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Post-Programme Surveillance Report

Spain, Autumn 2021

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European Commission
Directorate-General for Economic and Financial Affairs

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Spain, Autumn 2021

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Institutional Paper 162

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The Post-Programme Surveillance assessment was prepared in liaison with staff from the European Central Bank (ECB) ([2]). The European Stability Mechanism (ESM) was consulted.

This report reflects information available and policy developments that have taken place until 26 October 2021. Therefore, the macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2021 autumn forecast released on 11 November 2021 (with cut-off date 25 October 2021).

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([1]) The executive summary of this report was adopted as Commission Communication C(2021)8552 on 24 November 2021. The rest of the report is the Staff Working Document SWD(2021)339 accompanying this Communication.
([2]) 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.

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ABBREVIATIONS

BdE: Banco de España, Bank of Spain
CET 1: Common Equity Tier 1
COVID-19: Coronavirus (nCoV) disease 2019
EBA: European Banking Authority
ECB: European Central Bank
ERTEs: Expediente de Regulación Temporal de Empleo, short-term work schemes
ESM: European Stability Mechanism
FROB: Fondo de Reestructuración Ordenada Bancaria, Fund for Orderly Bank Restructuring
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
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
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
SURE: Support to mitigate Unemployment Risks in an Emergency
VAT: Value Added Tax

EXECUTIVE SUMMARY

This sixteenth 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 ([3]), held virtual meetings with the Spanish authorities in mid-October in preparation of the present report. The ESM participated in the meetings on aspects related to its own Early Warning System. 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.

The Spanish economy has partially rebounded in 2021. Following the unprecedented decline of real GDP in 2020 (-10.8%) as a result of the COVID-19 pandemic, economic activity fell further in the first quarter of 2021 (-0.6% q-o-q). The gradual lifting of the containment measures and the acceleration in the pace of vaccinations allowed a moderate rebound in the second quarter (1.1% q-o-q). Economic growth is expected to accelerate in the second half of the current year, supported by the reactivation of the tourism sector. Thus, GDP is set to grow by 4.6% in 2021, according to the Commission's 2021 autumn forecast. The Spanish economy is set to expand more strongly in 2022 (5.5% annual growth) to finally close the gap with its pre-pandemic level at the beginning of 2023 (4.4% annual growth). The implementation of the Recovery and Resilience Plan (RRP) is expected to play a major role in the recovery and spur investment over the forecast horizon. Risks to this outlook are slightly tilted to the downside. In the short term, Spain is facing common EU challenges such as supply-side bottlenecks and energy and transport prices are increasing pressures on producers, and a more negative evolution of the pandemic cannot be ruled out. On the other hand, there are risks related to the speed and impact of the implementation of the RRP, in both directions: while effective absorption of the funds may be less frontloaded than expected, further materialisation of crowding-in effects and stronger impact of key reforms on potential growth are seen as main upside risks.

The general government budgetary situation has been improving on the back of the economic recovery but the high level of public debt remains a source of vulnerability. The pandemic combined with the measures taken to mitigate its effect caused a marked deterioration of public finances' figures, leading to a government deficit of 11% of GDP and to a debt-to-GDP ratio of 120% in 2020. The resumption of economic growth in Q2-2021, combined with the phasing out of several measures, such as the short-time work schemes –'ERTEs', which had helped to contain the effects of the pandemic, as well as the stronger-than-expected performance of revenues (notably, income tax and VAT revenues), have contributed to improve the outlook of Spain's public finances. The government deficit is set to decrease to 8.1% in 2021 and keep on narrowing to 5.2% and 4.2% in 2022 and 2023, respectively, according to the Commission's 2021 autumn forecast. However, certain risks lie ahead. First, some of the spending measures taken in the context of the pandemic may have risen expectations that they might become structural, such as the transfers from the central government to regional and local administrations. Second, the elevated stock of the debt, set to increase further to 120.6% in 2021 and then to gradually decrease to 116.9% in 2023, according to the Commission's projections, brings an interest rate risk which is however mitigated by the extension of the average maturity of the debt stock over recent years.

The Spanish banking sector has remained resilient during the pandemic, in spite of some vulnerabilities and uncertainty. In the first half of 2021, credit activity softened compared with the significant expansion in the previous year, mainly due to the decrease in lending to non-financial corporations. Meanwhile, lending to households has been more resilient, supported by the increase in mortgage and consumer lending. The deterioration in asset quality has been prevented by the borrower relief measures (i.e. loan moratoria), the bulk of which already expired, and by the public guarantee schemes. While no significant cliff-edge effects emerged after the expiry of the majority of loan moratoria, there are certain signs of credit deterioration, such as the increase in Stage 2 loans, with a

([3]) 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.

further deterioration in asset quality being likely in 2022. The increase in forborne loans (according to IFRS 9) and refinanced loans, in particular regarding loans backed by state guarantees, warrants close oversight. After the negative result of last year, banking sector profitability rebounded across all banks in the first half of 2021, benefitting from the significant reduction in loan-loss provisions. Banking sector capitalisation has continued to improve, on the back of retained earnings and regulatory measures. Two main merger processes have created synergies and the prospect for further efficiency improvements, with the merger of Bankia and CaixaBank leading to the emergence of the largest bank in the Spanish market. While the real estate market has recovered, SAREB continues to post losses, which have further depleted its capital position. Following the reclassification of SAREB within the general government sector, discussions are underway concerning the different options for the future SAREB's legal framework.

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 favourable debt profile, reaching a maturity of 8 years in spring 2021, reduce the vulnerabilities arising from the increase in gross government debt. The implementation of the package of reforms and investment funded by the Recovery and Resilience Facility is expected to upgrade the growth potential and resilience of the economy, further strengthening Spain's capacity to repay its ESM debt.

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 ([4]) 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 2018, 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 repayment of the loan principal by the Spanish Government started in July 2014. The post-programme surveillance ([5]) ([6]) 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. This report presents the main findings from the 16th PPS mission ([7]) ([8]). Staff from the European Commission, in liaison with the European Central Bank, carried out the 16th PPS mission, holding virtual meetings with the Spanish authorities on 18 and 19 October 2021. The ESM participated in the meetings on aspects related to its own Early Warning System.

4. Spain is recovering from the deepest recession in several decades. Despite the measures implemented by the government in order to mitigate the impact of COVID-19 and the recent pick-up of economic activity following the easing of containment measures, the pandemic had an unprecedented negative effect on the Spanish economy in 2020, thereby exacerbating some of the imbalances displayed already prior to the outbreak of COVID-19. Spain still experiences large stocks of external and internal debt, amid high unemployment ([9]).

