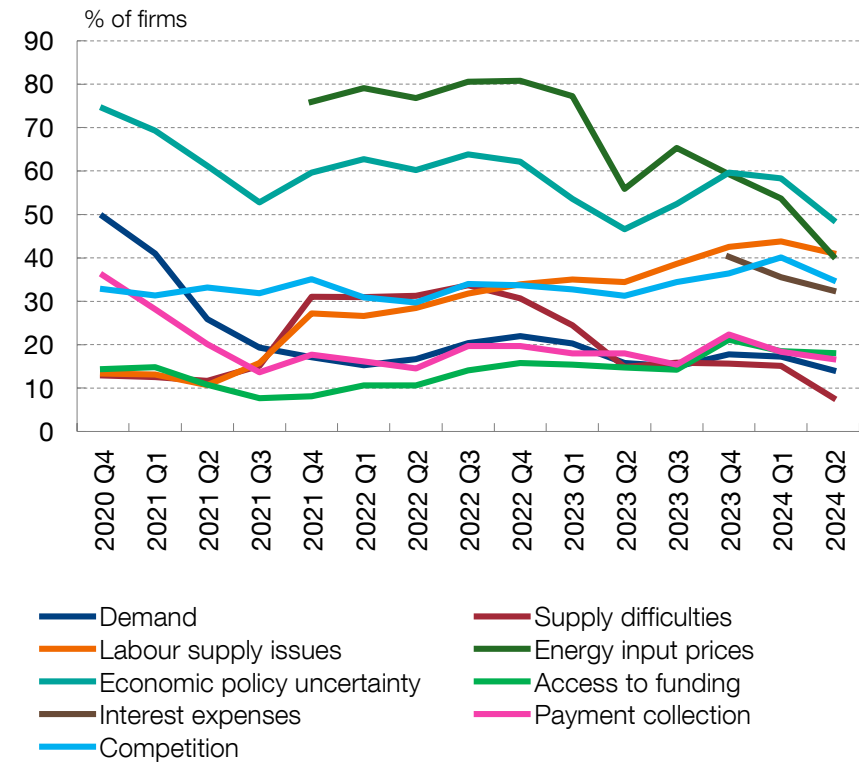
Sources: Statistics for Social Security-registered Firms (Estadística de Empresas Inscritas en la Seguridad Social) and Banco de España. Latest observation: April 2024

PROFIT MARGINS SUGGEST HIGHER TURNOVER IN 2024 Q2 AND A LOWER NEGATIVE IMPACT OF SOME OF THE FACTORS THAT HAVE BEEN ACTING AS A CONSTRAINT ON ACTIVITY

QUARTERLY TURNOVER (a)



ACTIVITY CONSTRAINTS



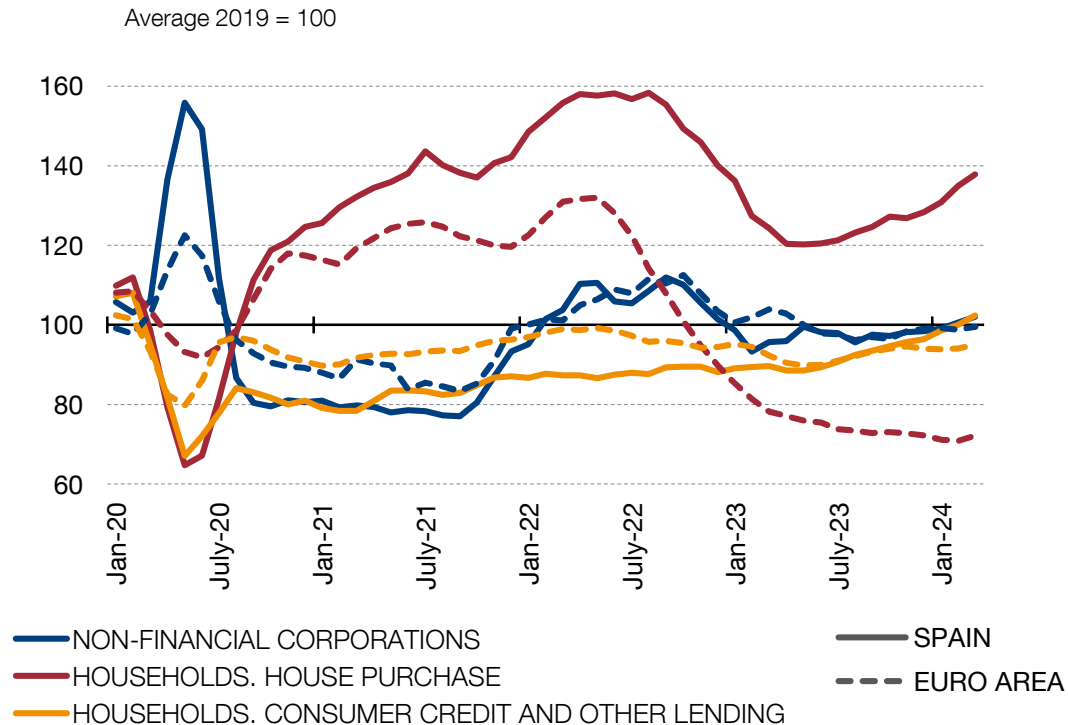
Source: EBAE.

(a) Index constructed as: -2 = Significant decrease; -1 = Minor decrease; 0 = Stability; 1 = Minor increase; and 2 = Significant increase.

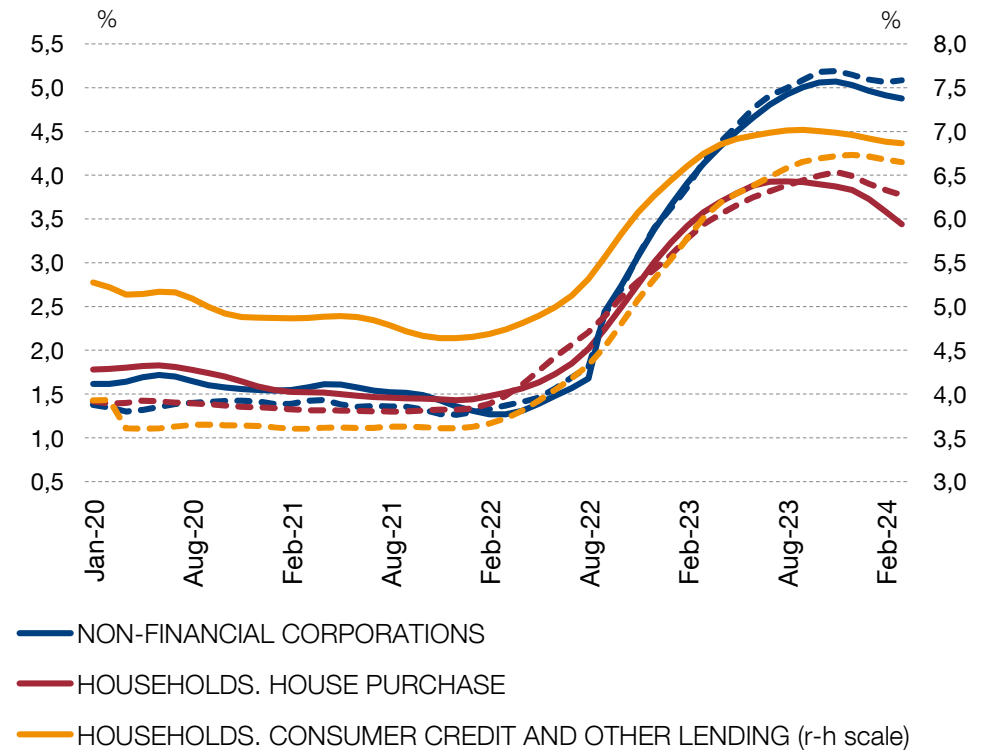


FINANCING FLOWS SHOW SIGNS OF RECOVERY, WHILE BORROWING COSTS CONTINUE TO EASE GRADUALLY

NEW LENDING (a)



COST OF NEW BANK LENDING (b)



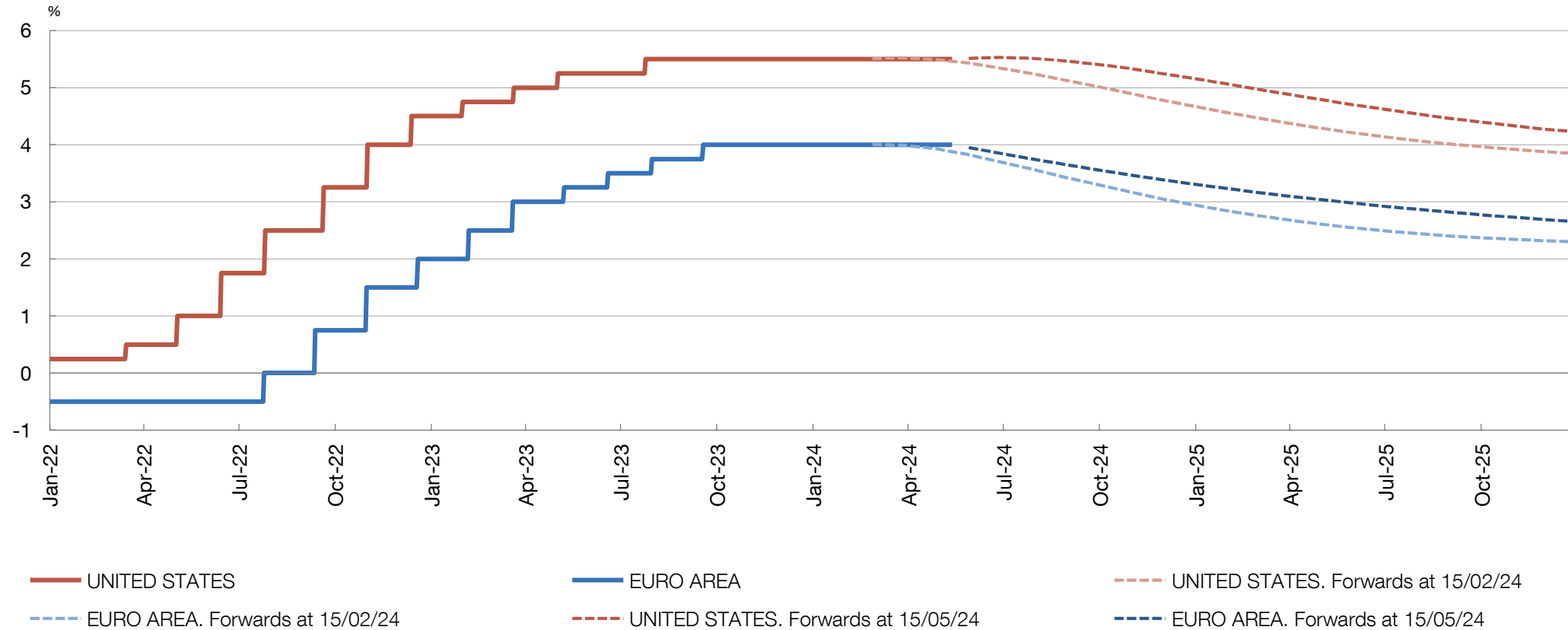
Source: ECB. Latest observation: March 2024.

(a) Seasonally adjusted cumulative three-month flows compared with the monthly average for 2019.

(b) Bank interest rates are narrowly defined effective rates, i.e. they exclude related costs, such as repayment insurance premiums and fees. In addition, these rates are estimated on a trend-cycle basis, i.e. they are adjusted seasonally and for the irregular component (small changes in the series with no recognisable pattern in terms of periodicity or trend).

BROADLY SPEAKING, MARKET EXPECTATIONS FOR INTEREST RATE DEVELOPMENTS HAVE BEEN REVISED UP DURING THE SECOND QUARTER

POLICY INTEREST RATES AND FORWARDS (a)



Sources: Refinitiv Datastream and Banco de España.

(a) Instantaneous forwards estimated based on market data on OIS rates at different maturities using the Svensson parametric model (Lars E. O. Svensson (1994). "Estimating and Interpreting Forward Interest Rates: Sweden 1992-1994". IMF Working Papers, 94/114, International Monetary Fund) and adding the spread between the policy rate and the overnight interest rate at the estimation date.



