



## The law of banking silence

*Carlos Arenillas and Jorge Pérez*<sup>1</sup> November 2023 in 5 DAYS

Aren't you surprised by the banking results this year? You should be, and you should be concerned. If you are not, it is because you are a victim of the opacity that surrounds this matter, which is partly explained by the law of silence that seems to apply to banking matters.

In the nine months of this year, the six Spanish banks that are part of the IBEX-35 have had profits of 19,761 million euros, of which 9,078 million came from their activity in Spain. This is 24% more than the same period in 2022 globally, and an impressive 55% from their activity in Spain alone. Some banks have had the highest profits in their history. This is also happening in the rest of Europe.

The banking business is basically explained by the difference between the interest collected and the interest paid, the net interest margin. In this year's press releases, the banks acknowledge that their margin has improved, but do not say exactly why. Neither do supervisors such as the Bank of Spain and the CNMV, nor does the press shed any light on the matter.

The banking sector's results are surprising because bank credit, which is supposed to be the basis of its business, has practically not grown during the period, something logical given the rise in interest rates that has contracted demand. However, the sector's income did not stop growing until September, contributing the highest profit in history and coming close to surpassing last year's record with three months to go. **Banking results show that revenues are growing, margins are increasing and profits are soaring. And they do so with less activity.**

In their press releases and relevant facts to the market, banks mention the rise in interest rates as the main cause of the increase in their profits. And that is true, but **they are silent on whether any income has particularly risen. This hides a very uncomfortable truth. A fact that nobody talks about.**

And that inconvenient truth is none other than the **6,380 million that these banks have received for their deposits in the Bank of Spain, which have generated net tax income of some 4,786 million.** If it were not for these interests, the profits would be a little less than 15,000 million, and a little more than 4,000 million if we compare with their activity only in Spain. That is, of course, because for some banks it would mean a very low net tax result.

As can be seen in the table, the **interest paid by the Bank of Spain to the banks represents, on average, 24% of their total profits, and 53% of those obtained from their activity in Spain alone.** Curiously, four times more than the 1,108 million paid by these banks for the extraordinary tax approved by the Government. These figures are so shocking that they deserve to be explained, both by the banks and by the supervisors.

---

<sup>1</sup> 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.

## Effects of monetary policy on bank results (as of September 2023)

(amounts in millions of euros)

Bank	Deposits at the Bank of Spain (*)		Net income up to 30.09.2023		Interest on deposits at the Bank of Spain / Results (%)		Excise tax to banking
	Average daily balance	Net interest obtained	Consolidated	Business in Spain	Consolidated	Business in Spain	
SAN	75.000	1.575	8.143	1.854	20%	85%	224
BBVA	40.000	1.125	5.961	2.110	19%	53%	215
CaixaBank	35.000	975	3.659	3.312	27%	29%	373
Sabadell	30.000	675	1.028	832	66%	81%	156
Bankinter	12.000	263	685	685	38%	38%	77
UNICAJA	6.000	173	285	285	61%	61%	63
Total	198.000	4.786	19.761	9.078	24%	53%	1.108

(\*) Own estimate, rounded figures and interest net of taxes.

**Why is there no breakdown in the public financial information of banks of the balances deposited with the Bank of Spain and the return obtained?** This is something that the CNMV or the Bank of Spain can do to improve the understanding of financial information, improve transparency and contribute to market discipline.

Deposits held by banks with central banks are now enormous, mainly due to the large quantitative easing (QE) operations of the past. As interest rates have risen, **the transfers made by central banks to banks have reached extraordinary proportions**. In the eurozone these transfers are estimated at €146 billion per year. The level of total annual EU spending is €168 billion. But while the latter are the result of a painstaking political decision-making process and are only disbursed after meeting complex conditions, **the massive transfers to banks by Eurosystem central banks have not been preceded by any political debate and are granted to banks without any conditions**.

And don't forget: the billions of Euros that the Bank of Spain pays to the banks for their deposits **will ultimately mean a transfer of public money**, due to the lower or null dividends that the Treasury will receive from the central bank. Worse still, **these payments will generate significant losses and deteriorate the Bank of Spain's assets to worrying levels**.

Surely **there are other ways to make an effective monetary policy** without resorting to all this; for example, increasing the cash ratio without remunerating it. **It cannot be that record bank profits are made possible by record central bank losses**.

"There are no profits falling from the sky here," said CaixaBank CEO Gonzalo Gortázar in the last results presentation. Well, not from the sky, they fall from the Bank of Spain, or from all citizens if you prefer, although for the moment it is hidden.