

GALO NUÑO

# MACROECONOMIC PROJECTIONS FOR SPAIN 2025-2027\*

ASSOCIATE DIRECTOR GENERAL ECONOMICS

MADRID, 16 SEPTEMBER 2025

\* ENGLISH TRANSLATION FROM THE ORIGINAL IN SPANISH

BANCO DE **ESPAÑA**  
Eurosistema



A black and white photograph of a highly ornate building facade, likely a historical or institutional structure. It features a large clock face with Roman numerals, intricate carvings, statues, and a tall spire topped with a globe. The image is positioned on the left side of the slide, partially overlapping the blue background.

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# RECENT TRADE AGREEMENTS HAVE LED TO HIGHER US TARIFFS ON OTHER COUNTRIES, WHILE UNCERTAINTY PERSISTS AROUND CERTAIN ASPECTS

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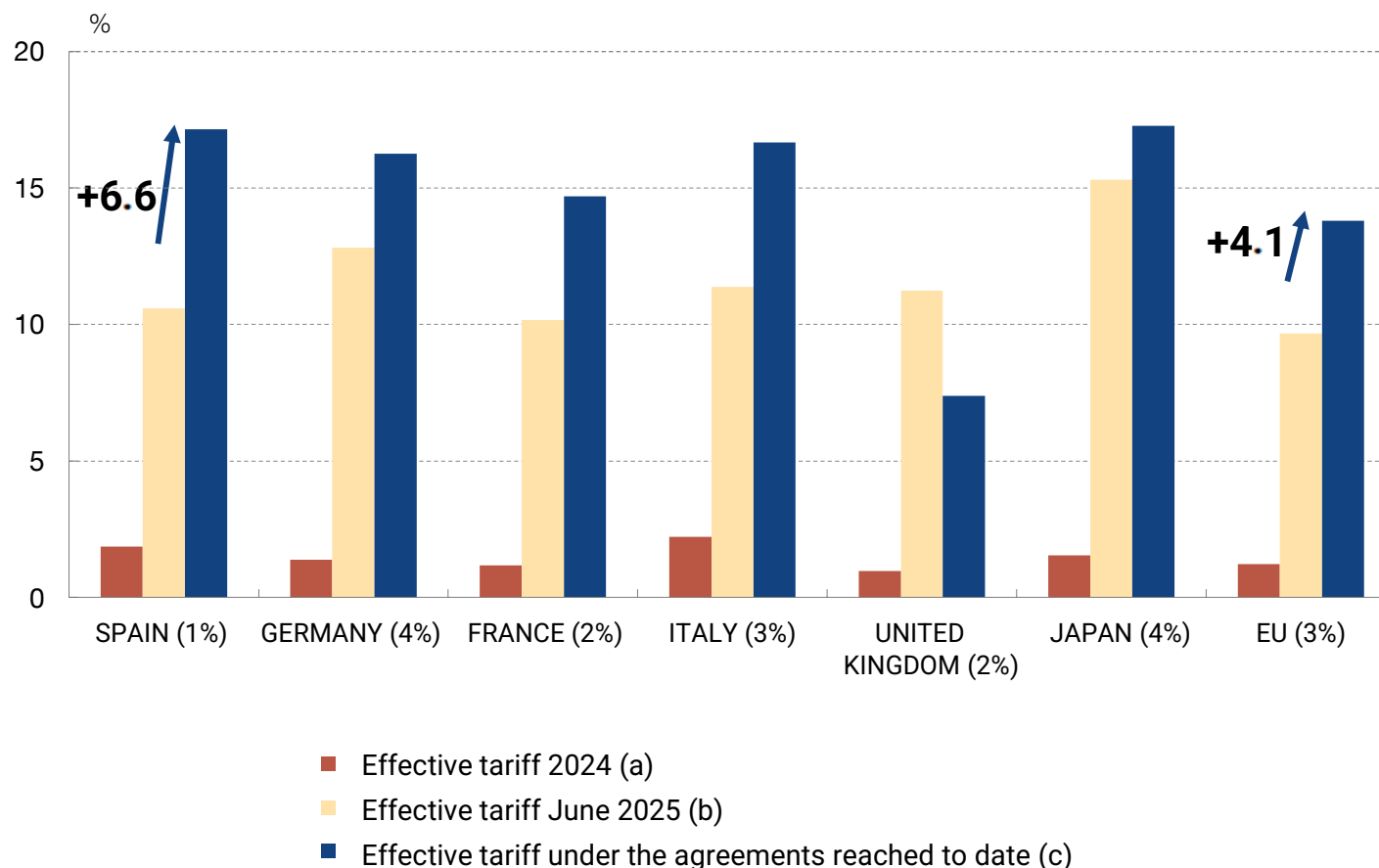
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### EFFECTIVE US TARIFFS ON GOODS

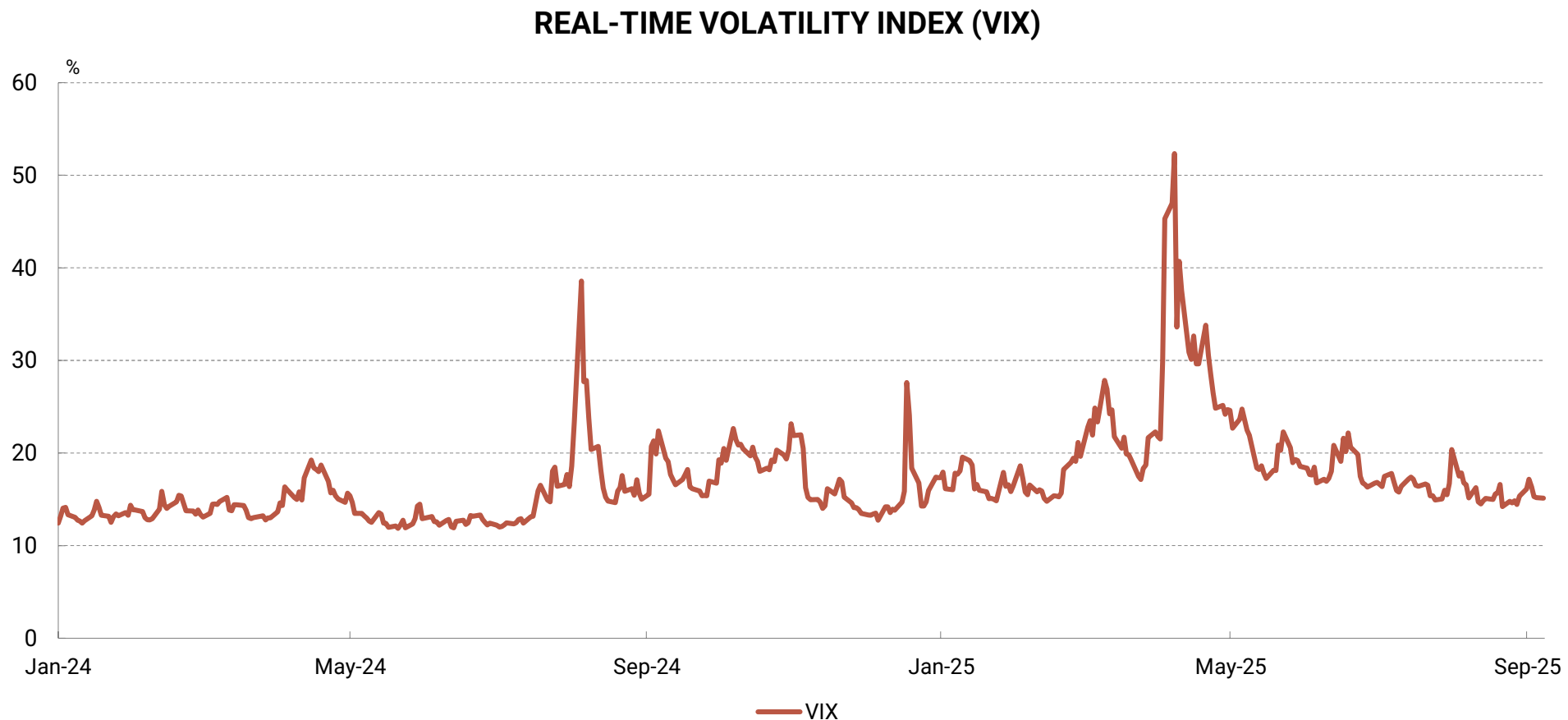


- The EU-US trade agreement raises the effective tariff on the EU by 13.8 pp vs 2024 and by 4 pp vs June
- In addition, the EU has committed to:
  - lower its tariffs on the United States
  - investments and purchases of energy and military equipment
  - lower **non-trade barriers**
- There is **significant uncertainty** over how these additional aspects will be **implemented** in practice

Sources: US Trade Census and Banco de España. (a) Effective tariff in 2024. (b) Effective tariff in force at 1 June 2025. (c) Effective tariff level under the trade agreements announced up to 1 September 2025. All the measures announced are included, but some have yet to come into force or be confirmed by the two parties concerned.

# VOLATILITY ON THE FINANCIAL MARKETS HAS HELD AT LOW LEVELS ...

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Source: Bloomberg Data License. Latest observation: 8 September.

## ... WHILE STOCK MARKET INDICES HAVE PERFORMED WELL IN THE UNITED STATES AND HELD RELATIVELY STABLE IN THE EURO AREA

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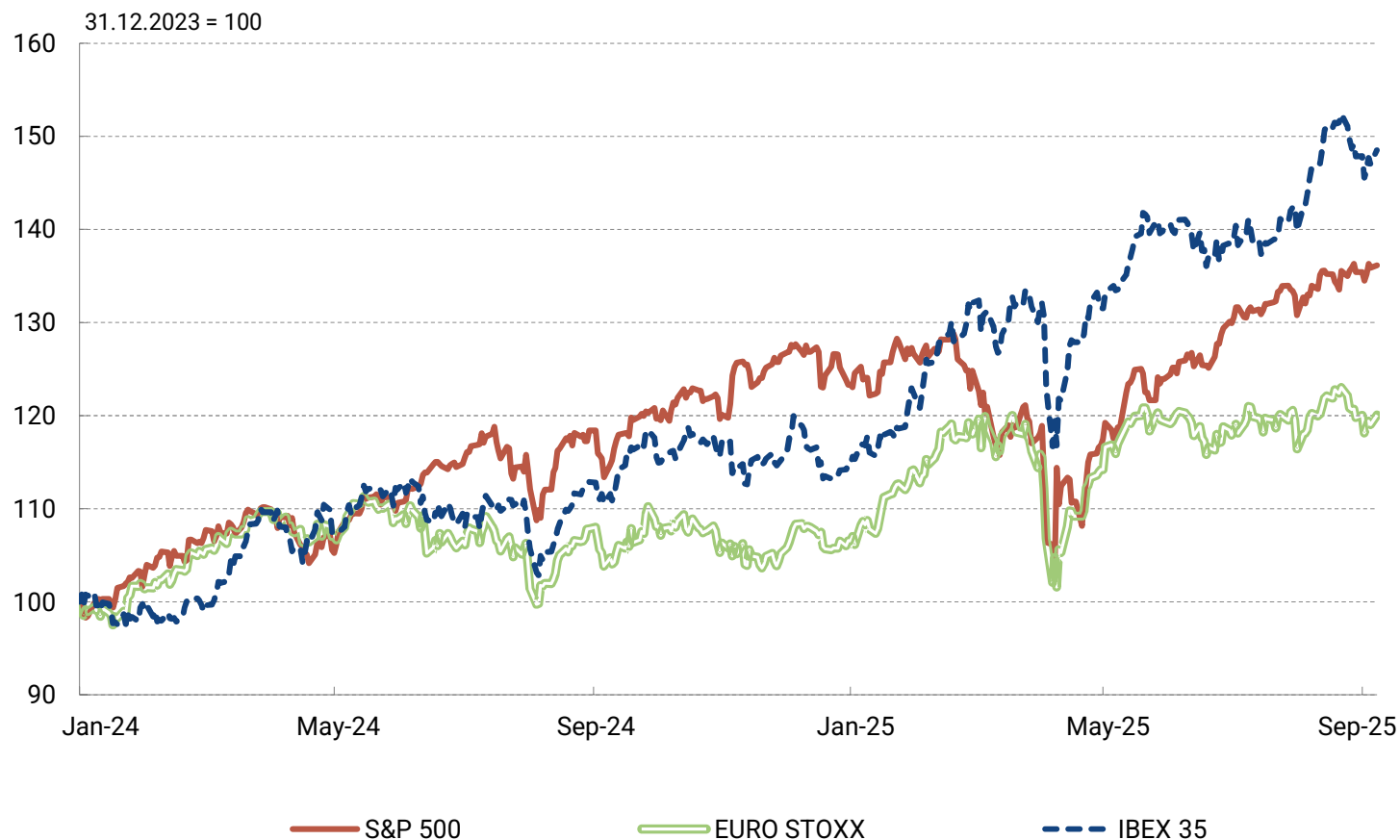
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### STOCK MARKET INDICES

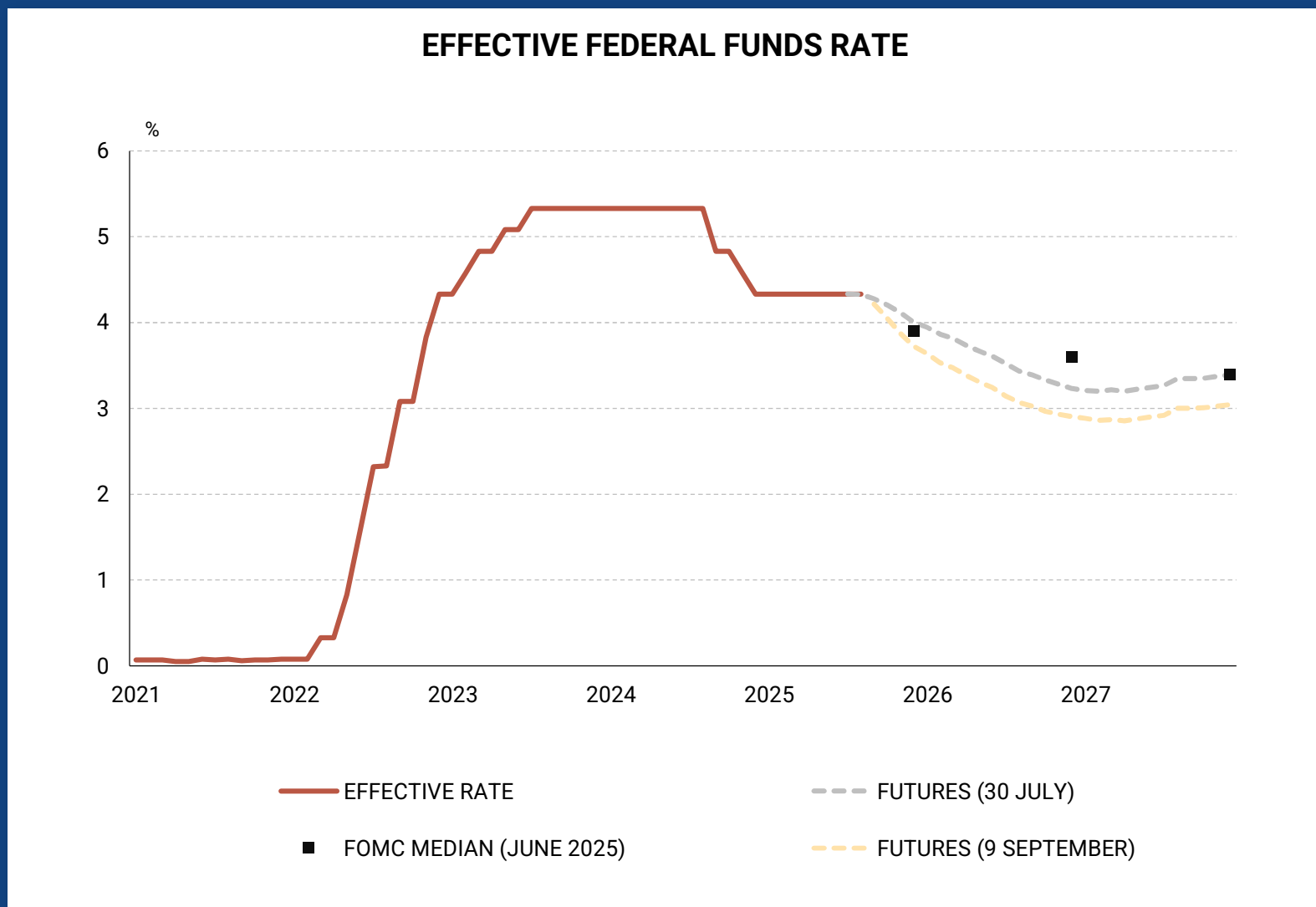


- The S&P 500 has reached **record highs** underpinned by sound corporate earnings, particularly in the tech sector
- Developments in the euro area have been more contained, although **the banking sector has posted significant gains** which have passed through to the IBEX 35

Source: Bloomberg Data License. Latest observation: 8 September.

# THE MARKETS EXPECT FURTHER POLICY RATE CUTS IN THE UNITED STATES ...

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- The markets expect a 25 bp cut in the policy rate in September, with **a total reduction of 75 bp generally anticipated by the end of 2025**
- According to recent communications from the Chair of the Federal Reserve, **the risks to inflation are tilted to the upside, and risks to employment to the downside**

## ... WHILE IN SEPTEMBER THE ECB HELD KEY INTEREST RATES AT 2% FOR THE SECOND CONSECUTIVE MEETING

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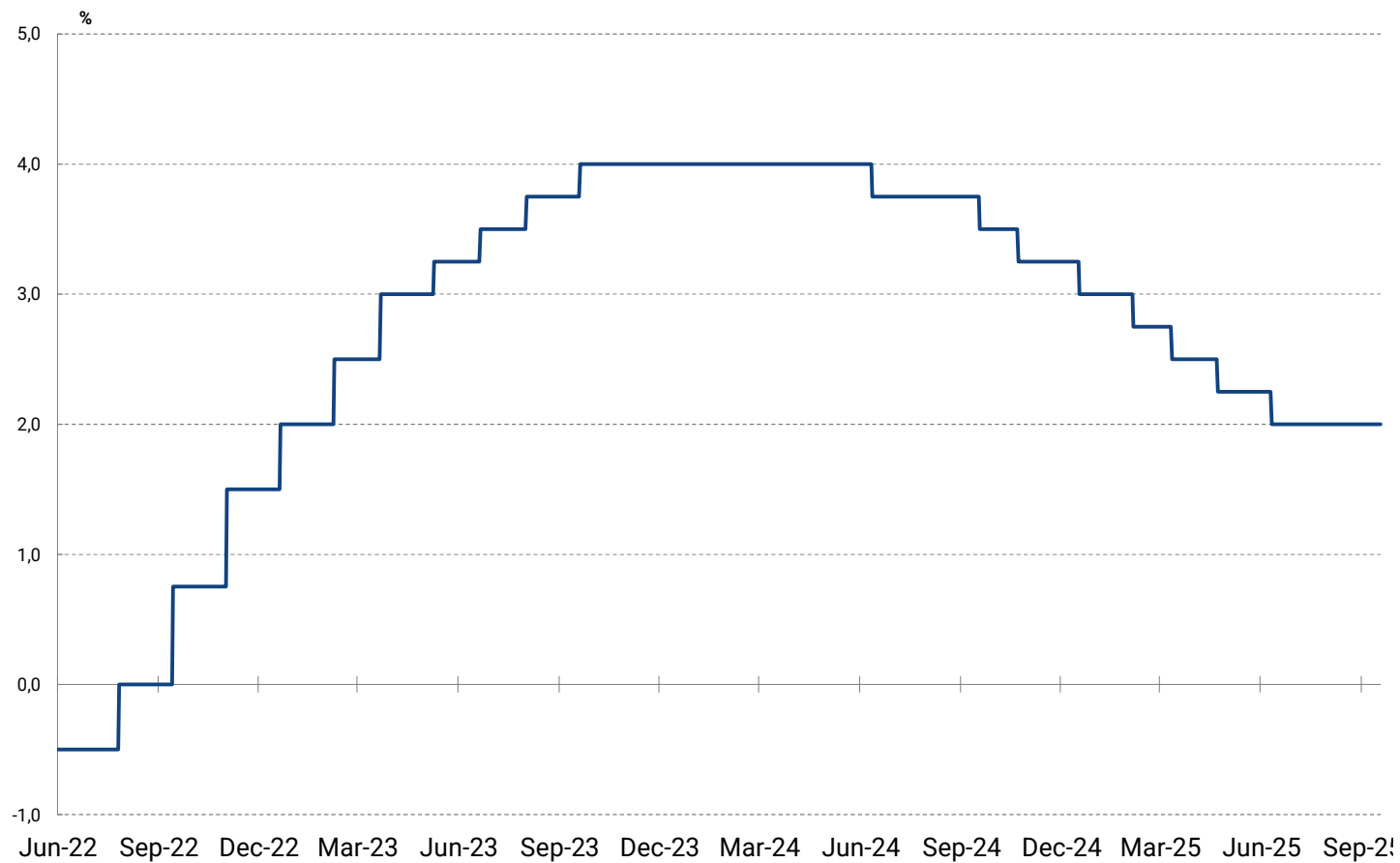
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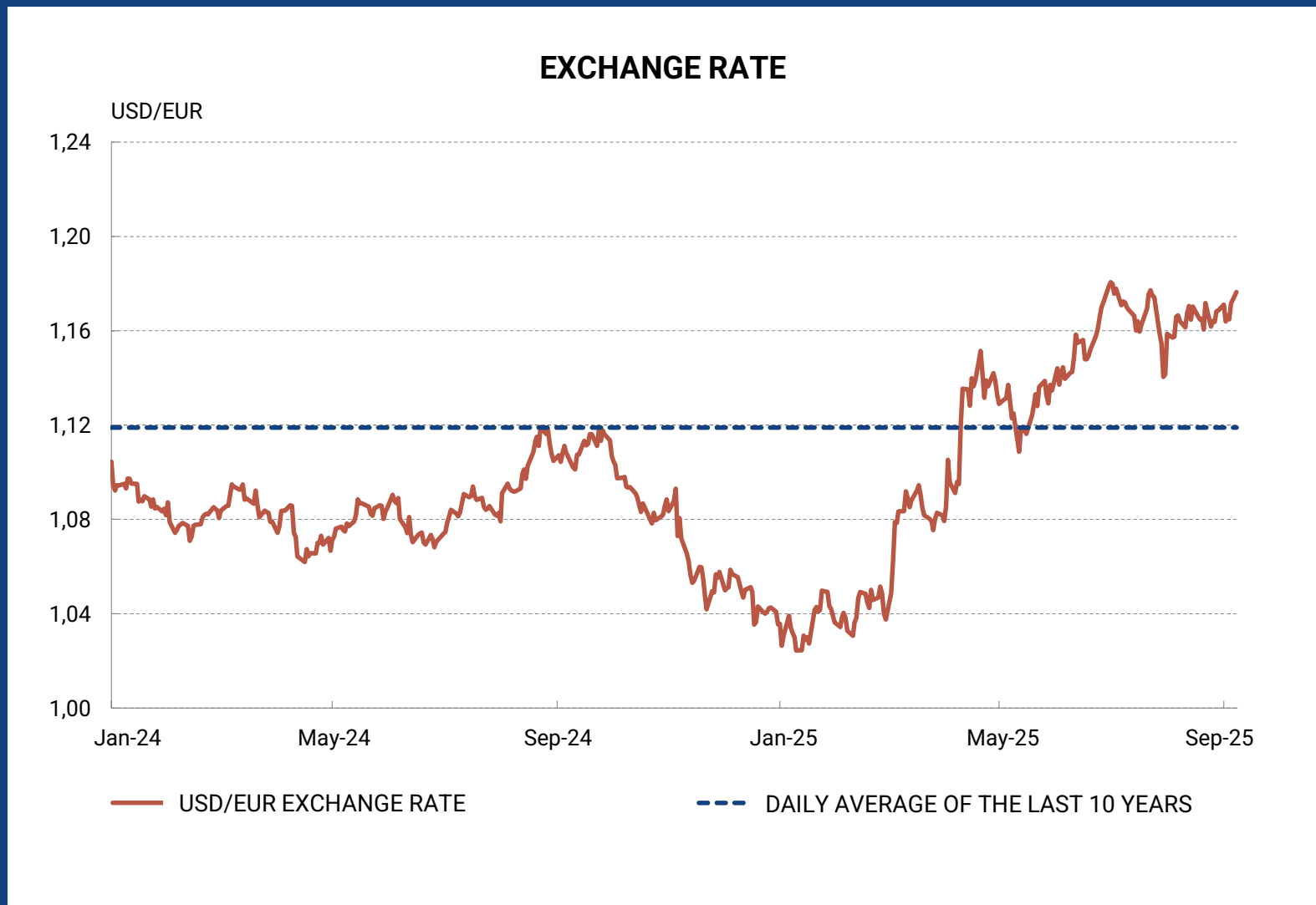
KEY ECB DEPOSIT FACILITY RATE



- Inflation is currently at around the **2% medium-term target** and the Governing Council's assessment of the inflation outlook is broadly unchanged

# THE EURO/US DOLLAR EXCHANGE RATE HAS STABILISED IN RECENT WEEKS

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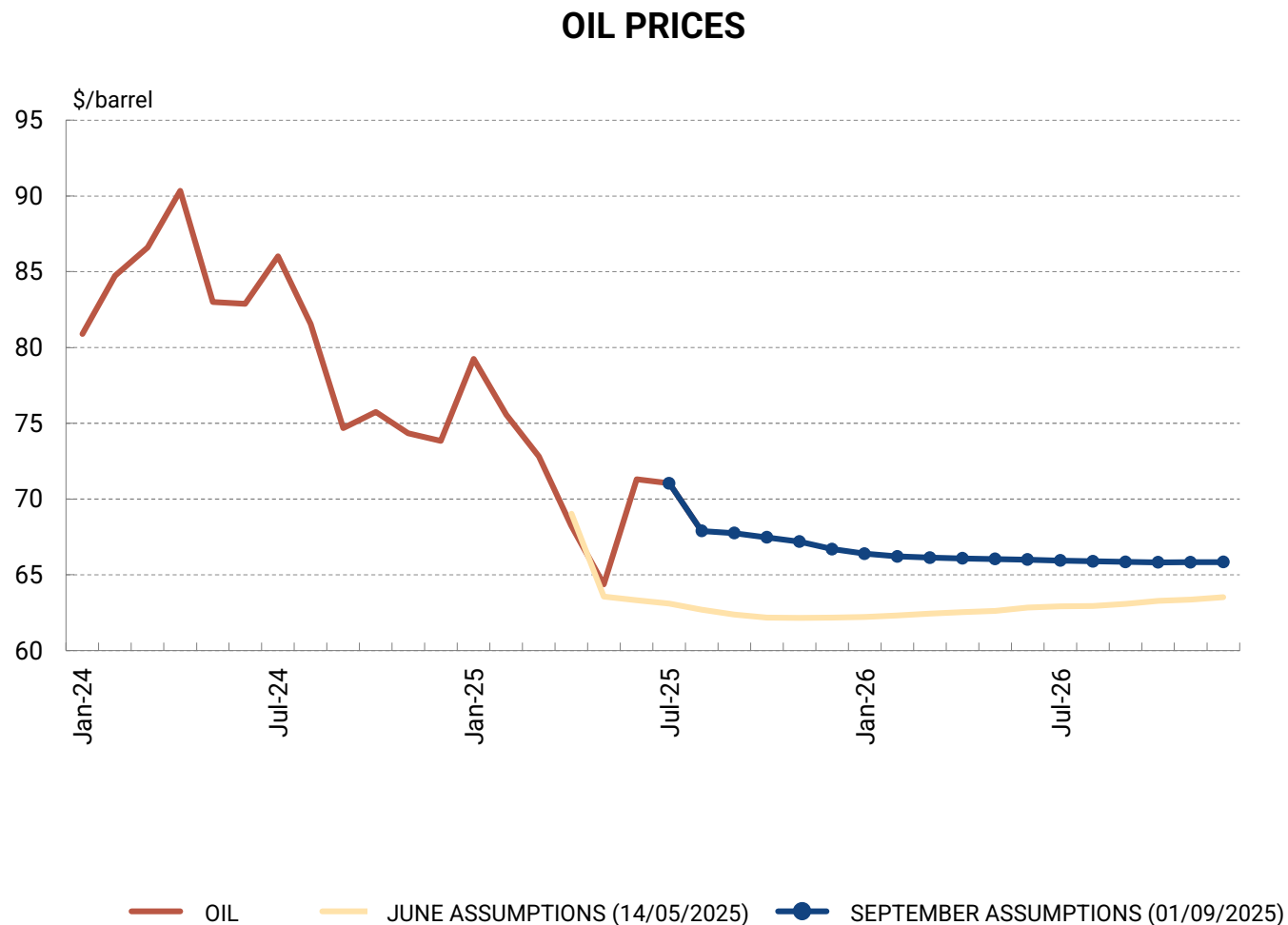
- This reflects a degree of renewed **appetite for the dollar** among international investors
- The euro is now just above its 10-year average against the dollar

Source: Bloomberg Data License. Latest observation: 8 September.



