

## **Macroeconomic projections and quarterly report on the Spanish economy. June 2025**

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**EDITORIAL**

## Editorial

**Over the course of 2025 Q2 global economic and financial developments have essentially been shaped by the see-sawing of trade tensions and rising economic policy uncertainty.**

The announcement of the “reciprocal tariffs” by the United States on 2 April prompted a bout of severe financial turbulence, the announcement of response measures by some of the main affected regions – including the European Union (EU) – and an unprecedented spiral of trade retaliation between the United States and China.

**The suspension, announced on 9 April, of some of the US tariff measures has partly eased the trade tensions in recent weeks and largely reversed the initial financial shock.**

**Nonetheless, significant uncertainty persists regarding the trajectory of the ongoing trade war.** Negotiations between the United States and its main trading partners have yielded some agreements (including with the United Kingdom and, provisionally, with China), indicating some scope for de-escalating the tariffs announced on 2 April. Consequently, stock markets in both the United States and the EU have recovered end-March levels, with the financial market volatility also fading. However, the markets remain highly vulnerable to potential adverse shocks in the coming weeks, amid a potential ebb and flow in the ongoing talks and with the traditional uncertainty indicators holding at historical highs, exceeding the levels reached during past systemic shocks such as the COVID-19 pandemic and the Russian invasion of Ukraine.

**In this complex and uncertain environment, global economic activity and US activity in particular are beginning to show signs of a slowdown.**

The US economy contracted slightly in 2025 Q1, partly attributable to a surge in imports in anticipation of a possible shift towards more protectionist policies. The latest short-term economic indicators reflect a marked deterioration in US consumer confidence and expectations. However, other metrics that approximate the near-term strength of activity (e.g. the Federal Reserve Bank of Atlanta’s GDPNow model and some labour market indicators) suggest that US GDP could return to positive growth rates in the coming quarters. In any event, consensus forecasts for global and US GDP growth have been substantially revised down in recent months.

**At the same time, there are signs of a potential deterioration in other areas, such as the fiscal and monetary domains, which could undermine the United States’ central role in the global order.**

Indeed, the new US Administration’s policies have generated uncertainty in other realms too. In particular, concerns have grown over the sustainability of the country’s public finances – driven by projections of rising budget deficits – as well as the future direction of its monetary policy. Against this background, during the financial turbulence of early April the dollar and US sovereign debt failed to play their usual role as safe-haven assets. Quite the opposite: the dollar has depreciated considerably in recent months both against the euro and in effective terms, while long-term US sovereign debt yields have risen markedly, also contributing to Moody’s decision to downgrade the United States’ credit rating.

**On the price front, the global disinflation process continues, underpinned by declining energy prices.** In recent months, the sharp fall in energy prices – stemming from both increased production and a loss of economic momentum worldwide – has contributed to prolonging the downward path of inflation rates around the world. At the same time, underlying inflation has remained relatively stable. However, future inflation expectations have risen in the United States, reflecting its newly-adopted tariff policy, while inflationary pressures remain highly contained in China amid a gradual slowdown of economic activity, a protracted correction in the real estate market and weakened consumer confidence.

**Despite the deteriorating global economic environment, the medium-term macroeconomic outlook for the euro area remains relatively stable, compared with three months ago.** Euro area GDP growth gathered pace in early 2025 and was stronger than expected. However, part of this upward surprise appears attributable to temporary factors, particularly the frontloading of European exports ahead of expected tariff hikes and the extraordinary volatility of Ireland's macroeconomic data. That said, the June Eurosystem joint projection exercise expects euro area activity to very gradually accelerate over the coming years and GDP to grow by 0.9% in 2025, 1.1% in 2026 (0.1 pp less than expected three months ago, mainly because of the adverse effects of the current tariff war on economic agents' confidence) and 1.3% in 2027. From 2026 onward this growth pattern is likely to be bolstered by higher defence and infrastructure spending in the EU, largely linked to the recent fiscal stimulus package approved in Germany.

**Similarly, in recent months euro area inflation has moved broadly in line with expectations, remaining on the gradual moderation path observed since the start of the year.** In any event, Eurosystem inflation projections for 2025 and 2026 have been revised down slightly, to 1.9% and 1.6%, respectively, due mainly to the new energy price trajectory priced in by the futures market.

**Meanwhile, the Spanish economy continued to grow at a strong pace throughout 2025 Q1, albeit with a slight deceleration that could continue into Q2.** Spanish GDP grew by 0.6% in 2025 Q1, down slightly on the rate recorded in the last two quarters of 2024 (which has been revised down marginally, to 0.7%) and at the lower end of the growth range envisaged in the March Banco de España projection exercise (0.6%-0.7%). For Q2, the most recent short-term economic indicators point to GDP growth of between 0.5% and 0.6%.

**The outlook for Spanish economic activity has been revised down, due, among other factors, to the slowdown currently envisaged for export markets and the impact of trade and economic policy uncertainty.** Specifically, the projected GDP growth rate for 2025 has been reduced by 0.3 pp, to 2.4%, while output growth for 2026 has been lowered by 0.1 pp, to 1.8%. In 2027 GDP is expected to increase by 1.7%, the same rate envisaged in March.

**As regards prices, the expected average headline inflation rate for 2025 is 2.4%, 0.1 pp below that projected in March.** This revision owes to two factors acting in opposite directions. On the one hand, the recent decline in energy prices deriving from both supply and demand factors, together with the prospects of lower future prices, put downward pressure on headline inflation. On the other, services inflation is expected to be more persistent than previously

forecast. The disinflation process is expected to continue beyond 2025, with the average headline inflation rate projected to decline to 1.7% in 2026. However, it is expected to rise to 2.4% in 2027, mainly owing to the planned implementation of a new **EU emissions trading system**.

**The baseline scenario of these projections for the Spanish economy is subject to exceptionally high uncertainty, influenced by, among other factors, the course of the trade war.** A hypothetical scenario of heightening trade tensions – where (i) tariffs are set at the levels announced by the US Administration on 2 April and retaliatory measures are adopted by the affected countries, and (ii) fresh financial turmoil arises and there is a greater persistence of the current high uncertainty – would lead to weaker economic momentum in Spain and lower inflation rates.

**Overall, the balance of risks to the baseline scenario for these projections is deemed to be tilted to the downside for activity and balanced for inflation.** Aside from developments in the trade war and the behaviour of international financial markets, over the coming quarters the Spanish economy will be conditioned by two particularly uncertain domestic factors. First, although the baseline scenario of these projections already factors in the rise in uncertainty and the recent worsening of expectations, other scenarios of less confidence or with a more unfavourable pass-through of this reduced confidence to activity than considered under the baseline scenario cannot be ruled out. Second, there is also considerable uncertainty over the amount and composition of the Recovery and Resilience Facility (RRF) funds to be used and the defence spending to be implemented in the Spanish economy over the coming years, as well as over their macroeconomic impact. Under the baseline scenario, these projections continue to assume that all the RRF grants assigned to the Spanish economy will be fully utilised. Nonetheless, the upcoming end of this European programme will require speeding up the roll-out of these funds in 2025 and 2026. According to Banco de España estimates, the multiplier effect on the Spanish economy of the Industrial and Technological Plan for Security and Defence approved in April would be greater than that envisaged under the baseline scenario of these projections if the expenditure associated with the plan were more concentrated than has usually been the case in investment goods of domestic origin.

Figure 1

	2025	2026	2027
GDP	<b>2.4%</b> ↓ 0.3 pp	<b>1.8%</b> ↓ 0.1 pp	<b>1.7%</b> =
Inflation	<b>2.4%</b> ↓ 0.1 pp	<b>1.7%</b> =	<b>2.5%</b> ↑ 0.1 pp

SOURCE: Banco de España.

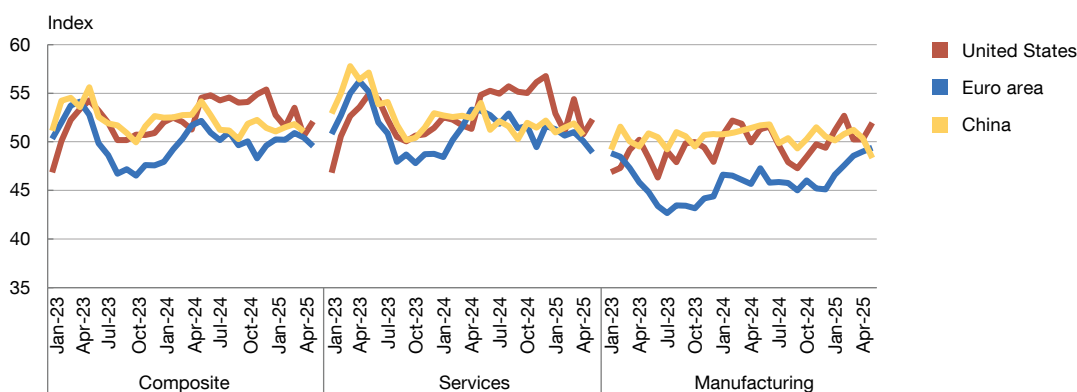
**REPORT**

## 1 Global economic activity has slowed, weighed down by rising uncertainty

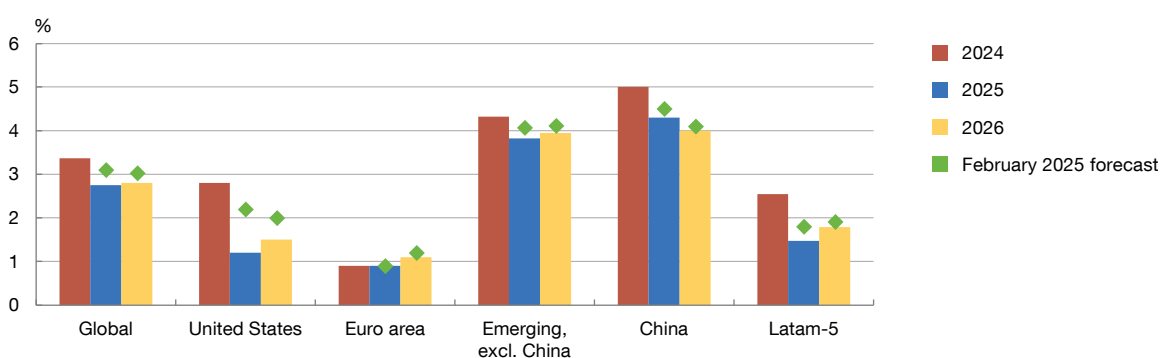
- Global GDP growth slowed in 2025 Q1 amid **heightened uncertainty**, particularly over the trade policies of the new US Administration. Indeed, the slowdown in activity was particularly pronounced in the United States, where GDP contracted 0.1% quarter-on-quarter (from growth of 0.6% at end-2024), partly due to a surge in imports in anticipation of upcoming tariff hikes. GDP growth also slackened in China, to 1.2% quarter-on-quarter from 1.6% in 2024 Q4. Conversely, **output growth in the euro area** quickened by 0.1 pp to 0.3%.
- Looking ahead to the coming quarters, the recent buoyancy of manufacturing activity in the United States – considered a temporary development driven by the frontloading of orders in anticipation of higher tariffs – contrasts with the decline in manufacturing in China (which has fallen into contractionary territory), the broad-based loss of momentum in services (Chart 1.a) and the downward revision of the outlook for global growth, especially in the United States and Latin America (Chart 1.b). These forecasts are consistent with a gradual economic slowdown in China and a modest acceleration of activity in the euro area.

Chart 1

### 1.a PMIs



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



SOURCES: S&P Global and Consensus Economics.

a The May 2025 forecasts (bars) are compared with the February 2025 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, United States, Canada, Japan, Norway, Sweden, Switzerland, United Kingdom and the "Euro area".

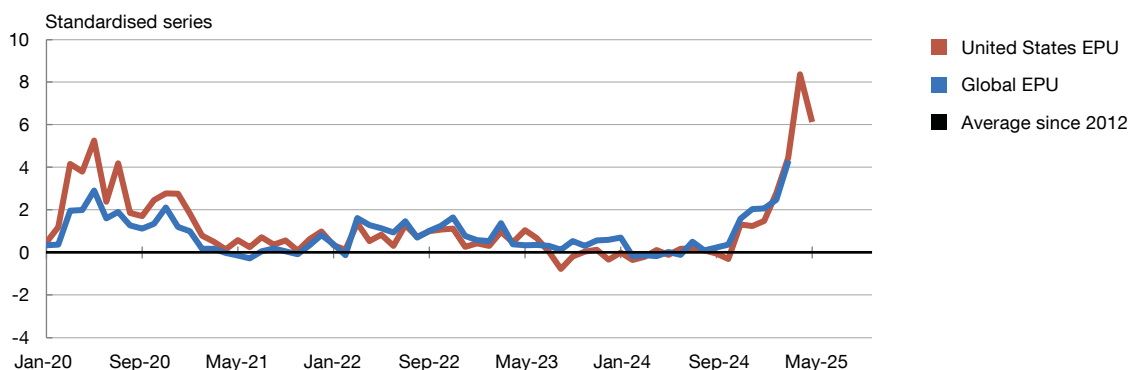


## 2 Uncertainty has risen to historically high levels on several fronts

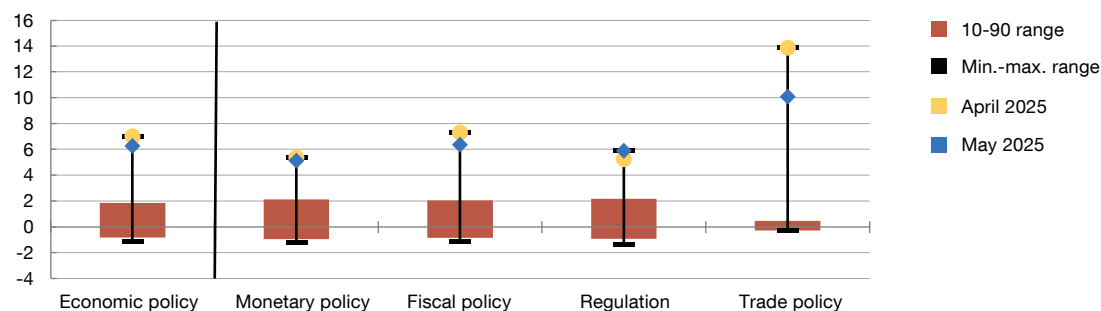
- In March, the global economic policy uncertainty index stood well above its historical average, and above the levels reached during the COVID-19 pandemic and at the outbreak of the war in Ukraine (Chart 2.a).<sup>1</sup> Trade policy uncertainty has risen markedly (Chart 2.b), reaching its peak following the announcement on 2 April by the United States of a broad-based increase in tariffs (“reciprocal tariffs”), but corrected downwards in May.
- The new US Administration’s policies have also raised the levels of uncertainty in areas other than trade. For instance, in fiscal policy, the US deficit is expected to rise amid already high debt levels. To some extent, this outlook is also true for the EU, given the need to increase the region’s **defence** spending.
- Meanwhile, the Trump Administration’s deregulation agenda, which affects certain sectors such as banking, has also heightened regulatory uncertainty. Moreover, against this backdrop, and amid considerable doubts over the future path of economic activity and prices, the uncertainty over monetary policy has also increased significantly.

