BBVA Research

Spain Economic Outlook

November 2023

Creating Opportunities

Main messages. Global

Recent developments

Growth and inflation have been trending downwards, favored by the recent tightening of monetary conditions. The moderation of commodity prices is also allowing inflation to ease, while providing some support to growth. Still expansive fiscal policy and resilient labor markets are backing activity, but making the disinflation process more difficult. Markets have exhibited a positive tone lately, but remain subject to volatility, especially considering that uncertainty remains very high.

Growth outlook

A further deceleration of the global economy is likely moving forward, as monetary conditions will remain tight, fiscal policy will eventually become less expansive, labor markets will continue losing steam and excess savings are set to decline further. However, a deep recession will likely be avoided. Global growth is forecast to decline from 3.4% in 2022 to around 3.0% in both 2023 and 2024.

Inflation and rates outlook

Inflation is also expected to keep easing, continuing its slow convergence to the targets. That will provide some relief to central banks, which are unlikely, however, to embark on interest rate cutting cycles before the middle of 2024: the Fed and the ECB are expected to revise rates gradually down from Jun/24 and Sep/24, respectively, while they continue to reduce liquidity levels.

Risks

Recession and financial stress episodes are still possible given tight monetary conditions, high inflation and growth deceleration. Geopolitical uncertainty is also a source of concern, particularly after the beginning of the Israel-Hamas conflict. Another risk is a hard-landing in China.

Key points: Spain

Forecast growth for 2023 is unchanged

Economic growth for 2023 looks set to be 2.4%. The downturn will apparently be slightly less than originally expected. Underpinning activity is employment, especially in non-government or tourism-related services.

Worse outlook for 2024

Forecast GDP growth for 2024 has been revised down. This is mostly the result of the recent downturn in activity in the eurozone. High energy costs are undermining part of industry. Uncertainty surrounding economic policy could heighten over the next few months. Rising labor costs, a higher tax burden, and potential changes in inter-government debt and their impact on the Spanish Treasury's funding cost will be crucial.

Depending on what steps are taken, we could see some improvement in 2025

The pace of activity looks set to gather momentum in 2025 in line with recovery across the EMU. Tourism could show stronger scope for growth while instability in the Middle East could steer travelers towards Spain. Inflation has eased in line with expectations. This, coupled with wage growth, bodes well for higher purchasing power. Consumption could be moderately strong, underpinned by the high level of savings and a slightly more propitious interest rate scenario. There is pent-up demand for cars. Employment could grow as the working-age population continues to expand. The drought has eased.

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01

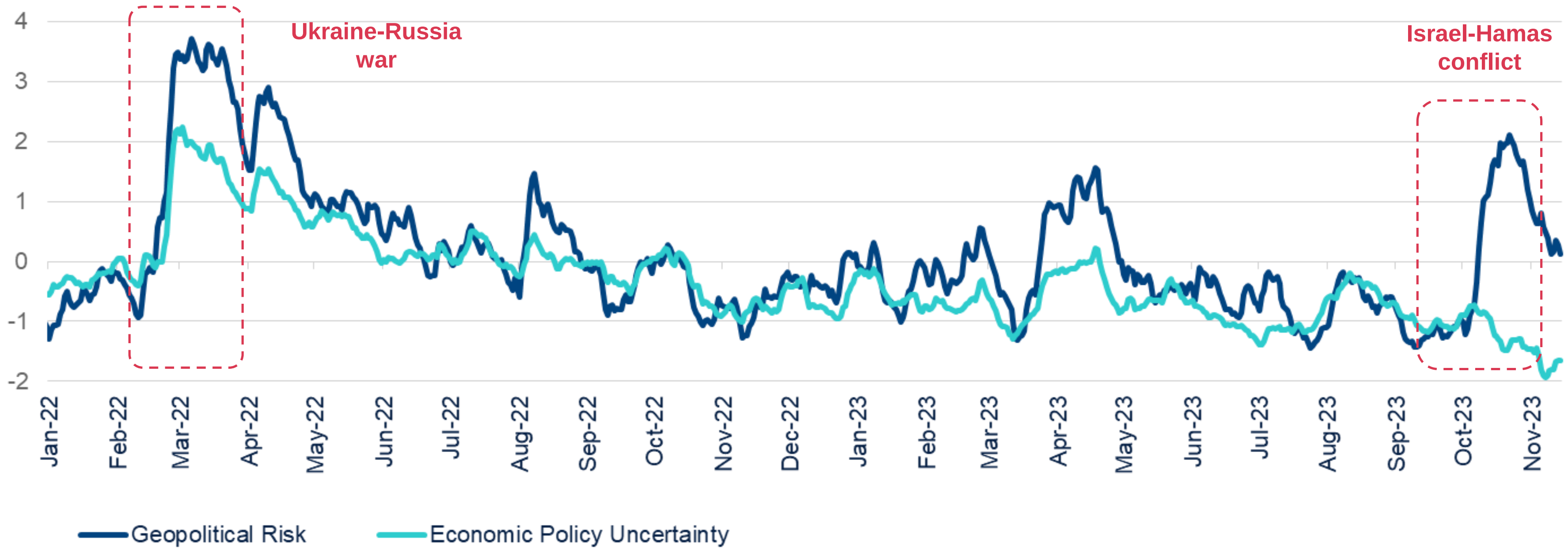
Global Economic Outlook November 2023

Creating Opportunities

Geopolitical risks have increased on the Israel-Hamas conflict, but economic policy uncertainty has remained relatively low

GEOPOLITICAL RISK AND ECONOMIC POLICY UNCERTAINTY IN G3 REGIONS (*)

(INDEXES: AVERAGE SINCE 2019 EQUALS TO 0, 28-DAY MOVING AVERAGE)

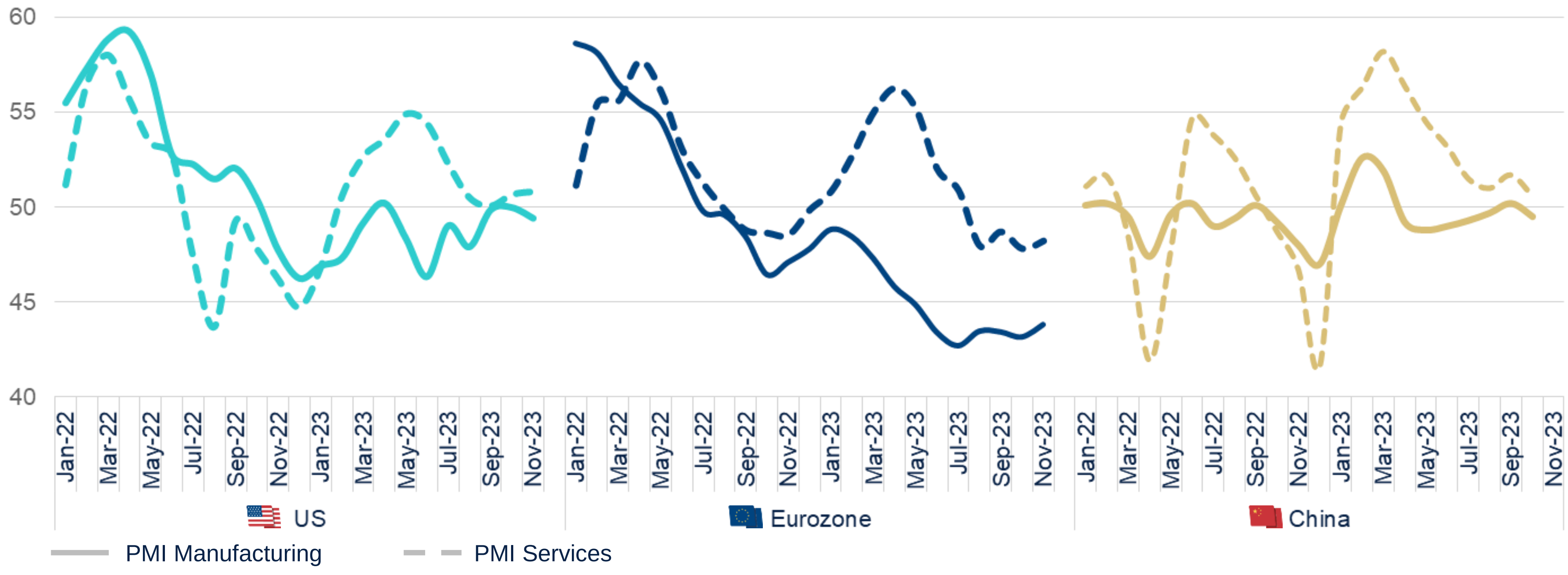


(*): US, Eurozone and China.
Source: BBVA Research Geopolitics Monitor.

Growth continues to trend down, mainly in the eurozone: services are still losing momentum, adding to the weakness in manufacturing

PMI INDICATORS

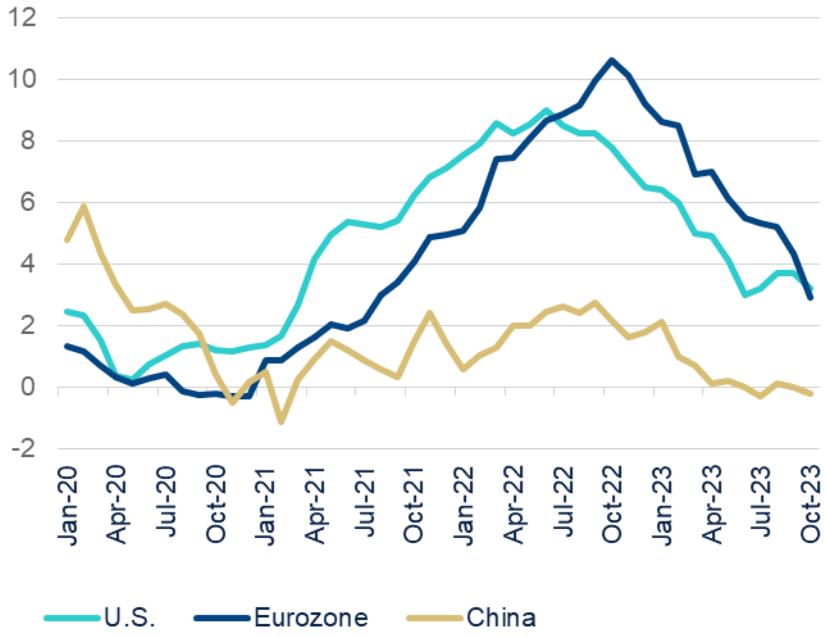
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

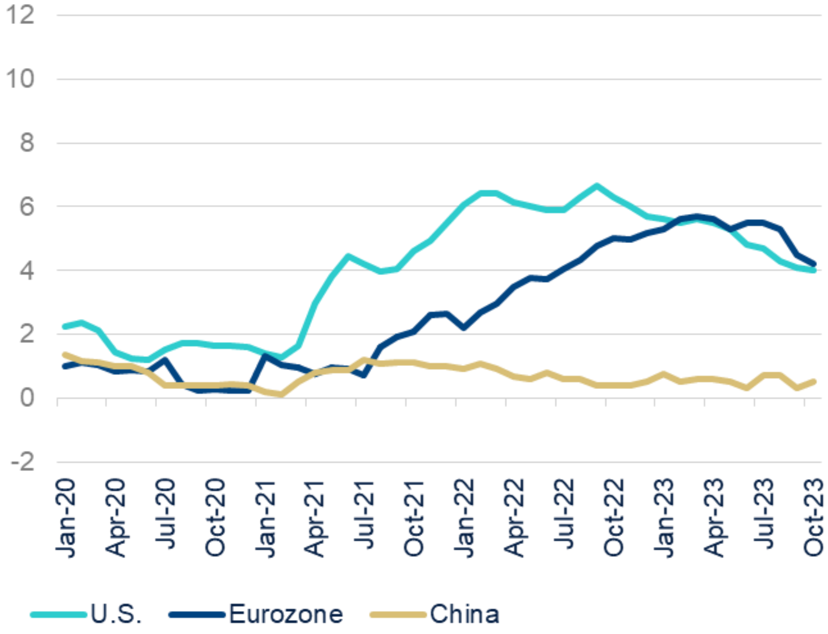
Inflation is also slowing: after the significant decompression of headline figures, there are clearer signs of moderation in (still high) core measures

INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

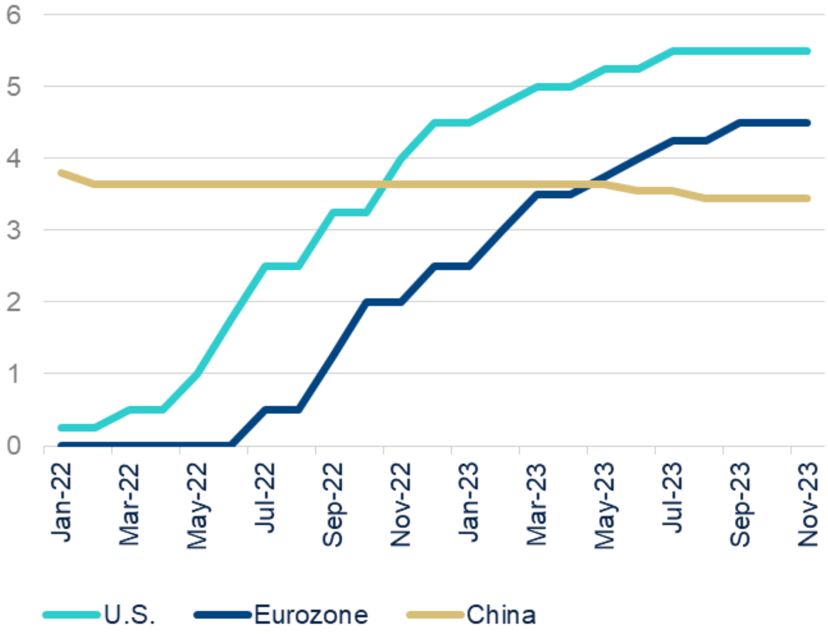
CORE INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

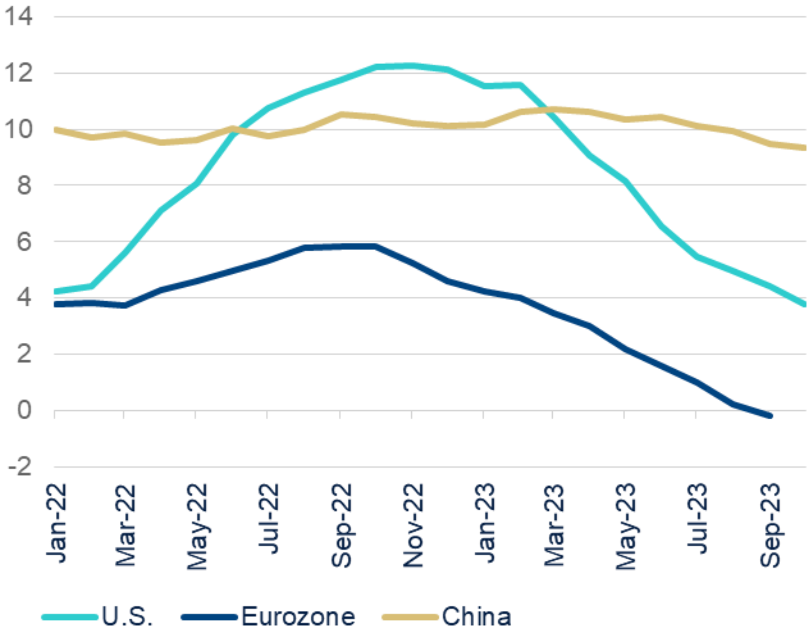
Growth and inflation are easing following the aggressive interest rate hiking cycles -which seem to be over now- and also on the decline of excess savings

POLICY INTEREST RATES (*)
(%)



(*) Refi rates in the case of the ECB.
Source: BBVA Research based on data from Bloomberg.

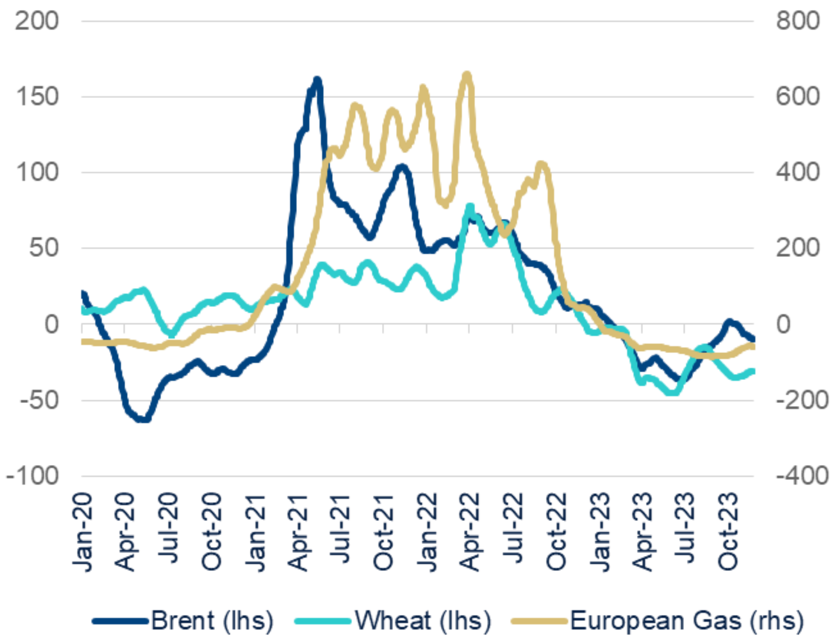
LENDING BY COMMERCIAL BANKS
(YOY %)



Source: BBVA Research based on data from FRED and ECB.

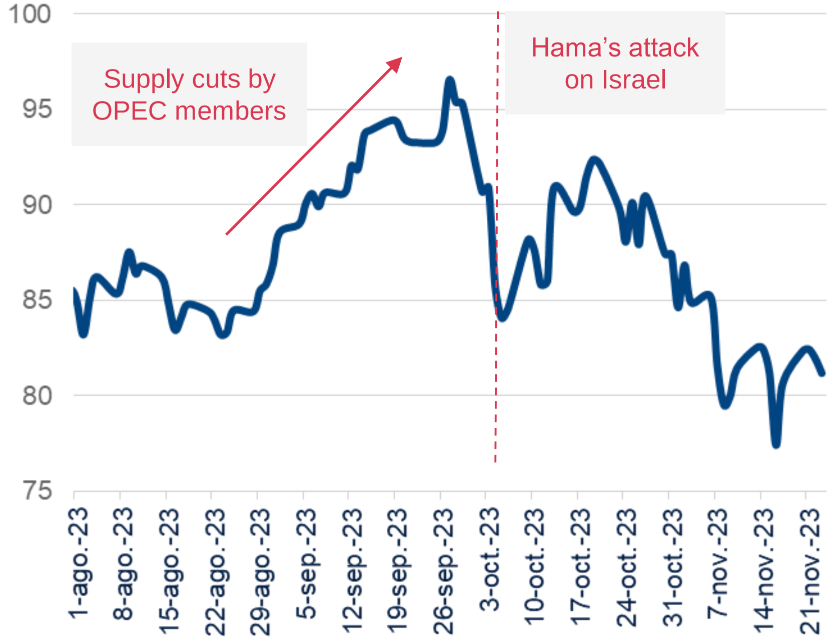
More contained commodity prices (despite Middle-East tensions) are also allowing inflation to ease, while providing some support to economic activity

COMMODITY PRICES
(Y/Y %, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

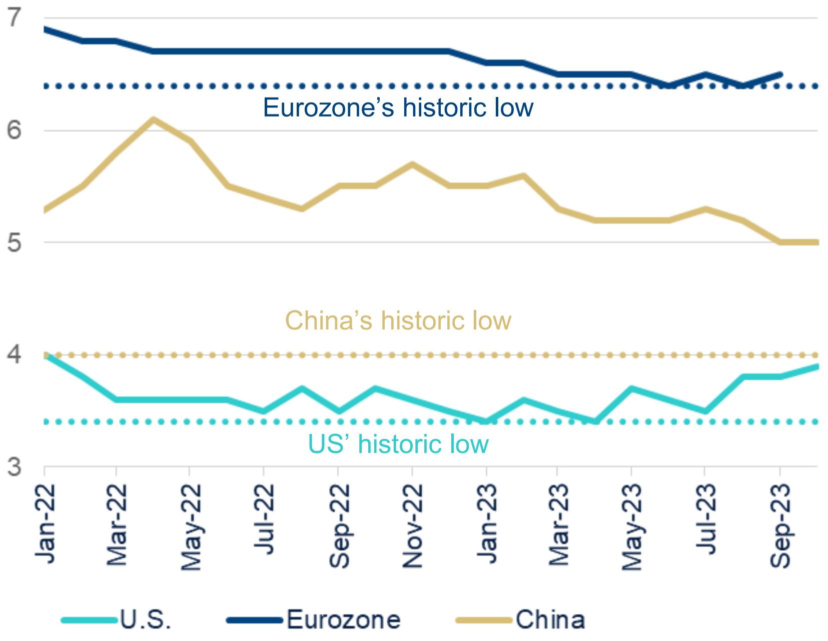
BRENT PRICES
(USD PER BARREL)



Source: BBVA Research based on data from Haver.

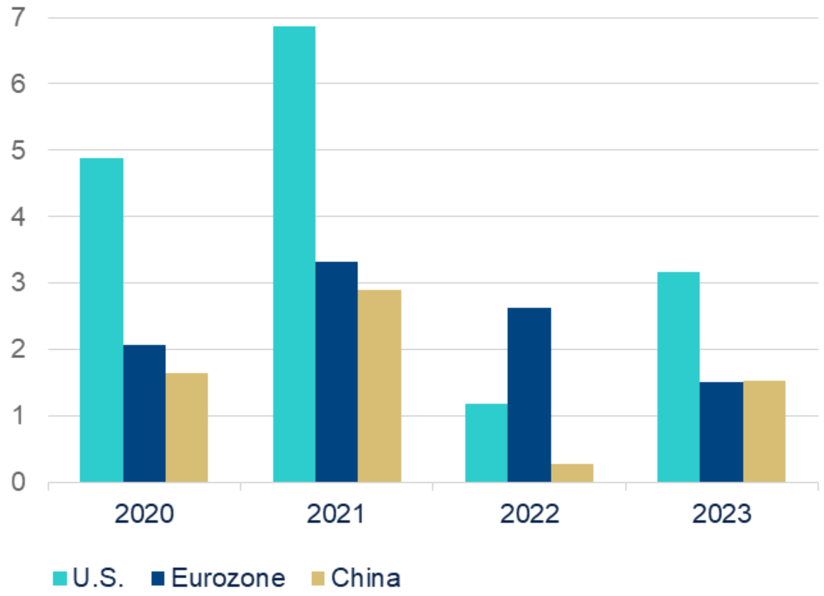
Labor markets and fiscal policy are still supporting growth, helping to prevent recessions while contributing to keep inflationary concerns alive

UNEMPLOYMENT RATE
(% OF THE LABOR FORCE)



(*) Historic low: lowest unemployment rate since Jan/04.
Source: BBVA Research based on data from Haver.

“EXCESSIVE” FISCAL STIMULUS (*)
(% OF GDP)

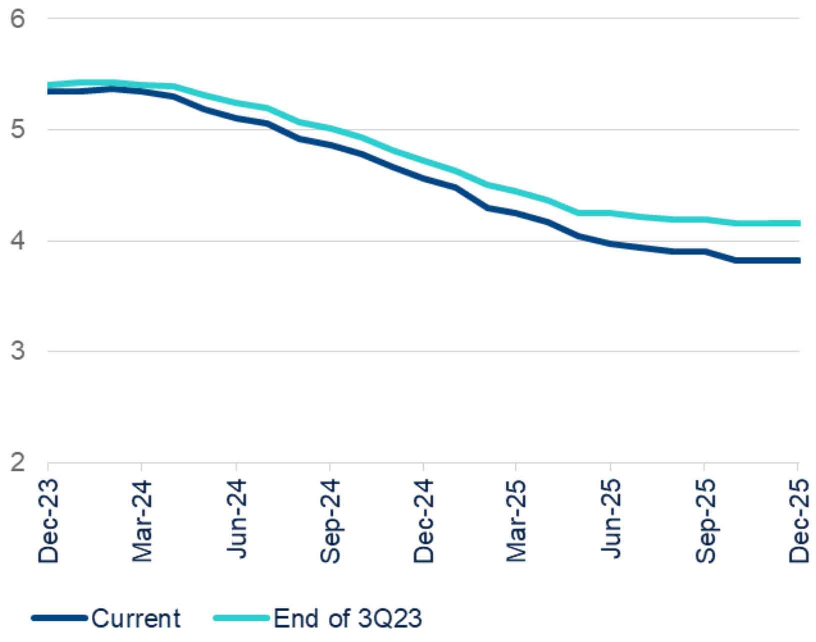


(*) “Excessive” fiscal stimulus: difference between the cyclically-adjusted primary balance and the equilibrium primary balance (calculated as the average relationship between the cyclically-adjusted primary balance and GDP growth in the 2001-2023 period).
Source: BBVA Research based on data from the IMF and AMECO.

