BBVA Research

Creating Opportunities

Spain Economic Outlook

December 2024

Situation and outlook for the Spanish economy

December 2024

Summary

GDP growth in 2024 is revised upward again, this time by two tenths of a percentage point to 3.1%. This improvement in the forecasts corresponds to a higher-than-expected advance in the third quarter of 2024 and the acceleration in job creation during September and October. The growth model is shifting to a stronger reliance on domestic demand.

Looking ahead, the recovery is expected to continue, albeit in an environment conditioned by two significant shocks. On the one hand, the DANA (torrential rains associated with a severe meteorological phenomenon) that affected Valencia with greater intensity, and on the other, the changes that are expected to occur in the tariff policy of the United States in 2025. Both factors could reduce growth over the coming months.

Several factors could partially offset the negative impact of these changes, consolidating a GDP increase of 2.3% in 2025 and 1.7% in 2026. Among them is an economic policy response that is fast, focused and efficient. In addition, competitiveness is expected to improve due to the decline in oil prices and the increase in the supply of renewable energy. The rains will intensify the recovery in the agri-food sector. Domestic demand will be supported by falling inflation, rising wages, improvement in employment, and reduction in interest rates. The economy has shown a greater potential growth than expected thanks to immigration, the increase in the employment rate and in productivity per hour worked.

However, some uncertainties remain. Doubts about the capacity of the tourism sector to sustain its contribution to economic recovery could increase if the limits to its growth do not lead to greater investment. The shortage of affordable housing restricts improvements in quality of life and may hinder migration flows, which is in the context of a declining participation of Spaniards in the labor market and the negative effects of aging on the labor force. Investment, in general, continues to show a weak response to activity. In addition, uncertainty about economic policy remains high, pending the announcement of more measures to comply with fiscal consolidation for the following year and without a consensus on how to address the medium-term challenges.

The forecast for GDP growth for 2024 is revised upward to 3.1% thanks to better performance in consumption and employment

The growth of the economy has once again exceeded expectations. The advance estimate of the Quarterly National Accounts (CNTR for its acronym in Spanish) indicates that GDP increased by 0.8% quarter-on-quarter (q/q) in the third quarter of 2024, the same as in the second. This figure was 0.1 percentage points (pp) higher than expected in BBVA Research's baseline scenario for October.[1] Regarding the fourth quarter, the Social Security affiliation data for September and October showed a turning point that put an end to the slowdown that had been observed during the summer months. In November, job creation slowed down as a result, in part, of the negative impact of the DANA, especially in the province of Valencia. Regardless, it is possible that **Social Security**

1: See BBVA Research (2024): "Spain Economic Outlook. October 2024". BBVA.

affiliation will close the last quarter of the year with a gain, anticipating a GDP increase of 0.6% quarter-on-quarter.

The growth model is evolving towards a greater contribution from domestic demand. The INE's preliminary estimates show that this factor contributed 0.9 pp to the quarterly increase in GDP between July and September, exceeding BBVA Research's forecasts of 0.6 pp. This performance offset the slight negative surprise in net external demand, which subtracted 0.1 pp from quarterly growth (BBVA Research: 0.0 pp). In year-on-year terms, domestic demand contributed 2.7 pp to GDP growth, while the net contribution of the external sector was 0.7 pp.

Within domestic demand, it was private consumption that accounted for much of the increased growth. This improved development was concentrated in household expenditure on services and durable goods, while weakness persists in the consumption of perishables and semi-durables. The stagnation in these last two components precedes the pandemic and coincides with trends that are also seen in other European countries. The recovery in services is a result of the prioritization of this type of expenditure by households when deciding how to allocate the increase observed in real gross disposable income (+3.9% in 2024). The decrease observed in mortgage payments and funding costs has also helped, as it would be freeing up resources for consumption and encouraging access to credit. Similarly, the increase in housing prices could be driving expenditure among homeowners. Finally, part of the dynamism in consumption is due to reductions in the household savings rate, although this remains high and close to the cycle highs.

