

Spain Economic Outlook

March 2024

Main messages



Recent developments



Tight monetary conditions have hit the manufacturing sector, but services remain resilient, mainly in the US. The latter has prevented a faster disinflation, which together with geopolitical risks, have kept central banks cautious. Markets have scaled back aggressive monetary easing expectations, but financial volatility remains limited.



Inflation and rates outlook



Inflation is expected to slow further moving ahead, as service pressures are likely to subside, assuming no new supply shocks emerge. That would set the conditions for the Fed and the ECB to gradually cut rates from the middle of this year onwards.



Growth outlook



Growth is likely to lose steam, although not as much as expected, in the US, and to remain relatively weak in the Eurozone and China over the next few quarters. Some recovery is forecast from the second half of the year, driven by lower inflation and lower interest rates, but not in China, where structural deceleration factors are expected to prevail. Still, the Eurozone recovery will likely be weaker than anticipated.



Structural factors



Geopolitics will significantly influence future economic dynamics, molding policies and global conflicts. It will potentially increase uncertainty and trigger supply shocks. Combined with other factors, such as demographics and fiscal policy, these shocks will pressure inflation, compelling central banks to keep policy interest rates above pre-COVID levels.

Spain. Key points



Upward revision of growth for 2023 and 2024



In 2023, growth was 2.5% (2.4% three months ago). In 2024, GDP growth could be around 2.1% (1.5% in the previous scenario).

Private consumption and service exports are performing better, supported by immigration and gains in competitiveness.



Several factors will boost the economy in 2024



The factors supporting the growth include the observed decline in oil, since September, gas and electricity prices, their impact on inflation and the subsequent correction in interest rates. In addition, fiscal policy is being somewhat more expansionary than expected, while the execution of NGEU funds is reaching cruising speed.



Worse outlook for 2025



GDP growth in 2025 (2.0%) is expected to be lower than the 2.5% forecast three months ago. The worsening outlook is explained by the adjustment in public accounts and the expected further weakness of the eurozone. Added to this is the poor performance of private investment. Productivity is stagnating while labor costs are rising, which may hinder employment growth. Supply constraints persist due to lack of skilled labor or regulation. Ultimately, economic policy uncertainty remains high.

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Global Economic Outlook 1Q24

Supply normalization and (surprisingly slow) demand weakening amid high interest rates have triggered an (incomplete) easing of growth and inflation



Main scenario drivers

Waning supply shocks: easing of commodity prices and bottlenecks, despite geopolitical tensions

Demand moderation, on monetary tightness, but backed by fiscal policy and labor markets



Recent macro trends

Declining inflation, which is still above targets, mostly on service pressures

Growth soft-landing: manufacturing weakness, but resilience services



Central banks and financial markets

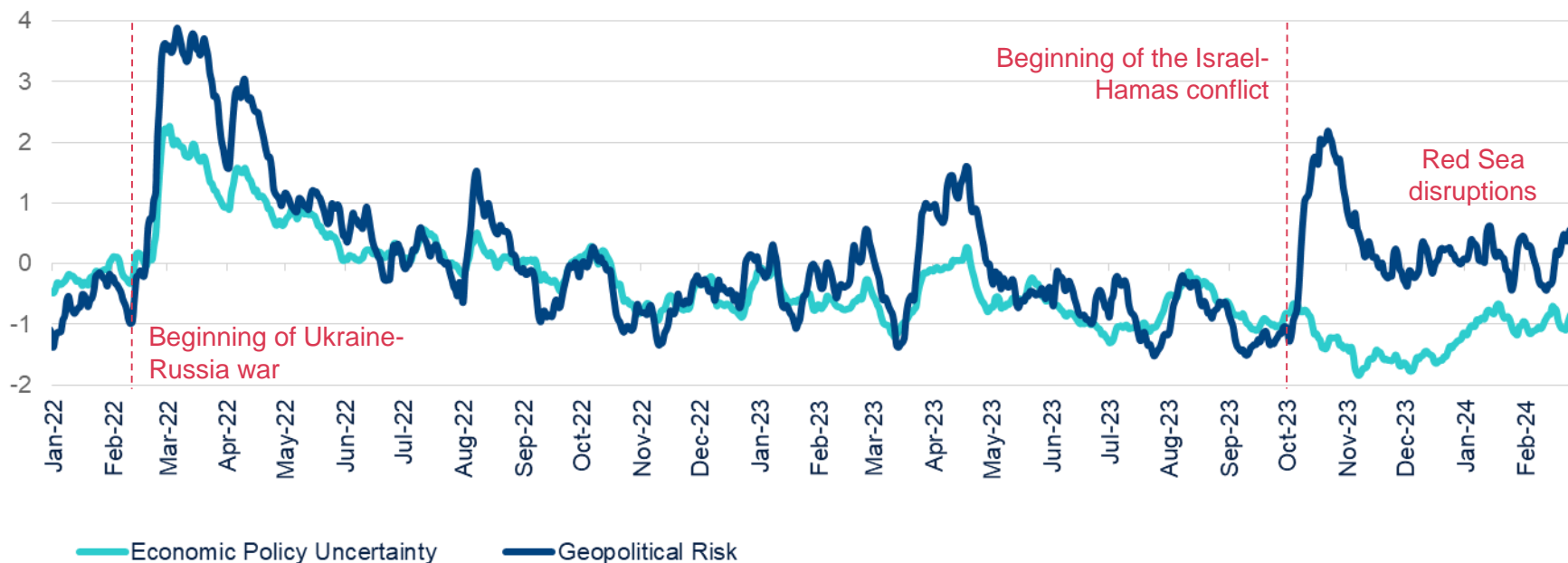
Rate-hiking cycles seem over; focus on timing and speed of coming easing cycles

Limited financial volatility, despite the scaling back of sharp monetary easing expectations

The geopolitical context continues to be a source of concern; the conflict in the Middle-East has escalated somewhat, with limited economic effects so far

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

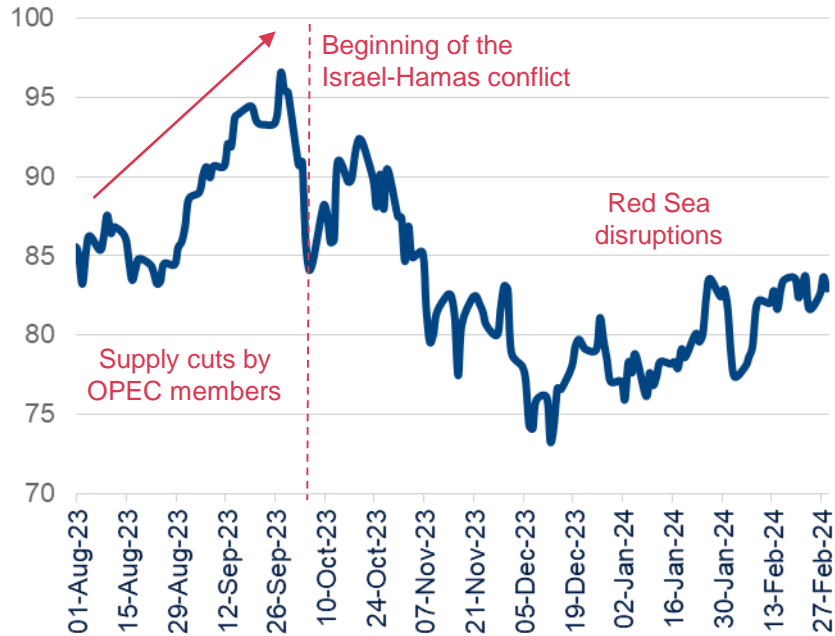
(INDEXES: AVERAGE SINCE 2019 EQUALS TO 0, 28-DAY MOVING AVERAGE)



(*): G3 regions: U.S., Eurozone and China.
Source: BBVA Research Geopolitics Monitor.

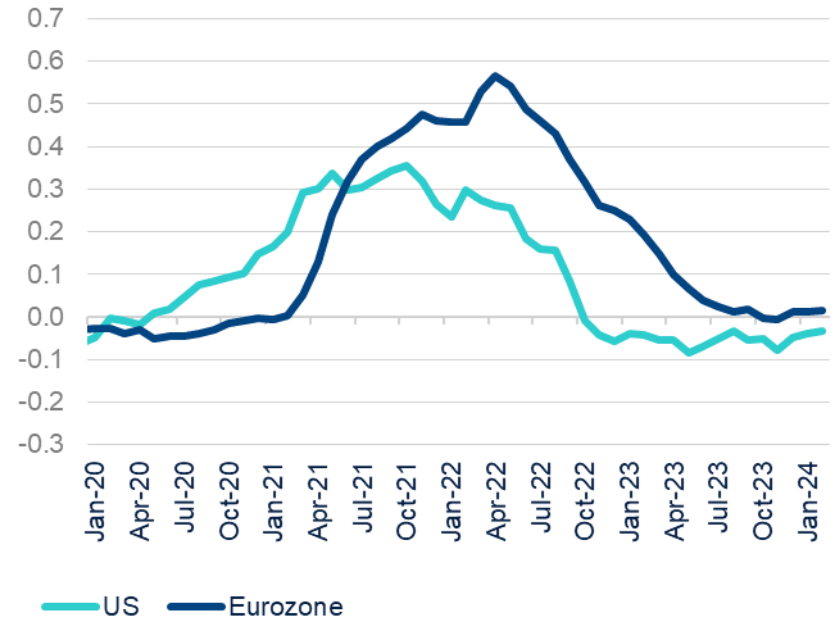
Despite geopolitical tensions, including the maritime disturbances in the Red Sea, commodity prices and bottleneck disruptions remain relatively low

BRENT PRICES (USD PER BARREL)



Source: BBVA Research based on data from Haver.

BBVA RESEARCH BOTTLENECKS INDICATOR (INDEX)

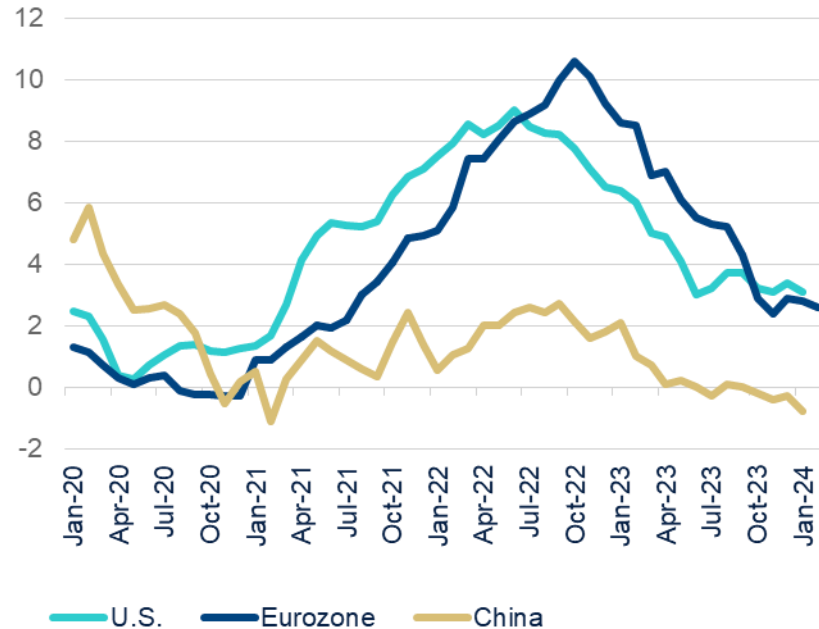


Source: BBVA Research based on data from Haver Analytics.

