Spanish Banking Outlook 2025

Another Solid Year In Prospect

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S&P Global Ratings

This report does not constitute a rating action

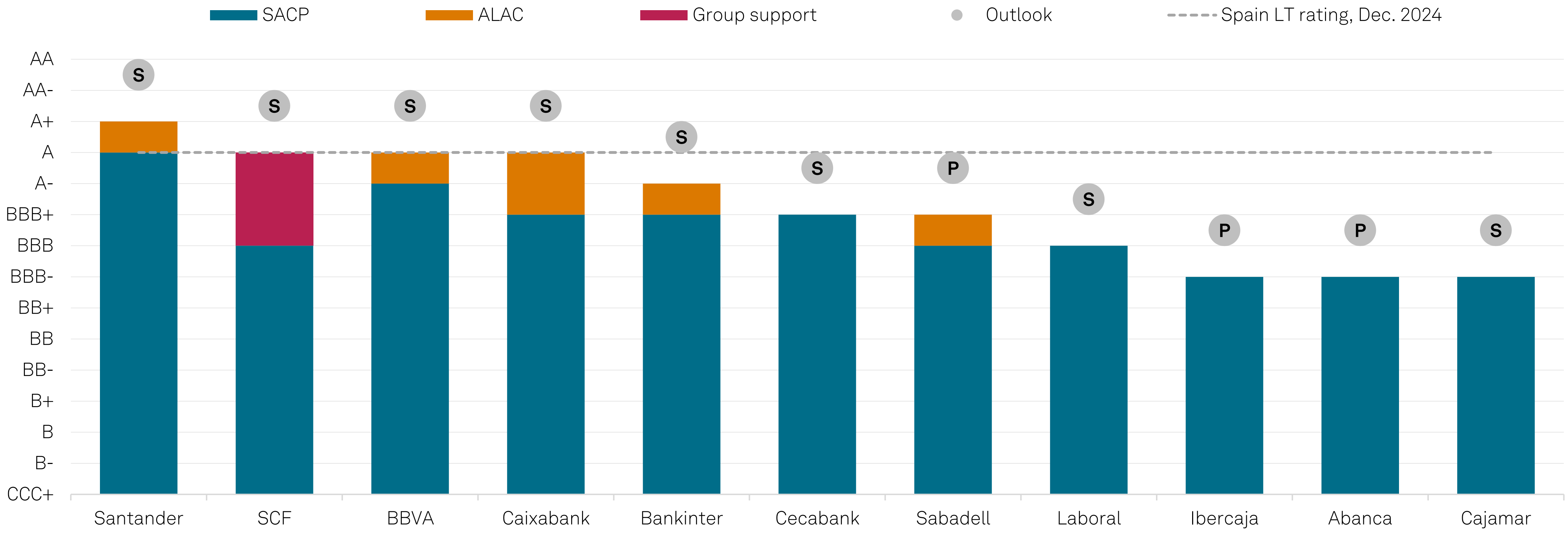
Key Takeaways

- The **macroeconomic environment will be supportive**, with Spain's GDP growing at almost twice the eurozone average, unemployment continuing to decrease slightly, and financing cost pressure on borrowers easing.
- The **political landscape** will remain quite **fragmented**, limiting the government's policy action, while the country's high **public debt will remain a burden**.
- Banks' **profitability will remain robust in 2025**, albeit below the 2024 peak. Active hedging and the return of volume growth will limit the negative impact on revenue from the gradual decline in interest rates.
- Banks will **maintain the efficiency advantage** they achieved after substantial cost adjustments over the past decade.
- The impact of **the new banking tax**, in place for the next three years, could be **somewhat more punitive for large banks**, but will be manageable overall.
- In 2025, **we will see whether a larger player emerges** from the combination of BBVA and Sabadell, and whether others have consolidation ambitions.
- While we cannot rule out some problem loans emerging, they will likely be minor, with **credit costs remaining fairly stable** at about 50 basis points (bps) of average loans.
- Banks will **maintain payouts to shareholders** and still have room to moderately strengthen their capitalization while complying with the **new countercyclical capital buffer**.
- **Customer deposits will continue exceeding banks' lending**, and banks will tap the market largely to refinance maturing debts.

Our Ratings On Spanish Banks Are Now All Investment Grade

A few positive outlooks remain in the lower part of the scale

Distribution and components of Spanish bank ratings



SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. LT--Long-term. Source: S&P Global Ratings. Information as of Jan 1, 2025.

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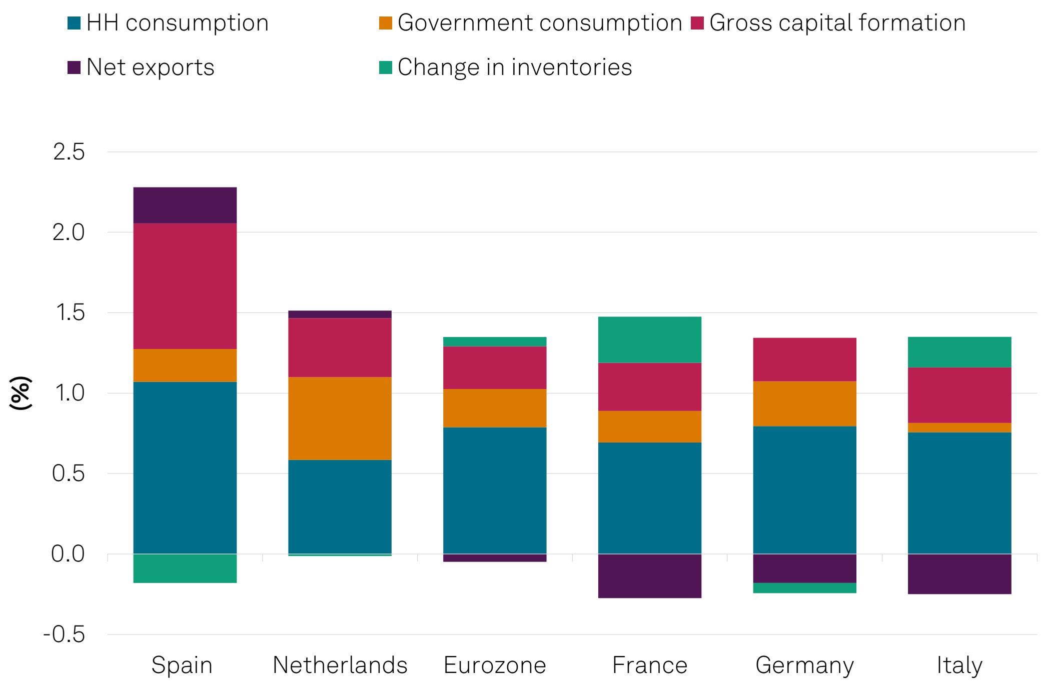
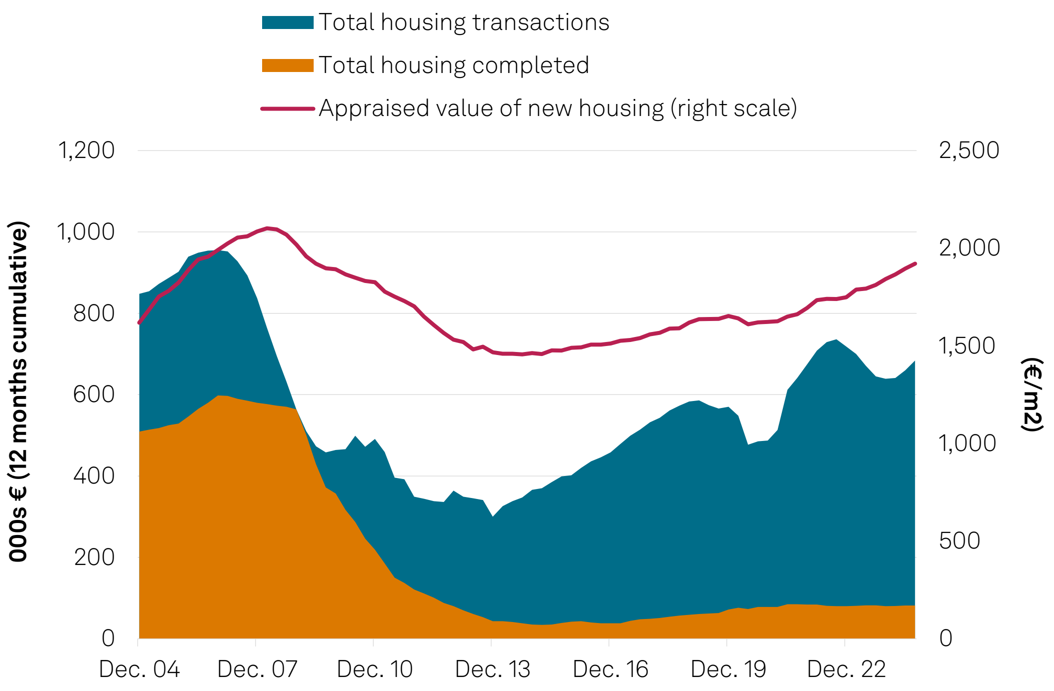
Economic Dynamism And Lower Financing Costs Will Support Banks In 2025

