



GEOECONOMIC TRENDS*

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DEPUTY GOVERNOR

EL ESCORIAL, 2 JULY 2025

*ENGLISH TRANSLATION FROM THE ORIGINAL IN SPANISH



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1. GLOBAL ENVIRONMENT
2. THE SPANISH ECONOMY: CHARACTERISTICS AND RECENT DEVELOPMENTS
3. MACROECONOMIC PROJECTIONS 2025-27
4. FOCAL POINTS
 - 4.1 TARIFFS
 - 4.2 DEFENCE



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Uncertainty

Uncertainty has risen to historically high levels



Activity

Global economic activity is slowing, especially in the United States, impacted by the tariff war and the high level of uncertainty



Monetary policy

The mixed outlook for inflation and growth has led to divergent monetary policies



Financial markets

The tariff war triggered an episode of financial turmoil in early April that has been receding in recent weeks



Inflation

The disinflation process continues, underpinned by lower energy prices. Inflation expectations in the United States have risen

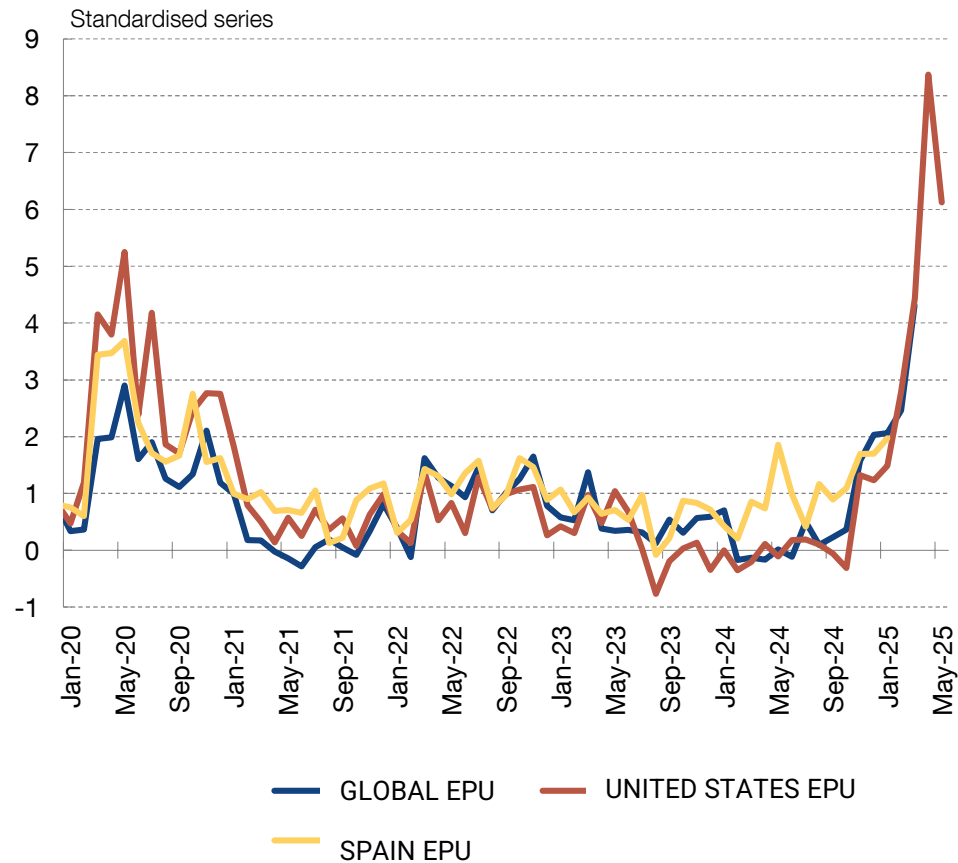


Euro area

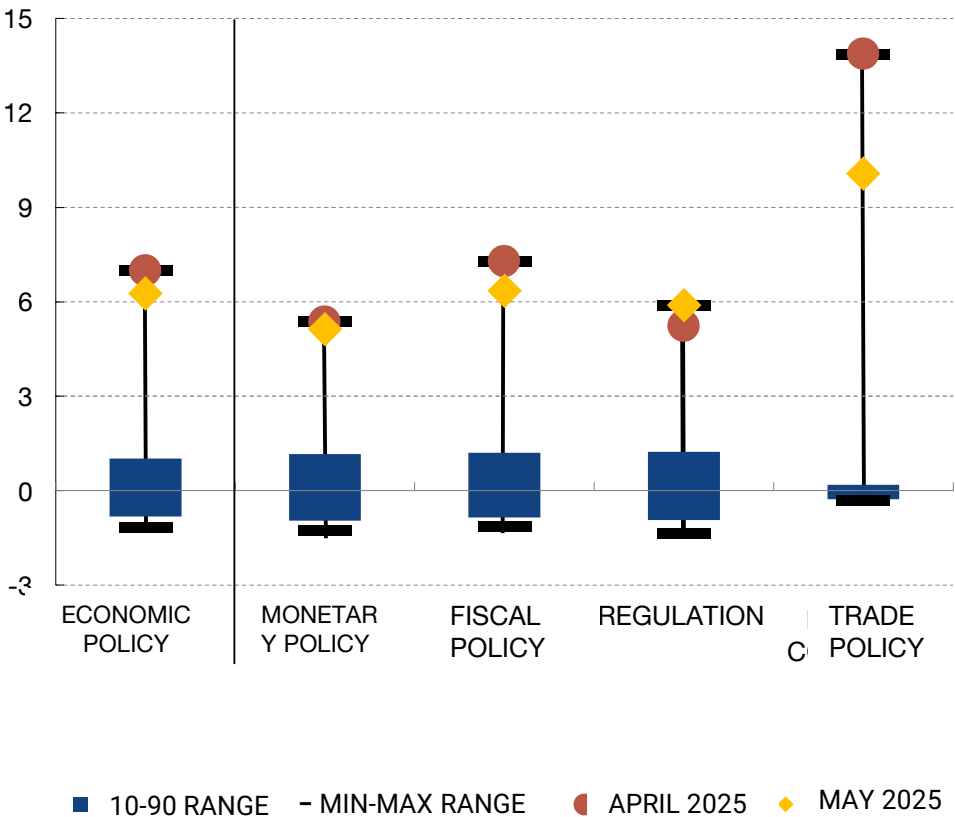
GDP growth quickened in 2025 Q1 and inflation continued to ease gradually. June Eurosystem projections

GLOBAL ENVIRONMENT: ALTHOUGH THE LEVELS OF UNCERTAINTY DECLINED IN MAY, THEY REMAIN HISTORICALLY HIGH

GLOBAL UNCERTAINTY



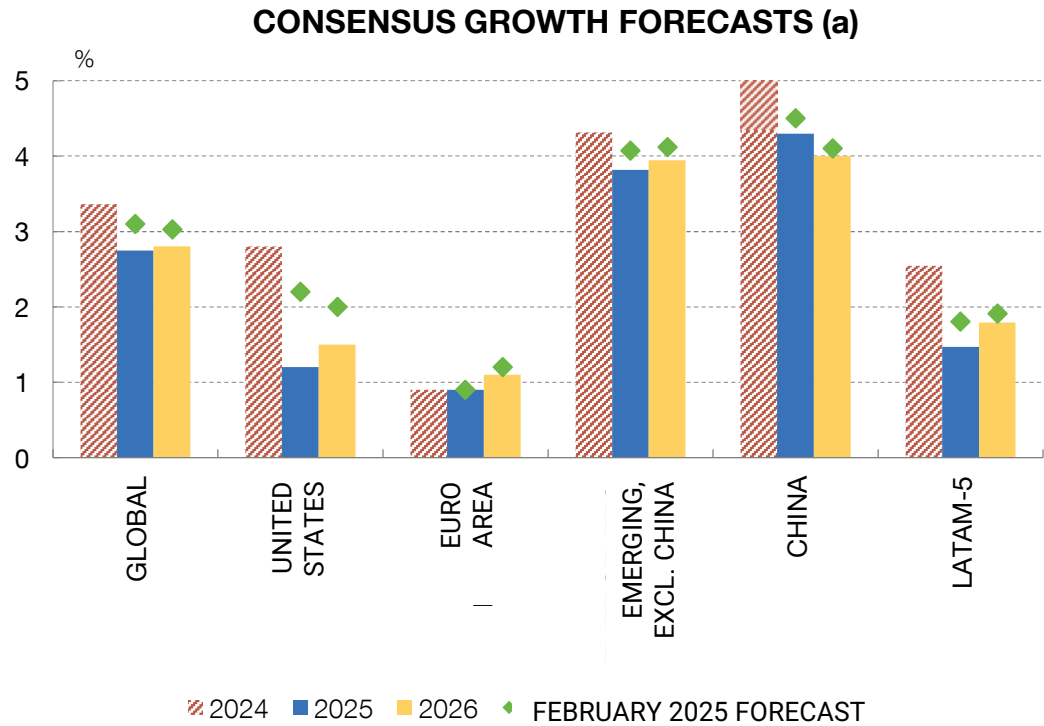
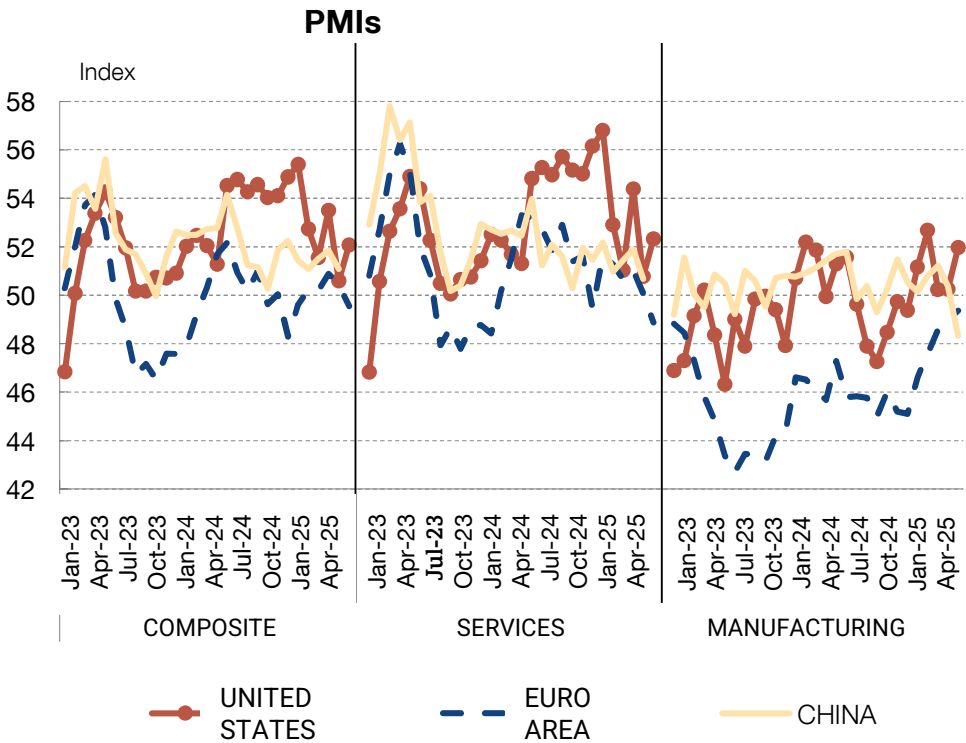
US POLICY UNCERTAINTY



Source: US Economic Policy Uncertainty Index – Categorical classification. https://www.policyuncertainty.com/categorical_epu.htm.

HEIGHTENED UNCERTAINTY IS AFFECTING GLOBAL ECONOMIC ACTIVITY, WHICH IS SLOWING

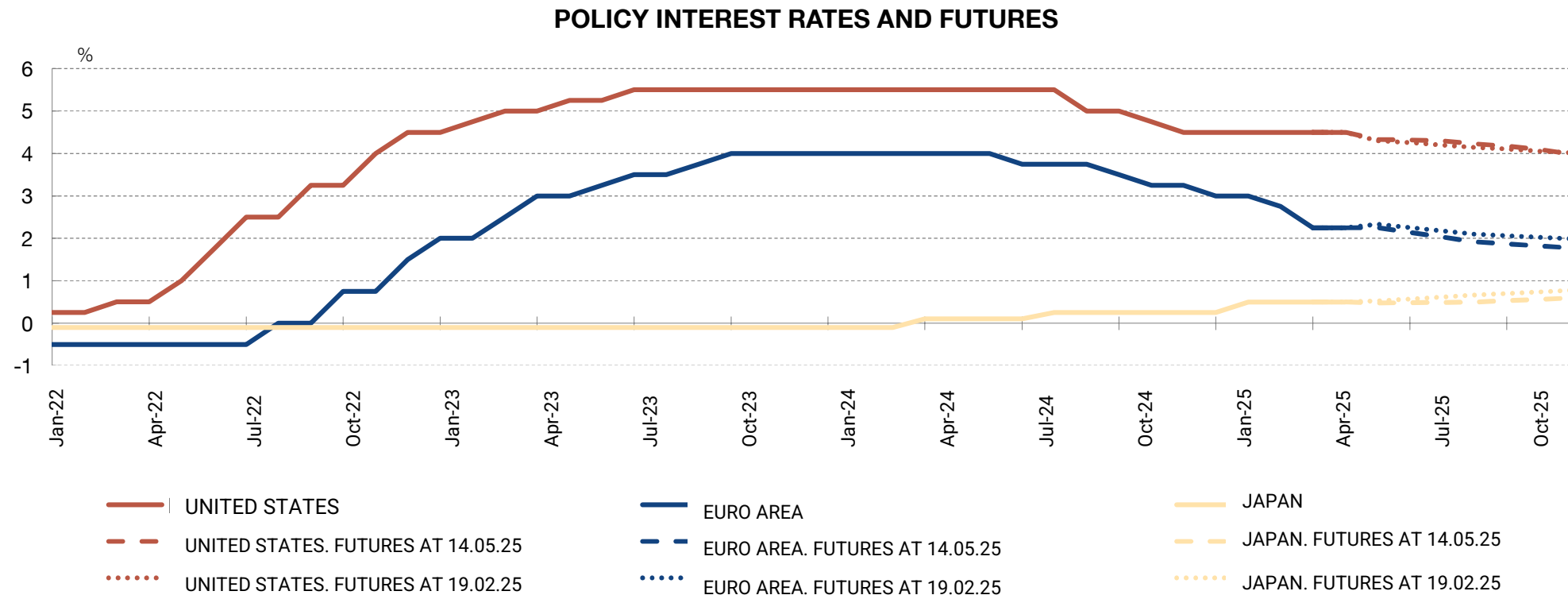
- The **services sector**, which underpinned activity in 2024, **is slowing**, while **manufacturing has recovered** in recent months, owing to the frontloading of goods trade flows ahead of a potential tariff increase
- **Trade tensions and uncertainty are weighing on US GDP**, which contracted slightly in 2025 Q1 but could once again grow in the current quarter
- In any event, consensus forecasts for **global and US GDP growth have been substantially revised down** in recent months



Sources: S&P Global and Consensus Economics. (a) The May 2025 forecasts (bars) are compared with the February 2025 forecasts (diamonds).