The disinflationary trend has lost some steam in the last few months, amid resilient service inflation; in China, deflation fears remain alive

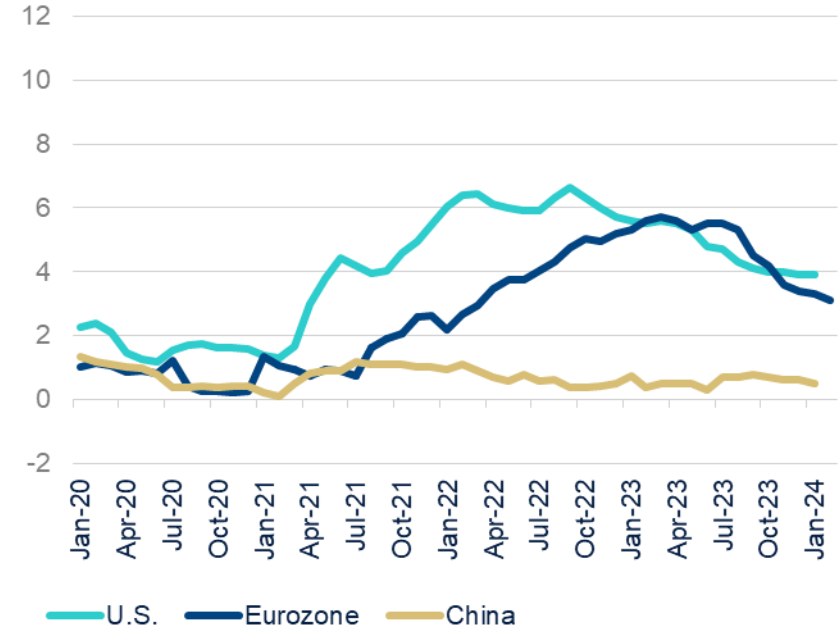
CPI INFLATION: HEADLINE

(Y/Y %)



CPI INFLATION: CORE

(Y/Y %)



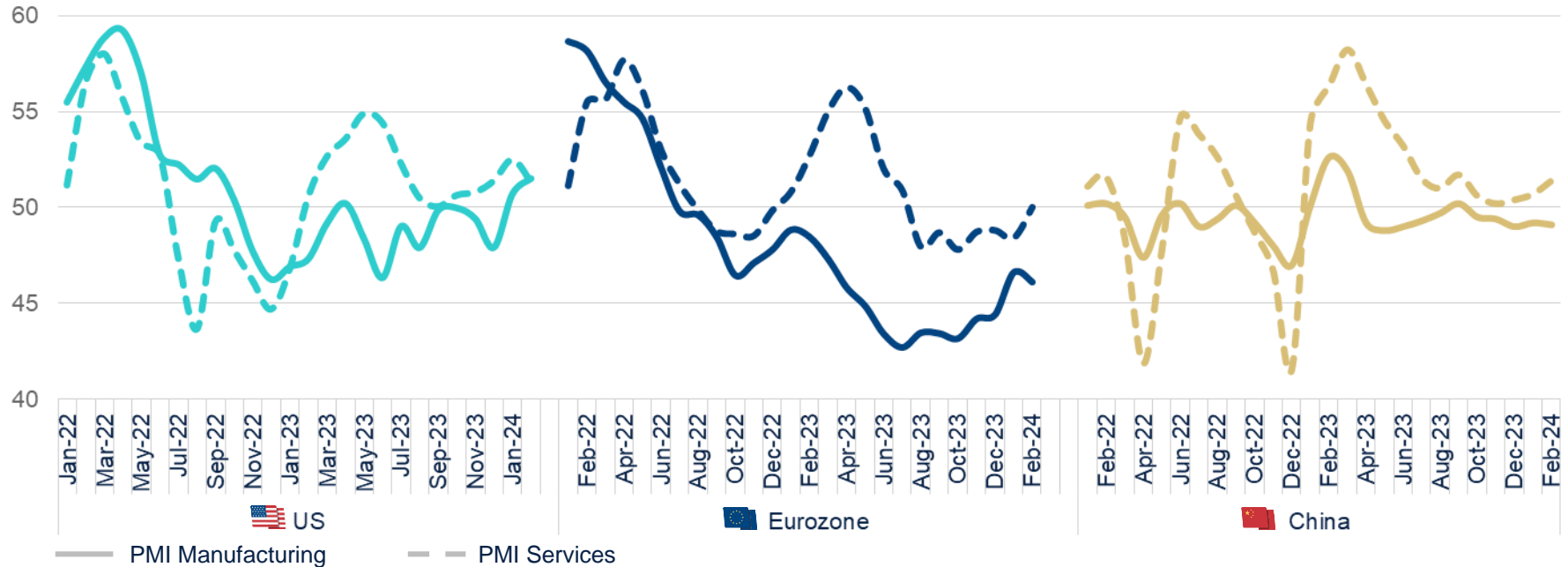
Source: BBVA Research based on data from Haver.

Source: BBVA Research based on data from Haver.

Growth remains more positive in the US and in the services sector, but after a previous slowdown there are now preliminary recovery signs in other markets

PMI INDICATORS

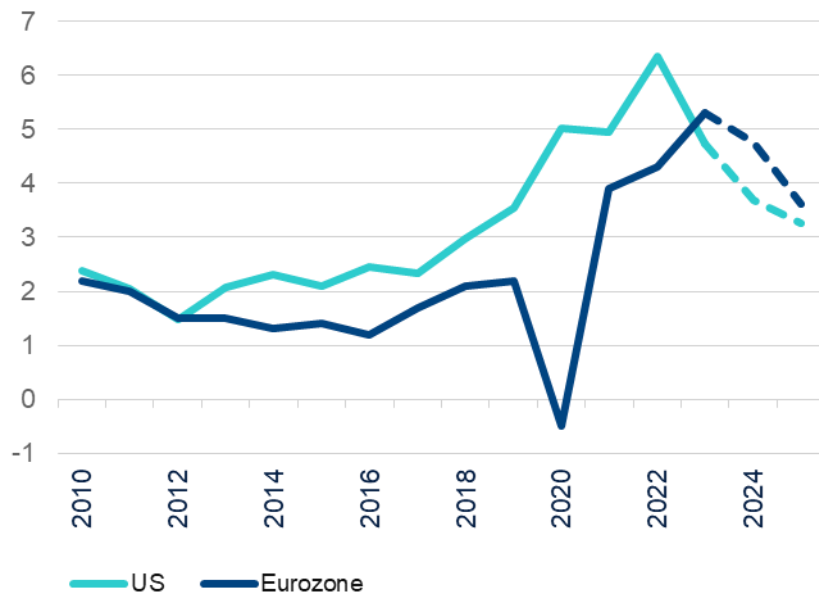
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Tight labor markets, fiscal policy and excess savings are still supporting growth, partially offsetting the contractionary impact of monetary policy

NOMINAL WAGES: ANNUAL GROWTH (*)

(%)



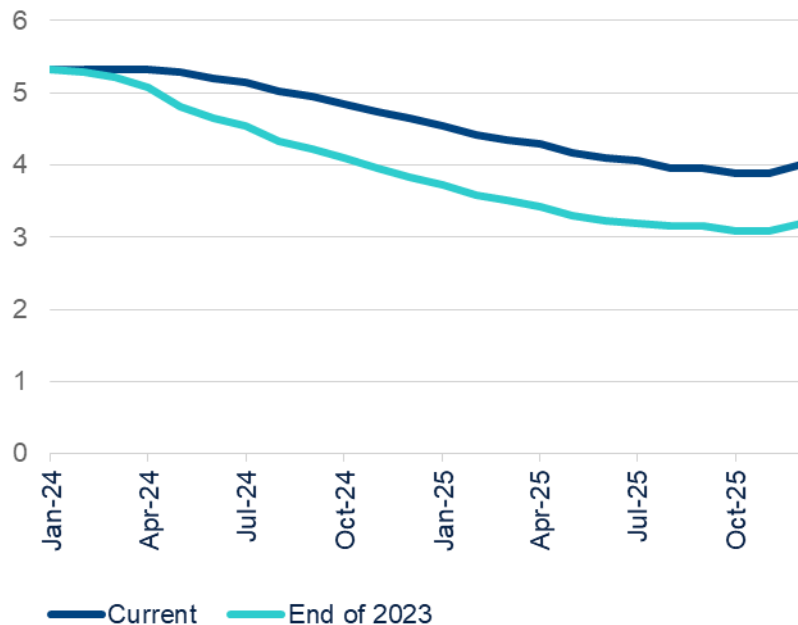
(*) 2024 and 2025 figures: simulated paths consistent with BBVA Research activity and inflation forecasts. US data: average hourly earnings of production and nonsupervisory employees, total private. Eurozone data: compensation per employee
Source: BBVA Research based on data from the BLS and Eurostat.

- Some factors continue backing activity, mainly the services sector, but less than before:
 - labor markets: low unemployment and strong wage growth;
 - fiscal policy: robust spending;
 - excess savings: still supportive, but waning.
- Anyway, monetary tightening has favored a gradual growth slowdown:
 - borrowing costs have increased;
 - bank lending has sharply eased;
 - exchange rate has appreciated (at least in US)
 - inflation expectations have remained broadly anchored (slightly above 2%).

Markets have scaled back their expectations for aggressive easing following the latest macro data and signs of caution from central banks

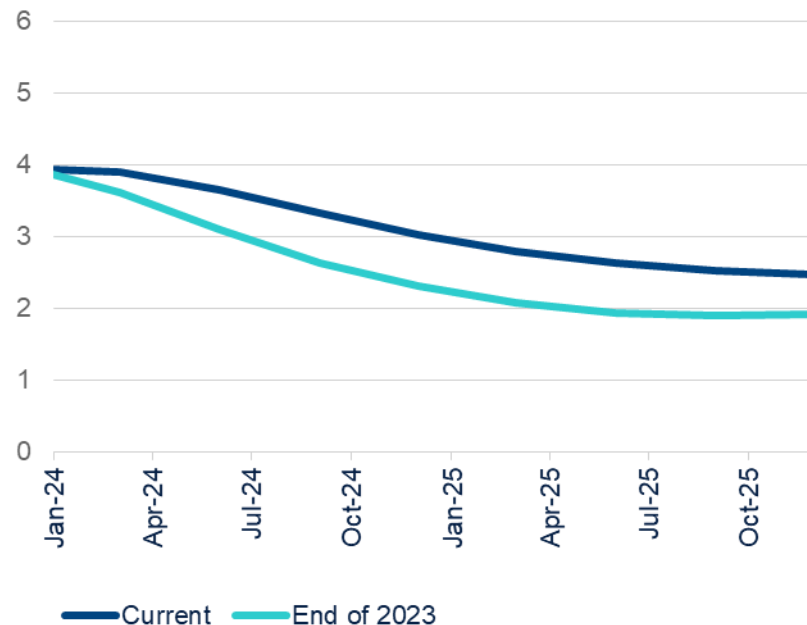
US: IMPLICIT RATE IN FED FUND FUTURES

(%)



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

(%)



(*) Depo interest rates.

