SPAIN 2025-2026 SCENARIO

DYNAMIC GROWTH IN AN UNCERTAIN ENVIRONMENT

April 2025

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GROUP ECONOMIC RESEARCH

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DYNAMIC GROWTH IN AN UNCERTAIN ENVIRONMENT

KEY POINTS OF THE SCENARIO

- **Household savings still strong**
- **Investment came back to life in Q4 2024**
- **Low exposure to US imports**
- **Employment levels still dynamic**

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

Sources: Crédit Agricole SA/ECO

The Spanish economy began 2025 with greater momentum than its European partners. In 2024, GDP grew by 3.2%, increasing by 0.8% in Q4, supported by consumption and investment. The fundamentals are solid: a current account surplus for the 13th year, private debt limited to 125.1% of GDP (vs. 153.5% in the eurozone) and public debt down to 101.8%. The net international investment position also improved. This strong performance served to increase the growth forecast to 2.5% in 2025. The recovery remains concentrated on domestic demand. Lower interest rates, disinflation (inflation is expected to be 2.5% in 2025) and a high savings rate should boost consumption. Employment is set to increase by 2% and unemployment is forecast to fall to 10.9%.

Despite this favourable environment, foreign trade is expected to have a negative impact, due to dynamic imports and slowing exports. Geopolitical and trade tensions (US-EU) represent a significant risk. The full deployment of NGEU funds will be important in maintaining the momentum of private investment.

INTRODUCTION

THE INTERNATIONAL CONTEXT

Growth in the global economy is expected to slow in 2025 and to accelerate modestly in 2026, mainly due to the dynamics of advanced economies. In emerging countries, growth is expected to increase from 4.3% in 2024 to 4% in 2025 and 2026. We expect growth in China to continue to slow in 2025, with exports likely to be severely hampered by higher US tariffs and the continuing gradual recovery in domestic demand. GDP growth looks set to slow to 4.6% in 2025 and 4.3% in 2026 after 5.0% in 2024.

US growth is expected to slow to 1.7% in 2025, before recovering to 2.2% in 2026. Inflation is forecast to also slow in early 2025 before rebounding at the end of the year to reach an annual average of 2.7% in 2025 and 2026. The Fed, after a pause, is expected to finally resume cutting rates with two further 25bp cuts in June and September, before embarking on a prolonged pause with a ceiling set at 4.00%. Long-term rates could therefore fall slightly in the second quarter of 2025 in response to the adverse impact of trade tariffs on growth and the resumption of rate cuts by the Fed, expected in June. 10-year *Treasury* yields are expected to be 4.45% at the end of 2025 and 4.75% at the end of 2026.

Eurozone growth is expected to be 1% in 2025 and 1.5% in 2026, with the German stimulus plan offsetting the adverse impact of the increase in US tariffs. The disinflationary process is expected to continue with inflation at 2.1% in 2025 and 1.8% in 2026. The ECB's monetary easing is nearing its conclusion and we expect a final rate cut of 25 basis points in June 2025, after which the deposit rate will remain at 2.25% until the end of 2026. The German ten-year yield is expected to remain above 3% (3.1% at end-2026). The steepening of the German curve and the prospect of higher growth in the Eurozone suggest a further tightening of sovereign spreads, with the OAT premium at 55bp at the end of 2026 and the BTP premium at 105bp. The euro could reach 1.12 against the dollar in the fourth quarter of 2025, a level that is unlikely to be exceeded due to an expected further recovery in the US economy, in Treasury yields and therefore in the dollar in the second half of 2026.

The recent announcement by OPEC+ to increase production is expected to cause prices to fall moderately to $71 per barrel on average in 2025, and to $70 in 2026. The depletion of natural gas stocks this winter, which was colder than in previous years, is expected to boost the liquefied natural gas market in the coming months.

Hypothèses de cadrage internationales

	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, %)	5,4	5,0	4,6	4,3	1,7	1,2	1,5	0,9	1,5	0,9	1,3	1,6	1,3	0,7	0,9	1,0	1,3	1,1	1,0	1,0
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: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole SA/ECO

CONTINUED STRONG GROWTH

DOWNSIDE RISKS REVISED UPWARDS

The international context remains characterised by high levels of uncertainty: trade tensions between the United States and China, the war in Ukraine and the fragility of transatlantic relations. Spain, however, appears to be less exposed than other European countries. This may be due to its lower dependence on trade with the US and the geographical remoteness of the conflict in Ukraine. At this stage, **the Spanish economy seems better equipped than its partners to cope through this period.** This is due to its strong starting position. In the last quarter of 2024, GDP grew 0.8% quarter-on-quarter, supported by private consumption and investment, while the eurozone stagnated. Over the year as a whole, growth was 3.2%. Moreover, financial imbalances remain small. The current account is in surplus for the thirteenth consecutive year. The net international investment position improved, from a deficit of 97.5% of GDP in 2009 to a deficit of less than 50% in 2024. Private debt remains under control at 125.1% of GDP (versus 153.5% in the eurozone), and public debt continued to fall, to 101.8% of GDP in December 2024, 3.3 points lower than a year earlier.

The strong economic results at the end of 2024 have led us to revise our GDP growth forecast for 2025 upwards to 2.5% (from 2.3% previously). This improvement might have been more marked without the resurgence of trade tensions between the United States and the European Union, which constitute a major source of uncertainty.

Growth will be driven primarily by domestic demand. Although private consumption and investment grew significantly in the fourth quarter of 2024, they are still lagging behind other components of GDP. Accordingly, while GDP is 7.6% above its pre-pandemic level, private consumption has only risen 3.6%, and investment only 2.5%. Factoring in the increase in the population since 2022, real per capita consumption is still 0.4% below its level at the end of 2019. Lower interest rates and the gradual fall in inflation will support the recovery in domestic demand. Moreover, the household savings rate, which is particularly high, offers additional leverage to private consumption in the coming months.

