

CÁTEDRA FUNDACIÓN LA CAIXA

THE ECONOMIC OUTLOOK OF SPAIN AND THE EURO AREA IN AN UNCERTAIN INTERNATIONAL ENVIRONMENT*

JOSÉ LUIS ESCRIVÁ

GOVERNOR

MADRID

24 MARCH 2025

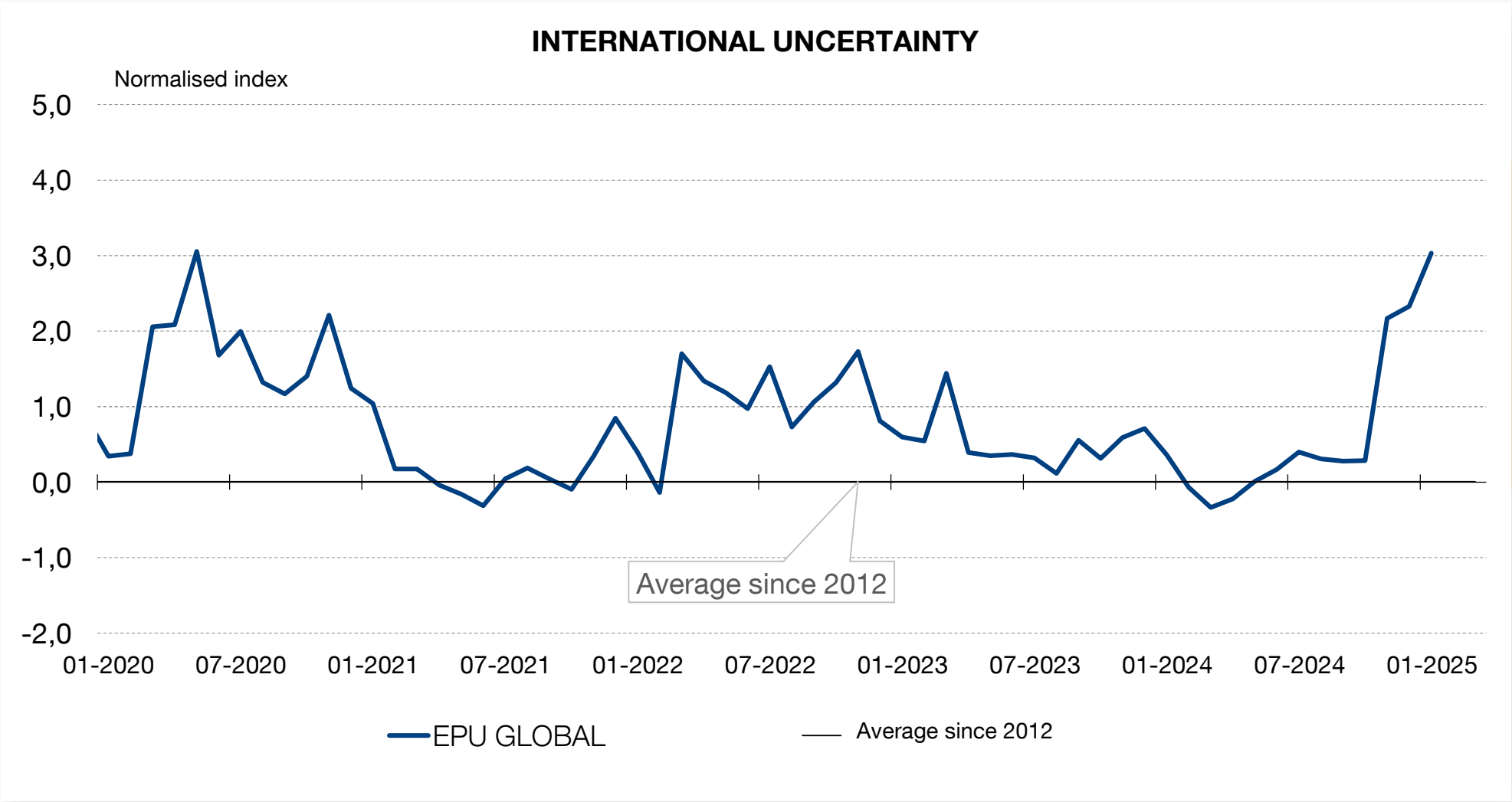
* English translation from the original in Spanish.



THE GLOBAL ECONOMY FACES A SCENARIO FRAUGHT WITH RISKS



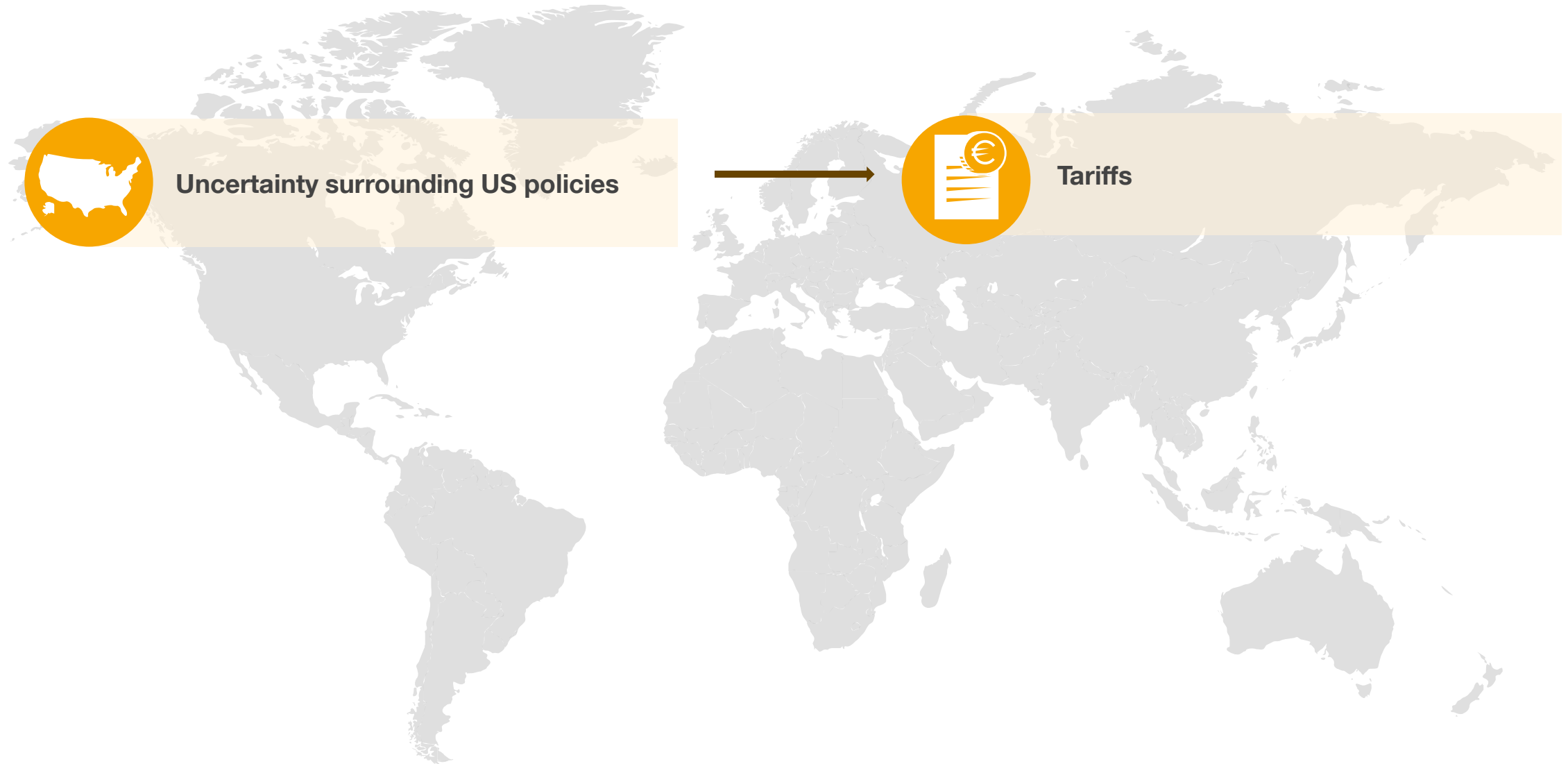
Uncertainty surrounding US policies



Highest level of political uncertainty on record since 1997

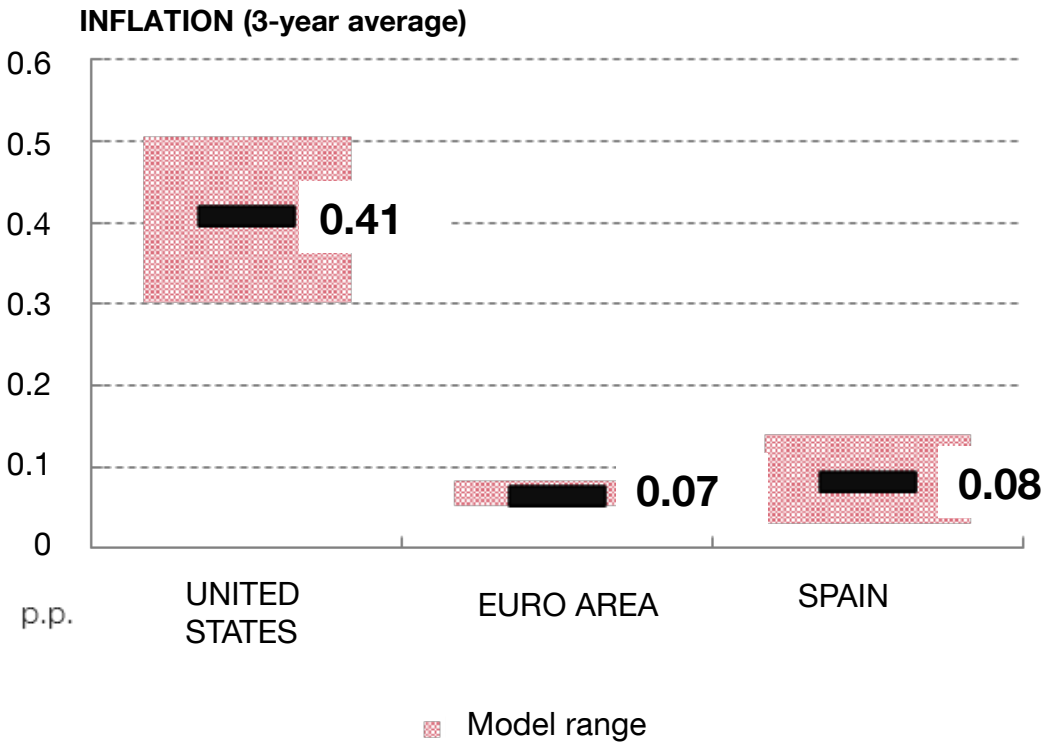
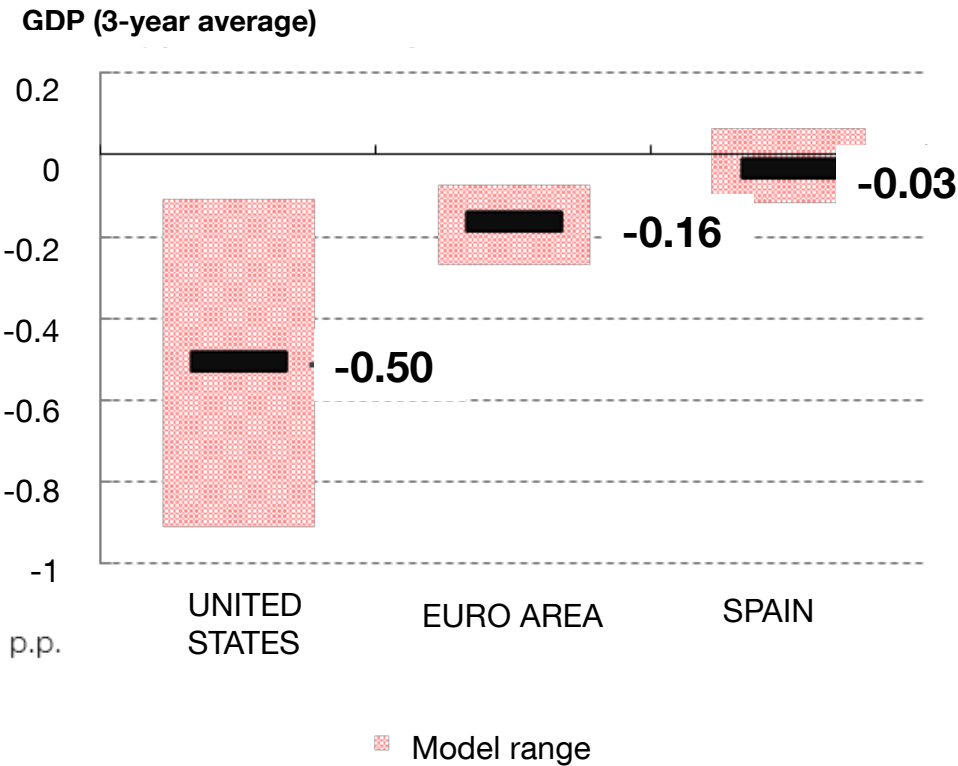
Source: Refinitiv Datastream. EPU: Economic Policy Uncertainty Index (Baker, Bloom and Davis, 2016). Normalised indices. Latest data : January 2025 for EPU Global and March 2025 for VIX.

THE GLOBAL ECONOMY FACES A SCENARIO FRAUGHT WITH RISKS



THE ADVERSE IMPACT OF UNILATERAL TARIFF MEASURES HAS GLOBAL REPERCUSSIONS, ABOVE ALL IN THE UNITED STATES

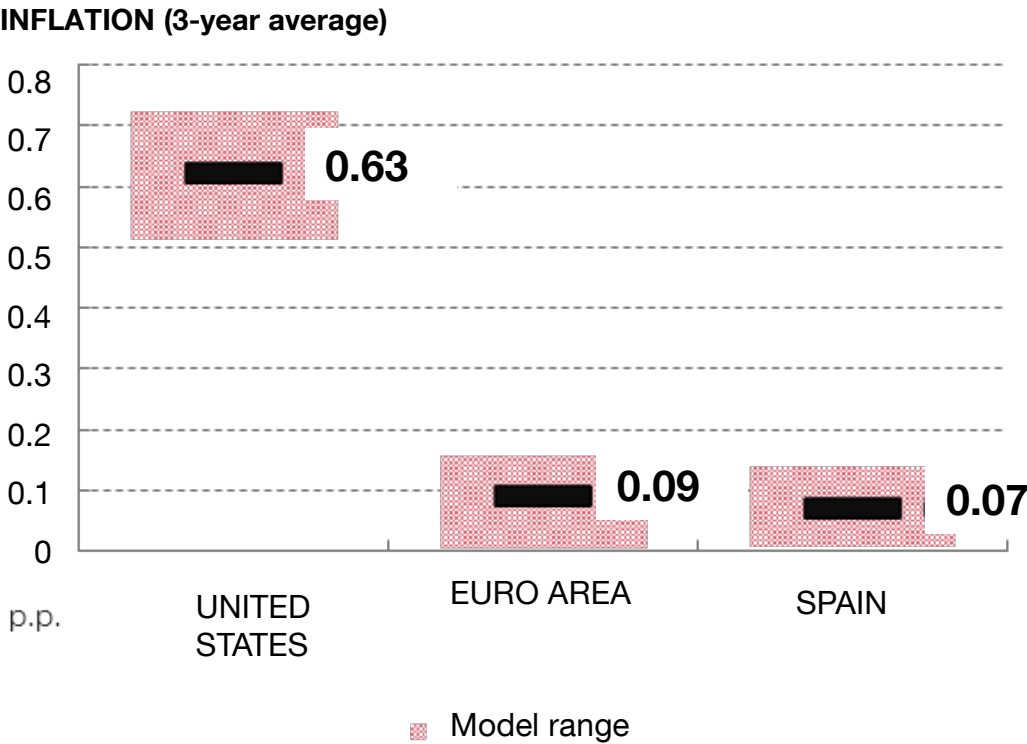
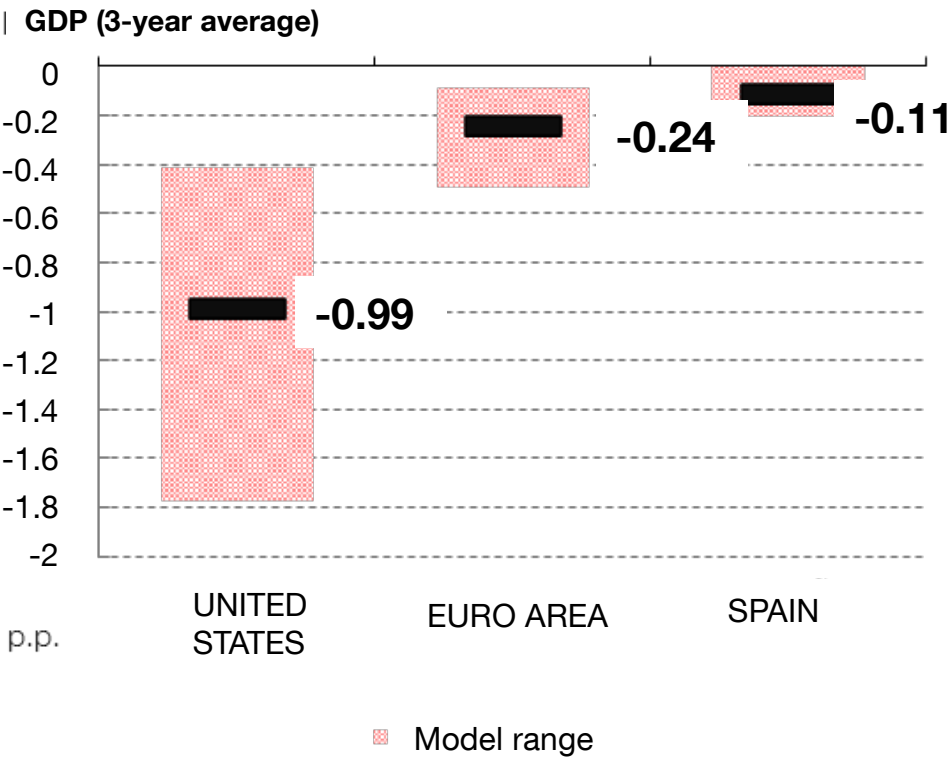
IMPACT OF A 10% TARIFF ON ALL IMPORTS TO THE UNITED STATES



Source: Banco de España
Units of measurement: percentage points deviation from the level.

