BBVA Research

JUNIO 2025

Economic Outlook Spain

Main messages

Economic uncertainty

US tariffs have risen sharply. Although levies on China are now around 30%, lower than the expected 60% and well below the post-“Liberation Day” peak of 145%, they remain high and the uncertainty about where they will eventually settle is a persistent source of risk. In this context, and given prospects of large fiscal deficits, the US premium risk has risen. Growth remains resilient and inflation has eased, despite early signs of tariff-related deterioration.

Growth outlook

Protectionism and uncertainty will weigh on economic activity. Growth will likely slow more than previously anticipated in the US, but not necessarily in China and the Eurozone. In the former, lower-than-expected US tariffs back an upward revision of growth forecasts. In the latter, the impact of expected US tariffs will likely be mitigated by fiscal spending, mainly in defense.

Inflation and rates outlook

Tariffs are likely to push US inflation higher, prompting the Fed to keep rates unchanged for longer. Monetary easing could resume by the end of 2025 if price pressures prove transitory. The rate-cutting cycle could be over, or at least near to the end, in the Eurozone, and remains underway in China.

Risks

Lingering policy uncertainty and rising US risk premium are important sources of concern. Tariff risks have augmented, but now appear more balanced.

Key points – Spain

Slowdown, but with growth still robust

Spain's National Statistics Institute (INE) lowered its GDP reading for the second half of 2024. Growth in 1Q25 was 0.1 pp lower than expected. The slowdown in demand growth is due to lower growth in consumption. Services exports are also slowing, although they continue to outpace GDP growth. Investment has picked up due to the impact of the measures to support those affected by the flash floods.

GDP growth could be around 2.5% in 2025 and 1.7% in 2026

Among the factors supporting growth will be the fall in oil and gas prices, the more expansionary tone of economic policy in Europe, and a greater capacity for growth in the services sector (due to immigration and increases in hourly productivity). Wage growth is expected to outpace price growth; housing investment will increase its contribution to demand growth; and there will be higher defense spending.

The expansion is expected to lose momentum

The blackout would have had a negative, albeit temporary, impact. Rising tariffs and uncertainty will affect trade flows and investment. Bottlenecks can be seen, including the lack of sensitivity shown by private investment to the recovery, the high level of household savings, or the shortage of affordable housing.

A consensus is needed on measures that will increase long-term growth

Productivity per person employed is growing even below the historical average, labor market participation needs to improve, precarious work needs to be reduced, and return on investment needs to be increased. Public finances are vulnerable to less favorable scenarios. The pace of implementation of NGEU funding needs to be stepped up.

Global Economic Outlook

Global economy under pressure by US policies

High US tariffs; although lower on China, they are larger than assumed on others, and a greater source of uncertainty

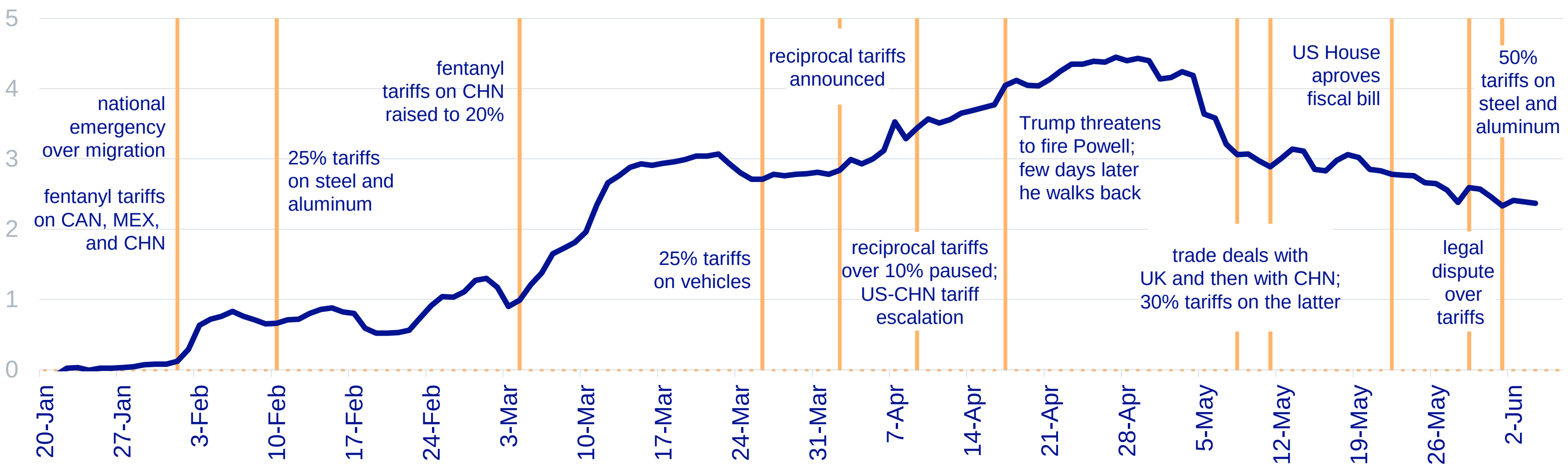
Resilient growth; confidence deteriorated, but impact of tariffs on activity and inflation is limited, so far

Larger US risk amid increasing concerns on fiscal accounts and uncertainty on US policies

Weaker USD, higher long term yields, and a cautious Fed; policy rates fell further in China and Europe

Uncertainty remains in place

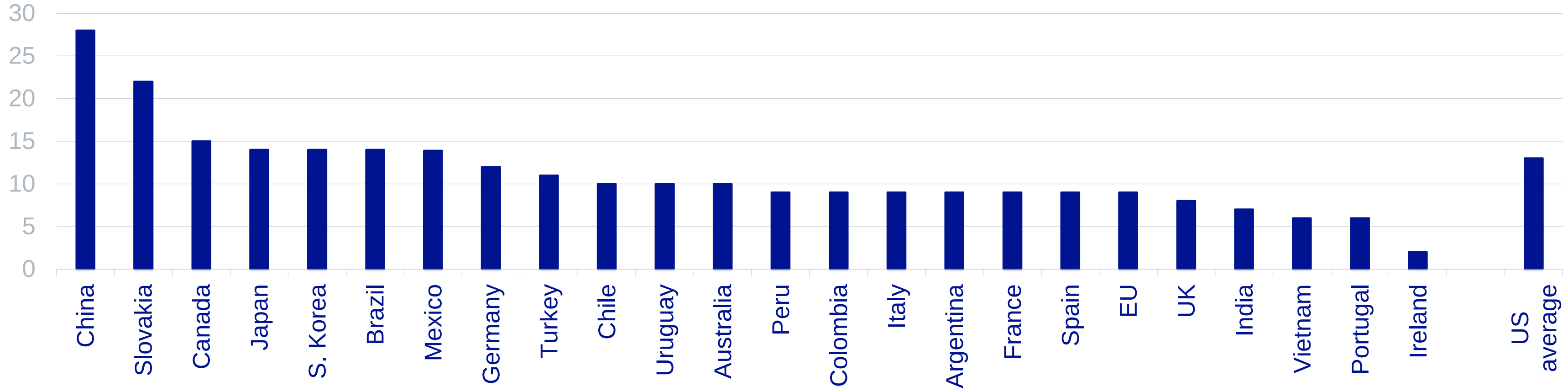
BBVA RESEARCH ECONOMIC POLICY UNCERTAINTY INDEX: UNITED STATES (*)
(28-DAY MOVING AVERAGE, AVERAGE SINCE 2017 EQUALS TO ZERO)



(*) Last available data: June 4, 2025
Source: BBVA Research.

US tariffs have risen sharply and erratically

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL JUNE 9, 2025 (*)
(PP)

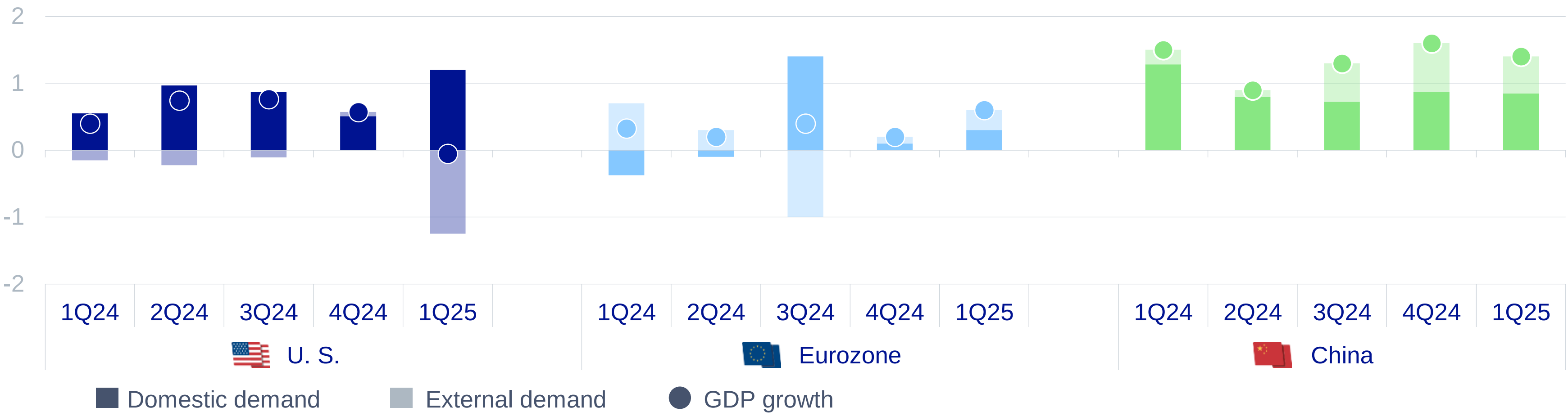


(*) Based on i) 25% tariffs on vehicles and vehicles parts and 50% tariffs o aluminum and steel (lower rates for the UK, Mexico and Canada), ii) 0% tariffs on pharmaceutical goods, oil, copper and selected electronic goods, iii) fentanyl tariffs on China, Mexico and Canada, and iv) 10% reciprocal tariffs.
Source: BBVA Research.

After some de-escalation, US tariffs rose again in late May/25, with levies on steel and aluminum reaching 50%; trade negotiations continue, and disputes over the legal validity of the tariffs remain unresolved

GDP stagnated in the US and grew by more than expected in the EZ and China in 1Q25 amid preemptive trade flows

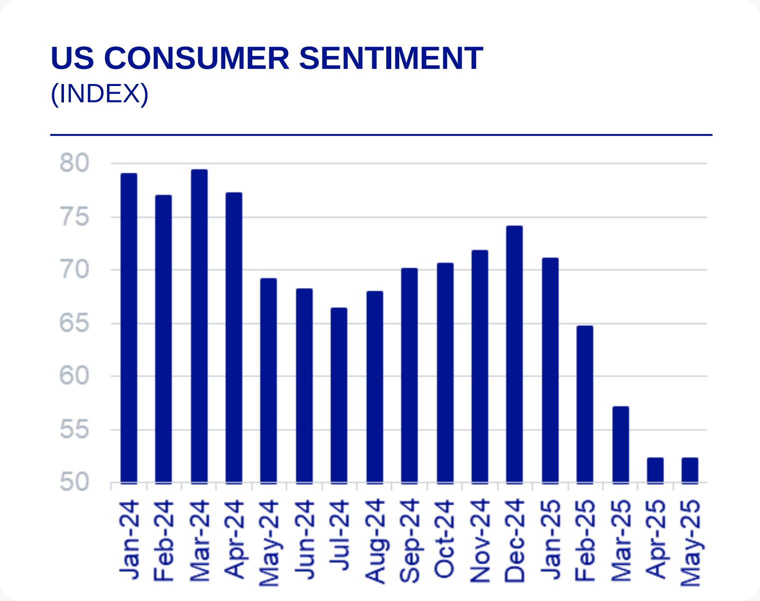
GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



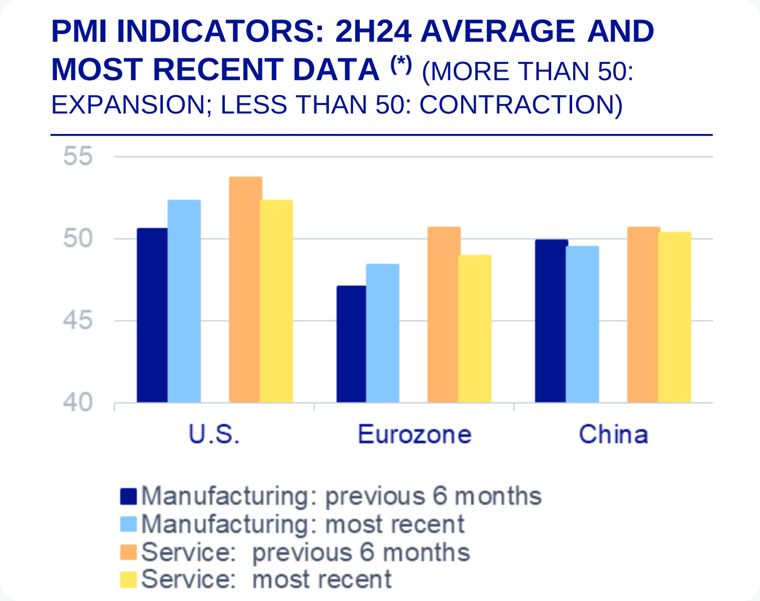
Source: BBVA Research based on data from Haver and China's NBS.