Chart 2

### 2.a Global uncertainty



### 2.b Uncertainty over US economic policy



**SOURCE:** [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), drawing on data from Scott R. Baker, Nicholas Bloom and Steven J. Davis. (2016). “Measuring Economic Policy Uncertainty”. *The Quarterly Journal of Economics*, 131(4), pp. 1593-1636. <https://academic.oup.com/qje/article/131/4/1593/2468873>.

**NOTE:** These monthly data are calculated as the ratio of the number of news items that contain relevant policy and uncertainty terms relative to the historical average of these items, and are accessible free of charge with attribution to the authors, article and website: [https://www.policyuncertainty.com/categorical\\_epu.html](https://www.policyuncertainty.com/categorical_epu.html).

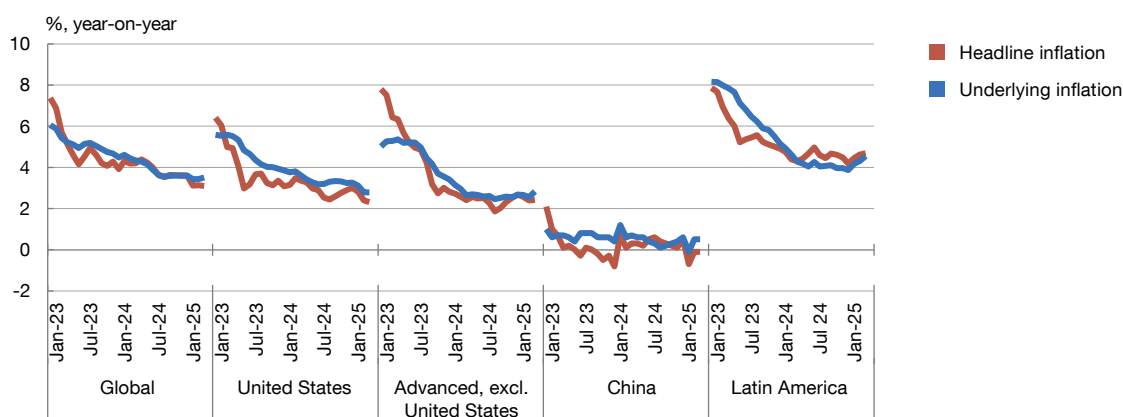
<sup>1</sup> For further details about these indices, see the Banco de España’s *Annual Report 2024*.

### 3 For now, the disinflation process continues worldwide, underpinned by lower energy prices

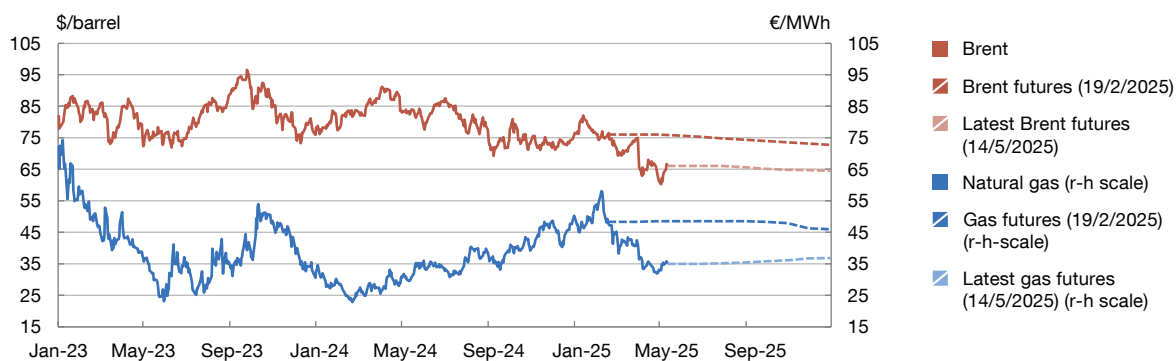
- In the last two months, global headline inflation has eased to 3%, the lowest rate observed since 2021 (Chart 3.a). This process has essentially been driven by the sharp drop in energy prices (Chart 3.b), which can be explained by the prospects of an **economic slowdown worldwide** and, in the case of oil, by an increase in supply, following the latest OPEC agreement to boost production. In any event, underlying inflation has remained stable globally in recent months, albeit at relatively high levels.
- Looking ahead, consumer expectations regarding US inflation have been revised significantly upwards, although the latest figure shows a slight moderation. Analysts expect inflation to rise to 3.1% on average in 2025, 0.2 pp above the previous year, mainly due to the impact of the tariff hikes. By contrast, inflationary pressures in China remain subdued, with headline inflation standing at -0.1% in April and underlying inflation at 0.5%. These price dynamics are not expected to change significantly going forward, given the context of protracted correction in the real estate market and weakened consumer confidence.

Chart 3

#### 3.a Inflation



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



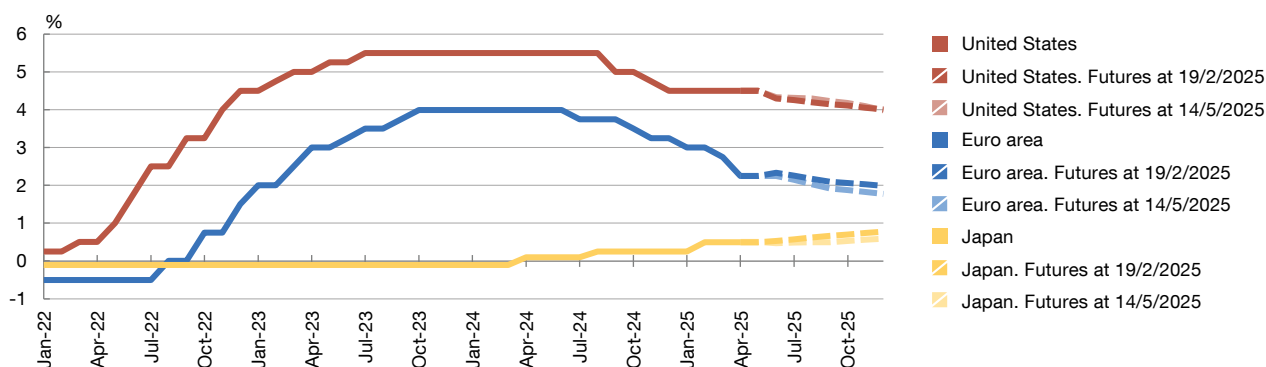
SOURCES: National statistics and LSEG

#### 4 The mixed outlook for inflation and growth globally has led to the adoption of divergent monetary policies in the last few months

- In the advanced economies, since early 2025, there have been cuts in official interest rates in the **euro area**, the United Kingdom and Canada, among others. In the United States, however, the Federal Reserve System has held its rates unchanged since December 2024 and, at its most recent monetary policy meeting, it noted that the risks of higher unemployment and higher inflation had increased, in a context of rising uncertainty. The Bank of Japan, meanwhile, has also kept its official interest rates steady, at 0.5%, in recent months, after deciding to raise them in January.
- As regards the emerging market economies, the central banks of most Latin American countries (except Brazil) have reduced their official interest rates in recent months, while maintaining a restrictive monetary policy stance in most cases. China's central bank, meanwhile, has recently eased its financing conditions as part of the stimulus measures adopted by the country's authorities to address the slowdown in economic activity.
- International financial market expectations regarding the future monetary policy stance of the world's main central banks have hardly changed over the recent period. In particular, the markets anticipate further, albeit moderate, official interest rate cuts in both the euro area and the United States during the rest of this year. In addition, the markets assume that the Bank of Japan will continue the process of gradual monetary tightening over the coming months, given the expected rise in inflation (Chart 4.a).

Chart 4

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



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

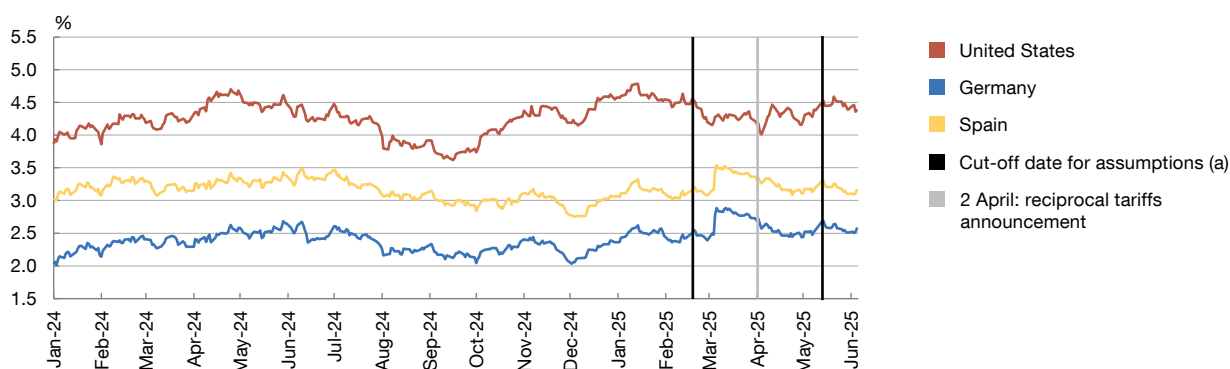
**a** Interest rates priced in by the respective futures markets (30-day Federal Funds futures, euro area overnight index futures, Japanese overnight index futures).

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

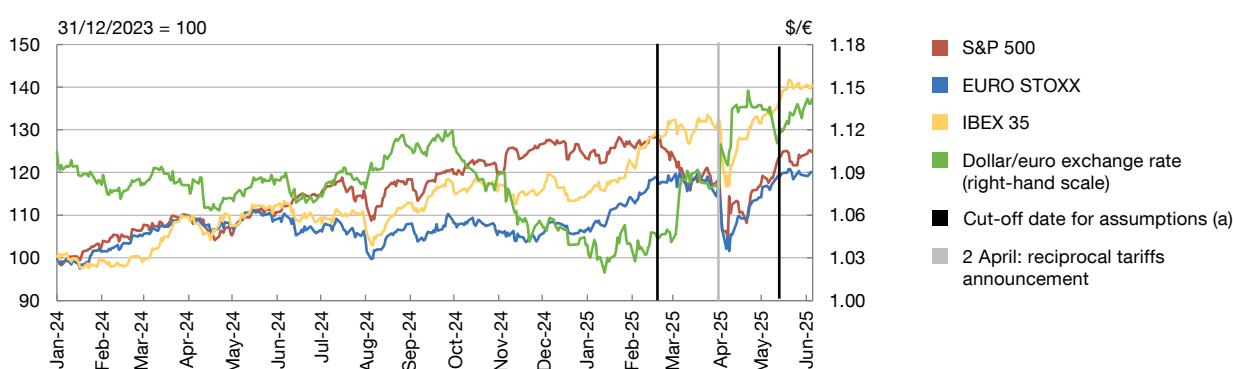
- The announcement of the “reciprocal tariffs” by the United States on 2 April triggered severe global financial instability,<sup>2</sup> with risky asset prices falling steeply. Unlike in past financial volatility events, the dollar depreciated and the US sovereign bond yield rose (Chart 5.a). By contrast, the yield on the German Bund decreased, gradually correcting the increase it saw in March as a result of the announcement of a **new defence and infrastructure spending plan** in Germany.
- In any event, the turmoil started to fade on 9 April following the announcement of a temporary pause on some of the tariff measures established. Since then, most financial asset prices have gradually recovered and even surpassed their pre-2 April level (Chart 5.b). However, the yield on long-term US sovereign debt has risen by close to 20 bp since end-March, amid doubts over the country’s fiscal position and a credit rating downgrade by Moody’s. In addition, the euro has appreciated by 5.6% against the dollar in Q2 to date and by 10% so far this year.

Chart 5

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



### 5.b Stock market indices and exchange rate



SOURCE: LSEG Datastream. Latest observation: 5 June 2025.

a 19 February and 14 May for the March and June Banco de España projection exercises, respectively.

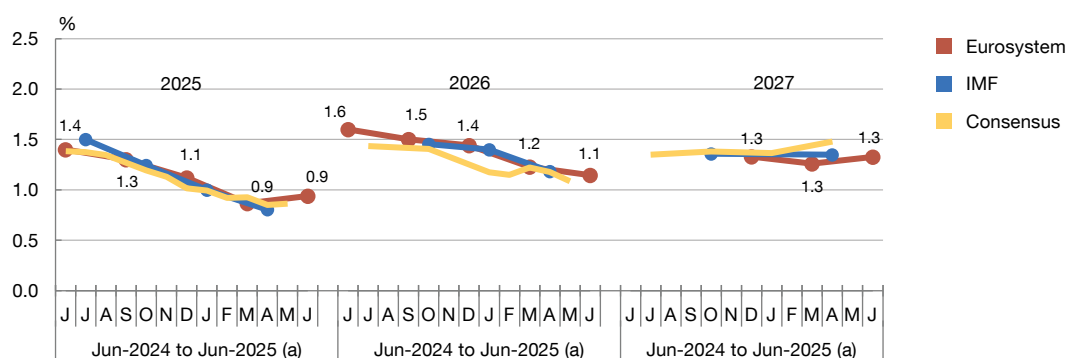
2 For further details, see [Section 2.2.2](#) of the Banco de España’s *Annual Report 2024*.

## 6 In the euro area, economic activity accelerated slightly in 2025 Q1 ...

- The pace of growth of euro area GDP increased to 0.3% in Q1, 0.1 pp higher than expected and than the 2024 Q4 figure. Among the major economies, growth rates in Germany and France turned positive again, following the slight contraction at end-2024, while GDP growth in Italy and Spain held relatively stable.
- The latest short-term economic indicators – such as the composite PMI – suggest that GDP growth could lose steam over the coming two quarters, reflecting the adverse effects of the **high levels of uncertainty** and the current trade tensions, but also the fact that part of manufacturing's recent momentum appears to be attributable to some frontloading of exports in order to avoid a potential tariff increase, a development that would have to be balanced out in the coming quarters.
- All things considered, under the baseline scenario in the June Eurosystem staff macroeconomic projections euro area GDP growth is unchanged – at 0.9% – for 2025 and revised down by 0.1 pp, to 1.1%, for 2026 (Chart 6.a). Growth will tick up in 2027, to 1.3%, a figure in line with the March projections.
- Under this baseline scenario – which considers, among other aspects, that tariffs will remain at the levels prevailing at the cut-off date for the exercise, with no countermeasures from the EU, and that uncertainty will gradually ease, albeit remaining relatively high – activity is expected to gradually accelerate, underpinned by private spending and some **fiscal impulse linked to government spending on defence and infrastructure**. In any event, the materialisation of this scenario is surrounded by extraordinary uncertainty, with very significant upside and, especially, downside risks.

Chart 6

6.a Euro area GDP growth forecasts



SOURCES: IMF, Consensus Economics and Eurosystem.

