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Creating Opportunities

# Banking Outlook

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# Summary

## 1. Developments in the Spanish banking sector

In the first six months of 2019, the system produced a net profit of EUR 5,326 million, 20% below that obtained in the first half of last year, as a result of a weak second quarter. Key features of the quarter were reduced revenue (with particularly poor results from financial operations), cost control and loan-loss provisions, which remain at minimum levels. The volume of ORS lending continued to fall. The efficiency of the system (56.1%) was down compared with 2018 levels, even though costs barely increased. The NPL ratio (5.14%) continued to decrease and ROE (4.7%) fell compared to June 2018 levels.

## 2. Negative interest rates: current situation and effects

The debate on the effects of negative interest rates on European banks is gaining momentum. In the eurozone, the ECB's deposit facility rate has been negative since June 2014. However, only nine European countries apply negative rates to the new production of corporate term deposits, and no country applies negative rates to household deposits. The literature on this issue is unanimous in considering that banks' net interest revenue and NIM (net interest margin) are suffering from negative rates, but the impact on net profit is not clear, suggesting that there are compensatory effects such as the fall in provisions. In addition, banks can defend their results from the decline in profitability generated by negative rates through certain actions, such as the promotion of commissions.

## 3. Sustainable finance and the role of banking

The transition to a more sustainable economy must be a priority for the banking sector. The European Commission has promoted certain measures to help the sector to adapt to an orderly and efficient ecological transition. A cornerstone of its approach is the development of an ecological taxonomy to identify which economic activities are environmentally sustainable, and to what extent. This classification needs to be complemented by the development of a disclosure system (Pillar 3) that will allow agents to identify sustainable investment opportunities, and thus encourage financial flows toward ecological investments.

## 4. The rise of non-financial entities and their effects on the economy

The development of non-financial institutions (NFIs) has been substantial in a large number of developed countries, while in Spain and Italy this growth has been lower. In the long term this is not positive for Spain and Italy since it limits opportunities for growth, but in the shorter term, the low interest-rate environment could generate problems for NFIs, especially for insurance companies and pension plans with a significant volume of liabilities referenced to positive interest rates. This obliges them to increase their risk appetite to generate the minimum profitability required, thus introducing an element of instability. Some institutions, such as the ECB and the IMF, consider it important to keep a close eye on this situation because of the systemic nature of these institutions, which can transmit their instability to the rest of the financial system, especially in view of the liquidity risk posed by these alternative assets. For this reason, EIOPA is asking companies to report these activities.

## 5. Priorities and the European regulatory agenda

The European Commission argues that Europe must be a world leader and should lay the foundation for promoting sustainable growth. To this end, it must focus on completing the Banking Union and the Capital Markets Union, and becoming a global center for sustainable financial innovation. In this context, the EC has established four headline ambitions: a European Green Deal; an economy that works for people; a Europe fit for the digital age; and a stronger Europe in the world.

# 1. Developments in the Spanish banking sector[1]

Jaime Zurita

## Results

- The Spanish banking system produced EUR 5,326 million of net profit in the first six months of 2019 (Table A1.2), with a second quarter (at EUR 2,104 million) considerably weaker than the first (EUR 3,222 million). Accumulated profit in the first half of the year was 20% lower than in 2018.

- Income maintained the trend of the first quarter, with total revenue falling 3.1% in January-June compared to what was generated in the first six months of 2018. Net interest revenue repeats last year's figure, due to the reduction in credit volume, on the one hand, offset on the other by the growth of deposits, the change in interest rates on new loans and the fall in NPLs. In the second half of the year, the introduction of the tiered deposits system will help to reduce the system's financial costs.

- The rates for new credit operations (Table A1.7) increased in all portfolios except for mortgage loans. Moreover, the prices of new operations are higher than the average stock rates in all portfolios. Demand and term deposit rates (Table A1.8) continued to decline, although in almost all cases the capacity to reduce cost was already very limited.

- As in the first quarter, net commission income fell 1.4% in the first six months of 2019. As for gains on financial transactions and other operating results, they were the worst-performing revenue line in the first half of 2019, with a drop of about 11%.

- Cost control was maintained in the system. Total operating costs grew by 1% in the first half of the year, with a slight increase in staff costs (+2.0%) and overhead costs that remained flat compared to those recorded in the first half of 2018. As a result of the performance of income and expenses, the cost-to-income ratio deteriorated by almost 2 percentage points to 56.1% by June 2019, and the system's pre-provision income fell by 7.9%.

- Loan-loss provisions were still at very low levels (cost-of-risk was only 21 bps in the first half), and the net result of other balance sheet items and other extraordinary results fell by 53%.

## Activity

- Table A1.1 shows that the slight growth in the balance sheet seen as of June 2019 increased into September (+2.0%), reaching a total of EUR 2.63 billion, or 215% of GDP (324% in 2012). In this quarter, reductions continued in the number of employees and branches in the system, which fell by 33% (up to December 2018, the latest available data) and 44% (June 2019) from the peaks seen in 2008.

- The volume of ORS (Other Resident Sectors) lending continued to fall (-1.5% year-on-year as of September 2019). Fixed-income portfolios also fell slightly (especially sovereign debt, with a year-on-year drop of 5.9%), while the equities portfolio grew 3.6% in the last 12 months through to September.

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1: Tables and data can be found in the appendices to this document. The data used for the analysis of the Spanish banking system is from chapter 4 of the Bank of Spain Statistical Bulletin, and the data used for international comparison is from the *Risk Dashboard* of the European Banking Authority (EBA). Analysis of the Spanish banking industry is confined to the banking business in Spain. Throughout the document, "€ billion" (€ bn) refers to thousands of millions of euros.

- For liabilities, the trend of recent quarters was maintained. ORS deposits and public administration deposits recovered slightly (+3.2% and +4.4% respectively in September), while non-resident deposits contracted by 3.4%. More specifically (Table A1.6), demand deposits continued to increase (+8.7%), while term deposits fell a further 13.2% up to September due to the lackluster returns. Recourse to ECB liquidity fell strongly (-19.8%) and the volume of debt on balance sheet increased by 6.2% in the last 12 months up to September. Finally, the system's shareholders' equity increased slightly (+1.7%).

## Spotlight on lending and NPLs

- The volume of ORS lending continued to decline (Table A1.4). As of September 2019, the fall was 1.5% year-on-year. Private sector credit stock was EUR 1.2 billion, or 98% of GDP (Table A1.3). This downward trend is likely to continue during the last quarter of the year, since several entities have announced portfolio sales operations that need to be completed before the end of the year.
- By portfolios, (with data as of June 2019, see Table A1.4) lending to households was flat in the last 12 months, with a 4.2% growth in consumer credit and other non-home acquisition purposes, which compensates for the 1.2% fall in mortgage loans. In terms of business loans, there was a continuing reduction in credit for activities related to the construction sector (-12.2% year-on-year due to the closure of several of the sales operations referred to), while other business loans increased slightly.
- With regard to new lending operations (Table A1.5), the cumulative volume of new production in the year up to October was 2.0% lower than the cumulative volume in the same period of 2018. New operations have had two consecutive years of growth and currently represent around 36% of the annual average in the three years immediately prior to the start of the crisis.
- The system's NPL volume continues to improve. The last available data (September 2019) shows an NPL ratio of 5.14%, 104 bps lower than 12 months earlier. The volume of NPLs fell by 17.9% year-on-year as of September. Since the maximum level reached in December 2013, the volume of NPLs in the system has fallen by 69% (-EUR 136 billion).

## Key ratios

- Productivity indicators linked to business volumes continued to improve according to data as of June 2019, although this was not the case for those linked to profits, due to the weak second quarter (Table A1.9). In the same vein, efficiency indicators also worsened in the first half of the year, mainly due to low income levels. The efficiency ratio stood at 56.1% and operating costs remained at 1% of the balance sheet (Figure A1.6).
- Profitability (Figure A1.5) registered a slight reduction over the closing levels of 2018. ROE and ROA stood at 4.7% and 0.44% respectively, and the NIM (the interest margin on average total assets) continued in line with that seen in previous years. Weak revenues was again the main cause of the deterioration of profitability indicators, since provisions (Figure A1.1) are at minimum levels.
- The system's solvency continued to be loose. The volume of own funds on balance sheet (i.e. paid-in capital and cumulated reserves) reached 8.6% of total assets as of September 2019 (Figure A1.3), which is 3.7 times the system's NPLs (Figure A1.2). From a regulatory perspective, the system's CET1 ratio stood at 12.2% at June 2019, the same level as at the close of 2018 and 36 bps higher than in June 2018.

- Liquidity did not represent a problem in general terms, and we expect that this will remain the case after the announcement of a new TLTRO from the ECB. The funding gap (the difference between ORS lending and ORS deposits, see Figure A1.4) fell further by September 2019 and, for the first time ever, gave a negative outcome, indicating that the system has more ORS deposits than ORS loans, a level far from the 2007 maximum (EUR 714 billion, 24% of the balance sheet), with a decrease of more than EUR 720 billion.