Spain's 2025 GDP growth will be almost double the eurozone average, fueled by consumer spending and investment



Source: S&P Global Ratings.

Tight housing supply will continue pushing property prices up, but there are no signs of imbalances in banks' balance sheets



Sources: Ministry of Transport, Mobility, and Urban Agenda, S&P Global Ratings.

2025 Forecast

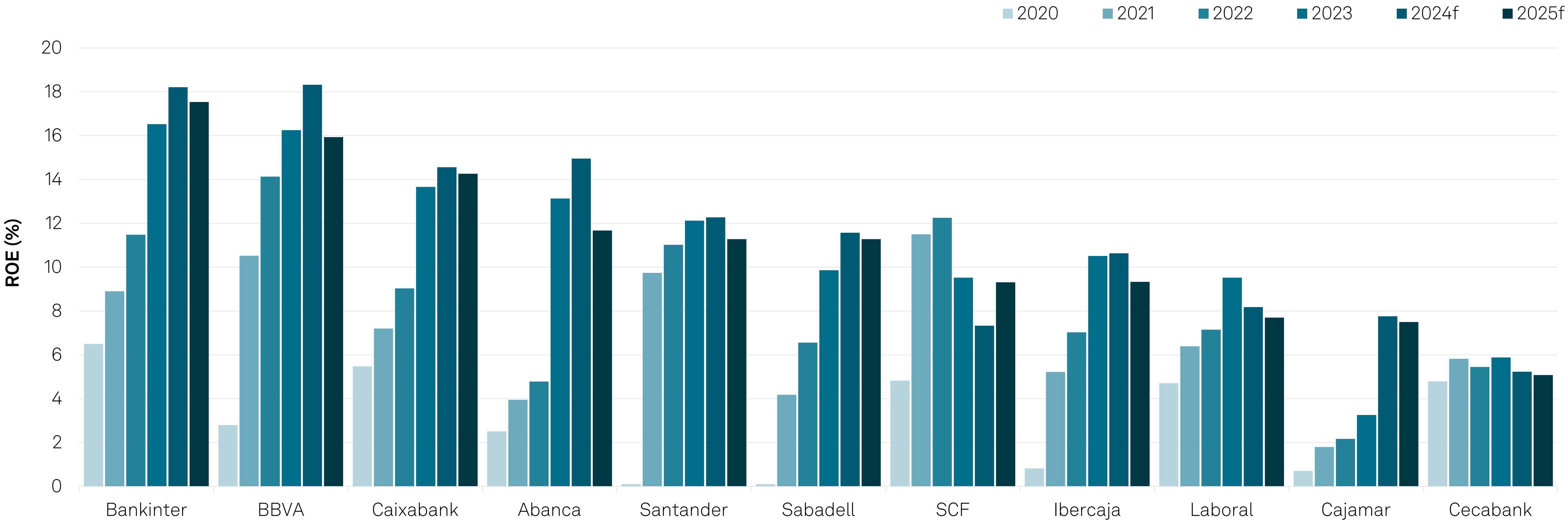
Worsening		Neutral		Improving

Revenue	Revenue should fall modestly in 2025, driven by net interest income declines that fee income growth will be unable to fully offset. Active hedging and the resumption of lending growth will help limit the drop in net interest income due to lower reference interest rates.
Expenses	With inflation now under control, we expect cost increases to be manageable and banks to continue reporting solid efficiency.
Profitability	We forecast a return on equity (ROE) for banks' domestic activity of 11.4%, moderately down from the record 12.6% that we expect for 2024 and back at the level seen in 2023.
Credit quality	While we cannot rule out some new problem loans emerging, they should be minor thanks to a solid macroeconomic outlook and adequate private sector leverage. We therefore see stable credit impairments at about 50 bps of average loans.
Capital	Capitalization could improve slightly. Solid profitability will allow banks to maintain their dividend payments, finance the increase in lending, and still build up some capital. We expect banks will hold some extra capital to cover the new countercyclical buffer requirement, effective from October 2025, rather than running down the requirement buffers they currently hold.
Funding and liquidity	Banks will continue enjoying sound liquidity, although cash positions could be reduced in favor of securities. Banks will essentially remain deposit funded, tapping the market just to refinance maturing debts.

Note: Forecast for next 12 months. Source: S&P Global Ratings.

