

Policy risks and fiscal pressures: Economic fragilities in a year of global transition

WHAT MATTERS

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Improving **valuations for Spanish and European banks**

Mergers and acquisitions in defence: A paradigm shift for Europe

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SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

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Letter from the Editors

As 2025 unfolds, the global economic environment remains defined by heightened fiscal uncertainty, diverging policy trajectories, and deepening geopolitical fault lines. The growing asymmetry between U.S. and European fiscal and monetary responses initially reinforced capital flows toward the United States, but this trend has since reversed amid rising policy instability and geopolitical risk. Across Europe, concerns over fiscal sustainability have re-emerged as high public debt levels, rising interest costs, and shifting political priorities complicate compliance with the EU's new budgetary rules. Meanwhile, financial markets remain sensitive to changing macroeconomic expectations, and strategic sectors—most notably defence—are entering a new phase of consolidation and repositioning as security imperatives reshape national investment priorities.

Within this context, we begin the May issue of *Spanish and International Economic and Financial Outlook (SEFO)*, with the global macro picture and U.S. dynamics, especially given the pivotal impact of U.S. policy changes on global economic conditions and financial markets.

Until the end of last year the U.S. economy was performing better than most other advanced economies, and the prospects were for robust economic growth, moderate inflation and low unemployment.

However, the recent policy changes driven by the new administration have generated a significant adverse shock, whose magnitude, if unaddressed, will be amplified both over time and internationally. Import tariffs will impose a serious short-term squeeze on real personal incomes, consumer spending, profit margins and business investment, even assuming no retribution from trading partners. And they will eventually blunt incentives to innovate, invest and improve product quality. It is no surprise that financial markets are reacting in such a violent fashion, further aggravating the outlook. Moreover, the on-again-off-again process that has been used to impose tariffs has exacerbated uncertainty, with powerful effects on investment and consumption of durable goods. Additional uncertainty has been generated by: i) talk of encouraging (or even forcing) foreign holders to extend maturity of their U.S. bonds; ii) deportation of both illegal immigrants and critics of administration policies; iii) firing of many federal government and agency employees; iv) perceived erosion of the rule of law; and v) territorial threats against allies, resulting in growing boycotts against U.S. goods and tourism. In such a context, the risk of stagflation or worse has increased considerably.

Beyond the domestic impact, the tariff measures announced by Washington on 2 April ushered in a period of heightened uncertainty for the global economy, while simultaneously signaling a potential inflection point for the

multilateral trading system. Although the direct impact of the tariffs on the Spanish economy is relatively limited—with an estimated GDP loss of 0.2 to 0.3 percentage points—the burden is disproportionately borne by a small number of sectors. Moreover, the indirect effects are expected to be more pronounced. First, countries heavily affected by the tariffs, such as China, are likely to redirect exports toward alternative markets, potentially increasing competitive pressure on European imports. Second—and most critically—the adverse effects on U.S. economic activity, financial markets, and particularly investment, which is closely tied to trade flows, will play a significant role as the escalation of tariffs and retaliatory measures persists. Under relatively benign assumptions, the Spanish economy is projected to grow by 2.3% in 2025—0.3 percentage points below pre-conflict estimates—and by 1.6% in 2026, reflecting a 0.4-point downward revision.

We then move into eurozone-level public finance issues, highlighting sovereign debt challenges, banking exposures, and fiscal policy dilemmas.

Transatlantic divergence on fiscal and monetary policies have underpinned recent tensions in both the U.S. and eurozone sovereign debt markets. In addition to exhibiting high volatility, in May 2025, 10-year U.S. Treasury yields remained above 4.3%, driven by a high fiscal deficit and rising public debt, accentuated by an exodus by traditional institutional investors and higher activity by price-sensitive players. In the eurozone, the expansionary shift in German fiscal policy—particularly the €100 billion increase in defence spending—has pushed Bund yields to around 2.5% while peripheral country risk premiums had risen somewhat: the Italian risk premium stood at over 100 basis points and the Spanish spread stood at around 65bs. Meanwhile, the ECB has lowered its deposit rate to 2.25%, following six consecutive cuts since mid-2024, and faces the challenge of supporting growth without importing inflation. This combination of factors initially reinforced capital flows to the

U.S., strengthening the dollar and increasing global financial fragmentation, but tariffs and uncertainty have ultimately reversed these capital flows and weakened the dollar. Going forward, the lack of economic policy coordination could continue to generate episodes of instability in international financial markets.

These broader trends are mirrored in the financial sector, particularly through the evolving composition of banks' balance sheets. The share of public debt in the Spanish banks' asset mix has been increasing in recent years, reaching 15.4% in 2024, in tandem with the run-up in interest rates. That is 2.5pp above the EU average. Forty-eight percent of this debt is Spanish public debt. This share is below the European average, reflecting the Spanish banks' strong international footprint. A point in favour of the Spanish banks is the growing volume of public debt carried at amortised cost (67.2% *vs.* 58.6% in the EU), ring-fencing it from market fluctuations. In the Spanish banks' domestic businesses, public debt has increased its share of total assets from 6.66% in 2019 to 7.79% in 2024, and from 76.4% of total fixed-income holdings to 90.7%, with the interest earned on these investments multiplying 2.5x.

Beyond the banking sector, attention turns to Spain's fiscal position, where cyclical gains have masked deeper structural challenges. Spain's fiscal performance in 2024 benefited from strong economic growth and buoyant revenues, helping to reduce the headline deficit to 2.8% of GDP. However, this improvement largely reflected cyclical dynamics, with the structural deficit decreasing only slightly to remain above 3%. Budget planning for 2025 has been clouded by political uncertainty, resulting in a sharp divergence in medium-term consolidation scenarios between the government and independent institutions. At the subcentral level, regional governments posted near-balanced budgets thanks to sharp growth in tax collections and the national strategy of sheltering them during the pandemic years, while local governments registered a surplus, supported by relatively flat spending. Looking ahead, demographic change,

climate-related spending, defence requirements, and external shocks are expected to add further strain. In this context, fiscal sustainability will depend on rebuilding consensus, strengthening institutions, and adapting Spain's budgetary framework to emerging risks and long-term demands.

A closer look at the composition of tax revenues helps explain the underlying fiscal trends. The bulk of tax revenue in Spain comes, in descending order, from personal income tax (PIT), value added tax (VAT), corporate income tax (CIT) and excise duties. Revenue from these four taxes increased by 8.1%, or €21.17 billion, in 2024. As a result, their share of GDP increased from 17.4% to 17.7%. Around four out of every 10 euros of that increase corresponded to PIT, 3 to VAT, 1.8 euros to CIT and 0.6 euros to excise duties. As in prior years, PIT was that key source of growth in tax receipts. In 2024, the indexed average real PIT burden borne by Spanish households was well above the value of 100 in 2008, at 114.4. In contrast, indexed average net income stood at 95.7 in 2024. This means that Spanish households' take-home pay was lower in 2024 than it was in 2008. In other words, in real terms, they paid more PIT than in 2008. The failure to index PIT to inflation since the pandemic explains a substantial part of the divergence between the net income and PIT indices in 2024.

Following on the sovereign-bank discussion, we look at recent financial sector performance. The Spanish and European banks have long traded at lower valuations than their U.S. peers, trading at significant discounts to book value. The fact that they traded at price-to-book ratios of less than 1x for 2022, 2023 and much of 2024 was hard to explain in light of the fact that the Spanish and European banks were reporting returns on equity (ROE) clearly above their cost of capital, as estimated by the supervisors, the entities themselves and market analysts. Possible explanations for this anomaly included a higher cost of capital than estimated by the sector itself or doubts about the sustainability of the ROE

levels reported in 2022 and 2023. This situation has reversed since the end of 2024, with most of the Spanish and European banks currently trading above book value. Improved margins have supported a strong recovery in valuations, but structural and regulatory differences continue to explain the persistent valuation gap between European and U.S. banks. That said, margin gains have been priced in, and future margin stability is now expected, making sustaining fundamentals the key challenge going forward amid an increasingly uncertain global geopolitical environment.

Finally, we transition to the corporate landscape, exploring how macro-fiscal trends are influencing strategic investment decisions. Europe's long-standing investment gap relative to the U.S. has been especially pronounced in the defence sector, where fragmented demand, limited interoperability, and dependence on foreign technology have constrained competitiveness. Recent geopolitical developments and the ReArm Europe initiative have shifted the focus toward scaling and consolidating defence capabilities, supported by policy incentives and multilateral coordination. Past consolidation trends in the U.S. and Europe reveal a growing role for cross-border transactions, alliances, and dual-use technologies in today's defence M&A environment. Despite global M&A activity weakening in 2025, the defence sector has remained resilient, with transaction volumes rising in Europe and supported by investor interest, margin expansion, and limited sensitivity to interest rates. While structural and regulatory barriers persist, the sector's strong fundamentals and strategic relevance are expected to sustain momentum in consolidation and investment going forward.

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What's Ahead (Next Month)

Month	Day	Indicator / Event
June	3	Tourist arrivals (April)
	3	Social Security registrants and official unemployment (May)
	4	Industrial production index (April)
	4-5	ECB monetary policy meeting
	13	CPI (May)
	19	Eurogroup meeting
	23	Foreign trade report (April)
	23	Balance of payments quarterly (1 st . quarter)
	24	Services Production Index (April)
	25	Quarterly National Accounts (1 st . quarter, 2 nd . release)
	26-27	European Council meeting
	27	Retail trade (May)
	27	Preliminary CPI (June)
	30	Non-financial accounts, State (May)
	30	Non-financial accounts, Regional Governments and Social Security (April)
	30	Non-financial accounts, General Government (1 st . quarter)
	30	Balance of payments monthly (April)
	30	Quarterly Non-financial Sector Accounts (1 st . quarter)
July	2	Social Security registrants and official unemployment (June)
	2	Tourist arrivals (May)
	4	Industrial production index (May)
	9	Quarterly Financial Accounts Institutional Sectors (1 st . quarter)
	15	CPI (June)
	18	Foreign trade report (May)
	18	Services production index (May)
	23-24	ECB monetary policy meeting
	24	Labour Force Survey (2 nd . quarter)
	29	Retail trade (June)
	29	Preliminary Quarterly National Accounts (2 nd . quarter)
	30	Preliminary CPI (July)
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What Matters



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Until the end of last year the U.S. economy was performing better than most other advanced economies, and the prospects were for robust economic growth, moderate inflation and low unemployment; however, the recent policy changes driven by the new administration have generated a significant adverse shock, whose magnitude, if unaddressed, will be amplified both over time and internationally. Within this context of rising uncertainty, the risk of stagflation or worse has increased considerably.

Peter Jarrett



17 **The Spanish economy in the face of the trade war**

The escalation of U.S. tariffs is weighing on the global economy, with Spain facing limited direct exposure but significant indirect risks. As protectionism deepens and uncertainty persists, exports and investment are expected to slow, thus weakening growth; however, the outlook remains relatively positive.

Raymond Torres, María Jesús Fernández and Fernando Gómez Díaz



25 **Tensions in the U.S. and eurozone sovereign debt markets**

Transatlantic divergence in fiscal and monetary policies is driving renewed volatility in sovereign bond markets, with U.S. Treasury yields elevated and eurozone spreads widening, particularly in Germany. Going forward, the lack of economic policy coordination could continue to generate episodes of instability in international financial markets.

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Spanish banks' exposure to public debt has increased more sharply than the EU average, reaching 15.4% of total assets in 2024. Amortised cost accounting and international diversification help risk mitigation, while higher interest rates on public debt holdings have significantly boosted returns for the domestic business.

Joaquín Maudos



37 **Spanish fiscal policy in the face of systematic budget rollover: Risks for stability and reform**

Despite robust growth and a declining headline deficit in 2024, Spain's underlying fiscal trajectory remains fragile due to persistent structural imbalances and high public debt levels. With the new EU fiscal framework taking effect and long-term spending pressures building, credible consolidation measures are becoming increasingly necessary.

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Spain's tax revenue rose sharply in 2024, led by strong growth in personal income tax, VAT, and corporate income tax. While this helped reduce the public deficit, the non-indexation of PIT has eroded real household incomes and intensified fiscal drag.

Desiderio Romero-Jordán



55 Improving valuations for Spanish and European banks

After years of trading below book value despite solid fundamentals, Spanish and European banks have seen a marked revaluation since late 2024, surpassing price to book value (P/BV) ratios of 1x. Improved margins have supported a strong recovery in valuations, narrowing the profitability gap with U.S. peers; however, structural and regulatory differences continue to explain the persistent valuation gap between European and U.S. banks.

Marta Alberni, Ángel Berges and Lucía Ibáñez, Afi



65 Mergers and acquisitions in defence: A paradigm shift for Europe

The defence sector in Europe is experiencing renewed momentum in investment and consolidation, driven by structural challenges, strategic imperatives, and institutional initiatives. While structural and regulatory barriers persist, the sector's strong fundamentals and strategic relevance are expected to sustain momentum in consolidation and investment going forward.

Pablo Guijarro Segado and Pilar Gómez Estefanía, Afi

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The outlook for the U.S. economy in the light of the change of administration

Until the end of last year the U.S. economy was performing better than most other advanced economies, and the prospects were for robust economic growth, moderate inflation and low unemployment; however, the recent policy changes driven by the new administration have generated a significant adverse shock, whose magnitude, if unaddressed, will be amplified both over time and internationally. Within this context of rising uncertainty, the risk of stagflation or worse has increased considerably.

Peter Jarrett

Abstract [1]: Until the end of last year the U.S. economy was performing better than most other advanced economies, and the prospects were for robust economic growth, moderate inflation and low unemployment. However, the recent policy changes driven by the new administration have generated a significant adverse shock, whose magnitude, if unaddressed, will be amplified both over time and internationally. Import tariffs will impose a serious short-term squeeze on real personal

incomes, consumer spending, profit margins and business investment, even assuming no retribution from trading partners. And they will eventually blunt incentives to innovate, invest and improve product quality. It is no surprise that financial markets are reacting in such a violent fashion, further aggravating the outlook. Moreover, the on-again-off-again process that has been used to impose tariffs has exacerbated uncertainty, with powerful effects on investment and consumption of durable

goods. Additional uncertainty has been generated by: i) talk of encouraging (or even forcing) foreign holders to extend maturity of their U.S. bonds; ii) deportation of both illegal immigrants and critics of administration policies; iii) firing of many federal government and agency employees; iv) perceived erosion of the rule of law; and v) territorial threats against allies, resulting in growing boycotts against U.S. goods and tourism. In such a context, the risk of stagflation or worse has increased considerably. [2]

Recent years' economic outcomes have been exemplary

The U.S. economy has enjoyed a run of good outcomes in recent years that have been in the forefront of those achieved by its developed-country peers. It entered 2025 in rude health. Real GDP grew by 2.8% in 2024, compared to an unweighted average of only 0.7% for the other G7 nations. Output expanded by 2.3% in the year's final quarter. Unemployment was low by historical standards at 4.1% of the civilian labour force at the end of the year. Non-farm employment was increasing rapidly. Financial markets were sound if not ebullient, and household balance sheets were largely robust (with plenty of household wealth, especially in the form of real estate), though those with low or middle incomes or poor credit scores may have been stretched (Jefferson, 2025). Despite much higher interest rates than in earlier years, households' debt service remained low, owing to still modest mortgage debt service (thanks to low mortgage rates in earlier years), while revolving credit was more burdensome: credit-card debt delinquency jumped in late 2024, especially for sub-prime borrowers from smaller banks.

Inflation was moderate at 2.4% in the fourth quarter when measured by the price index for personal consumption expenditures (PCE),

only slightly above the 2% official Federal Reserve target. However, that was held down by food and energy price trends: in core terms, inflation was running somewhat faster, at 2.7% at the end of the year. Nevertheless, that was a relatively positive performance by international comparison.

The U.S. economy's structural weaknesses remain

However, the economy's longer-term macroeconomic weaknesses have not been overcome. The two most prominent are commonly known as the "twin deficits": imbalances on the external current account and on the government accounts.

For its part the federal government has run large deficits in most recent years. In 2024 the combined deficit for all levels (not just the federal administration, which is often referred to in the domestic debate) was 7.5% of GDP, compared to only 4.6% for the average OECD country and exceeded only by Israel among OECD Member countries. The 12-month cumulative federal deficit reached \$2.1 trillion in January 2025 – just over 7% of GDP. Of course it is not that the U.S. government spends more than most in relation to GDP; rather, broadly defined tax revenues are only around a quarter of GDP, while they are more than a third in the rest of the OECD. Indeed, the risk is that public spending will have to rise in response to greater needs from the aging population. Yet the powerful lobbies promoting lower taxes continue to hold the upper hand.

The succession of budgetary shortfalls has led to an accumulated gross general government debt of 122% of GDP (about 100% of GDP for the federal government alone), up from less than 100% in 2011, and the OECD's largest except for Japan, Italy and Greece. This is

“ The succession of budgetary shortfalls has led to an accumulated gross general government debt of 122% of GDP, the OECD's largest, except for Japan, Italy and Greece. ”

reflected in burdensome interest payments, which reached 4.2% of GDP in net terms last year, tops in the OECD and representing some 10.5% of total government outlays and 13.0% of total receipts.

Before any changes from the new administration, the non-partisan Congressional Budget Office predicted that on unchanged policies the federal debt held by the public would rise to over 118% of GDP over the next decade and then to 156% by 2055 (CBO, 2025b), before a debt spiral gets underway. It also described four different scenarios in which macroeconomic outcomes could be worse, each of which would add hundreds of billions of dollars to decade-long cumulative deficits (CBO, 2025a). As well, extending all expiring tax and subsidy measures, as the Congress looks set to do, would cost an extra \$4 to \$5 trillion over the coming decade and boost debt from 118% to 133% of GDP. Some of the revenue loss from lower taxes could be offset by “dynamic feedback” effects, such as higher output and the resulting increase in government revenues. But, according to most independent experts such as the Committee for a Responsible Federal Budget, the positive revenue effect would be far less than the \$2.6 trillion over ten years assumed by the Congress. Of course, the changes being wrought by the new administration could have a mammoth impact. First off, there will be substantial revenues from the introduction of much higher tariffs, discussed below. In addition, the downsizing of the federal civil service being organized by the Department of Government Efficiency will save a substantial amount of emoluments and pensions, but fewer staff at the Internal Revenue Service could lead to less capacity to collect and enforce taxation and to more cheating. According to the Yale University Budget Lab (2025b), the net effects of halving staffing levels could amount to a budget loss of \$350 billion over a decade from the reduced-capacity effect and an extra loss of revenues of \$2 trillion from noncompliance.

The deficit on the current account of the balance of payments, having stabilised in 2022-2023 at around a trillion dollars, increased again in 2024, reaching \$1.134 trillion for the year

(3.9% of GDP, up from 3.3% in 2023); by the second half of the year the deficit had broken through the 4% of GDP mark. The more robust economy than in trading partners, combined with the worsening competitiveness owing to the persistent strength of the dollar, has been sucking in more imports; fundamentally, however, it is perhaps better to see the deficit as reflective of inadequate domestic (notably public and household) saving (which represents only 17% of GDP, down by almost 8 percentage points since 1965, as private consumption makes up more than two-thirds of GDP, about 10 percentage points more than in the rest of the world). Alternatively, it can be seen as the counterpart to the U.S. capital account surplus (since the overall balance of payments must necessarily be zero) and that surplus to some important extent is the implication of the U.S. dollar being the world’s reserve currency.

In addition, the negative net international investment position (IIP) [3] that has resulted from the chronic external deficits has led to a deficit on primary income (essentially investment income). The IIP reached -\$23.6 trillion at the end of the third quarter of 2024, about double its level seen during the COVID pandemic in 2020. This represented 80.3% of GDP. Such an enormous external liability implies that it is crucial for the United States to maintain liquidity, institutional integrity and the rule of law to avoid any substantial portfolio adjustment by foreign investors, which would result in a slowing of capital inflows to finance the twin budget and external deficits and thus higher financing costs for borrowers of all kinds (potentially much higher). That process may just be getting underway now.

Despite the increasing severity of the twin-deficit problem, as 2025 began there was no sign of any loss of confidence by investors in U.S. dollar assets, even though China has been diversifying away from direct holdings of U.S. Treasury debt. The dollar’s effective exchange rate appreciated sharply over the course of the fourth quarter and into the initial weeks of 2025, a total gain of between 7% and 9% in effective terms, depending on whether one uses a narrow or broad definition. The dollar’s strength is likely attributable to its

“convenience yield”, which should forestall any large-scale sell-off, so long as confidence in U.S. institutions remains widespread (Subacchi and van den Noord, 2025). The S&P500 index of U.S. equities rose by about a quarter in 2024, easily the best outcome among advanced economies, with the (Shiller) cyclically adjusted price-earnings ratio rising 17% to the third-highest on record. And U.S. Treasury yields gyrated around during the year, depending on prevailing market expectations as to the future movements of the Federal Funds rate. But the late-year trend was clearly upward, despite the Fed’s funds rate cuts. Besides increasing term premia, that was entirely due to rising real yields: real long-term Treasury yields surged from 1.8% at the time of the September Fed meeting to a peak of about 2.6% in mid-January.

The outlook for the coming few years appeared bright as 2025 got underway

Normally economic systems carry a large amount of momentum: the best predictor of

many economic time series is a continuation of what has come before. This would imply that, in the absence of any major economic “shocks” (such as policy changes, natural disasters or changes in global markets for key commodities for geopolitical or other reasons), real output would grow in excess of 2% annually, unemployment would stay low, annual inflation would remain close to its official target of 2%, the fiscal deficit would stay uncomfortably large, the dollar strong and the external current account in moderate deficit.

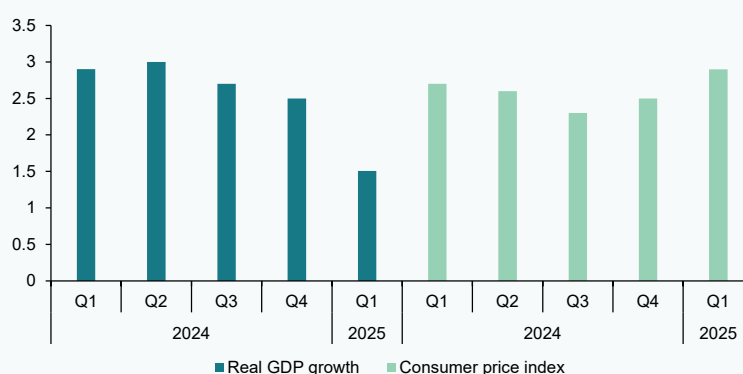
But an inflection point may have been reached early in 2025

Evidence of a deterioration in activity has been mounting since the start of the year in the form of sectoral and spending indicators, financial market developments as well as overall assessments. For example, the Federal Reserve Bank of Atlanta’s GDPNow model initially predicted at the end of January first-quarter growth of as much as 4% (in seasonally adjusted annual terms), but the prediction

Exhibit 1

U.S. economic indicators 2024: Real GDP growth and inflation trends

Year-on-year quarterly growth rates, percentage



Note: The 2025 Q1 real GDP growth estimate is based on the GDP Now model from the Federal Reserve Bank of Atlanta. The 2025-Q1 value is based on the geometric average of the Consumer price index (CPI) for January and February, as March data was not yet available at the time of publication.

Sources: Real GDP growth until 2024-Q4 and Consumer price index (Bureau of Economic Analysis) and 2025-Q1 real GDP growth estimate (Federal Reserve Bank of Atlanta).

“ Overall volatility – as measured by the CBOE VIX index – rose from less than 15 on 14 February to over 48 (third-highest in its over 20-year history) on April 8. ”

plunged to -2.4% at the time of writing, or -0.3% on a gold-adjusted basis (Exhibit 1). And YouGov’s survey measure of respondents thinking the economy is getting worse jumped from 36% on January 21 to 51% in late March.

U.S. financial markets have followed a similar pattern. After gaining about 25% in the course of 2024, equity prices peaked in mid-January but experienced a sharp drop as from February 19, sporadically in March, and again dramatically in the wake of the tariff announcements in early April. In contrast, until the early-April tariff announcement equity indices for UK and EU stocks had been moving up because of different paths for risk premia (Avalos *et al.*, 2025). Overall index volatility – as measured by the CBOE VIX index – rose from less than 15 on 14 February to over 48 (third-highest in its over 20-year history) on April 8. But single stock volatility in

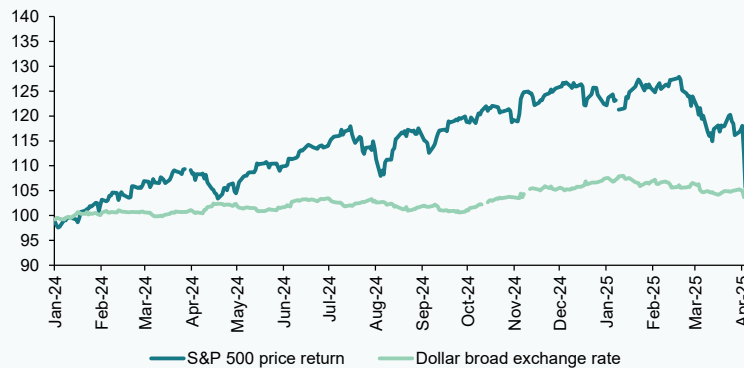
the United States has also been rising relative to index volatility because of U.S. government actions, not just in the form of tariffs but in a wide variety of dimensions, other geopolitical tensions (notably in Ukraine and the Middle East) and persistent supply chain disruptions (Britton, 2025).

The U.S. dollar started to appreciate sharply in October 2024, but reached a peak in January and then fell back noticeably as domestic growth concerns began to mount (BIS, 2025) and the likelihood of any promised substantial tax cuts (at least in the short term) began to recede. The dollar fell particularly sharply following the new tariff announcement in early April (Exhibit 2). Ten-year Treasury yields had been rising since touching a low of 3.63% in mid-September and reached a peak on January 13 of 4.79% before declining rapidly to below 4.0%, also following the new

Exhibit 2

Key financial indicators

January 2024=100



Note: An increase in the exchange rate indicates a dollar appreciation.

Sources: S&P 500 price return (S&P Global) and Dollar broad exchange rate (Board of Governors of the Federal Reserve System, U.S.).

Exhibit 3

Evolution of U.S. Treasury yield, 10-year

Percentage



Source: Board of Governors of the Federal Reserve System (U.S.).

tariff announcements, and then suddenly surged when signs of a trade war with China emerged: market participants speculated that China may be selling some of its huge holdings of Treasuries (Exhibit 3). Various measures of inflation expectations imply that these recent fluctuations were largely in real yields, attributable to weaker output expectations, mostly associated with trade policy. The yields on Treasury Inflation-Protected Securities fell by about 50 basis points in the seven weeks to early March.

On the consumer front, hard spending numbers show that real consumer expenditures fell 0.5% in January, led by a sharp decline in goods spending while services were largely flat, and more complete first-quarter retail sales figures show a moderate decline of about 1.4% at annual rates. The University of Michigan's Survey of Consumers points to clear stagflation (Exhibit 4). Its index of consumer sentiment has plummeted by 22% since December. Initially that fall was limited to Democrats and Independents, but in March weakness spread to Republicans as well. The decline in perceived current economic conditions was more modest, but expectations for the future nose-dived across multiple economic dimensions.

On top of their pessimism on activity, respondents also became far gloomier on the matter of inflation. Year-ahead expectations jumped to 4.9%, a third successive sizeable increase, while long-run expectations surged by 0.4 percentage points to 3.9%, the largest monthly change since 1993. On the other hand, increases in market-based expectations have been much more moderate, with those calculated by the Federal Reserve Bank of Cleveland reaching a peak of only 2.5% in February, up from 2.1% in October.

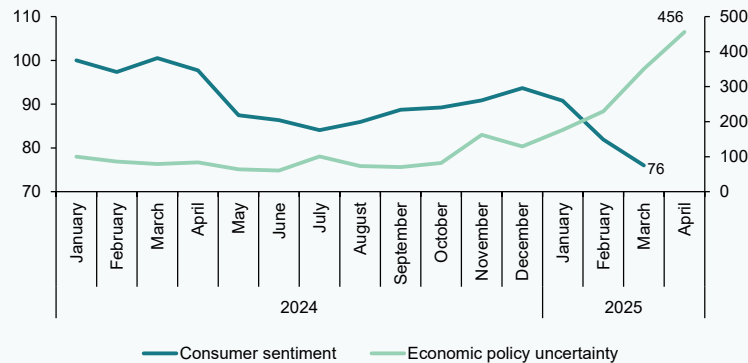
A qualitatively similar picture of expected stagflation has been in evidence from the Conference Board's consumer confidence indicator, which in both February and March recorded particularly large drops, reaching the lowest level in 12 years, while also showing a leap in inflation expectations to 6.2%. The implication is that households might well prefer to hold off on discretionary purchases and save instead.

Some business-sector indicators have also weakened. For example, the Institute for Supply Management PMI index for Manufacturing fell back from 50.9 in January to 49.0 in March, led by sharp drops in new orders and employment, while price

Exhibit 4

Uncertainty markedly up, and confidence sharply down

Jan-24=100



Sources: Consumer Sentiment Index (University of Michigan) and Economic Policy Uncertainty Index (Baker, Scott R., Bloom, Nick and Davis, Stephen J., Economic Policy Uncertainty Index for United States).

perceptions surged to 69.4, up 14 percentage points. On the other hand the parallel Services index strengthened in February and fell only in March, but there too price perceptions were robust. Industrial production has held up better thanks to strength in utilities (up 7.2% in January) owing to unusually cold weather, while moderate strength in manufacturing was essentially due to the motor vehicle sector.

The labour market has shown rather less vigour as well. Nonfarm payroll gains slowed from 323 thousand in December and an average of 168 thousand in the last 12 months to an average of only 114 thousand in January and February, though March data did see some recovery. Perhaps more disturbing is the surge in the number of those working part-time for economic reasons, which jumped 460 thousand (over 10%) in February and in March was up 475 thousand over the previous year. The bulk of these cited slack work or business conditions. As well, those not in the labour force but who currently want a job has also shot up by 490 thousand (+9.6%) over the past year. The broadest (U6) measure of overall labour under-utilisation accordingly jumped more than half a percentage point to almost 8%, the largest increase in the past

decade outside the COVID-related surge in 2020. While the overall unemployment rate remained quite flat, the rate for teenagers has risen by 1.1 percentage points and for adults without a high school diploma by 0.8 percentage points. These groups are often the harbingers of future labour-market shifts.

It is widely agreed that the cause of the recent turn-around has been U.S. government actions

It takes nothing beyond simple economic reasoning to recognise the probable causes of the turn towards stagflationary outcomes. Economic theory has long admitted the concept of an optimal tariff based on an importing country's monopoly power. Imposing tariffs on many imported goods from a variety of source countries and tightening border enforcement switch demand towards domestic production, as intended by the U.S. administration. A partial offset of the demand-switching effects comes from exchange-rate appreciation, which is needed to maintain balance-of-payments equilibrium, according to standard models. Tariffs can also raise government revenues (around \$3 trillion over the coming decade,

“ The tariffs would impose a serious short-term squeeze on real personal incomes, consumer spending, profit margins and business investment, even assuming no retribution from trading partners. ”

according to the Yale Budget Lab (2025a), but with a very regressive impact on household incomes).

The United States was already relatively protectionist before the 2025 change of administration, at least according to its nontariff barriers: in 2023, the Tholos Foundation (2023) ranked it 24th of 88 countries for tariff barriers, but dead last for the nontariff variety and 65th for the total, down from 51st the previous year.

But this year the United States has imposed both product-specific broad-based tariffs (labelling them “reciprocal”) on merchandise imports from almost all of its trading partners, as well as on steel and aluminium and motor vehicles from all sources. These tariffs, even if they were calculated in an optimal manner, would impose a serious short-term squeeze on real personal incomes, consumer spending, profit margins and business investment, even assuming no retribution from trading partners. And they will eventually blunt incentives to innovate, invest and improve product quality. Most importantly the way in which the administration came up with them was effectively based on bilateral trade deficits, which lacks any grounding in logic whatsoever. It was therefore no surprise that financial markets have reacted in such a violent fashion in their wake. Fear of such cost barriers led many foreign producers to bring forward their trade with the U.S. economy: U.S. goods imports surged in January and February, when they were up 22.5% over year-earlier levels.

One of the key economic advisers in the new administration had advocated a broad-based 20% tariff based on a mistaken understanding of the context in which the resulting theoretical income gains could be realised in practice (Miran, 2024): in particular, that

outcome assumes that trading partners would not retaliate (Rodriguez-Clare and Costinot, 2025), and thus far only Mexico and the United Kingdom have followed that course, while Canada, China and the European Union have imposed or at least promised retaliatory tariffs. These retaliatory tariffs will lower the demand for U.S. output and thus U.S. exports. Increasing protectionism will also interfere with supply chains, which have been established in some cases decades ago and refined over the intervening years, notably in motor vehicle production. And it will push up prices for U.S. buyers, because foreign producers will not be willing or able to bear the full burden of the tariffs on their margins and will therefore raise their selling prices in the U.S. market, allowing their domestic competitors to boost theirs as well. These higher inflation readings may also curb the willingness of the Federal Reserve to cut rates in the coming period. Nevertheless, financial markets were initially convinced of the demand-reducing effects of the expected trade war that there was a subsequent rush to buy long-term bonds (Exhibit 3).

