

TESTIMONY BEFORE THE PARLIAMENTARY ECONOMIC AFFAIRS, TRADE AND
DIGITAL TRANSFORMATION COMMITTEE

THE SPANISH ECONOMY AMID A NEW GLOBAL CYCLE OF UNCERTAINTY*

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Governor

* English translation from the original in Spanish

9 June 2025

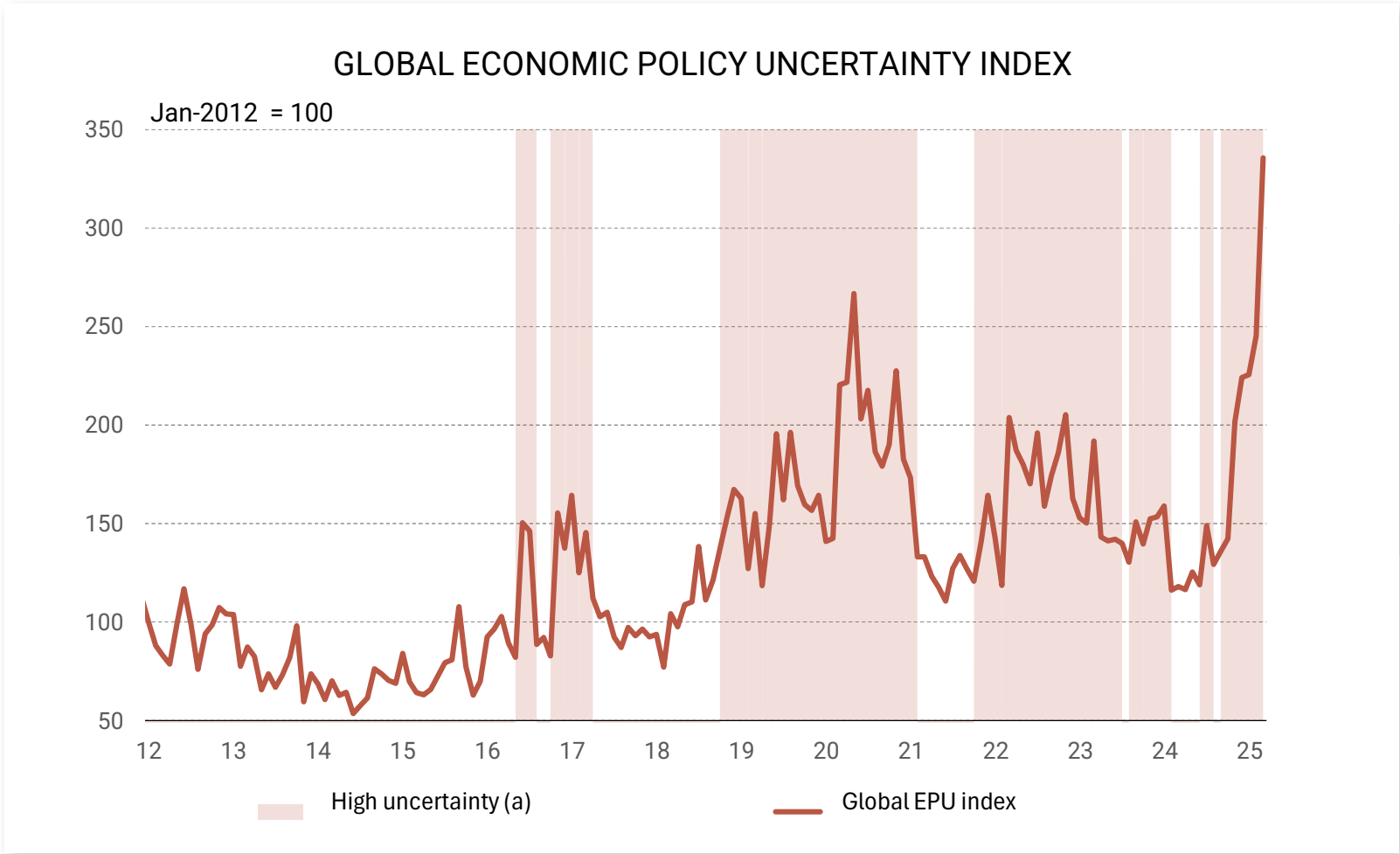




CONTENTS

1. **A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT**
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

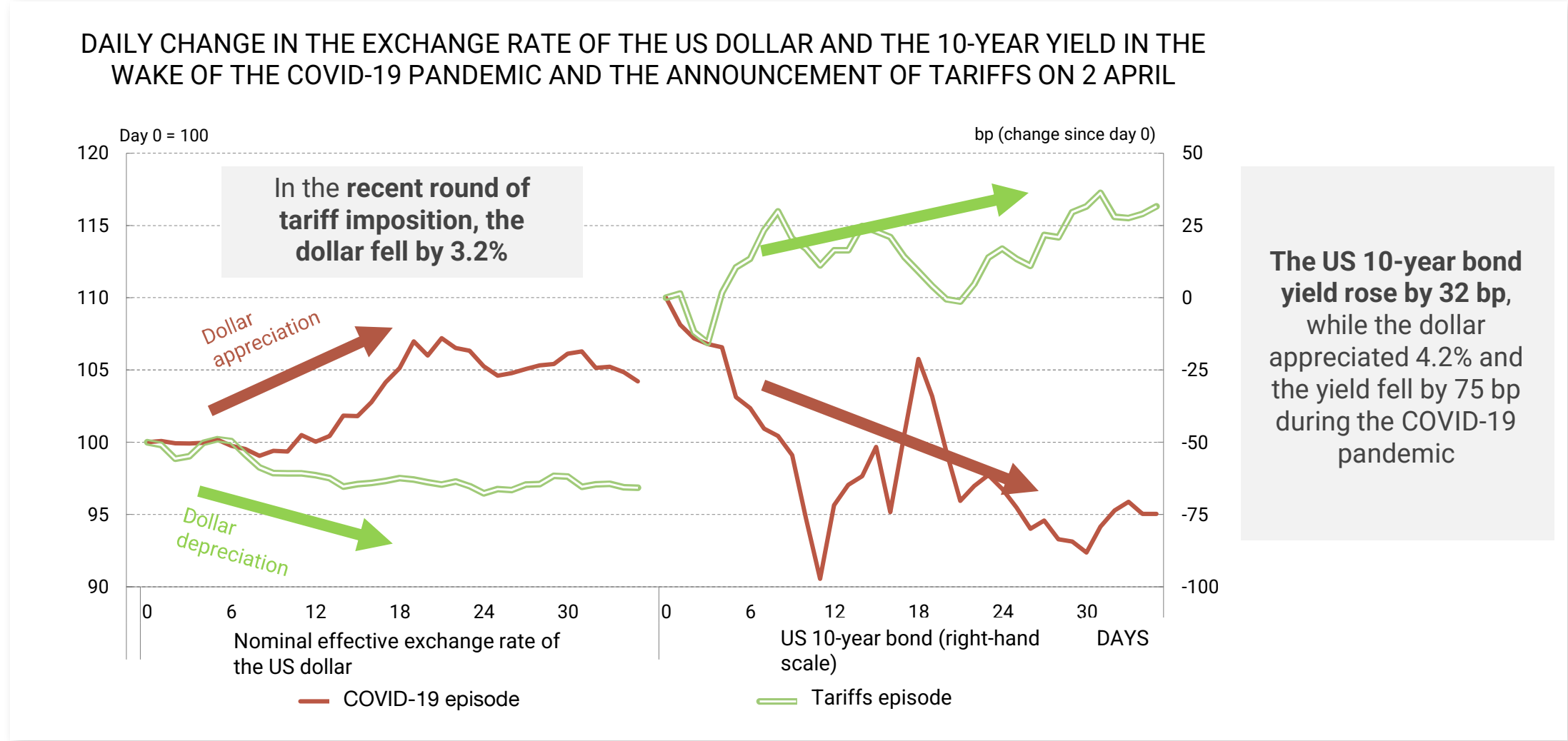
GLOBAL UNCERTAINTY IS REACHING UNPRECEDENTED LEVELS ...



The extraordinary levels of uncertainty in the United States affect all levels of **economic policy: monetary, fiscal, regulatory and trade**

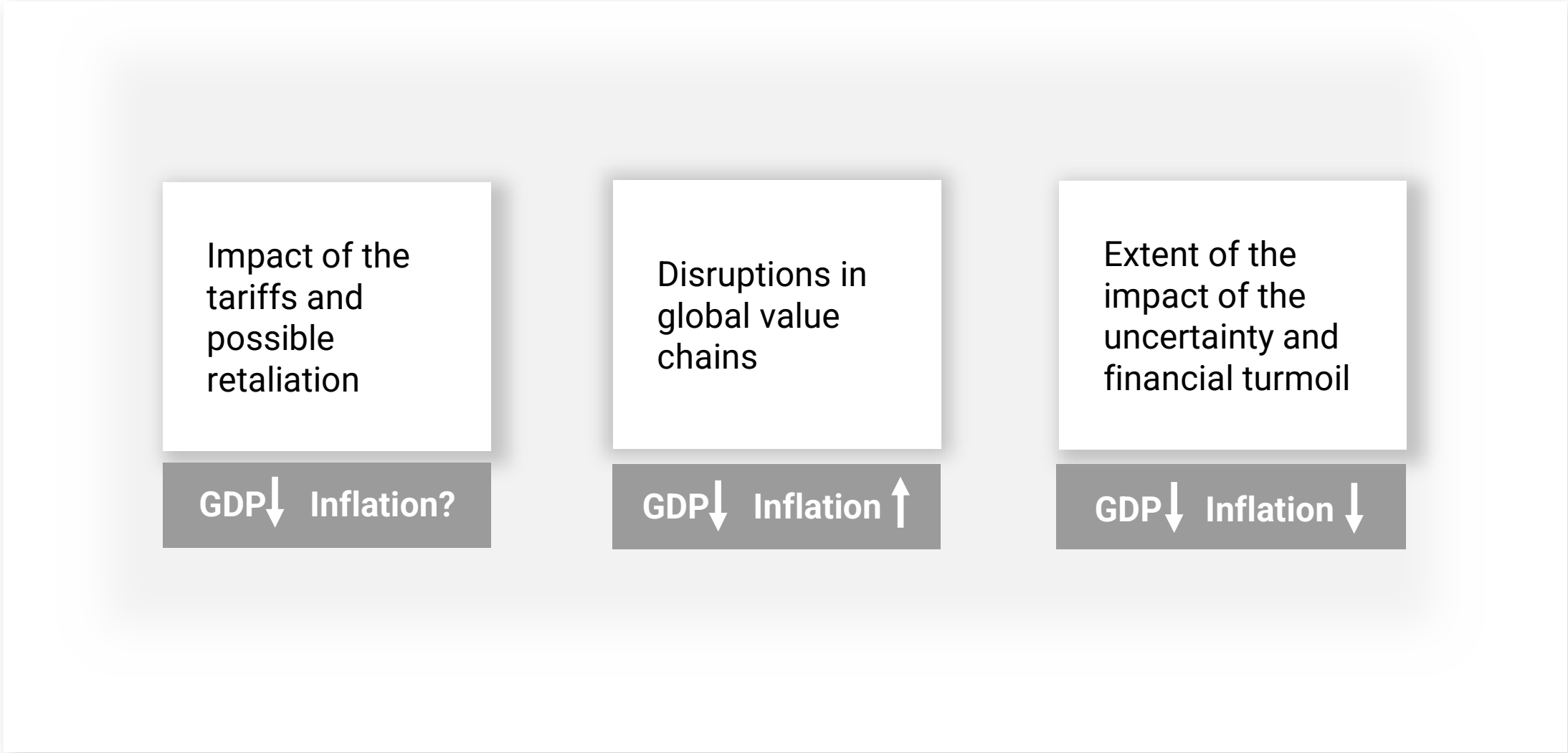
Source: Economic Policy Uncertainty Index.
(a) Bands are used to show periods in which the level of the index exceeds its historical mean by more than one standard deviation. Latest data: March 2025.

... BUT, UNLIKE IN PREVIOUS EPISODES OF TURMOIL, THE DOLLAR HAS NOT ACTED AS A SAFE-HAVEN ASSET



Source: LSEG Datastream.

IN A CLIMATE OF INCREASED UNCERTAINTY, THE BASELINE SCENARIO BECOMES LESS LIKELY AND ALTERNATIVE SCENARIOS COME TO THE FORE



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

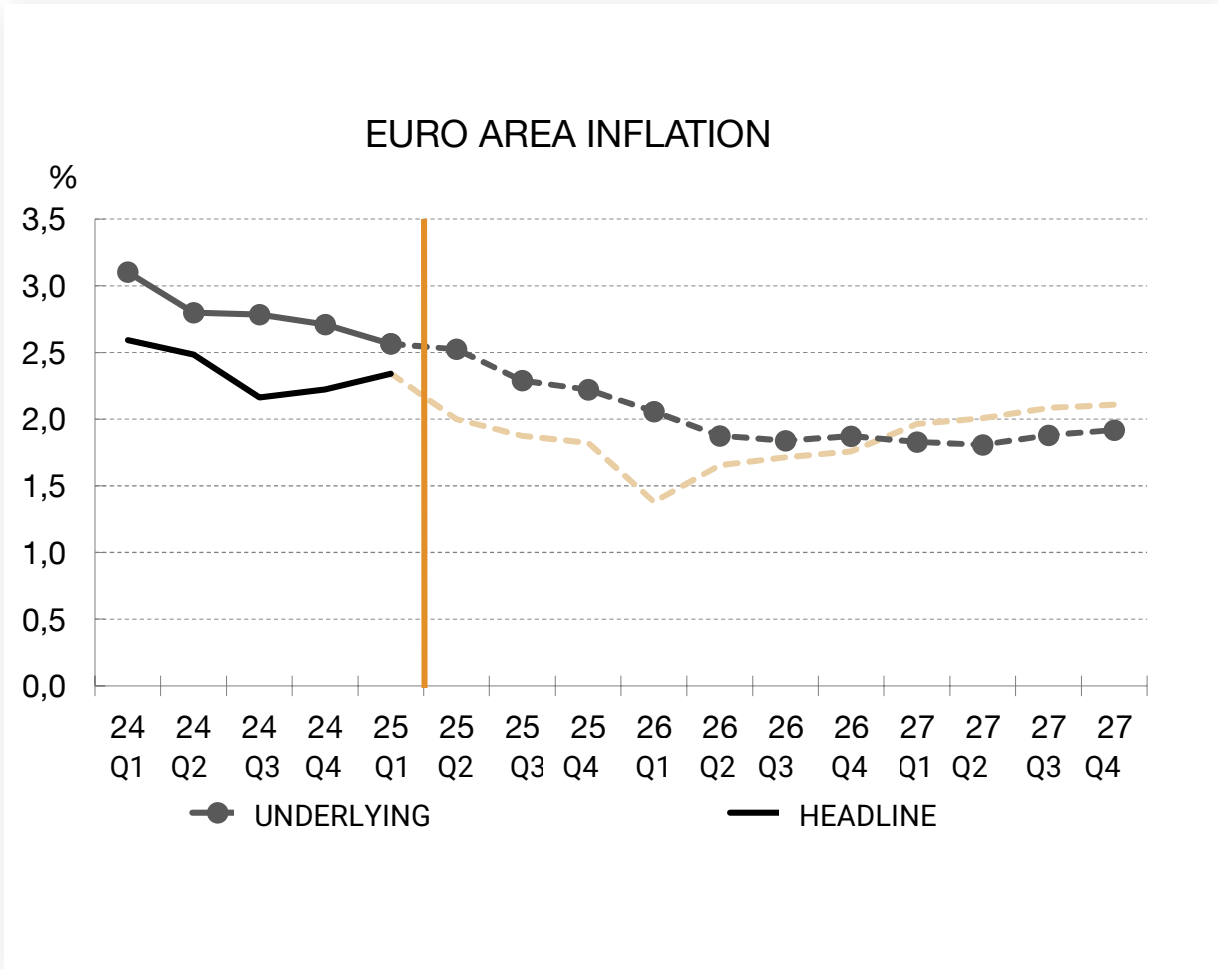
2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE.

UNDER THE BASELINE SCENARIO, THE FORECASTS FOR EURO AREA GROWTH AND INFLATION ARE REVISED DOWN SLIGHTLY, BUT A MORE SEVERE ALTERNATIVE SCENARIO IS PRESENTED



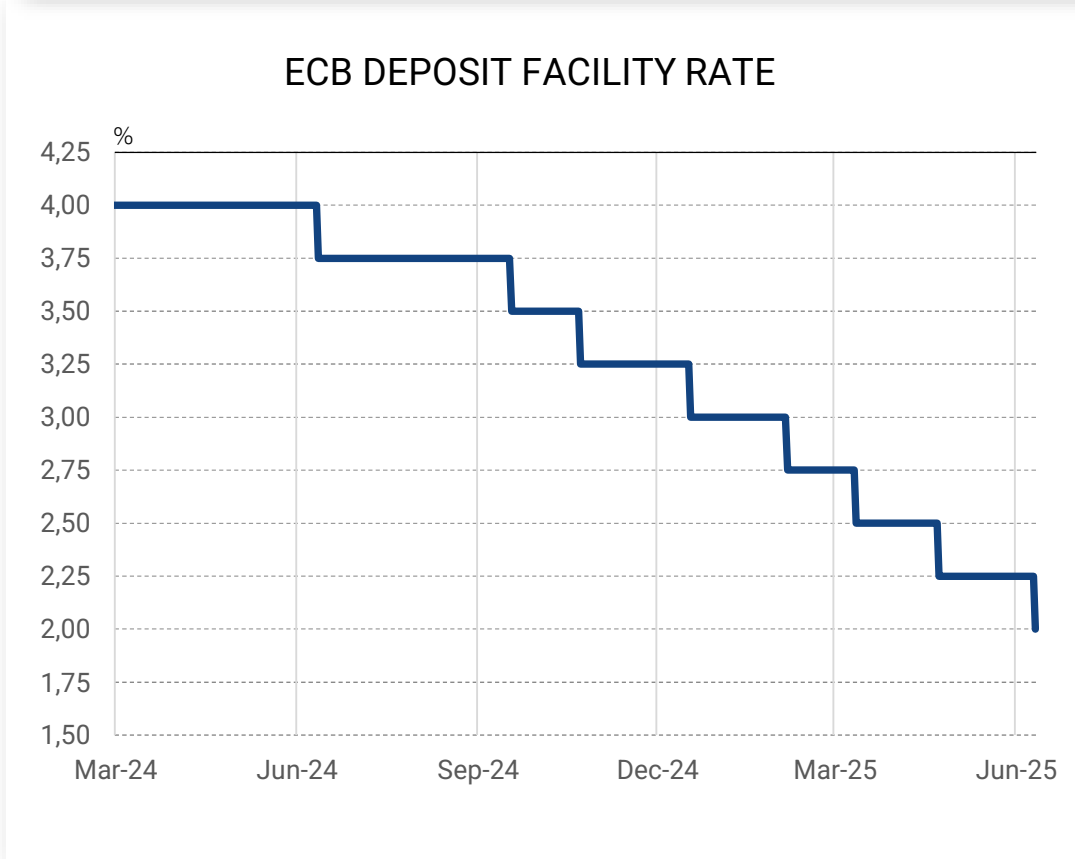
EURO AREA. ECB FORECASTS (%)				
	JUNE 25		CHANGE COMPARED WITH MARCH	
	2025	2026	2025	2026
GDP GROWTH	0.9	1.1	0.0	-0.1
INFLATION	2.0	1.6	-0.3	-0.3
UNDERLYING INFLATION	2.4	1.9	0.2	-0.1

Alternative scenario: lower GDP growth and inflation

Sources: ECB March 2025 Macroeconomic Projection Exercise and June 2025 Broad Macroeconomic Projection Exercise.

