Spain
Macroeconomic & Financial Outlook

CaixaBank Research

January 2025

Prepared with information available as of January 10th, 2025

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Key messages

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Activity

- **The ECB continues with sequential rate cuts.** The ECB cut rates by 25bp in December, leaving the depo at 3.00% in a widely expected decision. The ECB is expected to continue cutting rates and set a neutral monetary policy stance in 2025 (depo at the end of 2025: 1.75%-2.00%).
- **Good performance of activity indicators in Q4 point to upside risks to our GDP growth forecast of 0.5% qoq in Q4** (the GDP figure for Q4 will be released on January 29). This good performance along with the solid Q3 GDP figure (0.8% qoq) introduce upside risks to our current GDP growth forecast of 2.8% in 2024 and 2.3% in 2025.
- **Growth will remain dynamic in 2025**, despite a gentle slowdown supported by robust tourism and demographic trends, moderating inflation, ECB rate cuts, strong employment generation, and increased traction in investments linked to NGEU.
- 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**%. In 2025, the reconstruction of the affected area will contribute positively to GDP.
- **The direct 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 0.4 pp. to 2.8% in December driven by fuel prices while underlying inflation went up 0.2 pp. to 2.6%**. There are downside risks surrounding our 2.5% forecast in 2025 despite the increase in energy prices.
- **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.
- **Budget execution until October points to a reduction of public deficit in 2024**. Including the first disbursements related to DANA measures at the end of the year, the public deficit will possibly close 2024 at a level slightly above 3.0% of GDP.

Banking Sector

- **New lending shows positive dynamics.** Higher activity levels in 2024 drive new lending and, consequently, the stock of credit begins to grow. Domestic NPL ratio remains stable around 3.4% in October, below Dec'23 levels and in line with the historical average prior to the financial crisis. Profitability has improved and ROE has reached 14.7% in Q324 (vs. 11.1% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

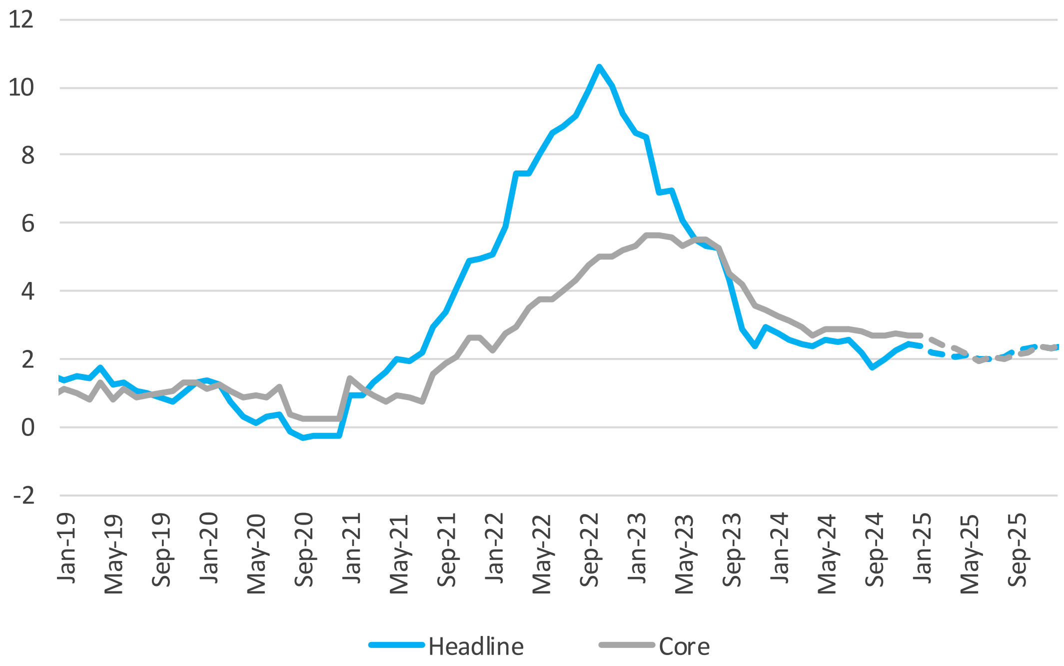
%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Forecast)	2025 (Forecast)
GDP	4.1	2.9	2.9	2.4	2.0	-10.9	6.7	6.2	2.7	2.8	2.3
Private Consumption	2.9	2.6	3.1	1.8	1.0	-12.2	7.2	4.9	1.7	2.5	2.5
Public Consumption	1.9	0.9	1.0	2.1	2.2	3.5	3.6	0.6	5.2	3.6	1.6
Gross Fixed 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

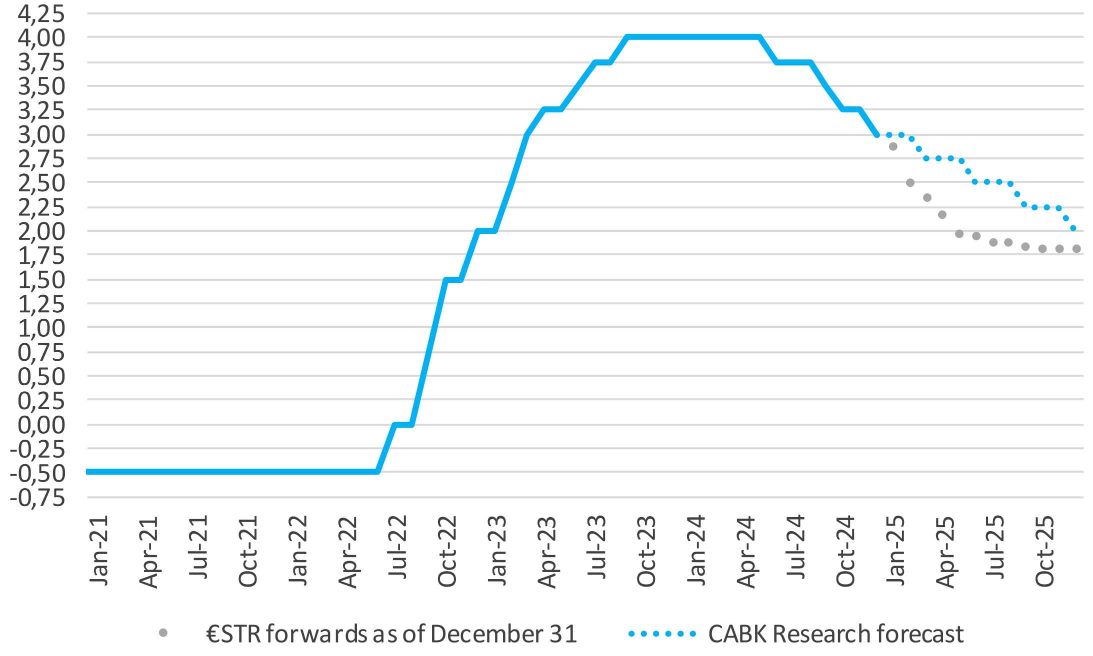
Euro area: HICP inflation

(%)



ECB deposit rate

(%)



- **The ECB continues with sequential rate cuts**. After having lowered rates in June, September and October, the ECB cut rates by 25bp in December, leaving the depo at 3.00% in a widely expected decision (fully priced-in by markets). The move is supported by greater confidence in achieving the 2% inflation target in 2025 as well as by a consensus in the appropriateness of a gradual dialing back of the restrictive policy stance. Going forward, the ECB is expected to continue cutting rates and set a neutral monetary policy stance in 2025. Market expectations see 25pb sequential cuts in January, March and April, while market pricing for the depo at end-2025 has fluctuated between 1.75% and 2.00%.
- **Liquidity to remain abundant throughout a passive balance sheet reduction:** the last TLTRO matured in Dec.-2024, 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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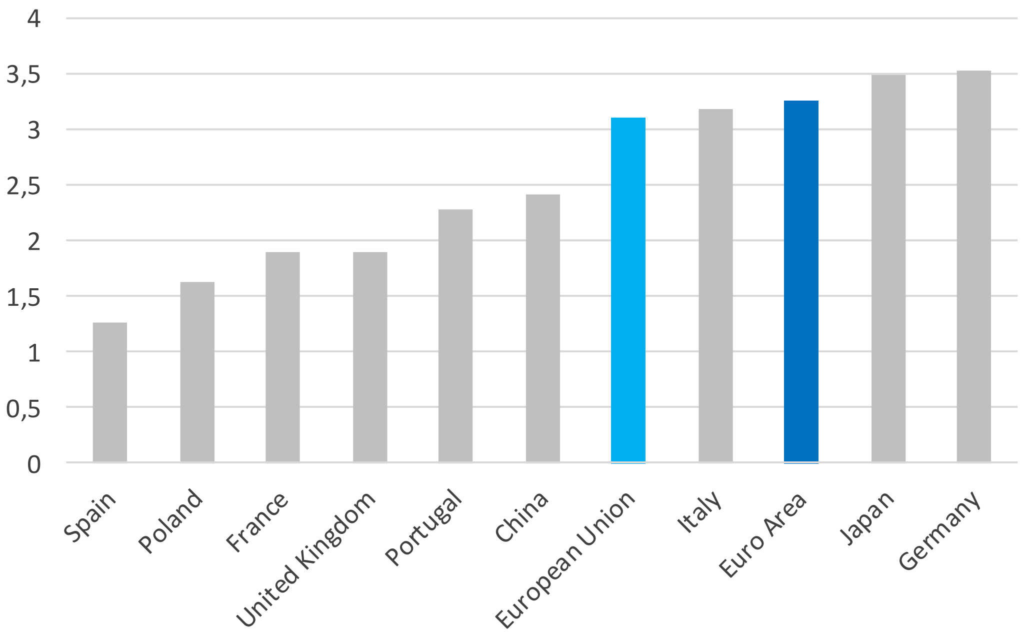
Exports to the US