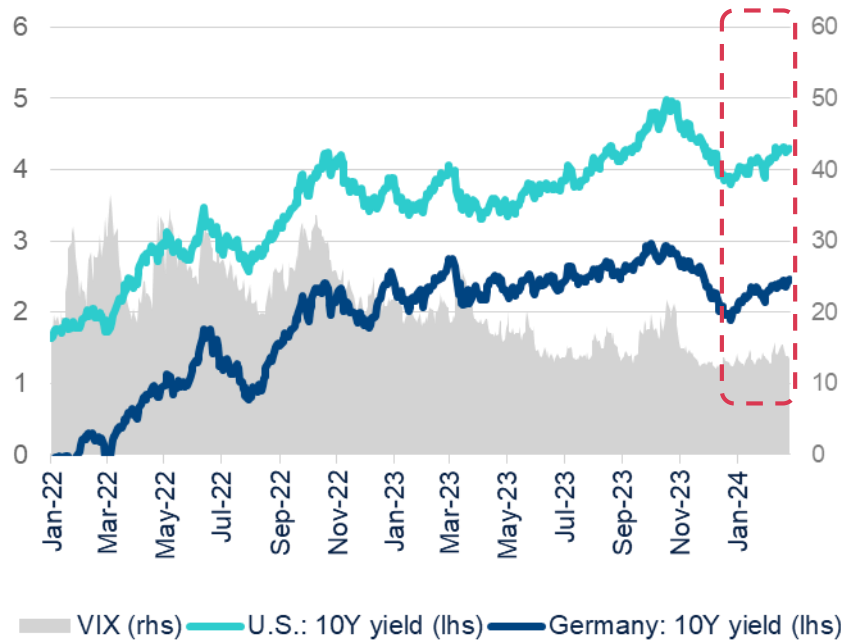
Source: BBVA Research based on Bloomberg.

Source: BBVA Research based on Bloomberg.

Despite the recent increase in sovereign yields, the USD strength and fears on bank's CRE exposition, volatility remains limited on markets soft-landing view

SOVEREIGN YIELDS AND VOLATILITY

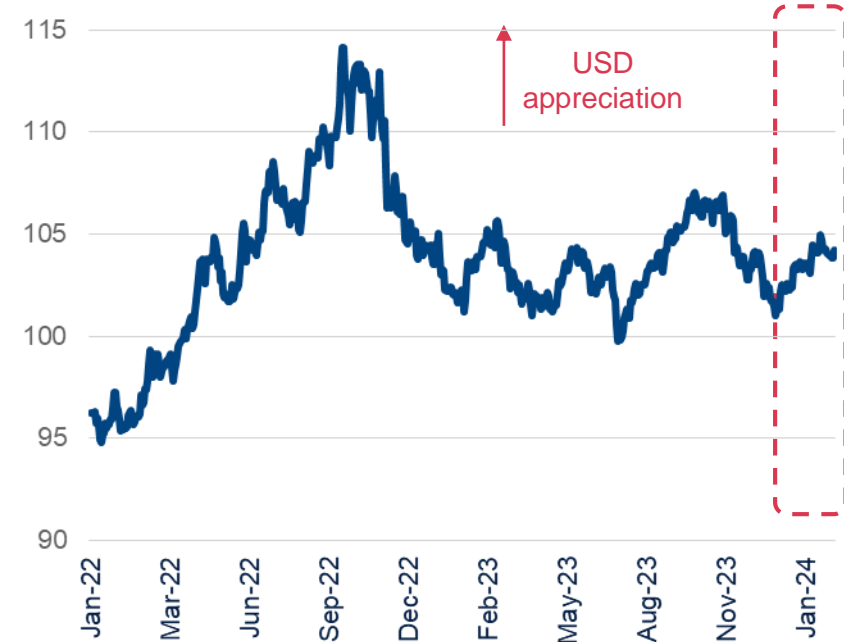
(%, INDEX)



Source: BBVA Research based on Bloomberg.

US DOLLAR: DXY

(INDEX)

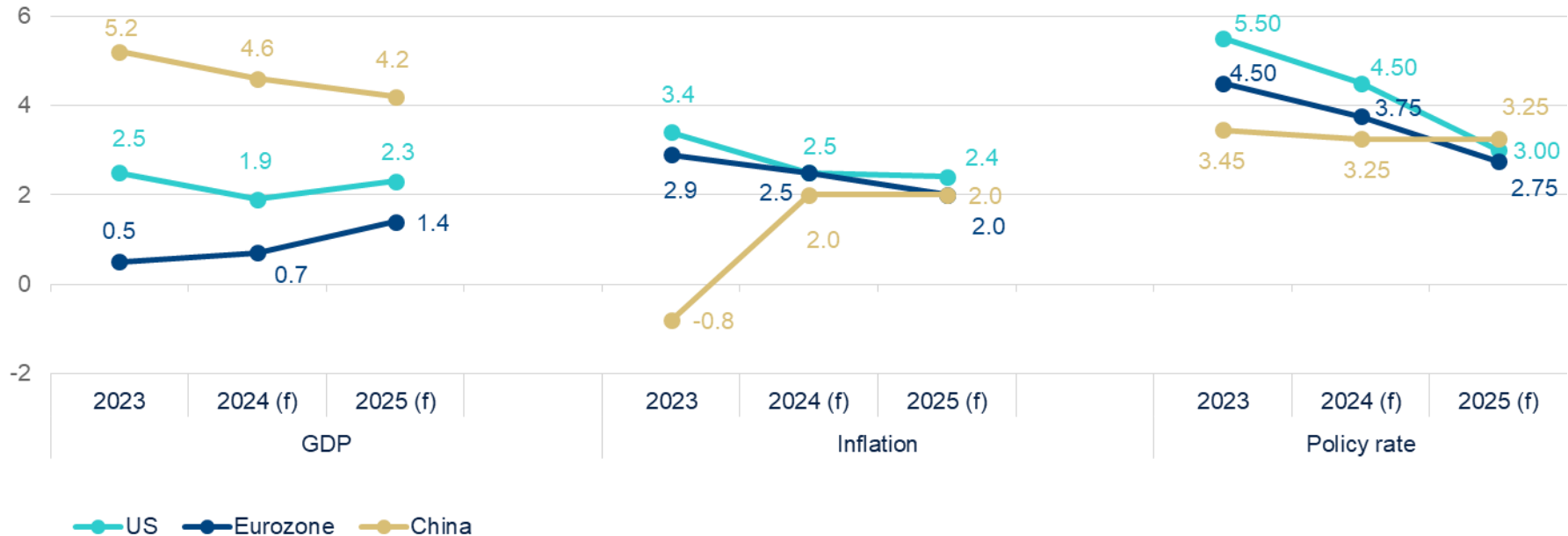


Source: BBVA Research based on Bloomberg.

Global outlook: weak growth will lead to an extra easing of inflation and rate cuts from mid-2024; still, price pressures and interest rates will remain relatively high

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

(GDP GROWTH: %, INFLATION: YOY %, EOP, POLICY INTEREST RATES: %, EOP)



(*) Global GDP growth: 3.1 % (+0.1 pp in comparison to previous estimation), 3.1 % (+0.1 pp) in 2024 in 2024 and 3.3 % (+0.0) in 2025.

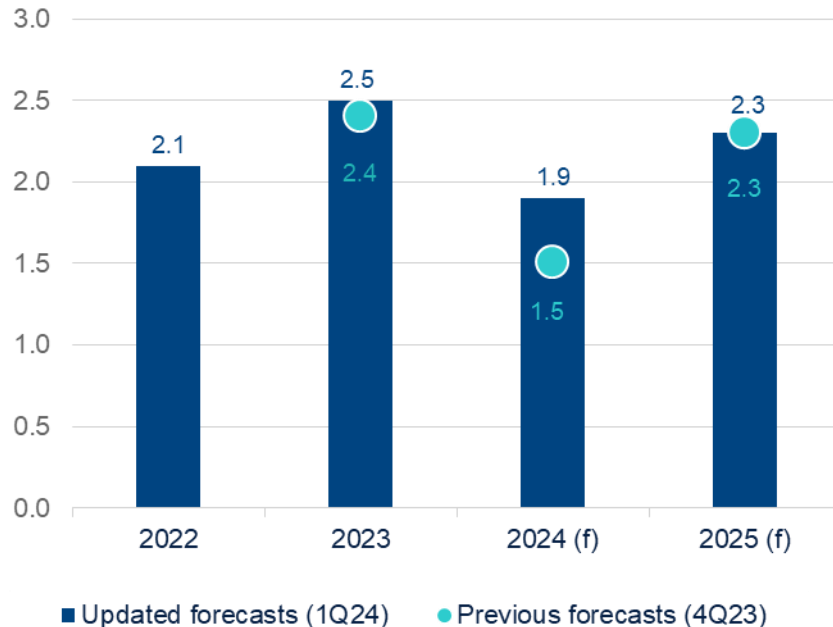
(**) In the case of the Eurozone, interest rates on refinancing operations.

Source: BBVA Research based on Bloomberg data.

U.S.: demand strength supports a higher growth in 2024, but a moderation is still likely ahead, which would allow a cautious Fed to cut rates from mid-year

U.S.: GDP GROWTH

(%)



- Internal demand and service inflation remains resilient, but further easing is likely on excess savings depletion and tight monetary conditions.
- Extra inflation moderation (forecasts remain broadly unchanged) would pave the way for a monetary easing from May/24, which would take rates to 4.50% in Dec/24 and 3.0% in Dec/25, supporting a growth recovery from late this year.
- A growth acceleration that jeopardizes the inflation convergence to 2% and keeps rates higher is possible, but not very likely; anyway, risks are balanced and a sharper decline of growth and inflation is also a possibility.
- Risks: presidential elections, recession or financial stress on high rates, expansive fiscal stance.

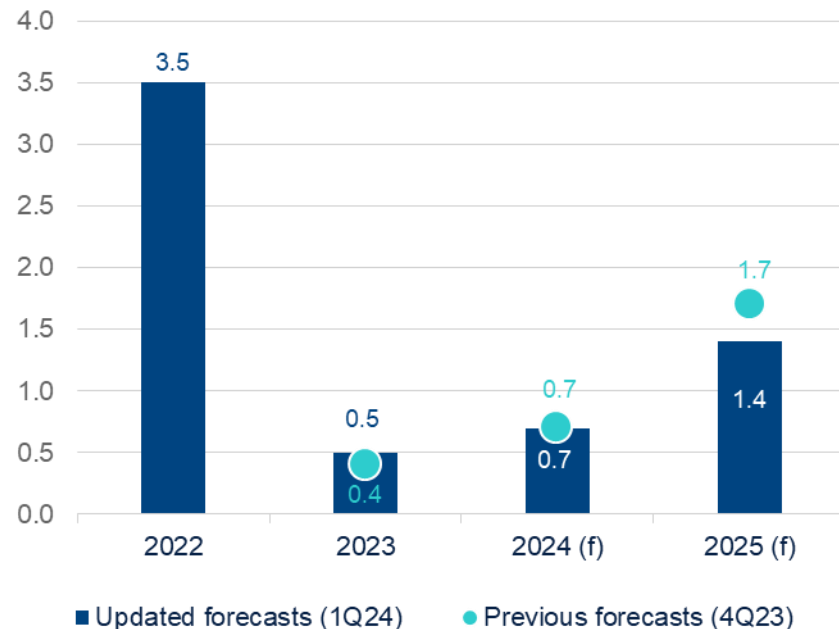
(f): forecast.

Source: BBVA Research.

