Spain
Macroeconomic & Financial Outlook

CaixaBank Research

February 2025

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Key messages

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Activity

- **The ECB continues with sequential rate cuts.** The ECB cut rates by 25bp in January, leaving the depo at 2.75% in a widely expected decision. The ECB is expected to continue cutting rates and set a neutral monetary policy stance in 2025 (depo at the end of 2025: 1.75%-2.00%).
- **Spanish GDP surprised on the upside and grew 0.8% qoq in Q4 2024 (3.5% yoy).** Domestic private demand was the main engine of growth powered by private consumption and investment. Net trade made a slight negative contribution to qoq growth due to the drop in goods exports. According to the preliminary Q4 estimate, GDP grew 3.2% in 2024 (EZ growth: 0.7%), 0.5 pp more than in 2023.
- **Risks around our growth forecast of 2.3% for 2025 are tilted to the upside**. The positive surprise in the GDP growth data for Q4 will lead us to revise upwards the growth forecast for 2025, currently at 2.3%, due to the carry-over effect generated by the rebound in growth observed in the second half of last year. This month we will be revising our scenario.
- **Early indicators in Q1 2025 are globally positive but less dynamic than in Q4 2024.** The labour market held up well in January while PMIs declined a bit albeit sitting in expansionary zone (>50 points).
- **Headline inflation increased 0.2pp in January to 3.0%**, owing to higher oil prices and, to a lesser extent, higher electricity prices after the removal of the energy subsidy. Underlying inflation (excluding energy and non-processed food) maintained its downward trend, with a 0.2pp decline to 2.4%.
- **The direct macro impact in Spain of a tariff increase in the US should be small**. The impact of Trump increasing tariffs to 10% is estimated to be c.0.1% of GDP. In Spain, exports of goods and non-tourism services to the US represent 1.25% (c. €19bn) and 0.7% of GDP (c.€10bn), respectively.
- **We improve forecasts for the real estate market for 2024-2025.** 2024 is now estimated to show price increases of 5.6%/8.5% (IMIVAU/INE) and sales of c630k units, higher than expected. For 2025, we now expect house prices to increase +5.9%/7.2% (MIVAU/INE) (previously 3.6%/4.1%), and the number of sales to 650k (prev. c580k). The positive momentum and the better-than-expected latest data support this move.
- **The public deficit is forecast to decline to 3.2% in 2024 and to 2.8% in 2025.** For 2025, we have introduced an upward revision of 0.2pp due to higher deficit in 2024 due to DANA plus additional DANA spending this year partially offset by new revenue measures.

Banking Sector

- **New lending shows positive dynamics.** Higher activity levels in 2024 drive new lending and, consequently, the stock of credit grows. Domestic NPL ratio remains stable around 3.4% in November, below Dec'23 levels and in line with the historical average prior to the financial crisis. Profitability has improved and ROE has reached 14.7% in 3Q24 (vs. 11.1% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

UNDER REVIEW

%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	
GDP	4.1	2.9	2.9	2.4	2.0	-10.9	6.7	6.2	2.7	3.2	2.3
Private Consumption	2.9	2.6	3.1	1.8	1.0	-12.2	7.2	4.9	1.7	2.8	2.5
Public Consumption	1.9	0.9	1.0	2.1	2.2	3.5	3.6	0.6	5.2	4.9	1.6
Gross Fixed Capital Formation (GFCF)	5.3	2.0	6.8	6.5	4.9	-8.9	2.6	3.3	2.1	2.3	3.4
GFCF - equipment	9.3	1.6	9.1	4.2	1.7	-13.5	3.3	2.9	1.1	2.3	4.3
GFCF - construction	2.4	0.9	6.8	10.1	8.4	-8.4	0.5	2.2	3.0	2.6	3.0
Exports	4.4	5.4	5.6	1.7	2.3	-20.1	13.4	14.3	2.8	2.9	2.3
Imports	5.1	2.6	6.7	3.9	1.3	-15.1	15.0	7.7	0.3	2.0	2.8
Unemployment rate	22.1	19.6	17.2	15.3	14.1	15.5	14.9	13.0	12.2	11.3	11.2
CPI (average)	-0.5	-0.2	2.0	1.7	0.7	-0.3	3.1	8.4	3.5	2.8	2.5
External current account balance (% GDP)	2.0	3.1	2.8	1.9	2.1	0.8	0.8	0.4	2.7	3.1	3.1
General Government Balance (% GDP)	-5.3	-4.3	-3.0	-2.6	-3.0	-10.0	-6.7	-4.6	-3.5	-3.2	-2.8
General government debt (% GDP)	102.4	101.9	101.1	99.7	97.6	119.2	115.6	109.4	105.0	102.9	102.1
Housing prices	1.1	1.9	2.4	3.4	3.2	-1.1	2.1	5.0	3.9	5.6	5.9
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	81	80
Bank credit (to the private domestic sector)	-4.3	-2.9	-1.9	-2.6	-1.2	2.5	0.5	-0.4	-3.4	0.6	1.8

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

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

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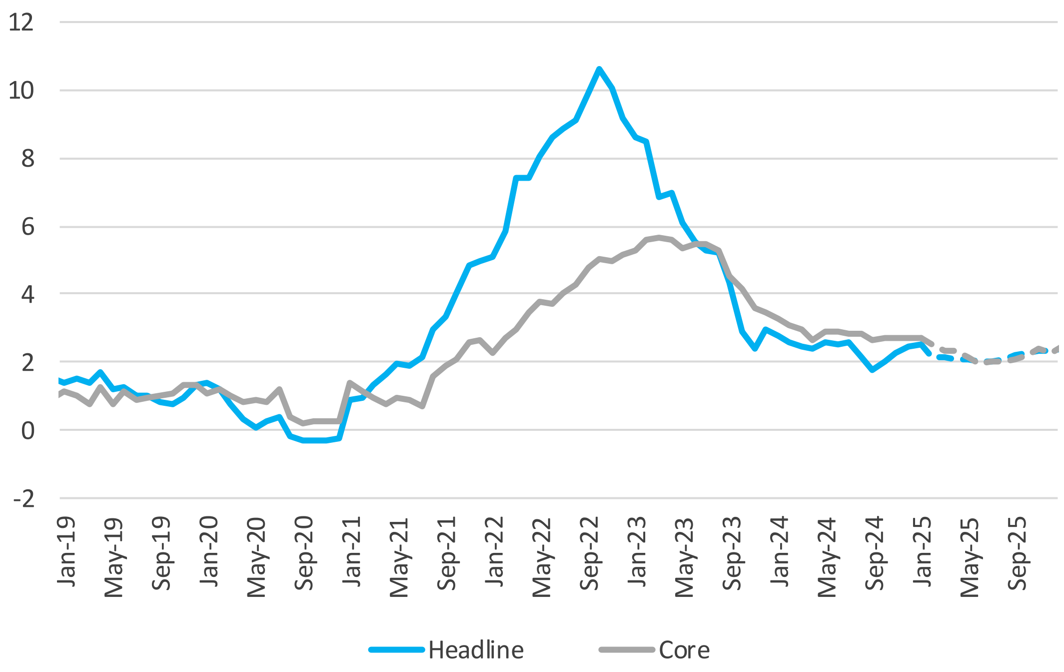
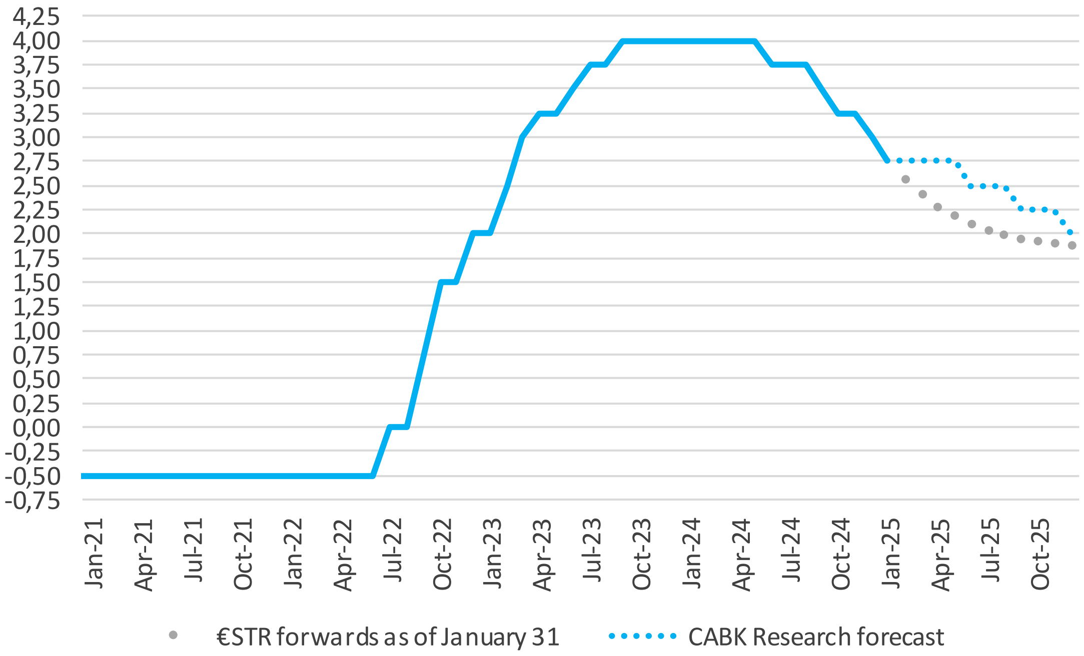
Euro area: HICP inflation

(%)



ECB deposit rate

(%)

