Spain
Macroeconomic & Financial Outlook

CaixaBank Research

December 2024

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Key messages

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Activity

- **The ECB is set to cut rates in December, leaving the depo at 3.0**%. Going forward, the ECB is expected to continue cutting rates in a gradual fashion and set a neutral monetary policy stance in 2025.
- **Higher tariffs set in the US will usher in a new period of high trade policy uncertainty, with likely moderate direct impacts amongst main trade partners**. EU exposure to US demand is moderate and the direct impact of tariffs can be partly offset by exchange rate movements.
- **Spanish GDP grew by 0.8% qoq in the third quarter of the year** (3.4% yoy), well above the eurozone's growth (0.4% qoq) and better than expected. This strong figure introduces some upside risks to our current GDP growth forecast of 2.8% in 2024 and 2.3% in 2025.
- The **DANA** could subtract around 0.1-0.2 p.p. from qoq growth of the Spanish GDP in Q4 2024 but **will not put at risk our 2024 GDP forecast of 2.8**%. No significant impact on employment in Valencia so far. In 2025, the reconstruction of the affected area will contribute positively to GDP.
- **Good performance of activity indicators in Q4** point to some upside risks to our GDP growth forecast of 0.5% qoq in Q4. Factoring in this good performance plus the solid Q3 GDP figure, and despite the negative impact of the DANA, a 3.0% GDP growth rate in 2024 looks feasible.
- **Growth will remain dynamic in 2025, despite a gentle slowdown**. We forecast 2.3% GDP growth in 2025 supported by robust tourism and demographic trends, moderating inflation, ECB rate cuts, strong employment generation, and increased traction in investments linked to NGEU.
- **The macro impact in Spain of a tariff increase in the US should be small**. The negative impact of Trump increasing tariffs to 10% is estimated to be c.0.1% of GDP. In Spain, exports of goods and non-tourism services to the US represent 1.25% (c. €19bn) and 0.7% of GDP (c.€10bn), respectively.
- **Headline inflation went up 0.6 pp. to 2.4% in November driven by the energy component while underlying inflation went down 0.1 pp. to 2.4%.** Inflation has gone down faster than previously forecasted during the last months, partly due to the quick moderation of food prices. However, electricity and gas prices pose an upside risk to the disinflationary process.
- **The insufficient supply of housing is the main imbalance in the housing market**. Q3 data show that housing demand is very strong and prices have accelerated while housing supply is starting to increase.
- **The European Commission has approved the Spanish Fiscal and Structural Plan to comply with European fiscal rules**. It projects a reduction of public deficit from 2.5% of GDP in 2025 to 0.8% in 2031 and of public debt from 101.4% in 2025 to 90.6% in 2031.

Banking Sector

- **New lending shows positive dynamics.** Activity is recovering in 2024 and the stock of credit is stabilizing. Domestic NPL ratio stands at 3.4% in September, lower than in dic'23, and in the historical average prior to the financial crisis. Profitability has improved and ROE has reached 14.2% in 2Q24 (vs. 10.9% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

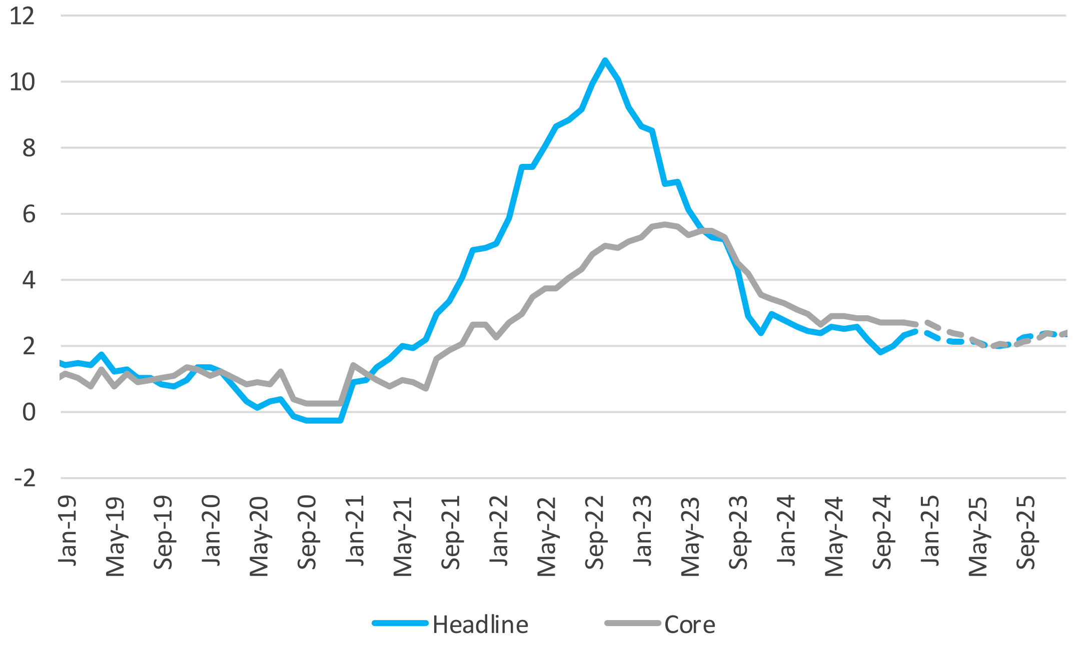
%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Forecast)	2025 (Forecast)
GDP	4.1	2.9	2.9	2.4	2.0	-10.9	6.7	6.2	2.7	2.8	2.3
Private Consumption	2.9	2.6	3.1	1.8	1.0	-12.2	7.2	4.9	1.7	2.5	2.5
Public Consumption	1.9	0.9	1.0	2.1	2.2	3.5	3.6	0.6	5.2	3.6	1.6
Gross Fixed Capital Formation (GFCF)	5.3	2.0	6.8	6.5	4.9	-8.9	2.6	3.3	2.1	2.7	3.4
GFCF - equipment	9.3	1.6	9.1	4.2	1.7	-13.5	3.3	2.9	1.1	1.8	4.3
GFCF - construction	2.4	0.9	6.8	10.1	8.4	-8.4	0.5	2.2	3.0	3.5	3.0
Exports	4.4	5.4	5.6	1.7	2.3	-20.1	13.4	14.3	2.8	3.0	2.3
Imports	5.1	2.6	6.7	3.9	1.3	-15.1	15.0	7.7	0.3	1.9	2.8
Unemployment rate	22.1	19.6	17.2	15.3	14.1	15.5	14.9	13.0	12.2	11.6	11.2
CPI (average)	-0.5	-0.2	2.0	1.7	0.7	-0.3	3.1	8.4	3.5	3.0	2.5
External current account balance (% GDP)	2.0	3.1	2.8	1.9	2.1	0.8	0.8	0.4	2.7	3.1	3.1
General Government Balance (% GDP)	-5.3	-4.3	-3.0	-2.6	-3.0	-10.0	-6.7	-4.6	-3.5	-3.0	-2.6
General government debt (% GDP)	102.4	101.9	101.1	99.7	97.6	119.2	115.6	109.4	105.0	102.9	102.2
Housing prices	1.1	1.9	2.4	3.4	3.2	-1.1	2.1	5.0	3.9	5.1	3.6
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	83	80
Bank credit (to the private domestic sector)	-4.3	-2.9	-1.9	-2.6	-1.2	2.5	0.5	-0.4	-3.4	0.5	1.8

Note: *All GDP figures are based on ESA-2010 methodology.*
Source: *CaixaBank Research.*

ECB: further cuts ahead amid greater confidence in the inflation outlook

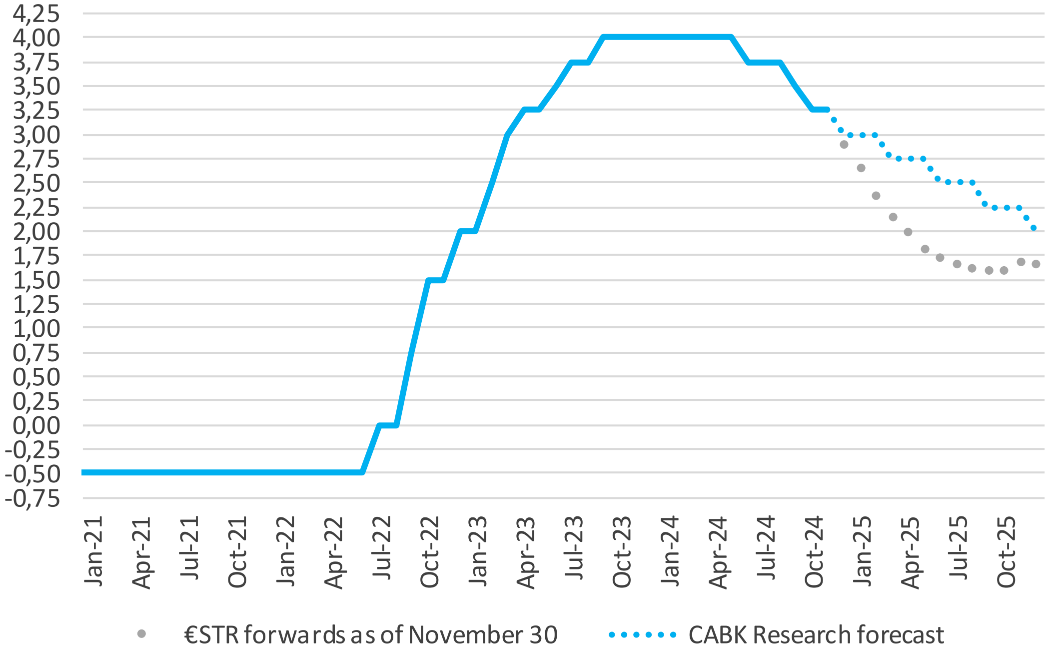
Euro area: HICP inflation

(%)



ECB deposit rate

(%)



- **The ECB is set to cut rates in December, leaving the depo at 3.00%** (100% priced in by markets, which see a 20% probability of a 50bp cut). The move is supported by greater confidence in the disinflationary process (the latest inflation figures have been systematically below ECB projections, ECB speak shows very small concerns of second-round effects, and leading indicators point to a moderation of wage growth) and downside risks to activity (deterioration of soft indicators in core countries and heightened political and economic uncertainty both at the global and euro area levels). Going forward, the ECB is expected to continue cutting rates in a gradual way (not risking an entrenchment of the most inertial price pressures) and set a neutral monetary policy stance in 2025 (market expectations for the depo at end-2025 have fluctuated between 1.75% and 2.00%).
- **Liquidity to remain abundant throughout a passive balance sheet reduction:** the last TLTRO matures in Dec.-2024 (30bn), and the APP and PEPP portfolios will continue to decline in a mechanical and very gradual way under a zero-reinvestment strategy throughout 2025. Thus, excess liquidity is still projected to be ca. 40% above prepandemic levels by end-2025.

