

# Spain Economic Outlook

December 2024

# Key points. Global



## Recent behavior



Inflation has continued to fall, partly due to lower oil prices and oversupply in China, but growth and core inflation remain resilient. This, and expectations that Trump's policies will boost inflation and fiscal risk, have supported U.S. sovereign yields and the dollar.



## Outlook: growth



Assuming the new U.S. administration will raise tariffs, especially on China, growth is projected to fall from 2.7% in 2024 to 2.1% in 2025 in the U.S., and from 4.8% to 4.1% in China, where new incentives will offer some relief. In the EMU, protectionism will help to keep growth low, at around 0.8% in 2024 and 1.0% in 2025.



## Outlook: rates and inflation



Inflation will rise in the U.S. However, it will remain contained in the Economic and Monetary Union (EMU) and China due to the effects of weaker demand and lower oil prices. There will be less room for monetary easing in the U.S., where rates will reach 4% in 2025 and 3% in 2026, but there will be more room for cuts in the EMU and China.



## Risks



The balance of risks has deteriorated. Uncertainty is high, and the new Trump administration's trade and immigration policies, coupled with rising geopolitical tensions, will condition global supply. Expansionary fiscal policies could intensify upward pressures on inflation and interest rates.

# Key points. Spain



## Recent behavior



GDP growth in 2024 is revised upward again, this time by two tenths of a percentage point to 3.1%. This improvement in the forecast responds to a higher-than-expected advance in the third quarter and a slight acceleration in job creation in the fourth. The growth model is pivoting towards greater dependence on domestic demand.



## New elements that condition the scenario



In recent weeks, there have been two significant disturbances. The DANA (severe weather event), which affected Valencia more intensely, and the changes announced in the U.S. tariff policy could reduce growth in the coming months, although the final impact will depend on the economic policy response.



## Outlook



GDP growth could be 2.3% in 2025 and 1.7% in 2026. The increased supply of renewable energy and the reduction in fuel prices will improve competitiveness. The rains will intensify the recovery of agri-food sector. Domestic demand will be supported by falling inflation, rising wages, improvement in employment, and reduction in interest rates. The potential growth of the Spanish economy is higher than expected at the beginning of the year.



## Risks

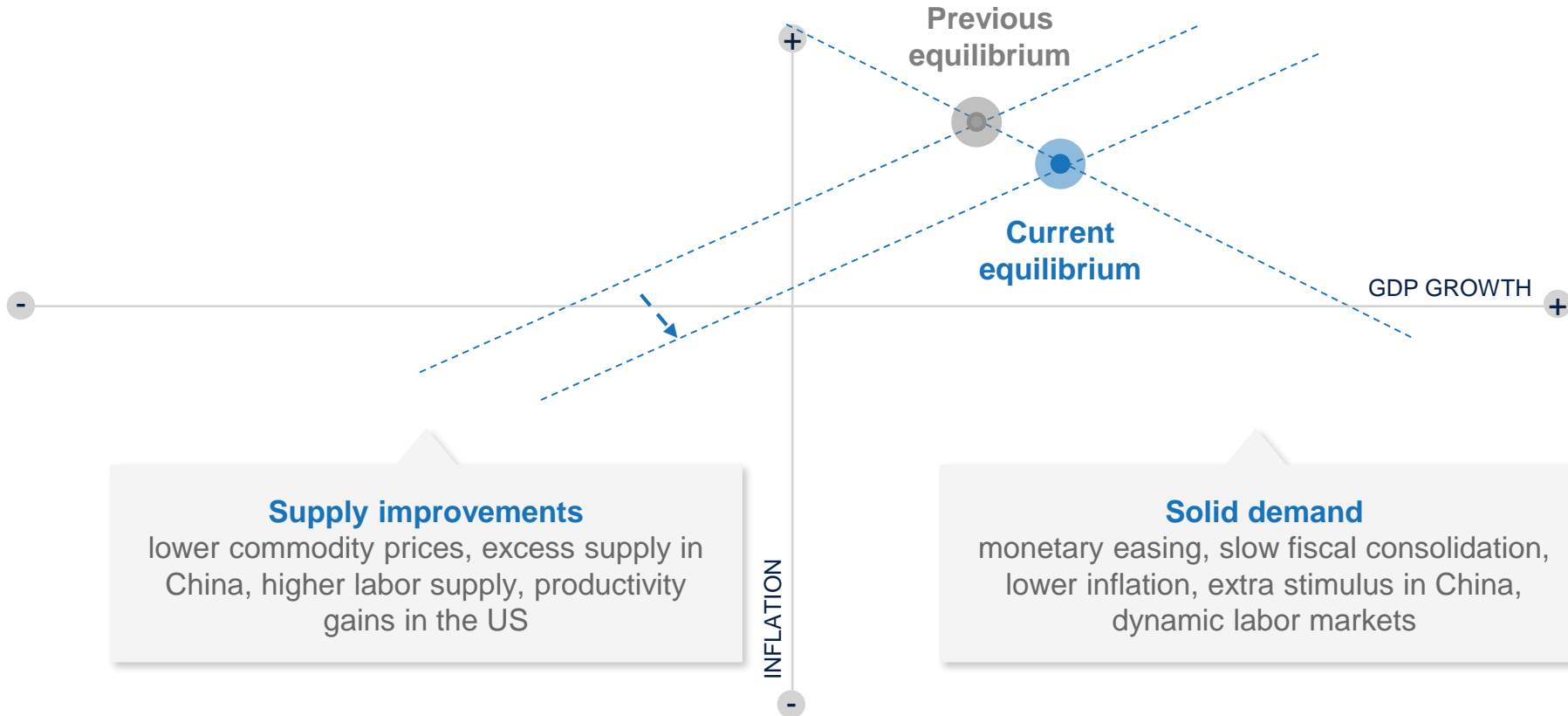


There are doubts about tourism's capacity to continue growing. The housing shortage limits improvement in quality of life and can hinder immigration, which is worrying in the context of a declining participation of Spaniards in the labor market and the negative effects of aging on the labor force. Investment remains weak, and uncertainty about economic policy is high.

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# Global Economic Outlook

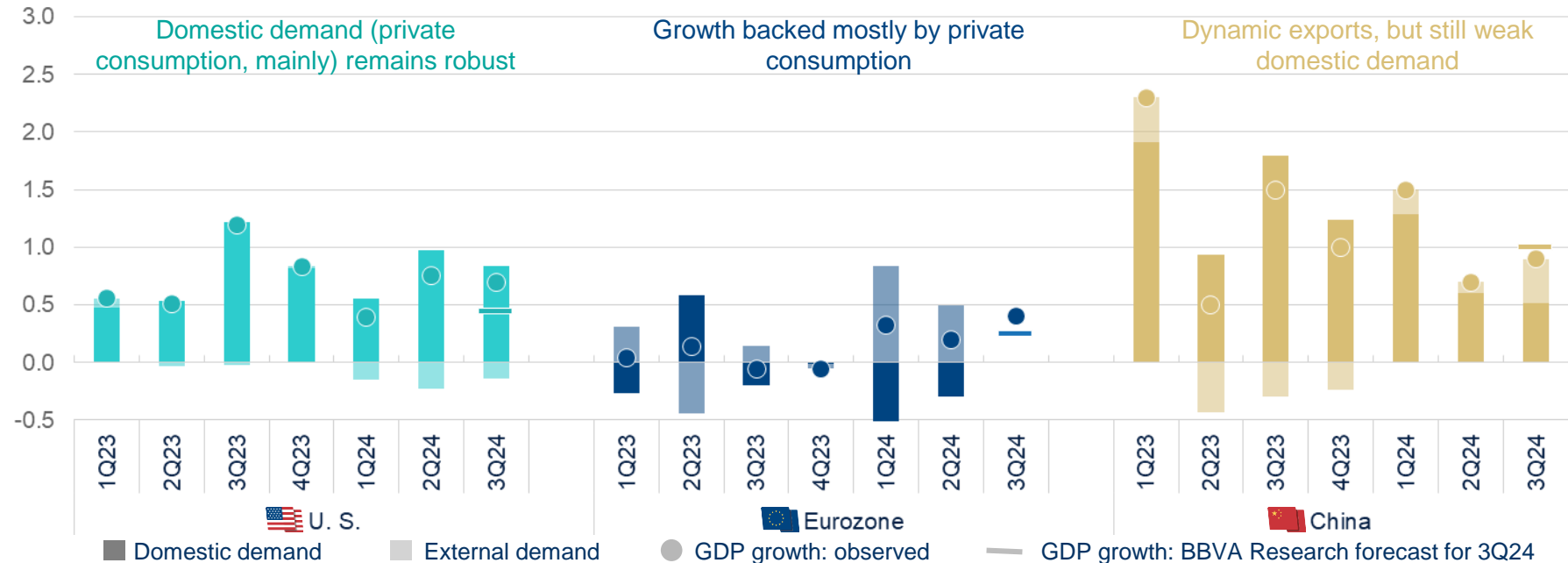
# Recent supply improvements have allowed further declines in headline inflation and supported growth ahead of a new Trump government in the US



# Growth has surprised upwards in 3Q24, mainly in the US but also in the EZ; in China it has recovered somewhat amid increasing counter-cyclical policies

## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

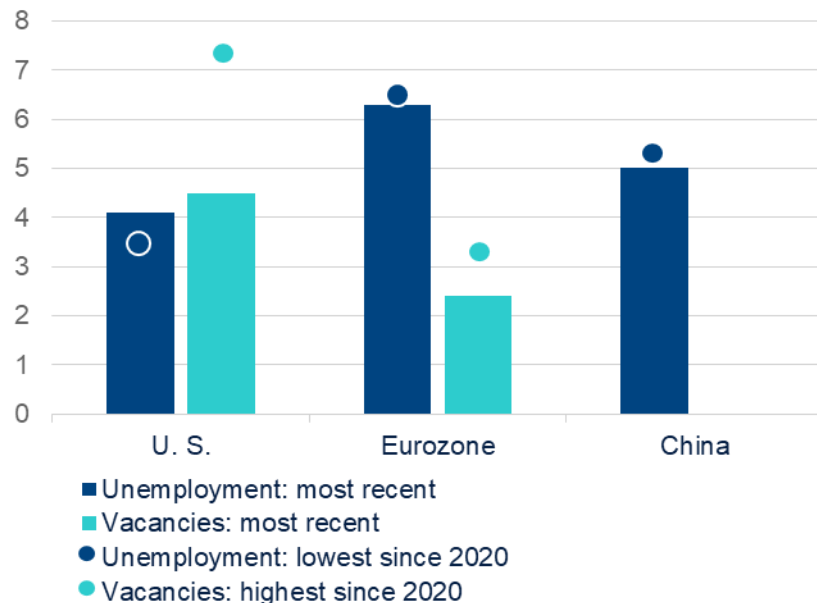
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



# Labor markets remain robust, after easing somewhat lately; solid services continue to contrast with weak manufacturing (despite recent improvements)

## UNEMPLOYMENT AND VACANCY RATES (\*)

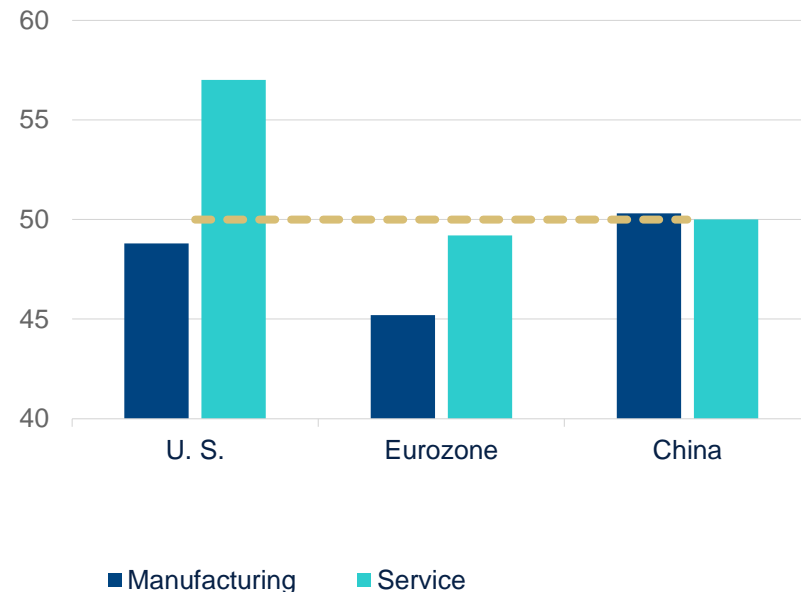
(%)



(\*) Unemployment rate: unemployment as share of the labor force. Vacancy rate: job vacancies as share of the sum of total employment and job vacancies. Vacancies data not available for China.  
Source: BBVA Research based on data from BLS, Eurostat and Haver.

## PMI INDICATORS: MOST RECENT DATA (\*)

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



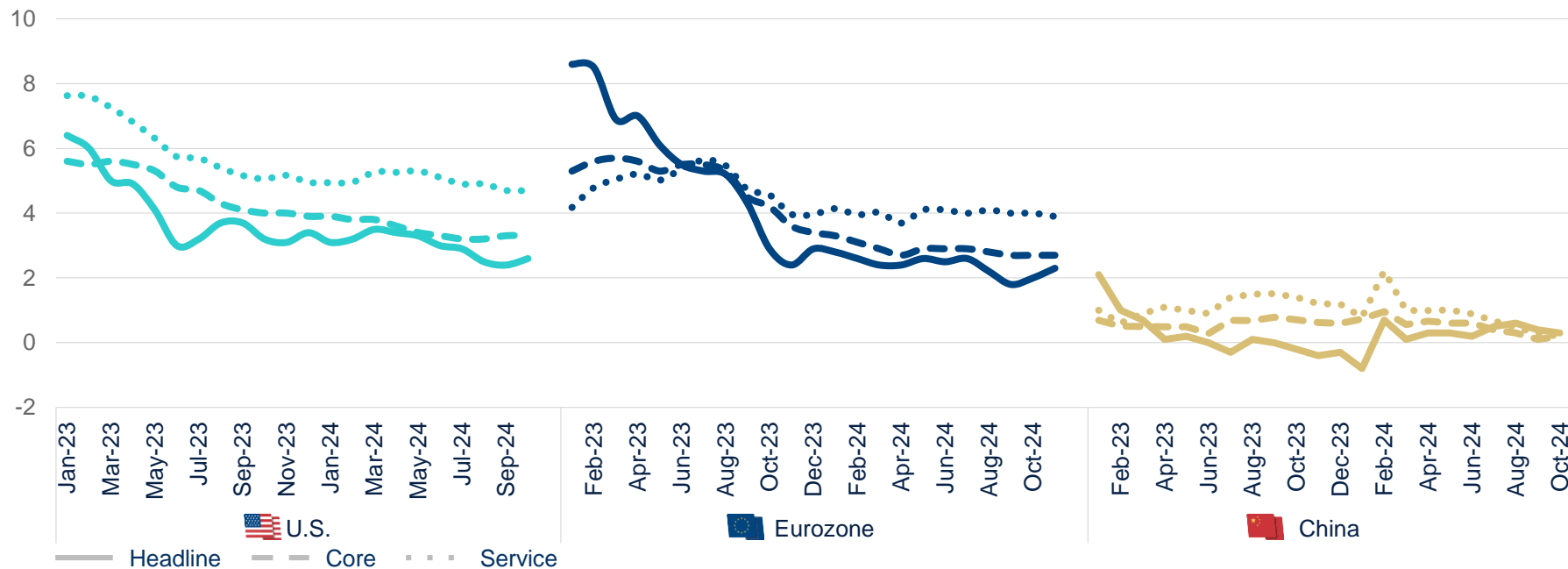
(\*) November 2024.

Source: BBVA Research based on data from Haver.