Ahead of tariffs, imports and inventories increased sharply and private consumption weakened somewhat in the US; exports performance helped to sustain growth in China and the Eurozone

Growth remains relatively resilient, but there are incipient signs of tariff effects on activity



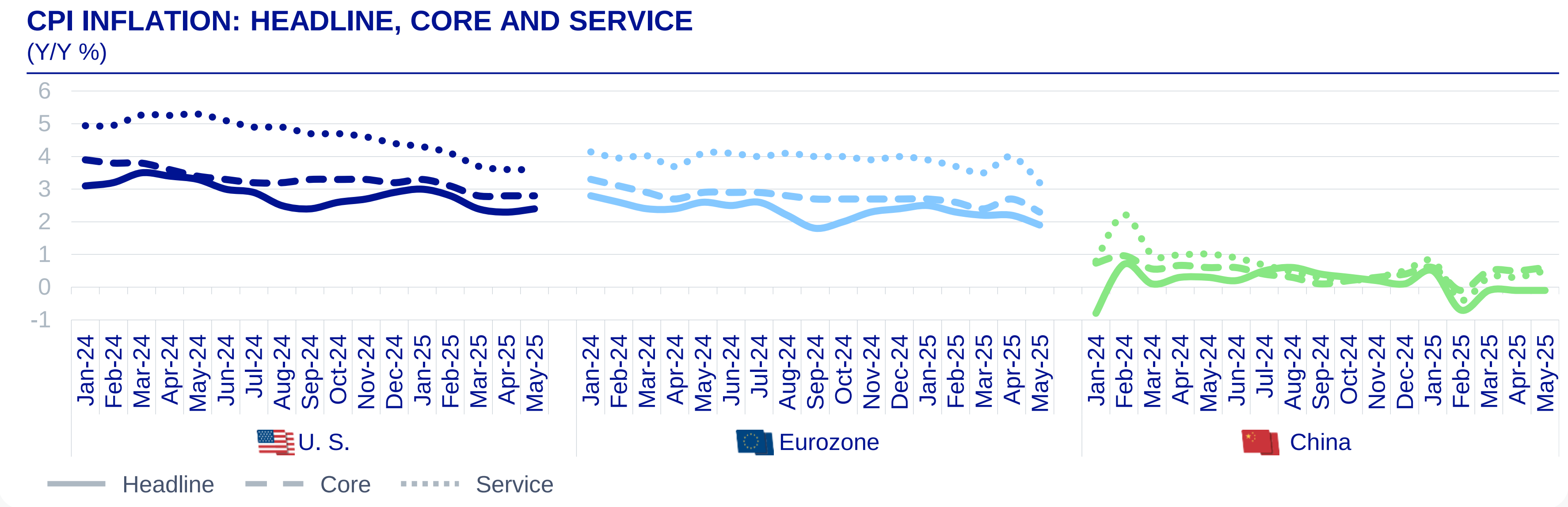
Source: BBVA Research based on data from Survey of Consumers, University of Michigan



(*) Most recent data: May 2025.
Source: BBVA Research based on data from Haver.

Confidence has deteriorated and services have weakened, while manufacturing has benefited from lower interest rates and pre-tariffs trade surge; labor markets are losing some of their steam, but remain strong

Inflation has eased more than expected lately; limited effects of tariffs so far

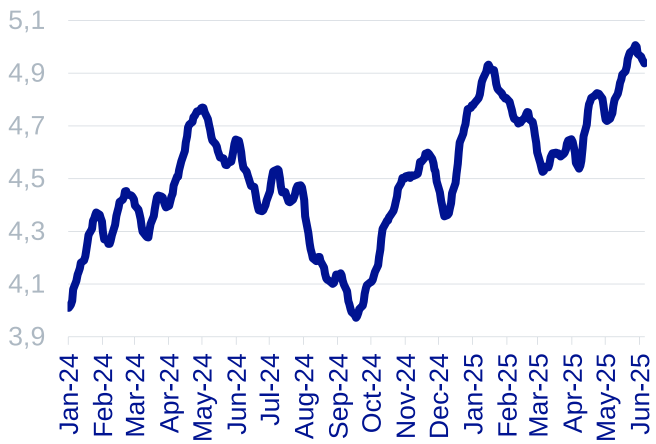


Source: BBVA Research based on data from Haver.

Contained demand pressures and lower energy prices have contributed to a moderation in inflation, which remains over 2% in the US (but not in the Eurozone anymore), to some extent due to still pressured service prices

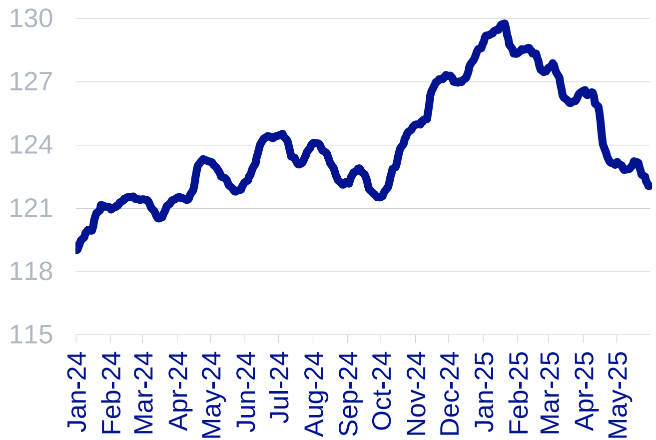
The US risk premium has edged higher, weighing on long-term yields and the dollar

YIELDS ON US 30-YEAR SOVEREIGN BONDS (*) (%, 7-DAY MOVING AVERAGE)



(*) Last available data: June 5, 2025
Source: BBVA Research based on data from the Fed

NOMINAL BROAD US DOLLAR INDEX (*) (INDEX: JAN/06=100; 7-DAY MOVING AVERAGE)

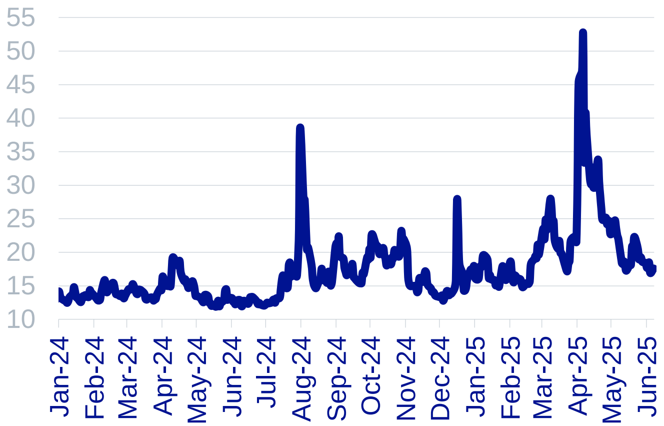


(*) A weighted average of the foreign exchange value of the U.S. dollar against currencies of a broad group of major U.S. trading partners. Last available data: May 30, 2025
Source: BBVA Research based on data from the Fed

Policy uncertainty, prospects of larger fiscal deficits, threats to the Fed independence, talks about a dollar devaluation, a potential tax on foreign investors, among other factors, have pushed US risk up

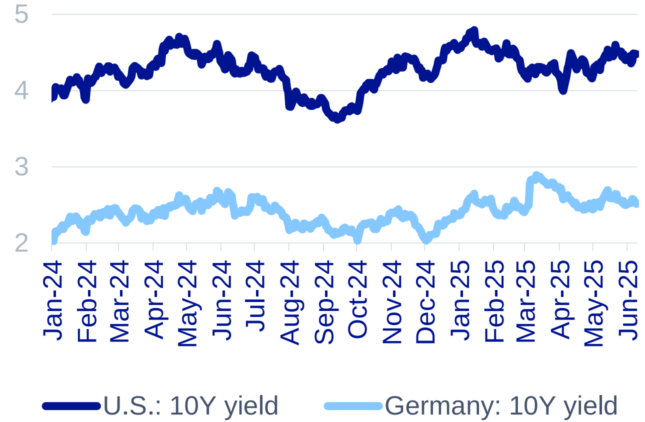
Financial volatility has eased more recently, after having surged in April, but remains elevated

EQUITY VOLATILITY: VIX (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS (*)
(%)

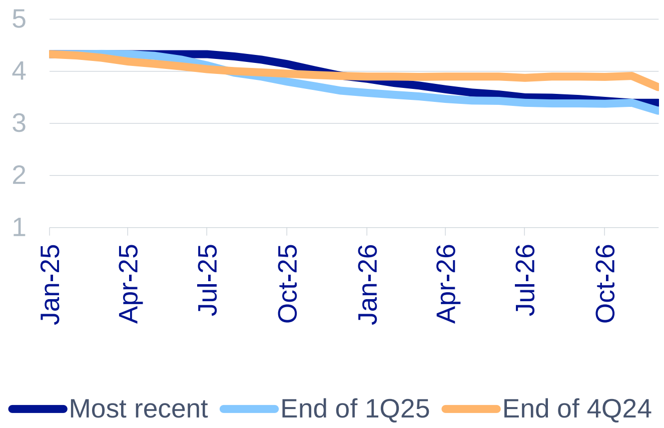


(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

Upward pressure on 10-year sovereign yields due to rising risk premium in the US and fiscal spedning prospects in the EZ, to some extent offset by growth concerns, mainly in the Eurozone

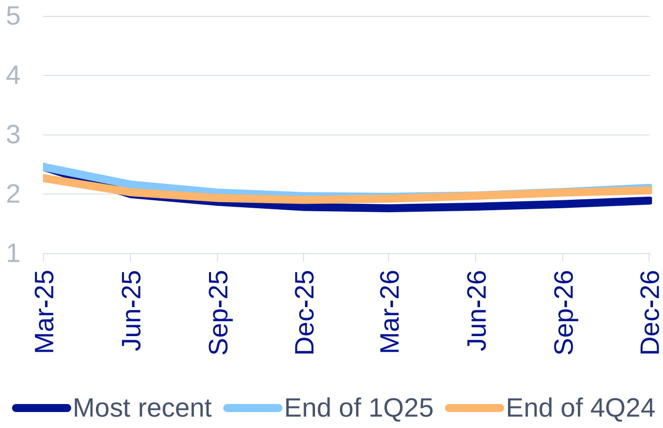
Despite lower inflation, the Fed remains cautious and markets see limited room for extra easing in the short run

US: IMPLICIT RATE IN FED FUND FUTURES (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

The likely impact of tariffs on inflation has backed the Fed's decision to keep rates unchanged lately; The ECB cut rates to 2% in Jun/25 and suggested that, despite large uncertainty, the easing cycle is nearly over

Base scenario: protectionism and uncertainty will hit the global economy; stimulus will support China and Eurozone

Growth will moderate, faster than forecast in the US although tariffs may be lower than expected; policy stimulus will support China and Europe

Inflation is set to rebound in the US, at least in the short-term, thanks to higher tariffs, but will be around 2% in Eurozone and low in China

A cautious Fed will keep rates on hold through year-end; ECB's easing cycle is likely over, but extra cuts are dependent on tariffs

Market volatility will likely persist amid lasting uncertainty and rising US risk, potentially hitting the dollar

Prospects for US policies: baseline scenario assumptions

BBVA Research baseline scenario on main US policies

Tariffs

Higher for longer uncertainty, although lower levies on China would imply smaller US average tariffs than anticipated. Working assumption: around 30% on China, 10% on Mexico/Canada, average of current (as of end of May) and reciprocal (as of "Liberation day") tariffs for others, implying a 13pp increase in the overall US tariffs (vs. 60% on China and 10% on others, which implied a 17pp increase in US tariffs, assumed in 1Q25).

Fiscal Policy

Potentially larger fiscal deficits, driven by significant tax cuts and limited offsetting revenue, will likely weigh on US yields and the dollar.

Monetary and FX Policy

Higher-than-expected noise will help keep market volatility and US assets under pressure. Still, the Fed is expected to maintain its independence, and the dollar should remain the dominant global reserve currency.