Trump tariffs 2.0: a new period of high trade policy uncertainty, with likely moderate direct impacts amongst main trade partners

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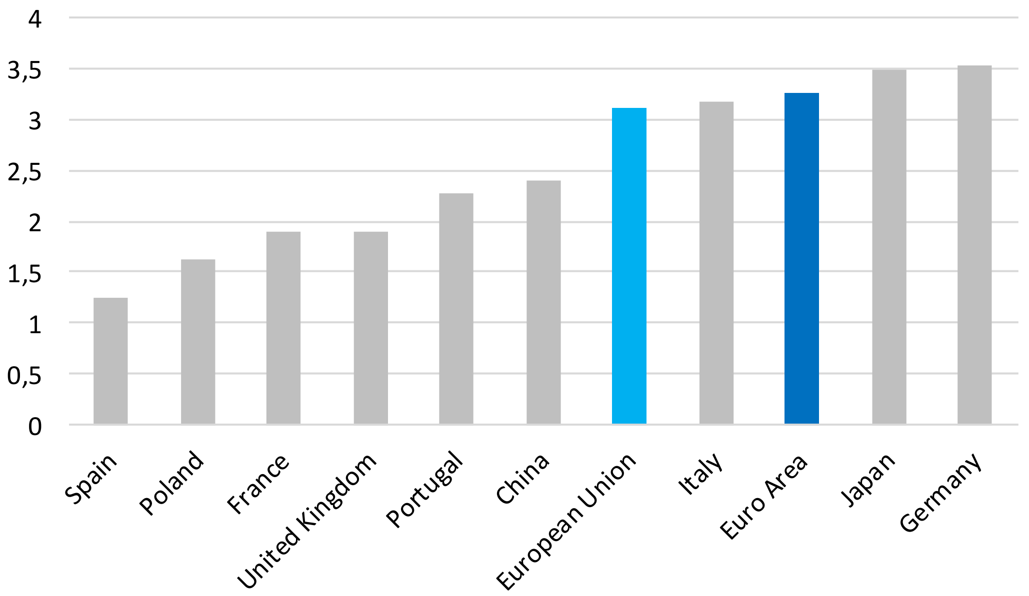
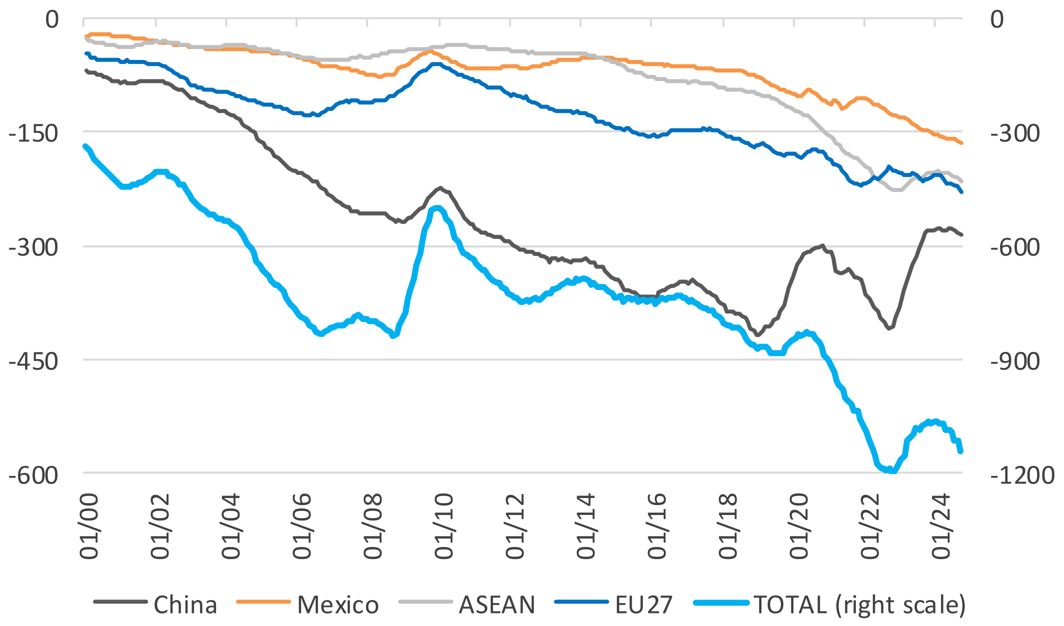
Exports to the US
In % of GDP



Source: CaixaBank Research, based on data from the IMF, via Bloomberg.

US goods' trade deficit
Billion USD



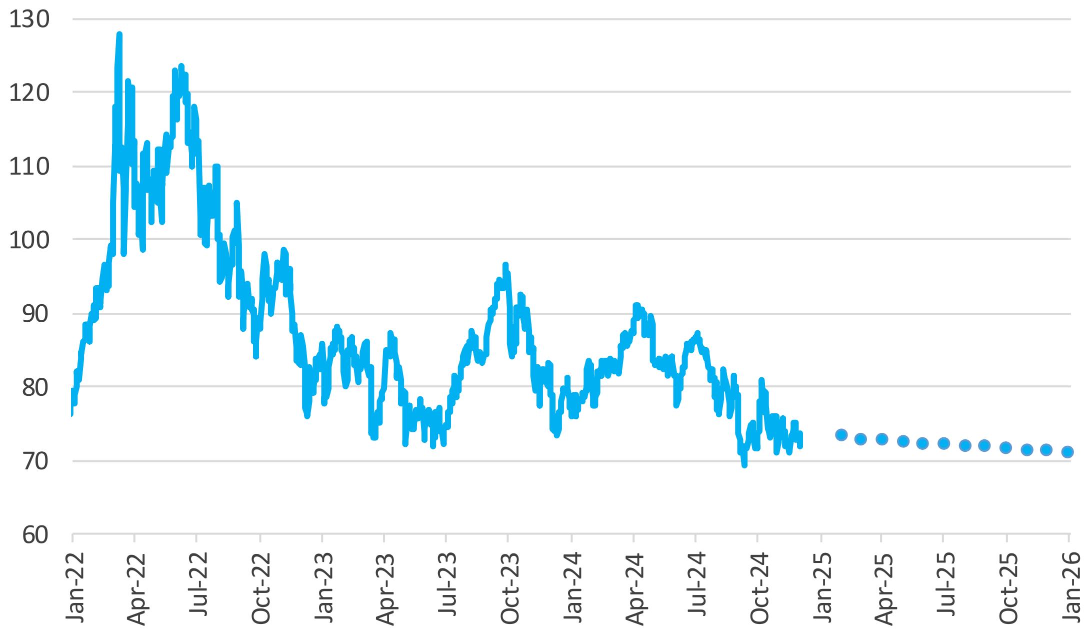
Source: CaixaBank Research, based on data from the US Census, via Bloomberg.

- **Heightened trade tensions and tariffs are likely to damage European trade flows, with a heterogeneous impact on GDP by country.** Exports of goods to the US as a percent of GDP range from 1.25% in Spain to 3.5% in Germany (around 3% in the EA). Available estimates on the impact to EA GDP of a 10% tariff range from 0.2 to 1% but we tend to side with the lower range, as tariffs would be universal (EA goods would not lose competitiveness vis-à-vis other countries and USD appreciation would offset some of the tariff increase). The risk arises from an intensification of a tariff war or the addition of non-tariff barriers.
- **Other downside risks stem from increased uncertainty.** Higher uncertainty regarding trade policy adds to an environment of heightened geopolitical risks. Higher US tariffs on Chinese goods would raise the risk of a yuan depreciation and a flurry of cheaper Chinese goods into the EU.

Geopolitical risks weigh on commodity prices

Brent oil prices (and futures)

$ per barrel



Commodity prices

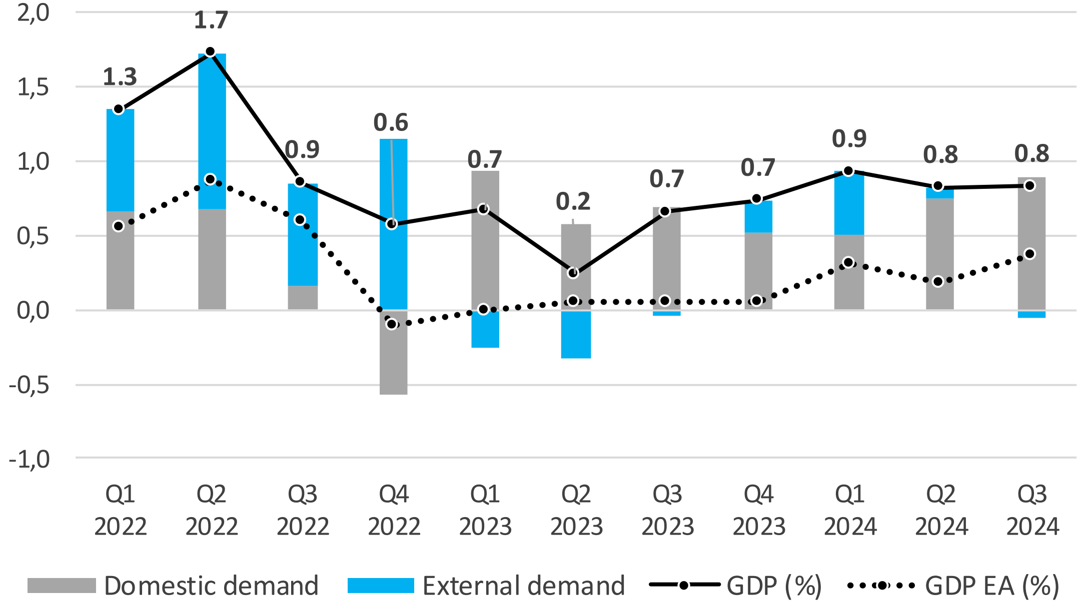
	Metric	Price	*Change (%)* Last Month	Year to Date	2022	2023
Commodities	**index**	**97,3**	**-1,6**	**-1,3**	**13,8**	**-12,6**
Energy	**index**	**27,3**	**-1,2**	**-11,0**	**33,5**	**-25,6**
Brent	$/barrel	73,7	-1,9	-4,3	10,5	-10,3
Natural Gas (Europe)	€/MWh	47,9	18,7	47,9	8,5	-57,6
Precious Metals	**index**	**272,5**	**-4,2**	**21,8**	**-1,9**	**4,1**
Gold	$/ounce	2640,6	-3,5	28,0	-0,3	13,1
Industrial Metals	**index**	**146,6**	**-1,7**	**2,8**	**-4,4**	**-13,7**
Aluminum	$/Tm	2609,5	0,4	9,5	-15,3	0,3
Copper	$/Tm	9111,5	-4,8	6,5	-13,9	2,2
Agricultural	**index**	**55,7**	**-0,1**	**-10,9**	**13,2**	**-9,3**
Wheat	$/bushel	541,0	-4,9	-13,9	2,8	-20,7