# THE NEW TECHNICAL ASSUMPTIONS OF THE PROJECTION EXERCISE FACTOR IN SOMEWHAT HIGHER ENERGY PRICES

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- **The euro's appreciation against the dollar partly offset the effect of higher international oil prices in dollars**

A detailed black and white photograph of a classical building facade, featuring a large clock face, ornate sculptures, and a tall clock tower with a spherical finial. The image is positioned on the left side of the slide, partially overlapping the blue background.

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# MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY

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Annual rate of change (%)	2025	2025 H1	2025 H2	2026	2026 H1	2026 H2
<b>GDP</b>	2.6	2.8	2.5	1.8	2.0	1.7
PRIVATE CONSUMPTION	3.1	3.6	2.6	2.0	2.2	1.8
GOVERNMENT CONSUMPTION	1.9	2.0	1.8	1.7	2.6	0.9
GROSS CAPITAL FORMATION	5.0	5.1	5.9	2.5	2.4	2.0
EXTERNAL DEMAND (a)	-0.5	-0.5	-0.5	-0.2	-0.4	0.0
INFLATION	2.5	2.4	2.7	1.7	1.7	1.8
CORE INFLATION	2.4	2.5	2.4	2.1	2.2	2.1
<b>EMPLOYMENT</b>	2.6			1.3		
<b>UNEMPLOYMENT RATE (% of labour force)</b>	10.5			10.2		
<b>GENERAL GOVERNMENT NET LENDING (+)/NET BORROWING (-) (% of GDP)</b>	-2.5			-2.3		
<b>GENERAL GOVERNMENT DEBT (% of GDP)</b>	100.7			100.4		

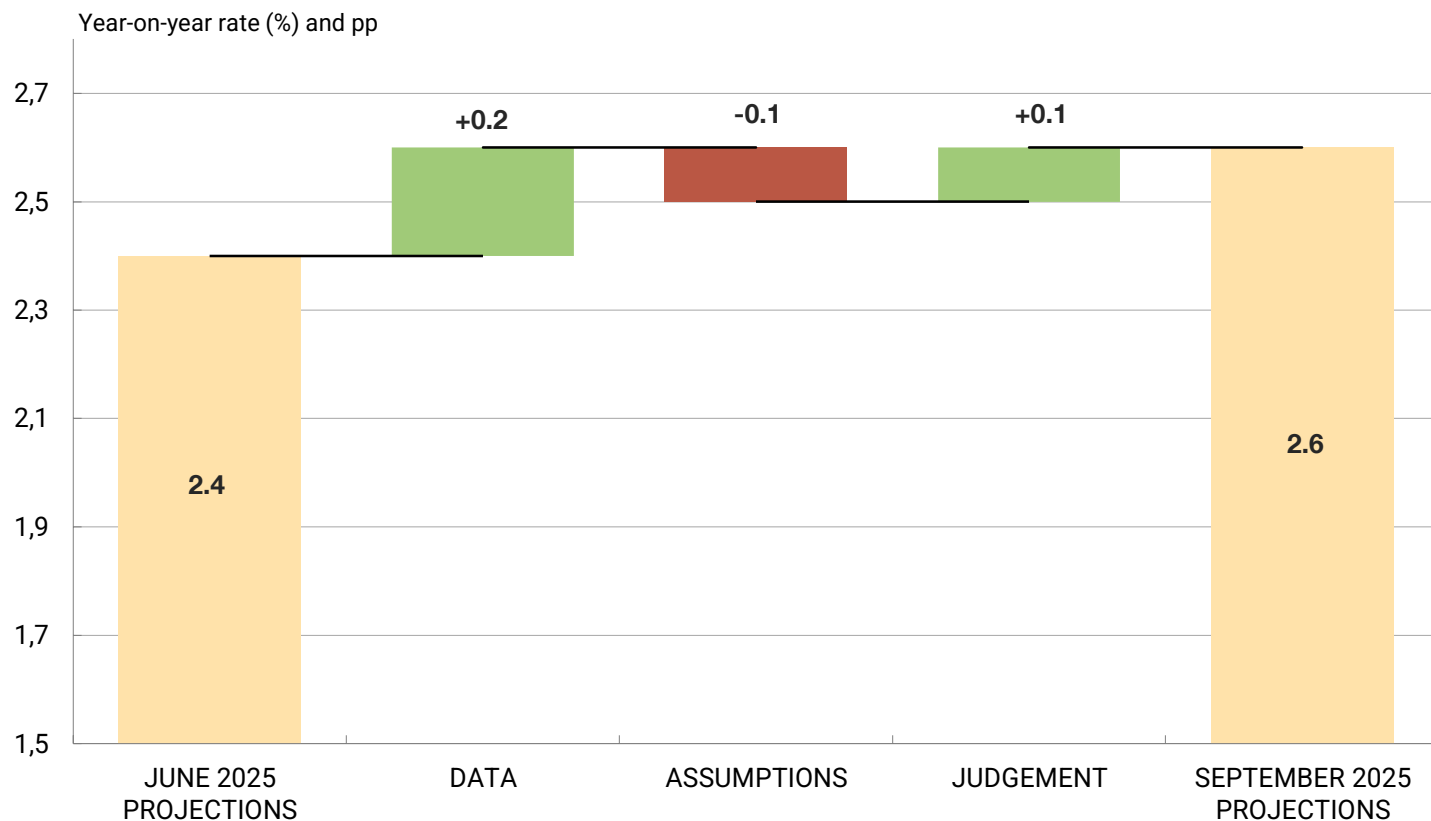
Sources: Banco de España and INE. NOTE: Latest QNA figure published: 2025 Q2 flash estimate.

Projections cut-off date: 4 September 2025.

(a) Contribution to growth.

# THE 2025 GDP GROWTH FORECAST IS REVISED UPWARDS BY 0.2 PP VS THE JUNE PROJECTION EXERCISE, FROM 2.4% TO 2.6%

## CHANGES IN THE GDP GROWTH FORECAST FOR 2025

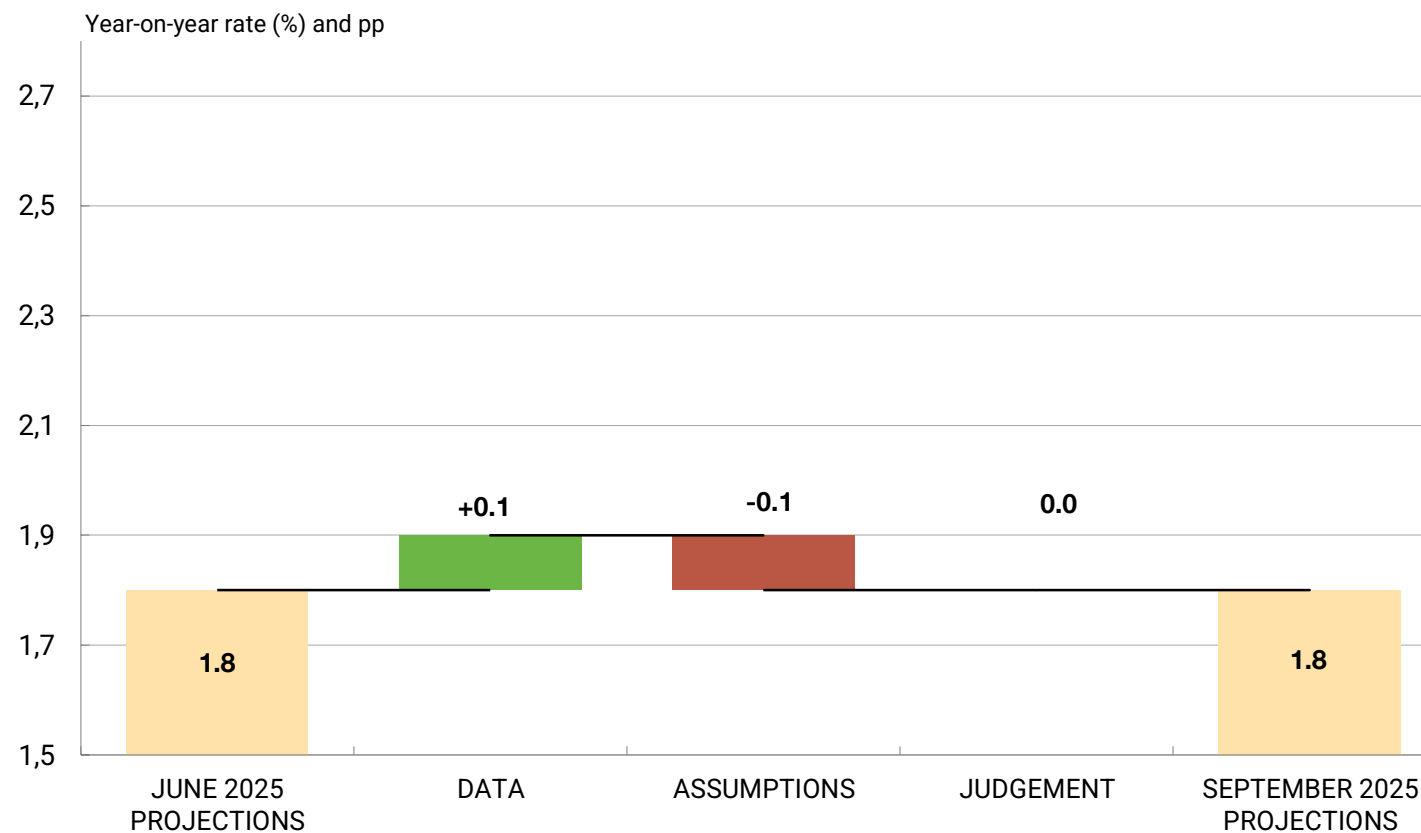


- **Data:** GDP growth surprised on the upside in Q2
- **Assumptions:** downside revision due to higher energy prices and the appreciation of the euro
- **Judgement:** more robust activity in the current quarter, according to the indicators available

# THE GDP GROWTH FORECAST FOR 2026 REMAINS STABLE

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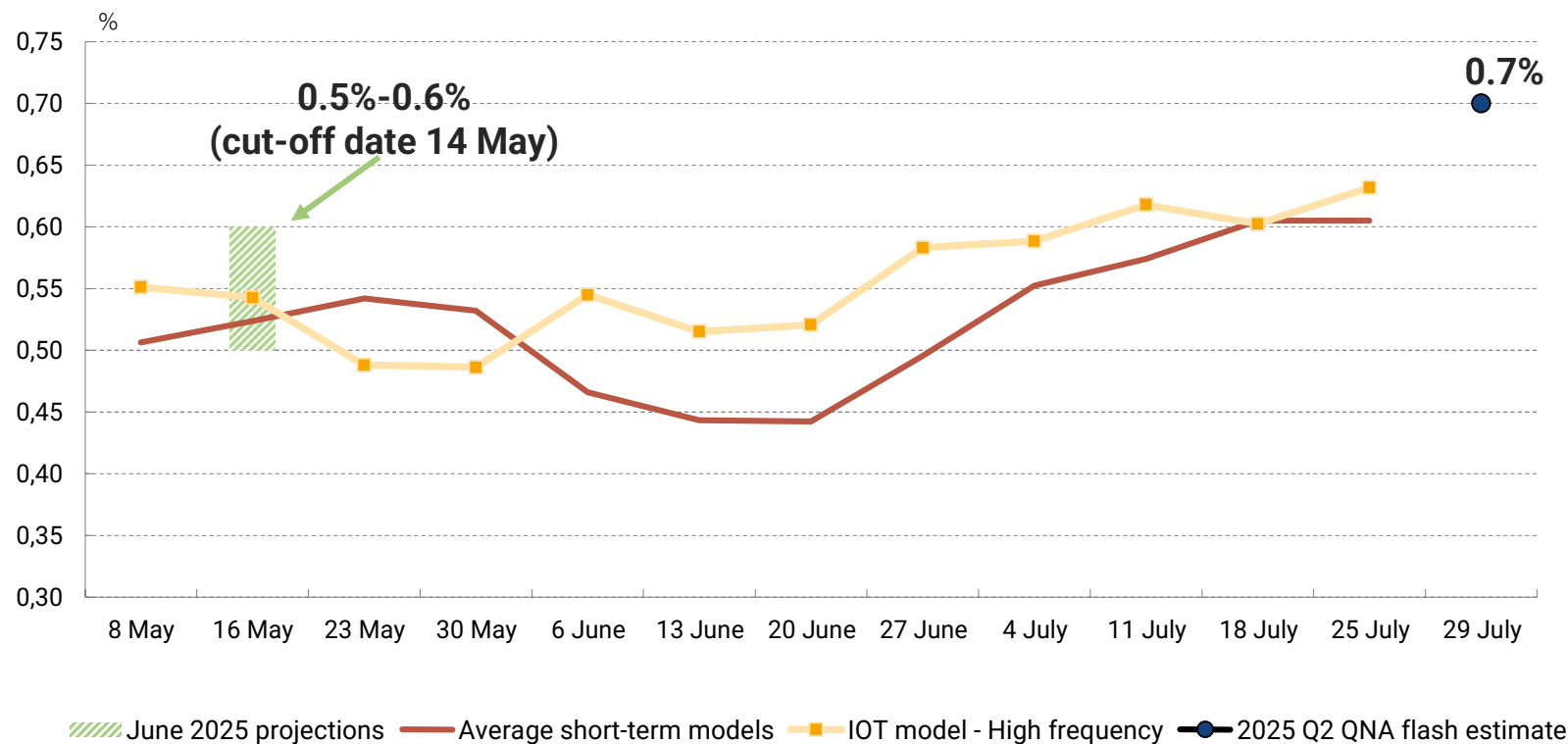
## CHANGES IN THE GDP GROWTH FORECAST FOR 2026



- **Data:** carry-over effect from a better than expected 2025
- **Assumptions:** downward revision due to higher energy prices, the appreciation of the euro and the slowdown in export markets
- **Judgement:** unchanged compared with the June exercise

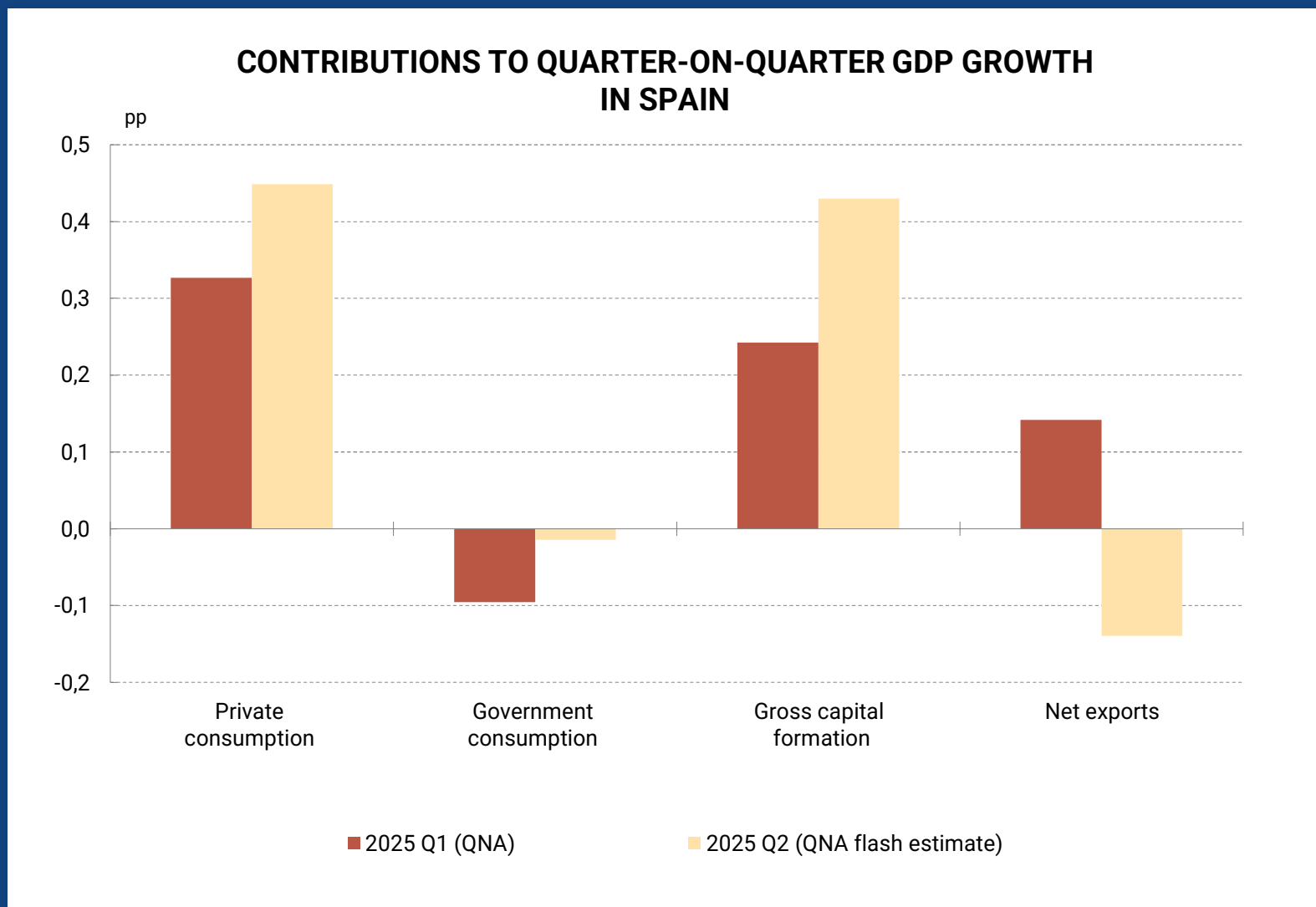
# GDP GROWTH ROSE TO 0.7% IN Q2, REFLECTING SOME ACCELERATION IN ACTIVITY IN JUNE

## SHORT-TERM FORECASTS FOR GDP GROWTH – 2025 Q2



# PRIVATE CONSUMPTION AND INVESTMENT WERE THE MAIN DRIVERS OF GROWTH IN Q2

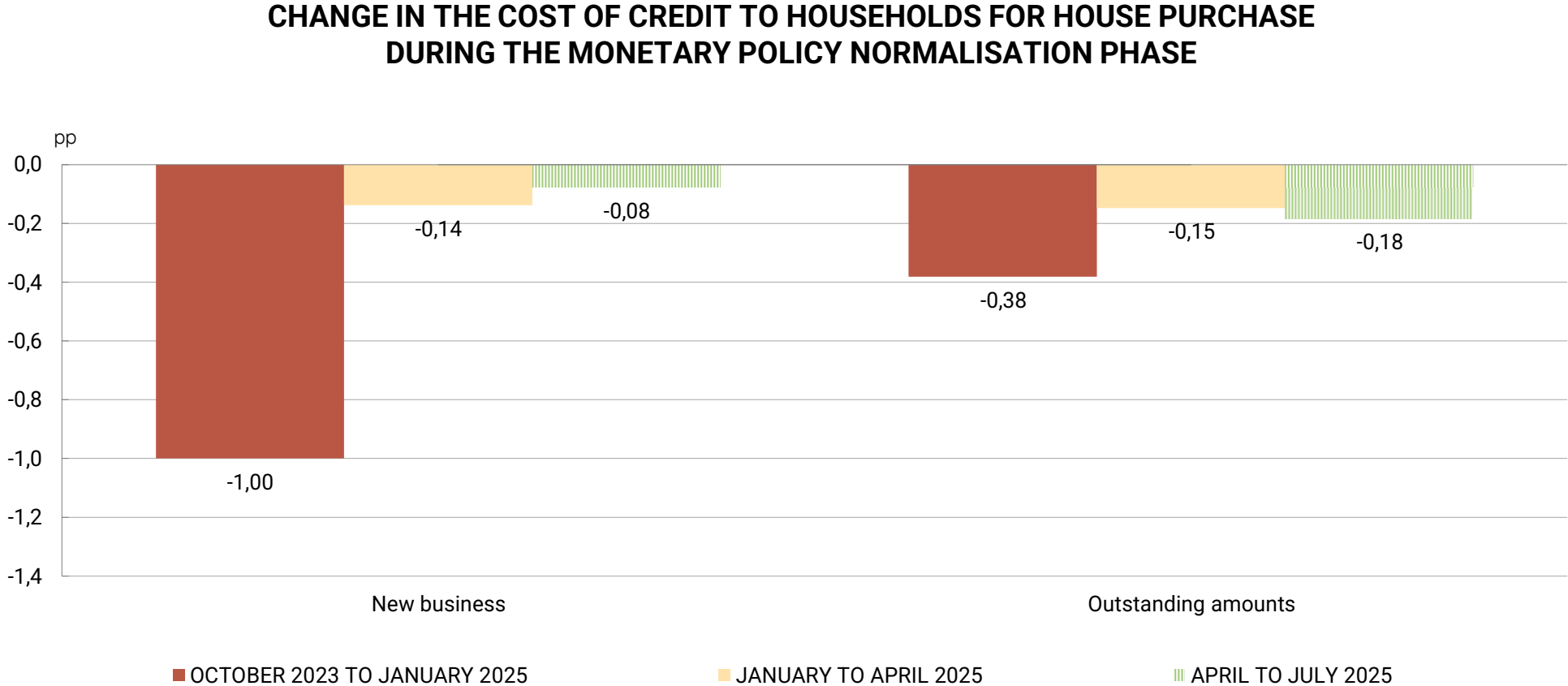
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- In Q2 the **buoyancy of domestic demand** surprised on the upside in both private consumption (+0.8%) and investment (+2.1%)
- By contrast, **net exports trimmed just over 0.1 pp from GDP growth**

# THE COST OF NEW MORTGAGES HAS CONTINUED TO DECLINE IN RECENT MONTHS, ALBEIT AT A SOMEWHAT SLOWER PACE

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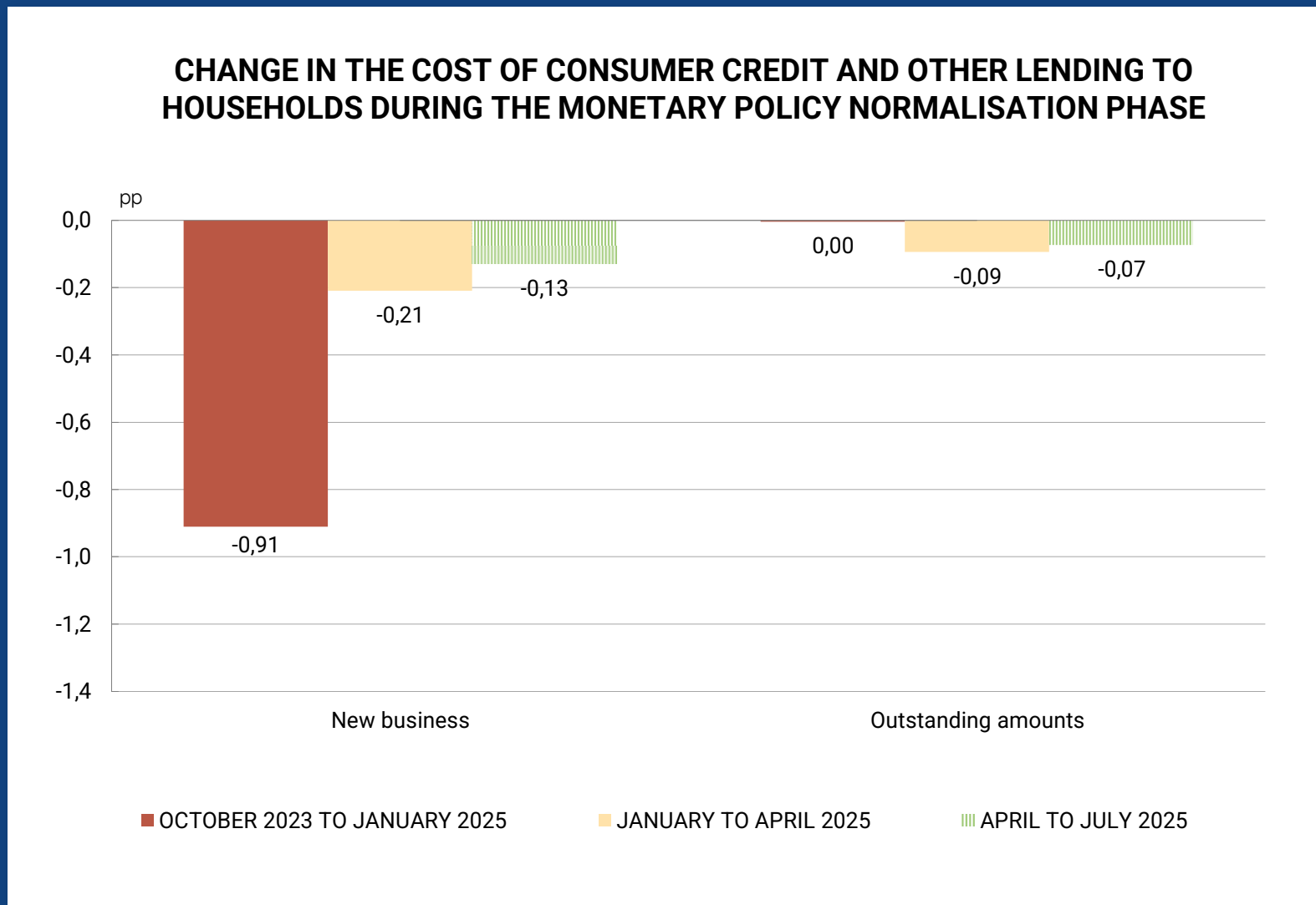


Source: Banco de España. Narrowly defined effective rates (NDER) adjusted seasonally and for the irregular component.