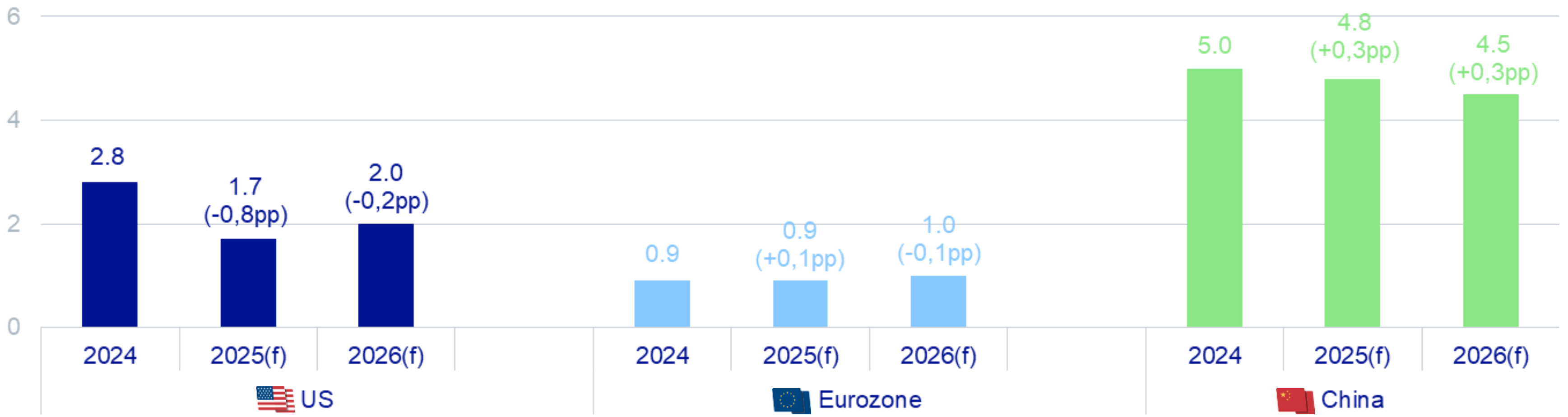
Other policies

Migration policies will not have a significant impact on labor markets in the forecast horizon. No shocks related to foreign and regulatory policies are being assumed.

Growth prospects have deteriorated in the US, but not in China or the Eurozone

GDP GROWTH (*)

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



(*) Global GDP grew by 3.4% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, respectively three and two decimal points below the expected in 1Q25.
(f): forecast.
Source: BBVA Research

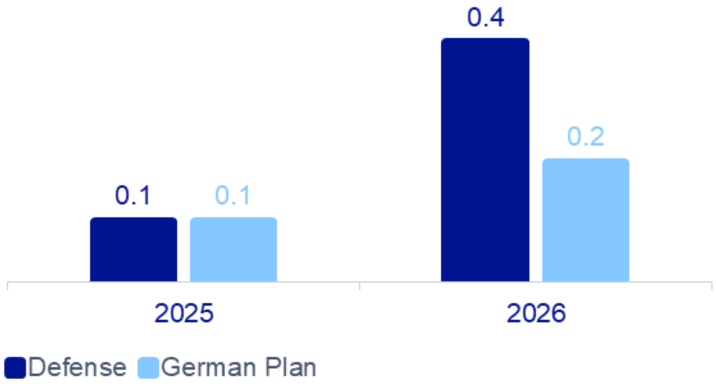
Weaker US growth on higher uncertainty, weaker 1Q25 data (to be partially offset by a 2Q25 rebound); growth will be backed by lower US tariffs and economic stimuli in China, and by defense and infrastructure spending as well as by lower inflation and interest rates in the Eurozone

Defense spending and infrastructure stimulus measures in Germany will increasingly shore up EU growth

On defense spending:

- Shocks to EU defense spending imply short-term **multipliers greater than 1**, while the impact on GDP will dissipate in the medium term.
- **What the money is spent on matters**: **capital-intensive spending** generates higher and more persistent multipliers than wages and intermediate consumption.
- **More effective** when the economy starts from a **low point in the cycle.**
- **Greater fiscal capacity and less reliance on imports** increase the effectiveness of fiscal stimulus measures.

ESTIMATED IMPACT ON EUROZONE GDP*
(PERCENTAGE POINTS)

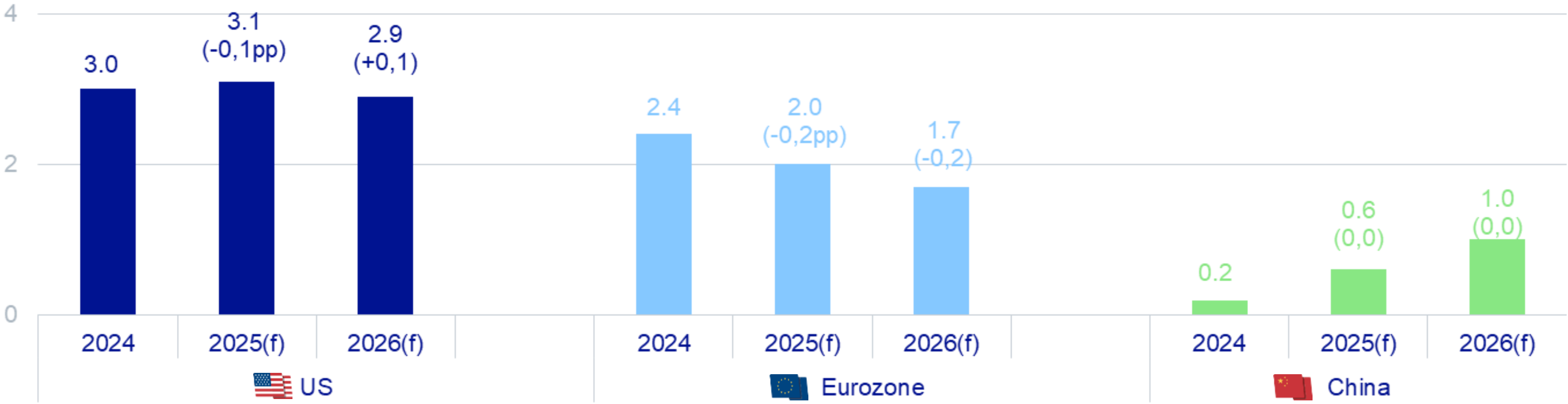


* Fiscal multiplier for defense spending ranges from 1.0 to 1.4; investment multiplier grows over time from 0.4 to 0.6.
Source: BBVA Research.

"Readiness 2030" Plan: defense spending increase of 1.5% of GDP over four years, with fiscal stimulus of 0.1% in 2025 and 0.35% in 2026. **Germany's Infrastructure Plan** (€500 billion)**:** over the next 12 years, annual investment of 1% of GDP, equivalent to 11% of German GDP in 2024.

Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China

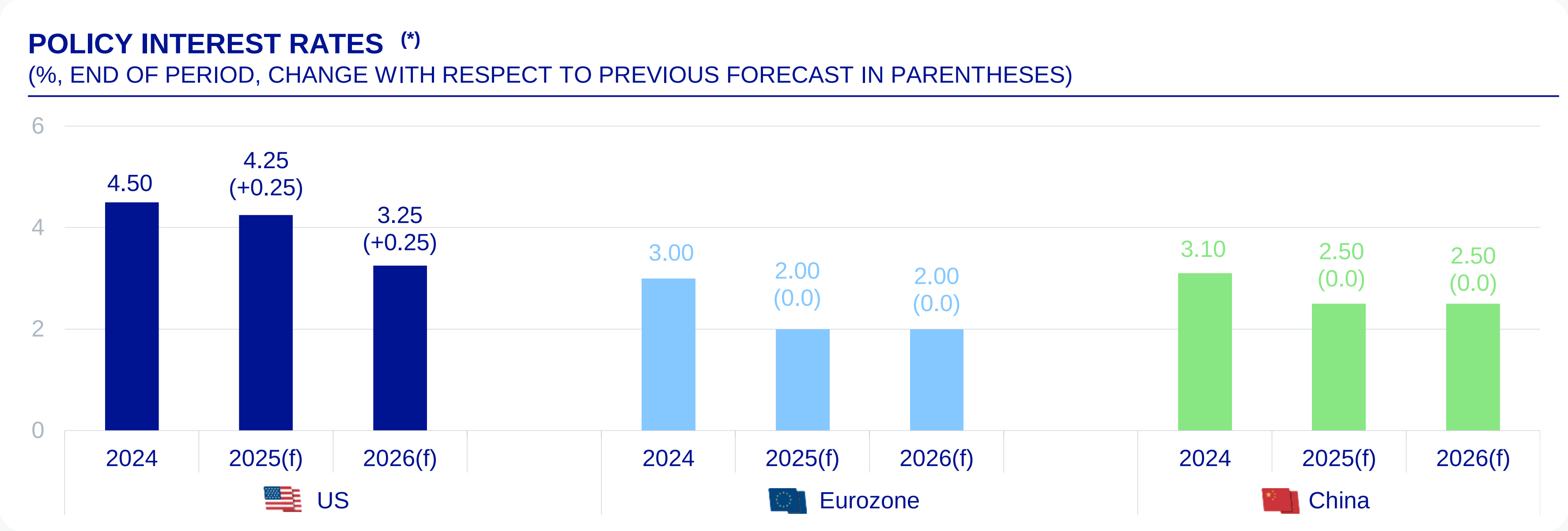
HEADLINE CPI INFLATION
(Y/Y %, AVERAGE OF THE PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.
Source: BBVA Research

Lower energy prices and weak demand pressures support controlled inflation, except in the US, where tariffs are likely to raise production costs—at least in the short term; a stronger euro is also likely to keep price pressures limited in Europe

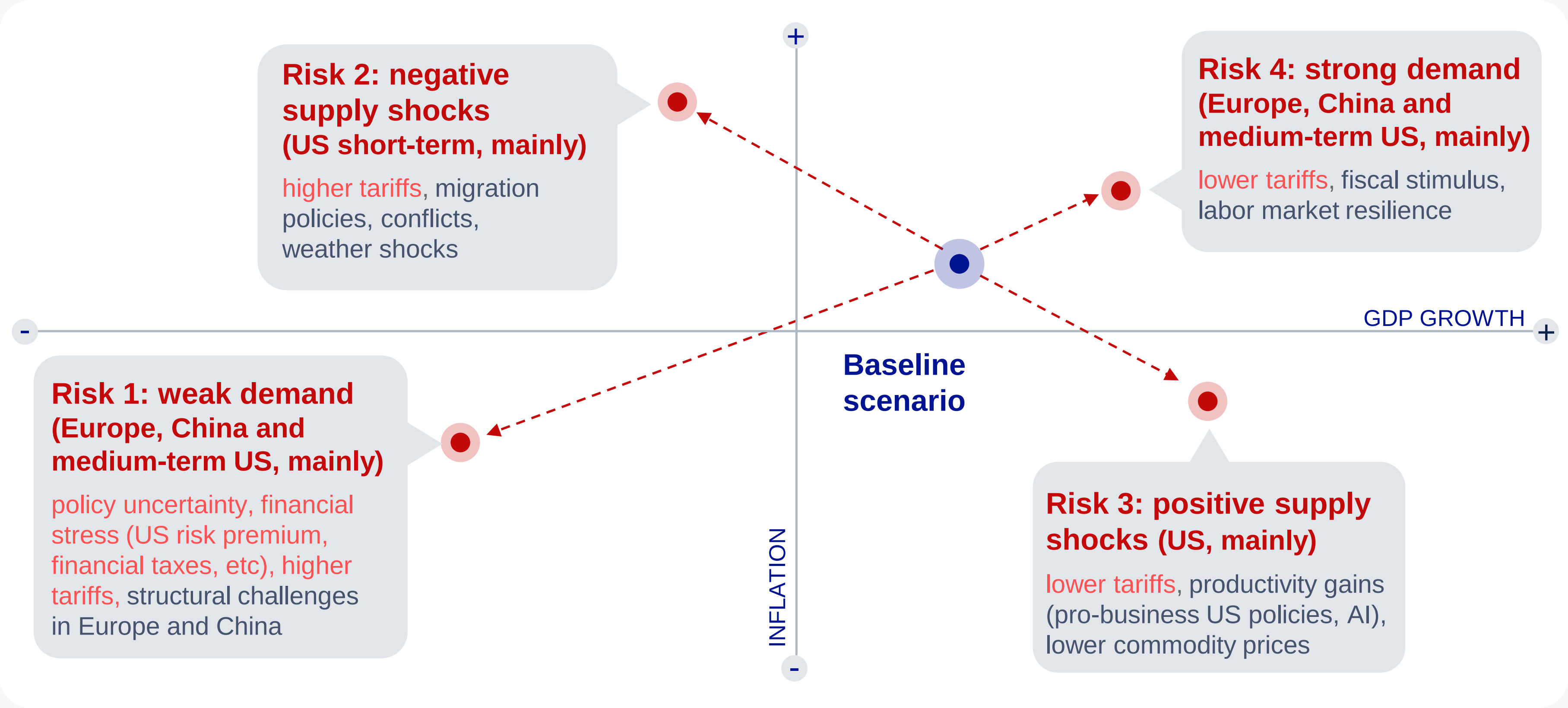
The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over



(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

The Fed is forecast to cut rates once this year (in 4Q25), but the easing cycle would continue in 2026, at least if inflation rebound on tariffs proves to be temporary; in the Eurozone, rates are forecast to remain at 2%, but growth concerns and controlled inflation could pave the way for extra cuts

Risks: mainly on greater uncertainty and rising US risk premium; tariff risks are also higher, but more balanced

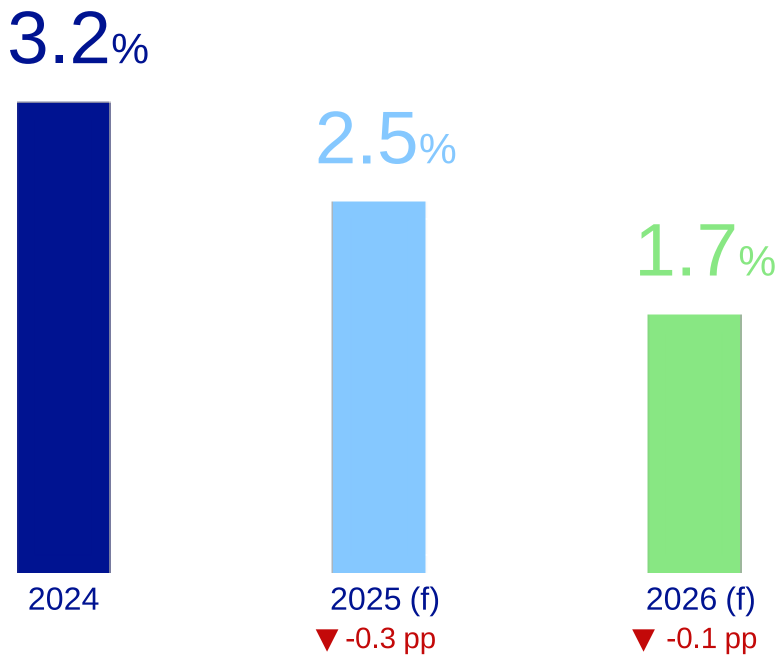


2. June 2025

Economic Outlook – Spain

GDP will grow as the economy slows

BBVA Research

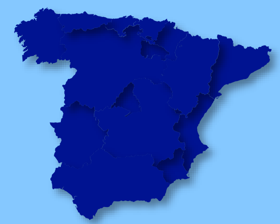


(f): forecast.
Source: BBVA Research based on INE data.

