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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
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CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

January 2025

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2025, what colour will you be?

Our perception of economic reality often contrasts with the message that the key macroeconomic figures convey. The general feeling is that the economy is struggling to get going. The colour that best describes the situation of many households is undoubtedly a pessimistic grey or a critical red. This contrasts with the more dynamic patterns shown by the main macroeconomic indicators, which could be painted in a coat of hopeful green.

To date, the Spanish economy has grown, above all, in volume. At the end of 2024, it is estimated that there were 1.7 million more people in Spain than there were in 2019 an increase of 3.8%. With more people, it makes sense that there is also more economic activity. This largely explains why GDP is 6.6% above the records of five years ago. However, following the economic crisis triggered by the pandemic, the recovery of many Spanish households has been more modest. In fact, consumption per household in real terms was 1.5% below pre-pandemic levels in Q3 2024. This helps to explain the apparent discrepancy between the trends in the main macroeconomic indicators and many households' perception of the economic situation.

This different perception could change in 2025, as the dynamics that will drive economic growth should be noticed in Spaniards' pockets. On the one hand, their purchasing power should consolidate its recovery. Inflation is expected to stabilise around 2% this year, while wages are expected to grow at a slightly higher rate. Specifically, gross disposable income per household could grow by around 1.5% in real terms this year.

This will also be helped by the reduction of interest rates. The 12-month Euribor began 2025 at 2.5%, more than 1 pp below where it stood a year ago. Moreover, it is expected to continue to decline over the coming months, in line with the interest rate cuts that the ECB is likely to continue to implement. For the Spanish economy, this is an important source of support. This, coupled with a generally healthier financial position – with relatively low debt among both businesses and households – should allow private consumption and investment to grow by around 3% this year. Thus, 2025 could be the year in which we finally use the colour green to paint the key macroeconomic figures, as well as the situation of households.

That said, the pessimistic grey is also on the colour palette for 2025. The main challenges come from abroad. Exports of goods and services, after several years of high growth, now lie 11.0% above pre-pandemic levels in real terms and their growth rate is expected to normalise. However, this slowdown could be sharper than expected if the new Trump administration finally fulfils its electoral promise and raises tariffs across the board. If this happens, we cannot rule out the possibility of a global trade war from which no one would emerge victorious. Let's hope that in the end the worst omens will not materialise.

Added to this is the difficult economic situation of Spain's main trading partners, especially France and Germany. At the domestic level, the main challenge is no doubt to be found in the real estate sector. The lack of housing is leading to higher than expected price growth, exacerbating the affordability problems for young people and the most vulnerable groups in society. The reduction of interest rates will cushion the pressure this year, but hopefully housing investment will be mobilised sooner rather than later and the pressure on prices will ease, facilitating dynamic and socially sustainable economic growth.

Oriol Aspachs
January 2025

Chronology

DECEMBER 2024

12 The ECB cuts interest rates by 25 bps and leaves the depo rate at 3.00%.
18 The Fed cuts interest rates by 25 bps, placing them in the 4.25%-4.50% range.

NOVEMBER 2024

7 The Fed cuts interest rates by 25 bps, placing them in the 4.50%-4.75% range.
The BoE cuts interest rates by 25 bps to 4.75%.

OCTOBER 2024

17 The ECB cut interest rates by 25 bps and lowered the depo rate to 3.25%.

SEPTEMBER 2024

12 The ECB cut interest rates 25 bps, placing the depo rate at 3.50% and the refi rate at 3.65%.
18 The Fed cut interest rates 50 bps, placing them in the 4.75%-5.00% range, having raised them 500 bps since March 2022.

AUGUST 2024

1-5 Strong turbulence in the financial markets triggered by the Bank of Japan's decision and worse-than-expected employment data for July in the US.
12 OPEC revises its forecasts for global oil demand in 2024 and 2025 slightly downwards, mainly due to slowing consumption in China.
23 The Fed will begin cutting interest rates in September, according to Powell's speech in Jackson Hole.

JULY 2024

26 The Olympic Games begin in Paris.
31 The Bank of Japan announces a surprise rate hike to 0.25% (up from the previous 0.0%-0.1% range), marking the highest level since late 2008.

Agenda

JANUARY 2025

2 Portugal: public debt (November).
3 Spain: registration with Social Security and registered unemployment (December).
7 Euro area: CPI flash estimate (December).
Euro area: economic sentiment index (December).
9 Spain: financial accounts (Q3).
10 Portugal: GDP (Q3).
17 Portugal: balance of payments (November).
China: GDP (Q4).
22 Spain: loans, deposits and NPL ratio (November).
Portugal: non-financial sector debt (November).
28 Spain: labour force survey (Q4).
28-29 Federal Open Market Committee meeting.
29 Spain: GDP flash estimate (Q4).
30 Spain: CPI flash estimate (January).
Portugal: GDP flash estimate (Q4).
Portugal: budget execution (December).
Governing Council of the European Central Bank meeting.
Euro area: GDP (Q4).
Euro area: economic sentiment index (January).
US: GDP (Q4 and 2023).

FEBRUARY 2025

2 Euro area: CPI flash estimate (January).
4 Spain: registration with Social Security and registered unemployment (January).
5 Portugal: employment and unemployment (Q4).
7 Spain: industrial production (December).
10 Portugal: international trade (December).
14 Portugal: average gross monthly wage per worker (Q4).
16 Japan: GDP (Q4).
17 Spain: foreign trade (December).
18 Portugal: industrial price index (January)
24 Spain: loans, deposits and NPL ratio (December).
27 Spain: CPI flash estimate (February).
Euro area: economic sentiment index (January).
28 Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).
Portugal: CPI flash estimate (February).

Volatility in times of uncertainty

While we await the publication of the growth data for Q4 2024, with few developments in the economic information published in recent weeks and with the financial markets maintaining the inertia of the end of last year, all eyes remains focused on how Donald Trump's return to the US presidency will affect the world economy. The disruptive potential of an unbalanced combination of some of the measures that are on the table (tariffs, restrictions on the labour supply, disorderly fiscal expansion), combined with a much more complex geopolitical environment than that of four years ago, leaves us with the biggest challenge for economic and financial forecasting in a long time.

However, there are also factors that mitigate the riskiest scenarios in the short term. These include the continued strength of US economic activity; the positive effects on innovation of the proposed deregulation policies; the traditional checks and balances of the American political system (the Republican majority in the House of Representatives is still small); the profile of some of the main appointments of the new administration, such as that of Treasury secretary; the Fed's ability to respond to any unexpected increase in macroeconomic imbalances, and the counterweight role that the bond markets can play, among other factors.

For now, the markets' verdict is that short-term nominal growth will remain highly buoyant. However, given the cyclical position of the American economy, the weakness lies on the inflation side, and this is translating into an increase in short- and long-term interest rates (the yield on the 10-year bond has increased by over 100 bps since October), as well as shifting expectations regarding the Fed's next moves (now only one more interest rate cut is fully expected) and an appreciation of the dollar (7% in its effective exchange rate), which would offset part of the potential positive effects of tariffs on the balance of trade.

Nevertheless, despite all the noise generated by the new administration's communication policy, investors seem confident that the economic policy programme (Maganomics) will be deployed in a reasonably orderly manner, avoiding a deterioration in the fiscal situation, with growth and employment as the main priorities, while the Fed will remain vigilant to any impact on inflation expectations. That said, investors are also aware that maintaining a balance while pursuing all these objectives could entail some volatility, especially given the high valuations of some financial assets. The good news is that we will not have to wait long to get answers to many of the questions that will test the soundness of most economic projections, which are already threatened by alterations in the patterns and paradigms of recent decades, in a context subjected to a continuous process of change.

Therefore, whether or not we are witnessing a paradigm shift with Trump's coming to power, 2025 will be a year in which the globalisation process that the international economy has been immersed in for the past five years will continue to be reordered. Most notably, protectionism and industrial policy will gain prominence under the mantle of that new concept of open strategic autonomy. This will be a year in which the ability to question the assumptions behind the economic projections will once again be key, as will be the ability to adapt to changes in the environment and to be flexible when making investment decisions. It will be a year of change, of transition between a world that has not quite died yet (globalisation, multilateralism, liberal democracies) and another that has not quite been born and which nobody knows what shape it will take. The hope is that, when 2025 ends, we will get the same feeling as we had in 2023 and 2024, when the reality was much better than the baseline forecast scenarios had predicted at the start of the year. For this to happen, we must rely on the resilience demonstrated by the business cycle since the pandemic, as well as on the transactional benefits of economic and commercial relations taking precedence over ideology. Meanwhile, the advice is to fasten our seatbelts in order to safely navigate the volatility in uncertain times.

José Ramón Díez

Average for the last month in the period, unless otherwise specified

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.18	0.77	0.25	4.25	5.25	4.25	3.00
3-month SOFR	3.62	0.99	0.21	4.74	5.37	4.37	3.07
12-month SOFR	3.86	1.42	0.52	5.48	4.95	4.19	3.10
2-year government bonds	3.70	0.99	0.67	4.30	4.46	4.24	3.35
10-year government bonds	4.69	2.44	1.46	3.62	4.01	4.40	3.80
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.00
ECB refi	3.05	0.69	0.00	2.27	4.50	3.15	2.15
€STR	–	–0.55	–0.58	1.57	3.90	3.06	2.01
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.89	2.04
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.83	2.06
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.63	2.12
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.44	2.18
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.02	2.05
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.22	2.00
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.26	2.32
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.48	2.41
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	2.80
Risk premium	11	158	73	105	98	68	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.03	2.53
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.15	2.56
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.68	2.75
Risk premium	19	297	65	97	63	46	75
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.05	1.00
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.83	0.86
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	161.20	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	73.1	73.5
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	69.9	73.5

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	**4.4**	**2.9**	**6.5**	**3.5**	**3.3**	**3.1**	**3.3**
Developed countries	***2.7***	***1.0***	***5.7***	***2.6***	***1.7***	***1.7***	***1.8***
United States	2.7	1.5	6.1	2.5	2.9	2.6	1.9
Euro area	2.3	0.3	6.3	3.6	0.5	0.7	1.3
Germany	1.6	0.8	3.6	1.4	–0.1	0.0	0.7
France	2.3	0.3	6.8	2.6	1.1	1.1	1.2
Italy	1.5	–1.0	8.8	4.8	0.8	0.5	1.0
Portugal	1.5	–0.2	5.6	7.0	2.5	1.7	2.3
Spain	3.6	–0.2	6.7	6.2	2.7	2.8	2.3
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	1.1	1.0
Emerging and developing countries	***6.4***	***4.4***	***7.0***	***4.1***	***4.4***	***4.2***	***4.2***
China	10.6	7.5	8.5	3.0	5.3	4.6	4.0
India	7.2	5.7	10.3	6.7	7.7	6.6	6.8
Brazil	3.6	1.2	4.8	3.0	2.9	2.5	1.8
Mexico	2.3	0.7	6.1	3.7	3.2	2.1	2.1
Russia	–	1.0	5.9	–1.3	3.7	3.1	1.3
Türkiye	5.5	4.3	11.4	5.5	5.1	3.4	3.5
Poland	4.2	3.2	6.9	5.9	0.1	2.8	3.6
INFLATION							
Global	**4.2**	**3.7**	**4.7**	**8.7**	**6.8**	**5.7**	**4.3**
Developed countries	***2.1***	***1.5***	***3.1***	***7.3***	***4.6***	***2.7***	***2.1***
United States	2.8	1.7	4.7	8.0	4.1	2.9	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.4	2.2
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.3	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.1	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Spain	3.2	1.2	3.1	8.4	3.5	2.8	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.6	2.3
Emerging and developing countries	***6.7***	***5.5***	***5.9***	***9.8***	***8.3***	***7.9***	***5.7***
China	1.7	2.6	0.9	2.0	0.2	0.4	1.4
India	4.6	7.2	5.1	6.7	5.7	4.8	4.6
Brazil	7.3	5.5	8.3	9.3	4.6	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	6.6	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.1	4.6

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.7	–0.9	7.2	4.9	1.7	2.5	2.5
Government consumption	4.5	1.1	3.6	0.6	5.2	3.6	1.6
Gross fixed capital formation	5.7	–1.8	2.6	3.3	2.1	2.7	3.4
Capital goods	4.9	–0.9	3.3	2.9	1.1	1.8	4.3
Construction	5.7	–3.0	0.5	2.2	3.0	3.5	3.0
Domestic demand (vs. GDP Δ)	4.4	–0.9	6.9	3.9	1.7	2.4	2.4
Exports of goods and services	4.7	1.1	13.4	14.3	2.8	3.0	2.3
Imports of goods and services	7.0	–1.0	15.0	7.7	0.3	1.9	2.8
Gross domestic product	**3.6**	**–0.2**	**6.7**	**6.2**	**2.7**	**2.8**	**2.3**
Other variables							
Employment	3.2	–1.0	7.3	4.1	3.2	2.3	2.1
Unemployment rate (% of labour force)	10.5	19.2	14.9	13.0	12.2	11.6	11.2
Consumer price index	3.2	1.2	3.1	8.4	3.5	2.8	2.5
Unit labour costs	3.1	1.2	1.2	1.9	6.1	4.5	3.3
Current account balance (% GDP)	–5.8	–0.2	0.8	0.4	2.7	3.1	3.1
External funding capacity/needs (% GDP)	–5.1	0.3	1.6	1.1	3.6	4.1	4.1
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.7	–4.6	–3.5	–3.0	–2.6

Note: *1. Excludes losses for assistance provided to financial institutions.*

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.9	5.6	2.0	2.2	1.7
Government consumption	2.2	–0.2	3.8	1.7	0.6	1.0	0.8
Gross fixed capital formation	–0.4	–0.8	7.8	3.3	3.6	1.3	5.7
Capital goods	3.4	2.3	16.0	7.2	5.7	–	–
Construction	–1.3	–2.2	6.6	0.9	1.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	5.0	1.7	1.8	2.3
Exports of goods and services	5.3	2.3	12.0	17.2	3.5	4.2	5.0
Imports of goods and services	3.6	1.6	12.3	11.3	1.7	4.6	5.0
Gross domestic product	**1.5**	**–0.2**	**5.6**	**7.0**	**2.5**	**1.7**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	3.3	2.3	0.9	1.3
Unemployment rate (% of labour force)	6.1	11.1	6.7	6.1	6.5	6.5	6.4
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.2	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.2	2.7	2.8	3.1
Fiscal balance (% GDP)	–4.5	–5.2	–2.8	–0.3	1.2	0.5	0.3

Forecasts

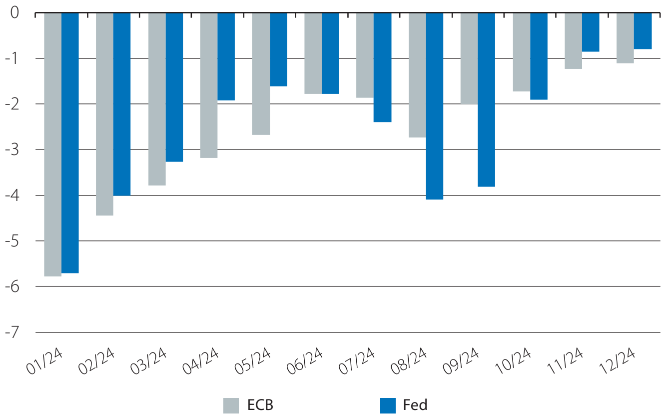
The Fed and the uncertainties about global growth condition the end of the year in the financial markets

The protagonists of 2024 pave the way for 2025. 2024 was the year that marked the beginning of monetary easing. A large part of the movements in financial assets unfolded as a result of adjustments in investors' monetary policy expectations. There were even some episodes of sudden shifts in market expectations which, just like central banks, adjusted according to the flow of macroeconomic data. The other key event was Donald Trump's electoral victory, to which investors reacted with expectations of higher inflation and some doubts regarding global economic growth. The financial markets hit other milestones: the Bank of Japan put an end to the era of negative rates, geopolitical tensions intensified in the Middle East, expectations of the benefits of artificial intelligence (AI) boosted tech firms' dominance in equity markets, the S&P 500 recorded two consecutive years of gains exceeding 20% (for the first time in over 25 years), Bitcoin hit 100,000 dollars, and France's financial assets underwent a revaluation (the French risk premium practically doubled and consolidated at levels above that of Spain). Following all these events, 2024 closed with gains in equities and with the dollar as the most strengthened currency, but with a significant increase in sovereign rates in the anticipation of higher inflation in the US, the unknowns surrounding the future of global geopolitics and the uncertainty about exactly how much more monetary policy will be eased.