# Inflation continues to ease and is now close to the targets, but service and core measures remain stickier, amid resilient demand and still pressured wages

## CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)



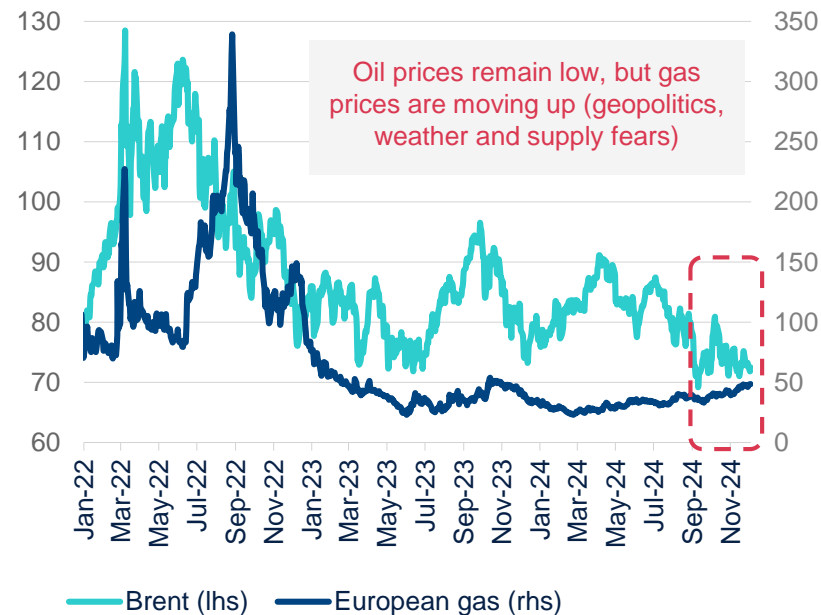
Source: BBVA Research based on data from Haver.



# Low oil prices and abundant Chinese supply, particularly of manufactured goods, have helped to lower inflation and keep growth relatively robust

## OIL AND GAS PRICES (\*)

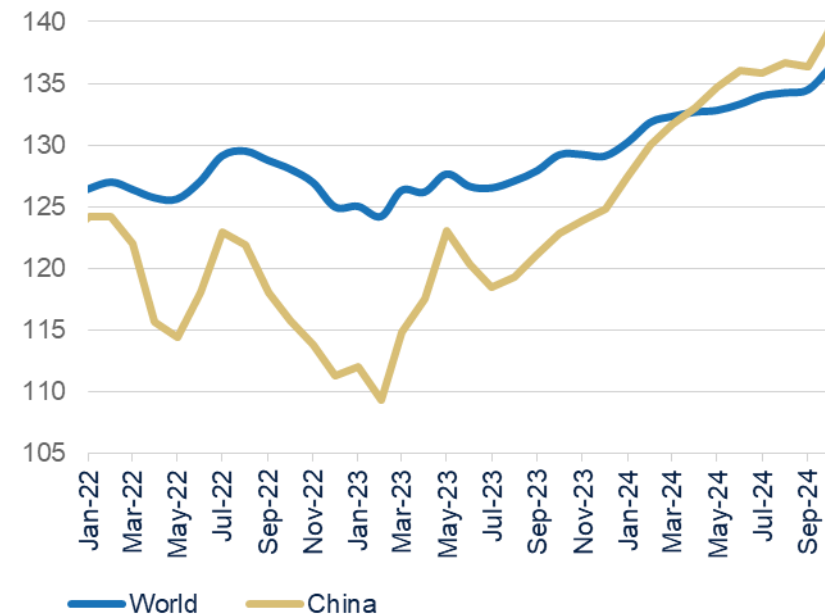
(OIL: USD PER BRENT BARREL; GAS: EURO /MWH)



(\*) Last available data: December 3rd, 2024.  
Source: BBVA Research based on data from Haver.

## BBVA RESEARCH TRADE INDICATOR (\*)

(INDEX: 2019 AVERAGE =100; IN REAL TERMS)

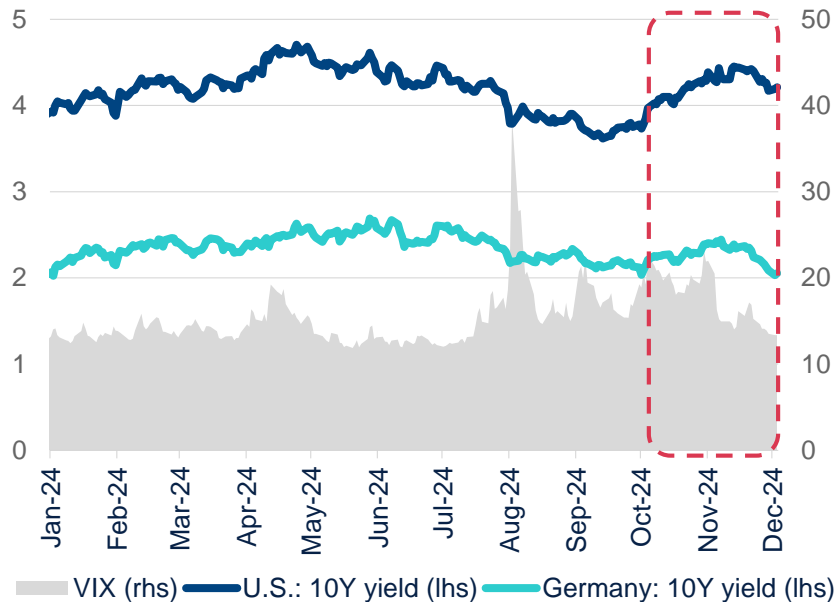


(\*) The indicator is a three-month moving average of goods exports, from a sample of 25 countries (in the case of the World indicator). It is deflated using export price indexes.  
Source: BBVA Research based on Haver data

# US sovereign yields have increased, reflecting the view of larger fiscal risks and inflationary pressures under Trump, which has backed the US dollar

## SOVEREIGN YIELDS AND VOLATILITY (VIX) (\*)

(%)

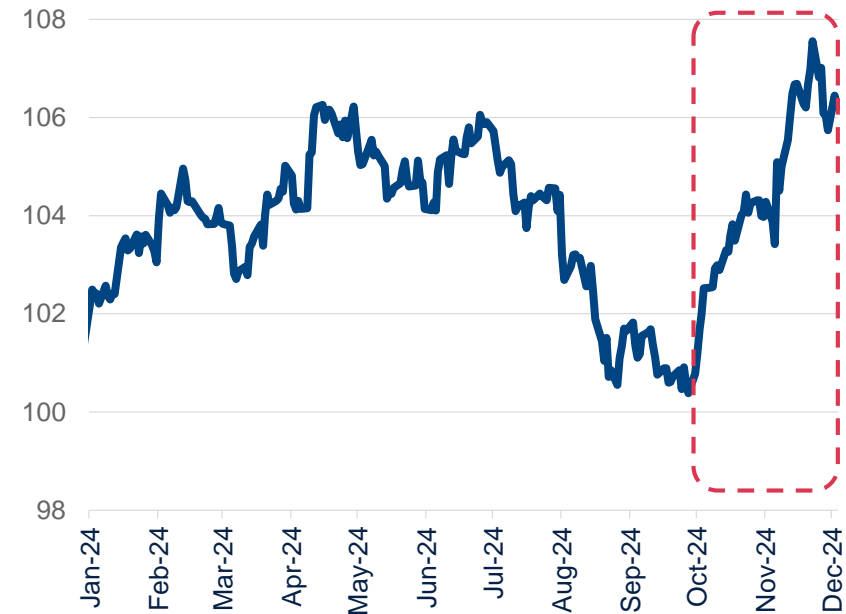


(\*) Last available data: December 3rd, 2024.

Source: BBVA Research based on data from Haver.

## US DOLLAR: DXY (\*)

(INDEX)



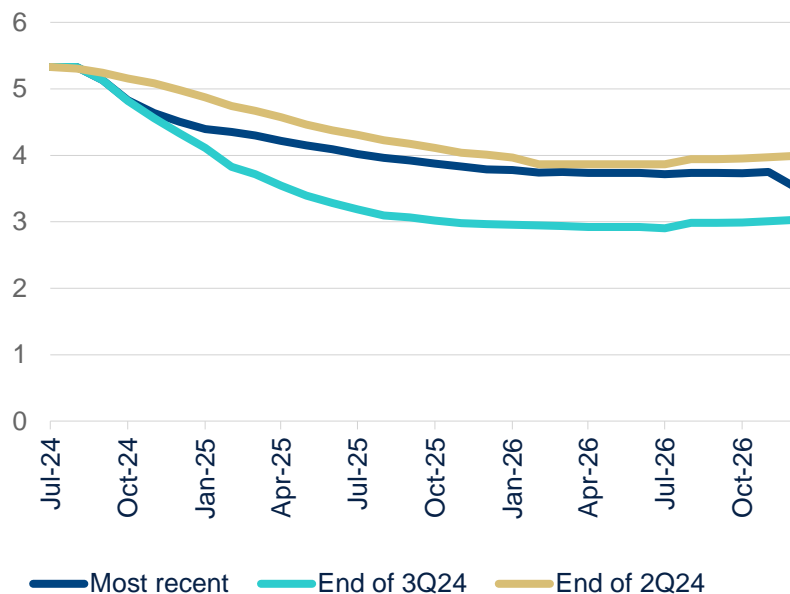
(\*) A lower DXY index represents a weaker US dollar. December 3rd, 2024.

Source: BBVA Research based on data from Haver

# Markets see less room for further monetary easing, and higher terminal rates, in the U.S. than in the Eurozone, due to likely impact of Trump's policies

## US: IMPLICIT RATE IN FED FUND FUTURES (\*)

(%)

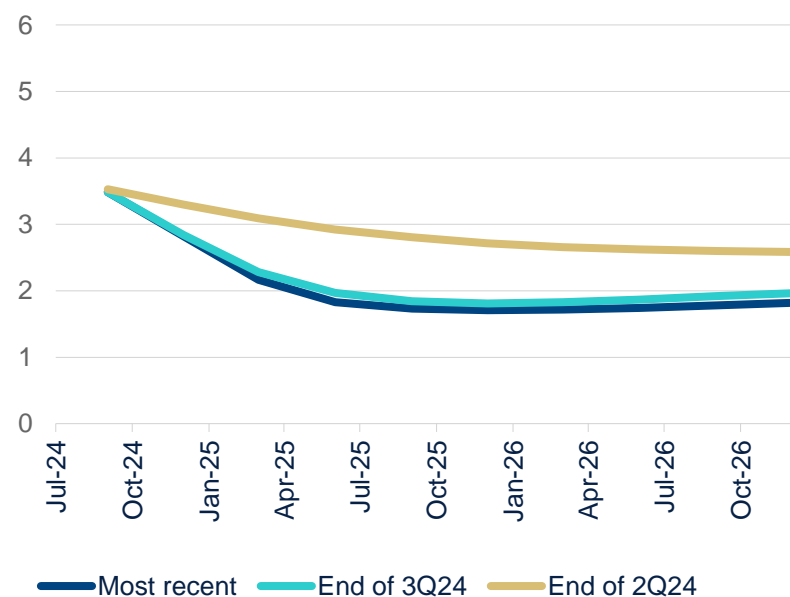


(\*) Last available data: December 3rd, 2024.

Source: BBVA Research based on data from Haver.

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

(%)

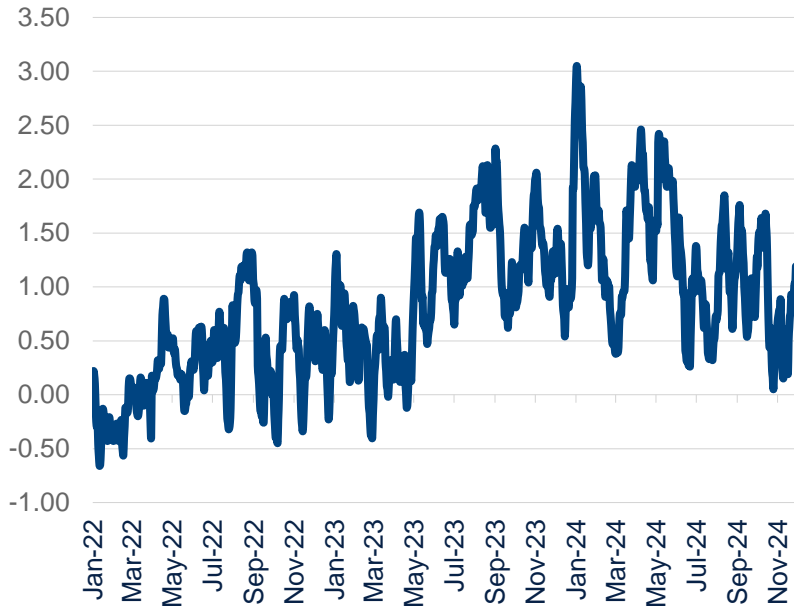


(\*) Depo interest rates. Last available data: December 3rd, 2024.

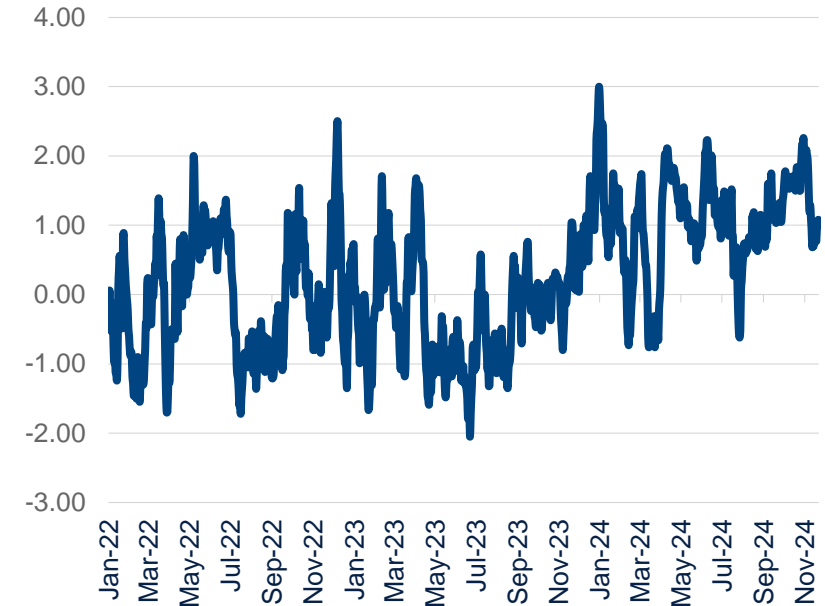
Source: BBVA Research based on data from Haver.

# Conflicts in the Middle-East and in Ukraine continue to have a relatively limited impact on financial markets and macro data

**BILATERAL TENSIONS INDEX: UKRAINE-RUSSIA (\*)**  
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



**BILATERAL TENSIONS INDEX: ISRAEL-IRAN**  
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



(\*) Last available data: December 1st, 2024.  
Source: BBVA Research Geopolitics Monitor.

(\*) Last available data: December 1st, 2024.  
Source: BBVA Research Geopolitics Monitor.

# What to expect from a new Trump government in the US?



## BBVA Research base scenario

### Higher import tariffs:

60% US tariffs on China, 10% US tariffs on all other countries; retaliation by China (60% tariffs on targeted US goods), but not by others

### Low taxes:

tax cuts remain in place (i.e the 2017 Tax Cut and Job Act is renewed).