▲ Outlook raised

▶ Outlook unchanged

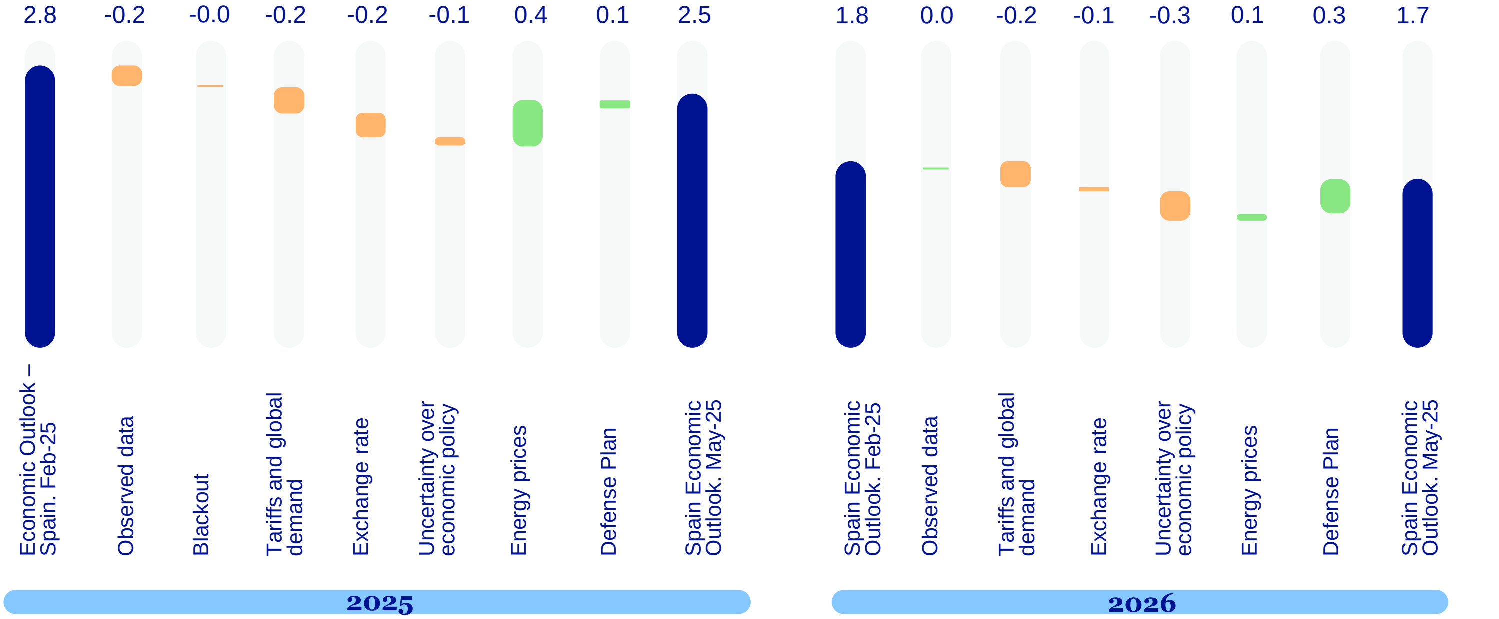
▼ Outlook lowered



GDP will grow as the economy slows

GDP outlook lowered, amid less domestic momentum and a negative impact of uncertainty

CHANGE IN GDP GROWTH FORECASTS AND FACTOR CONTRIBUTIONS
(PERCENTAGE)



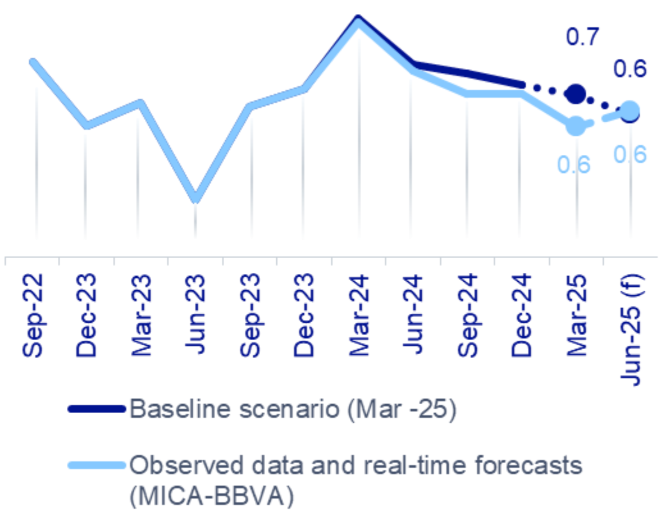
Source: BBVA Research.

Growth slows, but remains strong

The downgrade in 2025 is largely a result of statistical reviews

- **Spain’s National Institute of Statistics (INE) lowered its GDP data for the third and fourth quarters of 2024.** This correction explains approximately two-thirds of the adjustment in the growth forecasts for 2025 compared to those published in April, which placed growth at 2.8%.
- In addition, **the estimate of a weaker-than-expected economy was extended to include the first quarter of 2025**, given that the leading data published by the INE was lower than that expected by BBVA Research three months ago (0.6% in the quarter, compared with 0.7%).

QUARTERLY GDP GROWTH
(PERCENTAGE)



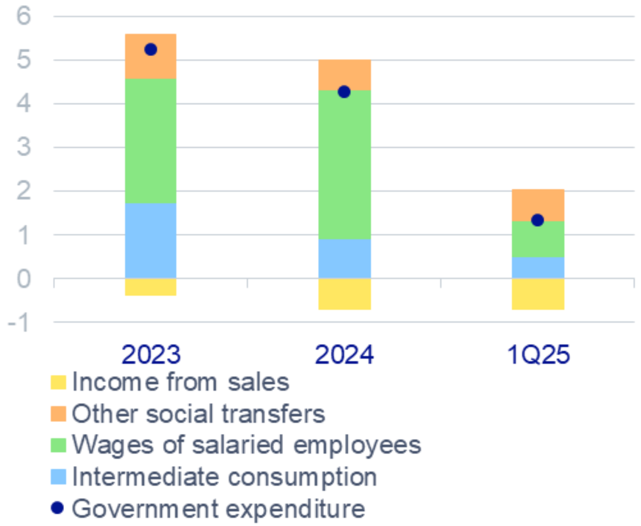
(f): forecast.
Source: BBVA Research, based on INE data.

Growth slows, but remains strong

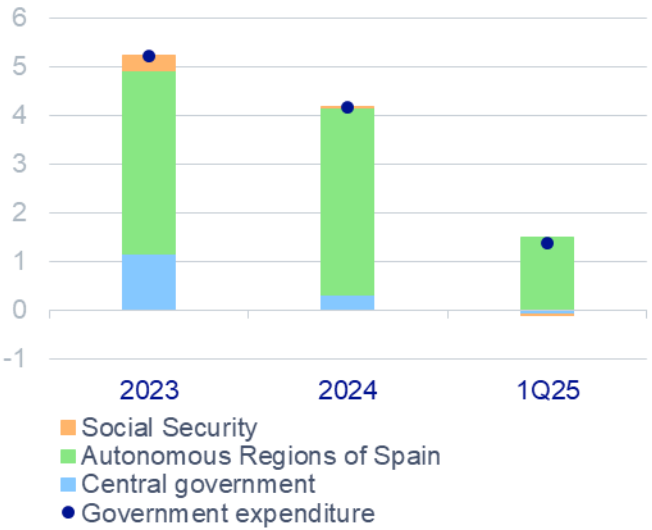
The slowdown is partly due to a lower contribution from government expenditure

CONTRIBUTION TO THE YoY CHANGE IN FINAL CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT* (SWDA, IN REAL TERMS. AVERAGE YoY GROWTH, PERCENTAGE)

BY ITEM



BY SUB-SECTOR



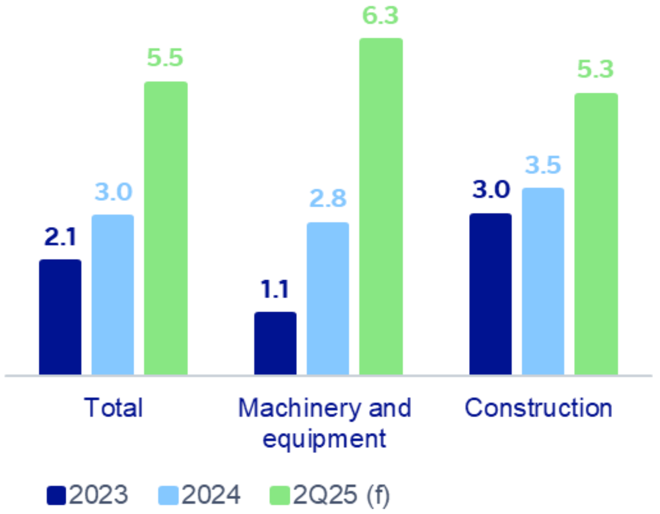
*Excluding local authorities.
Source: BBVA Research, based on INE and Ministry of Finance data.

Growth slows, but remains strong

Investment picks up, supported by the fiscal stimulus measures

- **Investment in transport equipment rose sharply in the last quarter of 2024** (15.2% in the quarter), a trend that appears to be taking hold, with moderate growth in the first two quarters of 2025.
- This solid performance may be partly explained by the **funds allocated to alleviate the effects of the flash floods in Valencia** and the impact of certain **projects financed by the Recovery and Resilience Mechanism** (RRM).
- **These funds would also explain the strong performance of investment in non-residential** construction, which is expected to continue to grow strongly in the first half of 2025 (3.2% and 2.7% in 1Q25 and 2Q25, respectively).

INVESTMENT
(YoY CHANGE, PERCENTAGE)

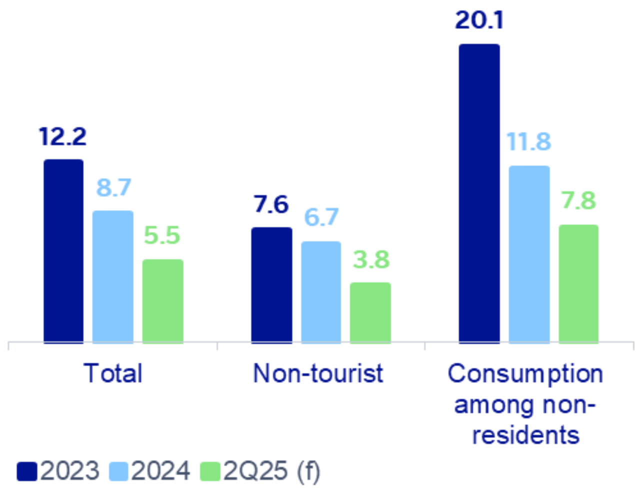


(f): forecast.
Source: BBVA Research, based on INE data.

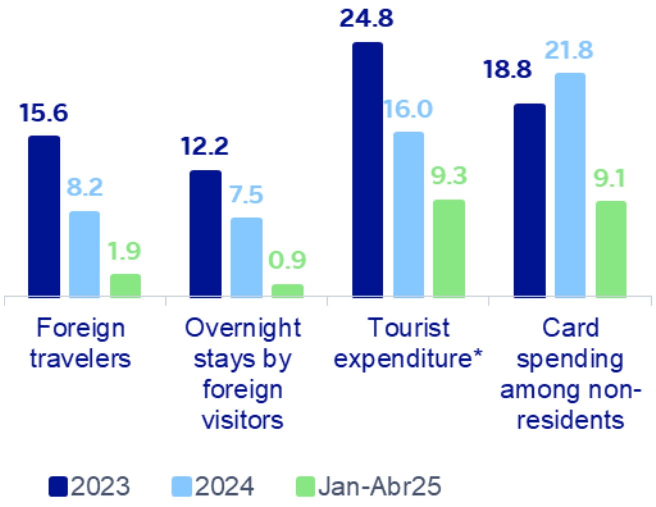
Growth slows, but remains strong

Services exports slow, but remain the principal growth driver

EXPORTS OF SERVICES
(YoY CHANGE, PERCENTAGE)



CHANGE IN TRAVELERS, OVERNIGHT STAYS, AND TOURISM EXPENDITURE
(YoY CHANGE, PERCENTAGE)



Source: BBVA Research, based on INE data.