# AS DID THE COST OF NEW CONSUMER CREDIT AND OTHER LENDING

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- The decrease in the cost of outstanding consumer credit and other lending between April and July was similar to that observed between January and April

Source: Banco de España. NDER adjusted seasonally and for the irregular component.

# THE COST OF NEW LENDING TO FIRMS ALSO DECREASED LESS THAN IN PRIOR MONTHS

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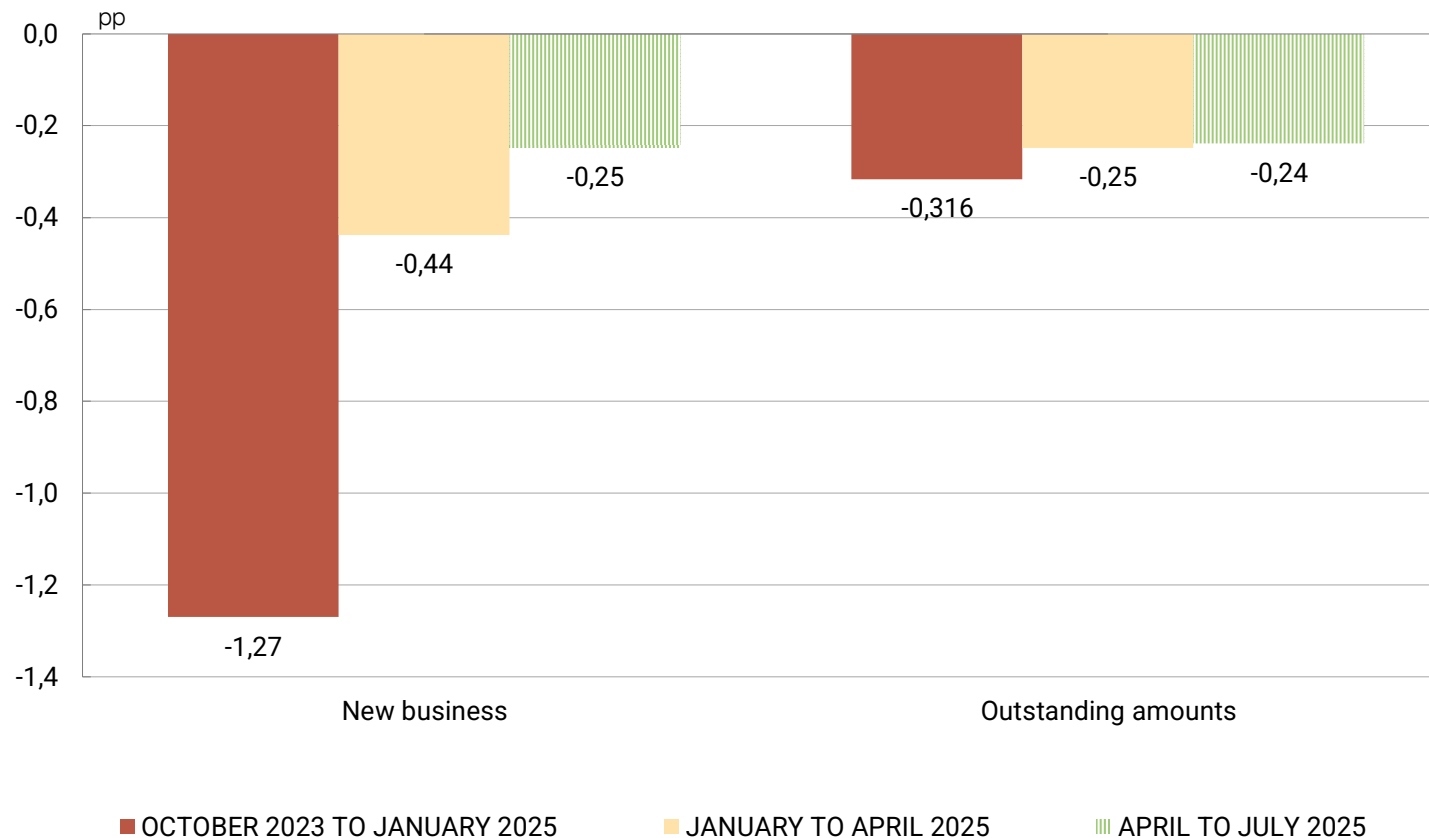
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### CHANGE IN THE COST OF BANK LOANS TO NON-FINANCIAL CORPORATIONS DURING THE MONETARY POLICY NORMALISATION PHASE

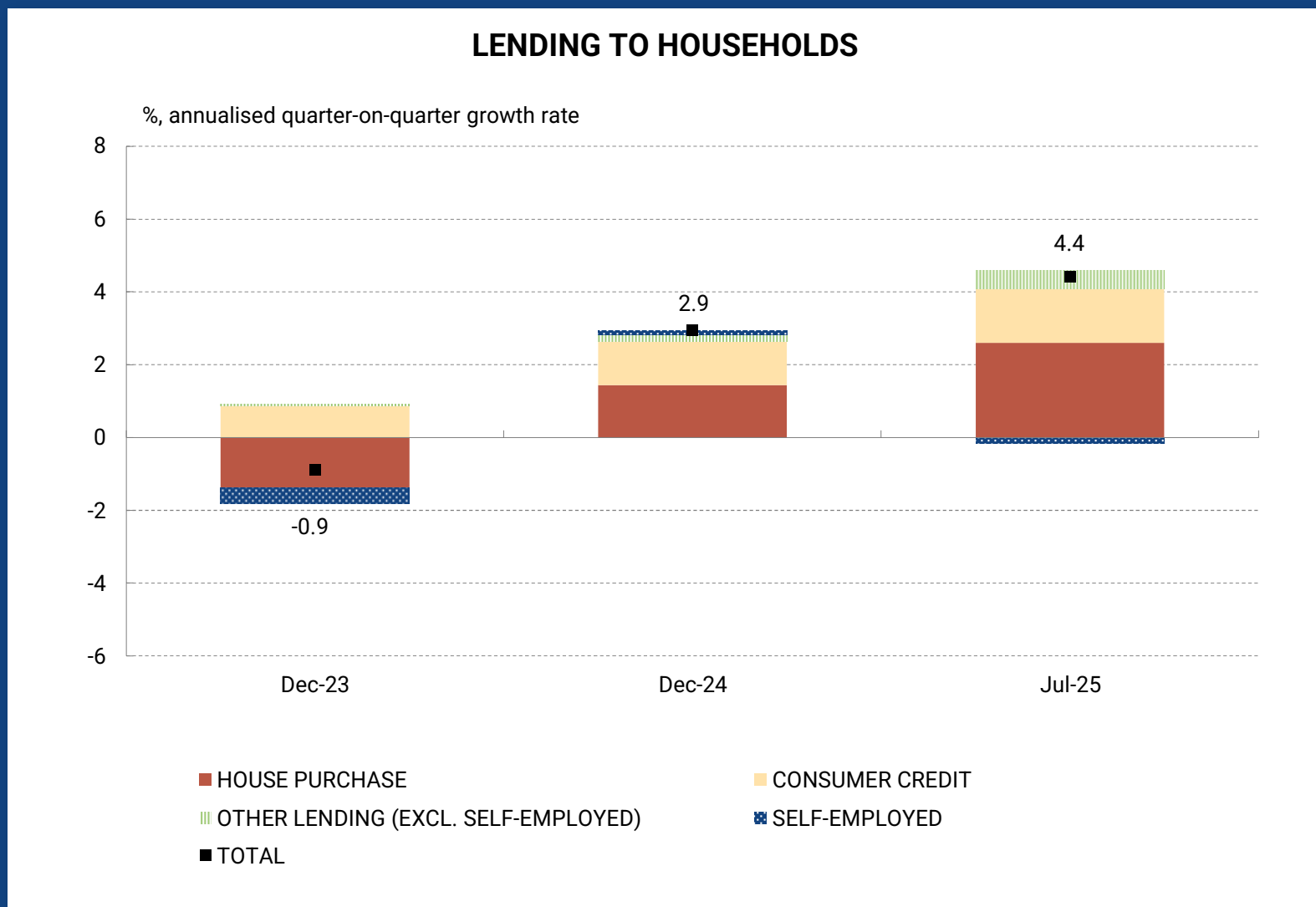


- The decrease in the cost of new business between April and July was 20 bp less than that observed between January and April; by contrast, the fall in the cost of outstanding amounts was similar

Source: Banco de España. NDER adjusted seasonally and for the irregular component.

# IN THIS LOWER INTEREST RATE ENVIRONMENT, GROWTH IN LENDING TO HOUSEHOLDS REMAINED HIGH

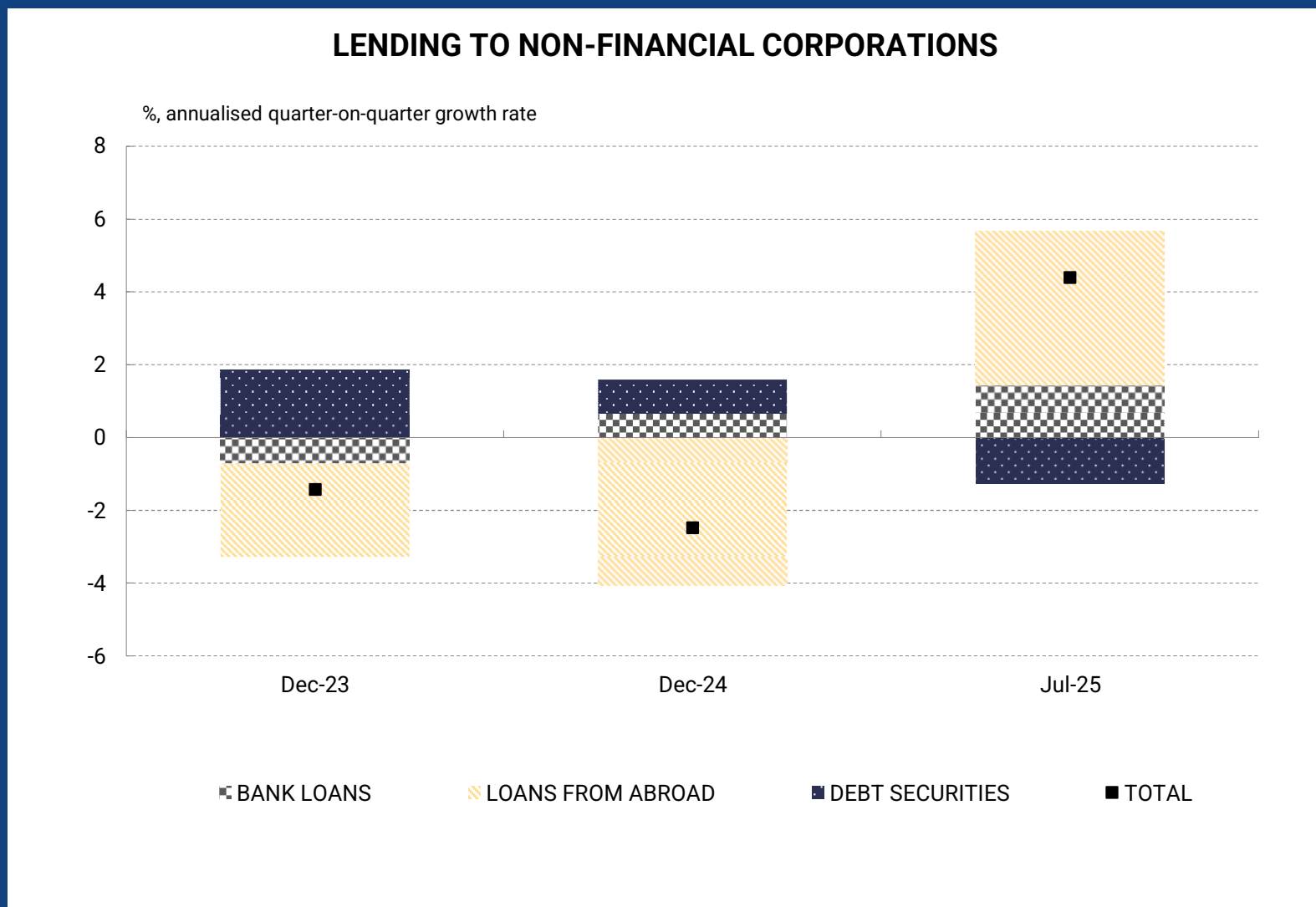
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- The momentum of loans for house purchase and consumer credit continued to drive the growth in lending to households
- By contrast, the outstanding amount of loans to the self-employed continued to decline

# LENDING TO FIRMS ALSO CONTINUED TO GROW, UNDERPINNED BY LOANS FROM ABROAD AND BANK LOANS

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- The rise in lending to firms was underpinned by loans from abroad and, to a lesser extent, bank loans
- The outstanding amount of debt securities continued to decline

Source: Banco de España. Seasonally adjusted data. Securities issued abroad are excluded from loans from abroad and are included in debt securities.

# DECLINING INTEREST PAYMENTS LOWERED THE DEBT BURDEN IN H1, DESPITE THE HIGHER VOLUME OF DEBT

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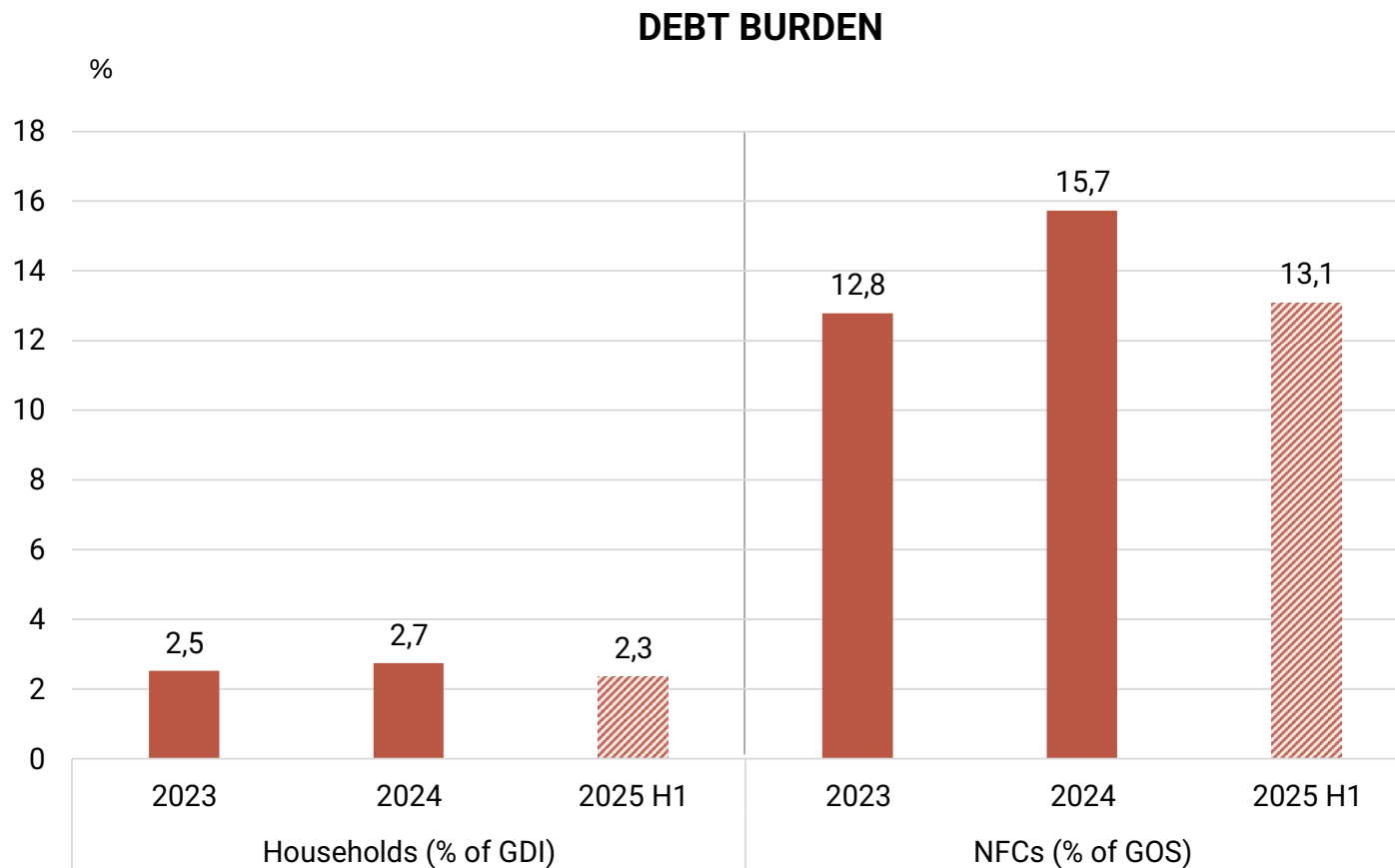
3.3 FORECAST TRAJECTORY

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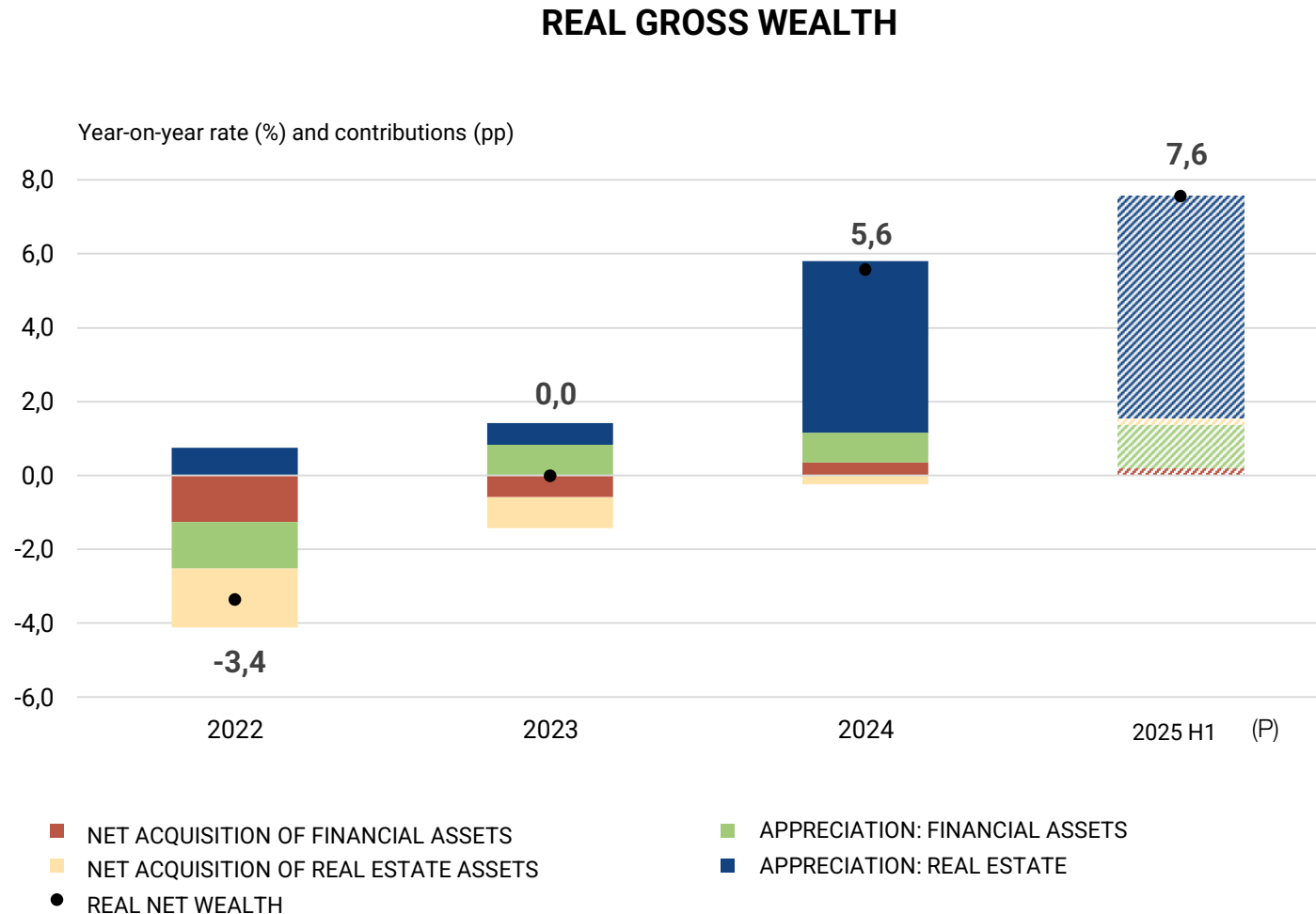


- The increase in GDI also helped lower households' debt burden

Sources: INE and Banco de España. Interest payments are quarterly cash flows (not adjusted for financial intermediation services indirectly measured). The 2025 H1 figures are estimates.

# HOUSEHOLDS' REAL WEALTH INCREASED IN H1, DUE MAINLY TO THE RISE IN HOUSE PRICES

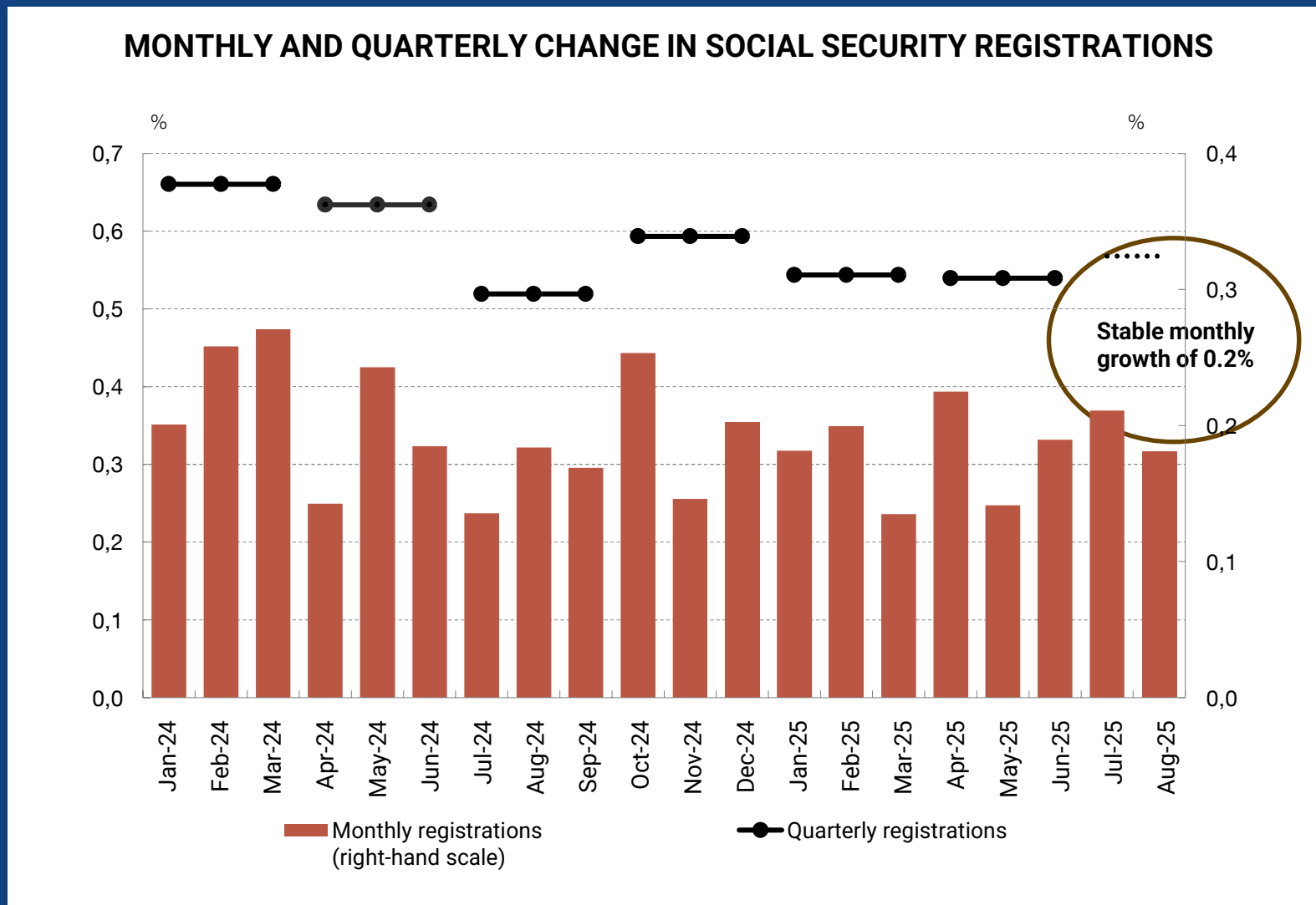
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- Net asset transactions were negative in real terms
- The quarter-on-quarter increase of 2.9% in house prices in Q2, measured in real terms, presages a further rise in household wealth

# THE LATEST SHORT-TERM DATA POINT TO CONSIDERABLE GROWTH IN Q3

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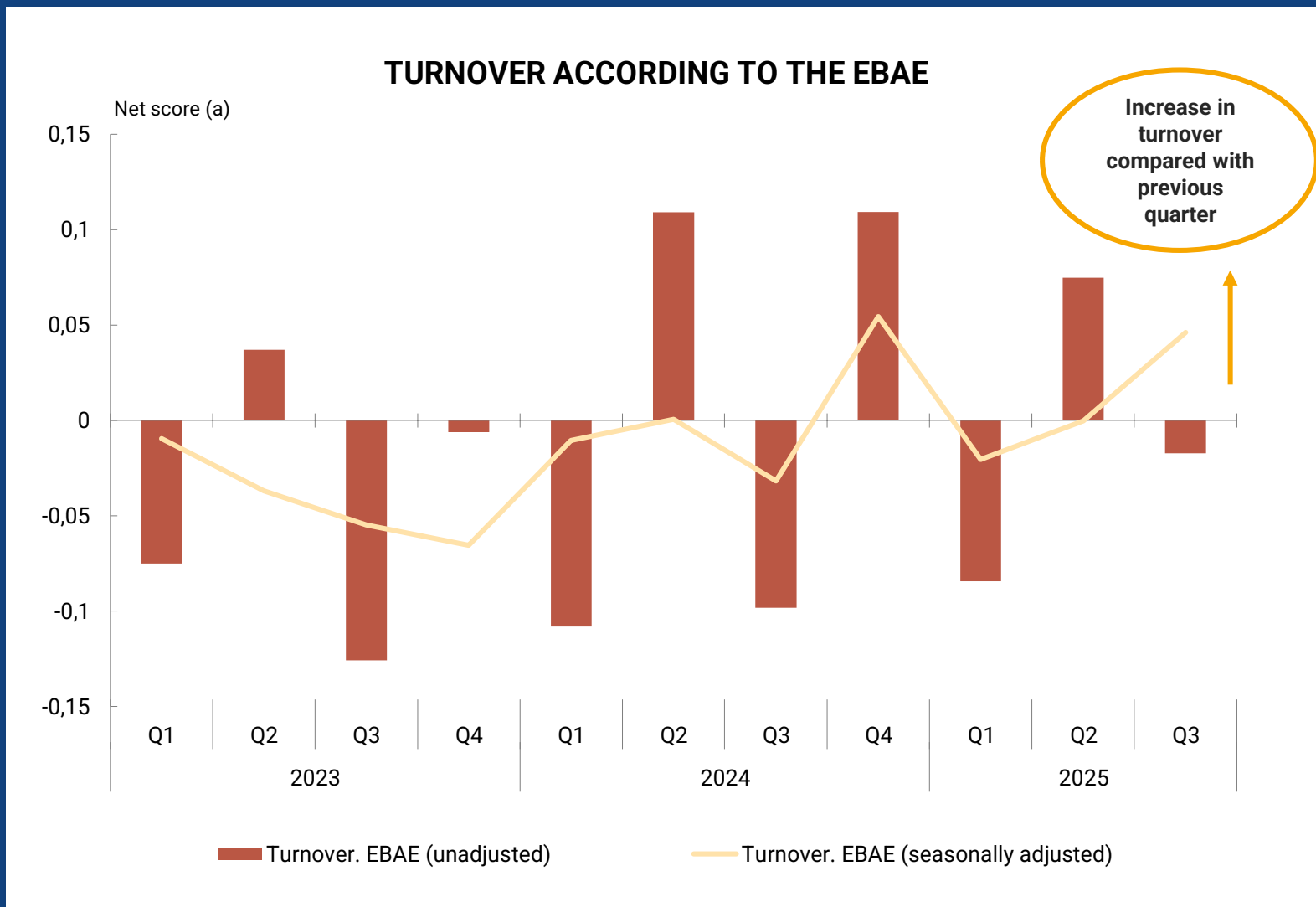


- Meanwhile, the **Purchasing Managers' Indices** have performed well in Q3 to date, up 3.2 pp in manufacturing and 2 pp in services

Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.  
 Note: Seasonally adjusted time series.