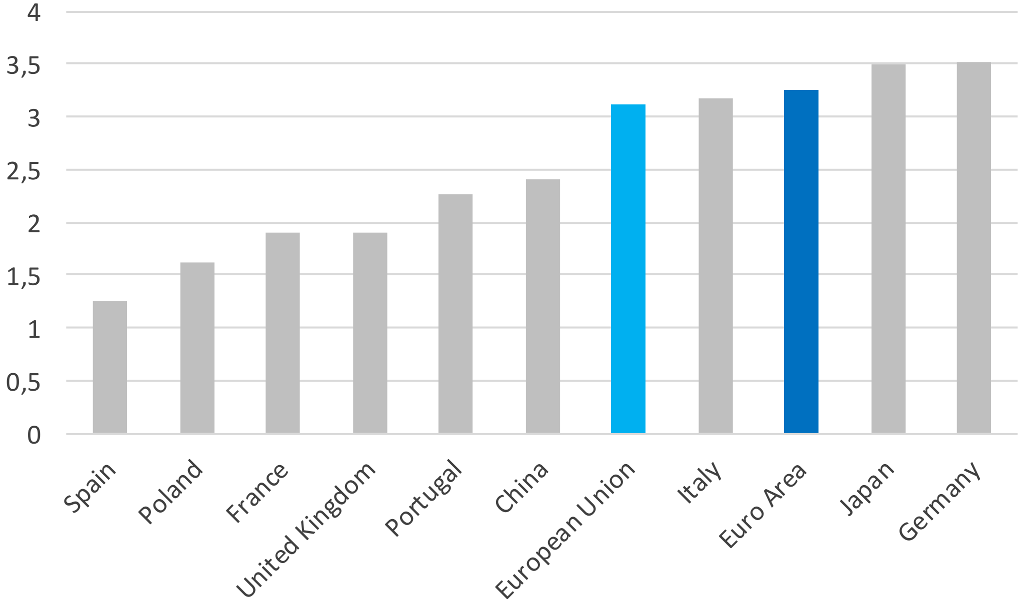


- **The ECB cut rates by 25bp in January** (fifth rate cut since June 2024), leaving the depo at 2.75% in a widely expected decision (fully priced-in by markets). The move is supported by greater confidence in achieving the 2% inflation target in 2025 as well as by a consensus in the appropriateness of a gradual dialing back of the restrictive policy stance. The threat of trade tariffs is seen as a clear downside risk to growth and a source of uncertainty for the inflation outlook (there is a wide range of scenarios, some with net inflationary effects and others with net disinflationary consequences).
- **Going forward, the ECB is expected to continue cutting rates** and set a neutral monetary policy stance in 2025. Market expectations see 25pb sequential cuts in March, April and June, while market pricing for the depo at end-2025 has fluctuated between 1.75% and 2.00%.
- **Liquidity to remain abundant throughout a passive balance sheet reduction:** the last TLTRO matured in Dec.-2024, and the APP and PEPP portfolios will continue to decline in a mechanical and very gradual way under a zero-reinvestment strategy throughout 2025. Thus, excess liquidity is still projected to be ca. 40% above prepandemic levels by end-2025.

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

Exports to the US

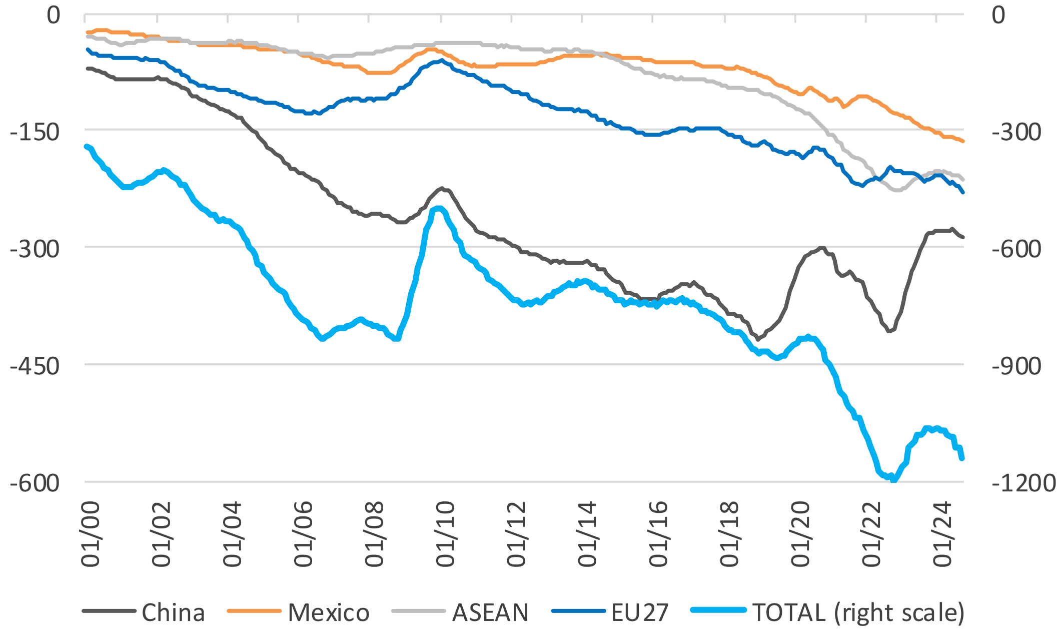
In % of GDP



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

US goods' trade deficit

Billion USD



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

- **Heightened trade tensions and tariffs are likely to damage European trade flows, with a heterogeneous impact on GDP by country.** Exports of goods to the US as a percent of GDP range from 1.25% in Spain to 3.5% in Germany (around 3% in the EA). Available estimates on the impact to EA GDP of a 10% tariff range from 0.2 to 1% but we tend to side with the lower range. The risk arises from an intensification of a tariff war or the addition of non-tariff barriers.
- **Other downside risks stem from increased uncertainty.** Higher uncertainty regarding trade policy adds to an environment of heightened geopolitical risks. Higher US tariffs on Chinese goods would raise the risk of a yuan depreciation and a flurry of cheaper Chinese goods into the EU.
- The U.S. announced tariffs of 25% on almost all imports of goods from Mexico and Canada (10% on Canadian energy products) and 10% on China (in addition to eliminating the de minimis threshold exempt from tariffs). Forty-eight hours after signing the executive order, the White House froze the decision on Mexico and Canada for a month, which paused the tariffs but not the outlook for a 2025 conditioned by uncertainty.

Trump's tariffs add volatility to commodity prices

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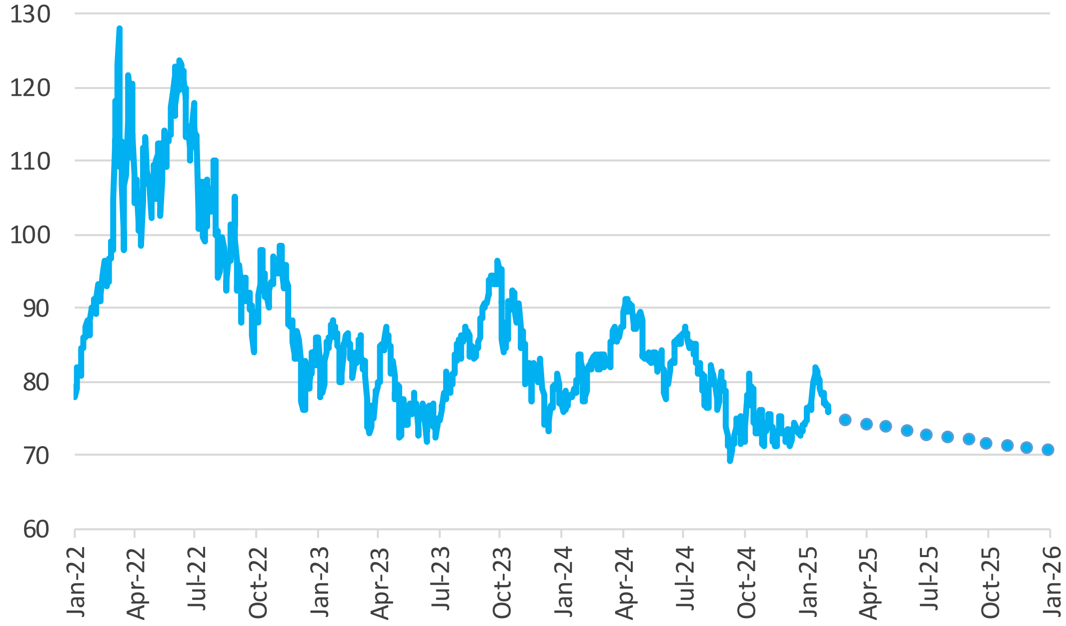
Brent oil prices (and futures)

