

Economic Outlook – Spain

March 2025

Main messages



RECENT DEVELOPMENTS

The global economy is facing major geopolitical and economic shifts with uncertain consequences, mostly due to the policies of the new Trump administration. US growth remains resilient despite recent negative signs, while the Eurozone stays weak and China recovers. Inflation continues above target, mainly in the US. The Fed has kept rates steady and the ECB has continued its easing cycle in 1Q25.



GROWTH OUTLOOK

Global growth is set to slow amid rising uncertainty and protectionism. While some recent growth momentum supports upward forecast revisions for the US and China, both are still expected to decelerate. In the Eurozone, growth prospects have worsened as trade and geopolitical uncertainty weigh negatively, but fiscal spending (particularly in defense) may provide support.



INFLATION AND RATES OUTLOOK

US inflation is expected to rise, partly due to tariffs, while in the Eurozone it should converge to target. The Fed will likely hold rates steady in the near term, but monetary easing could resume from 2H25. The ECB is preparing to end its easing cycle as monetary conditions are now less restrictive; two rate cuts in 2Q25 are still likely. Controlled inflation should clear the path for lower interest rates in China.



RISKS

The balance of risks for the global economy remains skewed to the downside. The main source of concerns are higher US tariffs and persistent uncertainty. Even though talks on ending the war in Ukraine are a positive development, geopolitical risks will remain in the radar.

Key points – Spain



RECENT TREND

GDP growth in 2024 would have reached 3.2%. Job creation picked up, household consumption remained strong, and services exports held up well. With these tailwinds, GDP growth is expected to remain high at the beginning of 2025, and is estimated to be around 0.7% quarter-on-quarter in 1Q25.



OUTLOOK

The recovery is expected to continue throughout 2025 (2.8%) and 2026 (1.8%), on the back of increased competitiveness, falling oil prices, investment in renewable energies and the depreciation of the euro. Lower inflation will support gross disposable income growth in a labor market with rising wages. Falling interest rates will also provide a boost to credit-intensive sectors.



FLASH FLOODS

The impact of the flash floods that took place in late 2024 looks to have been somewhat less negative than expected, and the recovery faster. This was thanks to the measures announced to support households and businesses affected by the natural disaster. However, the resources must be used efficiently to allow the recovery to continue moving forward.



GROWTH PATTERN

The current recovery breaks with the pattern observed following previous crisis events. Spain's GDP is on the verge of recovering the growth trend it had prior to the pandemic, something that is still a long way off for the eurozone. Certain improvements can be seen in the functioning of the labor market, immigration raises the capacity for growth, and investment in intangible assets and in the production of electricity from renewable sources has led to competitiveness gains.

Key points – Spain



EXTERNAL RISKS

A slowdown in economic activity is expected around 2026. There are concerns over rising gas prices, stagnation in the eurozone and uncertainty surrounding the recent changes in U.S. trade policy.



INTERNAL RISKS

The household savings rate in Spain remains uncharacteristically high, which shows the limitations of private consumption in leading growth. Unlike in other expansionary phases, investment has yet to fall in line with the pace of GDP growth. The lack of affordable housing may become an obstacle to improving the quality of life and maintaining the flow of immigration. The rate of transition from employment to unemployment is still 50% higher than in neighbouring countries.



UNCERTAINTY OVER ECONOMIC POLICY

Economic policy uncertainty is growing due to the lack of consensus, both at national and European level. Moving forward, it would be advisable to make further progress in establishing cross-cutting agreements to address the main doubts that may be affecting the propensity of households and businesses to consume and invest. A key factor will be the steps ultimately taken to assuage doubts over the impact of the changes on trade policy, as well as on fiscal and monetary policy.

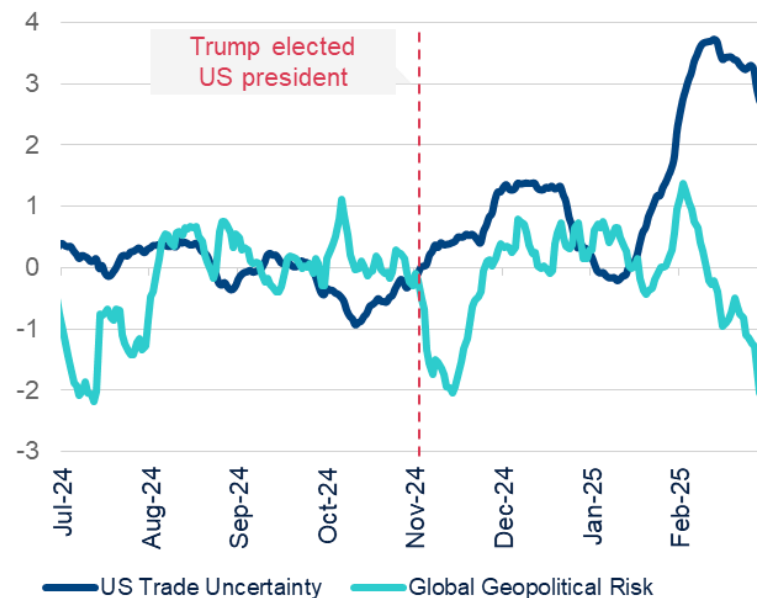
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Global Economic Outlook 1Q25

The policies of the new U.S. administration create significant uncertainty

US TRADE UNCERTAINTY AND GLOBAL GEOPOLITICAL RISK INDEXES (*)

(MEAN SINCE JAN/23 EQUALS TO 0; 28-DAY MOVING AVERAGE)



(*) Last available data: March 5th, 2025

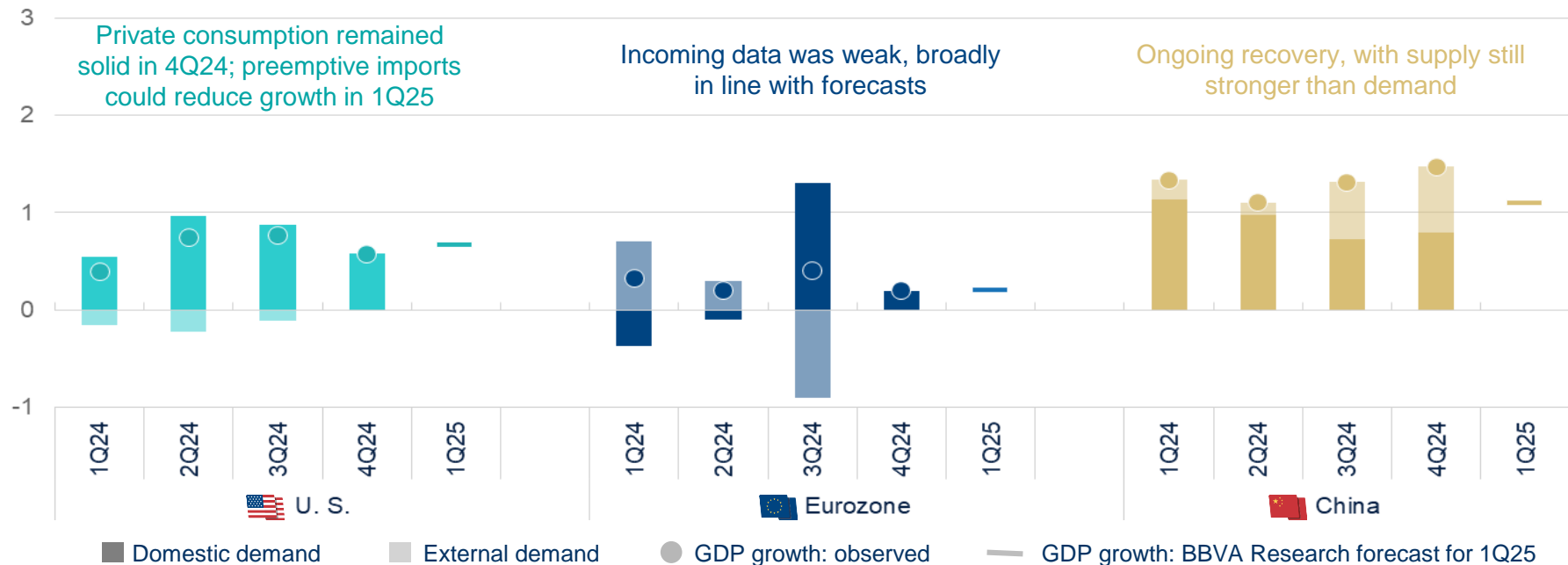
Source: BBVA Research Geopolitics Monitor.

- **Higher uncertainty** on Trump's policies:
 - **Trade:** 20% tariffs on China, 25% on some Western allies (later delayed), 25% tax on steel and aluminum, etc., along with various threats of further protectionism measures
 - **Other:** policies to tighten immigration controls, promote fossil fuel production, cut public spending while favoring lower taxes, reduce US support for multilateral institutions, etc.
- **Short-term geopolitical risk has eased lately** on talks to end the war in Ukraine and Israel-Hamas truce, taking some pressure off energy prices.
- **Still, geopolitics will remain a concern given latent US rivalry with China** and the rising US tensions with Western allies, which are triggering a determined increase in defense spending in Europe.

Growth still has strong inertia: it remained robust in the US and China but was barely positive in the Eurozone by late 2024

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

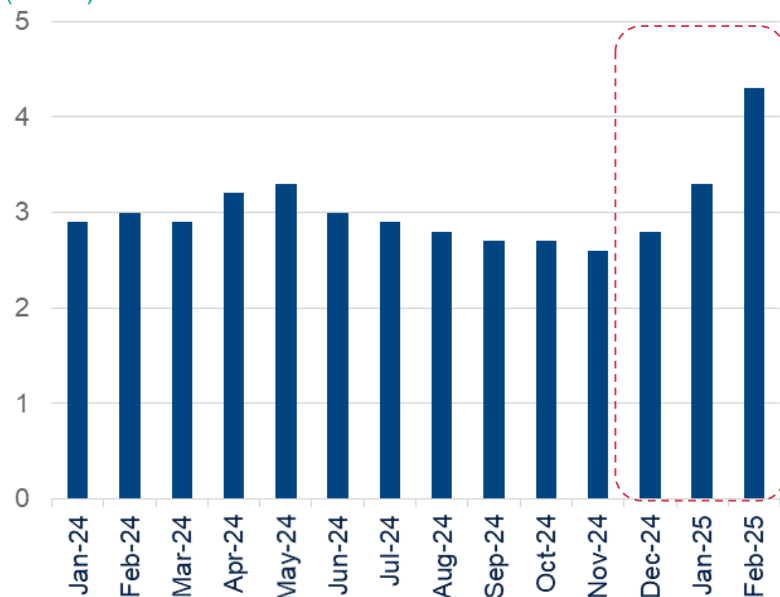
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



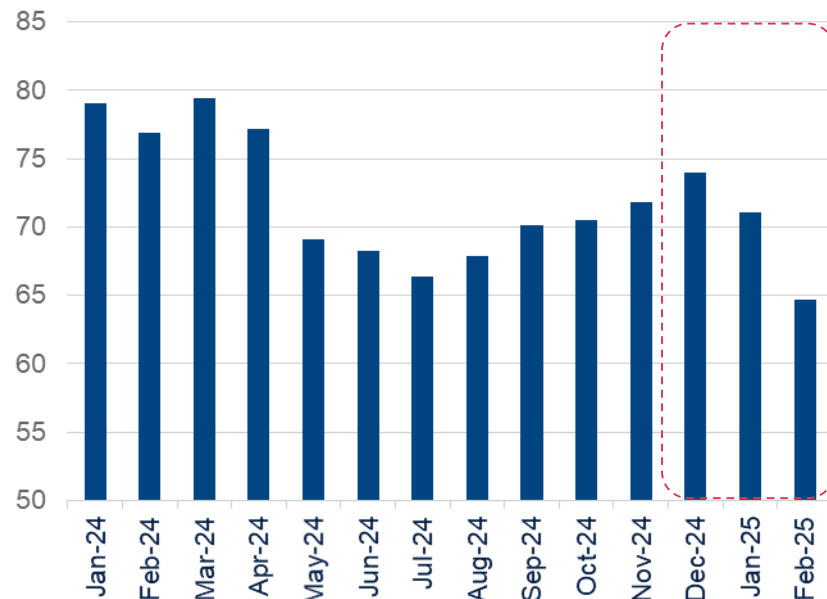
Despite the recent resilience of US growth, uncertainty already appears to be weighing on consumer confidence and inflation expectations

US CONSUMER INFLATION EXPECTATIONS: ONE YEAR AHEAD

(Y/Y %)



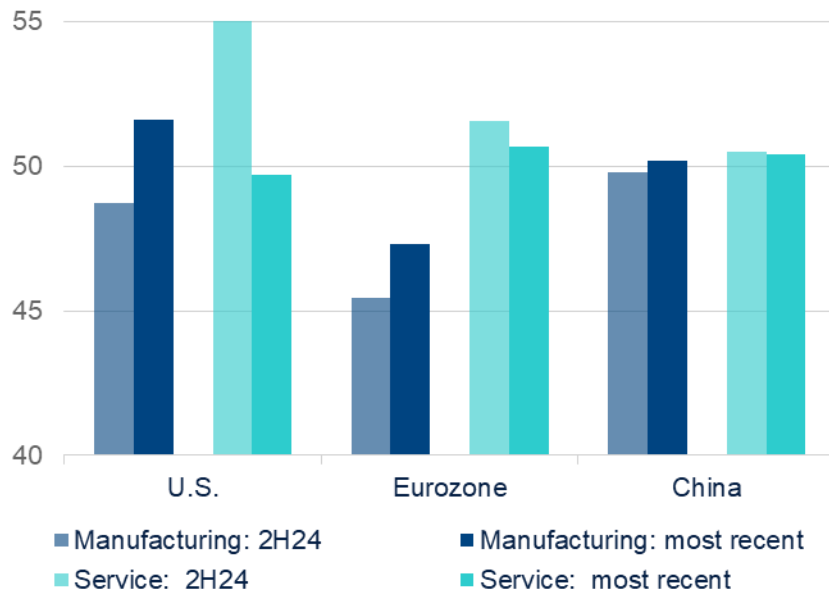
US CONSUMER SENTIMENT (INDEX)



The recent slowdown in services and signs that manufacturing has bottomed out raise questions about the persistence of the post-pandemic growth model

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*)

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

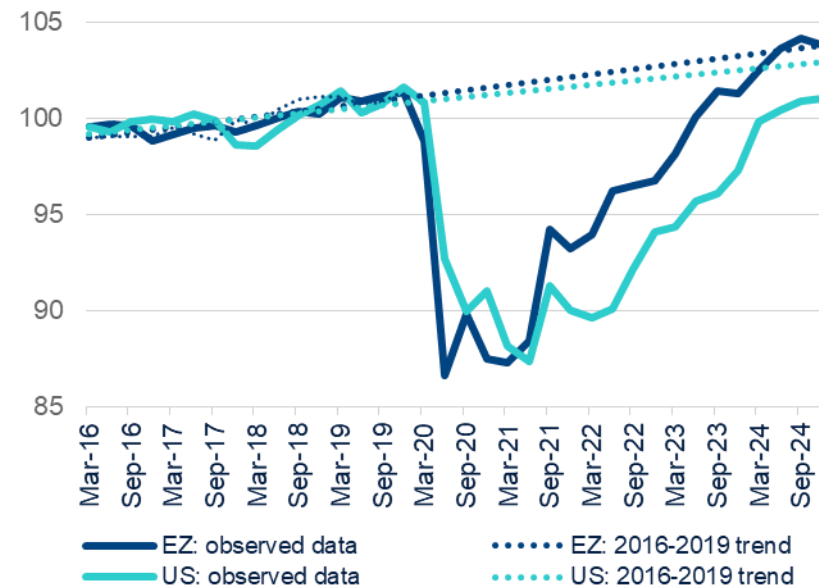


(*) Most recent data: February 2025.

