European Commission

ISSN 2443-8014 (online)

Post-Programme Surveillance Report

Spain, Spring 2021

INSTITUTIONAL PAPER 153 | JUNE 2021

EUROPEAN ECONOMY

Economic and Financial Affairs

European Economy Institutional Papers are important reports analysing the economic situation and economic developments prepared by the European Commission's Directorate-General for Economic and Financial Affairs, which serve to underpin economic policy-making by the European Commission, the Council of the European Union and the European Parliament.

This paper exists in English only and can be downloaded from
https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

Luxembourg: Publications Office of the European Union, 2021

PDF ISBN 978-92-76-29724-6 ISSN 2443-8014 doi:10.2765/39633 KC-BC-21-010-EN-N

European Commission
Directorate-General for Economic and Financial Affairs

Post-Programme Surveillance Report

Spain, Spring 2021

EUROPEAN ECONOMY

Institutional Paper 153

ACKNOWLEDGEMENTS

The report was prepared under the direction of Declan Costello, Deputy Director General, and Gabriele Giudice, Acting Director, Directorate General for Economic and Financial Affairs. The preparation of the report was overseen by Gabriele Giudice, Head of Unit - Croatia and Spain, Directorate General for Economic and Financial Affairs and Rainer Wichern, Head of Unit – National financial systems, Directorate General for Financial Stability, Financial Services, and Capital Markets ([1]).

Contributors:

Maria Doval-Tedin, Gabriele Giudice, Oskar Grevesmuhl, Simone Macchi, Samuli Pietiläinen and Alberto Vidan Bermudez, Directorate General for Economic and Financial Affairs. Rainer Wichern, Corina Weidinger Sosdean and Dolores Duran Bono, Directorate General for Financial Stability, Financial Services and Capital Markets Union. Co-ordination and editing were ensured by Michel Gerday and Alberto Vidan Bermudez.

The report was prepared in liaison with the European Central Bank and the European Stability Mechanism.

This report reflects information available and policy developments that have taken place until 20 April 2021. However, the macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2021 spring forecast released on 12 May 2021 (with cut-off date 30 April 2021).

Comments on the report would be gratefully received and should be sent, by mail or e-mail to:

Mr Gabriele GIUDICE
European Commission
Unit ECFIN.F.3
B-1049 Brussels

Gabriele.Giudice@ec.europa.eu

or

Mr Rainer WICHERN
European Commission
Unit FISMA.E.2
B-1049 Brussels

Rainer.Wichern@ec.europa.eu

([1]) The executive summary of this report was adopted as Commission Communication COM(2021) 542 on 2 June 2021. The rest of the report is the Staff Working Document SWD(2021) 542 accompanying this Communication.

CONTENTS

LIST OF TABLES

LIST OF GRAPHS

ABBREVIATIONS

BdE	Banco de España, Bank of Spain
CET 1	Common Equity Tier 1
Covid-19	Coronavirus disease 2019
DTAs	Deferred Tax Assets
EBA	European Banking Authority
ECB	European Central Bank
ERTEs	Expedientes de Regulación Temporal de Empleo, short-term work schemes
ESM	European Stability Mechanism
FROB	Fondo de Reestructuración Ordenada Bancaria, Fund for Orderly Bank Restructuring
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
ICO	Instituto de Crédito Oficial
IFRS	International Financial Reporting Standards
INE	Instituto Nacional de Estadística, the Spanish National Statistics Institute
LSIs	Less Significant Institutions
MREL	Minimum Requirement for own funds and Eligible Liabilities
NFCs	Non-Financial Corporations
NPL	Non-Performing Loan
PEPP	Pandemic Emergency Purchase Programme
PPS	Post-programme surveillance
REDs	Real Estate Development loans
REOs	Real Estate Owned assets
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
Sareb	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria S.A.
SEPI	Sociedad Estatal de Participaciones Industriales
SMEs	Small and Medium-sized Enterprises
SRB	Single Resolution Board
SURE	Support to mitigate Unemployment Risks in an Emergency

EXECUTIVE SUMMARY

This fifteenth surveillance report following Spain's exit from the financial assistance programme in January 2014 provides an updated assessment of the country's economic and financial situation. Staff from the European Commission, in liaison with the European Central Bank ([2]), held virtual meetings with the Spanish authorities in mid-April in preparation of the present report. The ESM participated in the meetings on aspects related to its own Early Warning System. Following the COVID-19 related social distancing measures and travel restrictions, the meetings were held in the form of video conferences with the Spanish authorities. The report focuses on macroeconomic and financial sector developments over the past months, complementing the surveillance by the Commission under the European Semester of economic policy coordination.

Spain experienced a sharp economic downturn in 2020, but, amidst a continued high uncertainty, a strong rebound is expected for 2021. The outbreak of the COVID-19 pandemic led the Spanish economy to an unprecedented GDP drop in 2020 (-10.8%). The contraction of economic activity continued in the first quarter of 2021, due to the restrictions and containment measures put in place in both Spain and most of its main trading partners. However, the situation has recently improved with the easing of some restrictions and the progress in the vaccination campaign. According to the European Commission 2021 spring forecast, output is expected to start growing again in the second quarter of the year, initiating a rebound that will be stronger in the second semester. Overall, GDP is set to grow by 5.9% in 2021. Part of the excess savings accumulated during the pandemic will be spent, boosting private consumption. The implementation of the Recovery and Resilience Plan will play a major role in spurring economic activity, particularly in the second half of the year, and investment decisions are likely to be influenced by the improved situation. The contribution of external demand to the economic recovery will probably not be positive until 2022, when tourism is expected to approach its 2019 level. This forecast is subject to large uncertainty and associated risks, namely relating to the impact of the new pandemic outbreaks, the progress in vaccines and treatments, the behaviour of economic agents in the aftermath of the pandemic, public measures to contain the impact of the pandemic and to support the recovery, the response of private agents to the public measures and the effective absorption and efficient implementation of the Recovery and Resilience Plan.

While the overall fiscal cost has been considerable, government policies have mitigated the short-term impact of the pandemic and permanent scarring effects that would have undermined long-term sustainability. The severe economic downturn and the actions taken by the government, in line with EU guidance, to minimise the economic and social consequences of the crisis led to a significant worsening of the fiscal balance to -11.0% of GDP and an increase in the debt-to-GDP ratio to 120.0% of GDP in 2020, for a small part also due to the reclassification of SAREB into the government sector. While the government is implementing the budget for 2021 as planned, it has adopted additional support measures resulting in further fiscal support for households and businesses. The economy and the recovery are also supported this year and beyond through EU cohesion funds and, in particular, by the additional investment and reforms supported by the Resilience and Recovery Facility. Envisaged measures are expected to lift economic activity while preserving a sustainable evolution of the government deficit and debt. In its 2021 spring forecast the Commission projects the government balance to improve to -7.6% of GDP in 2021 and -5.2% of GDP in 2022. The debt ratio is forecast to decline to 116.9% of GDP in 2022. The high debt ratio nevertheless calls for continued attention on the part of the authorities and for action to improve the quality and effectiveness of public finances further.