5. Policy measures implemented at 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, macro prudential policies were calibrated to ensure the flow of credit to the economy, while the ECB banking supervision introduced further micro prudential measures to support the resilience of the European banking sector. As part of the Recovery and Resilience Facility (RRF) ([10]), which aims at supporting investments and reforms in the Member States, Spain is expected to receive EUR 69.5 billion in grants, as decided by the Council on 13 July 2021 ([11]), to support measures taken since February 2020 and until August 2026 ([12]). Spain received the 13% pre-financing payment in August (EUR 9 billion) and subsequent

([4]) 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.
([5]) 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.
([6]) The previous PPS report was published as Institutional Paper 153 in June 2021: https://ec.europa.eu/info/publications/post-programme-surveillance-report-spain-spring-2021_en
([7]) With the aim of minimising the risk of spreading the COVID-19 virus, the meetings were held in the form of video conferences with the Spanish authorities.
([8]) The cut-off date for the data included in this report is 26 October 2021.
([9]) Commission SWD(2021) 404 final https://ec.europa.eu/info/sites/default/files/5_en_autre_document_travail_service_part1_v3.pdf
([10]) 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.
([11]) Council Implementing Decision https://data.consilium.europa.eu/doc/document/ST-10150-2021-INIT/en/pdf
Annex to the CID https://data.consilium.europa.eu/doc/document/ST-10150-2021-ADD-1-REV-2/en/pdf
([12]) 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.

disbursements from the Facility will take place according to the satisfactory fulfilment of milestones and targets as envisaged in the Annex accompanying the Council Implementing Decision (CID), with the largest share of funds envisaged for disbursement by 2023. Spain has already received the maximum allocation of financial support envisaged for the country under the SURE instrument ([13]), amounting to EUR 21.3 billion. These have been used to cover the costs related to the financing of national short-time work schemes incurred in 2020 and 2021. 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. This has been followed by measures amounting to 2.3% in the budget 2021. In March ([14]) and June 2021 ([15]), the Commission set out a number of considerations to frame fiscal policy guidance for 2021 and 2022 as well as the medium-term, calling for a supportive overall fiscal stance in 2021 and 2022, stemming from both national budgets and the RRF. It recalled that premature withdrawal of fiscal support should be avoided. In line with those considerations, the Council, in June, recommended Member States with high debt levels to pursue prudent fiscal policies, using RRF grants to fund additional investment, and all Member States to preserve nationally financed investment. According to those recommendations, all Member States should also focus on the composition and the quality of public finances, both on the revenue and expenditure side of the budget, should enhance investment to boost growth potential and in particular investment supporting the green and digital transition. 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. The Eurogroup, in July 2021, in its recommendations on the economic policy of the euro area, also confirmed its commitment to ensure a policy stance that supports the recovery from the COVID-19 crisis in the euro area. Once the recovery is firmly under way, euro area Member States should address the increased public debt levels. In October 2021, the Commission furthermore assessed the implications of the changed circumstances for economic governance following the COVID-19 crisis and relaunched the public debate on the review of the EU's economic governance framework.

6. This report reflects information available and policy developments that have taken place until 26 October 2021. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2021 autumn forecast released on 11 November 2021 (with cut-off date 25 October 2021).

([13]) Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

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

([15]) Commission Communication to the Council 'The EU economy after COVID-19: implications for economic governance' of 19 October 2021, COM(2021) 662 final

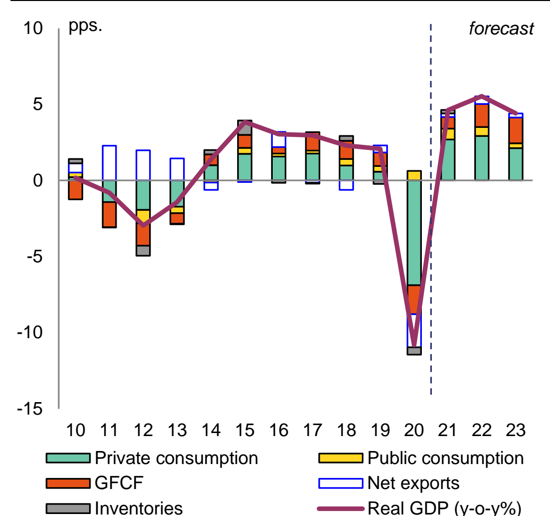
2. MACROECONOMIC DEVELOPMENTS

7. The recovery of the Spanish economy is gaining traction. Following the unprecedented decline of real GDP in 2020 (-10.8%) as a result of the COVID-19 pandemic, economic activity fell further in the first quarter of 2021 (-0.6% q-o-q). The end of the state of emergency on 9 May, the gradual lifting of other containment measures and the acceleration in the pace of vaccinations during the spring, allowed the economy to rebound in the second quarter (1.1% q-o-q). This expansion was significantly smaller than initially announced by the National Statistical Office - INE (the preliminary estimate pointed to 2.8%). This revision came as a surprise, as other indicators collected during the quarter, particularly those concerning the labour market and taxes revenues, suggested a stronger rebound. Short-term indicators continued to improve during the summer, on the back of the successful vaccination campaign and the revival of the tourism activity (both international and domestic). Economic growth is expected to accelerate in the second half of year, driven by the recovery of international tourism and, to a lesser extent, the pickup of domestic demand. Thus, annual GDP is set to expand by 4.6% in 2021, according to the European Commission autumn forecast ([16]).

8. Spain's GDP is expected to return to its pre-pandemic levels at the beginning of 2023. Annual GDP is set to increase by 5.5% in 2022, although the closure of the output gap is postponed until the beginning of 2023. GDP growth will be boosted in 2022 by a high carry-over from 2021 (of 2.5 pps) and the support of the Recovery and Resilience Plan (RRP). The implementation of the latter is expected to gain cruising speed in the second half of the year, thereby spurring public and private investment. Private consumption growth will remain strong with the impulse of savings accumulated during the pandemic and continued job creation. The external sector is also expected to contribute positively to GDP growth thanks to the gradual normalisation of international tourism. Looking into 2023, GDP is expected to expand further by 4.4% under the impulse of the RRP-financed expenditure, although quarterly growth rates will moderate gradually as the output gap turns positive.

9. Domestic demand will drive GDP growth in 2022 and 2023, and the external sector will also have a positive contribution. Pent-up demand is expected to continue to support private consumption growth over the forecast horizon, in parallel to a gradual normalisation of the households' savings rate (from 11.7% in 2021 to 6.1% in 2023). Investment is set to accelerate in 2022 and 2023, both in the public and the private sector, and notably in the area of construction. Net exports are expected to contribute positively over the forecast horizon, as tourism returns to its pre-pandemic levels.

