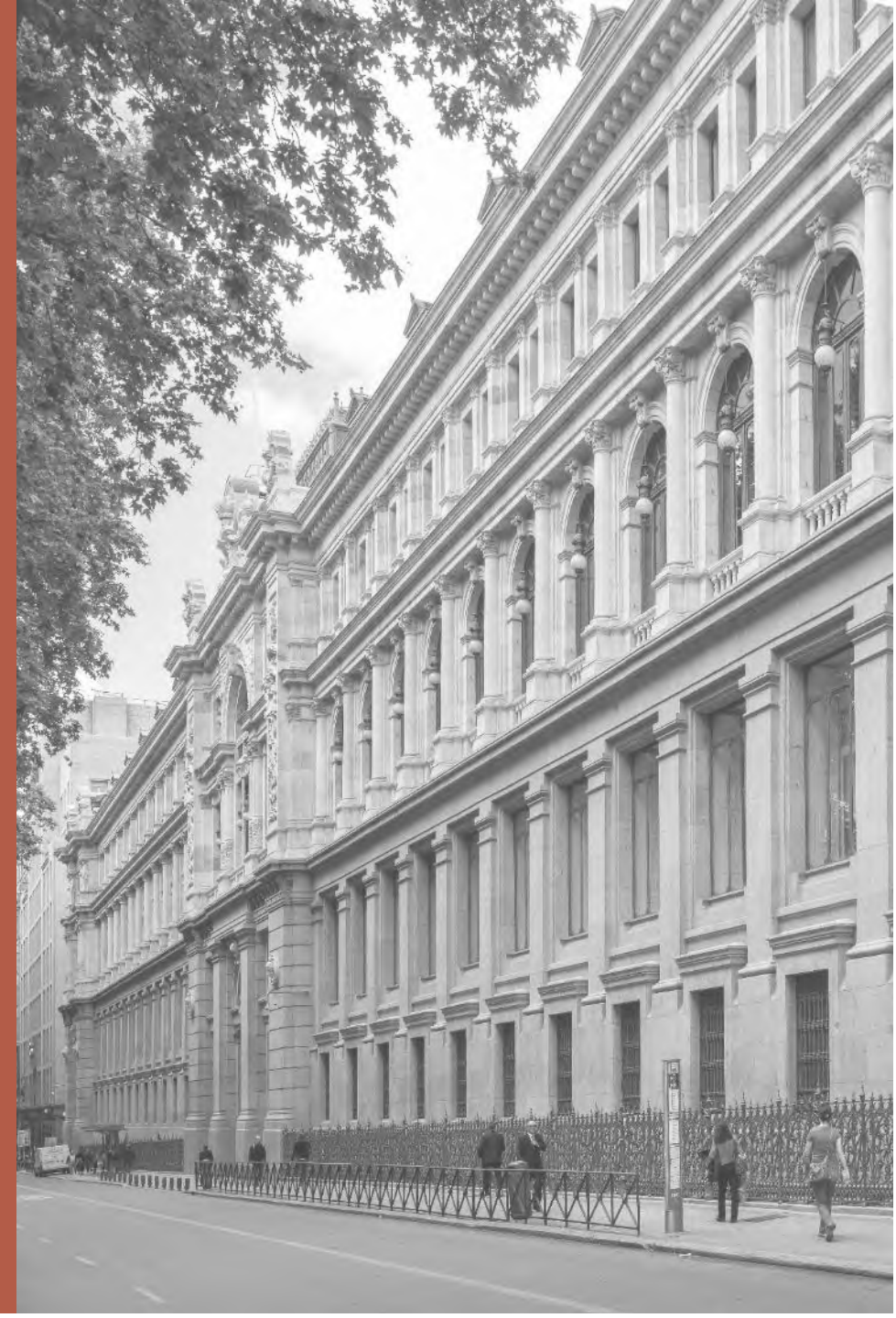


PARLIAMENTARY TESTIMONY: PRESENTATION OF THE *ANNUAL REPORT 2021* OF THE BANCO DE ESPAÑA

Pablo Hernández de Cos
Governor

ECONOMIC AFFAIRS AND DIGITAL TRANSFORMATION COMMITTEE

Congress of Deputies
1 June 2022



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1. Performance of the Spanish economy in 2021
2. The role of economic policy in the pandemic crisis
3. The outlook for the Spanish economy: the impact of the war in Ukraine
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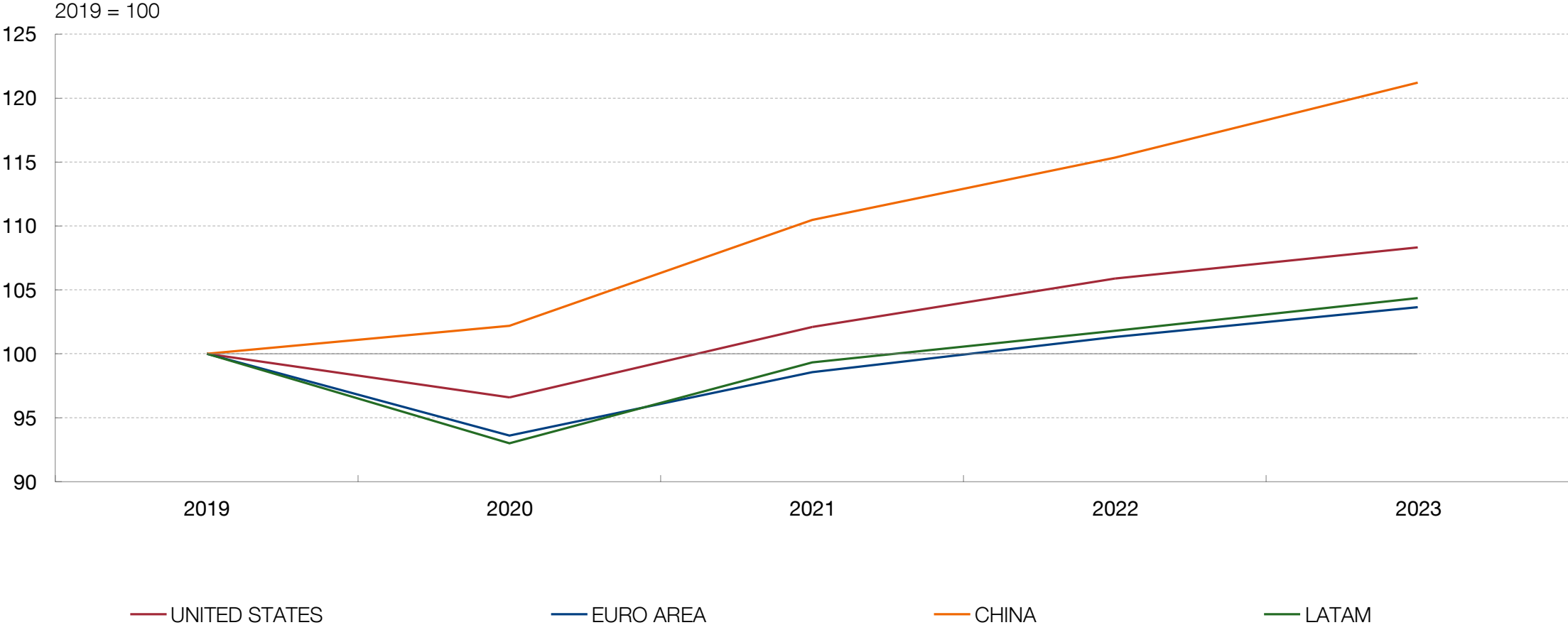
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THE RECOVERY IN THE GLOBAL ECONOMY CONTINUED IN 2021, ALBEIT UNEVENLY, INFLUENCED BY THE WAVES OF THE PANDEMIC, THE RISE IN INFLATION AND BOTTLENECKS

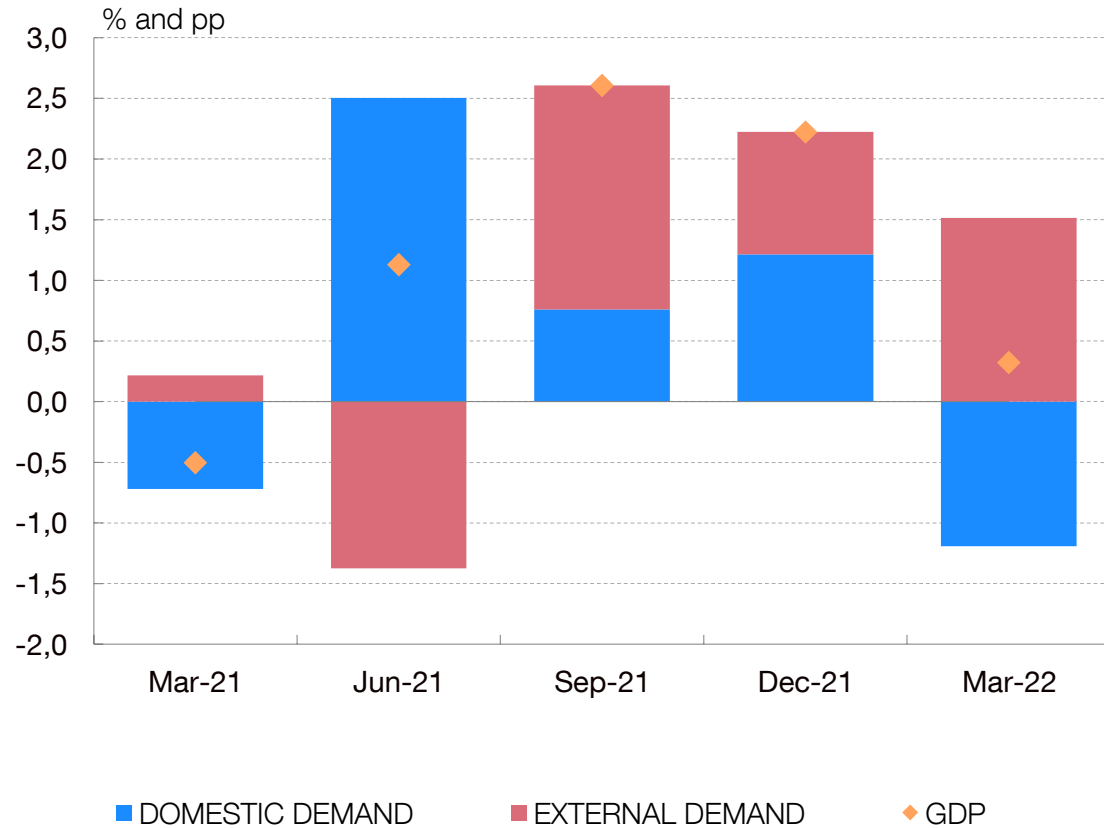
GDP LEVEL BY REGION: IMF APRIL 2022 PROJECTIONS



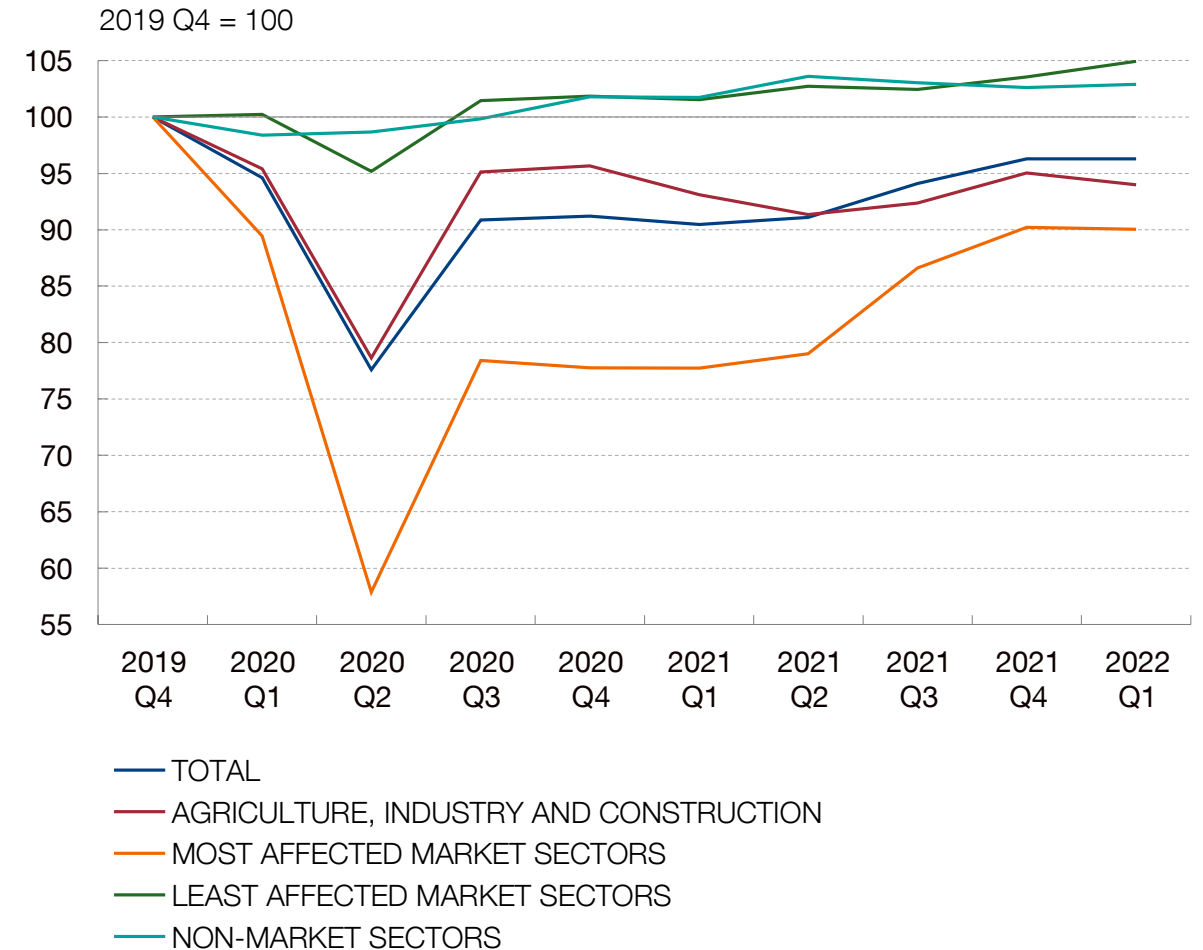
SOURCE: IMF.

THE SPANISH ECONOMY RETURNED TO ITS RECOVERY TRAJECTORY IN 2021 Q2, BUT THE RECOVERY REMAINS INCOMPLETE AND UNEVEN BY SECTOR

QUARTER-ON-QUARTER REAL GDP GROWTH

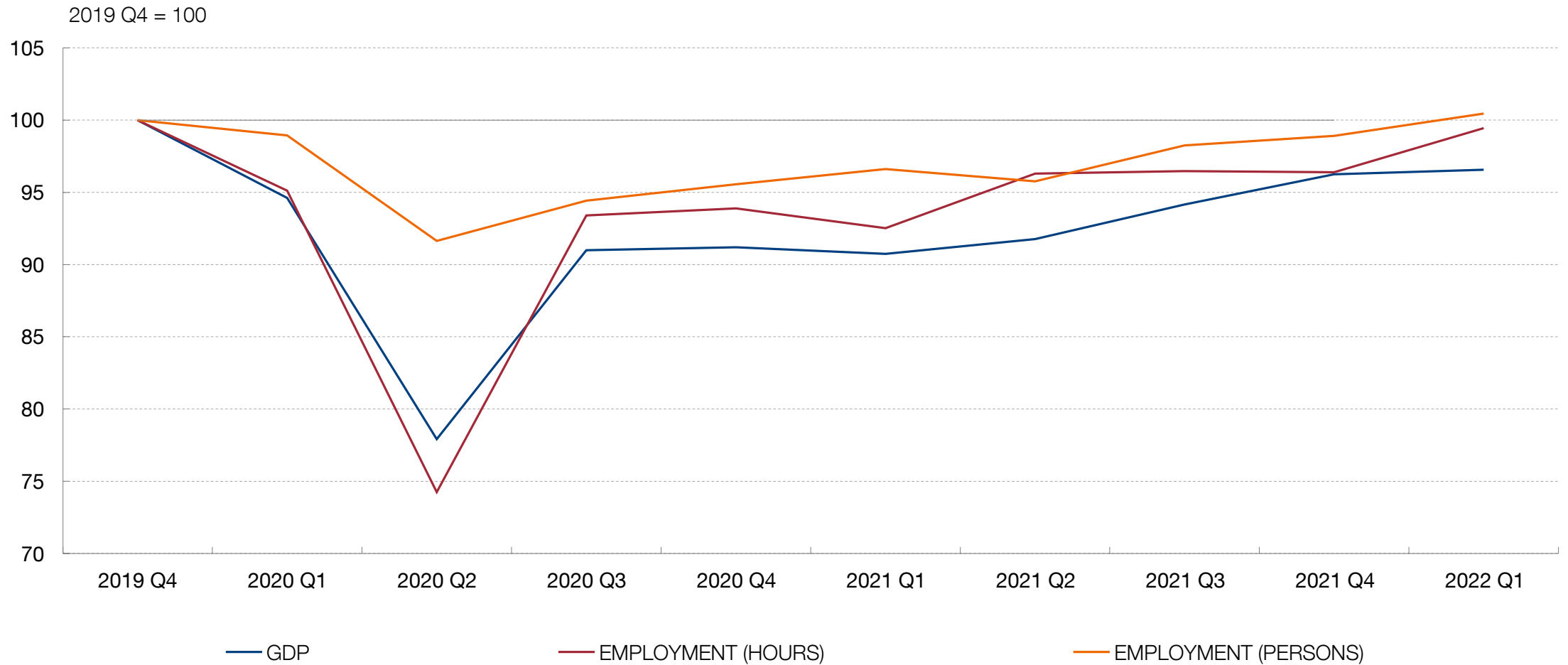


GROSS VALUE ADDED, BY SECTOR



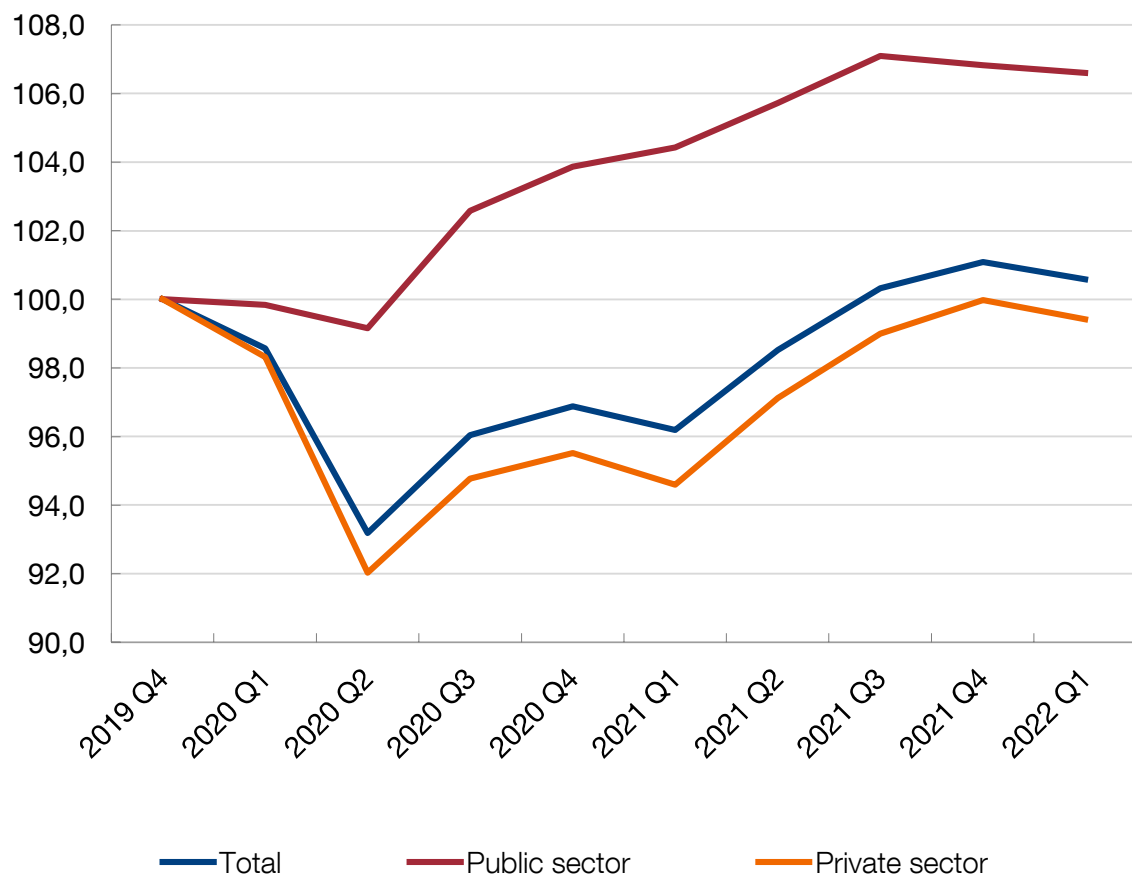
SOURCE: INE.

GDP AND EMPLOYMENT

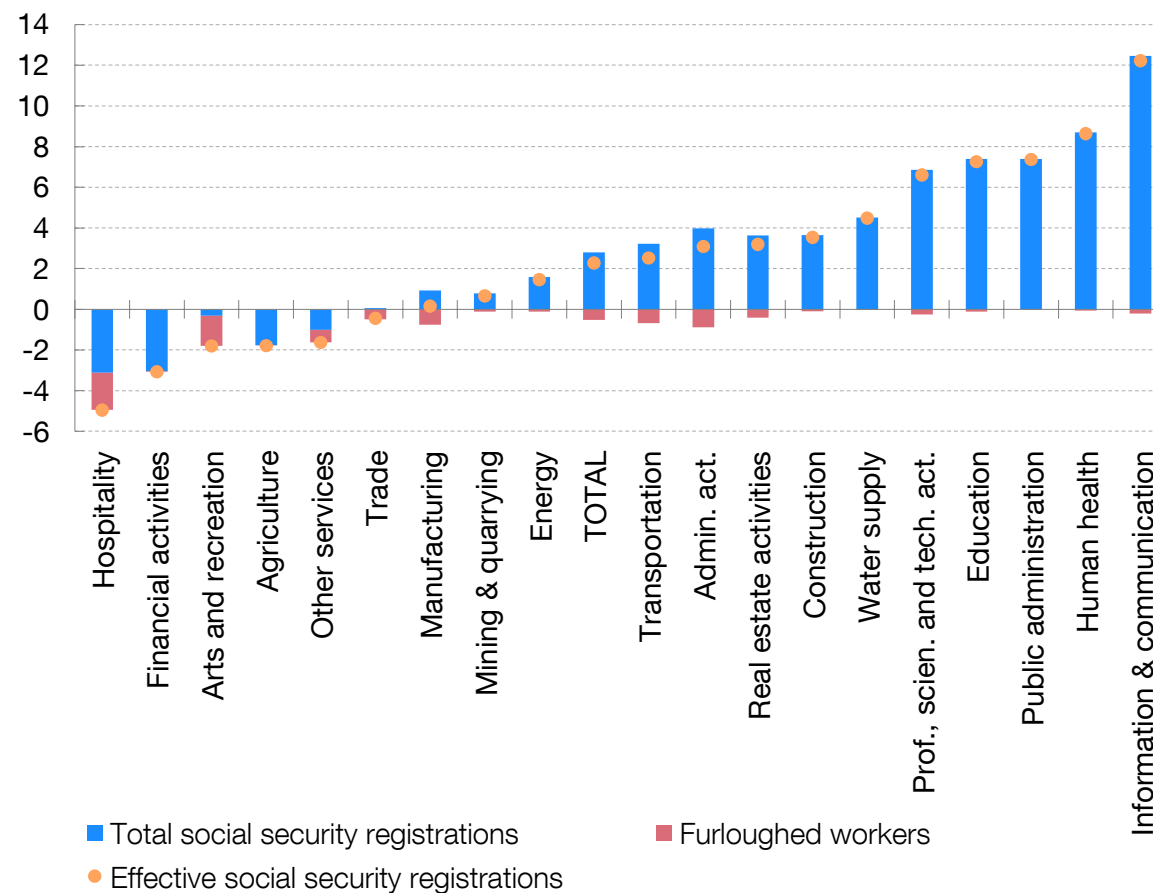


SOURCE: INE.