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Headline inflation

- Headline inflation has picked up noticeably in recent months, from 2.9% in February to 3.8% in May

Surprises in recent months

- This increase was greater than was expected in the March projection owing to:
 - the unexpected uptick seen in oil prices in recent months
 - greater-than-expected downward stickiness in services inflation

Core inflation

- On data to April, core inflation has continued to gradually decelerate, mostly thanks to **non-energy industrial goods (NEIG)** prices slowing

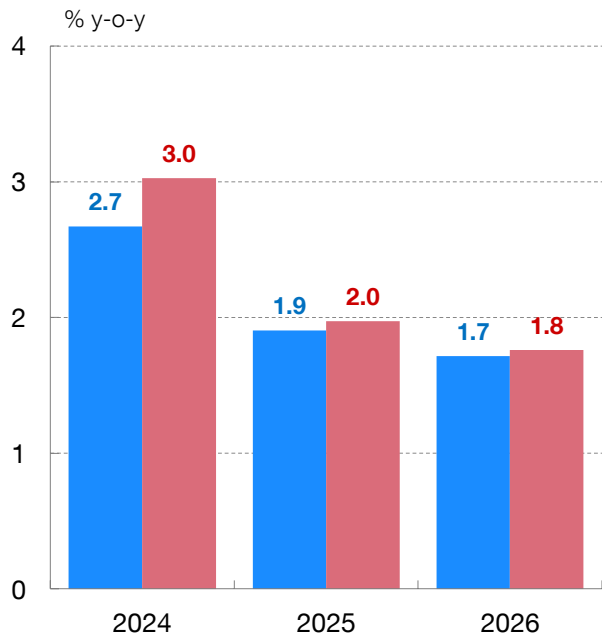
Food inflation

- Despite the slight increase between March and April, food inflation continues to slow in a relatively broad-based fashion
- Spain's positive food inflation differential vis-à-vis the euro area in recent months is mostly down to **composition effects**

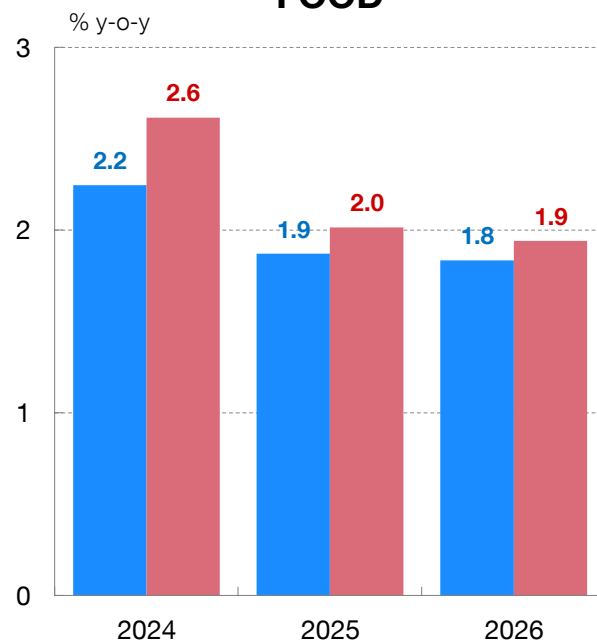
COMPARED WITH THE MARCH PROJECTIONS, AVERAGE HEADLINE INFLATION IN 2024 WAS REVISED UP, TO 3%

- This revision mainly reflects **higher energy prices** and **somewhat more persistent core inflation** than envisaged in March, which also has an upwards impact on headline inflation over the rest of the projection horizon

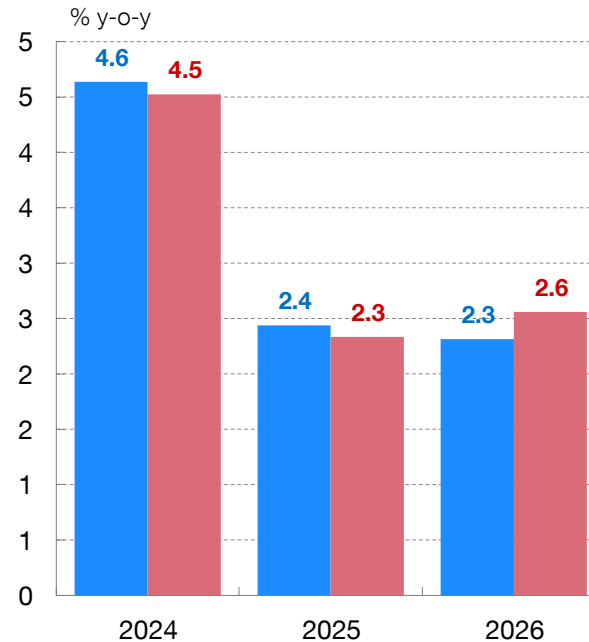
HICP



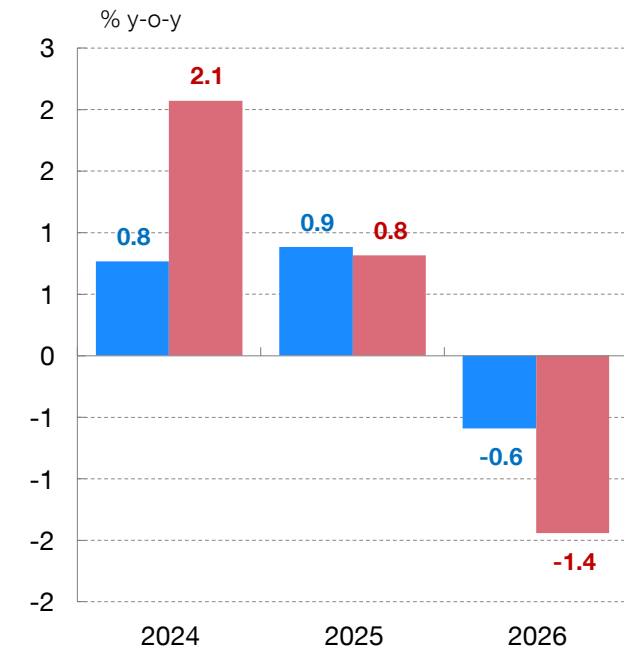
HICP EXCL. ENERGY AND FOOD



FOOD



ENERGY



■ MARCH 2024

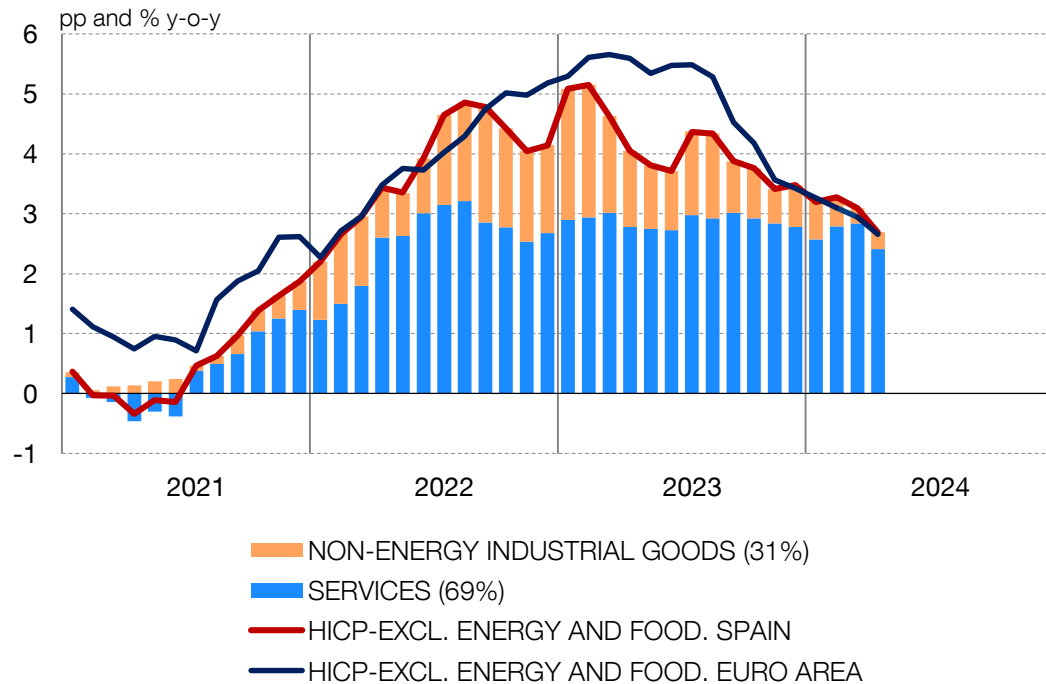
■ JUNE 2024

Source: Banco de España.

HEADLINE INFLATION IN 2024 IS REVISED UPWARDS. CORE INFLATION SLOWS ON THE BACK OF EASING NEIG PRICES

- The **upward revision to headline inflation** is the result of higher **energy** prices and slightly more persistent **core inflation**
- **Core inflation** fell from 3.2% in January to 2.7% in April
- Most of this drop is down to the easing of **NEIG inflation**, although this was slower than forecast in the March projections

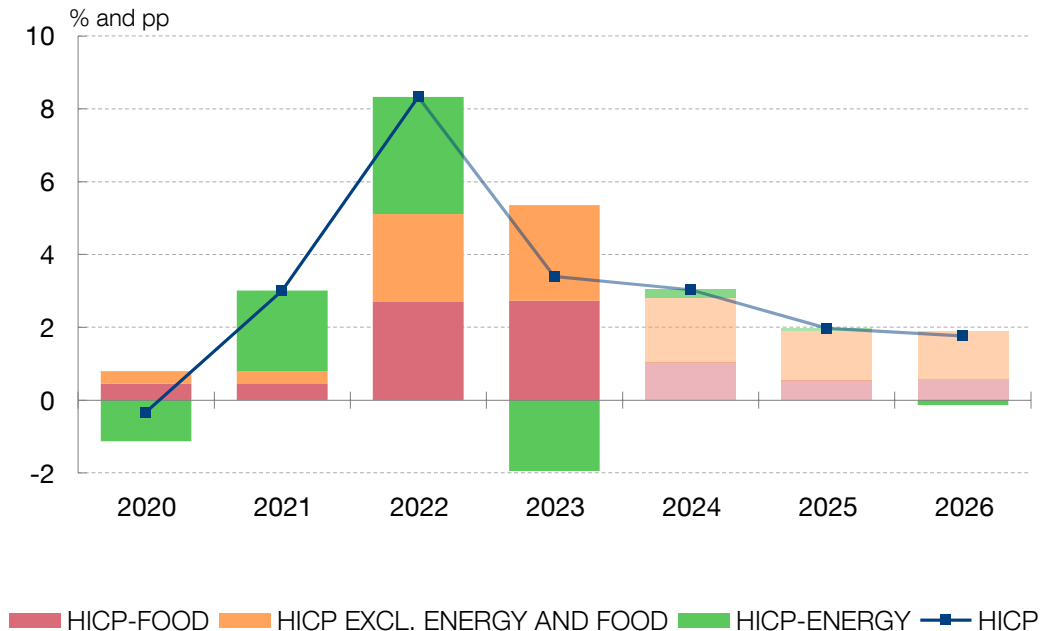
CORE HICP AND CONTRIBUTIONS (a)



Sources: Eurostat and Banco de España.

(a) The weight of each component in HICP excluding energy and food for 2024 is shown in brackets.

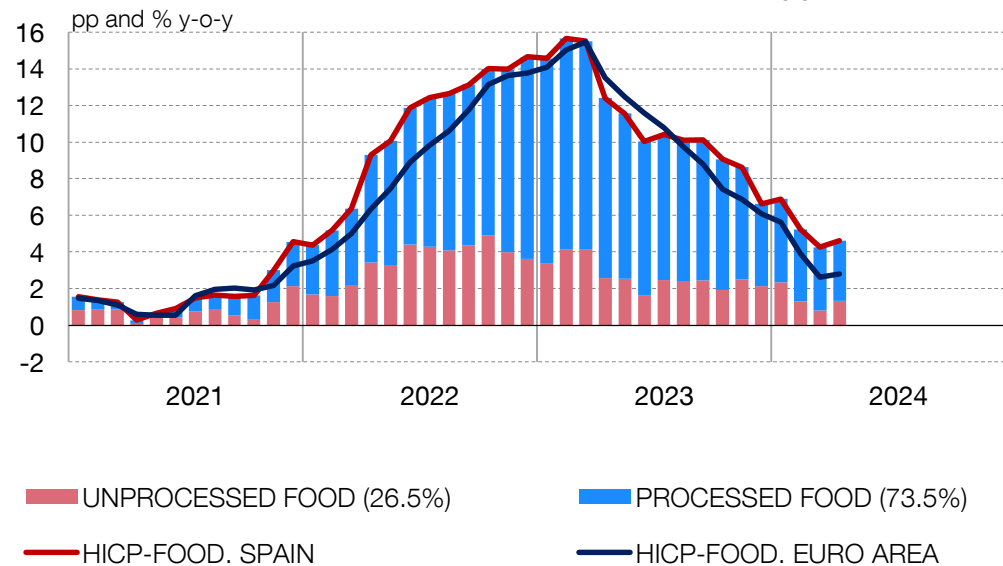
CONTRIBUTIONS TO HICP GROWTH, BY COMPONENT



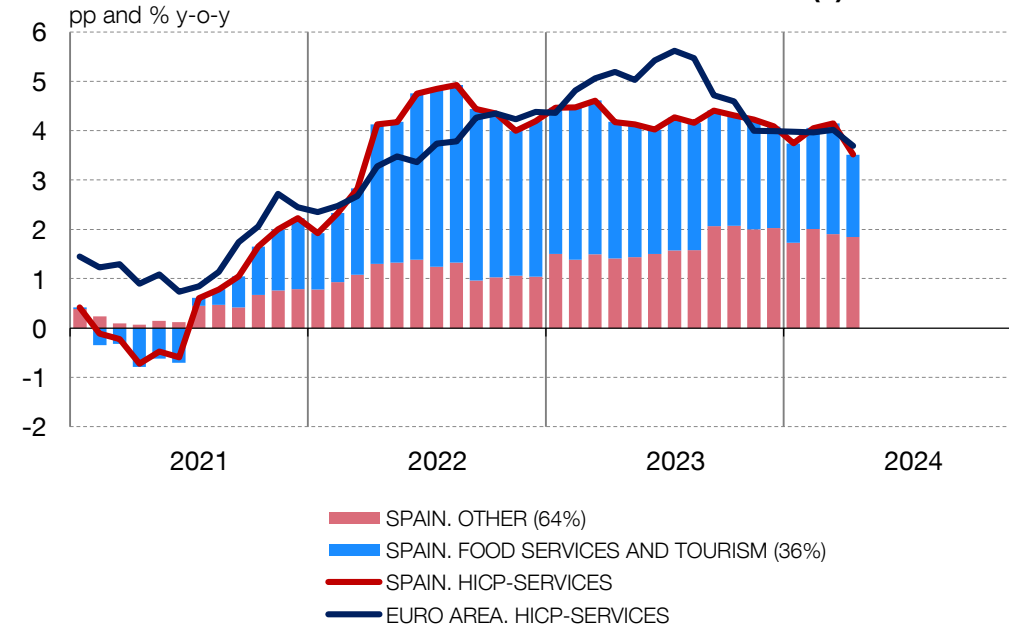
Sources: INE and Banco de España.