Despite Declining, Profitability Will Remain Sound

We forecast domestic ROE of 11.4% for the Spanish banking system in 2025



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

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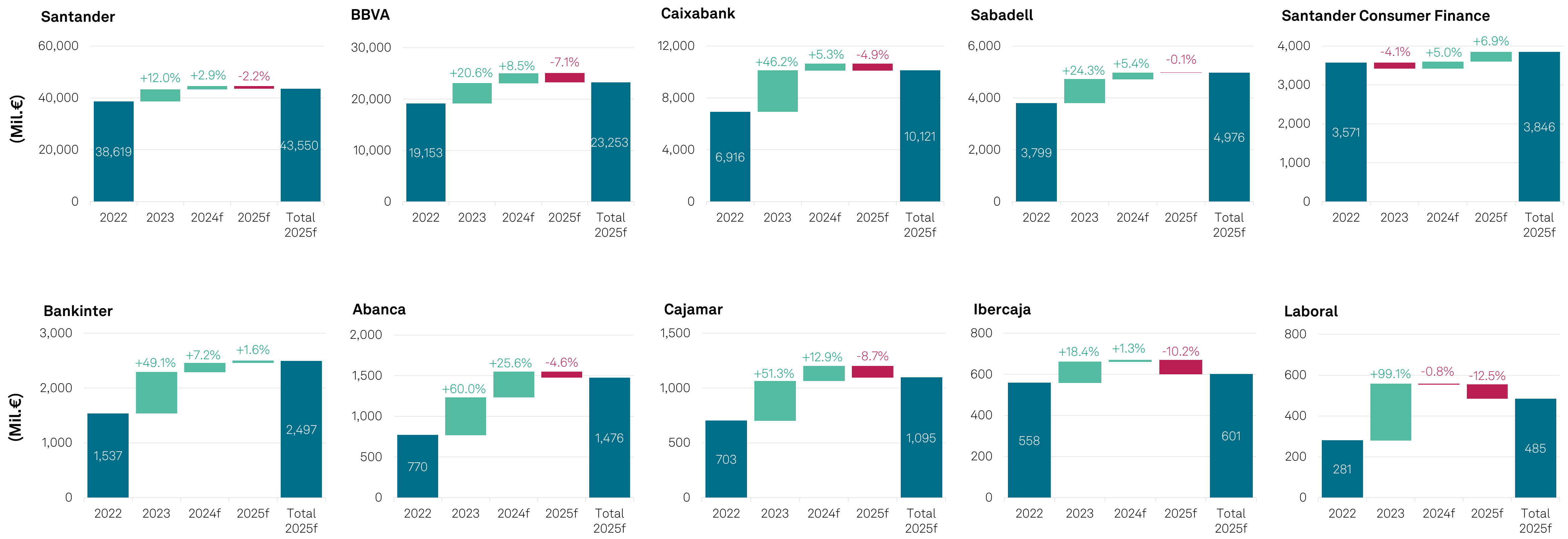
Net Interest Margins To Narrow Modestly Following Significant Widening

Change in banks' net interest income over 2022-2025f



Sources: Banks' financial reports, S&P Global Ratings.

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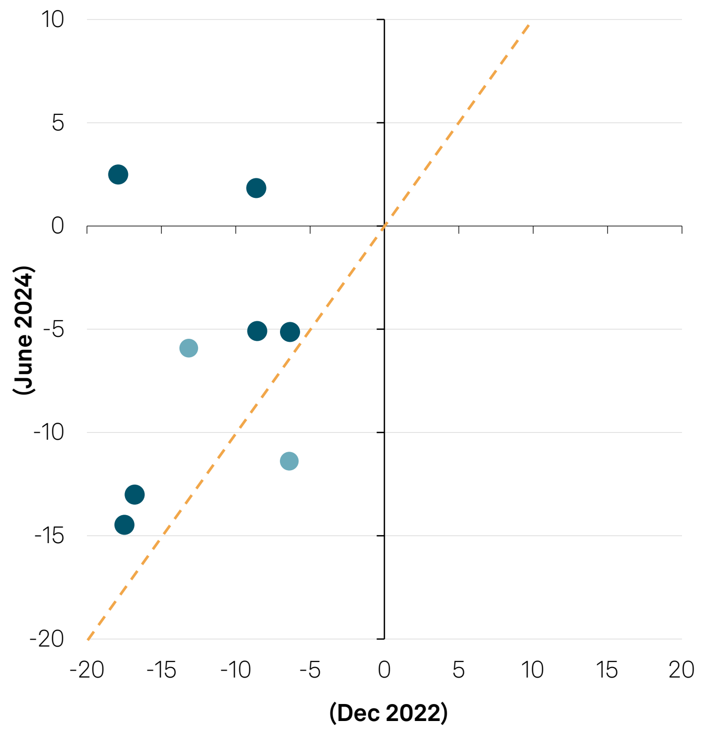
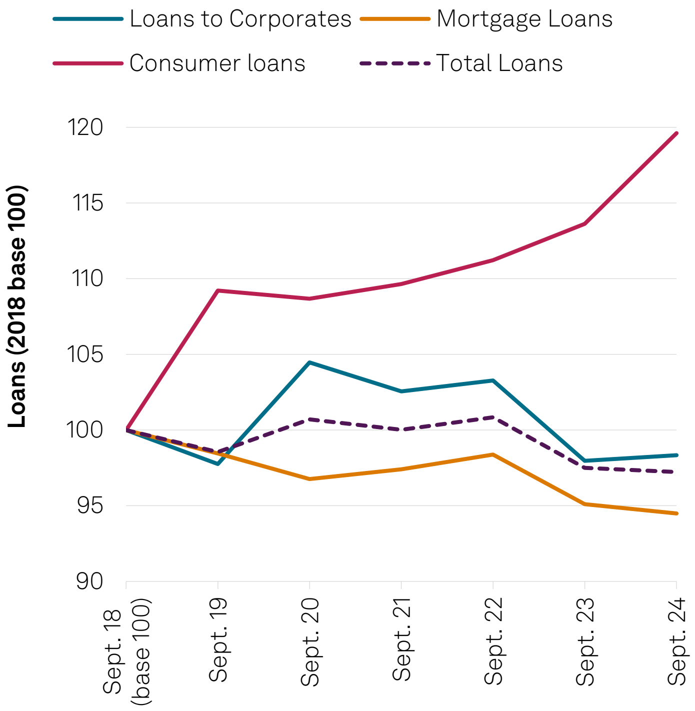
Banks Have Prepared For Interest Rate Declines

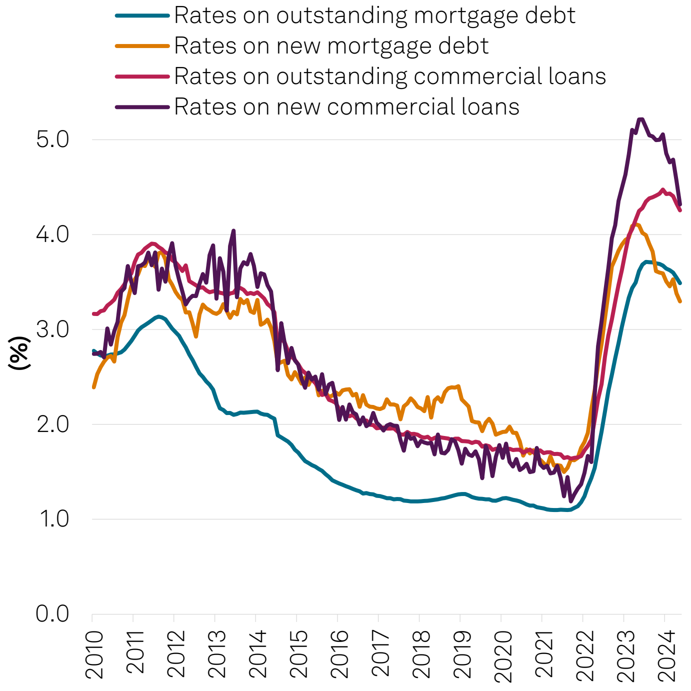
Banks have used active hedging to reduce the sensitivity of their NII to lower interest rates



And the resumption of lending...



