

CERCLE D'ECONOMIA

THE SPANISH ECONOMY IN AN UNCERTAIN INTERNATIONAL ENVIRONMENT*

*English translation of the original in Spanish

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GOVERNOR

BARCELONA
20 FEBRUARY 2025



THE GLOBAL ECONOMY IS FACING A SCENARIO FRAUGHT WITH RISK...

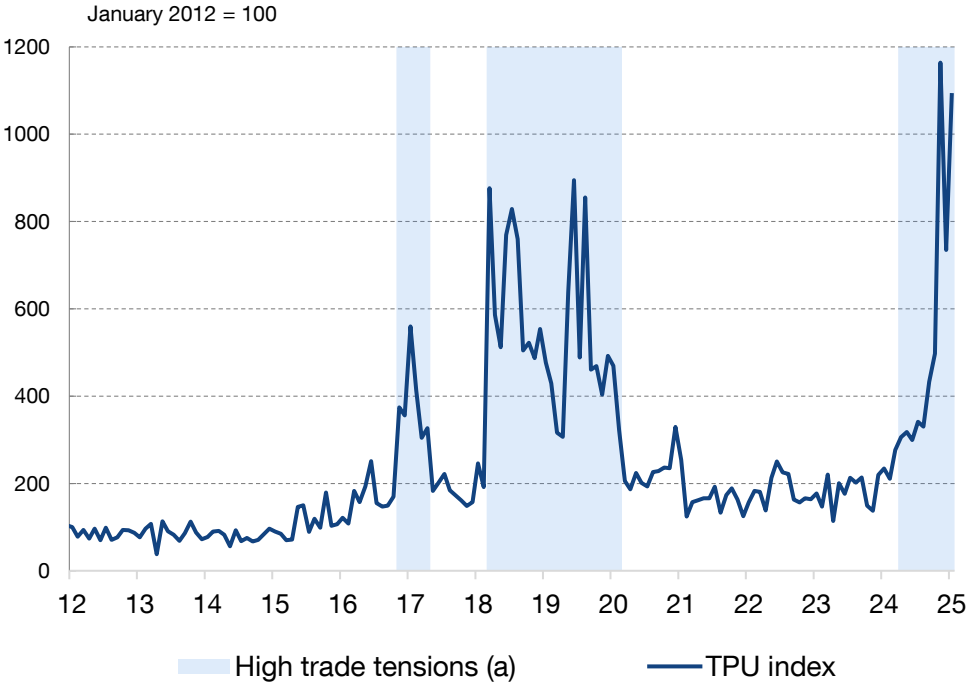


High uncertainty and political tensions

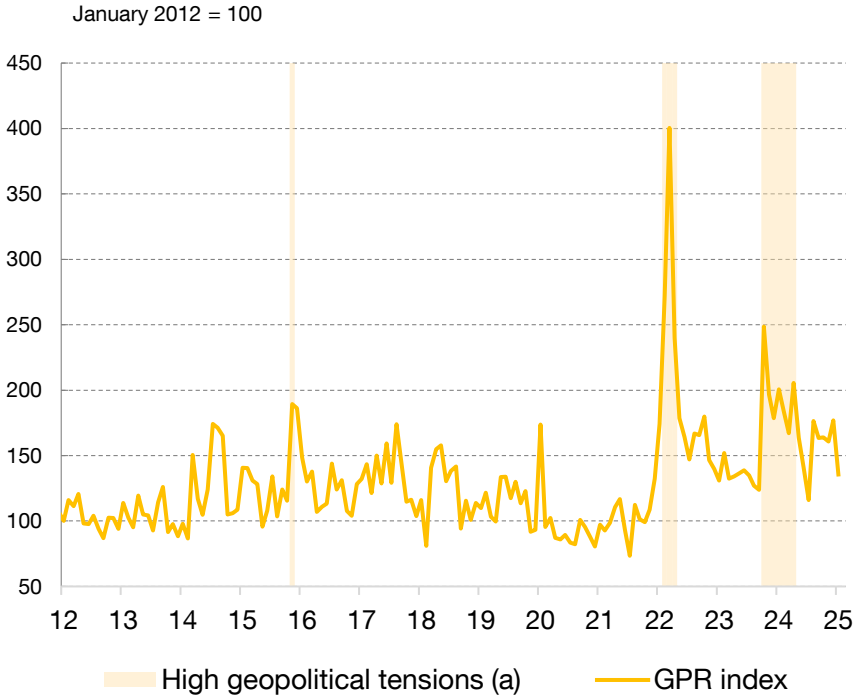


THE HEIGHTENING OF TRADE AND GEOPOLITICAL TENSIONS IN RECENT DECADES IS UNPRECEDENTED

TRADE POLICY UNCERTAINTY INDEX



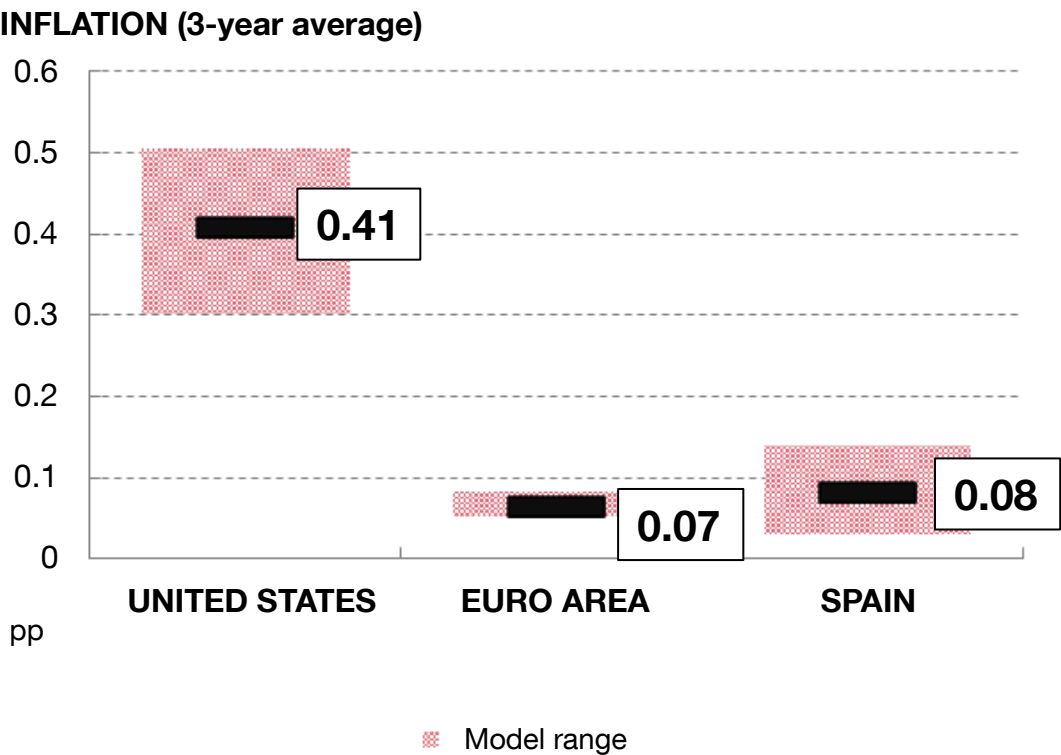
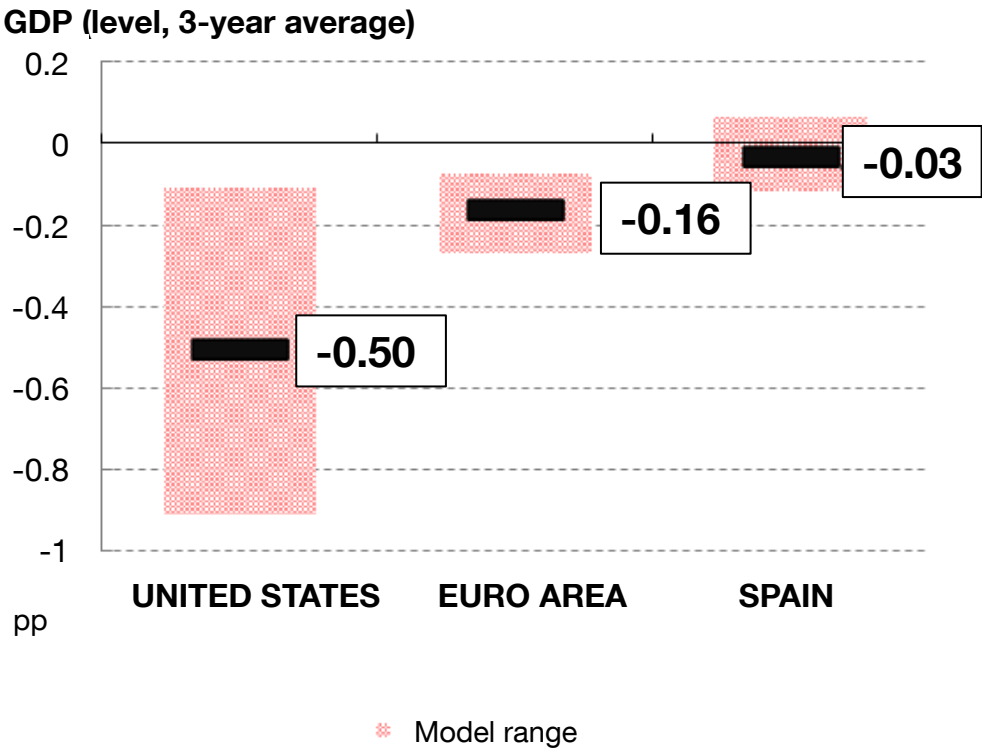
GEOPOLITICAL RISK INDEX



Source: GPR index: Caldara and Iacoviello (2022) and TPU index: Baker, Bloom and Davis (2016)
(a) Normalised indices (1 Jan 2012 = 100). Blue (TPU index) and yellow (GPR index) bands are used to show periods in which the level of the index exceeds its historical mean by more than one standard deviation (Jan- 1985 - Feb- 2025). Latest data: February 2025.

IN SPAIN THE ADVERSE IMPACT OF THE NEW US TARIFFS WOULD BE LIMITED AND LOWER THAN FOR ITS NEIGHBOURING COUNTRIES BECAUSE OF ITS LOW TRADE EXPOSURE

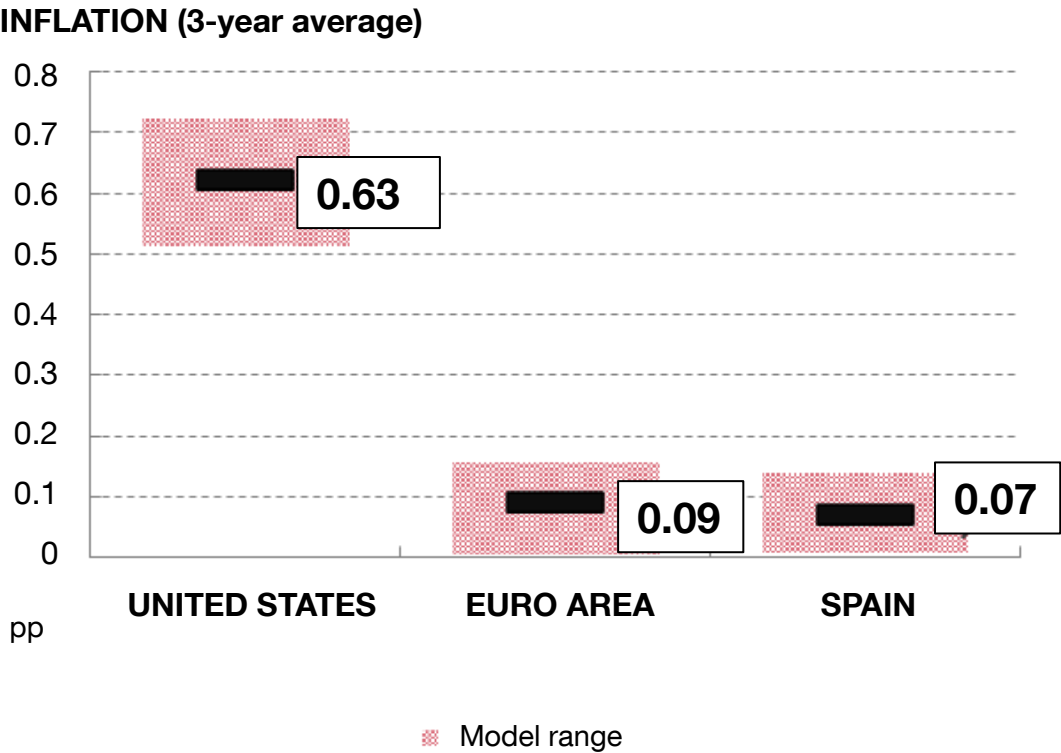
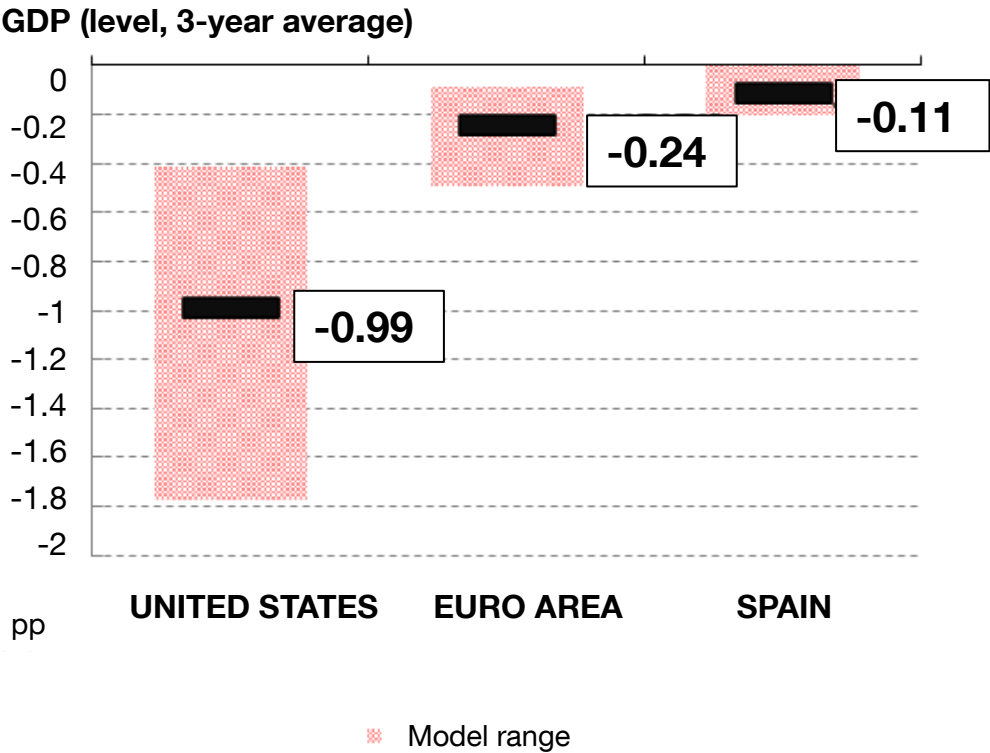
IMPACT OF A 10% TARIFF ON ALL IMPORTS TO THE UNITED STATES



Source: Banco de España.
Unit of measurement: percentage point deviation from the level.

