



Spanish Banks In 2024: Clear Skies

S&P Global
Ratings

Elena Iparraguirre

Miriam Fernández

Marta Heras

Lucía González

Marta Escutia

Oriana Dattola

Luigi Motti

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This report does not constitute a rating action

Key Expectations

- Economic activity will remain modest, with higher-than-targeted inflation and **high, if declining, interest rates**.
- **Lending prospects will remain muted** for banks, but **profitability will continue to be solid** as banks will be able to largely replicate their 2023 results.
- **Earnings prospects remain sound** because banks' largely floating lending books will continue repricing until midyear and migration from demand to time deposits is contained.
- **The windfall tax is set to increase** this year on higher net interest income and fees, but banks will more than offset the impact through their **lower contributions** to the deposit guarantee fund (**DGF**) and single resolution fund (**SRF**).
- While **some asset quality problems will emerge**, most likely among small and midsize enterprises (SME) and consumer loans, **deterioration should be contained**, with the cost of risk near 50 basis points, similar to that of 2023.
- Solid returns will allow banks to both **maintain their payouts and build additional capital**.
- **Deposits will continue exceeding lending** and banks will tap the market mostly to refinance maturing debt.
- Achieving further **progress in digitalization and sustainability** will remain high on banks' agendas.

Main Risks



Weaker economic growth, leading to higher unemployment and more meaningful asset quality problems for banks.



Financing conditions could tighten further or remain tight for longer, which would make difficult and expensive borrowers' access to financing and could trigger financial turbulence.



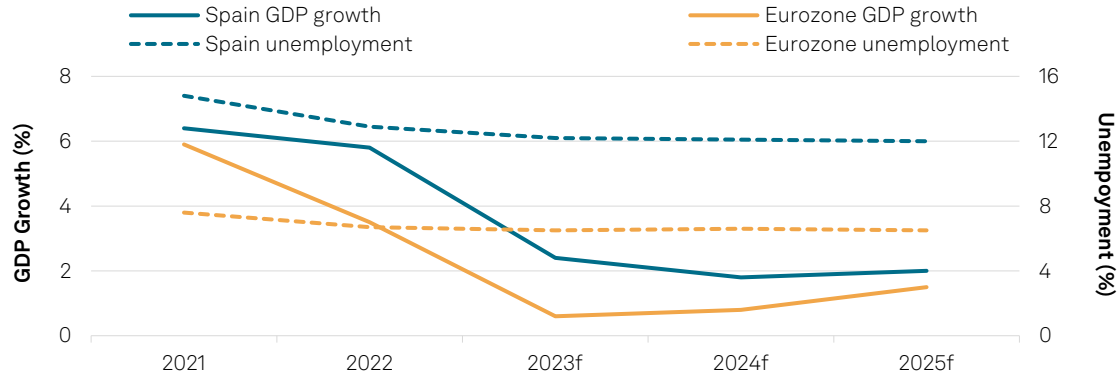
The central government's soft commitment to fiscal consolidation, which would keep public debt elevated, reducing the capacity for economic assistance if needed.



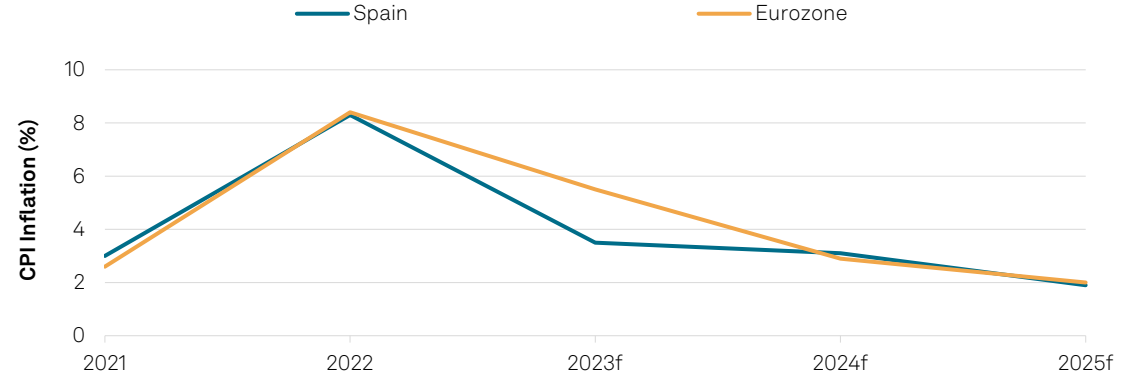
Cyberattacks that could disrupt operations and lead to reputational and financial consequences for the affected banks.

Low Economic Activity And High Interest Rates Ahead

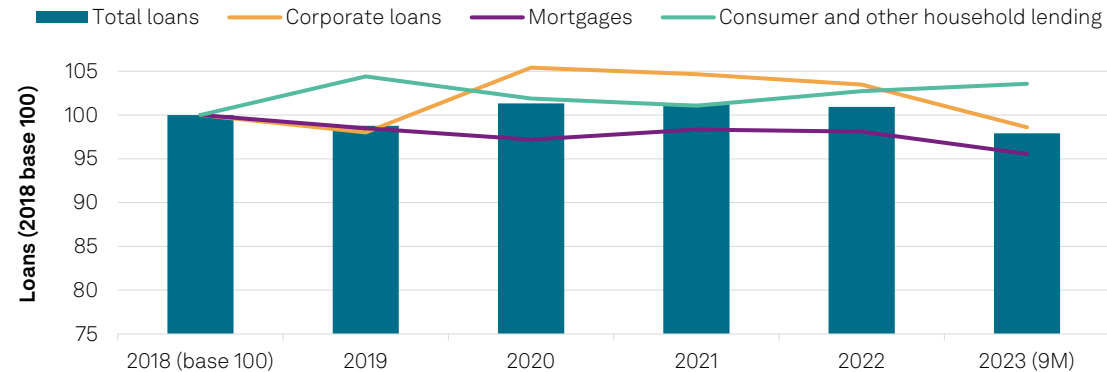
The economic slowdown will be less acute than for peers