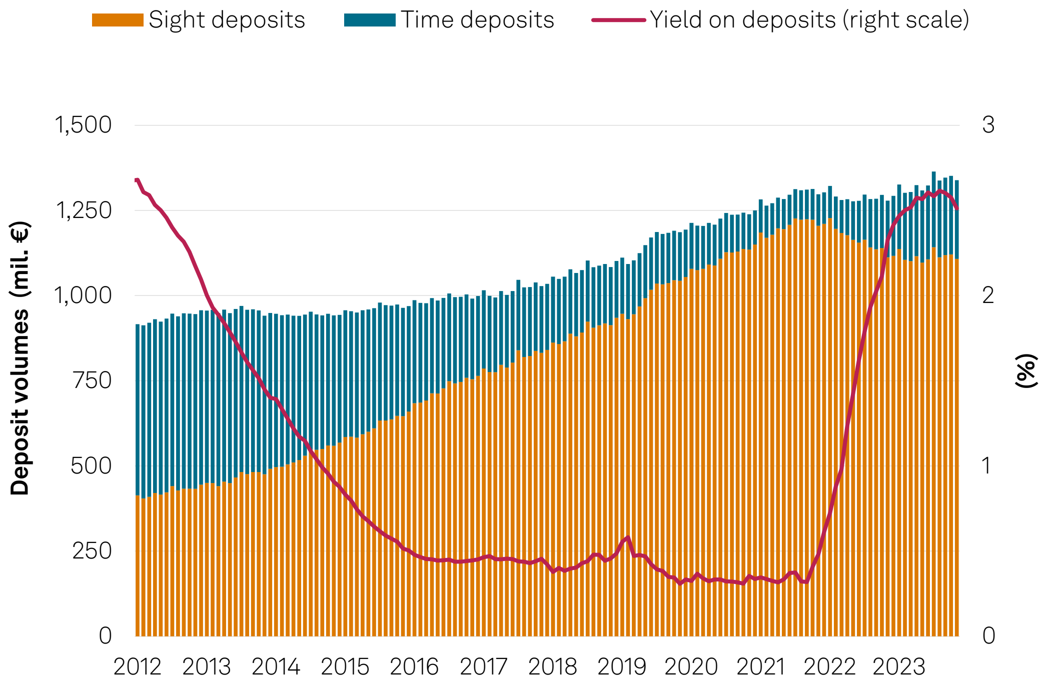
...will help them to also partly offset the consequent lower repricing of assets



Reported impact on the net interest income of a 200 bps decline in interest rates at year-end 2022 and in June 2024 (dark blue). Light blue refers to the comparison between December 2022 and December 2023.
Source: S&P Global Ratings, Bank of Spain, banks' Pillar 3 reports.

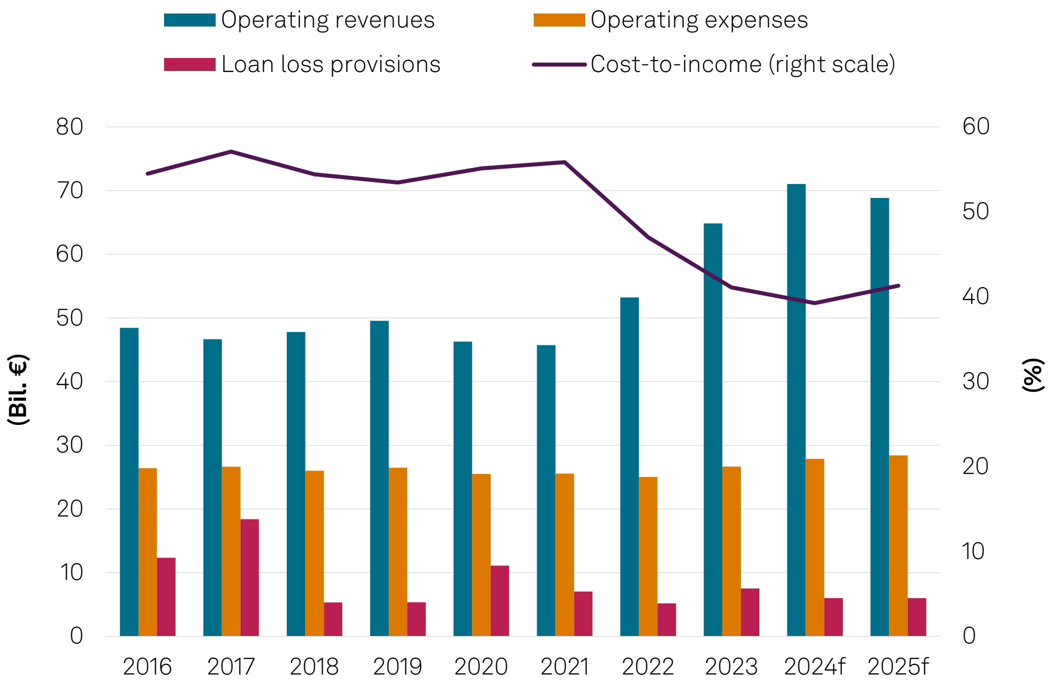
Solid Funding And A Decade Of Adjustments Will Continue To Benefit Banks

Banks' high share of demand deposits provide them with a funding cost advantage



Source: S&P Global Ratings.