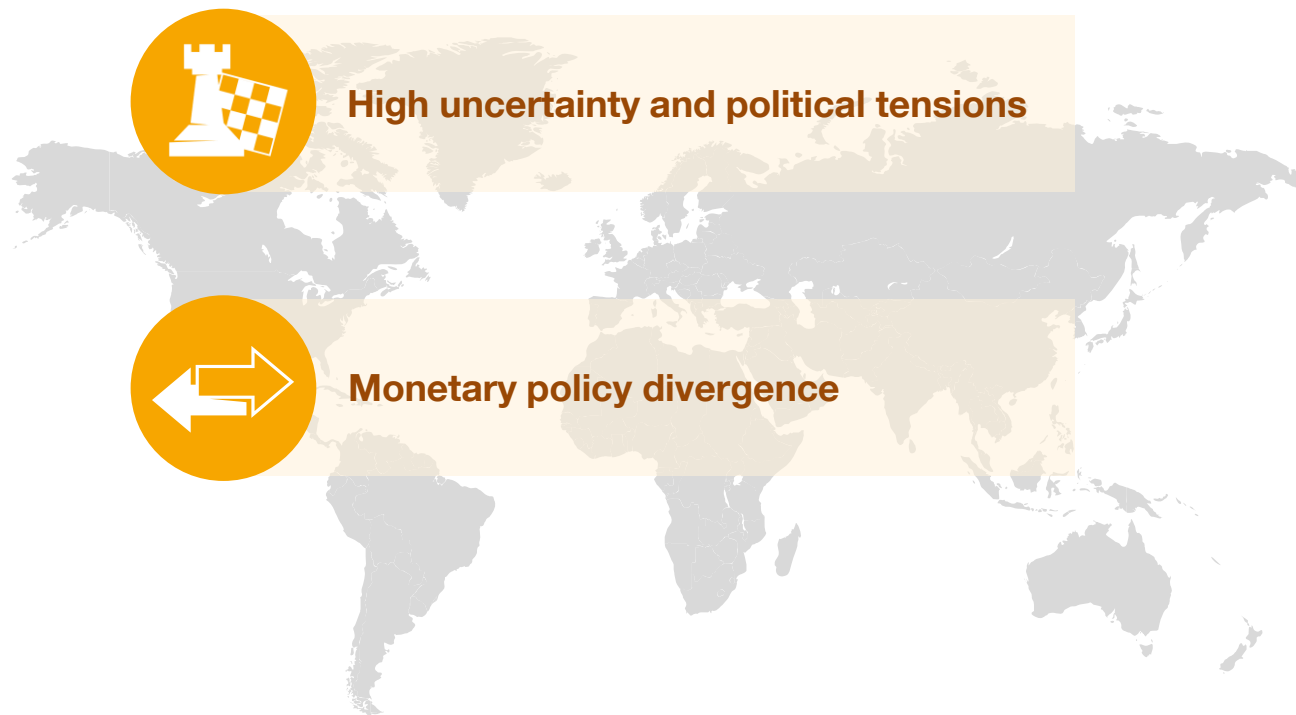
THE IMPACT WOULD BE GREATER IF RETALIATORY MEASURES ARE TAKEN

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

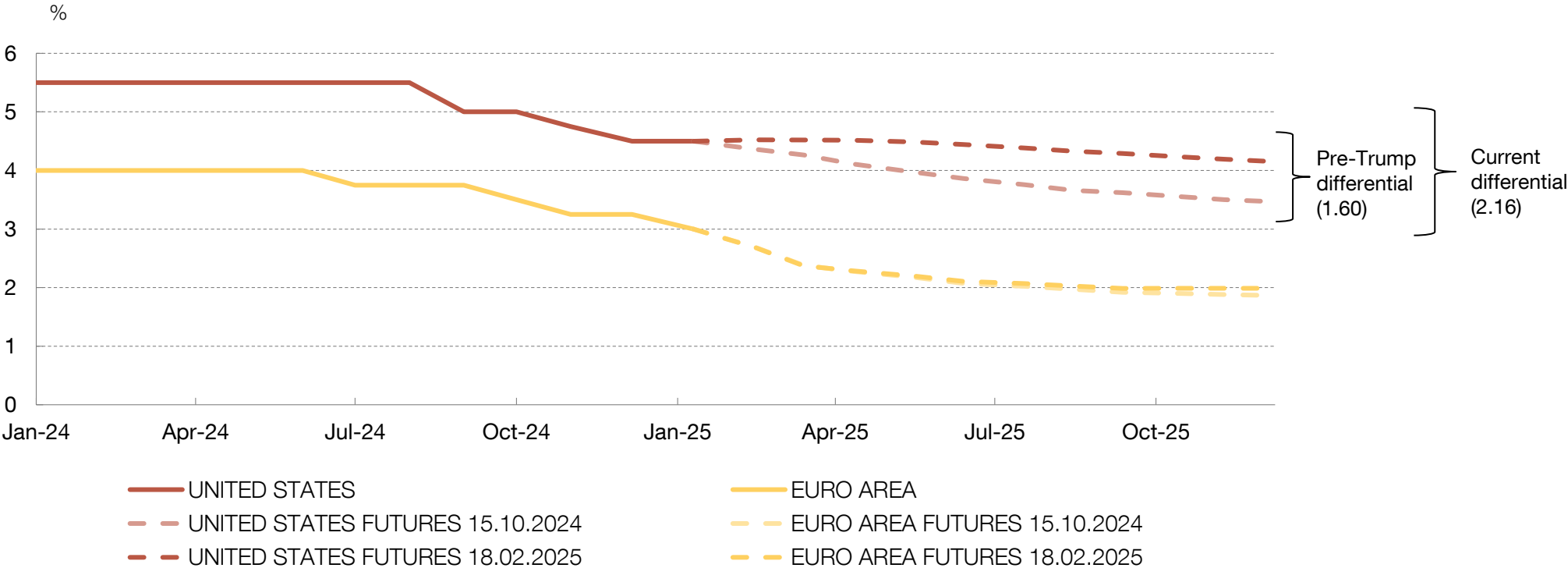


Source: Banco de España.
Unit of measurement: percentage point deviation from the level.

THE GLOBAL ECONOMY IS FACING A SCENARIO FRAUGHT WITH RISK...



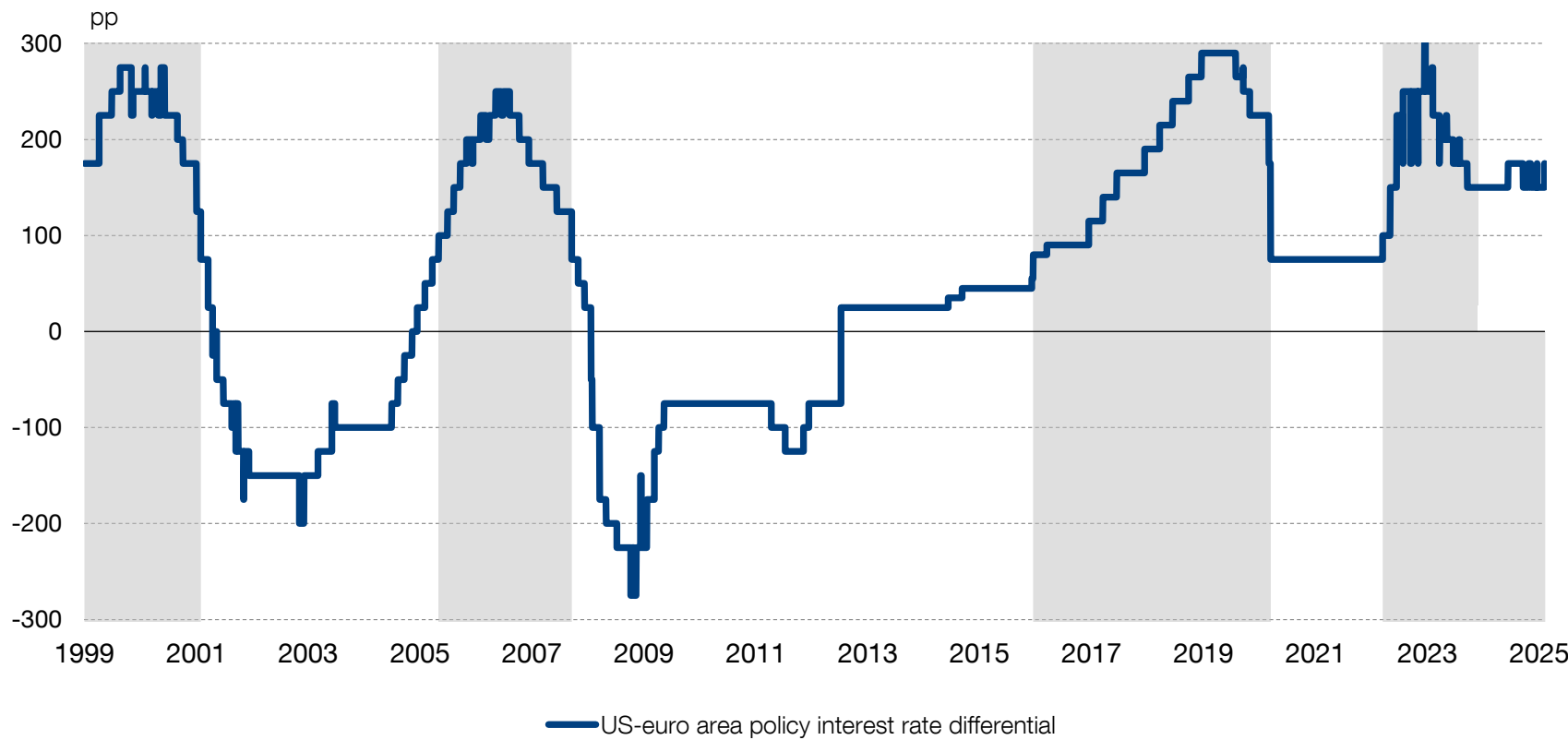
OBSERVED AND FUTURE POLICY INTEREST RATES



Source:Refinitiv Datastream, Banco de España and Federal Reserve.
(a) Interest rates priced in by the respective futures markets (30-day Federal Funds futures and euro area overnight index futures).

THIS DIFFERENTIAL IS WIDE IN HISTORICAL TERMS

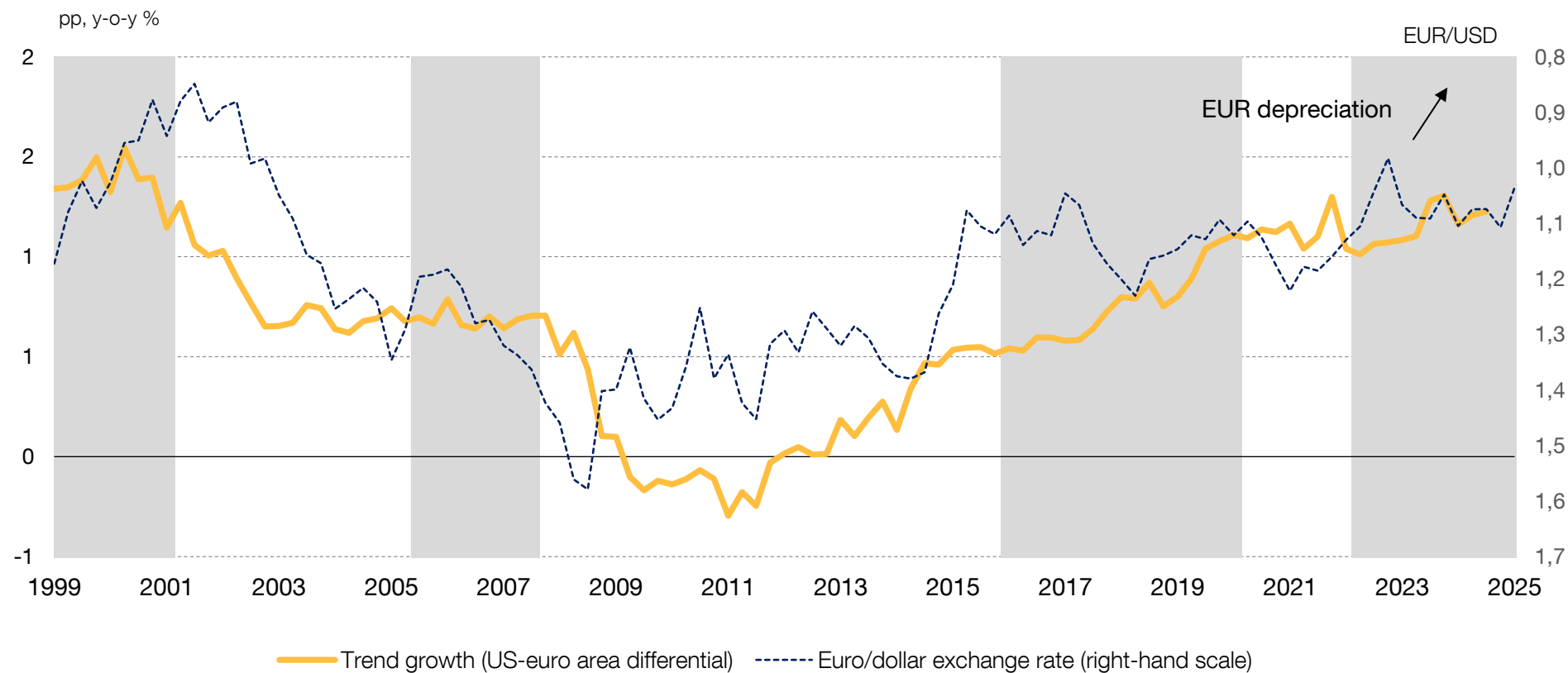
US-EURO AREA POLICY INTEREST RATE DIFFERENTIAL



Source: Refinitiv Datastream and Bloomberg.
Note: The shaded areas show the periods in which the policy interest rate differential is above its median value.

THIS DIVERGENCE HAS IMPLICATIONS FOR THE EURO EXCHANGE RATE, WHOSE DEPRECIATION PATH AGAINST THE DOLLAR COULD BE RELATED TO THE EURO AREA'S LOW POTENTIAL GROWTH COMPARED WITH THE UNITED STATES

US-EURO AREA POTENTIAL GROWTH DIFFERENTIAL AND EUR/USD EXCHANGE RATE



Source: Federal Reserve Bank of New York and LSEG.
Notes: Potential growth estimates from the Holston-Laubach-Williams model. The shaded areas show the periods in which the policy interest rate differential is above the median value. Quarterly data.

THE GLOBAL ECONOMY IS FACING A SCENARIO FRAUGHT WITH RISK...



High uncertainty and political tensions



Monetary policy divergence

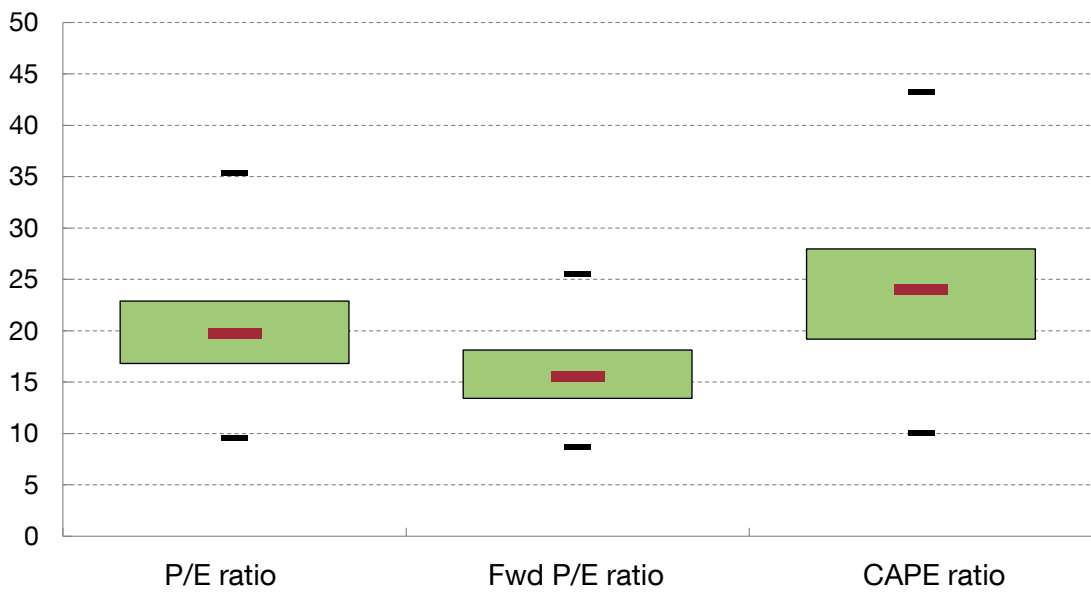


**Low risk price and high valuation of
financial assets**

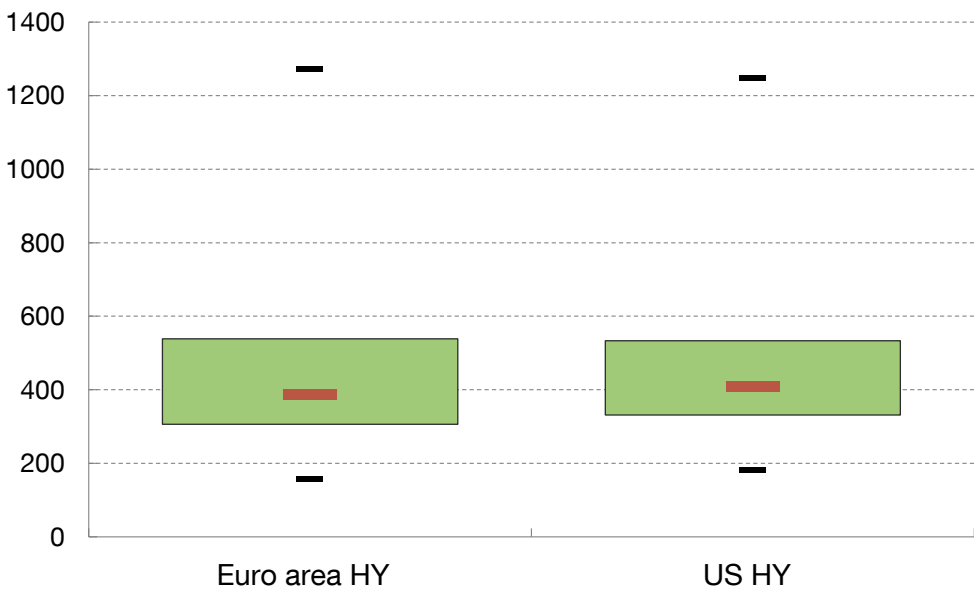


HIGH VALUATIONS IN US EQUITIES AND NARROW CORPORATE SPREADS IN THE HIGH-YIELD SEGMENT IN THE UNITED STATES AND THE EURO AREA

VALUATION RATIOS IN US STOCK MARKETS (a)



CORPORATE BOND SPREAD METRICS (b)



■ 25th-75th PERCENTILE — MINIMUM-MAXIMUM RANGE — MEDIAN ◆ LATEST DATA AVAILABLE

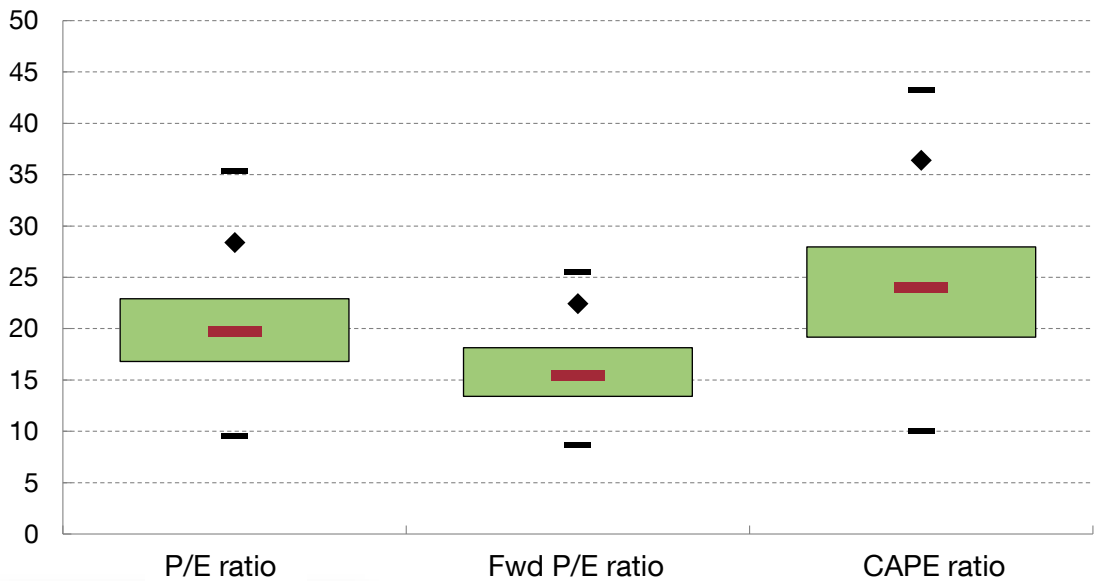
Sources: Refinitiv Datastream and own calculations. Latest observation: 10/02/2025.

(a) Stock market index ratios drawing on monthly data from the series starting in 1985 for the euro area and the United States and 1987 for Spain. Data provided by Datastream, except for the cyclically adjusted price-to-earnings (CAPE) ratio which is calculated as the value of the stock index in real terms (adjusted for CPI) divided by a 10-year moving average of the index firms' earnings in real terms.