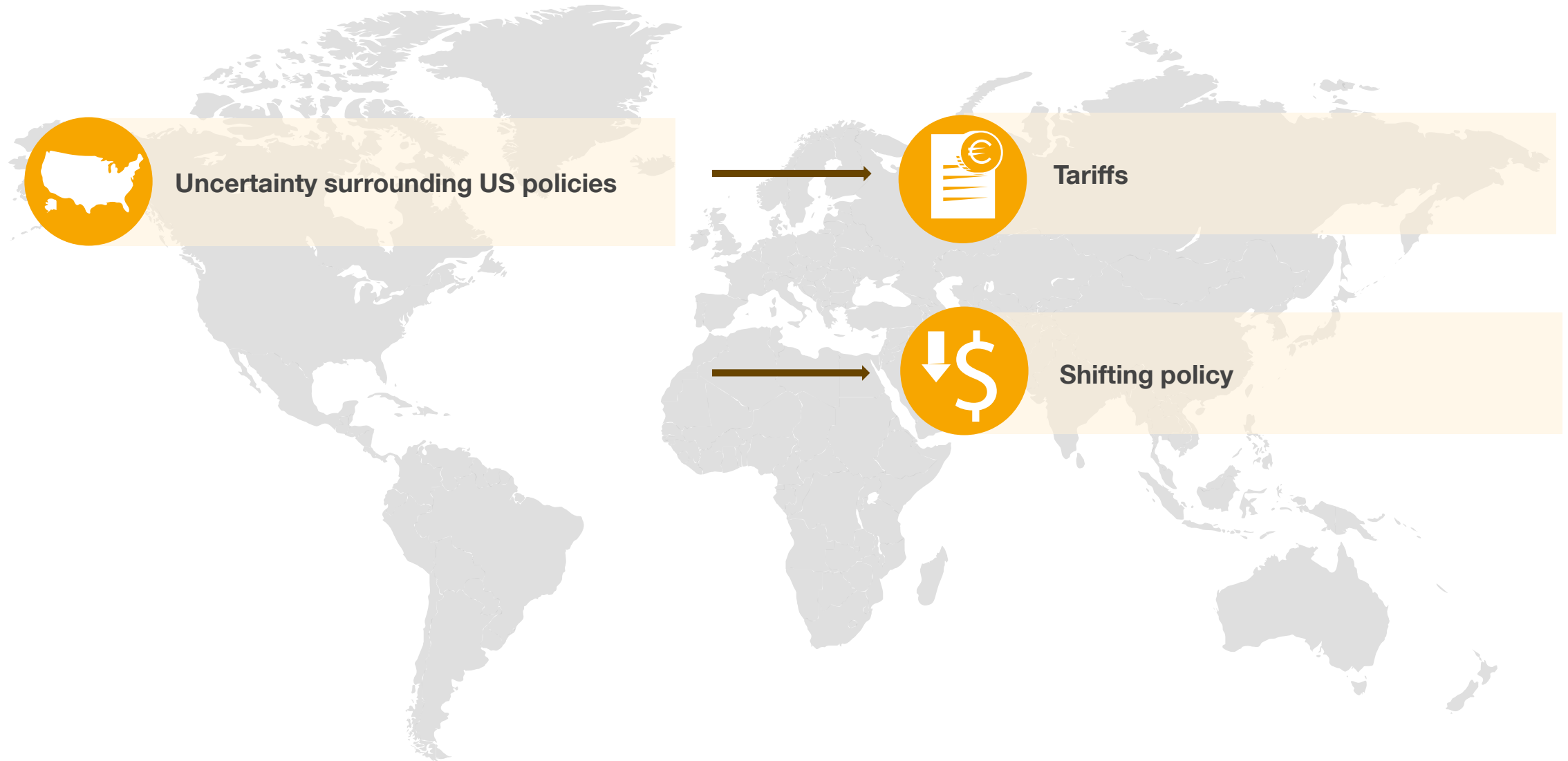
THE IMPACT WOULD BE GREATER IF RETALIATORY MEASURES ARE TAKEN

IMPACT OF A 10% TARIFF ON ALL IMPORTS TO THE UNITED STATES, WITH RETALIATION



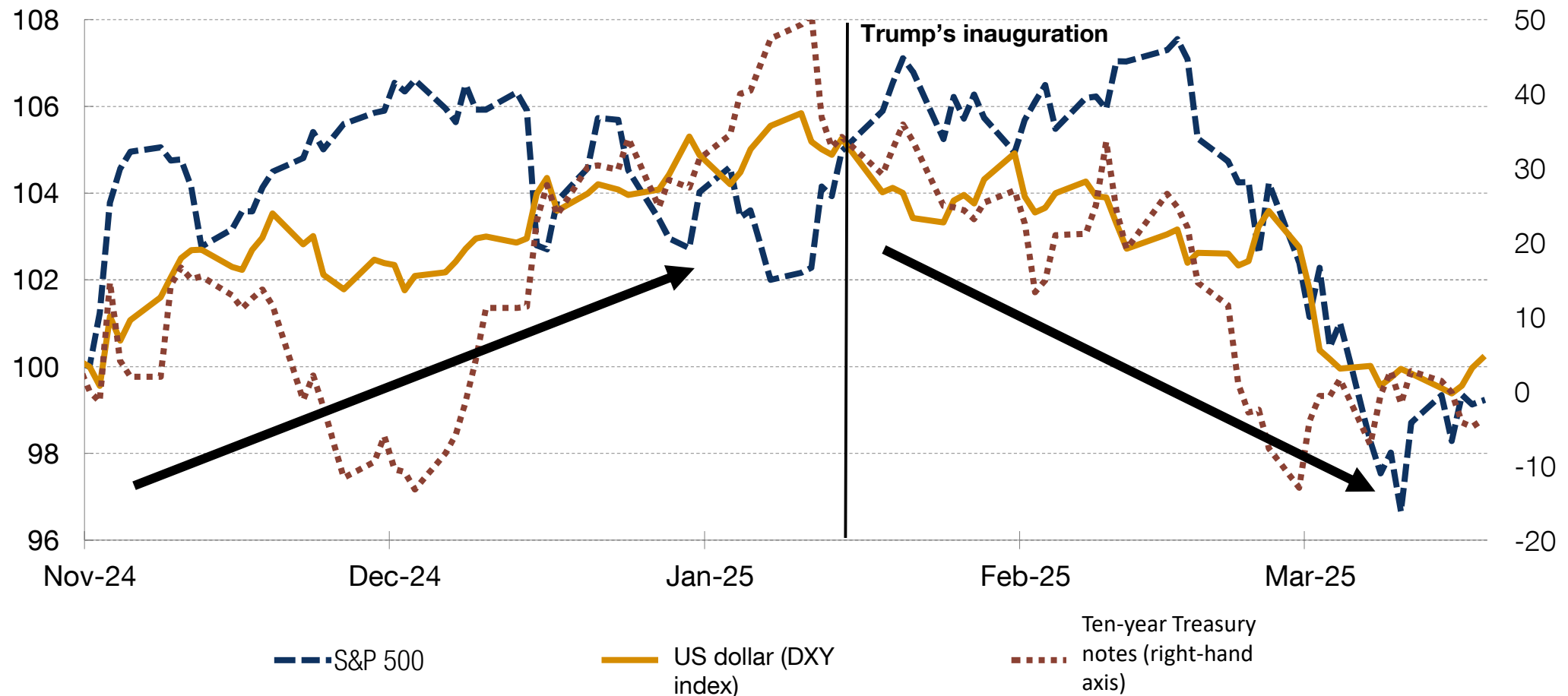
Source: Banco de España
Units of measurement: percentage points deviation from the level.

THE GLOBAL ECONOMY FACES A SCENARIO FRAUGHT WITH RISKS



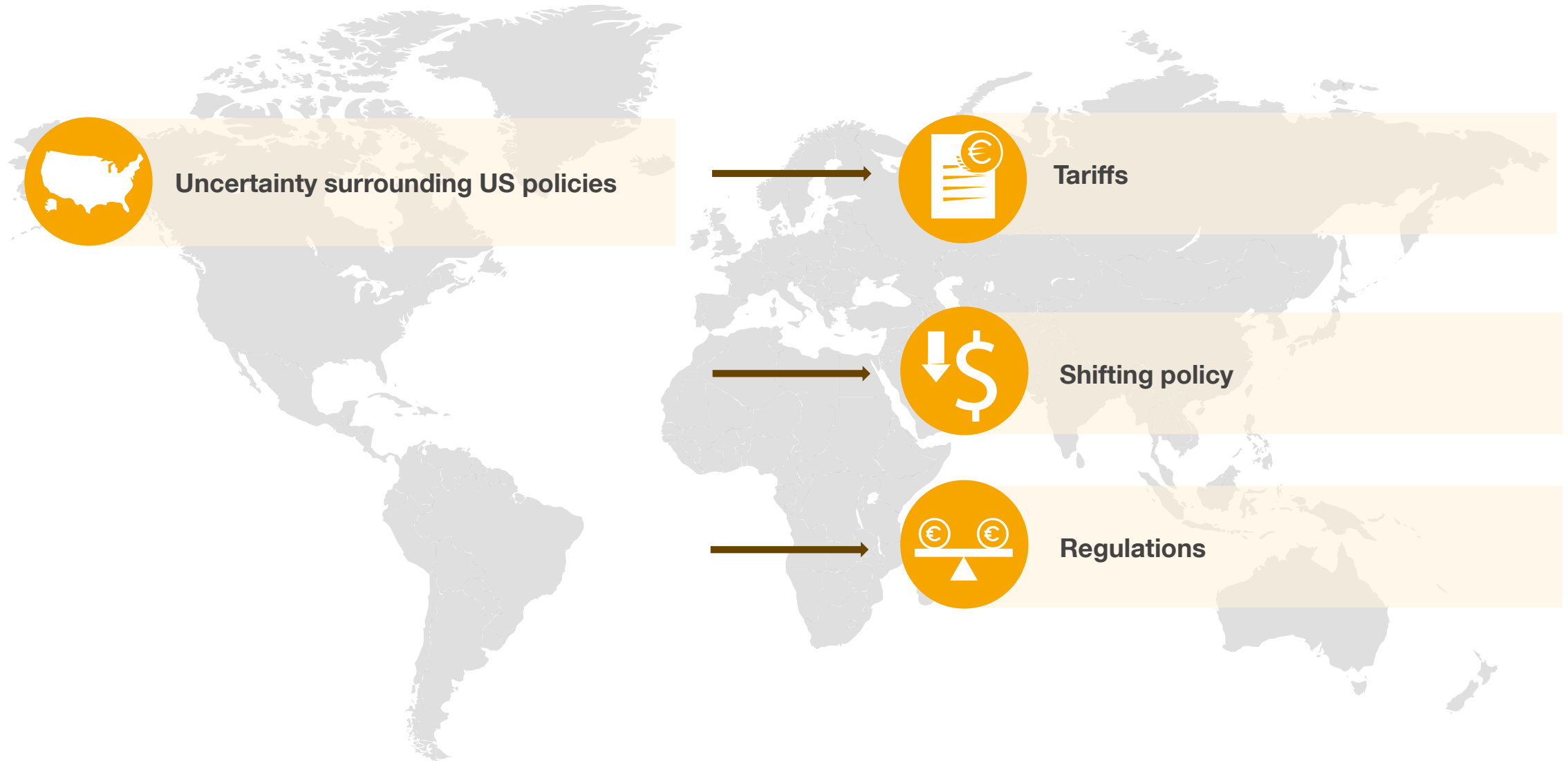
FOLLOWING TRUMP'S VICTORY, EXPECTATIONS DROVE RISES IN ASSET PRICES AND AN APPRECIATION OF THE DOLLAR. HOWEVER, THESE EXPECTATIONS HAVE NOW COMPLETELY REVERSED

THE S&P 500, 10-YEAR TREASURY NOTES AND THE US DOLLAR SINCE THE ELECTIONS



Source: Bloomberg

THE GLOBAL ECONOMY FACES A SCENARIO FRAUGHT WITH RISKS



NEW INITIATIVES SINCE TRUMP'S RETURN CONCERN THE DEREGULATION OF PAYMENT SYSTEMS, CLIMATE CHANGE AND THE BANKING SECTOR



PAYMENT SYSTEMS AND TECH

Executive orders

- Establishment of the Strategic Bitcoin Reserve and United States Digital Asset Stockpile
- Removing Barriers to American Leadership in Artificial Intelligence
- Strengthening American Leadership in Digital Financial Technology

Executive orders

- Payment Stablecoin Act (or Digital Asset)
- Bitcoin Act, GENIUS Act, STABLE Act of 2025



CLIMATE CHANGE

Executive orders

- Putting America First in International Environmental Agreements
- Declaring a National Energy Emergency
- Unleashing American Energy
- Immediate Expansion of American Timber Production
- Council To Assess the Federal Emergency Management Agency
- Unleashing Alaska's Extraordinary Resource Potential