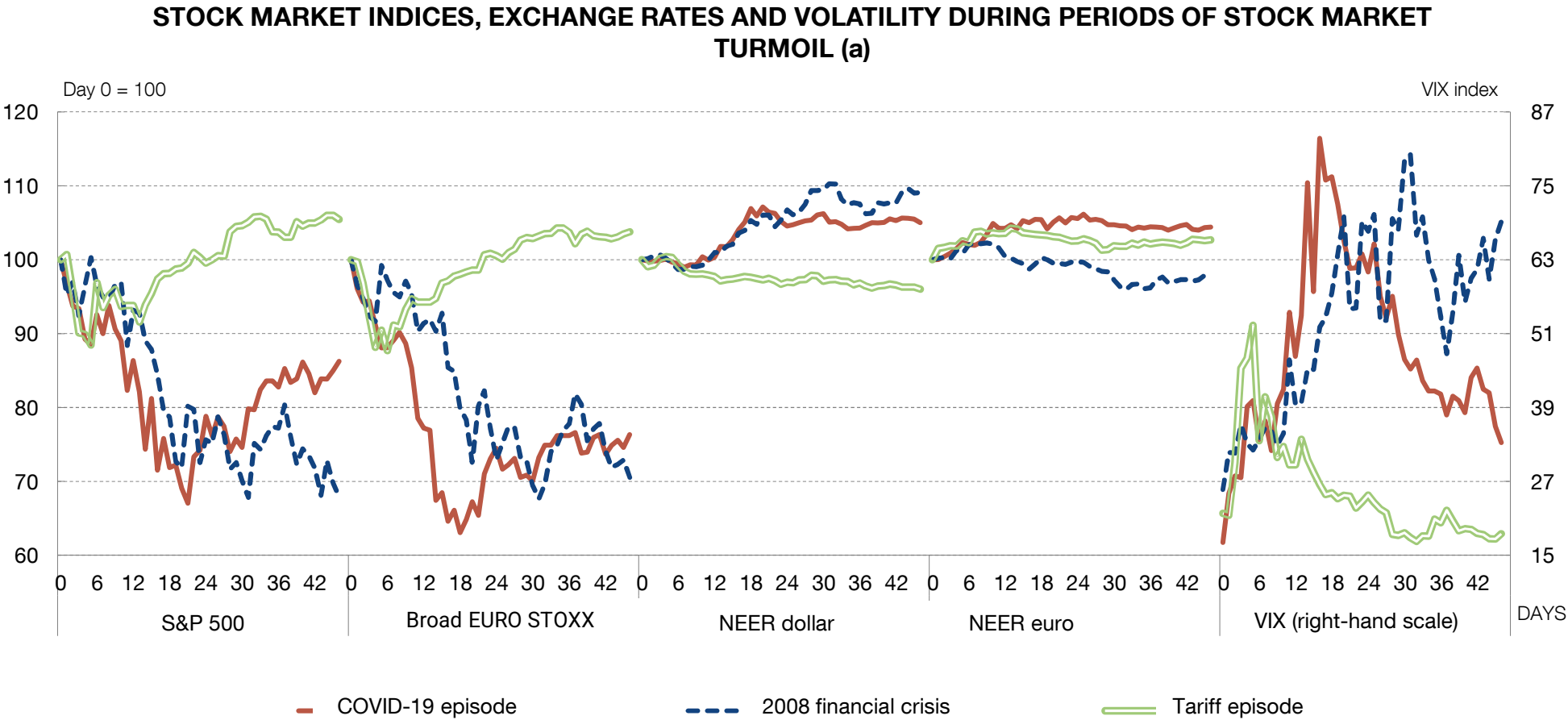
THE MIXED OUTLOOK FOR INFLATION AND GROWTH ACROSS COUNTRIES HAS LED TO DIVERGENT MONETARY POLICY DECISIONS

- In the advanced economies, since early 2025, there have been **cuts to official interest rates** in the euro area, the United Kingdom and Canada, among others
- In the **United States**, however, **the Federal Reserve System has held its rates unchanged** since December 2024 and, at its most recent monetary policy meeting, it noted that the risks of higher unemployment and rising inflation had increased, in a context of heightened uncertainty



Sources: Refinitiv Datastream, Banco de España and Federal Reserve System.

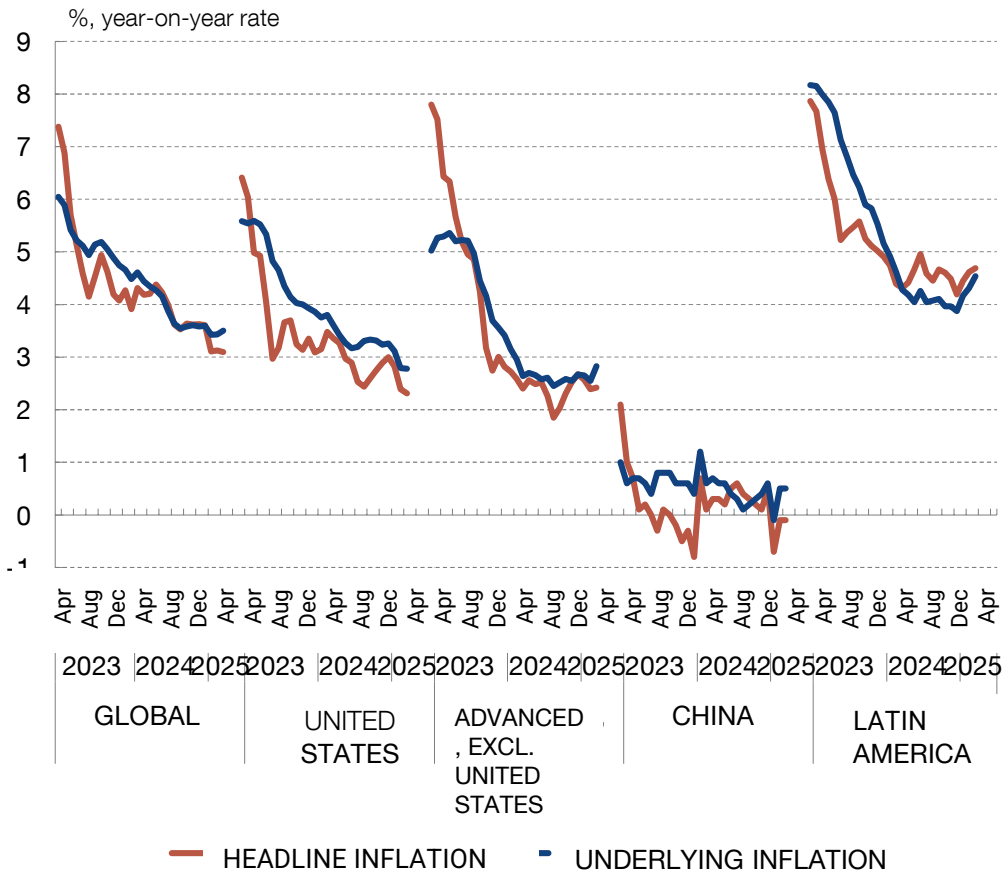
THE EPISODE OF FINANCIAL TURMOIL ASSOCIATED WITH THE “RECIPROCAL TARIFF” ANNOUNCEMENT WAS INTENSE, BUT SHORT-LIVED



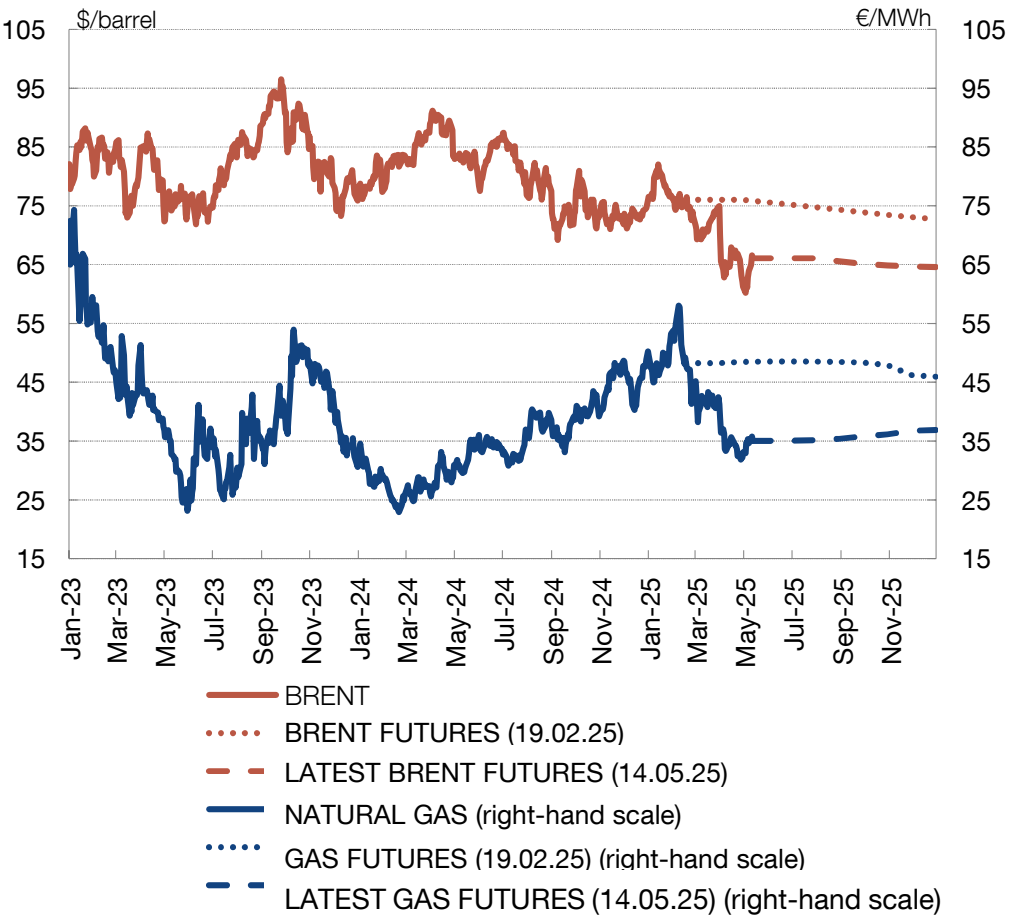
Source: LSEG Datastream. (a) Changes in the VIX, S&P 500, broad EURO STOXX, and nominal effective exchange rates (NEER) for the dollar and the euro during the COVID-19 episode (from 21/02/2020 to 27/04/2020), the 2008 financial crisis (from 12/09/2008 to 17/11/2008) and the tariff episode (from 01/04/2025 to 05/06/2025).

THE DISINFLATION PROCESS CONTINUES WORLDWIDE, UNDERPINNED BY LOWER ENERGY PRICES

INFLATION



GAS AND OIL PRICES AND FUTURES

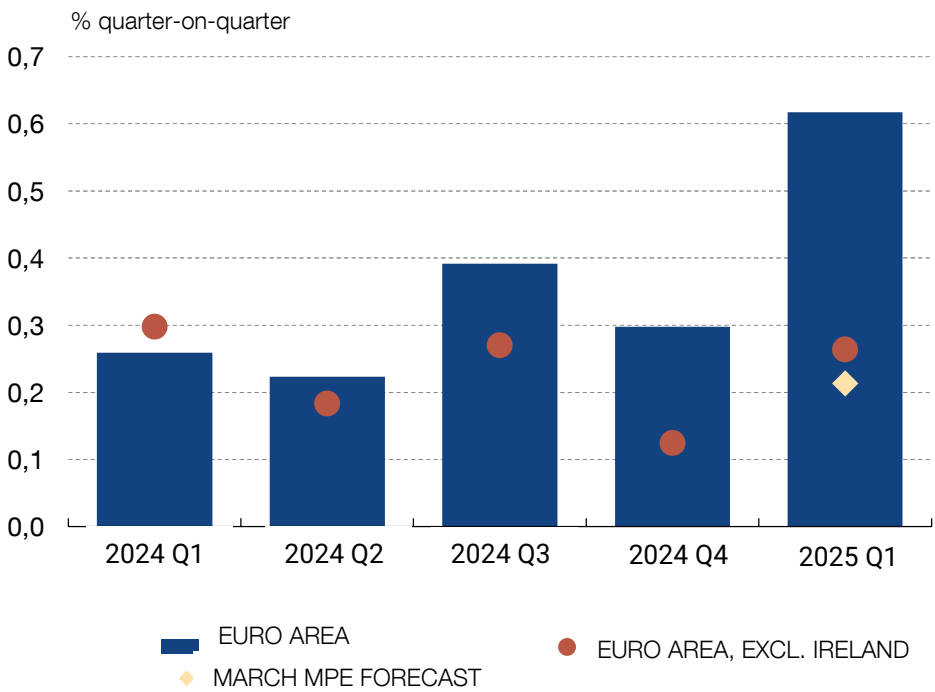


Source: LSEG Datastream.

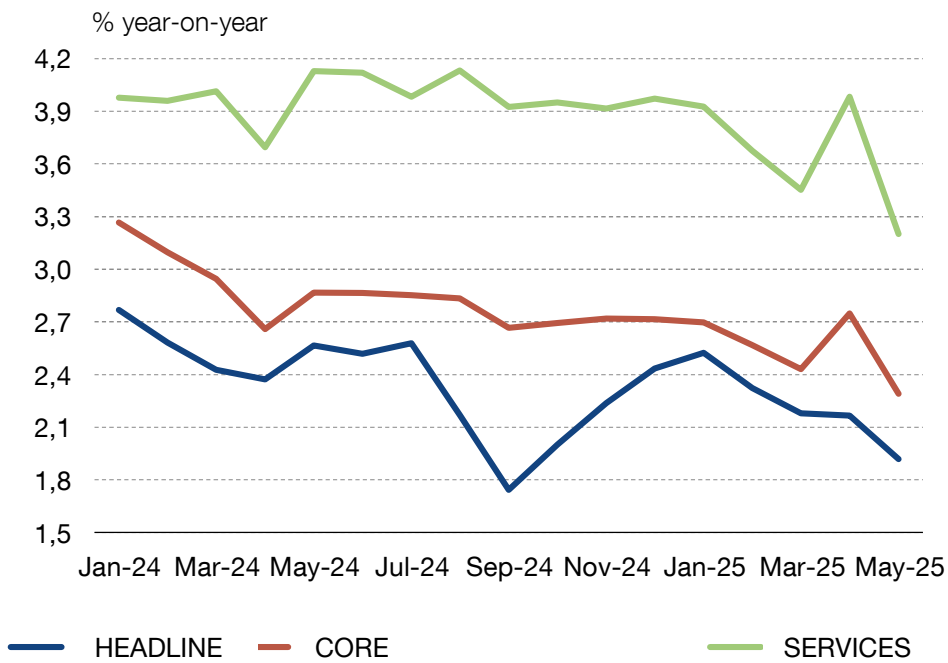
EURO AREA ECONOMIC ACTIVITY GREW MORE THAN EXPECTED IN 2025 Q1 AND INFLATION REMAINS ON A SMOOTH DOWNWARD TREND

- **Euro area GDP rose by 0.6% in 2025 Q1, more than projected**, albeit highly influenced by growth in **Ireland (9.7%)**
- Some of the recent momentum of euro area activity – particularly in manufacturing – appears to be attributable to some **frontloading of exports in order to avoid a potential tariff increase**
- **Headline inflation fell** to 1.9% in May and core inflation decreased to 2.3%. After rising in April, services inflation fell by 0.8 pp in May, to 3.2%

EURO AREA GDP



EURO AREA INFLATION



Source: Eurostat.