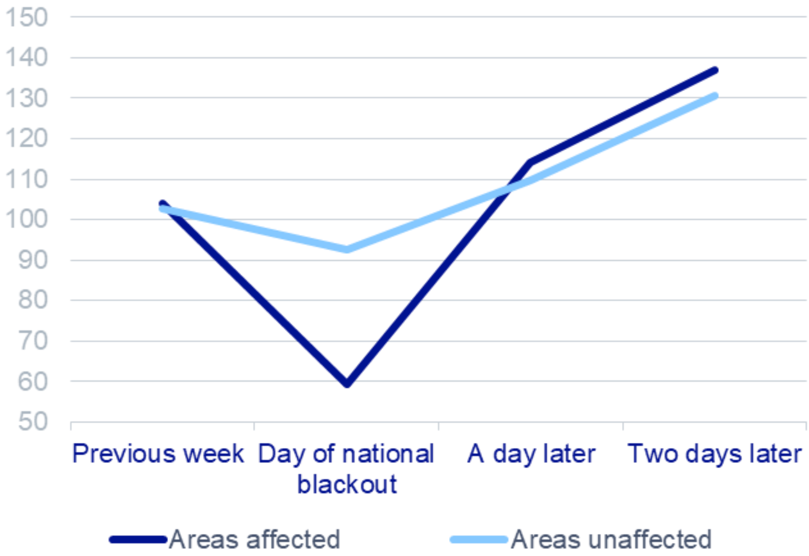
*Data January - May 2025.
Source: BBVA Research from INE and BBVA

Growth slows, but remains strong

The blackout of April 28 does not look to have had any lasting effect on GDP

- **The power outage had a notable, albeit temporary, impact on spending.** The blackout caused a sharp drop in card spending among BBVA customers in the areas affected (-41 pp), while those not affected registered a smaller decline (-7 pp).
- By sector, **the biggest declines were seen in fashion, health and electronics, followed by supermarkets and food.** By region, **the coastal provinces and those bordering Madrid were the most affected.**
- The recovery in the following days was remarkable, suggesting that **the final impact on demand will be limited**.

TOTAL CARD SPENDING BY BBVA CUSTOMERS BY AREA OF RESIDENCE[1] (BASE 100)



(1) The previous week includes the days running from April 21 to April 27, 2025. Areas not affected include the Balearic Islands, the Canary Islands, Ceuta and Melilla. Affected areas include the rest of the regions.
Base 100 corresponds to same week in 2024 for “the week before”; non-holiday Monday in April 2024 (8th, 15th, 22nd and 29th) for “blackout day”; non-holiday Tuesday in April 2024 (2nd. 9th, 16th, 23rd and 30th) for “the day after”; non-holiday Wednesday in April 2024 (3rd, 10th, 17th and 24th) for “two days after”.
Source: BBVA Research from BBVA.

Factors that will support economic activity

We have seen an improvement in the terms of trade due to falling energy prices

- If the fall in oil and gas **prices persists**, BBVA Research estimates that **it could contribute 0.5 pp to GDP growth between 2025 and 2026.**
- Given that the deterioration in the outlook for the world economy is moderate, **much of the fall seems to be due to a greater supply of crude oil**, which is consistent with a positive and significant impact on the Spanish economy.
- Although there are doubts over the impact of the blackout on energy investment, a favorable climate and a greater weight of renewables managed to curb the rise in electricity prices. This has **benefited the Spanish** industry as a whole compared with other European countries.

IMPACT ON GDP GROWTH FROM THE DOWNWARD REVISION IN THE PRICE OF OIL AND GAS
(PERCENTAGE POINTS OF ANNUAL GROWTH RATE)

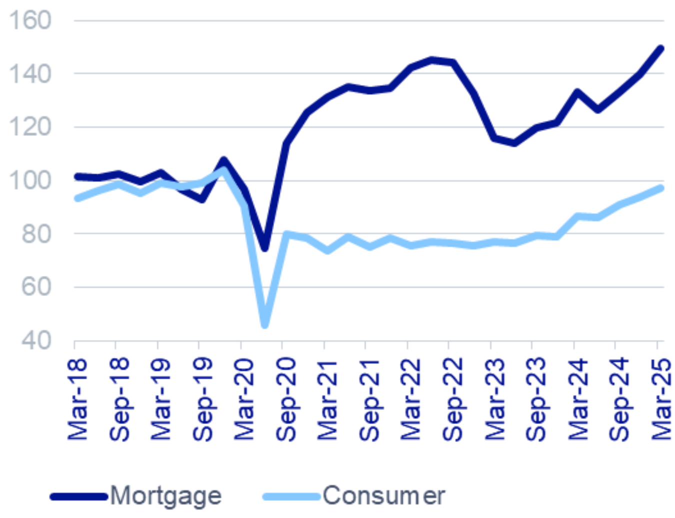
Source: BBVA Research.

Factors that will support economic activity

Monetary policy will be moderately expansionary

- **In line with the scenario presented by BBVA Research three months ago, the European Central Bank (ECB) cut the deposit interest rate to 2%**, and we may well see a lengthy pause contingent on the impact of tariff and fiscal measures.
- The number of mortgages looks to have seen 27% YoY growth in 1Q25, aided by lower borrowing costs.
- While the **reduction in interest rates is expected to have come to an end** in this cycle, they will remain at relatively low levels, which could continue to boost the growth of new lending arrangements.

NEW LENDING TO HOUSEHOLDS
(2020 INDEX = 100 IN REAL TERMS*)



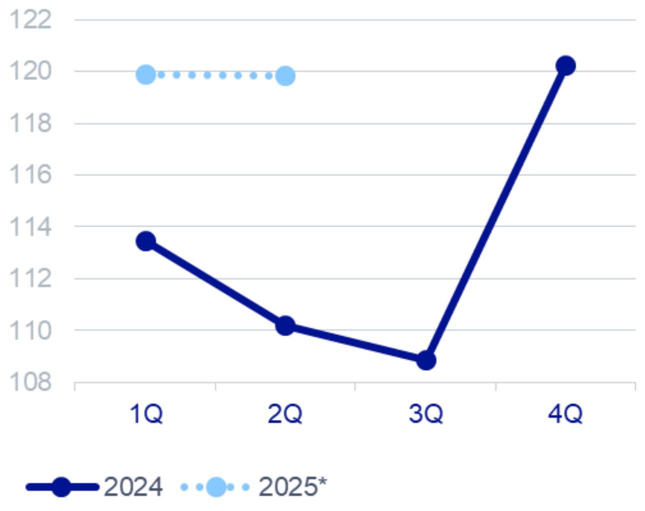
* Deflated with the consumption deflator and the price of housing, respectively.
Source: BBVA Research, based on BoE, INE and MIVAU data.

Factors that will support economic activity

Services exports continue to rise

- **Services exports growth is expected to continue outpacing GDP growth.** More precisely, they could increase by 5.6% in 2025 and 2.4% in 2026, which would put them at the end of the period around 46% above Q4 2019 levels.
- **Its weight in GDP over this period would have climbed from 10.5% to 13.7%.** This capacity for growth will continue to the extent that there is room to step up the process of 'deseasonalization' that has been taking place in tourism.

TOURIST ARRIVALS
(SAME QUARTER 2019 = 100, RAW DATA)

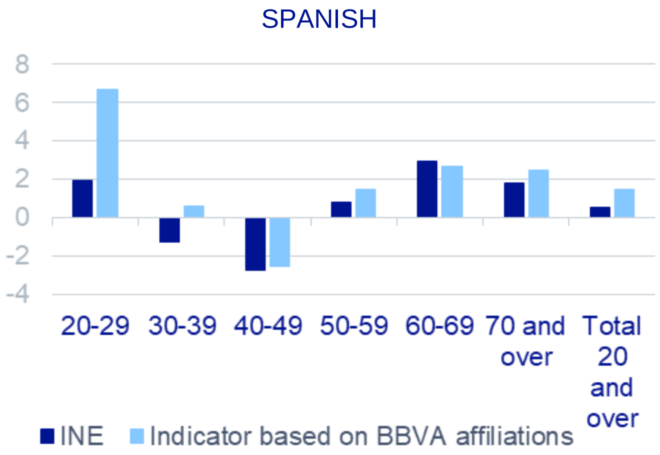


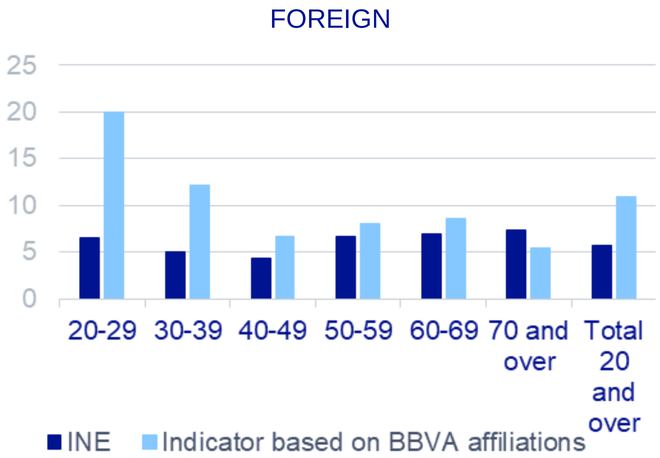
(*) 2Q25 outlook.
Source: BBVA Research, based on INE data.

Factors that will support economic activity

Immigration will continue to support job growth

POPULATION AGED 20 YEARS AND OVER BY NATIONALITY AND AGE GROUP (PERCENTAGE CHANGE; 2024–2025*)





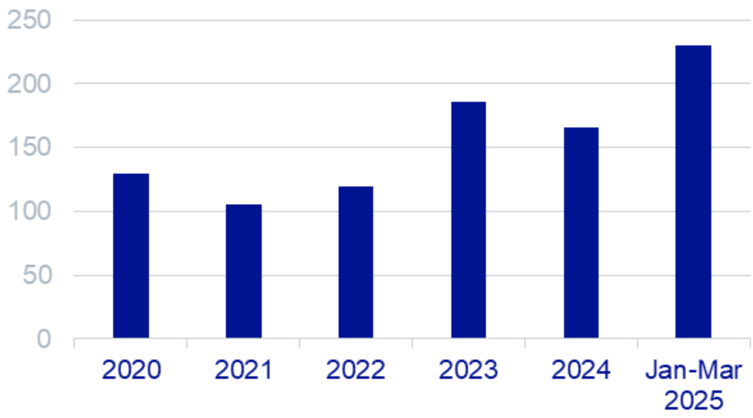
*The percentage change of the INE corresponds to the month of April 2025 with respect to the same month of the previous year. BBVA's is for May 2025 compared with the same month in 2024.
Source: BBVA Research based on INE (Continuous Population Statistics) and BBVA.

Migratory flows are maintained, which should allow labor force growth to continue throughout 2025 and 2026 (1.5% and 1.4%, respectively).

Factors that will support economic activity

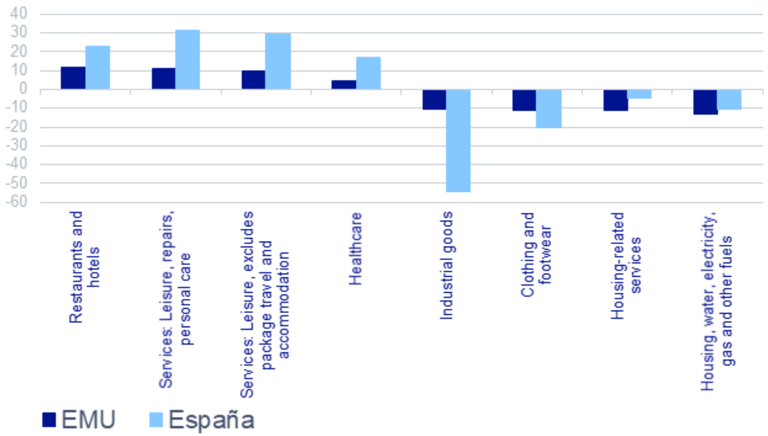
Services exports continue to rise

BUDGET FOR BUILDING PERMITS FOR BUILDINGS LINKED TO TOURISM AND LEISURE (AVERAGE 2014-2019 = 100 IN REAL TERMS)



* Series deflated with the deflator of investment in other construction.
Source: BBVA Research, based on MITMA data.

CHANGES IN THE COMPOSITION OF THE HOUSEHOLD CONSUMPTION BASKET (CHANGE IN NOMINAL WEIGHT, 2025 COMPARED WITH 2019, PER MILLE)



Source: Source: BBVA Research, based on Eurostat data.

The budget for building permits for tourism and leisure-related buildings remains relatively high, driven by EMU growth and changes in consumption preferences among European households, with a growing preference for service-related spending.