WITH INFLATION NEAR ITS TARGET, THE GOVERNING COUNCIL OF THE ECB AGREED TO CUT INTEREST RATES BY 25 BP TO 2%

- The pace of disinflation has been in line with expectations in 2024
- Inflation currently stands around the 2% medium-term target
- In May, **euro area inflation stood at 1.9%**



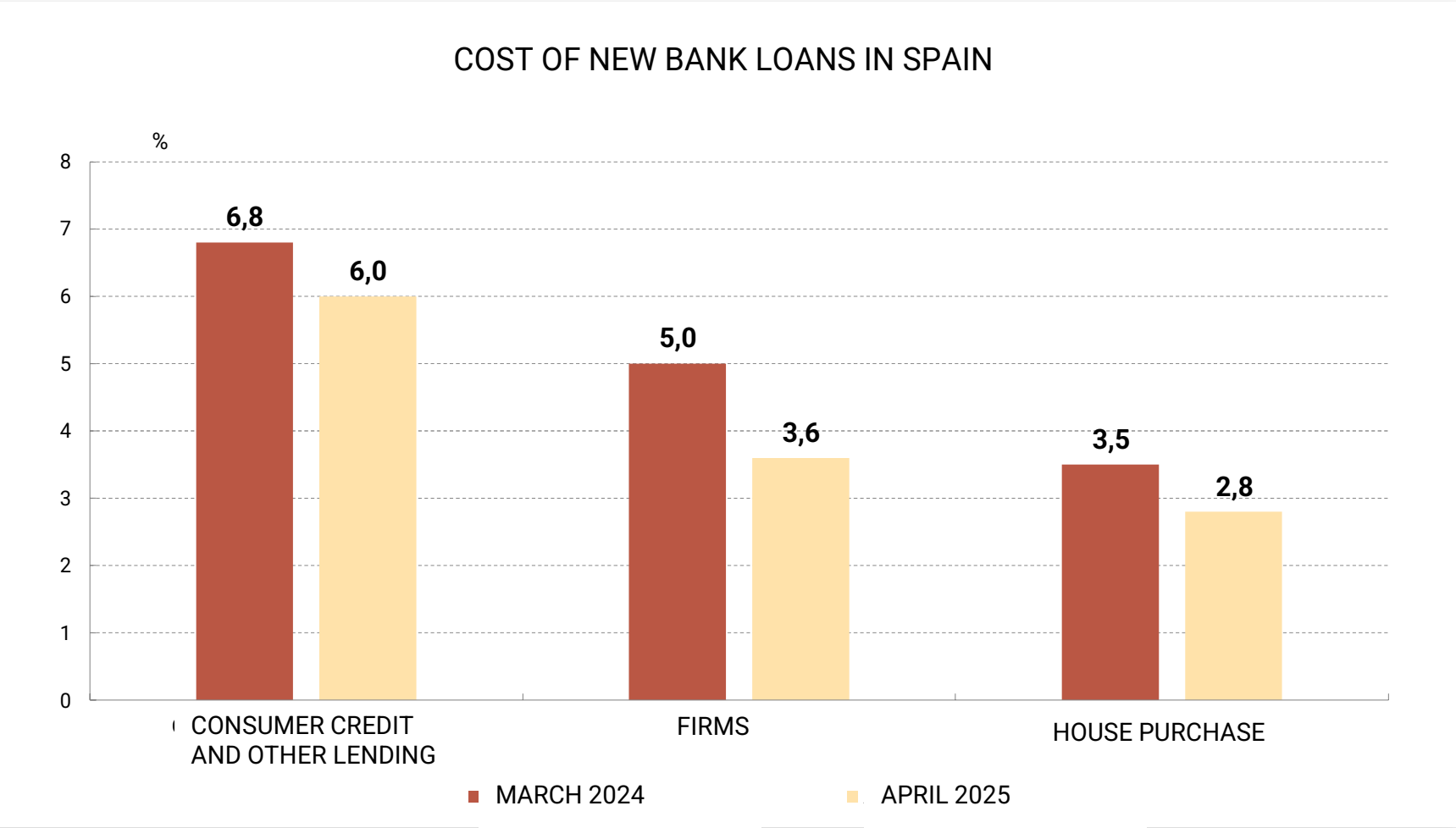
Underlying inflation barely changes: the slight upward revision for 2025 (services) would likely partially unwind in 2026

Inflation expectations remain anchored to the 2% target

In an environment where uncertainty has become the new norm, it is essential to be **agile and flexible** and follow a **data-dependent** and meeting-by-meeting approach

Source: Refinitiv Datastream.

THE NORMALISATION OF MONETARY POLICY IS PASSING THROUGH TO LOAN RATES IN SPAIN AND THE EURO AREA, WHILE THE FLOW OF NEW CREDIT IS RECOVERING



- Consequently, in April 2025 business loans grew by 3.5% year on year and loans to households and the self-employed rose by 2.7%, following negative growth in 2023

Source: Banco de España.



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. **THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK**
 - 2.a. DEVELOPMENTS IN 2024
 - 2.b. BASELINE SCENARIO AND RISKS
 - 2.c. FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d. MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a. **DEVELOPMENTS IN 2024**
 - 2.b. BASELINE SCENARIO AND RISKS
 - 2.c. FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d. MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

KEY FEATURES OF GROWTH IN 2024

The Spanish economy grew by **3.2% in 2024**, 1.3 pp above the Banco de España’s expectations at the beginning of that year

Government and private consumption were the fundamental drivers of growth in 2024

Investment and goods exports have been picking up more slowly since the pandemic

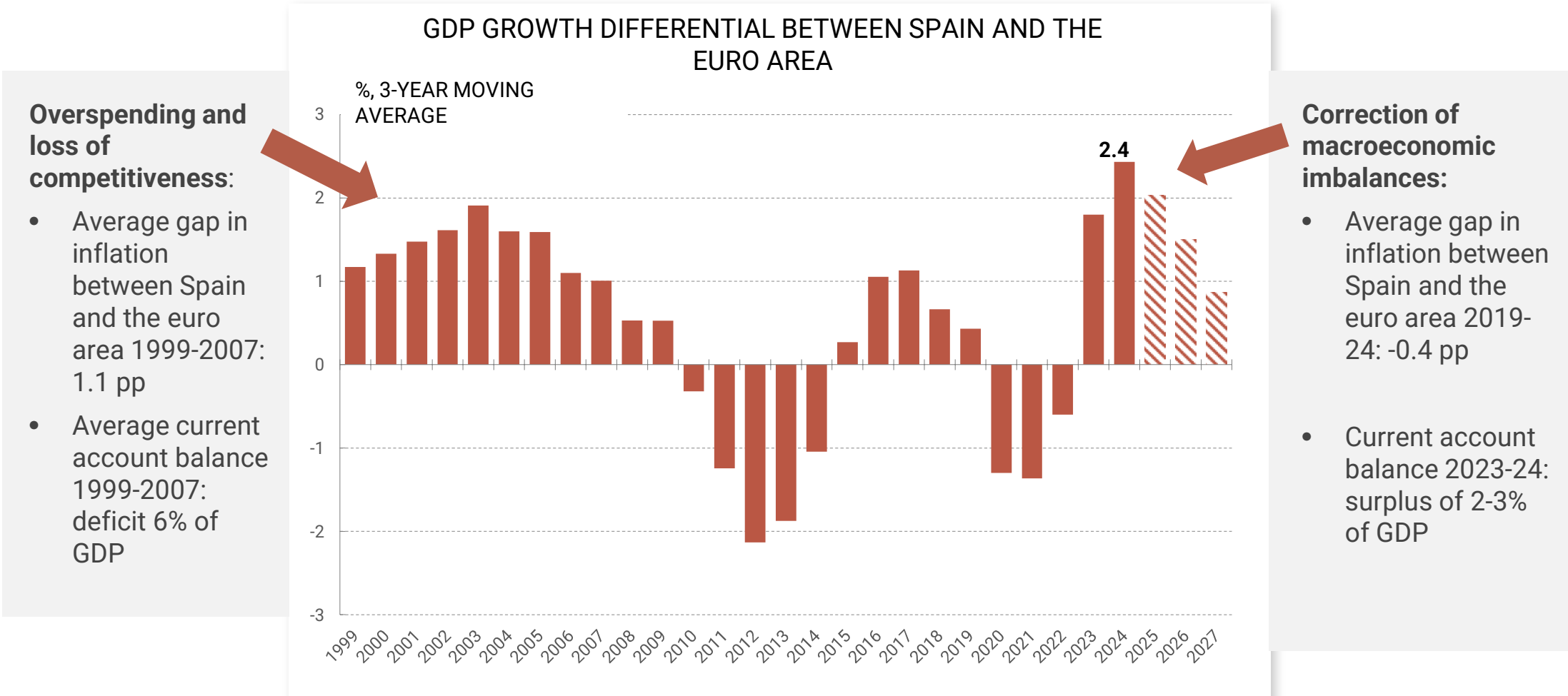
Services exports continued to contribute positively to activity growth

All industries enjoyed marked momentum in 2024, more so than in the euro area

Employment growth remained robust, growing by 2.1% in 2024

- 1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
- 2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
- 3-THE ROLE OF EUROPEAN POLICIES
- 4-THE BANCO DE ESPAÑA’S RESPONSE.

THE RECENT GAP IN GROWTH WITH THE EURO AREA IS LARGER THAN IT WAS WHEN SPAIN ADOPTED THE EURO. HOWEVER, NO BUILD-UP OF MACROECONOMIC IMBALANCES IS DETECTED



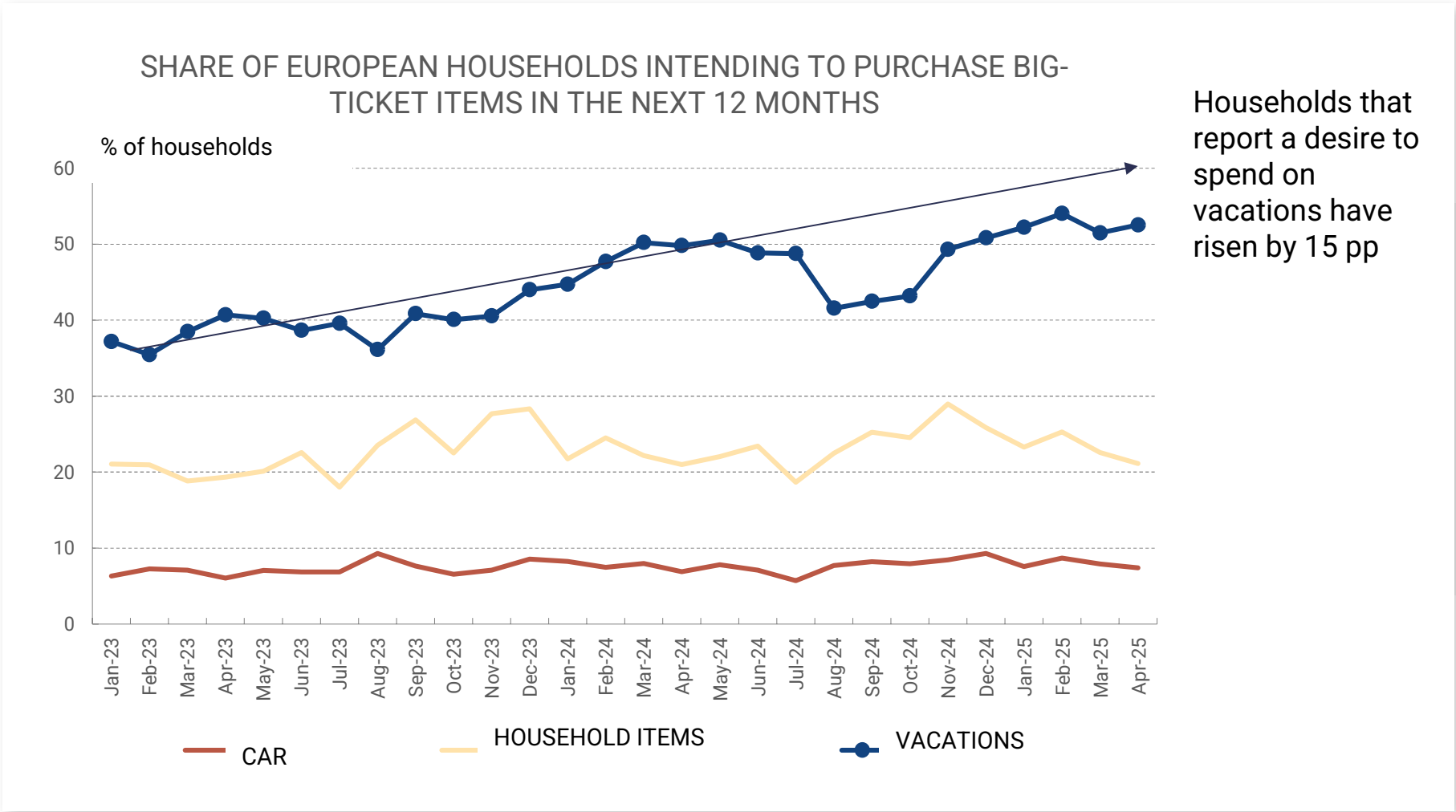
There is no room for complacency. It is important to **continue paying close attention** to the competitiveness of the Spanish economy and the sustainability of public finances

Source: Eurostat.

THERE ARE FACETS OF THE POST-COVID-19 GLOBAL ECONOMIC ENVIRONMENT THAT ARE FAVOURABLE TO THE SPANISH ECONOMY AND IT IS ESSENTIAL TO THOROUGHLY EXAMINE WHETHER THESE ARE CYCLICAL OR STRUCTURAL IN NATURE

- a) Shift in spending to leisure
- b) Services being easier to provide across borders following the pandemic
- c) Lower energy prices, partly owing to greater generating capacity of renewables
- d) Decreased bottlenecks in the labour market
- e) In the new geopolitical context in Europe, there is a favourable swing towards the southern and western regions

A) SHIFT IN SPENDING TO LEISURE



Overnight stays have grown by more than 6% compared with 2019 in the main Mediterranean countries

Source: Consumer Expectations Survey.

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

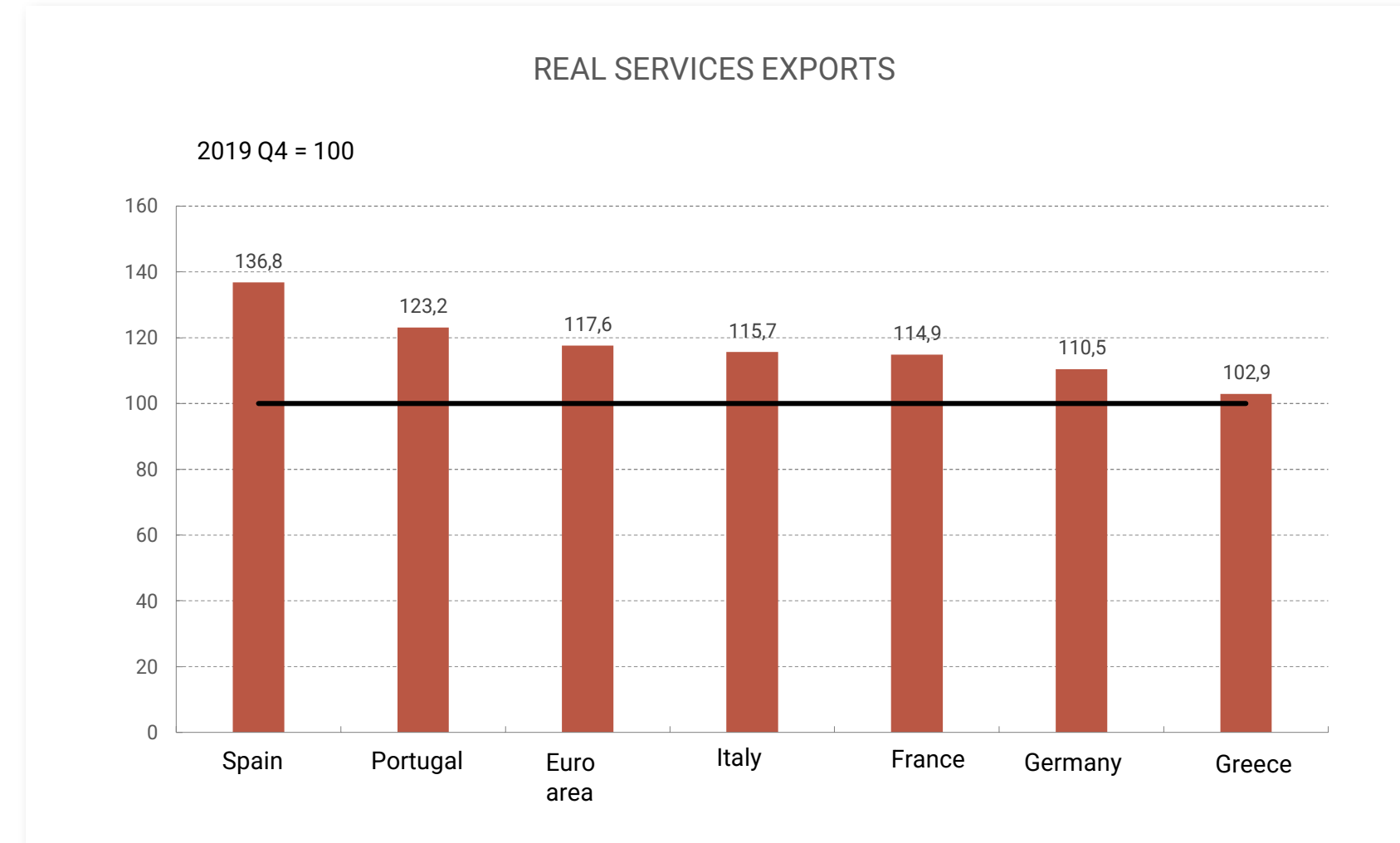
2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE.