## International comparison[2]

Once again this quarter, the main conclusions remain the same:

- Spanish banks are more efficient than their European competitors (Figure A2.1).
- The system's NPL ratio continues to be higher (Figure A2.2), despite the decline in the volume of non-performing loans.
- Profitability has improved, but at a domestic level remains below the EU average (Figure A2.4).
- Regarding the stabilization of the balance sheet, the deterioration of the 2017 coverage ratio caused by the increased recognition of NPLs in Banco Popular was a one-off event (Figure A2.3).

2: The comparison of the Spanish banking system with the average of EU banks (Appendix 2) was carried out with data from the "Risk Dashboard" of the European Banking Authority (EBA), which contains the average of over 150 main banking entities in the EU at the consolidated level. The latest data available is from March 2019.

# 2. Negative interest rates: Current situation and effects

Jaime Zurita / María Rocamora

The debate on the effects on banks of negative interest rates is gaining momentum for several reasons:

- The effect of the ECB's ultra-loose monetary policy on the results of eurozone banking institutions and the possibility of a further reduction in the deposit facility rate.
- The prospect that interest rates will be on negative ground for a long period of time.
- The possibility of reaching the "reversal rate," understood as a level of interest rates from which an additional reduction could generate adverse effects on the economy.
- The fact that in this type of environment banking institutions could begin to increase their risk profile in search for higher returns, which would increase the total risk of the financial system.
- The existence of a lower limit of 0% for the price of deposits, which means that any reduction in the reference rate below that level immediately reduces the spread generated by banking institutions in their traditional business and, therefore, the banks' profitability.

The last point is generating an additional debate, since in several European countries banking institutions are applying negative interest rates to certain depositor groups to protect their income statement against a particularly negative situation for the generation of profitability.

We will review below those countries in which negative interest rates are currently being applied to deposits, and briefly review recent literature on this topic to understand the effects of negative interest rates on banks.

## Negative interest rates in Europe since 2012 and in Japan since 2016

In several countries and regions of the world, official interest rates have been at 0% or on negative ground for several years. In Europe, four central banks currently have negative interest rates: Denmark (since July 2012), the ECB (since June 2014), Switzerland (since December 2014) and Sweden (since the first quarter of 2015). Outside Europe, Japan has been operating with official interest rates close to 0% for several decades, and in January 2016 the rate for bank accounts held at the Bank of Japan fell to -0.1%.

In all cases, the fall in official interest rates has led to a reduction in the interest rates of new credit operations and a fall in the yield of all financial assets. However, the fact that official rates in some countries are on negative ground does not mean that deposit rates have fallen below 0%.

In Europe only **nine banking systems** (Denmark, Germany, Ireland, Latvia, Luxembourg, the Netherlands, Finland, Belgium and Spain) **currently apply negative interest rates to the new production of corporate term deposits**, and several other countries are at levels close to 0%. For corporate deposits, the average interest rate in the eurozone is 0.03% for demand deposits and 0.07% for term deposits. On the other hand, the stock of short-term corporate deposits in the eurozone has an average interest rate of approximately 50 bps, although in three countries it is negative (Ireland, Bulgaria and Luxembourg). In any case, in the eurozone, corporate term deposits account for only 5% of total deposits.

For its part, **at present no financial system in the eurozone is applying, on average, negative interest rates to household deposits** (although some individual banking institutions may be doing so). Nevertheless, in fifteen countries interest rates for household deposits are below 5 bps, and the eurozone average for this product is 3 bps. As for term deposits for households (44% of eurozone household deposits), several countries have interest rates above 1%, with an average of 0.36%.

## Effects of negative interest rates on banks

The impact of negative rates on banks has been addressed in the literature with two broad approaches: a first working group **focuses on the direct effects of negative interest rates on banks' net interest revenue and NIM** (net interest margin); while a second group of contributions adopt a broader view of the impact on banking institutions and **focus on the effects of negative interest rates on bank profits** (before or after taxes). The **following conclusions were reached** from this literature review:

- **The first working group concluded that negative interest rates reduce banks' net interest revenue and compress the NIM**. These authors note that the reduction of the NIM is faster when official interest rates are close to 0% or below that level than when similar falls of official rates take place in a "normalized" environment, i.e. loosely in positive terrain. On the other hand, it was concluded that the reduction of net interest revenue and NIM is mainly due to the existence of a lower limit of 0% on the cost of deposits, and not so much to the reduction of the interest rates on credit.

- **The second working group did not reach any definitive conclusions**. Some authors, particularly the ECB, conclude that declining or negative interest rates do not affect banks' results. Other authors find that, although net profit is reduced by negative rates, this fall is lower than that of interest margins. They all conclude that the impact on the results of the banking institutions depends on a large number of factors, not just interest rates, and that banks take measures to protect their net profit from the drag in profitability generated by negative interest rates on interest revenue, such as an increase in commissions and the reduction of provisions.

On the other hand, there is abundant literature showing that **the structure of the banks' balance sheet and their risk profile have changed** as a result of the fall in official interest rates into negative territory. The data support that there has indeed been a replacement of balance sheet financial assets (fixed-income and variable-income portfolios and debt issues) by loans and deposits.

With regard to the change in the risk profile of banks, some authors find that credit growth tends to be faster in banking institutions with more proportion of liquid assets and with a wider base of deposits on their liabilities (i.e. banks with more sensitivity to changes in interest rates), pointing out that these banks are increasing their risk appetite to defend themselves from lower interest rates through volume increases in search for profitability. Along the same lines, other authors find that the ultra-low interest-rate environment generates incentives for weaker banks to offer credit to "zombie" firms instead of bearing the losses that would occur if these companies were declared non-performing. This reduces the flow of credit to healthy businesses, which results in a loss of productivity in the economy, and increases disinflationary pressures and the overall risk for the banking system.

Finally, several authors consider that the main problem with negative interest rates is not the level at which they are set, but the period of time during which they remain below 0%. Thus, if this time period is long enough, negative interest rates will end up generating adverse effects on new private sector credit and, therefore, on the economy as a whole. This is what is known as the "reversal rate."

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# 3. Sustainable finance and the role of banking

José María Castresana / Virginia Marcos

The relevance of climate change in the economy is indisputable today, both because of the physical risks (derived from the increased frequency of natural disasters or from the economic impact of increasingly unfavorable climatic conditions[3]), and due to the risks arising from the transition to a more sustainable economy[4]. In this sense, in their role as intermediaries for financing and investment between different agents, banks must support this transition and participate in it.

In this scenario, the European Central Bank, which has already defined **the risk of climate change as potentially systemic**[5] for the eurozone (especially given the uncertainty that markets are reflecting price risks correctly), and other central banks such as the Federal Reserve or the Bank of England are analyzing the effects of climate change on monetary policy, financial stability, regulation and financial supervision.

## Process of adapting banking to climate change

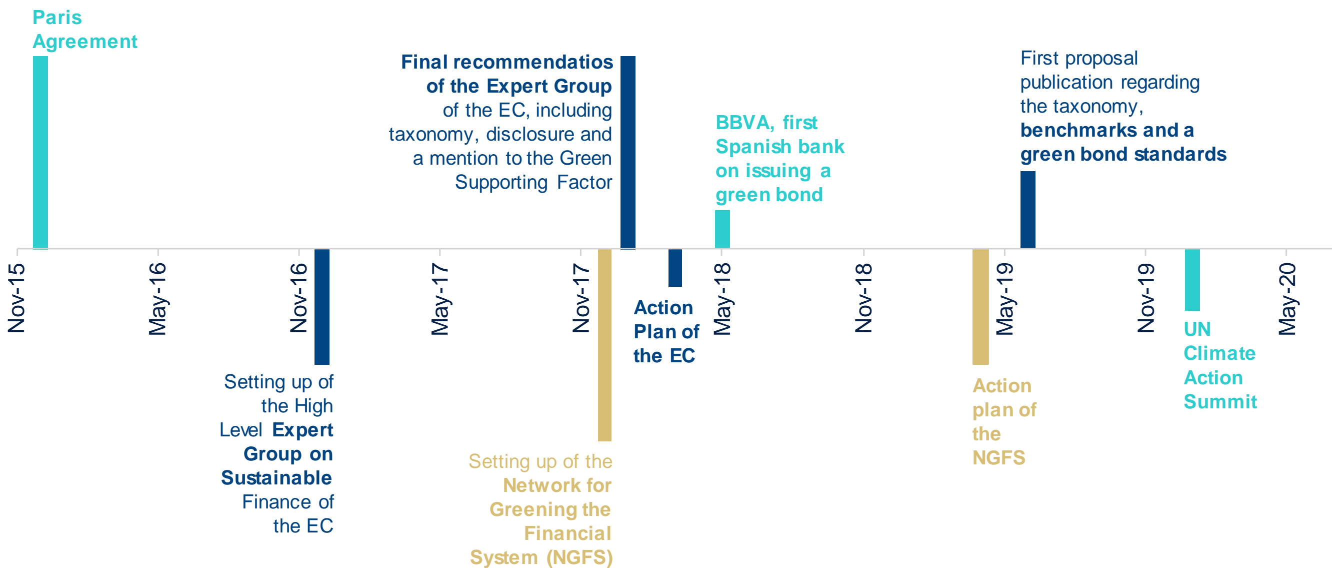
Following the successes and failures of the Kyoto and Copenhagen summits, **the Paris Agreement** in 2015 consolidated the new foundations in the fight against climate change. In the EU, the European Commission has promoted certain measures to help the sector to adapt to an orderly and efficient ecological transition. Thus, both **the High-level expert group on sustainable finance**, established by the European Commission, and **the Network for Greening the Financial System** (NGFS), promoted by the Bank of France and other central banks, have proposed different initiatives with the aim of **helping the financial sector to adapt to the ecological transition** through a transfer of financial flows to sustainable investment opportunities.

