Executive summary

The Banco de España has published its 2024 Q4 report on the Spanish economy, including projections for key indicators such as activity, inflation, unemployment and public deficit, for this and the next three years.

The Banco de España expects the Spanish economy to grow by 3.1% in 2024, 0.4 percentage points (pp) more than in 2023 and 0.3 pp more than expected in the September report. This improved outlook is associated with the new GDP data published by the National Statistics Institute (INE) and with a stronger than expected acceleration of the economy in the second half of the year. This upward revision was despite the floods in October that affected various Spanish regions, which will slightly hinder activity, reducing the current quarter's GDP growth by 0.1 pp to 0.2 pp.

Meanwhile, inflation will continue to ease, with the harmonised index of consumer prices (HICP) averaging 2.9% in 2024 and decreasing further in the coming years.

These projections are based on a set of technical assumptions regarding the future path of certain international financial and fiscal macroeconomic variables. However, it should be borne in mind that they are inevitably prepared using the information available at the time of writing, with a cut-off date of 27 November. Consequently, in some cases they use indicators providing partial and still incomplete information about activity in the current quarter. Furthermore, economic developments depend on the outcome of various events, meaning that significant changes in factors and policies affecting activity and prices could rapidly render these forecasts obsolete.

The report published today has been drawn up in the context of a fast-growing world economy, with moderating prices worldwide, despite existing risks. External sources of uncertainty include a hypothetical escalation of the wars in Ukraine and the Middle East and the possible policies of the new Donald Trump administration in the United States, which could involve higher tariffs on imports.

This executive summary is organised as follows: first, it sets out the projections and their underlying assumptions; second, it details the state of the Spanish economy in Q4; and lastly, it analyses the global and European situations. The full version of the Report is available on the Banco de España website.

Macroeconomic projections for the Spanish economy

The Banco de España estimates that quarter-on-quarter GDP growth in Q4 could range between 0.6% and 0.7%, slightly lower than the 0.8% recorded in Q3. However, it emphasises that the

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.

available information is not yet final. There is considerable uncertainty surrounding this estimate, due to the difficulty in assessing the impact of the floods which affected several regions in eastern Spain, particularly in the province of Valencia.

For the coming years, the projections indicate that economic growth will slow to around 2.5% in 2025, 1.9% in 2026 and 1.7% in 2027. The projection for 2025 is 0.3 pp higher than in the September quarterly report, owing to two factors: first, the economy is growing faster in the final months of the year than previously anticipated, which raises GDP growth in 2025 due to the carry-over effect; and second, the support measures for those affected by the DANA. Meanwhile, compared with the September exercise, the positive economic effect of lower interest rates is offset by the anticipated weaker performance of Spain's trade partners (external markets).

Private consumption will grow from 2024 to 2027, underpinned by household savings, employment, household confidence and the expected population increase. Investment is also expected to rise thanks to the deployment of the NextGenerationEU funds, approved by the European Commission to support EU countries after the coronavirus crisis.

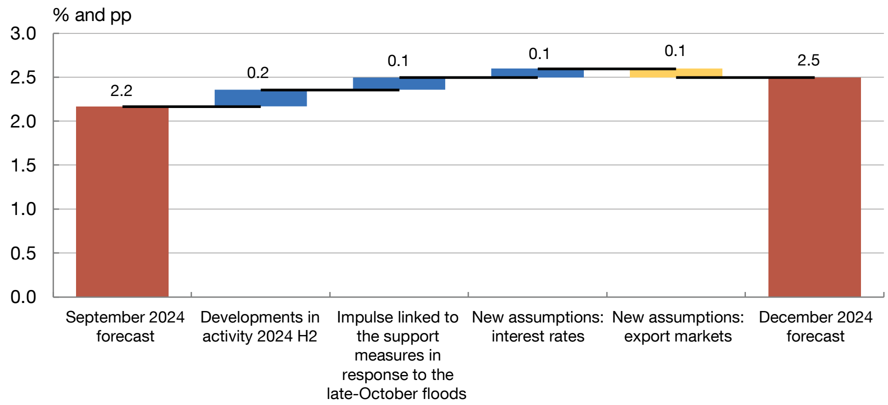
Between 2025 and 2027 the Spanish economy will keep generating jobs, albeit at a slower pace than in recent quarters, and productivity will increase. The unemployment rate will continue to fall, from 12.2% in 2023 to below 10% in 2027. However, this decline will depend on population growth (as the unemployment rate is calculated as a proportion of the labour force, i.e. the total number of people who are working or seeking employment).

Inflation will stand at around 2% in 2025, which is the inflation target set by the European Central Bank. 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.