### Uncertainty on various fronts:

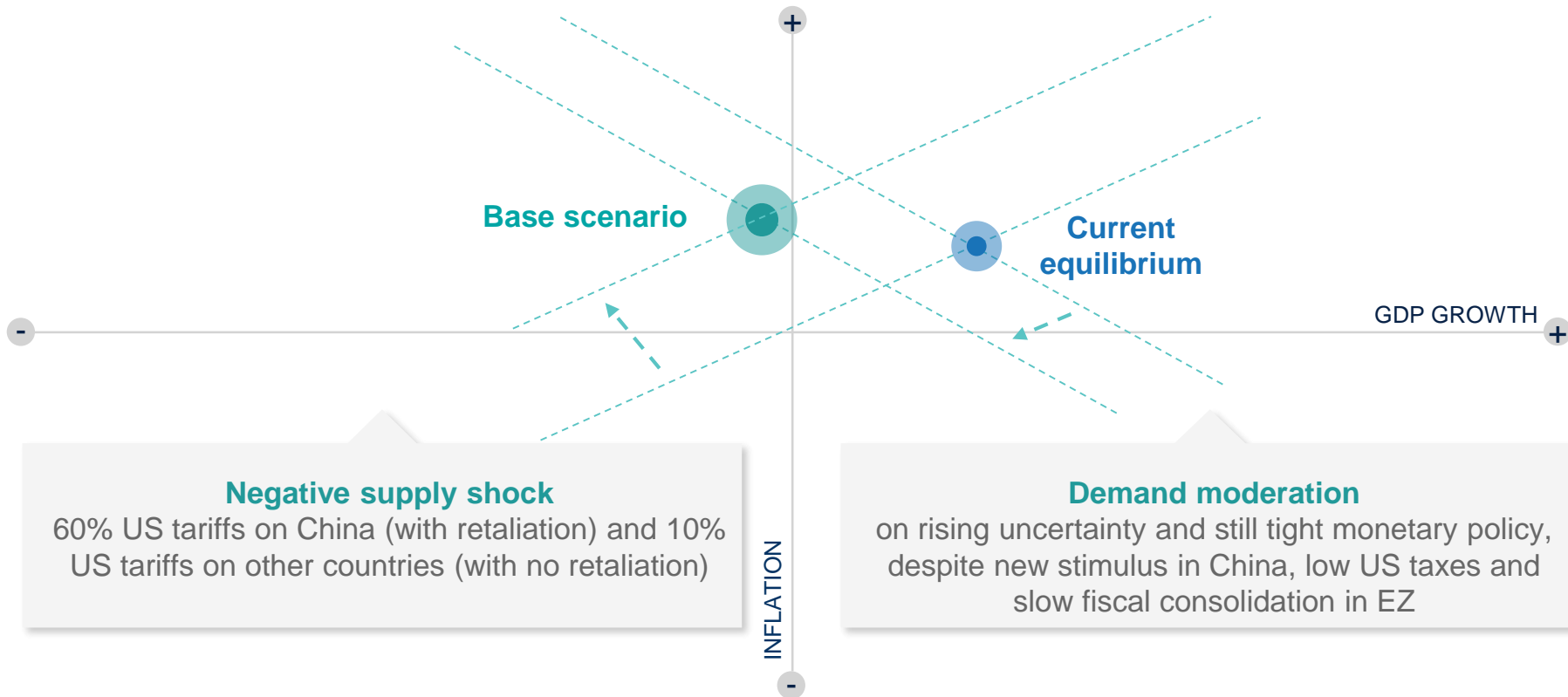
extra shocks (on immigration, deregulation, pro-oil agenda, Fed's autonomy, foreign policy...) are possible, but are not assumed.



**Overall impact will depend on cyclical position (better in the US) and margin for response (higher in China and in the US)**

	 US	 CHINA	 EUROZONE
 GDP	Slightly lower	Slightly lower	Much lower (no recession)
 INFLATION	Higher (one-off impact)	Much lower	Lower
 RATES	Higher	Lower	Lower
 CURRENCY	USD: stronger	RMB: weaker	EUR: weaker

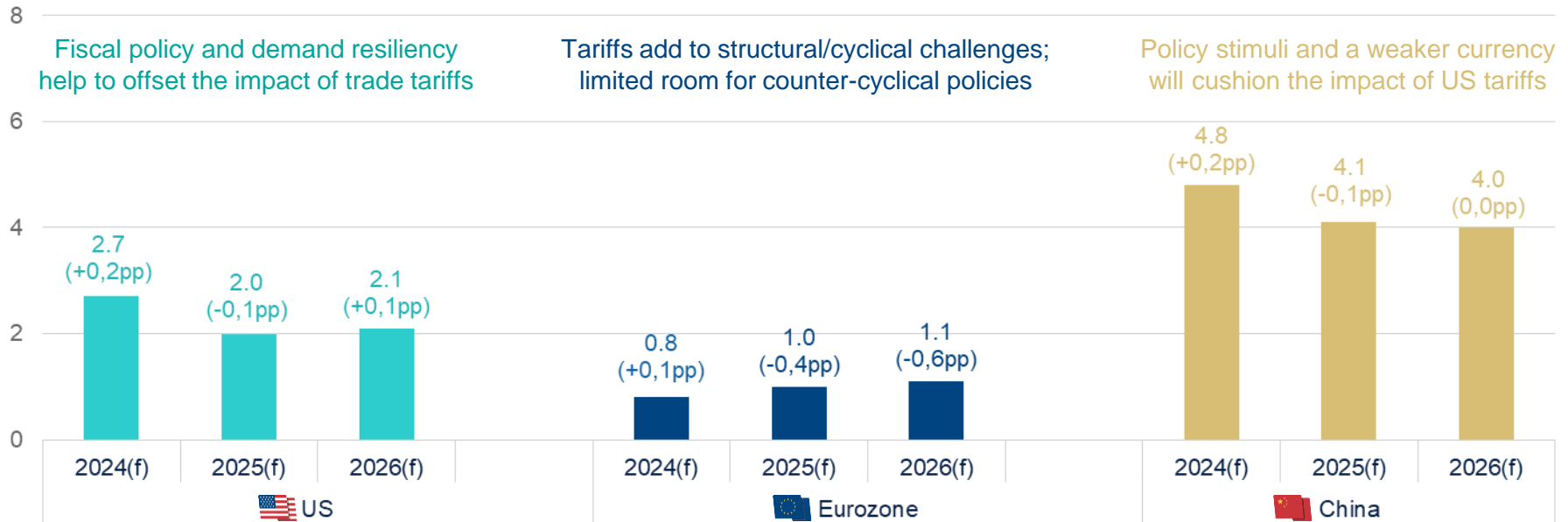
## Base scenario: protectionism will fuel uncertainty, pressure global growth downwards and inflation upwards, with important differences across countries



# Slower growth ahead, despite both stronger GDP expansion in 2024 and likely measures to mitigate the impact of higher trade tariffs (mainly in China)

## GDP GROWTH (\*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(\*) Global GDP growth: 3.2% (+0.1pp) in 2024, 3.1% (-0.2pp) in 2025 and 3.3% (+0.1pp) in 2026.

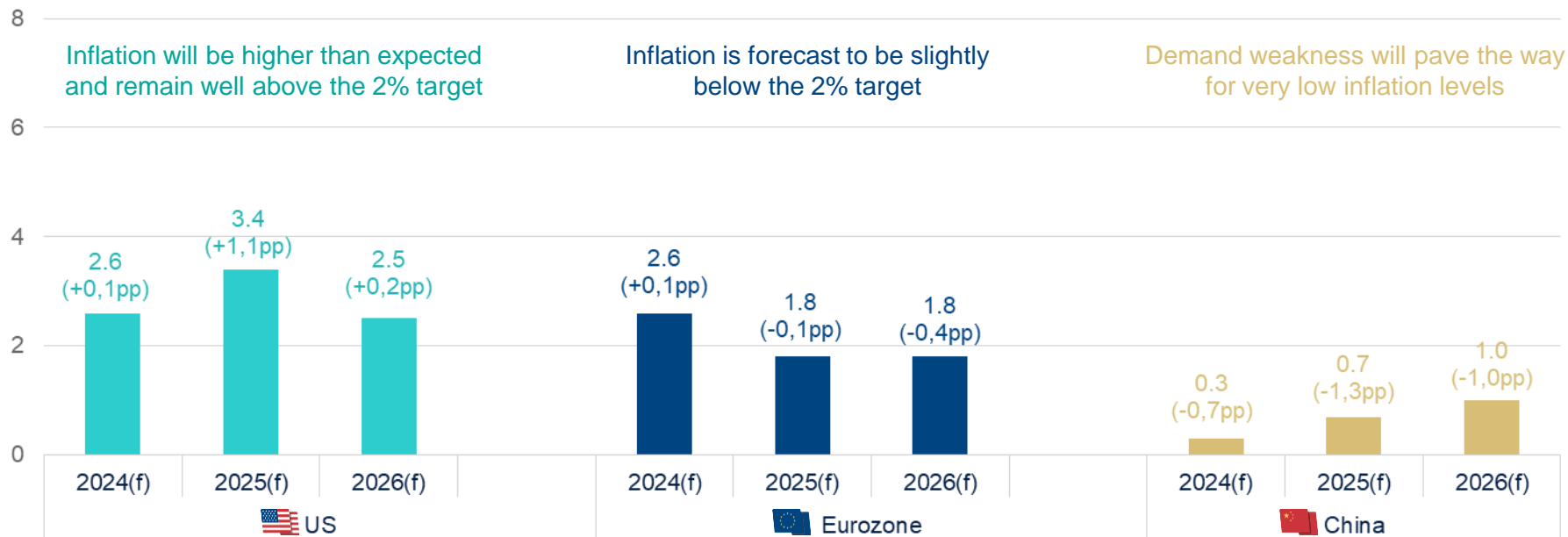
(f): forecast.

Source: BBVA Research.

# Trump policies will pressure inflation, mainly in the US; in other regions, it will likely ease due to weaker growth, lower oil prices and excess supply in China

## HEADLINE CPI INFLATION

(Y/Y %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.

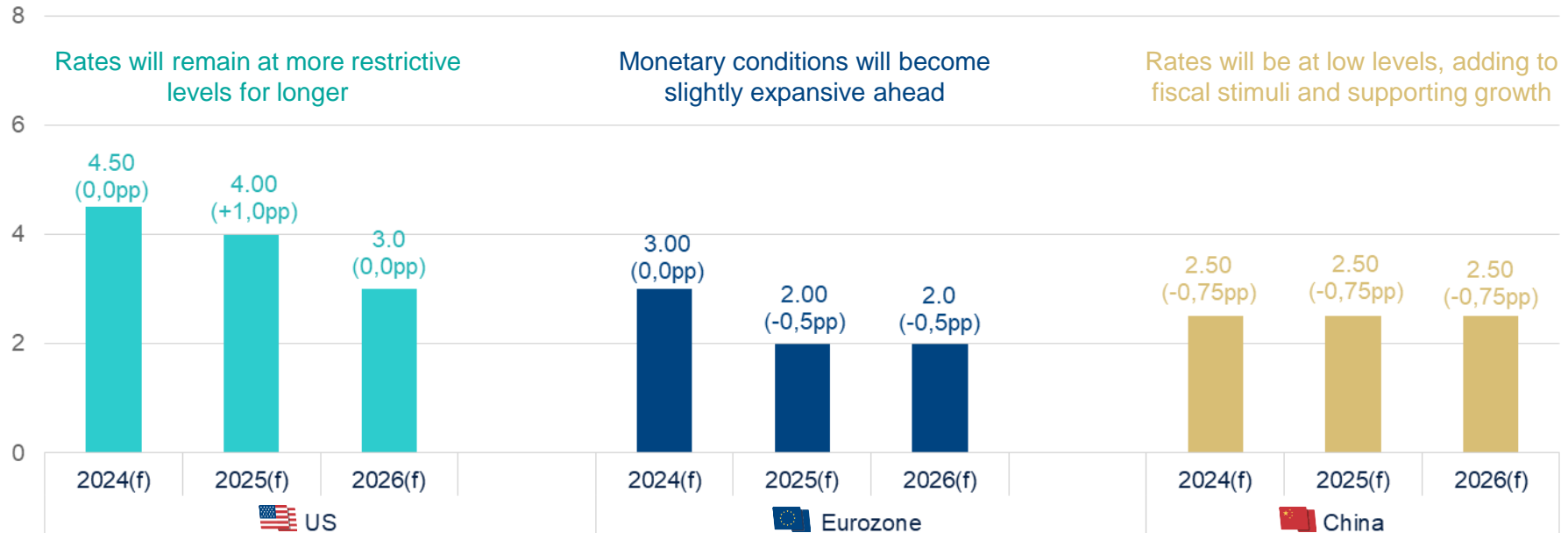
Source: BBVA Research.



# The Fed will have less room to ease monetary conditions, while more rate cuts than previously forecast are likely in the EZ and in China

## POLICY INTEREST RATES (\*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

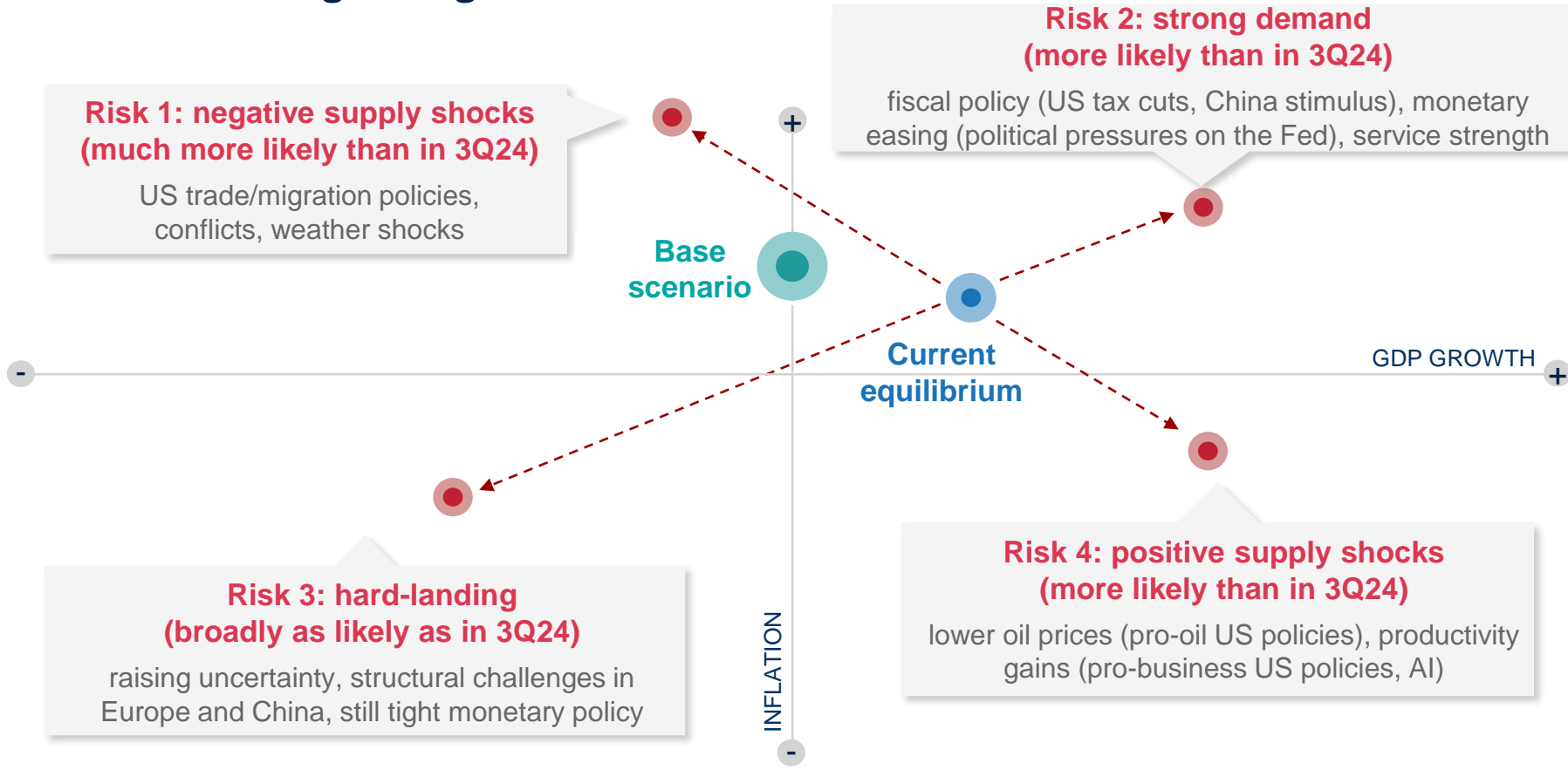


(f): forecast.