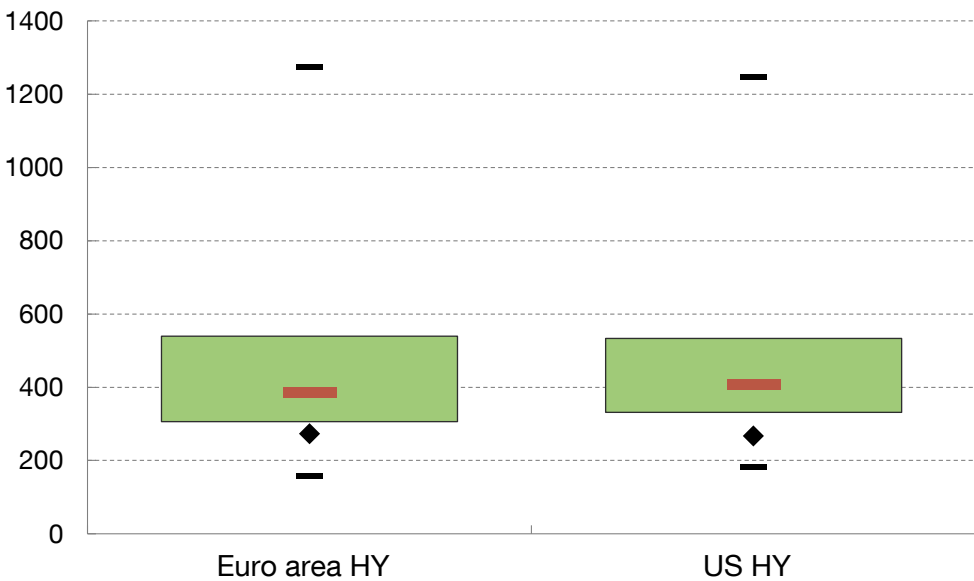
(b) Corporate spreads over the swap curve of the ICE Bank of America Merrill Lynch indices. Monthly data since 1998.

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VALUATION RATIOS IN US STOCK MARKETS (a)



CORPORATE BOND SPREAD METRICS (b)



US P/E ratio: 28.4
vs
Euro area P/E ratio: 16.6

■ 25th-75th PERCENTILE — MINIMUM-MAXIMUM RANGE — MEDIAN ◆ LATEST DATA AVAILABLE

Sources: Refinitiv Datastream and own calculations. Latest observation: 10/02/2025.

(a) Stock market index ratios drawing on monthly data from the series starting in 1985 for the euro area and the United States and 1987 for Spain. Data provided by Datastream, except for the cyclically adjusted price-to-earnings (CAPE) ratio, which is calculated as the value of the stock index in real terms (adjusted for CPI) divided by a 10-year moving average of the index firms' earnings in real terms.

(b) Corporate spreads over the swap curve of the ICE Bank of America Merrill Lynch indices. Monthly data since 1998.

THE GLOBAL ECONOMY IS FACING A
SCENARIO FRAUGHT WITH RISK...

...COMPOUNDED BY SOME EUROPEAN
ECONOMIC WEAKNESSES



High uncertainty and political tensions



Monetary policy divergence



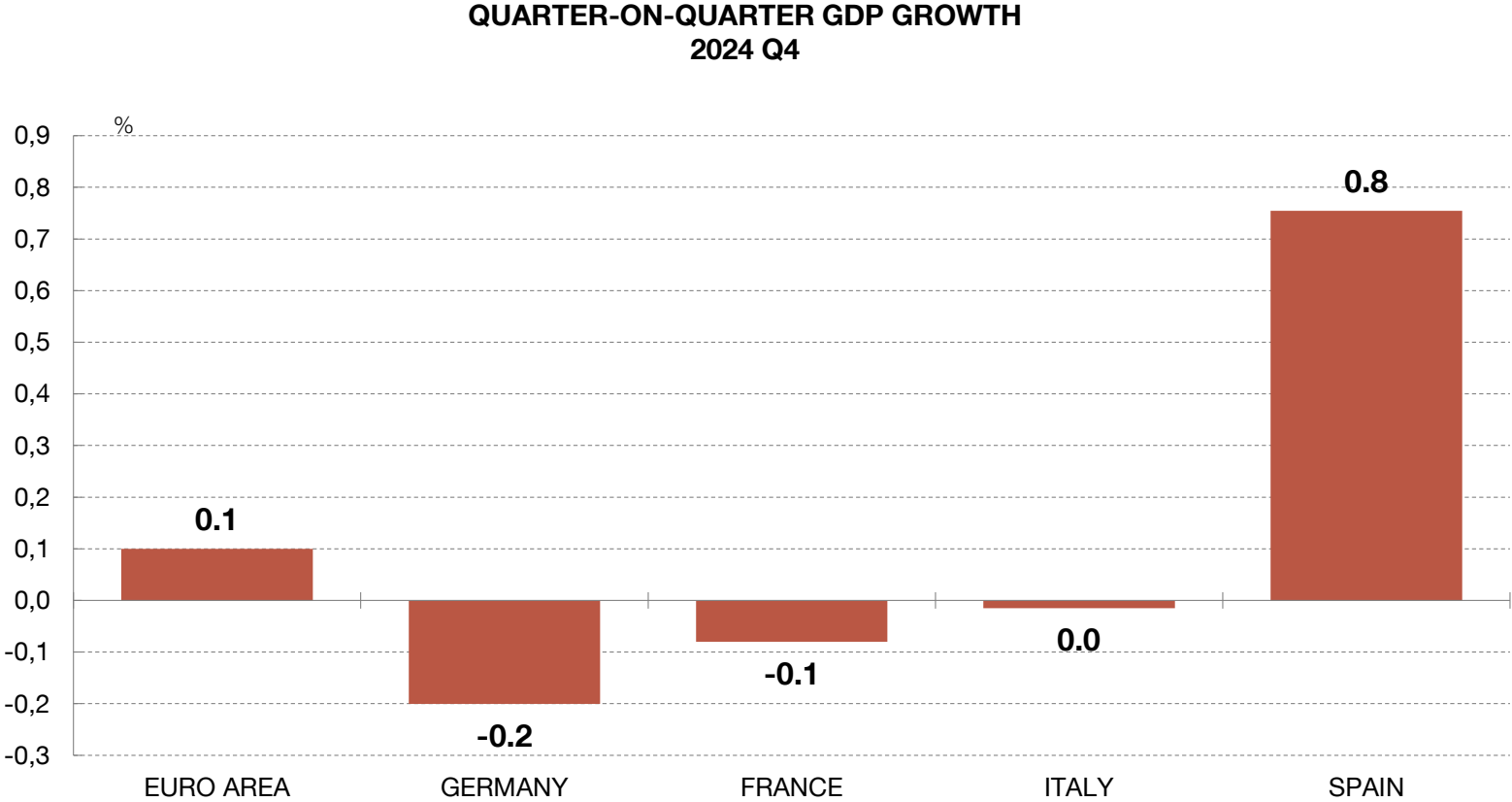
**Low risk price and high valuation of
financial assets**



Subdued economic growth



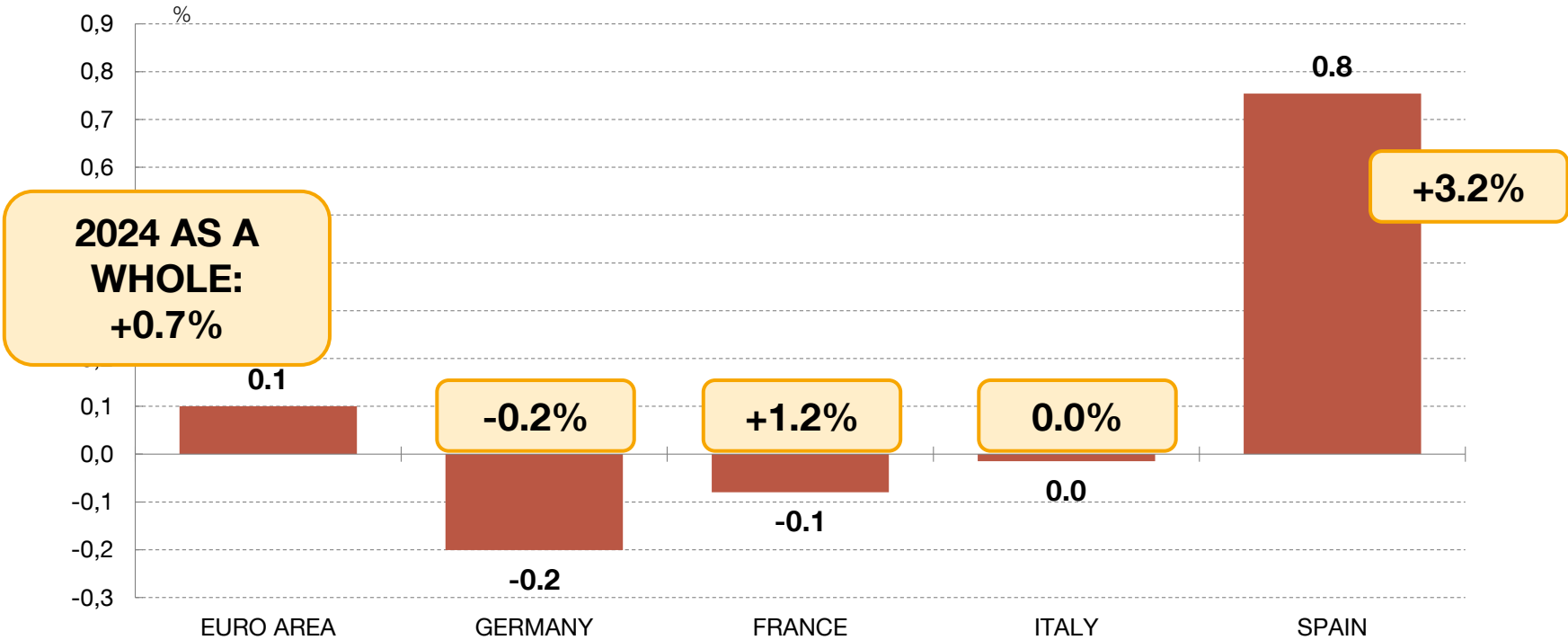
RECENT DATA ON ACTIVITY REMAIN WEAK IN EUROPE, ALBEIT WITH HIGH CROSS-COUNTRY HETEROGENEITY



Source: Eurostat. Latest observation: Q4 flash estimate.

RECENT DATA ON ACTIVITY REMAIN WEAK IN EUROPE, ALBEIT WITH HIGH CROSS-COUNTRY HETEROGENEITY

QUARTER-ON-QUARTER GDP GROWTH
2024 Q4



Source: Eurostat. Latest observation: Q4 flash estimate.

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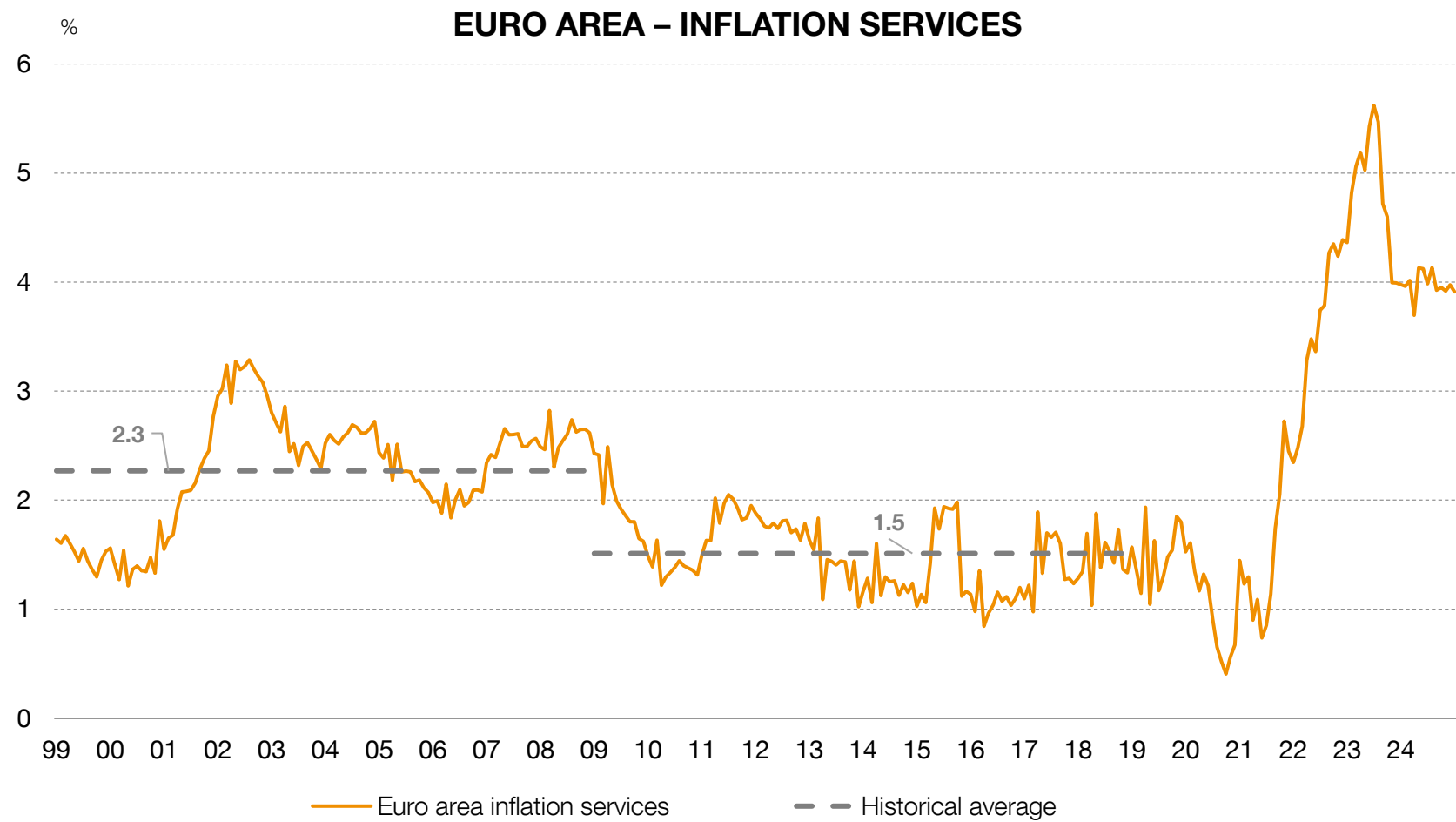


Subdued economic growth



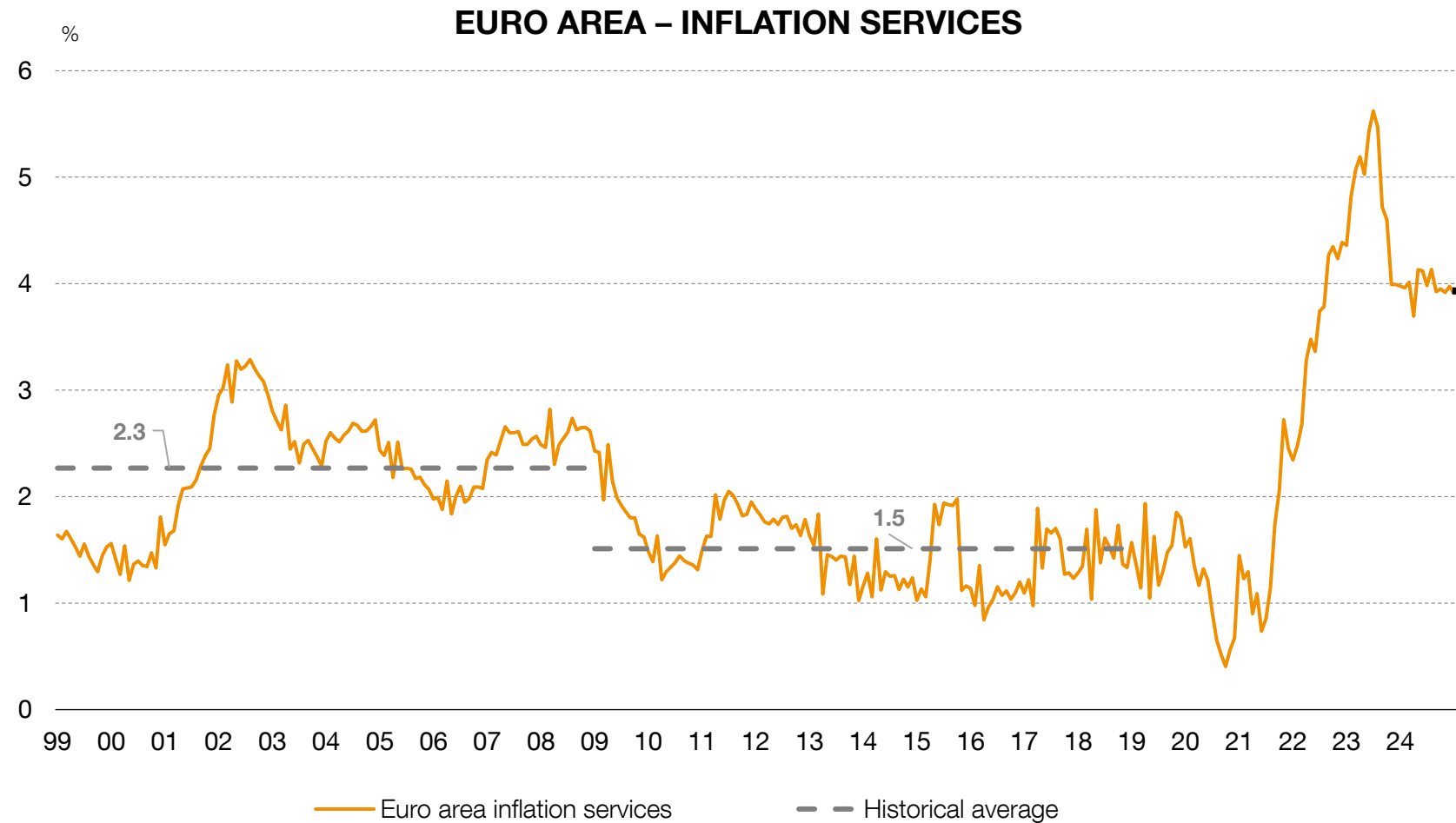
**Ongoing disinflation with persistent
services inflation**

THIS SITUATION ARISES AMID PERSISTENTLY HIGH SERVICES INFLATION,
PARTICULARLY WHEN COMPARED WITH ITS HISTORICAL AVERAGE



Sources: Eurostat and Eurosistem. Latest data: December 2024.