The public measures adopted by the authorities to support corporates and households have helped mitigate the impact of the crisis on the banking sector. The banking sector has entered the Covid-2019 crisis in a much better shape than in past crisis episodes, benefitting from better asset quality, capitalisation and liquidity position. The borrower relief measures (i.e. legislative loan moratoria and

([2]) European Central Bank (ECB) Staff participated in this mission, and in the drafting of this report, in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

voluntary moratoria granted by banks) and the public guarantee schemes have prevented the deterioration in asset quality and facilitated the flow of credit to the economy. Credit activity has been mainly supported by the expansion of lending to non-financial corporations backed by state guarantees. Banking sector capitalisation has marginally improved supported by the supervisory and regulatory relief measures adopted since the onset of the pandemic. While no significant cliff-edge effects are expected when loan moratoria expire fully, a more marked deterioration in asset quality is likely to emerge once support measures are phased out. Impacted by the increase in loan-loss provisions and by one-off measures adopted by several banks, banking sector profitability has remained under pressure. Banking sector consolidation has continued notwithstanding the difficult operating environment for banks. The merger of Bankia and CaixaBank received all required approvals, while another merger is in an advanced phase. On the back of the significant reduction in revenues due to the pandemic, SAREB has continued to incur losses and has eroded further its reduced capital base. The authorities are reflecting on possible changes to SAREB taking also into account the reclassification of SAREB within the general government sector.

Spain retains the capacity to service its ESM debt. The resilience of Spain's economy and financial sector upon entering the COVID-19 crisis and the support provided by the Eurosystem, as well as Spain's more favourable debt profile, reduce the vulnerabilities that stem from the increase in gross government debt. The implementation of a significant package of reforms and investment funded by the Recovery and Resilience Facility is also expected to further increase the growth potential and resilience of the economy underpinning its transformation and the twin green and digital transitions. Recent debt auctions have shown continued investor trust in Spain's economy and sovereign debt in spite of the COVID-19 outbreak.

1. INTRODUCTION

1. Spain successfully exited the financial assistance programme for the recapitalisation of financial institutions in January 2014. The Programme was agreed by the Eurogroup on 9 July 2012 for a period of 18 months ([3]) and provided financing by the euro area Member States of up to EUR 100 billion. Eventually, Spain used EUR 38.8 billion for bank recapitalisation, under restructuring and resolution plans approved by the European Commission consistently with State-aid rules, and around EUR 2.2 billion for capitalising SAREB, the Spanish asset management company. Between July 2014 and October 2020, Spain made nine voluntary early repayments.

2. The outstanding amount of the ESM loan stands at EUR 23.7 billion, which represents 57% of the total amount disbursed to Spain under the programme. The post-programme surveillance ([4]) ([5]) aims at a broad monitoring, on a biannual basis, of the repayment capacity of a country having received financial assistance. There is no policy conditionality under the PPS, although the Council can issue recommendations for corrective actions if deemed necessary and appropriate.

3. Staff from the European Commission, in liaison with the European Central Bank, carried out the 15th PPS mission, holding meetings with the Spanish authorities on 12 and 13 April 2021, with the main findings presented in the present report ([6]). The ESM participated in the meetings on aspects related to its own Early Warning System. Following the COVID-19 related social distancing measures and travel restrictions, the meetings were held in the form of video conferences with the Spanish authorities.

4. The spring 2021 PPS report focuses on the Spanish financial sector, complementing the surveillance under the European Semester of economic policy coordination. As part of the latter, the Commission will publish an In-Depth Review of macroeconomic imbalances analysing Spain's external position, private and public indebtedness as well as unemployment as part of the Semester 2021 spring package. Despite the measures implemented by the government in order to mitigate the impact of COVID-19, the pandemic had an unprecedented negative effect on the Spanish and EU economies in 2020, thereby exacerbating some of the imbalances displayed already prior to the outbreak of COVID-19.

5. The policy measures decided at the European and national level have offered significant support to the economy since 2020. The European Central Bank eased its monetary policy stance to counter the negative impact of the pandemic on the euro area economy, through a comprehensive set of measures including: introducing a new, temporary, pandemic emergency purchase programme (PEPP); relaxing eligibility and collateral criteria; and offering new longer-term refinancing operations. In addition, macroprudential policies were calibrated to ensure the flow of credit to the economy, while the ECB banking supervision introduced further microprudential measures to support the resilience of the European banking sector. In mid-July the European Council agreed on a new Multiannual Financial Framework and a recovery package amounting to EUR 750 billion. The largest part of it will go to the Recovery and Resilience Facility (RRF) ([7]), which aims at supporting investments and reforms in the Member States. This facility will be disbursed in the form of grants (EUR 338 billion) and loans (EUR 386 billion). Spain is expected to receive EUR 69.5 billion in grants ([8]) and the first disbursements from the Facility will take place in the second half of 2021. Under the SURE instrument ([9]) the EU has granted

([3]) However, the completion of the restructuring of the banks receiving public support under the State aid rules was due to take place after the exit from the programme.

([4]) PPS is foreseen by Art. 14 of the Two-Pack Regulation (EU) N°472/2013. It starts automatically after the expiry of the programme and lasts at least until 75% of the financial assistance has been repaid.

([5]) The previous PPS report was published as Institutional Paper 140 in November 2020: https://ec.europa.eu/info/publications/post-programme-surveillance-report-spain-autumn-2020_en.

([6]) The cut-off date for the data included in this report is 30 April 2021.

([7]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility OJ L 57, 18.2.2021, p. 17–75.

([8]) The current maximum financial allocation (current prices) is indicative, of which 70% is based on the Commission's Autumn 2020 Economic Forecast for real GDP growth in 2020 and 2021. The 30% allocations will be revised by June 2022, based on actual outturn data from Eurostat.

([9]) Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary financial support amounting to EUR 94.3 billion to 19 Member States. Spain has already received nearly EUR 18 billion of the maximum amount of EUR 21.3 billion to cover the costs related to the financing of national short-time work schemes incurred in 2020. In addition to the EU level measures, Member States took crisis-related discretionary fiscal measures amounting close to 4% of GDP in 2020 on top of the impact of automatic stabilisers estimated at around 4% of GDP. In March 2021 the Commission set out a number of considerations to frame fiscal policy guidance for 2022 and the medium-term, calling for a supportive overall fiscal impulse in 2021 and 2022, stemming from both national budgets and the RRF. Member States with high debt levels should pursue prudent fiscal policies, while preserving nationally-financed investment and using RRF grants to fund additional investment. All Member States should focus on the composition and the quality of public finances, both on the revenue and expenditure side of the budget. They should also give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances ([10]). The Eurogroup, welcoming the Commission communication, confirmed its commitment to a supportive stance in the euro area in 2021 and in 2022 and recalled that premature withdrawal of fiscal support should be avoided, while, once the recovery is firmly under way, euro area Member States should address the increased public debt levels ([11]).

6. This report reflects information available and policy developments that have taken place until 20 April 2021. However, the macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2021 spring forecast released on 12 May 2021 (with cut-off date 30 April 2021). References in this report to the Recovery and Resilience Facility do not constitute any assessment of the Spanish Recovery and Resilience Plan and cannot in any way serve to pre-judge the Commission assessment of the Plan.

support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

([10]) Commission Communication to the Council 'One year since the outbreak of COVID-19: fiscal policy response' of 3 March 2021, COM(2021) 105 final.

