

# CHART OF THE WEEK

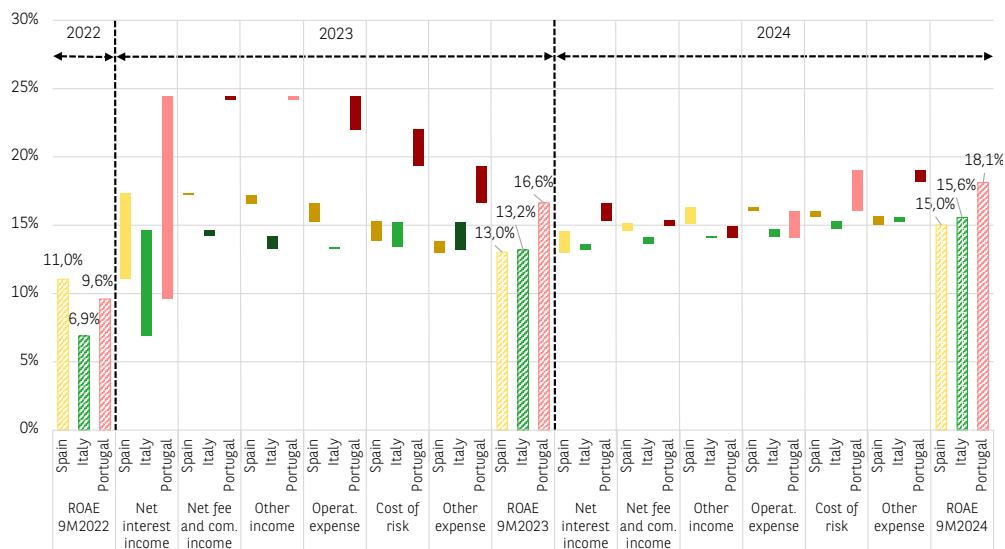


15 November 2024

## SOUTHERN EUROPE: BANK PROFITABILITY AT ITS HIGHEST SINCE 2007, BUT PROBABLY NOT FOR LONG

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The support of net interest income to the increase in the profitability of Southern European banks is decreasing\*



\*The hatched histograms indicate for each country in Southern Europe the annualized return on average equity (ROAE) of the 5 largest commercial banks by CET1 for the first 3 quarters of each year. The light (dark) histograms indicate the positive (negative) contributions to the variation of the ROAE from one period to another of the considered income statement line.

Source: Financial reports, SNL, BNP Paribas estimations

In Spain, Italy and Portugal, the five largest banking groups recorded, on average and on a consolidated basis, an annualised return on average equity (ROAE) of 15.0%, 15.6% and 18.1%, respectively, in the first three quarters of 2024. These are levels not seen since 2007.

Although to a lesser extent than in 2023, the rise in net interest income made a significant contribution<sup>1</sup> to the increase in ROAE in Spain and Italy (+1.5 pp and +0.4 pp respectively). In Portugal, it was the fall in operating expense and in the cost of risk (largely attributable to write-backs of provisions by a single institution that had made large allocations in 2023) that made a positive contribution to the increase in ROAE in 2024 (+1.9 pp and +3.0 pp, respectively). More broadly, the improvement in the financial profitability of Southern European banks has also been made possible by a relatively dynamic economic climate<sup>2</sup>. This contrasts, for example, with the situation in Germany, where the deterioration in the economy has resulted in a 40% rise in the cost of risk for the largest banks in 2024.

Despite the differences in contributions between 2023 and 2024, the effects of lower interest rates are not yet fully being reflected in the results of Southern European banks. However, interest income, for example, fell faster than interest expense in the third quarter of 2024 in Spain (-2.6% and -1.5% q/q, respectively). This trend is set to continue, given the large proportion of floating-rate loans held by banks in Spain and Southern Europe more generally.

In its latest financial stability report, the Bank of Spain estimates that the effects of falling interest rates on bank profitability should be "limited and gradual". They would be partially offset by the increase in outstanding loans and the decrease in the cost of risk. With this in mind, banks in Southern Europe are likely to be overtaxed for a protracted period, even though the main reason for introducing the tax (a sharp rise in net interest income, which has contributed to a sharp increase in ROAE) is in decline. In Spain, the surcharge based on net interest income and net fee and commission income in 2022 and 2023 (and not on results) could be applied for a further three years, while the Italian government wants banks to make a "solidarity contribution" in 2025 and 2026.

<sup>1</sup> The calculation of contributions makes it possible to measure the role of each component in the change in ROAE. The sum of the contributions is therefore equal to the change in ROAE.

<sup>2</sup> See in particular L. Barette, *Italy stages a recovery*, Charts of the week, BNP Paribas.

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