THIS SITUATION ARISES AMID PERSISTENTLY HIGH SERVICES INFLATION,
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Sources: Eurostat and Eurosistem. Latest data: December 2024.

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SCENARIO FRAUGHT WITH RISK...

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ECONOMIC WEAKNESSES



High uncertainty and political tensions



Monetary policy divergence



**Low risk price and high valuation of
financial assets**



Subdued economic growth

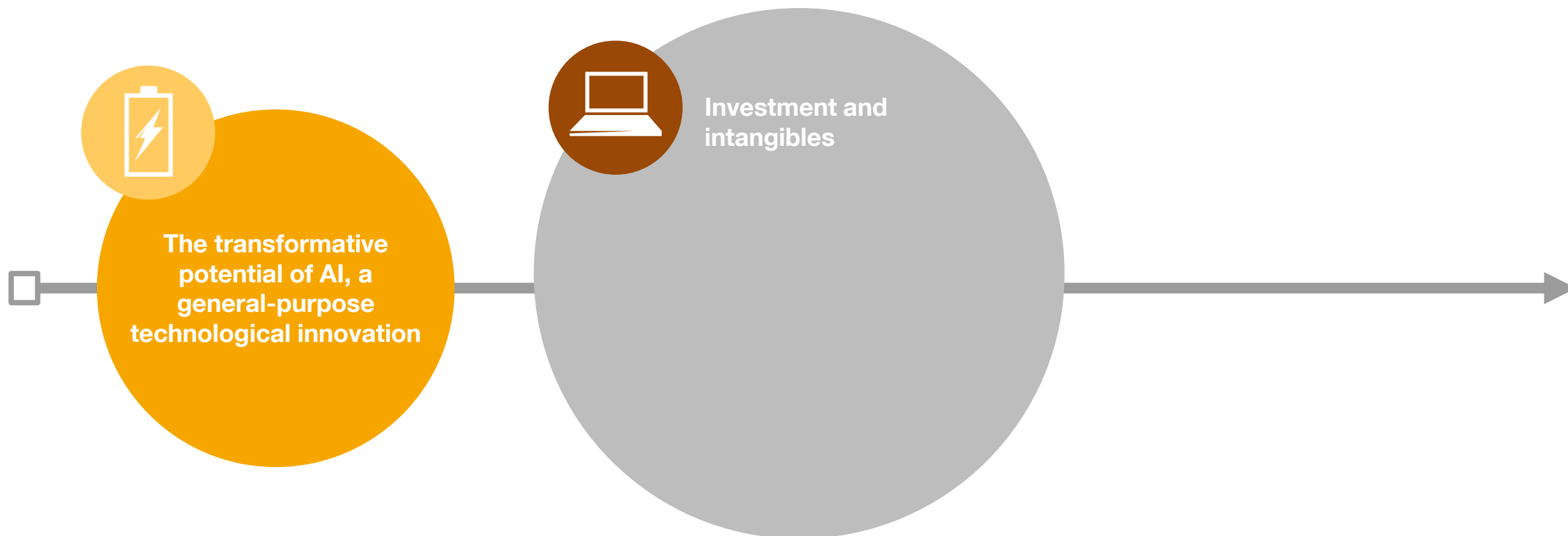


**Ongoing disinflation with persistent
services inflation**



**Ability to harness the transformative
potential of AI**

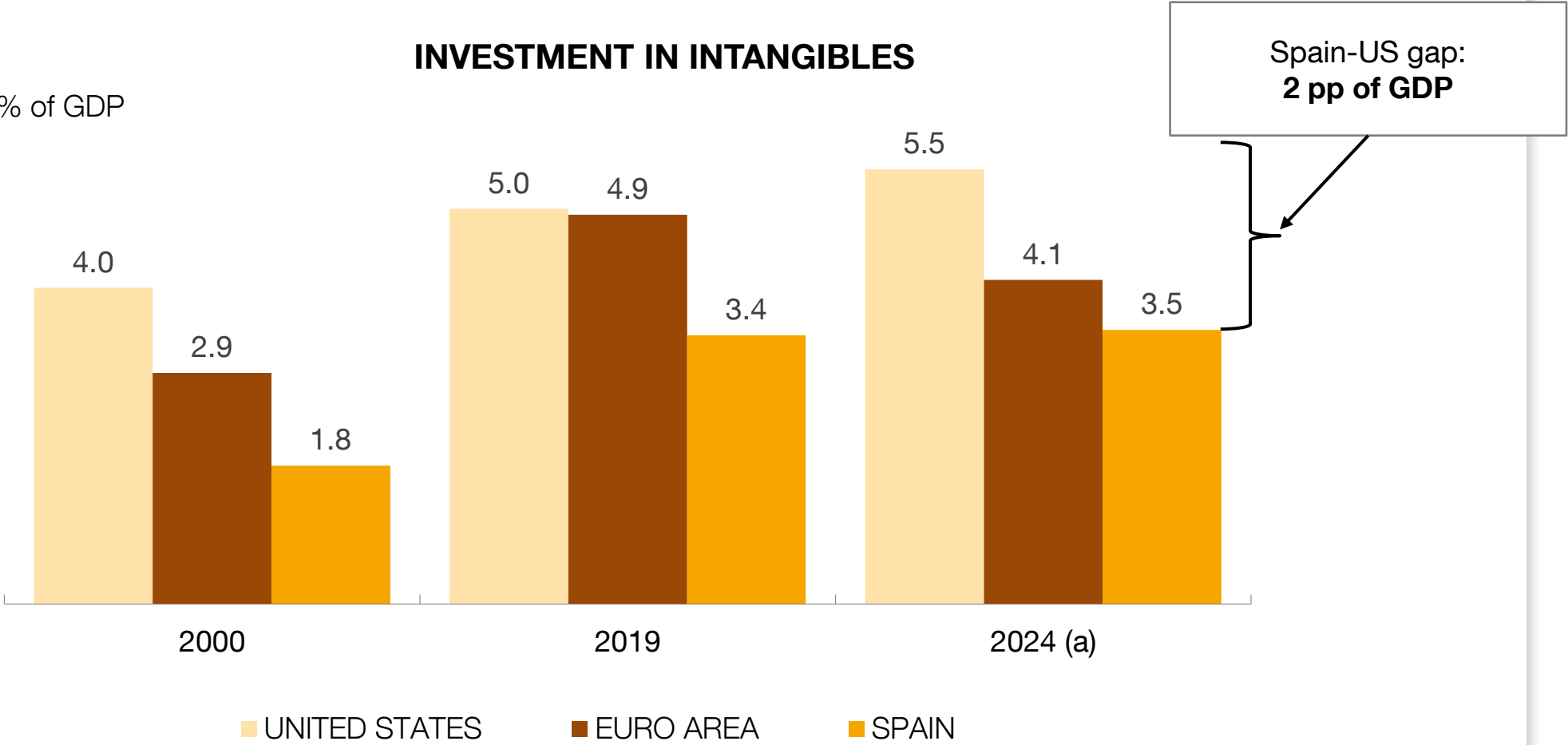
IN ORDER TO HARNESS THE TRANSFORMATIVE CAPACITY OF AI, CERTAIN ELEMENTS ARE NEEDED PRIOR TO ITS ADOPTION BY THE ECONOMIC FABRIC



REDUCING THE PRODUCTIVITY GAP REQUIRES SIGNIFICANT INVESTMENT IN INTANGIBLE ASSETS

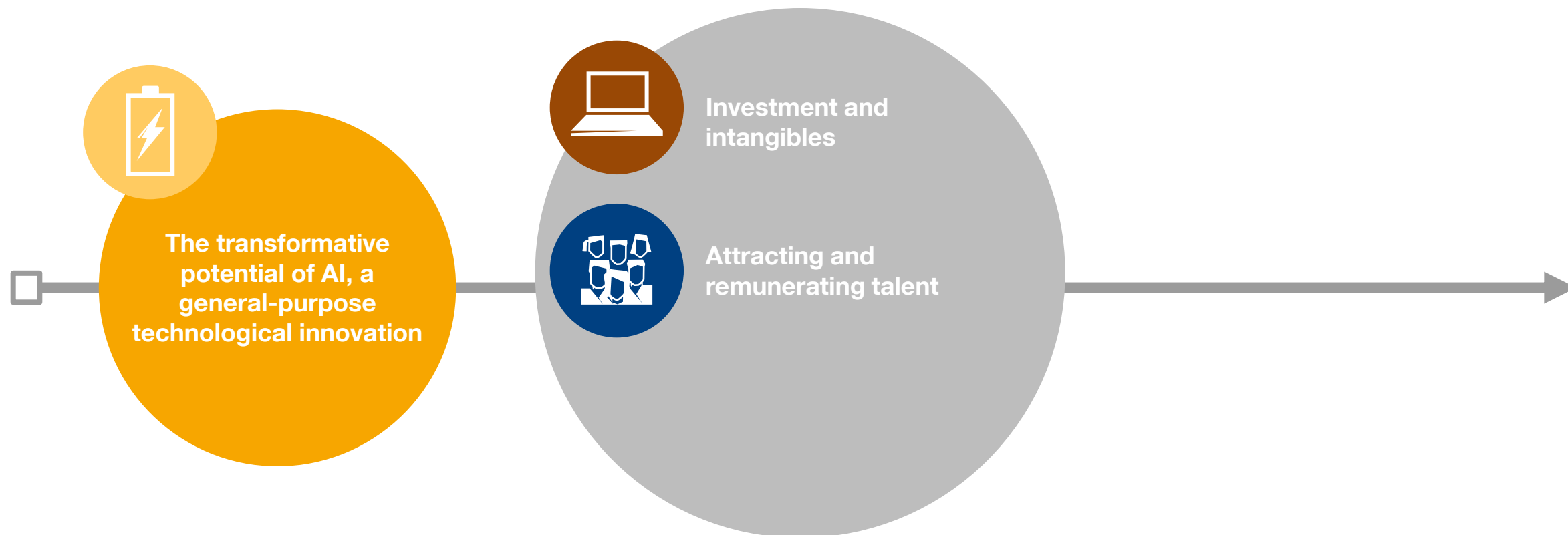
INVESTMENT IN INTANGIBLES

% of GDP



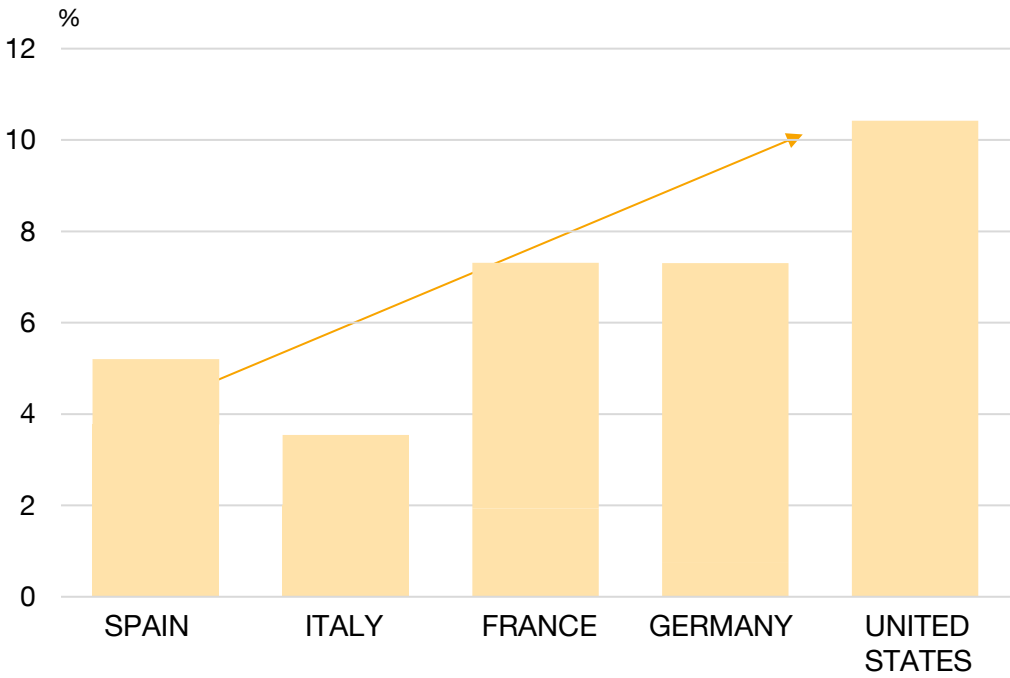
Sources: Eurostat and Bureau of Economic Analysis.
(a) Provisional data

IN ORDER TO HARNESS THE TRANSFORMATIVE CAPACITY OF AI, CERTAIN ELEMENTS ARE NEEDED PRIOR TO ITS ADOPTION BY THE ECONOMIC FABRIC

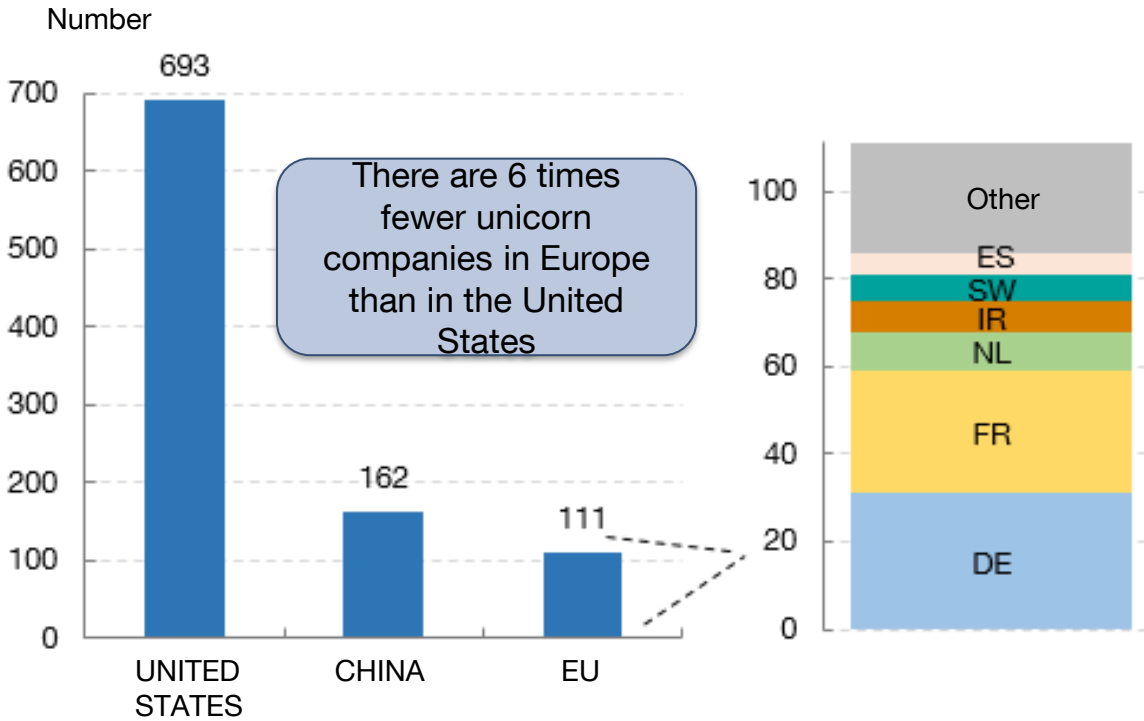


THE ABILITY TO TRAIN AND ATTRACT TALENT AND FIRMS IS LIMITED BY OBSTACLES TO REMUNERATION AND GROWTH

INTERNAL RATE OF RETURN FOR STEM EDUCATION
COMPARED WITH VOCATIONAL TRAINING (a)



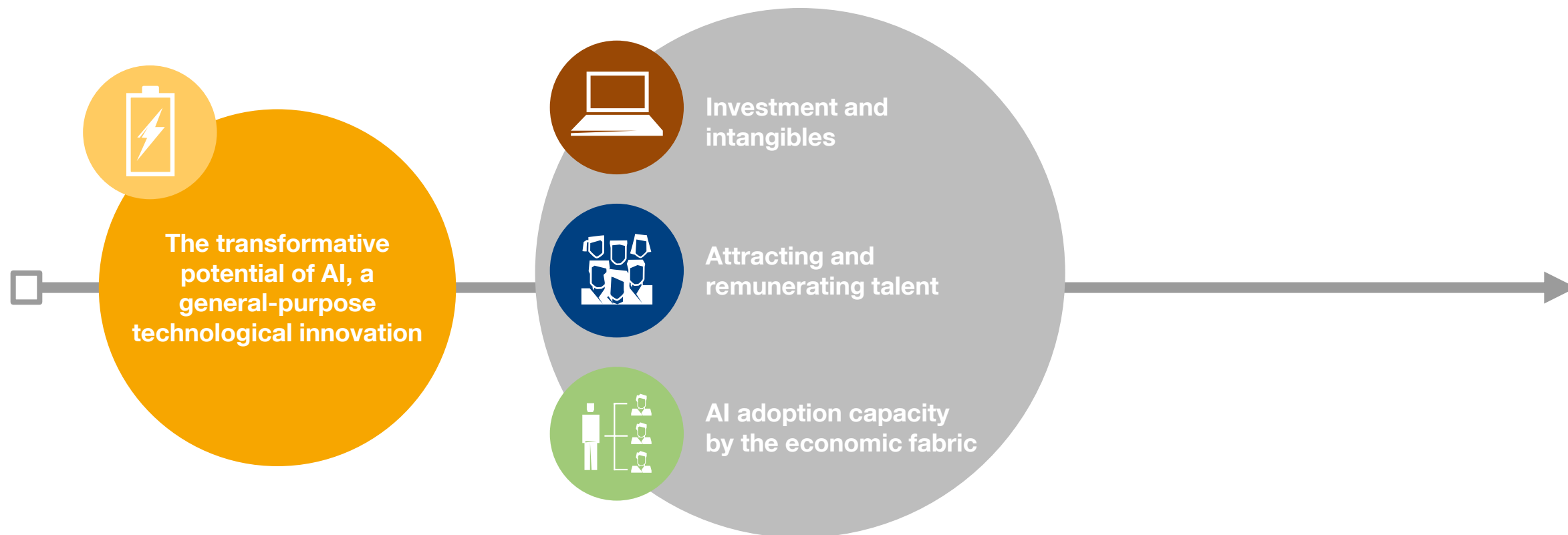
UNICORN COMPANIES



Sources: Banco de España using microdata from the Programme for International Assessment of Adult Competencies (PIAAC 2011-2012 and PIAAC 2022-2023) and CBI Insights.
(a) The figures for Spain, Italy and France relate to the second wave of the PIAAC 2022-2023 and those for Germany and the United States relate to the first wave.