Source: BBVA Research based on data from Haver.

SERVICES/GOODS PRIVATE CONSUMPTION RATIO (*)

(INDEX: 2016-19 AVERAGE = 100; BASED ON NOMINAL VALUES)



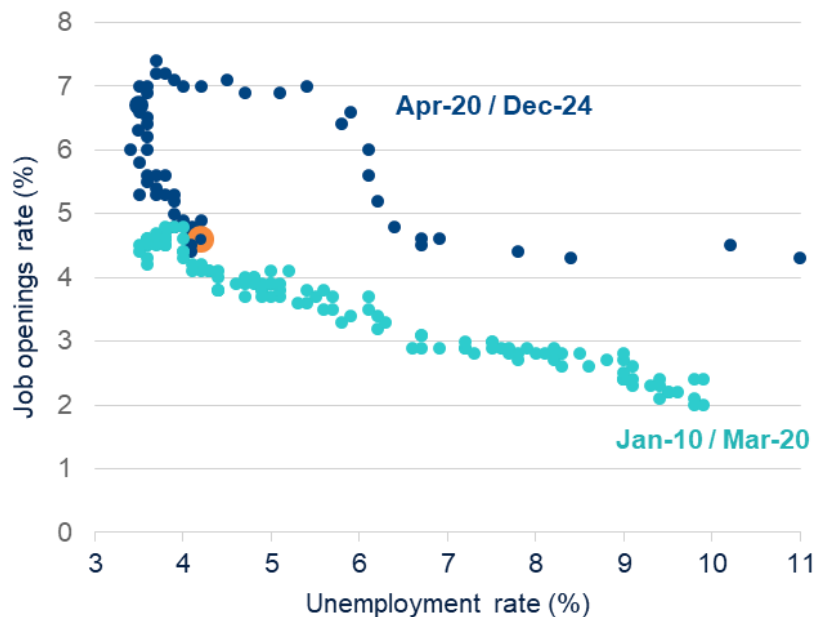
(*) 4Q24 data for the Eurozone is based on preliminary figures for Denmark, Germany, Spain, France, Netherlands and Slovenia.

Source: BBVA Research based on BEA and Eurostat data.

Labor markets remain resilient despite recent moderation: job openings have fallen sharply, but unemployment continues to be at low levels

US: BEVERIDGE CURVE (*)

(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)



(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from FRED.

EUROZONE: BEVERIDGE CURVE (*)

(MOST RECENT QUARTERLY DATA HIGHLIGHTED IN ORANGE)

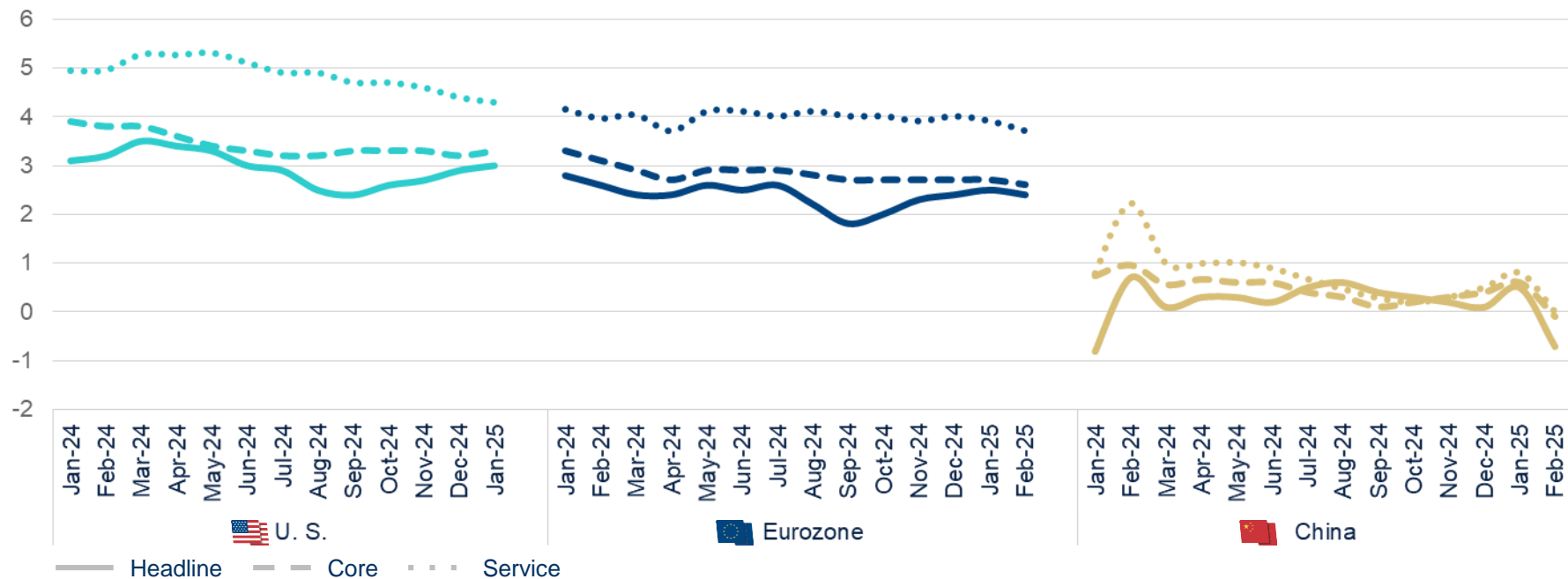


(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from Eurostat.

Inflation remains above target, particularly in the US but to a lesser extent also in the Eurozone, after having rebounded more than expected in recent months

CPI INFLATION: HEADLINE, CORE AND SERVICE

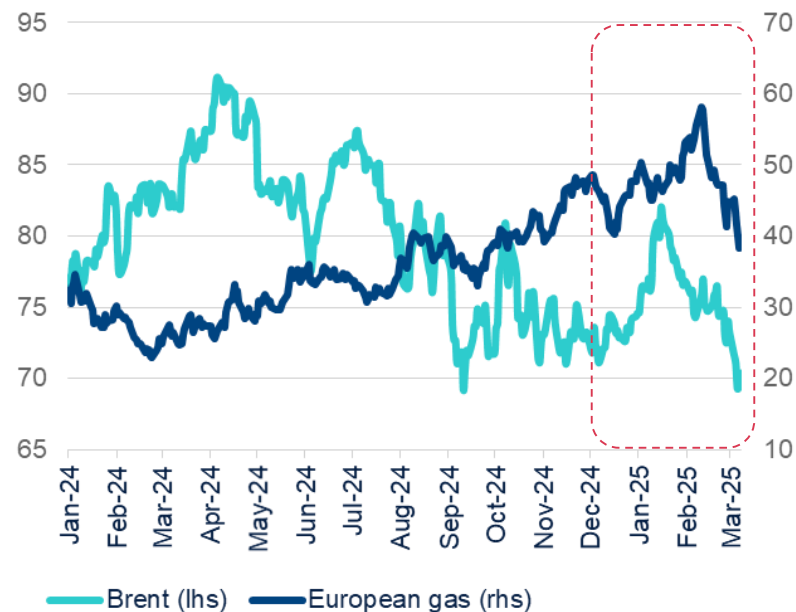
(Y/Y %)



Energy prices have eased on more positive supply prospects and recent geopolitical developments, but remain volatile; wages seem to have lost steam

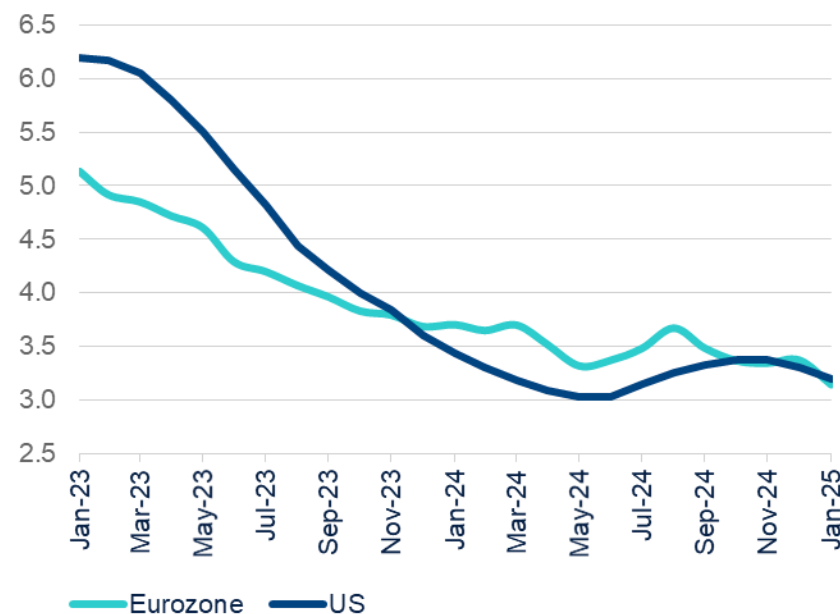
OIL AND GAS PRICES (*)

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



NOMINAL WAGES: INDEED WAGE TRACKER

(Y/Y %, 3-MONTH MOVING AVERAGE)



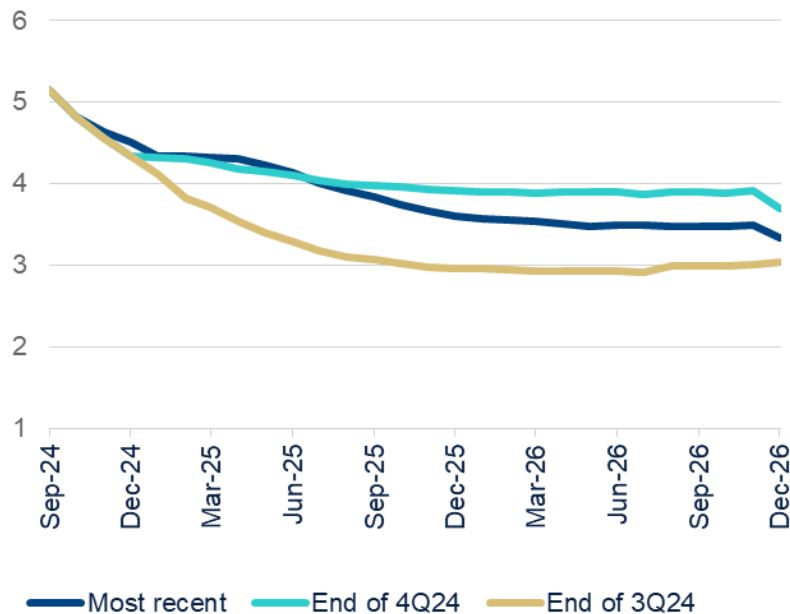
(*) Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

Source: BBVA Research based on data from Indeed.

The Fed has held rates steady, signaling no rush for more cuts; the ECB has kept easing, but stressed that conditions are now meaningfully less restrictive

US: IMPLICIT RATE IN FED FUND FUTURES (*)

(%)

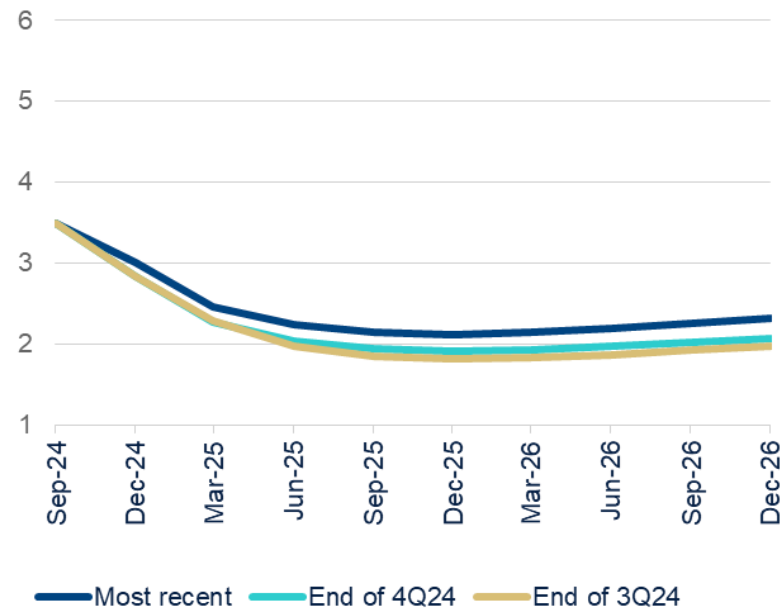


(*) Last available data: March 7th, 2025.

Source: BBVA Research based on data from Haver.