The **European Commission's 2018 action plan** has as its cornerstone the **development of an ecological taxonomy**, which would enable us to identify which economic activities are environmentally sustainable, and to what extent.

This taxonomy, still in the process of development[6], should **be complemented by the development of a disclosure system** (Pillar 3), in order to have information that is reliable, complete and homogeneous and which allows agents to identify sustainable opportunities, and thus encourage the transfer of financial flows to ecological investment opportunities. Subsequently, financial institutions will progressively incorporate these risks into their management frameworks, and the supervisor is likely to incorporate them into Pillar 2, through supervisory dialog and/or through stress tests[7], facilitating the work of monitoring climate risks in the banking sector. In a final stage, the incorporation of Pillar 1 could be assessed in terms of prudential measures of a directional nature ("green supporting factor") or by imposing a financial penalty ("brown penalizing factor"). In this package of development measures, which should be considered after the previous steps have been taken, fiscal measures are also being discussed.

3: For more details, see: "Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis" . Kahn et al; International Monetary Fund, WP/19/215.
4: The transition to a climate-sustainable economy will lead to changes in spending, income and production structures as a result of changes in household and business preferences and government policies. This will entail adjustments to the importance of sector activity, employment and changes in the prices of real and financial assets, as well as the likelihood of non-payment of financial liabilities.
5: Giuzio et al (2019), Climate change and financial stability. European Central Bank, Financial Stability Report May 2019.
6: A first political agreement has recently been reached on this taxonomy in the EU.
7: The Bank of England plans to carry out this exercise in 2020 and the ECB could carry it out in 2022.

Figure 1. **KEY BENCHMARKS FOR SUSTAINABLE FINANCE**




Source: BBVA Research, the European Commission and the NGFS

In short, the banking sector is making efforts to adapt to this new reality. In addition, banks, not only as an economic sector subject to the risks arising from climate change, but also, and above all, in their role as intermediaries for financing and investment between different agents, must support this transition and participate in it. In terms of this financial effort, green bonds are perhaps the most visible example.

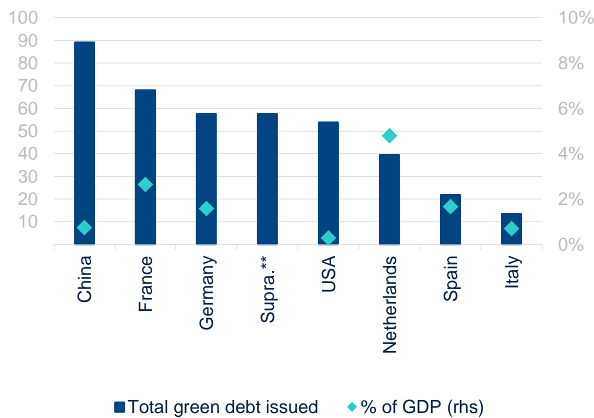
## The green bond market

Green bond issues have experienced significant growth in recent years, which is boosted by their greater transparency, with sustainable projects as the recipients of funds and aligned to investors with the issuer's strategy.

In volume, **since 2010 more than USD 500 billion of strictly green bonds have been issued**[8], with strong growth since 2014 and an average maturity of around 5-6 years. **The European Union has been leading the market, thanks particularly to the efforts of France, the Netherlands, Sweden and Germany.** For its part, China stands out as a country that already has its own taxonomy, through a regulatory framework of standards and a system of green bond market certifications.

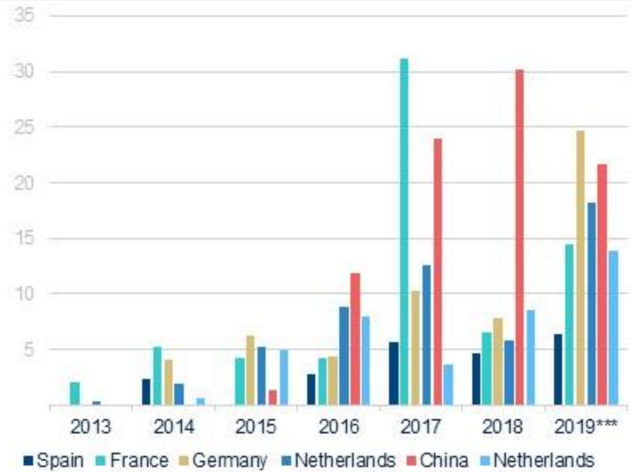
8: Bloomberg classifies green bonds as those bonds whose purpose is strictly for mitigation or adaptation to climate change or for other environmental sustainability purposes. This does not include other ESG bonds (environmental, social and governance criteria).

Figure 2. **Total volume of green issues since 2013** (USD billions and as % of GDP)




Source: Bloomberg, BBVA Research

Figure 1B. **Annual volume of green bond issues** (USD billions)




Source: Bloomberg, BBVA Research. * The US contains municipal bonds and excludes ABSs.** Information available until November

In particular, the **banking sector has emerged as one of the main promoters** of this instrument (accounting for 23% of total issues), especially in the last two years, a trend that may continue to be supported by a change in investor sentiment and by its own corporate strategy.

The transition to a more sustainable economy must be treated as a priority for the banking sector. First, the authorities must define a common taxonomy, which, together with a homogeneous disclosure system, can serve as a basis for the development of the green bond market and other sustainable products.

# 4. The rise of non-financial entities and their effects on the economy

Javier Alonso

Economic literature has linked long-term economic growth to "financial depth" (the weight of banking financial institutions relative to the size of the economy). As a country develops its banking sector and it becomes larger and more efficient, there is generally a higher level of savings and investment (King and Levine 1993; Demirgüç-Kunt and Levine 2008). However, according to the World Bank, other actors such as non-financial institutions (NFIs), including investment funds, insurance companies and pension plans, should be considered in order to correctly measure financial depth, given the importance they have acquired in recent decades.

NFIs contribute to long-term economic growth by diversifying sources of finance for companies and governments. Investment and pension funds increase the stability, liquidity and efficiency of financial markets and encourage financial products to match the preferences of each type of saver (Costanzo, 2011). For their part, insurance companies channel long-term savings, which are in principle more stable than more speculative short-term investments, and enable them to cover and diversify the risk of corporate economic activities and citizens' vital experiences, thus favoring consumption and investment. Finally, pension funds channel long-term savings and allow us to soften citizens' intertemporal consumption trends while covering the risk of longevity (Davis and Hu, 2008). These non-financial institutions multiply their effect on the growth of the economy when they invest in infrastructure assets (Alonso et al, 2014).