- **Uncertainty prevails over market fundamentals.** In November, Brent oil prices continued to be very volatile, mainly due to fears of escalating conflicts in the Middle East and Ukraine, the uncertainty about Trump´s trade actions, and concerns about sluggish oil demand growth, particularly slack crude use in China. Brent average monthly price was $73.4 per barrel, losing near a 5% on year-to-date. In the first days of December, the barrel prices traded in a tight range (roughly $2 band) despite de OPEC+ delayed (for third time in a row) the rolling back in supply cuts to April.
- Our current forecasts feature an average **Brent** price of $80.4 per barrel in 2024 ($76 in December 2024) and $74.6 in 2025 ($73.5 in December 2025), in line with current market expectations. This price moderation is supported by prospects of oversupply, driven by higher non-OPEC production and expectations of increased OPEC output, alongside a limited impact from the Middle East conflict. However, if the Middle East conflict escalates into a broader war with Iran playing a central role, it could sharply increase oil prices. Current geopolitical uncertainty remains high.

GDP growth surprised to the upside in Q3

Contribution to quarterly GDP growth

Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

GDP: analysts' forecast

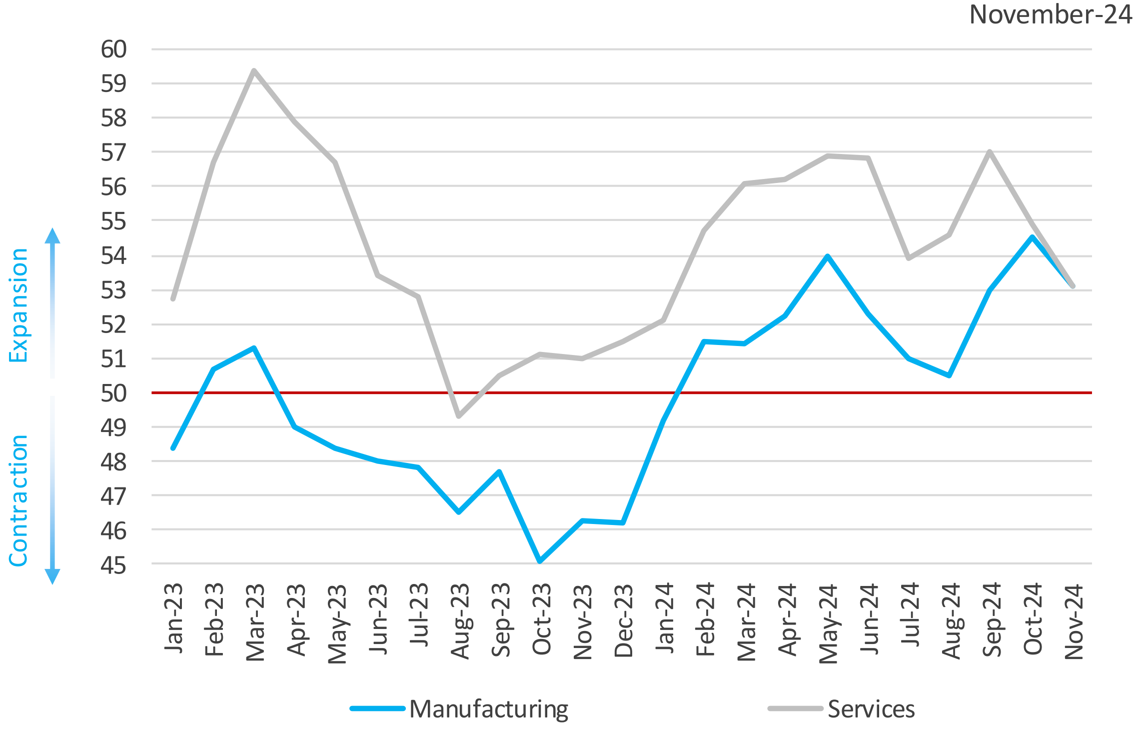
Year-on-year change (%)

Ordered by forecasts in 2024	2024	2025	Cum. 24-25
European Commission (Nov. 15)	3.0	2.3	5.4
OCDE (Dec. 4)	3.0	2.3	5.4
Funcas panel (Nov. 12)	3.0	2.3	5.4
Funcas (Oct. 21)	3.0	2.1	5.2
BBVA Research (Nov. 7)	2.9	2.4	5.4
Airef (Nov. 5)	2.9	2.3	5.3
Focus Economics (Dec.)	2.9	2.2	5.2
CaixaBank Research (Oct. 14)	2.8	2.3	5.2
Bank of Spain (Sep. 17)	2.8	2.2	5.1
Government (Sep. 24)	2.7	2.4	5.2

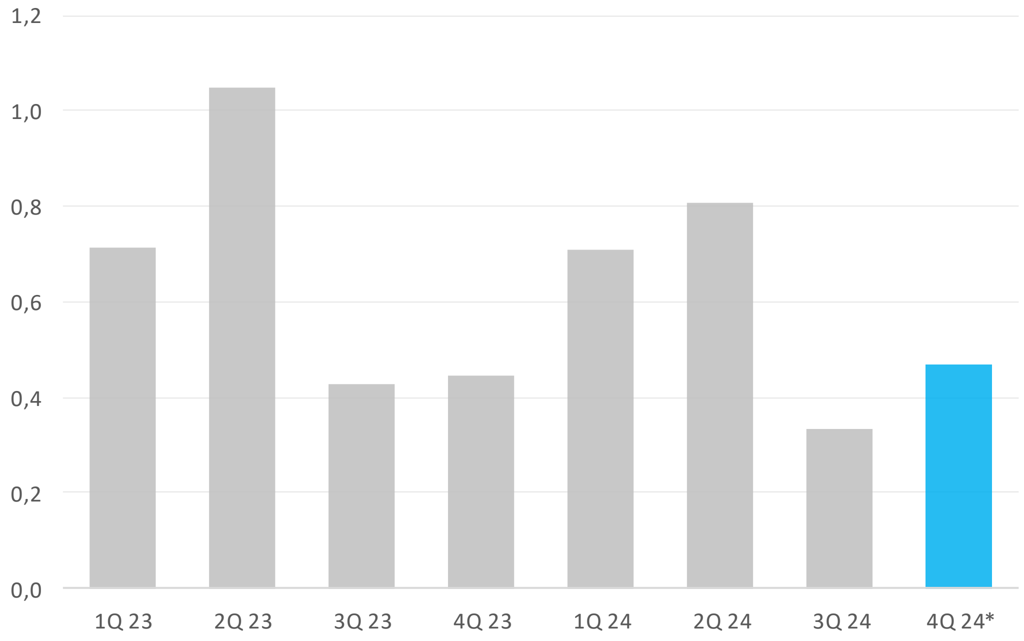
- **GDP grew 0.8% qoq in Q3 2024 (3.4% yoy),** above what we expected (0.5% qoq), driven by domestic demand. Private consumption grew 1.1% qoq, in line with the good evolution of retail sales and the Consumption Monitor of CaixaBank Research. Instead, private investment retreated (-0.9% qoq), due to the decline in transportation and in non-residential construction. Public consumption took a leap and was one of the drivers of good GDP performance. Net trade deducted a little from growth, as exports grew less than dynamic imports fueled by strong internal demand.
- **Q3 GDP growth was more dynamic in Spain than in the Euro Area** (0.8% qoq vs 0.4%). Spanish GDP stands now 6.6% above the pre-pandemic levels of Q4-19 while in the Euro Area sits 4.6% above.
- Most international institutions and centers of analysis **have recently improved recently their forecasts** for the Spanish economy.
- **Better than expected Q3 GDP** data introduces upward risks to our 2.8% GDP growth economic forecast for 2024 and to our 2.3% forecast for 2025.

Activity indicators suggest the economy will remain dynamic in Q4 2024

PMI indices
Level



Social Security registered members
QoQ change (%)



Note: Seasonally adjustment. (*) Until November.

- **Q4 activity indicators suggest growth keeps being dynamic in Q4 2024 and there are some upside risks to our 0,5% qoq forecast**.
- The **PMI** index for the manufacturing sector sat at 53.1 in November, the same figure as the services PMI. **Both indicators stay well comfortably within the expansion zone (>50 points)**. Both indexes fell a bit in November after the peaks in both the manufacturing (54.5 points in October) and the services PMI (57 points in September). The composite PMI on average in October-November sits at 54.2 points (54.4 in Q3).
- **Job creation has gained strength in Q4**. Affiliation to the Social Security system (seasonally adjusted) in October-November grew 0.5% qoq compared to 0.3% in Q3.
- In October, the **industrial production index increased by 1.9% year-on-year** (0.8 percentage points more than in September), a substantial improvement compared to the average of the third quarter (0.6%).