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

(%)



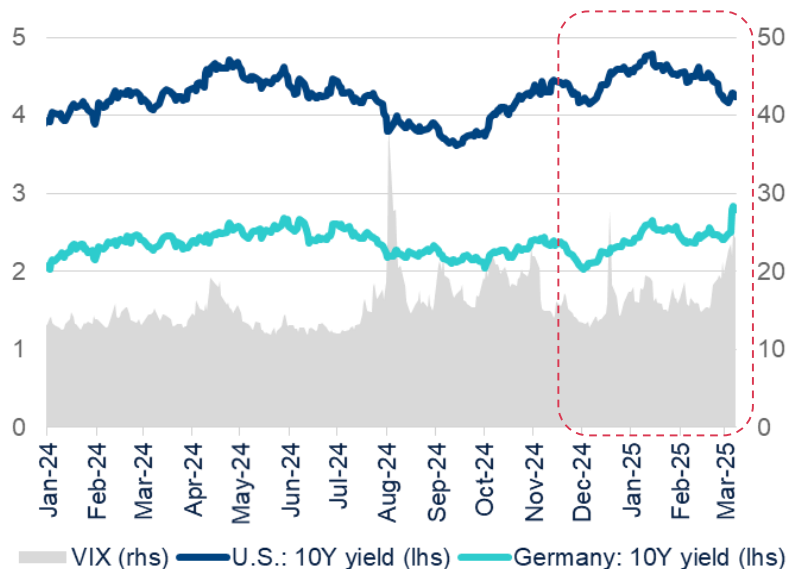
(*) Last available data: March 7th, 2025.

Source: BBVA Research based on data from Haver.

Financial volatility has risen as markets gauge the impact of evolving US policies; Europe's defense spending plans have driven Germany yields higher

SOVEREIGN YIELDS AND VOLATILITY (VIX) (*)

(%)



(*) Last available data: March 7th, 2025.

Source: BBVA Research based on data from Haver.

US DOLLAR: DXY (*)

(INDEX)




(*) A lower DXY index represents a weaker US dollar. Last available data: March 7th, 2025.

Source: BBVA Research based on data from Haver

The new US administration's erratic policies are set to bring major shifts, posing growing challenges to the global economy

BBVA RESEARCH BASELINE SCENARIO ON MAIN TRUMP POLICIES

 **TRADE POLICY** US tariffs are more than a negotiating tool. Working assumption: a 10% blanket tariff from 2Q25 and 60% tariffs on China from 2H25.

 **GEOPOLITICS** No changes in the current status quo; risks are tilted to the downside, although the eventual end of the war in Ukraine will have positive effects.






 **MIGRATION** No strong impact on labor markets; deportations will rise, but not sharply.

 **FISCAL POLICY** Deficits will be large, pressured by low taxes, despite some spending cuts.

 **MONETARY POLICY** The Fed will remain independent, but Trump's criticism may create noise.

 **DEREGULATION** No significant positive effects are being assumed.

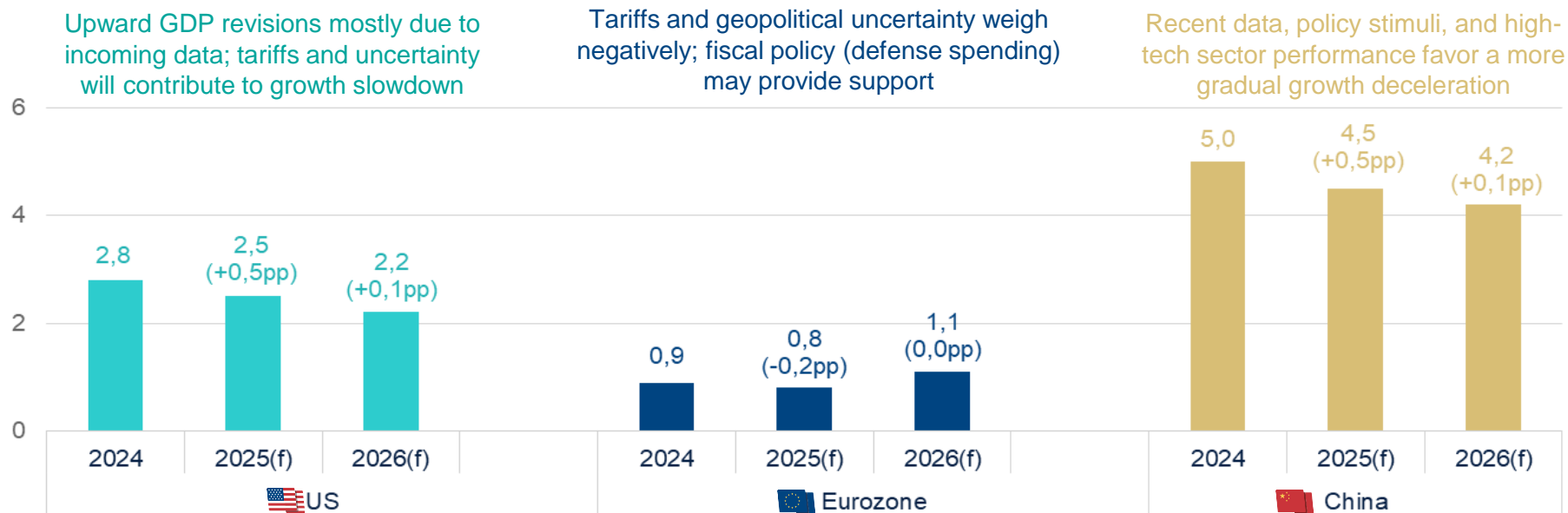
US tariffs are set to create negative supply and uncertainty shocks

	BASELINE SCENARIO	MAIN RISKS
 SHOCKS CREATED BY US POLICIES	Negative supply and uncertainty (demand) shocks	Very negative supply and uncertainty (demand) shocks
 US TARIFF LEVELS	Tariffs as a negotiation and policy tool (working assumption: 60% on China, 10% on other countries)	Tariffs mostly as a policy tool (25% or higher permanent tariffs on most important trade partners)
 TARIFF ESCALATION	Moderate	Large and dynamically unstable
 GROWTH IMPACT	Significant	Very significant and potentially disruptive
 INFLATION IMPACT	Upwards in the US, downwards elsewhere	Upwards if supply shock prevails; downwards if uncertainty shock dominates

Growth is expected to lose momentum amid rising uncertainty and protectionism, despite positive incoming data in the U.S. and China

GDP GROWTH

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



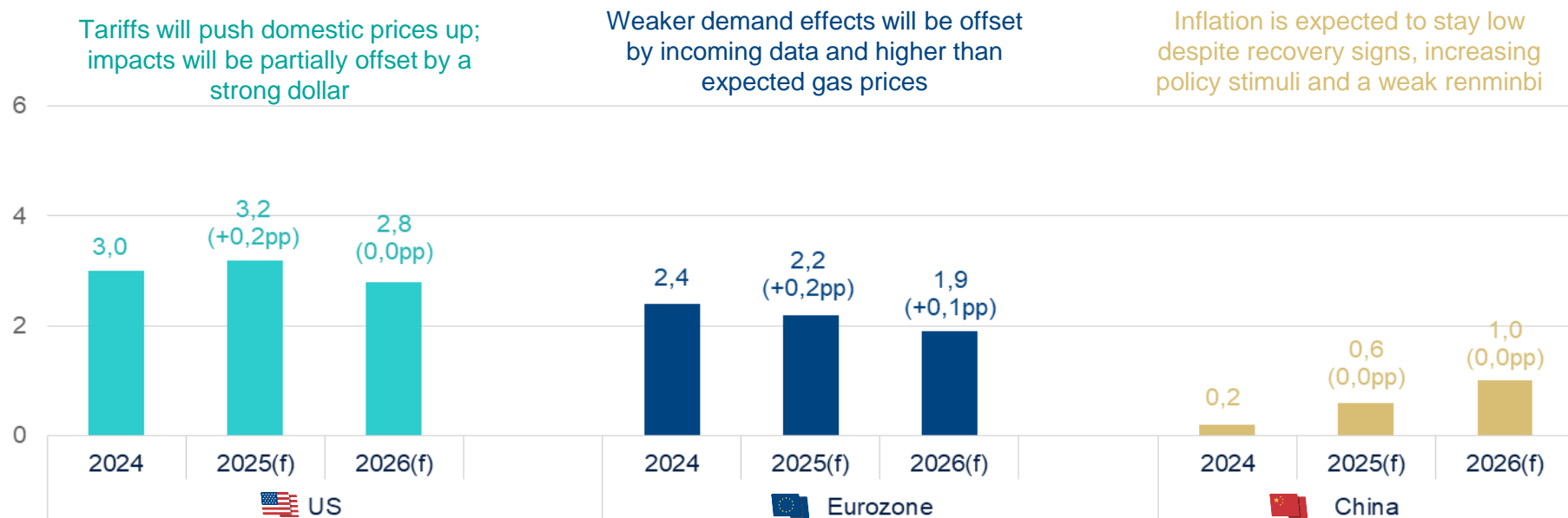
(f): forecast.

Source: BBVA Research.

US inflation is set to rise further, partly due to tariffs, while in the Eurozone it will likely keep converging to target

HEADLINE CPI INFLATION

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



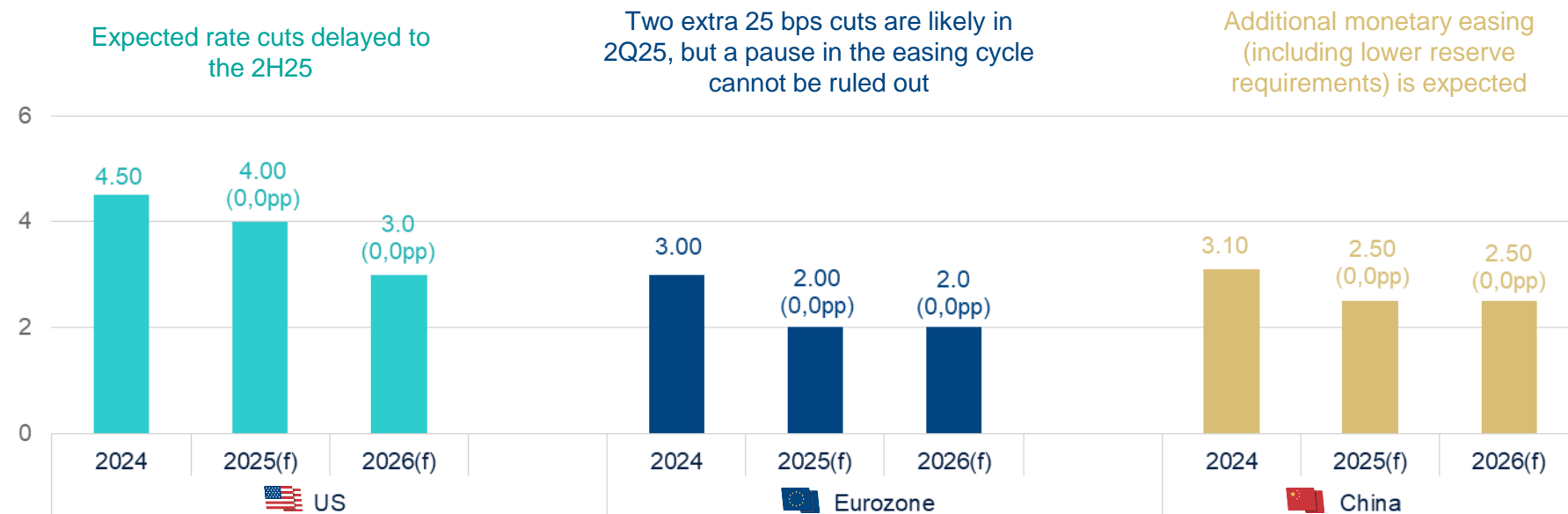
(f): forecast.

Source: BBVA Research.

The Fed will hold rates steady before resuming cuts in 2H25; the ECB is preparing to end its easing cycle but extra reductions in 2Q25 are still likely

POLICY INTEREST RATES (*)

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

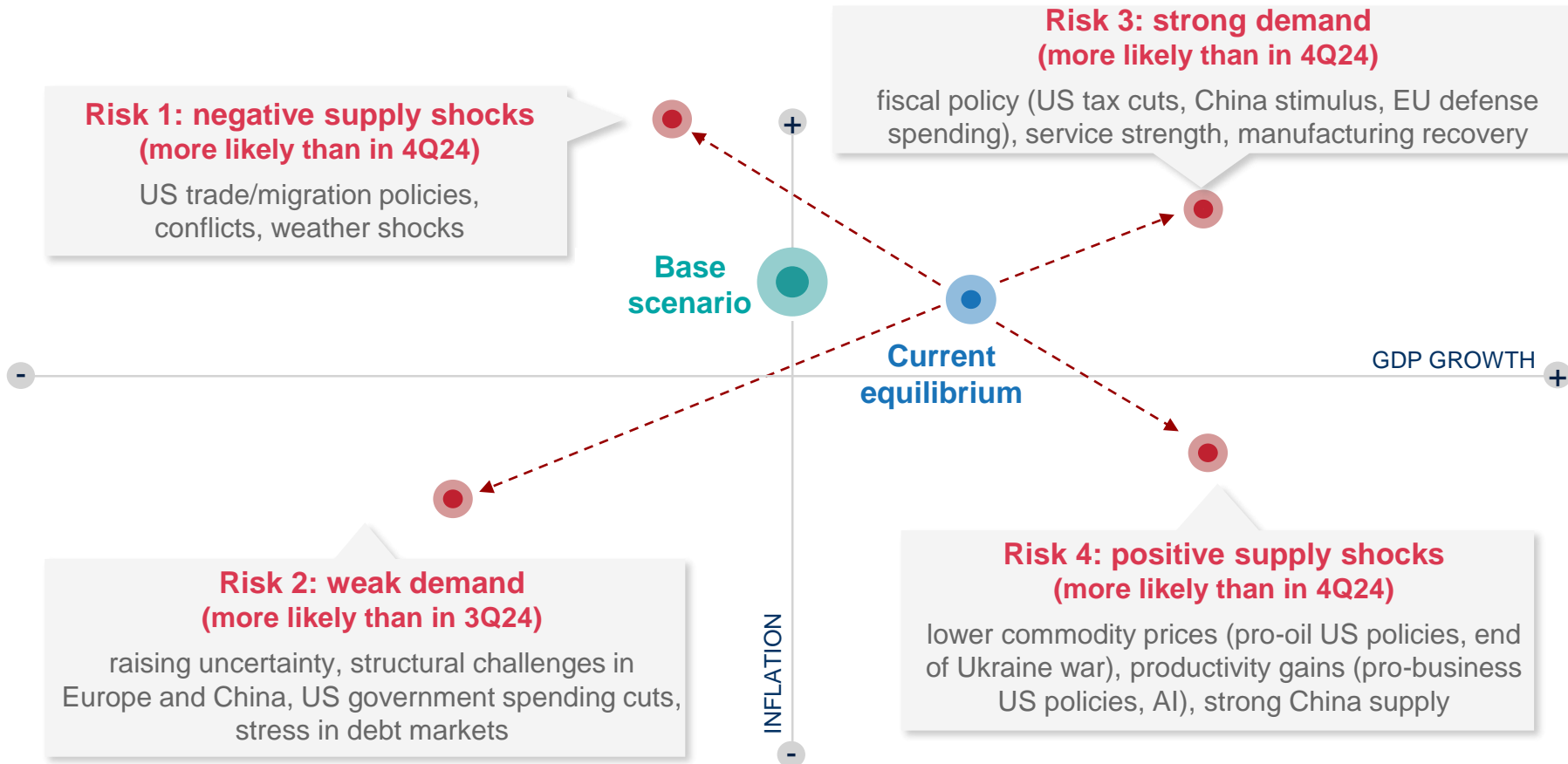


(f): forecast.

