

# Spain Economic Outlook

June 2024

# Global. Key points



## Recent behavior



Growth exceeded expectations and inflation has recently stopped its downward path, largely due to the dynamism of services. With fiscal policy softening the contractionary impact of monetary policy, the scope for interest rate cuts has decreased. Financial volatility remains low.



## Outlook: Growth



Growth will moderate over the coming quarters and recover somewhat in 2025. In the U.S. 2024 growth was revised upward, but a mild moderation remains likely. In the Eurozone, the cyclical recovery is expected to gain momentum. In China, despite better data and growing stimulus, structural challenges will eventually reduce growth.



## Outlook: inflation and interest rates



The ECB has begun to reduce interest rates, but the Fed will wait longer than anticipated to start its easing cycle. Demand is expected to lose steam, favoring a decrease in inflation and interest rate cuts. But inflation concerns will not go away and interest rates will remain at contractionary levels.



## Risks



If activity is not weakened by the dynamism of services and/or manufacturing recovery occurs, the convergence of inflation to 2% would be at risk. In the current geopolitical context, further supply shocks could also prevent inflation from moderating. All this would leave little room for lower interest rates.

## Spain. Key points



**Upward revision of growth in 2024 to 2.5%**



The Spanish economy has performed better than what was expected a few months ago. The recovery has intensified more than expected, thanks to the support of services exports, improvements in competitiveness, an increase in the workforce, and the execution of funds associated with the Recovery, Transformation and Resilience Plan (RTRP).

The increase in interest rates has not been passed on proportionally to the funding cost, and fiscal policy may be somewhat more expansionary than expected.



**A slowdown is expected to bring the growth rate down to 2.1% in 2025**



The contribution of external demand will go from positive to negative, partly due to the limits to the growth of the tourism sector. Investment in transport and housing faces obstacles that will not be resolved in the short-term, while domestic demand will be weighed down in 2025 by the start of fiscal adjustment.

All this is happening in an environment of high uncertainty about the future of economic policy, both at the national and global level.

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# Global Economic Outlook

## June 2024

# A very soft landing: growth and inflation remain resilient, reducing the room for central banks cutting interest rates



## Recent scenario drivers

**Tight monetary conditions** are hitting demand with long lags and through the traditional channels; tightening effects softened by monetary easing prospects

**Expansionary fiscal policy** has been favoring activity, partially offsetting the impact of monetary tightening

**Supply “normalization”**: moderated input prices and bottlenecks, favored also by oversupply in China; despite geopolitics, trade tariffs, US elections...



## Recent macro trends

**Resilient growth**, mainly in the US and service sector; recovery signs in Europe and China as well as in manufacturing

**Inflation has surprised upwards**; it has stopped falling lately on more persistent services inflation

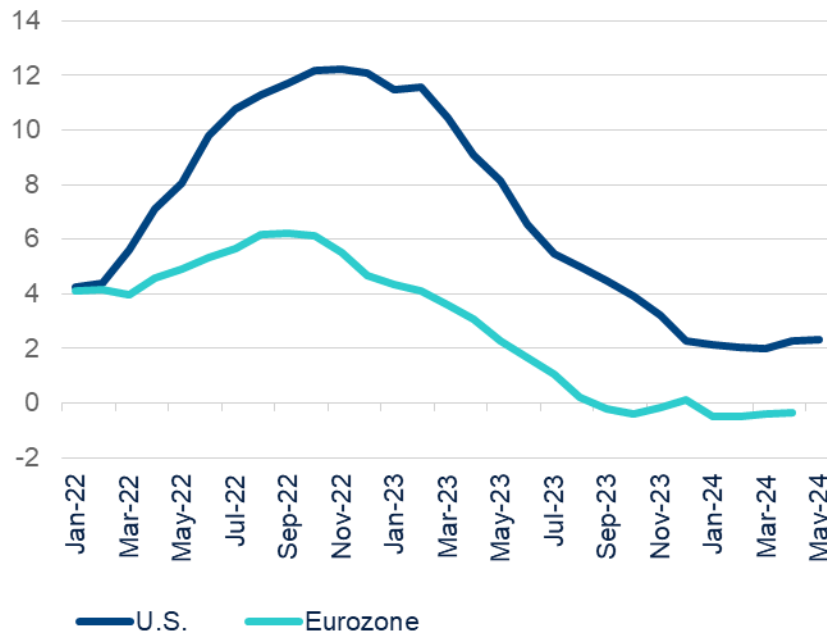
**Limited financial volatility** as positive growth view prevails, despite prospects of delayed monetary easing by the Fed



# Monetary policy seems to be working through some of the traditional channels; still, its effects may have been weakened lately by monetary easing prospects

## BANKING LENDING

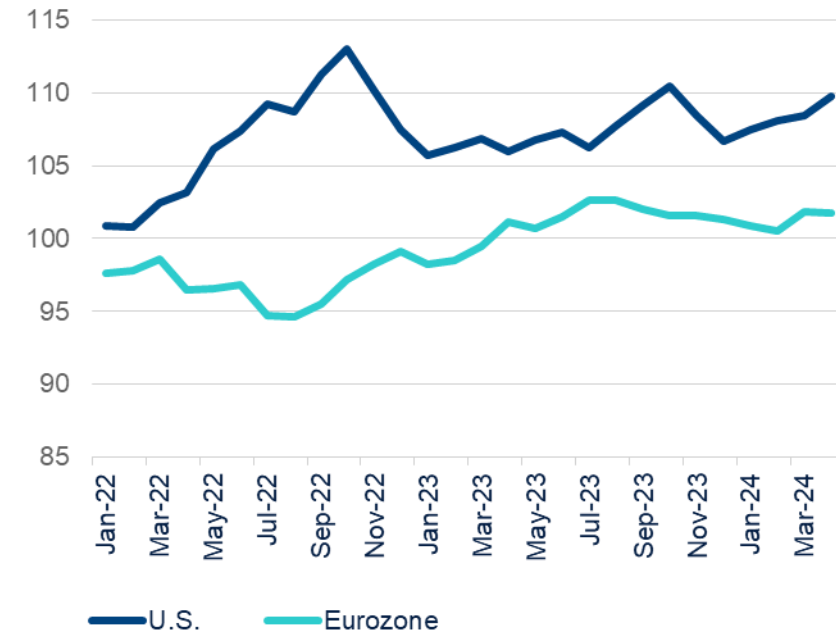
(YOY %)



Source: BBVA Research based on BEA and ECB data.

## REAL EFFECTIVE EXCHANGE RATE

(INDEX: 2020 AVERAGE=100)

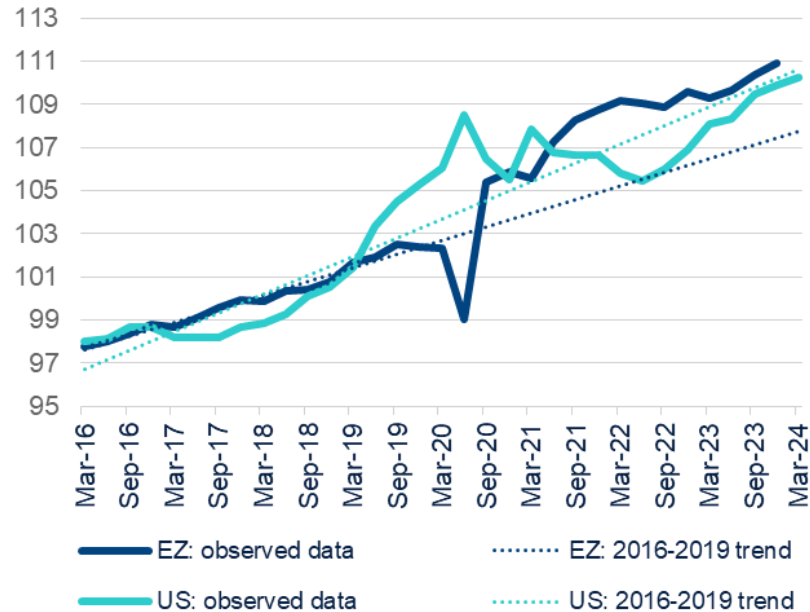


Source: BBVA Research based on BIS data.

# Fiscal policy continues, in general, to support activity, to some extent offsetting the contractionary impact of high interest rates

## GOVERNMENT CONSUMPTION

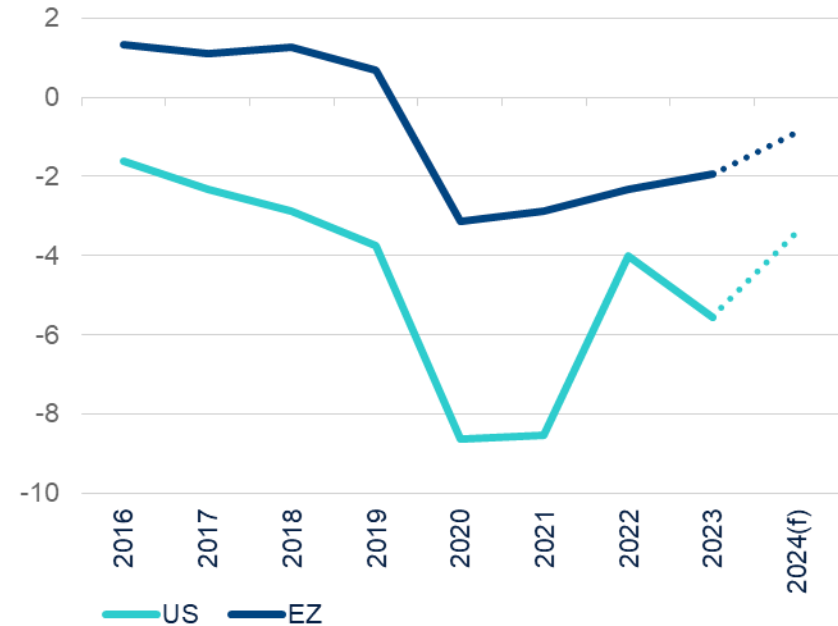
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA and ECB data.

## CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE

(SHARE OF POTENTIAL GDP)



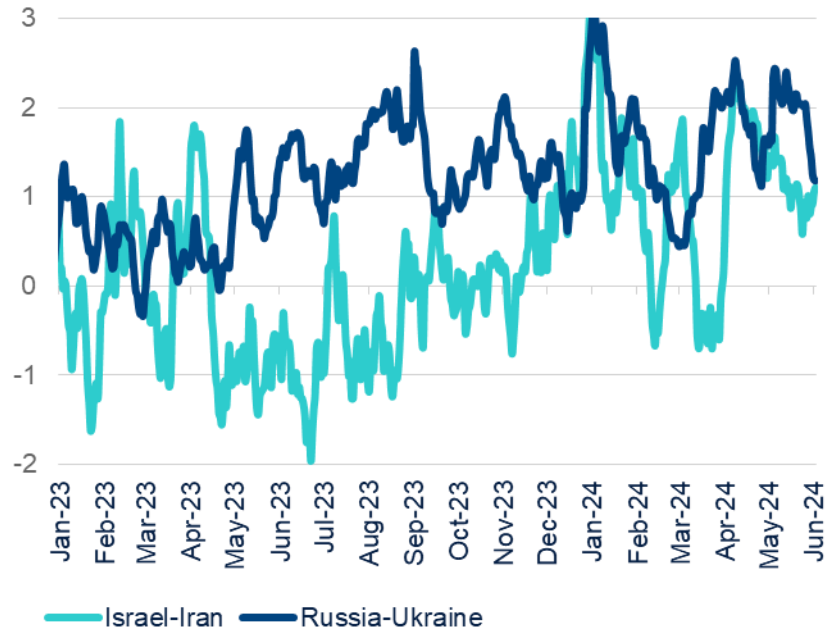
(f): forecast.

Source: BBVA Research based on IMF data.

# Commodity prices have remained relatively stable recently despite ongoing geopolitical tensions

## BILATERAL TENSIONS INDEX

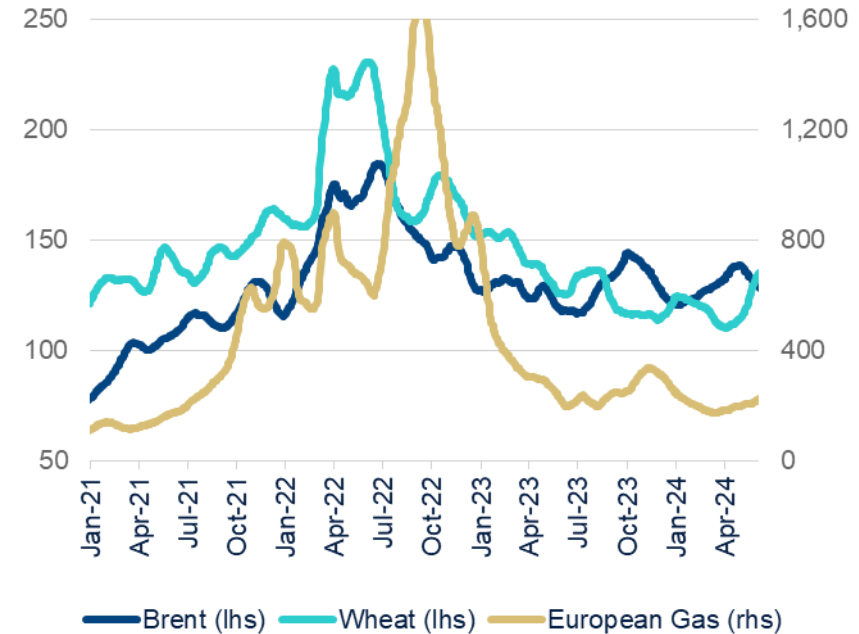
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research Geopolitics Monitor.