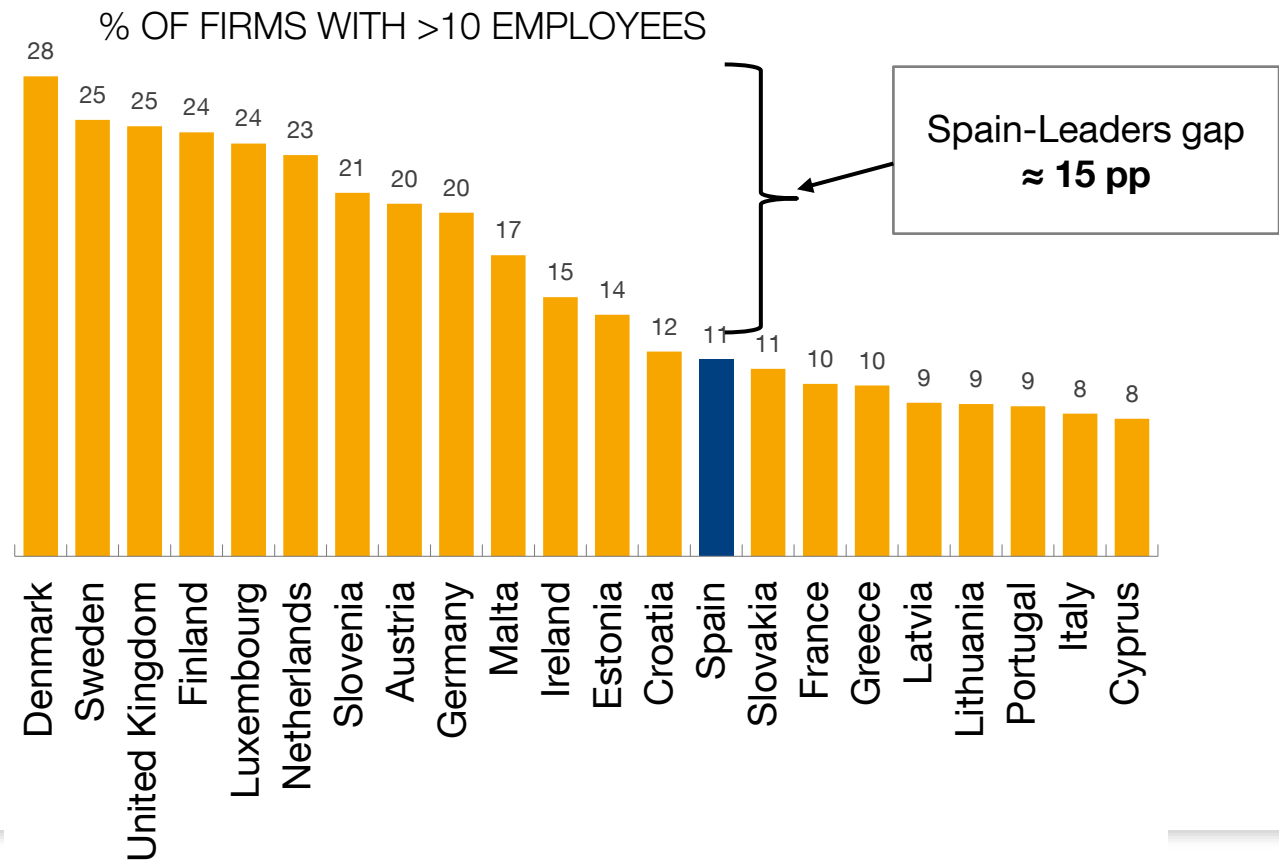


IN ORDER TO HARNESS THE TRANSFORMATIVE CAPACITY OF AI, CERTAIN ELEMENTS ARE NEEDED PRIOR TO ITS ADOPTION BY THE ECONOMIC FABRIC



SPAIN'S STARTING POINT FOR THE ADOPTION OF AI BY ITS PRODUCTIVE FABRIC LAGS BEHIND THAT OF ITS PEERS

FIRMS USING AT LEAST
ONE AI TECHNOLOGY IN 2024

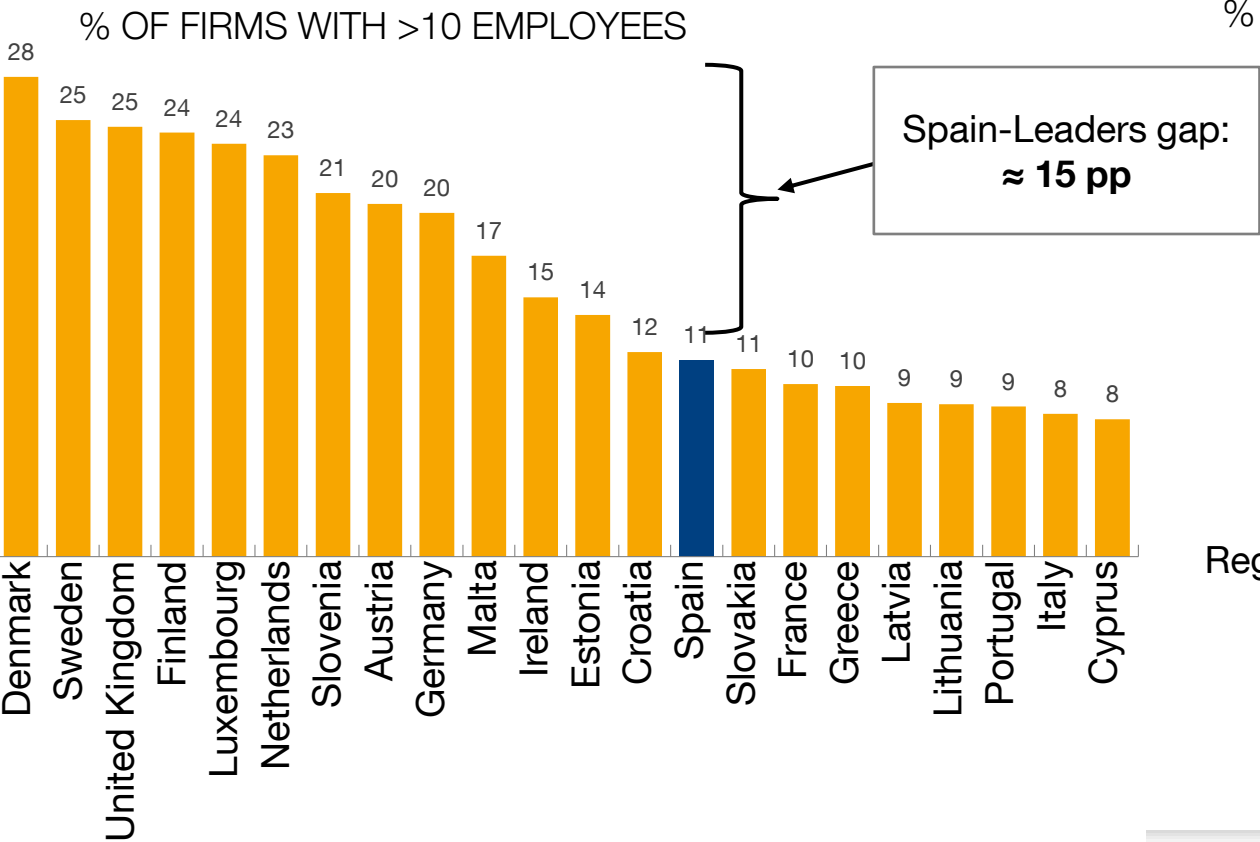


According to the McKinsey Global Survey, in 2023 the adoption of AI by European firms was 30% lower than by US firms

Sources: Eurostat and McKinsey Global Survey.

FIRMS NOTE THAT THE MAIN OBSTACLES TO AI ADOPTION ARE A LACK OF SKILLED STAFF, HIGH COSTS AND LEGAL UNCERTAINTY

FIRMS USING AT LEAST ONE AI TECHNOLOGY IN 2024



OBSTACLES TO AI ADOPTION IN SPAIN

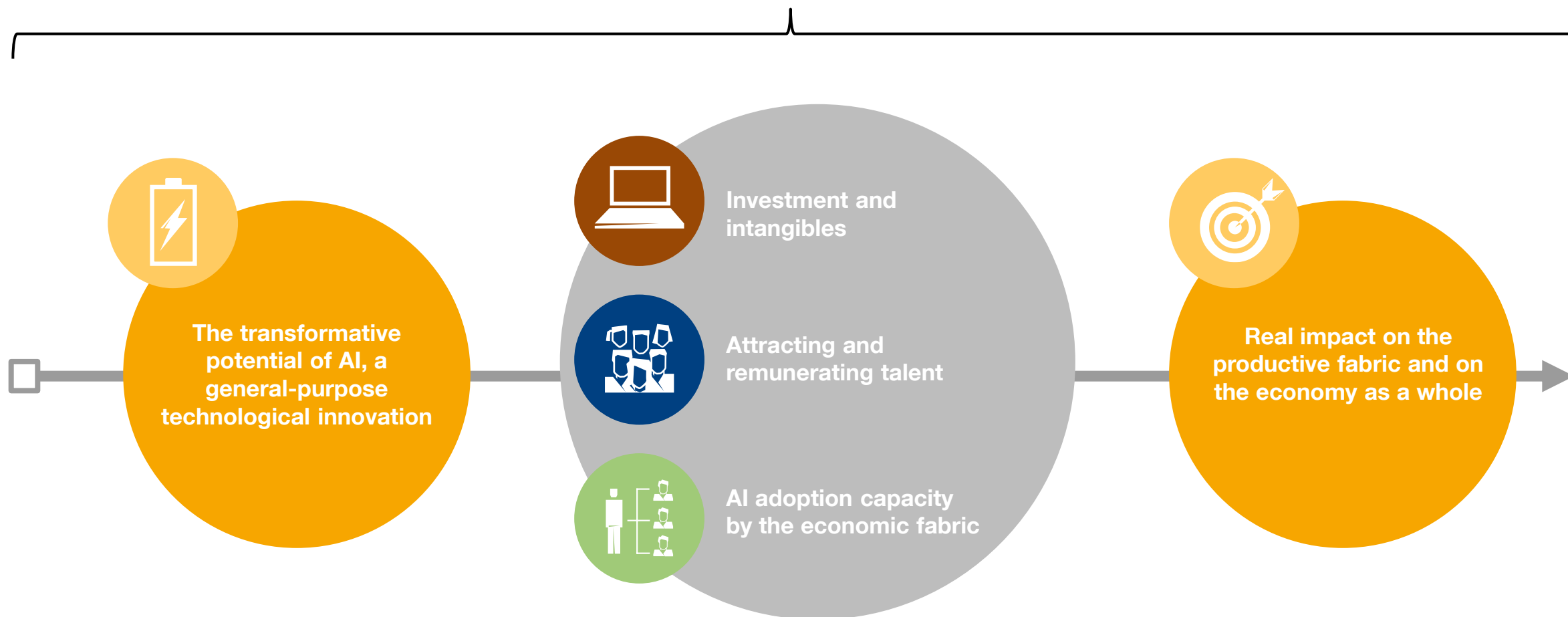
% OF FIRMS NOT USING AI



Sources: Eurostat and Banco de España (EBAE).

IN ORDER TO HARNESS THE TRANSFORMATIVE CAPACITY OF AI, CERTAIN ELEMENTS ARE NEEDED PRIOR TO ITS ADOPTION BY THE ECONOMIC FABRIC

Regulatory framework adapted to AI needs



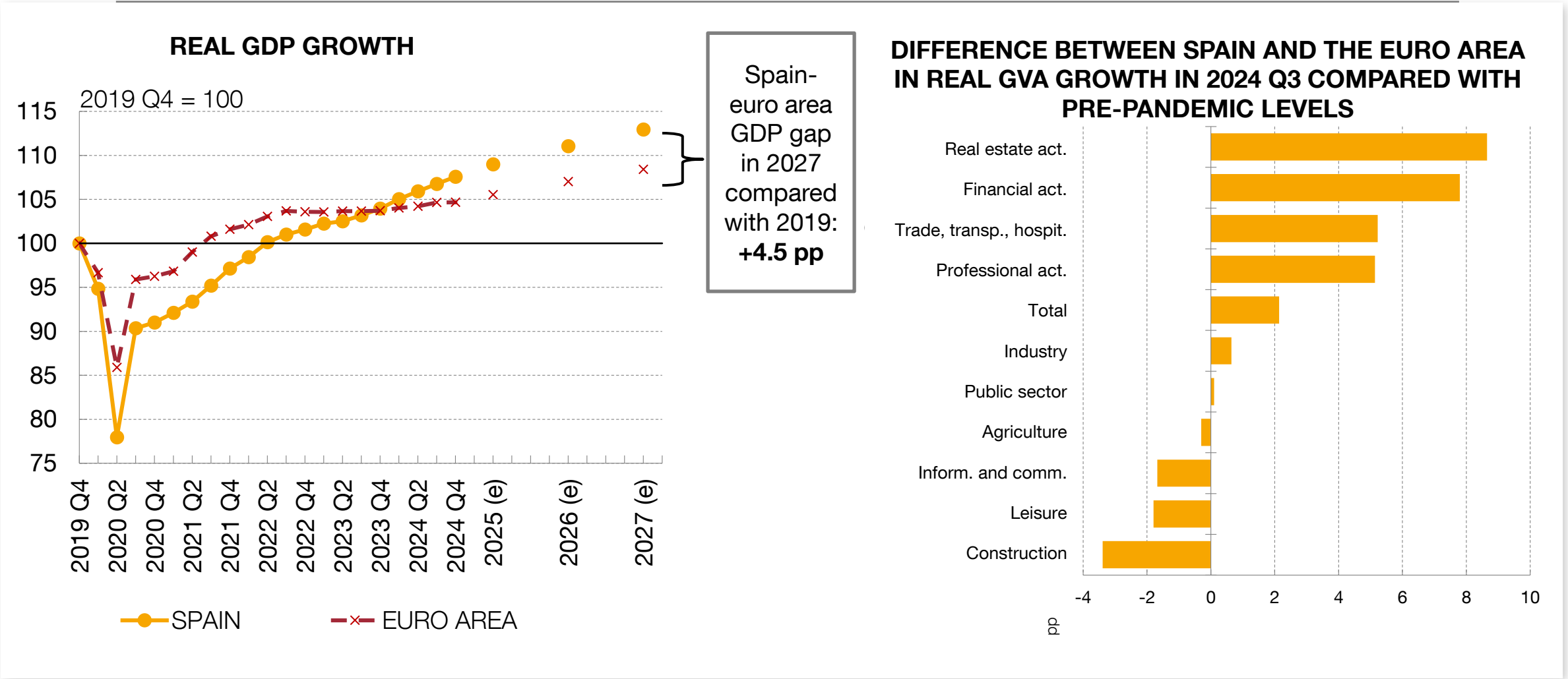
SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT FACES MAJOR STRUCTURAL CHALLENGES

Recent trends

Robust and widespread
growth



GDP IN SPAIN HAS RECENTLY GROWN MORE THAN IN THE EURO AREA IN MOST SECTORS OF ACTIVITY



Sources: INE and Eurostat. Banco de España December 2024 projections for Spain and ECB December 2024 projections for the euro area.

SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT STILL FACES MAJOR STRUCTURAL CHALLENGES

Recent trends

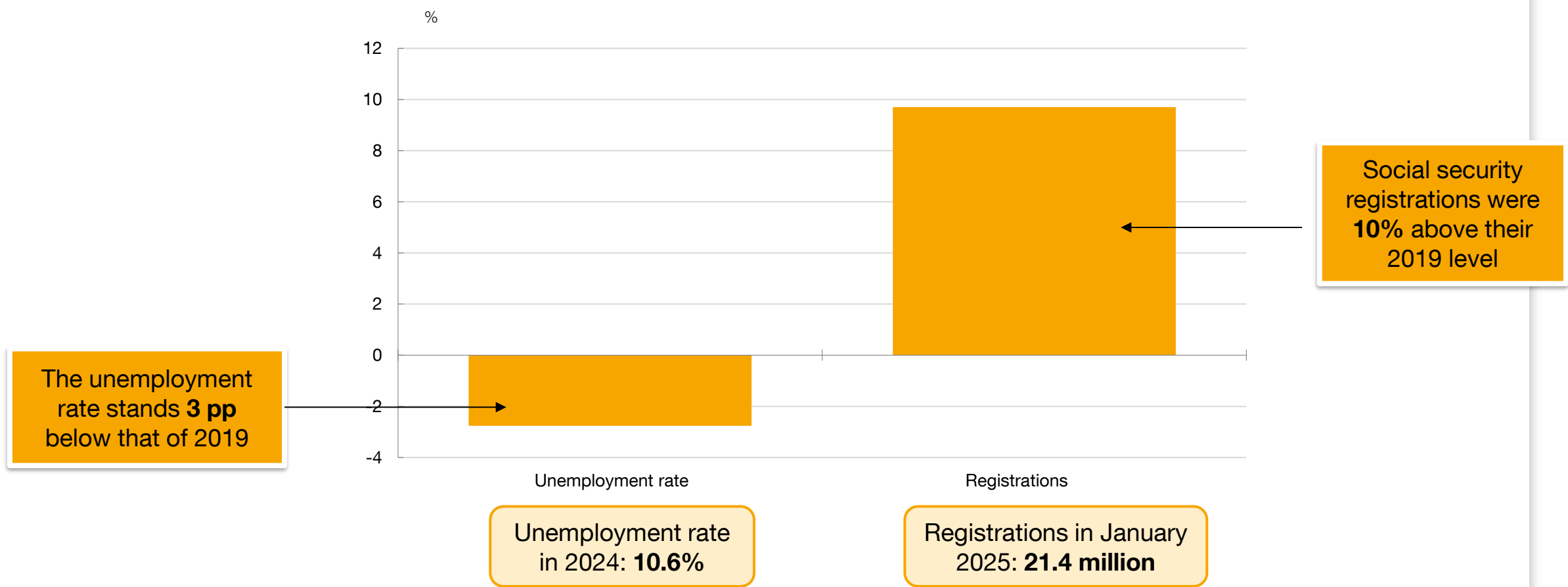
Robust and widespread
growth

Buoyant labour market



JOB CREATION HAS GROWN AT A BRISK PACE OVER THE LAST FEW YEARS, PUSHING DOWN THE UNEMPLOYMENT RATE

CHANGE IN UNEMPLOYMENT RATE, OCCUPATION AND SOCIAL SECURITY REGISTRATIONS, 2019-2024



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

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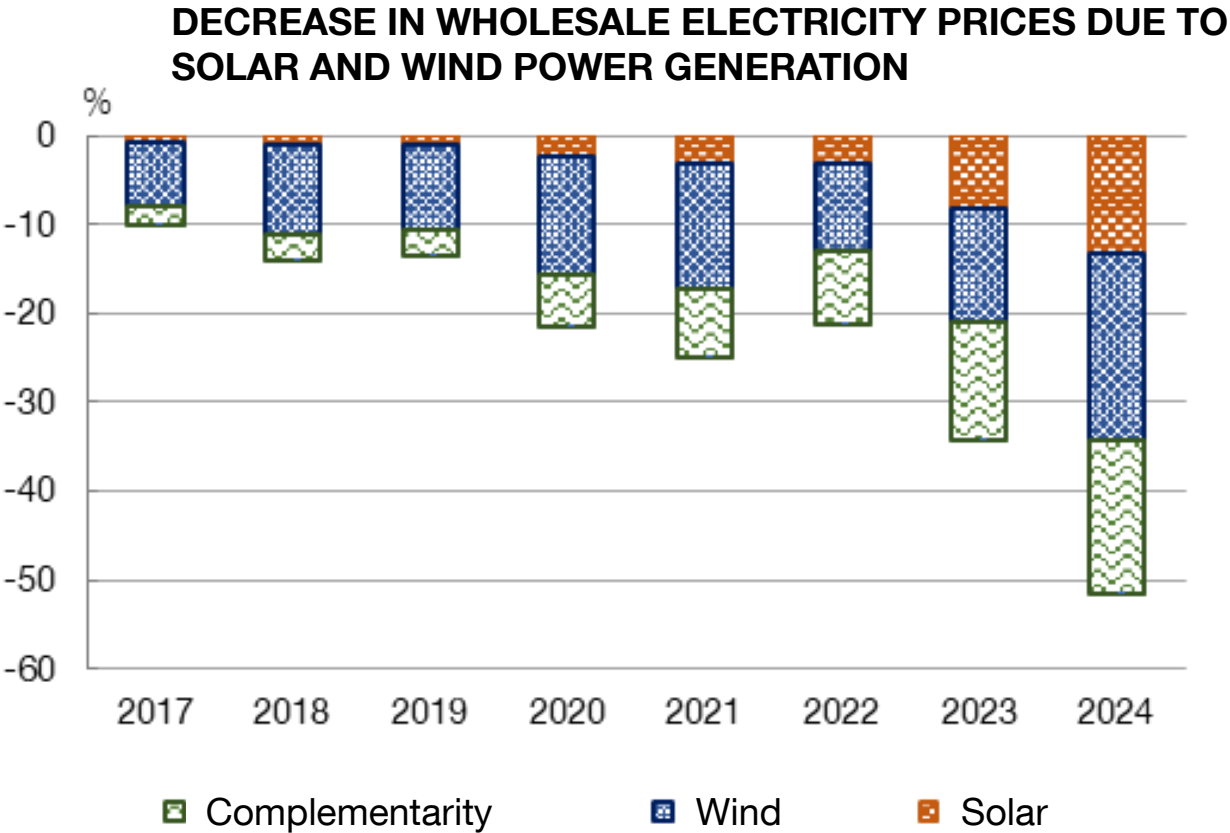
Positive behaviour on the supply side



Lower energy prices



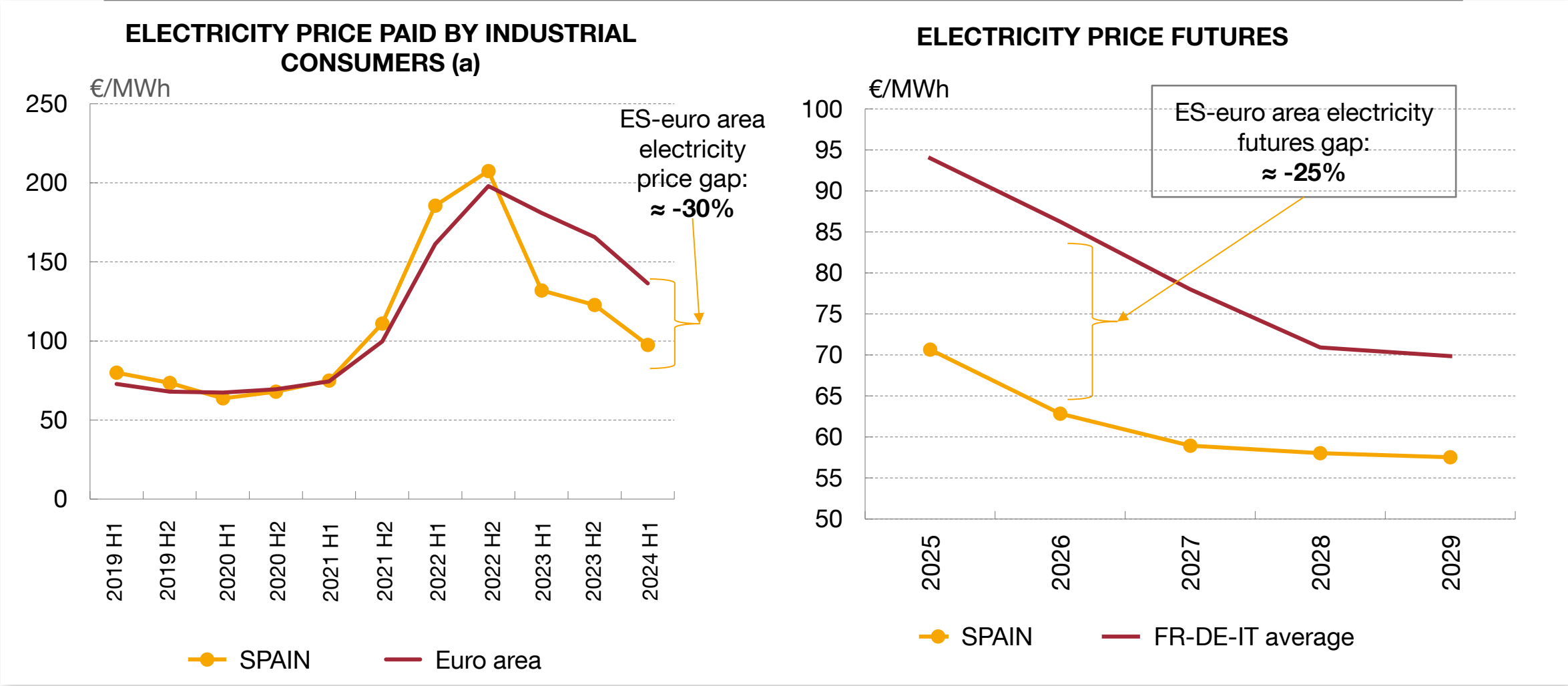
THE INCREASE IN RENEWABLE GENERATION CAPACITY HAS HELPED DRIVE WHOLESALE PRICES DOWN AND WILL CONTINUE TO DO SO



In 2024 investing in renewable energies made it possible for electricity in the wholesale market to cost one half of what it would have cost without the contribution of wind and solar power

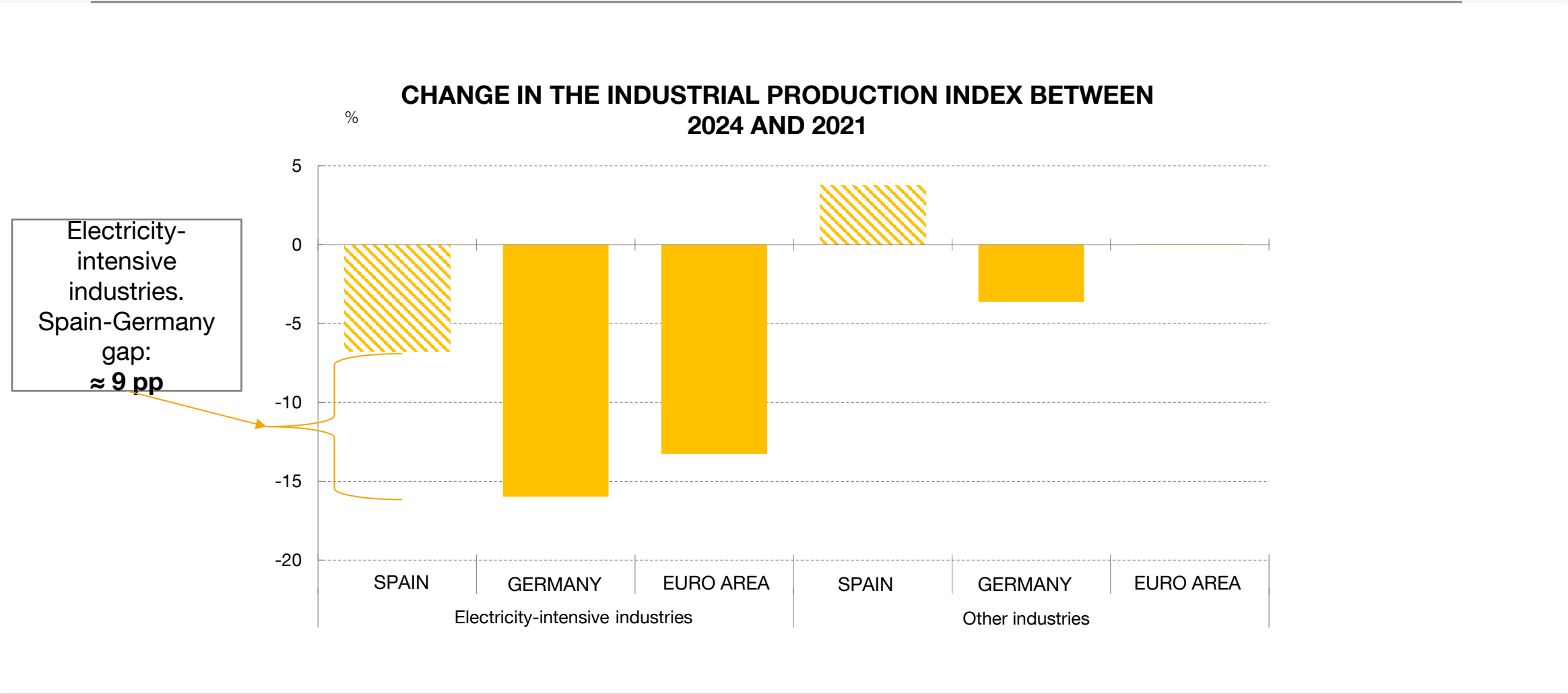
Source: “The impact of renewable energies on wholesale electricity prices”, Javier Quintana, Economic Bulletin, Banco de España 2024/Q3, ENTSO-E and Banco de España.
(a) Each bar shows the difference between the observed price and the counterfactual price in the absence of renewable generation. For 2022 and 2023, the periods when the Iberian mechanism was in effect are excluded. 2024 depicts only up to 30 June.

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



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 BEHAVED BETTER IN SPAIN THAN IN NEIGHBOURING COUNTRIES, ESPECIALLY IN THE MOST ENERGY-INTENSIVE INDUSTRIES



Source: Eurostat.
(a) Electricity-intensive industries, 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.

SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT STILL FACES MAJOR STRUCTURAL CHALLENGES

Recent trends

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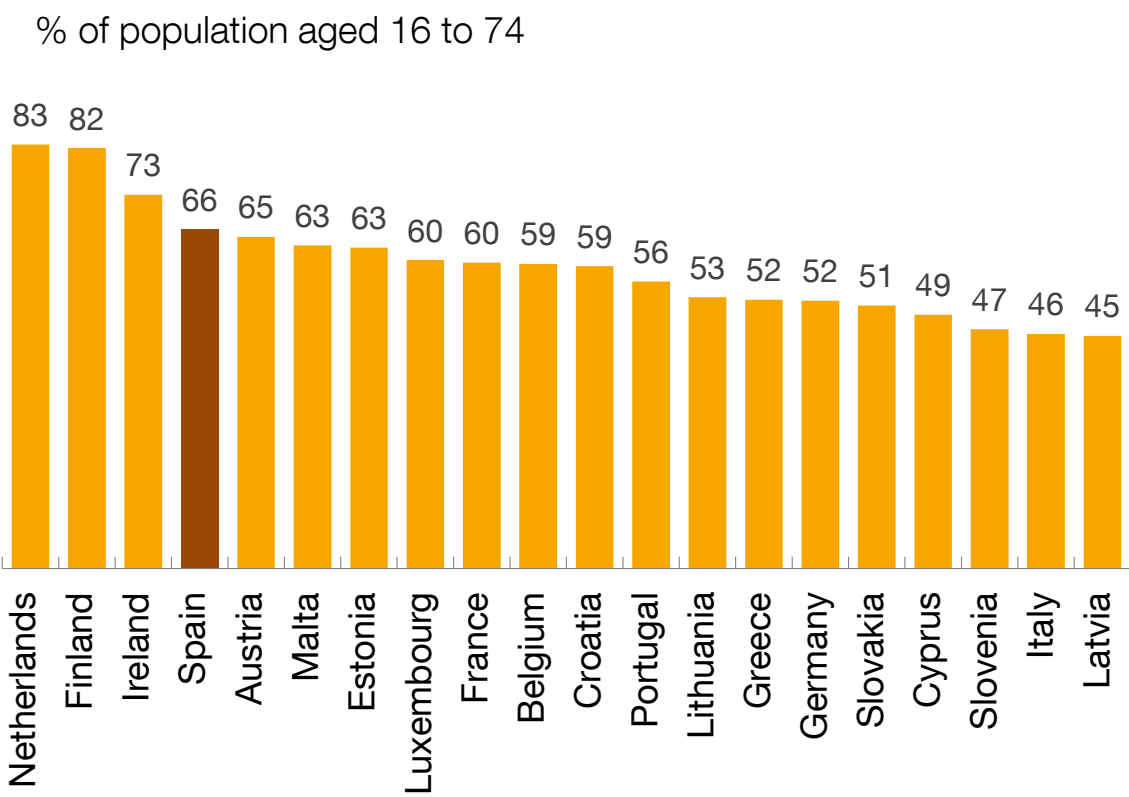
Lower energy prices



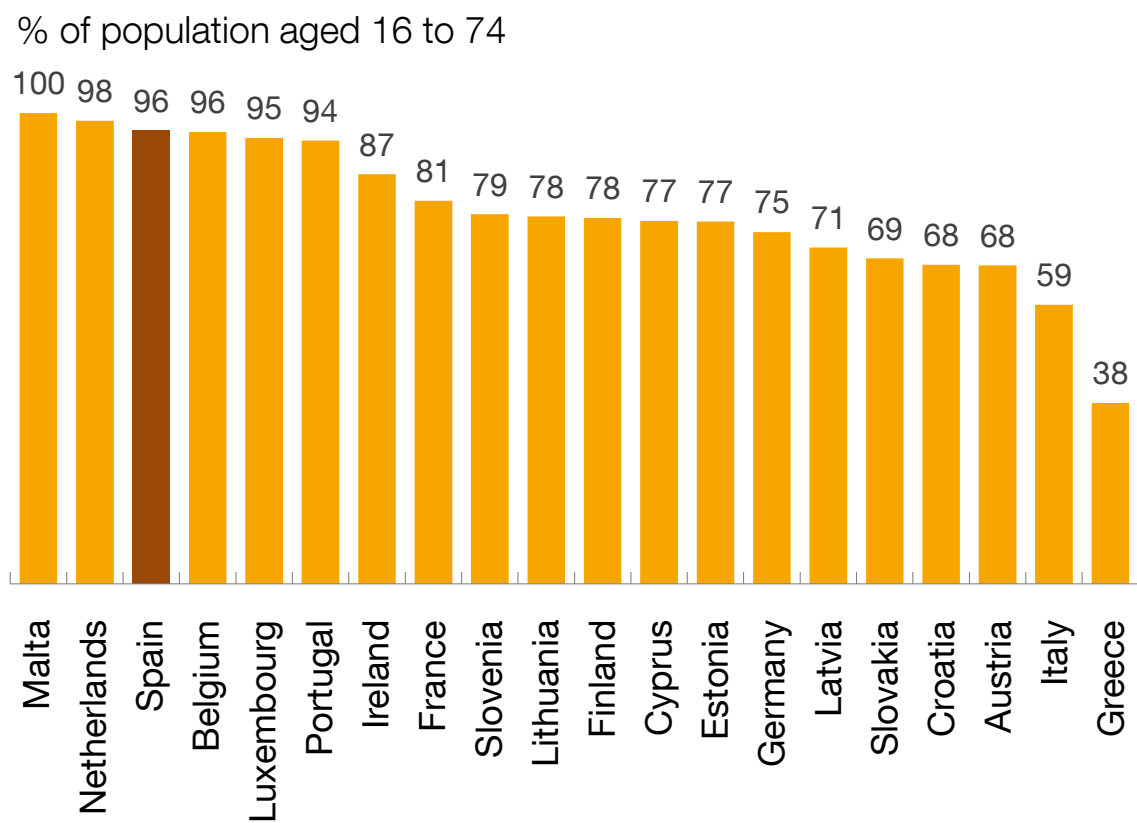
Non-travel services

SPAIN HAS COMPETITIVE ADVANTAGES FOR THE DIGITAL TRANSITION, SUCH AS ITS INFRASTRUCTURES AND A HIGHLY DIGITALISED POPULATION

POPULATION WITH DIGITAL SKILLS (2023)



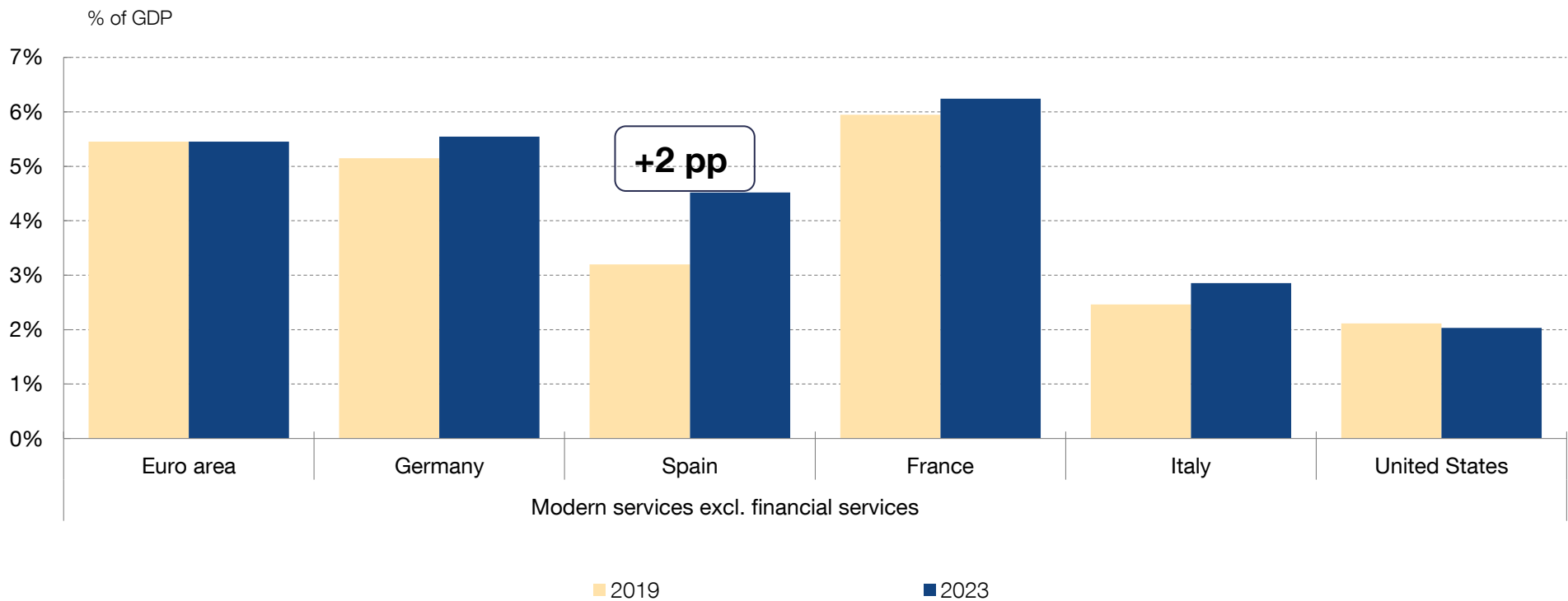
HOUSEHOLDS WITH ACCESS TO HIGH-CAPACITY NETWORKS (2023)



Source: Eurostat.