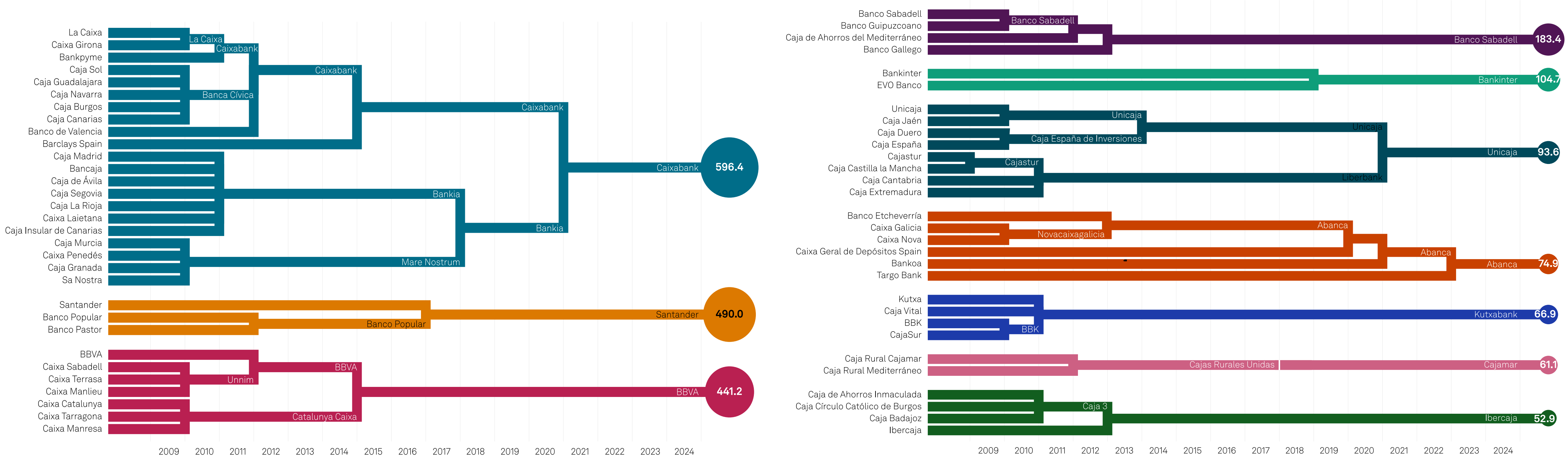
Controlled operating and credit costs will allow the banks to maintain solid earnings



Source: S&P Global Ratings.

Major Consolidation In Last 15 Years Has Strengthened The Banking System

- It has boosted banks' operating standards, transparency and efficiency.
- The potential deal between BBVA and Sabadell could be a step forward.
- We see room for further consolidation among midsized banks, but concentrated ownership structures and the return of profitability reduce incentives for management teams to consider them.

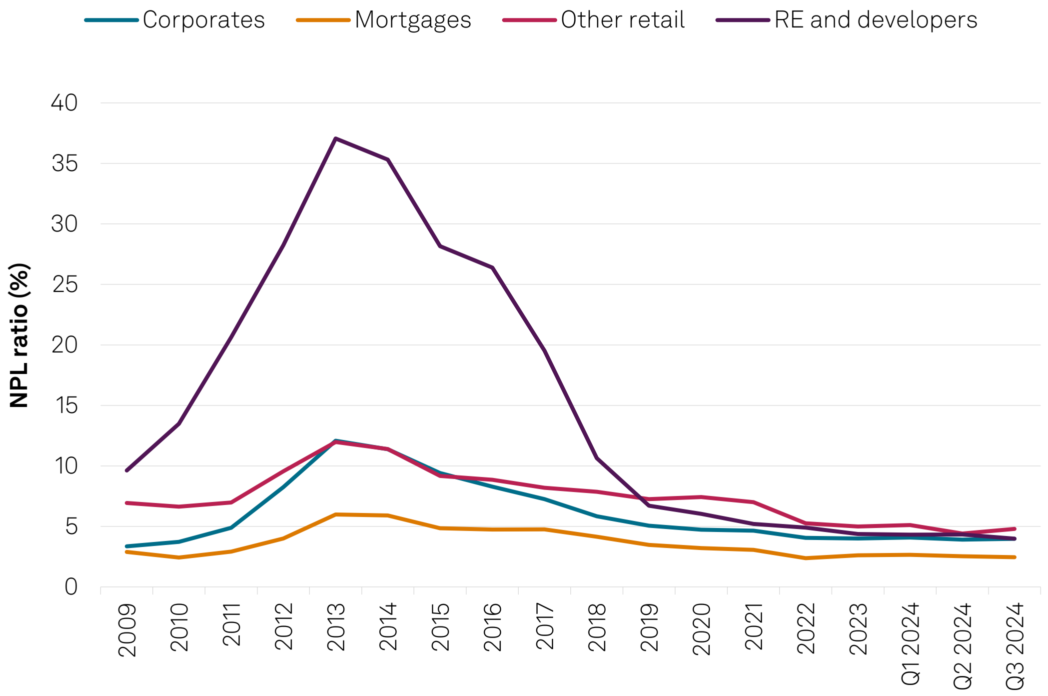


Consolidation of largest Spanish banks since 2009 by size of domestic assets, Q3 2024 (bil. €). Source: Banks' financial reports, S&P Global Ratings

Credit Risk Of Banks' Loans Books Should Remain Contained

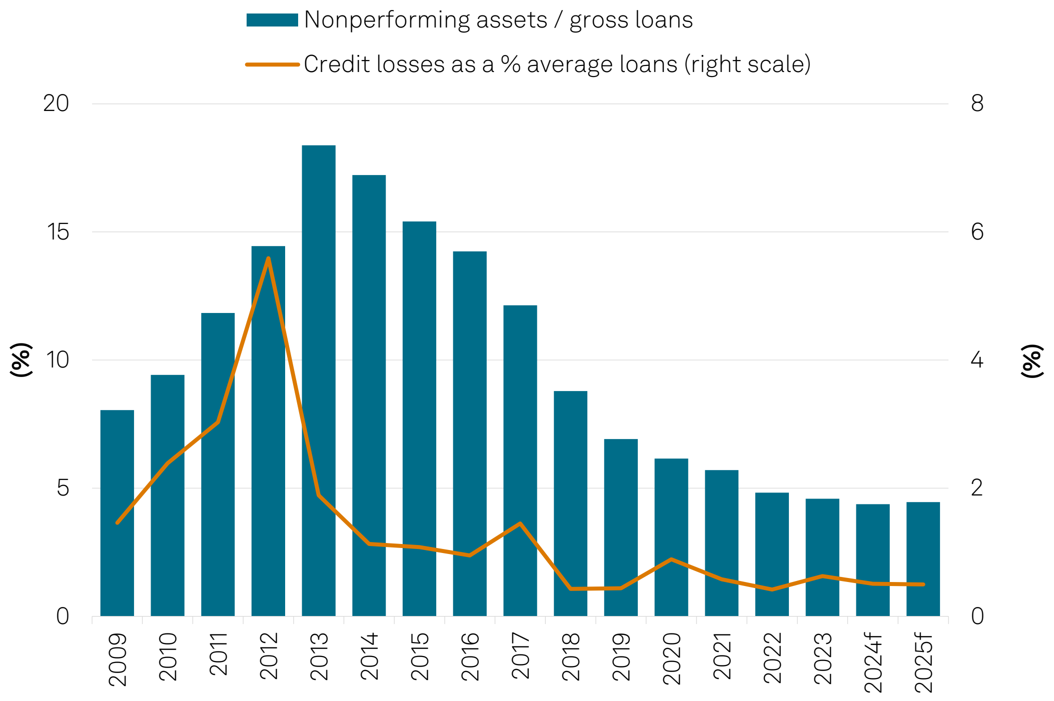
Supported by good macroeconomic conditions, falling financing costs, and adequate leverage

Negligible signs of asset quality deterioration so far



NPL--Non-performing loans. RE--Real estate. Source: Bank of Spain.

