

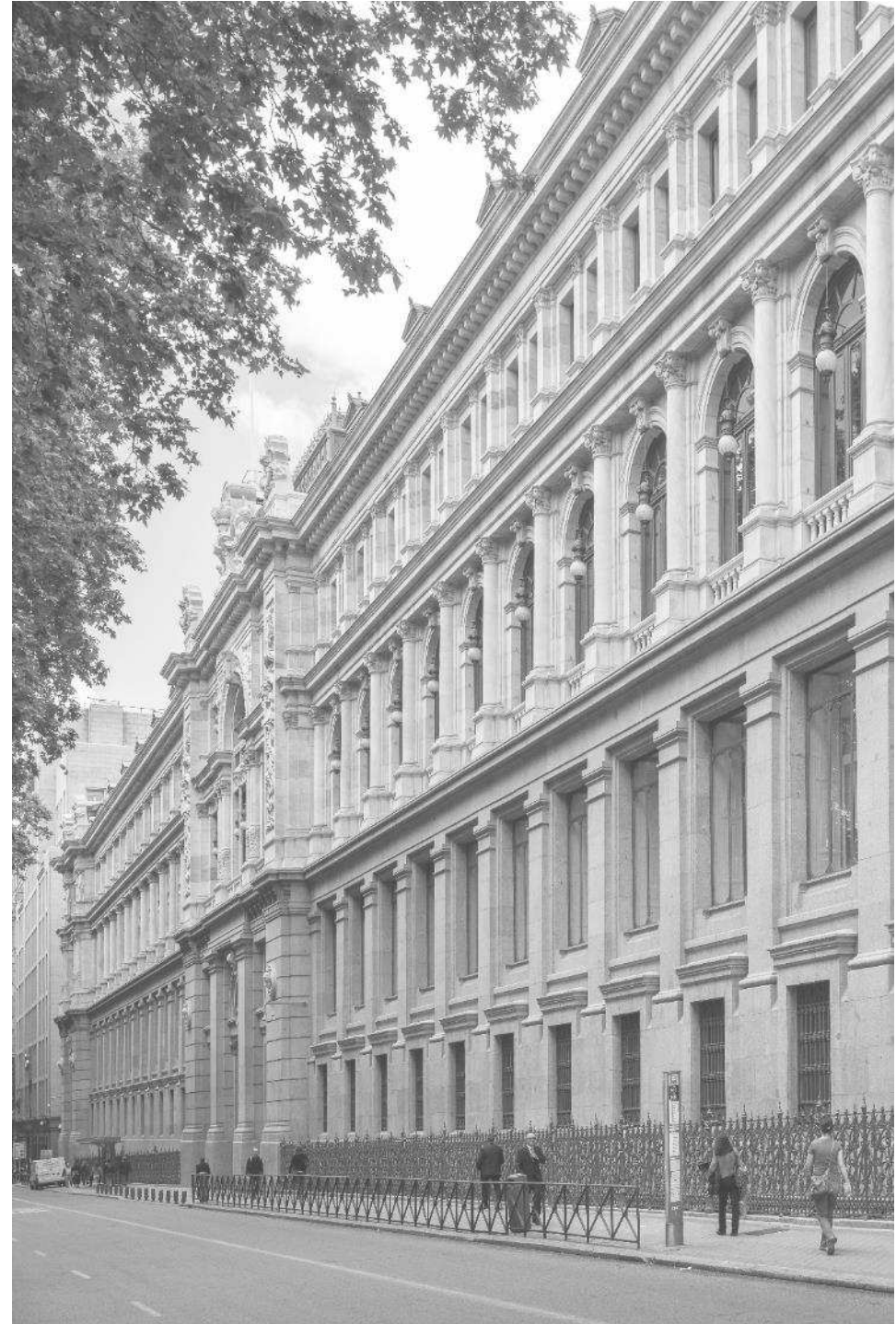
MACROECONOMIC PROJECTIONS FOR SPAIN (2024-2027)

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Madrid

17 December 2024



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1. Global environment
2. Recent developments in the Spanish economy
3. Macroeconomic projections (2024-2027)
4. Focal points
 - 4.1. Saving rate and propensity to consume
 - 4.2. Possible economic impact of new trade tariffs in the United States

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4.2. Possible economic impact of new trade tariffs in the United States

Activity

- The world economy grew at a similar pace in 2024 Q3 to previous quarters, against a backdrop in which activity remained highly heterogeneous across sectors and geographical areas

Inflation

- The disinflation process has taken hold at global level, although inflationary pressures in services continue to show some downward stickiness

Energy

- Oil prices are lower than expected three months ago, partly as a result of weak demand from China
- By contrast, natural gas prices have ticked up recently because of some supply-side disruptions

Monetary policy

- Monetary policy continues to ease in most of the world's economies
- Compared with market expectations three months ago, monetary policy is now expected to ease more quickly in the euro area and more slowly in the United States

Financial markets

- In the United States, risky assets have recently performed better than in other geographical areas, the dollar has appreciated against the world's main currencies and inflation expectations have risen
- Yields on long-term sovereign debt in the world's main economies have risen. In Europe, the sovereign spread against the German Bund has narrowed in Spain and Italy, but widened in France

Euro area

- Economic activity continues to show signs of weakness, while inflation is slowing at a slightly faster pace than expected a few months ago
- The baseline scenario of the Eurosystem's December projections continues to envisage a gradual recovery in activity and a progressive deceleration in inflationary pressures, although GDP growth and headline inflation rates are revised down slightly compared with the September projections

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RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

ACTIVITY

2024 Q3 quarterly national accounts (QNA)

- According to the [QNA flash estimate](#), GDP grew by 0.8% in Q3, the same rate as in Q2 and 0.2 pp more than projected by the Banco de España in September
- Growth in Q3 was underpinned by private and government consumption. By contrast, gross capital formation and net exports made a slightly negative contribution to GDP growth
- [Recent activity growth in Spain](#) continues to be much faster than in the euro area, although there is considerable heterogeneity across the region's main economies

Employment

- The pace of [job creation](#) in Q4 is expected to hold at similar levels to Q3

Confidence indicators

- On information to November, the [Purchasing Managers' Indices](#) (PMIs) remain in clearly expansionary territory, unlike in the euro area

Banco de España Business Activity Survey (EBAE)

- The [results of the EBAE](#) suggest that Spanish firms' turnover has increased in Q4

Financing conditions

- [Financing to the private sector](#) has continued to rise in recent months, while interest rate cuts are starting to lower the average cost of outstanding loans

An overall analysis of the available indicators points to GDP continuing to grow at a strong pace in 2024 Q4 (0.6%-0.7% quarter-on-quarter), despite the adverse impact of the flash floods on activity^(*)

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

PRICES

- In November the headline inflation rate rose from 1.8% to 2.4% (the same rate as in August). This increase was mainly due to temporary base effects on energy prices, which had been expected
- In any event, the headline inflation rate has surprised on the downside in recent months, essentially as a result of a sharper than expected deceleration in food prices (from 2.7% in August to 2.0% in November)
(Note that in recent months food prices have been affected by the increase, on 1 October, in the VAT rate applicable to some food products)
- Meanwhile, core inflation continued on its downward path, decelerating from 2.8% in August to 2.5% in November, in line with expectations
- However, these core inflation developments conceal a sharper than expected deceleration in non-energy industrial goods (NEIG) inflation (of 0.4 pp, to 0.2%) and a smaller than expected easing in services prices (of 0.2 pp, to 3.5%)
- In line with developments in the euro area, noteworthy in services inflation are the high rates of inflation in hospitality and tourism, whose deceleration has also moderated recently
- Compensation per employee continues to record strong growth, although unit labour costs (ULCs) slowed in 2024 Q3 thanks to growth in productivity
- Domestic price pressures - proxied by the gross value added deflator – have remained stable in recent quarters, insofar as profit margins have offset the deceleration in ULCs

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MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2027)

SUMMARY TABLE

				DECEMBER 2024 PROJECTIONS (a)				DIFFERENCE WITH RESPECT TO THE SEPTEMBER PROJECTIONS		
Annual rate of change (%), unless otherwise indicated	2021	2022	2023	2024	2025	2026	2027	2024	2025	2026
GDP	6.7	6.2	2.7	3.1	2.5	1.9	1.7	0.3	0.3	0.0
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	2.9	2.1	1.7	2.4	0.0	0.0	-0.1
HICP excl. energy and food	0.6	3.8	4.1	2.9	2.3	1.9	1.8	0.1	0.1	0.0
Unemployment rate (% of labour force). Annual average	14.9	13.0	12.2	11.5	10.8	10.4	9.9	0.0	-0.2	-0.3
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.6	-3.5	-3.4	-2.9	-2.7	-2.7	-0.1	0.2	0.5
General government debt (% of GDP)	115.7	109.5	105.1	103.1	102.6	102.5	101.8	-2.3	-2.8	-3.8

Sources: Banco de España and INE. Latest QNA figure: 2024 Q3 flash estimate.

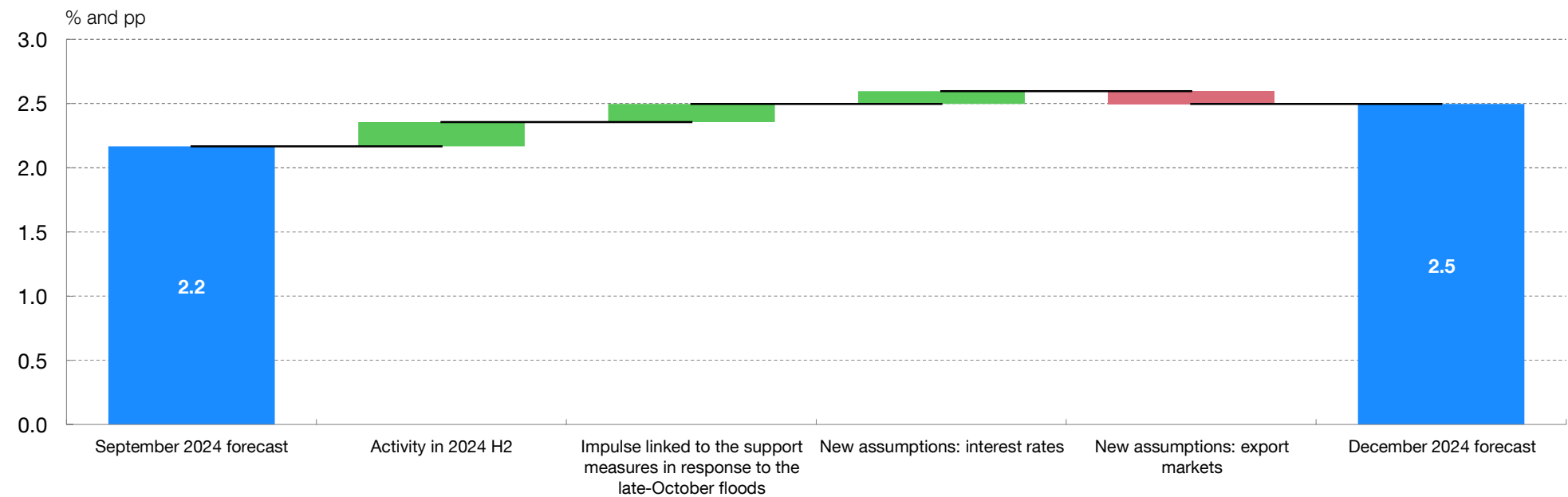
(a) Projections cut-off date: 27 November 2024.



COMPARED WITH THE SEPTEMBER EXERCISE, THE DECEMBER PROJECTIONS REVISE UP THE GDP GROWTH RATES FOR 2024 AND 2025

- The 0.3 pp upward revision to the **output growth rate for 2024** is due to (i) the positive carry-over effect stemming from the new QNA data and (ii) activity's stronger than expected momentum in 2024 H2
- The **GDP growth rate projected for 2025** is also revised up by 0.3 pp as a result of (i) the positive carry-over effect associated with stronger than expected activity in 2024 H2 and (ii) the higher GDP growth now projected for 2025 H1 (largely due to the fiscal impulse associated with the different support measures rolled out in response to the flash floods)
- Changes in the technical assumptions compared to September: among others, lower interest rates, a more depreciated euro and lower oil prices (in US dollars) are now envisaged

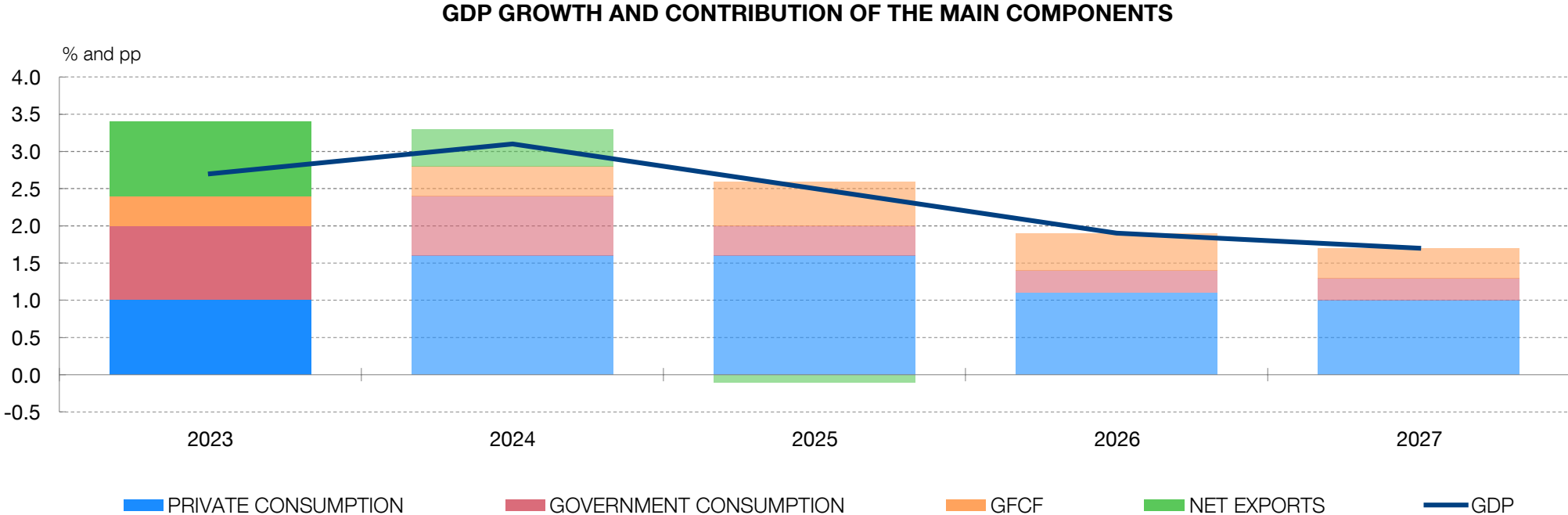
CHANGES IN THE GDP GROWTH FORECAST FOR 2025



Source: Banco de España.

BUOYANT DOMESTIC DEMAND WILL UNDERPIN GDP GROWTH IN THE COMING YEARS

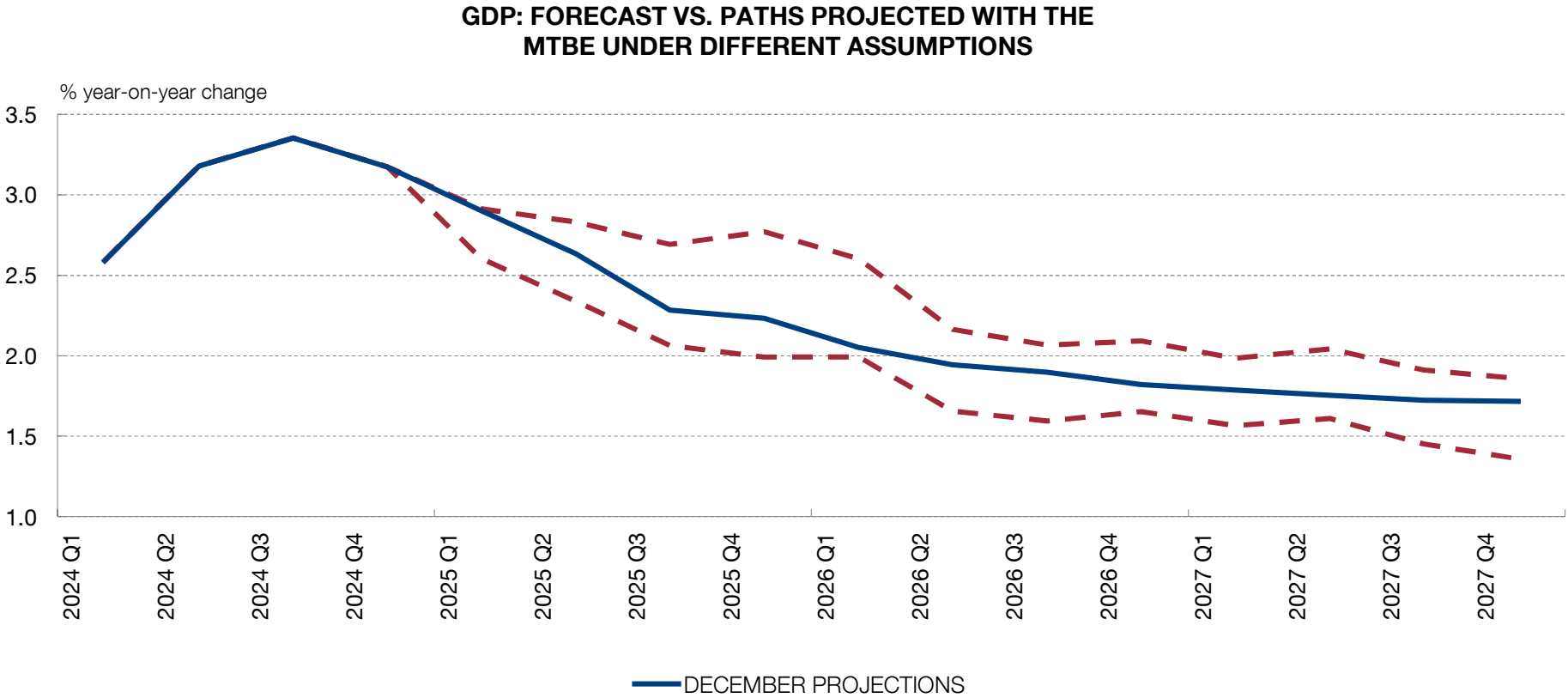
- **Private consumption** will be the component that makes the largest contribution to activity growth over the projection horizon, as a result of the favorable developments expected in disposable income, employment and household confidence and the forecast population growth
- **Gross capital formation**, which is the demand component recovering its pre-pandemic levels the slowest, will make a bigger contribution to GDP growth in the coming quarters, stemming from a greater deployment of NextGenerationEU (NGEU) funds and improved financing conditions
- By contrast, the contribution of **government consumption** (which has been notably strong in 2023 and 2024) to activity growth is expected to moderate in the coming years and that of **net exports** to GDP growth (which has gradually decreased in recent quarters) is expected to be virtually zero in 2025-2027



Sources: INE and Banco de España.

THE PROJECTED PATH OF GROWTH IS CONSISTENT WITH A GRADUAL SLOWDOWN IN ACTIVITY GROWTH RATES ...

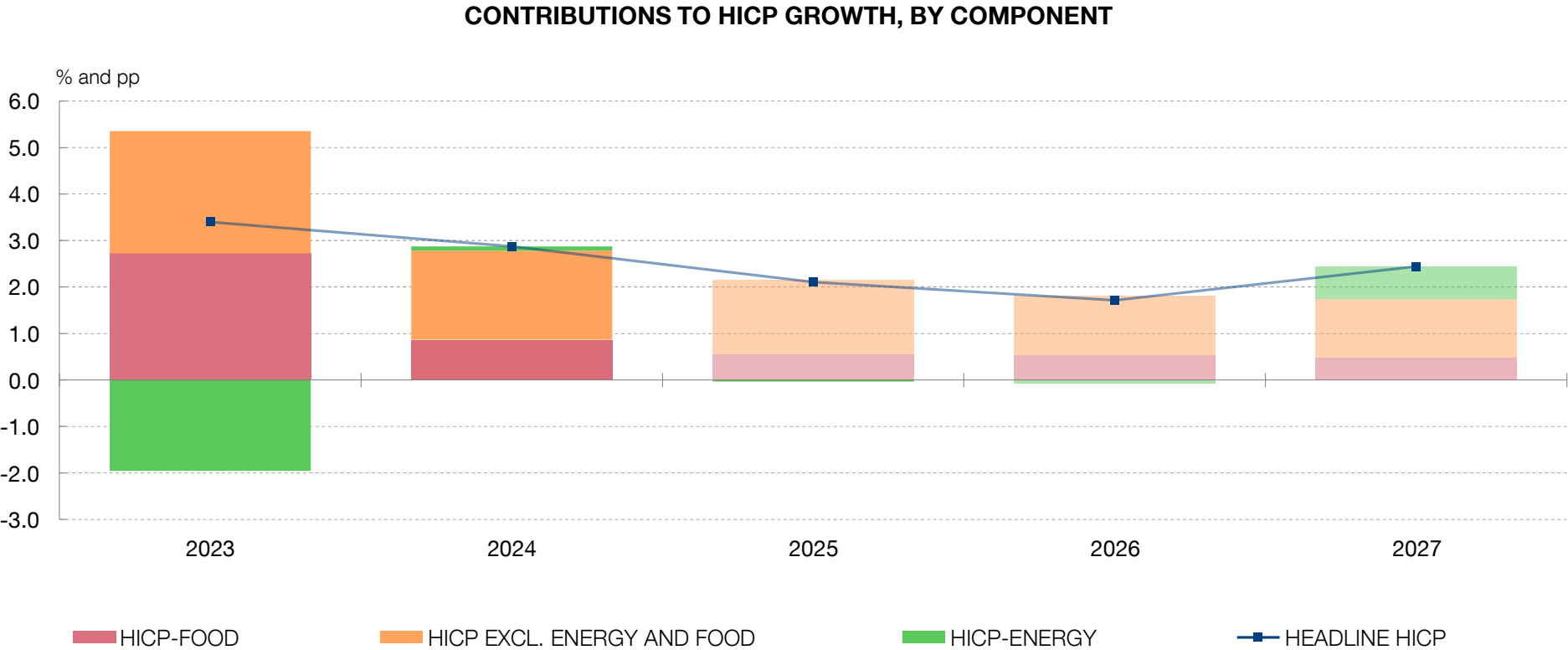
- ... towards values more consistent with the potential growth capacity of the Spanish economy, which is expected to stand at just under 2% at the end of the projection horizon
- The projected path of GDP over the coming years lies broadly in the middle of the range of the paths projected by the Quarterly Macroeconometric Model of the Banco de España (MTBE) under different assumptions about, for example, the impact of the NGEU programme on investment and the temporary/structural nature of the latest developments in exports (strong momentum in services exports) and imports (lower elasticity to domestic demand)



Source: [MTBE](#).

IN THE COMING MONTHS, INFLATION IS EXPECTED TO HOLD RELATIVELY STABLE AND START ON A DOWNWARD PATH TOWARDS RATES CLOSE TO 2% FROM MARCH 2025

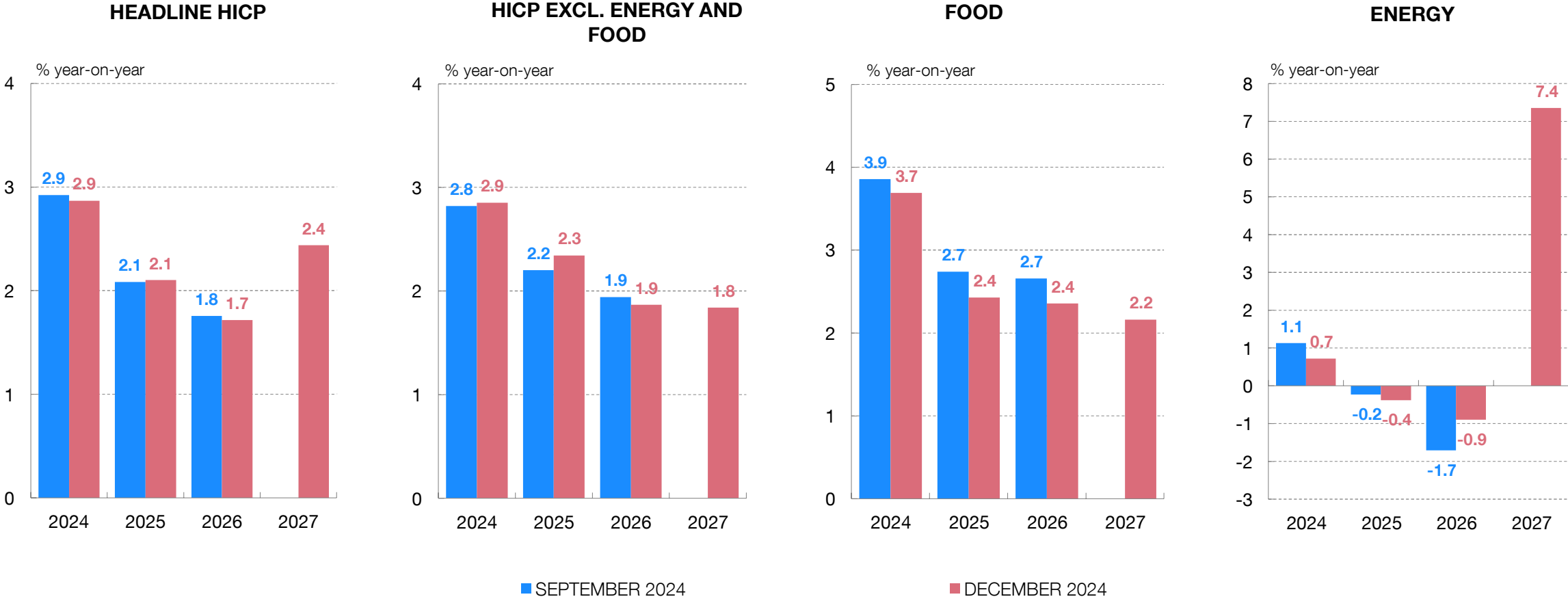
- The deceleration projected for 2024-2026 reflects a gradual softening of **core inflation** and, especially in 2025, a **slowdown** in **food** inflation. All this, against a backdrop in which the **energy component** is expected to make zero or a slightly negative contribution to price growth in 2025-2026
- In 2027 the headline inflation rate will tick up again as a result of the expected launch of EU ETS2, the **European Union's new emissions trading system**. However, this is surrounded by an extraordinary level of uncertainty



Sources: INE and Banco de España.