The full general equilibrium outcome, as witnessed often in economic history, is almost certain to be lower output and incomes on both sides, as was observed in the wake of the infamous Tariff Act of 1930 (better known as the Smoot-Hawley Tariff), which contributed to the Great Depression. At that time retaliation was implemented by Canada, Cuba, Mexico, France, Italy, Spain, Argentina, Australia, New Zealand, and Switzerland, and U.S. exports fell by some 30% as a result (Mitchener *et al.*, 2022).

Various estimates of the likely economic effects of these new tariffs implemented by the United States have recently appeared. Morgan Stanley quantified the impact as a loss of 1% on U.S. real GDP. Meltzer (2025)

looked at just those levied on Canadian and Mexican imports and estimated the impact as about -0.3% on U.S. real GDP and +0.8% on consumer prices. Yale University's Budget Lab (2025a) looked at reciprocal tariffs and came up with losses on real GDP of 0.6-1.0% in 2025 and 0.3%-0.6% in the longer run as well as a price-level effect of 1.7-2.0%. Disposable income per household falls by 1.1% for those in the top income decile but by 3.6% in the second-lowest. The OECD (2025) recently quantified a scenario of additional tariffs of 10% on all U.S. imports and (by trading partners) on its exports as well. The effect was to lower U.S. real GDP by 0.7% in the third year and inflation by an average of 0.7% per annum over the three-year horizon.

But as much as the predictable effects of the whole gamut of U.S. tariffs, it is the on-again-off-again process that has been used to impose them in recent months that has created a huge amount of uncertainty for producers and consumers alike, and that uncertainty is having powerful effects on decision-making. The option value of delaying any purchasing commitments has increased as the range of feasible outcomes has widened. This will undoubtedly impinge on spending on investment in fixed capital as well as consumption of durable goods. Similarly, additional uncertainty has been generated by:

- Talk of encouraging (or even forcing) foreign holders of U.S. Treasury bills to extend to century bonds in order to lower the federal debt burden or charging foreign holders a fee;
- Successful attempts to deport both illegal immigrants and those speaking up against administration policies;
- Firing a large number of federal government and agency employees by the recently formed Department of Government Efficiency;
- The harm done to perceptions of the rule of law, for which, the WorldJusticeProject.org had already ranked the United States at 26th in 2024, down from 20th in 2015 out of 142 countries, especially low (36th) for civil justice; and,

- The territorial threats made against U.S. allies, notably Canada, Greenland and Panama, which have resulted in growing boycotts against U.S. goods and even services (such as tourism).

This can be quantified by the Economic Policy Uncertainty Index (www.policyuncertainty.com). This index is based on key words in articles from 10 major newspapers. The March average reading of 446 was higher than the COVID19-era peak of 428 in July 2020. But by 14 March it had risen further to 469, almost triple the year-ago figure of 159 (Exhibit 4). Similarly, its trade policy component that began 2024 at 45, was still below 200 as recently as October before jumping to 1400 in November and further to 1729 in January (the latest data), a record high except for August 2019 (1947). Fully 79% of respondents to the Federal Reserve Bank of Philadelphia's March Manufacturing Business Outlook Survey said that uncertainty was acting as a constraint on capacity utilisation, and 64% opined that this constraint will worsen in the future.

Any further increase in policy uncertainty or indeed disappointing surprises on growth or inflation could let loose a non-linear reaction in financial markets where agents could choose to reprice risks substantially, especially as U.S. equity valuations are still so high: only Indian equities had a higher cyclically adjusted price-earnings ratio late in 2024. This could in turn feed back onto activity.

In this regard, a number of financial market risks should be mentioned. First, some observers have pointed to waning foreign official demand for dollar-denominated safe assets (especially in light of ongoing increases in the price of gold, which have occurred mostly during times when U.S. markets are closed), possibly driven by geopolitical concerns including fear of sanctions and asset freezes (Rashad and Rebucci, 2025). Second, the growth of private finance in equity and credit markets, including the expansion of unlisted entities, has not elicited much in the way of dedicated regulatory oversight. The result is a definite lack of understanding of the fundamental conditions in these sectors

“ In a real sense this is a perfect natural experiment of the power of uncertainty to limit spending and activity. ”

and the amount of leverage they embody, raising risks to the banks who lend to them. This was discussed explicitly in the latest *OECD Economic Outlook* (No. 116, Box 1.2, December 2024). Third, the Federal Reserve (2024) is also concerned by hedge fund leverage and growth and life insurers' non-traditional liabilities. Last, the Economist has also mentioned the major risk of a full embrace of crypto currencies, whose value at the end of 2024 had reached \$3.9 trillion. Their volatility can be demonstrated by the subsequent fall in their total value to \$2.65 trillion, but risks also flow from the leverage they involve and their opacity, especially with reference to initial coin offerings.

The Federal Open Market Committee's March 19 projections are illuminating

The Federal Reserve's Open Market Committee releases quarterly economic projections made by its 19 members for key economic indicators every quarter. The latest set (Federal Reserve, 2025) showed that the median projection for real GDP growth *during* the year would probably average around 1 ³/₄% in the coming three years, about ¹/₄ percentage point below the December outcome. Unemployment was projected to rise to 4.4% of the labour force from its recent level of 4.1%. PCE inflation during the year could be 2.7% this year (up from 2.5% projected in December) before falling back to 2% by 2027. And the midpoint of the Federal funds rate range would be 3.9% at the end of 2025 (implying two further quarter-point cuts this year), followed by 3.4% and 3.1% in the subsequent two years.

But perhaps most tellingly the most pessimistic members were decidedly more pessimistic than in December: the lowest figures for real growth in 2025-2027 were 1.0%, 0.6% and 0.6%, down from 1.6%, 1.4% and 1.5%; the highest

for inflation were 3.4%, 3.1% and 2.8%, up from 2.9%, 2.6% and 2.4%. Moreover, when asked about the amount of uncertainty they perceived surrounding their growth (inflation) projections compared to the last 20 years, 17 (17) of 19 participants said it was higher, compared to only 9 (14) in December. And, depicting the risks to their projections, 18 of 19 said they were weighted to the downside on real growth (compared to only 5 in December), the same number who said that inflation risks were weighted to the upside (only 15 in December). So in the Committee's view likely outcomes have worsened, and most of the risks and uncertainty point to an even more stagflationary picture.

To sum up

In these times when events are moving very quickly it is challenging to enunciate a view of the economic outlook that takes proper account of momentum, structural imbalances, incoming data, and policy uncertainty and instability. This article has gone through the various factors that need to be taken into account, but the bottom line is that the confidence interval surrounding any projection is unavoidably extraordinarily wide at the moment. In the short term, possible outcomes vary from a recession, possibly resulting from a financial market crisis, to still positive growth. In a real sense this is a perfect natural experiment of the power of uncertainty to limit spending and activity. It is hard to imagine a set of circumstances in which uncertainty could be greater still.

Notes

[1] The opinions and analysis contained in this article are those of the author and do not represent those of the OECD. The author wishes to thank Paul Horne and Geoff Barnard for useful comments on an earlier version.

[2] The latest available data referenced in this article is as of April 9, 2025.

[3] The IIP is measured as the difference between U.S. residents' foreign financial assets and liabilities valued at market exchange rates.

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The Spanish economy in the face of the trade war

The escalation of U.S. tariffs is weighing on the global economy, with Spain facing limited direct exposure but significant indirect risks. As protectionism deepens and uncertainty persists, exports and investment are expected to slow, thus weakening growth; however, the outlook remains relatively positive.

Raymond Torres, María Jesús Fernández and Fernando Gómez Díaz

Abstract: The tariff measures announced by Washington on 2 April ushered in a period of heightened uncertainty for the global economy, while simultaneously signaling a potential inflection point for the multilateral trading system. Although the direct impact of the tariffs on the Spanish economy is relatively limited –with an estimated GDP loss of 0.2 to 0.3 percentage points– the burden is disproportionately borne by a small number of sectors. Moreover, the indirect effects are expected to be more pronounced. First, countries heavily affected by the tariffs, such as China, are likely to redirect exports toward alternative markets, potentially increasing competitive pressure on European imports.

Second –and most critically– the adverse effects on U.S. economic activity, financial markets, and particularly investment, which is closely tied to trade flows, will play a significant role as the escalation of tariffs and retaliatory measures persists. Under relatively benign assumptions, the Spanish economy is projected to grow by 2.3% in 2025 –0.3 percentage points below pre-conflict estimates– and by 1.6% in 2026, reflecting a 0.4-point downward revision.

Introduction

Since Donald Trump's return to the U.S. presidency, the multilateral trading system has entered a new phase of instability, the

“ The United States’ tightening of tariffs on imported goods –particularly from China– has triggered a period of instability in international economic relations. ”

implications of which are examined in this article. On 2 April –referred to as “Liberation Day” by the administration– the U.S. government implemented sweeping tariff measures, while leaving open the possibility of further restrictions, including so-called reciprocal tariffs. Since then, a string of announcements and counter-announcements, as well as specific agreements with the United Kingdom and China, have done little to dispel the prevailing uncertainty.

For the Spanish economy, the starting point remains favorable due to the expansionary momentum of recent years. GDP grew by 3.2% in 2024, significantly above the European average and exceeding earlier expectations, thanks largely to strong external sector performance. Growth persisted in early 2025, with GDP expanding by 0.6% in the first quarter –just 0.1 percentage points below the previous two quarters– prior to the imposition of tariffs. However, this may partly reflect a temporary surge in exports, as firms

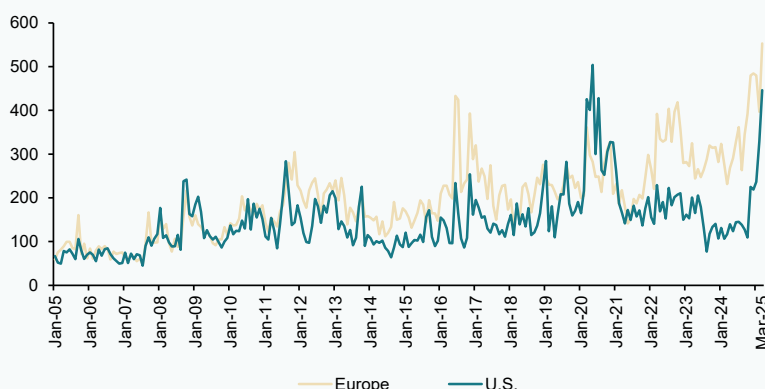
anticipated and pre-empted protectionist measures. The full impact of the trade war is therefore expected to manifest more clearly in the coming months, as detailed in this paper.

Tariff escalation and its expected impact in 2025-2026

The United States’ tightening of tariffs on imported goods –particularly from China– along with a surge in unilateral actions that violate established trade agreements, has triggered a period of instability in international economic relations. In addition to a universal 10% tariff and 25% duties on specific products such as steel, aluminum, and automobiles, the U.S. administration has announced so-called reciprocal tariffs, *i.e.* partner-specific levies. These reciprocal tariffs remain suspended until early July, with their implementation contingent on the outcome of ongoing trade negotiations. So far, the scope of the European Union’s potential response remains unclear, aside from a few limited, sector-specific measures already in effect.

Exhibit 1

Index of economic policy uncertainty in the Europe and the U.S.



Source: www.PolicyUncertainty.com

“ Spanish exports to the U.S. are assumed to face a 20% loss of competitiveness, driven by the combined effect of the 10% universal tariff and an approximately 10% appreciation of the euro against the dollar. ”

As a result, economic policy uncertainty is high on both sides of the Atlantic (Exhibit 1), fueling volatility in financial markets, which continue to react to the shifting signals from Washington.

In theory, a broad-based increase in customs tariffs produces three main effects. First, exports suffer from a loss of competitiveness, as imported goods become more expensive relative to domestic products, which remain tariff-free. For example, a 10% tariff could lead to a 10% drop in exports to the U.S., assuming full pass-through to final prices (Amiti *et al.*, 2019) and a price elasticity of demand equal to one [1] –consistent with patterns observed during the protectionist episode of Trump’s first term. Second, competition from China is intensifying. Facing higher tariffs on its exports to the U.S., China is attempting to offset losses by ramping up sales in Europe. Third, the broader climate of uncertainty surrounding trade rules weighs on short-term investment. In Spain, in particular, investment in capital goods is empirically linked to goods exports.

Beyond these theoretical considerations, it is essential to define the scale of tariffs the Spanish economy is likely to face in the coming years before estimating their impact. For this purpose, we adopt a relatively benign assumption: that financial markets will constrain the reach of protectionist measures, prompting negotiations and the softening of initial intentions of the U.S. government. Specifically, the projections do not anticipate the imposition of reciprocal tariffs on Europe. In the case of China, it is also assumed that the recently concluded trade agreement will remain in effect, implying a more moderate tariff stance compared to earlier announcements and granting exemptions for

products essential to the functioning of the U.S. economy –conditions that could help prevent a recession.

This assumption aligns with recent developments in U.S. tariff policy, which has shown flexibility in response to both financial market risks and macroeconomic fluctuations. It is a fact that economic activity has slowed sharply, with consumer confidence undermined by rising price risks and firms facing increased production costs. Many analysts now see a heightened risk of recession, keeping financial markets on alert and pushing policymakers toward repeated course corrections, such as the suspension of reciprocal tariffs mentioned earlier.

Even under this relatively optimistic scenario of policy adaptability, the forecasts already reflect the ongoing global slowdown. In particular, a one-percentage-point deceleration in the U.S. economy is expected, consistent with the GDP contraction recorded in the first quarter and more recent estimates from the Atlanta Fed’s GDPNow model. This slowdown is also contributing to weaker international trade. [2]

Domestically, the robust pace of the Spanish economy could give the impression of a temporary decoupling. However, Spanish exports to the U.S. are assumed to face a 20% loss of competitiveness, driven by the combined effect of the 10% universal tariff and an approximately 10% appreciation of the euro against the dollar. [3] And, this is despite the fact that the forecast assumes that reciprocal tariffs will not be implemented, while also excluding the possibility of strong retaliatory measures from the European Union.

“ The trade war is expected to shave 0.3 percentage points off growth this year and an additional 0.4 points in 2026, as a result of lower exports, stronger import competition and negative confidence effects. ”

In light of China’s intensified trade push in Europe to offset lost market share in North America, import elasticity is assumed to rise from 0.8 in 2024 to 1.2 during the forecast period –the latter figure aligning with the historical average.

Based on these assumptions, Spain’s economy is projected to grow by 2.3% this year –0.1 percentage points below the January Funcas forecast–and by 1.6% next year, a downward revision of 0.4 points (Table 1). The upward revision of GDP by 0.2 points due to stronger-than-expected performance early in the year and a positive carryover effect from last year have been offset by the negative impact of the tariffs. Overall, the trade war is expected to shave 0.3 percentage points off growth this year and an additional 0.4 points in 2026, as a result of lower exports, stronger import competition and negative confidence effects (Exhibit 2).

Nearly half of the slowdown projected for 2026 would stem from the direct effect of tariffs on exports (0.25 percentage points), [4] with the remainder (0.45 points) attributable to the U.S. economic slowdown and its spillover effects on international trade and confidence effects, particularly in Europe.

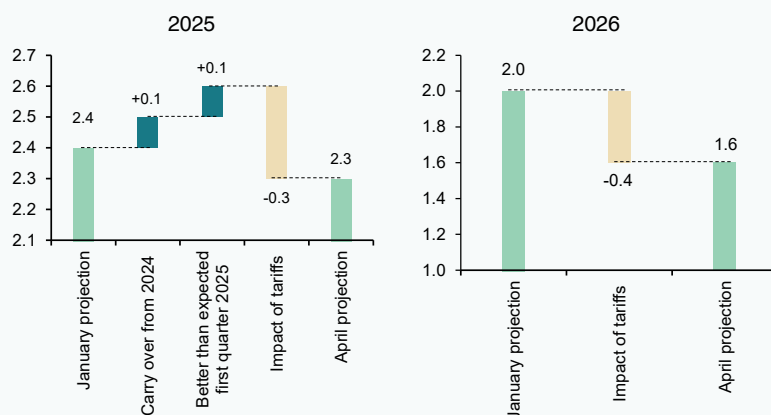
Growth will be less balanced than in previous years, driven exclusively by domestic demand, which is expected to contribute 2.6 percentage points in 2025 and 1.9 points in 2026 –unchanged and one-tenth higher, respectively, than in the January forecast. In contrast, the external sector is projected to subtract 0.3 points from growth in both years, representing a slight downward revision for 2025 and a five-tenths downgrade for 2026 relative to the previous forecast.

Within domestic demand, strong consumption growth stands out, in stark contrast to weak investment –particularly in capital goods, the

Exhibit 2

Funcas GDP growth forecast (central scenario)

Changes with respect to the January, pre-liberation day forecast

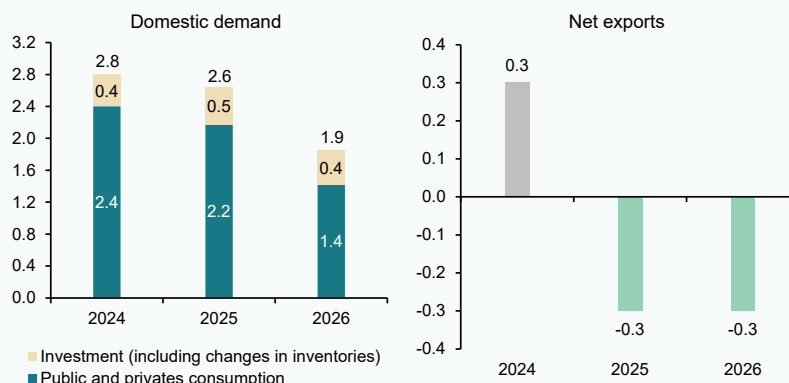


Source: Funcas.

Exhibit 3

Contribution to Spain's GDP growth

Percentage points



Source: INE (2024) and Funcas forecasts (2025 and 2026).

segment most sensitive to the deteriorating international environment (Exhibit 3). Private consumption is set to expand at a solid pace, supported by rising household disposable income and the gradual drawdown of savings accumulated over the past two years. Public consumption is also expected to increase, though at a more moderate rate than in previous years, due to the extended budgetary framework and the system of advance payments to regional governments. This year, compensation under that system will be relatively limited, offering less fiscal leeway for regional spending compared to previous years. Residential investment is also expected to recover moderately, amid continued strong housing demand.

The rise in protectionism will negatively affect exports, particularly goods exports, which are weighed down by higher tariffs. Exports of non-tourism services are expected to lose some momentum, in line with the broader slowdown in global markets. Tourism,

meanwhile, will grow more moderately than in previous years due to saturation effects observed during the summer season. Nonetheless, a new record in foreign tourist arrivals is still anticipated. On the import side, as noted earlier, import growth is expected to return to historical elasticity levels, further dampening the foreign sector's contribution to growth.

Barring unforeseen shocks, the decline in inflation should take hold, driven by lower prices for imported goods. This reflects the appreciation of the euro, falling oil prices, and a greater influx of imports amid heightened global competition –particularly as Asian exports are redirected from the *de facto* closed U.S. market. The end of VAT reductions on food also had a slightly stronger impact than projected in the January forecast. Even so, the CPI is expected to rise by 2.3% in 2025 (annual average) and 1.9% in 2026, remaining broadly in line with previous estimates. In the opposite

“ The rise in protectionism will negatively affect exports, particularly goods exports, which are weighed down by higher tariffs. ”

direction, potential retaliatory actions by the European Union could disrupt this disinflationary trend. For now, the scenario is still dominated by disinflationary trends, supporting the rate-cutting cycle by the ECB, with the one-year Euribor projected to fall to 2% by year-end and to 1.75% in 2026.

The labor market will continue to expand, though at a slower pace than in recent years. Net job creation is projected at 360,000 annually over 2025–2026, compared to an average of 550,000 in the previous two years. A slowdown in labor force growth is also expected, as housing shortages act as a constraint on immigration and new labor force entries more broadly. The unemployment rate is forecast to fall to 10% in 2026, five-tenths of a point below the previous estimate—partly due to the stronger-than-expected close to 2024, which was not yet available in the January forecast.

Following a historic surplus last year, the current account balance is expected to narrow over the forecast period, though remaining in positive territory. This reflects the expectation of a sharp deceleration in export volumes and a rebound in import volumes. The external surplus is projected to decline to 2.3% of GDP in 2026, down 1.2 points from the previous forecast, but still a solid level.

Public deficit projections have changed little. The budget deficit is expected to fall to 2.9% of GDP in 2025 –or 2.6% excluding the impact of Storm Dana– and to 2.8% in 2026. Given the persistence of the fiscal imbalance and the economic slowdown, public debt will likely remain close to 100% of GDP, leaving limited fiscal space to respond to any future shocks. This dynamic, combined with rising defense spending plans across Europe, is reflected in higher government bond yields compared to the January projections.

Risks of an alternative scenario of persistent uncertainty

The above forecasts –which suggest a relatively limited impact from the trade shock –rest on the assumption that the U.S. government will not fully implement its protectionist measures and that new trade rules will be established within a reasonable timeframe, bringing an end to the current period of instability. While this outcome is desirable, it is far from certain. A more adverse scenario is also conceivable: one in which uncertainty –marked by a series of announcements, counter-announcements, and policy reversals (as has recently occurred)– persists throughout the forecast horizon (2025–2026), or in which reciprocal tariffs are ultimately activated. Such developments would have a direct effect on the economy, fostering a climate of uncertainty highly detrimental to investment decisions.

Estimating the effect of prolonged uncertainty on investment is difficult. The impact is likely nonlinear, intensifying under conditions of acute stress, and there are few recent historical precedents comparable to the current situation. [5] Nevertheless, the following paragraphs attempt to approximate the potential magnitude of this effect.

Using the investment behavior observed during the European debt crisis as a reference –particularly in countries not experiencing a banking crisis like Spain’s– and considering the concurrent impact on other variables sensitive to global uncertainty (such as Spanish exports of tourism services), along with multiplier effects on employment and consumption and a modest disinflationary impact, it is possible to estimate a GDP loss of 0.3 percentage points this year and 0.2 points next year. In this scenario, the drag on GDP from uncertainty-induced investment weakness would be concentrated in the second

“ In an alternative scenario where elevated uncertainty persists long enough to weigh on investment, GDP growth would fall to 2.0% in 2025 and 1.4% in 2026. ”

Table 1 **Economic forecasts for Spain, 2025-2026**

Annual growth rates of change in %, unless otherwise indicated

	Observed data				Funcas forecasts		Change of forecasts (a)	
	Average 2008-2013	Average 2014-2019	Average 2020-2023	2024	2025	2026	2025	2026
GDP and aggregates, constant prices								
GDP	-1.3	2.6	0.9	3.2	2.3	1.6	-0.1	-0.4
Final consumption households and NPISHs	-2.1	2.2	0.1	2.9	3.1	2.0	0.1	0.4
Final consumption general government	0.6	1.2	3.2	4.1	2.2	1.5	-0.2	0.0
Gross fixed capital formation	-7.5	5.0	-0.4	3.0	2.5	2.2	0.4	-1.0
Construction	-10.5	5.2	-0.8	3.5	2.9	2.7	-0.1	-0.3
Capital goods and other products	-2.9	4.7	0.1	2.4	2.1	1.6	0.9	-1.7
Exports goods and services	1.6	4.0	1.6	3.1	1.7	1.1	-0.7	-2.1
Imports goods and services	-4.4	4.4	1.3	2.4	2.9	2.1	-0.6	-0.9
National demand (b)	-3.1	2.6	0.9	2.8	2.6	1.9	0.0	0.1
External balance (b)	1.8	0.0	0.0	0.3	-0.3	-0.3	-0.1	-0.5
GDP, current prices: - € billion	--	--	--	1,591.6	1,666.7	1,721.7	--	--
- % change	-0.8	3.4	4.6	6.2	4.7	3.3	0.0	-0.7
Inflation, employment and unemployment								
GDP deflator	0.5	0.8	3.6	3.0	2.3	1.7	0.1	-0.2
Household consumption deflator	1.7	0.7	3.5	4.1	2.3	1.8	-0.3	-0.1
Remuneration per worker	2.4	1.2	3.3	4.7	2.9	2.1	0.0	0.1
Employment (LFS)	-3.0	2.4	1.7	2.2	2.1	1.2	0.4	0.2
Unemployment rate (LFS)	20.2	18.8	13.9	11.3	10.5	10.0	-0.4	-0.5
Financial balances (% of GDP)								
National saving rate	19.0	21.9	22.7	23.5	23.4	23.1	0.1	-1.0
National investment rate	21.8	19.6	21.5	20.5	20.6	20.8	0.2	0.2
Current account balance with RoW	-2.8	2.3	1.1	3.0	2.8	2.3	-0.1	-1.2
Nation's net lending (+) / net borrowing (-)	-2.4	2.7	2.0	4.2	3.9	3.3	0.1	-0.7
General Government net lending (+) / net borrowing (-)	-9.0	-4.0	-6.2	-3.2	-2.9	-2.8	0.0	0.1
Public debt according to EDP	68.7	101.3	112.4	101.8	100.0	99.8	-0.7	-0.1
Other variables								
GDP per capita	-1.8	2.4	0.2	2.2	1.6	1.1	-0.1	-0.4
Eurozone GDP	-0.3	1.9	0.9	0.8	0.7	1.0	-0.5	-0.5
Household saving rate (% of GDI)	9.3	7.2	13.2	13.6	12.0	11.5	-0.2	-0.4
Household gross debt (% of GDI)	127.7	100.5	83.4	67.7	66.1	64.7	0.4	0.4
Non-financial corporations consolidated debt (% of GDP)	112.4	84.7	78.4	63.5	61.9	60.5	-0.6	-0.3
12-month EURIBOR (annual average %)	1.90	0.01	1.04	3.27	2.03	1.75	-0.67	-0.50
10-year government bond yield (annual average %)	4.74	1.58	1.60	3.15	3.21	3.12	0.01	0.30

(a) Change in percentage points between previous and current forecasts.

(b) Contribution to GDP growth, in percentage points.

Sources: 2008-2024: INE and Bank of Spain; Forecasts 2025-2026: Funcas.

half of 2025. This impact would come in addition to the effects already included in the baseline forecast. The impact on construction investment, however, is expected to be negligible, as it tends to follow its own cycle and respond more slowly to changes in the broader economic environment.

Taken together, in an alternative scenario where elevated uncertainty persists long enough to weigh on investment, GDP growth would fall to 2.0% in 2025 and 1.4% in 2026, with negative quarter-on-quarter growth rates expected in the final two quarters of 2025.

The deterioration could prove even more severe if the U.S. economy were to enter a recession and inflation were to surge again, eroding household purchasing power. Such a scenario –clearly undesirable for all economies– would involve cascading effects: collapsing confidence, reduced consumption and investment, financial market turmoil, and capital flight toward perceived safer havens (the much-feared “Liz Truss moment”). While such a vicious cycle remains highly unlikely, if it were to materialize, reversing it would be extremely difficult.

Notes

- [1] The 35% tariff imposed in 2018 on Spanish olive imports generated an equivalent reduction in shipment volume, consistent with unit elasticity.
- [2] For a discussion of recent developments in the U.S. economy, see Jarrett (2025).
- [3] While some sectors, such as pharmaceuticals, are exempt for the time being, others such as steel, aluminum and automotive face a specific levy. On the other hand, the Trump administration has announced that the exemption of pharmaceutical imports for the purposes of the universal tariff is temporary.
- [4] For this estimate, see Funcas (2025).
- [5] According to the uncertainty indices, uncertainty reached maximum levels in Spain during the debt crisis of 2012 and in 2020. But these were situations of a different nature, and there were other factors in addition to uncertainty acting on investment – the paralysis

of credit flows due to the financial crisis and the high indebtedness of companies in 2012 – which are not present in the current situation.

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Tensions in the U.S. and eurozone sovereign debt markets

Transatlantic divergence in fiscal and monetary policies is driving renewed volatility in sovereign bond markets, with U.S. Treasury yields elevated and eurozone spreads widening, particularly in Germany. Going forward, the lack of economic policy coordination could continue to generate episodes of instability in international financial markets.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: Transatlantic divergence on fiscal and monetary policies have underpinned recent tensions in both the U.S. and eurozone sovereign debt markets. In addition to exhibiting high volatility, in May 2025, 10-year U.S. Treasury yields remained above 4.3%, driven by a high fiscal deficit and rising public debt, accentuated by an exodus by traditional institutional investors and higher activity by price-sensitive players. In the eurozone, the expansionary shift in German fiscal policy —particularly the €100 billion increase in defence spending— has pushed Bund yields to around 2.5% while peripheral country risk premiums had risen somewhat: the Italian risk premium stood at over

100 basis points and the Spanish spread stood at around 65bps. Meanwhile, the ECB has lowered its deposit rate to 2.25%, following six consecutive cuts since mid-2024, and faces the challenge of supporting growth without importing inflation. This combination of factors initially reinforced capital flows to the U.S., strengthening the dollar and increasing global financial fragmentation, but tariffs and uncertainty have ultimately reversed these capital flows and weakened the dollar. Going forward, the lack of economic policy coordination could continue to generate episodes of instability in international financial markets.

Foreword

The combination of recent political decisions and unexpected volatility has sparked tension in the bond markets in the U.S. and Europe alike. In the U.S., Treasury yields have increased sharply, fuelled by a high public deficit and adjustments in global demand for American public debt. According to the IMF's *Global Financial Stability Report* from April 2025 [1], global financial stability risks have increased significantly, driven by tighter global financial conditions. This pressure intensified sharply after Trump announced his tariffs in April, sparking considerable volatility in the debt markets. The term premium has spiked, which means that investors are demanding a higher return on sovereign bonds in the U.S. and eurozone (Exhibit 1), fuelling the risk of sudden price corrections.

In tandem, in the eurozone the shift in German fiscal policy, including a historical increase in military spending, has pushed

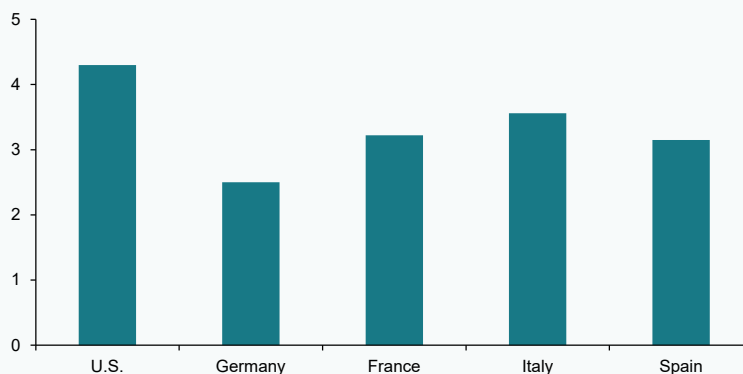
yields on German Bunds higher, while the ECB has remained in monetary easing mode. The divergence between fiscal and monetary policy in the two regions had initially driven an increase in the yield gap and attracted capital flows to the U.S., strengthening the dollar and pressuring global financial stability. In recent weeks, however, the uncertainty ushered in by the new Trump administration has affected those capital flows (drawing a certain amount back to the eurozone) and the value of the dollar. There has even been speculation that the Federal Reserve could be forced to intervene to stabilise the bond markets if tensions persist.

Some analysts have pointed out that the current high yields on bonds are partly the result of changes in fund flows: traditional demand from price-insensitive investors (foreign governments, the Fed, life insurers) has fallen back, with more price-sensitive players (hedge funds, ETFs) coming into play.

Exhibit 1

10 year sovereign bonds yields (May 2025)

Percentage



Sources: Bloomberg, ECB and authors' own elaboration.

“ The divergence between fiscal and monetary policy in the U.S. and eurozone had initially driven an increase in the yield gap and attracted capital flows to the US, strengthening the dollar and pressuring global financial stability. ”

Some of these buyers, like the hedge funds, are highly leveraged. This shift in debt holders is amplifying volatility. In fact, the term premium in the U.S. has shot up to its highest level since 2014, reflecting that investors are demanding growing compensation for duration risk. In these conditions, the main Treasury bond dealers are facing a supply surplus without sufficient automatic buyers, putting upward pressure on rates.

In short, the sharp increase in Treasury yields has been driven by both fiscal expansion and technical market dynamics. What has happened is already being termed an exodus (probably temporary and/or partial) from longer-term Treasury bonds that has already implied a major global unwinding of positions in supposedly safe assets. This paper takes a look at these discrepancies between the U.S. and eurozone, emphasising their implications for the financial markets, financial stability and economic growth.

Sources of uncertainty in the debt markets

Uncertainty around trade and the step change in German fiscal policy has triggered the largest exodus from American and European bonds since at least 2020. Many managers believe that the leveraged funds have exacerbated market volatility. The resulting high yields are increasing government borrowing costs (as noted by Treasury Secretary Scott Bessent, who is insisting on avoiding excessively high yields) and testing the Fed's ability to contain a wave of forced sales without overwhelming the financial markets.

In Europe, the headline is the shift in German fiscal policy. The coalition government approved an ambitious spending plan, including around 100 billion euros of

additional defence spending this year (the biggest post-war increase in military spending) and billion-euro packages for infrastructure, the green transition and digitalisation. This fiscal impetus, enabled by relaxation of the debt brake written into the constitution, took the markets by surprise. In the week of the announced coalition agreement, the yield on 10-year Bunds shot up around 50 basis points, wiping out several weeks of decreases. The market had already priced in higher future spending but the scale of the increase drove a sharp spike in Germany bond yields. In fact, between September and March, the risk premium between the Bund and the European 6-month swap widened by 43bps, indicating expectations for higher inflation in Germany. This phenomenon has several explanations. The prospect of higher inflation could complicate the ECB's mandate: even though core inflation in the eurozone has fallen back towards 2.2% and the ECB has continued to cut rates, which stood at 2.25% by April (after six straight reductions), the sudden increase in public spending adds inflationary pressure.