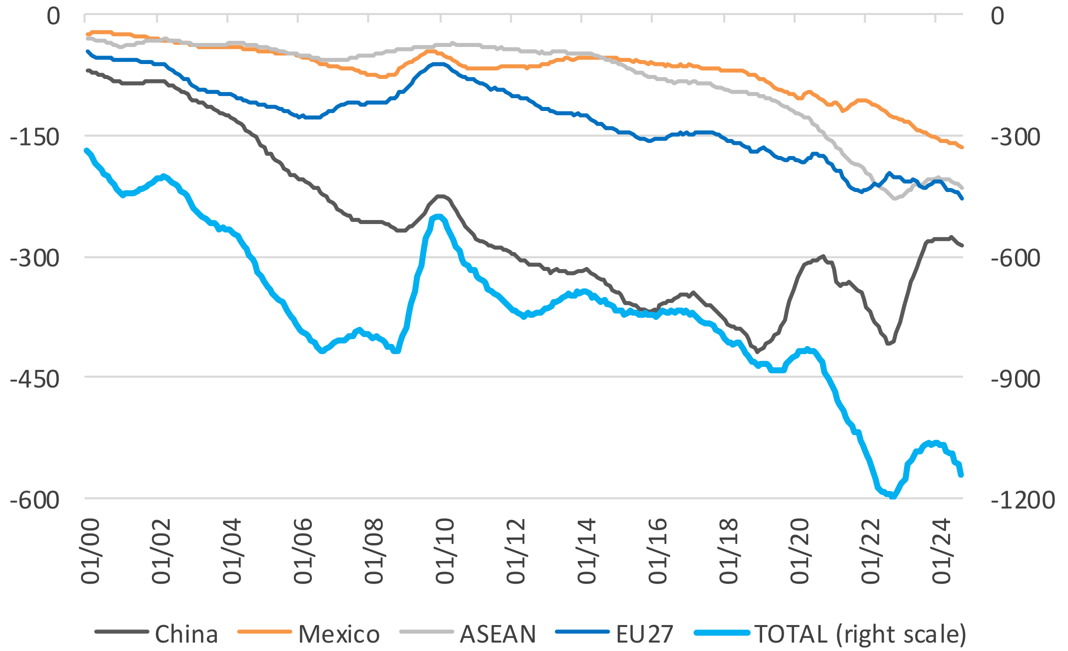
In % of GDP



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.

Commodity markets await Trump's trade actions

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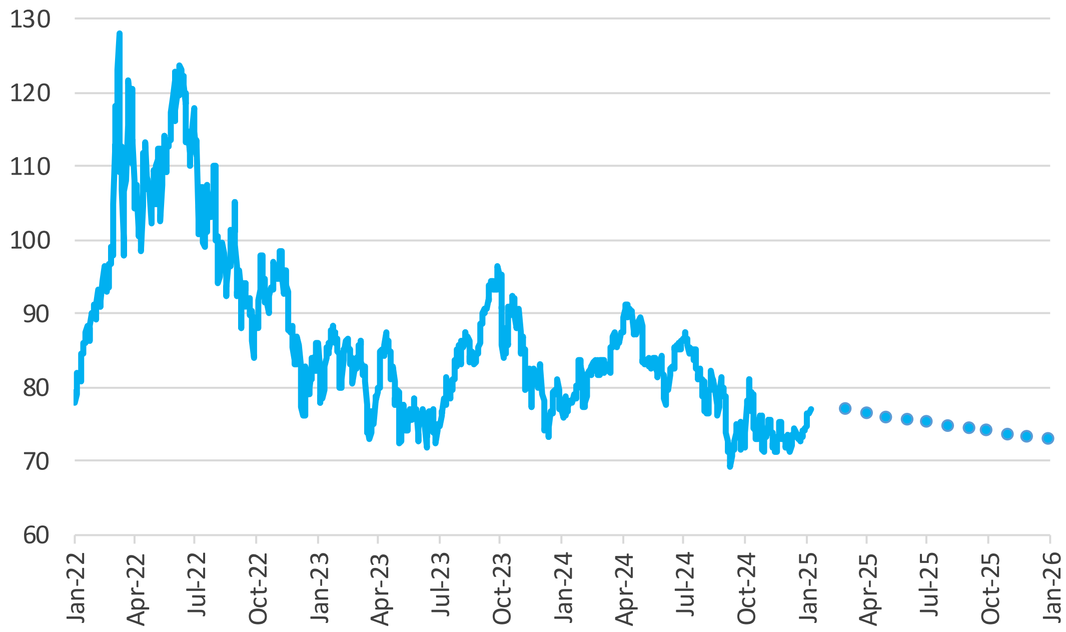
Brent oil prices (and futures)

$ per barrel



Commodity prices

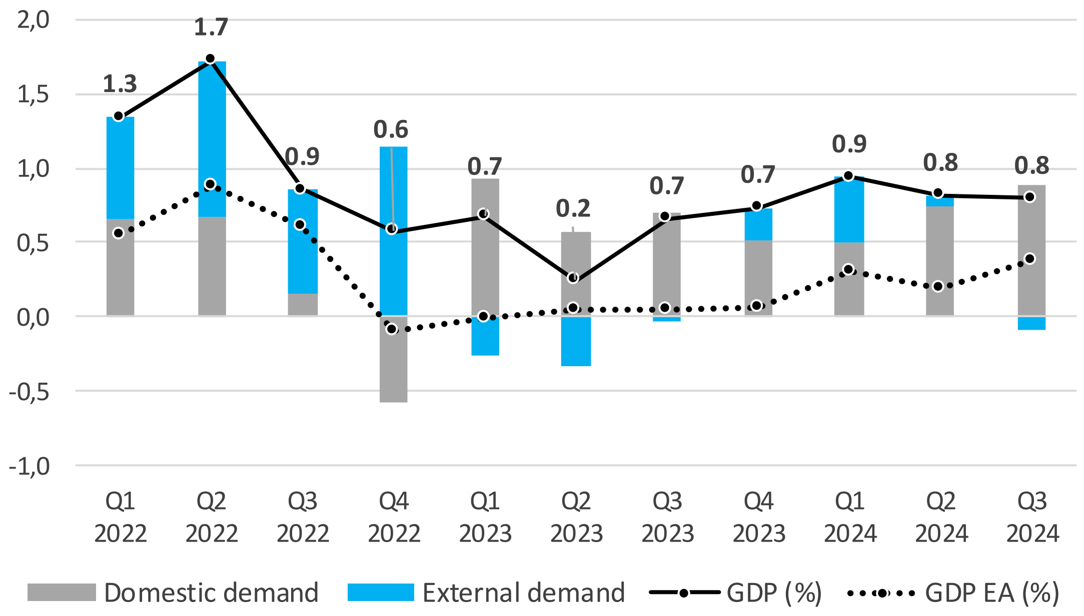
	Metric	Price	*Change (%)* Last Month	Year to Date	2023	2024
Commodities	**index**	**101,4**	**2,6**	**2,6**	**-12,6**	**0,1**
Energy	**index**	**30,9**	**13,4**	**4,9**	**-25,6**	**-3,9**
Brent	$/barrel	78,0	8,0	4,5	-10,3	-3,1
Natural Gas (Europe)	€/MWh	44,0	-3,3	-9,9	-57,6	51,1
Precious Metals	**index**	**275,4**	**-1,5**	**3,4**	**4,1**	**19,0**
Gold	$/ounce	2680,0	-0,5	2,1	13,1	27,2
Industrial Metals	**index**	**143,7**	**-1,9**	**2,4**	**-13,7**	**-1,6**
Aluminum	$/Tm	2539,0	-1,9	-0,5	0,3	7,0
Copper	$/Tm	9078,5	-1,7	3,5	2,2	2,4
Agricultural	**index**	**56,9**	**-1,5**	**-0,1**	**-9,3**	**-8,7**
Wheat	$/bushel	534,8	-1,3	-3,0	-20,7	-12,2

- **Uncertainty prevails over market fundamentals.** The price of the barrel of Brent oil rose by 2% in December, reaching around $74, as money managers' long positioning increased to the highest level since July 2024 and after some OPEC countries reported lower oil production. The average price per barrel in 2024 was $79.8 (vs our forecast of $80.4), 3% less than in 2023. Shrinking crude stockpiles in the US, colder weather in the US and Europe and the prospect of stricter sanctions on Iran by Trump are among the major drivers of oil prices in the first weeks of 2025, pushing Brent prices above $78. However, sustained concerns about demand (especially in China) point to an oversupplied market and remain a major price overhang. OPEC+ will keep a tight grip on supply with outputs cuts, at least, until the end of Q1.
- Our current forecasts feature an average **Brent** price of $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 posing upward risks in 2024&2025 forecasts

