

# NPL&REO in Spain 2023

SPRING UPDATE

Reflecting the effects of rising interest rates, the sale's activity of NPL portfolios is still very limited at this beginning of year. However, the transaction of this type of portfolios is expected to intensify from mid-year onwards, with estimates that 2023 will close with €10 billion traded.

## Economy

Spain weathered relatively well the negative shocks unleashed by Russia's military offensive against Ukraine in 2022. Even though against an inflationary backdrop and a loss in real purchasing power, the resilience of the economy was underpinned by the strong rebound in tourism over the summer and dynamism of private consumption, also supported by positive labour market developments. As a result, provisional data from the country's National Statistics Bureau (INE) show an annual GDP growth of 5.5% in 2022, surpassing the previous projections.

As for 2023, GDP growth is set to reach 1.4%, partly reflecting a higher-than-projected carry-over from 2022. Economic activity is expected to gradually pick up in the first half of the year and to gain further momentum in the second half of the year. In 2024, real GDP growth is projected to increase to 2.0%.

As for inflation, after averaged 8.3% in 2022, is forecast to moderate to 4.4% in 2023 and further to 2.3% in 2024.

GDP GROWTH FORECAST 2023  
(SOURCE: EUROPEAN COMMISSION)

1.4%

HOUSING SALES (2022)  
(SOURCE: MINISTERIO DE TRANSPORTES,  
MOVILIDAD Y AGENDA URBANA)

717,600

## Property Market

Over 2022, a total 717,600 dwellings were sold in Spain, around 7% above the 674,250 houses transacted in 2021. This is a level of transactional activity only surpassed by the historic sales peaks recorded between 2004 and 2007.

Sales to foreigners intensified in 2022, having represented 19% of the total transactions completed in 2022, totaling about 134,600 dwellings acquired by both non-residents living in the country and outside. This means that acquisitions by international buyers increased 31% compared to 2021.

Selling prices continued to rise in 2022, recording a y-o-y growth of 5.5%. Despite being a strong pace of growth, the increase recorded in 2022 slowed when compared to the 6.4% annual variation in 2021.

With 463,600 new contracts signed in 2022, the granting of new mortgage loans also followed upwards, surpassing by 11% the 418,100 contracts concluded in 2021. This trend was even more significant with regard the total amount borrowed, which grew by more than 17% y-o-y to €67.5 billion in 2022 (€57.5 billion in 2021).

GROWTH OF HOUSING PRICES  
(2022 Y-O-Y) (SOURCE: INSTITUTO  
NACIONAL DE ESTADÍSTICA)

5.5%

NEW MORTGAGES GRANTED (2022)  
(SOURCE: MINISTERIO DE TRANSPORTES,  
MOVILIDAD Y AGENDA URBANA)

€67.5bn

## NPL Stock and Ratio

By the end of Q3 2022, Spain's non-performing loans (NPL) stock amounted to €79 billion, decreasing by 3% (the equivalent to €2.6 billion) compared to the €81.6 billion recorded 12 months before and almost stabilizing regarding the 78.9 billion from Q2 2022. Notwithstanding the annual downward, the country continued to own the second largest share (21%) of Europe's total bad credit pile (€367.4 billion), being just surpassed by the €109.6 billion from France, (30%).

The lion's share (almost 57%) of Spain's NPL stock came from the Households (HH) sector, amounting to €44.7 billion as of Q3 2022, standing unchanged when compared to Q3 2021, but showing a 2% increase from the €43.7 billion recorded the previous quarter. About 49% of this value corresponds to the €22 billion from Mortgages which, however, showed a 4% decrease compared to the €22.9 billion recorded in the end of June.

Non-Financial Corporations (NFC's) concentrated 43% from the aggregated NPL recorded in the end of Q3: €33.7 billion, decreasing -7% over the last consecutive 12 months (vs €36.2 billion, Q3 2021). About 64% of the corporate NPL is allocated to the Small and Medium Enterprises (SME) sector, totalling €21.6 billion and decreasing by 4% from Q3 2021 (€22.5 billion). As for the NPL in the NFC's segment that is collateralized by Commercial Real Estate (CRE), it stood at €10.1 billion, showing an annual decrease of 4% from the €10.5 billion recorded in Q3 2021.

Standing at 2.7% as of Q3 2022, Spain's NPL ratio was still above the 1.8% EU's average. Nevertheless, there was a consecutive downward over the last three last quarters, with the ratio showing an annual decrease of 0.4 percentage points (p.p.) compared to the 3.1% recorded one year before, in the end of Q3 2021.

NPL RATIO (Q3 2022)  
(SOURCE: EBA)

2.7%

NPL STOCK (Q3 2022)  
(SOURCE: EBA)

€79.0<sub>bn</sub>

## Potential NPL Deals

Despite the efforts made by banks in the final stretch of the year to speed up the sale of bad debt portfolios, showing a pace of activity not seen for several years; 2022 ended with a transacted volume of €11 billion, below the €15 billion projected by Prime Yield in its last report. This was because several sale processes that were active in the market, totaling around €4 billion, ended up falling, as the rise in interest rates in the 2nd half of the year intensified the mismatch of price expectations between sellers and buyers.

The rising interest rates also negatively impacted this market because it made the credit that often supports this type of transaction more expensive, increasing the difficulties of purchasing funds to finance themselves; but because it, simultaneously, increased the attractiveness associated to other asset classes.

Although very limited at the beginning of the year, the activity of NPL portfolio sales should intensify from mid-year onwards, and it is expected that 2023 will close with a transaction volume of €10 billion, which, if confirmed, will represent a slight annual decrease of 9% compared to 2022. The expectation is that from the second quarter onwards, new portfolios for sale will begin to arrive on the market, with the pace of launches accelerating after the summer. Santander is one of the entities that should lead this movement, with several portfolios for sale totaling €3 billion, including both secured and unsecured assets. Caixabank, meanwhile, is expected to seek buyers for portfolios totaling €2 billion, in an attempt to repeat the sales target achieved last year. BBVA, Sabadell, Bankinter and Unicaja Banco should also be sellers of NPL in 2023, although at a slower pace.

The portfolios that will come to the market in 2023 should have an average size lower than that observed in recent years, sitting around €500 million in the case of mortgage-backed assets and up to €1,0 billion in the case of unsecured assets.

SHARE IN EUROPE'S TOTAL  
NPL STOCK (Q3 2022)  
(SOURCE: EBA)

€21.0%

NPL SALES 2023  
(ESTIMATED BY PRIME YIELD)

€10.0<sub>bn</sub>

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# About Prime Yield part of Gloval NPL&REO Services

Established in 2005 and since 2018 a part of Gloval, a leading property services group that provides integrated valuation, engineering and consulting services, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Europe and Latin America. The company has an NPL&REO specialized business area, supported by Prime AVM&Analytics, an advanced technological solution that allows NPL's investors and sellers to have property valuations in a fast, simple and reliable way both for single assets and entire portfolios. Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality and Environmental Management (NP EN ISO 9001 and NP EN ISO 14001).

Visit us at <https://nplreo.prime-yield.com>

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