Eurozone: weak growth and declining inflation favor cautious cuts of ECB policy rates from Jun/24, which would then favor a mild recovery ahead

EUROZONE: GDP GROWTH

(%)



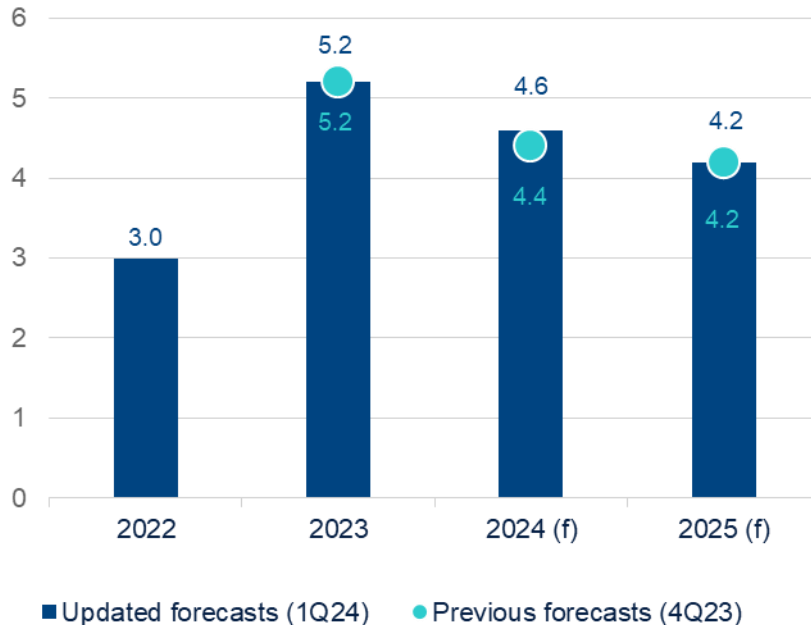
(f): forecast.
Source: BBVA Research.

- **Growth:** stagnation (no recession) in 2023 and beginning of 2024; cross-country divergence.
- **A recovery is likely from mid-year**, but 2025 GDP forecast was cut on prospects of larger fiscal consolidation given the new fiscal rules.
- **Inflation forecasts revised down on incoming data and lower energy prices**, despite service inflation and wage dynamism.
- **Policy rates:** 75 bps cuts this year and 100 bps cuts in the next one are expected.
- **Quantitative tightening** will continue, mainly through a reduction of the PEPP portfolio; new operational framework by 2Q24.
- **Risks:** geopolitical tensions, stagflation and sovereign debt tensions.

China: targeted fiscal, monetary and regulatory policies are likely to sustain growth, but will not prevent a structural slowdown of GDP growth

CHINA: GDP GROWTH

(%)



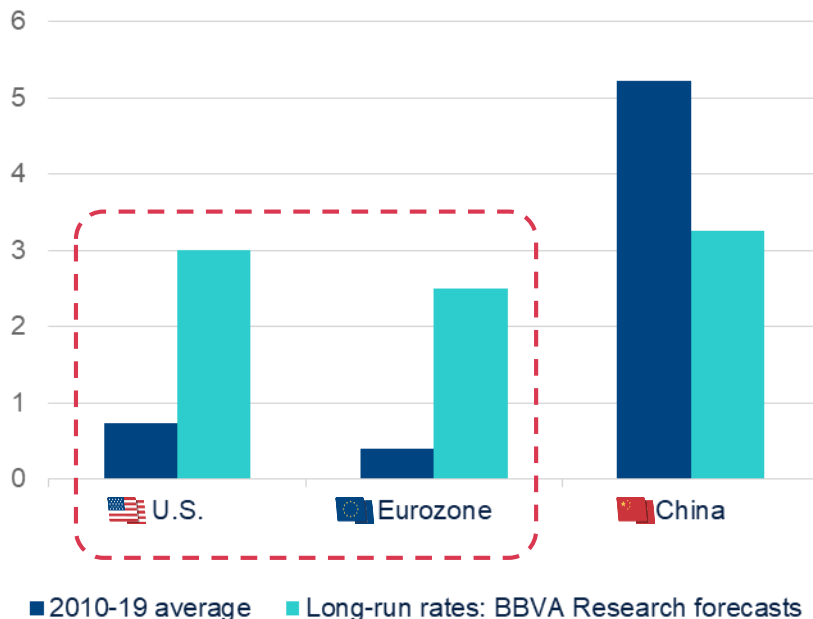
(f): forecast.
Source: BBVA Research.

- Activity, in particular the troubling real estate sector, will be backed by monetary and fiscal measures and some regulatory easing.
- Fiscal policy is expected to remain expansionary and more cuts in reserve requirements and policy rates are likely after the Fed starts reducing rates.
- A structural growth slowdown is likely on real estate problems, local government debt, ageing, US relationship...
- Inflation remains below zero, but is forecast to converge to 2% on supportive policies, pork price normalization, confidence improvement.
- Risks: real estate tensions, deflation, balance-sheet recession, weak FDI and financial inflows, geopolitical tensions.

Over the next few years, geopolitics and other factors will likely help to keep inflationary pressures and interest rates higher than in the pre-COVID period

NOMINAL POLICY INTEREST RATES (*)

(%)



(*) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research.

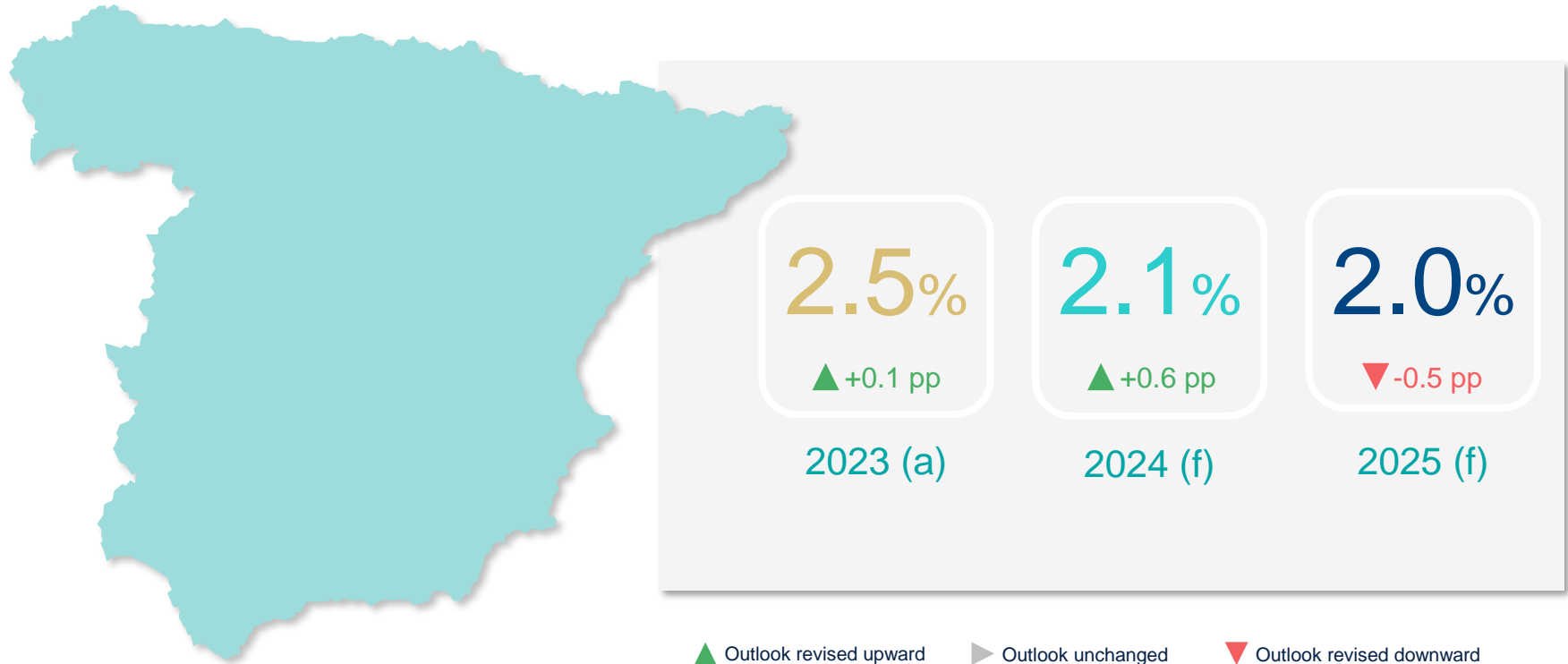
- **Geopolitics** will be a source of uncertainty, supply shocks and price pressures:
 - **conflicts** in Ukraine and Middle-East, and potentially in other regions: pressure on energy and other input prices;
 - **lack of coordination** on key global issues: protectionism, climate policies, etc..
- **Other factors** potentially fueling inflation:
 - **elections in the US** and other regions (tariff increases, migration policies, etc.);
 - **extreme weather events**, climate policies;
 - **tight labor markets**, adverse demographics;
 - **fiscal policy**: strong spending (defense, green, social...); high public debt levels.
- **Productivity gains** could, at least partially, weaken inflationary pressures.

02

Spain Economic Outlook

March 2024

Upward revisions in the near term and downward revisions in 2025



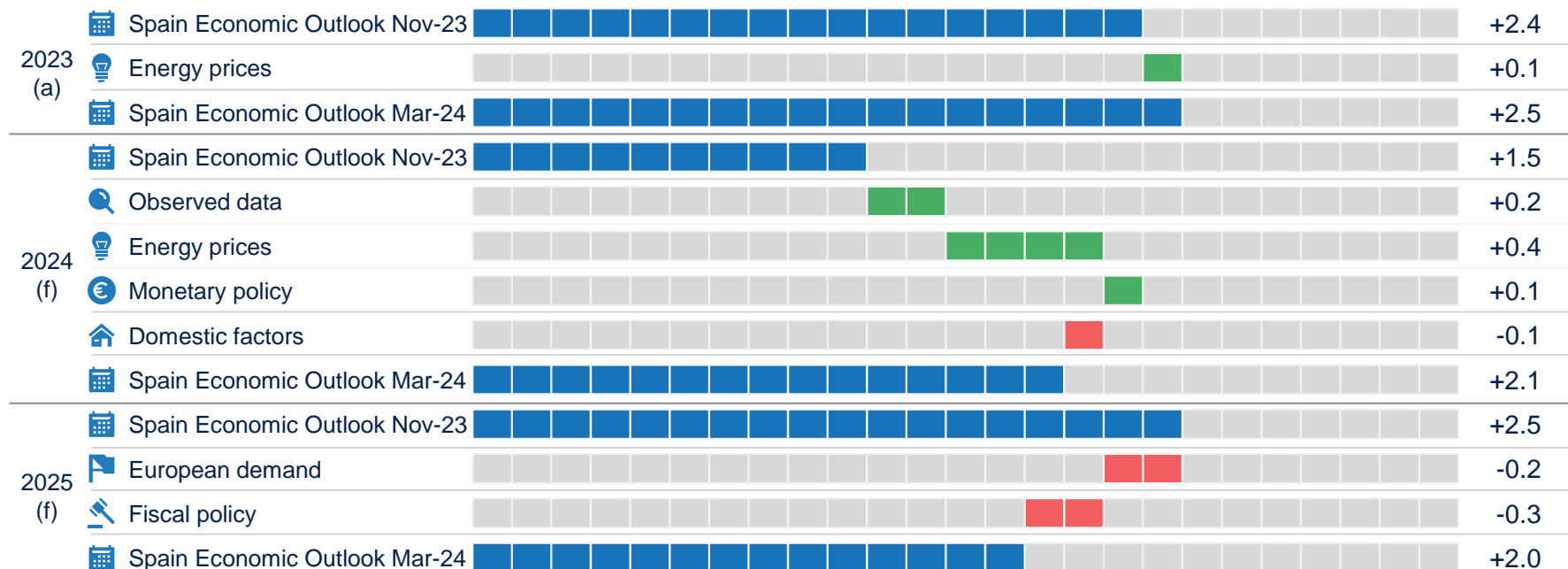
(a): advance. (f): forecast.
Source: BBVA Research, based on INE data.