Despite this favourable environment, growth is expected to slow from its 2024 levels. The intensity of a number of favourable economic factors is expected to fall: the return to a more normal pace in the tourism sector, a reduction in flows of migrants, and European growth that only began to recover at the end of 2025. There is also the risk of a more difficult trading relationship between the US and the EU. In this context, foreign trade is expected to make a slightly negative contribution to growth in 2025. This will be due to an increase in imports, driven by the strength of domestic demand, but also by less dynamic exports, linked to the normalisation of tourism and the persistent weakness of Spain’s main trading partners.

In 2025, inflation is expected to continue to fall, from 2.9% on average in 2024 to 2.5%. This fall will be driven by a gradual slowdown in the prices of services and a sharp correction in food inflation, a trend already visible in recent months. Conversely, energy prices could exert upward pressure, due to the increase in VAT on electricity applied in January 2025.

CONTINUED STRONG GROWTH

DOWNSIDE RISKS REVISED UPWARDS

The job market will remain on a sound footing. The employment rate is forecast to rise by approximately 2.0% in 2025, down from 2.2% in 2024. Growth in the labour force, which had increased sharply in 2023 (+2.1%), slowed to 1.3% in 2024 and is expected to fall to 1.1% in 2025. This growth will result in **a further drop in the unemployment rate, which is expected to reach 10.9% (vs. 11.4% in 2024).**

The risks surrounding this scenario remain significant. On the upside, an acceleration in interest rate cuts or a greater use of accumulated savings could boost consumption and investment. A ceasefire in Ukraine could also cause energy prices to fall. However, downside risks dominate, especially on the geopolitical front: an escalation in the Middle East or a further tightening of US-EU trade relations would have a negative impact on trade. At the national level, the full deployment of NGEU funds will be important in maintaining private investment.

RECENT ECONOMIC NEWS

A STRONG START TO THE YEAR

GDP growth was 0.8% quarter-on-quarter in Q4 2024, the same rate as in the previous two quarters. This growth was supported by strong domestic demand, in particular investment (3.5%) and private consumption (1%), which contributed 1.2 pp to growth. However, the contribution of foreign demand was negative, at -0.4 pp, due to the greater dynamism of imports (1.4%) over exports (0.1%). From a supply perspective, all branches except Agriculture posted gains in Q4 2024. There was a slight acceleration in industrial activity and, in services, real estate activities, as well as professional, scientific and technical activities, enjoyed strong momentum.

The leading indicators published in the first few months of the year show positive signs suggesting that the Spanish economy will be buoyant in Q1 2025, even though the pace is a little slower than in the previous quarter (0.5% according to our forecasts). The services sector remains particularly buoyant according to the sector PMI. The improvement in activity levels continues to be underpinned by strong demand, particularly in commercial activities, which are themselves driven by a very dynamic tourism sector. In this regard, the most recent data confirms the dynamism of the tourism sector: in January, the number of foreign tourists to Spain was nearly 5.1 million, representing year-on-year growth of 6.1% and 20.7% above pre-pandemic levels (January 2019).

The signs are slightly weaker in the industrial sector, with the manufacturing PMI falling below 50 points in February and March for the first time since January 2024. Both production and new orders are slowing, against a backdrop of weakening demand and high uncertainty. The signs are a little more encouraging on the employment side in the industrial sector, with a 1.7% rise in new jobs year-on-year in January-February, compared with 1.6% in Q4 2024. In general, growth in the industrial sector is adversely affected by sluggish demand from its main European trading partners or doubts about the US's policy on tariffs. Accordingly, although Spain's direct exposure to these changes is relatively low, sectors such as agri-food and pharmaceuticals could be particularly affected. In addition, geopolitical uncertainty could cause investment projects to be postponed.

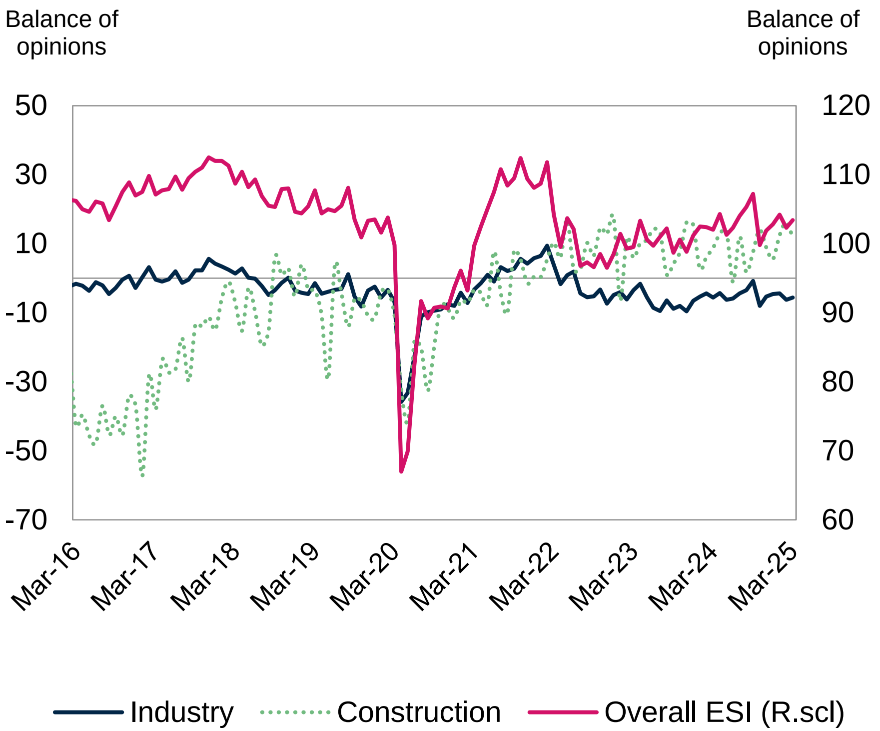
Job creation remained strong in the first quarter. Corrected for seasonal adjustments, the increase in Q1 from Q4 2024 was 0.6% quarter-on-quarter. Foreign workers account for 41.1% of the increase in Social Security enrolments over the last year, and represent 13.7% of total workers, up from 13.1% a year ago. Looking further back, employment growth since the pre-pandemic period has mainly been driven by the information and communications, professional, scientific and technical, education and construction sectors. Together, these branches accounted for nearly 45% of cumulative employment growth between the end of 2019 and the end of 2024. This trend in job creation contrasts with the trend seen between 2013 and 2019, when employment growth was concentrated, to a greater extent, in the manufacturing, hotel and retail sectors.