In 2027 prices could pick up speed again, bringing the average rate of HICP inflation to 2.4%, due to the entry into force of the EU's new legislation on emission allowances for polluting gases, although this is still an uncertain scenario.

Chart 3

3.a Changes in the GDP growth forecast for 2025



SOURCE: Banco de España.

Core inflation (which excludes energy and food prices, given their greater volatility) would also follow a downward path, falling from 2.9% in 2024 to 1.8% in 2027.

Some of the risks that could affect these forecasts are a potential increase in tariffs in the United States following Donald Trump's inauguration and the possible escalation of the wars in Ukraine and the Middle East. As for domestic risks, inflation could decrease more slowly than anticipated, firms might not resume their private investments as quickly as expected and the Government could reduce the deficit faster than planned to comply with its Fiscal Plan, which would also have a bearing on economic growth.

2024 Q4 overview

The impact of the floods

The floods that affected several Spanish provinces in late October not only took an extraordinary toll in terms of human lives, but also had a significant impact on the economy of the affected municipalities, which account for a significant proportion of the national total. They caused bottlenecks, increased furlough schemes – which currently affect almost 30,000 workers – and decreased firms' turnover expectations.

As a result, this event is expected to reduce GDP by 0.1 pp to 0.2 pp this quarter. However, thanks to the support schemes and the typical recovery following such events, the negative impact could be reversed over the first half of 2025.

Activity

The available indicators that provide information on Q4 suggest that the economy will continue to grow at a robust pace, which could range from 0.6% to 0.7% in quarter-on-quarter terms. The

Table 3
Projections for the main macroeconomic aggregates of the Spanish economy (a)

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

		December 2024 projections				September 2024 projections		
	2023	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.

data indicate that firms expect an increase in their turnover, which, taken together with employment and consumption data, would be consistent with this strong growth rate. Once again, the uncertainty surrounding this estimate is particularly high due to the floods.

Inflation

Between August and October inflation eased more sharply than anticipated. However, as expected, it rose again in November (to 2.4%, from 1.8% in October). This decrease was primarily due to the drop in food prices (which slowed in October, when the VAT reduction ended). Meanwhile, the fall in energy prices at the end of last year led to a comparative rise in this component.

Core inflation (which, as mentioned above, excludes food and energy prices due to their greater volatility) remains on its expected downward path, albeit at a slower pace. In November it recorded a year-on-year rate of 2.5%, with prices in some sectors, such as food service activities and tourism, still rising at a high rate, but slower than in recent months.

Employment

The number of social security-registered workers increased in October at a faster pace than in Q3, but it slowed down in November. In any event, labour market dynamics point to a similar behaviour in Q4 compared with the previous quarter. Employment grew in the transport, hospitality and financial activities sectors and, again, among non-nationals. Overall, the number of people employed increased by 433,000 in the first three quarters of the year, of which 85% were non-nationals, according to the INE's Labour Force Survey (LFS).

Deficit

The government deficit (i.e. the difference between government revenue and spending, when the result is negative) could stand above 3% of GDP at year-end. The deficit is decreasing, among other reasons, because up to September government spending increased at a slower rate than government revenue (5.8% vs 6.6%). However, the deficit could rise by 0.5% of GDP in 2025 because of the flood relief efforts. This impact would be smaller if such efforts are funded by European resources. This pick-up would not affect the European authorities' assessment due to its extraordinary nature.

Euro area

The euro area economy continues to show signs of weakness. It grew by 0.4% in Q3, 0.2 pp more than in Q2 and above expectations, driven by consumption and investment. However, the available data point to a slowdown in activity in Q4, although it will recover over the coming quarters. The prevailing uncertainty has led euro area central banks to revise their growth forecasts for the region downwards by 0.1 pp in 2024 (to 0.7%), 0.2 pp in 2025 (to 1.1%) and 0.1 pp 2026 (to 1.4%).

In the euro area, like in Spain, inflation is easing as expected. As with GDP, euro area central banks have also revised their inflation forecasts downwards for 2024 and 2025 (to 2.4% and 2.1%, respectively), partly owing to lower energy prices.

World economy

The world economy grew by 0.7% in Q3, the same rate as in Q2. The services sector performed well, whereas the industrial sector was weaker. The United States saw strong GDP growth, while China had to implement support measures to avoid a more significant economic downturn. Inflation decreased globally, partly due to lower oil prices, with some resistance in the services sector.

However, it should be noted that there is considerable uncertainty, both geopolitical and due to Donald Trump's return to the White House. The measures he will implement are still unknown and pending approval, but a potential increase in tariffs would slow down the world economy and drive up inflation, although the extent of these effects would depend on other countries' responses. Other announced policies include more stringent immigration policies, tax cuts and the deregulation of various activities.