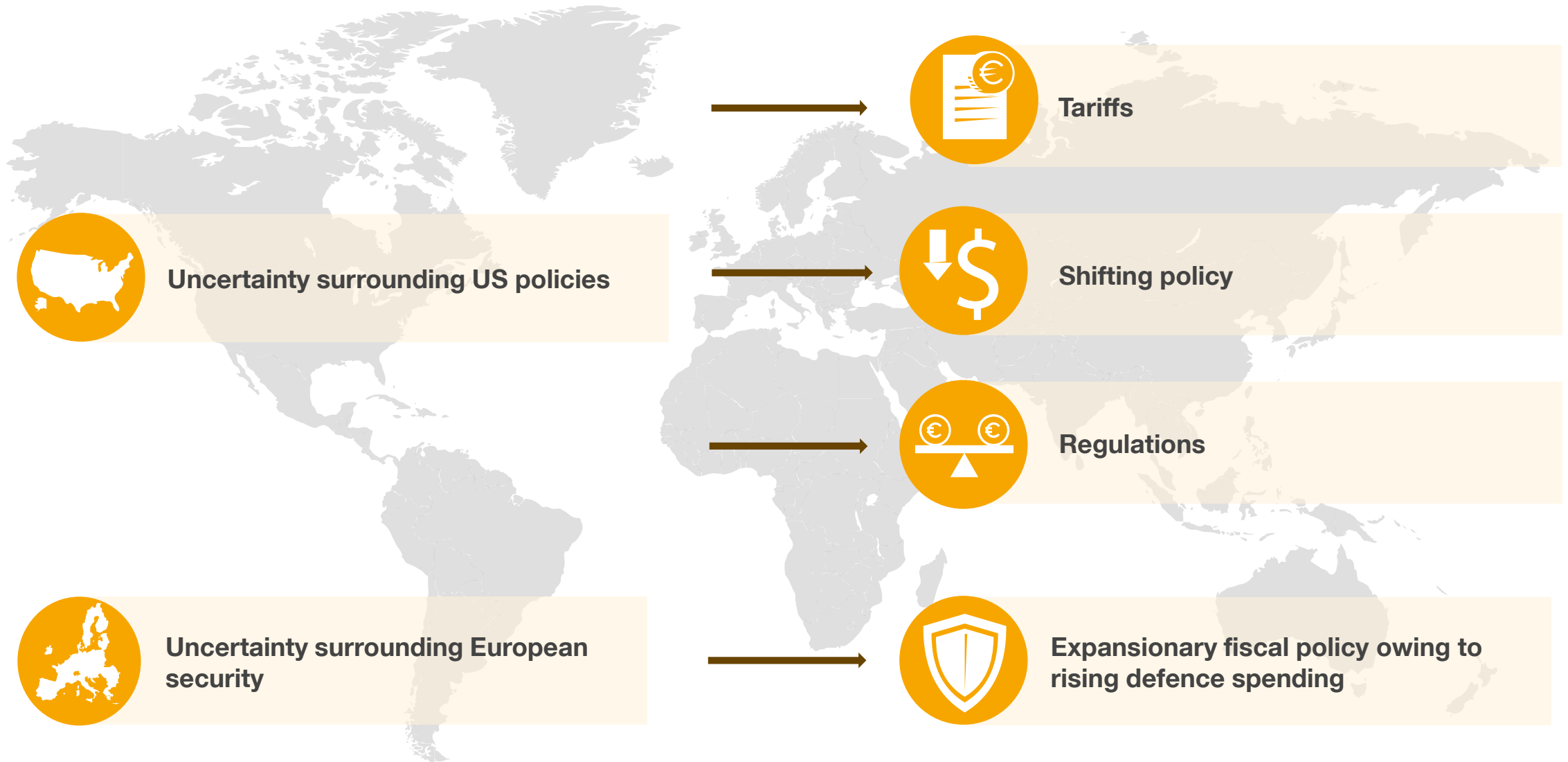


BANKING SECTOR

Executive orders

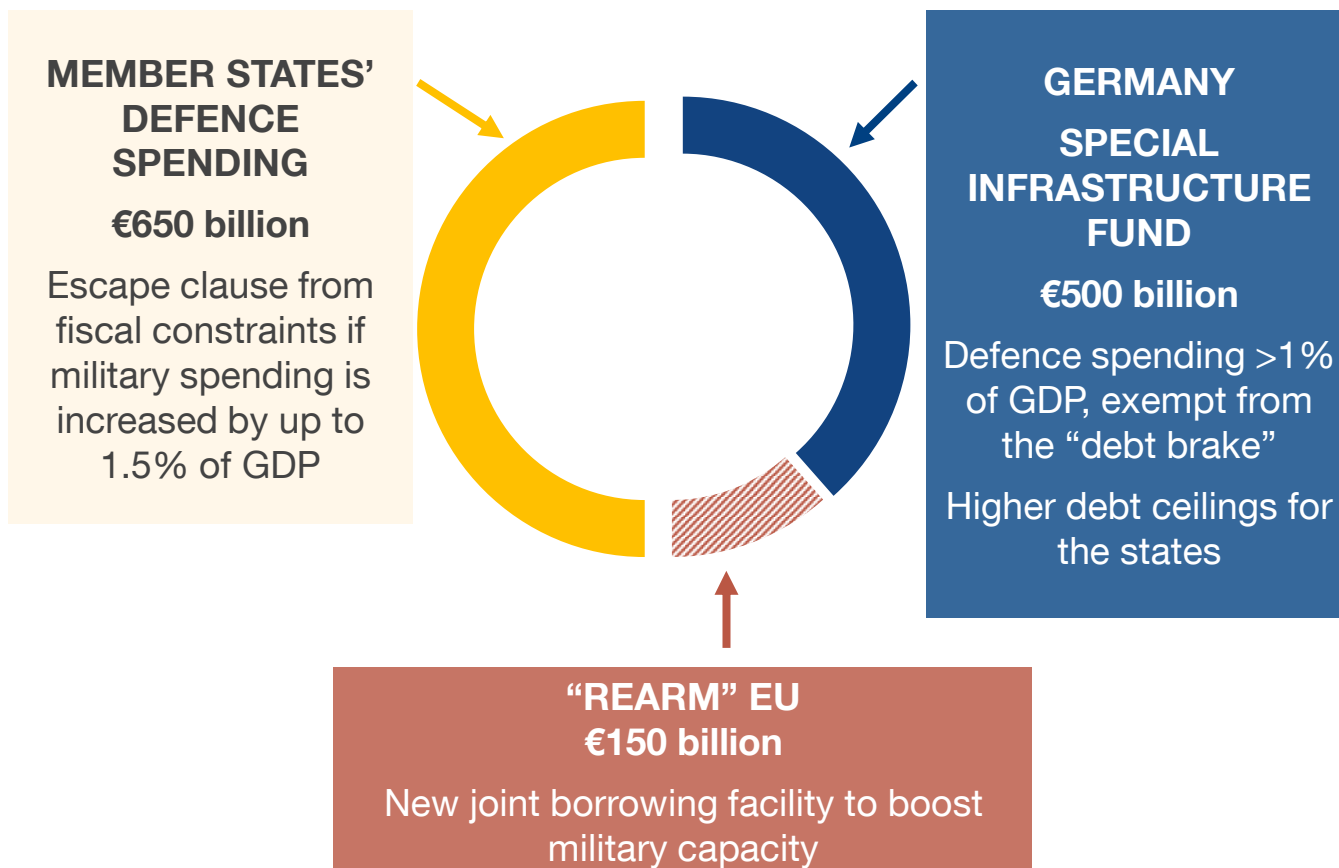
- Ensuring Lawful Governance and Implementing the President's "Department of Government Efficiency" Deregulatory Initiative
- Ensuring Accountability for all Agencies
- A Plan for Establishing a United States Sovereign Wealth Fund
- Unleashing Prosperity through Deregulation

THE GLOBAL ECONOMY FACES A SCENARIO FRAUGHT WITH RISKS

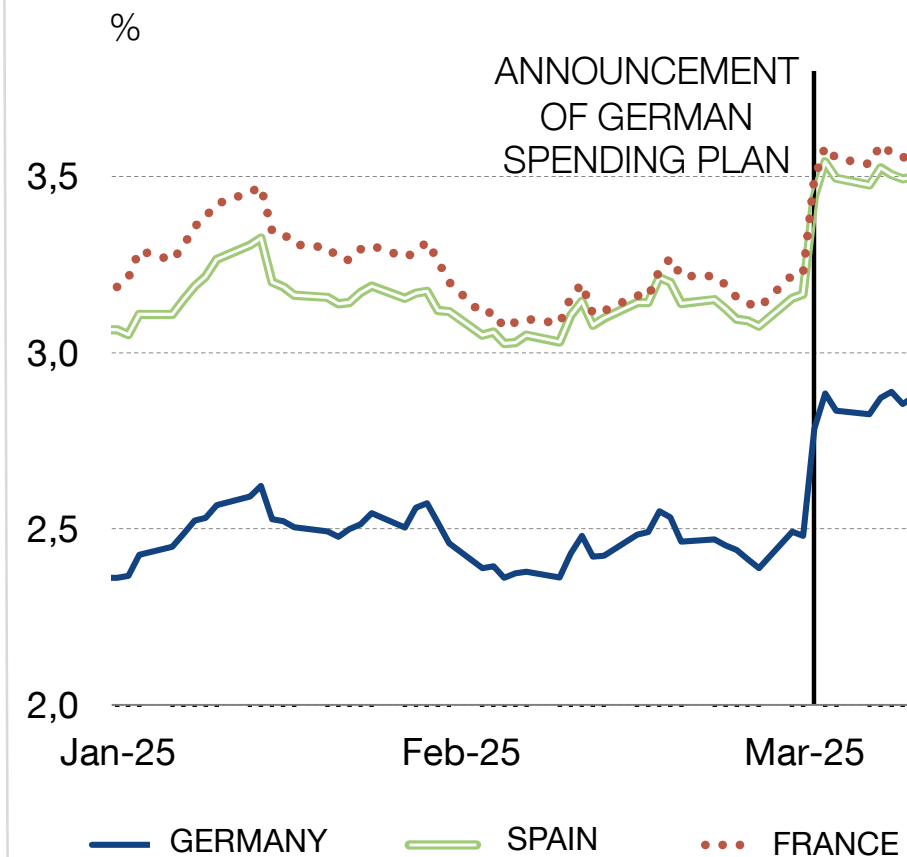


THE EXPANSION OF FISCAL POLICY IN THE EU HAS LED TO A RISE IN LONG-TERM YIELDS

FISCAL PLANS ANNOUNCED IN THE EU

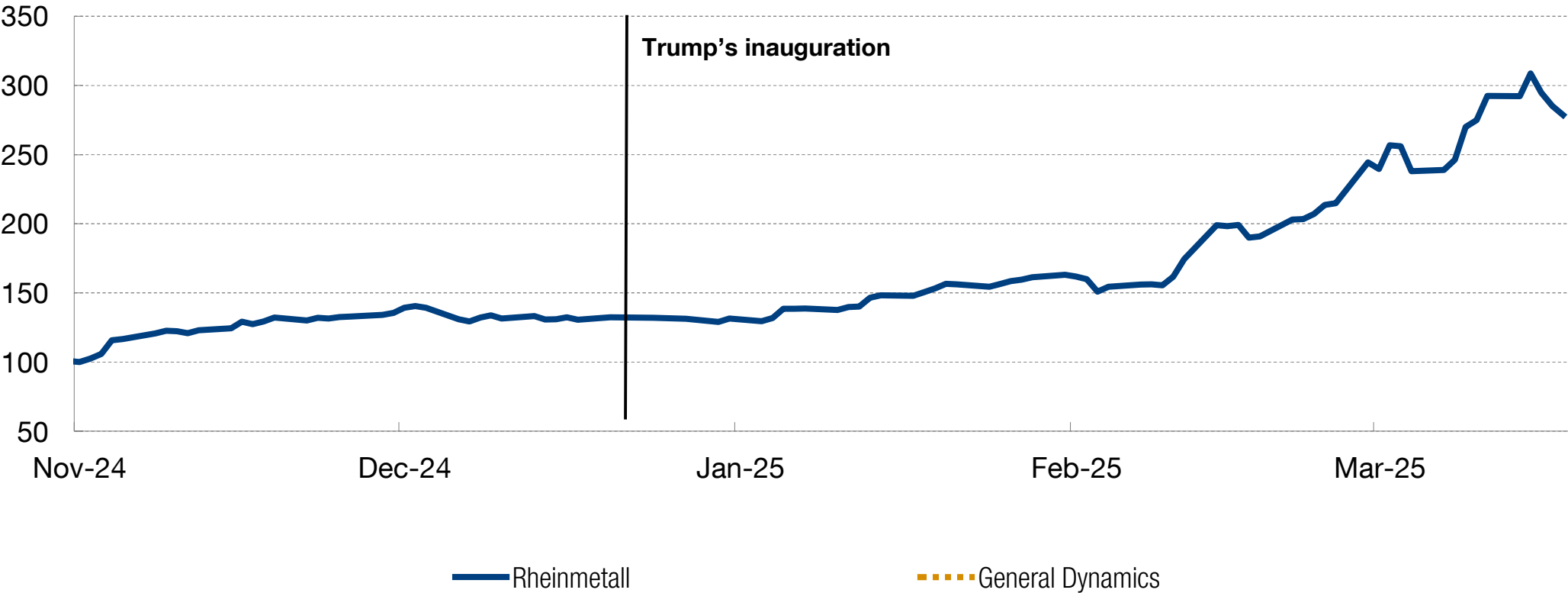


10-YEAR SOVEREIGN YIELDS



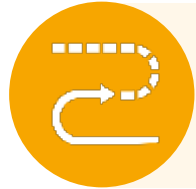
EUROPEAN DEFENCE FIRMS HAVE REACTED POSITIVELY TO THE FOREIGN POLICY SHIFT AND ANNOUNCEMENTS OF HIGHER DEFENCE SPENDING

SHARE PRICES IN RHEINMETALL AND GENERAL DYNAMICS
4 November 2024 (US elections) = 100



Source: Bloomberg

THE CHALLENGES FACING THE EUROPEAN ECONOMY REQUIRE JOINT ACTION ON MULTIPLE FRONTS



Boosting construction and ties with the United Kingdom



Rethinking of fiscal rules in the light of future investment challenges



Regulatory simplification and boosting the savings and investments union



Digital euro

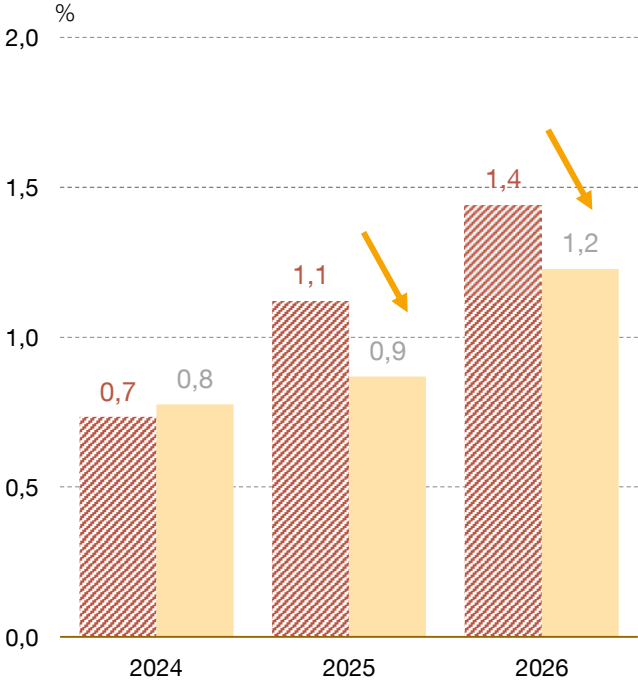


THE BASELINE SCENARIO IN OUR PROJECTIONS IS CLEARLY INFLUENCED BY THESE EVENTS

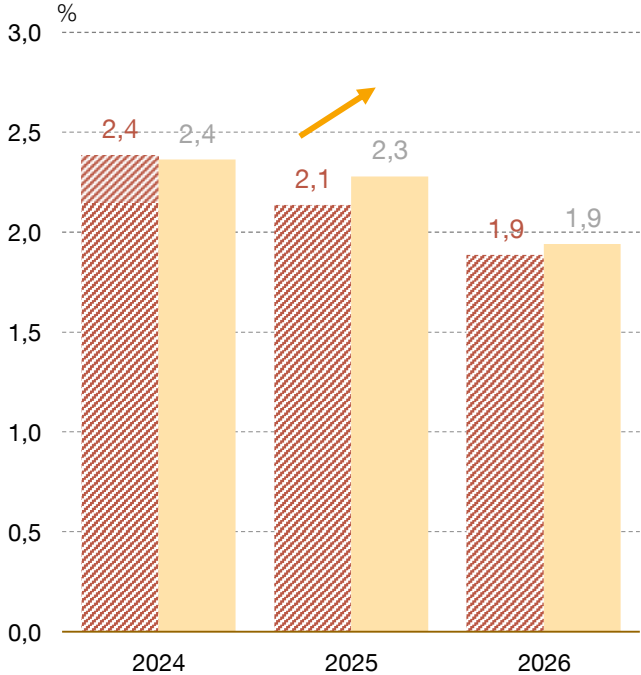


EURO AREA PROJECTIONS

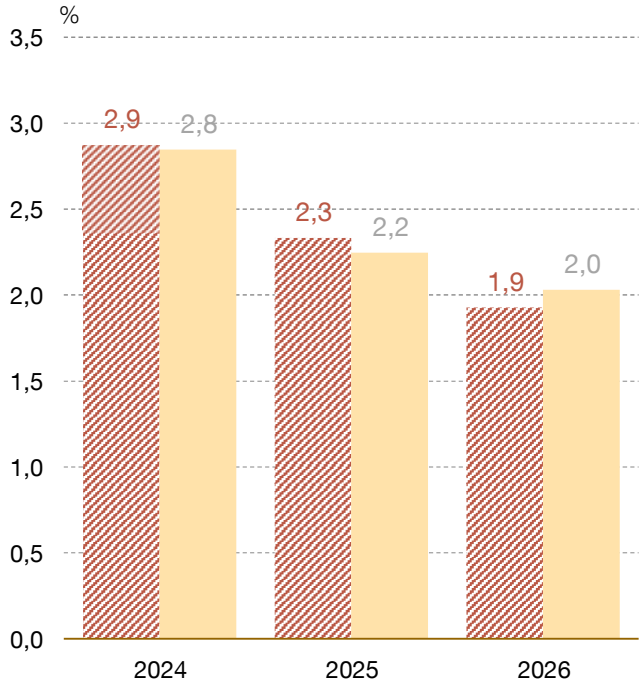
GDP GROWTH



HEADLINE INFLATION



UNDERLYING INFLATION



■ December 2024 projections

■ March 2025 projections

Source: ECB.

