

## **Macroeconomic projections and quarterly report on the Spanish economy. December 2024**

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**EDITORIAL**

## Editorial

**Global economic activity trends have remained largely unchanged in recent months.**

Despite the tight monetary policy stance in most of the main advanced economies and persistently high levels of uncertainty, (i) global economic activity continues to grow at a relatively robust pace, (ii) services remain the primary driver of growth, and (iii) some signs of weakness persist in the euro area, especially when compared to the United States (where activity remains robust) and China (where the recent economic momentum has been partly boosted by various stimulus measures).

**The disinflation process is taking hold.** Global inflation continued to ease in 2024 H2, supported mainly by a sharper than expected slowdown in energy prices, which outweighed the upward impact of various statistical base effects. In any event, underlying inflation and, in particular, services inflation continue to exhibit greater downward stickiness, although there have been recent downside surprises in some economies (such as the euro area).

**Looking ahead to the coming quarters, consensus forecasts indicate no substantial changes in the pace of global economic growth.** Indeed, analysts continue to point to global GDP growth of just over 3% in the coming years. This growth rate, modest by historical standards, would be consistent with a gradual economic slowdown in China and the United States and a slight acceleration of growth in the euro area. In any event, the latter would be slower than anticipated some months ago, given recent cyclical dynamics and higher economic policy uncertainty in countries such as France and Germany. Indeed, compared with the September ECB staff projection exercise, the December Eurosystem staff projections slightly revise down GDP growth for the euro area, with reductions of 0.1 percentage points (pp) for 2024 (to 0.7%), 0.2 pp for 2025 (to 1.1%) and 0.1 pp for 2026 (to 1.4%).

**However, this baseline scenario is shrouded in exceptionally high uncertainty, associated primarily with the ongoing geopolitical tensions and, more recently, the policies that the new US Administration could roll out in the coming months.** Based on announcements made during the election campaign, the new administration, which will take charge of the US economy from late January 2025, might implement measures including significant import tariffs, tighter immigration policies, tax cuts and deregulation drives in certain sectors (e.g. energy). Details about these potential measures remain unclear. However, in the specific case of trade policy, a hypothetical broad-based tariff increase would likely dampen global economic activity and drive up inflation. The euro area and Spain would not be immune to this, although Spain's direct trade exposure to the United States is below the euro area average and less than that of, for instance, Germany or Italy.

**Against this background, international financial markets are discounting quicker monetary policy easing in the euro area and slower easing in the United States than projected some**

**months ago.** The US economy's recent relative strength compared with the euro area appears to have contributed to these developments. However, to some extent these market dynamics also reflect investor expectations about the impact in both regions of the policies that the incoming Trump Administration could implement. Indeed, in recent weeks these expectations appear to have led, for instance, to a marked appreciation of the dollar against the euro, European stock markets underperforming their US counterparts and higher inflation expectations for the United States.

**According to the indicators available, Q4 will mark a continuation of the robust GDP growth recorded in Spain in Q3, despite the – foreseeably temporary – adverse economic impact of the flash floods that affected several Spanish provinces in late October.** GDP grew by 0.8% quarter-on-quarter in Q3, more than projected by the Banco de España in September. This growth was mainly attributable to the strong momentum of both private and government consumption, while investment once again surprised on the downside. The latest short-term economic information is consistent with GDP continuing to grow at a fast pace in Q4 (0.6%-0.7% quarter-on-quarter). The estimated adverse impact of the flash floods on economic activity is already incorporated into these figures but is surrounded by considerable uncertainty. According to the latest indicators and the evidence on other similar historical episodes, the catastrophe could shave between 0.1 pp and 0.2 pp off GDP growth in Q4. In any event, in line with the evidence available, this negative impact is projected to be essentially temporary and, provided the various support measures for affected households and firms are rolled out swiftly and effectively, will be offset in the first months of 2025 by the fiscal impulse from such measures.

**Compared with the September projections, GDP growth for 2024 and 2025 is revised up (to 3.1% and 2.5%, respectively), is unchanged for 2026 (1.9%) and slows slightly in 2027 (1.7%).** The upward revision of 0.3 pp to the output growth rate for 2024 is due to the positive carry-over effect stemming from the new quarterly national accounts data published by the National Statistics Institute in late September and stronger than expected activity in H2. The GDP growth rate projected for 2025 is also revised upwards by 0.3 pp as a result of two factors. First, the positive carry-over effect associated with more buoyant than expected activity in the final quarters of 2024. Second, the stronger GDP growth now projected for 2025 H1, largely due to the above-mentioned fiscal impulse stemming from the different support measures rolled out in response to the flash floods.

**The new inflation forecasts are relatively unchanged from those published in September and continue to envisage a gradual easing of inflationary pressures.** Specifically, headline inflation is projected to stand at 2.9% in 2024, 2.1% in 2025 and 1.7% in 2026. While on the surface these rates appear largely unchanged, food and energy inflation for 2024 and 2025 have been revised down slightly (owing above all to the downward surprises in recent months in those components), which is offset by a small upward revision to core inflation for the same years, amid expectations of stronger activity. The expected headline inflation rate for 2027 (2.4%) is published for the first time in this projection exercise and represents a considerable acceleration in inflationary pressures between 2026 and 2027. However, it should be interpreted with particular caution, above all because such acceleration would essentially reflect the launch in 2027 of ETS2,

the EU's new emissions trading system, a development surrounded by extraordinary uncertainty on multiple fronts.

**The risks to the baseline scenario of these projections for the Spanish economy are tilted to the downside with regard to activity and slightly to the upside with regard to inflation.**

Internationally, the main source of risk stems from a possible economic policy shift by the new US Administration in the coming months. There is not enough information in this respect to conduct an accurate assessment, but, as mentioned above, it will likely dampen world, European and Spanish economic activity. Considerable uncertainty also continues to stem from the war in Ukraine and the conflict in the Middle East. In addition, the risks associated with political instability and weak economic performance in some European countries, such as France and Germany, are also coming to the fore. Domestically, mention should be made of the uncertainty about the pace of the disinflation process over the projection horizon and about the recovery in business investment, a component that is key to supporting economic growth and which has persistently surprised on the downside in recent quarters. The future course of fiscal policy in Spain is also uncertain. Specifically, strict compliance with the undertakings given by the Spanish authorities in the medium-term fiscal-structural plan would entail an additional budgetary adjustment to that included in these projections. This constitutes a downside risk to activity over the projection horizon. As discussed in the projections, the size of this risk will depend on how the additional budgetary adjustment is designed.

Figure 1

	2024	2025	2026	2027
GDP	<b>3.1%</b> <hr/> ↑ 0.3 pp	<b>2.5%</b> <hr/> ↑ 0.3 pp	<b>1.9%</b> <hr/> =	<b>1.7%</b>
Inflation	<b>2.9%</b> <hr/> =	<b>2.1%</b> <hr/> =	<b>1.7%</b> <hr/> ↓ 0.1 pp	<b>2.4%</b>

SOURCE: Banco de España.

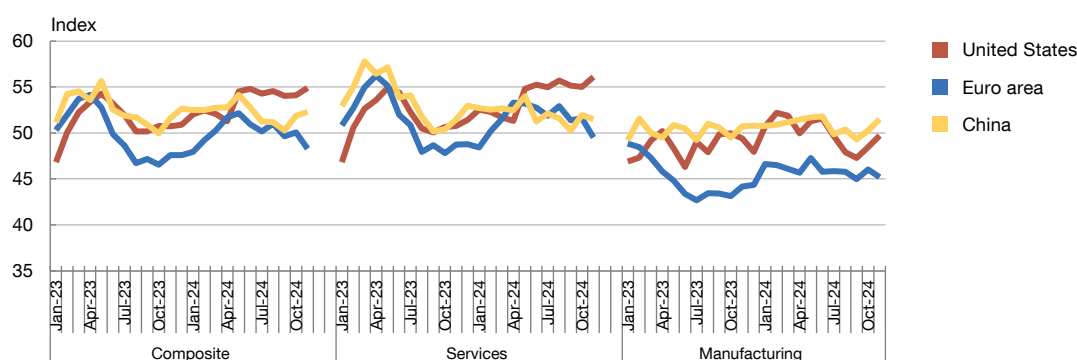
**REPORT**

## 1 The global economy grew in Q3 at a similar pace as in Q2, with a highly heterogeneous behaviour across sectors and geographical areas

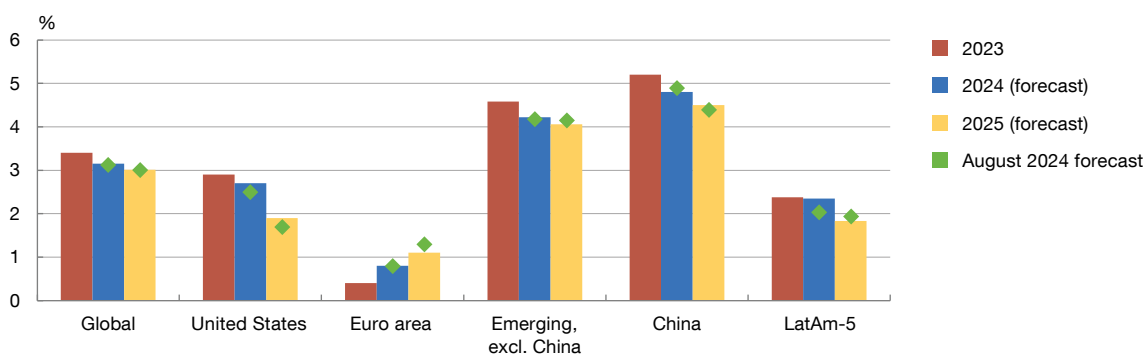
- In Q3 global GDP expanded at a pace of nearly 0.7% quarter-on-quarter. This growth was mainly underpinned by the strength of services, since manufacturing continued to show considerable weakness. According to the most recent Purchasing Managers' Index (PMI), this pattern will remain unchanged in Q4 (Chart 1.a).
- Among the main world economies, activity surprised on the upside in the United States in recent months, with robust quarter-on-quarter GDP growth (of 0.7% in Q3, as in Q2) which, despite some signs of deceleration in the labour market, did not actually slow down as much as was anticipated a few months ago. In China, however, although GDP growth in Q3 was slightly higher than forecast (4.6% year-on-year, 0.1 pp higher than expected) the adjustment of the real estate sector and the lacklustre private domestic demand have led the authorities to deploy new stimulus measures to prevent activity from slowing further in the future.
- These dynamics are consistent with relatively stable global growth projections for 2024-2025 (Chart 1.b). All this against a backdrop in which much (especially geopolitical) uncertainty persists, and, more recently, that associated with the policies that the new US administration could implement.

Chart 1

### 1.a PMIs



### 1.b Consensus growth forecasts (a)



SOURCES: S&P Global and Consensus Economics.

a The November 2024 forecasts (bars) are compared with the August forecasts (diamonds). "LatAm-5" includes Mexico, Colombia, Peru, Chile and Brazil. "Emerging, excl. China" includes "LatAm-5", Argentina, India, Indonesia, Malaysia, Philippines, Thailand, Bulgaria, Hungary, Poland, Romania, Russia, Türkiye and Ukraine. Lastly, "Global" includes all the foregoing plus China, the United States, Canada, Japan, Norway, Sweden, Switzerland, the United Kingdom and the euro area.

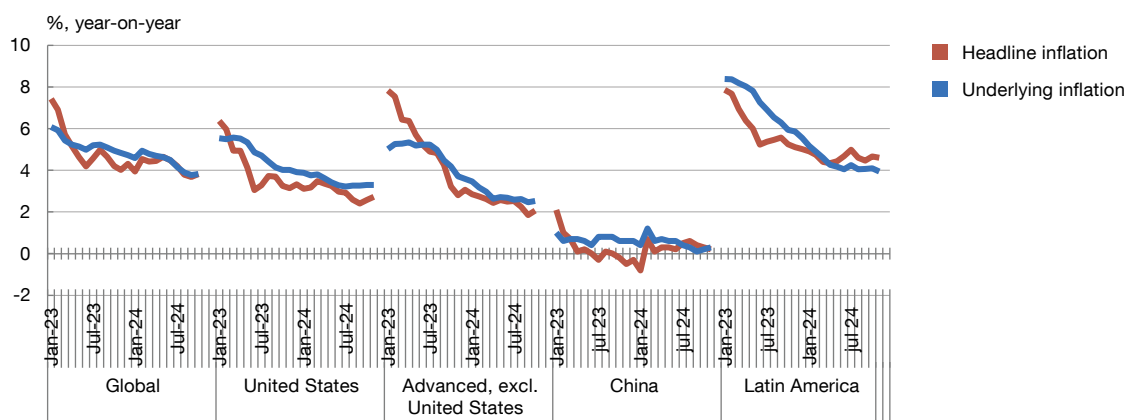


## 2 Although the disinflation process has taken root worldwide, inflationary pressures in services still show some downward stickiness

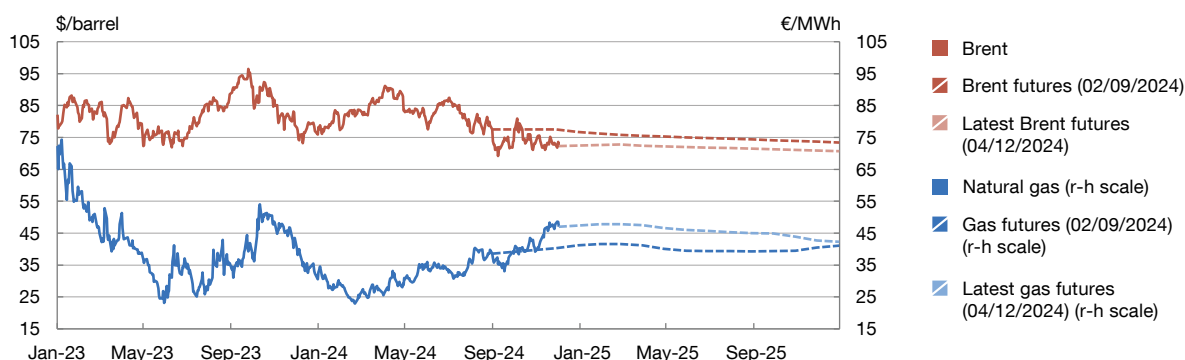
- Since June, headline and underlying inflation have declined by 0.7 pp globally (Chart 2.a). However, there are some differences between the main world regions.
- In the United States, headline inflation has decreased by 0.3 pp since June (to 2.7% in November), while underlying inflation has remained at around 3.3%, in part due to the persistence of appreciable inflationary pressures in services (4.6% year-on-year). A relatively similar pattern is observed in the **euro area**.
- By contrast, in the emerging market economies, the subdued inflationary pressures in China stand out, with headline and underlying inflation of 0.2% and 0.3%, respectively, in November. Meanwhile, inflation rates in Latin America are higher: 4.7% for headline inflation in October and 4.1% for underlying inflation.
- All this in a setting in which oil prices stand below the levels anticipated three months ago (Chart 2.b), in part owing to the weak demand from China. By contrast, natural gas prices have picked up recently due to some supply-side disruptions.

Chart 2

### 2.a Inflation



### 2.b Oil and gas prices and futures



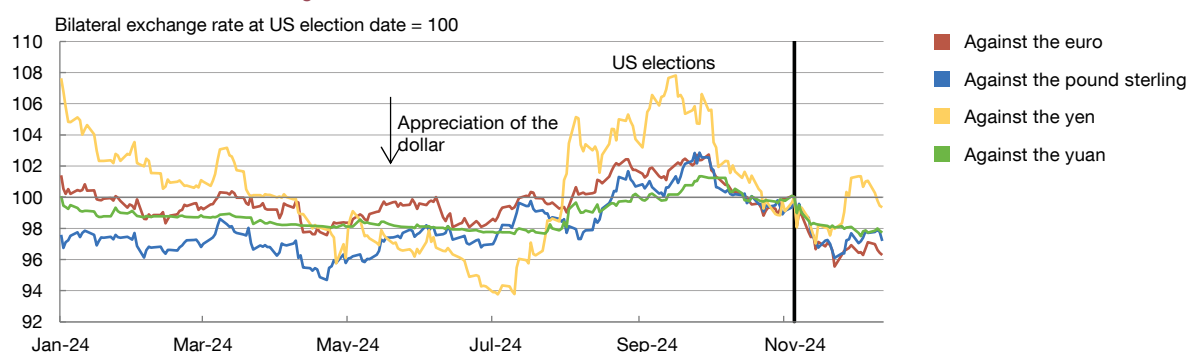
SOURCES: National statistics and Refinitiv.