- Easing **food inflation**. Slowdown in recent months of food prices in the initial stages of the production process
- The easing of **core inflation** will be shaped by NEIG inflation steadying somewhat and services inflation moderating
- In addition to the **food** and core components, the **energy** component will also bring down **headline inflation**. Although energy prices are exacerbating inflationary pressures in 2024, their contribution to HICP growth will be practically neutral in 2025 and actually negative in 2026, once the positive base effects have dissipated and in the light of current futures market prices

HICP-FOOD, BEVERAGES AND TOBACCO (a)



HICP-SERVICES AND CONTRIBUTIONS (a)



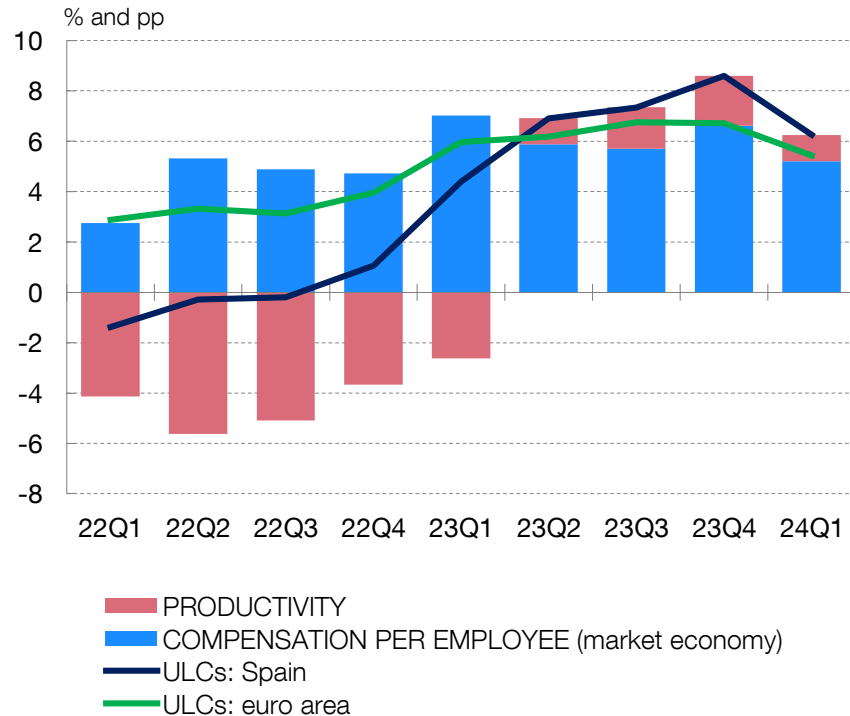
Sources: Eurostat and Banco de España.

(a) The weight of each component in HICP-Food for 2024 is shown in brackets.

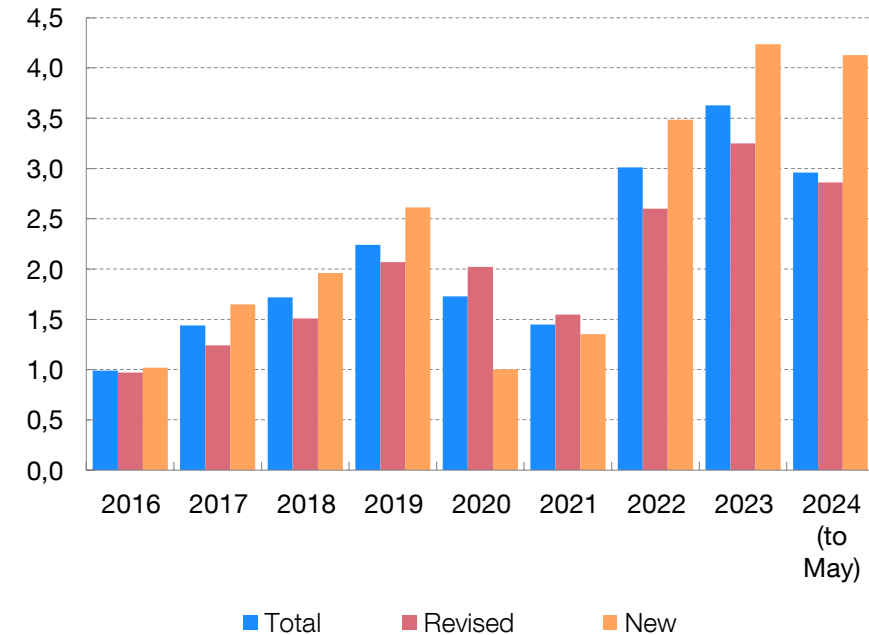
SERVICES INFLATION, SOMEWHAT MORE PERSISTENT THAN EXPECTED, IS SET TO SLOW IN THE COMING QUARTERS THANKS TO VARIOUS FACTORS

- First, as observed in 2024 Q1, **growth in unit labour costs is expected to slow**, owing not only to **moderation in compensation per employee** but also to **somewhat higher productivity**
- Second, based on the most recent developments, **profit margins are expected to weaken**, thereby partially offsetting the expected increase in labour costs

UNIT LABOUR COST AND CONTRIBUTIONS



NEGOTIATED WAGE INCREASE (%)



Sources: Ministerio de Trabajo y Economía Social, INE and Banco de España.



MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2026)

SUMMARY TABLE

				JUNE 2024 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE MARCH PROJECTIONS			
	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026
Annual rate of change (%), unless otherwise stated										
GDP	6.4	5.8	2.5	2.3	1.9	1.7	0.0	0.4	0.0	0.0
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	3.0	2.0	1.8	0.0	0.3	0.1	0.1
HICP excl. energy and food	0.6	3.8	4.1	2.6	2.0	1.9	0.0	0.4	0.1	0.1
Unemployment rate (% of labour force). Annual average	14.9	13.0	12.2	11.5	11.3	11.2	0.1	-0.1	-0.2	-0.1
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.7	-3.6	-3.3	-3.1	-3.2	0.2	0.2	0.4	0.3
General government debt (% of GDP)	116.8	111.6	107.7	105.8	106.2	107.2	0.0	-0.7	-1.0	-1.2

Sources: INE and Banco de España.
(a) Projections cut-off date: 22 May 2024.

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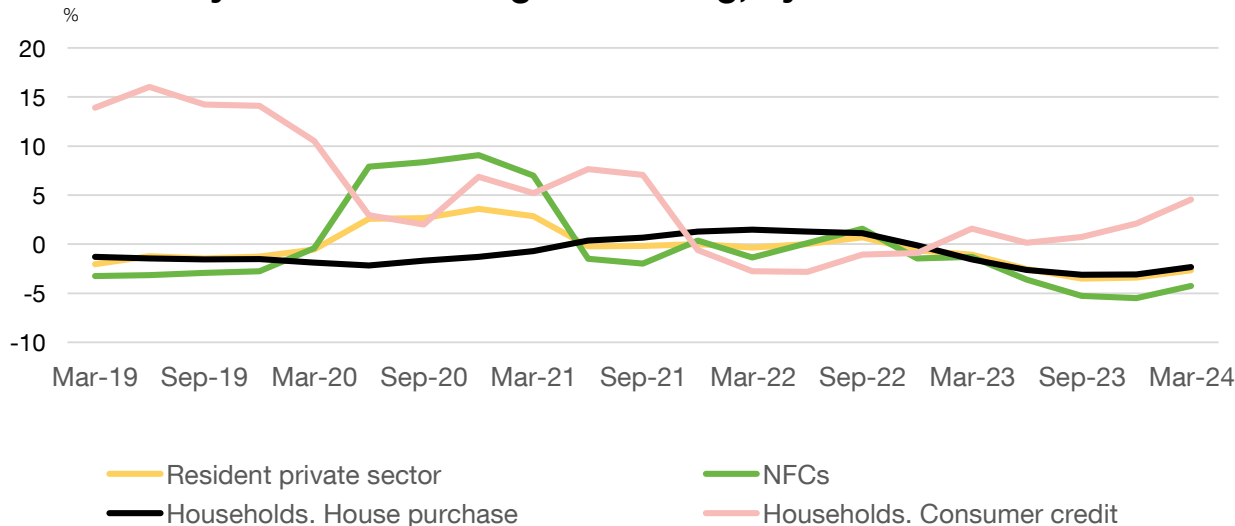
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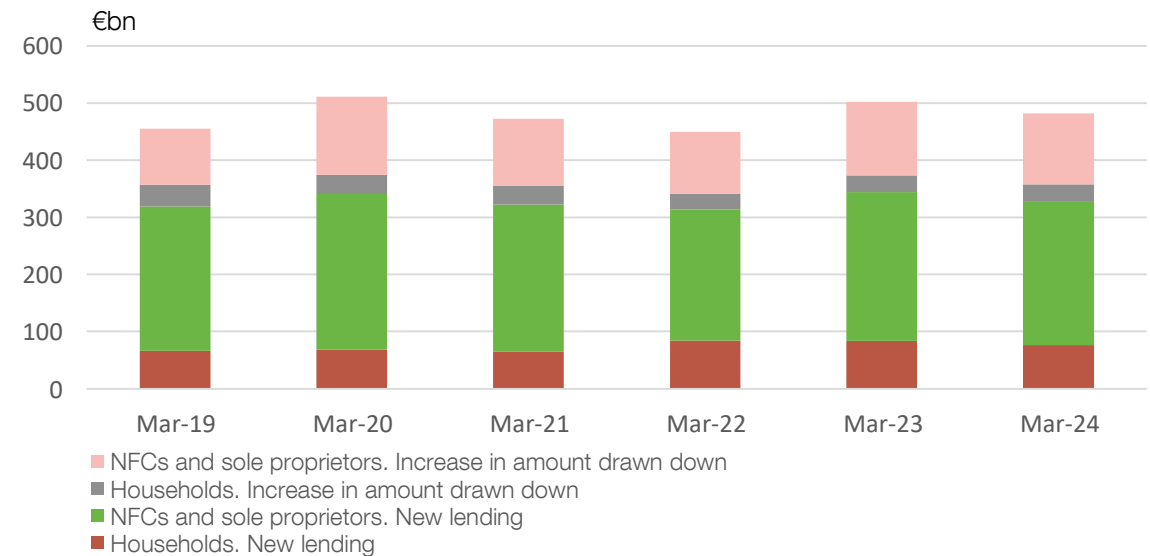
THE STOCK OF LENDING TO THE RESIDENT PRIVATE SECTOR HAS CONTINUED TO FALL IN YEAR-ON-YEAR TERMS, ALTHOUGH THE RATE OF DECLINE HAS SLOWED

- The **year-on-year rate of change of lending** continued to fall in 2024 Q1, to -2.7%, although since 2023 Q4 it has tended to level off slightly
 - This overall trend is observed in all portfolios except for **consumer credit**, whose year-on-year growth rose
- In the last 12 months to March, **new lending** to households and NFCs and sole proprietors amounted to €482 billion, **4% less than in the same period of the previous year**

Year-on-year rate of change of lending, by sector

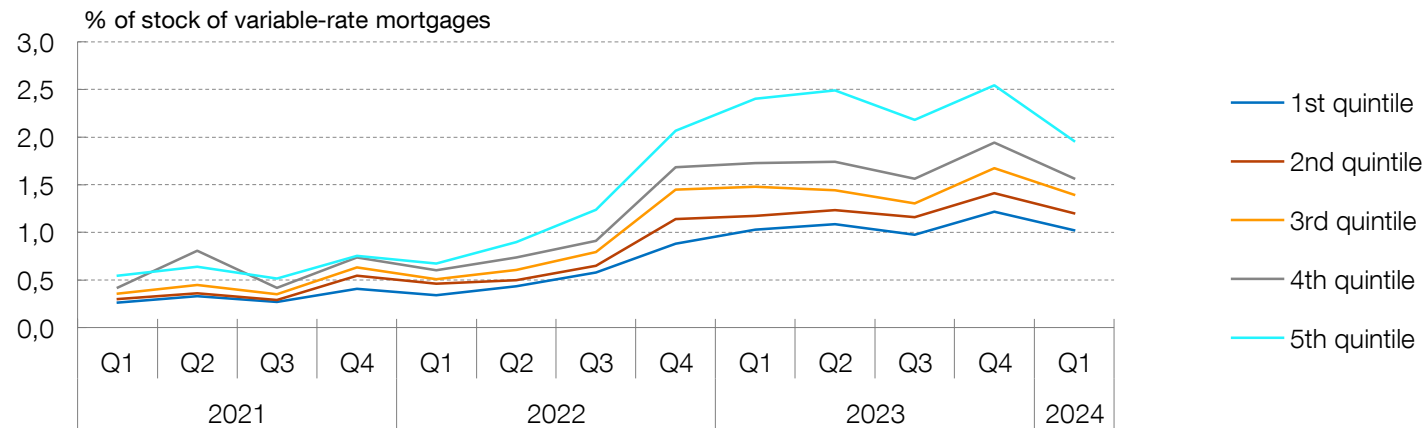


New lending granted over the last 12 months



- **Easing** of the percentage of **mortgage lending repaid early** (expressed as a percentage of total outstanding mortgage lending in the previous quarter)
- **This moderation is more significant in households belonging to the highest income quintiles**
 - Conversely, **lower-income households had more stable** – albeit significantly lower – **percentages** when comparing year-on-year

Early repayment of variable-rate mortgages, by income quintile (a)



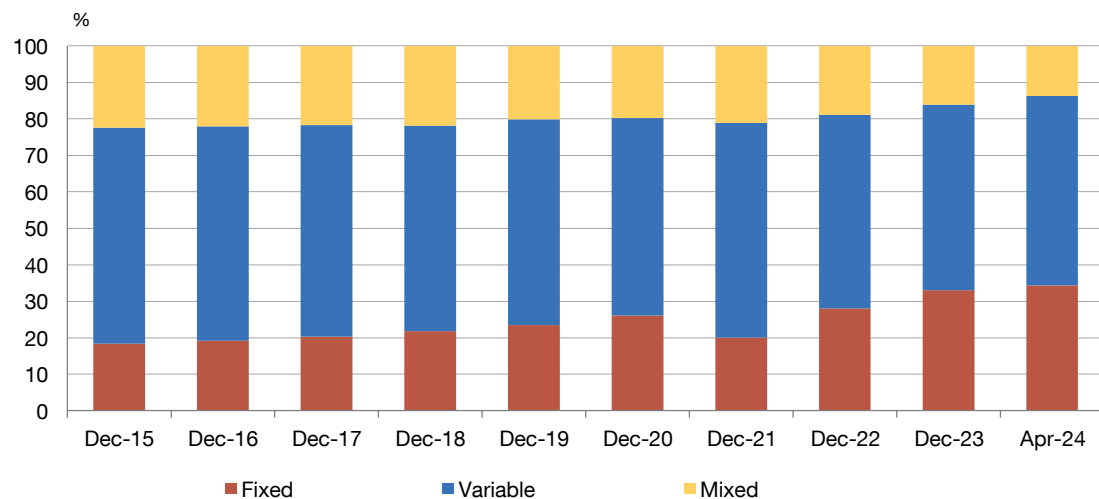
SOURCES: CCR and Banco de España.

a. Mortgages for house purchase. Household income is not observed and is imputed based on information on the distribution of income at postcode level provided by the INE. Specifically, the number of mortgages is the same and stable over time for each quintile.