Consumption and investment will gain importance in 2025

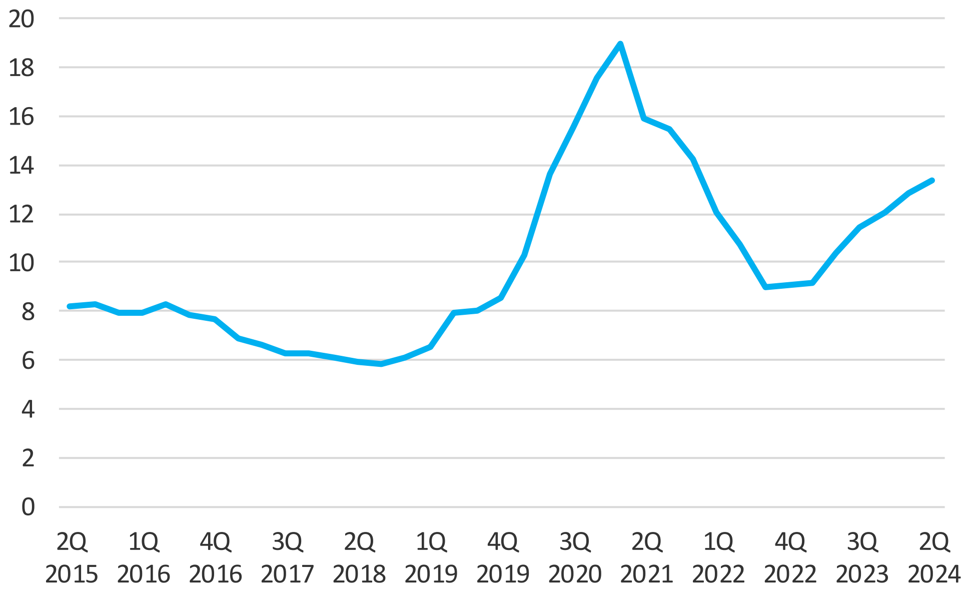
Macro forecasts growth components

Year-on-year (%)

	2014-19	2023	2024 (f)	2025 (f)
GDP	2.6	2.7	2.8	2.3
Private consumption	2.2	1.7	2.5	2.5
Public consumption	1.3	5.2	3.6	1.6
Investment	4.8	2.1	2.7	3.4
Exports	3.9	2.8	3.0	2.3
Imports	4.4	0.3	1.9	2.8

Savings rate

% Gross disposable income



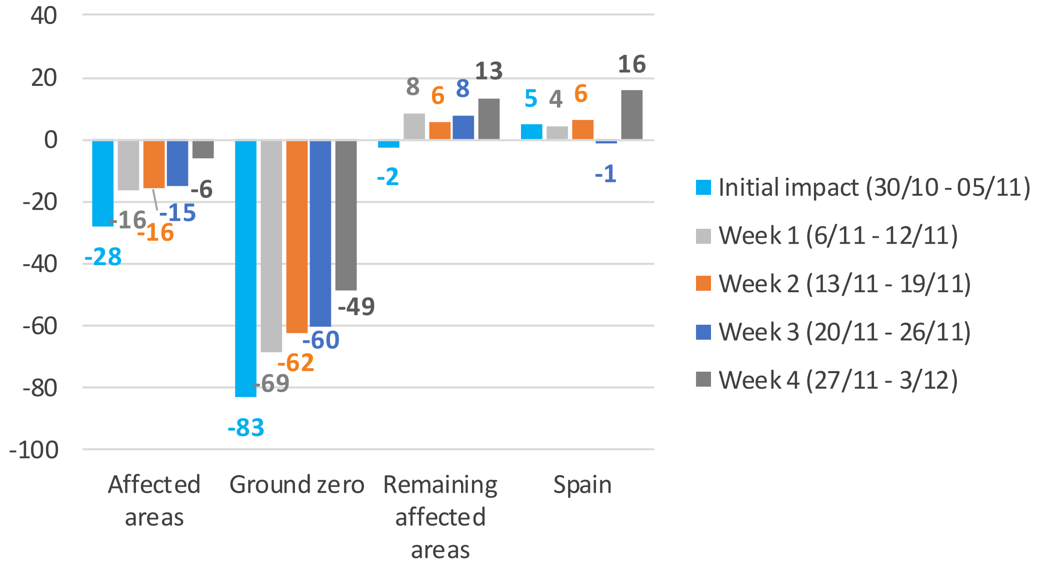
Note: Cumulative four quarters, average 2015-2019: 7.3%

- **We forecast that the Spanish economy will grow by 2.3% in 2025**. Growth will remain dynamic in 2025, in spite of a gentle slowdown, supported by robust tourism and demographic trends, moderating inflation, expected ECB rate cuts, strong employment generation, and increased traction in investments linked to the NGEU. **Tourism and migration inflows** will contribute to growth in 2024-2025 albeit to a smaller extent than in 2023.
- **In 2025 the economy will rebalance towards internal demand**. While GDP growth between 2022 and 2023 was largely driven by public consumption and external demand, the coming years will see stronger growth in private consumption and investment. There is room for these two components to expand: investment in Q3 2024 is 0.5% below its Q4 2019 level, while private consumption is 2.6% above despite a 3.6% increase in population. **Investment** will grow at an average of 3.1% in 2024-2025 spurred by energy transition needs and NGEU funds. **Private consumption** will grow at an average of 2.5%.
- **Dynamic gross disposable income** growth led by a buoyant labour market has placed the savings rate at 13.4% in 1S 2024, above its historical average (c.8.5% in 2000-2019). It will take time for the savings rate to normalise and we expect it to sit in 2025 still above its 2023 level (12.0%). If the savings rate declined faster or to lower levels, this could imply some upside risk to GDP growth (fueled by higher consumption growth).

DANA: A negative impact on activity in the short-run

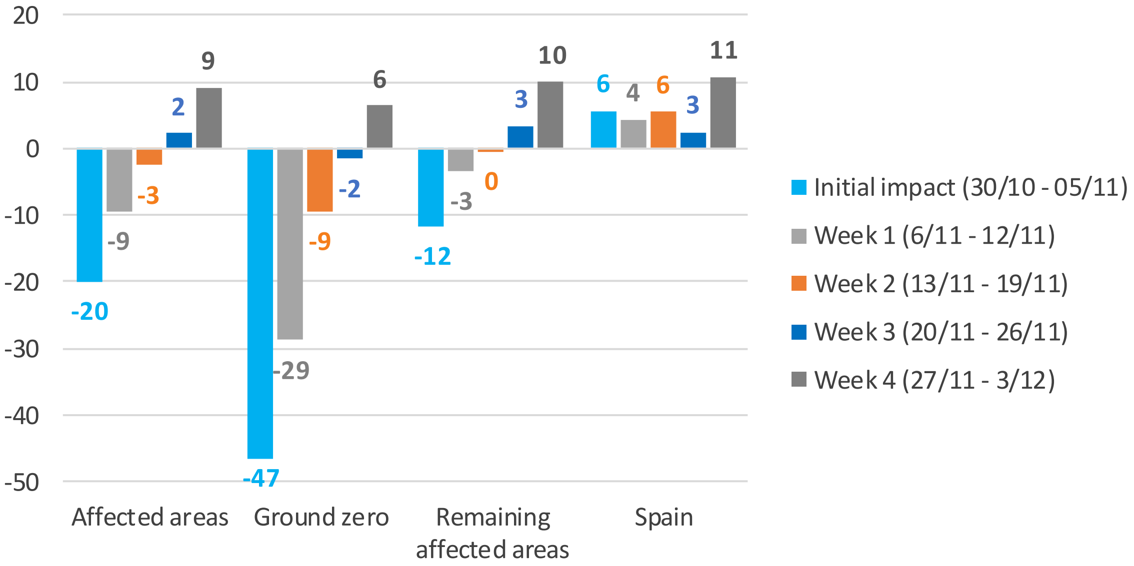
Domestic spending in the affected area

Percentage variation with respect to the same days from the previous year*



Domestic spending by clients living in the affected area

Percentage variation with respect to the same days from the previous year*



Note: (*) Affected area includes the 74 municipalities of the province of Valencia plus the southern districts of the city of Valencia included in RDL 6/2024. The ground zero are includes the 15 most affected municipalities (Alaquàs, Albal, Aldaia, Alfafar, Algemesí, Benetússer, Beniparrell, Catarroja, Chiva, Llocnou de la Corona, Massanassa, Paiporta, Picanya, Sedaví, and Utiel).

- **75 municipalities of the province of Valencia affected by the floods**. 1 million residents (37,9% of the total population of the province and 2.0% of Spanish population), of which 265.000 (10% of the province population) live in the most affected area (ground zero, 15 municipalities). GDP of the province of Valencia represents c.5% of Spanish GDP
- According to CaixaBank data on card spending, the affected area accounted for 30.4% of spending in the province on October 1-28 (pre-DANA), of which 9.6% in ground zero. **The initial impact to local business was very severe in the affected areas** (-28%), specially in ground zero (-83%). The recovery has been quite fast except for ground zero business (-49% in the week ending on Dec. 3th). Spending by residents in the affected area shows a more moderate impact, possibly because they have been able to spend in non-affected areas.
- **Contained macro impact.** The DANA could subtract between 0.1-0.2 p.p., from the quarter-on-quarter growth of the Spanish GDP in Q4 2024. The primary sector is the most affected, followed by the industry and commercial activity. In 2025, the investment effort in reconstruction and replacement of the destroyed capital will likely have a positive impact on GDP.
- **There has been thus far no significant impact on employment in Valencia derived from DANA**: affiliates grew by 11,217 in November, somewhat below last year (+17,235) and the average for the 2014-19 period (+19,069), while the year-on-year growth rate moderated from 2.7% in October to 2.2% in November.