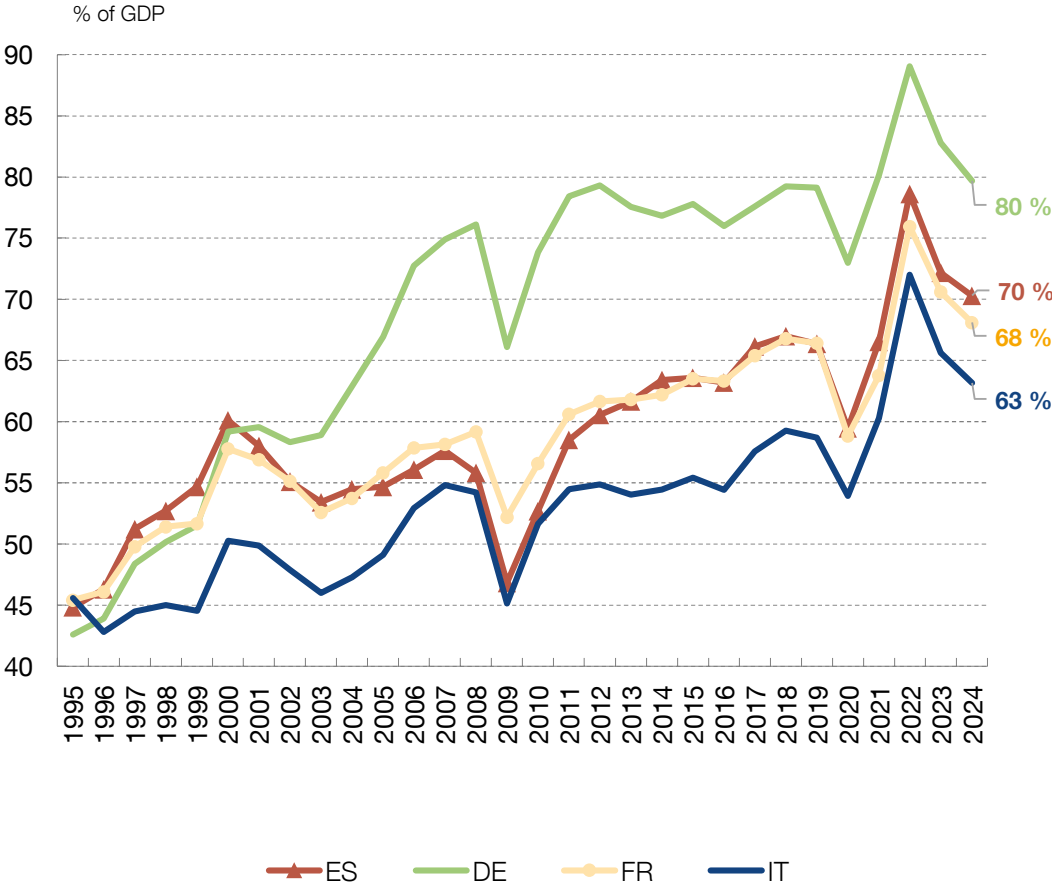


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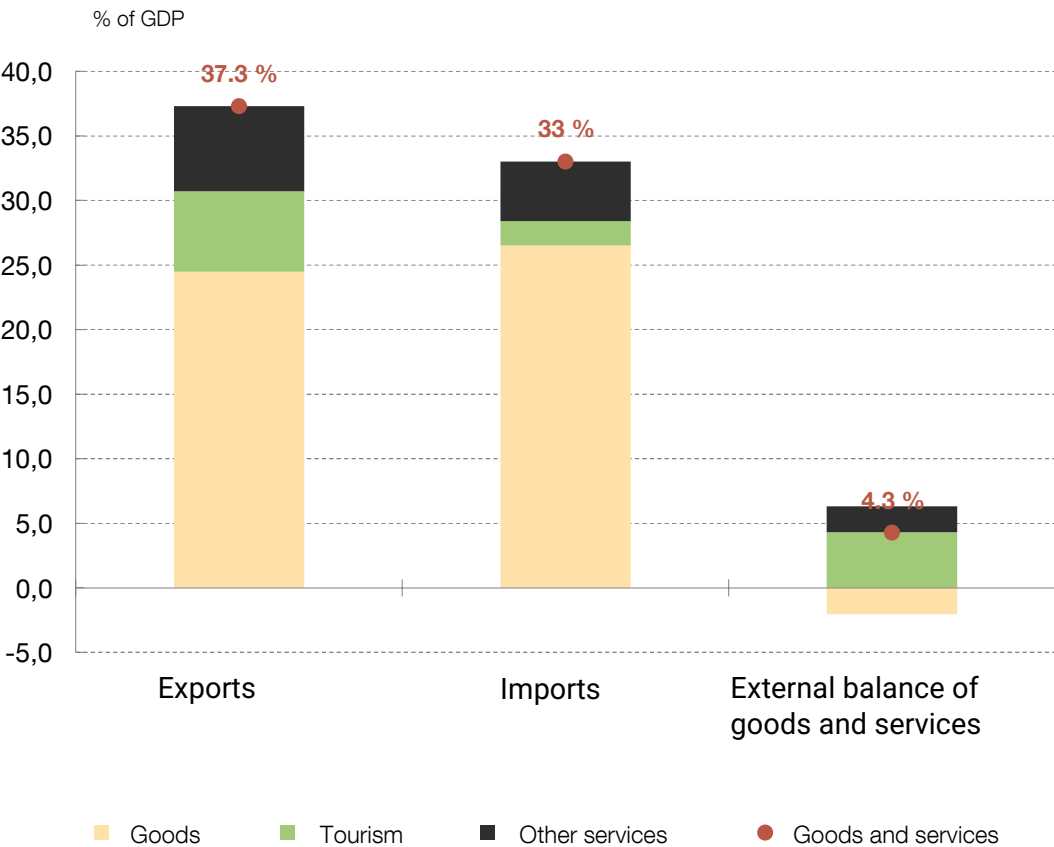
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SPAIN'S TRADE OPENNESS (AROUND 70%) SURPASSES THAT OF FRANCE OR ITALY. THE EXTERNAL SURPLUS IN GOODS AND SERVICES STANDS AT 4.3% OF GDP

DEGREE OF TRADE OPENNESS (a)

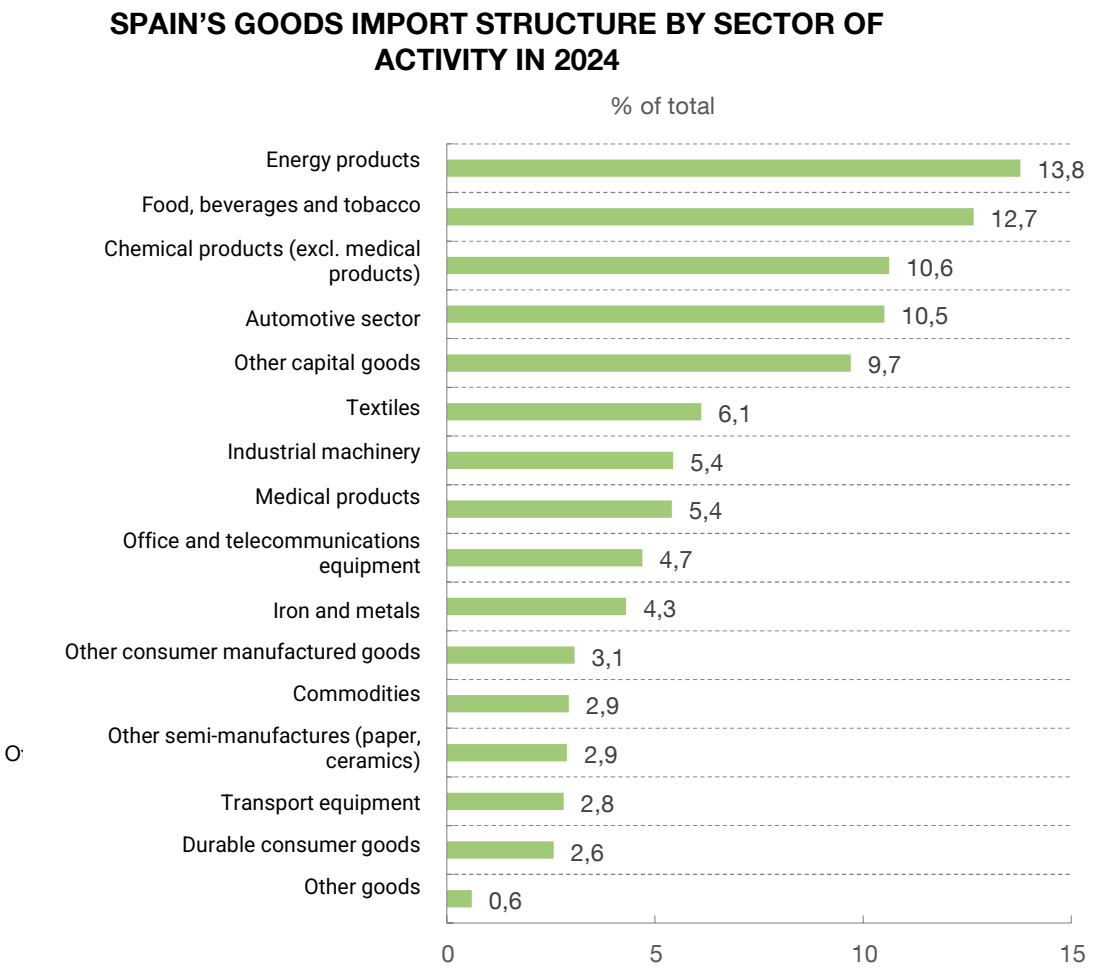
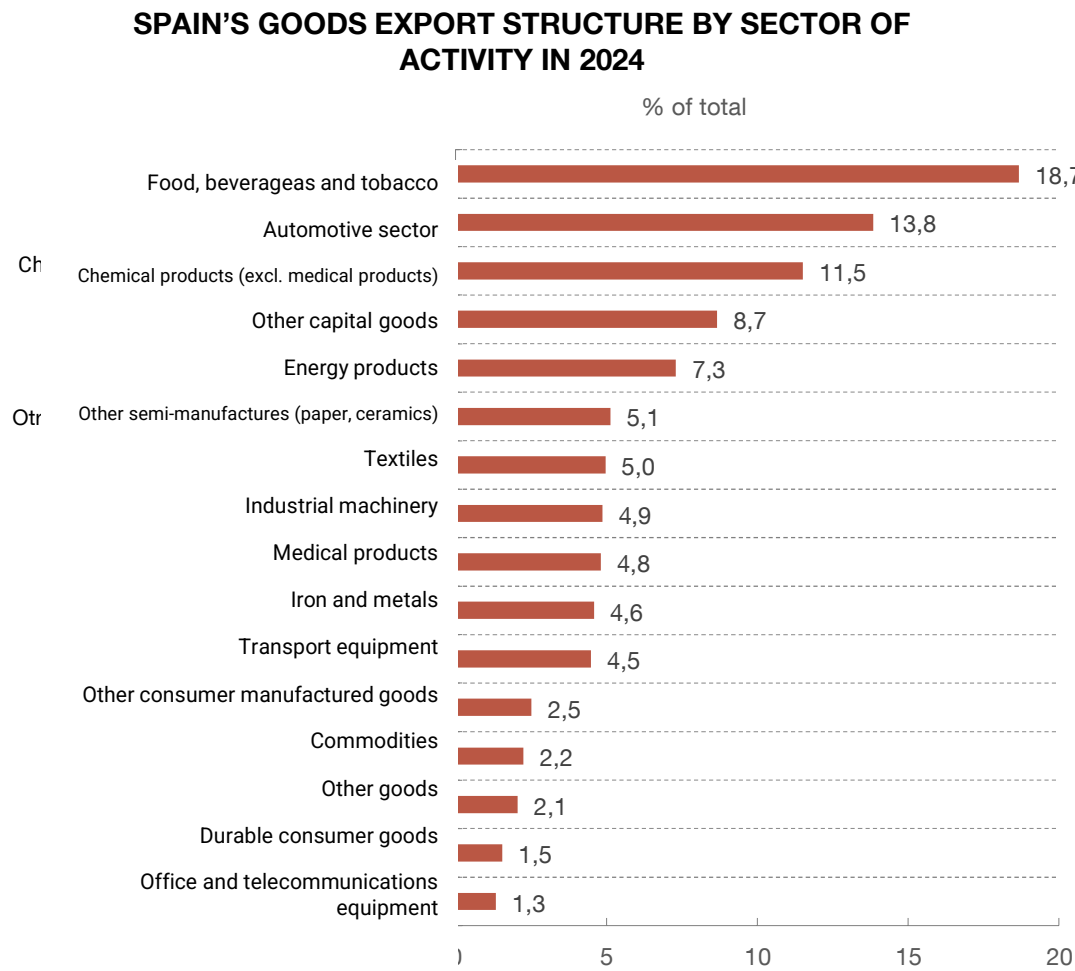


SPAIN'S EXTERNAL TRADE IN 2024



Sources: Eurostat, INE and Banco de España.
Note: The degree of trade openness is calculated as the sum of exports and imports of goods and services relative to GDP.

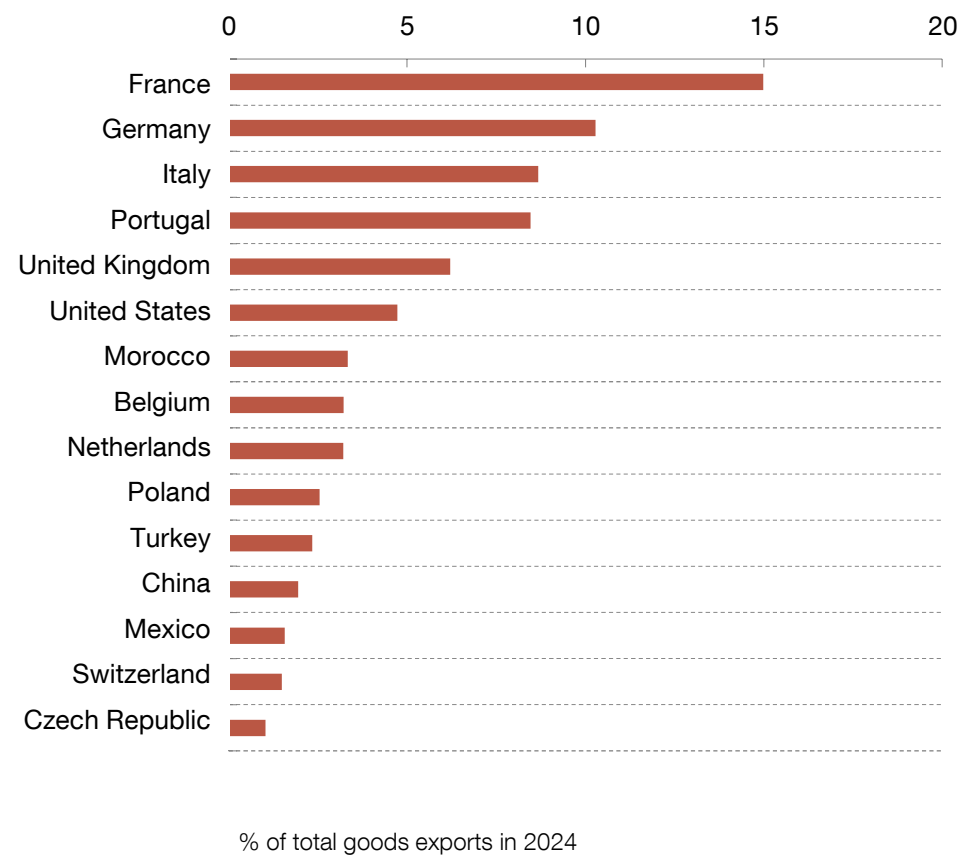
THE MOST EXPORTED GOODS ARE THOSE LINKED TO THE FOOD, AUTOMOTIVE AND CHEMICAL PRODUCT INDUSTRIES. PROMINENT AMONG IMPORTED GOODS ARE ENERGY PRODUCTS