Headline inflation fell 0.7% in March to 2.3%, while core inflation fell 0.2% to 2.0%, according to the INE's advanced CPI indicator. This fall in headline inflation is due to lower electricity prices. Fuel prices and leisure and cultural activities will also have contributed to this fall.

RECENT ECONOMIC NEWS

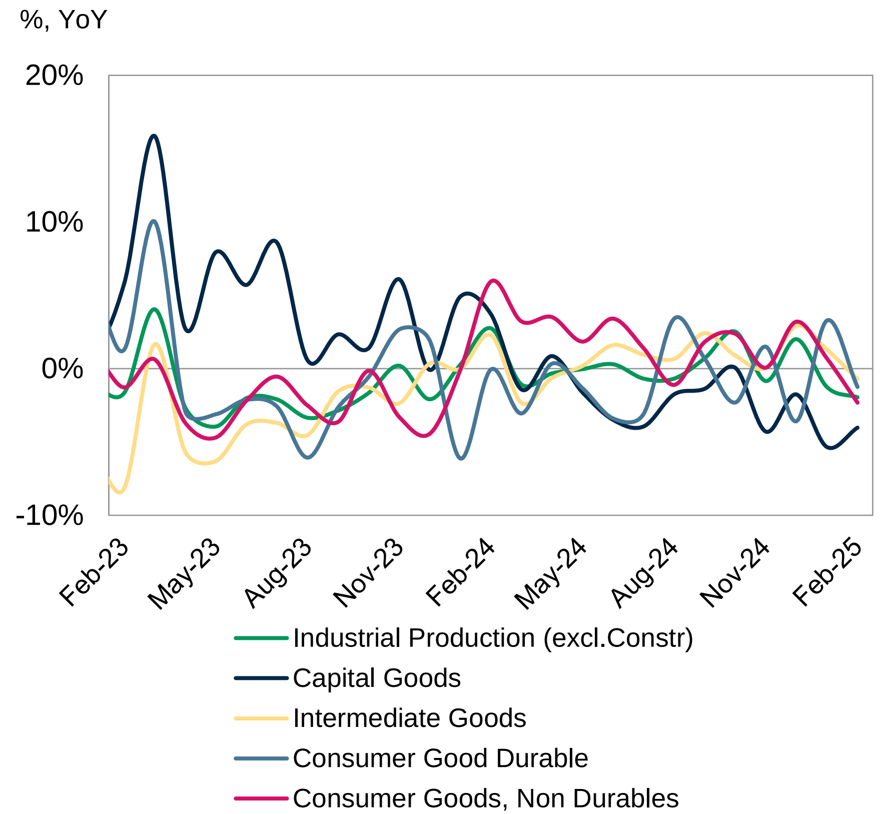
A STRONG START TO THE YEAR

ESI survey and components



Sources: European Commission, Crédit Agricole SA/ECO

Industrial output



Sources: Eurostat, Crédit Agricole S.A./ECO.

HOUSEHOLDS

HOUSEHOLD SAVINGS LEVELS REMAIN HIGH

Wages support households' disposable income

Gross disposable household income increased by 1.5% quarter-on-quarter in Q4 2024, at a slower rate than in Q3 (2.4%). Broken down into components, this fall can be explained by the momentum in salaries (+1.7% vs. 1.9% in Q3). Household consumption increased by 2.2% quarter-on-quarter, **leading to a moderate fall in the savings rate, which was 13.4% of gross disposable income** (14% in Q3), still **above** 2019 levels and **the historical average** (7.3% over the period 2015-2019).

The Spanish household savings rate remains unusually high, highlighting the problems associated with consumer spending fully driving economic growth. The ongoing relevance of factors behind its rise means that it is unlikely to fall in the coming quarters. Although immigration allows for the production capacities of the Spanish economy to increase, consumer spending by foreign workers tends to be lower (all other things being equal) than that of domestic workers. Immigrants do not have the same access to social networks or benefits allowing them to cope with unemployment. Some immigrants also have to send money to their home country. On the other hand, a proportion of the increase in the savings rate reflects uncertainty about increases in the public deficit. Doubts over the maintenance of the pension system and health benefits and over future tax rises are leading a portion of the population to save more. Lastly, the increase in gross disposable income is likely to be concentrated in groups that have high savings rates, either due to their age or because they have relatively high levels of wealth.

The Spanish growth model is moving towards a model in which a greater contribution is made by domestic demand and, as a result of sluggish investment, private consumption is currently the main driver. This improvement in performance has been concentrated on household spending on services and durable goods, while consumption of perishable and semi-durable goods continues to be weak. The stagnation in these last two components began before the pandemic and coincided with trends also seen in other European countries. The recovery in services is a consequence of families prioritising this type of expenditure when deciding how to use the observed increase in real gross disposable income. The observed fall in monthly mortgage payments and financing costs has also helped to free up resources for consumption and encourage access to credit. Rising house prices could also boost spending by home owners. Finally, some of the momentum in consumption is due to the fall in the household savings rate, despite the fact that it remains high and close to historical peaks.