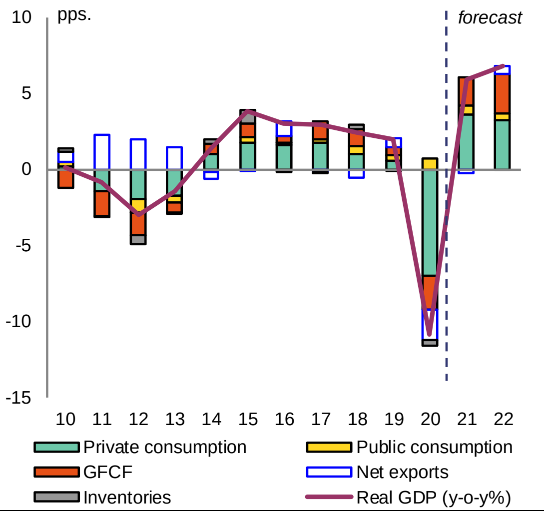
([11]) Eurogroup statement of 15 March 2021 on the euro area fiscal policy response to the COVID-19 crisis and the path forward.

2. MACROECONOMIC DEVELOPMENTS

7. Economic activity in Spain experienced an unprecedented decline in 2020 that continued during the first quarter on 2021. The severe outbreak of the COVID-19 pandemic in Spain, the strict confinement measures taken in response and the travel limitations that dragged down tourism resulted in an unprecedented decline of GDP in 2020 (-10.8%). Economic activity kept dropping in the first quarter of 2021 (-0.5% q-o-q), influenced by the reintroduction of measures to contain a new rebound in the number of infections in January and February. The gradual easing of the containment measures in March and the acceleration in the pace of vaccinations since the beginning of April will probably allow economic growth to resume over the second quarter. There is still great uncertainty ahead and the resurgence of outbreaks in coming weeks may not be ruled out, but economic indicators point to a positive growth in the second quarter of the year likely to be followed by a dynamic economic activity in the second semester of the year.

8. The outlook for the Spanish economy largely depends on the evolution of the pandemic, the related containment measures, the progress in vaccines and treatments, the reaction of the private sector and future public policies. The recovery, set to be strong especially over the second half of 2021, is expected to remain uneven across sectors. As happened in 2020, manufacturing production could pick up faster than other economic sectors, while transport and social-interaction sectors -such as leisure and tourism-related activities- are set to recover at a slower pace. The implementation of the Recovery and Resilience Plan (RRP) should play a decisive role in the rebound of economic activity. The Spanish authorities confirmed their intention to absorb EUR 69.5 billion of EU grants from the Recovery and Resilience Facility (RRF) between 2021 and 2023, which are likely to boost the GDP growth. In part due to the impact of the RRP, Spain could return to the pre-pandemic GDP level by the end of 2022. Based on the European Commission spring forecast ([12]), real GDP is expected to grow 5.9% in 2021 and 6.8% in 2022.This forecast is subject to a larger degree of uncertainty than in normal times. The uncertainty relates to the possibility and duration of a resurgence of new pandemic waves over the next months, the progress in vaccines and treatments, the recovery of tourism-related activities, the response of private agents to the potential containment measures, the impact of the debt overhang on private investment and the materialisation of insolvencies, and public measures to contain the impact of the pandemic and to support the recovery, including the effective absorption and efficient implementation of the RRP.

Graph 2.1: **Composition of GDP growth**



GFCF: gross fixed capital formation
Source: INE, European Commission Economic Forecast, spring 2021.

9. Policy measures have been sizeable and effective. According to AIReF, policy measures worth 4.3% and 2.9% of GDP in 2020 and 2021 respectively have mitigated the impact of the crisis on households' income and corporate liquidity, and will shape the magnitude of the recovery over the next few years**.** Short-term work schemes (named ERTE in Spain) have been extended several times and are currently legislated to be in place until the end of May 2021, although a further extension is being discussed, having become more targeted to the firms or sectors. In addition, several measures were taken to protect the self-employed by means of tax deferrals and benefits for suspension of activity, which have also been extended until the end of May 2021. These schemes have contributed to contain job losses but not to avoid them altogether. Hence, the fall in employment pushed the unemployment rate up

([12]) The cut-off date for the European Commission 2021 spring forecast was 30 April 2021.

from 14.1% in 2019 to 15.5% in 2020. . Only part of this increase will be reversed in 2021, since the severe impact of the crisis on labour intensive-sectors may still result in additional job losses and high unemployment, while further increases cannot be ruled out once ERTEs are phased out. In order to provide firms with liquidity, the authorities launched a programme of public guarantees for new bank loans, allowed tax deferrals and introduced payment moratoria on existing bank loans. The take-up of loans backed by public guarantees has been high, which is expected to help firms have sufficient liquidity to cushion the fall in revenues while demand is gradually strengthening. Nevertheless, impaired profitability could lead to the materialisation of corporate insolvencies and downside risks to productive capacity. Measures have also been adopted to prevent failures of viable companies. In this regard, a solvency support fund was created back in the summer of 2020, with a budget of EUR 10 billion, providing debt and capital support to strategic enterprises active in Spain affected by the COVID-19 outbreak. The fund is in coherence with the State aid Temporary Framework set out by the European Commission, and is being managed by the public holding SEPI (*Sociedad Estatal de Participaciones Industriales*). Additionally, in March 2021, the government adopted a package of measures via a Royal Decree Law, including direct support of EUR 7 billion to companies having suffered a significant loss of turn-over in 2020 compared to 2019.

10. Domestic demand is set to remain the main driver of GDP developments this year and the next. Private consumption and investment are expected to grow sharply in both 2021 and 2022.With the prospect of a relaxation of the restrictions in the second half of the year, a gradual normalisation of the households' savings rate is expected. As a result, an increase in private consumption close to half of the over-saving caused by the pandemic is projected for 2021. A similar behaviour in closing the gap is expected for 2022, making private consumption a major driver of growth in both years. The improved situation with the deployment of the vaccines is set to weight on the investment decisions particularly in the second half of 2021. The implementation of the RRP is likely to have a stronger effect in 2022 with potential crowding-in effects in private investments. According to the European Commission spring forecast, the contribution of external demand to GDP growth will be positive only by 2022, when tourism-related activities will decisively narrow the gap with their 2019 level. In 2021, the growth of imports is set to more than offset the impact of the exports growth.

11. The lockdown weighed on activity and prices in the housing market, with a heterogeneous impact in local rental markets. The slump in economic activity in the first quarter of 2021 accentuated the setback of investment in housing and the slowdown in property prices experienced in the fourth quarter of 2020, when the growth rate fell to 1.5% y-o-y, the lowest since the first quarter of 2015. Likewise, prices displayed a decline with regards to the fourth quarter of 2020 in the majority of Autonomous Communities and amounting to 0.8% country-wide ([13]). The drop in dwelling prices going into the first quarter of 2021 has been more pronounced in the second-hand segment as demand for new properties showed greater dynamism, possibly reflecting a shift in household preferences arising as a result of the pandemic. In February 2021, the monthly growth rate in the number of mortgages on dwellings picked up as it registered an increase of 15% and 21% compared to January 2021 and December 2020, respectively. The average mortgage interest rate remained stable at 2.5% in the first months of 2021. The latest bank lending survey reported a slight tightening of credit standards for housing loans to households in the first quarter of 2021. This reflects primarily the perception by banks of a deteriorating general economic outlook and the increasing borrowers' credit risk. It also noted a modest decline in demand for housing, which is projected to reverse in the second quarter, against a broadly unchanged share of rejected applications. This is mainly imputable to the drop in consumer confidence and, to a minor extent, to the uncertain prospects for the housing market. On the other hand, the slowdown in economic activity in 2020 exacerbated housing supply constraints, adding a source of upward pressure on prices. Moreover, the gradual pick up of tourism-related activities could contribute to lifting prices for the remainder of 2021,

([13]) The greatest quarterly decreases were registered in the Basque Country (1.6%), Navarra (1.5%) and the Balearics (1.5%), while Murcia and La Rioja showed the largest positive variation (0,7% and 0.4% respectively).

particularly in those areas where holiday accommodations constitute an important driver of residential properties. A rebound of activity in the housing market could be expected when the current containment measures will be eased and pent-up demand built up during the lockdown period will be absorbed. Such momentum could be spurred in response to more favourable household future income expectation, now undermined by a weak labour market outlook, and sustained by the income support measures put in place by the government. In addition, within this scenario, the reduced financing cost associated with the prospect of a prolonged looser monetary policy in the euro area could make housing investment more attractive and affordable for households and investors, thereby accelerating the recovery of the housing sector.