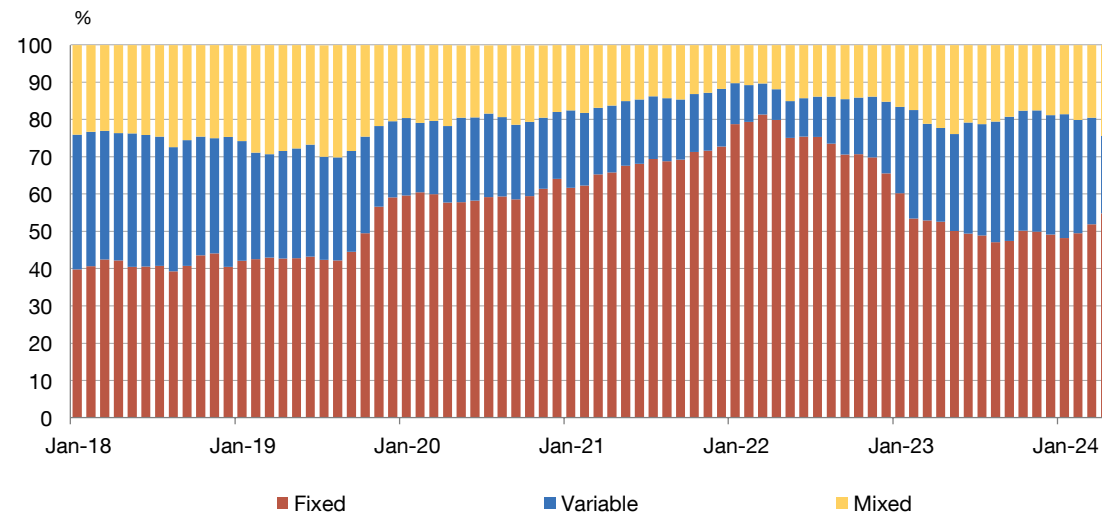
THE STOCK OF FIXED-RATE MORTGAGE LENDING REMAINS ABOVE 30%, WITH NEW LENDING OF THIS TYPE INCREASING IN 2024

- The volume of fixed-rate mortgage lending has followed an upward path over the last decade, accounting for 34% of the outstanding amount in April 2024
 - The share of **variable-rate** lending has fallen by over 7 pp since December 2015, accounting for **52%** in April 2024
- The downward trend in the share of new fixed-rate mortgage lending that began in 2022 has reversed in early 2024, to stand above 50% of the total once again
 - The share of new variable-rate lending has fallen in recent months, accounting for barely 21% in April 2024, while that of mixed-rate mortgage lending has risen to 25%.

Fixed, variable and mixed-rate mortgage lending. Operations in Spain

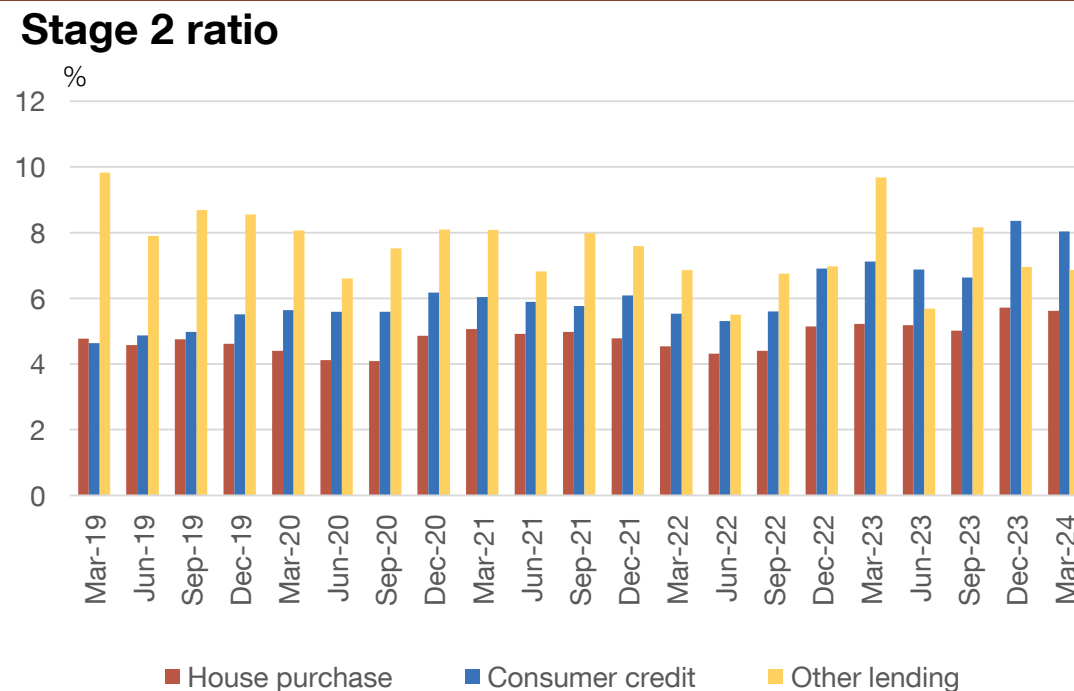
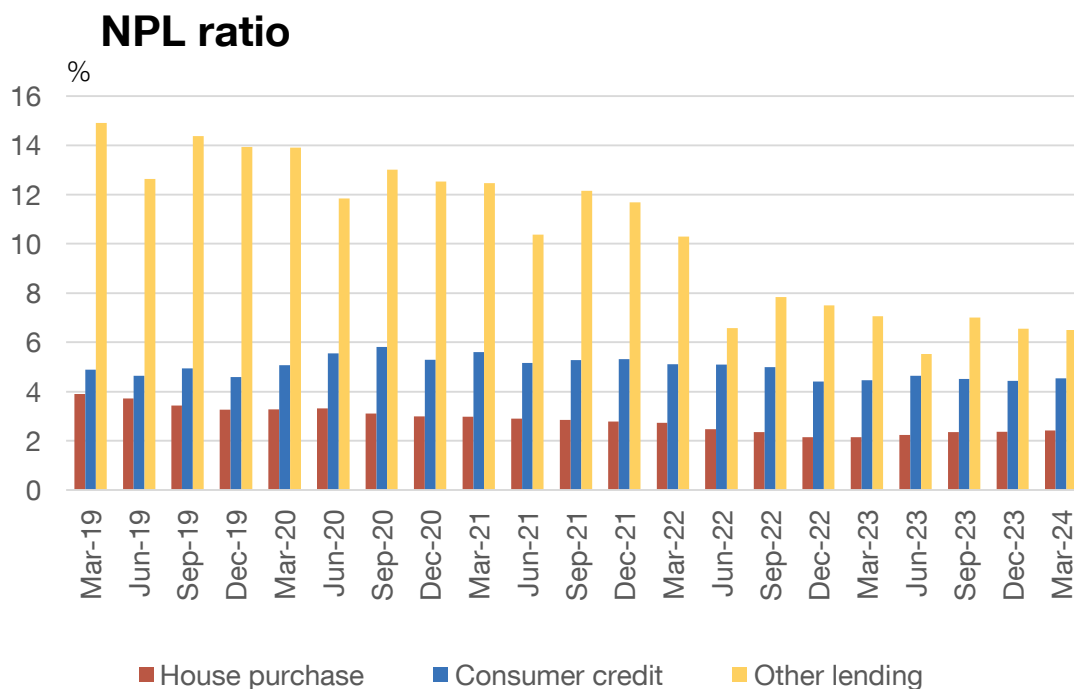


New fixed, variable and mixed-rate mortgage lending. Operations in Spain



IN LENDING TO HOUSEHOLDS, THE NPL AND STAGE 2 RATIOS FOR LOANS FOR HOUSE PURCHASE ROSE, WITH THE STAGE 2 RATIO ALSO INCREASING IN CONSUMER CREDIT

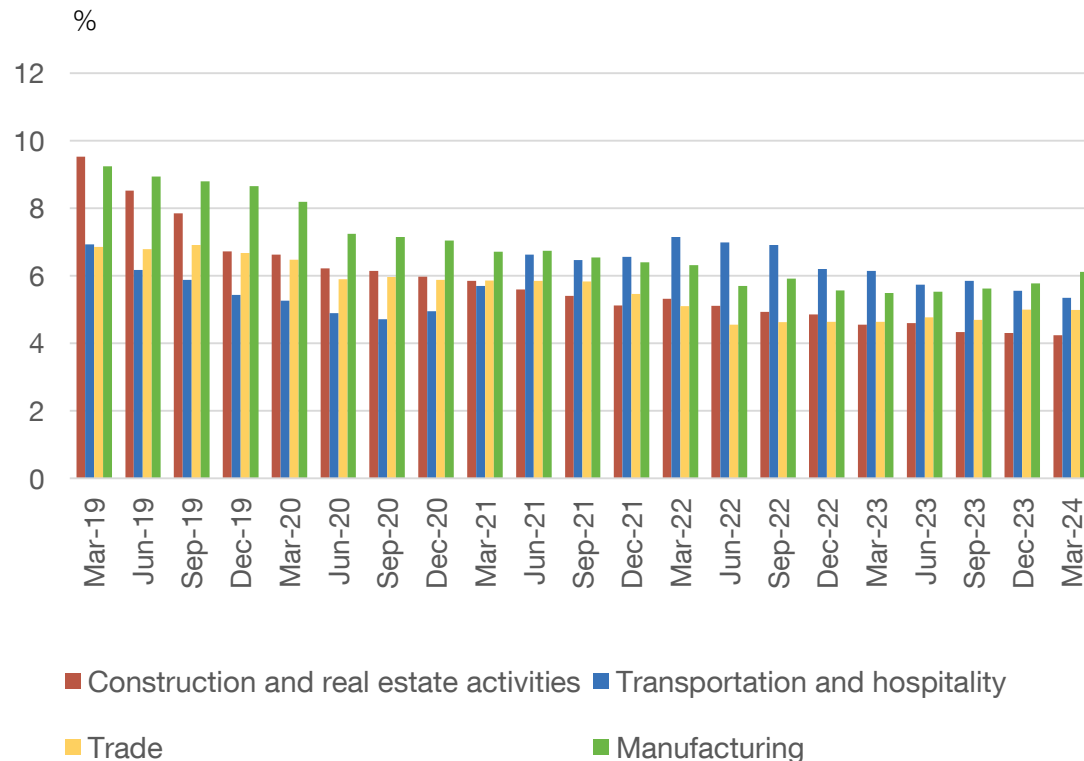
- **The NPL ratio for loans for house purchase** grew by 0.3 pp year-on-year to March 2024, **to 2.4%**. Households' total NPL ratio was 2.9%
 - This ratio held steady in consumer credit, while it declined in other lending
- These ratios are **moderate by historical standards**
- **Stage 2 ratios grew** year-on-year in **loans for house purchase and consumer credit** to March (by 0.4 pp, to 5.6%, and 0.9 pp, to 8%, respectively), **and fell in other lending** (by 2.8 pp, to 6.9%). The overall stage 2 ratio was 6%



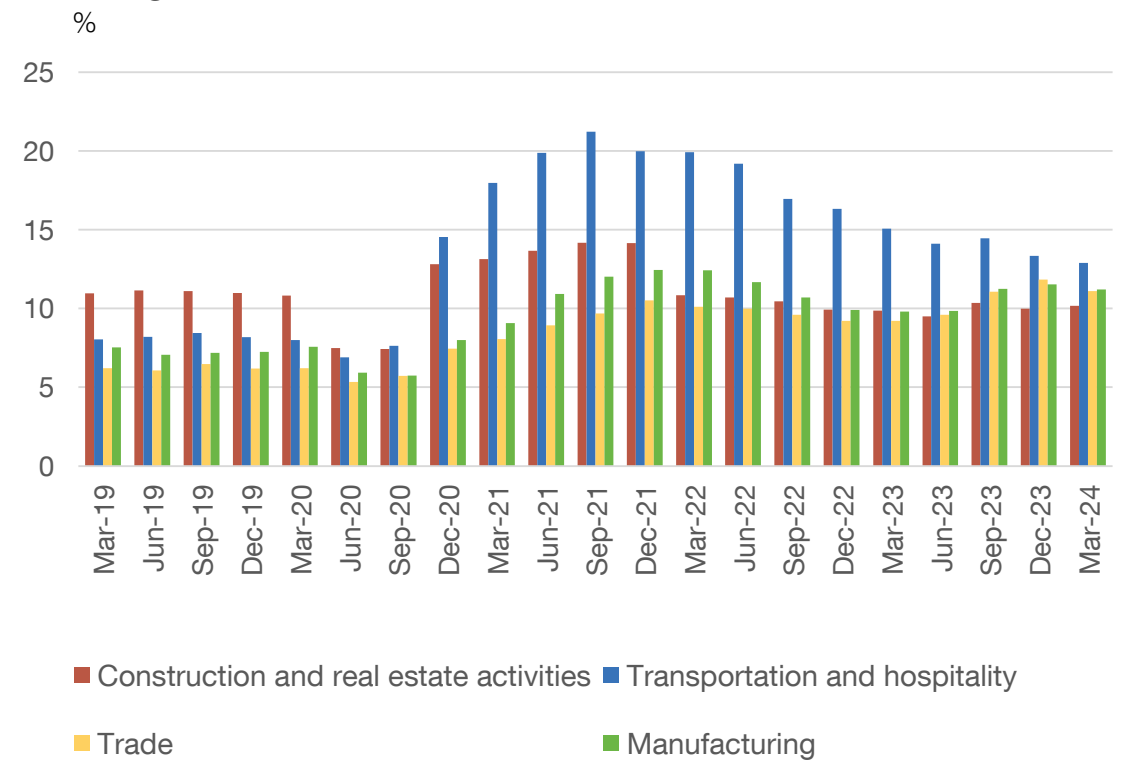
SOME SECTORAL HETEROGENEITY HAS BEEN OBSERVED IN RECENT DEVELOPMENTS IN LENDING TO THE NFC SECTOR