EMPLOYMENT BY TYPE OF SECTOR (2019 Q4 = 100)



TOTAL SOCIAL SECURITY REGISTRATIONS, FURLOUGHED WORKERS AND EFFECTIVE SOCIAL SECURITY REGISTRATIONS, BY SECTOR. MARCH 2022 VS. FEBRUARY 2020 (%)

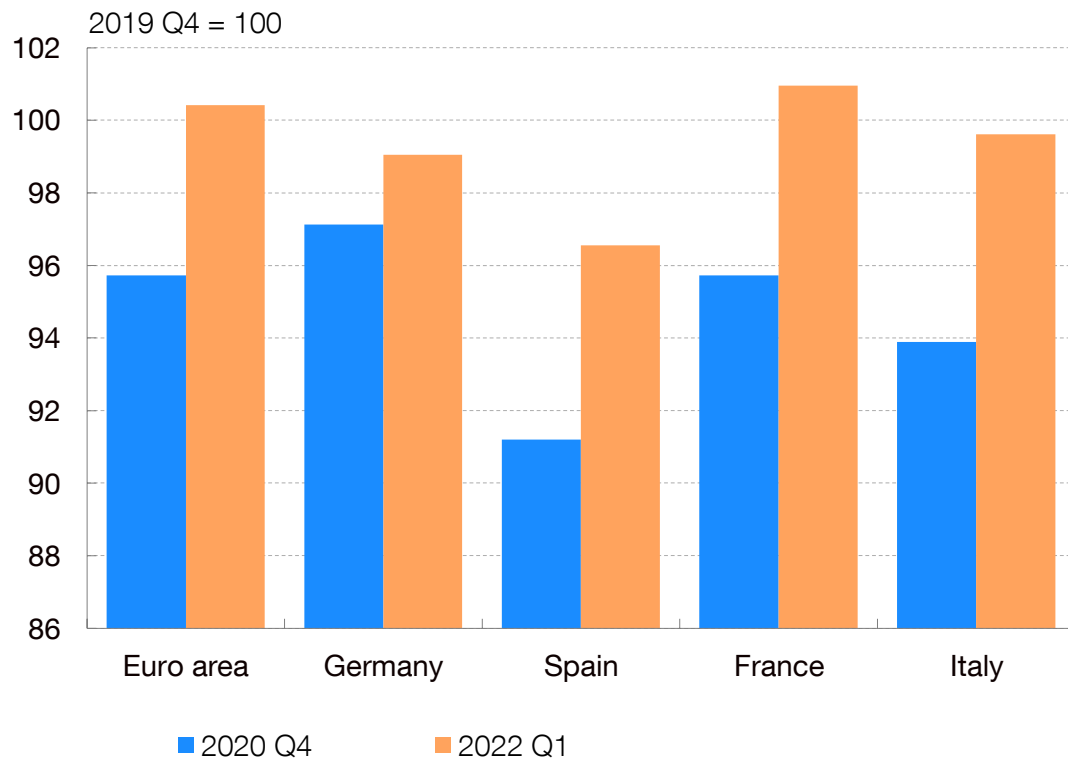


SOURCES: INE (EPA) and Ministerio de Inclusión, Seguridad Social y Migraciones. Employment measured in terms of numbers of people. Public sector employment comprises all public enterprise and central, regional and local government employees, according to the Spanish Labour Force Survey, including both workers covered by the corresponding social security and other equivalent arrangements.

IN 2022 Q1 GDP IN SPAIN WAS 3.4 PP BELOW THE PRE-PANDEMIC LEVEL, WHILE IN THE EURO AREA IT STOOD 0.5% ABOVE

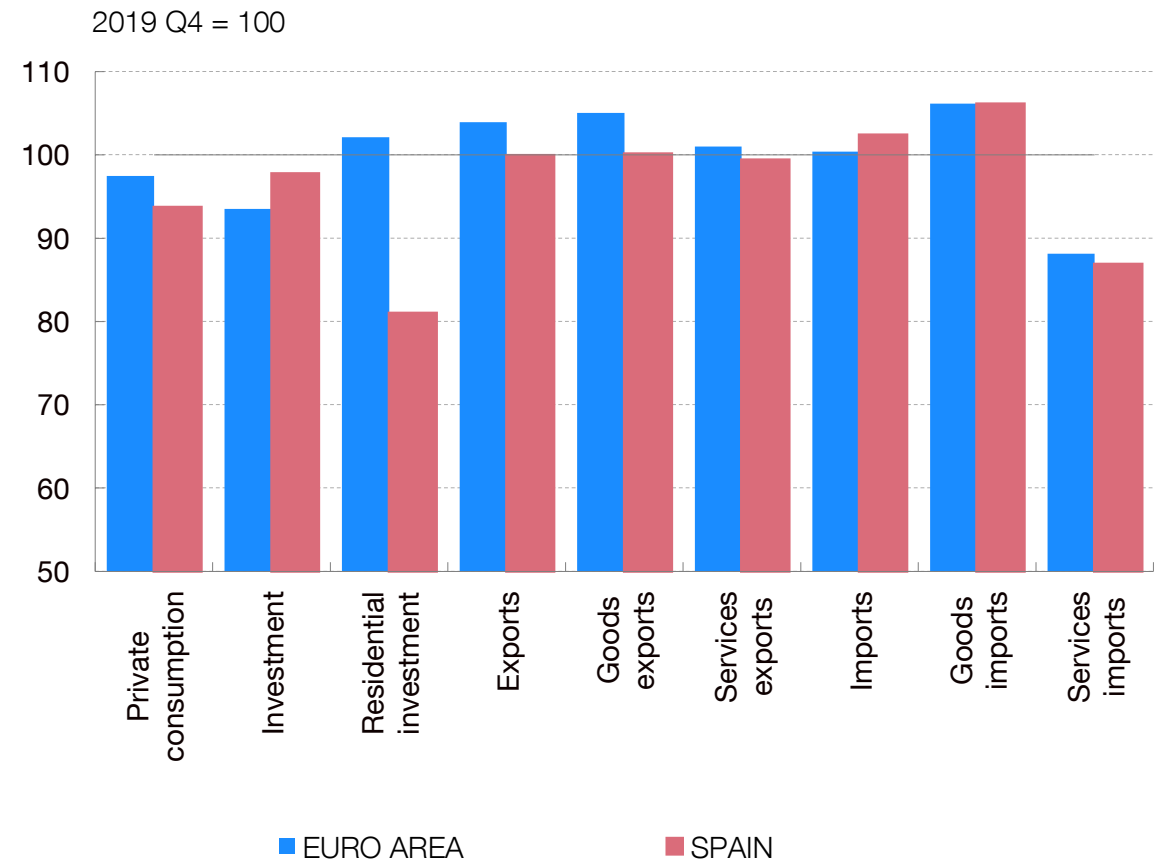
- On the demand side, Spain's relative gap is attributable to exports, private consumption and residential investment

RETURN OF GDP TO PRE-PANDEMIC LEVELS



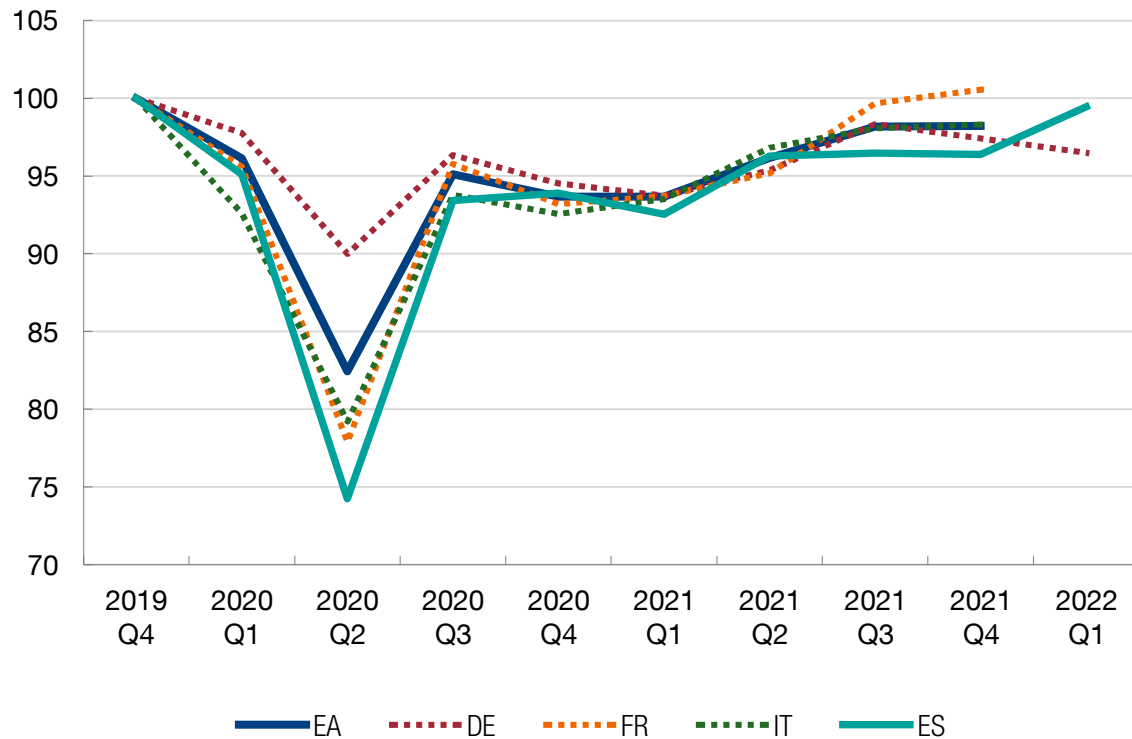
SOURCE: Eurostat.

RETURN OF DEMAND COMPONENTS TO PRE-PANDEMIC LEVELS (2021 Q4)

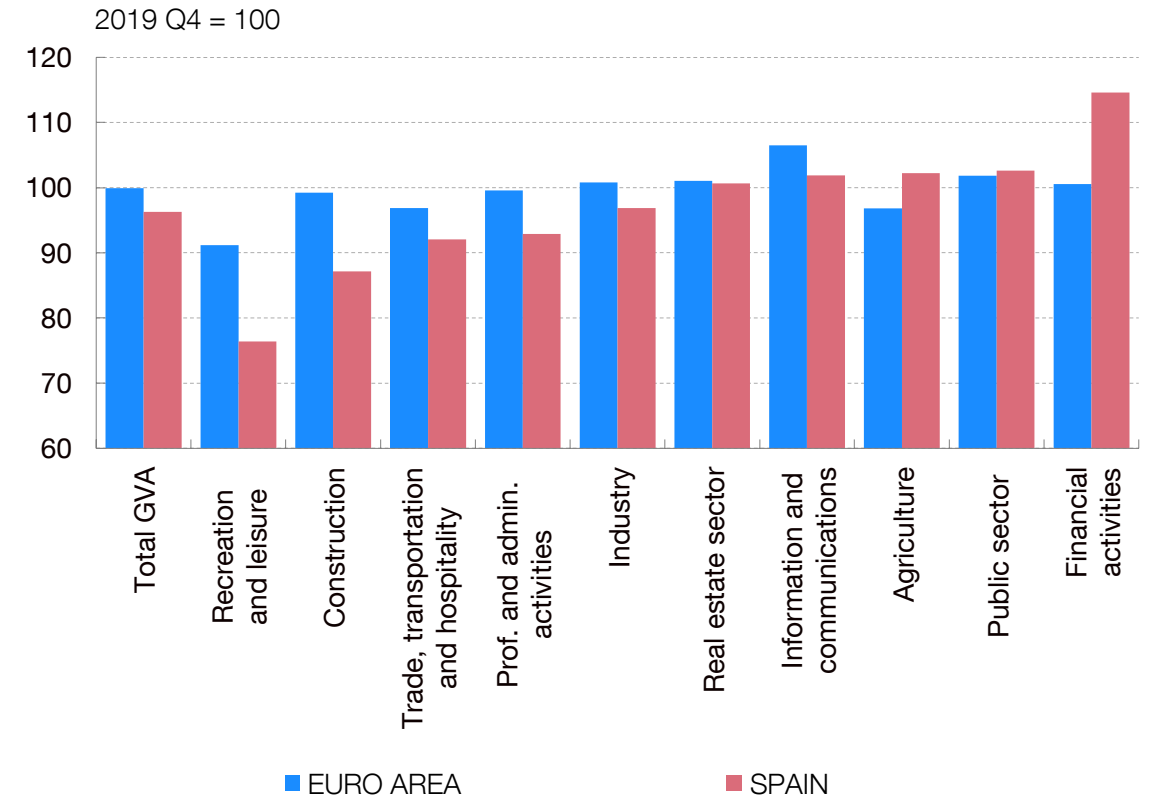


- On the supply side, the gap vis-à-vis the euro area reflects, in part, the Spanish economy's specialisation in the sectors hardest hit by the pandemic (in particular, in those related to tourism); however, there is also a gap in trade, transport and hospitality; construction; and professional and administrative activities; as well as in industry

TOTAL HOURS WORKED (2019 Q4 = 100)



RETURN OF REAL GVA TO PRE-PANDEMIC LEVELS (2021 Q4)



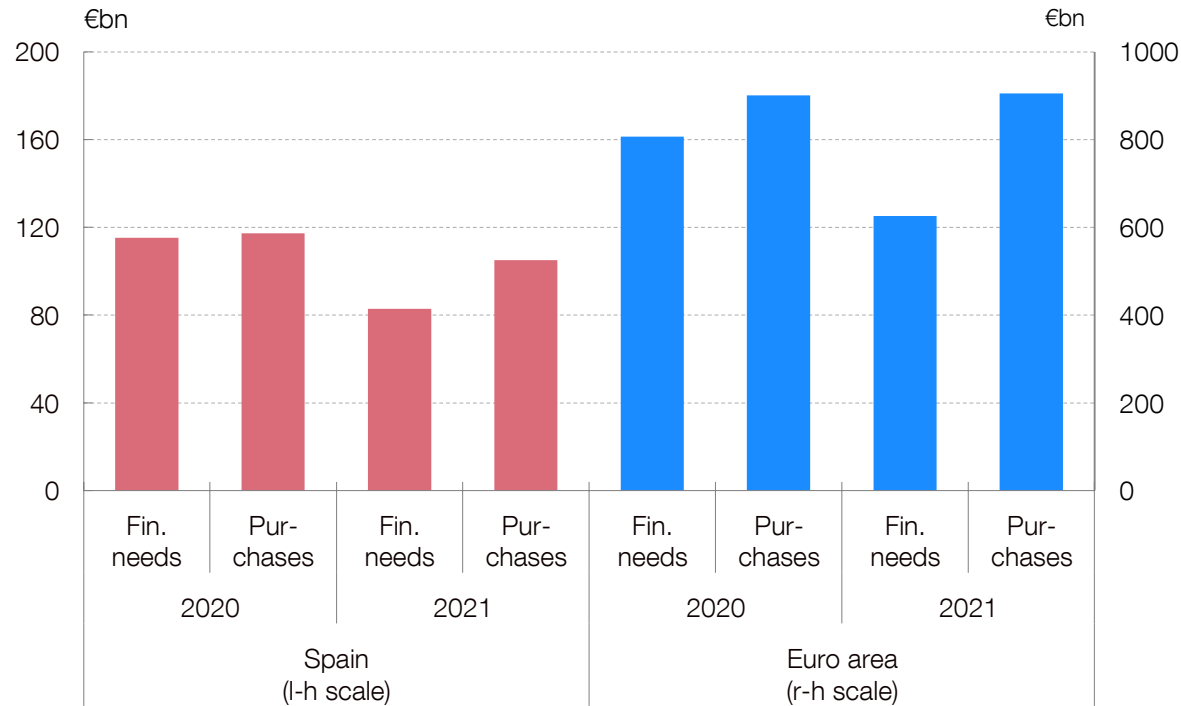
SOURCES: Eurostat and INE.

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**GENERAL GOVERNMENT FINANCING NEEDS AND EUROSISTEM PURCHASES OF GOVERNMENT DEBT.
In net terms**



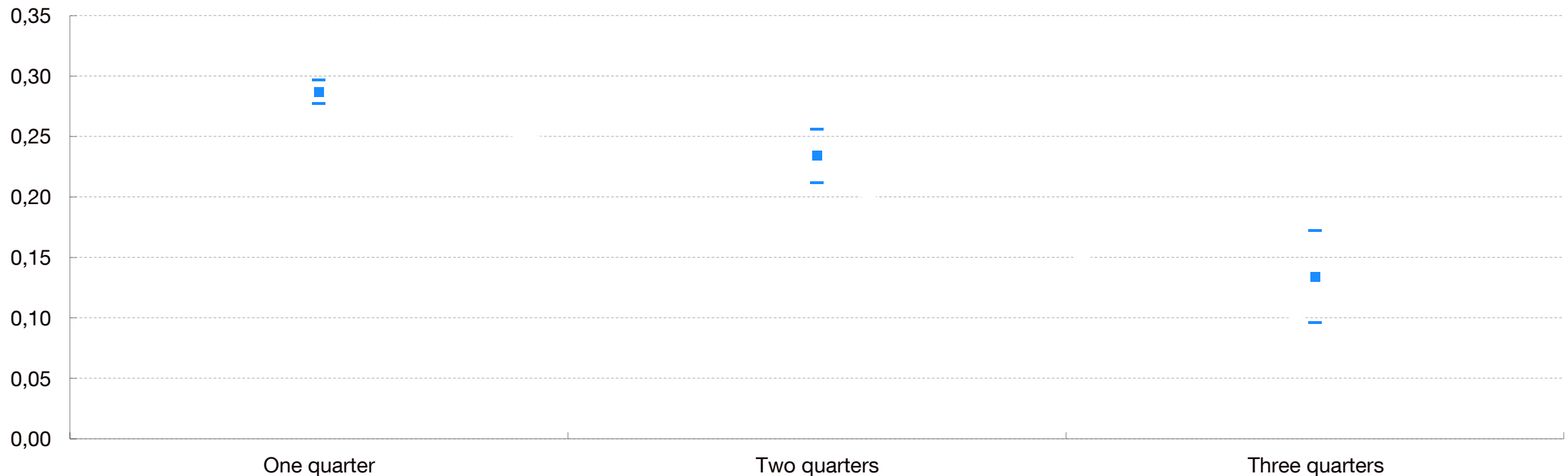
YIELD ON 10-YEAR SOVEREIGN DEBT IN SPAIN AND GERMANY



SOURCES: ECB, European Commission, Eurostat and Refinitiv Datastream.

- Furloughed workers have a higher probability of returning to work than unemployed workers
- This difference tapers off as the time on furlough increases, especially in the case of workers who are younger, have a temporary contract or are lower-skilled

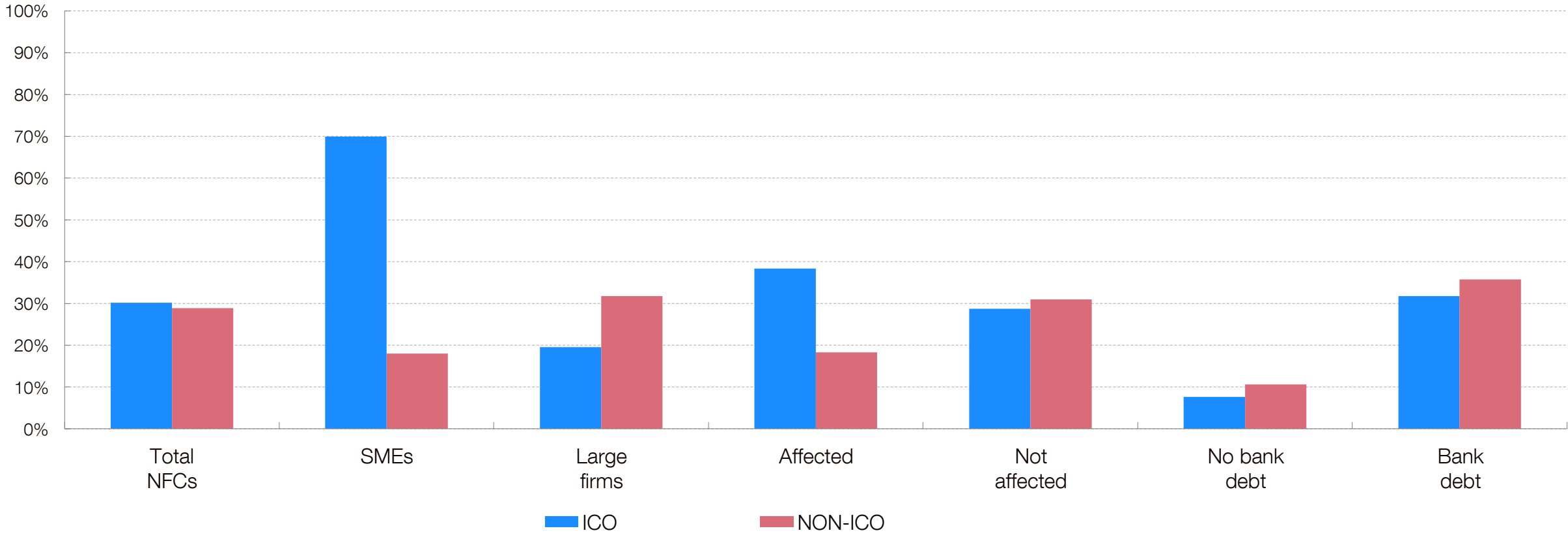
IMPACT OF FURLOUGH SCHEMES ON THE PROBABILITY OF RETURNING TO WORK (FURLOUGH VS UNEMPLOYMENT)



SOURCE: I. Auciello, M. Izquierdo and S. Puente (2022). “Un análisis de la reincorporación laboral de los trabajadores afectados por un ERTE según su duración”, Artículos Analíticos, *Boletín Económico*, Banco de España, forthcoming.