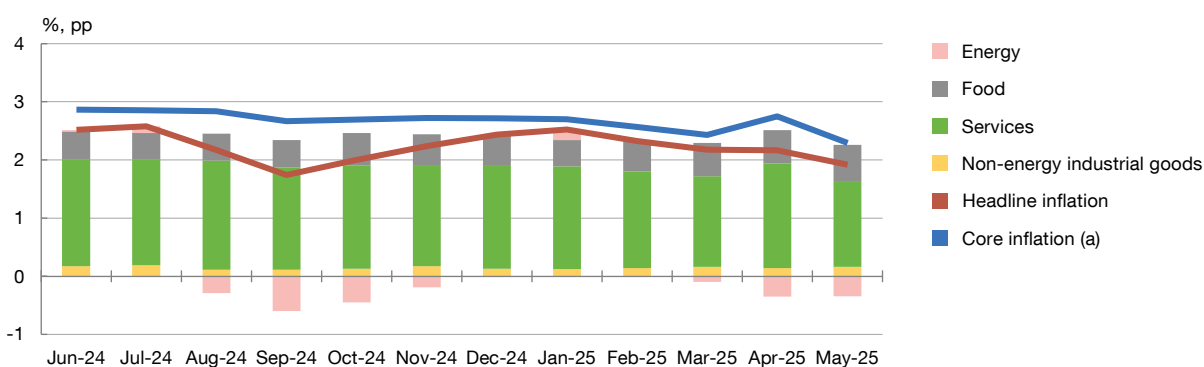
a The letters refer to the month in which the corresponding forecast was published.

## 7 ... while headline inflation held on a gradual easing path

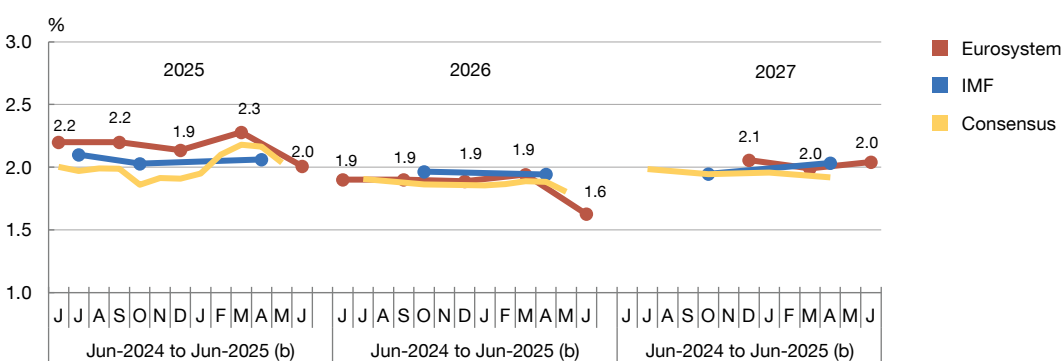
- Headline inflation in the euro area stood at 1.9% in May (Chart 7.a), 0.3 pp lower than in April and than envisaged in the ECB staff's March projection exercise. This surprise was mainly explained by lower-than-expected energy price growth, which was only partially offset by some upward surprises in food and services inflation.
- Core inflation decreased by 0.4 pp in May, to 2.3%, more than offsetting the increase in April (due to Easter being later in 2025), marking a resumption of the easing that began in early 2025. Services inflation – which rose considerably in April due to the increase in tourism-related services prices – decreased by 0.8 pp in May, to 3.2%. Meanwhile, non-energy industrial goods prices have continued to rise at a slow pace in recent months.
- Compared with the March projections, the June Eurosystem staff projections revise down headline inflation for both 2025 and 2026 by 0.3 pp, to 2% and 1.6%, respectively, mainly due to a lower expected path for energy prices and a stronger euro. In 2027 inflation is expected to increase to 2%, in line with the prior projections (Chart 7.b).

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.

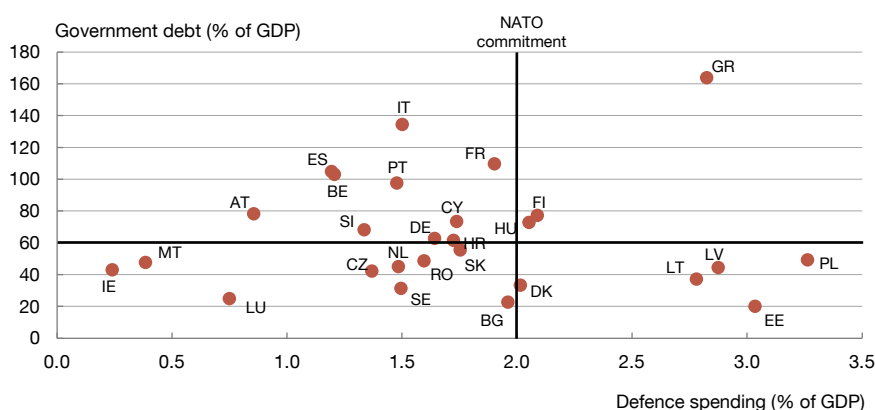
b The letters refer to the month in which the corresponding forecast was published.

## 8 EU Member States are boosting their defence spending in response to growing geopolitical threats

- Russia's invasion of Ukraine and increased uncertainty over the future of EU-US strategic relations have highlighted the need to bolster Europe's military capabilities and defence industry. To address these challenges and mobilise the funds that will enable greater defence spending, the European Commission has launched the **ReArm Europe Plan/Readiness 2030**. Under this framework, a new instrument (Security Action for Europe) with an envelope of up to €150 billion, backed by the EU budget's headroom, has been created.<sup>3</sup>
- In addition, the temporary activation – between 2025 and 2028 – of the national escape clause of the Stability and Growth Pact has been approved, providing Member States with additional budgetary space to increase their defence spending. This could generate some €650 billion (around 3.6% of EU GDP) of fiscal space in four years. After receiving formal requests from 11 euro area countries (Belgium, Germany, Estonia, Greece, Croatia, Latvia, Lithuania, Portugal, Slovenia, Slovakia and Finland) and five non-euro area countries (Bulgaria, Czech Republic, Denmark, Hungary and Poland), in early June the European Commission proposed to the European Council the activation of this clause, a decision on which is yet to be adopted.
- Due to some countries' limited fiscal space and high levels of government debt (Chart 8.a), the ReArm Europe Plan/Readiness 2030 would at least partly cover the EU's new defence spending needs while long-term (national and joint)<sup>4</sup> fiscal strategies to fund the permanent increase in such spending are defined.

Chart 8

8.a Level of government debt and defence spending in the EU. 2023



SOURCES: European Defence Agency and Eurostat.

3 Other measures include: (i) using the EU budget, by reviewing cohesion policies to reallocate funds within their current programmes to new priorities, such as defence and security; (ii) widening the scope of the **European Investment Bank's** lending to defence projects; and (iii) mobilising private capital by accelerating the implementation of the **Savings and Investments Union** strategy.

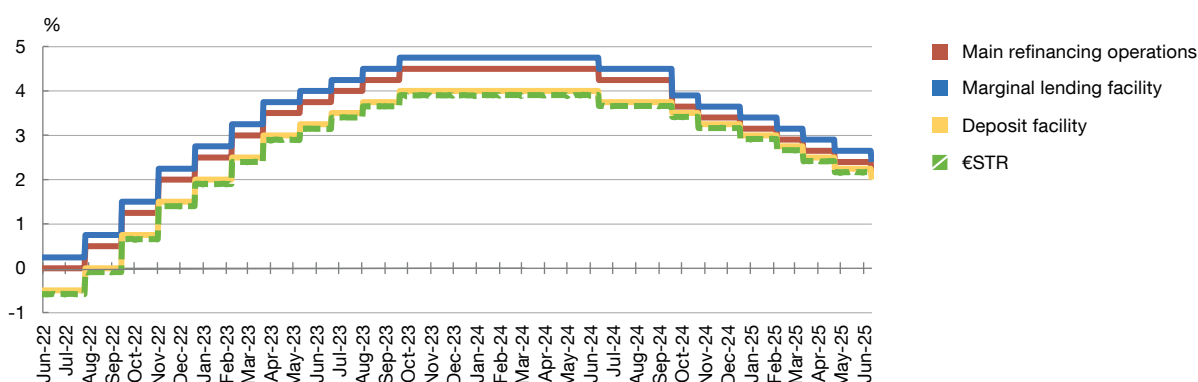
4 In this respect, discussions are under way on different supranational funding models (such as the creation of an instrument consisting of loans and grants similar to NGEU or of a European Defence Mechanism, inspired by the European Stability Mechanism) that could be more efficient at providing and jointly funding a European public good, such as defence.

## 9 The ECB has once again lowered its key interest rates by 25 bp at its June meeting

- This cut has brought the interest rate that steers the ECB's monetary policy stance (the deposit facility rate) to 2%, marking a cumulative reduction of 200 bp since June 2024 (Chart 9.a).
- This decision was based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.
- Specifically, the Governing Council has stated that inflation is currently at around the 2% medium-term target. Moreover, most measures of underlying inflation suggest that inflation will settle around the target on a sustained basis. In any event, the monetary policy statement indicates that, in a context of high uncertainty, Eurosystem staff have also assessed some of the mechanisms by which different trade policies could affect growth and inflation under some alternative illustrative scenarios. Under this scenario analysis, a further escalation of trade tensions over the coming months would result in growth and inflation being below the baseline projections. By contrast, if trade tensions were resolved with a benign outcome, growth and, to a lesser extent, inflation would be higher than in the baseline projections.
- In future meetings the Governing Council will determine the appropriate monetary policy stance following a data-dependent approach, without pre-committing to a particular rate path, especially in the current conditions of exceptional uncertainty.

Chart 9

9.a Key ECB rates and €STR



**SOURCES:** Banco de España and Refinitiv Datastream. Latest observation: 5 June 2025.

**NOTE:** The new interest rate levels will take effect on 11 June.

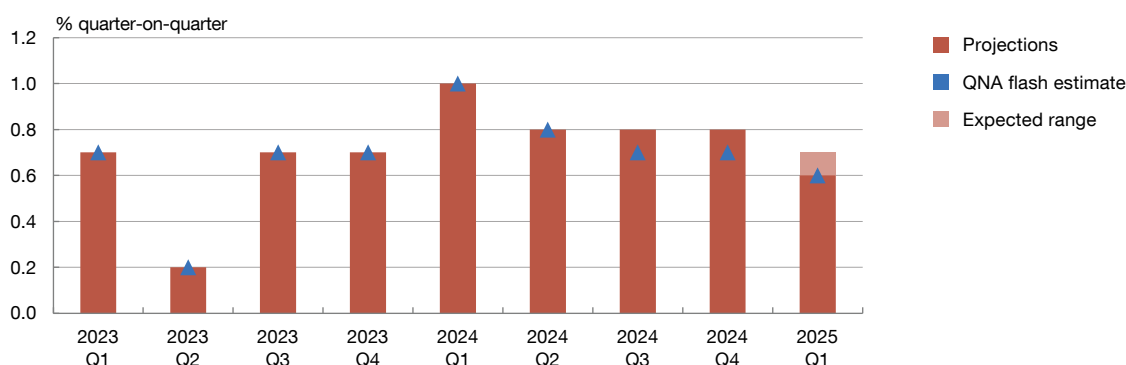


## 10 The Spanish economy slowed down slightly in Q1

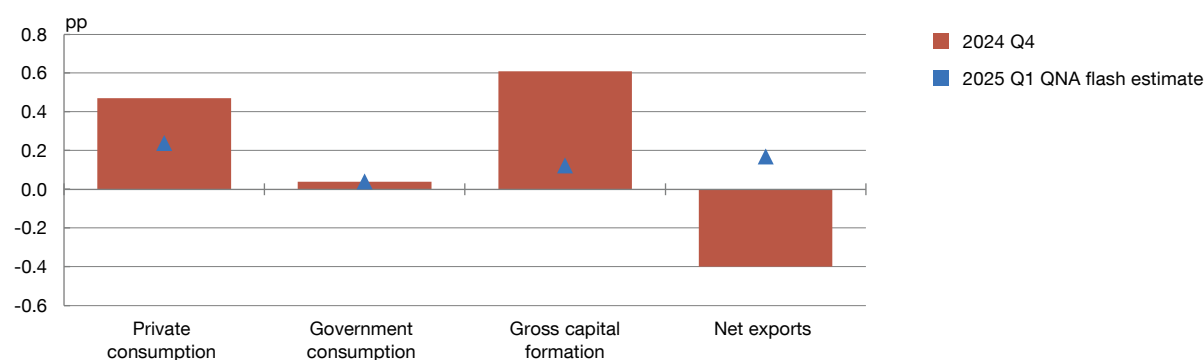
- GDP grew by 0.6% in 2025 Q1, down slightly on the rate recorded in the last two quarters of 2024 (which has been revised down marginally, to 0.7%) and at the lower end of the growth range envisaged in the **March Banco de España projection exercise** (0.6%-0.7%) (Chart 10.a).
- This slight slowdown in Spanish economic activity was due to a moderation in domestic demand, whose contribution to growth (0.4 pp) was much lower than in the final stretch of 2024. This is particularly the case for **private consumption** and **gross capital formation** (Chart 10.b). By contrast, the contribution of **net exports** to output growth turned positive (0.2 pp), driven mainly by strong services exports.
- On the supply side, the primary sector grew by 7% in Q1 following the contraction in late 2024 and industrial activity gathered pace. Conversely, activity growth moderated in the construction and services sectors, especially in non-market services, which saw a decline in activity.

Chart 10

10.a GDP growth in Spain



10.b Contributions to GDP growth in Spain



SOURCES: INE and Banco de España.

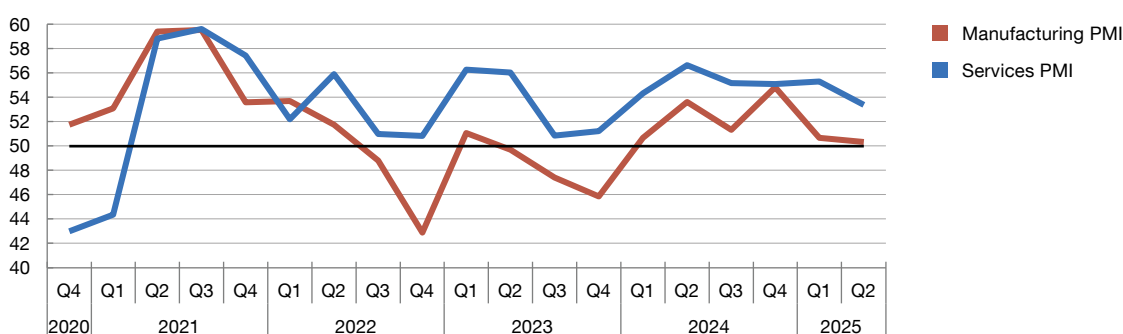


## 11 The latest short-term economic indicators suggest that Spanish GDP continues to grow at a relatively robust pace in Q2

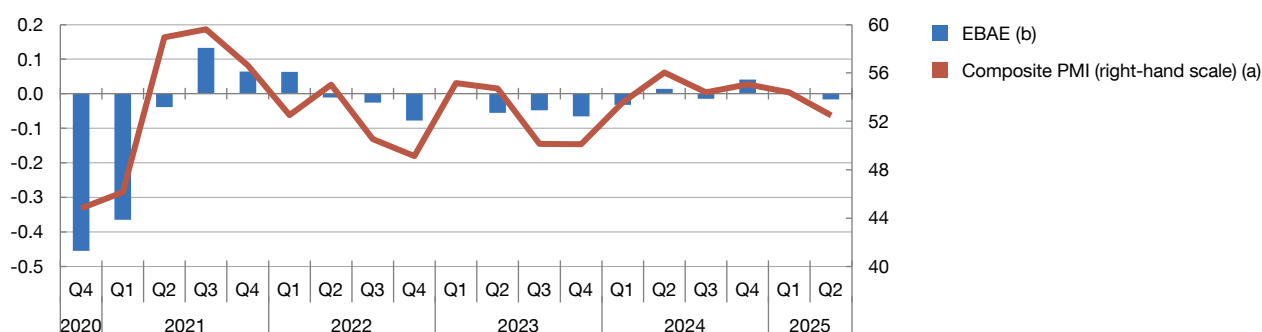
- An overall analysis of the various indicators that provide partial, and as yet incomplete, information on how economic activity has fared in Q2 suggests that GDP could grow in this period by between 0.5% and 0.6% quarter-on-quarter.<sup>5</sup> These rates are still relatively high, but they could herald a further slowdown in the Spanish economy's growth rate.
- The indicators consistent with this possible loss of momentum in activity in Q2 notably include the confidence indicators. In particular, both the services and manufacturing PMIs have steadily declined in Spain over the past few months (Chart 11.a).
- The results of the EBAE also point in this direction, suggesting that Spanish firms' turnover has fallen slightly in seasonally adjusted terms between March and June (Chart 11.b), as economic policy uncertainty increasingly weighs on business activity.<sup>6</sup>

Chart 11

11.a PMIs (a)



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



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

a The PMI figure for 2025 Q2 is the average for April and May.