### 3 There is considerable uncertainty about the policies that the new US administration could roll out in the coming months

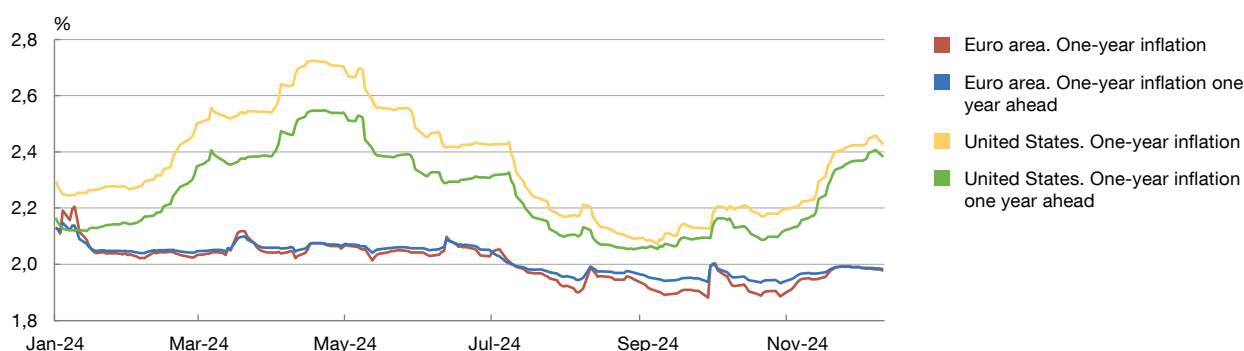
- From 20 January 2025 a new administration – led by President-elect Trump – will take the helm of the US economy. According to the announcements made, this new administration could consider, among other measures, significantly increasing tariffs on imports, a more stringent immigration policy, tax cuts and initiatives aiming to deregulate certain activities.
- Until more details are known about these policies – and before they are finally approved – it is difficult to assess their implications, both for the United States and globally. A broad-based increase in tariffs would likely exert downward pressure on world economic activity and upward pressure on inflation. The magnitude of these adverse impacts would depend, among other factors, on potential retaliatory measures by the countries affected, possible trade diversion effects and a future deterioration in agents' confidence.
- In any event, it is worth noting that since the US presidential election results became known, an appreciation of the US dollar (Chart 3.a) and a rise in inflation expectations in the US economy<sup>1</sup> implicit in inflation derivatives (Chart 3.b), among other dynamics, have been observed in the **international financial markets**.

Chart 3

#### 3.a US dollar bilateral exchange rate



#### 3.b Inflation expectations



SOURCES: Refinitiv and Bloomberg.

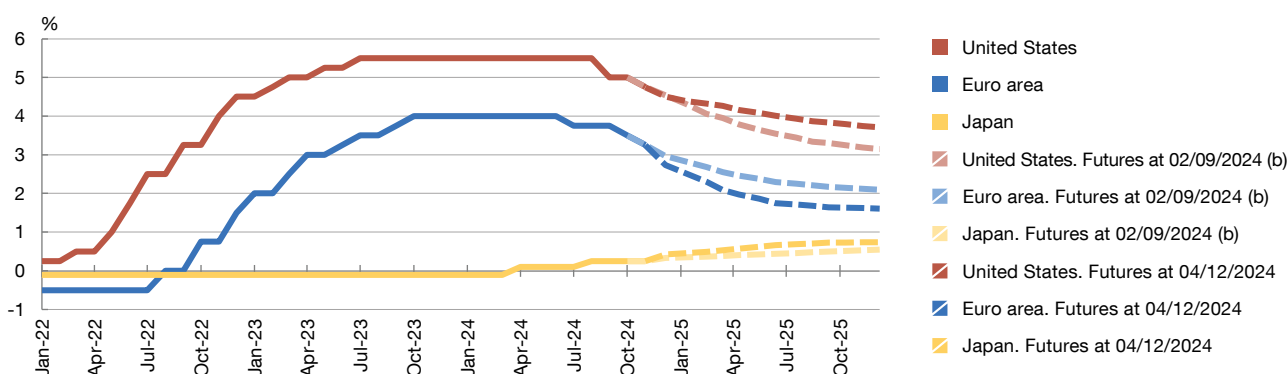
<sup>1</sup> Inflation expectations were obtained based on a dynamic factor model that uses inflation swap data and analysts' surveys. See Gimeno and Ortega (2016).

## 4 Most of the world economies remain on a monetary policy easing path

- In recent months, the central banks of the main advanced economies – except Japan – have continued to ease their monetary policies. In particular, the cumulative key interest rate cuts agreed in the United States (75 bp between September and November) and in the **euro area** (100 bp between June and December) are noteworthy.
- Monetary easing has also continued in the emerging market economies, particularly in Latin America, with the notable exception of Brazil, where the key interest rates have risen by 175 bp since September. For their part, the Chinese monetary authorities have adopted several stimulus measures in recent months – including a 20 bp reduction in the benchmark interest rate – to boost private consumption and residential investment.
- Looking ahead, international financial market expectations of US and euro area monetary policy for the coming quarters suggest that the current easing process will continue (Chart 4.a).
- However, compared with market expectations three months ago, monetary policy is now expected to ease more sharply in the euro area and less so in the United States. This change would mainly be in response to the **perceived strength of the US economy** compared with that of the **euro area** and to the impact the markets anticipate in the two regions as a result of the **policies which the new US administration could roll out in the future**.

Chart 4

4.a Policy interest rates observed and futures (a)



**SOURCES:** Refinitiv Datastream, Banco de España and Federal Reserve.

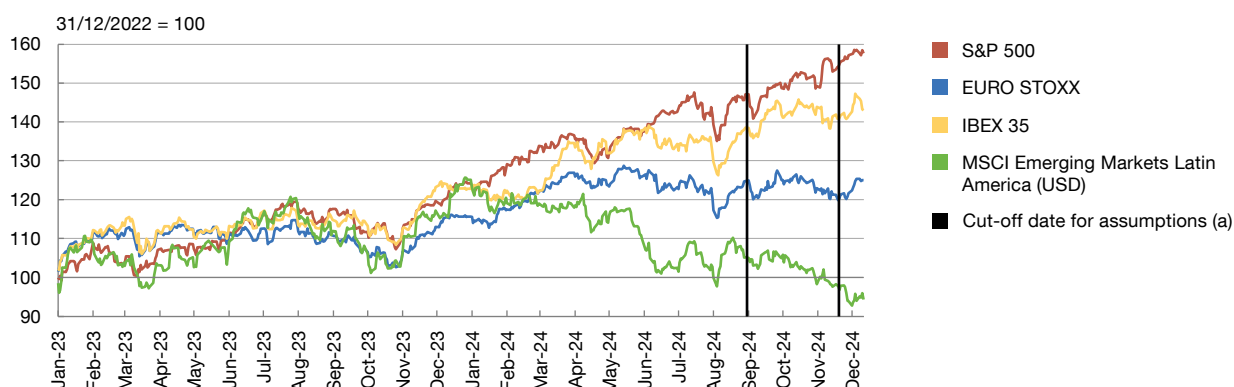
- a** Interest rates priced in by the respective futures markets (30-day Federal Funds futures, euro area overnight index futures, Japanese overnight index futures).  
**b** 2 September is the cut-off date for the Banco de España's September 2024 projection exercise.

## 5 Risky assets in the United States have recorded gains across the board and long-term sovereign debt yields in the main economies have performed differently

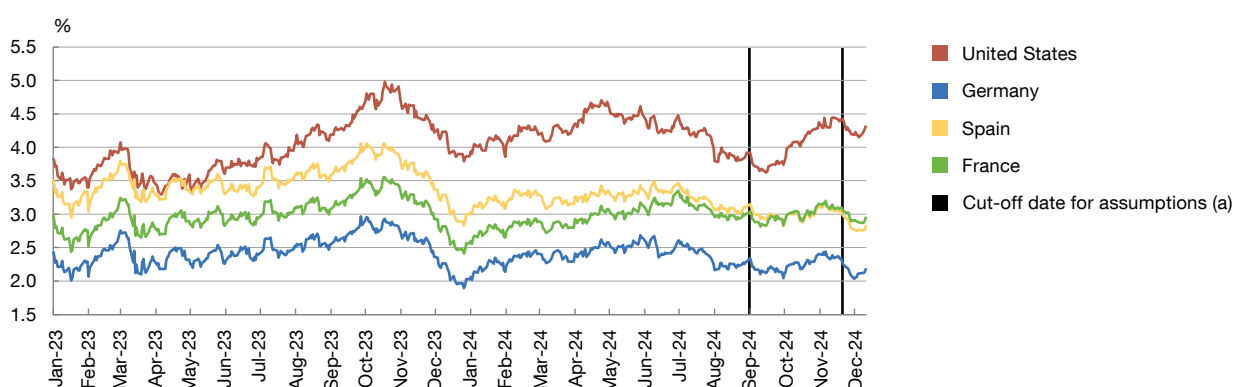
- In the United States, sound macroeconomic data and the possibility of the new Trump Administration cutting taxes and regulation in certain activities have recently pushed high-yield corporate bond spreads lower and driven stock market gains (Chart 5.a). European and Latin American stock markets have been less buoyant than in the United States in recent weeks. Among other reasons, this is because of the possible implications for these regions of some of the policies that the new administration could roll out in the coming months.
- Meanwhile, the upward revision to the future path of **policy interest rates in the United States** and the strength of its economy drove up US sovereign bond yields (Chart 5.b). In Europe, these increases were relatively sharp up to the US elections, above all in Germany. This has contributed to the spread against the German Bund narrowing to 65 bp in Spain and to 112 bp in Italy. By contrast, in France the sovereign spread widened in response to the political instability in the country.

Chart 5

### 5.a Stock market indices



### 5.b 10-year sovereign bond yields



SOURCE: Refinitiv Datastream.

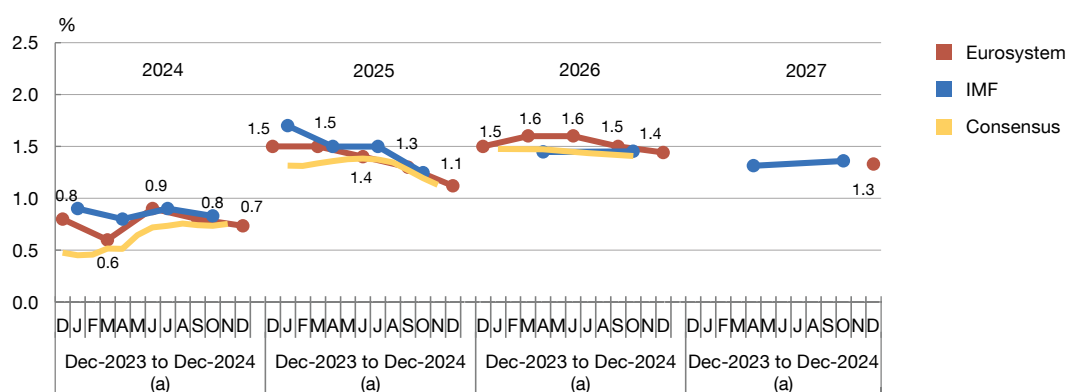
a 2 September and 21 November for the September and December Banco de España projection exercises respectively.

## 6 In the euro area, economic activity continues to show signs of weakness, although it is still expected to recover gradually

- Euro area GDP grew by 0.4% in Q3, 0.2 pp more than the flash estimate for Q2 and the figure projected by the ECB in September. This positive surprise came in all but one of the euro area's major economies (Italy). By component, domestic demand grew across the board, particularly consumption and private investment, while net exports fell sharply.
- However, the latest short-term economic indicators signal that euro area activity has slowed down in Q4. In particular, the November PMI shows a loss of momentum in the services sector and persistent weakness in the manufacturing sector (both at present and, according to the information on new orders, in the future).
- In any event, the Eurosystem's December projection exercise maintains a baseline scenario under which activity will recover gradually and smoothly in the coming quarters, underpinned by improved domestic demand and the labour market's continued resilience. Nevertheless, against a background in which considerable uncertainty persists, euro area GDP growth is revised down slightly throughout the projection horizon. Specifically, for 2024 it is revised down by 0.1 pp, to 0.7%, for 2025 by 0.2 pp, to 1.1%, and for 2026 by 0.1 pp, to 1.4% (Chart 6.a). The pace of GDP growth is also projected to slow slightly in 2027 (1.3%) towards rates that are more consistent with the region's potential growth capacity.

Chart 6

6.a Euro area GDP growth forecasts



SOURCES: IMF, Consensus Economics and Eurosystem.

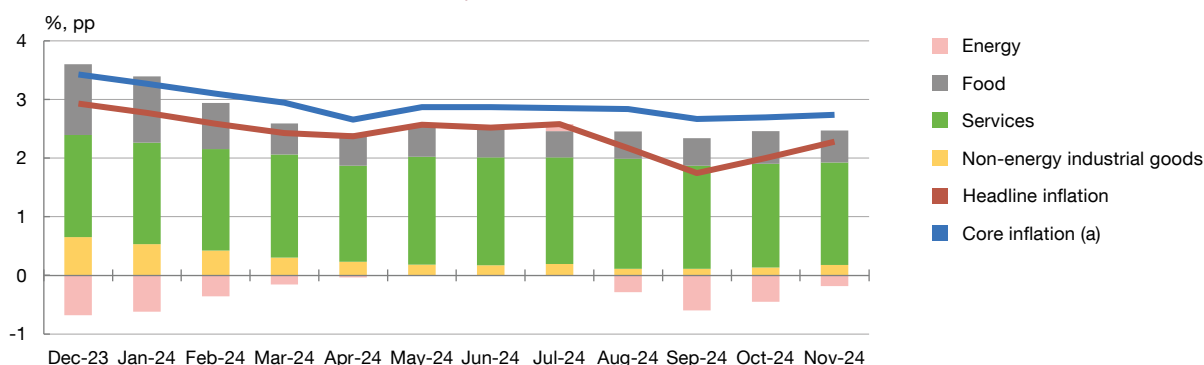
a The letters refer to the month in which the corresponding forecast was published.

## 7 Inflationary pressures continue to ease in the euro area

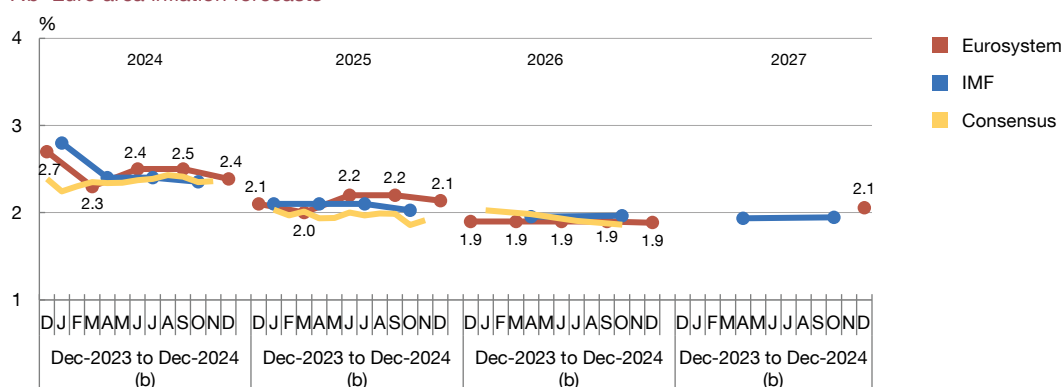
- Although headline inflation in the euro area rose to 2.3% over the last two months according to the provisional data for November (Chart 7.a), this was essentially due to temporary base effects in the energy component and was lower than projected by the ECB in September.
- Core inflation, which held at 2.7% in November, has also recently been softer than projected a few months ago. Very weak inflationary pressures on non-energy industrial goods – year-on-year price growth of 0.7% – and somewhat lower than expected services inflation, which continues to stand at around 4% (3.9% in November), have contributed to these developments.
- Against this background, the December Eurosystem projection exercise revises down slightly, by 0.1 pp, the headline inflation rates projected for 2024 and 2025 – to 2.4% and 2.1%, respectively – (Chart 7.b), partly because of the impact of lower expected energy prices. Projected inflation for 2026 is unchanged (1.9%), while it is expected to stand at 2.1% in 2027, driven up by the launch that year of ETS2, the new emissions trading system.

