SPAIN
2025-2026 SCENARIO

GROWTH KEEPS PACE

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

GROWTH KEEPS PACE

KEY POINTS OF THE SCENARIO

- **Deceleration in wage costs**
- **Households continue to save**
- **Foreign demand halts its positive contribution to GDP**
- **The labour market remains strong, supported by migration flows.**

	2023	2024	2025	2026
GDP (y/y, %)	2,7	3,1	2,4	1,8
Domestic demand (contribution to GDP, pps)	2,4	2,8	2,4	1,7
Stockbuilding (contribution to GDP, pps)	-0,7	-0,2	0,0	0,0
Net exports (contribution to GDP, pps)	0,9	0,5	0,0	0,1
Private consumption (y/y, %)	1,8	2,7	2,2	1,8
Investment (y/y, %)	2,1	2,2	3,7	2,2
Inflation (y/y, %)	3,4	2,8	2,2	1,6
Unemployment rate (%)	12,2	11,5	11,2	10,7
Fiscal balance (% of GDP)	-3,5	-3,1	-2,9	-2,8

Sources : Eurostat, Crédit Agricole SA / ECO

The Spanish economy managed to maintain a robust growth rate until Q3 2024 despite multiple headwinds, including weakness in the eurozone economies, persistently high inflation and the impact of past interest rate hikes. Behind this good performance are several key factors, including the solid performance of the labour market, continued high immigration and positive international tourism data, which once again exceeded expectations and explains external demand’s strong contribution to growth in H1. Private consumption is taking over from growth and has been picking up for the last three quarters. On the other hand, although investment is increasing, absolute figures are lacklustre.

Based on Q3 data, we are upgrading our **GDP growth forecasts to 3.1% for 2024 and 2.4% for 2025**. We expect domestic demand to take over as the driver of growth. The smaller contribution from foreign demand will likely be more than offset by a gradual pick-up in both private consumption and investment.

GROWTH KEEPS PACE

DOMESTIC DEMAND TOOK OVER IN 2024. STILL WAITING FOR INVESTMENT TO PICK UP

The Spanish economy started 2025 positively in terms of job creation, albeit against a backdrop of constantly increasing uncertainty regarding global economic policy. This tension, which has been present for several years, seems to be continuing and the big question is when and how much it will eventually affect GDP. In the short term, the economy remains strong, leading us to once again revise up our GDP growth forecasts for 2024 to 3.1% and 2025 to 2.4%. This improvement is due to quarter-on-quarter GDP growth of 0.8% in Q3 2024 and the fact that job creation did not weaken as much as expected at the end of 2024. The gradual shift towards domestic demand making a greater contribution as a driver of growth is behind this strength. This is not (yet) a symptom of the expansion of foreign tourism being exhausted, as the sector continues to grow, but rather of private consumption picking up and robust public consumption.

Our assumptions for this scenario are based on a slowdown in activity in the US and, to a lesser extent, in China, and eurozone GDP growing at a rate of 0.7% in 2024 and 1% in 2025, after 0.5% in 2023. Key interest rates will continue to fall: the ECB's refinancing rate is expected to decline from 3.15% at the end of 2024 to 2.4% at the end of 2025. Our forecasts point to a slight increase in the price of Brent, from $78.25 on average in 2024 to $79.25 in 2026.

For the coming months, the recovery is expected to continue, albeit in an environment conditioned by two major shocks: the catastrophic floods that started in October and the changes that are expected to occur in US tariff policy in 2025. Several factors could offset the negative impact of these shocks. Domestic demand will be underpinned by falling inflation, rising wages, higher employment and lower interest rates. The autonomous communities will continue to increase employee wages and public consumption. Finally, the economy has shown stronger-than-expected growth capacity thanks to immigration, increased employment rates and productivity per hour worked. Growth will draw on the strength of domestic demand, in particular thanks to the contribution of private consumption, which is the result of favourable trends in employment, wages and inflation, as well as population growth and the gradual recovery of confidence. Meanwhile, investment, a component of demand that is taking longer to recover to pre-pandemic levels, will also make a greater contribution to GDP growth over our forecast horizon. Indeed, in an environment where companies are in a healthy financial position, the recovery in investment will be driven by funds linked to the NGEU programme, the roll-out of which is expected to ramp up in 2025, and by improved financing conditions.

In contrast, the speed of decline in the unemployment rate will be curbed by the expected moderation in the pace of job creation and by the dynamism of the labour force due to relatively high immigration flows. Our forecasts for the unemployment rate are an annual average of 11.5% in 2024 and 11.2% in 2025.

GROWTH KEEPS PACE

DOMESTIC DEMAND TOOK OVER IN 2024. STILL WAITING FOR INVESTMENT TO PICK UP

Inflation accelerated in the last months of 2024, but in our scenario we expect it to start falling back again on the heels of a gradual moderation in food inflation and core inflation. Our inflation forecasts are 2.2% in 2025 and 1.6% in 2026, after an average of 2.9% in 2024.