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>5</sup> For more details, see the projections in this publication.

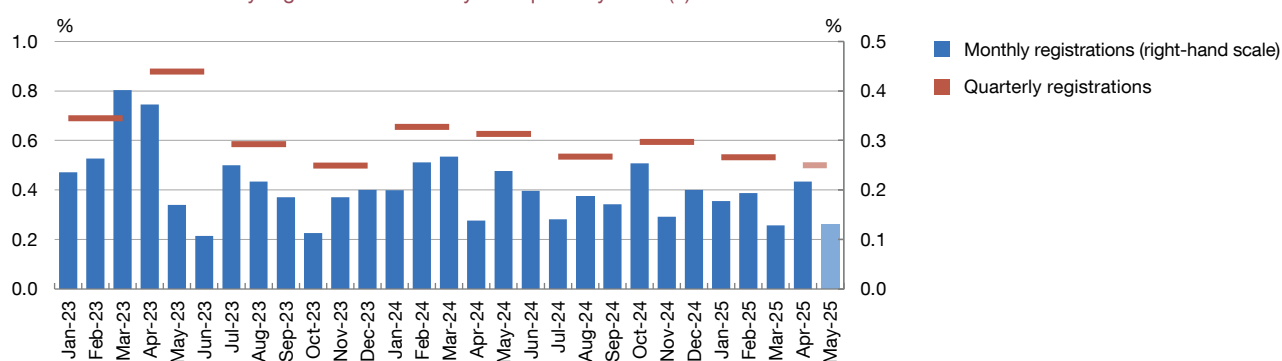
<sup>6</sup> Fernández and Izquierdo (2025).

## 12 Employment growth appears to be moderating in Q2, with job finding rates at their highest level since the start of the recovery in 2013

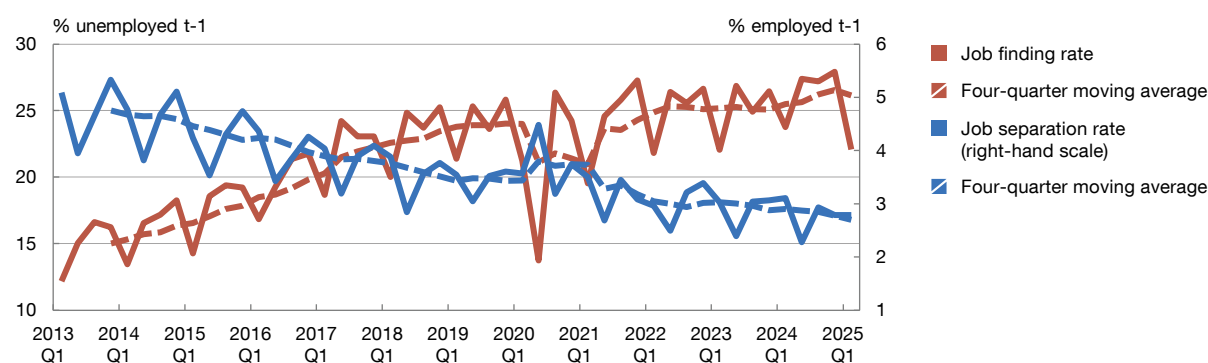
- In May growth in social security registrations slowed to 0.1% in seasonally adjusted monthly terms, following the strong growth recorded in April (0.2%), partly due to the effect of Easter. For Q2 overall this trend points to somewhat less dynamic employment developments than in the two previous quarters (Chart 12.a).
- By sector of activity, social security registrations have fared particularly favourably in the services sector, in non-market and market services alike (particularly in hospitality, professional activities, financial activities and transportation). By contrast, employment in industry has been more subdued, while employment in construction has been slightly volatile.
- Job separation and job finding rates have continued to perform well and are close to their lowest and highest levels, respectively, since 2013 (Chart 12.b). This trend is fairly widespread across population groups (for example, by gender, age or citizenship) and is contributing to lowering the unemployment rate in Spain.

Chart 12

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



12.b Job finding/separation rates



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

a Seasonally adjusted monthly rates.

b The job finding rate is calculated as the number of workers transitioning from unemployment to employment from quarter t-1 to quarter t, divided by the stock of unemployed people in quarter t-1. Similarly, the job separation rate is calculated as the number of workers transitioning from employment to unemployment from quarter t-1 to quarter t, divided by the stock of persons employed in quarter t-1.

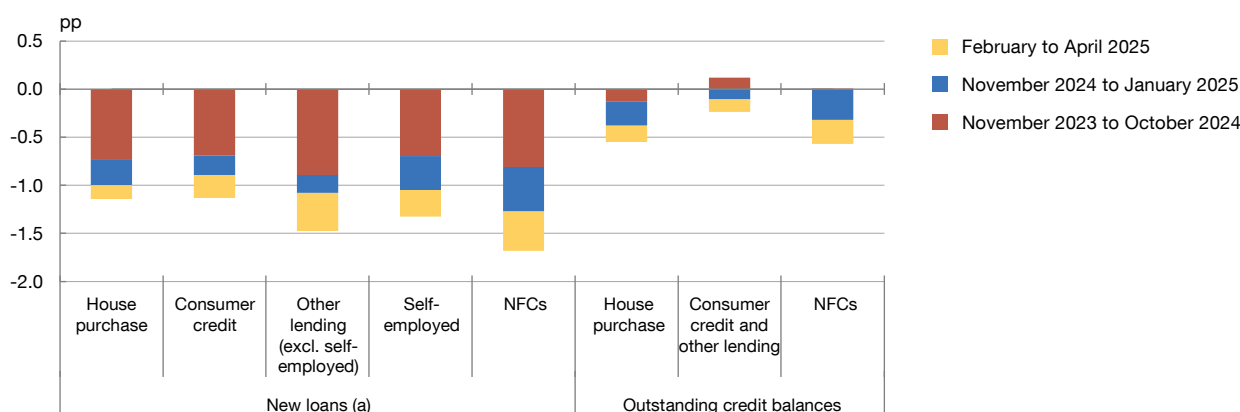


### 13 The reduction in the cost of bank financing has continued to drive loan demand

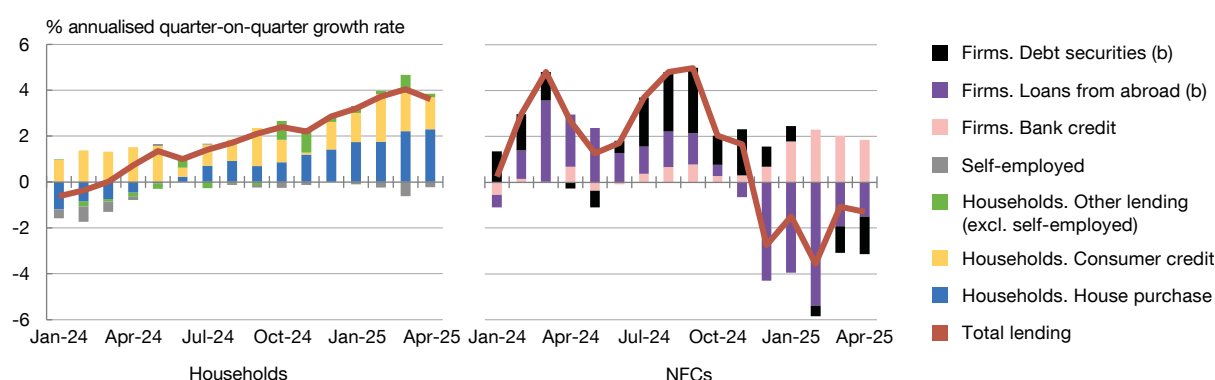
- The cost of both new loans and outstanding loans as a whole has continued to fall in recent months, although slightly more slowly than in previous months for loans for house purchase (Chart 13.a).
- In terms of volume, loans to households have followed a rising trajectory, recording an annualised quarter-on-quarter rate of 3.6% in April, driven by consumer loans and loans for house purchase. In contrast, loans to the self-employed have continued to fall (Chart 13.b). Among firms, despite the pick-up in bank lending in recent months, the quarter-on-quarter rate of corporate financing overall has fallen as firms contend with a high rate of maturing debt securities and the possible impact of uncertainty and market tensions. On an annual basis, corporate financing grew slightly (by 1.4% in April).
- Meanwhile, according to the [Bank Lending Survey](#) (available only in Spanish), credit standards did not change in 2025 Q1 and demand for credit increased again across the board. For Q2, banks do not anticipate changes in credit supply and expect demand to continue strengthening. Firms also reported an improvement in access to financing, according to the [Survey on the Access to Finance of Enterprises](#).

Chart 13

13.a Change in the cost of credit during the monetary policy normalisation phase



13.b Lending to households and NFCs (a)



SOURCE: Banco de España.

- a** Data adjusted seasonally and for the irregular component in interest rates. The balance of bank loans includes securitisation.  
**b** Securities issued abroad are excluded from loans from non-residents and are included in debt securities

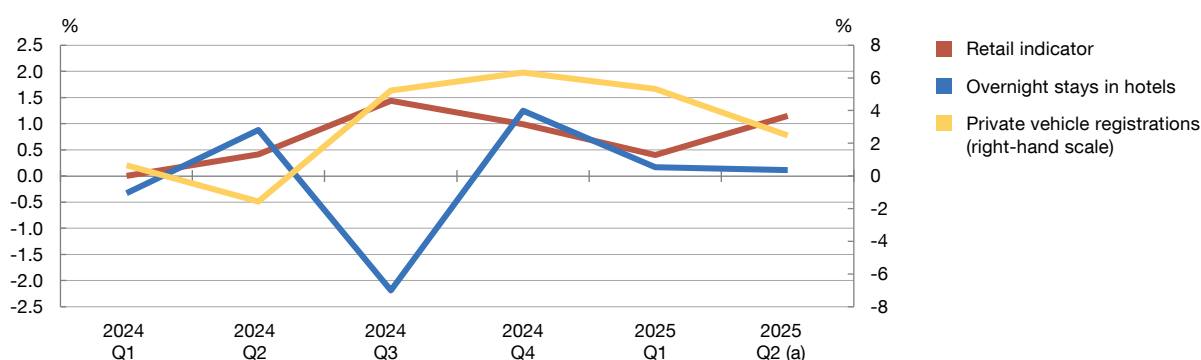


## 14 Uncertainty and declining confidence are taking a toll on consumption, which is unlikely to match the gains seen in 2024

- Private consumption growth slowed in 2025 Q1, with a quarter-on-quarter increase of 0.4%, down from 0.8% in late 2024. This slowdown is likely reflecting, to some extent, the negative impact of escalating uncertainty and deteriorating confidence on household spending decisions.
- The latest short-term economic information suggests that these factors also affected developments in private consumption in Q2. Household confidence continued to wane in April, in terms of both households' perception of the current economic situation and, above all, their future economic expectations.
- In line with this evidence, information on durable goods purchases (one of the areas typically most affected by uncertainty)<sup>7</sup> points to a slowdown up to May (Chart 14.a). This is particularly the case for new private car registrations, partly reflecting the deceleration observed in Valencia following the spikes associated with the flash floods.<sup>8</sup> Meanwhile, in April overnight stays in hotels remained at a level similar to that of Q1, while the retail trade index increased slightly.

Chart 14

14.a Quarterly growth rate of common indicators of expenditure



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

a For 2025 Q2, the quarter-on-quarter rate of growth has been calculated based on data for April in the case of overnight stays in hotels and the retail indicator and using the average for April-May in the case of private vehicle registrations.



<sup>7</sup> For an analysis of the impact of uncertainty on consumption, see [Anghel, Barceló and Villanueva \(2023\)](#) and [Martínez-Carrascal \(2023\)](#).

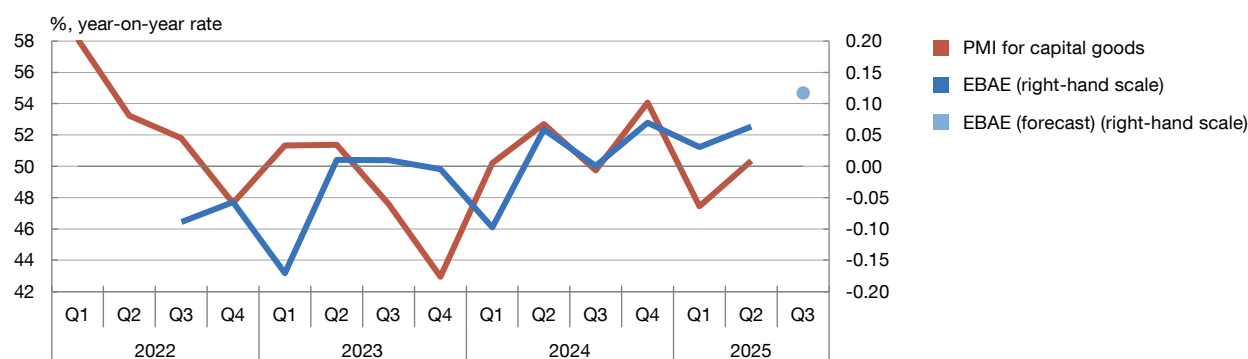
<sup>8</sup> In year-on-year terms, the growth in registrations up to May fell by nearly 5 pp relative to Q1, with most of this change attributable to the subdued momentum in Valencia.