B) AWARENESS THAT CROSS-BORDER SERVICES ARE MORE VIABLE FOLLOWING THE PANDEMIC

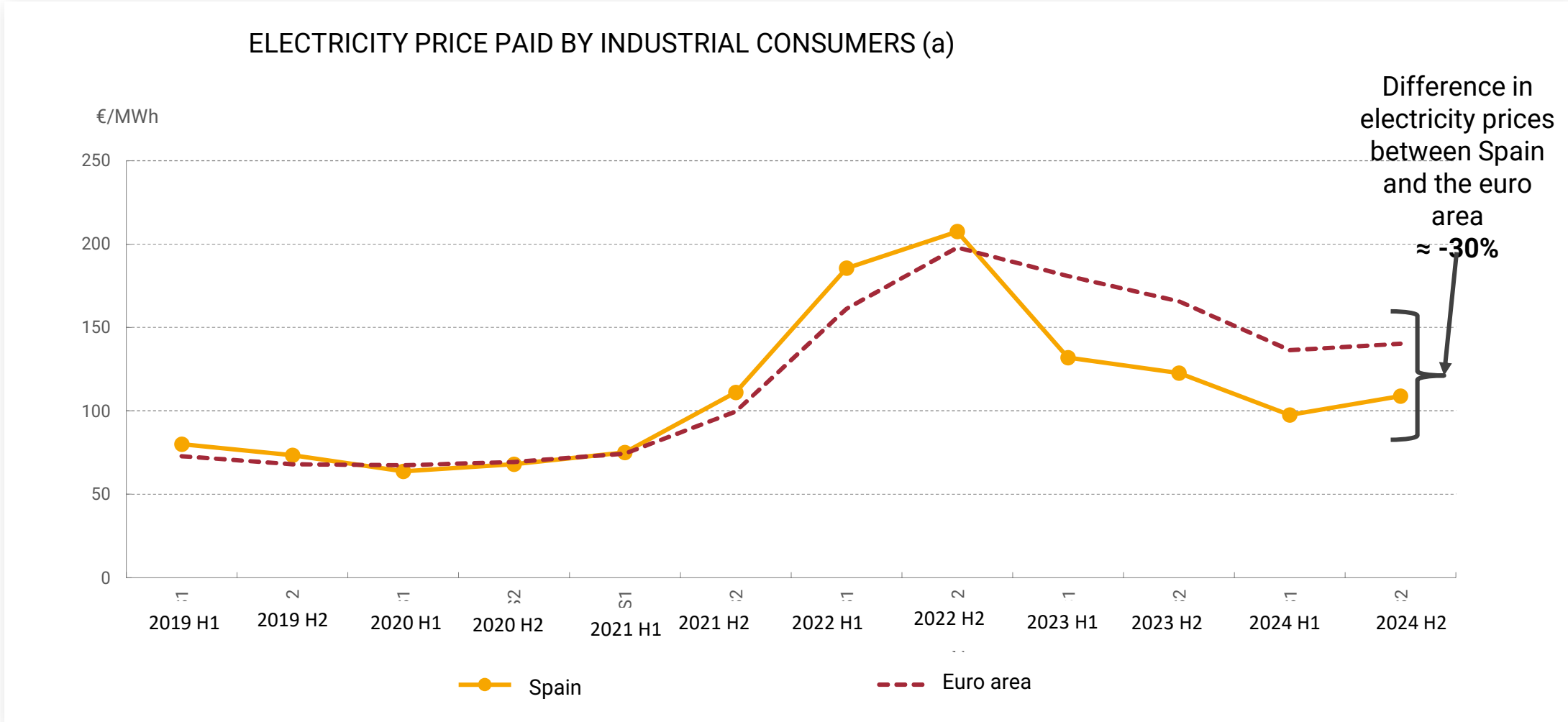


One of the main drivers behind the growth in non-travel services exports is technical, professional and consultancy services

Spain holds a competitive edge in providing such services owing to a range of factors

Source: INE.

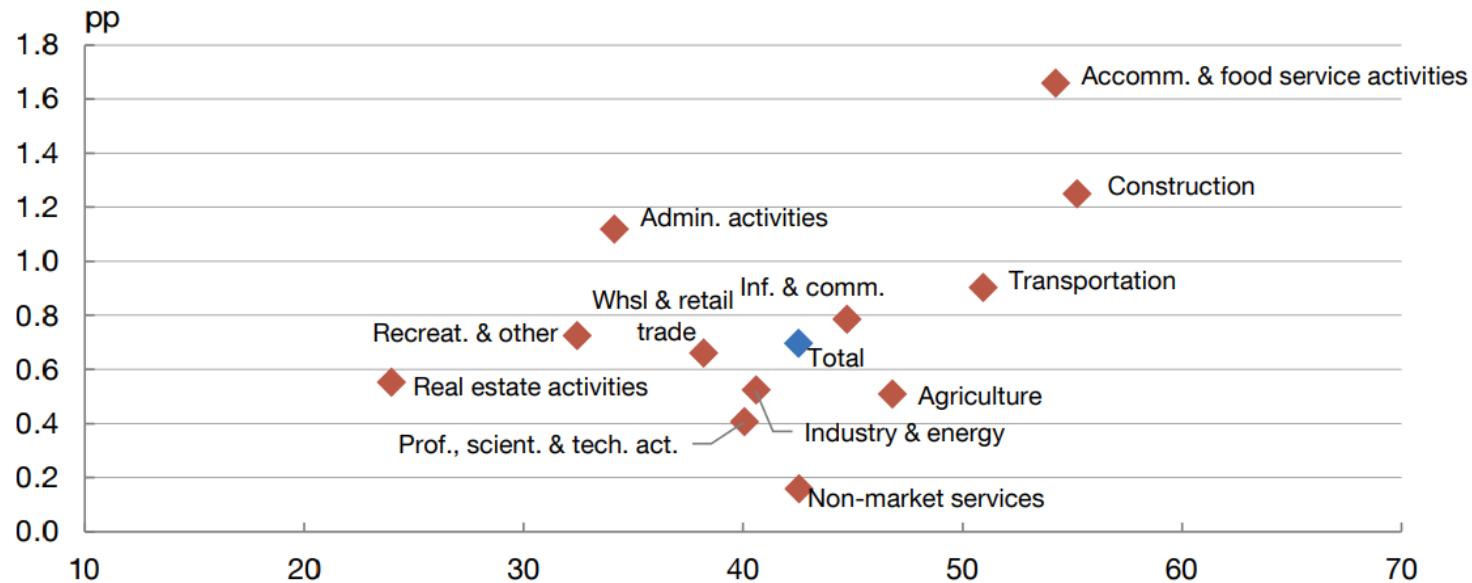
C) LOWER ENERGY PRICES, PARTLY OWING TO MORE RENEWABLE GENERATING CAPACITY



Source: Eurostat.
(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.

D) DECREASED BOTTLENECKS IN THE LABOUR MARKET

RELATIONSHIP BETWEEN GROWTH IN FOREIGN NATIONAL SOCIAL SECURITY REGISTRATIONS AND PERCEIVED LABOUR SHORTAGES



Growth in the foreign population has helped alleviate labour market tightness

76% of the jobs created in Spain since 2019 have been filled by the foreign-born population

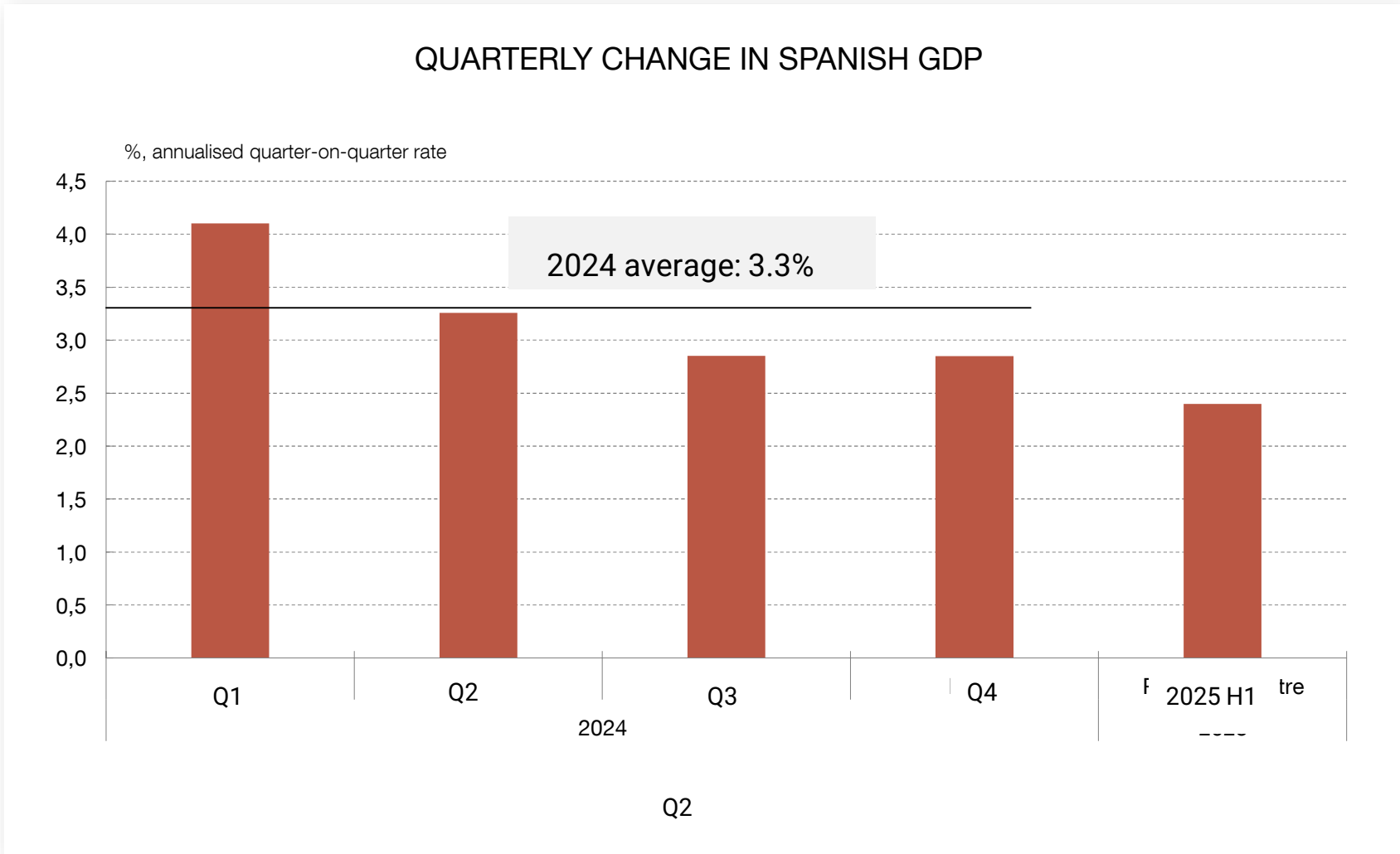
Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and the Banco de España Business Activity Survey.



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a. DEVELOPMENTS IN 2024
 - 2.b. BASELINE SCENARIO AND RISKS**
 - 2.c. FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

THE SPANISH ECONOMY IS UNDERGOING A SLOWDOWN IN GROWTH FROM RATES ABOVE 3% TO AROUND 2.5% IN 2025 H1



The main factor behind this weakening is the external sector's reduced contribution

Source: INE.

THE BASELINE SCENARIO ENVISAGES MODERATE TARIFF HIKES AND A FISCAL IMPULSE IN DEFENCE IN LINE WITH ANNOUNCEMENTS TO DATE



KEY ASSUMPTIONS IN THE BASELINE SCENARIO

Tariffs prior to 2 April:

- United States → EU: 10%. Without EU retaliation
- United States → China: 20% with symmetric retaliatory measures
- United States → Rest of the world: 10%

Uncertainty levels decline gradually from their current highs to their 2018 levels (Trump's first term of office) at the end of the projection horizon

Fiscal impulse related to defence and infrastructure spending in Germany: 0.2% of GDP in Spain in 2025. 0.7% of euro area GDP in 2025-27 – mainly Germany

UNDER THE BASELINE SCENARIO, THERE ARE FEW CHANGES IN THE MACROECONOMIC PROJECTIONS AND GDP IS REVISED DOWN SLIGHTLY

		JUNE 2025 PROJECTIONS		DIFFERENCES WITH RESPECT TO THE MARCH PROJECTIONS	
Annual rate of change (%), unless otherwise indicated		2025	2026	2025	2026
Gross domestic product (GDP)	2024 3.2	2.4	1.8	-0.3	-0.1
Unemployment rate (% of labour force). Annual average	11.3	10.5	10.2	0.0	0.2
Headline inflation (HICP)	2.9	2.4	1.7	-0.1	0.0
Core inflation (HICP excluding energy and food)	2.8	2.6	2.1	0.4	0.1
Budget balance (% of GDP)	-3.2	-2.8	-2.6	0.0	0.0
General government debt (% of GDP)	101.8	101.4	101.4	0.1	-0.2

Source: Banco de España. Flash estimates of the quarterly report.

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

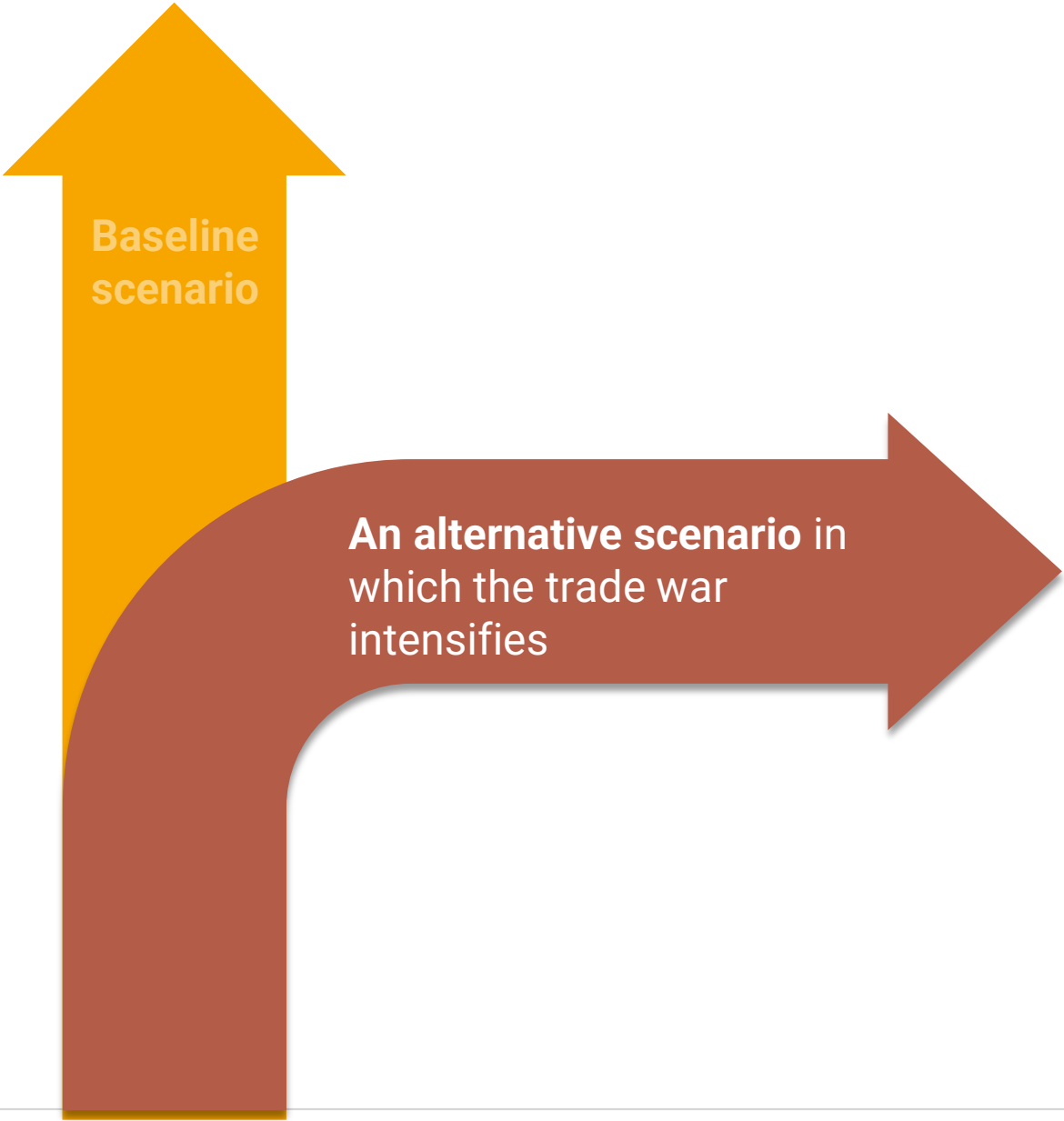
2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

IN THE CURRENT SETTING, IT IS WORTH PAYING ATTENTION TO POSSIBLE ALTERNATIVE SCENARIOS



- 1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
- 2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
- 3-THE ROLE OF EUROPEAN POLICIES
- 4-THE BANCO DE ESPAÑA'S RESPONSE

SPAIN'S DIRECT TRADE EXPOSURE TO THE UNITED STATES IS LIMITED AND LOWER THAN THAT OF OTHER MAJOR EU COUNTRIES ...