Despite the still hawkish tone exhibited by the Fed and the ECB, markets are now pricing an early and more aggressive monetary easing cycle

FED: IMPLICIT RATE IN FUND FUTURES

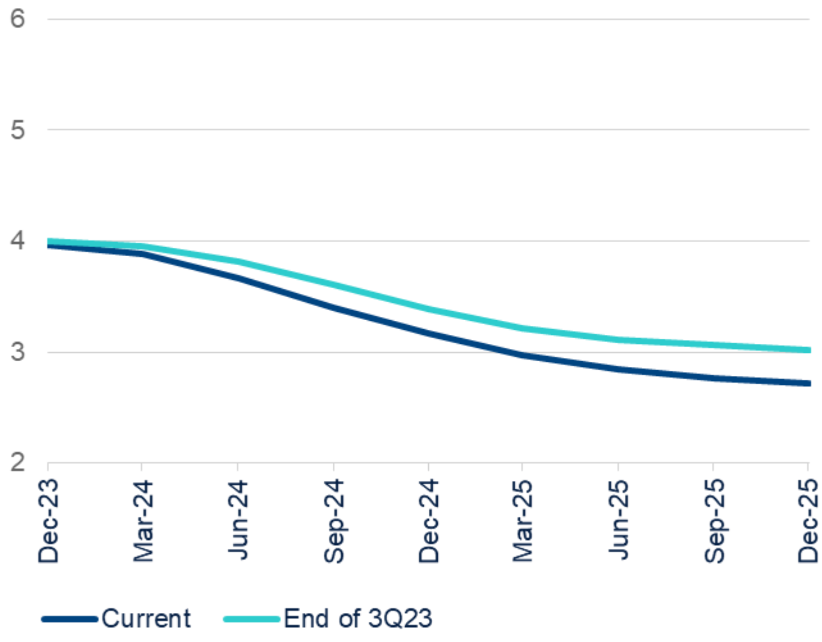
(%)



Source: BBVA Research based on Bloomberg.

ECB: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)

(%)

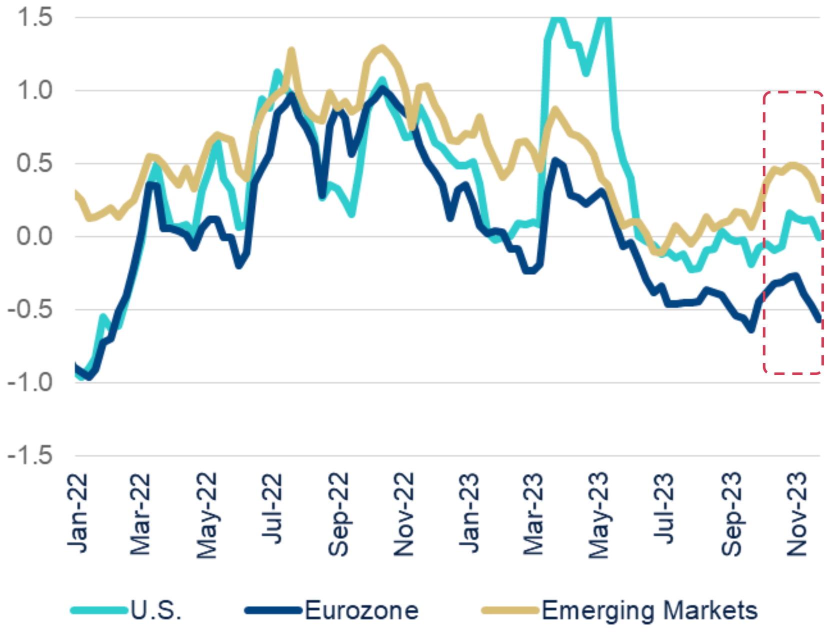


Source: BBVA Research based on Bloomberg.

Financial tensions and sovereign yields have fallen with optimism on inflation and early monetary easing cycle, but markets remain subject to volatility

BBVA RESEARCH FINANCIAL TENSIONS INDEX

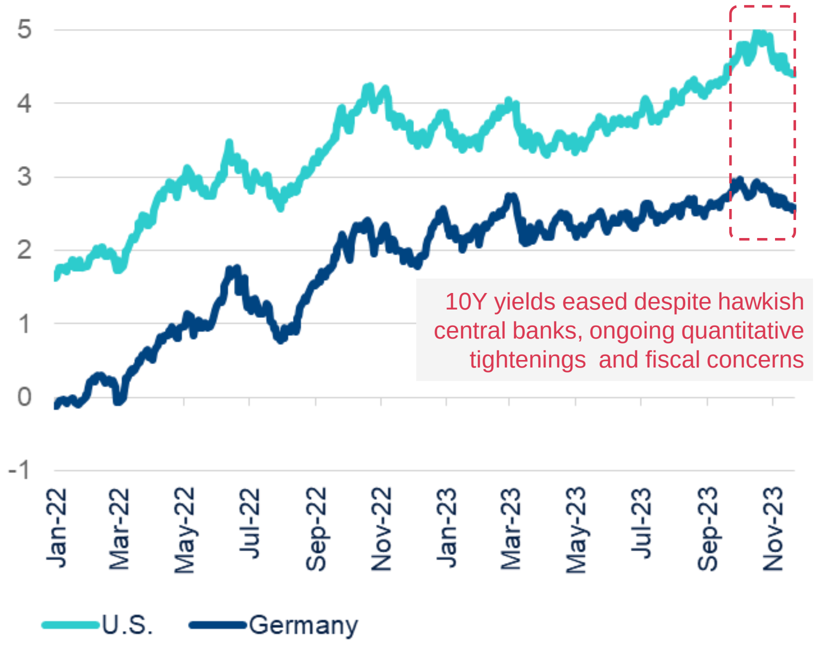
(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on Bloomberg.

US AND GERMAN SOVEREIGN YIELDS: 10Y

(%)



Source: BBVA Research based on Bloomberg.

A soft landing of both growth and inflation is likely to pave the way for cautious rate-cutting cycles, which are closer now but are not imminent yet

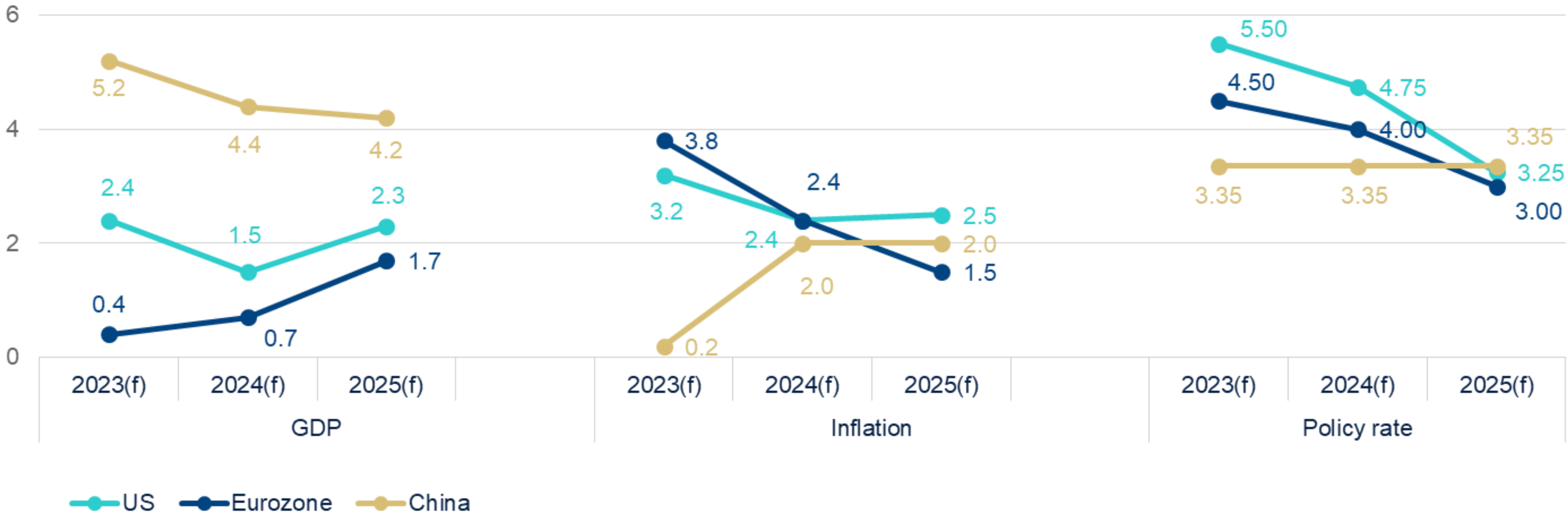
BBVA RESEARCH BASELINE SCENARIO

Growth and inflation slowdown	Cautious central banks	Financial volatility	Geopolitical tensions
Growth and inflation will ease on extra demand weakening, given no extra supply shocks, but risks are still significant	Fed and ECB rates have peaked but are unlikely to be cut before Jun/24; anyway, quantitative tightening will continue	Volatility will remain in place on high interest rates, still hawkish central banks and large uncertainty	Rising risks, but large economic effects are not assumed; Middle-East conflict to have limited impact on energy prices

Global growth will be relatively low, while inflation and policy rates will decline without converging to pre-pandemic (ultra-low) levels over the next two years

BBVA RESEARCH BASELINE SCENARIO: GDP GROWTH, INFLATION AND POLICY INTEREST RATES (*) (**)

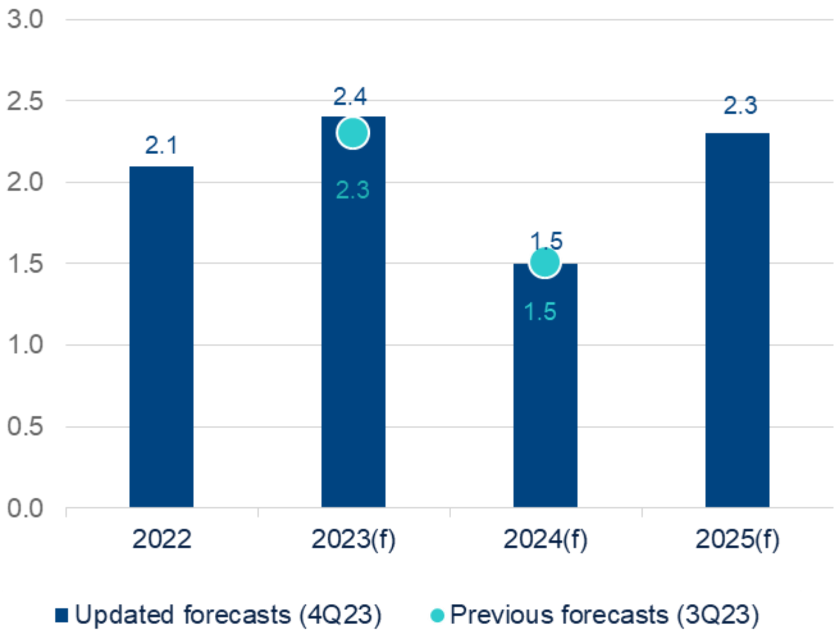
(GDP GROWTH: %; INFLATION: YOY %, END OF PERIOD, POLICY INTEREST RATES: %, END OF PERIOD)



(*) Global GDP growth is forecast to ease from 3.4% in 2022 to around 3.0% (+0.1pp) in 2023, 3.0% (0.0pp) in 2024 and 3.3% in 2025, below the 2000-2022 average (3.6%).
(**) In the case of the Eurozone, interest rates on refinancing operations.
(f): forecasts
Source: BBVA Research based on Bloomberg data.

US: solid domestic demand supports 2023 growth; high interest rates (despite eventual rate cuts from June) likely to weigh more on growth in 2024

US: GDP GROWTH
(%)

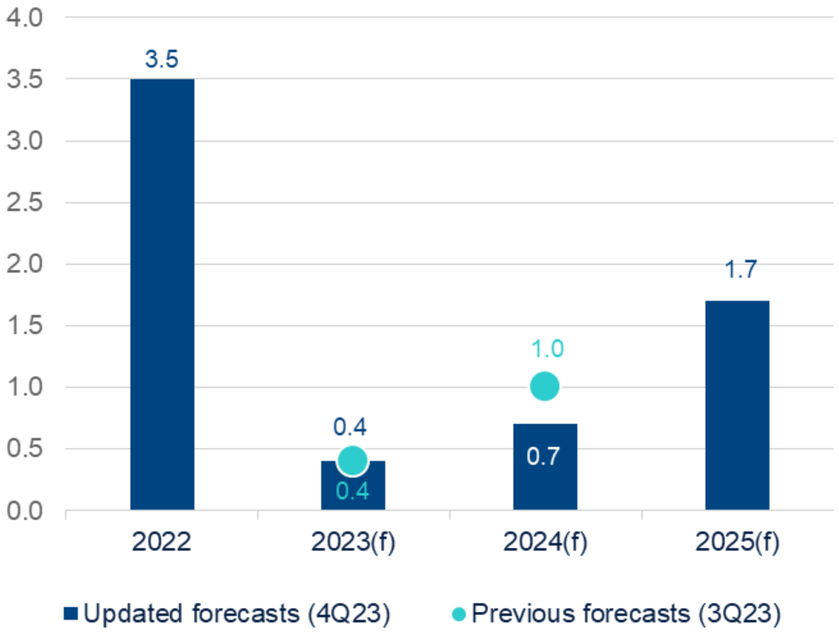


(f): forecast.
Source: BBVA Research

- 2023 growth revised up, despite moderation signs: consumption backed by still significant excess savings and strong labor markets; manufacturing is benefiting from bottleneck normalization.
- Growth to ease in 2024 mainly on the lagged effect of the recent monetary tightening.
- Inflation to keep falling as labor markets come into a better balance.
- Fed: the most likely is a pause with gradual cuts from Jun/24; fears of incomplete convergence to the 2% target to prevent earlier cuts.
- Risks: recession or financial stress on high rates, presidential elections and expansive fiscal stance.