## 15 After slowing in Q1, investment is expected to pick up in the coming months

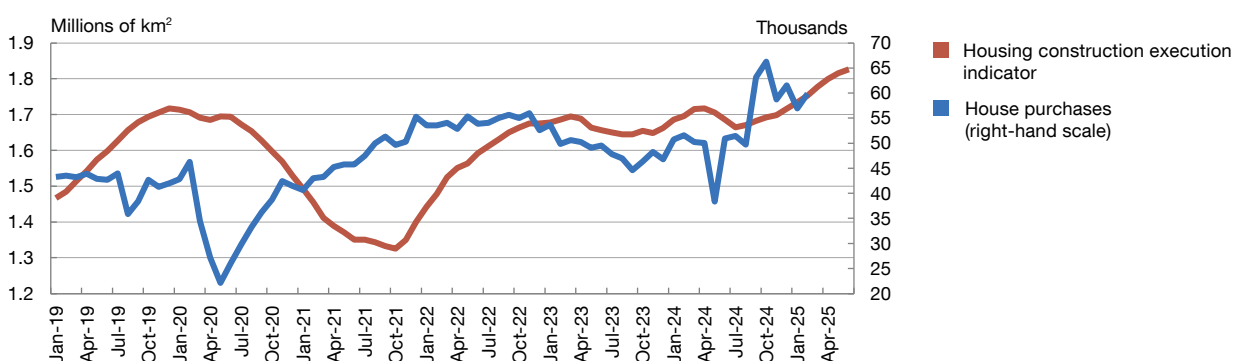
- Investment has displayed considerable volatility in recent quarters. For instance, the growth rate of gross fixed capital formation accelerated significantly, reaching 3.5% in 2024 Q4, before decelerating abruptly to 1.1% in 2025 Q1.
- Looking to Q2, the qualitative indicators that (at least partly) predicted the slowdown in investment in Q1 now point to a slight rebound in recent months. This is the case of indicators such as the April PMI for capital goods and the EBAE, which shows a slight rebound in business investment in Q2, primarily within the industrial sector, with a stronger recovery expected in Q3 (Chart 15.a).
- Regarding housing investment, the construction execution indicator continues to show significant dynamism in 2025, although recorded sales have recently slowed following a sharp increase at the end of 2024 (Chart 15.b). Nevertheless, house prices maintain their upward trend, having risen by more than 8% year-on-year in 2025 Q1.

Chart 15

15.a Qualitative investment indicators (a)



15.b Main housing investment indicators (b)



SOURCES: S&P Global, Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible.

a Latest PMI data available: May 2025. Latest EBAE data available: 2025 Q2, forecast for 2025 Q3.

b Latest data available: March 2025. For the housing construction execution indicator, the time frame considered is three months from issuance of the building permit to the construction start date and 18 months for the construction work. Seasonally adjusted series for house purchases.

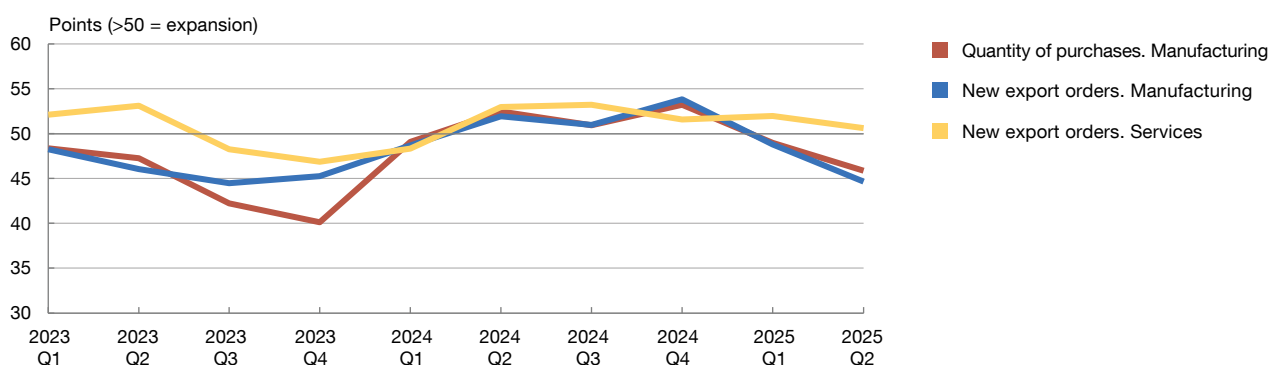


## 16 The contribution of the external sector to GDP growth could decrease in Q2, owing to heightened global uncertainty and escalating tariffs

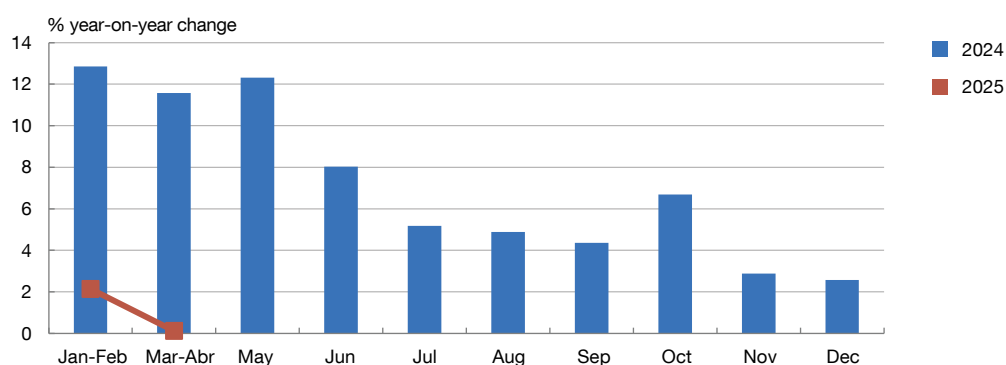
- The contribution to growth of net exports was slightly positive (0.2 pp) in Q1, mainly owing to the dynamism of exports of services (particularly non-travel services), which more than offset the slight decline in goods exports.
- In Q2 the manufacturing PMIs for new export orders and quantity of purchases followed an even steeper downward trend than in the previous quarter, continuing in contractionary territory (Chart 16.a). These developments suggest that the performance of goods exports could remain subdued in Q2.
- The growth rate of services exports is expected to remain high in the coming months, although it will ease gradually. In the case of travel services, hotel stays by non-resident tourists rose by 4.5% year-on-year in April. However, considering the March-April average (to account for the late Easter this year), they remained stable compared with the same period last year (Chart 16.b). Moreover, the decline in goods trade owing to rising tariffs and increased uncertainty could negatively impact the demand for some non-travel services typically associated with these flows, such as some transport and logistics services.

Chart 16

### 16.a PMIs (a)



### 16.b Overnight stays in hotels in Spain by non-resident tourists (b)



SOURCES: S&P Global and INE.

a Latest observation: May 2025 in the case of manufacturing and April 2025 in the case of services.

b The March-April average is shown since Easter fell in April in 2025, but in March in 2024.

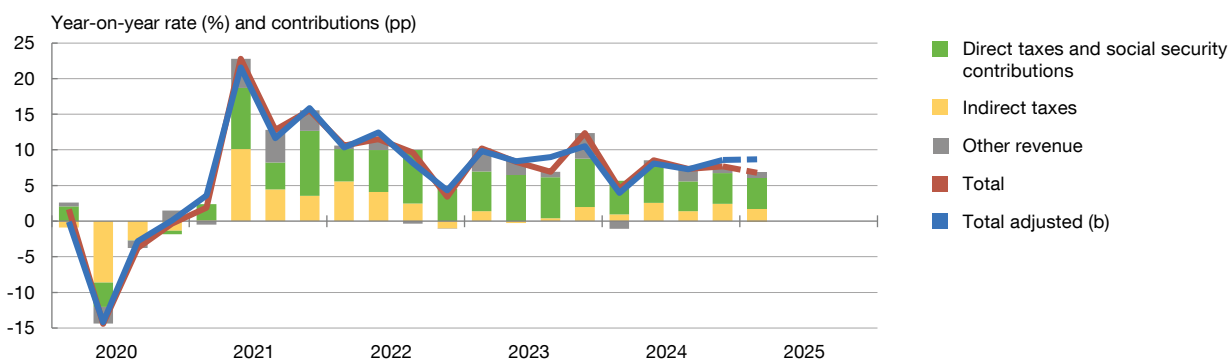


## 17 Government revenue continues to perform positively and, when adjusted for atypical items, outpaces the growth in expenditure

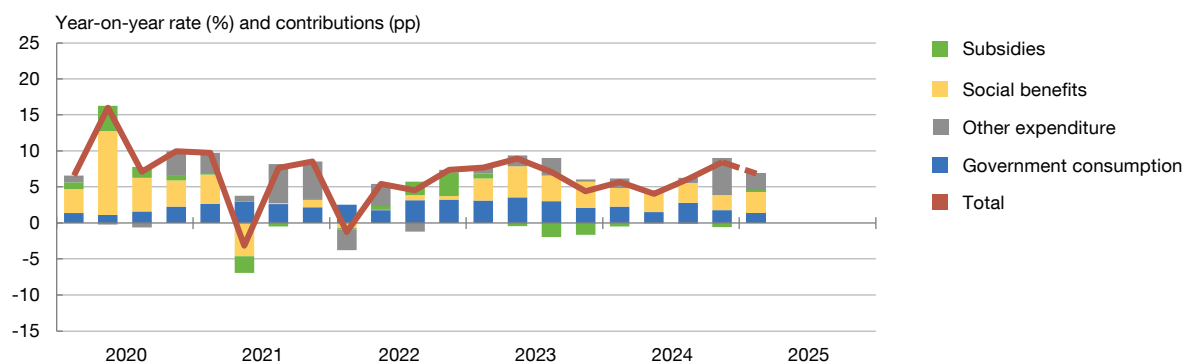
- Government revenue, adjusted for atypical monthly developments,<sup>9</sup> grew at year-on-year rates of more than 8% in the final months of 2024 and in 2025 Q1 (Chart 17.a). Expenditure gathered pace in the last few months of 2024 (on account of the expenses associated with the October flash floods and various court decisions that were unfavourable to general government), but eased slightly at the start of this year (Chart 17.b). On balance, it is estimated that the general government deficit, in cumulative 12-month terms, stood at 3.15% of GDP in March, holding stable relative to end-2024.
- Meanwhile, according to the first *Annual Progress Report* on the implementation of the Spanish MTP for 2025-28, net primary expenditure grew by 4.1% in 2024, less than the 5.3% originally established in the MTP.<sup>10</sup> This provides scope for additional flexibility (of 0.5 pp of GDP) for the coming years through the control account.<sup>11</sup>

Chart 17

### 17.a Change in government revenue (a)



### 17.b Change in government expenditure (a)



SOURCES: Banco de España and IGAE.

- a The data for the last quarter correspond to the general government aggregate excluding local government.  
 b Rates adjusted for atypical monthly developments due to measures adopted.



- 9 The impact of the suspension of the Deposit Guarantee Scheme contributions and the lifting of the windfall tax on financial institutions and energy utilities was concentrated in February, distorting the rates observed.
- 10 The European Commission estimated that such net expenditure in Spain grew by 3.5% in 2024.
- 11 The European fiscal rules allow for a maximum upward deviation from the expenditure path set in the MTP of 0.3 pp of GDP annually and 0.6 pp on a cumulative basis. These deviations are recorded in the control account. Based on the 2024 figure, the control account has a balance of -0.5 in 2024, and may ultimately reach up to +0.6.

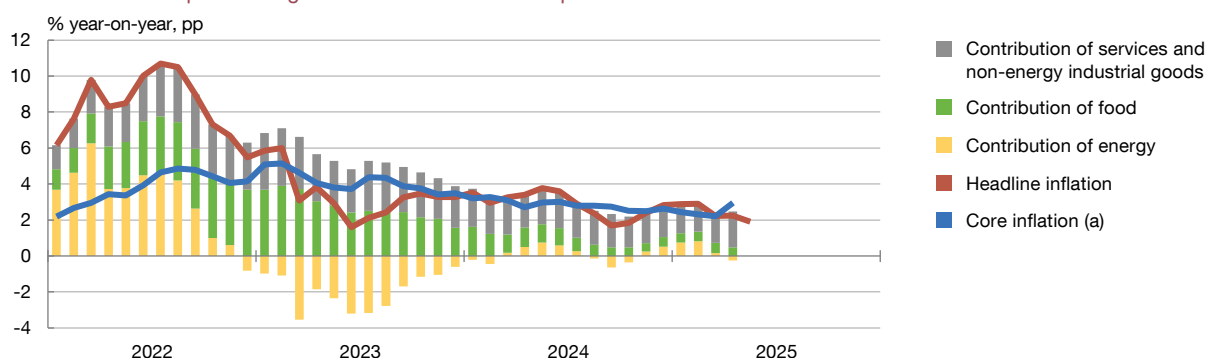


## 18 Energy price developments have helped bring down headline inflation in recent months, while core inflation continues to be stickier than expected

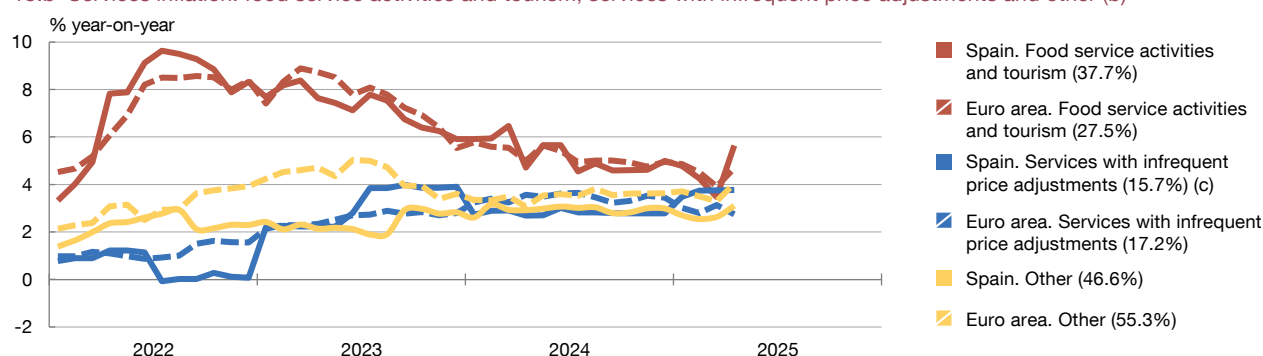
- Headline inflation (as measured by the HICP) fell to 1.9% in May, after running at 2.2% in the previous two months (Chart 18.a). On disaggregated data to April, this mainly reflected a slowdown in energy prices. For its part, food inflation moderated in April, after quickening slightly for several months.
- By contrast, after cooling somewhat in the preceding months, in April core inflation (HICP excluding energy and food) climbed to a year-on-year rate of 3%, 0.6 pp higher than expected. By component, services prices accelerated sharply due, at least in part, to the calendar effect associated with Easter. This led to significant price rises in tourism-related items (Chart 18.b),<sup>12</sup> although the pace of their growth is expected to have decreased in May. Meanwhile, non-energy industrial goods prices continue to post low year-on-year growth rates (0.3% in April).

Chart 18

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



18.b Services inflation: food service activities and tourism, services with infrequent price adjustments 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.

c Including refuse collection, sewerage collection, telephone and telefax services, television and radio licence fees and subscriptions, education (excluding education not definable by level), insurance, charges by banks and post offices and other services not elsewhere classified (excluding funeral services).