Table 1. **ASSETS MANAGED BY BANKS AND NON-FINANCIAL INSTITUTIONS, (NFIs)** (% OF GDP), **SELECTED COUNTRIES**

| | Banks | | Investment Funds | | Insurance | | Pension Plans | | Total NFI | Variation 2000–2016 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2016 | 2000 | 2016 | 2000 | 2016 | 2000 | 2016 | 2016 | Banks | NFI |
| Australia | 85.5 | 140.2 | 82.4 | 148.3 | 39.1 | 18.7 | 61.7 | 121.7 | 288.8 | 54.7 | 105.6 |
| Canada | 81.6 | nd | 42.4 | 97.3 | 24.0 | 77.8 | 60.5 | 90.5 | 265.6 | n.d. | 138.7 |
| France | 101.5 | 112.2 | 59.1 | 74.3 | 68.3 | 119.3 | 1,2* | 10.3 | 203.9 | 10.7 | 75.3 |
| Germany | 146.8 | 93.4 | 37.3 | 58.9 | 52.5 | 47.8 | 5.1 | 6.8 | 113.5 | -53.4 | 18.7 |
| Italy | 89 | 124.1 | 34.5 | 15.5 | 23.8 | 48.0 | 1.1 | 9.3 | 72.7 | 35.1 | 13.3 |
| Japan | 225.8 | 160.7 | 8.8 | 29.7 | 65.9 | 75.5 | 17.6 | 29.1 | 134.3 | -65.1 | 42.0 |
| Netherlands | 140 | 125.7 | 22.7 | 116.9 | 61.9 | 70.6 | 106.5 | 182.2 | 369.8 | -14.3 | 178.7 |
| Spain | 110.8 | 139.8 | 29.0 | 22.7 | 19.7 | 28.0 | 6.0 | 9.5 | 60.2 | 29.0 | 5.5 |
| Sweden | 43.8 | 132.9 | 33.7 | 82.2 | 77.1 | 98.8 | 3.9 | 80.4 | 261.4 | 89.1 | 146.7 |
| Switzerland | 158.8 | 176.3 | 30.5 | 71.2 | 74.7 | 71.0 | 101.3 | 140.0 | 282.1 | 17.4 | 75.6 |
| United Kingdom | 107.6 | 130.1 | 21.9 | 57.0 | 90.1 | 119.3 | 75.6 | 107.6 | 284.0 | 22.5 | 96.3 |
| USA | 53.5 | 61.8 | 70.6 | 105.9 | 39.0 | 30.8 | 77.5 | 135.8 | 272.5 | 8.3 | 85.4 |

* Year 2003.
Source: World Bank, Global Financial Development Database, October 2019

In the last few decades, assets managed by the banking sector in developed countries have experienced little growth or, in the case of certain countries, have even declined (Table 1). In any case, financial depth as measured through the banking sector continues to attain high values, exceeding 100% of GDP in all cases, except for Germany (93.4%) and the US (61.8%). Spain appears to be above average in this respect, reaching 139.8% of GDP, according to the World Bank. Compared with the moderate growth or actual decrease in the volume of assets managed by the banking sector, NFIs have shown higher rates of growth, even allowing for any adverse effects that may have been caused by the recent crisis (Table 1).

In the Anglo-Saxon countries and the Netherlands, the assets managed by NFIs more than double the assets managed by the banks, and in other countries such as France, Germany, Sweden and Switzerland they far exceed the volume of GDP, even doubling it. In Spain and Italy, the development of NFIs has been much more limited than in other countries, reaching "only" 60% and 73% of GDP respectively.

Among the possible explanations for this different behavior we find that in the Anglo-Saxon countries, the Netherlands, Sweden and Switzerland, for instance, the development of the compulsory or quasi-compulsory capitalization pillar of the pension system has been able to accumulate huge volumes of savings for the retirement of its participants. Other European countries (including Spain), with their distributive pension systems, have attained much more moderate values (see Table 1). The insurance sector is particularly prominent in the case of France, Sweden and the United Kingdom. Investment funds have also reached significant volumes in almost all countries, but especially in Australia, Canada, the Netherlands and the US. In addition, with regard to the lower relative importance of NFIs in relation to the banking sector in Spain and Italy, we find the preference observed in the families of both countries for investment in real estate assets, and the consequent development of mortgage lending.

While the banking sector and the NFIs are necessary and favorable for long-term growth, circumstances that can lead to instability may occur in the short term. NFIs have been perceived as particularly vulnerable in the current low or negative interest rate environment. Insurance companies and pension funds that sold products with defined benefits and performance commitments well above those currently on offer are encountering serious difficulties in finding assets in which to invest, which offer the minimum performance needed without incurring a greater risk. Currently, 70% of the bonds held by European NFIs generate a yield of only 1%, while 16% are negative (ECB, 2019). This problem is particularly significant for a large group of institutions in the UK and the Netherlands.

In the face of this circumstance, NFI managers find themselves in the predicament of having to choose between increasing the cost of the premiums they charge their customers, reducing their corporate margin, acquiring assets that ensure greater profitability at the cost of assuming a greater risk, or a combination of these options.

It is perhaps the last option that various NFIs, mainly in the Anglo-Saxon countries, are following, seeking to invest in alternative assets such as real estate, venture capital, raw materials and hedge funds. Infrastructure projects have received a significant flow of investment in recent years, although they have many problematic aspects, such as their long maturity periods, the difficulty of evaluating projects and the high capital investment required by regulators to cover their risk. However, the problems associated with the lack of liquidity of these types of assets are generating more suspicion in some international institutions such as the ECB and the IMF.

Although in its Pillar 1, Solvency II allows the assessment of market risks for insurers and occupational pension funds to be revised upward, thus improving their capitalization and solvency, liquidity risks are not correctly included in the standard formula. For this reason EIOPA (the European Insurance and Occupational Pensions Authority) is recommending that institutions provide through Pillar 2 information about their best estimation methods for this type of risk. Other risks not yet incorporated into the insurance sector are related to the possible structural increase in losses due to climate change, which has not yet been incorporated into the actuarial models of insurance companies or into the calculation of premiums.

The 2019 exercises carried out by EIOPA in Impact Studies (QIS) measure the solvency of European insurance companies and occupational pension funds in terms of various adverse scenarios, including the prolonged low interest rate environment. The results show that the situation of capitalization and solvency is comfortable in these companies. However, the IMF (2019) and the ECB (2019) have shown their concern about a possible contagion effect arising from the NFIs' problems being passed on to the rest of the financial system, and therefore suggest that special attention should be given to them.

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# 5. Priorities and the European regulatory agenda

Salvador Portillo[9]

On July 16, the European Parliament (EP) elected Ursula von der Leyen as President of the European Commission (EC). The new European Commission began its work on December 1.

Under the slogan "A Union that strives for more," the EC has established a series of policy guidelines for which there are four headlines: a European Green Deal; an economy that works for people; a Europe fit for the digital age; and a stronger Europe in the world.

## Regulatory priorities in Europe

The EC argues that Europe must be a world leader and must establish the basis for promoting sustainable growth. For the EC, it is essential to address the causes of our differences, particularly in order to complete the Banking Union and the Capital Markets Union, and to become a global center for sustainable financial innovation. This would allow EU consumers and businesses to make the most of the digitalization of financial services.

Priorities for the development of a prosperous EU economy that offers a high standard of living to all its citizens during the next European legislative cycle should focus on promoting inclusive innovation and growth in the long term, taking into account four major areas, aligned with the objectives of the European Commission:

1. **Digitalization**: Digital technologies must help provide EU citizens with the most convenient and affordable products and services, regardless of location, and promote EU competitiveness in the global context. For this to happen, it is crucial to ensure that cybersecurity is maintained through the development and coordination of public and private measures.

   A key part of this objective is to design a policy framework that allows for adaptation to the structural changes created by digitalization. Europe should continue to seek ways to foster an enabling environment for entrepreneurship and the development and growth of successful business models. Ensuring a legal and regulatory framework for the adoption of new technology and data-based innovation is key if Europe is to host the next generation of digital champions. In this regard, it highlights the EC's commitment to bringing forward a proposal that regulates the entire Artificial Intelligence framework by the first quarter of 2020.

2. **Sustainability**: The transition to a sustainable socioeconomic model implies a fundamental transformation of our current model through a multi-sectoral approach. Europe needs an integrated, fully entrenched and solid capital market to ensure an orderly transition in accordance with the Sustainable Development Goals (SDGs) and the Paris Agreement, and to ensure private investment for sustainable projects. The banking sector has a key role to play, as do the European institutions that will present their "European Green Deal" proposal at the beginning of next year.

3. **Banking Union**: A real Economic and Monetary Union, which allows banks to promote economic growth through a fully operational Banking Union, with greater harmonization of the resolution and insolvency framework, and the reduction of regulatory fragmentation, especially with the completion of Basel III. With regard to the Banking Union, it is of the utmost importance to move forward in negotiations to create a

9: BBVA Internal Regulation and Control Area.

common deposit guarantee fund (EDIS). The rotating presidency of the Council of the European Union will be assumed by Germany in the second half of 2020, and is expected to lead an agreement on this.

4. **Financial Markets**: Regulatory coordination is needed in global financial markets. Citizens demand similar financial products to meet similar financial needs, which makes the globalization of financial services inevitable, as the President of the European Commission points out, if we are to create a stronger Europe in the world.

## Conclusion

The priorities of the financial sector must be aligned with the regulatory agenda of the European institutions, with the aim of enabling Europe to establish the basis for promoting sustainable and inclusive growth, and convergence in the European Union. In particular, through a commitment by the institutions and the financial sector, the EU has the opportunity to become the global reference for sustainable financial innovation and the digitalization of financial services.