Upward in 2024, downward in 2025

Terms of trade improve, but a return to tight fiscal policy is anticipated

CHANGE IN GDP FORECASTS ACCORDING TO CONTRIBUTIONS BY FACTORS

(%)



(a): advance; (f): forecast.

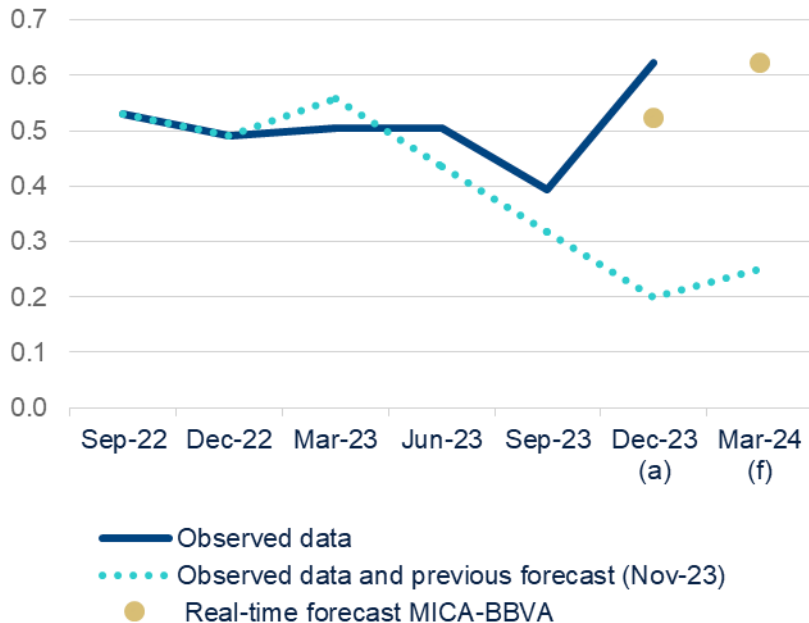
Source: BBVA Research, based on INE data.

GDP growth for 2024 revised upward

The near-term outlook is for accelerated growth

QUARTER-ON-QUARTER CHANGE IN GDP

(%)



- GDP is reported to have accelerated its growth rate in the last half of the year, registering increases of close to 0.5 % quarter-on-quarter. The growth in Social Security affiliation shows a progressive improvement since October 2023.
- Real-time information shows that consumption continues to grow, both private (0.5%, quarter-on-quarter in 1Q24) and general government (0.2%).
- Card spending by foreigners in Spain suggests that non-resident consumption will continue to grow (5.6% quarter-on-quarter), as will other exports of non-tourist services (0.5%) and goods (1.6%).

(g): growth; (f): forecast.

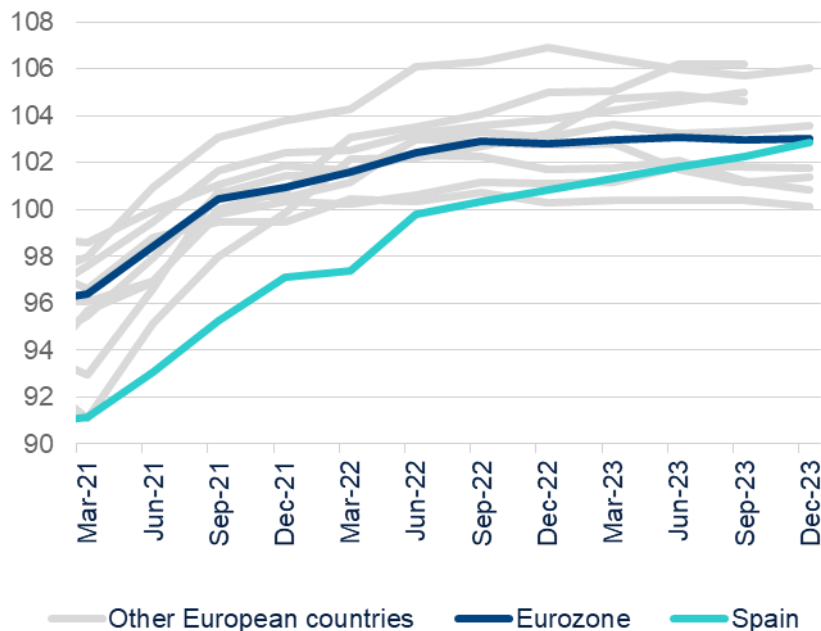
Source: BBVA Research based on INE and Ministry of Inclusion, Social Security and Migration data.

GDP growth for 2024 revised upward

Since 1Q22, and particularly in the last six months, Spain has been growing faster than the EMU

EU: GDP

(SWDA DATA, CHAIN-LINKED VOLUMES 4Q19 = 100)



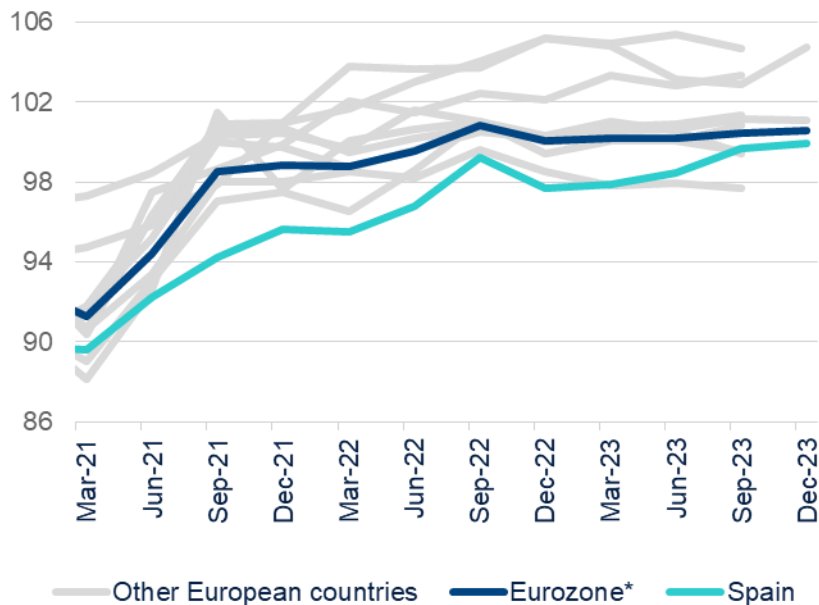
- Spain shows a different performance compared to the rest of the Eurozone since the beginning of the Russian invasion of Ukraine.
- The convergence in the recovery after COVID-19 is due to the higher growth of consumption (both public and private) and the acceleration in exports of services (both tourism and the rest).
- Immigration, gains in price competitiveness and the shift in consumption habits toward a greater share of services in the household shopping cart explain the relative improvement.

GDP growth for 2024 revised upward

The relative improvement is due to the good performance of consumption and services exports

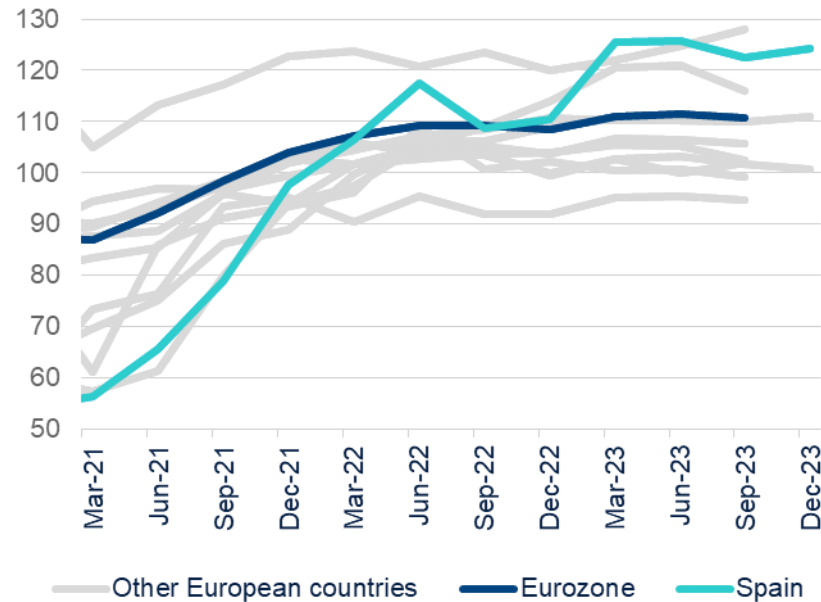
EU: PRIVATE CONSUMPTION

(SWDA DATA, CHAIN-LINKED VOLUMES 4Q19 = 100)



EU: EXPORTS OF SERVICES

(SWDA DATA, CHAIN-LINKED VOLUMES 4Q19 = 100)



(*) Estimate for 4Q23.

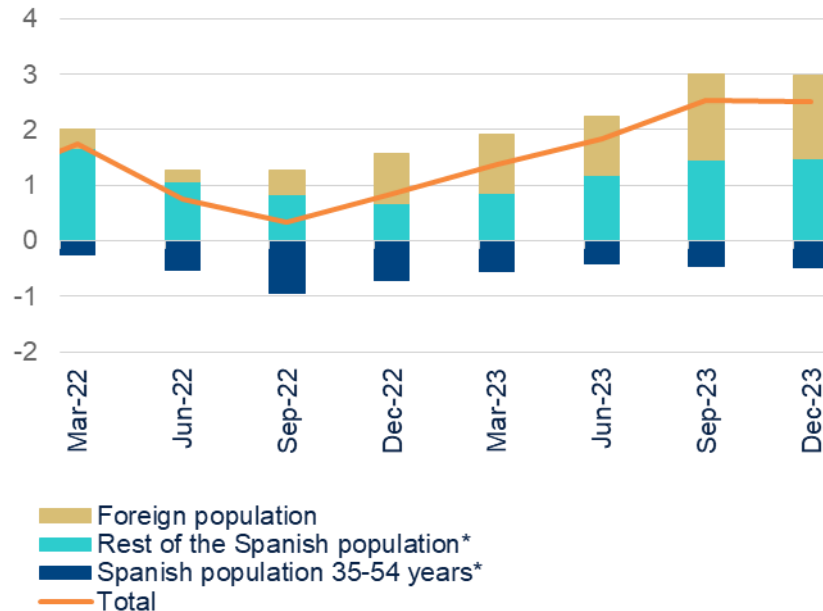
Source: BBVA Research based on Eurostat data.

GDP growth for 2024 revised upward

Immigration, income and lower interest rate impact support consumer spending

CONTRIBUTION TO YEAR-ON-YEAR GROWTH OF THE LABOR FORCE

(% and PP)



- Household spending is supported by the decline in the saving rate, job creation and the incipient improvement in workers' real wages.
- Moreover, this rebound is occurring despite the increase in interest rates. Deleveraging, the higher share of fixed-rate loans and improvements in the functioning of the financial sector explain this.
- Part of the boost in spending is due to the increase in immigration and the labor force participation rate of Spaniards, which are stimulating job creation.