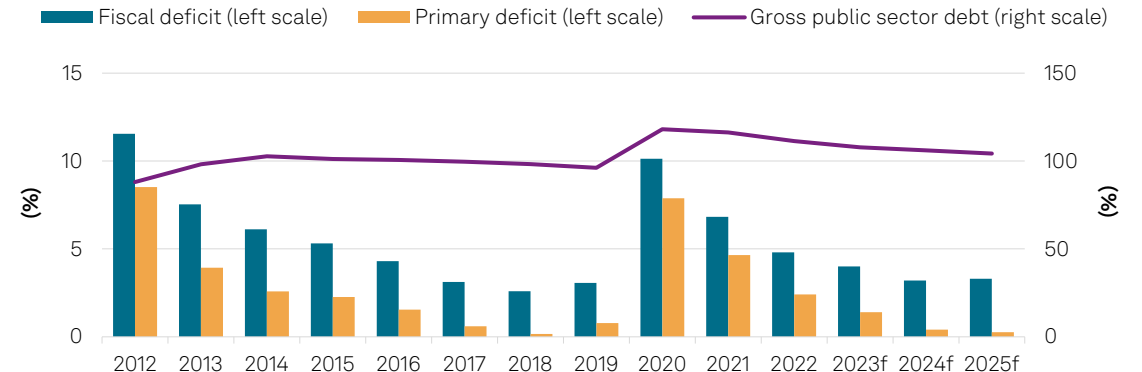
Inflation will fall, but only gradually



The private sector will continue deleveraging

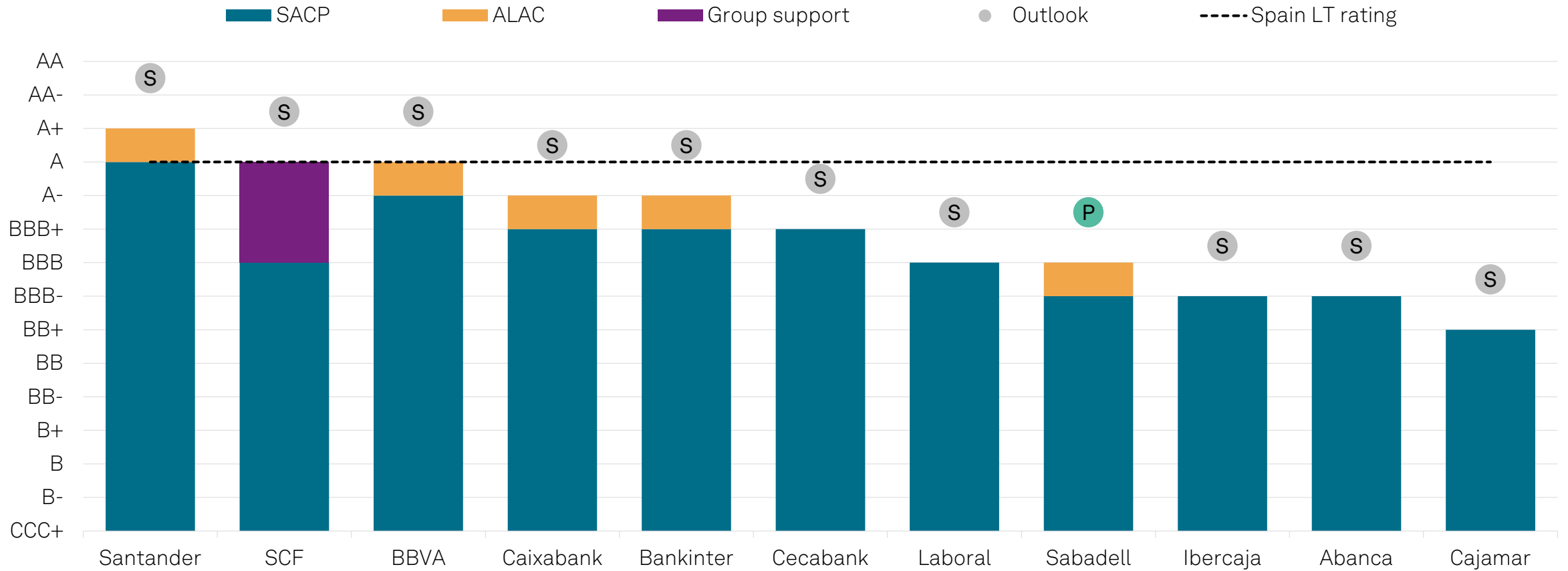


Public sector debt will remain elevated



F--Forecast. 9M--Nine months. Sources: Bank of Spain, Capital IQ, S&P Global Ratings.

Our Outlook On Spanish Banks Remains Largely Stable

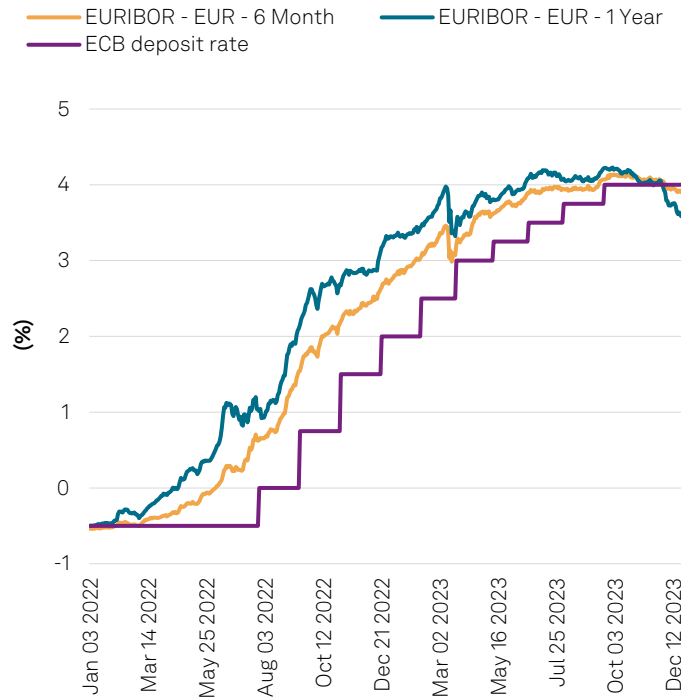


Data as of Jan. 23, 2024. LT--Long-term. P--Positive. S--Stable. Source: S&P Global Ratings.

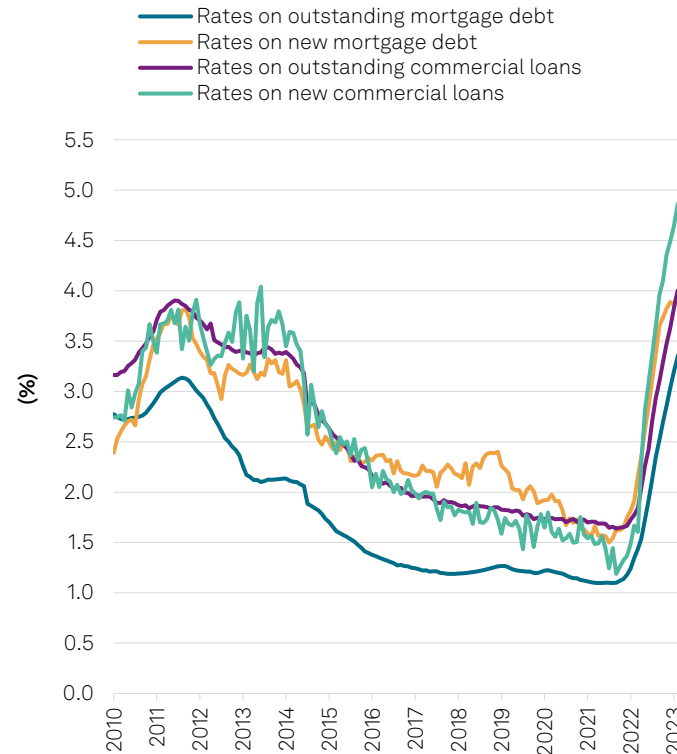
Profit Momentum Will Continue

Earnings are likely to remain solid, despite lending falling modestly

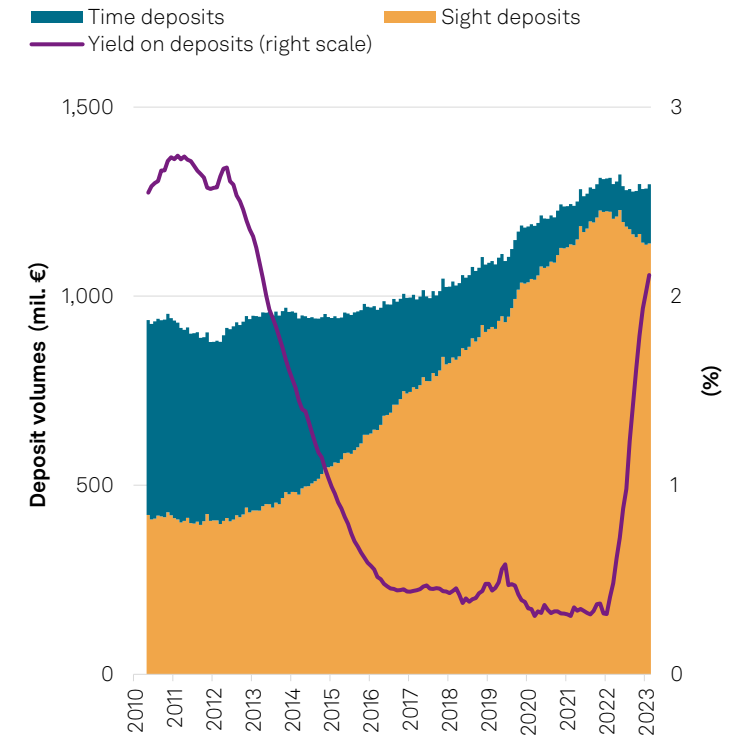
Rates have already peaked



But the loan book's upward repricing is not over yet



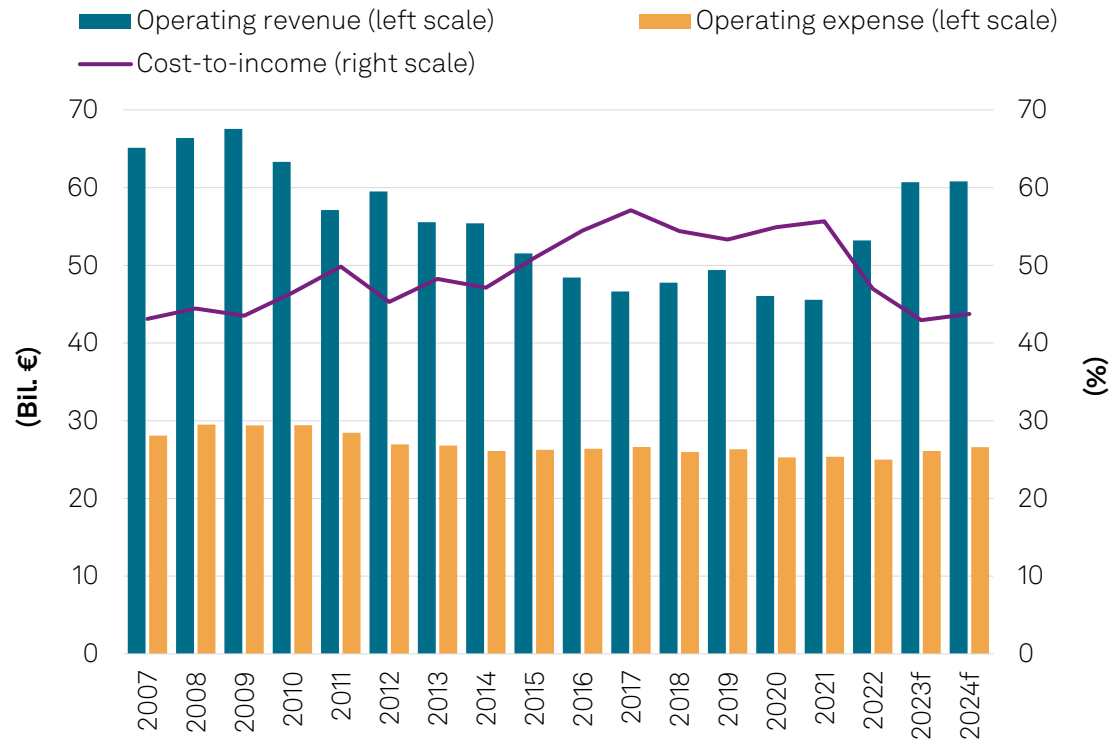
The migration to time deposits progresses, but slowly



Sources: Bank of Spain, Capital IQ, ECB, S&P Global Ratings.