IN THIS SETTING, THE RISKS TO GROWTH ARE CLEARLY TILTED TO THE DOWNSIDE,
WHILE INFLATION IS MORE UNCERTAIN



GROWTH – tilted to the downside

Downside



- Rising trade tensions increases trade uncertainty, weakening European exports and global growth
- Geopolitical tensions generate uncertainty
- More restrictive monetary policy outside the euro area
- Lower productivity growth in the euro area



INFLATION – uncertain overall direction

Upside



- Higher wage growth and persistence of services inflation
- Disruption of global value chains
- Climate crisis drives higher food prices
- Expansive fiscal policy vis-à-vis defence spending

Downside



- Higher uncertainty and lower growth
- Easing of geopolitical tensions
- Rerouting of trade from China to Europe

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY

Economic activity

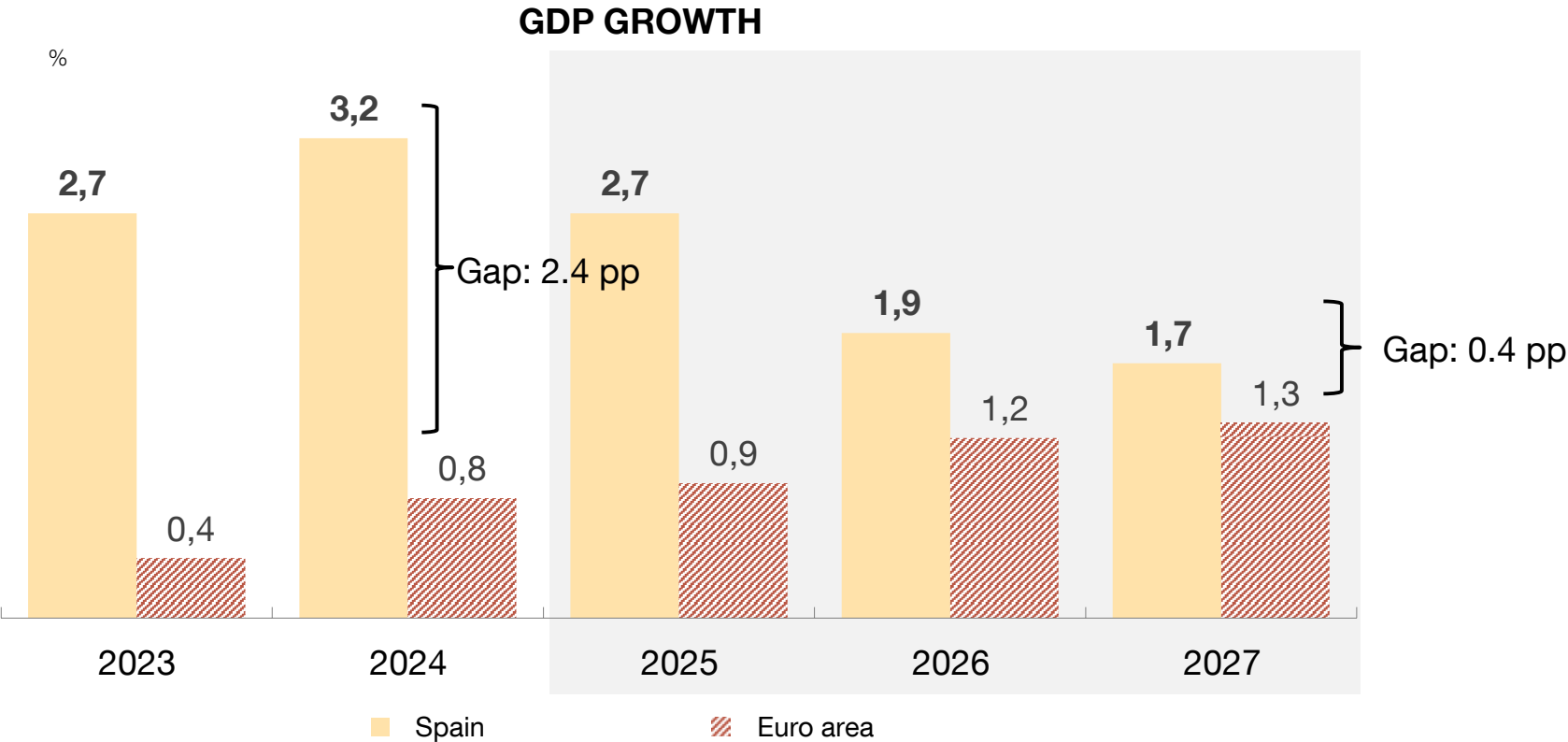
Robust growth



SPAIN'S GDP HAS GROWN FASTER THAN THAT OF THE EURO AREA IN RECENT YEARS, ALTHOUGH THE GAP WILL TEND TO NARROW OVER THE PROJECTION HORIZON



- Compared with the December 2024 projections, the March 2025 projections revised up the GDP growth rate for 2025, while leaving the 2026 and 2027 figures unchanged.



Sources: INE, Eurostat, Banco de España and ECB. March 2025 projections of the Banco de España for Spain and those of the ECB for the euro area.

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY

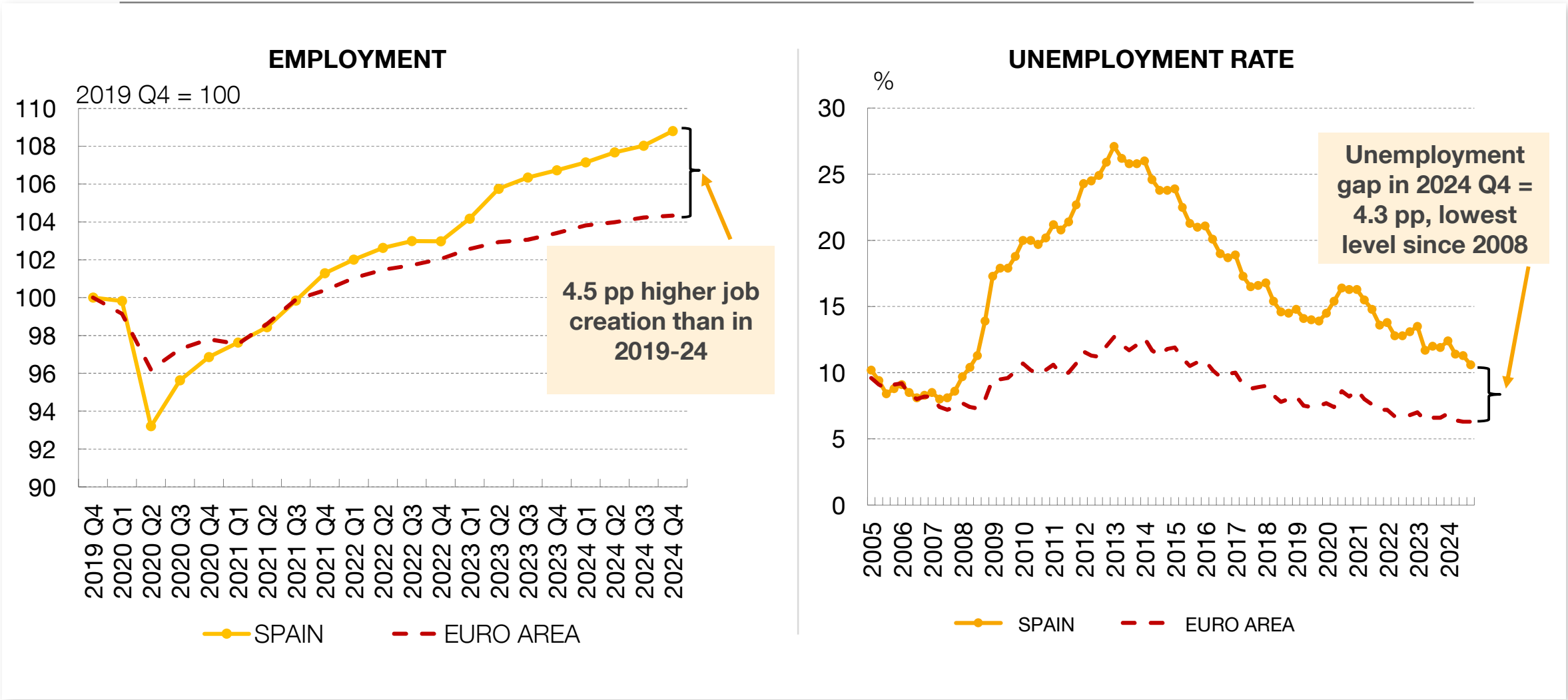
Economic activity

Robust growth

Dynamic labour market



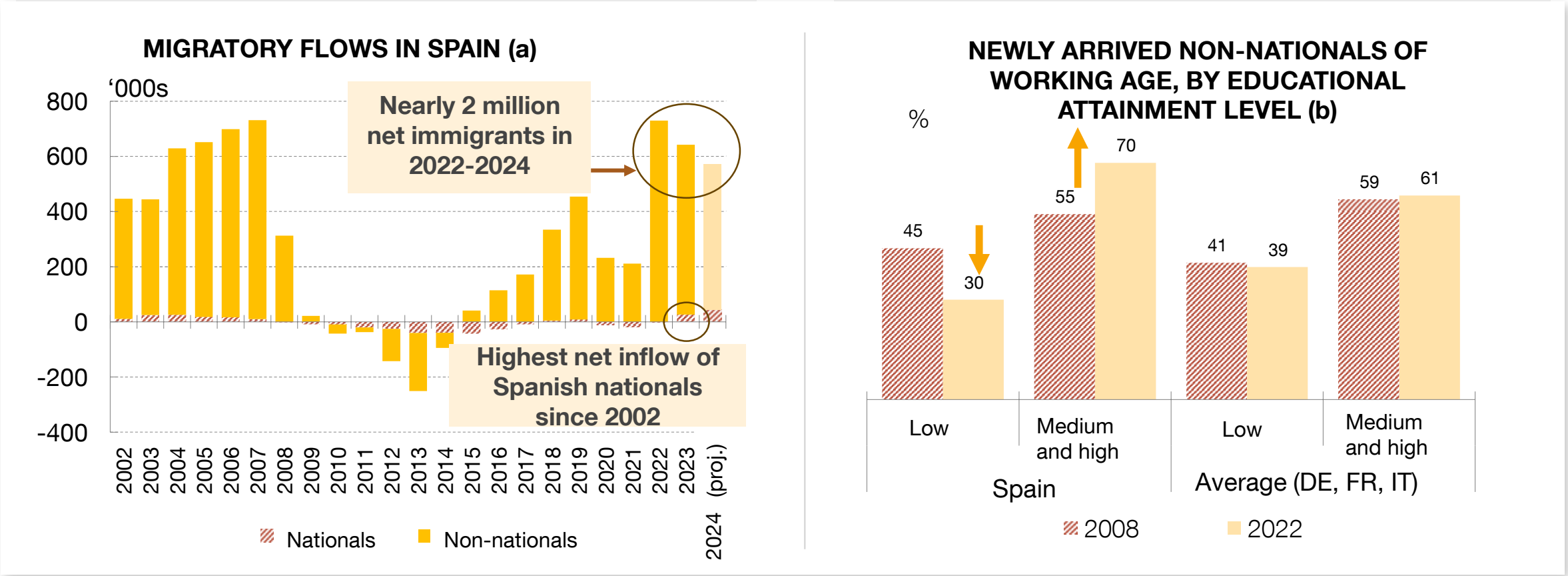
JOB CREATION HAS REMAINED BUOYANT IN RECENT YEARS, WHICH HAS KEPT
DOWNWARD PRESSURE ON THE UNEMPLOYMENT RATE



Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. Latest data: 2024 Q4.

AMID INCREASED MIGRATORY FLOWS, SPAIN HAS SEEN A SHARPER RISE IN THE AVERAGE EDUCATIONAL ATTAINMENT LEVEL OF IMMIGRANTS

- Migratory flows to Spain have regained brisk momentum, contributing positively to population growth.
- Immigrants entering Spain have a higher educational attainment level than those entering neighbouring countries.

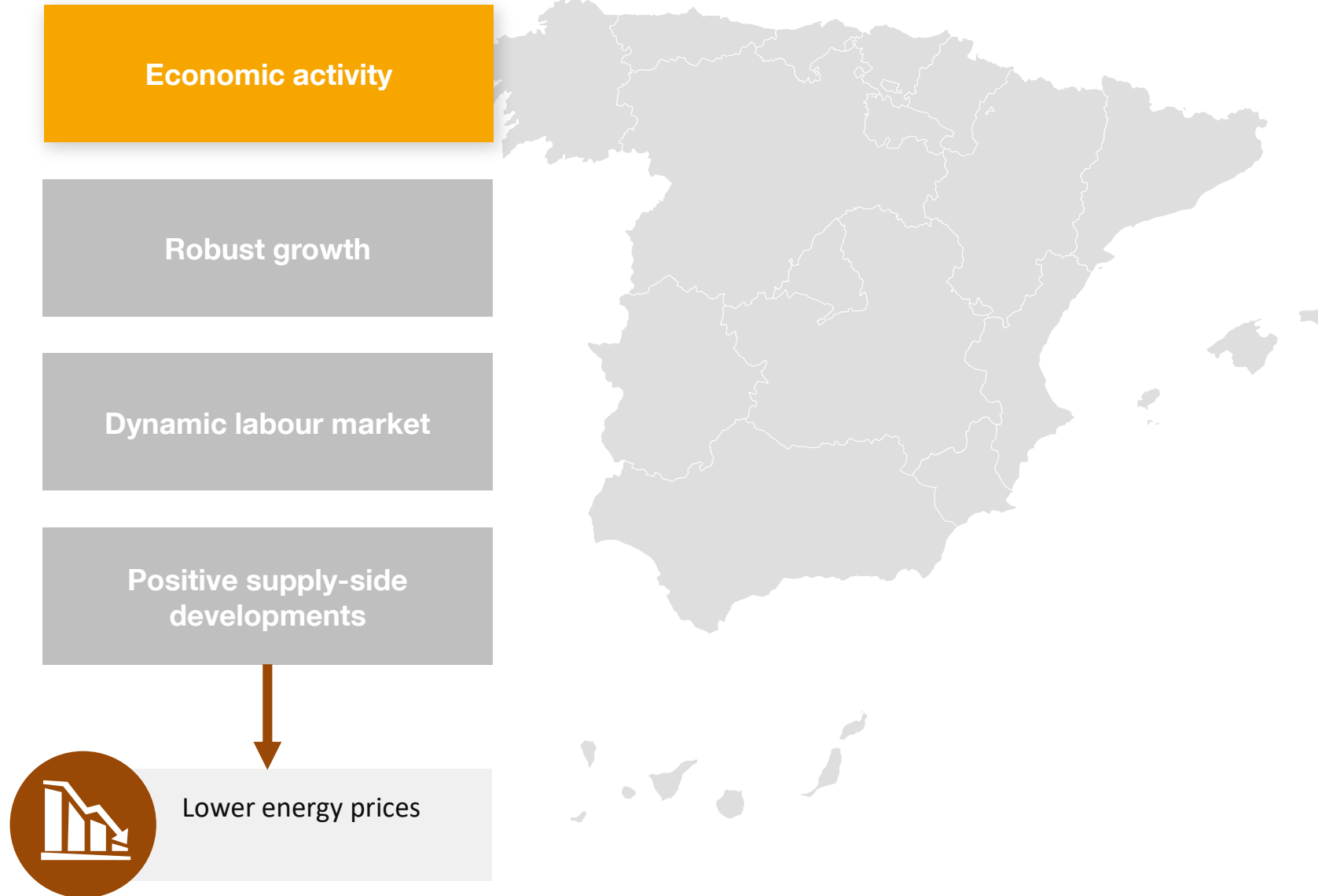


Source: INE and Eurostat (international migration statistics and LFS).

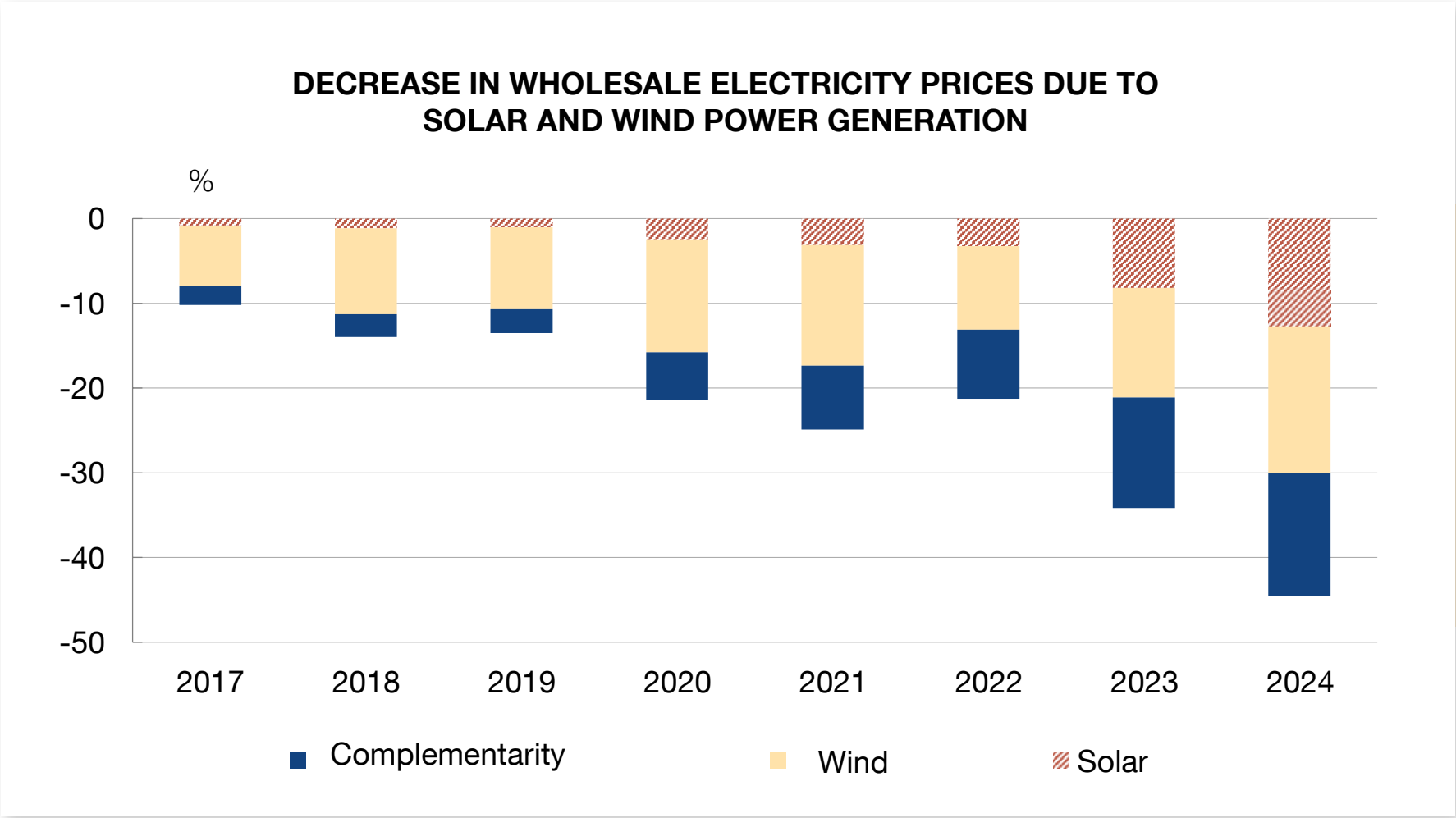
a. 2024 data estimated based on natural increase. Breakdown between nationals and non-nationals estimated based on partial information available on migratory flows for the ten nationalities with the largest flows.

b. A newly arrived non-national is defined as an individual born outside the country who has resided in the country for less than a year.