COMPARED WITH THE SEPTEMBER EXERCISE, THE PROJECTED PATH OF HEADLINE INFLATION IS VIRTUALLY UNCHANGED, BUT THE CONTRIBUTION OF ITS MAIN COMPONENTS HAS BEEN REVISED

- On the one hand, **food and energy inflation for 2024-2026 are revised down**, given the downside surprises recently observed in these components and the new assumptions, which envisage future energy prices being somewhat lower than expected in September
- On the other, **core inflation is revised up**, given the upside surprises recorded in recent months in services inflation and the greater activity growth included in the December projections

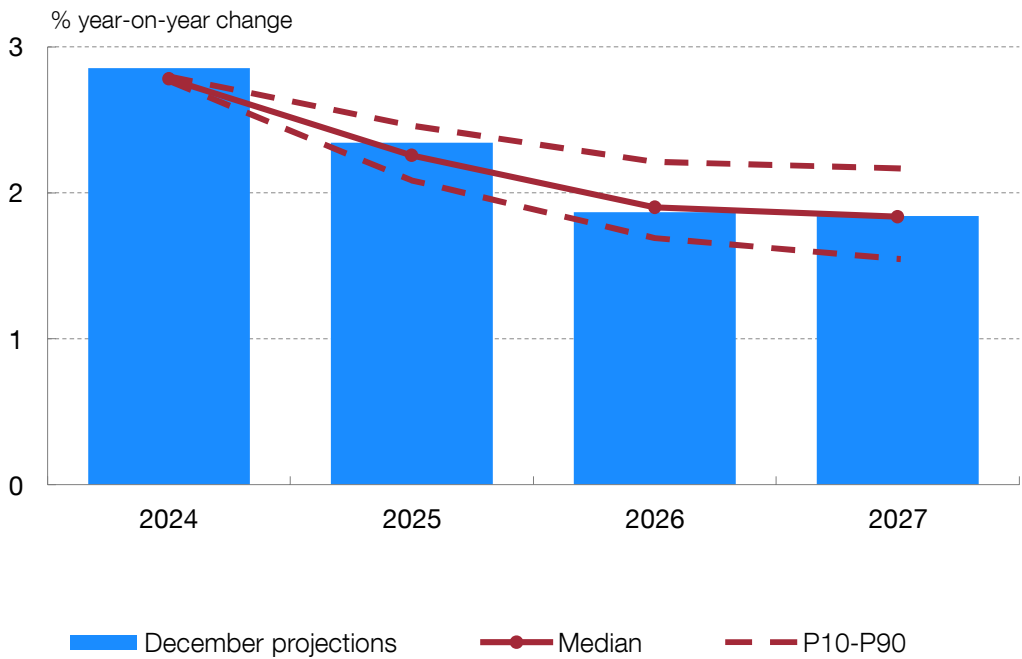


Source: Banco de España.

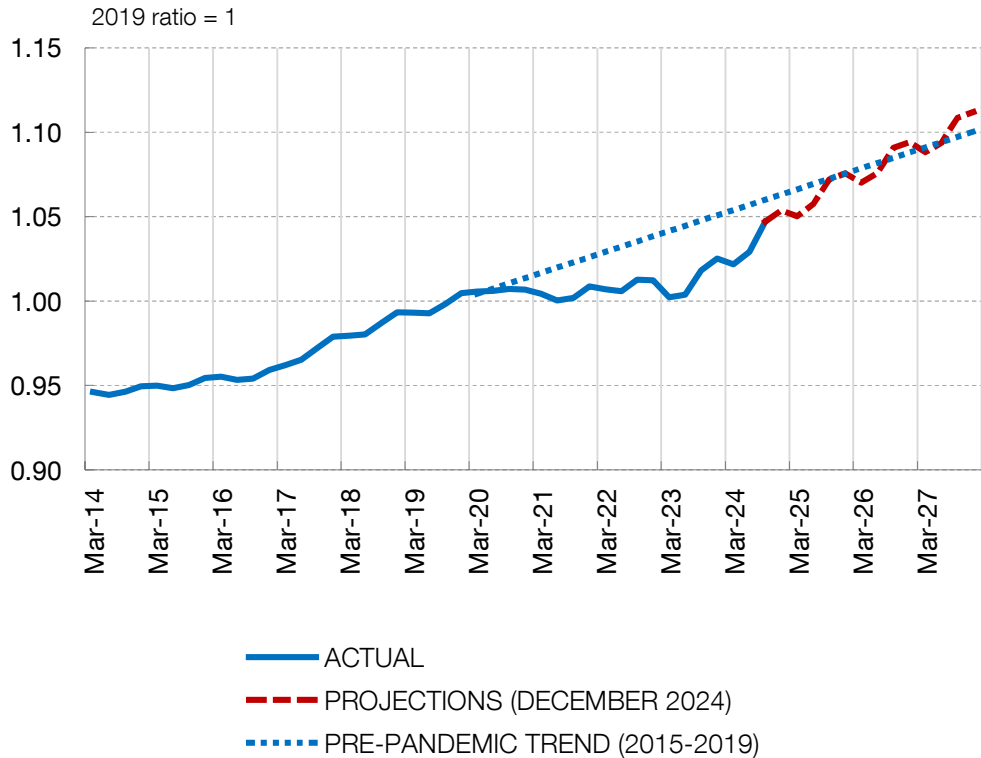
THE PROJECTED PATH OF CORE INFLATION FOR 2024-2027 IS CONSISTENT WITH THAT SUGGESTED BY A BROAD SET OF PHILLIPS CURVE MODELS ...

- ... and also envisages that services prices relative to NEIG prices will return to their pre-pandemic path

CORE INFLATION: FORECAST VS. PATHS PROJECTED BY PHILLIPS CURVE MODELS

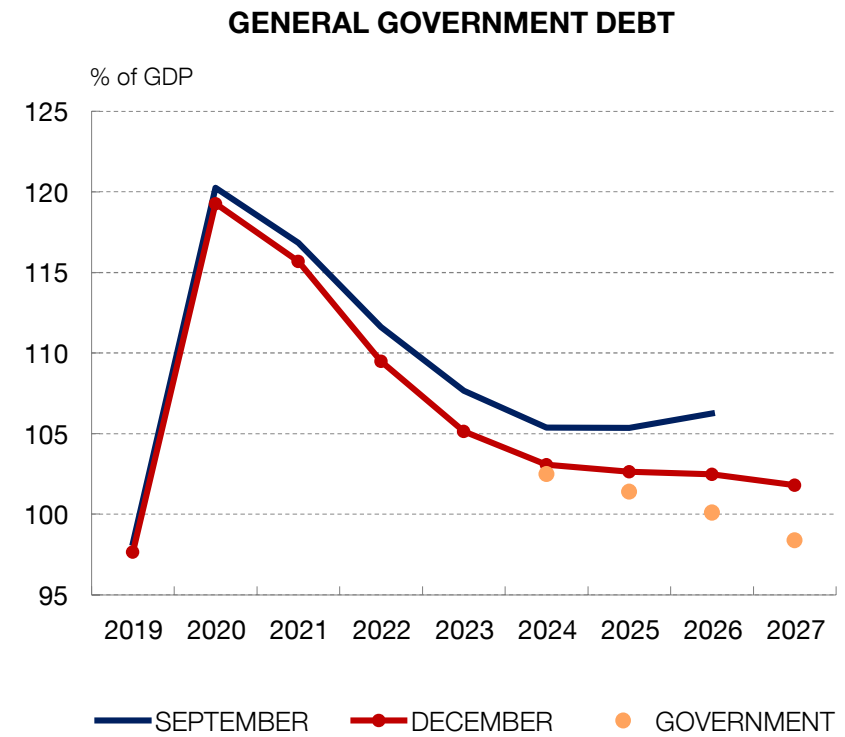
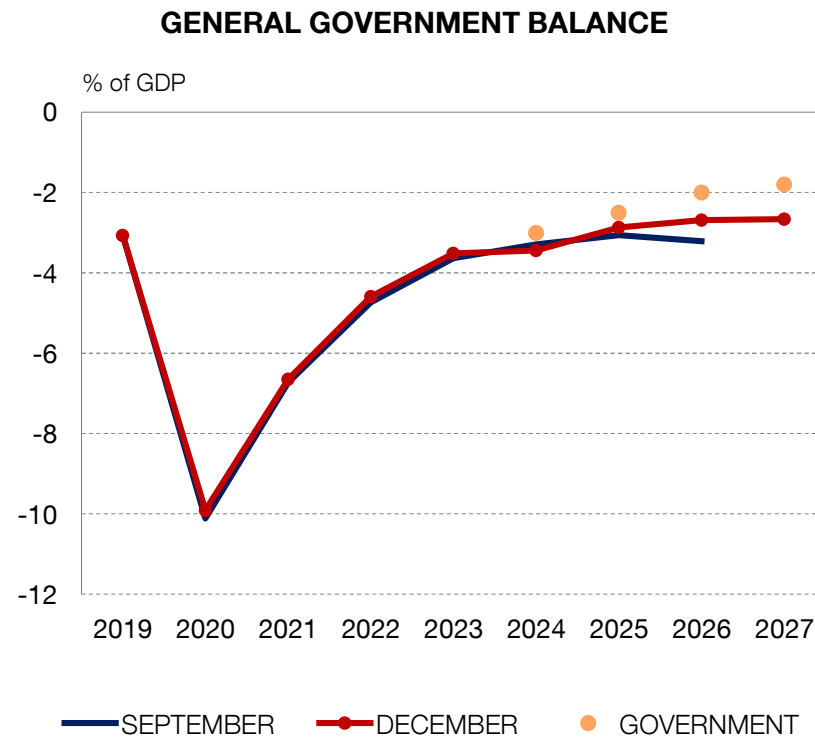


SPAIN: SERVICES PRICES RELATIVE TO NEIG PRICES (a)



Sources: INE and Banco de España.
(a) Ratio of HICP-Services to HICP-NEIG. Base year = 2019. Six-month moving average. The pre-pandemic trend is estimated with data from 2015 to 2019.

- Generally speaking, **the fiscal scenario improved against the September projections**, in line with (i) the stronger-than-envisaged growth in activity, (ii) the change in the composition of this growth and (iii) the **recent package of fiscal measures** (which remain shrouded in uncertainty)
- **Nevertheless, in the short term, the general government balance deteriorated relative to the September projections** owing to the range of support measures put in place in response to October's flash floods, which could entail an increase in spending of around 0.5% of GDP, spread across 2024 and 2025



BALANCE OF RISKS IN THIS PROJECTION EXERCISE

Main external sources of risk

Greater global trade fragmentation (Focal Point 4.2)
(which could be triggered in the coming months by a potential hike in import tariffs by the incoming US Administration)

An escalation of any of the ongoing geopolitical tensions
(e.g. the war in Ukraine and the conflicts in the Middle East)

A sharp correction in financial asset prices
(triggered, for example, by an abrupt shift in expectations for the future path of policy interest rates in the United States or the euro area, a deterioration in China's economic outlook or sundry geopolitical surprises)

Increased uncertainty about current and future economic policy in countries such as France and Germany

Main domestic sources of risk

The possible pace of disinflation over the projection horizon

Future developments in business investment and household consumption (Focal point 4.1)

Strict compliance with the medium-term fiscal-structural plan 2025-2028



The risks to the baseline scenario of these projections for the Spanish economy are tilted to the downside with regard to activity and slightly to the upside with regard to inflation

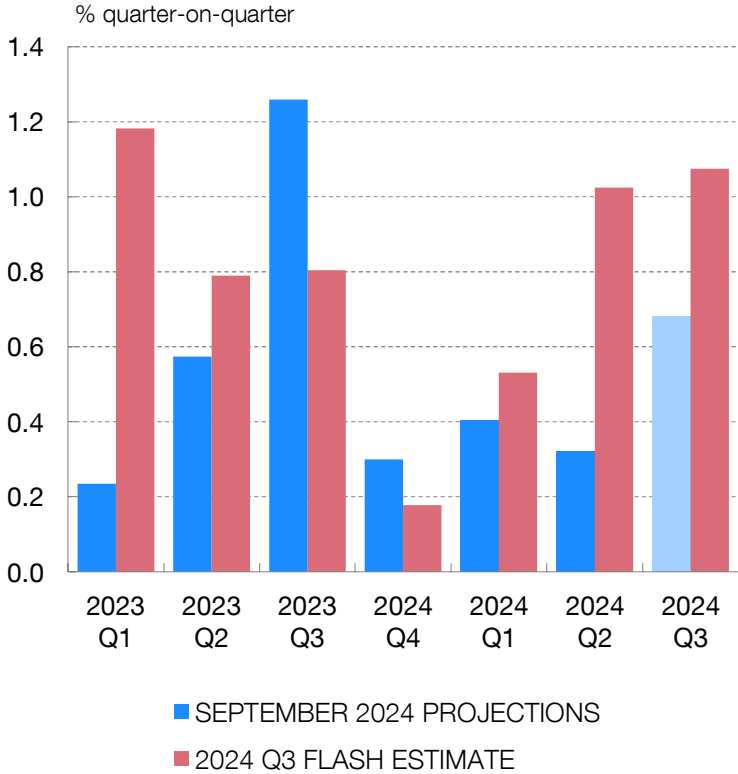
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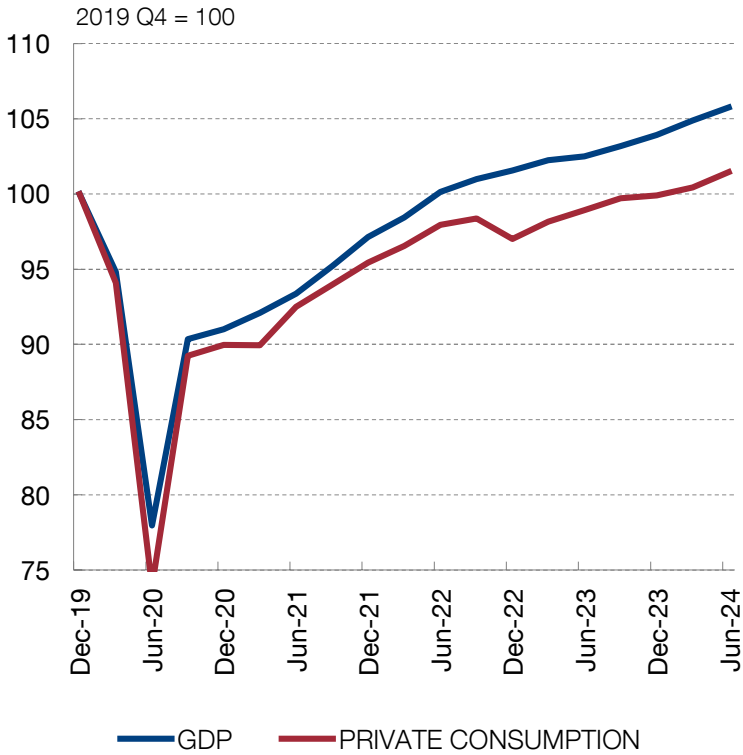
EVEN THOUGH THE MOST RECENT NATIONAL ACCOUNTS DATA REVISED UP PRIVATE CONSUMPTION ...

- ... (i) the **recovery in this demand component** lags significantly behind that of GDP,
- ... (ii) **average household consumption** remains below pre-pandemic levels, and
- ... (iii) the **saving rate** (which was recently revised upwards) remains above its level in 2019 and its historical average

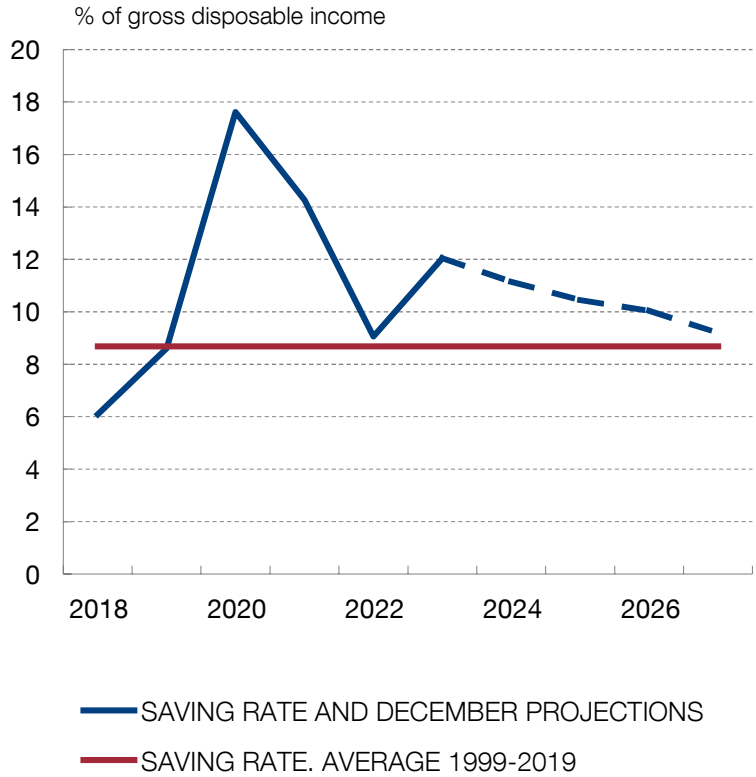
PRIVATE CONSUMPTION



PRIVATE CONSUMPTION AND GDP



SAVING RATE: RECENT DEVELOPMENTS AND PROJECTIONS



Source: INE. Latest data: 2024 Q3.

FACTORS POTENTIALLY UNDERLYING CHANGES IN THE AGGREGATE SAVING RATE

Changes in population make-up

- Different types of households (by income, age or nationality, for example) have different saving rates

Changes in the economy's cyclical position

- During downturns, households may wish to increase their saving rate (e.g. owing to a deterioration in the labour market) while the opposite would be seen in upturns

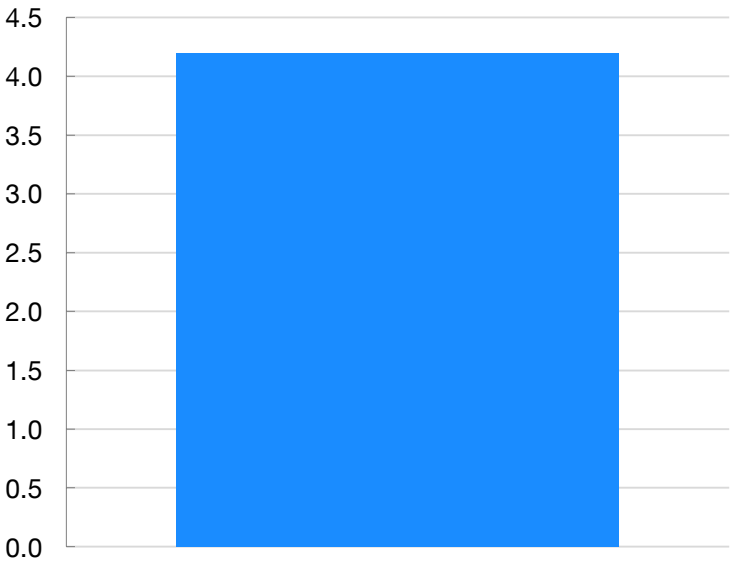
Changes in consumption patterns for reasons other than the economic cycle

- Households may change their saving rate for reasons, e.g. owing to changes in the desired level of net assets, liquidity conditions, their income or wealth or their consumption preferences

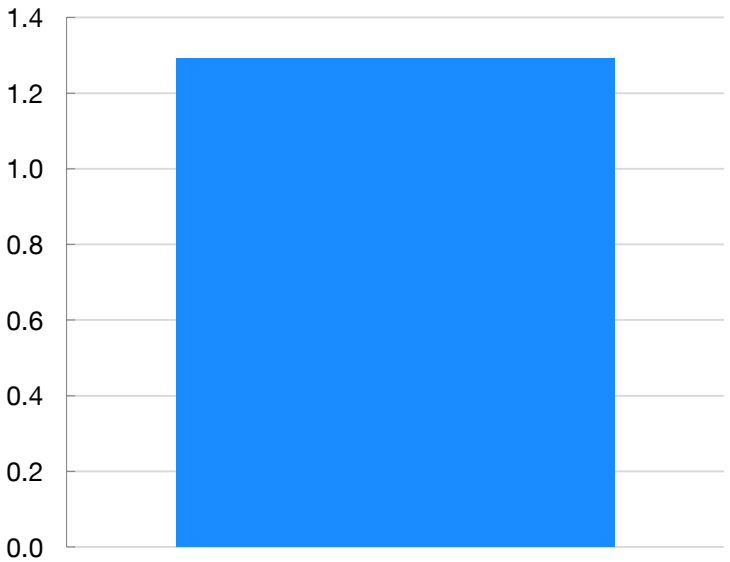
CHANGES IN THE POPULATION MAKE-UP AND CYCLICAL SITUATION

- The share of households with a foreign household reference person has risen in Spain by more than 4 pp since 2019. On average, these households save more than others (after controlling for the other main drivers of the saving rate)
- A negative relationship can be seen between the output gap and households' marginal propensity to save. In any case, in 2021-2023, the marginal propensity to save remained above what would be expected given the historical cyclical relationship between the output gap and saving

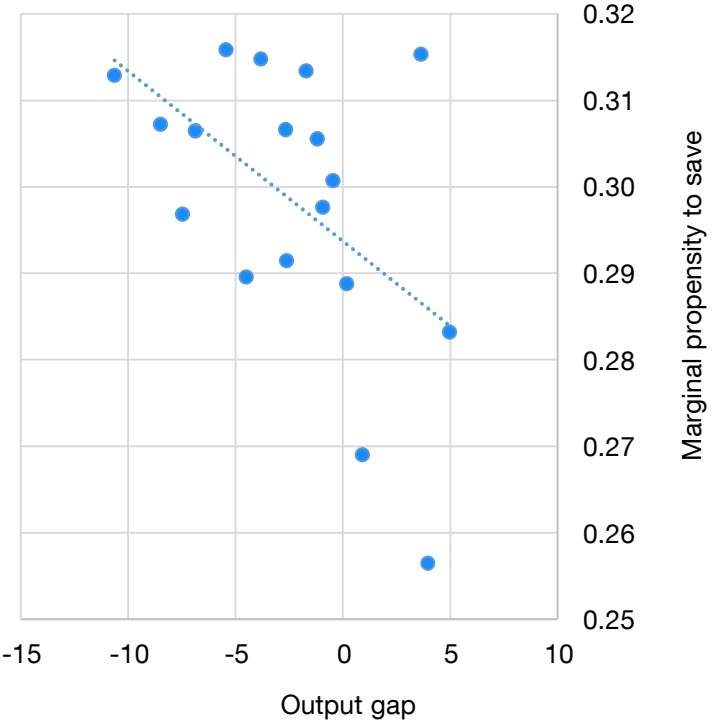
CHANGE BETWEEN 2019 Q4 AND 2024 Q3 IN THE SHARE OF HOUSEHOLDS WITH A FOREIGN HOUSEHOLD REFERENCE PERSON (IN PP)



DIFFERENCE BETWEEN THE SAVING RATE OF RESIDENT FOREIGN NATIONALS/DUAL NATIONALS AND SOLELY SPANISH NATIONALS (IN PP)



RELATIONSHIP BETWEEN THE OUTPUT GAP AND THE MARGINAL PROPENSITY TO SAVE

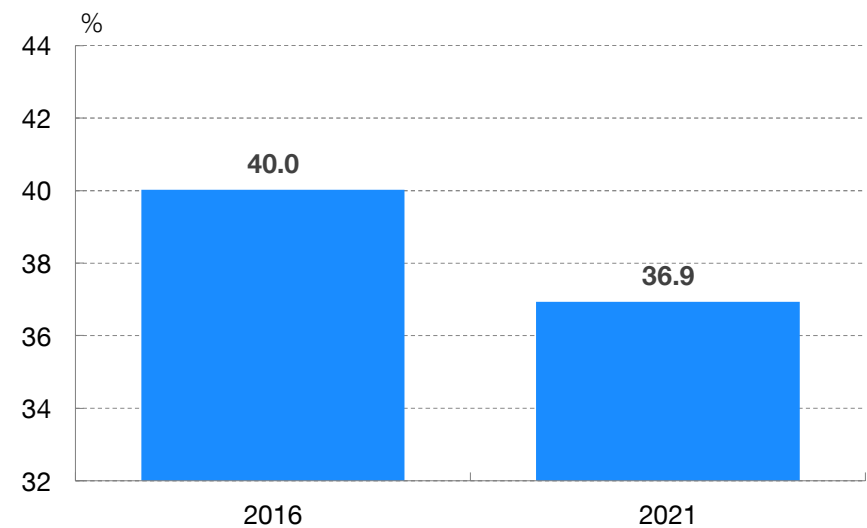


Sources: INE and Banco de España.

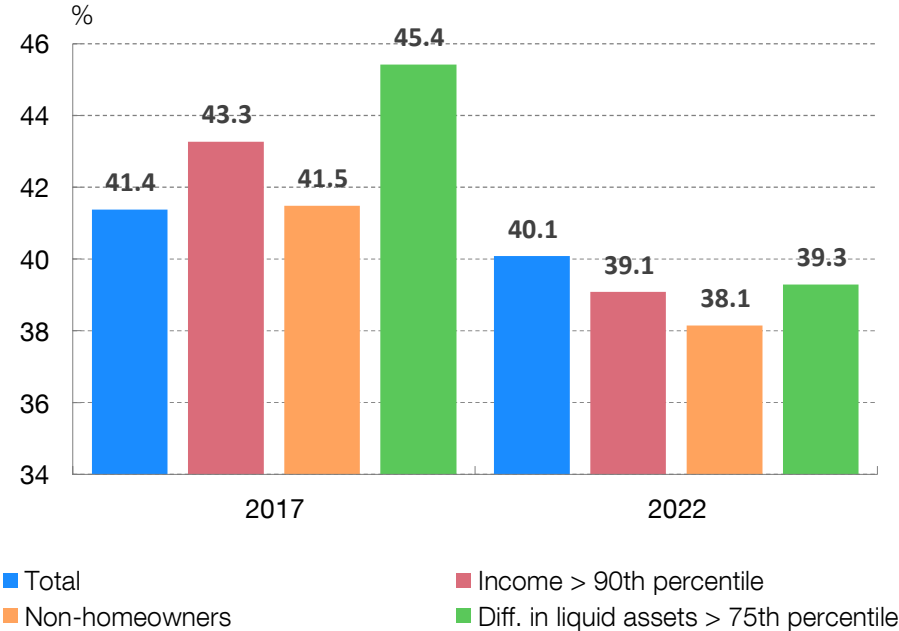
CHANGES IN HOUSEHOLD CONSUMPTION PATTERNS

- The Survey of Financial Literacy (ECF, by its Spanish abbreviation) and the Spanish Survey of Household Finances (EFF, by its Spanish abbreviation) can be used to calculate the **marginal propensity to consume (MPC)**
- The following question is used to determine the MPC: What percentage of a lottery win equal to one month's income would you spend over the next 12 months?
- Both the ECF and EFF show a **drop in MPCs in recent years**. According to the EFF, this decline was particularly sharp among **higher-income households, renting households** and **households whose liquid assets have risen most**
- It is estimated that the **aggregate saving rate increased by nearly 2 pp between 2017 and 2022** owing to these changes in MPCs

AVERAGE MPC ACCORDING TO THE ECF



AVERAGE MPC ACCORDING TO THE EFF



Sources: ECF and EFF, carried out by the Banco de España.