Contribution to quarterly GDP growth

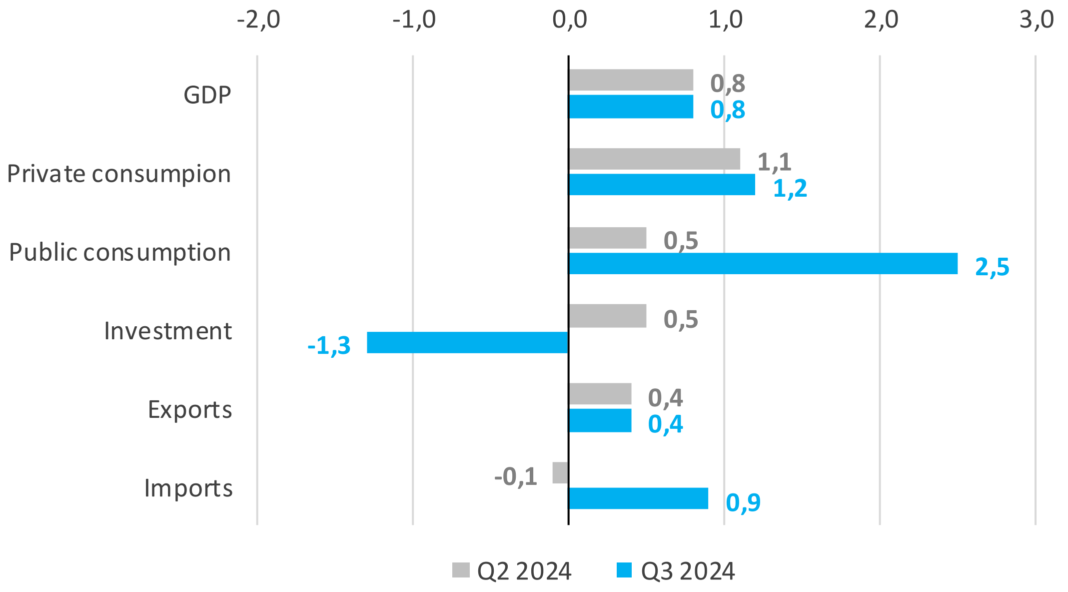
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

GDP and its components

Quarter-on-quarter variation (%)

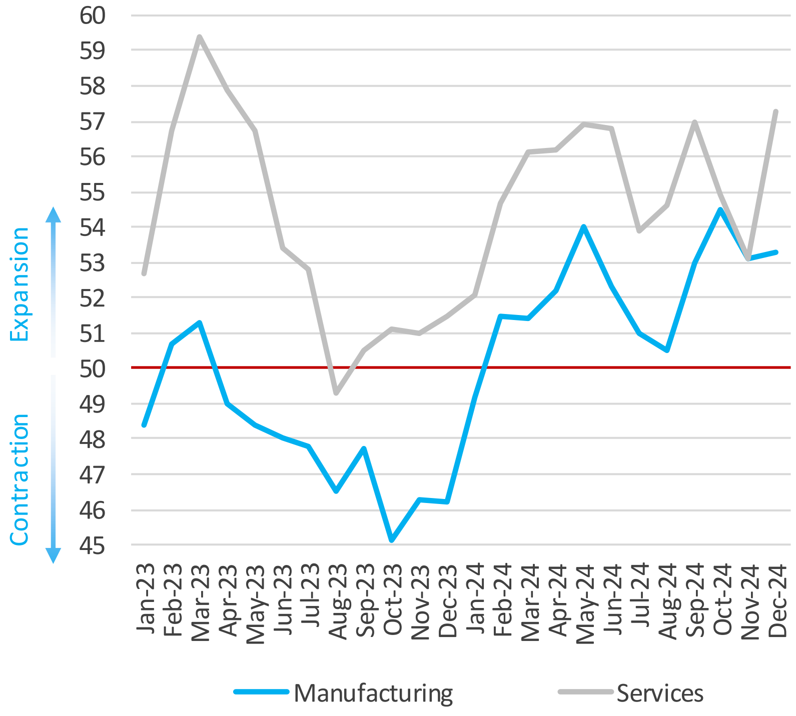


- **GDP grew 0.8% qoq in Q3 2024 (3.3% yoy),** above what we expected (0.5% qoq), driven by domestic demand. Private consumption grew 1.2% qoq, in line with the good evolution of retail sales and the Consumption Monitor of CaixaBank Research. Instead, private investment retreated (-1.3% qoq), due to 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.
- Better than expected Q3 GDP data along with dynamic activity indicators in Q4 introduce **upside risks to our 2.8% GDP growth economic forecast for 2024 and to our 2.3% forecast for 2025.**

Activity indicators show that the economy remains dynamic in Q4 2024

PMI indices

Level

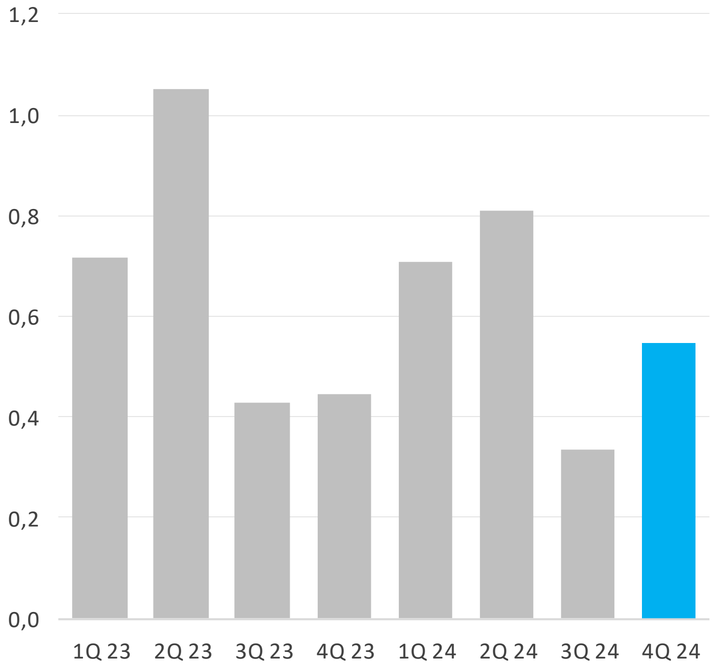


Macroeconomic indicators

	Q4 2024	Q3 2024	Data up to
Workers registered to the Social Security system (qoq growth in % SA)	0.5	0.3	Dec.
CaixaBank Consumption Monitor (yoy growth in %)	4.0	3.2	Dec.
Manufacture PMI level, >50 expansion	55.1	55.2	Dec.
Services PMI level, >50 expansion	53.6	51.5	Dec.
Retail sales real&excl. gas stations, yoy growth %	0.4	1.2	Nov.

Social Security registered members

QoQ change (%)



Note: Seasonally adjustment.

- **Q4 activity indicators suggest growth keeps being dynamic in Q4 2024 and there are some upside risks to our 0.5% qoq forecast**. The GDP figure for Q4 will be released on January 29.
- **The PMI indexes for the Spanish economy increased in December** and remain well within the expansion zone (>50 points). The increase is particularly notable for the services sector (57.3 in December vs. 53.1 in November), whereas the index for the manufacturing sector increased 0.2 points to 53.3. Overall, in Q4 the services PMI increased 2.1 points with respect to Q3 to 53.6, the best figure since 2022. The manufacturing index remained similar with respect to Q3 (55.1 in Q4 vs. 55.2 in Q3).
- **Job creation has gained strength in Q4**. Affiliation to the Social Security system (seasonally adjusted) grew 0.5% qoq compared to 0.3% in Q3.

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

GDP: analysts' forecast

Year-on-year change (%)

Ordered by forecasts in 2024	2024	2025	Cum. 24-25
Bank of Spain (Dec. 17)	3.1	2.5	5.7
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
IMF (Oct. 22)	2.9	2.1	5.1
CaixaBank Research (Oct. 14)	**2.8**	**2.3**	**5.2**
Government (Sep. 24)	2.7	2.4	5.2

- **We forecast that the Spanish economy will grow by 2.3% in 2025 with some upside risks**. 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.
- **Bank of Spain has recently revised upwards the growth forecast for 2025** from 2.3% to 2.5% in the light of the carry-over effect of a better-than-expected H2 in 2024, the incorporation of an interest rate path with a faster moderation than previously anticipated, and the boost associated with support measures in response to the DANA.
- **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 0.7% below its Q4 2019 level, while private consumption is 2.7% above despite a 3.6% increase in population.