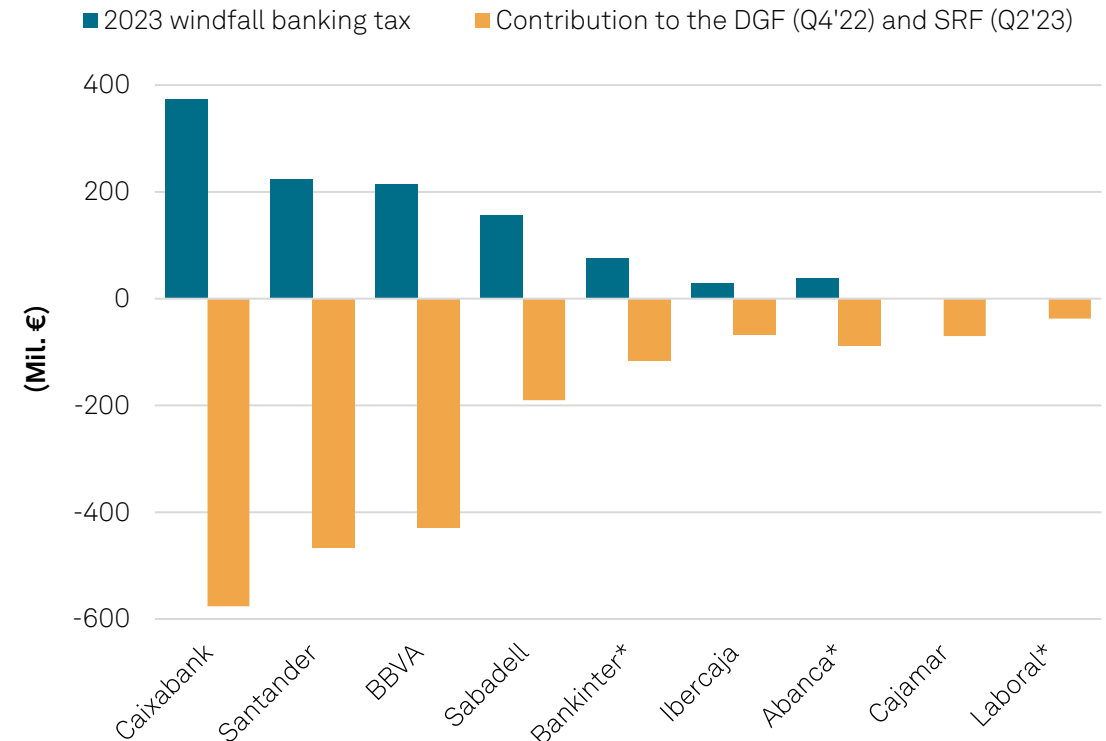
Profit Momentum Will Continue

Banks' efficient cost structures will allow them to benefit greatly from solid earnings



DGF--Deposit Guarantee Fund. f--Forecast. SRF--Single Resolution Fund. Sources: Bank of Spain, S&P Global Ratings.

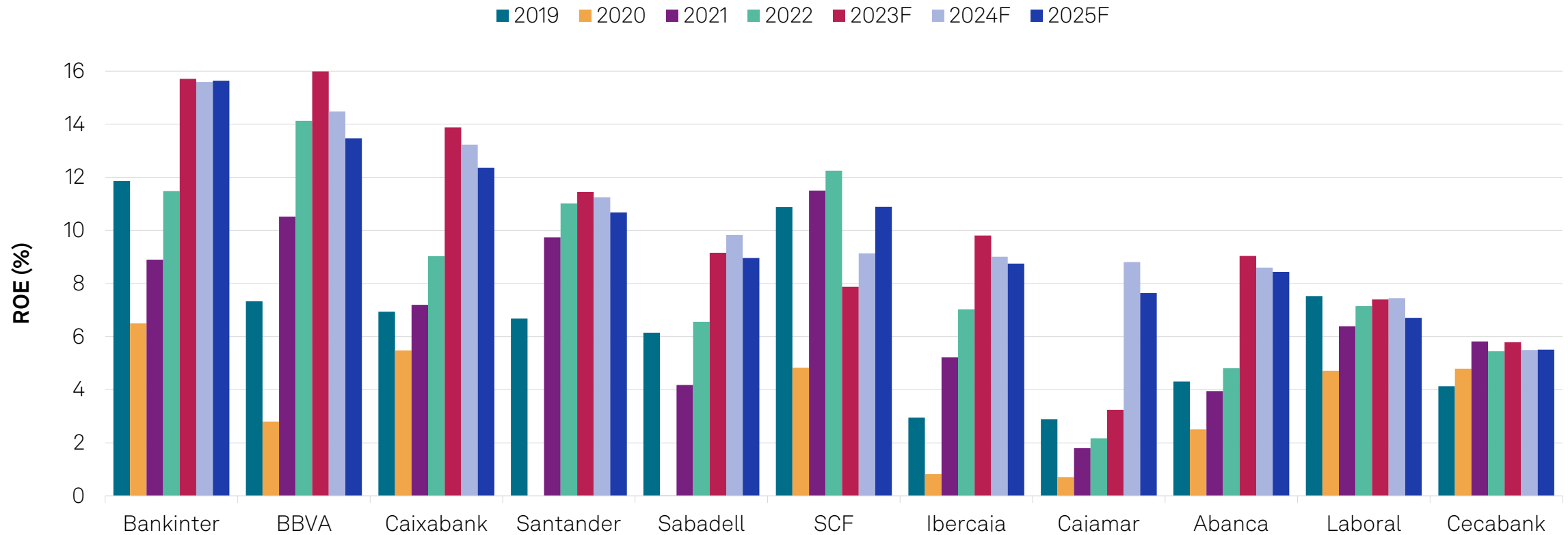
Banks will face higher windfall taxes in 2024, but also reduced contributions to the DGF and SRF



Note: * Contributions to the SFR and DGF as of 2022 year-end. DGF--Deposit Guarantee Fund. SRF--Single Resolution Fund. Sources: Banks' reports, S&P Global Ratings.