Public consumption continues to be one of the engines of growth, driven by the increase in the salaries of employees, mainly in the autonomous communities. In both 2023 and 2024, the contribution of this component of domestic demand to GDP growth has remained positive. By expenditure item, the increase has been across the board, although the contribution of intermediate consumption has been declining as the impact of higher inflation has been absorbed. However, the weight of the increase in employee salaries has been increasing, which is explained by the increase in the payroll of regional governments. This will continue in the short term, to the extent that the autonomous communities have not announced significant fiscal consolidation policies and the progress of the economy allows for a positive outlook on regional revenue performance.

Exports maintain a solid advance, despite the economic stagnation of some main trading partners and structural problems in key sectors. Preliminary information on the performance of foreign sales of goods points to an increase of 2.1% for the year up to September. This is the result of two opposing forces: on the one hand, the adjustment in the automotive sector, which hinders growth. On the other hand is the gain in competitiveness that has been occurring in companies that have either taken advantage of the changes seen since the beginning of the pandemic or that are recovering production capacity thanks to the reversal of production cost increases. For example, in the absence of the deterioration that has been observed in the export of machinery and transport equipment, the increase in exports of goods would be almost 4.0%. Goods that are making the greatest positive contribution include food, medicines, chemical products and paper and cardboard products. Data on foreign card spending recorded at BBVA's point-of-sale (POS) terminals confirm that non-residents consumption continues to increase significantly.

This good performance of most of the demand components contrasts with the persistent weakness of gross fixed capital formation. The negative trend in the acquisition of transportation equipment and the lack of traction in non-residential construction were particularly evident in the last two quarters. Both sectors should be beneficiaries of the funds related to Spain's Recovery, Transformation and Resilience Plan and the shift to a more environmentally sustainable production model.

The effects of the DANA (severe weather event with torrential rains) will have a limited impact on Spain's GDP, although the consequences on activity are proving dire in the most affected areas

The breakdown of information shows that the economic impact has been relevant, especially at the local level.[2] The aggregated and anonymized analysis of transactions with cards issued by BBVA and purchases made at BBVA POS terminals indicates that face-to-face spending in the province of Valencia fell by 14% year-on-year during the week of October 29 to November 4. The drop represented a deterioration of more than 20 pp compared to that observed in the rest of Spain, and contrasts with the progress in the two weeks prior to October 29, when this difference, although negative, was less than 3 pp. Analysis at zip code level indicates that the effects were even more dramatic, with a halt in consumption reflected in year-on-year reductions of between 80% and 100% in spending in the most affected localities.

In recent weeks, most indicators have already shown an improvement in economic activity. In the last two weeks of November, spending data in the province of Valencia showed a positive growth differential with the rest of Spain for the first time since the disaster—even moderately higher than that observed before the DANA. The recovery trend has been almost generalized by sector of activity, highlighting the increase that has been observed in passenger car registrations. Although a large part of the committed resources have not yet reached those affected, public policies could be contributing to the recovery in spending, especially insofar as they are positively influencing the expectations of households and companies.

The improvement remains uneven and especially slow in the municipalities that suffered the worst effects of the DANA. For example, spending by foreigners still does not exhibit the normalization that is observed in spending made with national cards or in that made in Valencia by Spaniards residing in other provinces. This may be due to the impact of the rains on the infrastructure necessary for tourism transportation, as well as the negative effect on potential visitors' perception of the news regarding the disaster. This also explains why accommodation and travel agencies are among the sectors that are still undergoing significant adjustments. Finally, in municipalities such as Paiporta, the reduction in card spending continues at around 50% year-on-year as a result, in part, of the fact that only around 20% of POS terminals remain active.

An impact on GDP is estimated at between 0.0 and 0.1 pp in 2024 and between 0.1 and 0.4 pp in 2025. These projections are based on the study of similar events (such as the great flood in Bilbao in 1983 or the one in Murcia in 2019) and on models that consider the effects of floods and other natural disasters around the world. In addition, they take into account the positive impact expected from the public policies implemented to alleviate the effects of the DANA. Of particular importance will be the transfers that will serve to compensate for capital losses and replace the lost capital. Publicly guaranteed loans have proven to be a quick and effective instrument to alleviate liquidity problems, preventing the destruction of companies and facilitating reconstruction. The use of Temporary Redundancy Plans (ERTE for its initials in Spanish) will make it possible to maintain the bond between companies and workers, in an environment of high uncertainty and while the conditions necessary to return to activity are being restored.