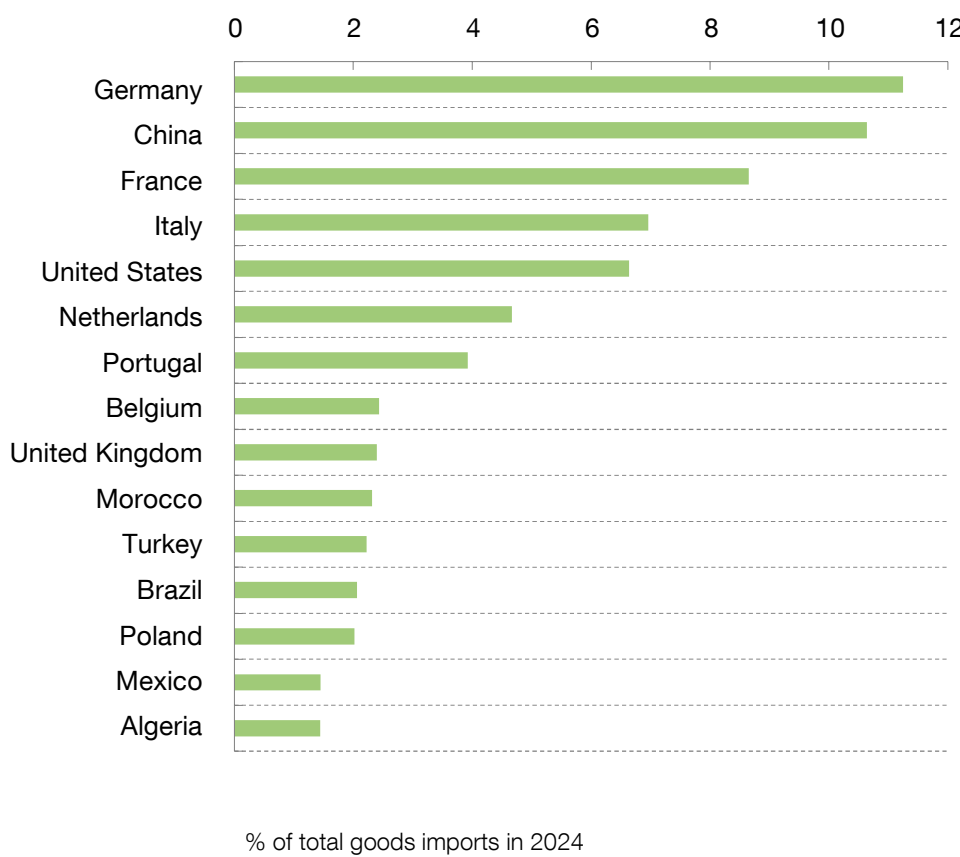
Sources: Ministerio de Economía, Comercio y Empresa (sectoral classification).

SPAIN'S MAIN EXPORT MARKETS FOR GOODS ARE FRANCE, GERMANY AND ITALY. AS FOR IMPORTS, GERMANY, CHINA AND FRANCE ARE SPAIN'S MAIN SUPPLIERS OF GOODS

MAIN DESTINATIONS FOR GOODS EXPORTS IN 2024.
TOP 15



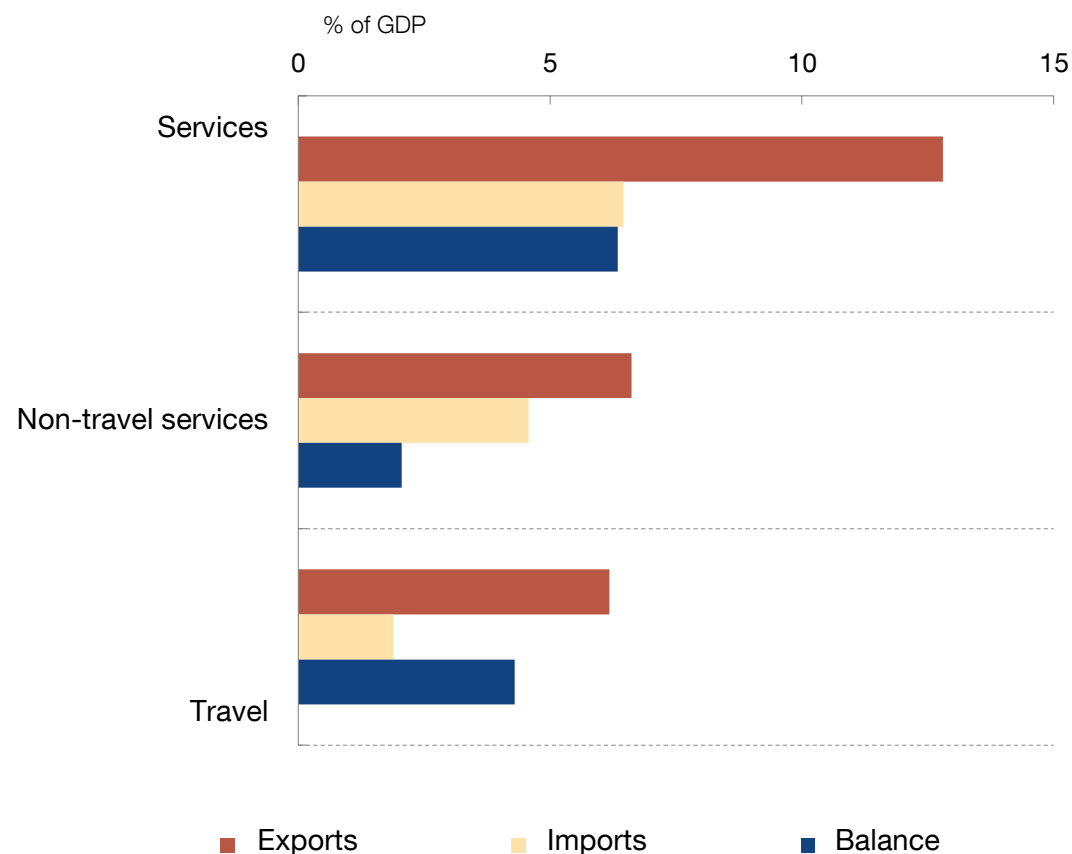
MAIN SUPPLIERS OF GOODS IMPORTS IN 2024. TOP 15



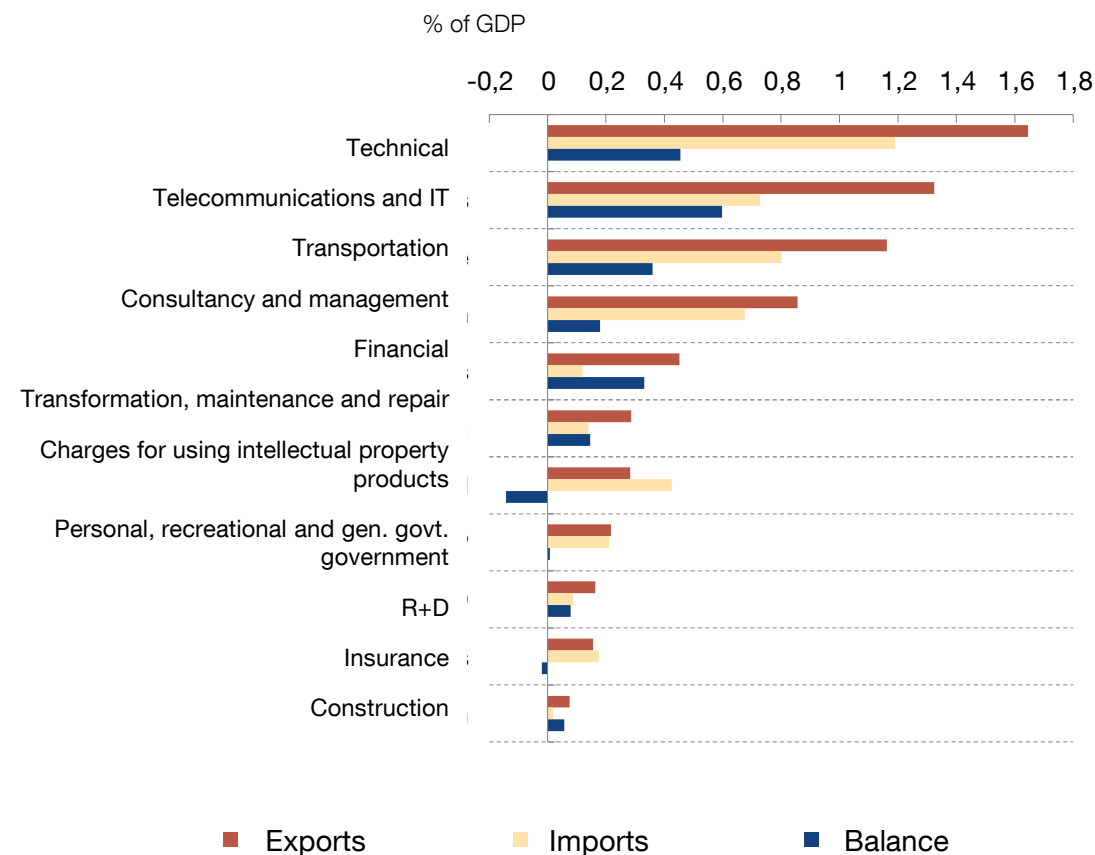
Sources: Ministerio de Economía, Comercio y Empresa (sectoral classification).

SERVICES EXPORTS ACCOUNT FOR CLOSE TO 13% OF GDP (6.2% TRAVEL SERVICES, AND 6.6% OTHER SERVICES, NOTABLY TECHNICAL, TELECOMMUNICATIONS AND IT SERVICES AND TRANSPORTATION)

SHARE OF SPAIN'S EXTERNAL TRADE IN SERVICES IN 2024



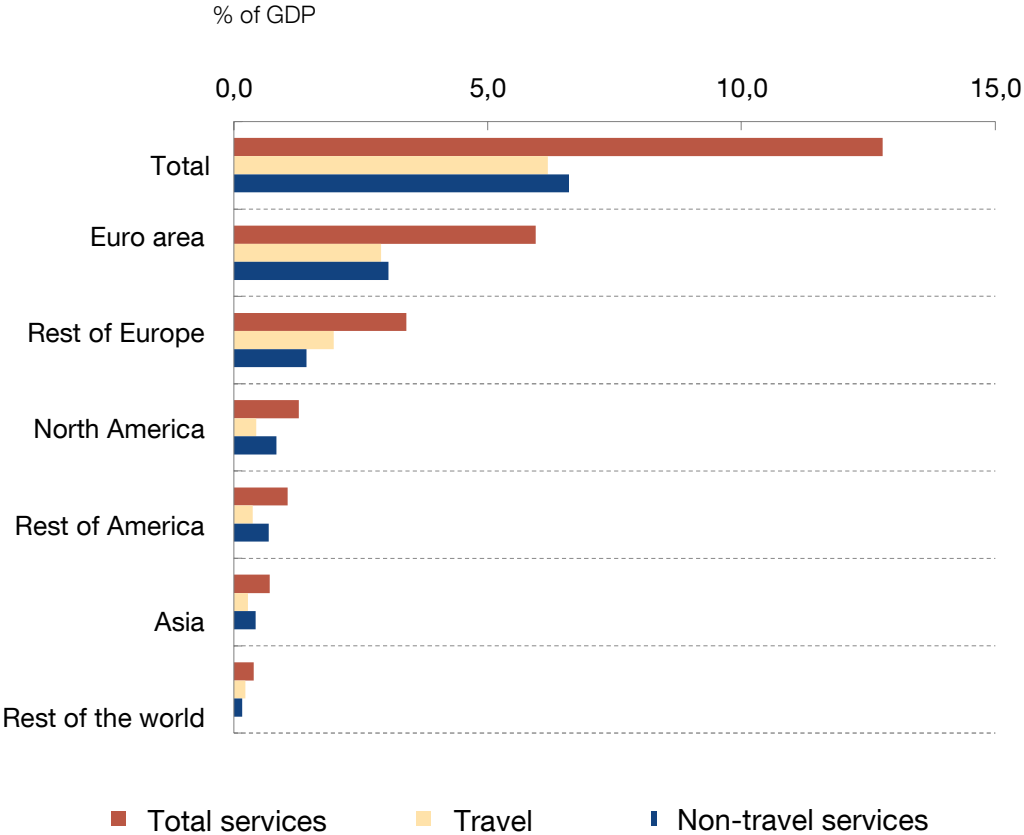
SHARE OF SPAIN'S EXTERNAL TRADE IN NON-TRAVEL SERVICES IN 2024



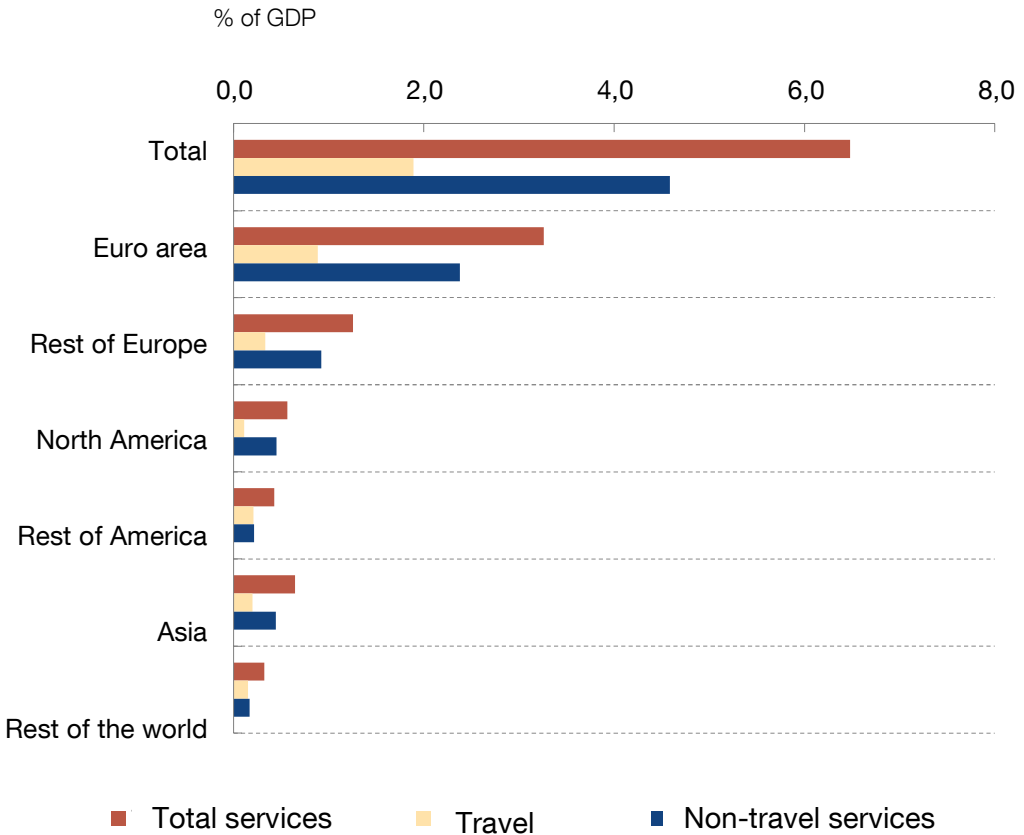
Sources: INE and Banco de España.