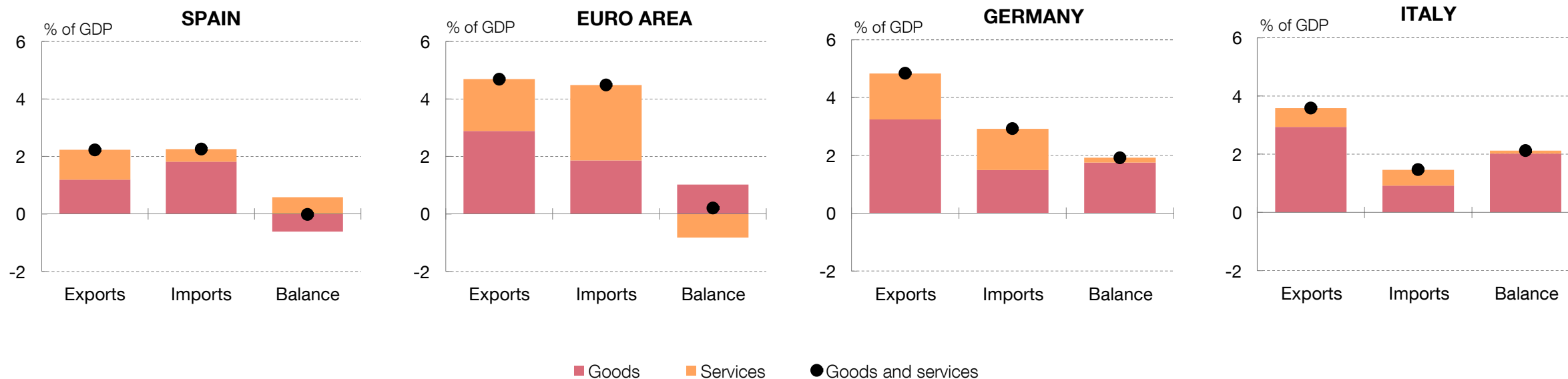
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AMONG OTHER MEASURES, THE INCOMING US ADMINISTRATION MAY CONSIDER A SIGNIFICANT HIKE IN IMPORT TARIFFS IN THE COMING MONTHS

- Until more details are known about these policies (and before they are finally approved), it is difficult to assess their **macroeconomic implications**, both for the **United States and globally**
- These impacts will depend on, among other uncertain factors, potential **retaliatory measures** by the countries affected, possible **trade diversion effects** and any future deterioration in **agents' confidence**
- The Banco de España has **three global macroeconomic models** (that differ in, among other things, their sectoral disaggregation and monetary policy responses) that can be used to simulate a range of tariff policies
- These simulations suggest that **a hypothetical broad-based tariff increase would likely dampen global economic activity and drive up inflation**
- **These adverse impacts would be felt less in Spain** than in the euro area, since Spain's direct trade exposure to the United States is below the euro area average and less than that of Germany and Italy, for example

TRADE BALANCE WITH THE UNITED STATES IN 2023

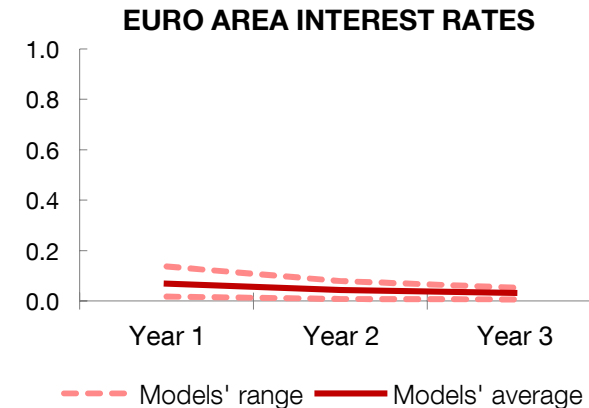
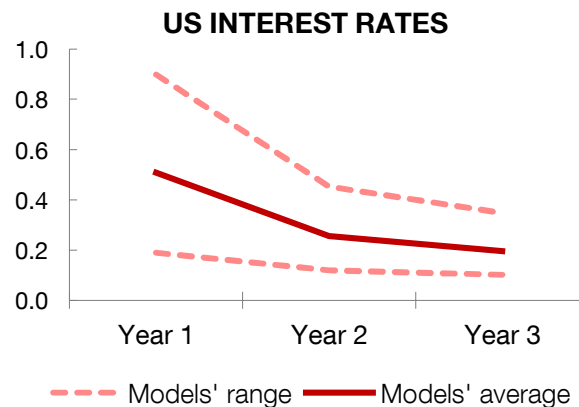
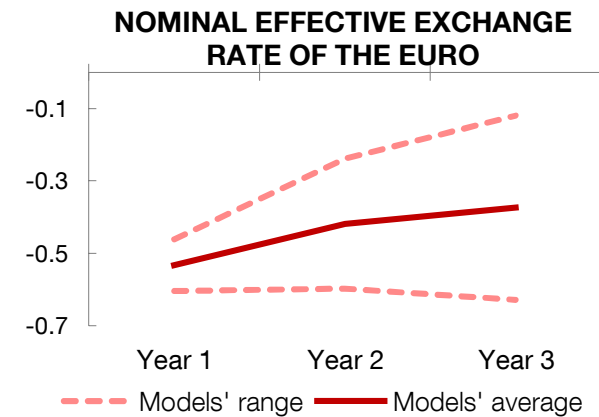
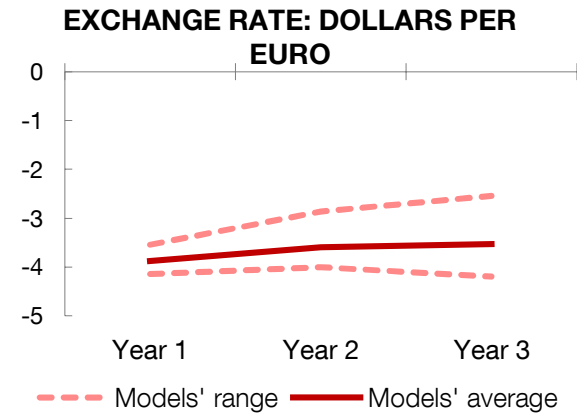


Source: Eurostat.

IMPACT OF A US TARIFF OF 10% ON ALL IMPORTS

EXCHANGE RATES AND INTEREST RATES

- Depreciation of the euro and interest rates relatively higher than in the United States



Source: Banco de España.

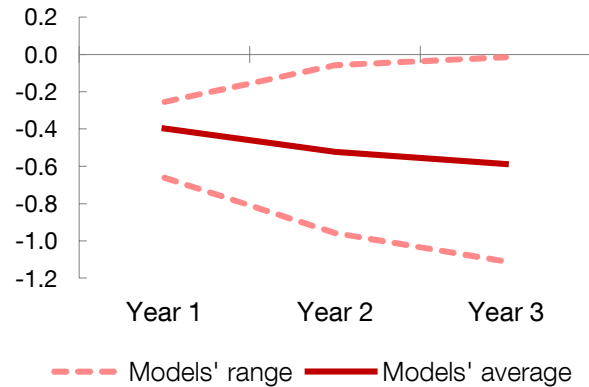
Units of measurement: deviation from the level in pp.

IMPACT OF A US TARIFF OF 10% ON ALL IMPORTS

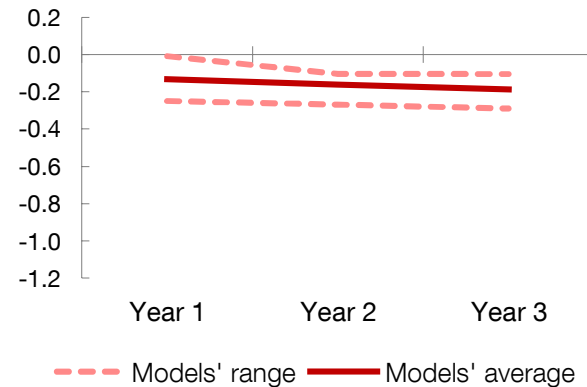
GDP AND INFLATION

- Inflation would rise somewhat in Spain and the euro area, mainly owing to a depreciation of the nominal effective exchange rate

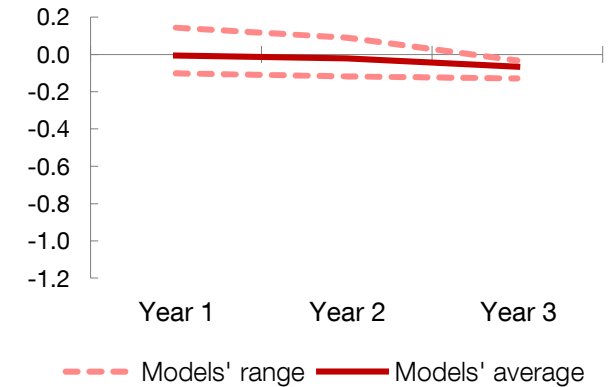
GDP: UNITED STATES



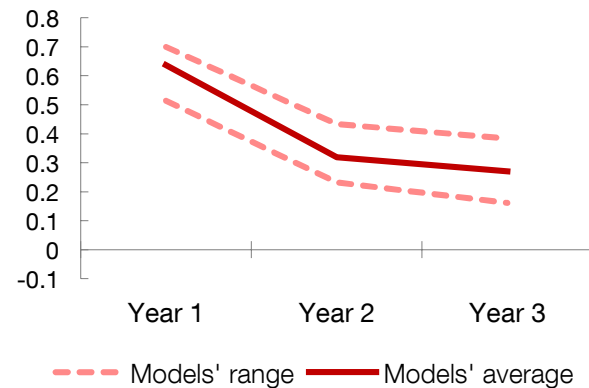
GDP: EURO AREA



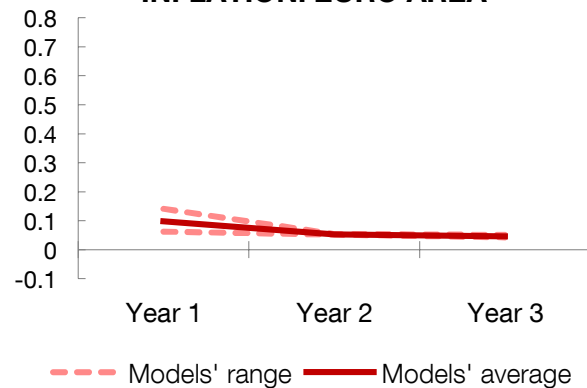
GDP: SPAIN



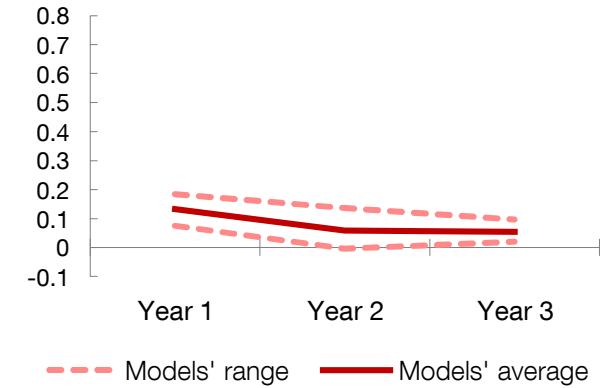
INFLATION: UNITED STATES



INFLATION: EURO AREA



INFLATION: SPAIN

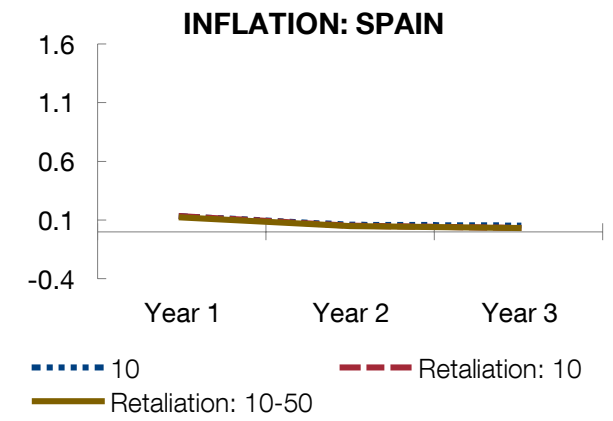
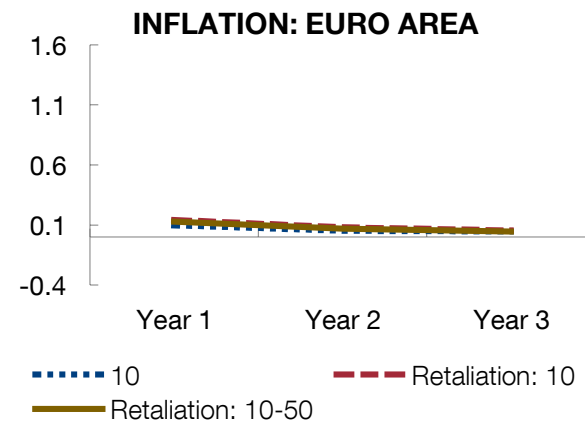
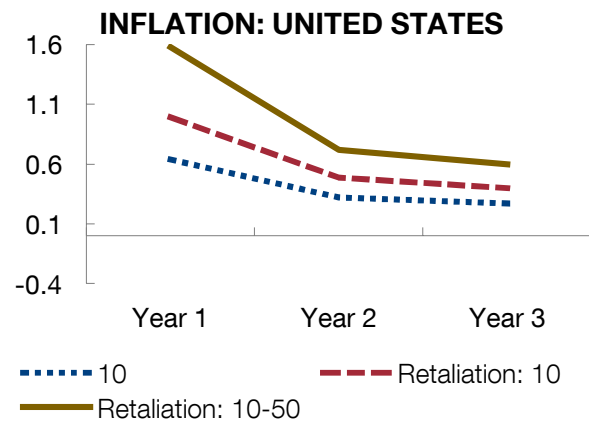
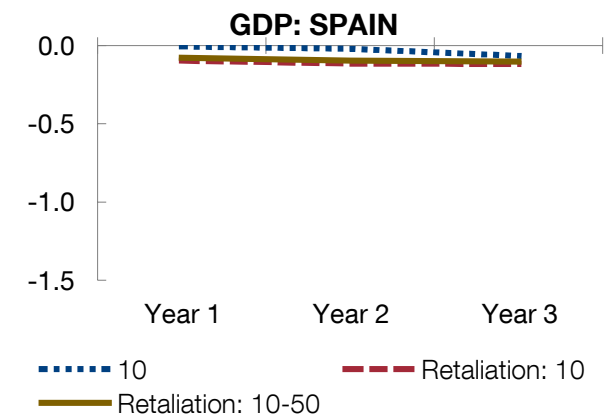
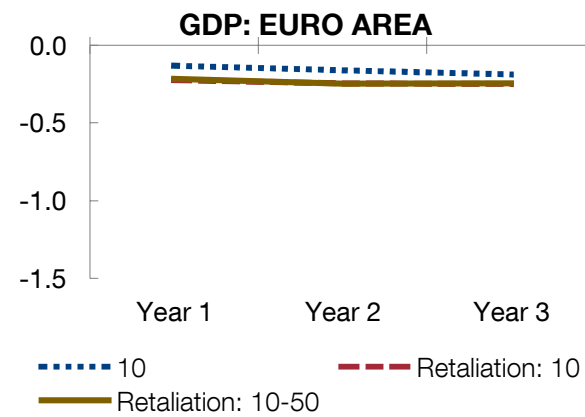
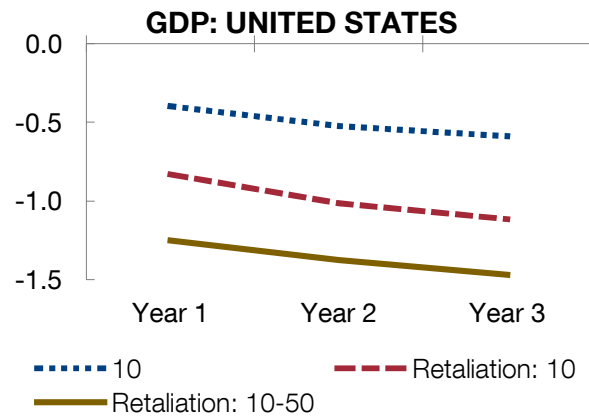


Source: Banco de España.
Units of measurement: deviation from the level in pp.

IMPACT OF A US TARIFF OF 10% ON ALL IMPORTS, WITH RETALIATORY MEASURES

GDP AND INFLATION

- **“Retaliation: 10” scenario:** this augments the previous scenario with symmetrical 10% tariffs imposed by the rest of the world on US imports
- **“Retaliation: 10-50” scenario:** as above, but the US tariff on Chinese imports jumps 50 pp and China takes symmetrical retaliatory measures



Source: Banco de España. Note: each line represents the average effect of the three models in each scenario.
Units of measurement: deviation from the level in pp.

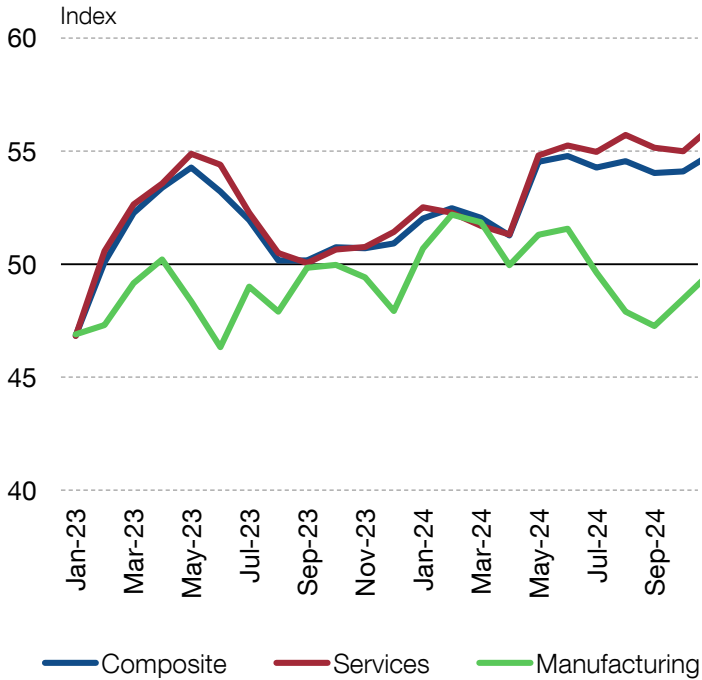
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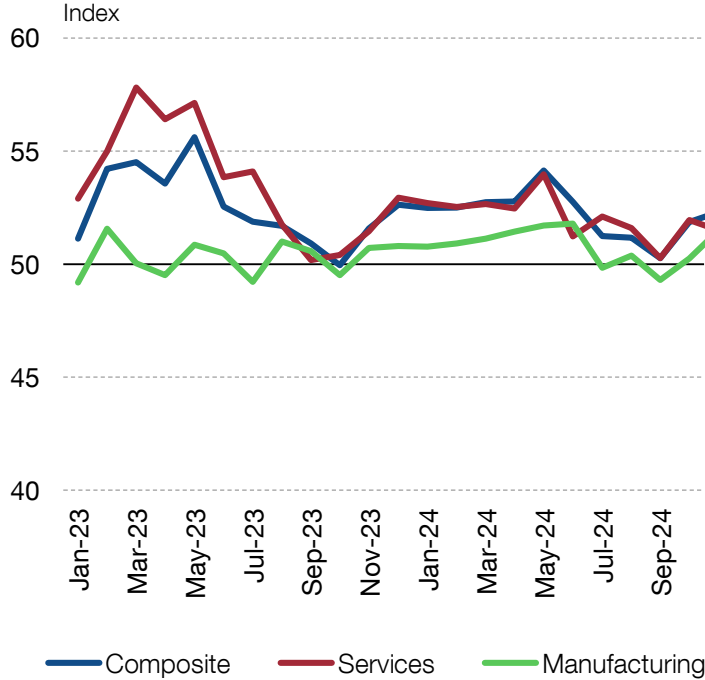
THE GLOBAL ECONOMY GREW IN 2024 Q3 AT A SIMILAR PACE AS IN PREVIOUS QUARTERS, STILL WITH HIGHLY HETEROGENEOUS BEHAVIOUR ACROSS SECTORS AND GEOGRAPHICAL AREAS

- By sector, services remain the main driver of growth, with manufacturing relatively weak
- By geographical area, the euro area continues to show some signs of weakness, especially in comparison with the United States (where activity remains highly robust) and China (where the recent momentum in activity has been supported, in part, by the deployment of a range of stimulus measures)
- According to the most recent PMIs, these patterns will remain unchanged in Q4

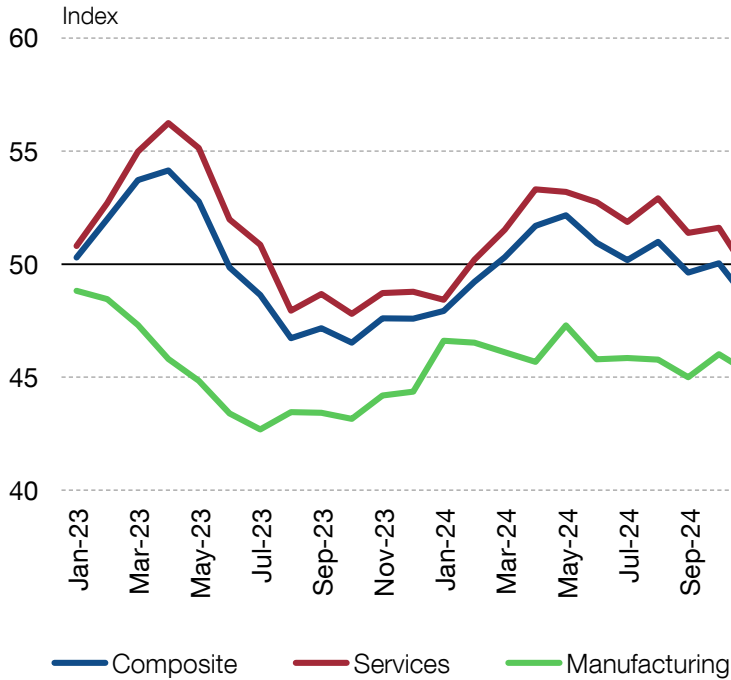
PMIs: UNITED STATES



PMIs: CHINA



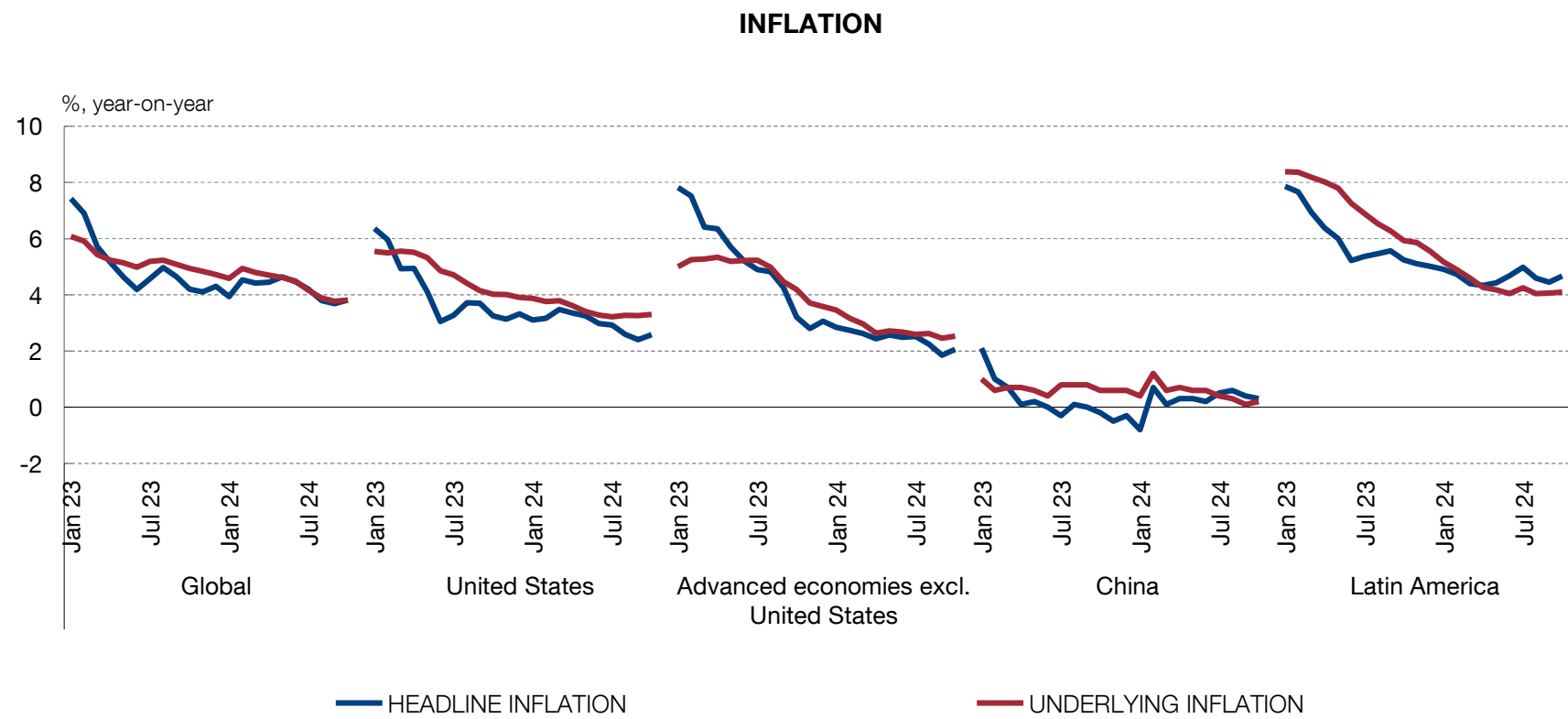
PMIs: EURO AREA



Source: S&P Global. Latest data: November 2024.