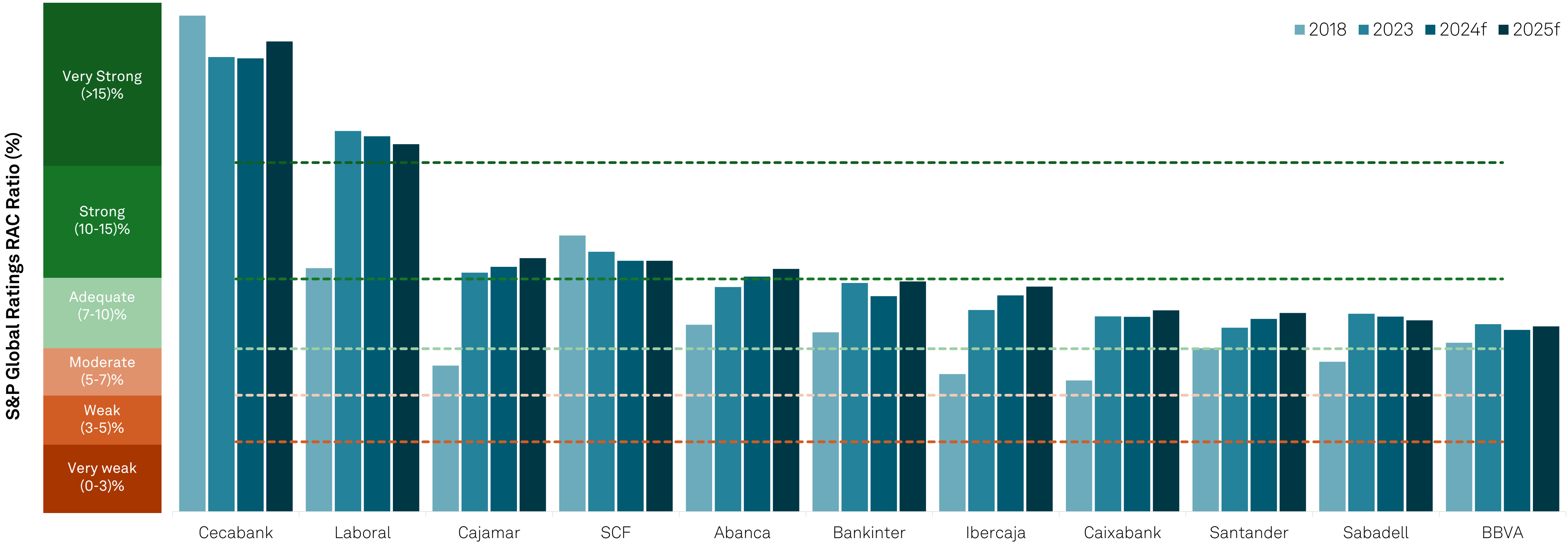
We forecast stable cost of risk in 2025 at about 50 bps of average loans



Source: S&P Global Ratings.

There Is Room For A Slight Improvement In Most Banks' RACs In 2025...

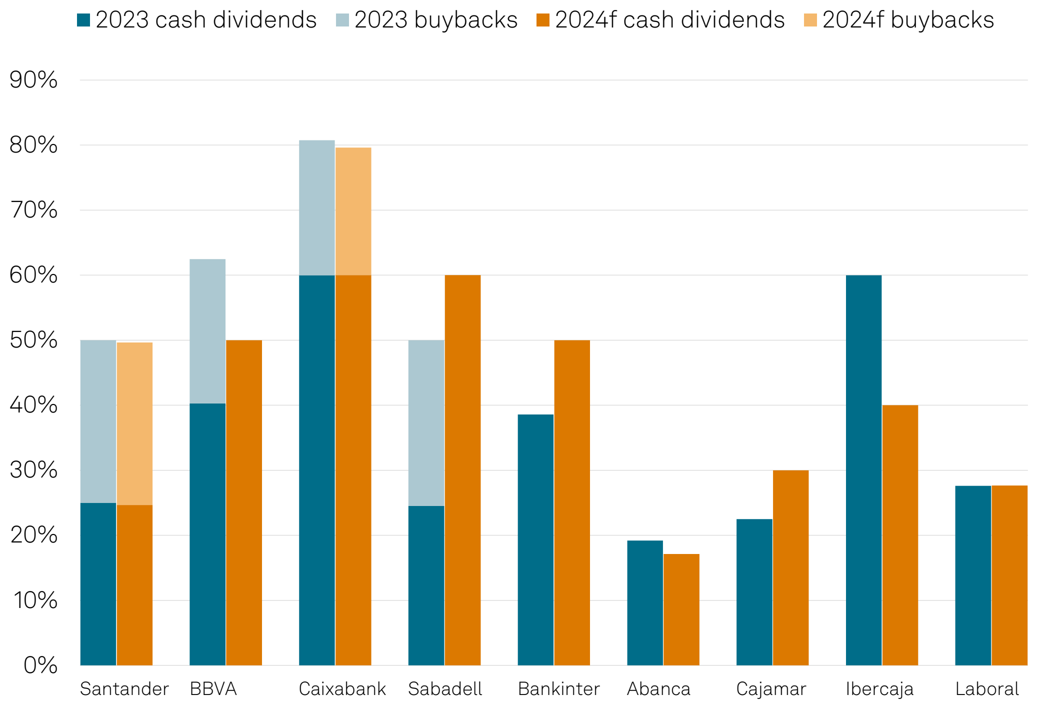
Several mid-sized banks are headed for the upper band of the 'adequate' category