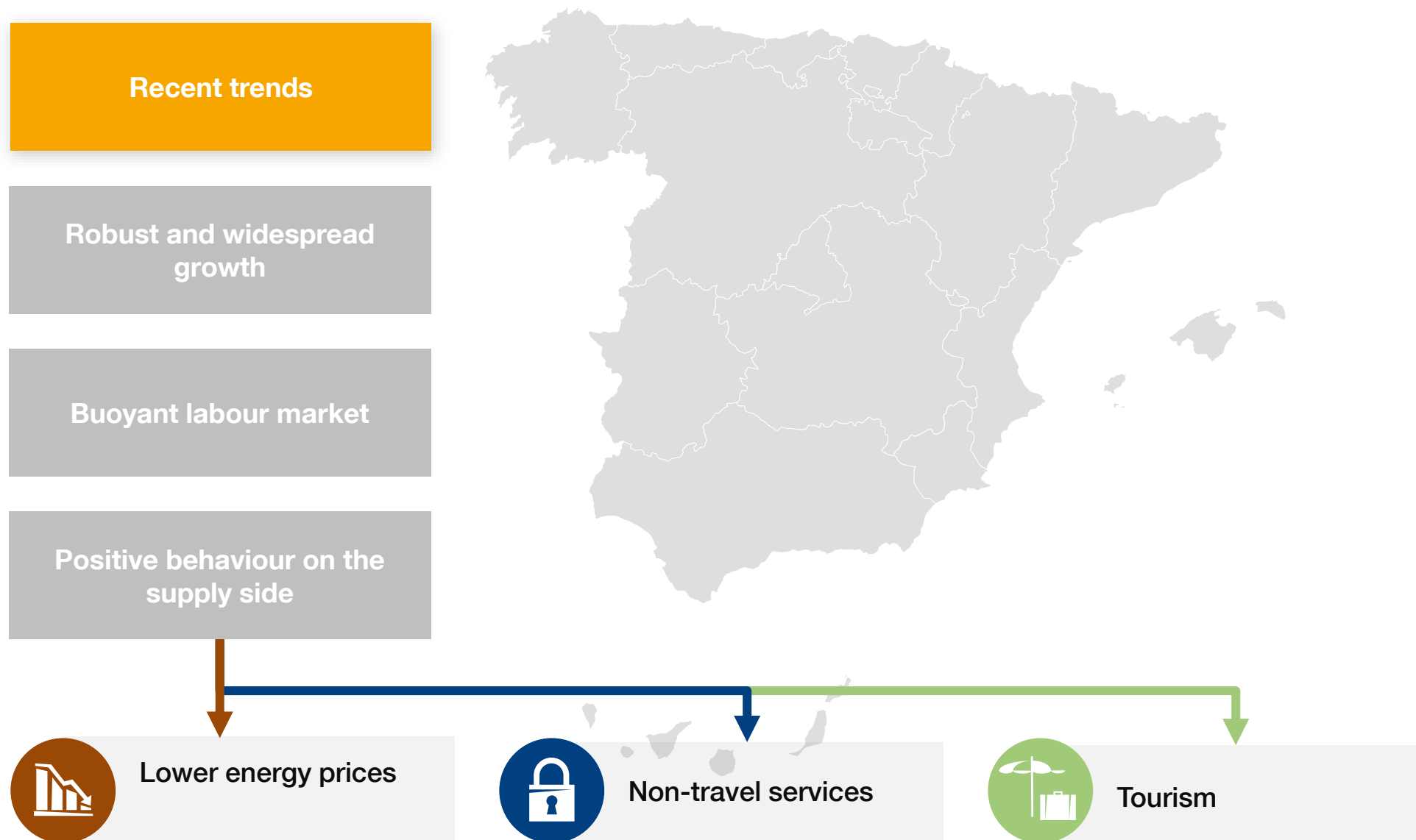
EXPORTS OF NON-TRAVEL SERVICES HAVE BEEN BUOYANT AMID GAINS IN COMPETITIVENESS VIS-À-VIS THE REST OF THE EURO AREA

EXPORTS BY TYPE OF SERVICE



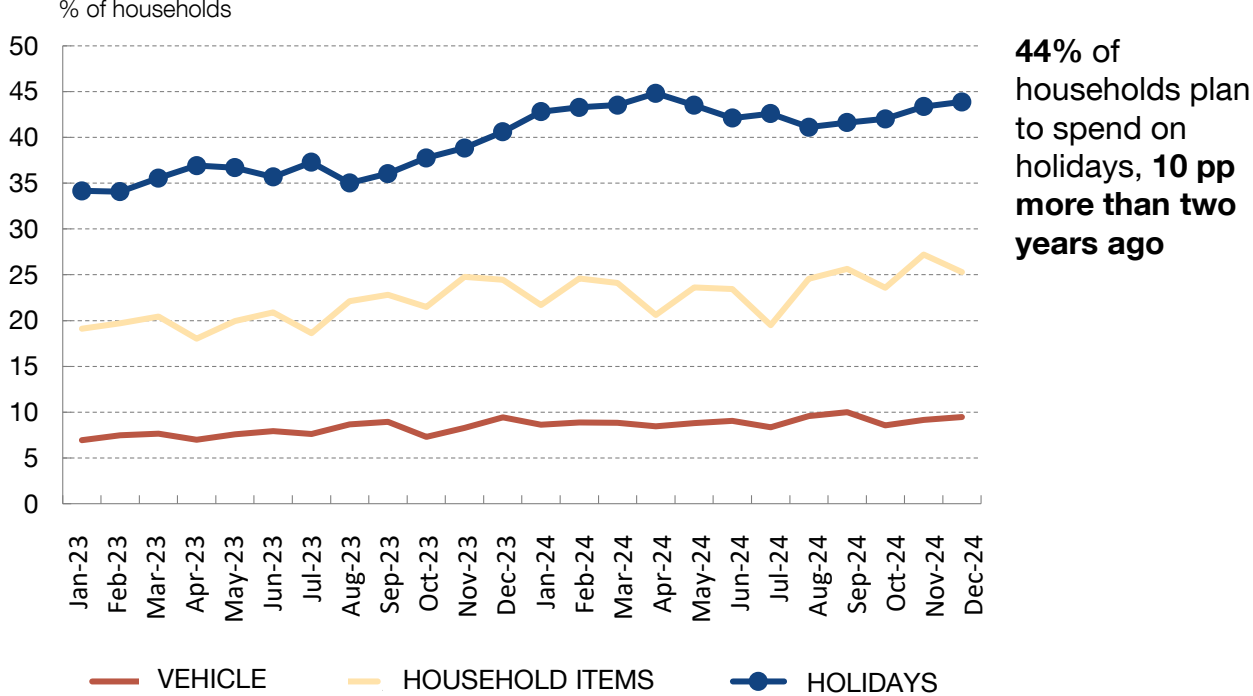
Sources: Eurostat, UNCTAD and WEO.
Note: Modern services include insurance and pension services, charges for the use of intellectual property, IT and information services, other business services, personal, cultural and recreational services and government goods and services.

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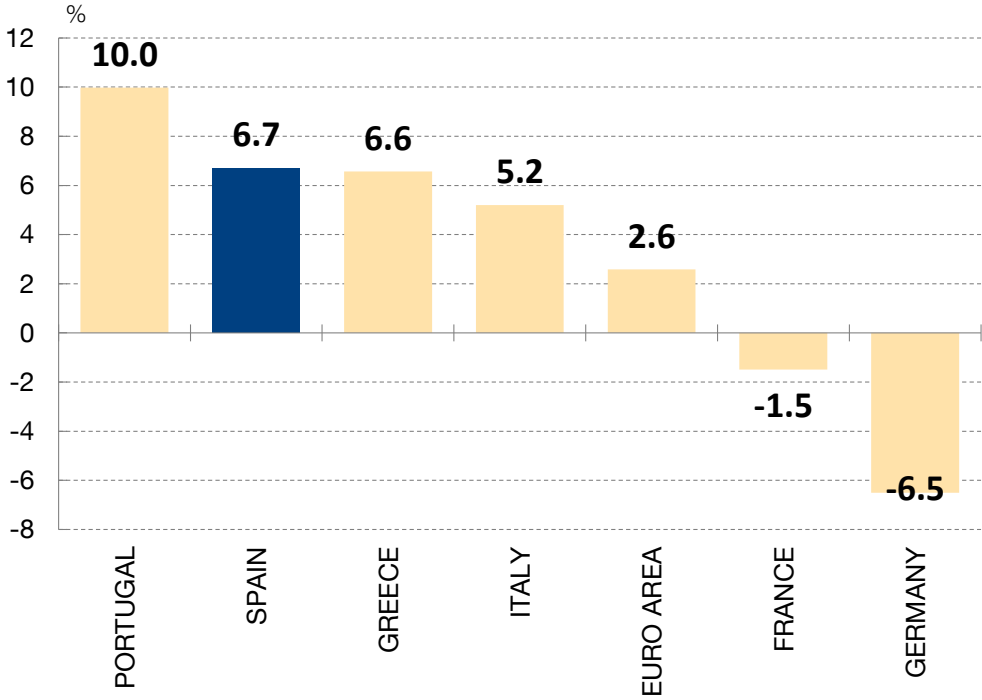


THE STRONGER DEMAND FOR LEISURE ACTIVITIES IS WIDESPREAD: CONSUMER PREFERENCES SEEM TO HAVE STEERED TOWARDS SERVICES RATHER THAN GOODS, LEADING TO INCREASED TOURISM IN MEDITERRANEAN COUNTRIES

PROPORTION OF EURO AREA HOUSEHOLDS
PLANNING TO SPEND ON MAJOR ITEMS
OVER THE NEXT 12 MONTHS



CHANGE IN HOTEL OVERNIGHT STAYS BY
FOREIGN TOURISTS BETWEEN 2019 AND
2024 (JANUARY-OCTOBER)

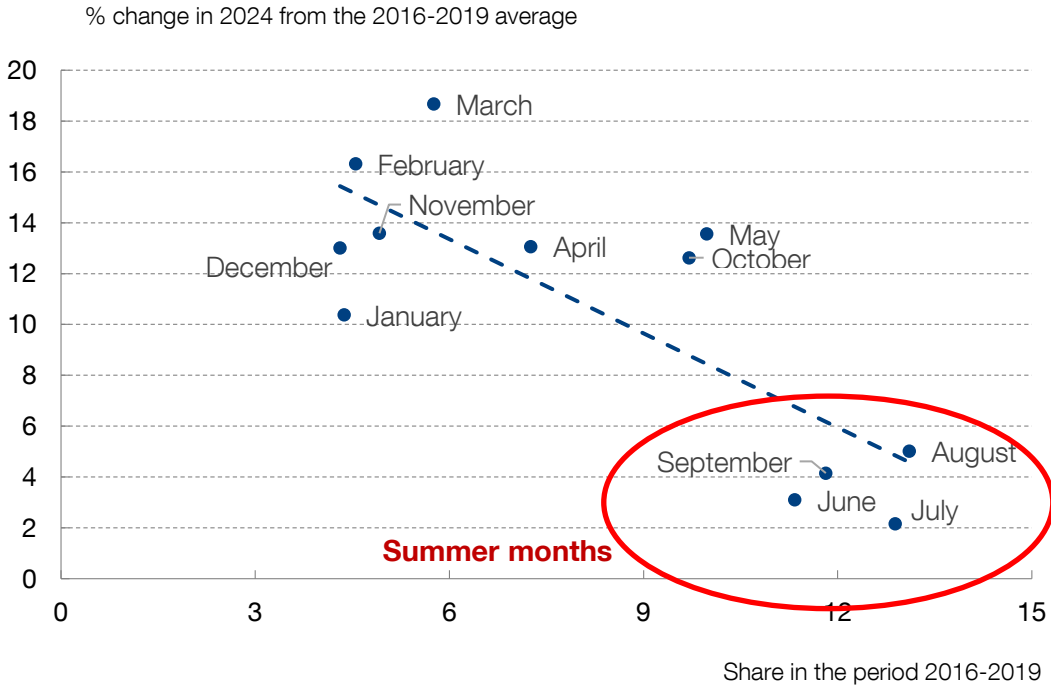


Sources: ECB and Eurostat.

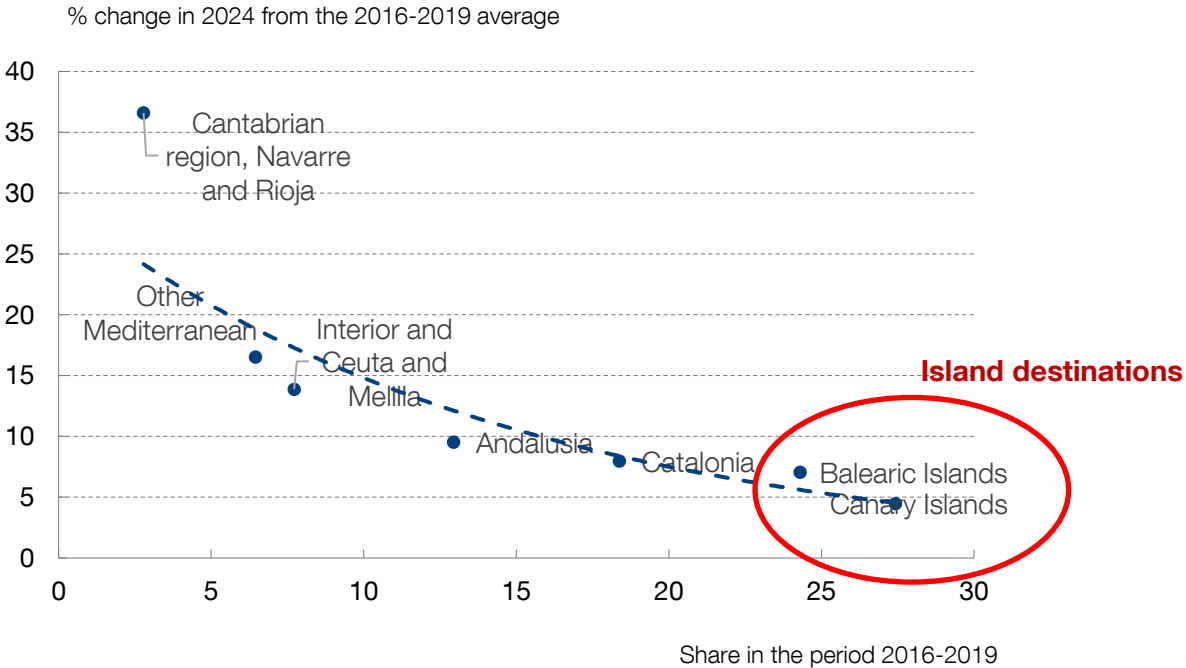
THE GEOGRAPHICAL AND SEASONAL DIVERSIFICATION OF TOURIST ARRIVALS AFTER THE PANDEMIC BOOSTS THE CONTRIBUTION OF TOURISM TO GDP GROWTH