The ECB and the Fed converge in direction, but diverge in speed. In December, both the ECB and the Fed lowered interest rates by 25 bps, leaving the depo rate at 3.00% and the fed funds rate in the 4.25%-4.50% range. In both cases, 100 bps below the peaks of 2023. The ECB's tone pointed to further cuts in the coming months, supported by greater confidence that inflation will finally fall to the 2% target in 2025, as well as by expectations that the revival of economic activity will be slower. Thus, the markets are anticipating another 25-bp reduction in January, while also hinting at further cuts in the first half of the year, leaving the depo rate between 1.75% and 2.00% throughout the second half of 2025. The Fed's tone, in contrast, was much more cautious, based on higher inflation expectations for the next two years and lower risks of a slowdown in the labour market. In the dot plot, FOMC members projected only two rate cuts in 2025, compared to the four indicated in the September update the financial markets are fully anticipating a single cut by mid-2025 (placing the fed funds rate in the 4.00%-4.25% range), with a probability slightly above 50% of a second cut by the end of the year.

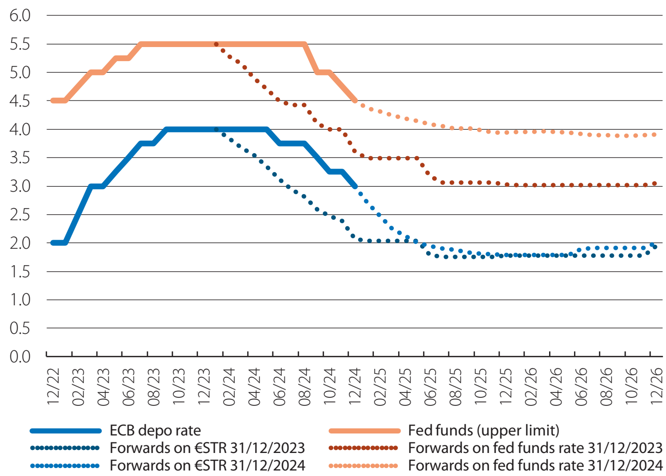
Sharp rise in sovereign yields. The sovereign debt markets made a hawkish reading of the Fed's message and treasury yields rose by more than 15 bps in the medium- and long-term benchmarks between the day of the meeting and the end of the month. Despite the fact that the Fed has lowered rates by

Implicit expectations of interest rate cuts by December 2024
Number



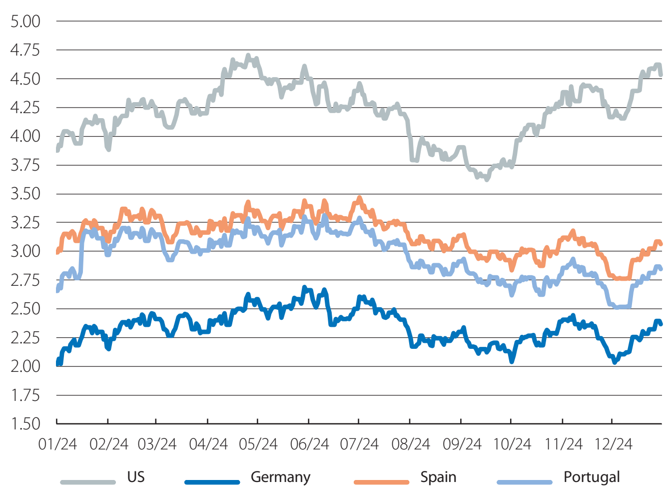
Notes: *Implicit expectations taken from the forwards curves on the EFFR and the €STR. The number refers to the monthly average. Each cut corresponds to 25 bps.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rate expectations
(%)



Note: *Forwards on the EFFR and the €STR according to market interest rate curves.*
Source: *CaixaBank Research, based on data from the Federal Reserve, the ECB and Bloomberg.*

10-year sovereign interest rates
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

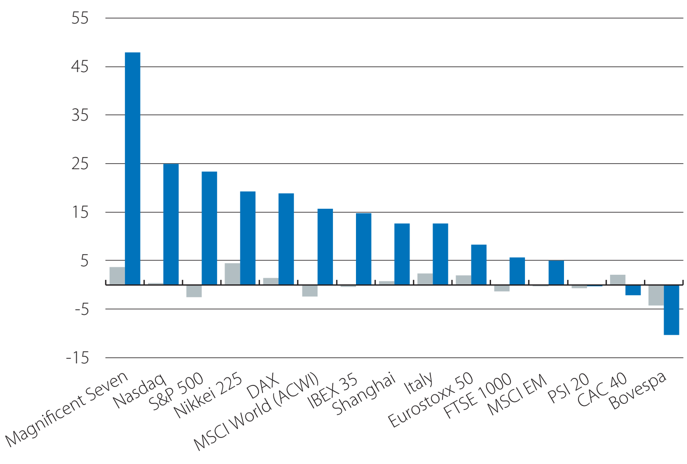
100 bps, the expectation of higher inflation, coupled with a more cautious approach to monetary easing in the future, has driven up sovereign yields. In fact, treasury yields in the long end of the curve have followed a diametrically opposite pattern of behaviour to that of the fed funds rate, surging more than 90 bps since the rate cuts began. Across the Atlantic, although the ECB's message was dovish, sovereign yields were affected by contagion from their US counterparts and rose by 30 bps in December, with risk premiums in the periphery remaining relatively stable.

A positive year, but a mixed December, for the stock markets. 2024 was a generally positive year for global stock markets. The MSCI ACWI global index accumulated gains of as much as 15% (following +20% in 2023) and, with a few exceptional cases, most of the major stock indices closed the year in the green. Of particular note was the performance of the Magnificent Seven (Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla), with cumulative gains of almost 50% in 2024, fuelled by expectations regarding AI, as well as the Japanese stock market (+19%), which benefited from interest rates still close to 0% together with a weak currency. However, the 2024 rally, which received a boost in November following Trump's victory, lost steam after the Fed cooled expectations of rate cuts at its December meeting. As a result, and with the exception of the big tech firms, equities recorded slight losses in the final month of the year in both the US and some countries of the euro area. After all, on the cusp of 2025, the uncertainty surrounding the effects of Trump's economic policies and the path of monetary policy weighed on investor sentiment at the end of the year. The biggest declines and the greatest volatility in December were recorded in Brazil (the Bovespa fell 4% in the month and 10% in the year), where the deterioration of the fiscal outlook led to a significant loss of investor confidence.

The dollar strengthens. The dollar continued to appreciate, recording gains exceeding 2% in the month against a basket of advanced-economy currencies (+5% since Trump's victory and +7% for 2024 as a whole) and reaching its highest level since 2022. Against the euro, the dollar was up by 2% in December, even reaching 1.03 dollars (a two-year high). Against the yen, the appreciation was even greater (+11.5% in 2024 and +5% in December) due to the wide gap in interest rates and the Bank of Japan's resistance to raising rates again (keeping them at 0.25% in December). In emerging countries, the worst-performing currency was the Brazilian real, which fell more than 20% against the dollar in the year as a whole, amid fiscal turbulence.

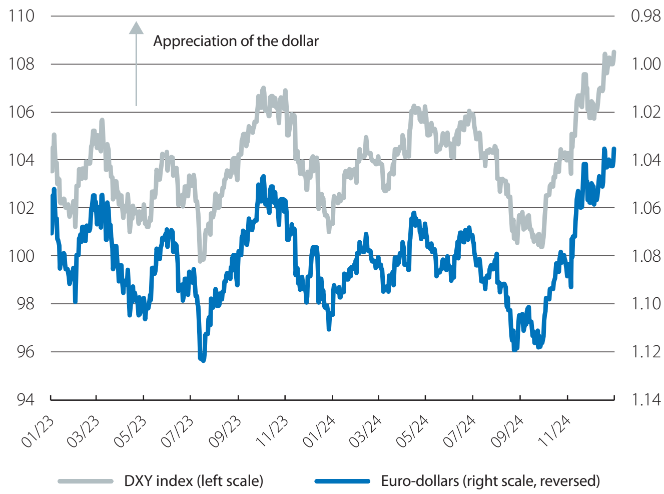
Relative stability in oil prices and relative volatility in gas prices. In December, the Brent barrel traded in a narrow band between 72 and 74 dollars, in a market with relatively abundant supply and in which expectations for demand were weighed down by the weakness of the Chinese and European economies. Thus, the price of a barrel of Brent closed 2024 four dollars below the level of the start of the year, and well below the 90 dollars seen at the height of the tensions in the Middle East. TTF gas prices, for their part, yo-yoed last month, finally closing at almost 50 euros/MWh (compared to an average price of 35 euros/MWh for 2024 as a whole) in anticipation of the end of the agreement that allowed Russian gas to flow through a pipeline that crosses Ukraine.

Main stock market indices
Change in the period (%)



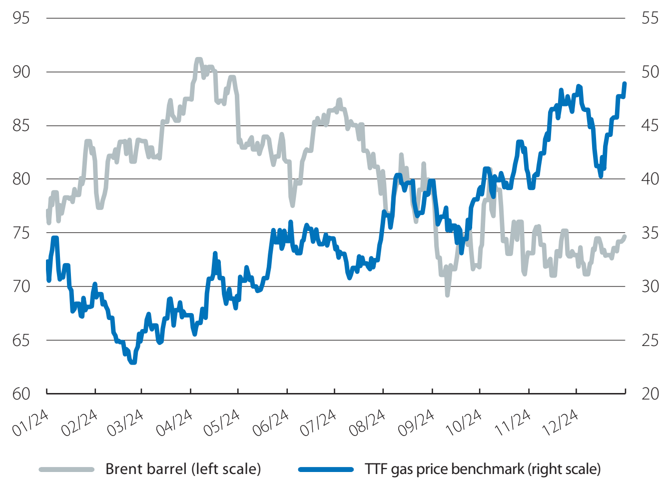
Source: *CaixaBank Research, based on data from Bloomberg.*

Evolution of the dollar
Index *Dollars per euro*



Source: *CaixaBank Research, based on data from Bloomberg.*

Energy prices: oil and gas
(Dollars/barrel) *(Euros/MWh)*



Source: *CaixaBank Research, based on data from Bloomberg.*

Debt limits

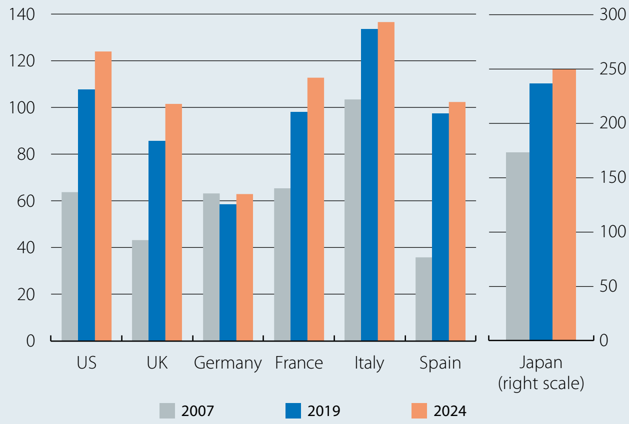
With the post-pandemic normalisation process now consolidated, and as we approach the end of the inflationary crisis, concerns are re-emerging about the levels of public debt (see first chart), as are calls for a realignment of the public finances and for the rebuilding of buffers to give fiscal policy margin for manoeuvre when necessary.

However, the process of recovering this fiscal margin faces significant obstacles in the current environment. On the one hand, and beyond the cyclical easing of monetary policy, in the medium term interest rates are expected to fluctuate somewhat above the levels anticipated a few years ago,[1] increasing the average cost of public debt. On the other hand, the medium-term economic growth potential is shrouded in uncertainties, ranging from the question of artificial intelligence and its effects on aggregate productivity to the consequences of a less globalised and/or more fragmented world in the economic sphere. Moreover, population ageing, geopolitics (with associated defence spending needs) and investments for the energy transition and adapting to climate change will put increasing pressure on public finances. Added to all this is the inertia of public spending for «political economy» reasons.

All these ingredients can be applied to the four main factors that determine the path of public debt: the starting level of debt, interest payments, the primary government balance[2] and GDP growth. In this way, we can see how wide or narrow the path to rebuilding fiscal buffers is under different economic scenarios. We will do this with a simple sensitivity analysis on debt dynamics.[3,4]

Firstly, taking into account the relative moderation of nominal GDP growth as outlined by the latest IMF forecasts, together with the slow but steady rise in interest payments anticipated by the financial markets, in the first table we show the minimum primary balance which, if sustained for 10 years, would allow different levels of debt to be reached.[5] This suggests that, compared to 2024, a degree of fiscal adjustment is required in order to smoothly stabilise or correct the levels of debt in the major economies, although the effort would be moderate (balances similar to those of 2019) in most cases. However, a more substantial

Public debt
(% of GDP) *(% of GDP)*



Source: *CaixaBank Research, based on data from AMECO.*

Primary government balance:[1] data and 10-year outlook scenarios
(% of GDP)

			Allows a debt ratio...[2]		
	2019 - actual	2024 - European Commission forecast	Stable at 2024 levels	Back at 2019 levels	Cuts in half the gap vs. 60%[3]
US	–2.7	–3.0	0.2	1.8	3.2
Japan	–1.6	–4.7	–4.3	–2.9	–0.2
UK	–0.1	–2.2	–0.1	1.5	2.8
Germany	2.1	–1.1	–0.4	0.1	–0.2
France	–0.9	–4.1	0.3	1.7	2.9
Italy	1.9	0.1	1.8	2.1	5.4
Spain	–0.8	–0.5	–0.7	–0.2	1.5

Notes: *1. The primary balance excludes interest payments; a positive/negative value indicates a surplus/deficit. 2. The projection assumes nominal GDP according to IMF forecasts and interest rates according to market forwards (with annual refinancing of a percentage of the debt given by the average maturity). 3. For the US, Japan and the UK, the benchmark is the debt level of 2007.*
Source: *CaixaBank Research, own calculations based on data and forecasts from Bloomberg, the European Commission and the IMF (World Economic Outlook, October 2024).*

1. For example, at the end of 2019, market forwards for 2030 indicated a 10-year Spanish sovereign rate of around 2%, whereas now they place it close to 4%. This increase is widespread among the major economies and reflects a shift in the view regarding the structural level at which long-term interest rates are expected to settle. See, for example, I. Schnabel (2024), *R(ising) star?*, speech at the conference *The ECB and its Watchers XXIV*.
2. I.e. the fiscal balance (total fiscal revenues minus total public expenditure) excluding net interest payments.
3. The evolution of the debt-to-GDP ratio, *d*, is given by:

$$d_{t+1} = d_t + \frac{i_{t+1} - g_{t+1}}{1+g_{t+1}} d_t - b_{t+1}$$

where i is the average nominal interest rate on debt, g is nominal GDP growth and b is the primary government balance.
4. This analysis does not take into account feedback between the fiscal balance, GDP and interest rates. In reality, if an economy imposes a path based on, say, its fiscal balance, this will affect the path of its GDP and rates.
5. For each country, we simulate the debt ratio between 2025 and 2034 using the equation in note 3. The forecasts for nominal GDP growth (*g*) are taken from the IMF's World Economic Outlook of October 2024 (we assume that the growth rate of 2029, the last available year, persists in 2030-2034). The interest rate on debt evolves as the rates on refinanced debt are updated with the average sovereign rate projected by market forwards as of late November 2024.

recovery of fiscal room would require significant fiscal effort, surpassing that made in 2015-2019.

In the same vein, if we assume that the primary balance and nominal GDP evolve according to the latest forecasts published by the IMF, the second table shows us the average cost threshold above which debt dynamics would destabilise. This exercise shows that the IMF maintains a positive outlook for the public accounts in Spain and Germany, given that the fiscal path envisaged by the IMF allows for a reduction of debt, even if interest rates end up higher than those expected by the market, given the headroom available. However, the IMF's outlook for the rest of the major advanced economies is less favourable, especially in the cases of France and the US, where the fiscal paths envisaged by the IMF would only stabilise the debt if interest rates were to end up being much lower than the market currently anticipates.

Finally, the third table shows the minimum nominal GDP growth that is required in order to avoid a deterioration in debt dynamics if the primary fiscal balance paths predicted by the IMF and the evolution of interest rates projected by the financial markets materialise as expected. Just as in the second table, this exercise reflects the IMF's positive view of Spain and Germany, while the fiscal paths of the US and France would once again require a significant acceleration of nominal GDP to keep their levels of debt stable.