Some analysts are warning that German defence spending (and in European defence spending in general) could import inflation into the eurozone. It could boost internal demand but it could also fuel energy and raw material costs. Against this backdrop, the ECB is facing contradictory tensions. It wants to continue to revive the economy (protracted subdued growth) by keeping rates low, but it does not want the new fiscal measures to import inflation from abroad in the absence of sufficient internal demand to justify it. The ECB is not ruling out additional rate cuts but doubts linger as to whether this strategy can reactivate the economy without generating imported inflation. In fact, the ECB has raised its forecast for inflation in 2025 (to 2.3%)

“ In the week of the announced coalition agreement, the yield on 10-year Bunds shot up around 50 basis points, wiping out several weeks of decreases. ”

“ The OECD has trimmed its forecasts and is currently estimating scant growth of 1% in the eurozone in 2025 (down from 1.3% in December), with the German economy expected to grow by just 0.4%. ”

precisely because of stronger energy price dynamics and other external price pressures. This has sparked internal debate about pausing rate cuts or ending the rate-cutting cycle sooner than anticipated.

Meanwhile, German fiscal policy has impacted the bonds of other eurozone issuers. Core European bonds have also seen their yields trade higher, while the peripheral issuers have experienced spread tightening in some cases (for example, after the credit rating agencies reaffirmed their sovereign bond ratings). However, the bonds issued by governments with more debt remain somewhat volatile. For example, in the days following the announcement of U.S. tariffs, the Italian risk premium rose to around 130 basis points (with its 10-year bond trading at around 3.97%).

In Spain, the spread over the German Bund remains at around 65 basis points (data as of May). The experts warn that persistent economic weakness in Europe and institutional fragmentation (as seen in the staggered yet unstable return of the fiscal rules and emphasis on consolidation) could once again take centre stage, exerting fresh pressure on risk premiums. Indeed, the OECD has trimmed its forecasts and is currently estimating scant growth of 1% in the eurozone in 2025 (down from 1.3% in December), with the German economy expected to grow by just 0.4%. This low-growth environment limits the space for alleviating debt via growth, which is why

investors are demanding a relatively high risk premium in the more indebted countries. In short, the clash between higher public spending in Germany and a sluggish eurozone economy has caused tensions in the European debt markets. Analysts stress that without a sharp increase in growth, Germany will lose the advantage it had previously commanded (robust and countercyclical). Meanwhile, the ECB insists that the deflationary process remains ongoing but that the effects of rearmament on future inflation and perceived European debt risk need to be watched closely.

Policy divergence and global repercussions

The mix of monetary (Fed on pause *vs.* ECB in rate-cutting mode) and fiscal policies (expansionary in the U.S. and moderate in Europe with the odd exception) has heightened the economic divergence between the two regions. As a result, the spread between the two regions' bond yields has widened (Exhibit 2).

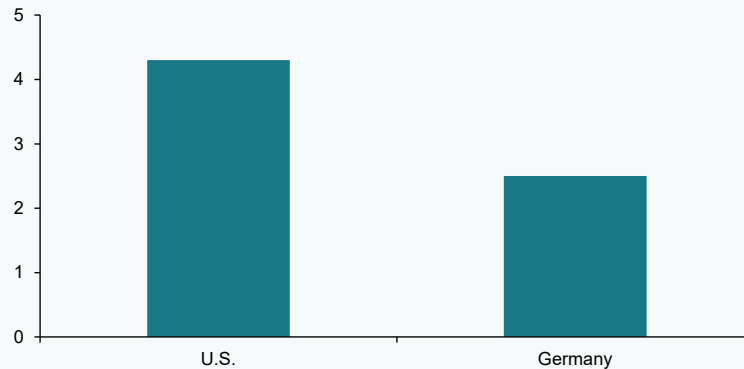
This divergence contributed to dollar appreciation six months ago. The higher yield on U.S. bonds drew global capital into dollar-denominated assets, to the detriment of other regions. These flows in turn pushed up financing costs in the eurozone (adverse exchange rate) and increased the global risk premium. However, this trend has shifted in recent months, as tariff announcements and the lack of hard data about the long-term fiscal direction in the U.S. have hurt the

“ The markets are currently discounting more rate cuts in Europe than in the U.S. (specifically, an additional 75 basis points by the ECB in 2025 *vs.* 50bps by the Fed, which has yet to lower its rates this year). ”

Exhibit 2

Spread between U.S. and German bonds (May 2025)

Percentage



Sources: Bloomberg, ECB and authors' own elaboration.

value of the dollar, despite the interest rate differential between the U.S. and eurozone. Moreover, the prospect of divergent policies heightens volatility: the markets are currently discounting more rate cuts in Europe than in the U.S. (specifically, an additional 75 basis points by the ECB in 2025 *vs.* 50bps by the Fed, which has yet to lower its rates this year).

In terms of global financial stability, the issue resides with the fact that U.S. debt, long seen as a safe haven, is currently paying significantly higher rates than nearly all of the major advanced economies. As a result, the Treasury's immunity to potential crises has come under scrutiny. At the same time, geopolitical uncertainty and protectionism are increasing international volatility. In sum, geopolitical fragmentation and protectionism are exacerbating economic uncertainty, generating volatility in the bond markets and a lack of global policy coordination.

The IMF's *Global Financial Stability Report* from April 2025 warns that high sovereign indebtedness, in both advanced and emerging economies, could unleash episodes of instability in the bond markets, especially if the highly leveraged non-bank funds (part of the so-called shadow banking system) are forced to unwind positions. This vulnerability has been aggravated by the

growing nexus between banks and investment funds, amplifying the transmission of shocks. It is important to ensure the availability of liquidity mechanisms to contain episodes of stress, particularly in the more vulnerable sovereign markets. The IMF also recommends improving the quality and granularity of the data on non-bank financial institutions to enable a more accurate assessment of the systemic risk.

In practice, the agents are adjusting their portfolios. The eurozone's varying internal indicators once again signal the risk of fragmentation: in an environment of weak growth, heterogeneous fiscal governance could lead to sudden stress in peripheral country risk premiums. In short, the current tensions in the sovereign debt markets reflect a clash between very different contexts. In the U.S., the enormous fiscal deficit and a bond market increasingly reliant on price-sensitive investors (leveraged funds) are pushing long-term rates higher. In Europe, the radical shift in German fiscal policy has altered inflation expectations and perceived risk around the Bund, at a time when the eurozone economy continues to need monetary stimulus.

This decoupling is generating contrasting interpretations and predictions. On the one hand, considering only the theoretical effect of

“ It is essential to reinforce the institutional mechanisms for reducing systemic risk in the event of global shocks. ”

the rate differential, the natural conclusion would be that the current situation will reinforce flows to the U.S. and widen spreads, increasing global financial fragmentation. Investors are following these dynamics closely, with Wall Street strategists cautioning that if global policy does not normalise, the markets could continue to react abruptly to any unexpected news. Another interpretation, however, is that the political and economic uncertainty prevailing in the U.S., particularly since the imposition of tariffs by the Trump administration, has caused international investors to worry. According to the IMF, this uncertainty has prompted a reassessment of global demand for dollar-denominated assets, hurting investor confidence. Moreover, dollar depreciation and financial market volatility have eroded foreign investments in the U.S. In contrast, Europe may be becoming more attractive as a destination for investment.

In sum, although the U.S. had been registering strong inflows of capital until the early part of this year, growing uncertainty and improved prospects in other regions suggest that these flows may not be sustainable in the long term and that investors may be diversifying their portfolios into markets with more solid and predictable fundamentals.

Conclusions

The recent tensions in the sovereign bond markets illustrate the extent to which fiscal and monetary policy coordination is crucial to avoiding episodes of financial instability. The interplay between persistent deficits, expansionary fiscal agendas and shifts in the composition of sovereign bond holders is generating a new balance of risks, less anchored in the traditional notion of safe haven assets. As global investors fine-tune their portfolios, not only in response to relative rates but also perceived macroeconomic governance, the markets are becoming increasingly sensitive to any sign of dysfunction.

Geopolitical fragmentation is further complicating this complex environment, reinforcing centrifugal dynamics in the eurozone and also in the international financial system. Uncertainty about where U.S. fiscal policy may be headed, the reconfiguration of strategic priorities in Europe and significant exposure to non-bank funds warrant a more integrated approach to economic policy. Stabilising rates or adjusting spreads will not suffice: it is essential to reinforce the institutional mechanisms for reducing systemic risk in the event of global shocks. The current turbulence could be a taste of what might lie in store if progress is not made towards more coherent governance.

Notes

[1] <https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025>

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Spanish *versus* European bank exposure to sovereign risk

Spanish banks' exposure to public debt has increased more sharply than the EU average, reaching 15.4% of total assets in 2024. Amortised cost accounting and international diversification help risk mitigation, while higher interest rates on public debt holdings have significantly boosted returns for the domestic business.

Joaquín Maudos

Abstract: The share of public debt in the Spanish banks' asset mix has been increasing in recent years, reaching 15.4% in 2024, in tandem with the run-up in interest rates. That is 2.5pp above the EU average. Forty-eight percent of this debt is Spanish public debt. This share is below the European average, reflecting the Spanish banks' strong international footprint. A point in favour of the Spanish banks is the growing volume of public debt carried at amortised cost (67.2% *vs.* 58.6% in the EU), ring-fencing it from market fluctuations. In the Spanish banks' domestic businesses, public debt has increased its share of total assets from 6.66% in 2019 to 7.79% in

2024, and from 76.4% of total fixed-income holdings to 90.7%, with the interest earned on these investments multiplying 2.5x.

Foreword

The banks' exposure to sovereign debt risk is a topic of interest and debate. As signalled by the BIS (2017), banks invest in public debt for several reasons, including liquidity management (public debt is one of the most liquid assets), credit risk mitigation or as an investment option, whether holding the debt for trading or more as a long-term investment. The fact that such a high percentage of public debt is in the hands of the banks explains the

“ According to the information published by the EBA for the consolidated groups, public debt holdings have increased as a percentage of the Spanish banks’ total assets from 13.2% in 2019 to 15.4% in 2024. ”

importance of the banks when articulating both fiscal and monetary policy. This is why the matter of how these sovereign exposures are treated for regulatory purposes is so important.

The banks’ exposure to sovereign debt risk poses a range of risks, including risks associated with movements in interest rates and credit risk itself. Recall that not long ago certain American banks faced severe problems on the heels of rate increases that forced them to sell off debt at heavy losses. When these problems reach a certain scale, a vicious bank-sovereign risk loop can take hold, where a problem that starts with a bank (state) ends up becoming a problem for the state (bank). [1]

Against this backdrop, the aim of this paper is to analyse the weight of public debt in the European banks’ balance sheets, focusing on the Spanish banks. Our analysis spans the years elapsing since the inflexion point in the cycle induced by the pandemic until the most recent data, as of the end of 2024. However, as we will show, it is the sudden change in the central banks’ benchmark interest rates in 2021 (sharp increases to curb inflation) that triggered the shift in the weight of public debt in the banks’ asset structures. In addition to the trend in the share of sovereign risk exposure, we also analyse the holdings by country of issue, maturity structure and valuation method. For Spain, we also look at the significance of the income from that debt

(interest collected) relative to the banks’ total financial income in their domestic businesses, along with its share of total assets and of their total fixed-income investments.

Bank exposure to sovereign risk

According to the information published by the European Banking Authority (EBA) for the consolidated groups, public debt holdings have increased as a percentage of the Spanish banks’ total assets from 13.2% in 2019 to 15.4% in 2024 (Table 1), totalling 589.6 billion euros as of 2024. This share has been increasing since 2021 (growth of 2.7pp), coinciding with the change in the central banks’ benchmark rates, which spilled over to interbank rates and also public debt rates. Taking 12-month Euribor as our benchmark, the annual average was in negative territory until 2021 (-0.49% that year), before entering a new period of positive and rising rates, with the annual average peaking at 3.86% in 2023. In 2024, Euribor fell back a little (3.27%), once inflation had been tamed, allowing the central banks to start to lower their rates. Between 2021 and 2024, 12-month Euribor increased by 3.8pp.

The share of public debt held by the European banks’ has also increased, albeit by less: by 1.0pp between 2021 and 2024. This increase is common to the main European banking sectors, although varying in intensity: 2.7pp in Portugal, 1.7pp in Italy, 0.8pp in France and 0.3pp in Germany.

“ Banking sectors more exposed to sovereign risk tend to coincide with countries with higher public debt ratios, as seen in Spain, where the public debt ratio is 22pp above the EU average and banks’ exposure to sovereign debt holdings is also 2.5pp higher. ”

Table 1 **Weight of public debt in European bank assets and 12-month Euribor**

Percentage

	Spain	France	Germany	Italy	Portugal	EU-27	Euribor-12M
2019	13.2	12.1	14.0	17.0	21.3	12.7	-0.22
2020	13.1	12.3	13.9	16.8	23.7	12.9	-0.30
2021	12.7	11.6	9.9	17.8	22.4	11.9	-0.49
2022	13.7	11.3	9.1	17.3	20.5	11.6	1.09
2023	14.3	11.5	10.2	18.6	22.7	12.2	3.86
2024	15.4	12.4	10.2	19.5	25.1	12.9	3.27
2024-2021(pp)	2.7	0.8	0.3	1.7	2.7	1.0	3.8

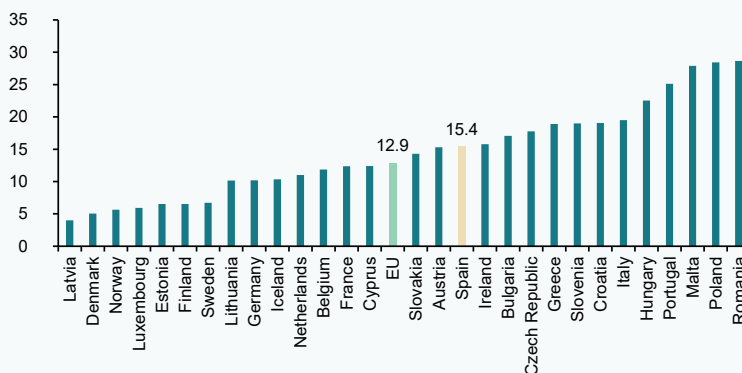
Sources: EBA, ECB and author's own elaboration.

Turning to the snapshot as of the end of 2024 (Exhibit 1), the weight of public debt in total assets at the Spanish banks was 2.5pp above the EU average (15.4% *vs.* 12.9%), and also above the shares in Germany (10.2%) and France (12.4%), but smaller than those commanded by public debt in Italy (19.5%) and Portugal (25.1%). The interval within the

EU is wide, ranging from a low of 4.6% to a high of 28.7%. In general, there is a positive correlation between public sector leverage (measured using the debt/GDP ratio) and the banks' exposure to sovereign debt. This is true, for example, of Spain, whose public debt/GDP ratio is 22pp above the EU average, just as the share of public debt in the banks' asset mixes

Exhibit 1 **Weight of public debt in European bank assets. 2024**

Percentage



Source: EBA and author's own elaboration.

“ The share of sovereign exposures measured at amortised cost by the Spanish banks is above the EU average and has increased sharply (18pp) since 2019 to 67.2%, compared to 58.6% in the EU. ”

is above the European banking sector average. It also holds in Germany, where public debt is 19pp below the European average, and its sovereign debt/assets ratio is similarly 2.7pp below the average. And in Italy, where public indebtedness is 55pp above the average and the percentage of public debt in its banks' asset bases is 6.6pp higher.

Characteristics of the banks' public debt portfolios

As for the geographic composition of the public debt holdings, as of year-end 2024, 48% of the debt held by the Spanish banks was Spanish public debt, which is slightly above the European domestic public debt exposure average of 46.6%. However, the share of public debt issued by other eurozone countries held by the Spanish banks is lower (20.3% *vs.* 28.4%). As a result, the share of debt issued by other countries is higher in Spain (31.6% *vs.* 25%). These results are shaped by the fact that the Spanish banks are very diversified geographically, with a significant presence in non-EU markets, including the UK, U.S. and Latin America (Maudos, 2024).

Whereas the geographic composition of the Spanish banks' sovereign debt holdings has barely changed since 2019, the European banks have increased their exposure to domestic public debt and public debt issued by other eurozone countries.

As for the term structure of these holdings, as of 2024, compared to the EU-27 average,

Spain held a smaller share of very short-term debt (<3 months): 8% of the total *vs.* the EU-27 average of 13.3%. Another 11.3% matures within 3 to 12 months, 38.7% between 1 and 5 years, 27.9% between 5 and 10 years and the remaining 14.2% in more than 10 years. The share of the longest-dated paper is 5.9pp smaller than the European average. Compared to 2019, the share of long-term debt has decreased across the Spanish banks, both 5-10 year and >10 year exposures.

Analysing, lastly, the rationale for the banks' public debt investments, the share held by the Spanish banks for trading has increased by 3.4pp since 2019, to 15.8% in 2024. In this respect, it has converged towards the EU-27 average, having been 6pp below it in 2019. The share of sovereign exposures measured at amortised cost by the Spanish banks is above the EU average and has increased sharply (18pp) since 2019 to 67.2%, compared to 58.6% in the EU. This is a point in favour as this debt is not exposed to market fluctuations. The composition of sovereign debt holdings by rationale for the investment varies significantly from one country to the next. For example, the share of held-to-maturity investments ranges from a low of 6.4% to a high of 93%.

The importance of public debt in the domestic banking business

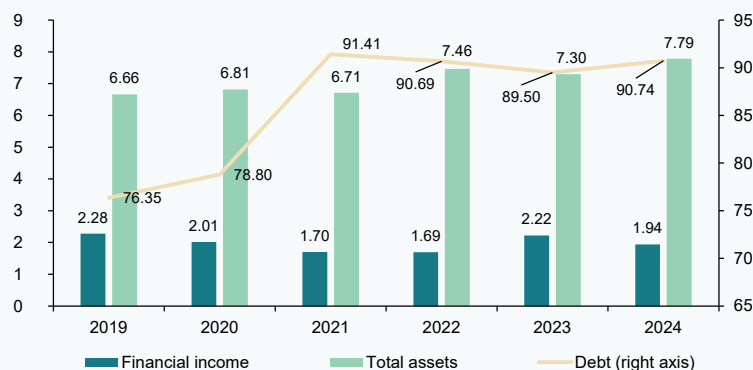
Focusing on the domestic banking business in Spain, we have sufficient data to analyse the importance of public debt investments for

“ For the domestic banking business, the volume of interest income generated by public debt investments has multiplied by a factor of 2.5 between 2019 and 2024 to 1.87 billion euros. ”

Exhibit 2

Share of public debt in the Spanish banks' domestic banking business

Percentage



Source: Bank of Spain and author's own elaboration.

the banks' financial income. Note that during the period analysed (2019 to 2024), the share of public debt in the Spanish banks' balance sheets has increased from 6.66% to 7.79% (a high for the period) and stood at 231.31 billion euros as of 2024. Measured instead in terms of its weight in total fixed-income investments, the share has increased by 14.4pp since 2019, to 90.74% in 2024 (Exhibit 2).

The volume of interest income generated by these investments has multiplied by a factor of 2.5 between 2019 and 2024 to 1.87 billion euros. However, the weight of this income in the banks' total financial income has decreased from 2.28% to 1.94%. This income increased most significantly in 2023 as a result of the increase in interest rates. In that year alone, income from public debt holdings tripled, remaining at that high level in 2024,

contributing 1.87 billion euros, as mentioned, to the banks' earnings.

Role of the banks in Spanish government funding

One last matter of interest is the role played by the banks in terms of funding the Spanish public authorities. The Spanish Treasury shares information about the breakdown of its borrowings by holders, the banks being one of the categories. In 2024, 13.97% of total Spanish public debt was in the hands of the resident credit institutions, below that held by non-resident institutions (43.92%) and by the Bank of Spain (27.16%). The percentage held by the Spanish banks has been oscillating around 13.5% since 2019, having peaked at 15.22% in 2020. Between 2023 and 2024, the percentage of Spanish public debt in the hands of the resident banks increased to 14.3%, in

“ In 2024, 13.97% of total Spanish public debt was in the hands of the resident credit institutions, below that held by non-resident institutions (43.92%) and by the Bank of Spain (27.16%). ”

contrast with decreases of 6.3% and 17.2% in the case of the Bank of Spain and investment funds, respectively.

Conclusions

The banks' exposure to public debt is a key element of the banking-sovereign nexus. The banks hold public debt for several important reasons, including liquidity management, portfolio diversification and the generation of investment returns.

In the period elapsing from before the pandemic (2019) until the end of 2024, the Spanish banks have increased their exposure to public debt, to 15.4% of total assets, which is 2.5pp above the EU average and a more pronounced increase than observed across the European banks as a whole. Of the total, 67.2% is carried at amortised cost (18pp more than in 2018 and 8.6pp above the European average in 2024), isolating it from market fluctuations. As signalled by the Bank of Spain (2024) in its *Financial Stability Report*, the recent increase in the share of public debt holdings and the increase in the volume measured at amortised cost are consistent with the current climate of rising interest rates.

Another differential trait of the Spanish banking system is higher exposure to the public debt issued by their own country, at 48%, somewhat higher than the European average (46.6%). In contrast, the share of debt issued by other eurozone countries is 8pp lower in the case of the Spanish banks (20.3% vs. 28.4%). However, in interpreting these figures it is important to consider the geographic distribution of the banking business and the fact that the Spanish banks' command a significant presence in Latin America, as well as the UK and U.S.

Notes

[1] Refer to Bergés *et al.* (2018) for an analysis of the Spanish situation from the bank perspective.

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Spanish fiscal policy in the face of systematic budget rollover: Risks for stability and reform

Despite robust growth and a declining headline deficit in 2024, Spain's underlying fiscal trajectory remains fragile due to persistent structural imbalances and high public debt levels. With the new EU fiscal framework taking effect and long-term spending pressures building, credible consolidation measures are becoming increasingly necessary.

Santiago Lago Peñas

Abstract: Spain's fiscal performance in 2024 benefited from strong economic growth and buoyant revenues, helping to reduce the headline deficit to 2.8% of GDP. However, this improvement largely reflected cyclical dynamics, with the structural deficit decreasing only slightly to remain above 3%. Budget planning for 2025 has been clouded by political uncertainty, resulting in a sharp divergence in medium-term consolidation scenarios between the government and independent institutions. At the subcentral level, regional governments posted near-

balanced budgets thanks to sharp growth in tax collections and the national strategy of sheltering them during the pandemic years, while local governments registered a surplus, supported by relatively flat spending. Looking ahead, demographic change, climate-related spending, defence requirements, and external shocks are expected to add further strain. In this context, fiscal sustainability will depend on rebuilding consensus, strengthening institutions, and adapting Spain's budgetary framework to emerging risks and long-term demands.

“ Spain’s public deficit came to 2.8% of GDP in 2024, excluding the one-off impact of the flash flooding that devastated the region of Valencia. ”

Foreword

Spain’s budget dynamics in 2024 had highlights and lowlights. The trend in the deficit, as calculated for fiscal rule application purposes, was clearly positive. Expressed as a percentage of GDP, it came down by over 0.7 points from 2023 (Ministry of Finance, 2025). The spending rule was missed, however. Compared to the targeted growth of 2.6% in 2024, AIREF (2004) estimates overall growth of 4.1%.

Putting the above numbers into context helps understand both outcomes. Firstly, Spain’s economic performance was exceptional, particularly in comparison with the EU-27. GDP growth was intense (+3.2%), fuelling tax receipts and social security contributions. While nominal GDP grew by 6.2%, tax revenue jumped 7.7%, and contributions increased by 6.7%. Secondly, although 2024 was governed by a general state budget carried over from the previous year, spending dynamics were expansionary. Momentum in spending coupled with new executive decrees led to growth in non-financial spending of 6.2%.

Until recently, the outlook for 2025 was looking very similar. The probability that the 2023 general state budget would be carried over once again was increasing as the weeks went by and the economy remained dynamic. However, Donald Trump’s return to the White House has triggered an intense systemic shock that has turned everything on its head, to an extent that cannot yet be gauged. His announcements and decisions around tariffs have undermined expectations and are bound to slow Spanish economic growth

in the second half. Moreover, his demand that NATO member states significantly and quickly step up their defence spending will exert further pressure on expenditure.

Looking to the medium term, the projections are shaped by the new European fiscal rules, the need to invest in the energy transition and climate action, the budgetary requirements emanating from the Competitiveness Compass that end up falling to the EU-27 member states to finance, and the end of the NGEU funds in 2026. In sum, a challenging horizon that is scantily compatible with a no-change approach to budgeting.

Results for 2024

Spain’s public deficit reached 2.8% of GDP in 2024, excluding the one-off impact of the flash flooding that devastated the region of Valencia in November, a shock estimated at 5.59 billion euros, equivalent to 0.35% of GDP (Exhibit 1). Leaving aside that outlay, between 2023 and 2024, the ratio of spending to GDP came down from 45.45% to 45.06% (-0.39pp), total non-financial revenue increased from 41.93% of GDP to 42.26% (+0.33pp), and the tax-to-GDP ratio increased by 0.5pp: from 37.2% to 37.7%. Eurostat has already confirmed these figures. [1]

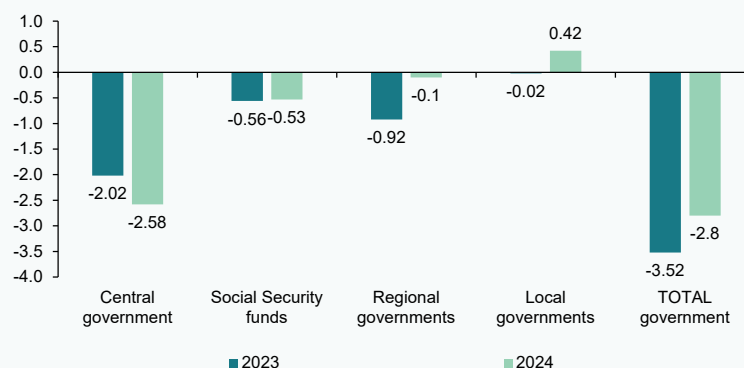
The 0.72 percentage point reduction in the deficit relative to GDP is the direct result of an improvement at the subcentral government level, as the Social Security’s deficit is stagnant and the state deficit increased by more than half a point last year (0.56pp). Sizeable payments to the regional governments under the regional financing

“ The structural deficit decreased by just 0.2pp, from 3.3% to 3.1%, between 2023 and 2024. ”

Exhibit 1

Budget deficit (–) or surplus (+) in 2023 and 2024 by level of government

Percentage



Source: Author's elaboration based on Ministry of Finance (2025).

system corresponding to 2022 (paid in 2024) are responsible for both the improvement at the subcentral level and the deterioration in the state deficit. That settlement increased by 13.52 billion from 2021, around 0.9 percentage points of GDP (Ministry of Finance, 2025). The fact that the local governments have returned to surplus territory is also related to larger transfers from the central government.

In short, the changes in the internal composition of the overall deficit have been shaped primarily by intergovernmental transfers, rather than by differing efforts to control spending dynamics. According to the preliminary figures released by AIReF (2024), net primary expenditure decreased at the central government level in 2024 (-2.9%), compared to an increase of 7.0% at the regional government level.

The assessment is richer and more nuanced if we look at the estimated structural component of the overall deficit. According to the calculations included by the Spanish government in the Medium-Term Fiscal-Structural Plan 2025-2028 sent to the European Commission in October of last year (Government of Spain, 2024), the structural deficit decreased by just 0.2pp, from 3.3% to 3.1%, between 2023 and 2024. Therefore,

even considering the fact that the overall deficit came in at 2.8%, rather than the 3.0% estimated by the government itself in that plan, over half of the improvement is attributable to the cyclical component of the deficit, *i.e.*, to favourable economic momentum.

Forecasts for 2025

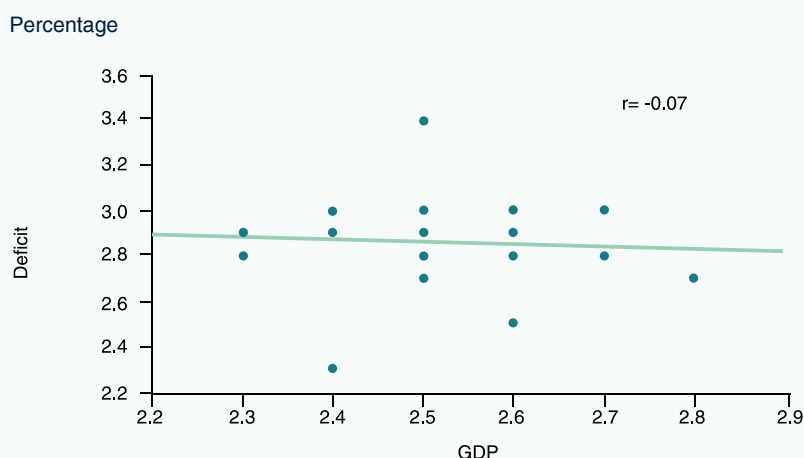
The government's forecasts for 2025 call for a deficit of 2.5% and compliance with the ceiling of 3.2% on growth in eligible public spending. Assuming no policy changes, AIReF (2024) is forecasting a deficit of 2.7% and growth in spending of 3.7%. In both cases, the independent fiscal institution is forecasting slight deviations. Certainly, the failure to present and pass a new budget is generating uncertainty about what might ultimately happen and making it extremely difficult to make forecasts.

The Funcas consensus forecast as of May 2025 sums this situation up. Exhibit 2 illustrates the combined forecasts for the deficit and GDP growth of 23 public and private institutions and the corresponding regression line and linear correlation coefficient. [2] The range of deficit forecasts is wider than the range of GDP forecasts. The estimates for the former range from 2.3% to 3.4%, compared to a range

“ The estimates for the deficit range from 2.3% to 3.4%, compared to a range of 2.3% to 2.8% for GDP growth. ”

Exhibit 2

Correlation between forecasts for the public deficit (over GDP) and real GDP growth in 2025



Source: Author's elaboration based on data compiled by Funcas (2025).

of 2.3% to 2.8% for the latter, with averages of 2.9% and 2.5%, respectively. More remarkable still is the total absence of correlation between the growth and deficit forecasts: the analysts who expect the economy to post stronger growth do not have faith in a bigger deficit reduction. The reality is that it is becoming harder than ever to forecast, and monthly oversight is becoming vital.

Medium-term horizon

Exhibit 3 depicts the fiscal consolidation pathways estimated for 2025-2027 by the government, the Bank of Spain, and the AIREF. It also layers in the trend in the structural deficit (net of the impact of the

economic environment) forecasted by the government.

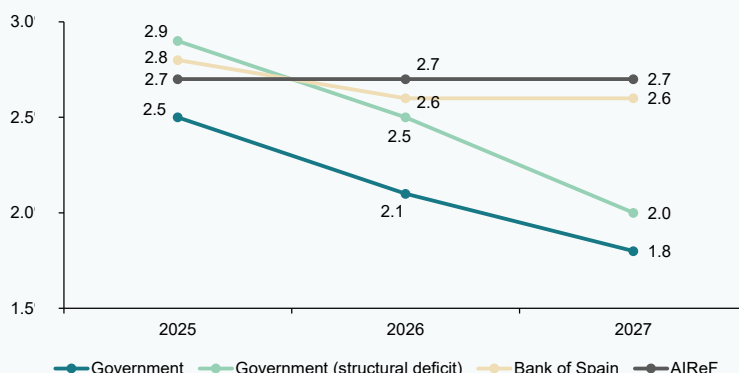
In 2025, the government is looking for a bigger reduction. However, considering that in 2024 the deficit came in 0.2 percentage points below the government's and both institutions' estimates, the three sets of forecasts for fiscal consolidation in 2025 are essentially compatible. The difference is more pronounced in the following years. The government is forecasting a substantial and sustained reduction in the overall deficit, enabled by a proportionate improvement in both the structural and cyclical components. In contrast, the Bank of Spain and AIREF believe that, assuming a no policy-change

“ The government is forecasting a substantial and sustained reduction in the overall deficit, enabled by a proportionate improvement in both the structural and cyclical components. ”

Exhibit 3

Public deficit forecasts, 2025-2027

Percentage points of GDP



Sources: Author's elaboration based on Government of Spain (2024), AIReF (2024), and Bank of Spain (2025).

scenario, consolidation will stagnate, with the deficit getting stuck at closer to 3% than 2.5%.

Compliance with the EU fiscal rules will oblige tighter control over growth in eligible expenditure net of discretionary revenue measures, which is why the government is forecasting an annual reduction in the structural deficit of close to half a percentage point. The government's deficit reduction path would pave the way for accelerating the reduction in the ratio of public debt to GDP and give it a certain amount of fiscal margin of manoeuvre for tackling unexpected shocks. In other words, the targets are reasonable and already aligned with what the EU expects from Spain. What is missing are the specifics as to how the targets will be attained and how the government will move from the scenario of no policy-change to one of proactive budget consolidation.

What is happening at the subcentral government level?

The budget settlements in 2024 (Ministry of Finance, 2025) depict an asymmetric financial scenario at the regional *versus* the local subcentral government levels (Exhibit 4).