## COMMODITY PRICES

(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)



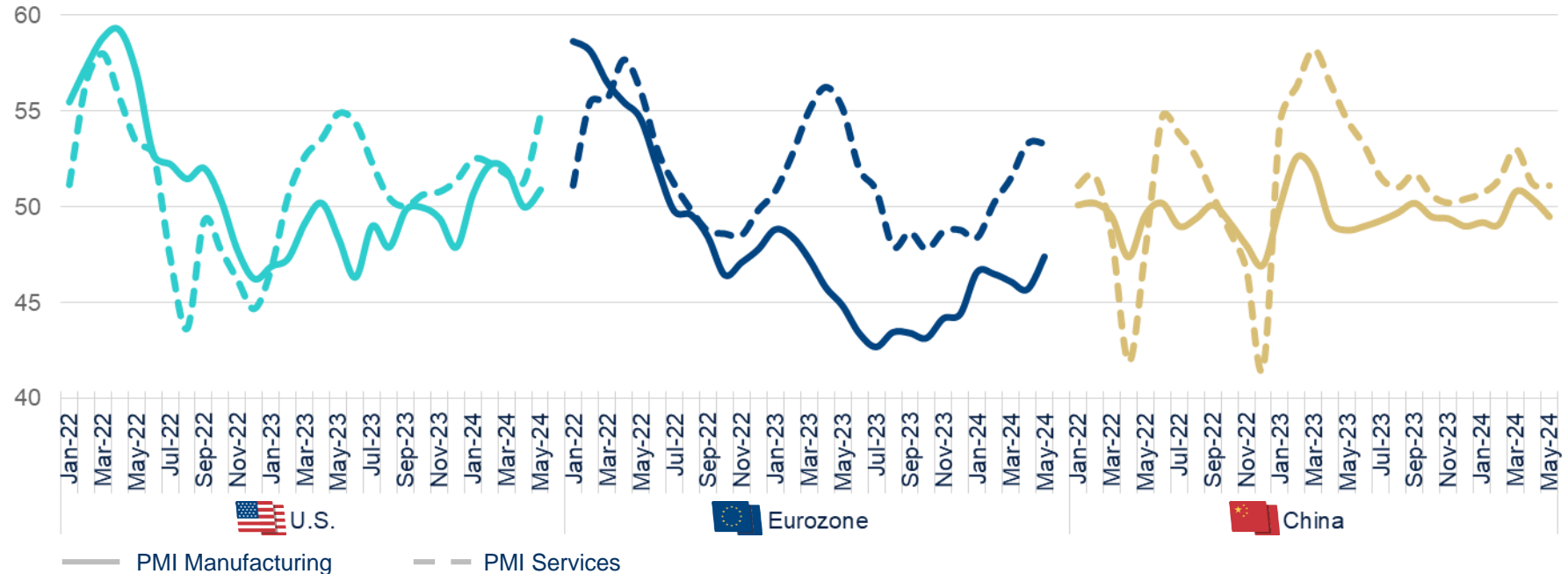
Source: BBVA Research based on data from Haver.



# Growth is holding up better than expected, mainly due to service dynamism, and there are now some signs of recovery, in particular in manufacturing

## PMI INDICATORS

(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

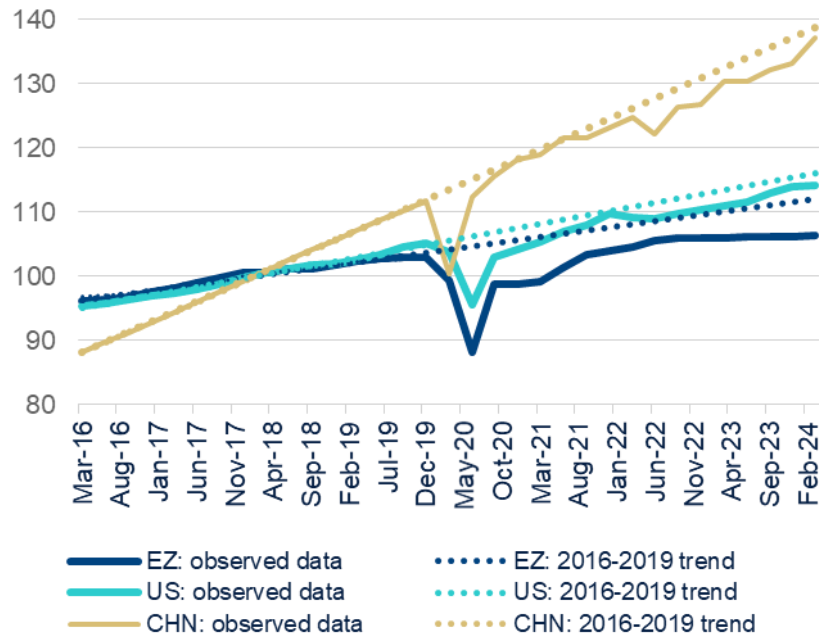


Source: BBVA Research based on data from Haver.

# Despite growth resilience and recovery signs, GDP is below (mainly in Europe), and service consumption is close to pre-COVID trends

## GDP

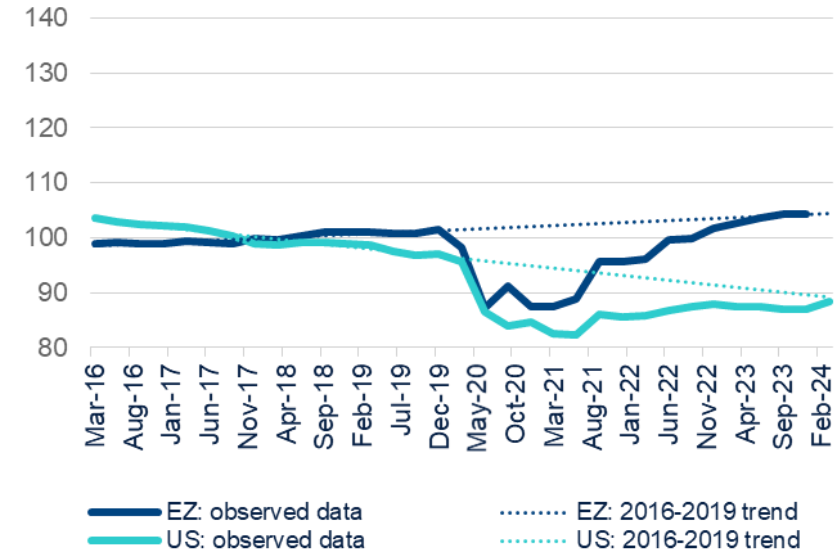
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA, ECB and Haver data.

## SERVICE / GOODS PRIVATE CONSUMPTION RATIO (\*)

(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



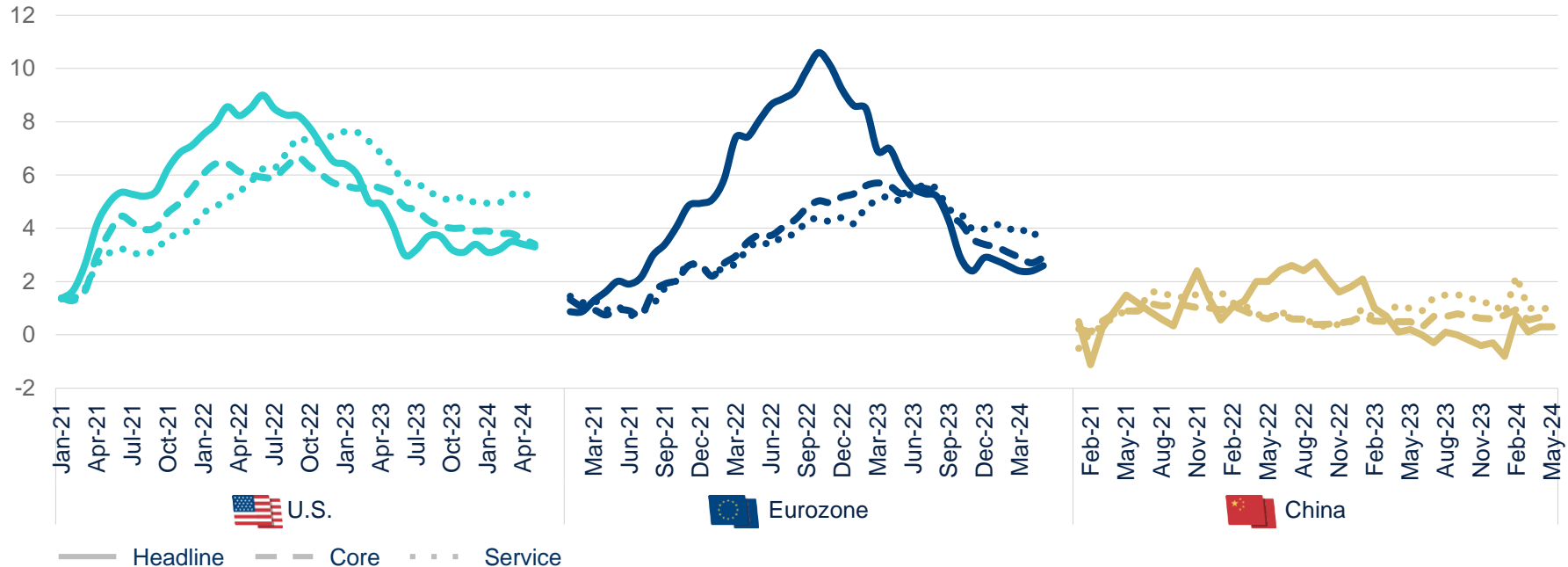
(\*) Eurozone: based on data available for 14 countries (out of the 20 countries) in the region: Germany, Estonia, Ireland, France, Italy, Cyprus, Latvia, Luxembourg, Malta, Netherlands, Austria, Slovenia, Slovakia and Finland.

Source: BBVA Research based on BEA and ECB data.

# Headline inflation has been moving sideways lately, to a large extent due to a higher than expected service inflation persistence

## CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)

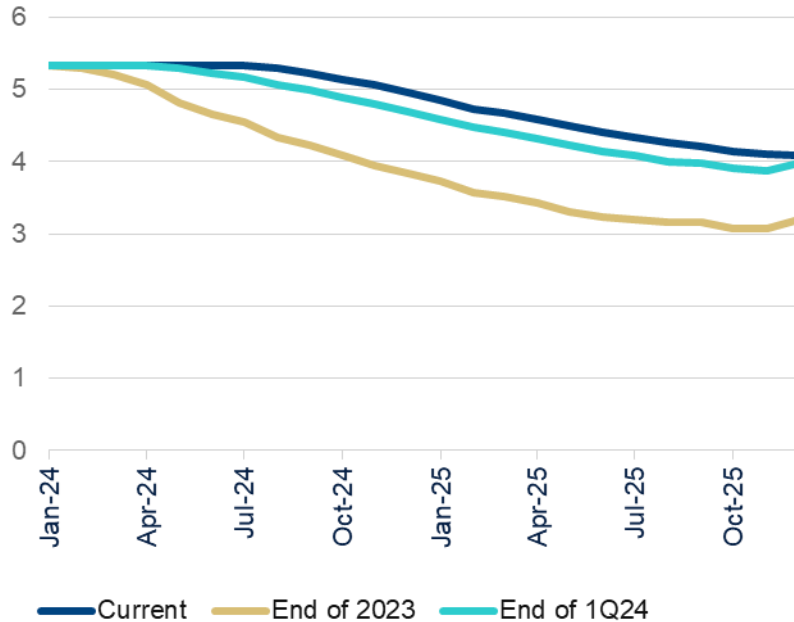


Source: BBVA Research based on data from Haver.

# Markets have raised again their interest rate expectations as the Fed's easing cycle is delayed and the ECB remains cautious despite the recent cut

## US: IMPLICIT RATE IN FED FUND FUTURES

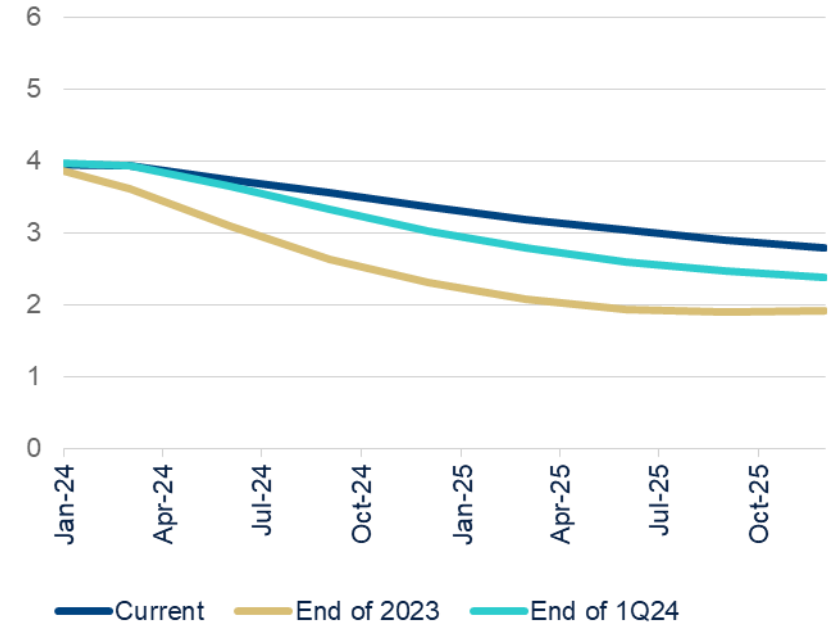
(%)



Source: BBVA Research based on Haver.

## EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (\*)

(%)



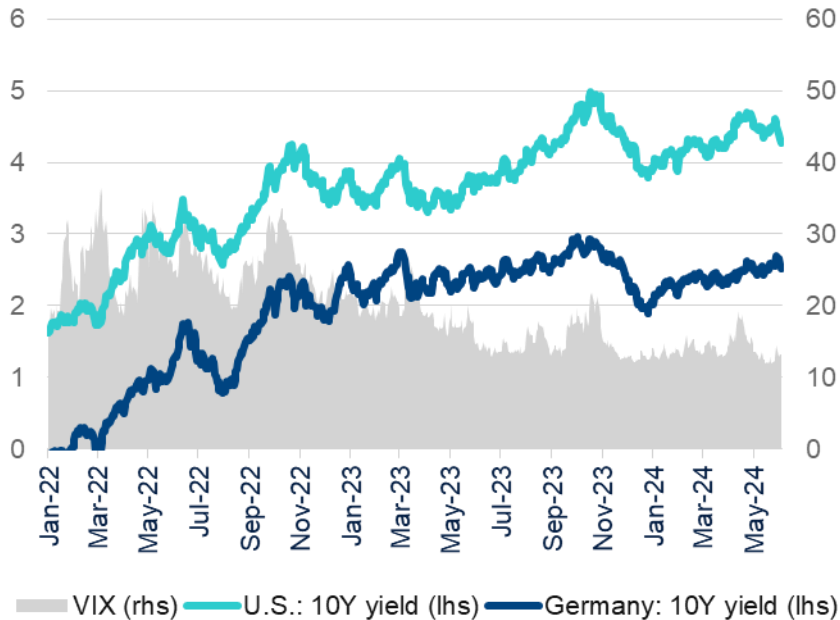
(\*) Depo interest rates.

Source: BBVA Research based on Haver.

# Financial volatility remains low even though sovereign rates have reached high levels and concerns about geopolitics and US elections have heightened

## SOVEREIGN YIELDS AND VOLATILITY

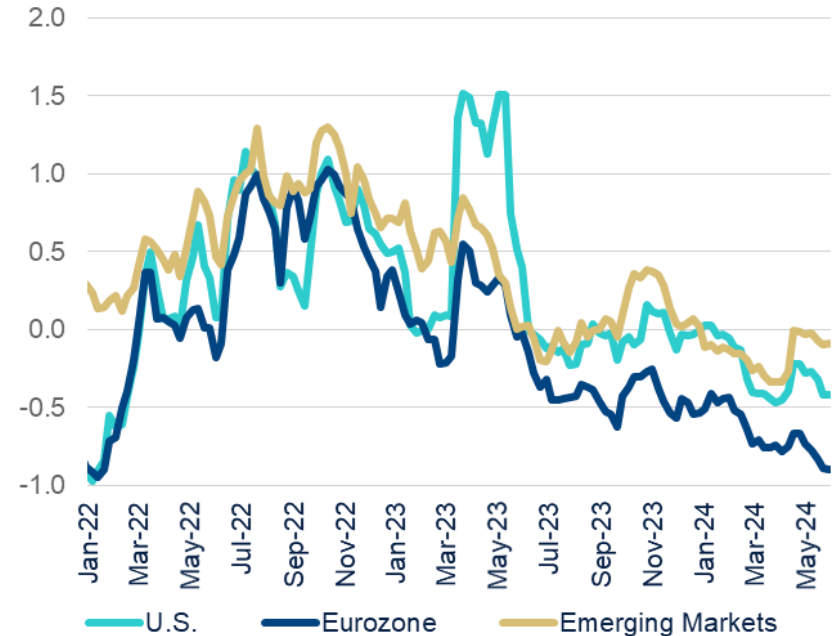
(%, INDEX)



Source: BBVA Research based on data from Haver.

## BBVA RESEARCH FINANCIAL TENSIONS INDEX

(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on data from Haver.

# BBVA Research baseline scenario: inflation and interest rates are likely to decline, but will remain relatively high, favoring subdued activity growth



## Scenario drivers

**Interest rates to gradually fall**, also in the US, where cuts were postponed amid large uncertainty, but will remain at contractionary levels

**Fiscal policy will scarcely contribute to ease inflation pressures**, mainly in the US; some consolidation is likely in Europe from 2025, given new fiscal rules

**Supply conditions:** geopolitical context makes negative shocks more likely than in the past, but no particular shock is assumed in baseline scenario



## Macro trends: prospects

**Global growth to be weak in 2H24** and recover somewhat in 2025; China's structural deceleration will weigh down

**Inflation will ease further**, but is set to remain higher than in recent decades on demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.) issues

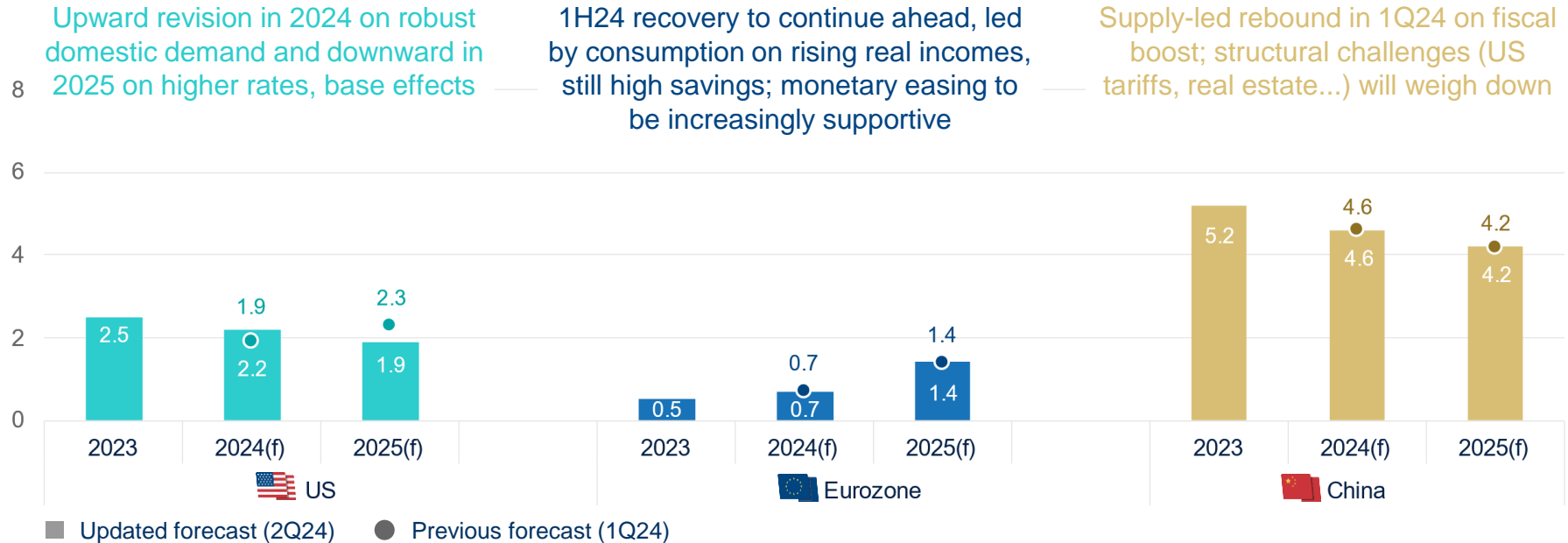
**Volatility on geopolitics and US elections**, likely offsetting the positive effects triggered by lower Fed rates



# GDP growth prospects: a softer landing in the US, a cyclical recovery in the Eurozone and a structural deceleration in China

## GDP GROWTH (\*)

(%)



(f): forecast.

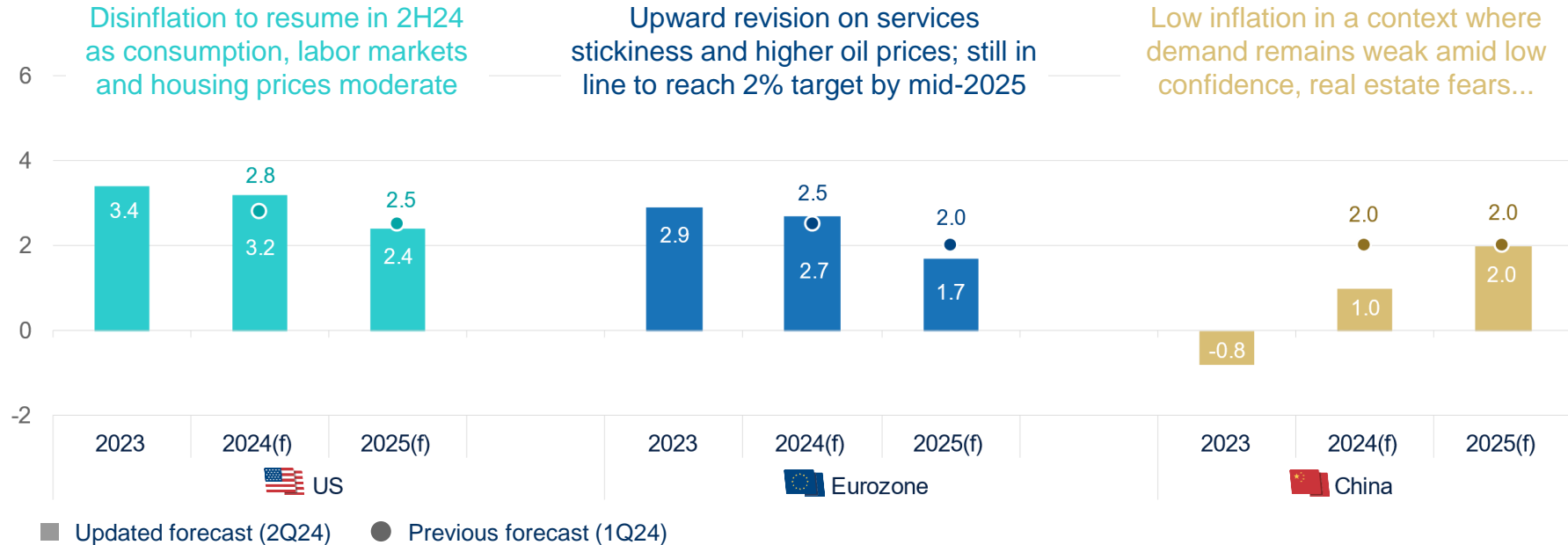
(\*) Global GDP growth: 3.2% in 2023, 3.1% (+0.0 pp in comparison to previous forecast) in 2024 and 3.3% (+0.0 pp) in 2025.

Source: BBVA Research.

# Inflation forecasts revised upwards in the US and Eurozone, mostly on service stickiness, and downwards in China, amid deflation concerns

## HEADLINE INFLATION: CPI

(YOY %, END OF PERIOD)



(f): forecast.

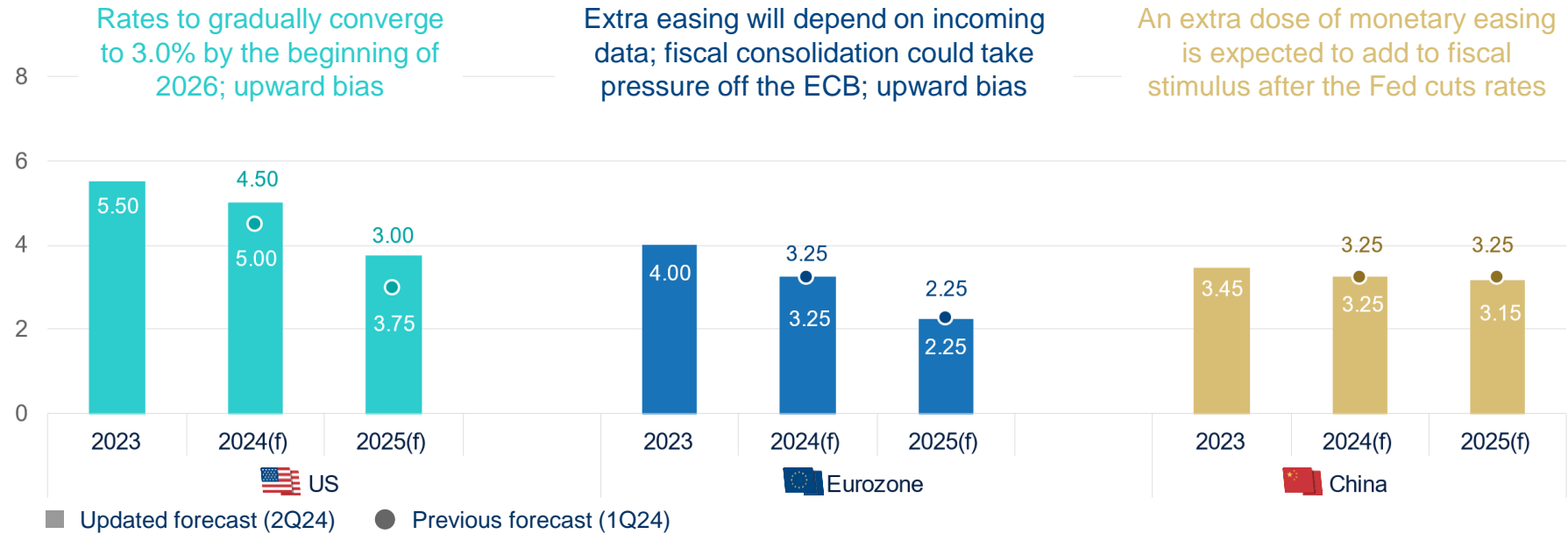
Source: BBVA Research.