Banks' 2024 Results Will Not Be Far From Those Of 2023

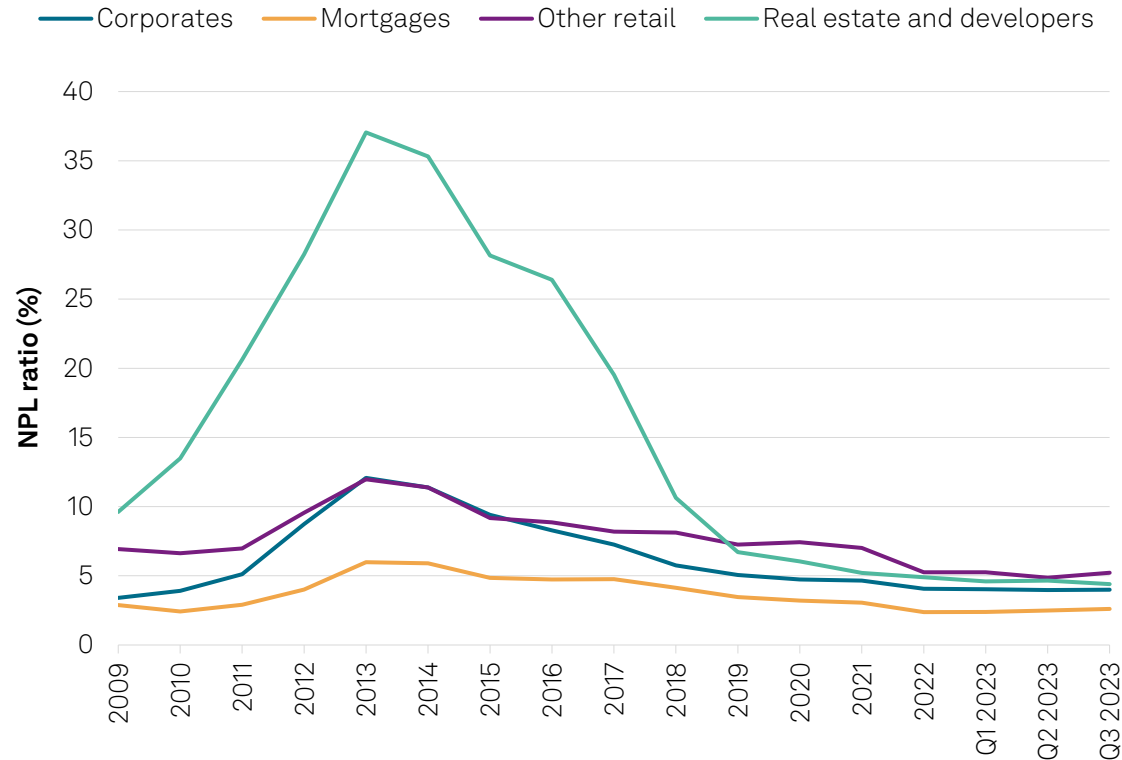
Pressure from lower interest rates will become more apparent in 2025



Note: Bankinter, Abanca and Caixabank's ROEs are adjusted to exclude extraordinary items related to M&A; Santander's 2020 return on equity (ROE) capped at zero. f--Forecast. ROE--Return on equity. Source: S&P Global Ratings.

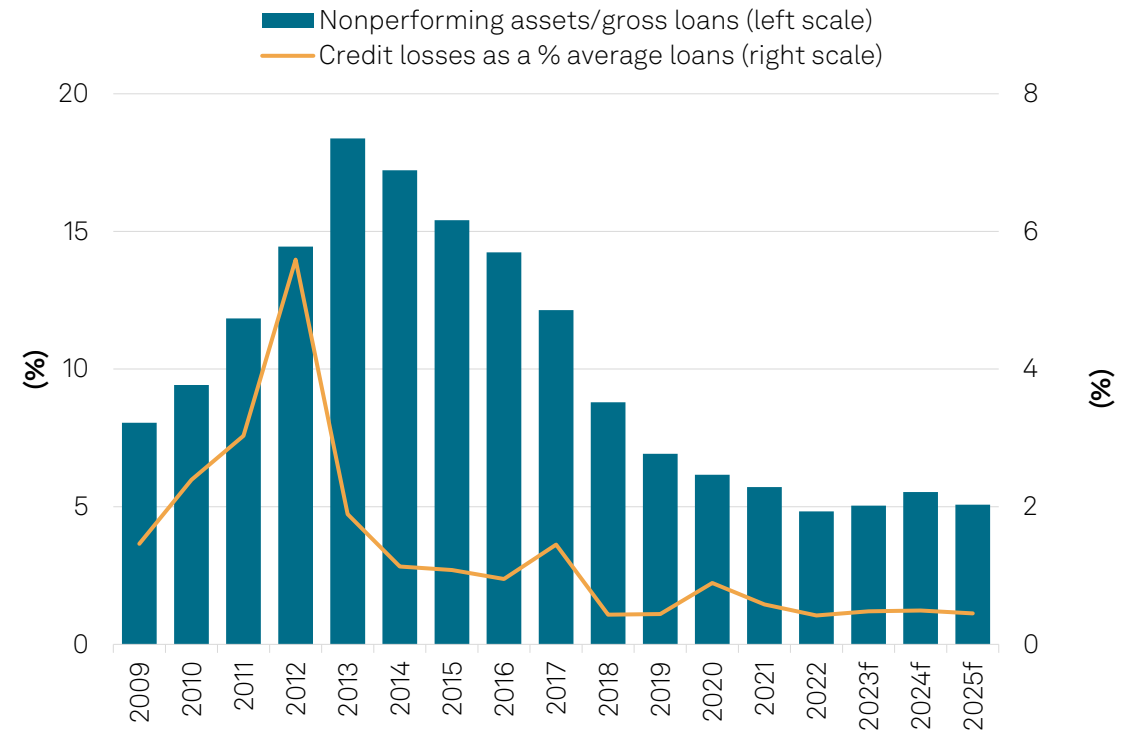
Contained Credit Costs Will Also Support Banks' Profits

Signs of asset quality deterioration are so far minimal



NPL--Nonperforming loans. F--Forecast. Source: Bank of Spain.

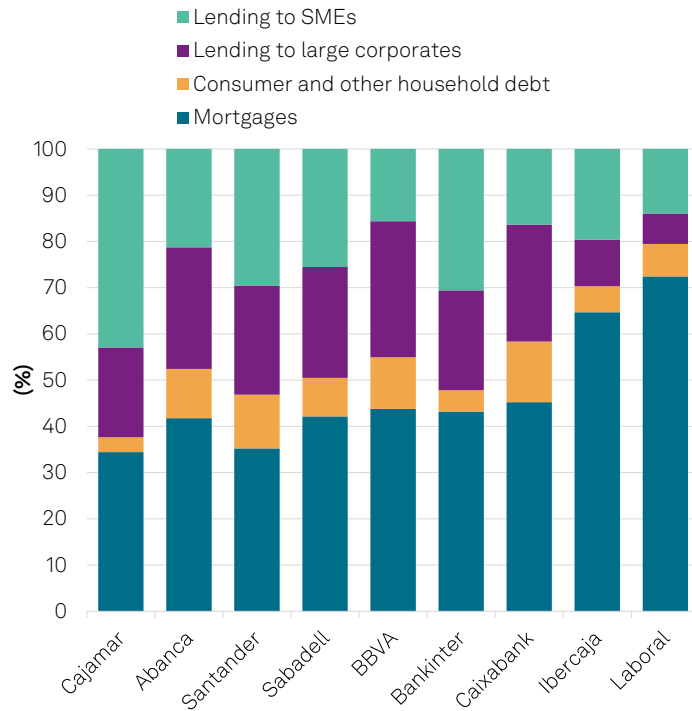
Some problem loans will likely emerge, but credit costs will remain manageable



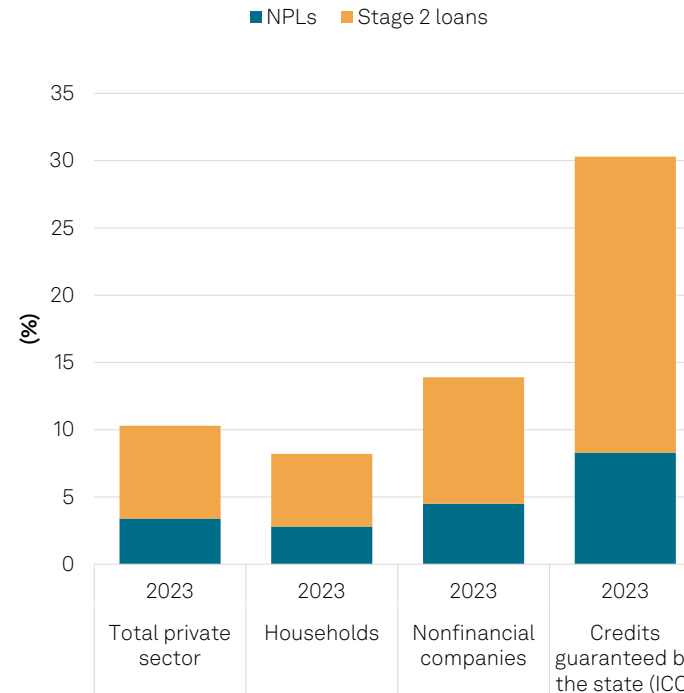
f--Forecast. Source: S&P Global Ratings.