ALTHOUGH THE DISINFLATION PROCESS HAS TAKEN ROOT WORLDWIDE, INFLATIONARY PRESSURES IN SERVICES STILL SHOW SOME DOWNWARD STICKINESS

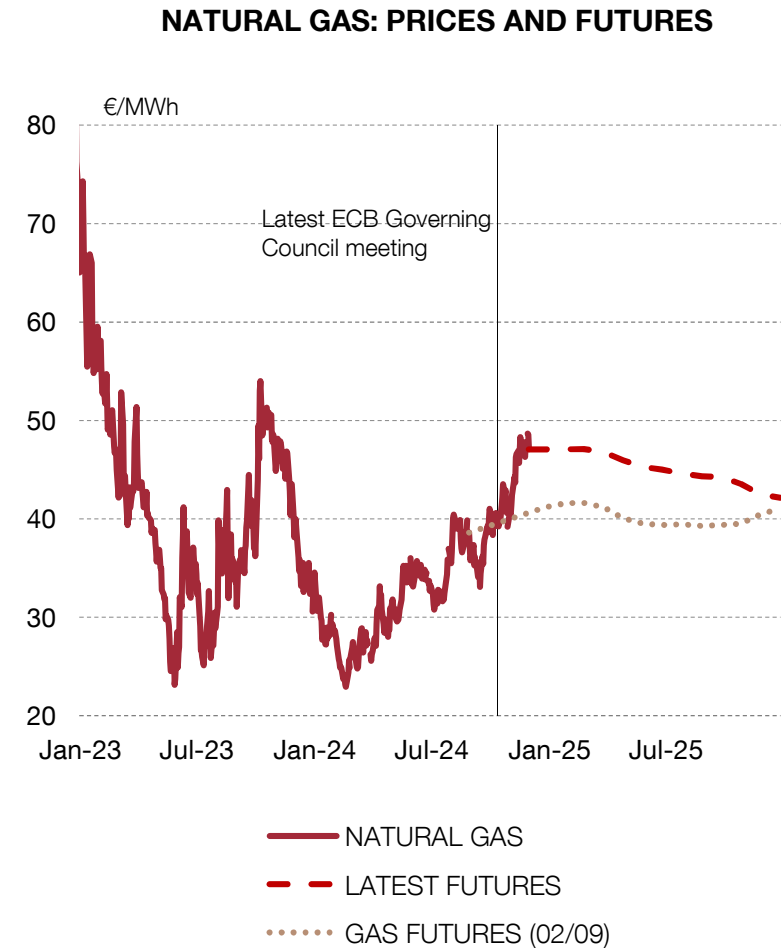
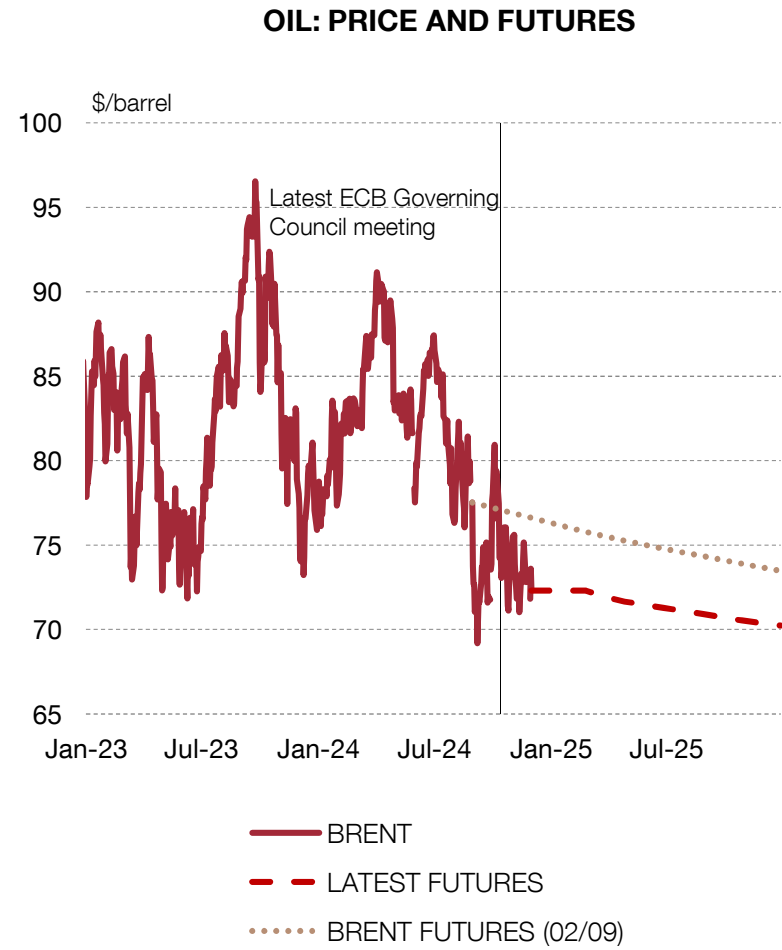
- Since June, headline and underlying inflation have declined by 0.7 pp globally
- However, there are some differences between the world's main regions. For example, the **subdued inflationary pressures in China** stand out
- **Inflationary pressures in services** continue to show some downward stickiness. For example, between June and November, services inflation in the United States fell from 5.1% to 4.6%, while it barely eased in the euro area, from 4.1% to 3.9%



Sources: National statistics and Refinitiv. Latest data: November 2024.



OIL PRICES ARE LOWER THAN ANTICIPATED THREE MONTHS AGO, WHEREAS NATURAL GAS PRICES HAVE RISEN

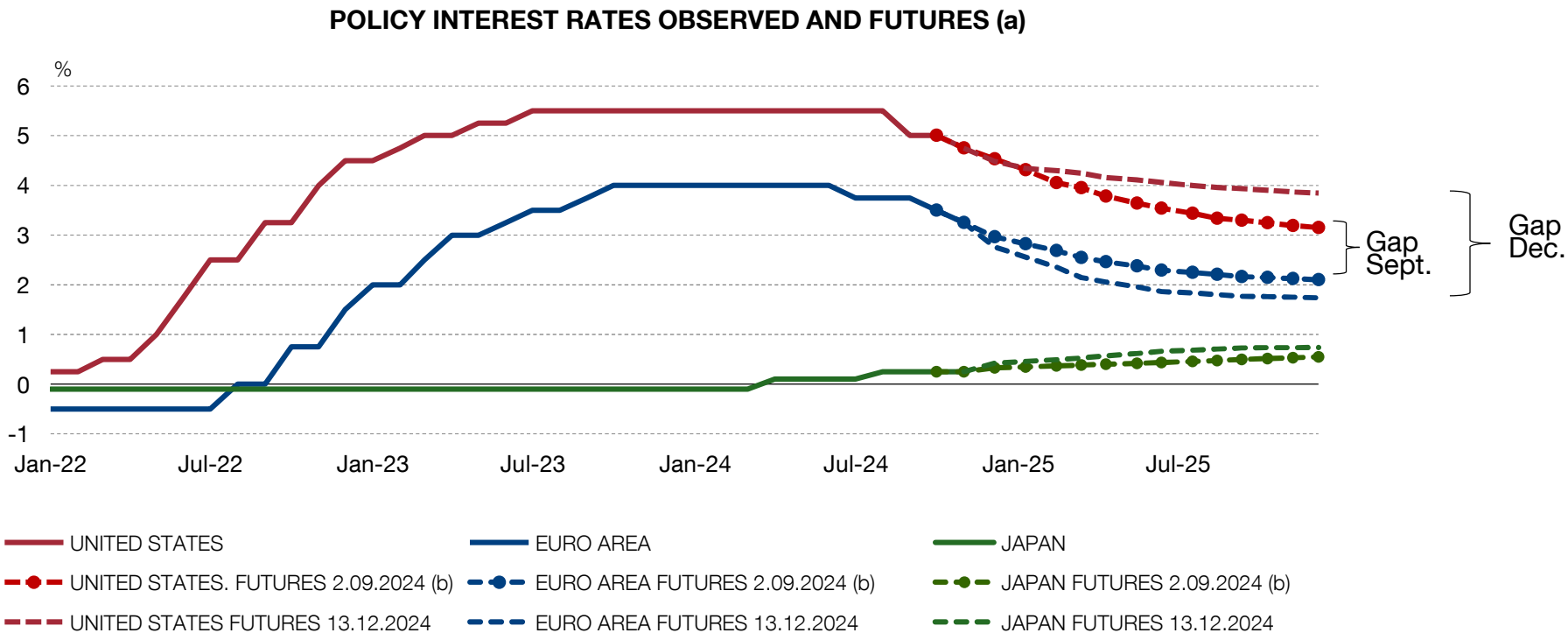


Source: Refinitiv. Latest data: 5 December.



MOST OF THE WORLD ECONOMIES REMAIN ON A MONETARY POLICY EASING PATH AND MARKET EXPECTATIONS ARE THAT THIS EASING PROCESS WILL CONTINUE

- However, compared with market expectations three months ago, **monetary policy is now expected to ease more sharply in the euro area and less so in the United States**
- This change would mainly be in response to the perceived strength of the US economy compared with that of the euro area and to the impact the markets anticipate in the two regions as a result of the policies which the new US administration could roll out in the future

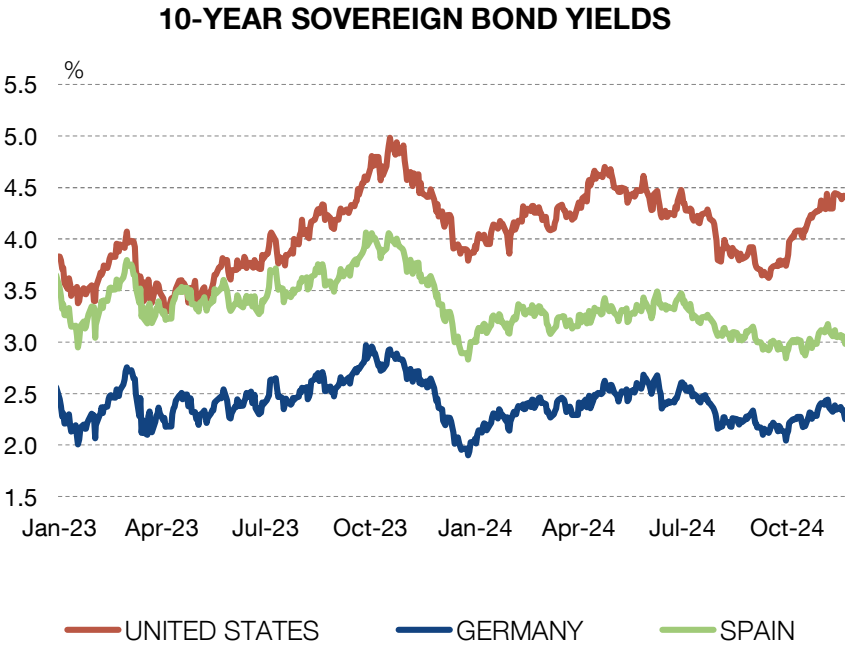
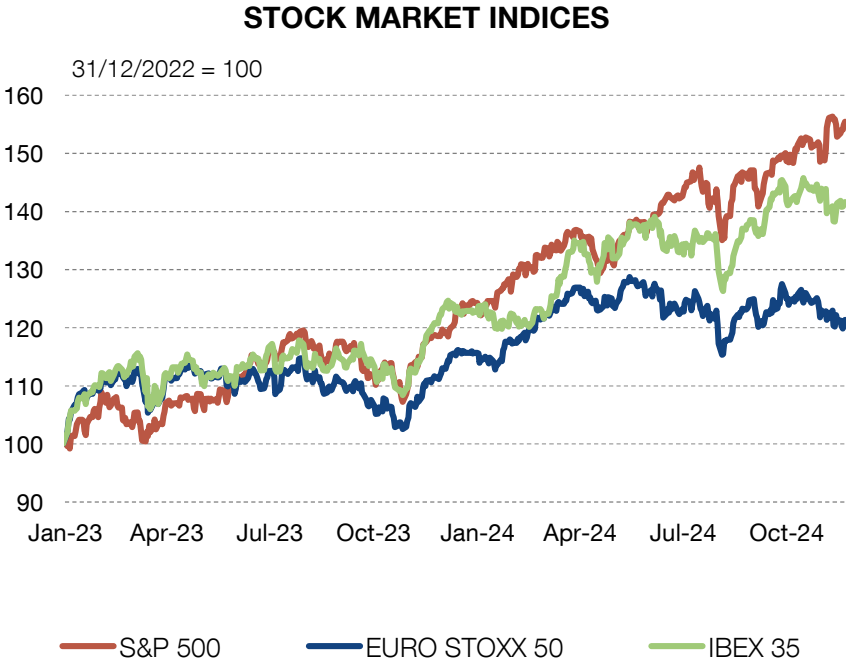


Sources: Refinitiv and Banco de España.
(a) Interest rates priced in by the respective futures markets (30-day Federal Funds futures, euro area overnight index futures, Japanese overnight index futures).
(b) 2 September is the cut-off date for the Banco de España's September 2024 projection exercise.



RISKY ASSETS IN THE UNITED STATES HAVE RECORDED GAINS ACROSS THE BOARD AND LONG-TERM SOVEREIGN DEBT YIELDS IN THE MAIN ECONOMIES HAVE RISEN

- In the **United States**, sound macroeconomic data and the possibility of the new Trump Administration approving tax cuts and looser regulation of certain activities have recently pushed high-yield corporate bond spreads lower and driven stock market gains
- **European and Latin American stock markets** have been less buoyant than in the United States in recent weeks, among other reasons, because of the possible implications for these regions of some of the policies that the new administration could roll out in the coming months
- The upward revision to the future path of policy interest rates in the United States and the potential inflationary pressures that would result from a hypothetical international trade war have affected **government debt markets**, on which sovereign bond yields have recently risen across the board



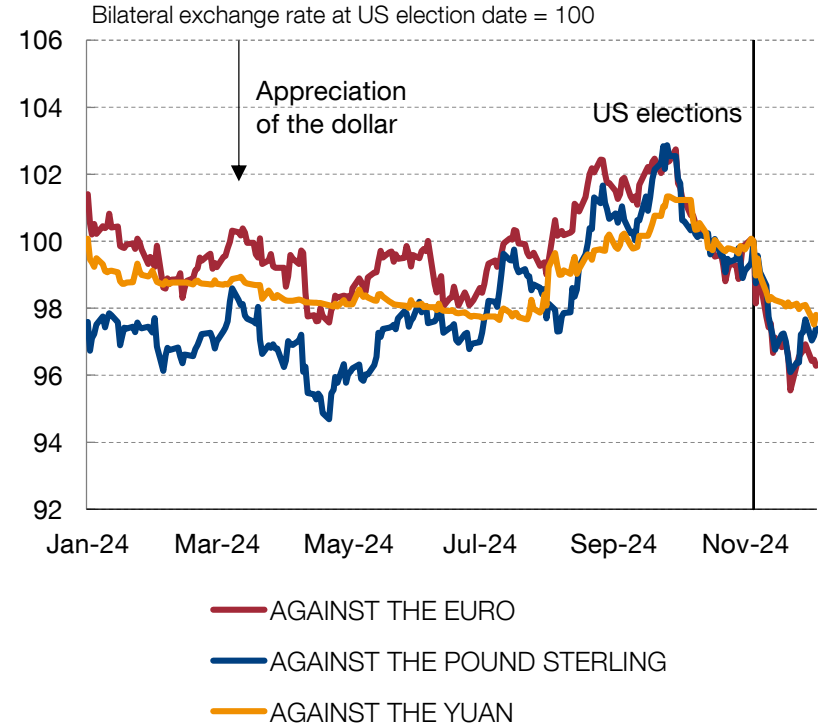
Sources: Refinitiv and Banco de España. Latest data: 22/11/2024.



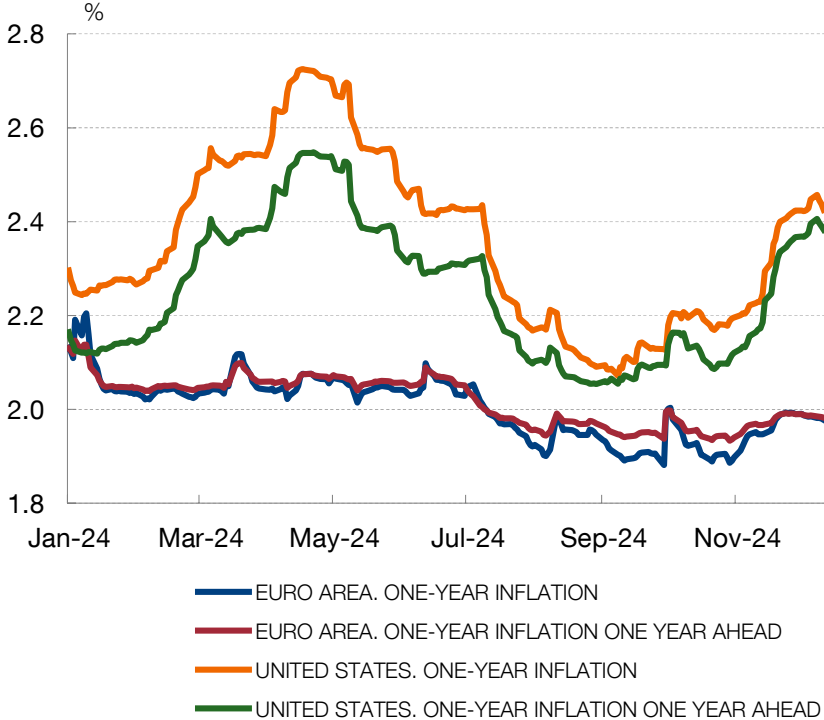
THERE IS CONSIDERABLE UNCERTAINTY ABOUT THE POLICIES THAT THE NEW US ADMINISTRATION COULD ROLL OUT IN THE COMING MONTHS

- According to announcements made in recent weeks, this new administration could consider, among other measures, significantly increasing tariffs on imports, a more stringent immigration policy, tax cuts and initiatives aiming to deregulate certain activities
- Since the US presidential election results became known, an appreciation of the US dollar and a rise in inflation expectations in the US economy, among other dynamics, have been observed in the international financial markets

US DOLLAR BILATERAL EXCHANGE RATE



INFLATION EXPECTATIONS

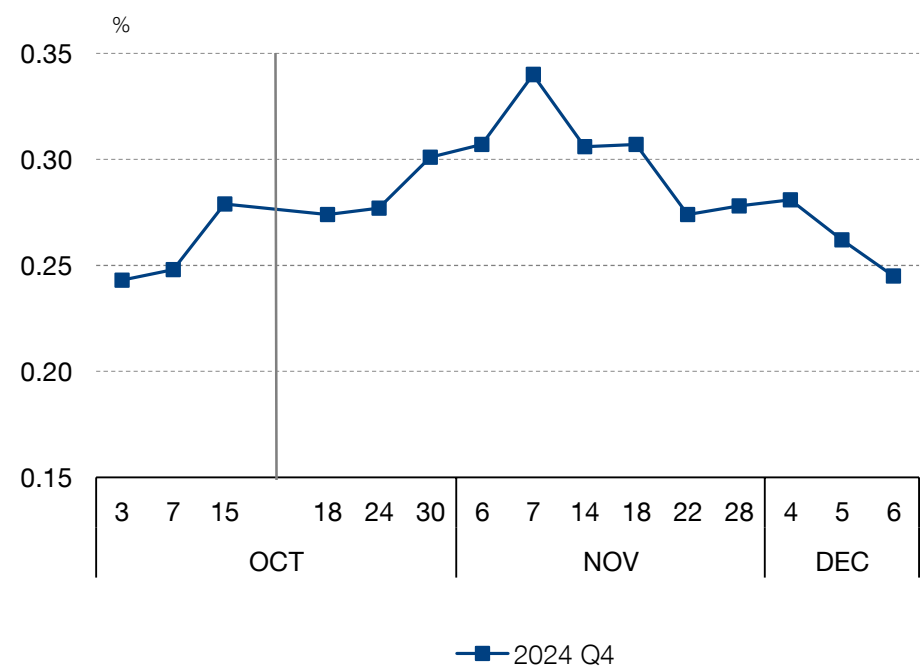


Sources: Refinitiv and Bloomberg. Latest data: 04/12/2024.

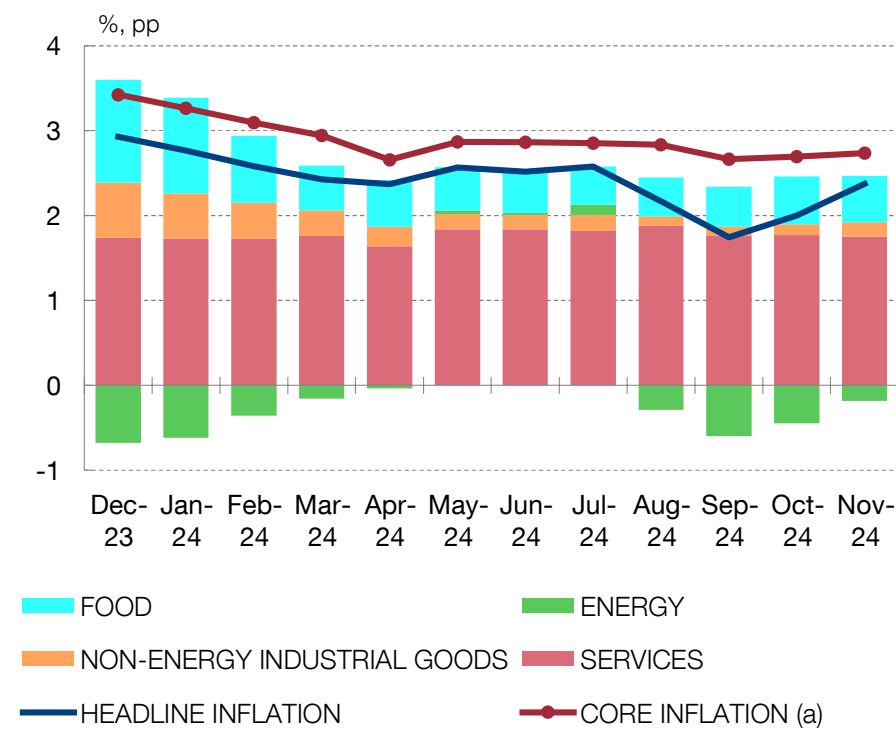
IN THE EURO AREA, ECONOMIC ACTIVITY CONTINUES TO SHOW SIGNS OF WEAKNESS WHILE INFLATION IS SLOWING SLIGHTLY MORE SHARPLY THAN ANTICIPATED

- Euro area GDP grew by 0.4% in Q3, but the latest short-term economic indicators – particularly, the PMIs – signal that **euro area activity is slowing down somewhat in Q4**
- Although headline inflation in the euro area rose over the last two months, this was essentially due to temporary base effects in the energy component and was lower than projected by the ECB in September

ESTIMATED QUARTER-ON-QUARTER GDP GROWTH RATES

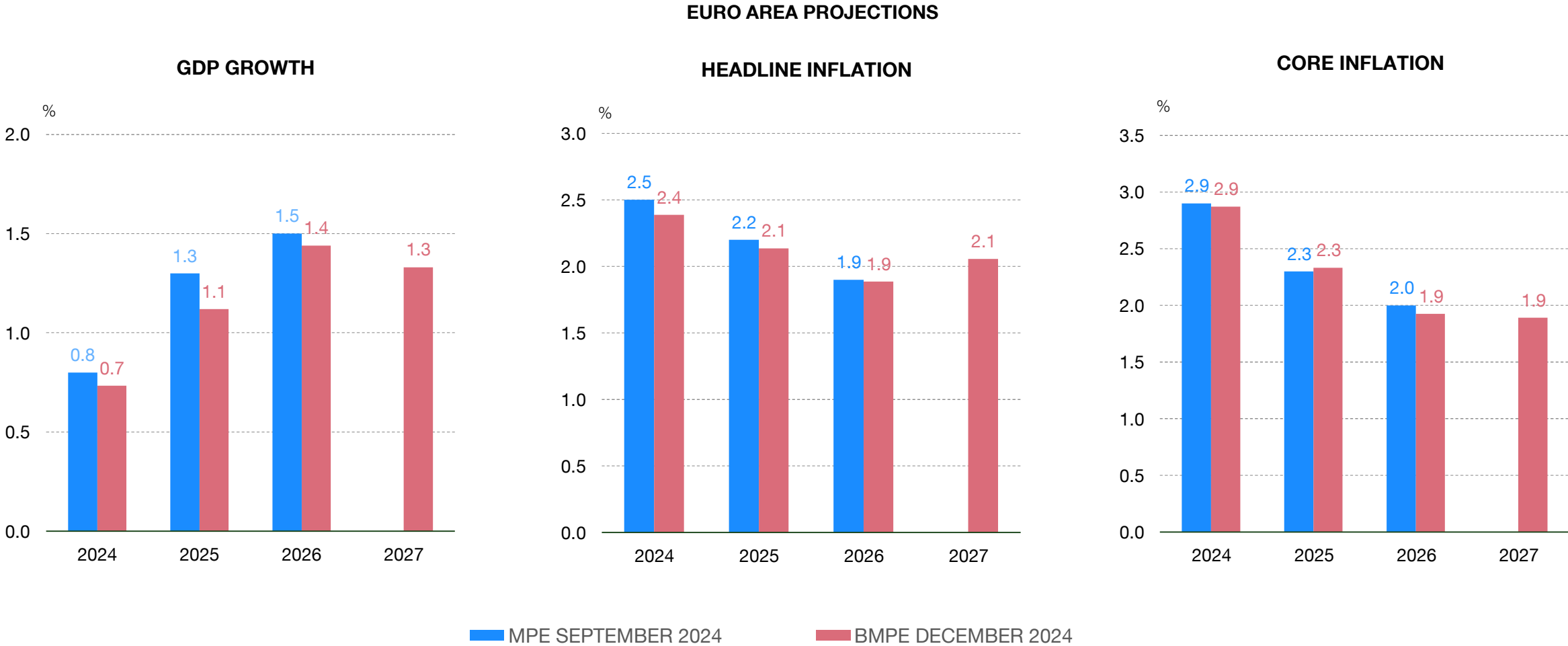


EURO AREA INFLATION AND CONTRIBUTION OF COMPONENTS



Sources: Eurostat and Banco de España Eurosting model. The November 2024 inflation figure is the leading indicator.
(a) Headline HICP excluding food and energy.