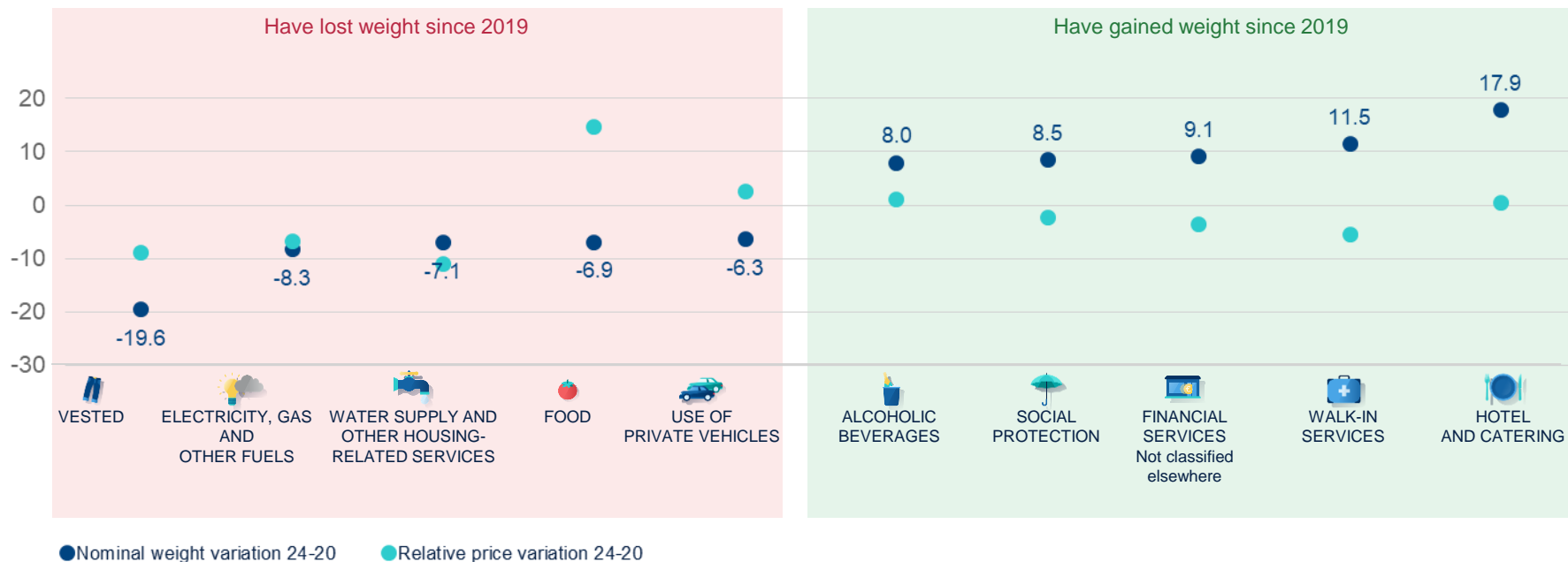
(*) Dual nationality included.

Source: BBVA Research based on INE data.

GDP growth for 2024 revised upward

Households consume fewer goods and more services, similar to the United States.

CHANGES IN THE COMPOSITION OF THE HOUSEHOLD CONSUMPTION BASKET BETWEEN 2019 AND 2023 AND IN RELATIVE PRICES (PER THOUSAND)



GDP growth for 2024 revised upward

Services exports support the growth of the Spanish economy

NOMINAL SPENDING BY FOREIGN TOURISTS IN SPAIN (YEAR-ON-YEAR VARIATION, %)

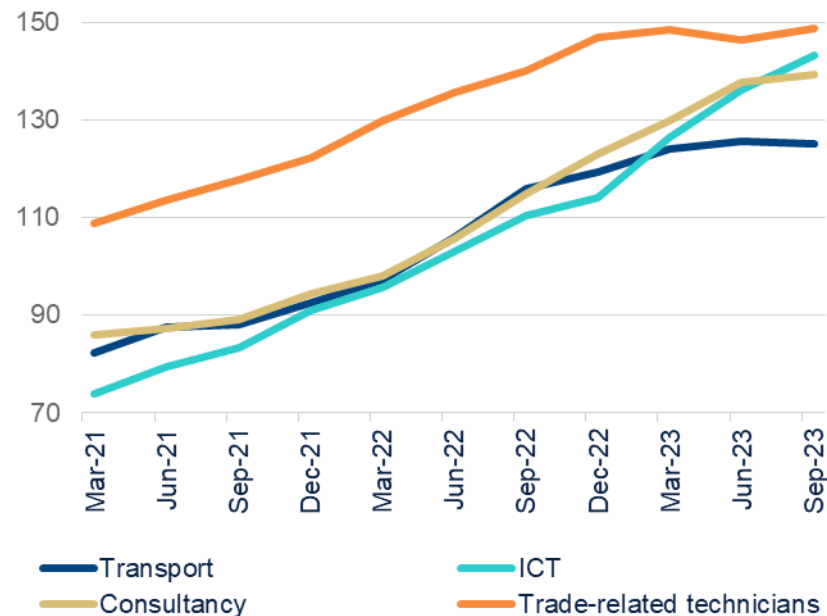


(f): forecasts.

(*) Spending with foreign cards at BBVA POS between 1 January and 25 February 2024.

Source: BBVA Research based on INE and BBVA data.

EXPORTS OF NON-TOURIST SERVICES (INDEX. DEC-19 = 100)



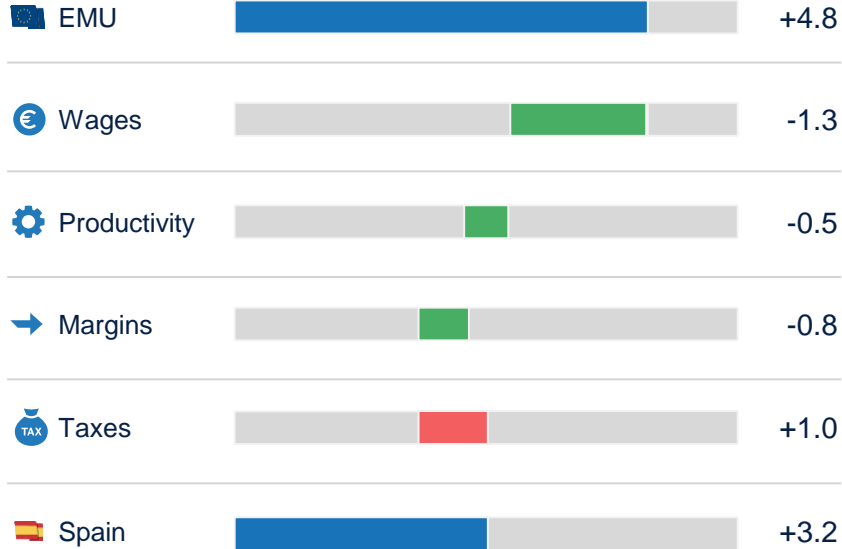
Source: BBVA Research based on Bank of Spain data

GDP growth for 2024 revised upward

Improved competitiveness may explain part of the recovery in exports

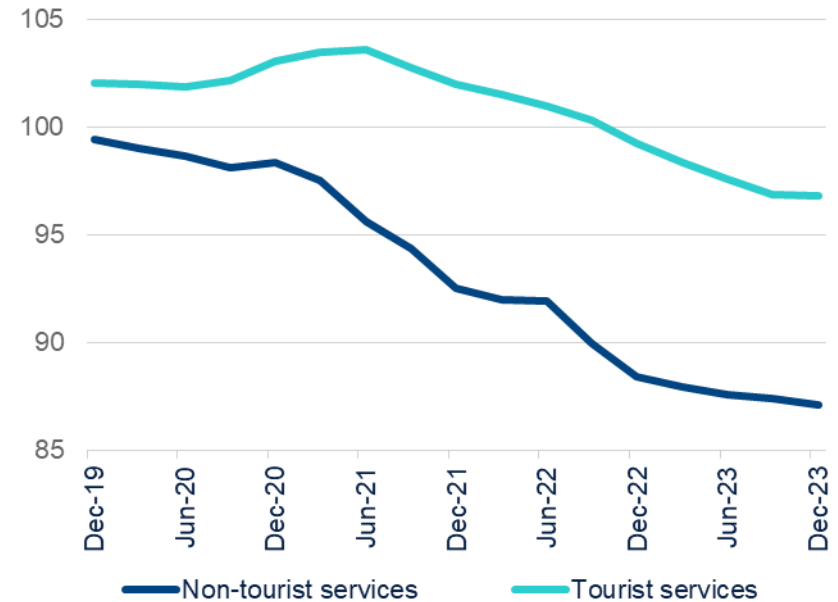
FINAL DEMAND DEFLATOR 2019-2023

(AVERAGE ANNUAL GROWTH RATE (IN BLUE) AND DIFFERENTIAL CONTRIBUTIONS BY COMPONENT, % and PP)



TERMS OF TRADE

(PRICE OF EXPORTS OVER IMPORTS. AVERAGE 4 QUARTERS. 2015 = 100)

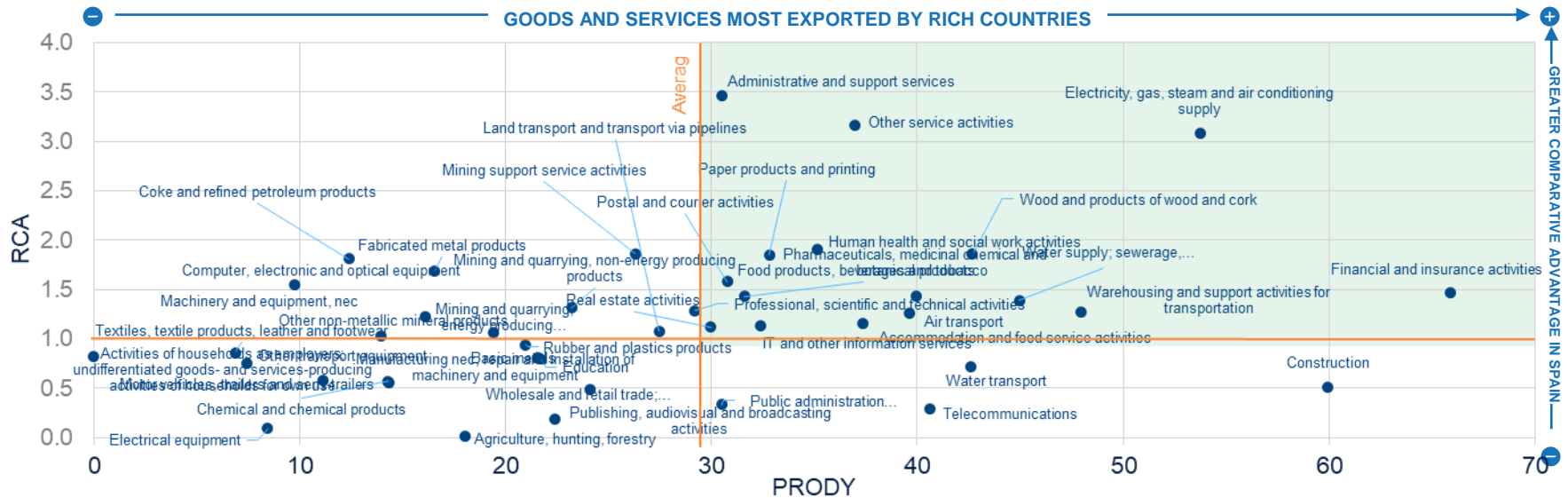


GDP growth for 2024 revised upward

Spain has a comparative advantage in public services, ICTs, logistics

COMPARATIVE ADVANTAGES OF SPANISH EXPORTS OF GOODS AND SERVICES

(ADJUSTED PRODY AND RCA VALUES, AVERAGE 2014-2018)



