Spain

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IN A NUTSHELL

- → Extraordinary performance on the real estate and on mortgage market during the year, albeit showing a slowdown over the end of the year, following the gradual tightening on the ECB's monetary policy and amid deteriorating economic conditions.
- → A slowdown on long-term fixed rate loans was seen since mid-year, while borrowers showed a growing interest for mixed rate loans under the pressure of a rising in interest rates.
- → In response to the rapid increase in interest rates, a set of measures under the Royal Decree-Law 19/2022 came into force in November 2022 to alleviate the mortgage burden of vulnerable borrowers.
- → An overall favourable behaviour on the quality of credit exposures was observed in 2022 which would reverse as the tightening of the monetary policy is phase in.

MACROECONOMIC OVERVIEW

The economy grew by 5.5%, exceeding the government forecast and significantly narrowing the gap to pre-pandemic GDP levels. However, some slowdown occurred over the second half of the year, mainly due to a weaker investment performance with tightening lending conditions and declining confidence. Inflation reached 8.3% for the year, while core inflation was 5.2%. Since the end of the year, inflation has slowed due to the decline in energy costs, while core inflation has risen substantially, with possible 'second-round' effects. The labour market has performed well, with the unemployment rate falling by almost two percentage points (pps) in a year, to 12.9%, although still one of the highest in the EU. Particularly noteworthy is the employment, which is at an all-time high, with a total of 20.3 mn workers by the end of 2022, with the tourism and the technology sectors leading the way in job creation.

The financing costs of new public debt has increased significantly, but according to data from the Bank of Spain, the implicit average rate on public debt barely increased 0.2 pps, to 2.1%, suggesting that this is not material within the government budgetary framework. Over the year, the deficit reduced from 6.9% in 2021 to 4.8%, while public debt outstanding fell from 118% to 113%. The Spanish government's objective is to reach a maximum of 3% of the public deficit by the end of 2024, in line with the fiscal targets set by the EU.

LOOKING AHEAD

The last data referring to the residential market suggest a moderation in sales and lending growth. This trend is expected to continue in the coming months in view of the greater difficulty of some households to cope with rising interest rates.

HOUSING MARKETS

The real estate market showed remarkable strength during 2022 thanks to the replacement market, which in the first half of the year was particularly significant with the realisation of potential transactions ahead of time, in view of the prospect of the ECB raising interest rates to counter high inflation.

In 2022, just over 717,000 homes were sold, the highest figure in recent years and 6.4% above the previous year. The second-hand segment was 90% of all sales, showing the limited role of new construction in recent years due to land scarcity in some important areas and the difficulty to build in an environment of sharply rising building costs. New construction permits were granted for 109,000 homes, the highest figure in the last decade but still insufficient to meet demand, estimated at above 200,000 units. This shortage caused price increases of 5% over the year (6% for new homes). Among the most dynamic markets, the Balearic and Canary archipelagos, Madrid, and some coastal areas, such as Málaga, stood out. However, all of them show a slowdown in line with the less favourable economic outlook.

MORTGAGE MARKETS

MARKET DYNAMICS

The mortgage market grew at the most rapid rate in the last decade despite tightening financing conditions. New lending volumes exceeded EUR 65 bn, up 10% on last year. Interest rate increases may explain much of the growth as transactions were bought forward in anticipation of higher rates. The average rate on new loans increased by 50% in the second half of the year. Consequently, since the middle of the year there was a fall in loans with an initial fixed interest of more than 10 years.

Lending standards have remained stable in relation to LTV and the income profile (as the loan-service-to-income), apart from a slight increase in this to from 30% to 33% due to higher interest rates.

The increase in residential loans outstanding was reversed in the second half of 2022 as amortisations were slightly higher than the gross lending. Thus, outstanding residential mortgage loans decreased by 0.1%. Loans for real estate development and the construction sector continued to reduce as they have done since the GFC, after recording a joint decrease of -7.5% in the last year.

Despite the effect of higher rates on households with variable interest rate loans, levels of NPLs have remained favourable with a general improvement in both doubtful ratios and doubtful balances. The NPL rate for mortgages was similar to the pre-crisis levels at 2.3% by year end. NPLs may worsen if the current economic forecast is accurate, but not to a concerning extent, given that credit entities maintain solid levels of provisions and capital and the labour market remains reasonably resilient.

NON-MARKET LED INITIATIVES

Price increases and increased financing costs have led to a fall in real term income causing some loan repayment difficulties in lower-income segments. To partially mitigate this, in November the Government, in collaboration with the banking sector, approved a range of support measures included in Royal Decree-Law 19/2022. The regulation establishes a new Code of Good Practice (Código de Buenas Prácticas, CBP) for middle-class debtors at risk of vulnerability due to rising interest rates; an extension of the vulnerability assumptions to take advantage of the existing Code of Good Practice, in force since 2012 under RDL 6/2012; and the adoption of other structural measures targeted at all mortgage debtors.

The new CBP, together with the 2012 CBP reform, has three lines of action, depending on the circumstances of the debtor and its degree of vulnerability. These measures seek to reduce principle payments by extended mortgage terms and a grace period, which vary depending on eligibility. In addition to the lower interest rate during the grace period, in the case of the 2012 CBP reform, other measures are available if the debt restructuring unfeasible, such as the possibility of requesting a release from the debt or, as a last resort, applying a debt discharge via datio in solutum. According to estimates of the Bank of Spain, 270,000 households could potentially benefit from these CBPs. Additionally, that outside the scope of these CBPs, the RDL establishes a general reduction of costs for early repayment or for conversions of variable rate loans to fixed rate.