# Appendix 1: Main indicators of the Spanish banking system

Table A1.1. **A SUMMARIZED BALANCE SHEET OF THE BANKING SYSTEM**
(EUR BILLIONS AND PERCENTAGE OF VARIATION)

| Assets | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Date | Growth rate 00-'08 | Growth rate 08 - latest | Growth rate y-on-y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total lending | 1,716 | 1,651 | 1,603 | 1,556 | 1,532 | 1,514 | 1,542 | Sep-19 | 217% | -29.2% | 1.7% |
| *Public corporations* | *87* | *101* | *90* | *88* | *78* | *69* | *70* | *Sep-19* | *69%* | *33.1%* | *-5.7%* |
| *Domestic resident sector* | *1,448* | *1,380* | *1,327* | *1,276* | *1,254* | *1,208* | *1,196* | *Sep-19* | *234%* | *-36.1%* | *-1.5%* |
| *Non residents* | *180* | *169* | *186* | *191* | *200* | *237* | *276* | *Sep-19* | *164%* | *8.8%* | *20.6%* |
| Fixed income securities and equity stakes | 773 | 754 | 662 | 610 | 589 | 562 | 570 | Sep-19 | 132% | 14.6% | 0.1% |
| *Fixed income securities* | *493* | *492* | *415* | *366* | *330* | *326* | *324* | *Sep-19* | *135%* | *-0.4%* | *-2.4%* |
| *Of which: sovereign debt* | *264* | *288* | *251* | *225* | *206* | *200* | *193* | *Sep-19* | *6%* | *93%* | *-5.9%* |
| *Equity* | *280* | *262* | *246* | *244* | *259* | *236* | *246* | *Sep-19* | *128%* | *42.9%* | *3.6%* |
| Interbank lending | 211 | 155 | 164 | 163 | 235 | 212 | 181 | Sep-19 | 81% | -31.2% | -10.9% |
| Other assets (net of interbank lending/deposits) | 326 | 354 | 331 | 319 | 297 | 287 | 340 | Sep-19 | 230% | 18.4% | 16.6% |
| **Total assets** | **3,026** | **2,913** | **2,760** | **2,647** | **2,652** | **2,576** | **2,633** | **Sep-19** | **184%** | **-18.3%** | **2.0%** |
| **Liabilities and Shareholders' Equity** | | | | | | | | | | | |
| Customer deposits | 1,684 | 1,686 | 1,637 | 1,578 | 1,539 | 1,549 | 1,578 | Sep-19 | 169% | -21.6% | 2.1% |
| *Public corporations* | *63* | *76* | *77* | *54* | *62* | *72* | *74* | *Sep-19* | *263%* | *-2.5%* | *4.4%* |
| *Domestic resident sector* | *1,314* | *1,289* | *1,261* | *1,243* | *1,203* | *1,213* | *1,246* | *Sep-19* | *192%* | *-13.1%* | *3.2%* |
| *Non residents* | *306* | *320* | *299* | *281* | *275* | *264* | *258* | *Sep-19* | *113%* | *-48.8%* | *-3.4%* |
| Interbank deposits | 381 | 312 | 303 | 288 | 327 | 288 | 260 | Sep-19 | 95% | -17.4% | -10.6% |
| *Pro memoria: net interbank position* | *171* | *157* | *139* | *125* | *93* | *76* | *79* | *Sep-19* | *215%* | *52.6%* | *-9.9%* |
| Debt issued | 297 | 249 | 225 | 201 | 222 | 225 | 235 | Sep-19 | 625% | -40.7% | 6.2% |
| Other liabilities | 430 | 436 | 368 | 352 | 330 | 291 | 333 | Sep-19 | 253% | 4.1% | 10.9% |
| Shareholders' equity | 233 | 230 | 227 | 227 | 232 | 223 | 227 | Sep-19 | 134% | 25.9% | 1.7% |
| *Pro memoria: ECB funding* | *207* | *142* | *133* | *140* | *135* | *168* | *135* | *Oct-19* | *566%* | *45.0%* | *-19.8%* |
| **Total Liabilities and Shareholders' Equity** | **3,026** | **2,913** | **2,760** | **2,647** | **2,652** | **2,576** | **2,633** | **Sep-19** | **184%** | **-18.3%** | **2.0%** |

Source: Bank of Spain Statistical Bulletin

Table A1.2. **A SUMMARIZED INCOME STATEMENT OF THE BANKING SYSTEM**
(ANNUAL ACCUMULATED RESULTS IN EUR MILLIONS AND PERCENTAGE OF VARIATION)

| | | | | | | | | | Growth rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **Date** | 00-'08 | 08-latest | y-on-y |
| Net interest revenue | 26,816 | 27,118 | 26,410 | 24,297 | 23,178 | 23,277 | 11,542 | Jun-19 | 92% | -34.3% | 0.3% |
| Net fees and commissions | 10,931 | 11,257 | 11,237 | 11,062 | 11,710 | 12,169 | 6,038 | Jun-19 | 79% | -7.3% | -1.4% |
| Trading gains and other revenue | 17,797 | 17,043 | 13,885 | 13,070 | 11,758 | 12,331 | 5,757 | Jun-19 | 276% | -36.7% | -10.6% |
| **Total revenue** | **55,544** | **55,418** | **51,532** | **48,429** | **46,646** | **47,777** | **23,337** | **Jun-19** | **118%** | **-29.7%** | **-3.1%** |
| Operating expenses | -26,798 | -26,116 | -26,261 | -26,388 | -26,625 | -25,990 | -13,089 | Jun-19 | 54% | -11.3% | 1.0% |
| Personnel expenses | -15,108 | -14,329 | -14,182 | -13,943 | -13,931 | -13,648 | -6,967 | Jun-19 | 54% | -22.2% | 2.0% |
| Other operating expenses | -11,690 | -11,787 | -12,079 | -12,445 | -12,693 | -12,342 | -6,122 | Jun-19 | 54% | 5.5% | -0.2% |
| **Pre-provision profit** | **28,746** | **29,302** | **25,271** | **22,041** | **20,021** | **21,787** | **10,248** | **Jun-19** | **226%** | **-44.4%** | **-7.9%** |
| Loan-loss provisions | -21,800 | -14,500 | -10,699 | -8,344 | -9,105 | -3,140 | -1,635 | Jun-19 | 620% | -78.5% | 4.6% |
| Other income, net | -2,789 | -1,739 | -3,819 | -7,006 | -11,590 | -4,239 | -2,869 | Jun-19 | -299% | 362.6% | 52.7% |
| Profit before taxes | 4,156 | 13,063 | 10,753 | 6,691 | -674 | 14,408 | 5,744 | Jun-19 | 108% | -43.7% | -25.2% |
| **Net attributable income** | **8,790** | **11,343** | **9,312** | **6,003** | **-3,957** | **12,356** | **5,326** | **Jun-19** | **122%** | **-42.2%** | **-20.0%** |

Source: Bank of Spain Statistical Bulletin

Table A1.3. **RELATIVE SIZE AND RESOURCES OF SYSTEM**
(PERCENTAGE OF GDP, NUMBER AND PERCENTAGE OF VARIATION)

| | | | | | | | | | Growth rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **Date** | 00-'08 | 08-latest | y-on-y |
| Lending to the private sector / GDP | 139% | 133% | 123% | 114% | 108% | 100% | 98% | Sep-19 | 94% | -41.8% | -10.1% |
| Private sector deposits / GDP | 113% | 111% | 107% | 103% | 98% | 96% | 98% | Sep-19 | 69% | -7.3% | -5.0% |
| Number of employees | 217,878 | 208,291 | 202,961 | 194,283 | 192,626 | 187,182 | n.a. | Dec-18 | 14% | -32.7% | -3.7% |
| Number of branches | 33,786 | 32,073 | 31,155 | 28,959 | 27,623 | 26,319 | 26,049 | Jun-19 | 17% | -43.6% | -3.5% |