THE GUARANTEE FACILITIES HAVE BEEN ABLE TO COVER A LARGE PART OF FIRMS' LIQUIDITY NEEDS AND SUSTAIN CREDIT, ESPECIALLY FROM LOWER-CAPITAL BANKS

COVERAGE OF FIRMS' LIQUIDITY NEEDS USING BANK LOANS IN 2020

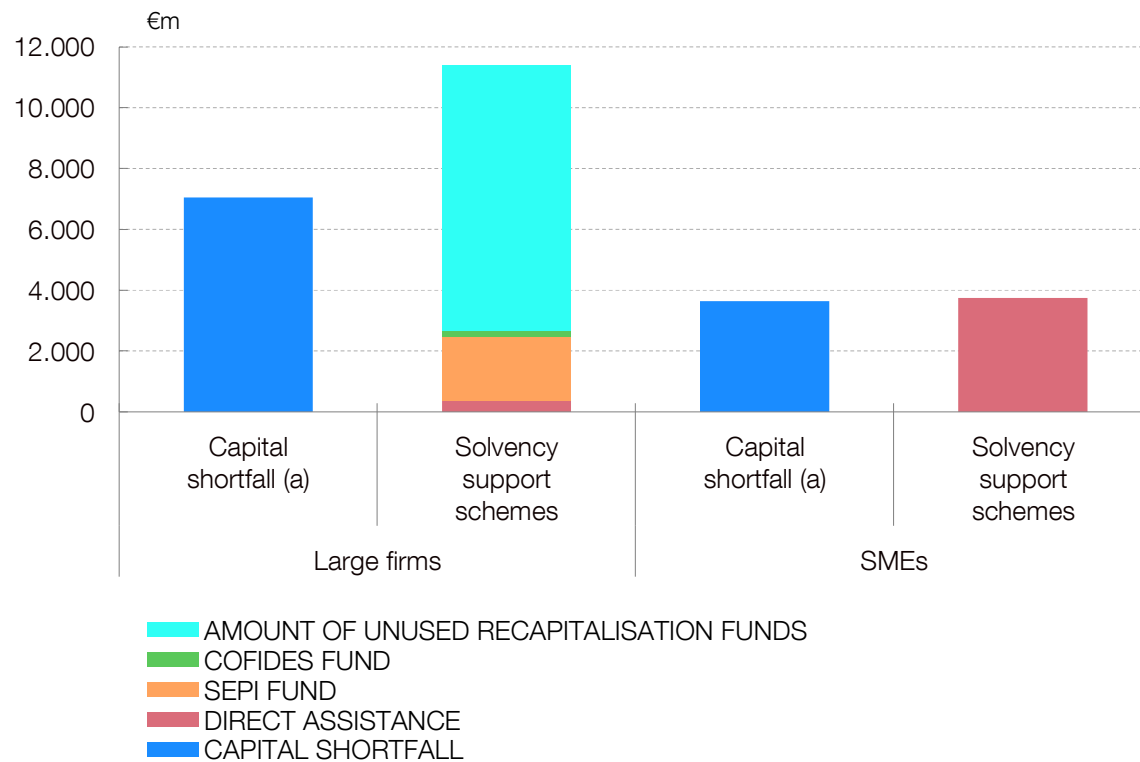


SOURCE: Banco de España.

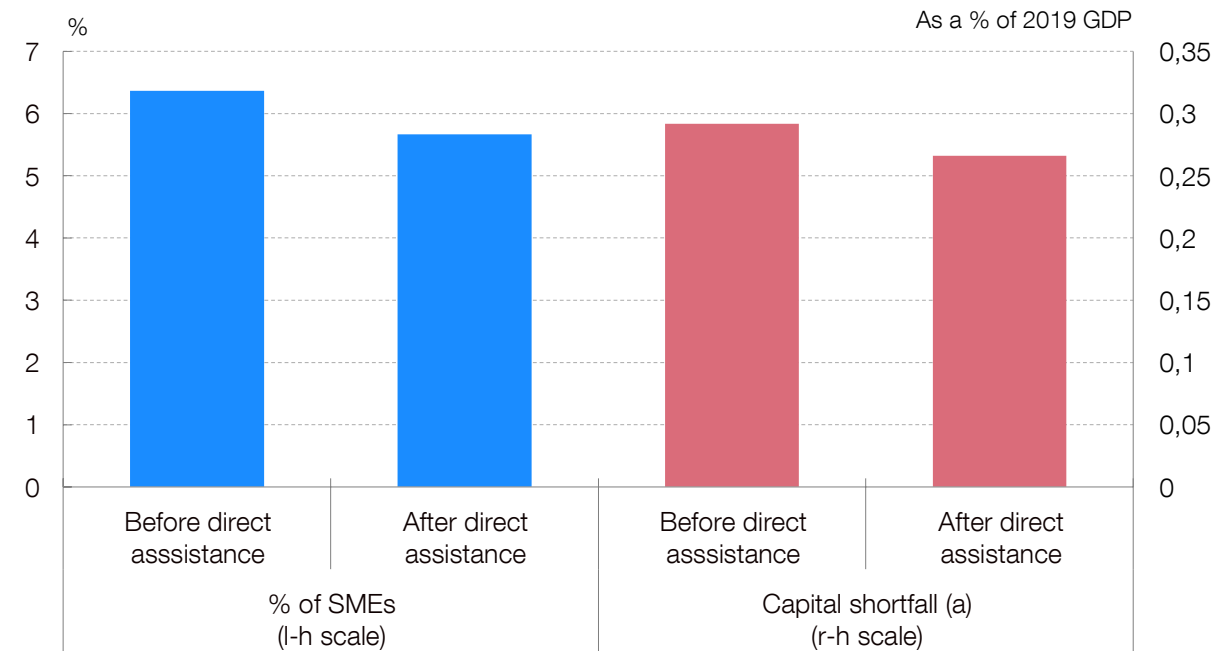
WHEREAS THE DIRECT ASSISTANCE SCHEME APPEARS TO HAVE ONLY PARTIALLY MITIGATED THE DETERIORATION IN SPANISH SMEs' SOLVENCY

- The funding of the various solvency support schemes for firms was sufficient to cover all the capital shortfalls of SMEs, although the percentage of SMEs with a capital shortfall position after the crisis has decreased only slightly

CAPITAL SHORTFALL IN 2020 AND AMOUNT UNDER THE CORPORATE SOLVENCY SUPPORT SCHEMES



SMEs WITH A CAPITAL SHORTFALL IN 2020

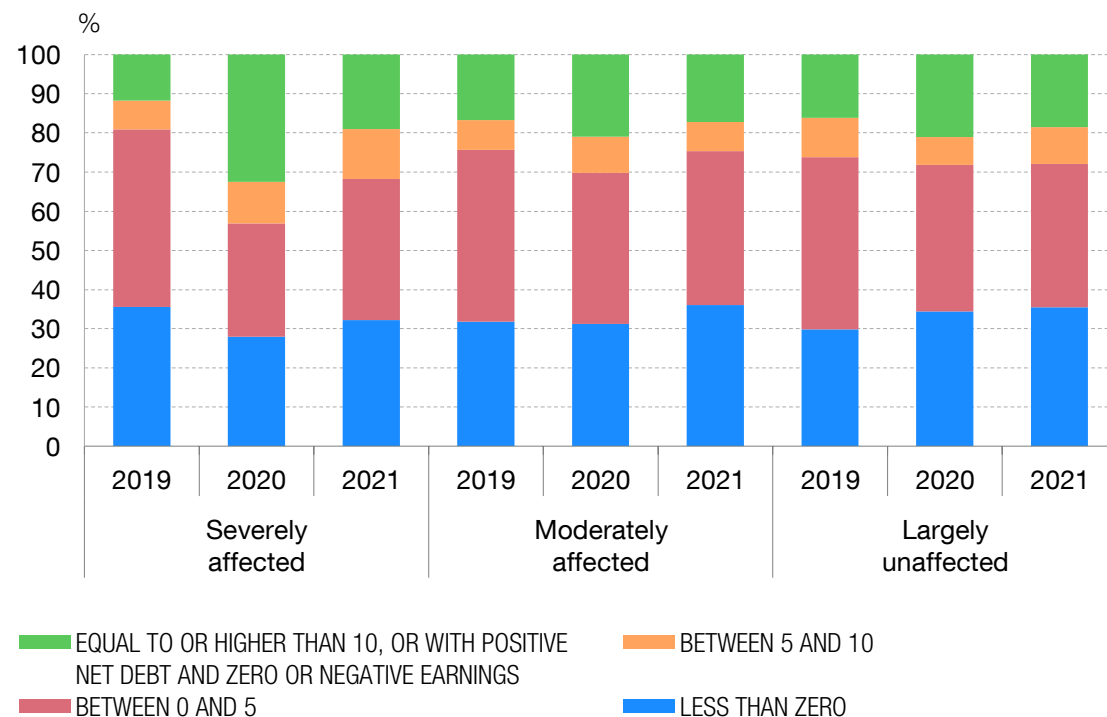


SOURCE: Banco de España.

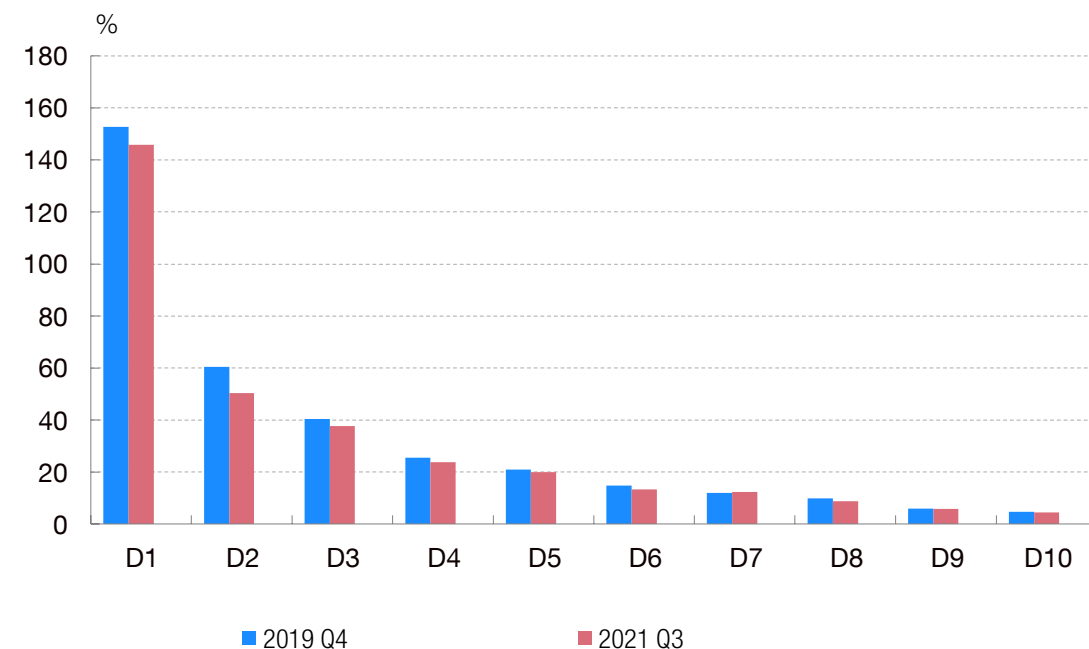
a. Firms are deemed to have a capital shortfall when their capital ratio (equity/total assets) was positive in 2019 but fell in 2020 to stand below 15%. The amount of the capital shortfall is the volume required by firms with a shortfall to return to their 2019 capital ratio, with a 15% limit.

- Firms' financial situation improved in 2021, although, on average, it continues to be more vulnerable than before the pandemic in the hardest hit sectors. As regards households, there has been a broad-based decline in the bank debt-to-total asset ratio, particularly in the bottom net wealth deciles

PERCENTAGE OF FIRMS BY DEBT TRANCHE AND SECTOR OF ACTIVITY (a)



HOUSEHOLDS' BANK DEBT-TO-TOTAL ASSET RATIO BY NET WEALTH DECILE (a)



SOURCE: Banco de España.

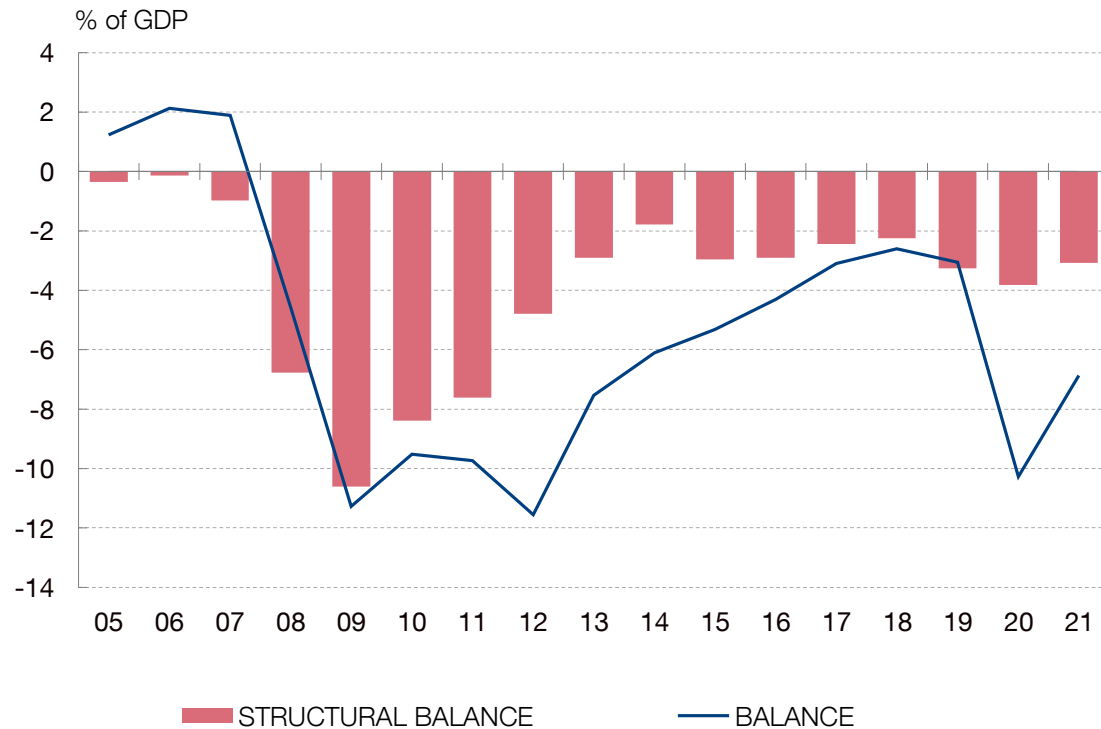
a Debt is measured as the ratio of net debt to the sum of gross operating profit and financial revenue. The sectors are classified according to the extent to which they were affected by the COVID-19 pandemic, measured in terms of fall-off in turnover.

SOURCE: Banco de España.

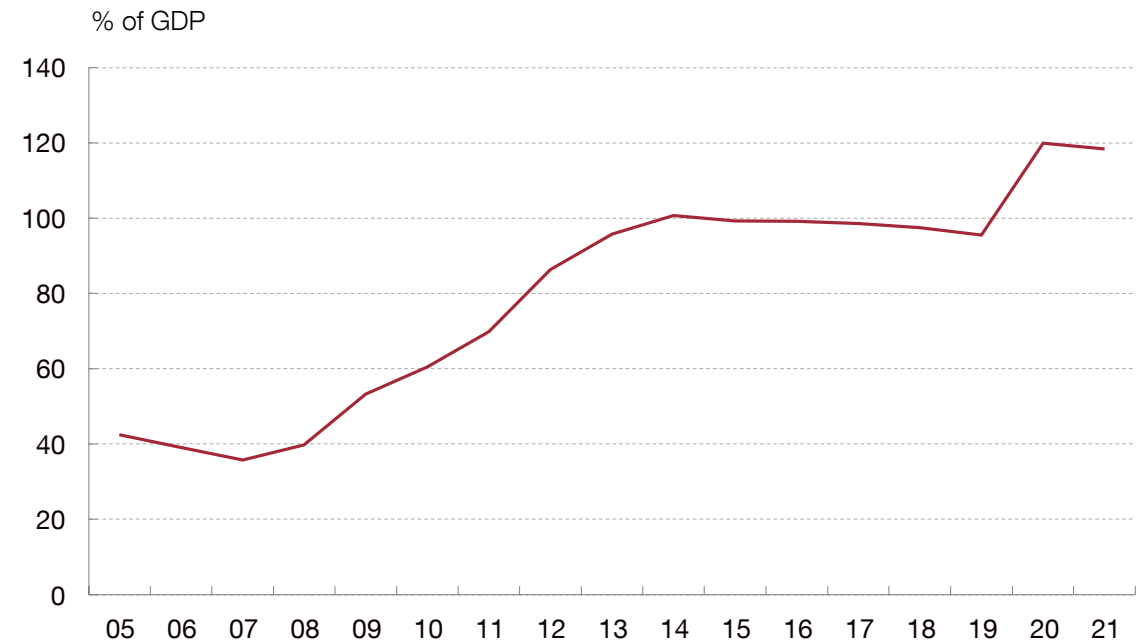
a The denominator of the bank debt-to-total asset ratio includes financial and non-financial assets.

- The government debt-to-GDP ratio stood at 118.4% at end-2021, 1.5 pp lower than in 2020, but over 20 pp higher than the pre-pandemic level. Meanwhile, the budget deficit fell from 10.3% to 6.9% of GDP in 2021, yet it remains over 3 pp of GDP above its pre-crisis level

GENERAL GOVERNMENT TOTAL AND STRUCTURAL BALANCE



PUBLIC DEBT



SOURCE: Banco de España and IGAE.

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Commodities channel

- Russia and, to a lesser degree, Ukraine are **major producers of certain energy and non-energy commodities**
- **Europe is highly dependent** on imports of some of these products: Russia accounted for some 20% of total euro area oil imports and some 35% of total euro area gas imports in 2020. In 2019, 6% of Spain's energy imports (4.5% of total energy consumption) came from Russia, but this figure is much higher for countries such as Germany (17%) and Italy (22%)
- A hypothetical reduction in, or cut to, supply from Russia could have a significant impact on the European economy
- **Indeed, oil, natural gas and other non-energy commodity prices have already risen sharply**

Financial channel

- **Direct financial exposure** to Russia and Ukraine is generally **very limited** among European firms and banks (especially, once again, among Spanish ones)
- **Volatility has increased and financing conditions have tightened**

Trade channel

- **European countries' direct trade exposure to Russia is relatively low and smaller in Spain. Yet the indirect effects may be considerable**, particularly amid sanctions
- In 2019 euro area exports of goods to Russia and Ukraine accounted for 1.6% and 0.3%, respectively, of its total goods exports. Spain's exports of goods to Russia and Ukraine accounted for 0.7% and 0.2%, respectively, of its total, whereas the relative dependence on imports from Russia stood at 1.1% in 2019 (0.5% in the case of Ukraine, although this figure was higher for certain primary products)

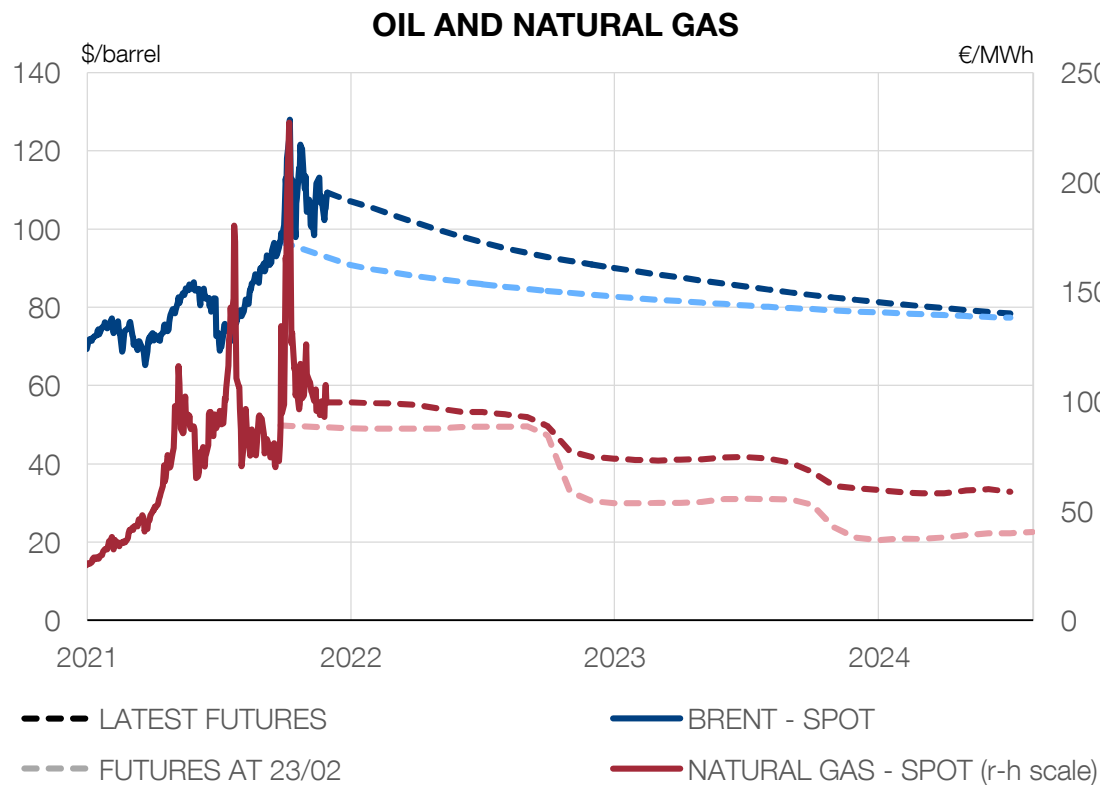
Confidence/ uncertainty channel

- **Households and firms will have difficulty anticipating future economic developments**, particularly regarding their own incomes. This will affect their consumption and investment decisions
- **Confidence indicators have deteriorated** since the outbreak of the war

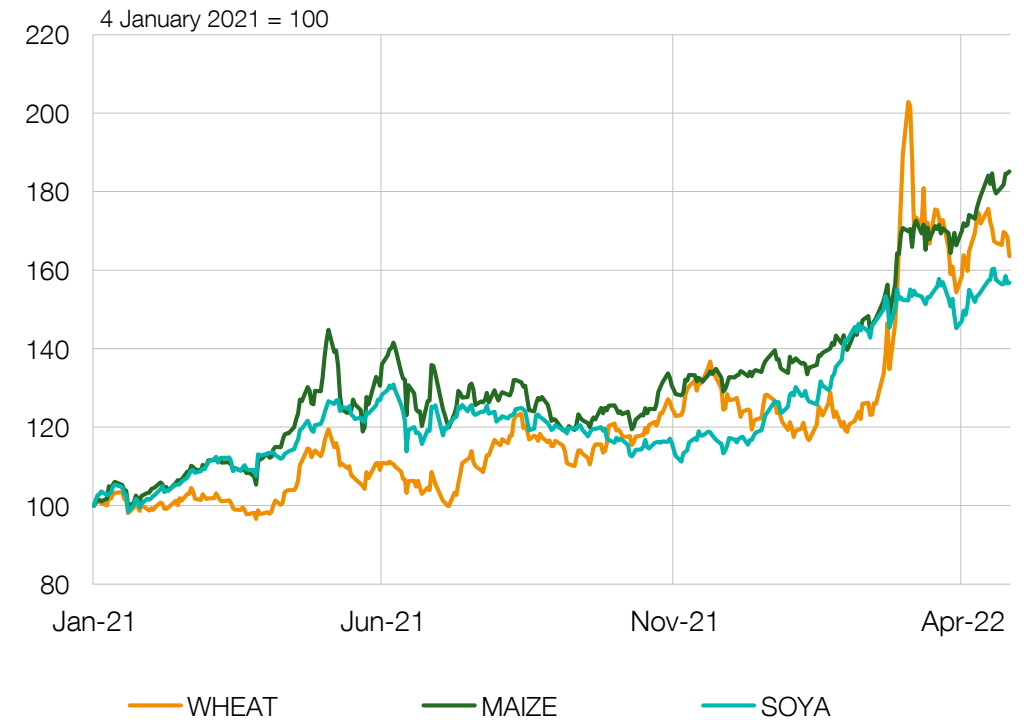
THE GREATEST EFFECTS OF THE WAR ON OUR ECONOMY ARE BEING FELT THROUGH HIGHER COMMODITY PRICES

- The rise in prices (especially in those of commodities) is proving to be more acute and persistent than expected before the outbreak of the war, and the global production and supply chain bottlenecks may also endure longer than expected a few months ago

COMMODITIES PRICES



AGRICULTURAL GOODS



SOURCES: Bloomberg, IMF and Refinitiv.