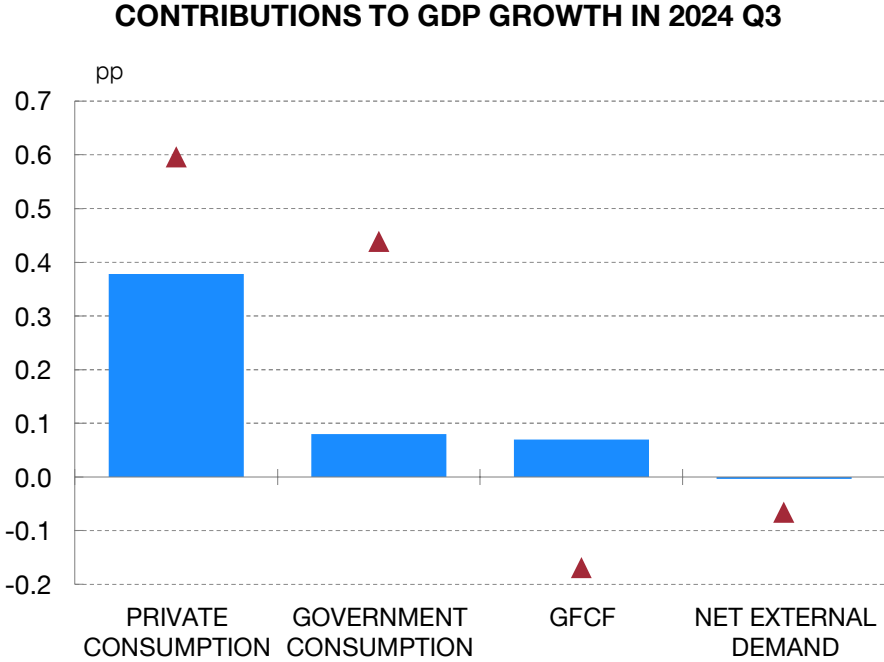
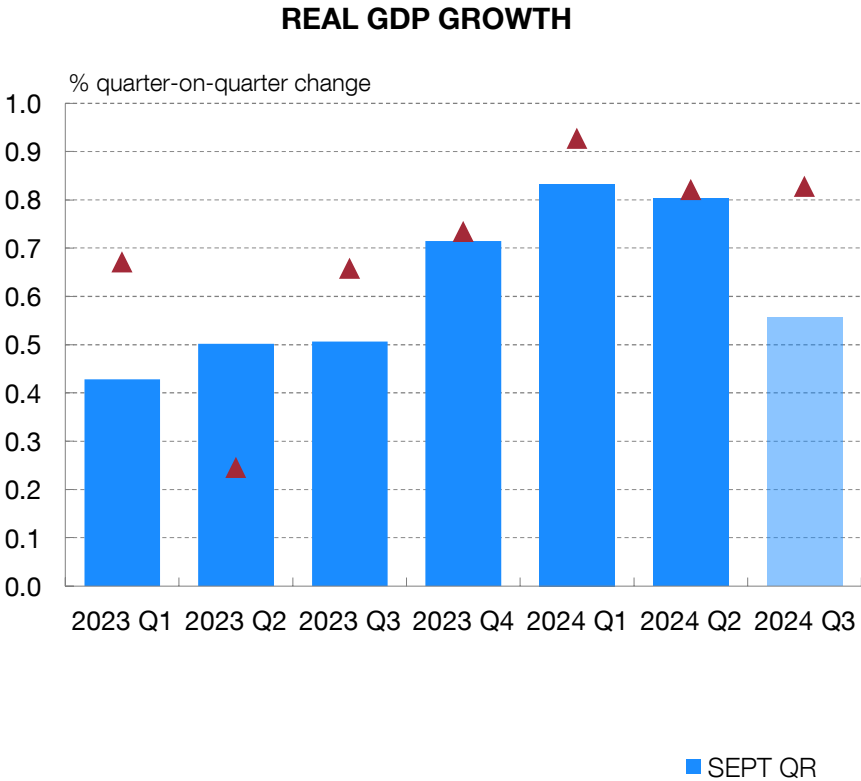
EURO AREA GDP GROWTH AND HEADLINE INFLATION HAVE BEEN REVISED DOWN SLIGHTLY IN THE EUROSISTEM'S DECEMBER PROJECTION EXERCISE



Source: Eurosystem.

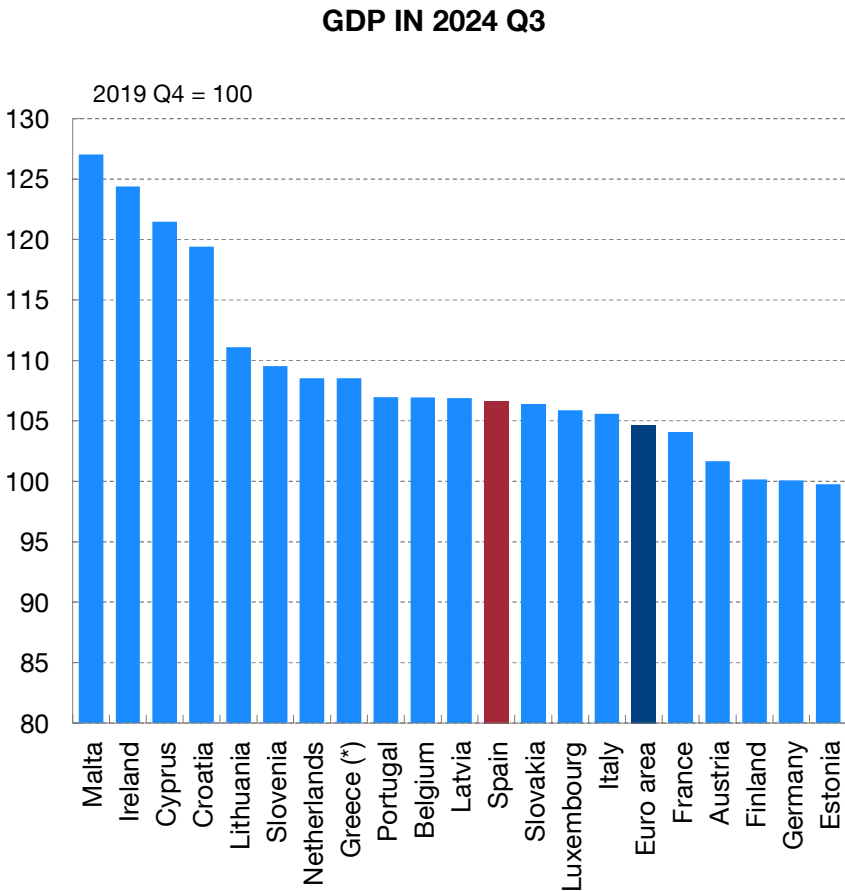
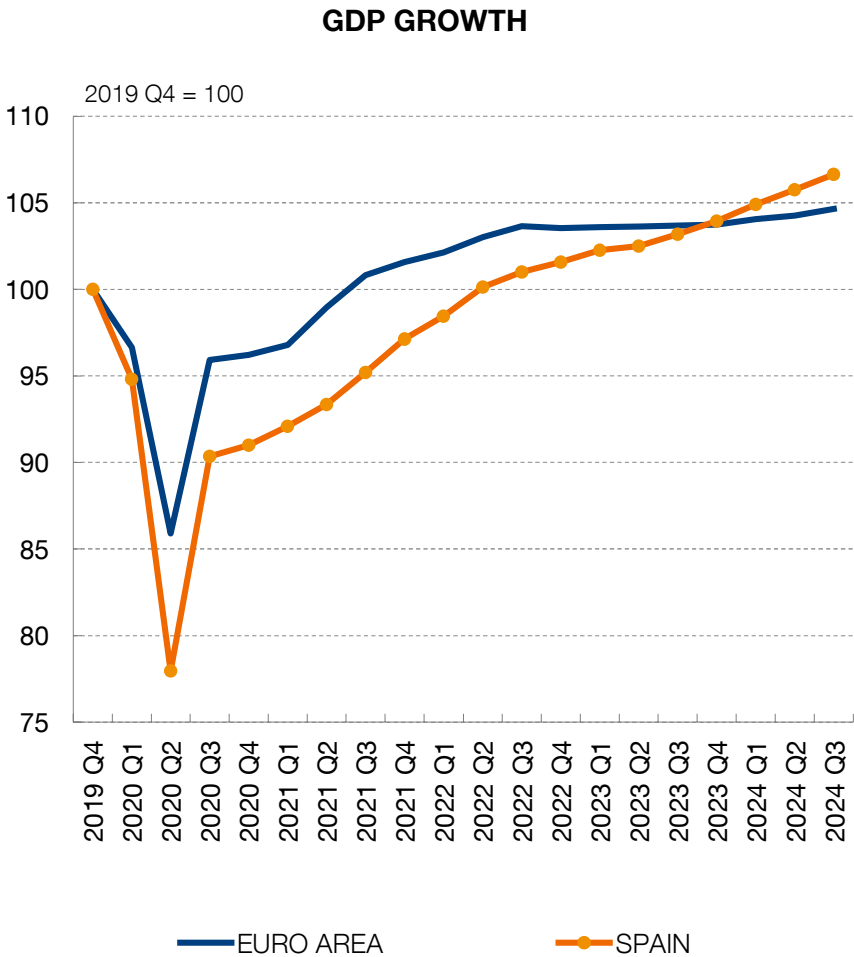
THE QNA FLASH ESTIMATE FOR 2024 Q3 SURPRISED ON THE UPSIDE WITH GDP GROWTH OF 0.8%, COMPARED WITH THE BANCO DE ESPAÑA'S SEPTEMBER PROJECTION OF 0.6%

- The National Statistics Institute (INE) also revised upwards the GDP growth rates in late 2023 and in early 2024 in the Banco de España's September projection exercise
- As for the GDP flash estimate recorded in 2024 Q3, the buoyancy of government consumption and private consumption surprised on the upside. By contrast, developments in investment surprised on the downside



Sources: INE and Banco de España.

THE RECENT MOMENTUM IN ACTIVITY IN SPAIN REMAINS FAR HIGHER THAN THAT IN THE EURO AREA, ALTHOUGH THERE IS A HIGH DEGREE OF HETEROGENEITY WITHIN THE REGION



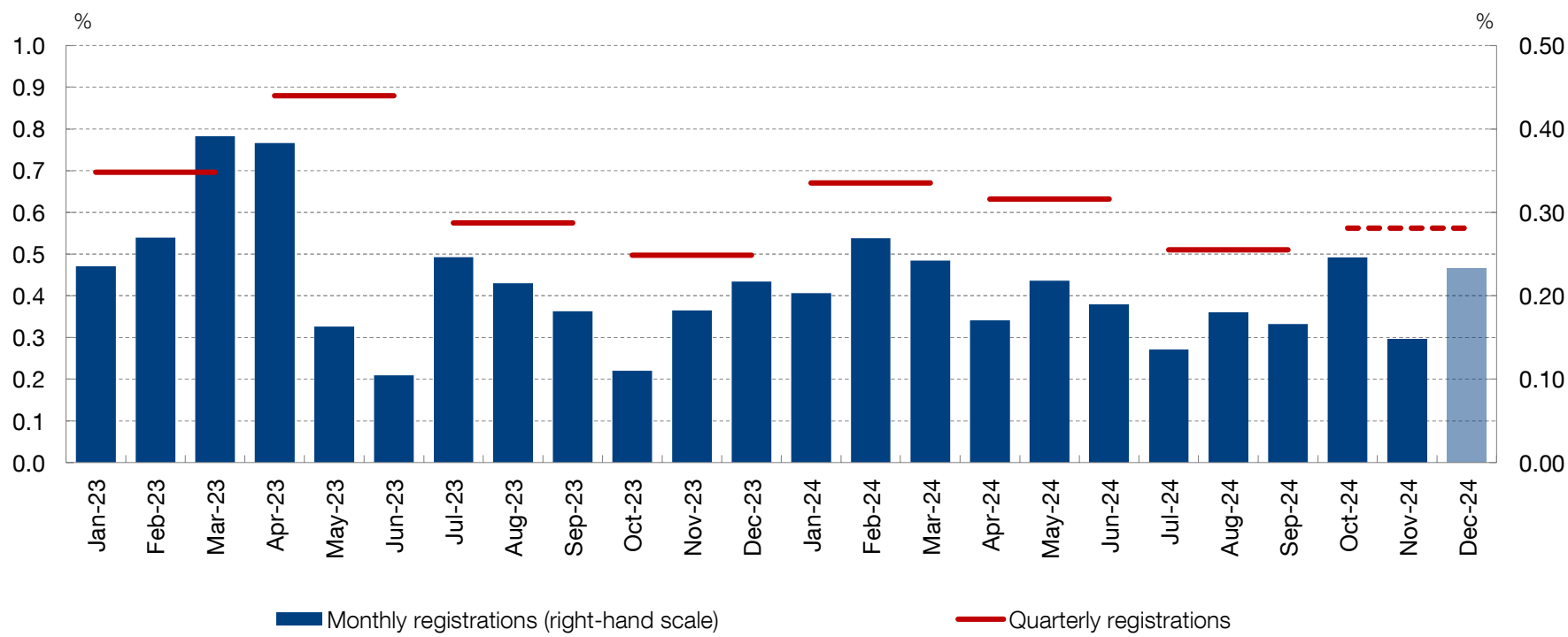
Source: Eurostat.
(*) Data for Greece until 2024 Q2.



EMPLOYMENT IS EXPECTED TO CONTINUE TO GROW IN 2024 Q4 AT A SIMILAR PACE TO THAT OF Q3

- Average social security registrations in October and November increased by 0.2% in seasonally adjusted monthly terms – slightly more than in the summer months – which indicates that the growth rate of employment in 2024 Q4 would be similar to or slightly higher than in 2024 Q3
- On data from the Spanish Labour Force Survey (EPA), the number of persons employed in 2024 Q1 was up by around 433,300 on end-2023 levels, with non-national workers or workers with dual nationality accounting for almost 85% of this increase

MONTHLY AND QUARTERLY RATES OF SOCIAL SECURITY REGISTRATIONS (a)

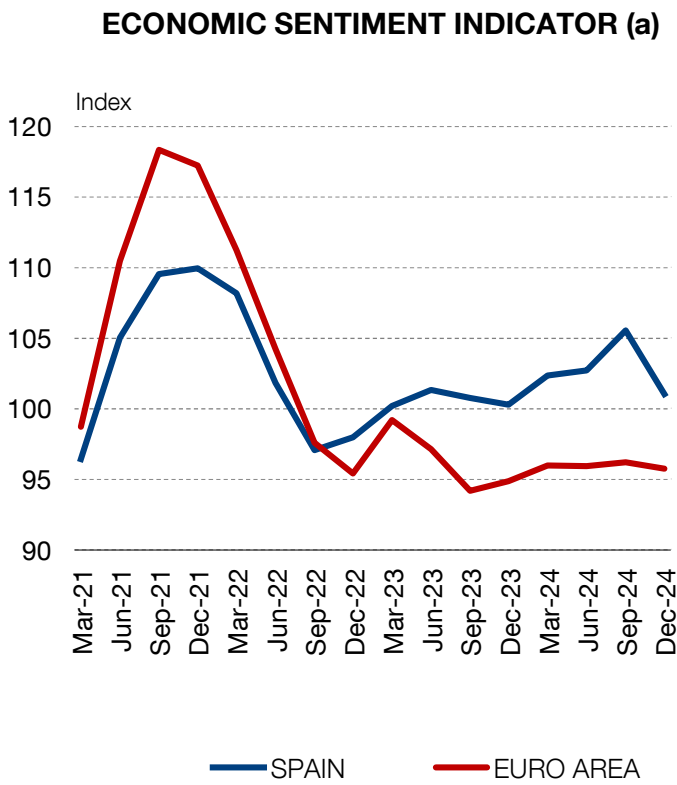
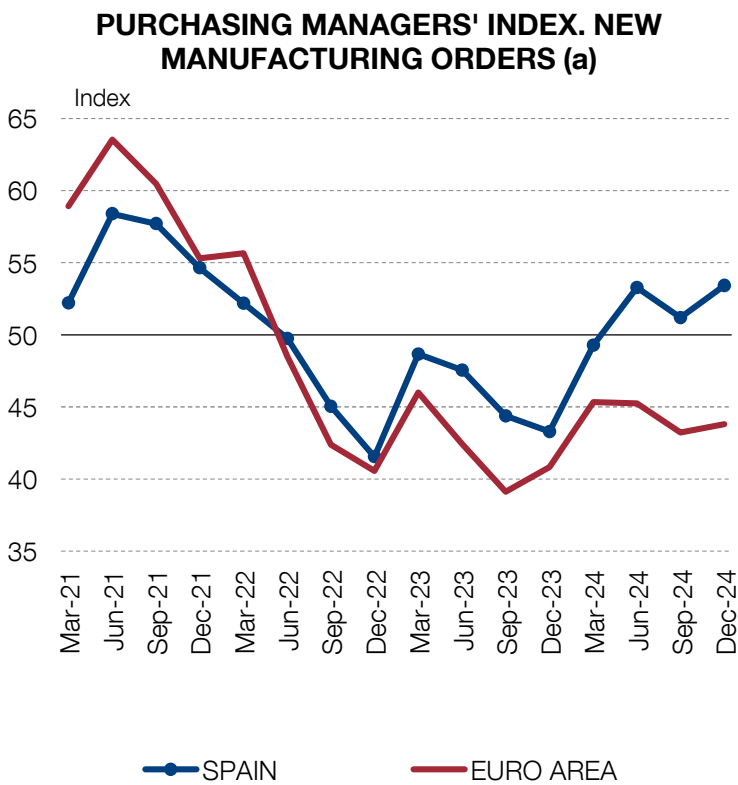
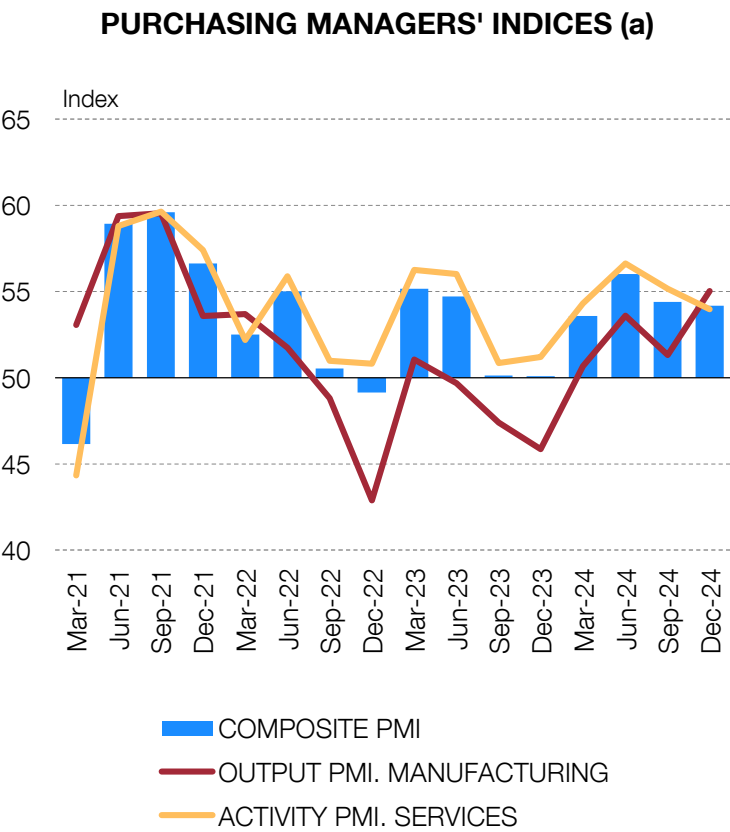


Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest data: November 2024.
(a) Seasonally adjusted monthly and quarterly rates.



BASED ON INFORMATION TO NOVEMBER, THE PMIs REMAINED IN FIRMLY EXPANSIONARY TERRITORY IN SPAIN, UNLIKE IN THE REST OF THE EURO AREA

- Although the European Commission's **economic sentiment indicator** dipped slightly in Spain in 2024 Q4, it still remains above its historical average and the levels recorded in the euro area

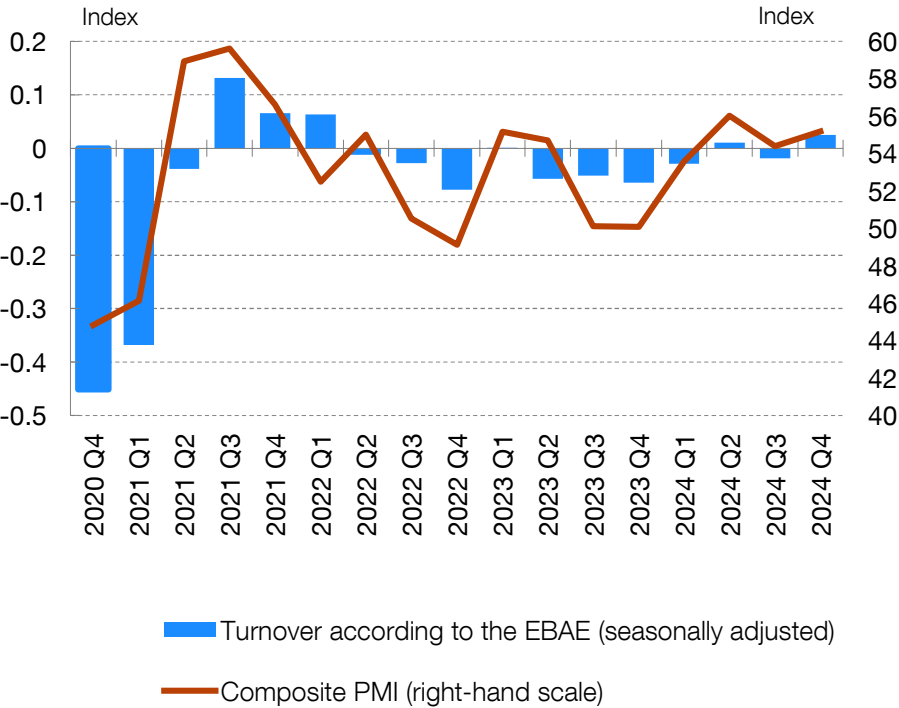


Sources: European Commission and S&P Global.
(a) Q3 includes information to November.

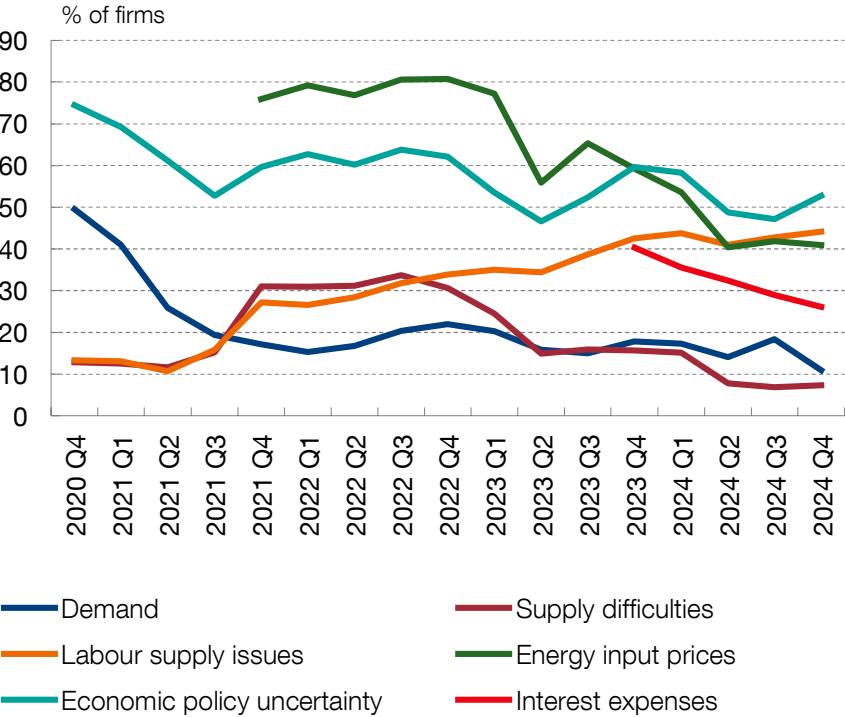
THE RESULTS OF THE EBAE SUGGEST THAT SPANISH FIRMS' TURNOVER WILL INCREASE IN 2024 Q4

- During Q4, business activity is estimated to have been bolstered by the lower impact of interest expenses and insufficient demand, although problems relating to economic policy uncertainty and labour shortages are estimated to have increased slightly

COMPOSITE PMI AND SEASONALLY ADJUSTED TURNOVER ACCORDING TO THE EBAE



ACTIVITY CONSTRAINTS

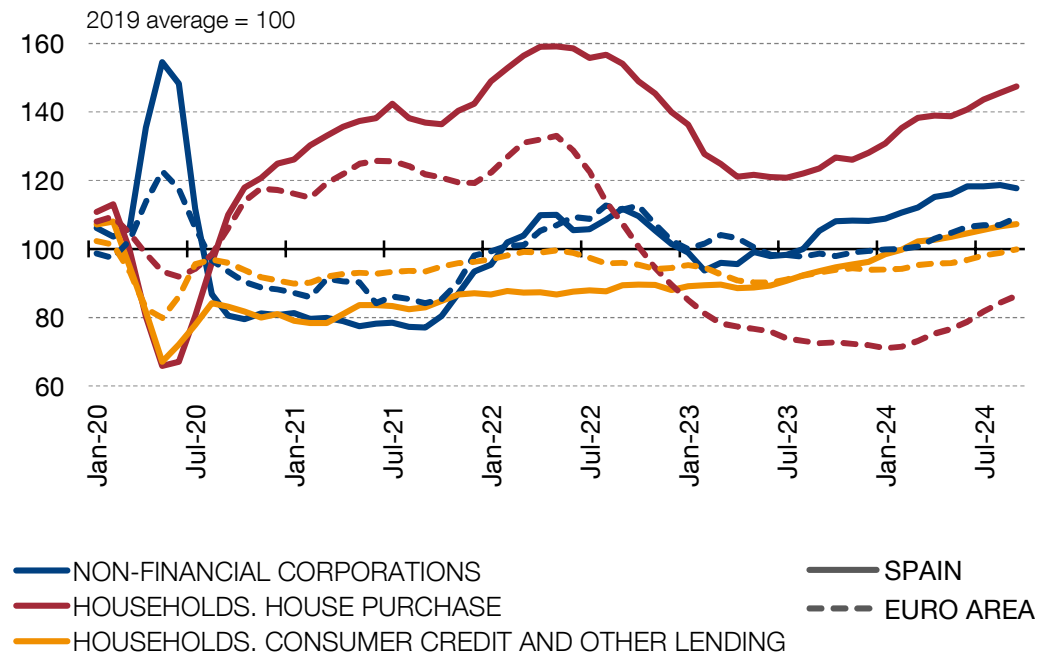


Sources: EBAE and S&P Global. Latest data: November 2024 (composite PMI).
Note: For turnover in the EBAE, index constructed as significant decrease = -2; slight decrease = -1; unchanged = 0; slight increase = 1; significant increase = 2.