Source: Bank of Spain Statistical Bulletin

Table A1.4. **BREAKDOWN OF ORS LENDING, NPLs AND NPL RATIOS BY PORTFOLIO (EUR BILLIONS AND PERCENTAGE OF VARIATION)**

| | | | | | | | | | Growth rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lending volume** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **Date** | 00-'08 | 08 - latest | y-on-y |
| **Loans to households** | **756** | **715** | **690** | **663** | **652** | **647** | **655** | **Jun-19** | **236%** | **-20.0%** | **0.0%** |
| Of which: | | | | | | | | | | | |
| Housing loans | 605 | 581 | 558 | 531 | 517 | 503 | 495 | Jun-19 | 270% | -21.1% | -1.3% |
| Other loans to households | 151 | 134 | 132 | 132 | 136 | 144 | 161 | Jun-19 | 159% | -16.6% | 4.2% |
| **Lending to corporates and SMEs** | **830** | **719** | **674** | **644** | **605** | **592** | **548** | **Jun-19** | **237%** | **-46.1%** | **-1.8%** |
| Of which: | | | | | | | | | | | |
| Lending to real estate | 300 | 237 | 200 | 179 | 161 | 145 | 114 | Jun-19 | 517% | -75.7% | -12.2% |
| Other lending to corporates and SMEs | 530 | 482 | 474 | 465 | 444 | 447 | 434 | Jun-19 | 142% | -20.7% | 1.4% |
| **Total lending to domestic private sector *** | **1,605** | **1,448** | **1,380** | **1,327** | **1,276** | **1,254** | **1,196** | **Sep-19** | **234%** | **-36.1%** | **-1.5%** |
| **Non-performing loans** | | | | | | | | | | | |
| **Loans to households** | **37.0** | **49.4** | **46.8** | **37.0** | **35.7** | **35.0** | **30.8** | **Jun-19** | **1062%** | **26.7%** | **-8.9%** |
| Of which: | | | | | | | | | | | |
| Housing loans | 24.0 | 34.6 | 32.6 | 25.5 | 24.1 | 23.6 | 18.9 | Jun-19 | 1878% | 27.1% | -14.0% |
| Other loans to households | 13.0 | 14.8 | 14.1 | 11.4 | 11.6 | 11.4 | 12.0 | Jun-19 | 607% | 25.9% | 0.5% |
| **Lending to corporates and SMEs** | **128.4** | **146.1** | **124.6** | **94.2** | **79.2** | **60.7** | **33.4** | **Jun-19** | **818%** | **-10.3%** | **-23.2%** |
| Of which: | | | | | | | | | | | |
| Lending to real estate | 84.8 | 87.8 | 70.7 | 50.4 | 42.4 | 28.2 | 10.2 | Jun-19 | 2790% | -62.1% | -38.3% |
| Other lending to corporates and SMEs | 43.6 | 58.2 | 53.9 | 43.7 | 36.8 | 32.4 | 23.3 | Jun-19 | 232% | 123.2% | -13.9% |
| **Total lending to domestic private sector *** | **167.5** | **197.2** | **172.6** | **134.3** | **116.3** | **97.7** | **61.5** | **Sep-19** | **808%** | **-2.5%** | **-17.9%** |
| **NPL ratio** | | | | | | | | | | | |
| **Loans to households** | **4.9%** | **6.9%** | **6.8%** | **5.6%** | **5.5%** | **5.4%** | **4.7%** | **Jun-19** | **246%** | **58.4%** | **-8.9%** |
| Of which: | | | | | | | | | | | |
| Housing loans | 4.0% | 6.0% | 5.9% | 4.8% | 4.7% | 4.7% | 3.8% | Jun-19 | 434% | 61.1% | -12.9% |
| Other loans to households | 8.6% | 11.1% | 10.7% | 8.7% | 8.5% | 7.9% | 7.4% | Jun-19 | 173% | 50.9% | -3.5% |
| **Lending to corporates and SMEs** | **15.5%** | **20.3%** | **18.5%** | **14.6%** | **13.1%** | **10.3%** | **6.1%** | **Jun-19** | **173%** | **66.4%** | **-21.8%** |
| Of which: | | | | | | | | | | | |
| Lending to real estate | 28.2% | 37.1% | 35.3% | 28.2% | 26.4% | 19.5% | 8.9% | Jun-19 | 369% | 55.9% | -29.7% |
| Other lending to corporates and SMEs | 8.2% | 12.1% | 11.4% | 9.4% | 8.3% | 7.3% | 5.4% | Jun-19 | 37% | 181.6% | -15.1% |
| **Total lending to domestic private sector *** | **10.4%** | **13.6%** | **12.5%** | **10.1%** | **9.1%** | **7.8%** | **5.1%** | **Sep-19** | **172%** | **52.5%** | **-16.7%** |

(*) Total ORS lending includes total lending to households, total lending for productive activities, non-profit institutions serving households (NPISHs) and unclassified lending. Since January 2014, it has included lending to financial credit institutions.
Source: Bank of Spain Statistical Bulletin

Table A1.5. **NEW LENDING OPERATIONS. ANNUAL ACCUMULATED VOLUME**
(EUR BILLIONS AND PERCENTAGE OF VARIATION)

| | | | | | | | | | Growth rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lending volume** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **Date** | 03-'08 | 08-'17 | y-on-y |
| **Loans to households** | **51.2** | **60.5** | **75.7** | **80.6** | **87.6** | **96.2** | **79.2** | **Oct-19** | **0.7%** | **-48.3%** | **-0.3%** |
| Of which: | | | | | | | | | | | |
| Housing loans | 21.9 | 26.8 | 35.7 | 37.5 | 38.9 | 43.1 | 35.2 | Oct-19 | -15.6% | -50.6% | -0.9% |
| Other loans to households | 29.4 | 33.7 | 40.0 | 43.1 | 48.8 | 53.1 | 44.1 | Oct-19 | 21.3% | -46.2% | 0.2% |
| **Lending to corporates and SMEs** | **392.6** | **357.2** | **392.6** | **323.6** | **339.0** | **347.2** | **279.3** | **Oct-19** | **29.2%** | **-62.6%** | **-2.5%** |
| Of which: | | | | | | | | | | | |
| Less than €250,000 | 106.1 | 112.3 | 128.7 | 133.6 | 143.4 | 137.0 | 111.3 | Oct-19 | n.d. | -16.6% | -2.5% |
| Between €250,000 and €1million) | 28.3 | 34.0 | 36.8 | 36.3 | 40.6 | 38.2 | 32.1 | Oct-19 | n.d. | -16.9% | 2.3% |
| Corporates (loans > €1mill.) | 258.2 | 210.3 | 227.2 | 152.6 | 155.1 | 171.9 | 136.0 | Oct-19 | 43.5% | -70.0% | -3.4% |
| **Total new lending flows** | **444** | **418** | **468** | **404** | **427** | **443** | **359** | **Oct-19** | **23%** | **-60.2%** | **-2.0%** |

Source: Bank of Spain

Table A1.6. **BREAKDOWN OF RESIDENT DEPOSITS**
(EUR BILLIONS AND PERCENTAGE OF VARIATION)

| | | | | | | | | | Growth rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **Date** | 00-'08 | 08 - latest | y-on-y |
| Sight deposits | 500 | 563 | 650 | 754 | 857 | 931 | 994 | Sep-19 | 90% | 125.5% | 8.7% |
| Term deposits | 677 | 597 | 509 | 404 | 286 | 231 | 211 | Sep-19 | 272% | -71.6% | -13.2% |
| **Total retail deposits** | **1,177** | **1,160** | **1,159** | **1,157** | **1,143** | **1,163** | **1,205** | **Sep-19** | **163%** | **1.8%** | **4.1%** |
| Other deposits | | | | | | | | | | | |
| Repurchase agreements | 64 | 60 | 42 | 32 | 28 | 23 | 17 | Sep-19 | -23% | -80.2% | -20.5% |
| Funds from financial asset transfers | 37 | 32 | 25 | 23 | 21 | 20 | 17 | Sep-19 | 14% | -81.1% | -17.7% |
| Hybrid financial liabilities | 16 | 22 | 17 | 14 | 10 | 7 | 6 | Sep-19 | 33% | -77.0% | -17.8% |
| Subordinated deposits | 20 | 16 | 18 | 16 | 1 | 0 | 0 | Sep-19 | n.m. | -99.1% | 4.0% |
| *Pro-memoria: Deposits in foreign currency* | *30* | *27* | *29* | *28* | *17* | *15* | *16* | *Sep-19* | *739%* | *-55.2%* | *-7.2%* |
| **Total deposits of domestic resident sector** | **1,314** | **1,289** | **1,261** | **1,243** | **1,203** | **1,213** | **1,246** | **Sep-19** | **159%** | **-13.1%** | **3.2%** |

Source: Bank of Spain Statistical Bulletin

Table A1.7. **INTEREST RATES FOR LENDING OPERATIONS (PERCENTAGES AND VARIATION IN PERCENTAGE POINTS)**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Date | Growth rate (bps) 03-'08 | 08 - latest | y-on-y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loans. Stock (NDER)** | | | | | | | | | | | |
| Loans to households | | | | | | | | | | | |
| Housing loans | 2.11 | 1.89 | 1.53 | 1.30 | 1.21 | 1.22 | 1.22 | Oct-19 | 178 | -443 | 2 |
| Other loans to households | 5.80 | 6.10 | 5.98 | 6.17 | 6.24 | 6.26 | 6.38 | Oct-19 | 113 | -69 | 9 |
| Loans to corporates and SMEs | 3.44 | 2.84 | 2.38 | 2.04 | 1.89 | 1.86 | 1.82 | Oct-19 | 204 | -374 | -4 |
| **Loans. New lending transactions (APRC)** | | | | | | | | | | | |
| Loans to households | | | | | | | | | | | |
| Housing loans | 3.16 | 2.64 | 2.31 | 2.19 | 2.05 | 2.24 | 2.02 | Oct-19 | 238 | -381 | -23 |
| Consumer loans | 9.52 | 9.10 | 8.45 | 8.06 | 8.27 | 8.32 | 8.34 | Oct-19 | 237 | -265 | -48 |
| Other | 5.92 | 4.93 | 4.19 | 4.27 | 4.01 | 3.72 | 4.66 | Oct-19 | 224 | -238 | 5 |
| Loans to corporates and SMEs (synthetic average) | 3.57 | 2.73 | 2.58 | 2.29 | 2.12 | 1.97 | 2.34 | Oct-19 | 112 | -253 | 12 |
| Less than €250,000 | 5.54 | 4.53 | 3.59 | 3.28 | 2.93 | 2.67 | 3.36 | Oct-19 | n.a. | -119 | 13 |
| Between €250,000 and €1million) | 4.03 | 2.91 | 2.20 | 1.91 | 1.80 | 1.70 | 1.69 | Oct-19 | n.a. | -220 | -4 |
| Corporates (loans > €1mill.) | 2.83 | 2.10 | 2.07 | 1.63 | 1.56 | 1.59 | 1.42 | Oct-19 | n.a. | -129 | 10 |