Graph 2.1: **Composition of GDP growth**



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

10. Risks to this outlook are slightly tilted to the downside. In the most immediate term, downside risks are predominant, as supply-side bottlenecks and energy and transport prices are increasing pressures on producers and threaten to slow down European economies' growth in the following quarters. Despite the control of the sanitary situation at national level, the persistence or resurgence of the pandemic in other countries may weigh on economic growth, notably by delaying a full recovery in the tourism sector. In turn, there are risks related to the speed and impact

([16]) The cut-off date for the European Commission 2021 spring forecast was 25 October 2021. Hence it could not take account of the flash estimate data for Q3-2021 published on 29 October by the National Statistical Office – INE, , according to which Spain grew by 2.0% q-o-q. Nevertheless, the latter release confirmed the acceleration of growth compared to Q2-2021.

of the implementation of the RRP, in both directions. On the one hand, the effective absorption of the EUR 69.5 billion of EU grants from the RRF by 2023, as intended by the Spanish authorities, could be less frontloaded than expected, thus postponing part of its economic impact. In addition, labour market mismatches may delay the implementation of green and digital investments envisaged in the RRP. On the upside, the materialisation of crowding-in effects, also spurred by progress with key reforms, could lead to higher mobilisation of private investment than predicted. More broadly, if well deployed, crucial reforms in areas such as labour market, pensions, education, skills and SMEs, could lead to a stronger impact on potential growth.

11. Headline inflation is expected to remain high until mid-2022. Annual HICP inflation reached 2% in April and 4% in September, due to the surge of gas and electricity prices. These are expected to remain at record levels until 2022-Q2, despite some measures adopted by the government to contain them, including reduced VAT rates. In addition, pensions' indexation will put some upward pressure on core inflation. However, the remaining large slack in the Spanish labour market should help to limit second round effects. As a result, current inflationary pressures are expected to start to fade in the second half of 2022. Overall, headline inflation is expected to reach 2.8% in 2021, moderate to 2.1% in 2022 and abate to 0.7% in 2023 due to strong base effects in energy prices. Core inflation is expected to follow a smoother pattern, increasing from 0.6% in 2021 to 1.5% in 2022 and easing to 1.3% in 2023.

12. Policy measures have underpinned a recovery of the labour market. Emergency policy measures 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**.** The successive extensions of favourable conditions for short-term work schemes (named 'ERTEs' in Spain) cushioned job destruction in the outbreak of the pandemic and has facilitated the recovery of activity and the labour market afterwards. Thus, most of labour market indicators were close to their pre-crisis levels at the end of the third quarter of 2021 and are expected to continue to improve over the forecast horizon, along with and supporting economic activity. The unemployment rate is forecast to decline from 15.2% in 2021 to 13.9% in 2023. In mid-October 2021 210 000 employees remained subject to ERTEs, equivalent to 1% of total employment. Two out of three employees were under the extraordinary schemes created during the crisis that are expected to phase out in February 2022. A new structural scheme is envisaged in the RRP, with greater focus on reskilling and up-skilling of workers.

13. Other policy measures have contributed to buffer the effects of the crisis in the corporate sector. 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 particularly in 2020, helping firms have sufficient liquidity to cushion the fall in revenues while demand gradually strengthens. In this regard, companies are still benefiting from a solvency support fund created back in the summer of 2020 in coherence with the State Aid Temporary Framework set out by the European Commission, with an allocation of EUR 10 billion. The fund provides debt and capital support to strategic enterprises active in Spain affected by the COVID-19 outbreak, 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. Other measures adopted included a fund worth €1 billion for the recapitalisation of viable medium-sized firms facing solvency problems and which cannot gain access to the SEPI-administered fund, and a "Line for the restructuring of financial debt with a State guarantee", endowed with €3 billion, the aim of which is to enable the ICO to join restructuring processes of debt with a public guarantee applied for during the pandemic.

14. The economic recovery positively impacted activity and prices in the housing market. Demand is expected to remain robust going forward. The activity in the housing market rebounded throughout 2021 as the containment measures were eased in spring and pent-up demand built up during the lockdown period was gradually absorbed. The increase in housing

demand reverted the slowdown in the volume of transactions and property prices experienced until the fourth quarter of 2020. This upturn was spurred by more favourable household future income expectation, an improving labour market outlook and was sustained by the income support measures put in place by the government over the last months. In addition, within this scenario, the reduced financing cost associated with the prolonged looser monetary policy in the euro area made housing investment more attractive and affordable for households and investors, thereby accelerating further the recovery of the housing sector. Prices in the second quarter of 2021 displayed a sharp increase, amounting to 3.3% y-o-y. With regards to the previous quarter, a hike in prices was reported in the majority of Autonomous Communities ([17]) and amounting country-wide to 2.4%. The soar in dwelling prices has been more pronounced in the new housing segment as demand for new properties showed greater dynamism than second-hand houses, possibly reflecting a shift in household preferences arising as a result of the pandemic. Moreover, the significant pick-up of tourism in summer 2021 contributed to lifting prices for the remainder of the year, particularly in those areas where holiday accommodations constitute an important driver of residential properties prices. Going into the third quarter of 2021, the average mortgage interest rate on dwellings increased to 2.5%, marginally above the average of the first half of the year.

15. The latest bank lending survey ([18]) reported a slightly tightening of credit standards for funding granted to households in the third quarter of 2021 compared to previous quarters. These developments follow a broadly unchanged picture observed in the first half of 2021 and more stringent conditions throughout 2020 linked to banks' concerns about downside risks stemming from the crisis. The tighter standards for approving loans to households registered during the third quarter of the year are mainly imputable to the lower degree of risk tolerance of financial institutions. This comes against a decreasing share of requests for loans rejected compared to the previous quarters, which could indicate an improvement in the average quality of applicants housing purchase. Demand for loans increased moderately in the third quarter of 2021, reflecting the mild upswing in the economic activity and steered by stronger consumer confidence and to a lesser extent as a result of the bright prospects for the housing market. Such growth, however, have been more moderate than in the previous quarters. For the fourth quarter of the current year, significant changes in both lending conditions for housing loans and household borrowing are not expected as demand is set to remain stable.