Moving towards dynamic consumption over our horizon

The fundamentals behind the trend in household consumption continue to improve. This trend is supported by a controlled level of inflation, which will continue to fall over the coming months, from 2.9% in 2024 to 2.5% in 2025 and 1.7% in 2026. At the same time, employees' salaries (+4.8% on average in 2024) are expected to continue to rise at around the same levels in the coming quarters. This, combined with the ongoing strength of the employment market, will means that households' disposable income will continue to rise, at a rate above inflation**. All these factors will enable household consumption to increase by 2.7% in 2025 and by 2% in 2026.**

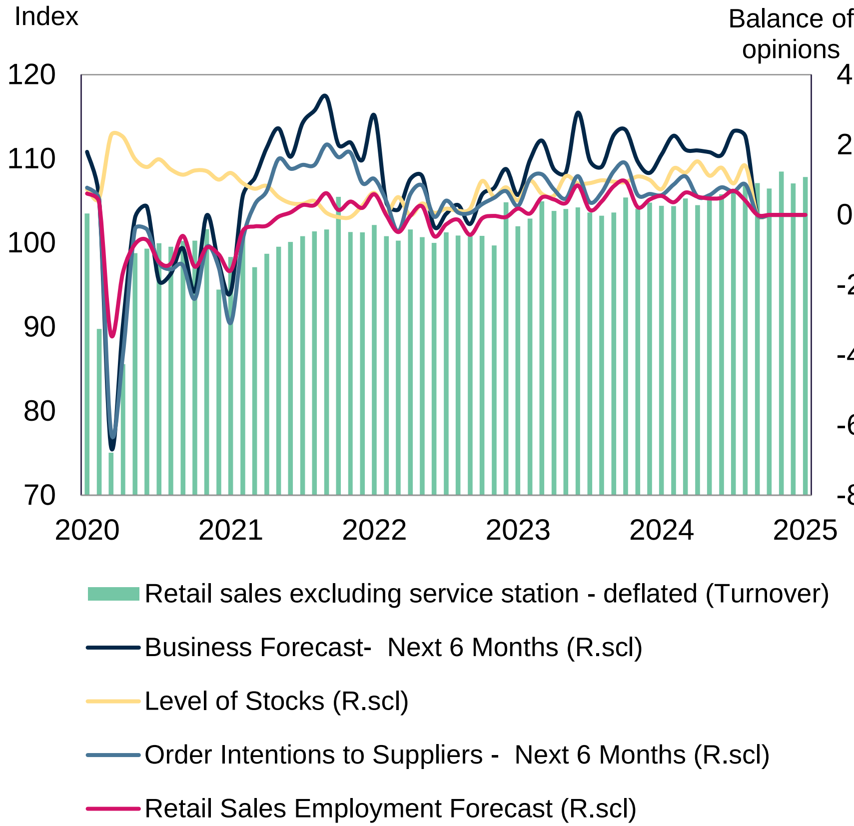
HOUSEHOLDS

HOUSEHOLD SAVINGS LEVELS REMAIN HIGH

As regards the labour market, job creation is expected to continue to increase throughout the forecast horizon, albeit at a slower pace than in recent quarters. In particular, compared to the 3% and 2.2% increases seen in 2023 and 2024, respectively, employment levels are expected to increase by 1.9% in 2025, with growth levels gradually slowing. These expected growth rates for employment, which are lower than those forecast for GDP, point to an increase in productivity per employee in the coming years, which is set to rise at rates slightly lower than those seen in 2024, but slightly higher than the average rates seen in the 2000-2019 period. **The unemployment rate will continue to fall through the 2025-2027 period, albeit at a slower pace than in 2024. All of this is happening against a backdrop of lower job creation and slower growth in the working population. Our forecasts are 10.9% in 2025 and 10.3% in 2026.**

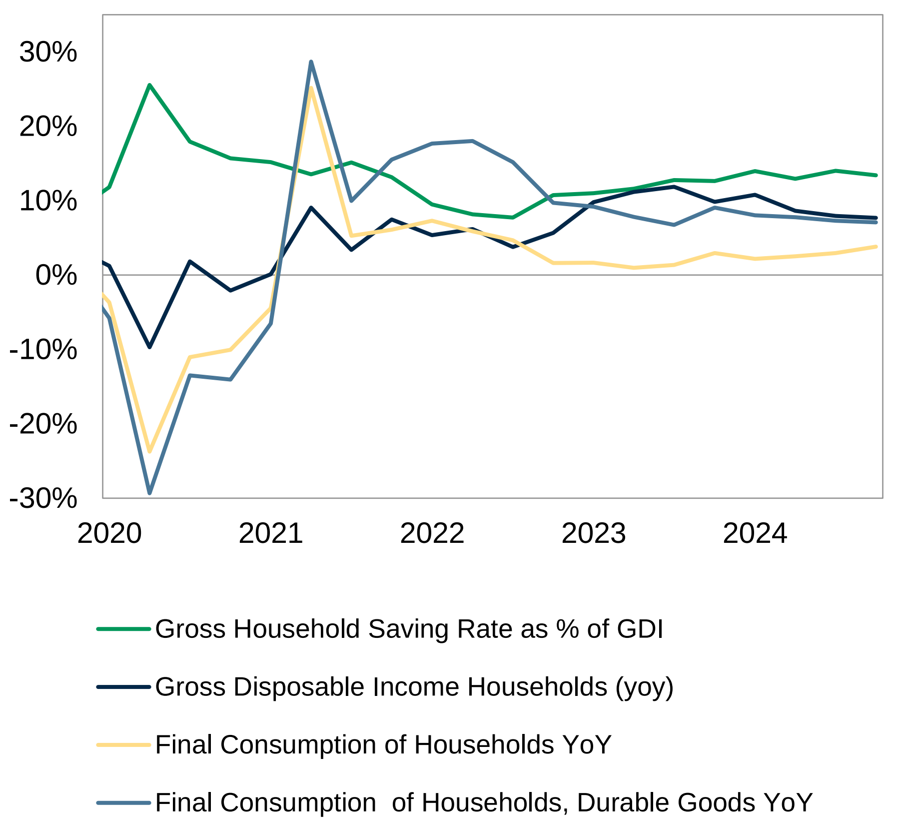
SPANISH HOUSEHOLDS CONTINUE TO SAVE

Retail sales



Sources: European Commission, Crédit Agricole SA/ECO

Change in gross disposable household income and its components



Sources: Eurostat, Crédit Agricole S.A./ECO

BUSINESS CUSTOMERS

INVESTMENT COMES TO LIFE IN Q4 2024

In Q4 2024, investment increased by 3.4% quarter-on-quarter (after -1.4% in Q3 and +0.5 in Q2), driven by construction (2.7%) and productive investment (8.4%, including 6.2% for machinery and equipment and 15.2% for transport). **The recovery in investment remains historically weak. Although GDP is already 7.6% above its pre-pandemic level, gross fixed capital formation has only recently exceeded it.** This is despite the European NGEU funds and the fact that there are sectors, such as housing in which production urgently needs to increase. Between 2021 and 2026, the gap between the number of households created and the number of homes built could reach one million units, making the supply-demand mismatch even more severe.