The speed of recovery in the most severely affected areas will depend on the effectiveness and adequacy of the public policies adopted. To ensure this, excellent coordination between government administrations is

2: From the week after the DANA (torrential rains), BBVA Research has published an observatory with different Indicators to monitor economic activity in the most affected areas. The most recent version as of the closing date of this publication includes data up to November 25 (see BBVA Research (2024): "DANA: real-time monitoring of the economic impact." BBVA).

necessary, as well as real-time monitoring that allows for evaluation and improvement, if applicable. In the medium term, there is evidence that disaster-affected areas in developed countries can improve their economic prospects if reconstruction measures are efficient, if support is focused on the most vulnerable populations and if resources are redirected toward the accumulation of physical capital that is more productive than what was previously available. Moreover, it is necessary to accelerate the return to business activity, announce measures that create certainty and prevent the relocation of households and businesses", guaranteeing the safety of the affected areas.

The European economy is still showing fragile growth, which will be negatively affected by the potential increase in tariffs by the U.S.

The eurozone is showing resilience, although divergences remain between countries, sectors and demand components. GDP accelerated in the third quarter, with growth of 0.4% quarter-on-quarter, thanks to the improvement seen in the Spanish economy and, to a lesser extent, in the French economy, and despite the weakness shown by the Italian and German economies. By sector, there continues to be a divergence between industry, where the indicators do not show a clear improvement, and services, where the recovery environment persists. Growth continues to be based on a positive contribution from external demand, although signs of improvement in domestic consumption are beginning to emerge. The latter has been thanks to a European labor market that continues to show strength, with the unemployment rate remaining around the lows reached during the cycle, partly because the adjustment has focused on reducing unfilled vacancies rather than on employment.

This moderate growth in activity, together with the improving trend in price growth and expectations of fiscal consolidation account for part of the fall in interest rates. Inflation in the eurozone has been consistently around 2%, although core inflation is showing more downward resistance. The convergence to the ECB's target is partly explained by the fall in oil prices, which have gone from oscillating between 80 and 90 dollars per barrel during the first half of the year to between 70 and 75 dollars during the second. BBVA Research expects this situation to continue over the next two years ($73 dollars per barrel in 2025 and $71 in 2026), contributing to the fact that expectations about the future increase in the European CPI remain anchored. Another part of the decline to 2% is explained by the deflationary influence of the lower growth in domestic demand in China and the strategy of reducing the price of its exports of goods. In addition, within the eurozone, France, Italy and Spain have presented fiscal consolidation plans that will limit the growth of domestic spending in the coming year. As a result, inflation is expected to average 1.8% in both 2025 and 2026. This environment of price containment and moderate recovery has allowed markets to anticipate that monetary policy will shift from restrictive to expansionary for much of the next two years. The 12-month Euribor stood at 2.51% during the month of November, showing a considerable drop compared to October 2023, when it reached 4.2%.

The outlook ahead will depend to a large extent on changes in global trade policy. The new U.S. presidential administration could institute a sweeping increase in tariffs. In particular, areas with which the American economy has a trade imbalance may be particularly affected. Among the main ones are China and the European Union. If the new administration follows through on its promise to raise the costs of importing goods from these areas, it is not out of the question that the affected economies will respond with similar measures. The greatest risk is that of entering into a trade war that reverses part of the gains that globalization has brought to families and companies.

A 10% tariff increase on imports of the U.S. from the European Union could subtract more than 1 % from eurozone GDP over the next two years compared to the scenario in the absence of the shock. This is only an example, and the result will depend both on the time at which the measure is taken, as well as on the increase in tariffs that is finally observed, or on the sectors in which it is focused. The different exposure to the American economy will mean that the consequences will vary by country. For example, given the assumption of a 10% increase in tariffs, the impact on Spanish GDP could be around 0.2 pp, on average during 2025 and 0.7 pp in 2026, lower than in the rest of the eurozone given the relatively smaller importance of trade in goods with the U.S. This is not to say that there are no companies, sectors or regions that may be particularly affected by the changes. [3]

The economic policy response in Europe will be decisive in determining the magnitude and duration of the effects on activity, in an environment of particular uncertainty. On the one hand, it will be key to avoid an escalation that leads to a trade war. On the other, the EU will have to ensure that European companies continue to compete in a fair environment. In the least negative scenario, this would serve to accelerate the process of European integration and adopt the recommendations of Letta and Draghi's reports[4] to improve the competitiveness of the continent's companies. In this regard, the problems that different European governments are having in implementing the fiscal adjustment agreed for the following years are worrying. This can signal a lack of consensus within society that reduces the ability to respond to unexpected events.