12. Headline inflation is expected to rebound in 2021. The inflation rate will turn positive, mainly driven by a moderate upturn in core inflation, particularly due to tourism-related prices and reflecting a substantial hike in the energy component. More sustained demand and the gradual strengthening of the price of consumer services forecast in 2021 will contribute to increasing HICP inflation to 1.4%, according to the latest Commission forecast. Domestic cost pressures are expected to remain rather weak in 2021, as the fragile situation of the labour market will keep modest pressure on wages

13. The pandemic has led to a deterioration of the fiscal balance. In 2020, the general government deficit rose by more than 8 percentage points to 11.0% of GDP. This was due to the combined effect of the fall in economic activity, the measures put in place to combat the virus and to preserve employment while supporting businesses and households as well as some one-off items, in particular the reclassification of SAREB into the government sector. On the positive side, tax revenue did not contract as much as one could have expected based on the standard elasticities with respect to the tax bases. In addition, some expenditure savings were recorded, as a result of certain public services not being provided during the lockdown. In its 2021 Stability Programme, the Spanish government projects a general government deficit for 2021 of 8.4% of GDP. According to the European Commission 2021 spring forecast, the general government balance is projected at –7.6% of GDP in 2021, before narrowing to –5.2% of GDP in 2022.

14. The government debt ratio reached 120% of GDP by the end of 2020, but a longer average maturity and the support provided by the Eurosystem reduce the vulnerability of public finances. Given the large negative government balance, the fall in economic activity and the reclassification of SAREB into the government sector (increasing the ratio by 3 pps.), the general government debt-to-GDP ratio rose by around 25 percentage points in 2020, to 120% of GDP. The European Commission 2021 spring forecast projects the ratio to start gradually declining in 2021 and to reach 116.9% by 2022. Following the recession and fiscal support measures, Spain's gross financing needs amounted to almost 25% of GDP in 2020, of which amortisations accounted for three fifths. According to the Treasury, owing to projected decreasing net issuance in 2021, total gross financing needs are expected to decline slightly to around 24% of GDP. Market conditions for financing debt have remained favourable, with the most recent debt auctions in March and April confirming comfortable demand for both long and short-term government securities. Yields on 10-year bonds are very low by historical standards, and spreads against the 10-year German bund remain contained (see Chapter 3). Consequently, interest expenditure, both as a percentage of GDP and of total revenues (2.3% and 5.4%, respectively) continued to fall in 2020. Interest expenditure has fallen over the past 7 years to levels not seen since 2010, despite the fact that the total debt stock has doubled since then. Asset purchases by the Eurosystem on the secondary market are expected to continue to stabilize the sovereign debt market. In addition, the government debt profile mitigates vulnerabilities. Its average maturity has lengthened over the past years, and is projected to reach 8 years in 2021. The longer maturities would contain changes in interest payments throughout the projection period even under more adverse interest rate conditions.

15. The private sector debt-to-GDP ratio increased markedly in 2020, while deleveraging needs persist. The debt ratio of the non-financial private sector increased to 147.4% of GDP in the last quarter of 2020, up by 4.1 pps compared to the third, and increased by 17.1 pps since beginning of the year ([14]). The stock of debt accumulated by non-financial corporations accounted to 84.9% while total household liabilities amounted to 62.5% in terms of GDP. This upward evolution reflects both the increase of indebtedness in the corporate sector and, to a larger extent, the sizeable fall in GDP experienced by Spain in 2020. Nevertheless, both in the case of NFCs and households, debt ratios are lower than those recorded prior to the global financial crisis, and close or below average euro area levels. According to the Commission estimates, private debt ratios remain above prudential levels and fundamental-based benchmarks.

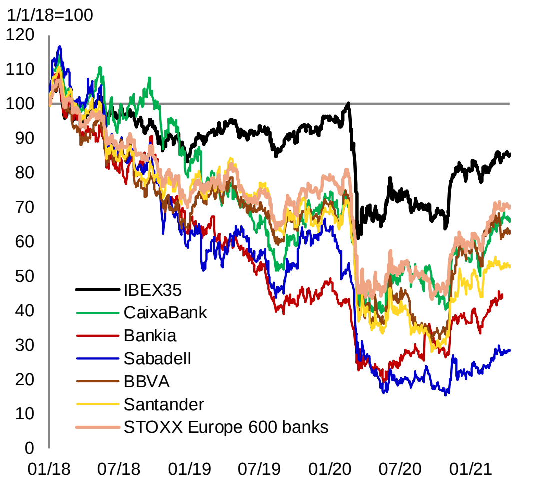
([14]) Unconsolidated debt of non-financial corporations amounted to 107.7% of GDP in the second quarter of 2020, and private unconsolidated debt was 170.2 % of GDP.

16. Spain’s external net debtor position in terms of GDP continued to worsen in the second half of 2020, mainly due to the contraction in GDP. The current account surplus dropped by 72% compared with that of 2019. The reduction in GDP has led Spain's net international investment position to worsen from 74% of GDP at the end of 2019 to 84.4% of GDP at the end of 2020, which remains above prudential and fundamental-based benchmarks. Still, it is around 13 percentage points below the peak reached during the financial crisis.

3. FINANCIAL SECTOR TRENDS

17. The public support measures granted by the authorities to the real economy have helped to mitigate the impact of the pandemic on the Spanish banking sector. After the downward correction in spring 2020, the share prices of Spanish banks have recovered since the summer of 2020 amidst better economic sentiment and eased containment measures (Graph 3.1). The regained momentum regarding banking sector consolidation, in particular, the merger between CaixaBank and Bankia, which led to the emergence of the largest bank in Spain, also supported bank share prices. However, in spite of the improved performance in the second half of 2020, the share prices of the main Spanish banks remained markedly below the levels of the previous year.

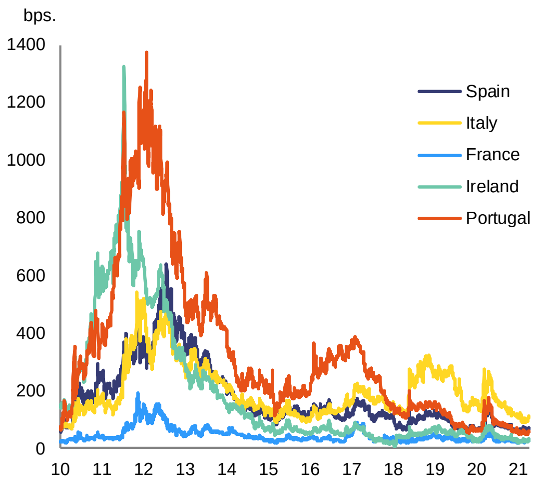
Graph 3.1: **IBEX35, STOXX 600 Banks and selected Spanish banks stocks**



Source: Madrid Stock Exchange via Macrobond, own calculations.