Slowdown in unit labour costs

Based on the information available up to January, the salary increases agreed as part of the collective bargaining negotiations for 2025 was 3%. Almost all employees who have entered into agreements for 2025 – nearly six million workers – are party to agreements signed in previous years. Despite this moderation, in 2024, in the wages negotiated through collective bargaining, the salary per employee in market economies increased by 5.4%, reflecting a positive wage drift of nearly 2 pp, fairly widespread depending on the sector, and a slightly positive contribution from the increase in social security contributions. In any case, the pace of increase in unit labour costs has slowed in Spain, from 7% in 2023 to 3.8% in 2024. However, the margin rate of the market economy is still below that of pre-pandemic levels, with a substantial divergence between sectors, particularly between the manufacturing and construction sectors.

Fixed investment has lagged behind the overall recovery over the past two years, demonstrating the impact of tighter lending conditions, particularly on sectors sensitive to interest rates such as residential investment. But **the weakness of the machinery and equipment sector is more worrying and suggests that companies remain uncertain about the outlook, despite the strong recovery. More positively, lending is starting to pick up. In addition, the deployment of European funds under the NGEU programme will continue to support public investment.** Regarding **investment in housing**, the recent change in the construction execution indicator appears to be consistent with **a certain degree of apathy** towards this component in the third quarter, despite home sales continuing to show great momentum. However, **the relatively low levels of supply in the short term compared to the strength of demand, driven in part by acquisitions by foreign citizens, continues to put upward pressure on real estate prices.**

In our scenario, investment will continue to grow as lending activity increases and the easing of financial conditions begins to be felt by companies. **Based on our forecasts, investment will increase by 3.6% this year and by 2.8% in 2026.**

The Recovery Plan remains behind schedule

The implementation of the NGEU is only two years away. The programme was launched in 2021 and Spain must comply with all the stages and commit all investments by August 2026, including those financed by loans. Byway of reminder, the NGEU plan for Spain consists of €80bn in non-repayable transfers and up to €83bn in additional loans to relaunch the economy with a focus on the green transition (40% of investments) and the digital transformation (26%). These investments and reforms are channelled through the recovery plan and its addendum, which covers the loans. **Spain has already carried out 70% of the reforms covered by the plan, but only 15% of the investments**, in part due to the nature of the plan which, in the early years, places more emphasis on reforms.

BUSINESS CUSTOMERS

INVESTMENT COMES TO LIFE IN Q4 2024

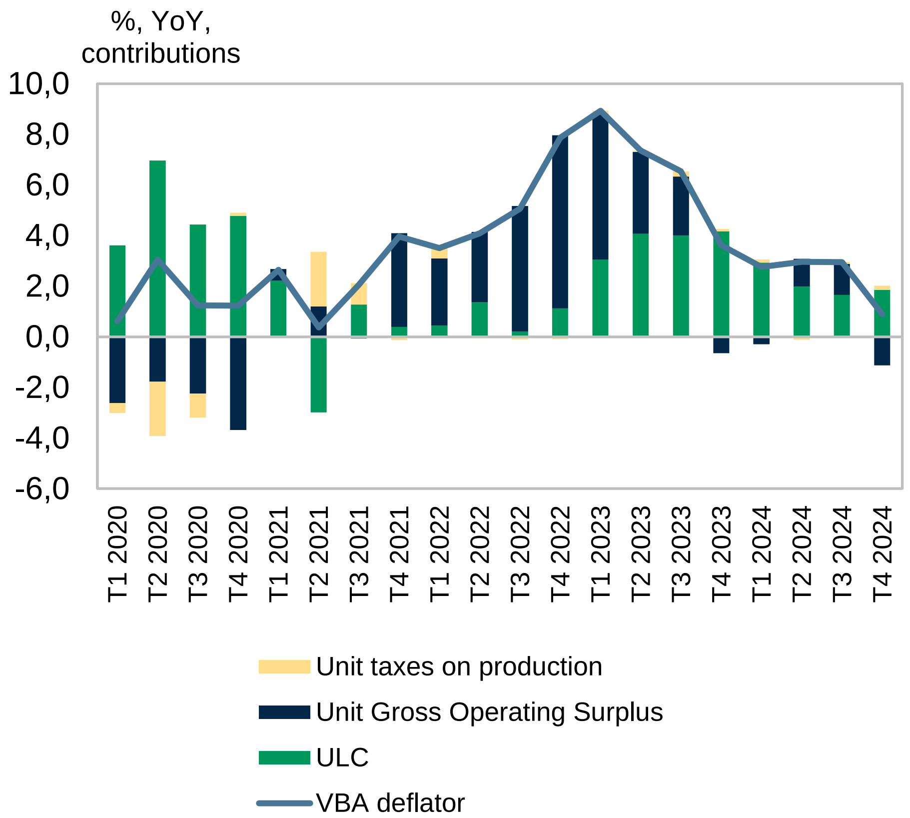
The most important outstanding steps include: the implementation of low-emission zones in towns and cities, increasing the use of digital technologies at 171,000 SMEs, modernising irrigation across 160,000 hectares, renovating 285,000 homes with a minimum energy saving of 30%, building 20,000 social housing units, deploying 238,000 electric vehicles and charging points, extending 5G networks to 75% of the population and restoring 145 kilometres of degraded coastal areas. Other important investments that should be taken into account in the future, if there is ever scope to redirect funds, include the renovation of water infrastructure to mitigate climate risks, increasing the housing supply and investing in artificial intelligence in coordination with Europe (under Spain's current plan, only €538 million is earmarked for AI).