These three exercises also highlight the particularities of Japan. Unlike the other large economies, Japan's debt dynamics continue to benefit from the margin provided by low interest rates. Moreover, according to the IMF, it is the country for which nominal GDP growth is expected to experience the greatest revival, and this would give it extra support in recovering fiscal space. However, despite these tailwinds, its debt ratio is much higher than other economies.

In short, this simulation of different scenarios for debt dynamics confirms that, over the coming years, the paths of interest rates and nominal GDP growth will create an environment in which it will not be easy to regain significant fiscal space unless governments make a proactive effort.

Average interest rate on public debt

(%)

	2024 - European Commission forecast	Average in 2025-2029 according to market forwards[1]	Allows a stable debt ratio at 2024 levels[2]
US	4.1	4.1	1.7
Japan	0.6	0.7	1.7
UK	3.0	3.2	2.5
Germany	1.7	2.1	3.4
France	2.0	3.1	0.1
Italy	3.0	3.7	3.3
Spain	2.5	3.0	3.9

Notes: *1. Market forwards for the sovereign rate with a maturity equal to the average maturity of the debt as of 2024. 2. The projection assumes figures for nominal GDP and the primary balance according to IMF forecasts and that each year a percentage of the debt, given by the average maturity, is refinanced.*
Source: *CaixaBank Research, own calculations based on data and forecasts from Bloomberg, the European Commission and the IMF (World Economic Outlook, October 2024).*

Nominal GDP growth

(%)

	2019 - actual	2024 - IMF forecast	Average in 2025-2029 per the IMF	Allows a stable debt ratio at 2024 levels[1]
US	4.3	5.2	4.0	6.4
Japan	0.2	2.9	2.8	1.7
UK	3.8	3.2	3.5	4.1
Germany	3.0	3.3	3.2	2.0
France	3.3	3.2	3.1	6.2
Italy	1.5	2.5	2.7	3.1
Spain	3.4	6.1	4.2	3.3

Notes: *1. The projection assumes figures for the primary balance according to IMF forecasts and interest rates according to market forwards (with annual refinancing of a percentage of the debt given by the average maturity).*
Source: *CaixaBank Research, own calculations based on data and forecasts from Bloomberg, the European Commission and the IMF (World Economic Outlook, October 2024).*

Interest rates (%)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	3.15	3.40	–25	–135.0	–135.0
3-month Euribor	2.71	2.93	–22	–119.5	–119.5
1-year Euribor	2.46	2.46	0	–105.3	–105.3
1-year government bonds (Germany)	2.24	2.25	0	–101.9	–101.9
2-year government bonds (Germany)	2.08	1.95	13	–32.2	–32.2
10-year government bonds (Germany)	2.37	2.09	28	34.3	34.3
10-year government bonds (Spain)	3.06	2.79	27	6.8	6.8
10-year government bonds (Portugal)	2.85	2.54	31	19.2	19.2
US					
Fed funds (upper limit)	4.50	4.75	–25	–100.0	–100.0
3-month SOFR	4.31	4.47	–16	–102.6	–102.6
1-year government bonds	4.14	4.28	–14	–61.9	–61.9
2-year government bonds	4.24	4.15	9	–0.8	–0.8
10-year government bonds	4.57	4.17	40	69.0	69.0

Spreads corporate bonds (bps)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	58	56	2	–0.9	–0.9
Itraxx Financials Senior	64	63	1	–3.2	–3.2
Itraxx Subordinated Financials	112	111	1	–10.5	–10.5

Exchange rates

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.035	1.058	–2.1	–6.2	–6.2
EUR/JPY (yen per euro)	162.780	158.410	2.8	4.5	4.5
EUR/GBP (pounds per euro)	0.827	0.831	–0.4	–4.6	–4.6
USD/JPY (yen per dollar)	157.200	149.770	5.0	11.5	11.5

Commodities

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	536.5	535.7	0.1	5.1	5.1
Brent ($/barrel)	74.6	72.9	2.3	–3.1	–3.1
Gold ($/ounce)	2,624.5	2,643.2	–0.7	27.2	27.2

Equity

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,881.6	6,032.4	–2.5	23.3	23.3
Eurostoxx 50 (euro area)	4,896.0	4,804.4	1.9	8.3	8.3
Ibex 35 (Spain)	11,595.0	11,641.3	–0.4	14.8	14.8
PSI 20 (Portugal)	6,377.3	6,418.3	–0.6	–0.3	–0.3
Nikkei 225 (Japan)	39,894.5	38,208.0	4.4	19.2	19.2
MSCI Emerging	1,075.5	1,078.6	–0.3	5.1	5.1

A year of challenges for an international economy further along in the cycle

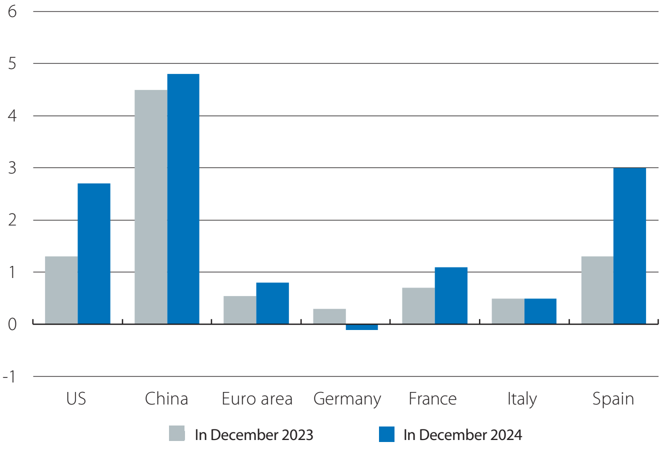
Resilience, cyclical maturity and challenges. In 2024, the international economy showed remarkable resilience and the available data suggest that world GDP may have grown slightly above 3%. Economic activity was supported by the strength of the labour market, a certain recovery of household purchasing power and the prospect of an easing of financial conditions, in a year in which inflation continued to fall and ended close to, albeit still slightly above, the monetary authorities' target. These tailwinds are likely to continue to blow in favour in 2025, albeit with less strength due to the maturity of the business cycle, while the risk map will continue to present significant challenges, especially in terms of geopolitical conflicts and tensions, and uncertainties surrounding trade policy. On the other hand, behind the global resilience lie significant regional disparities. In the US, activity remains strong and GDP growth is beating expectations, while in the euro area GDP is struggling to take off, weighed down by the weakness of the core economies. In China, meanwhile, the difficulties in the real estate sector and the weak performance of domestic demand continue to weigh on the economy, although the strength of the foreign sector is helping to maintain growth close to, albeit below, 5.0%.

A resilient labour market, with signs of moderation. The latest indicators highlight both the supporting role played by the labour market and the prospect that this support could lose some momentum in the future. Both in the US and in the euro area there are low rates of unemployment (4.2% and 6.3%, respectively) and high levels of employment (slightly over 70% among the population aged 15 to 64). However, in the US, unemployment has accumulated an increase of 0.8 pps from its low point in 2023, while job creation has slowed from more than 250,000 new jobs per month at the beginning of the year to 130,000 on average in October and November (distortions related to hurricanes and strikes in those months make the average more informative than the volatile monthly statistics of +36,000 jobs in October and +227,000 in November). In the euro area, the rate of 6.3% represents the lowest unemployment rate in the historical series, but the sentiment indicators hint at a slowdown in job creation, both in the PMI indices (in December, the employment component hit a four-year low) and in the European Commission's indicator (steadily decreasing in 2024 and with the latest figure for November standing slightly below the historical average).

Disinflation: confidence in the last kilometre, resistances in the last mile. The widespread decline in inflation over the course of 2024 also supported economic activity, especially by helping the recovery of household purchasing power and paving the way for an easing of monetary policy. In the euro area, headline inflation closed the year at 2.4% in December, but most significant was the sustained decline in core inflation, which went from 3.4% in December 2023 to 2.7% in December 2024. Indeed, the inertia of the core index reinforces the confidence that inflation should sustainably settle at around the ECB's 2% target this year. In the US, inflation also moderated

GDP growth in 2024: expectations of the analyst consensus

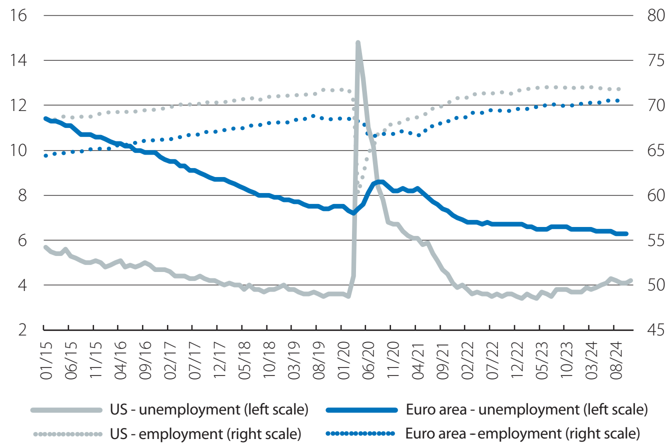
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Advanced economies: employment and unemployment

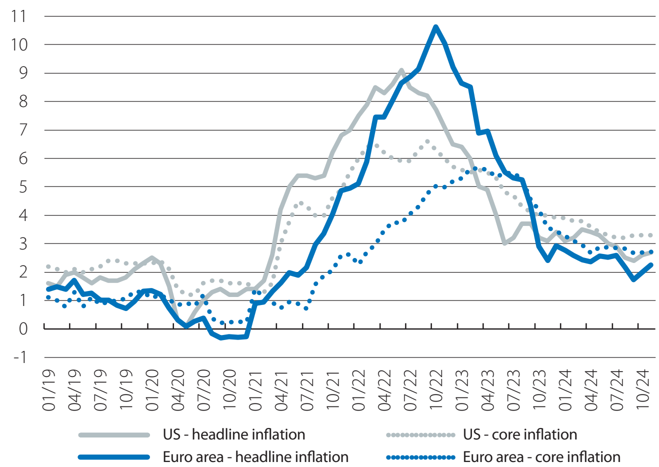
(%) *(%)*



Note: *The unemployment rate is relative to the total labour force, while the employment rate is relative to the total working-age population (15-64 years).*
Source: *CaixaBank Research, based on data from the OECD.*

Advanced economies: CPI

Year-on-year change (%)



Notes: *HICP for the euro area. Core inflation excludes food and energy.*
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics and Eurostat.*

during the year (headline CPI +2.7% in November 2024 vs. 3.4% in December 2023). However, in recent months fears have grown of greater stickiness in the underlying pressures, both due to the signals coming from the data (core inflation stable at 3.2%-3.3% since the summer, according to the CPI, and even with a slight rebound according to the Fed's preferred index, the PCE, for which core inflation accelerated from 2.6% in the summer to 2.8% in November) and because of the inflationary nature of the economic policies proposed by the new Trump administration.

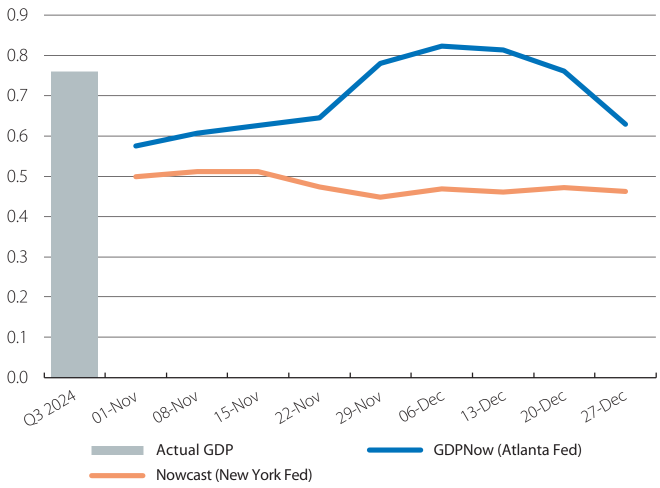
US activity remains robust. Household consumption continues to drive economic growth in the US and, after contributing 0.6 pps to the 0.8% quarter-on-quarter GDP growth recorded in Q3, the latest data suggest that consumption remains dynamic in the final quarter of the year. Thus, retail sales increased by 0.5% month-on-month in October and accelerated to 0.7% in November. Similarly, the composite PMI rose to 55.4 points in December, driven by the services sector (56.8), while the Q4 average (54.8) exceeded that of Q3 (54.3). With all this, and despite the weakness of the manufacturing sector (its PMI, at 49.4 points in December, remained in contractionary territory, while industrial production contracted by 0.4% month-on-month in October and by 0.15% in November), the GDP trackers suggest that the economy could grow by around 0.5%-0.6% quarter-on-quarter in Q4.

The euro area economy struggles to gain traction. The composite PMI for the euro area improved in December, but failed to surpass the 50-point threshold that denotes positive growth in economic activity (49.6 vs. 48.3 in November). This was despite the stimulus that the Christmas campaign represents for the services sector (51.6 vs. 49.5 in November), while in manufacturing there are few signs of recovery (PMI stagnant at 45 points). The weak indicators are affecting the bloc's two biggest economies, with the composite PMI for December in contractionary territory in both Germany (48.0) and France (47.5). In the case of Germany, other business sentiment and climate indicators reflect the same message of weakness: the Ifo business indicator fell in December to 84.7 points, marking its lowest level since May 2020, while the ZEW economic sentiment index for December revealed that over half of respondents expect no change in the current situation.

Short-term acceleration in China. The continued buoyancy of the foreign sector, increased fiscal support and a slight improvement in the outlook for the real estate sector could lead to an acceleration of the Asian giant in the short term. The services PMI (Caixin) accelerated in December to 52.2 points (seven-month high), while the manufacturing PMI remained in expansionary territory (50.5 points, although it lost some steam compared to the 51.5 recorded in November). On the other hand, industrial production in November maintained a similar rate of expansion to that of previous months, registering a year-on-year growth rate of 5.4%, while retail sales once again reflected weakness in domestic demand, with year-on-year growth of 3.0% (vs. 4.8% in October, 2.7% in Q3). Investment, for its part, grew by 3.3% year-on-year to November (vs. 3.4% in the year to date up to October). This represents a slight slowdown, but investment remains high (in real terms), given the sharp falls in the prices of capital goods over the last few years.

US: GDP for Q3 and projections for Q4 2024

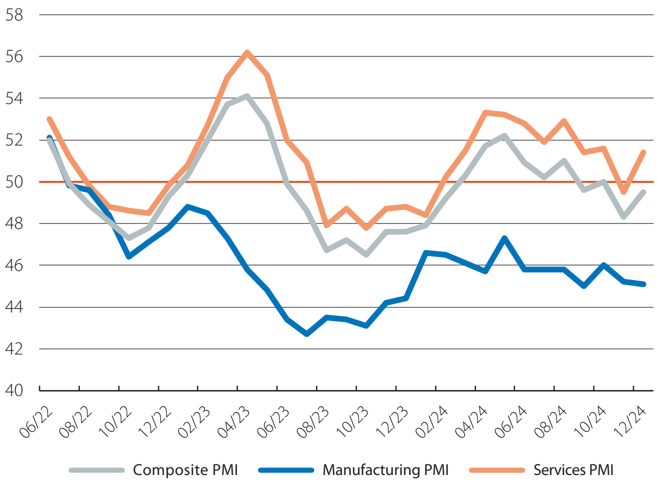
Quarter-on-quarter change (%)



Source: *CaixaBank Research, based on data from the BEA, the Atlanta Fed and the New York Fed.*

Euro area: PMI

Index



Source: *CaixaBank Research, based on data from S&P Global PMI.*

China: Caixin PMI

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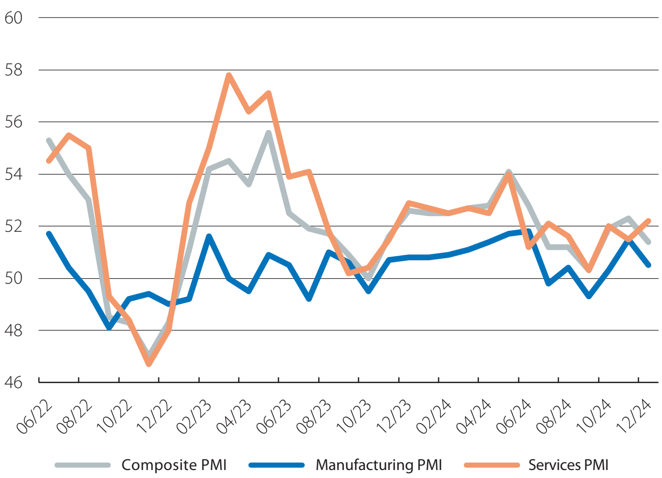


Source: *CaixaBank Research, based on data from S&P Global PMI.*

Exposure of the European economy to a US tariff hike: a perspective through values chains

The impact on the EU of a universal tariff on US imports of goods goes beyond the direct effect it will have on exporting companies, as it will also be felt indirectly across the economy as a whole and throughout European and global value chains.