Starting with the regional governments, non-financial revenue increased by 10.9%, nearly four points above the total blended figure. The first explanation lies with how the common-regime regional governments' financing system works. The grants are settled with a two-year lag, which ends up generating unanticipated and often destabilising financial effects. This revenue growth allowed the regional governments to reduce their deficit by 0.8 points of GDP to end the year with an almost balanced budget (-0.12% of GDP), despite substantial growth in spending: +5.6%. The AIReF's calculations estimate even higher growth in

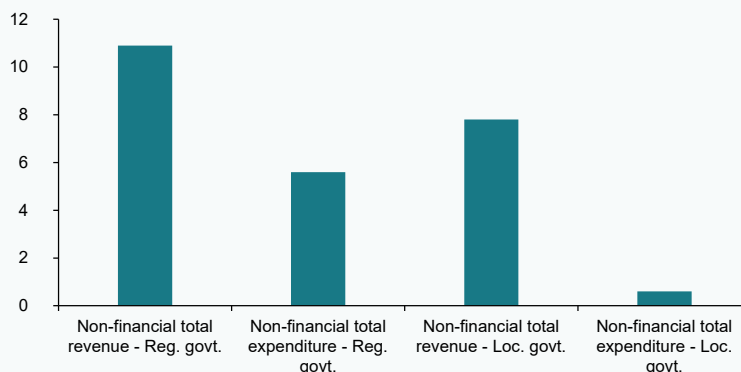
“ The regional governments as a whole are not facing a funding shortage, thanks to sharp growth in tax receipts over the past three years and the strategy of sheltering them during the pandemic years. ”

“ The local governments as a whole continue to offset the figures corresponding to the rest of the subsectors. ”

Exhibit 4

Growth in non-financial income and expenditure: Regional versus local governments

Percentage



Source: Author's elaboration based on Ministry of Finance (2025).

the non-primary expenditure included for spending rule purposes, implying growth of more than double the ceiling rate.

There are several takeaways from the developments of 2024. Firstly, the regional governments as a whole are not facing a funding shortage, thanks to sharp growth in tax receipts over the past three years and the strategy of sheltering them during the pandemic years. Regional financing reform remains necessary and pressing, but for different reasons (Cadaval *et al.*, 2024). Secondly, greater importance needs to be attached to the spending rule in the new fiscal rule framework, and, by extension, the public debate. Reducing the deficit is not good enough if the consolidation is the result

of extraordinary and automatic growth in revenue. Lastly, it is urgent to recalibrate the fiscal stability framework at the subcentral government level. Specifically, in situations such as 2024, compliance with the spending rule should and would have generated a budget surplus for financing a rainy-day fund. Most of the regional spending relates to essential services (health, education and social services) that are hard to cut during adverse economic times. The idea behind a rainy-day fund is to be able to absorb variations around defined average medium-term growth in spending.

The reality facing the local governments is different. Their non-financial income increased only slightly above the aggregate

“ Climate change and population ageing will put pressure on the public finances, whereas digitalisation presents a window of opportunity. ”

“ Spain has been spending very little by comparison with other countries, and the new paradigm is going to oblige it to make a bigger effort to catch-up. ”

government average (+7.8%), but their spending was flat (+0.6%), allowing them to move from a balanced budget to a surplus of 0.4 percentage points. The local governments continue to offset the figures corresponding to the rest of the subsectors.

A few thoughts about long-term fiscal risks

It is hard not to get bogged down by current affairs. However, we must not lose sight of the fact that budgeting is also conditioned by long-term trends, the emergence of new demands for intervention, and the stark fact that the frequency and intensity of extreme events with negative fiscal consequences are on the rise.

Long term, climate change and population ageing will put pressure on the public finances, whereas digitalisation presents a window of opportunity for using funds more efficiently. [3] We have good insight into how demographic trends affect spending, but we know less about how they will affect tax revenue. Climate change, meanwhile, is an area in which estimates are still very imprecise. Moreover, there is uncertainty around the role the EU will play in financing the investments needed to anticipate the effects of climate change or accelerate the energy transition.

As for new demands, defence spending springs to mind. Spain has been spending very little by comparison with other countries, and the new paradigm is going to oblige it to make a bigger effort to catch-up over the rest of the decade.

Lastly, the extreme events include financial crises, pandemics, climate events, and fires. A recent AIREF (2025) report on fiscal risks provides good reading material in this respect. The key implication of events such

as these for budgetary practice is that we need to reinforce response mechanisms. Use of the Contingency Fund should be limited to financing truly unforeseen, non-discretionary spending commitments, and the overall contribution to it should be scaled up to reflect the expected magnitude of these fiscal risks. However, the experience of the last 15 years tells us that the size of certain shocks would require setting aside excessive volumes of contingency funds that would not be necessary most years.

Without question, the so-called Solidarity and Emergency Aid Reserve (SEAR), created in 2021 by bringing together two pre-existing mechanisms (the Emergency Aid Reserve for technical assistance and the European Union Solidarity Fund (EUSF) for financial assistance) is a valuable and intelligent collective insurance mechanism for addressing natural disasters or public health emergencies. However, its financial capacity will surely have to be increased going forward. There is one more very important reason for fiscal prudence and stability. It is time to drive a very simple idea home: a state's capacity to respond fiscally to an extreme event is much greater if its public debt ratio is 60% rather than 100%. That is why it is essential to use good economic times not interrupted by extreme events to bring about rapid reductions in that ratio.

Notes

[1] Refer to <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-22042025-ap>

[2] The forecast pairs coincide in six cases, which is why the scatter chart only has 17 points.

[3] Refer to the recent edition of *Papeles de Economía Española* on “Retos pendientes del sector público español” [Outstanding

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TAX BURDEN

Spain's rising tax burden: Personal income tax under scrutiny

Spain's tax revenue rose sharply in 2024, led by strong growth in personal income tax, VAT, and corporate income tax. While this helped reduce the public deficit, the non-indexation of PIT has eroded real household incomes and intensified fiscal drag.

Desiderio Romero-Jordán

Abstract: The bulk of tax revenue in Spain comes, in descending order, from personal income tax (PIT), value added tax (VAT), corporate income tax (CIT) and excise duties. Revenue from these four taxes increased by 8.1%, or €21.17 billion, in 2024. As a result, their share of GDP increased from 17.4% to 17.7%. Around four out of every 10 euros of that increase corresponded to PIT, 3 to VAT, 1.8 euros to CIT and 0.6 euros to excise duties. As in prior years, PIT was that key source of growth in tax receipts. In 2024, the indexed average real PIT burden borne by Spanish households was well above the value of 100 in 2008, at 114.4. In contrast, indexed average net income stood at 95.7 in 2024. This means

that Spanish households' take-home pay was lower in 2024 than it was in 2008. In other words, in real terms, they paid more PIT than in 2008. The failure to index PIT to inflation since the pandemic explains a substantial part of the divergence between the net income and PIT indices in 2024.

Trend in revenue and the public deficit in 2024

Excluding the impact of last autumn's flash floods, [1] Spain's public deficit ended 2024 at 2.8%, 0.2pp better than the government's target, repeating the situation of 2023, when the deficit also came in below target. This positive performance was driven by the

“ In just four years, from 2021 to 2024, revenue [from PIT] has increased by 36.9%, or 34.86 billion euros. ”

interplay of two factors. Firstly, sharp growth in receipts from the four pillars of the tax system (PIT, VAT, CIT and excise duties), of 8.1%. Secondly, one-point lower growth in total government uses of funds relative to non-financial revenue: 6.2% *versus* 7.1%. As a result, total public revenue as a percentage of GDP increased by 0.3pp to 42.3%, while public expenditure was stable at 45.4% (IGAE, 2025).

Total receipts from these four taxes came to €281.17 billion in 2024, up €21.17 billion from 2023, in line with trend throughout the rest of the post-pandemic years (AEAT, 2025a). These figures highlight the extraordinary growth in tax receipts since the pandemic, marked by annual growth of 23.8 billion euros. In the historic series tracking tax receipts, we have to go back to the years of the real estate boom for a comparable increase: average annual growth in tax revenue of €19.1 billion between 2005 and 2007.

The biggest share of the growth in revenue in 2024, at 40.0%, came from PIT (€9.13 billion), followed by VAT, at 29.1% (€6.63 billion), CIT, at 17.7% (€4.04 billion) and excise duties, at 6.6% (€1.37 billion). Year-on-year, revenue from PIT, VAT, CIT and excise duties increased by 7.6%, 7.9%, 11.5% and 6.6%, respectively. [2] The sharp growth in PIT receipts was driven by growth in employment and non-indexation for inflation. PIT receipts increased from 94.55 billion euros in 2021 to 129.41 billion in 2024. In other words, in just four years, revenue has increased by 36.9%, or 34.86 billion euros.

In the case of VAT, the increase in revenue in 2024 is mainly attributable to the withdrawal of tax relief and the effects of inflation. The cost of VAT relief decreased from 4.5 billion euros in 2023 to 2.94 billion euros in 2024 (AIReF, 2023, 2024). The growth in CIT receipts was driven by growth in taxable profits. [3]

The intense growth in public revenue helped reduce the public deficit from 3.5% in 2023 to 2.8% in 2024. Delivery of the targeted deficit of 2.5% in 2025 will require a fiscal adjustment of close to 2.8 billion euros. The government faces two sources of uncertainty regarding its ability to meet that target: internal, intrinsic to the fact of governing in minority; and international or geopolitical, given the Trump administration's new tariff policy. Internally, the government is encountering serious difficulties in garnering support from its governing partners for certain key issues. One of the most important is its inability to push through a new budget, forcing it to carry over the 2023 budget for the second time in 2025. It is also having a hard time passing tax measures, even stopgap solutions needed to address the issues derived from population ageing.

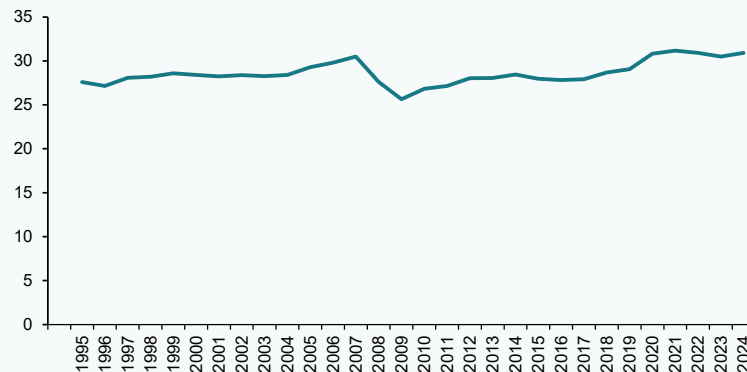
As for the uncertainty coming from abroad, higher US tariffs on China and the EU, and the reciprocal measures, have created significant instability. This trade war, which is ongoing, is already affecting GDP growth, with eurozone forecasts for 2024 recently trimmed by 0.2pp to 0.8% (IMF, 2025). The Spanish economy will be directly affected

“ The government is encountering serious difficulties in garnering support from its governing partners for certain key issues, including the approval of a new budget and stopgap tax measures to address population ageing. ”

Exhibit 1

Tax burden: Four main taxes + social security contributions (TB5)

Percentage



Sources: AEAT (2025a) and IGAE (2025).

by the drop in exports, to both the US and other European markets, particularly France and Germany, its main trading partners. Note that the International Monetary Fund recently reduced its GDP growth forecasts for both these economies to 0.6% and 0.0%, respectively (IMF, 2025).

That report suggests that the Spanish economy will be one of the most robust advanced economies in 2024, with estimated growth of 2.5%. However, the uncertain economic climate could drag on growth over the course of the year. As noted by Torres (2025), “it would be naive to believe that Spain can decouple from the issues affecting the rest of the world, making a slowdown foreseeable from the second half of the year”. For now, in its most recent update, Funcas (2025) has reduced its growth target for 2025 by 0.1pp to 2.3%. In short, the new international economic environment will

make it harder to deliver the deficit target in 2025, although it is still too soon to estimate the scope of the fallout with any great precision. In fact, the tax collection figures to March 2025 reveal ongoing robust growth in PIT (9.9%), VAT (8.9%) and excise duties (7.3%) (AEAT, 2025b).

Tax burden by main tax in 2024

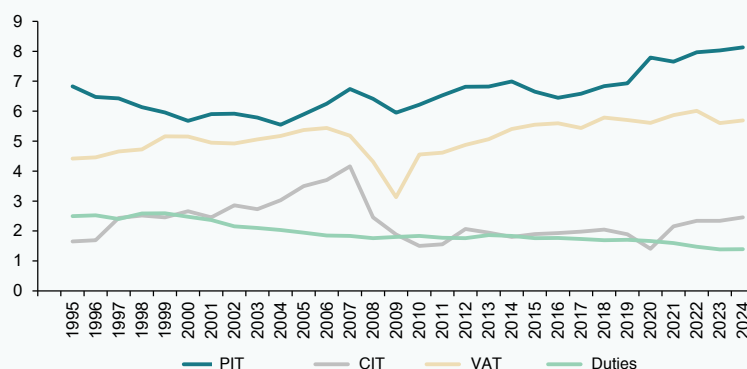
The tax burden of the four main taxes (hereinafter, referred to as TB4) amounted to 17.4% of GDP in 2024. If social security contributions are included, the burden implied by these five sources of non-financial income (referred to as TB5) increases to 30.9%, or a sum of 491.91 billion euros. As shown in Exhibit 1, the TB5 remained stable between 1997 and 2004, at an average of close to 28.3%. However, during the real estate boom years, it increased, peaking at 30.5% in 2007. The situation since the pandemic has been characterised by a step change in

“ The increase in the CIT tax burden since the pandemic is the direct consequence of growth in the tax base, which increased from 8.1% of GDP in 2019 to 11.4% in 2024. ”

Exhibit 2

Tax burden: Four main taxes (TB4)

Percentage



Source: AEAT (2025a).

the TB5 to above the 30% threshold. Having fallen back slightly in 2023, in 2024 the TB5 amounted to 30.9%.

Exhibit 2 shows how the biggest source of pressure in 2024 relates to PIT (8.1% of GDP), followed by VAT (5.7%), CIT (2.5%) and excise duties (1.4%). Since the financial crisis, the PIT tax burden has also experienced a step change: having remained at around 6%-7% in 2019, it increased to 7%-8% between

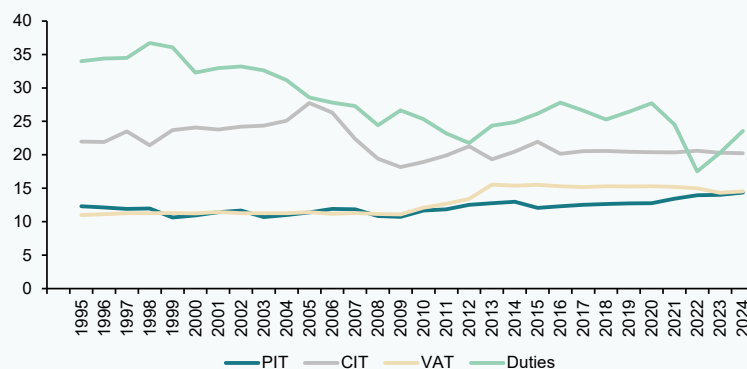
2020 and 2022 and has been at over 8% since 2023. In fact, its all-time peak came in 2024, at 8.1%. As shown in Exhibit 3, this increase in the tax burden is echoed in the increase in the average personal income tax rate. Specifically, it leapt by 1.7 points from 12.7% in 2019 to 14.4% in 2024; that is to say, 1.7 points more in 5 years.

Several factors are responsible for the sharp growth in revenue in the post-pandemic years.

Exhibit 3

Average rates

Percentage



Source: AEAT (2025a).

“ Withdrawal of VAT relief sent VAT receipts back up, to 6.63 billion euros in 2024 ”

We highlight three. Firstly, the sharp increase (1.8 million people) in the number of people in work between 2019 and 2024, with the number of wage-earners increasing from 19.8 to 21.7 million (INE, 2025). As a result, the unemployment rate had dropped to 11.3% in 2024, back at 2008 levels. Secondly, growth in nominal wages, which, according to the data tracking collective bargaining agreements, increased by 15.9% between 2019 and 2024 (Ministry of Labour and Social Security, 2025). That is, nevertheless, below the cumulative increase in prices for that same period, of 18.2%. Lastly, the impact of inflation on PIT receipts due to the fiscal drag. The failure to index the elements of PIT that are expressed in euros, including all minimum thresholds, tax allowances, exemptions and also the tax bands, increase taxpayers' tax burden. This non-indexation strategy has boosted revenue by 16.8 billion euros between 2021 and 2024, equivalent to roughly half of the tax take during the four-year period (Romero-Jordán, 2025a). The roadmap set out in the tax plan for 2025-2031, growth in spending due to population ageing and the recently announced 10.4 billion euros increase in defence spending in 2025 constitute a strong incentive for the government not to walk away from the extra revenue generated by inflation. Particularly, because this decision does not require any sort of parliamentary approval.

Company profits are markedly cyclical. CIT receipts are determined by that cyclical effect, in conjunction with the size and design of the tax base for this tax. For example, the

ability to reduce taxable income by unused tax losses undermines CIT revenue even in very favourable economic climates, as these losses are carried forward from previous recessions. Between 2009 and 2019, the tax burden implied by CIT averaged 1.9% of GDP. Since 2020, this tax burden has been rising, peaking at 2.5% in 2024. This upward trajectory is being driven by the recovery in corporate profits to pre-pandemic levels (OME, 2024). As a result, the tax burden in 2024 was very close to the average of 2.6% observed between 1997 and 2003.

The CIT tax burden can be disaggregated between the effect of the average rate and the weight of taxable income in GDP. Specifically, $PF_{IS} = (R/B) * (B/PIB)$, where R is the tax revenue and B is the base subject to taxation. The first term (R/B) yields the average tax rate, while the second term (B/GDP) is a proxy for the size of the tax base. As Exhibit 3 illustrates, the average tax rate has been stable since the pandemic, even dipping below that of 2019 (20.2% *versus* 20.4%). However, the size of the tax base increased from 8.1% in 2019 to an average of 10.7% between 2020 and 2024, peaking at 11.4% in 2024. In short, the increase in the CIT tax burden since the pandemic is the direct consequence of growth in the tax base. Tax reforms introduced in recent decades have taken aim at the tax base. For example, introduction of a ceiling on the deduction of finance costs equivalent to 30% of taxable profit in 2015; the establishment in 2016 of a limit of 60% on the utilisation of tax losses (reduced to 25% in 2017); and the limit

“ The lower growth in the excise tax, in contrast to that observed in PIT, VAT and CIT, is partially due to the fact of not restating the tax rates (expressed in euros) to reflect the trend in the prices of the goods subject to these taxes. ”

Exhibit 4

Tax bases subject to PIT and VAT

Percentage



Source: AEAT (2025a).

in place between 2015 and 2018 on the use of tax credits for non-technology R&D, along with tighter requirements to ensure effective investment in truly innovative activities.

The tax burden implied by VAT in 2024 of 5.7% was in line with the post-pandemic average (5.8%) and also the 2019 figure (5.7%). Between 2021 and 2024, VAT was reduced as part of the fiscal shield rolled out. Specifically, the government reduced the rate of VAT on electricity (between 2021 and 2024), gas (between 2022 and 2024) and certain food products (2023 and 2024). [4] Those cuts were offset, at least partially, by growth in revenue induced by inflation. Romero-Jordán (2025b) has estimated that, due to the impact of high inflation rates, the VAT tax bill increased, on average, by 75.7 euros per household in 2021, by 195.2 euros in 2022, 98.6 euros in 2023 and 69.2 euros in 2024. Withdrawal of that VAT relief sent VAT receipts back up, to 6.63 billion euros in 2024. It is foreseeable that the VAT tax burden will continue the upward trend observed since 2013, particularly the share of spending subject to VAT over GDP remains as high as that observed since the pandemic: an average of 41.2% since 2021 (Exhibit 4).

The tax burden implied by the various excise duties, levied on alcohol, beer, fuel and

tobacco, has been trending lower since the end of the 1990 (Exhibit 2). This trend, in contrast to that observed in PIT, VAT and CIT, is partially due to the fact of not restating the tax rates (expressed in euros) to reflect the trend in the prices of the goods subject to these taxes. This lack of indexation has sharply eroded these rates and, by extension, tax receipts. For example, excise duty on beer was last updated in 2005, duties on fuels, in 2009, the levy on tobacco, in 2013, and on alcohol, in 2016. This non-indexation has adverse consequences for tax revenue but positive effects on household consumption. However, the economic function of excise duties is to internalise the external costs they generate, especially for the public health system.

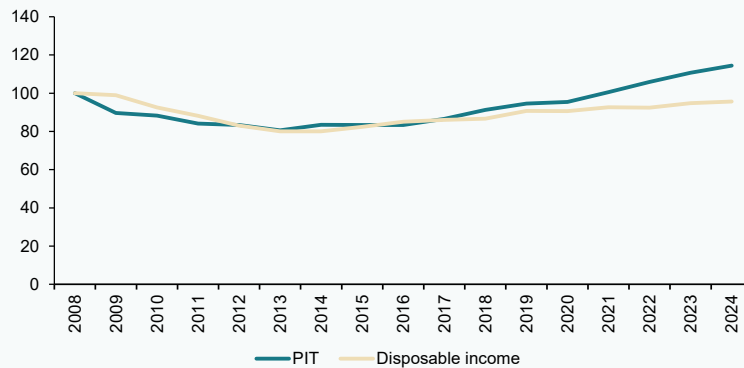
PIT is dragging on growth in real household disposable income

The Spanish economy has been remarkably dynamic in recent years, outperforming the EU-28. Between 2022 and 2024, it registered growth of 6.2%, 2.7% and 3.2%, compared to the European average of 4.7%, 1.5% and 2.4%. However, households' perception of their economic situation is less favourable than that depicted by the macroeconomic aggregates. Some 80% of Spanish households describe their economic situation as either mediocre or poor (Funcas, 2025). The economic and housing crises and job quality

Exhibit 5

Indexation of disposable income and PIT per household in real terms

Rebased 2008 = 100



Sources: AEAT (2025a), INE (2025) and author's own elaboration.

are households' chief economic concerns (CIS, 2022; 2025). Higher taxation, despite the considerable increase in the tax burden, does not feature among the top concerns in these polls. Probably because the tax burden is a complex concept whose scale cannot be directly observed by taxpayers. Not even for the taxes, like PIT, with which they are more familiar. Nevertheless, the results shown next reveal that in recent years, PIT has curbed growth in real average household net income.

Exhibit 5 indexes average household net income in real terms between 2008 and 2024. The base year selected (2008 = 100) coincides with the height of the real estate bubble. Disposable or net income has been calculated as the difference between gross household income and PIT and social security payments. The Exhibit also indexes the real average PIT payments borne by households. Both indices etch out similar patterns: trending down from 2013, as a result of the financial crisis, and heading higher since then. However, the

upward slope of the PIT index is far more pronounced in the post-pandemic period. As a result, the PIT payment index had increased to 114.4 in 2024, whereas the net income index was 95.7.

We can draw two conclusions from this Exhibit. Firstly, average net income per household in 2024 was equivalent to 95.7% of the amount taken home in 2008. In other words, more than 15 years after the financial crisis, Spanish households have yet, on average, to recoup their real economic wherewithal. Moreover, at the current pace of growth in real income, it would take several years to return to 2008 levels. Secondly, the average amount of PIT paid in 2024 is sharply higher than in 2008. Given that PIT payments condition disposable income, it can be said that the non-indexation of tax for inflation in the years since the health crisis has slowed growth in real household income. Note that the fiscal drag effect is cumulative so that the erosion of real income

“ The average amount of PIT paid in 2024 is sharply higher than in 2008. ”

will continue to increase in the absence of specific adjustments. At any rate, gains in real income for the labour factor will require productivity gains.

Notes

- [1] An extreme climate event that took place in Spain on 29 October 2024 taking 228 lives, mostly in the area of Valencia. The economic cost has been estimated at 0.7pp of GDP, 0.4pp related to 2024 and 0.3pp to 2025 (AIReF, 2025).
- [2] In addition to social security contributions, these four taxes comprise the backbone of the state's non-financial income, with a share of 90% (IGAE, 2024).
- [3] Social security contributions also increased by 6%, whereas non-tax revenue decreased by 2.9%.
- [4] However, in 2025, olive oil continues to carry VAT of 4%, instead of 10% before 2023.

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Desiderio Romero-Jordán. Rey Juan Carlos University and Funcas

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Improving valuations for Spanish and European banks

After years of trading below book value despite solid fundamentals, Spanish and European banks have seen a marked revaluation since late 2024, surpassing price to book value (P/BV) ratios of 1x. Improved margins have supported a strong recovery in valuations, narrowing the profitability gap with U.S. peers; however, structural and regulatory differences continue to explain the persistent valuation gap between European and U.S. banks.

Marta Alborni, Ángel Berges and Lucía Ibáñez

Abstract: The Spanish and European banks have long traded at lower valuations than their U.S. peers, trading at significant discounts to book value. The fact that they traded at price-to-book ratios of less than 1x for 2022, 2023 and much of 2024 was hard to explain in light of the fact that the Spanish and European banks were reporting returns on equity (ROE) clearly above their cost of capital, as estimated by the supervisors, the entities themselves and market analysts. Possible explanations for this anomaly included a higher cost of capital than estimated by the sector itself or doubts about the sustainability of the

ROE levels reported in 2022 and 2023. This situation has reversed since the end of 2024, with most of the Spanish and European banks currently trading above book value. Improved margins have supported a strong recovery in valuations, but structural and regulatory differences continue to explain the persistent valuation gap between European and U.S. banks. That said, margin gains have been priced in, and future margin stability is now expected, making sustaining fundamentals the key challenge going forward amid an increasingly uncertain global geopolitical environment.

“ Towards the end of 2024, and especially in early 2025, European and Spanish banks have seen sharp share price gains. ”

ReArm Europe breathes life into bank valuations

Towards the end of 2024, and especially in early 2025, European and Spanish banks have seen sharp share price gains, in a highly uncertain geopolitical context that shaped both the rally and the subsequent correction. Specifically, this was driven by the new Trump administration’s stance on the conflict in Ukraine and European defence and, as a derivative, Europe’s strategic repositioning. This repositioning is articulated in the ReArm Europe programme and Readiness 2030 roadmap, a joint defence investment effort designed to deliver greater strategic autonomy, alongside a growing consensus around the need for capital markets integration and enhanced competitiveness.

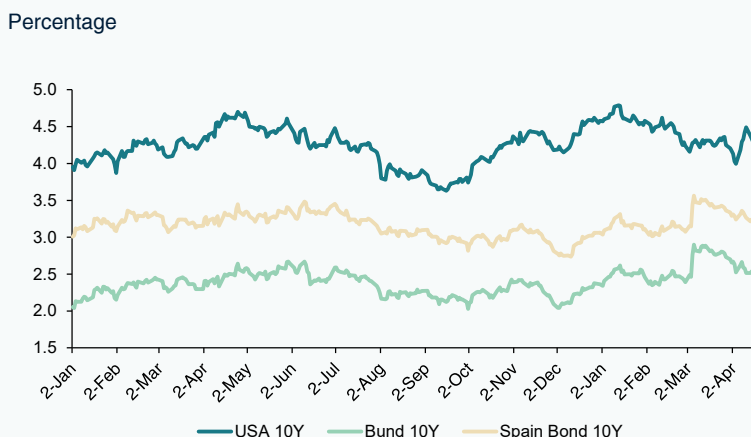
This environment translated into markedly different financial market performances in Europe and the U.S. in the first quarter. The spike in uncertainty, the potential impact of Trump’s agenda on the economy and the

reaction by third countries eliminated the “Trump trade”, a phenomenon coined in 2016. This phenomenon, characterised by heavy portfolio rotation into U.S. assets, faded away in the first quarter of 2025, reversing the trend observed throughout 2024.

As shown in Exhibit 1, long-term U.S. sovereign bond yields traded lower from the start of Trump’s new mandate, as the markets began to price in an increasingly plausible economic slowdown. In contrast, 10-year Spanish and German bond yields intensified their uptick on the back of expectations for fiscal expansion spurred by ReArm Europe and the stimulus package announced by the German government.

The stock markets have similarly etched out different paths on either side of the Atlantic, with the S&P 500 correcting since the start of the Trump mandate, while the Eurostoxx and IBEX have recorded valuation gains, more so in the case of Spanish stocks (Exhibit 2).

Exhibit 1 10-year sovereign bond yields

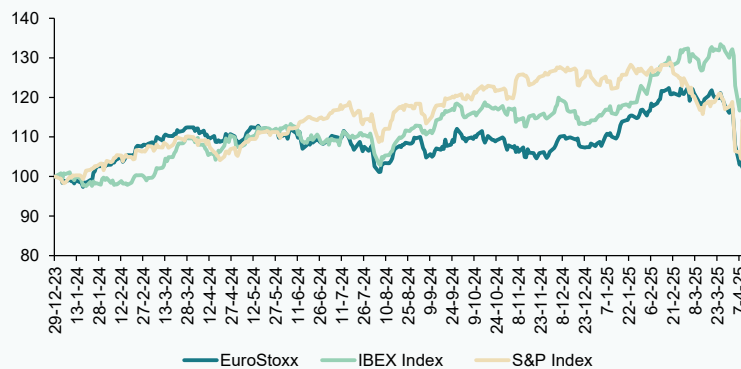


Source: Authors' own elaboration based on Bloomberg figures.

Exhibit 2

Stock price index performance: U.S. vs. EUR vs. Spain

Percentage rebased to 100 = December 2023



Source: Authors' own elaboration based on Bloomberg figures.

Elsewhere, Exhibit 3 depicts the resilience of the euro against the dollar since the onset of political and economic uncertainty in the U.S.. The rebound in the European currency suggests that the market is no longer pricing in U.S. economic hegemony as strongly as before.

In this sort of European awakening, the sector experiencing the strongest rally has been defence, spurred by the ReArm Europe programme. Closely followed by the banking sector, which has notched up similarly noteworthy gains, significantly outperforming the general indices, with the Spanish sector performing even more strongly. In Europe, as of March 2025, the bank sector index had gained 85% since December 2021, compared to a gain of 22% in the general index. This

valuation differential to March is even more pronounced in Spain, where the bank index was up by 143%, almost triple the gain registered by the IBEX over the same period (51%) (Exhibits 4 and 5).

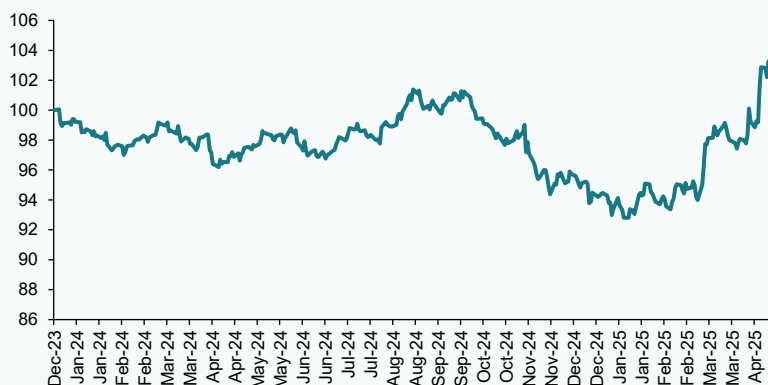
This excellent first-quarter performance was followed by a bout of significant volatility at the beginning of April as a result of erratic communication by the Trump administration of its tariff policies based on bilateral deficit calculations, as well as its interference with monetary policy and the independence of the Federal Reserve. Both developments sparked episodes of pronounced volatility in the equity markets, but even more so in the two markets most sensitive to anything that could jeopardise financial stability: U.S. Treasuries and the dollar. Doubts have emerged in both of

“ In Europe, as of March 2025, the bank sector index had gained 85% since December 2021, compared to a gain of 22% in the general index. ”

Exhibit 3

Trend in the EUR/USD exchange rate

Percentage rebased to 100 = December 2023



Source: Authors' own elaboration based on Bloomberg figures.

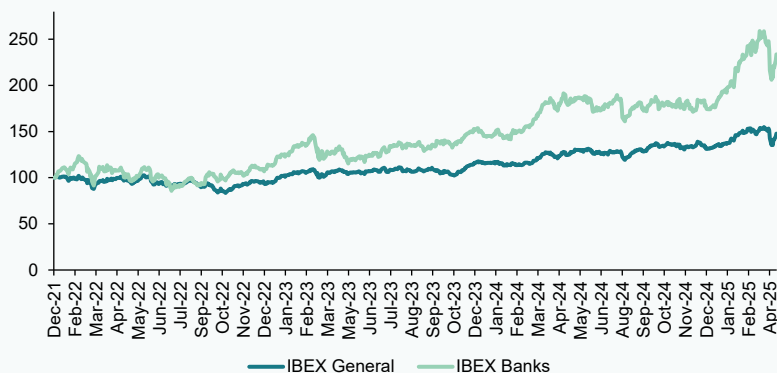
these markets about their continued status as safe-haven assets, and these concerns have unquestionably put pressure on the U.S. administration to soften its rhetoric

on both tariffs and interference with the Fed, nuances that have, at least for now, calmed the extreme volatility observed throughout the first half of April.

Exhibit 4

Stock indices in Spain: General vs. banks

Rebased to 100 = 31 December 2021

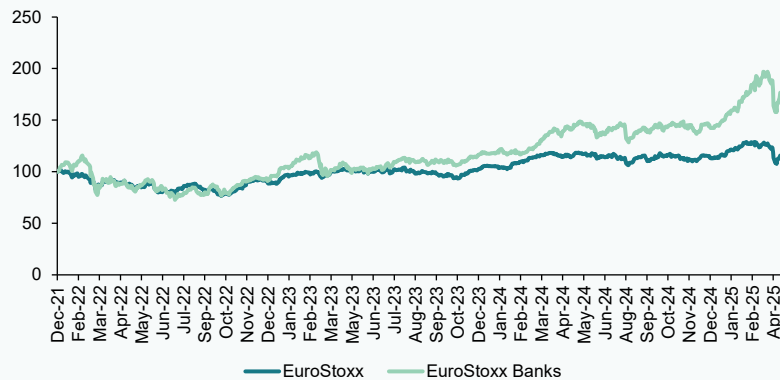


Source: Authors' own elaboration based on Bloomberg figures.