$ per barrel



Commodity prices

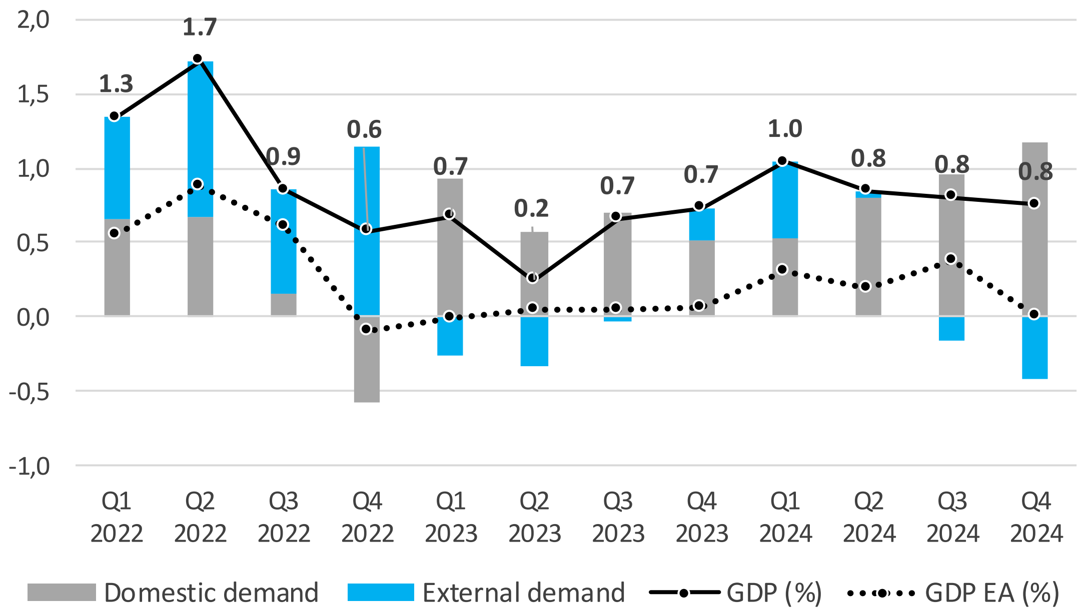
	Metric	Price	*Change (%)* Last Month	Year to Date	2023	2024
Commodities	**index**	**103,6**	**5,2**	**4,9**	**-12,6**	**0,1**
Energy	**index**	**30,2**	**2,1**	**2,3**	**-25,6**	**-3,9**
Brent	$/barrel	75,3	-1,5	0,9	-10,3	-3,1
Natural Gas (Europe)	€/MWh	53,0	6,8	8,4	-57,6	51,1
Precious Metals	**index**	**290,5**	**8,0**	**9,1**	**4,1**	**19,0**
Gold	$/ounce	2862,1	8,6	9,1	13,1	27,2
Industrial Metals	**index**	**143,0**	**3,0**	**1,9**	**-13,7**	**-1,6**
Aluminum	$/Tm	2637,5	5,8	3,4	0,3	7,0
Copper	$/Tm	9150,5	3,1	4,4	2,2	2,4
Agricultural	**index**	**60,8**	**8,2**	**6,6**	**-9,3**	**-8,7**
Wheat	$/bushel	582,3	10,0	5,6	-20,7	-12,2

- **Uncertainty prevails over market fundamentals.** In md-January, the price of Brent reached its highest level in five months ($82 per barrel) driven by the prospect of a lower global supply surplus in 2025 from the main international energy agencies. However, after Trump arrived at the White House on January 20, the price of crude oil returned to around $75 as traders weighed concerns that a trade war between the US and China will hurt global growth. They also considered that the tariffs on crude oil imports from Canada and Mexico should not pressure the Brent price up as they do not disrupt supply and some of this crude oil would be redirected to Asia. Additionally, OPEC+ will keep a tight grip on supply with outputs cuts, at least, until the end of Q1.
- Our current forecasts feature an average **Brent** price of $74.6 in 2025 ($73.5 in December 2025), in line with current market expectations. This price moderation is supported by prospects of oversupply, driven by higher non-OPEC production and expectations of increased OPEC output, alongside a limited impact from the Middle East conflict. However, if the Middle East conflict escalates into a broader war with Iran playing a central role, it could sharply increase oil prices. Current geopolitical uncertainty remains high.

GDP growth surprised to the upside in Q4 posing upward risks in 2025

Contribution to quarterly GDP growth

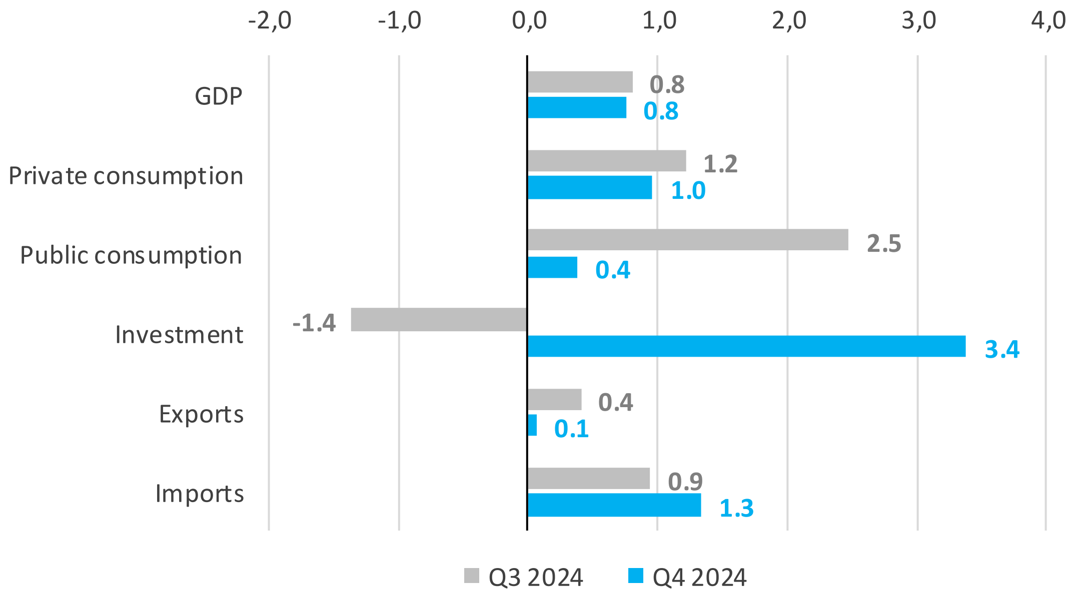
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation.

GDP and its components

Quarter-on-quarter variation (%)

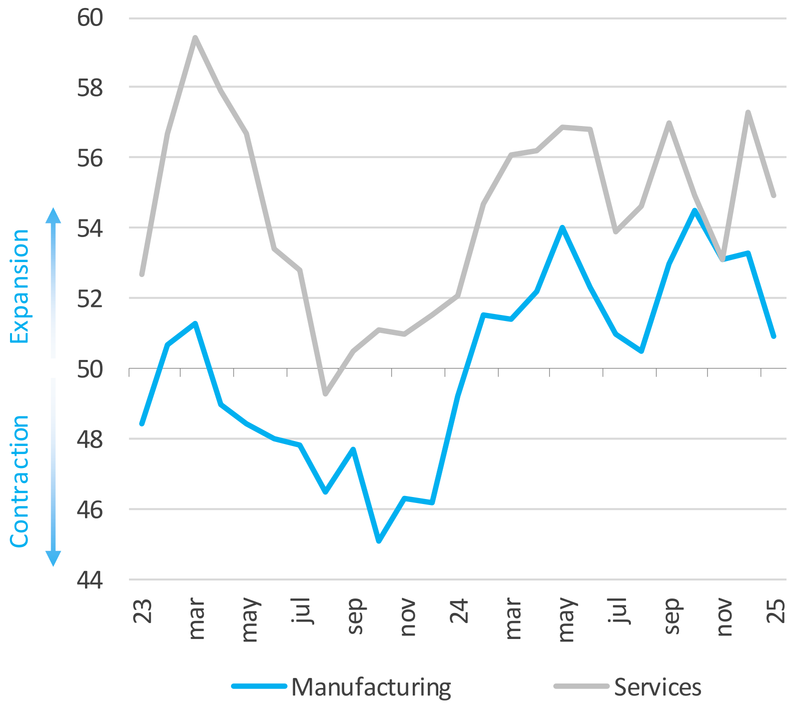


- **GDP grew 0.8% qoq in Q4 2024 (3.5% yoy),** above what we expected (0.5% qoq), driven by domestic private demand. With this figure, GDP grew by 3.2% in 2024, 0.4 pp above our forecast. Private consumption grew 1.0% qoq, in line with the good evolution of the Consumption Monitor of CaixaBank Research. Private investment rebounded strongly (3.4% qoq), after the decline in Q3. due to the impulse in transportation and, to a minor extent, construction investment. Public consumption grew just 0.4% qoq (2.5% qoq in Q3).. Net trade deducted a little from growth, as exports grew less than dynamic imports due to the drop in goods exports.
- **Q4 GDP growth was more dynamic in Spain than in the Euro Area** (0.8% qoq vs 0.0%). Spanish GDP stands now 7.6% above the pre-pandemic levels of Q4-19 while in the Euro Area sits 4.7% above.
- Better than expected GDP in the second half of 2024, introduce **upside risks to our 2.3% forecast for 2025. We will revise the scenario this month.**

Early activity indicators in Q1 show dynamism albeit less than in Q4 2024

PMI indices

Level

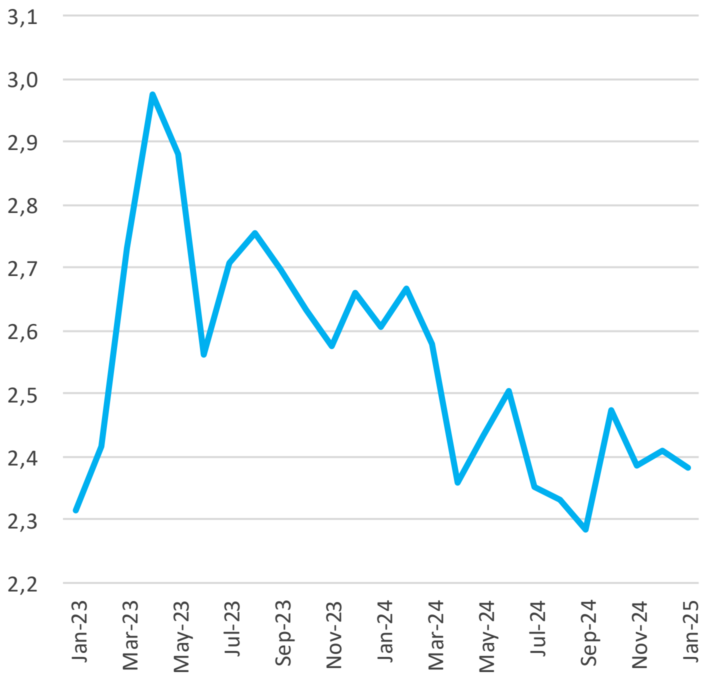


Macroeconomic indicators

	Q1 2025	Q4 2024	Data up to
Workers registered to the Social Security system (qoq growth in % SA)	0.4	0.6	Jan.
CaixaBank Consumption Monitor (yoy growth in %)	3.9	4.0	Jan.
Manufacture PMI level, >50 expansion	50.9	55.1	Jan.
Services PMI level, >50 expansion	54.9	53.6	Jan.