To capture this greater complexity, as a starting point we use the international input-output tables produced by the OECD,[1] which reflect the transactions of intermediate and final products for 45 sectors in 77 different economies. We restrict these transactions to US imports of goods[2] from the rest of the world, which is the category of imports that would be subject to the universal tariff, and although the latest available year is 2020, we use the data for 2019 in order to avoid possible distortions resulting from the COVID-19 pandemic.

In the first chart, we analyse an example to illustrate how the figure for gross exports to the US of a given sector in an EU country (the measure of immediate exposure) relates to the value added by the EU, which is linked to the set of all global exports of goods to the US (the ultimate exposure measure).

In 2019, Spain exported around 1.3 billion dollars in manufactured goods in the automotive sector to the US, of which approximately 20% correspond to value added in the sector itself, a third to value added in other sectors within Spain (intermediate goods and services) and just over 40% to value added in other countries (both other EU Member States and the rest of the world).

On the other hand, beyond its direct exports, manufacturing in the automotive sector also indirectly generates value added in other exports of goods to the US, both from other sectors of the Spanish economy and, above all, from other countries (slightly more than 200 million dollars, almost as much as in direct exports). In total, the ultimate exposure of manufactured goods in the automotive sector stood at around 500 million dollars in 2019, well below the immediate exposure.

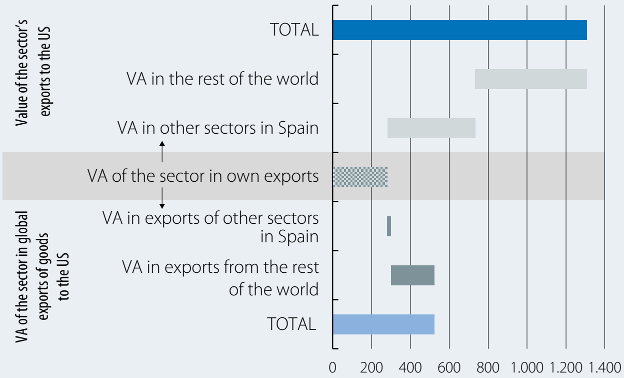
The position in value chains and production specialisation as key factors

In the above example, the value added in the sector linked to global exports of goods to the US is lower than the value of direct exports, but in other cases it is equal or higher, as is the case for all service sectors, for example, as these only reflect the indirect effects via the export of goods. The outcome for an economy as a whole will depend on the relative weight of the various factors,

1. OECD. Inter-Country Input-Output tables.
2. Agricultural, mining and manufactured products.

Value of automotive exports from Spain to the US and value added of the sector in global exports of goods to the US

(USD millions, 2019)



Source: *CaixaBank Research, based on data from the OECD.*

Direct exports to the US and value added in global exports of goods to the US

(% of GDP, 2019)

Source: *CaixaBank Research, based on data from the OECD.*

as well as on its sectoral structure. The aggregate differences for the EU as a whole and for each of the 27 Member States can be seen in the second chart.

Of particular note are countries such as Ireland – which clearly remains the economy most exposed to exports to the US – and Slovakia, Hungary and Estonia, all of which have a significant manufacturing sector specialising in the downstream phase of value chains and with the presence of multinationals. In these countries, gross exports tend to overestimate the economy's dependence on trade with the US when compared to the value actually added in the territory.

The opposite is true in countries such as Cyprus, Malta, Luxembourg and the Netherlands, which are geared towards service activities in the upstream segment of

Value added in global exports of goods to the US
(% of value added in the sector, 2019)

	TOTAL	Agriculture	Mining	Manufacturing	Electricity	Sanitation	Construction	Trade	Transport	Hotels & restaurants	ICT	Financial serv.	Real estate serv.	Professional serv.	Administrative serv.	Gen. government	Education	Health	Entertainment	Other services
EU-27	**2.1**	**2.0**	**4.2**	**7.1**	**1.8**	**2.2**	**0.4**	**1.9**	**1.9**	**0.4**	**1.2**	**1.1**	**0.5**	**1.8**	**2.3**	**0.3**	**0.2**	**0.1**	**0.4**	**0.5**
Ireland	9.2	7.1	6.5	24.1	4.6	2.4	0.1	2.2	1.9	0.9	1.3	0.9	0.1	2.2	3.2	0.5	0.2	0.1	2.0	3.2
Denmark	3.4	2.8	5.6	14.5	1.8	1.9	0.9	2.4	2.3	1.4	1.6	1.0	0.8	3.1	3.3	0.3	0.4	0.4	0.2	1.2
Slovakia	2.5	1.3	2.4	7.0	1.4	0.8	0.8	2.5	1.9	0.2	1.2	1.3	0.8	2.7	2.3	0.1	0.2	0.1	0.2	0.7
Germany	2.5	1.3	4.4	6.9	2.0	2.8	0.6	2.1	2.5	0.6	1.6	1.2	0.7	2.1	2.4	0.4	0.2	0.0	0.2	0.5
Belgium	2.2	1.9	2.9	7.6	2.1	3.6	0.6	2.1	2.1	0.7	1.3	1.4	0.4	2.4	3.7	0.2	0.4	0.0	0.6	1.0
Austria	2.1	2.5	4.4	6.7	2.1	2.9	0.6	2.2	1.9	0.4	1.1	1.4	0.5	1.9	1.9	0.1	0.1	0.0	0.3	0.3
Italy	2.1	1.8	3.3	6.6	2.2	2.4	0.6	2.1	2.1	0.5	1.4	1.6	0.5	2.2	2.3	0.4	0.2	0.1	1.2	0.5
Hungary	2.1	1.5	3.1	5.9	1.9	1.6	0.2	1.9	1.7	0.2	1.4	1.1	0.5	2.1	2.6	0.1	0.1	0.1	0.2	0.4
Sweden	2.0	3.5	7.3	6.8	1.5	2.8	0.6	2.1	2.0	0.6	1.3	1.0	0.6	1.7	2.6	0.4	0.1	0.1	0.5	0.6
Netherlands	1.9	2.9	5.5	5.3	1.6	1.7	0.3	2.2	2.0	0.4	2.8	1.1	0.4	2.2	3.4	0.2	0.2	0.0	0.9	0.5
Slovenia	1.9	1.5	3.2	4.8	1.9	2.3	0.7	1.8	1.7	0.2	1.0	1.0	0.4	1.9	1.9	0.2	0.2	0.1	0.2	0.4
Finland	1.8	2.9	4.3	5.7	1.7	2.8	0.2	1.7	2.4	0.2	1.3	1.0	0.3	1.8	2.4	0.5	0.3	0.0	0.2	0.3
Czech Rep.	1.8	1.3	2.4	4.2	1.3	2.4	0.4	2.0	1.5	0.4	0.8	1.1	0.5	1.6	1.8	0.2	0.1	0.1	0.1	0.5
Estonia	1.6	4.2	1.6	4.7	1.4	1.3	0.3	1.7	2.0	0.2	1.1	1.0	0.8	1.5	1.7	0.1	0.1	0.1	0.1	0.5
Luxembourg	1.5	1.5	5.6	5.9	3.8	4.5	0.4	2.5	2.1	0.3	1.4	1.0	0.7	1.6	4.7	0.1	0.2	0.1	0.4	1.1
Poland	1.4	1.1	2.0	3.4	1.2	1.2	0.5	1.5	1.6	0.3	0.9	0.8	0.4	1.5	1.1	0.1	0.1	0.1	0.1	0.5
Lithuania	1.4	1.4	4.2	3.3	1.2	0.8	0.3	1.3	1.9	0.1	0.7	0.7	0.5	1.2	1.8	0.1	0.1	0.0	0.1	0.2
Bulgaria	1.3	3.0	3.1	3.4	1.7	1.1	0.6	1.6	1.3	0.1	0.9	1.2	0.3	1.2	0.8	0.1	0.1	0.1	0.2	0.4
Portugal	1.2	2.0	7.2	4.6	1.5	2.0	0.2	1.4	1.4	0.1	0.7	0.8	0.2	1.1	1.5	0.1	0.0	0.0	0.1	0.2
France	1.2	1.7	4.1	5.2	1.4	1.5	0.1	1.6	1.5	0.3	0.6	0.9	0.3	1.2	1.9	0.1	0.3	0.0	0.2	0.5
Latvia	1.1	3.8	1.1	3.3	1.1	0.9	0.2	1.4	1.5	0.1	0.8	0.7	0.3	1.2	0.9	0.0	0.0	0.0	0.1	0.1
Spain	1.1	2.0	5.0	3.9	1.5	1.8	0.2	1.4	1.4	0.1	0.7	0.7	0.2	0.9	1.3	0.2	0.1	0.1	0.3	0.5
Malta	1.1	0.4	1.2	3.2	1.3	0.5	0.5	1.2	1.4	0.1	0.7	0.4	0.2	1.7	3.2	0.3	0.1	0.0	0.7	0.2
Romania	0.9	0.6	1.1	2.2	1.1	0.3	0.2	1.0	1.1	0.3	0.8	0.9	0.2	1.2	1.2	0.1	0.3	0.2	0.2	0.4
Greece	0.9	3.3	9.6	3.2	1.6	0.5	0.2	0.9	1.4	0.0	0.3	0.6	0.3	1.2	0.6	0.1	0.0	0.0	0.1	0.2
Croatia	0.7	1.0	1.4	2.2	0.6	0.5	0.4	0.8	0.7	0.0	0.4	0.7	0.2	1.1	0.8	0.1	0.1	0.0	0.5	0.4
Cyprus	0.5	4.1	2.5	0.9	0.3	0.3	0.2	0.4	1.6	0.0	0.7	0.6	0.1	1.1	0.9	0.0	0.0	0.0	0.0	0.1

0% 5% ≥10%

Source: *CaixaBank Research, based on data from the OECD.*

value chains and have a mostly indirect sensitivity to changes in tariffs on the goods in which they add value. To a lesser extent, and with a greater role of manufactured goods, Romania, Croatia, Poland, the Czech Republic and Bulgaria also show a degree of upstream specialisation in value chains that lead to the export of goods from third countries to the US.

Among the major economies, as is the case for the EU as a whole, the differences between the value of direct exports and the value added in all global exports of goods to the US are small, reflecting the diversification of their production base. Germany remains the most exposed country, with 2.5% of its GDP, followed by Italy (2.1%, in line with the EU aggregate). Some distance behind we find France (1.2%) and Spain (1.1%), both of which have a balanced contribution between value added in the goods and the services sectors.

Utilities, trade, transport, and professional and auxiliary services, among the hardest hit

In more detail, for the EU as a whole and for each Member State, the table shows the percentage of sectoral value added that is linked to global exports of goods to the US.

Logically, the goods sectors show the highest percentage of dependence. In the case of agriculture, the figure stands at 2% for the EU as a whole, with high values in the case of Ireland, and it would be the sector hardest hit in relative terms in Latvia and Cyprus. Mining shows a slightly higher percentage of 4% in aggregate, with particularly high figures in Greece, Sweden and Portugal, where it is the most exposed sector.

Manufacturing is clearly the sector with the highest percentage of value added linked to US imports, at 7% for the EU as a whole, almost 25% in the case of Ireland and around 15% for Denmark. Among the main economies, the manufacturing sector in Germany and Italy has a similar percentage to the aggregate, above France's 5% or Spain's 4%.

In services, however, there are a good number of sectors that show a similar degree of exposure to that of the economy as a whole, around 2%. These include not only the services that are more traditionally linked to the export of goods, such as transport and trade – which are of similar importance in all Member States – but also others such as the supply of electricity, gas and water sanitation (utilities), as well as professional and scientific services – with high percentages in Denmark and Slovakia – and administrative and auxiliary services – with high values in the Benelux countries. Among other branches of services, information and communication technologies plays a particularly important role in the Netherlands, with a share of around 3%, compared to just over 1% in the EU as a whole.

Recent trends in US imports suggest a slight increase in exposure in the EU

The major disadvantage of using the value chain approach is the delay with which input-output tables are published, both nationally and internationally. To try to address this problem, we have made an estimate for 2023 based on data on US bilateral trade with the rest of the world, disaggregated by product.[3] Due to data limitations and in order to avoid risks over the reliability of this exercise, we maintain the so-called technical coefficient matrix (which inputs, and from where, are used in the production process) that existed in 2019.

For the EU as a whole, the share of value added in the US' global imports of goods would increase by 0.2 points to 2.3%, which is consistent with the growth of this market as a destination for European exports.[4] By Member State, the increase in Slovenia stands out, which could be linked to the country's increased participation in the value chains of pharmaceutical products that Switzerland exports to the US. The main economies, for their part, show an even increase of 0.2 pps, placing the figure for Spain at 1.3% of GDP. Conversely, there is a significant decrease in the Member States that have the highest dependence percentages, namely Ireland and Denmark, with the latter now being slightly surpassed by Slovakia.

We thus see a trend in recent years towards greater exposure of the European economy to a universal tariff on US imports. Overall, this exposure still remains moderate, but there are particular sectors and countries which need to be considered when assessing its effects and the possible responses on the part of the EU. Among these particular cases, we should recall the complexity of value chains and the fundamental role that service activities play as providers of inputs that are essential to manufacturing processes.

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3. We use the two-digit HS classification data and product correspondence with NACE sectors available from the United Nations.
4. See the Focus «Exposure of the European economy to a US tariff hike» in the MR12/2024.

The new EU economic governance framework

On 30 April 2024, the new EU economic governance framework,[1] which is based on the proposals made by the Commission in 2023, came into force.[2] The new fiscal rules maintain the 3% public deficit and the 60% public debt benchmark thresholds. However, they seek to simplify the budgetary rules by providing guidance on a single defined fiscal indicator on net primary expenditure (see the Technical Appendix) and to give Member States greater flexibility through the preparation of medium-term plans, which become the cornerstone of the new economic governance framework. What can we expect from European public accounts in the coming years?

Green light from the Commission to the first fiscal plans under the new rules

On 21 June 2024, the Commission provided Member States with preliminary guidance for the preparation of their medium-term structural budgetary plans, including the framework for medium-term debt projections and the main budgetary, macroeconomic and financial assumptions.[3] On the basis of this information, the Commission sent to the 16 countries with debt and/or deficits above the thresholds[4] a multi-year reference path for net primary expenditure, as well as the associated path for the primary structural balance, while for the rest of the Member States it included technical information with the minimum value required for the primary structural balance at the end of the plan. In both cases, the information submitted included a scenario with a four-year adjustment period, as well as an alternative scenario with a three-year extension.

Following this preliminary guidance, the Commission and the national authorities held technical dialogues prior to the preparation of the plans, which, in accordance with the regulation, were required to be sent no later than 20 September 2024. Among other elements, these plans should contain the following information:[5] (i) the multi-year path of net expenditure and the justification for any upward deviation relative to that sent by the Commission, (ii) the underlying macroeconomic and budgetary assumptions and the justification for any deviations from the projections framework, (iii) the planned fiscal-structural measures, (iv) details on the consistency with the Council's country-specific recommendations and with the EU's common priorities, as well as on the compatibility with the Recovery and Resilience Plan and other European funds, and (v) where appropriate, the commitments and the impact of reforms and investments supporting an extension of the adjustment period by three years.

On 26 November 2024, the Commission published the so-called Autumn Package of the 2025 European Semester, in which it included a status update on the new economic governance framework.[6] Of the 27 Member States, five had not submitted their medium-term structural budgetary plans due to the holding of elections or the formation of new governments, including three countries with debt and/or deficits above the thresholds (Germany, Belgium and Austria). Of those that had sent the plans, the Commission has recommended to the Council the adoption of those of 20 Member States, while it continued to evaluate the plans submitted by Hungary and recommended that the Netherlands submit a revised plan aligned with the technical information received.[7] Five of the countries with debt and/or deficits above the thresholds have requested a three-year extension of the adjustment period (Italy, France, Spain, Romania and Finland). Finally, of the 17 euro area countries that are required each year to send their draft budgets for the following year, three had not done so (Spain, Belgium and Austria), while nine of them were not fully or were partially aligned with the fiscal recommendations and the implementation of the medium-term plans.