16. The general government budgetary situation is gradually improving but the deficit will remain above the Treaty reference value within the forecast horizon. The fall in the economic activity due to the COVID-19 pandemic combined with the measures needed to contain the effects of the virus provoked an unprecedented deterioration of the fiscal balance. The general government deficit, which was also affected by the one-off reclassification of SAREB, rose in 2020 by more than 8 percentage points to 11.0% of GDP. In the course of 2021, the fiscal outlook gradually brightened. The main drivers of this improvement are government revenues, that have performed in general well in the first half of the year. Personal income tax revenues surpassed their pre-pandemic level and VAT revenues are approaching the pre-pandemic level. On the expenditure side, several measures such as ERTEs and health-related emergency measures are being phased out or becoming more targeted. At the same, time the government has increased spending, particularly on investment. Although Spain has shown a good track record in targeting and scaling down the measures implemented in the COVID-19 pandemic, some of these recent spending increases or measures, such as transfers to autonomous communities and local administrations, have raised expectations that they might become structural, therefore impacting the public deficit permanently. In its 2021 Draft Budgetary Plan, the Spanish government projects a general government deficit for 2021 of 8.4% of GDP before narrowing to 5.0% in 2022. According to the European Commission 2021 autumn forecast, the general government deficit is projected at 8.1% of GDP in

([17]) The greatest quarterly increases were registered in the Balearic Islands (4.0%), Extremadura (3.8%) and Castilla-La Mancha (3.6%), while the Basque Country, Madrid and Aragon showed the lowest increase (1.3%, 1.3% and 1.6% respectively).

([18]) Published on 26 October 2021, it can be consulted on https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/ArticulosAnaliticos/21/T4/Fich/be2104-art37.pdf

2021, before improving to5.2% of GDP in 2022 on the basis of an expected stronger economic growth.

17. The government debt ratio has stabilised and is expected to decrease but its high level is a source of vulnerability. After rising by around 25 percentage points in 2020 to 120% of GDP on the back of the pandemic, the debt-to-GDP ratio is expected to marginally increase in 2021. The European Commission 2021 autumn forecast projects the ratio to start gradually declining in 2022 (118.2%) and to reach 116.9% by 2023 helped by more dynamic economic activity, which is stimulated by the accelerated deployment of the RRP. According to the Treasury, total gross financing needs are expected to decline slightly in 2021, to around 24% of GDP. Market conditions for financing debt have remained favourable, yields on 10-year bonds are very low by historical standards, and spreads against the 10-year German bund remain contained. The elevated stock of debt could create vulnerabilities. However, asset purchases by the Eurosystem on the secondary market are expected to continue to stabilise the sovereign debt market in the short run. In addition, the government debt profile, with an average maturity that lengthened over the past years and reached 8 years in spring 2021, mitigates the interest rate risk. The longer maturities would contain changes in interest payments throughout the projection period even under more adverse interest rate conditions.

18. The private sector debt-to-GDP ratio slightly decreased in the second quarter of 2021 after peaking during the first months of the year, yet deleveraging needs persist. The debt ratio of the non-financial private sector decreased to 144.2% of GDP in the second quarter of 2021, down by 4.0 pps compared to the first, and up by 15.5 pps since the pre-pandemic time at the end of 2019 ([19]). The stock of debt accumulated by non-financial corporations (NFCs) accounted to 82.8% in terms of GDP, while total household liabilities amounted to 61.4%. This moderated decline reflects the pick-up in economic activity since spring 2021. The upward evolution experienced since the outset of the crisis is imputable, beyond the hike in the corporate sector indebtedness, to a larger extent to the sizeable fall in GDP experienced by Spain in 2020. Nevertheless, both in the case of NFCs and households, debt ratios are significantly lower than those recorded prior to the global financial crisis, and close or slightly above average euro area levels. According to the Commission estimates, private debt ratios remain above prudential levels and fundamental-based benchmarks.

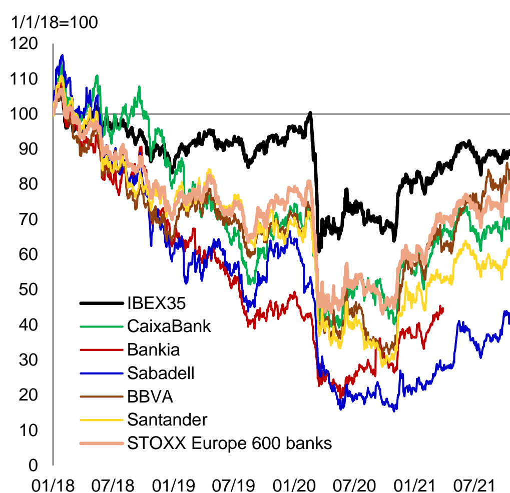
19. Spain's external net debtor position in terms of GDP is improving over the course of 2021, while the current account balance is expected to be close to zero this year. Spain's negative net international investment position recovered from 85.5% of GDP at the end of 2020 to 78.4% of GDP in the second quarter of 2021, remaining however above prudential and fundamental-based benchmarks. Still, it is markedly below the level reached during the financial crisis. The dependence on tourism of the Spanish current account has deteriorated its balance, which dropped from 2.1% in 2019 to 0.8% in 2020, and it is expected to fall further in 2021 (0.3%), but still in positive territory.

([19]) Unconsolidated debt of non-financial corporations amounted to 106.4% of GDP in the second quarter of 2021, and private unconsolidated debt was 167.8 % of GDP.

3. FINANCIAL SECTOR TRENDS

20. Despite some pockets of vulnerability, the Spanish banking sector has weathered the pandemic well. After the downward correction in spring 2020, the share prices of Spanish banks have recovered since autumn 2020 amidst the improved macroeconomic situation, news about the successful vaccination campaign, removal of restriction measures and further banking sector consolidation efforts (in particular, the merger between CaixaBank and Bankia). Nevertheless, in spite of the steady improvement in performance since the second half of 2020, the share prices of the main Spanish banks have continued to remain below their pre-pandemic levels. (Graph 3.1) The share prices of the Spanish banks have still underperformed compared with the IBEX35 of the Madrid Stock Exchange and the STOXX Europe 600 banks, except for the share price of BBVA, which outperformed the STOXX Europe 600 banks since May 2021.

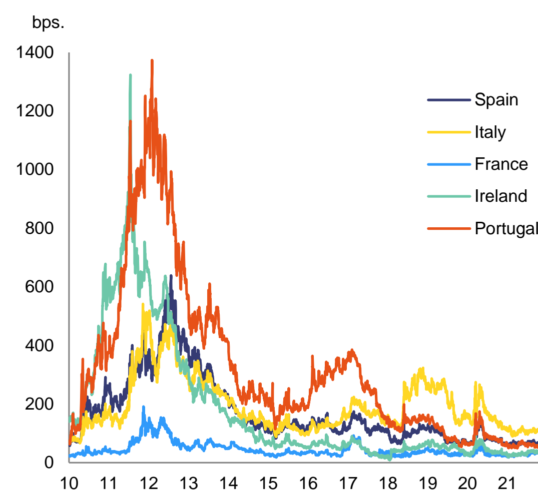
Graph 3.1: **IBEX35, STOXX 600 Banks and selected Spanish banks stocks**



Source: Madrid Stock Exchange via Macrobond, own calculations.