Eurozone: milder growth and lower inflation favor a reduction of ECB policy rates from September, somewhat earlier than previously expected

EUROZONE: GDP GROWTH
(%)

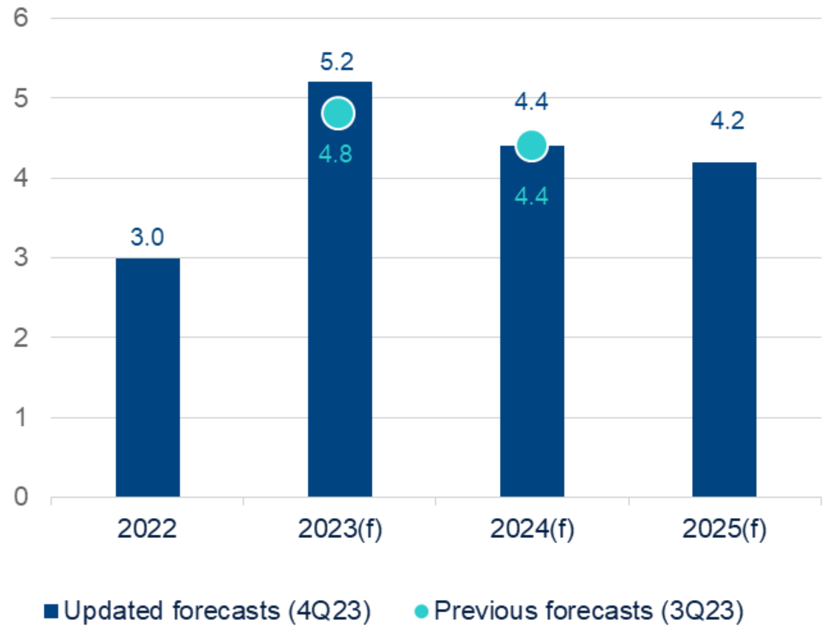


(f): forecast.
Source: BBVA Research

- GDP forecasts: unchanged in 2023 but revised down in 2024; recent data suggest a (minor) recession in 2H23.
- Inflation forecasts revised down: pressures from energy prices, fiscal policy and labor markets to be offset by sharper core disinflation, in line with incoming data.
- ECB: rate cuts from Sep/24, when the disinflation process will be clearer; balance sheet reduction will continue, with focus on PEPP reinvestment and new operational framework.
- Risks: stagflation and competitiveness problems on high energy prices, sovereign debt tensions.

China: recent data reinforce the view that a hard-landing will likely be avoided, but growth is set to ease in 2024-25 as structural challenges remain in place

CHINA: GDP GROWTH
(%)



(f): forecast.
Source: BBVA Research

- 2023 GDP was revised upwards in line with incoming data showing that demand improved somewhat after series of stimulus policies were adopted to avoid a hard-landing.
- Growth is likely to weaken ahead and hard-landing is still a risk as real estate tensions, large local government debt and other structural problems (middle-income trap, ageing, US confrontation etc.) remain in place.
- Inflation remains close to zero, but is forecast to converge to 2% on more supportive policies and some confidence improvement.
- Risks: sharp growth deceleration, deflation and balance-sheet recession, geopolitical tensions.

Risks: tensions in the Middle-East add to the concerns about the potential consequences of high inflation and interest rates and a hard-landing in China

Inflation and high interest rate risks

Higher energy prices on **Middle-East or Ukraine conflicts**

Strong demand on **public spending** (scarce fiscal consolidation)

Strong demand on **private spending** (labor tightness, etc.)

Financial tensions risks

Risk-off and financial volatility

Tensions in **sovereign debt markets**

Tensions in **private debt markets**

Growth deceleration risks

Stagflation, mainly in the EZ and other energy net-importers

Recession, including (but not only) in the US

Hard-landing in China, with balance-sheet recession and deflation risks

Uncertainty on series of economic, political, geopolitical and climate factors

Economic uncertainty	Political uncertainty	Geopolitical uncertainty	Climate uncertainty
Inflation and macro policy mix	**US presidential** elections	**Israel-Hamas** conflict	**El Niño effects** mainly on S. America
Monetary tightening impact, neutral level	**Political tensions** in DMs and EMs	**Ukraine-Russia** war	**Climate disruptions** and weather shocks
Fiscal consolidation	**Populism** and social unrest	**US-China rivalry:** deglobalization, Taiwan	**Energy transition** policies

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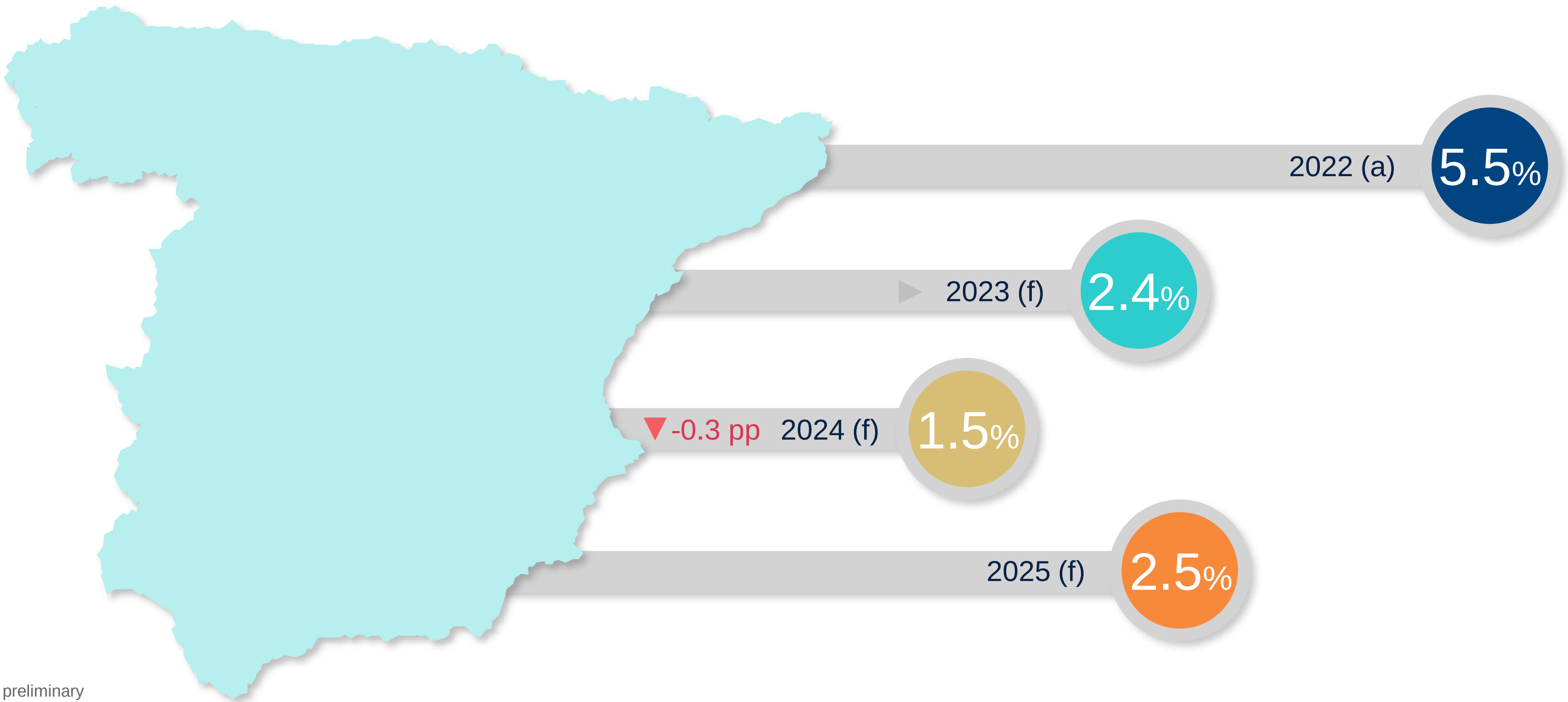
02

Spain Economic Outlook November 2023

Creating Opportunities

We are keeping our growth forecast for 2023 and revising down our forecast for 2024, while growth looks set to accelerate in 2025



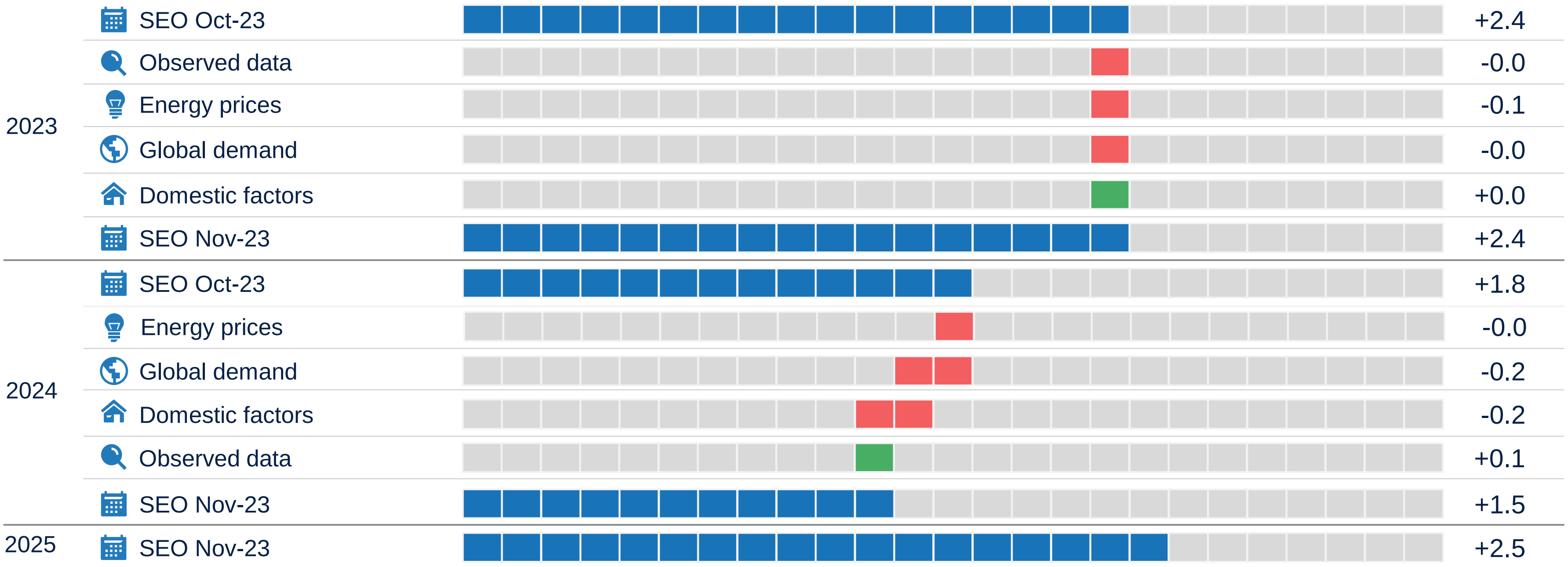
(p): preliminary
(f): forecast.
Source: BBVA Research, based on INE data.