Although investments are lagging behind, a recent report by the Bank of Spain shows that 45% of companies with projects financed by the NGEU would not have made these investments without the programme, and that 31% would have carried out only come of the projects, suggesting a relatively high added benefit. Broken down into components, investments related to the energy transition show the lowest show the lowest level of added benefit: 39% of companies would have carried out the projects in the absence of the NGEU, with this figure falling to around 20% of companies for digital and R&D investments.

BUSINESS CUSTOMERS

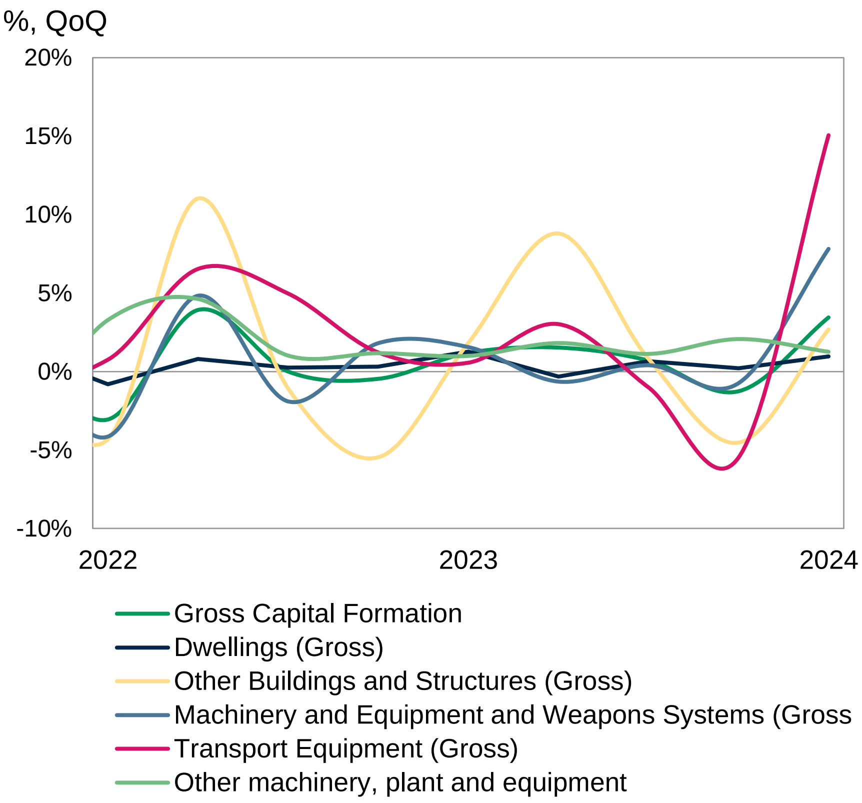
INVESTMENT COMES TO LIFE IN Q4 2024

VBA deflator and contributions



Source: INE, Crédit Agricole SA

Components of investment



Sources: INE, Crédit Agricole SA/ECO.

INTERNATIONAL TRADE

IMPORTS ACCELERATE AT THE END OF 2024

In Q4 2024, the contribution of net external demand to GDP growth was negative (-0.4 pp vs. -0.1 pp in Q3), mainly due to the increase in imports (1.3% quarter-on-quarter), of both goods (+0.8%) and services (+3.6%). In addition, **exports slowed** (from 0.4% in Q3 2024 to 0.1% in Q4), **as a result of the fall in exports of goods** (-1.1%), **which more than offset the growth in exports of services** (+2.3%).

Moving towards a zero contribution from foreign growth in 2025

The contribution made by foreign trade to GDP growth since 2022 has been remarkable. A significant proportion of this positive contribution was linked to the considerable dynamism shown by the numbers of international tourists travelling to Spain, which were surprisingly high and showed increasing geographical and seasonal diversification. Over the forecast horizon, these flows are expected to continue to remain at high levels. However, in terms of growth rates, its contribution to GDP will gradually fall. Indeed, it is possible that, as things currently stand, structural changes have occurred that will allow the high levels of activity to continue: migratory flows have allowed more tourists to visit and the sector has been one of the few to enjoy increased levels of investment, providing greater capacity and resulting in an improvement in the quality of existing facilities. However, the congestion problems that are beginning to arise, the negative perception of the impact of tourism on the cost of living, the possibility of lower flows of migrants in the coming years and a less favourable regulatory environment will dampen growth prospects.

As a result, based on our forecasts, net external demand will contribute almost zero to GDP growth in 2025 (-0.1 pp of GDP).

The impact of higher US tariffs

Spanish exports to the US reached €18.1 billion, or about 1.1% of GDP. However, the dependence on this market is actually higher, given the involvement of Spanish companies in other countries' supply chains, particularly those of European countries. **A 20% tariff could result in a 20% fall in Spanish exports to the US, assuming that the tax is fully passed on in prices and that the elasticity of demand is unitary, based on the experience of Chinese exports during the first phase of the tariff confrontation during Trump's first term. This direct fall would reduce GDP by 0.22 points.**

In addition, the expected slowdown in the European economy caused by tariffs will have side effects, particularly in the sectors that supply parts to the automotive industry. **It is estimated that around €9 billion of Spanish exports are incorporated into exports made by other European countries to the United States. Following the same reasoning, a 20% tariff could cause GDP to fall a further 0.08 points. The total impact would therefore be 0.3 points of GDP.** However, some sectors could be much more significantly affected, especially those for which the US is a strategic market. This is the case for more than 10% of Spanish exports, particularly exports of engines, oils and fats, ships, wine and certain chemicals, which are exported to this market.