21. Since end-May 2020, sovereign spreads have steadily declined and returned to pre-pandemic levels. The decline in sovereign spreads has been supported by the launch of the additional ECB asset purchase measures, the public support schemes and the rebound in economy activity after the gradual lifting of restriction measures. (Graph 3.2). Since mid-November 2020, the spread between the Spanish benchmark 10-year government bond and the 10-year German bund has hovered largely around the levels registered before the outbreak of the pandemic. Nevertheless, sovereign spreads have remained above those of France, Ireland and Portugal, but below Italy. Meanwhile, the cost of the debt at issuance has also continued to decrease, although the trend has reversed since January 2021 on the back of the improved macroeconomic outlook, while the average maturity of issued debt has increased. The steady decline in sovereign spreads has also created the premises for the issuance of the first green sovereign bond (EUR 5 billion, 20 years maturity) in September 2021, with a strong demand by foreign investors. Since September 2020, when Standard & Poor's reaffirmed the rating for Spain, but changed the outlook to negative from stable, Spain has not had other changes to its credit rating ([20]).

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



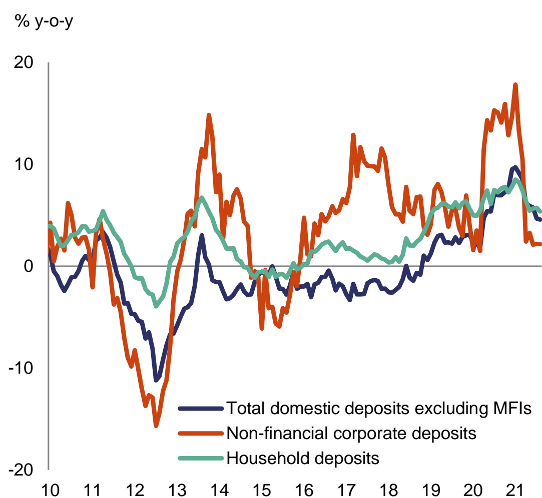
Source: IHS Markit, Macrobond, own calculations.

22. The liquidity position of Spanish banks has remained comfortable and banks have good access to wholesale markets. The Spanish banks borrowing from the ECB more than doubled since the outbreak of the pandemic, the highest increase taking place in the first eight months of 2020. At the end of September 2021, the total borrowing from the ECB reached EUR 290 billion, up by EUR 33 billion compared with the same period last year. The expansion in deposit funding has

([20]) Spain's credit rating by the main rating agencies is A (negative outlook by Standard& Poor's, stable outlook by DBRS), A- with stable outlook by Fitch and Baa1 with stable outlook by Moody's.

continued, albeit at a declining pace since May 2021. Total domestic bank deposits from households and non-financial corporations increased by 4.6% year-on-year (y-o-y) in August 2021, the lowest increase since April 2020. Since April 2021, the increase in total deposits has been mainly driven by household deposits, which went up by 5.4% y-o-y in August 2020. Meanwhile, the deposits of non-financial corporations also grew, albeit at a slower pace by 2.2% y-o-y compared with the double-digit growth rates registered between April 2020 and March 2021 (Graph 3.3). Banks have continued the issuances of debt securities, benefitting from the improved pricing conditions and comfortable market access. The issuance of covered bonds has also continued, with most of these bonds being retained by banks for potential use as collateral. Moreover, banks have prioritised the issuances of senior non-preferred bonds, while the issuances of senior bonds have declined ([21]). Based on the latest available data, Spanish banks are not expected to have difficulties in meeting MREL targets.

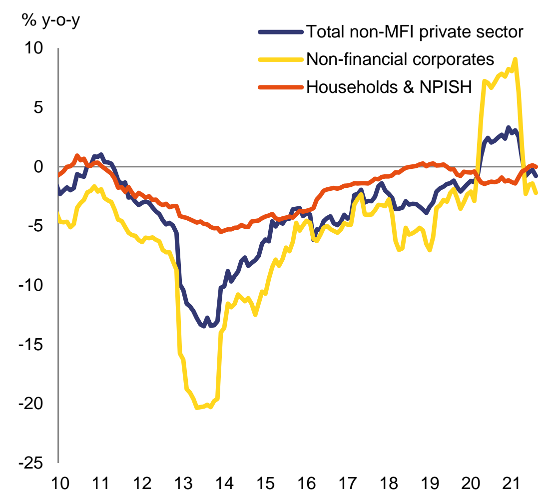
Graph 3.3: **Bank deposits**



Source: BdE.

23. After the strong momentum in Spring 2020, lending activity has moderated more recently. Benefitting from the public support measures, lending to the private sector expanded markedly between April 2020 and June 2020, but decelerated since then, mainly due to the decrease in lending to non-financial corporations. Total lending to the private sector (excluding interbank lending) declined by 0.8% y-o-y in August 2021. Lending to non-financial corporations expanded significantly between April 2020 and June 2020, stabilised in the second half of 2020 and fell in 2021, posting a decline by 2.2% y-o-y in August 2021. New lending to the sectors which have been most impacted by the Covid-19 pandemic and the lending to corporates has benefitted from the support of government guarantees via the state-owned development bank, *Instituto de Crédito Oficial* (ICO) ([22]). Following the enactment of the Royal Decree Law 34/2020, many companies have extended the maturity of their ICO guaranteed loans. By contrast to the lending to non-financial corporations, lending to households has been more resilient in the first half of 2021 and more stable -0.01% y-o-y in August 2021, supported by both mortgage and consumer lending. The total volume of loans of Spanish banks (on an individual basis) increased by 5.7% in August 2021 compared with August 2020, reaching roughly EUR 2.0 trillion ([23]).

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.

24. The Bank Lending Survey for the third quarter of 2021 indicated that in Spain and in

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

([22]) 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.

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

the euro area credit standards remained unchanged for loans to non-financial corporations. For two successive quarters, credit standards for loans to non-financial corporations have remained unchanged, on the back of a lower risk perception by banks as a result of the improving macroeconomic conditions in Spain ([24]). Regarding lending to households, credit standards in Spain tightened for both loans for house purchases and consumer credit on the back of an increased risk aversion by banks for such exposures, while in the euro area a tightening happened only for loans for house purchases. Overall, terms and conditions on new loans remained unchanged for loans to non-financial corporations, but eased further for loans for house purchases and consumer credit due to the increased competition among credit institutions, in particular regarding mortgage lending. Loan demand by non-financial corporations increased for the second consecutive quarter, on the back of the progressive rebound in economic activity. The increase in loan demand by non-financial corporations was driven by the increase in the financing needs for fixed capital investments and debt refinancing needs. Regarding lending to households, loan demand for house purchases went up further in the third quarter of 2021, mainly on the back of the increased consumer confidence and, to a lesser extent, the improved housing market outlook. Due to the improved consumer confidence, demand for consumer credit also increased further in the third quarter of 2021. For the fourth quarter of 2021, Spanish banks expect credit standards to remain unchanged for all categories of loans, while loan demand by non-financial corporations and the demand for consumer credit is expected to increase. Meanwhile, the loan demand for house purchases is forecast to remain unchanged.