The European Central Bank (ECB) is expected to assess this uncertainty and bring the cost of financing to levels that stimulate economic activity. BBVA Research estimates that the neutral interest rate for the eurozone would be around 2.5%. In this context, the deposit facility interest rate could end 2024 at 3.0% and decrease by a further 100 bp to 2.0% as early as June 2025, to remain there for the rest of the forecast period. The U.S. Federal Reserve could be more cautious, given that several of the policies announced by the new administration (higher tariffs, higher fiscal deficit, immigration restriction) would, in principle, limit the decline in inflation. The divergence that would emerge in yields on both sides of the Atlantic would lead to a relatively depreciated euro-to-dollar exchange rate, averaging around 1.05 dollars per euro in 2025, with a moderate appreciation towards 2026 (1.08).

In Spain, different factors would partially offset the negative impact of these shocks on the scenario, consolidating a GDP increase of 2.3% in 2025 and 1.7% in 2026.

The transition to inflation is expected to be consolidated, closer to the target set for the eurozone as a whole (1.8% in 2025 and 2.0% in 2026). During the month of November, the headline inflation rate accelerated by 0.6 pp to 2.4% year-on-year, due to the base effect on energy prices. Core inflation, however, slightly surprised to the downside, with a decrease of one tenth, to 2.4% year-on-year (BBVA Research: 2,5 %). The upturn in headline inflation has interrupted, at least temporarily, the path of improvement observed in recent months. In any case, the evolution is consistent with a downward trend that is expected to consolidate over the following months. This will be helped by the aforementioned downward adjustment that has been observed in the price of oil. While it is true that gas prices are temporarily putting upward pressure on electricity bills, the trend over the coming years may be favorable given the measures taken by companies and households to ensure greater certainty in energy costs, as well as those implemented to improve efficiency in electricity usage. According to BBVA Research, the increase in the weight of renewable energy in production from 50 to 60%, between 2022 and 2024, would have put downward pressure on prices by around 10%. Continuing this trend would support the provision of energy at low prices.

The end of the drought in several important areas for agri-food production is prompting an adjustment in relative prices. Food prices have increased by nearly 28% since the end of the COVID crisis, driven by both

3: See BBVA Research (2024), "Implications for the Spanish economy of a U.S. increase in tariffs" BBVA.
4: See European Commission (2024), "The future of European competitiveness – A competitiveness strategy for Europe".

external and internal factors, including rising production costs (fertilizers), labor costs (minimum wage and labor shortages), and, particularly, the lack of rainfall and the associated decline in production.[5] As a result, GVA in the sector declined by about 15% between the first and third quarters of 2022. As the water year has normalized and a process of labor automation has been enhanced along with a shift toward less water and labor-intensive crops, so has agricultural activity. A crucial aspect for households' inflation and expenses will be the fall that may occur in the price of basic products in the consumption basket of Spanish households, such as olive oil. The adjustment that is expected to take place in the cost of food will be beneficial, especially for lower-income families, who devote a greater part of their income to this expense.[6]

Household disposable income will increase above inflation, both due to continued job creation and wage growth. The prospects for job growth are favorable, pointing to an increase of 2.0% in 2025 and 1.8% in 2026, in a context that should be conducive to the recovery of wages, given the perceived shortage of labor in some sectors. In particular, unfilled vacancies continue to increase and have already reached around 150,000, according to the Quarterly Labor Cost Survey, which would imply continuing at around 0.6 positions per 1,000 active people, in line with the performance recorded from mid-2022, and well above the rates observed in 2020.[7] In this scenario, both remuneration per employee and per hour worked continue to show relatively high year-on-year growth (4.6% and 6.1%, respectively, in 3Q24).