Outlook revised upward · Outlook unchanged · Outlook revised downward

Moderately worse outlook for growth in 2024

Revisions to data and the worse scenario for Europe add a downward bias in 2024

CHANGE IN GDP FORECASTS ACCORDING TO CONTRIBUTIONS BY FACTORS
(%)

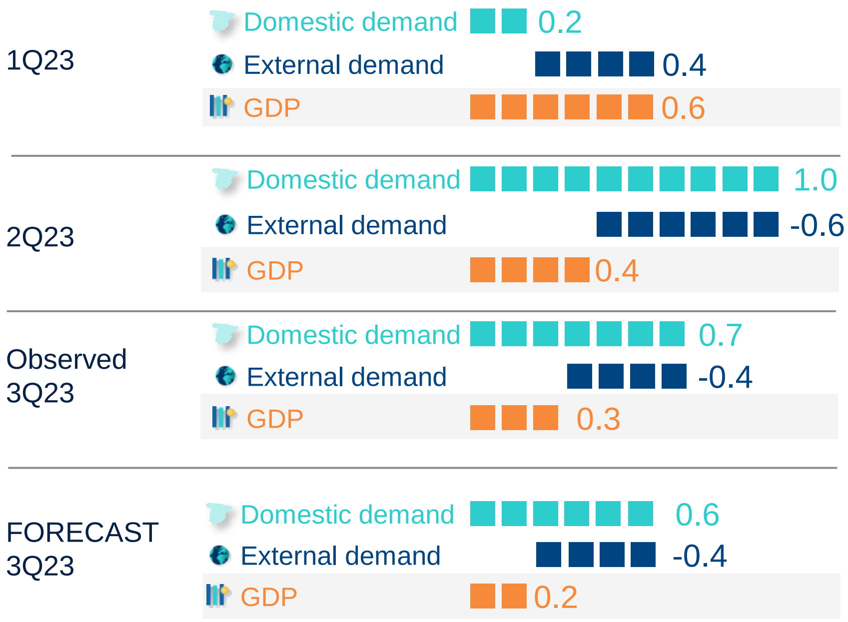


Source: BBVA Research, based on INE data.

The economy appears to be outperforming expectations slightly.

Data point to a shift in the composition of growth towards domestic demand

OBSERVED DATA AND MACROECONOMIC FORECASTS (CONTRIBUTION TO THE QUARTERLY GDP GROWTH. %)



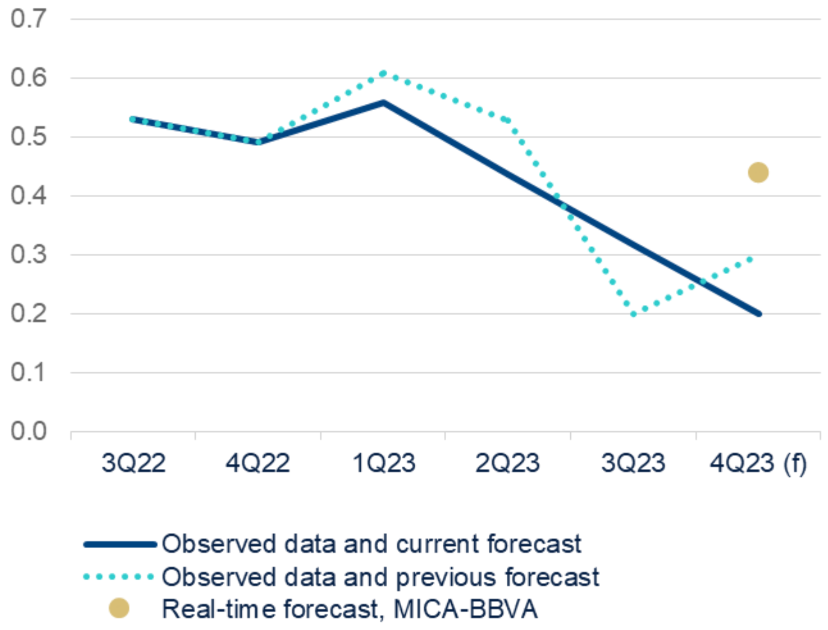
Source: BBVA Research based on INE data.

- INE has released preliminary 3Q23 GDP data: 0.3 % q/q (1.8% y/y), largely in line with estimates (0.2%).
- Domestic consumption's share rose at the expense of exports, which have either fallen or stagnated.
- Meanwhile, private investment shows no clear trend.

The economy appears to be outperforming expectations slightly.

Economic growth has lost steam, yet job creation remains intact

QUARTER-ON-QUARTER CHANGE IN GDP
(%)



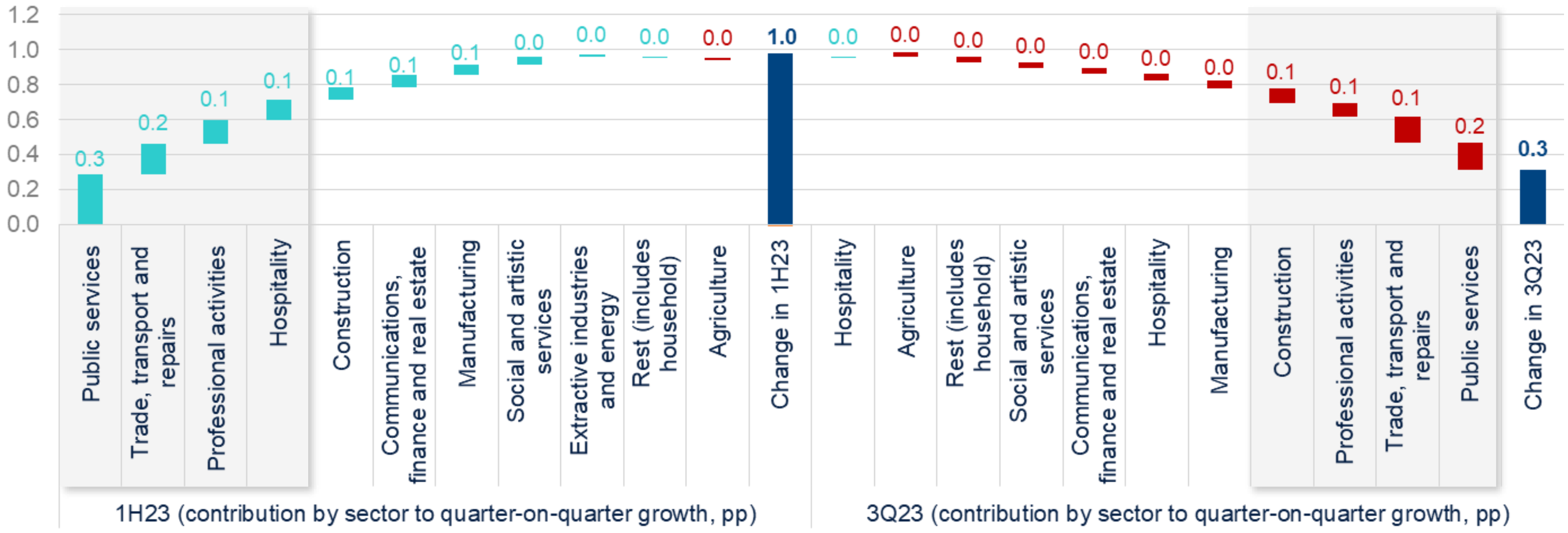
(f): forecast.
Source: BBVA Research, based on INE data.

- Growth in 4Q23 could be around 0.2% q/q, leaving Spain on pace to end the year with average growth of 2.4%.
- The trend in Social Security affiliation denotes that the pace of job creation should remain steady during the rest of the year.
- Private consumption slowed slightly in 4Q23 (0.4% q/q), while exports of tourism services was stronger than expected (0.9%). Investment (0.6%) and exports of goods (1.0%) could pick up after the disappointing performance seen through the year’s third quarter.

The economy seems to be outperforming expectations slightly

Employment is steady in services and down in the public sector

CONTRIBUTIONS TO THE AVERAGE QUARTERLY CHANGE IN SOCIAL SECURITY AFFILIATION BETWEEN 1H23 AND 3Q23 (SWDA DATA, PP)

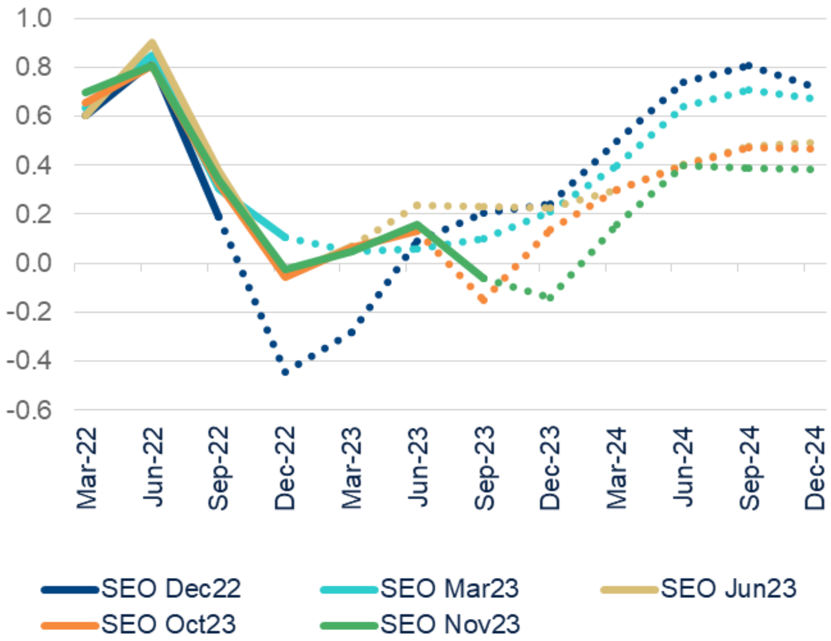


Source: BBVA Research based on Ministry of Inclusion, Social Security and Migration data.

Downward revision to growth for 2024

Deterioration in EMU outlook

GDP GROWTH FORECASTS IN EUROPE (QUARTERLY CHANGE, %)



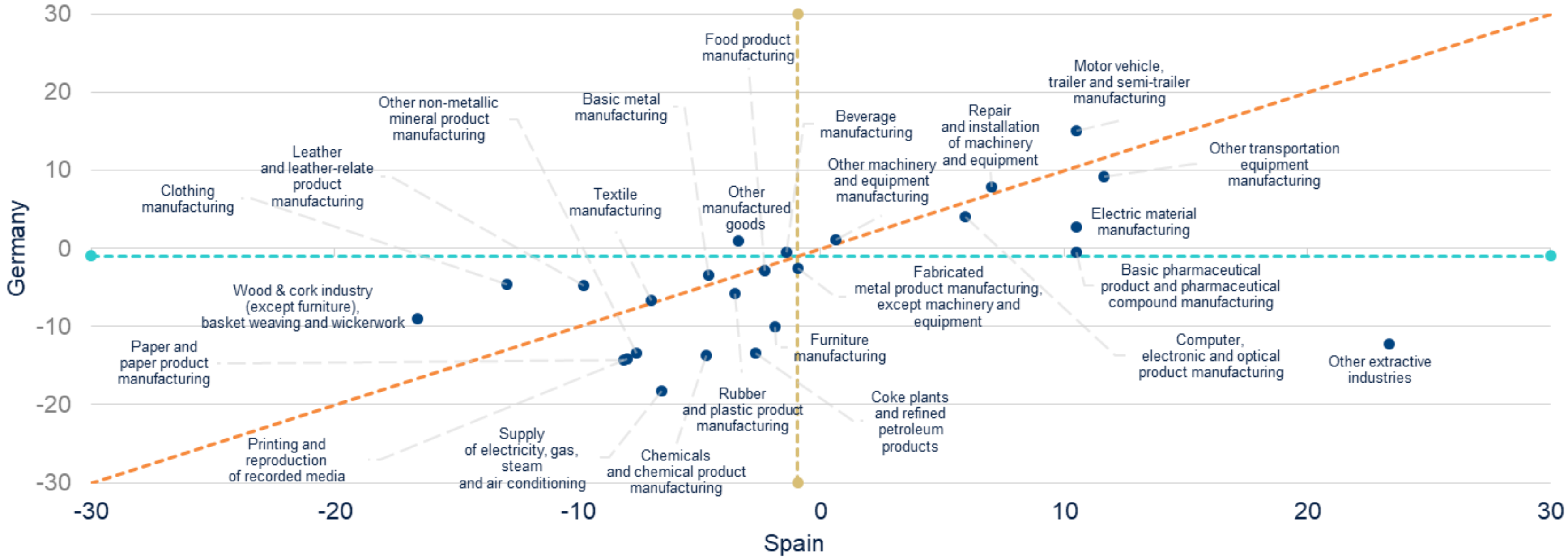
SEO: Spain Economic Outlook.
Source: BBVA Research based on EC data.

- Average forecast growth for the EMU has been revised down by 0.3 pp in 2024, to 0.7%.
- The pace of activity, especially in industry, continues to decline in several European countries. Moreover, fiscal policy in Europe for 2024 has taken on a contractionary tone for the first time since the pandemic started.
- The ECB will have to ensure that the decrease in inflation is sustained over time. This will prevent monetary policy from including cuts to interest rates before the second half of 2024.