- At NFCs the NPL ratio is holding steady (4.6%) and the stage 2 ratio is up slightly (9.9%). **Manufacturing and trade performed worse** than other sectors in year-on-year terms
- **The NPL and stage 2 ratios have tended to become uniform** across different sectors in the period 2022-2024

NPL ratio



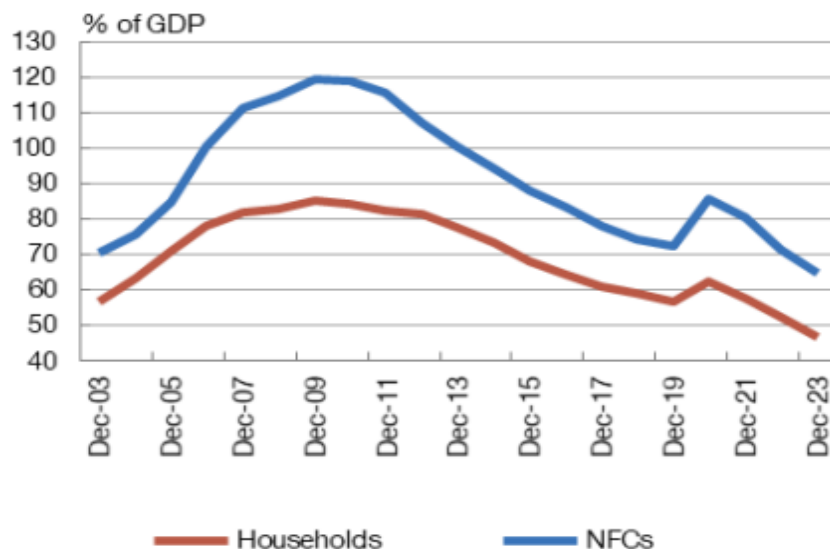
Stage 2 ratio



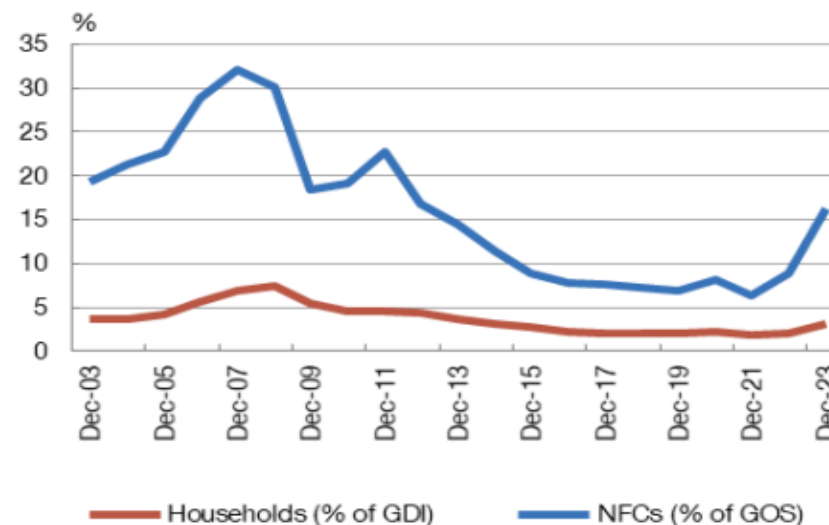
THE POSITIVE DEVELOPMENTS IN HOUSEHOLDS' AND FIRMS' DEBT AND INCOME CONTINUE, BUT THEIR DEBT BURDEN IS INCREASING

- **The debt of households and firms is at its lowest level since 2002 and is also below the euro area average; ...**
 - ... however, **higher interest rates continue to push up its average cost and the debt burden**
 - ... although interest rates being held at their current level or cut would help ease financial pressure in 2024
- **NFCs' earnings improved in 2023** and, in the case of **households, employment and wage growth** continued to drive their income ...
 - ... thereby contributing to the sustainability of their debt

Debt ratio of households and NFCs



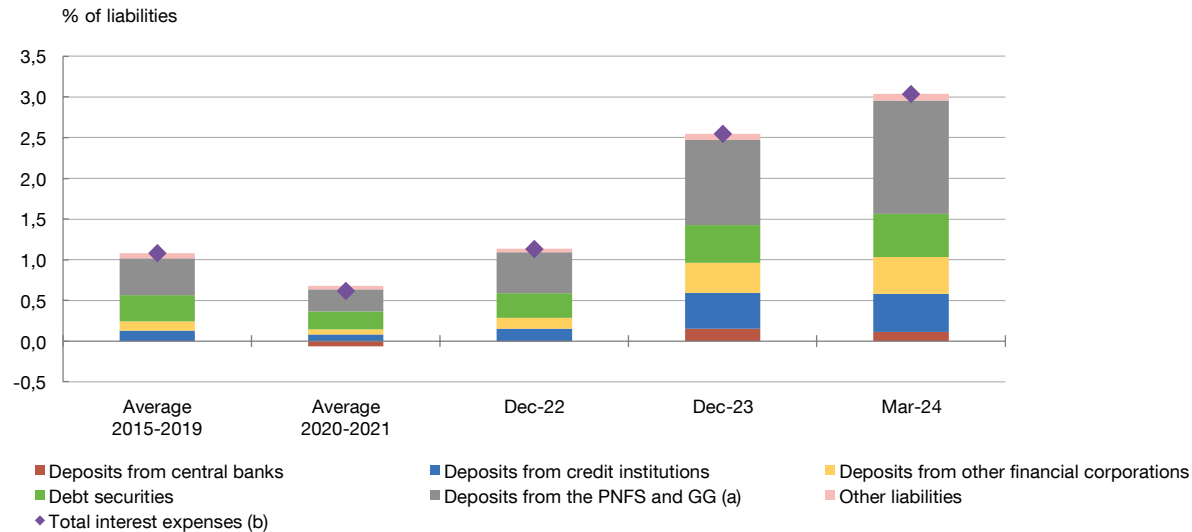
Interest expenses of households and NFCs



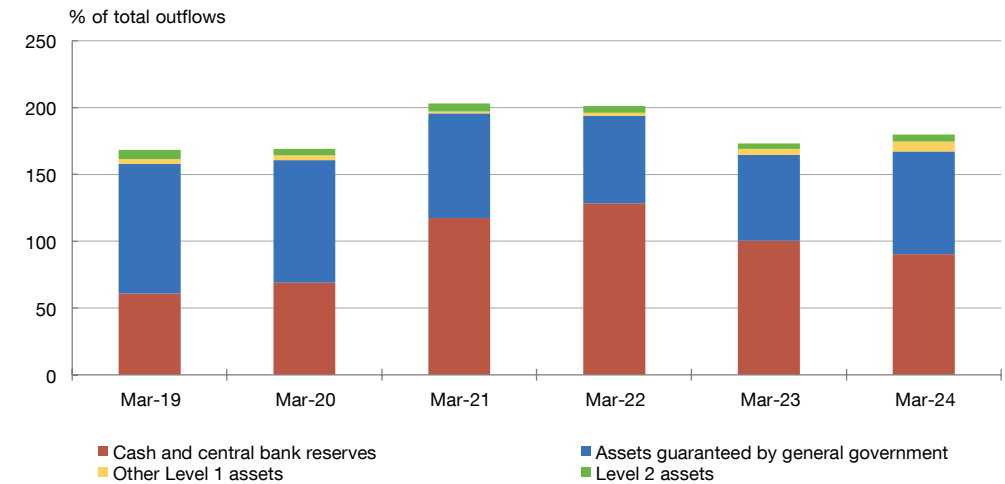
THE COST OF BANK LIABILITIES HAS CONTINUED TO RISE IN 2024, WITHOUT STRAINING FUNDING CAPACITY OR THE COMFORTABLE LIQUIDITY POSITION

- In 2024 Q1 the average cost of Spanish banks' consolidated liabilities amounted to 3%, 0.5 pp higher than in 2023, and well above the low of 2020-2021.
 - The higher rates on non-financial sector deposits explain 46% of this increase, due to their accounting for a high share of institutions' funding, despite their unit cost remaining contained.
- The liquidity coverage ratio (LCR) stood at 179.8% in 2024 Q1, a similar position to 12 months ago, and the net stable funding ratio stood at 134%, exceeding the 2023 Q1 level.
 - Both ratios remain at levels comfortably above the minimum regulatory requirement.

Interest expenses on funding. Data at consolidated level

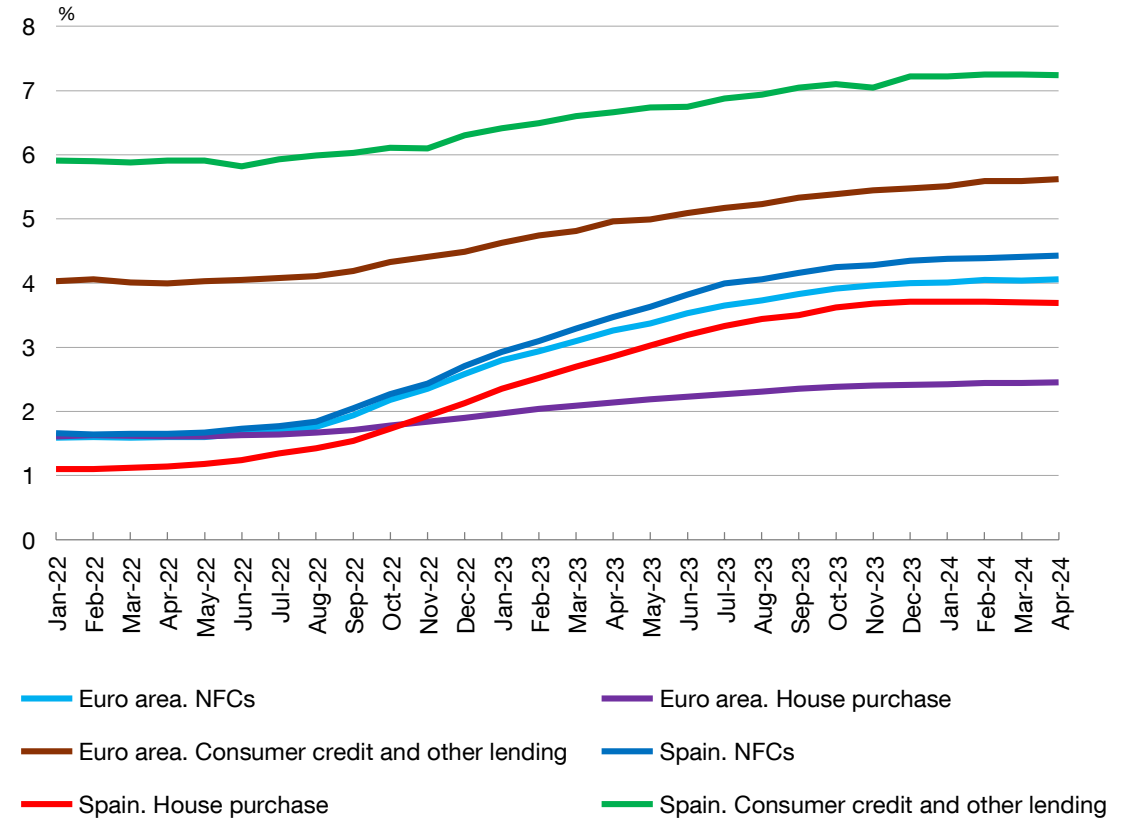
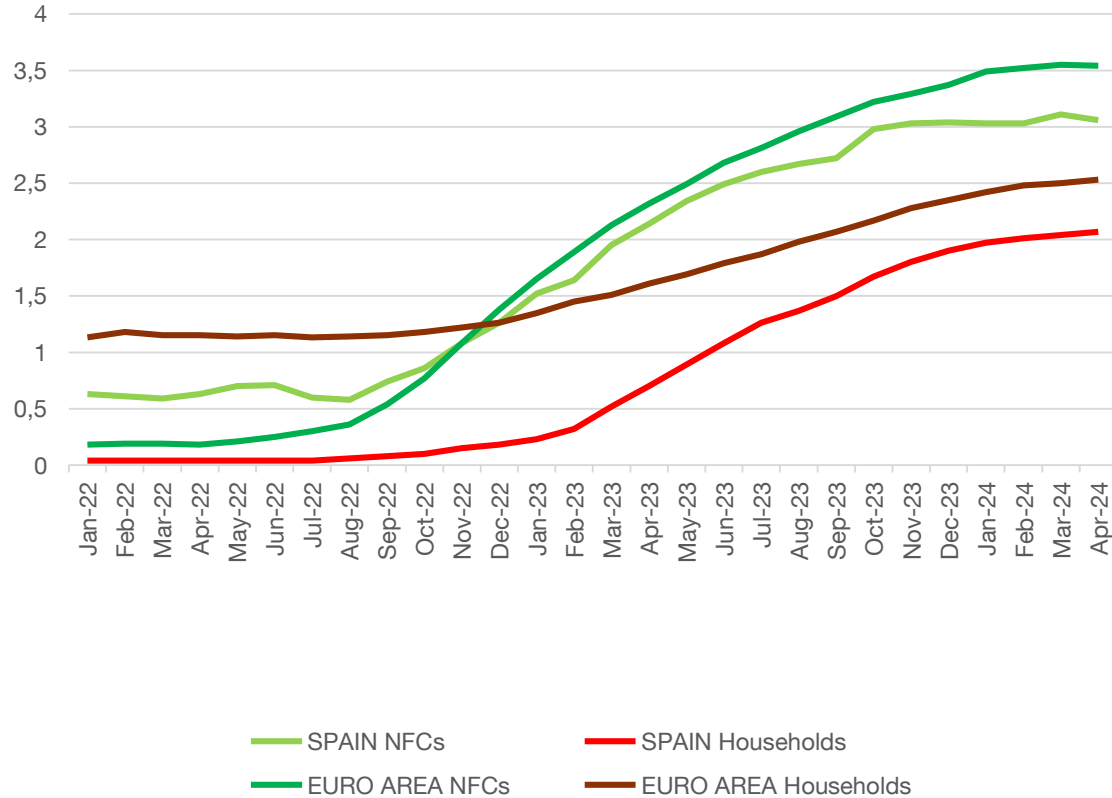