THE LATEST PROJECTIONS PUBLISHED BY THE BANCO DE ESPAÑA SHOW THESE ADVERSE CONSEQUENCES FOR ECONOMIC GROWTH AND INFLATION

			APRIL 2022 PROJECTIONS			DIFFERENCE WITH THE DECEMBER PROJECTIONS		
	2020	2021	2022	2023	2024	2022	2023	2024
Annual rate of change (%), unless otherwise indicated								
GDP	-10.8	5.1	4.5	2.9	2.5	-0.9	-1.0	0.7
Harmonised index of consumer prices (HICP)	-0.3	3.0	7.5	2.0	1.6	3.8	0.8	0.0
HICP excluding energy and food	0.5	0.6	2.8	1.8	1.7	1.0	0.4	0.1
Unemployment rate (% of labour force). Annual average	15.5	14.8	13.5	13.2	12.8	-0.7	0.3	0.4
General government net lending (+) / net borrowing (-) (% of GDP)	-10.3	-6.9	-5.0	-5.2	-4.7	-0.2	-1.2	-1.4
General government debt (% of GDP)	120.0	118.4	112.6	112.8	113.5	-3.1	-0.9	0.0

SOURCES: Banco de España and INE.

Duration and intensity of the war in Ukraine and the persistence of the possible geopolitical fallout

Indirect and second-round effects on inflation

Implementation and economic impact of European NGEU funds

Energy prices

Household consumption and use of their built-up savings

The course of the pandemic

Bottlenecks in global production and supply chains

Impact of worldwide monetary policy normalisation on financial markets and financing conditions

Impact of the fiscal and energy policy measures in Spain and the EU

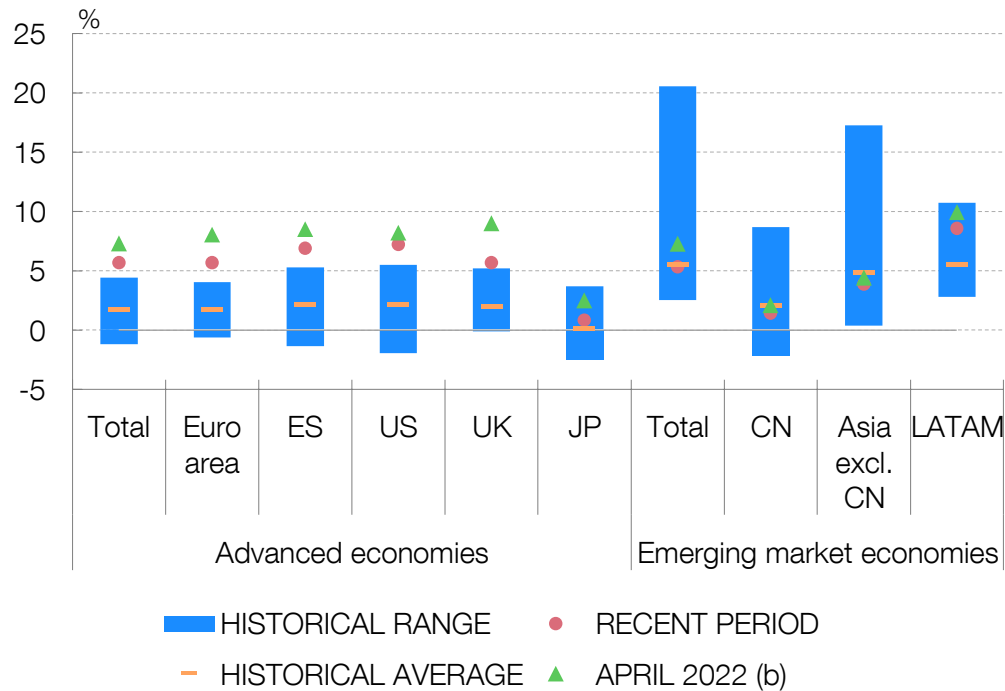
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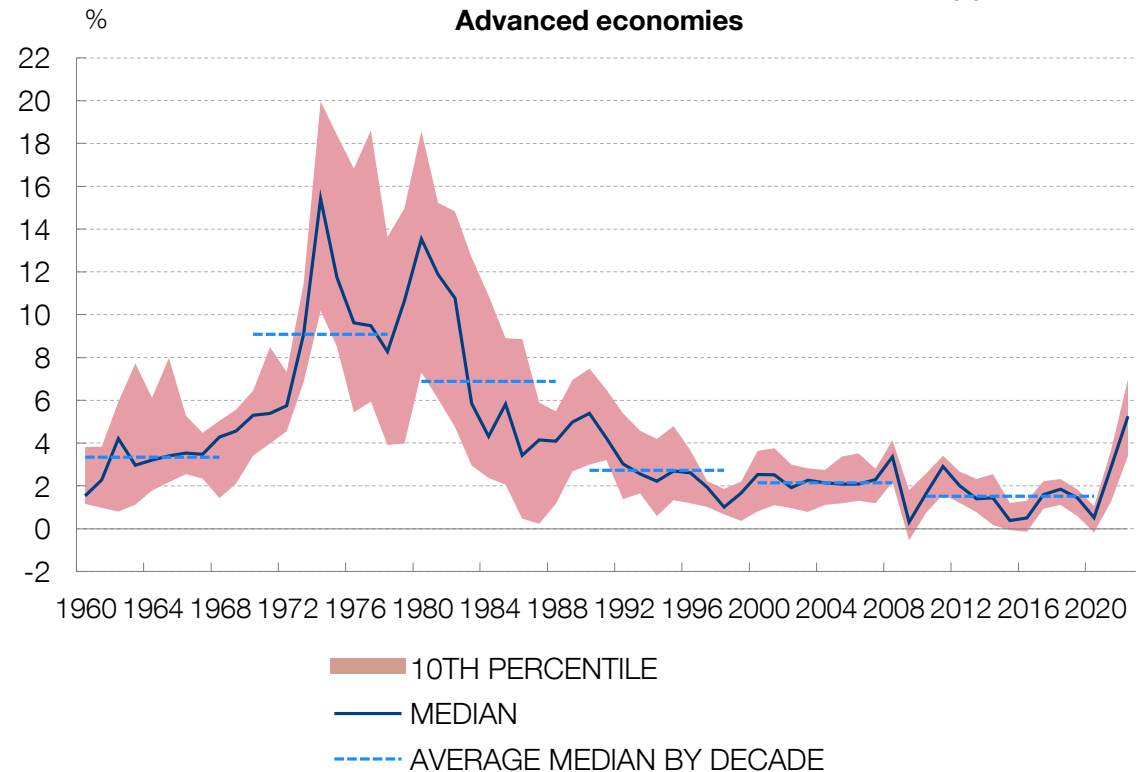


INFLATION HAS ACCELERATED IN RECENT QUARTERS, REACHING RATES NOT SEEN FOR SEVERAL DECADES IN SPAIN AND WORLDWIDE, AND IS PROVING MORE PERSISTENT THAN EXPECTED

HEADLINE INFLATION RATE (a)



INFLATION WITH A LONG TERM PERSPECTIVE (c) Advanced economies



SOURCES: IMF, Consensus Economics and national statistics.

a. The recent period refers to the average from September 2021 to April 2022 (May 2022 for Spain and the euro area). The historical data cover the period 1999-2019. In the emerging market economies the periods may be incomplete owing to the lack of data.

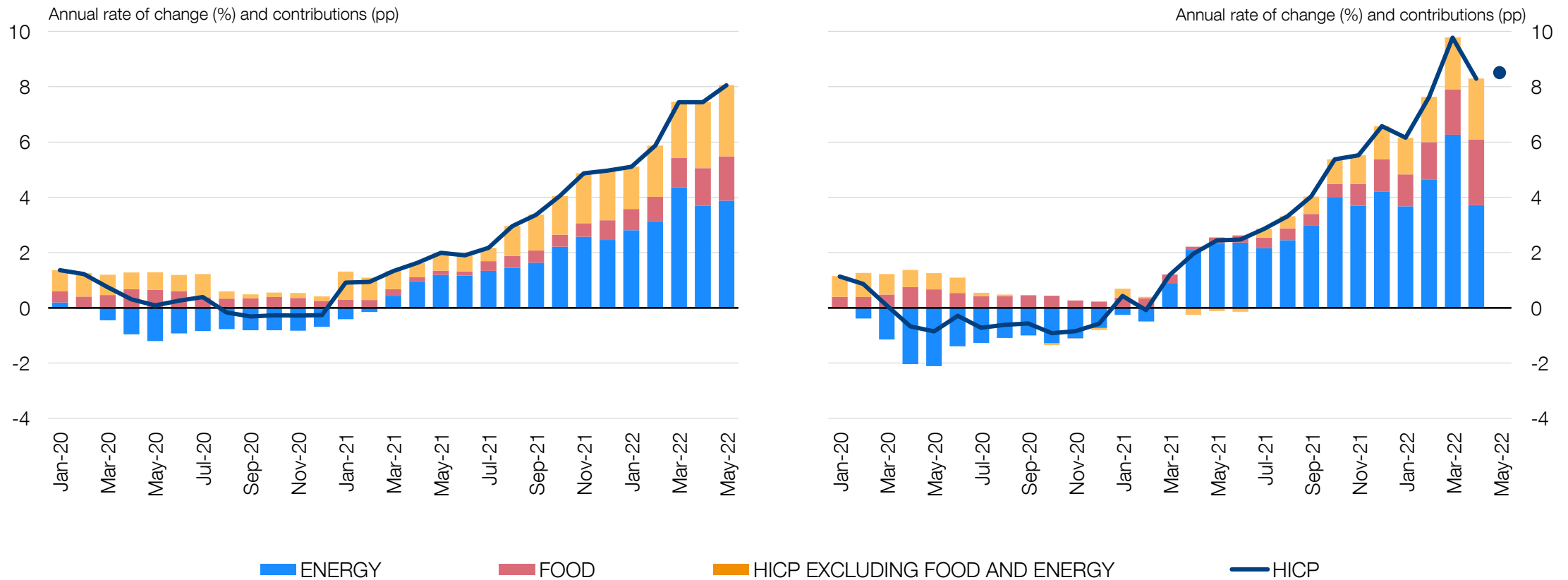
b. March 2022 for the emerging market economies and Asia excluding China aggregates; May 2022 for Spain and the euro area.

c. Annual rates, with projections for 2022, in nine advanced economies: Australia, Canada, France, Germany, Italy, Japan, Spain, the United Kingdom and the United States.

IN QUANTITATIVE TERMS, RISING COMMODITY PRICES APPEAR TO BE THE MAIN FACTOR BEHIND THE INCREASE IN PRICES

- The vigorous recovery in demand has also played a very important role in these inflation dynamics, especially in the United States, while bottlenecks have had a particularly acute impact on inflation in the euro area

HARMONISED INDEX OF CONSUMER PRICES (HICP) AND CONTRIBUTIONS



SOURCES: Banco de España and Eurostat.

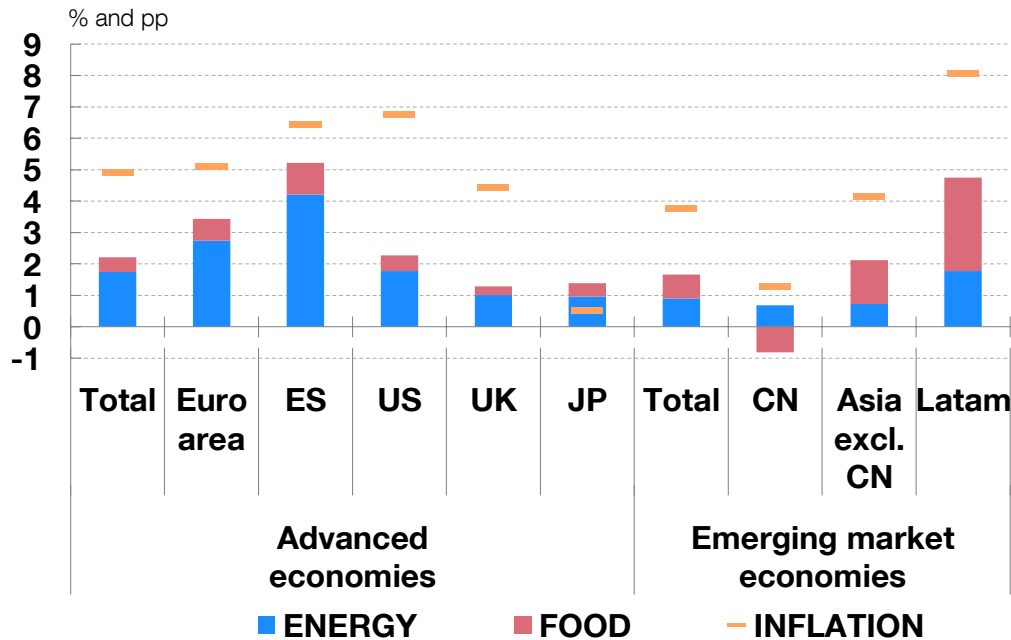
THE INFLATIONARY EPISODE IS GLOBAL, BUT ITS SCALE AND COMPOSITION VARY ACROSS REGIONS AND COUNTRIES

- Higher energy prices are hitting the euro area, and Spain particular, harder owing largely to the greater relative weight of fuel and electricity
- Sectoral specialisation has also influenced the asymmetric incidence of the inflationary episode. For example, in Spain and Italy contact-intensive services account for a higher relative share of the economy, and the rise in prices in these sectors has contributed to inflation to a greater extent

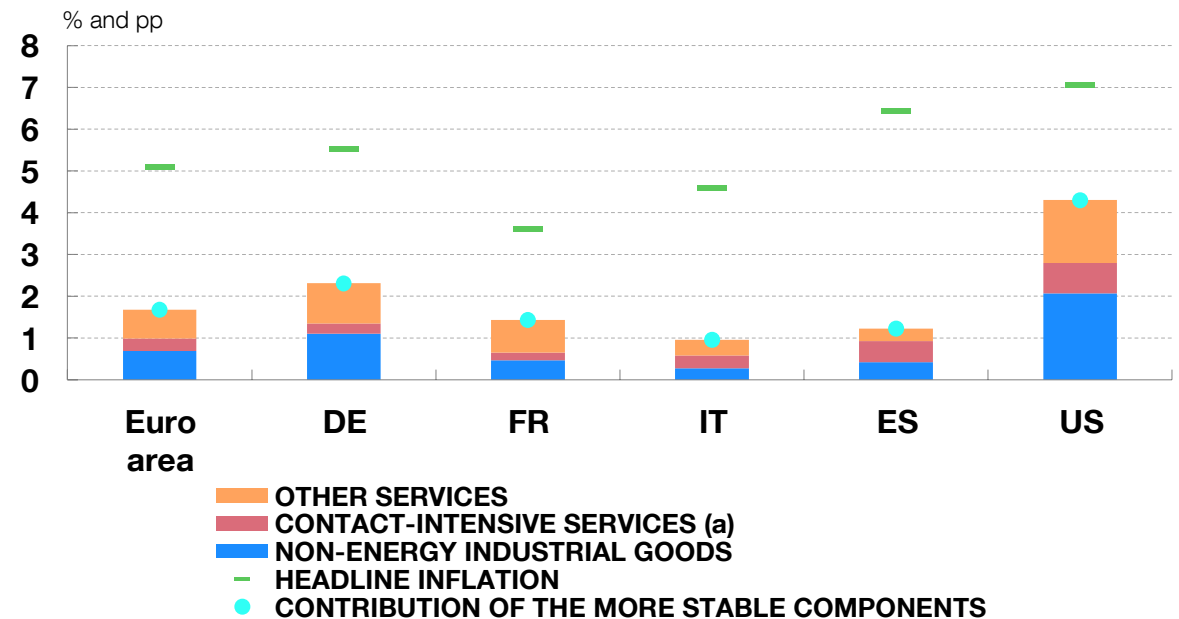
HETEROGENEITY IN INFLATION COMPONENTS

Contributions to the average inflation rate in the most recent period: September 2021 to March 2022

CONTRIBUTION OF ENERGY AND FOOD



CONTRIBUTION OF THE MORE STABLE COMPONENTS

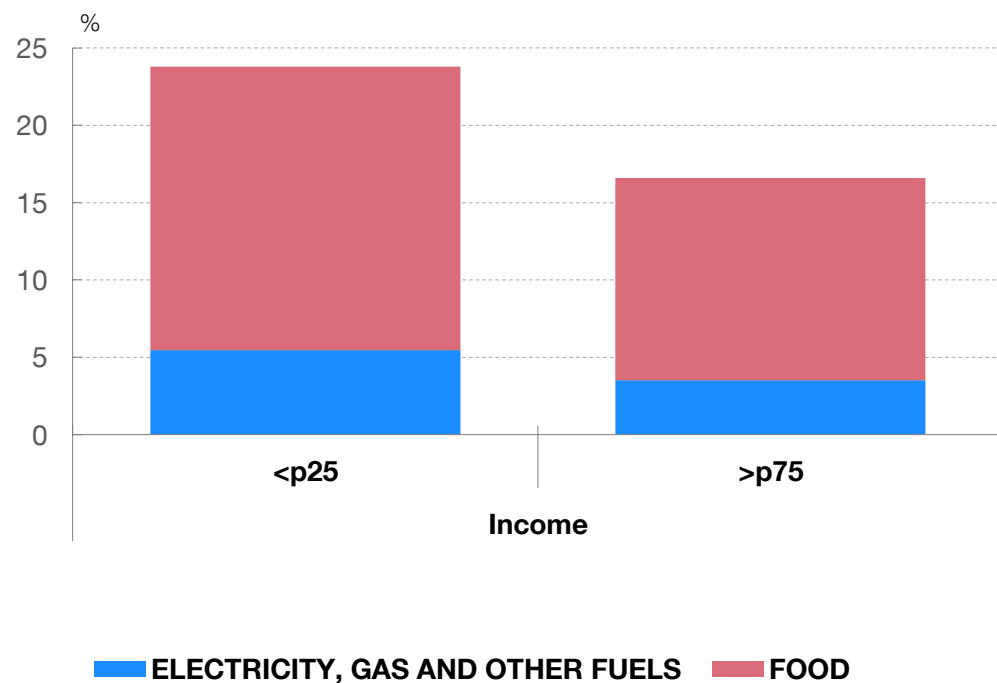


SOURCES: Banco de España, Eurostat and national statistics.

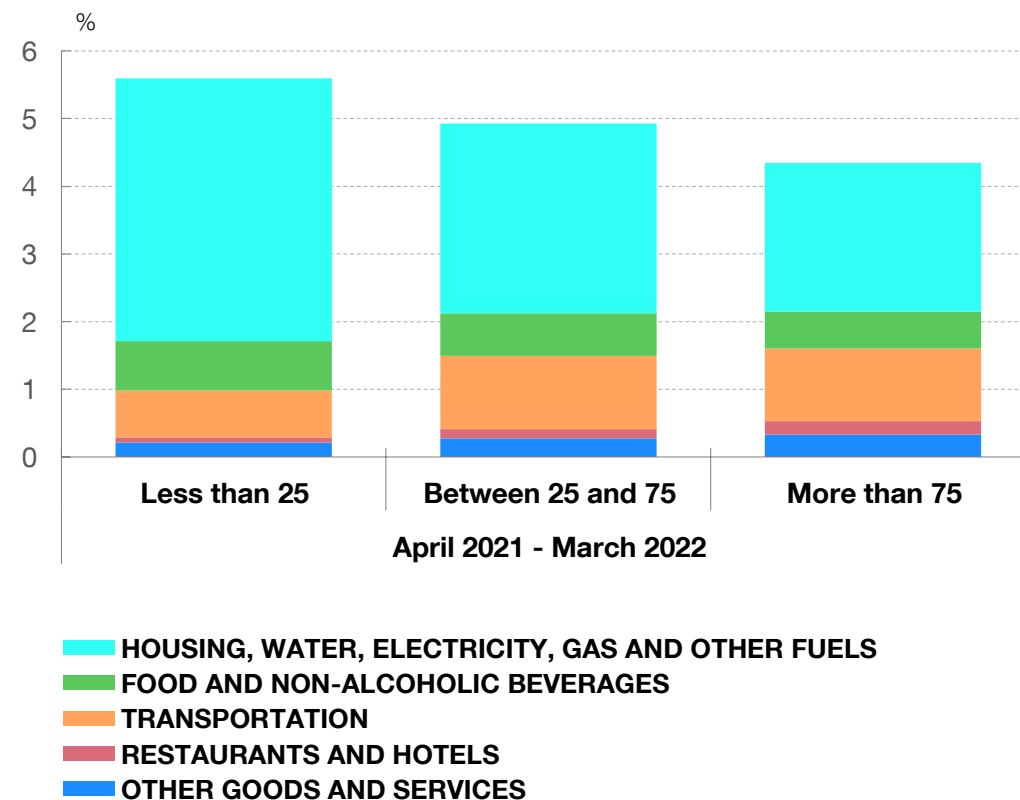
a. Contact-intensive services include recreation and culture, hospitality and, in the case of euro area countries, package holidays.