The risks surrounding our forecast scenario are high. Firstly, private consumption could benefit from a faster-than-expected normalisation of the savings rate. Meanwhile, investment could pick up more quickly than expected as interest rates fall. Similarly, immigration flows and growth in international tourism spending could remain higher than expected. This would lead to an upward revision of our forecasts. Downside risks are mainly geopolitical in nature. Internationally, a possible escalation of the conflict in the Middle East could make oil more expensive and reverse the process of moderating inflation, with its consequent impact on economic activity. It is difficult to measure the impact of Trump's future trade policy, but its effect on Spain's GDP will be smaller than the eurozone's, given the smaller trade volumes between the two countries. Preliminary estimates suggest that a 10% increase on European tariffs would shave 0.2% off 2025 GDP.

International background assumptions

	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
World GDP (y/y, q/q, %)	3,3	3,0	2,8	2,9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP (y/y, q/q, %)	2,9	2,7	1,9	2,2	2,8	2,5	4,4	3,2	1,6	3,0	3,1	2,2	1,9	1,4	1,2	1,8	2,5	2,5	2,4	2,4
Eurozone GDP (y/y, q/q, %)	0,4	0,7	1,0	1,2	0,5	0,1	0,0	0,0	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
China GDP (y/y, q/q, %)	5,2	4,8	4,2	3,9	1,8	0,7	1,5	1,3	1,5	0,5	0,9	1,1	1,1	1,0	1,0	1,0	0,9	0,8	0,9	0,9
ECB refinancing rate (end of period, %)	4,00	3,00	2,25	2,25	3,00	3,50	4,00	4,00	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,25
Federal Reserve funds rate (end of period, %)	5,50	4,50	4,00	4,00	5,00	5,50	5,50	5,50	5,50	5,50	5,00	4,50	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00
Exchange rate (average, EUR/USD)	1,08	1,08	1,05	1,09	1,07	1,09	1,09	1,08	1,09	1,08	1,10	1,07	1,05	1,04	1,05	1,07	1,07	1,08	1,09	1,10
Brent (average, USD/barrel)	82,2	79,9	78,3	79,3	82,2	77,9	85,9	83,0	81,9	85,0	78,9	74,0	75,0	80,0	80,0	78,0	75,0	80,0	80,0	82,0

Sources : Eurostat, Crédit Agricole SA / ECO

POSITIVE OUTLOOK FOR Q4 2024

The Spanish economy maintained a high growth rate in the third quarter of 2024: 0.8% quarter-on-quarter in Q3 (after 0.8% in Q2). This growth was mainly due to the strength of domestic demand and, in particular, consumption, both public (2.2%) and private (1.1%). On the other hand, investment fell by -0.9% after very timid growth in Q2 (0.4%), due to the decline in construction (-1.7%) and sluggish business investment (+0.1%). Similarly, foreign demand contributed negatively to growth due to higher growth in imports (1.2%) than in exports (0.9%). On the supply side, all production sectors, except construction, posted positive variations. Industrial activity slowed compared to Q2, while agricultural activity rebounded from the previous quarter's decline. The services sectors maintained their momentum: retail, transport and hotels stood out (with an increase of 1.1%), as did professional, scientific and technical activities (2%) and artistic and recreational activities (4.5%). On an annual basis, GDP growth accelerated to 3.4%, two-tenths higher than in Q2.

Indicators available for Q4 suggest that activity has maintained a robust pace of expansion over the past few months. In particular, an analysis of the information available at the end of this projection exercise (21 December), which includes data on social security enrolment, the Bank of Spain's Business Activity Survey (EBAE), purchasing managers' indices (PMIs) and confidence indices from the European Commission, suggest that Q4 GDP growth could be 0.6% quarter-on-quarter. It is important to note the considerable uncertainty surrounding this growth rate estimate, especially given how difficult it is to assess the economic impact during Q4 of the DANA weather phenomenon that affected several Spanish provinces in late October. Based on the available data, it is estimated that this impact, already included in the forecast mentioned above, is likely to be negative but relatively limited in the short term (between 0.1% and 0.2% of the GDP growth rate in Q4). The most recent momentum observed in some high frequency indicators such as the Bank of Spain's supply bottleneck index (which is declining rapidly), the experience of past episodes and the government's approved fiscal policy response (provided it is accompanied by rapid and effective deployment) suggest that the negative economic effects of this disaster could be reversed in the first half of 2025.