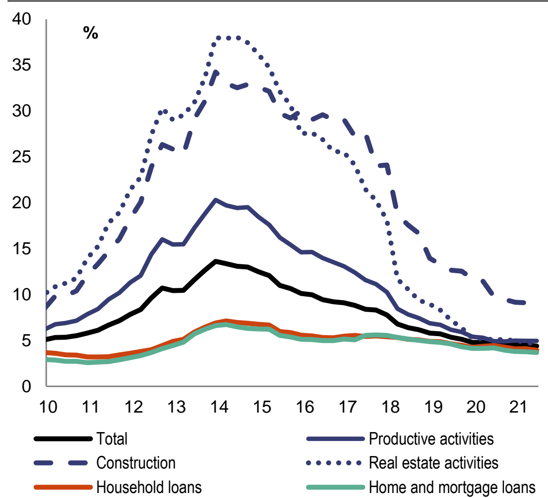
25. The borrower relief measures and public guarantee schemes have prevented the emergence of cliff-edge effects. On the back of the further decrease in the stock of impaired assets ([25]), the NPL ratio decreased to 4.4% at the end of June 2021, down from 4.5% at the end of 2020 and 4.7% at the end of June 2020. (Graph 3.5). While the declining trend in NPLs has continued, the pace of the decrease has slowed down. In the first half of 2021, the inflow of new NPLs has been outpaced by the NPL outflows, supported mainly by recoveries and write-offs. The disposal of NPLs though sales has decelerated markedly since 2019. The sales of non-performing assets (including foreclosed assets) amounted to roughly EUR 2 billion (gross book value) in the first half of 2021, compared with EUR 7 billion in 2020 and EUR 28 billion in 2019. Regarding sectoral developments, the construction sector has continued to have the highest share of NPLs, with the NPL ratio standing at 9.1% at the end of June 2021, by roughly 0.7 percentage points lower than at the same time last year. NPL ratios for real estate activities have also continued on a declining trend in the first half of 2021 reaching 4.6% at the end of June 2021, by roughly 0.4 percentage points lower than at the same time last year. Meanwhile, NPLs for productive activities have remained flat since June 2020 and stood at just below 5% at the end of June 2021. Loans to household have had the lowest level of impairment, with the NPL ratio going down to 3.9% at the end of June 2021. It is the lowest NPL ratio for loans to households registered since March 2012. Meanwhile and similar to other banking sectors in the EU, the Spanish banking sector has registered a further increase in Stage 2 loans in the first half of 2021 (according to IFRS 9 ([26])). This also reflects the precautionary approach adopted by several banks, which reclassified Stage 1 loans to Stage 2 loans following an internal analysis at sectoral level. According to the latest data published by the European Banking Authority (EBA), the share of Stage 2 loans as percentage of total loans and advances stood at 7.4% at the end of June 2021, below the EU average of 8.8%, and by 0.3 percentage points higher than at the end of 2020. The share of loans with non-expired EBA-compliant moratoria classified as Stage 2 loans stood at 26.2% at the end of June 2021 (below the EU average of 28.2%), declining by 2 percentage points compared to the end of March 2021 and reaching the same 26% level registered at the end of 2020. Meanwhile, the share of loans with expired EBA-compliant moratoria classified as Stage 2 loans increased to 22.7% at the end of June 2021 (below the EU average of 24.4%), up by 4.8 percentage points compared with the end of 2020.

([24]) For further details see BdE, October 2021 Bank Lending Survey in Spain. Banco de España - Publications - Bulletins and journals - Analytical Articles (bde.es)

([25]) Non-performing loan (NPL)

([26]) International Financial Reporting Standards (IFRS)

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.

26. The loan moratoria have alleviated the impact of the pandemic on banks and borrowers, in particular, the most vulnerable categories. According to data published by the BdE, the total volume of loans (on individual basis for domestic business) with loan moratoria (i.e. legislative moratoria and moratoria granted voluntarily by credit institutions) amounted to EUR 57.7 billion at the end of April 2021. Of these, the total outstanding volume of loans with legislative moratoria on mortgage loans payments represented slightly over one third (EUR 20.5 billion) ([27]). Up to now, roughly 76% of the loan moratoria have expired. Meanwhile, the latest developments pinpoint to an increase in refinanced loans, in particular among those backed by ICO guarantees, after a decline in 2020. ([28]) Refinanced loans declined in 2020, but picked up again in the first half of 2021 and reached 5.3% surpassing slightly the pre-pandemic level (i.e. 5.2% in 2019). While no significant cliff-edge effects have emerged after the phasing out of the bulk of loan moratoria, there are certain signs of credit deterioration as, for example, the increase in Stage 2 loans, with a further deterioration in asset quality being likely to appear in 2022. According to the latest EBA data (consolidated data), the NPL ratio for the already expired EBA-compliant moratoria stood at 6.4% at the end of June 2021, up from 5.8% at the end of March and 4.2% at the end of 2020. The deterioration in the performance of loans with expired moratoria has been higher than for the EU, for which the average NPL ratio stood at 4.7% at the end of June 2021. The NPL ratio for the non-expired EBA-compliant moratoria went up to 7.6% at the end of June 2021 (markedly above the EU average of 4.5%), up by 2 percentage points compared with March and by 2.5% percentage points compared with the end of 2020.