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

Source: BBVA Research.

Risks continue to build up: US trade policies and the negative impact of persistent uncertainty are among the main threats to the global economy

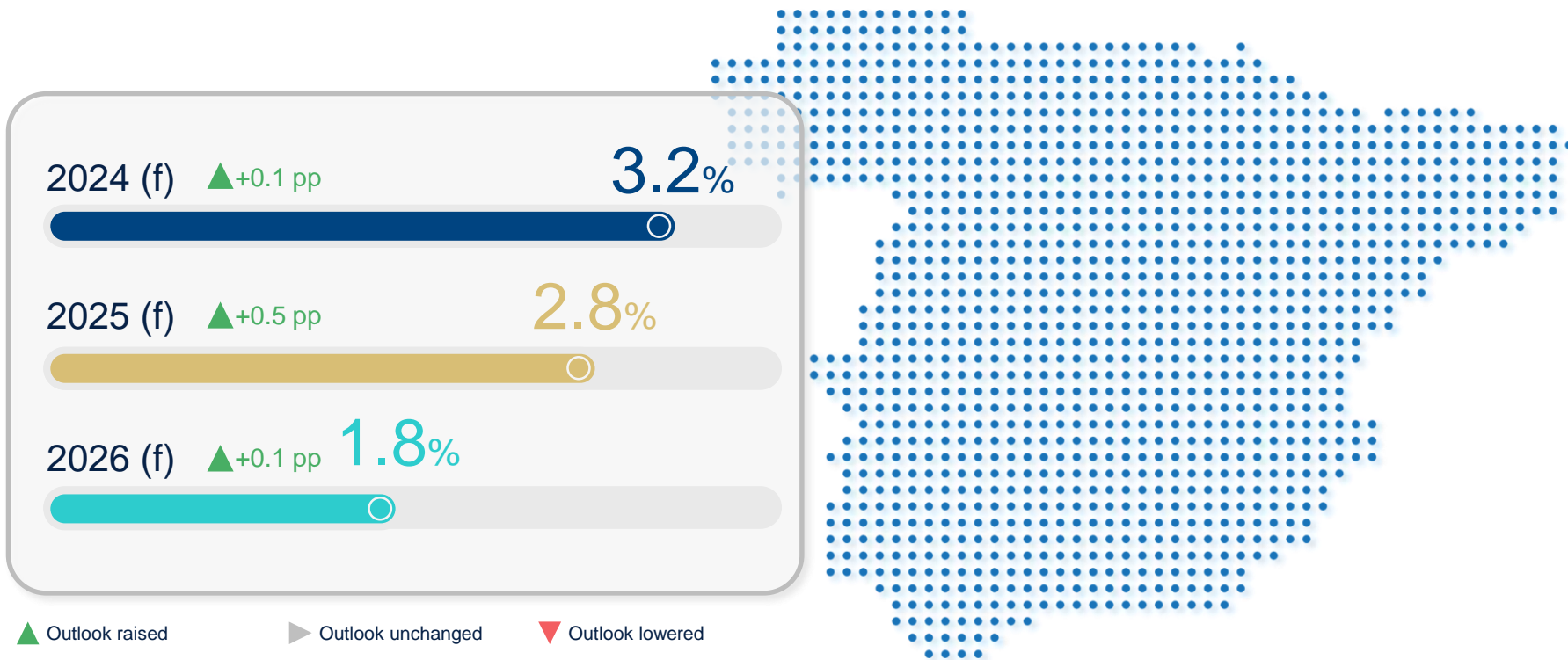


02

Economic Outlook – Spain

March 2025

The recovery in GDP will continue throughout 2025 and, less strongly, in 2026



(f): forecast.

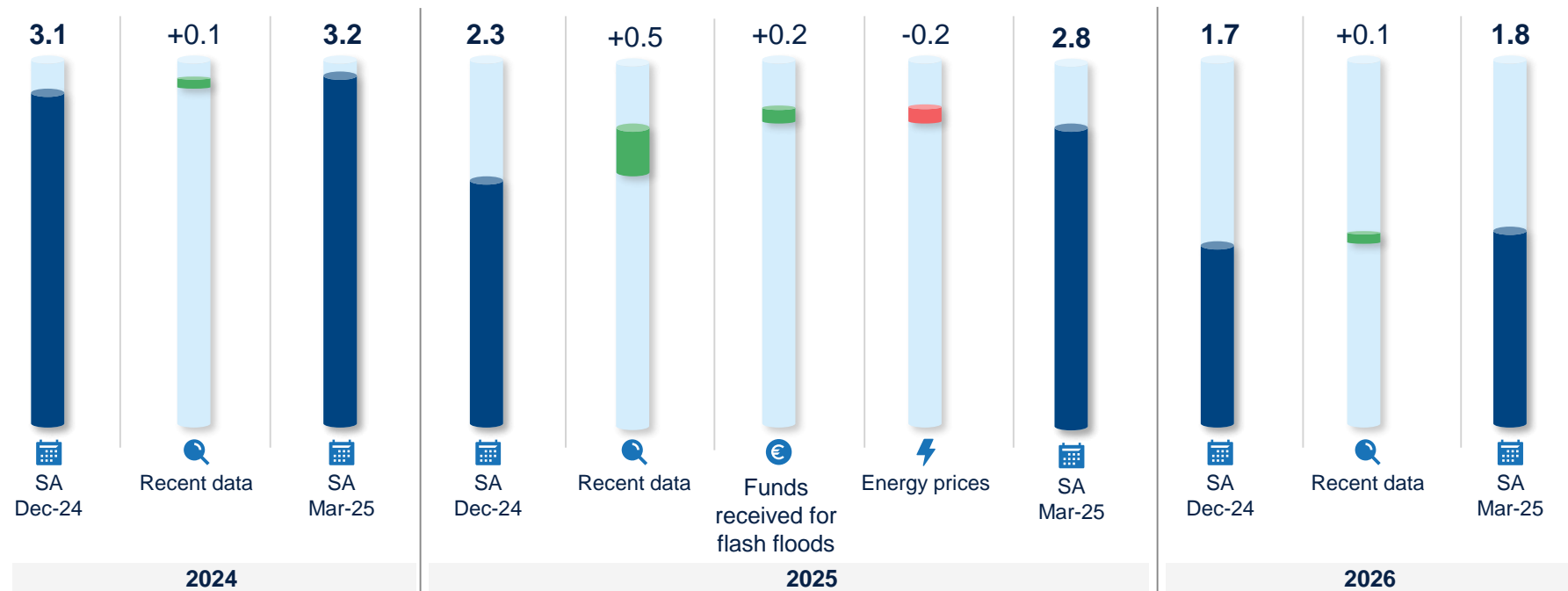
Source: BBVA Research, based on INE data.

The recovery in GDP will continue throughout 2025 and, less strongly, in 2026

The economy has recently been putting on a much improved performance, with certain events steering it in the right direction moving forward

CHANGE IN GDP FORECASTS ACCORDING TO CONTRIBUTIONS BY FACTORS

(%)



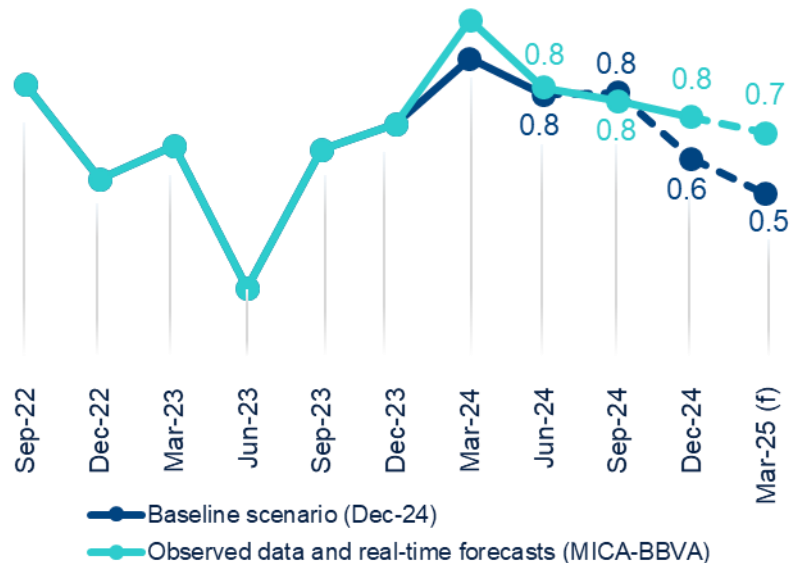
Source: BBVA Research, based on INE data.

A better than expected 2024 and start to 2025

Robust GDP growth in 4Q24, which will continue throughout 1Q25

QUARTERLY GDP GROWTH

(%)



- GDP rose 0.8% in the fourth quarter of 2024, 0.2 pp higher than what BBVA Research had forecast in Dec-24.
- Economic activity maintained the buoyancy observed in previous quarters, reflecting a stable and continuous recovery.
- Employment continues to improve. Social Security affiliation data point to an increase in job creation.
- If the current trend continues, GDP growth in the first quarter of 2025 could be around 0.7%.

(f): forecast.

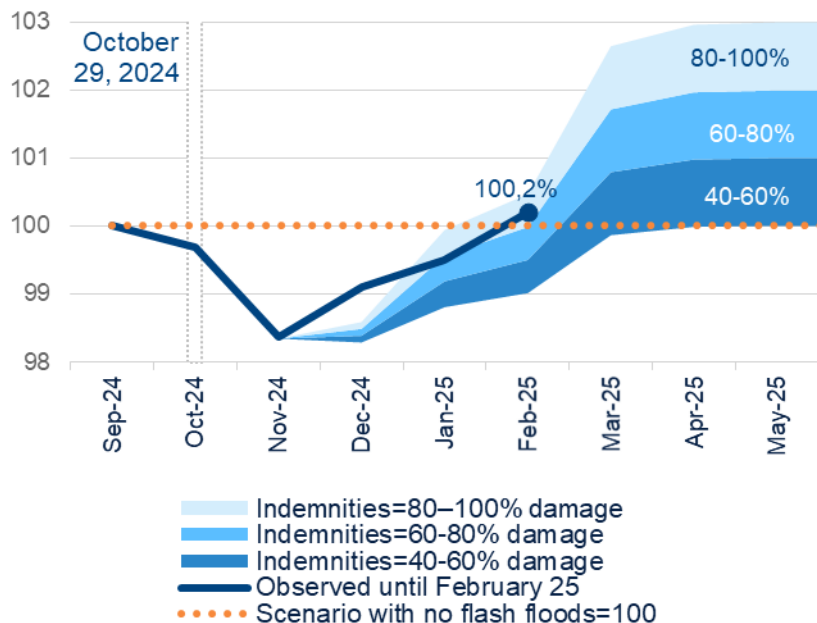
Source: BBVA Research based on data from INE.

A better than expected 2024 and start to 2025

The economic impact of the flash floods looks to have been less negative than feared

EFFECTIVE SOCIAL SECURITY AFFILIATION* IN THE PROVINCE OF VALENCIA

(PRE-FLASH FLOOD SCENARIO = 100)



*Excluding contributors on an ERTE.

Source: BBVA Research, based on INE, MISSM and EM-DAT.

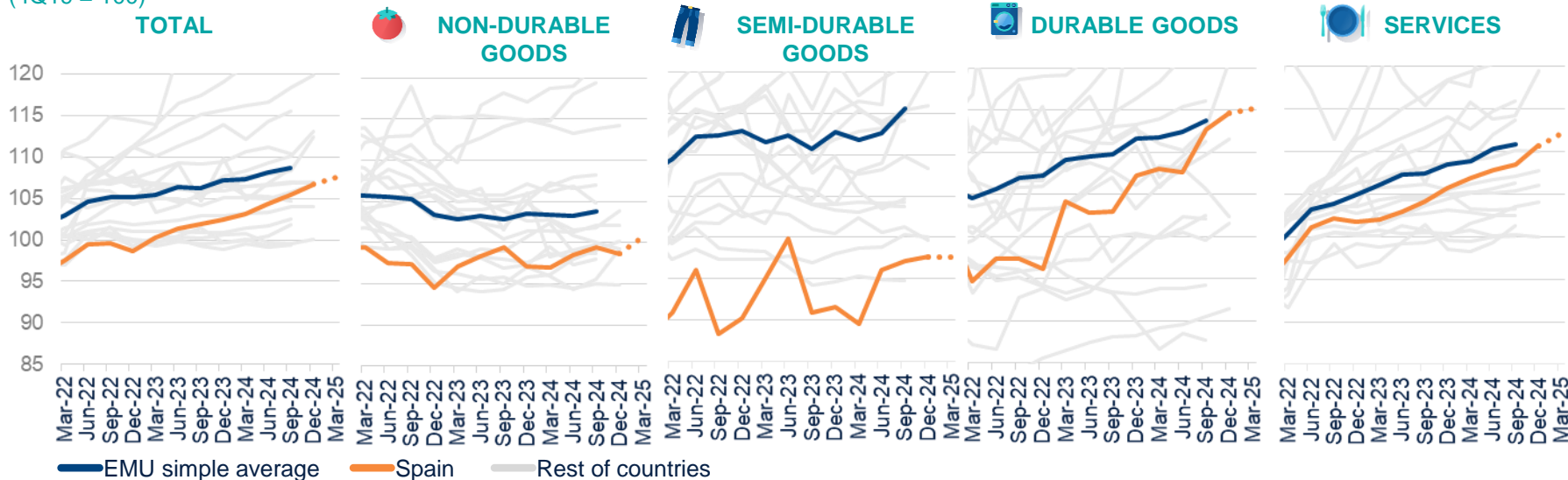
- The recovery of activity in the areas most heavily affected by the flash floods **has been faster than initially expected**, possibly due to the aid received.
- The drop in employment following the floods was less significant than feared and the employment rate recovered faster than **expected**, when looking at previous disasters.
- This is partly down to **the differential size of the tax stimulus rolled out and the speed** with which aid reached the households and businesses affected.
- The aid must arrive as promised and be used **efficiently**, thus enabling the recovery to continue.