# The ECB has started cutting rates; the Fed will wait at least until Sep-24 to launch its easing cycle amid still uncertain growth and inflation moderation

## POLICY INTEREST RATES (\*)

(%, END OF PERIOD)

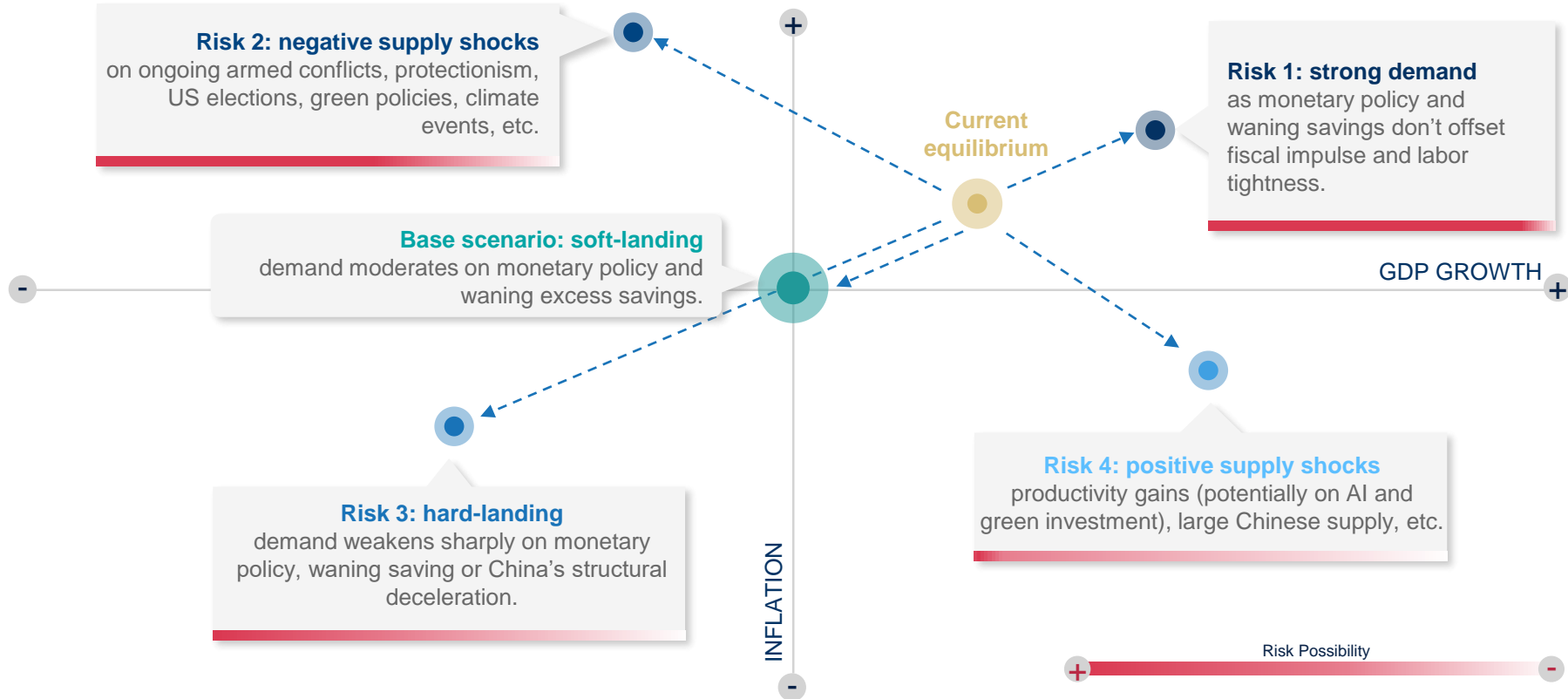


(f): forecast.

(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

# Risks: demand strength, protectionism, geopolitics, among other factors, could prevent inflation and interest rates from declining ahead



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# Spain Economic Outlook

## June 2024

## Upward revisions due to better performance in services exports



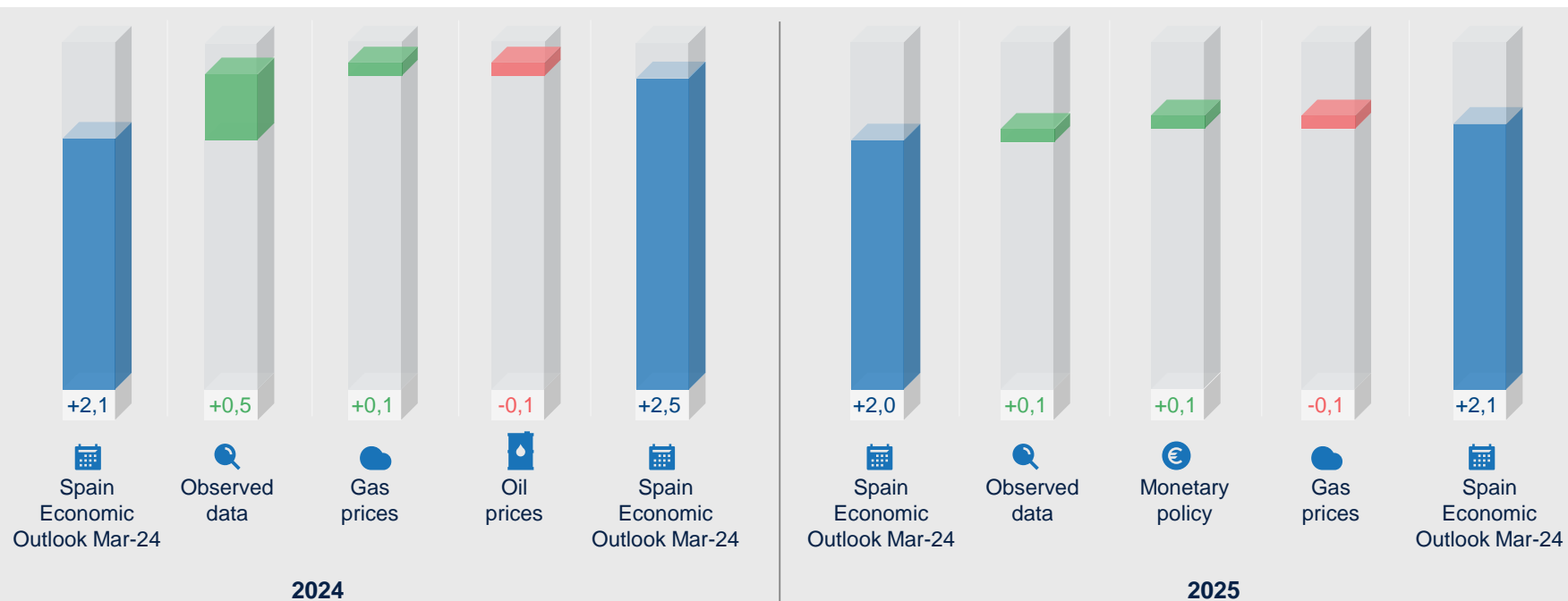
(f): forecast.  
Source: BBVA Research, based on INE data.

▲ Outlook revised upward    ► Outlook unchanged    ▼ Outlook revised downward

## Further improvement in growth prospects

Series revisions and recent favorable performance improve the forecast

### CHANGE IN GDP FORECASTS ACCORDING TO FACTOR CONTRIBUTIONS (%)

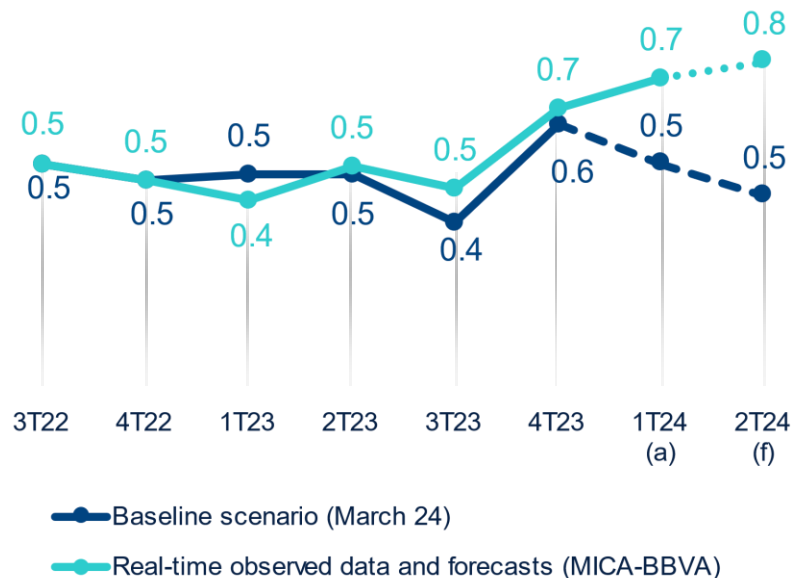


## Further improvement in growth prospects

Series revisions and recent favorable performance raise the forecast

### QUARTERLY GDP GROWTH

(%)



- The available Information indicates that **output has performed better than expected three months ago**.
- The INE has revised GDP growth for the **second half of 2023 upward**, which adds one tenth to the forecast for 2024.
- In addition, **preliminary data for 1Q24 show higher-than-expected growth** (0.7% quarter-on-quarter versus 0.6%).
- Real-time data suggest that **GDP growth will remain at similar levels during 2Q24 (0.7%)**, adding another three tenths of a percentage point to this year's growth.

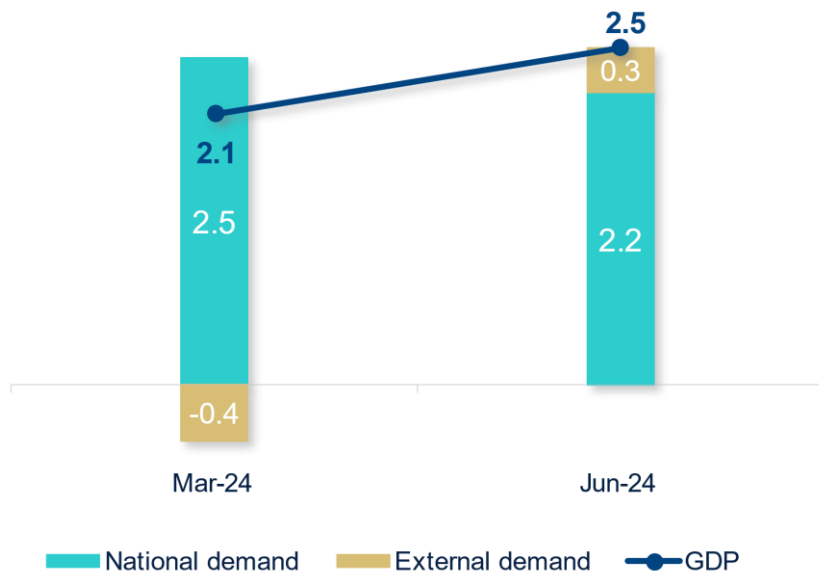
(g): growth; (f): forecast.

Source: BBVA Research based on data from INE.

## Further improvement in growth prospects

The improvement in the forecasts is due to the change in the contribution of external demand

### GDP GROWTH FORECAST AND BREAKDOWN BY COMPONENT OF DEMAND FOR 2024 IN MARCH AND JUNE (ANNUAL CHANGE, % AND PP)



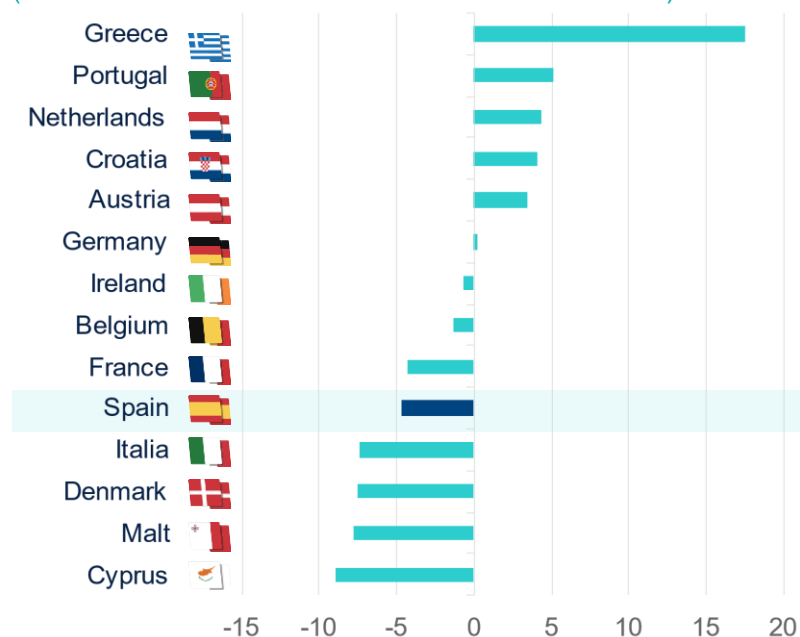
- This is due to the **upward revision in the average annual growth expectation for services exports** (10.1 % now versus 3.3 % in March), despite the deterioration in the outlook for goods sales abroad (-3.5 percentage points to 0.0%).
- The change in the composition of exports, together with somewhat weaker than expected domestic demand, has led to a **downward revision of imports** (2.7% instead of 5.1%).

## Further improvement in growth prospects

Services exports remain buoyant thanks to competitiveness improvements

### CHANGE IN THE SERVICES EXPORT DEFLATOR BETWEEN 4Q19 AND 1Q24

(DIFFERENTIAL WITH RESPECT TO THE EMU IN PP)



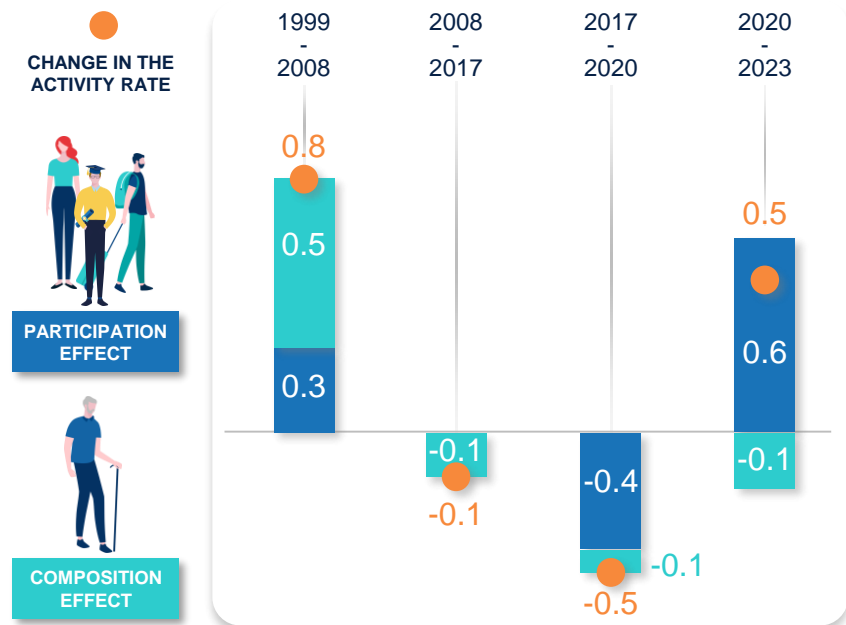
- Prices for foreign sales of services continue to increase less than in other competitor countries.
- From the beginning of the pandemic, exports of non-tourism services have become cheaper by almost 15% in relative terms compared to imports.
- In the case of consumption by non-residents, the improvement has been around 5%.
- Several factors have contributed to this, such as the containment of unit labor costs, limited by the increase in the labor force and the better progress of productivity.