Downward revision to growth for 2024

Weakness of European industry

SPAIN AND GERMANY: INDUSTRIAL PRODUCTION INDEX, NACE DIVISIONS
(AVERAGE CHANGE BETWEEN JAN-SEPT 2023 AND JAN-SEPT 2022 IN %, SWDA DATA)



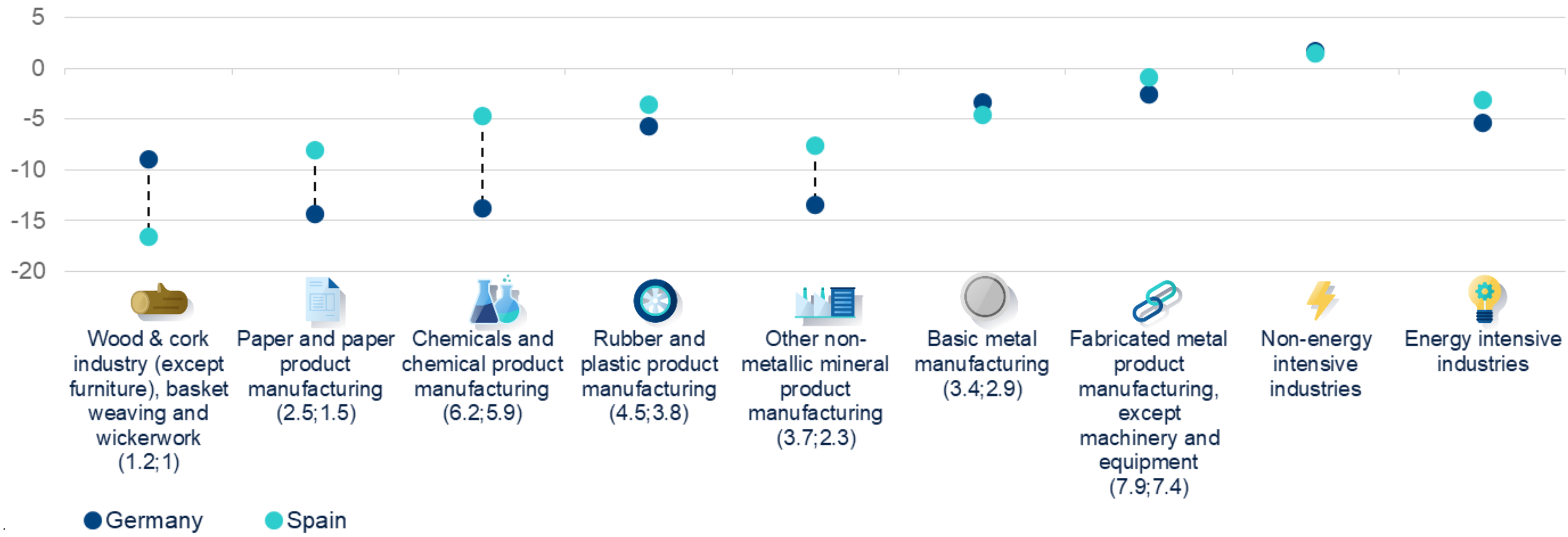
Note: *Tobacco product manufacturing* was excluded from the chart due to the lack of available data for Spain. Germany: 6,6 %.
Source: Source: BBVA Research based on Eurostat data.

Downward revision to growth for 2024

Industrial production has plunged in energy-intensive sectors

SPAIN AND GERMANY: INDUSTRIAL PRODUCTION INDEX, ENERGY-INTENSIVE INDUSTRIES

(AVERAGE CHANGE BETWEEN JAN-SEPT 2023 AND JAN-SEPT 2022 IN %, SWDA DATA)

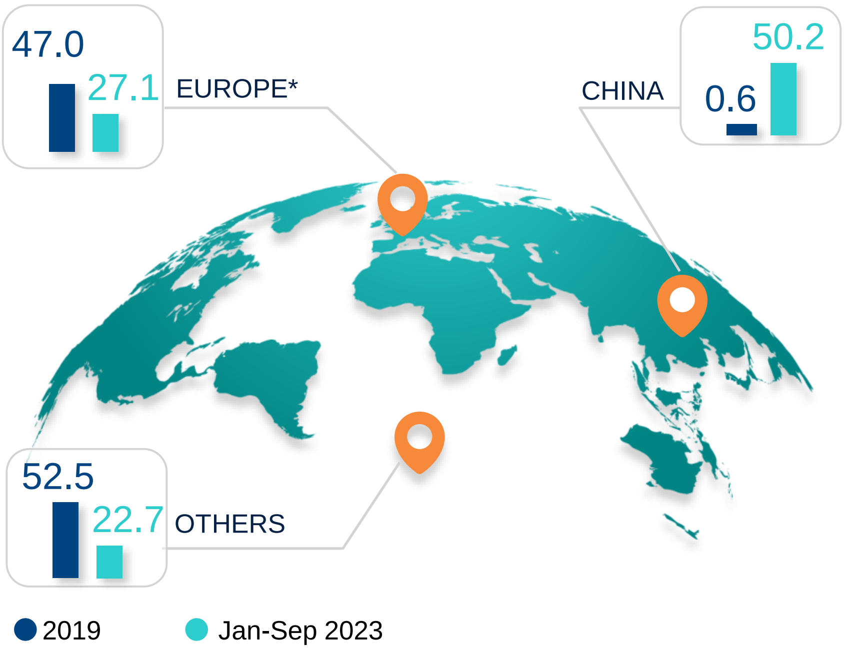


*Energy-intensive industries also include: Food product manufacturing (11.9; 4.9), beverage manufacturing (3.3; 0.8) and tobacco product manufacturing (Weight of GER: 0.25).
Weight of the division on the total production index in parenthesis, Spain on left and Germany on right.
Source: BBVA Research based on Eurostat, INE and Haver Analytics data.

Downward revision to growth for 2024

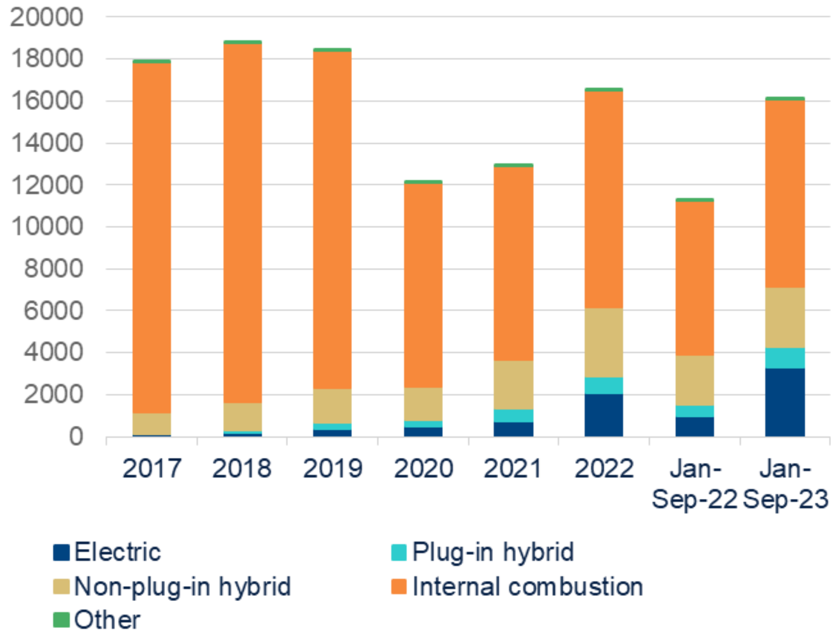
Chinese electric car imports rise to meet growing demand

SPANISH IMPORTS OF ELECTRIC CARS BY ORIGIN
(% OF TOTAL)



(*): Sum of imports from France, the Netherlands, Germany and Italy.
Source: BBVA Research based on Datacomex data.

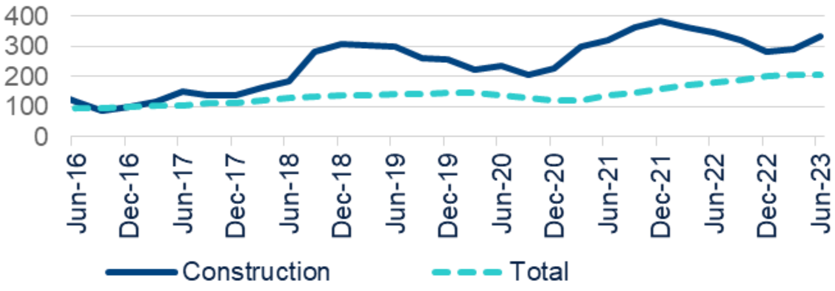
SPAIN: CAR IMPORTS BY TYPE OF ENGINE
(NOMINAL AMOUNTS, IN MILLIONS OF EUROS)



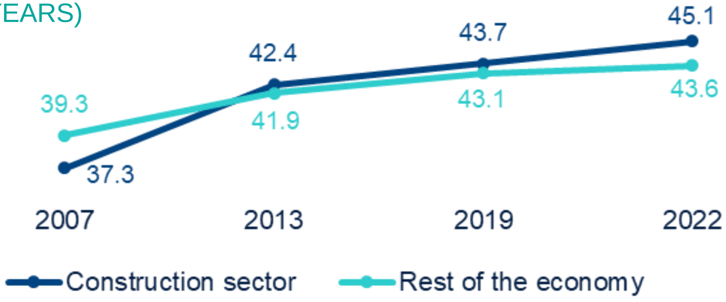
Downward revision to growth for 2024

The labor market remains rigid despite a higher labor force participation rate

VACANCIES BY ACTIVITY SECTOR
(ANNUAL AVERAGE, 2016=100)



AVERAGE AGE OF EMPLOYED WORKERS
(YEARS)



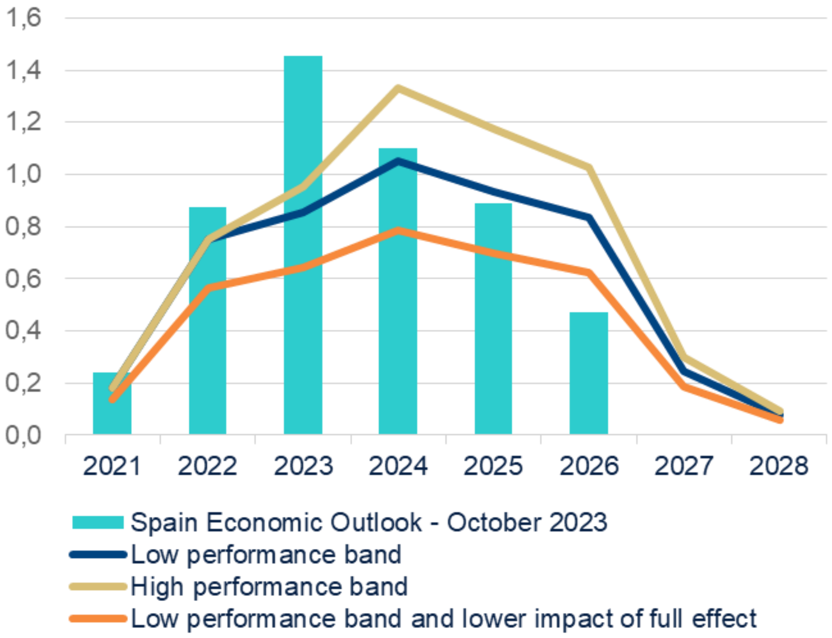
Source: BBVA Research, based on INE data.

- There are still supply-side issues in industry, some services and construction.
- With unemployment falling, companies are finding it increasingly difficult to find workers with the required skills.
- On top of the lack of human capital in certain sectors, especially in construction, there is the problem of a generational shift over the short and medium term.

Downward revision to growth for 2024

Recovery Plan fund execution is going slower than expected

IMPACT ON GDP GROWTH OF TRANSFERS LINKED TO NGEU FUNDS (PP)



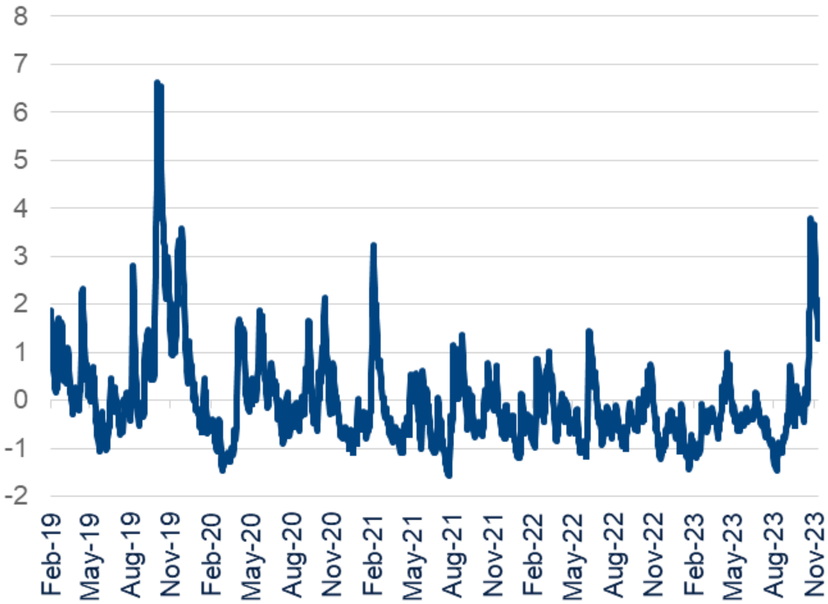
Source: BBVA Research based on INE and La Moncloa data.