Spain: households' financial position improves on the back of job creation and deleveraging

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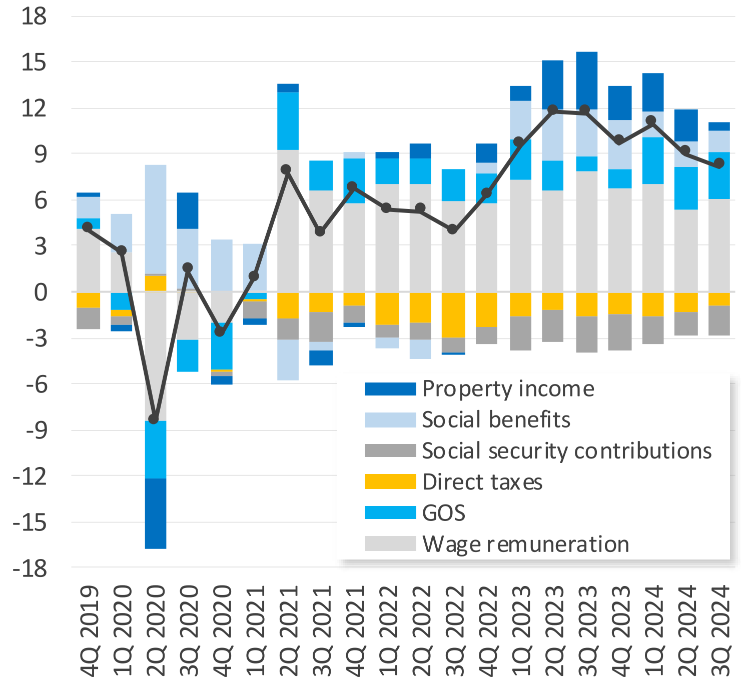
Household's gross disposable income

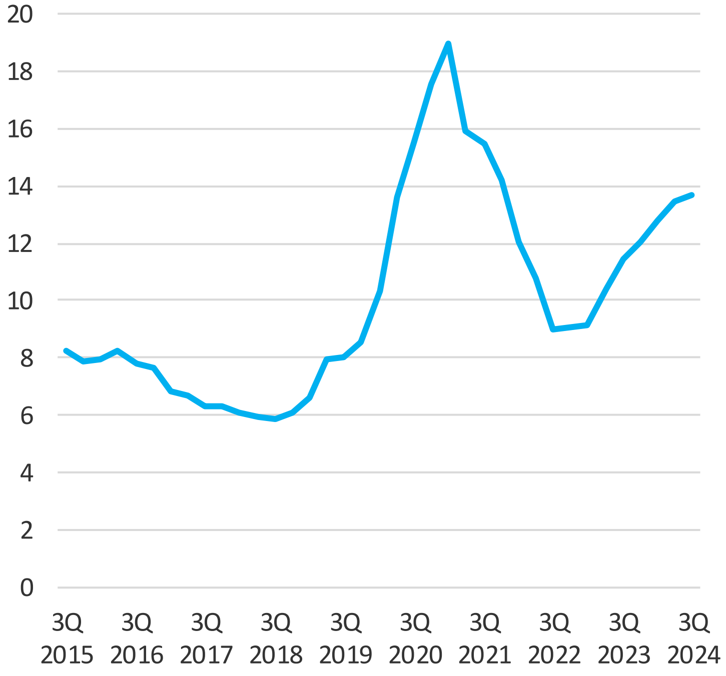
Percentage points and percentage change (%)



Note: Non-financial accounts. Rentas netas propiedad before SIFMI.
Source: CaixaBank Research, with INE data.

Savings rate

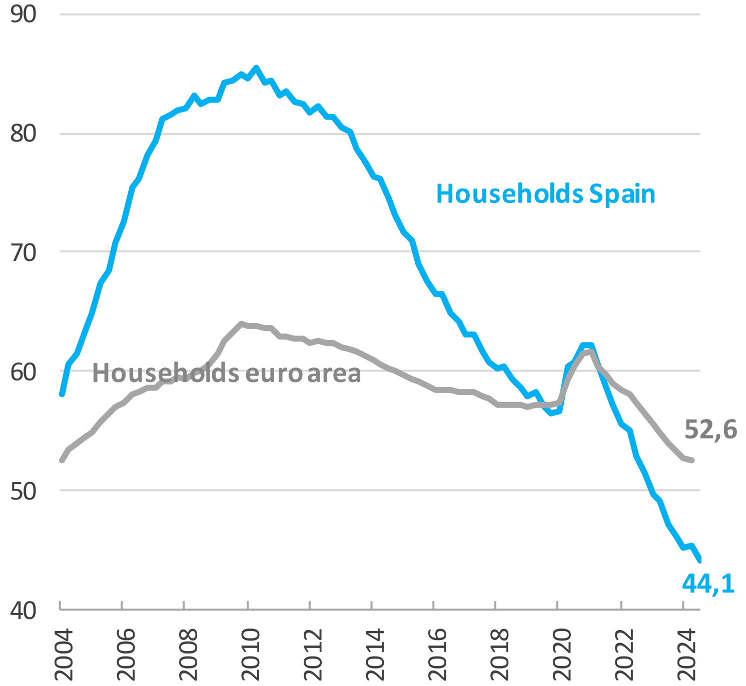
% Gross disposable income



Note: Cumulative four quarters, average 2015-2019: 6.8%

Households' debt

% GDP

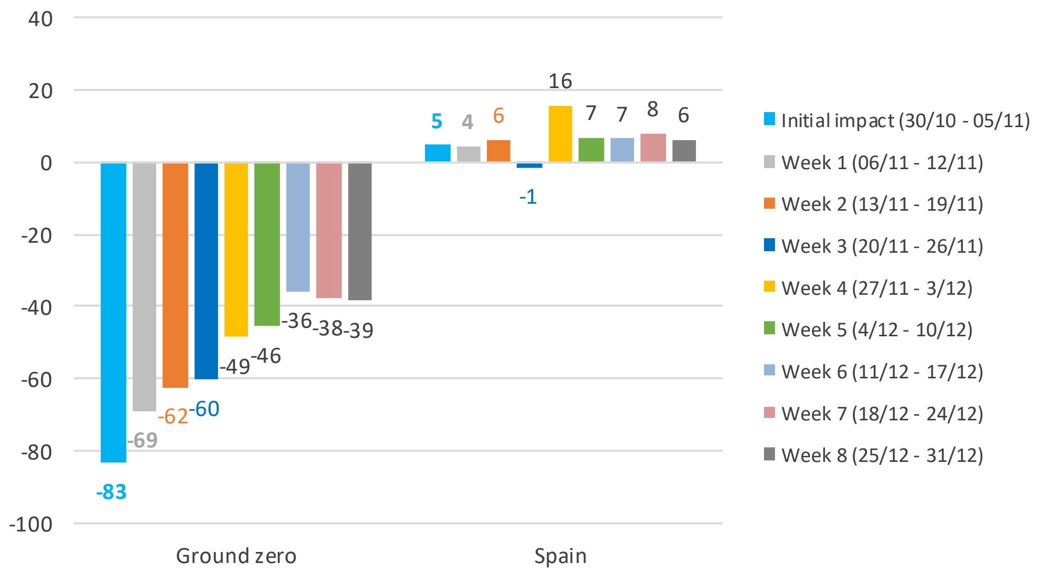


- **Gross disposable income (GDI) grew by 9.4% yoy in the first three quarters of 2024**. This was fundamentally the result of a high growth in employment (Full-time employment +2.8% helped by immigration inflows) and wages (+5.1% per employee) while non-labour income (dividends, self-employment income, pensions…) grew by 14.4%.
- **Dynamic gross disposable income** growth led by a buoyant labour market has placed the savings rate at 13.7% in Q3 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).
- **Household debt has dipped to 44.1% of GDP in Q3 2024**, a level unseen since Q2 2000.

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

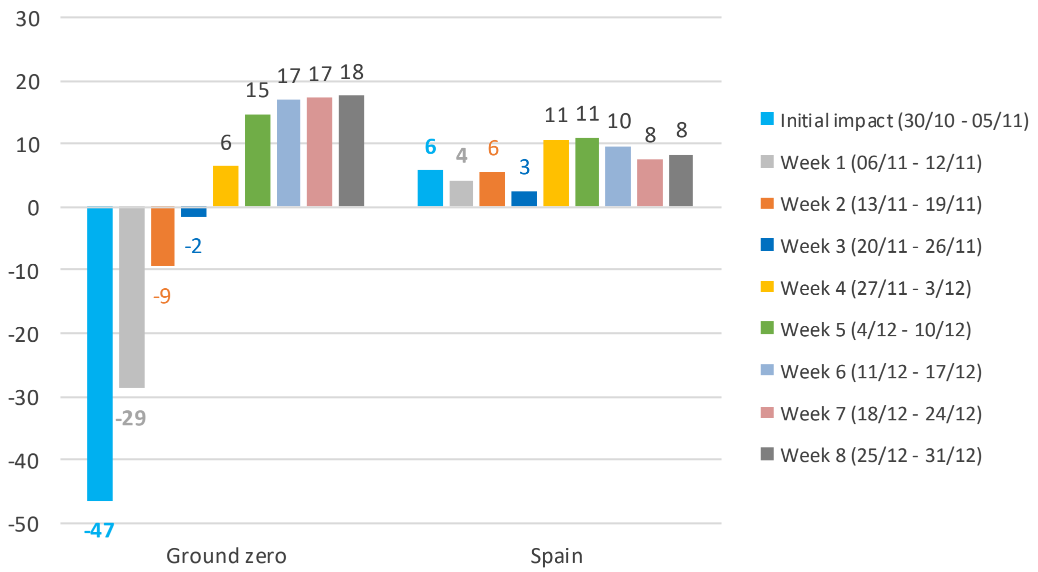
Domestic spending in the affected area

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%).
- **Strong divergence in the recovery in the most affected areas**. Whereas consumption during the last week of the year rebounded strongly (+18% year-on-year vs. +8% in Spain), the sales recorded by its businesses were -39% lower. The number of inactive businesses stabilized around 45% during the holiday season, with significant differences by sector (30% inactive in the transport sector vs. 60% in retail).
- **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.