## Further improvement in growth prospects

The potential for job creation has increased with immigration and higher participation

### CONTRIBUTIONS TO THE CHANGE IN THE EMPLOYMENT-TO-POPULATION RATIO (AVERAGE ANNUAL CHANGE IN % AND PP)

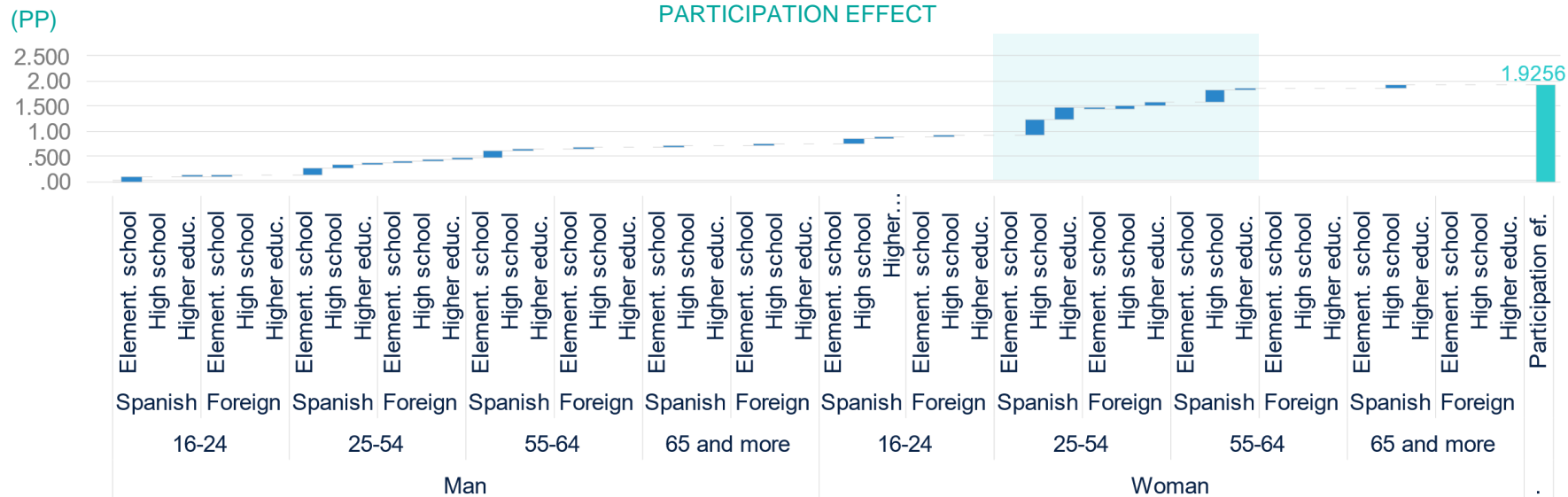


- An increase in labor force growth from 1 % per year in 2019 to 2.1 % in 2023 is observed, thanks to immigration and higher participation rate.
- In 2023, 71 % of new employment was accounted for by foreign-born persons.
- The recent increase in the employment-to-population ratio is due to the greater willingness of residents to participate in the labor market after the pandemic.
- The contribution of demography, on the other hand, was negative, as in the previous ten years.

# Further improvement in growth prospects

The potential for job creation has increased with immigration and increased participation

## CONTRIBUTIONS TO THE CHANGE IN THE EMPLOYMENT-TO-POPULATION RATIO BETWEEN 2020 AND 2023\*



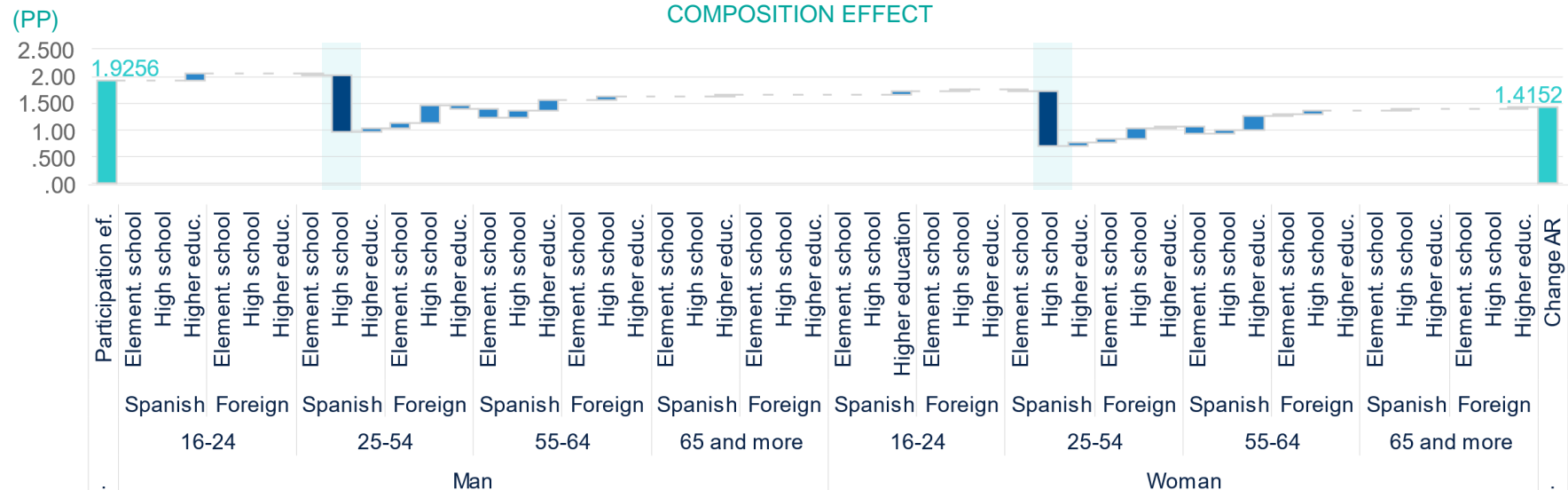
Source: BBVA Research, based on INE data.

Women with secondary education and ages between 25 and 54, or between 55 and 64, have increased their participation rate since 2020 by 3.5 percentage points to 80.1% and 5.3 pp to 57.6%, respectively. Those with higher education between the ages of 25 and 54 have increased it by 2.2 percentage points to 91.8%.

## Further improvement in growth prospects

The potential for job creation has increased with immigration and increased participation

### CONTRIBUTIONS TO THE CHANGE IN THE EMPLOYMENT-TO-POPULATION RATIO BETWEEN 2020 AND 2023\*



Source: BBVA Research, based on INE data.

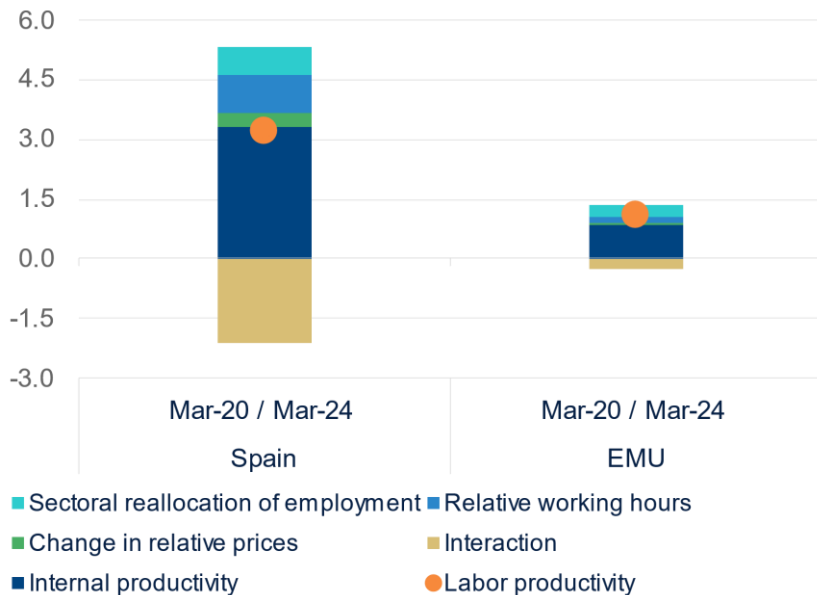
The aging of the labor force means that there are more and more people in groups that traditionally show lower participation rates: with everything else constant, the reduction in the proportion of workers between 25 and 54 years of age, of Spanish nationality and with secondary education, would have meant a drop in the aggregate participation rate of 2 pp.

## Further improvement in growth prospects

Productivity per hour worked has increased more in Spain than in the EMU

### SPAIN VS. EMU: DETERMINANTS OF CUMULATIVE LABOR PRODUCTIVITY GROWTH\*

(1Q2020 - 1Q2024, % AND PP)



- GVA per hour worked in Spain has grown by 3.2% since 1Q20 in cumulative terms, compared to 1.1% in the EMU.
- This progress is due to the improvement in production efficiency within each sector, rather than to changes in the composition of employment toward more efficient activities or in the relative working day.
- Factors such as technological advances, e-commerce, the reorganization of resources and remote working may account for this differential performance.

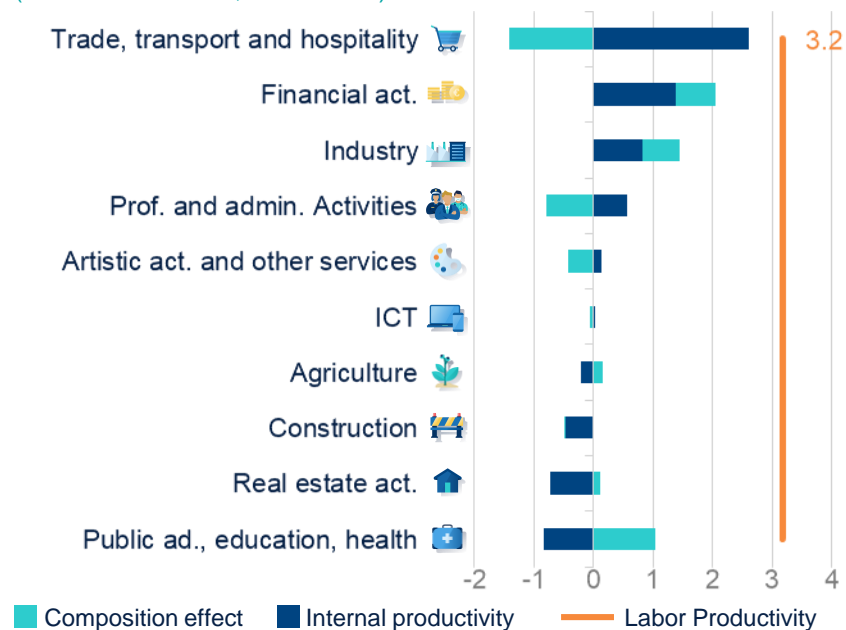
\* GVA per hour worked in constant 2015 euros. Sum of the quarterly growth of each component.  
Source: BBVA Research based on Eurostat.

## Further improvement in growth prospects

Productivity has advanced more in Spain than in the EMU between 2020 and 2023

### SPAIN: SECTORAL CONTRIBUTIONS TO CUMULATIVE LABOUR PRODUCTIVITY GROWTH\*

(1Q2020 - 1Q2024, % AND PP)



\* GVA per hour worked in constant 2015 euros.

Source: Source: BBVA Research based on Eurostat data.

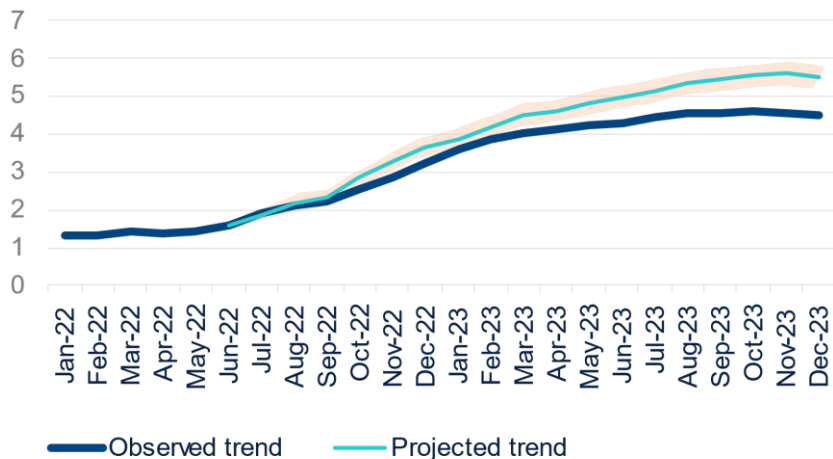
- The services sector is the one that has contributed the most to the progress of labor productivity in Spain. Financial activities and manufacturing industry explain much of this increase.
- Crucially, commerce, transport, hospitality, and professional activities have shown some of the most important advances in domestic productivity, although they continue to be less efficient than the average
- In the EMU, the scant progress in production efficiency is widespread. The industry has had a limited, and even negative, contribution since the beginning of the invasion of Ukraine.