(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

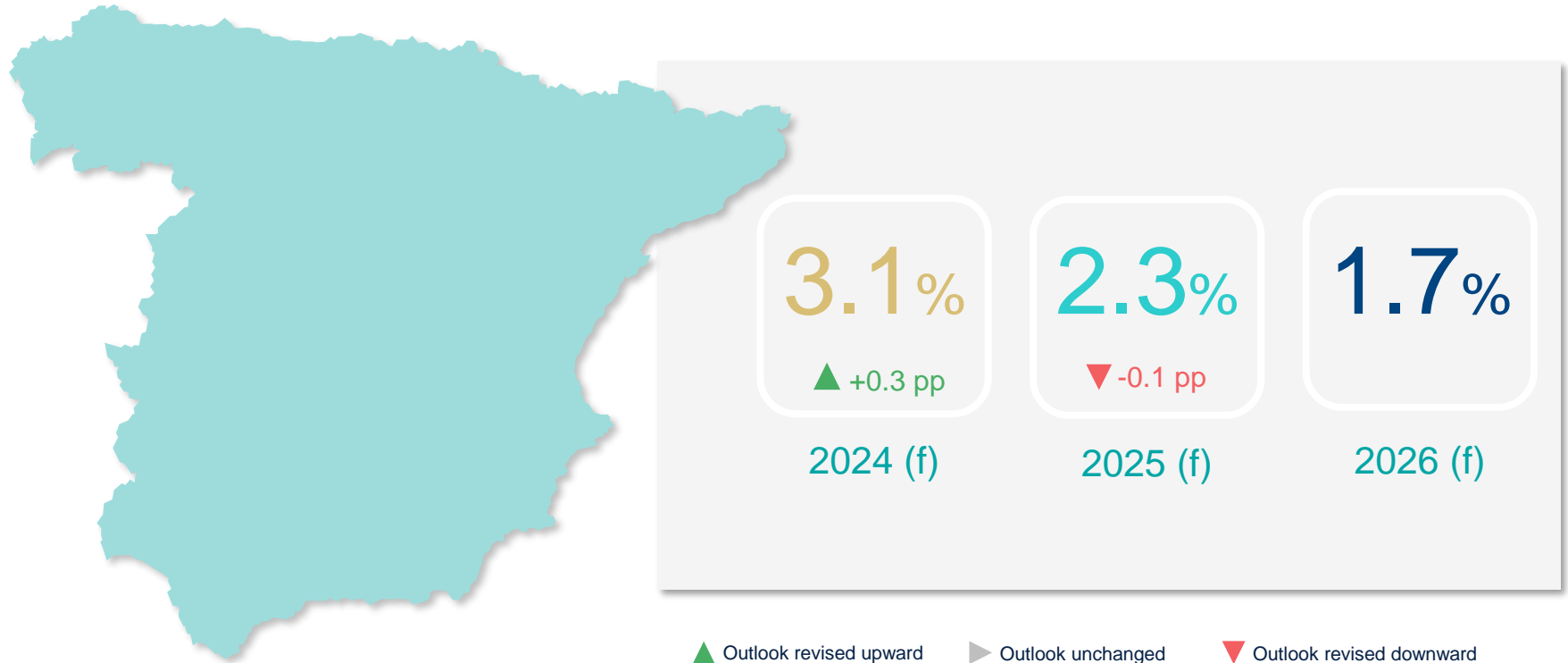
## Risks: policies by the new US administration, and geopolitical events, may lead to more negative global macro scenarios



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# Spain Economic Outlook

## Recovery continues in a slowdown environment



(f): forecast.

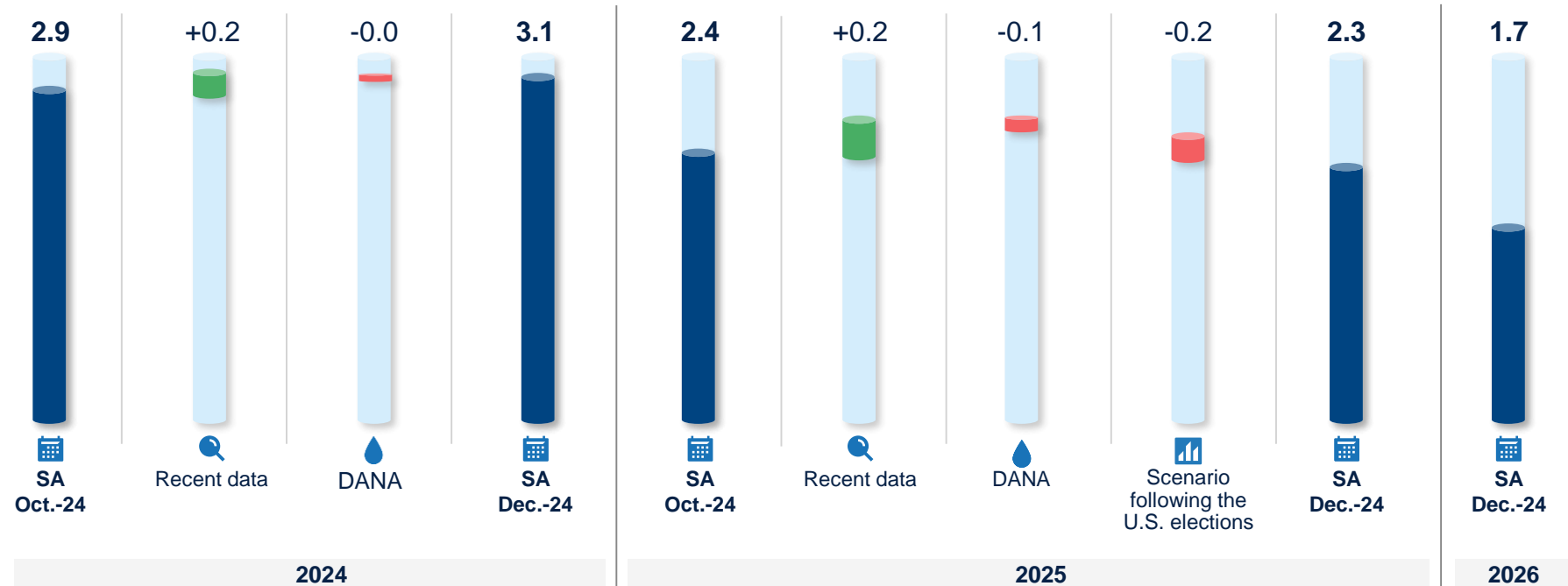
Source: BBVA Research, based on INE data.

# Recovery continues in a slowdown environment

Recent improved performance in the economy, with events that impact the future

## CHANGE IN GDP FORECASTS ACCORDING TO CONTRIBUTIONS BY FACTORS

(%)

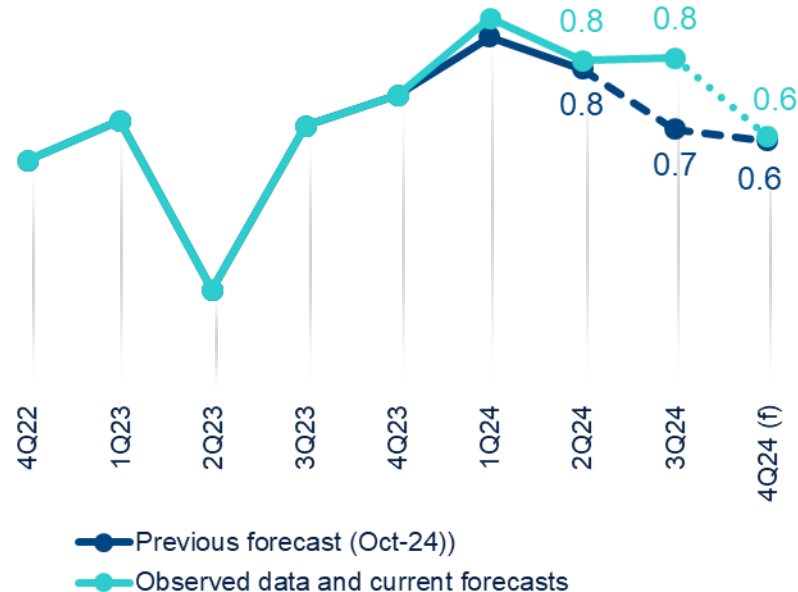


## Growth revised upward for 2024

Due to a better-than-expected performance in the third quarter

### QUARTERLY GDP GROWTH

(%)



- The advance estimate of the Quarterly National Accounts (CNTR) indicates that GDP grew by 0.8% quarter-on-quarter (q/q) in the third quarter of 2024, maintaining the pace observed in the second quarter.
- This figure was 0.1 percentage points (pp) higher than expected in BBVA Research's baseline scenario for October.
- The fourth quarter is expected to close with GDP growth between 0.6% and 0.8%, supported by an improvement in employment.

(f): forecast.

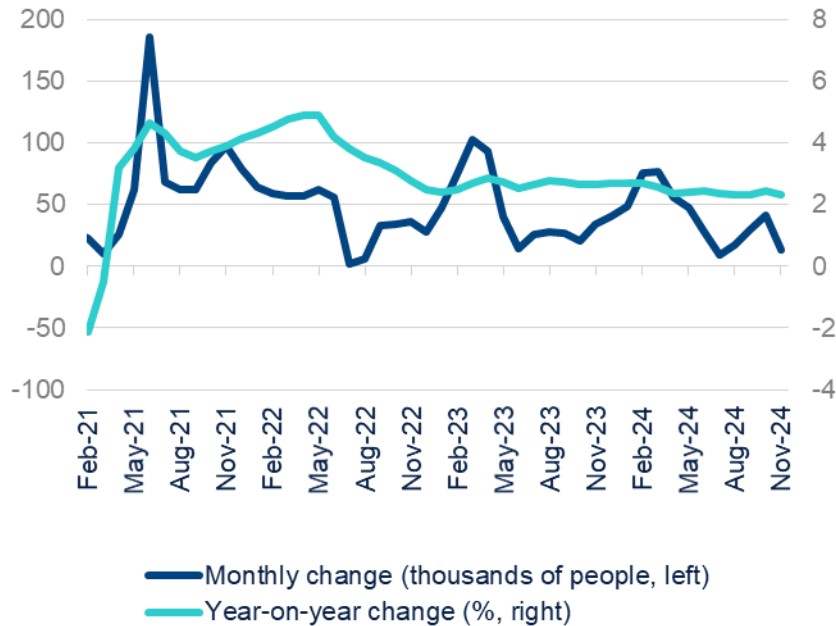
Source: BBVA Research based on INE data.

## Growth revised upward for 2024

In recent months, the slowdown trend in employment has been reversed

### SOCIAL SECURITY AFFILIATION

(DATA FROM CVEC)



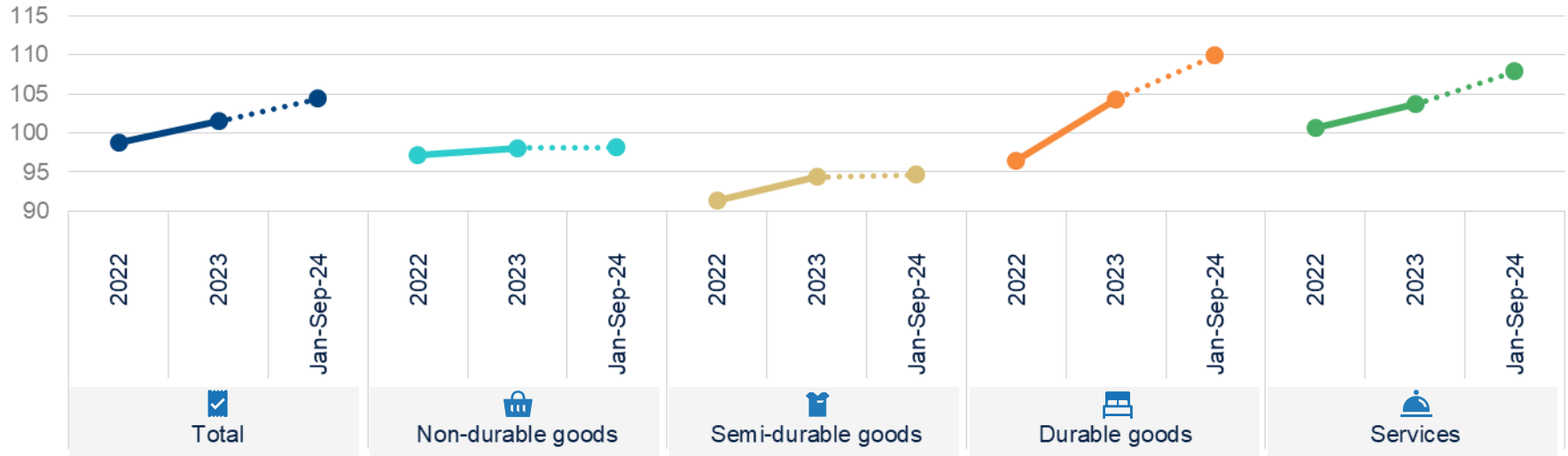
- Social security affiliation data for September and October showed a turning point, putting an end to the slowdown of the summer months.
- In November, job creation eased. After the DANA (severe weather event causing torrential rains), social security affiliation grew less than expected in the province of Valencia.
- The growth model is evolving towards a greater contribution from domestic demand.

# The growth for 2024 is revised upward

Private consumption accounted for much of the great advance

## SPAIN: HOUSEHOLD DOMESTIC CONSUMPTION

(2019 = 100)



Source: BBVA Research, based on INE data.

Improved consumption was concentrated in services and durable goods, while spending on perishables and semi-durables remains weak, reflecting a common structural trend in Europe.

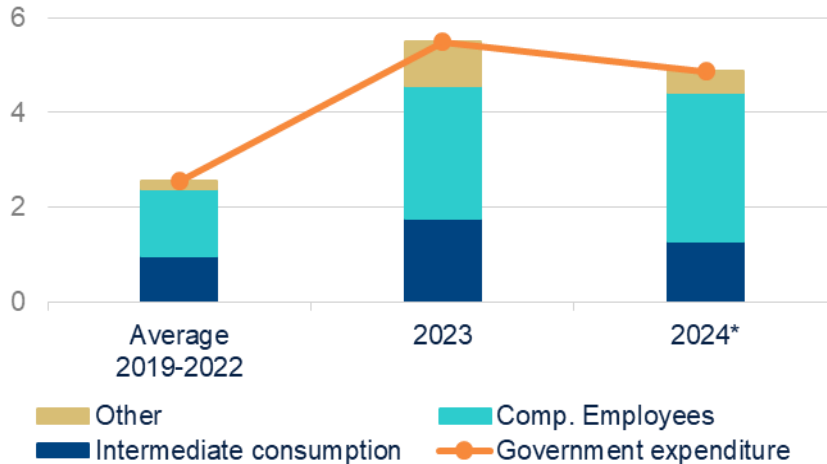


## Growth revised upward for 2024

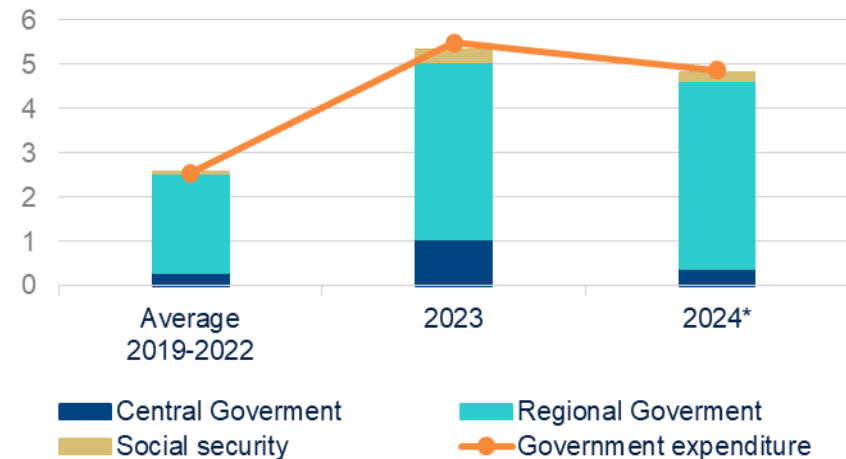
Government expenditure continues to be one of the drivers of expansion

### CONTRIBUTION TO THE YEAR-ON-YEAR CHANGE IN THE REAL FINAL CONSUMPTION EXPENDITURE OF GOVERNMENT ADMINISTRATIONS, EXCLUDING LOCAL CORPORATIONS (CVEC. PP)

BY COMPONENTS



BY SECTORS



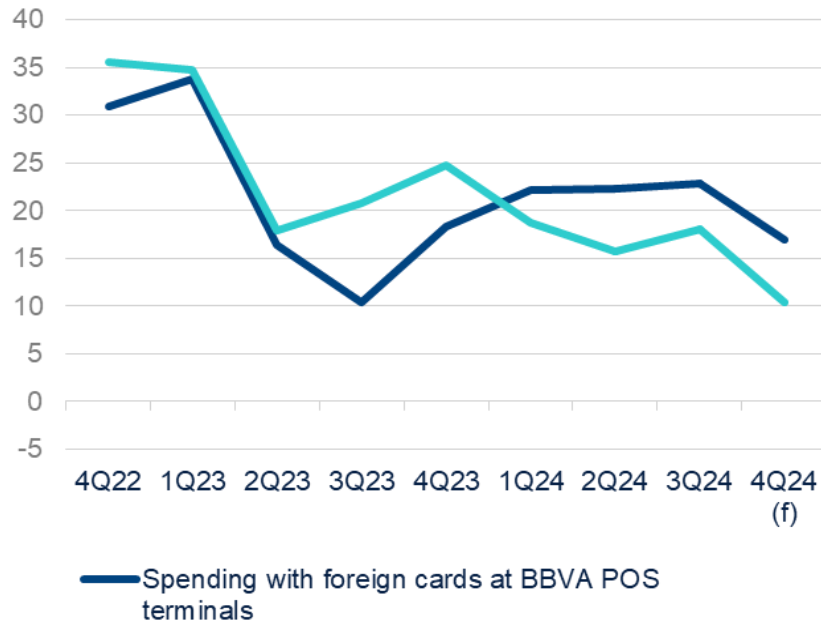
(\*): Change in accumulated Oct.23-Sep.24 with respect to Oct.22-Sep.23.  
Source: BBVA Research based on INE Ministry of the Treasury data.