Trump 2.0: Spain’s exposure to the US is relatively low

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Spain: goods exports to the United States and estimated impact of tariff increase to 10% and 20%

	Total Exports		Exports to the US			Current tariff (weighted by export value)	Impact 10% tariff (M€)	Impact 20% tariff (M€)
	mill. €	*(% total)*	*mill. €*	*(% total)*	*(% Spain)*			
Mechanical, office and computing machinery	26,619	6.9	2,728	14.4	10.2	0.8	251	523
Minerals and metals	51,429	13.4	2,978	15.8	5.8	2.4	226	523
Chemicals	63,701	16.6	2,678	14.2	4.2	1.9	217	485
Electrical machinery and electronic equipment	21,503	5.6	1,715	9.1	8.0	0.6	162	333
Transport equipment	69,030	18.0	1,583	8.4	2.3	10.7	85	179
Oilseeds, fats and oils	7,221	1.9	824	4.4	11.4	0.5	79	160
Other manufactures	13,031	3.4	718	3.8	5.5	1.1	64	136
Petroleum	19,734	5.1	2,015	10.7	10.2	7.0	61	263
Wood, paper, furniture	11,387	3.0	508	2.7	4.5	0.9	46	97
Other	100,034	26.1	3,157	16.7	3.2	-	198	481
Total	**383,689**	**100**	**18,904**	**100**	**4.9**	**3.1**	**1,388**	**3,181**
(% GDP)	***25.6%***		***1.3%***				***0.09%***	***0.21%***

- **In Spain, exports of goods and non-tourism services to the US represent 1.25% and 0.7% of GDP, respectively.** Sectors with higher exposure to tariff’s increase (higher exports to US and low current tariffs) are: production of capital goods (mechanical, office and computing machinery, electrical machinery and electronic equipment), minerals and metals, and chemicals. Transport equipment will be less impacted since current tariffs are already above 10%.
- **Bank of Spain estimates that a 1pp increase in tariffs reduces nominal extra-EU goods exports to the destination on average by 1%** mainly though a reduction in quantities**.** Upper bound: not considering trade substitution to other destination markets.
- The **direct impact** of a tariff increase to 10% is estimated to be a bit less than **-0.1% of GDP** (at most -0.2% in the 20% tariff scenario). Nevertheless, the final total impact could be softened by a depreciation of the euro against the US dollar, an imperfect passthrough of tariffs to EU export prices and partial trade substitution towards third countries, but augmented by the indirect impact from value added by Spain to exports of other countries to the US.
- In October 2019, **the first Trump administration** imposed 25% tariffs on certain agricultural products and 10% on aircraft. They affected certain countries, among them Spain, and they were lifted in March 2021. During that period (2019-2021) Spanish **nominal exports to the US of the affected goods increased more than exports to other countries** (15.3% to the US compared to 3.3% to other destinations). Exports of olive oil, wine and aircraft performed particularly well despite the tariffs, while olives, citrus fruits, swine meat, and certain cheeses were more affected.

Slight increase of inflation to 2.4% in November

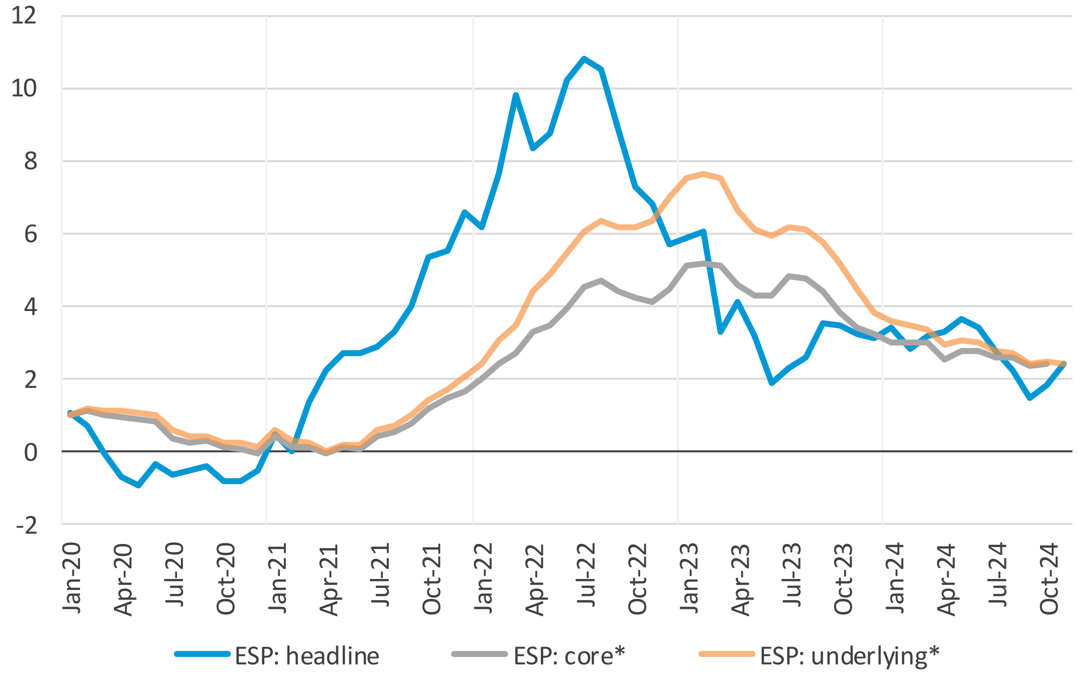
Inflation forecasts

Year-on-year change (%)

	2023	2024 (f)	2025 (f)
Headline inflation	3.5	3.0	2.5
Underlying inflation (excl. energy and non processed food)	6.0	3.0	2.5
Core inflation (excluding energy and food)	4.4	2.7	2.2
- Industrial goods	4.2	0.9	0.8
- Services	4.3	3.6	2.9
Food, beverages & tobacco	11.1	3.9	4.0
Energy	-16.3	2.1	1.1

Headline, underlying and core CPI

Year-on-year change %



- **Headline inflation up 0.6 pp. to 2.4% in November**. At the same time, underlying inflation (which excludes energy and non-processed food) went down 0.1 pp. to 2.4%.
- **Inflation has gone down faster than previously forecasted** during the last months, partly due to the quick moderation of food prices.
- **Electricity and gas prices pose an upside risk to the disinflationary process.** Wholesale electricity and gas prices in November are up 35% and 33% since January 2024, respectively. Future markets foresee a moderation of electricity prices in 1H 2025. However, were this moderation not to occur, the CPI of electricity could be affected by unfavorable base effects.

Positive outlook for the tourist and external sector in 2024-2025

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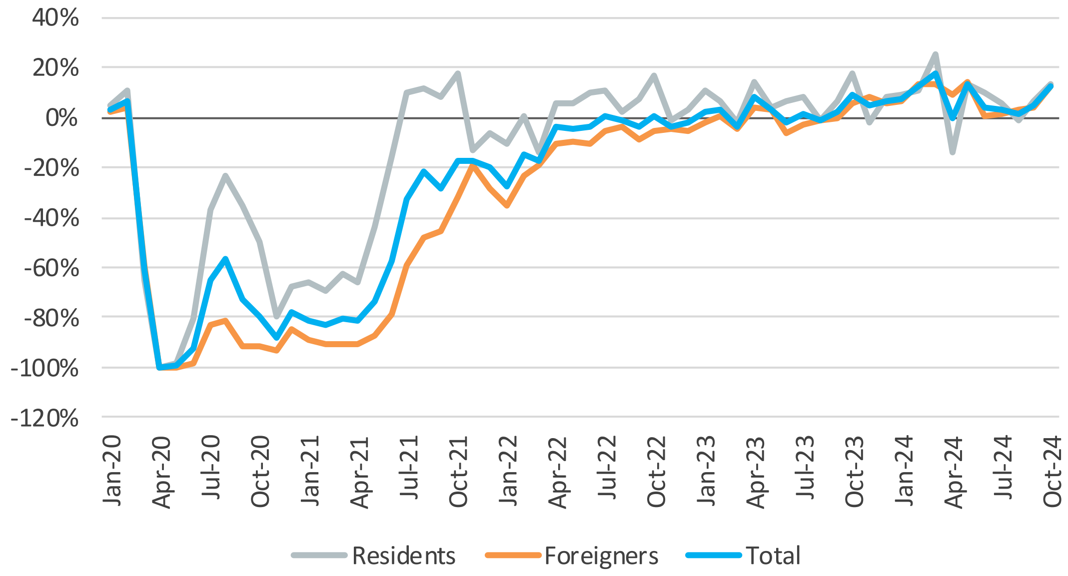
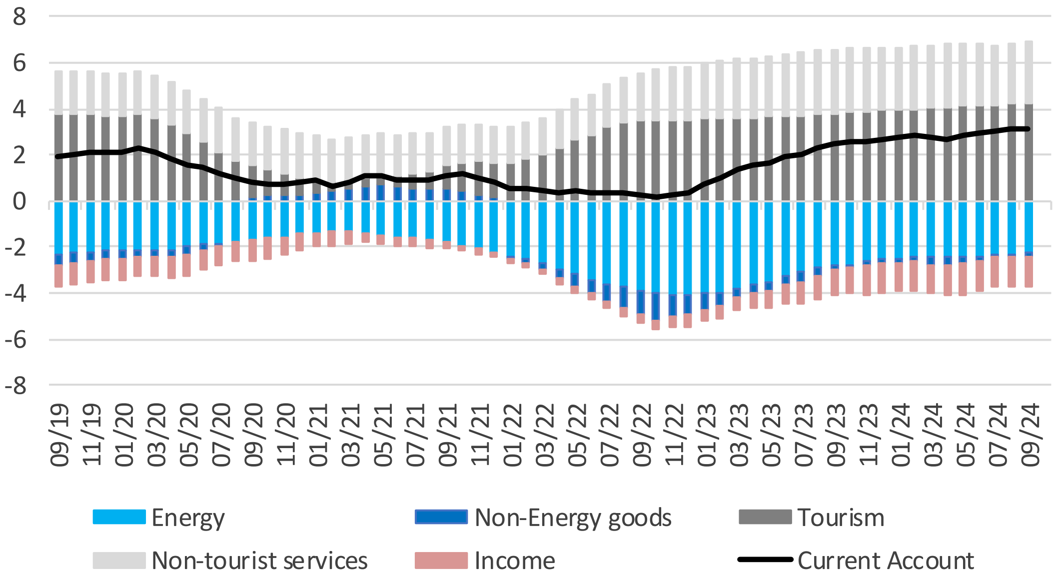
Overnight stays

Index (100 =2019)



Current Account Balance

Accumulated of the last 12 months (% of GDP)



- **Tourism will continue to contribute to robust growth, albeit to a smaller extent than in 2023.** In 2023 the tourism sector grew +7.6% and had a GDP growth contribution of c.0.9pp. Given the tourism sector has recovered to its pre-pandemic level, we expect growth to normalize to a still strong 6% in 2024, and to add 0.76pp to growth. The key factors behind this solid rate of expansion include the recovery of purchasing power in the home countries of international tourists, and the high level of geopolitical stability in Spain relative to some key competitor countries. We expect tourism to continue contributing positively to the Spanish economy in 2025, growing an additional 3.4% and adding 0.4pp to growth.
- **Tourism in 2024 shows robust growth both in-season and off-season.** International arrivals are up 10.9% year-on-year in the first ten months of 2024, and up 7.8% in July and August, highlighting the trend towards faster growth in the off-season than on-season. Domestic overnight stays in the first ten months of 2024 are down a modest -0.1% yoy as Spanish tourists travel more abroad. Inflation in tourism services has moderated to 5.1% in the first ten months of 2024 but remains elevated.
- **The current account continued to post solid figures as of the latest data for September 2024**. The data reflects a favorable scenario for the external sector. Exports increased by 1.9% yoy and imports by 0,1%. A significant decrease in energy goods imports (-22.7% yoy) moderated the overall growth in aggregate imports, contributing to a reduction in the goods trade deficit. The balance of tourism services further improved (12% yoy), while imports of non-tourism services grew at a faster pace than exports, slightly reducing the surplus in non-tourism services (-4% yoy). As a result, the accumulated current account balance at 12 months reached a surplus of 3.1% of GDP, compared to 2.5% in September 2023.