## Further improvement in growth prospects

Monetary policy is having a smaller impact than expected

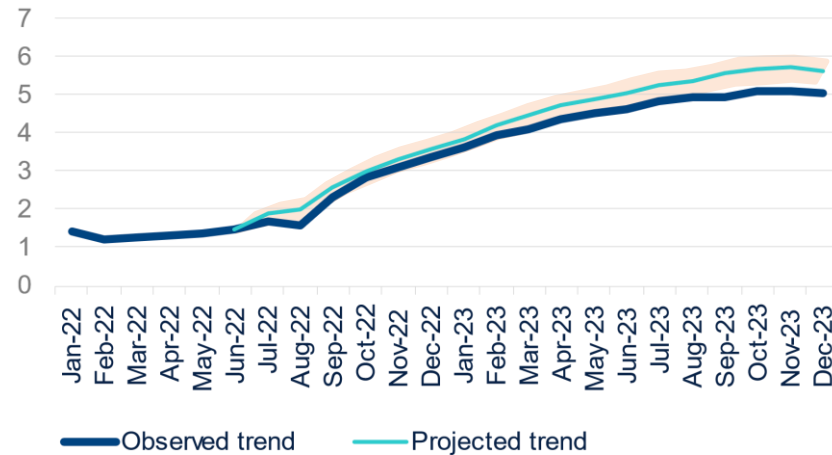
### VARIABLE INTEREST RATES ON NEW MORTGAGE LOANS

(RENEWAL UP TO ONE YEAR, %)



### INTEREST RATES ON NEW BUSINESS LOANS

(%)



The projected path is estimated based on the historical relationships between the interest rates of new operations in each loan portfolio and official rates, money market rates (Euribor), long-term European debt rates (German 10-year bond), Spanish long rates through the Spanish risk premium (Spanish 10-year bond - German 10-year bond) and credit risk (default rate) up to June 2022. The projection is made from Jul-22 to Dec-23.

Source: BBVA Research from BoS.

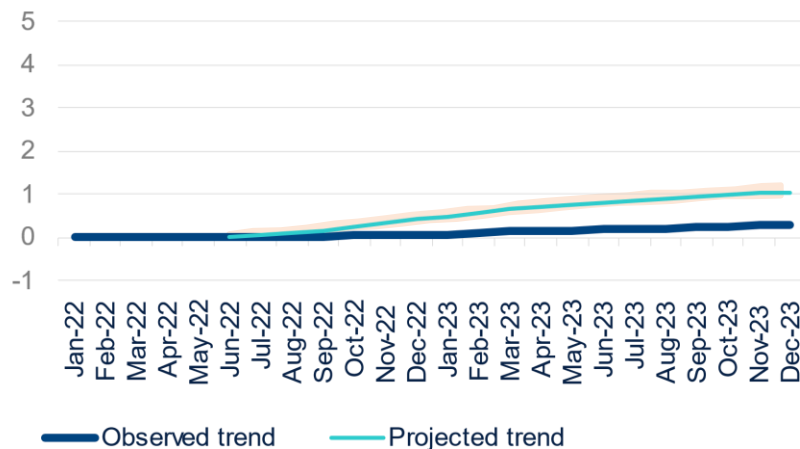
The 12-month Euribor increased by as much as 466 basis points (bps) since the end of 2021, and today is around 420 bps higher. However, the increase in mortgage interest rates has been lower, around 300 bp in the same period and 350 bp in the cost of new business loans.

## Further improvement in growth prospects

Monetary policy is having a smaller impact than expected

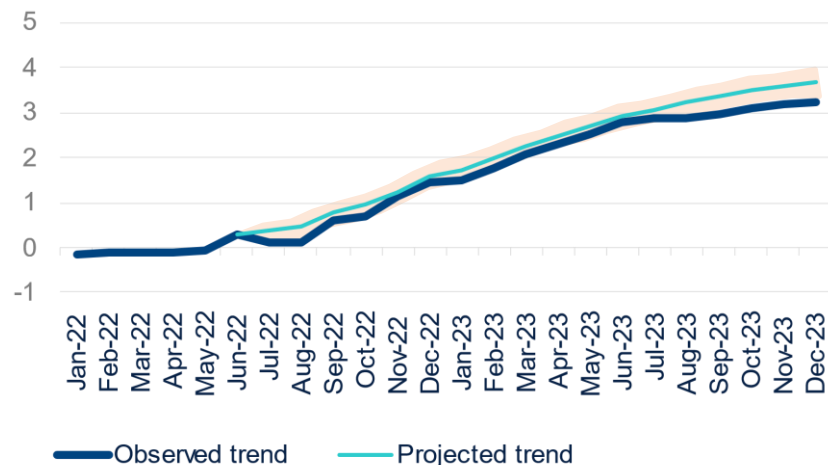
### SYNTHETIC RATES FOR NEW DEMAND DEPOSITS

(%)



### SYNTHETIC RATES OF NEW TERM DEPOSITS

(%)



The planned path is based on the estimated historical relationships of the interest rates of new deposits operations/transactions with the official rates (Refi), money market rates (Euribor), the long-term rates of European debt (German 10-year bond), the Spanish long-term rates through the Spanish risk premium (10-year bond Spain-German 10-year bond), the liquidity of the financial system (credit-to-deposit ratio) and the returns of alternative products (treasury bills). These relationships are projected From July 2022 to the end of 2023.

Source: BBVA Research from BoS.

In a context of abundant liquidity and excess savings, the impact of monetary policy has also been less in terms of deposits, mainly on the returns on demand deposit products.

## Further improvement in growth prospects

Fiscal policy is and will continue to be somewhat more expansionary than expected

### INVESTMENT IN OTHER CONSTRUCTION AND OFFICIAL BIDDING

(INDEX 2015 = 100 AND ACTUAL MILLIONS OF EUROS)



- The growth of the Spanish economy is expected to be sufficient to bring the public deficit below 3% of GDP by the end of 2024 without the need for additional measures.
- Investment in other buildings and constructions is beginning to respond to the acceleration observed in the execution of funds associated with the Recovery, Transformation and Resilience Plan (PRTP).
- Therefore, it is very likely that throughout 2024, the data will finally show the consolidation of the impact of the funds on economic activity.

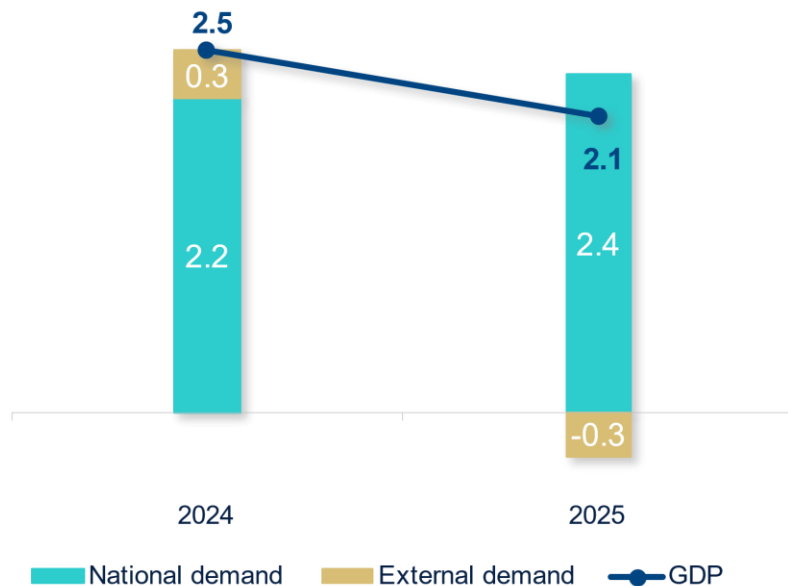


## There are still expectations of a slowdown going forward

The contribution of the foreign sector could be exhausted during the coming months

### CONTRIBUTION TO GDP GROWTH

(ANNUAL CHANGE, % AND PP)



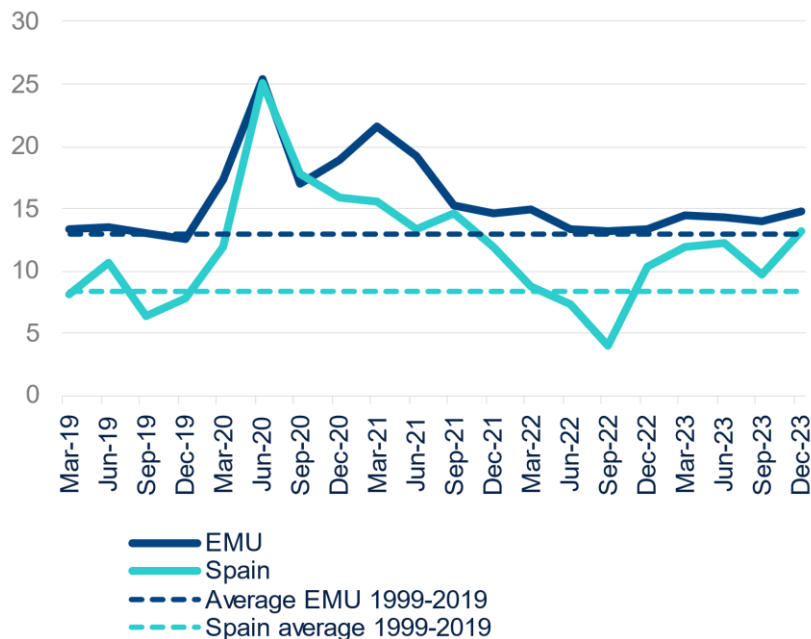
- External demand will once again be negative due to the constraints on tourism growth and its negative externalities.
- The stagnation of non-residents' consumption in 2025, together with congestion and the rising costs of living, will influence public policies and limit the tourism supply.
- Imports will accelerate in 2025, despite the recovery in exports of goods.
- The change in the composition of foreign sales will lead to a more intensive growth model in the use of foreign inputs.

# There are still expectations of a slowdown going forward

## Rising savings limit domestic consumption growth

### HOUSEHOLD SAVING RATE

(% OF GROSS DISPOSABLE INCOME, SWDA DATA)



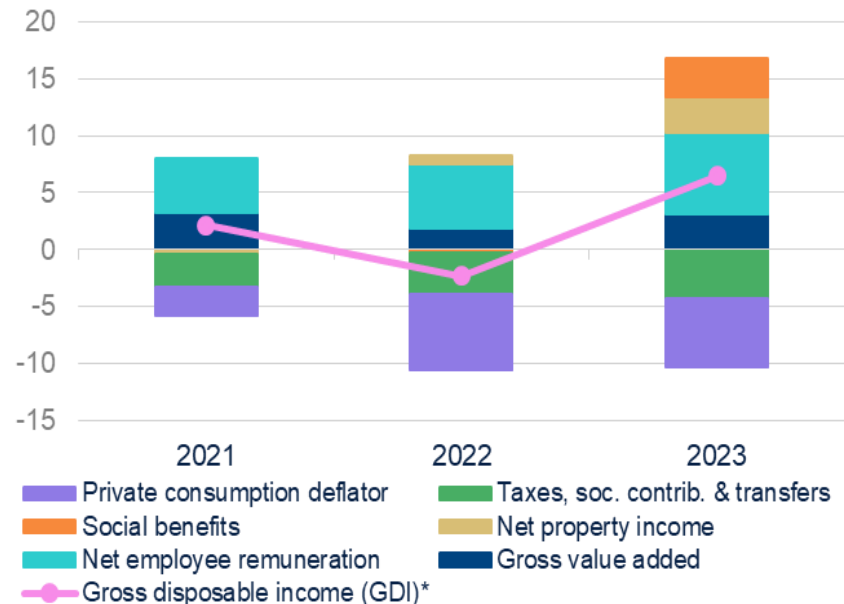
- In recent months there has been an **advance in household income** that has **not been passed on proportionately** to their spending.
- As a result, **the saving rate has increased by 9.1 pp** of disposable income from the third quarter of 2022 to 13.1% at the end of last year.
- To the extent that this phenomenon is temporary, **the space that households would have ahead to increase their consumption would be significant.**
- **However, less cyclical factors could limit consumption growth** over the coming quarters.

## There are still expectations of a slowdown going forward

The increase in savings may be due to the increase in income in older age groups

### CONTRIBUTIONS TO THE GROWTH OF HOUSEHOLDS' REAL GROSS DISPOSABLE INCOME

(ANNUAL AVERAGE, % AND PP)



\*Households' gross disposable income deflated.  
Source: BBVA Research based on data from INE.

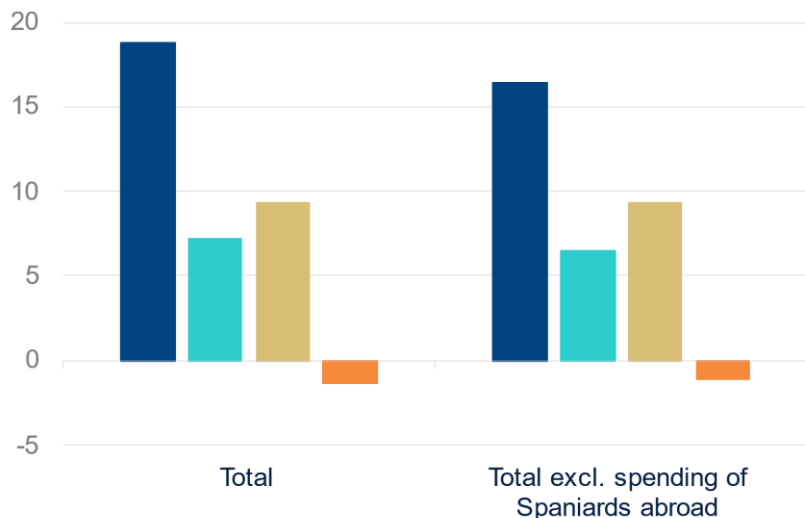
- The increase in disposable income would be benefiting groups with a reduced marginal propensity to consume. In 2023, transfers and capital income contributed as much as wages to household income, driven by pensions and high interest rates.
- Older people or those with a higher income level concentrate a greater proportion of income derived from social benefits and capital. **These individuals consume less and save more.**
- It may also be the case that **foreign workers have a need to send money back to their home countries**, which would reduce the impact on domestic expenditure.