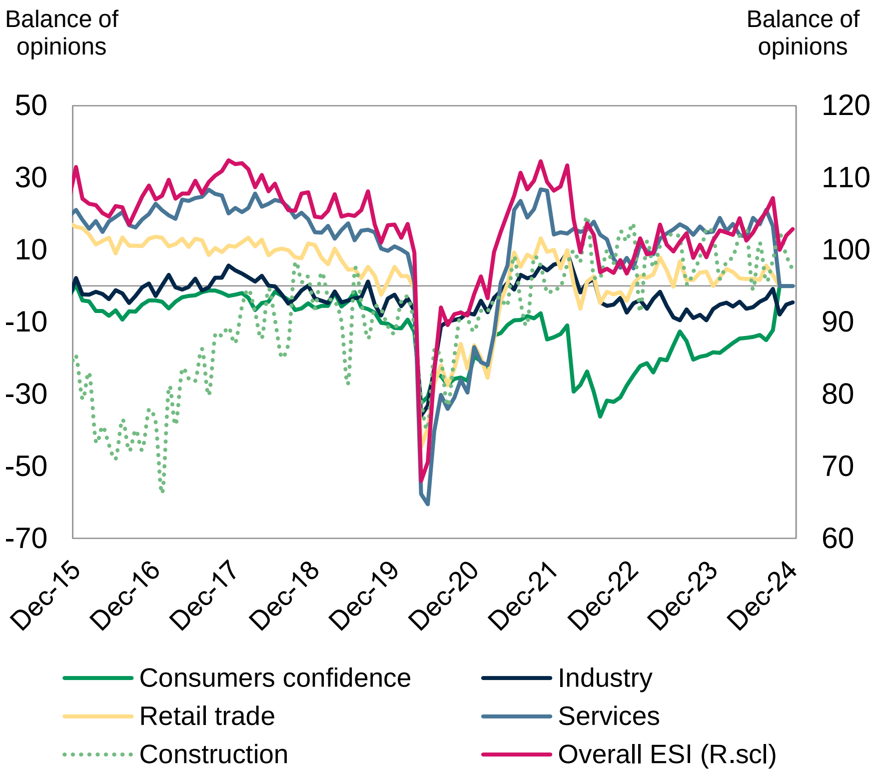
The job market ended the year with strong growth of 2.4% year-on-year in December (stable compared to November, after 2.5% in October). The most positive trend was seen in construction. On the other hand, the most negative trends were observed in the hotel and agriculture sectors. It is also worth noting the negative trend in household services, which posted a year-on-year decline of -4.7%.

Headline inflation accelerated from 2.4% y/y in November to 2.8% in December and ended 2024 at an average of 2.4%. This recent rise in inflation is mainly due to higher fuel prices (in contrast to December 2023's decline), and to a lesser extent to prices in the recreation and culture sector. In the short term, January's VAT hikes on electricity and food staples could cause December's rise in headline inflation to continue.

RECENT ECONOMIC TRENDS

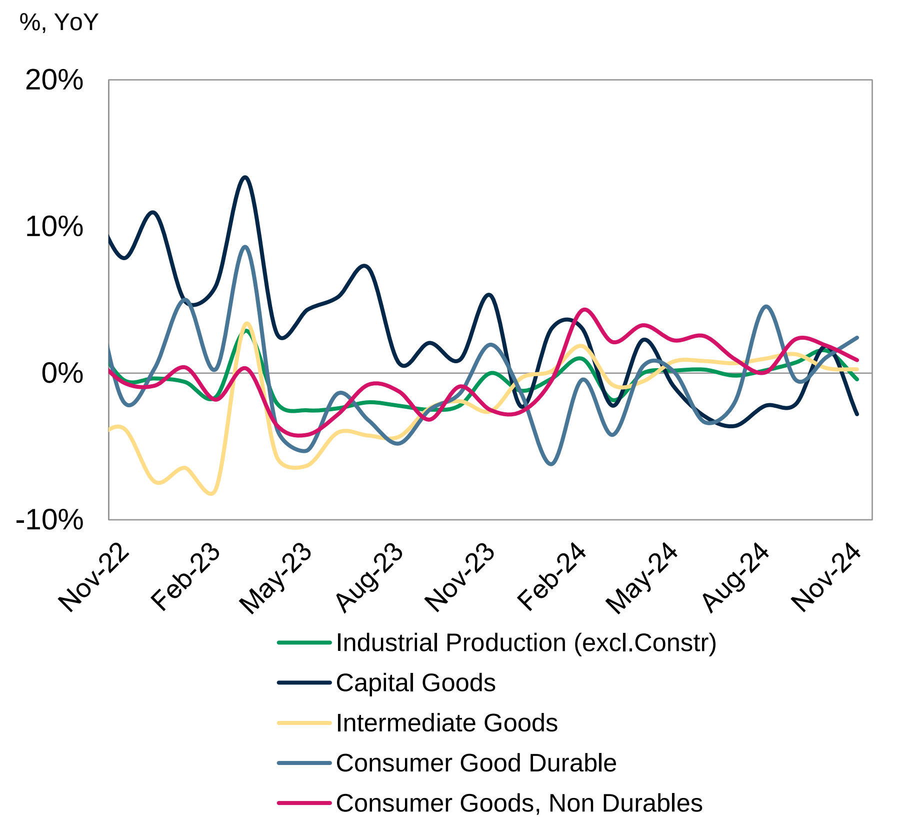
POSITIVE OUTLOOK FOR Q4 2024

ESI survey and its components



Sources: European Commission, Crédit Agricole SA / ECO

Industrial production



Sources: Eurostat, Crédit Agricole SA / ECO

SPANISH HOUSEHOLDS CONTINUE TO SAVE

The gap between growth in gross disposable income and consumption remains steady

Household gross disposable income (GDI) increased by 2.5% quarter-on-quarter in Q3, up from 0.4% in Q2. This increase is explained by robust growth in net property income (10.3%) and wages (+1.9% after 1.6% in Q2). Household consumption increased by 1.4% quarter-on-quarter, leading to a moderate increase in the savings rate, which stood at 14.2%, still above 2019 levels and the historical average (7.3% over 2015-2019).