The shift in perspectives on monetary policy should boost household expenditure. If consumption was constrained by rising returns on financial assets and the costs of funding, lower interest rates will discourage savings and make borrowing more attractive. BBVA Research estimates that the planned reduction of 50 bp in the 12-month Euribor for the following year could contribute a couple of tenths of a percentage point to growth in 2025. Given that the reduction that has taken place from October 2023 would accumulate more than 200 bp, the change in ECB policy would be key to explaining the continuity of the ongoing expansion.

The decrease in the interest burden, along with the reduction in uncertainty related to the trends in inflation, employment, and wages, could trigger a period of increased expenditure by households. In recent years, household consumption has increased below what would have been inferred by the behavior up to 2019 of its traditional determinants. In particular, consumer expenditure would be between 1% and 2.5% below what is expected. To the extent that households have decided to limit their decisions because they perceive doubts about when they would begin to recover their lost purchasing power or whether the increase in interest rates would lead to a recession, the resolution of these uncertainties could give way to a period of unusually high increases in consumption. **BBVA Research forecasts that private consumption will increase by 2.6% and 1.8% in 2025 and 2026, respectively.**

Investment could be reactivated thanks to lower interest rates and the need to expand productive capacity in certain sectors

The delay in the replacement of machinery and equipment could begin to be corrected during the following quarters. The expansion of activity over the past few years should have led to a 5-6% higher accumulation of capital in machinery and equipment than is currently observed. With greater certainty about production costs, transport and financial costs, it is possible that this part of Gross Fixed Capital Formation could recover more strongly over the coming months. This adjustment would be especially relevant in sectors where the constraints to

5: See BBVA Research (2023), "Spain Economic Outlook, June 2023". BBVA.
6: See BBVA Research (2014), "Your CPI is not like mine: Inflation differentials per household." BBVA.
7: See BBVA Research and FEDEA (2024), "Quarterly Labor Market Observatory, December 2024." BBVA, FEDEA and the Sagardoy Foundation.

expand activity are beginning to become more evident, particularly in those that have already exceeded the production levels observed before the pandemic. **BBVA Research forecasts that investment in machinery and equipment will increase by 5.2% in 2025 and 3.8% in 2026.**

Recent developments in the number of new building permits point to an increase in the number of homes coming onto the market over the next two years. Rising prices, expected growth in demand and greater cost stability for property developers are encouraging progress in residential construction.[8] The number of new housing permits has increased from an average of 9,125 per month in 2023 to 10,550 during the first nine months of 2024. This points to an 11% rise in housing construction in 2025. As a result, **it is expected that investment in residential construction will accelerate in the national accounts, rising from a 1.4% growth in 2024 to 5.3% in 2025 and 6.2% in 2026.**

Higher potential growth through immigration and increased hourly productivity

The labor force has steadily increased since the second quarter of 2021, adding 1.2 million more people to the workforce (CVEC). The increase is explained by employment, which has grown by 2 million people in the same period. Job creation has been concentrated among the foreign population. For example, in 3Q24, immigration accounted for three-quarters of the increase in employment. From the fourth quarter of 2019, the number of employed people of foreign nationality has increased by 39%, while that of Spanish nationality has barely increased by 9%.

The employment rate exceeds its historical maximum among the population over 20 years of age and under 65. The improvement has been particularly strong in the 54-64 age group, which has increased from 45% in 2007 to 61% today. On the one hand, this reflects demographic and sociological changes: generations with relatively higher employment rates than their parents are getting older. It may also reflect changes in the production model or in public policies that reduce the probability of being unemployed at a certain age.

Productivity grows at the same time as work hours increase. Historically, progress in the first only occurred when the second declined. This was the case during the period 2009-2013. In previous expansions, stagnant hourly productivity was the norm. However, over the past two years, an expansion in the number of hours worked has coincided with a similar improvement in productivity per hour. This is particularly interesting given the lack of reaction that investment has had in the economic recovery. All in all, there are reasonable doubts about how sustainable this growth pattern is and what the causes behind it are.