NDER: Narrowly defined effective rate (APR without bank charges).
APR: Annual percentage rate.
Source: Bank of Spain Statistical Bulletin

Table A1.8. **INTEREST RATE ON DEPOSITS (RATE IN PERCENTAGE AND VARIATION IN BASIS POINTS)**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Date | Growth rate (bps) 03-'08 | 08 - latest | y-on-y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Deposits. Stock (NDER)** | | | | | | | | | | | |
| Households deposits | | | | | | | | | | | |
| Sight deposits | 0.22 | 0.17 | 0.12 | 0.06 | 0.04 | 0.04 | 0.03 | Oct-19 | 6.5 | -66 | 0 |
| Term deposits | 2.08 | 1.39 | 0.75 | 0.30 | 0.16 | 0.12 | 0.11 | Oct-19 | 232 | -430 | -2 |
| Corporates and SMEs deposits | | | | | | | | | | | |
| Sight deposits | 0.35 | 0.31 | 0.24 | 0.15 | 0.10 | 0.08 | 0.08 | Oct-19 | 111 | -170 | -1 |
| Term deposits | 1.93 | 1.40 | 0.91 | 0.65 | 0.77 | 0.63 | 0.80 | Oct-19 | 223 | -358 | 2 |
| **Deposits. New transactions (NDER)** | | | | | | | | | | | |
| Households deposits | | | | | | | | | | | |
| Sight deposits | 0.22 | 0.17 | 0.12 | 0.06 | 0.04 | 0.04 | 0.03 | Oct-19 | 30 | -66 | 0 |
| Term deposits | 1.50 | 0.66 | 0.39 | 0.11 | 0.08 | 0.06 | 0.04 | Oct-19 | 225 | -415 | -2 |
| Corporates and SMEs deposits | | | | | | | | | | | |
| Sight deposits | 0.35 | 0.31 | 0.24 | 0.15 | 0.10 | 0.08 | 0.08 | Oct-19 | 111 | -170 | -1 |
| Term deposits | 1.31 | 0.51 | 0.31 | 0.13 | 0.16 | 0.37 | -0.15 | Oct-19 | 146 | -362 | -39 |

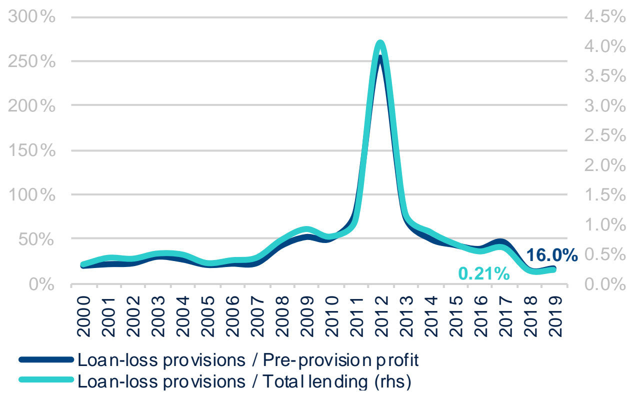
NDER: Narrowly defined effective rate (APR without bank charges).
APR: Annual percentage rate.
Source: Bank of Spain Statistical Bulletin

Table A1.9. **MAIN RATIOS**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Date | Growth rate 00-'08 | Growth rate 08-latest | Growth rate y-on-y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Productivity** | | | | | | | | | | | |
| Business volume* per branch (€'000) | 81,761 | 83,229 | 83,085 | 86,975 | 88,942 | 91,993 | 93,718 | Sep-19 | 168.2% | 31.0% | 4.6% |
| Profit before tax per branch (€'000) | 123 | 407.3 | 345.2 | 231.1 | -24 | 547.4 | 441.0 | Jun-19 | 77.5% | -0.1% | -22.5% |
| **Efficiency** | | | | | | | | | | | |
| Cost-to-Income ratio (Oper. expenses / Total revenue) | 48.2% | 47.1% | 51.0% | 54.5% | 57.1% | 54.4% | 56.1% | Jun-19 | -29.3% | 26.2% | 4.2% |
| Operating expenses / ATA | 0.83% | 0.88% | 0.93% | 0.98% | 1.00% | 0.99% | 1.01% | Jun-19 | -43.4% | 5.1% | 1.1% |
| **Profitability** | | | | | | | | | | | |
| RoE | 4.1% | 4.9% | 4.1% | 2.6% | -1.7% | 5.4% | 4.7% | Jun-19 | -3.4% | -54.4% | -19.1% |
| RoA | 0.13% | 0.44% | 0.38% | 0.25% | -0.03% | 0.55% | 0.44% | Jun-19 | -23.6% | -33.2% | -22.7% |
| NIM (Net interest rev. / ATA) | 0.83% | 0.91% | 0.93% | 0.90% | 0.87% | 0.89% | 0.89% | Jun-19 | -29.6% | -22.2% | 3.7% |
| **Liquidity** | | | | | | | | | | | |
| Loans-to-Deposits (resident sector) | 123% | 119% | 115% | 110% | 110% | 104% | 99% | Sep-19 | 14.8% | -37.2% | -5.4% |
| Funding gap (Loans - Deposits, EUR bn) | 270.9 | 220.1 | 168.3 | 118.9 | 110.4 | 45.6 | -9.0 | Sep-19 | 349% | -101.3% | -116.1% |
| Funding gap / Total assets | 9.0% | 7.6% | 6.1% | 4.5% | 4.2% | 1.8% | -0.3% | Sep-19 | 57.7% | -101.6% | -115.7% |
| **Solvency and Asset Quality** | | | | | | | | | | | |
| Leverage (Shareholders' equity / Total assets) | 7.7% | 7.9% | 8.2% | 8.6% | 8.8% | 8.7% | 8.6% | Sep-19 | -17.8% | 54.2% | -0.3% |
| Shareholders' equity / NPLs | 118% | 133% | 169% | 196% | 238% | 317% | 370% | Sep-19 | -74.3% | 29.1% | 23.9% |
| Provisioning effort (Loan-loss prov. / Pre-provision profit) | 75.8% | 49.5% | 42.3% | 37.9% | 45.5% | 14.4% | 16.0% | Jun-19 | 121% | -65.1% | 13.5% |
| Cost of Risk (Loan-loss provisions / total lending) | 1.19% | 0.86% | 0.66% | 0.53% | 0.59% | 0.21% | 0.21% | Jun-19 | 134% | -70.3% | 7.2% |
| NPL ratio (resident sector) | 13.6% | 12.5% | 10.1% | 9.1% | 7.8% | 5.8% | 5.1% | Sep-19 | 172% | 53% | -16.7% |
| NPL coverage ratio (total) | 58.0% | 58.1% | 58.9% | 58.9% | 60.0% | 61.0% | 61.4% | Sep-19 | -58.2% | -13.3% | -1.8% |
| NPL coverage ratio (specific provisions) | 46.9% | 46.7% | 47.0% | 46.2% | 42.1% | 41.5% | 43.8% | Jun-19 | -39.0% | 46.6% | 51.5% |

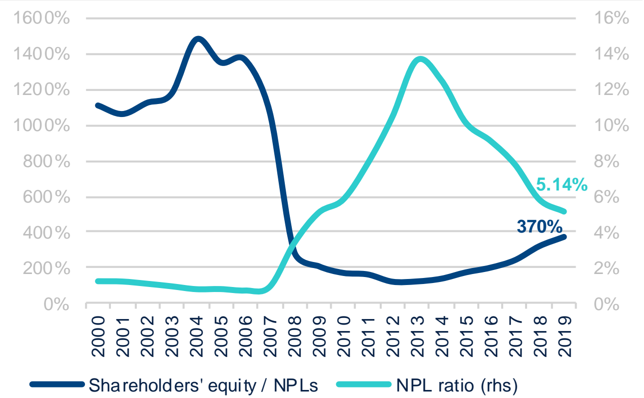
(*) ORS lending plus ORS deposits.
Source: Bank of Spain Statistical Bulletin