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

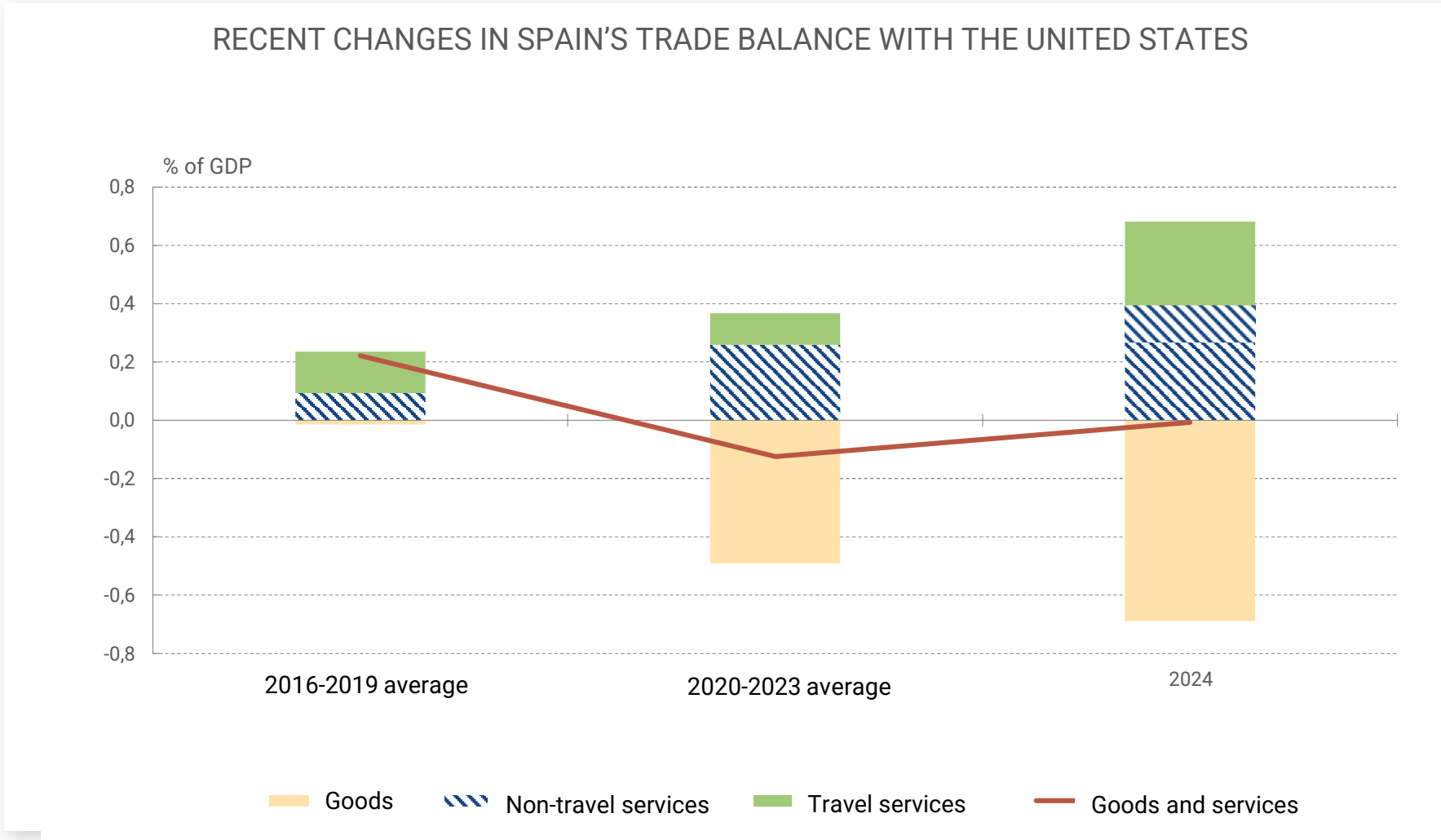
2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

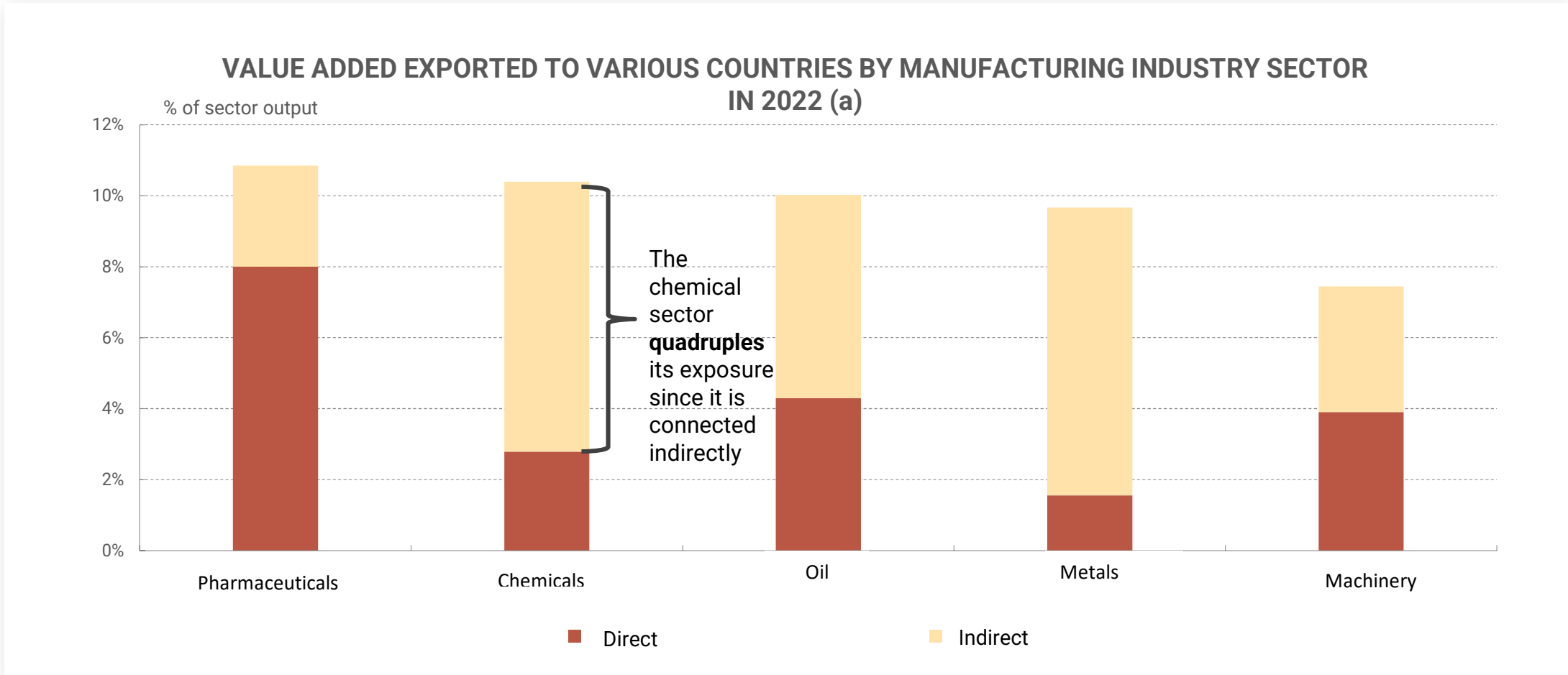
4-THE BANCO DE ESPAÑA'S RESPONSE



Spain combines a strong surplus with the United States in services and an energy deficit of a similar magnitude

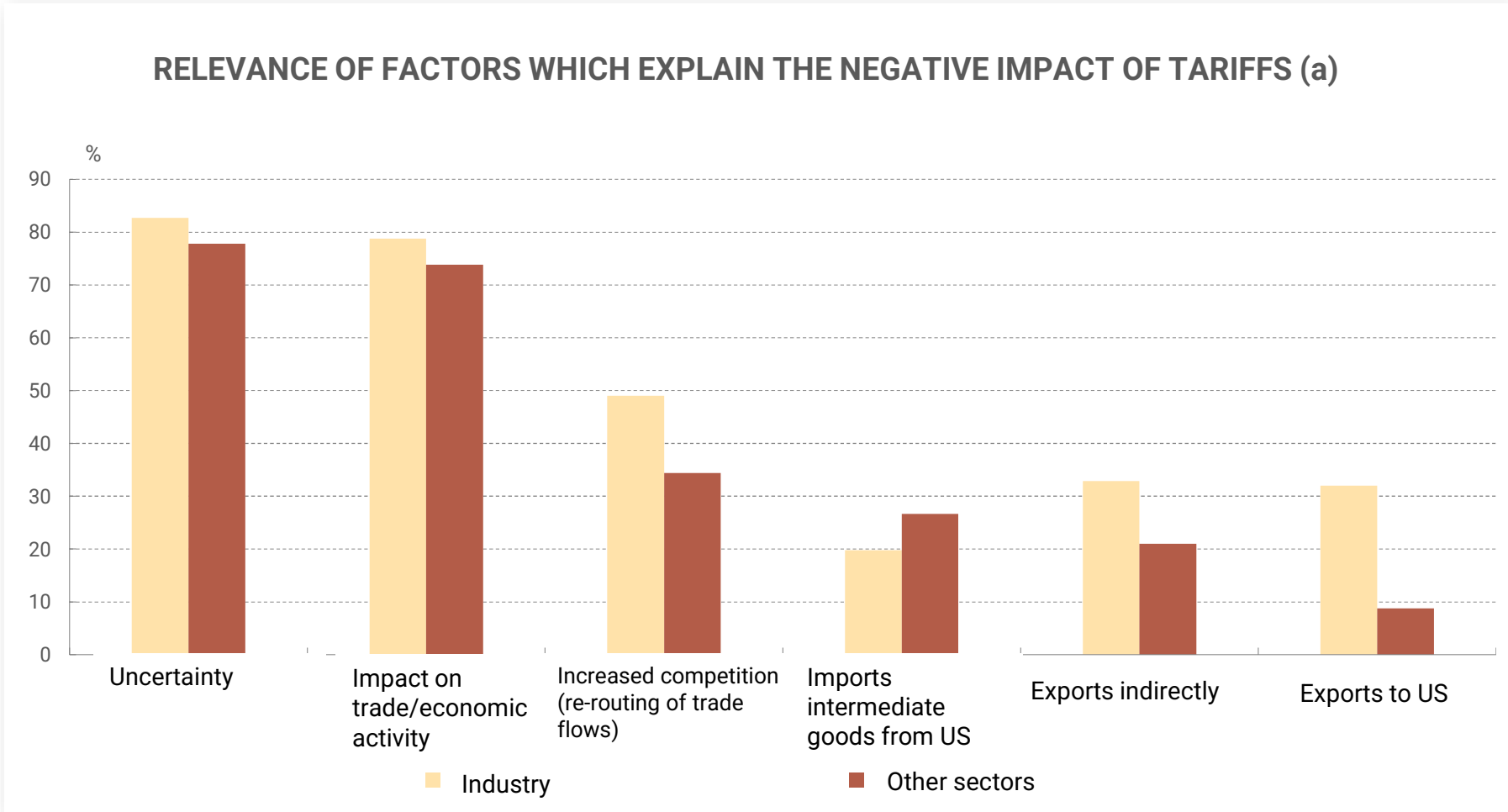
Source: Eurostat.

... ALTHOUGH ITS INDIRECT EXPOSURE IS GREATER BECAUSE OF THE ECONOMY'S INTEGRATION INTO GLOBAL VALUE CHAINS



Sources: Banco de España, ECB and Eurostat-FIGARO.
(a) **Only the five most highly exposed sectors are shown.** The sum of direct and indirect exposure shows the percentage of gross value added of each sector involved in the direct exports of the sector itself, in addition to the supply of intermediate goods to other firms exporting to the United States.

UNCERTAINTY IS THE MAIN FACTOR IMPACTING FIRMS ACCORDING TO THE BANCO DE ESPAÑA'S SURVEY



A total of 30% of firms report being affected by the tariffs

Of those, 80% report that **uncertainty** is an important factor

Source: Banco de España (EBAE).
a. Question: "If your firm could be adversely affected by the new tariffs, please indicate the relevance of each of the following reasons in explaining that impact". Possible answers: "Not relevant", "Of little relevance", "Relevant", "Highly relevant".

THE ADVERSE SCENARIO ASSUMES THAT THERE WILL BE RETALIATORY TARIFFS AND PROTRACTED TRADE UNCERTAINTY

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

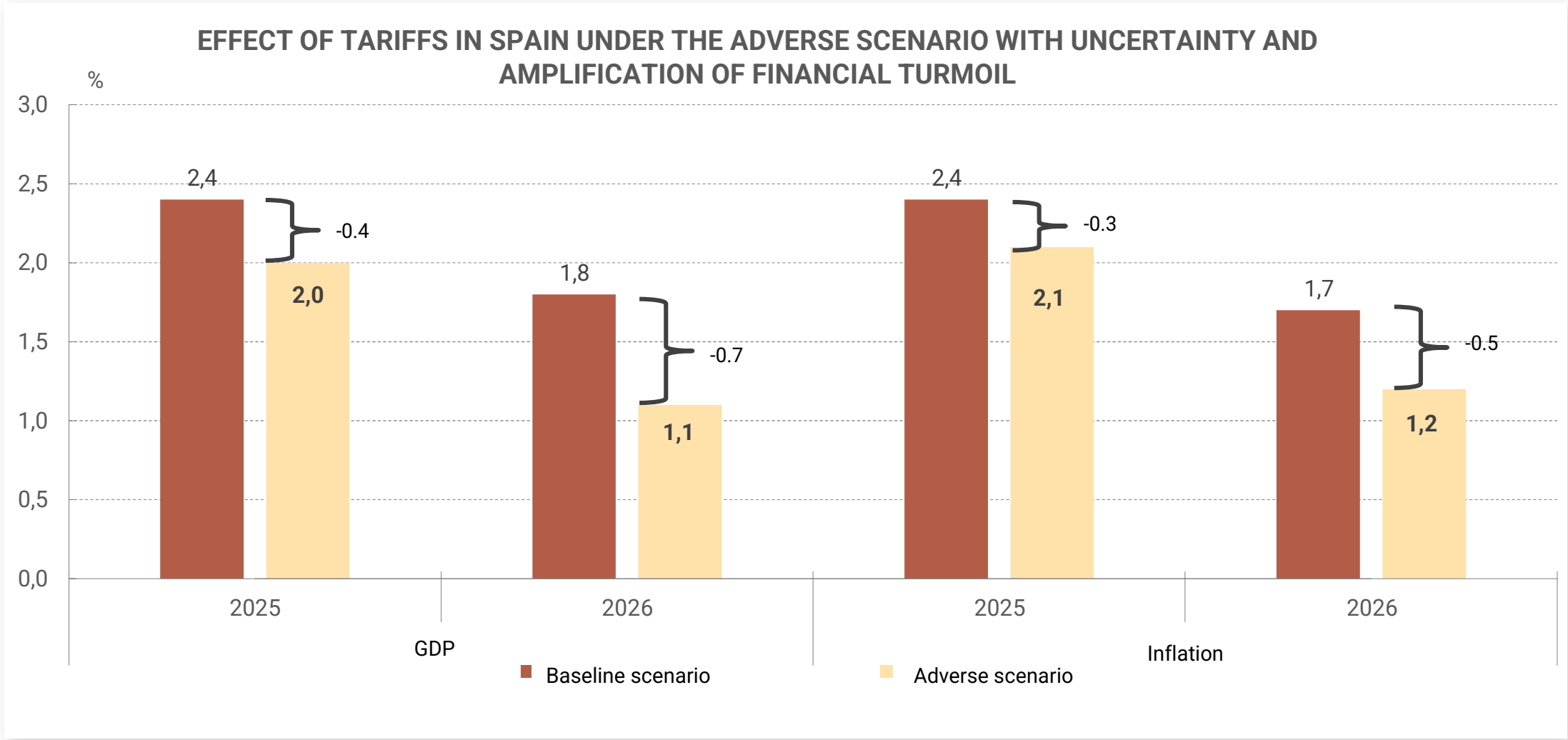
2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

		Baseline	Adverse
Tariffs on:	EU	10%	20% with retaliatory measures
	China	20% with retaliatory measures	Trade war (tariffs and retaliatory measures of up to 145%)
	Rest of the world	10%	Higher tariffs, with retaliatory measures
Uncertainty		Gradual reduction of economic uncertainty	Protracted economic uncertainty
Finance		Stable prices on financial markets according to technical assumptions	Amplification of financial market turmoil

PROTRACTED TARIFF ESCALATION WOULD HAVE A SIGNIFICANT NEGATIVE IMPACT ON THE SPANISH ECONOMY



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

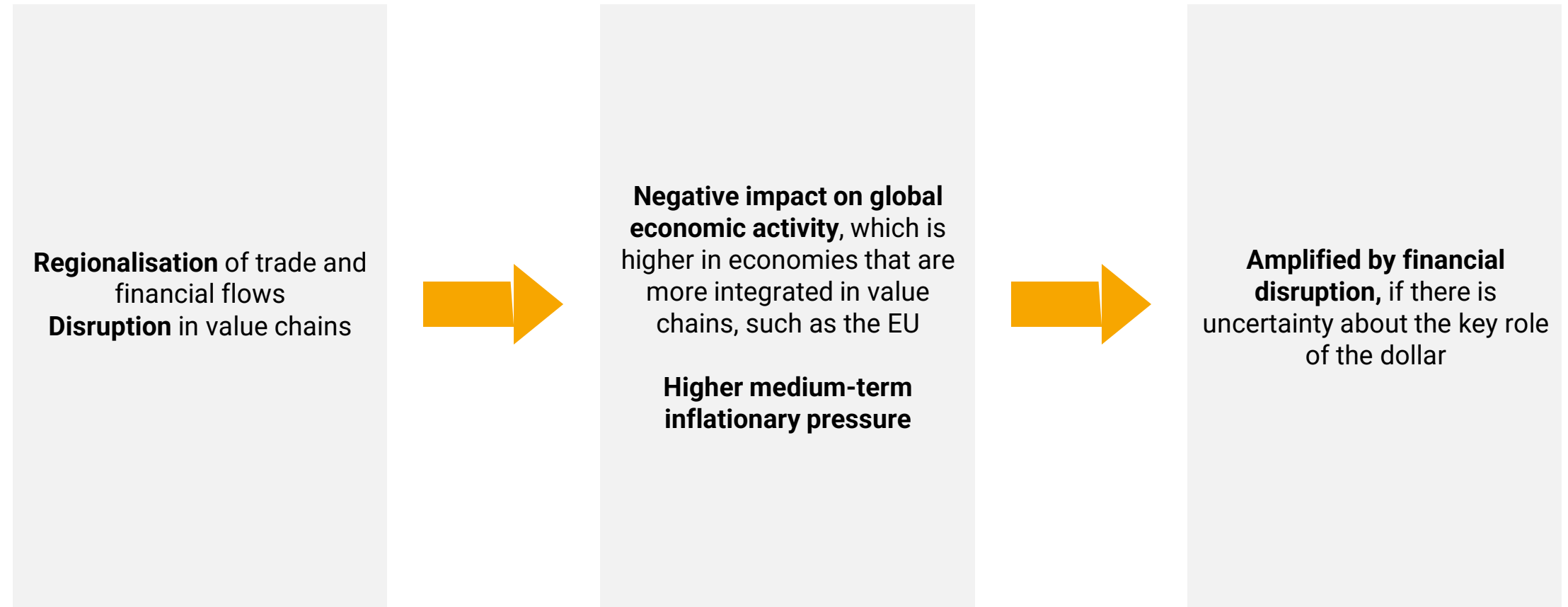
2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

IN RECENT YEARS VARIOUS DYNAMICS HAVE EMERGED THAT WEAKEN THE GLOBALISATION PROCESS



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

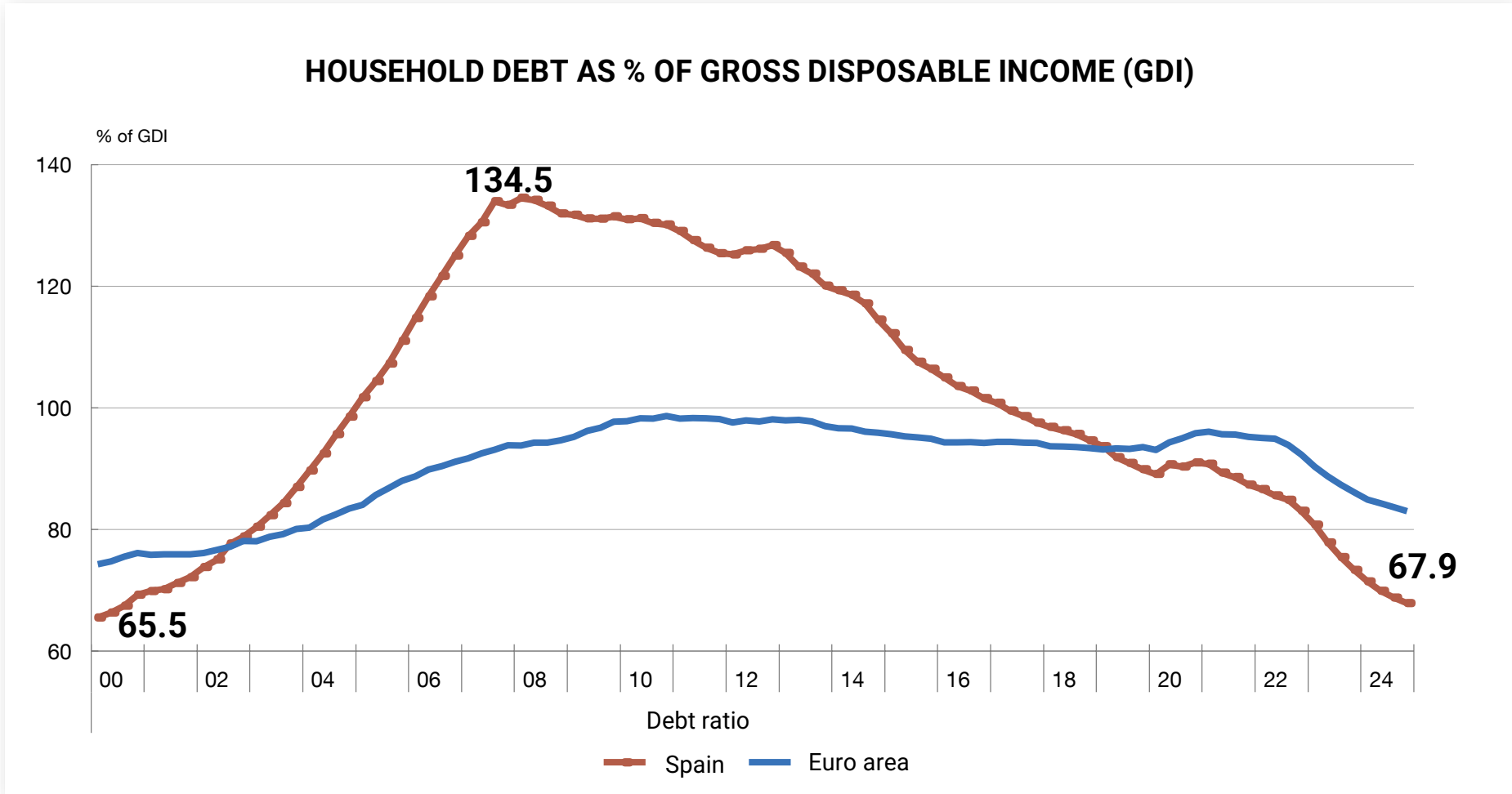
4-THE BANCO DE ESPAÑA'S RESPONSE



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a. DEVELOPMENTS IN 2024
 - 2.b. BASELINE SCENARIO AND RISKS
 - 2.c. FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS**
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

AGAINST THIS BACKGROUND OF AMPLIFIED RISK, SPANISH HOUSEHOLDS CONTINUE TO HAVE A SOUND FINANCIAL POSITION



Households' interest payments declined from 8% of their disposable income to 2.6% at present

SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2024 Q4.