Social Security registered members

yoy change (%)



- **Although the PMIs for the Spanish economy fell in January, they remain in the expansion zone** (>50 points). The intensity of the fall is the same (2.4 points) for the services sector and for the manufacturing sector, reaching 54.9 points and 50.9 points, respectively.
- **Employment maintains a dynamic tone, with an increase of 2.4% year-on-year.** Correcting seasonality, affiliates grew by 36 thousand workers in January, a sanguine figure but lower than the monthly average in Q4 (44.5k).
- **The consumption indicator of the CaixaBank Monitor** grew with dynamism in January and at a similar pace than in Q4 (4.0 yoy).

Private consumption will gain importance in 2025

Macro growth components

Year-on-year (%)

	2014-19	2023	2024
GDP	2.6	2.7	3.2
Private consumption	2.2	1.7	2.8
Public consumption	1.3	5.2	4.9
Investment	4.8	2.1	2.3
Exports	3.9	2.8	2.9
Imports	4.4	0.3	2.0

GDP: analysts' forecast

Year-on-year change (%)

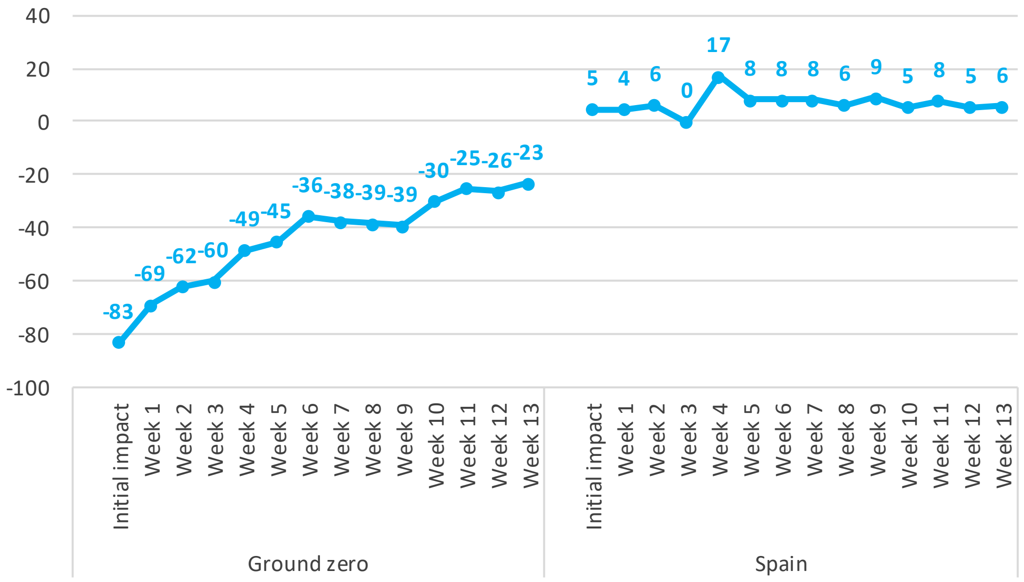
Ordered by forecasts in 2025	2025	2026	Cum. 25-26
Spain's Government (February 4)	2.6	2.2	4.9
Bank of Spain (Dec. 17)	2.5	1.9	4.4
Funcas panel (Jan. 20)	2.4	-	-
European Commission (Nov. 15)	2.3	2.1	4.4
OCDE (Dec. 4)	2.3	-	-
BBVA Research (Dec. 5)	2.3	1.7	4.0
Airef (Nov. 5)	2.3	2.0	4.3
Consensus Forecasts (Jan. 13)	2.3	1.8	4.1
CaixaBank Research (Oct. 14)	**2.3**	**2.1**	**4.4**
IMF (Oct. 22)	2.1	1.8	4.0
Funcas (Oct. 21)	2.1	-	-

- **There are upside risks around our 2.3% GDP forecast for 2025**. Growth will remain dynamic in 2025, in spite of a gentle slowdown, supported by robust tourism and demographic trends, moderating inflation, expected ECB rate cuts, strong employment generation, and increased traction in investments linked to the NGEU. **Tourism and migration inflows** will contribute to growth in 2025 albeit to a smaller extent than in 2024.
- **Bank of Spain has revised upwards the growth forecast for 2025 from 2.3% to 2.5%** in the light of the carry-over effect of a better-than-expected H2 in 2024, the incorporation of an interest rate path with a faster moderation than previously anticipated, and the boost associated with support measures in response to the DANA.
- **In 2025 the economy will rebalance towards internal demand**. While GDP growth between 2022 and 2023 was largely driven by public consumption and external demand, the coming years will see stronger growth in private consumption. There is room for this component to expand since in Q4 2024 is just 3.6% above its Q4 2019 level, despite a 4.0% increase in population according to EPA data.

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

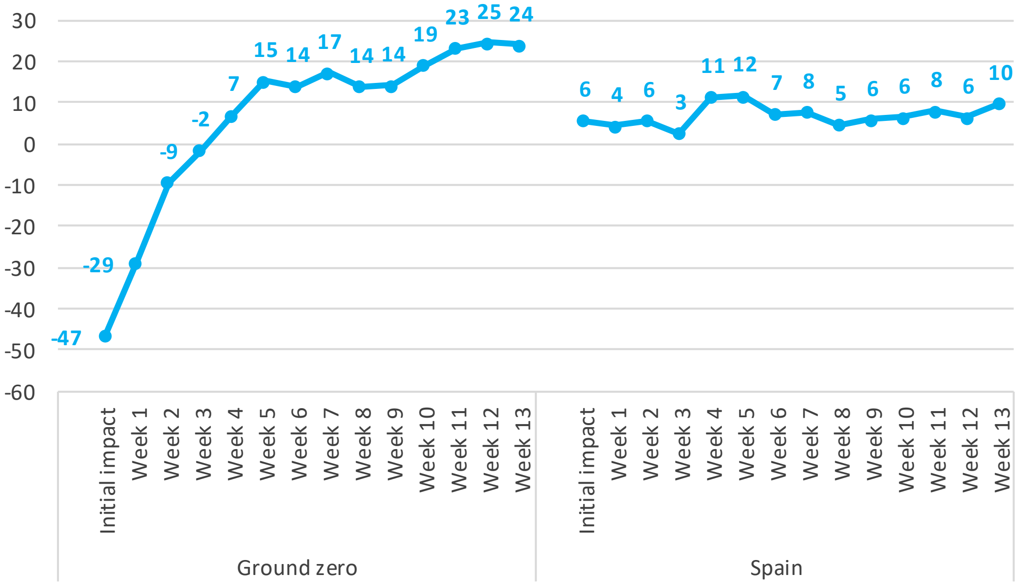
Domestic spending in the affected area

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



Domestic spending by clients living in the affected area

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



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

- **75 municipalities of the province of Valencia affected by the floods**. 1 million residents (37,9% of the total population of the province and 2.0% of Spanish population), of which 265.000 (10% of the province population) live in the most affected area (ground zero, 15 municipalities). GDP of the province of Valencia represents c.5% of Spanish GDP
- According to CaixaBank data on card spending, the affected area accounted for 30.4% of spending in the province on October 1-28 (pre-DANA), of which 9.6% in ground zero. **The initial impact to local business was very severe in the affected areas** (-28%), specially in ground zero (-83%).
- **Strong divergence in the recovery in the most affected areas**. Whereas consumption during the week from 28/01 to 04/02 rebounded strongly (+24% year-on-year vs. +10% in Spain), the sales recorded by its businesses were -23% lower.
- **Contained macro impact.** Despite the DANA, the Spanish economy grew with a lot of dynamism in Q4 2024. The primary sector is the most affected, followed by the industry and commercial activity. In 2025, the investment effort in reconstruction and replacement of the destroyed capital will likely have a positive impact on GDP.

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

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

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

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

Slight increase of inflation to 3.0% in January

Inflation forecasts

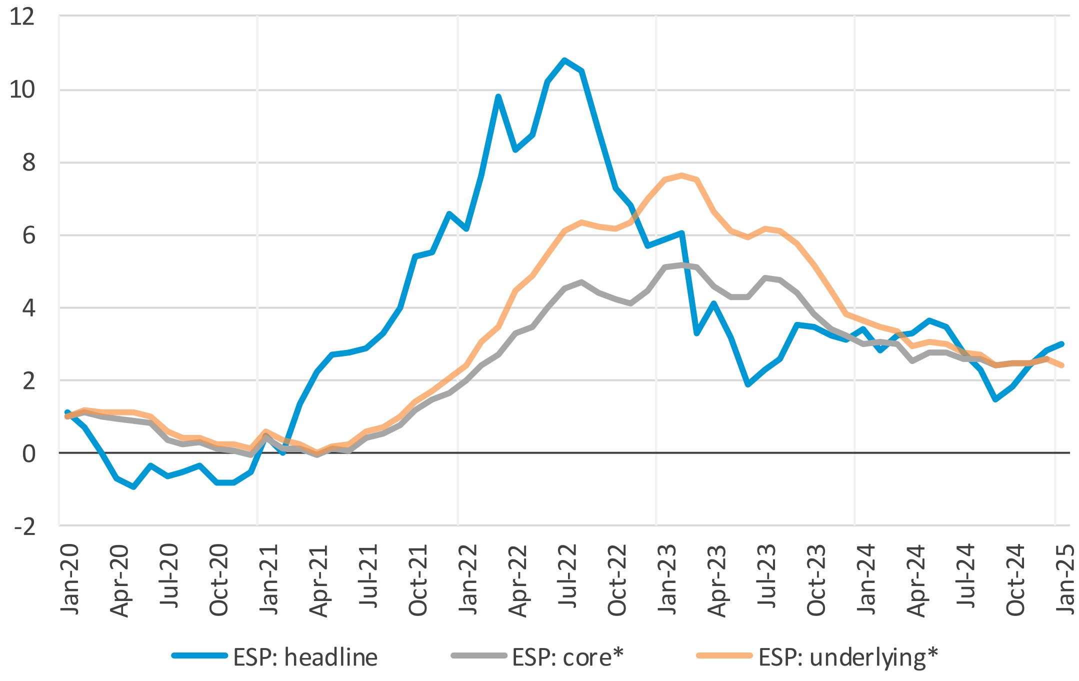
Year-on-year change (%)