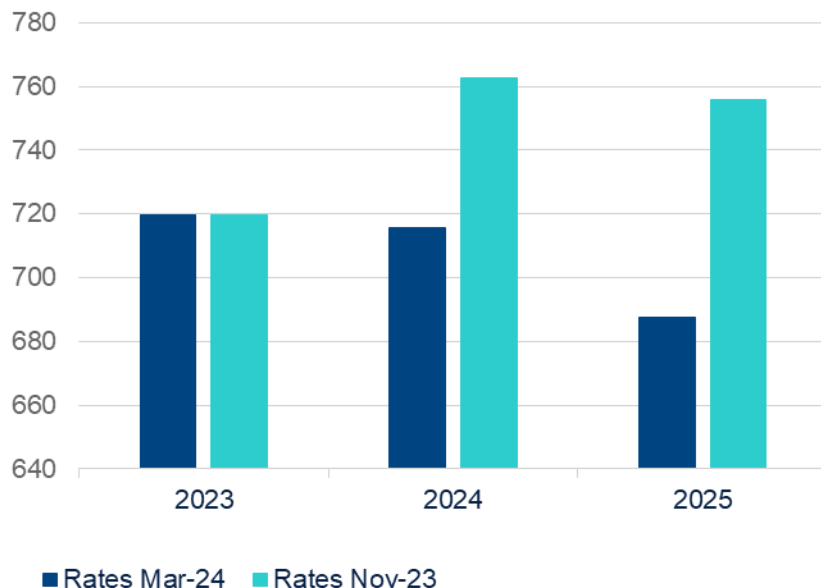
Note: the **RCA** (Revealed Comparative Advantage) is calculated as the ratio between the weight of a country's foreign sales of a product over its total exports and the weight of global exports of that product over the total exports of all countries (a value greater than 1 indicates that the country is competitive in exporting that product). The **PRODY** is calculated as the weighted sum of the RCA by the GDP per capita of all countries exporting that product (a higher level indicates that the product is more sophisticated and is exported mainly by rich countries). The adjusted indexes exclude foreign added value incorporated in the exported product. For representation purposes, the PRODY is standardized so that the minimum is 0 and the maximum is 100.

Source: BBVA Research based on OECD, TIVA and World Bank data.

GDP growth for 2024 revised upward

The fall in interest rates is brought forward

SPAIN: MORTGAGE PAYMENT ESTIMATE* (EUROS MONTHLY)



- Energy costs fall, which could add up to 0.4 pp to GDP growth in 2024.
- Inflation is easing and could reach 3.1% in 2024 (almost half a percentage point lower than forecast in November) and 2.3% in 2025.
- The 12-month Euribor has fallen from 4.2% in September 2023 to 3.6% in January 2024. The year-end forecast stands at 3.3%.
- The mortgage payments would be reduced by 6% in 2024 and 9% in 2025 due to the downward revision of mortgage interest rates on new transactions (APR).

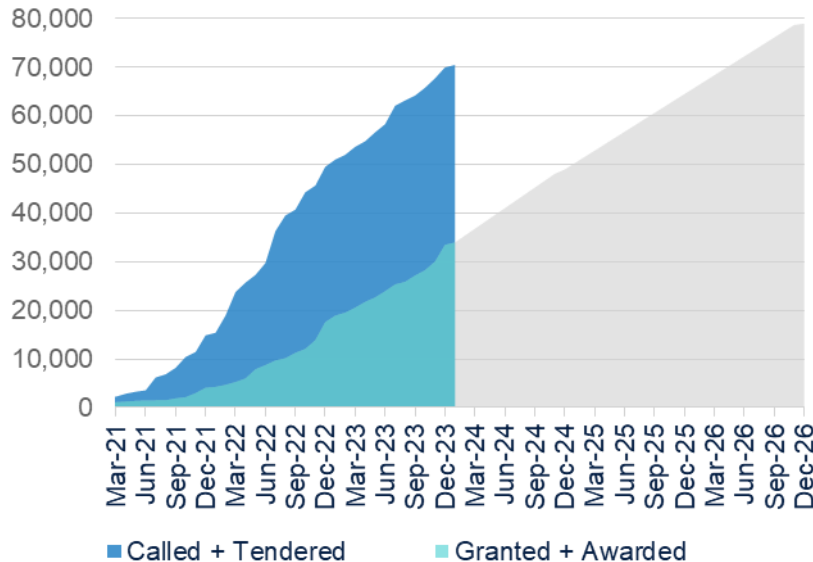
(*) First mortgage installment for new transactions associated with the purchase of an average home, 94m2, with average market conditions.

Source: BBVA Research, based on INE, BoS and MIVAU data.

GDP growth for 2024 revised upward

Fiscal policy is being more expansionary than anticipated

OFFICIAL CALL FOR BIDS AND GRANTS FINANCED BY THE RRF (INCLUDING TAXES AND EQUIVALENT AMOUNT OF AID. (MILLION EUROS)



- **Partial extension of tax cuts in 2024 announced.** Subsidies for the use of public transportation are maintained. Contributory pensions have been increased by 3.8%, as well as minimum pensions, and the Minimum Living Wage by 6.9%.
- **NGEU funds reach cruising speed.** Contracts have been tendered and grants have been awarded for EUR 70 billion, of which EUR 33.5 billion are already available to households and companies. If this rate is maintained, all the transfers foreseen in the Plan (EUR 79.87 billion) will have been executed by the end of 2026.

Note: Excluded from the establishment of framework agreements in tenders and instrumental calls in subsidies.

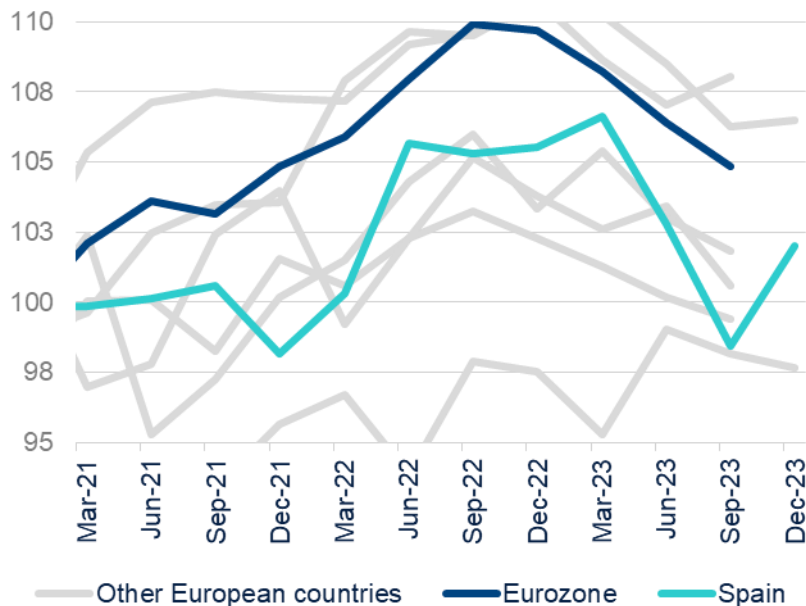
Source: BBVA Research based on the PLACSP and SNPSAP (with data until February 12, 2024).

Revised downward 2025

Exports of goods fall due to drought, European sluggishness and reduced competitiveness

EU: GOODS EXPORTS

(SWDA DATA, CHAIN-LINKED VOLUMES 4Q19 = 100)

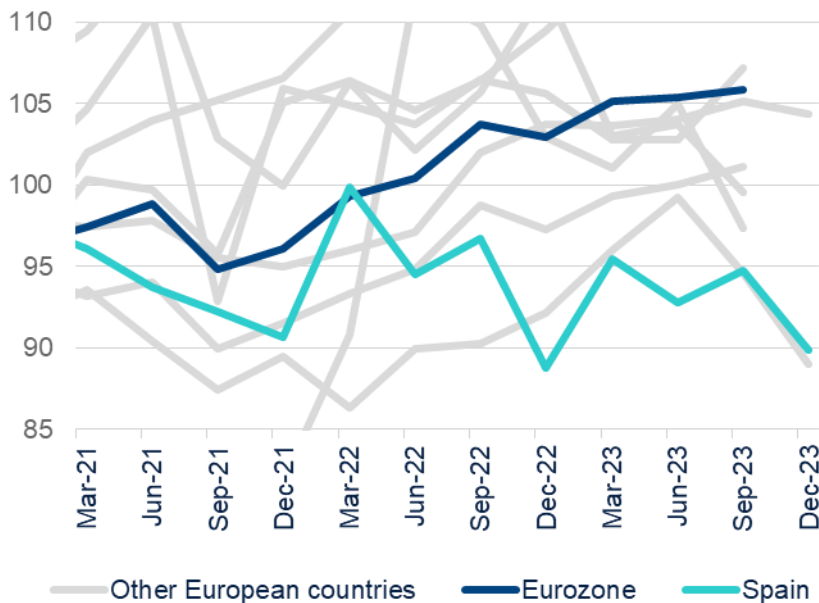


- There is concern that the slowdown in growth in certain sectors and countries of the eurozone is structural. The German economy has shown little growth over the past two years. France's improvement is scant considering the high imbalance of its public accounts.
- Falling electricity prices will be key. The investment made to improve energy efficiency and increase the supply of renewable sources can be a turning point going forward. There is a lag in the production of machinery and equipment needed to drive a more sustainable model and lead innovation.

Revised downward 2025

The trend in investment declines due to increased uncertainty and high interest rates

EU: INVESTMENT IN MACHINERY AND EQUIPMENT (SWDA DATA, CHAIN-LINKED VOLUMES 4Q19 = 100)



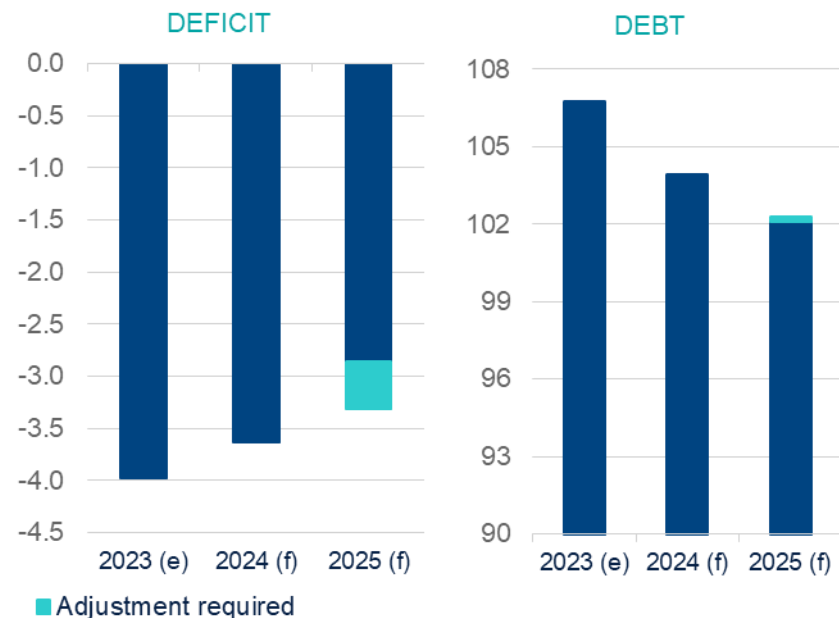
- Private investment is suffering from stagnation in the eurozone, rising energy costs, rising interest rates and, above all, economic and geopolitical policy uncertainty.
- The impact of the increase in the cost of finance can be seen in the fall in credit to non-financial businesses (-4.8% year-on-year in December 2023), but particularly in the demand for financing by small and medium-sized enterprises (-9.1%) and with maturities of between one and five years (-8.3%).