Exhibit 5

Stock indices in Europe: General vs. banks

Rebased to 100 = 31 December 2021

*Source: Authors' own elaboration based on Bloomberg figures.***European and Spanish banks:
Downtrend in P/BV ratios**

Despite the European banks' strong performance over the past decade in terms of solvency, asset quality and, more recently, return on equity, thanks to Banking Union progress, they traded at a discount to their book values throughout that entire period. That valuation gap was being watched with interest, and some concern, by the regulators and supervisors, as it means that the market is applying a significant discount to the value of the banks' own funds for accounting purposes, which are the basis of their capital adequacy ratios. In other words, the solvency perceived or priced in by the market is substantially lower than their solvency for regulatory purposes, which means that in the event of having to raise equity urgently, the cost would be

very high in terms of dilution for existing shareholders.

The good news is that the rally in European and Spanish bank stocks from the end of 2024 and through early 2025 closed that valuation gap, with many entities now trading at price to book value (P/BV) ratios of above 1x, casting off more than 15 years of undervaluation (Exhibit 6).

**Spanish and European banks versus
U.S. banks: The profitability gap is
closing, especially in margins, but
the valuation gap persists**

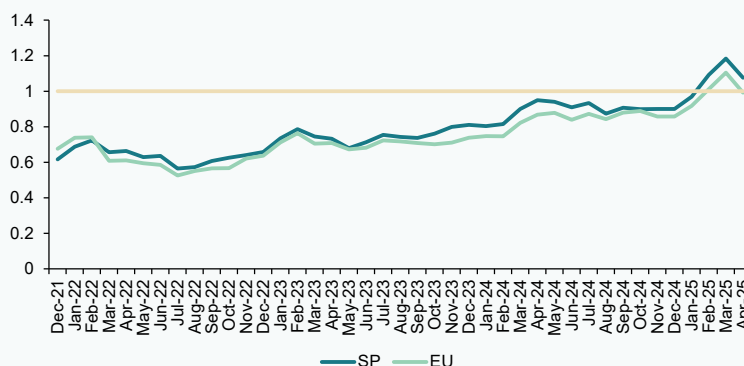
Between 2022 and 2024, marked by the shift in monetary policy and the end of a prolonged period of ultra-low and even negative rates, the net interest margin has emerged as a key driver of the recovery observed in earnings

“ Spanish and European banks are now trading at price to book value (P/BV) ratios of above 1x, casting off more than 15 years of undervaluation. ”

Exhibit 6

Evolution of P/BV multiples in Spanish and European banks

Percentage



Note: The exhibit depicts the average monthly P/BV, weighted by market capitalisation, for each bank. For the EU, we use a representative sample of 25 listed entities from across the main European economies (Spain, France, Germany, Italy, Netherlands, Belgium and Portugal). For the U.S., we take the 25 largest listed banks, ranked by asset volumes.

Source: Authors' own elaboration based on S&P Capital IQ data.

across the European banks in general and the Spanish banks in particular, the result being a significant increase in profitability.

During the period of low rates, prior to the inflationary episode that began in 2022, the European and Spanish banks were posting much lower returns on equity (ROE) than their U.S. peers (Exhibit 7). The positive impact of rising interest rates on profitability, evident since the end of 2022, led to a notable improvement in returns across the European banking sector by the end of 2024. As gleaned from the comparison between Exhibits 7 and 8, the European banks have shifted to the right in terms of ROE (shifting more intensely in the case of the Spanish banks), narrowing the gap with the range of returns reported by the U.S. banks (Exhibit 8).

This shift (increase) in the European banks' ROE mirrors the increase in their net interest income over average total assets (ATA), where the range for the European banks already virtually matches that of the American banks (Exhibit 10). This improvement in net interest margin (NIM) has been widespread across all the European economies, albeit more muted

in certain markets, like France, where it has lagged due to country-specific structural factors, specifically the high share of fixed-rate loans and the existence of regulated savings products which have limited the banks' ability to reprice their assets and kept deposit costs higher, a situation aggravated by intense price competition.

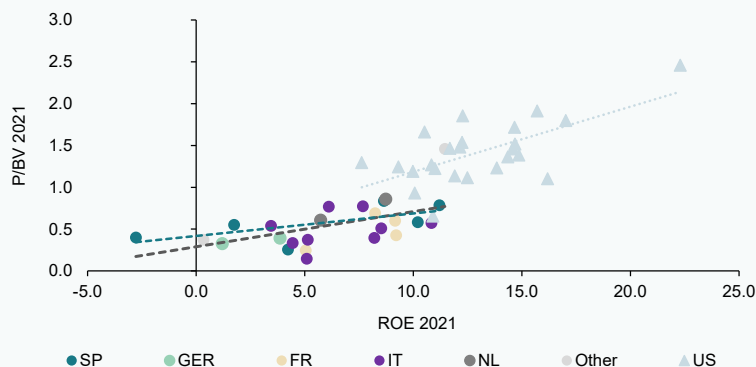
This widespread improvement in profitability – driven by net interest margins – across European and Spanish banks, combined with interest rate expectations at the end of the first quarter that pointed to greater margin stability, has been priced in by the market, translating into higher P/BV ratios. This trend has maintained the observed correlation between P/BV multiples and other fundamental variables such as ROE and the net interest margin, as is evident in the slope of the regression line.

Note, however, that despite the recent convergence in returns and margins with respect to the U.S. banks, the latter continue to command higher multiples than the European and Spanish banks. In fact, for U.S. banks, the regression lines between P/BV and

Exhibit 7

ROE and P/BV - 2021

Percentage



Note: The exhibit depicts the P/BV and ROE metrics observed at the end of each year for a representative sample of 25 listed banks from the main European economies. For the U.S., we take the 25 largest listed banks, ranked by asset volumes. The EU regression line considers the banks from all of the European countries analysed.

Source: Authors' own elaboration based on S&P Capital IQ data.

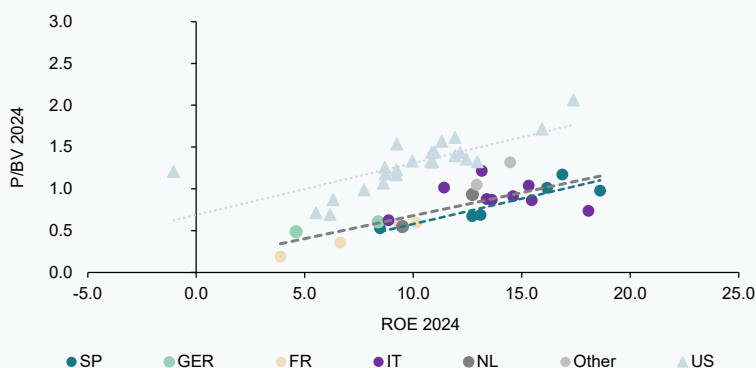
ROE or P/BV and NIM are clearly steeper, suggesting that the market continues to assign greater value to each point of ROE or margin at those banks.

The persistence of this valuation gap relative to the U.S. banks, despite the narrowing of the profitability and margin gaps, may be related with structural differences between the two

Exhibit 8

ROE and P/BV - 2024

Percentage



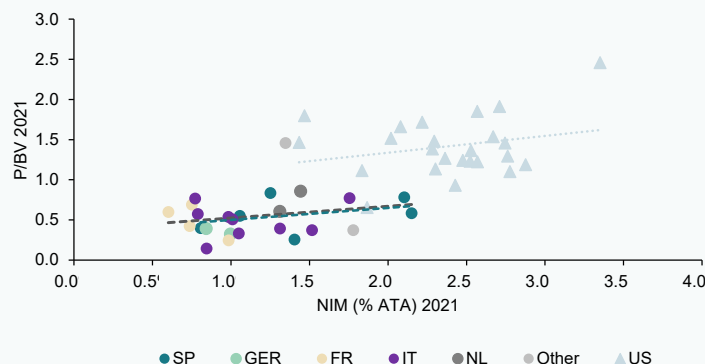
Note: The exhibit depicts the P/BV and ROE metrics observed at the end of each year for a representative sample of 25 listed banks from the main European economies. For the U.S., we take the 25 largest listed banks, ranked by asset volumes. The EU regression line considers the banks from all of the European countries analysed.

Source: Authors' own elaboration based on S&P Capital IQ data.

Exhibit 9

Net interest margin and P/BV - 2021

Percentage of ATA



Note: The exhibit depicts the P/BV and NIM metrics observed at the end of each year for a representative sample of 25 listed banks from the main European economies. For the U.S., we take the 25 largest listed banks, ranked by asset volumes. The EU regression line considers the banks from all of the European countries analysed.

Source: Authors' own elaboration based on S&P Capital IQ data.

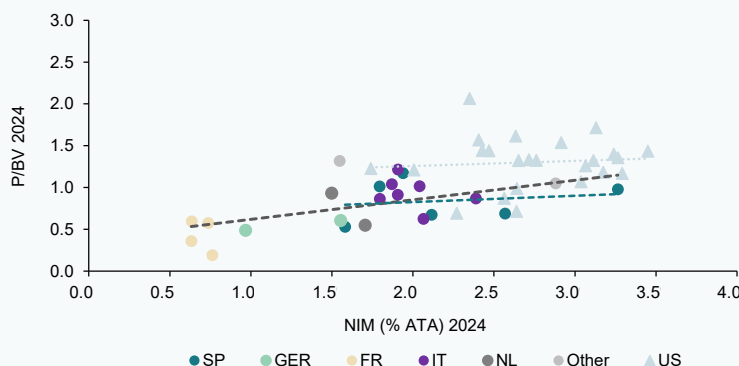
economies, as well as other considerations particularly relevant to the banking sector, such as the existence of laxer regulatory requirements

in the U.S. and, above all, the expectation that those rules could be loosened even further under the new administration, which

Exhibit 10

Net interest margin and P/BV - 2024

Percentage of ATA



Note: The exhibit depicts the P/BV and NIM metrics observed at the end of each year for a representative sample of 25 listed banks from the main European economies. For the U.S., we take the 25 largest listed banks, ranked by asset volumes. The EU regression line considers the banks from all of the European countries analysed.

Source: Authors' own elaboration based on S&P Capital IQ data.

“ The valuation gap between Spanish and European banks and their U.S. peers may be related with structural differences between the two economic blocs, as well as... laxer regulatory requirements in the U.S.. ”

has already signaled its intention in this direction.

Conclusions

European and Spanish banks' equity valuations have recovered considerably, correcting a prolonged anomaly where their stock prices systematically trading below book value, despite reporting returns above their estimated cost of capital. This revaluation was particularly pronounced between the end of 2024 and the first quarter of 2025, against the backdrop of the prospect of a coordinated European effort to enhance the region's strategic autonomy and competitiveness, with the banking sector playing a key role in this process.

The convergence in terms of ROE and margins with U.S. banks reinforced this trend. However, a valuation gap persists, which may be attributable to structural differences between the two economies, regulatory factors and the expectation of loose regulatory requirements in the U.S. under the new administration.

Nevertheless, this new environment faces growing volatility and uncertainty as a result of the financial market stress triggered by the erratic stance of the U.S. Administration on tariff policies. In this context, the challenge for European banks lies with sustaining the improvement in their fundamentals and holding on to the market's confidence in an increasingly unpredictable global landscape, with potential rate cuts and downward revisions to growth forecasts that could once again impact the banks' business performance and margins.

Marta Alborni, Ángel Berges and Lucía Ibáñez. Afi

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Mergers and acquisitions in defence: A paradigm shift for Europe

The defence sector in Europe is experiencing renewed momentum in investment and consolidation, driven by structural challenges, strategic imperatives, and institutional initiatives. While structural and regulatory barriers persist, the sector's strong fundamentals and strategic relevance are expected to sustain momentum in consolidation and investment going forward.

Pablo Guijarro Segado and Pilar Gómez Estefanía

Abstract: Europe's long-standing investment gap relative to the U.S. has been especially pronounced in the defence sector, where fragmented demand, limited interoperability, and dependence on foreign technology have constrained competitiveness. Recent geopolitical developments and the ReArm Europe initiative have shifted the focus toward scaling and consolidating defence capabilities, supported by policy incentives and multilateral coordination. Past consolidation trends in the U.S. and Europe reveal a growing role

for cross-border transactions, alliances, and dual-use technologies in today's defence M&A environment. Despite global M&A activity weakening in 2025, the defence sector has remained resilient, with transaction volumes rising in Europe and supported by investor interest, margin expansion, and limited sensitivity to interest rates. While structural and regulatory barriers persist, the sector's strong fundamentals and strategic relevance are expected to sustain momentum in consolidation and investment going forward.

“ The defence sector has garnered a far smaller share of spending and investment in Europe than in the U.S. ”

Foreword

One of the factors that has set the U.S. and EU economies' performance apart in recent decades has been the trend in corporate investment. In the EU, it has been weaker, translating into poorer growth prospects.

This situation has affected all sectors in general and the defence sector in particular, which has garnered a far smaller share of spending and investment in Europe than in the U.S. The impact of the new geopolitical context unfolding since the second half of 2024 on the need to invest in defence has changed this situation and likely outlook.

This shift, coupled with European defence players' need to gain scale without compromising the ability to uphold national interests, is likely to spur growth in mergers and acquisition (M&A) activity in the coming quarters. From the economic standpoint, the downtrend in interest rates in most economies in a bid to spark economic activity as inflation

eases could offset or mitigate the increase in uncertainty observed in the global context throughout the first quarter.

In this paper, we analyse this combination of structural and circumstantial dynamics and how they could bring about a paradigm shift in gross fixed capital formation in the European Union.

Gross fixed capital formation: A 20-year lag

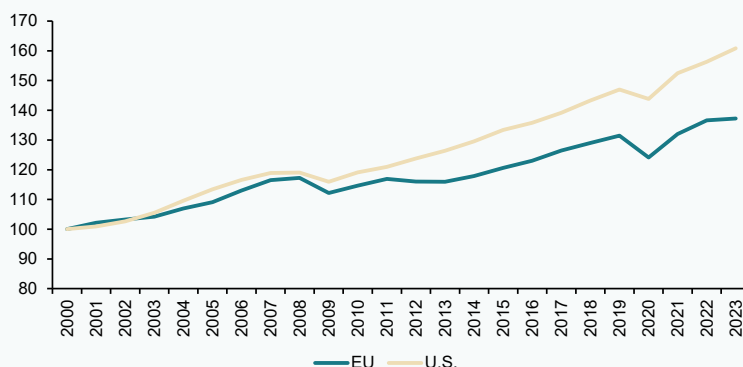
The period of economic history that began with the financial crisis of 2008 has been marked by clear bifurcation in gross fixed capital formation dynamics between the EU and U.S. This is reflected generally in the share of investment over GDP and has forcefully impacted the two regions' capacity for growth, as is evident in the average and cumulative gap in recent years.

The defence sector has not been immune to this uneven performance across the two

Exhibit 1

GDP growth

Rebased to 100 = 2000

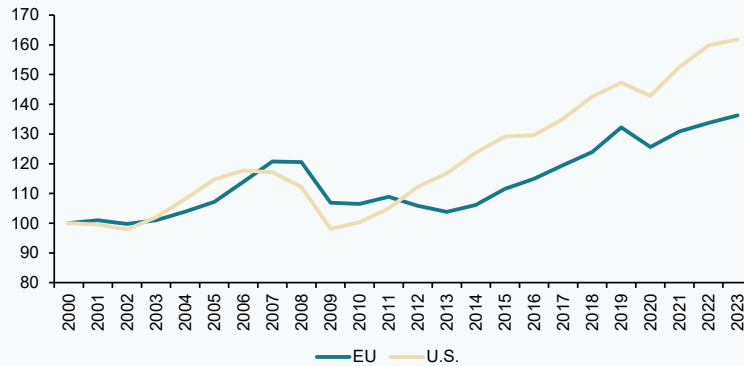


Source: World Bank.

Exhibit 2

Gross capital formation

Rebased to 100 = 2000



Source: World Bank.

economic blocs. The statistics reveal a very significant difference in the rate of spending and investment in defence in the U.S. compared to Europe, a topic the new U.S. administration has become fixated with, calling on other Western nations to step up their commitment to security in order to reduce dependence

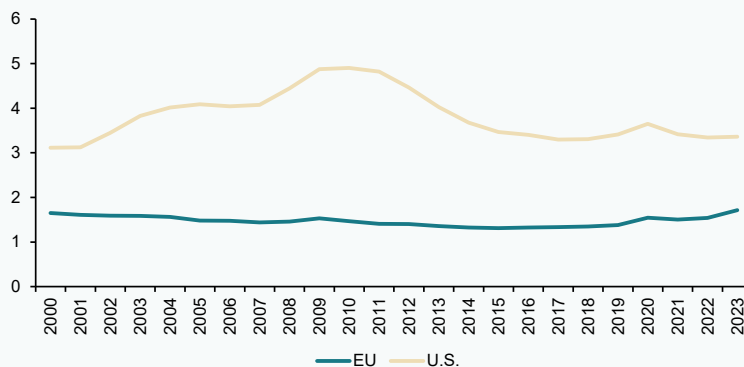
on foreign partners and tackle the current geopolitical challenges.

Notwithstanding the observations made by the U.S., it is true that the report led by Mario Draghi (2024), published in September 2024, already emphasised the need to spur

Exhibit 3

Military expenditure

Percentage of GDP



Source: World Bank.

“ The Draghi report acknowledges the urgent need to reinforce the defence sector in the EU to achieve strategic autonomy, address growing security threats and reduce dependence on non-EU solutions. ”

economic growth and corporate investment as key elements of regional competitiveness in the medium term, arguments that are hard to question in light of the macroeconomic metrics. In the area of defence strategy, the Draghi report acknowledges the urgent need to reinforce the sector in the EU to achieve strategic autonomy, address growing security threats and reduce dependence on non-EU solutions, particularly U.S. technology.

In this respect, as is the case in many other areas, the challenges facing the European bloc are closely related with: (i) the difficulties in aggregating demand; and (ii) the lack of interoperability across the member states, two factors that foster fragmentation and undermine the ability to compete and build an industry capable of responding to the challenges posed by the current environment in terms of security autonomy. The growing gap between defence systems' operational needs and available public budgets has spurred the search for more innovative and affordable solutions. In parallel, the trend of combining commercial, civil and military technologies such as artificial intelligence, data analytics and satellite infrastructure has created multiple opportunities for investors and startups.

There are two clear paths for responding to the current challenges: either internal development or acquisition of the tools and technology needed from third parties. In

theory, organic growth is slower, requiring far longer maturity periods, limiting the scope for this strategy to respond to what the EU needs at present.

Defence sector M&A: Idiosyncrasies

Against this backdrop, M&A-led sector growth may be able to address this challenge sooner. However, the idiosyncrasies of this sector, specifically its classification as a critical activity for national security, means that the challenge needs to be approached not only from the economic and financial angles, but also the regulatory standpoint. It is vital to understand the dynamics shaping the defence sector throughout the last 80 years, a period that has been marked by major geopolitical cycles, this being simply the latest chapter.

After the Second World War, the Western countries championed the creation of strong national contractors and international consolidation was scant. It was not until the Cold War and ensuing reduction in military spending that we saw a spate of mergers, particularly in the U.S., giving rise to giants such as Lockheed Martin (merger between Lockheed and Martin Marietta in 1995), Northrop Grumman (in 1994) and the merger of McDonnell Douglas into Boeing (in 1997).

In Europe, although the scale of sector M&A activity was smaller, significant players emerged, such as BAE Systems (1999) and MBDA (2001), the latter as result of the

“ The ReArm Europe Plan is an ambitious roadmap for the mobilisation of up to 800 billion euros to reinforce the member states' military capabilities. ”

merger of the missile divisions of companies from France, the UK and Italy. From 2001, the conflicts in Iraq and Afghanistan opened the door to acquisitions focused on technology services and cybersecurity.

In this latest chapter of world history we are seeing a leap that transcends national strategy: multilateral collaboration, in which cooperation and coordination are more important factors than interest rates or growth expectations, is coming to the fore. This dynamic is not only taking shape in Europe, although this is the region where it is manifesting most clearly. The ReArm Europe Plan is an ambitious roadmap for the mobilisation of up to 800 billion euros to reinforce the member states' military capabilities. The ultimate aim of this programme, which includes specific incentives for intra-European acquisitions, is to consolidate an integrated industrial defence base.

A specific example of this transnational thrust is the proposed merger of the satellite divisions of Airbus, Thales and Leonardo. The rationale for this transaction is the creation of a pan-European player capable of competing with initiatives like Starlink and constitutes a clear exponent of the effort to recover technological sovereignty in the space sector.

Aside from major M&A transactions, we are also seeing industrial alliances. A case in point is the Leonardo Rheinmetall Military Vehicles joint venture set up to codesign and manufacture combat vehicles adapted for national and international programme needs. Alliances of this nature reinforce industrial cooperation in high value-adding sectors while unlocking economies of scale, sharing technological risks and responding more swiftly to the European armies' operational requirements.

Lastly, NATO has intensified its effort to tighten procurement coordination through the NATO Defence Planning Process (NATO, 2025), a tool designed to harmonise operational requirements, foster joint purchases and reinforce interoperability among allies.

The combination of these factors depicts a panorama that is favourable from different angles, increases the scope for M&A activity in the coming months. The next step is to analyse the defence players' stock market performance in recent months to determine whether there has also been a shift in investor perception.

A sector attracting investment

Despite or in light of all of the above structural factors, the sector has been receiving attention from the market. And the dynamics observed in recent years suggest that sector valuations could continue to consolidate. So we see if we look at the companies' market cap-to-EBITDA trading multiples.

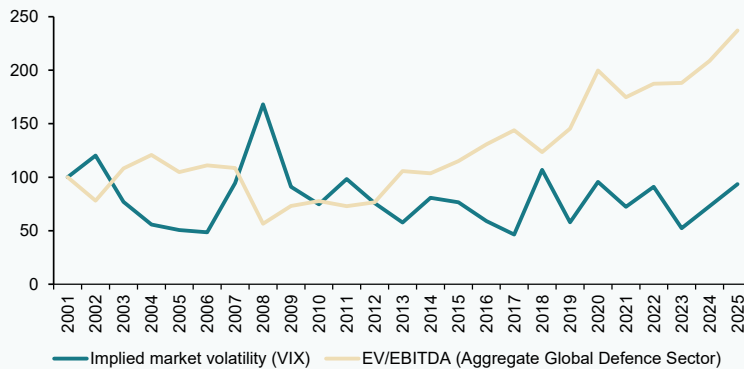
These multiples have been expanding on a sustained basis since 2008, surviving episodes of uncertainty in the international markets and global economy of varying intensity. The sector's performance has demonstrated a tremendous ability to resist negative market events, illustrating a structural support floor that is clearly different from earlier episodes of crisis, such as the financial crisis of 2008.

Both the crisis induced by COVID-19 and the current climate reflect the sector's resilience and reveal momentum in valuations in challenging circumstances for investors. Investors have committed to security and defence consistently since 2008, reinforcing the countercyclical nature of defence investments, something we think will increase going forward thanks to the various initiatives underway.

“ Investors have committed to security and defence consistently since 2008, reinforcing the countercyclical nature of defence investments. ”

Exhibit 4

Financial market valuations and volatility



Sources: Factset and Bloomberg.

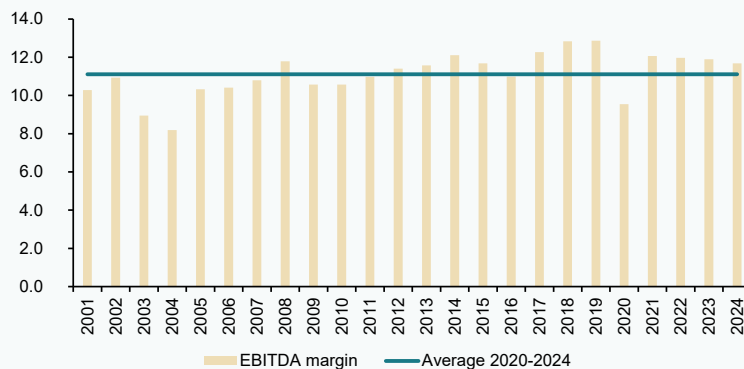
Perhaps most telling is the fact that this multiple expansion has coincided with a period of sustained growth in margins. The sector's share price performance, coupled with the above-mentioned structural and circumstantial factors, is conducive to strong momentum in M&A activity in the short and medium term.

The sector has also proven relatively immune to borrowing costs, as valuation dynamics have been favourable in multiple rate environments. This only enhances its status as a target in the current environment in which visibility around the sector players' earnings may be boosted by the different institutional initiatives underway.

Exhibit 5

EBITDA margins

Percentage



Source: Factset.

“ In the EU, the number of transactions closed in the second quarter of 2025 marked a four-year high. ”

M&A in the defence sector: Recent developments and outlook

Lastly, to test how these structural and circumstantial factors are affecting M&A dynamics, we take a look at global M&A activity in the last three years in general and in the defence sector in particular.

The global M&A market has been somewhat lethargic for the last decade, with uncertainty around the outlook for economic growth, inflation and general financial conditions underpinning, at different time, weak transaction volumes. Since 2020, developments such as armed conflicts, the energy crisis, global supply chain frictions and surges in inflation have in turn spoiled investor appetite, making it harder to get deals closed.

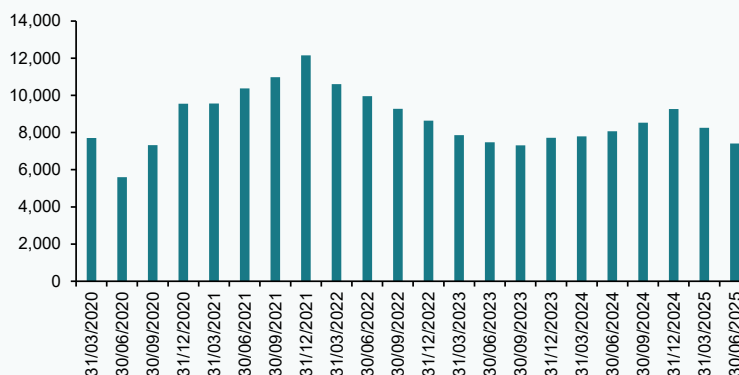
The significant intensification in uncertainty and misgivings in recent months has interrupted the recovery in M&A activity, with transaction volumes hitting a high for the last five years in 2024 (excluding 2021).

The slowdown is tangible in both the first and second quarters of this year, with volumes falling by comparison with the same periods of 2023 and 2024.

However, this slump has not affected the defence sector, which is beginning to take stock of the favourable structural factors outlined above. An analysis of M&A activity in the defence sector reveals that, in addition to the sector's stable financial fundamentals and the regulatory boost, the context of heightened uncertainty is already translating into sector consolidation in all countries. In the EU, where M&A activity in the sector has tended to lag that of the U.S., volumes are also picking up: the number of transactions closed in the second quarter of 2025 marked a four-year high.

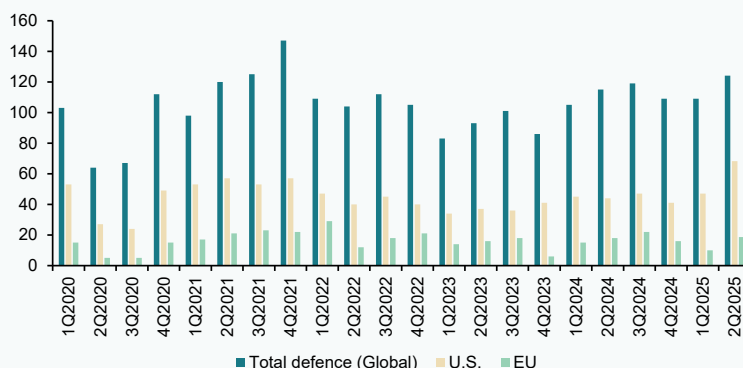
Although it is too soon to draw conclusions with respect to the market's outlook for the coming quarters, we think sector M&A activity will gather traction in the next few months,

Exhibit 6 M&A transaction volumes globally



Source: Bloomberg.

Exhibit 7

M&A transaction volumes in the defence sector

Source: Bloomberg.

an outlook further underpinned by strong visibility around profitability. Certainly, in the current context it is critical to discriminate between the different technologies. Projects such as SpaceX or Palantir [1] have intensified the perception that much of the sector's future and growth potential resides with the integration of commercial innovation with military applications. It is likely that companies devoted to satellite systems, advanced microelectronics, secure communications, autonomous systems and anti-drone technologies will be the object of investor interest, as will those with technology conducive to dual applications (military and commercial) and direct exposure to specific space projects (Bain & Company, 2025; Kroll, 2025).

Regulatory developments will inevitably have a role to play in momentum in sector M&A activity. A key initiative under analysis in the European Commission is the relaxation of regulatory controls over M&A transactions.

As noted above, the structural challenges facing the sector will be hard to surmount via organic development alone, *i.e.*, as a result of the sector players developing technology, products or services internally. The response

will require consolidation in which non-organic growth is already playing a key role. However, this thrust raises questions for the national authorities, particularly in areas deemed strategic. Although this issue is not exclusive to the defence industry, growing interrelationships with other sectors like the telecommunications sector mean that any attempts at easing regulations around M&A transactions may come up against a degree of resistance from the EU member states, particularly if they impact market and competition structures. [2]

Our opinion is that in a market in which scale, agility and technological integration mark the difference, M&A transactions are more than a financial tool, they are also a core component of nations' security architecture. This window of opportunity also brings risks which should not be underestimated. Changes in government policies, new regulatory requirements, particularly in terms of foreign investment controls, and movements in national strategic priorities could abruptly change the rules of the game. In addition, rapid technological progress, while a source of competitive advantage, means that the players have to invest continually to adapt and update their technology.

Conclusions

Europe's defence sector faces a unique opportunity to consolidate its position and reduce dependence on non-EU solutions. The combination of a shifting geopolitical environment and the need to reinforce strategic autonomy is fuelling investment in defence. Mergers and acquisitions, along with multilateral alliances, could accelerate this process, allowing Europe to develop an integrated and competitive industrial base.

Despite the opportunities, the defence sector also faces considerable risks. Government policy changes and new regulatory requirements could alter market conditions suddenly. Moreover, rapid technological development requires the players to work tirelessly to stay up to speed. Fragmentation and a lack of interoperability among the member states remain considerable impediments to sector consolidation.

In short, the European defence sector is poised to benefit from a favourable climate for investment and consolidation. To fully leverage these opportunities, however, it is crucial to tackle the structural and regulatory challenges. Industrial cooperation and technological integration will be key to bolstering the sector's responsiveness to current and future threats, so endowing Europe with a robust and autonomous defence platform.

Notes

- [1] *Financial Times*. (14 April 2025). NATO acquires AI military system from Palantir.
Space News. (2024, June). *Pentagon embracing SpaceX's Starshield for future military satcom*.
- [2] *Expansión*. (22 April 2025). Seis países de la UE se rebelan contra el plan de Bruselas para facilitar grandes fusiones en Europa [Six EU countries rebel against Brussels' plans for facilitating large M&A deals in Europe]. (<https://www.expansion.com/empresas/2025/04/22/6807a1afe5fdea48778b45b9.html>)

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Pablo Guijarro Segado and Pilar Gómez Estefanía. Afí

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Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

CNMV Circular 1/2025 amending Circulars 6/2008, 11/2008 and 4/2016 (Official State Gazette: 17 March 2025)

In broad terms, the following developments stand out:

1. Amendment of Circular 11/2008 (30 December 2008) on the accounting standards, annual accounts and confidential information statements of private equity firms:

- European Long-Term Investment Funds (ELTIF) are required to submit the public and confidential information statement templates to the CNMV to align their reporting requirements with those of the other entities falling under the scope of Law 22/2014.
- The monitoring report on qualifications attributable to scope limitations related with valuation included in private equity firms' audit reports must now be submitted via the electronic CIFRADO service in a bid to continue to digitalise the CMMV.
- The confidential statement templates have been modified to add more appropriate disclosures and align them with the most recent regulatory developments, particularly with respect to coefficients.

2. Amendment of Circular 4/2016 (29 June 2016) on the duties of the depositories of collective investment undertakings and entities under the scope of Law 22/2014: the depositories for the entities governed by Law 22/2014 must submit their annual reports on fulfilment of the oversight and supervision function via the CIFRADO service.

3. Amendment of Circular 6/2008 (26 November 2008) on determination of the net asset value and operating aspects of collective investment undertakings:

- Adaptation of the rules governing performance-based management fees for the requirements set down in article 5.3 of the UCITS Regulation, as most recently amended, in turn derived from the ESMA's Guidelines on performance fees in UCITS and certain types of AIFs.
- Update of the references to net asset value in relation to Law 35/2003.
- Elimination of the references to the liquidity coefficient for collective investment undertakings of a financial nature following the elimination of that coefficient via Royal Decree 1180/2023.