AROUND HALF OF EARNINGS FROM SERVICES EXPORTS (BOTH TRAVEL AND NON-TRAVEL) COME FROM THE EURO AREA

SPAIN'S SERVICES EXPORTS BY GEOGRAPHICAL REGION IN 2024 (% GDP)



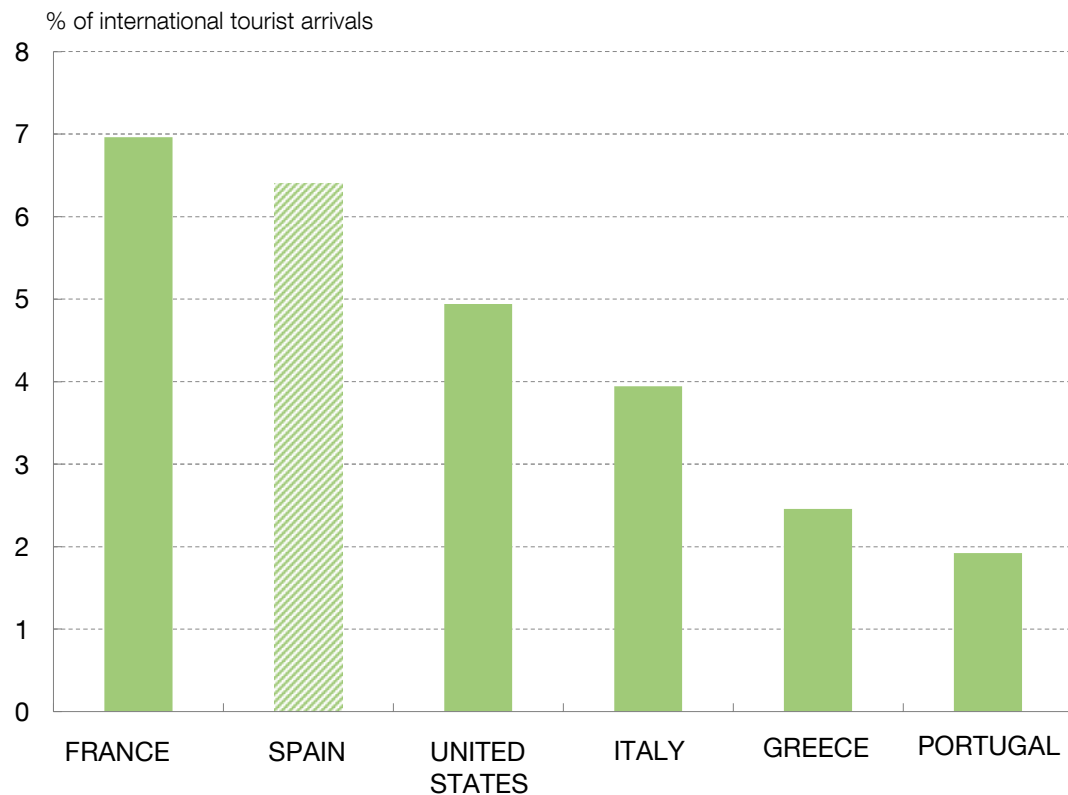
SPAIN'S SERVICES IMPORTS BY GEOGRAPHICAL REGION IN 2024 (% GDP)



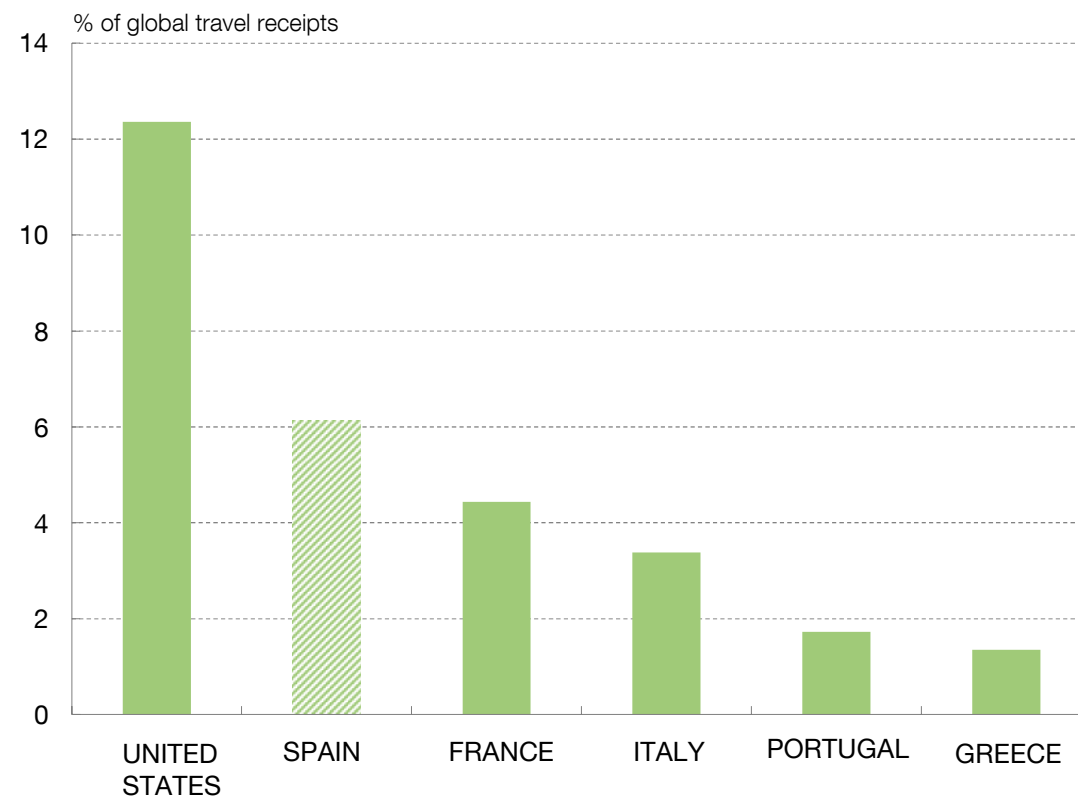
Sources: INE and Banco de España.

SPAIN CONTINUES TO RANK SECOND (TO FRANCE) IN TERMS OF THE NUMBER OF INTERNATIONAL TOURIST ARRIVALS AND TRAVEL RECEIPTS (BEHIND THE UNITED STATES)

SHARE OF INTERNATIONAL TOURIST ARRIVALS IN 2024



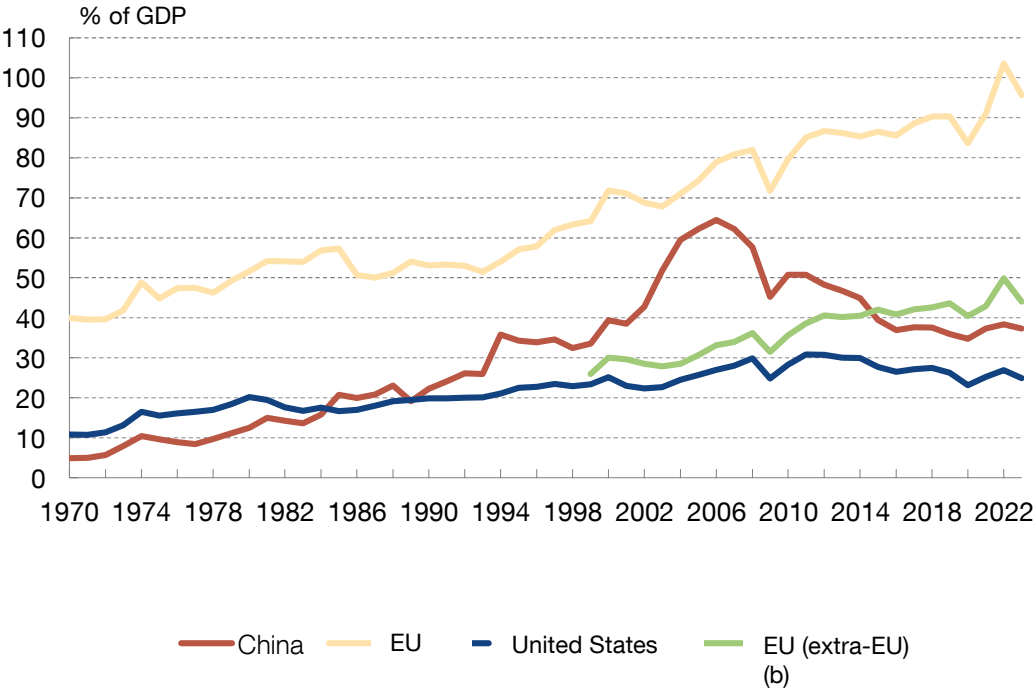
SHARE OF GLOBAL TRAVEL RECEIPTS IN 2024



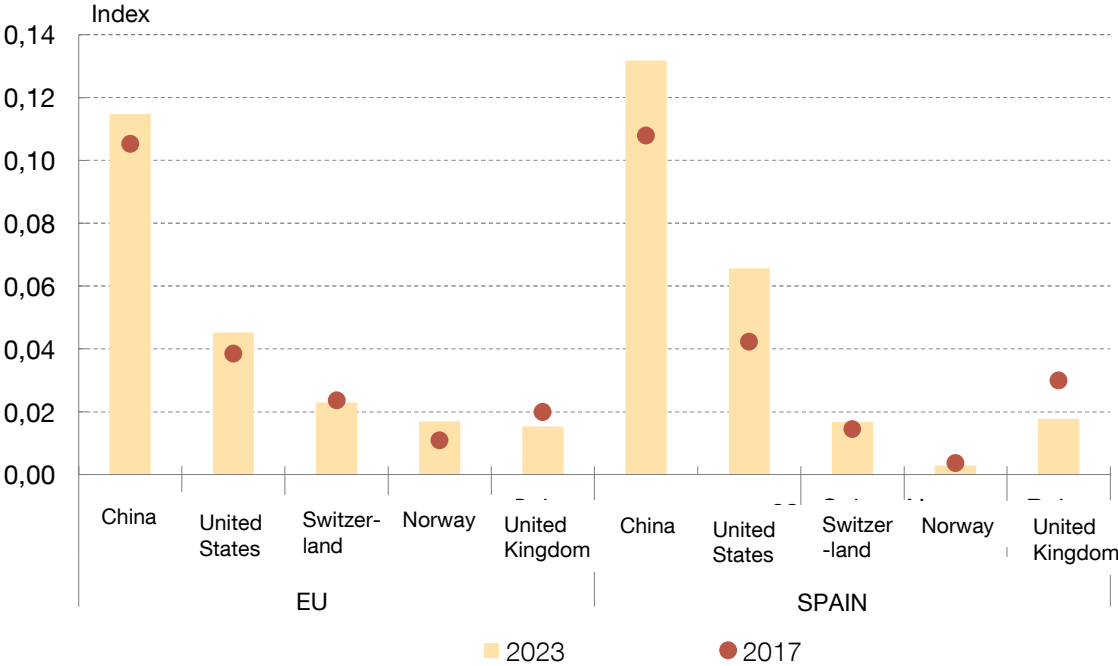
THE EUROPEAN AND SPANISH ECONOMIES, VERY OPEN AND INTERCONNECTED,
ARE ESPECIALLY VULNERABLE TO GLOBAL FRAGMENTATION RISKS

- The **EU's trade openness surpasses** that of other major global economies, such as the United States or China
- The European internal market helps mitigate EU countries' vulnerability to abrupt trade flow disruptions (given that a significant portion of Member States' external trade is conducted among themselves), but they still have **very significant trade dependencies** with the rest of the world, particularly **with the United States and China**

TRADE OPENNESS (a)



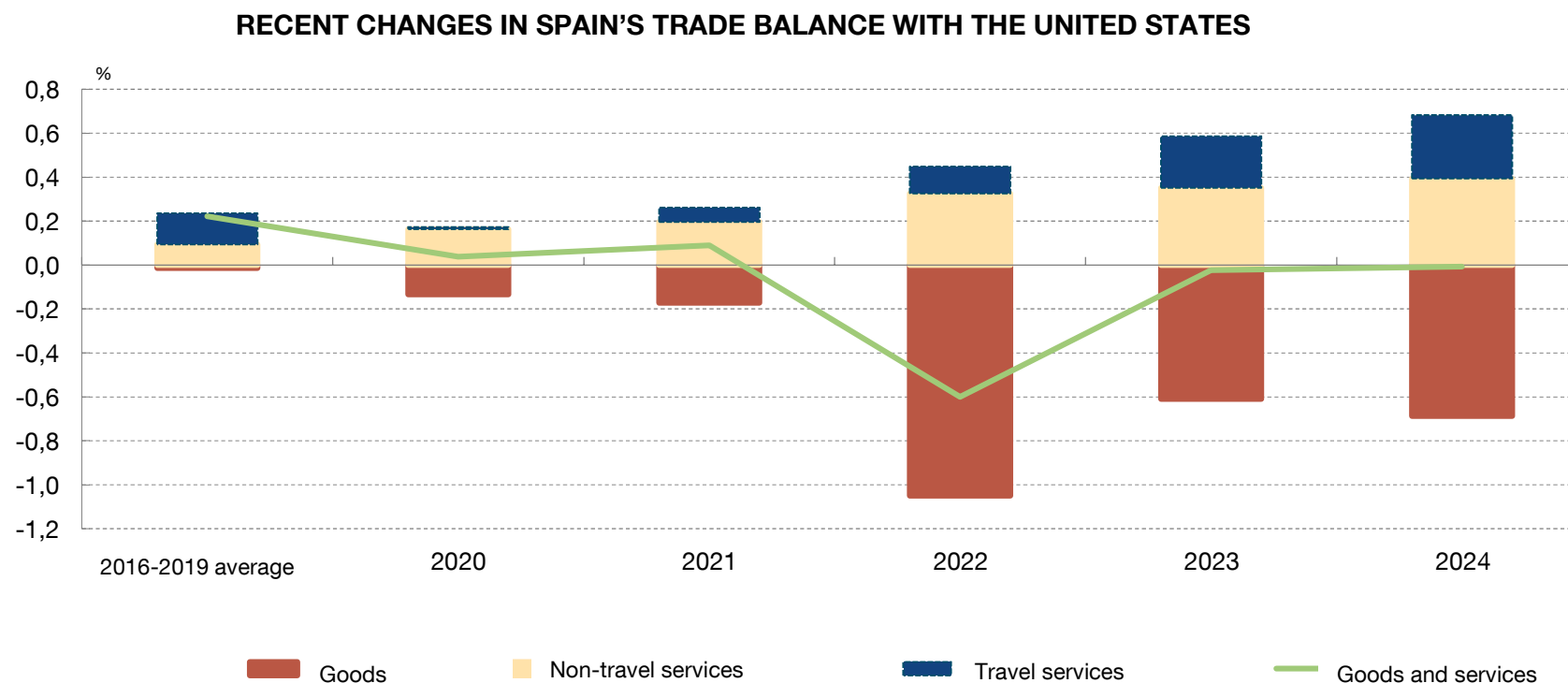
CONCENTRATION OF IMPORTS (c)



Sources: World Bank, Eurostat and Banco de España, drawing on CEPII-BACI data. (a) Calculated as the sum of exports and imports of goods and services as a percentage of GDP. (b) Calculated as the sum of exports and imports of goods and services as a percentage of EU GDP vis-à-vis extra-EU countries. (c) For details of the calculation of these indicators, see Balteanu et al. (2025).