Public consumption is driven by the increase in the remuneration of employees, mainly in the autonomous communities. In the short term, this trend will continue to the extent that the autonomous communities have not announced significant fiscal consolidation policies.

# Growth revised upward for 2024

## Services exports continue to rise strongly

### CONSUMPTION AMONG NON-RESIDENTS VS. SPENDING WITH FOREIGN CARD (Y/Y GROWTH)



Card data until 25-Nov-24.

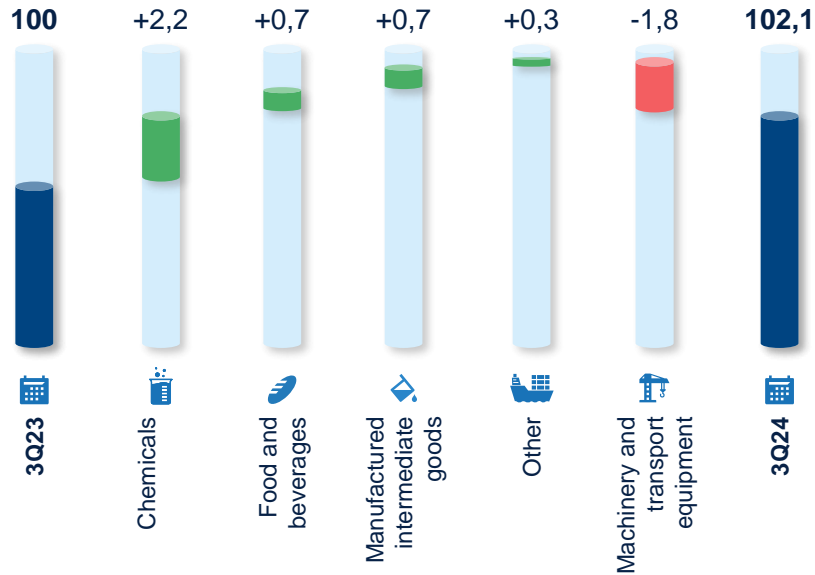
Source: BBVA Research based on INE and the Ministry of Finance.

- The dynamism of services exports, led by the tourism sector, continues to exceed expectations.
- The data on spending with foreign cards registered at BBVA's point-of-sale (POS) terminals confirm that consumption by non-residents is increasing significantly.
- 2024 is expected to result in an increase in consumption by non-residents of 11.4% year-on-year.

## Growth revised upward for 2024

Goods exports maintain a solid advance

### REAL EXPORTS OF GOODS: CONTRIBUTION TO THE ANNUAL CHANGE ACCORDING TO CLASSIFICATION BY SECTION CUCI (3Q23 = 100 & PP)

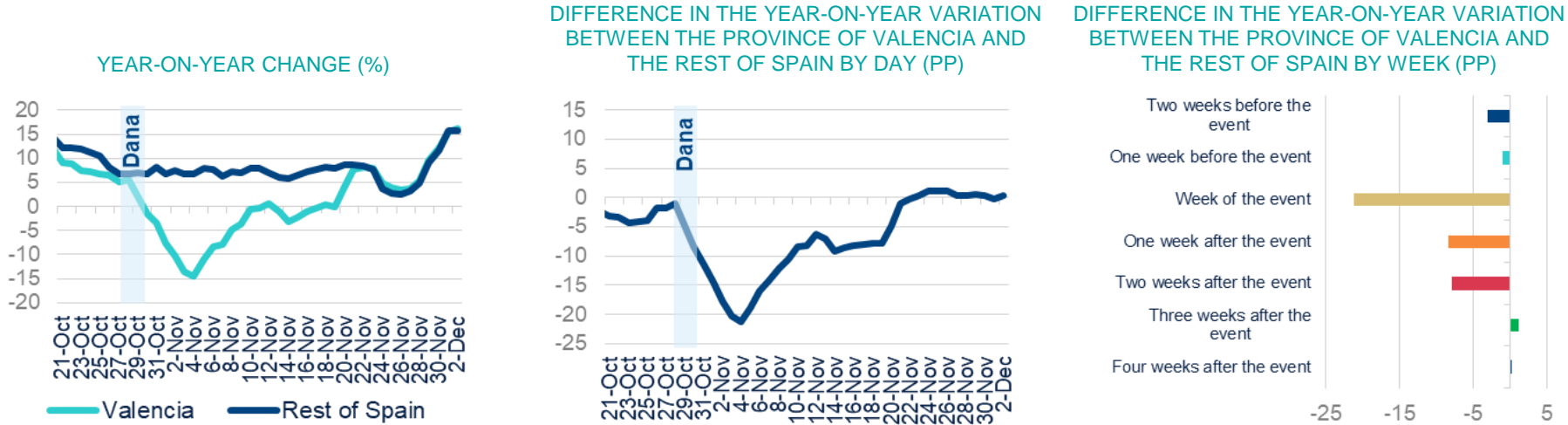


- Goods exports recorded an increase of 2.1% year-on-year in the third quarter of 2024.
- However, this growth would have reached almost 4% if it were not for the deterioration in sales of machinery and transport equipment.
- The main drivers are sectors such as food, medicine, chemicals, and paper and cardboard goods, which have shown solid performance.

## The recovery will be conditioned by two new events

The DANA will have a significant impact at the local level, but its impact on the Spanish economy will be limited

### IN-PERSON CARD SPENDING IN THE PROVINCE OF VALENCIA AND IN THE REST OF SPAIN (7-DAY MOVING AVERAGE)\*



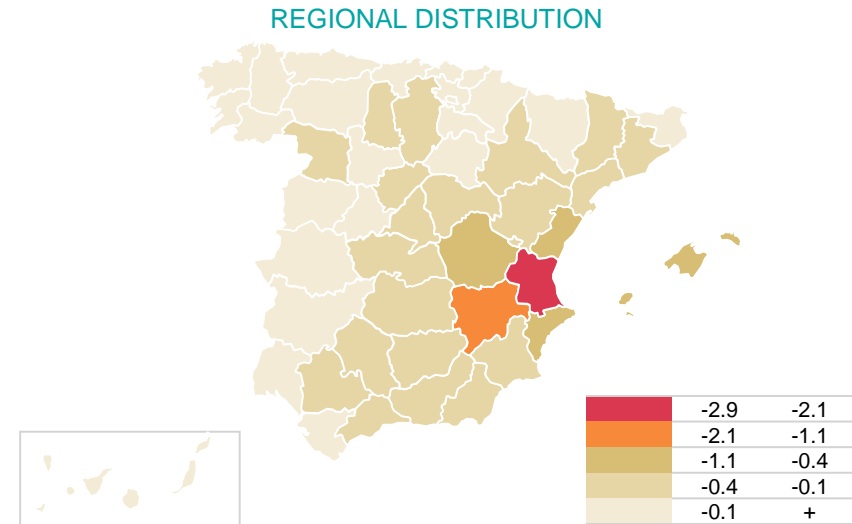
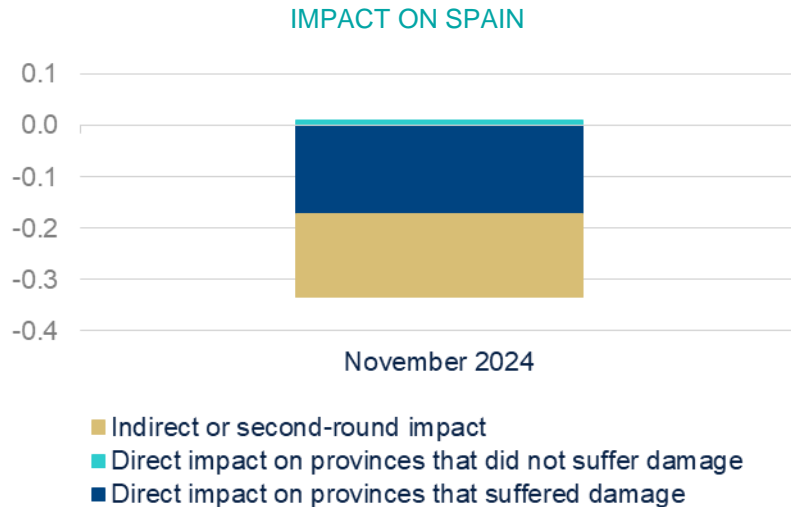
\*: The total spending includes spending with cards issued by BBVA plus spending with cards issued by other entities and used at BBVA POS terminals. Week of the event October 29-November 4. The rest of Spain excludes the province of Valencia. Card data until Dec 2, 2024.  
Source: BBVA Research, based on BBVA data.

The detailed information shows that the economic impact of the DANA has been relevant, especially at the local level. In recent weeks, most indicators already show an improvement in economic activity, which is uneven and especially slow in the most affected municipalities.

## The recovery will be conditioned by two new events

The DANA will have a significant impact at the local level, but its impact on the Spanish economy will be limited

### IMPACT ON THE GROWTH OF EFFECTIVE SOCIAL SECURITY AFFILIATION IN NOVEMBER CAUSED BY THE DANA (DEVIATION FROM THE SCENARIO IN THE ABSENCE OF THE SHOCK, IN PP)\*



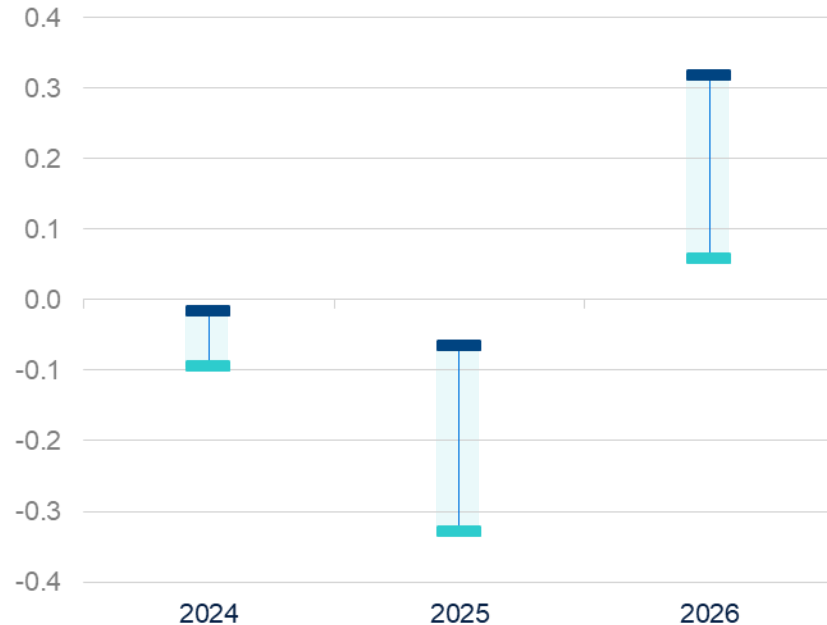
\*(1): Two-stage estimation using IV FGLS in a spatial model with panel data.  
Source: BBVA Research based on data from EMDAT and MISSYM.

BBVA Research estimates that the damage caused by the DANA could reach 1.5% of Spanish GDP and could have affected effective employment in the province of Valencia by 2.9 pp in November. At the national level, the impact on effective employment would have been close to 0.3 pp, of which half is attributed to direct effects.

## The recovery will be conditioned by two new events

The DANA will have a significant impact at the local level, but its impact on the Spanish economy will be limited

### SPAIN: IMPACT OF THE DANA ON AVERAGE ANNUAL GDP GROWTH (DEVIATION IN PP)



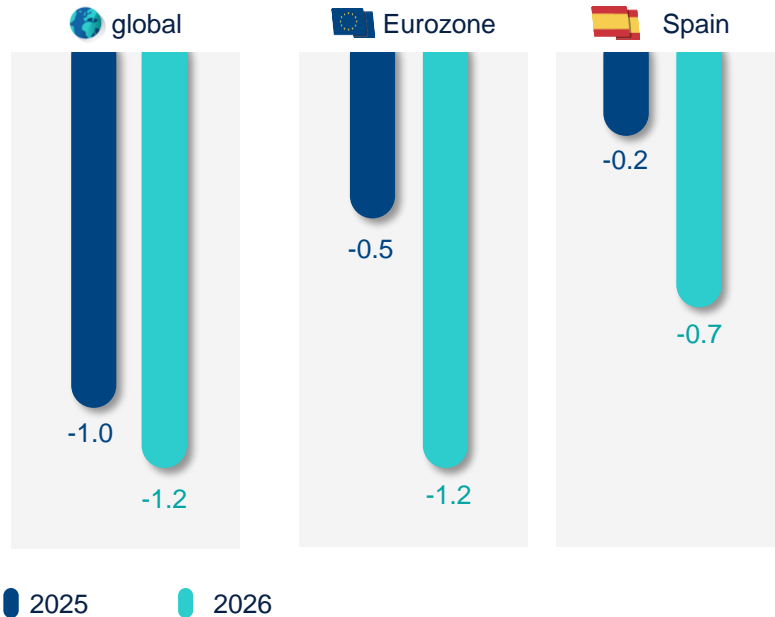
- According to the evidence of damage and effects of aid in the past, **a negative impact on GDP growth is expected**, between 0.0 and 0.1 pp in 2024 and between 0.1 and 0.4 pp in 2025.
- The speed of recovery in the most affected areas will depend on the amount, **speed and effectiveness of the public policies implemented**.