CNMV Circular 2/2025 amending Circulars 1/2021, 1/2010 and 5/2009 (Official State Gazette: 24 April 2025)

1. Amendment of CNMV Circular 1/2021 (25 March 2021) on the accounting standards, annual accounts and financial statements of investment service firms (ESIs for their acronym in Spanish) and their consolidated groups and the management companies of collective investment undertakings, including closed-end schemes:

- Expansion of its scope of application to include crypto asset service providers (CASP) and national financial advisory firms (EAFN for its acronym in Spanish), which now fall under the supervision of the CNMV.
- Permission for EAFNs that are legal persons to apply the General

Accounting Plan for Small and Medium-Sized Enterprises, as applies to financial advisory firms (EAFs for their acronym in Spanish).

- Inclusion of both legal person CASPs and EAFNs among the entities that are required to submit their annual accounts aligned with the Circular annexes via the electronic CIFRADO service.
- Introduction or modification of the frequency for submitting confidential statements and of the criteria for determining the specific confidential statement templates that have to be submitted by each kind of supervised entity.
- Elimination of certain confidential statements for ESIs and reduction of the frequency with which they have to be furnished.
- Inclusion of EAFNs that are legal persons within the scope of the internal audit report submission requirement.
- Inclusion of the new information regarding crypto asset service provision to be submitted by ESIs, along with the details regarding cash and customer collateral balances.
- Introduction of new confidential statements to obtain financial and solvency data regarding CASPs.
- Introduction of a new common confidential AML/CFT statement to be submitted by ESIs that are not financial advisory firms, by management companies and by CASPs.

Applicable from 30 September 2025.

2. Amendment of CNMV Circular 1/2010 (28 July 2010) on the confidential information to be submitted by investment service firms:

- Introduction of a confidential statement template so that CASPs reports the key aspects of their crypto asset service provision activity.
- Replacement of the report on activities carried out in the securities market for each of the first three quarters of each year with a single report related to the activity carried out during the first half of the year.

Applicable from 30 September 2025. The requirement to submit confidential statements in January/February 2026, as applicable.

3. Amendment of CNMV Circular 5/2009 (25 November 2009) regulating the Internal Auditor Report on Customer Asset Protection:

- Expansion of its scope of application to include electronic money institutions and CASPs and the requirement to draw up a Report on Customer Asset Protection at the request of the CNMV.
- Inclusion of crypto assets within the scope of the Circular.
- Update of several references to other pieces of legislation that had become outdated.

Applicable from 31 December 2025. The first Customer Asset Protection Report under the new format, related to 2025, must be submitted before 31 May 2026.

Royal Decree 214/2025 creating the carbon footprint, offset and capture project register and introducing requirements around carbon footprint calculation and greenhouse gas emissions abatement plans (Official State Gazette: 12 April 2025)

Firstly, Royal Decree 214/2025 implements final provision twelve of Law 7/2021 (20 May 2021), introducing the carbon footprint calculation and GHG emissions

abatement plan obligations for the companies obliged to disclose non-financial information under article 49.5 of the Code of Commerce and article 262.5 of the Corporate Enterprises Act. Specifically, it requires bound organisations to:

- Calculate their carbon footprints annually. Doing so using the emission factors referred to in this new Royal Decree.
- Formulate an emissions abatement plan containing at least a quantitative target for their reduction over a timeframe of at least five years, along with the measures for achieving it.
- Make the information about their carbon footprints and abatement plans available to the public free of charge and in an accessible manner via their websites. These organisations can meet their new disclosure requirements by including the legally required information in their sustainability reports.

These obligations will take effect according to the timeline set down in Law 11/2018, depending on the type of organisation.

Inscription in the carbon footprint, offset and capture project registry will be voluntary for these organisations and the Spanish Climate Change Office will set up a mechanism for facilitating inscription.

Secondly, Royal Decree 214/2025 amends certain aspects related with the above-mentioned registry, including: (i) additional term definitions; (ii) registrable parties; (iii) dissemination; (iv) coordination and oversight with the regional governments; and (v) registrable deeds.

The Royal Decree will take effect two months after its publication.

Royal Decree-law 4/2025 on urgent measures in response to the tariff threat and for reinvigorating trade (Official State Gazette: 9 April 2025)

This piece of legislation introduces a series of instruments designed to allow Spanish

companies adapt for the effects of the tariff policy recently announced by the Trump administration. It is part of the so-called Response and Trade Relaunch Plan designed by the Spanish government to mitigate the adverse effects of the trade shock.

On account of its impact on the financial institutions, it is worth highlighting the approval of a state-backed surety line to secure financing granted by the financial institutions to cover liquidity or investment needs derived from the import tariffs imposed by the U.S. The Ministry of Economy, Trade and Business will extend sureties for financing awarded by credit institutions, specialised lending institutions and the ICO with the aim of providing liquidity or financing business reconversion projects for companies that are significantly exposed to the U.S. market, directly or indirectly, using the thresholds defined by a Cabinet resolution. The sureties will have the following characteristics:

- The maximum size of the facility, in place until 30 June 2026, will be 5 billion euros (with scope for extension via a Cabinet resolution).
- The applicable terms and conditions and eligibility requirements will be established via a Cabinet resolution.
- These sureties will be governed by the recoveries and collections legal regime set down in Additional Provision Eight of Law 16/2022.

Other measures introduced relate to: (i) the possibility of using public debt to finance the credit to be endowed to the Ministry of Economy, Trade and Business for the purposes set down in Law 14/2013 (27 September 2023), in support of entrepreneurs and their international expansion; (ii) the maximum ceiling on the coverage by the state of the risks derived from the international expansion of the Spanish economy; (iii) elimination of “losses provoked by sundry natural developments” as a cause for dissolution; and (iv) the establishment for an extraordinary deadline for the authorisation of annual accounts.

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Spanish economic forecasts panel: May 2025*

Funcas Economic Trends and Statistics Department

Growth in 2025

GDP growth estimate for 2025 remains at 2.5%

In the first quarter of 2025, GDP grew by 0.6%, according to the INE's provisional advance, in line with expectations in the previous Panel. In addition, the INE revised quarter-on-quarter growth for the third and fourth quarters of 2024 from 0.8% to 0.7%, although with no effect on the annual growth rate, which remains at 3.2%.

The contribution of domestic demand to growth in the first quarter was four tenths of a percentage point, driven mainly by private consumption and investment. The foreign sector contributed two tenths of a percentage point, as a result of an increase in exports of services – especially non-tourist services – which more than offset the increase in imports.

With respect to the beginning of the second quarter of this year, some of the available indicators point to a slight slowdown. However, due to the outcome of the first quarter, in line with expectations, the consensus estimate of GDP growth for 2025 as a whole remains at 2.5%. Also, as in the previous Panel, the forecast for the contribution of domestic demand is 2.6 percentage points and that of the foreign sector is negative two tenths of a percentage point (Table 1). As for the quarterly profile, quarter-on-quarter rates of 0.5% are forecast for the second and third quarters, and 0.4% for the last quarter of the year (Table 2).

The majority of the panelists believe that the risk of their forecasts is balanced, *i.e.*, they give similar probability to the deviation being upward as downward. Three panelists think the risk is to the upside and six to the downside.

Growth in 2026

GDP growth forecast for 2026 remains at 1.9%

The consensus forecast for GDP growth in 2026 remains at 1.9%. This figure is in line with both Bank of Spain and IMF projections, and below those considered by the Government, the European Commission and OECD (Table 1).

The deceleration with respect to 2025 reflects the expectation that domestic demand reduces its contribution to 1.9 percentage points (two tenths less than in the previous forecast), while the foreign sector would subtract one tenth from growth (instead of the negative two tenths predicted by the March Panel). Quarter-on-quarter GDP growth rates are forecast to be around 0.5% (Table 2).

Inflation

Inflation rate to remain above 2% during 2025

Headline inflation slowed, after rebounding in the first two months of the year, to 2.2% in April. Panelists believe that it will bottom out in the middle of the year and will pick up thereafter (Table 3). Core inflation, meanwhile, after standing at 2% in March (the lowest value recorded since the end of 2021), rose again to 2.4% in April.

For the year as a whole, an average annual rate of 2.5% is predicted for the general rate and 2.3% for the core rate, both unchanged with respect to the previous consensus forecast. For 2026, the projection for the general rate is 2% (one tenth less than the previous Panel) and 2.1% for the core rate (Table 1).

The year-on-year rates of the general index in December are forecast at 2.3% for this year and 2.0% in 2026 (Table 3).

Labor market

No signs of cooling in the labor market

The labor market continues to improve. According to the Labor Force Survey, employment increased by 0.7% in the first quarter, controlling for seasonal effects. The unemployment rate stood at 11.4%, nine tenths of a percentage point lower than in the same period of the previous year. The Social Security enrolment also maintained its positive trend.

The employment growth forecast for 2025 and 2026 remains unchanged at 1.9% and 1.4%, respectively. As a result, the unemployment rate would stand at 10.7% in 2025 (unchanged from the previous Panel) and would be reduced by three tenths to 10.4% in 2026, which is one tenth more than the previous forecast (Table 1).

Productivity and unit labor costs (ULC), calculated based on GDP growth forecasts, wage compensation and employment in LFS terms, would be 0.6% (the same as in the previous Panel) and 2.5% (one tenth of a percent lower), respectively, for 2025. For 2026, the forecast is 0.5% and 2.1%.

Balance of payments

Slight reduction in surplus at the beginning of the year

According to the revised figures, the current account balance recorded a surplus of 48.1 billion euros in 2024, which is the best outcome in the historical series in nominal terms, and one of the best results in relation to GDP, which was 3%, only below the historical maximum of 2016. The current account remained in surplus in the first two months of 2025, though slightly less than in the same period of 2024 (with a worsening of 3.6 billion euros).

The consensus forecast for the current account surplus is 2.4% of GDP by 2025 and 2.3% by 2026, which is three and two tenths of a percentage point lower, respectively, compared to the previous consensus projections (Table 1).

Public deficit

Government deficit forecast for 2026 has been lowered

The General Government recorded a deficit of 3.2% of GDP in 2024 (excluding DANA-related expenses, the deficit was 2.8%), compared to 3.5% in the previous year. In the first two months of 2025, a significant deterioration was recorded in the Central Administration accounts, while the Autonomous Communities and the Social Security funds improved their records. These results, however, should be interpreted with caution, as the first months of the year are typically not very representative.

The panelists expect the general government deficit to continue to shrink over the next two years, with a forecast of 2.9% for this year (unchanged from the March Panel) and 2.7% for 2026, two tenths of a percentage point lower than the previous consensus forecast (Table 1).

International context

An external environment marked by the trade war

The climate of global uncertainty has intensified, particularly since the announcement of strong trade restrictions by the Trump Administration

on April 2nd (so-called “liberalization” day). After decreeing a general tariff of 10% and specific tariffs on each trading partner, the U.S. executive decided to suspend the latter to make way for a 90-day negotiation period. Since then, the U.S. has sealed agreements with the United Kingdom and China, resulting in a lower level of customs protection than announced last month, which, however, does not dispel all doubts. Trade negotiations with the European Union, meanwhile, have barely started.

In the face of the protectionist turn and the uncertainty surrounding the direction of U.S. economic policy, business confidence indicators have deteriorated and consumer inflation expectations have moved upwards. The decline in U.S. GDP in the first quarter (-0.1% quarter-on-quarter) is a first sign of the change in macroeconomic expectations – although the result probably magnifies the underlying trend, as it partly reflects a transitory rebound in imports.

In its spring round, the IMF reduced its growth forecasts for the world economy by half a percentage point for this year, and by three tenths for 2026. The U.S. and China would be among the economies most affected by the trade war. The eurozone should be less exposed, although the impact would reduce its already modest growth prospects. Among the large economies, the Spanish economy is projected to be the one that best withstands the shock, a prediction that coincides with the recently published forecasts of the European Commission.

The turbulent international outlook is reflected in the Panel’s assessments. Of the 19 panelists, 17 are pessimistic about the global context, compared to 14 in the previous Panel, and most believe that this context will continue to prevail in the coming months. A majority of analysts also believe that the European environment is unfavorable and that this situation will persist in the short term, although in this case the number of negative opinions is slightly lower than in the March round (Table 4).

Interest rates

Financial market volatility and lower Euribor

Tariff escalation has been accompanied by increased volatility in financial markets. The U.S. stock market, after suffering heavy losses in the weeks following liberation day, has recovered as the executive’s position has softened. However, a certain amount of mistrust remains, generating a portfolio adjustment to the detriment of U.S.

investment. The financial turmoil and economic slowdown, along with the prospect of a pickup in inflation, have complicated the task of monetary policy. For the time being, the Federal Reserve has opted to hold interest rates steady.

In Europe, the appreciation of the euro, lower oil prices and weak demand point to a disinflation scenario. Since the previous Panel, the ECB has cut its key interest rates further, leaving the deposit facility at 2.25%. Panelists anticipate a decline in the deposit facility to around 1.75% by the end of 2026, a quarter point below the previous Panel (Table 2). The slight downward trend in ECB rates is expected to be reflected in the one-year Euribor, whose rate is forecast to fall from the current 2.1% to 1.9% by the end of the year, two tenths of a point lower than in the March Panel (Table 2).

Spanish 10-year bond yields are expected to remain around 3.1-3.2% throughout the forecast period, with no major changes compared to the panelists' previous assessment (Table 2).

Foreign exchange market

Appreciation of the euro against the dollar

The episode of financial stress that took place at the beginning of April following the restrictive turn in

U.S. trade policy generated an outflow of financial capital to the euro zone and an appreciation of the common currency, which traded at around 1.15 dollars. Subsequent counter-announcements helped to ease tensions, so that the euro has fallen back to between 1.11 and 1.12 at the time of writing, which still implies an appreciation of close to 5% against the previous Panel. Analysts forecast the exchange rate to hover around current levels over the forecast period (Table 2).

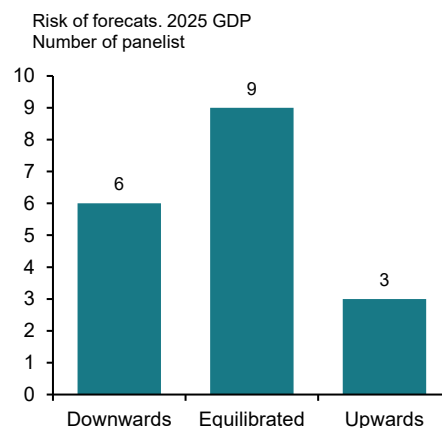
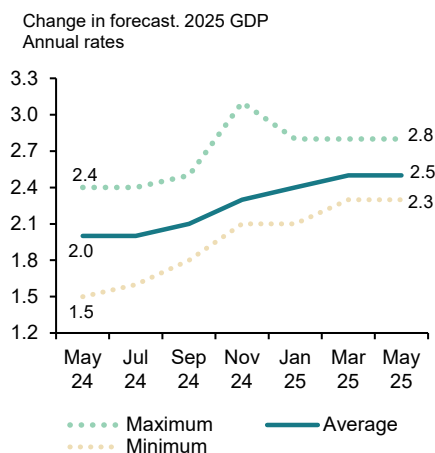
Considerations on budgetary and monetary policies

Change in the macro policy mix

The panelists advocate a change in the support provided by macroeconomic policies. They consider, on the one hand, that fiscal policy is being expansionary, when most would recommend a neutral position, similar to the previous Panel (Table 4). On the other hand, despite the decline in interest rates, most analysts continue to believe that monetary policy is being restrictive, whereas a more neutral position would be desirable.

Exhibit 1

Evolution and risk of forecasts



Source: Funcas Panel of Forecasts.

* The Spanish Economic Forecast Panel is a survey conducted by Funcas among the 19 analytical services listed in Table 1. The survey, which has been carried out since 1999, is published bimonthly in January, March, May, July, September and November. Based on the responses to the survey, "consensus" forecasts are provided, which are calculated as the arithmetic mean of the 19 individual forecasts. By way of comparison, although not forming part of the consensus, the forecasts of the Government, AIReF, the Bank of Spain and the main international organizations are also presented.

Spanish economic forecasts panel: March 2025*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – May 2025

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross Fixed Capital Formation						Domestic demand ³		Exports of goods & serv.		Imports of goods & serv.	
	2025	2026	2025	2026	2025	2026	Total		Machinery and capital goods		Construction		2025	2026	2025	2026	2025	2026
Analistas Financieros Internacionales (AFI)	2.4	2.2	2.8	2.6	2.9	2.6	3.7	1.8	6.4	1.4	3.3	2.4	2.9	2.3	1.7	1.4	3.3	2.0
BBVA Research	2.8	1.8	3.1	1.9	3.2	1.9	6.2	5.3	6.0	3.6	6.4	5.8	3.6	2.5	2.7	2.3	5.4	4.5
CaixaBank Research	2.5	2.1	3.1	2.4	1.9	0.8	3.1	3.0	3.8	1.5	3.0	3.8	2.8	2.1	2.1	2.3	2.9	2.5
Cámara de Comercio de España	2.4	1.9	2.7	1.9	2.8	2.0	3.1	2.0	5.4	2.0	2.0	2.1	2.8	1.8	1.7	2.8	3.3	3.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.6	1.9	2.2	1.6	1.5	1.0	2.8	2.4	2.0	2.2	3.0	3.0	2.1	1.6	3.5	4.0	4.0	3.8
Centro de Predicción Económica (CEPREDE-UAM)	2.5	2.2	2.9	2.3	2.3	1.9	4.0	3.5	5.6	5.3	3.2	2.4	2.7	2.3	2.3	2.4	3.1	3.2
CEOE	2.5	2.0	2.7	1.8	2.0	1.4	3.8	2.2	5.3	2.4	3.6	2.1	2.6	1.8	2.9	3.5	3.4	3.3
Equipo Económico (Ee)	2.6	1.9	2.8	1.8	3.2	2.4	2.9	2.4	2.7	2.2	3.0	2.1	2.6	2.0	2.8	2.5	3.1	3.0
EthiFinance Ratings	2.5	2.0	2.7	2.0	1.9	1.1	4.3	5.0	5.1	5.6	3.9	4.2	2.5	2.6	1.4	1.5	2.8	3.3
Funcas	2.3	1.6	3.1	2.0	2.2	1.5	2.5	2.2	2.1	1.6	2.9	2.7	2.6	1.9	1.7	1.1	2.9	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	1.8	2.7	1.8	2.2	1.6	4.7	3.2	6.6	2.3	4.1	3.7	2.8	1.8	2.9	2.3	3.3	2.5
Instituto de Estudios Económicos (IEE)	2.4	1.8	2.5	1.8	3.0	2.5	1.9	1.4	1.5	1.0	2.3	1.8	2.4	1.9	3.0	2.9	3.3	3.4
Intermoney	2.3	1.9	2.8	2.0	2.2	1.4	2.9	2.9	2.4	2.8	3.4	3.0	2.6	1.9	3.1	3.0	3.6	3.2
Mapfre Economics	2.5	1.7	3.3	2.2	3.1	1.6	3.1	1.9	--	--	--	--	2.7	1.5	1.4	1.6	2.3	1.5
Metysis	2.4	1.8	2.9	2.0	2.4	1.8	2.4	2.1	2.2	2.0	3.0	2.4	2.5	1.9	2.3	2.1	2.7	2.5
Oxford Economics	2.5	1.7	2.9	2.5	2.6	2.1	3.8	1.4	5.0	0.5	2.1	1.9	2.8	1.6	1.6	1.4	2.4	1.3
Repsol	2.4	2.0	2.5	2.0	2.0	1.7	3.8	3.8	5.7	4.8	3.1	1.9	2.4	2.2	3.0	4.3	3.7	5.2
Santander	2.3	1.7	2.7	2.0	1.9	0.9	3.7	1.5	2.1	0.3	3.3	2.2	2.7	1.7	2.0	1.4	3.2	1.7
Universidad Loyola Andalucía	2.5	2.2	3.4	2.0	2.7	2.7	3.9	2.4	6.0	4.4	2.7	1.7	2.1	1.6	1.9	2.2	1.4	2.0
CONSENSUS (AVERAGE)	2.5	1.9	2.8	2.0	2.4	1.7	3.5	2.7	4.2	2.6	3.2	2.7	2.6	1.9	2.3	2.4	3.2	2.9
Maximum	2.8	2.2	3.4	2.6	3.2	2.7	6.2	5.3	6.6	5.6	6.4	5.8	3.6	2.6	3.5	4.3	5.4	5.2
Minimum	2.3	1.6	2.2	1.6	1.5	0.8	1.9	1.4	1.5	0.3	2.0	1.7	2.1	1.5	1.4	1.1	1.4	1.3
Change on 2 months earlier ¹	0.0	0.0	0.0	0.0	-0.2	0.0	0.1	-0.4	0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.3	-0.2	-0.3
- Rise ²	2	1	7	4	5	5	9	2	8	2	5	2	4	3	3	1	5	5
- Drop ²	7	6	6	5	8	7	3	8	3	6	6	8	7	8	10	8	7	9
Change on 6 months earlier ¹	0.2	--	0.5	--	0.0	--	0.4	--	1.2	--	0.2	--	0.3	--	-0.6	--	0.0	--
Memorandum items:																		
Government (April 2025)	2.6	2.2	3.2	2.4	2.3	2.0	4.3	5.1	--	--	--	--	3.1	2.8	1.2	1.8	2.7	3.7
Bank of Spain (March 2025)	2.7	1.9	3.3	2.1	2.2	1.8	3.0 ^[4]	2.5 ^[4]	--	--	--	--	2.9	2.0	2.9	2.9	4.0	3.5
AIReF (May 2025)	2.3	1.7	2.8	2.0	2.7	1.6	3.3	1.9	4.4	1.4	--	--	2.8	1.8	1.9	2.2	3.4	2.8
EC (May 2024)	2.6	2.0	2.9	2.1	2.3	1.6	3.4	3.1	--	--	--	--	2.8	2.1	2.4	2.3	3.2	2.8
IMF (April 2025)	2.5	1.8	2.2	2.0	2.9	2.4	4.9	2.0	--	--	--	--	2.8	1.9	1.9	2.4	2.9	3.1
OECD (March 2025)	2.6	2.1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

¹ Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

² Number of panellists revising their forecast upwards (or downwards) since two months earlier.

³ Contribution to GDP growth, in percentage points.

⁴ Gross capital formation.

Table 1 (Continued)

Economic Forecasts for Spain – May 2025

Average year-on-year change, as a percentage, unless otherwise stated

	CPI (annual av.)		Core CPI (annual av.)		Wage earnings		Employment (LFS)		Unemployment rate		Current Account (% of GDP)		Gen. government balance (% of GDP)	
	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
Analistas Financieros Internacionales (AFI)	2.6	1.5	2.4	2.2	3.2	2.9	2.0	1.6	10.5	10.3	2.5	2.9	-2.3	-2.1
BBVA Research	2.4	2.1	2.1	2.0	2.4	2.5	2.2	1.9	10.4	9.9	2.7	2.3	-2.7	-2.4
CaixaBank Research	2.3	2.3	2.5	2.2	3.7	3.0	2.0	1.7	10.7	10.2	2.9	3.1	-2.8	-2.6
Cámara de Comercio de España	2.9	2.5	2.3	2.0	--	--	1.5	0.8	10.5	10.2	2.1	2.0	-3.0	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.7	2.2	2.8	2.4	2.5	2.8	2.0	1.2	11.2	11.0	-1.0	0.6	-2.5	-2.2
Centro de Predicción Económica (CEPREDE-UAM)	2.5	2.1	--	--	3.8	3.1	2.1	1.5	10.6	10.2	1.1	0.7	-2.9	-2.9
CEOE	2.4	1.9	2.2	2.1	3.2	2.7	2.1	1.7	10.5	10.0	2.6	2.2	-2.8	-2.7
Equipo Económico (Ee)	2.4	2.2	2.0	2.1	3.6	3.0	2.1	2.0	11.1	11.0	2.8	2.1	-2.9	-3.0
EthiFinance Ratings	2.3	2.1	2.1	2.0	3.0	3.0	1.8	1.5	10.7	10.5	2.6	2.6	-2.9	-2.7
Funcas	2.4	1.6	2.3	1.9	2.9	2.1	2.1	1.2	10.5	10.0	2.8	2.3	-2.9	-2.8
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.5	2.2	2.2	2.1	--	--	1.7	1.3	10.8	10.4	2.6	2.6	-3.0	-2.7
Instituto de Estudios Económicos (IEE)	2.4	2.1	2.3	2.2	3.2	2.7	2.0	1.5	10.7	10.3	2.5	2.1	-2.9	-2.8
Intermoney	2.7	2.1	2.5	2.3	--	--	1.8	1.4	10.9	10.5	--	--	-2.9	-2.7
Mapfre Economics	2.3	1.8	2.2	2.0	3.0	1.7	1.7	1.0	10.7	10.9	3.2	3.1	-3.0	-3.0
Metyis	2.4	2.2	2.3	2.0	3.2	2.5	1.6	1.5	10.9	10.6	2.4	2.5	-2.9	-2.6
Oxford Economics	2.5	1.9	2.5	1.7	--	--	2.0	0.8	10.9	10.9	2.9	3.0	-3.0	-3.0
Repsol	2.5	2.0	2.4	2.3	2.6	2.1	2.1	1.7	10.4	9.7	2.5	1.9	-3.0	-2.9
Santander	2.2	2.0	2.3	2.1	--	--	2.2	1.1	10.8	10.3	--	--	--	--
Universidad Loyola Andalucía	2.4	2.0	2.0	2.1	--	--	1.7	1.2	10.9	10.7	3.4	2.7	-3.4	-3.5
CONSENSUS (AVERAGE)	2.5	2.0	2.3	2.1	3.1	2.6	1.9	1.4	10.7	10.4	2.4	2.3	-2.9	-2.7
Maximum	2.9	2.5	2.8	2.4	3.8	3.1	2.2	2.0	11.2	11.0	3.4	3.1	-2.3	-2.1
Minimum	2.2	1.5	2.0	1.7	2.4	1.7	1.5	0.8	10.4	9.7	-1.0	0.6	-3.4	-3.5
Change on 2 months earlier ¹	0.0	-0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1	-0.3	-0.2	0.0	0.2
- Rise ²	2	4	6	4	1	2	5	3	7	6	2	3	4	4
- Drop ²	8	6	4	4	1	2	4	1	3	4	7	6	2	0
Change on 6 months earlier ¹	0.4	--	0.1	--	0.0	--	--	--	-0.4	--	-0.2	--	0.0	--
Memorandum items:														
Government (April 2025)	--	--	--	--	--	--	2.5 ^[5]	2.3 ^[5]	10.3	9.6	--	--	-2.8	--
Bank of Spain (March 2025)	2.5 ^[3]	1.7 ^[3]	2.2 ^[4]	2.0 ^[4]	--	--	1.9 ^[5]	1.2 ^[5]	10.5	10.0	--	--	-2.8	-2.6
AIReF (May 2025)	2.3	2.0	--	--	3.3	2.1	2.3 ^[6]	1.7 ^[6]	10.7	10.3	--	--	-2.8	-2.3
EC (May 2024)	2.3 ^[3]	1.9 ^[3]	--	--	3.4	2.6	2.1 ^[5]	1.6 ^[5]	10.4	9.9	2.7	2.8	-2.8	-2.5
IMF (April 2025)	2.2	2.0	--	--	--	--	1.5	0.9	11.1	11.0	2.4	2.2	-2.7	-2.4
OECD (March 2025)	2.5 ^[3]	2.1 ^[3]	2.2 ^[3]	1.9 ^[3]	--	--	--	--	--	--	--	--	--	--

¹ Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).² Number of panellists revising their forecast upwards (or downwards) since two months earlier.³ Harmonized index.⁴ Harmonized index excluding food and energy.⁵ Persons, according to National Accounts.⁶ Full time equivalent jobs.

Table 2

Quarterly Forecasts – May 2025

	25-I Q	25-II Q	25-III Q	25-IV Q	26-I Q	26-II Q	26-III Q	26-IV Q
GDP ¹	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Euribor 1 yr ²	2.15	2.02	1.96	1.93	1.91	1.87	1.85	1.85
Government Bond yield 10 yr ²	3.23	3.12	3.12	3.13	3.13	3.14	3.15	3.17
ECB deposit rates ³	2.50	2.09	1.94	1.84	1.82	1.78	1.80	1.78
Dollar / Euro exchange rate ²	1.121	1.115	1.118	1.111	1.112	1.113	1.116	1.117

Forecasts in yellow.

¹ Qr-on-qr growth rates.

² End of period.

³ Last day of the quarter.

Table 3

CPI Forecasts – May 2025

Year-on-year change (%)					
Apr-25	May-25	Jun-25	Jul-25	Dec-25	Dec-26
2.2	2.1	2.1	2.3	2.3	2.0

Table 4

Opinions – May 2025

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	4	15	5	12	2
International context: Non-EU	0	2	17	2	12	5
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	2	17	2	17	0
Monetary policy assessment ¹	10	8	1	3	14	2

¹ In relation to the current state of the Spanish economy.