A better than expected 2024 and start to 2025

The transition to a growth model based on private consumption has taken hold

EUROZONE: HOUSEHOLD DOMESTIC CONSUMPTION

(4Q19 = 100)



Note: Mar-25 forecast for Spain

Source: BBVA Research based on Eurostat data.

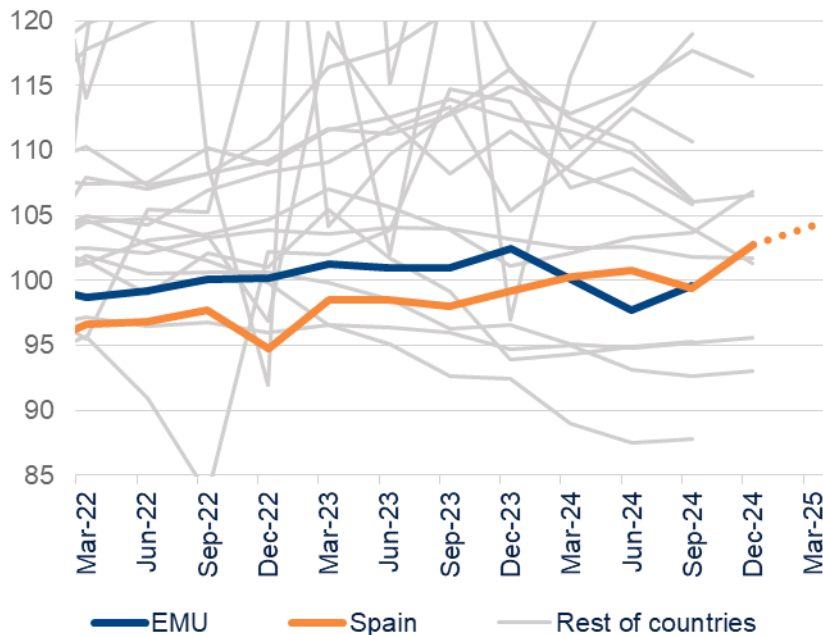
Households are increasing their consumption of services and durable goods, while consuming less in the way of perishable and semi-durable goods (mainly clothing and footwear), reflecting a common structural trend across Europe.

A better than expected 2024 and start to 2025

Investment is beginning to pick up, and not only due to the impact of the fiscal stimulus (flash floods)

EUROZONE: GROSS FIXED CAPITAL FORMATION

(4Q19 = 100)



- Investment was unexpectedly strong in 4Q24 , rallying 3.4% YoY, almost double the forecast (BBVA Research: 1.9% QoQ).
- The acquisition of machinery and equipment was positively affected by the impact of the aid deployed to support people and businesses affected by the flash floods.
- Investment in residential construction is beginning to show signs of a sustained recovery, with advances that reflect the urgency of increasing the supply of housing.

Note: Mar-25 forecast for Spain

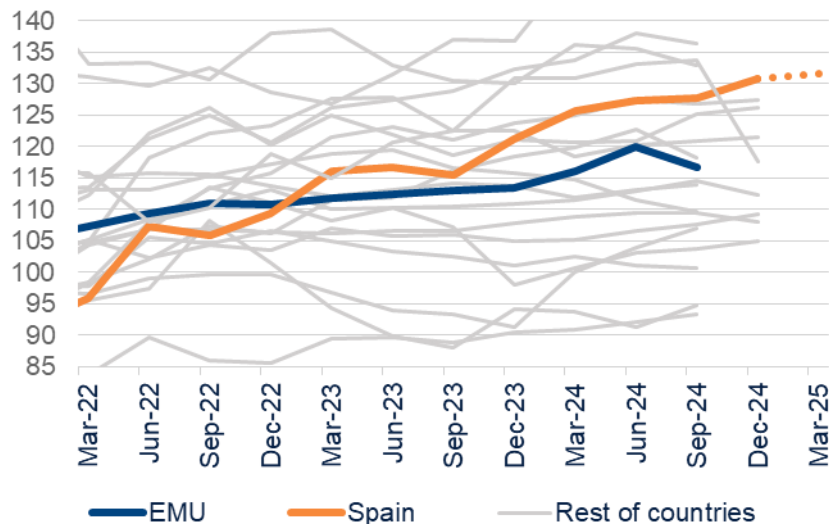
Source: BBVA Research based on Eurostat data.

A better than expected 2024 and start to 2025

Exports of tourism services remain strong

EUROZONE: EXPORTS OF SERVICES

(2019 = 100)

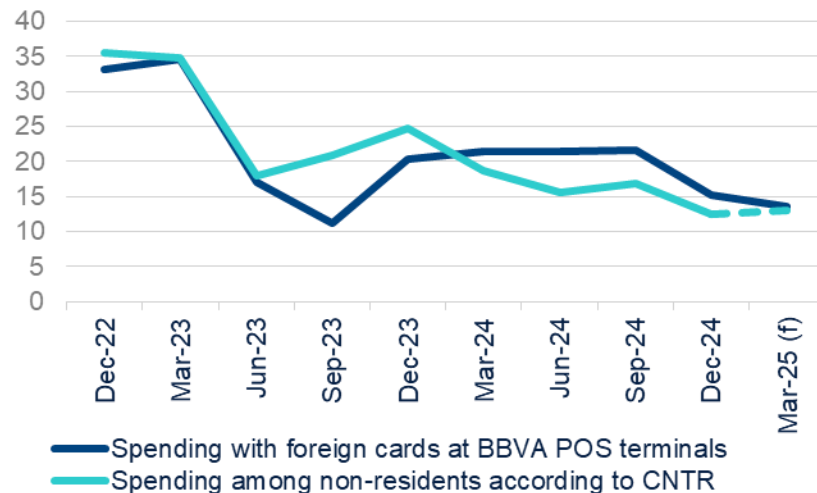


Note: Mar-25 forecast for Spain.

Source: BBVA Research based on Eurostat data.

CONSUMPTION AMONG NON-RESIDENTS VS. FOREIGN CARD SPENDING

(NOMINAL YEAR-ON-YEAR GROWTH IN %)



(f): forecast. Data up to February 22 in the case of card spending.

Source: BBVA Research based on data from BBVA.

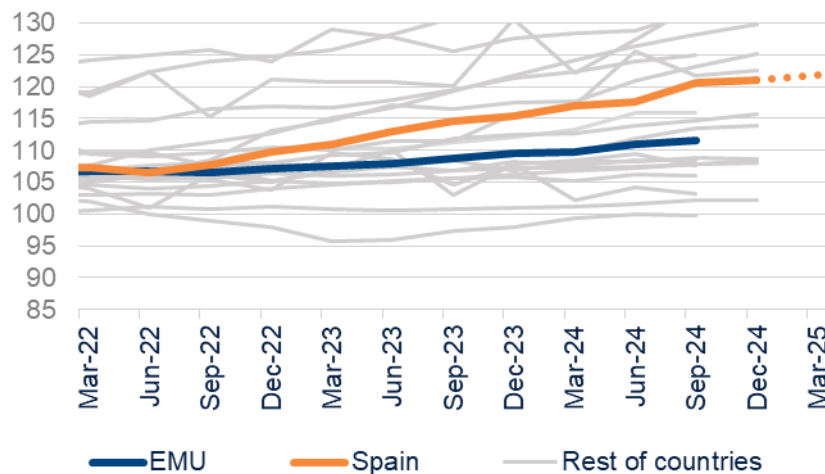
The buoyancy of services exports, led by the tourism sector, continues to exceed expectations. Foreign card spending at BBVA points of sale suggests a consolidation of the high levels of activity achieved, and possibly even slight additional growth.

A better than expected 2024 and start to 2025

Government expenditure remains one of the key drivers of the growth, although it is slowing

EUROZONE: GOVERNMENT EXPENDITURE

(2019 = 100)

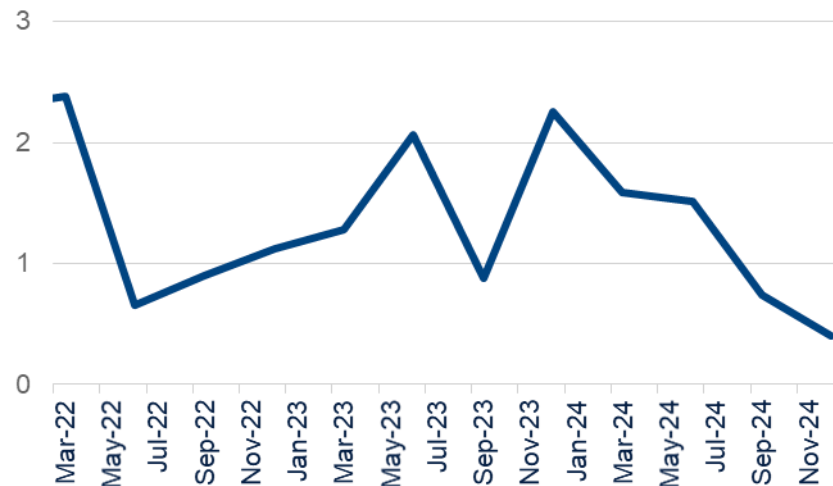


Note: Mar-25 forecast for Spain.

Source: BBVA Research based on Eurostat data.

PUBLIC SECTOR EMPLOYEES

(YEAR-ON-YEAR GROWTH IN %)



Source: BBVA Research, using data from MINECO.

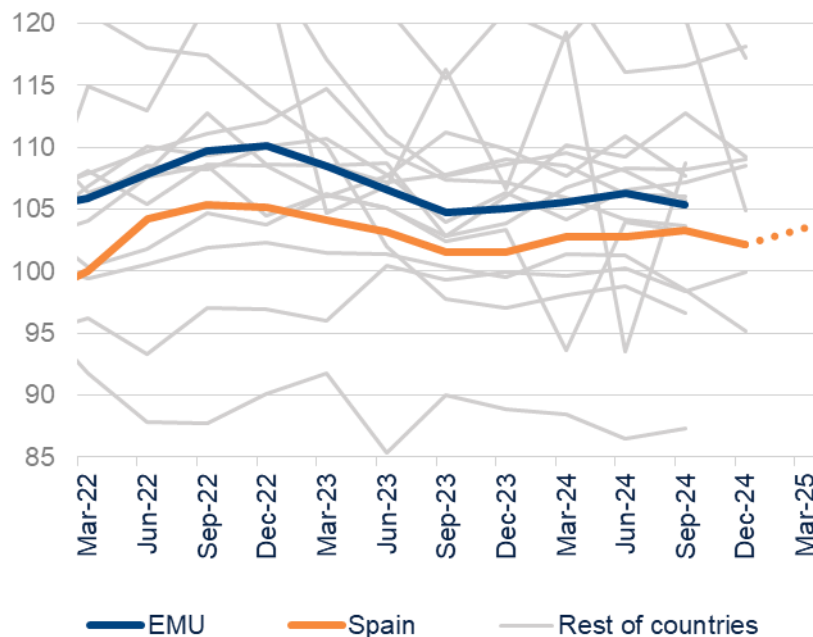
Government expenditure consolidated relatively high levels in 4Q24. However, recent data point to a slowdown, partly as a result of the lower contribution made by pay and other forms of remuneration, amid moderate job creation at public administrative bodies.

A better than expected 2024 and start to 2025

Exports of goods continue to stagnate

EUROZONE: REAL EXPORTS OF GOODS

(4Q19 = 100)



Note: Mar-25 forecast for Spain.

Source: BBVA Research based on Eurostat data.

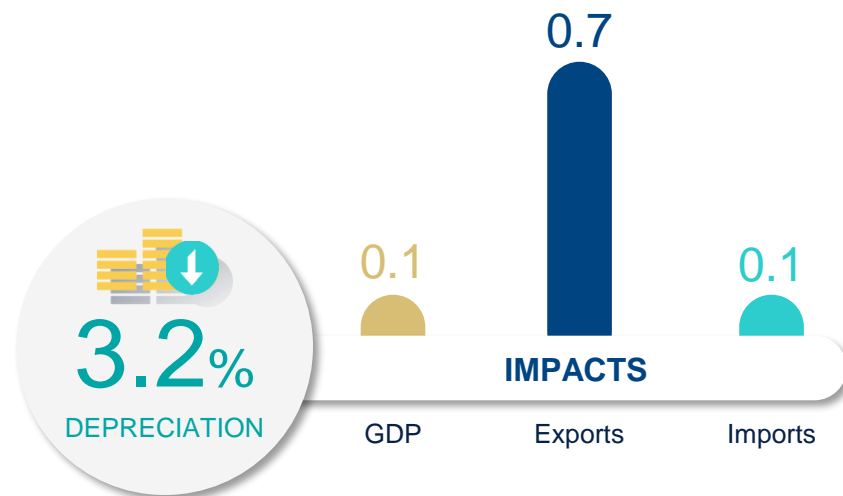
- Buoyant external demand for services has not fed through to exports of goods, which fell in the last quarter of 2024 (-1.1% QoQ compared to the 0.9% QoQ forecast).
- The information available so far does not seem to suggest that the expected recovery in 1Q25 (+1.4 QoQ) will be enough to surpass 3Q24 levels.
- Overall, this component of demand has been stagnating for two years.
- Imports also grew below expectations, rising 1.3% QoQ versus a forecast of 1.8% QoQ.