INTERNATIONAL TRADE

US RATES

Government response

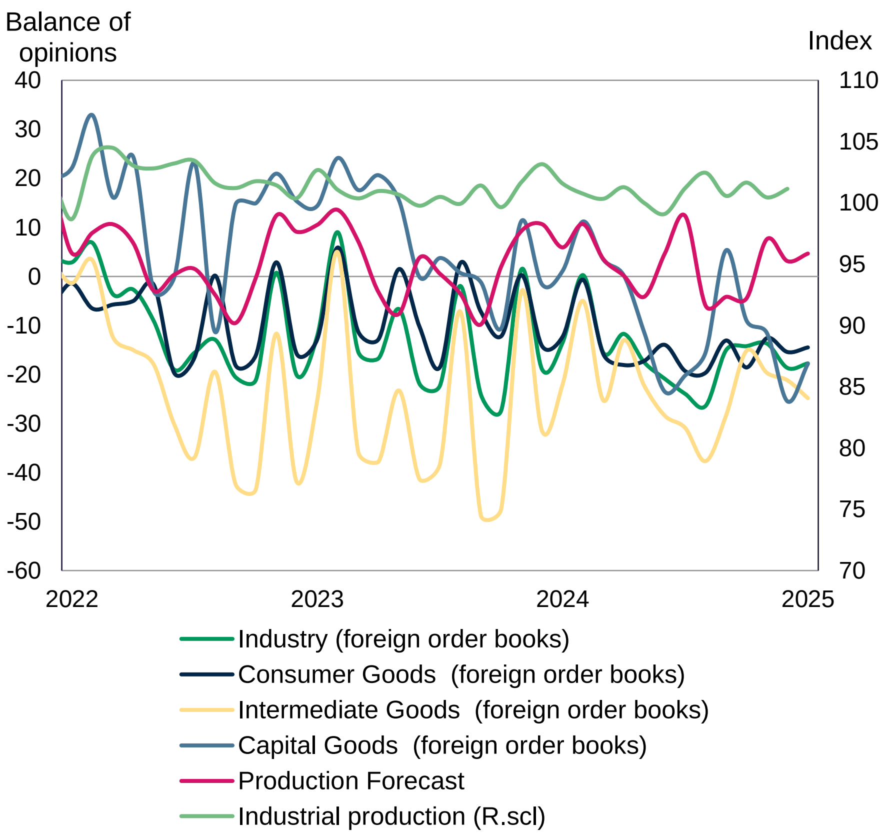
The Spanish government presented a €14.1 billion Response and Commercial Relaunch Plan in response to the new tariffs imposed by the United States. This plan includes €7.4 billion in new public financing, in addition to €6.7 billion via existing instruments. Key measures include ICO credit facilities for €6 billion, a €200 million industrial investment fund and the relaunch of the MOVES Plan with €400 million to support the automotive industry. €5 billion will also be allocated to the conversion of productive capacity and €2.5 billion to internationalisation and to cover export risks.

The plan also provides for an extension, until 31 December 2026, of the accounting moratorium introduced during the COVID-19 pandemic, aimed at avoiding defaults by companies that suffer losses as a result of the trade war. The government will provide €5 billion in guarantees by mid-2026 and strengthen tools such as the Corporate Internalisation Fund and export insurance. The State's maximum cover will increase from €9 billion to €15 billion. These measures are aimed at providing a safety net for companies affected by the increased tariffs and at encouraging them to adapt to the new economic environment.

INTERNATIONAL TRADE

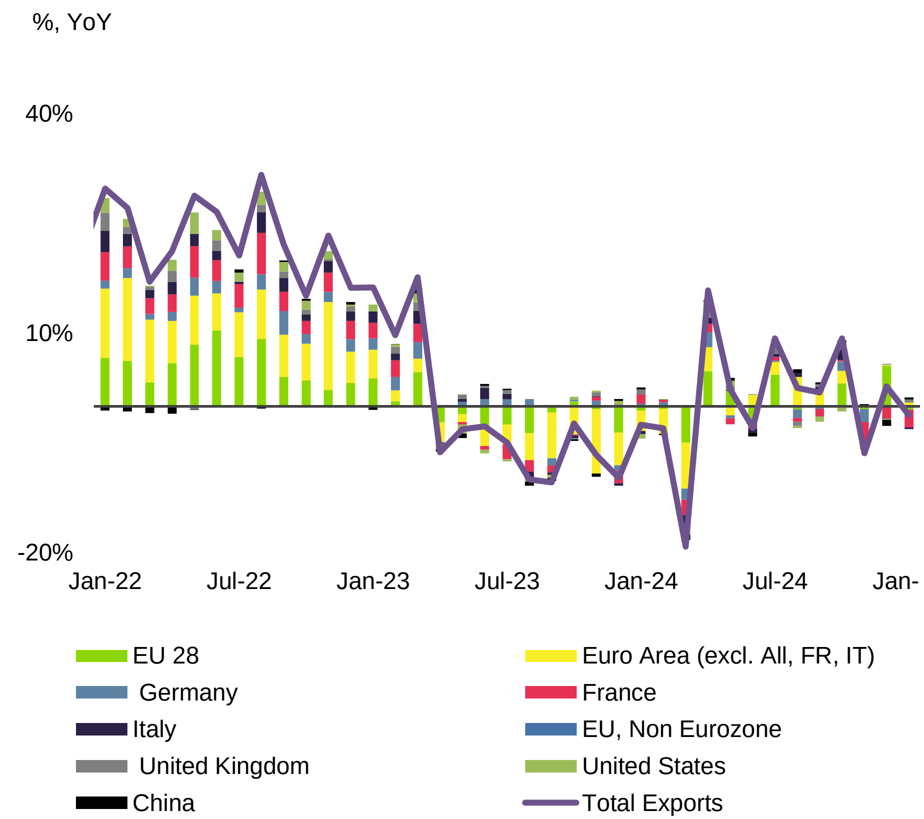
IMPORTS ACCELERATED AT THE END OF 2024

Export order books



Sources: Business sentiment survey, Ministry of Industry and Commerce, Crédit Agricole SA/ECO