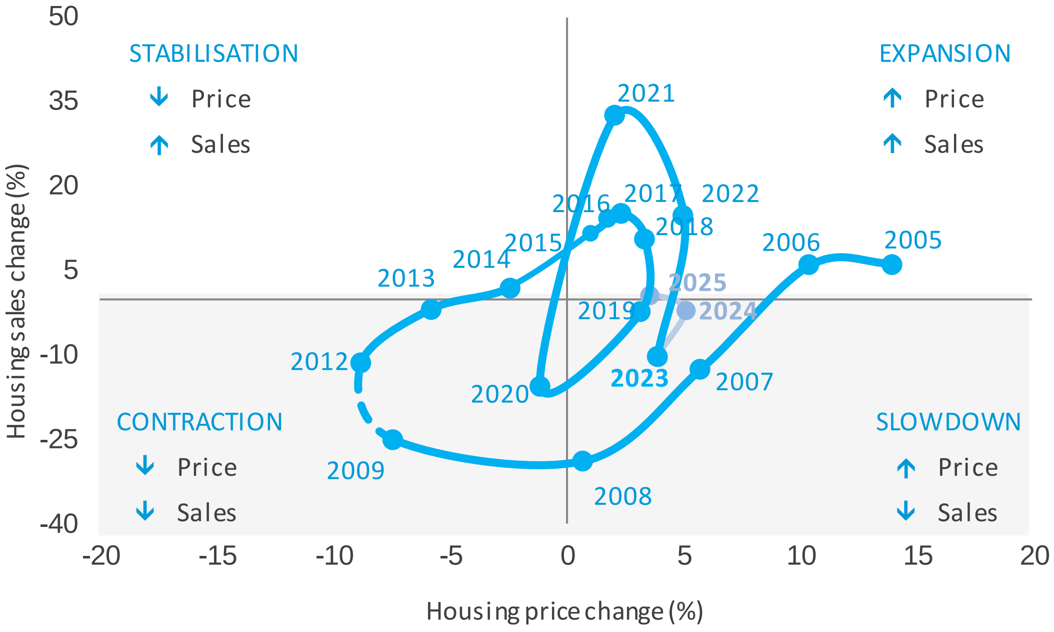
Renewed momentum in housing prices

Forecasts for the real estate market

	2014-19	2022	2023	2024	2025
Housing sales (Thousand)	428	650	586	572 *(565)*	578 *(566)*
New building permits (Thousand)	73	109	109	115 *(=)*	125 *(=)*
House price (appraisal, MIVAU) Year-on-year (%)	1.6	5.0	3.9	5.1 *(4.4)*	3.6 *(2.8)*
House price (transaction, INE) Year-on-year (%)	4.4	7.4	4.0	7.1 *(5.0)*	4.1 *(2.8)*

Note: Previous forecast in parenthesis (July 2024).

CaixaBank Research housing clock



Note: The period 2010-2011 is excluded due to the impact of fiscal incentives.
Source: CaixaBank Research, based on data from INE and MIVAU.

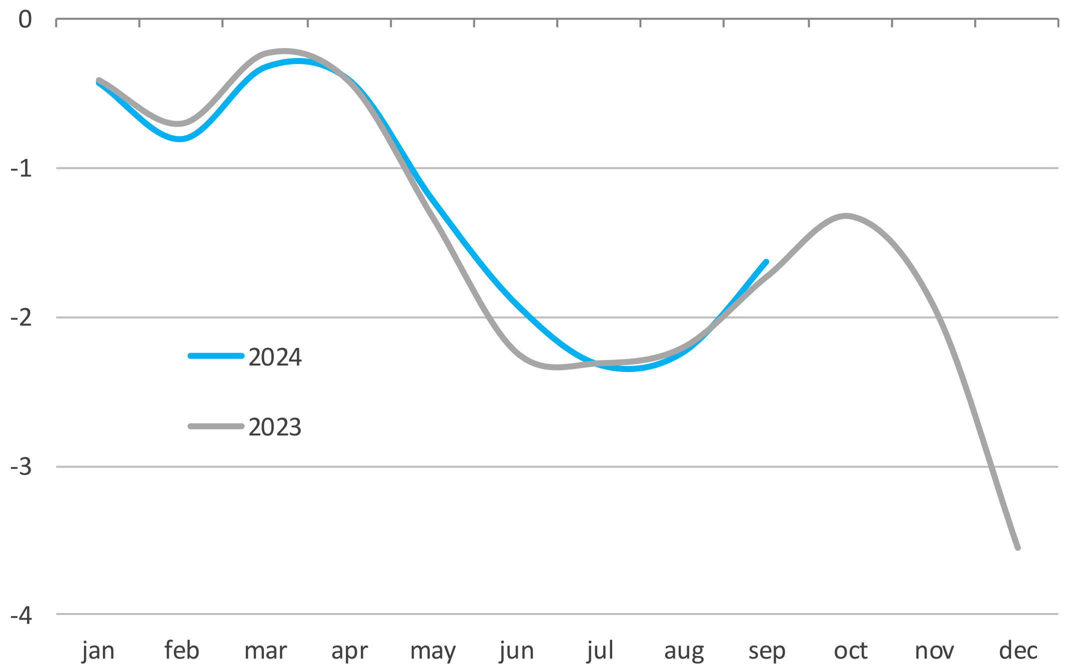
- **The housing market is in expansionary mode:**
  - **Housing prices accelerated in Q3** (from 5.7% YoY in Q2 to 6.0% in Q3) according to MIVAU (appraisal value). The positive trend is generalized in most regions and municipalities, albeit the growth rate is quite heterogeneous by location.
  - **Housing demand is very strong**. The number of **housing sales** increased by 3.1% YoY in Jan.-Sep. 2024, and reached around 600k units (cum. 12 months) due to strong demand factors, especially population growth.
  - **Housing supply** is gaining some traction. New building permits increased by 17.0% YoY in Jan.-Sep. 2024 (123k cum. 12 months) but the gap with net household creation is still very significant, which is pushing up housing prices. We expect that housing supply will continue to gradually increase but it would be insufficient to close the gap with demand.
- **Outlook**: The supply-demand imbalance in the real estate market, the improvement in the economic outlook and the gradual decrease in interest rates will continue to support price growth. Positive net job creation supporting growth in households' labor income, dynamic migration flows although somewhat lower than in the past 2 years, resilience of foreign demand, favorable financial situation of households and a relaxation in financial conditions will further support demand for housing.
- We highlight a risk of faster house price growth than expected in our central scenario due to the accumulated supply-demand imbalance.

Gradual path of public deficit and public debt reduction in the medium term

CaixaBank

General government budget balance*

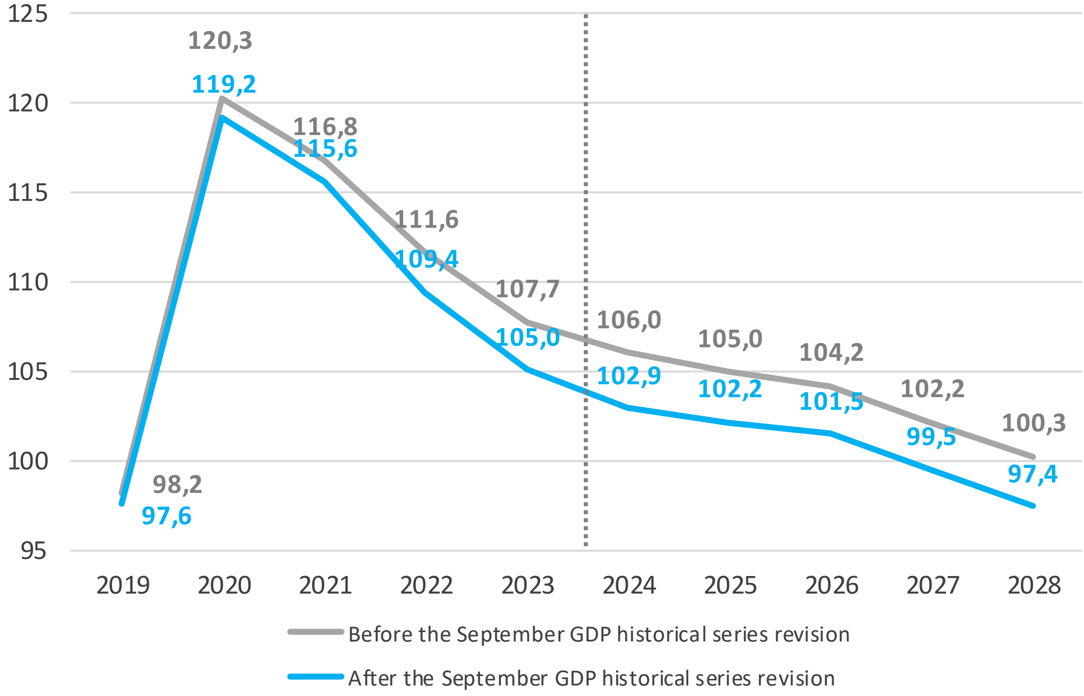
(% GDP)



Note: Excluding local governments.
Source: CaixaBank Research.