Composition of the LCR, by category of liquid asset



BANKS HAVE PASSED THROUGH THE HIGHER REFERENCE RATES TO THEIR LENDING MORE THAN TO THEIR DEPOSITS

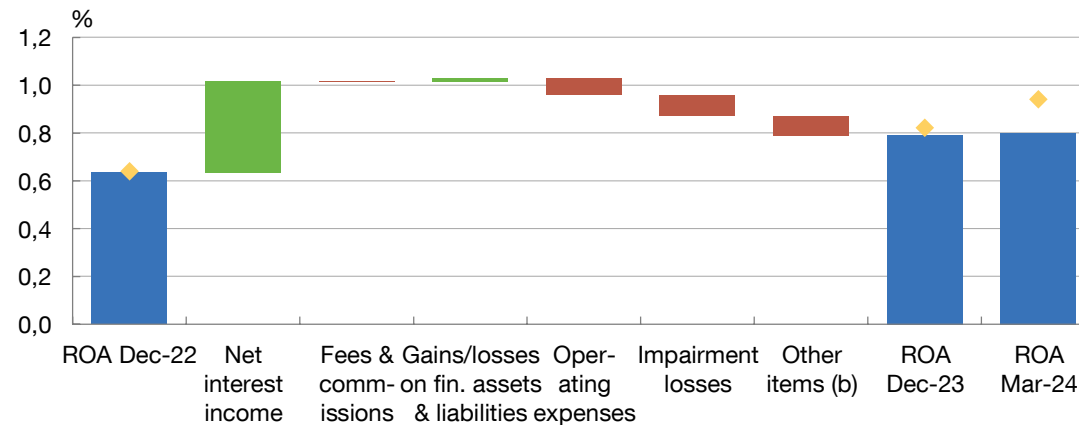
Bank term deposit rates



Source: ECB. Latest observation: April 2024

- **Consolidated earnings increased by 28% in 2023, and the favourable trend in the Spanish banking sector's profitability continued in 2024 Q1**
- **The increase in net interest income (22.4% in 2023) is the main driver of this improvement**
 - This growth more than offset the increases in operating expenses (7.8% in 2023) and impairment losses (22.9%)
- **In any event, the improvement in net interest income will tend to peter out**

Breakdown in the change in bank profitability. Consolidated net profit as a % of ATAs (a)



SOURCE: Banco de España.

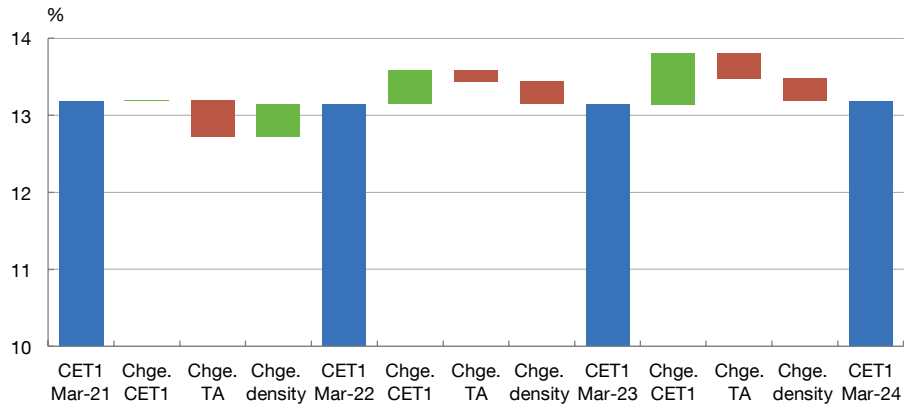
a The red (green) colour of the bars denotes a negative (positive) contribution of the corresponding item to the change in consolidated profit at December 2023 compared with December 2022. The yellow diamonds denote the ROA excluding extraordinary losses, which in 2022 stem from the purchase of offices by a bank (-€0.2 billion) and in 2023 and 2024 from the impact of the temporary levy on the banking sector (-€1.3 billion in 2023 and -€1.5 billion in 2024 (impact for the full year)).

b Includes, among other items, the extraordinary losses and temporary levy on the banking sector mentioned in the previous note.

THE SPANISH BANKING SECTOR'S SOLVENCY HAS INCREASED VERY MODERATELY WHEN COMPARING IN ANNUAL TERMS

- The **CET1 ratio** of the Spanish banking sector as a whole stood at 13.2% in March 2024, **up** 4 bp on its March 2023 level
- **CET1 increased** by 5.2% in the same period, but the positive effect on the ratio was **offset** because:
 - total assets also grew, although less so (2.5%); and
 - risk-weighted assets (RWAs) grew more than total assets (4.8%), due to the increase in density

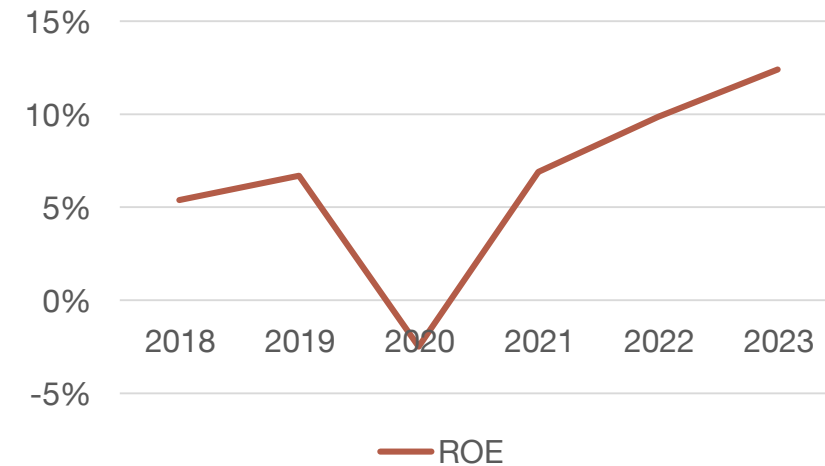
Breakdown in the change in the CET1 ratio (a). Consolidated data



SOURCE: Banco de España.

a. The CET1 ratio is broken down into the change in CET1, total assets (TA) and density, where density is calculated as the ratio of RWAs to total assets. Therefore, the CET1 ratio is calculated as $CET1 \text{ to } TA \times \text{density}$. The green (red) bars denote positive (negative) contributions from the components.

ROE



ISSUES THAT MIGHT AFFECT THE ECONOMY

Heightening of current geopolitical tensions

(e.g. those associated with the war in Ukraine and the conflict in the Gaza Strip, and the United States-China trade tensions)

Possible financial market turbulence

(e.g. Chinese real estate sector or sudden change in market expectations of the future path of monetary policy around the world)

Reactivation of European fiscal rules

Pace of execution of the projects associated with the **NGEU programme** and impact on private investment and activity

THE HIGH UNCERTAINTY IS REFLECTED IN OTHER KEY ELEMENTS:

The course of **disinflation**

The labour market

Degree of growth of **productivity**,
wages, unit labour costs
and **profit margins**

Performance of **activity in the services sector**
(and, in particular, **travel services**)



IMPACTS ON THE FINANCIAL SYSTEM:

Credit quality if the outlook for interest rates is more restrictive than expected

Future course of the **volume of credit** compared with past sluggishness

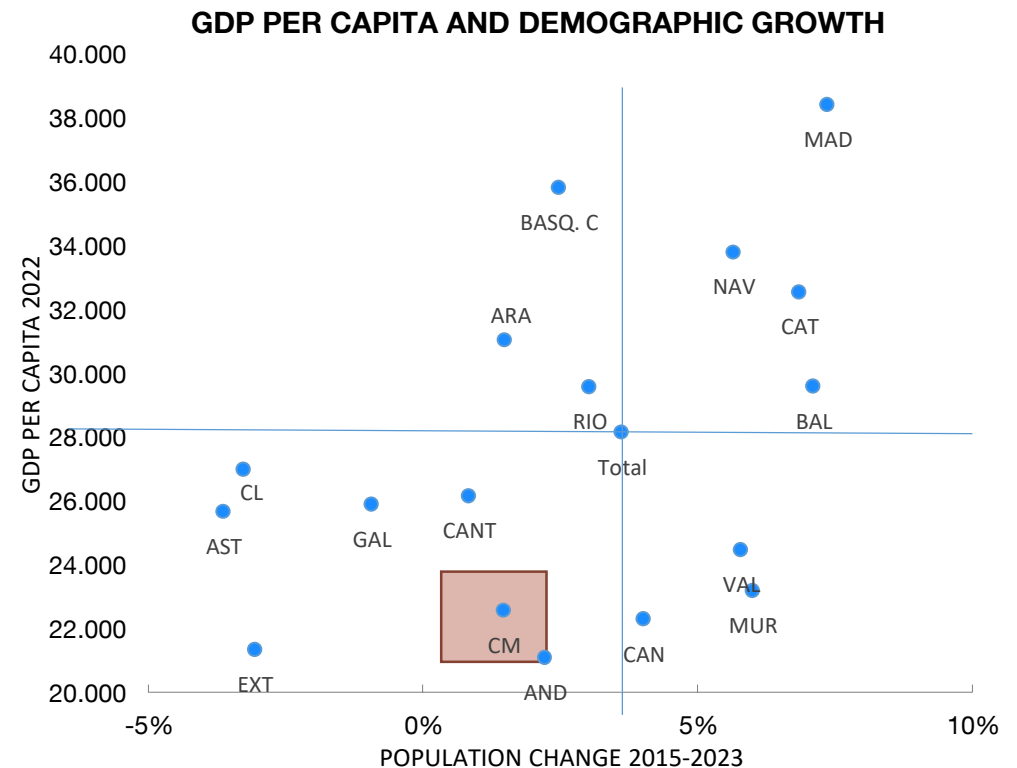
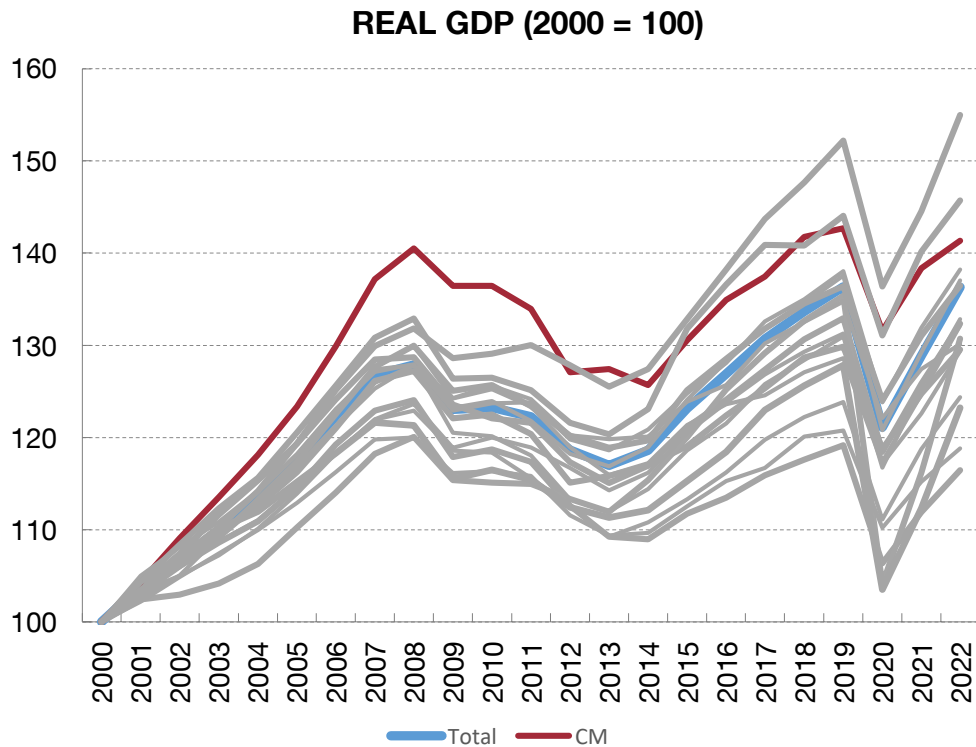
Maintenance of **profit margins**