18. Following the spike in sovereign spreads after the outbreak of the Covid-19 pandemic, sovereign debt markets have continued to recover. The spread between the Spanish benchmark 10-year government bond and the 10-year German bund went up to 159 bps on 22 April 2020, the highest level registered since April 2017. On the back of the launch of the additional ECB asset purchase measures, the granted government support schemes and the improvement in the economic outlook, sovereign spreads have steadily declined since end May 2020. (Graph 3.2). By mid-February 2021, sovereign spreads hovered largely around the levels registered before the outbreak of the pandemic. Meanwhile, the cost of the debt at issuance has also continued to decline, while the average maturity of issued debt has continued to increase. The deterioration in economic activity and the adverse developments in the sovereign debt markets in the second quarter of 2020 have not led to changes in the assessment of Spain by rating agencies. With the exception of Standard & Poor's, which reaffirmed the rating for Spain, but changed the outlook to negative from stable, the other major rating agencies reaffirmed both the rating and the outlook for Spain.

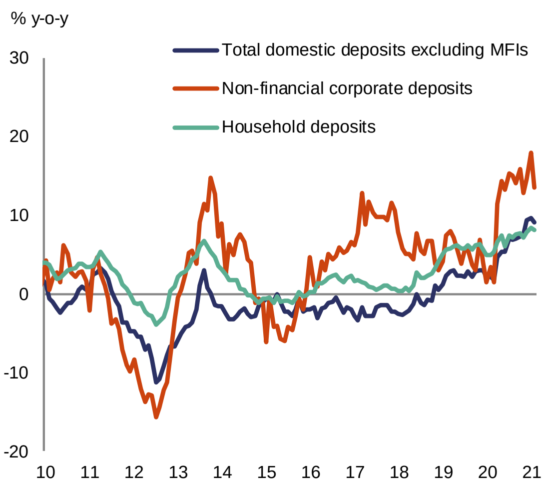
Graph 3.2: **Sovereign spreads to the 10-year German bund**



Source: IHS Markit, Macrobond, own calculations.

19. Supported by the ECB refinancing operations, the liquidity position of Spanish banks has remained comfortable. Following the outbreak of the pandemic, Spanish banks increased their borrowing from the ECB. Total borrowing from the ECB doubled over the last year, as it increased to EUR 261 billion at the end of January 2021 from EUR 131 billion a year earlier. Similar to other banks in the euro area, Spanish banks have experienced an increase in deposit funding. Total domestic bank deposits from households and non-financial corporations increased by 9.5% year-on-year (y-o-y) in December 2020. The increase in total deposits has been mainly driven by a hike in the deposits of non-financial corporates, which went up by 15.0% y-o-y in December 2020. Meanwhile, household deposits also grew, albeit at a slower pace by 7.7% y-o-y (Graph 3.3). The issuance of debt securities has regained some momentum in the first months of 2021. Total debt securities issued amounted to EUR 480 billion at the end of February 2021 compared with EUR 423 billion during the same period of last year. Banks have also continued to issue covered bonds, most of them being retained by banks for potential use as collateral. The pricing of subordinated debt instruments has declined steadily since mid-2020, facilitating therefore the compliance by banks with MREL targets ([15]).

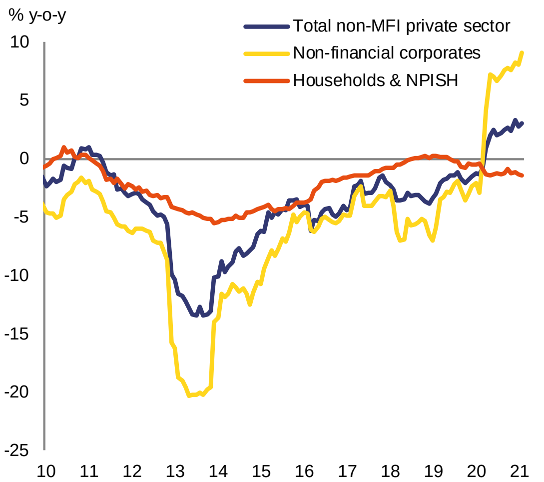
Graph 3.3: **Bank deposits**



Source: BdE.

20. On the back of the government support schemes granted to mitigate the impact of the pandemic, banks have increased lending to the economy. Lending to the private sector turned positive in April 2020, for the first time since April 2011. Total lending to the private sector (excluding interbank lending) increased by 3.2% y-o-y in December 2020. Credit activity has been mainly supported by the expansion of lending to non-financial corporations, which went up by 8.4% y-o-y in December 2020. This was the highest growth rate registered since lending to corporates entered again positive territory in April 2020. This development has been driven to a large extent by new loans to corporates. A significant share of these new loans granted to corporates are backed by government guarantees via the state-owned development bank, *Instituto de Crédito Oficial* (ICO). The loans guaranteed by the state through the ICO facilities *(see Section 4.1)* made up roughly 34% of total new loans granted to corporates and sole proprietors in 2020. In contrast to lending to corporates, lending to households continued the downward trend observed mainly since June 2019. Lending to households decreased by 1.2% y-o-y in December 2020. The rebound in lending fostered by the public support schemes also reversed the deleveraging trend in the banking sector observed since 2012. The domestic assets of Spanish banks increased by 6% in February 2021 compared with February 2020, reaching EUR 2.7 trillion ([16]). Meanwhile, the total assets of the Spanish banking sector (consolidated level, including the assets of foreign subsidiaries and branches) went up by 4.7% to EUR 3.85 trillion in 2020. The total volume of loans to other resident sectors increased by 3.5% in 2020, mainly due to the EUR 93 billion of loans guaranteed by state through the ICO facilities ([17]).

Graph 3.4: **Bank loans to the private sector**



The decrease in the stock of loans in late 2012 and early 2013 was due to the transfer of assets to SAREB.
Source: BdE, own calculations.

21. The Bank Lending Survey for the first quarter of 2021 indicated a further slight reduction in credit supply, both in Spain and the euro area. The contraction in credit supply was driven by the increased risk perception by credit institutions, in particular due to concerns regarding the creditworthiness of borrowers and

([15]) Minimum Requirement for own funds and Eligible Liabilities (MREL)

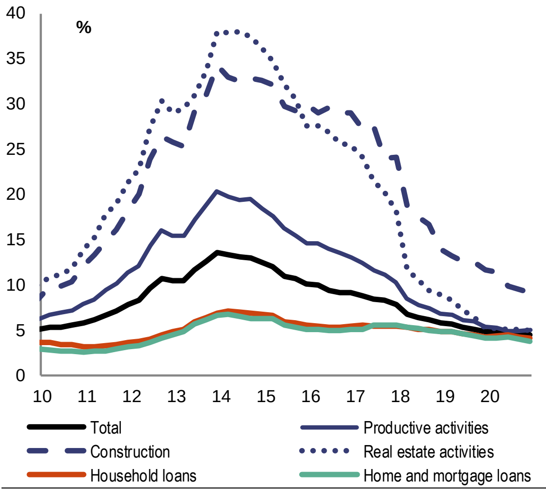
([16]) Source: Banco de España (BdE), https://www.bde.es/webbde/es/estadis/infoest/a0802e.pdf

([17]) The total government guarantee lines to support the corporate sector since the outbreak of the pandemic amount to EUR 140 billion: up to EUR 100 billion to be granted by the ICO as liquidity support and up to EUR 40 billion as support to investment.

the developments in the sectors most impacted by the crisis ([18]). Similar to developments in the euro area, credit standards tightened in the first quarter of 2021 for loans to non-financial corporations, loans for house purchases and consumer credits. Overall, terms and conditions on new loans eased somewhat for loans to non-financial corporations and house purchases and remained unchanged for consumer credits. Credit standards for non-financial corporations tightened for the third consecutive quarter, mainly for lending to small and medium-sized enterprises (SMEs). Loan demand by corporates and households decreased as well, driven by lower fixed capital investment by companies and by the decline in consumer confidence. For the second quarter of 2021, Spanish banks expect credit standards to tighten further for all categories of loans, while loan demand is expected to increase.