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY



THE INCREASE IN RENEWABLE GENERATION CAPACITY HAS HELPED DRIVE WHOLESALE PRICES DOWN AND WILL CONTINUE TO DO SO

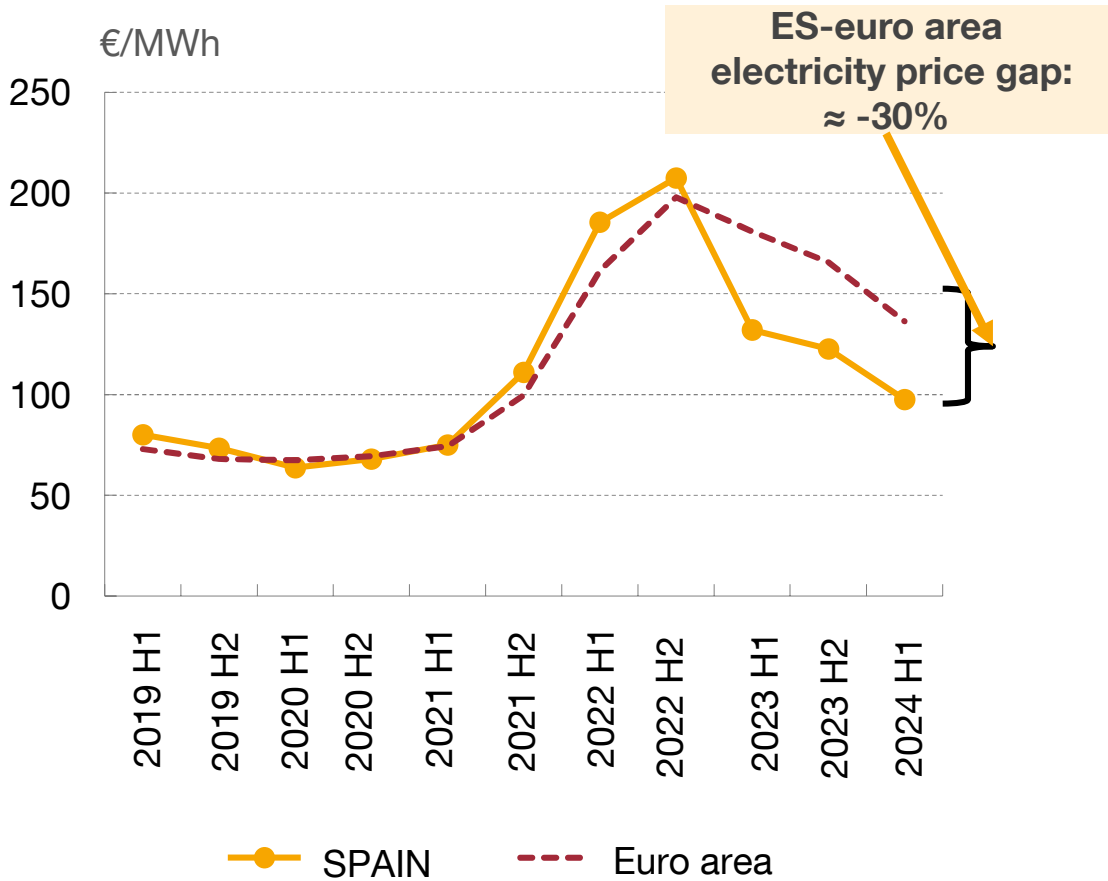


Thanks to investment in renewable energies, in 2024 wholesale electricity prices were half what they would have been without wind and solar

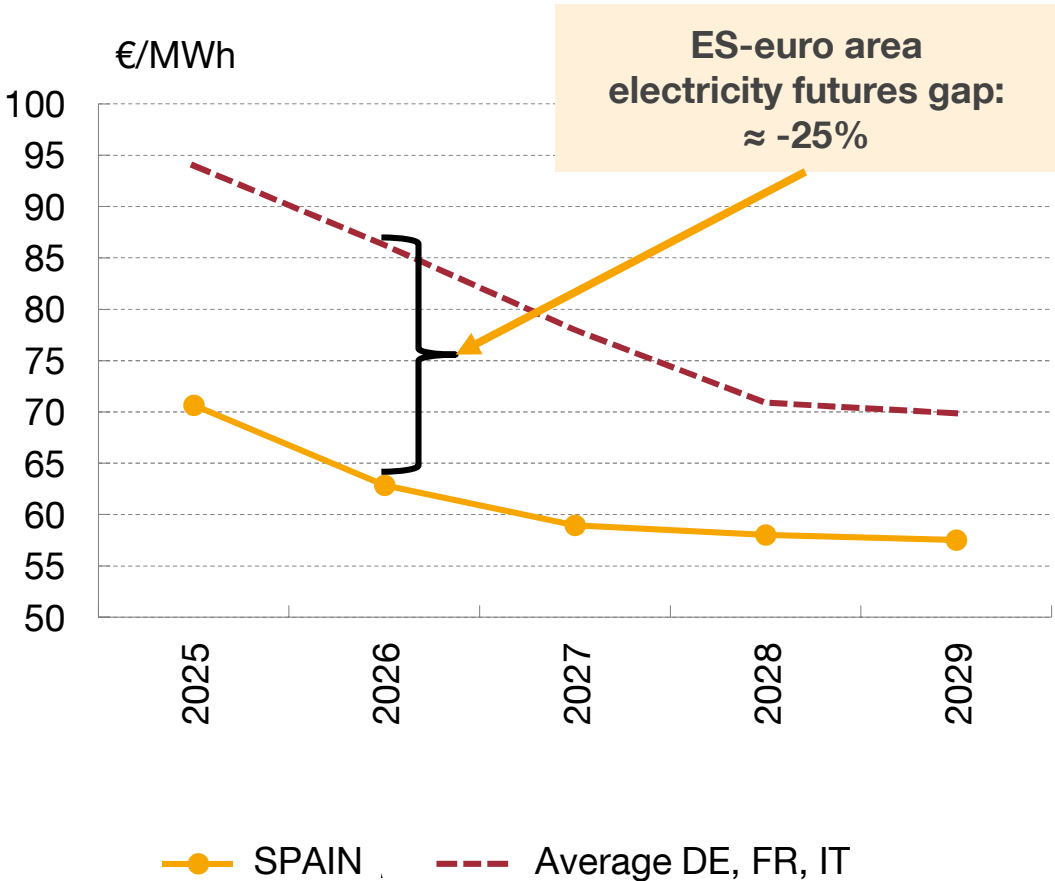
Source: “The impact of renewable energies on wholesale electricity prices”, Javier Quintana, *Economic Bulletin - Banco de España* 2024/Q3 and ENTSO-E.
(a) Each bar shows the difference between the observed price and the counterfactual price in the absence of renewable generation. In 2022 and 2023, the periods when the Iberian mechanism was in effect are excluded.

SPAIN'S LOWER ENERGY PRICES, BOTH ACTUAL AND EXPECTED, HELP EXPLAIN THE BETTER PERFORMANCE OF ITS INDUSTRIAL SECTOR

ELECTRICITY PRICE PAID BY INDUSTRIAL CONSUMERS (a)



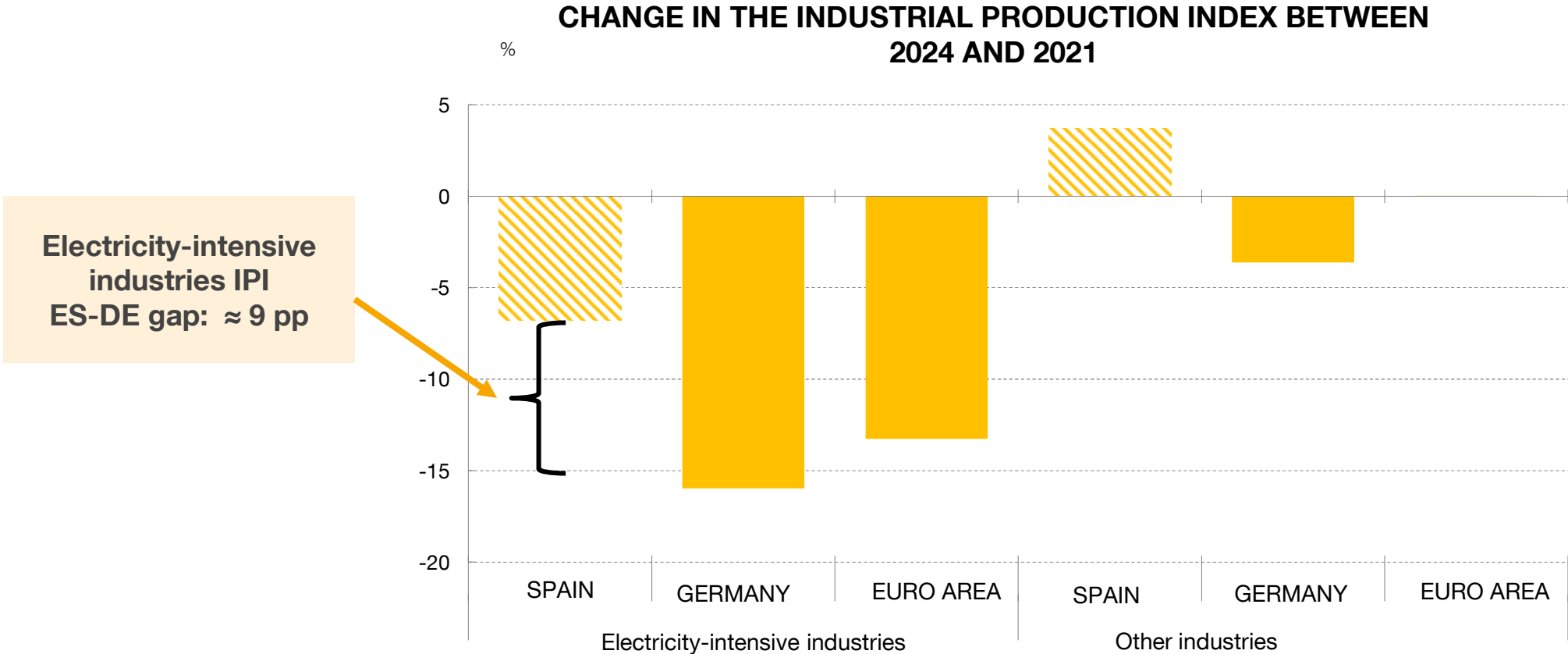
ELECTRICITY PRICE FUTURES



Source: Eurostat and EEX.

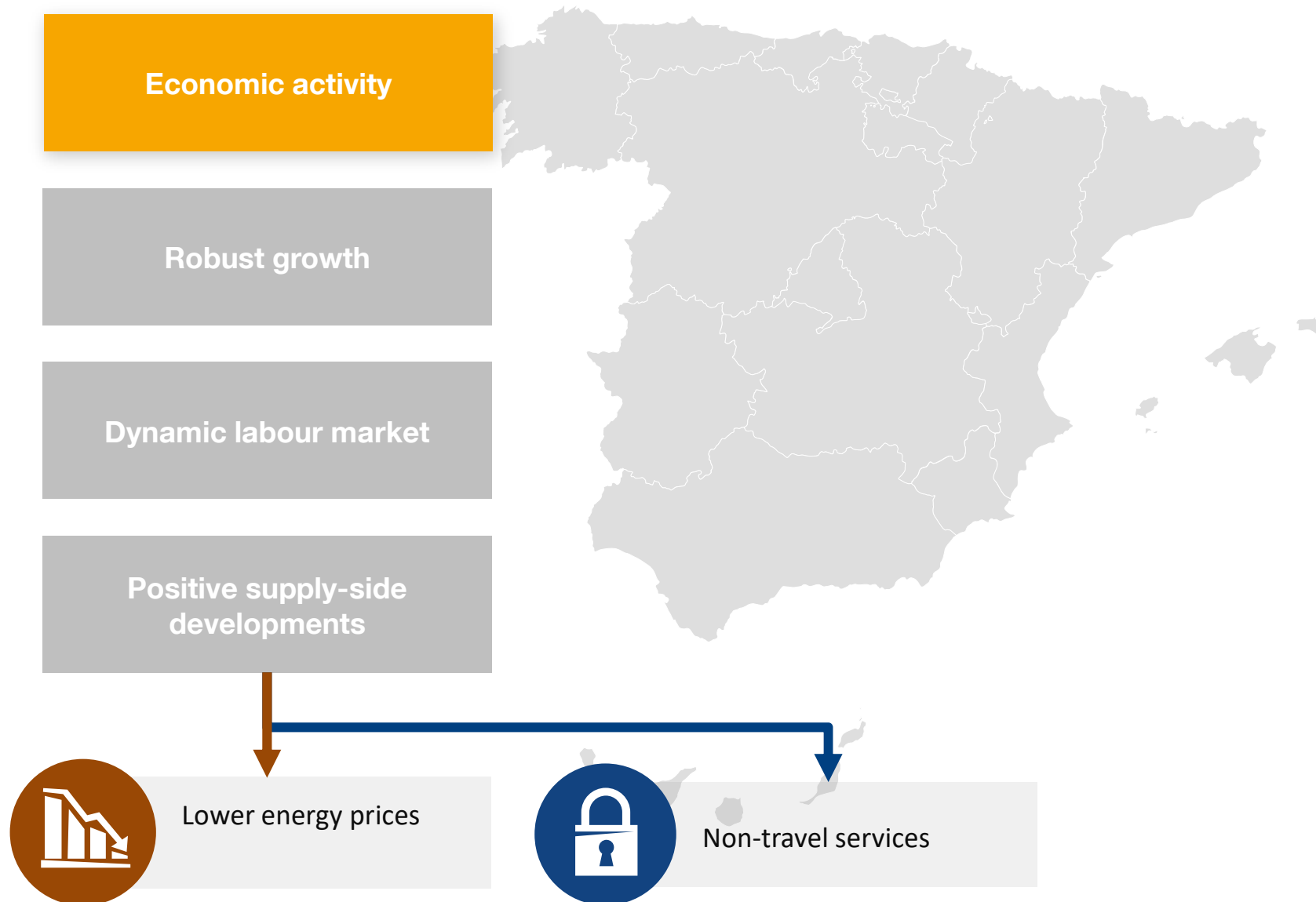
(a) Average price before taxes in the ID, IE and IF consumption bands, which broadly reflect the industrial sector for which consistent Eurostat data are available.

INDUSTRIAL PRODUCTION PERFORMED BETTER IN SPAIN THAN IN NEIGHBOURING COUNTRIES, ESPECIALLY IN THE MOST ENERGY-INTENSIVE INDUSTRIES

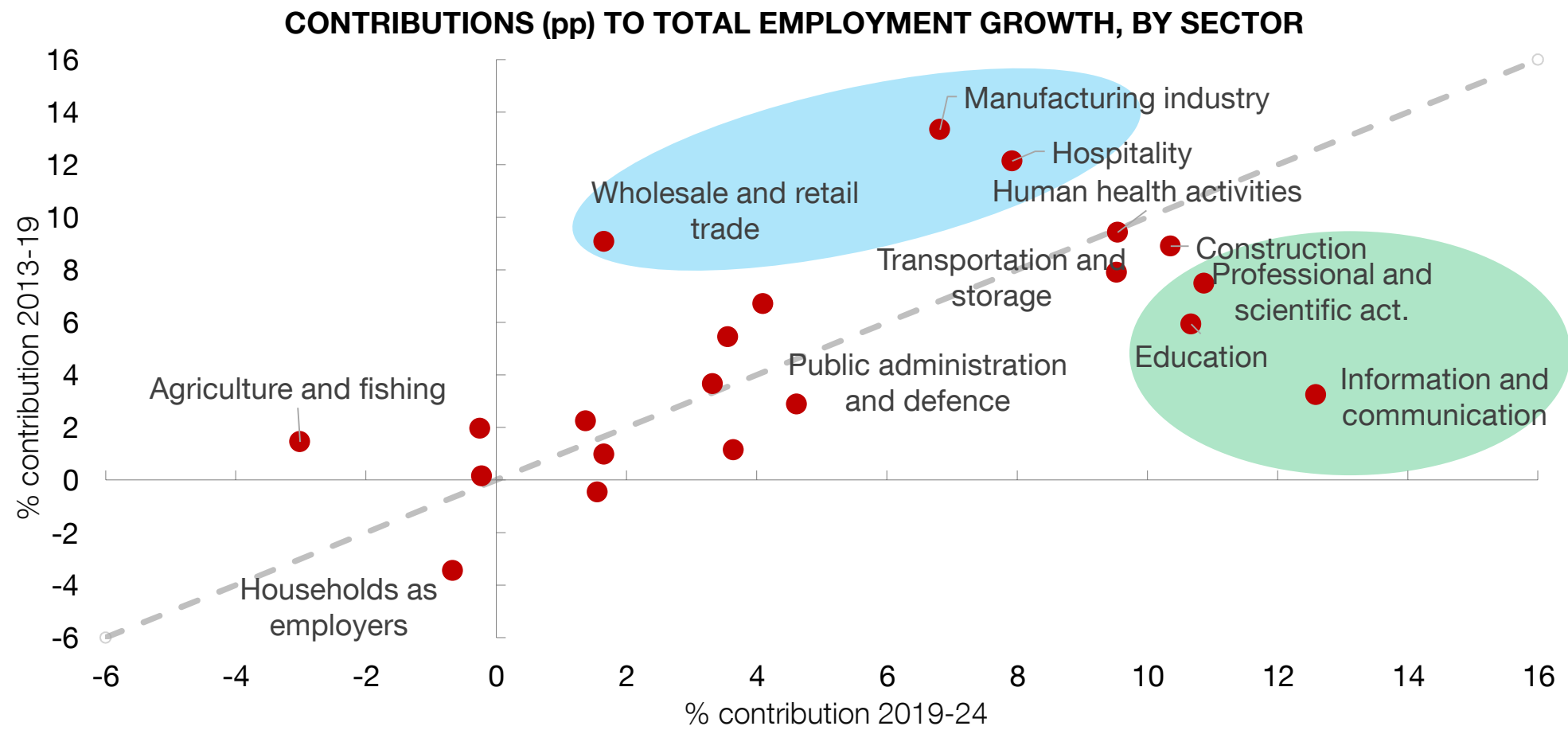


Source: Eurostat.
(a) Electricity-intensive industries, according to the German Federal Statistics Office (Destatis) definition: 17 manufacture of paper and paper products, 19 manufacture of coke and refined petroleum products, 20 chemicals, 23 other non-metallic mineral products and 24 basic metals.