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

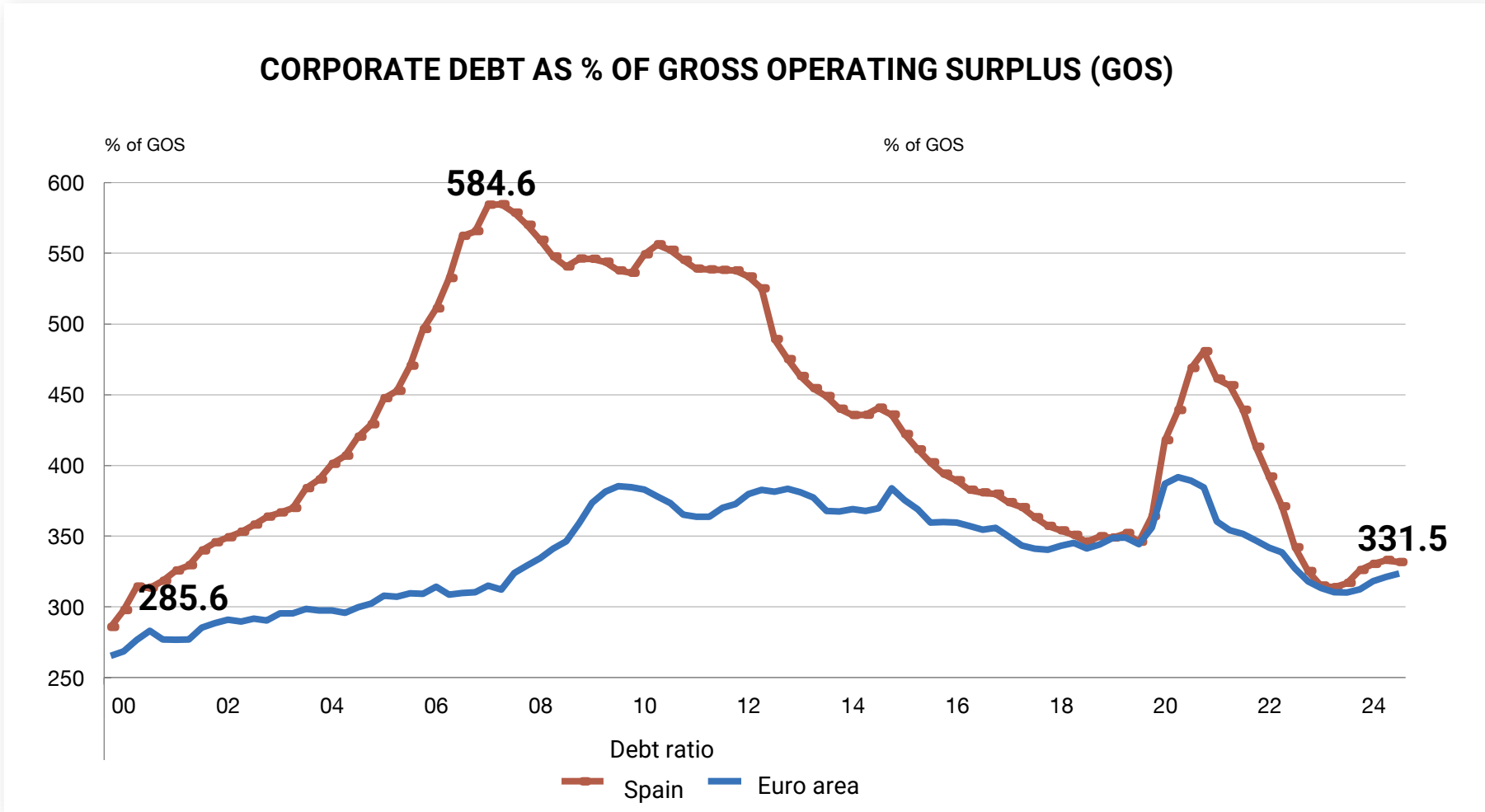
2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

NON-FINANCIAL CORPORATIONS HAVE STABILISED THEIR DEBT AND HAVE BEGUN TO REDUCE THEIR DEBT BURDEN.



The interest burden has been halved from 32.3% of GOS in 2007 to 14.8% at present.

SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2024 Q4.

SPANISH BANKS MAINTAIN A SOUND FINANCIAL POSITION, BASED ON HIGHER PROFITS AND EFFICIENCY AND IMPROVED CREDIT QUALITY

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

- **SOLVENCY:**
Their satisfactory capital and leverage ratios – above regulatory requirements – have been bolstered over the last year

- **CET1 capital ratio:** 13.5% (2024)
- **Leverage ratio:** 5.7% (2024)

- **LIQUIDITY:**
Amplly exceeds regulatory requirements

- **Short-term liquidity ratio:** 178.1 (2024)
- Long-term liquidity ratio: 132.9 (2024)
- In both cases they are higher than in the major European countries

- **CREDIT QUALITY:**
The weight of non-performing loans (NPL) continues to decline

- **NPL ratio:** 4.2% (firms and the self-employed), slightly higher than the European average, 2.6% (households), (2025 Q1)

- **PROFITABILITY:**
Has recovered in recent years to levels before the global financial crisis, following a long period of balance-sheet clean-up, underpinned by improved operational **efficiency**

- **Return on assets:** 0.93% (2024)
- **Cost-to-income ratio:** 42.3% (2024)
- Spanish banks' cost-to-income ratio in 2024 is 20 pp better than the weighted average of France, Germany, Italy and the Netherlands (62.4%)



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a. DEVELOPMENTS IN 2024
 - 2.b. BASELINE SCENARIO AND RISKS
 - 2.c. FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES**
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

MOST IMPORTANT FUTURE CHALLENGES FOR THE SPANISH ECONOMY

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

A. Public finances

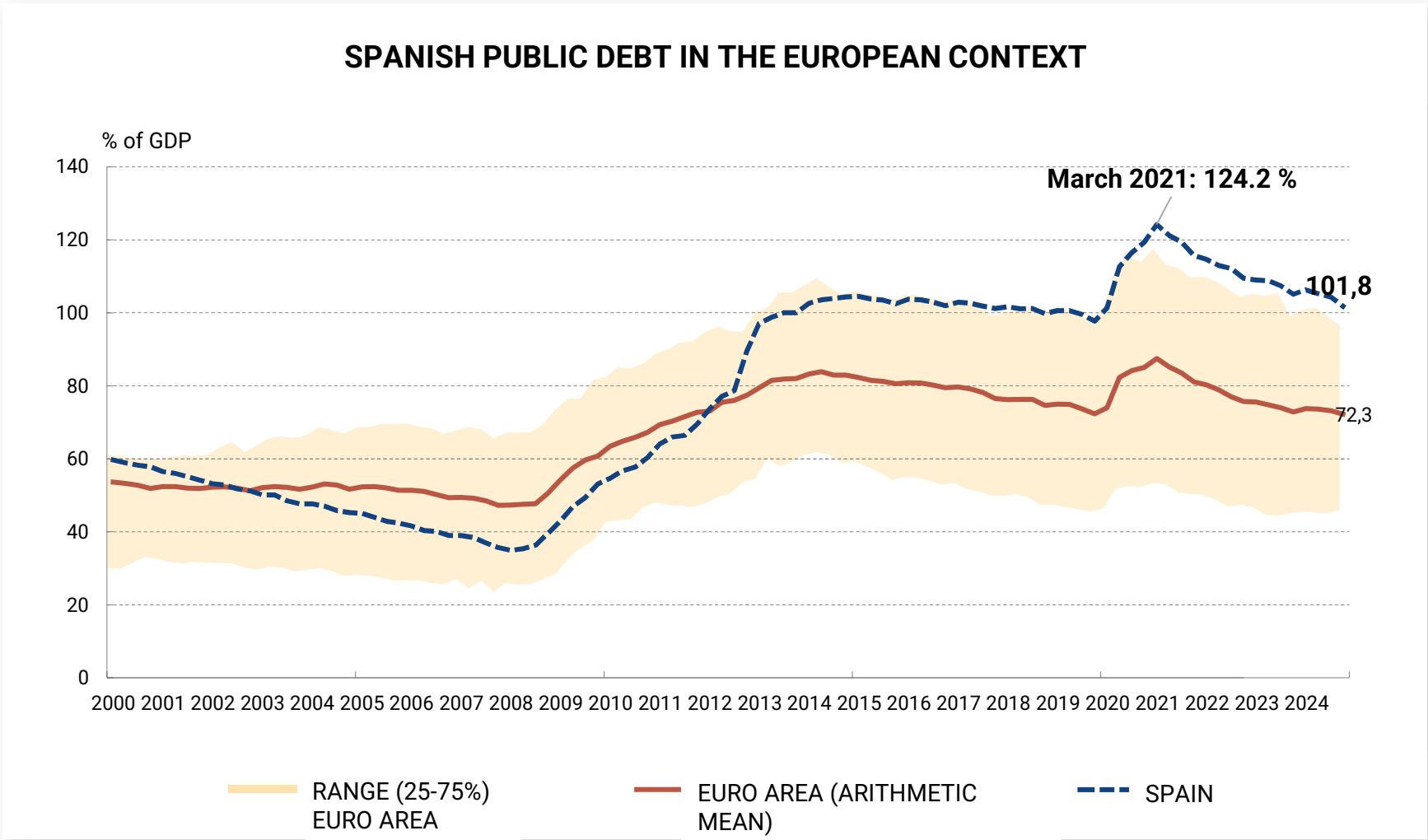
Spain has one of the highest debt ratios in the euro area which constrains its response to new shocks and requires a credible medium-term fiscal strategy

B. Labour market

C. Housing market

D. Productivity

PUBLIC DEBT REMAINS HIGH DESPITE ITS RECENT REDUCTION AND EXCEEDS THAT OF MOST EUROPEAN COUNTRIES



Source: Eurostat.

- Only four European countries have a higher public debt-to-GDP ratio than Spain
- The reduction in debt owes to strong nominal GDP growth and, to a lesser degree, to the reduction in the primary deficit.

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

THE REFORM OF THE FISCAL RULES FRAMEWORK SEEKS TO SIMPLIFY THE OBJECTIVES AND PUT FISCAL SUSTAINABILITY AND LONG-TERM GROWTH AT THE HEART OF THE DEBATE

What did the reform of the fiscal rules framework set out to achieve?	What is the outcome?
<ul style="list-style-type: none">Simplification of the framework, using an easily monitored single operational indicator of net expenditure growthFocus on debt sustainability, with country-specific analysisReforms and investments that drive medium and long-term growthFoster Member States' ownership	<ul style="list-style-type: none">Insufficient transparency regarding the methodology of the framework's main elementsInsufficient detail of the budgetary measures needed to achieve the objectives, which would enhance the framework's credibilityRevenue and expenditure cannot be forecast over a medium-term horizonThe effects on potential growth of the reforms and investments are not specified

The failure to bolster medium-term fiscal planning is a **missed opportunity** to strengthen public debt sustainability in the medium term.

MOST IMPORTANT FUTURE CHALLENGES FOR THE SPANISH ECONOMY

- 1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
- 2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
- 3-THE ROLE OF EUROPEAN POLICIES
- 4-THE BANCO DE ESPAÑA'S RESPONSE

A. Public finances

Spain has one of the highest debt ratios in the euro area which constrains its response to new shocks and requires a credible medium-term fiscal strategy

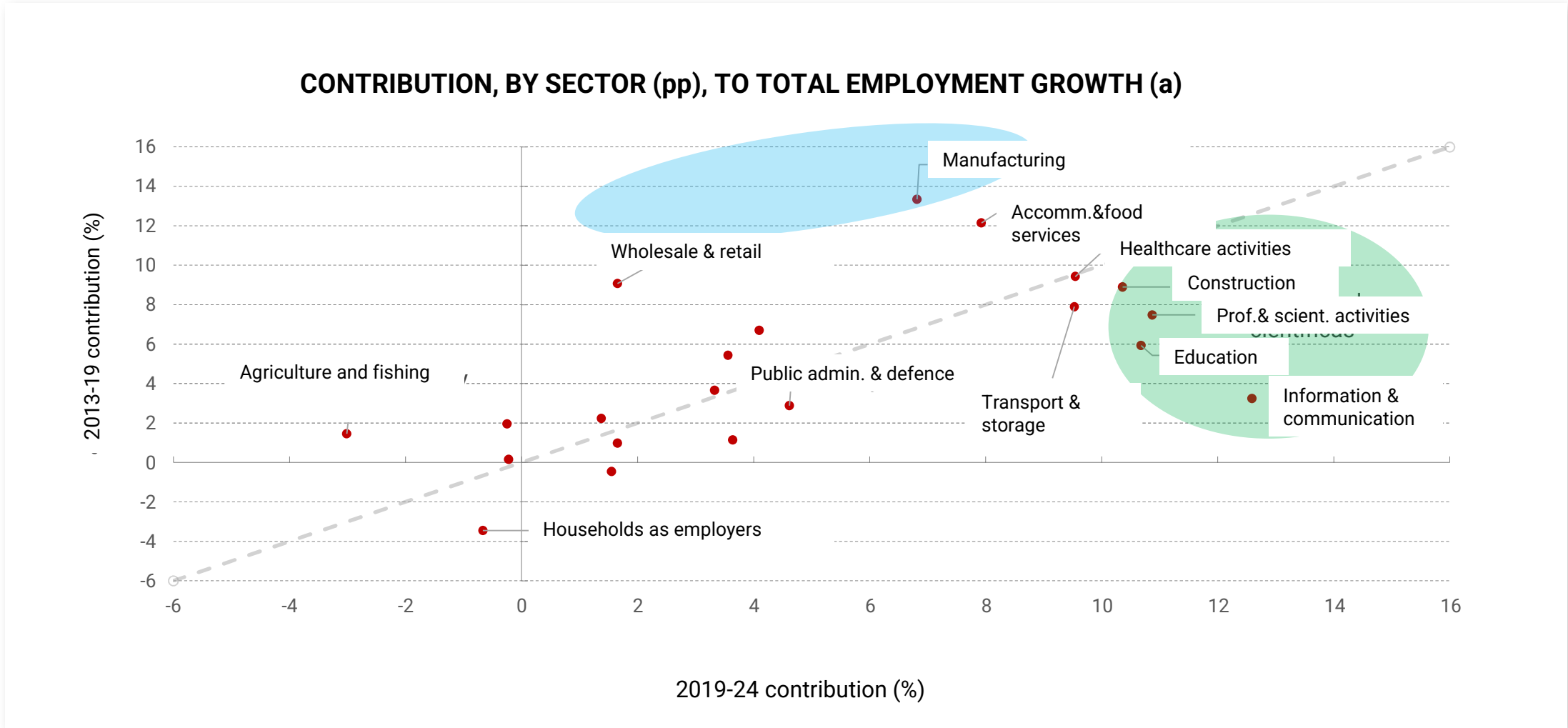
B. Labour market

Given the current setting of strong employment and population growth, steps should be taken to better adapt job-seekers' skills to those sought by companies

C. Housing market

D. Productivity

EMPLOYMENT IS GROWING IN SERVICES REQUIRING SPECIALISED SKILLS, SUCH AS PROFESSIONAL OR DIGITAL ACTIVITIES



Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. (a) Unadjusted series.