# The recovery will be conditioned by two new events

## Negative Impact of U.S. Trade Policy Changes

### IMPACT OF POTENTIAL HIKES IN TARIFFS ON GDP

(%, DEVIATION COMPARED TO BASELINE SCENARIO IN PP)



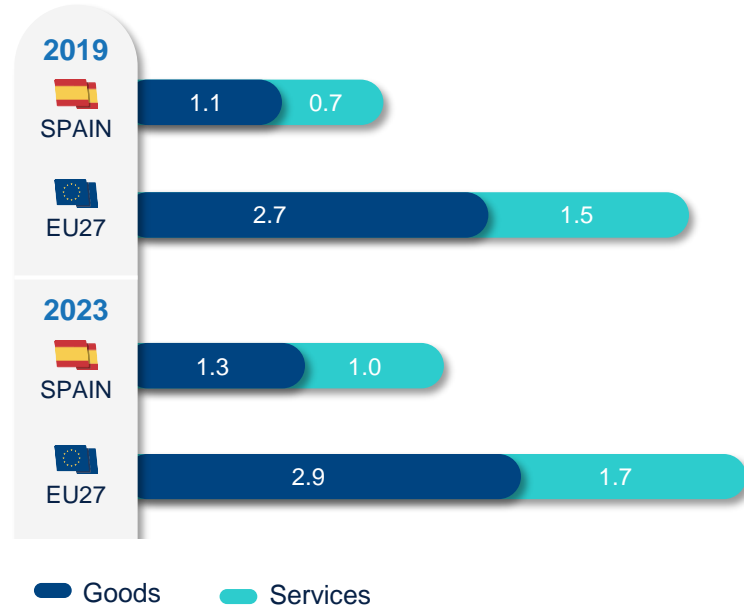
- The new U.S. presidential administration could institute a sweeping increase in tariffs. Areas with which the American economy has a trade imbalance may be particularly affected, as is the case with the EU.
- A 10% tariff hike on U.S. imports from the European Union could reduce Eurozone GDP growth by more than 1.5 percentage points over the next two years.
- In Spain, the impact would be more moderate by 2025, with a decrease of 0.2 pp compared to the previous scenario, while for 2026 a negative effect on GDP of around 0.7 pp is expected.

# The recovery will be conditioned by two new events

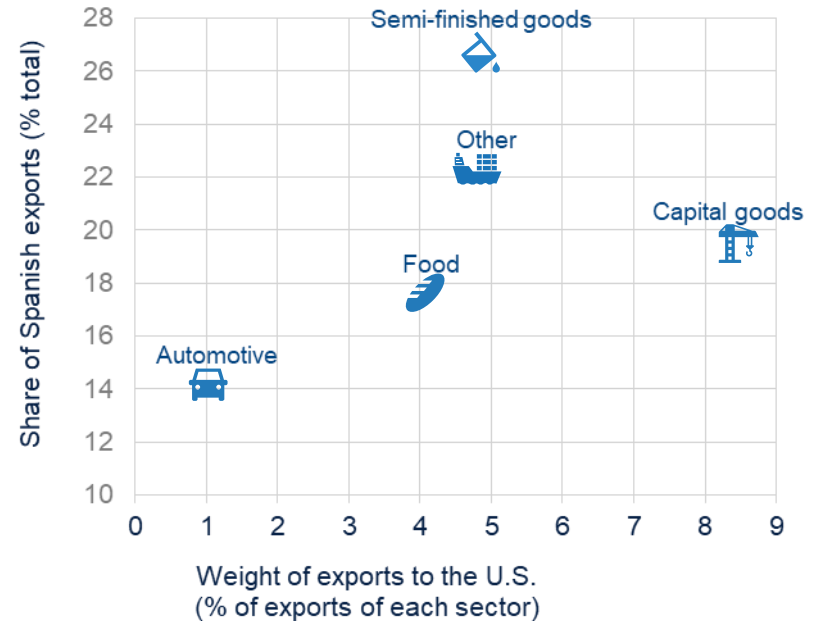
Spain trades less and has a trade deficit with the U.S.

## SPAIN AND EU27: EXPORTS TO THE U.S.

(% GDP, 2019 & 2023)



## EXPORTS OF GOODS BY ECONOMIC SECTOR IN 2023

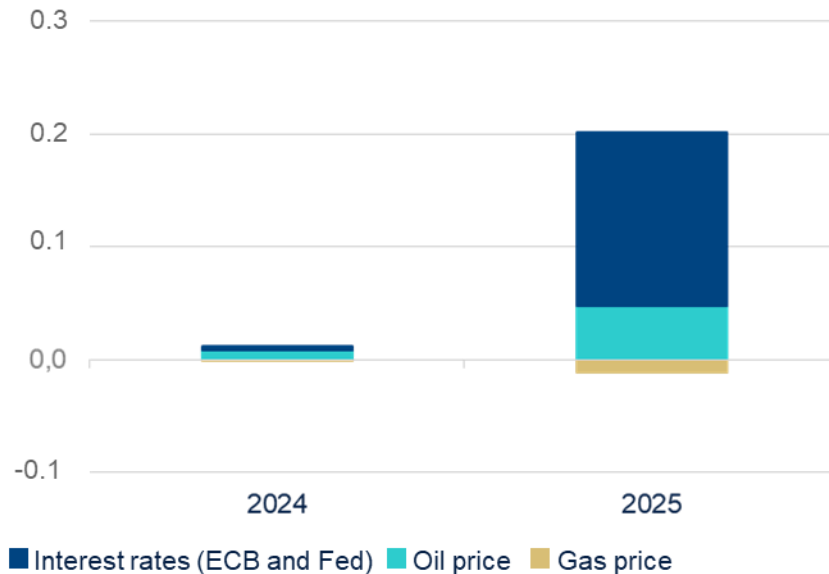




## The recovery will continue in 2025 and 2026

The fall in the cost of production and financing will support growth next year

### IMPACT OF CHANGES ON COMMODITY PRICE AND INTEREST RATE ASSUMPTIONS ON GDP GROWTH\* (PP)



- The environment looks favorable for inflation to consolidate around 2%.
- The European Central Bank (ECB) is expected to assess trade uncertainty and bring the cost of financing to levels that stimulate economic activity.
- The pressure of gas prices on the electricity bill is expected to be temporary and the downward adjustment in the price of oil is expected to continue.
- In addition, companies and families have taken measures to ensure greater certainty in energy costs and have improved efficiency in the use of electricity.

\* Recent data: GDP of 3Q24.

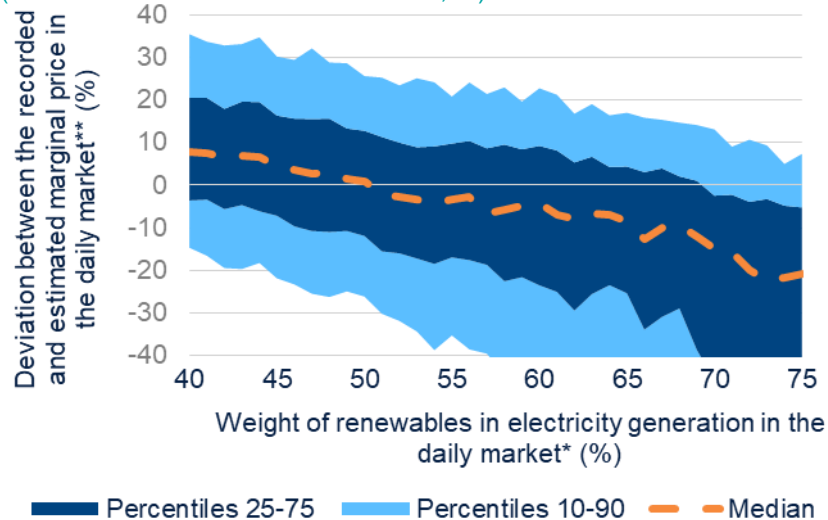
Source: BBVA Research / Oxford Economics Model (OEM).

## The recovery will continue in 2025 and 2026

Higher penetration of renewables contributes to lower wholesale market prices

### DAILY ELECTRICITY MARKET. SHARE OF RENEWABLES AND PRICE DEVIATION

(JANUARY 2018 - DECEMBER 2023, %)



\*: Renewables refers to solar and wind technologies. The daily market does not include energy purchased under bilateral contracts.

\*\* : Deviation between the wholesale price recorded in the daily electricity market and the estimated price based on traditional factors (gas price, EU emission allowance price, EU-ETS – European Union Emissions Trading System).

Source: BBVA Research with data from OMIE, SENDECO and MIBGAS.

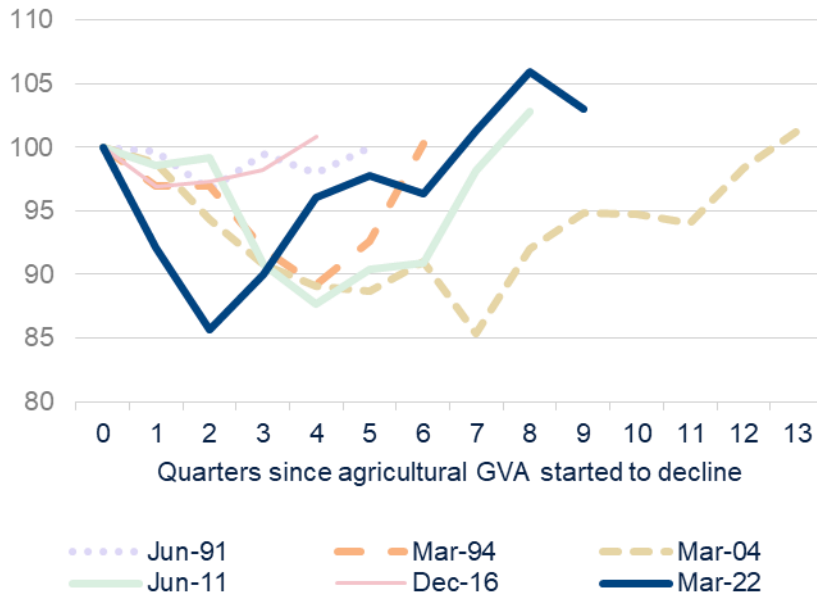
- The price of electricity in the wholesale market is determined by the cost of marginal energies, generally combined cycle power generation and hydroelectric.
- The higher penetration of renewables in the electricity mix contributes to lower prices in the wholesale market. Going from 45% to 60% reduces the price by around 10%, and reaching 75% would mean an additional cut of more than 15%.
- The development of renewable energy storage could alter this relationship, bringing its performance closer to that of other sources and increasing market competition.

## The recovery will continue in 2025 and 2026

Agricultural recovery after drought will lead to a fall in food prices

### SPAIN: AGRICULTURAL GVA

(100 = GVA AT THE ONSET OF EXTREME DROUGHT)



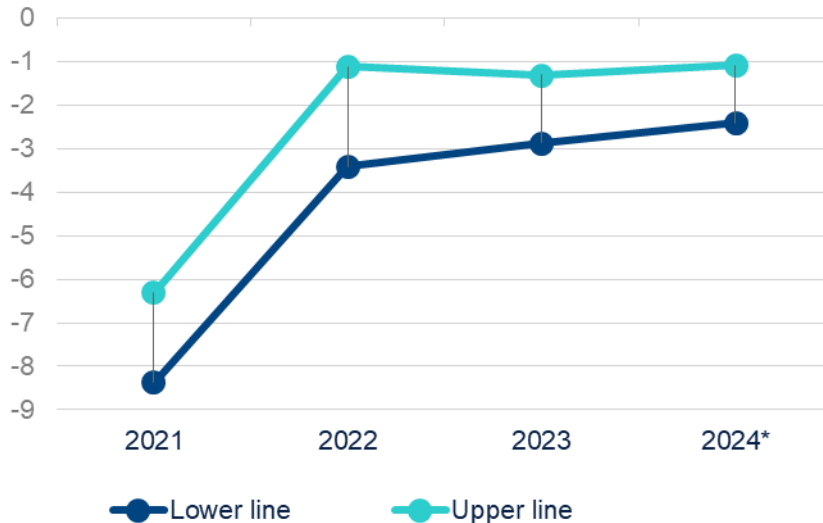
- Food prices have risen by about 28% since the end of COVID, mainly due to drought and the related drop in production.
- As a result, GVA in the sector fell by around 15% between the first and third quarters of 2022.
- The normalization of the hydrological year is having a positive impact on the recovery of agricultural activity.
- The adjustment in the cost of food will be beneficial, especially for lower-income households, who devote a greater proportion of their income to food.

## The recovery will continue in 2025 and 2026

The recent trend of consumption is more consistent with the pre-pandemic equilibrium

### DIFFERENCE BETWEEN PRIVATE CONSUMPTION OBSERVED AND THE CONSUMPTION ATTRIBUTED TO ITS FUNDAMENTALS

(% OF CONSUMPTION ATTRIBUTED TO ITS FUNDAMENTALS)



Note: the upper line corresponds to the estimate made with the sample up to 2023 and the lower line up to 2019.

\*: 1Q24 - 3Q24.

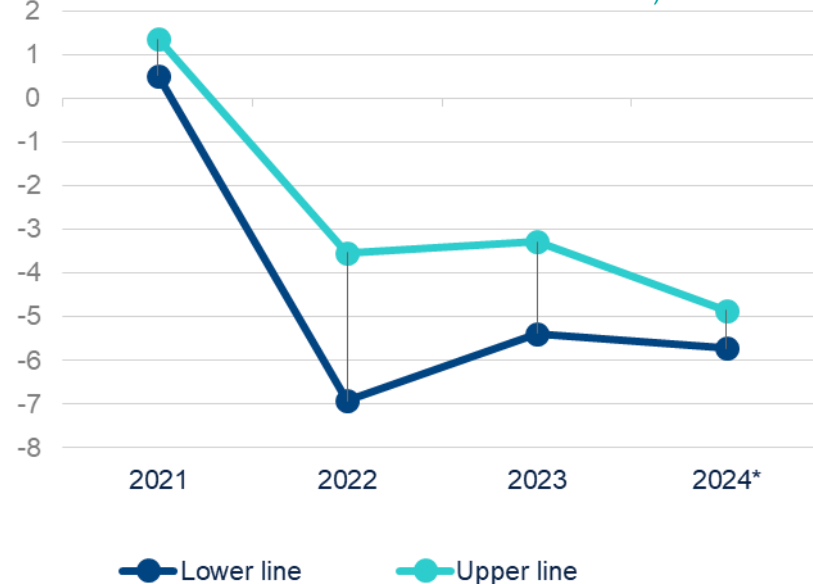
Source: BBVA Research based on INE data.

- The fundamentals that drive household consumption will continue to improve in the coming months.
- Household disposable income will rise above inflation, driven by the strength of the labor market and wage growth.
- The shift in perspectives on monetary policy should boost household expenditure.
- Consumer spending would be between 1.0 and 2.5% below expectations given the trend in its fundamentals. The lower uncertainty linked to their behavior could trigger a period of higher household spending.

## The recovery will continue in 2025 and 2026

Investment in machinery and equipment is growing at a slower rate than would be expected

### DIFFERENCE BETWEEN THE INVESTMENT IN MACHINERY AND EQUIPMENT OBSERVED AND THAT EXPLAINED BY ITS FUNDAMENTALS (% OF THE INVESTMENT EXPLAINED BY ITS FUNDAMENTALS)



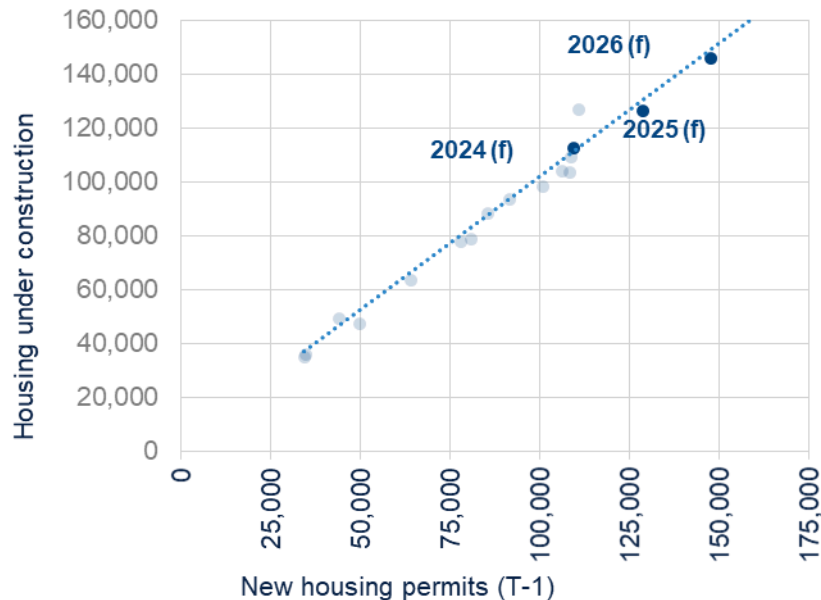
- The expansion of activity in recent years should have led to greater investment in machinery and equipment, between 5% and 6% higher than the current level.
- With greater certainty about output, transport and financial costs, it is possible that this component of investment will recover more strongly over the coming months.
- In sectors that have already surpassed pre-pandemic output levels, constraints to growth are beginning to become more apparent, which could encourage a significant increase in investment.