## There are still expectations of a slowdown going forward

Another complementary explanation would be the depletion of the recovery of services

### IN-PERSON CARD SPENDING BY SPANIARDS OUTSIDE THEIR USUAL PROVINCE OF RESIDENCE\*

(YEAR-ON-YEAR CHANGE, %)



■ 1Q23 ■ 2Q23 ■ 3Q23 ■ 1Q24

(\*): Spending with cards issued by BBVA. Includes cash withdrawals and spending abroad.

Q: four month period.

Source: BBVA Research based on data from INE.

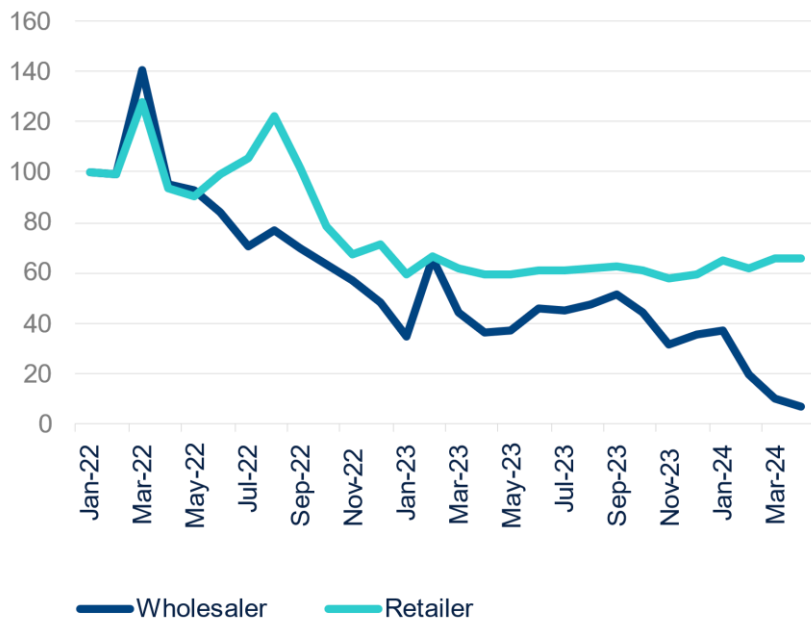
- One explanation for the increase in savings could be the exhaustion of the boost that the end of the restrictions derived from the pandemic meant for services.
- Spending by Spaniards on national tourism has fallen during the first four months of the year. However, this behavior is different from that shown by foreigners.

## There are still expectations of a slowdown going forward

The volatility of wholesale electricity prices has not been passed on to retailers

### ELECTRICITY PRICES, WHOLESALE AND RETAIL

(JAN-22 = 100)



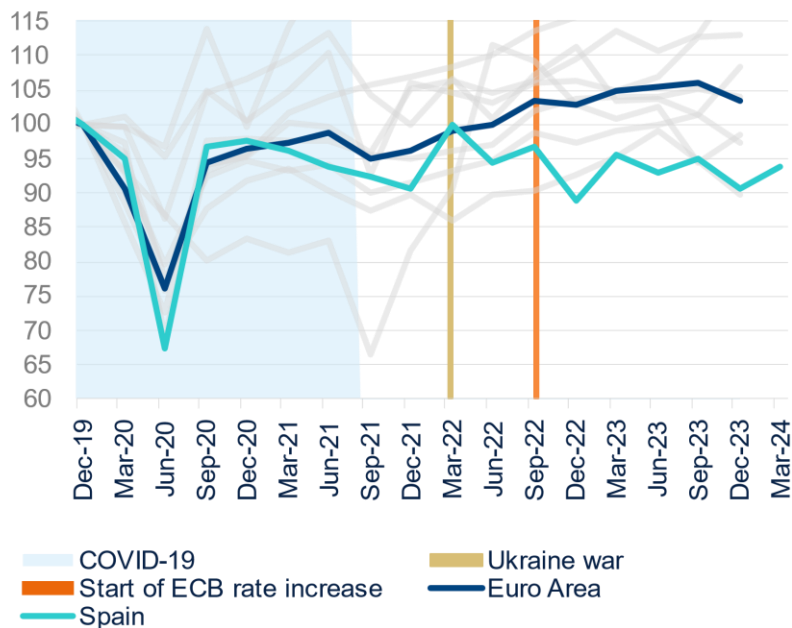
- Inflation is falling, but still showing downward rigidities, with an expected increase in the cost of the shopping basket of 3.3% in 2024 and 2.4% in 2025.
- Geopolitical tension and stability in retail electricity prices limit the fall in inflation, while agricultural costs remain high.
- Only 40% of the products in the CPI show price growth of less than or equal to 2%, when consistent with the ECB's target of 60%.
- Going forward, the focus will be on the trend in the cost of services and the possible reintroduction of tax measures.

## There are still expectations of a slowdown going forward

Investment continues to be weighed down by high regulatory uncertainty

### INVESTMENT IN TRANSPORTATION COMPONENTS

(4Q19=100)



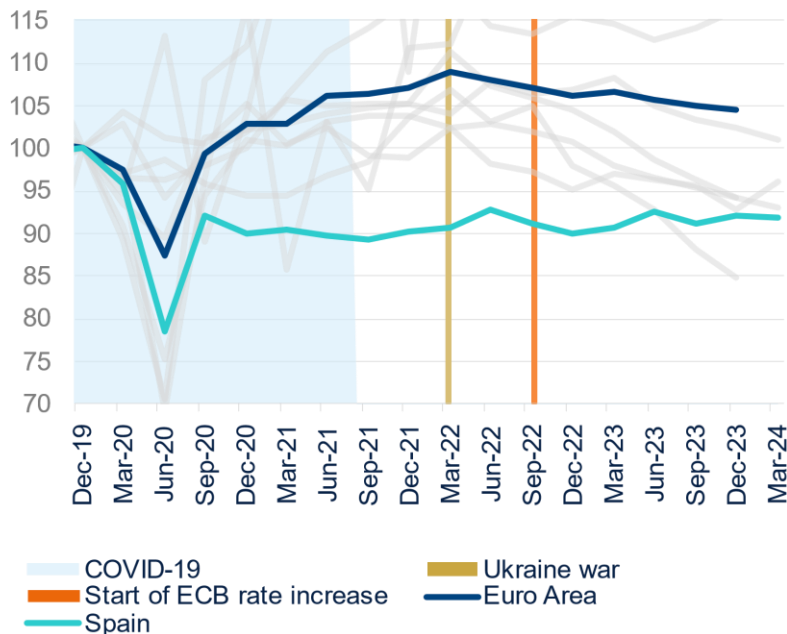
- The stagnation of investment is a bottleneck for improving productivity and competitiveness.
- The acquisition of transport equipment remains almost 20% below 2019 levels.
- The aging of the vehicle fleet due to the delay in its renewal will affect productivity and the reduction of CO2 emissions.
- In Spain, this problem seems to be more related to the lack of infrastructure for electric vehicles than to factors common to EMU.

## There are still expectations of a slowdown going forward

Investment continues to be weighed down by high regulatory uncertainty

### INVESTMENT IN HOUSING

(4T19 = 100)



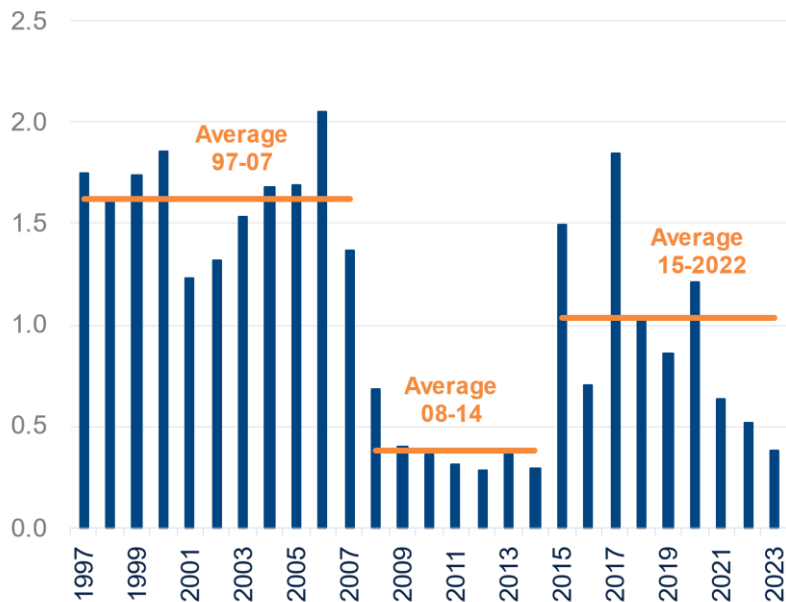
- The housing sector faces a significant challenge and current measures are insufficient.
- Given trends in population and average household size, just over one million homes will be needed by 2030.
- Price controls do not solve the lack of supply and could even aggravate it. In addition, the delay in the reform of the Land Law may delay urban plans.
- Measures that increase demand in a context of supply shortages, such as ICO guarantees, will put upward pressure on prices.

# There are still expectations of a slowdown going forward

## Investment continues to be weighed down by high regulatory uncertainty

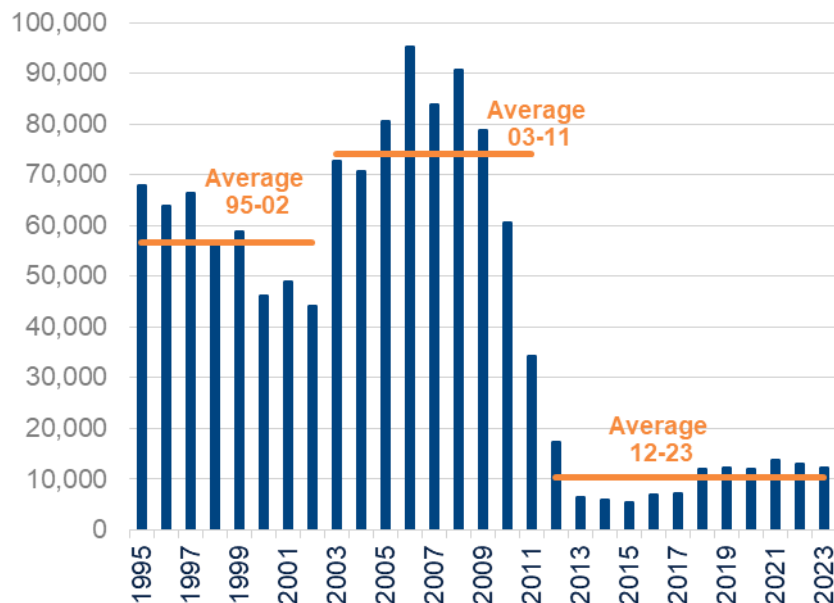
### NUMBER OF VISAS FOR HOME CREATION

(HOMES PER HOUSEHOLD)



### PROVISIONAL RATINGS FOR SUBSIDIZED HOUSING

(NO. OF HOMES, STATE AND REGIONAL PLANS)

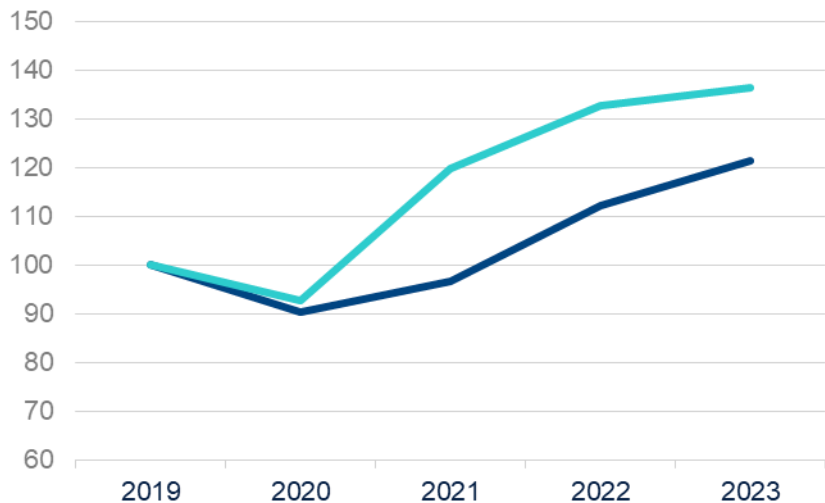




## There are still expectations of a slowdown going forward

The sensitivity of investment to the expansionary cycle has been lower than expected

### INVESTMENT IN OTHER BUILDINGS AND CONSTRUCTIONS (2019 INDEX = 100)



— Observed data

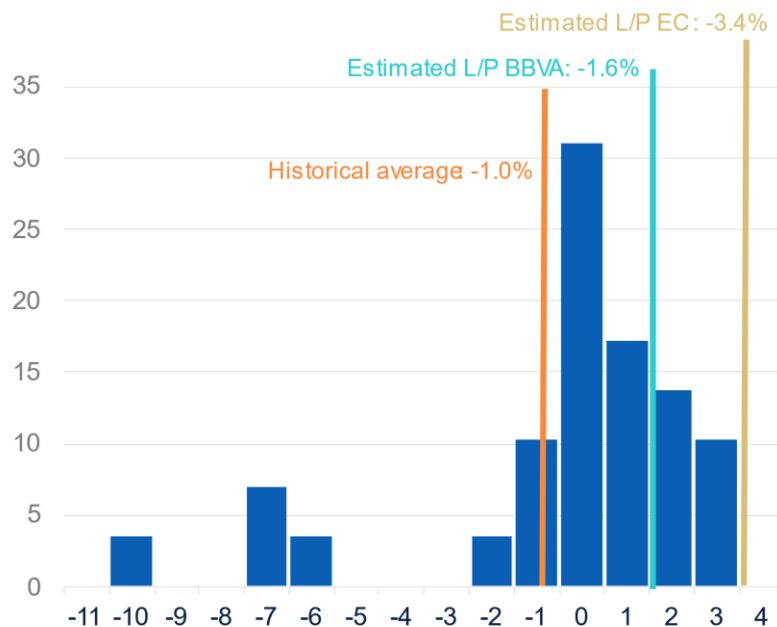
— Expected investment according to observed trend in the other variables

- Investment is still 1% below pre-pandemic levels, while GDP is already almost 4% above.
- Historically, for every 1% increase in GDP in recoveries, gross fixed capital formation increases between 1.5 pp and 2.0 pp. However, this cycle is showing less elasticity than unity.
- Moreover, if the tenders had had the impact that they have historically shown, BBVA Research estimates that investment in other buildings and construction would have to be around 10% above current levels.