## IN ADDITION, BUSINESS TURNOVER HAS RISEN THIS QUARTER ACCORDING TO THE BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY (EBAE)

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- **Uncertainty** is still the main constraint on business activity, although its negative impact has decreased slightly in Q3
- **Labour shortages** remain high

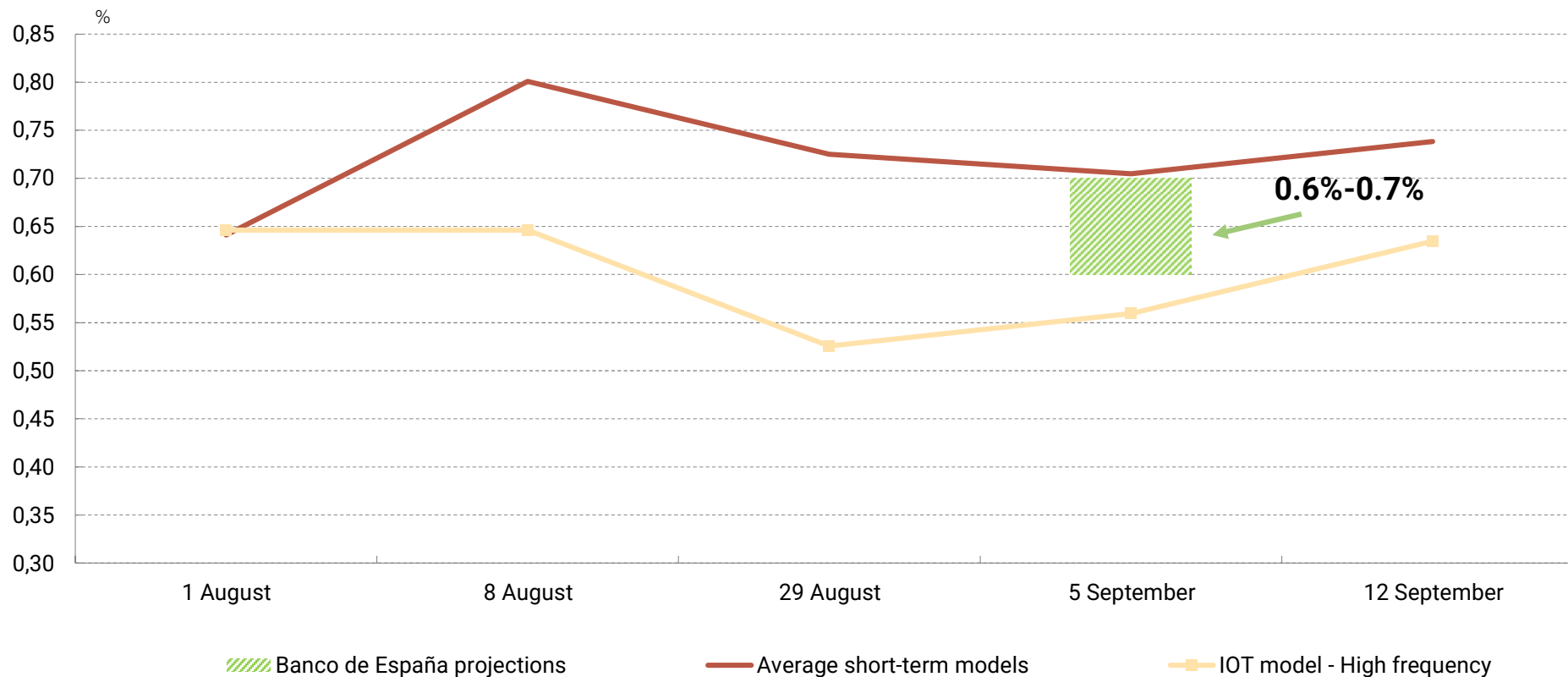
Source: Banco de España. (a) Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.



# THE AVAILABLE FORECASTING MODELS POINT TO GROWTH OF 0.6%-0.7% IN Q3

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## SHORT-TERM FORECASTS FOR GDP GROWTH - 2025 Q3



# GROWTH OVER THE NEXT FEW YEARS WILL GRADUALLY SLOW TO RATES CLOSE TO POTENTIAL GROWTH AND WILL BE UNDERPINNED BY DOMESTIC DEMAND

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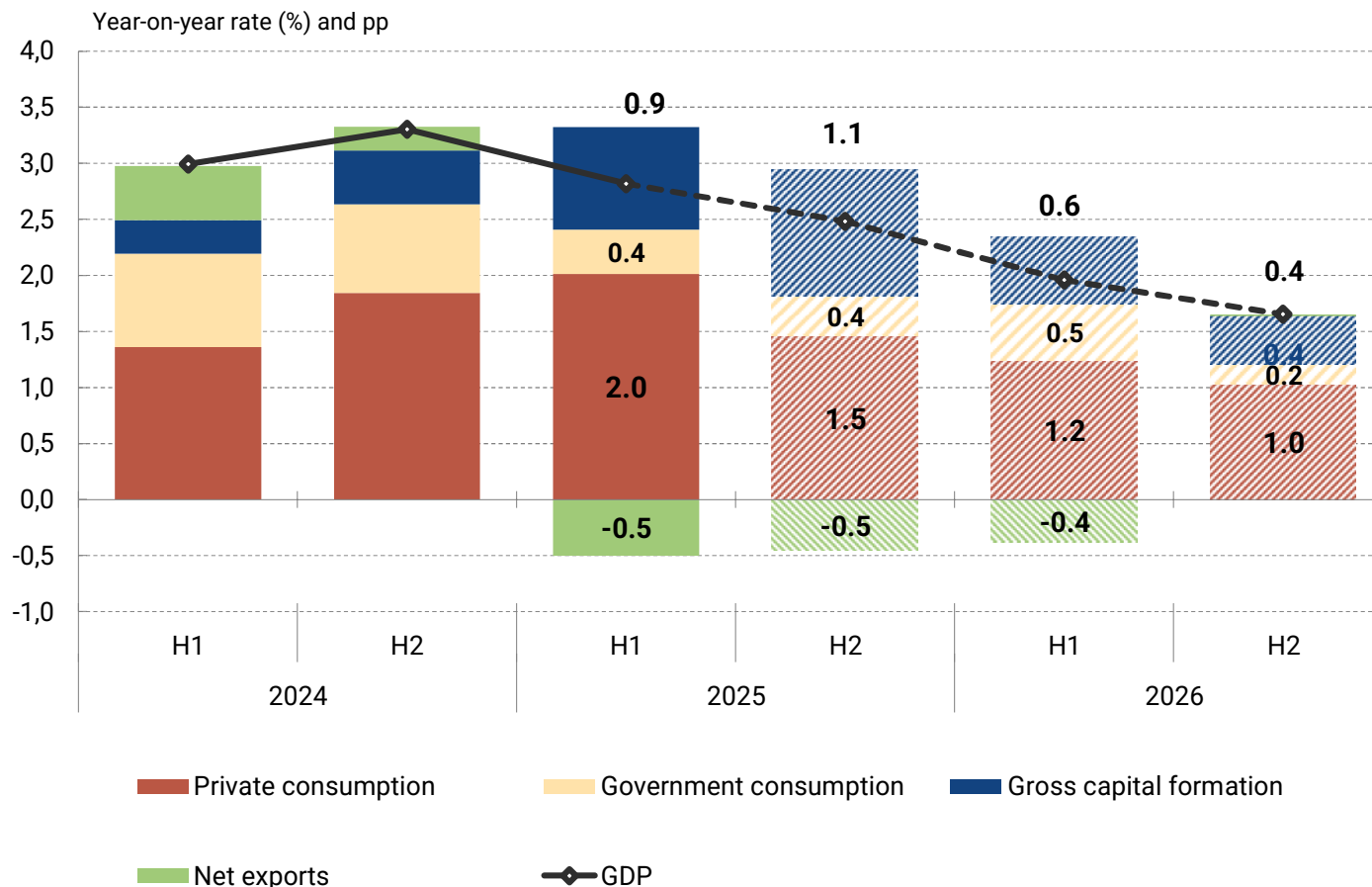
## 4. PUBLIC SECTOR

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### GDP GROWTH AND CONTRIBUTIONS OF MAIN COMPONENTS



- Growth over the next few years is expected to continue to be underpinned by **private consumption and investment**
- **The contribution of government consumption and net exports will be lower than in previous years, as already observed in 2025 H1**

# PRIVATE CONSUMPTION WILL CONTINUE TO GROW, MAINLY FUELLED BY RISING INCOME

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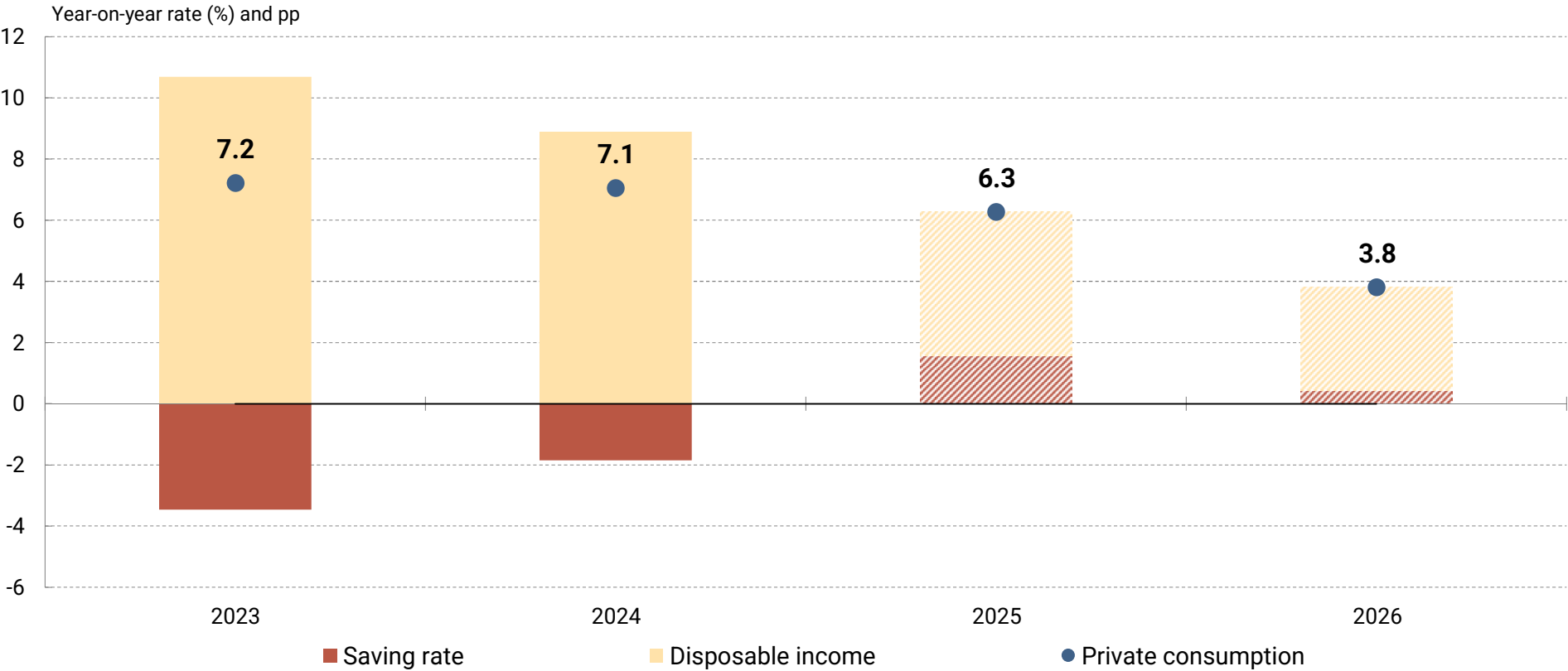
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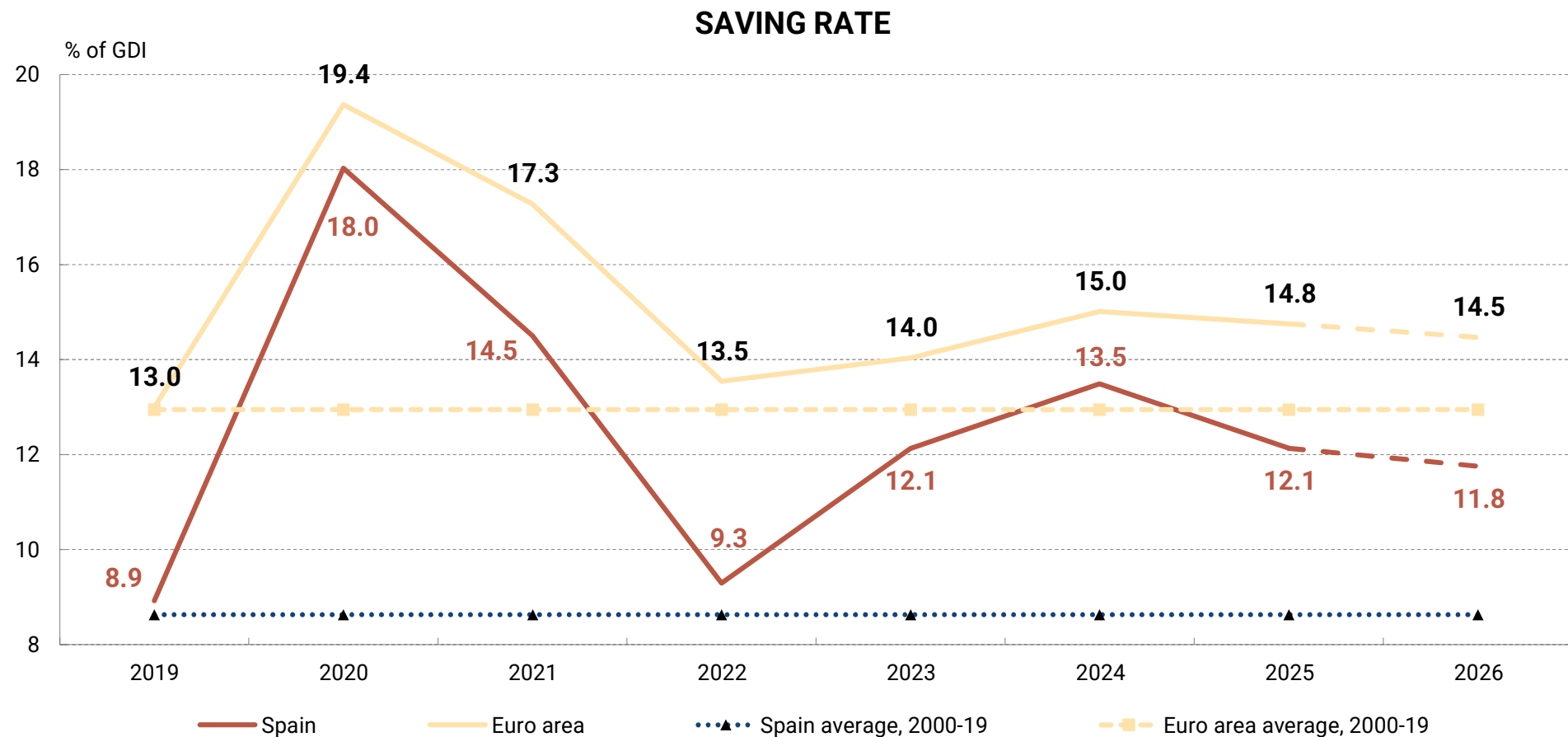
7. QUANTIFICATION OF UNCERTAINTY

CONTRIBUTIONS TO THE PRIVATE CONSUMPTION GROWTH RATE



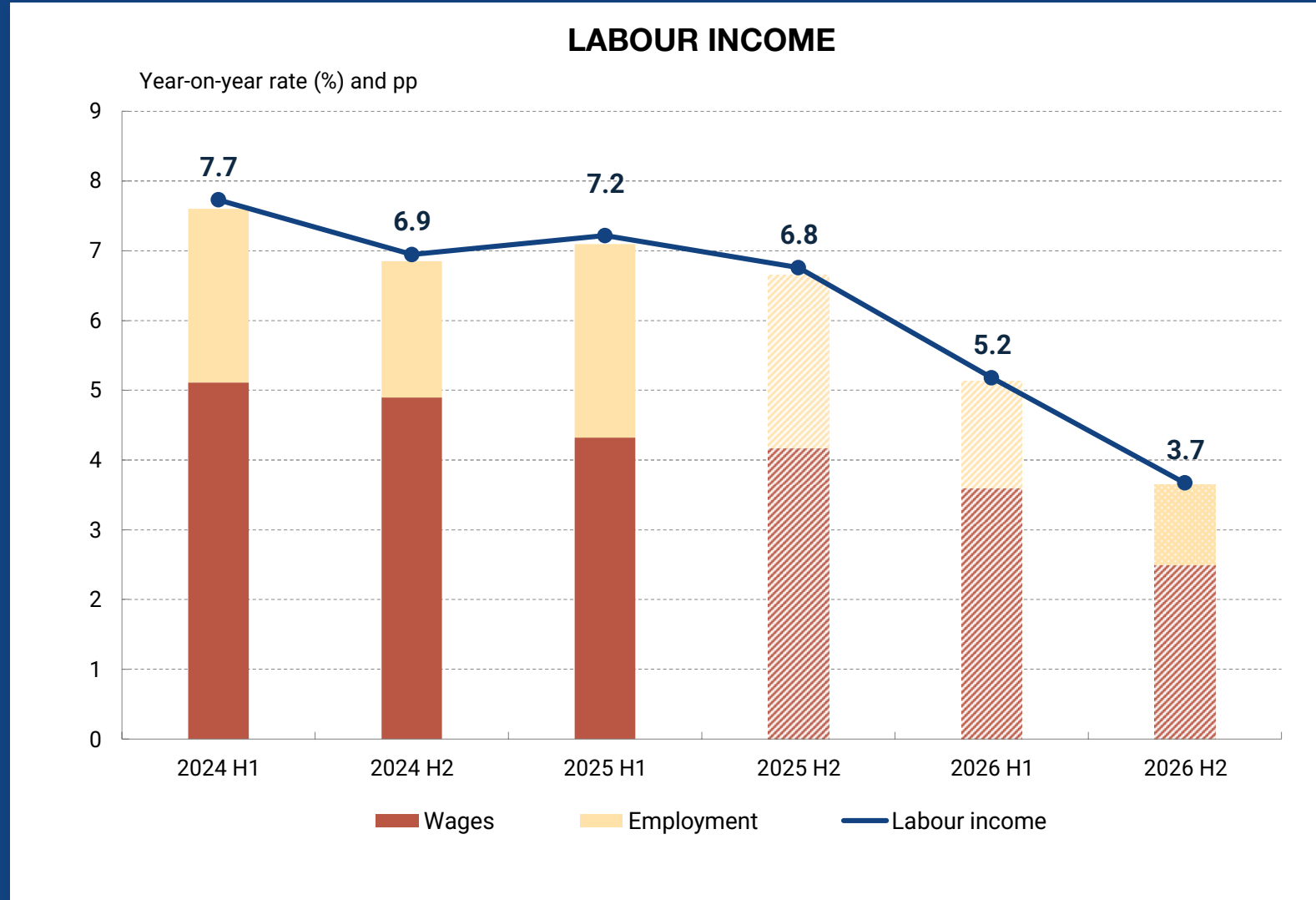
# THE SAVING RATE WILL CONTINUE TO DECLINE, BUT WILL REMAIN AT HIGH LEVELS COMPARED WITH ITS HISTORICAL AVERAGE

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# LABOUR INCOME WILL CONTINUE TO GROW, ALBEIT AT A SLOWER PACE

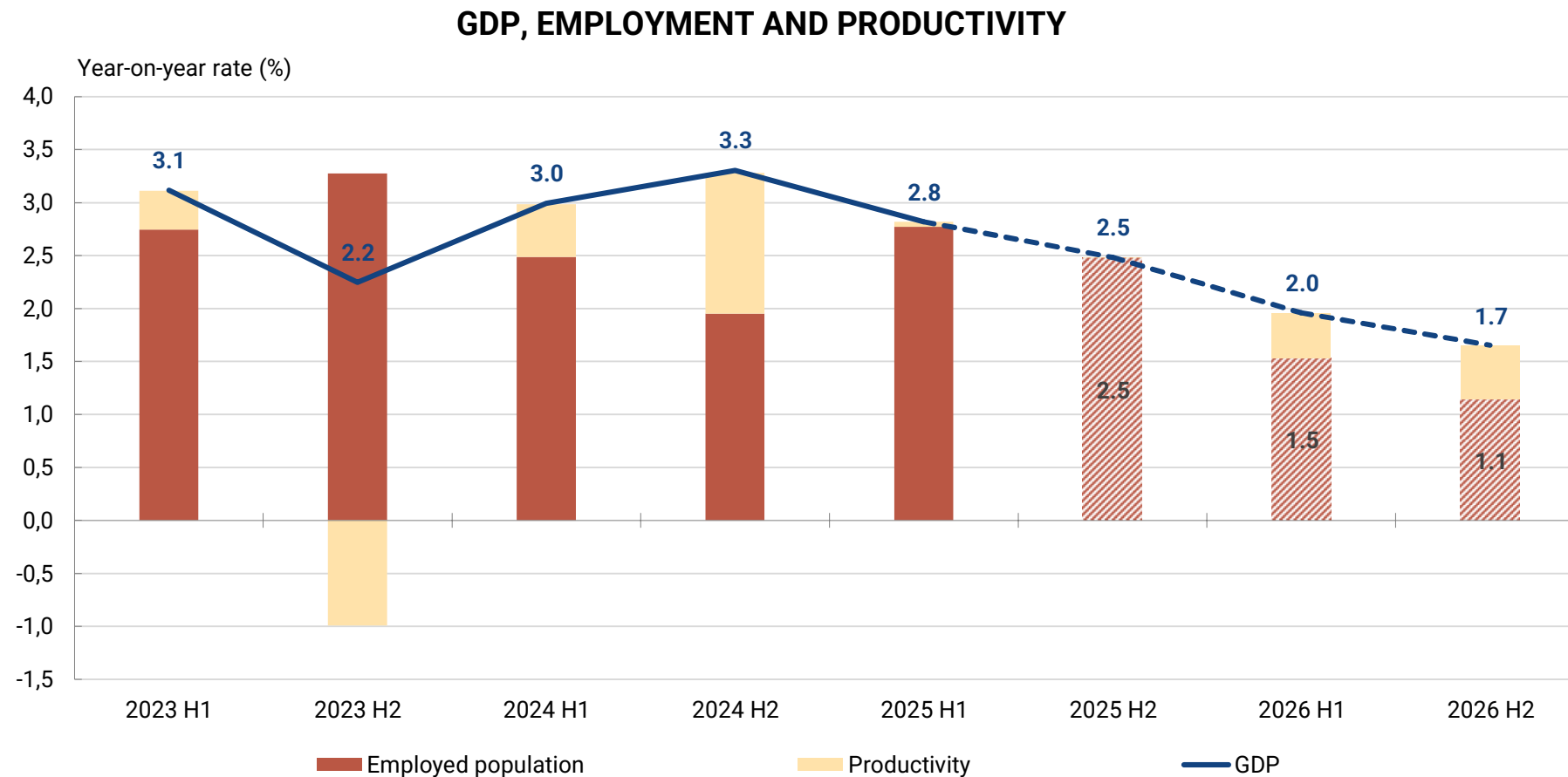
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- Despite this slowdown, **labour income will continue to grow in real terms**

# EMPLOYMENT WILL GRADUALLY SLOW IN LINE WITH ACTIVITY AND WITH SOME RECOVERY IN PRODUCTIVITY GROWTH

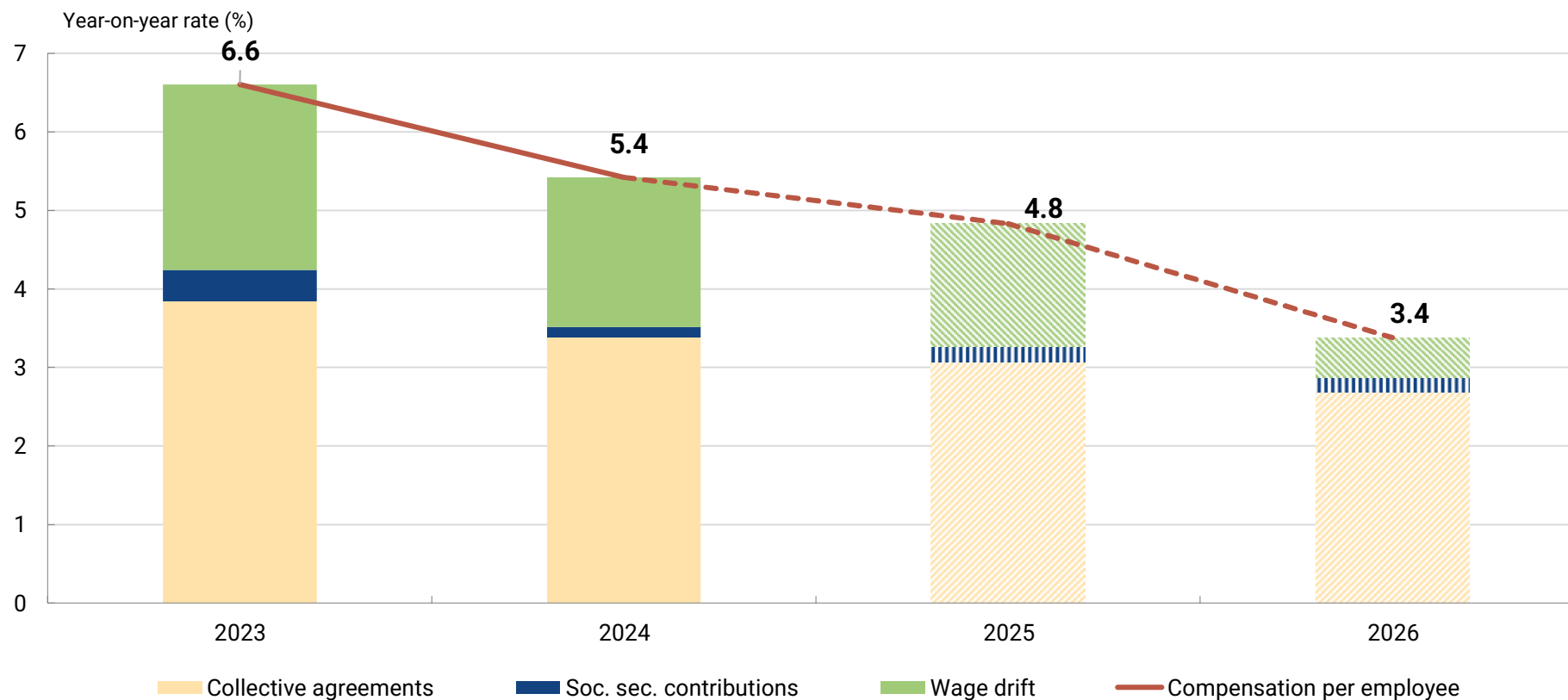
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# WHILE WAGES ARE ALSO EXPECTED TO GROW MORE MODERATELY

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## LABOUR COSTS IN THE MARKET ECONOMY



A black and white photograph of a highly ornate building facade, likely a historical or institutional structure. It features a large clock face with Roman numerals, intricate carvings, statues, and a tall spire topped with a globe. The image is positioned on the left side of the slide, partially overlapping the blue background.