27. Banking sector profitability rebounded in the first half of 2021, supported by the reduction in loan-loss provisions. Profitability improved across all banks in the first half of 2021, mainly on the back of a substantial decrease in the cost of risk. (Graph 3.6) According to the latest available Bank of Spain data ([29]), the net income of Spanish banks (consolidated basis) recovered and reached EUR 13.8 billion (provisional data) at the end of June 2021 compared with the negative result of EUR 9.5 billion at the same time last year. Meanwhile, the return on equity (consolidated basis) rebounded and stood at 11.2% (provisional data) at the end of June 2021 compared with -7.3% at the end of June 2020. Banking sector results highlight though the weakness of net interest income, on which Spanish banks are highly reliant, and the efforts by banks to increase fee income. Most banks are expected to resume the distribution of dividends, following the phasing out at the end of September 2021 of the Recommendation ECB/2020/62, in which the ECB called upon the significant institutions to exercised extreme prudence on dividends. Nevertheless, banks are expected to remain prudent regarding their decisions on the remuneration policy, following the indications in the latest ECB Recommendation on divided distributions (ECB/2021/31). While Spanish banks are more efficient compared with their EU peers, efficiency has slightly decreased after the onset of the pandemic, being also

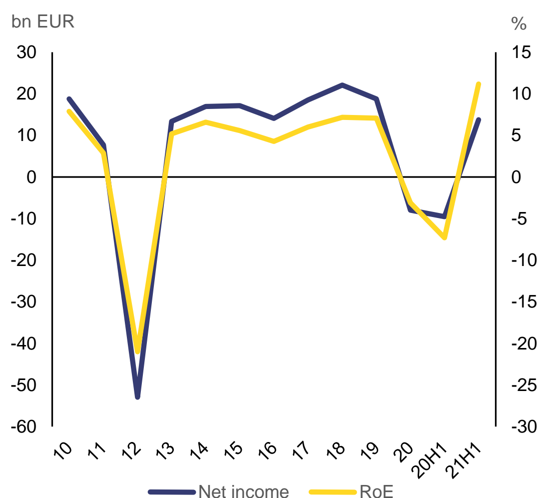
([27]) For further information, see BdE, Nota informative soble la aplicacion de las moratoria legislativas y sectoriales, 21 May 2021.

([28]) The increase in refinanced loans is basically due to a group of ICO operations that according to RDL 34/2020, need not to be considered as proper refinanced loans. For prudential reasons though, they have been classified as refinanced operations.

([29]) Financial Stability Report https://www.bde.es/bde/es/secciones/informes/estabilidad-financiera/informe-de-estabilidad/

impacted by the costs associated with the recent banking sector mergers.

Graph 3.6: **Bank sector profitability (consolidated basis)**



Since 2019, return on equity (RoE) is calculated dividing Net income by the average of total own funds, while before that year RoE was calculated according to the market standards, this means dividing the Income attributable to the controlling entity by the average of shareholders´ equity.
Source: BdE, Financial Stability Report.

28. Banking sector capitalisation has continued to improve, supported by retained earnings and regulatory provisions. According to the latest ECB data, the solvency ratio at banking system level perked up to 16.8% at the end of March 2021, up by 1.3 percentage points compared with the same period last year. Meanwhile, the Common Equity Tier 1 (CET 1) ratio also increased and reached 13.2% at the end of March 2021, up from 12.1% at the end of March 2020. Since the second half of 2020, Spanish banks have been able to increase their capital buffers partly due to the CRR temporary "quick fix" measures introduced in response to the COVID-19 pandemic ([30]), but also due to the supervisory recommendation on the restriction of dividends. Capital ratios have increased mainly due to the numerator effect (i.e. increase in capital), while the decrease in risk-weighted assets, in particular, for several significant credit institutions also contributed positively to the overall banking sector capitalisation. Due to the positive impact of these measures, banks have not made use of the prudential flexibility granted by supervisors regarding capital buffers. Four Spanish banking groups (Santander, BBVA, Sabadell and Bankinter) took part in the 2021 EBA EU-wide stress test ([31]). While the capital depletion of the Spanish banks during the stress test horizon was lower than for most of the EU peers, due to the initial CET 1 ratio level at the beginning of the stress test exercise (i.e. 2020 CET1), only one bank had a CET1 ratio above 10% under the adverse scenario of the stress test. One bank, which also registered the largest capital depletion among the Spanish banks, had a CET1 ratio (fully loaded) of below 7% under the adverse scenario of the stress test. Overall, Spanish banks continue to have some of the lowest capital ratios within the EU, also due to the less frequent use of internal models. This warrants close oversight considering the likely deterioration in asset quality after the borrower relief measures and other public support measures are completely phased out.

([30]) 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).

([31]) CaixaBank and Bankia were not included in the 2021 EBA stress test, as they were subject to a merger process.

4. FINANCIAL SECTOR REFORMS AND POLICY

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

29. The authorities completed the operationalisation of the support measures adopted in March 2021. On 12 March 2021, the government adopted new measures amounting to EUR 11 billion, including non-reimbursable aid to self-employed and companies, a recapitalisation fund for medium-sized companies, and funds to re-restructure the state-guaranteed loans. In this regard, the authorities adopted a Code of Good Practices, for the voluntary adherence of financial institutions that will undertake a set of commitments to facilitate the renegotiation of the guaranteed loans. The measure allows a further extension of the maturity of the government guaranteed loans to 10 years, the maintenance of government guarantees in cases where the underlying loan becomes a shareholder loan or the reduction of the outstanding principal of the guaranteed loans.

30. The government guarantee program to cover liquidity needs has been almost exhausted. As of 30 September 2021, the guarantees used amounted to EUR 92.5 billion, from the EUR 100 billion that were envisaged to facilitate access to credit and liquidity for companies and the self-employed to cope with the impact of the pandemic. This has allowed companies to receive EUR 121.7 billion of funding with 70% of the recipients being self-employed and SMEs.

31. The uptake of the guarantee program to fund new investments is lagging behind. As of 30 September 2021, the total amount guaranteed reached EUR 8.4 billion, out of the EUR 40 billion planned to finance current and capital expenditure related to new investments or the production and service process, the extension, adaptation or renewal of equipment, installations and capacities, as well as the costs associated with restarting the activity. Companies have benefited from EUR 10.9 billion in additional funding, of which 78 % are self-employed and SMEss.

4.2. PROGRESS WITH FINANCIAL SECTOR REFORMS AND CHALLENGES AHEAD

32. FROB ([32]) **has adapted the divestment framework related to the new stake in CaixaBank.** After the completion of the merger between Bankia and CaixaBank, FROB holds 16.12% in CaixaBank. FROB has reinforced its divestment strategy after the authorities extended the deadline for the sale of FROB's participation from December 2021 to December 2023, to be able to fully benefit from the expected synergies after the merger. The strategy maintains the objective to maximise the recovery of the public funds.

33. Bank of Spain continued to maintain the counter–cyclical capital buffer at 0% for the fourth quarter of 2021. The latest available data (March 2021) show a positive credit-to-GDP gap (19.8 pps). Notwithstanding, according to the Bank of Spain, the behaviour of this variable is based on the decline in GDP and due to a moderate increase in the volume of credit granted, as authorities have put in place various support measures to bolster the flow of credit to the economy.

34. Resolution plans are in place for all credit institutions in Spain. This includes significant institutions under the remit of the Single Resolution Board (SRB) and less significant institutions (LSIs) under the resolution remit of Bank of Spain. All significant institutions and 5 LSIs have full resolution plans (resolution strategy), while the other 47 LSIs have a liquidation strategy, due to a negative public interest assessment. The MREL decisions linked to these plans are updated yearly and notified to banks. Credit institutions are not expected to have significant difficulties in achieving their MREL objectives, also taking into account that markets have been very supportive for bond issuances.