Figure A1.1. **PROVISIONING EFFORT**



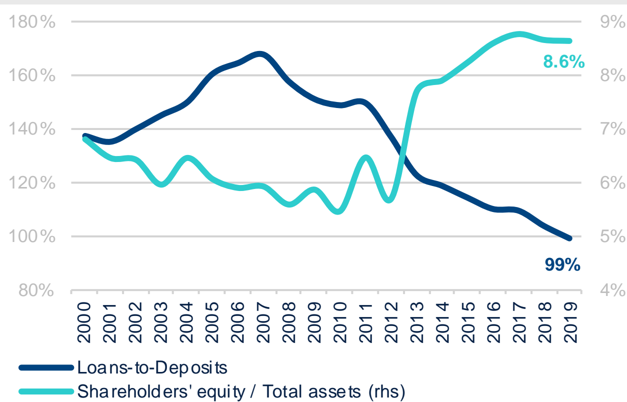

Source: BBVA Research

Figure A1.2. **NPL RATIO AND CAPITAL AS A PERCENTAGE OF BAD LOANS**



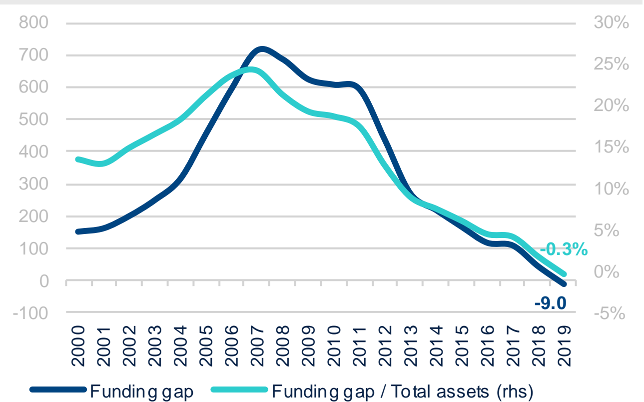

Source: BBVA Research

Figure A1.3. **LIQUIDITY AND LEVERAGE**



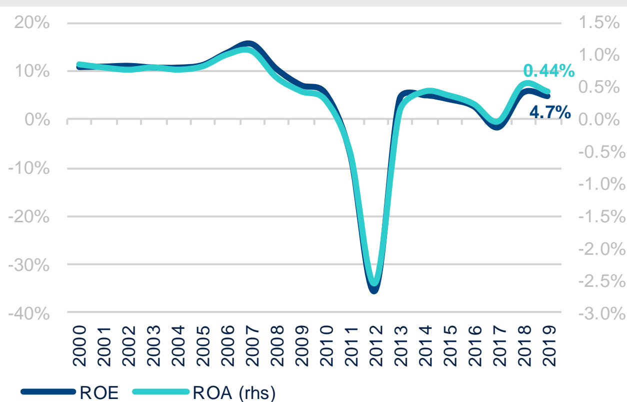

Source: BBVA Research

Figure A1.4. **FUNDING GAP** (LOANS MINUS DEPOSITS)



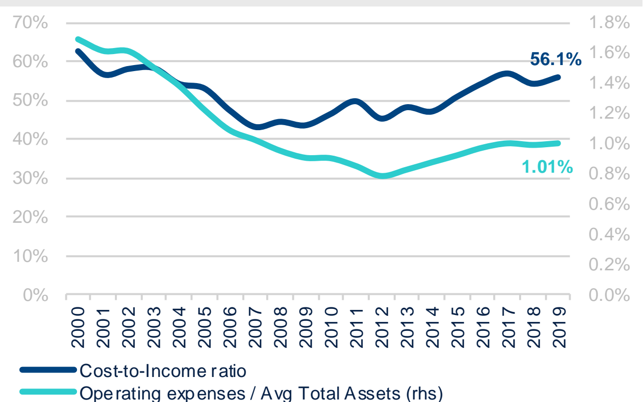

Source: BBVA Research

Figure A1.5. **PROFITABILITY**




Source: BBVA Research

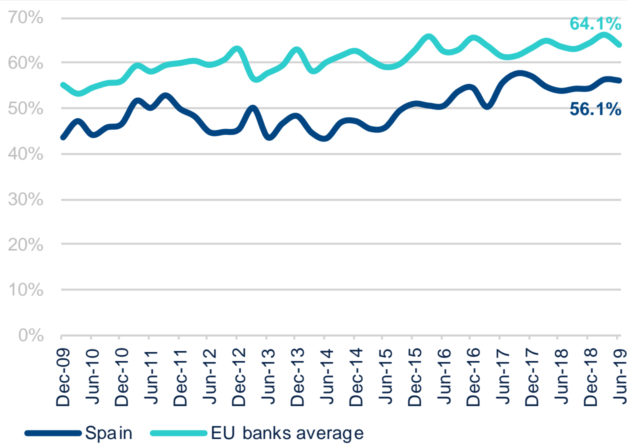
Figure A1.6. **COST EFFICIENCY**




Source: BBVA Research

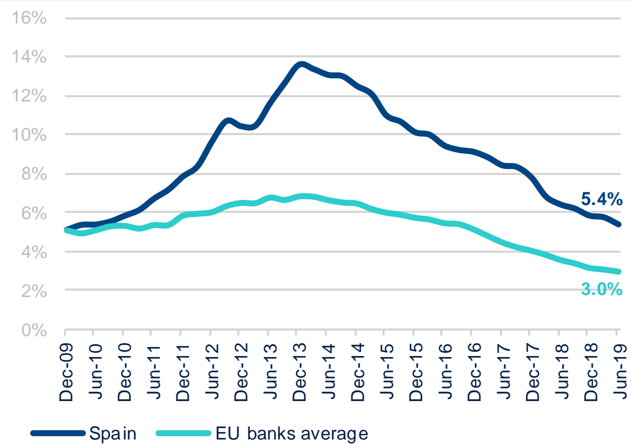
# Appendix 2: Comparison with the EU

Figure A2.1 **COST/INCOME RATIO**



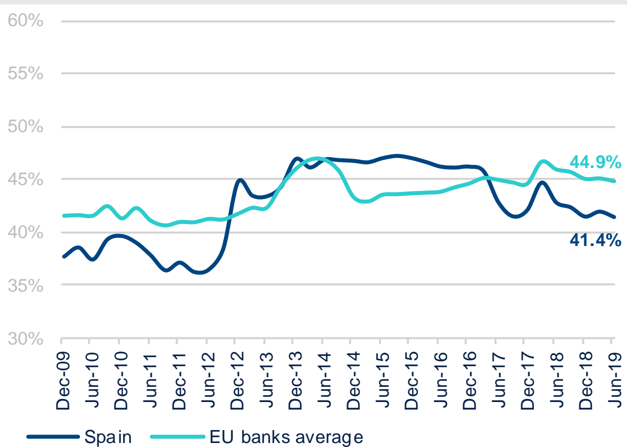

Source: EBA, Bank of Spain, BBVA Research

Figure A2.2. **NPL RATIO**



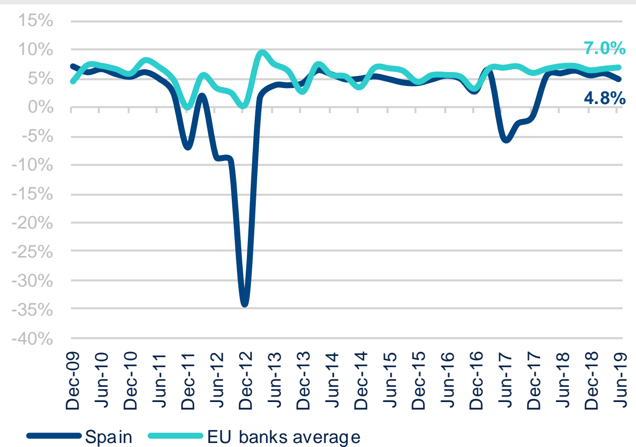

Source: EBA, Bank of Spain, BBVA Research

Figure A2.3. **COVERAGE RATIO**
(ONLY SPECIFIC PROVISIONS)




Source: EBA, Bank of Spain, BBVA Research

Figure A2.4. **ROE**




Source: EBA, Bank of Spain, BBVA Research

Note: the data for European banks on average comes from the EBA Risk Dashboard, which comprises a panel of 150 major EU banks covering 80% of the EU banking system by total assets.

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BBVA Research

Creating Opportunities

## This report has been produced by:

Chief Economist
Olga Cerqueira
olga.gouveia@bbva.com

Javier Alonso
javier.alonso.meseguer@bbva.com

José Félix Izquierdo
jfelix.izquierd@bbva.com

Jaime Zurita
jaime.zurita@bbva.com

María Rocamora
maria.rocamora@bbva.com

José María Castresana
Josemaria.castresana@bbva.com

Virginia Marcos
virginia.marcos@bbva.com

Agustín González
Agustin.gonzalez.agote.becas@bbva.com

## With the collaboration of:

Regulation and internal control

Salvador Portillo
salvador.portillo@bbva.com

ENQUIRIES TO:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com