The next step is the Council's scrutiny of the Commission's recommendations,[8] with particular attention being paid to Member States with debt and/or deficits above the thresholds that have included in their plans an average annual increase in their primary expenditure in excess the guidance received.[9] Attention will also be paid to the relevance of the reforms and investments set out by the countries requesting an extension of the adjustment period. In the event of any discrepancies, the Council will recommend the revision of the medium-term plans sent or the setting of an expenditure path in line with the

1. See Regulation (EU) 2024/1263 of the European Parliament and of the Council.
2. For further details, see the article «A new European fiscal framework for 2024... will it be possible?» in the Dossier of the MR11/2023.
3. Set out in the Commission's 2024 spring forecast: European Economic Forecast. Spring 2024.
4. Germany, Austria, Belgium, Cyprus, Slovakia, Slovenia, Spain, Finland, France, Greece, Hungary, Italy, Malta, Poland, Portugal and Romania.
5. On 21 June 2024, a guide was published on how to present the information in the plans: Notice – Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports.
6. «Communication from the Commission to the European Parliament, the Council and the European Central Bank 2025 European Semester: bringing the new economic governance framework to life».
7. Only two countries (Denmark and Malta) submitted their plans within the 20 September 2024 deadline. From the date of receipt, the Commission has six weeks to assess the plans (with the possibility to extend this period by an additional two weeks). In the case of Hungary, the plan was submitted on 4 November.
8. The regulation specifies a period of six weeks from the Commission's recommendation.
9. See Table 2 of Appendix II in «Communication from the Commission to the European Parliament, the Council and the European Central Bank 2025 European Semester: bringing the new economic governance framework to life».

guidance received from the Commission. Subsequently, in advance of the spring package of the 2025 European Semester, member countries will need to submit the first annual report on their progress in the implementation of the medium-term plans.

What fiscal adjustment is included in the medium-term plans? Outlook and risks

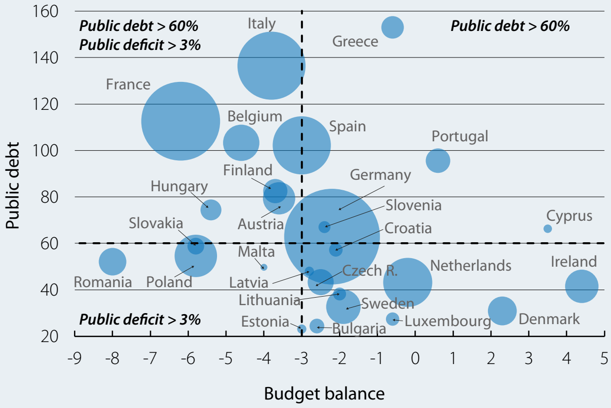
The state of public finances in the EU is compromised in the wake of the string of shocks since the Great Financial Crisis of 2009, the euro area sovereign debt crisis which lasted until 2012, the pandemic of 2020 and the invasion of Ukraine and the energy crisis since 2022. The first chart shows how the vast majority of EU Member States have debt and/or deficits above the thresholds, including systemic economies such as Italy, France and Spain, which have very high levels of public debt (above the 90% threshold defined by the Commission).

Correcting these fiscal imbalances is undoubtedly one of the EU's major economic policy challenges, as reflected in the consolidation efforts included in the medium-term plans. To illustrate this, given the interpretative difficulties regarding the trajectory of the new fiscal benchmark, we prefer to provide a summary of the expected paths in the primary structural balance. To this end, we take the figures provided by the Commission on 21 June 2024 as guidance. Unlike the plans sent by each Member State, this guidance offers the benefit of using a more uniform methodology for estimating potential GDP.

In the absence of data for Germany, Belgium and Austria, the second chart shows the average annual adjustment indicated by the Commission relative to the values estimated for 2024 under both the scenario with a four-year adjustment period and with the three-year extension. Among the countries that have not requested an extension of the adjustment period, of particular note are the annual adjustments proposed by Slovakia (1.3 pps per year), Poland (0.8 pps) and Hungary (0.7 pps), while those proposed by Slovenia and Malta are more moderate and those of Greece, Portugal and Cyprus are low. Among the countries that have applied for a three-year extension, the biggest adjustment is that proposed by Romania (0.7 pps per year), followed by those of Italy and France (both 0.6 pps), Spain (0.5 pps) and Finland (0.3 pps). Weighting the data according to the nominal GDP of the available countries, and taking into consideration the different adjustment periods, the expected annual increase in the primary structural balance will be around 0.6 pps over the next four years. The consolidation effort this will entail for these countries is considerable.

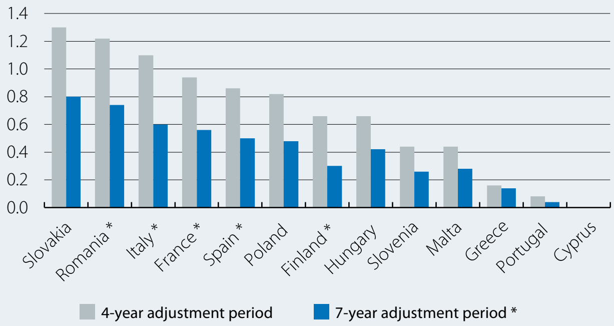
Complying with the planned adjustments will not come without its challenges, including the domestic political difficulties in approving the budgets that accompany the implementation of the medium-term plans. A case in point

Budget balance and public debt
(% of GDP, 2024)



Note: *The area of the circles is proportional to the nominal GDP of 2024 in euros.*
Source: *CaixaBank Research, based on the European Commission's autumn 2024 forecasts.*

Countries with debt and/or deficits above the thresholds
Average annual adjustment of the primary structural balance relative to 2024 (pps of GDP)



Note: *Germany, Belgium and Austria have not submitted their medium-term structural budget plan.*
Source: *CaixaBank Research, based on data from the European Commission.*

is France, where the lack of parliamentary support has led to a no confidence vote and the breakdown of the government. The complex geopolitical context also raises doubts related to the growing spending needs that are required to cover the EU's common priorities, particularly those linked to strategic autonomy and security and defence policy, as well as to financing the competitive leap set out in the Draghi report.[10] Recalling lessons from the past, with low potential growth as a starting point and with the gradual fading of the boost provided by the NGEU funds, governments will have to tread very carefully to ensure that the contractionary effect of the proposed fiscal adjustments does not end up tainting the initial goal of reducing public debt. Moreover, all this is in a context in which the financial markets have already seen – moderately for now – new episodes of differentiation between Member States' government securities.

David Martínez Turégano and Rita Sánchez Soliva

10. See the Focus «Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades» in the MR10/2024.

Technical appendix

The new fiscal rules define a single indicator for net primary expenditure,[1] on which the Commission sends a multi-year reference path to Member States with debt and/or deficits above the thresholds, while it sends technical information to all other countries. This is the starting point from which national governments then develop a medium-term structural budgetary plan with adjustment measures covering a four-year period.[2] The option exists to extend this adjustment period by an additional three years if they incorporate reforms and investments to boost economic growth and support the EU's common priorities.[3]

The reference path for the net primary expenditure indicator is determined by the need to ensure that the debt follows a clearly downward trajectory after the adjustment period or that it remains at prudent levels, even in adverse scenarios. In addition, it should also ensure that the deficit is reduced and remains below 3% of GDP, considering the costs associated with the ageing of the population that will materialise after the adjustment period. Operationally, this translates into the need to comply with a number of requirements.

On the public debt side, the first requirement is that the GDP ratio must decrease continuously in the 10 years following the adjustment period in the baseline scenario for growth, inflation and interest rates, as well as in three risk scenarios defined by the Commission. These risk scenarios consider, respectively, a higher cost of financing, a lower primary structural balance and a less favourable differential between growth and financing costs.[4] The second criterion for public debt is that, in an environment of uncertainty regarding the baseline scenario, after five years the ratio to GDP must be equal to or less than the value at the end of the adjustment period with a probability of at least 70%. Finally, the annual rate of reduction of the GDP ratio should be at least 0.5 pps if it is between 60% and 90% and 1 pp if it is greater than 90%.

On the public deficit side, the first criterion, which was already in place under the previous governance framework, is an annual adjustment of at least 0.5 pps per year if the deficit exceeds 3% of GDP.[5] The second requirement applies to countries with a structural deficit above 1.5% of GDP and establishes an annual adjustment of the primary structural balance of 0.4 pps for these countries if the adjustment period is four years, or of 0.25 pps where the three-year extension is applied.

In short, the new fiscal rules define a single benchmark in terms of net primary expenditure, which effectively helps to simply the budgetary orientation of Member States, while maintaining the necessary analytical rigour in order to assess the sustainability of public debt. However, the revision of the rules also entails some difficulties. The main one is that the economic policy readings on the path of net primary expenditure are not immediate and it is difficult to interpret the magnitude of the fiscal adjustments required, as well as their impact on economic growth.

Some aspects of the methodology also have room for improvement, such as the criteria for defining risk scenarios, which are somewhat arbitrary both in terms of the magnitude of the stress applied (the same for all countries, including for the deviations in the primary structural balance regardless of the adjustment to be made) and in terms of when they take place (at the end of the adjustment period) and their duration (some are temporary, such as the rise in interest rates, while others are permanent).

1. Defined by the regulation as public spending after deducting: (i) interest payments, (ii) discretionary revenue measures, (iii) expenditure linked to EU programmes that are fully funded by revenue from EU funds, (iv) national expenditure for the co-financing of EU-funded programmes, (v) cyclical elements of unemployment benefit expenditure and (vi) expenditure and revenue measures associated with one-off or temporary events.
2. Four or five years, depending on the length of the legislative period in each Member State.
3. These include the green and digital transition, energy security, strategic autonomy, security and defence strategy, demographic challenges, employment targets, and socio-economic resilience and convergence.
4. See the «Debt Sustainability Monitor 2023».
5. The adjustment relates to the primary structural balance between 2025 and 2027, and to the total structural balance from 2028 onwards.

Year-on-year (%) change, unless otherwise specified

UNITED STATES

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Activity									
Real GDP	2.5	2.9	3.2	2.9	3.0	2.7	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.9	2.9	3.4	3.5	3.8	3.9	...
Consumer confidence *(value)*	104.5	105.4	102.7	106.3	98.9	102.2	109.6	112.8	104.7
Industrial production	3.4	0.2	–0.1	–0.5	0.0	–0.4	–0.5	–0.9	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.9	49.1	48.8	47.1	46.5	48.4	49.3
Housing starts *(thousands)*	1,552	1,421	1,481	1,407	1,340	1,332	1,312	1,289	...
Case-Shiller home price index *(value)*	307	312	322	325	329	332	334	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.7	3.8	4.0	4.2	4.1	4.2	...
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.2	60.1	60.1	60.0	59.8	...
Trade balance [1] *(% GDP)*	–3.8	–3.1	–2.8	–2.8	–2.8	–2.9	–3.0	–3.0	...
Prices									
Headline inflation	8.0	4.1	3.2	3.2	3.2	2.6	2.6	2.7	...
Core inflation	6.2	4.8	4.0	3.8	3.4	3.2	3.3	3.3	...

JAPAN

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Activity									
Real GDP	0.9	1.5	0.7	–0.9	–0.9	0.5	–	–	–
Consumer confidence *(value)*	32.2	35.2	36.5	38.9	37.0	36.8	36.2	36.4	36.2
Industrial production	0.0	–1.4	–0.9	–4.3	–2.9	–1.8	–0.3	–2.0	...
Business activity index (Tankan) *(value)*	9.5	7.0	13.0	11.0	13.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.5	2.5	2.6	2.5	2.5	2.5	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–1.9	–1.2	–1.0	–1.0	–1.0	–1.0	...
Prices									
Headline inflation	2.5	3.3	2.9	2.5	2.7	2.8	2.2	2.9	...
Core inflation	1.1	3.9	3.9	3.2	2.2	2.0	2.2	2.4	...

CHINA

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Activity									
Real GDP	3.0	5.2	5.2	5.3	4.7	4.6	–	–	–
Retail sales	–0.8	7.8	8.3	4.7	2.6	2.7	4.8	3.0	...
Industrial production	3.4	4.6	6.0	5.8	5.9	5.0	5.3	5.4	...
PMI manufacturing *(value)*	49.1	49.9	49.3	49.7	49.8	49.4	50.1	50.3	50.1
Foreign sector									
Trade balance [1,2]	899	865	865	841	863	895	935	964	...
Exports	7.1	–5.1	–3.3	–1.7	4.4	5.4	12.5	7.0	...
Imports	0.7	–5.5	0.9	1.7	2.6	2.4	–2.3	–3.9	...
Prices									
Headline inflation	2.0	0.2	–0.3	0.0	0.3	0.5	0.3	0.2	...
Official interest rate [3]	3.65	3.45	3.5	3.5	3.5	3.4	3.1	3.1	3.1
Renminbi per dollar	6.7	7.1	7.2	7.2	7.2	7.2	7.1	7.2	7.3

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.*

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Retail sales *(year-on-year change)*	1.4	–1.9	–0.6	–0.2	0.2	1.9	1.9	...	...
Industrial production *(year-on-year change)*	1.7	–1.7	–3.6	–4.7	–3.8	–1.6	–1.2	...	...
Consumer confidence	–21.9	–17.4	–16.7	–15.4	–14.3	–13.2	–12.5	–13.7	–14.5
Economic sentiment	102.1	96.4	94.9	96.0	95.9	96.2	95.7	95.8	...
Manufacturing PMI	52.1	45.0	43.9	46.4	46.3	45.5	46.0	45.2	45.1
Services PMI	52.1	51.2	48.4	50.0	53.1	52.1	51.6	49.5	51.6
Labour market									
Employment (people) *(year-on-year change)*	2.4	1.4	1.3	1.1	0.9	0.9	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.5	6.4	6.3	6.3	6.3	...
Germany *(% labour force)*	3.1	3.0	3.1	3.3	3.4	3.4	3.4	3.4	...
France *(% labour force)*	7.3	7.3	7.5	7.4	7.5	7.5	7.6	7.7	...
Italy *(% labour force)*	8.1	7.7	7.5	7.1	6.7	6.1	5.8	5.7	...
Real GDP *(year-on-year change)*	3.6	0.5	0.1	0.4	0.5	0.9	–	–	–
Germany *(year-on-year change)*	1.5	–0.1	–0.2	–0.1	–0.2	–0.3	–	–	–
France *(year-on-year change)*	2.7	1.1	1.2	1.4	0.9	1.2	–	–	–
Italy *(year-on-year change)*	4.9	0.8	0.3	0.3	0.7	0.4	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
General	8.4	5.5	2.7	2.6	2.5	2.2	2.0	2.2	2.4
Core	3.9	5.0	3.7	3.1	2.8	2.8	2.7	2.7	2.7

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Current balance	0.0	2.1	2.1	2.6	3.1	3.6	3.7	...	...
Germany	4.4	5.8	5.8	6.1	6.3	6.2	6.1	...	...
France	–1.2	–1.0	–1.0	–0.5	–0.4	–0.1	–0.2	–0.3	...
Italy	–1.7	0.0	0.0	0.5	0.9	1.0	1.1	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**95.1**	**95.2**	**95.2**	**95.6**	**95.0**	**94.1**	**93.4**

Credit and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	0.1	0.3	0.4	0.8	1.2	1.0	...
Credit to households [2,3]	4.4	1.7	0.5	0.3	0.3	0.6	0.8	0.9	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	5.2	5.1	5.1	4.9	4.6	4.4	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.9	4.8	4.8	4.7	4.4	4.3	...
Deposits									
On demand deposits	6.3	–8.5	–10.8	–8.8	–5.5	–2.5	0.1	1.5	...
Other short-term deposits	4.5	21.1	21.1	18.4	14.4	10.5	7.3	6.1	...
Marketable instruments	3.7	20.3	19.9	20.5	19.7	21.9	20.1	17.0	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	3.3	3.2	3.1	3.0	2.7	2.6	...

Notes: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.*
Source: *CaixaBank Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

The Spanish economy ends 2024 among the top of the class

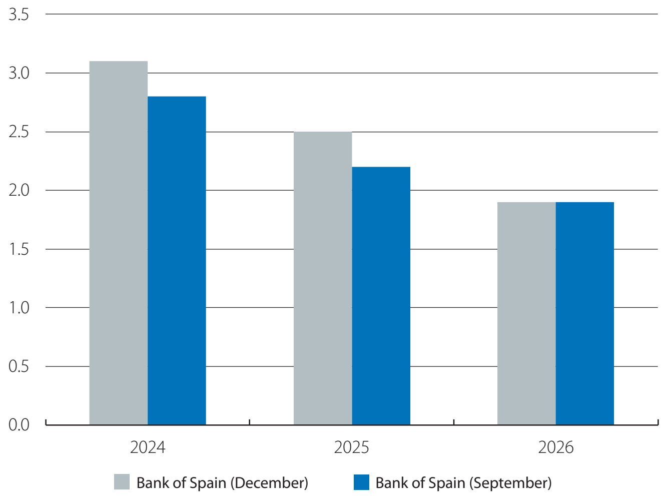
2024 was a year of positive surprises. In January, the analyst consensus published by Funcas placed the GDP growth forecast for the year as a whole at 1.6%. In November, this figure practically doubled to 3.0%, slightly above the 2.8% estimated in September here by CaixaBank Research. Similarly, Bank of Spain revised upwards its GDP growth forecast in December, to 3.1% for 2024 and to 2.5% for 2025 (0.3 pps more than in its previous forecasts in both cases). As for inflation, the institution has left its forecasts practically unchanged, with a small upward adjustment of 0.1 pp in 2026, bringing the figure to 1.8%.