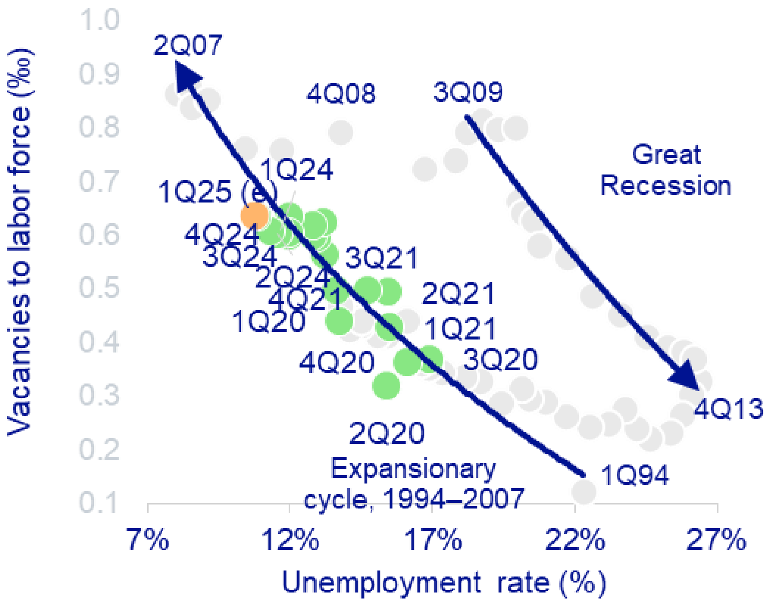
Factors that will support economic activity

The environment will be conducive to an increase in the income of salaried employees

- **The drop in inflation and interest rates, together with an increase in wages and employment, will support household consumption growth** (2.8% and 1.9% in 2025 and 2026).
- **Remuneration per employee, in real terms, could continue its recovery** (0.7% and 1.0% in 2025 and 2026), in a context where the various available indicators of wage growth point to increases above expected inflation.
- **The recovery in wage income will have a greater impact on expenditure** than the improvement in gross disposable income in previous years supported by transfers, especially those related to the increase in pensions.

BEVERIDGE CURVE

(1Q1994 – 1Q2025 (E). (SWDA DATA)



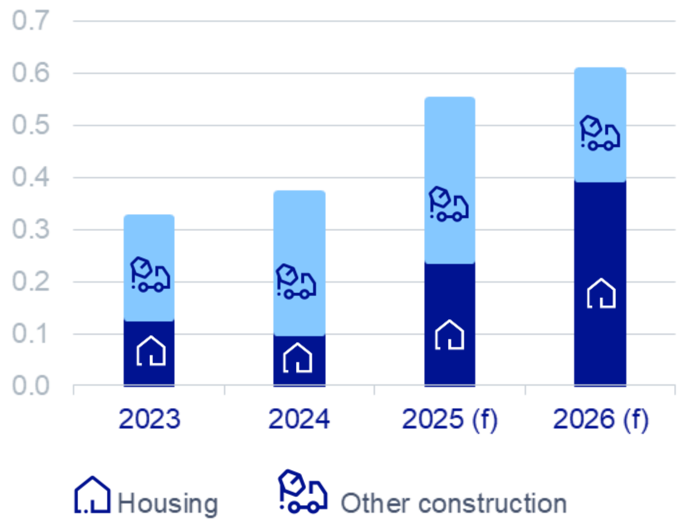
Approximated as the ratio between the vacancies declared in the Quarterly Labor Cost Survey and labor market participants in the Labor Force Survey.
Source: BBVA Research, based on INE data (ETCL and EPA).

Factors that will support economic activity

The construction sector will make an increasing contribution to growth

- The growth in demand and some of the measures announced to accelerate supply growth will allow **residential investment to increase its contribution to the growth in activity.**
- **The expansion of this component of domestic demand could reach 4.1% in 2025 and 6.8% in 2026.** The increase in prices is acting as a catalyst for investment in the sector and there has been a pick-up in new building permits
- The Government has announced the **PERTE housing program, whose target of 15,000 industrialized housing units** per year is ambitious (4,000 are currently produced).

CONTRIBUTION OF INVESTMENT IN CONSTRUCTION TO GDP GROWTH
(PERCENTAGE POINTS)

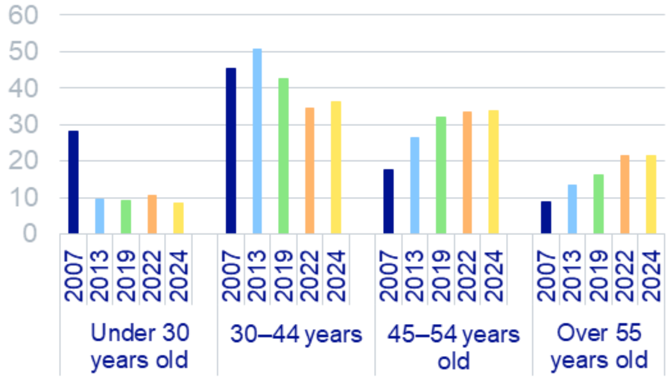


(f): forecast.
Source: BBVA Research, based on INE data.

Factors that will support economic activity

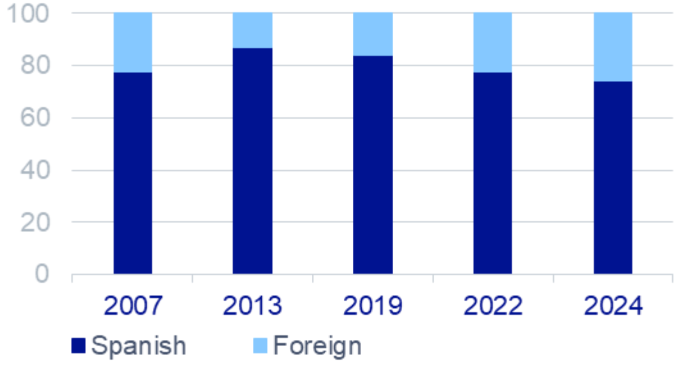
The construction sector will make an increasing contribution to growth

WORKERS IN THE CONSTRUCTION TRADE BY AGE GROUP (PERCENTAGE OF TOTAL)



Source: BBVA Research, based on INE data (Labor Force Survey).

NATIONALITY CONSTRUCTION WORKERS (PERCENTAGE OF TOTAL)



Source: BBVA Research, based on INE data (Labor Force Study).

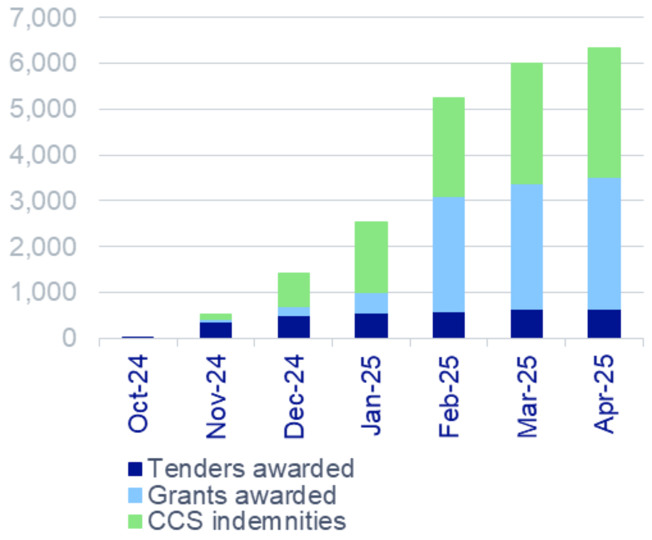
The labor shortages that have held the sector back in recent years have stopped worsening and, thanks to immigration, there seems to have been a turning point in the aging observed across different trades.

Factors that will support economic activity

The fiscal stimulus arising from the November 2024 flash floods will persist in the short run

- **Fiscal policy in Spain will be expansionary**, contrary to what was anticipated a few months ago.
- **This is due to transfers to individuals, companies and general government affected by the flash floods** last November. Through to the end of April, aid granted and contracts awarded totaled €3.526 billion.
- Aside from this, around **€2.8 billion** was paid out in indemnities by the Insurance Compensation Consortium (CCS), of which 63% related to vehicle indemnities and 29% to housing.

PUBLIC EXPENDITURE TO MITIGATE THE EFFECTS OF THE FLASH FLOODS
(YTD, MILLION EUROS)

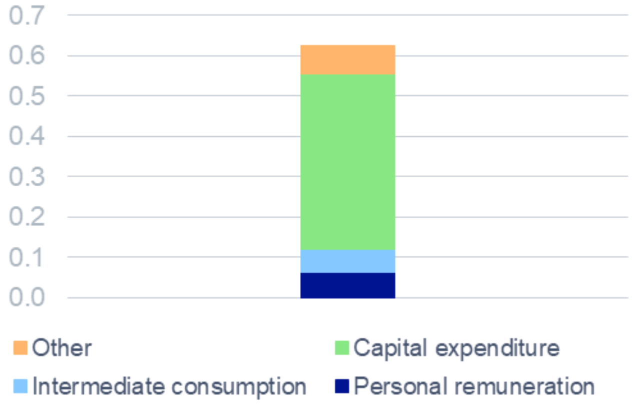


Note: Amount awarded excluding taxes and equivalent aid amount.
Source: BBVA Research, based on PLACSP, CCS and BDNS data.

Factors that will support economic activity

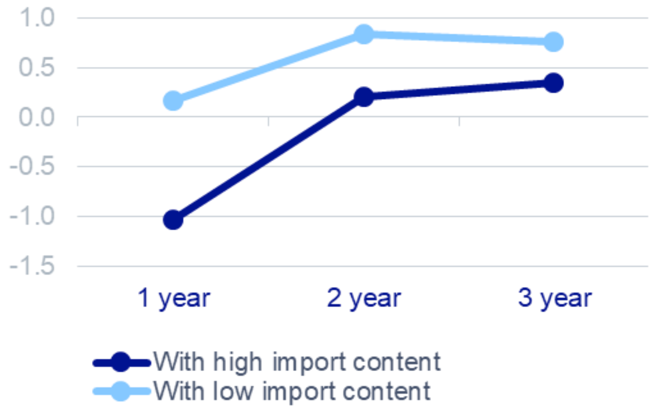
Defense spending will boost domestic demand

DISTRIBUTION OF EXPENDITURE UNDER THE DEFENSE PLAN IN 2025 (% OF GDP)



Source: BBVA Research, based on La Moncloa data.

IMPLICIT FISCAL MULTIPLIER* OF DEFENSE SPENDING (PERCENTAGE POINTS)



(*): Assuming a high growth phase, low fiscal space, and spending spread over three years.
Source: BBVA Research.

The Government of Spain has announced a plan worth €10.47 billion (0.6 pp of GDP) to reach a defense spending level of 2% of GDP by the end of 2025. This expenditure could boost economic activity in Spain by 0.1 pp in 2025 and 0.3 pp in 2026.

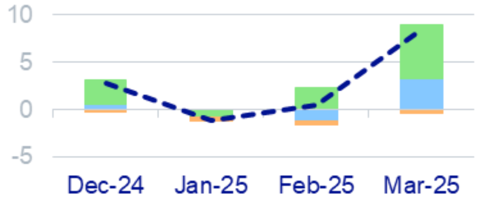
Growth is expected to lose steam

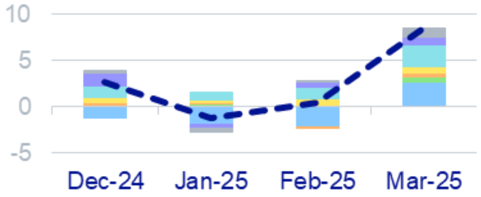
Doubts remain over the tariff policy

BY TYPE OF GOOD

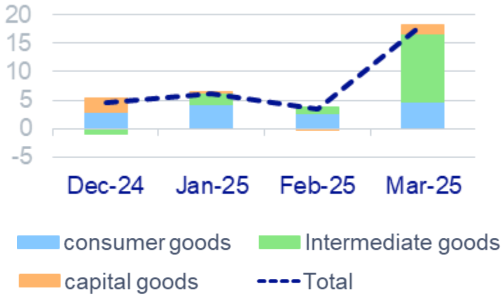
BY DESTINATION REGION

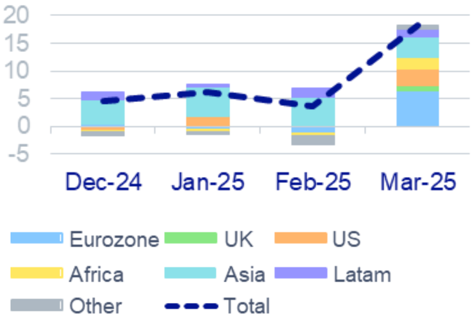
EXPORTS OF GOODS
(YEAR-ON-YEAR CHANGE AND CONTRIBUTIONS, CURRENT PRICES, %, PP)





IMPORTS OF GOODS
(YEAR-ON-YEAR CHANGE AND CONTRIBUTIONS, CURRENT PRICES, %, PP)





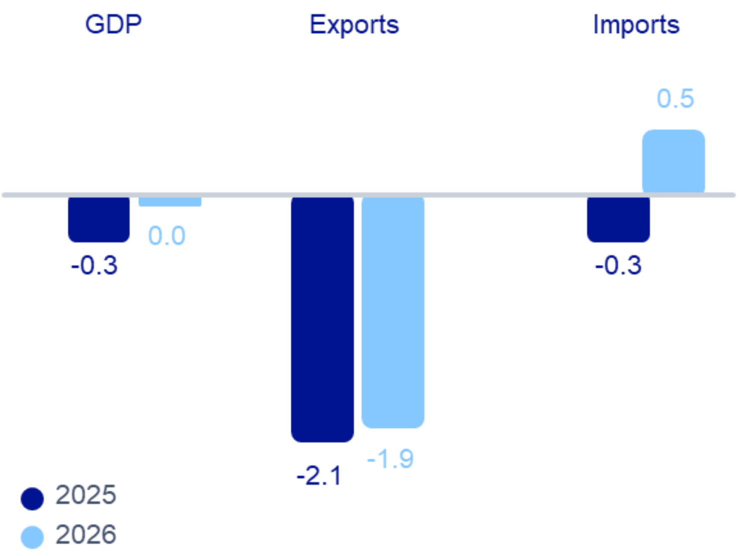
Source: BBVA Research based on Datacomex data.