Key Facts

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Economic Indicators

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction	Equipment & others products				
Chain-linked volumes, annual percentage changes											
2017		2.9	3.1	1.0	6.8	6.8	6.7	5.6	6.7	5.2	0.0
2018		2.4	1.7	2.1	6.5	10.1	3.2	1.7	3.9	3.9	0.0
2019		2.0	1.1	2.2	4.9	8.4	1.4	2.3	1.3	3.5	-0.7
2020		-10.9	-12.1	3.5	-8.9	-8.4	-9.4	-20.1	-15.1	3.7	-0.8
2021		6.7	7.1	3.6	2.6	0.5	4.9	13.4	15.0	4.7	-1.6
2022		6.2	4.8	0.6	3.3	2.2	4.4	14.3	7.7	5.1	-1.6
2023		2.7	1.8	5.2	2.1	3.0	1.2	2.8	0.3	5.3	-1.3
2024		3.2	2.9	4.1	3.0	3.5	2.4	3.1	2.4	4.1	-0.6
2025		2.3	3.1	2.2	2.5	2.9	2.1	1.7	2.9	2.6	-0.3
2026		1.6	2.0	1.5	2.2	2.7	1.6	1.1	2.1	1.9	-0.3
2023	II	2.4	1.0	6.0	1.7	3.2	0.1	1.8	-1.5	1.1	1.3
	III	2.2	1.4	6.4	0.3	0.0	0.6	0.0	-1.3	1.7	0.5
	IV	2.3	3.0	5.0	4.7	3.9	5.5	0.7	2.3	2.7	-0.4
2024	I	2.7	2.3	5.0	2.3	2.4	2.1	1.7	1.0	2.4	0.3
	II	3.3	2.6	3.5	3.0	3.5	2.4	2.8	1.1	2.6	0.7
	III	3.3	3.0	4.3	2.1	3.9	0.3	4.7	3.7	2.8	0.5
	IV	3.3	3.7	3.8	4.5	4.2	4.9	3.2	3.9	3.5	-0.1
2025	I	2.8	3.5	3.1	4.1	2.2	6.3	2.1	3.6	3.2	-0.4
Chain-linked volumes, quarter-on-quarter percentage changes											
2023	II	0.2	0.8	1.8	0.0	-0.3	0.4	-0.4	0.4	0.6	-0.3
	III	0.7	0.8	1.5	-0.5	-2.2	1.6	-1.5	-1.4	0.7	0.0
	IV	0.7	0.2	0.6	1.2	1.5	0.9	1.6	1.1	0.5	0.2
2024	I	1.0	0.6	1.0	1.5	3.6	-0.7	2.1	1.0	0.6	0.4
	II	0.8	1.0	0.3	0.7	0.7	0.7	0.6	0.5	0.8	0.1
	III	0.7	1.2	2.3	-1.3	-1.9	-0.5	0.4	1.1	0.9	-0.2
	IV	0.7	0.8	0.2	3.5	1.8	5.5	0.1	1.3	1.1	-0.4
2025	I	0.6	0.4	0.2	1.1	1.6	0.6	1.0	0.7	0.4	0.2
	Current prices (EUR billions)	Percentage of GDP at current prices									
2017		1,170	58.4	18.4	18.9	9.1	9.8	34.9	31.3	96.4	3.6
2018		1,212	58.1	18.5	19.7	9.8	9.9	34.9	32.1	97.3	2.7
2019		1,254	57.4	18.7	20.3	10.5	9.8	34.7	31.7	97.0	3.0
2020		1,129	56.1	21.7	20.6	10.7	9.9	30.5	29.0	98.5	1.5
2021		1,235	56.1	21.0	20.2	10.4	9.8	33.8	32.8	99.0	1.0
2022		1,374	56.4	20.1	20.4	10.7	9.8	39.8	38.9	99.1	0.9
2023		1,498	55.4	19.6	19.7	10.5	9.2	38.1	34.1	96.1	3.9
2024		1,592	55.9	19.4	19.5	10.4	9.2	37.3	33.0	95.7	4.3
2025		1,667	56.3	19.3	19.7	10.5	9.2	36.7	32.8	96.1	3.9
2026		1,722	56.6	19.3	19.9	10.8	9.2	36.3	33.0	96.7	3.3

*Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Level, 2019=100

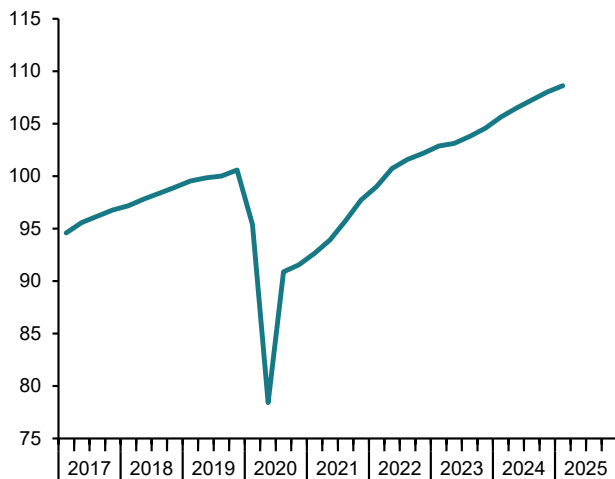


Chart 1.2 - Contribution to GDP annual growth

Percentage points

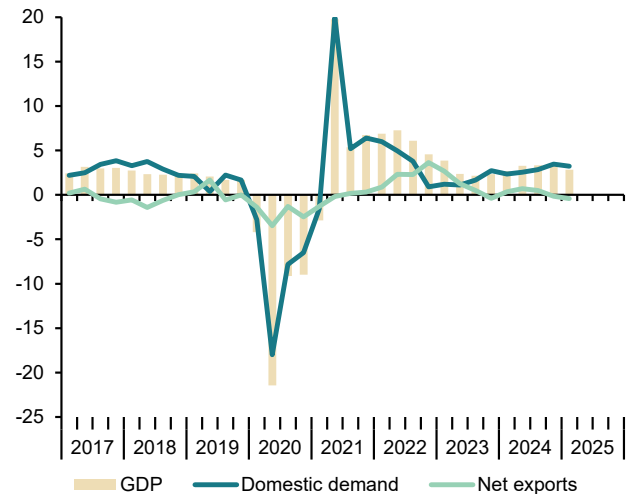


Chart 1.3 - Consumption

Level, 2019=100

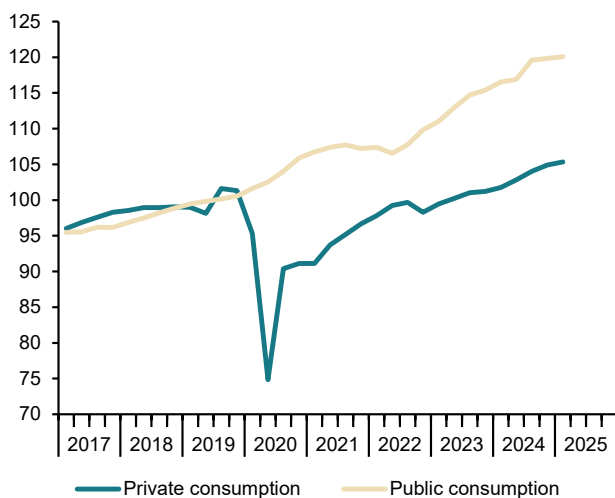


Chart 1.4 - Gross fixed capital formation

Level, 2019=100

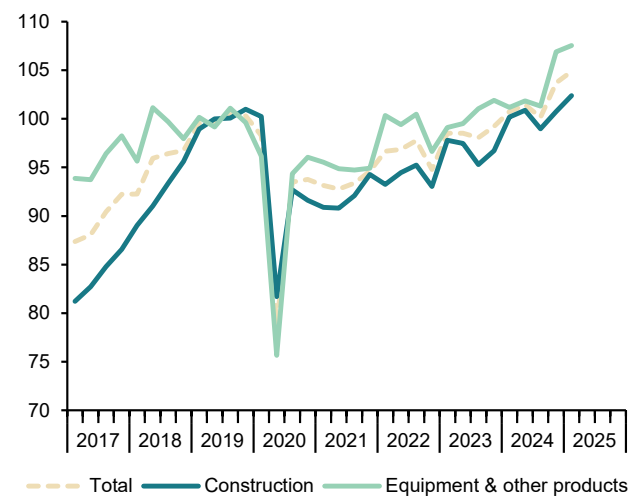


Table 2

National accounts: Gross value added by economic activity SWDA*

Gross value added at basic prices									
			Industry			Services			
	Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
Chain-linked volumes, annual percentage changes									
2017	3.0	-3.5	4.6	6.8	1.7	3.1	2.2	3.3	1.6
2018	2.5	4.2	0.1	-1.1	3.0	2.8	1.4	3.3	1.8
2019	2.1	-2.8	1.9	0.6	4.7	2.1	1.4	2.3	0.9
2020	-10.9	-2.0	-10.4	-14.1	-14.7	-10.9	-1.5	-13.9	-11.7
2021	6.3	7.0	5.8	13.9	-1.0	7.0	1.9	8.8	10.9
2022	6.7	-20.3	2.5	6.3	9.2	8.5	1.3	11.0	1.2
2023	2.9	6.5	0.7	2.1	2.1	3.3	3.0	3.4	0.5
2024	3.5	8.3	2.7	3.5	2.1	3.7	3.2	3.8	-1.0
2023	II	2.6	6.1	-0.6	0.8	3.2	2.8	3.2	0.4
	III	2.4	12.5	-0.7	1.0	0.0	2.9	3.0	0.0
	IV	2.6	12.6	1.3	2.2	1.8	2.9	2.6	-0.8
2024	I	3.2	11.6	1.3	1.9	2.6	3.4	3.4	-2.7
	II	3.8	7.3	3.4	4.7	1.8	3.0	4.2	-2.4
	III	3.7	10.3	3.7	4.0	1.6	3.9	3.5	-0.2
	IV	3.5	4.1	2.7	3.6	2.5	2.6	4.1	1.2
2025	I	3.1	5.5	2.4	2.5	1.8	3.3	2.8	0.1
Chain-linked volumes, quarter-on-quarter percentage changes									
2023	II	0.4	1.7	-1.1	-1.3	1.3	0.6	0.3	0.7
	III	0.8	-1.4	-0.3	0.6	-1.5	1.3	0.7	1.5
	IV	1.0	5.2	1.2	0.9	1.7	0.7	3.0	0.0
2024	I	1.0	5.7	1.4	1.8	1.0	0.7	-0.6	1.1
	II	1.0	-2.2	1.0	1.4	0.5	1.1	-0.1	1.5
	III	0.7	1.4	0.1	-0.2	-1.6	0.9	1.5	0.8
	IV	0.8	-0.7	0.2	0.5	2.6	0.9	1.8	0.6
2025	I	0.6	7.1	1.1	0.8	0.4	0.3	-0.4	0.5
	Current prices EUR billions)	Percentage of value added at basic prices							
2017	1,061	3.1	15.9	12.3	6.1	75.0	17.8	57.2	10.3
2018	1,098	3.0	15.7	11.9	6.1	75.2	17.7	57.5	10.4
2019	1,138	2.8	15.5	11.8	6.5	75.2	17.8	57.4	10.2
2020	1,031	3.1	15.9	11.9	6.2	74.9	19.8	55.1	9.5
2021	1,119	3.1	16.6	12.4	5.9	74.5	18.8	55.7	10.4
2022	1,252	2.5	17.1	12.0	5.8	74.5	17.7	56.8	9.7
2023	1,368	2.7	16.1	11.9	5.9	75.2	17.4	57.8	9.6
2024	1,450	2.8	15.6	11.8	5.8	75.8	17.4	58.5	9.8

* Seasonally and Working Day Adjusted.

Source: INE.

Chart 2.1 - GVA by sectors

Level, 2019=100

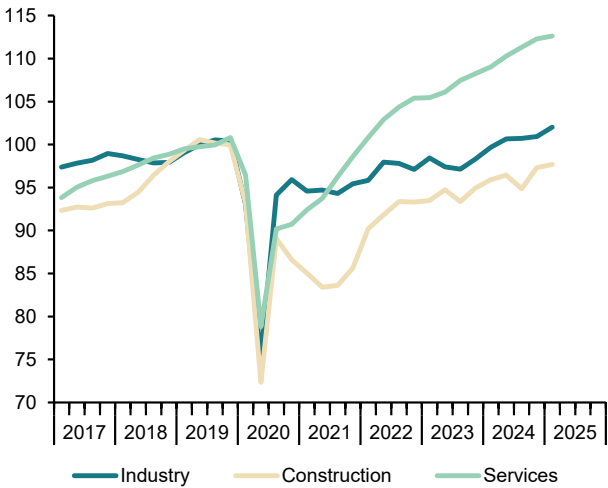


Chart 2.2 - GVA. Industry

Level, 2019=100

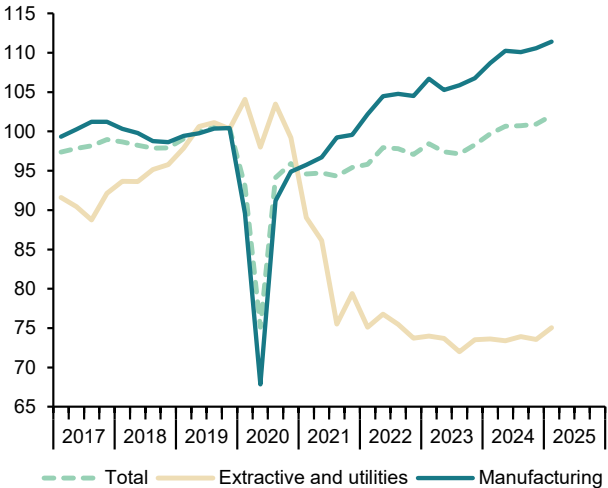


Chart 2.3 - GVA, services

Level, 2019=100

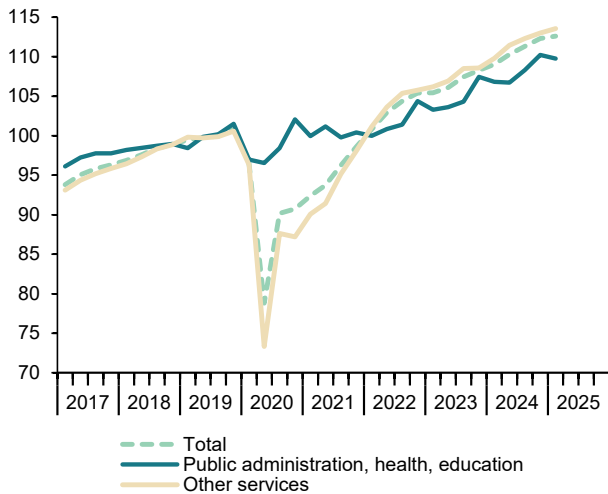


Chart 2.4 - GVA. structure by sectors

Percentage of value added at basic prices

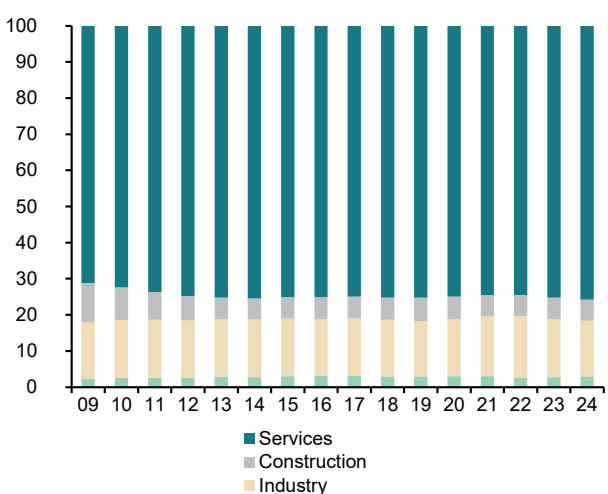


Table 3

National accounts: Productivity and labour costs

Forecasts in yellow

	Total economy						Manufacturing Industry					
	GDP, constant prices	Employment (working hours)	Productivity per hour	Compensation per hour worked	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (working hours)	Productivity per hour	Compensation per hour worked	Nominal unit labour cost	Real unit labour cost (a)
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Index, 1919 = 100, SWDA												
2017	95.8	95.9	99.8	94.2	94.4	96.8	100.5	96.4	104.3	98.1	94.0	97.5
2018	98.1	98.3	99.8	95.6	95.8	97.2	99.4	97.9	101.5	99.5	98.0	99.9
2019	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2020	89.1	89.0	100.0	106.5	106.4	105.2	85.9	91.2	94.2	106.8	113.4	106.6
2021	95.0	95.5	99.5	107.7	108.2	104.4	97.8	94.1	104.0	109.2	105.0	99.0
2022	100.9	100.0	100.9	111.3	110.3	101.5	104.0	97.0	107.2	112.4	104.8	96.9
2023	103.6	102.0	101.5	118.9	117.1	101.5	106.1	98.4	107.9	118.2	109.6	95.6
2024	106.8	104.0	102.7	125.4	122.1	102.7	109.9	99.6	110.3	124.8	113.1	97.8
2025	109.3	105.9	103.2	129.0	125.0	102.8	--	--	--	--	--	--
2026	111.0	107.0	103.7	131.7	127.0	102.7	--	--	--	--	--	--
2023	II	103.1	101.0	102.1	118.4	116.0	101.3	105.3	95.8	109.9	119.5	108.7
	III	103.8	102.6	101.1	119.8	118.4	102.3	105.9	99.2	106.7	117.7	110.3
	IV	104.6	103.0	101.5	121.8	120.0	101.4	106.8	98.7	108.1	120.7	111.6
2024	I	105.6	102.9	102.6	123.4	120.2	101.0	108.7	98.9	110.0	122.1	111.0
	II	106.5	103.7	102.7	124.4	121.1	102.0	110.3	99.7	110.6	124.0	112.1
	III	107.2	103.9	103.2	126.6	122.6	102.3	110.1	98.8	111.4	127.0	113.9
	IV	108.0	105.6	102.3	127.2	124.3	102.8	110.6	101.1	109.3	126.0	115.3
2025	I	108.6	105.0	103.4	129.5	125.3	102.9	111.4	99.5	112.0	130.8	116.8
Annual percentage changes												
2017	2.9	2.1	0.7	1.0	0.3	-1.0	6.8	5.2	1.6	-0.6	-2.1	-1.1
2018	2.4	2.5	-0.1	1.5	1.6	0.4	-1.1	1.6	-2.7	1.4	4.2	2.5
2019	2.0	1.7	0.2	4.6	4.4	2.9	0.6	2.1	-1.5	0.6	2.1	0.1
2020	-10.9	-11.0	0.0	6.5	6.4	5.2	-14.1	-8.8	-5.8	6.8	13.4	6.6
2021	6.7	7.2	-0.5	1.2	1.7	-0.8	13.9	3.1	10.4	2.2	-7.4	-7.1
2022	6.2	4.8	1.4	3.3	1.9	-2.7	6.3	3.1	3.1	2.9	-0.2	-2.2
2023	2.7	2.0	0.6	6.9	6.2	0.0	2.1	1.5	0.6	5.2	4.6	-1.4
2024	3.2	1.9	1.2	5.5	4.2	1.2	3.5	1.2	2.3	5.6	3.2	2.3
2025	2.3	1.8	0.5	2.9	2.4	0.0	--	--	--	--	--	--
2026	1.6	1.1	0.5	2.1	1.6	-0.1	--	--	--	--	--	--
2023	II	2.4	0.9	1.5	8.4	6.8	-0.2	0.8	-0.7	1.5	6.5	4.9
	III	2.2	2.2	0.0	6.8	6.8	0.4	1.0	1.3	-0.3	4.3	4.6
	IV	2.3	2.8	-0.4	6.4	6.9	1.5	2.2	0.4	1.8	6.3	4.4
2024	I	2.7	1.4	1.3	6.8	5.5	1.8	1.9	-0.9	2.8	6.1	3.2
	II	3.3	2.6	0.6	5.0	4.3	0.7	4.7	4.0	0.7	3.8	3.1
	III	3.3	1.2	2.1	5.7	3.5	-0.1	4.0	-0.4	4.4	7.9	3.3
	IV	3.3	2.5	0.8	4.4	3.6	1.4	3.6	2.4	1.1	4.4	3.3
2025	I	2.8	2.1	0.8	5.0	4.2	1.9	2.5	0.7	1.8	7.1	5.2

(a) Nominal ULC deflated by GDP/GVA deflator.

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2019=100

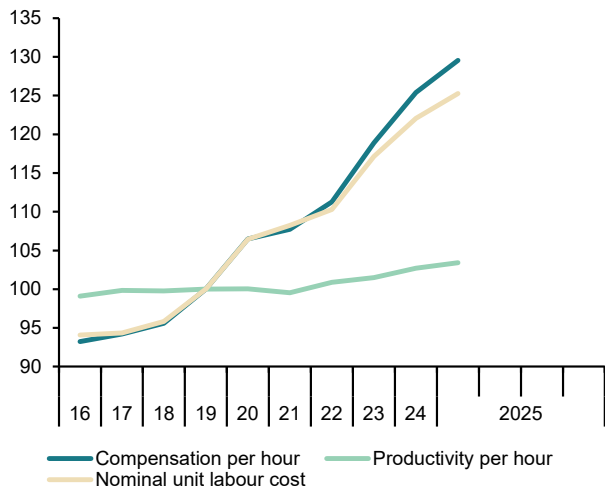
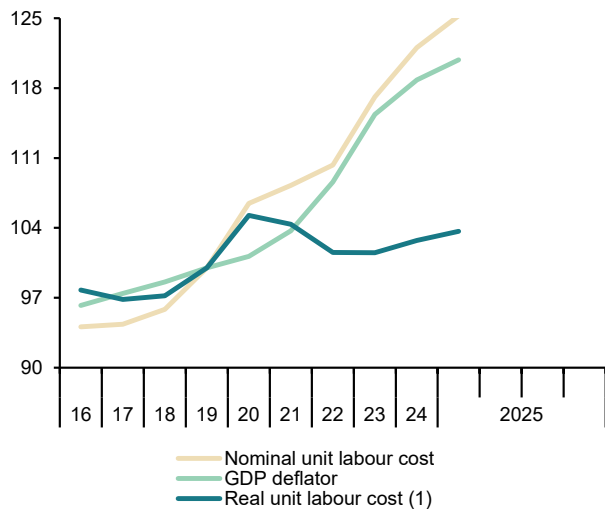


Chart 3.2 - Real ULC, total economy

Index, 2019=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2019=100

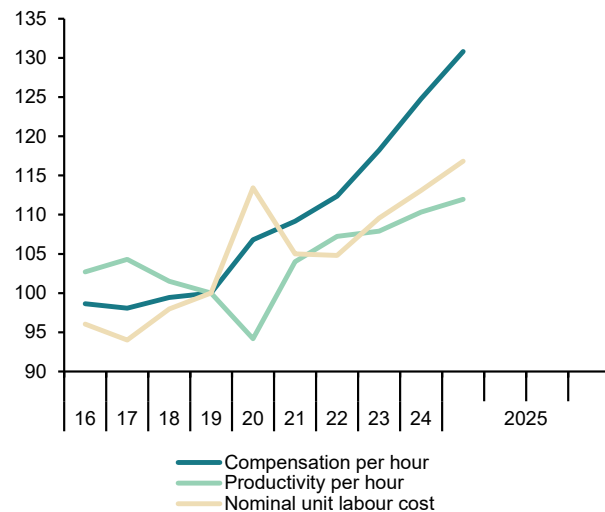
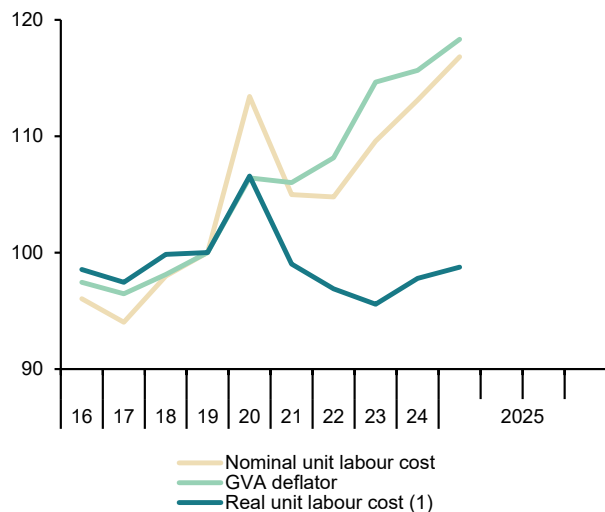


Chart 3.4 - Real ULC, manufacturing industry

Index, 2019=100



(1) Nominal ULC deflated by manufacturing GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow

		Gross domestic product	Compensation of employees	Gross operating surplus	Gross national disposable income	Final national consumption	Gross national saving (a)	Gross capital formation	Compensation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions. 4-quarter cumulated transactions							Percentage of GDP					
2017		1,170.0	528.1	521.9	1,160.2	898.6	261.6	228.9	45.1	44.6	22.4	19.6	2.8	3.0
2018		1,212.3	550.6	535.3	1,201.8	928.0	273.8	251.0	45.4	44.2	22.6	20.7	1.9	2.4
2019		1,253.7	585.8	540.4	1,243.0	954.2	288.8	262.1	46.7	43.1	23.0	20.9	2.1	2.5
2020		1,129.2	561.9	465.1	1,121.0	879.2	241.8	232.9	49.8	41.2	21.4	20.6	0.8	1.2
2021		1,235.5	604.2	504.3	1,232.8	953.0	279.8	270.2	48.9	40.8	22.6	21.9	0.8	1.6
2022		1,373.6	655.9	585.4	1,366.3	1,050.3	316.0	311.2	47.7	42.6	23.0	22.7	0.4	1.3
2023		1,498.3	715.6	639.2	1,479.3	1,124.8	354.5	314.7	47.8	42.7	23.7	21.0	2.7	3.7
2024		1,591.6	770.5	665.5	1,571.6	1,197.6	374.0	325.9	48.4	41.8	23.5	20.5	3.0	4.2
2025		1,666.7	808.6	702.6	1,649.0	1,259.6	389.4	342.6	48.5	42.2	23.4	20.6	2.8	3.9
2026		1,721.7	835.6	730.5	1,704.5	1,307.0	397.5	358.0	48.5	42.4	23.1	20.8	2.3	3.3
2023	II	1,442.5	684.9	623.1	1,430.3	1,089.2	341.1	313.2	47.5	43.2	23.6	21.7	1.9	2.9
	III	1,470.4	700.3	634.9	1,454.1	1,105.6	348.5	312.5	47.6	43.2	23.7	21.3	2.4	3.4
	IV	1,498.3	715.6	639.2	1,479.3	1,124.8	354.5	314.7	47.8	42.7	23.7	21.0	2.7	3.7
2024	I	1,519.2	730.0	644.9	1,500.1	1,143.8	356.3	316.6	48.1	42.4	23.5	20.8	2.6	3.7
	II	1,543.6	743.6	654.5	1,523.4	1,161.8	361.7	319.2	48.2	42.4	23.4	20.7	2.8	4.0
	III	1,567.3	756.7	663.6	1,547.2	1,179.5	367.7	321.8	48.3	42.3	23.5	20.5	2.9	4.2
	IV	1,591.6	770.5	665.5	1,571.6	1,197.6	374.0	325.9	48.4	41.8	23.5	20.5	3.0	4.2
2025	I	1,611.7	784.1	668.9	—	1,216.2	—	332.0	48.6	41.5	—	20.6	—	--
Annual percentage changes									Difference from one year ago					
2017		4.2	4.0	4.3	4.2	4.0	4.9	6.9	-0.1	0.1	0.2	0.5	-0.4	-0.3
2018		3.6	4.3	2.6	3.6	3.3	4.6	9.7	0.3	-0.4	0.2	1.1	-0.9	-0.7
2019		3.4	6.4	0.9	3.4	2.8	5.5	4.4	1.3	-1.1	0.5	0.2	0.3	0.1
2020		-9.9	-4.1	-13.9	-9.8	-7.9	-16.3	-11.1	3.0	-1.9	-1.6	-0.3	-1.3	-1.2
2021		9.4	7.5	8.4	10.0	8.4	15.7	16.0	-0.9	-0.4	1.2	1.2	0.0	0.4
2022		11.2	8.6	16.1	10.8	10.2	12.9	15.2	-1.2	1.8	0.4	0.8	-0.4	-0.4
2023		9.1	9.1	9.2	8.3	7.1	12.2	1.1	0.0	0.0	0.7	-1.7	2.3	2.5
2024		6.2	7.7	4.1	6.2	6.5	5.5	3.5	0.6	-0.8	-0.2	-0.5	0.4	0.4
2025		4.7	4.9	5.6	4.9	5.2	4.1	5.1	0.1	0.3	-0.1	0.1	-0.2	-0.3
2026		3.3	3.3	4.0	3.4	3.8	2.1	4.5	0.0	0.3	-0.3	0.2	-0.5	-0.6
2023	II	10.3	8.3	16.3	9.6	8.7	12.8	6.8	-0.9	2.2	0.5	-0.7	1.2	1.6
	III	9.5	8.8	13.8	8.7	7.4	13.0	3.2	-0.3	1.6	0.7	-1.3	2.0	2.3
	IV	9.1	9.1	9.2	8.3	7.1	12.2	1.1	0.0	0.0	0.7	-1.7	2.3	2.5
2024	I	7.7	9.0	6.1	7.0	6.9	7.2	1.5	0.5	-0.7	-0.1	-1.3	1.2	1.3
	II	7.0	8.6	5.0	6.5	6.7	6.0	1.9	0.7	-0.8	-0.2	-1.0	0.8	1.1
	III	6.6	8.1	4.5	6.4	6.7	5.5	3.0	0.7	-0.8	-0.2	-0.7	0.5	0.8
	IV	6.2	7.7	4.1	6.2	6.5	5.5	3.5	0.6	-0.8	-0.2	-0.5	0.4	0.4
2025	I	6.1	7.4	3.7	—	6.3	—	4.8	0.6	-0.9	—	-0.2	—	—

(a) Including change in net equity in pension funds reserves.

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

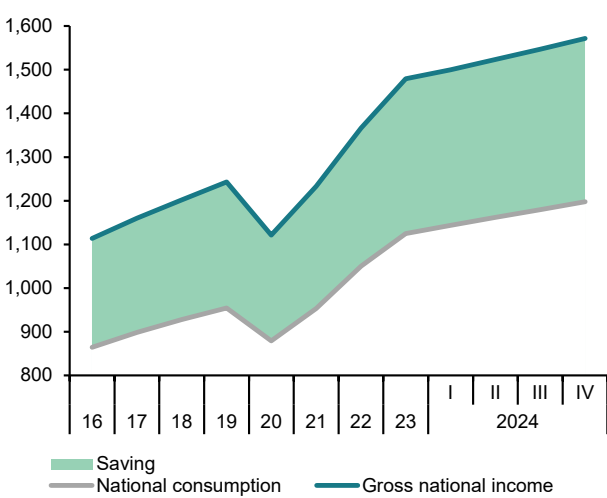


Chart 4.2 - National income, consumption and saving rate

Annual percentage change and percentage of GDP, 4-quarter moving averages

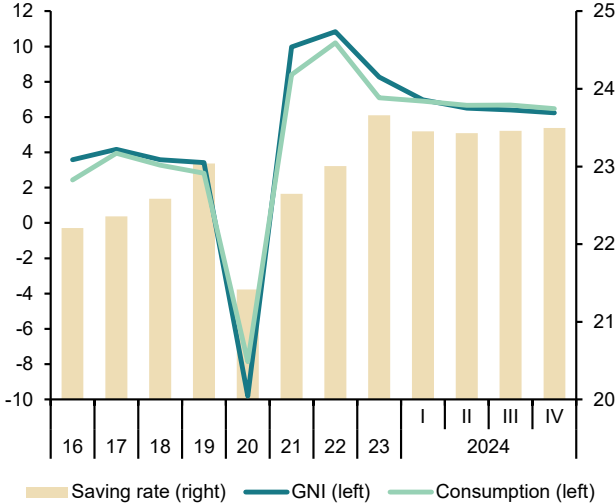


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

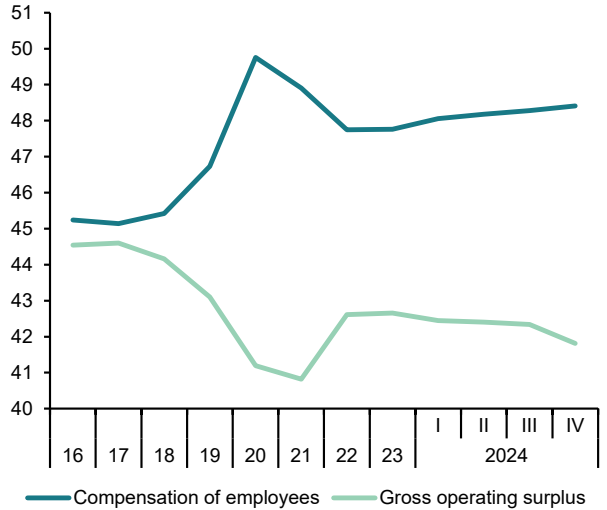


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

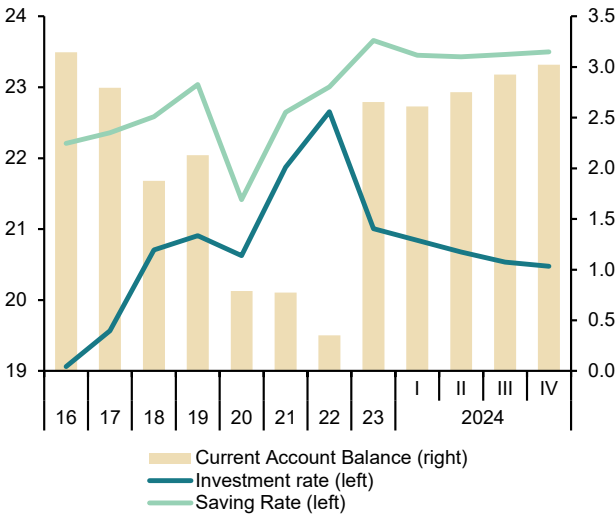


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow

	Households							Non-financial corporations						
	Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	
	EUR Billions. 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP		EUR Billions. 4-quarter cumulated operations			Percentage of GDP			
2017	731.8	682.8	45.9	37.7	6.3	3.2	0.5	266.1	200.0	162.2	17.1	13.3	3.5	
2018	752.9	704.4	45.7	41.4	6.1	3.4	0.2	270.3	199.3	180.5	16.4	14.0	1.8	
2019	790.6	720.0	67.8	44.2	8.6	3.5	1.8	274.1	201.5	188.1	16.1	14.6	1.3	
2020	773.0	633.6	135.5	40.8	17.5	3.6	8.3	216.5	153.3	154.7	13.6	13.9	0.4	
2021	811.2	693.6	115.4	51.7	14.2	4.2	5.1	237.4	172.8	180.2	14.0	13.1	0.5	
2022	853.9	774.5	77.2	64.7	9.0	4.7	0.8	293.9	218.8	199.3	15.9	12.6	2.1	
2023	945.1	830.5	113.7	67.7	12.0	4.5	3.0	312.5	218.2	195.3	14.6	12.1	2.0	
2024	1,027.7	889.1	139.9	71.7	13.6	4.5	4.7	304.9	204.9	202.3	12.9	12.0	0.9	
2025	1,068.6	937.8	128.7	77.1	12.0	4.6	3.5	320.0	217.8	211.8	13.1	12.7	1.0	
2026	1,102.2	973.8	126.4	82.5	11.5	4.8	2.9	335.3	231.5	220.0	13.4	12.8	1.3	
2023	I	872.3	790.5	79.8	61.8	9.1	4.4	1.1	307.2	229.2	202.2	16.3	14.3	2.6
	II	899.2	804.0	93.6	61.7	10.4	4.3	2.1	314.8	230.5	203.9	16.0	14.1	2.5
	III	922.2	814.9	105.9	62.7	11.5	4.3	2.8	315.0	226.4	200.7	15.4	13.7	2.4
	IV	945.1	830.5	113.7	67.7	12.0	4.5	3.0	312.5	218.2	195.3	14.6	13.0	2.0
2024	I	968.3	844.3	123.6	69.7	12.8	4.6	3.4	306.4	212.5	194.2	14.0	12.8	1.6
	II	991.5	858.2	133.3	72.4	13.4	4.7	3.8	304.4	205.2	194.0	13.3	12.6	1.2
	III	1,009.2	872.0	137.9	74.7	13.7	4.8	4.0	305.3	206.1	194.6	13.2	12.4	1.3
	IV	1,027.7	889.1	139.9	71.7	13.6	4.5	4.7	304.9	204.9	202.3	12.9	12.7	0.9
Annual percentage changes					Difference from one year ago			Annual percentage changes			Difference from one year ago			
2017	3.0	4.6	-15.7	14.7	-1.4	0.3	-1.2	4.6	2.7	5.9	-0.2	0.2	-0.5	
2018	2.9	3.2	-0.4	9.7	-0.2	0.2	-0.3	1.6	-0.4	11.3	-0.7	0.7	-1.6	
2019	5.0	2.2	48.2	6.8	2.5	0.1	1.6	1.4	1.1	4.2	-0.4	0.5	-0.5	
2020	-2.2	-12.0	99.9	-7.7	9.0	0.1	6.5	-21.0	-23.9	-17.7	-2.5	-0.6	-0.9	
2021	4.9	9.5	-14.9	26.7	-3.3	0.6	-3.2	9.7	12.7	16.4	0.4	-0.8	0.1	
2022	5.3	11.7	-33.1	25.1	-5.2	0.5	-4.3	23.8	26.6	10.6	1.9	-0.5	1.6	
2023	10.7	7.2	47.3	4.6	3.0	-0.2	2.2	6.3	-0.3	-2.0	-1.4	-0.5	-0.1	
2024	8.7	7.1	23.0	6.0	1.6	0.0	1.7	-2.4	-6.1	3.6	-1.7	-0.1	-1.1	
2025	4.0	5.5	-8.0	7.5	-1.6	0.1	-1.2	5.0	6.3	4.7	0.2	0.7	0.2	
2026	3.1	3.8	-1.8	6.9	-0.6	0.2	-0.6	4.8	6.3	3.8	0.4	0.1	0.3	
2023	I	6.3	9.9	-19.5	7.2	-2.9	-0.2	-2.1	24.1	26.1	11.0	1.9	0.0	1.9
	II	8.0	8.5	4.7	-5.0	-0.3	-0.7	0.3	21.4	22.2	10.4	1.6	0.0	1.4
	III	9.8	6.9	40.0	-3.9	2.5	-0.6	2.1	14.3	12.8	3.4	0.4	-0.8	1.2
	IV	10.7	7.2	47.3	4.6	3.0	-0.2	2.2	6.3	-0.3	-2.0	-1.4	-1.5	-0.1
2024	I	11.0	6.8	54.9	12.8	3.6	0.2	2.3	-0.2	-7.3	-3.9	-2.3	-1.6	-1.0
	II	10.3	6.7	42.4	17.4	3.0	0.4	1.7	-3.3	-11.0	-4.9	-2.7	-1.6	-1.3
	III	9.4	7.0	30.3	19.1	2.2	0.5	1.1	-3.1	-9.0	-3.0	-2.2	-1.2	-1.1
	IV	8.7	7.1	23.0	6.0	1.6	0.0	1.7	-2.4	-6.1	3.6	-1.7	-0.3	-1.1