The recovery will continue over the next few months

The recent depreciation of the euro leads to further competitiveness gains

ESTIMATION OF THE IMPACT OF THE EXPECTED DEPRECIATION OF THE EURO

(DEVIATION FROM THE BASELINE SCENARIO IN PP)

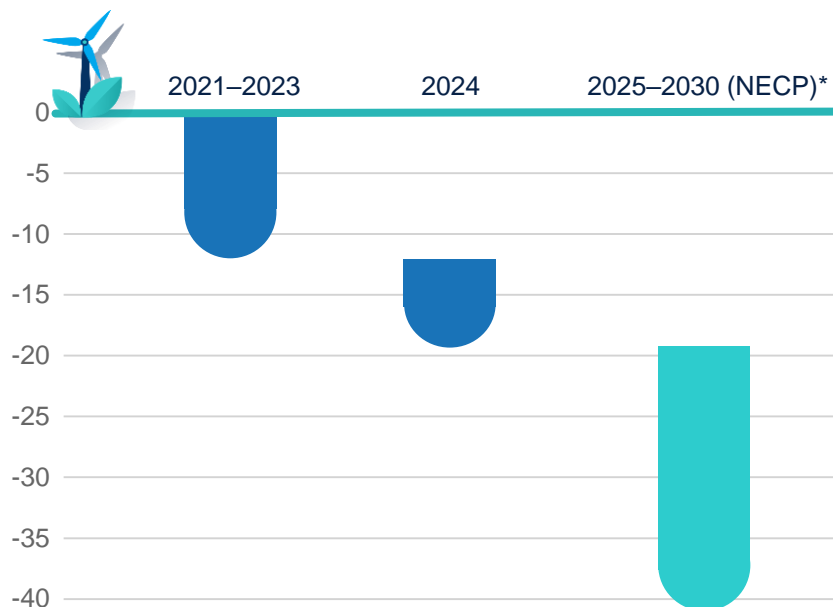


- Competitiveness gains in recent quarters have been conducive to export growth.
- With inflation now around target, the ECB's monetary policy is expected to become more expansionary, in stark contrast to the Fed's recent approach, which comes in response to possible changes in the economic policy of the new U.S. government.
- This divergence will consolidate the dollar's strength.
- It is estimated that the average annual depreciation of the euro of 3.2% expected in 2025 could increase exports of goods and services by around 0.7 pp and GDP by 0.1 pp in the year.

The recovery will continue over the next few months

Higher penetration of renewables contributes to lower wholesale market prices

IMPACT OF RENEWABLE ENERGIES ON THE WHOLESALE ELECTRICITY PRICES IN SPAIN (%)



* The 2024 estimate includes observed data up to June 2024.
Source: BBVA Research, based on OMIE, SENDECO and NECP.

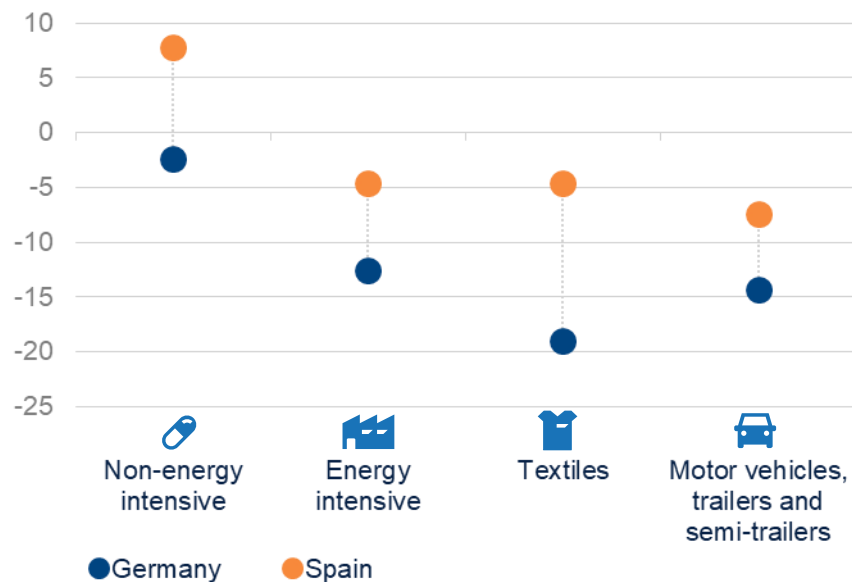
- Spanish companies benefit from relatively cheaper electricity, due to the greater penetration of renewables in the electricity mix.
- According to BBVA Research, the increase in renewable energy share from 45% to 65% between 2021 and the first half of 2024 has led to a 20% reduction in electricity prices. Reaching the 80% target would mean a further cut of around 20%.
- 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 over the next few months

Services and industry are the main beneficiaries of the competitiveness gains

INDUSTRIAL PRODUCTION INDEX

(AVERAGE CHANGE IN 2024 VERSUS 2022, %)



Non-energy intensive sectors include the manufacture of basic pharmaceuticals, furniture production, or the repair and installation of machinery and equipment. Energy-intensive industries include, among others, food and beverage production, chemical production, and metal production.

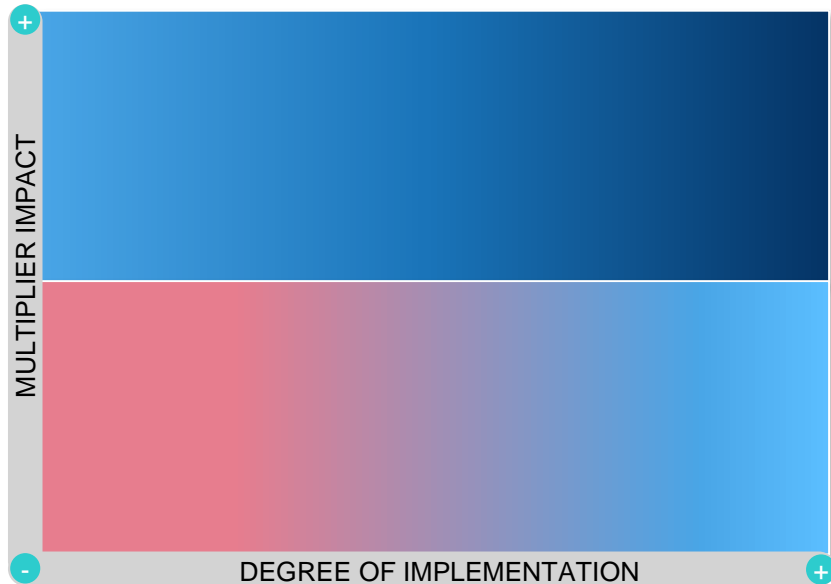
Source: BBVA Research based on Eurostat data.

- Although manufacturing and exports of goods have stagnated, the outlook could improve.
- The increase in the cost of energy has negatively affected energy-intensive sectors. However, the drop in production (-3.1%) has been less acute than that observed in other countries such as Germany (-8.9%).
- The rest of the industry shows growth of 0.8%, compared to the decline in Germany (-4.5%).
- A weak euro and prices that have risen less than in other countries will shore up Spain's appeal as a tourist destination.

The recovery will continue over the next few months

The aid being rolled out to alleviate the impact of the flash floods could reach 0.6 pp of GDP

DIFFERENTIAL FACTORS AFFECTING THE GDP OF THE VALENCIAN COMMUNITY ACCORDING TO THE IMPACT OF THE FISCAL STIMULUS

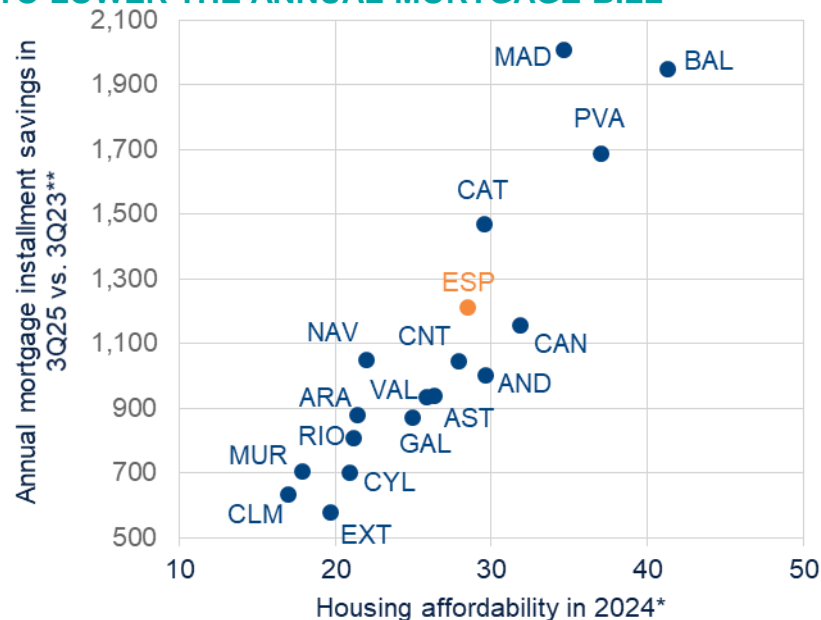


- The measures announced to cushion the impact of the devastating flash floods, which could reach 1.3 pp of GDP, have arrived sooner than expected.
- However, not everything that was promised will be spent. Indeed, the number of people placed on a temporary redundancy plan has been lower than initially feared.
- The impact of this on economic growth will depend on how efficiently the aid is spent. In the short run, it will help to shore up demand, especially in sectors such as machinery and transport equipment or construction
- The medium and long-term outlook will depend on the extent of the destruction caused and the sufficiency of the efforts made to replace the physical capital lost.

The recovery will continue over the next few months

More expansionary monetary policy should shore up investment

EFFORT RELATING TO ACCESS TO HOUSING AND TO LOWER THE ANNUAL MORTGAGE BILL



* Average effort 1Q14-3Q24, last available quarter. Payment of the first mortgage installment as a percentage (%) of average household income.

** Saving on the annual mortgage payment due to the reduction in interest rates.

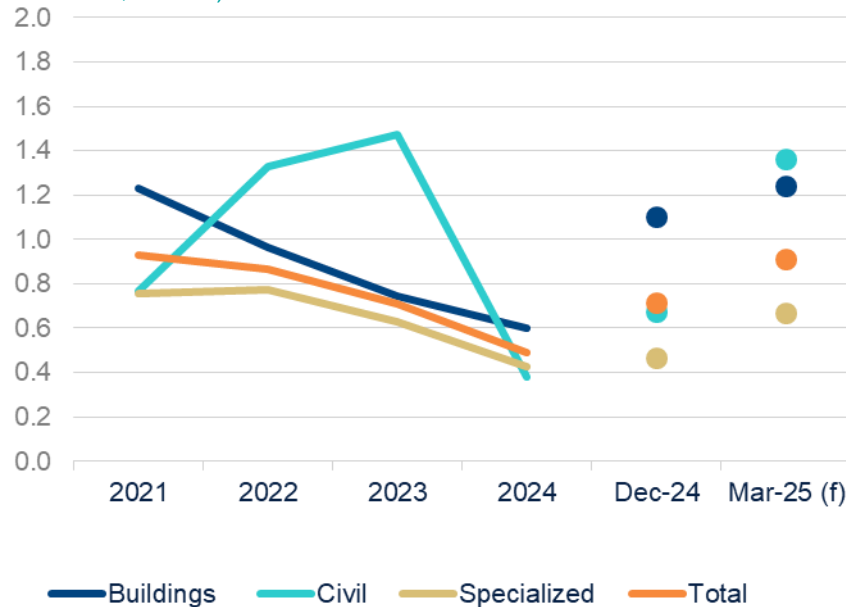
Source: BBVA Research, based on INE, Bank of Spain and MIVAU data.

- Credit-intensive sectors (e.g., construction or transportation) stand to benefit the most from the fall in interest rates. Part of the lack of momentum that capital accumulation has shown over the last two years may be linked to the increase in funding costs.
- Residential demand is expected to pick up. Between 3Q23 and 3Q25, the reduction in funding costs will improve housing affordability by 2.3 pp in response to an increase in average household wage income.

The recovery will continue over the next few months

Housing investment to gain further momentum over the coming months

CHANGE IN SOCIAL SECURITY AFFILIATION IN CONSTRUCTION (ANNUAL AVERAGES AND QUARTERLY CHANGE, SWDA)



- Residential construction investment could grow from 1.4% in 2024 to 5.5% in 2025 and 6.6% in 2026. Available data on new building permits and Social Security affiliation in the sector support this view.
- The number of new housing permits climbed from a monthly average of 9,125 in 2023 to 10,645 in 2024. This points to an increase in homes under construction of 12.3% in 2025.
- However, this positive momentum will not be enough to keep pace with demand. It is estimated that between 2021 and 2026 the difference between the number of homes created and housing built will reach 1 million units.

(f): forecast with data up to Feb-25.

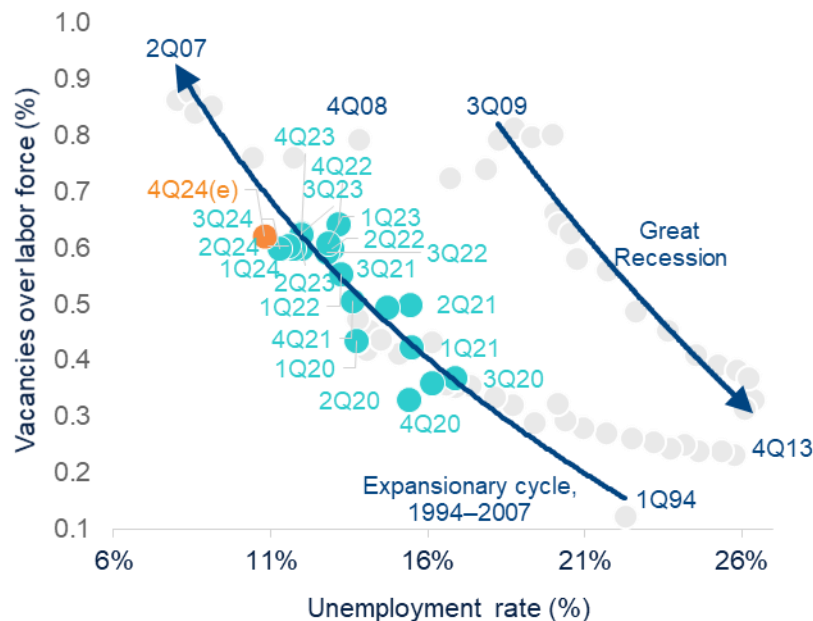
Source: BBVA Research based on Ministry of Inclusion, Social Security and Migration data.

The recovery will continue over the next few months

Improved efficiency of job matching?

BEVERIDGE CURVE

(1Q1994 – 4Q2024(F), SWDA DATA)



- After unexpectedly waning in the third quarter of 2024, **vacancies are expected to increase** by 4.1% quarter-over-quarter SWDA in the fourth quarter to exceed 152,000.
- Given the trend in the labor force, **the vacancy rate* would rise to 0.62 positions per 1,000 active workers**, in line with the trend observed since mid-2022.
- The 2024 data suggest a **moderate shift of the Beveridge curve towards the origin**.

*: It is approximated as the ratio of vacancies reported in the Quarterly Labor Cost Survey to labor market participants according to the Labor Force Survey.