- In particular, in recent months, lower-income households have experienced higher inflation because staple goods, whose prices have shown the greatest relative increase in recent times, account for a larger share of these households' spending

SHARE OF EXPENDITURE ON FOOD AND ELECTRICITY, GAS AND OTHER FUELS (2006-2020)



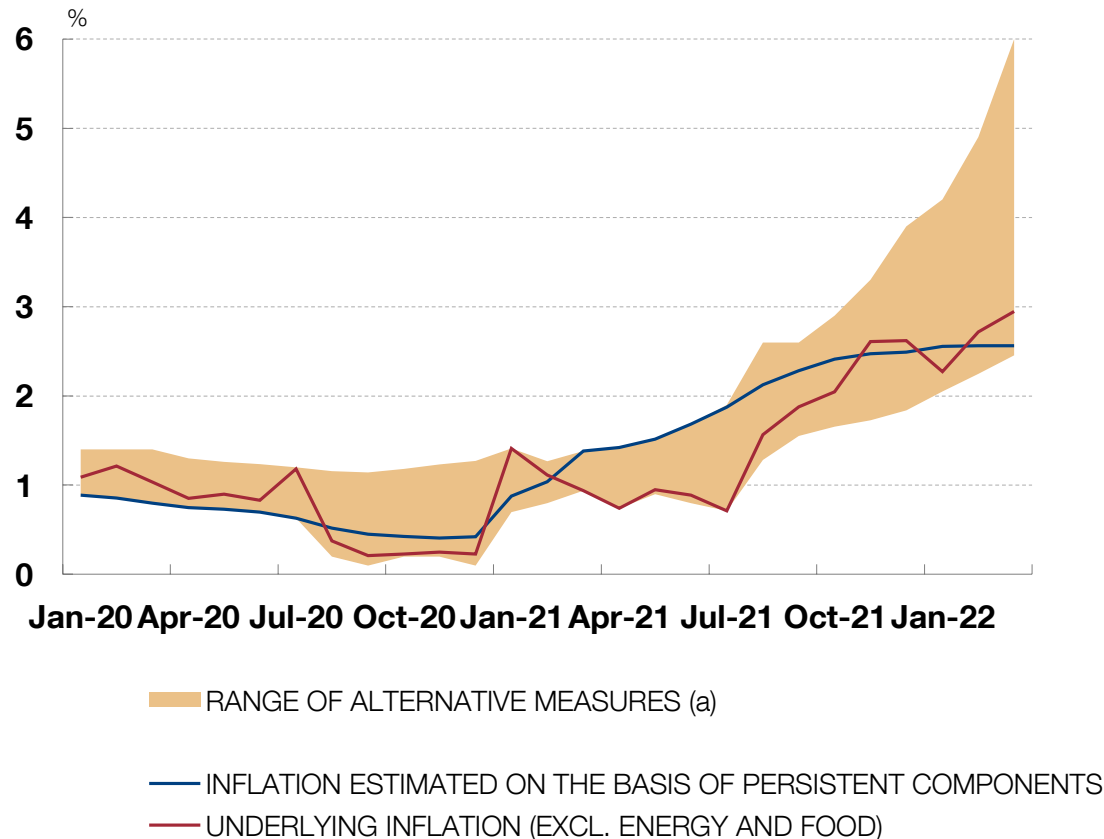
HOUSEHOLD-SPECIFIC INFLATION BY INCOME PERCENTILE



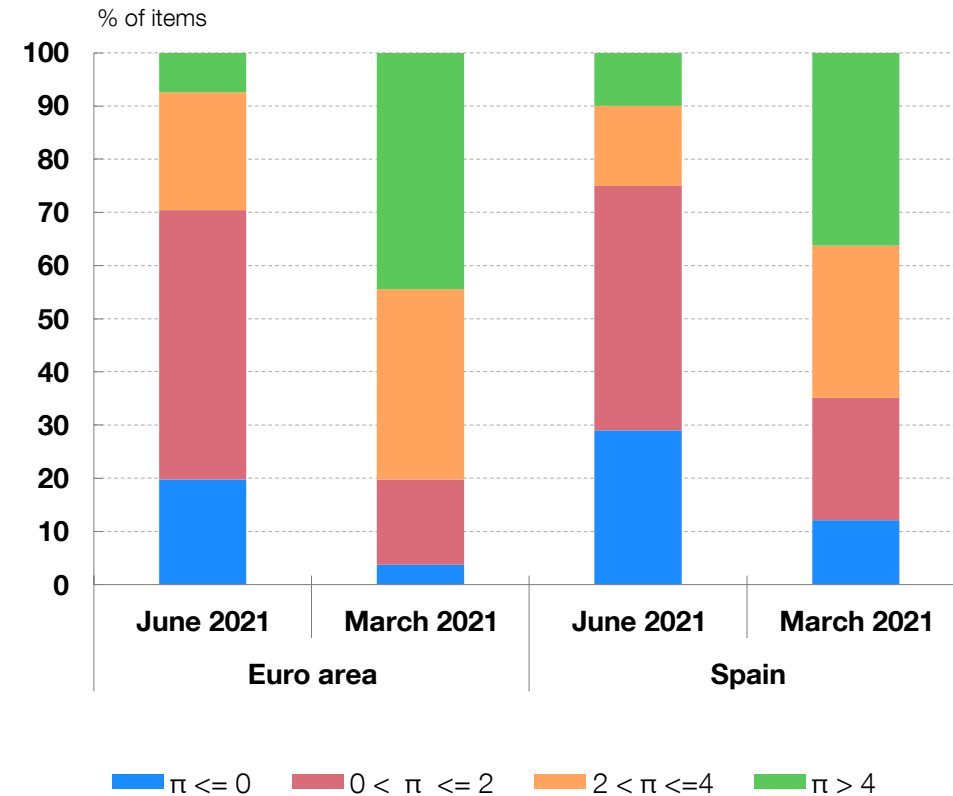
SOURCES: Banco de España and INE (Household Budget Survey).

BUT IN RECENT MONTHS INFLATIONARY PRESSURES HAVE SPREAD TO NUMEROUS COMPONENTS BEYOND ENERGY AND FOOD

MOST STABLE MEASURES OF INFLATIONARY PRESSURES IN THE EURO AREA



DISTRIBUTION OF HICP ITEMS BY INFLATION RATE RANGE

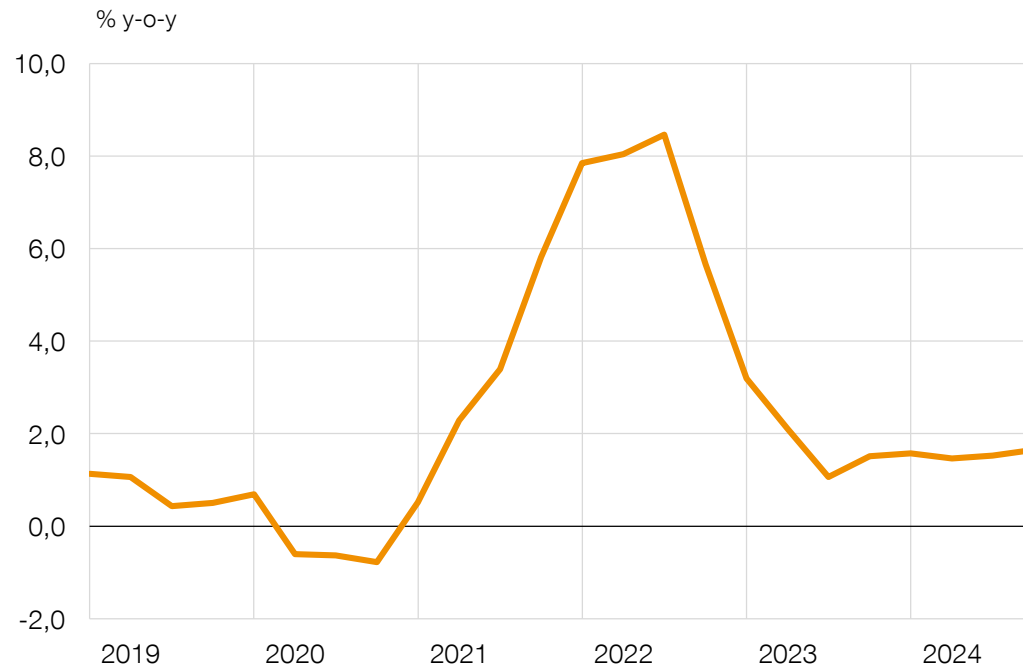


SOURCES: ECB, Banco de España and Eurostat.

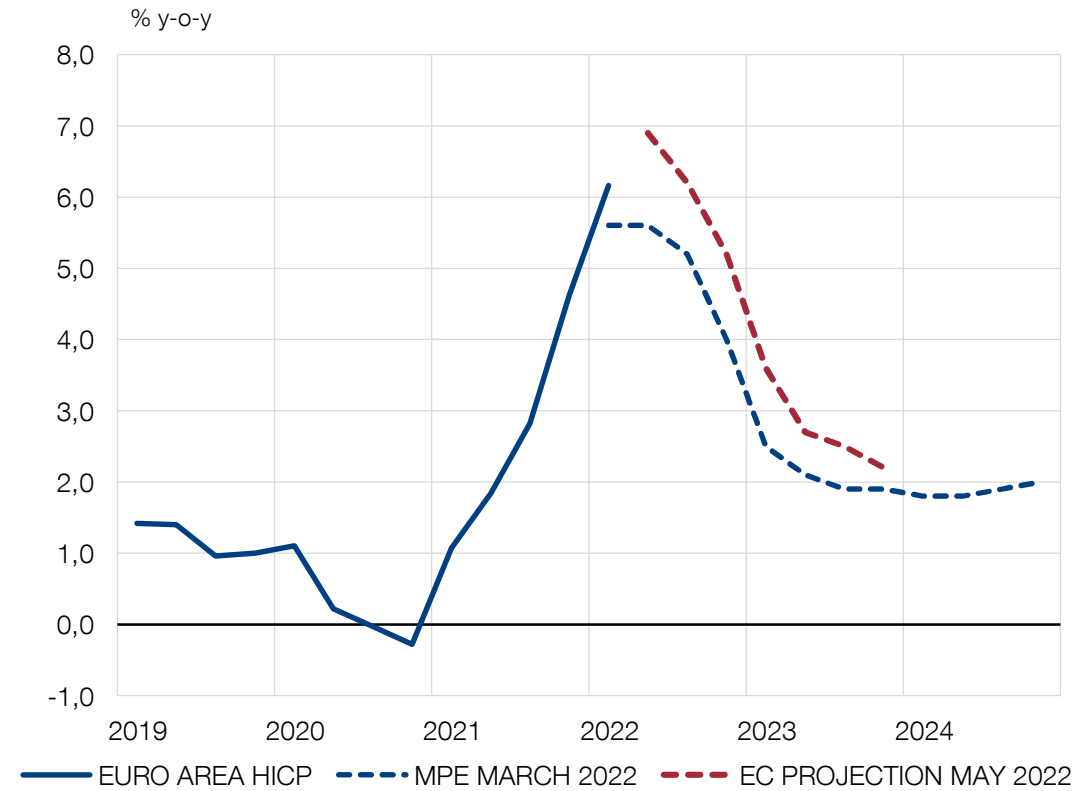
a. The range of indicators includes: underlying inflation (headline inflation excl. energy and food), inflation estimated on the basis of the persistent components of inflation obtained using regime change models (see Leiva-León, Le Bihan and Pacce (2022)), underlying inflation excluding tourism and clothing, the 10% and 30% trimmed means (taking into account the HICP item breakdown), the persistent and common component of inflation and supercore inflation.

INFLATION WILL REMAIN HIGH IN THE SHORT TERM, ALTHOUGH CONSENSUS FORECASTS POINT TO A GRADUAL MODERATION IN THE MEDIUM TERM, PROVIDED THERE ARE NO FURTHER INFLATION SHOCKS OR SIGNIFICANT INDIRECT AND SECOND-ROUND EFFECTS

HICP SPAIN



HICP EURO AREA



SOURCES: Banco de España, ECB, Eurostat and INE.
Latest observation: 2022 Q1.

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Fiscal policy should help to reduce the adverse economic effects of the war. But, given the relatively limited fiscal headroom and high inflation, the measures need to be highly targeted and temporary

Thus, the efforts should focus on supporting lower-income households, which are those hit hardest by inflation, and the firms most vulnerable to this new shock

The measures should also be designed to avoid significant distortions to price signals, which is particularly important to avert any feedback into the inflationary process

For this same reason, an across-the-board fiscal impulse and a very widespread use of automatic indexation clauses in expenditure items should be avoided

An incomes agreement as a way of mitigating the risk of an inflationary spiral

- Under such an arrangement, firms and employees would agree to share the inevitable loss of income that higher commodity import prices entail for the national economy

What features should this agreement have?

**SENSITIVE TO THE
ASYMMETRIC IMPACT**

The asymmetric impact of the current shocks across employees, firms and sectors should be borne in mind, which means that excessively uniform measures, which would be too rigid for some segments of agents, should be avoided

WAGES

It would also be advisable to avoid arrangements that automatically link wages to past inflation and indexation clauses

MULTI-YEAR

It should envisage multi-year commitments relating both to wage increases – where the nominal benchmarks for wage bargaining should be based on the projected trend in underlying inflation – and to job protection

PROFIT MARGINS

These guidelines on wage developments should be complemented by explicit profit margin moderation commitments

- In a context in which inflation expectations over intermediate horizons and in the medium term stand at around 2%, underlying inflation is clearly above 2% and there are risks of upside deviations from the projections, **a gradual withdrawal of the extraordinary monetary stimulus is appropriate**

The keys to monetary policy normalisation

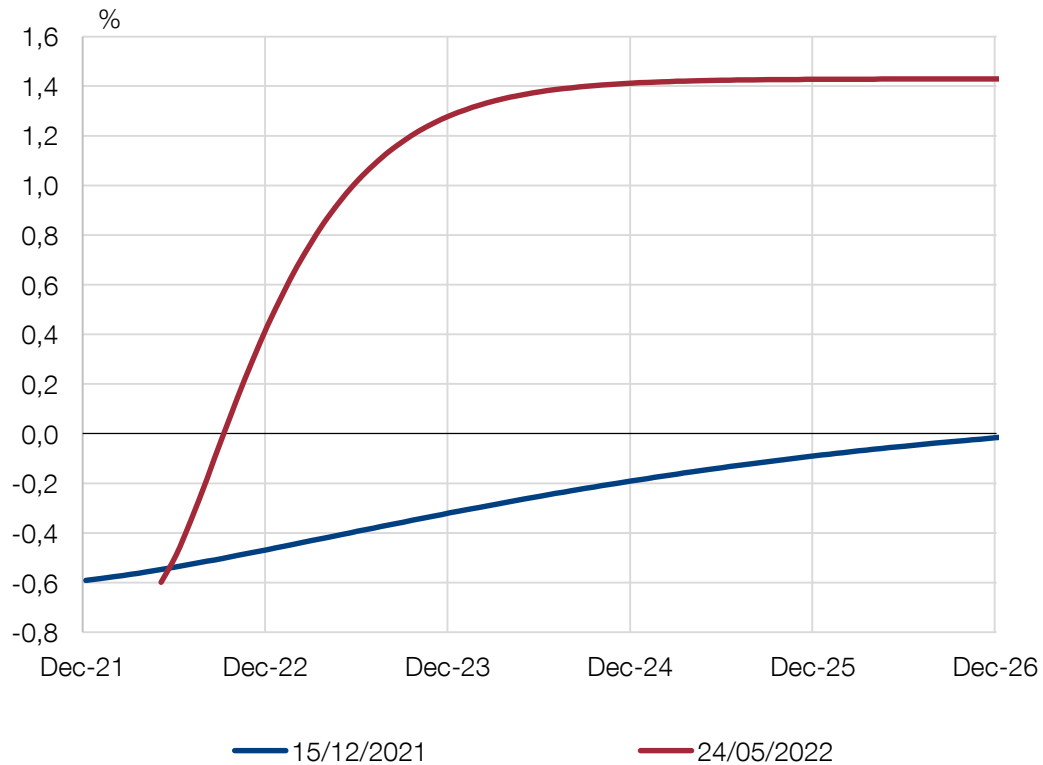
Net asset purchases under the PEPP ended in March 2022, and in April we announced that purchases under the APP would conclude in Q3, **possibly in early July, so that the first interest rate rise can be made during that month** and we can exit the current negative rates at the end of Q3

The process of raising interest rates must be **gradual and data-dependent**. For it to be gradual, it is essential that inflation expectations remain anchored and that no indirect or second-round effects arise on a scale that could jeopardise such anchoring

Within the ECB's mandate, under stressed conditions, **flexibility** will remain an element of monetary policy whenever threats to monetary policy transmission compromise the attainment of price stability

We will take whatever action is needed to fulfil our price stability mandate and to contribute to safeguarding financial stability

EURO AREA: €STR OIS INSTANTANEOUS FORWARD CURVE



EURO AREA: 10-YEAR OIS INTEREST RATE



SOURCES: Banco de España and Refinitiv Datastream.

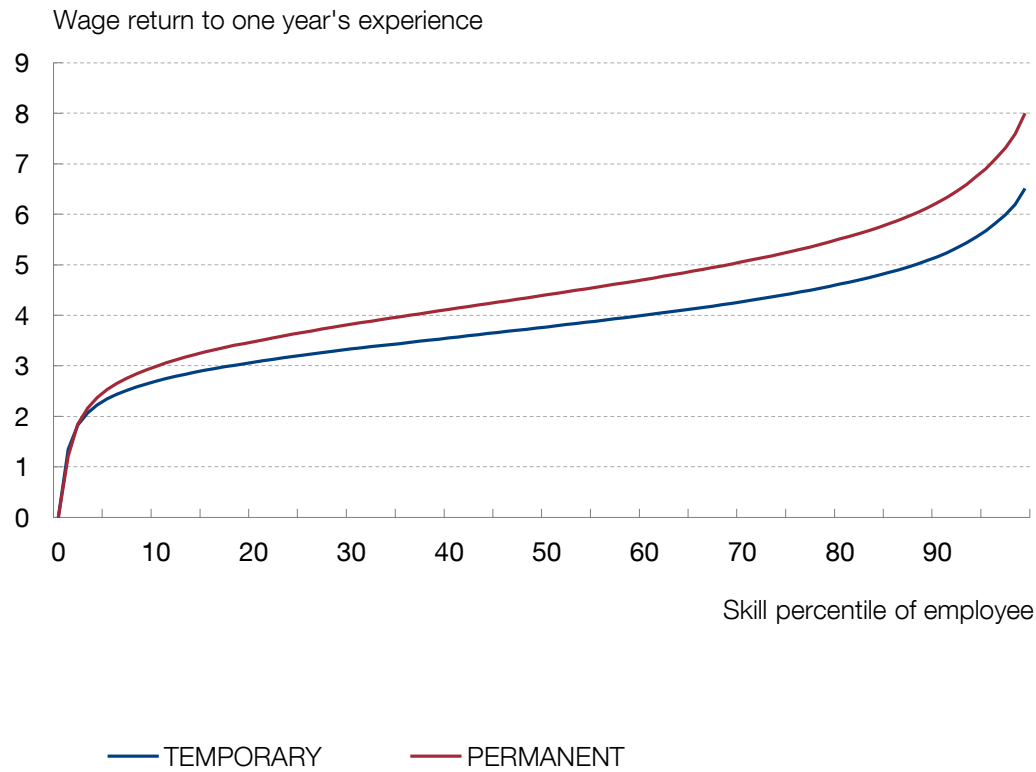
- The need to increase the European autonomy of decision and action in such important areas as energy, technology and the digital arena. It is essential that, in these fields, the policies be designed and implemented so as to minimise the risk of fragmentation within the EU and of undesired distortions emerging
- The need for a common fiscal response to the challenges posed by the war in Ukraine, including pooling the government spending needed to address its effects on the Member States' economies
- The need for a **review of the fiscal rule framework** which adapts it to the structural economic transformations that have taken place since the creation of the monetary union, adopts a more individualised approach, simplifies it by combining a government expenditure growth rule with an anchor in the government debt-to-GDP ratio criterion and improves its ability to ensure that countries build up fiscal buffers in good economic times. A fiscal rule framework that guarantees the sustainability of public finances is absolutely necessary for the smooth functioning of the monetary union
- The need to establish a **permanent macroeconomic stabilisation mechanism**, make headway in the **capital market** agenda and complete the **banking union**

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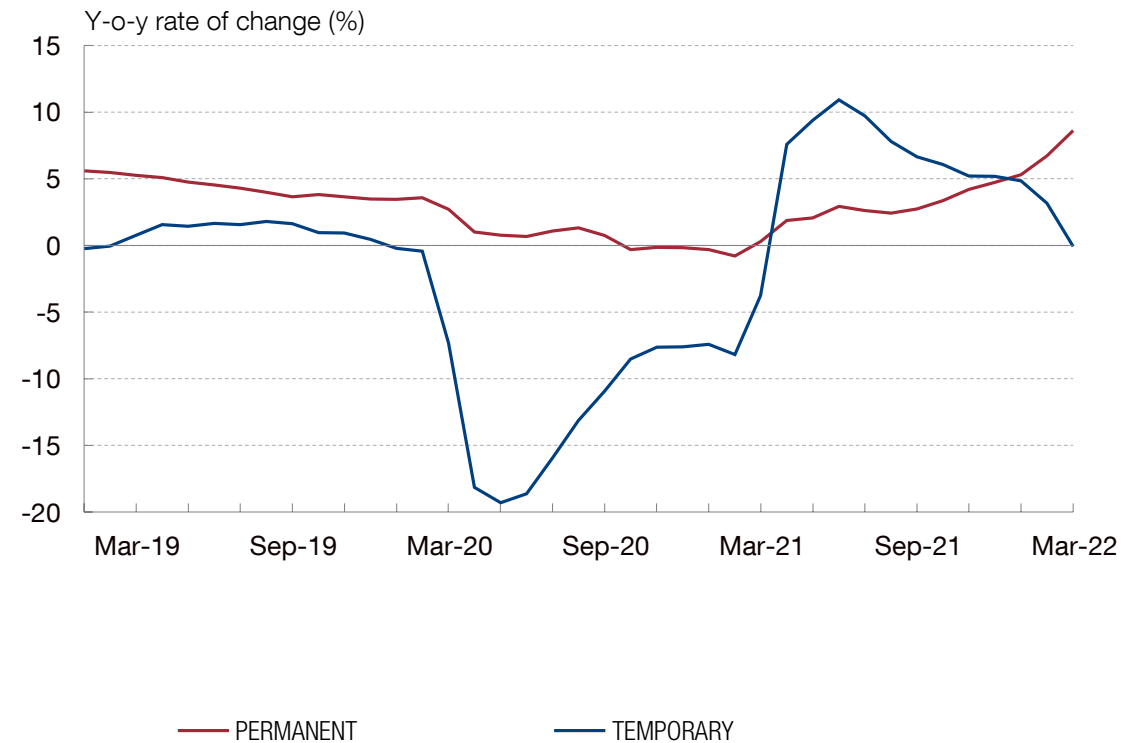
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- One of the main objectives of the 2022 labour market reform is to combat the high proportion of temporary employment. Time is needed for a proper and multidimensional assessment (impact on employment, productivity, working lives, etc.)

WAGE RETURNS TO EXPERIENCE



SOCIAL SECURITY REGISTRATIONS BY TYPE OF CONTRACT

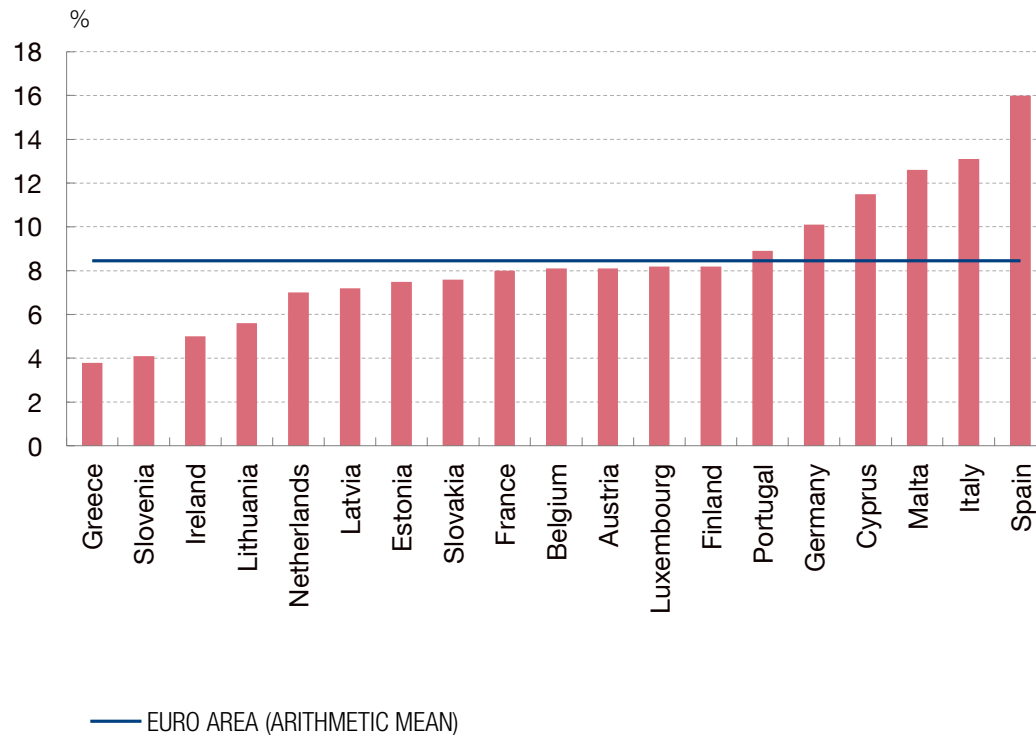


SOURCES: Banco de España and Ministerio de Inclusión, Seguridad Social y Migraciones.