The estimate for the potential growth of the Spanish economy has increased. Two years ago, BBVA Research estimated that the 2024 GDP progress without creating internal and external imbalances would be around 1.2%. The continuous upward revisions of the historical series carried out by the INE since then, together with the behavior of the external accounts, the inflation, interest rates, labor market and the housing market, now point to growth of around 1.8%. This is in line with what different institutions have been publishing.

8: For a recent analysis of the situation and prospects of the real estate sector, see BBVA Research (2024): "Real Estate Watch. August 2024." BBVA.

The challenges of maintaining high growth will multiply over the coming quarters

Exports of tourism services are expected to moderate their growth, from 11.4% in 2024, to 3.8% and 2.1% in 2025 and 2026, respectively. Unlike what happened with private consumption and investment in machinery and equipment, it is estimated that the expense of non-residents has grown by at least 20% more than its fundamentals could explain. It is possible that in the current situation there may have been structural changes that allow the sustaining of the current levels of activity. Immigration has allowed a greater number of tourists. The sector has been one of the few where investment has increased, allowing an increase in hotel capacity and an improvement in the quality of existing ones. Regardless, the congestion problems that are starting to be observed, the negative perception of the impact tourism is having on the cost of living, the possibility of lower migration flows in the coming years, and a less favorable regulatory environment will moderate growth going forward.

The changes that the automotive sector is going through restrict consumption and the country's export capacity. It is expected that during this year, car registrations will be around one million units. That means a reduction of 24% compared to the levels reached in 2018. Therefore, there would already be six years of sales below the peak levels. This is a situation that is not particular to Spain, but is common to the rest of the eurozone, which partly explains the sector's negative contribution to the growth of sales of goods abroad. While rising rents and wealth and falling interest rates will help boost demand, other factors will continue to restrict sales. The main one is the slow transition to electric vehicle adoption, on the demand side, and the growing weight of Chinese output on the supply side. Among the main disincentives for the purchase of electric cars are the high price, the lack of charging infrastructure and the doubts that persist about their range. Therefore, if nothing changes, these factors will continue to weigh on registrations and the market share of this type of passenger cars would barely be around 34% of registrations (±5) in 2035, far from what was agreed in the Fit for 55 package.[9] The imposition of tariffs on imports of electric vehicles from China could be an obstacle to the electrification of the fleet and, therefore, the fulfillment of decarbonization targets, but it would open a door for European producers who would have to take advantage.

Housing construction will continue to be insufficient to reduce the imbalance between demand and supply. The expected growth in the number of completed homes (236,000 in the biennium 2025-2026) would help control the increase in prices only if the number of households stopped increasing. In a scenario of expansion and job creation such as the one envisaged in this post, that is unlikely. A labor market with a high number of unfilled vacancies will continue to attract both domestic and external labor, and no significant changes are expected in the factors that have explained the departure of workers from their countries of origin. BBVA Research forecasts a deficit of 240,000 homes on average per year in 2025 and 2026, adding to the 553,000 accumulated between 2021 and 2024. This pressure will drive **housing prices to rise by an average of 5.8% this year, with continued increases in 2025 and 2026 (6.1% and 4.8%, respectively)**. In any case, there are differences in the behavior of prices depending on the location of the assets. The pressures will be much greater in urban or tourist environments, where a large part of the employment is being created, and in enclaves where external demand has a significant stake. The lack of affordable housing could lead to a deterioration in quality of life and act as a bottleneck for sustaining growth.

Doubts persist about the ability of the funds related to the Recovery, Transformation and Resilience Plan (PRTR) to act as drivers of private investment and catalysts for a change in the production model. Doubts about the implementation of the administrative processes necessary to start the path toward the arrival of resources to companies have been left behind. Particularly, auctions have reached a cruising speed of around 6.9

9: For more details, see BBVA Research (2024): "Consumption Situation. October 2024". BBVA.

billion euros per year. The subsidies granted already total more than 19.4 billion euros. However, the funds do not appear to have the multiplier effect envisaged by the authorities when they were approved. There is also a perception that regulation is hindering the swift and full allocation of funds. Going forward, removing these obstacles will be key to sustaining the recovery, especially given the uncertainty posed by potential changes in trade policy and the fiscal adjustments starting next year.