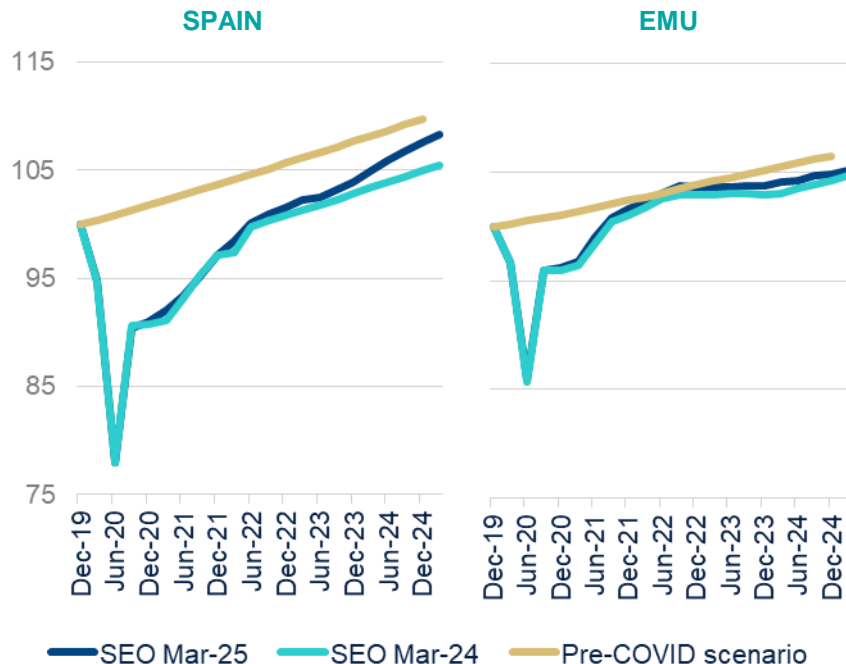
Source: BBVA Research, based on INE data.

The recovery will continue over the next few months

The current recovery marks a break from the pattern observed following previous crises

GDP

(4Q19=100)



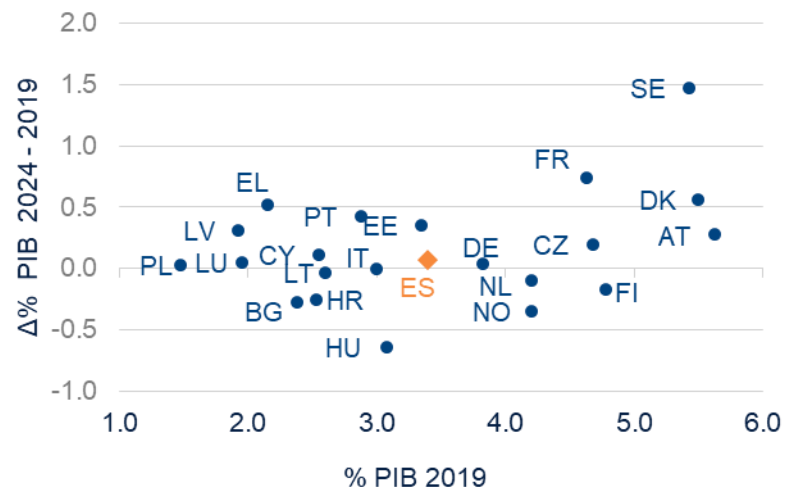
- The Spanish economy is on the verge of reaching the projected GDP level that would have been achieved without the outbreak of the pandemic.
- This represents a differential performance when compared with the wider eurozone, where the recent stagnation means that the region is falling further behind.
- Labor market indicators point to a greater capacity for economic growth. Job creation is widespread by nationality and age group, except among the Spanish population aged 35 to 44.
- Immigration continues to drive the increase in the labor force, despite a contraction in the labor force participation rate.

The recovery will continue over the next few months

The current recovery marks a break from the pattern observed following previous crises

INTANGIBLE ASSETS AS A PERCENTAGE OF GDP

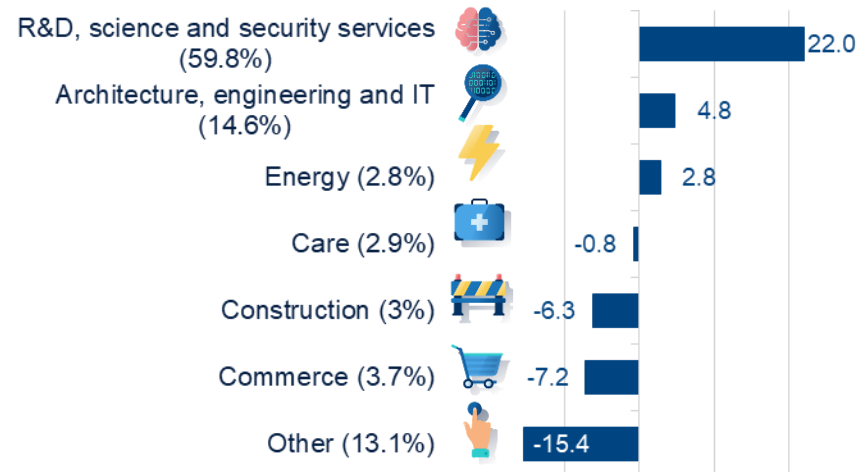
(% 2019 AND % CHANGE 2019–2024)



Source: BBVA Research with Eurostat data.

R&D PURCHASES BY SECTOR THROUGH BBVA ACCOUNTS

(CHANGE IN PP WITH RESPECT TO 2019*)



* Participation of each sector in 2024 shown in parentheses.

Source: BBVA Research based on BBVA data.

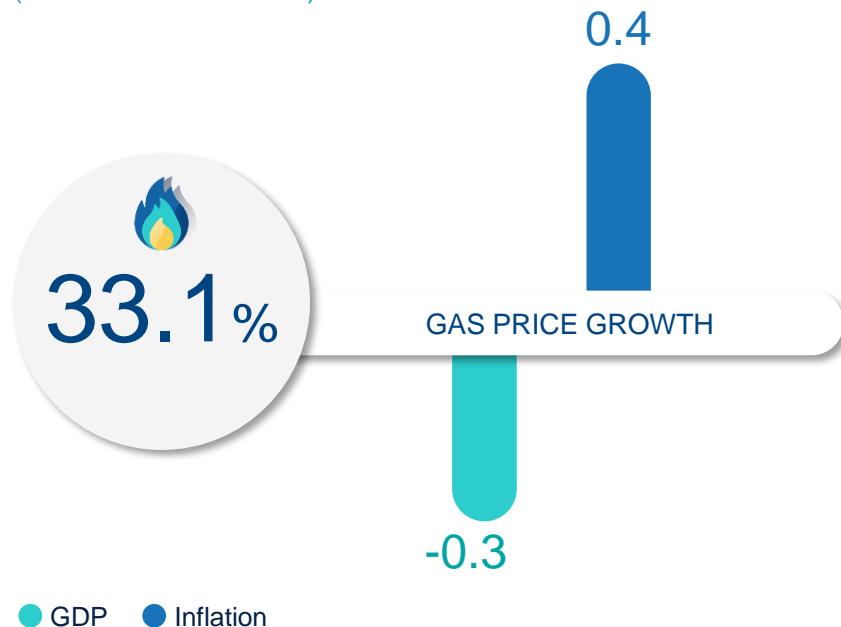
Spending on intangible assets continues to outperform the rest of the investment components. However, it only accounts for 3.7% of GDP. Its growing importance may explain the weight that service exports have been gaining and the change in the production model toward greater dependence on renewable energy sources.

A slowdown in activity is expected as we head toward 2026

Rising gas and electricity prices pose a cost risk

IMPACT OF THE CHANGE IN GAS PRICES ON ACTIVITY AND INFLATION IN 2025

(CHANGE IN % AND PP)



- The increase in the price of gas, which has made electricity production more expensive, and its pass-through to the rest of the consumption basket, may limit the fall in inflation.
- This comes in response to geopolitical uncertainty and increased consumption amid less favorable weather conditions than in previous years.
- BBVA Research expects the price of gas in Europe to increase by 33.1% in 2025. This increase would have an impact of around -0.3 pp on Spain's GDP and 0.4 pp on inflation in 2025.

A slowdown in activity is expected as we head toward 2026

Low growth in the eurozone is a drag on export performance

COUNTERFACTUAL GROWTH OF EXPORTS AND GDP*

(DEVIATION FROM BASELINE SCENARIO IN PP)



- The secular stagnation of the economy of Spain's main trading partners is shackling growth in key sectors, such as industry.
- If GDP growth in the Eurozone in 2023 and 2024 had been similar to the level observed in the pre-pandemic years, exports of goods and services could have increased by up to 2.5 pp more in each of the two years and the level of GDP would now be 2.5 pp higher.
- In the absence of an upturn in growth across the eurozone, exports—especially of goods—will continue to shackle the recovery.

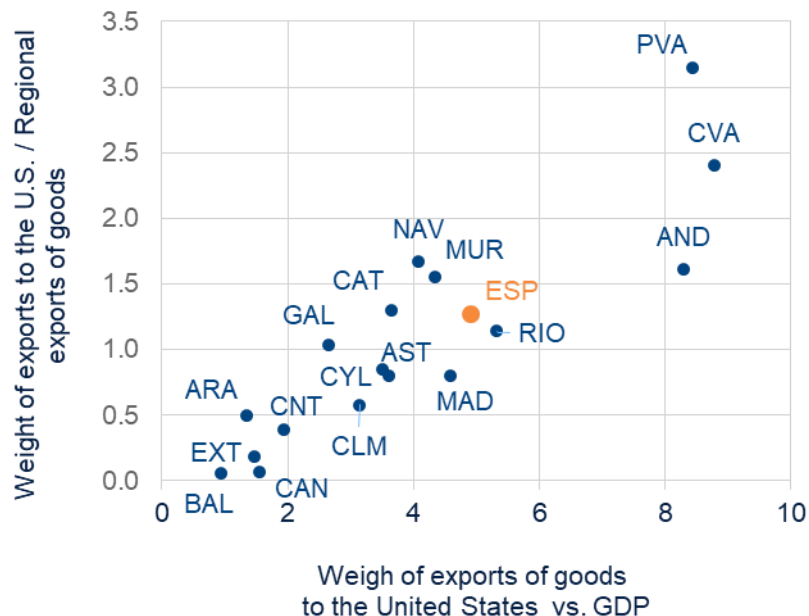
* Counterfactual: growth in Europe of 0.5% q/q since the beginning of 2023, on a par with the level seen during the previous expansionary cycle (2Q13-4Q19).

Source: BBVA Research based on INE data.

A slowdown in activity is expected as we head toward 2026

The possible increase in U.S. tariffs is a source of uncertainty

EXPORTS OF GOODS TO THE UNITED STATES BY AUTONOMOUS REGION OF SPAIN (% , 2023)



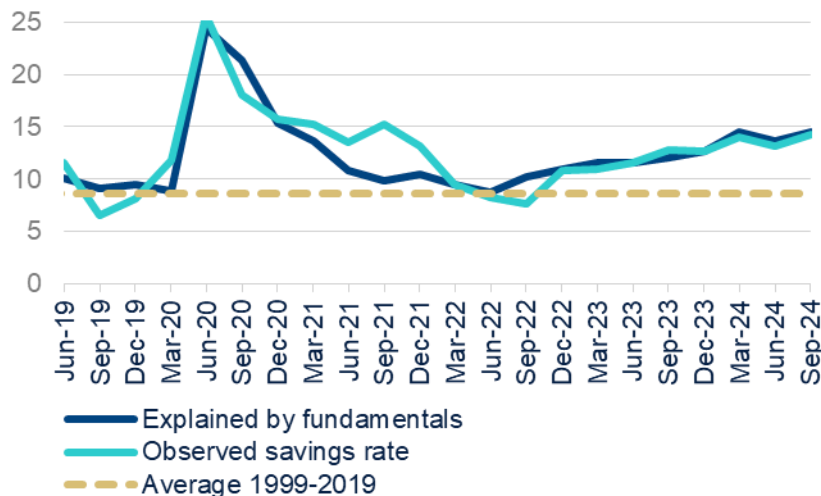
- The direct impact of the tariff increase on the Spanish economy is expected to be less than in the rest of the Eurozone, due to the lower exposure of domestic companies to U.S. demand.
- The impact by region or sector will be uneven. Sales of machinery and equipment, medicines, vehicles or food and beverages may be more exposed, which will have a heavier impact on the Basque Country, the Valencian Community and Andalusia.
- These effects could be exacerbated by increased economic policy uncertainty and its impact on investment.

A slowdown in activity is expected as we head toward 2026

Household savings remain at unusually high levels

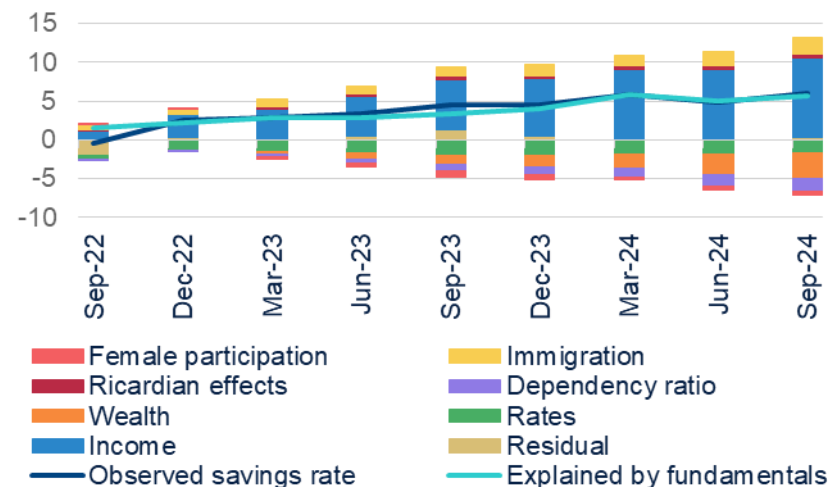
HOUSEHOLD SAVING RATE

(% OF GDI, SWDA DATA)



HOUSEHOLD SAVING RATE

(CONTRIBUTIONS TO CUMULATIVE CHANGE OVER THE LAST TWO YEARS, IN PP)



Source: BBVA Research based on INE data.