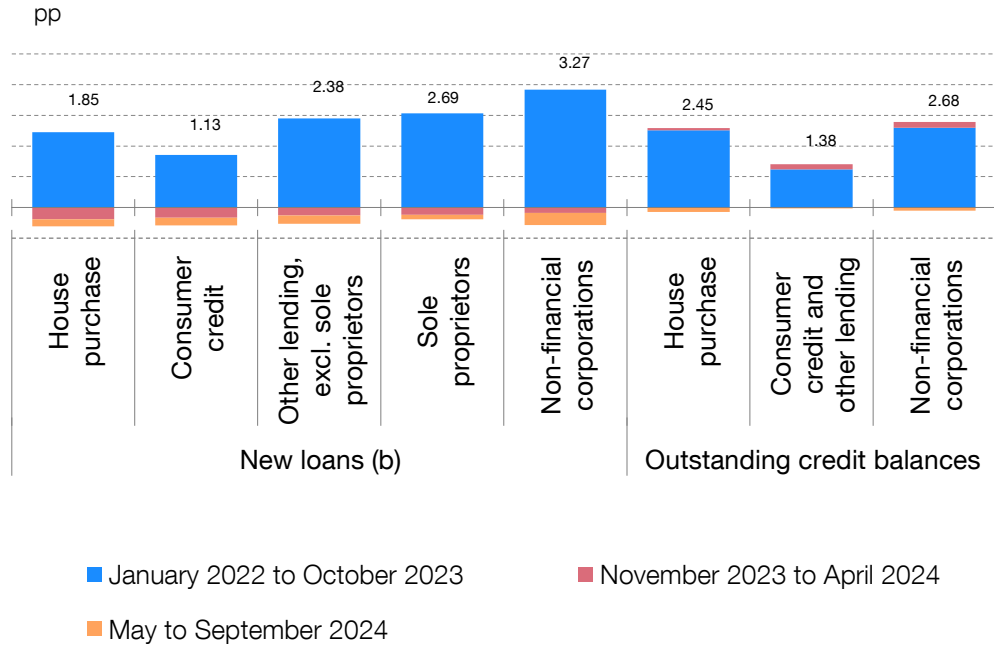
IN RECENT MONTHS, FINANCING TO THE PRIVATE SECTOR HAS CONTINUED TO INCREASE AGAINST A BACKDROP OF A GRADUAL REDUCTION IN INTEREST RATES

- According to the [Bank Lending Survey](#), looking ahead to Q4, the banks generally expect stability in credit supply and an uptick in loan applications
- According to the [survey on the access to finance of enterprises](#), Spanish firms' perception of their access to bank financing improved in 2024 Q3

NEW LENDING (a)



CHANGE IN THE COST OF CREDIT



Source: Banco de España.
(a) Seasonally adjusted cumulative three-month flows compared with the quarterly average for 2019.
(b) Narrowly defined effective rates (NDER), i.e. they exclude related costs, such as repayment insurance premiums and fees, adjusted seasonally and for the irregular component.

ECONOMIC IMPACT OF OCTOBER'S FLASH FLOODS WHICH AFFECTED SEVERAL SPANISH PROVINCES IN LATE OCTOBER

Areas affected

- This extreme weather event has exacted a **very heavy cost in human lives**
- It has also **significantly disrupted economic activity in the affected municipalities**, which – according to various metrics, for example, of population, employment and business activity – are estimated to account for around 2% of the national total

Impact in Q4

- According to a wide range of indicators – among others, **card spending and mobility, employment and business activity, and bottlenecks and port traffic** – the negative impact of the flash floods on GDP growth in Spain in Q4 is relatively contained (**between 0.1 pp and 0.2 pp**)
- Nevertheless, this impact can only be estimated with a **high degree of uncertainty**

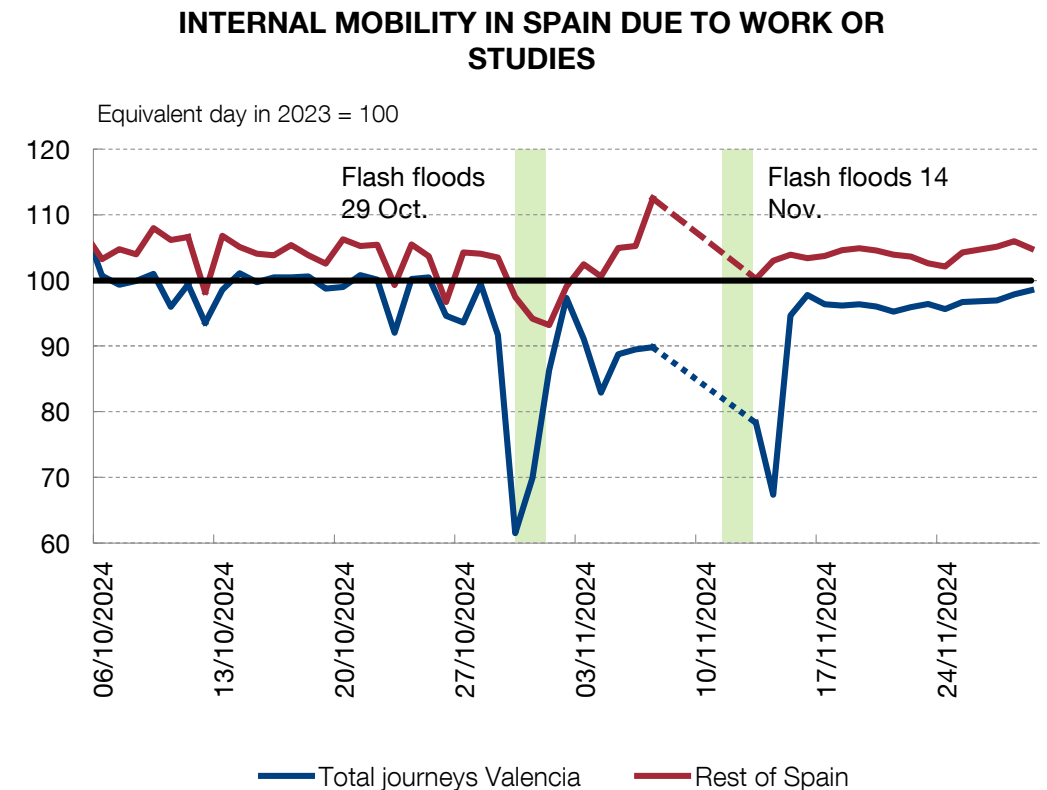
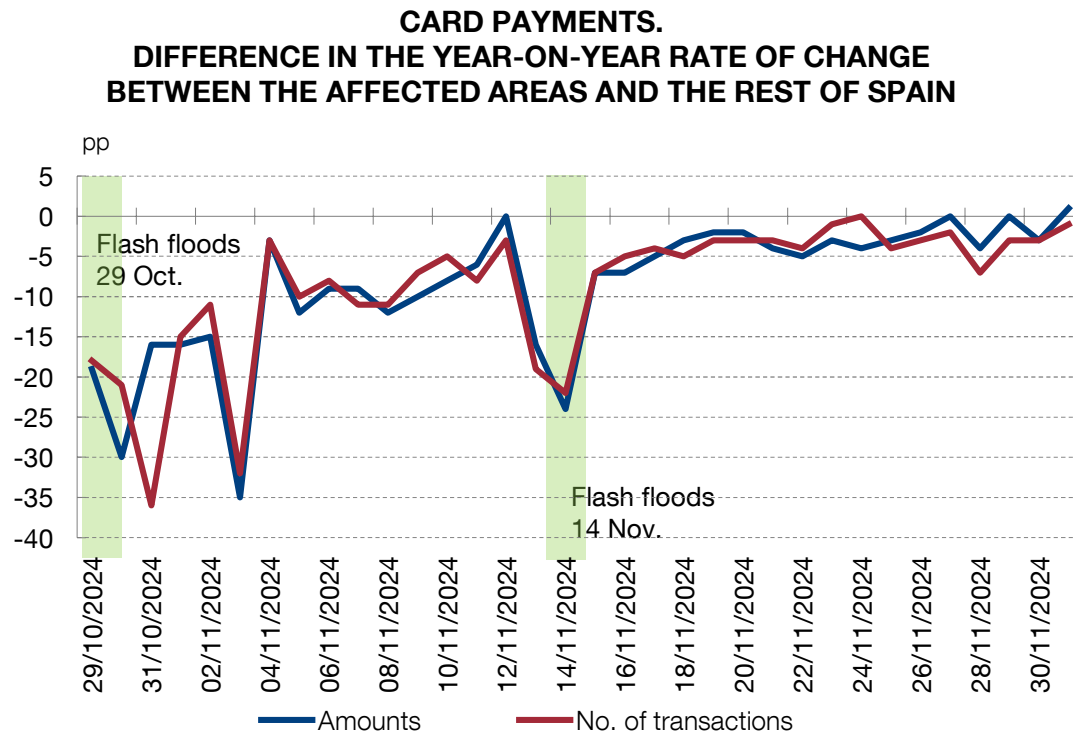
Impact in the coming quarters

- Based on the **historical evidence available** for similar events, **the adverse impact of the flash floods in the short term could be transitory and reversed in 2025 H1 ...**
- ... provided the support measures for affected households and firms are rolled out swiftly and effectively



ECONOMIC IMPACT OF OCTOBER'S FLASH FLOODS: CARD SPENDING AND MOBILITY INDICATORS

- The flash floods in late October had a **sharp negative impact on card spending and mobility in the areas affected**, compared with developments in these variables in the rest of Spain
- These differences have disappeared relatively rapidly in recent weeks

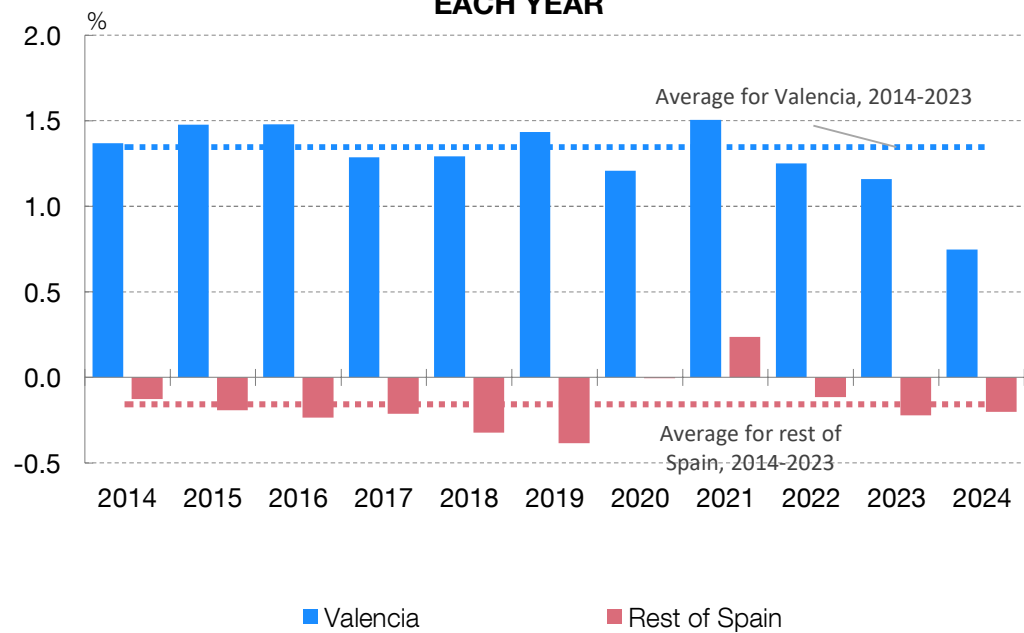


Sources: Redsys and Ministerio de Transportes y Movilidad Sostenible.

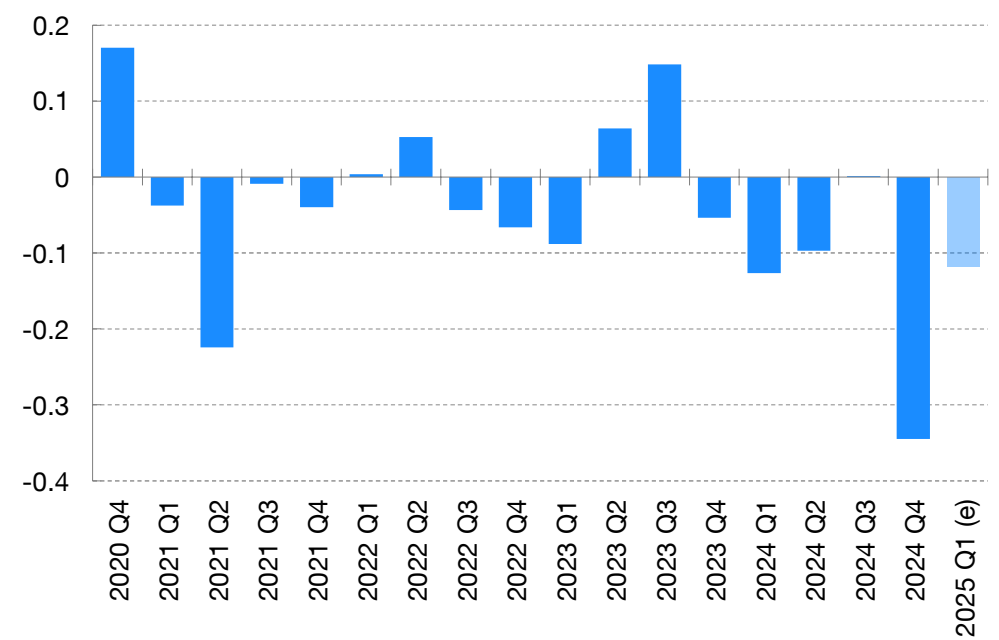
ECONOMIC IMPACT OF OCTOBER'S FLASH FLOODS: EMPLOYMENT AND BUSINESS ACTIVITY INDICATORS

- In November **social security registrations in the province of Valencia slowed down slightly** (compared with the historic averages) and recourse to furlough schemes (ERTEs by their Spanish acronym) increased (based on information to 4 December, just over 30,000 workers, approximately 2.5% of employment in the province of Valencia **were furloughed**) because of the flash floods. The most negative effects on employment are concentrated in services.
- In terms of the EBAE, Valencian firms have the **worst expectations about the performance of turnover in 2024 Q4** compared with firms in the rest of Spain. Valencian firms reported that they were affected relatively more by insufficient demand, input supply difficulties, higher energy costs and increased economic policy uncertainty

RATE OF CHANGE IN AVERAGE SOCIAL SECURITY REGISTRATIONS BETWEEN NOVEMBER AND OCTOBER EACH YEAR



CHANGE IN TURNOVER IN EBAE. DIFFERENCE BETWEEN VALENCIA REGION AND REST OF SPAIN

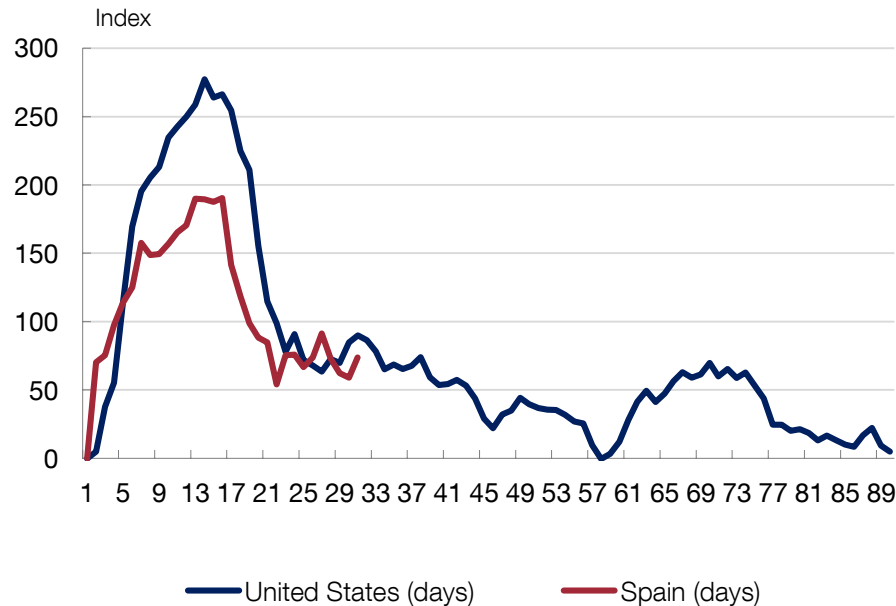


Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and EBAE.

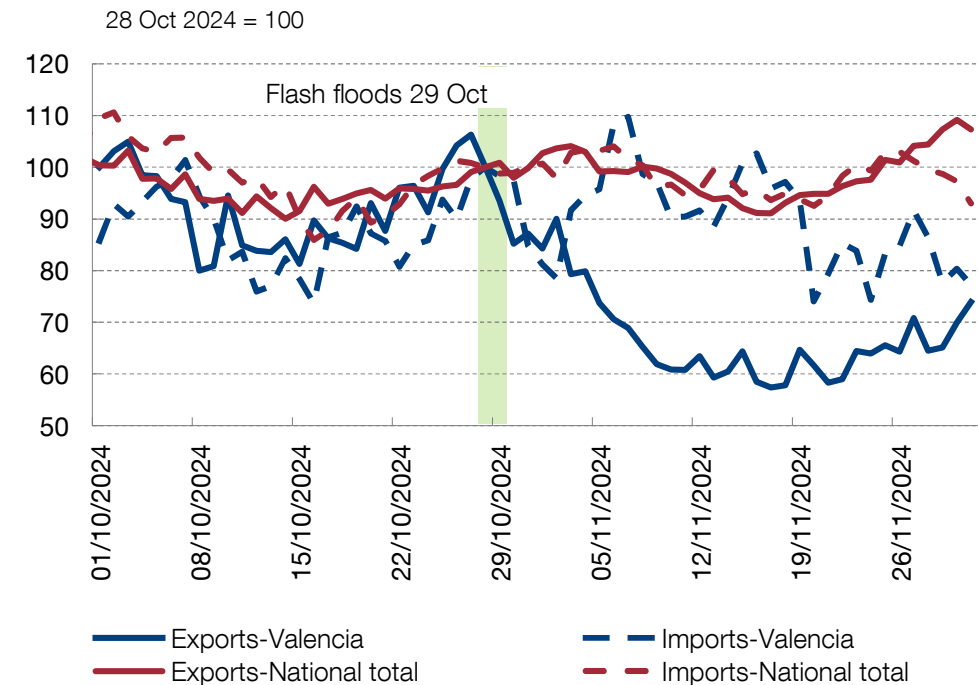
ECONOMIC IMPACT OF OCTOBER'S FLASH FLOODS: SUPPLY BOTTLENECK AND PORT TRAFFIC INDICATORS

- The **supply bottlenecks index** developed by the Banco de España suggests that the pattern of disruption in the flow of people and goods in the wake of October's flash floods was similar to that observed after other comparable events: a severe initial increase in disruption, which recedes relatively swiftly after a few weeks
- According to **port traffic data**, export volumes at the port of Valencia saw a substantial fall-off (as import services were prioritised), but there has been no major impact at national level

COMPARISON OF THE INCREASE IN SUPPLY BOTTLENECKS AFTER KATRINA AND THE FLASH FLOODS



REAL IMPORTS AND EXPORTS AT THE PORT OF VALENCIA

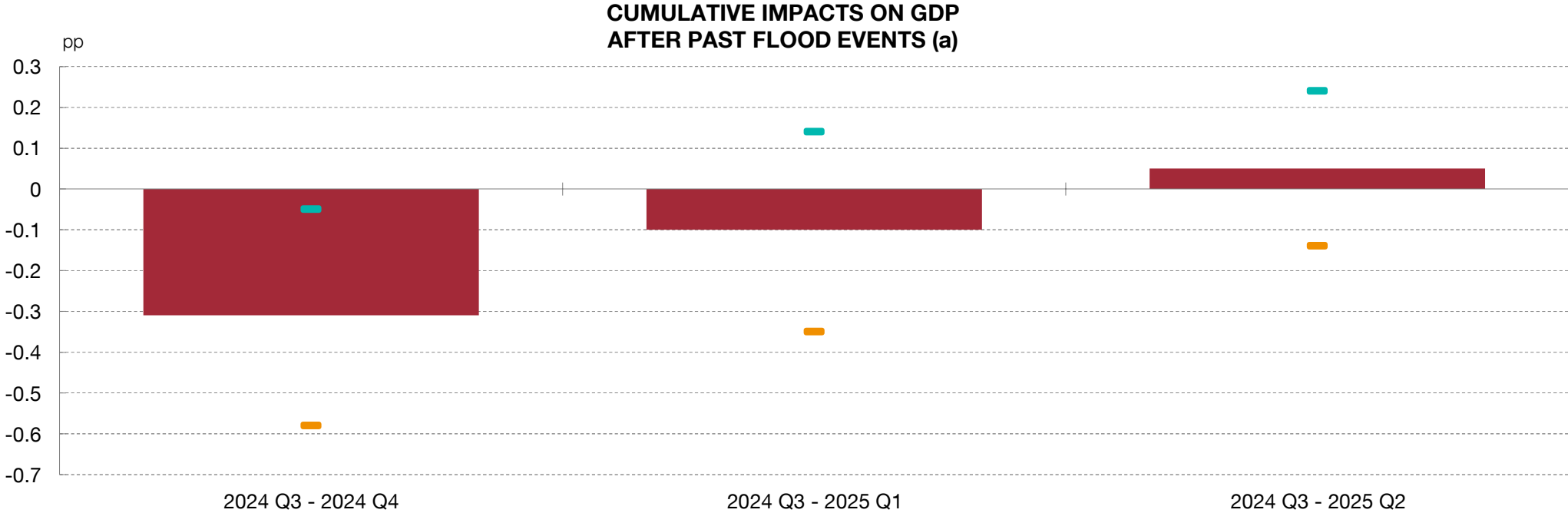


Sources: Banco de España ([Burriel, Kataryniuk, Moreno-Pérez and Viani, 2024](#)) and IMF PortWatch.



ACCORDING TO THE HISTORICAL EVIDENCE AVAILABLE, THE ADVERSE ECONOMIC IMPACT OF FLOOD EVENTS TENDS TO BE TEMPORARY

- Such estimates, however, are surrounded by **considerable uncertainty**
- Some studies even suggest that, in the long run, floods can have a positive impact on economic activity, to the extent that they could (i) enable surviving firms to replace obsolete capital with more productive capital and/or (ii) boost the reallocation of resources from unproductive firms towards more productive ones (Erda, 2024)
- In any event, the **materialisation in the long run of positive effects as a result of the floods** will depend on there being no financial constraints and on effective assistance for reconstruction (Usman, González-Torres, Parke, 2024)

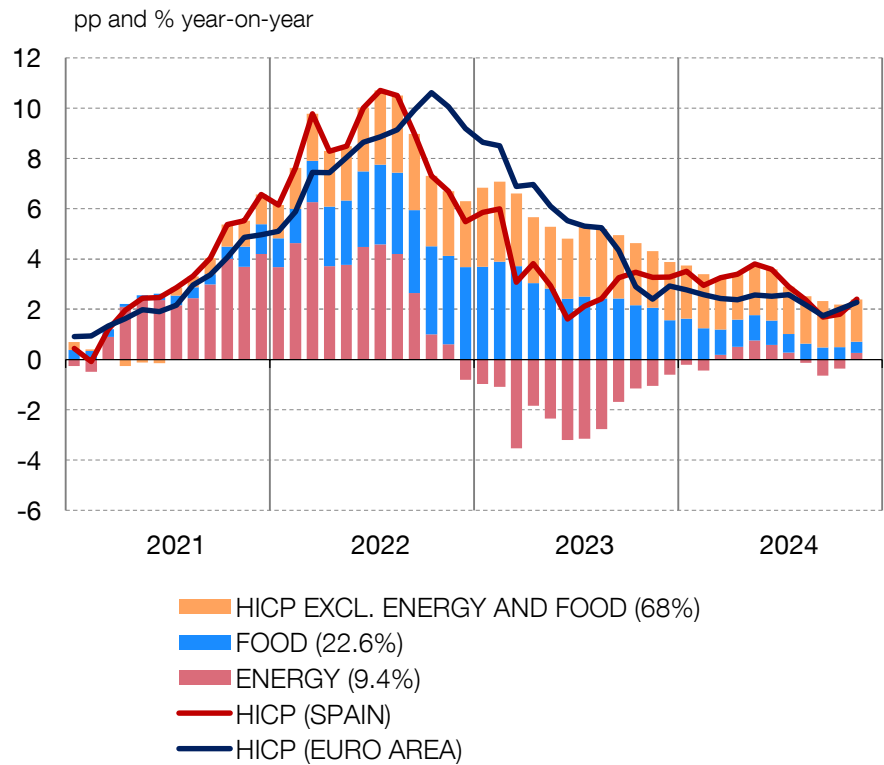


Source: Banco de España.
(a) Estimates drawing on a panel of countries that relates physical damage caused by floods (EM-DATA) to the change in GDP. The dashes represent the 5% and 95% confidence intervals.

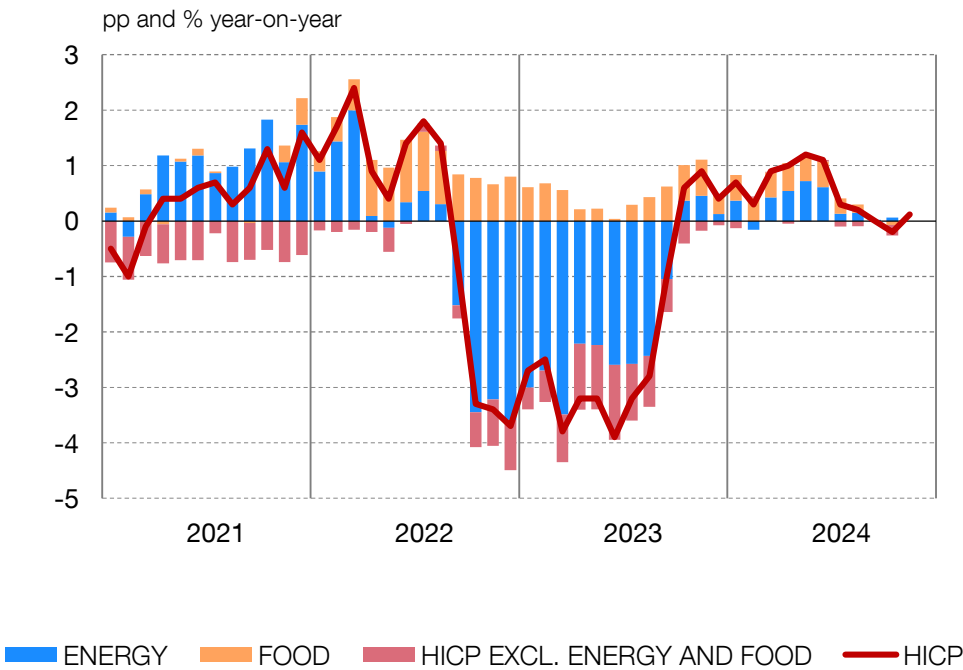
HEADLINE INFLATION ROSE FROM 1.8% TO 2.4% IN NOVEMBER, DUE ESSENTIALLY TO TEMPORARY BASE EFFECTS IN ENERGY PRICES

- The inflation differential with the euro area has been virtually zero in recent months

HEADLINE HICP AND CONTRIBUTIONS (a)

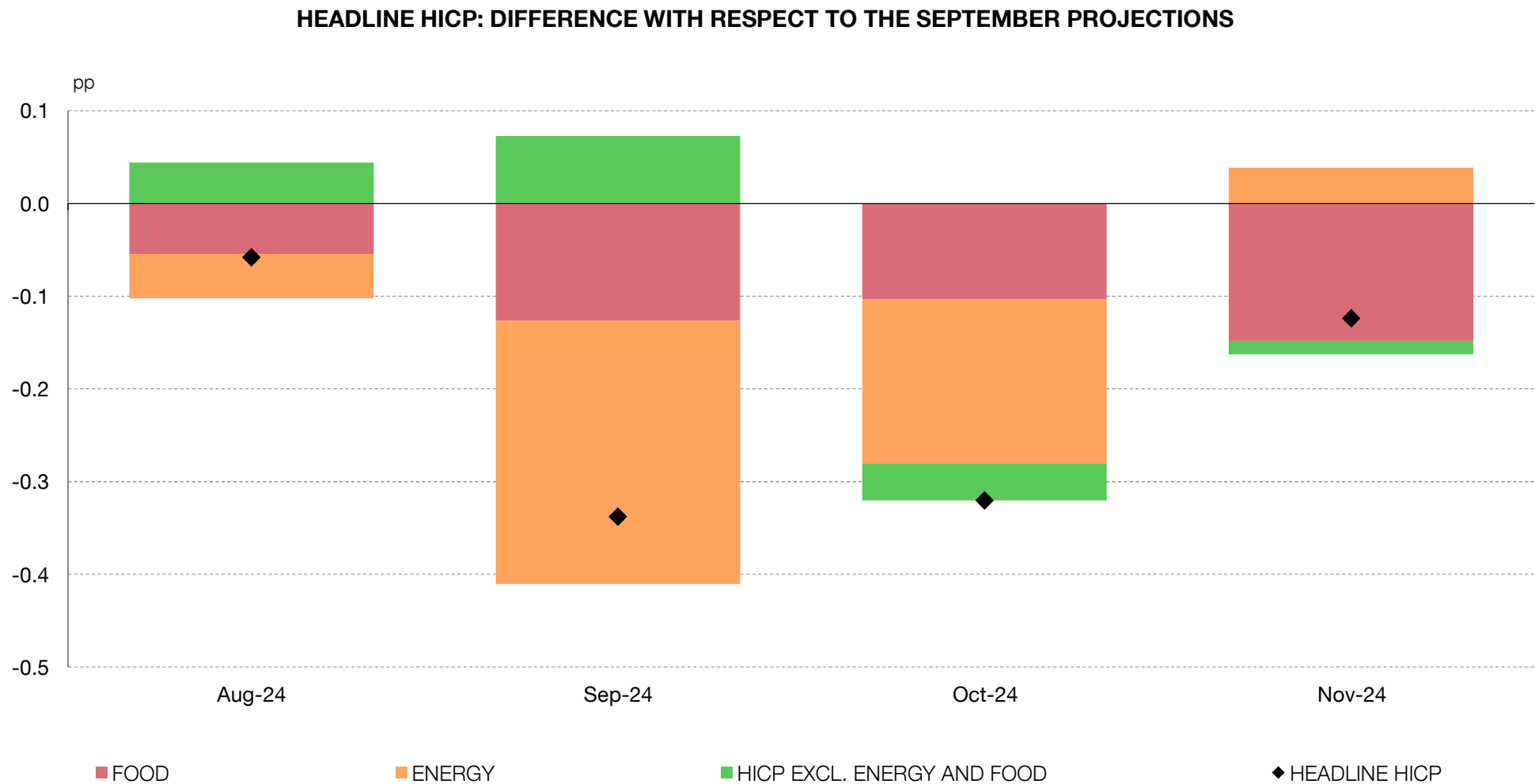


CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA



Sources: Eurostat and Banco de España. Latest data: November 2024.
(a) The weight of each component in headline HICP in 2024 is given in brackets.