At the end of last year, we were anticipating a change in the growth pattern in favour of a greater role of domestic demand, after two years in which foreign demand was the main driver of growth. The normalisation of the touristic sector and the exhaustion of the pent-up savings from the pandemic led us to believe that this change in the production pattern would be accompanied by a slight slowdown. However, exports, especially those of services (both tourism and non-tourism), have continued to break records, while household consumption has been more dynamic than expected, which explains the steady trickle of upward revisions throughout the year. The main indicators suggest that the economy's good performance continued during Q4 2024. For 2025, we expect growth to remain buoyant, albeit probably less so than in 2024.

GDP continued to record dynamic growth in Q3 2024. In its second estimate of GDP for Q3, the National Statistics Institute confirmed that the economy's growth stood at 0.8% quarter-on-quarter, a rate similar to that of Q2 and 6.6% above the level of Q4 2019. The change in the growth pattern was reaffirmed by the increases recorded in both household and public consumption, of 1.2% and 2.5% respectively, marking the highest growth rate of the last two years. Conversely, investment fell 1.3% and remains 0.5% below the level of Q4 2019. Finally, exports continued to grow at a fairly dynamic rate, but the greater growth of imports led to a negative contribution from external demand of 0.2 pps to quarter-on-quarter growth.

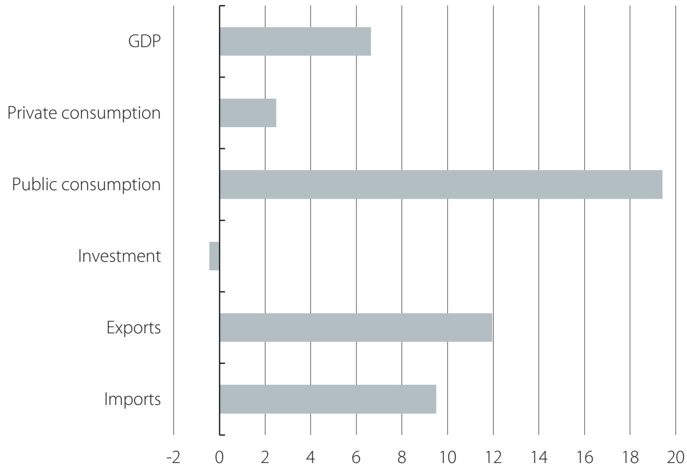
The main indicators predict strong growth for Q4. While we await the publication of the growth figure for the last quarter of the year, in December the main activity indicators maintained the good figures of the rest of the quarter. The CaixaBank Research consumption indicator rose 3.2% year-on-year in December and closed the best quarter of the year with an increase of 4.0%. Thus, the consumption of Spaniards grew by 3.5% year-on-year on average in 2024 (4.8% in 2023), while inflation moderated to 2.8% on average (3.5%

Spain: Bank of Spain's GDP projections
Year-on-year change (%)



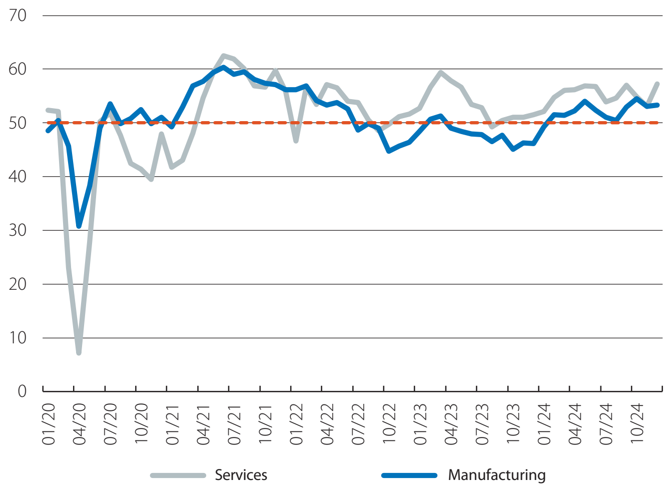
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: GDP and its components
Change between Q4 2019 and Q3 2024 (%)



Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: PMI
Level



Source: *CaixaBank Research, based on data from S&P Global PMI.*

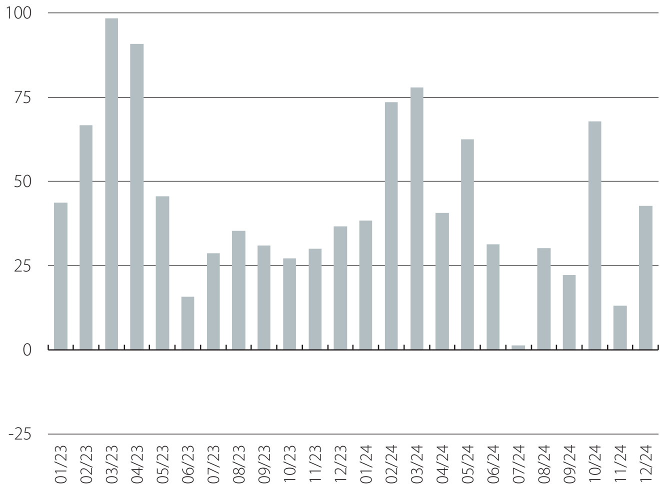
in 2023). On the other hand, business confidence indices remain comfortably in expansive territory, above 50 points: the PMI for the services sector rose sharply in December to 57.3 points (53.1 in November), while the manufacturing index remained at a similar level to the previous month (53.3 in December vs. 53.1 in November).

A good year for employment. Job creation, which is key to understanding the economy's good performance throughout 2024, accelerated yet again in December, adding 35,500 new registered workers, up from the 29,900 recorded in the same month of 2023. Thus, the Spanish labour market closed the year with an increase of over 500,000 new registered workers, placing the total number of Social Security affiliates at 21,337,962. In seasonally adjusted terms, the increase was 42,700 new affiliates, such that the quarter-on-quarter growth in Q4 accelerated to 0.5%, compared to 0.3% in the previous quarter. Finally, the number of unemployed persons fell by 25,300, placing the total at 2.56 million, the lowest figure since December 2007.

The strength of the labour market boosts household incomes. Household gross disposable income (GDI) grew by 8.2% year-on-year in Q3. The main factor behind this increase was the strength of the labour market, which boosted wage growth to 7.4%, while social benefits grew at a more modest rate of 5.8%. Given that the increase in final consumption expenditure was 6.6% (below that of GDI), the savings rate increased. Specifically, the cumulative four-quarter savings rate rose 0.3 pps to 13.7%.

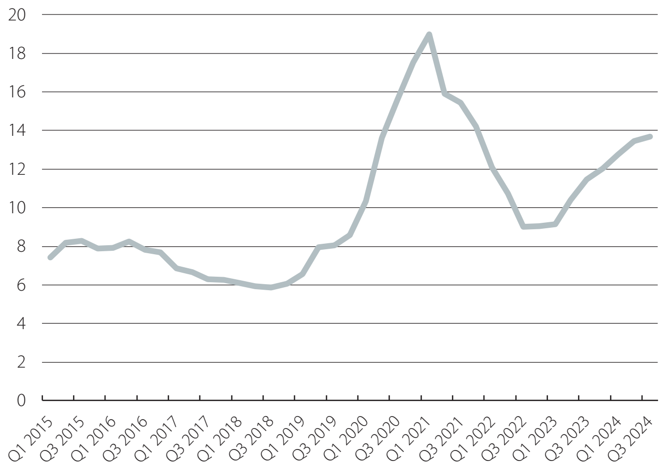
The rebound in inflation continues, but remains contained. Inflation has been on the rise during Q4, after falling in September to its lowest level since the beginning of 2021. Specifically, according to the initial estimates provided by the National Statistics Institute, inflation rose for the third consecutive month in December to 2.8%, 0.4 pps more than in November, driven mainly by fuel prices and, to a lesser extent, those of services related to leisure and culture. Core inflation, meanwhile, rebounded 0.2 pps to 2.6%. Both the headline and core inflation statistics were below the range anticipated by CaixaBank Research in our current forecast scenario, which was developed in September, largely because energy prices have remained more contained than expected. If these figures are confirmed, average headline inflation in 2024 would be 2.8% year-on-year (3.5% in 2023) and average core inflation, 2.9% (6.0% in 2023).

Spain: registered workers affiliated with Social Security
*Month-on-month change (thousands) **



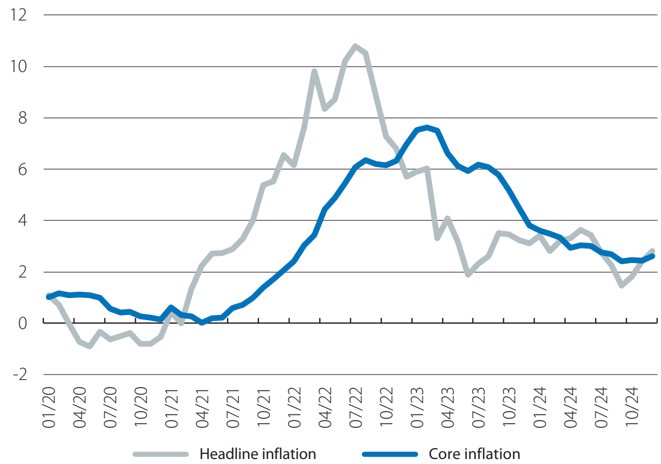
Note: ** Seasonally-adjusted data.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: household savings rate
Gross disposable income (%)



Note: *Four-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: inflation
Year-on-year change (%)



Note: *Core inflation excludes unprocessed food and energy.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

The rise in savings: magnitude, distribution and the importance of demographics

The latest data reaffirm the high savings

The data from the Q3 non-financial accounts confirm that the savings rate of Spanish households remains very high: in the cumulative total of the last four quarters it has reached 13.7% of gross disposable income (GDI). This is a notable increase, both with respect to a year ago (11.5%) and with respect to the historical average of 7.3% in 2015-2019. This is the result of highly dynamic growth in households' (nominal) GDI in the first three quarters of 2024, at 9.4% year-on-year, which exceeded that of their (nominal) expenditure, at +6.7%. Thus, in the last year and a half the savings rate has rebounded by 4.6 points and by 5.1 points since the end of 2019.

However, this increase in the savings rate can vary substantially depending on household incomes, so it is important to analyse how it is distributed according to income level. Using internal and duly anonymised CaixaBank data, we observe an increase in the savings rate of 4.6 points between the end of 2019 and Q2 2024, which is very similar to the 4.8-point increase observed in the non-financial accounts over the same period. Less than 2% of this increase is attributable to households in the first income quartile, 21% is attributable to households in the second quartile, 28% to those in the third quartile and a significant 49% to households in the fourth income quartile (see third chart). The substantial weight of the contribution from the fourth quartile, which is the one with the greatest savings capacity, is similar in magnitude to that estimated by the Bank of Spain in its September macroeconomic projections.

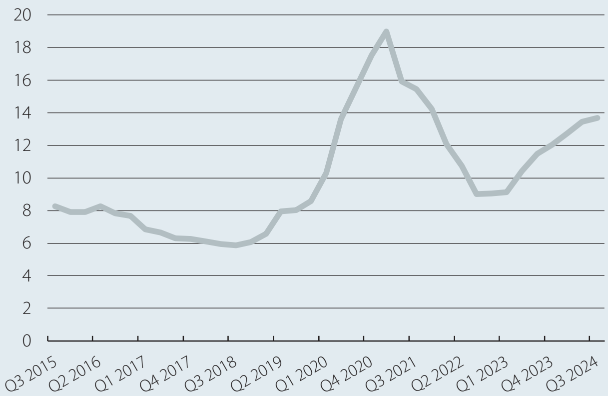
Are there structural factors behind the increase in savings? An analysis by age

The strength of savings in 2024 reflects a myriad of factors, some of which are short-term in nature and others more structural. The short-term factors include the high interest rates, which incentivise financial savings through higher yields; indeed, in Q2 households acquired financial assets worth around 53.5 billion euros, almost double the second-quarter average during the period 2014-2019 (27.65 billion). Other reasons behind the higher savings may also include an intention to use them to pay off debts, below-average confidence levels and perhaps even greater prudence on the part of households in the wake of recent shocks (COVID, and energy and food prices).

The savings rate will steadily decline over the coming years thanks to the improvement in cyclical factors, as interest rates come down and confidence levels increase.

Spain: household savings rate

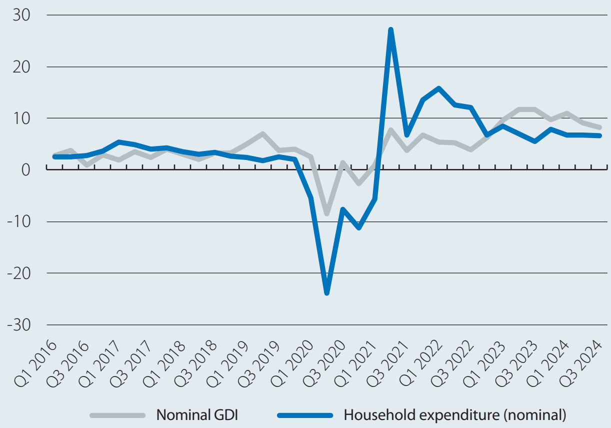
(% of gross disposable income)



Note: *Four-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: gross disposable income (GDI) and household consumption

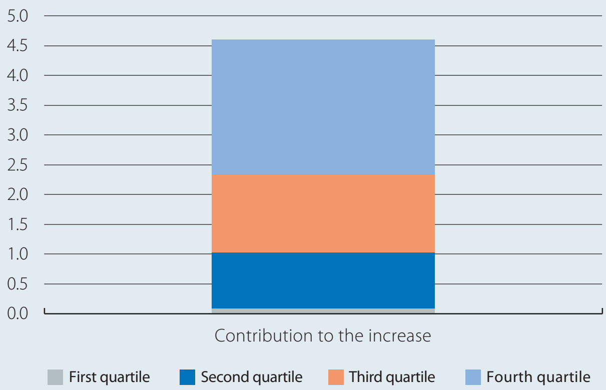
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: increase in the savings rate between 2019 and 2024 by income group

(Pps of gross disposable income)



Source: *CaixaBank Research, based on internal data.*

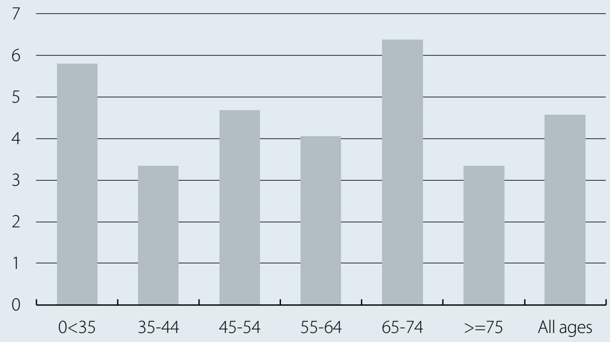
However, there is significant uncertainty about the speed at which this decline will take place. If the rebound in savings we are witnessing also responds to structural factors, then the decline in the savings rate over the coming years could be relatively smooth and gradual.

Among the structural factors, the one that has stood out the most in the public debate from a theoretical perspective has been the ageing of the population.[1] This could be due to the fact that, with longer life expectancies, these households believe that they now need to save more in order to cover healthcare costs in the years ahead. In this second part of the article, we use internal and anonymised CaixaBank data to conduct an empirical analysis of whether or not ageing can actually explain some of this increase in the aggregate savings rate.

The result of this analysis is that, according to our internal data, it is precisely the generations between 65 and 74 years of age[2] that have increased their savings rate the most between July 2023 and June 2024 compared to 2019, as shown in the fourth chart.[3] The rebound in the savings rate of working-age households, meanwhile, is lower than average (and slightly higher among the self-employed than for employees). Specifically, the rebound in the savings rate for the cohorts between 65 and 74 years of age is 32% higher than the average for the entire sample, which is 4.6 pps. This suggests that structural factors may be playing an important role in explaining the increase in savings, such that they may dampen the speed at which the savings rate of Spanish households will decline on aggregate.