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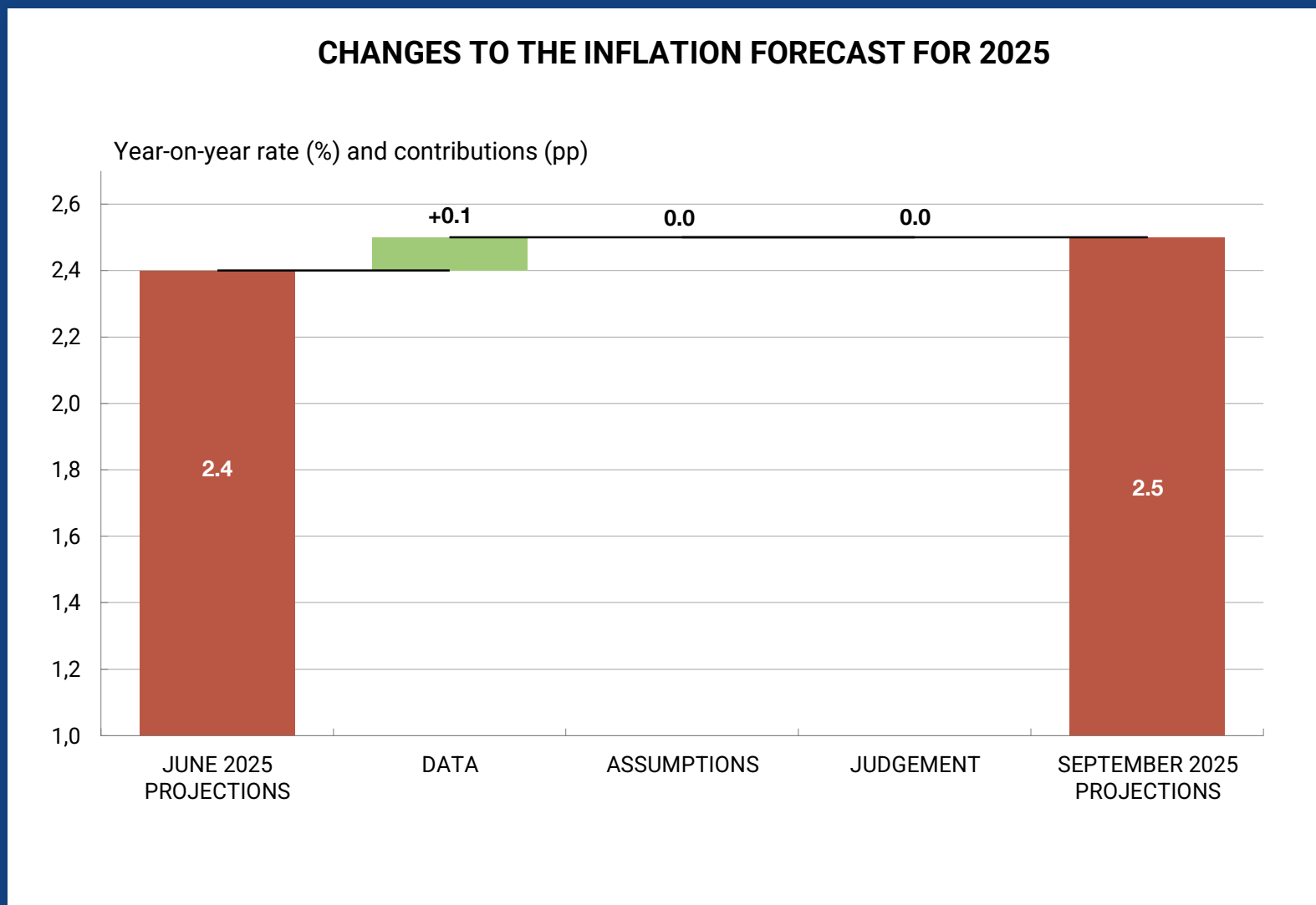
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# THE INFLATION FORECAST FOR 2025 HAS BEEN REVISED SLIGHTLY UPWARDS MAINLY ON ACCOUNT OF THE OBSERVED RISE IN ENERGY PRICES

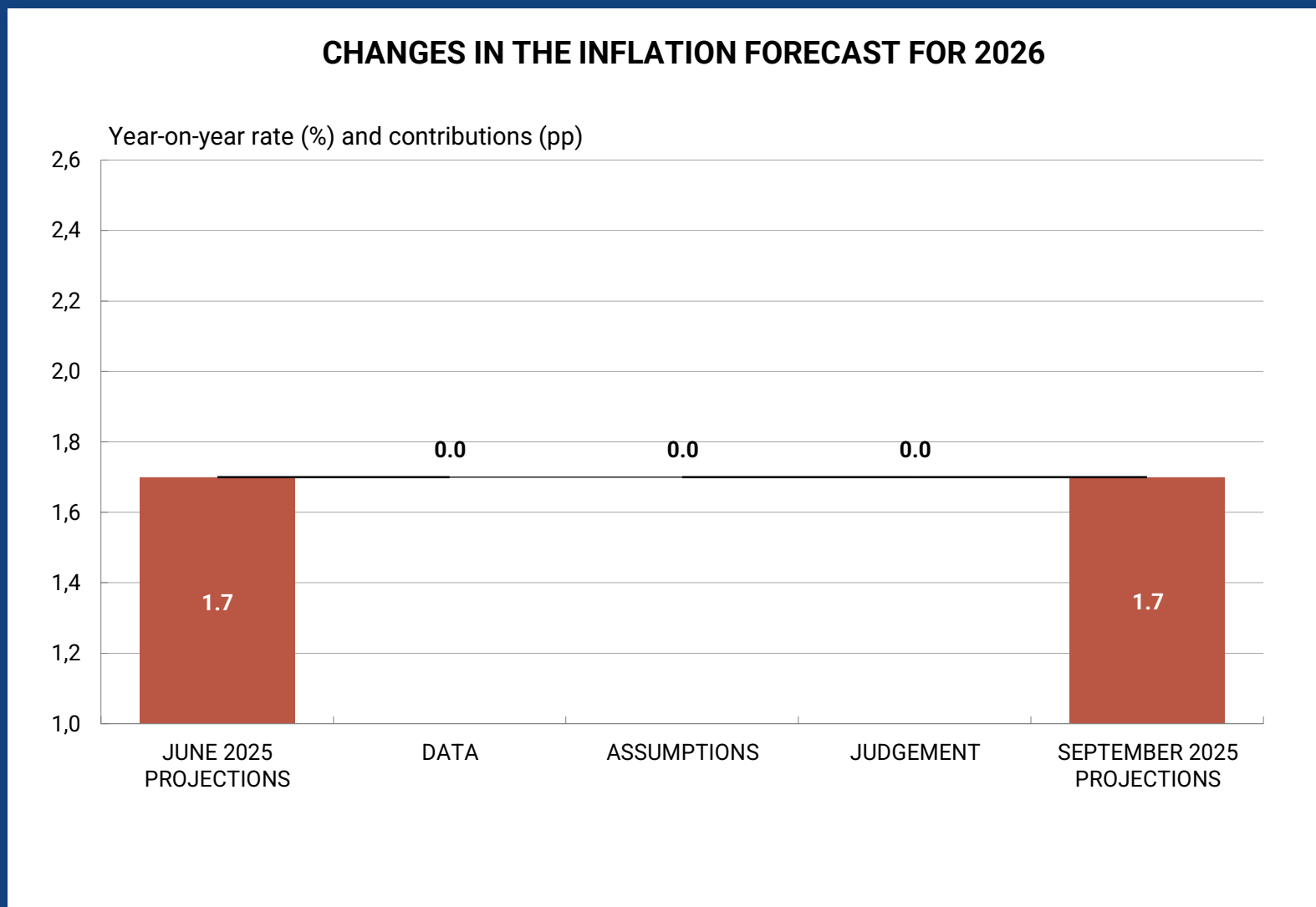
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- **Data:** energy prices have risen more sharply than was expected in June
- **Assumptions:** no significant changes with respect to June
- **Judgement:** no significant changes with respect to June

# THE INFLATION FORECAST FOR 2026 IS UNCHANGED

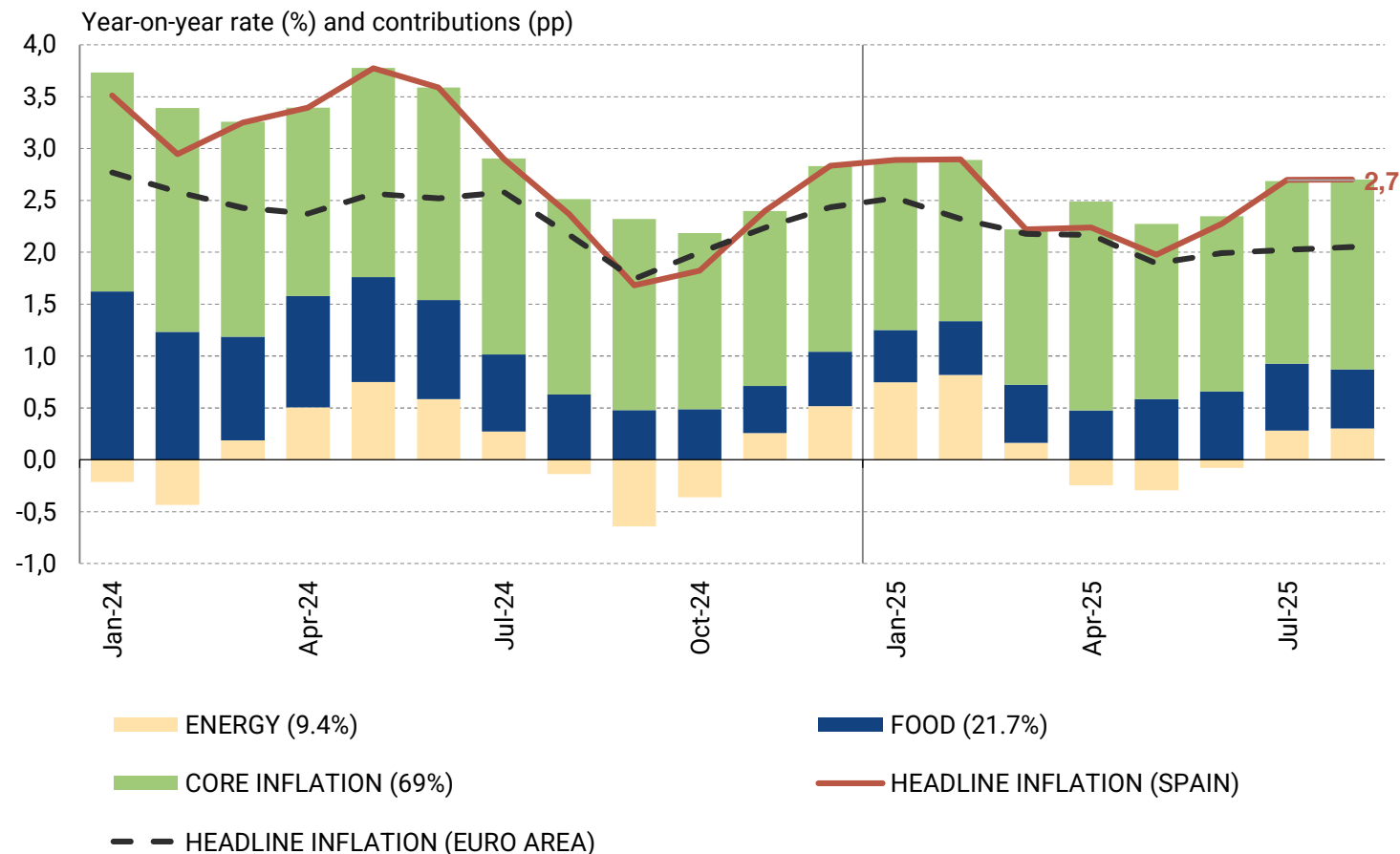
1. GLOBAL AND FINANCIAL ENVIRONMENT
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- **Data:** energy prices have risen more sharply than was expected in June
- **Assumptions:** no significant changes with respect to June
- **Judgement:** no significant changes with respect to June

# THE RISE IN ENERGY PRICES IS THE MAIN CAUSE OF THE INCREASE IN HEADLINE INFLATION SINCE MAY

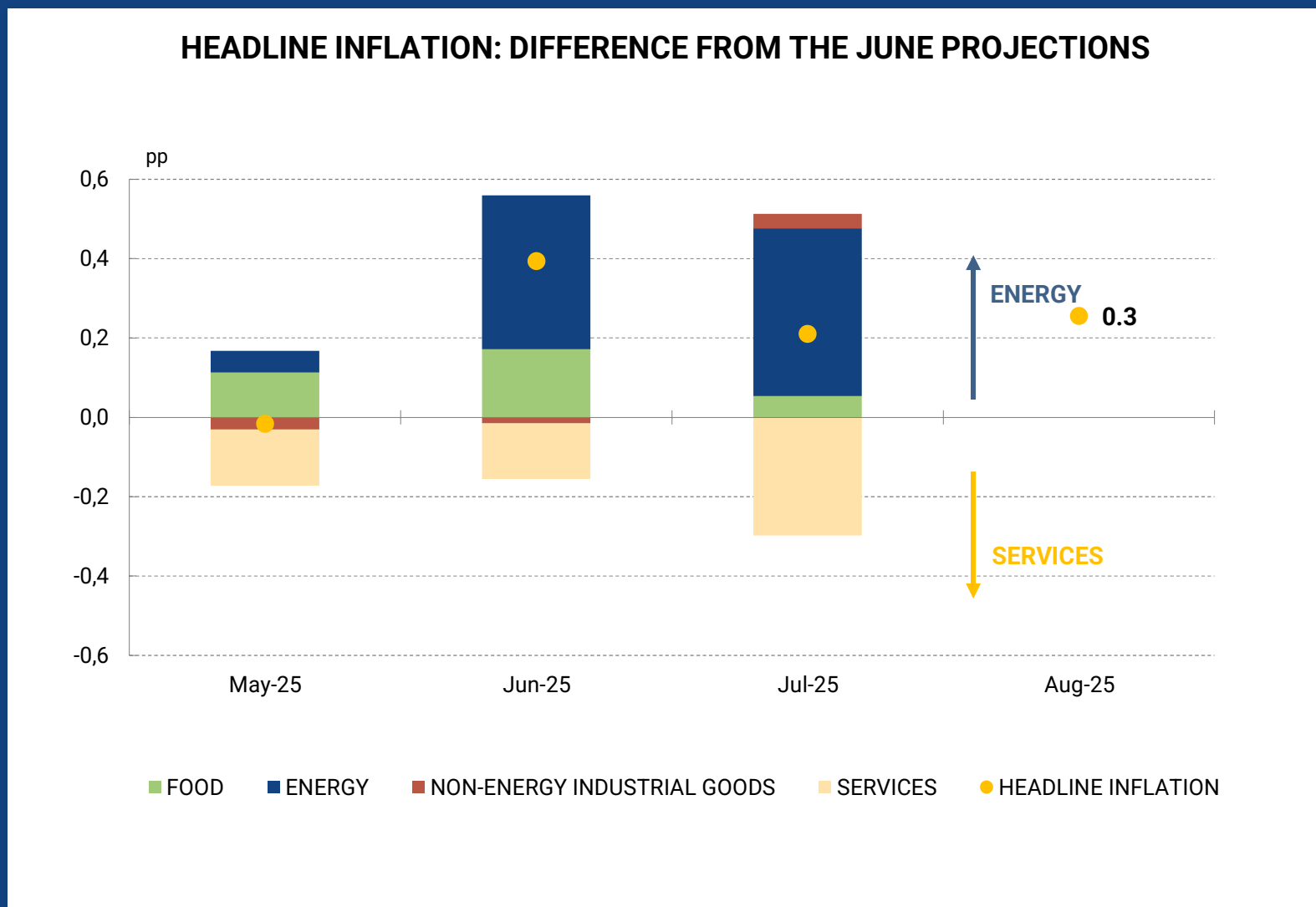
## HEADLINE INFLATION: CHANGE AND CONTRIBUTION OF COMPONENTS



- The increase in the **positive differential with the euro area** – which stood at 0.6 pp in August – is on account of energy
- **Core inflation has held relatively stable, around 2.6%, 0.4 pp below the level envisaged in the June projections**

# FEW SURPRISES COMPARED WITH THE JUNE PROJECTIONS, AS THE SURPRISES ON THE UPSIDE (IN ENERGY) OFFSET THOSE ON THE DOWNSIDE (IN SERVICES)

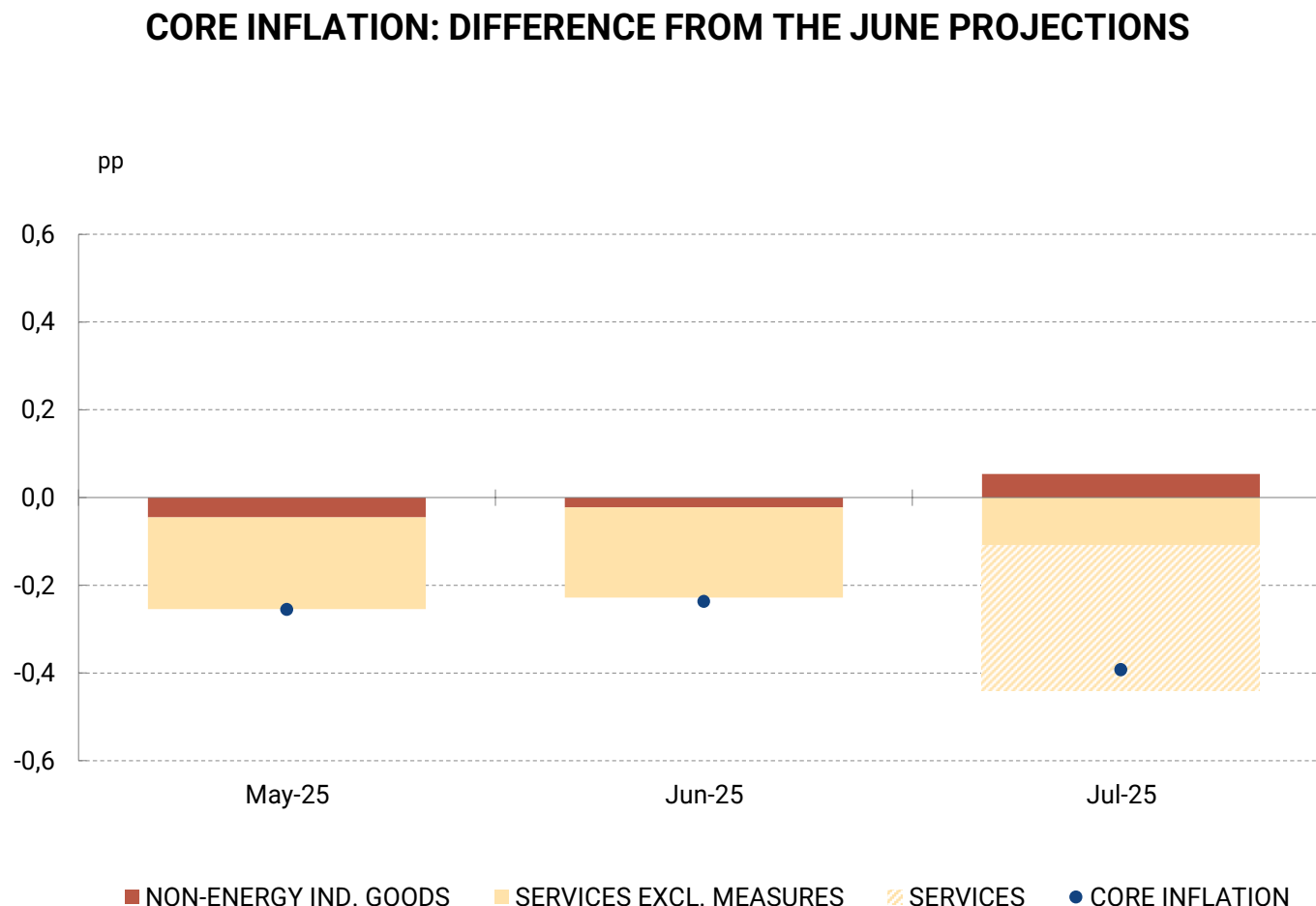
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- **Surprise on the upside:** Energy prices have accelerated recently as oil and electricity prices have risen

# THE SURPRISE ON THE DOWNSIDE IN SERVICES STEMS MOSTLY FROM THE PARTIAL EXTENSION OF THE PUBLIC TRANSPORT SUBSIDIES

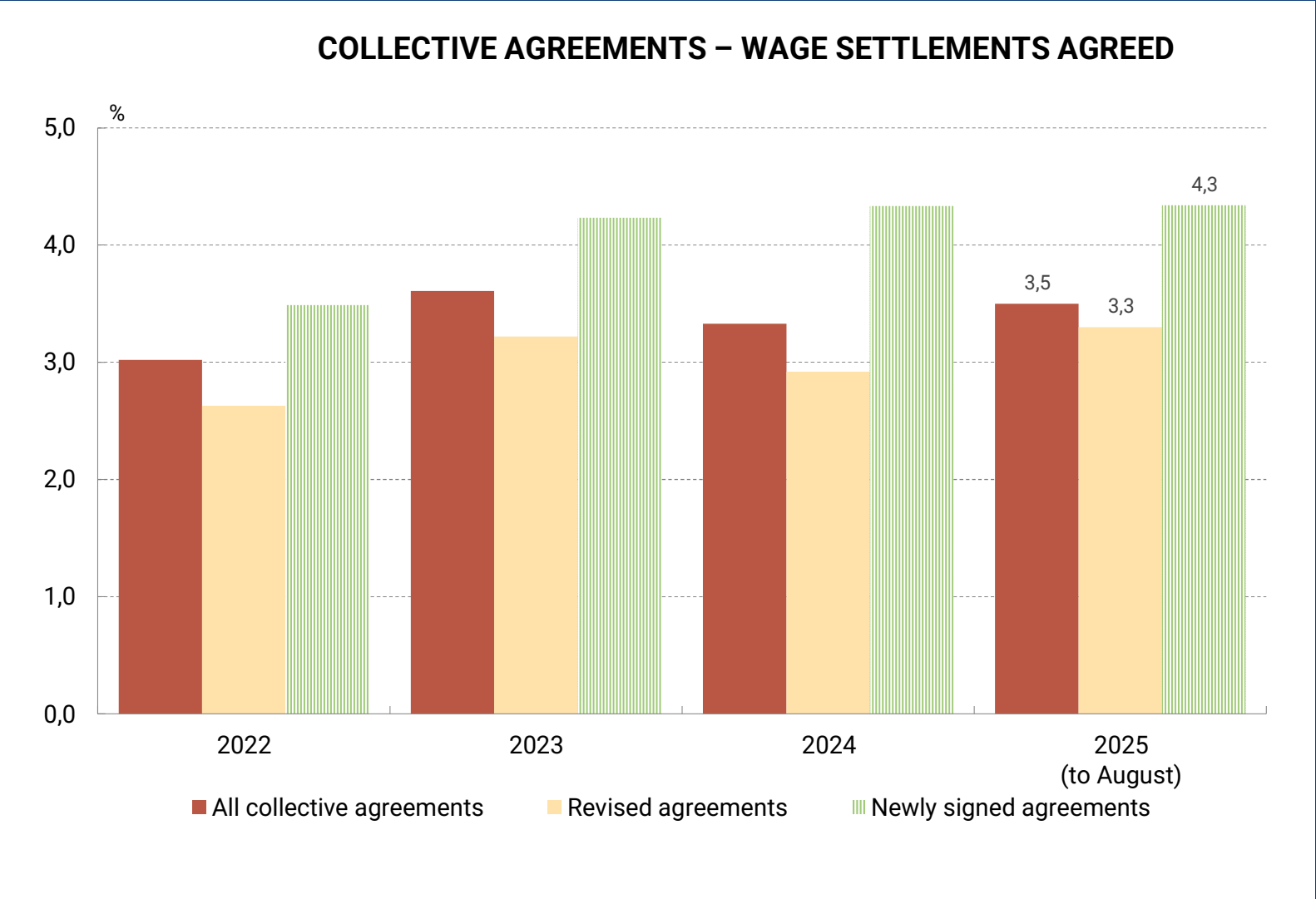
1. GLOBAL AND FINANCIAL ENVIRONMENT
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- **Surprise on the downside:** Our June projections included the assumption that **public transport subsidies** would be withdrawn in July, but the actual withdrawal was only partial (to be completed in January 2026)