THE RECENT DOWNWARD SURPRISES IN HEADLINE INFLATION HAVE CHIEFLY BEEN ATTRIBUTABLE TO A STRONGER THAN EXPECTED MODERATION IN FOOD PRICES



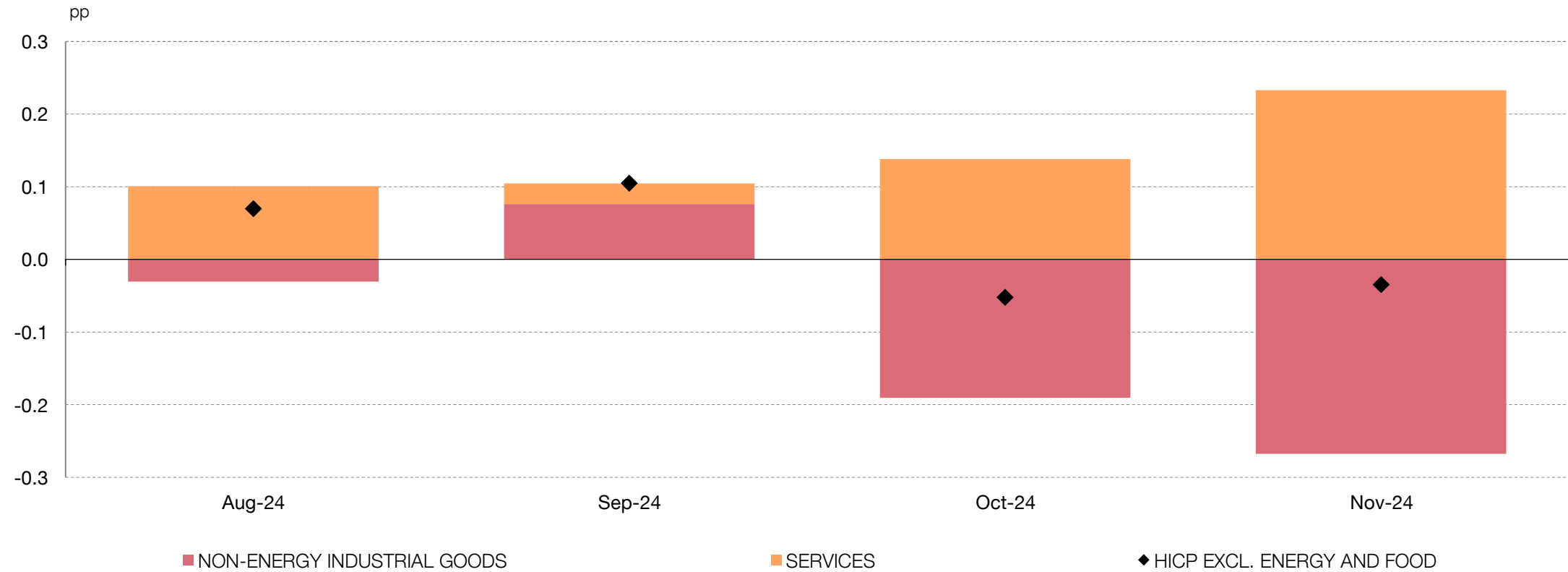
Source: Banco de España.



IN RECENT MONTHS, THE PRICES OF NON-ENERGY INDUSTRIAL GOODS HAVE SLOWED MORE THAN EXPECTED ...

- ... while, as in other geographical areas, **services inflation** has continued to show more downward stickiness than projected

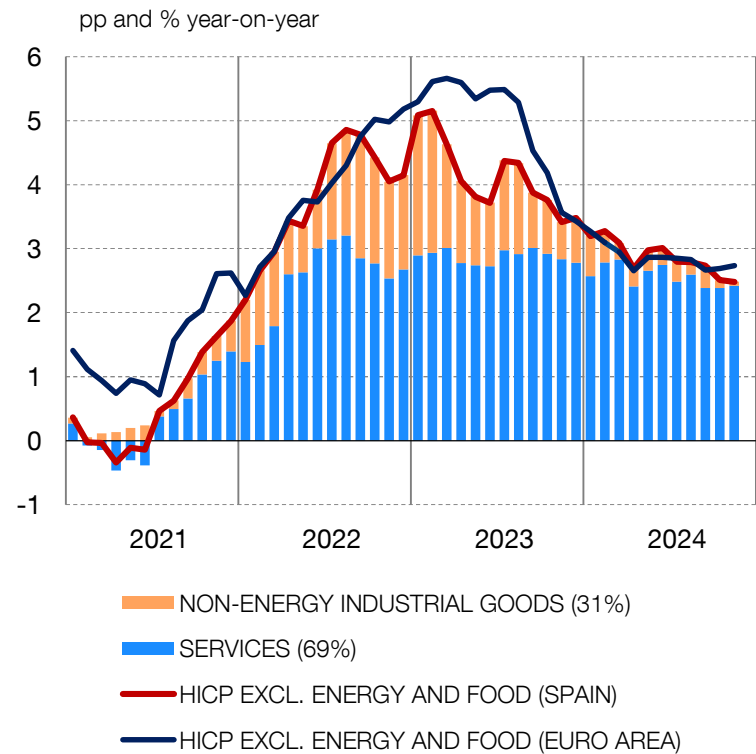
HICP EXCL. ENERGY AND FOOD: DIFFERENCE WITH RESPECT TO THE SEPTEMBER PROJECTIONS



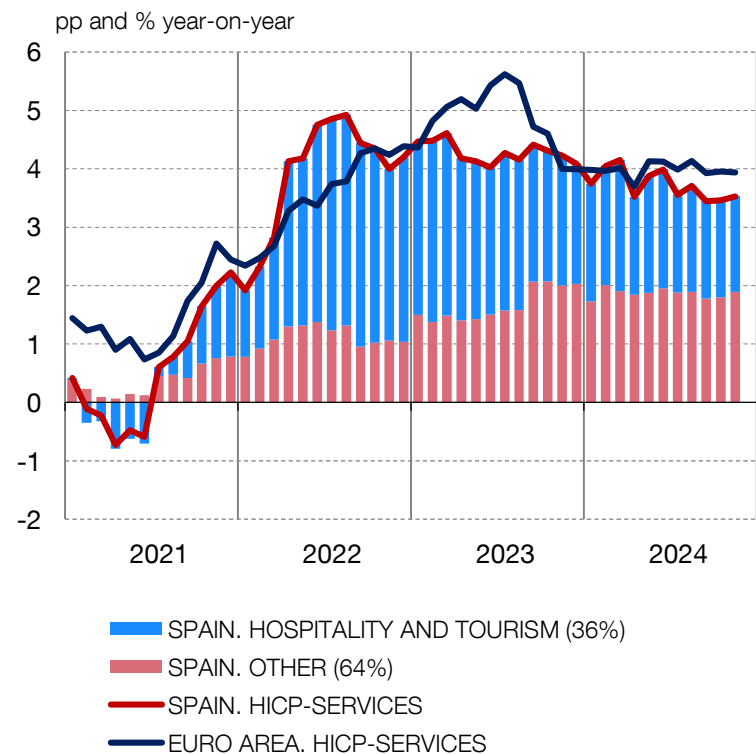
Source: Banco de España.

NOTEWORTHY IN SERVICES INFLATION ARE THE HIGH RATES IN HOSPITALITY AND TOURISM OBSERVED IN BOTH SPAIN AND THE EURO AREA

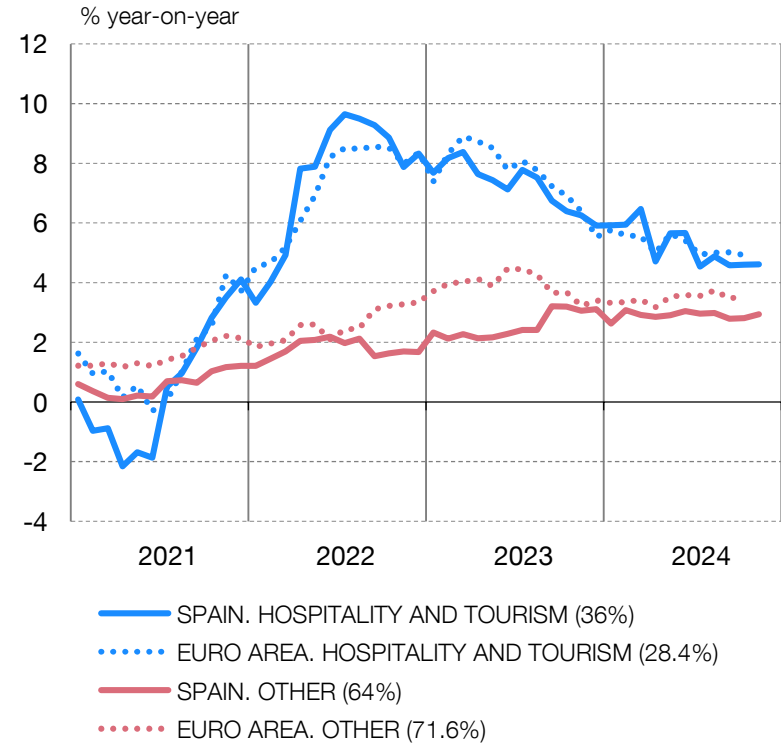
HICP EXCL. ENERGY AND FOOD AND CONTRIBUTIONS (a)



HICP-SERVICES: HOSPITALITY AND TOURISM AND OTHER AND CONTRIBUTIONS (b)



HICP-SERVICES: HOSPITALITY AND TOURISM AND OTHER (b)

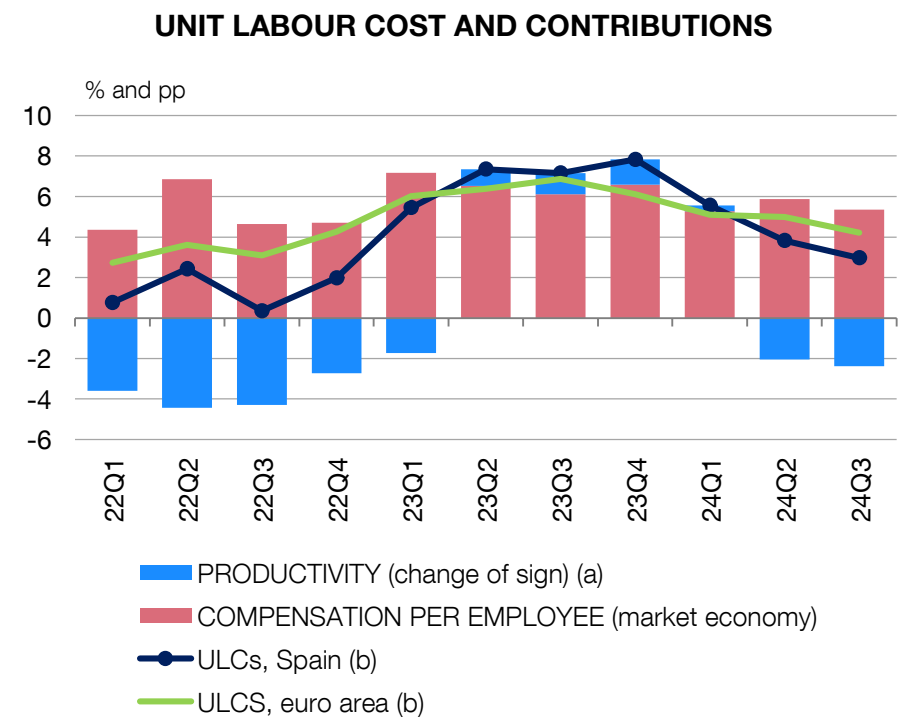
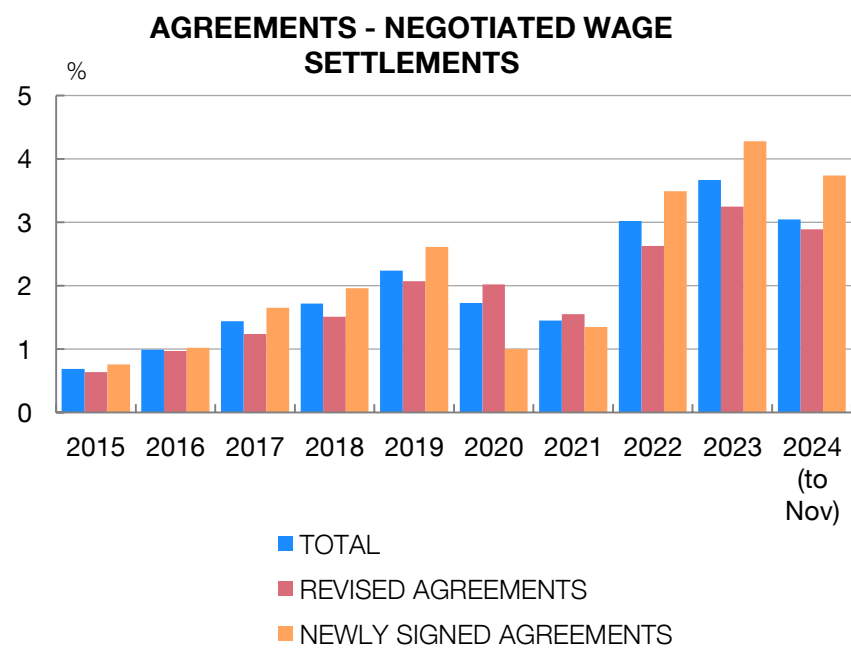


Sources: Eurostat and Banco de España. Latest data: November 2024.
(a) The weight of each component in HICP excluding energy and food in 2024 is given in brackets.
(b) The weight of each component in HICP-Services in 2024 is given in brackets.



COMPENSATION PER EMPLOYEE CONTINUES TO RECORD STRONG GROWTH, ALTHOUGH UNIT LABOUR COSTS SLOWED IN 2024 Q3 AS A RESULT OF GROWTH IN PRODUCTIVITY

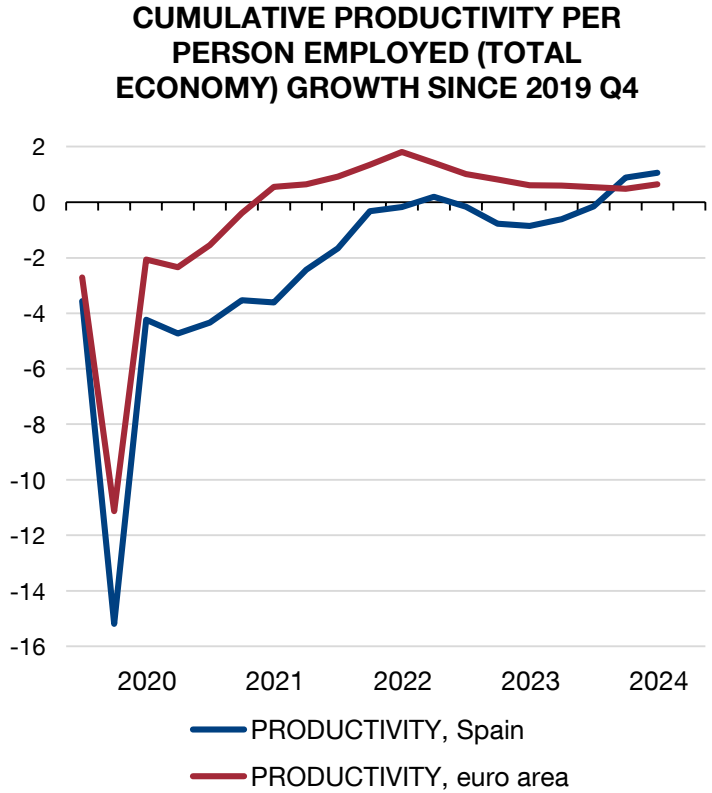
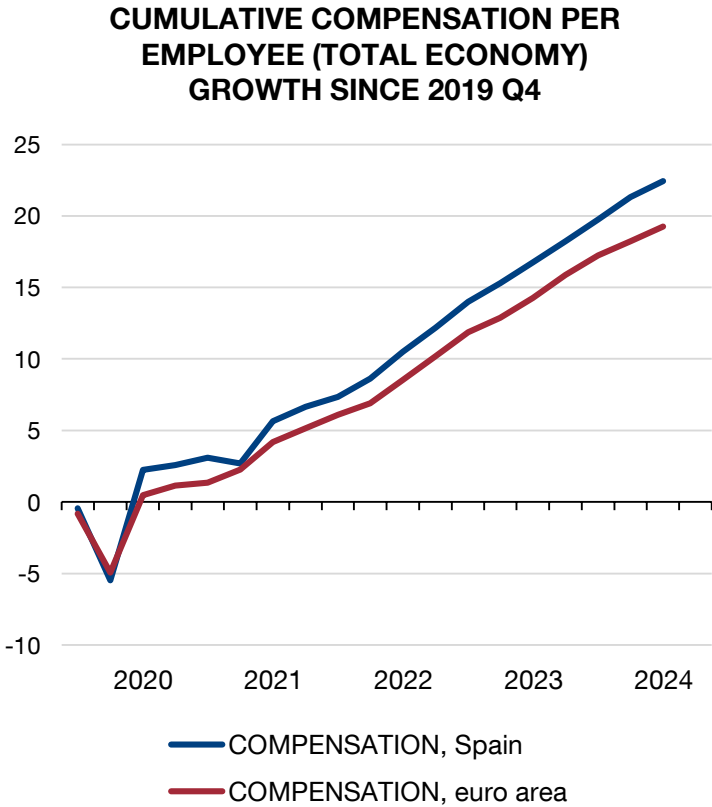
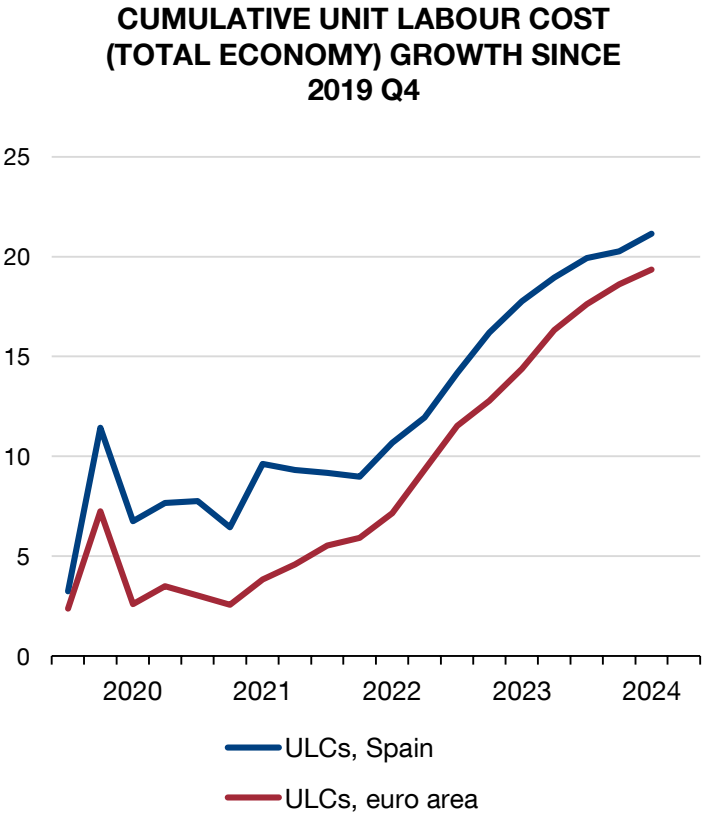
- Despite the relative wage moderation in **collective bargaining**, in the first three quarters of the year the average **compensation per employee** in the market economy increased by 5.5% year-on-year, reflecting a positive **wage drift** of close to 2 pp
- In any event, the recent rise in **productivity** is helping slow down **ULCs**, which have increased more in Spain than in the euro area as a whole since end-2019



Sources: Ministerio de Trabajo y Economía Social and INE.
(a) Productivity is defined as gross value added-to-total salaried workers in a particular sector.
(b) Variations in unit labour costs can be proxied as the sum of the variation in compensation per employee and the variation in productivity (change of sign). Thus, a positive contribution from productivity in the chart is interpreted as the effect of a fall in productivity.

SINCE END-2019, ULCs HAVE GROWN MORE IN SPAIN THAN IN THE EURO AREA, OWING TO A HIGHER INCREASE IN COMPENSATION PER EMPLOYEE IN SPAIN

- Cumulative **productivity** growth during this period has been similar in Spain and the euro area

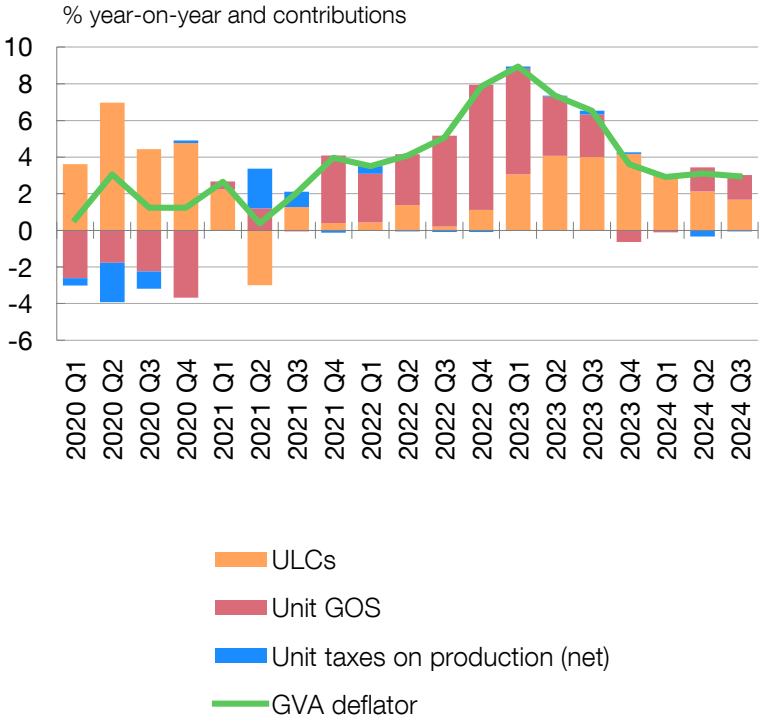


Sources: Eurostat, INE and Banco de España. Latest data: 2024 Q3.