Public debt

In % of GDP



- **Budget execution** shows that the public deficit until September is slightly lower in % of GDP than the 2023 September figure. We expect the deficit, excluding the fiscal impact of DANA measures, to end the year at c.**3.0%** of GDP, compared to 3.5% in 2023. Including the DANA measures, the public deficit will be in 2024 a bit higher than 3.0% but the European Commission will take into account in his assessment that these are one-off measures stemming from an abnormal event.
- To date, **the Council of Ministers has approved DANA aid amounting to 16.6 billion euros (1.0% of Spain's GDP)**. However, it should be noted that more than a third of the aid consists of indirect measures (guarantees for ICO credit lines, subsidised loan lines, tax deferrals, etc.). Thus, the impact on the deficit should be approximately 0.6% of GDP, to be distributed between the 2024 and 2025 fiscal years. The Government is negotiating with the EC redirecting NGEU funds. The EC has shown flexibility to disregard DANA impact for targeted public deficit in 2024 (3.0%) and the new fiscal rules from 2025 onwards.
- **Notable increase in fiscal revenues** (excl. Local Corporations) until Q3: 7.5% year-on-year growth, above the 6.5% increase in public spending and the 6.4% increase in nominal GDP. Direct taxes and social contributions are growing at a good pace due to the behavior of employment, and indirect taxes are increasing due to the gradual end of tax discounts.

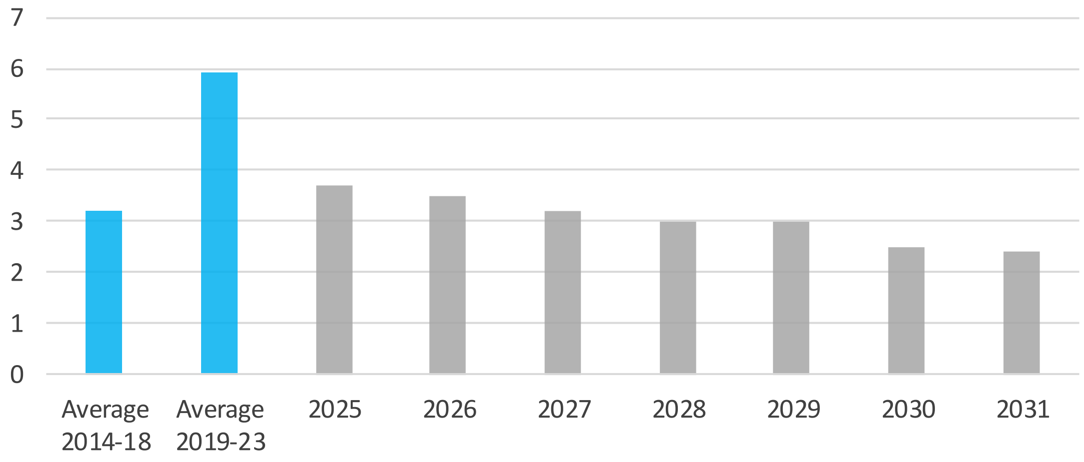
The European Commission has approved the Spanish Fiscal and Structural Plan

Government's fiscal and structural plan 2025-2031

%GDP	2023	2024	2025	2028	2031	Average variation per year 2025-2031
Public balance	**-3.5**	**-3.0**	**-2.5**	**-1.6**	**-0.8**	**-0.3**
Primary balance	-1.1	-0.4	0.3	1.0	2.0	-0.3
Interest expenditure	-2.4	-2.5	-2.7	-2.6	-2.8	+0.04
Structural balance	-3.3	-3.1	-2.9	-1.5	-0.5	-0.4
Cyclical balance	-0.1	0.4	0.5	-0.1	-0.4	+0.1
Public debt	**105.0**	**102.5**	**101.4**	**96.6**	**90.6**	**-1.7**

Net primary public spending growth*

Year-on-year growth (%)



Note*: Public expenditure net of interest expenditure, discretionary revenue measures, expenditure on EU programs fully offset by revenue from Union funds, national expenditure on co-financing of programs financed by the EU, the cyclical elements of expenditure on unemployment benefits and one-off and other temporary measures.

The Government has presented a **7-year adjustment plan** including the NGEU reforms and investments (without reforms, the required adjustment would have to take place in 4 years).

The European Commission has approved at the end of November this plan. It has also outlined that a large part of the fiscal consolidation is expected to be covered through the indirect fiscal impact of the broad set of growth enhancing measures included in the plan such as investments and reforms in human capital, green transition and digitalisation.

Macro scenario

- Average GDP growth of 1.4% in 2025-2031, thanks to favourable demographics and strong labour market.

Required fiscal adjustment to comply with the rules

- 0.42 p.p. on average per year in the structural primary balance in 2025-2031.
- The public deficit would decrease from 3.0% of GDP in 2024 to 0.8% in 2031, and the primary balance from -0.4% of GDP in 2024 to a surplus of +2.0% in 2031.
- With this fiscal adjustment in 2025-2031, Spanish public debt as a percentage of GDP would decrease from 102.5% in 2024 to 90.6% in 2031 and to 76.8% in 2041.

Revenues and spending

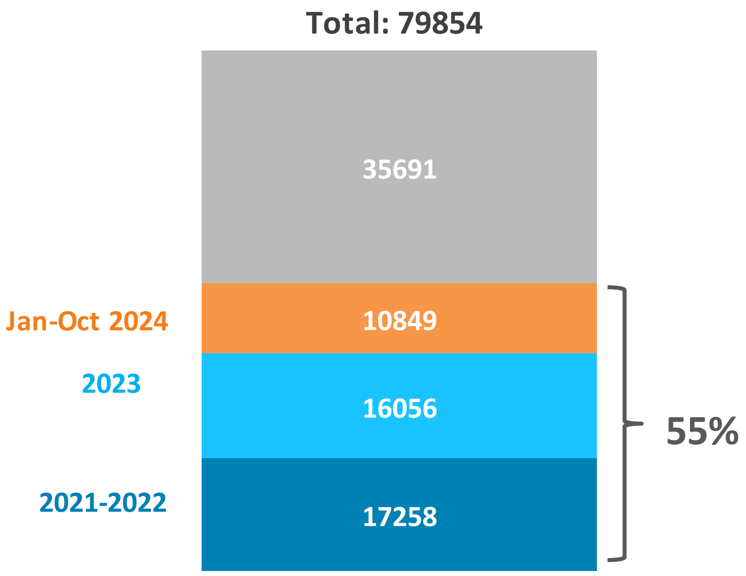
- The growth of primary expenditure net of new revenue measures consistent with this fiscal adjustment would be on average 3% between 2025 and 2031.
- New tax measures between 2025 and 2031 will increase the revenue-to-GDP ratio by c.0.3 p.p.

NGEU: The Recovery Plan keeps being deployed

CaixaBank

Execution of PRTR

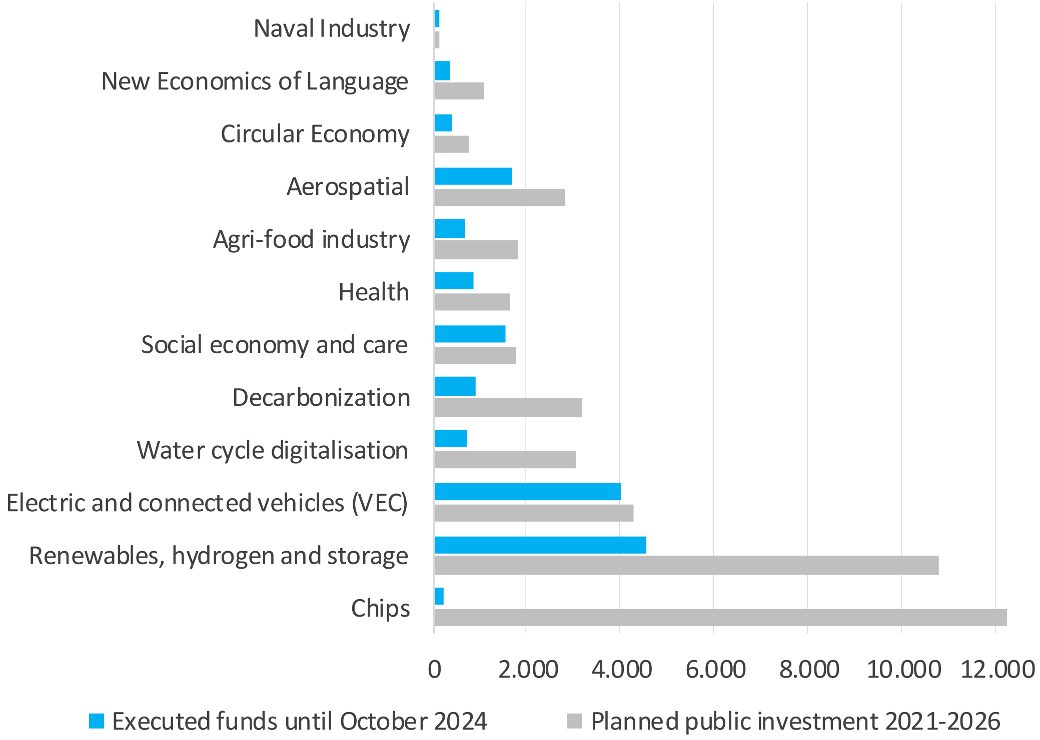
Total grants (Million euros)



Note: Execution is defined as the awarding of tenders and grants.
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

PERTEs

Million euros



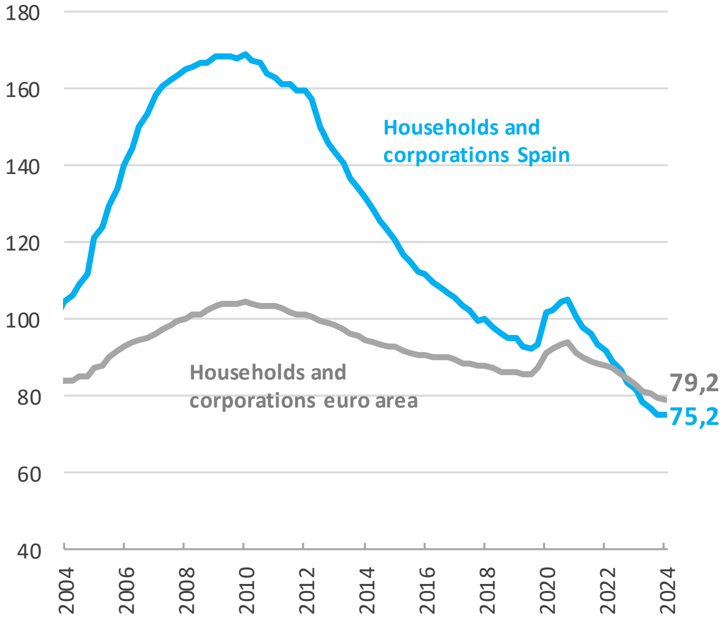
- As of October 31, tenders and grants have been resolved for **€44.2 billion**, 55% of the total NGEU grants of the Recovery Plan. In the first 10 months of 2024, €10.85 billion have been executed, a similar amount than in the same period in 2023 and much higher than in 2021 and 2022.
- The Government has approved €1bn in investment projects for education, health and infrastructures financed with loans of the **Regional Resilience Fund (RRA) managed by EIB.** The RRA has total resources of €20bn.
- **The Digital Kit has reached 530,000 SMEs and self-employed**. This represents 80% of the goal set in the Recovery Plan and that will have to be achieved in one year form now. So far, 2.3bn have been invested in the Digital Kit and Digital Consulting programs.
- The **PERTES**, flagship projects with high potential through public-private collaboration, are moving forward. In total, €16 billion have been executed (total budget: €43.6 billion). Among the largest allocations, the PERTE for the connected electric vehicle (€4 billion executed) and the renewable energy PERTE (€4.5 billion) stand out positively.