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY

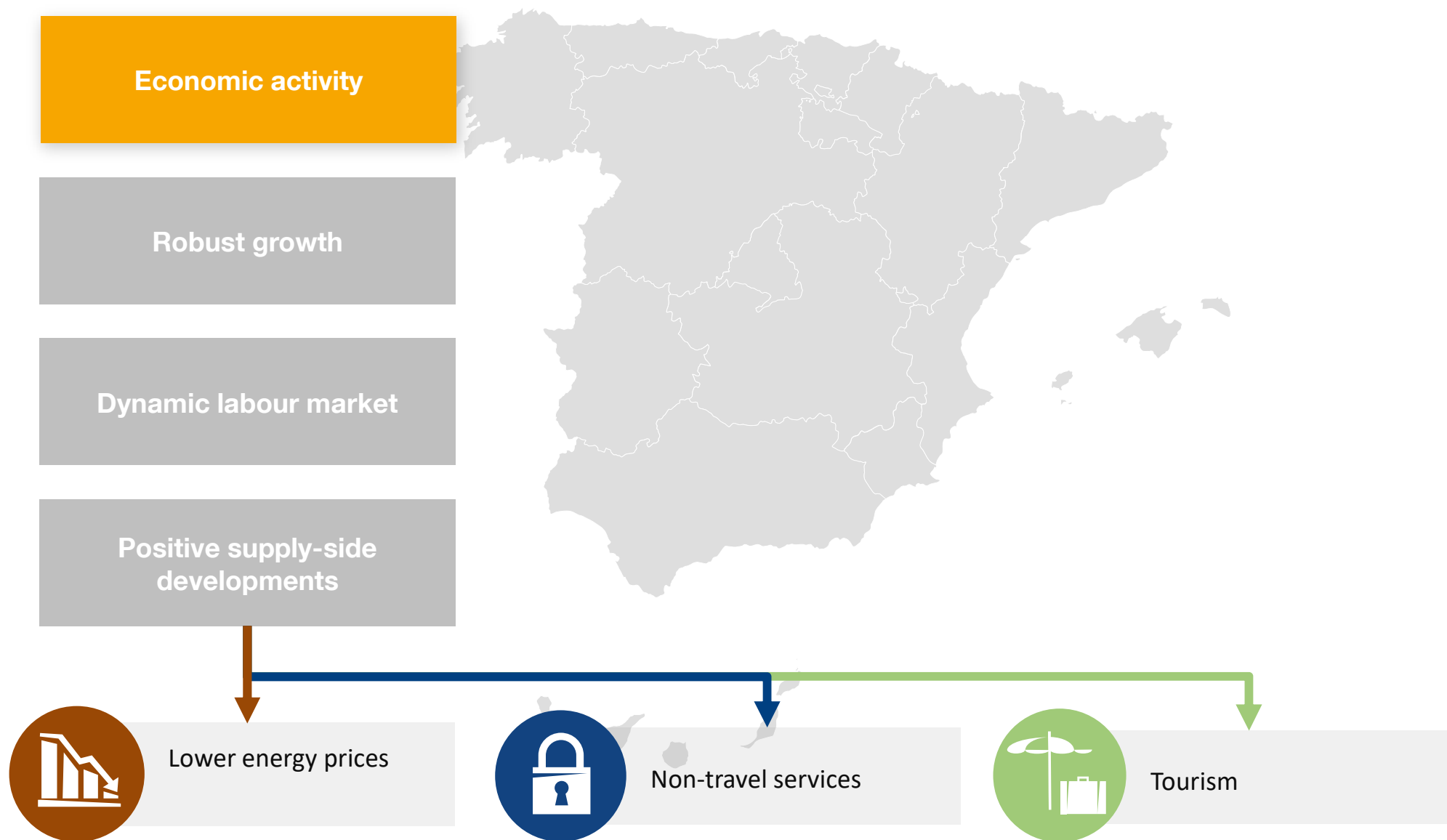


SINCE THE PANDEMIC, EMPLOYMENT GROWTH HAS MAINLY BEEN DRIVEN BY THE INFORMATION AND COMMUNICATION SECTOR, PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES AND EDUCATION

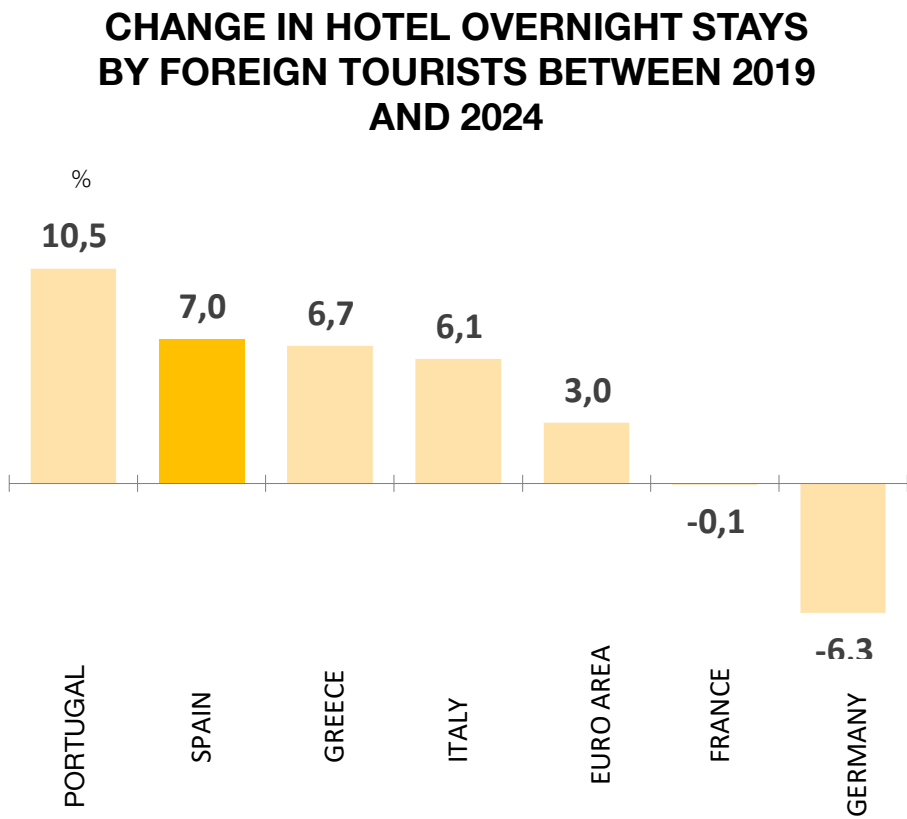
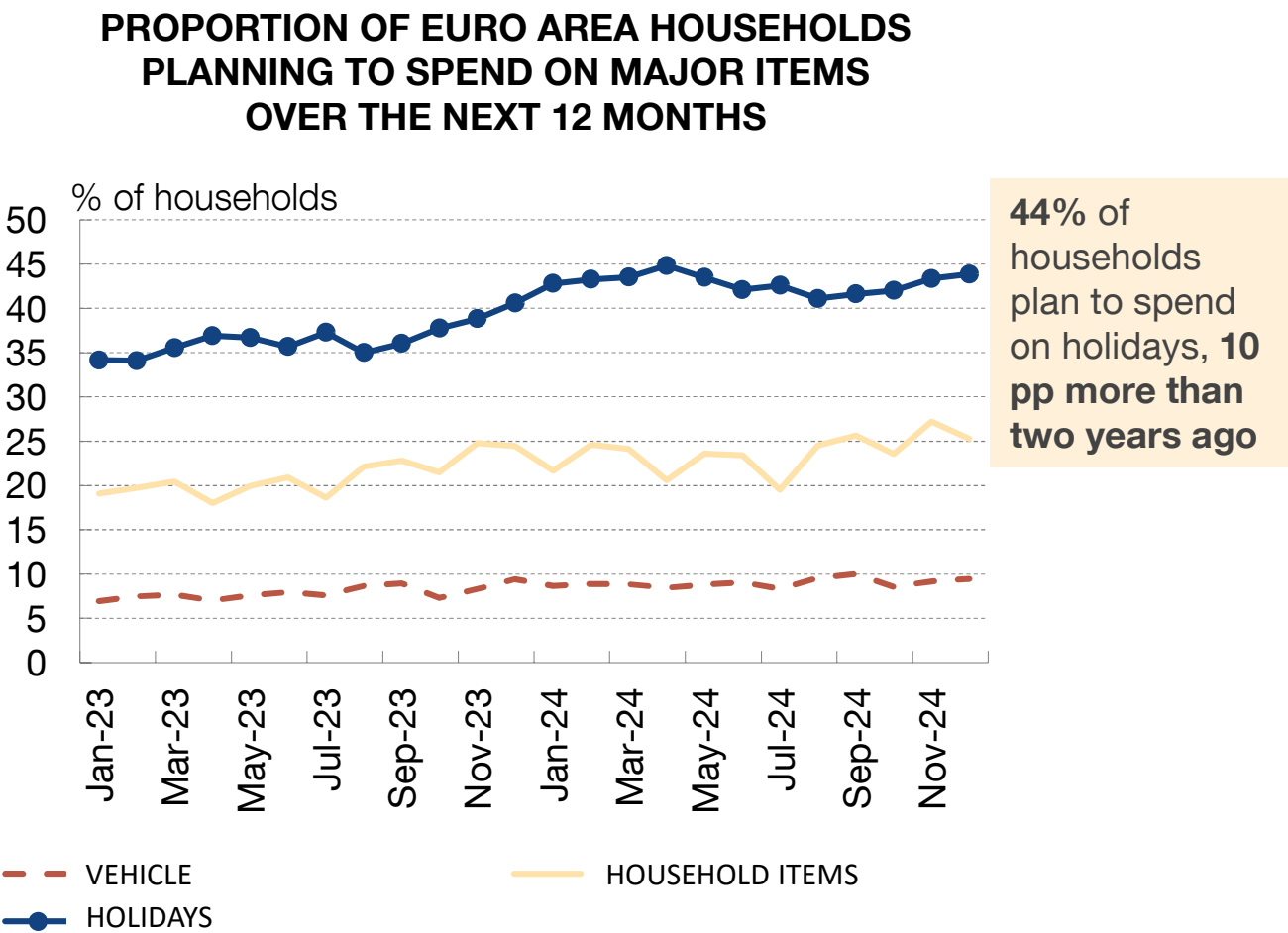


Source: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY



THE STRONGER DEMAND FOR LEISURE ACTIVITIES IS WIDESPREAD: CONSUMER PREFERENCES SEEM TO HAVE STEERED TOWARDS SERVICES RATHER THAN GOODS, LEADING TO INCREASED TOURISM IN MEDITERRANEAN COUNTRIES

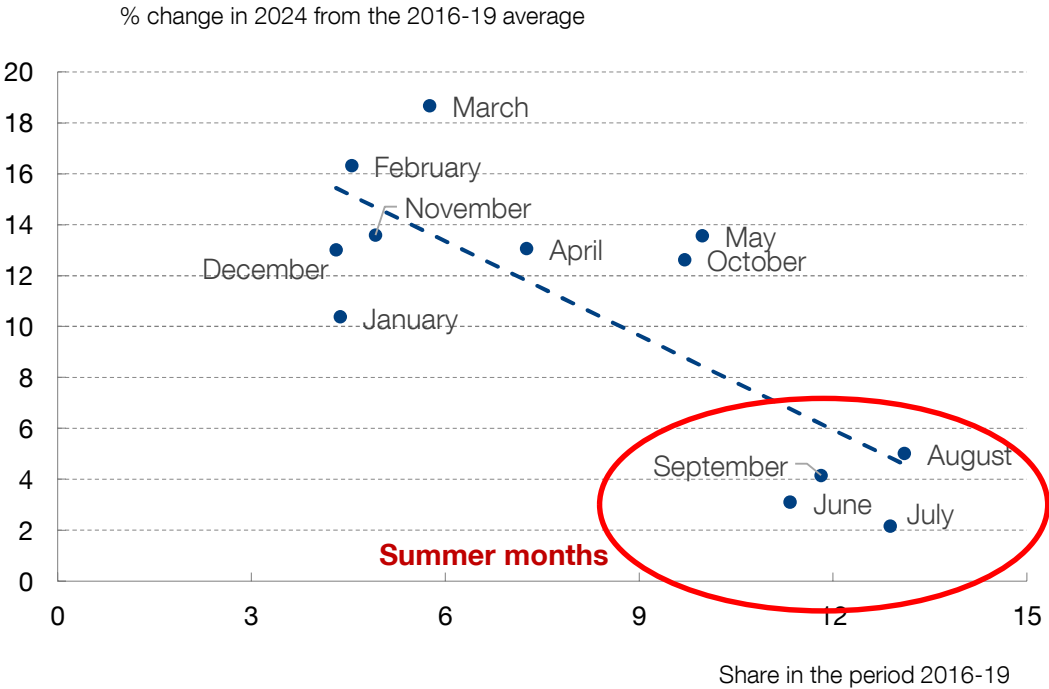


Sources: ECB and Eurostat. Latest data: December 2024

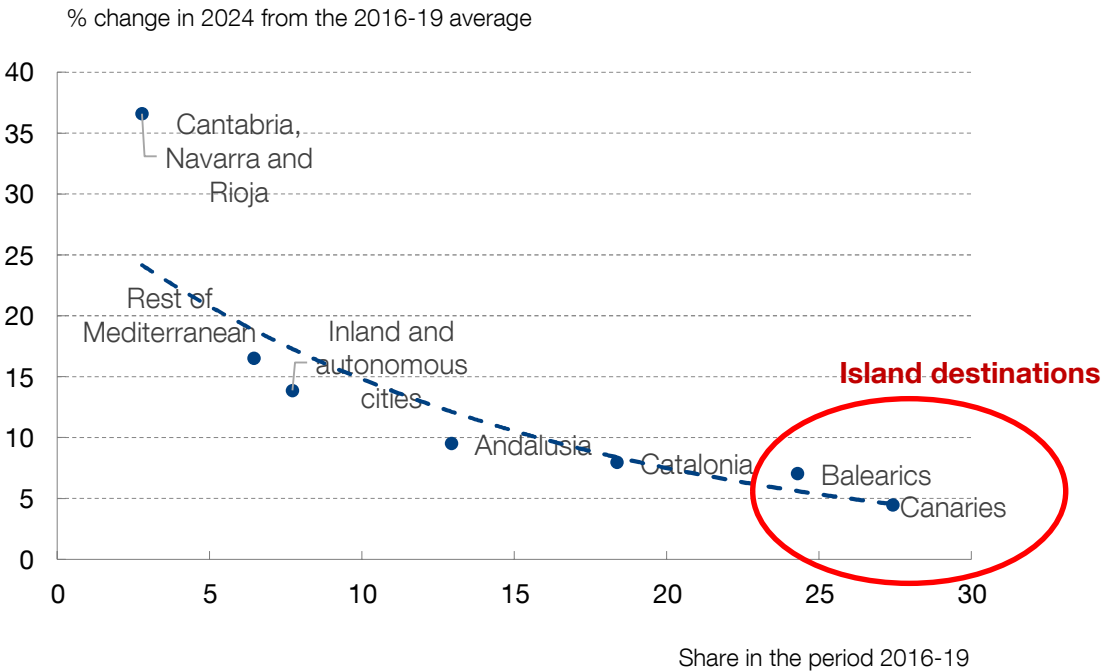
THE GEOGRAPHICAL AND SEASONAL DIVERSIFICATION OF TOURIST ARRIVALS AFTER THE PANDEMIC BOOSTS THE CONTRIBUTION OF TOURISM TO GDP GROWTH