22. The borrower relief measures coupled with the public guarantee schemes have prevented a deterioration in asset quality. On the back of the increase in the total volume of loans, fostered by the hike in state guaranteed loans to corporates, and only a slight increase in the total volume of loans classified as non-performing ([19]), the NPL ratio at system level decreased to 4.6% at the end of 2020, down from 4.8% at the end of 2019. (Graph 3.5). Regarding sectoral developments, the construction sector has continued to have the highest share of NPLs, with the NPL ratio standing at 9.5% at the end of September 2020, by roughly 2.2 percentage points lower than at the end of the previous year. NPL ratios for real estate activities and productive activities have also been on a declining trend in 2020 reaching 5.1% and 4.9%, respectively, at the end of September 2020. Loans to household have had the lowest level of impairment, with a NPL ratio of 4.3% at the end of September 2020. Meanwhile and similar to other banking sectors in the EU, the Spanish banking sector has registered an important increase in Stage 2 loans (according to IFRS 9 ([20])) in the second half of 2020. This also reflects the precautionary approach adopted by several banks, which classified loans covered by moratoria as Stage 2 loans. According to the latest data published by the European Banking Authority (EBA), the share of loans with non-expired EBA-compliant moratoria classified as Stage 2 went up to 26% at the end of 2020, increasing by 10 pps compared to end of June 2020.

Graph 3.5: **Ratio of non-performing loans**



(1) The scope of non-performing loans covered in these figures overlap with BdE's definition of doubtful loans.
(2) Home loans comprise also loans that are not mortgages
Source: BdE, own calculations.

23. The loan moratoria have alleviated the impact of the pandemic on banks and borrowers, in particular, the most vulnerable ones, but a further albeit limited deterioration is expected. According to the latest data published by the BdE, the total volume of loans with loan moratoria (i.e. legislative moratoria and moratoria granted voluntarily by credit institutions, *see Section 4.1*) amounted to EUR 56.5 billion at the end of March 2021. Of these, the total outstanding volume of loans with legislative moratoria on mortgage loans payments represented slightly over one third (EUR 20.2 billion). While a sizeable amount in absolute terms, the volume of loans with moratoria corresponds to 8% of all the credit in the loan portfolios eligible for moratoria and 5% of all the credit to the non-financial private sector in December 2020) ([21]). The volume of loans with

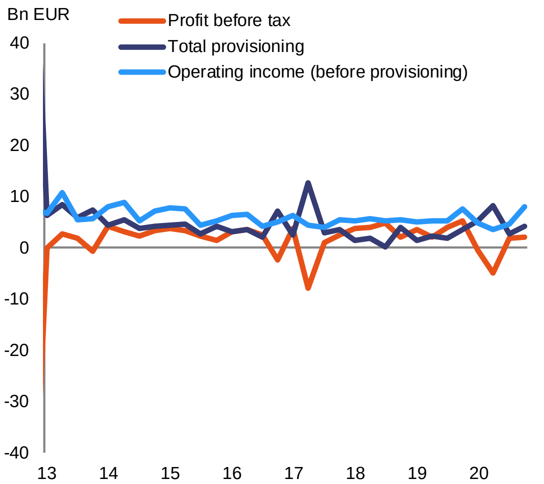
([18]) For further details see BdE, January 2021 Bank Lending Survey in Spain. [Banco de España - Publications - Bulletins and journals - Analytical Articles (bde.es)]
([19]) Non-performing loan (NPL)
([20]) International Financial Reporting Standards (IFRS)

([21]) For the sectoral moratoria approved in July 2020, related to the tourism and transport sectors, the number of moratoria applications received and granted has been much lower. For the tourism sector, the outstanding amount of loan payments suspended stood at roughly EUR 2.3 billion. Meanwhile, for the transport sector, the outstanding amount of loan payments suspended surpassed EUR 195 million. For a more detailed overview on the state of play regarding the loan moratoria, see BdE, *Nota* unexpired moratoria stood at close to EUR 34 billion in December 2020. The bulk of these loan moratoria will expire in May and June 2021. While no significant cliff-edge effects are expected when moratoria expire, a more marked deterioration in asset quality is likely to emerge in 2022. According to the latest EBA data (consolidated data), the NPL ratio for the already expired EBA-compliant moratoria stood at 4.2% at the end of December 2020, up from 2.8% at the end of September. The deterioration in the performance of loans with expired moratoria has been slightly higher than for the EU, for which the average NPL ratio stood at 3.9% at the end of December 2020. The NPL ratio for the non-expired EBA-compliant moratoria went up to 5.1% at the end of December 2020, above the average NPL ratio of 3.3% for the EU.

24. Banking sector profitability remained under pressure in 2020, impacted by the hike in loan-loss provisions and declining net interest income. Following two successive quarters in which it registered pre-tax losses, at the end of the third quarter of 2020, the Spanish banking sector registered for the domestic operations a profit before tax of EUR 1.85 billion. (Graph 3.6) Overall, compared to the end of 2019, banking sector profitability has been significantly impacted by the increase in loan-loss provisions compared to the end of 2019, but also by lower interest income and the balance sheet repair measures adopted as one-offs by several banks. These measures include, for instance, the impairment of deferred tax assets (DTAs). The cumulative increase in loan-loss provisions in the first three quarters of 2020 amounted to EUR 16.3 billion. Additional to the decline in interest income, banks have also experienced a decline in fees and commissions. The decrease in interest and fee income has been partly mitigated by reductions in operating expenses. According to the latest available ECB data, the return on equity stood at -2.2% at the end of September 2020. Meanwhile, the return on assets remained also in negative territory, at -0.1% during the same period.

informativa sobre la aplicación de las moratorias legislativas y sectoriales hasta el 31 de marzo de 2021.

Graph 3.6: **Bank sector profitability for domestic operations**



Source: BdE, own calculations.

25. Despite weak profitability, banking sector capitalisation has marginally improved, benefitting from the capital relief and public support measures, but also dividend restrictions. According to the latest ECB data, the solvency ratio at banking system level increased to 16.3% at the end of September 2020, up from 15.7% at the end of 2019. Meanwhile, the Common Equity Tier 1 (CET 1) ratio perked up slightly to 12.8% at the end of September 2020 compared with 12.5% at the end of 2019. Spanish banks have been able to increase their capital positions partly due to the positive impact of public guarantee schemes on their risk-weighted assets and the CRR temporary "quick fix" measures introduced in response to the COVID-19 pandemic and due to a slight increase in CET 1 ([22]). Moreover, capitalisation has improved also due to the supervisory recommendation on the restriction of dividends. Due to the positive impact of these measures, banks have not used until now the prudential flexibility granted by supervisors regarding capital buffers. Nevertheless, Spanish banks continue to have some of the lowest capital ratios within the EU. This warrants close monitoring considering the likely deterioration in asset quality after the phasing out of borrower relief measures.