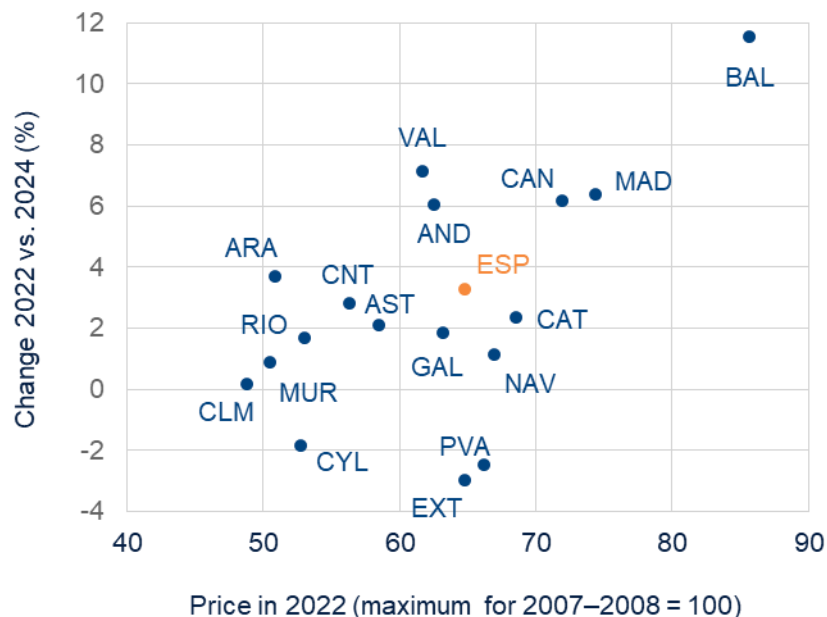
Since 2022, the increase in disposable income, public debt and immigration has been countering the increase in the dependency ratio, wealth and the impact of lower interest rates. The persistence over time of the factors underpinning the increase in savings makes it unlikely that savings will fall over the next few quarters.

A slowdown in activity is expected as we head toward 2026

The low returns on offer remain one of the main obstacles to housing supply growth

HOUSE PRICES IN REAL TERMS*

(% AND PEAK 2007–2008 = 100)



- The lack of consensus on how to address the housing problem is an obstacle to overcoming the problem. The rejection of the reform of the Land Law in Congress is an example.
- Difficulty in developing land will continue constrain construction. Added to this is the sharp increase in costs, the shortage of skilled labour and the low growth in productivity in the sector.
- There is no certainty over when some of the measures announced by the government to incentivise the supply of affordable rental housing will be approved.

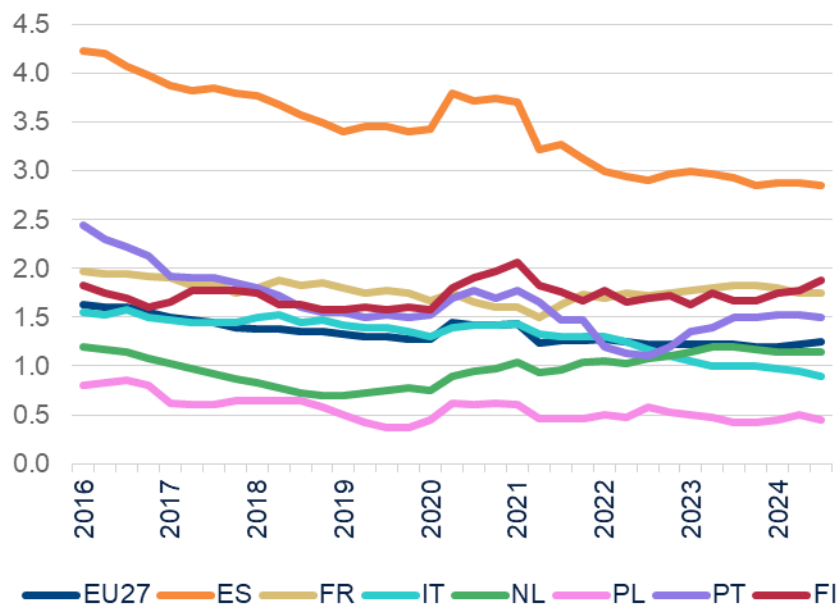
* Deflated by the CPI of each autonomous region.
Source: BBVA Research based on MIVAU and INE.

A slowdown in activity is expected as we head toward 2026

Transition from employment to unemployment remains high

QUARTERLY TRANSITIONS FROM EMPLOYMENT TO UNEMPLOYMENT IN EU COUNTRIES

(% OF EMPLOYED, MOVING AVERAGES Q4 1Q19 – 3Q24)

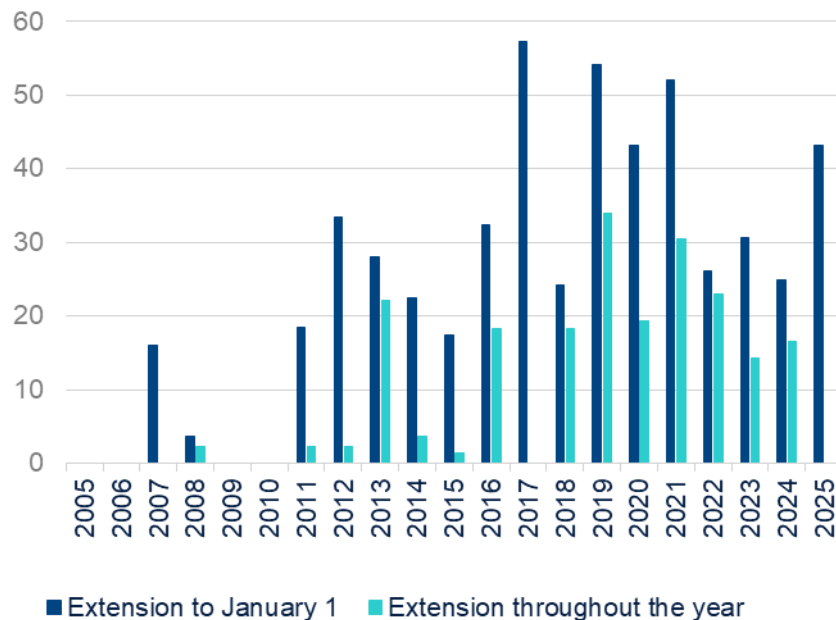


- Rising labor costs could lead to **greater employment instability**.
- The temporary employment rate has fallen since 2022, although **the transition rate from employment to unemployment is still 50% higher** than in neighboring countries.
- Productivity gains have been meagre, with a growth pattern largely based on job creation.
- The **announced changes in working hours could have negative effects on employment and economic activity**, especially if they are not accompanied by agreements that allow businesses to adapt progressively to the changes.

A slowdown in activity is expected as we head toward 2026

We have witnessed an increase in economic policy uncertainty in recent months

AUTONOMOUS REGIONS WITH BUDGET CARRIED OVER (% OF THE POPULATION TO THE NATIONAL TOTAL). POPULATION AS AT 1 JANUARY OF EACH YEAR)



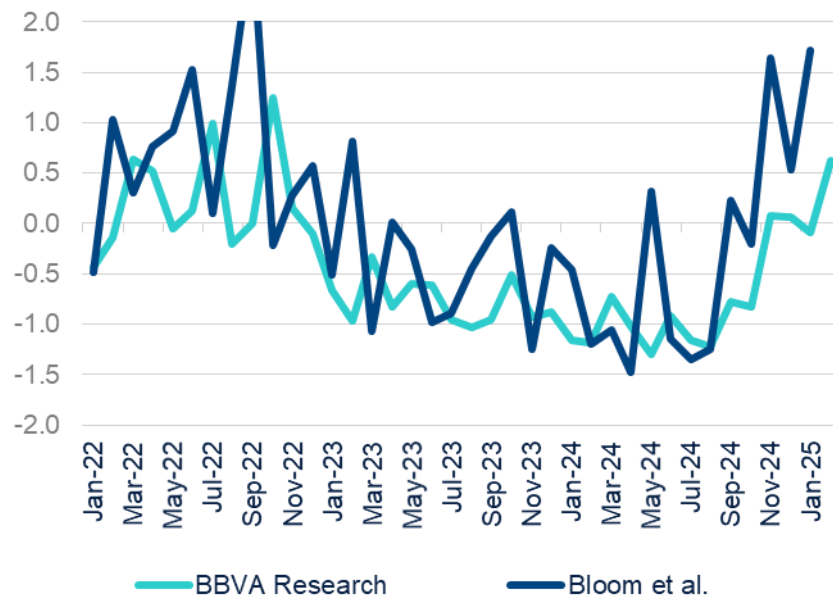
- At the moment there are seven regional governments with extended budgets, in territories representing 43% of the total population in Spain. Moreover, the Central government is still working with the 2023 budget.
- For now, the effects of this uncertainty have not fed through to economic activity.
- Although the absence of new budgets may have led to some degree of fiscal restraint, the lack of up-to-date planning is neither efficient nor transparent, given the sheer scale of the future adjustments and increased needs in key services such as housing, defense, pensions and healthcare.

A slowdown in activity is expected as we head toward 2026

We have witnessed an increase in economic policy uncertainty in recent months

SPAIN: UNCERTAINTY OVER ECONOMIC POLICY

(NORMALIZED INDICES, STANDARD DEVIATIONS FROM THE MEAN)



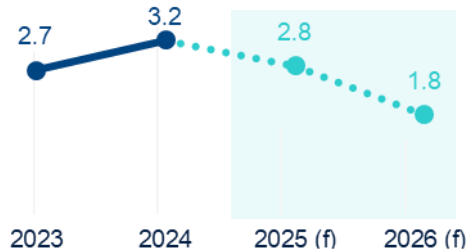
- Uncertainty over economic policy has increased in the last six months, both in Europe and in Spain, and is at levels similar to those observed following Russia's invasion of Ukraine.
- In the absence of this stress, the Spanish economy could grow, as an annual average, about 0.5 pp higher than the level estimated during the current biennium.
- Moving forward, it would be advisable to reach cross-cutting consensus in order to address the main doubts that may be affecting the propensity of households and businesses to consume and invest.

Forecasts

Forecasts

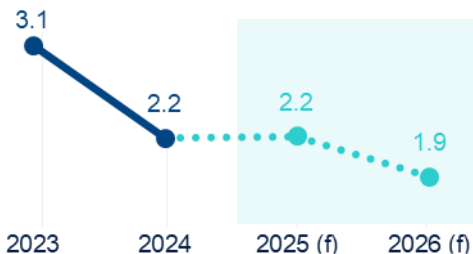
GDP GROWTH

(%)



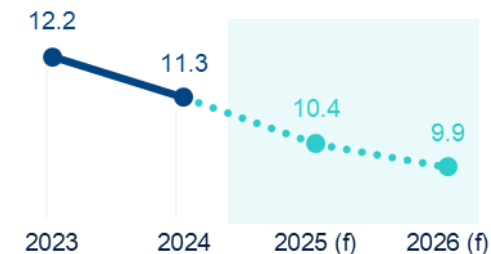
EMPLOYMENT GROWTH – EPA

(LABOR FORCE SURVEY) (%)



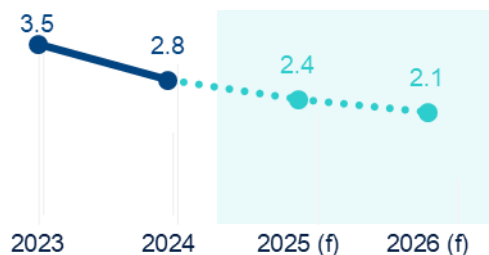
UNEMPLOYMENT RATE

(%)



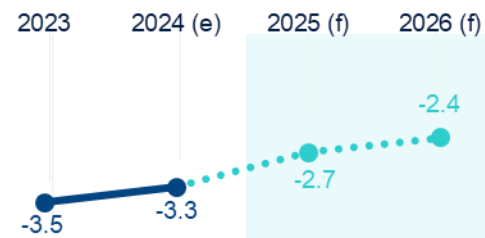
AVERAGE ANNUAL INFLATION

(ANNUAL AVERAGE, %)



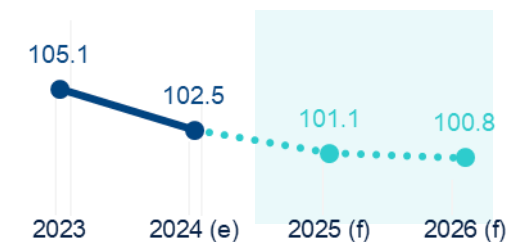
PUBLIC DEFICIT

(% OF GDP)



PUBLIC DEBT

(% OF GDP)



Forecast

% a/a	2022	2023	2024	2025 (f)	2026 (f)
National final consumption expenditure	3.7	2.7	3.4	3.2	1.9
Private consumption	4.8	1.8	2.9	3.1	1.9
Public consumption	0.6	5.2	4.9	3.2	1.9
Gross fixed capital formation	3.3	2.1	2.3	6.2	5.3
Equipment and machinery	2.9	1.1	2.3	6.0	3.6
Construction	2.2	3.0	2.6	6.4	5.8
Housing	8.4	2.1	1.4	5.5	6.6
Domestic demand*	3.9	1.7	2.8	3.6	2.5
Exports	14.3	2.8	2.9	2.7	2.3
Exports of goods	3.5	-1.0	0.1	1.6	2.3
Exports of services	48.9	12.2	8.9	4.6	2.4
Non-touristic services	26.1	7.6	6.7	3.2	2.0
Final consumption by non-residents in Spain	115.6	20.1	12.3	6.7	3.0
Imports	7.7	0.3	2.0	5.4	4.5
External demand*	2.3	1.0	0.4	-0.8	-0.6
Real GDP at market prices (mp)	6,2	2,7	3,2	2,8	1,8

* Contribution to GDP growth.

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

Source: BBVA Research based on INE and BdE.

Forecast

% a/a	2022	2023	2024 (f)	2025 (f)	2026 (f)
CNTR Employment (Full-Time Equivalent)	4.1	3.2	2.4	2.3	1.6
Employment, Labour Force Survey	3.6	3.1	2.2	2.2	1.9
Unemployment rate (% Labour force)	13.0	12.2	11.3	10.4	9.9
CPI (average)	8.4	3.5	2.8	2.4	2.1
GDP deflator	5.0	6.4	3.1	2.6	2.0
Public deficit (% GDP)	-4.5	-3.5	-3.3	-2.7	-2.4
Public debt (% GDP)	109.5	105.1	102.5	101.1	100.8

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

Source: BBVA Research based on INE and BdE.

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Economic Outlook – Spain

March 2025