Growth is expected to lose steam

The appreciation of the euro will lead to a deterioration in competitiveness

- **The expected slowdown will be largely determined by the change in U.S. trade policy.**
- **The significant appreciation of the euro** against the dollar could knock around 2.0 pp off the growth of Spanish exports in 2025 and 2026 respectively.
- It also adds credence to the idea that **the cost of exporting to the United States will be much more expensive** from now on, which would lead to reduced trade with this country.
- The **measures announced by the Government of Spain** to alleviate the effects of the tariff hikes replicate a roadmap that proved successful during the pandemic.

IMPACT OF 10% APPRECIATION OF THE EURO AGAINST THE DOLLAR (PP)

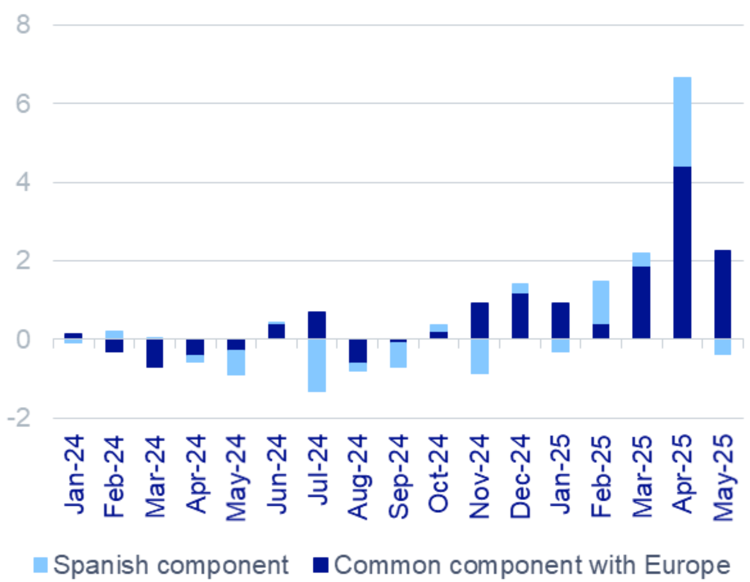


Source: BBVA Research.

Growth is expected to lose steam

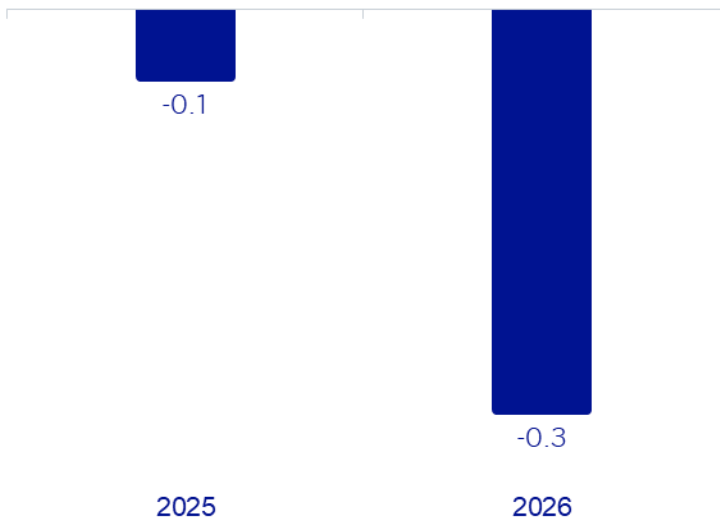
Internal uncertainty joins the existing external uncertainty

SPAIN: BREAKDOWN OF EPU
(NORMALIZED DATA)



Source: BBVA Research, based on Bloom et al.

GDP IMPACT OF INCREASED UNCERTAINTY SINCE MARCH
(PERCENTAGE POINTS)



Source: BBVA Research.

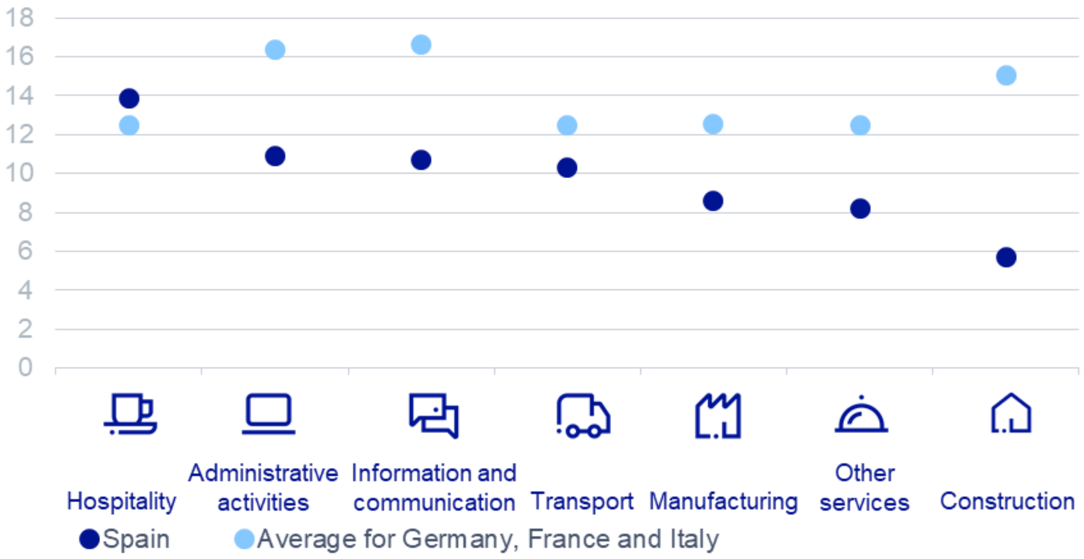
Bottlenecks to growth persist

The lack of investment may be a product of low profitability

Although there are cyclical factors that can explain part of the sluggishness, such as the increase in interest rates, the prolongation of the problem seems to point to structural factors. One of the most obvious is the **low profitability of Spanish companies** compared with their European counterparts.

This lower profitability is due to the already known productivity differential, owing to multiple factors, which limits the convergence process of the Spanish economy with the richest countries in the Eurozone.

PROFITABILITY BY PRODUCTIVE SECTORS IN THE EU IN 2023
(ROE IN PERCENTAGE)



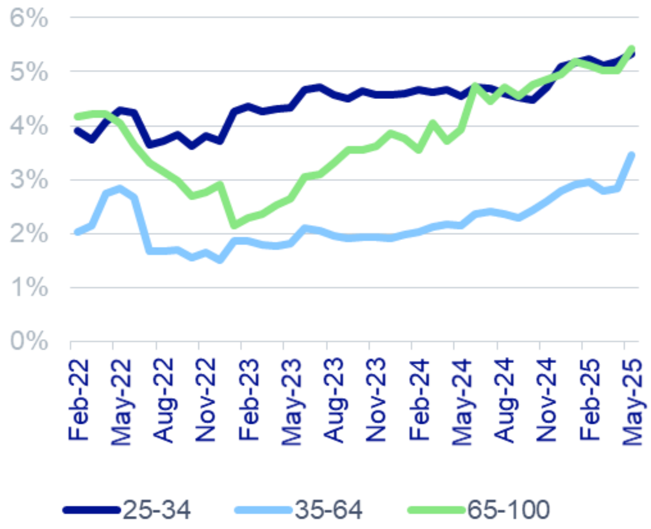
Note: the median RoE (return on equity) of each sector in each of the countries in the sample is analyzed.
Source: BBVA Research based on BACH data.

Bottlenecks to growth persist

Household savings remain relatively high

- It is estimated that if household consumption were to return to the trend seen up until 2019, it could increase by up to one percentage point more in 2025 and 2026.
- The prolongation of the period with savings rates significantly above the historical average points to a **change in structural habits among households**. Factors such as the heterogeneous increase in household income, the high public deficit, or immigration could be skewing savings upwards.
- **Another determinant may be the increase observed in savings by age**, particularly among the youngest and the oldest groups.

SAVINGS CAPACITY BY AGE
(MEDIAN, BBVA CUSTOMER DATA)

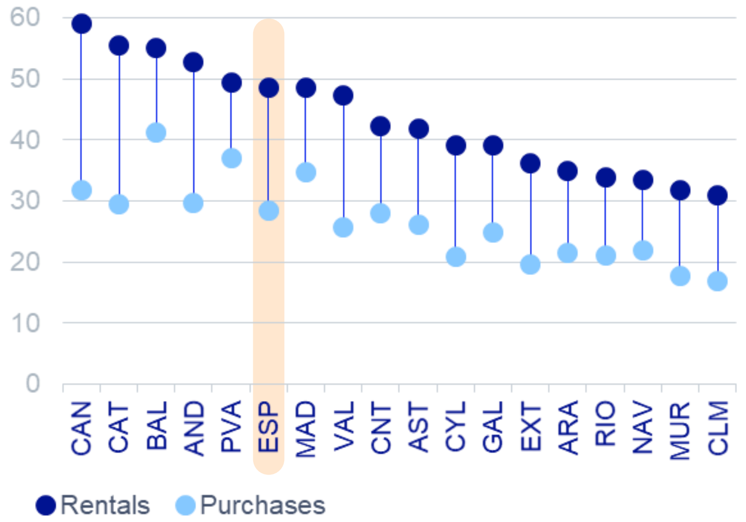


Real savings capacity: ratio of the difference between positive movements (income) and negative movements (expenses) in the account (including financial items), divided by total positive movements (income).
Source: BBVA Research.

Bottlenecks to growth persist

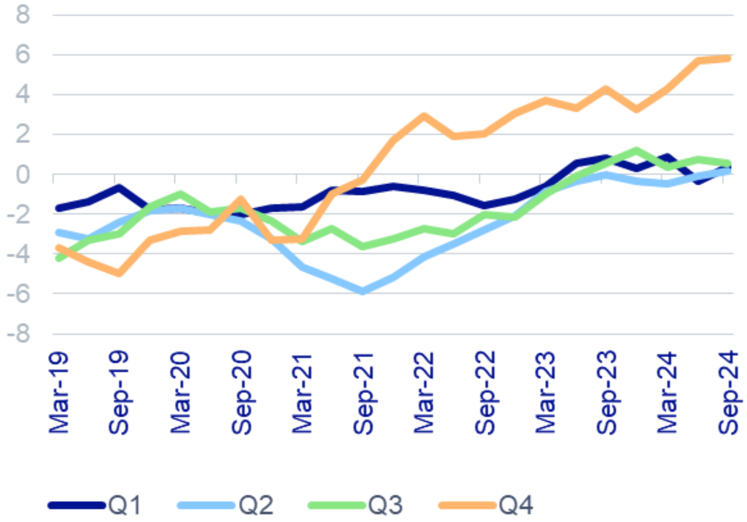
The housing market will continue to limit the growth in domestic demand

HOUSING ACCESS EFFORT IN 2024
(% HOUSEHOLD WAGE INCOME)



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

HOUSING PURCHASE INTENTION BY INCOME QUARTILE (SWDA DATA COMPARED WITH HISTORICAL AVERAGE, FOUR-QUARTER AVERAGE)



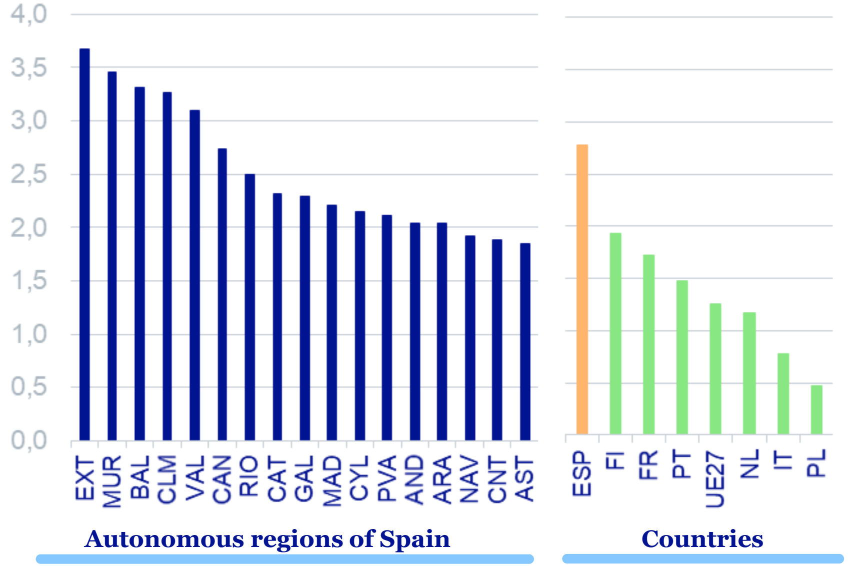
Note: the indicator refers to the purchase intention in the next 12 months, by income quartile, from lowest (Q1) to highest (Q4).
Source: Source: BBVA Research based on Eurostat data.