## The recovery will continue in 2025 and 2026

Investment in housing will begin to accelerate in the coming months

### CONSTRUCTION PERMITS FOR NEW HOUSING AND HOMES UNDER CONSTRUCTION

(NUMBER OF HOMES, CUMULATIVE ANNUALLY)



Note: Regression line for the entire sample (1995-2024)

Source: BBVA Research based on Ministry of Transport and Sustainable Mobility.

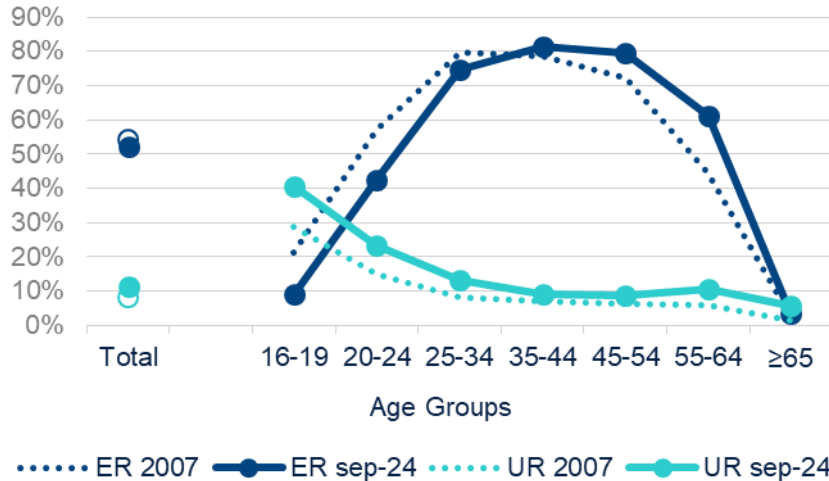
- Recent developments in the number of new building permits point to an **increase in the number of homes** being built over the next two years.
- The number of new housing permits has gone from a monthly average of 9,125 in 2023 to 10,550 in the first nine months of 2024. **This points to an increase in homes under construction of 12.3% in 2025.**
- As a result, investment in housing is expected **to accelerate**, from 1.4% in 2024 to 5.3% in 2025 and 6.2% in 2026.

## The recovery will continue in 2025 and 2026

The employment rate exceeds its historical high in the population between 20 and 65 years of age

### EMPLOYMENT AND UNEMPLOYMENT RATES BY AGE: 2007 VS. 3Q24

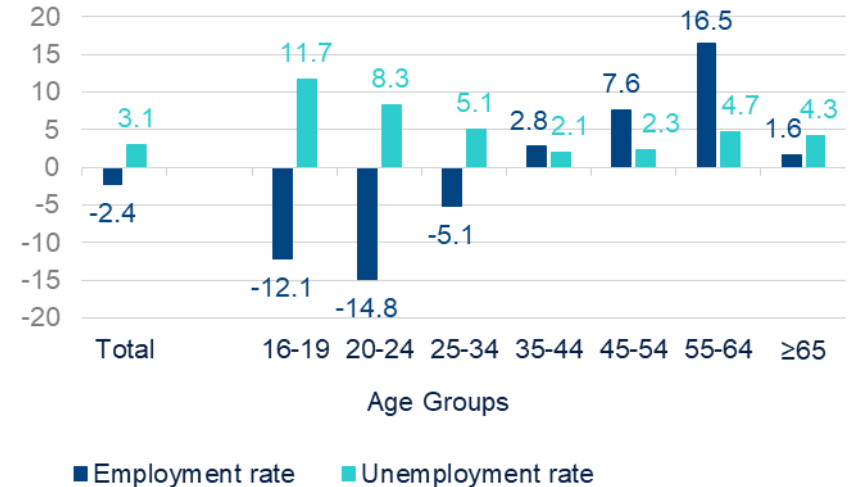
(%. (DATA FROM CVEC)



Source: BBVA Research, based on INE data.

### CHANGE IN EMPLOYMENT AND UNEMPLOYMENT RATES BY AGE BETWEEN 2007 AND 3Q24

(PP DATA FROM SWDA)



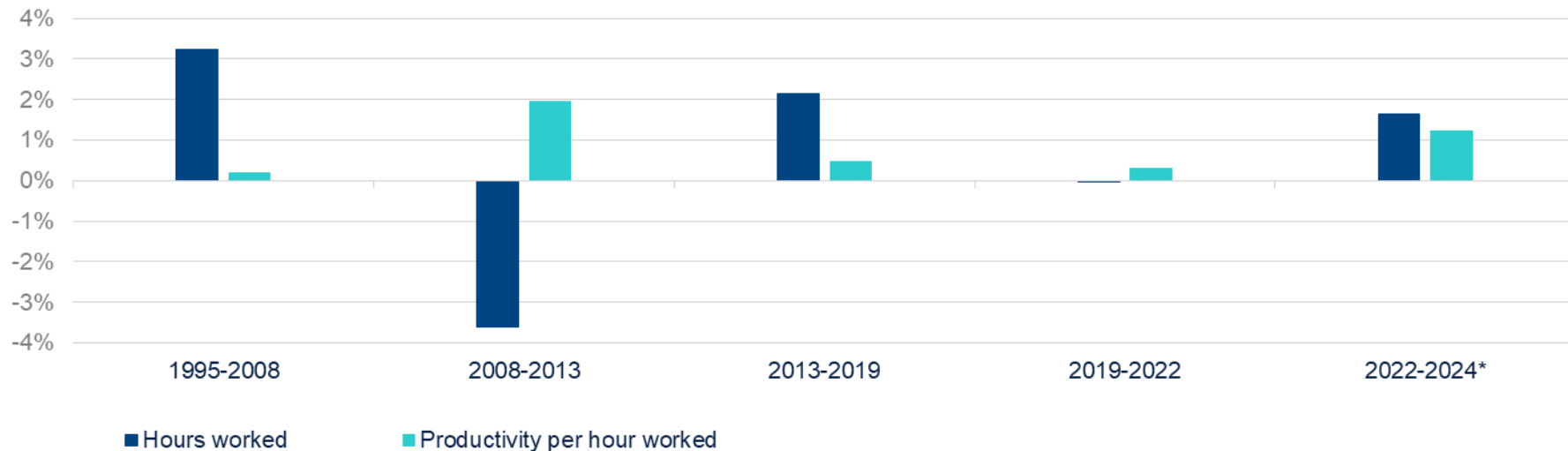
The employment rate has stabilized and, like the unemployment rate, is still far from 2007 figures. However, when the population under the age of 20 and over 64 is excluded, it exceeds its historical high. The increase is notable among people over 45 and under 65. This is a sign of both socio-demographic changes and a tight labor market.

# The recovery will continue in 2025 and 2026

Hourly productivity now increases at the same time as hours worked

## SPAIN: HOURS WORKED AND PRODUCTIVITY PER HOUR WORKED

(AVERAGE ANNUAL GROWTH RATES OVER THE REFERENCE PERIOD IN %)



\*: Includes BBVA Research's forecast for 4Q24.

Source: BBVA Research, based on INE data.

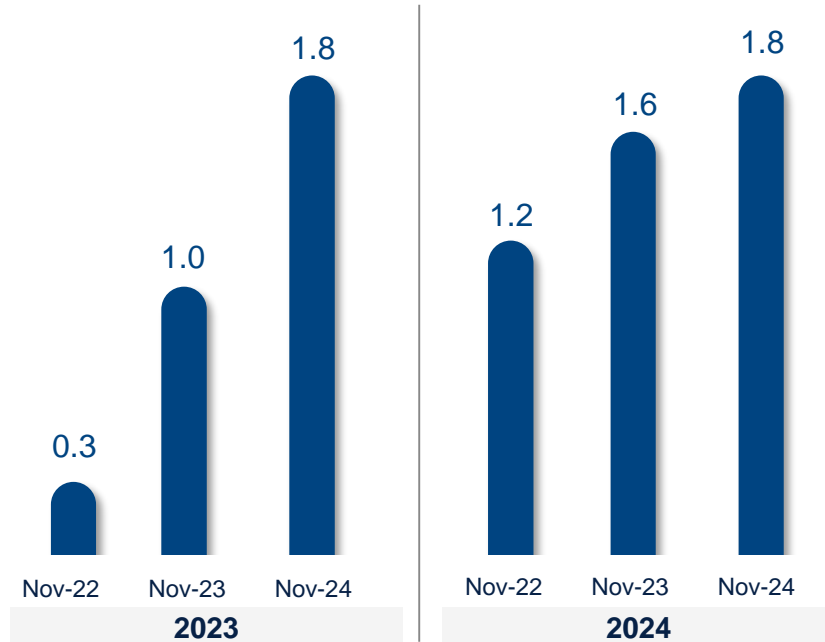
Unlike previous expansions, productivity is increasing at the same time as the hours worked. If hourly productivity had behaved as in previous recoveries, economic growth in the two-year period of 2022-2024 would have been one point lower than observed.



## The recovery will continue in 2025 and 2026

The estimate of potential growth of the Spanish economy has increased

### POTENTIAL GDP GROWTH FORECASTS BY ESTIMATE DATE (%)

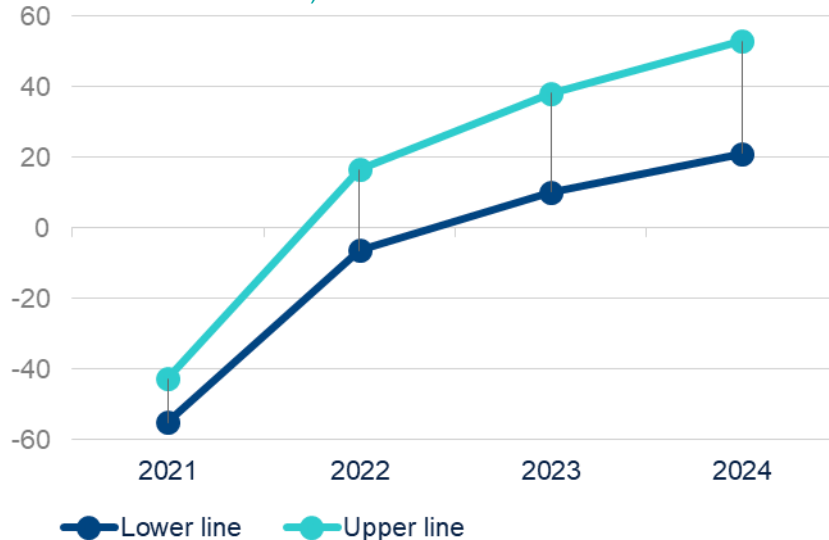


- Two years ago, BBVA Research estimated that potential GDP growth in 2024 would be around 1.2%.
- The continuous upward revisions of the historical series carried out by the INE, together with the performance of the external accounts, inflation, interest rates, the labor market and the housing market, suggest that **potential GDP growth should be around 1.8% in 2024**, in line with what other institutions have published.

# The challenges to maintain high growth will increase

Tourism expansion may be nearing its limits

## DIFFERENCE BETWEEN OBSERVED EXPORTS OF TOURISM SERVICES AND THOSE ATTRIBUTED TO THEIR FUNDAMENTALS (% OF EXPORTS EXPLAINED BY THEIR FUNDAMENTALS)



Note: The upper line corresponds to the estimate made with the sample until 2023 and the lower line until 2019.

\*: 1Q24 - 3Q24.

Source: BBVA Research, based on INE data.

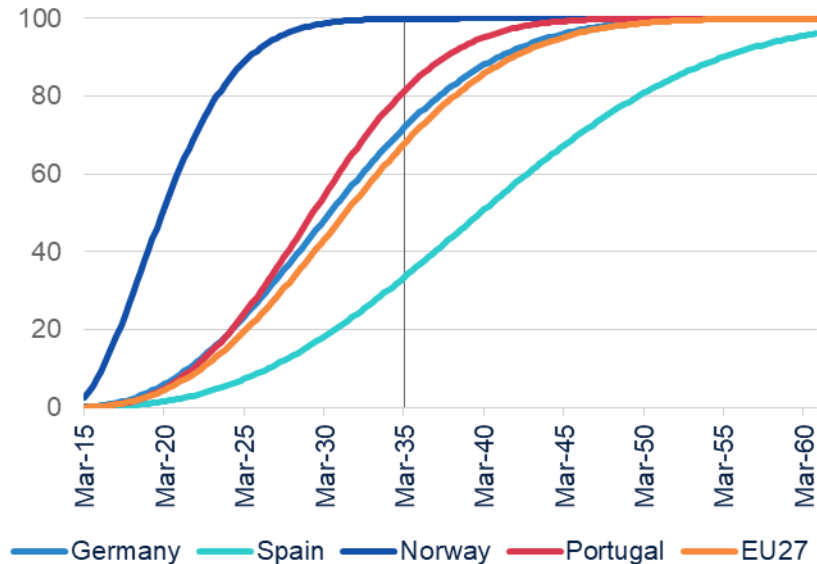
- The non-domestic sector's consumption has grown by between 20% and 53% more than what their fundamentals would suggest.
- It is possible that structural changes may have taken place that allow current levels of activity to be maintained.
- However, problems such as congestion, the negative perception of tourism's impact on living costs, lower migration flows and a less favorable regulatory environment will slow growth and investment in the sector.
- For the time being, the area approved for the construction of buildings for tourism has fallen by 26% from its maximum in Jun-23 to Sep-24.

# The challenges to maintain high growth will increase

Changes in the automotive sector restrict consumption and export capacity

## EU27: PURE ELECTRIC PASSENGER CAR MARKET SHARE\*

(% OF REGISTRATIONS, DATA FROM CVEC)



\* Estimation of a system of three non-linear equations representing the performance of the market share of pure electric passenger cars, plug-in hybrids and others between 1Q2015 and 1Q2024. Source: BBVA Research based on ACEA and Ideauto.

- Technological and regulatory uncertainty prolongs the transition between early adopters and the rest of consumers and therefore delays the democratization of the electric vehicle.
- It is estimated that the market share of electric cars in Spain would be around 34% ( $\pm 5$ ) in 2035 if nothing changes, far from what was agreed in the "Fit for 55" target\*, and would not reach 100% until the 2060s.
- The imposition of tariffs on EV imports from China could slow down the electrification of the vehicle fleet, but it would open a window of opportunity for European manufacturers.

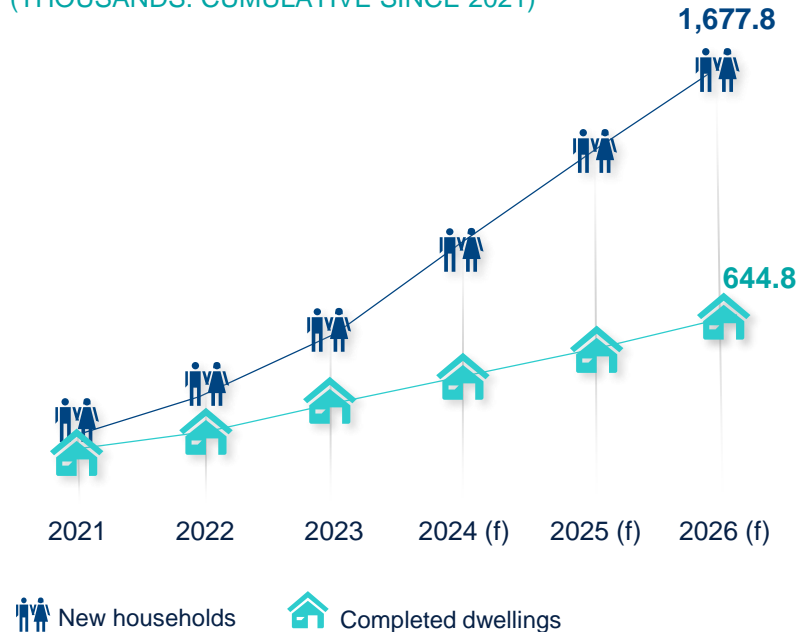
(\*): For more details, see [BBVA Research \(2024\): "Consumption Situation, October 2024"](#), BBVA.