Exports by destination



Sources: Bank of Spain, Crédit Agricole SA/ECO

PUBLIC FINANCES

THE PUBLIC DEFICIT FELL IN 2024

Spain's public deficit reached €50.1 billion (3.15% of GDP) in 2024. Compared with 2023, this represents a fall in GDP of 0.4 percentage points (pp). Spending on the DANA disaster (following the damage caused to the Valencia area) amounted to 0.35 pp of GDP. Excluding these exceptional expenses, which are not included in the calculations carried out for the purposes of the budgetary rules, **the public deficit was 2.8% of GDP,** i.e. two tenths of a percentage point **below the target set by the government and the European Commission.** The deficit was reduced from its 2023 level thanks to strong growth, of 7.1%, in public revenues (42.3% of GDP in 2024 vs. 41.9% in 2023). However, public spending increased by 5.3% excluding taxes, mainly due to higher spending on pensions and civil servants' salaries, and represented 45.4% of GDP in 2024 (stable compared to 2023).

General government spending increased by €41.9 billion in 2024, driven by the increase in social transfer spending (+6.8% year-on-year, largely due to spending on pensions) and by employee's salaries (+5.5% year-on-year). In 2024, the amount of the package of measures launched in 2022 and aimed at mitigating the impact of energy price increases on families and businesses was partially reversed. These measures represented around 0.4% of GDP in 2024, on top of tax cuts on electricity and certain food items, compared to 1.6% in 2022 and 0.9% in 2023. Interest expense rose slightly, from 2.38% GDP in 2023 to 2.45% in 2024. Despite tighter financial conditions, the average cost of debt increased moderately as a result of debts issued a number of years ago maturing at rates above current rates and the Treasury's decision to issue longer-maturity bonds to lock in the low financing costs seen in recent years.

As for revenues, they increased by €44.4 billion from 2023, mainly due to the increase in tax receipts stemming from the dynamism of economic activity and from inflation levels, which remain relatively high. Direct taxes increased by 8.5% year-on-year, driven by the strength of the labour market and rising wages and pensions, while indirect taxes increased by 7.0% year-on-year, helped by VAT reductions on electricity and certain food products that were not in force in 2023. It should also be noted that social security contributions increased by 6.7% year-on-year, reflecting the dynamism of the labour market in 2024.

Moving towards a deficit below 3% in 2025

We estimate that our 2025 forecast for the deficit of 2.9% is fairly balanced, given that funds linked to the Covid-19 pandemic will still being spent this year and that defence spending is likely to increase. We estimate, therefore, that the dynamism in activity and household income will cause tax revenues to rise. Spending is expected to grow at a moderate rate, less than revenues, thanks to the lower level of inflation and the exhaustion of measures introduced to cope with rising energy prices (with the exception of transport-related cuts in the first half of 2025). We therefore expect that the sustained growth in the Spanish economy will allow the public deficit to remain below the 3% threshold in 2025.

DYNAMIC GROWTH IN AN UNCERTAIN ENVIRONMENT

No recession

Disinflation to continue

Maintaining activity and employment levels

Increase in the purchasing power of wages

Easing of financing conditions

Recession

Escalation of geopolitical conflicts

Weak growth, lower revenues and profits

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	3,2	2,5	2,0	0,7	0,2	0,7	0,7	1,0	0,8	0,8	0,8	0,5	0,6	0,6	0,4	0,4	0,5	0,5	0,5
Domestic demand (contribution to GDP, pps)	2,4	3,0	2,6	1,9	1,6	0,8	0,7	0,4	0,7	0,8	0,9	1,2	0,4	0,4	0,5	0,4	0,5	0,5	0,5	0,4
Private consumption (y/y, q/q, %)	1,8	2,9	2,7	2,0	1,2	0,8	0,8	0,2	0,4	1,1	1,2	0,9	0,4	0,5	0,5	0,4	0,5	0,6	0,6	0,4
Public consumption (y/y, q/q, %)	5,2	4,9	2,2	1,1	1,1	1,8	1,5	0,6	1,4	0,5	2,5	0,4	0,2	0,2	0,2	0,2	0,3	0,3	0,3	0,3
Investment (y/y, q/q, %)	2,1	2,3	3,6	2,8	3,9	0,0	-0,5	1,2	1,1	0,5	-1,4	3,4	0,6	0,6	0,8	0,6	0,8	0,8	0,6	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	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	0,9	0,4	-0,1	0,1	-0,3	-0,3	-0,1	0,2	0,5	0,0	-0,2	-0,4	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,1
Exports (y/y, q/q, %)	2,8	2,9	2,3	2,5	1,0	-0,4	-1,5	1,6	2,0	0,5	0,4	0,1	0,8	0,7	0,8	0,8	0,5	0,5	0,5	0,8
Imports (y/y, q/q, %)	0,3	2,0	2,9	2,5	2,3	0,4	-1,4	1,1	0,7	0,4	0,9	1,3	0,5	0,4	0,5	0,8	0,7	0,6	0,5	0,5
Inflation (y/y, %)	3,4	2,9	2,5	1,7	5,0	2,8	2,6	3,3	3,2	3,6	2,3	2,4	2,7	2,7	2,5	2,0	2,0	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	11,4	10,9	10,3	12,9	12,0	12,0	11,9	11,8	11,6	11,3	10,7	11,2	11,0	11,0	10,3	10,7	10,5	10,3	9,6
Current account balance (% of GDP)	2,7	3,1	0,9	1,5	2,8	2,4	3,1	2,3	3,1	3,3	3,9	2,0	-0,2	0,9	1,4	1,6	1,6	1,5	1,5	1,5
Fiscal balance (% of GDP)	-3,5	-3,1	-2,9	-2,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	105,1	102,7	102,3	103,2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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