# NEWLY SIGNED COLLECTIVE AGREEMENTS IN 2025 PROVIDE FOR WAGE INCREASES OF 4.3%, ABOVE THE BENCHMARK INCREASE OF 3% AGREED BETWEEN SOCIAL PARTNERS

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- There is high **uncertainty about wage developments** in the coming years, owing to the lack of agreement between social partners

# FOLLOWING THE MODEST RISE EXPECTED IN 2025 H2, ASSOCIATED WITH ENERGY PRICES, HEADLINE INFLATION IS PROJECTED TO EASE IN 2026

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TRAJECTORY

3. INFLATION

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3.2 DATA

3.3 FORECAST

TRAJECTORY

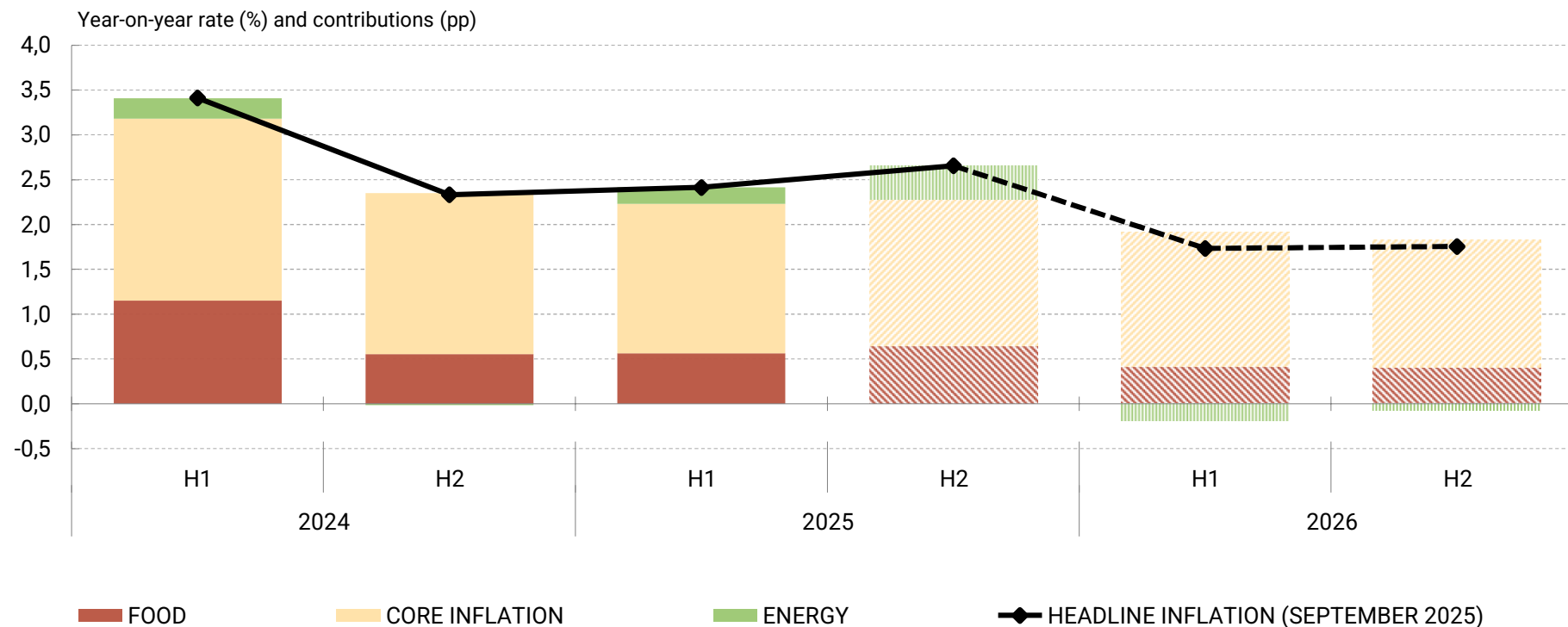
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## CONTRIBUTIONS TO GROWTH IN THE HICP, BY COMPONENT



A detailed black and white photograph of a classical building facade, featuring a large clock face, ornate sculptures, and a tall clock tower with a spherical finial. The image is positioned on the left side of the slide, partially overlapping the blue background.

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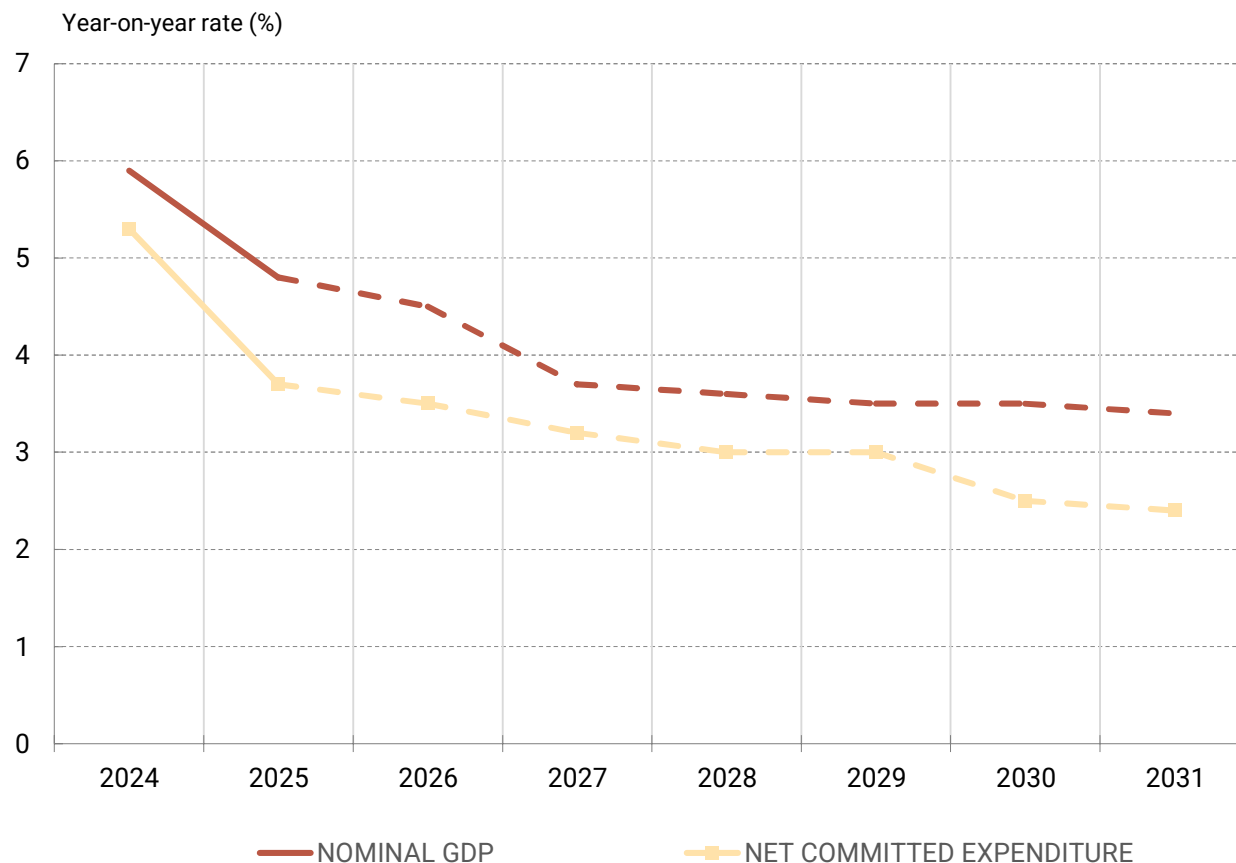
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# THE NEW FISCAL RULES ARE BASED ON CONTAINMENT OF NET PRIMARY EXPENDITURE GROWTH TO ENSURE MEDIUM-TERM DEBT SUSTAINABILITY

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## NET PRIMARY EXPENDITURE AND NOMINAL GDP IN THE MEDIUM-TERM FISCAL-STRUCTURAL PLAN (MTP)

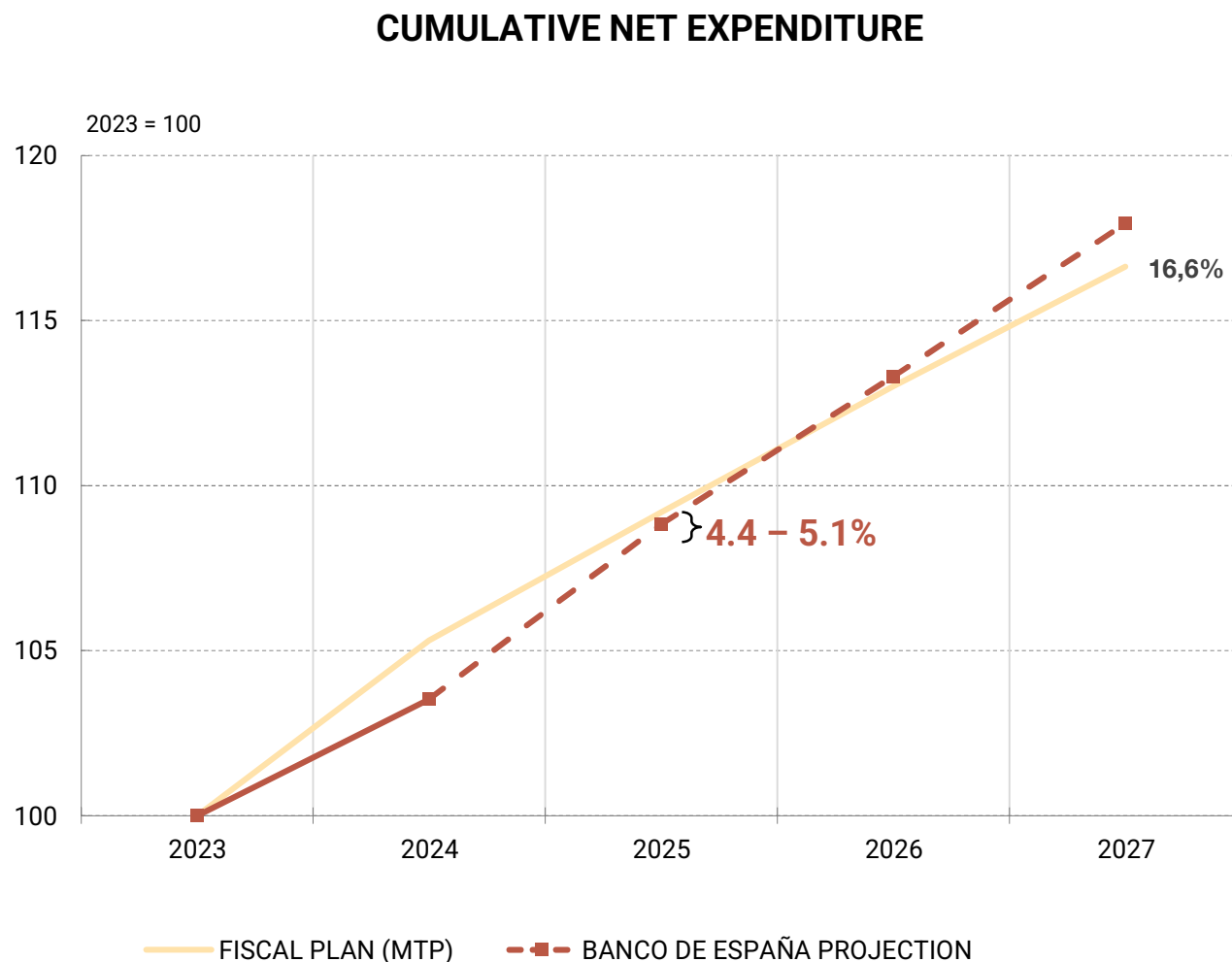


What are the principles behind the new Fiscal Plans?

- A **single operational indicator** of fiscal consolidation: **net primary expenditure growth** (a variable controllable by general government)
- This consolidation is accompanied by a **reform and investment plan** which raises the economy's potential growth

# THE DEVELOPMENTS OBSERVED IN 2025 POINT TO UPSIDE RISKS IN NET EXPENDITURE GROWTH

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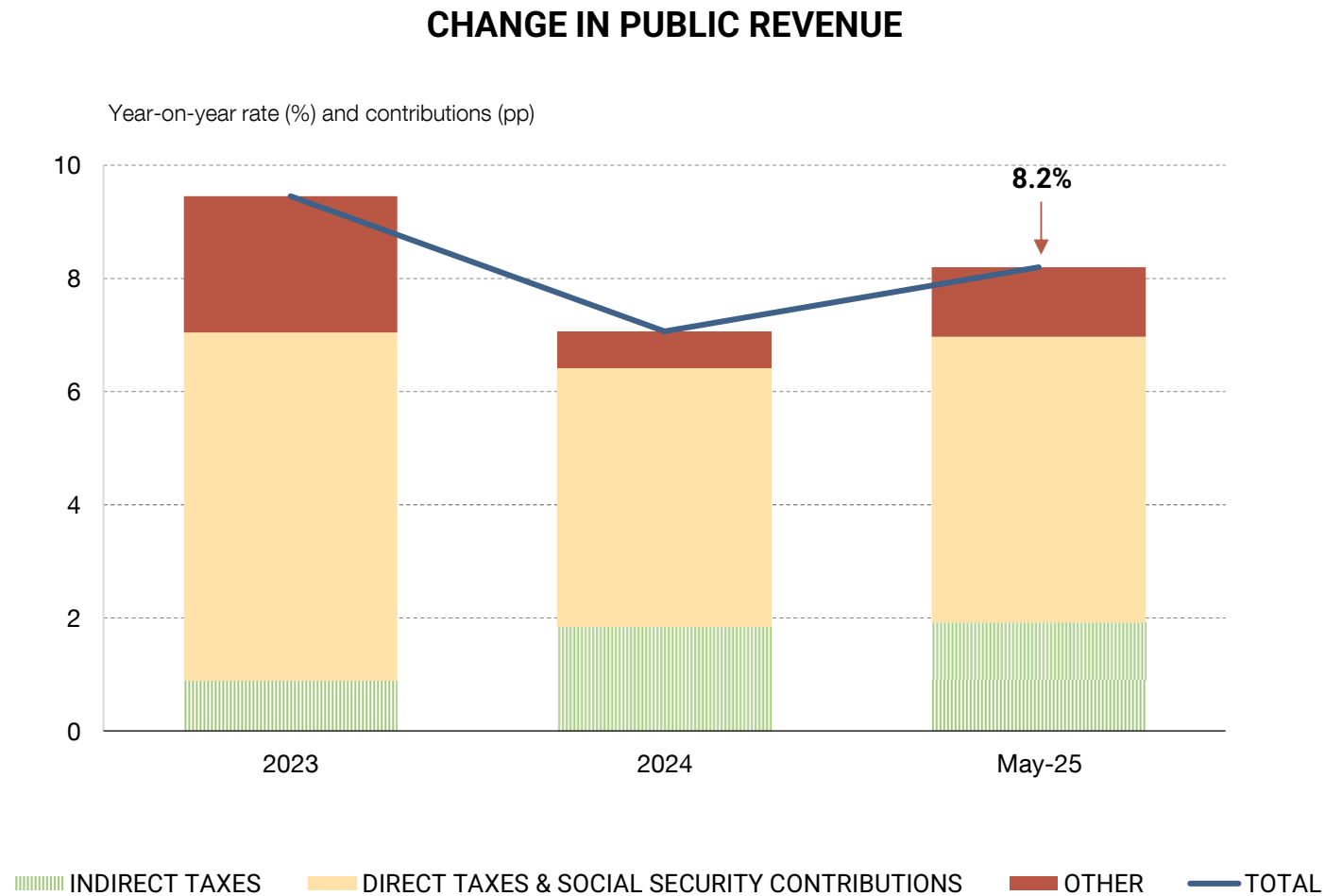
- Net expenditure is expected to grow by **between 4.4% and 5.1%** in 2025, above the upper bound (3.7%) established in the MTP for this year
- In cumulative terms, in 2025 it would lie below the MTP trajectory

Sources: MTP 2025-28 and Banco de España.

Primary expenditure excluding one-offs, cyclical spending on unemployment and expenses financed or co-financed by the EU, corrected for higher revenue owing to measures.

# PUBLIC REVENUE IS HIGHLY BUOYANT, DRIVEN BY DIRECT TAXES

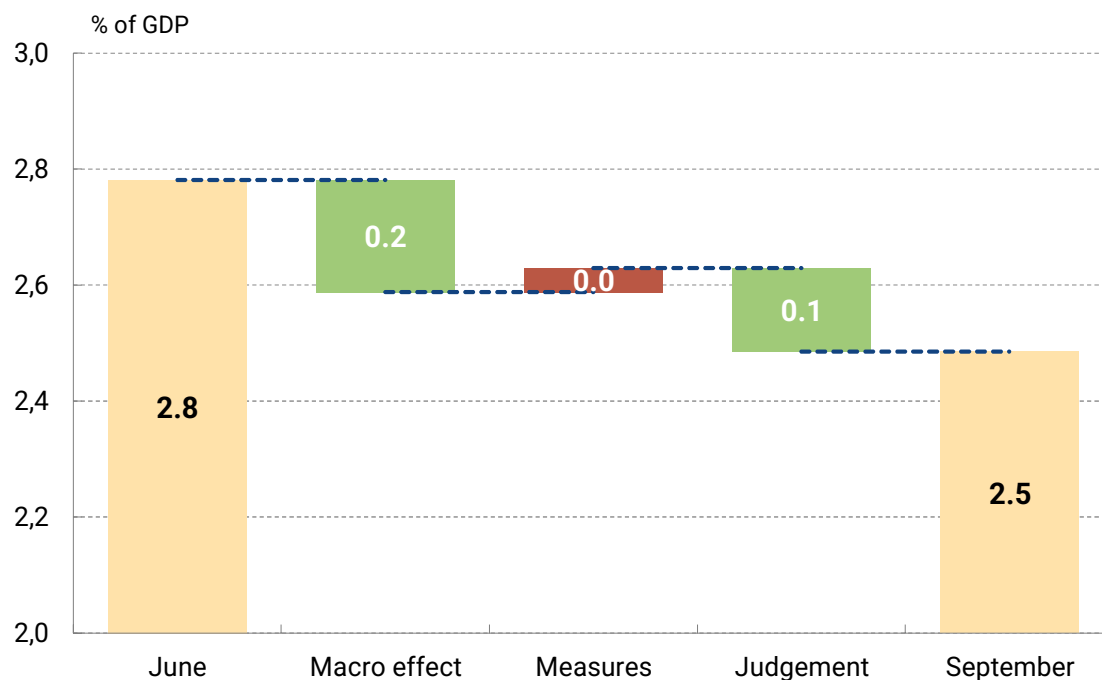
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- Revenue growth stands at around 8% year-on-year, higher than **the economy's nominal growth rate**

# THIS REVENUE GROWTH (OUTSTRIPPING EXPENDITURE GROWTH), TRANSLATES INTO A DOWNWARD REVISION OF THE PROJECTED BUDGET DEFICIT FOR 2025-27

## CHANGE IN THE BUDGET DEFICIT FORECAST FOR 2025



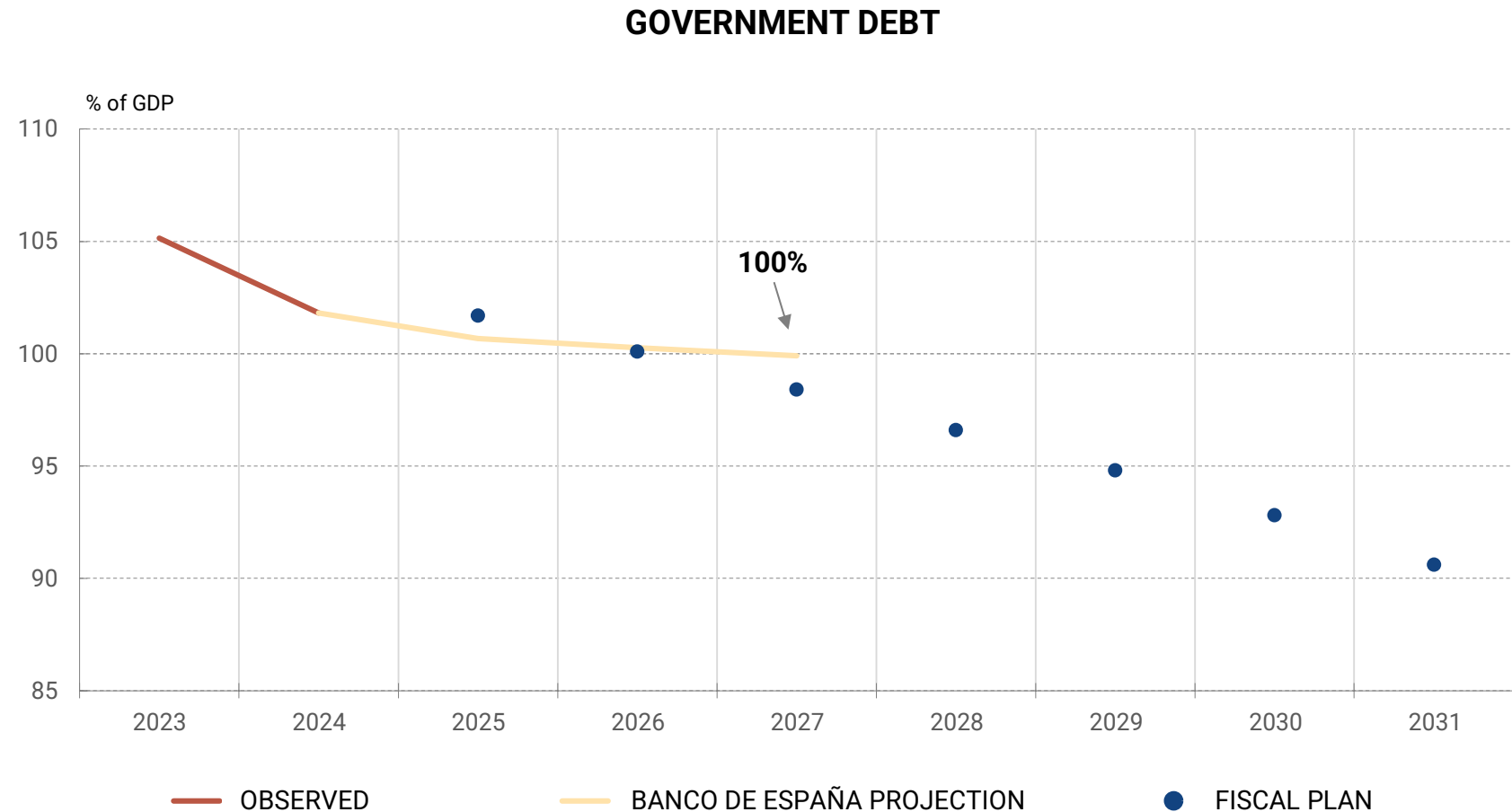
- **Macro effect:** The endogenous response of revenue and expenditure to the strong economic performance justifies a 0.2 pp downward revision of the deficit
- **Measures:** The extension of parental leave and renewal of transport subsidies raises expenditure slightly
- **Judgement:** Some tax revenues are growing faster than expected due to tax base effects, reducing the deficit by a further 0.1 pp

Source: Banco de España.

The deficit reduction in 2025 is carried over to 2026 and 2027, when a deficit of 2.3% of GDP is projected

# DEBT CAN ONLY FOLLOW A DOWNWARD PATH IN A SUSTAINABLE AND COUNTERCYCLICAL MANNER IF NET EXPENDITURE GROWTH IS KEPT IN CHECK

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Sources: MTP 2025-2028 and Banco de España. The 2025 figure is the updated forecast of the Annual Progress Report 2025.

A detailed black and white photograph of a classical building facade, featuring a large clock face, ornate sculptures, and a tall clock tower with a spherical finial. The image is positioned on the left side of the slide, partially overlapping the blue background.