The Spanish growth model is moving towards a greater contribution from domestic demand, and, in the face of sluggish investment, private consumption has become the main contributor for now. This improvement in performance was concentrated on household spending on services and durable goods, while the consumption of perishable and semi-durable goods remains weak. The stagnation of these last two components precedes the pandemic and coincides with trends observed in other European countries. The recovery in services is a consequence of families prioritising this type of spending when deciding how to use their additional gross real disposable income. The observed decrease in monthly mortgage payments and financing costs has also helped to free up resources for consumption and encourage access to credit. Rising property prices could also boost homeowners' spending.

Towards strong consumption over our forecast horizon

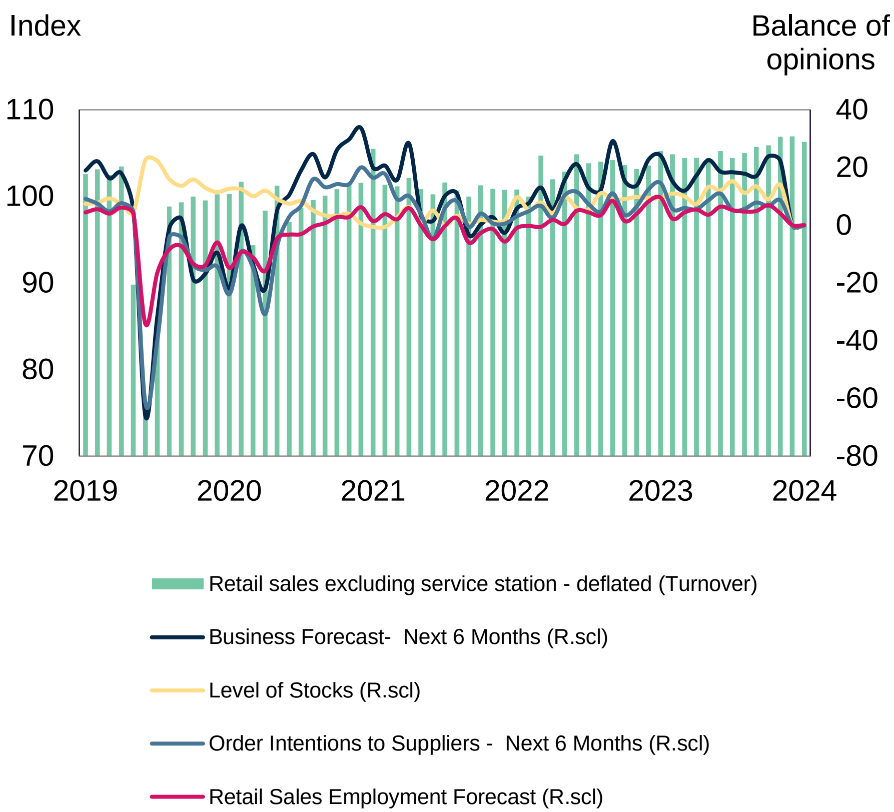
According to the available leading indicators, household consumption could continue its gradual recovery in the fourth quarter. These include the positive tone of consumer confidence and the strength of consumer credit, as well as the rebound in the retail trade index and car registrations. Over the coming quarters, against a backdrop of gradual moderation in inflationary pressure, a relatively robust labour market and slightly more favourable financial conditions, household spending is expected to continue to expand at a rate of 2.2% in 2025 and 1.8% in 2026.

Regarding the labour market, job creation is expected to continue throughout our forecast horizon, albeit at a slower pace than in recent quarters. Specifically, after rising 3% in 2023, employment is expected to increase by 2.1% in 2024 and gradually slow to a pace close to 1% in 2027. These trends, which are lower than those projected for GDP, would be compatible with relatively strong productivity in the coming years. Meanwhile, the unemployment rate will continue to fall more gradually over the coming years. The speed of this decline will be determined by the expected slowdown in the pace of job creation and by the evolution of the labour force, in a scenario where immigration flows will remain relatively high.