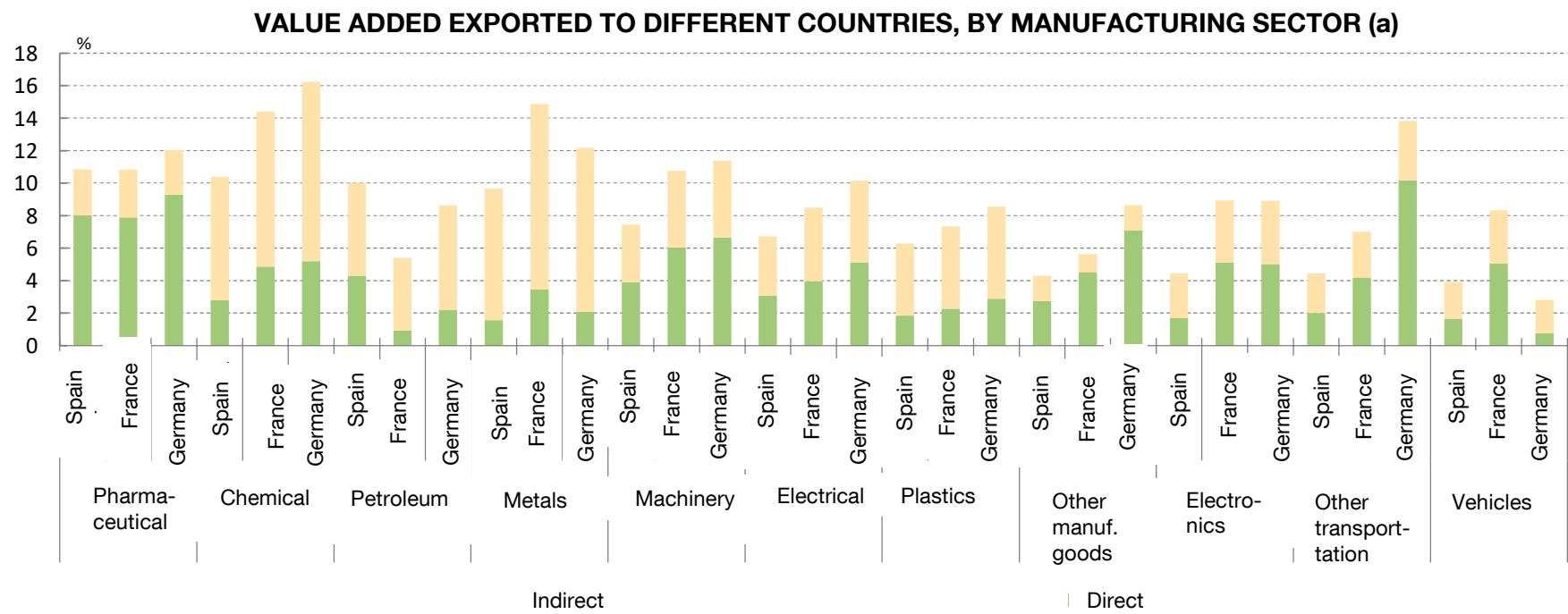
SPAIN'S DIRECT TRADE EXPOSURE TO THE UNITED STATES IS LIMITED AND LOWER THAN THAT OF OTHER MAJOR EU ECONOMIES

- In recent years, Spain has run a **growing trade surplus in services with the United States** that is offset by a **trade deficit in goods**, which, since 2022, has increased considerably due to **higher energy imports**
- The volume of Spain's external trade with the United States – measured as the trade-to-GDP ratio – is slightly above 4% of GDP, compared with over 7% in Germany and over 5% in Italy. These countries also run a sizeable trade surplus with the US economy, particularly in trade in goods



SPAIN'S INDIRECT EXPOSURE TO THE UNITED STATES IS GREATER BECAUSE OF THE SPANISH ECONOMY'S INTEGRATION WITH GLOBAL VALUE CHAINS

- This indirect channel increases the Spanish economy's exposure to the United States very significantly for some industrial sectors. In particular, **the Spanish industries whose value added is most exposed to US demand are those linked to the pharmaceutical, chemical, petroleum and metal sectors**
- In any event, these exposures are considerably **lower than those of other big euro area countries** and the European economy as a whole



Sources: Banco de España, ECB and Eurostat-FIGARO. (a) Only sectors whose direct and indirect exposure exceeds 8% are depicted. Direct exposure shows direct exports to the United States as a percentage of each sector's total output. 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.

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY: ACTIVITY

Quarterly National Accounts 2025 Q1

GDP growth moderated in 2025 Q1 to 0.6% and was revised down for previous quarters

Employment

Employment performed slightly less buoyantly in 2025 Q2 than in previous quarters

Confidence

Both the manufacturing and services PMI have declined in recent months

Business Activity

The Banco de España Business Activity Survey (EBAE) suggests that Spanish firms' turnover has fallen slightly in seasonally adjusted terms in Q2

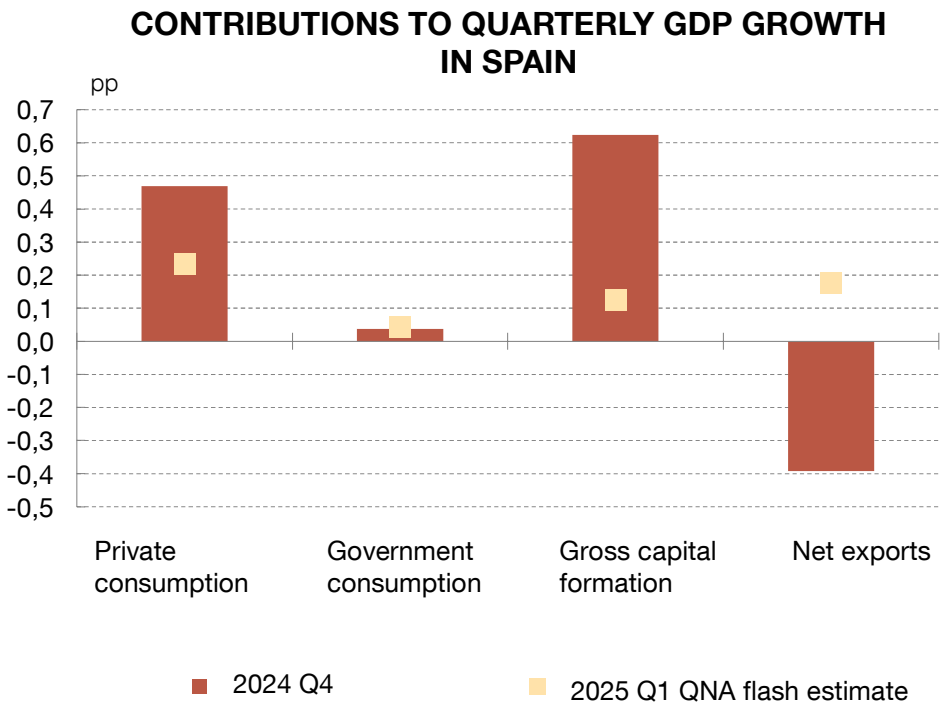
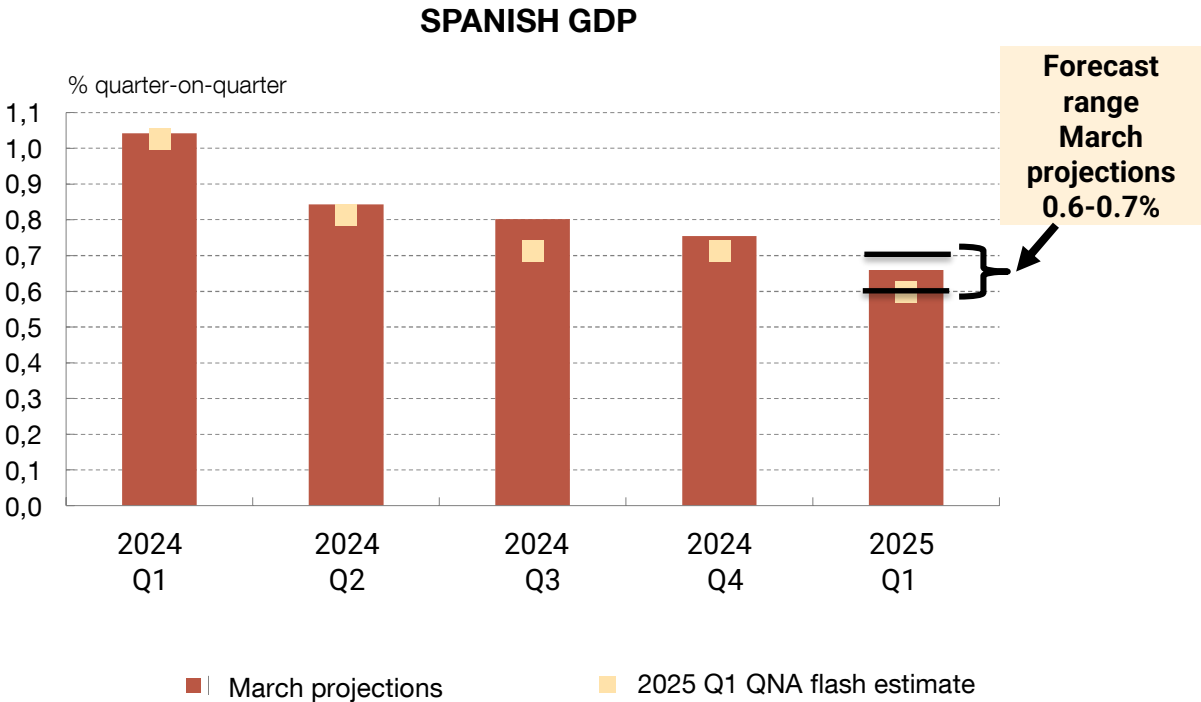
Financial conditions

The cost of credit has continued to decline in recent months, boosting households' and firms' demand for financing



An analysis of the available indicators points to quarter-on-quarter GDP growth of between 0.5% and 0.6% in Q2

- **GDP grew by 0.6% in 2025 Q1**, down slightly on the rate recorded in the last two quarters of 2024
- This **slowdown in activity** was marked by strong **moderation in private consumption and investment**, which had grown considerably in 2024 Q4. This could, at least partly, reflect the adverse impact of **uncertainty on households' and firms' spending decisions**



Sources: INE and Banco de España.

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY: PRICES

Headline inflation (HICP)

Headline inflation slowed to 2% in May

Core inflation

Core inflation climbed to 3% in April, partly due to the effect of Easter on travel-related services prices, a development which reversed partially in May

Other prices

- Food inflation moderated and, within the core component, non-energy industrial goods inflation remained highly contained

Collective bargaining agreements

Up to April, the agreements for 2025 include a 3.4% wage increase for that year

Labour costs

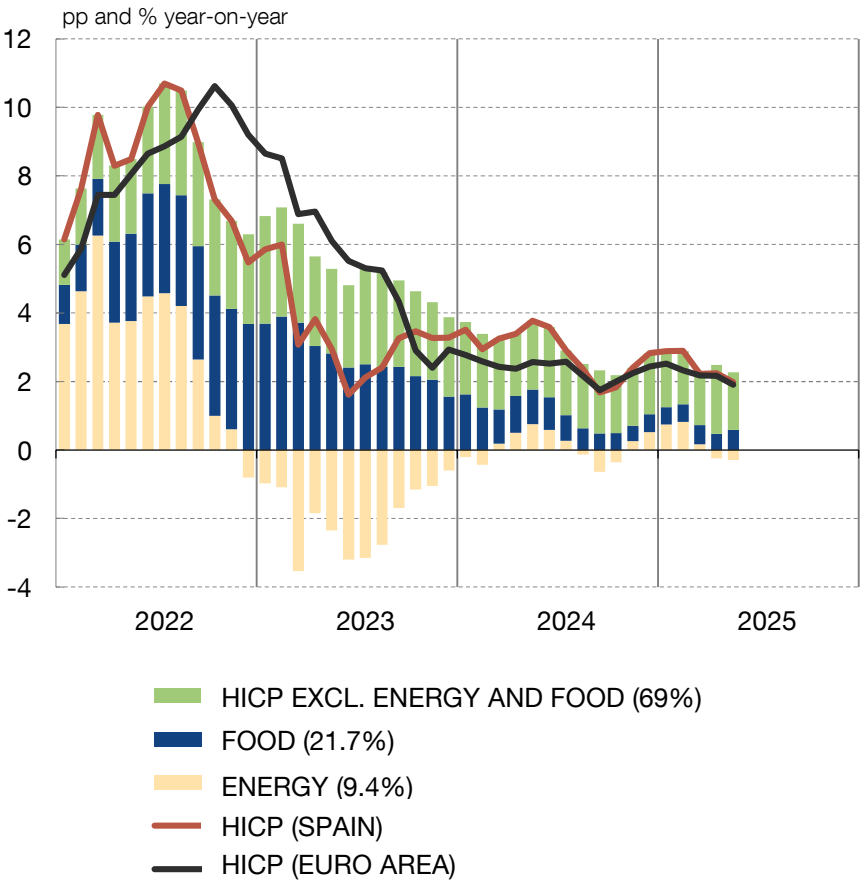
Compensation per employee slowed in 2025 Q1, although unit labour costs (ULCs) remained on the upward trend that began in late 2024

Producer prices

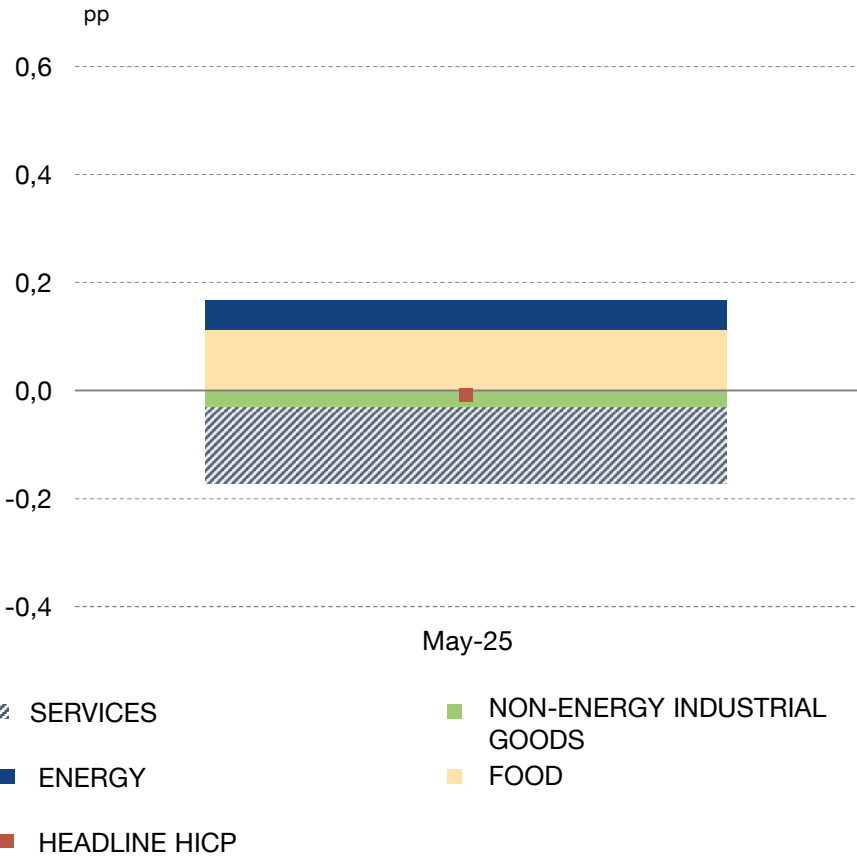
The growth rates of producer prices remained relatively moderate

INFLATION FELL TO 2% IN MAY DUE TO THE DECLINE IN CORE INFLATION, WHICH OFFSET THE UPWARD SURPRISE IN FOOD INFLATION

HEADLINE HICP: CHANGE AND CONTRIBUTIONS (a)



HEADLINE HICP: DIFFERENCE RELATIVE TO THE JUNE QUARTERLY REPORT PROJECTIONS



Sources: Eurostat and Banco de España. (a) The weight of each component in headline HICP for 2025 is shown in brackets.