- Investment can be seriously impacted by high interest rates, a smaller-than-expected pull effect of NGEU funds and uncertainty surrounding economic policy.
- Slow project tendering and awards suggests a lower-than-expected point contribution to growth by these resources in 2023-2025 period.
- Between €13-15 billion is expected to reach the economy in 2023. Therefore, the impact on GDP growth for the current year has decreased to 1 pp.

Downward revision to growth for 2024

Uncertainty over economic policy could increase

SPAIN: PROTEST INDEX
(28-DAY MOVING AVERAGE, NORMALIZED DATA)

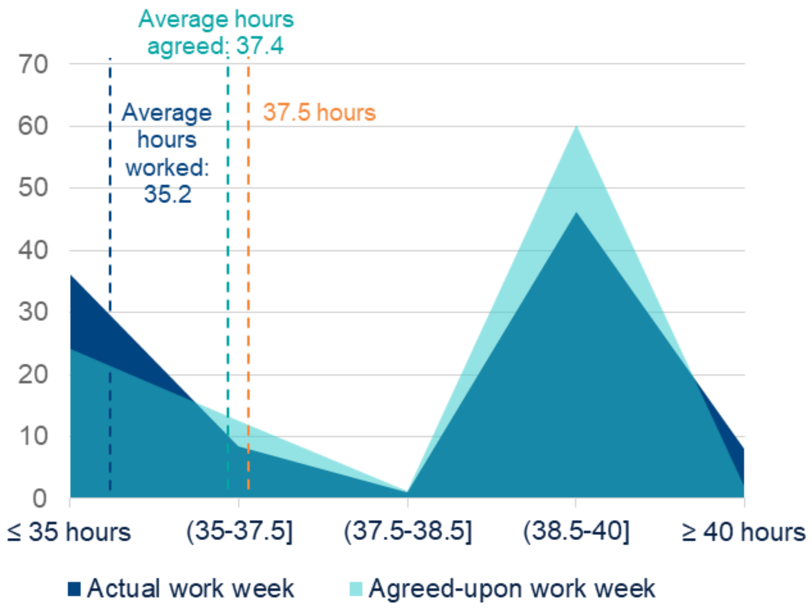


Values below -1 are labeled as "low", those greater than 1 and less than 3 as "high" and those above 3 as "extreme". Otherwise, the indicator is considered "neutral". Latest available data, November 28, 2023.
Source: BBVA Research.

- Economic policy adds uncertainty to the future trend of labor costs, the tax burden and the Treasury's funding cost.
- Agreements reached by the government include fresh increases in the minimum wage, changes to severance pay, reductions in the maximum legal work day and possible changes in the inter-government debt.
- The next national budget is unlikely to be approved until well into 2024, leaving less time to deliver the fiscal consolidation pledged.

The economic policy measures announced could result in higher labor costs and taxes

BREAKDOWN OF THE ACTUAL AND AGREED-UPON WORK WEEK* (4Q22 – 3Q23, % OF SALARIED EMPLOYEES)



*Salaried employees who have worked during the reference week and know both their actual and agreed hours.
Source: BBVA Research, based on INE data.

- The reduction of the maximum legal work week could affect 8 million employees (53.6% of the total*) who over the last year worked or had agreed to work more than 37.5 hours a week.
- Most salaried employees who work more than 37.5 hours work 38-40 hours a week. ⟹ The greatest impact of the reduction in working hours will be concentrated in 2024.
- 'Overtime', understood as the difference between the hours actually worked and the new limit proposed, totaled 29.1 million hours/week in the last year (5.5% of the total hours worked).

The economic policy measures announced could result in higher labor costs and taxes

BREAKDOWN OF SALARIED EMPLOYEES WITH AGREED-UPON HOURS > 37.5 PER WEEK*

(POPULATION GROUPS, 4Q2022-3Q2023)

Worker characteristics

MEN 62.9%

AGED 35-54 56.1%

SPANISH NATIONALITY 83.4%

HIGH SCHOOL EDUCATION 52.3%

ANDALUSIA 14.7%

CATALONIA 18.9%

MADRID 17.6%

Job characteristics

SKILLED LABOR 27.1%

FOOD SERVICE AND TRADE 18.5%

SKILLED MANUFACTURING AND CONSTRUCTION WORKERS 14.3%

PERMANENT CONTRACT 88.1%

OVER 10 YEARS' TENURE

IN THE CONTRACT 31.2%

AT THE COMPANY 34.7%

Company characteristics

MOTOR VEHICLE TRADE AND REPAIR 26.0%

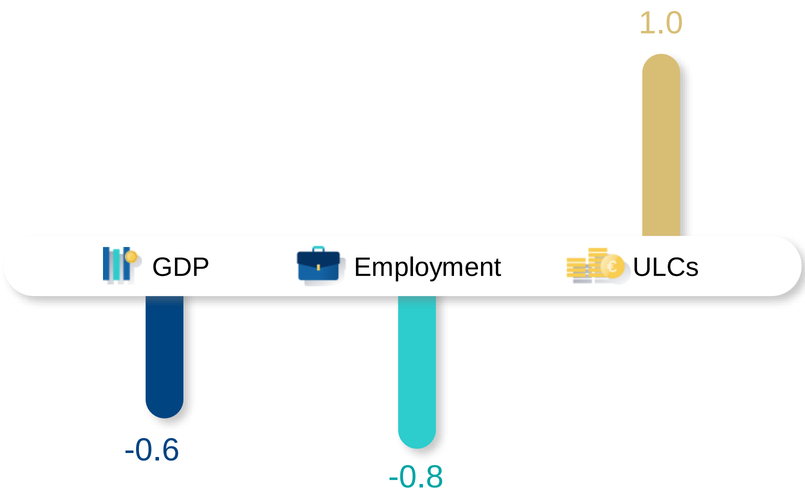
FINANCIAL BROKER, INSURANCE, REAL ESTATE, PROFESSIONAL SERVICES, SCIENTISTS AND OTHERS 13.9%

TRANSPORT, INFORMATION AND COMMUNICATION 11.6%

*Salaried workers who have worked during the reference week and know both their actual and agreed working hours.
Source: BBVA Research based on INE data.

The economic policy measures announced could result in higher labor costs and taxes

POTENTIAL IMPACT OF A 1.5% INCREASE IN LABOR COSTS ON AVERAGE ANNUAL GROWTH OF GDP, EMPLOYMENT AND ULCs IN THE 2024-2025 PERIOD* (%)

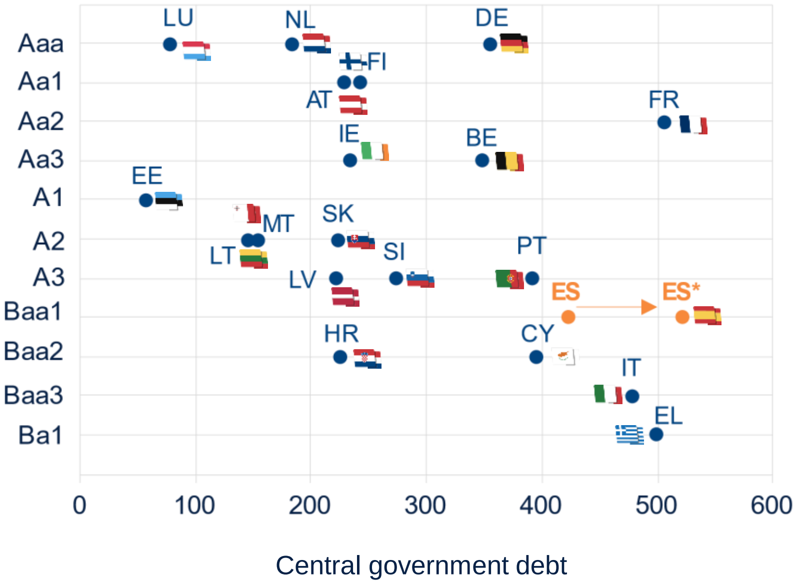


*The reduction in the maximum legal work week could become effective at the beginning of 2024. Wage share in GDP would increase by an estimated 1.5%.
See "Proposed reduction to the legal maximum work week: incidence and potential impact", BBVA Research (forthcoming).
Source: BBVA Research based on INE data (Labor Force Survey).

- Without any offsetting measures to mitigate the estimated increase in labor costs (1.5% of GDP), the reduction in working time would take away roughly 6 tenths of average annual GDP growth over the next two years and 8 tenths of job growth.
- Before the proposal is enacted, the potential effects must be assessed in detail and social agents must be involved in both, the design and future enforcement.
- Policies designed to bring down non-labor costs and encourage cooperation between companies and workers would help accentuate the positive and mitigate the negative impacts of the reform, while at the same time making the Spanish economy more competitive.

The economic policy measures announced could result in higher labor costs and taxes

CENTRAL GOVERNMENT DEBT AS A PERCENTAGE OF NON-FINANCIAL INCOME BY CREDIT RATING (%)



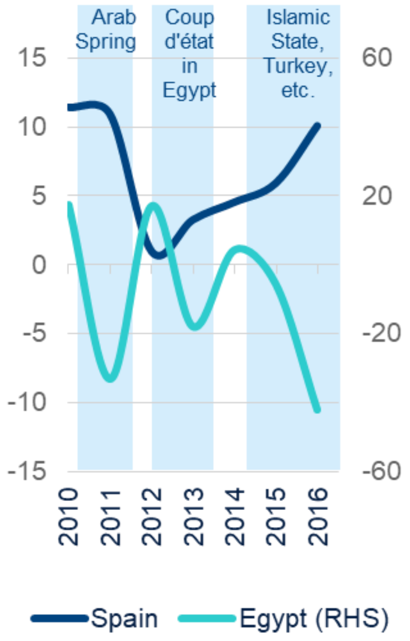
Note: Credit rating nomenclature at Moody's.
(*) Central administration revenue net of income transferred to regional government treasuries.
Source: BBVA Research based on Eurostat, Ministry of Finance and Moody's data.

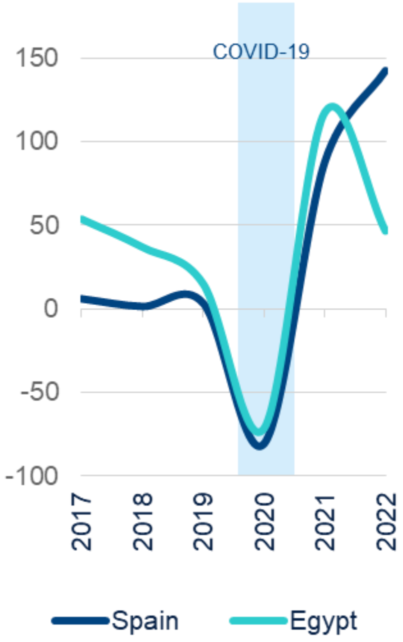
- Potential forgiveness of part of regional government debt could have a major impact on the economy.
- The initiative would pose a moral risk unless a credible institutional framework that prevents the regional governments from amassing imbalances going forward is agreed first.
- Sovereign debt issuance costs will increase unless further measures to enhance the government's financial position are taken.

Factors supporting growth to 2025

Instability in the Middle East could improve the outlook for tourism

FOREIGN TOURISTS IN SPAIN AND EGYPT
(ANNUAL GROWTH, %)





Source: BBVA Research based on INE and CAPMAS data.

- Unrest in the Gaza Strip could drive some tourists towards Spain who otherwise would have visited North Africa or the Middle East.
- The latest source of geopolitical uncertainty could have similar, albeit more moderate, effects to those seen for instance during the Arab Spring or the 2013 Egyptian coup d'etat.
- At any rate, the best news for the sector is the lifting of restrictions that constrained growth.