UNDER REVIEW

	2024	2025 (f)
Headline inflation	2.8	2.5
Underlying inflation (excl. energy and non processed food)	2.9	2.5
Core inflation (excluding energy and food)	2.7	2.2
- Industrial goods	0.7	0.8
- Services	3.5	2.9
Food, beverages & tobacco	3.6	4.0
Energy	1.0	1.1

Headline, underlying and core CPI

Year-on-year change %

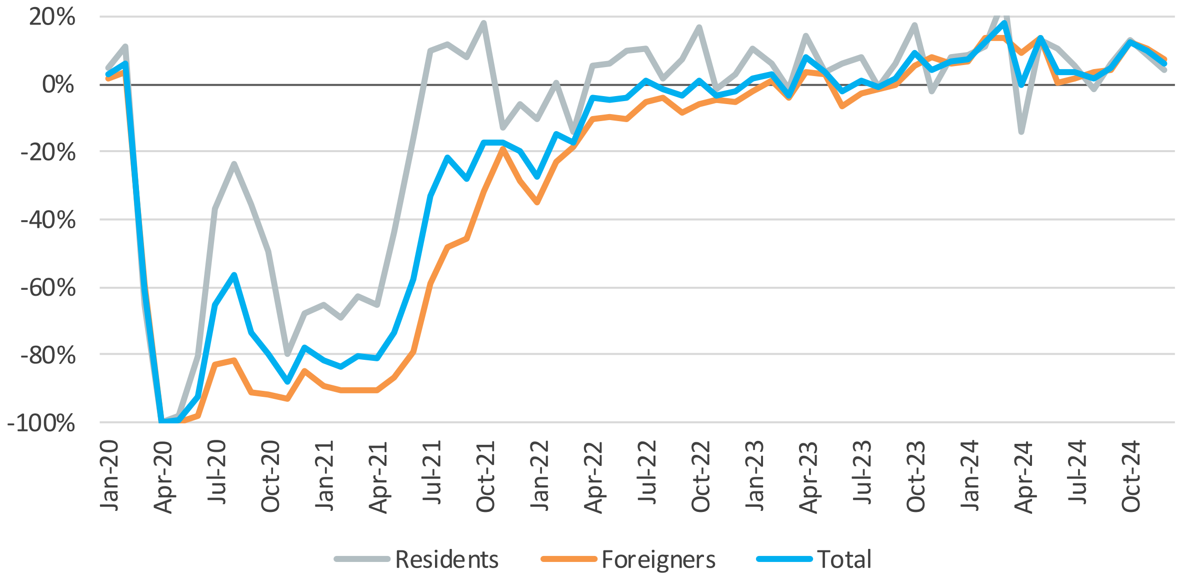


- **Headline inflation up 0.2 pp. to 3.0% in January**. The uptick in inflation responds to the increase in fuel and electricity prices and is marked by the end of the temporary reduction of VAT on electricity rates and on selected food items. At the same time, underlying inflation (which excludes energy and non-processed food) went down 0.2 pp. to 2.4%.
- **Inflation has gone down faster than previously forecasted** during the last months, partly due to the quick moderation of food prices.
- **Electricity and gas prices pose an upside risk to the disinflationary process.** Wholesale electricity and gas prices in January were up 35% and 60% since January 2024, respectively. Future markets foresee a moderation of electricity prices in H1 2025. However, were this moderation not to occur, the CPI of electricity could be affected by unfavorable base effects.

Positive outlook for the tourist and external sector

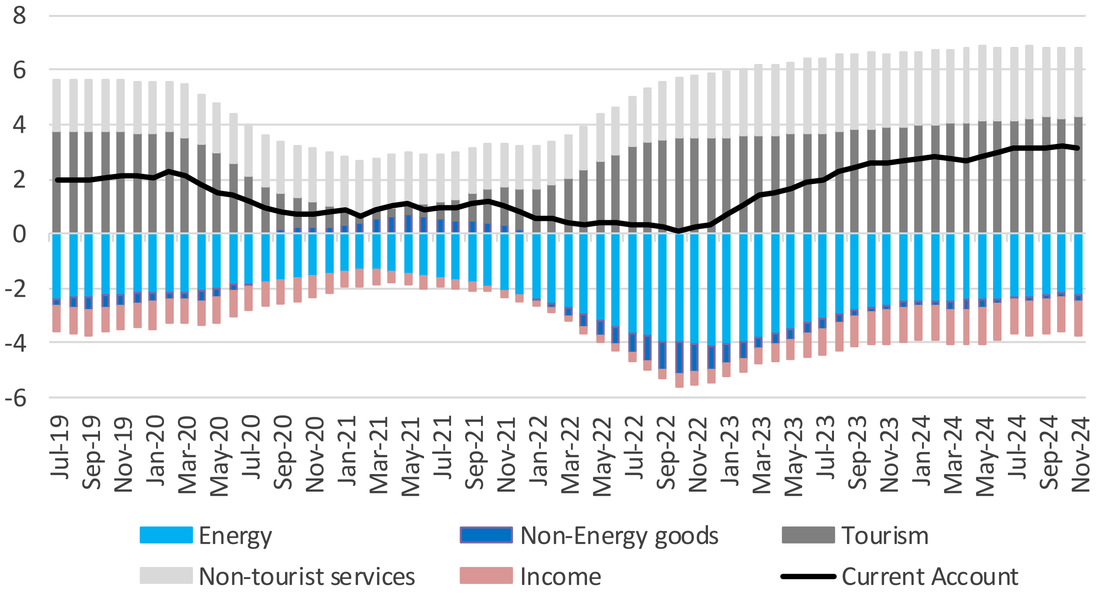
Overnight stays

Index (100 =2019)



Current Account Balance

Accumulated of the last 12 months (% of GDP)



- **Tourism will continue to contribute to robust growth, albeit to a smaller extent than in 2024.** In 2024 the tourism sector grew +6.0% and had a GDP growth contribution of c. 0.74pp. Given the tourism GDP has recovered to 12% above its pre-pandemic level, we expect growth to normalize to a still strong 3.6% in 2025, and to add 0.46pp to growth. The key factors behind this solid rate of expansion include the recovery of purchasing power in the home countries of international tourists, and the high level of competitiveness of the Spanish tourism sector. We expect tourism to continue contributing positively to the Spanish economy in 2026, growing an additional 3.4% and adding 0.45pp to growth.
- **Tourism in 2024 shows robust growth both in-season and off-season.** International arrivals are up 10.3% year-on-year in 2024 attaining 93.8 millions and up 7.8% in July and August, highlighting the trend towards faster growth in the off-season than on-season. Domestic overnight stays in 2024 are up a modest +0.3% yoy as Spanish tourists travel more abroad. Inflation in tourism services has moderated to 5.1% in 2024 but remains relatively elevated.
- The Spanish external sector weakened in November 2024 as exports fell by 6.4% year-on-year after four months of growth, while imports rose by 1.3%, driven by non-energy goods. Energy exports dropped sharply, and energy imports also declined, leading to a monthly trade deficit of €5.13 billion, more than double that of November 2023. This reversed the recent trend of narrowing deficits, with the 12-month accumulated deficit rising from €36.85 billion in October to €39.56 billion in November, though still lower than the €41.67 billion recorded a year earlier. Meanwhile, the services surplus continued to grow over the past year, driven by strong tourism, while non-tourism services registered a slight decline from October to November. Despite the November data, **the current account in accumulated terms January-November has improved** sitting at 3.0% of GDP vs. 2.7% in November 2023.

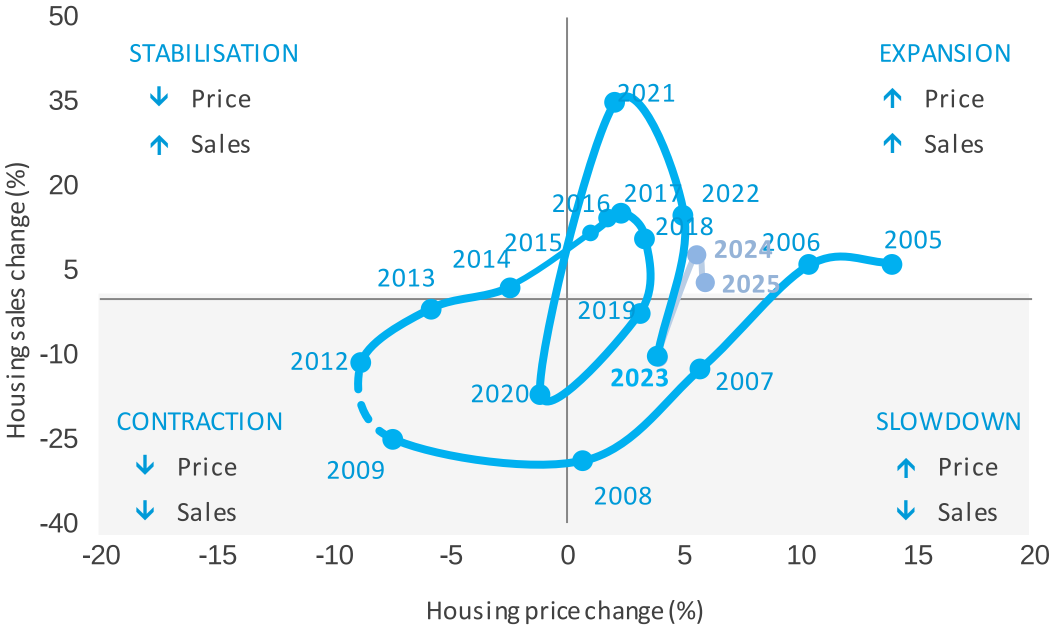
Updated forecasts for the housing market

Forecasts for the real estate market

	2014-19	2022	2023	2024	2025
Housing sales (Thousand)	428	650	584	630 *572*	650 *578*
New building permits (Thousand)	73	109	109	125 *115*	135 *125*
House price (appraisal, MIVAU) Year-on-year (%)	1.6	5.0	3.9	5.6 *5.1*	5.9 *3.6*
House price (transaction, INE) Year-on-year (%)	4.4	7.4	4.0	8.5 *7.1*	7.2 *4.1*

Note: Previous forecast in parenthesis (July 2024).