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

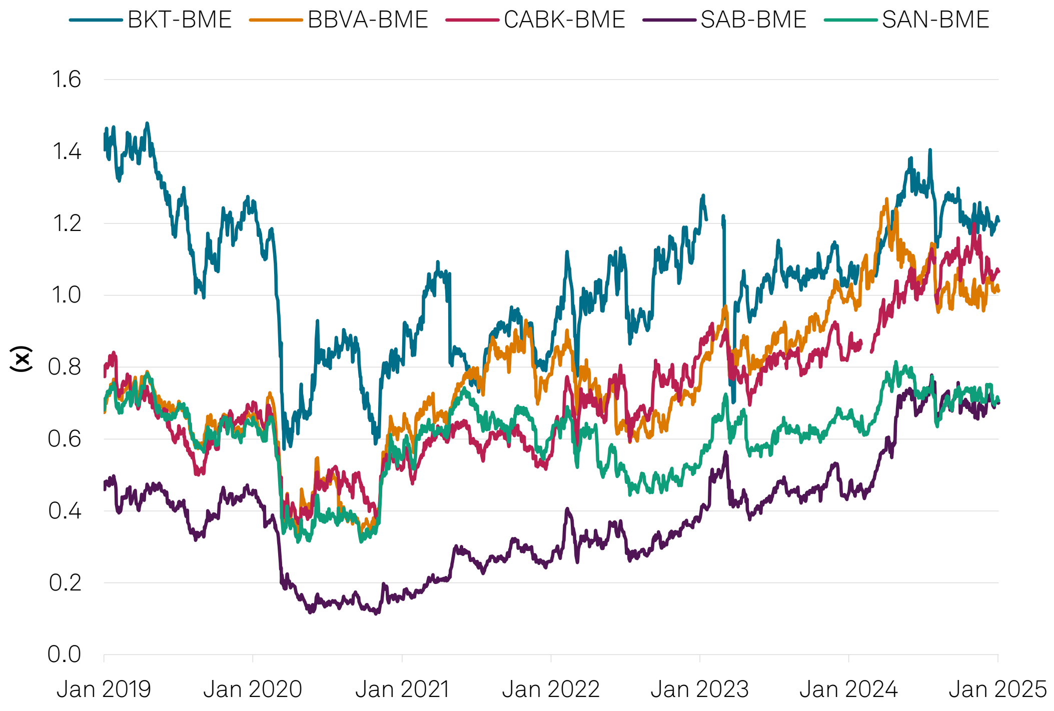
...Despite Distributions To Shareholders Continuing

Listed banks are targeting at least a 50% pay-out to shareholders



Distribution to shareholders as a percentage of net profit. BBVA and Caixabank include extraordinary share buybacks; only 26% of Sabadell's 2023 buyback was completed due to the hostile takeover bid from BBVA. Sources: Banks' financial reports, S&P Global Ratings.

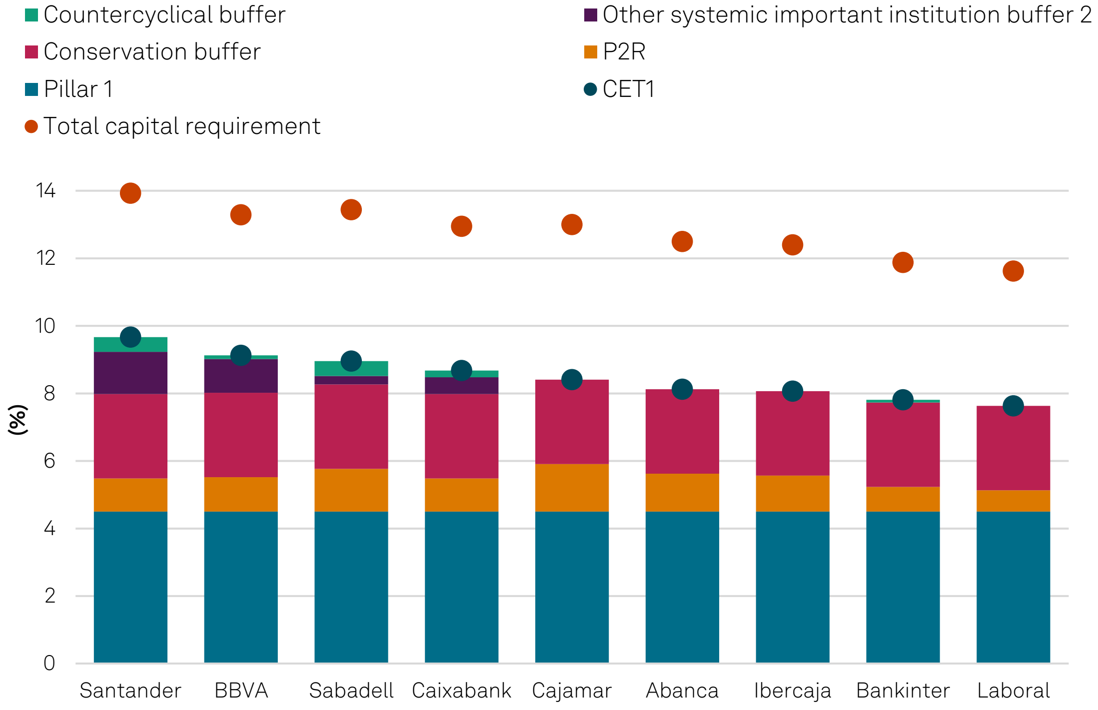
Improved valuations could make share buybacks less attractive and facilitate M&A



Change in price to book for listed Spanish banks. Source: S&P Global Ratings.

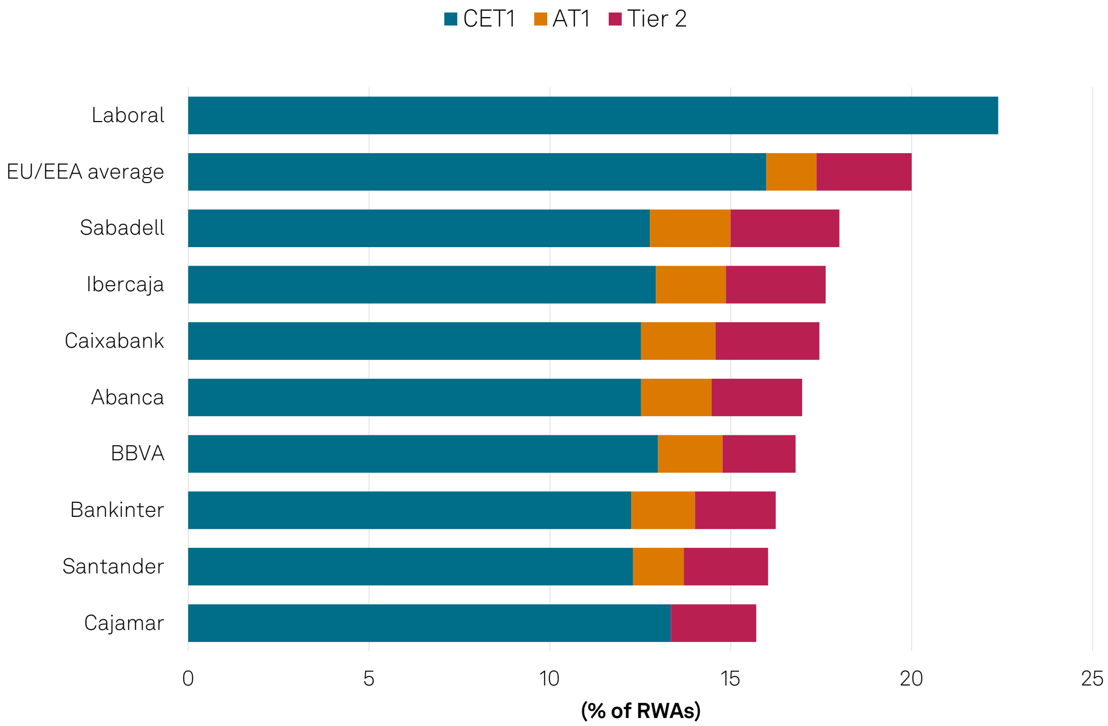
Banks Will Face Higher Capital Requirements From October 2025

The new countercyclical buffer will add 12-50 bps to banks' capital requirements in 2025, with purely domestically focused banks at the higher end of this range



CET1 and total capital ratio requirements applicable from Jan. 1, 2025. CET1--Common equity Tier 1. P2R--Pillar 2 requirements. Sources: Banks' financial reports, S&P Global Ratings.