HOTEL OVERNIGHT STAYS BY FOREIGN TOURISTS IN SPAIN

BY MONTH

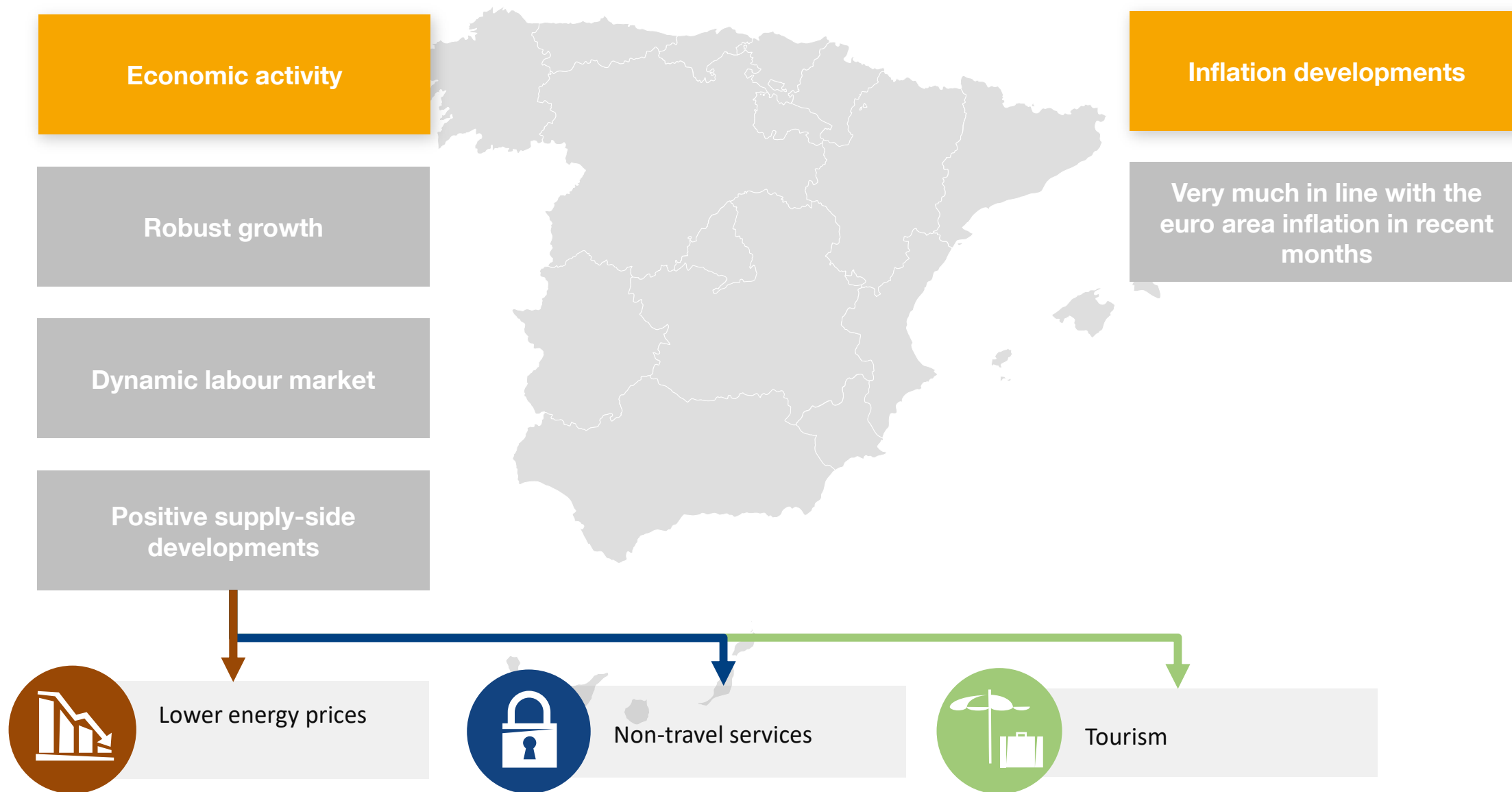


BY REGION



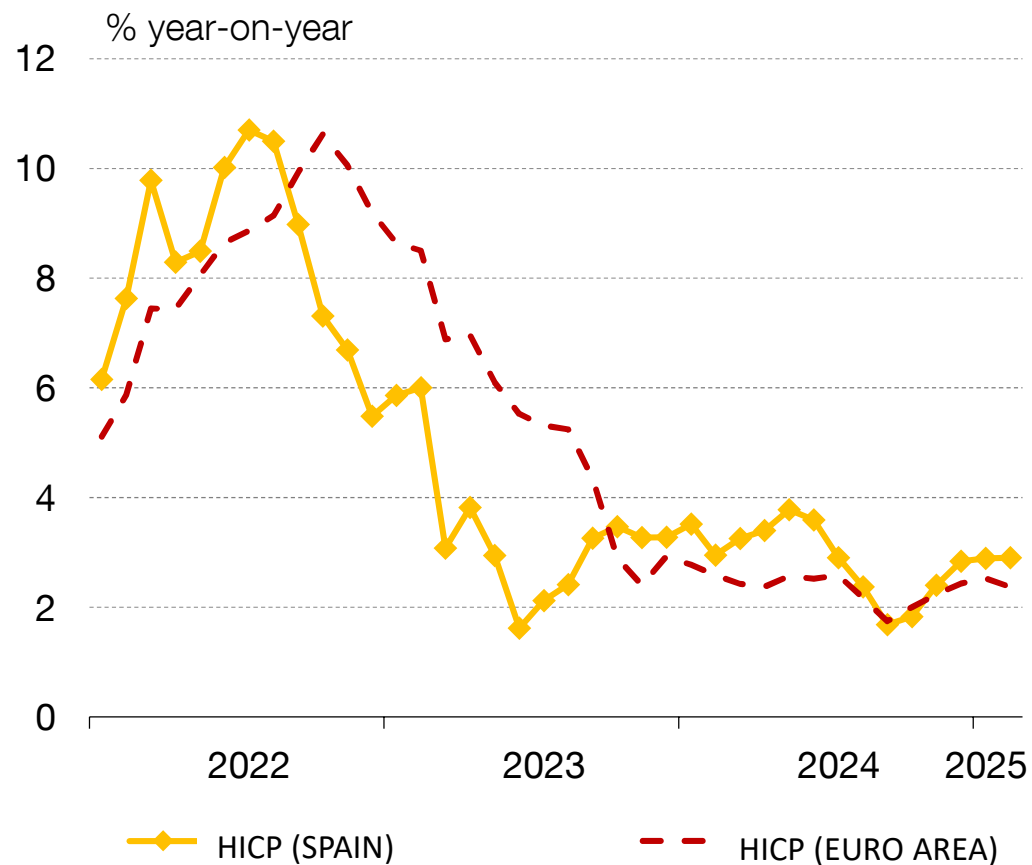
Source: INE.

VERY STRONG RECENT DYNAMICS IN THE SPANISH ECONOMY



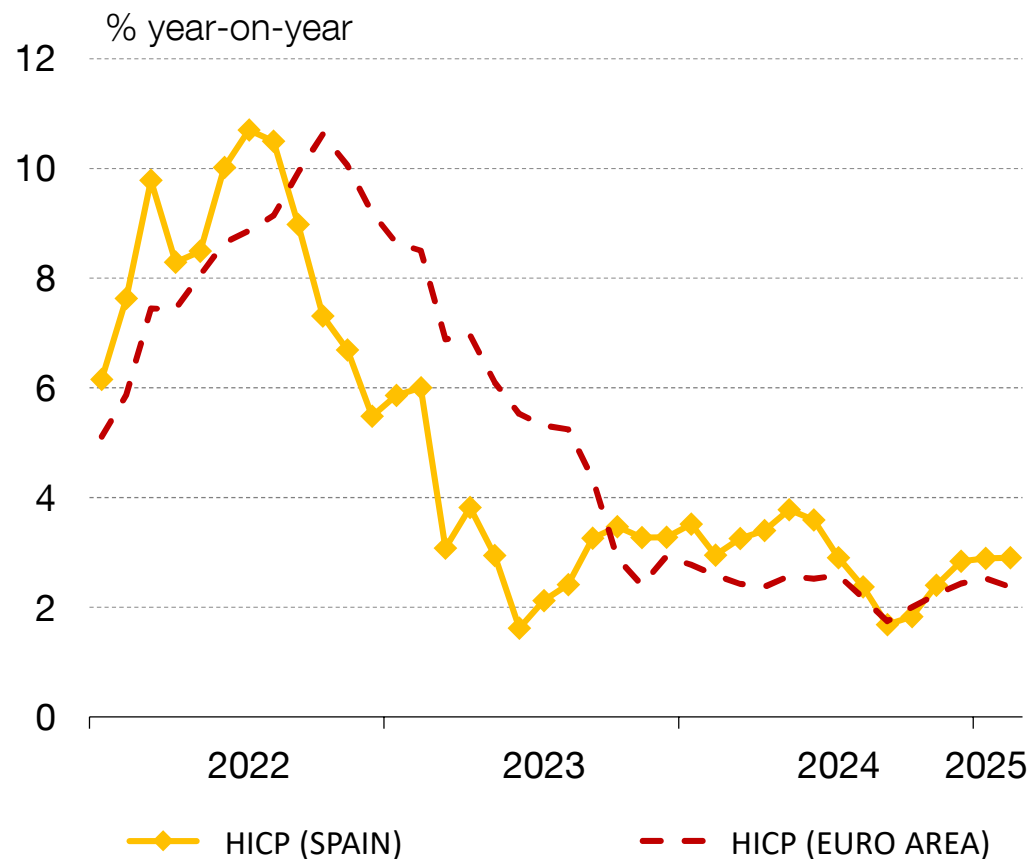
SPAIN'S INFLATION HAS FLUCTUATED CLOSE TO EURO AREA RATES, AGAINST A BACKDROP OF DEMAND PRESSURES OFFSET BY SUPPLY-SIDE DEVELOPMENTS

HEADLINE INFLATION

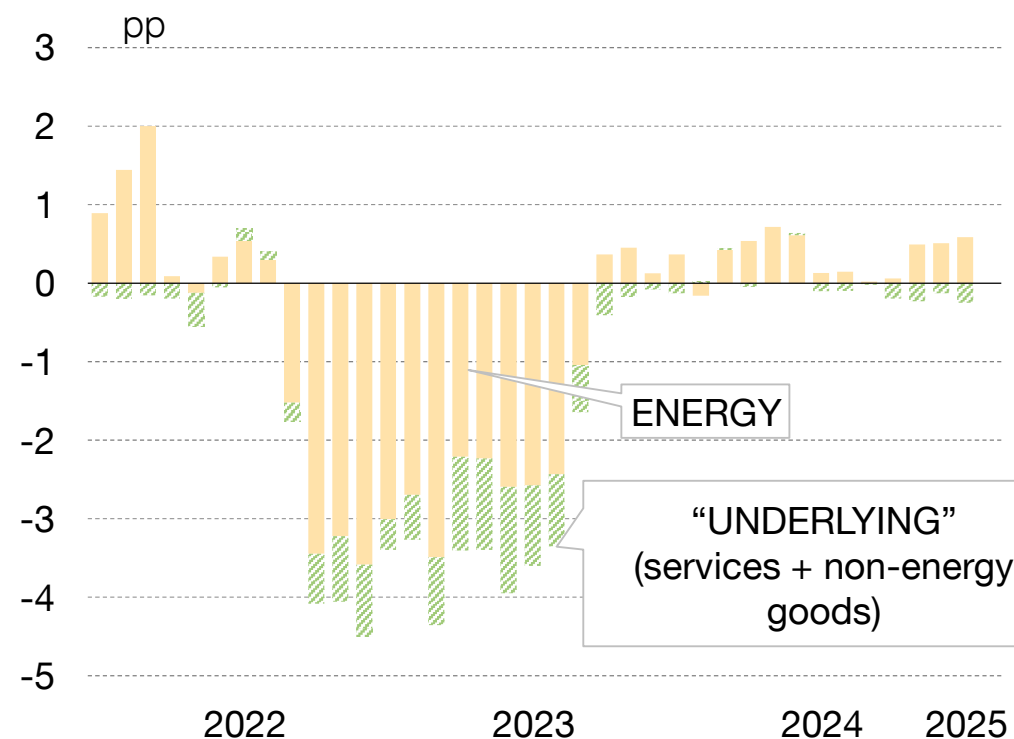


THE SHARP DECLINE IN 2022 AND 2023 IS LINKED TO THE FALL IN ENERGY PRICES
AND, TO A LESSER EXTENT, DEVELOPMENTS IN UNDERLYING INFLATION

HEADLINE INFLATION

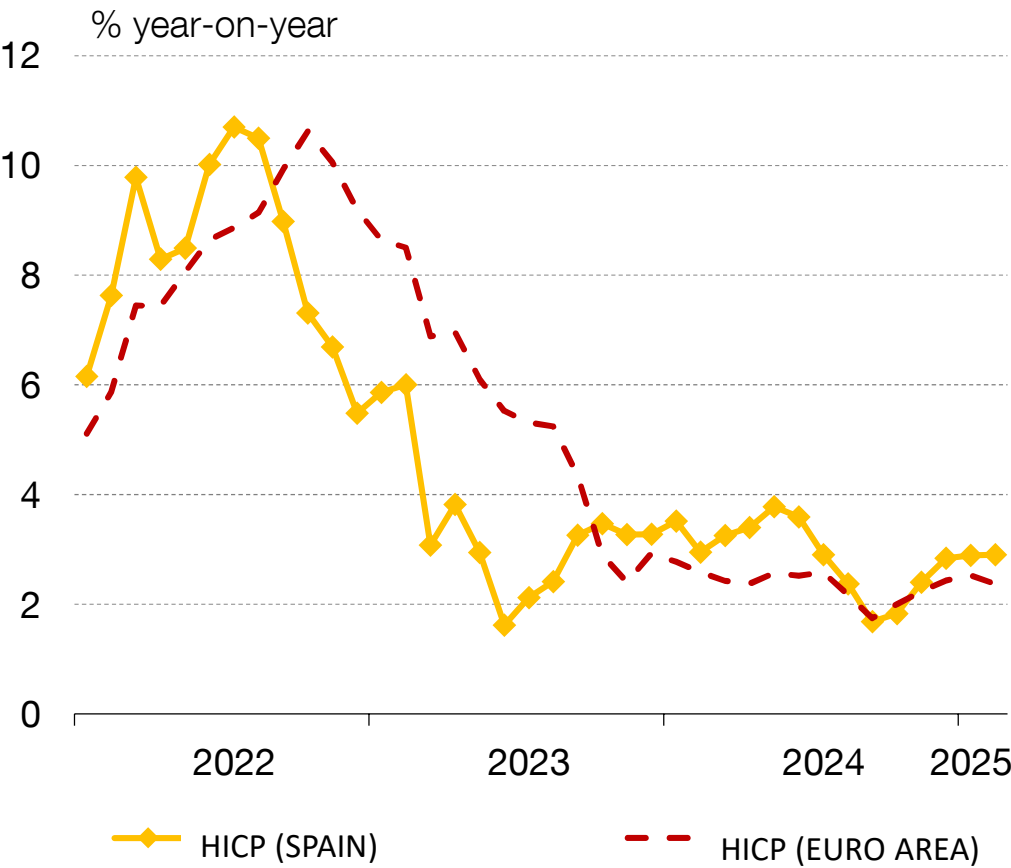


SPAIN - EURO AREA INFLATION GAP

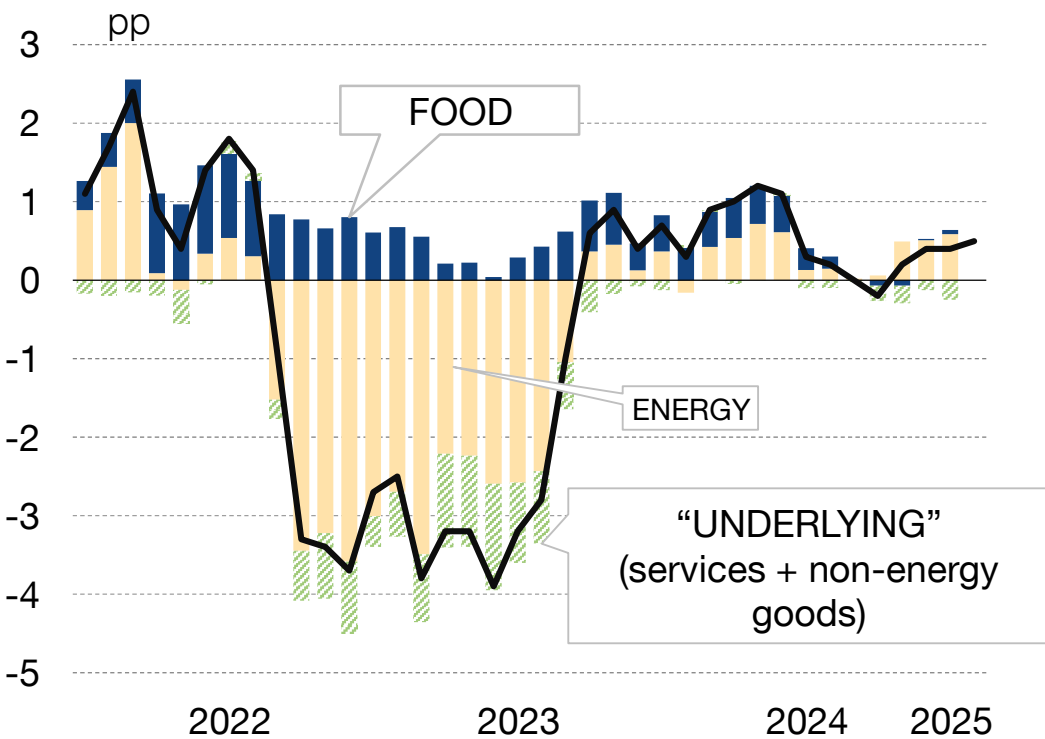


FOOD PRICES, MEANWHILE, HAVE RISEN MORE THAN IN THE EURO AREA ...