THE LABOUR MARKET CONTINUES TO FACE MAJOR STRUCTURAL CHALLENGES, WITH AN EMPLOYMENT RATE THAT IS STILL 4.2 PP LOWER THAN IN THE EURO AREA AS A WHOLE. THE UNEMPLOYMENT RATE IS DECLINING, ALBEIT AT A SLOWER PACE



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

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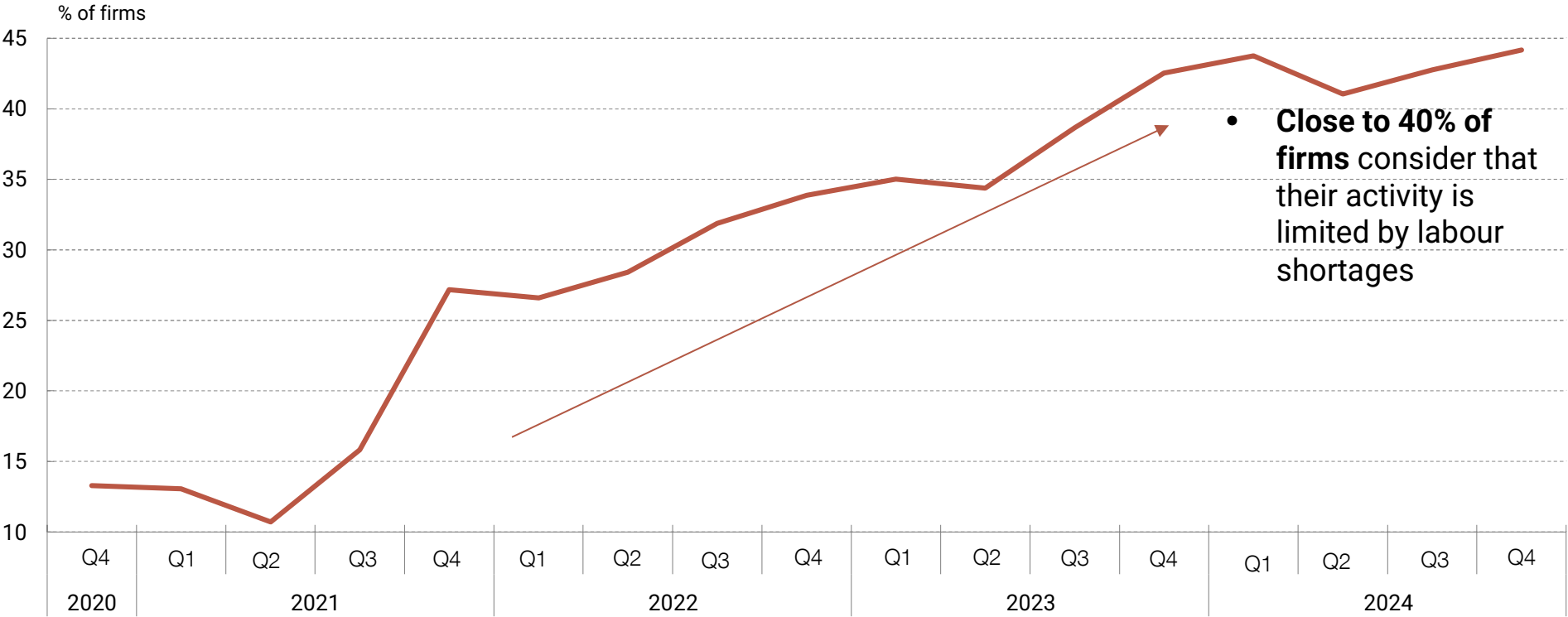
3-THE ROLE OF EUROPEAN POLICIES

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DESPITE THIS, THE LABOUR MARKET IS SHOWING SIGNS OF TIGHTENING

- 1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
- 2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
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FIRMS WHOSE ACTIVITY IS CONSTRAINED BY LABOUR SHORTAGES



Sources: Banco de España (EBAE).

THE WIDESPREAD INCREASE IN THE INCIDENCE OF SICK LEAVE IS PROVING COSTLY FOR FIRMS AND THE TAX SYSTEM

a. The incidence of temporary sick leave has risen by 1.7 pp, making Spain the EU country with the third highest percentage of workers on temporary sick leave

b. The causes are multidimensional: governance of the healthcare system, deterioration in health, cyclical position of the economy, etc.

c. It is estimated that the **direct cost for firms** has risen from around €2,840 million in 2019 to some **€4,613 million in 2024**

d. The cost of TSL payments has risen by 78.5% since 2019 and currently stands at just over €15 billion

1-A MORE
UNCERTAIN,
FRAGMENTED AND
VOLATILE
INTERNATIONAL
ENVIRONMENT

2-THE SPANISH
ECONOMY:
DEVELOPMENTS
AND OUTLOOK

2.a
DEVELOPMENTS
IN 2024

2.b BASELINE
SCENARIO AND
RISKS

2.c FINANCIAL
POSITION OF
HOUSEHOLDS,
FIRMS AND
BANKS

2.d MEDIUM-
TERM
STRUCTURAL
CHALLENGES

3-THE ROLE OF
EUROPEAN
POLICIES

4-THE BANCO DE
ESPAÑA'S
RESPONSE

MOST IMPORTANT FUTURE CHALLENGES FOR THE SPANISH ECONOMY

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

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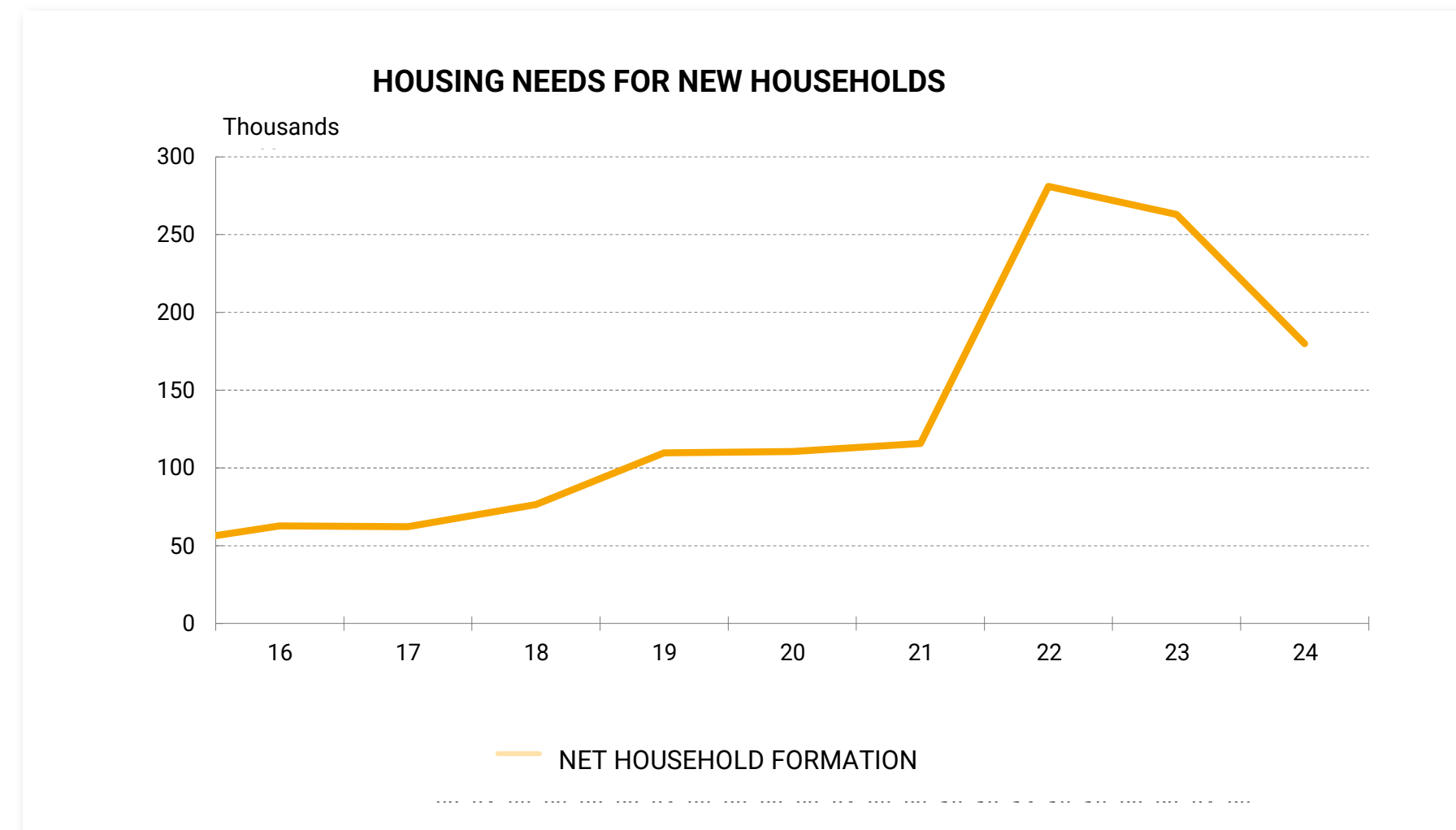
Given the current setting of strong employment and population growth, steps should be taken to better adapt job-seekers' skills to those sought by companies

C. Housing market

Housing stock shortages could create a bottleneck for the economy given the high pace of household formation

D. Productivity

STRONG DEMAND FOR HOUSING IN RECENT YEARS, DRIVEN BY POPULATION GROWTH...



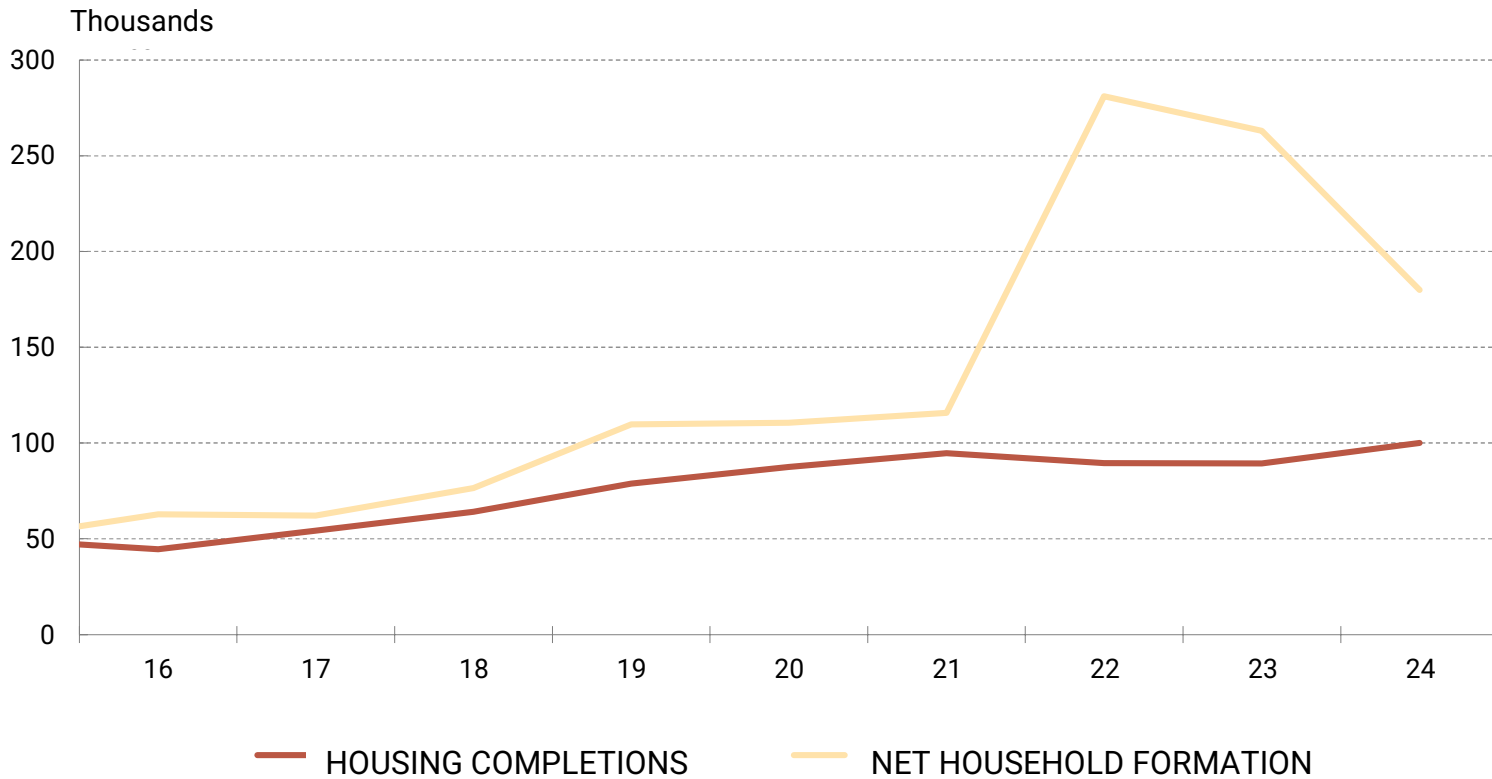
Recent demand factors:

- Population increase due to **migratory flows**
- **Smaller household size**
- Growing **concentration** of the population
- Demand from **non-resident foreign nationals**

Sources: Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible. For further details, see [Chapter 4 of the Banco de España Annual Report 2023](#).

...IN A RIGID HOUSING SUPPLY SETTING...

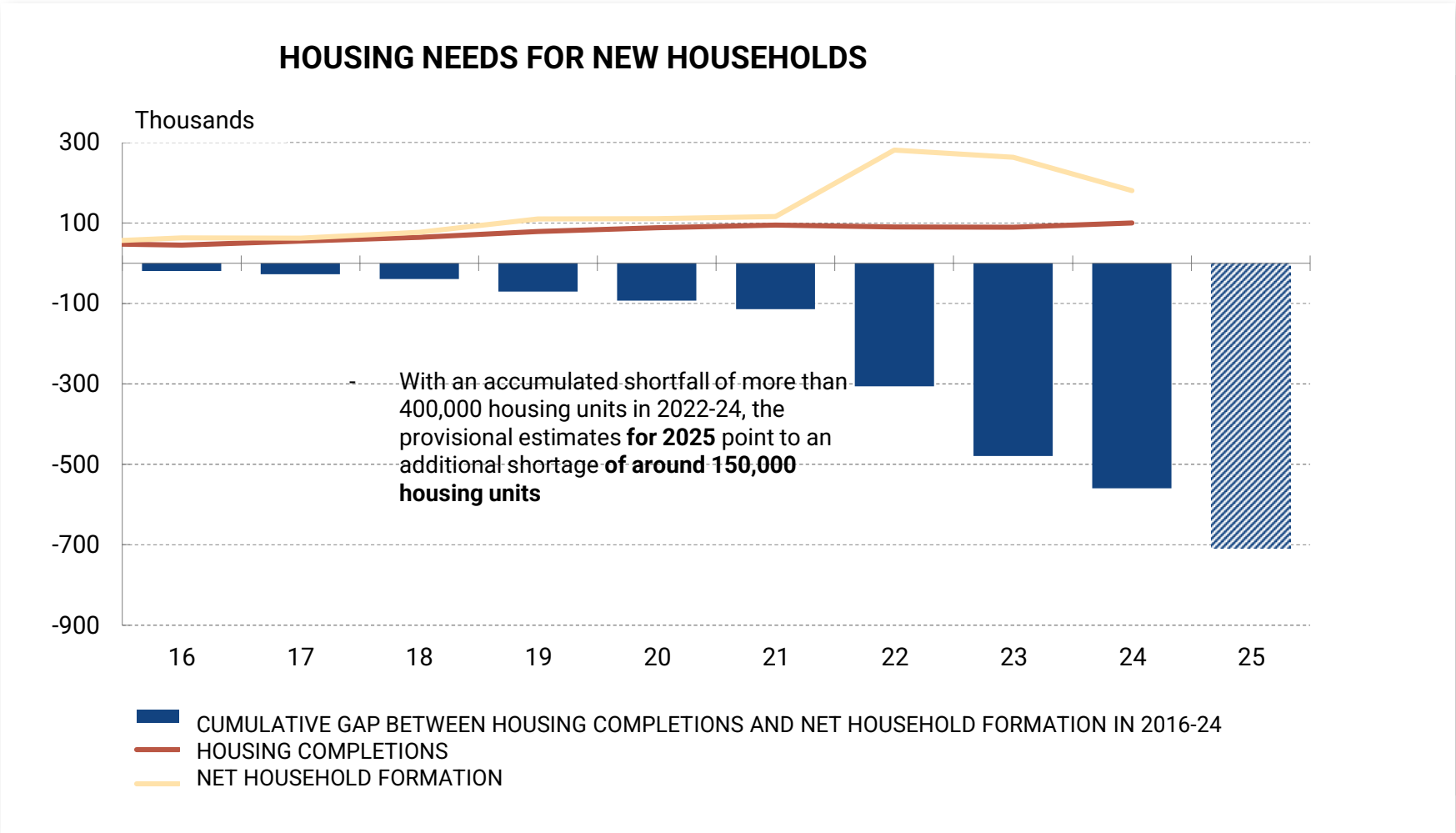
HOUSING NEEDS FOR NEW HOUSEHOLDS



- Recent **supply** factors:
- **Shortage of build-ready land**
 - **Labour shortages**
 - Regulatory **uncertainty** and lack of investment
 - Increase in supply of seasonal rentals

Sources: Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible. For further details, see [Chapter 4 of the Banco de España Annual Report 2023](#).

...HAS LED TO A SHORTFALL OF BETWEEN 400,000 AND 450,000 IN HOUSING COMPLETIONS RELATIVE TO HOUSEHOLD FORMATION IN 2022-24



- **Madrid, Barcelona, Valencia, Alicante and Malaga account for 50% of this gap**
- **This situation fuels the rise in house prices**
- **In real terms, current prices are similar to those in 2024**

Sources: Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible. For further details, see [Chapter 4 of the Banco de España Annual Report 2023](#).