Portfolios To Watch: SME, Unsecured Consumer, And Stage 2 Credits

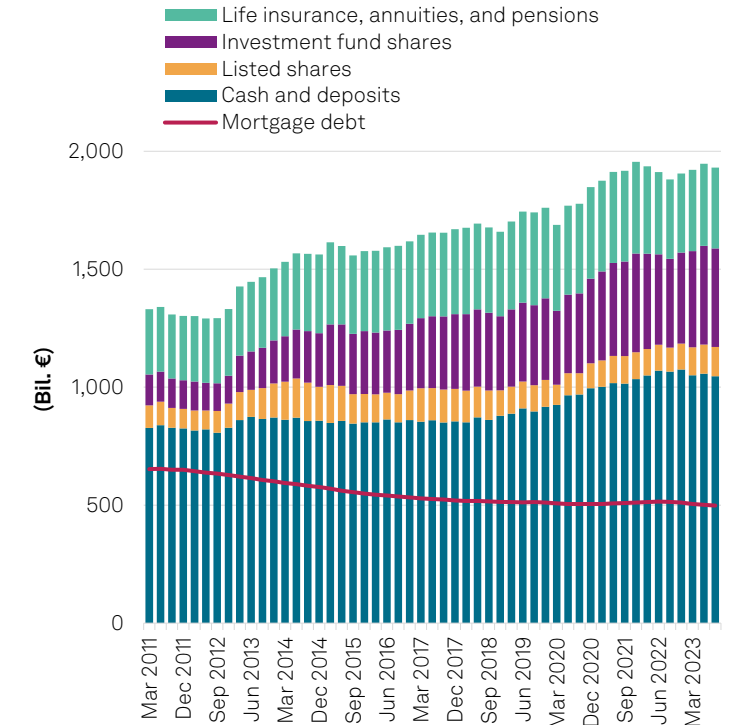
Small SMEs and unsecured consumer loans are the more vulnerable asset classes



A high share of ICO-guaranteed loans are potentially problematic



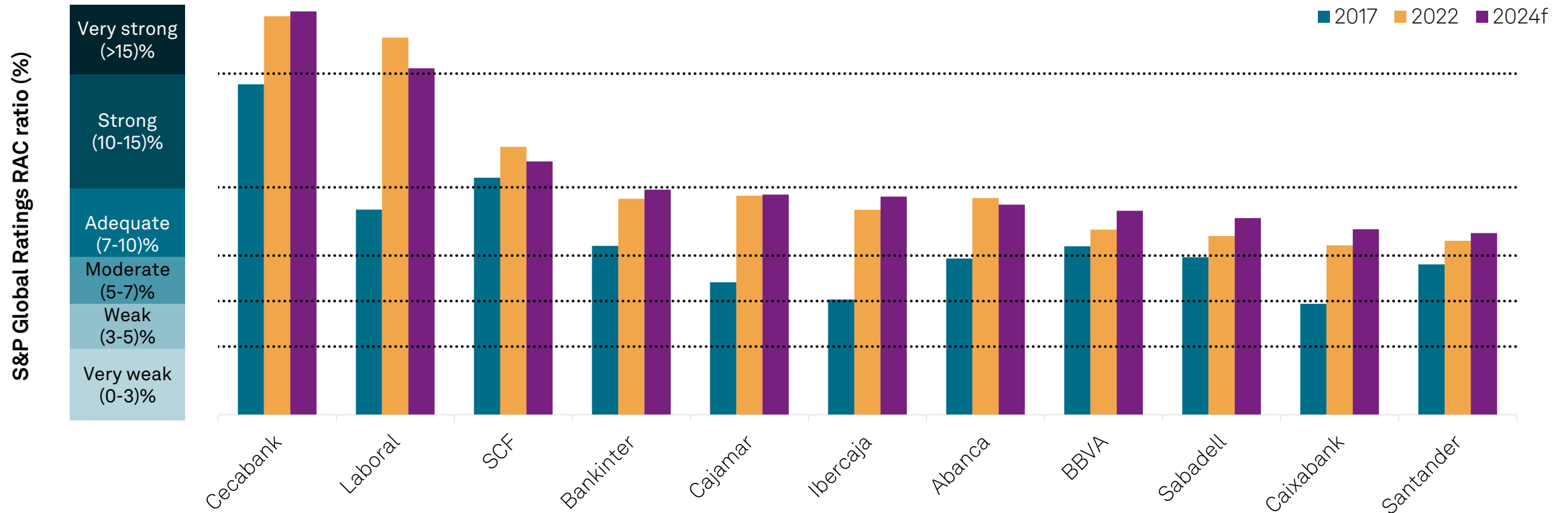
Mortgage debt will remain resilient thanks to high savings and steady employment



Data as of June 2023 for SMEs and ICO charts. ICO--Instituto de Credito Oficial . NPLs--Non-performing loans. Sources: Bank of Spain, EBA Transparency Exercise 2023, Banks' reports.

Thanks To Solid Profits And Muted Growth, Banks Are Set To Continue Paying Shareholder Dividends And Building Up Capital

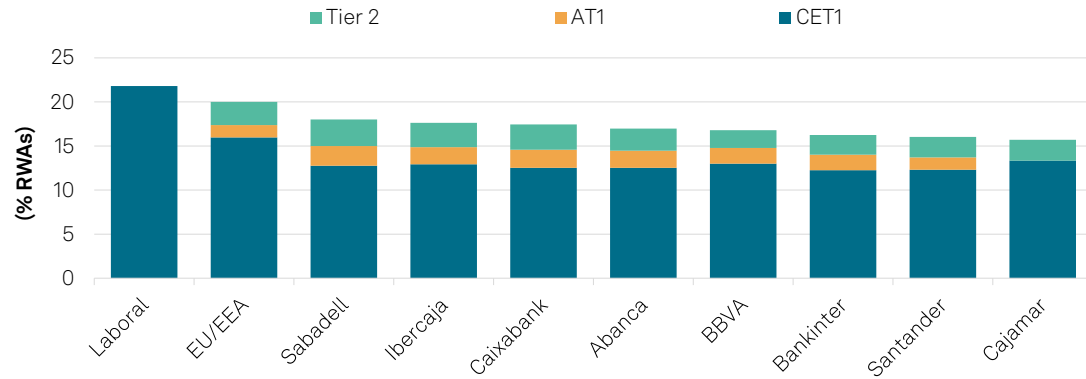
Several banks could see a modest improvement of RACs in 2024



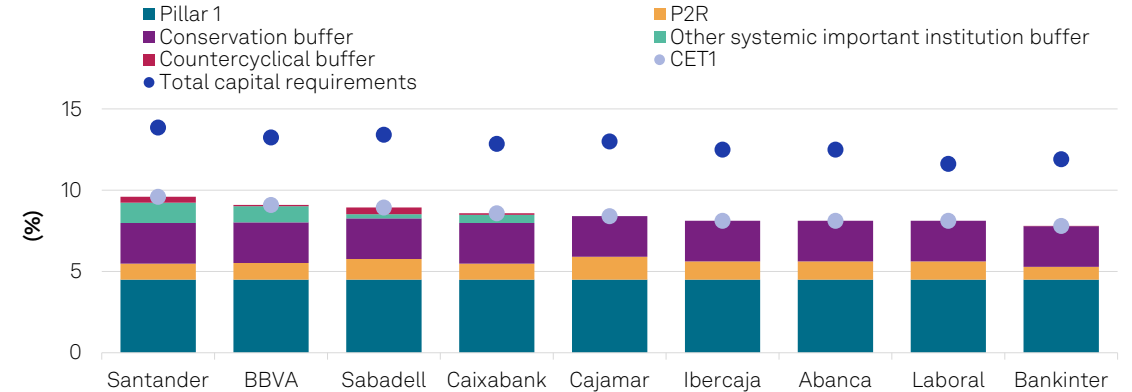
Source: S&P Global Ratings. RAC—Risk-adjusted capital.

Capital Is Adequate, But Generally Not A Ratings Strength

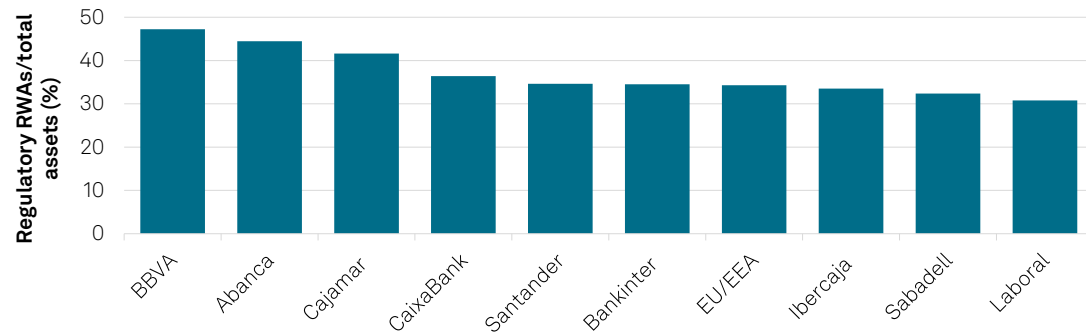
Regulatory capital ratios stand below EU/EEA peers