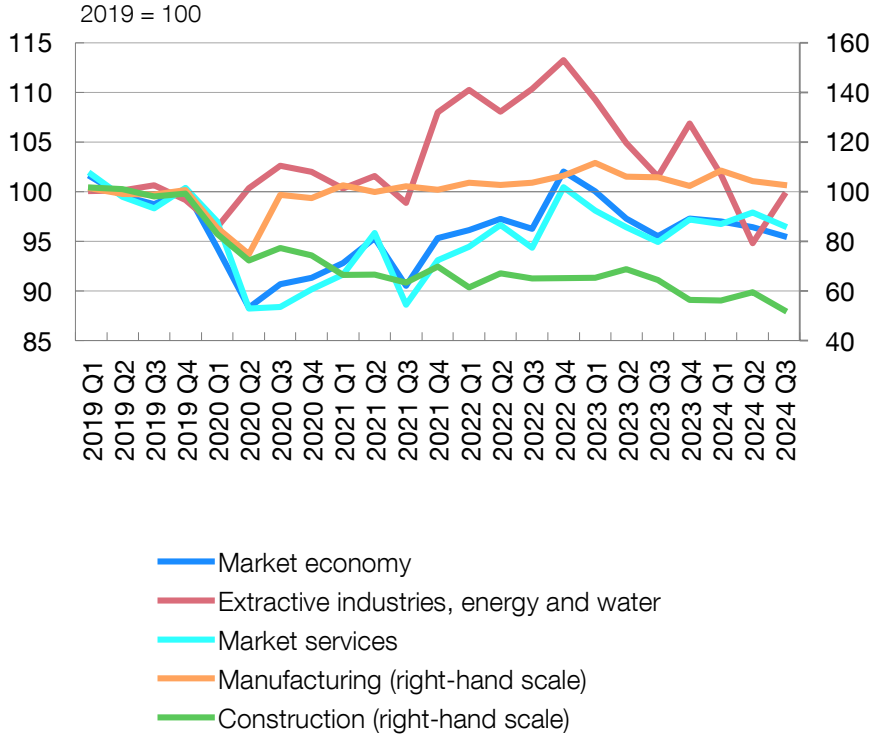
DOMESTIC PRICE PRESSURES HAVE REMAINED STABLE IN RECENT QUARTERS INsofar AS PROFIT MARGINS HAVE OFFSET THE SLOWDOWN IN ULCs

- The ratio of gross operating surplus (GOS) to gross value added (GVA) of the market economy remains below its pre-pandemic levels, based on the QNA published by the INE

GROSS VALUE ADDED DEFLATOR. MARKET ECONOMY



CHANGE IN PROFIT MARGINS (GOS/GVA) ON QNA DATA



Sources: Banco de España and INE.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2027)

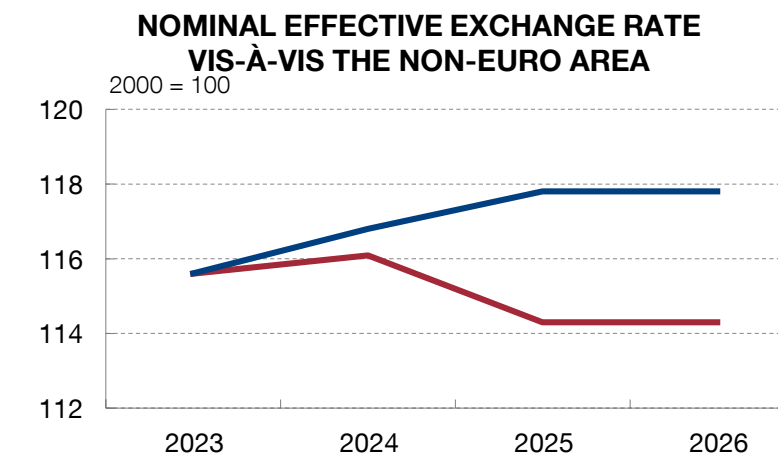
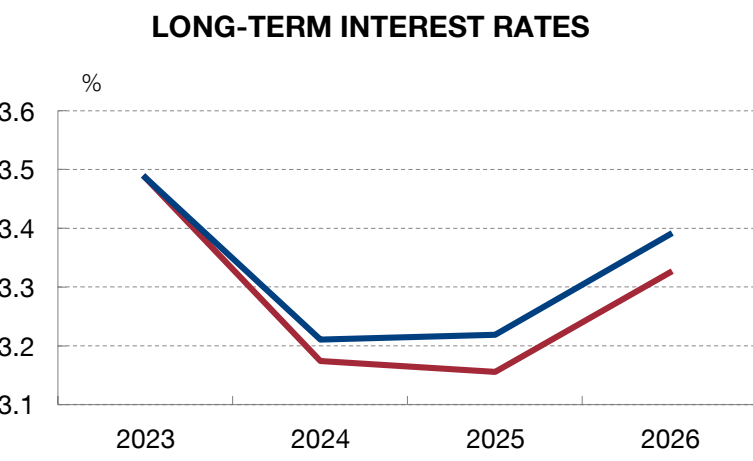
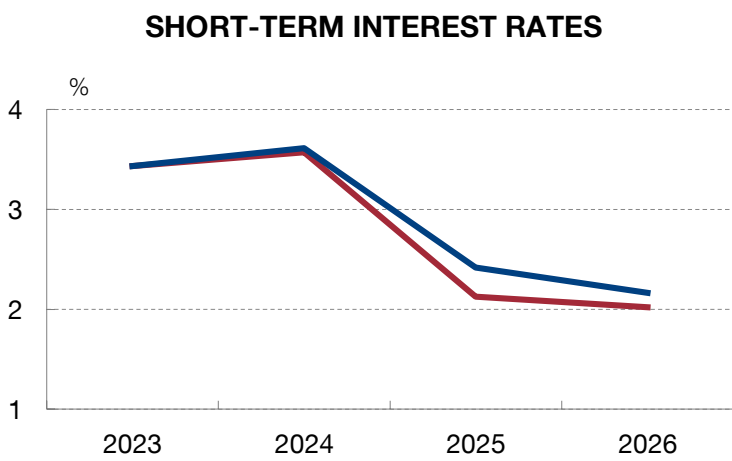
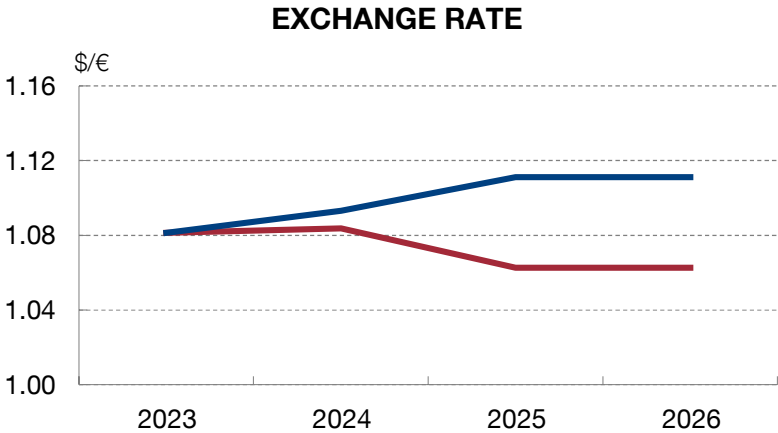
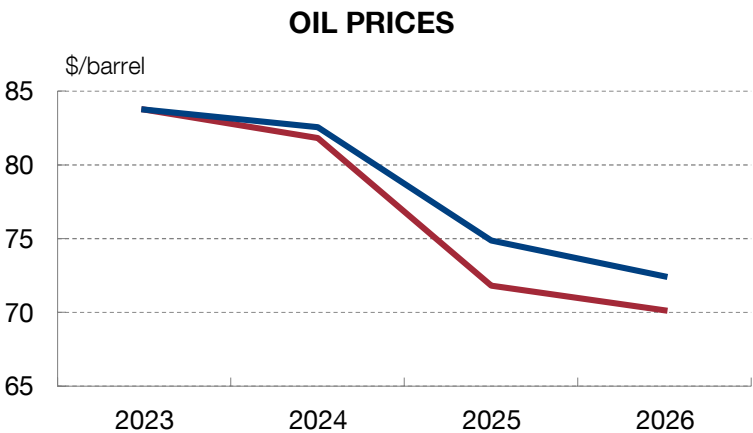
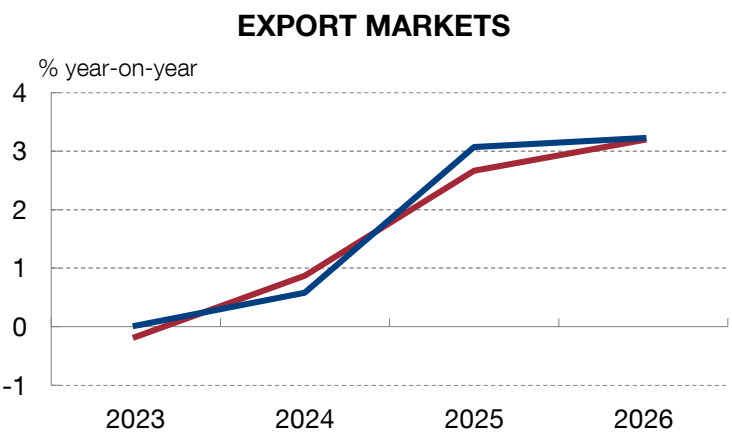
MAIN ITEMS

		December 2024 projections				September 2024 projections		
	2023	2024	2025	2026	2027	2024	2025	2026
GDP	2.7	3.1	2.5	1.9	1.7	2.8	2.2	1.9
Private consumption	1.8	2.8	2.9	2.0	1.8	2.2	2.1	1.8
Government consumption	5.2	4.2	1.9	1.8	1.7	1.8	2.0	1.7
Gross capital formation	-1.6	0.8	3.1	2.2	1.9	1.8	2.1	2.4
Exports of goods and services	2.8	3.3	3.0	3.2	2.9	3.5	2.7	3.2
Imports of goods and services	0.3	2.1	3.8	3.5	3.2	1.4	2.5	3.5
Domestic demand (contribution to growth)	1.7	2.6	2.6	1.9	1.7	2.0	2.0	1.8
Net external demand (contribution to growth)	1.0	0.5	-0.1	0.0	0.0	0.8	0.2	0.1
Nominal GDP	9.1	6.3	4.8	3.8	4.0	5.9	4.4	3.7
GDP deflator	6.2	3.1	2.2	1.8	2.2	3.0	2.2	1.8
HICP	3.4	2.9	2.1	1.7	2.4	2.9	2.1	1.8
HICP excluding energy and food	4.1	2.9	2.3	1.9	1.8	2.8	2.2	1.9
Employment (people)	3.0	2.1	1.6	1.1	1.0	2.2	1.6	1.1
Employment (hours)	2.0	1.2	1.3	1.1	1.0	1.8	1.7	1.1
Unemployment rate (% of the labour force). Annual average	12.2	11.5	10.8	10.4	9.9	11.5	11.0	10.7
Net lending (+) / net borrowing (-) of the nation (% of GDP)	3.7	4.1	4.2	4.2	3.6	4.5	5.0	5.0
General government net lending (+) / net borrowing (-) (% of GDP)	-3.5	-3.4	-2.9	-2.7	-2.7	-3.3	-3.1	-3.2
General government debt (% of GDP)	105.1	103.1	102.6	102.5	101.8	105.4	105.4	106.3

Sources: Banco de España and INE. Latest QNA figure: 2024 Q3 flash estimate.

(a) Projections cut-off date: 27 November 2024.

CHANGES IN THE ASSUMPTIONS COMPARED WITH THE SEPTEMBER PROJECTION EXERCISE



— SEPTEMBER 2024 — DECEMBER 2024

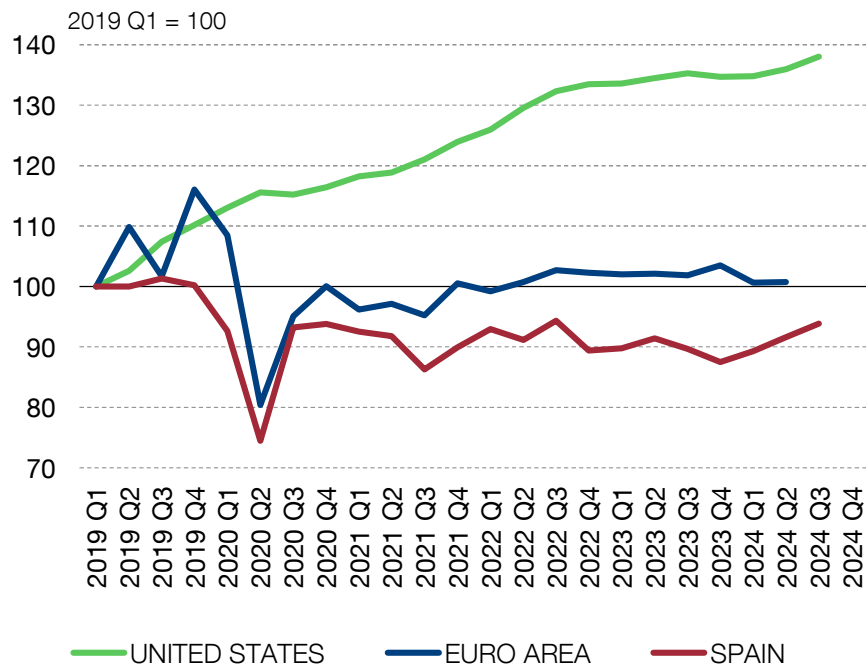
Sources: ECB and Banco de España.



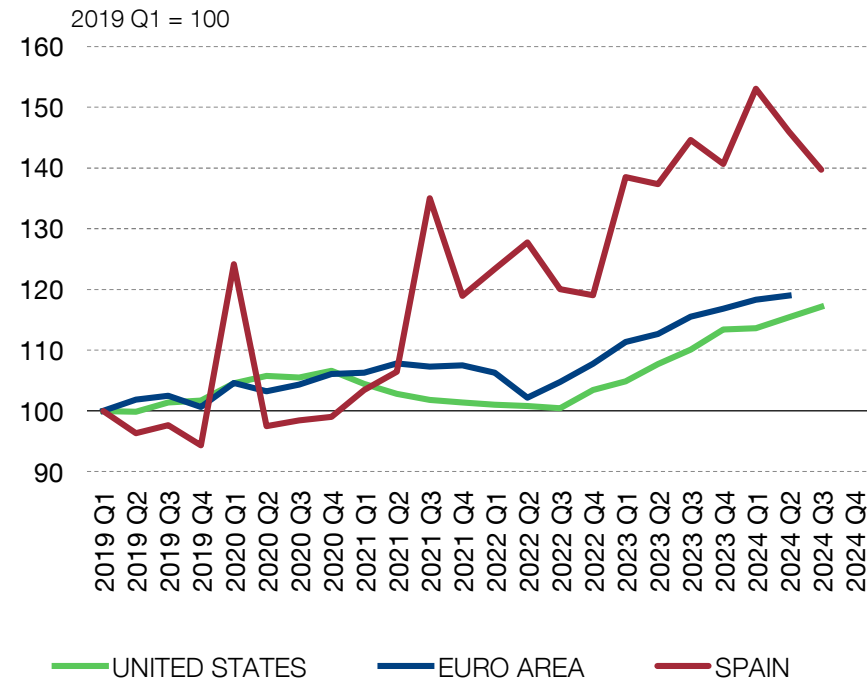
THE PERSISTENT SLUGGISHNESS OF BUSINESS INVESTMENT IN SPAIN POSES A DOWNSIDE RISK TO THE GROWTH PATH PROJECTED FOR GDP

- In keeping with the pattern observed since end-2019, investment has been sluggish and consistently surprised on the downside in 2024 Q3 and in 2024 as a whole
- This weakness was particularly pronounced in private productive investment (which excludes public investment and residential investment from gross fixed capital formation), and could not be offset by the buoyant public investment posted in Spain in recent years
- The latest qualitative indicators suggest that growth in productive investment will remain modest in the final stretch of the year, whereas the housing construction execution indicator points to an acceleration in residential investment over the coming quarters

PRIVATE PRODUCTIVE INVESTMENT



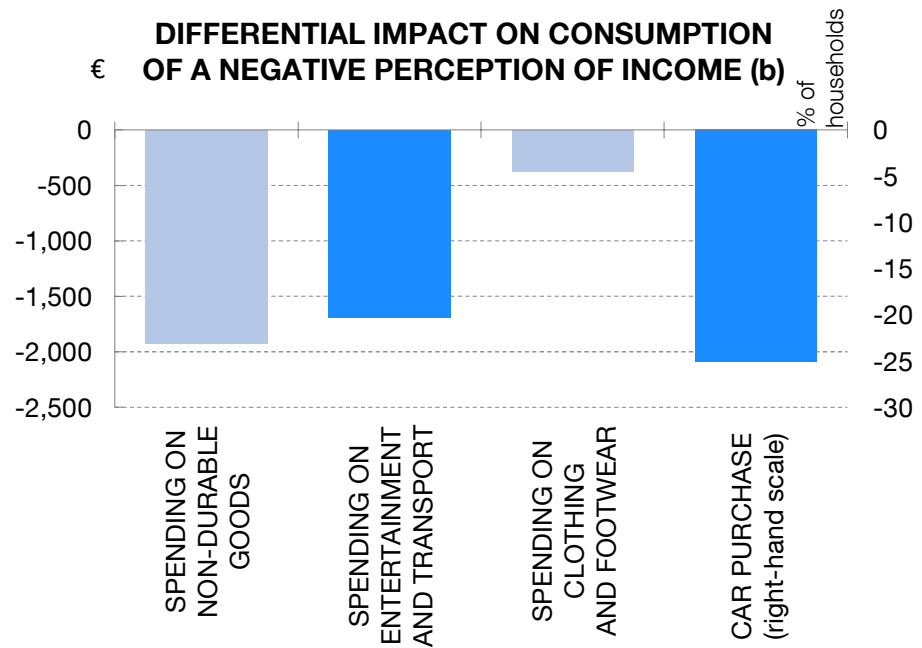
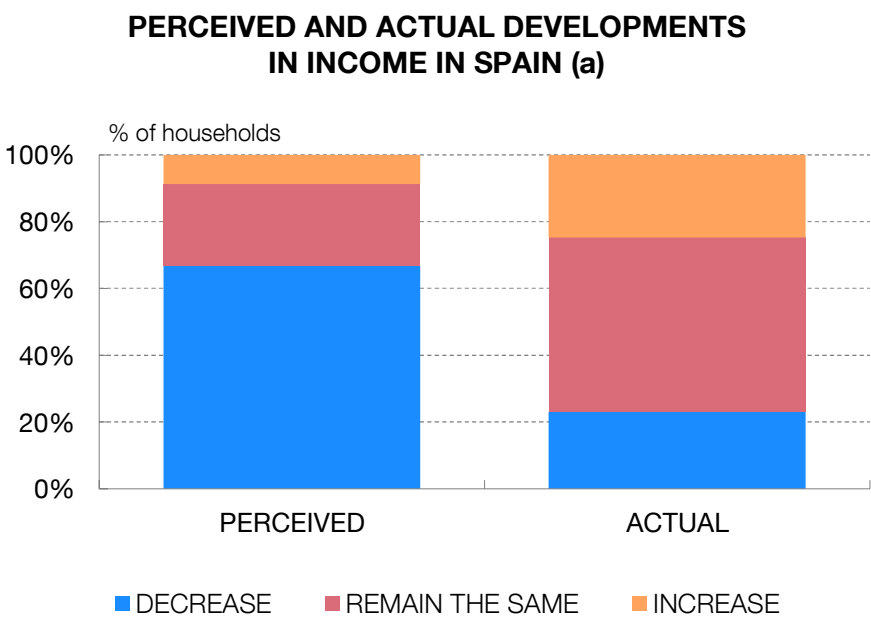
PUBLIC INVESTMENT



Sources: Eurostat, ECB and Bureau of Economic Analysis.

HOUSEHOLDS' PERCEPTION OF RECENT DEVELOPMENTS IN THEIR INCOME HAS A DECISIVE INFLUENCE ON THEIR CONSUMPTION LEVELS

- According to the European Central Bank's Consumer Expectations Survey, both European and Spanish households tend to perceive that their real incomes have deteriorated more in recent months than has actually been the case
- As regards households whose real income has increased, consumption levels are lower among those that have a more pessimistic perception of developments in their income than among others



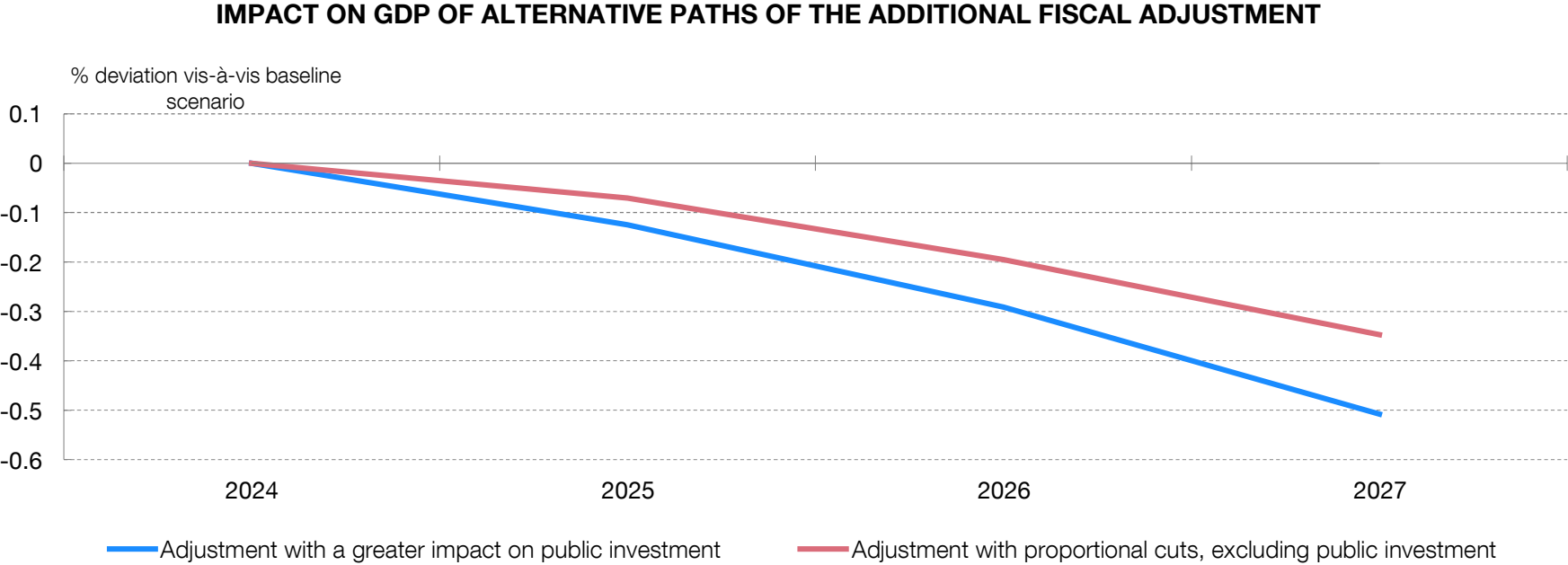
Sources: Consumer Expectations Survey and Banco de España.

(a) In the case of “perceived developments” in income, the chart depicts the percentage of households that perceived that their income increased more, less or about the same as prices between September 2023 and September 2024. In the case of “actual developments”, the chart depicts the percentage of households whose respondent indicated that labour income had increased more, less or the same as actual inflation between October 2023 and October 2024. Information is available on income by bracket, meaning that the percentage of households whose respondent reported an increase (decrease) in labour income captures those who have moved to a higher (lower) income bracket.

(b) In the case of households reporting an increase in their real income, the chart depicts the difference between the change in average consumption levels among households that perceive an increase in their real income and the change among those that perceive a decrease. In the case of car purchases (right-hand scale), the chart depicts the difference in terms of the percentage of households from both groups that have purchased a car. The dark bars capture cases in which the gap between the two groups is statistically significant.

THE MACROECONOMIC IMPACT OF STRICT COMPLIANCE WITH THE MTFSP WILL DEPEND ON THE COMPOSITION OF THE ADDITIONAL FISCAL ADJUSTMENT REQUIRED

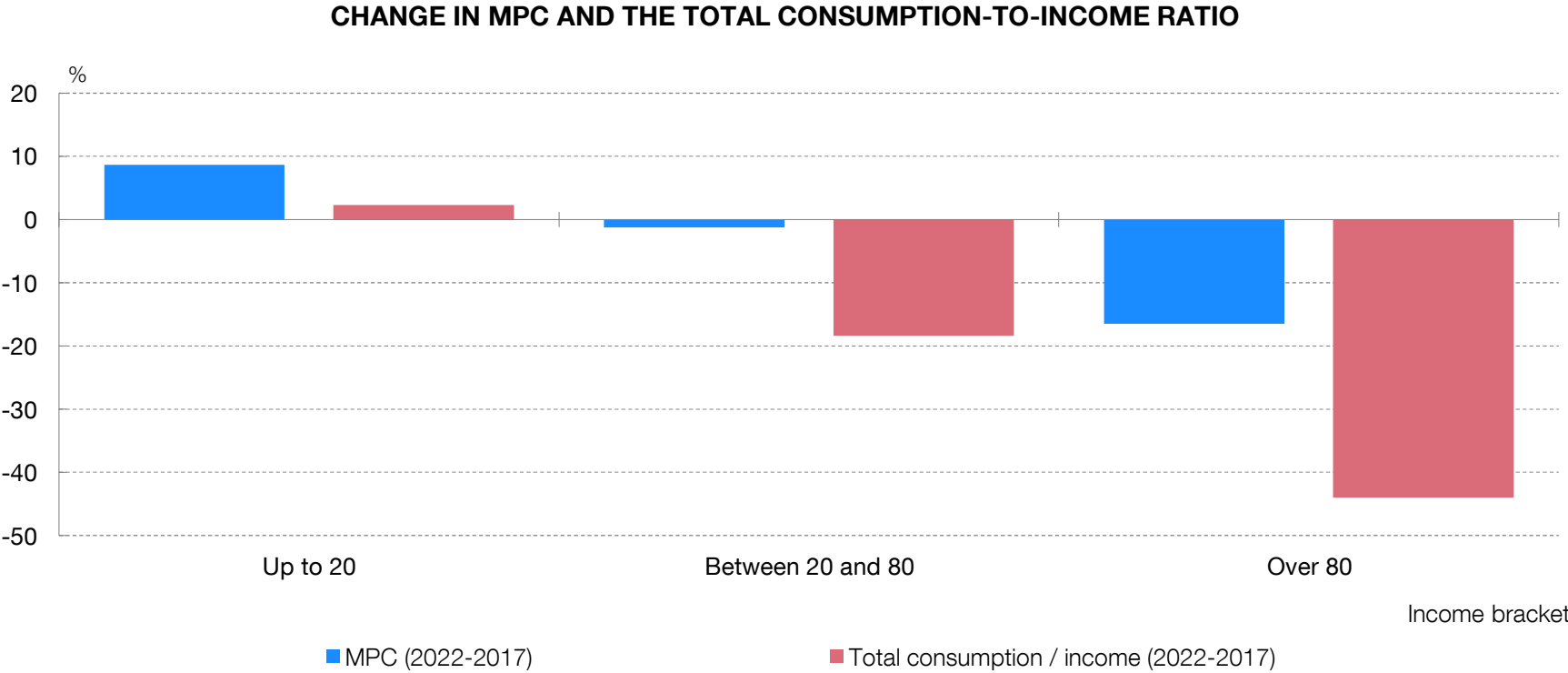
- The macroeconomic scenario and fiscal measure assumptions underlying these projections are consistent with annual average growth of 3.9% in net primary expenditure during the period 2025-2027, which would be 0.4 pp higher (again, in annual average terms) than the 3.5% committed to in the Medium-Term Fiscal-Structural Plan (MTFSP) (AIReF estimates that average net primary expenditure growth in this period would be 0.3 pp higher than envisaged in the Plan)
- In consequence, strict compliance with the commitments undertaken in the MTFSP would require an average annual additional adjustment of between 0.3 pp and 0.4 pp in net primary expenditure growth over the projection horizon
- This additional adjustment is not included in the baseline scenario of this projection exercise, due to a lack of clarity on how it would be implemented. In any event, the impact of the adjustment on the path of future growth will depend on its composition



Source: MTBE.

CHANGES IN THE MPC AND SPENDING BY INCOME PERCENTILE

- Although the MPC is estimated under a hypothetical scenario (winning a lottery prize), it is informative for understanding the course of consumption, as there is a positive correlation between changes in these hypothetical MPCs and changes in the total spending-to-income ratio



Source: EFF (2017 and 2022).