ECONOMIC POLICY MEASURES THAT COULD HELP INCREASE HOUSING SUPPLY

a. Reducing administrative and regulatory frictions in the production of land for development and housing construction

b. Public and private sector collaboration to increase the stock of affordable rental housing

c. A stable regulatory and contractual framework to ensure legal certainty in the housing market

d. Lowering housing production costs by promoting industrialised construction

e. Designing new public insurance programmes and rental income compensation schemes for landlords

1-A MORE
UNCERTAIN,
FRAGMENTED AND
VOLATILE
INTERNATIONAL
ENVIRONMENT

2-THE SPANISH
ECONOMY:
DEVELOPMENTS
AND OUTLOOK

2.a
DEVELOPMENTS
IN 2024

2.b BASELINE
SCENARIO AND
RISKS

2.c FINANCIAL
POSITION OF
HOUSEHOLDS,
FIRMS AND
BANKS

2.d MEDIUM-
TERM
STRUCTURAL
CHALLENGES

3-THE ROLE OF
EUROPEAN
POLICIES

4-THE BANCO DE
ESPAÑA'S
RESPONSE

MOST IMPORTANT FUTURE CHALLENGES FOR THE SPANISH ECONOMY

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

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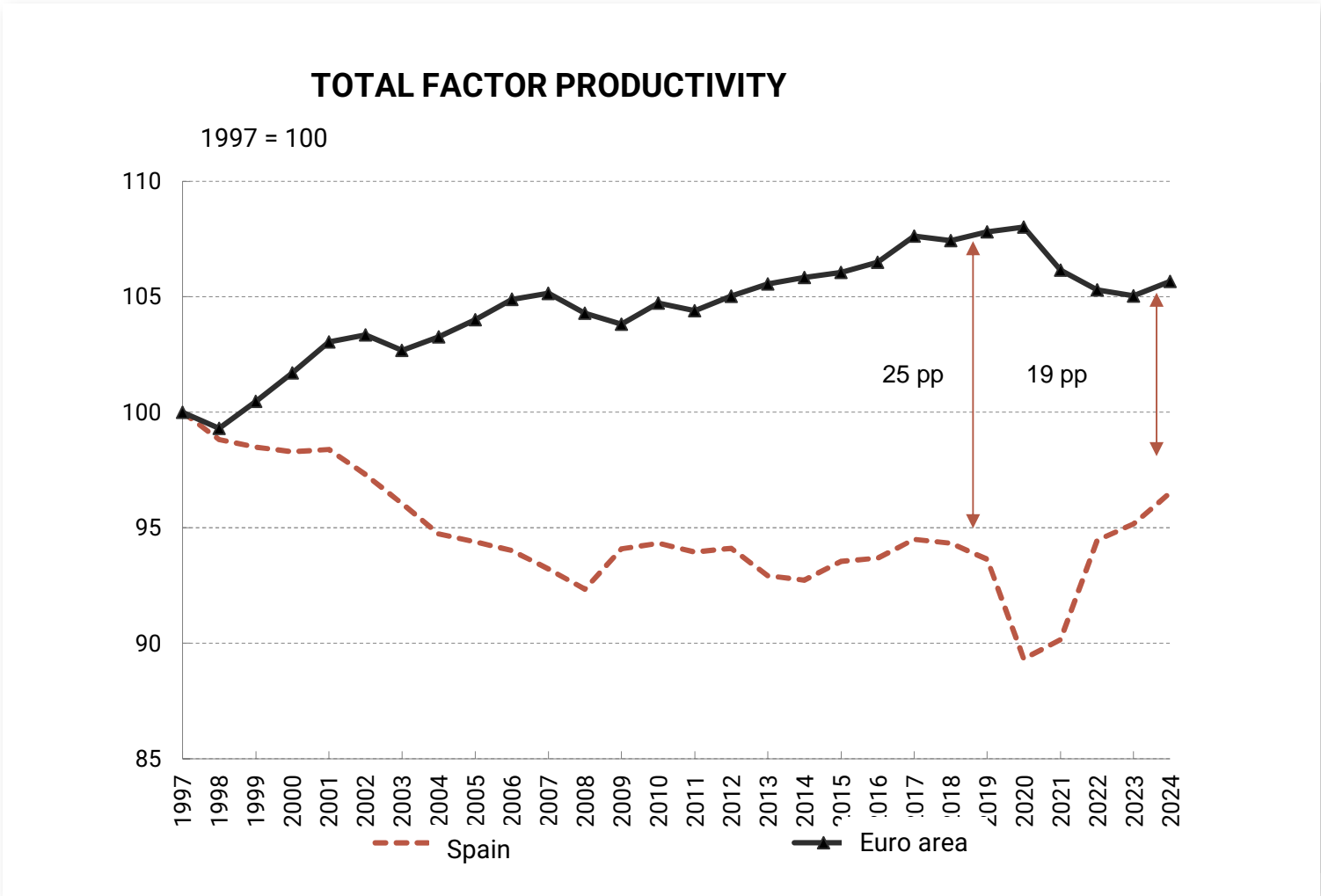
C. Housing market

Housing stock shortages could create a bottleneck for the economy given the high pace of household formation

D. Productivity

Spain's significant productivity gap has built up over the past two decades. Narrowing it requires resolute policies

PRODUCTIVITY HAS IMPROVED IN RELATIVE TERMS SINCE THE PANDEMIC, FOLLOWING THE BUILD-UP OF A SIGNIFICANT GAP IN PREVIOUS YEARS



This improvement has been observed across several productivity measures

- Since 2020, **productivity per hour** worked in Spain has increased by an annual average of:
 - Spain: +1.2 %,
 - Euro area: 0.1%
- **Productivity of capital:**
 - Spain: +0.9%
 - Euro area: -0.4%

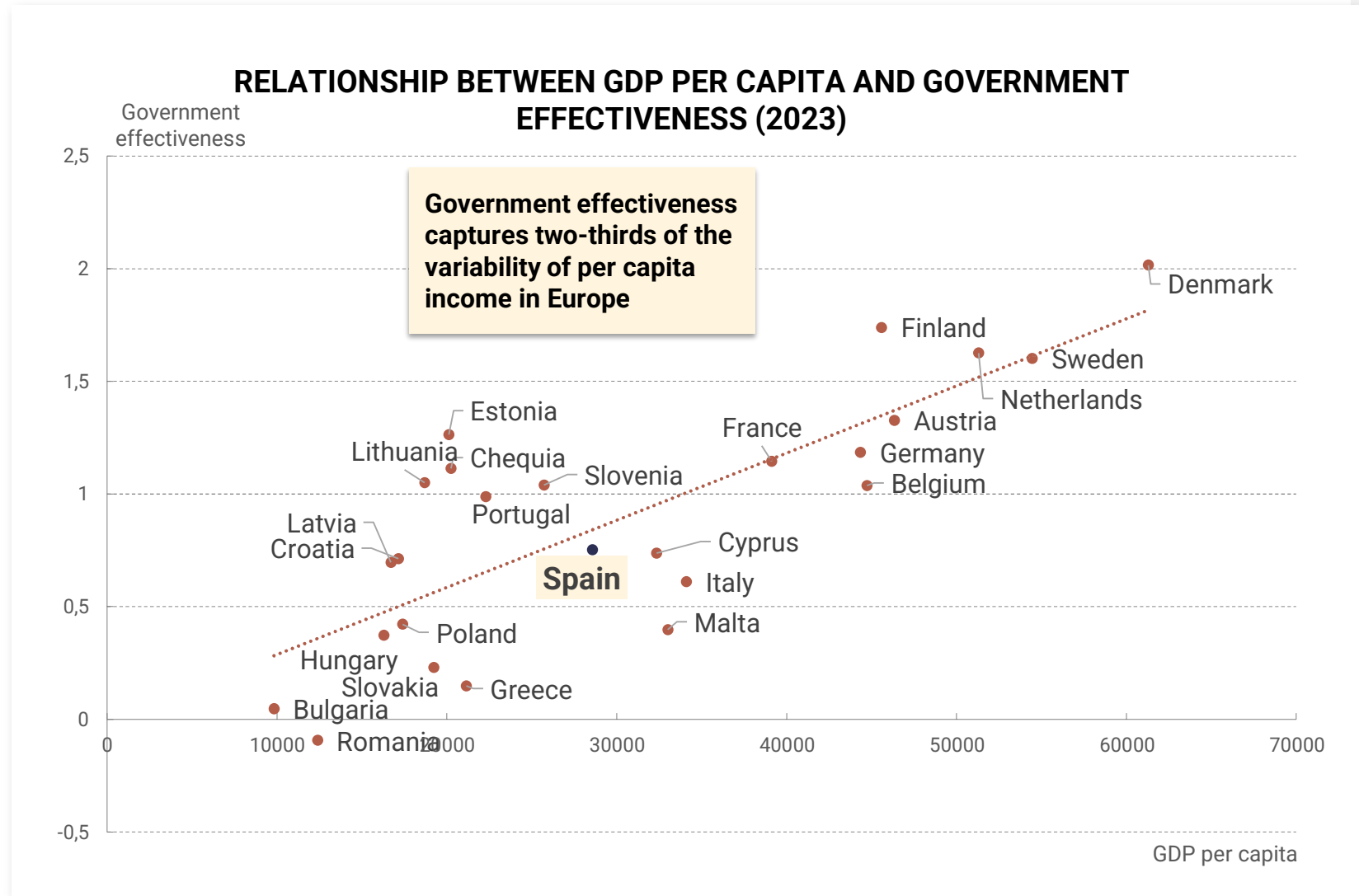
Source: Comin, Quintana, Schmitz and Trigari (2025). (a) Average for the four largest economies

THERE ARE MANY FACTORS BEHIND THE CHALLENGE OF LOW PRODUCTIVITY. LET'S TAKE A CLOSER LOOK AT TWO IN PARTICULAR.



- 1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
- 2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
- 3-THE ROLE OF EUROPEAN POLICIES
- 4-THE BANCO DE ESPAÑA'S RESPONSE

THERE IS A STRONG POSITIVE RELATIONSHIP BETWEEN GOVERNMENT EFFECTIVENESS AND PRODUCTIVITY

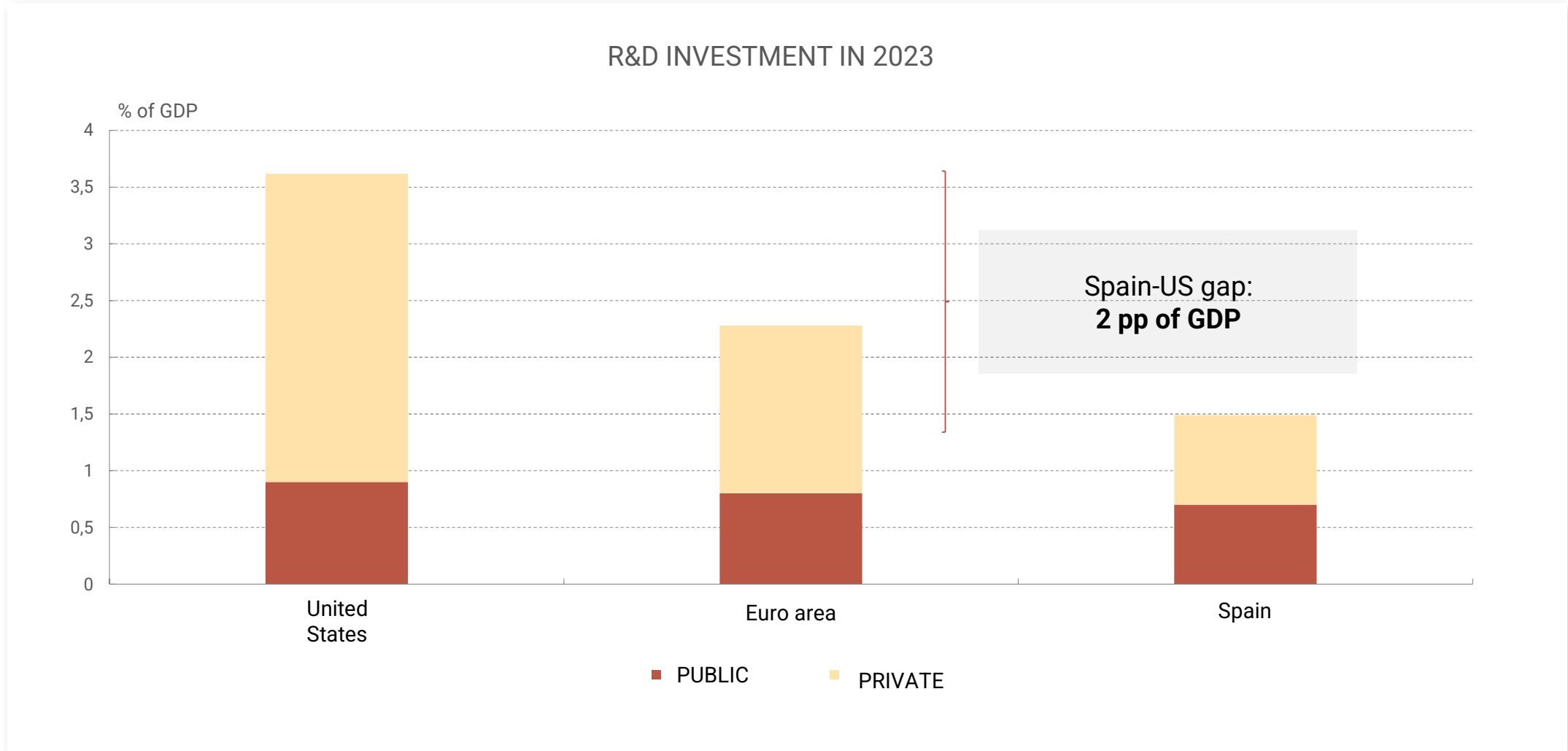


Source: World Bank.

Government effectiveness is a multifaceted concept that comprises, among others:

- 1. The governance framework of the different tiers of government**
- 2. The quality of the regulatory framework:** Banco de España studies indicate that the three tiers of government produce 12,000 rules and regulations a year.
- 3. The capacity of agencies and institutions to function with the desirable independence and flexibility**

NARROWING THE PRODUCTIVITY GAP REQUIRES MORE PRIVATE INVESTMENT IN INNOVATION AND BETTER KNOWLEDGE TRANSFER



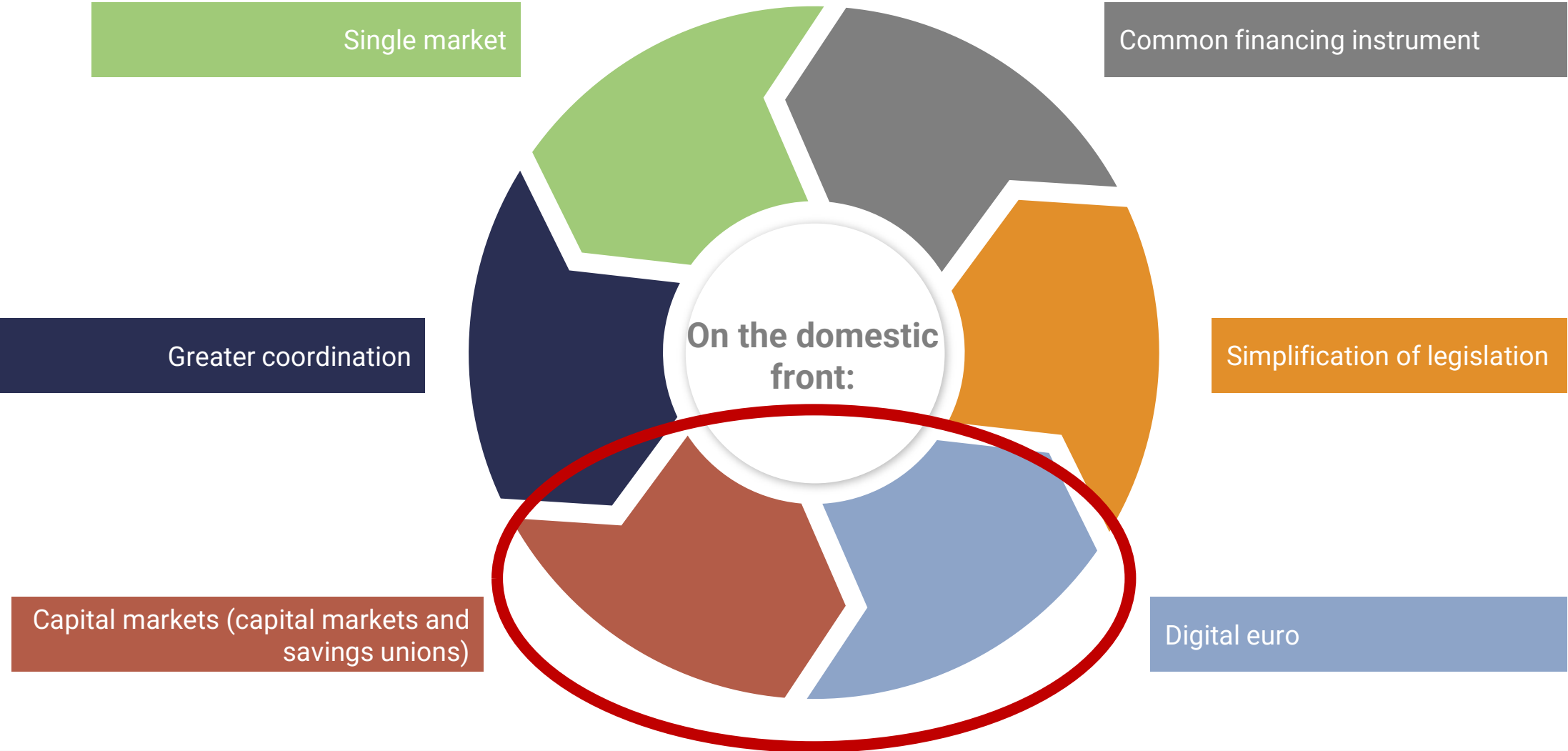
Sources: Eurostat and Bureau of Economic Analysis.



CONTENTS

1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024 AND IMMEDIATE OUTLOOK
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. THE BANCO DE ESPAÑA'S RESPONSE