CONTENTS

1. Recent developments in the Spanish economy: activity, employment, financial conditions and profit margins
2. Inflation
3. Spain's financial system
4. **Castile-La Mancha**



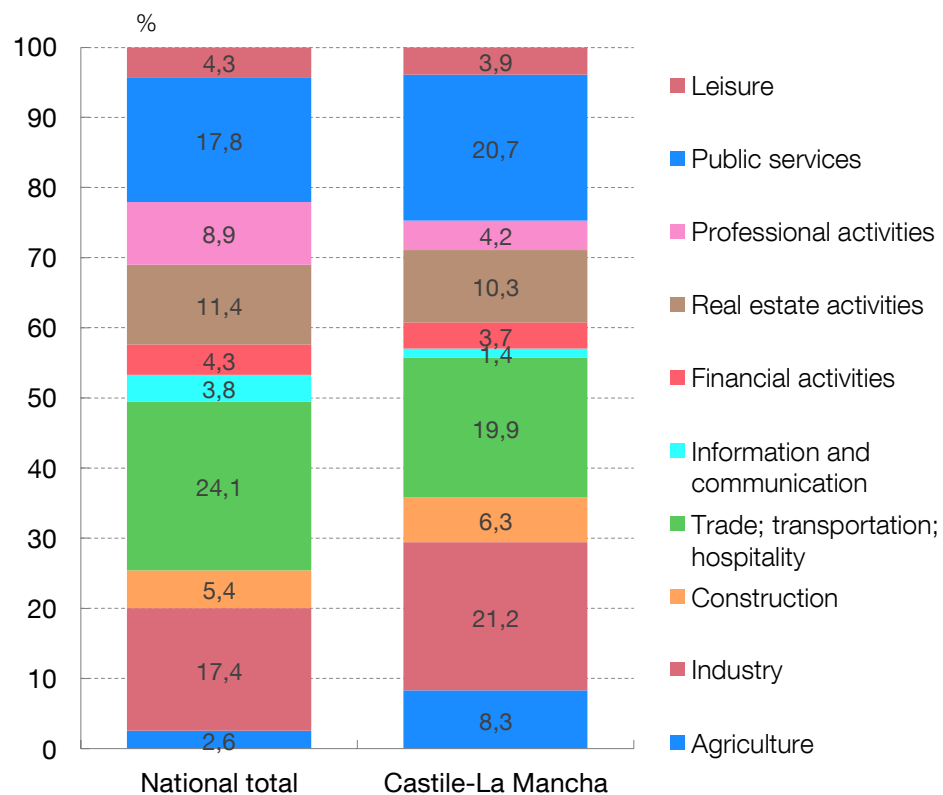
With **2.1 million inhabitants** (4.3% of Spain's total population), Castile-La Mancha is the ninth least populated region. It is also the ninth biggest region in terms of GDP, accounting for **3.5% of the national total**. **GDP per capita** (€22,574) is the fourth lowest in the country and almost 20.0% lower than the average. There are important differences across provinces: Toledo's GDP per capita is 20.3% lower than Cuenca's.



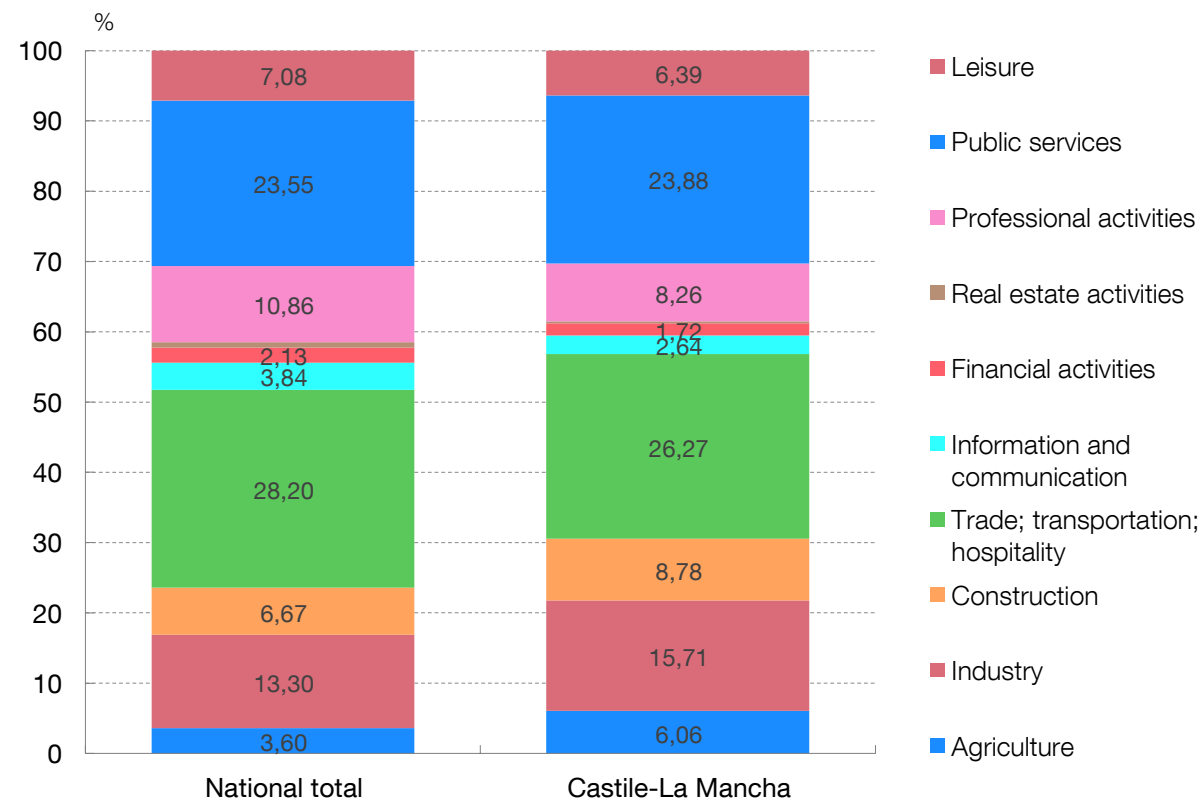
Source: INE.

CASTILE-LA MANCHA STANDS OUT DUE TO THE SHARE OF ITS AGRICULTURAL SECTOR (8.3% VS THE NATIONAL AVERAGE OF 2.6%), INDUSTRY AND PUBLIC SERVICES

GROSS VALUE ADDED, BY SECTOR (2022)



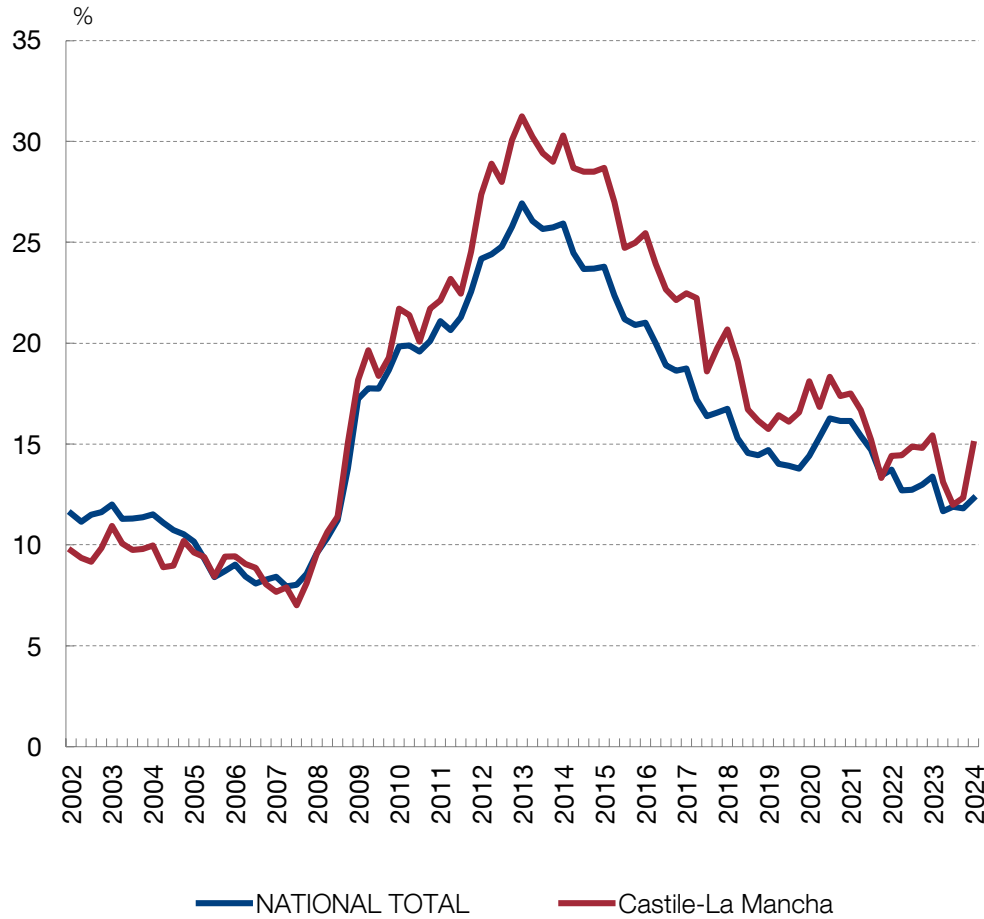
PERSONS EMPLOYED, BY SECTOR OF ACTIVITY (2024 Q1)



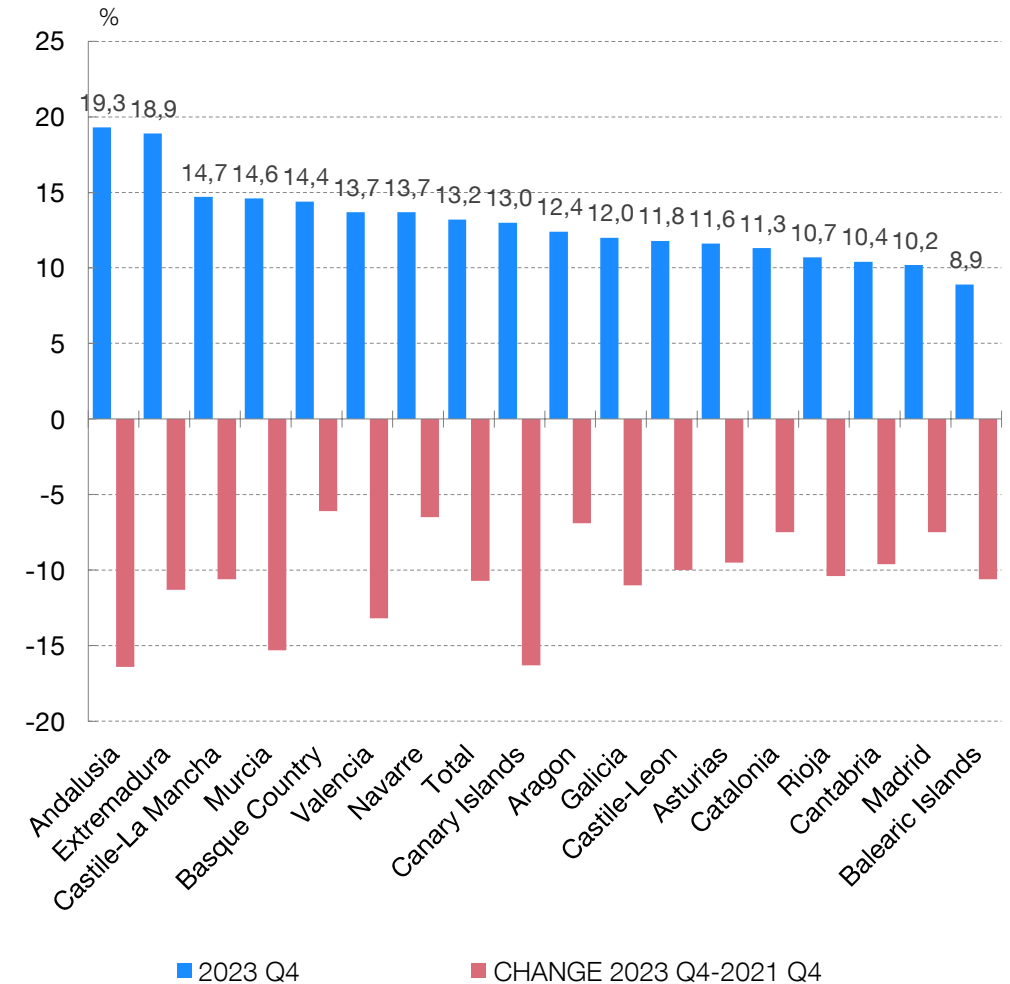
Source: INE.