([22]) Regulation (EU) 2020/873 has helped mitigate the impact of the COVID-19 outbreak on financial intermediaries and incentivise the flow of credit to the real economy. The regulation allows to defer the application of the leverage ratio and introduces flexibility and favourable treatment of certain types of risks (e.g. exposures to SMEs, public debt).

4. FINANCIAL SECTOR REFORMS AND POLICY

4.1. MEASURES TO MITIGATE THE IMPACT OF THE PANDEMIC ON THE BANKING SECTOR

26. The authorities have implemented several measures to support borrowers and corporates since the beginning of the pandemic. The authorities were quick to respond to the challenges posed by the pandemic and adopted a wide array of measures, including a legislative moratorium for individuals who were economically vulnerable as a consequence of the health crisis. This was later followed by a voluntary industry initiative for individuals, specific measures relating to the tourism sector and the public transport of goods as well as two public guarantee programs managed by the public development bank (*Instituto de Crédito Oficial*, ICO) to cover liquidity and investment needs for corporations and self-employed individuals.

27. The government guarantee programs have been used extensively by the corporate sector. According to the ICO, bank funding backed by government guarantees represented around 34% of total new loans to non-financial corporations in 2020 (see also chapter 3). This percentage neared 60% in the case of SMEs for the period after the outbreak of the pandemic. At end of February 2021, financing granted to cover liquidity needs amounted to EUR 117.4 billion, using guarantees of EUR 89.2 billion (from a total envelope of EUR 100 billion) while loans granted to cover investment needs amounted to EUR 3.4 billion, using guarantees of EUR 2.6 billion (from a total envelope of EUR 40 billion). In November 2020, the authorities extended the maximum grace period of the loans granted to cover liquidity needs from 12 to 24 months and the maximum maturity from 5 to 8 years, contributing to the softening of potential cliff-edge effects. In May 2021 they also extended the deadline to apply for these loans to 31 December 2021.

28. To provide further relief to borrowers, the loan moratoria have also been extended. The deadline for borrowers to apply to both legislative and non-legislative moratoria has been extended to 30 March 2021. At the end of March 2021, according to the Bank of Spain, the outstanding amount of loan payments suspended reached EUR 56.5 billion for both the legislative moratoria and non-legislative moratoria for natural persons. In addition, for the moratorium related to the tourism and transport sectors, the cumulative amount granted stood at around EUR 2.5 billion.

29. The authorities have adopted additional measures to support the flow of credit to the economy. On 12 March 2021, the government adopted new measures amounting to EUR 11 billion to help viable corporations whose financial situation has deteriorated as a result of the pandemic. This amount is broken down into EUR 7 billion for non-reimbursable aid to self-employed and firms in these sectors, EUR 3 billion to restructure the state-guaranteed loans granted by the ICO and EUR 1 billion for a Recapitalisation Fund. The authorities are in the process of designing the details needed to implement some of these new measures, aiming to avoid the closure of firms and businesses that are particularly stressed by the impact of the pandemic, but which remain viable. In the case of non-viable firms, winding-up processes should be expedited to free resources for other activities.

4.2. PROGRESS WITH FINANCIAL SECTOR REFORMS AND CHALLENGES AHEAD

30. Since the second half of 2020, consolidation in the banking sector has gained momentum. The merger between CaixaBank and Bankia has been completed, resulting in the largest credit institution in the Spanish market. Its larger scale should result in improved efficiency and profitability while this will depend on the pace of integration. In addition, in December 2020 the managing boards of Unicaja Banco and Liberbank approved the terms of their merger, which will create the fifth-largest bank in Spain with roughly EUR 110 billion assets. The Single Supervisory Mechanism guidelines for banking sector consolidation have also played a role in the facilitation of these mergers.

31. The authorities have granted FROB ([23]) additional time to divest its participation in CaixaBank. The FROB has converted its 61.8 %

([23]) *Fondo de Reestructuración Ordenada Bancaria* (FROB) was created in 2009 to provide public support for the consolidation of the Spanish banking sector by, inter alia, strengthening the capital buffers of credit institutions.

stake in Bankia into a 16.1% stake in CaixaBank's capital. The authorities have extended the deadline for the sale of FROB's participation in the entity from December 2021 to December 2023 with the objective of promoting a more efficient use of public resources by aiming at a higher recovery of State aid. The extension of the deadline will allow FROB to implement its divestment strategy, currently under review, more flexibly.

32. Resolution planning has proceeded well. The authorities reported that, from the 2017 planning cycle all significant Spanish institutions under the Single Resolution Board (SRB)'s remit have a resolution plan, and from the 2020 cycle, all less significant institutions (LSIs) under Bank of Spain's remit have a resolution plan. The final formalities for the 2020 cycle should be completed by end-April 2021. Significant institutions do not appear to have difficulties to achieve their MREL targets. Authorities are also confident that the LSIs can achieve their MREL objectives, too.

4.3. SAREB – RECENT DEVELOPMENTS AND OUTLOOK

33. Since its establishment in 2012, SAREB ([24]) has continued to divest the assets under its remit. Until now, SAREB sold 38% of its assets and redeemed 31% of its senior debt. SAREB's senior debt, which benefits from a state guarantee and is held by the banks that received State aid in 2012 and 2013, was reduced from EUR 50.8 billion in 2012 to EUR 35 billion by 31 December 2020.

34. The pandemic has put additional strain on SAREB's already meagre performance. SAREB has continued to register losses in 2020, mainly due to lower than expected revenues. Losses in 2020 amounted to EUR 1.073 billion. The economic slowdown due to the pandemic, and the conservative strategy to avoid sales with high discounts demanded by a buyer-dominant market led to a reduction in revenues by 38%. Operating costs dropped by 8% in 2020, mainly due to lower expenditure in marketing, resulting from lower activity, and an adjustment of 25% in structural costs. In order to improve its divestment strategy, SAREB has continued to convert its real estate development loans (REDs) into assets (real estate owned, or REOs). As a result, REOs have increased their weight in SAREB's balance sheet from 22.3% in 2012 to 43.7% at end-2020, while 54% is made up of REDs (almost entirely non-performing). REOs represent over EUR 14.7 billion. Of these, only 20% are marketed to retail; the rest either is not marketed or is targeted for specialised sales.

35. The accumulation of losses has eroded SAREB's capital base. Despite measures adopted by the authorities to soften the accounting treatment of impairments on its assets, SAREB has recorded losses throughout its lifetime, resulting in negative own funds of EUR 0.84 billion at the end of 2020. SAREB plans to convert the remaining EUR 1.4 billion of subordinated debt into equity in 2021. Due to the legal changes adopted last year, neither the losses incurred nor the consumption of own resources have any implication on the firm's capacity to pursue its goals. Nevertheless, after the decision by Eurostat to reclassify SAREB as part of the general government sector, the authorities are reflecting on possible changes to its structure and functioning.

36. As of the statistical year 2020 SAREB is classified in the public sector, having a negative impact on public finances. The reclassification of SAREB accounted for an increase of about 3 pps. in the government debt-to-GDP ratio in 2020. The reclassification had a negative impact of about 1% of GDP on the general government fiscal balance in 2020. The decision to change SAREB's sectoral classification was of a one-off nature and is expected to have a limited impact on the public sector deficit in subsequent years.

([24]) SAREB (*Sociedad de gestión de Activos procedentes de la Reestructuración Bancaria*) is an asset management company that was created to divest the assets transferred from the old savings banks and help the economy recover. 54% of its share capital is owned by private shareholders, but the main shareholder (46%) is the public Fund for Orderly Bank Restructuring (FROB).