Eduard Alcobé and Javier Garcia-Arenas

Spain: increase in the savings rate by age group between 2019 and 2024
(Pps of gross disposable income)



Note: *The sample is open and households entering the sample analysed must have a monthly income of at least 100 euros. To clean up the sample, we eliminated households that appear i n both 2019 and the present showing increases in consumption between 2019 and 2023 exceeding 120% or declines surpassing 50%.*
Source: *CaixaBank Research, based on internal data.*

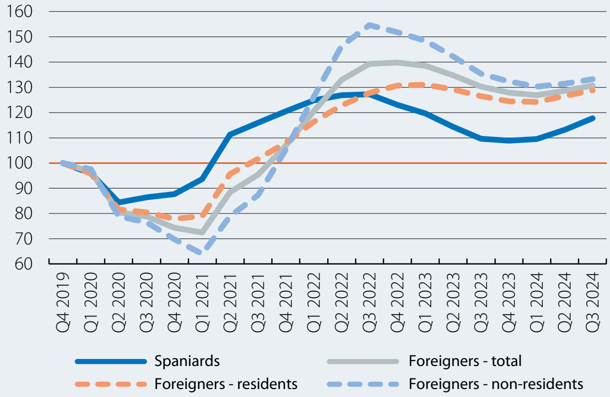
1. AIReF also finds that it is older generations that have increased their savings the most. See Box 2 of the «Report on Budgetary Execution, Public Debt and the Expenditure Rule 2024» published last July.
2. In households made up of more than one person, we take the age of the highest-earning member of the household.
3. The savings rate is the sum of all income minus all expenses in the numerator and the sum of all income in the denominator. We have aggregated these concepts between July 2023 and June 2024 and compared them with the year 2019 in order to obtain the increase in the savings rate between these two periods. For incomes, we have taken into consideration the main sources: payroll, unemployment benefits, public pensions and public aid. We have not included rental incomes or payments. As for consumption, we have examined card movements and cash withdrawals from ATMs and we have also included direct debit payments and transfers from individuals to legal entities.

Foreigners' appetite for homes in Spain since the pandemic

The demand among foreigners for housing in Spain has grown sharply since the pandemic. According to data on real estate transactions published by the Ministry of Housing and Urban Agenda (MIVAU), foreigners bought 125,857 homes in the trailing 12 months to Q3 2024, representing 18.4% of the total and 30.7% more transactions than in 2019.[1] In comparison, sales to Spanish buyers were 17.7% above the level of 2019. There is no doubt that foreign demand is a fundamental pillar in explaining the strength of housing demand in the current expansionary cycle. As we shall see, much of this demand comes from foreigners who reside in Spain – a group that has been on the rise in recent years with the recent influx of immigrants into our country.

Spain: home sales by buyers' nationality and residency status

Index (100 = Q4 2019)



Source: *CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda.*

Differences between resident and non-resident foreign buyers

Among foreign buyers, there is a different pattern of behaviour between those who live in Spain and those who do not. Generally speaking, these two groups have different purchasing motives: non-residents tend to buy homes in Spain as a place to spend their holidays and have a preference for tourist areas, whereas residents usually do so for reasons related to work or education and it is more common for them to buy in more urban areas.[2] There are also differences in terms of the average price per square metre of the homes purchased: non-residents purchase higher-priced homes per square metre (€2,895/m^2 in S1 2024) than residents (€1,734/m^2) and nationals (€1,659/m^2).[3] In terms of nationalities, the main non-resident buyers come from European countries, with the British, German, Dutch, Belgian and French topping the list (48.5% of the total). Among foreign residents, Moroccans were the main buyers in the first half of 2024, followed by Romanians and Italians. These nationalities lead the rankings in terms of share of sales in most autonomous community regions, with the exception of Galicia and Madrid, where the Portuguese and the Chinese, respectively, made the most purchases.

In the chart we can see that, during the pandemic, sales to non-resident foreigners fell the most (–30.2% compared to –22.1% among resident foreigners and –12.2% among Spaniards in 2020), as a result of the restrictions on international mobility at that time. However, acquisitions by non-residents experienced a strong rebound in 2021, and especially in 2022, which far surpassed that of residents and Spaniards.

With the rise in interest rates, sales declined for all categories of buyer in 2023. Nevertheless, the decline was more moderate among resident foreigners (–4.7%) than for non-resident foreigners (–12.9%) and Spaniards (–11.6%), as the rise in interest rates coincided with a significant wave of migration,[4] which is driving up sales to resident foreigners.[5]

Regional differences: foreigners choose tourist and urban areas

The boom in the sale of homes to foreigners has not affected the whole country equally, as they are concentrated in tourist areas (the islands and the Mediterranean arc) and urban areas (especially Barcelona and Madrid). The table shows the 10 provinces with the highest number of sales to foreign buyers in Q3 2024 (trailing four-quarter cumulative total). These provinces account for 76% of the total sales to foreigners, 90% of the sales to non-residents, but only 66% of those to resident buyers, demonstrating the greater geographical dispersion of the latter.

Alicante is the province with the most foreign buyers, where they represent approximately half of all sales, with a significant presence of non-residents (68.6% of the

1. According to the Spanish Association of Property Registrars (Colegio de Registradores), sales to foreign buyers accounted for 14.9% of the total, at around 87,600 sales, in the trailing four quarters to Q3 2024. In this article, we use the data from the Ministry of Housing and Urban Agenda (MIVAU, obtained from Notariado), as they allow us to distinguish between resident and non-resident foreigners.
2. Sales to non-resident foreign buyers account for around 44% of all sales to foreigners (cumulative data for the four quarters to Q3 2024).
3. Average price and nationality data obtained from Notariado: «Informe analítico de compraventa de vivienda por parte de extranjeros 1S 2024».
4. Increase of around 1 million foreign people between 2022 and 2023.
5. For an analysis of the relationship between population increase and house price increases, see «Population and home prices in Spain: a close relationship», published in the *Real Estate Sector Report S1 2024*.

total number of foreigners). Other tourist provinces, such as Malaga and the Balearic Islands, also have a large proportion of non-resident foreign buyers. On the other hand, resident foreigners predominate in Barcelona, Madrid and Valencia.

The end of Golden Visas will have a limited impact

In 2013, Act 14/2013 was passed, which allowed non-EU residents to obtain residence permits in Spain in exchange for making significant investments in the country, such as the purchase of property valued at over 500,000 euros. According to government data, between the time this law was passed and October 2024, 15,149 Golden Visas were granted in connection with investments in real estate, most of them to citizens of China, Russia, the United Kingdom, the USA, Ukraine, Iran, Venezuela and Mexico. The main provinces for these investments are Barcelona, Madrid, Malaga, Alicante, the Balearic Islands and Valencia, which account for as much as 90% of the authorisations granted nationwide.[6]

The European Commission has repeatedly expressed its concern about such programmes offering residency in exchange for investment, as they could expose the EU to security risks, money laundering and tax evasion, a concern which has intensified in the wake of the war in Ukraine. Several countries are withdrawing such schemes.[7] In Spain, the law ending Golden Visas has been passed in January 2025 and will come into force in April. However, the impact on the property market of this abolition ought to be limited, as they represent a very small fraction of total sales.

Judit Montoriol Garriga

Top 10 provinces by home sales to foreigners

	Number	Change between 2019 and Q3 2024	% of foreigners *	% of non-residents **
National total	**125,857**	**30.7%**	**18.4**	**44.0**
Alicante	28,239	35.3%	50.9	68.6
Malaga	14,094	36.1%	38.1	72.1
Barcelona	10,930	35.5%	16.6	16.9
Madrid	8,459	11.2%	10.2	13.0
Valencia	8,380	35.4%	20.4	22.4
Murcia	7,349	42.0%	28.4	57.2
Balearic Islands	5,689	2.2%	37.7	66.8
Santa Cruz de Tenerife	4,931	24.1%	38.6	56.2
Las Palmas	4,069	15.6%	28.8	56.0
Girona	3,983	9.8%	27.6	56.5

Notes: *Cumulative data for the trailing 4 quarters to Q3 2024. * Sales to foreign buyers, as a percentage of total sales. ** Sales to non-resident foreign buyers, as a percentage of the total sales to all foreigners.*
Source: *CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda.*

6. Organic Law 1/2025, of 2 January, on measures related to the efficiency of the Public Justice Service, cancels articles 63 to 67 of Act 14/2013, which established the conditions required to qualify for the Golden Visa.
7. Ireland abolished its Golden Visa programme in February 2023, Portugal discontinued its real estate investment visa in 2023 and the Netherlands abolished its scheme in January 2024. Albania planned to introduce a Golden Visa scheme in 2022, but the European Commission urged it to abstain.

International business tourism since the pandemic

Following a 2023 in which the main tourism indicators returned to the peaks of 2019, Spain's tourism sector not only continues at full steam without showing any signs of cyclical exhaustion, but it has maintained its appeal throughout 2024, especially among international tourists. In 2024, we estimate that around 94 million foreign tourists visited our country, representing an increase of 9 million compared to 2023 (a growth rate of 10%).[1]

Despite Spain's tourism model being highly competitive, the recovery of the different types of tourists has been uneven. This article examines how the reasons for international visits have changed, comparing the current situation with that of 2019, in order to assess whether there have been significant shifts in consumption patterns that are relevant to the sector. To this end, we use the statistics on international tourist arrivals published by the National Statistics Institute (FRONTUR), which distinguish between three main reasons for travelling: leisure, recreation and holidays; business and professional reasons; and other reasons.

The main reason why foreigners visit Spain is for holidays and leisure. In 2024, 81 million foreign tourists visited our country for this reason (the so-called holiday and leisure tourist), around 8 million more than in 2019. However, the group that has grown the most is that of tourists travelling for «other reasons», surging by over 40% compared to 2019 (2.4 million additional visits in 2024). This category includes trips ranging from visits to see family and friends, to studies, to medical treatments or even religious pilgrimages, among others. While this category still accounts for a much smaller portion of the total compared to leisure and recreation, it now represents 8.2% of arrivals into our country, 2 points more than in 2019.

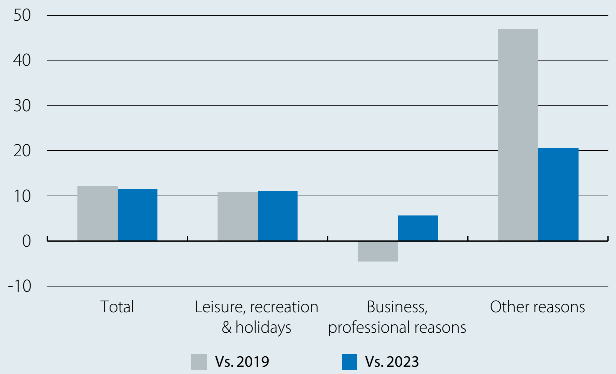
Finally, arrivals for business and professional reasons – the so-called business tourist – are the only ones that have not yet recovered their pre-pandemic levels: there is a gap of around 240,000 arrivals compared to the levels of 2019 and, moreover, this is the category showing the least growth (5.7% in 2024 versus 11% for leisure reasons and 21% for other reasons). Among the main source countries for business tourists, the biggest declines are found in arrivals of Portuguese, Belgian and British tourists, among others, while the only notable increase is in visits from the US.

Post-pandemic labour trends – with the significant rise of teleworking, the exponential use of tools that facilitate

1. The figures mentioned in this article refer to the cumulative trailing 12 months to November, which is the latest data available as of the closing of this article, and are compared against the same period for 2019 and 2023.

Spain: tourist arrivals by purpose of visit

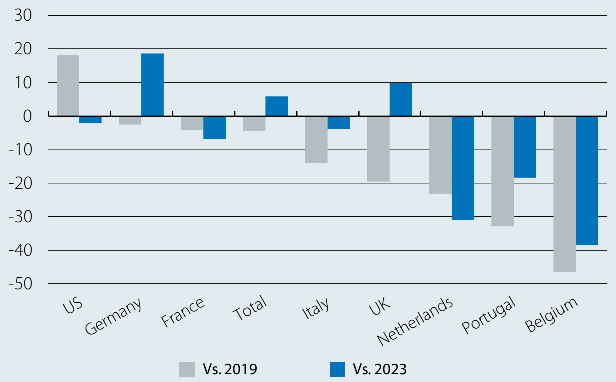
Change in 2024 (%)



Note: *The data correspond to the average for the trailing 12 months to November.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: business tourist arrivals by country of origin

Change in 2024 (%)



Note: *The data correspond to the total for the trailing 12 months to November.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

virtual meetings and cuts in travel expenses by companies – explain the decline in international tourists travelling to attend meetings in other countries, which generally entail shorter stays. In fact, visits by business tourists lasting less than three days have fallen by 16% between 2019 and 2024.

On the other hand, there is an increase in longer visits, which encompass trips to attend trade fairs and professional events that cannot be conducted virtually. Visits lasting between 4 and 15 nights grew by 11% compared to 2019 and now account for 46% of all business tourist arrivals, 6 points more than in 2019. In fact, the MICE sector (Meetings, Incentives, Conferences and Exhibitions), which includes the holding of trade fairs and sectoral or business events, is becoming increasingly attractive in our country, with an increase in the number of exhibitors and attendees recorded in both 2023 and 2024. The majority of this business segment is concentrated in the most economically buoyant regions and those with the greatest international projection: Madrid, Catalonia, Andalusia and the Valencian Community account for 75% of business tourists in our country.[2]

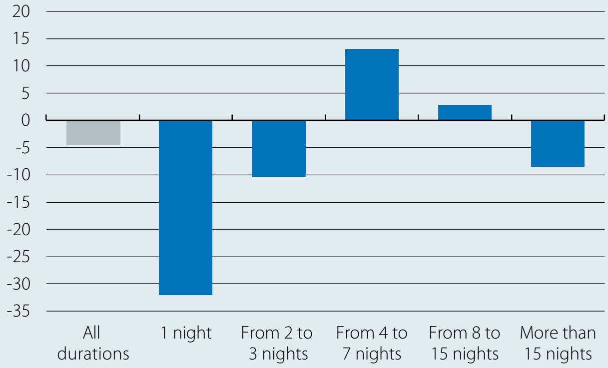
In any case, business tourism accounted for 6.0% of all arrivals in the period 2016-2019, and this figure has fallen to 5.4% in 2024. In this regard, this business segment has room for improvement in the medium and long term, and this could be an additional reason for tourist arrivals in the coming years. The recovery of this segment is particularly important for Spain's tourism sector. Firstly, this is because these tourists spend more than average: in 2024, they spent around 1,400 euros per tourist (100 euros more than the average holiday tourist) and around 240 euros per day (50 euros more per day than the average tourist). In 2024, revenues associated with business travel amounted to 7.126 billion euros. Secondly, this group is especially important for our hotel sector: in 2024, 86% of business tourists stayed in a hotel in our country, compared to 68% of holiday tourists and 33% among those visiting for other reasons.

Pedro Álvarez Ondina

2. Spain hosts world-leading trade fairs and sectoral events: in Madrid, FITUR (tourism), Fruit Attraction (agrifood sector) and ARCOmadrid (art); in Barcelona, Mobile World Congress (telecommunications and IT) and Alimentaria (agrifood sector). In 2024, the number of attendees and exhibitors at these fairs increased at double-digit rates compared to 2023, in the 10%-19% range, according to data published by the organisers themselves.