CASTILE-LA MANCHA HAS A HIGHER UNEMPLOYMENT RATE THAN THE NATIONAL AVERAGE: 15.0% IN 2024 Q1, 2.7 PP MORE THAN THE SPANISH AVERAGE

UNEMPLOYMENT RATE



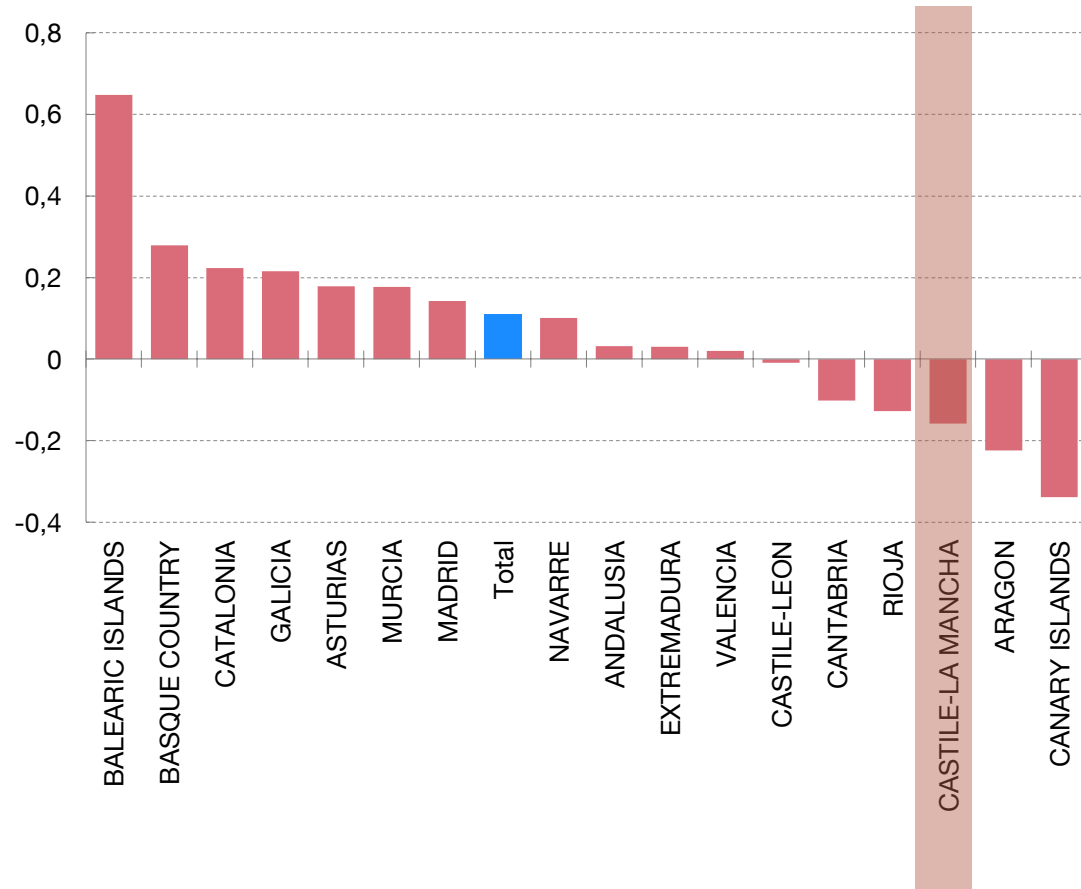
TEMPORARY EMPLOYMENT RATIO IN THE PRIVATE SECTOR AND CHANGE SINCE 2021 Q4



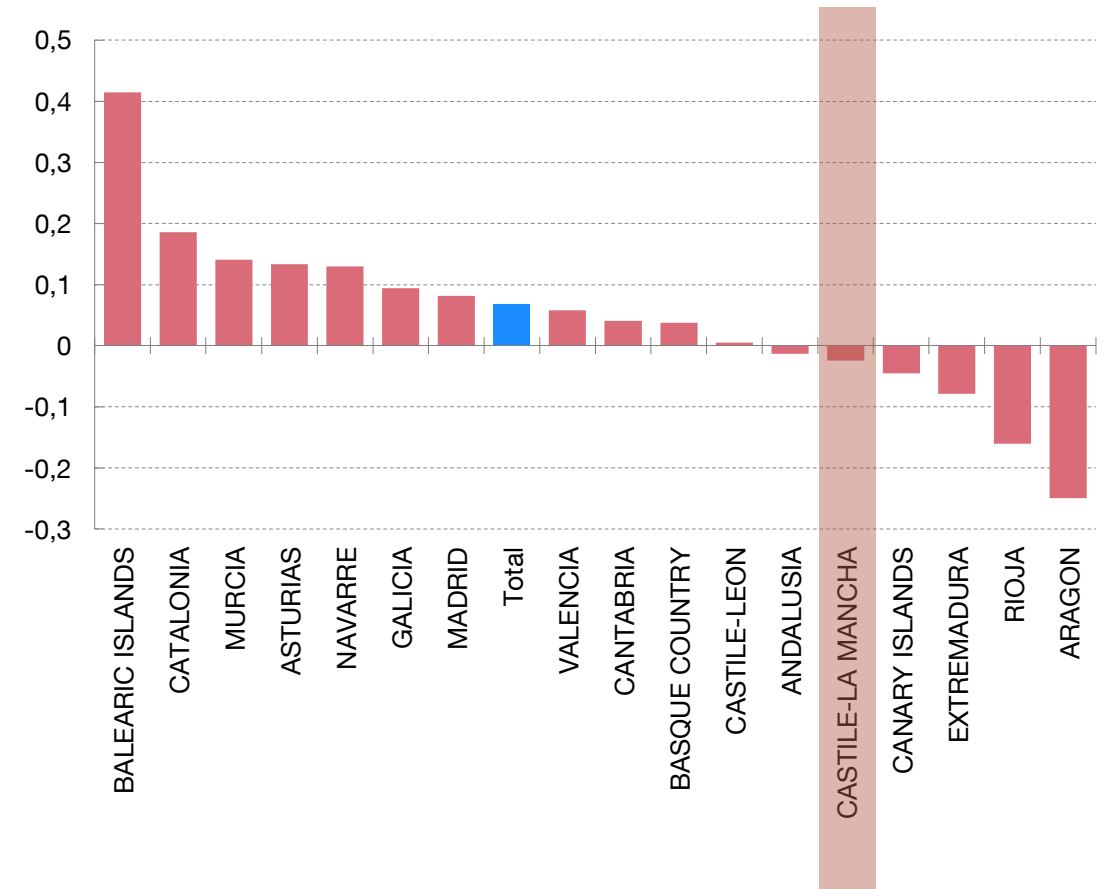
Source: INE (EPA). Latest observation: 2023 Q4

COMPARED WITH THE GROWTH IN TURNOVER AT NATIONAL LEVEL, FIRMS IN CASTILE-LA MANCHA REPORTED DECLINES IN TURNOVER AND EMPLOYMENT IN 2024 Q2

QUARTERLY CHANGE IN TURNOVER IN 2024 Q2 (a)



QUARTERLY CHANGE IN EMPLOYMENT IN 2024 Q2 (a)

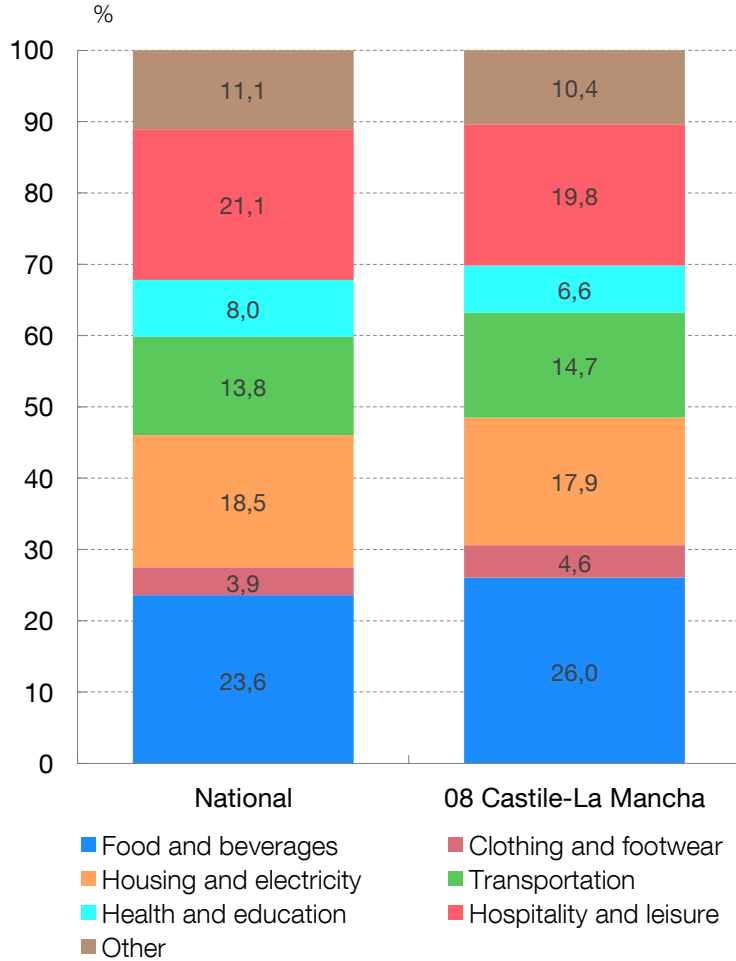


Source: EBAE (Banco de España).

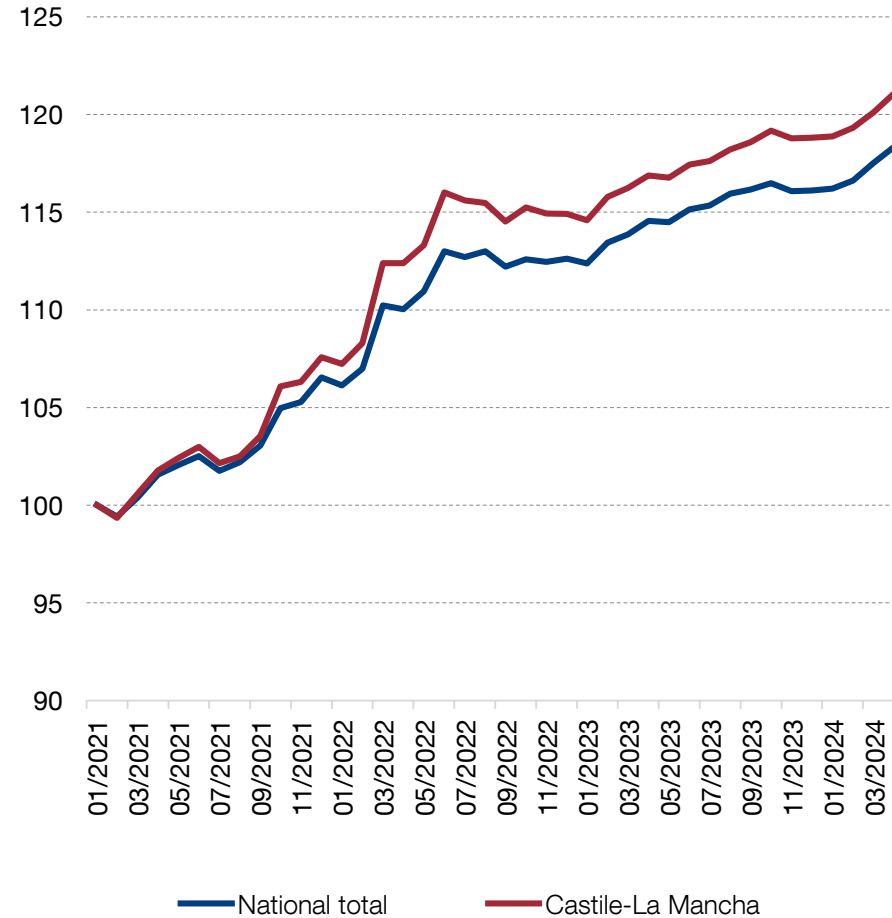
(a) Index calculated as significant decrease = -2; slight decrease = -1; unchanged = 0; slight increase = 1; significant increase = 2.

INFLATION INCREASED MORE IN CASTILE-LA MANCHA IN 2022 AND 2023, BUT WAGE SETTLEMENTS ARE GROWING MORE SLOWLY THAN THE NATIONAL AVERAGE IN 2024

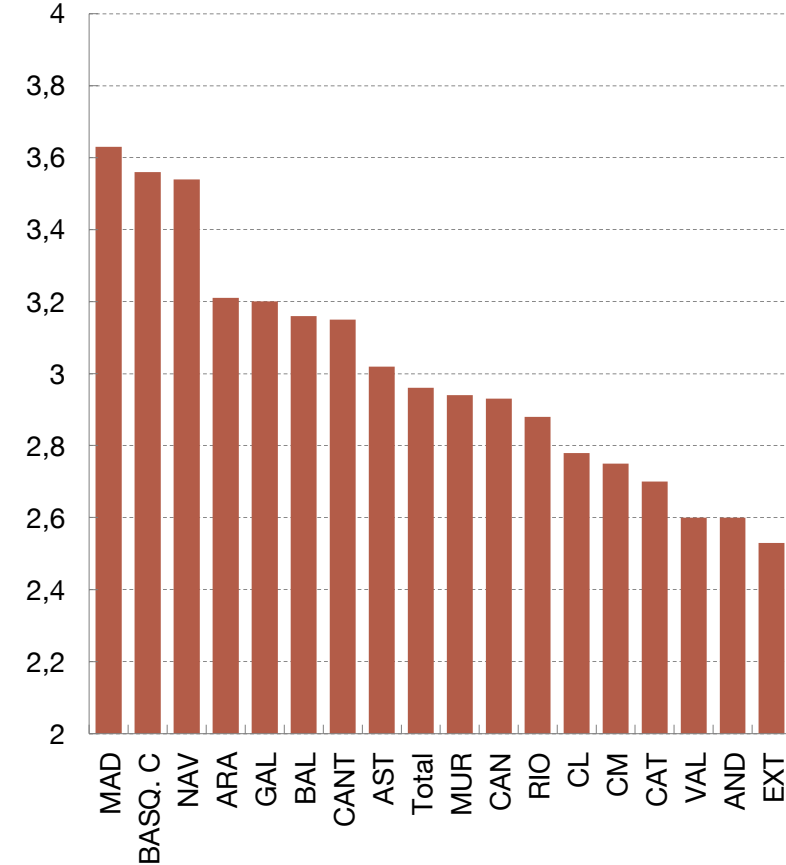
CPI WEIGHTS, BY GROUP



CPI (JAN-21 = 100)



NEGOTIATED WAGE SETTLEMENTS (COLLECTIVE AGREEMENTS WITH ECONOMIC EFFECTS SIGNED UP TO MAY 2024, %)



Sources: INE and Ministerio de Inclusión, Seguridad Social y Migraciones.

THANK YOU