ANNEX A

Main macroeconomic and financial indicators

Table A.1: **Main macroeconomic and financial indicators**

	2000 -2007	2008 -2013	2014	2015	2016	2017	2018	2019	2020	2021 (f)	2022 (f)
Core indicators											
GDP growth rate	3.7	- 1.3	1.4	3.8	3.0	3.0	2.4	2.0	- 10.8	5.9	6.8
of which domestic demand incl. stocks	4.5	- 3.1	1.9	3.9	2.0	3.1	3.0	1.4	- 8.8	6.1	6.3
Private consumption (annual % change)	3.7	- 2.1	1.7	2.9	2.7	3.0	1.8	0.9	- 12.1	6.4	5.8
Public consumption (annual % change)	5.0	0.9	- 0.7	2.0	1.0	1.0	2.6	2.3	3.8	2.7	1.9
HICP (annual % change)	3.2	2.2	- 0.2	- 0.6	- 0.3	2.0	1.7	0.8	- 0.3	1.4	1.1
Unemployment rate (% of labour force)	10.6	20.2	24.5	22.1	19.6	17.2	15.3	14.1	15.5	15.7	14.4
Gross fixed capital formation (% of GDP)	27.7	21.4	17.8	18.0	18.0	18.7	19.5	19.9	19.8	20.5	21.6
Gross national saving (% of GDP)	22.3	18.8	19.6	21.0	21.9	22.2	22.4	22.9	21.1	21.1	22.5
General Government (% of GDP)											
Balance (g)	0.4	- 8.8	- 5.9	- 5.2	- 4.3	- 3.0	- 2.5	- 2.9	- 11.0	- 7.6	- 5.2
Gross debt	46.7	67.6	100.7	99.3	99.2	98.6	97.4	95.5	120.0	119.6	116.9
Interest expenditure	2.2	2.4	3.4	3.0	2.8	2.5	2.4	2.3	2.2	2.1	2.0
Households											
Households saving rate	8.9	8.9	6.3	7.2	7.1	5.8	5.6	6.3	14.8	11.1	7.3
Rest of the world (% of GDP)											
Trade balance	- 3.7	- 0.1	3.1	3.0	4.0	3.6	2.7	3.0	1.5	1.1	1.4
Trade balance, goods	- 6.8	- 4.1	- 2.1	- 1.9	- 1.3	- 1.9	- 2.5	- 2.1	- 0.8	- 1.5	- 2.3
Trade balance, services	3.1	4.0	5.2	5.0	5.3	5.5	5.2	5.1	2.3	2.6	3.7
Current account balance	- 5.9	- 2.9	1.7	2.0	3.2	2.8	1.9	2.1	0.7	- 0.1	0.3
Net financial assets	- 55.3	- 90.4	- 95.2	- 88.2	- 84.6	- 84.5	- 78.5	- 73.1	- 76.0		
Net international investment position (h)	- 56.5	- 91.6	- 95.9	- 88.9	- 85.5	- 84.9	- 79.2	- 73.9	- 84.3		
Competitiveness (index, 2015=100)											
Real effective exchange rate relative to the rest of the euro area	104.5	107.9	100.4	100.0	98.3	98.1	97.2	97.9	98.3	98.3	96.1
Real effective exchange rate relative to the rest of the European Union	104.7	107.6	100.3	100.0	98.2	97.6	96.7	97.2	97.7	97.6	95.4
Real effective exchange rate relative to the rest of 37 industrialised countries	104.3	111.6	104.1	100.0	99.0	99.8	100.3	99.5	n.a.	n.a.	n.a.
Banking sector											
Assets (% of GDP)	214.9	325.0	288.0	262.5	244.9	234.4	219.7	215.1	257.8		
Private domestic credit (y-o-y %)	17.8	- 3.0	- 6.5	- 4.2	- 4.1	- 2.0	- 3.9	- 1.5	3.3		
Non-performing loans (NPLs), total (%) (i)	1.0	7.7	12.5	10.1	9.1	7.8	5.8	4.8	4.5		
NPLs, productive activities (%)	1.0	10.8	18.5	14.6	13.1	10.3	6.9	5.4	5.0		
" of which, construction, and (%)	0.9	17.3	32.6	30.0	29.1	24.1	14.0	11.7	9.2		
" real estate activities (%)	0.5	19.8	36.2	27.5	25.5	18.1	9.0	5.2	5.0		
NPLs, residential mortgages (%)	0.4	3.7	6.3	5.1	5.2	5.6	4.9	4.1	3.8		
ECB ratios (%) (j)											
NPL (domestic and controlled foreign branches and banks)	n.a.	n.a.	8.1	6.3	5.7	4.4	3.7	3.1	2.9		
" of which non-financial corporations	n.a.	n.a.	16.4	12.8	10.9	7.9	5.9	4.7	4.5		
" of which households	n.a.	n.a.	5.3	4.5	4.5	4.4	4.0	3.6	3.6		
Coverage	n.a.	61.7	46.4	46.8	45.0	42.7	43.7	43.7	45.0		
Return on equity (k)	n.a.	1.8	6.7	6.6	5.0	7.0	8.2	6.7	- 2.9		
Return on assets (k)	n.a.	0.1	0.5	0.5	0.4	0.5	0.6	0.5	- 0.2		
Total capital	n.a.	12.1	13.6	14.5	14.7	15.4	15.4	15.7	16.3		
CET 1	n.a.	n.a.	11.8	12.7	12.8	12.6	12.2	12.5	12.8		
Tier 1	n.a.	9.8	11.8	12.7	13.0	13.2	13.5	13.8	14.3		
Loan-to-deposit	n.a.	n.a.	90.3	91.7	92.5	89.3	90.6	92.6	85.7		
Interest rates											
10 year spread vis-à-vis the Bund (%)	0.1	2.1	1.5	1.2	1.3	1.2	1.0	0.9	0.9		
CDS 5 year (basis points)	n.a.	221.5	90.5	84.1	82.1	67.4	62.6	52.0	68.0		

Updated on 30 April 2021
(f) forecast
(g) General government balances include capital transfers related to support of banks
(h) ESA2010 and BPM6, latest quarter divided by a 4 quarters rolling GDP
(i) NPLs: ratios, in % of total loans, end-of-period, source: BdE
(j) ECB ratios, end-of-period, 2020q3
(k) annualised
Source: Ameco, BdE, Boursorama, ECB, Eurostat, Macrobond.

EUROPEAN ECONOMY INSTITUTIONAL PAPERS SERIES

European Economy Institutional Papers series can be accessed and downloaded free of charge from the following address:
https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_date_published_value[value][year]=All&field_core_tags_tid_i18n=22621.

Titles published before July 2015 can be accessed and downloaded free of charge from:

- http://ec.europa.eu/economy_finance/publications/european_economy/index_en.htm
  (the main reports, e.g. Economic Forecasts)
- http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm
  (the Occasional Papers)
- http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm
  (the Quarterly Reports on the Euro Area)

GETTING IN TOUCH WITH THE EU

In person

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: http://europa.eu/contact.

On the phone or by e-mail

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: http://europa.eu/contact.

FINDING INFORMATION ABOUT THE EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: http://europa.eu.

EU Publications

You can download or order free and priced EU publications from EU Bookshop at: http://publications.europa.eu/bookshop. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see http://europa.eu/contact).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: http://eur-lex.europa.eu.

Open data from the EU

The EU Open Data Portal (http://data.europa.eu/euodp/en/data) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

Publications Office
of the European Union