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 2.8% in December

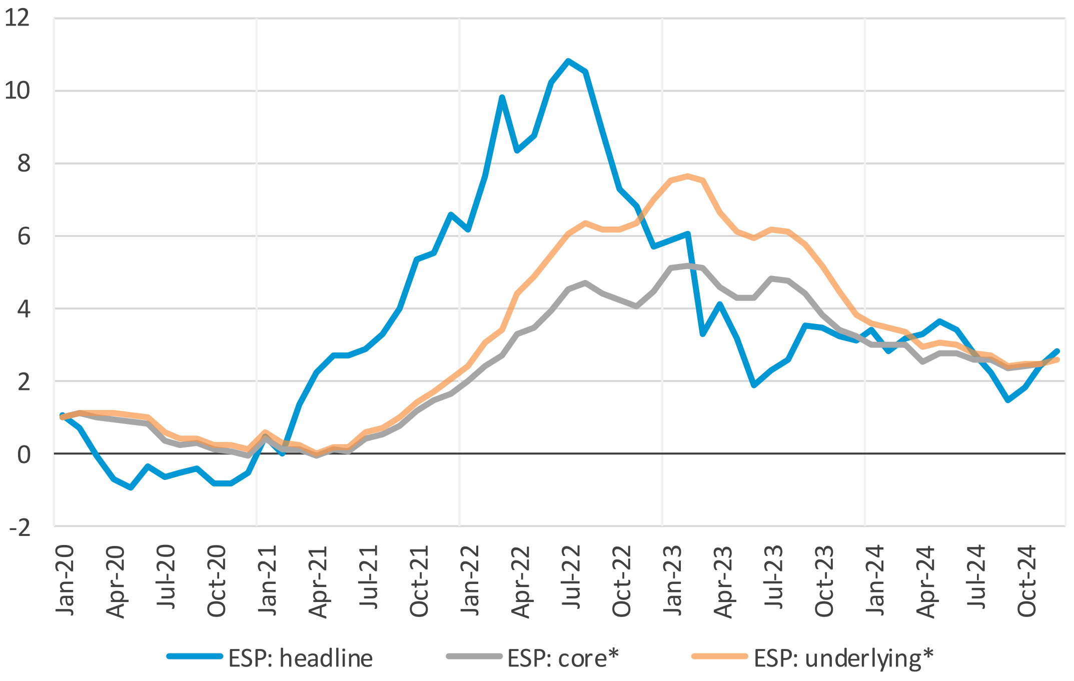
Inflation forecasts

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 %

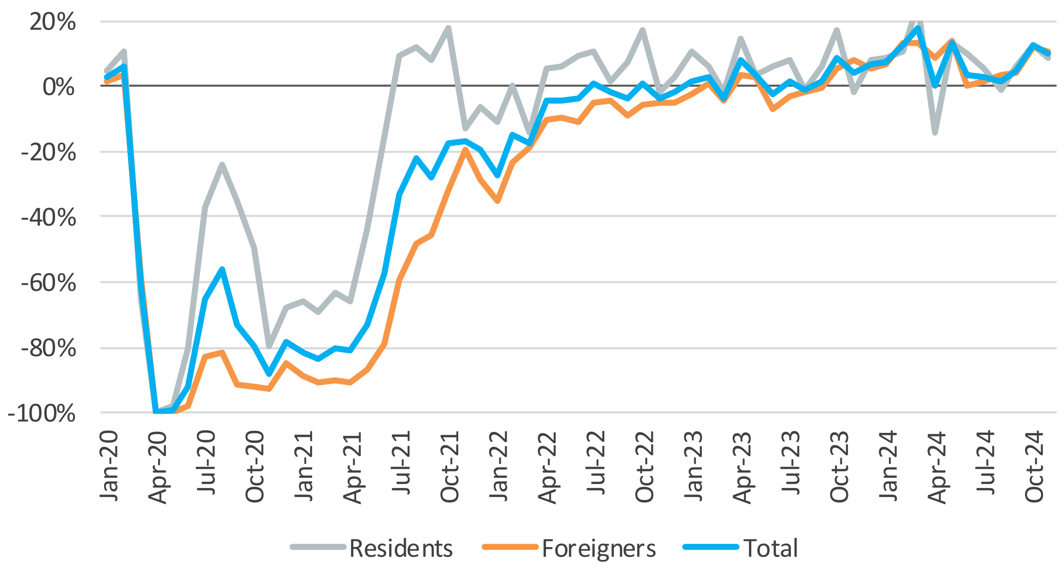


- **Headline inflation up 0.4 pp. to 2.8% in December**. The uptick in inflation responds to the increase in fuel prices, compared to the decrease in December 2023. At the same time, underlying inflation (which excludes energy and non-processed food) went up 0.2 pp. to 2.6%.
- With the December data, average headline inflation in 2024 has been 2.8% (versus our forecast of 3.0%) and average underlying inflation has been 2.9% (versus our forecast of 3.0%).
- **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 December were up 50% and 52% since January 2024, respectively. Future markets foresee a moderation of electricity prices in H1 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

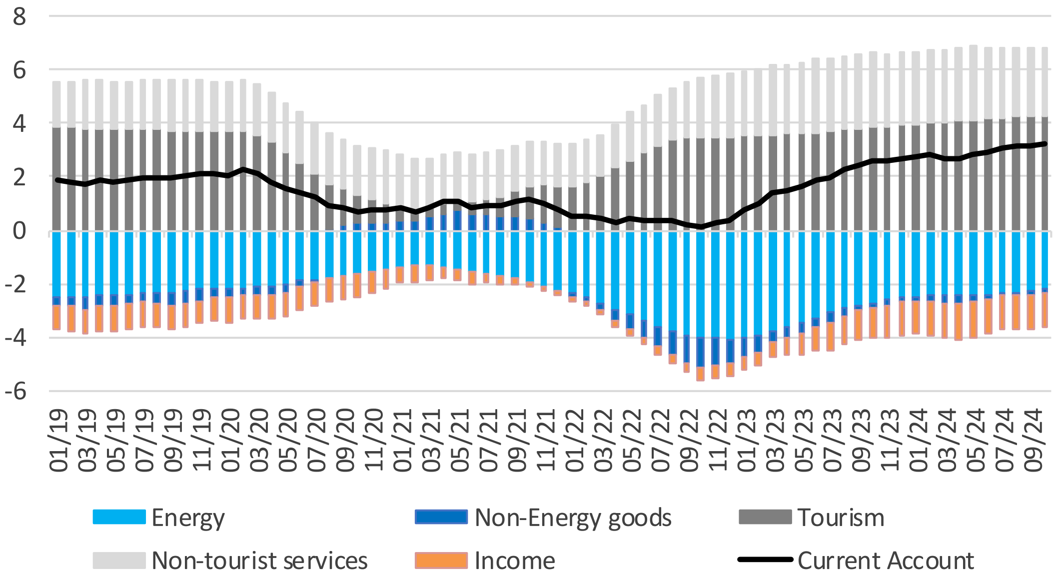
Overnight stays

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 +7.9% 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 0.74pp 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 3.6% and adding 0.5pp 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 eleven 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 eleven months of 2024 are up a modest +0.5% yoy as Spanish tourists travel more abroad. Inflation in tourism services has moderated to 5.1% in the first eleven months of 2024 but remains elevated.
- **The Spanish external sector posted another positive performance in October 2024**. Exports grew by 9.3% and imports by 4.8% year-on-year. The monthly trade deficit narrowed significantly, reducing by 23% compared to the same month in 2023, and stood at -€3.93 billion. Energy goods saw a marked slowdown, with imports dropping sharply by 18.3%, a trend that helped counterbalance weaker energy exports, which fell by 13.6%. Meanwhile, non-energy products displayed dynamism, with exports increasing by 11.2% and imports by 9%. Over the first ten months of the year, exports showed their first cumulative growth for 2024 (+0.7%), signaling a gradual recovery in external activity. This improvement is mirrored in the annual trade deficit, which has shrunk by 13%, reaching €36.85 billion.

Renewed momentum in housing prices

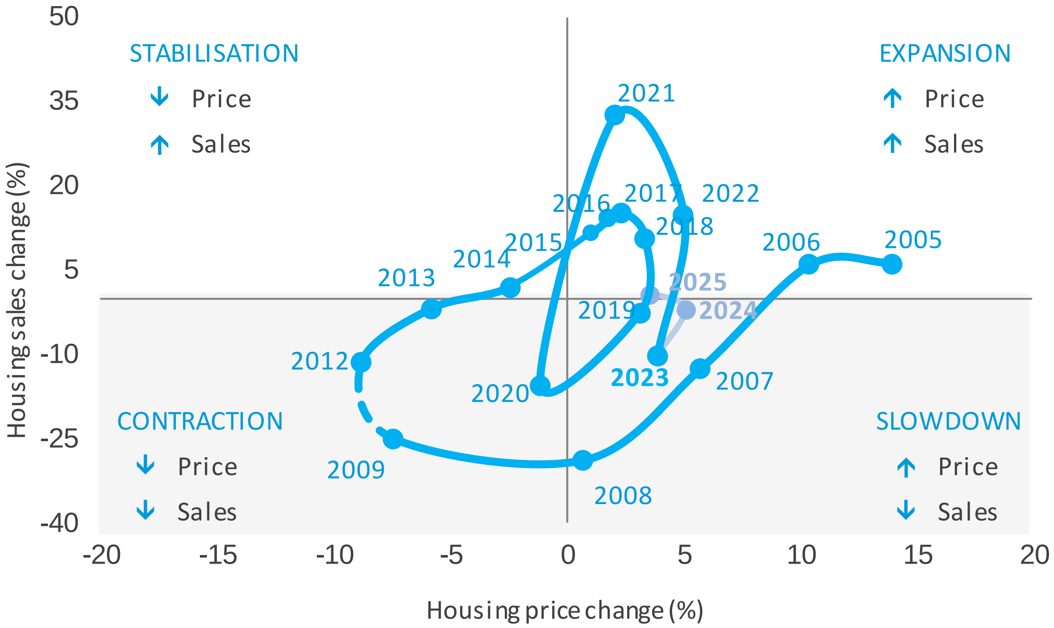
Forecasts for the real estate market

UNDER REVISION

	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.