HEADLINE INFLATION

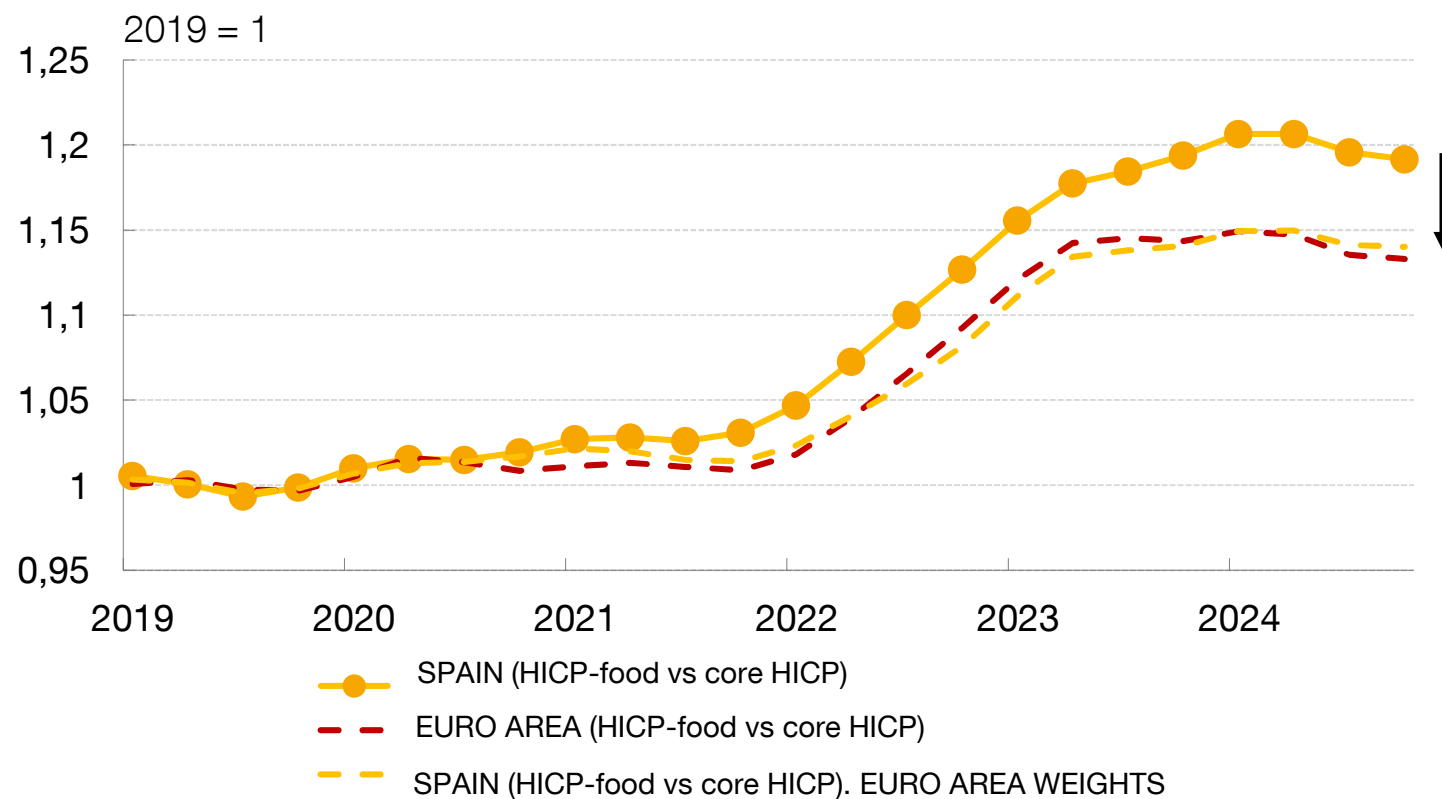


SPAIN - EURO AREA INFLATION GAP



Source: INE and Banco de España. Latest data: February 2025.

RELATIVE PRICES – HICP-FOOD VS. CORE HICP: COMPOSITION EFFECT (a)



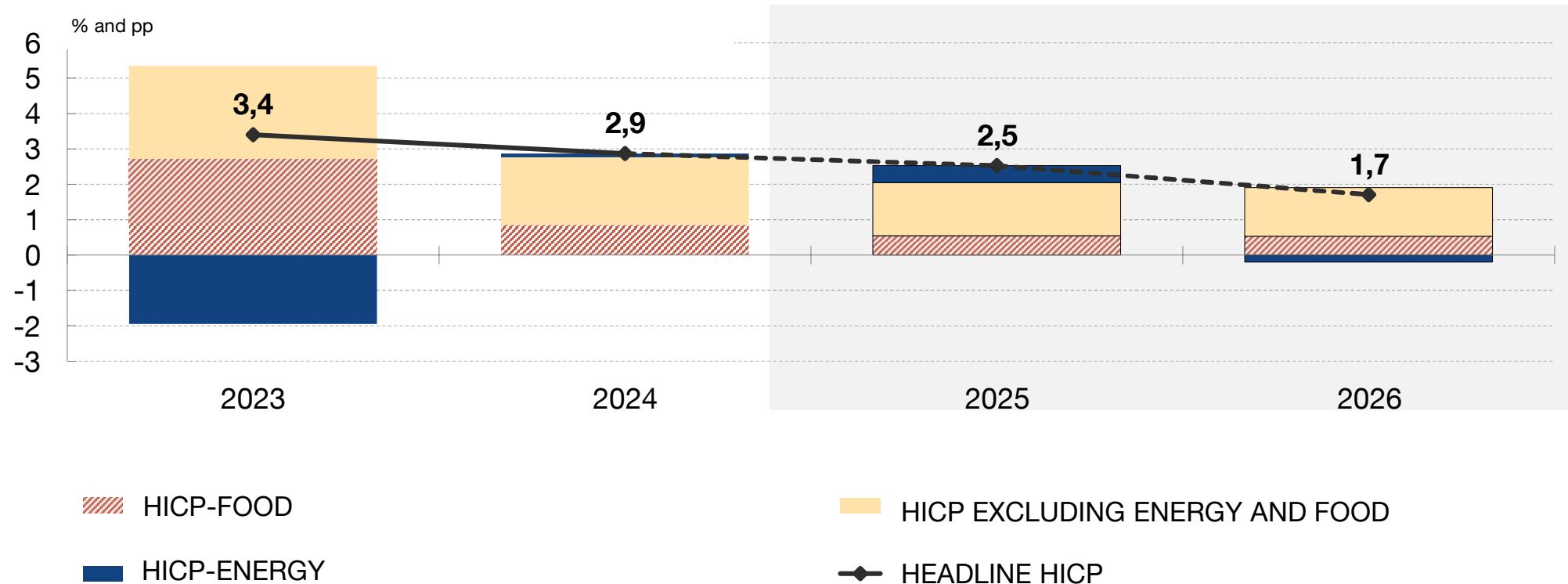
If a counterfactual HICP is calculated for Spain using the weights of the euro area's consumption basket, the difference in recent performance narrows significantly.

Source: Banco de España. Latest observation: 2024 Q4.

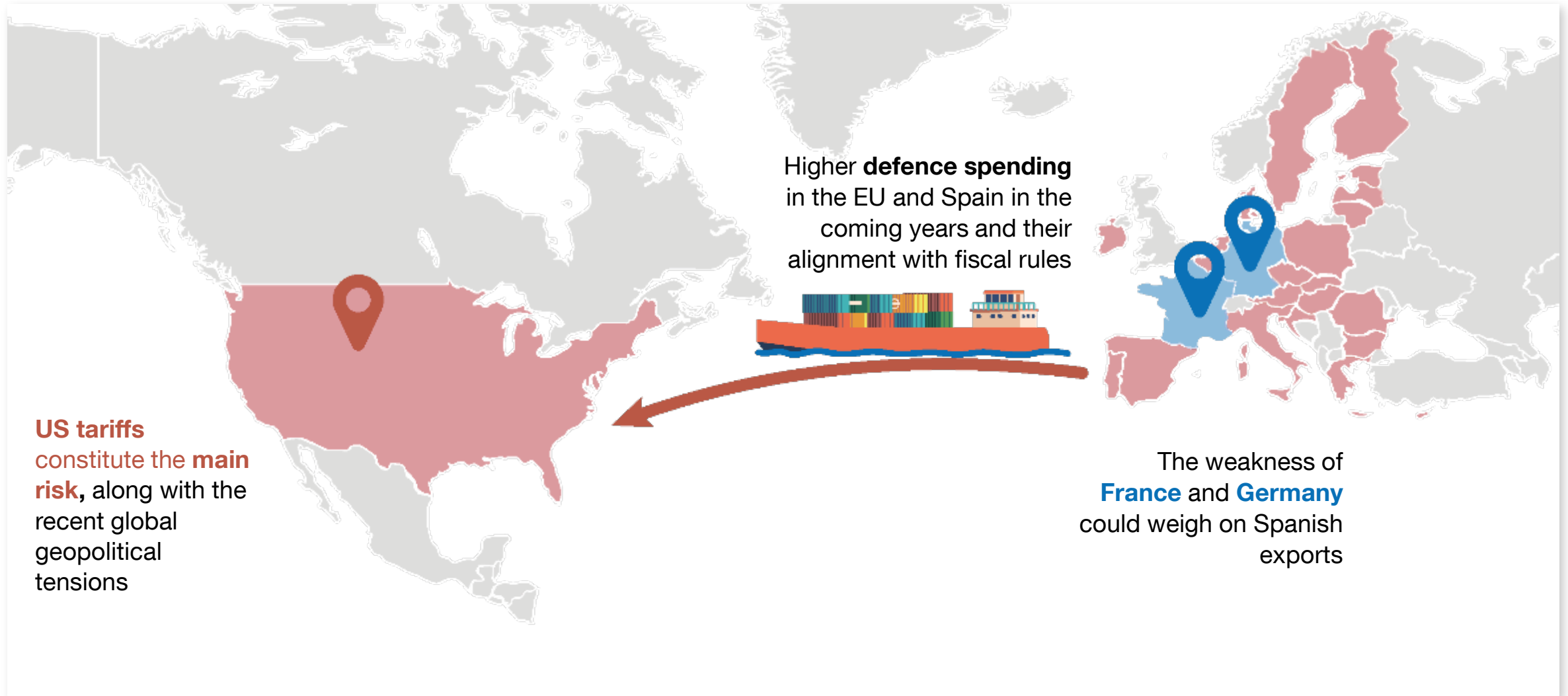
(a) Food includes ECOICOP Division 1. Core HICP refers to headline HICP excluding food and energy. Six-month moving average.

OUR LATEST PROJECTIONS POINT TO HEADLINE INFLATION IN SPAIN STARTING ON A DOWNWARD PATH TOWARDS RATES OF CLOSE TO 2%

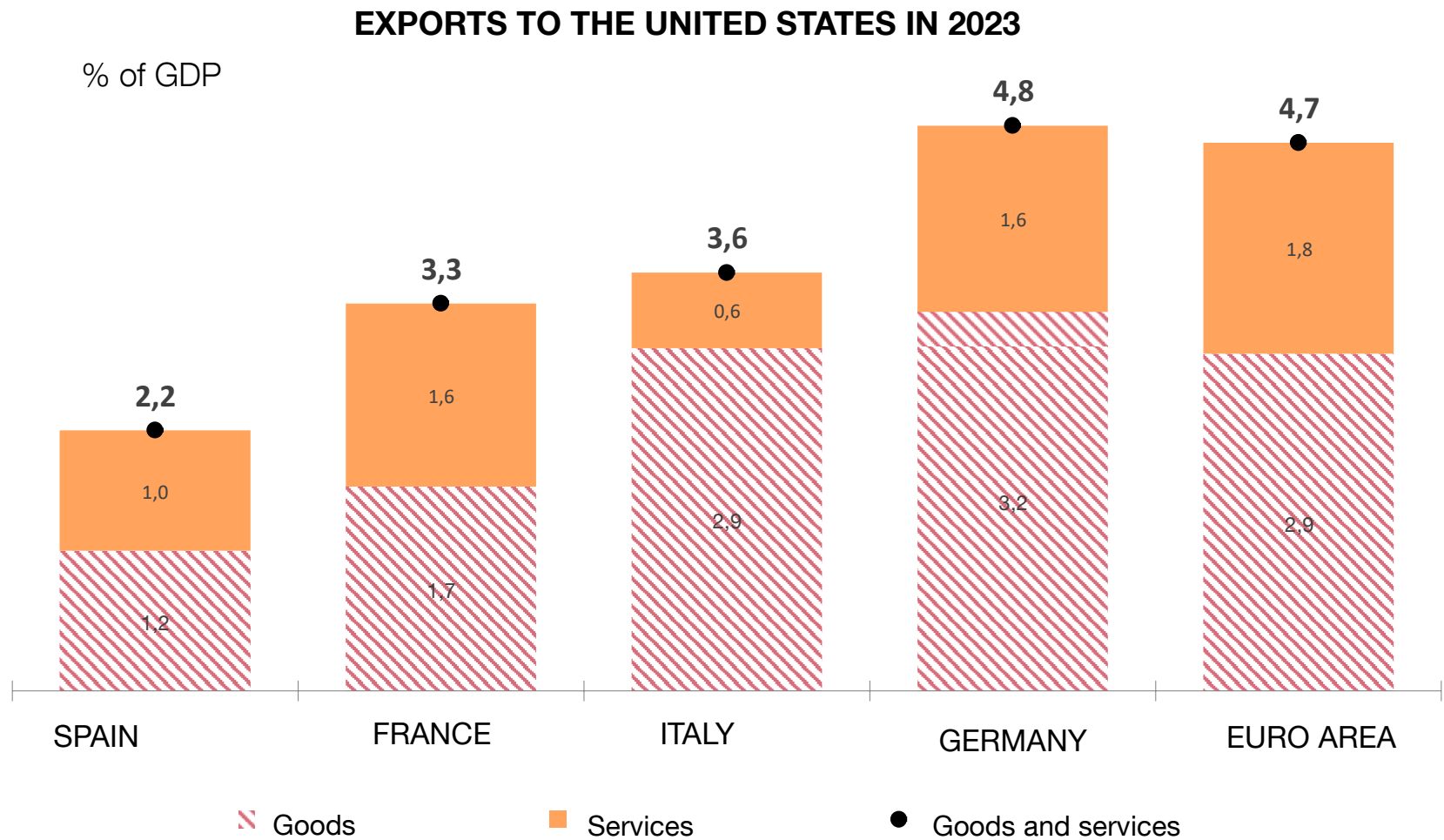
CONTRIBUTIONS TO HICP GROWTH BY COMPONENT



IN THE CASE OF SPAIN, THE RISKS TO OUR BASELINE SCENARIO ARE TO THE DOWNSIDE IN THE CASE OF ACTIVITY AND TO THE UPSIDE IN THE CASE OF INFLATION ...



HOWEVER, THE SPANISH ECONOMY WOULD BE LESS EXPOSED TO TARIFF RISKS DUE TO ITS LESSER EXPOSURE TO THE UNITED STATES (AND A TRADE BALANCE CLOSE TO EQUILIBRIUM)



Source: Eurostat.

... A BALANCE OF RISKS TO THE BASELINE SCENARIO THAT REFLECTS THE VIEWS OF OUR ECONOMISTS

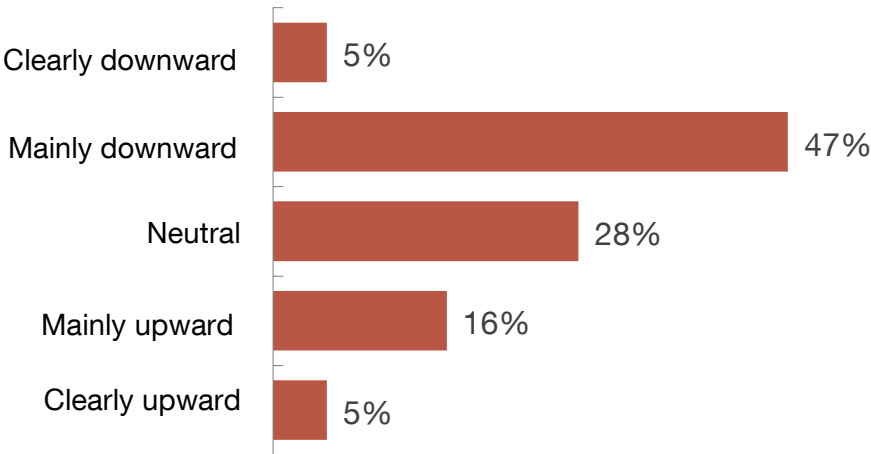


SURVEY OF BANCO DE ESPAÑA ECONOMISTS: RISKS TO THE BASELINE SCENARIO



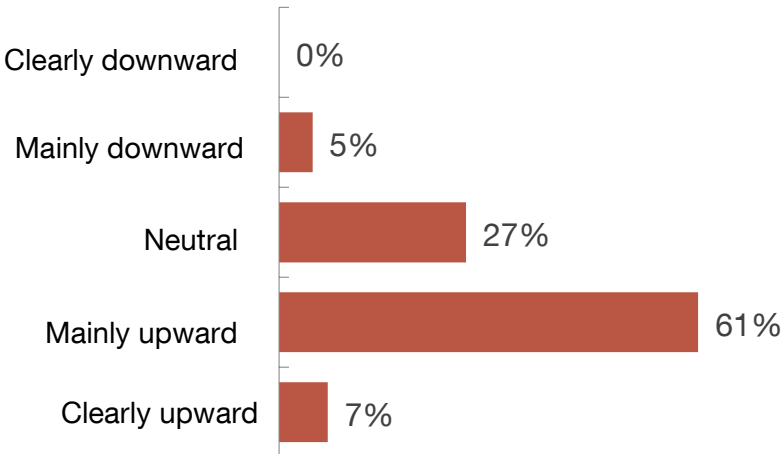
Downside risks in activity

2025 GDP



Upside risks in inflation

2025 INFLATION



Source: Banco de España. Survey conducted among the economists in the Directorate General Economics. The horizontal axis indicates the share of each of the five possible responses.

Thank you for your attention