HOTEL OVERNIGHT STAYS BY FOREIGN TOURISTS IN SPAIN

BY MONTH



BY REGION



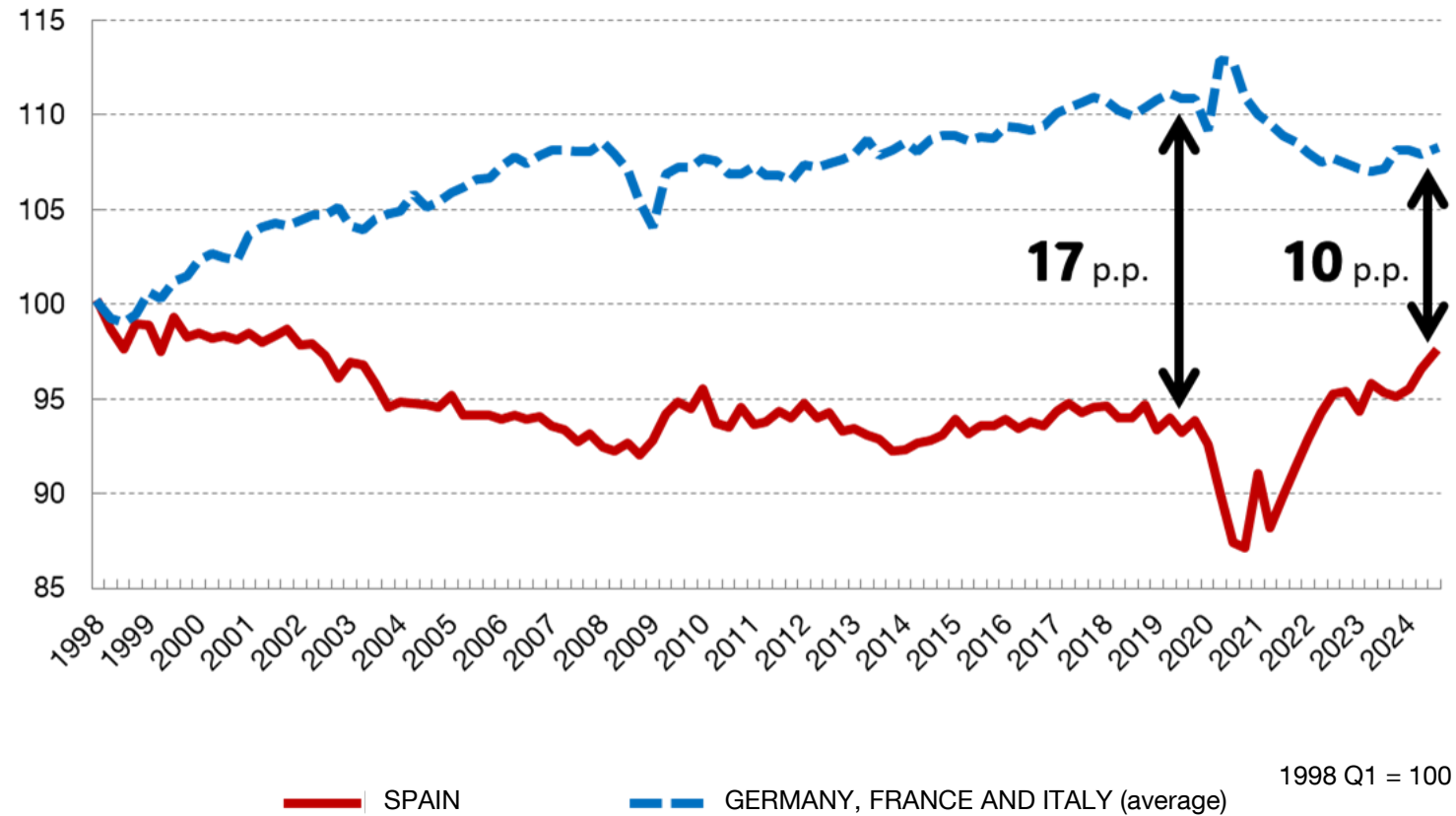
Sources: INE.

SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT STILL FACES MAJOR STRUCTURAL CHALLENGES



OVER THE PAST TWO DECADES SPAIN EXPERIENCED A SIGNIFICANT RELATIVE CUMULATIVE DECLINE IN PRODUCTIVITY, A SITUATION THAT HAS REVERSED IN RECENT YEARS

TOTAL FACTOR PRODUCTIVITY



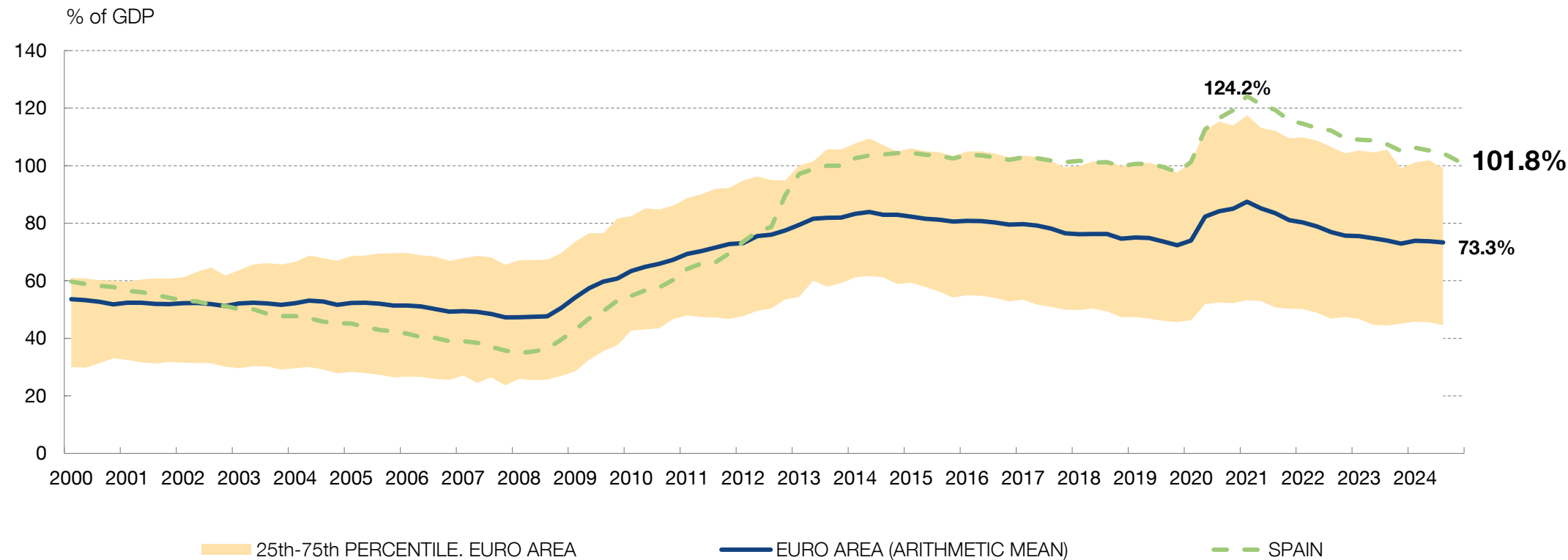
Notes: Cumulative total factor productivity growth. Estimates based on Comin, Quintana, Schmitz and Trigari (2025).

SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT STILL FACES MAJOR STRUCTURAL CHALLENGES



GOVERNMENT DEBT REMAINS HIGH, DESPITE ITS RECENT REDUCTION, AND IS STILL HIGHER THAN IN MOST EUROPEAN COUNTRIES

SPANISH GOVERNMENT DEBT IN THE EUROPEAN CONTEXT



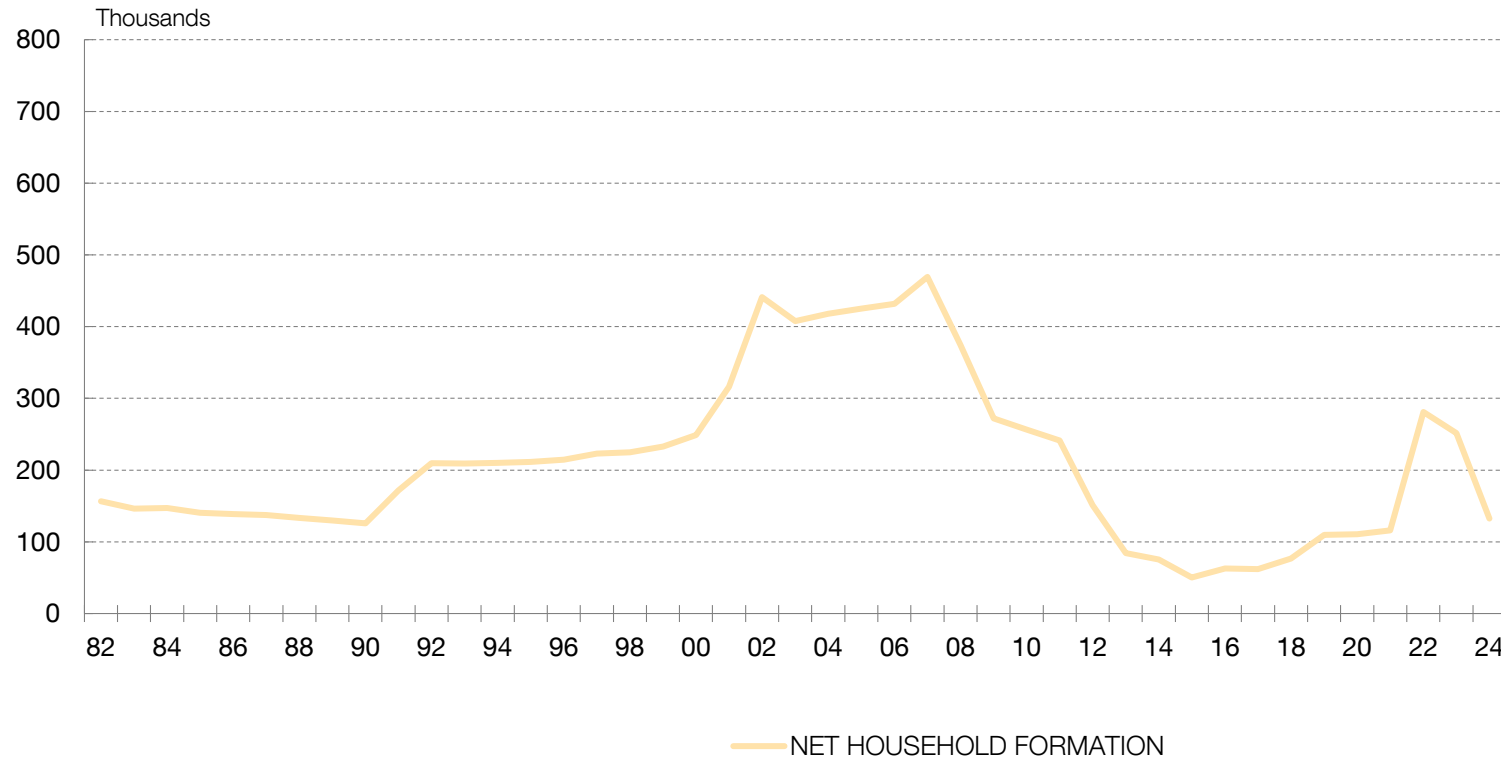
Source: Eurostat.

SPAIN'S ECONOMY HAS SHOWN STRONG MOMENTUM RECENTLY, YET IT STILL FACES MAJOR STRUCTURAL CHALLENGES



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

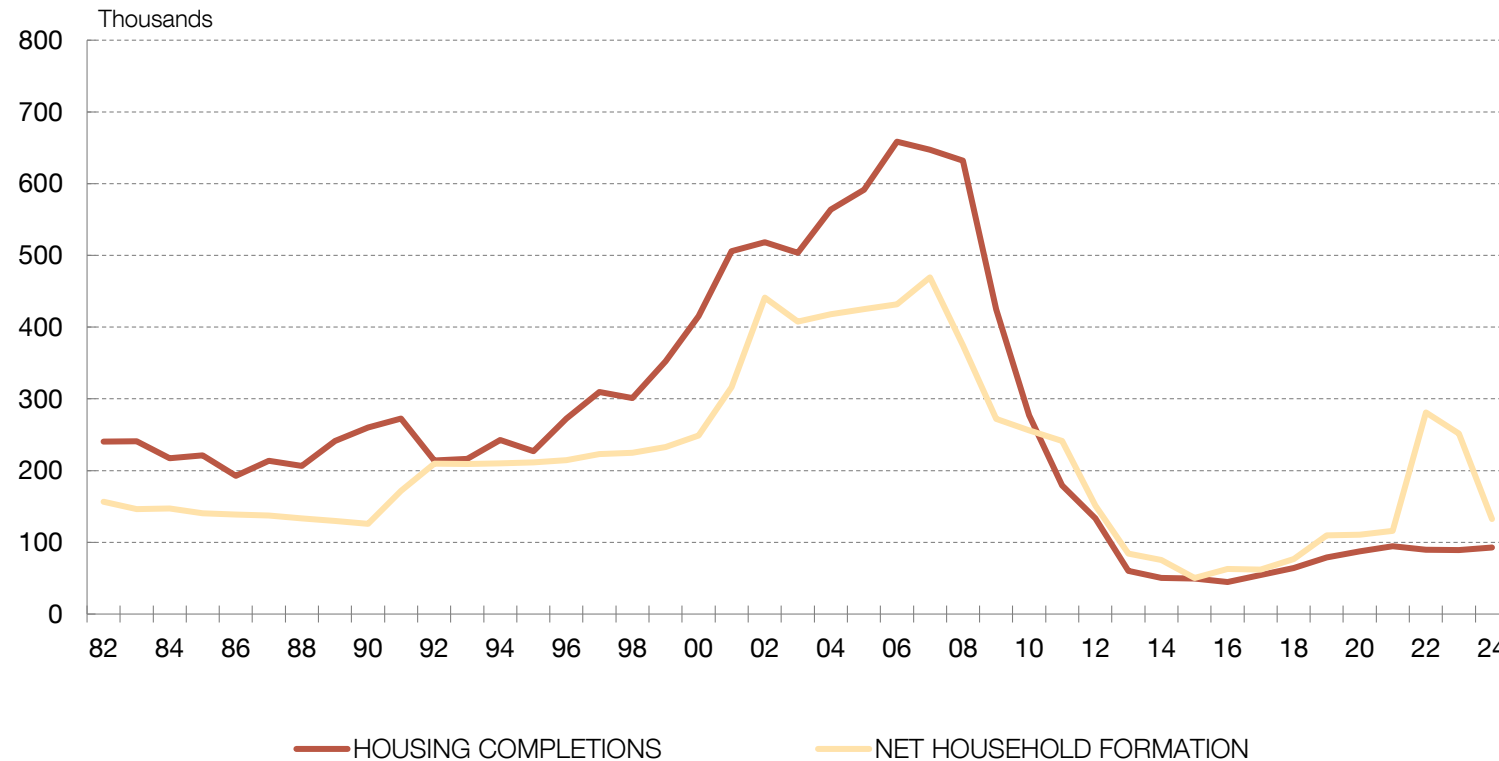
HOUSING NEEDS FOR NEW HOUSEHOLDS



Recent demand factors:

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

HOUSING NEEDS FOR NEW HOUSEHOLDS

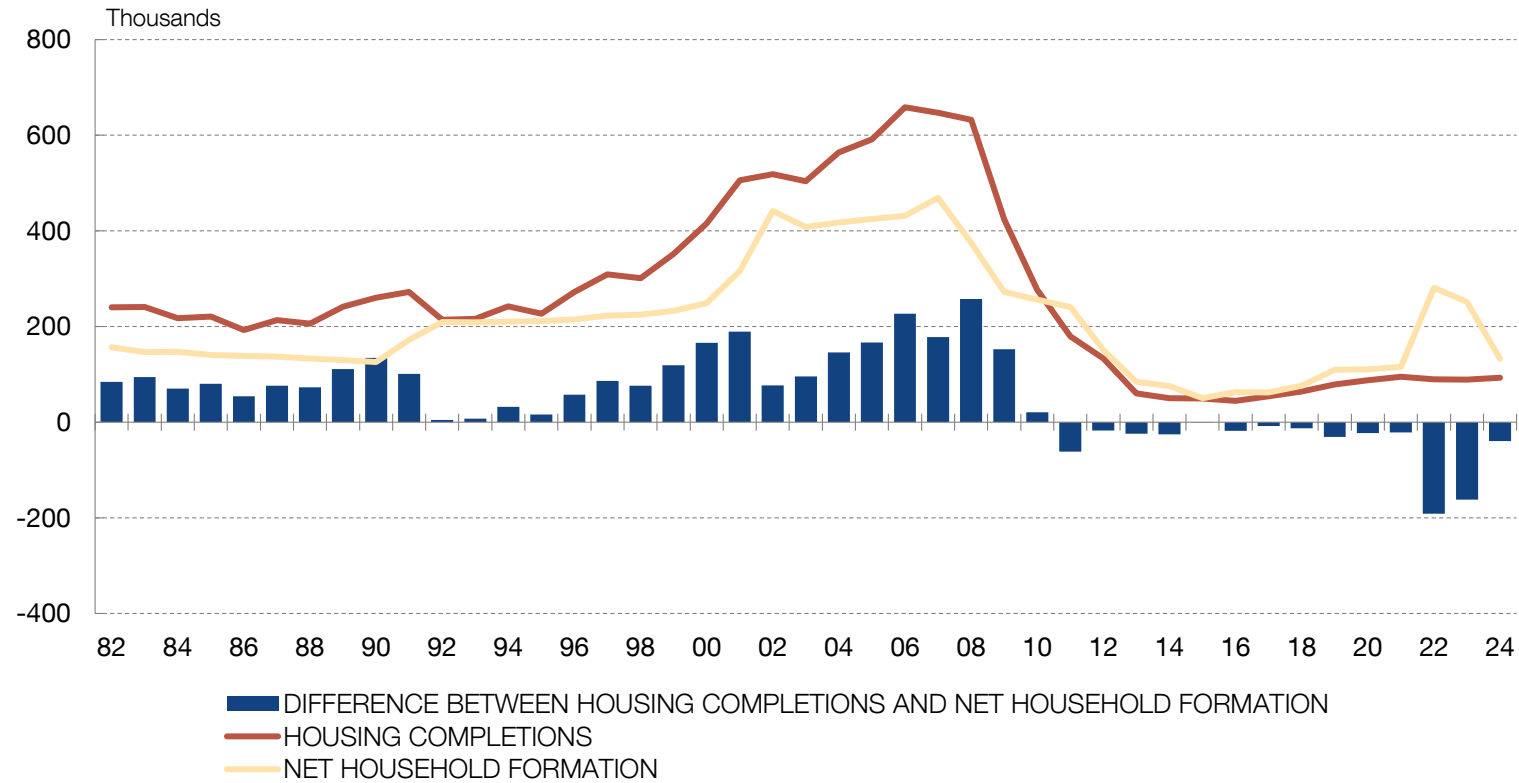


Recent **supply** factors:

- **Limited availability of build-ready land**
- **Labour shortages**
- Regulatory **uncertainty** and lack of investment

...WHICH LEADS TO A SHORTFALL IN HOUSING COMPLETIONS RELATIVE TO HOUSEHOLD FORMATION, PUSHING UP HOUSE PRICES

HOUSING NEEDS FOR NEW HOUSEHOLDS



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](#).

Thank you very much