CaixaBank Research housing clock



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

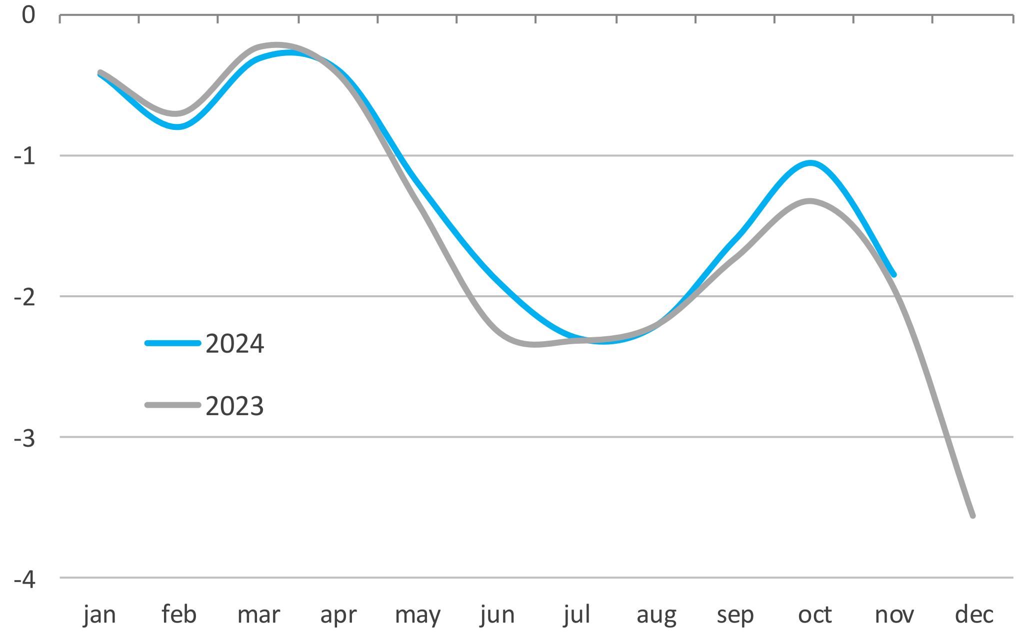
- **The housing market is in expansionary mode**: the positive momentum and the better-than-expected published data have led us to revise upward our forecasts.
- **Housing prices accelerated in 2024 and are expected to grow at a similar rate in 2025**. In particular, we now expect MIVAU indicator (appraisal value) to grow by 5.6% and 5.9% in 2024 and 2025, respectively (+0.3 and +2.3 p.p. with respect to the previous forecast). The revision is even larger for the INE index (transaction price): +1.3 p.p. and +3.1 p.p., respectively, to 8.5% in 2024 and 7.2% in 2025.
- **Housing demand is very strong**. The number of housing sales increased by 8.1% yoy in Jan.-Nov. 2024, and reached around 628k units (cum. 12 months) due to strong demand factors, especially population growth and the decline in interest rates. We have revised upward our forecast up to 630k in 2024 and 650k in 2025.
- **Housing supply is gaining some traction**. New building permits increased by 16.5% yoy in Jan.-Oct. 2024 (125k cum. 12 months). We expect that the housing supply will continue to increase, gradually reducing the gap with demand.

Public deficit slightly above 3.0% GDP in 2024 and gradual reduction afterwards

CaixaBank

General government budget balance*

(% GDP)



Note*: Excluding Local Corporations.

Budget execution consolidated (excluding local authorities)

Year-to-date until November

	€Bn		Change (%)
	2023	2024	2024-2023
Revenues	**524.9**	**562.1**	**7.1**
Tax revenues	283.4	307.3	8.4
Social contributions	173.3	185.5	7.0
Other revenues*	68.2	69.4	1.8
Expenditures	**553.8**	**591.6**	**6.8**
Public employees wages	116.9	123.7	5.8
Social transfers	218.6	234.3	7.2
Gross capital formation	29.0	28.6	-1.3
Interest	31.4	34.6	10.0
Other spending**	157.8	170.4	8.0

Notes: * Net property income, European transfers…**In-kind social transfers, subsidies, intermediate consumption, investment aid…

- **Budget execution data up until November points to a public deficit a bit higher than 3.0% of GDP in 2024 (2023 figure: 3.5%) due to the fiscal impact of DANA, amounting in November to 4.1bn (0.26% of GDP).** Hence, we expect public deficit to reach c.3.2% of GDP in 2024. Including DANA expenditures, public deficit until November % (excl. Local Corporations) was 1.85% of GDP but without DANA it was 1.62%, an improvement with respect to 2023 (1.9% in November 2023).
- **A strong dynamism of tax proceeds explains the favorable budget execution** figures. In consolidated terms, up to November, fiscal proceeds (incl. social contributions) grew by 7.9% yoy whereas public spending grew by 6.8% yoy.
- **The public deficit is forecast to decline to 2.8% of GDP in 2025**, a fiscal adjustment of 0.4 p. p., driven by the complete removal of anti-inflation measures: in 2024 they represented 0.4% of GDP. The reconstruction measures and spending linked to DANA this year is to be compensated by the new fiscal measures approved amounting to 0,3% of GDP (minimum tax rate for multinationals, a higher IRPF maximum tax rate on capital income, vaping tax…). On the expenditure side, pension total expenditure is forecast to increase c.5% (revaluation is 2.8%).

The European Council has approved the Spanish Fiscal and Structural Plan

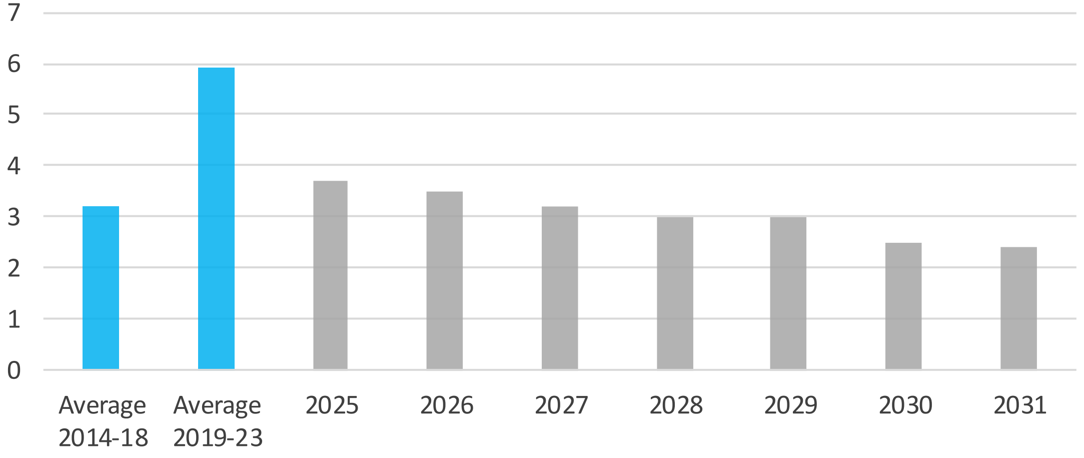
CaixaBank

Government's fiscal and structural plan 2025-2031

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

Net primary public spending growth*

Year-on-year growth (%)



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

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

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

Macro scenario

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

Required fiscal adjustment to comply with the rules

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

Revenues and spending

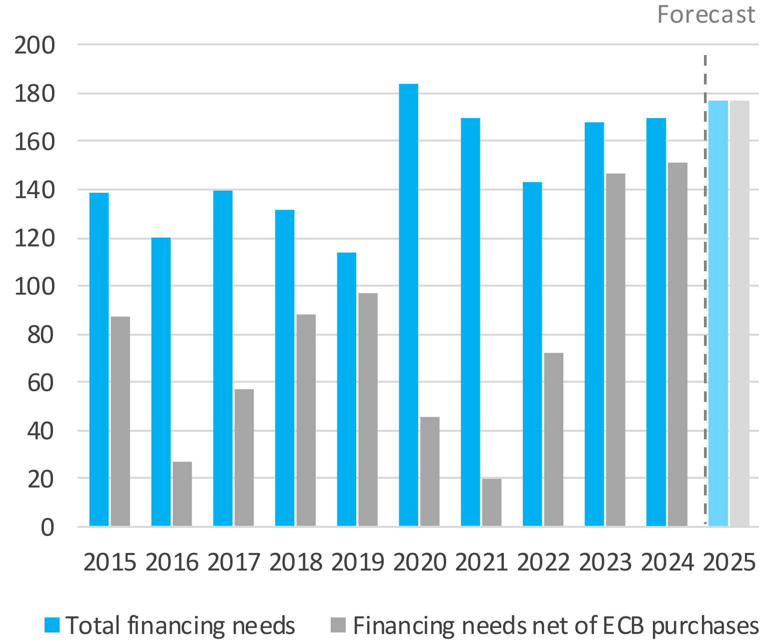
- The growth of primary expenditure net of new revenue measures consistent with this fiscal adjustment would be on average 3% between 2025 and 2031.
- New tax measures between 2025 and 2031 will increase the revenue-to-GDP ratio by c.0.3 p.p.