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MAIN FEATURES OF THE BASELINE SCENARIO OF THESE PROJECTIONS FOR THE SPANISH ECONOMY

TARIFFS

- Tariffs that were already in force for certain products before 2 April are included...
- ...and US tariffs applied to the EU and the rest of the world are raised by 10 pp...
- ...with no counter measures by affected countries (aside from those approved before 2 April) ...
- ... Also, bilateral tariffs between China and the US are raised by 20 pp

UNCERTAINTY

- Uncertainty gradually falls from its current historically high levels...
- ...to reach the average level in 2018 at the end of the projection horizon...
- ...which was relatively high due to the trade tensions between the US and China unleashed during President Trump's first term of office

DEFENCE AND INFRASTRUCTURE SPENDING

- In Spain the Industrial and Technological Plan for Security and Defence is included...
- ...and, at euro area level, an increase in cumulative spending on defence and infrastructure of 0.7% of GDP in 2025-27 is envisaged...
- ... most of which is implemented by Germany and materialises at the end of the projection horizon

TECHNICAL ASSUMPTIONS

- The usual technical assumptions are included for changes in...
- ...export markets...
- ...exchange rates...
- ...interest rates...
- ...and energy prices

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2025-27). SUMMARY

		JUNE 2025 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE MARCH PROJECTIONS		
Annual rate of change (%), unless otherwise indicated	2024	2025	2026	2027	2025	2026	2027
GDP	3,2	2,4	1,8	1,7	-0,3	-0,1	0,0
Harmonised index of consumer prices (HICP)	2,9	2,4	1,7	2,5	-0,1	0,0	0,1
HICP excl. energy and food	2,8	2,6	2,1	1,9	0,4	0,1	0,0
Unemployment rate (% of labour force). Annual average	11,3	10,5	10,2	9,7	0,0	0,2	0,2
General government net lending (+)/net borrowing (-) (% of GDP)	-3,2	-2,8	-2,6	-2,6	0,0	0,0	0,0
General government debt (% of GDP)	101,8	101,4	101,4	101,3	0,1	-0,2	0,3

Sources: Banco de España and INE. Latest QNA figure published: 2025 Q1 flash estimate. (a) Projections cut-off date: 21/05/2025.

**DEVELOPMENTS IN CURRENT
TRADE TENSIONS**

**PERFORMANCE OF GLOBAL FINANCIAL
MARKETS**

**ECONOMIC AGENTS' LEVEL OF
CONFIDENCE/CERTAINTY
IN THEIR SPENDING DECISIONS**

**SIZE AND COMPOSITION OF
NGEU FUNDS AND DEFENCE SPENDING
IN THE SPANISH ECONOMY
OVER THE COMING YEARS**



**THE RISKS SURROUNDING THE BASELINE SCENARIO IN THESE PROJECTIONS ARE TILTED TO THE DOWNSIDE
FOR ACTIVITY AND BALANCED FOR INFLATION**



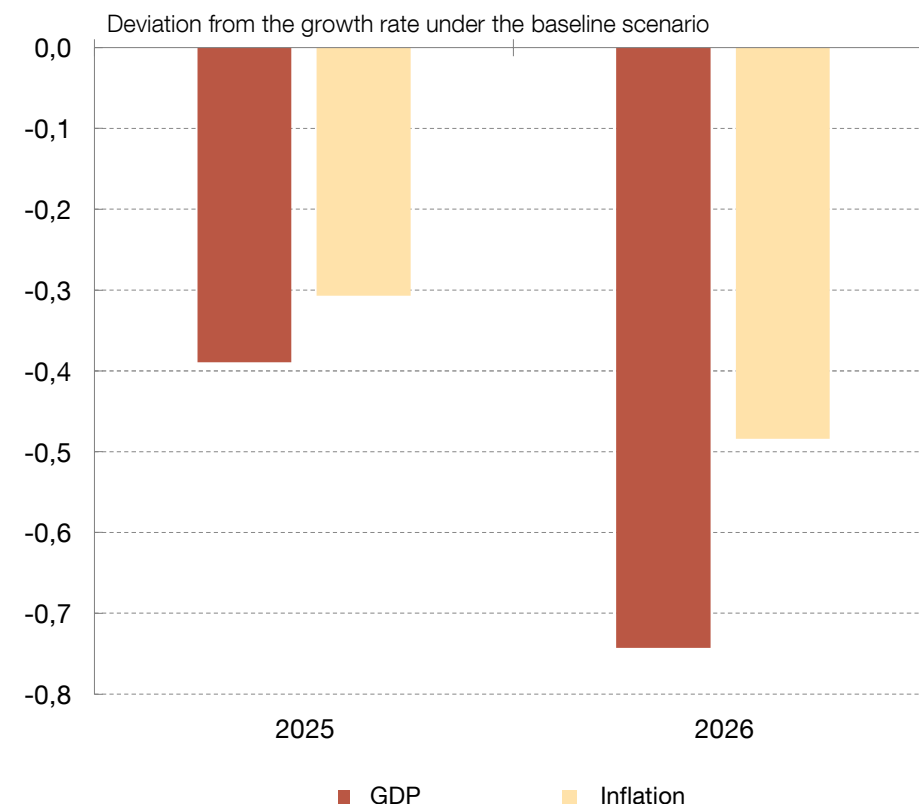
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SPAIN IN AN ADVERSE SCENARIO WITH HIGHER TARIFFS, COUNTER MEASURES, GREATER UNCERTAINTY AND HEIGHTENED FINANCIAL TENSIONS → LOWER GDP AND LESS INFLATION

	Baseline scenario	Adverse scenario
Increase in tariffs on:		
- EU	10% without counter measures = +8.9 pp implicit tariff	2 April with counter measures = +4.9 pp (+16.2 pp counter measure)
- Spain	10% without counter measures = +8.9 pp implicit tariff	2 April with counter measures = +6.5 pp (+12.9 pp counter measure)
- China	20% reciprocal tariff	US-China trade war (Scenario 4 AR)
- Rest of the world	10% without counter measures	2 April with counter measures
Uncertainty	Uncertainty levels fall gradually from their current highs to their 2018 levels at the end of the projection horizon	Uncertainty remains high, with an adverse impact on investment and consumption calibrated based on a VAR model
Financial conditions	Technical assumptions	Amplified financial turmoil, resulting in rising corporate spreads and a fall in stock market prices

**IMPACT OF TARIFFS ON SPAIN
UNDER THE ADVERSE SCENARIO**



Source: Banco de España.



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THE MACRO IMPACT OF INCREASED DEFENCE SPENDING DEPENDS ON THE ACTUAL VOLUME OF SPENDING AND ON MULTIPLE OTHER FACTORS

COMPOSITION OF EXPENDITURE BY ITEM

The impact on activity over the medium-term may be greater if spending is concentrated in **R&D&I**

COMPOSITION OF EXPENDITURE BY SECTOR

The impact on activity may be greater if spending is concentrated in **sectors with a greater knock-on effect**

IMPORT CONTENT OF EXPENDITURE

The impact on activity may be greater if spending is concentrated in **domestically-produced goods and services**

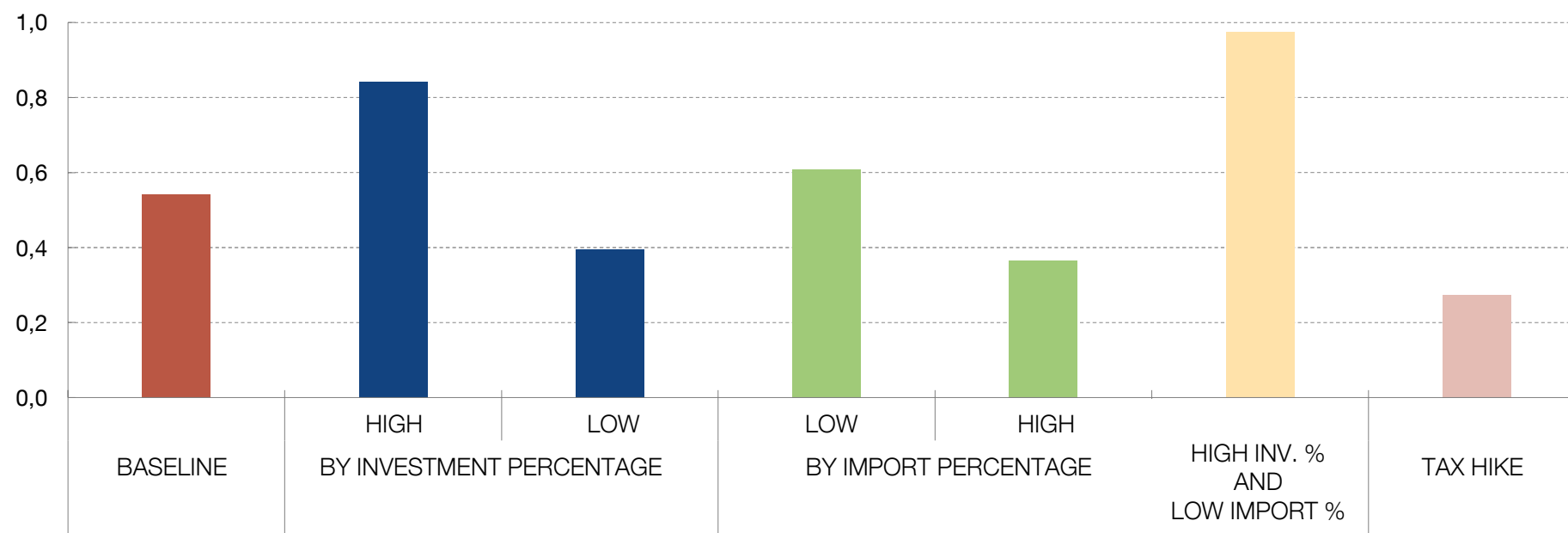
OTHER FACTORS

Among others, the cyclical position, the financing strategy and the monetary policy stance

... In any event, the nature of defence spending entails a time lag between the execution of contracts and their recording in the National Accounts

DEFENCE SPENDING. FISCAL MULTIPLIERS ASSOCIATED WITH HIGHER DEFENCE SPENDING UNDER VARIOUS SCENARIOS

Cumulative multiplier of defence spending over the medium term (a)

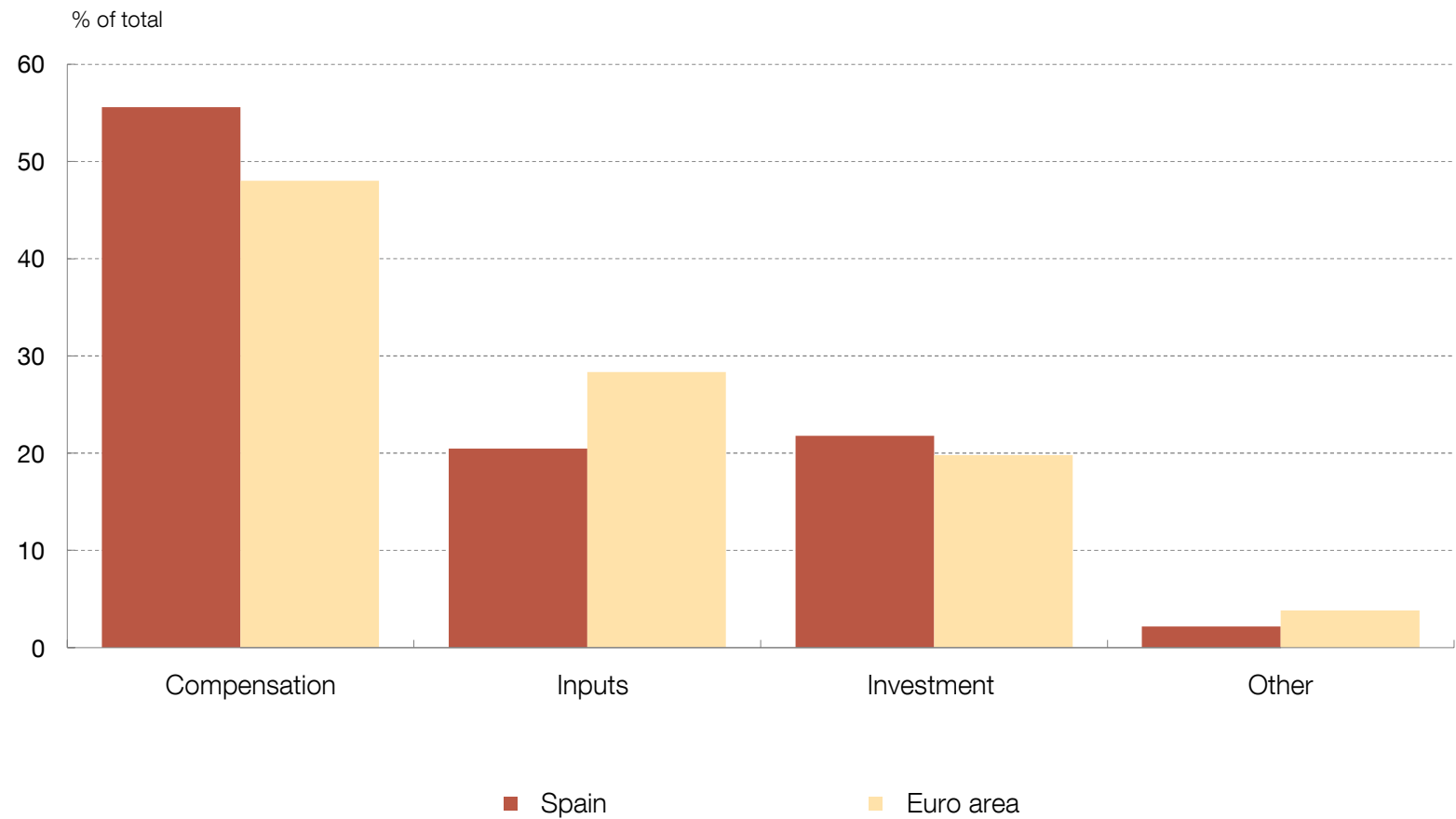


Source: Banco de España.

(a) The cumulative multipliers refer to the ratio of the cumulative increase (in euro) in real GDP over the medium-term (2027) per euro of public spending increase. In the simulations with the highest and lowest level of investment, the percentage of this component stands at 80% and 10%, respectively. It is also assumed that around 20% of defence spending would take place in external markets, calculated as the increase in imports by Spanish productive sectors to cover the demand stemming from the increase in defence spending (this percentage varies between 10% and 50% in the sensitivity simulations with the lowest and highest import dependency, respectively). The tax hike scenario assumes defence spending is financed via increases in taxes on labour income (instead of via government debt as in the other scenarios). All the risk scenarios are calculated as the average of various macroeconomic general equilibrium models.