HOUSEHOLDS

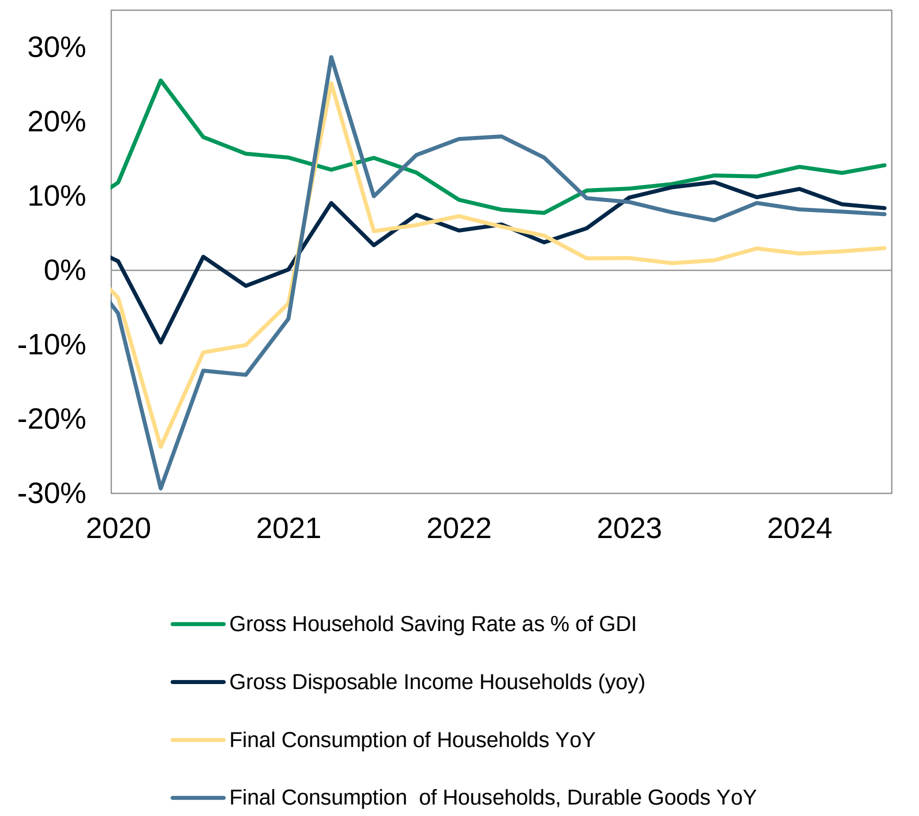
SPANISH HOUSEHOLDS CONTINUE TO SAVE

Retail sales



Sources : European Commission, Crédit Agricole SA / ECO

Change in household gross disposable income and its uses



Sources : Eurostat, Crédit Agricole SA / ECO

BUSINESSES

PRODUCTIVE INVESTMENT IS STRUGGLING TO PICK UP

The resilience of most components of demand contrasts with the continued weakness of gross fixed capital formation. Over the past two quarters, there has been a negative trend in transportation equipment acquisition, while non-residential construction has suffered from a lack of appeal. In Q3, investment fell by 0.9% (after rising +0.4% in Q2 and +1.2% in Q1), driven by the decline in construction (-1.7%), while investment in machinery and equipment (+1.6%) offset the decline in transportation equipment (-4.2%). Productive investment in Spain remains 4.2% below its pre-pandemic level.

Slowdown in unit labour costs

Based on data available until November 2024, the average wage increase in collective agreements for 2024 was 3.1% (3.7% in 2023). Nearly 80% of employees who signed agreements for 2024 signed agreements in previous years that provide for an average wage increase of 2.9%. The agreed wage increase in the new agreements signed in 2024 was 3.7%. Despite this relative wage moderation in collective bargaining compared to the previous year, compensation per employee in the market economy posted an inter-annual average increase of 5.5% in the first three quarters of 2024, reflecting a positive wage drift (difference between actual and negotiated wages) of close to 2 pp. However, there has been a slowdown in the unit labour cost growth rate in recent quarters in Spain and the eurozone, although this trend has been slightly more intense in Spain (from 7.8% y/y in Q4 2023 to 3% in Q3 2024). This slowdown has resulted in a recent increase in productivity, following the declines recorded in 2023. However, the ratio between the market economy's gross operating surplus (EBITDA) and gross value added (GVA) remains below pre-pandemic levels, with significant divergence between sectors, particularly between manufacturing and construction.