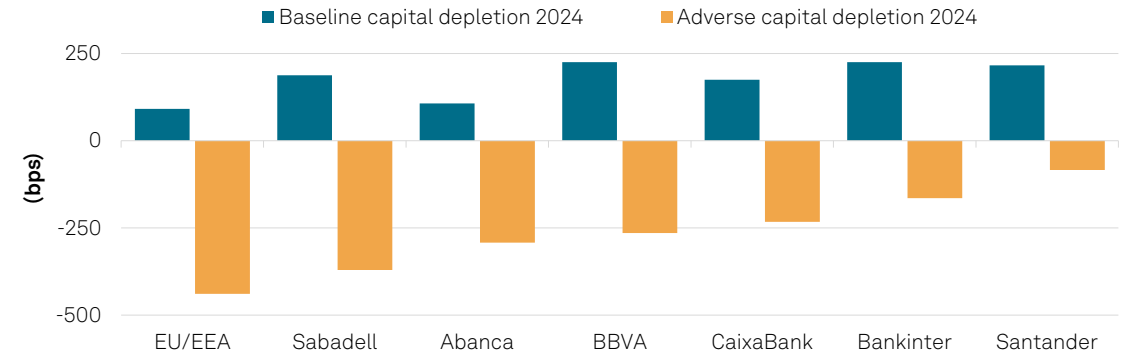
Requirements are also lower



RWA density is generally higher



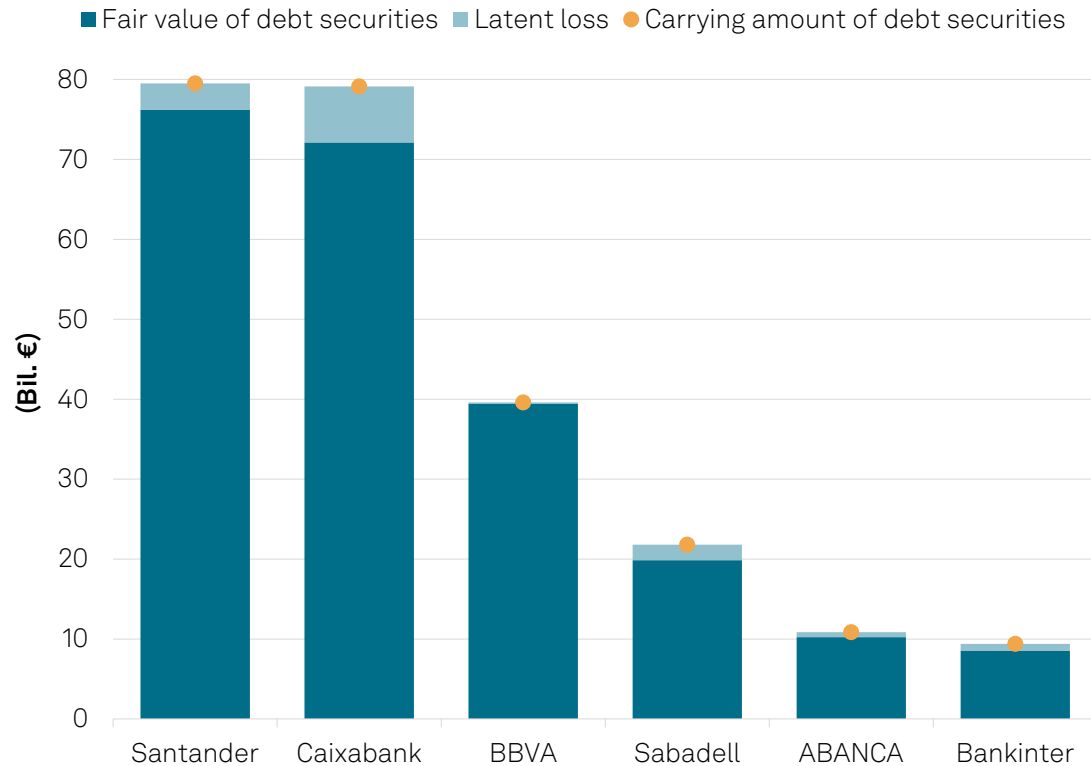
Banks showed resilience in the latest EBA stress test



Top left: 2023 EBA Transparency Exercise and financial statements for Laboral. Data phased in as of June 2023. Top right: CET1 and Total Capital Ratio's requirements applicable from Jan 1, 2024. Bottom left: Data as of Sep. 2023, except for the EU/EEA average and Laboral (June 2023). bps--Basis points. CET1--Common equity tier 1. RWA--Risk-weighted assets. Sources: Banks' reports, EBA EU Wide Transparency Exercise 2023, Pillar III Disclosures, S&P Global Ratings.

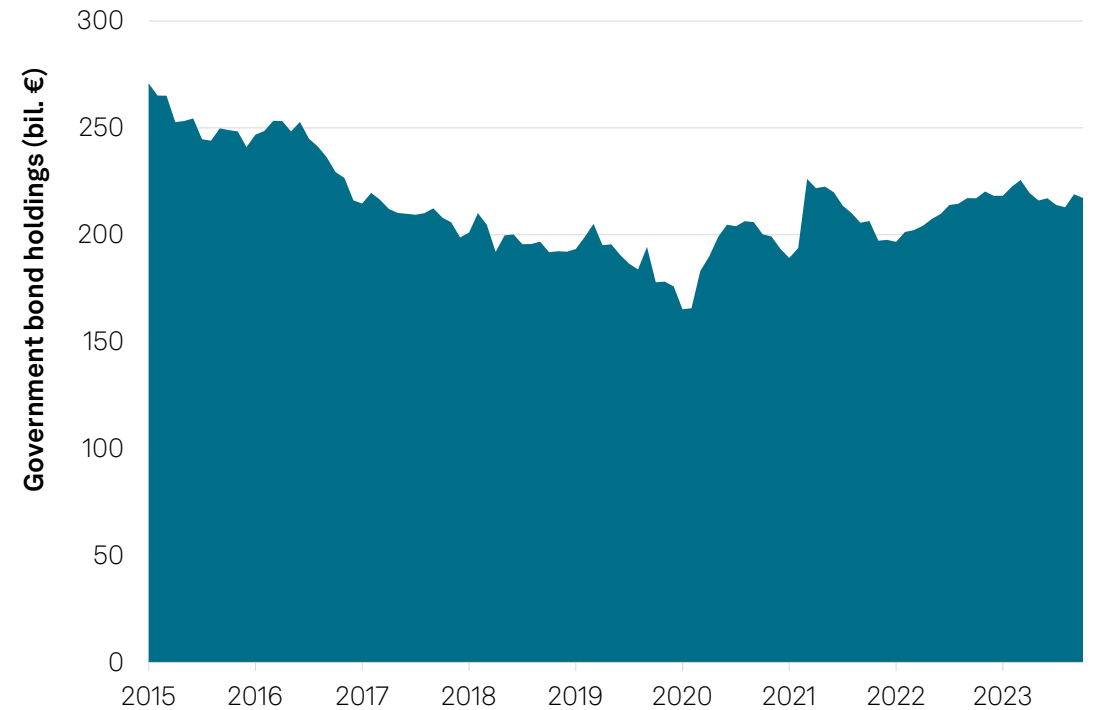
Banks Are Managing Interest Rate Risk Well

Latent losses on bond securities accounted as investment costs are limited



Data as of February 2023. Source: EBA Ad-hoc analysis unrealized losses on EU banks' bond holdings.

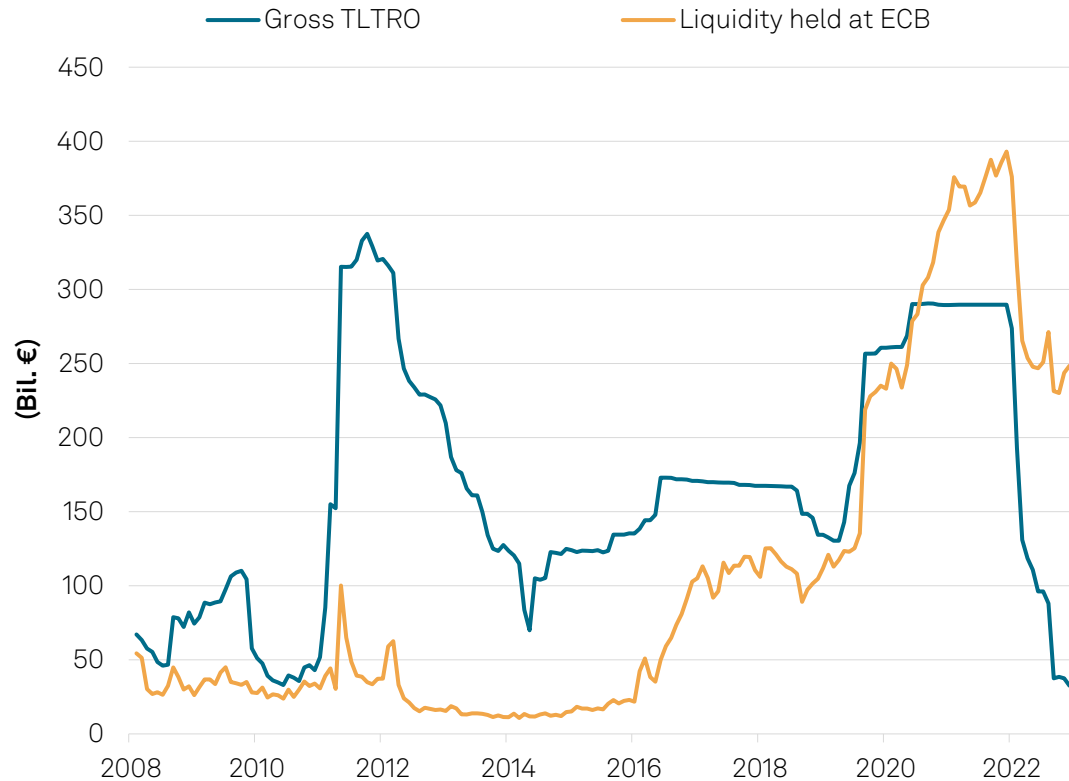
Holdings of home sovereign debt could increase further as banks build protection against rate declines



Source: Bank of Spain.