The new requirement could help somewhat to reduce the gap between Spanish banks' reported capital ratios and those of European peers



AT1--Additional Tier 1. CET1--Common equity Tier 1. RWA--Risk-weighted assets. EEA--European Economic Area. Data phased-in as of Sept. 2024. Laboral's data as of June 2024. Sources: Q3 2024 EBA Risk Dashboard and banks' reporting, S&P Global Ratings.

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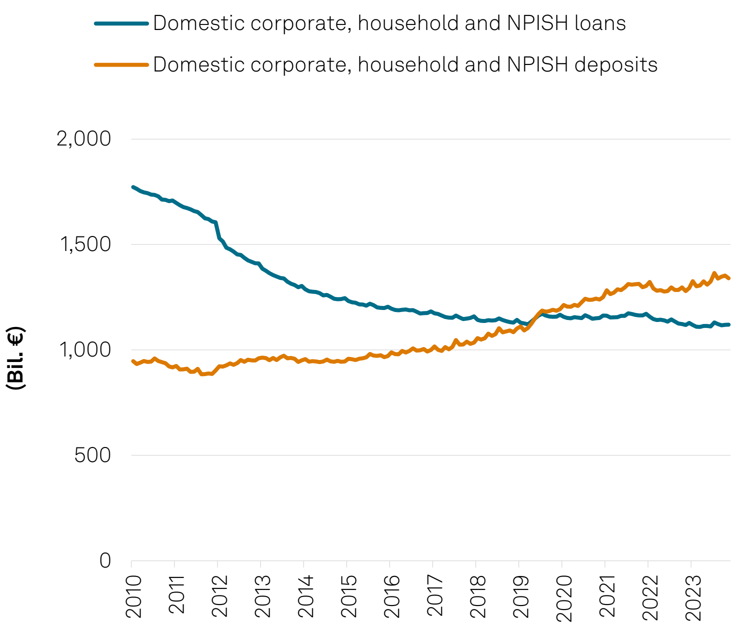
14

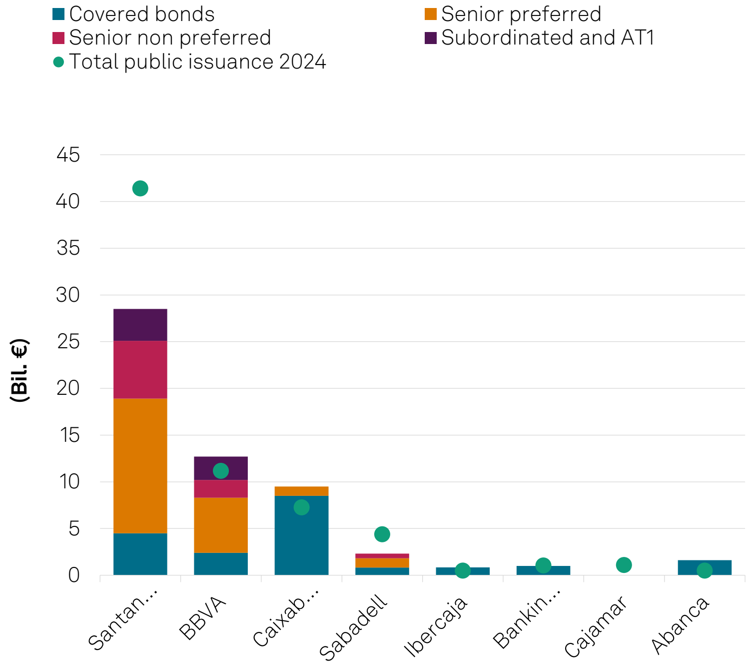
Banks Are Well Prepared To Deal With Tighter Market Liquidity

Deposits will remain banks' main funding source



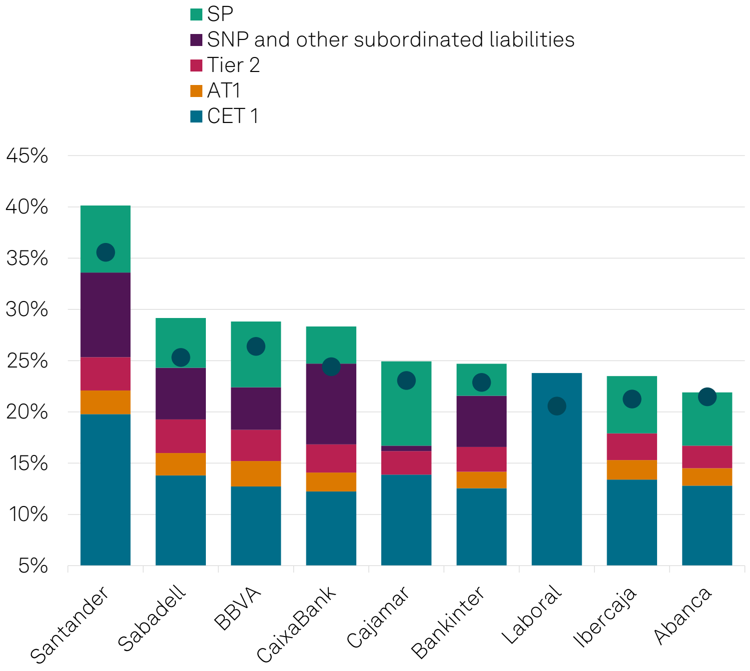
NPISH--Non-profit institutions serving households. Source: Bank of Spain

Market access looks manageable, largely focusing on replacing maturing issues



AT1--Additional Tier 1. Banks' debt maturities in 2025 and total debt issuance in 2024. Source: S&P Global Ratings, banks' financial reports

All banks comply with their MREL requirements



SP--Senior preferred. SNP--Senior nonpreferred. AT1--Additional Tier 1. CET1--Common equity Tier 1. MREL--Minimum requirement for own funds and eligible liabilities. MREL requirement and ratio as of Sept. 30, 2024. Source: Banks' financial reports

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Key Risks

Derailing of the economy's growth path, most likely due to external factors
This would likely lead to higher asset quality problems and weaker business prospects for banks

Market turbulence in response to adverse geopolitical developments or unexpected monetary policy decisions
This could result in higher realized and unrealized losses on securities portfolios and higher exposure to counterparty risk

Lack of ambition in tackling the country's high public-sector debt amid complex politics
This results in limited government capacity to support the economy if needed, making it more vulnerable to external shocks

Insufficient resilience to cyberattacks
This could test the long-term viability of institutions affected

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