Factors supporting growth to 2025

The tourism sector could have capacity for growth than originally perceived

ESTIMATED BED PLACES AND OCCUPANCY RATES BY BED PLACES, CATEGORY AND CERTIFIED HOTELS*

(% CHANGE JAN-SEPT 2023 VS JAN-SEPT 2019)

	NUMBER OF ESTIMATED BED PLACES	OCCUPANCY RATE BY BED PLACES
★ ★★ ★★★	-4.4	0.4
★★★★ ★★★★★	4.4	-0.7

	HOTEL BUILDABLE AREA
HOTEL BUILDING PERMITS**	55.8

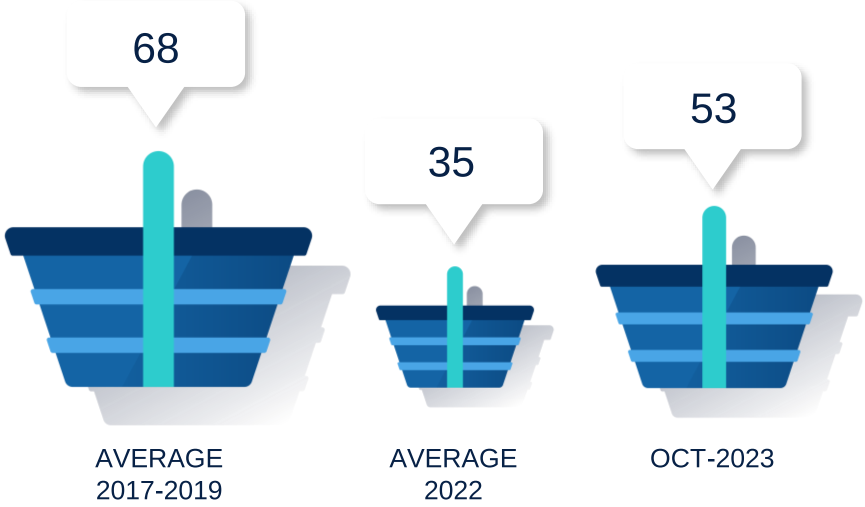
*Building permits for tourism, recreation and sports use.
** Cumulative data for January – August.
Source: BBVA Research, based on MITMA and INE data.

- The tourism sector should be in better shape over the next few months as activity in host countries gathers momentum and thanks to greater scope for growth by investment and immigration.
- The influx of foreigners, coupled with a higher participation rate by residents in Spain, has boosted job creation in the sector.
- There is room for growth in bed places in 4- and 5-star hotels, precisely the categories where investment is growing the most.

Factors supporting growth to 2025

Inflation has trended in line with expectations, barring higher oil prices in Sept-23

PERCENTAGE OF GOODS IN THE CONSUMER BASKET SUSTAINING INFLATION LESS THAN OR EQUAL TO 2% (%)



Source: BBVA Research, based on INE data.

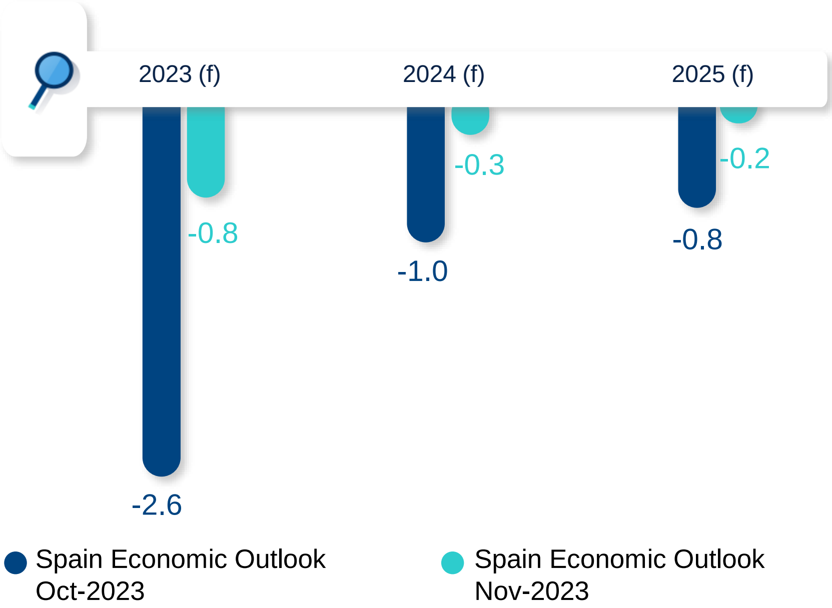
- Inflation is showing signs that the slowdown seen will be sustained, barring surprises in energy prices.
- The percentage of goods and services with price growth below 2% has increased by 18 pp between the 2022 and October 2023 averages, suggesting that the change in the trend of inflation confirmed by other indicators is consolidating.
- This is coming against a backdrop in which the outlook is for moderate growth in employment and higher wages in collective agreements of between 4% and 5%.

Factors supporting growth to 2025

In addition to interest-rate cuts, there is the perception of a lower-than-expected impact

CONTRIBUTION OF REAL INTEREST RATE CHANGES TO PRIVATE CONSUMPTION GROWTH*

(PP)



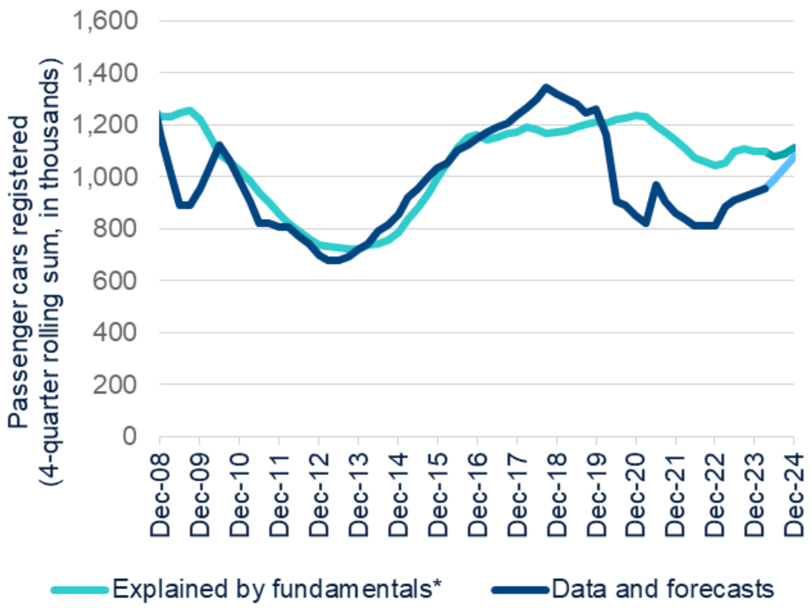
(f): Forecast.
(*) Interest rate on outstanding mortgage loans deflated by the private consumption deflator.
Source: BBVA Research based on Bank of Spain and INE data.

- Household consumption will be underpinned by the recovery of some of the purchasing power lost in 2022 and 2023.
- Current household expenditure stands to benefit from the increase in household wealth, normalization of the saving rate, reduced balance sheet exposure to interest-rate hikes and pent-up demand for cars.
- Spain's aging population is resulting in households with less debt and more assets. This could explain why higher interest rates are having less of an impact on their expenditure.

Factors supporting growth to 2025

There is pent-up demand for cars

PASSENGER CAR REGISTRATIONS
(4-QUARTER MOVING SUM, THOUSANDS OF UNITS)



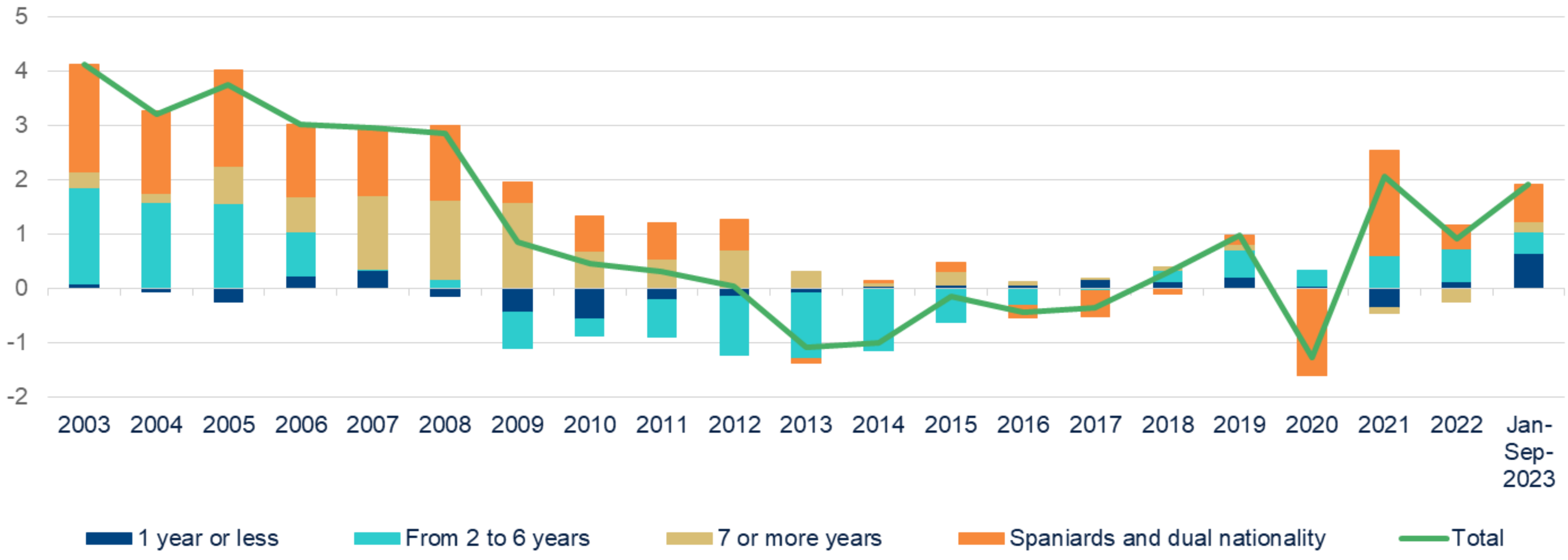
(*) Per capita income levels, relative fuel prices, unemployment rates, average interest rate on new consumer loans, etc.
Source: BBVA Research based on Ideauto and INE data.

- Decisions to buy cars have been delayed because of regulatory uncertainty, the pandemic, supply chain disruptions (particularly the lack of semiconductors), rising fuel prices or doubts surrounding the transition to electric cars.
- Nearly all these issues have been or will be resolved in the coming months. This would help car sales pick back up.

Factors supporting growth to 2025

The labor force has grown thanks to the inclusion of Spaniards and long-term residents

CONTRIBUTION TO YEAR-ON-YEAR GROWTH OF THE LABOR FORCE BY NATIONALITY AND LENGTH OF RESIDENCE (% and PP)



Source: BBVA Research, based on INE data.

Need for reforms to boost investment, reduce unemployment, raise productivity and improve wages.

BOOST INVESTMENT

- Companies continue to deleverage and show balance sheet surpluses. Lack of profitable projects?
- Poor performance of gross fixed capital formation.
- Unemployment remains high and productivity per hour worked was disappointing.

↓

- Reduce uncertainty.
- Continue to make the labor market more flexible and improve training for employees and the jobless.
- Eliminate bottlenecks that are undermining the transition to a model that is environmentally and socially sustainable.

DROUGHT

- Climate-related risks remain real.
- Water scarcity destroys jobs in the agri-food sector and heightens pressure on food prices.
- A prolonged drought can extend the impacts beyond the agri-food sector.

FISCAL CONSOLIDATION

- Design a medium-term adjustment plan.
- Perform a generalized and ongoing assessment of expenditure.
- Prioritize tax measures with the smallest impact on the economy.

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03

Forecasts

Forecast

% y/y	2022	2023	2024 (f)	2025 (f)
National final consumption expenditure	3.4	2.3	1.6	1.8
Private consumption	4.7	2.2	1.7	2.0
Public consumption	-0.2	2.7	1.4	1.4
Gross fixed capital formation	2.4	1.8	4.5	8.4
Equipment and machinery	1.9	-0.4	5.1	9.8
Construction	2.6	3.0	3.5	8.0
Housing	1.4	0.9	2.3	8.3
Domestic demand*	**2.9**	**1.9**	**2.1**	**3.1**
Exports	15.2	0.8	1.8	4.2
Exports of goods	4.5	-2.3	2.1	4.5
Exports of services	48.6	8.6	1.1	3.6
Final consumption by non-residents in Spain	117.8	11.2	1.6	2.9
Imports	7.0	-0.3	3.3	6.0
External demand*	**2.9**	**0.5**	**-0.6**	**-0.7**
Real GDP at market prices (mp)	**5.8**	**2.4**	**1.5**	**2.5**

* Contribution to GDP growth.
(f): forecast.
Source: BBVA Research based on INE and BdE.

Forecast

% y/y	2022	2023(f)	2024 (f)	2025 (f)
Employment (full-time equivalent)	3.7	3.1	1.9	1.9
Employment, based on Labor Force Survey	3.1	3.0	2.3	2.2
Unemployment rate (% of labor force)	12.9	12.2	11.8	11.2
CPI (annual average)	8.4	3.7	3.5	2.3
GDP deflator	4.4	5.9	3.6	2.9
Public deficit (% GDP)	-4.7	-4.1	-3.7	-3.5

(f): forecast.
Source: BBVA Research based on INE and BdE.

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Spain Economic Outlook

November 2023

Creating Opportunities