# There are still expectations of a slowdown going forward

## Demanding fiscal consolidation expected in 2025 and beyond

### CYCLICALLY ADJUSTED PRIMARY BALANCE 1995-2023 (% POTENTIAL GDP)

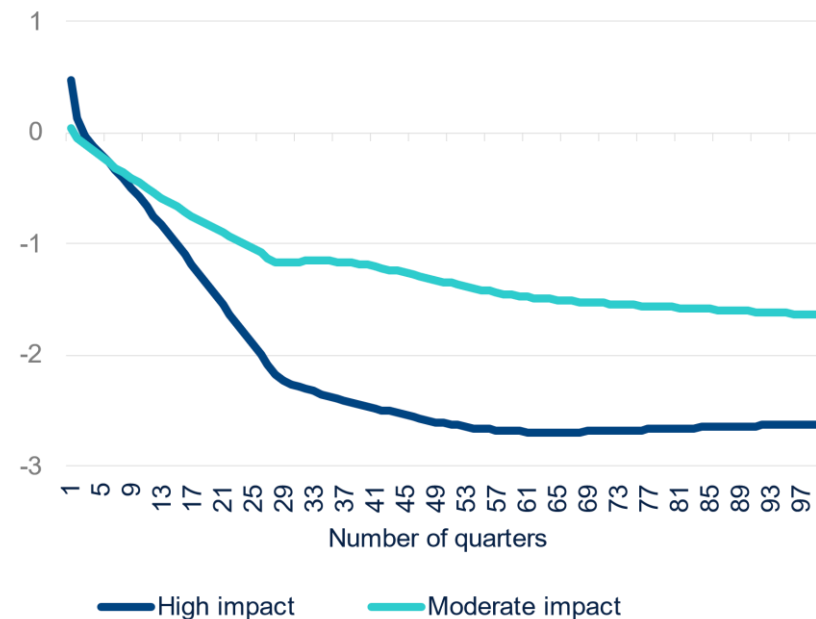


- It is estimated that an annual improvement of 0.5 pp of GDP in the primary structural balance between 2025 and 2029 is needed to comply with fiscal rules. This implies achieving a primary surplus of 1.7% of GDP, compared to the current deficit of 1.0% of GDP.
- These objectives are demanding and could have a negative impact on activity, especially if economic conditions are less favorable than expected and if the adjustment is chosen to increase the fiscal pressure.
- The negative impact would be less if inefficient spending were eliminated and indirect taxes increased.

# There are still expectations of a slowdown going forward

Fiscal consolidation is expected in 2025 and beyond

## IMPACT OF FISCAL ADJUSTMENT ON THE LEVEL OF ACTIVITY (DEVIATION OF GDP LEVEL FROM THE SCENARIO IN THE ABSENCE OF CONSOLIDATION IN PP)

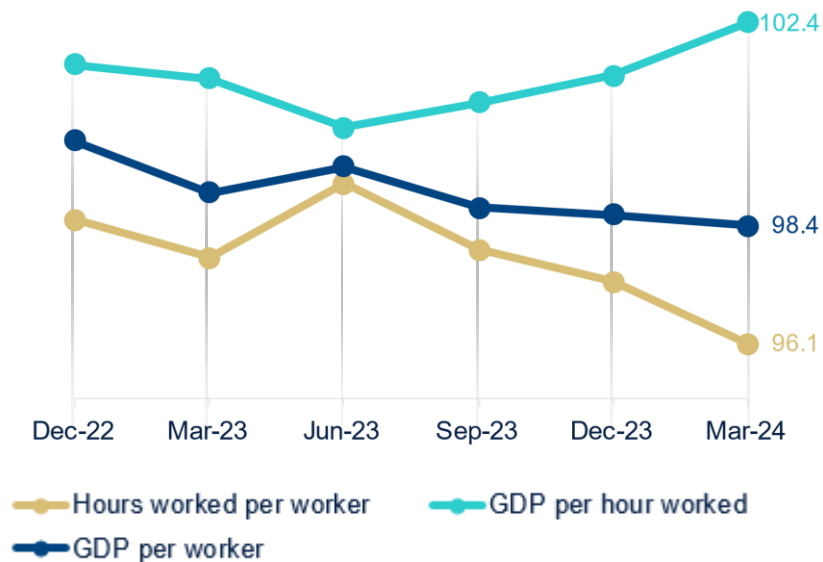


- BBVA Research's estimates indicate that for each adjustment point of the structural primary balance, the level of activity could moderate in the long term between 0.6 and 1.0 pp.
- The magnitude of the effect will depend on the composition of the adjustment, being greater if it is based on a tax increase.
- If fiscal consolidation were to be done by sacrificing productive expenditure, basic services or with inefficient tax increases, the impact could be more negative.
- The best option is for consolidation to rely on structural reforms and European funds to finance productive investments.

# There are still expectations of a slowdown going forward

Productivity per employee and hours worked decrease

## APPARENT LABOR PRODUCTIVITY (FOURTH QUARTER 2019 = 100. SWDA DATA)

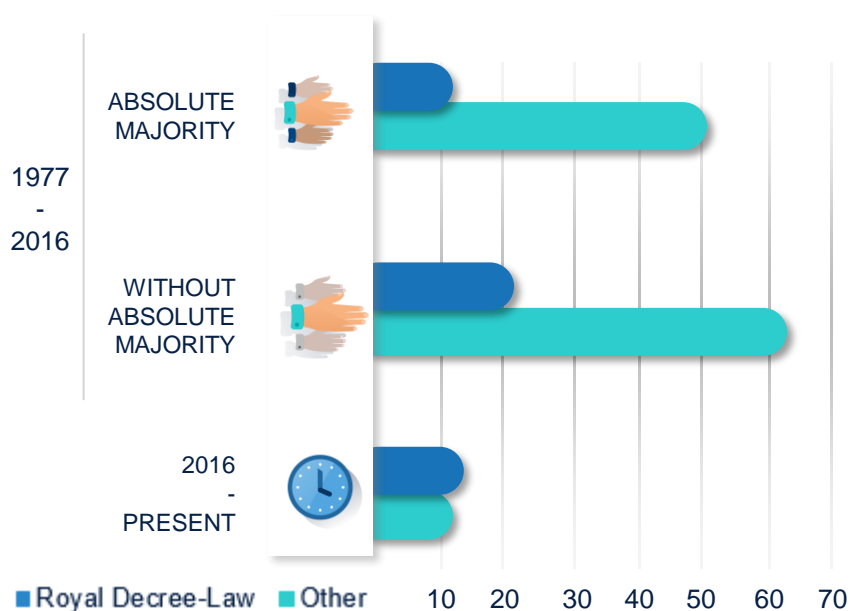


- Although productivity per hour worked has increased, **GDP per employee is 1.5% below 4Q19 levels** and maintains a difference of almost 20% with the average of eurozone countries.
- It is also worth noting that **the unemployment rate is twice that of the EMU** and that productivity growth in the eurozone has been lower than that of the U.S. in the last two decades.
- The difference between productivity per hour worked and per worker indicates that **the number of hours worked per worker is 4% below what was observed before the pandemic.**

# Uncertainty over economic policy

## LEGISLATIVE INITIATIVES APPROVED

(GROUPED BY THE LEVEL OF REPRESENTATION OF THE GOVERNMENTS IN THE SPANISH PARLIAMENT. ANNUAL AVERAGE)



Source: BBVA Research with data from Spanish Congress

- The lack of consensus on economic policy generates uncertainty.
- In the last ten years the need for budget extensions and the use of decree laws instead of bills have increased. This decrease in bills could indicate a lower willingness to make reforms.
- It is desirable that cross-cutting agreements be reached to provide certainty on fiscal adjustments, public services, social protection, employment, immigration, the double energy and digital transition, or productivity.

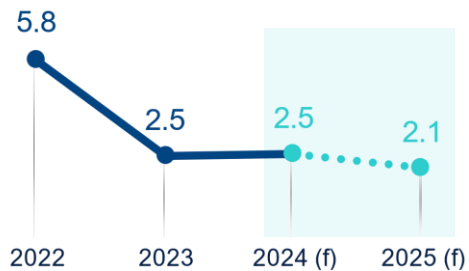
03

# Forecasts

# Forecasts

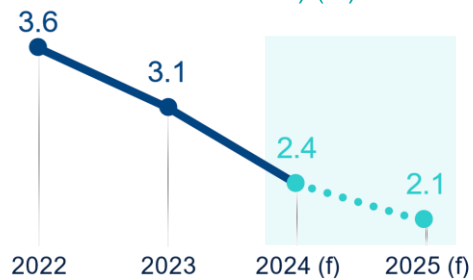
## GDP GROWTH

(%)



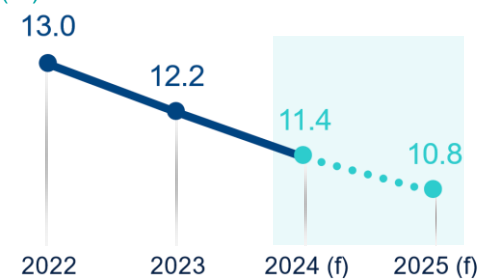
## EMPLOYMENT GROWTH – EPA

(LABOR FORCE SURVEY) (%)



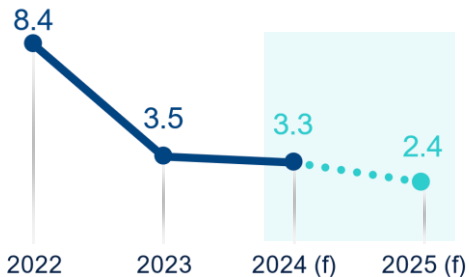
## UNEMPLOYMENT RATE

(%)



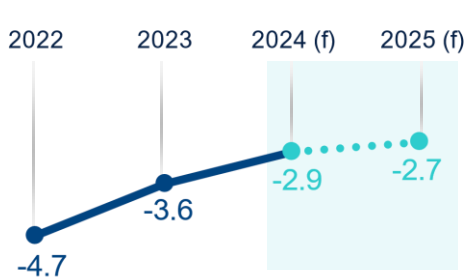
## AVERAGE ANNUAL INFLATION

(ANNUAL AVERAGE, %)



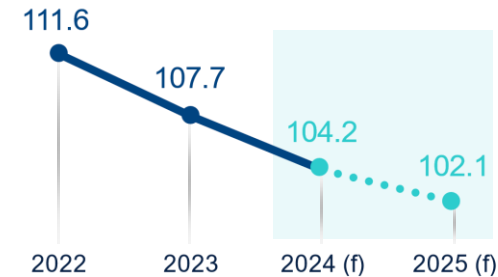
## PUBLIC DEFICIT

(% OF GDP)



## PUBLIC DEBT

(% OF GDP)



(f): forecast.

Source: BBVA Research based on data from INE and Bank of Spain.

# Forecast

% a/a	2022	2023	2024 (f)	2025 (f)
<b>National final consumption expenditure</b>	3.4	2.3	2.1	1.8
Private consumption	4.7	1.8	2.2	1.9
Public consumption	-0.2	3.8	1.8	1.3
<b>Gross fixed capital formation</b>	2.4	0.8	3.4	5.4
Equipment and machinery	1.9	-1.6	2.7	5.6
Construction	2.6	2.3	3.7	4.7
Housing	1.4	0.6	1.0	4.3
<b>Domestic demand*</b>	<b>2.9</b>	<b>1.7</b>	<b>2.2</b>	<b>2.4</b>
<b>Exports</b>	15.2	2.3	3.2	3.8
Exports of goods	4.5	-1.6	0.0	4.8
Exports of services	48.6	12.0	10.1	1.9
Final consumption by non-residents in Spain	117.8	18.7	14.0	0.2
<b>Imports</b>	7.0	0.3	2.7	5.1
<b>External demand*</b>	<b>2.9</b>	<b>0.8</b>	<b>0.3</b>	<b>-0.3</b>
<b>Real GDP at market prices (mp)</b>	<b>5.8</b>	<b>2.5</b>	<b>2.5</b>	<b>2.1</b>

\* Contribution to GDP growth.

(f): forecast.

Source: BBVA Research based on INE and BdE.



# Forecast

% a/a	2022	2023	2024 (f)	2025 (f)
Employment, full time equivalent	3.7	3.2	2.7	2.0
Employment, Labour Force Survey	3.6	3.1	2.4	2.1
Unemployment rate (% Labour force)	13.0	12.2	11.4	10.8
CPI (average)	8.4	3.5	3.3	2.4
GDP deflator	4.4	6.1	3.7	2.8
Official interest rate (end of period, %)	2.00	4.00	3.25	2.25
EUR-USD exchange rate (annual average)	0.95	0.92	0.93	0.89
Public deficit (% GDP)	-4.7	-3.6	-2,9	-2.7
Public debt (% GDP)	111.6	107.7	104.2	102.1

(f): forecast.

Source: BBVA Research based on INE and BdE.

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# Spain Economic Outlook

June 2024