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

CaixaBank

Spain: Gross financing needs

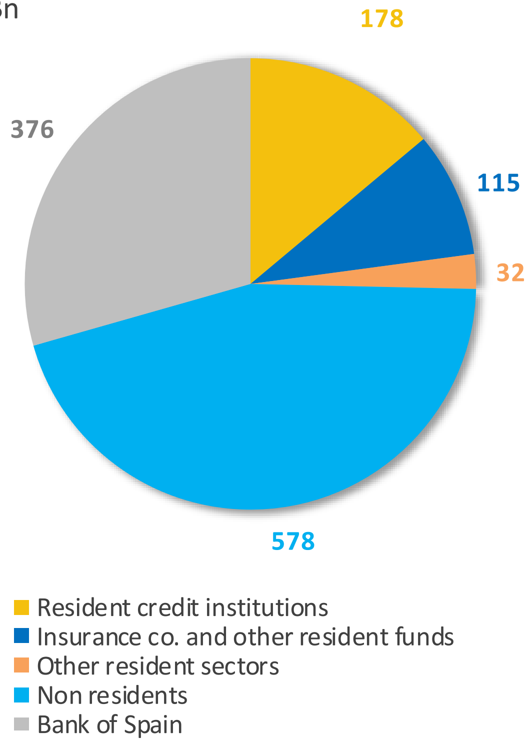
€ Bn



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

Public debt holdings (excl. bills)

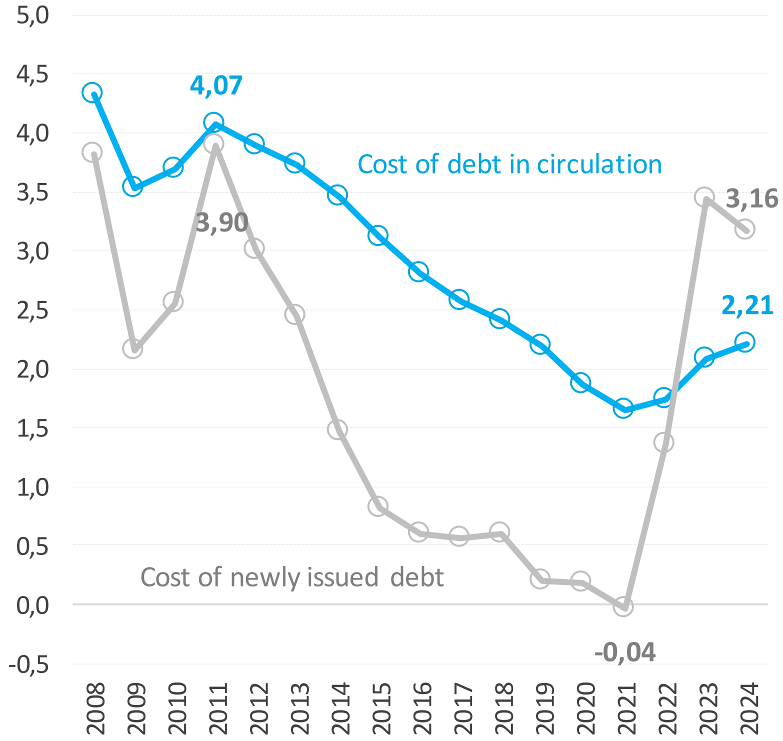
€ Bn



Note: November data.

Cost of debt: State

%

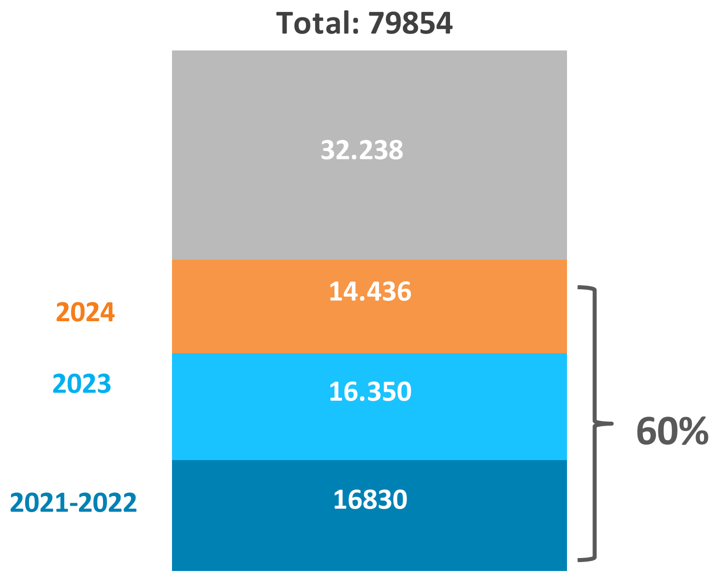


- **Funding needs in 2025** will be above those of 2015-2024 net of ECB purchases. However, higher interest rates with respect to pre-pandemic levels should maintain the appeal of public debt holdings for investors, whether domestic or non-resident, and facilitate the absorption of Spain's financing needs.
- **Government debt is diversified across holders**. In 2024 (data up to November), foreign investors increased their holdings of Spanish debt (excl. bills) by €60.2bn, which suggests there is appetite for this type of investment. Retail investors have led domestic interest in Treasury Bills, becoming their main holder, with a historical increase of €24.1bn since December 2022.
- **In 2025, the average cost of debt is expected to keep at contained levels**. The average lifespan of the stock of debt is elevated (c. 8 years), so the share of debt that needs to be re-financed every year is small. Interest payments on debt of the public administrations could stand at 2.5% of GDP in 2025, a similar level to that of 2024, but much lower than a decade ago (in 2014, it was 3.5%).

NGEU: The Recovery Plan keeps being deployed

Execution of PRTR

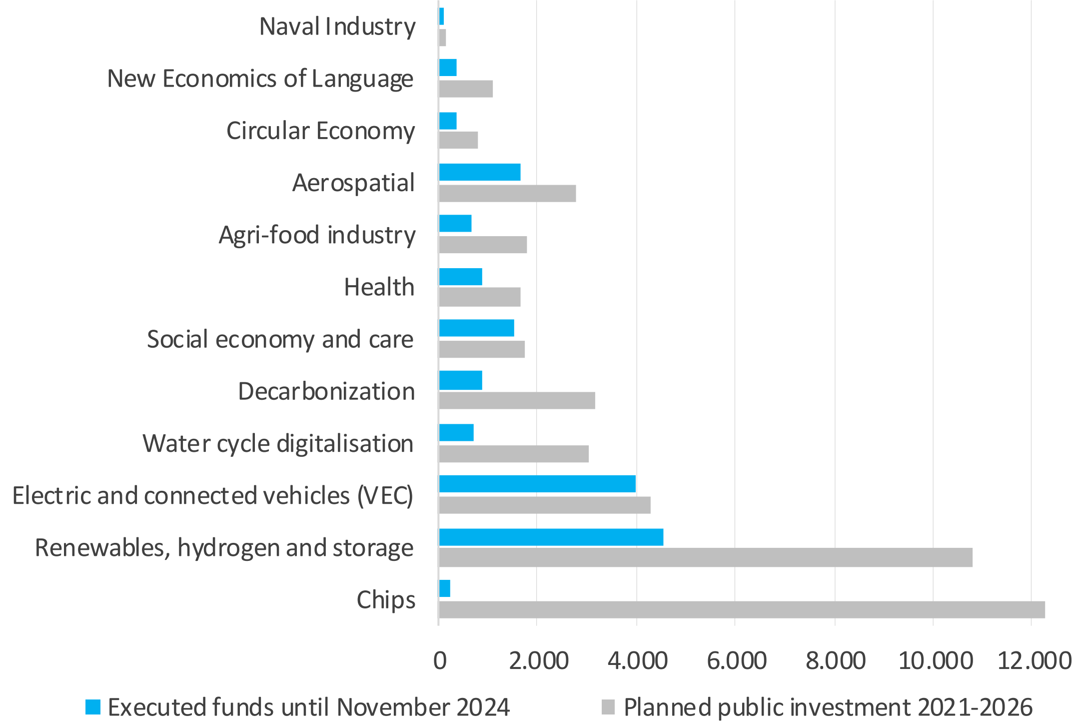
Total grants (Million euros)



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

PERTEs

Million euros



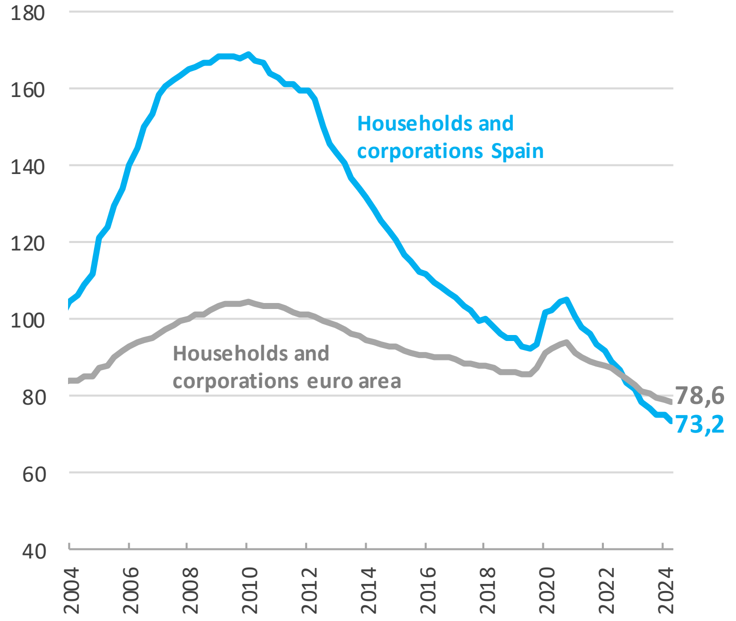
- By the end of December, **tenders and grants amounting to €47.6 billion had been awarded**, which is 60% of the total grant allocation of the Plan (almost €80 billion).In 2024, €14.4 billion have been executed, a slightly lower amount than in 2023 (16.35bn) and much higher than in 2021 and 2022.
- **Spain has already received €47.9 billion in grants from the EC**; the fifth payment is €23.9 billion (€8 billion in grants and €15.9bn in loans of the Addendum), and has been requested by Spain at the end of December (one of the milestones is tax reform).
- According to BoS, **45% of companies** with projects funded by NGEU funds state that they would not have carried out such investments without the support of this program, while 31% would have only completed part of them, suggesting **a relatively high additionality** with respect to these funds.
- The Government is negotiating with the European Commission a specific Addendum to the Plan for the recovery and relaunch of the area affected by the **DANA** with a reprogramming of around 1.5 billion euros from the Recovery Plan to be exclusively allocated to the recovery, modernization, and relaunch of the area affected by the DANA.