# The challenges to maintain high growth will increase

Supply constraints will remain in place in some sectors

## CREATION OF HOUSEHOLDS AND COMPLETED HOMES

(THOUSANDS, CUMULATIVE SINCE 2021)



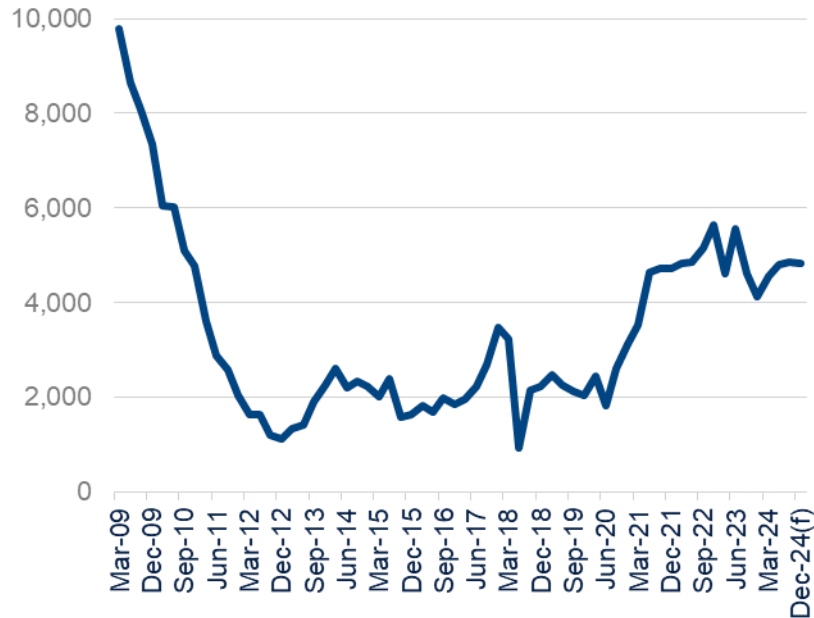
- Housing construction looks set to remain insufficient to address the ongoing imbalance between demand and supply.
- In a context of economic expansion and job creation, the formation of new households is expected to far exceed the number of completed homes.
- This gap will continue to put pressure on house prices, especially in urban and tourist environments.
- The lack of affordable housing can lead to a deterioration in the quality of life and become a bottleneck for sustained economic growth.

## The challenges to maintain high growth will increase

There is evidence of the limited impact of the Recovery Plan on activity

### OFFICIAL TENDER IN CONSTRUCTION

(THREE-MONTH MOVING SUM, MILLIONS OF EUROS IN REAL TERMS)



- Doubts persist about the capacity of the Recovery Plan funds to boost private investment and transform the production model, as had been planned.
- Although the tenders awarded have reached an average rate of 6.9 billion euros per year and the subsidies granted exceed 19.4 billion euros, their multiplier effect is still limited.
- The current regulation is perceived as an obstacle to the smooth allocation of funds, slowing down their economic impact.
- Overcoming these difficulties will be key to sustaining the recovery, especially in the face of trade uncertainty and the fiscal adjustment expected next year.

(\*) Calculated with the deflator of investment in other construction.

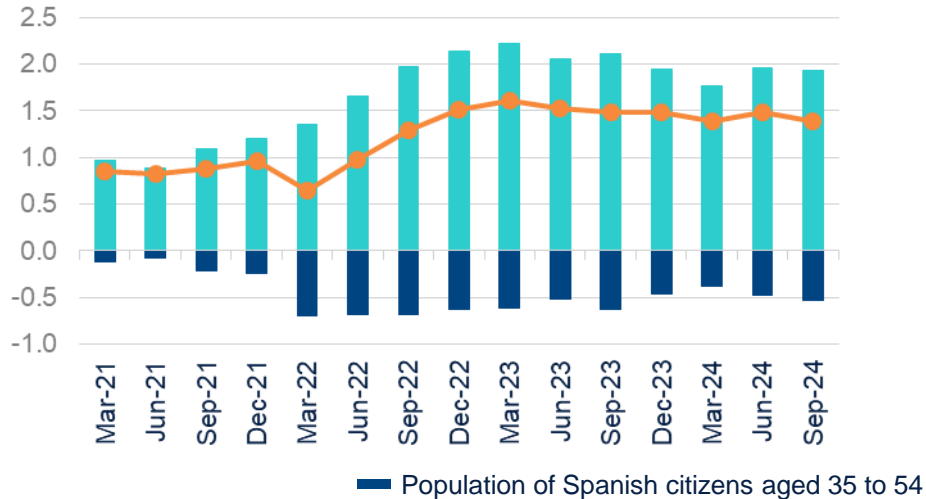
Source: BBVA Research based on Ministry of Transport and Sustainable Mobility.

# The challenges to continue with high growth will increase

## The employment-to-population ratio of Spanish workers is decreasing

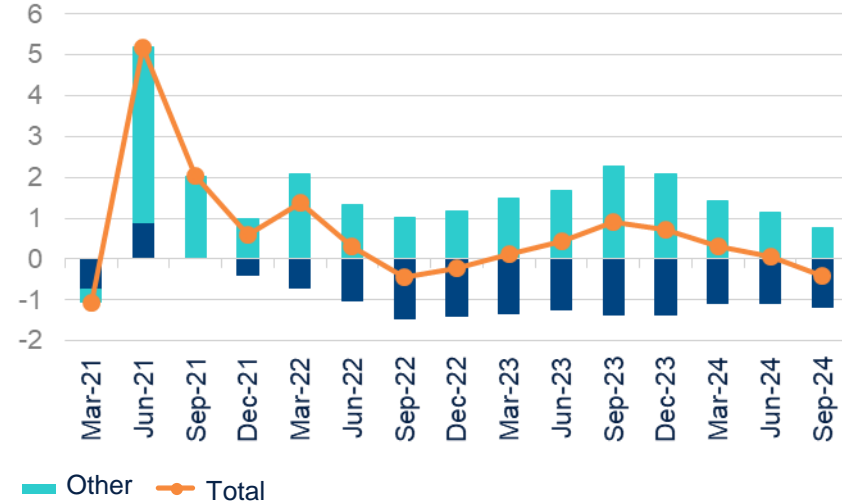
### CONTRIBUTIONS TO THE YEAR-ON-YEAR INCREASE OF THE WORKING-AGE POPULATION

(% and PP)



### CONTRIBUTIONS TO THE YEAR-ON-YEAR INCREASE OF THE EMPLOYMENT-TO-POPULATION RATIO

(% and PP)



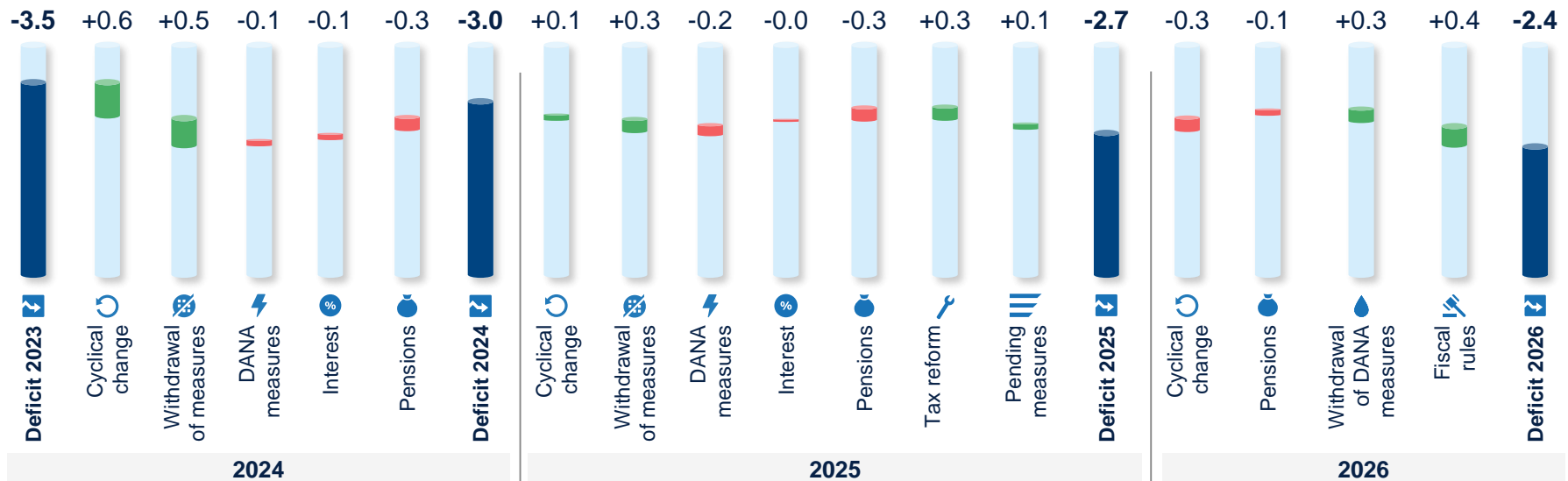
Source: BBVA Research, based on INE data.

Immigration masks negative trends in employment and labor participation of the population of Spanish citizens. While demographics have continued to drive the increase in labor force, the reduction in the propensity to participate in the labor market, caused by the native population from the fourth quarter of last year, has had a negative impact.

# The challenges to maintain high growth will increase

## Uncertainty about fiscal consolidation

### PUBLIC DEFICIT FORECAST: BREAKDOWN OF THE CHANGE (% OF GDP)



Source: BBVA Research based on Ministry of the Treasury data.

Economic recovery and the withdrawal of temporary measures will be good for deficit adjustment, but they will be insufficient to offset the higher costs of funding, aging and the commitments of the new fiscal rules, which will not take into account the costs of the DANA weather event. All this occurs in a context of political uncertainty and without consensus on how to address the medium-term challenges.

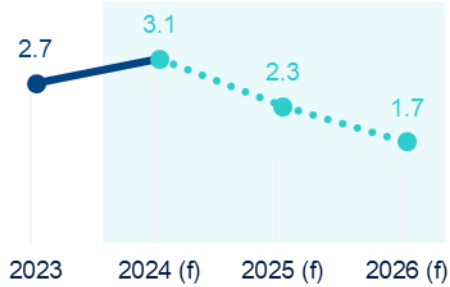
# Forecasts



# Forecasts

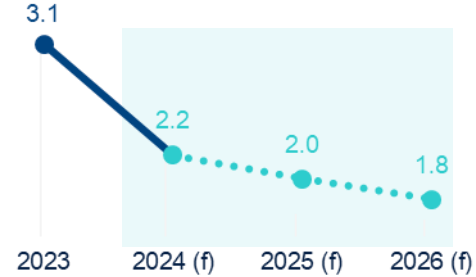
## GDP GROWTH

(%)



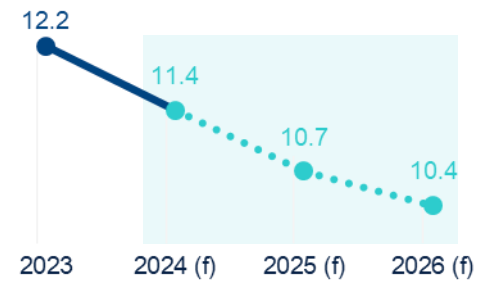
## EMPLOYMENT GROWTH — EPA (LABOR FORCE SURVEY)

(%)



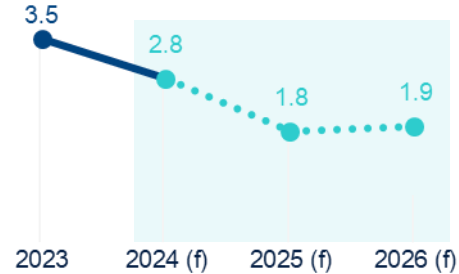
## UNEMPLOYMENT RATE

(%)



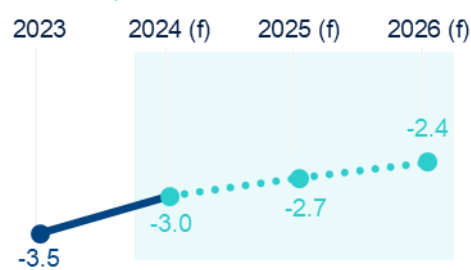
## AVERAGE ANNUAL INFLATION

(ANNUAL AVERAGE, %)



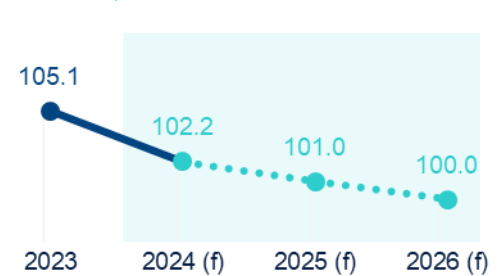
## PUBLIC DEFICIT

(% OF GDP)



## PUBLIC DEBT

(% OF GDP)



# Forecasts

% y/y	2022	2023	2024 (f)	2025 (f)	2026 (f)
<b>National final consumption expenditure</b>	3.7	2.7	3.3	2.9	1.8
Private consumption	4.8	1.8	2.8	2.6	1.8
Government expenditure	0.6	5.2	4.7	3.7	1.9
<b>Gross fixed capital formation</b>	3.3	2.1	2.1	5.2	4.4
Equipment and machinery	2.9	1.1	1.2	5.2	3.8
Construction	2.2	3.0	3.0	6.1	5.1
Housing	8.4	2.1	1.4	5.3	6.2
<b>Domestic demand*</b>	<b>3.9</b>	<b>1.7</b>	<b>2.6</b>	<b>3.2</b>	<b>2.2</b>
<b>Exports</b>	14.3	2.8	3.4	4.2	2.4
Exports of goods	3.5	-1.0	0.2	3.8	2.6
Exports of services	48.9	12.2	10.2	5.1	2.0
Final consumption among non-residents in Spain	115.6	20.1	11.6	4.5	2.1
<b>Imports</b>	7.7	0.3	2.4	7.4	4.2
<b>External demand*</b>	<b>2.3</b>	<b>1.0</b>	<b>0.5</b>	<b>-0.9</b>	<b>-0.6</b>
<b>Real GDP at market prices (mp)</b>	<b>6.2</b>	<b>2.7</b>	<b>3.1</b>	<b>2.3</b>	<b>1.7</b>

\* Contribution to GDP growth.

(f): Forecast.

Source: BBVA Research based on data from INE and Bank of Spain.

# Forecasts

% y/y	2022	2023	2024 (f)	2025 (f)	2026 (f)
Employment (full-time equivalent)	4.1	3.2	2.2	1.9	1.5
Employment, Labor Force Survey (EPA)	3.6	3.1	2.2	2.0	1.8
Unemployment rate (% of the labor force)	13.0	12.2	11.4	10.7	10.4
CPI (annual average)	8.4	3.5	2.8	1.8	1.9
GDP deflator	5.0	6.4	2.9	1.7	1.9
Official interest rate (end of period, %)	2.00	4.00	3.00	2.00	2.00
EUR-USD exchange rate (annual average)	0.95	0.92	0.92	0.95	0.93
Public deficit (% of GDP)	-4.5	-3.5	-3.0	-2.7	-2.4
Public debt (% of GDP)	109.5	105,1	102,2	101,0	100,0

(f): Forecast.

Source: BBVA Research based on data from INE and Bank of Spain.

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# Spain Economic Outlook

December 2024