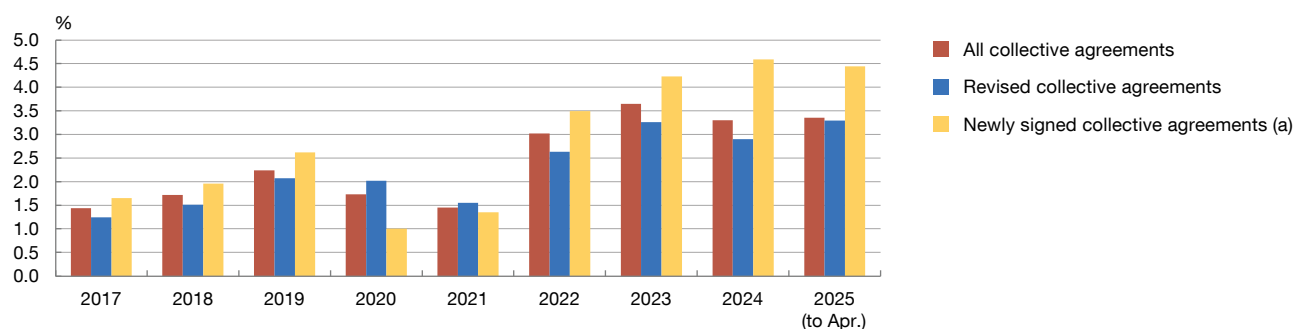
12 The most noteworthy year-on-year increases in tourism-related services items in April were observed in package holidays (13.7%, up 16.5 pp on March), accommodation services (10%, up 4.8 pp on March) and passenger air transport (19.3%, up 17.7 pp on March).

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

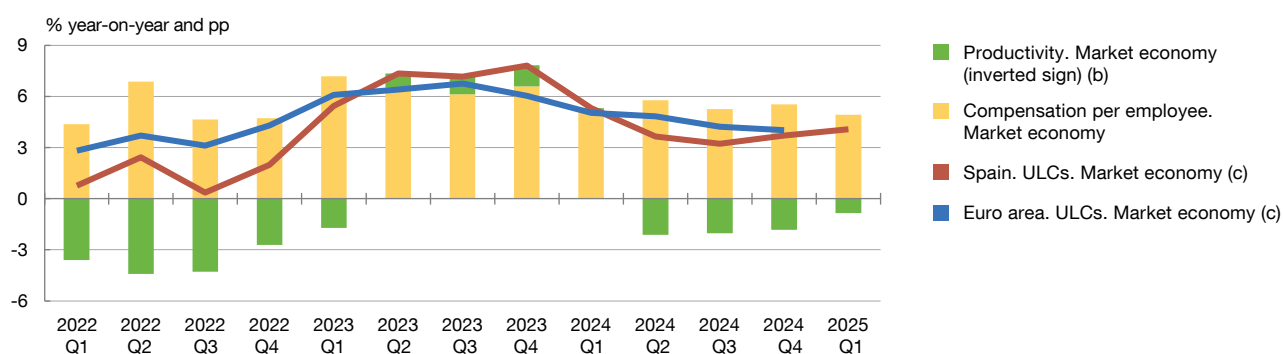
- On data to April, wage settlements for 2025 stand at 3.4%, slightly higher than the increase signed for 2024 (3.3%) and the fifth Employment and Collective Bargaining Agreement (3% for 2025). For the majority (95%) of wage-earners with wage agreements for 2025, the agreements were signed in previous years and include an average wage increase of 3.3%. By contrast, in the case of new agreements signed in 2025, wage increases stand at 4.4% (Chart 19.a).
- Despite this slight increase in wage settlements in collective agreements, compensation per employee in the market economy slowed to a year-on-year increase of 4.9% in 2025 Q1, 0.6 pp below that observed at end-2024 (Chart 19.b).
- In any event, ULCs grew by 4.1% year-on-year in Q1, up 0.4 pp on 2024 Q4; this quickening reflected a lower rate of productivity growth, which amply offset the moderation in compensation per employee (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 Newly signed agreements to April 2025 refer to 430,000 workers (close to 5% of workers with wage settlements for 2025).

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 inflationary pressures remain relatively stable, due to contained profit margins

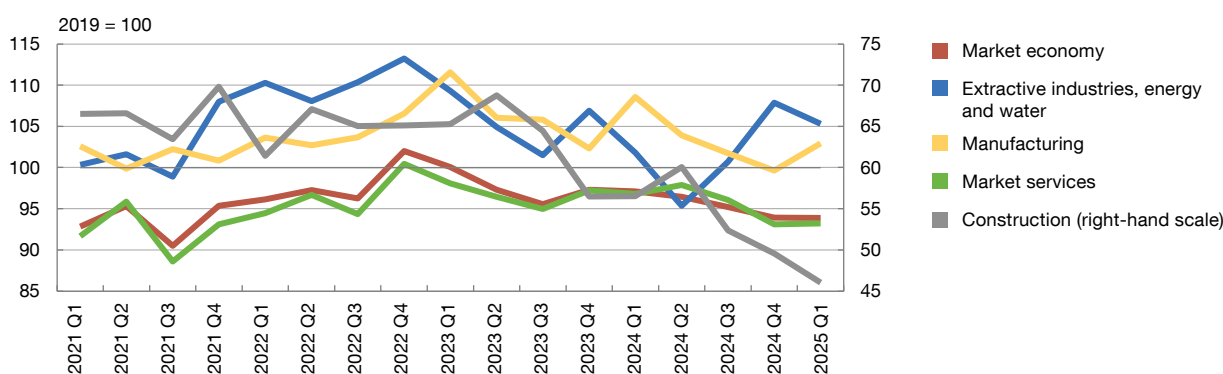
- The market economy GVA deflator increased slightly (to 1.4%) in 2025 Q1, from 0.9% at end-2024. Contributing to this was the moderate acceleration in both ULCs and unit GOS, the latter of which, however, made a negative contribution to the change in the deflator for the second consecutive quarter (Chart 20.a).
- According to the QNA,<sup>13</sup> profit margins – measured as the ratio of GOS to GVA of the market economy – remained relatively sluggish in the first few months of 2025 and are still below their pre-pandemic levels (Chart 20.b). Nevertheless, there continues to be a notable degree of heterogeneity across sectors. For instance, according to this measure, profit margins have recently declined in market services and construction, whereas within industry (both in energy and in manufacturing) they are more volatile and remain above their pre-pandemic levels.

Chart 20

20.a GVA 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 the Economy, Trade and Business, the tax authorities and the Banco de España.

**MACROECONOMIC PROJECTIONS FOR THE SPANISH  
ECONOMY (2025-2027)**

## 21 Main assumptions and considerations underlying the projections

- These projections are based on a series of technical assumptions regarding the future path of certain macroeconomic, financial and **fiscal** variables.<sup>14</sup> Overall, these assumptions now depict a more adverse scenario for economic activity than three months ago, especially with regard to export market developments and the **increase in trade and economic policy uncertainty**. However, some assumptions (e.g. energy prices and financing conditions) entail more favourable conditions for activity than in the March projections.
- Global GDP growth and Spain's export markets are revised down significantly as a result of the less favourable tariff scenario than envisaged in March and the adverse effect of greater uncertainty on economic activity at European and global level.<sup>15</sup> Export markets are expected to grow by 2.5% in 2025 – the same rate as projected in March – as a result of two counterbalancing factors. First, the Q1 data have revealed that they performed better than expected, probably due to the frontloading of international trade flows in response to the threat of a possible tariff increase. Second, export market growth is revised down for the rest of the year, to offset this frontloading effect and on account of the above-mentioned more uncertain scenario. Export markets are now expected to grow by 2% in 2026 (1 pp less than projected in March) and 2.8% in 2027 (0.1 pp less than forecast three months ago) (Table 1).
- Based on futures markets, in the coming quarters oil and electricity prices are expected to stand below those envisaged in the previous projection exercise (Chart 21). In addition, in recent months oil and electricity prices have, on average, been lower than those expected in March.
- The nominal exchange rate of the euro is now higher than in the previous projection exercise, both with respect to the US dollar and in effective terms (Table 1).
- As regards interest rates, financial market expectations point to a lower short-term path than anticipated in the previous projection exercise. This entails more comfortable financing conditions for households and firms. By contrast, the long-term rate path is slightly higher than projected in March (Table 1).
- Moreover, the latest Spanish GDP data for preceding quarters show that the starting point used to project the future paths of activity and prices has changed from that used in the previous projections. In particular, in the absence of other changes, the **QNA flash estimate** for 2025 Q1 and the downward revision to some growth rates in 2024<sup>16</sup> automatically entail a lower starting point for GDP for the current projection exercise and a lower GDP growth rate for 2025.

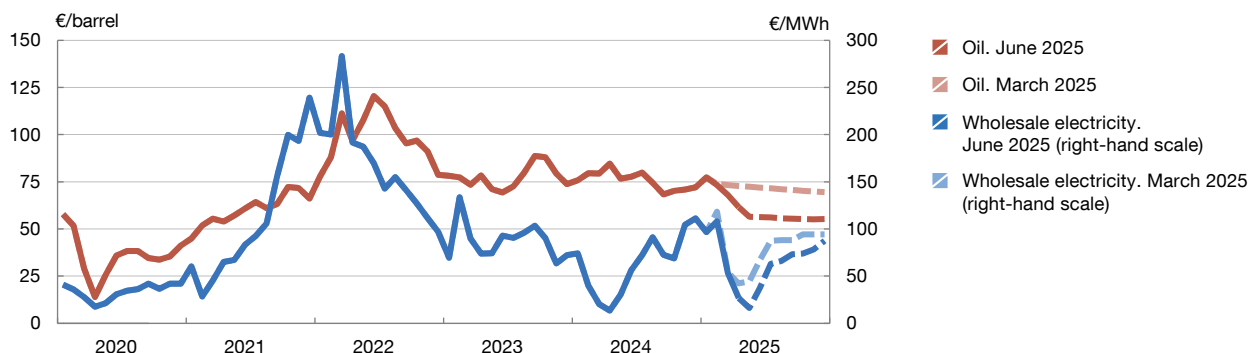
<sup>14</sup> These projections incorporate the new information that has become available since the **publication of the previous projections on 11 March**. This includes, in particular, the QNA flash estimate for 2025 Q1 and the QNFAIS for 2024 Q4. The cut-off date for these projections is 21 May.

<sup>15</sup> In particular, the trade policy scenario envisaged under the baseline scenario of this projection exercise, coordinated with the Eurosystem, foresees a 10 pp increase in US tariffs on the EU – with no European countermeasures – and an increase in US-China reciprocal tariffs of approximately 20 pp. The US tariff on the rest of the world is also expected to rise by 10 pp. All this compared with the global tariff scenario prevailing prior to 2 April, in which tariffs on some specific products, such as steel and aluminium, had already been increased considerably. Meanwhile, under this projection exercise's baseline scenario uncertainty levels are assumed to gradually decrease from their current levels to stand, at the end of the projection horizon, at their 2018 levels (the year they rose as a result of the US-China trade tensions unleashed during President Trump's first term of office).

<sup>16</sup> The INE has recently revised down the quarter-on-quarter GDP growth rates for 2024 Q2, Q3 and Q4 by 0.03 pp, 0.09 pp and 0.04 pp, respectively.

Chart 21

## 21.a Energy prices



SOURCES: OMIE and Reuters.

Table 1

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

Annual rate of change (%), unless otherwise indicated

	2024	June 2025 projections			Difference between the current projections and the March 2025 projections (b)		
		2025	2026	2027	2025	2026	2027
Spain's export markets (c)	1.5	2.5	2.0	2.8	0.0	-1.0	-0.1
Oil price in dollars/barrel (level)	82.0	66.7	62.8	64.2	-8.2	-8.0	-4.9
Wholesale electricity price in €/MWh (level)	62.9	65.1	62.1	58.4	-15.7	-3.5	0.1
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.08	1.11	1.13	1.13	0.07	0.09	0.09
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	116.0	117.3	118.7	118.7	5.2	6.6	6.6
Short-term interest rate (3-month EURIBOR; level) (e)	3.6	2.1	1.9	2.2	-0.1	-0.2	-0.1
Long-term interest rate (10-year Spanish government bond yield; level) (e)	3.2	3.3	3.6	3.9	0.0	0.1	0.2

SOURCES: Banco de España and ECB.

- a Cut-off date for assumptions: 14 May. 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 June 2025 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.

## 22 GDP growth is projected to slow slightly over the coming quarters

- Spanish GDP grew by 0.6% in 2025 Q1, down 0.1 pp on the 2024 Q4 figure and at the lower end of the growth range envisaged in the **March Banco de España projection exercise** (0.6-0.7%). Prominent in these developments was the slowdown in consumption and investment, although the latter's deceleration was less of a surprise following its strong growth in 2024 Q4.
- The **latest short-term economic indicators** suggest that Spanish GDP will grow by 0-5-0.6% in Q2. These rates are still relatively high, but they could signal a further slowdown in the Spanish economy's growth rate.
- Looking ahead to the coming quarters, under a baseline scenario with a higher level of tariffs and uncertainty than envisaged in the March projection exercise, the gradual slowdown in the Spanish economy is expected to continue **despite the potential boost to activity from higher defence and infrastructure spending in the EU**. Specifically, Spanish GDP growth is expected to fall from 3.2% in 2024 to 2.4% in 2025, and then stand below 2% in the following two years (1.8% in 2026 and 1.7% in 2027) (Table 2).<sup>17</sup>

Table 2

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

Annual rate of change in volume terms and % of GDP

	2024	June 2025 projections				March 2025 projections		
		2025	2026	2027		2025	2026	2027
GDP	3.2	2.4	1.8	1.7		2.7	1.9	1.7
Private consumption	2.9	2.7	1.8	1.5		3.3	2.1	1.8
Government consumption	4.1	2.5	1.8	1.7		2.2	1.8	1.7
Gross capital formation	1.9	3.6	2.3	2.1		3.0	2.5	1.9
Exports of goods and services	3.1	1.9	2.3	2.7		2.9	2.9	2.9
Imports of goods and services	2.4	3.0	2.8	2.7		4.0	3.5	3.2
Domestic demand (contribution to growth)	2.9	2.7	1.9	1.6		2.9	2.0	1.7
Net exports (contribution to growth)	0.3	-0.3	-0.1	0.1		-0.2	-0.1	0.0
Nominal GDP	6.2	4.8	3.6	3.8		4.7	3.9	4.0
GDP deflator	3.0	2.3	1.8	2.0		2.0	1.9	2.2
HICP	2.9	2.4	1.7	2.5		2.5	1.7	2.4
HICP excluding energy and food	2.8	2.6	2.1	1.9		2.2	2.0	1.9
Employment (people)	2.2	2.2	1.0	1.0		1.9	1.2	1.0
Employment (hours)	1.9	1.0	1.0	1.0		1.7	1.2	1.0
Unemployment rate (% of labour force). Annual average	11.3	10.5	10.2	9.7		10.5	10.0	9.5
Net lending (+) / net borrowing (-) of the nation (% of GDP)	4.2	3.7	3.7	3.5		3.8	3.7	3.1
General government net lending (+) / net borrowing (-) (% of GDP)	-3.2	-2.8	-2.6	-2.6		-2.8	-2.6	-2.6
General government debt (% of GDP)	101.8	101.4	101.4	101.3		101.3	101.6	101.0

**SOURCES:** Banco de España and INE.

**a** Projections cut-off date: 21 May 2025. Latest QNA figure published: 2025 Q1 flash estimate.

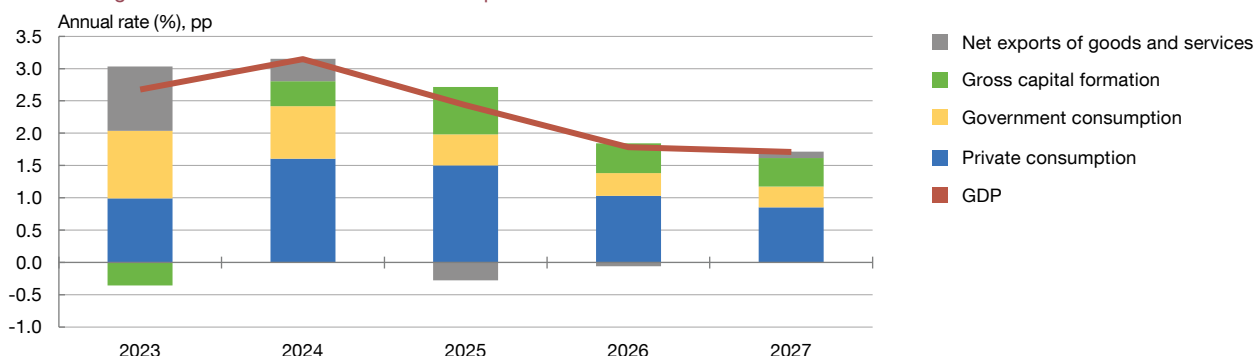
<sup>17</sup> Under this scenario, the difference between real and potential GDP (the output gap) will be positive throughout the projection horizon, although it will gradually start to close from 2026.