MORTGAGE FUNDING

Financing of the mortgage portfolio by covered bonds and mortgage-backed securities – which are currently 45% of total funding – decreased despite the gradual reduction in liquidity facilities from the Eurosystem, which in Spain decreased by 33%. Covered bonds (CBs) and mortgage-backed securities (MBSs) outstanding decreased by 12%, Royal Decree-law 24/2021, which transposes the European Directive on covered bonds came into force in 2022. This funding resource could increase due to reduced ECB liquidity facilities, although the expected slowdown in mortgage activity may result in lower liquidity needs.

GREEN FUNDING

Sustainability is of growing importance as public and private institutions promote a new culture of cooperation aimed at developing a more sustainable housing market. In the area of housing renovation, a public aid scheme was approved in 2020 under the NGEU programme, aimed at improving the energy efficiency of homes or buildings with up to 80% of the cost of the renovation, with the remaining 20% to be provided with own resources or under a financing scheme to which debtors can apply for tax relief. The aid involves a different degree of subsidy with respect to the renovation project, enjoying a higher level of subsidy for those homes or buildings in which there is a clear improvement in energy efficiency and those areas where, due to low incomes, greater support from public funds is required. Despite this initiative, currently housing renovations are still well below the target set by the Government (around 300,000 per year by 2030).

Some banks have designed green mortgage products with a discount on the interest rate if the collateral has an EPC rating of A or B, or if the energy efficiency of the house improves by 30%, but the development of this product is still at an early stage as there are not enough consumers for this product yet and the regulatory capital aspects of the product have not been defined.

	SPAIN 2021	SPAIN 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.5	5.5	3.5
Unemployment Rate (LSF), annual average (%) (1)	14.8	12.9	6.2
HICP inflation (%) (1)	3.0	8.3	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	75.8	76.0	69.1
Gross Fixed Investment in Housing (annual change)(1)	-5.3	3.1	1.5
Building Permits (2015=100) (2)	218.0	219.2	125.8
House Price Index – country (2015=100) (2)	112.4	118.0	164.6*
House Price Index – capital (2015=100) (2)	129.0	138.7	163.8*
Nominal house price growth (%) (2)	2.1	5.0	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	487,146	486,890	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	12,441	12,391	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	64.2	59.6	71.5
Gross residential lending, annual growth (%) (2)	35.1	9.7	-6.5
Typical mortgage rate, annual average (%) (2)	1.5	2.0	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.

SPAIN FACT TABLE

Which entities can issue mortgage loans in your country?	In Spain, mortgage lending is always provided by financial institutions. Banks, savings banks, credit cooperatives, and financial credit establishments are the institutions allowed by law to grant mortgage loans and issue securities. It is worth mentioning that saving banks were especially affected by the financial crisis due to the high exposure to the real estate sector. Several saving banks disappeared through liquidation or acquisition, and most of the remaining were transformed into banks after Law 26/2013 of 27 December was passed. Since then, only small and regional saving banks operate in the market.
What is the market share of new mortgage issuances between these entities?	Around 90% of the total volume of new mortgage loans was granted by banks. Other financial institutions, like credit cooperatives and financial credit establishments, represented the remaining 10%.
Which entities hold what proportion of outstanding mortgage loans in your country?	Banks and former saving banks stand for the major part of the market, representing around 90% of total outstanding mortgage lending. The remaining 10% is covered by credit cooperatives and financial credit establishments.
What is the typical LTV ratio on residential mortgage loans in your country?	On average, in 2022, the LTV ratio on new residential mortgage loans stood at 65% (according to Bank of Spain statistics). However, the most common LTV for FTB is 80%, while for second houses the maximum level is normally 70%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Residential loans include loans granted to households for housing purchase.
What is/are the most common mortgage product(s) in your country?	The most common mortgage loan product in Spain was the variable rate mortgage loan reviewable every 6 or 12 months with a French amortisation system. In variable-rate mortgage loans, the interest rate is linked to an official reference index (the most common the Euribor 12m). Since 2015, under the era of low-interest rates, initial-fixed interest rate mortgage loans have gained momentum, representing near to 75% of gross residential lending in 2022.
What is the typical/average maturity for a mortgage in your country?	According to Bank of Spain statistics, the average maturity for new mortgage loans in Spain stood at around 24 years and a half, with the most typical term for FTB being 30 years. As usual, the real amortisation period is usually lower, around 15 years on average.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds, RMBS/CMBS, and deposits.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	The main transactions cost associated with house purchase are VAT for new housing, which represents 10% of the value of the house, and the Tax on property transfer for second-hand dwellings (with a rate normally between 6-10%, depending on the geographical area). As of 2019, after the new *Law 5/2019 regulating Real Estate Credit Contracts* was passed, all costs linked with the constitution of the mortgage must be covered by the bank (Mortgage Stamp Duty – "AJD" Tax; notary, registry, and agency fees), except the cost of the valuation of the property and the notarial copies requested by the client, which are responsibility of the borrower. Another cost that is compulsory for the borrower when taking out a mortgage is the cost of fire insurance.
What is the level (if any) of government subsidies for house purchases in your country?	In 2013, the tax deduction that had been in force for years aimed at aiding homebuyers came to an end, remaining exclusively for those homebuyers who had purchased a property before that date. In 2018, a new State Housing Plan for the 2018-2021 period (recently extended until 2025) came into force, which seeks to facilitate access to housing property for vulnerable young people under 35 years old, whilst trying at the same time to boost the regeneration of urban and rural areas affected by depopulation. Eligible beneficiaries must buy a home in a municipality with less than 10,000 inhabitants and the amount granted under this scheme shall not exceed EUR 10,800 per dwelling, limited to 20% of the purchase price.