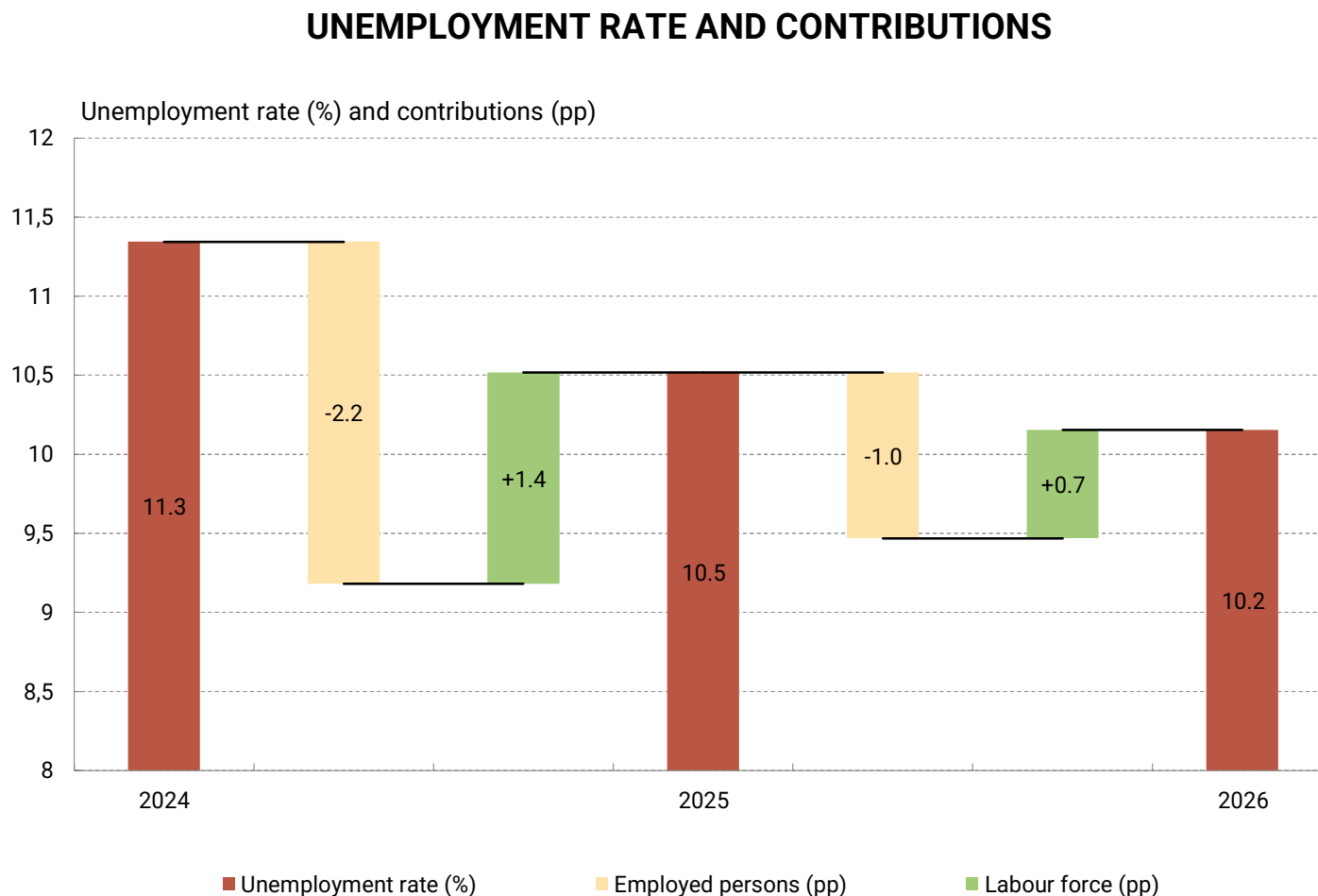
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# THE UNEMPLOYMENT RATE IS EXPECTED TO CONTINUE ITS DECLINE TO AROUND 10% IN 2026

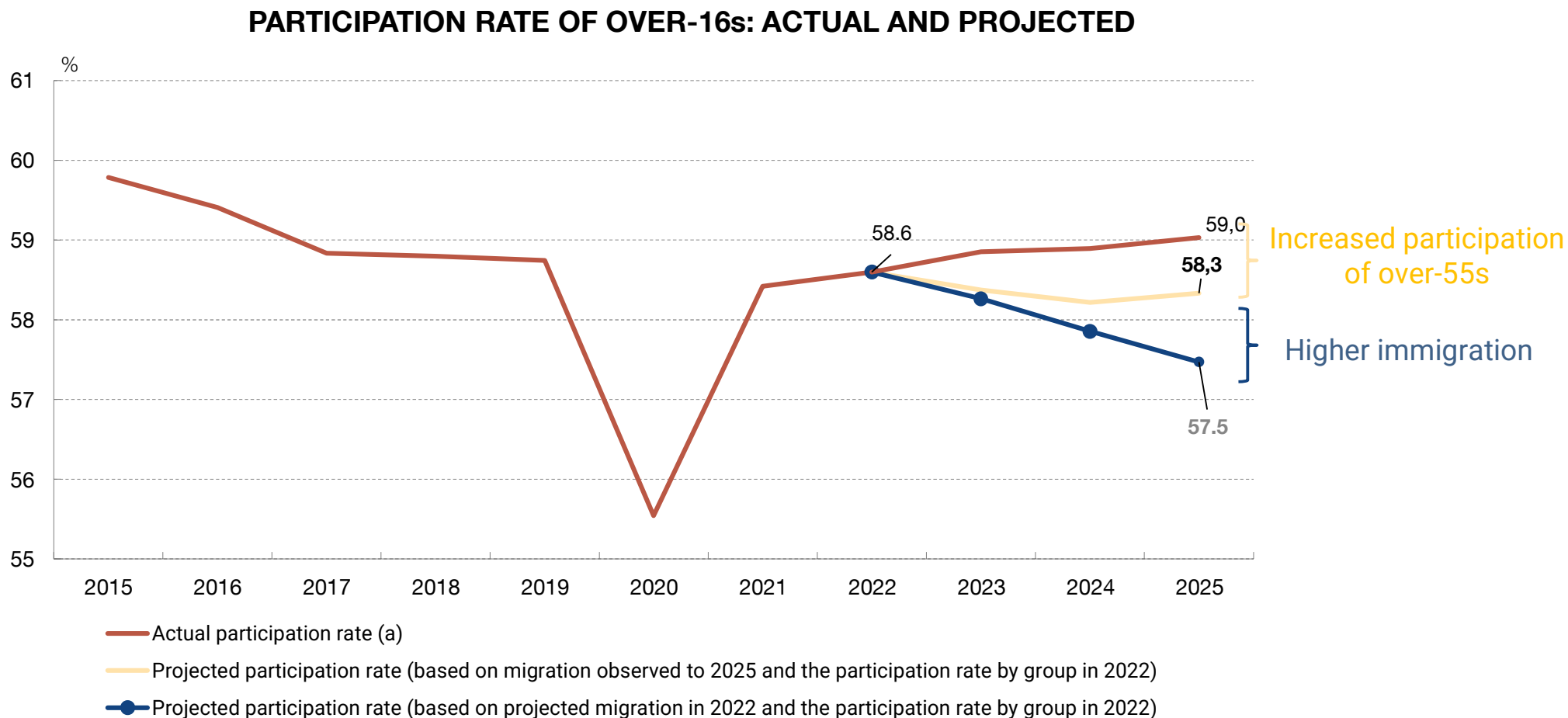
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- The **drop in the unemployment rate** comes amid a **strong labour force**, bolstered by **growth in the foreign population**

# THE LABOUR FORCE HAS BENEFITED FROM THE INCREASE IN IMMIGRATION AND IN THE PARTICIPATION OF THE OVER-55s, WHICH HAVE OFFSET THE NEGATIVE TREND ASSOCIATED WITH POPULATION AGEING

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Sources: INE and Banco de España. (a) Participation rates for the second quarter of each year.



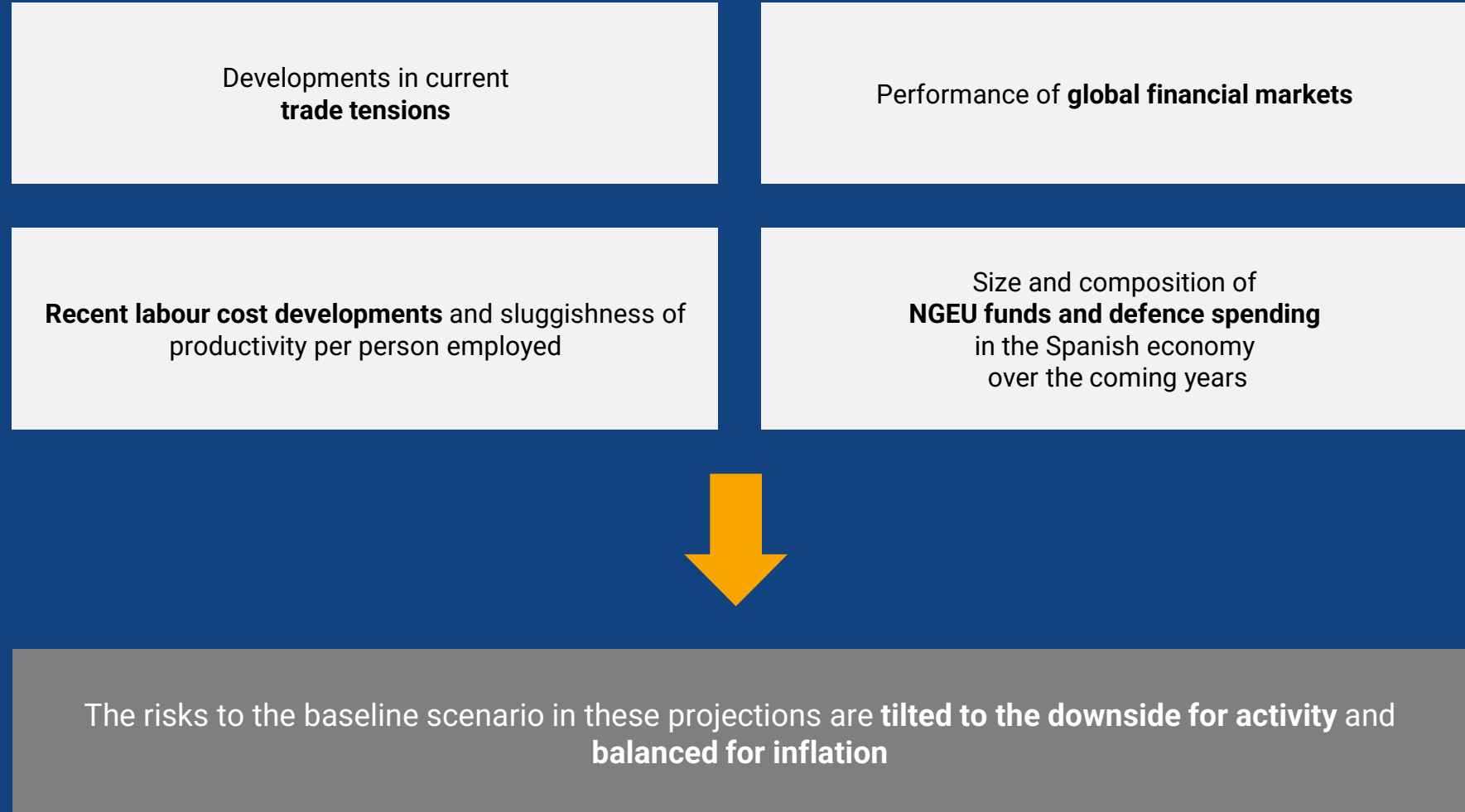
A detailed black and white photograph of a classical building facade, featuring a large clock face, ornate sculptures, and a tall clock tower with a spherical finial. The image is positioned on the left side of the slide, partially overlapping the blue background.

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# MAIN SOURCES OF RISK

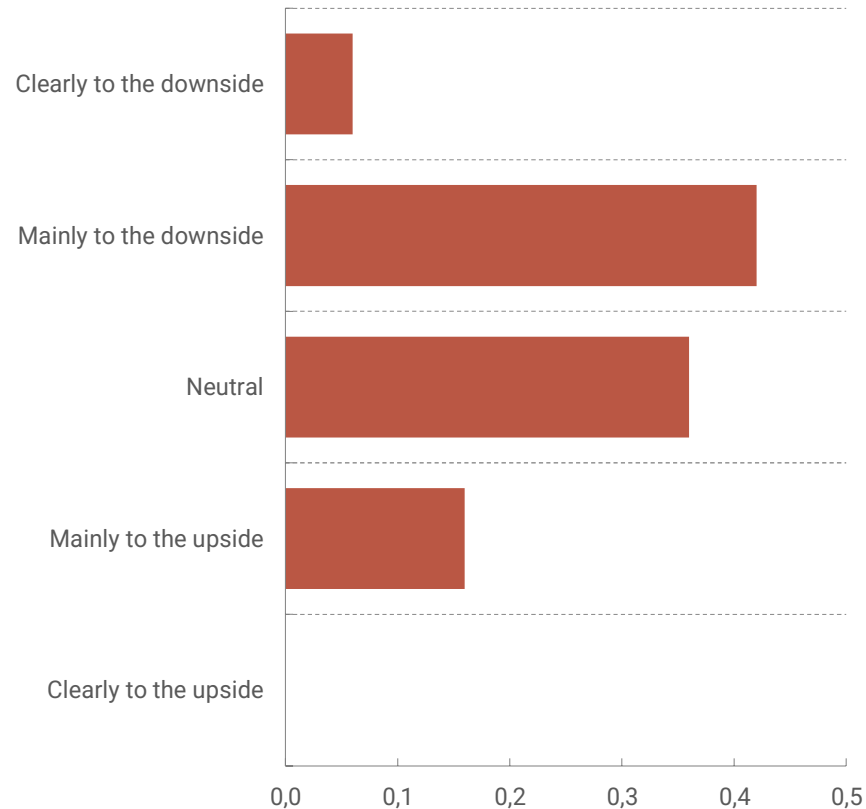


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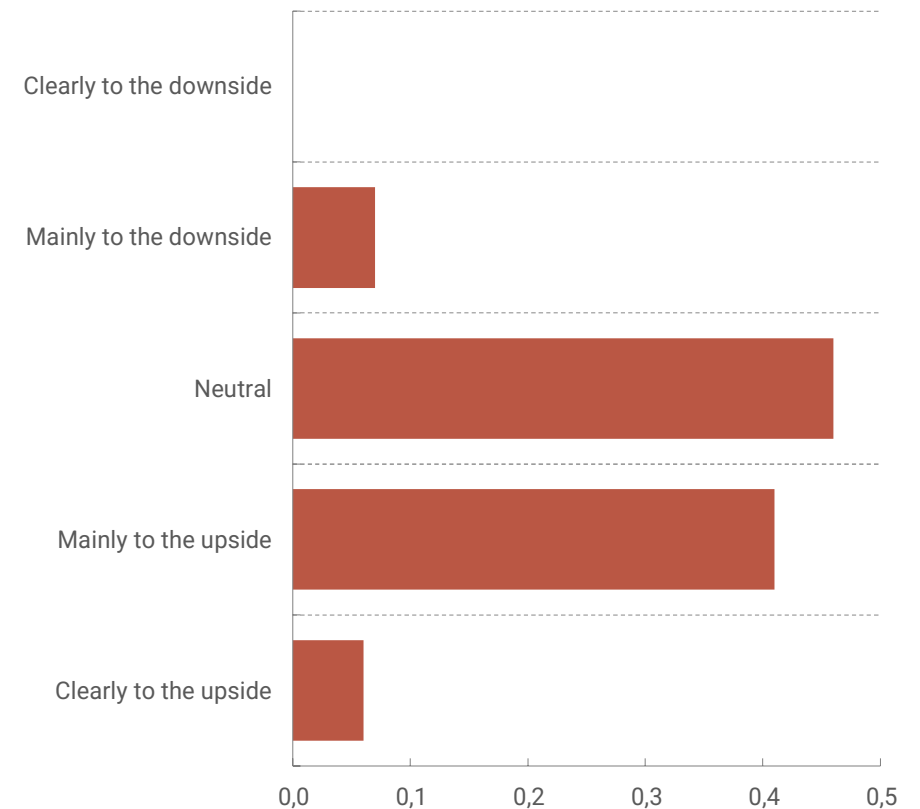
# ACCORDING TO THE RISK ASSESSMENT SURVEY, RISKS ARE TILTED MAINLY TO THE DOWNSIDE FOR ACTIVITY AND ARE NEUTRAL FOR INFLATION

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## RISKS TO GDP



## RISKS TO INFLATION



Source: Survey conducted among the economists in the Directorate General Economics (51 responses).

A detailed black and white photograph of a classical building facade, featuring a large clock face, ornate sculptures, and a tall clock tower with a spherical finial. The image is positioned on the left side of the slide, partially overlapping the blue background.

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# THE FORECASTS ARE SUBJECT TO UNCERTAINTY

## Uncertainty surrounding the available data

They depend on the technical assumptions (interest rates, oil, policies, ...)

They are subject to revisions

They incorporate the impact of potential shocks on which some information is available

## Other factors

The projections are based on models combined, to varying degrees, with expert judgement

Future shocks are certain to take place in the future on which there is no information...

... other than that which can be extracted from the past, by analysing prediction errors and empirical regularities

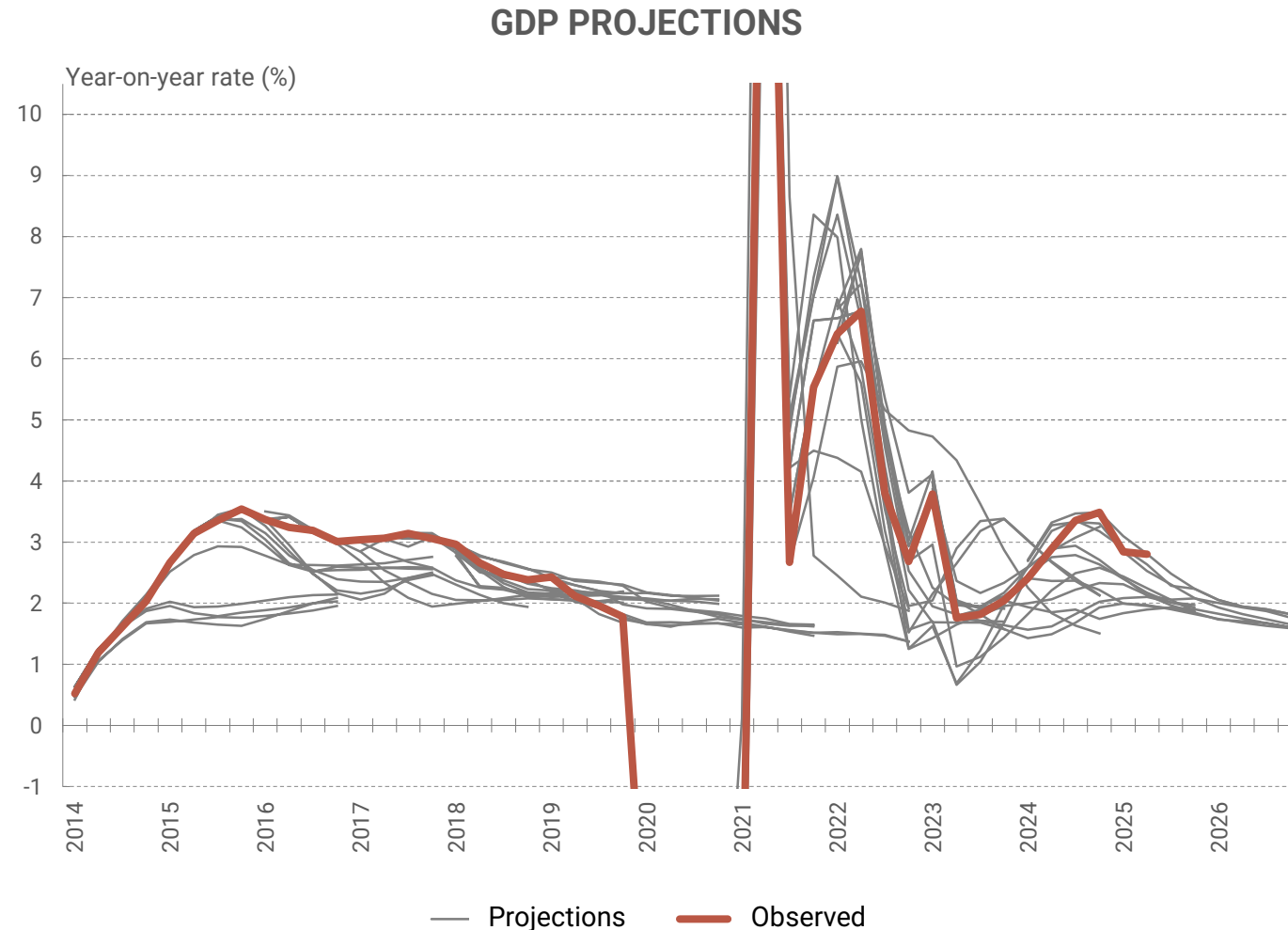


We can quantify past uncertainty and estimate its future magnitude

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# THE BANCO DE ESPAÑA PROJECTIONS, LIKE THOSE OF OTHER INSTITUTIONS, HAVE UNDERESTIMATED GDP DURING RECOVERIES

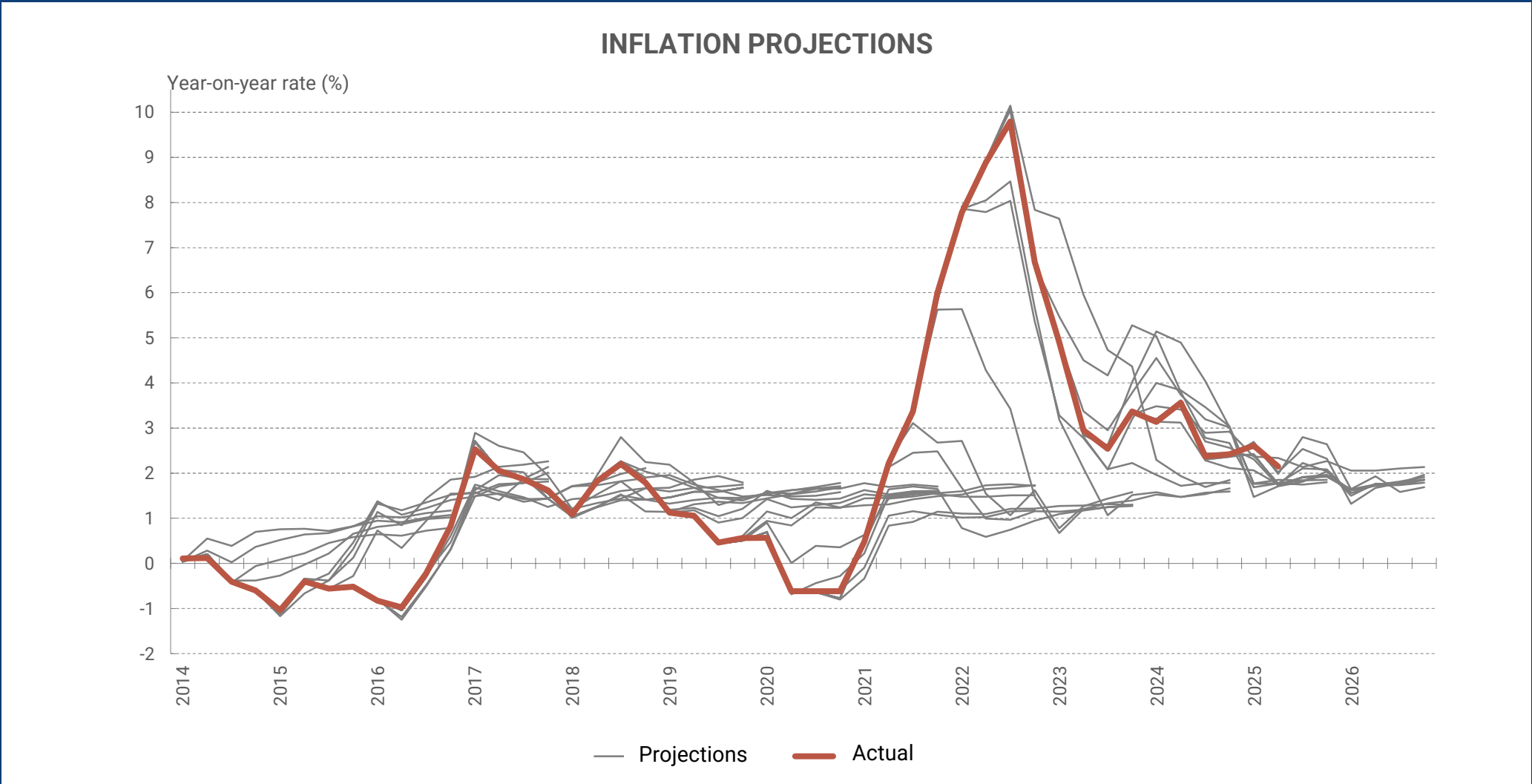
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- Overestimation during recessions (COVID-19)
- The projections incorporate a small probability of recession during recoveries, which results in GDP being underestimated in those periods

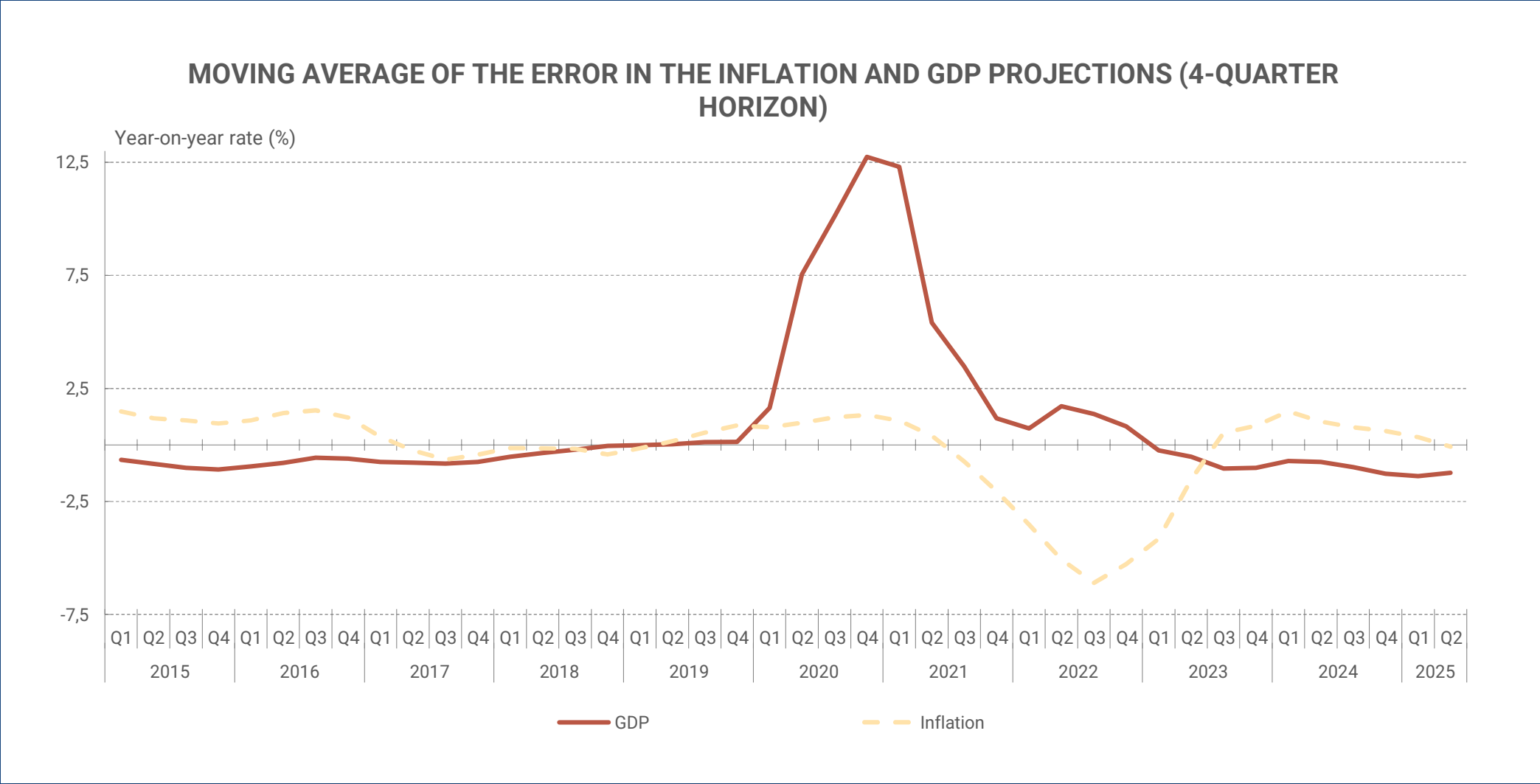
# INFLATION PROJECTIONS OVERESTIMATED PRIOR TO 2020 AND UNDERESTIMATED DURING THE ENERGY CRISIS