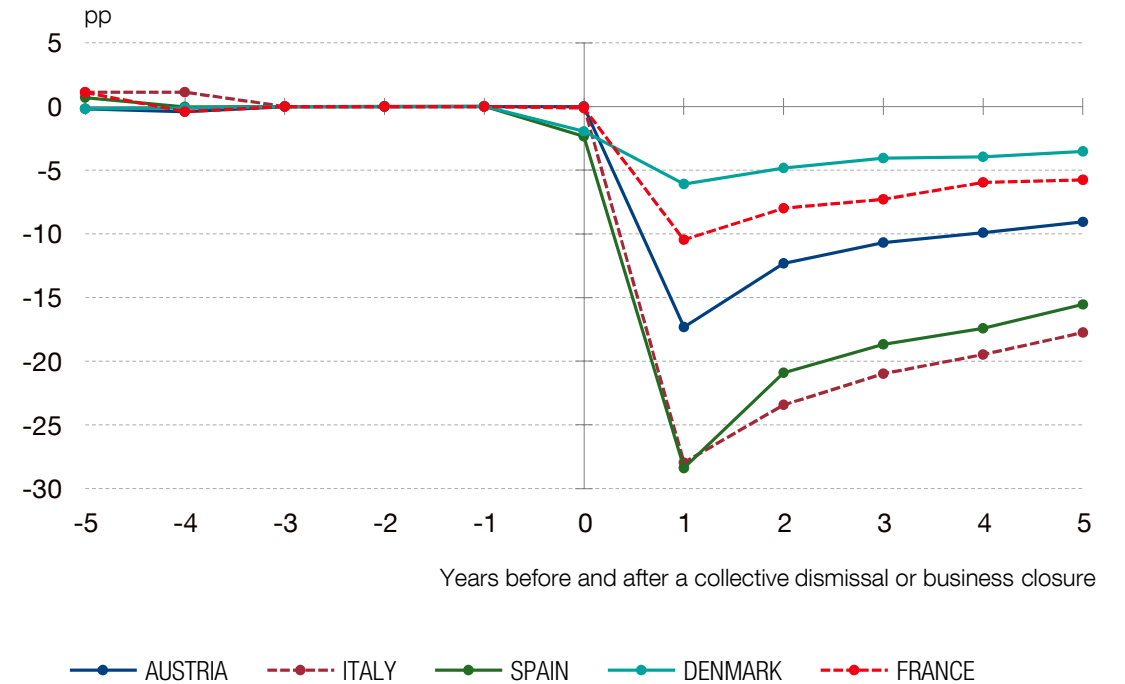
ADDRESSING THE HUMAN CAPITAL CHALLENGE IS CRUCIAL IN THE CURRENT SETTING (DIGITALISATION, POPULATION AGEING, REALLOCATION...) AND MUST BE DONE ON MULTIPLE FRONTS

- It is particularly important to improve active labour market policies

PERCENTAGE OF THE POPULATION AGED 18-24 THAT HAD LEFT THE EDUCATION SYSTEM EARLY (2020)



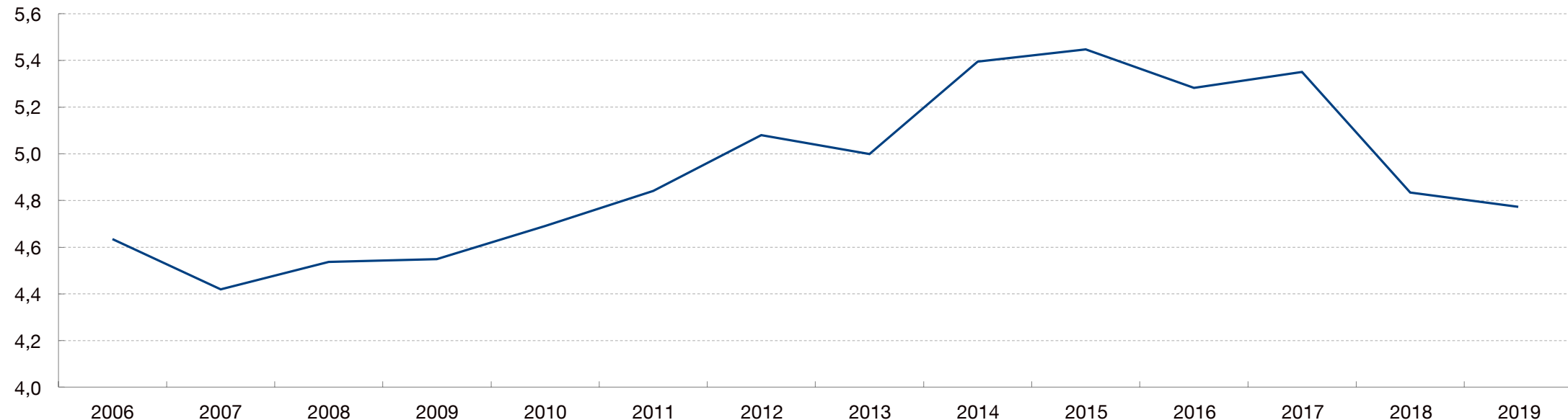
EFFECT OF JOB DISPLACEMENT ON THE PROBABILITY OF BEING EMPLOYED IN SEVERAL EU COUNTRIES



SOURCES: Banco de España and Eurostat.

- According to the findings of the assessments required by law, further adjustments must be made to the conditions governing eligibility for the MIS, to ensure that it can effectively fulfil its mission of eradicating extreme poverty while avoiding undesired effects. The social security authorities have signed agreements with several institutions in order to evaluate social inclusion itineraries linked to the MIS
- The draft Law on the right to housing seeks to ease the current difficulties in accessing housing. But some of the measures envisaged, such as rent control, may not have the desired effect or may even have adverse effects in the medium term. A significant boost to the supply of rented housing is required

CHANGES IN THE P90/P10 RATIO OF HOUSEHOLD NET INCOME PER CAPITA (a)

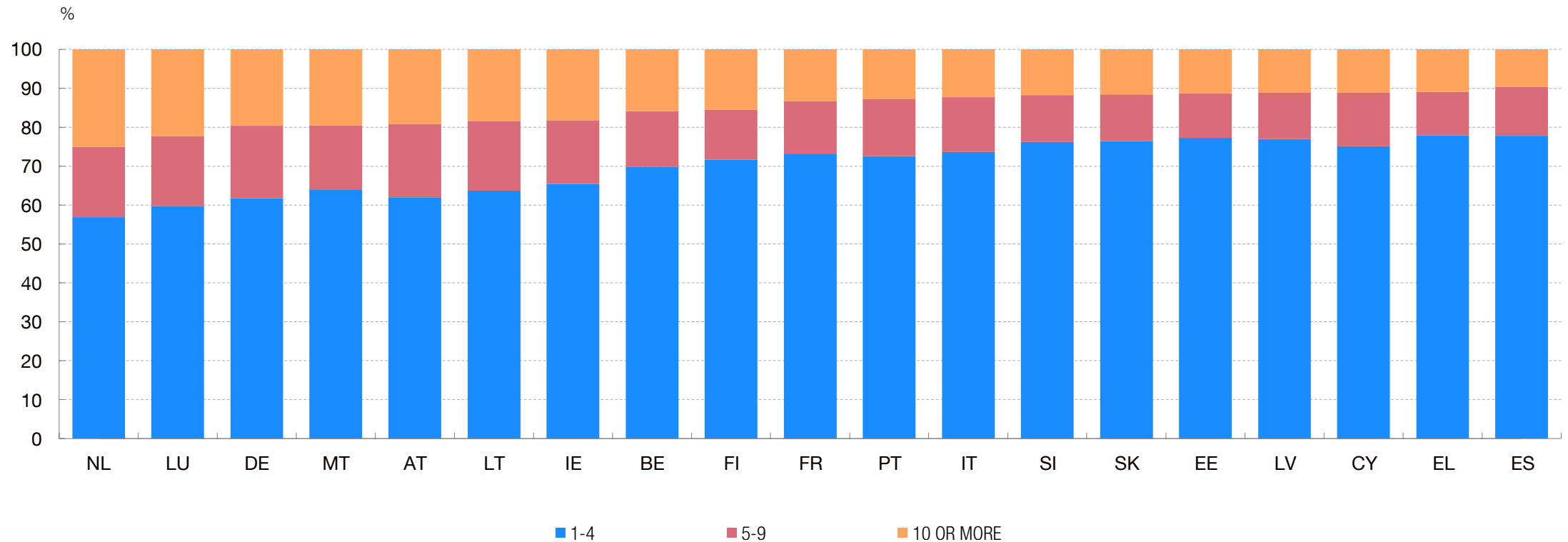


SOURCE: INE (Encuesta de Condiciones de Vida).

a. Household net income per capita is household net income adjusted using the OECD equivalence scale.

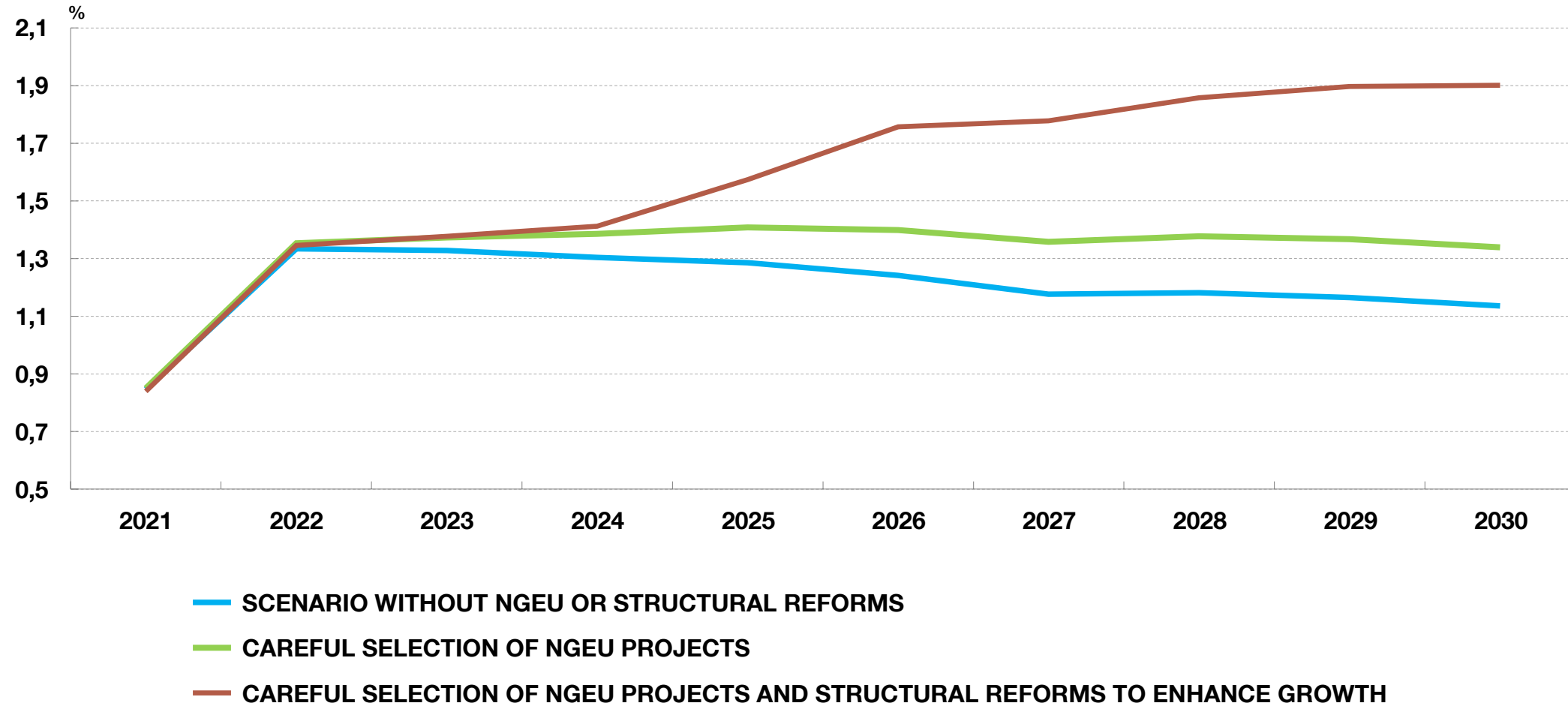
- The Draft Law on business start-ups and growth and the reform of the Insolvency Law are a step in the right direction. Looking ahead, how well these new pieces of legislation are able to mitigate the shortcomings in Spanish business dynamics will need to be assessed

PERCENTAGE OF FIRMS BY NUMBER OF EMPLOYEES



SOURCE: Eurostat.

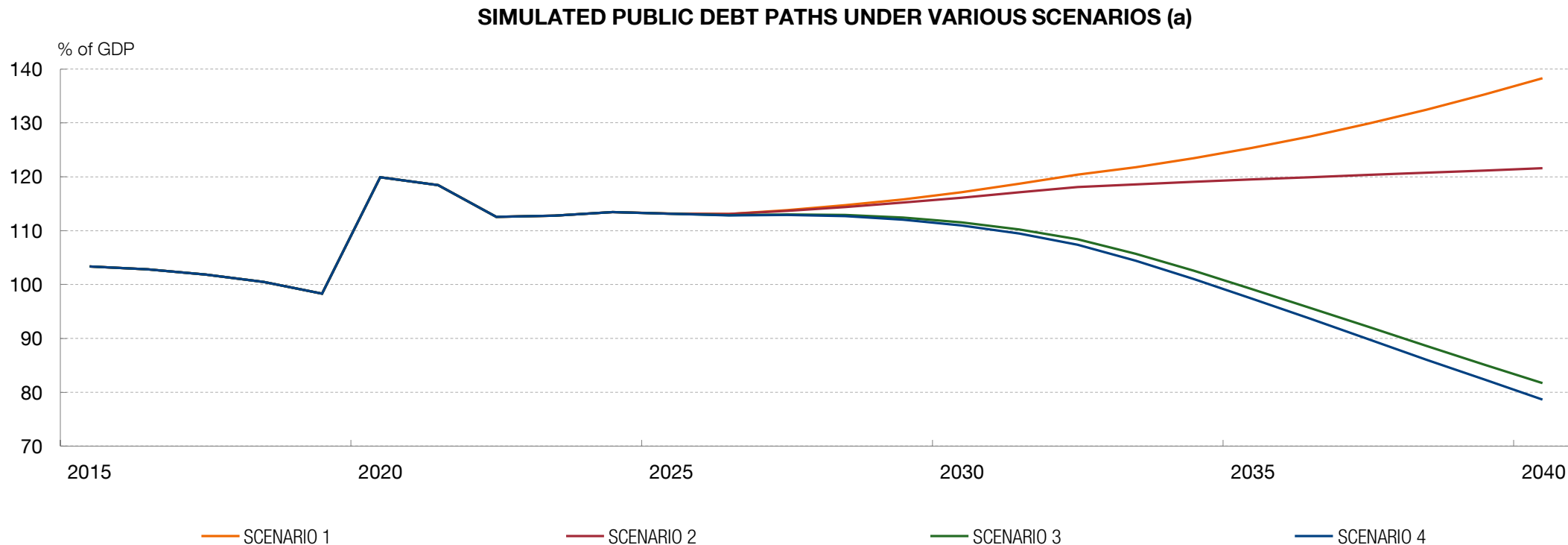
ESTIMATED SPANISH ECONOMIC GROWTH POTENTIAL



SOURCE: "El crecimiento potencial de la economía Española tras la pandemia", *Documento Ocasional 2208*, Banco de España.

HIGH GOVERNMENT INDEBTEDNESS IS A SOURCE OF VULNERABILITY AND WILL REMAIN VERY CLOSE TO OR EVEN EXCEED CURRENT LEVELS UNLESS AN AMBITIOUS FISCAL ADJUSTMENT PLAN IS IMPLEMENTED

- A fiscal consolidation plan needs to be designed promptly, for implementation once the recovery has taken hold



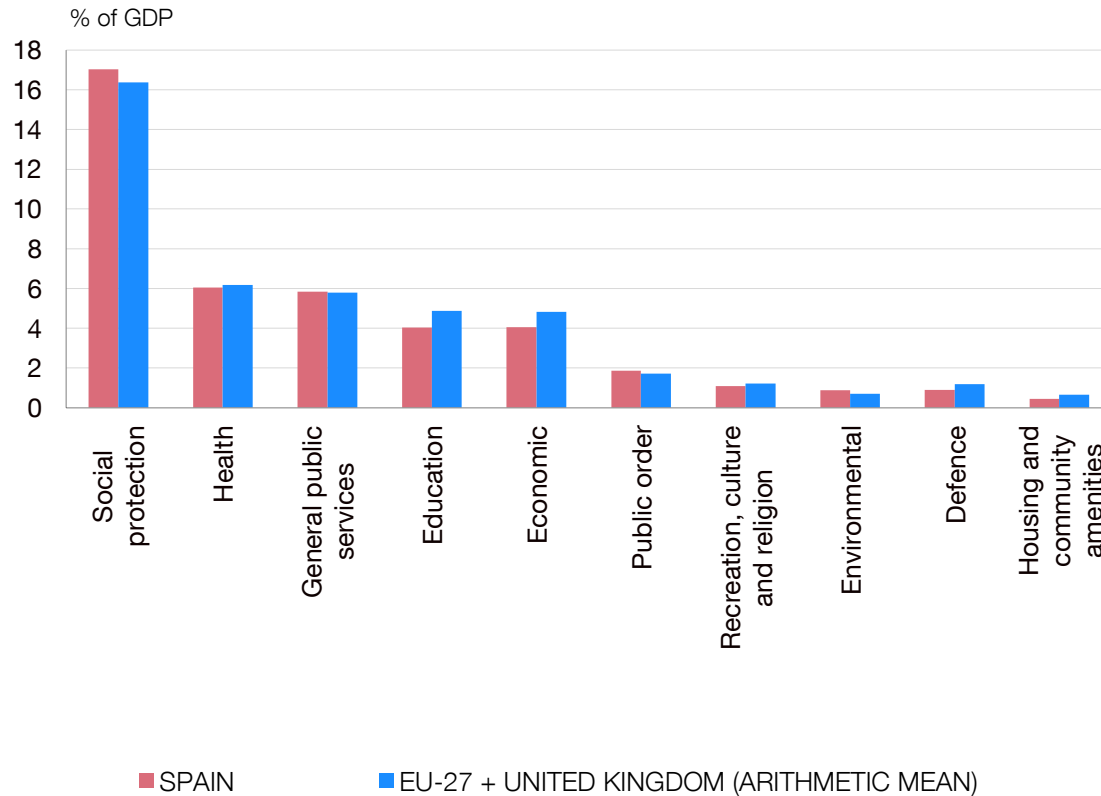
SOURCE: Banco de España, on INE and IGAE data.

a. Drawing on “Macroeconomic projections for the Spanish economy (2022-2024)”, Box 1 of the “Quarterly report on the Spanish economy”, *Economic Bulletin*, 1/2022, Banco de España.

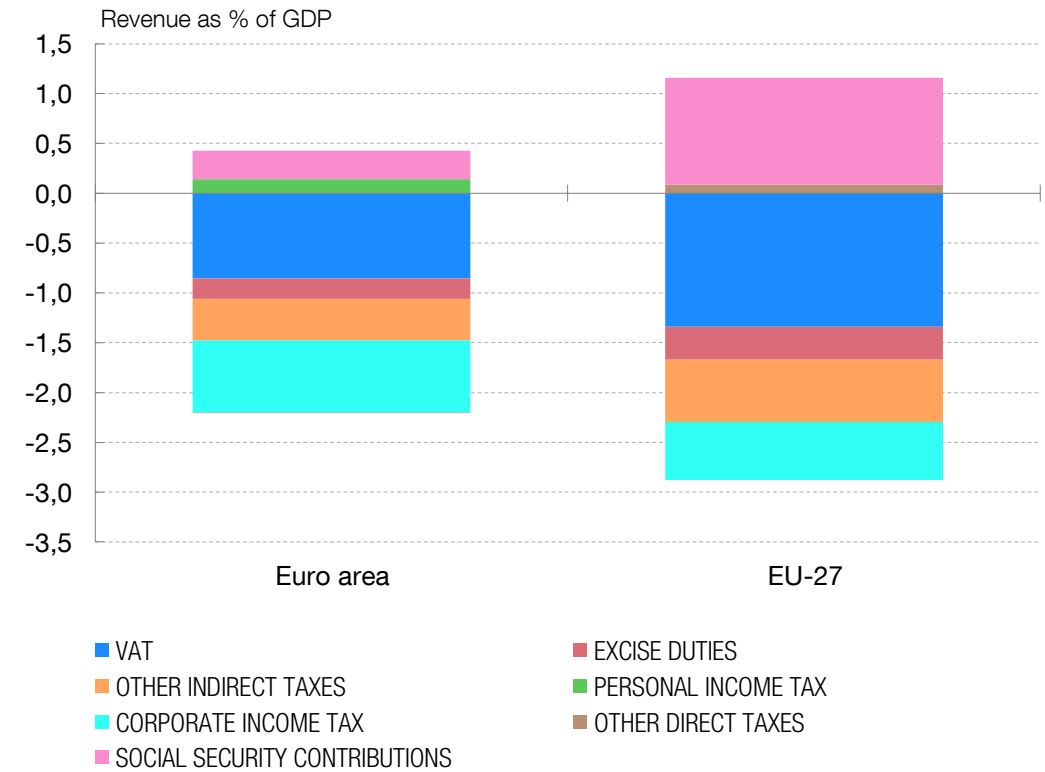
All the scenarios include a deterioration in the structural primary balance up to 2040 owing to ageing costs (pensions, health care and long-term care). Scenario 1 assumes a fiscal policy that does not correct that deterioration. Scenario 2 envisages a fiscal policy that makes a consolidation effort consistent with maintaining the structural primary balance envisaged in the Banco de España’s latest projections for 2024. Alternatively, scenario 3 assumes a fiscal policy that makes a further fiscal adjustment of the structural primary balance of 0.5 pp of potential GDP each year, until structural balance equilibrium is reached. Lastly, scenario 4 modifies scenario 3 with long-term potential GDP growth of 1.9% (instead of 1.3% as assumed in all the other scenarios).