Chart 7

### 7.a Euro area inflation and contribution of components



### 7.b Euro area inflation forecasts



SOURCES: IMF, Consensus Economics, Eurosystem and Eurostat.

a Headline HICP excluding energy and food.

b The letters refer to the month in which the corresponding forecast was published.

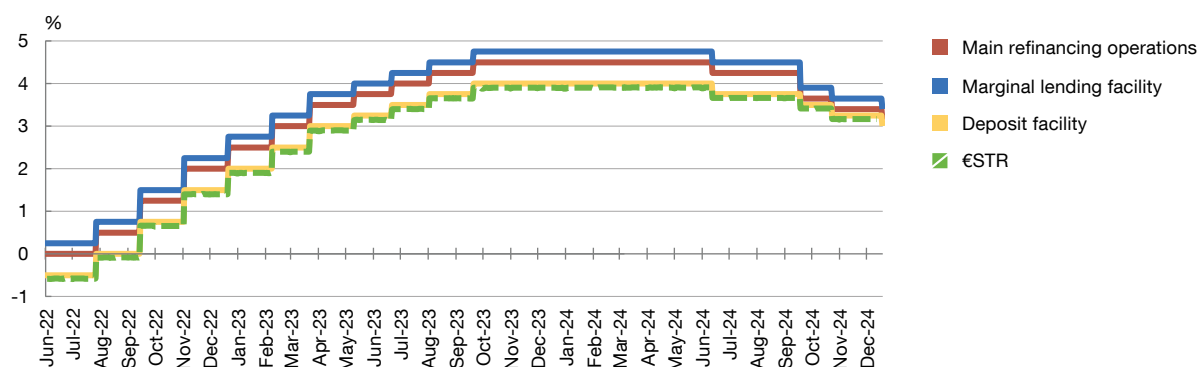


## 8 The ECB cut its key interest rates again in December

- The ECB Governing Council eased the degree of monetary tightness once again, cutting the deposit facility rate (DFR) by 25 bp, to 3% (Chart 8.a). This is the fourth time it has cut the DFR, the rate that determines the monetary policy stance in the euro area,<sup>2</sup> since June 2024 (a cumulative reduction of 100 bp).
- This decision was based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. The disinflation process in the euro area is well on track and the measures of underlying inflation suggest that inflation will settle at around the 2% medium-term target on a sustained basis. Domestic inflation has edged down but remains high. Meanwhile, financing conditions are easing but they continue to be tight.
- Looking ahead, to ensure that inflation stabilises sustainably at its 2% medium-term target, the ECB Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance and will not pre-commit to a particular rate path.

Chart 8

8.a Key ECB interest rates and €STR



**SOURCES:** Banco de España and Refinitiv Datastream. Latest observation: 12 December 2024.

**NOTE:** The new interest rate level will take effect on 18 December.



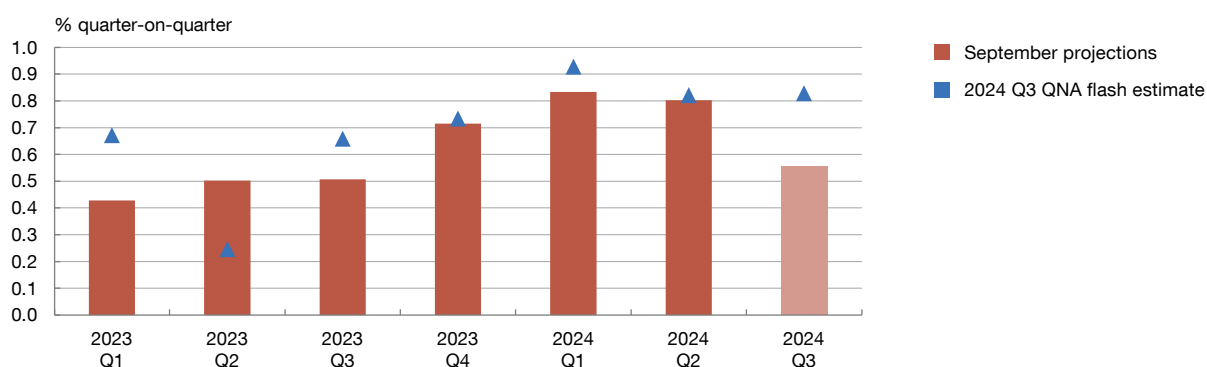
<sup>2</sup> See the Banco de España blogpost "[Which ECB interest rate affects my loan or mortgage?](#)", published on 25 October 2023.

## 9 The Spanish economy continued to grow at a fast pace in Q3, driven by strong domestic demand

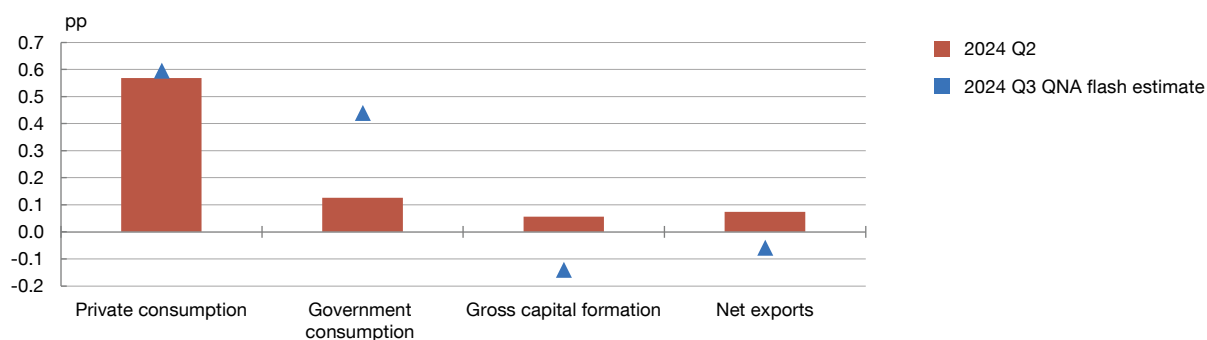
- According to the Quarterly National Accounts (QNA) flash estimate, GDP grew by 0.8% in Q3, the same rate as in Q2 and 0.2 pp more than envisaged in the [Banco de España's September projection exercise](#) (Chart 9.a). Year-on-year GDP growth accelerated to 3.4%, 0.2 pp more than observed in Q2.
- This growth was mainly underpinned by strong domestic demand and, particularly, by private and government consumption (Chart 9.b). By contrast, the contribution of gross capital formation was somewhat negative, as was that of net exports, with notable growth in goods imports.
- On the supply side, all productive sectors – except construction – recorded growth. Activity in industry slackened compared with Q2, while the agriculture and fishing sector recovered following the decline in the previous quarter. The services sector maintained the previous quarter's momentum, especially in trade, transportation and hospitality (with 1.1% growth), professional, scientific and technical activities (2%) and arts and recreation services (4.5%).

Chart 9

### 9.a GDP growth in Spain



### 9.b Contributions to GDP growth in Spain



SOURCES: INE and Banco de España.



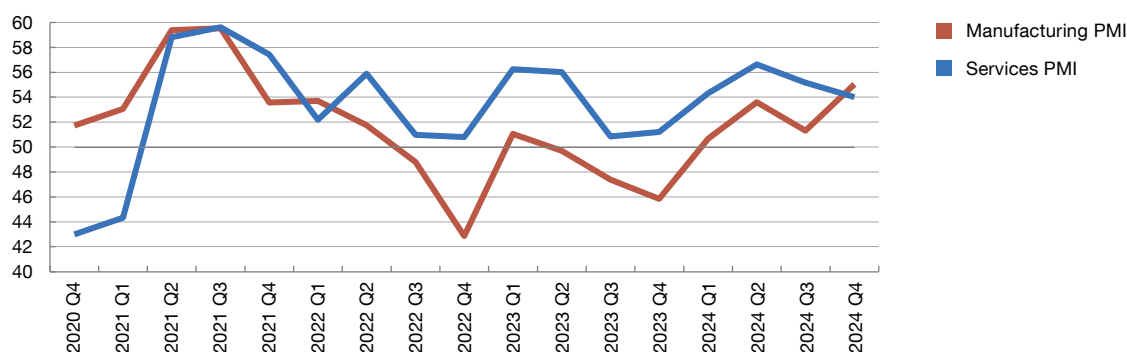


## 10 The indicators available for Q4 suggest that economic activity in Spain will continue to grow at a robust pace

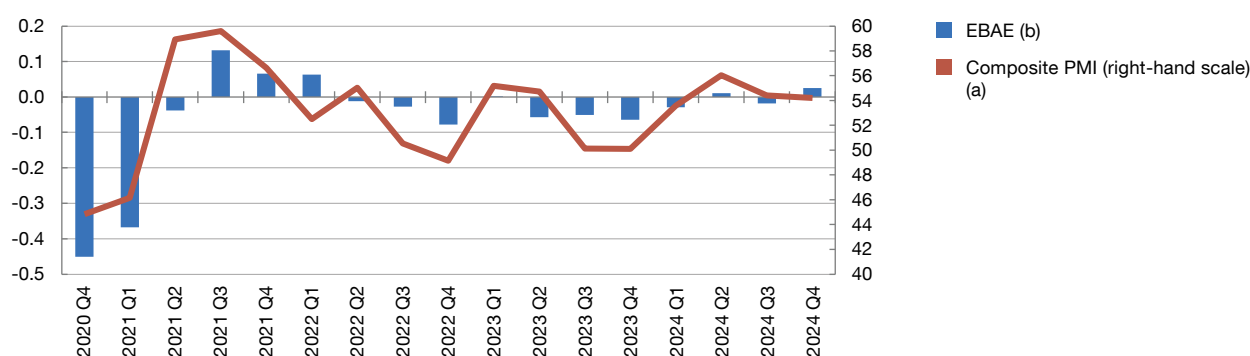
- An overall analysis of the various indicators (including **employment**, **consumption** and confidence indicators) that provide partial, and as yet incomplete, information on how economic activity has fared in Q4 suggests that Spanish GDP could grow in this period by between 0.6% and 0.7% quarter on quarter.<sup>3</sup>
- That said, there is considerable uncertainty surrounding this estimate, partly due to the difficulty of assessing the **economic impact of the flash floods** that affected several Spanish provinces in late October.
- The indicators consistent with activity continuing to grow at a robust rate in the final stretch of the year notably include the confidence indicators. Thus, on data to November, PMIs clearly remain in expansionary territory (Chart 10.a) and the results of the Banco de España Business Activity Survey (EBAE) suggest that Spanish firms' turnover will increase in Q4 (Chart 10.b).<sup>4</sup>

Chart 10

10.a PMIs (a)



10.b Quarterly change in turnover according to the EBAE, and in composite PMI



SOURCES: S&P Global and EBAE (Banco de España).

a The 2024 Q4 figure is the average for October and November.

b The qualitative responses from the EBAE are converted into a numerical scale as follows: significant decrease = -2; slight decrease = -1; unchanged = 0; slight increase = 1; significant increase = 2. Seasonally adjusted series.



<sup>3</sup> For more details, see the **Projections** in this document.

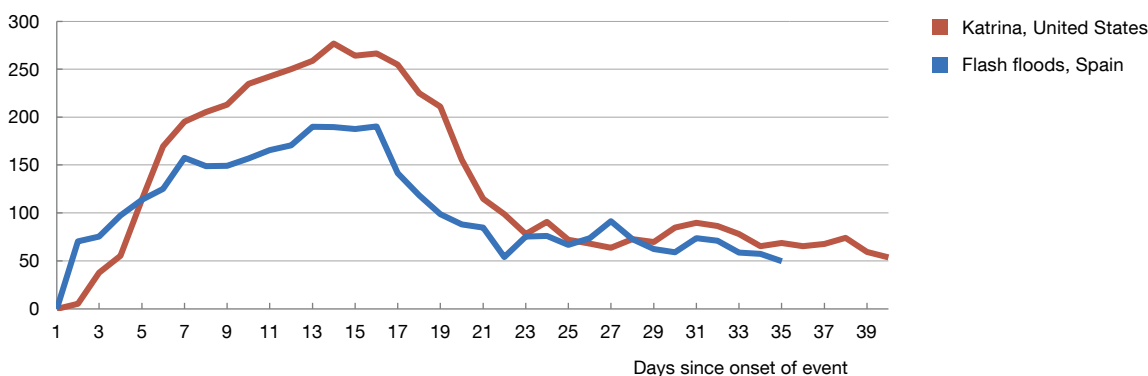
<sup>4</sup> **Fernández Cerezo and Izquierdo**. (2024).

## 11 The negative impact on aggregate growth in Q4 of the flash floods that affected several Spanish provinces in late October is estimated to be limited, and could be reversed in 2025 H1

- This extreme weather event, which has exacted a very heavy cost in human lives, has also significantly disrupted economic activity in the affected municipalities, which – according to various metrics, for example, of population, employment and business activity – are estimated to account for around 2% of the national total.
- One of the main indicators for real-time monitoring of the effects of this event on economic activity is the supply bottlenecks index.<sup>5</sup> This indicator points to a severe initial negative impact of the flash floods (like that observed in the United States after Hurricane Katrina in 2005) that has diminished relatively sharply since the first fortnight of the floods (Chart 11.a).
- Another useful indicator is the recourse to furlough schemes (ERTEs by their Spanish acronym). On data to 3 December, around 30,000 workers – approximately 1.4% of employment in the Valencia region – have been furloughed. In addition, the responses to the EBAE provided by firms in the region suggest that their turnover fared substantially worse this quarter than reported by firms in the rest of Spain.
- Overall, the evidence available suggests that the negative impact of the flash floods on GDP growth in Spain in Q4 is relatively contained (between 0.1 pp and 0.2 pp). In any event, based on the historical evidence available for similar events, this adverse impact could be transitory and reversed, provided the support measures for affected households and firms are rolled out swiftly and effectively in 2025 H1.<sup>6</sup>

Chart 11

11.a Increase in supply bottlenecks index after the onset of each event



SOURCE: Banco de España.



<sup>5</sup> Constructed using the methodology described in Burriel, Kataryniuk, Moreno Pérez and Viani. (2024).

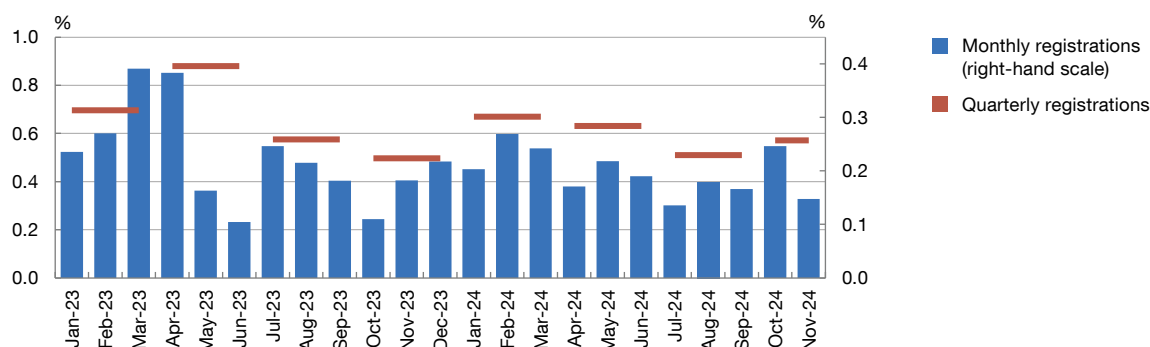
<sup>6</sup> For more details, see the Projections in this document.