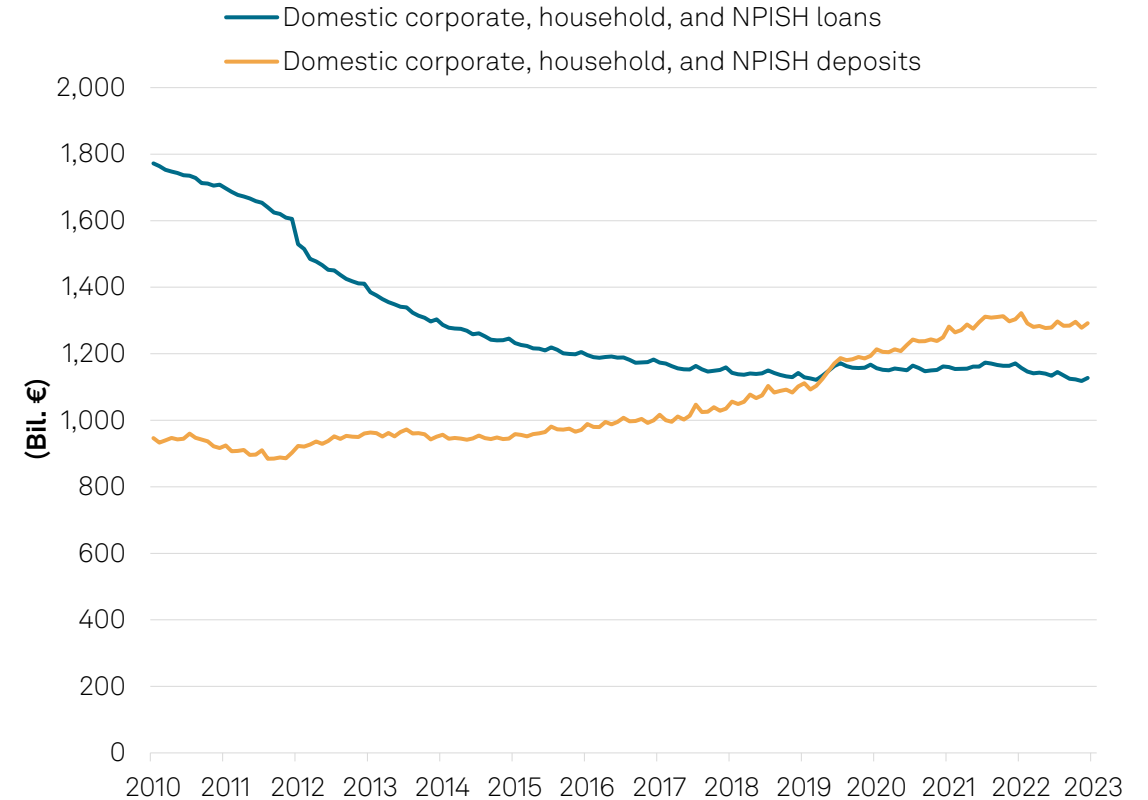
Despite Tighter Market Liquidity, Risks Are Limited

TLTRO has been largely repaid and banks maintain a solid net cash buffer of €215 billion at the ECB



TLTRO--Targeted longer-term refinancing operations. ECB--European Central Bank. Source: Bank of Spain.

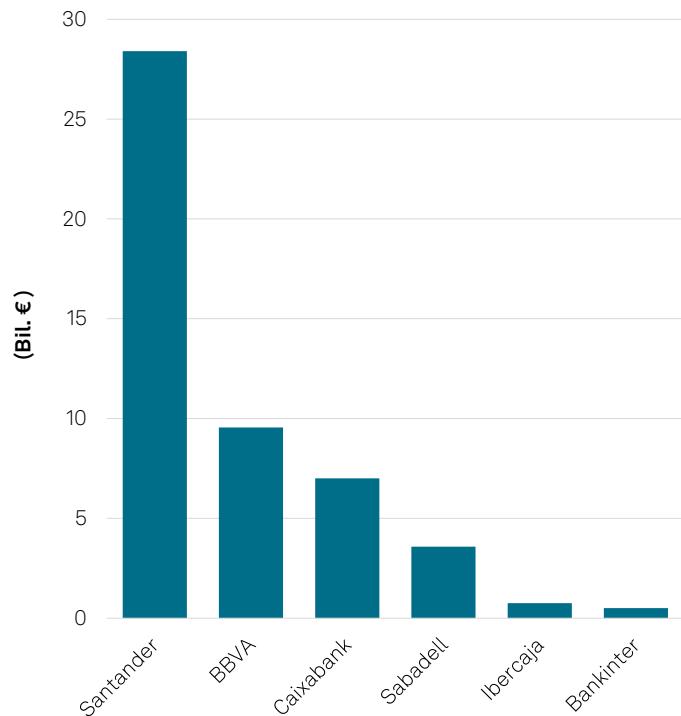
Deposits exceed lending by €165 billion



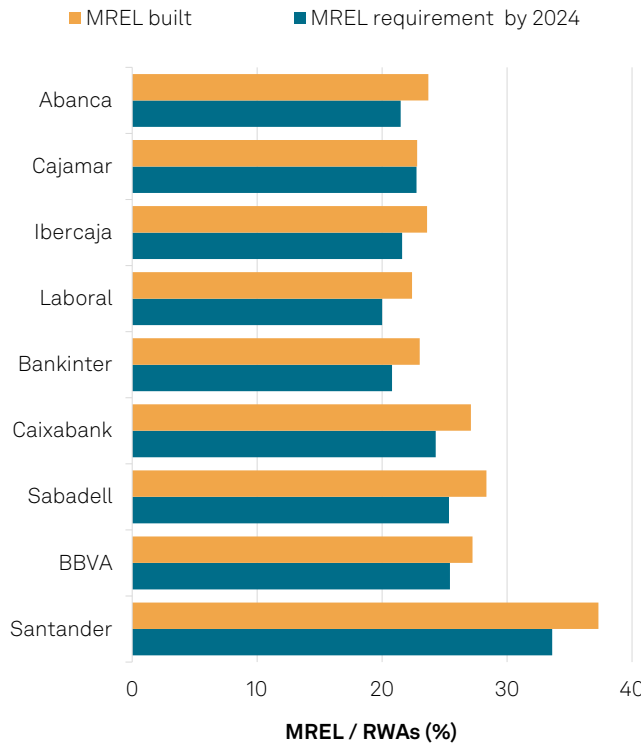
NPISH--Nonprofit institutions serving households. Source: Bank of Spain.

