

The public cost of (not at all) surprising bank profits

Carlos Arenillas and Jorge Pérez ¹

February 2024

We already have the picture of how Spanish banks fared in 2023. At least the banks listed on the stock exchange. They have done very well. They have earned, only in Spain, about 12,000 million euros after taxes. A 52% more than in 2022. Of course, the banks do not think it is enough, they complain about the special tax and repeat it endlessly.

The banks have proudly announced it, and the media have passed it on to the public. The public is somewhere between shocked and surprised. We are shocked, but not surprised, since we already explained in a column in 5 Días ("The law of silence of the banks") what was being hidden.

And this was, and is, that more than half of the result of banking in Spain is explained by its deposits in the Bank of Spain (BdE), which it remunerates at 4%: 7,320 million for the six listed banks. This amount implies more expenses (and losses) for the BdE and consequently less (or no) dividend for the Treasury as the sole shareholder of the BdE. This is more than the State's annual spending on agriculture, fisheries and food. Impressive. This data deserves an explanation to citizens.

Effects of Monetary Policy on the results of listed banks in Spain

Importes en millones de euros. Datos a diciembre 2023.	Santander	BBVA	CaixaBank	Sabadell	Bankinter	UNICAJA	Total
Depósito en Banco de España (*)							
Saldo medio año 2023	78.000	39.000	31.000	25.000	11.500	6.500	191.000
Intereses cobrados en 2023							
Brutos	2.900	1.500	1.200	1.040	430	250	7.320
Netos	2.200	1.200	1.000	835	350	200	5.785
Margen Financiero (de intereses)							
Consolidado	43.261	23.089	10.113	4.723	2.214	1.353	84.753
Negocio en España	6.641	5.620	9.141	3.353	2.214	1.353	28.022
Resultado contable después de impuestos							
Consolidado	11.076	8.019	4.816	1.332	845	267	26.355
Negocio en España	2.371	2.755	4.364	1.093	845	267	11.695
Gasto por Impuesto especial y temporal							
	224	215	373	156	77	63	1.108
Intereses depósitos en el BdE en % sobre:							
• <i>Margen Financiero</i>							
Consolidado	7%	6%	12%	22%	19%	18%	9%
Negocio en España	44%	27%	13%	31%	19%	18%	26%
• <i>Resultado Contable después de impuestos</i>							
Consolidado	20%	15%	21%	63%	41%	75%	22%
Negocio en España	93%	44%	23%	76%	41%	75%	49%
• <i>Gasto por Impuesto especial y temporal</i>							
Negocio en España	982%	558%	268%	535%	455%	317%	522%

(*) Estimación propia e importes redondeados

¹ Carlos Arenillas is an economist and was vice-president of the CNMV. Jorge Pérez has a PhD in economics and was head of accounting regulation at the Bank of Spain.

In the table the data are presented and some comparisons are made. They are conclusive:

- The interest received by banks from the BdE accounts for no less than a quarter of the financial margin for their business in Spain. In some cases almost half.
- They represent half of its profits obtained in Spain. In two cases more than 75%.
- They are equivalent, on average, to five times the amount paid by the special tax on banking. In one case to ten times.

The banks find themselves with this excess of money deposited in the BdE as a consequence of the expansive policies of the ECB in the last decade motivated by the financial crisis and the COVID. That money is not like the money the rest of us use. It is better, it is a risk-free asset. It is created by the BoE and is available exclusively for operations between banks, with the BoE or to buy public debt from sovereign issuers. They cannot lend it to households and companies.

If banks get 4% in their current account from the BdE, it is logical to leave it there. It is the most profitable and safe alternative they have for that "special money" (bank reserves or high power money in the jargon). But given the enormous amount of interest they receive, they should disclose it, and the CNMV and the BdE should demand it, in order to contribute to transparency and market discipline.

Some statements made by bank presidents at the presentation of results make one blush, to be generous. It is not the increase in credit that has boosted their results, nor any special operation, nor any innovative management. It is the rise in mortgage rates, the low remuneration of their clients' deposits and, above all, what the BdE pays them for theirs. Instead of announcing more dividends and share buybacks, and surely spectacular bonuses, they should be prudent and strengthen their solvency (the lowest in the Eurozone) so that if things get complicated we do not go back to business as usual.

These payments to the banks represent a major expense (and loss) for the BdE and less income for the Treasury. The former will see its equity fall by 20%, due to the more than 11,000 million euros of losses that we estimate it will have in 2023, which we will know in a few weeks. The Treasury, as the sole shareholder of the BdE, will be the first to suffer and after it all Spaniards.

The BdE and the ECB must disclose (and break down) these figures as lost profits and, in addition, explain why remunerating at 4% the entire current account of banks (called deposit facility in the jargon) contributes to financial stability. The generic efficiency motives of monetary policy are highly debatable. A report by the G30 (a think tank composed of former central bankers) states that the lack of transparency of central banks undermines their credibility and may affect monetary policy. The report raises the issue of remuneration of excess reserves precisely.

Some economists argue that the remuneration of bank reserves reduces the effectiveness of monetary policy transmission. Reducing the magnitude of remuneration can make the transmission process more effective. Also higher reserve requirements would increase both fairness and efficiency.

Voices have recently been raised within the Eurosystem Governing Council to address these important issues. Österreichische Nationalbank Governor Holzmann called for an increase in the unremunerated cash ratio from the current (ridiculous) 1% to 10%, also Deutsche Bundesbank President Nagel has called for raising the minimum reserve

requirement to 10%. Deutsche Bundesbank President Nagel has also called for higher minimum reserve requirements. A group of economists, led by Paul de Grauwe, together with several MEPs has sent a letter to the ECB on the matter.

Given the excess liquidity in the banking system and persistently high interest rates, banks will continue to benefit from extraordinary transfers from the Eurosystem and governments will continue to lose revenue. A solution is urgently needed. Either by reducing the BoE's balance sheet (by selling bonds from its portfolio) or by increasing banks' unremunerated reserve requirements, which is in line with current monetary policy objectives and contributes to a more stable and equitable financial system in Europe. Monetary policy cannot be a dilemma between public losses and private profits.

The cost of the public bank bailouts (explicit and implicit) of the past decade, the attitude of the banks to the extraordinary tax and a long list of complaints and denunciations about banking services are still fresh in our minds. The silence on this issue of bank deposits in the BdE and their remuneration must disappear and be replaced by debate and transparency. Not only the technicians should give their opinion. Our Parliament must enter to debate this matter and ask the BdE and the Treasury what is their position on this serious issue, because the debate is and will be European.

1. Carlos Arenillas is an economist and was vice-president of the CNMV. Jorge Pérez has a PhD in economics and was head of accounting regulation at the Bank of Spain.

Translated with DeepL.com (free version)