## 12 Employment is expected to continue to grow in Q4 at a similar pace to that of Q3

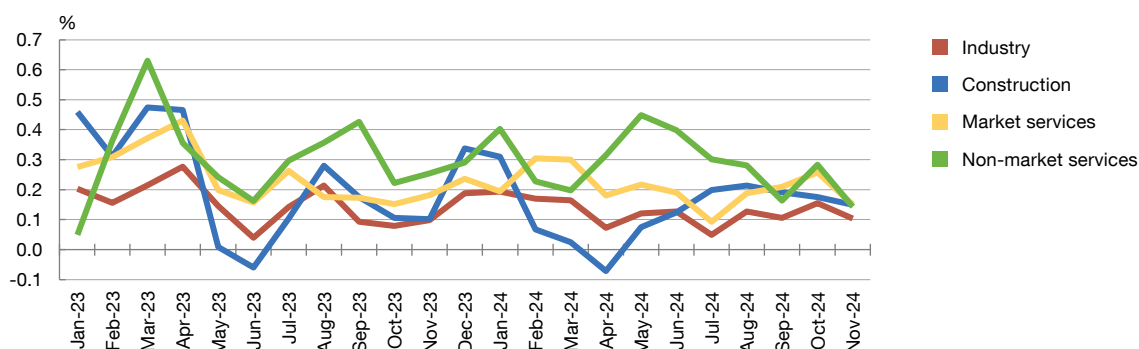
- In seasonally adjusted monthly terms, social security registrations increased by 0.25% in October (Chart 12.a), more than the average of 0.16% observed in Q3. This growth rate slowed to 0.15% in November. If this pattern continues, employment growth in the quarter as a whole will be similar to that recorded in Q3.
- Employment continued to perform unevenly across sectors (Chart 12.b). For instance, based on the average of the last two months, sectors such as transportation, hospitality and financial activities have seen higher growth in social security registrations.
- Job creation in the first three quarters of the year remained concentrated among non-national workers. Thus, on data from the Spanish Labour Force Survey (EPA), the number of persons employed was up by around 433,300 on end-2023 levels. Non-national workers or workers with dual nationality accounted for almost 85% of this increase.

Chart 12

12.a Total social security registrations. Monthly and quarterly rates (a)



12.b Monthly change in social security registrations in industry, construction and services (b)



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

- a Seasonally adjusted monthly and quarterly rates. The 2024 Q4 rate has been calculated based only on the data for October and November.  
 b Seasonally adjusted monthly rates.

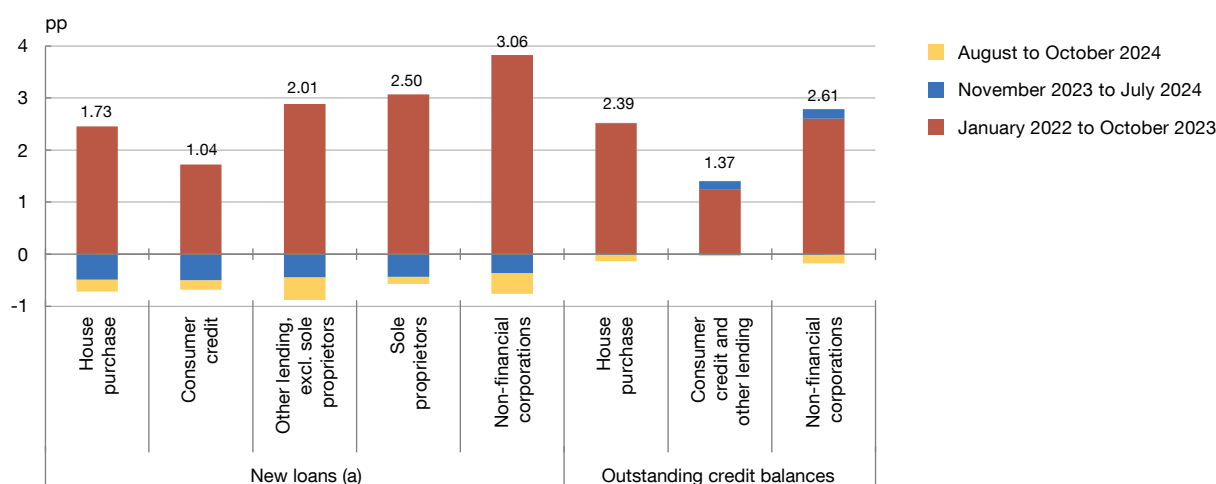


### 13 Financing to the private sector has continued to grow in recent months, amid a gradual reduction in interest rates

- In the last three months, interest rates on new loans continued to decrease across all segments, while the average cost of outstanding loans started to edge down (Chart 13.a).
- According to the [Bank Lending Survey](#), credit standards were largely unchanged in Q3, while credit demand increased across the board for the second consecutive quarter. Looking ahead to Q4, the respondent banks generally expect stability in credit supply and an uptick in loan applications. According to the [survey on the access to finance of enterprises](#), Spanish firms' perception of their access to bank financing improved in 2024 Q3.
- Against this background, in October lending to households grew by just over 2% in annualised quarter-on-quarter terms, with a gradual recovery in loans for house purchase and consumer credit again making a significant contribution. Financing to firms increased by 3.3%, essentially driven by loans from abroad and securities issuance. Conversely, lending by resident banks, while recovering, remained somewhat weak amid modest growth in [business investment](#).

Chart 13

13.a Change in the cost of credit since the start of the monetary policy tightening cycle



SOURCE: Banco de España.

a Narrowly defined effective rates (NDERs), i.e. excluding related charges, such as repayment insurance premia and fees, and adjusted seasonally and for the irregular component.

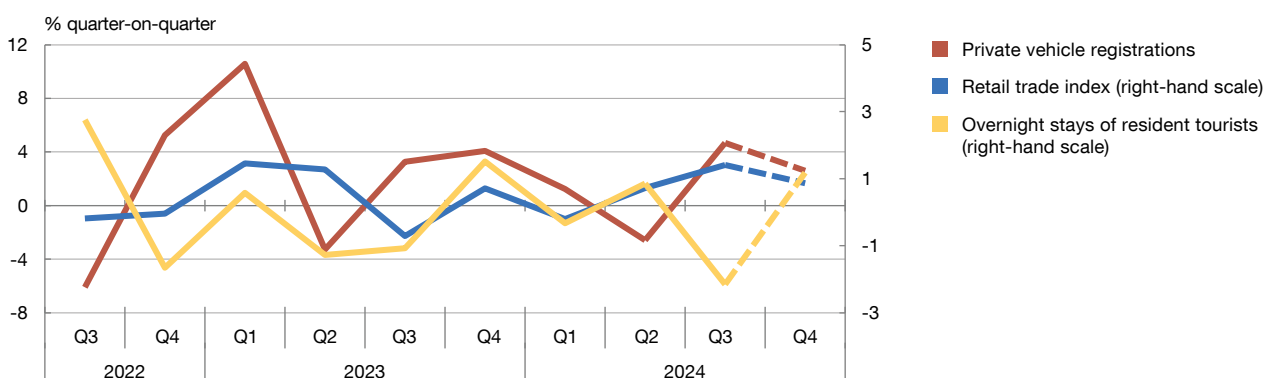


## 14 In Q4, private consumption is expected to continue on the recovery path seen in the previous two quarters

- Following a marked acceleration in Q2 and Q3 (with quarter-on-quarter growth of around 1%), household consumption is expected to remain one of the key growth drivers for the Spanish economy in the coming quarters.
- This robust private consumption, which is consistent with recent trends in various expenditure indicators (Chart 14.a), is expected to be underpinned by, among other factors, the continued strength of the **labour market**, the **expected gradual improvement in financial conditions** and high savings levels. Indeed, in 2024 Q2 the household saving rate (household savings to household disposable income) held at 13.1% in seasonally adjusted terms, 4.5 pp above the 2000-2019 average.
- In any event, there is considerable uncertainty about the level to which the savings rate could converge in the foreseeable future. Data from the Spanish Survey of Household Finances (EFF, by its Spanish acronym)<sup>7</sup> suggest that the marginal propensity to consume declined considerably in Spain between 2017 and 2022, particularly among higher-income and tenant households.

Chart 14

14.a Changes in common indicators of expenditure (a)



**SOURCES:** Asociación Española de Fabricantes de Automóviles y Camiones, INE and EFF.

**a** The rate for 2024 Q4 was calculated using data for October in the case of overnight stays and the retail trade index and the average for the period October-November in the case of private vehicle registrations.



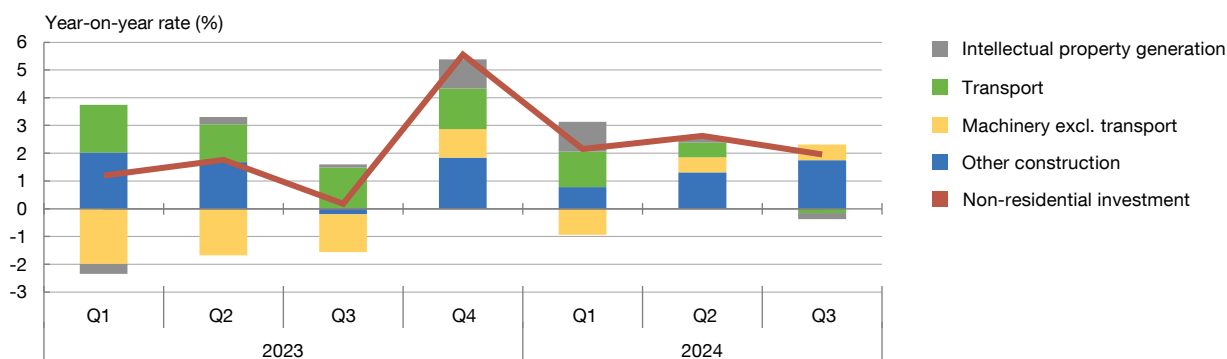
<sup>7</sup> See “Developments in the marginal propensity to consume of Spanish households”, forthcoming.

## 15 Growth in productive investment is expected to remain modest in the final stretch of the year, while residential investment could gain momentum

- In recent quarters, productive investment (which excludes residential investment but includes other construction) has shown relatively modest growth, consistent with year-on-year rates of around 2% (Chart 15.a), which has contributed to this item remaining 1.6 pp below pre-pandemic levels.
- The latest qualitative indicators have offered mixed signals during the current quarter. For instance, in October–November the PMI for capital goods improved compared with Q3, fuelled by a strong performance in new orders. The latest EBAE<sup>8</sup> data point in the same direction, with firms reporting an increase in investment in Q4, particularly in the industrial sector. Conversely, the industrial confidence indicators suggest a downturn in investment in Q4.
- In contrast to these dynamics, the housing construction execution indicator points to an acceleration in residential investment in Q4. All this against a backdrop in which house purchases remain close to mid-2022 levels and house prices grew by 8.1% year-on-year in Q3 (up by 0.3 pp on Q2).

Chart 15

15.a Contributions to investment growth



SOURCE: INE.



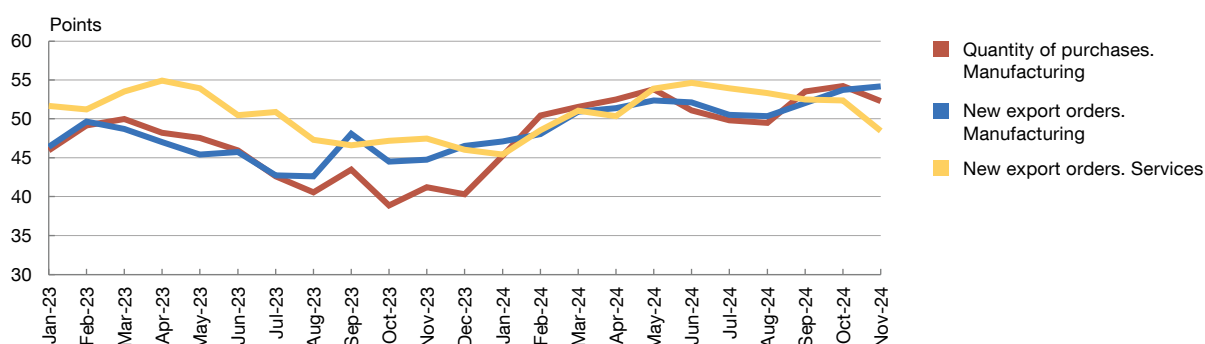
<sup>8</sup> Fernández Cerezo and Izquierdo. (2024).

## 16 The recent strong performance of exports is expected to continue, amid some recovery in imports

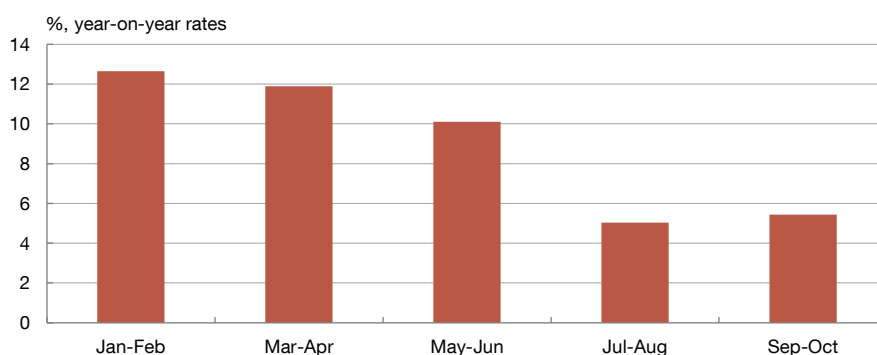
- Exports posted robust year-on-year growth of 5.1% in Q3, driven by services exports (+13.4%), with growth in both travel and non-travel services. Imports also gained momentum, with year-on-year growth reaching 3.6%, up considerably on the previous two quarters (less than 1%).
- The most recent short-term indicators suggest that these dynamics could persist into Q4. For instance, the manufacturing PMIs for new export orders and quantity of purchases have held in expansionary territory (Chart 16.a). Similarly, the latest quarterly survey of exporters reflects upbeat expectations, albeit partially dampened by the bearish outlook for the automotive industry.
- In services, the new export orders indicator declined in November, while the year-on-year growth in travel exports appears to have slowed in recent months, as reflected in hotel overnight stays by foreign travellers (Chart 16.b). This weaker performance, coupled with the foreseeable recovery in imports associated with stronger domestic demand, will limit the contribution of net exports to GDP growth going forward.

Chart 16

### 16.a PMIs



### 16.b Hotel overnight stays by foreign travellers in Spain. 2024



SOURCES: S&P Global and INE.

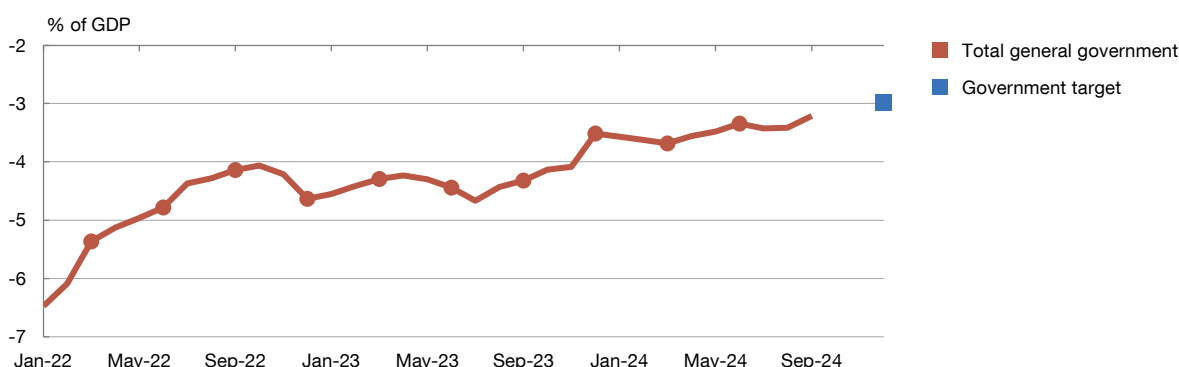


## 17 In 2024, the budget deficit may reach more than 3% of GDP, partly due to the extraordinary expenditure arising from the economic policy measures adopted in response to the recent flash floods in Valencia

- The general government deficit in cumulative 12-month terms to September stood at 3.2% of GDP, 0.3 pp less than in December 2023 (Chart 17.a). This was attributable, among other factors, to a 5.8% year-on-year increase in expenditure in the January-September period, which was slightly lower than the 6.6% rise in revenue.
- Aside from these developments, the fiscal response to the flash floods that affected several Spanish provinces in late October could amount to a one-off increase in the deficit of approximately 0.5% of GDP which will be distributed over 2024 and 2025.<sup>9</sup> This impact on public finances could lessen to the extent that the disbursements are financed with money from EU structural funds. In any event, this expenditure and that arising from several recent judgments against the tax authorities,<sup>10</sup> will be extraordinary in nature and will not affect the European authorities' assessment of the Spanish budget deficit in the context of the EU's fiscal governance framework.
- Two initiatives in recent months with implications for the budget deficit should be mentioned.<sup>11</sup> First, the draft law determining a top-up tax to ensure a global minimum level of taxation for multinational groups and large-scale domestic groups – currently before the Senate – which provides several measures to increase public revenue. Second, the Medium-Term Fiscal and Structural Plan which sets a maximum primary expenditure growth path, net of discretionary revenue measures and other items, for the period 2025-2031.