Banking system: improved credit dynamics for all segments

CaixaBank

Bank credit to the private sector

% GDP



Note: latest data available as of Jun-24.
Source: Caixabank Research with data from ECB, Eurostat.

Private domestic credit

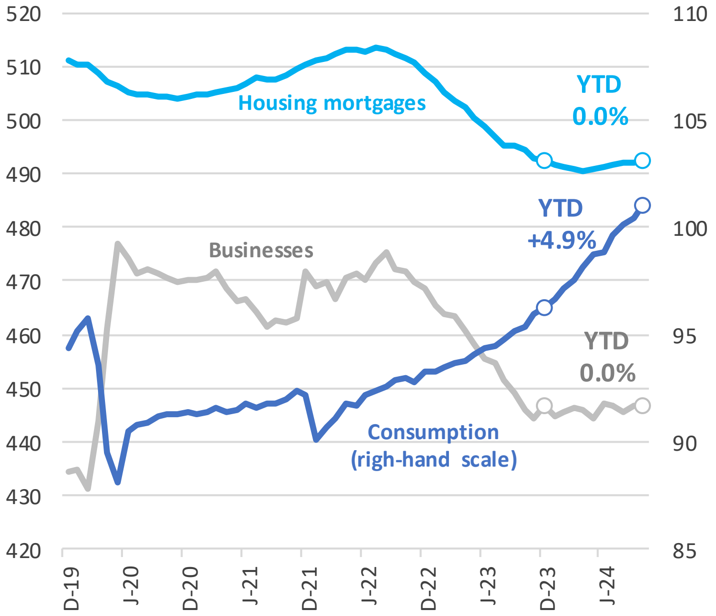
Year-on-year (%)

	Dec-23	Oct-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	0.1%	0.5%
Households	-2.5%	0.3%	0.6%
Housing mortgages	-3.2%	-0.3%	0.3%
Other purposes	-0.5%	1.9%	1.3%
Of which consumption	2.8%	5.7%	6.0%
Businesses	-4.7%	-0.1%	0.3%
Non-real estate developers[1]	-4.3%	-1.6%	-
Real estate developers[1]	-6.1%	-2.9%	-

Note: (1) latest data available Jun-24.
Source: Caixabank Research with data from Bank of Spain.

Private domestic credit

€Bn, Year-to-date % (seasonally adjusted)

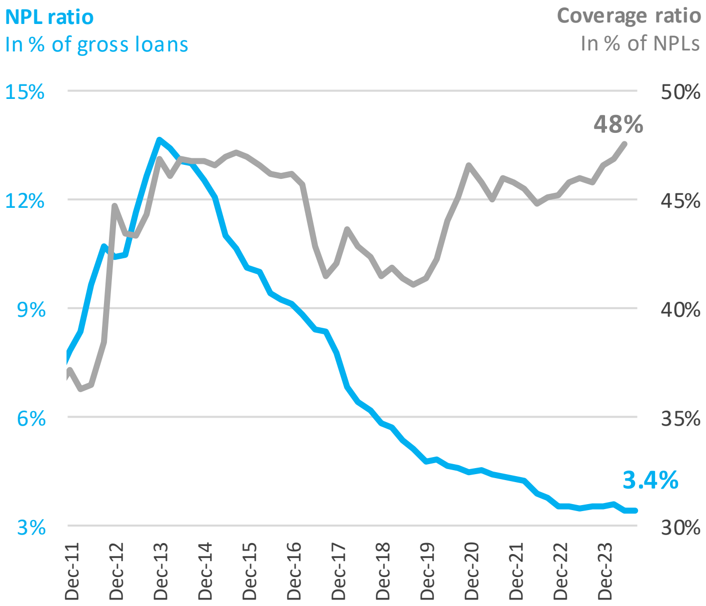


Note: latest data available as of Oct-24.
Source: Caixabank Research with data from Bank of Spain.

- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 2Q24. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic.
- **New mortgage production** shows notable dynamics in 2024 with the change in interest rate expectations (accumulated new lending from January to October grows +17,2% yoy).
- **New lending for consumption** increases favored by improvements of consumer confidence, and credit for consumer durables, exceeding pre-COVID-19 levels (accumulated new lending from January to October grows +19.3% yoy).
- **New lending to corporates** grows supported by loans under 1M€ (+12.5% yoy in October). The BoS has revised the data on new loans since Aug’23 due to changes in the information submitted by the entities, which does not allow calculating the accumulated variation over the year.)
- **Consequently, the stock of credit to the Spanish resident private sector has stopped declining**. We expect credit levels to stabilize in absolute terms during 2024 and start growing next year, albeit at a rate below nominal GDP growth.

Banking system: solid financials

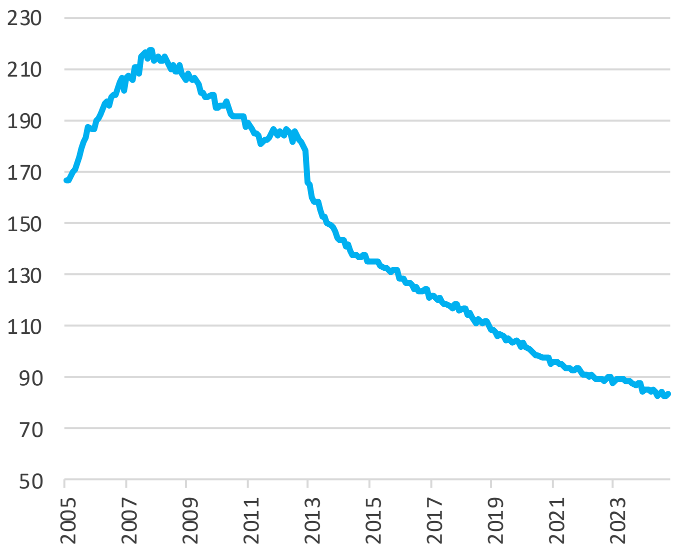
NPLs and coverage ratios[1]



Note: (1) latest available data Sep-24 and Jun-24, respectively
Source: CaixaBank Research with data from BoS and Bank's financial statements.

HHs & NFCs loan to deposit ratio

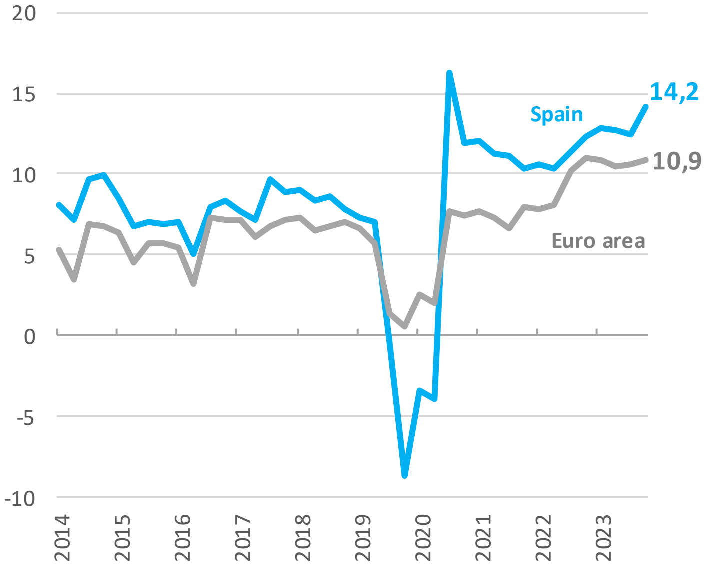
Percentage (%)



Note: loans and deposits to residents in Spain, on a non-consolidated basis. Latest data available Oct-24.
Source: CaixaBank Research with data from Bank of Spain.

Banks' profitability

ROE % (Q2 24; annualised)



Source: CaixaBank Research with data from EBA (Dashboard-Q2 24).

- **NPLs remain below 4%.** The share of stage 2 loans on a group level increased sightly to 7.3% in 2Q24, remaining below EU level. The Government has announced a 3-month moratorium on debt payments which could be extended 9 more months for principal payments in the affected areas by the recent DANA. Affected households will also be able to benefit from the Code of Good Practices (CGP).
- **Households and non-financial corporation (NFCs) deposits exceed the peak levels previously attained in August 2022.** Deposits declined between 2H22-1H23 due to higher remuneration of other investment alternatives. Since then, seasonally adjusted data shows a positive trend (+4.6% yoy in Oct'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **Profitability is recovering (ROE stood at 14.2% in 2Q24)** thanks to the widening of the net interest margin and despite inflationary pressures and the extraordinary and temporary banking tax (4.8% on domestic net interest and fee income, where such income exceeds €800 million). The government has approved extending the tax on banks for three more years, with a rate that ranges between 1%-7%.
- **The capital position of Spanish banks remains comfortable with a 12.8% CET1 ratio in 2Q24.** The Bank of Spain's stress test[1] for 2024-2026 show under the adverse scenario the banking sector's overall resilience. The impact on capital consumption would be manageable for all Spanish institutions, specially due to the high initial capital levels and by banks' capacity to generate capital and absorb losses. The BoE has approved the new framework for setting the CCyB and raised it to 0.5% in 4Q24 (to be applicable from Oct'25). It will raise to 1% in 4Q25 (to be applicable from Oct'26).

Note: (1) Forward-Looking Exercise on Spanish Banks (FLESB). Additional adverse shocks are applied to credit risk under the FLESB framework compared with the EBA exercise. Financial Stability Report Autumn, 2023. Bank of Spain.