Banks Will Tap The Market, But Largely To Refinance Maturing Issues

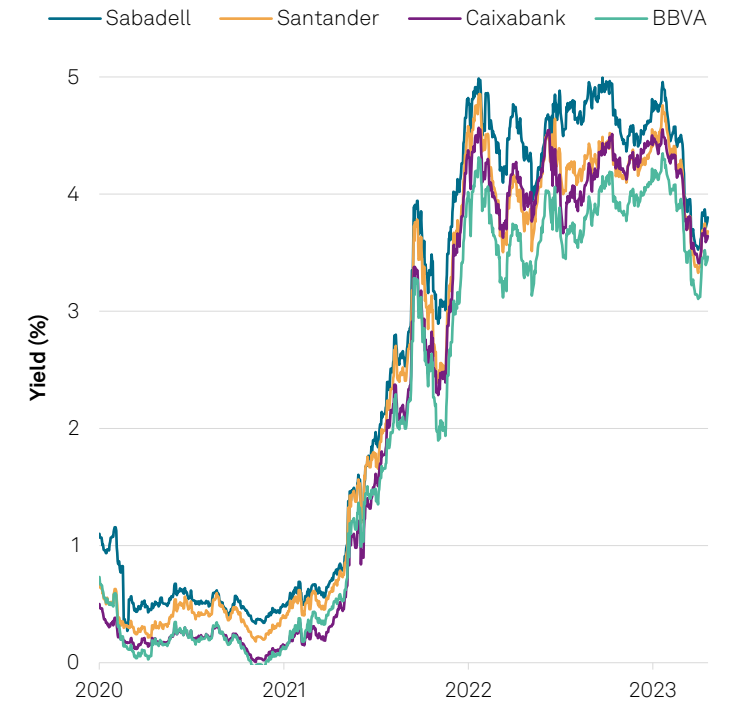
Debt maturing in 2024 is manageable



Banks already comply with MREL requirements



New debt will come at higher prices

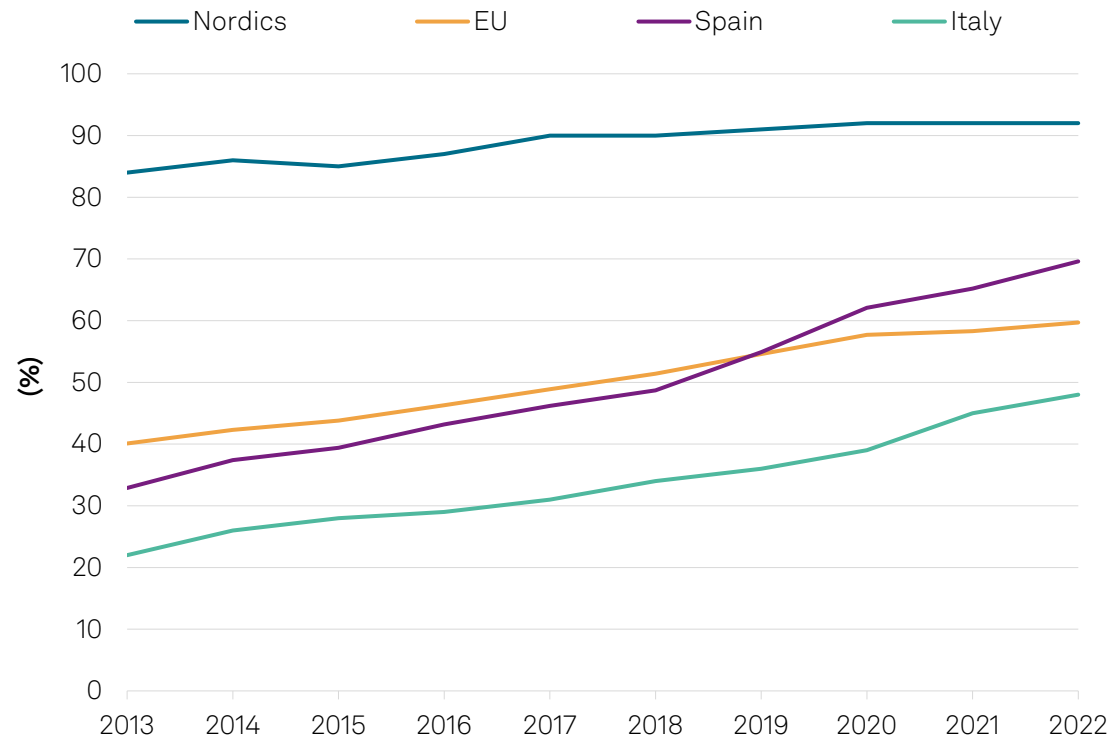


Debt maturing for Santander and BBVA include subs. MREL requirement includes combined buffer requirement (CBR). MREL--Minimum requirement for own funds and eligible liabilities . RWAs--Risk-weighted averages. Sources: Banks' Reports, S&P Global Capital IQ.

Digitalization And Sustainability Will Remain High In Banks' Agendas

Spanish banks will continue focusing on shifting clients to the digital channel and increasing digital sales

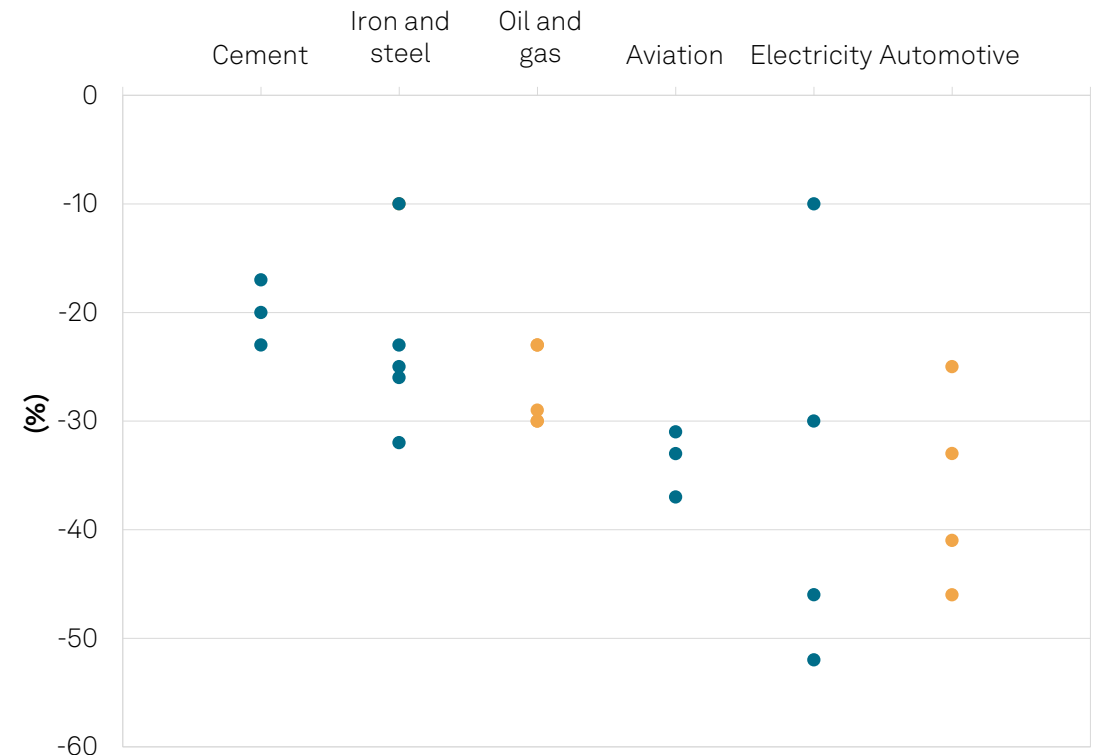
Comparative usage of online banking in Europe



Sources: KPMG & Fungas.

Decarbonization will target oil and gas and auto exposures, but other sectors could be added later

Selection of Spanish banks' 2030 decarbonization targets



Note: Targets are not always fully comparable. Base year, scope and metrics could differ among players. Yellow dots include Scope 3 exposures. Blue dots Scope 1 and/or 2.

Sources: Banks' Reporting, S&P Global Ratings.

Related Research

- [Global Credit Outlook: New Risks, New Playbook](#), Dec. 4, 2023
- [Credit Conditions Europe Q1 2024: Adapting To New Realities](#), Nov. 28, 2023
- [Economic Outlook Eurozone Q1 2024: Headed For A Soft Landing](#), Nov. 27, 2023
- [Global Banks: Our Credit Loss Forecasts](#), Nov. 17, 2023
- [Global Banks Outlook 2024: Forewarned Is Forearmed](#), Nov. 16, 2023
- [Eurozone Banks: Higher Reserve Requirements Would Dent Profits And Liquidity](#), Oct. 24, 2023
- [The Resolution Story for Europe's Banks: Making The Regime Fit For Purpose](#), Oct. 4, 2023
- [Future of Banking: AI Will Be An Incremental Game Changer](#), Oct. 3, 2023
- [Tech Disruption in Retail Banking: Country-By-Country Analysis](#) 2023, Sept. 23, 2023
- [Spain 'A/A-1' Ratings Affirmed; Outlook Stable](#), Sept. 15, 2023
- [Banco de Credito Social Cooperativo And Cajamar Caja Rural Upgraded To 'BB+', Outlook Stable](#), June 21, 2023
- [Banco de Sabadell Outlook Revised to Positive On Improving Profitability And Efficiency; 'BBB/A-2' Ratings Affirmed](#), April 21, 2023
- [Banking Industry Country Risk Assessment: Spain](#), April 14, 2023
- [Another Turn Around The Dancefloor As European Governments Eye New Bank Windfall Taxes](#), June 9, 2022

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