Chart 17

17.a General government balance (a)



SOURCES: Banco de España, IGAE and 2025-2028 Medium-Term Fiscal and Structural Plan (October 2024).

a The dots correspond to the data for the overall general government sector, which the National Audit Office (IGAE) only publishes on a quarterly basis and with a longer time lag. The remaining monthly data are estimated drawing on information of the aggregate excluding local government.



- 9 The main disbursements are linked to direct aid to households and businesses, including compensation from the Consorcio de Compensación de Seguros (Insurance Compensation Consortium). The measures are included in [Royal Decree-Law 6/2024](#) and [Royal Decree-Law 7/2024](#). Subsequently, [Royal Decree-Law 8/2024](#) introduced further measures, of a smaller amount, which could not be included in this projection exercise due to the later approval of this Royal Decree Law.
- 10 In particular, the judgments about members of mutual insurance companies being entitled to a personal income tax credit and the unconstitutional nature of certain corporate income tax aspects of Royal Decree-Law 3/2016, with an estimated impact in 2024 of €3.9 billion, in line with the Spanish tax authorities' observations to October.
- 11 For more details on this and other important fiscal aspects for this projection exercise, see the [Projections](#) in this document.

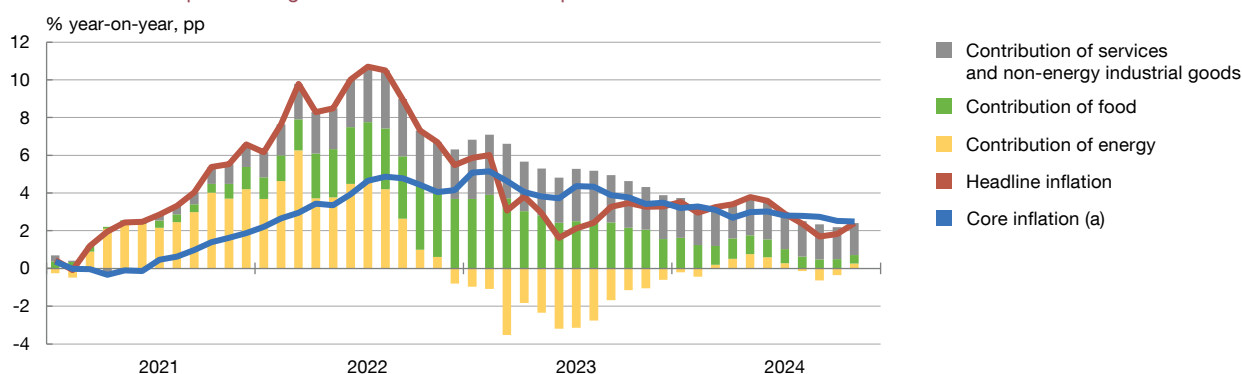


## 18 Headline inflation rose in November, but moderated more sharply than expected between August and October

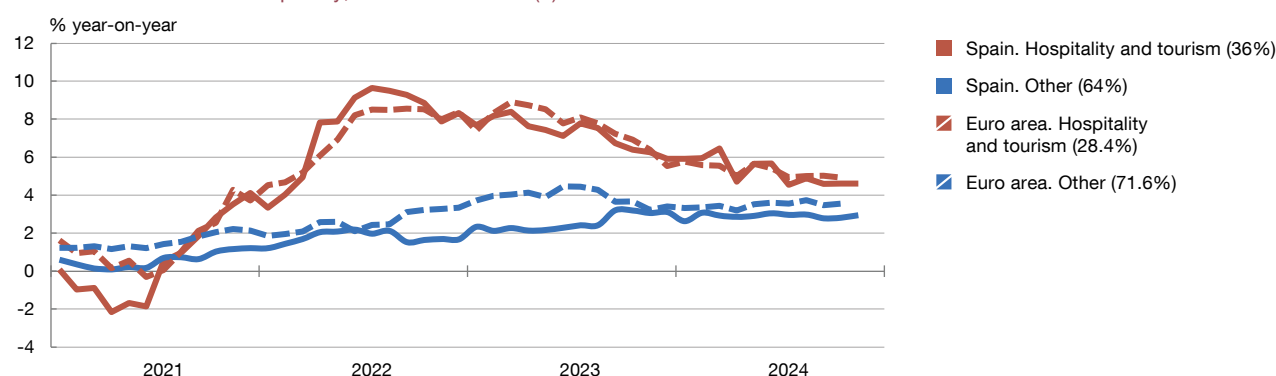
- The decline in headline inflation from 2.4% in August to 1.8% in October was sharper than forecast in the previous projection exercise, owing, particularly, to downward surprises in the energy component and, to a lesser degree, in food prices.<sup>12</sup> In November, headline inflation quickened to 2.4% (Chart 18.a) mainly because of the base effects in energy prices and despite the slightly stronger than expected moderation in food prices.
- The mildly declining path of core inflation (HICP excluding energy and food) continued, reaching a year-on-year rate of 2.5% in November, down 0.3 pp on the figure for August, in line with the projections. By component, non-energy industrial goods prices maintained very moderate growth rates (0.2% in November), while services inflation remained more persistent and reached 3.5% in November (slightly higher than projected), only just below the August figure of 3.7%. Noteworthy in services inflation, in line with developments in the euro area, are the high rates in hospitality and tourism. Furthermore, the disinflation path for these components, which began in early 2023, has moderated somewhat recently (Chart 18.b).

Chart 18

18.a Inflation in Spain: changes and contribution of components



18.b Services inflation: hospitality, tourism and other (b)



SOURCES: Eurostat and Banco de España.

a Headline inflation, excluding energy and food.

b The weight of each group in services inflation is shown within brackets.

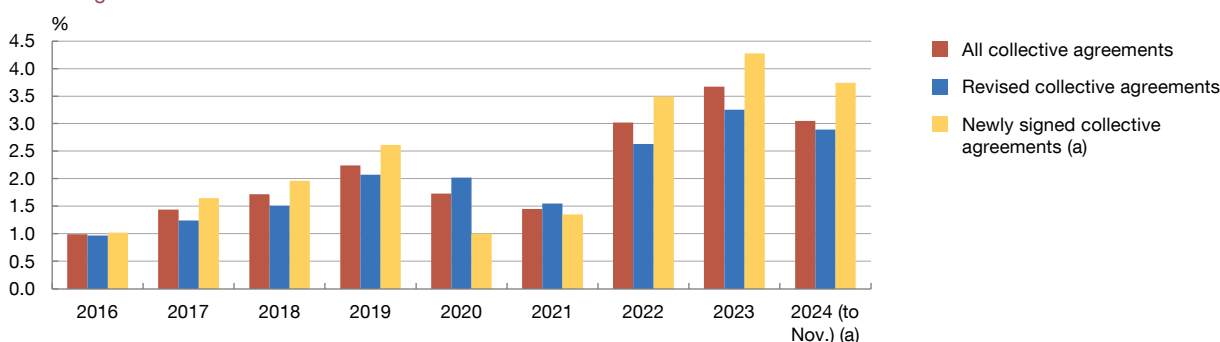
12 The slowdown in food prices was contained in October as a result of the partial reversal of the reduced VAT rate on essential food items. Specifically, under Royal Decree-Law 4/2024, as from 1 October 2024 the VAT rate on essential foods increased from 0% to 2% and that on pasta and seed oil rose from 5% to 7.5%.

## 19 Higher productivity is contributing to the slowdown in unit labour costs

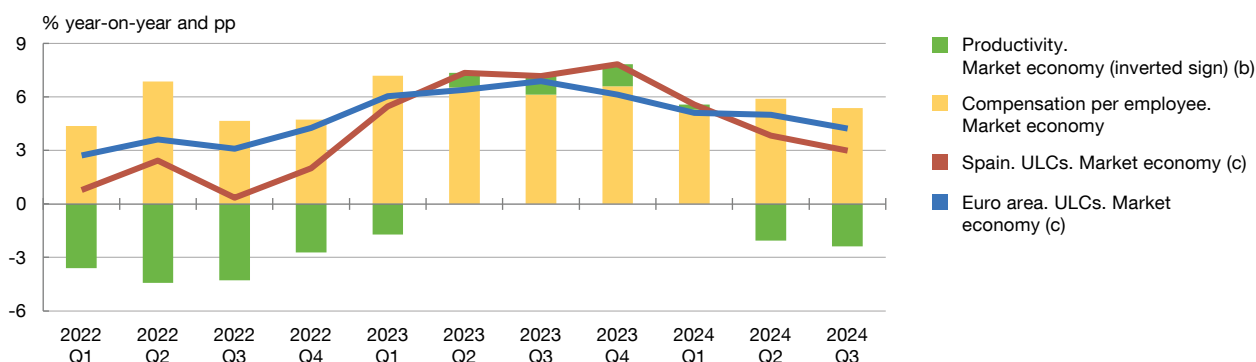
- On data to November, the average negotiated wage settlement for 2024 was 3.1%, down by 0.6 pp on that agreed for 2023 (Chart 19.a). For most wage-earners with wage agreements for 2024 (nearly 80%) these were signed in previous years and include an average wage increase of 2.9%. The negotiated wage settlement stands at 3.7% for new agreements signed in 2024.
- Despite this relative wage moderation in collective bargaining, in the first three quarters of the year the average compensation per employee in the market economy increased by 5.5% year-on-year, reflecting a positive wage drift of close to 2 pp.
- In any event, the growth rate of unit labour costs (ULCs) has slowed in recent quarters both in Spain and in the euro area, albeit somewhat more sharply in Spain (down from 7.8% year-on-year at end-2023 to 3% in 2024 Q3). This deceleration can be explained largely by the recent rise in productivity, following its decline last year (Chart 19.b).

Chart 19

### 19.a Wage settlements



### 19.b ULCs. Market economy. Changes and contributions



SOURCES: Ministerio de Trabajo y Economía Social and INE.

a The newly signed agreements to November 2024 refer only to 1,937,004 employees (21.3% of employees with wage settlements for 2024).

b Productivity is defined as GVA divided by the total number of employees in a given sector.

c The change in ULCs can be proxied as the sum of the change in compensation per employee and the change in productivity (with an inverted sign). Therefore, a positive contribution of productivity in the chart is interpreted as the effect of a decline in productivity.

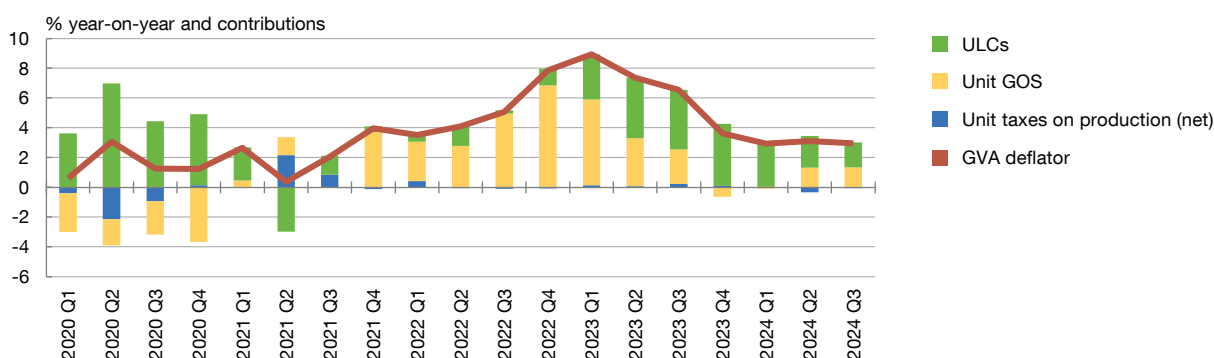


## 20 Domestic price pressure remained stable in recent quarters insofar as profit margins offset the slowdown in ULCs

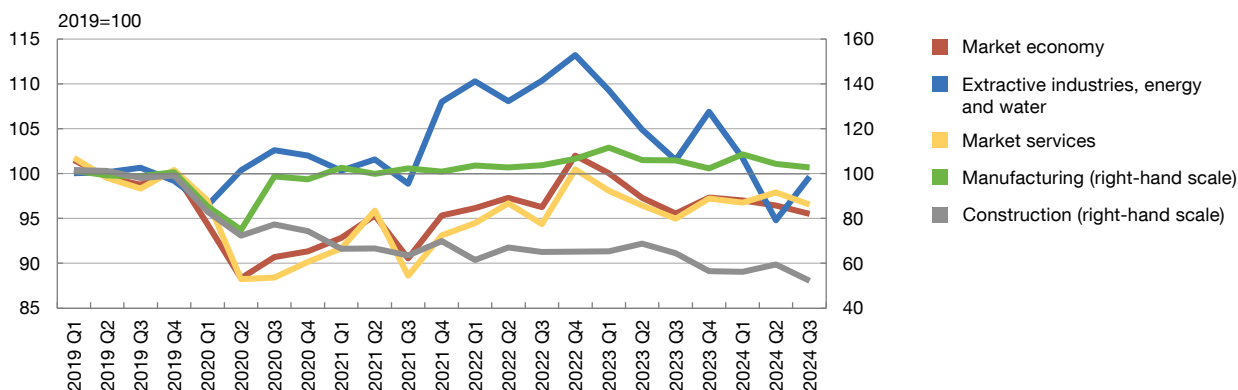
- Year-on-year growth in the market economy gross value added (GVA) deflator has held steady at around 3% since early 2024. This reflects an **easing in the growth rate of ULCs** that was offset by a gradual recovery in the contribution from the unit gross operating surplus (GOS) (Chart 20.a).
- Nevertheless, the ratio of GOS to GVA of the market economy remains below its pre-pandemic levels (Chart 20.b) based on the QNA published by the National Statistics Institute (INE).<sup>13</sup> Even so, marked cross-sector heterogeneity persists, as borne out by the different performance of this ratio, for example, in industry and construction.

Chart 20

20.a Gross value added deflator. Market economy



20.b Changes in profit margins (GOS/GVA) on QNA data. Breakdown by sector



SOURCES: Banco de España and INE.



13 For further details on the interpretation and recent performance of alternative measures that seek to approximate profit margins, see the [Observatorio de Márgenes Empresariales website](#), a joint initiative of the Ministry of Economic Affairs, Trade and Enterprise, the tax authorities and the Banco de España.

**MACROECONOMIC PROJECTIONS FOR THE SPANISH  
ECONOMY (2024-2027)**

## Macroeconomic projections for the Spanish economy (2024-2027)

This section presents the key features of the update to the Banco de España's macroeconomic projections for the Spanish economy for 2024-2027.<sup>1</sup>

Under the assumptions of the exercise, GDP will grow by 3.1% in 2024, 0.4 percentage points (pp) more than in 2023. Subsequently, GDP growth will gradually slow down, to 2.5% in 2025, 1.9% in 2026 and 1.7% in 2027. The rate of unemployment, which stood at 12.2% in 2023, will decline gradually over the projection horizon, to reach just under 10% in 2027. As for prices, headline inflation – which averaged 3.4% in 2023 – will fall progressively to 2.9% in 2024, 2.1% in 2025 and 1.7% in 2026. In 2027, by contrast, average headline inflation will rise, to 2.4%, as a result of the planned introduction of a new Emissions Trading System in the European Union (EU), which will chiefly affect energy prices. Core inflation, meanwhile, is projected to decline gradually, from 2.9% in 2024 to 1.8% in 2027 (Table 1).

The remainder of this section is structured as follows. First, the main assumptions and considerations underlying this projection exercise are described. Then, the main features of the outlook for activity and prices are detailed. Lastly, some of the main elements of uncertainty surrounding these projections are analysed.