Banking system: improved credit dynamics

CaixaBank

Bank credit to the private sector

% GDP



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

Private domestic credit

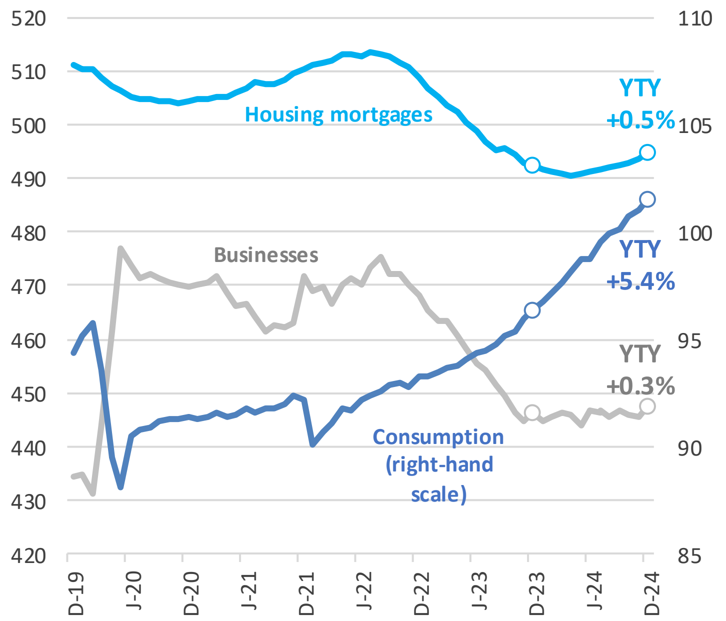
Year-on-year (%)

	Dec-23	Dec-24 (latest)	2025 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	0.6%	1.8%
Households	-2.5%	0.4%	1.7%
Housing mortgages	-3.2%	0.5%	1.3%
Other purposes	-0.5%	1.8%	3.0%
Of which consumption	2.8%	4.9%	5.0%
Businesses	-4.7%	0.3%	
Non-real estate developers[1]	-4.3%	-1.1%	-
Real estate developers[1]	-6.1%	1.7%	-

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

Private domestic credit

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

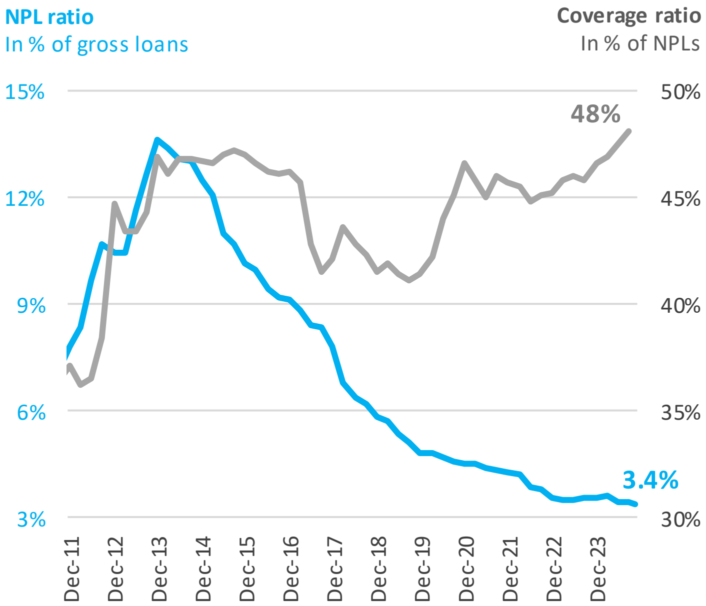


Note: latest data available as of Dec-24.
Source: Caixabank Research with data from Bank of Spain.

- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 3Q24. Both sectors have deleveraged in terms of GDP, siting below pre-pandemic levels.
- **New mortgage production** shows notable dynamics in 2024 with the change in interest rate expectations (accumulated new lending from January to December grows +19.4% yoy).
- **New lending for consumption** increases favored by improvements of consumer confidence and credit for consumer durables (accumulated new lending from January to December grows +19.5% yoy, the largest amount granted since financial crisis).
- **New lending to corporates** grows both in loans under 1M€ and in larger ones (+11.2% yoy in December). A structural break in BoS new lending data does not allow calculating the accumulated variation over the year.
- **Consequently, the stock of credit to the Spanish resident private sector grows slightly in 2024.** We expect in 2025 the portfolio will accelerate growth, albeit at a rate below nominal GDP growth.

Banking system: solid financials

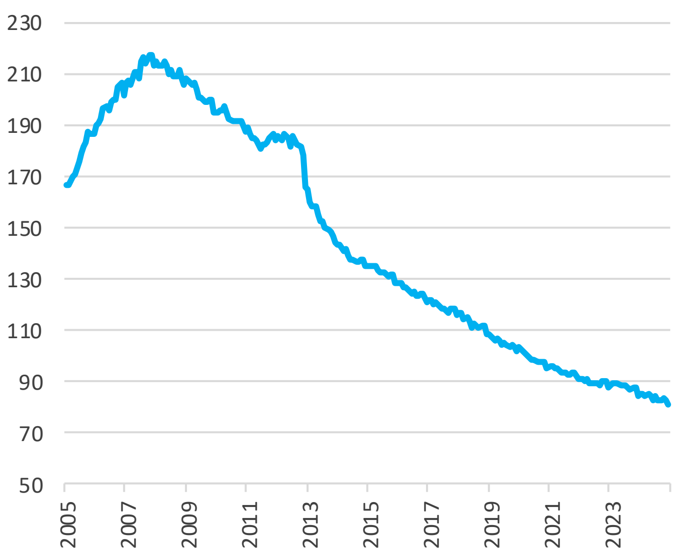
NPLs and coverage ratios[1]



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

HHs & NFCs loan to deposit ratio

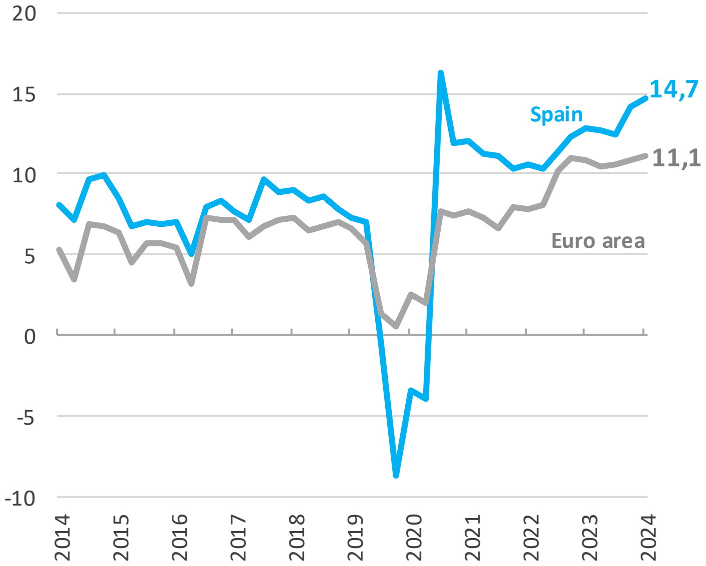
(%)



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

Banks' profitability

ROE % (Q3 24; annualised)



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

- **NPLs remain stable around 3,4%**. The share of stage 2 loans on a group level decreased to 7.0% in 3Q24, remaining below EU level. The Government has approved a 3-month moratorium on debt payments which could be extended 9 more months for principal payments in the affected areas by the recent DANA. Affected households will also be able to benefit from the Code of Good Practices (CGP).
- **Households and non-financial corporation (NFCs) deposits exceed the peak levels previously attained in August 2022.** Deposits declined between 2H22-1H23 due to higher remuneration of other investment alternatives. Since then, seasonally adjusted data shows a positive trend (+5.5% yoy in Dec'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **Profitability is recovering (ROE stood at 14.7% in 3Q24)** thanks to the widening of the net interest margin and solid fee growth and despite the extraordinary banking tax (4.8% on domestic net interest and fee income, where such income exceeds €800 million). The government has approved extending the tax on banks for three more years, with a rate that ranges between 1%-7%.
- **The capital position of Spanish banks remains comfortable with a 12.8% CET1 ratio in 3Q24.** The Bank of Spain's stress test[1] for 2024-2026 show under the adverse scenario the banking sector's overall resilience. The impact on capital consumption would be manageable for all Spanish institutions, specially due to the high initial capital levels and by banks' capacity to generate capital and absorb losses. The BoE has approved the new framework for setting the CCyB and raised it to 0.5% in 4Q24 (to be applicable from Oct'25). It will raise to 1% in 4Q25 (to be applicable from Oct'26).

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