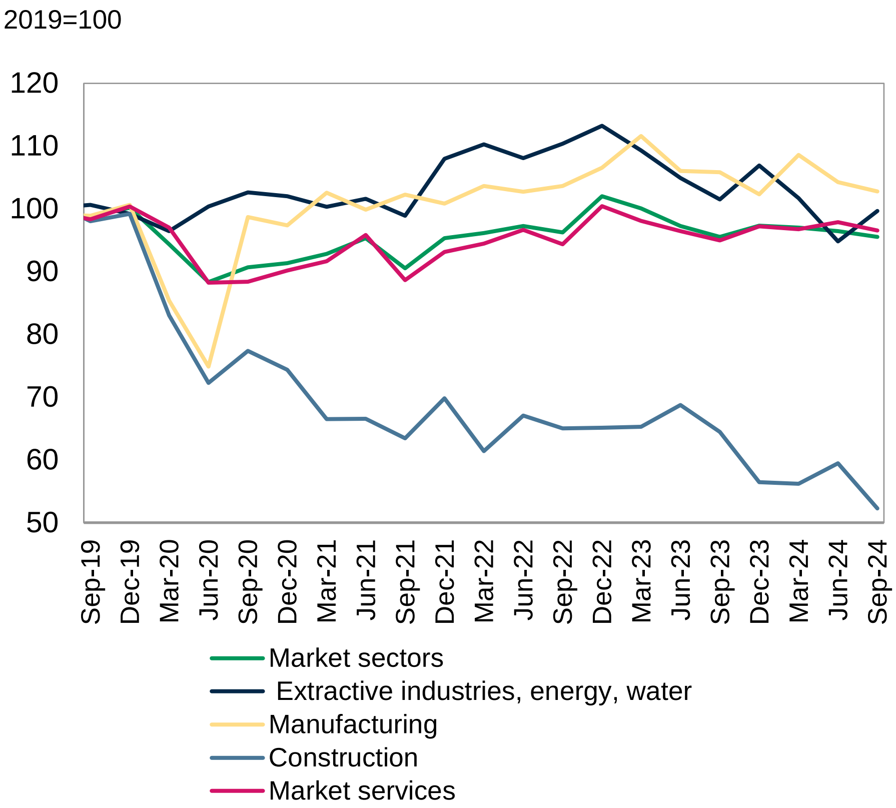
Fixed investment has lagged the overall recovery over the past two years, demonstrating the impact of tighter credit conditions, particularly on interest rate sensitive sectors such as residential investment. However, the weakness in the machinery and equipment sector is more worrying and suggests that companies remain uncertain about the outlook despite the strong recovery. More positively, credit growth is picking up. In addition, the deployment of European funds under the NGEU programme will continue to underpin public investment. With regard to housing investment, the recent change in the housing starts indicator would be consistent with a degree of apathy in this component in the third quarter, although home sales continue to show strong momentum. On the other hand, short-term supply is relatively compared to strong demand – which is being driven in part by purchases by foreign nationals – and continues to put upward pressure on real estate prices, which rose 8.1% year-on-year in Q3.

In our scenario, investment growth will continue to strengthen as credit growth improves and the impact of more relaxed financial conditions begins to filter through to businesses. According to our forecasts, investment will increase by 3.7% this year and 2.2% in 2026

BUSINESSES

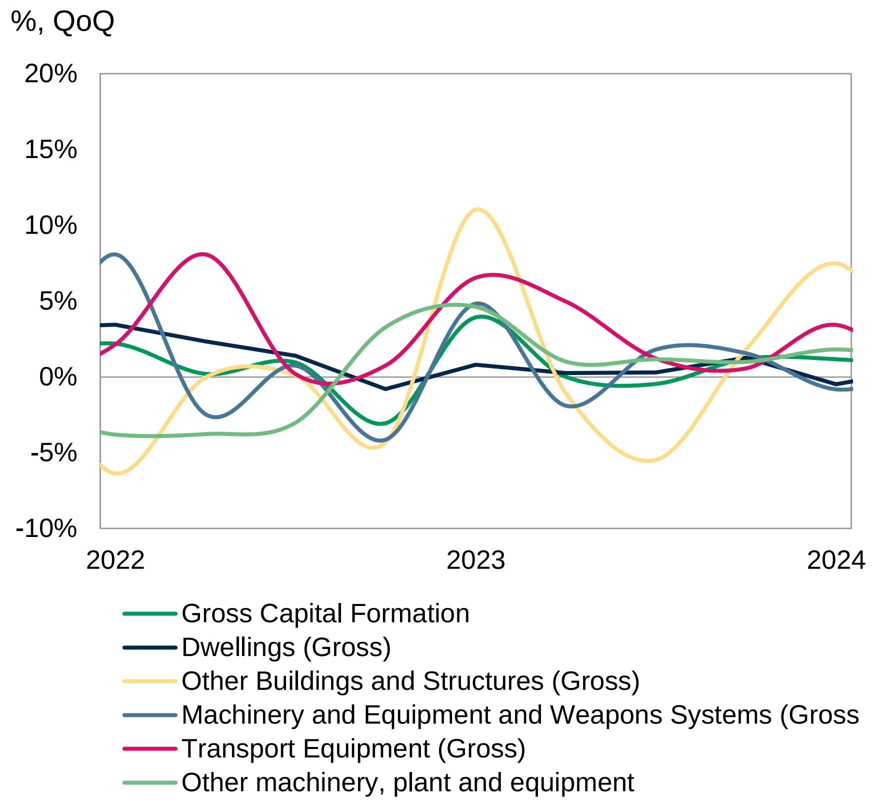
PRODUCTIVE INVESTMENT IS STRUGGLING TO PICK UP

Change in margin rate (EBITDA/GVA)



Source : INE, Crédit Agricole S.A.

Investment components



Sources : INE, Crédit Agricole SA / ECO.

FOREIGN TRADE

FOREIGN DEMAND HALTS ITS POSITIVE CONTRIBUTION IN Q2 2024

Exports grew at a brisk pace of 5.1% year-on-year in the third quarter, driven by exports of (tourist and non-tourist) services (+13.4%). Imports also accelerated, reaching annual growth of 3.6%, significantly higher than in the previous two quarters (below 1%).