### Main assumptions and considerations underlying the projections

The projections are based on a set of technical assumptions regarding the future path of certain macroeconomic, financial and fiscal variables. Moreover, the latest GDP data for preceding quarters mean that the starting point used to project the future paths of activity and prices has changed from that used in the previous projections.<sup>2</sup> This sub-section briefly describes the assumptions made and the role of the latest data in the current exercise.

**Assumptions about energy price developments.**<sup>3</sup> In line with futures markets and exchange rate projections, the price of oil in euro is expected to follow a future path of moderation similar to the one forecast three months ago.<sup>4</sup> As regards electricity, the new assumptions fluctuate

1 Compared with the projections published on 17 September, these projections incorporate the information that has become available since then. This includes, in particular, the Quarterly National Accounts (QNA) flash estimate for 2024 Q3, the Quarterly Non-Financial Accounts for the Institutional Sectors for 2024 Q2, the Annual National Accounts series for the period 1995-2003 resulting from the 2024 Benchmark Revision and the changes observed in the technical assumptions for the key projection variables. The cut-off date for the projections and data is 27 November, except for the data on overseas markets and the technical assumptions, for which it is 20 November.

2 See “Macroeconomic projections and quarterly report on the Spanish economy. September 2024”. Economic Bulletin – Banco de España, 2024/Q3.

3 Eurosystem projection exercises use energy commodity futures to proxy the expected future path of energy commodity prices over the projection horizon.

4 The stability of the projected path of the oil price in euro in the December exercise, relative to the September exercise, is the result of two counteracting factors. First, futures markets anticipate a lower path for oil prices in dollars than they did in September. Second, as indicated below, the current projections envisage a weaker euro than those of three months ago.

Table 1

**Macroeconomic projections for the Spanish economy (a)**

Annual rate of change (%)

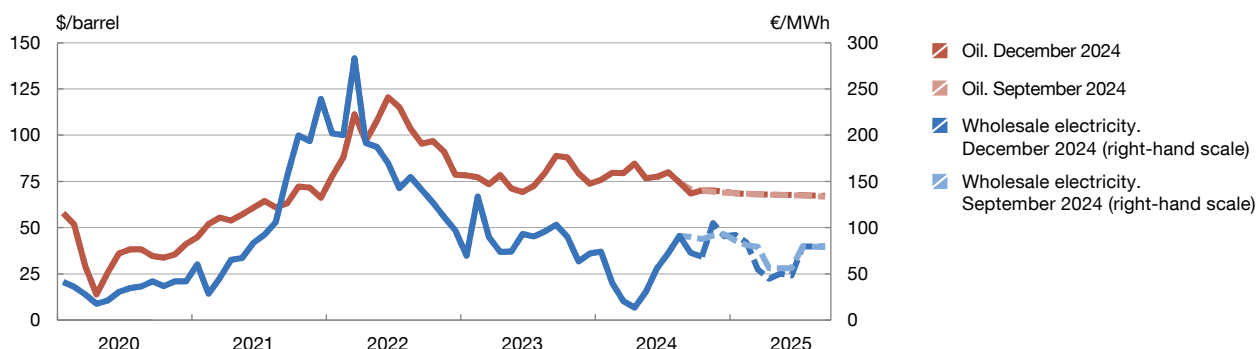
	GDP				Harmonised index of consumer prices (HICP)				HICP excluding food and energy				Unemployment rate (% of labour force) (b)			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
December 2024	3.1	2.5	1.9	1.7	2.9	2.1	1.7	2.4	2.9	2.3	1.9	1.8	11.5	10.8	10.4	9.9
September 2024	2.8	2.2	1.9	—	2.9	2.1	1.8	—	2.8	2.2	1.9	—	11.5	11.0	10.7	—

**SOURCES:** Banco de España and INE.

NOTE: Latest QNA figure published: 2024 Q3 flash estimate.

**a** Projections cut-off date: 27 November 2024.**b** Annual average.

Chart 1

**1.a Energy prices****SOURCES:** OMIE and Reuters.

around those envisaged in September, resulting in an average price somewhat lower than previously forecast. It should be noted that markets expect both oil and electricity prices to remain above their pre-pandemic levels over the projection horizon (Chart 1).

**Assumptions about interest rate developments.**<sup>5</sup> Based on the expectations of the international financial markets, short-term interest rates are expected to fall progressively over the period 2024-2026 before rising slightly in 2027. Overall, these expectations entail, up to 2026, a lower path for short-term rates than was envisaged in the September exercise. Long-term interest rates, meanwhile, are expected to climb slightly over the projection horizon, although by less than was expected three months ago (Table 2). All told, the financing conditions of households and firms are expected to be more relaxed in the current projection exercise than in the September one.

<sup>5</sup> As with oil and other commodity prices, the assumptions regarding the future paths of market interest rates are based on the prices observed on the international financial markets at the cut-off date (20 November).

Table 2

**International environment and monetary and financial conditions (a)**

Annual rate of change (%), unless otherwise indicated

	2023	December 2024 projections					Difference between the current projections and the September 2024 projections (b)		
		2024	2025	2026	2027		2024	2025	2026
Spain's export markets (c)	-0.2	0.9	2.7	3.2	3.0		0.3	-0.4	0.0
Oil price in dollars/barrel (level)	83.7	81.8	71.8	70.1	69.2		-0.7	-3.1	-2.3
<b>Monetary and financial conditions</b>									
Dollar/euro exchange rate (level)	1.08	1.08	1.06	1.06	1.06		-0.01	-0.05	-0.05
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	115.6	116.1	114.3	114.3	114.3		-0.7	-3.5	-3.5
Short-term interest rate (3-month EURIBOR; level) (e)	3.4	3.6	2.1	2.0	2.2		0.0	-0.3	-0.1
Long-term interest rate (10-year Spanish government bond yield; level) (e)	3.5	3.2	3.2	3.3	3.5		0.0	-0.1	-0.1

**SOURCES:** Banco de España and ECB.

- a Cut-off date for assumptions: 20 November. Figures expressed as levels are annual averages, figures expressed as rates are calculated on the basis of the related annual averages.
- b Differences in rates for export markets, in levels for oil prices, the dollar/euro exchange rate and the nominal effective exchange rate, and in percentage points for interest rates.
- c The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the December 2024 *Eurosystem staff macroeconomic projections for the euro area*.
- d A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.
- e For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the path of these variables.

**Assumptions about external market developments.** The technical assumptions envisage a recovery in Spain's export markets over the period 2025-2027, essentially in line with the developments projected in euro area economic activity and trade flows.<sup>6</sup> This recovery is, nonetheless, weaker than was anticipated three months ago for 2025. The nominal exchange rate of the euro is now somewhat lower than in the previous projection exercise, both with respect to the US dollar and in effective terms (Table 2). A significant part of these developments appears to be associated with the result of the presidential elections in the United States in early November and the **possible tariff, migration, fiscal and regulatory measures the new Trump administration may take in the coming months.**

**Assumptions about fiscal policy in Spain.** Compared with the September projections, the fiscal assumptions have been updated to include the following new developments with an impact on the budget deficit:

- **The draft law establishing a top-up tax to ensure a global minimum level of taxation for multinational groups and large-scale domestic groups.** It is estimated that the set of

<sup>6</sup> The **Eurosystem projection exercise** envisages euro area growth of 1.1% in 2025, 1.4% in 2026 and 1.3% in 2027, up from 0.7% in 2024, and a notable acceleration in exports and imports over the projection horizon. However, the growth path for the euro area entails a downward revision relative to the Eurosystem projection exercise of three months ago.

measures contained in this draft law will increase public revenues by 0.3% of GDP in 2025, with this percentage declining over the subsequent years as a result of the temporary nature of some of the initiatives<sup>7</sup> and of the opposite effect on public receipts of the proposal to progressively lower the tax rate for small firms. Note that the estimated impact in 2025 is largely included in the September projection exercise, as the extension to that year of some measures had already been announced by the Government,<sup>8</sup> while the impact of the new minimum level of taxation on corporate income tax revenue will not be seen until 2026. The overall effect of the draft law on the projections is very limited in 2025 and amounts to less than 0.2% of GDP in 2026 and 2027.

- The measures approved in response to the devastating floods that affected various Spanish provinces at the end of October.<sup>9</sup> Albeit subject to considerable uncertainty, it is estimated that these measures will entail an increase in spending of around 0.5% of GDP, to be divided between 2024 and 2025.
- The payments associated with various court decisions. Although the fiscal impact of these decisions in 2024 is unchanged from that estimated in the September exercise (0.2% of GDP), further amounts have been included in 2025 (0.1%) and in 2026 and 2027 (0.05% in each year), mainly due to the new scheme for payments to former mutual society members established in the draft law mentioned above. In any case, note that there remains an upward risk to the budget deficit in this area, insofar as other decisions already issued against the tax authorities have yet to be quantified and are not included in the current projection exercise.<sup>10</sup>

The European Commission has also assessed the **Medium Term Fiscal-Structural Plan (MTFSP)** submitted by the Spanish Government on 15 October and has recommended its approval by the Council of the European Union. The MTFSP, which replaces the annual Stability Programme Updates, is the cornerstone of the new European fiscal rules. It establishes a seven-year fiscal

7 For example, the extension of the 50% limit on the corporate income tax deductions for corporate groups for the losses of subsidiaries, and the new tax on the net interest income and fees and commissions of financial institutions, which are expected to be in force for three years.

8 Among the measures previously announced by the Government are the extension to 2025 of the temporary levies, the temporary extension of the limit to the corporate income tax deduction for the losses of subsidiaries and the reintroduction of limits on the corporate income tax deduction of losses relating to previous years. With regard to the temporary levies, it is now assumed that the one applicable to financial institutions will be replaced by a new temporary tax on the net interest income and fees and commissions of certain financial institutions (to be levied in the period 2025-2027), which is expected to raise a similar amount of annual revenue. It is assumed that the temporary levy on energy utilities will only be extended to 2025, with significantly lower revenue, in line with the bare bones parliamentary agreement reached, which has still to be finalised. Indeed, the levy could be replaced by a new tax on energy utilities.

9 The measures are included in Royal Decree-Law 6/2024 and Royal Decree-Law 7/2024. They include: compensation (from central government and the regional governments, and from the Insurance Compensation Consortium) for personal injury and damage to housing, personal belongings, vehicles and industrial, commercial and service facilities; agricultural sector grants; tax reductions (property tax, business tax and personal income tax and VAT modules) and deferrals; exemptions from social contributions for furloughed workers and the self-employed; an extraordinary increase in the minimum income scheme and non-contributory pensions; guarantees for households and firms; and moratoria on loans and grants for the removal of mud and for the reconstruction of infrastructure. Subsequently, a third Royal Decree-Law (8/2024) included some quantitatively less important additional measures, which have not been included in this projection exercise as they were approved after the cut-off date.

10 For example, in relation to the hydrocarbon excise duty, the business tax on mobile phone operators and international arbitrations relating to renewable energies.



adjustment by setting a maximum growth path for adjusted expenditure<sup>11</sup> net of revenue measures. The Spanish MTFSP envisages a ceiling for net expenditure growth of 3.5%, on average, for the period 2025-2027 (3.7% in 2025, 3.5% in 2026 and 3.2% in 2027). However, the macroeconomic scenarios and fiscal measure assumptions underlying these projections suggest that net primary expenditure growth in these three years will be 0.4 percentage points (pp) higher, on average, than in the MTFSP (3.9% vs 3.5%). This forecast is in line with the assessment of the Independent Authority for Fiscal Responsibility (AIReF), whose [Report on the Medium-Term Fiscal-Structural Plan 2025-2028](#) estimates that net primary expenditure will grow, on average, at a rate 0.3 pp above the MTFSP target.<sup>12</sup> Therefore, in order to meet the MTFSP commitment, an additional average adjustment to primary expenditure growth of between 0.3 pp and 0.4 pp annually would be needed over the projection horizon.<sup>13</sup> This additional adjustment is not included in the baseline scenario of this projection exercise due to a lack of clarity as to how it would be implemented. However, if implemented, it would likely negatively impact the GDP growth estimated in these projections. The scale of this impact would depend on the actual breakdown of this adjustment (see the sub-section on risks for more details and simulations).<sup>14</sup>

Lastly, the expected trajectory of expenditure financed with European funds from the NGEU programme remains practically unchanged. Thus, it is estimated that the spending associated with the Recovery, Transformation and Resilience Plan (RTRP) will stand at around 1% of GDP in 2024 (up 0.3 pp on their 2023 level) and will peak in 2025 and 2026. The PRTR will continue to have a positive impact on the economy thereafter, due to both the lagged effects of the transfers in National Accounts terms and the possible impact of the loans associated with the programme.

**New data and statistical revisions.** QNA flash estimates for 2024 Q3 point to quarter-on-quarter GDP growth in that quarter of 0.8%, 0.2 pp above the Banco de España September projection. In addition, the National Statistics Institute (INE) has revised upwards the GDP growth rates for previous quarters. For instance, the growth rate for Q1 has been raised from 0.8% to 0.9%. Taken on their own, these new figures would automatically entail a higher starting point for GDP for the current projections and a higher GDP growth rate for 2024.

## Activity

**Economic growth remained high in Q3.** According to the QNA flash estimates published by the INE, in Q3 Spanish GDP grew by 0.8% quarter-on-quarter (3.4% in year-on-year terms), exceeding

11 Adjusted expenditure is defined as total expenditure minus interest payments, the cyclical component of unemployment benefits and subsidies, extraordinary costs and expenditure financed or co-financed with European funds.

12 The small difference between the AIReF and Banco de España estimates is due to different assumptions on government expenditure growth and to the fact that they have been prepared using slightly different datasets.

13 Since net primary expenditure is approximately 40% of GDP, an additional annual average adjustment, in deficit terms, of just under 0.2 pp of GDP would be needed over the projection horizon.

14 It should be noted that the new European fiscal rules have a multi-year approach, and annual deviations from the expenditure rule are recorded in a control account. Provided that these deviations remain below 0.3% of annual GDP (and 0.6% cumulatively), this control account may be used to reduce the additional adjustment required over the 2025-2027 horizon. In any event, the specifics of how the control account will operate are still being negotiated and are shrouded in significant uncertainty.

the Banco de España September projection of 0.6%<sup>15</sup> and outperforming the euro area, which grew by 0.4%. Thus, the Spanish economy's GDP stood 6.6% above its pre-pandemic level, a 2.1 pp wider gap than in the euro area.

**In Q3 private and government consumption were the primary growth drivers, contributing 0.6 pp and 0.4 pp, respectively, to the quarter-on-quarter GDP growth rate.** Conversely, investment and net external demand reduced growth by 0.1 pp each. It should be noted that, after the revision of previous QNA data, domestic demand is now also the main source of growth in Q2, which was not the case before the revision. Meanwhile the contribution of net exports to GDP growth in that quarter is now minimal.<sup>16</sup>

**The as yet incomplete short-term economic information for Q4 suggests that activity has grown strongly in recent months.** In particular, **an analysis of the information available at the cut-off date for this projection exercise** – which includes social security registrations, the Banco de España Business Activity Survey (EBAE), the Purchasing Managers' Indices (PMIs) and various high-frequency indicators – suggests that quarter-on-quarter GDP growth in Q4 could stand between 0.6% and 0.7%.

**These growth rates are surrounded by considerable uncertainty, particularly considering the difficulty in assessing the economic impact for this quarter of the late-October floods which affected several Spanish provinces.** Based on the available evidence, the estimated impact on Q4 GDP growth, which is already included in the above-mentioned range, would be negative but relatively limited (of between 0.1 pp and 0.2 pp). Over a broader time scale, the most recent developments in some high-frequency indicators – such as the supply bottleneck index developed by the Banco de España,<sup>17</sup> which points to a relatively rapid decrease in bottlenecks over the past weeks –, the study of other comparable historical episodes and the authorities' fiscal policy response (provided it is swift and effective) suggest that the adverse economic effects of this disaster could be reversed over the first half of 2025.<sup>18</sup>

**Economic growth is projected to gradually slow down over the coming quarters, to rates more in line with the Spanish economy's potential growth, which is estimated to stand at just under 2% at the end of the projection horizon.** Specifically, GDP growth is expected to

15 "Macroeconomic projections and quarterly report on the Spanish economy. September 2024". *Economic Bulletin – Banco de España*, 2024/Q3.