A COMPREHENSIVE REVIEW OF PUBLIC EXPENDITURE AND THE TAX SYSTEM IS REQUIRED TO ENHANCE EFFICIENCY AND EFFECTIVENESS

GENERAL GOVERNMENT EXPENDITURE BY FUNCTION (AVERAGE 2015-2019) (a)



REVENUE GAP BY TAX, 2015-2020

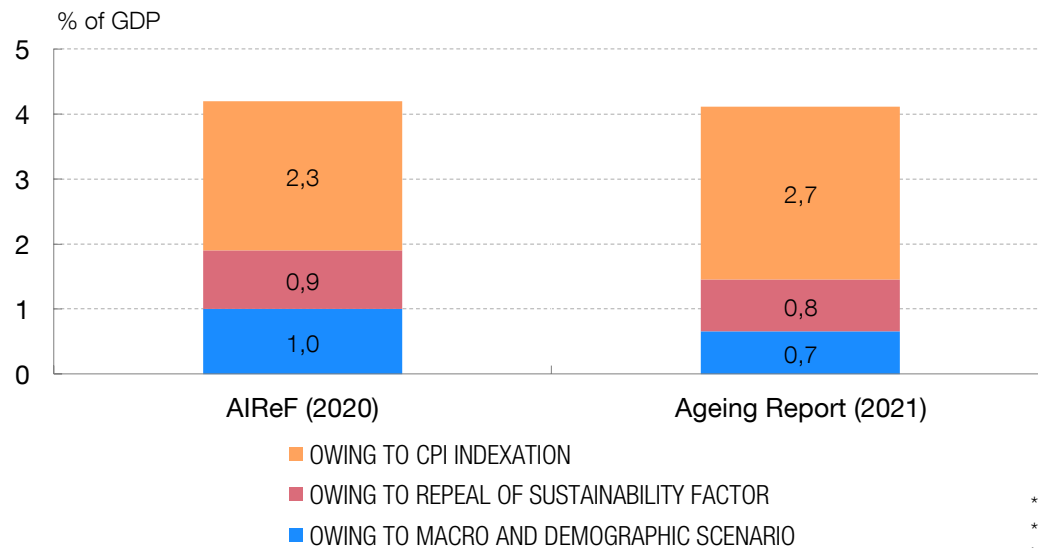


SOURCE: Eurostat.

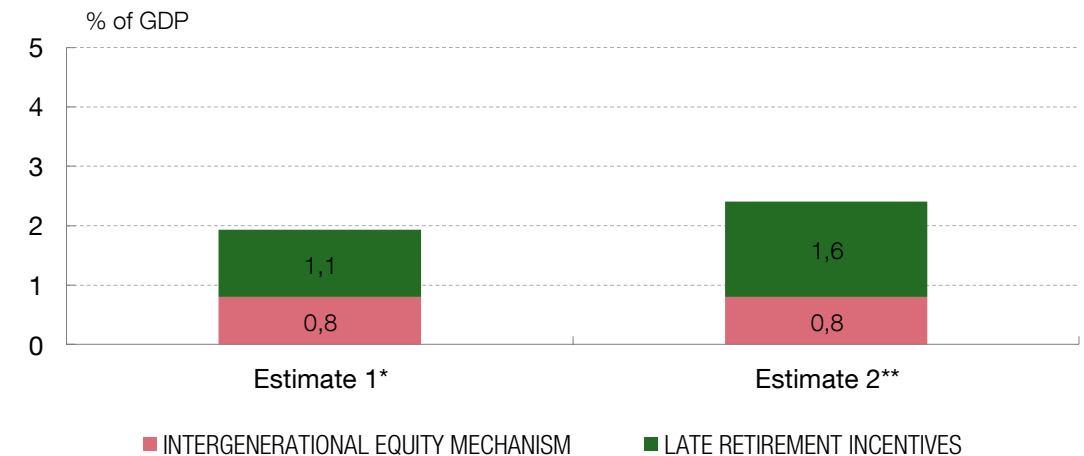
a. The functional classification catalogues public expenditure by the purpose for which it is to be used.

- The indexation of pensions to inflation and the repeal of the sustainability factor could see pension expenditure grow by between 3.2 and 3.5 pp of GDP by 2050. The new intergenerational equity mechanism (IEM) and the incentives for late retirement could alleviate that growth by between 1.9 and 2.4 pp, according to official estimates
 - Part of the IEM measures depend on a parliamentary agreement from 2032
 - There is considerable uncertainty over the effects of the new incentives for late retirement
- Therefore, additional measures will be required to balance the system in the long term. The measures pending approval or final design include occupational pension schemes, a review of maximum social security contribution bases and maximum pensions, a new contribution system for self-employed workers, and a review of the reference period for calculating the regulatory base

PROJECTED INCREASE IN PENSION EXPENDITURE, 2019-2050



ESTIMATED EFFECT IN 2050 OF CERTAIN MEASURES ADOPTED IN 2021



* Assuming that, as a result of the new incentives, 40% of new retirees put off retirement by three years on average.

** Assuming that 50% of new retirees under the Special Social Security Regime for the Self-Employed and 60% of those under the General Regime put back retirement by three years on average.

SOURCES: AIReF, Ageing Report, Law 21/2021 of 28 December 2021 guaranteeing the purchasing power of pensions and establishing other measures to strengthen the financial and social sustainability of the public pension system and Draft Law on the guarantee of pension purchasing power and other measures to strengthen the financial and social sustainability of the public pension system.

Figure 4.1

THE ROLE OF KEY ACTORS IN THE FACE OF THE CLIMATE CHALLENGE...



... IN A CONTEXT IN WHICH...

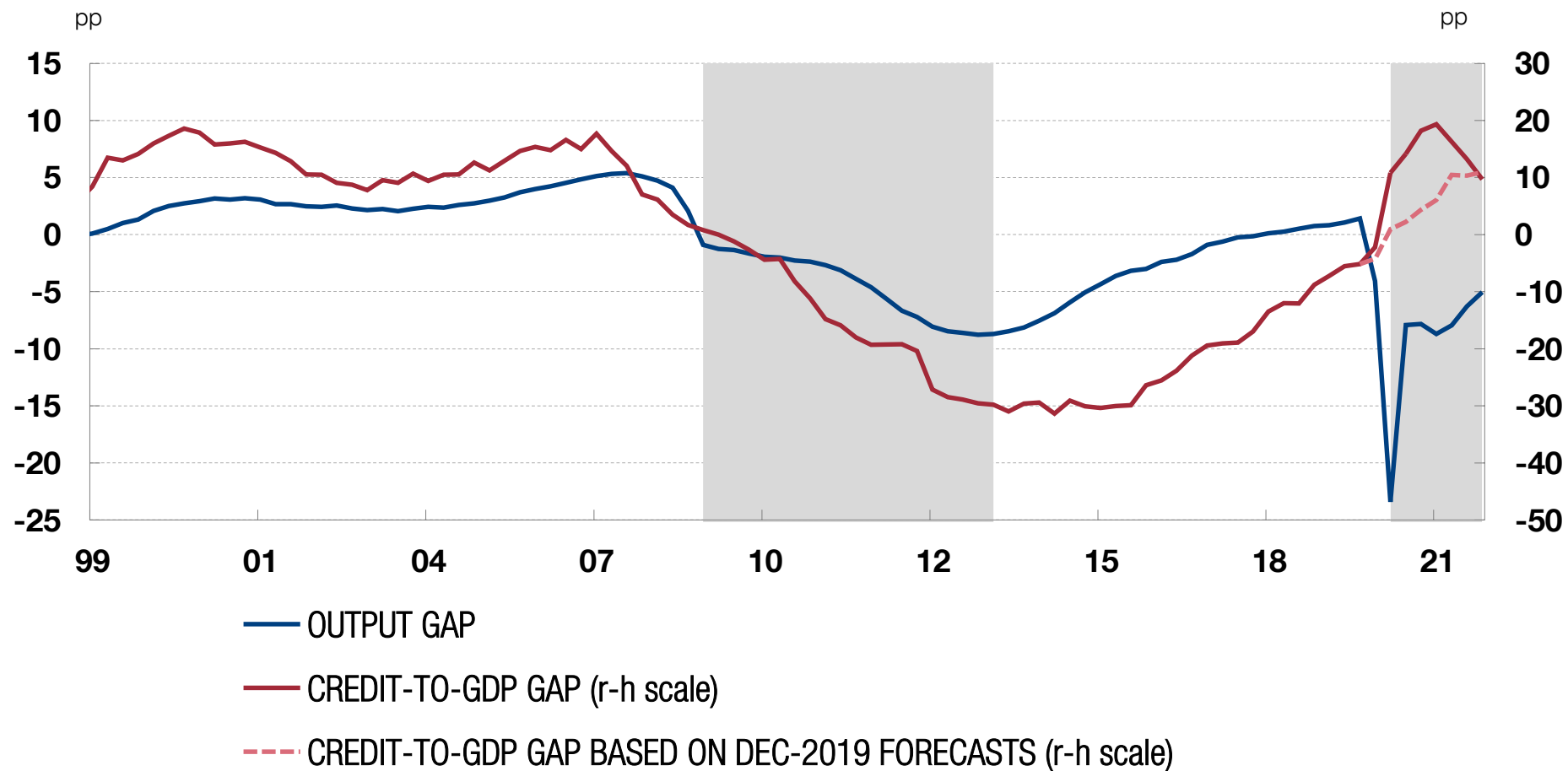


SOURCE: Banco de España.

CONTENTS

1. Performance of the Spanish economy in 2021
2. The role of economic policy in the pandemic crisis
3. The outlook for the Spanish economy: the impact of the war in Ukraine
4. The rise in inflation
5. Economic policies in the short term
6. Structural challenges and policies to address them
7. Situation and challenges of the banking sector

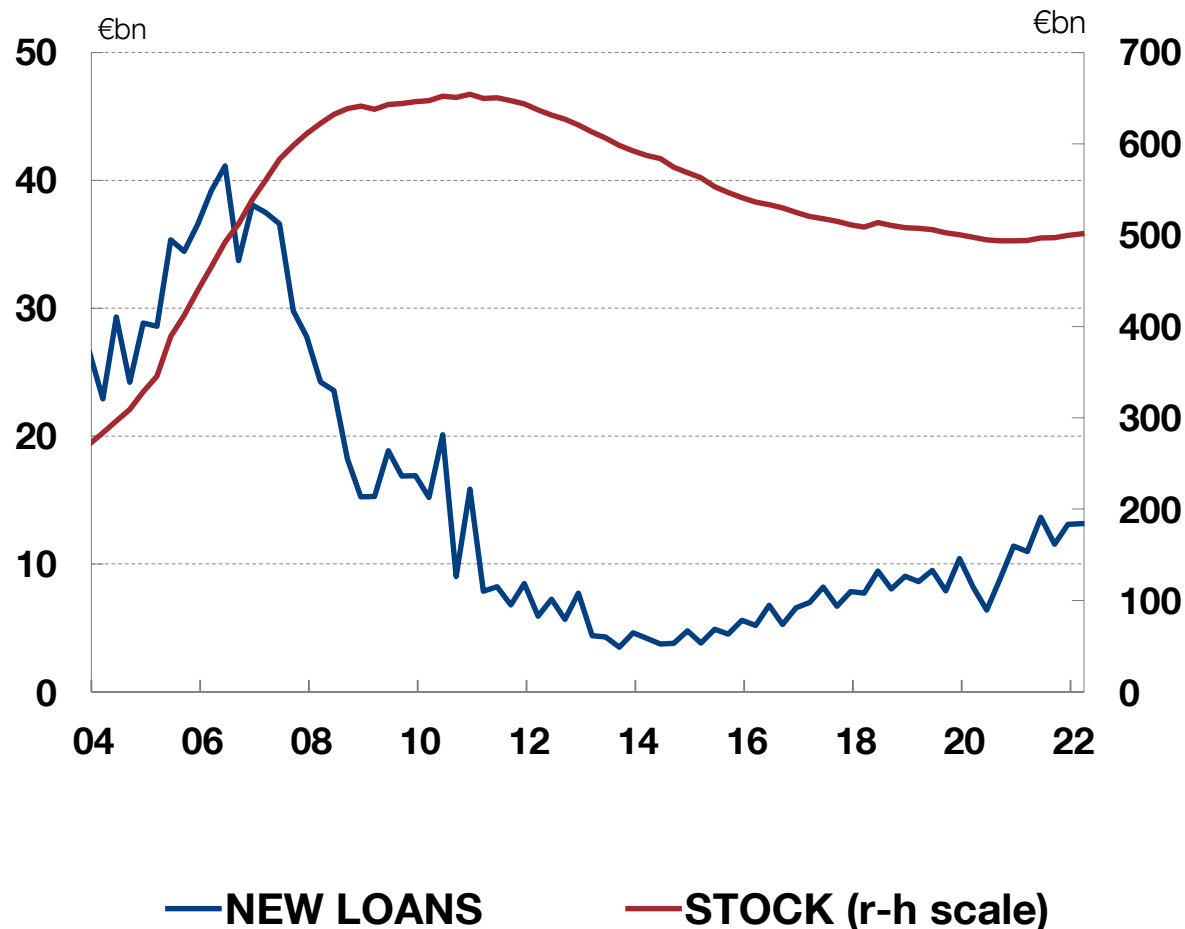
CREDIT-TO-GDP GAP AND OUTPUT GAP



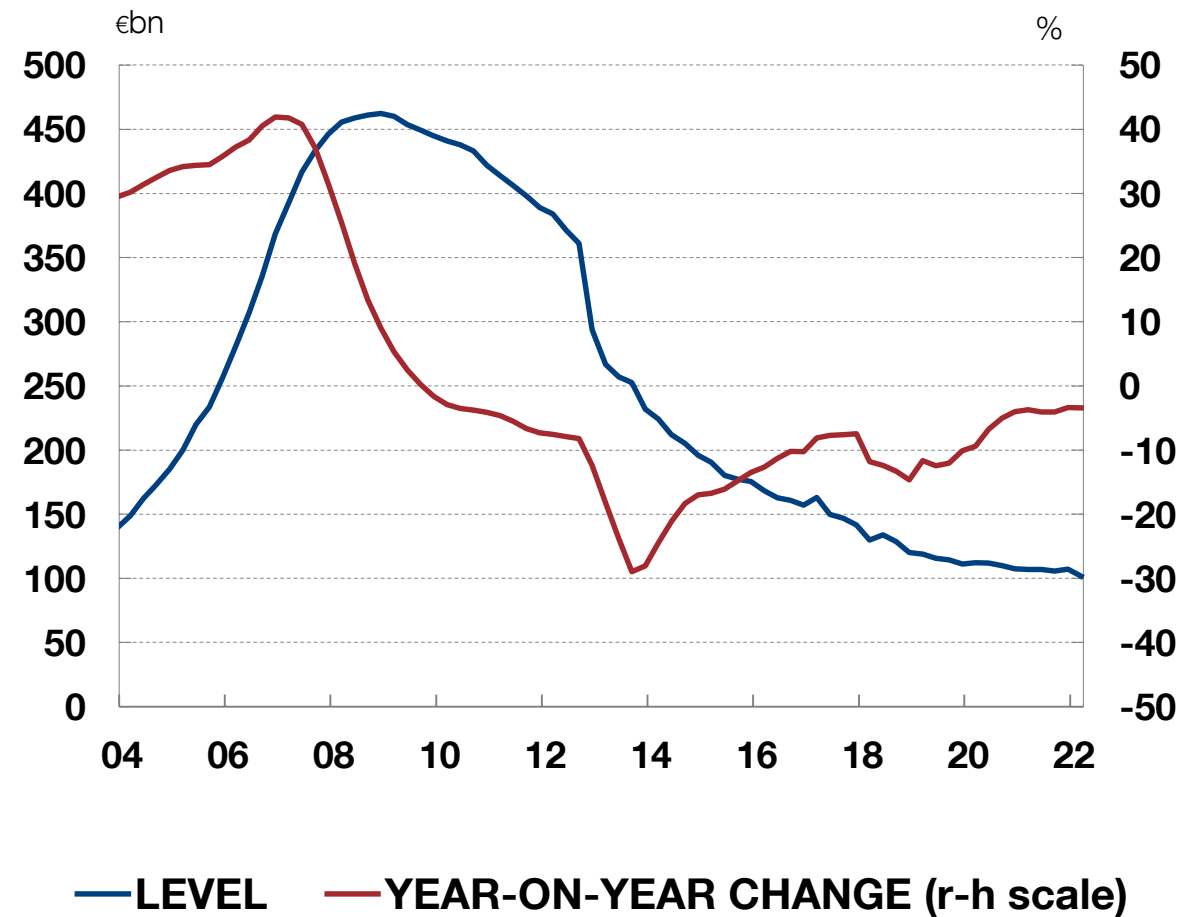
SOURCE: Banco de España.

THE STOCK OF RESIDENTIAL MORTGAGE LENDING IS GROWING AT A MODERATE RATE, WHILE THAT OF LOANS TO CONSTRUCTION AND REAL ESTATE DEVELOPMENT REMAINS IN DECLINE

NEW LOANS FOR HOUSE PURCHASE AND STOCK OF MORTGAGE LOANS

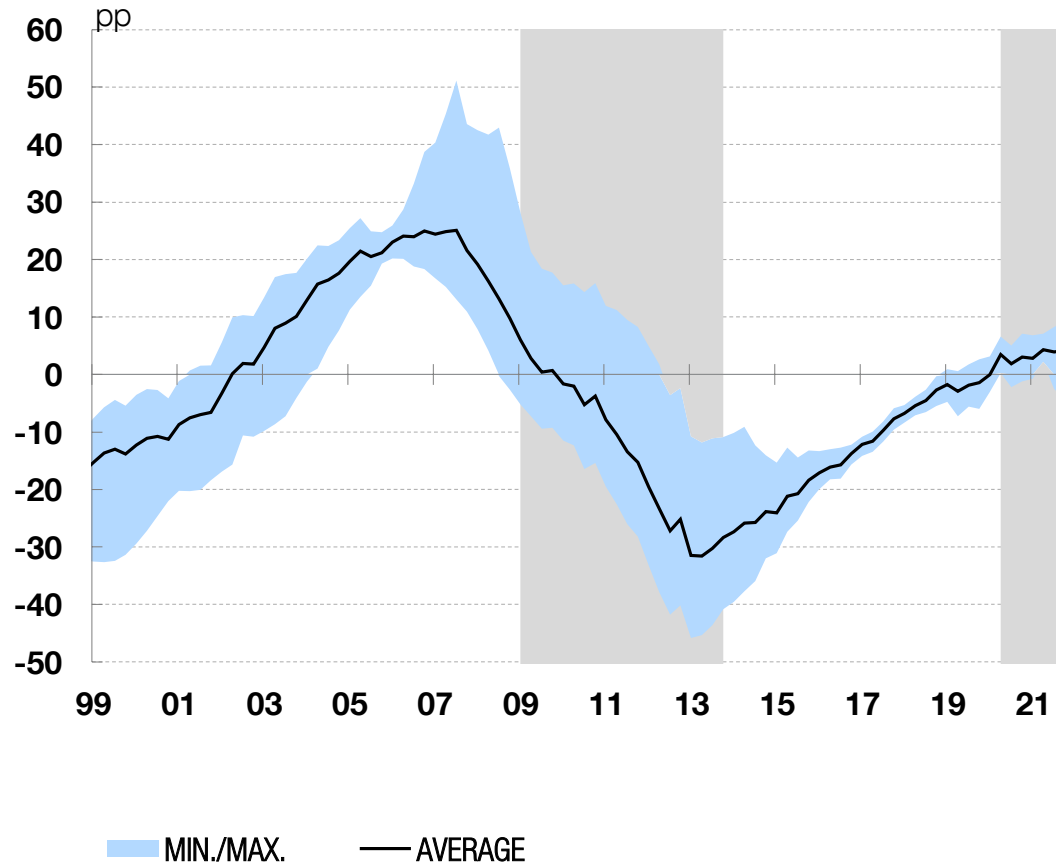


LOANS TO CONSTRUCTION AND REAL ESTATE DEVELOPMENT

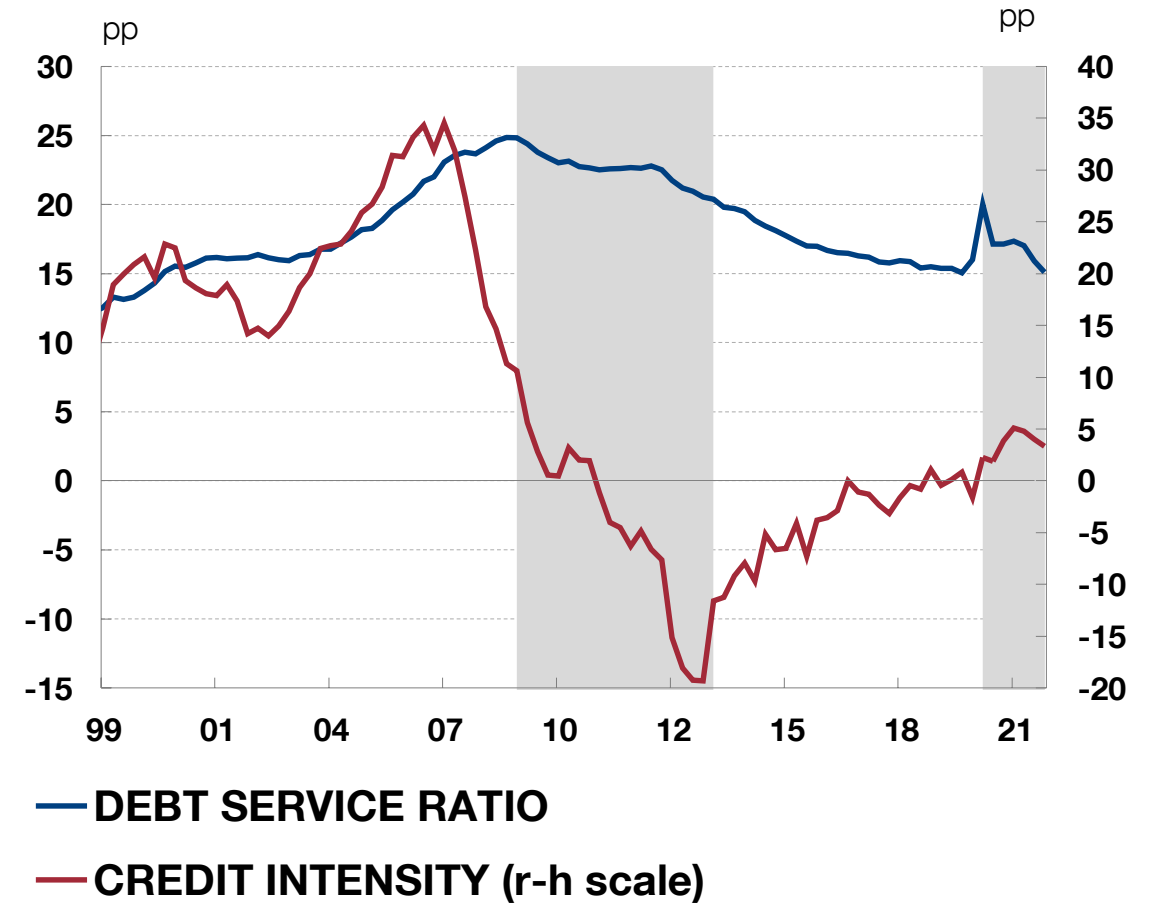


THE INDICATORS OF HOUSE PRICE IMBALANCES HAVE REMAINED AT POSITIVE VALUES, ALBEIT CLOSE TO THE EQUILIBRIUM LEVEL. THE COMPLEMENTARY INDICATORS STAND AT MODERATE RISK LEVELS