## 23 In the years ahead economic growth will be underpinned by the buoyancy of domestic demand

- GDP growth in the period 2025-27 will be driven by the momentum of domestic demand (Chart 23). In particular:
  - Private consumption will be the main contributor to economic growth, due to the projected favourable developments in disposable income, employment and the population. However, it will slow down over the projection horizon, amid **considerable uncertainty**, **lower confidence** and a high saving rate.
  - Gross capital formation will make a bigger contribution to GDP growth in 2025 than in 2024, following the increase in this component in the final stretch of last year. It will also grow at relatively robust rates in 2026 and 2027, partly as a result of the roll-out of NGEU funds, better financing conditions and growth in residential investment.
  - In the absence of other measures, government consumption – which grew considerably in 2023 and 2024 – is expected to moderate its contribution to activity growth in the years to come, in keeping with the typical assumption of trend growth. However, government consumption will be driven by the **announced increase in defence spending**.
- By contrast, the contribution of net exports to GDP growth will be negative in 2025 and virtually zero in 2026 and 2027 (Chart 23). Specifically:
  - On the exports side, international tourist arrivals are expected to gradually slow down. Non-travel services exports, which surged after the pandemic, will also moderate their growth over the projection horizon. Meanwhile, goods exports are expected to contract slightly in 2025, **as a result of the global trade scenario and weak euro area growth**, and recover thereafter, in line with the projections for Spain's export markets.
  - Imports of goods and services will be affected by the impact of the trade tensions, with their pace of growth slowing compared to the previous projection exercise, albeit still growing robustly in 2025, driven by their momentum in recent quarters. Their growth rate will moderate slightly in 2026-27, in line with the paths projected for investment and goods exports, headings which have a greater import content.

Chart 23

23.a GDP growth and contributions of main components



SOURCES: Banco de España and INE.

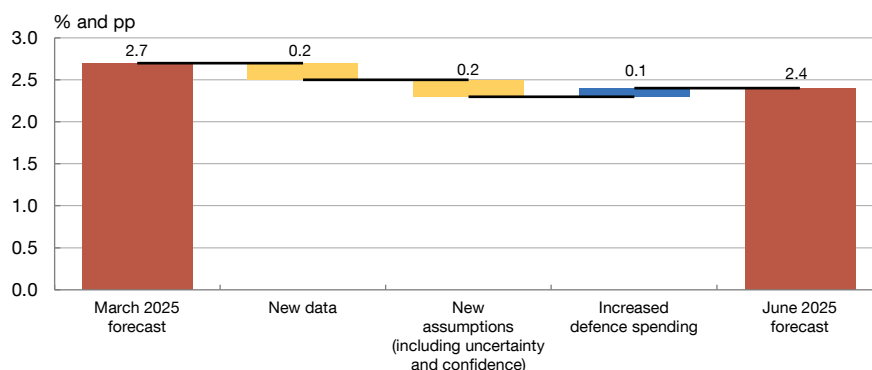


## 24 Compared with the March projections, the GDP growth rates for 2025 and 2026 have been revised down by 0.3 pp and 0.1 pp, respectively

- The activity growth rate projected for 2025 is 0.3 pp lower than in the March projection exercise, revised down from 2.7% to 2.4%, owing to the confluence of various factors (Chart 24).
  - First, the GDP growth flash estimate for 2025 Q1 and the INE's downward revision to the output growth rates for 2024 Q2, Q3 and Q4 automatically reduce the annual GDP growth rate for 2025 by 0.2 pp.
  - Second, the **technical assumptions** of this projection exercise envisage lower growth in Spain's export markets, as a result of the tariff increase and the economic policy uncertainty at global level. This uncertainty will also have an adverse effect on domestic economic activity, insofar as it leads households and firms to postpone their consumption and investment decisions. Compared with the March projection exercise, overall these factors have an estimated negative impact on activity growth in 2025 of 0.2 pp.<sup>18</sup>
  - Lastly, by contrast, it is estimated that the **Industrial and Technological Plan for Security and Defence** could boost the activity growth rate in 2025 by 0.1 pp.
- The GDP growth rate for 2026 is revised down by 0.1 pp, to 1.8%, due to the downward revision to export market growth and the negative impact on activity of higher levels of uncertainty than those considered three months ago. These adverse factors will be partially offset by higher defence and infrastructure spending in the EU, which, according to the Eurosystem's joint projection exercise, could amount to 0.7% of GDP in the period 2025-27.

Chart 24

24.a Changes in the GDP growth forecast for 2025



SOURCE: Banco de España.

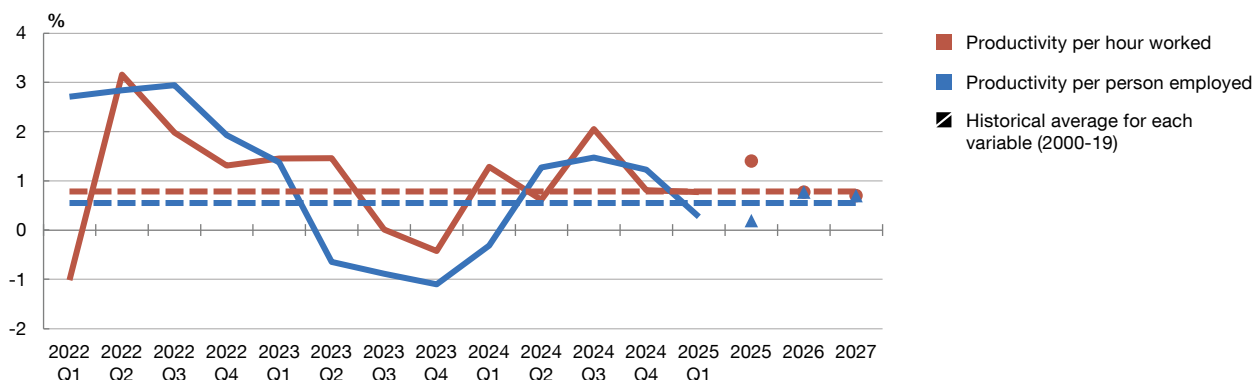
18 Meanwhile, the lower energy prices envisaged in the technical assumptions compared with the previous projection exercise do not entail a significant revision to GDP growth over the projection horizon, against a backdrop marked by uncertainty and volatility on commodities markets, in line with the literature that shows that decreases in oil prices tend to have a limited effect on GDP under such circumstances. Yash P. Mehra and Jon D. Petersen. (2005). "Oil prices and consumer spending". *Federal Reserve Bank Richmond Economic Quarterly*, 91(3), pp. 53-72 and Yu Shan Wang. (2013). "Oil price effects on personal consumption expenditures", *Energy Economics*, 36, pp. 198-204.

## 25 Job creation will continue over the projection horizon, although the rate of growth is expected to decrease, in line with the slowdown in activity and with some recovery in productivity per person employed

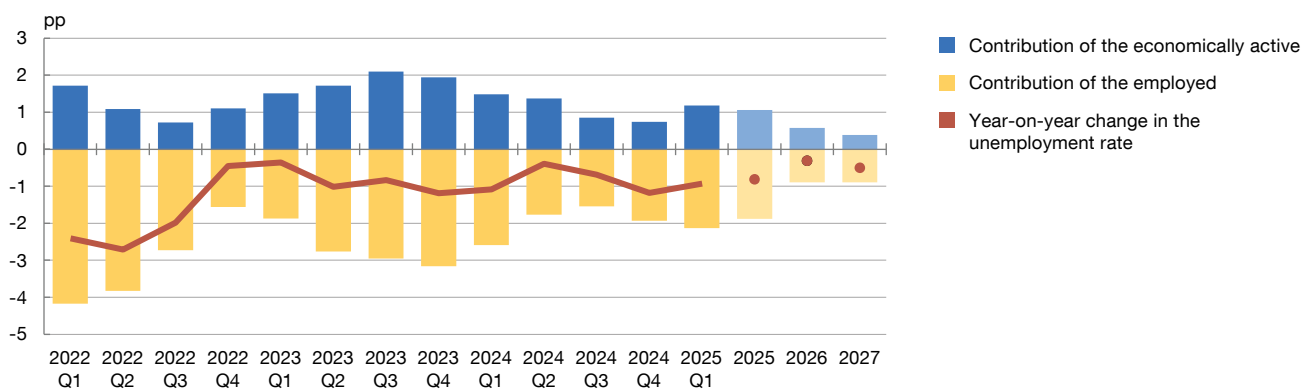
- Job creation will continue over the period 2025-27, although the rate of growth will decelerate from 2025 H2. Accordingly, employment growth – measured in terms of persons employed – in 2025 overall is expected to be similar to that observed in 2024 (2.2%), followed by slower growth (down to 1%) in 2026 and 2027 (Table 2).
- The rate of growth of productivity per person employed is expected to be less dynamic in 2025 (0.2%, compared with 0.9% in 2024), partly owing to the notable deceleration observed in this variable at the start of the year (Chart 25.a). However, in 2026 and 2027 it is expected to pick up, moving towards growth rates consistent with its historical average (around 0.7%). Meanwhile, it is anticipated that productivity per hour worked will remain positive in 2025 and advance by 1.4%, slightly above the rate of growth observed in 2024 (1.2%), followed by growth in line with its historical average (0.8%) in 2026 and 2027.
- The unemployment rate will continue to decline over the 2025-27 horizon, albeit at a somewhat slower pace than in previous years, given the lower dynamism projected for job creation. Some deceleration in the rate of growth of the labour force is also envisaged as this is a variable heavily influenced by projected migration flows. Overall, between 2024 and 2027, the unemployment rate is expected to fall from 11.3% to 9.7% (Chart 25.b).

Chart 25

25.a Productivity (year-on-year rate of change) (a)



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



SOURCES: Banco de España and INE.

a Seasonally adjusted series.

## 26 The government deficit forecast remains unchanged at 2.8% of GDP in 2025 and 2.6% in 2026-27

- The main changes in the fiscal assumptions for this projection exercise are the commitment to step up security and defence expenditure and the 2024 fiscal year-end data, in addition to some minor changes in expenses relating to the flash floods in the autumn and in RRF-funded expenditure.
  - The resources for the **Industrial and Technological Plan for Security and Defence** amount to 0.6% of GDP, although a significant proportion of these funds relate to various financial instruments or have been reallocated from other budget items already envisaged in the March projection exercise. In National Accounts terms, this Plan could have an impact on the general government deficit of around 0.2 pp of GDP in 2025. This impact is assumed to be permanent.
  - At end-2024 the government deficit stood at 3.2% of GDP, 0.2 pp lower than projected in March. This deviation mainly reflects the downward revision in government consumption and investment expenditure in the final stretch of the year.
  - The assumptions for the expenditure relating to the flash floods are broadly unchanged from the previous projection exercise. They are still expected to grow by a further 0.2 pp in 2025, after they reached 0.35 pp of GDP in 2024, slightly above the level anticipated in March. Meanwhile, in light of the lower than expected State revenues from investment grants in 2024, RRF-financed expenditure is revised down by just under 0.2 pp for both 2025 and 2026, meaning that it is expected to peak at 1% of GDP in 2026.
- Nevertheless, the better starting position based on the 2024 fiscal year-end data, together with the fact that some of the payments associated with court decisions projected for subsequent years in March were actually made in 2024, counteracts the negative impact on the general government deficit of the higher defence spending and lower economic growth envisaged in this projection exercise. Accordingly, the government deficit forecast remains unchanged at 2.8% of GDP in 2025 and 2.6% in 2026-27.
- The government debt-to-GDP ratio is expected to fall slightly, from 101.8% in 2024 to 101.3% in 2027. This relatively modest reduction is partly due to various deficit-debt adjustments planned for the coming years that drive up debt, mainly linked to RRF loan-related operations and, to a lesser extent, to the two recently approved plans to address the US tariff hikes and increase defence and security spending.
- Based on the fiscal assumptions used and the macroeconomic developments projected in this exercise, net primary expenditure – the key variable under the new European fiscal rules – is expected to grow by 4.8% in 2025, 0.3 pp more than anticipated in March, due, among other factors, to the increase in defence spending. This is above both the **4.1% envisaged by the Government** and the 3.7% limit established in the MTP. However, the calculation of this variable is highly uncertain and **the Spanish Government can ask the European Commission to activate the escape clause in connection with the increase in defence spending**, enabling a greater degree of flexibility in meeting the MTP objectives.<sup>19, 20</sup>

19 In 2026 and 2027, the projected growth in net expenditure is 3.8% and 4%, respectively, also over the MTP limits (3.5% and 3.2%, respectively). Overall, the average annual increase in primary expenditure anticipated over the projection horizon is in line with that anticipated by AIReF and slightly higher than that expected for nominal GDP (4.2% versus 4.1%), consistent with a scenario of no fiscal consolidation in the coming years.