Available data on overseas goods sales shows a 2.1% increase year-to-date through September. This is the result of two opposing forces: on the one hand, the adjustment in the automotive sector, which is holding back growth. On the other hand, companies that have benefited from the structural changes in demand observed since the start of the pandemic are becoming more competitive or recovering their production capacity thanks to lower production costs. Food, medicines, chemicals and paper and cardboard items were among the biggest positive contributors.

Towards zero contribution from foreign growth in 2025

Since 2022, the contribution of foreign trade to GDP growth has been remarkable. A significant part of this positive contribution was associated with extremely strong international tourist flows to Spain, which surprised on the upside and showed increasing geographical and seasonal diversification. Over our forecast horizon, these flows are expected to continue to remain particularly upbeat. However, in terms of growth rates, their contribution to GDP will gradually decrease. Indeed, in the current situation, structural changes may have taken place to maintain high levels of activity: migration flows have allowed more tourists in and the sector has been one of the few where investment has increased, allowing for an increase in capacity and an improvement in the quality of existing facilities. However, we are starting to see congestion issues, tourism is having a perceived negative impact on the cost of living, while migration flows may decrease over the coming years, and the regulatory environment may become less favourable, all of which will moderate growth prospects.

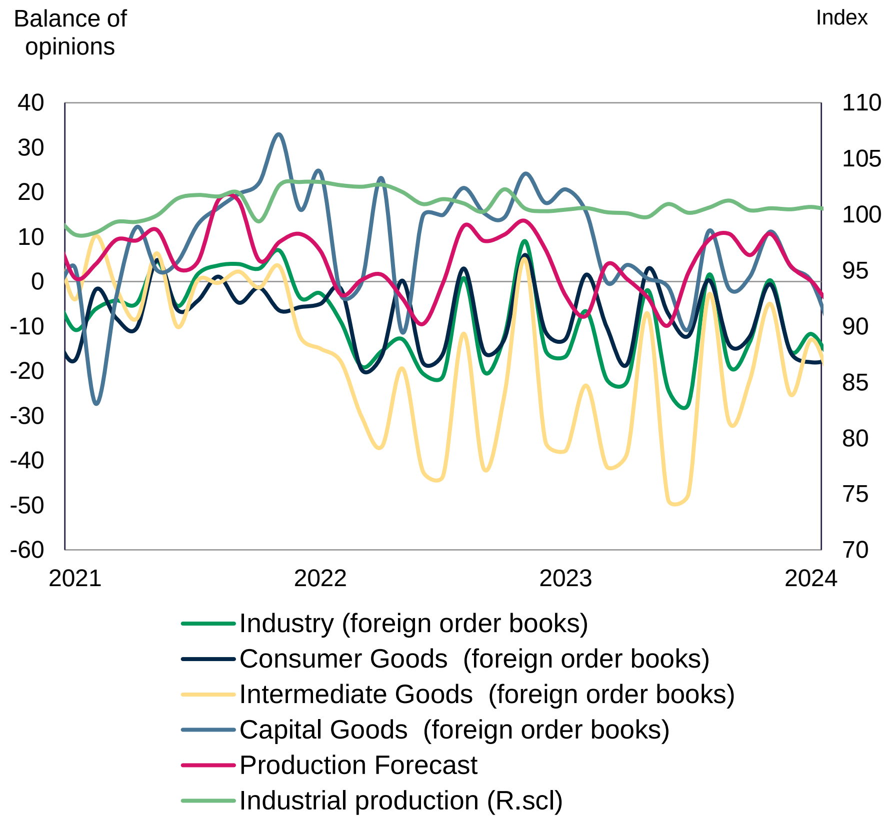
The projected recovery in international trade will support the gradual increase in goods exports over our forecast horizon. Imports are expected to accelerate more strongly than exports, in line with more buoyant gross fixed capital formation and goods exports, which are the components of final demand with a higher import content.

As a result, we expect net external demand to make a zero contribution to GDP growth in 2025.