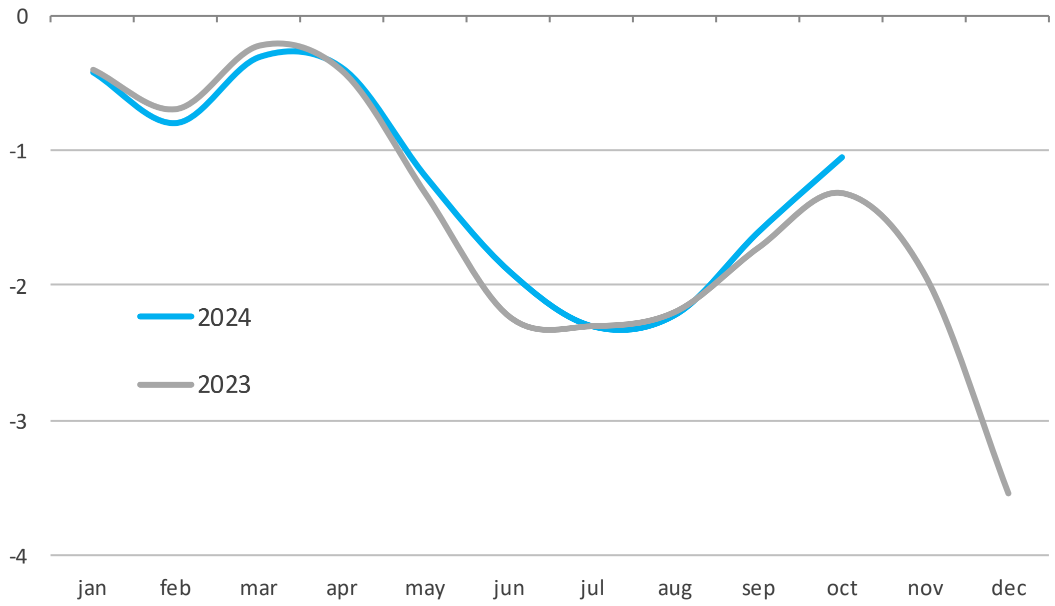
- **The housing market is in expansionary mode**: the positive *momentum* and the better-than-expected published data will lead us to revise upward our forecasts in January.
  - **Housing prices accelerated in Q3**: 8.2% yoy (7.8% in Q2) according to INE price index (transaction price) and 6.0% yoy (5.7% in Q2) 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 7.5% yoy in Jan.-Oct. 2024, and reached 621k units (cum. 12 months) due to strong demand factors, especially population growth and the decline in interest rates.
  - **Housing supply is gaining some traction**. New building permits increased by 16.5% yoy in Jan.-Oct. 2024 (125k 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.
- 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

CaixaBank

General government budget balance*

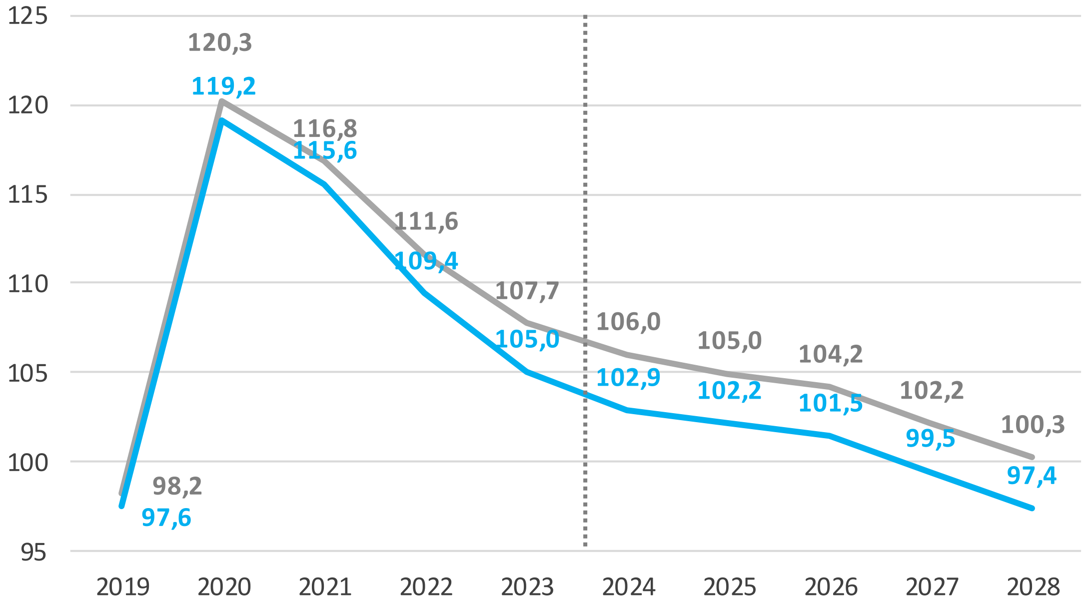
(% GDP)



Note: Excluding local governments.
Source: CaixaBank Research.

Public debt

In % of GDP



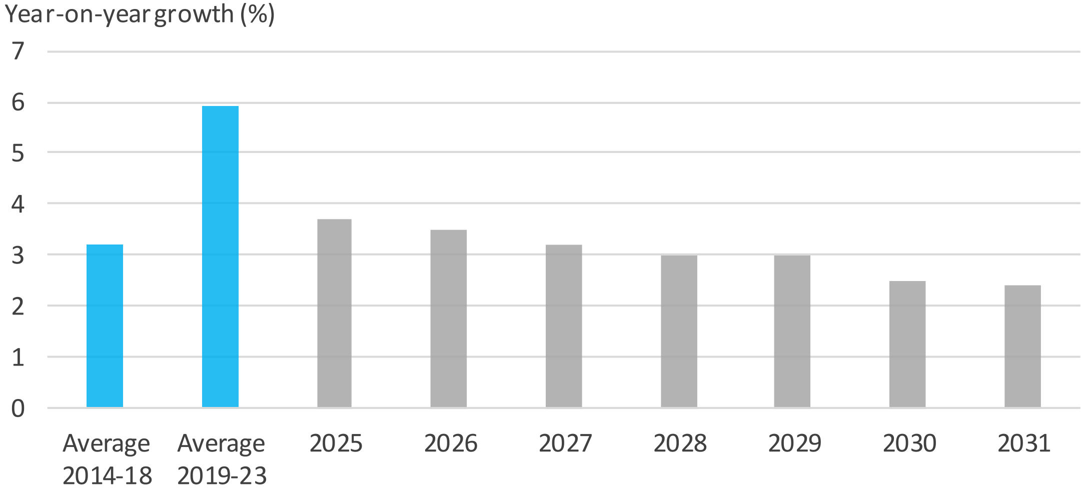
- **Budget execution** shows that the public deficit until October is 0.3 pp lower in % of GDP than the 2023 October figure. We expect the deficit, excluding the fiscal impact of DANA measures, to end the year at c.**3.0%** of GDP, compared to 3.5% in 2023. Including the DANA measures, the public deficit 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 0.5% of GDP, to be distributed between the 2024 and 2025 fiscal years. The Government has designed a specific addendum to the Recovery Plan, which will reprogram 1.5 billion euros with the aim of relaunching the region affected by the DANA. 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 October: 8.0% year-on-year growth, above the 6.3% increase in public spending. 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*



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

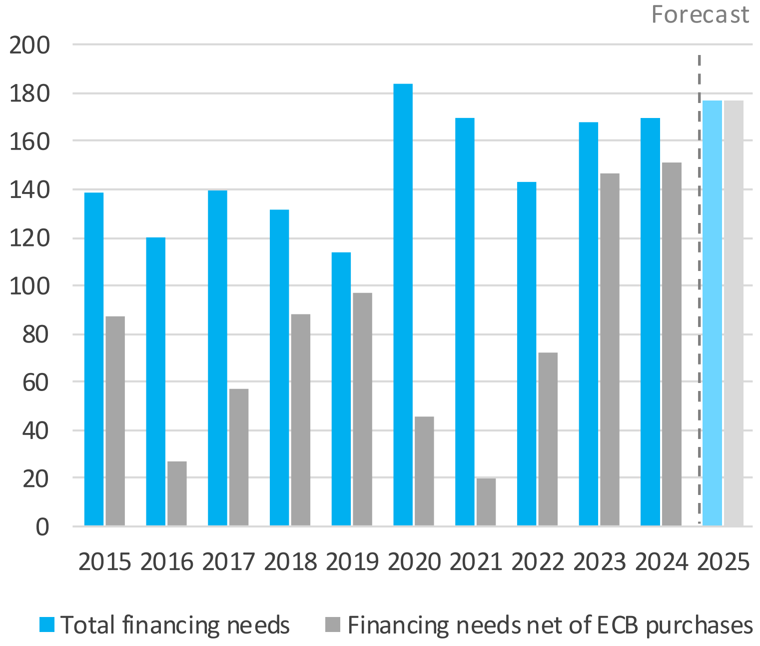
- The growth of primary expenditure net of new revenue measures consistent with this fiscal adjustment would be on average 3% between 2025 and 2031.
- New tax measures between 2025 and 2031 will increase the revenue-to-GDP ratio by c.0.3 p.p.