([32]) *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.

4.3. SAREB – RECENT DEVELOPMENTS AND OUTLOOK

35. As SAREB ([33]) **has been reclassified into the general government, the authorities are reflecting on possible changes to its legal framework.** SAREB has struggled to meet the targets in its original business plan, which envisaged the winding down of its asset portfolio by 2027. Since its inception, SAREB has sold 40% of the total assets and redeemed 31% of senior debt. The pandemic has further affected SAREB's performance and the Spanish authorities modified SAREB's regulation in March 2020, waiving SAREB from the compulsory winding-up when its equity falls below half of its share capital. However, the accumulation of losses throughout its lifetime has prompted Eurostat to reclassify SAREB inside the general government. The authorities are currently discussing possible scenarios for changes to SAREB's legal framework to reflect that change.

36. On the back of the economic recovery and improvements in the real estate market, SAREB's activity has picked up in 2021. As the Spanish economy has recovered from the pandemic, SAREB targets for this year's cash flow are only slightly below that of 2019. In the first semester, it generated a positive cash flow of EUR 369 million, compared to EUR 130 million for 2020. However, SAREB continues to post losses (EUR 1.1 billion in 2020). Until 2019, SAREB could only sell assets at a profit, in order to preserve capital. However, the new regulation approved last year allows it greater freedom, so it is now targeting a mix of sales of loans and Real Estate Owned assets (REO) which is line with its existing portfolios. This also implies that it is selling less profitable assets, reducing profitability against higher cash flows. SAREB maintains its strategy of focusing on retail sales to maximise long-term generation of cash value, and opts to convert Real Estate Development loans (RED) collateral into real estate assets (REOs) in order to market them, internalising activities previously carried out by institutional investors who purchased loan portfolios. On the cost front, SAREB's financial costs are falling, favoured by lower rates, the decrease of its debt and of the notional of the swap it had contracted to hedge its interest rate risk. SAREB is focused on streamlining its cost structure, and is renewing its servicing contracts with the aim of reducing asset servicing fees.

37. The capital position of SAREB has further deteriorated. Accumulated losses have driven SAREB's total equity to EUR -9.3 billion as of 30 June 2021. This corresponds to the value of SAREB's own funds (the value of its shareholders' equity and subordinated debt turned negative for the first time), and negative valuation adjustments for EUR -9.2 billion. SAREB's senior debt, which is state guaranteed and held by the banks that had received state aid during the financial crisis, amounts to EUR 34.9 billion. SAREB's assets are valued at EUR 27 billion, with REOs valued at EUR 12 billion and REDs at EUR 9.6 billion, and with cash and other assets making up the rest.

([33]) 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	2.3	2.1	- 10.8	4.6	5.5
of which domestic demand incl. stocks	4.5	- 3.1	1.9	3.9	2.0	3.1	2.9	1.6	- 8.6	4.4	5.0
Private consumption (annual % change)	3.7	- 2.1	1.7	2.9	2.7	3.0	1.7	1.0	- 12.0	4.8	5.2
Public consumption (annual % change)	5.0	0.9	- 0.7	2.0	1.0	1.0	2.3	2.0	3.3	3.3	2.7
HICP (annual % change)	3.2	2.2	- 0.2	- 0.6	- 0.3	2.0	1.7	0.8	- 0.3	2.8	2.1
Unemployment rate (% of labour force)	10.6	20.2	24.5	22.1	19.6	17.2	15.3	14.1	15.5	15.2	14.3
Gross fixed capital formation (% of GDP)	27.7	21.4	17.8	18.0	18.0	18.7	19.4	20.1	20.3	20.3	20.9
Gross national saving (% of GDP)	22.3	18.8	19.6	21.0	21.9	22.2	22.4	23.0	21.5	21.3	22.3
General Government (% of GDP)											
Balance (g)	0.4	- 8.8	- 5.9	- 5.2	- 4.3	- 3.0	- 2.5	- 2.9	- 11.0	- 8.1	- 5.2
Gross debt	46.7	67.6	100.7	99.3	99.2	98.6	97.5	95.5	120.0	120.6	118.2
Interest expenditure	2.2	2.4	3.4	3.0	2.8	2.5	2.4	2.3	2.2	2.2	2.1
Households											
Households saving rate	8.9	8.9	6.3	7.2	7.1	5.8	5.6	8.3	15.0	11.7	8.3
Rest of the world (% of GDP)											
Trade balance	- 3.7	- 0.1	3.1	3.0	4.0	3.6	2.7	2.9	1.5	1.1	1.5
Trade balance, goods	- 6.8	- 4.1	- 2.1	- 1.9	- 1.3	- 1.9	- 2.4	- 2.2	- 0.8	- 1.5	- 2.2
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	0.8	0.3	0.8
Net financial assets	- 55.3	- 90.4	- 95.2	- 88.2	- 84.6	- 84.5	- 78.6	- 73.1	- 85.8		
Net international investment position (h)	- 56.5	- 91.6	- 95.9	- 88.9	- 85.5	- 85.5	- 80.1	- 75.0	- 85.5		
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	97.6	98.8	99.2	99.2	98.5
Real effective exchange rate relative to the rest of the European Union	104.7	107.6	100.3	100.0	98.2	97.6	97.0	98.1	98.6	98.4	97.4
Real effective exchange rate relative to the rest of 37 industrialised countries	104.3	111.6	104.1	100.0	99.0	99.8	100.7	100.5	n.a.	n.a.	n.a.
Banking sector											
Assets (% of GDP)	214.9	325.0	288.0	262.5	244.9	234.4	219.8	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	2.8		
" of which non-financial corporations	n.a.	n.a.	16.4	12.8	10.9	7.9	5.9	4.7	4.6		
" of which households	n.a.	n.a.	5.3	4.5	4.5	4.4	4.0	3.6	3.4		
Coverage	n.a.	61.7	46.4	46.8	45.0	42.7	43.7	43.7	45.6		
Return on equity (k)	n.a.	1.8	6.7	6.6	5.0	7.0	8.2	6.7	- 3.5		
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	16.8		
CET 1	n.a.	n.a.	11.8	12.7	12.8	12.6	12.2	12.5	13.2		
Tier 1	n.a.	9.8	11.8	12.7	13.0	13.2	13.5	13.8	14.7		
Loan-to-deposit	n.a.	n.a.	90.3	91.7	92.5	89.3	90.6	92.6	85.5		
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 25 October 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
(k) annualised

Source: Ameco, BdE, Boursorama, ECB, Eurostat, Macrobond.

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