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# SIGNIFICANT AVERAGE ERROR CAN BE SEEN IN THE GDP PROJECTIONS DURING THE PANDEMIC AND IN THE INFLATION PROJECTIONS DURING THE ENERGY CRISIS

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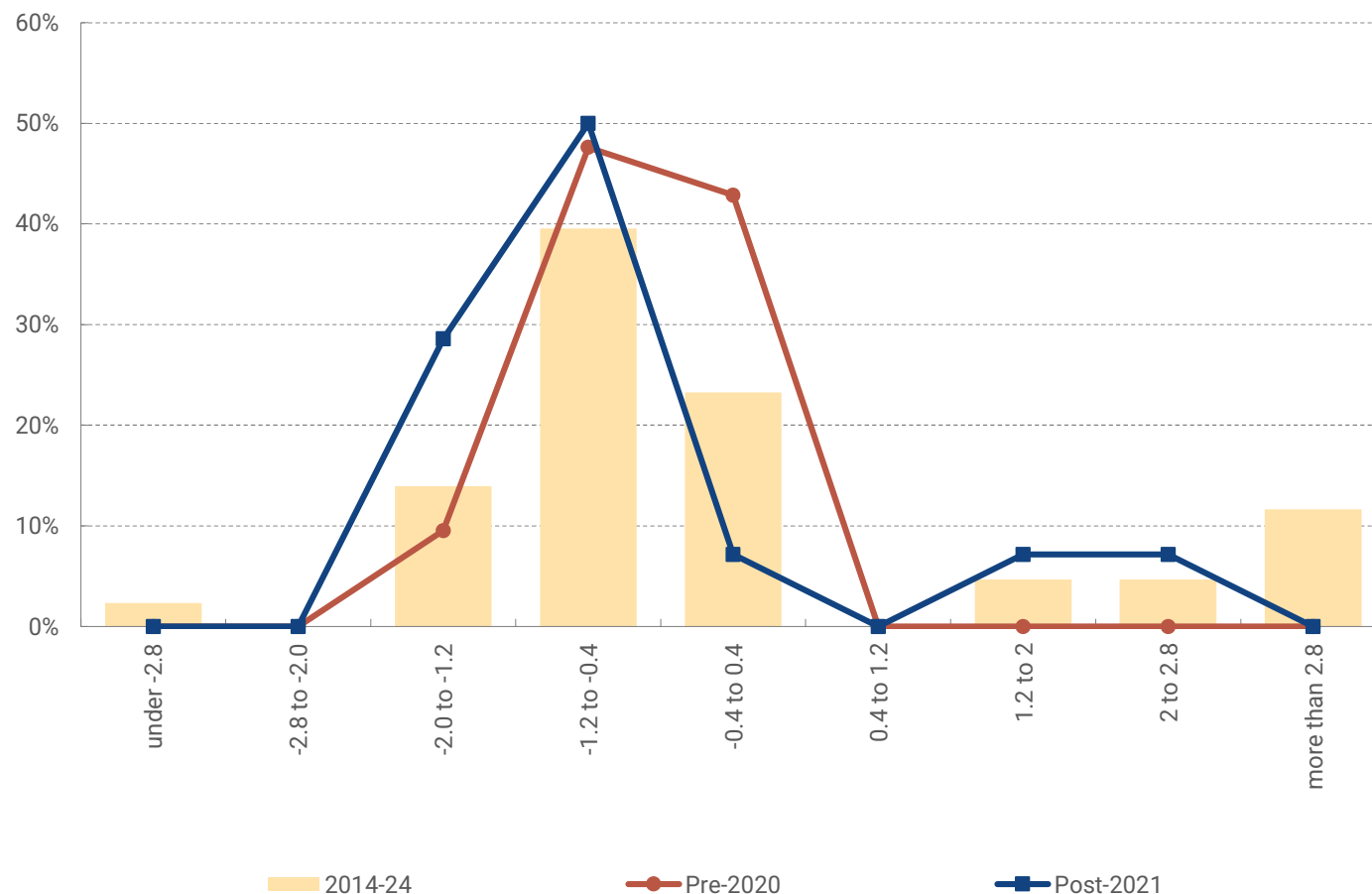


Source: Banco de España. Four-quarter moving average.



# THE ERROR DISTRIBUTION IN THE ONE-YEAR-AHEAD GDP PROJECTIONS WAS SIGNIFICANTLY AFFECTED BY THE PANDEMIC AND SKEWED IN RECENT YEARS

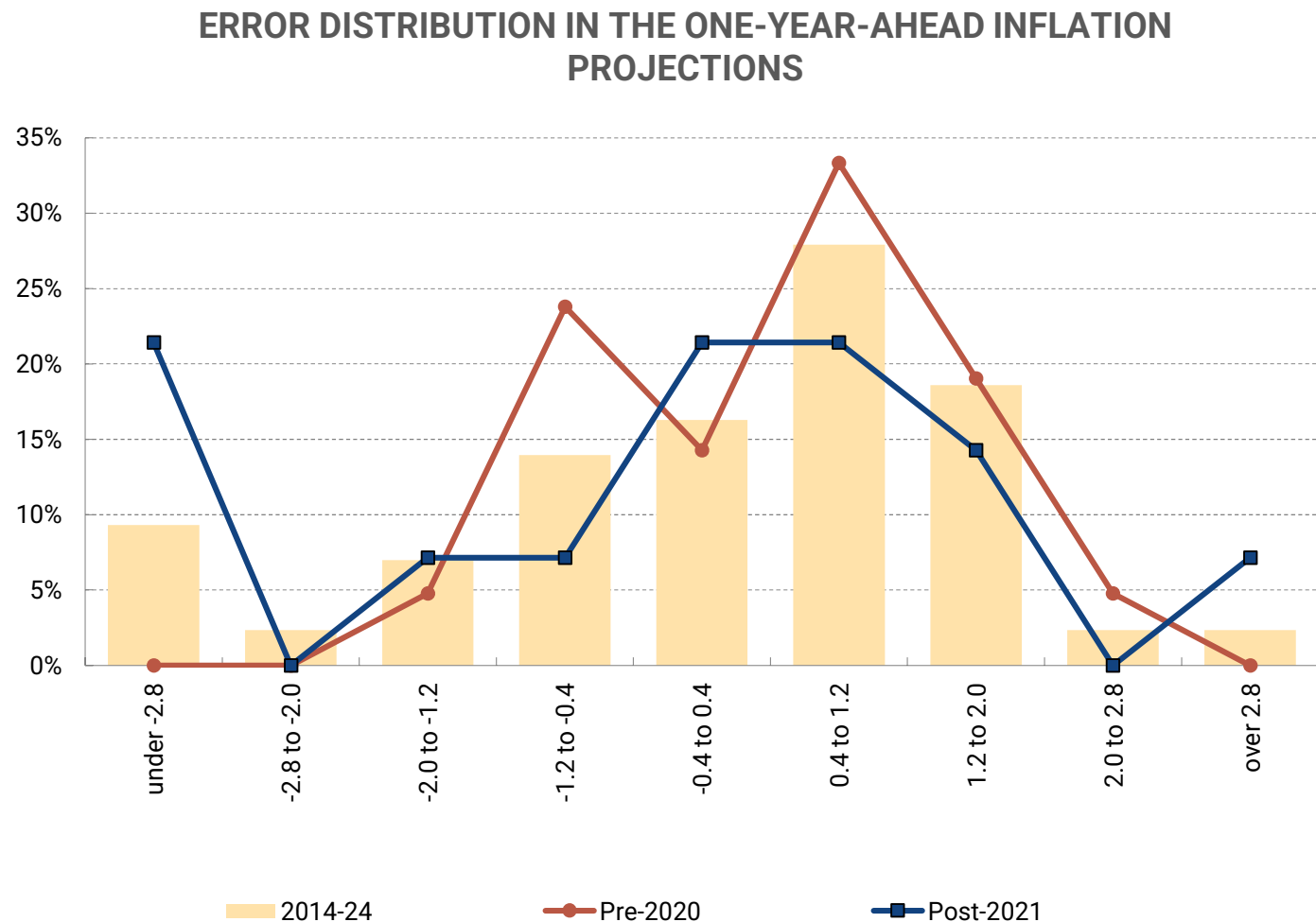
## ERROR DISTRIBUTION IN ONE-YEAR-AHEAD GDP PROJECTIONS



- The pandemic period introduced atypical overestimation errors
- Following the pandemic, projections displayed positive skew and fat tails (kurtosis)
- Theil's U value confirms that our projections are consistently better than a forecast based on the most recent figure available

# THE ENERGY CRISIS INTRODUCED SIGNIFICANT CHANGES TO THE ERROR DISTRIBUTION IN THE ONE-YEAR-AHEAD INFLATION PROJECTIONS

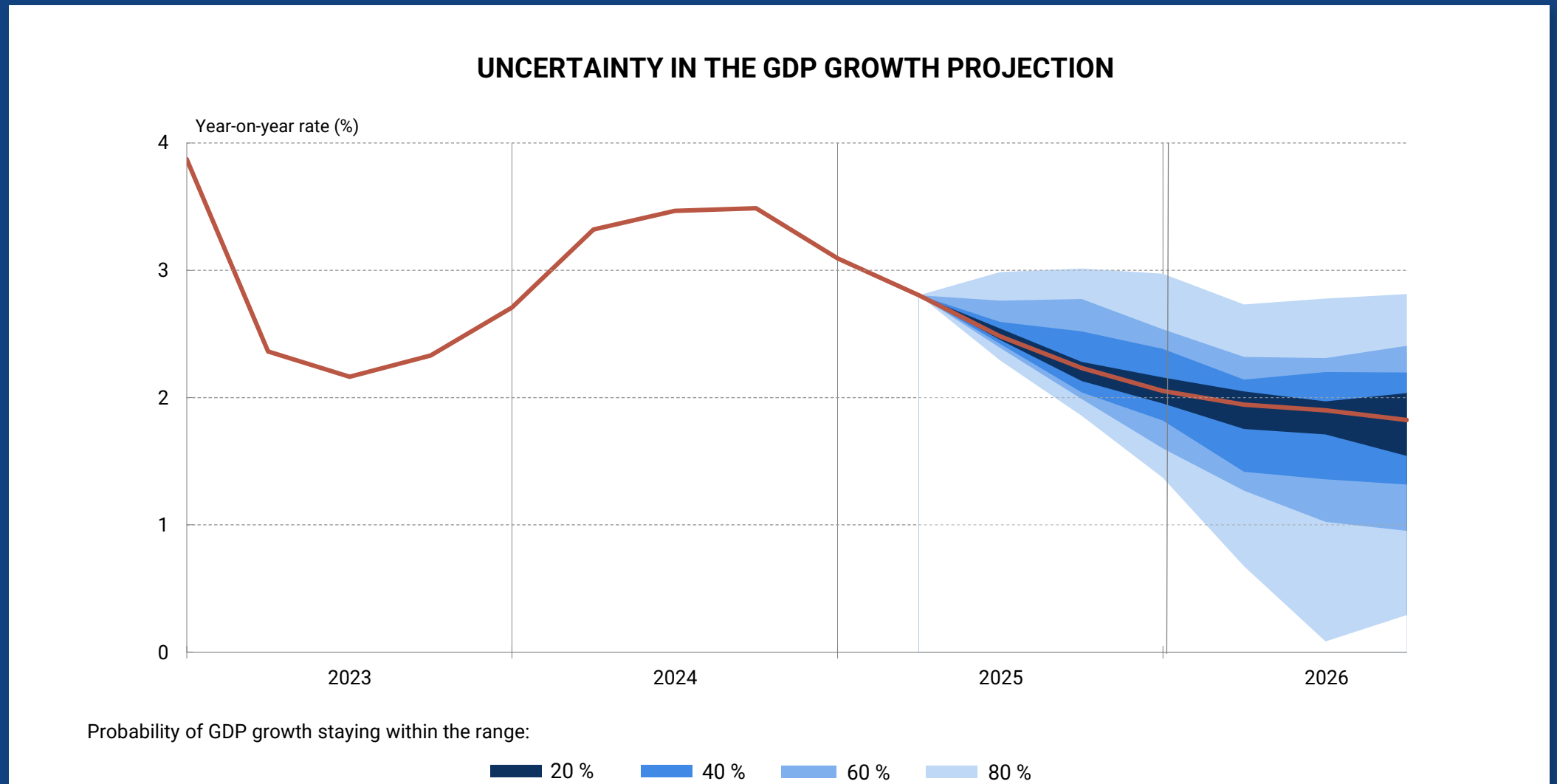
1. GLOBAL AND FINANCIAL ENVIRONMENT
2. ACTIVITY
  - 2.1 REVISION
  - 2.2 DATA
  - 2.3 JUDGEMENT
  - 2.4 FORECAST TRAJECTORY
3. INFLATION
  - 3.1 REVISION
  - 3.2 DATA
  - 3.3 FORECAST TRAJECTORY
4. PUBLIC SECTOR
5. LABOUR MARKET
6. RISKS
7. QUANTIFICATION OF UNCERTAINTY



- The energy crisis introduced atypical underestimation errors
- Before the pandemic, forecast error distributions showed no significant skewness or fat tails
- After the pandemic, projection errors showed fat tails (kurtosis) and a slight skew towards underestimation

# FUTURE UNCERTAINTY CAN BE ESTIMATED USING THE ERROR DISTRIBUTION OF PAST PROJECTIONS

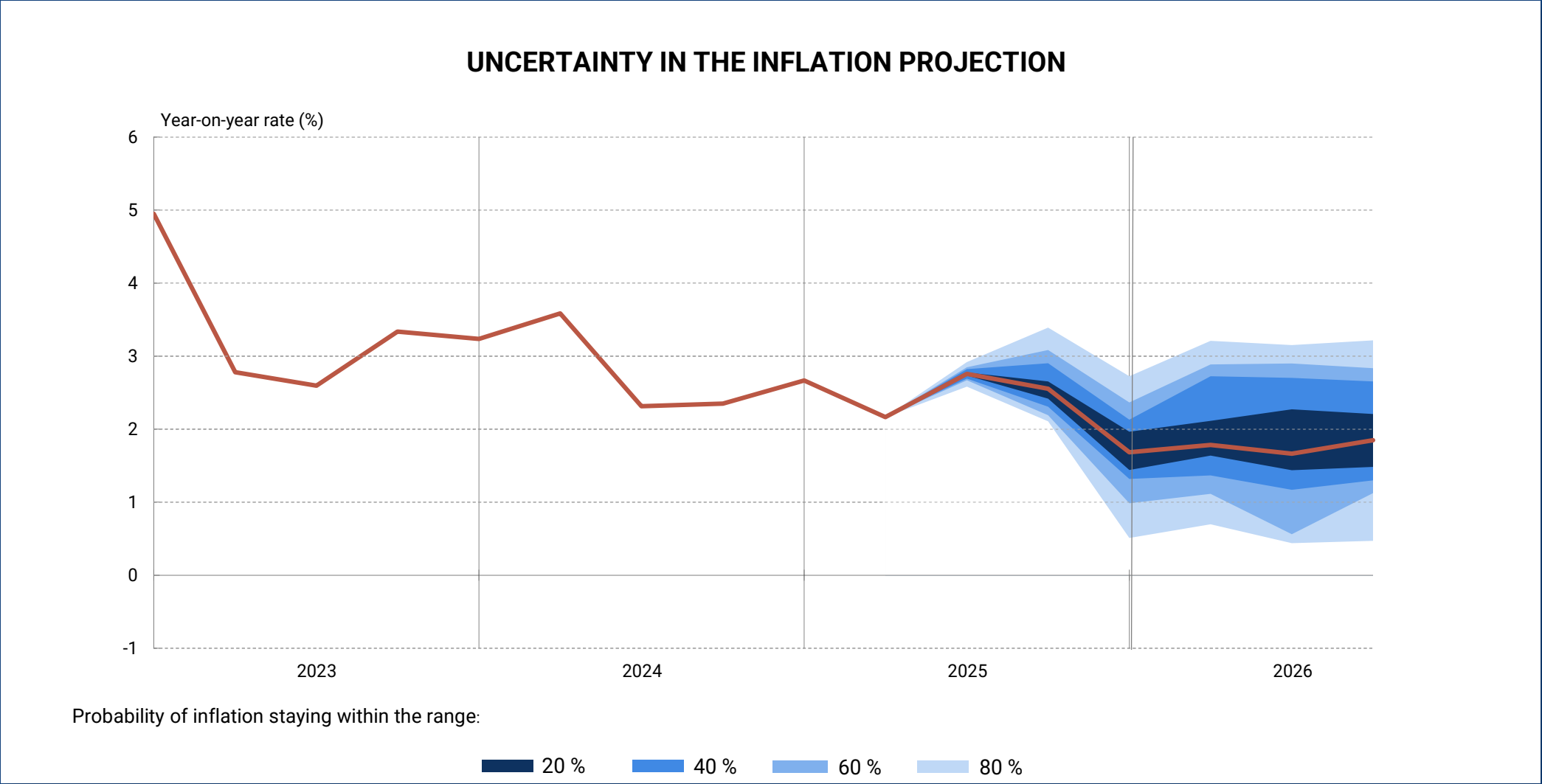
1. GLOBAL AND FINANCIAL ENVIRONMENT
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7. **QUANTIFICATION OF UNCERTAINTY**



Source: Banco de España. The errors in the 2020 and 2021 projections are excluded from the calculation of the uncertainty intervals.

# FUTURE UNCERTAINTY CAN BE ESTIMATED USING THE ERROR DISTRIBUTION OF PAST PROJECTIONS

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Source: Banco de España. The errors in the 2022 projections are excluded from the calculation of the uncertainty intervals.

# USING MODELS TO ESTIMATE PROJECTION UNCERTAINTY

## Quantile regression

Allows for predictions beyond point forecasts

Can capture future uncertainty with a full density function

Handles skewness naturally: quantifying upside and downside risks. Better captures non-linear behaviours

## Banco de España's QRF model Galara and Pacce (2025)

Artificial intelligence model to forecast inflation in Spain based on Lenza, Moutachaker and Paredes (2023)

76 variables (surveys, prices, financial variables and more). The model reveals which variables are most significant in each quartile, providing a narrative for the uncertainty

The model's predictive capability is comparable to that of the projections published in projection exercises



The QRF model allows the uncertainty in inflation projections to be characterised

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3.1 REVISION  
3.2 DATA  
3.3 FORECAST TRAJECTORY

4. PUBLIC SECTOR

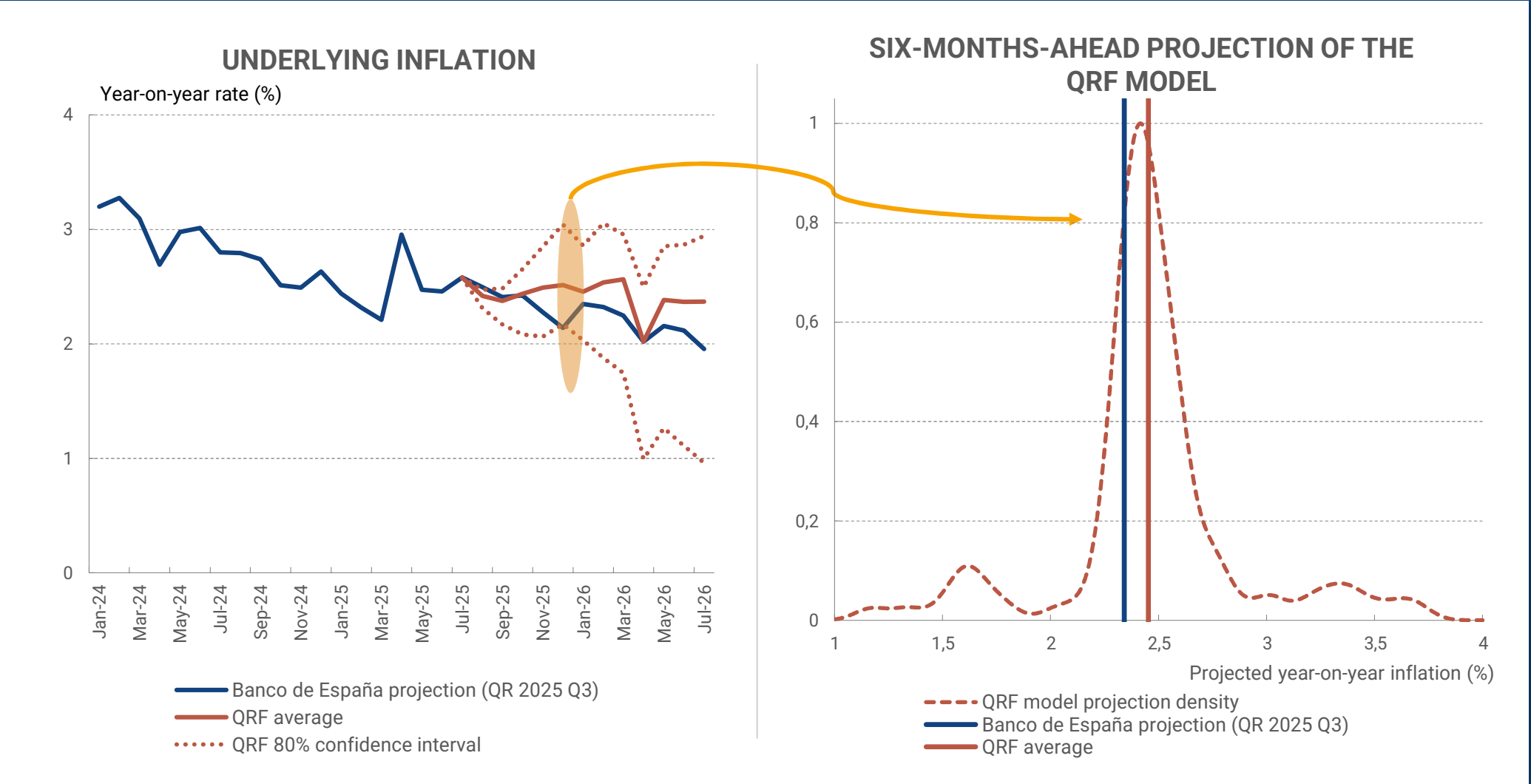
5. LABOUR MARKET

6. RISKS

7. QUANTIFICATION OF UNCERTAINTY

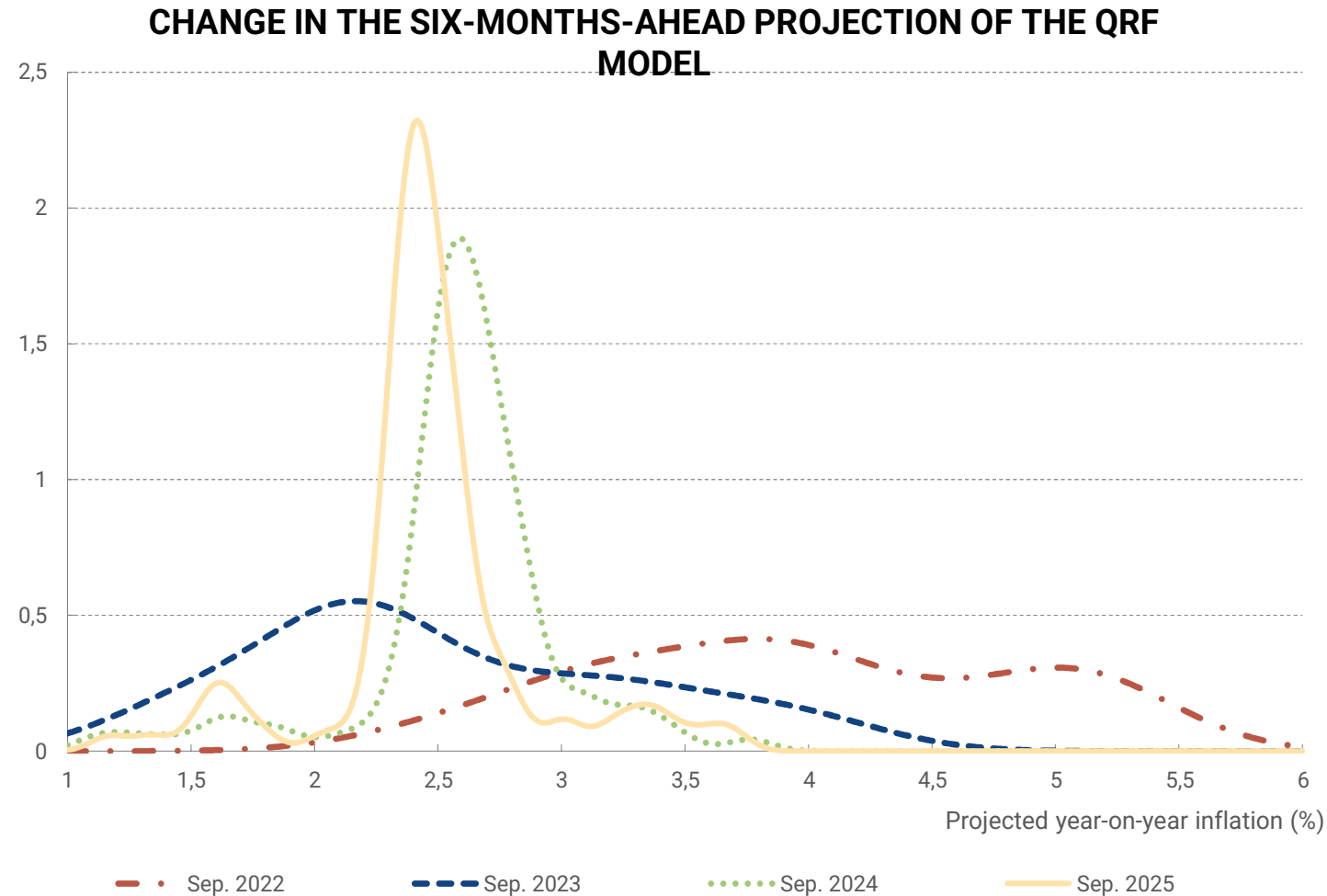
# BANCO DE ESPAÑA PROJECTIONS ARE IN LINE WITH THOSE OF THE QRF MODEL, WHICH ALSO OFFERS INSIGHTS ON RISKS

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# THE UNCERTAINTY AROUND PROJECTIONS OF CORE HICP HAS LESSENED IN RECENT YEARS

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- Uncertainty was very high in 2022
- There was a notable fall in uncertainty in 2024 and 2025 and a simultaneous shift to the left in the probability mass (lower inflation expected)

THANK YOU