The new package of tax measures approved in the Congress does not improve the efficiency of the system and seems insufficient to comply with fiscal rules. It is positive that the transposition of the European directive on global minimum taxation for multinationals has been approved, in compliance with the commitments made. However, the reform comes late in the tax year, which has created unnecessary uncertainty about the affected companies. Most of the measures included imply an increase in the weight of direct taxation, contrary to the recommendations of experts and institutions.[10] In addition, agreements related to the extension of the excise tax to the banking sector can make credit more expensive, especially for SMEs, discourage size increases, and result in a less progressive system. Regarding the latter, the revenues would be transferred to the autonomous communities, according to the participation of each of them in the GDP, which could be less equitable and penalize citizens in regions with small economies. It is estimated that the approved measures could contribute between 0.25 pp (4 billion euros) and 0.43 pp of GDP (7 billion) in additional revenues, so new fiscal consolidation measures equivalent to 0.07 pp - 0.25 pp of GDP would be necessary to comply with the requirements of the new fiscal rules.

Immigration masks negative trends in employment and labor participation of the Spanish nationality population. While demographics have continued to drive the increase in labor force, the reduction in the propensity to participate in the labor market from the fourth quarter of last year, caused by the native population, has had a negative impact. The negative trend is particularly worrying in the age group of 45-54, largely because of aging, which increases the materiality of segments where the participation rate is lower.

10: See European Commission (2024), Annual report on taxation 2024: Review of taxation policies in the European Union, EU Publications Office, https://data.europa.eu/doi/10.2778/10846; de Castro Fernández, F., Perelle, M., and Priftis, R. (2018), The Economic Effects of a Tax Shift from Direct to Indirect Taxation in France, European Economy - Discussion papers 077, DG ECFIN, European Commission, doi:10.2765/610397; and Johansson, Å., et al. (2008), "Taxation and Economic Growth", OECD Economics Department Working Papers, No. 620, OECD Publishing, Paris, https://doi.org/10.1787/241216205486. References

Tables

Table 1.1. **GROSS DOMESTIC PRODUCT** (ANNUAL AVERAGE, %)

	2022	2023	2024	2025	2026
United States	2.5	2.9	2.7	2.0	2.1
Eurozone	3.6	0.5	0.8	1.0	1.1
China	3.0	5.2	4.8	4.1	4.0
World	3.6	3.3	3.2	3.1	3.3

* Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.
Forecast closing date: December 3, 2024.
Source: BBVA Research & IMF.

Table 1.2. **INFLATION** (ANNUAL AVERAGE, %)

	2022	2023	2024	2025	2026
United States	8.0	4.1	2.9	3.0	2.8
Eurozone	8.4	5.4	2.4	2.0	1.8
China	2.0	0.2	0.3	0.6	1.0
World	9.2	7.5	6.9	4.4	3.6

* Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.
Forecast closing date: December 3, 2024.
Source: BBVA Research & IMF.

Table 1.3. **INTEREST RATE ON TEN-YEAR PUBLIC DEBT** (ANNUAL AVERAGE, %)

	2022	2023	2024	2025	2026
United States	2.95	3.96	4.21	4.37	4.35
Germany	1.18	2.45	2.35	2.23	2.33

Forecast closing date: December 3, 2024.
Source: BBVA Research & IMF.

Table 1.4. **EXCHANGE RATES** (ANNUAL AVERAGE)

	2022	2023	2024	2025	2026
USD-EUR	1.05	1.08	1.08	1.05	1.08
CNY-USD	6.73	7.08	7.19	7.31	7.35

Forecast closing date: December 3, 2024.
Source: BBVA Research & IMF.

Table 1.5. **OFFICIAL INTEREST RATES** (END OF PERIOD, %)

	2022	2023	2024	2025	2026
United States	4.50	5.50	4.50	4.00	3.00
Eurozone	2.00	4.00	3.00	2.00	2.00
China	3.65	3.45	3.00	2.50	2.50

Forecast closing date: December 3, 2024.
Source: BBVA Research & IMF.