Spain: business tourists according to the length of stay

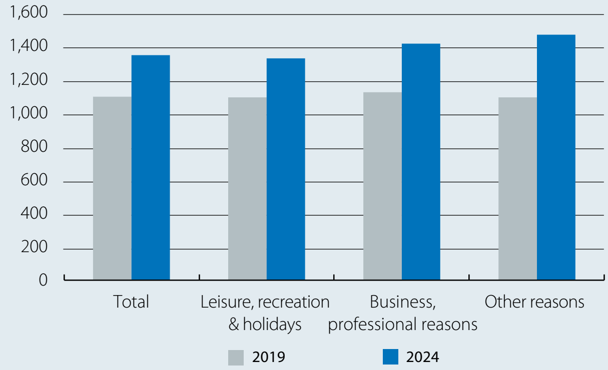
Change between 2019 and 2024 (%)



Note: The data correspond to the average for the trailing 12 months to November.
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Spain: average daily expenditure per tourist by purpose of visit

(Euros per tourist)



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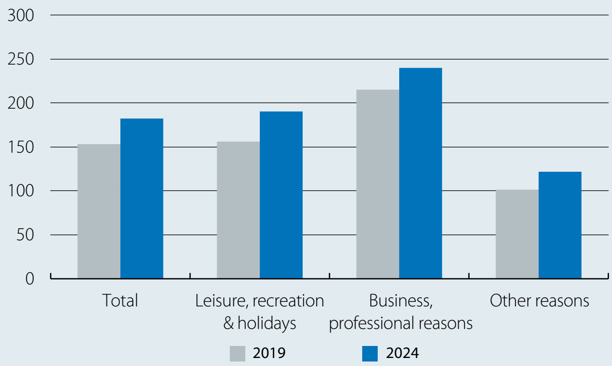
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Spain: average daily expenditure per tourist by the purpose of visit

(Euros per day)



Note: The data correspond to the average for the trailing 12 months to November.
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Industry									
Industrial production index	2.0	–1.4	–1.3	–0.5	0.3	0.6	1.9	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–8.0	–5.2	–5.5	–2.9	–8.0	–5.2	...
Manufacturing PMI *(value)*	51.0	48.0	45.9	50.7	52.8	51.5	54.5	53.1	53.3
Construction									
Building permits *(cumulative over 12 months)*	0.6	0.5	0.5	2.0	4.6	10.2	11.8	...	...
House sales *(cumulative over 12 months)*	14.8	–10.2	–10.2	–11.0	–10.0	–1.1	3.7	...	...
House prices	7.4	4.0	4.2	6.3	7.8	8.2	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	18.9	15.8	14.3	12.3	11.9	11.5	...
Services PMI *(value)*	52.5	53.6	51.2	54.3	56.6	55.2	54.9	53.1	57.3
Consumption									
Retail sales[1]	2.2	2.5	2.8	1.1	0.5	2.6	3.4	1.0	
Car registrations	–5.4	16.7	11.7	3.1	8.5	1.7	7.2	6.4	28.8
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–17.2	–14.4	–13.6	...	...	...
Labour market									
Employment[2]	3.6	3.1	3.6	3.0	2.0	1.8	...	...	...
Unemployment rate (% labour force)	13.0	12.2	11.8	12.3	11.3	11.2	...	...	...
Registered as employed with Social Security[3]	3.9	2.7	2.6	2.6	2.4	2.3	2.5	2.4	2.4
GDP	**6.2**	**2.7**	**2.3**	**2.6**	**3.2**	**3.3**	...	...	...

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
General	8.4	3.5	3.3	3.1	3.5	2.2	1.8	2.4	2.8
Core	5.2	6.0	4.5	3.5	3.0	2.6	2.5	2.4	2.6

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	–1.4	–6.9	–4.9	–1.8	–0.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	–7.2	–9.8	–7.1	–3.1	–2.1	...	...
Current balance	**4.8**	**39.8**	**39.8**	**41.2**	**45.4**	**49.6**	**51.5**	**...**	**...**
Goods and services	12.1	58.8	58.8	60.5	65.5	69.3	71.5	...	...
Primary and secondary income	–7.3	–19.1	–19.1	–19.2	–20.1	–19.7	–20.0	...	...
Net lending (+) / borrowing (–) capacity	**17.5**	**56.0**	**56.0**	**56.0**	**61.5**	**66.2**	**68.0**	**...**	**...**

Credit and deposits in non-financial sectors[4]

Year-on-year change (%), unless otherwise specified

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	10/24	11/24	12/24
Deposits									
Household and company deposits	3.1	0.3	0.3	3.3	5.2	4.3	4.7	5.6	...
Demand and notice deposits	3.6	–7.4	–7.4	–5.2	–1.9	–1.6	–0.4	1.4	...
Time and repo deposits	–3.0	100.5	100.5	96.7	68.0	47.5	39.2	32.4	...
General government deposits[5]	–0.8	0.5	0.5	–4.6	–4.1	14.8	17.0	20.2	...
TOTAL	**2.8**	**0.3**	**0.3**	**2.7**	**4.5**	**5.1**	**5.7**	**6.8**	**...**
Outstanding balance of credit									
Private sector	–0.4	–3.4	–3.4	–2.6	–1.3	–0.3	0.1	0.4	...
Non-financial firms	–0.7	–4.7	–4.7	–3.6	–1.8	–0.6	–0.1	0.2	...
Households - housing	–0.2	–3.2	–3.2	–2.5	–1.5	–0.7	–0.3	0.1	...
Households - other purposes	0.0	–0.5	–0.5	–0.1	0.7	1.2	1.9	1.9	...
General government	0.6	–3.5	–3.5	–4.8	–2.7	–5.4	–2.4	–3.0	...
TOTAL	**–0.3**	**–3.4**	**–3.4**	**–2.7**	**–1.4**	**–0.7**	**0.0**	**0.2**	**...**
NPL ratio (%)[6]	**3.5**	**3.5**	**3.5**	**3.6**	**3.4**	**3.4**	**3.4**	**...**	**...**

Notes: *1. Deflated, excluding service stations. 2. LFS estimate. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Public-sector deposits, excluding repos. 6. Data at the period end.*

Sources: *CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Transport, Mobility and Urban Agenda (MITMA), the Ministry of Inclusion, Social Security and Migration (MISSM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.*

The tone of the Portuguese economy improves in the last quarter of 2024

The economic indicators point to an acceleration of activity in Q4. The Bank of Portugal's composite indicators, with data to November, suggest an acceleration in the growth of overall economic activity to 1.3% in Q4 (1.2% in Q3) and of private consumption to 2.8% (vs. 2.4%). This trend is also confirmed by other indicators, such as retail sales, card spending and car sales, which rose by 11.9% year-on-year in Q4. The economic climate indicator, meanwhile, gained strength in Q4, with improvements across all sectors, especially in services.

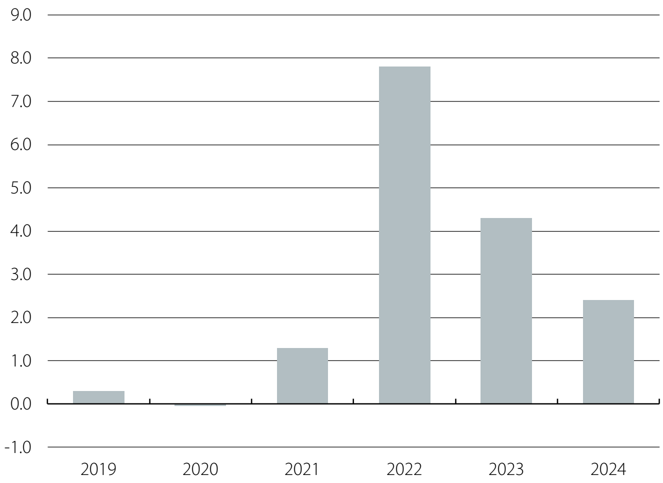
The outlook for 2025 remains positive, supported by the resilience of consumption, thanks to the strength of the labour market and the recovery of real disposable income, driven both by wage increases and by the containment of inflation. An acceleration in investment also seems plausible, both due to the reduction in financing costs and because we are entering the penultimate year of execution of NGEU funds. In short, the domestic factors reveal a sound economy, although they could be counteracted by external factors related, for example, to the rise in protectionism or the impact that a potential aggravation of geopolitical factors could have on key commodity prices.

Inflation closed 2024 with an annual average of 2.4%. In December, headline inflation rebounded to 3.0% (2.5% in November) and core inflation to 2.8% (vs. 2.6%), placing the average inflation rate for 2024 at 2.4%, compared to 4.3% in 2023. For 2025, our current forecast for average inflation stands at 2.1%, a figure that would definitively mark the end of the inflationary cycle of recent years. The price outlook looks favourable: on the one hand, the futures markets for the main agricultural products point to prices closer to those that existed before the war in Ukraine; as for services, in telecommunications, for example, increased competition and the announcement by some operators that they will keep prices unchanged suggest that inflation will remain contained in this category.

The housing market goes from strength to strength. The Housing Price Index for Q3, published at the end of December, reveals a rapid rate of growth: +3.7% quarterly (+3.9% in Q2) and +9.8% year-on-year (vs. +7.8%). In Q3, 40,909 homes were sold, 19.4% more than in Q3 2023 and 10.2% more than in the previous quarter. The average price of the homes sold rose to 221,300 euros (4.3% more than in Q2). The publication of this statistic, together with other available indicators for Q4, fuels the expectation that average price growth in 2024 will be much closer to that of 2023, so the current CaixaBank Research forecast (6.8%) is somewhat skewed to the downside.

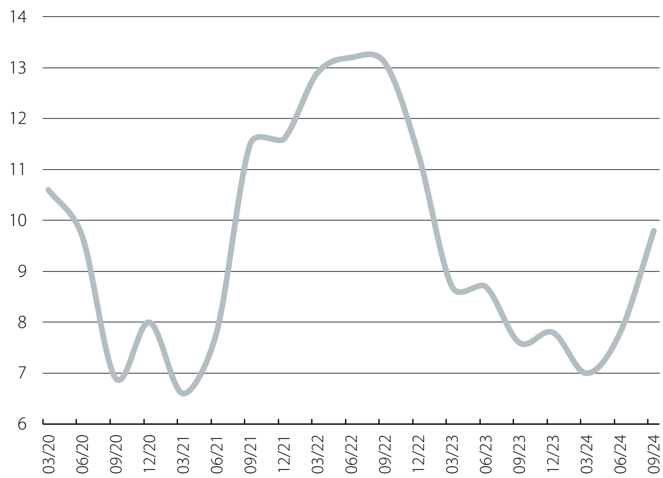
The economy's lending capacity increases to 2.6% of GDP in Q3 2024. This essentially reflects the increase in the capacity of households (4.1% of GDP vs. 3.5% in Q2), as a result of the 8.4% increase in savings versus the previous quarter, driven by disposable income growth of 2.3%, which exceeded that of consumption (1.6%).

Portugal: inflation
Annual average (%)



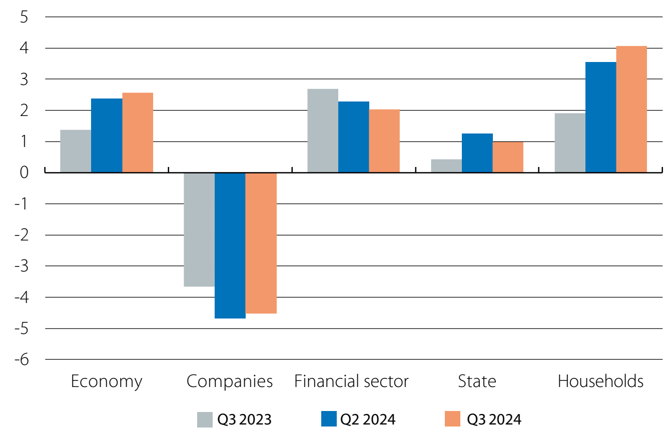
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: housing price index
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: lending capacity/financing needs of the economy
(% of GDP)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	10/24	11/24	12/24
Coincident economic activity index	5.9	3.5	2.1	1.4	1.1	...	1.2	1.3	...
Industry									
Industrial production index	0.8	–3.1	1.4	1.4	–0.8	...	4.7	–2.2	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–7.9	–6.7	–6.2	–3.9	–4.1	–3.5	–4.1
Construction									
Building permits - new housing (number of homes)	6.2	7.5	–17.6	7.8	11.6	...	8.7	...	...
House sales	1.3	–18.7	–4.1	10.4	19.4	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	5.5	6.8	8.5	...	12.0	13.7	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	13.1	9.5	7.8	...	6.7	6.4	...
Confidence indicator in services *(value)*	15.2	7.6	6.3	4.3	–0.4	11.9	5.5	12.3	17.9
Consumption									
Retail sales	5.5	1.1	1.8	2.2	3.9	...	5.7	5.7	...
Coincident indicator for private consumption	4.1	2.9	2.4	2.2	2.5	...	2.8	3.0	...
Consumer confidence index *(value)*	–29.7	–28.6	–24.6	–18.7	–14.3	–14.3	–13.9	–14.0	–15.0
Labour market									
Employment	3.3	2.3	1.4	1.0	1.2	...	1.4	1.3	...
Unemployment rate (% *labour force*)	6.1	6.5	6.8	6.1	6.1	...	6.6	6.7	...
GDP	**7.0**	**2.3**	**1.4**	**1.6**	**1.9**	**...**	**–**	**–**	**–**

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	10/24	11/24	12/24
General	7.8	4.4	2.2	2.7	2.2	2.4	2.3	2.5	3.0
Core	5.6	5.1	2.3	2.4	2.5	2.6	2.6	2.6	2.8

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	10/24	11/24	12/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.4	–5.5	–3.7	0.8	...	2.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.0	–7.3	–5.6	–0.9	...	0.0	...	...
Current balance	**–4.7**	**1.3**	**3.1**	**4.4**	**5.2**	**...**	**5.7**	**...**	**...**
Goods and services	–4.8	3.3	4.6	5.2	5.8	...	6.1	...	...
Primary and secondary income	0.1	–2.0	–1.5	–0.8	–0.7	...	–0.4	...	...
Net lending (+) / borrowing (–) capacity	**–2.5**	**5.0**	**6.9**	**8.0**	**8.5**	**...**	**9.3**	**...**	**...**

Credit and deposits in non-financial sectors

Year-on-year change (%), unless otherwise specified

	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	10/24	11/24	12/24
Deposits [1]									
Household and company deposits	6.4	–2.3	2.7	5.6	6.0	...	6.6	7.0	...
Sight and savings	12.0	–18.5	–14.8	–8.6	–6.7	...	–3.6	–0.7	...
Term and notice	–1.2	22.2	27.1	24.0	20.9	...	18.0	15.1	...
General government deposits	12.4	–12.4	9.1	4.5	29.1	...	7.3	11.1	...
TOTAL	**6.5**	**–2.6**	**2.9**	**5.6**	**6.7**	**...**	**6.6**	**7.1**	**...**
Outstanding balance of credit [1]									
Private sector	1.8	–1.5	–0.8	–0.3	1.1	...	1.5	2.0	...
Non-financial firms	–0.6	–2.1	–1.7	–1.7	–0.6	...	–0.2	0.3	...
Households - housing	3.3	–1.4	–0.7	0.1	1.5	...	2.1	2.6	...
Households - other purposes	2.7	–0.3	1.5	2.5	4.0	...	4.1	4.2	...
General government	–2.7	–5.5	5.9	–5.8	–4.1	...	–3.8	–4.0	...
TOTAL	**1.6**	**–1.7**	**–0.5**	**–0.5**	**0.9**	**...**	**1.4**	**1.8**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**2.7**	**2.6**	**2.6**	**...**	**–**	**–**	**–**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

Through our studies, we help to stimulate debate and the exchange of views among all sectors of society, as well as to promote the dissemination of the major themes of the socio-economic environment of our time. Both the *Monthly Report* and the rest of CaixaBank Research's publications are available at: www.caixabankresearch.com

We recommend:

Brief Notes on Economic and Financial Developments

Assessment of the main macroeconomic indicators for Spain, Portugal, the euro area, the US and China, as well as of the meetings of the European Central Bank and the Federal Reserve.

Consumption tracker

Monthly analysis of the evolution of consumption in Spain using big data techniques, based on expenditure with cards issued by CaixaBank, non-customer expenditure registered on CaixaBank POS terminals and cash withdrawals from CaixaBank ATMs.

Currency flash report

Flash report on developments in the euro's exchange rate with the major currencies: the US dollar, pound sterling, Japanese yen and Chinese yuan. It offers technical, structural and predictive analysis.

Sectoral Observatory

In 2024, the Spanish economy has experienced widespread growth across virtually all of its sectors. The outlook for 2025 also looks promising, although there will be differences in growth rates and the transition to a more sustainable production system will need to be tackled head on. The automotive sector will also face the challenge of remaining competitive in the new global ecosystem.

Agrifood Sector Report 2024

Activity in Spain's agrifood sector grew quicker than for the economy as a whole and the outlook for the 2024-2025 campaign is encouraging. Exports are faring well in the challenging environment of recent years and the food price rally has begun to slow, although the cumulative increase since 2019 remains significant.

Real Estate Sector Report S2 2024

The rapid growth of Spain's real estate sector during the first half of the year has led us to revise upwards our forecasts for 2024 and 2025. Even so, the mismatch between supply and demand will determine the sector's behaviour, as it tackles major challeng-es such as climate change and the housing affordability problems for the young and the most vulnerable segments of society.

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