Revised downward 2025

Fiscal policy is forecast to be contractionary in 2025

DEFICIT AND PUBLIC DEBT ACCORDING TO EDP

(% OF GDP)



- The new tax rules in Europe will require significant and sustained adjustments over time in several economies, including Spain, starting in 2025.
- Countries with deficits above 3 % of GDP and public debt levels above 90 % will have to commit to implement structural consolidation measures between 0.4 and 0.6 pp of GDP per year. The gap between current levels and objectives is so large that efforts will have to be extended by at least five years.

(e): estimated, (f): forecast.

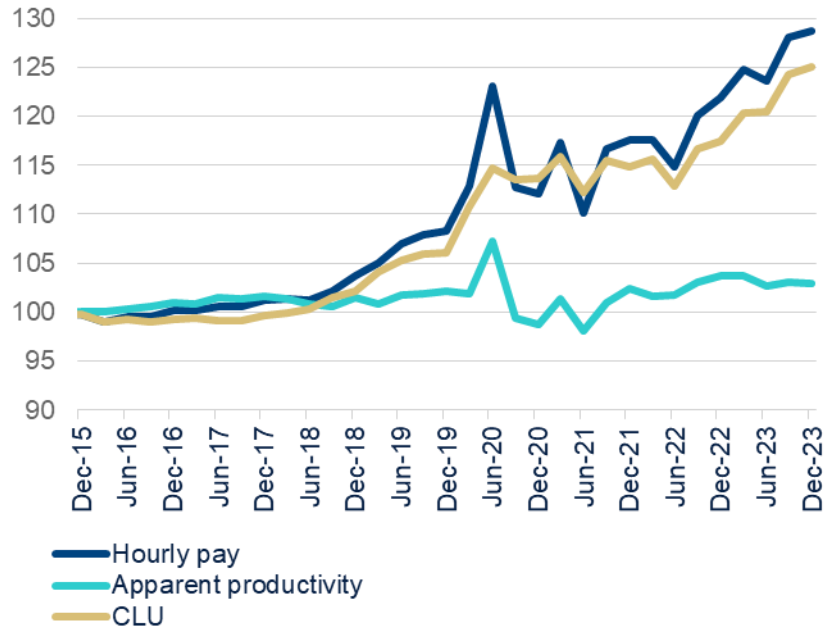
Source: BBVA Research based on Ministry of Finance and INE data.

Revised downward 2025

Productivity growth will be key to sustaining employment

NOMINAL UNIT LABOR COST PER HOUR WORKED

(2015 = 100, SWDA DATA)

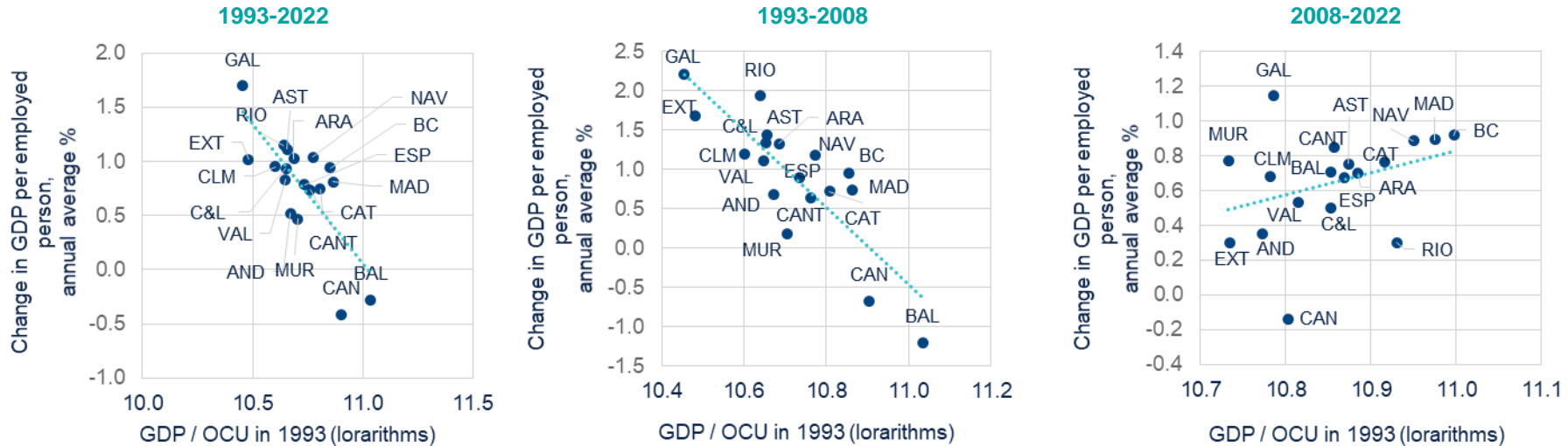


- **Stagnant productivity** in an environment of rising labor costs may jeopardize the progress of the service sector.
- **Social Security contributions have added pressure to companies' payrolls.** The increases in the national minimum wage (SMI for its Spanish acronym) already imply that in some sectors, companies and autonomous communities, the proportion of workers whose income is linked to the SMI is beginning to be relatively high.
- The recovery of workers' purchasing power and the maintenance of employment **will only be possible in an environment where productivity improves.**

Revised downward 2025

Wages continue to rise in a controlled manner, but labor costs do not

APPARENT PRODUCTIVITY OF LABOR IN THE AUTONOMOUS COMMUNITIES. (LOGARITHMS)



Source: BBVA Research based on INE data.

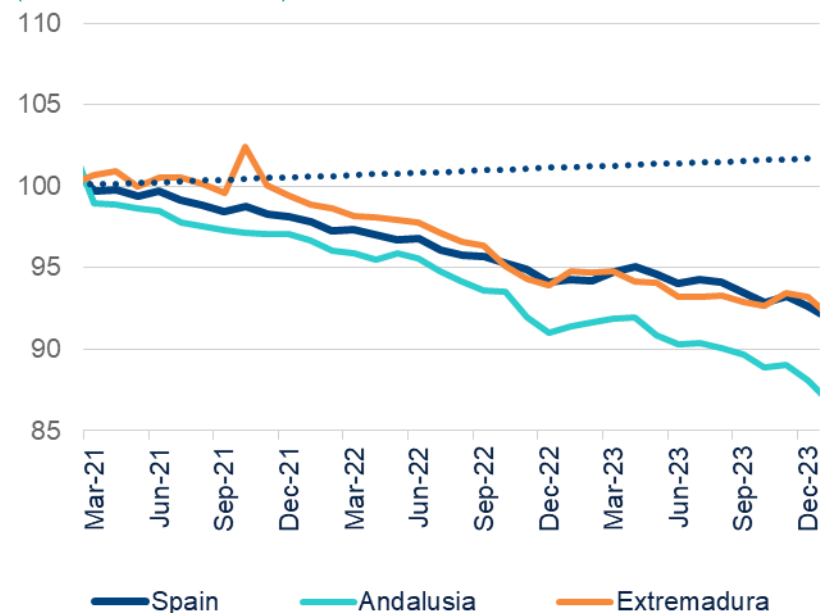
Since 2008, average annual labor productivity growth has been close to zero, and has even fallen in regions where it was already relatively low, which has prevented the process of convergence between autonomous communities from continuing.

Revised downward 2025

Rising costs in agriculture can have permanent effects

SOCIAL SECURITY AFFILIATION IN THE AGRICULTURAL SECTOR

(JAN-21 = 100, SWDA)



The dotted line corresponds to what Spain's performance would have been if the trend had continued as of Jan.15 - Dec.19.

Source: BBVA Research based on Social Security data.

- Various supply-side constraints remain, which will limit employment growth. The aging of the population is reducing the availability of working-age employees. This is combined with the startling decline that has been occurring in the participation rate of Spaniards between 35 and 54 years of age.
- The agri-food sector is currently undergoing structural changes driven by labor shortages, rising labor costs and drought.

Revised downward 2025

The PRTR addendum will have a limited impact



ADMINISTRATIVE
CHALLENGES

EXAMPLE

MOVES PLAN

CALLED

1,400
MILLION

AWARDED

900
MILLION



LOWER IMPACT
OF THE
ADDENDUM

EXAMPLE

LOANS
REPRESENT

15%
OF BUSINESS
LOANS

High probability of substitution
effect, business loan falls

7%
(in real terms)

More immediate effect, but magnitude will depend
on how favorable financing conditions are



FEWER
REFORMS DUE
TO POLITICAL
UNCERTAINTY

CHANGES TO LONG-TERM
UNEMPLOYMENT BENEFIT

Lack of consensus on what needs to be done

Uncertainty over economic policy

02

Forecasts

Forecast

% a/a	2022	2023 (g)	2024 (f)	2025 (f)
National final consumption expenditure	3.4	2.3	2.2	1.5
Private consumption	4.7	1.8	2.0	1.7
Public consumption	-0.2	3.8	2.6	1.0
Gross fixed capital formation	2.4	0.6	3.1	7.3
Equipment and machinery	1.9	-1.8	2.5	8.9
Construction	2.6	2.2	3.5	7.2
Housing	1.4	0.3	2.5	7.5
Domestic demand*	2.9	1.7	2.5	2.5
Exports	15.2	2.4	3.4	2.7
Exports of goods	4.5	-1.7	3.5	3.2
Exports of services	48.6	12.3	3.3	1.6
Final consumption by non-residents in Spain	117.8	19.1	5.0	1.3
Imports	7.0	0.3	5.0	4.4
External demand*	2.9	0.8	-0.4	-0.5
Real GDP at market prices (mp)	5.8	2.5	2.1	2.0

* Contribution to GDP growth.

(g): growth. (f): forecast.

Source: BBVA Research based on INE and BdE.

Forecast

% a/a	2022	2023 (g)	2024 (f)	2025 (f)
Employment, full time equivalent	3.7	3.2	2.6	1.8
Employment, Labour Force Survey	3.1	3.0	2.6	2.0
Unemployment rate (% Labour force)	12.9	12.1	11.4	10.9
CPI (average)	8.4	3.5	3.1	2.3
GDP deflator	4.4	6.1	4.4	2.9
Official interest rate (end of period, %)	2.50	4.50	3.75	2.75
EUR-USD exchange rate (annual average)	0.99	0.92	0.91	0.88
Public deficit (% GDP)	-4.7	-4.0	-3.6	-2.9
Public debt (% GDP)	111.6	107.7	104.8	103.1

(g): growth. (f): forecast.

Source: BBVA Research based on INE and BdE.

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