Table 1.6. **EMU: MACROECONOMIC FORECASTS** (YoY) (ANNUAL AVERAGE. %)

	2022	2023	2024	2025	2026
GDP at constant prices	**3.6**	**0.5**	**0.8**	**1.0**	**1.1**
Private consumption	4.9	0.7	0.8	1.4	1.6
Public consumption	1.1	1.6	1.9	0.7	0.7
Gross fixed capital formation	2.2	1.8	-2.3	1.8	1.3
Inventories (*)	0.4	-0.8	-0.5	0.0	0.0
Domestic demand (*)	**3.7**	**0.3**	**-0.1**	**1.3**	**1.3**
Exports (goods and services)	7.5	-0.5	1.4	1.3	1.0
Imports (goods and services)	8.5	-1.1	-0.6	2.1	1.6
External demand (*)	**-0.1**	**0.2**	**0.9**	**-0.3**	**-0.2**
Prices and Costs					
CPI	8.4	5.4	2.4	2.0	1.8
CPI Core	3.9	4.9	2.9	2.1	1.9
Labour Market					
Employment	2.4	1.4	0.7	0.2	0.1
Unemployment rate (% of labour force)	6.8	6.6	6.5	6.6	6.6
Public sector					
Surplus (+) / Deficit (-) (% GDP)*	-3.5	-3.6	-3.2	-2.9	-2.9
Public debt (% GDP)*	89.5	87.4	88.1	88.3	88.5
External Sector					
Current Account Balance (% GDP)	-0.1	1.7	2.7	2.2	2.2

Annual rate change in %, unless expressly indicated.
Forecast closing date: December 3 2024.
(*) Excluding financial aid for Spanish banks.
Source: BBVA Research.

Table 1.7. **SPAIN: MACROECONOMIC FORECASTS**
(ANNUAL RATES OF CHANGE IN %, UNLESS OTHERWISE INDICATED)

(Annual average, %)	**2022**	**2023**	**2024**	**2025**	**2026**
Activity					
Real GDP	6.2	2.7	3.1	2.3	1.7
Private Consumption	4.8	1.8	2.8	2.6	1.8
Public Consumption	0.6	5.2	4.7	3.7	1.9
Gross Fixed Capital Formation	3.3	2.1	2.1	5.2	4.4
Equipment and machinery	2.9	1.1	1.2	5.2	3.8
Construction	2.2	3.0	3.0	6.1	5.1
Housing	8.4	2.1	1.4	5.3	6.2
Domestic Demand (contribution to growth)	3.9	1.7	2.6	3.2	2.2
Exports	14.3	2.8	3.4	4.2	2.4
Imports	7.7	0.3	2.4	7.4	4.2
External Demand (contribution to growth)	2.3	1.0	0.5	-0.9	-0.6
GDP at current prices	11.2	9.1	6.0	3.9	3.5
(Billions of Euros)	1373.6	1498.3	1587.9	1650.6	1709.1
Labour market					
Employment, Labour Force Survey	3.6	3.1	2.2	2.0	1.8
Unemployment rate (% Labour force)	13.0	12.2	11.4	10.7	10.4
Employment, full time equivalent	4.1	3.2	2.2	1.9	1.5
Productivity	2.1	-0.5	0.9	0.4	0.2
Prices and Costs					
CPI (average)	8.4	3.5	2.8	1.8	1.9
CPI (end of period)	5.7	3.1	2.5	1.9	1.9
GDP deflator	5.0	6.4	2.9	1.7	1.9
Compensation per employee	3.9	5.6	4.5	2.6	1.8
Unit Labour Cost (ULC)	1.8	6.1	3.6	2.2	1.6
External sector (*)					
Current Account Balance (% GDP)	0.4	2.8	2.9	2.8	2.7
Public sector					
Debt (% GDP)	109.5	105.1	102.2	101.0	100.0
Deficit (% GDP) (*)	-4.5	-3.5	-3.0	-2.7	-2.4
Households					
Real disposable income	-1.2	4.9	3.9	3.4	1.6
Savings rate (% nominal disposable income)	9.0	12.0	13.4	14.1	14.0

Annual rate change in %, unless expressly indicated.
Forecast closing date: December 3, 2024.
(*) Excluding financial aid for Spanish banks.
Source: BBVA Research.

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