16 José Luis Fernández, Enrique Moral-Benito and Alberto Urtaşun. (2024). "An overview of the Spanish economy's performance since the pandemic following the revision of national accounts: a European comparison". *Economic Bulletin - Banco de España*, 2024/Q4, 5.

17 Pablo Burriel, Iván Kataryniuk, Carlos Moreno Pérez and Francesca Viani. (2023). "A new bottleneck index based on newspaper data". *International Journal of Central Banking*, 20(2), pp. 17-67.

18 The economic literature shows evidence that natural disasters adversely affect economic activity in the short term and that their effect tends to fade over the long term, depending on the economic and institutional characteristics of the affected country and on the public policy response. See for example Eduardo Cavallo and Ilan Noy. (2010). "The economics of natural disasters. A survey". IDB Working Paper Series, 124, Inter-American Development Bank. Moreover, recent research suggests that reconstruction efforts after a flood may drive up GDP in the medium term and that the renewal of capital after a natural disaster may boost productivity. See for example Sehrish Usman, Guzmán González-Torres Fernández and Miles Parker. (2024). "Going NUTS: the regional impact of extreme climate events over the medium term". Working Paper Series, 3002, European Central Bank; and Tarikua Erda. (2024). "Disasters, capital and productivity". Mimeo, Columbia University.

Table 3

**Projections for the main macroeconomic aggregates of the Spanish economy (a)**

Annual rate of change in volume terms (%) and % of GDP

	2023	December 2024 projections					September 2024 projections		
		2024	2025	2026	2027		2024	2025	2026
GDP	2.7	3.1	2.5	1.9	1.7		2.8	2.2	1.9
Private consumption	1.8	2.8	2.9	2.0	1.8		2.2	2.1	1.8
Government consumption	5.2	4.2	1.9	1.8	1.7		1.8	2.0	1.7
Gross capital formation	-1.6	0.8	3.1	2.2	1.9		1.8	2.1	2.4
Exports of goods and services	2.8	3.3	3.0	3.2	2.9		3.5	2.7	3.2
Imports of goods and services	0.3	2.1	3.8	3.5	3.2		1.4	2.5	3.5
Domestic demand (contribution to growth)	1.7	2.6	2.6	1.9	1.7		2.0	2.0	1.8
Net external demand (contribution to growth)	1.0	0.5	-0.1	0.0	0.0		0.8	0.2	0.1
Nominal GDP	9.1	6.3	4.8	3.8	4.0		5.9	4.4	3.7
GDP deflator	6.2	3.1	2.2	1.8	2.2		3.0	2.2	1.8
HICP	3.4	2.9	2.1	1.7	2.4		2.9	2.1	1.8
HICP excluding energy and food	4.1	2.9	2.3	1.9	1.8		2.8	2.2	1.9
Employment (people)	3.0	2.1	1.6	1.1	1.0		2.2	1.6	1.1
Employment (hours)	2.0	1.2	1.3	1.1	1.0		1.8	1.7	1.1
Unemployment rate (% of the labour force). Annual average	12.2	11.5	10.8	10.4	9.9		11.5	11.0	10.7
Net lending (+) / net borrowing (-) of the nation (% of GDP)	3.7	4.1	4.2	4.2	3.6		4.5	5.0	5.0
General government net lending (+) / net borrowing (-) (% of GDP)	-3.5	-3.4	-2.9	-2.7	-2.7		-3.3	-3.1	-3.2
General government debt (% of GDP)	105.1	103.1	102.6	102.5	101.8		105.4	105.4	106.3

**SOURCES:** Banco de España and INE.

NOTE: Latest QNA figure published: 2024 Q3 flash estimate.

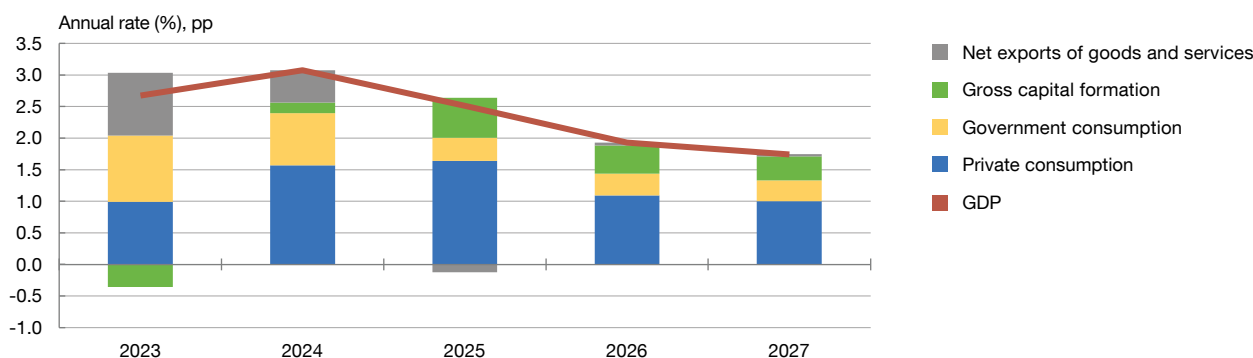
**a** Projections cut-off date: 27 November 2024.

stand at 2.5% in 2025, 1.9% in 2026 and 1.7% in 2027 (Table 3). Under this scenario, the difference between real and potential GDP (the output gap) would be positive throughout the projection horizon, although it would gradually start to close from 2026.

**According to these projections, GDP growth in the period 2024-2027 will be underpinned by the buoyancy of domestic demand** (Chart 2). In particular, private consumption will be the main contributor to economic growth in this period, due to the projected favourable developments in disposable income, employment and household confidence and to the expected population increase. In 2027 private consumption is projected to stand 10.4% above its pre-pandemic level, a lower positive gap than observed for GDP (13.5%). Meanwhile, gross capital formation, the demand component that has taken longest to recover its pre-pandemic levels (particularly in the private sector), will contribute more to GDP in the coming quarters, thanks to the greater deployment of NextGenerationEU (NGEU) funds and improved financing conditions. At the same time, firms will have a relatively comfortable financial situation in aggregate terms. By contrast, the contribution of government consumption, which was notably strong in 2023 and 2024, to activity growth is expected to moderate in the coming years.

Chart 2

## 2.a GDP growth and contributions of main components



SOURCES: Banco de España and INE.

**The contribution of net external demand to GDP growth has gradually declined in recent quarters and will be practically zero in 2025-2027** (Chart 2). The external sector, which was behind just over a third of the output increase in 2022, contributed close to zero in Q2 and Q3 this year, according to the latest QNA estimates. Looking ahead, in line with the September projections, international tourist arrivals will gradually slow down, yet maintain high growth rates over the coming years. Meanwhile goods exports are projected to recover, in line with the rebound in Spain's external markets, and non-travel services exports, which surged after the pandemic, are expected to moderate. On the imports side, the National Accounts revision resulted in greater-than-initially-estimated growth in this heading, leading to a lower contribution from the external sector to activity in recent quarters. Looking ahead, purchases abroad are expected to continue to gain momentum, in keeping with the growth in investment and goods exports, which have a high import content.

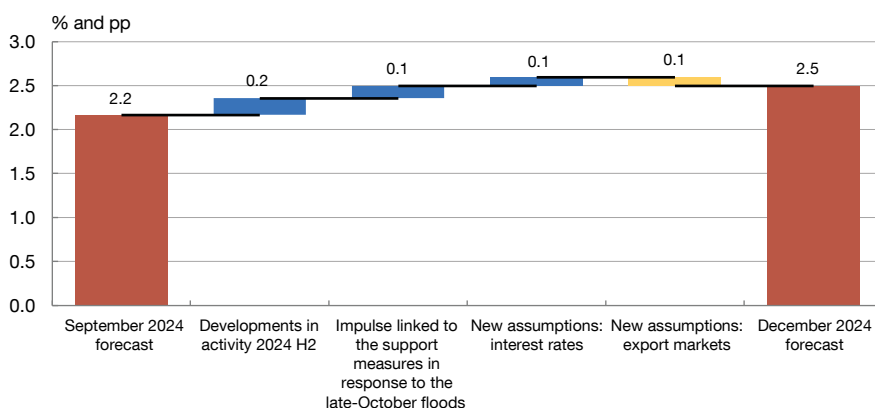
**Compared with the September exercise, the GDP growth rate for 2024 has been revised up in the current projections.** In particular, the growth rate projected for 2024 has been raised by 0.3 pp, due to (i) the positive carry-over effect of the QNA revision published in late-September; (ii) GDP growth in Q3 which, as mentioned above, was higher than expected; and (iii) the strength of activity in Q4, which is higher than was expected in September.<sup>19</sup>

**GDP growth for 2025 is also revised up (by 0.3 pp) owing to a combination of factors** (Chart 3). On the one hand, the greater momentum of activity in the second half of 2024 (even taking into account the negative impact of the October floods) automatically entails a positive carry over effect on average GDP growth in 2025. On the other hand, as mentioned above, the support measures introduced by the authorities to mitigate the impact of the floods, coupled with the reconstruction effort, will lead to greater domestic demand growth in 2025 Q1 than envisaged in the September projections. Lastly, the overall impact on the projected growth for 2025 of the

<sup>19</sup> The upwards surprise in activity at end-2024 has an even greater effect on average 2025 annual growth, as described below. José González Mínguez and Carmen Martínez Carrascal (2019), "The relationship between average annual and quarter-on-quarter GDP growth rates: implications for projections and macroeconomic analysis", *Economic Bulletin - Banco de España*, 3/2019.

Chart 3

## 3.a Changes in the GDP growth forecast for 2025



SOURCE: Banco de España.

changes in the external assumptions is zero, as the positive effect of the lower interest rates than envisaged in the September projections is offset by the negative effect of the worse performance of external markets.

**As far as the labour market is concerned, job creation is expected to continue over the projection horizon, albeit at a slower pace than in recent quarters.** In particular, compared with the 3% rise recorded in 2023, employment (measured in terms of people employed) is expected to increase by 2.1% in 2024 before gradually slowing to around 1% in 2027 (Table 3). This growth, which is below that projected for GDP, is consistent with modest productivity growth over the next few years – at a somewhat slower pace than in recent quarters, but above the rates seen in recent decades (Chart 4.a). This would help narrow the gap that opened after the outbreak of the COVID-19 pandemic between productivity levels and their prior trend. The unemployment rate will continue to fall gradually over the coming years. Its rate of decline will be affected by the projected slowing in the pace of job creation and labour force dynamics in an environment in which immigration flows will remain relatively high (Chart 4.b).<sup>20</sup> As a result, the unemployment rate in Spain will stand at just under 10% in 2027.

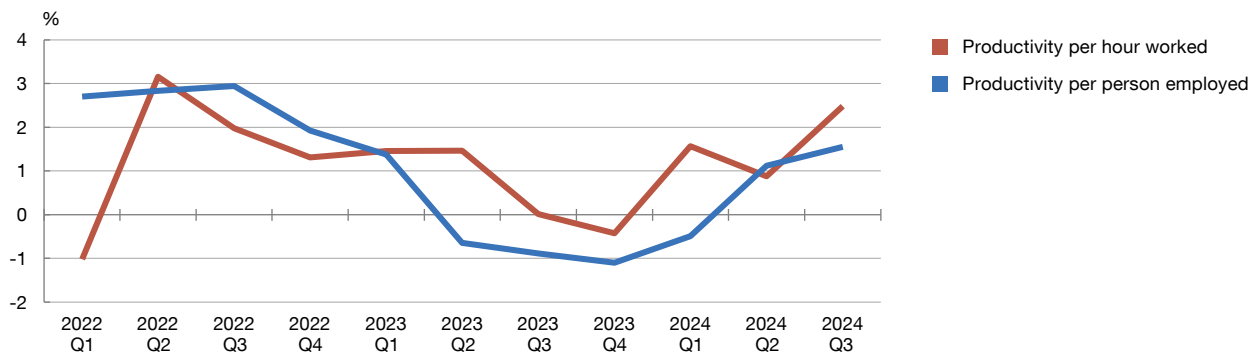
### Expected outlook for inflation and labour costs

**Headline inflation, as measured by the year-on-year change in the harmonised index of consumer prices (HICP), has surprised on the downside in recent months.** In particular, although this rate rose from 1.8% in October to 2.4% in November, the same level as in August, it was 0.1 pp below what was forecast for November in the September projections. This downside

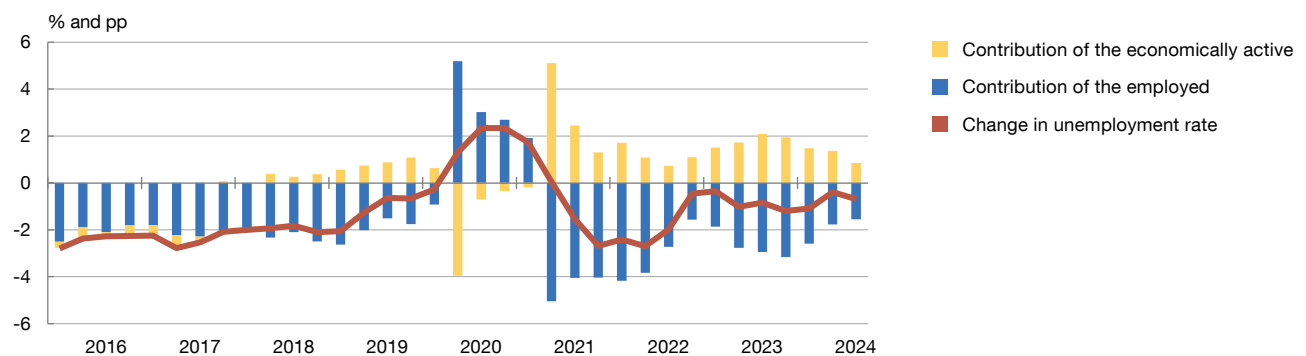
<sup>20</sup> According to the INE's Statistics on Migrations and Changes of Residence, in 2022 and 2023, net external migration was positive, amounting to more than 730,000 and 640,000 people, respectively, the highest figures of the last decade. The INE forecasts positive migration flows of around 550,000 people per year, on average, over the next ten years, while Eurostat envisages flows of around 340,000 people.

Chart 4

## 4.a Productivity (year-on-year rate of change) (a)



## 4.b Unemployment rate (year-on-year change and contribution of the employed and economically active)



SOURCES: Banco de España and INE.

a Seasonally adjusted data.

surprise is essentially explained by a sharper slowdown than expected in food prices, while the recent uptick in energy prices was in line with expectations.<sup>21, 22</sup>

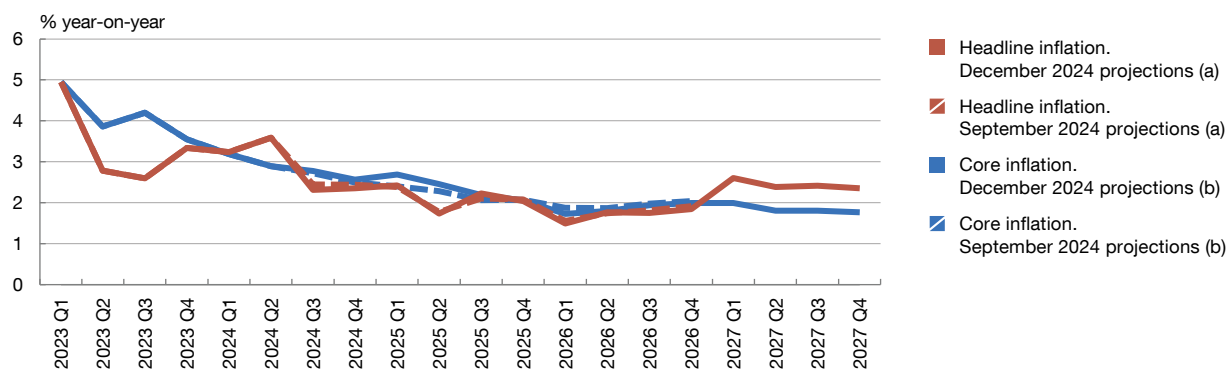
**Core inflation (i.e. excluding energy and food), continued to ease, as it has since mid-2023, in particular falling from 2.8% in August to 2.5% in November, as expected.** The slowdown in recent months was driven by both the services component (the rate of increase of this component fell by 0.2 pp in this period) and non-energy industrial goods (which saw a 0.5 pp slowdown, despite heightened volatility owing to clothing and footwear). In general, growth in the price of non-energy industrial goods remains at very low levels, in line with developments in domestic producer and import prices for these goods. Among services items, hospitality and tourism prices recorded higher growth and have recently eased their slowdown

21 This is so regardless of the fact that the inflation of these items has also been affected by base effects (energy prices) and the partial reversal of the reduced VAT rate (food prices) in recent months. Specifically, in the latter case, it should be noted that, as stipulated in [Royal Decree-Law 4/2024](#) of 26 June 2024, on 1 October the VAT rate on essential foods rose from 0% to 2%, while the rate on pasta and seed oils rose from 5% to 7.5%.