State's financing needs increase, but they can be absorbed by the larger participation of domestic and nonresident investors

CaixaBank

Spain: Gross financing needs

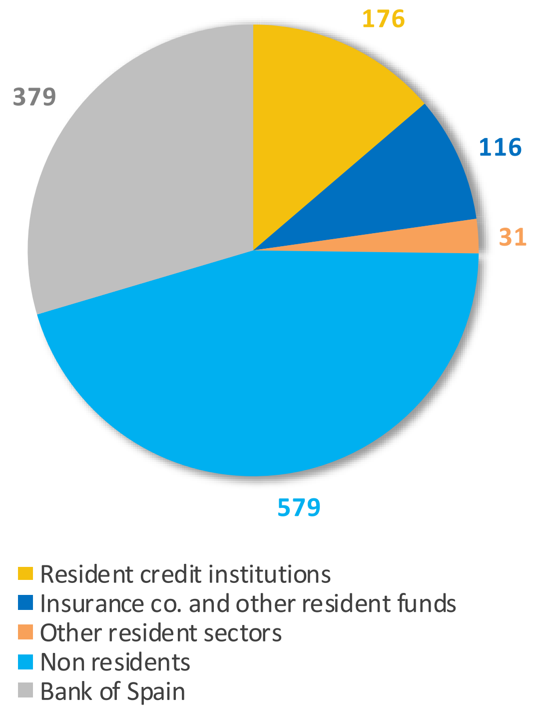
€ Bn



Note: *Amortisation funds do not include short-term bills.
Source: CaixaBank Research, with data from the Directorate-General for the Treasury.

Public debt holdings (excl. bills)

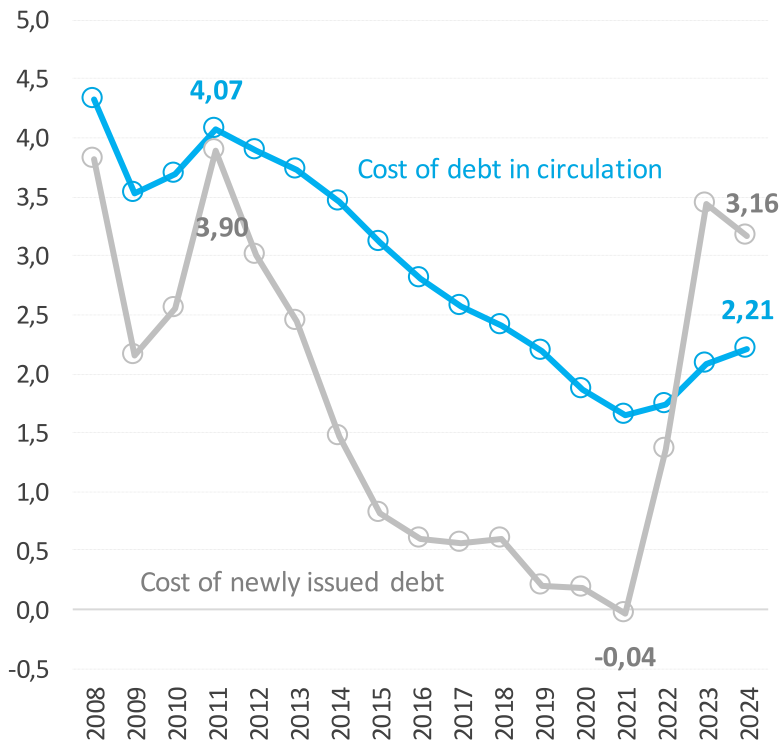
€ Bn



Note: October data.

Cost of debt: State

%



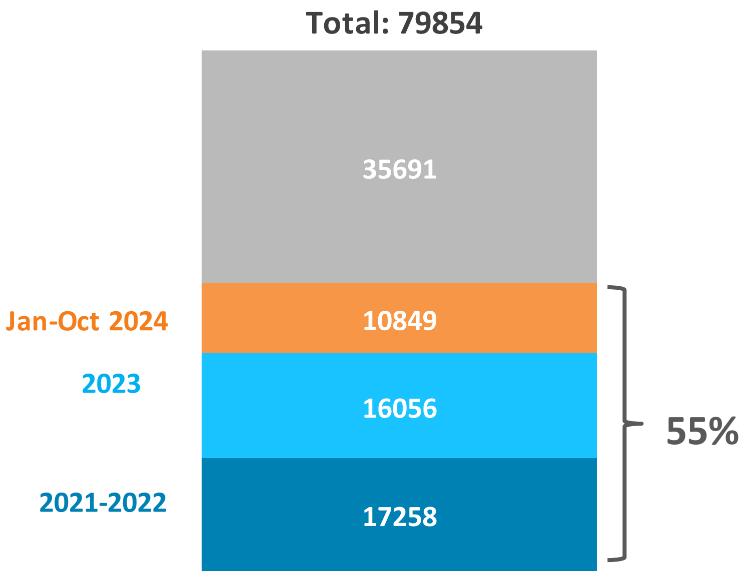
- **Funding needs in 2025** will be above those of 2015-2024 net of ECB purchases. However, higher interest rates with respect to pre-pandemic levels should maintain the appeal of public debt holdings for investors, whether domestic or non-resident, and facilitate the absorption of Spain's financing needs.
- **Government debt is diversified across holders**. In 2024 (data up to October), foreign investors increased their holdings of Spanish debt (excl. bills) by €61.2bn, which suggests there is appetite for this type of investment. Retail investors have led domestic interest in Treasury Bills, becoming their main holder, with a historical increase of €24.7bn since December 2022.
- **In 2025, the average cost of debt is expected to keep at contained levels**. The average lifespan of the stock of debt is elevated (c. 8 years), so the share of debt that needs to be re-financed every year is small. Interest payments on debt of the public administrations could stand at 2.5% of GDP in 2025, a similar level to that of 2024, but much lower than a decade ago (in 2014, it was 3.5%).

NGEU: The Recovery Plan keeps being deployed

CaixaBank

Execution of PRTR

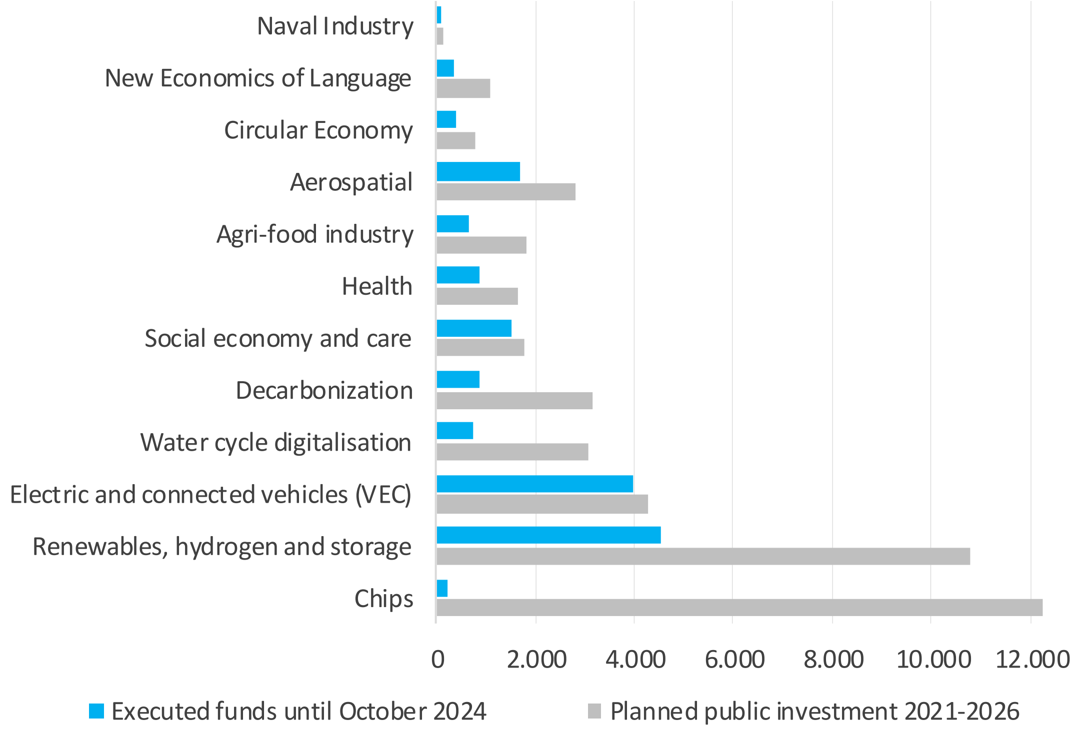
Total grants (Million euros)



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.