BY ITEM, THE COMPOSITION OF DEFENCE SPENDING IN SPAIN IS SIMILAR TO THAT IN THE EURO AREA, WITH A SOMEWHAT HIGHER SHARE ALLOCATED TO EMPLOYEE COMPENSATION

ECONOMIC CLASSIFICATION OF DEFENCE SPENDING (2017-23)



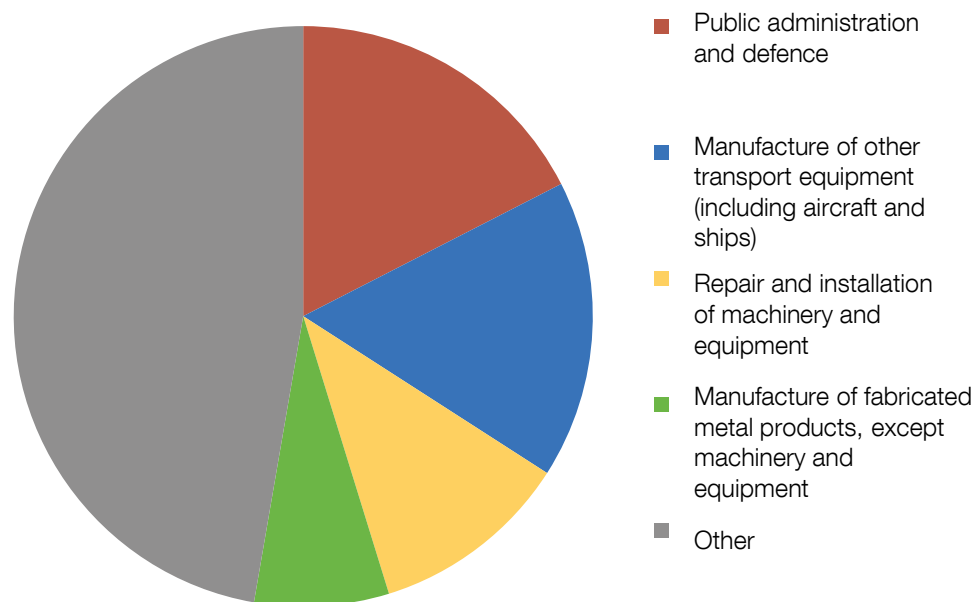
Source: Eurostat.

BY SECTOR, DEFENCE SPENDING IS CONCENTRATED IN MANUFACTURING, WHICH COULD GIVE RISE TO INFLATIONARY PRESSURES IN THIS SECTOR

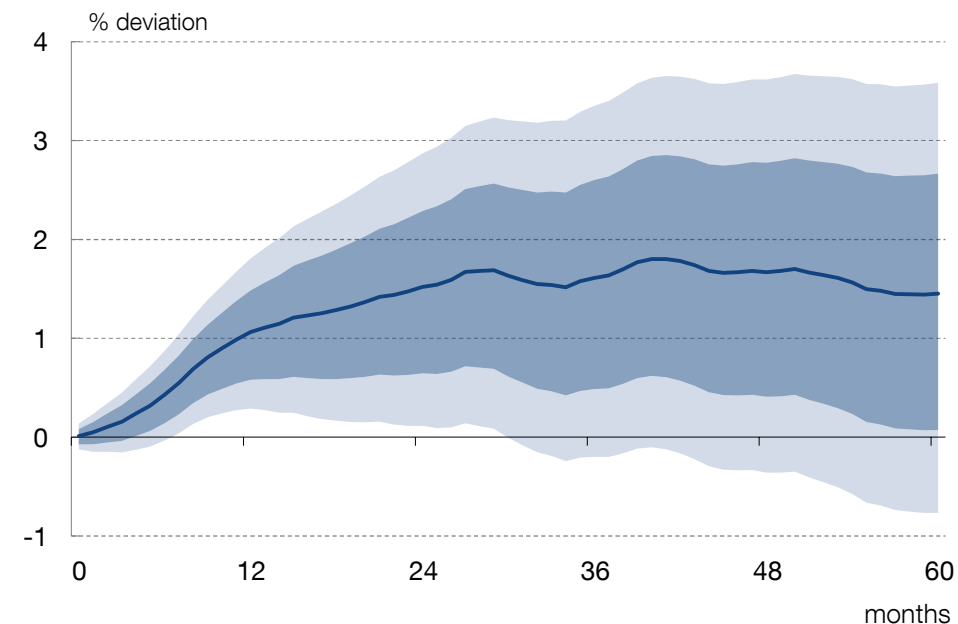
Defence spending is primarily concentrated in manufacturing of machinery and transport equipment

An increase in defence procurement would push up producer prices, especially capital goods prices

DEFENCE CONTRACTS BY ECONOMIC SECTOR (2000-17 AVERAGE) (a)



RESPONSE OF THE PRODUCER PRICE INDEX TO A DEFENCE SPENDING SHOCK (b)



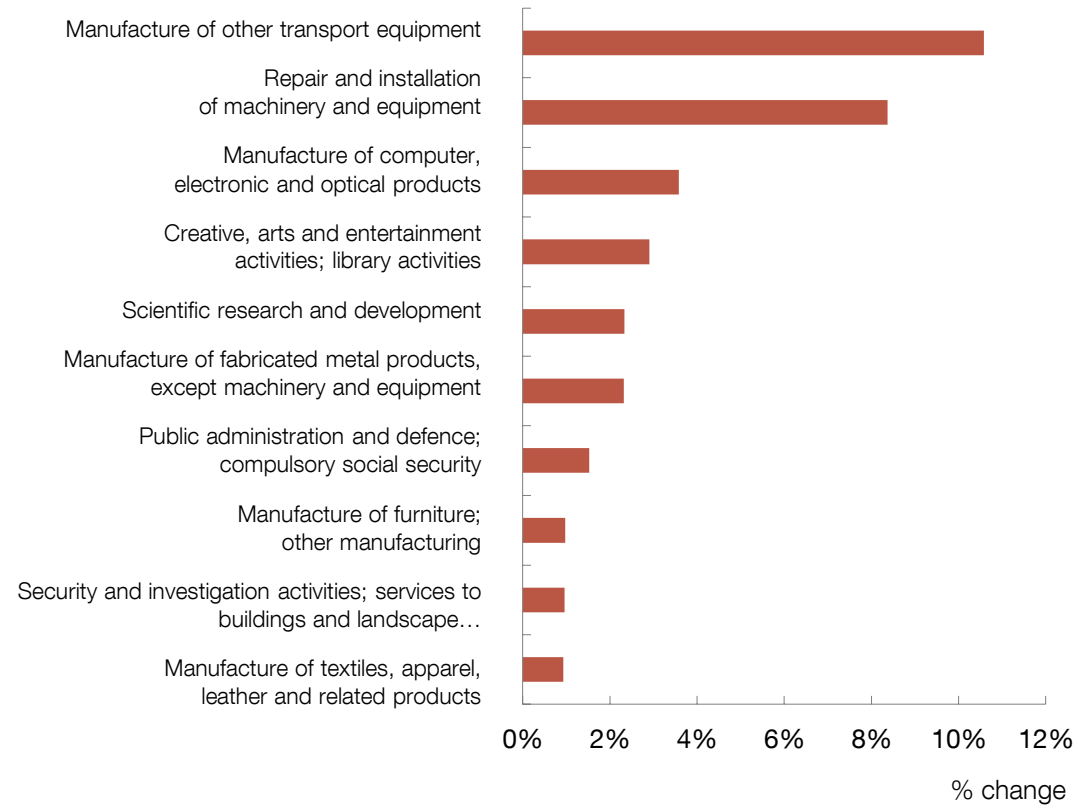
Source: Ministerio de Defensa. (a) Series constructed based on the sectorisation of the monthly procurement records of the Ministry of Defence's Statistical Yearbook. (b) Response of the producer price index's capital goods component to an increase equivalent to 0.1% of GDP in the contracts awarded by the Ministry of Defence. Estimate calculated based on local projections (coefficients expressed as the five-period centred moving average). The bands show the 68% and 90% confidence intervals.

SECTORAL DISTRIBUTION IS KEY TO UNDERSTANDING THE TRANSMISSION MECHANISM OF AN INCREASE IN DEFENCE SPENDING

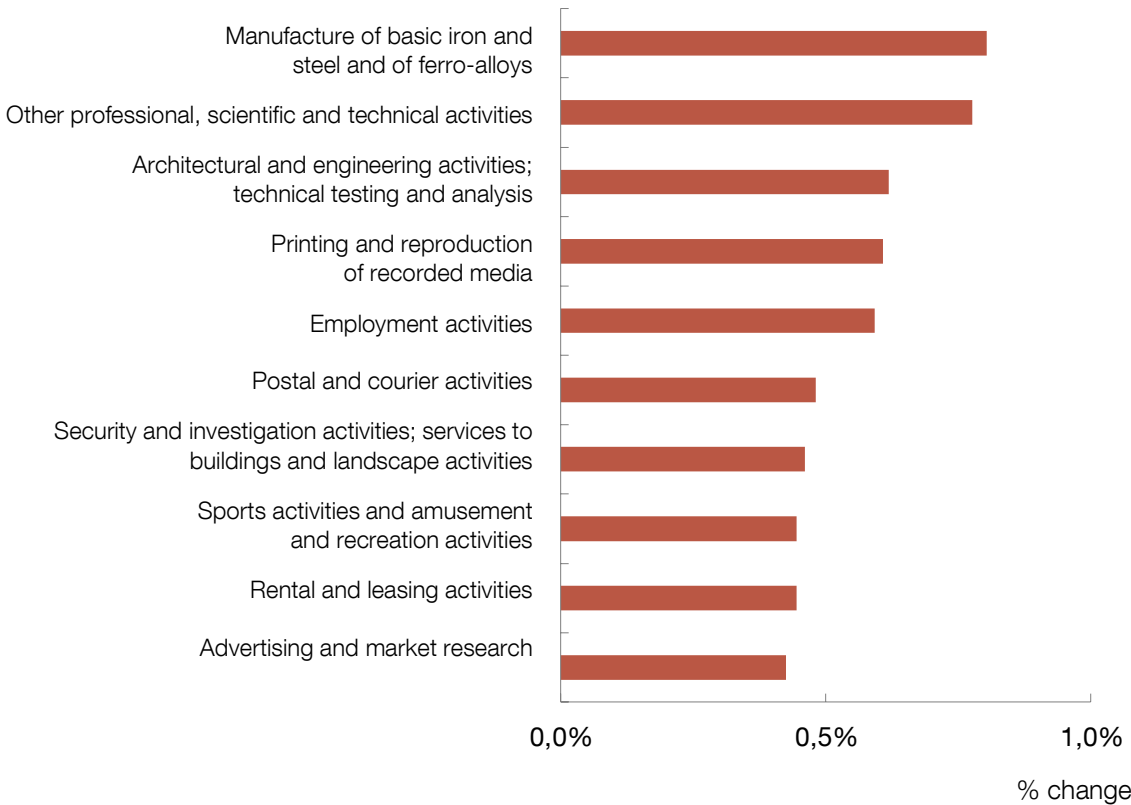
The direct impact of the fiscal stimulus would be highly concentrated in industry...

... although the knock-on effect associated with that stimulus would be more evenly distributed

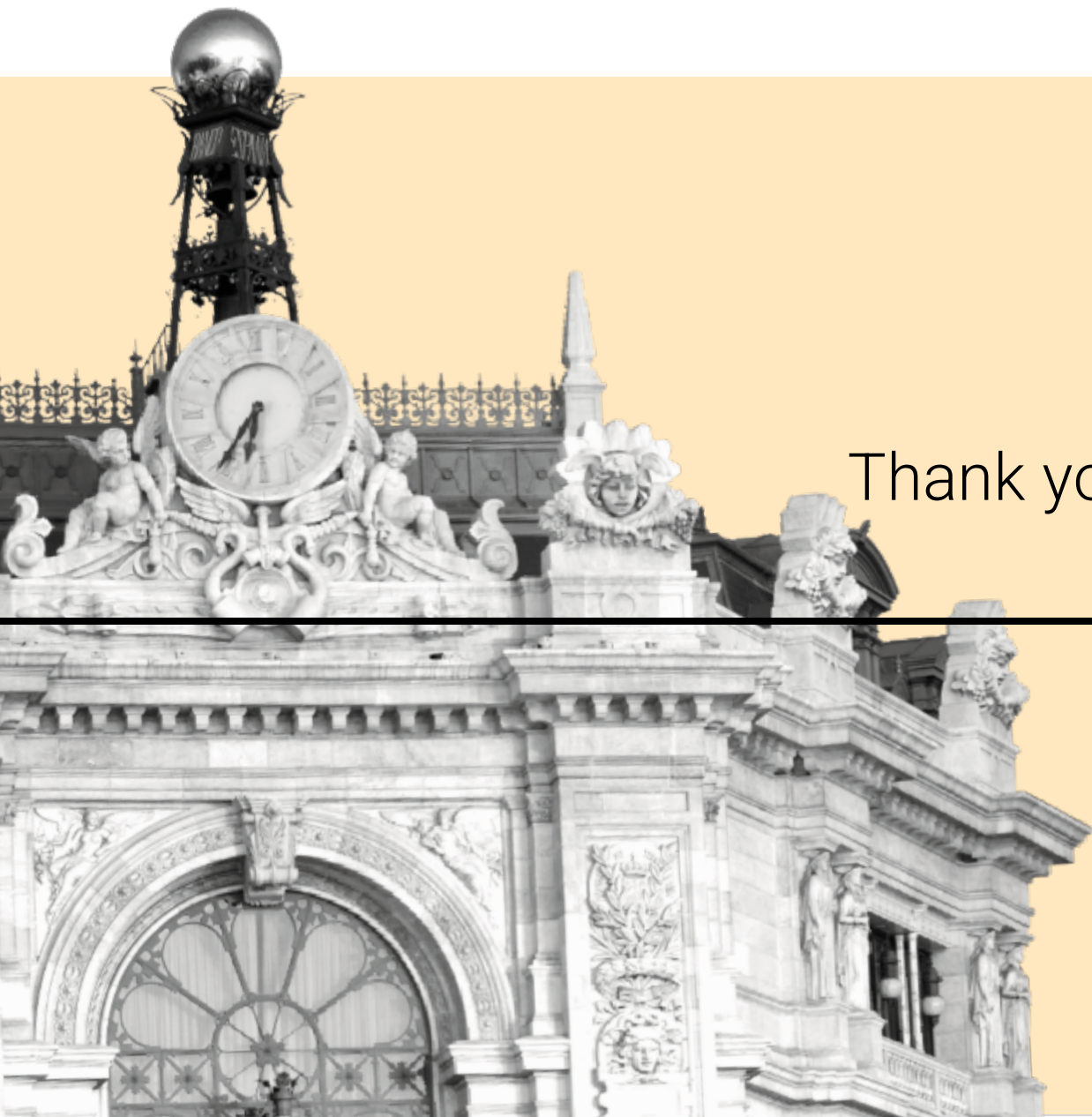
SECTORAL DISTRIBUTION OF THE DIRECT IMPACT ON GROSS VALUE ADDED



SECTORAL DISTRIBUTION OF THE KNOCK-ON EFFECT ON GROSS VALUE ADDED



Source: Banco de España. Note: The charts show the impact of a defence shock on the sectoral output of Spain’s ten largest sectors, measured by gross value added. The simulation was conducted based on an input-output model that takes into account sectoral interaction at domestic level and with the rest of the European Union.



Thank you very much