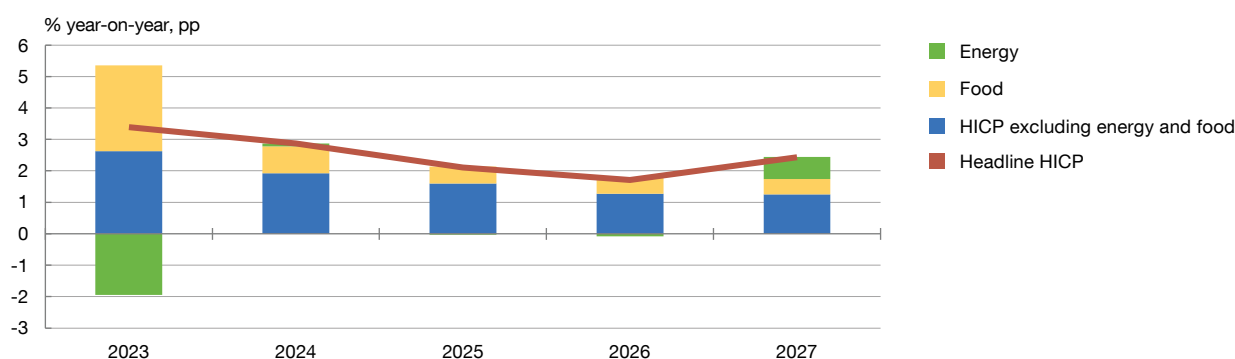
22 October energy prices were below levels envisaged in the previous projections exercise, which contributed to a 0.3 pp downside surprise in headline inflation.

Chart 5

## 5.a Headline and core inflation



## 5.b Contributions to HICP growth, by component



SOURCES: Banco de España and INE.

a Measured by the HICP.

b Measured by the HICP excluding energy and food.

begun in early 2023, while other services inflation remained relatively stable. In general, changes in core inflation in recent months have been in line with those projected in the previous exercise, since the upside surprise in the services component was offset by the downside surprise in non-energy industrial goods.

**Headline inflation will remain relatively stable until March 2025 and will then begin to decline towards levels around 2% (Chart 5.a).<sup>23</sup>** Headline inflation is expected to fall from an average of 3.4% in 2023 to 2.9% in 2024, 2.1% in 2025 and 1.7% in 2026. This fall reflects both the gradual moderation in core inflation (which will ease from an average of 4.1% in 2023, to 2.9% in 2024, 2.3% in 2025 and 1.9% in 2026) and the levelling off of inflationary pressures on food prices (with food price inflation falling from 3.7% in 2024 to 2.4% in 2025 and 2026). All of this will take place in an environment in which the energy component will likely make no or a slightly negative contribution to inflation in 2025 and 2026 (Chart 5.b).

<sup>23</sup> The inflation figures forecast in these projections were calculated using HICP data to October, the latest available at the cut-off date.



**Headline inflation will bounce back in 2027 to 2.4% as a result of the introduction of the new EU Emissions Trading System (ETS2).** This new system will affect road transport, heating in homes, and some industries not covered by the existing EU ETS and is set to drive a significant increase in energy prices and headline inflation (Charts 5.a and 5.b). The size of this uptick is highly uncertain and will depend on several factors that are difficult to predict at present, including the price of the new emission allowances and the degree and speed of the pass-through of increased production costs to retail prices.<sup>24</sup> An additional source of uncertainty regarding the impact of this new system on the HICP in 2027 relates to its entry into force potentially being delayed to 2028 if, as the directive allows, gas or oil prices are exceptionally high in 2026.

**Several relevant factors underpin these inflation forecasts.** First, it is expected that January 2025 will see the complete reversal of the reduction in VAT on essential foods approved in late 2022 and the lifting of the public transport discounts introduced in the same year. Second, the consumer food price forecasts (which take into account the movements in recent months of food production prices and the trend envisaged by futures markets for food commodity prices) suggest that, in the future, food prices will rise at a similar pace to those of other goods and services in the household consumption basket, after rising more sharply in the last two years. Third, the projections maintain the assumption that no significant second-round effects on inflation will emerge via salaries and/or profit margins. In particular, wage settlements in 2025 are expected to remain in line with the fifth Employment and Collective Bargaining Agreement, followed by annual increases of around 3%. However, compensation per employee will continue to rise at a somewhat faster pace than wage settlements, essentially owing to a slightly positive wage drift.<sup>25</sup> The **moderation of profit margins will make it possible to accommodate the anticipated increases in unit labour costs**, although these will slow over the projection horizon amid a **recovery in productivity**.

**Average headline inflation rates for 2024-2026 in the current projections remain practically unchanged from the September projections.** Fundamentally, this reflects two competing influences that balance each other out. On the one hand, food and energy prices have surprised on the downside recently, while new assumptions envisage future energy prices somewhat below those in the September projections. On the other hand, recent months have seen upside surprises in services inflation. These suggest that this component will be somewhat more persistent in the future, driven, among other things, by the stronger growth in activity set out in the present projections.

24 For this projection exercise, which forms part of the Eurosystem projections, it is assumed that the price of emission allowances will reach €59 per metric tonne of CO<sub>2</sub> in 2027, considering that, should this occur, the European Commission will increase the supply of emission allowances to avoid the price exceeding this threshold. It is assumed that 90% of the increase in production costs will be passed through to retail prices of gas and vehicles fuels immediately from 1 January 2027. The literature available for Spain suggests that increases in indirect taxes on the price of vehicle fuels are passed through to the price of these goods unevenly, to a degree that averages close to 100%. Specifically, in the context of the hydrocarbon retail sales tax, the pass-through ranges anywhere from 70% to 120%, with an estimated average of 95%. Samuel Stolper. (2016). "Who bears the burden of energy taxes? The role of local pass-through". Mimeo, and Pilar Cuadrado, Aitor Lacuesta, María de los Llanos Matea and F. Javier Palencia-González. (2018). "Price strategies of independent and branded dealers in retail gas market. The case of a contract reform in Spain". Documentos de Trabajo, 1818, Banco de España. As for the reduction in VAT on food in 2023, an estimated 90% had been passed through within two weeks. Nicolás Forteza, Elvira Prades and Marc Roca. (2024). "Analysing the VAT cut pass-through in Spain using web-scraped supermarket data and machine learning". Documentos de Trabajo, 2417, Banco de España.

25 Wage drift is calculated as the observed growth in compensation per employee (i.e. after subtracting the wage settlement agreed in collective bargaining agreements and the part of the increase in compensation per employee attributable to employers' social contributions).



## Risks and uncertainty surrounding the projections

**The risks to the baseline scenario of these projections for the Spanish economy are tilted to the downside with regard to activity and slightly to the upside with regard to inflation.**

The projections presented are subject to various sources of risk and uncertainty which, for purposes of simplicity, may be grouped into two broad categories: those that are chiefly external to the Spanish economy and those that are predominantly domestic in origin.

### External sources of risks

There are three essentially external sources of risk for the Spanish economy.

**First, greater global trade fragmentation, which could be triggered in the coming months by a potential hike in import tariffs by the incoming US administration.** Until more details are known about these policies – and before they are finally approved – it is difficult to assess their macroeconomic implications, both for the United States and globally. However, a hypothetical across-the-board tariff increase will likely exert downward pressure on global economic activity and upward pressure on inflation, including in Spain and the euro area.<sup>26</sup> Two aspects, however, should be noted:

- The baseline scenario of this projection exercise incorporates the latest developments and future outlook as regards, for example, the path of exchange rates (notable appreciation of the US dollar since Trump won the election) and market rates (appreciable upward shift in the United States and downward shift in the euro area in recent months).<sup>27</sup> Consequently, the baseline scenario already includes some of the potential effects of new US economic policies, at least those already priced in by the financial markets.
- In a setting of extraordinary uncertainty surrounding the policies that may be adopted and the magnitude of their impacts, the Spanish economy will plausibly be less adversely affected than the other main euro area economies. This will, in principle, be attributable to the lower relative trade intensity between Spain and the United States. For instance, goods exports to the United States accounted for 5% of total Spanish exports in 2023, compared with 8.4%, 9.7% and 10.7% in the case of euro area, German and Italian exports, respectively. Similarly, in 2023 Spain had a trade deficit with the United States, of 0.02% of GDP, whereas the euro area as a whole, Germany and Italy had trade surpluses, of 0.2%, 1.9% and 2.1%, respectively.

**Second, a potential escalation of any of the ongoing geopolitical tensions, such as the war in Ukraine and the conflicts in the Middle East.** The materialisation of this risk would dampen

<sup>26</sup> The magnitude of these adverse impacts would depend, among other uncertain factors, on potential retaliatory measures by the countries affected, possible trade diversion effects and a future deterioration in agents' confidence.

<sup>27</sup> When estimating possible future growth in Spain's export markets, the latest forecasts also consider the potential growth rate of the US economy in the coming years. To this end, they take into account, at least partially, some of the fiscal policy measures that the new Trump administration may approve in the coming months.

activity and drive up inflation. Meanwhile, in Europe, increased uncertainty about current and future economic policy stemming from the political instability and doubts regarding fiscal sustainability in France and the political instability and weak economic performance in Germany will exert downward pressure on economic growth and inflation in those countries and, in all likelihood, in Spain, due to a spillover effect.

**Third, the possibility of a sharp correction in financial asset prices on the global capital markets.** In view of the highly positive performance of financial markets in recent months, with some international stock indices close to all-time highs and relatively low risk premia, it is impossible to rule out fresh episodes of financial market turmoil, potentially leading to a sharp correction in financial asset prices and a deterioration in the macroeconomic outlook in the short and medium term. Such episodes could be triggered, for example, by an abrupt shift in expectations for the future path of policy interest rates in the United States or the euro area, a deterioration in China's economic outlook or sundry geopolitical surprises, such as those already mentioned in this sub-section.

### Domestic sources of risk

There are three main predominantly domestic sources of uncertainty surrounding the baseline scenario of these projections.

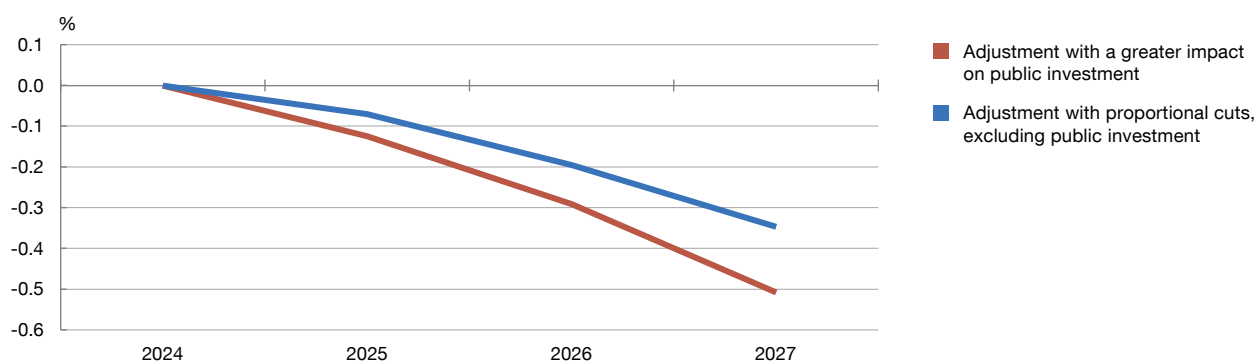
**First, the possible pace of disinflation over the projection horizon.** Specifically, a faster than expected increase in wages or profit margins would entail a higher inflationary path than envisaged under the baseline scenario of these projections. For the time being, the pace of the moderation in inflation and the developments observed in profit margins and wages do not point in this direction. However, the possibility of stronger feedback loops between prices and wages and/or profit margins going forward cannot be ruled out entirely. Especially in a context in which (i) compensation per employee is outpacing wage settlements and the labour market continues to show considerable tightness (for example in terms of the labour shortages reported in several sectors) and (ii) there continue to be significant demand-side pressures in some sectors, which could contribute to driving up profit margins.

**Second, future developments in business investment, as this has continued to perform below expectations in recent quarters.** The baseline scenario of these projections envisages a pick-up in private investment over the coming quarters which, according to the evidence available, would be attributable to a positive carry-over effect on business investment stemming – albeit with a slight lag – from the roll-out of projects under the NGEU programme.<sup>28</sup> This would also be aided by the improvement anticipated in firms' financing conditions. Nevertheless, the persistent sluggishness of business investment in Spain – compared with the buoyancy of public

28 See, for example, Alejandro Fernández-Cerezo, Sergio Puente and Rubén Veiga. (2024). “La evolución reciente de la inversión empresarial en España: un análisis basado en la Encuesta del Banco de España sobre la Actividad Empresarial”. *Boletín Económico – Banco de España*. Forthcoming; and Morteza Ghomi and Evi Pappa. (2024). “Stimulating Avenues: EIB Loans and Returns to Public Infrastructure”. *Documentos de Trabajo – Banco de España*. Forthcoming.

Chart 6

## 6.a Impact on GDP of alternative fiscal adjustment paths



SOURCE: Banco de España.

investment observed in recent years – poses a downside risk to the materialisation of these carry-over effects, which would have a negative impact on the outlook for activity and inflation. Furthermore, turning to developments in private demand in Spain, there is **considerable uncertainty about the level to which the household saving rate could converge in the near future.**

**Third, strict compliance with the Medium-Term Fiscal-Structural Plan 2025-2028.** As mentioned in the first sub-section, the macroeconomic scenario and the fiscal measure assumptions underlying these projections are consistent with annual average growth of 3.9% in net primary expenditure in 2025-2027. This would be 0.4 pp higher (again, in annual average terms) than the 3.5% committed to in the MTFSP. AIReF, meanwhile, estimates that average net primary expenditure growth in this period would be 0.3 pp higher than envisaged in the Plan.<sup>29</sup> In consequence, ensuring strict compliance with the commitments undertaken in the MTFSP would call for an average annual additional adjustment of between 0.3 pp and 0.4 pp in net primary expenditure growth over the projection horizon.

This additional adjustment is not included in the baseline scenario of this projection exercise due to a lack of clarity on how it would be implemented. Nevertheless, for illustrative purposes, set out below are two hypothetical scenarios<sup>30</sup> of how this adjustment could be made, thus highlighting the extent to which the composition of the adjustment needed to fulfil the commitments undertaken determines its macroeconomic impact:

- First, an adjustment path based largely on restraint in public investment is considered. Such an adjustment would have an adverse impact equivalent to 0.5% of GDP at the end of the projection horizon (Chart 6).

<sup>29</sup> AIReF. (2024). *Report on the Medium-Term Fiscal-Structural Plan 2025-2028*. Report 51/24.

<sup>30</sup> The scenarios were simulated using the Quarterly Macroeconometric Model of the Banco de España (MTBE, by its Spanish abbreviation). For further details of this model, see Ana Arencibia Pareja, Samuel Hurtado, Mercedes de Luis López and Eva Ortega. (2017). “New version of the Quarterly Macroeconomic Model of Banco de España (MTBE)”. Documentos Ocasionales, 1709, Banco de España.

- Second, an alternative adjustment path is considered which protects items related to public investment – as required under the new European fiscal rules – and rests mainly on proportional cuts to all other expenditure items. An adjustment of this nature would also have an adverse impact, relative to that envisaged in the baseline scenario, but it would be equivalent to 0.3% of GDP at the end of the projection horizon, i.e. smaller than under the first hypothetical scenario.<sup>31</sup>

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31 Alternative scenarios have also been simulated in which the additional adjustment required to ensure compliance with the commitments undertaken in the MTFSP is made on the revenue side. The adverse impact of this type of adjustment on GDP at the end of the projection horizon is close to 0.3%.