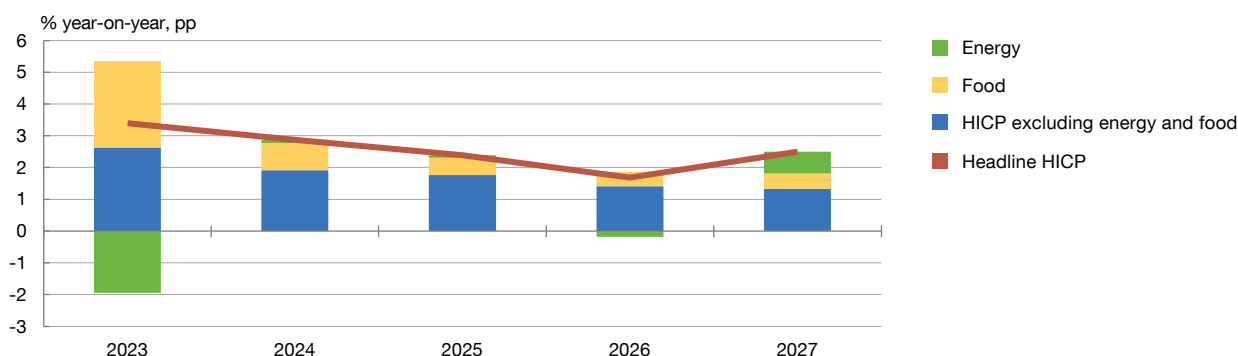
20 The growth forecasts for net primary expenditure differ from the MTP forecasts owing to the standard no-policy-change assumption, in a setting in which the MTP lacks concrete compliance measures.

## 27 In the coming months headline inflation is expected to accelerate slightly and then to start to decline after the summer, down to close to 2%

- So far this year headline inflation has fallen from 2.9% in January to 1.9% in May. This deceleration is in line with the March projections, but masks surprises on both the downside (in energy prices) and the upside (in underlying inflation and, especially, in services prices).
- In coming months headline inflation is expected to rise slightly, to around 2.5%, driven by energy prices and the scheduled withdrawal of the public transport subsidies in July. Under this scenario, the average rate of increase in the HICP in 2025 is 2.4%, 0.5 pp less than in 2024. Inflation is expected to continue to slow gradually in 2026, down to 1.7% on average for the year, and to climb to 2.5% in 2027 (Chart 27.a).
- The factors expected to have most impact on inflation will vary over the projection horizon:
  - The anticipated moderation in headline inflation in 2025 is mainly explained by a lower contribution from consumer food prices, which are expected to grow by 2.4% in 2025, compared with 3.6% in 2024, and to stabilise around 2% in 2026 and 2027, in line with observed food producer prices and with futures market projections for food commodity prices.
  - By contrast, the expected slowdown in headline inflation in 2026 reflects a smaller contribution from **core inflation** and, especially, from services inflation (Chart 27.a).
  - Lastly, the pick-up in inflation anticipated in 2027 is essentially due to the planned introduction in that year of a **new European emissions trading system (ETS2)**.<sup>21</sup>

Chart 27

27.a Contributions to HICP growth, by component



SOURCES: Banco de España and INE.

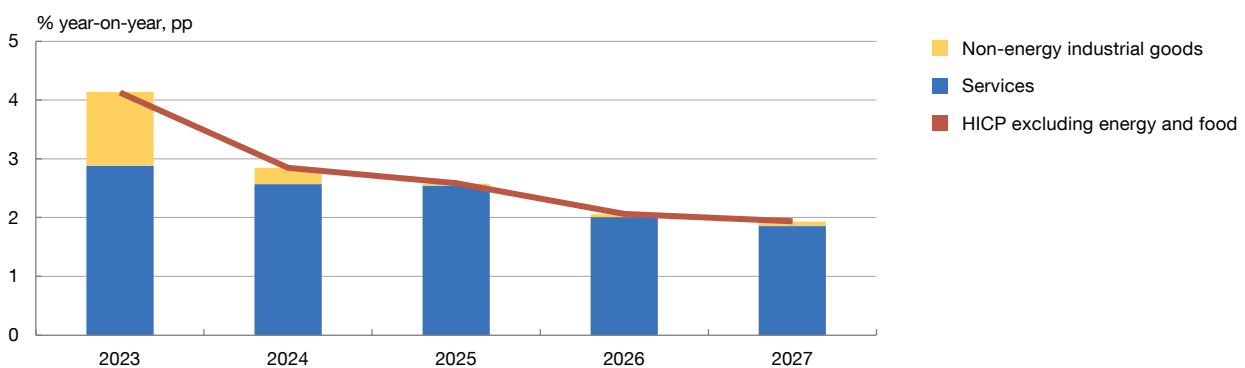
<sup>21</sup> This new system will affect road transport, heating in homes and some industries not covered by EU ETS1. For more details, see [Banco de España \(2024\)](#).

## 28 Core inflation is expected to remain above 2.5% throughout 2025, showing greater stickiness than initially expected

- After cooling somewhat in the preceding months, in April **core inflation** (HICP excluding energy and food) quickened to a rate of 3% year-on-year, a pace not observed since mid-2024 and 0.6 pp higher than expected.
- This uptick was mainly associated with price developments in services and, in particular, some tourism-related items, whose prices during Easter were more buoyant than expected. Although some of the rise in services prices may have reversed in May (sufficiently detailed information is not yet available), it could also be partly due to demand pressures in services proving stronger than initially expected. Such pressures may continue to be a factor behind services inflation remaining at relatively high rates until the end of the summer.
- On balance, core inflation is set to hover at rates above 2.5% over the coming months, meaning that it will ease only slightly on average in 2025 (to 2.6%), from 2.8% in 2024. By contrast, in the period 2026-27 it is expected to decelerate more sharply, to around 2%, amid a slowdown in activity, lower wage pressures and moderating tourist flows (Chart 28). In terms of components:
  - Services inflation is expected to remain persistent at rates of around 4% until the end of the summer, before gradually cooling. Thus, in 2025 it will hold at an average rate of 3.7% (as in 2024), before decreasing to just under 3% in 2026 and 2027.
  - The pace of growth in non-energy industrial goods prices, which have performed as expected in recent months, will remain very contained over the coming quarters (at around 0%), in keeping with the expected path of producer prices for such goods.

Chart 28

28.a Contributions to growth in HICP excluding energy and food



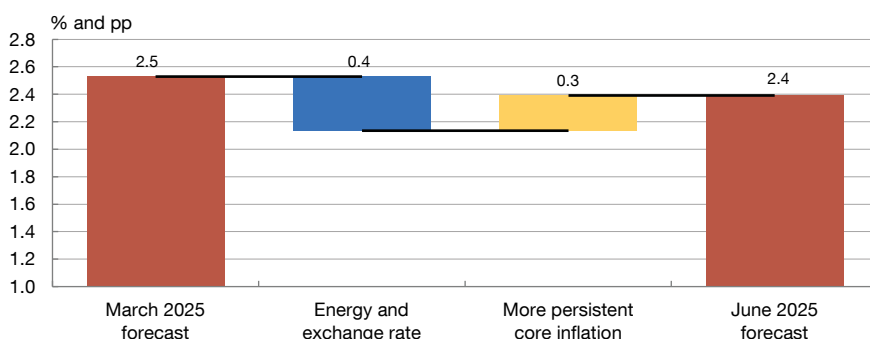
SOURCES: Banco de España and INE.

## 29 The current projections entail a slight downward revision to the headline rate of inflation for 2025, while those forecast for 2026 and 2027 remain largely unchanged

- Compared with the March projection exercise, the expected headline inflation rate for 2025 is revised down by 0.1 pp, from 2.5% to 2.4% (Chart 29), driven by two factors acting in opposite directions:
  - On the one hand, the incorporation into the baseline scenario of the recent decrease in energy prices and the new path of such prices determined by futures markets for the coming months, as well as a higher euro exchange rate, entails a downward revision of 0.4 pp in headline inflation for 2025.
  - On the other, the higher services prices are expected to prove more persistent than expected in March. In particular, demand pressure in travel services in April (on account of Easter) was greater than anticipated and is expected to remain strong throughout the summer. Consequently, the services component is revised up, raising headline inflation for 2025 by 0.3 pp.
- As regards the rest of the projection horizon, headline inflation remains unchanged for 2026 and is revised up slightly (by 0.1 pp) for 2027. The absence of changes in 2026 masks a small downward revision in food inflation, offset by an upward revision to services inflation owing to the greater stickiness now expected in this component. The small upward revision for 2027 is mainly attributable to energy price developments and, specifically, to the path of oil price futures (which, unlike in the March exercise, envisage an upward trend from early 2026, albeit from significantly lower levels).

Chart 29

29.a Changes in the inflation forecast for 2025



SOURCE: Banco de España.

### 30 The risks to the baseline scenario in these projections are tilted to the downside for activity and balanced for inflation

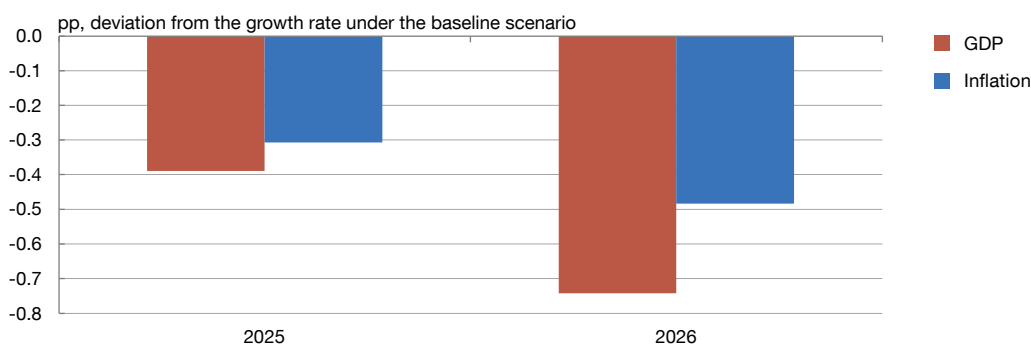
- The **global trade tensions and economic policy uncertainty** continue to be one of the main external sources of risk to the Spanish economy. Based on how the trade talks between the United States and some of its partners (such as the United Kingdom) have recently unfolded, there appears to be some scope for reducing the tariffs from the levels initially set in early April (which have been largely put on hold). However, a scenario in which the talks held by the United States with the EU and other large world economies fail or increase the obstacles to international trade observed in recent months cannot be ruled out.
- The impact of such a scenario on GDP and inflation is detailed on the **following page** of these projections. This more adverse scenario could also see sharp corrections in the international financial markets, such as the (short-lived) ones triggered by the “reciprocal tariffs” announced by the United States on 2 April. In this respect, the financial markets remain particularly vulnerable to negative shocks over the coming months, as **in recent weeks the prices of most financial assets have gradually returned to, and even surpassed, their pre-Liberation Day levels**. All this in a context in which valuations of some risk-bearing assets remain high by historical standards and both US sovereign debt yields and doubts about the country’s fiscal position have increased.
- There are two notable internal sources of uncertainty. First, the latest qualitative indicators, which capture firms’ present and future expectations and consumer confidence, flag **some appreciable signs of deterioration** in Spain, linked at least in part to the **current complex international setting** and its potential repercussions for Spain. The empirical evidence shows that worsening expectations have an adverse impact on households’ and firms’ consumption and investment decisions, which weighs down on economic activity. Although the **baseline scenario** already includes the rising uncertainty and recent deterioration of expectations, scenarios of lower confidence and/or a more unfavourable pass-through to activity than envisaged cannot be ruled out.
- Second, considerable uncertainty also surrounds the size and composition of the RRF funds and defence spending to be absorbed in the Spanish economy over the coming years and their potential macroeconomic impact. In this respect, it is worth noting that the volume of absorption of RRF funds in Spain in both 2024 and previous years has been somewhat lower than expected. The baseline scenario continues to assume that all the RRF grants allocated to the Spanish economy will be absorbed. However, given the approaching end of this EU programme, the deployment of these funds will need to be accelerated somewhat in 2025-26.
- Meanwhile, the **baseline scenario of these projections includes a slight fiscal impulse** linked to the **Industrial and Technological Plan for Security and Defence** approved in April. In addition to the volume of funds ultimately absorbed, the impact of this Plan on activity will also depend on the composition of this spending, the details of which have yet to be fleshed out. Drawing on the information available in the Plan and the historical evidence about the sectoral distribution of defence spending in Spain, the baseline scenario assumes an implicit multiplier of between 0.5 and 0.6. However, on Banco de España estimates, the multiplier effect on activity could be closer to 1 if the stimulus were more concentrated on investment goods of domestic origin than has usually been the case.

### 31 Any worsening of the trade war would have an adverse impact on activity in Spain and would push inflation down

- The baseline scenario in these projections envisages a relatively favourable outcome of the ongoing negotiations between the United States and its trading partners: no further increase in tariffs above their present levels (although they would remain higher than those in place under the previous US Administration); a gradual decline in uncertainty; and an absence of significant financial turmoil.
- However, it is not possible to rule out more adverse scenarios. This projection exercise therefore includes, in addition to the baseline scenario, an alternative scenario in which: (i) tariffs are set at the levels announced by the US Administration on 2 April, (ii) the countries affected impose matching tariffs in retaliation to those set by the United States, and (iii) global financial conditions deteriorate significantly and there is greater uncertainty.<sup>22</sup>
- Were this scenario to materialise, the growth rate of the Spanish economy would fall by 0.4 pp in 2025 and by 0.7 pp in 2026 (relative to the baseline scenario) while inflation would fall by between 0.3 pp and 0.5 pp in those years (Chart 31).
- Any estimation of these effects is subject to extraordinary uncertainty. The impact will depend, among other uncertain factors, on the price sensitivity of US demand for goods, on the ability of Spanish firms (and of those from the rest of the world) to adjust their margins and on the possibility of their finding alternative export markets or adapting their product range. The **results of the latest edition of the EBAE** suggest that 30% of Spanish firms would be affected by the tariff war. In terms of firms' potential responses, 45% report that they will pass the potential cost increase on to their prices, 34% intend to diversify their supply chain and 25% aim to enter new export markets.

Chart 31

31.a Impact of the tariffs on Spain under an adverse scenario



SOURCE: Banco de España.

<sup>22</sup> In particular, it envisages uncertainty persisting throughout the projection horizon at levels similar to those observed following the announcement of the “reciprocal tariffs” on 2 April. A financial amplification channel is also introduced, entailing an increase in sovereign debt yields and corporate spreads and a fall in the world’s main stock market indices similar to that seen between 2 and 8 April (prior to the temporary suspension of the “reciprocal tariffs”). It should be noted that this financial amplification channel is not envisaged in the **severe scenario in the June Eurosystem projection exercise**, which means that the impact on Spain estimated here cannot be directly compared with the effects estimated by the Eurosystem for the euro area.



## ACRONYMS AND ABBREVIATIONS

AIReF	Independent Authority for Fiscal Responsibility
EBAE	Banco de España Business Activity Survey
ECB	European Central Bank
€STR	Euro short-term rate
ETS1	Emissions Trading System
ETS2	Emissions Trading System for buildings, road transport and small industry
EU	European Union
GDP	Gross domestic product
GOP	Gross operating profit
GOS	Gross operating surplus
GVA	Gross value added
HICP	Harmonised Index of Consumer Prices
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
MTP	Medium-Term Fiscal-Structural Plan
NFCs	Non-financial corporations
NGEU	NextGenerationEU
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
QNA	Quarterly National Accounts
QNFAIS	Quarterly Non-Financial Accounts of the Institutional Sectors
RRF	Recovery and Resilience Facility
ULCs	Unit labour costs
bn	Billion
bp	Basis points
pp	Percentage points
H	Half
Q	Quarter