INDICATORS OF HOUSE PRICE IMBALANCES



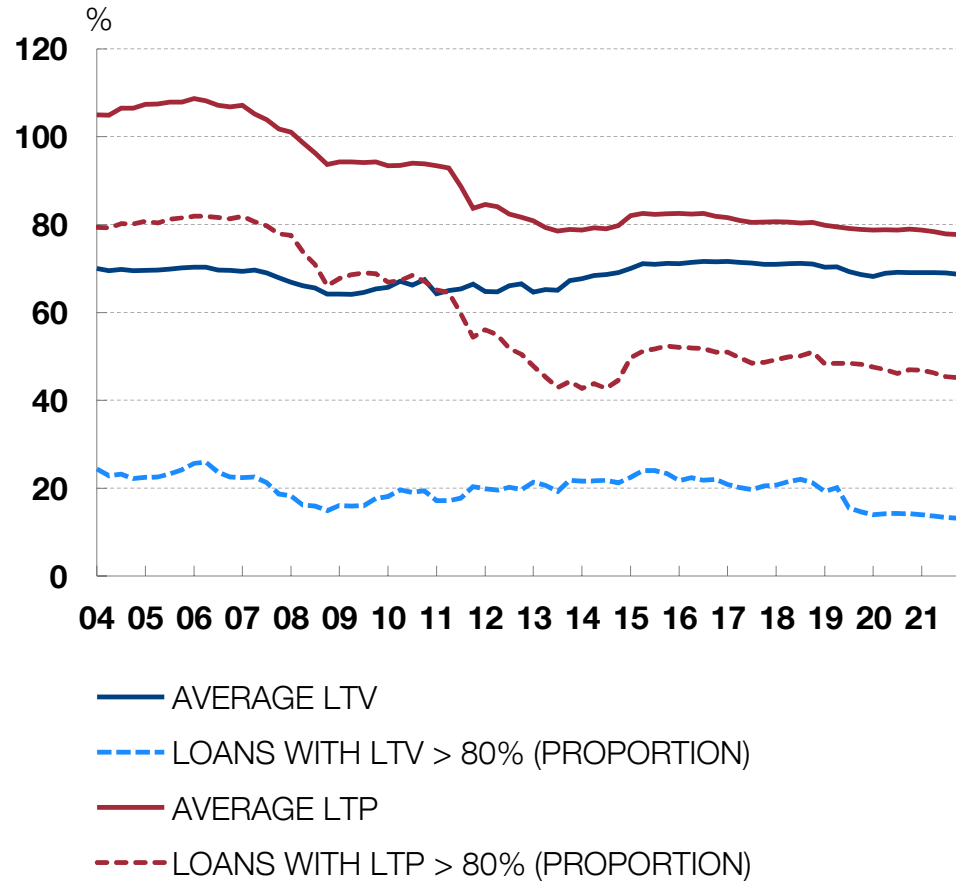
CREDIT INTENSITY AND DEBT SERVICE RATIO



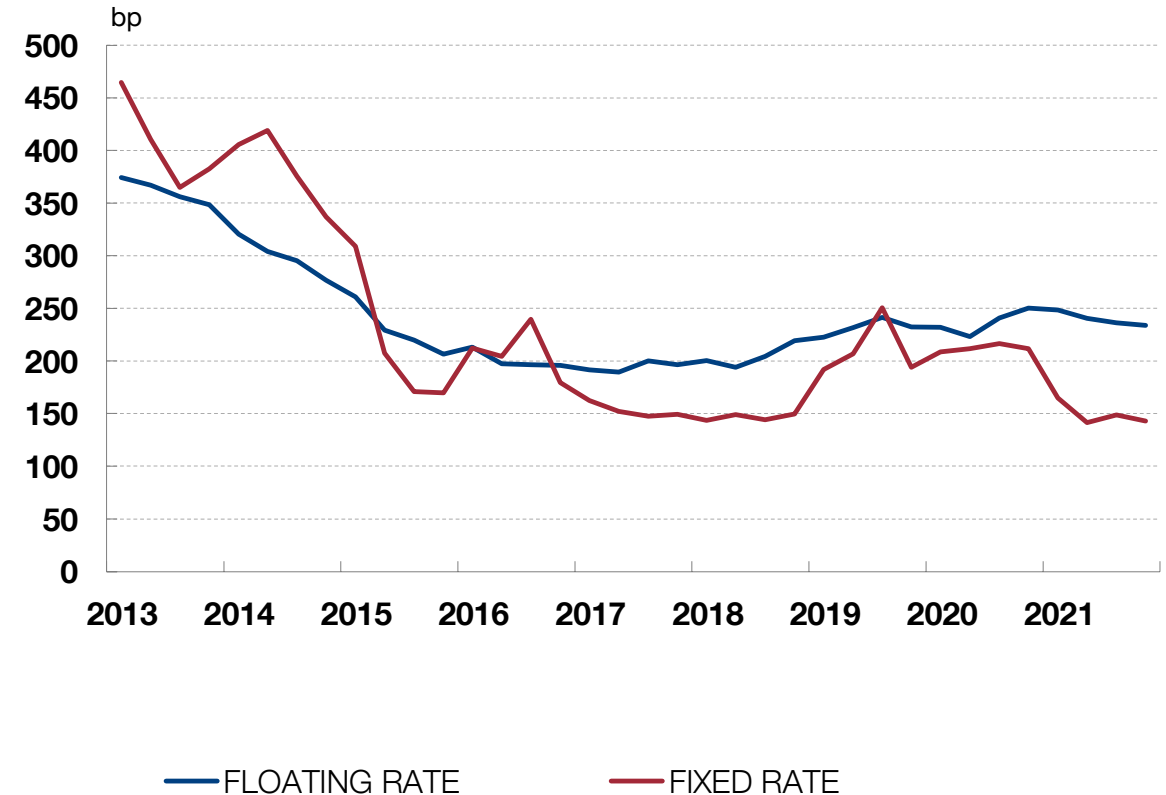
SOURCE: Banco de España.

CREDIT STANDARDS FOR NEW RESIDENTIAL MORTGAGES HAVE HELD STABLE, WHILE THERE WAS A BROAD-BASED NARROWING OF INTEREST RATE SPREADS FOR FIXED-RATE MORTGAGES UP TO THE START OF 2022

LOAN-TO-VALUE AND LOAN-TO-PRICE RATIOS OF NEW MORTGAGES



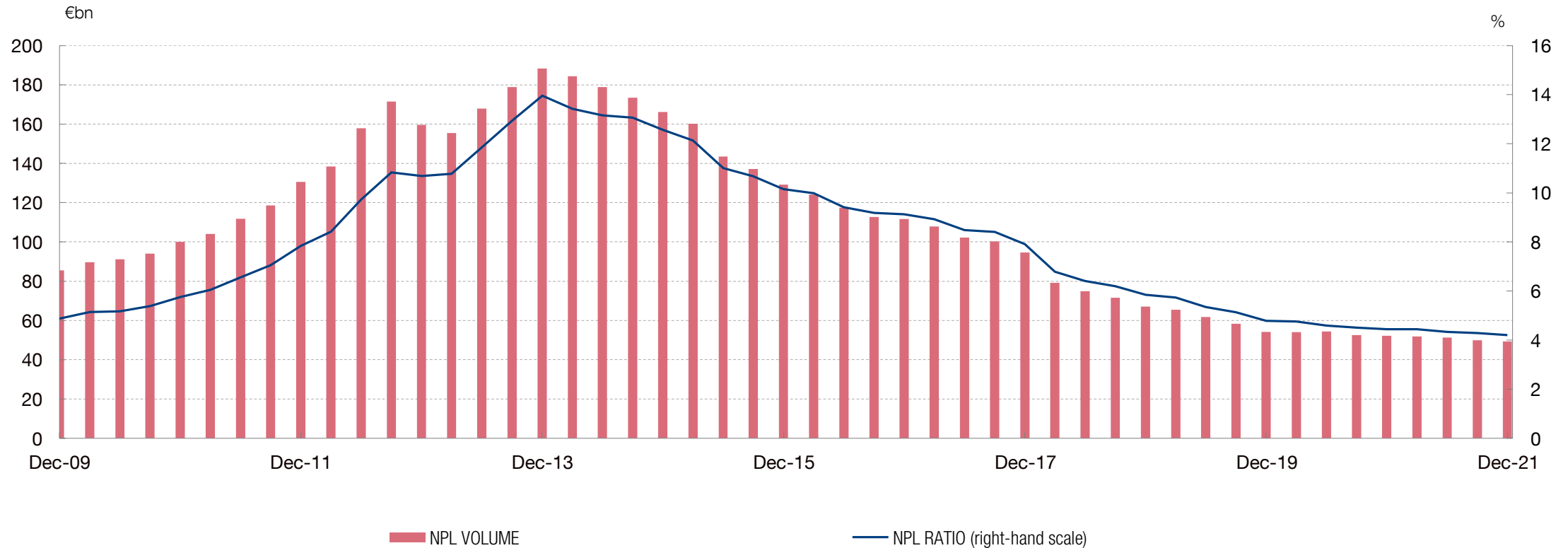
SPREADS OVER RISK-FREE RATES



SOURCE: Banco de España.

NPLs HAVE CONTINUED TO DECLINE, ALTHOUGH THERE IS POTENTIAL LATENT IMPAIRMENT IN SOME CREDIT PORTFOLIOS

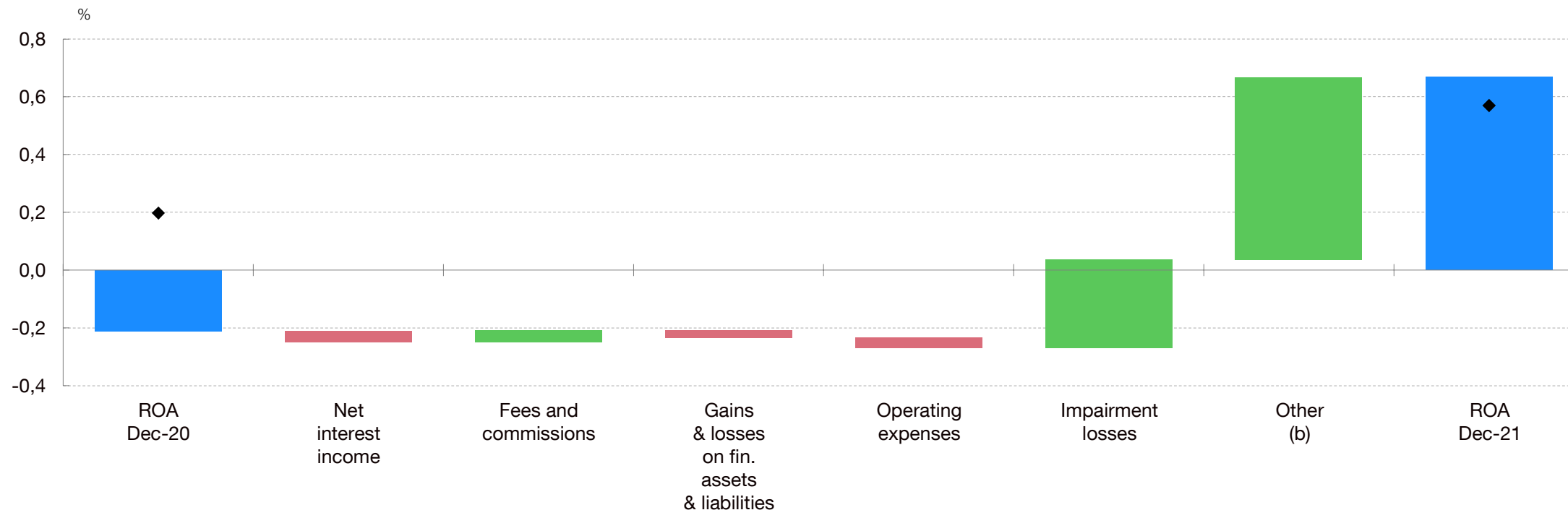
NPLs AND NPL RATIO OF THE RESIDENT PRIVATE SECTOR
Business in Spain, ID



SOURCE: Banco de España.

PROFITABILITY HAS RECOVERED PRE-PANDEMIC LEVELS AND IS HIGHER THAN THE COST OF CAPITAL

BREAKDOWN OF THE CHANGE IN PROFIT
Consolidated net income as a % of ATA (a)

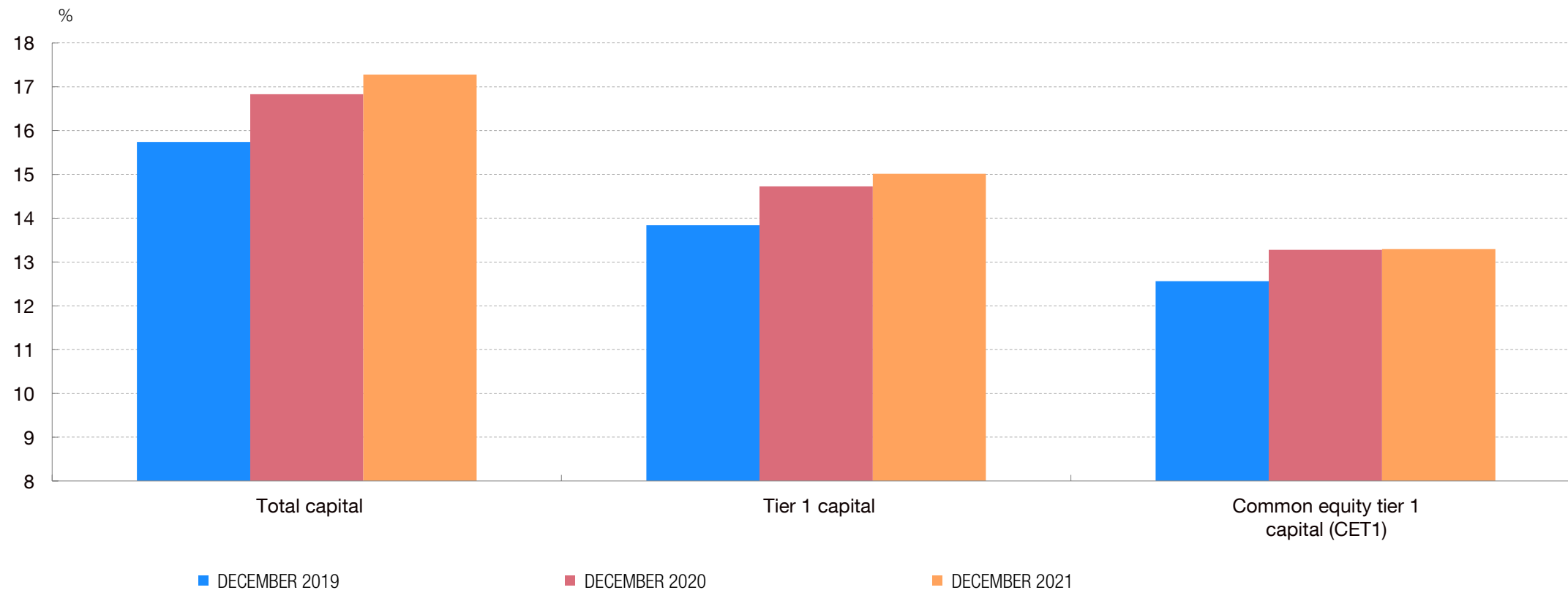


SOURCE: Banco de España.

a. The red (green) colour of the bars denotes a negative (positive) contribution of the corresponding item to the change in consolidated profit in December 2021 compared with December 2020. The black diamonds denote the ROA excluding extraordinary items.

b. Including, among other items, the extraordinary gains referred to in the above note.

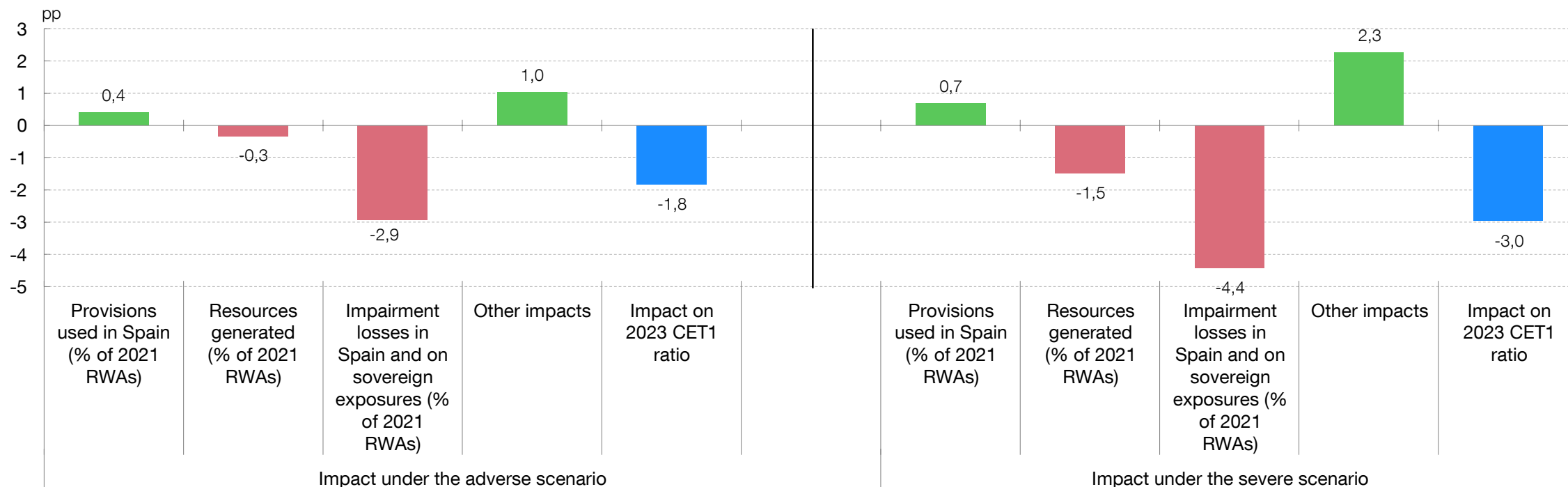
CAPITAL RATIOS Consolidated data



SOURCE: Banco de España.

STRESS TEST RESULTS: STRONG RESILIENCE, ALTHOUGH THE IMPACTS OF THE RISKS WOULD BE UNEVEN

IMPACT OF THE RISK MATERIALISATION SCENARIOS ON BANK SOLVENCY (a)
CONSOLIDATED BUSINESS

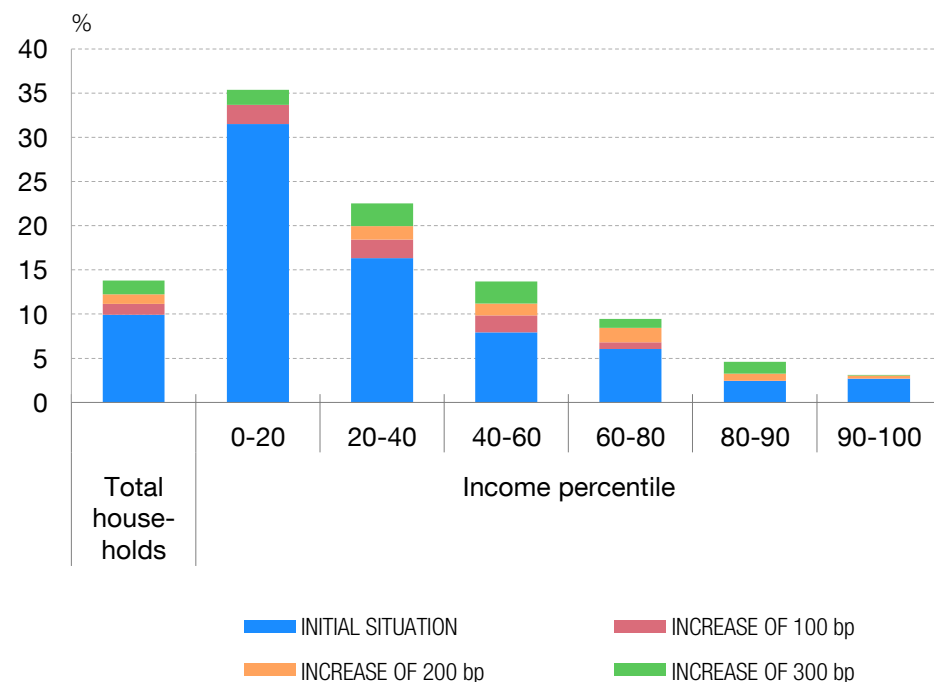


SOURCE: Banco de España.

a. The impacts are defined as the expected changes in the CET1 ratio in 2023 and in different financial flows in 2022-2023 (e.g. generation of funds) stemming from the materialisation of adverse changes in macro-financial conditions envisaged in the scenarios described in Box 1.3 of the *Financial Stability Report*, Spring 2022.

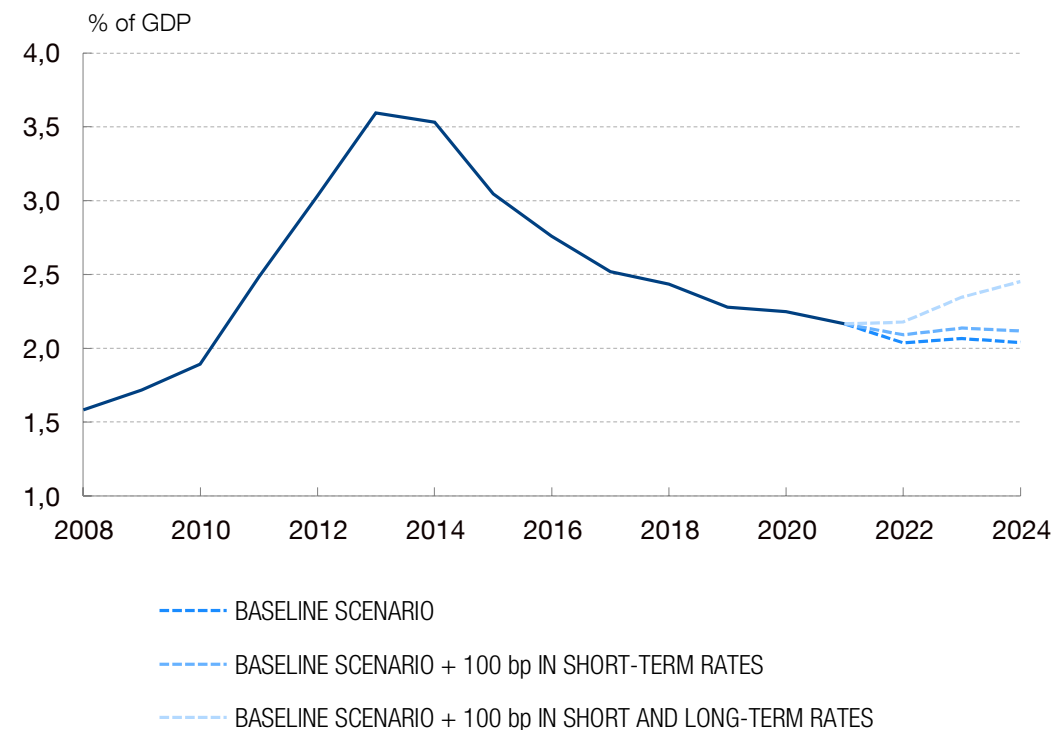
HOUSEHOLDS

IMPACT OF AN INTEREST RATE RISE ON THE PERCENTAGE OF HOUSEHOLDS WITH A HIGH NET INTEREST BURDEN. BREAKDOWN BY INCOME PERCENTILE (a)



GENERAL GOVERNMENT

SENSITIVITY OF INTEREST PAYMENTS



SOURCES: Banco de España and survey of household finances (EFF) (2017).

a. The net interest burden is considered to be high when the ratio of (debt service expenses - interest income from deposits) / household income is higher than 40%. Households without debt are excluded from this calculation.

The Spanish economy is immersed in a highly uncertain environment and the structural challenges ahead are enormous. The fact that these challenges are closely interconnected signifies that a comprehensive strategy of ambitious and lasting reforms is required

Only a resolute economic policy response to the multiple short, medium and long-term challenges facing the Spanish economy will enable us to follow a robust and sustained growth path that offers opportunities for all in the coming years

This response must also be long-lasting and thus requires a broad political and social consensus. The uncertainties generated by the war in Ukraine and the still persistent uncertainties stemming from the pandemic – two absolutely extraordinary events – demand no less

THANK YOU FOR YOUR ATTENTION