Bottlenecks to growth persist

The rate of transition from employment to unemployment remains high

- Rising labour costs could lead to **greater instability in employment**.
- The temporary employment rate has fallen since 2022, although **the transition rate from employment to unemployment remains 50% higher** than in some other countries of Europe.
- Productivity gains have been meager, 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 enabling businesses to adapt progressively to the changes.

QUARTERLY TRANSITIONS FROM EMPLOYMENT TO UNEMPLOYMENT (PERCENTAGE OF EMPLOYED PEOPLE, AVERAGE 1Q24 – 4Q24)



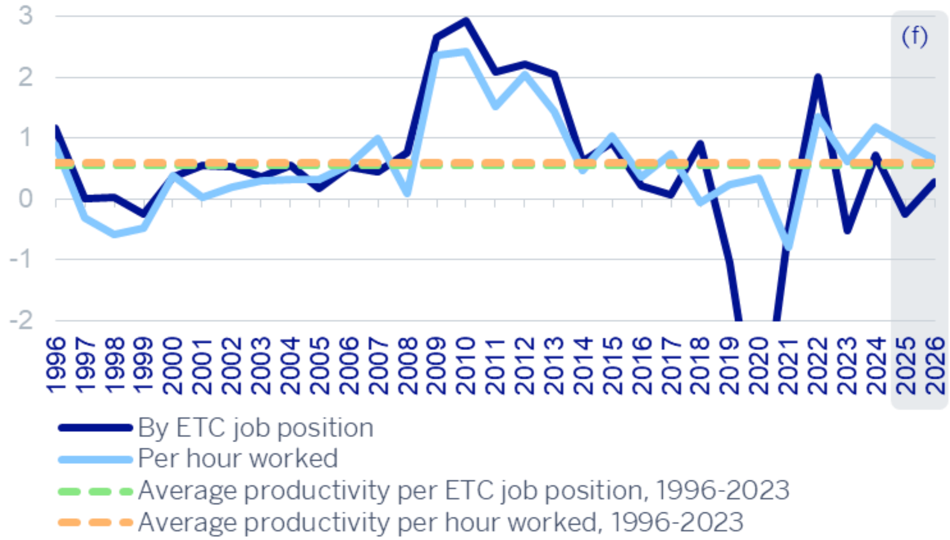
Source: BBVA Research based on INE and Eurostat data.

Bottlenecks to growth persist

Productivity is expected to converge to its historical values

- **Growth moving forward may be constrained by the trend shown in productivity per worker and the** labor force participation rate.
- Although hourly productivity has performed positively, it is expected to grow below the average of the last 30 years. **It is necessary to delve into the causes of this divergence** and reach a diagnosis as to whether it will persist over time.
- It is essential to analyze the **decline in the number of hours worked and the contribution of sectoral composition, immigration, aging** (and its effect on work leave), the increase in the minimum wage, and the change in other public policies.

APPARENT LABOR PRODUCTIVITY
(CHANGE IN ANNUAL AVERAGE AS A PERCENTAGE)



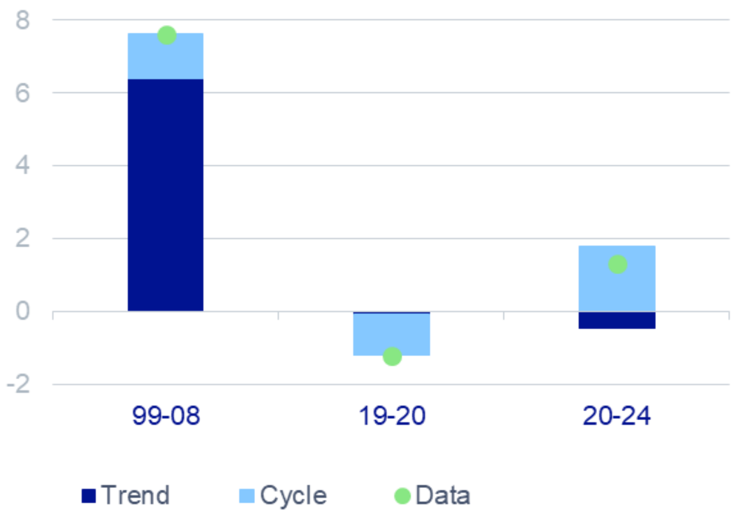
Source: BBVA Research, based on INE data.

Bottlenecks to growth persist

The post-pandemic increase in the employment-to-population ratio is more cyclical than structural

- From 1992 to 2008, the participation of people of working age in the labor market increased from just over 50% to around 60%. The global financial crisis and an aging population caused this indicator to fall during the years prior to the pandemic.
- This trend has recently reversed, **with the employment-to-population ratio stabilizing** and even increasing slightly in recent years.
- This may be a result of **temporary** factors, related to the good performance of the economy and its ability to attract workers who were previously inactive.

CONTRIBUTIONS TO THE CHANGE IN THE EMPLOYMENT-TO-POPULATION RATIO
(CUMULATIVE CHANGE)



Source: BBVA Research, based on INE data.

Bottlenecks to growth persist

Spain faces a daunting reduction in the public deficit, with growing expenditure needs

Fiscal policy challenges

NEW FISCAL RULES

Control of the growth of expenditure and an adjustment of the structural primary balance of

0.4pp
of GDP
over 7 years

GROWING EXPENDITURE NEEDS

Ageing

Increase in expenditure of more than

5.0pp
of GDP
through 2070

(of which 3.6 pp will be pensions)

Investment

at record lows since the financial crisis

2.5%
of GDP

barely covers depreciation and obsolescence needs

Defense spending

Compliance with the commitments would require between

0.7pp
and
1.5pp

of GDP in increased spending

IMBALANCES AMONG THE AUTONOMOUS REGIONS OF SPAIN

Insufficiency

of the regional financing system

More than

60%
of its funds

depend on the financing system

Forgiveness of regional debt

5.2pp
of GDP

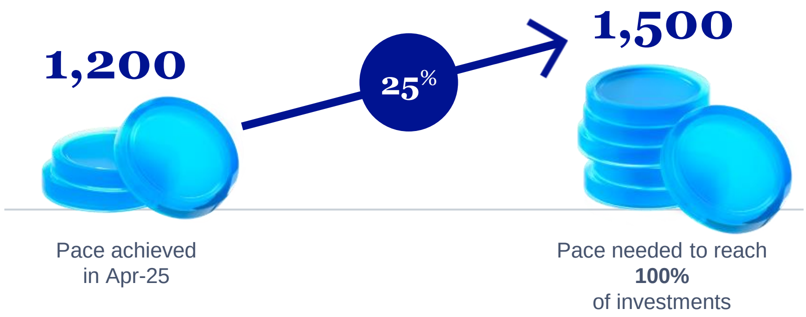
Unless the structural imbalance is corrected, the sustainability problem will persist.

Bottlenecks to growth persist

Implementation of the Recovery Plan is moving forward, but it is not enough

- **The average monthly rate** of grants and tenders carried out under the Recovery Plan stood at **€1.2 billion in April 2025.**
- If this pace is maintained, by the end of the Plan, i.e. at the end of 2026, around **92% of the planned transfers (roughly €73.8 billion) will have been completed.**
- To reach 100% of the investment committed, **it would be necessary to speed up the pace by 25%,** to €1.5 billion per month, which would imply exceeding the monthly maximum recorded by mid-2023 by 10%.

AVERAGE MONTHLY PACE OF IMPLEMENTATION OF THE RECOVERY PLAN (MILLIONS OF EUROS)



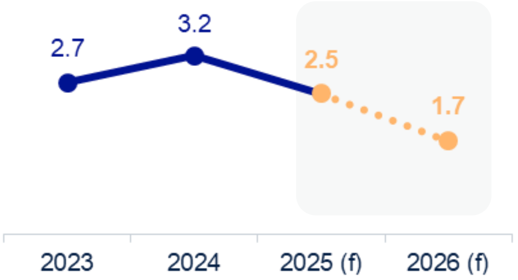
Source: BBVA Research, based on PLACS and BDNS data.

2. June 2025

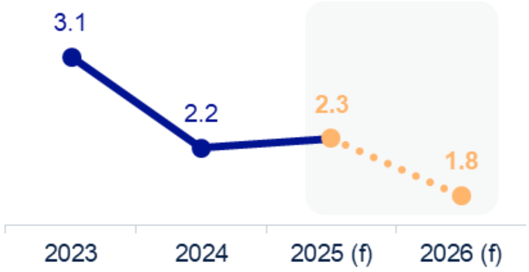
Forecasts

Forecasts

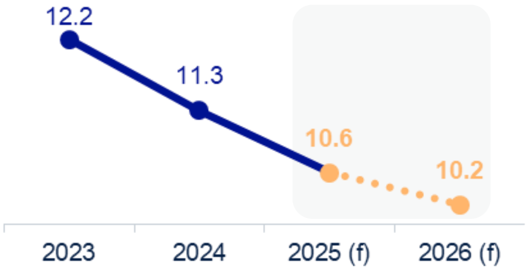
GDP GROWTH
(%)



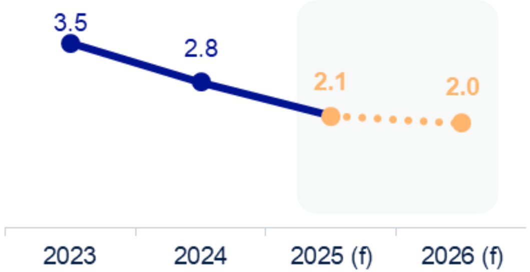
EMPLOYMENT GROWTH (LABOR FORCE SURVEY) (%)



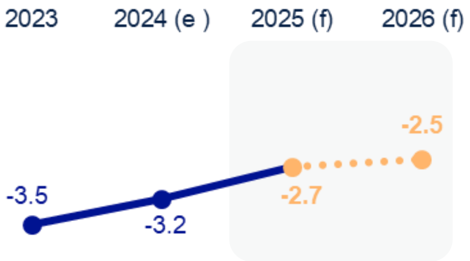
UNEMPLOYMENT RATE
(%)



AVERAGE ANNUAL INFLATION
(ANNUAL AVERAGE, %)



PUBLIC DEFICIT
(% OF GDP)



PUBLIC DEBT
(% OF GDP)

(f): Forecast.
Source: BBVA Research based on INE and Bank of Spain data.

Forecasts

% YoY	2022	2023	2024	2025 (f)	2026 (f)
National final consumption expenditure	**3.7**	**2.7**	**3.2**	**2.7**	**1.9**
Private consumption	4.8	1.8	2.9	2.8	1.9
Public consumption	0.6	5.2	4.1	2.5	2.0
Gross fixed capital formation	**3.3**	**2.1**	**3.0**	**5.5**	**5.0**
Equipment and machinery	2.9	1.1	2.8	6.3	2.6
Construction	2.2	3.0	3.5	5,3	5.8
Housing	8.4	2.1	1.7	4.1	6.8
Domestic demand*	**3.9**	**1.7**	**2.8**	**3.0**	**2.4**
Exports	14.3	2.8	3.1	1.3	1.9
Exports of goods	3.5	-1.0	0.4	-1.0	1.5
Exports of services	48.9	12.2	8.7	5.6	2.4
Non-tourist services	26.1	7.6	6.7	4.0	2.1
Final consumption among non-residents in Spain	115.6	20.1	11.8	7.8	2.9
Imports	**7.7**	**0.3**	**2.4**	**3.0**	**4.4**
External demand*	**2.3**	**1.0**	**0.3**	**-0.5**	**-0.8**
Real GDP at market prices (mp)	**6.2**	**2.7**	**3.2**	**2.5**	**1.7**

Forecasts

% YoY	2022	2023	2024	2025 (f)	2026 (f)
Employment (full-time equivalent)	4.1	3.2	2.4	2.7	1.4
Employment. Labor Force Survey (EPA)	3.6	3.1	2.2	2.3	1.8
Unemployment rate (% of the labor force)	13.0	12.2	11.3	10.6	10.2
CPI (annual average)	8.4	3.5	2.8	2.1	2.0
GDP deflator	5.0	6.4	3.1	2.3	1.8
Public deficit (% of GDP)	-4.5	-3.5	-3.2	-2.7	-2.5
Public debt (% of GDP)	109.5	105.1	101.9	101.3	101.1

(f): Forecast.
Source: BBVA Research, based on INE and Bank of Spain data.

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