EUROPEAN POLICIES SHOULD BOLSTER THE UNITY OF THE EUROPEAN PROJECT AND COMPETITIVENESS



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

1-A MORE
UNCERTAIN,
FRAGMENTED AND
VOLATILE
INTERNATIONAL
ENVIRONMENT

2-THE SPANISH
ECONOMY:
DEVELOPMENTS
AND OUTLOOK

2.a
DEVELOPMENTS
IN 2024

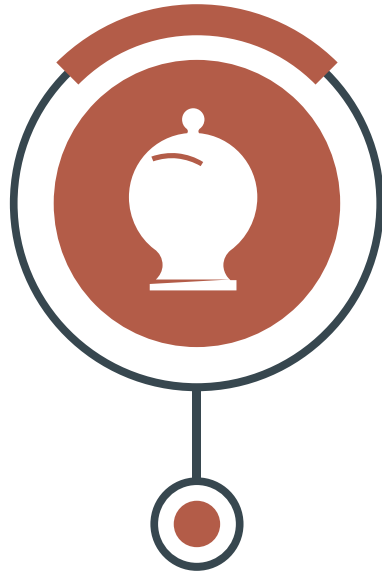
2.b BASELINE
SCENARIO AND
RISKS

2.c FINANCIAL
POSITION OF
HOUSEHOLDS,
FIRMS AND
BANKS

2.d MEDIUM-
TERM
STRUCTURAL
CHALLENGES

3-THE ROLE OF
EUROPEAN
POLICIES

4-THE BANCO DE
ESPAÑA'S
RESPONSE

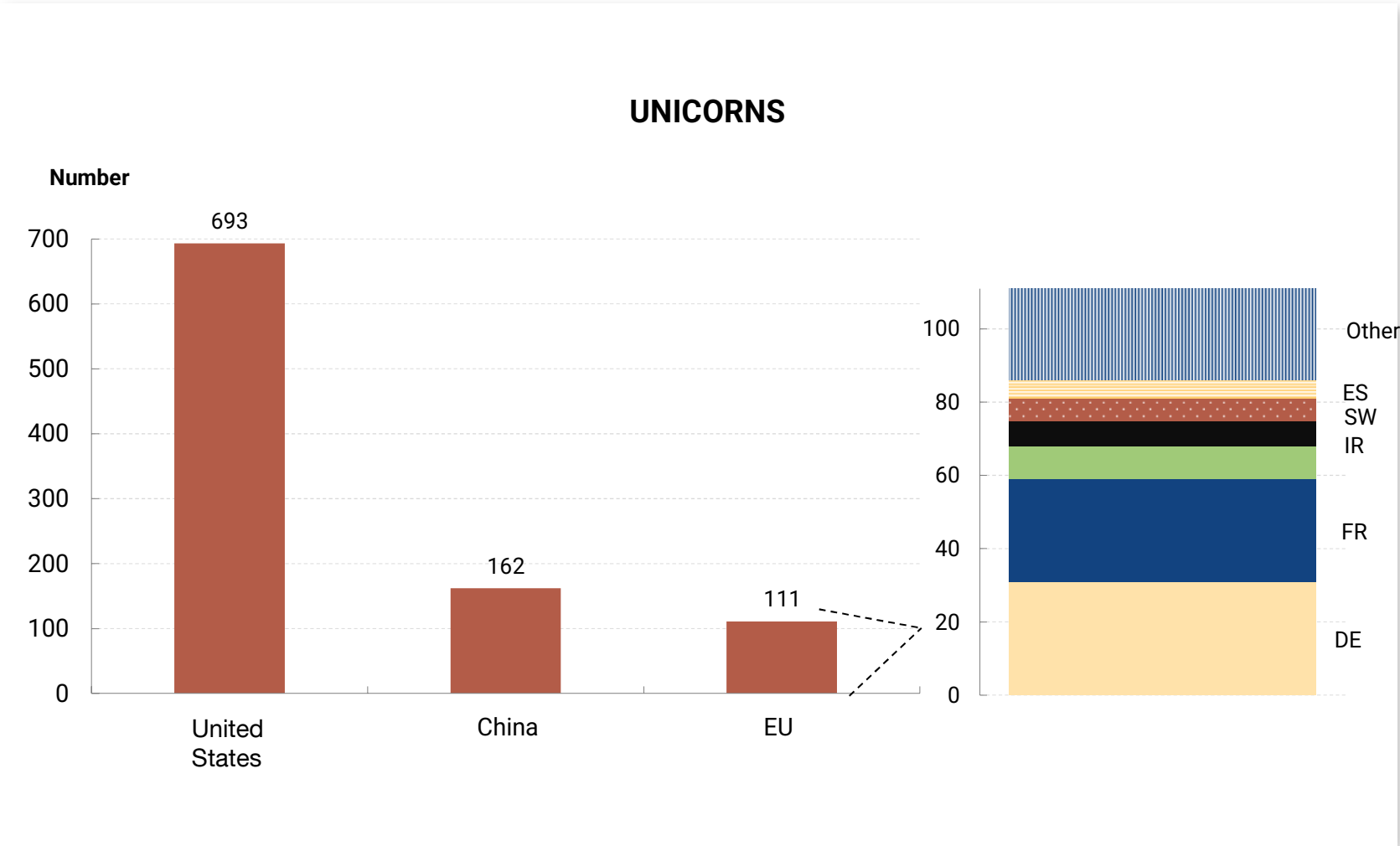


Capital markets
and savings
unions



Digital
euro

THE GAP IN HIGH-GROWTH TECH FIRMS HIGHLIGHTS THE NEED TO MAKE HEADWAY WITH THE CAPITAL MARKETS UNION

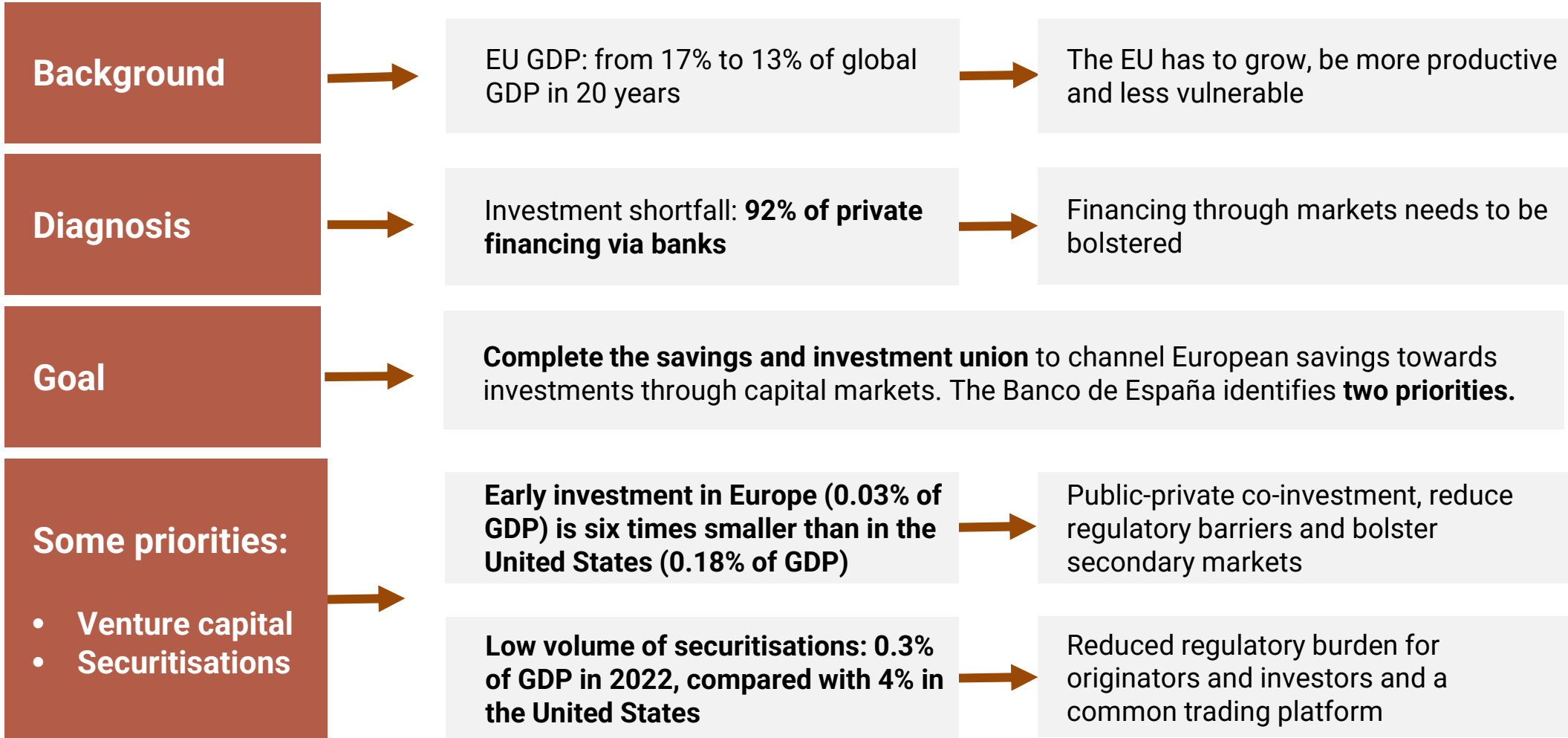


There are six times fewer unicorns in the EU than in the United States

A unicorn is an unlisted start-up with a valuation exceeding \$1 billion

Source: CBI Insights. Latest observation: December 2024.

THE SAVINGS AND INVESTMENT UNION IS A STRATEGIC AREA TO MOBILISE PRIVATE INVESTMENT IN EUROPE



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

1-A MORE
UNCERTAIN,
FRAGMENTED AND
VOLATILE
INTERNATIONAL
ENVIRONMENT

2-THE SPANISH
ECONOMY:
DEVELOPMENTS
AND OUTLOOK

2.a
DEVELOPMENTS
IN 2024

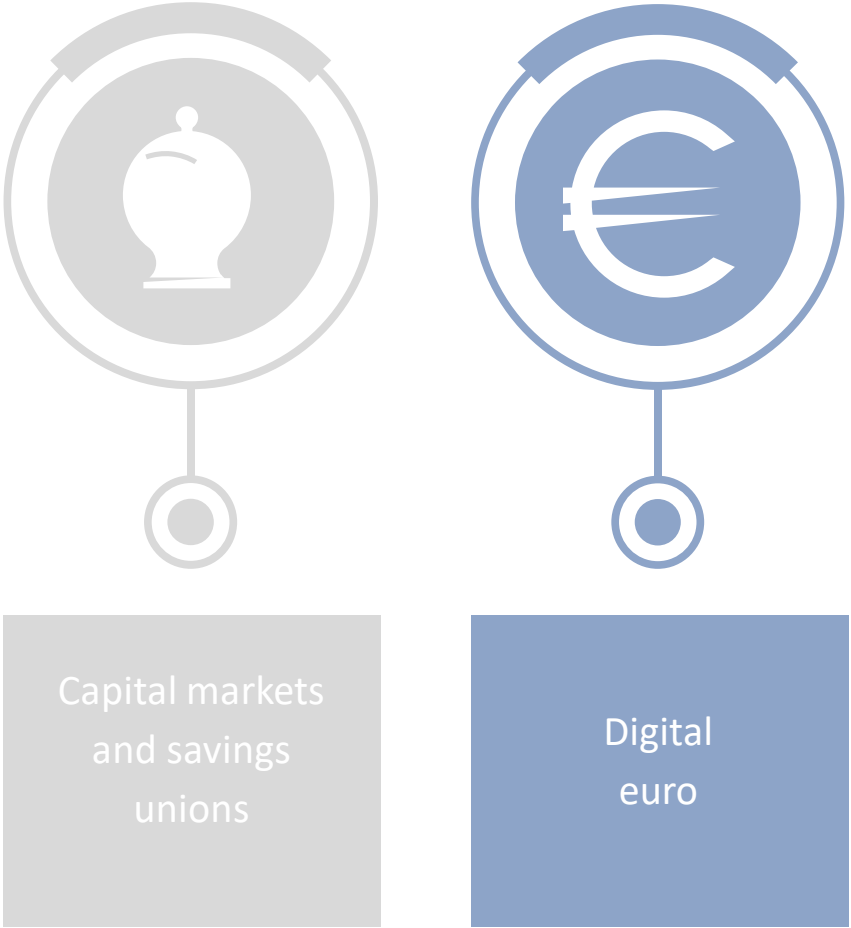
2.b BASELINE
SCENARIO AND
RISKS

2.c FINANCIAL
POSITION OF
HOUSEHOLDS,
FIRMS AND
BANKS

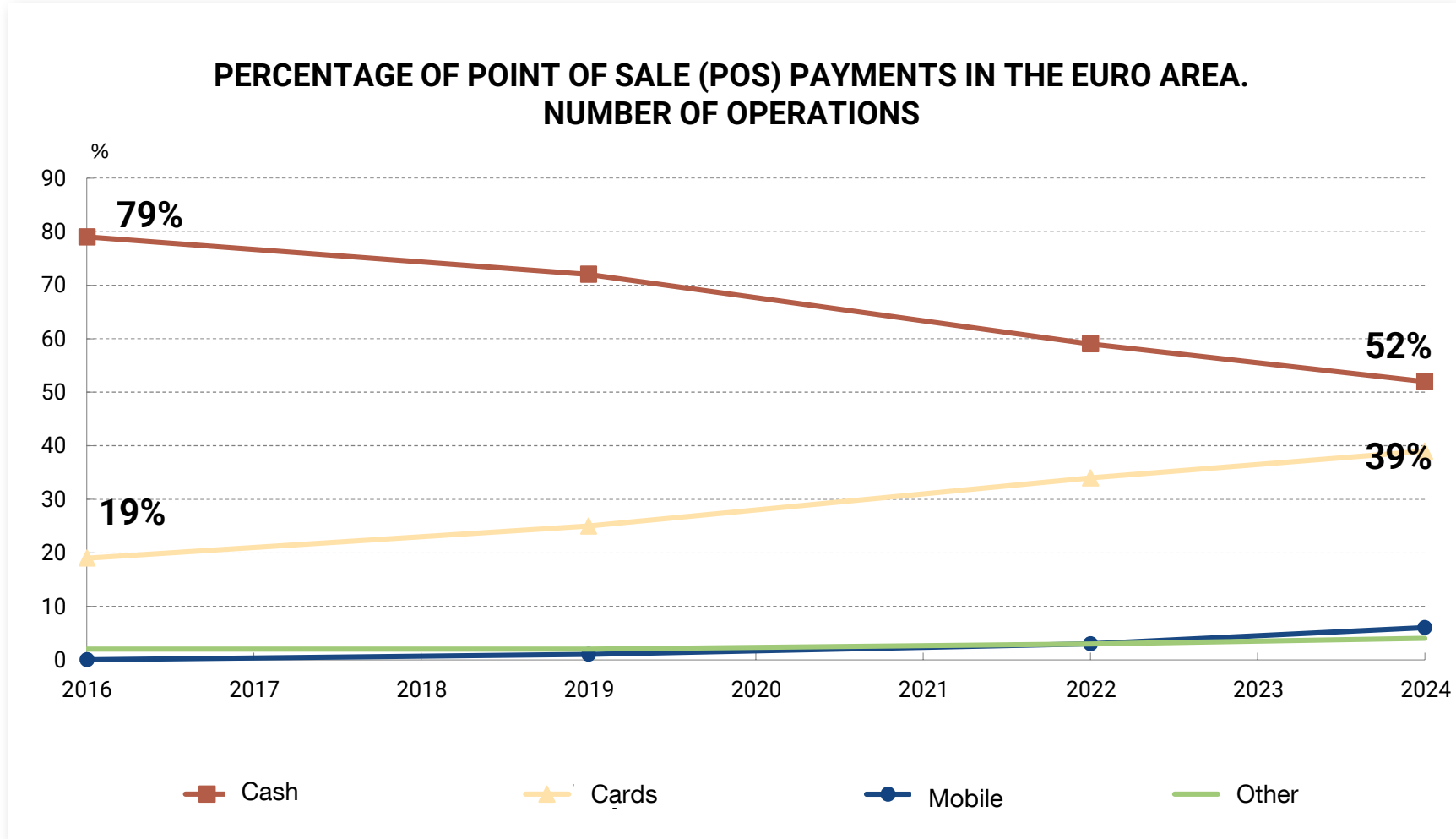
2.d MEDIUM-
TERM
STRUCTURAL
CHALLENGES

3-THE ROLE OF
EUROPEAN
POLICIES

4-THE BANCO DE
ESPAÑA'S
RESPONSE



THE DECLINE IN THE USE OF CASH CAN ERODE CONFIDENCE IN THE PAYMENTS ECOSYSTEM AND EXACERBATE THE EURO AREA’S STRATEGIC DEPENDENCE
























- The use of cash in POS payments has decreased by more than one-third over the last eight years
- In parallel, the relative share of card payments has doubled in the same period

Source: ECB.



THE DIGITAL EURO ASPIRES TO BE A PUBLIC, ACCESSIBLE AND RESILIENT ALTERNATIVE IN THE NEW PAYMENTS ECOSYSTEM

	CASH		NATIONAL PAYMENT FRAMEWORKS (CARDS OR DEBIT ENTRIES)		INTERNATIONAL PAYMENT FRAMEWORKS (CARDS OR DEBIT ENTRIES)		DIGITAL EURO	
	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area
Person-to-person (P2P)	 *	 *	Some					
POS			Some		 **	 **		
Online			Some		 **	 **		
* Exclusively for proximity payments (except delivery by mail)								
** Where accepted								



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE



CONTENTS

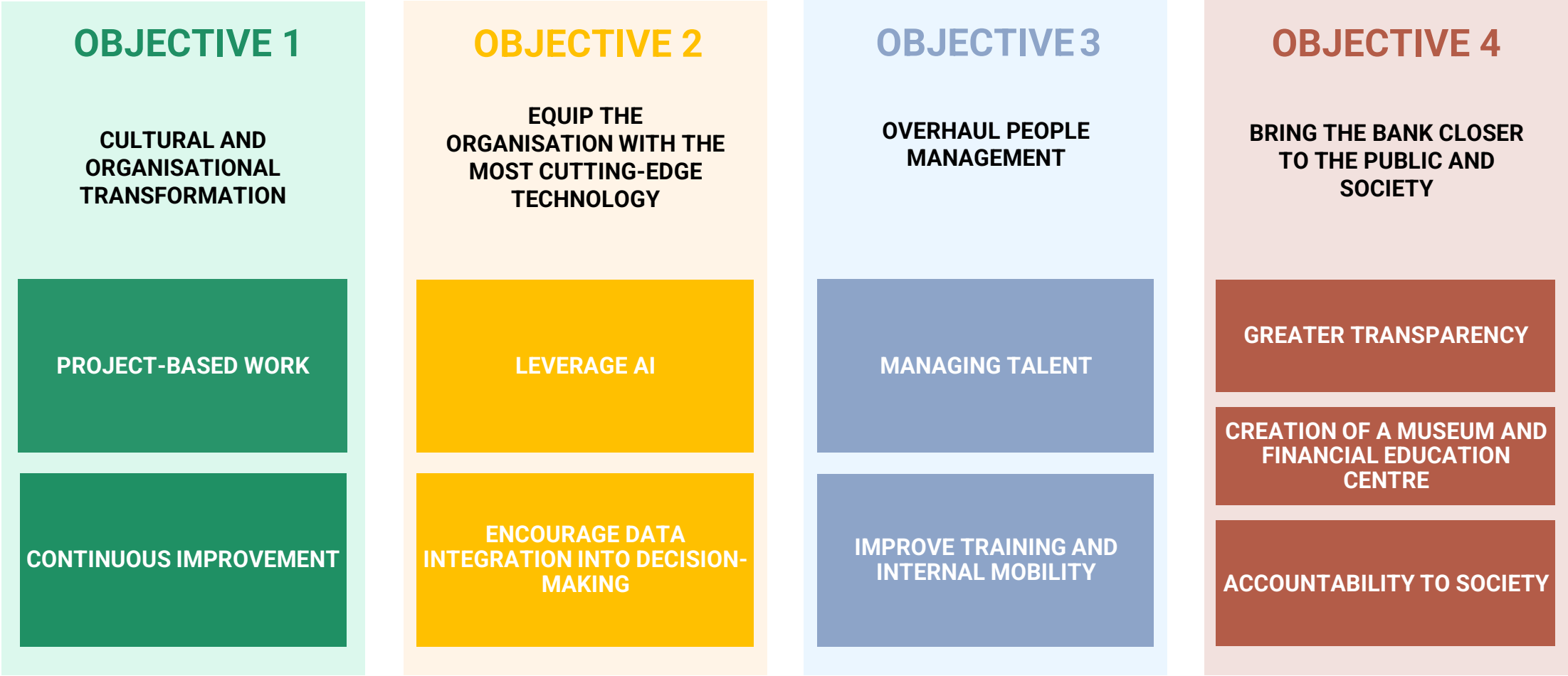
1. A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT
2. THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK
 - 2.a DEVELOPMENTS IN 2024 AND IMMEDIATE OUTLOOK
 - 2.b BASELINE SCENARIO AND RISKS
 - 2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS
 - 2.d MEDIUM-TERM STRUCTURAL CHALLENGES
3. THE ROLE OF EUROPEAN POLICIES
4. **THE BANCO DE ESPAÑA'S RESPONSE**

THE BANCO DE ESPAÑA HAS BOOSTED ITS CAPABILITIES TO ANTICIPATE POSSIBLE RISKS AND ADAPT ITS TOOLS TO GREATER STRUCTURAL COMPLEXITY

1	Digital euro <ul style="list-style-type: none">Active participation in Eurosystem work to develop the digital euro
2	Strengthen analytical capabilities <ul style="list-style-type: none">Boost to work streams on productivity, the labour market, housing and institutional qualityIncorporation of new tools for economic analysis and monitoring medium-term challenges
3	Risk analysis and monitoring <ul style="list-style-type: none">Advanced modelling of risks and alternative scenariosMonitoring of high frequency indicators and incorporation of market intelligence analysisReal-time assessment of disruptions
4	Financial stability and macroprudential measures <ul style="list-style-type: none">Activation of the second phase of the countercyclical capital buffer in March 2025Assessment of borrower-based measures to prevent the build-up of risk
5	Organisational transformation of the Banco de España <ul style="list-style-type: none">Cross-cutting working groupsAlignment with priorities in the Strategic Plan

TO STRENGTHEN THESE FUNCTIONS, A NEW STRATEGIC PLAN AIMED AT THE BANK’S ORGANISATIONAL AND TECHNOLOGICAL TRANSFORMATION HAS BEEN LAUNCHED

Four objectives and 17 initiatives



1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA’S RESPONSE

Thank you very much