FOREIGN TRADE

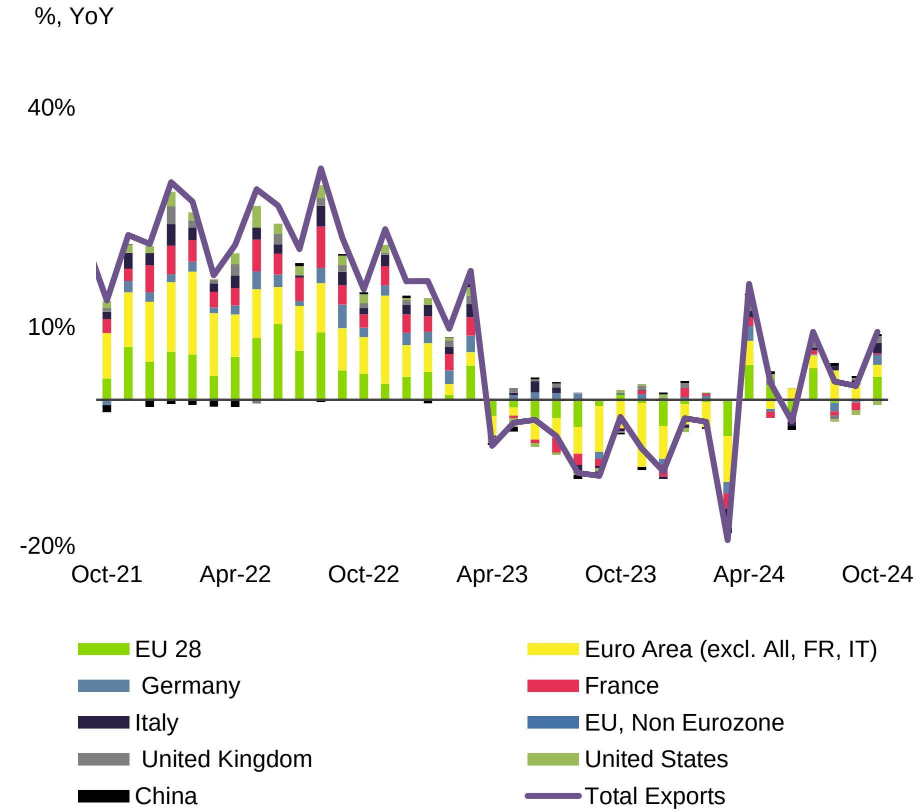
FOREIGN DEMAND HALTS ITS POSITIVE CONTRIBUTION IN Q2 2024

Export order books



Sources: ICI Industry & Trade Ministry survey, Crédit Agricole SA / ECO

Exports by destination



Sources: Bank of Spain, Crédit Agricole SA / ECO

RISKS

GROWTH KEEPS PACE

No recession

Continued disinflation

Activity and employment maintained

Wage purchasing power gains

Easing of financing conditions

Recession

Escalation of geopolitical conflicts

Low growth, income and profit erosion

New US trade policy

THE SCENARIO IN FIGURES

SUMMARY TABLES

	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
GDP (y/y, q/q, %)	2,7	3,1	2,4	1,8	0,7	0,2	0,7	0,7	0,9	0,8	0,8	0,6	0,5	0,5	0,5	0,4	0,4	0,5	0,4	0,4
Domestic demand (contribution to GDP, pps)	2,4	2,8	2,4	1,7	1,6	0,8	0,7	0,4	0,8	0,8	0,9	0,6	0,5	0,6	0,5	0,4	0,4	0,5	0,4	0,4
Private consumption (y/y, q/q, %)	1,8	2,7	2,2	1,8	1,2	0,8	0,8	0,2	0,5	1,0	1,1	0,4	0,4	0,5	0,5	0,4	0,4	0,6	0,4	0,4
Public consumption (y/y, q/q, %)	5,2	4,5	2,3	1,2	1,1	1,8	1,5	0,6	1,1	0,6	2,2	0,1	0,4	0,4	0,4	0,2	0,3	0,3	0,3	0,3
Investment (y/y, q/q, %)	2,1	2,2	3,7	2,2	3,9	0,0	-0,5	1,2	1,2	0,4	-0,9	2,1	1,1	1,1	0,8	0,6	0,4	0,4	0,4	0,4
Stockbuilding (contribution to GDP, pps)	-0,7	-0,2	0,0	0,0	-0,6	-0,3	0,1	0,1	-0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	0,9	0,5	0,0	0,1	-0,3	-0,3	-0,1	0,2	0,4	0,1	-0,1	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,0
Exports (y/y, q/q, %)	2,8	3,3	2,5	3,0	1,0	-0,4	-1,5	1,6	1,8	0,7	0,9	0,7	0,6	0,4	0,4	0,7	0,9	0,9	0,8	0,8
Imports (y/y, q/q, %)	0,3	2,2	2,9	3,2	2,3	0,4	-1,4	1,1	0,7	0,6	1,2	0,9	0,6	0,5	0,5	0,8	0,8	1,0	0,8	0,8
Inflation (y/y, %)	3,4	2,8	2,2	1,6	5,0	2,8	2,6	3,3	3,2	3,6	2,3	2,0	2,5	2,0	2,5	2,0	1,7	1,6	1,6	1,6
Core inflation (y/y, %)	4,1	2,8	2,2	#N/A	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Unemployment rate (%)	12,2	11,5	11,2	10,7	12,9	12,0	12,0	11,9	11,8	11,6	11,3	11,3	11,4	11,2	11,1	11,0	11,1	10,7	10,5	10,4
Current account balance (% of GDP)	2,7	2,5	0,9	1,5	2,8	2,4	3,1	2,3	3,1	3,3	1,8	1,9	-0,2	0,9	1,3	1,5	1,5	1,5	1,5	1,5
Fiscal balance (% of GDP)	-3,5	-3,1	-2,9	-2,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	105,1	103,0	102,9	104,1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Eurostat, Crédit Agricole SA / ECO

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