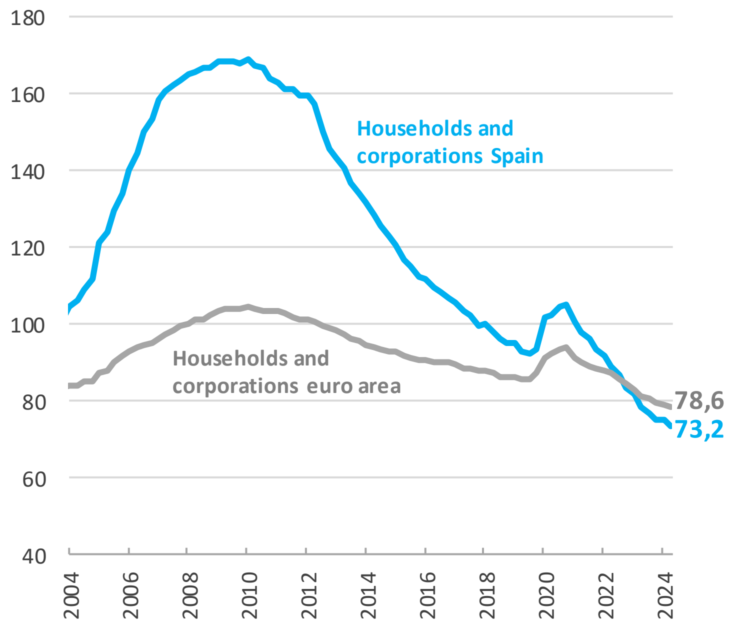
- Thus far, the **Kit Digital** program has granted more than 576,000 vouchers, for more than €2,300 million, and in December it opened the call aimed at medium-sized companies with vouchers of 25,000 and 29,000 euros that can be requested until June 30, 2025. Since its launch last May, **Kit Consulting** has awarded around 11,000 grants, equivalent to more than €146 M.
- On January 13, the Industry Minister opened the second call of the **PERTE Chip** endowed with €110 M for microelectronic projects.

- **Spain has requested to Brussels the 5th payment of NGEU funds**: €8,000 million in grants and €15,900 million in loans. The request includes the fulfillment of 71 milestones and objectives, standing out: Law on Universities, tax changes (minimum tax rate for multinationals, a higher IRPF maximum tax rate on capital income, vaping tax…), Law on Organizational and Procedural Efficiency, Water Law and the interconnection of public procurement platforms.

Banking system: improved credit dynamics

Bank credit to the private sector

% GDP



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

Private domestic credit

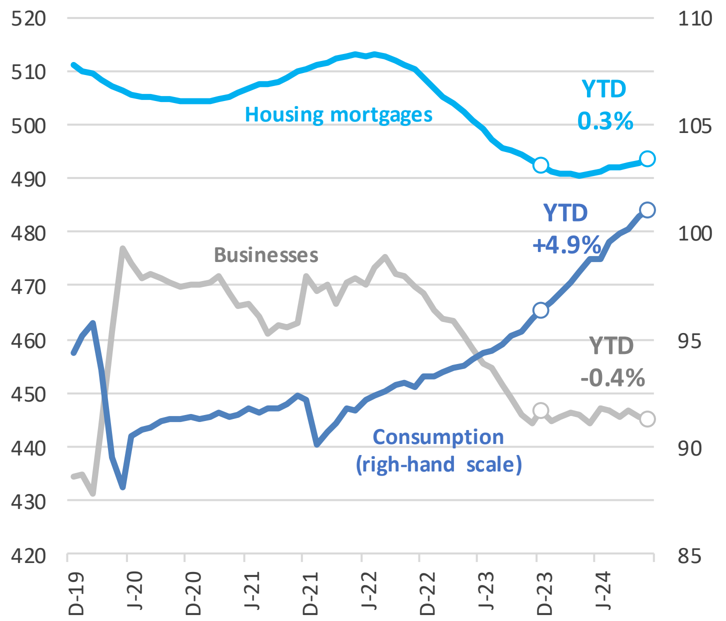
Year-on-year (%)

	Dec-23	Nov-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	0.4%	0.5%
Households	-2.5%	0.6%	0.6%
Housing mortgages	-3.2%	0.1%	0.3%
Other purposes	-0.5%	1.9%	1.3%
Of which consumption	2.8%	4.9%	6.0%
Businesses	-4.7%	0.2%	0.3%
Non-real estate developers[1]	-4.3%	-1.1%	-
Real estate developers[1]	-6.1%	1.7%	-

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

Private domestic credit

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

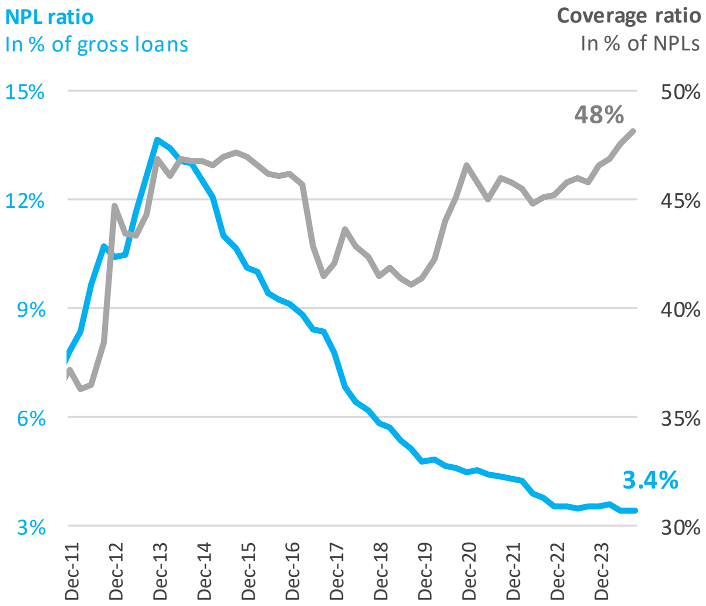


Note: latest data available as of Nov-24.
Source: Caixabank Research with data from Bank of Spain.

- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 3Q24. 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 November grows +17.9% 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 November grows +18.7% yoy).
- **New lending to corporates** in November is similar to that of Nov'23 (-0.2% yoy). YTD growth rates are currently not available due to a structural break in BoS new lending data.
- **Consequently, the stock of credit to the Spanish resident private sector has stabilized in absolute terms during 2H24.** We expect credit levels to end 2024 somewhat higher than in 2023 and accelerate growth in 2025, albeit at a rate below nominal GDP growth.

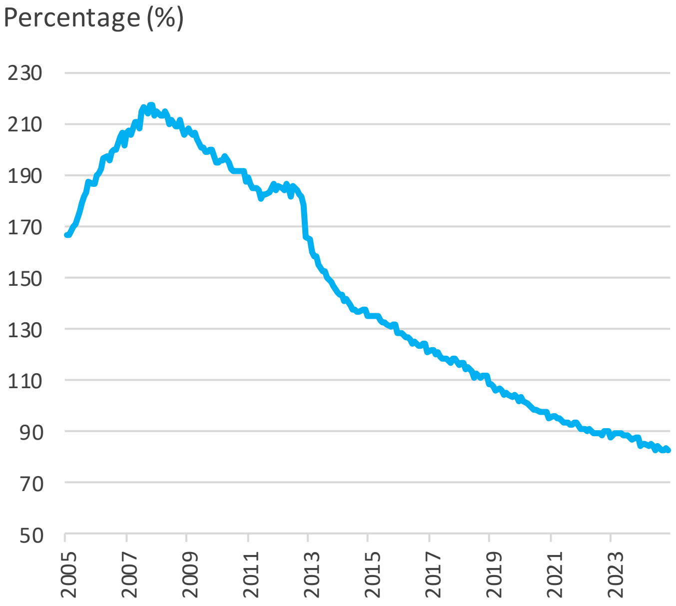
Banking system: solid financials

NPLs and coverage ratios[1]



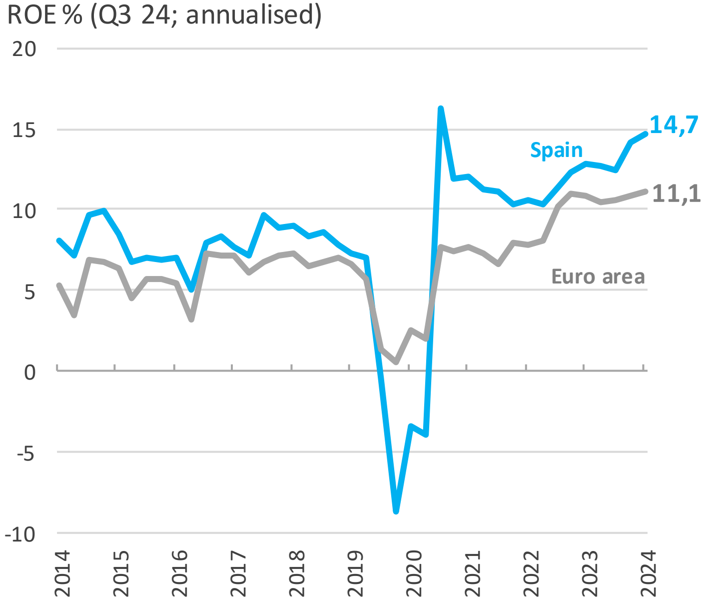
Note: (1) latest available data Oct-24 and Sep-24, respectively
Source: CaixaBank Research with data from Bank of Spain.

HHs & NFCs loan to deposit ratio



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

Banks' profitability



Source: CaixaBank Research with data from EBA (Dashboard-Q3 24).

- **NPLs remain stable around 3,4%**. The share of stage 2 loans on a group level decreased to 7.0% in 3Q24, remaining below EU level. The Government has approved 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 (+5.0% yoy in Nov'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **Profitability is recovering (ROE stood at 14.7% in 3Q24)** thanks to the widening of the net interest margin and despite the extraordinary 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 3Q24.** 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.