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: net lending or borrowing

Percentage of GDI/GDP, 4-quarter moving averages

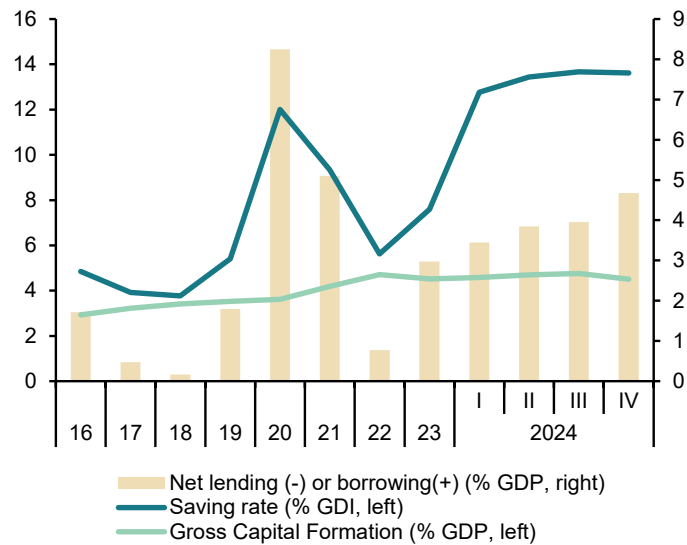


Chart 5.2 - Non-financial corporations: net lending or borrowing

Percentage of GDP, 4-quarter moving averages

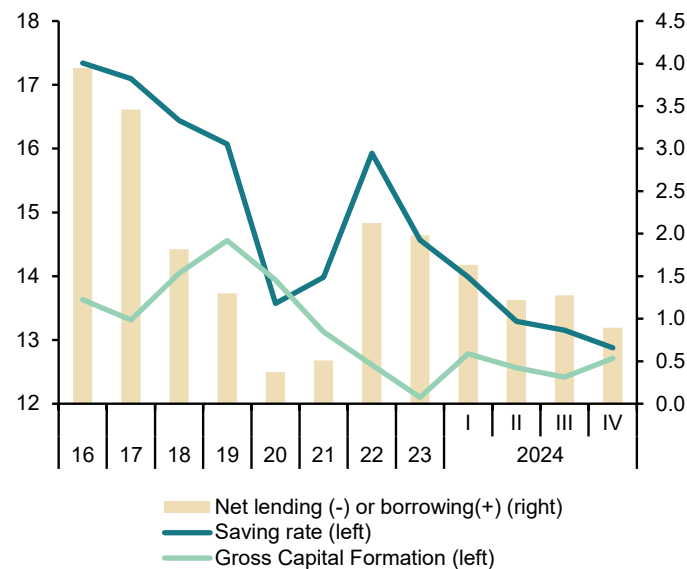


Table 6

National accounts: Public revenue, expenditure and deficit
 Forecasts in yellow

	Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	
	Taxes on production and imports	Taxes on income and wealth	Social contribu- tions	Capital and other revenue	Total	Compensa- tion of employees	Interme- diate con- sumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expendi- ture	Total		
	1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8 +9+10+11	13=5-12	
	EUR Billions. 4-quarter cumulated operations													
2017	135.1	116.9	142.4	49.6	444.0	123.5	59.8	29.6	207.6	31.5	27.9	479.9	-35.9	
2018	141.2	127.3	149.5	54.3	472.3	127.7	62.3	29.6	216.7	37.4	29.6	503.2	-30.9	
2019	143.1	129.1	160.7	55.5	488.3	134.8	65.0	28.2	229.7	37.2	31.7	526.8	-38.4	
2020	126.8	125.3	162.2	54.0	468.3	140.7	66.9	25.1	261.6	44.4	41.5	580.2	-111.9	
2021	147.0	143.5	171.7	66.8	529.0	148.1	71.9	26.2	263.6	60.1	41.2	611.1	-82.2	
2022	160.4	164.8	180.1	68.7	574.0	154.5	79.6	31.8	266.8	53.4	51.0	637.1	-63.1	
2023	165.5	183.2	197.0	82.5	628.3	163.4	86.5	35.7	292.9	57.3	45.2	681.0	-52.7	
2024	177.1	198.7	210.2	86.6	672.7	172.4	89.5	39.0	311.7	67.8	42.6	722.8	-50.2	
2025	188.9	208.9	221.9	89.3	709.1	180.4	93.3	41.2	328.0	57.0	52.8	752.7	-48.6	
2026	196.6	216.0	229.5	92.7	734.8	187.3	97.2	42.8	341.8	59.1	54.7	782.9	-48.0	
2023	I	162.3	168.1	184.0	73.0	587.4	156.5	81.5	32.2	271.4	55.1	51.0	647.7	-60.3
	II	161.9	172.5	188.4	75.8	598.6	159.5	83.6	33.7	279.2	56.2	50.2	662.4	-63.7
	III	162.5	177.3	192.4	76.9	609.2	161.8	85.1	35.0	284.9	58.1	47.7	672.6	-63.4
	IV	165.5	183.2	197.0	82.5	628.3	163.4	86.5	35.7	292.9	57.3	45.2	681.0	-52.7
2024	I	166.9	186.8	200.2	81.0	634.9	165.3	87.5	37.2	297.1	57.9	44.5	689.4	-54.5
	II	170.7	191.1	203.5	82.1	647.4	167.0	88.1	38.0	302.2	57.6	43.7	696.6	-49.2
	III	172.9	194.1	207.4	84.9	659.3	170.2	89.1	39.3	306.6	58.1	42.7	706.0	-46.7
	IV	177.1	198.7	210.2	86.6	672.7	172.4	89.5	39.0	311.7	67.8	42.6	722.8	-50.2
	Percentage of GDP. 4-quarter cumulated operations													
2017	11.5	10.0	12.2	4.2	37.9	10.6	5.1	2.5	17.7	2.7	2.4	41.0	-3.1	
2018	11.6	10.5	12.3	4.5	39.0	10.5	5.1	2.4	17.9	3.1	2.4	41.5	-2.6	
2019	11.4	10.3	12.8	4.4	39.0	10.7	5.2	2.3	18.3	3.0	2.5	42.0	-3.1	
2020	11.2	11.1	14.4	4.8	41.5	12.5	5.9	2.2	23.2	3.9	3.7	51.4	-9.9	
2021	11.9	11.6	13.9	5.4	42.8	12.0	5.8	2.1	21.3	4.9	3.3	49.5	-6.7	
2022	11.7	12.0	13.1	5.0	41.8	11.2	5.8	2.3	19.4	3.9	3.7	46.4	-4.6	
2023	11.0	12.2	13.2	5.5	41.9	10.9	5.8	2.4	19.5	3.8	3.0	45.4	-3.5	
2024	11.1	12.5	13.2	5.4	42.3	10.8	5.6	2.5	19.6	4.3	2.7	45.4	-3.2	
2025	11.3	12.5	13.3	5.4	42.5	10.8	5.6	2.5	19.7	3.4	3.2	45.2	-2.9	
2026	11.4	12.5	13.3	5.4	42.7	10.9	5.6	2.5	19.9	3.4	3.2	45.5	-2.8	
2023	I	11.5	11.9	13.0	5.2	41.7	11.1	5.8	2.3	19.2	3.9	3.6	45.9	-4.3
	II	11.2	12.0	13.1	5.3	41.5	11.1	5.8	2.3	19.4	3.9	3.5	45.9	-4.4
	III	11.0	12.1	13.1	5.2	41.4	11.0	5.8	2.4	19.4	4.0	3.2	45.7	-4.3
	IV	11.0	12.2	13.2	5.5	41.9	10.9	5.8	2.4	19.5	3.8	3.0	45.4	-3.5
2024	I	11.0	12.3	13.2	5.3	41.8	10.9	5.8	2.4	19.6	3.8	2.9	45.4	-3.6
	II	11.1	12.4	13.2	5.3	41.9	10.8	5.7	2.5	19.6	3.7	2.8	45.1	-3.2
	III	11.0	12.4	13.2	5.4	42.1	10.9	5.7	2.5	19.6	3.7	2.7	45.0	-3.0
	IV	11.1	12.5	13.2	5.4	42.3	10.8	5.6	2.5	19.6	4.3	2.7	45.4	-3.2

Source: IGAE and Funcas (Forecasts).

Chart 6.1 - Public sector: Revenue, expenditure and deficit

Percentage of GDP, 4-quarter moving averages

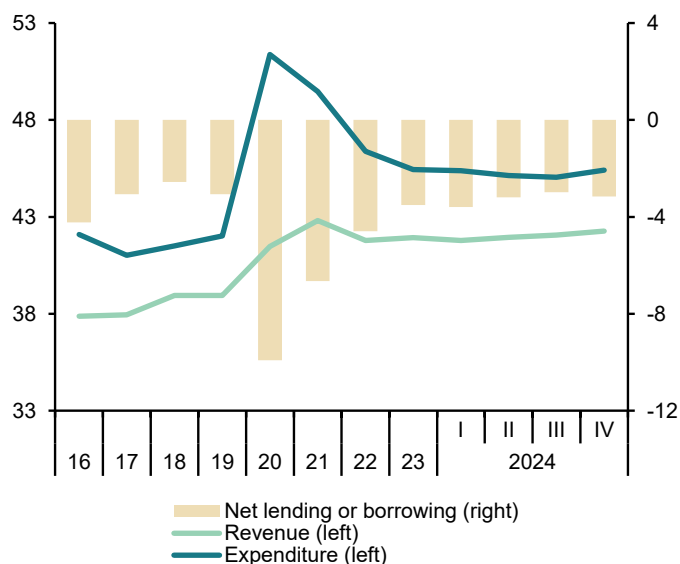


Chart 6.2 - Public sector: Main expenditures

Percentage of GDP

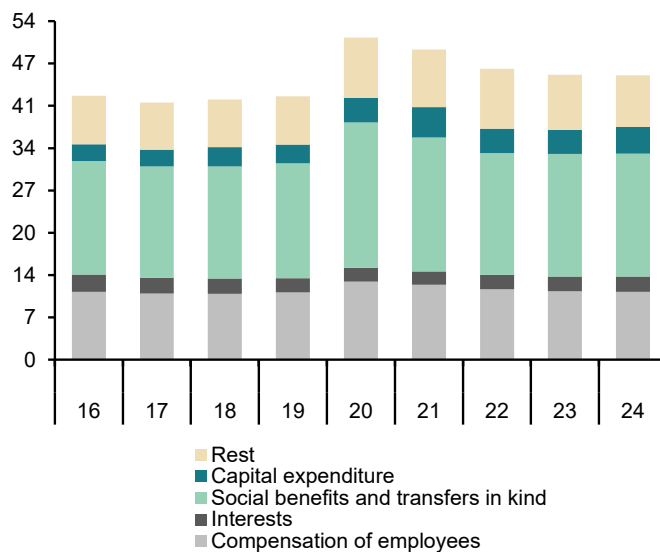


Table 7

Public sector balances by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
EUR Billions. 4-quarter cumulated operations							EUR Billions. end of period				
2017		-21.7	-4.0	6.6	-16.8	-35.9	1,050.5	288.1	29.0	27.4	1,184.1
2018		-16.8	-3.2	6.4	-17.3	-30.9	1,083.6	293.4	25.8	41.2	1,209.7
2019		-19.0	-7.4	3.8	-15.9	-38.4	1,096.8	295.1	23.2	55.0	1,224.4
2020		-85.8	-2.2	2.8	-26.7	-111.9	1,207.7	304.0	22.0	85.4	1,346.9
2021		-73.5	-0.3	3.4	-11.7	-82.2	1,281.4	312.6	22.8	97.2	1,429.4
2022		-41.0	-15.2	-1.0	-5.9	-63.1	1,360.2	317.1	23.1	106.2	1,504.1
2023		-30.3	-13.7	-0.3	-8.4	-52.7	1,435.7	325.2	23.3	116.2	1,575.4
2024		-46.3	-1.9	6.6	-8.6	-50.2	1,489.3	336.0	22.8	126.2	1,620.6
2025		--	--	--	--	-48.6	--	--	--	--	1,667.2
2026		--	--	--	--	-48.0	--	--	--	--	1,718.3
2023	I	-35.5	-18.7	-0.5	-5.6	-60.3	1,389.0	322.4	23.1	106.2	1,536.7
	II	-37.6	-20.2	-1.7	-4.2	-63.7	1,421.5	327.3	23.7	106.2	1,570.1
	III	-46.0	-12.4	-0.1	-4.9	-63.4	1,436.2	325.5	23.3	106.2	1,578.8
	IV	-30.3	-13.7	-0.3	-8.4	-52.7	1,435.7	325.2	23.3	116.2	1,575.4
2024	I	-30.5	-16.4	-1.6	-6.1	-54.5	1,476.2	328.9	23.1	116.2	1,614.7
	II	-25.3	-16.1	-0.1	-7.8	-49.2	1,484.7	337.5	23.5	116.2	1,625.7
	III	-39.9	-2.9	4.2	-8.1	-46.7	1,504.0	333.2	23.1	116.2	1,635.7
	IV	-46.3	-1.9	6.6	-8.6	-50.2	1,489.3	336.0	22.8	126.2	1,620.6
	Percentage of GDP, 4-quarter cumulated operations						Percentage of GDP				
2017		-1.9	-0.3	0.6	-1.4	-3.1	89.8	24.6	2.5	2.3	101.2
2018		-1.4	-0.3	0.5	-1.4	-2.6	89.4	24.2	2.1	3.4	99.8
2019		-1.5	-0.6	0.3	-1.3	-3.1	87.5	23.5	1.9	4.4	97.7
2020		-7.6	-0.2	0.2	-2.4	-9.9	107.0	26.9	1.9	7.6	119.3
2021		-6.0	0.0	0.3	-0.9	-6.7	103.7	25.3	1.8	7.9	115.7
2022		-3.0	-1.1	-0.1	-0.4	-4.6	99.0	23.1	1.7	7.7	109.5
2023		-2.0	-0.9	0.0	-0.6	-3.5	95.8	21.7	1.6	7.8	105.1
2024		-2.9	-0.1	0.4	-0.5	-3.2	93.6	21.1	1.4	7.9	101.8
2025		--	--	--	--	-2.9	--	--	--	--	100.0
2026		--	--	--	--	-2.8	--	--	--	--	99.8
2023	I	-2.5	-1.3	0.0	-0.4	-4.3	98.4	22.8	1.6	7.5	108.9
	II	-2.6	-1.4	-0.1	-0.3	-4.4	98.5	22.7	1.6	7.4	108.8
	III	-3.1	-0.8	0.0	-0.3	-4.3	97.6	22.1	1.6	7.2	107.3
	IV	-2.0	-0.9	0.0	-0.6	-3.5	95.8	21.7	1.6	7.8	105.1
2024	I	-2.0	-1.1	-0.1	-0.4	-3.6	97.1	21.6	1.5	7.6	106.2
	II	-1.6	-1.0	0.0	-0.5	-3.2	96.1	21.9	1.5	7.5	105.3
	III	-2.5	-0.2	0.3	-0.5	-3.0	95.8	21.2	1.5	7.4	104.2
	IV	-2.9	-0.1	0.4	-0.5	-3.2	93.6	21.1	1.4	7.9	101.8

Sources: National Statistics Institute. Bank of Spain (Financial Accounts of the Spanish Economy) and Funcas (Forecasts).

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

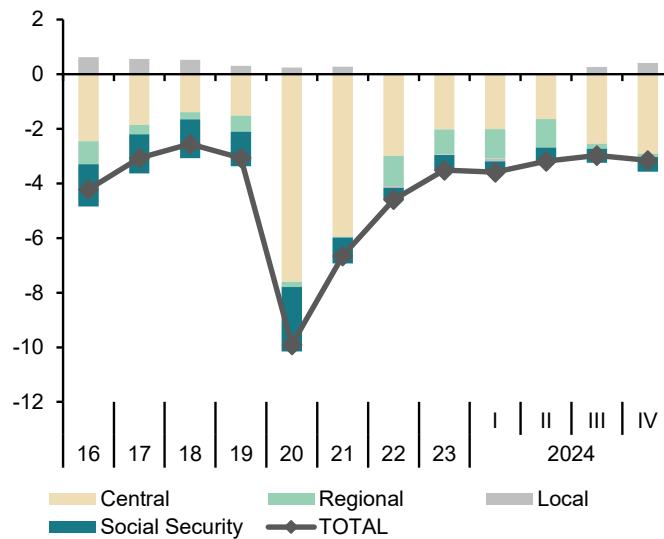


Chart 7.2 - Government debt

Percent of GDP

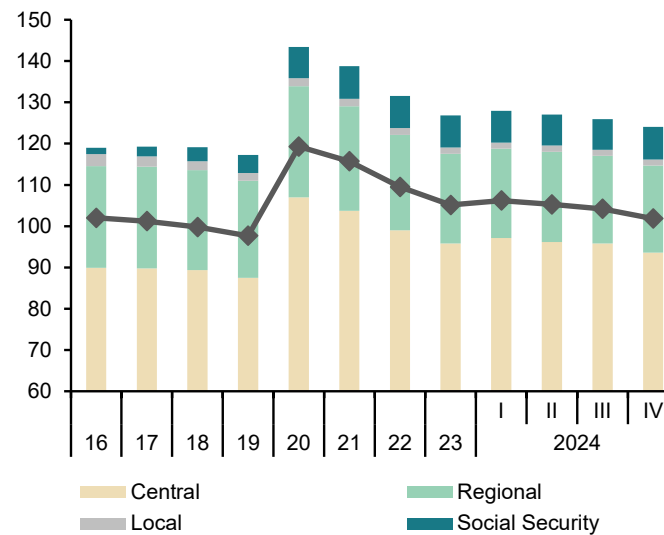


Table 8

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing turnover index deflated (g)	Industrial orders
		Index	Index	Thousands	1000 GWH, monthly average	2019=100	Thousands	Index	Balance of responses	2019=100	Balance of responses
2017		109.4	56.2	17,789.6	21.4	98.8	2,191.0	54.8	1.4	98.1	2.2
2018		108.2	54.6	18,364.5	21.5	99.4	2,250.9	53.3	-0.5	100.0	-0.2
2019		104.7	52.7	18,844.1	20.9	100.0	2,283.2	49.1	-3.6	100.0	-5.1
2020		89.3	41.5	18,440.5	19.9	90.7	2,239.3	47.5	-13.6	89.9	-30.0
2021		105.2	55.3	18,910.0	20.4	97.2	2,270.4	57.0	0.6	95.0	-1.8
2022		101.2	51.8	19,663.0	19.6	99.7	2,324.3	51.0	-0.8	97.7	1.6
2023		100.5	52.5	20,193.2	19.3	98.1	2,363.7	48.0	-6.5	95.7	-10.9
2024		103.0	54.8	20,700.7	19.6	98.5	2,402.6	52.2	-4.9	95.5	-9.6
2025 (b)		103.5	53.9	20,871.2	21.6	99.6	2,417.5	49.5	-5.1	95.7	-9.4
2023	III	100.6	50.1	20,269.2	19.3	97.6	2,369.9	47.4	-8.3	95.5	-13.7
	IV	100.2	50.1	20,373.6	19.5	97.6	2,379.5	45.8	-8.0	95.3	-13.9
2024	I	102.3	53.6	20,513.2	19.5	99.3	2,389.7	50.7	-5.1	94.6	-8.2
	II	102.6	56.0	20,646.5	19.6	97.9	2,397.3	52.9	-5.6	95.0	-8.1
	III	105.5	54.4	20,753.5	19.6	97.4	2,406.3	51.5	-2.9	95.2	-11.3
	IV	101.5	55.0	20,884.5	19.7	98.9	2,416.9	53.6	-6.0	96.3	-10.7
2025	I	103.3	54.4	21,014.0	19.8	98.6	2,428.0	50.0	-5.4	97.1	-10.5
	II (b)	103.8	52.5	21,107.0	19.4	--	2,432.3	48.1	-4.2	--	-6.0
2025	Feb	102.3	55.1	21,017.8	19.6	98.6	2,427.9	49.7	-6.2	97.9	-10.3
	Mar	103.4	54.0	21,052.6	19.9	99.5	2,430.2	49.5	-5.5	96.8	-10.3
	Apr	103.8	52.5	21,107.0	19.4	--	2,432.3	48.1	-4.2	--	-6.0
Percentage changes (c)											
2017		--	--	3.7	1.7	2.9	3.1	--	--	3.9	--
2018		--	--	3.2	0.6	0.6	2.7	--	--	1.9	--
2019		--	--	2.6	-2.6	0.6	1.4	--	--	0.0	--
2020		--	--	-2.1	-4.8	-9.3	-1.9	--	--	-10.1	--
2021		--	--	2.5	2.2	7.3	1.4	--	--	5.7	--
2022		--	--	4.0	-3.8	2.5	2.4	--	--	2.8	--
2023		--	--	2.7	-1.2	-1.6	1.7	--	--	-2.0	--
2024		--	--	2.5	1.5	0.5	1.6	--	--	-0.2	--
2025 (d)		--	--	2.4	0.5	-0.6	1.6	--	--	1.7	--
2023	III	--	--	0.6	0.4	-0.5	0.5	--	--	-0.2	--
	IV	--	--	0.5	1.2	0.1	0.4	--	--	-0.2	--
2024	I	--	--	0.7	-0.4	1.7	0.4	--	--	-0.7	--
	II	--	--	0.6	0.5	-1.4	0.3	--	--	0.4	--
	III	--	--	0.5	0.5	-0.6	0.4	--	--	0.2	--
	IV	--	--	0.6	0.4	1.6	0.4	--	--	1.1	--
2025	I	--	--	0.6	0.5	-0.3	0.5	--	--	0.9	--
	II (e)	--	--	0.4	-2.1	--	0.2	--	--	--	--
2025	Feb	--	--	0.2	-1.5	0.7	0.1	--	--	1.3	--
	Mar	--	--	0.2	1.4	0.9	0.1	--	--	-1.0	--
	Apr	--	--	0.3	-2.5	--	0.1	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Excluding domestic service workers and non-professional caregivers. (g) Deflated by Funcas.

Sources: European Commission, S&P Global, M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

Chart 8.1 - General activity indicators (I)

Level, 2019=100

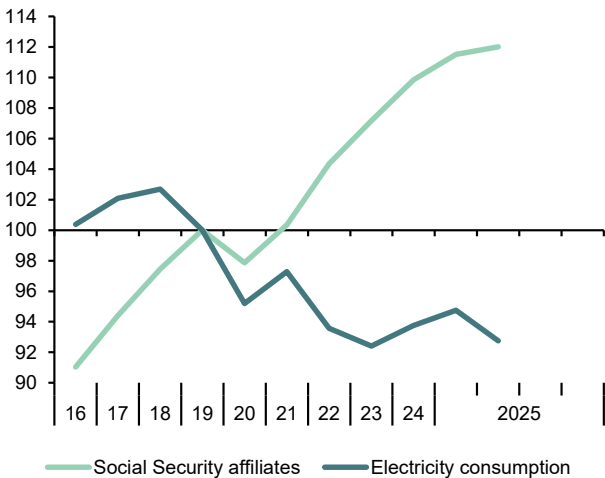


Chart 8.2 - General activity indicators (II)

Index

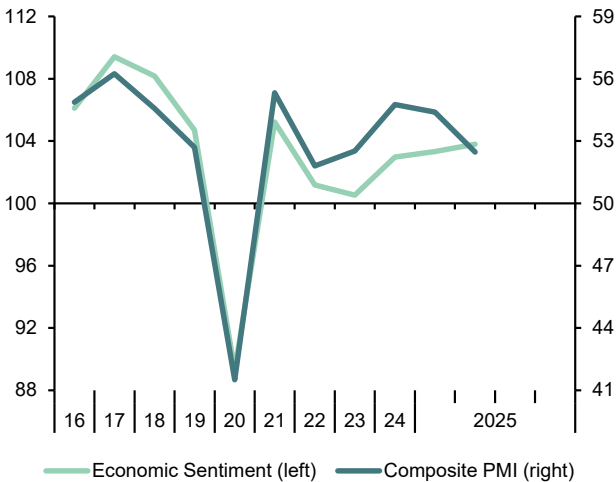


Chart 8.3 - Industrial sector indicators (I)

Level, 2019=100

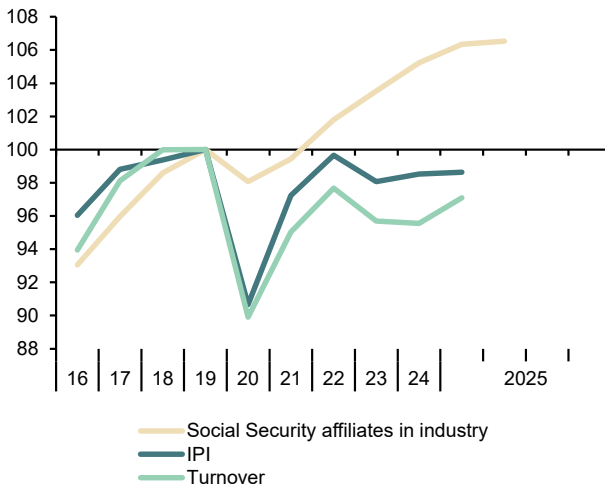


Chart 8.4 - Industrial sector indicators (II)

Index

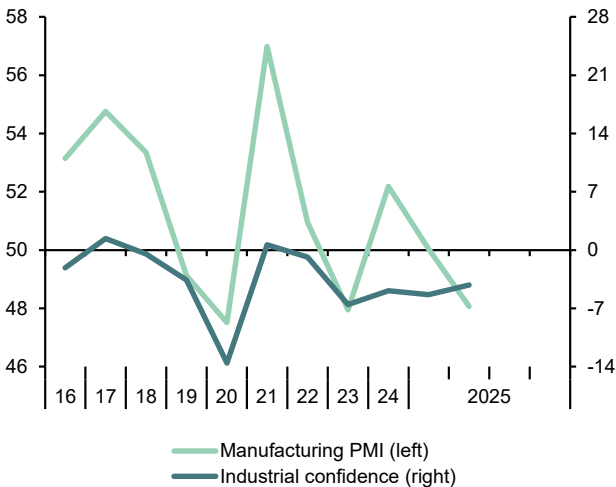


Table 9

Construction and services sector indicators (a)

		Construction indicators					Service sector indicators					
		Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Services Production Index (deflated)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
		Thousands	2019=100	Balance of responses	EUR Billions, monthly average	Million m2, monthly average	Thousands	2019=100	Index	Million, monthly average	Million, monthly average	Balance of responses
2017		1,118.8	88.7	-25.1	1.1	1.3	13,338.2	93.5	56.4	28.4	20.7	22.9
2018		1,194.1	91.5	-6.0	1.4	1.6	13,781.3	97.3	54.8	28.3	21.9	21.2
2019		1,254.9	100.0	-7.7	1.4	1.7	14,169.1	100.0	53.9	28.6	23.1	13.9
2020		1,233.1	88.9	-17.5	1.1	1.3	13,849.2	83.5	40.3	7.7	6.3	-25.5
2021		1,288.6	99.5	-1.9	1.8	1.6	14,235.1	95.4	55.0	14.4	9.9	8.6
2022		1,333.8	99.2	8.8	2.3	1.7	14,926.3	102.3	52.5	26.7	20.2	12.2
2023		1,384.6	95.5	8.7	2.2	1.7	15,393.2	103.7	53.6	28.9	23.5	13.9
2024		1,410.4	95.1	7.8	2.5	1.9	15,852.0	106.3	55.3	30.3	25.7	17.0
2025 (b)		1,430.0	94.9	13.2	2.8	1.9	15,985.7	103.8	54.8	21.7	22.7	--
2023	III	1,386.5	94.7	6.3	2.3	1.5	15,459.6	103.9	50.8	29.0	23.8	15.8
	IV	1,395.1	93.5	13.1	2.1	1.7	15,557.4	105.1	51.2	29.5	24.4	15.4
2024	I	1,403.6	94.8	5.9	2.2	1.8	15,682.4	105.5	54.3	30.0	25.0	17.1
	II	1,403.9	93.2	8.7	2.3	1.9	15,807.1	106.4	56.6	30.4	25.7	15.7
	III	1,411.9	93.6	7.1	2.6	1.8	15,902.8	107.3	55.2	30.2	25.9	18.2
	IV	1,422.1	96.5	9.5	2.7	1.9	16,011.0	108.1	55.1	30.4	26.1	--
2025	I	1,434.1	96.4	13.5	2.8	1.9	16,121.1	109.7	55.3	30.3	26.4	--
	II (b)	1,441.5	--	12.3	--	--	16,204.6	--	53.4	30.3	26.6	--
2025	Feb	1,434.7	95.6	16.2	3.6	2.0	16,123.1	109.3	56.2	30.3	26.4	--
	Mar	1,435.3	97.0	12.0	2.7	--	16,160.6	110.0	54.7	30.2	26.6	--
	Apr	1,441.5	--	12.3	--	--	16,204.6	--	53.4	30.3	26.6	--
Percentage changes (c)												
2017		6.2	8.2	--	37.1	24.8	3.8	5.2	--	2.8	8.3	--
2018		6.7	3.1	--	30.8	24.5	3.3	4.0	--	-0.2	5.8	--
2019		5.1	9.3	--	1.5	1.3	2.8	2.8	--	0.9	5.3	--
2020		-1.7	-11.1	--	-23.5	-19.8	-2.3	-16.5	--	-73.1	-72.7	--
2021		4.5	12.0	--	68.7	22.7	2.8	14.3	--	87.4	57.8	--
2022		3.5	-0.3	--	28.0	1.2	4.9	7.2	--	85.4	103.4	--
2023		3.8	-3.7	--	-4.0	-0.6	3.1	1.3	--	8.2	16.3	--
2024		1.9	-0.4	--	10.6	13.0	3.0	2.5	--	5.0	9.3	--
2025 (d)		2.3	0.9	--	26.4	2.8	2.8	4.6	--	0.1	5.2	--
2023	III	0.3	-0.4	--	-4.9	0.8	0.7	-0.1	--	1.4	2.9	--
	IV	0.6	-1.3	--	-28.9	-9.1	0.6	1.2	--	1.7	2.5	--
2024	I	0.6	1.4	--	10.7	3.4	0.8	0.4	--	1.6	2.3	--
	II	0.0	-1.6	--	-9.0	17.1	0.8	0.9	--	1.4	2.9	--
	III	0.6	0.4	--	16.1	18.1	0.6	0.8	--	-0.7	0.8	--
	IV	0.7	3.1	--	27.9	14.3	0.7	0.8	--	0.6	1.0	--
2025	I	0.8	-0.2	--	26.4	3.4	0.7	1.5	--	-0.4	0.9	--
	II (e)	0.5	--	--	--	--	0.5	--	--	0.2	0.8	--
2025	Feb	0.2	-0.8	--	78.6	12.2	0.3	-0.6	--	-0.1	0.6	--
	Mar	0.0	1.4	--	-10.1	--	0.2	0.7	--	-0.1	1.0	--
	Apr	0.4	--	--	--	--	0.3	--	--	0.2	-0.1	--

(a) Seasonally adjusted, except for annual data and (f). (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Percent changes are over the same period of the previous year. (g) Excluding domestic service workers and non-professional caregivers.

Sources: European Commission, S&P Global, M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

Chart 9.1 - Construction indicators (I)

Level, 2019=100 and index

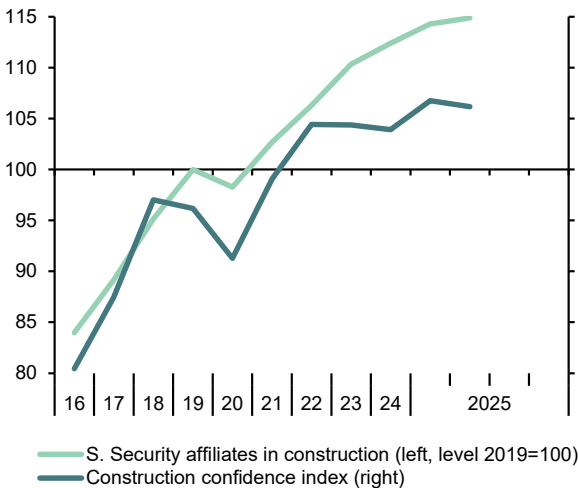


Chart 9.2 - Construction indicators (II)

Level, 2019=100

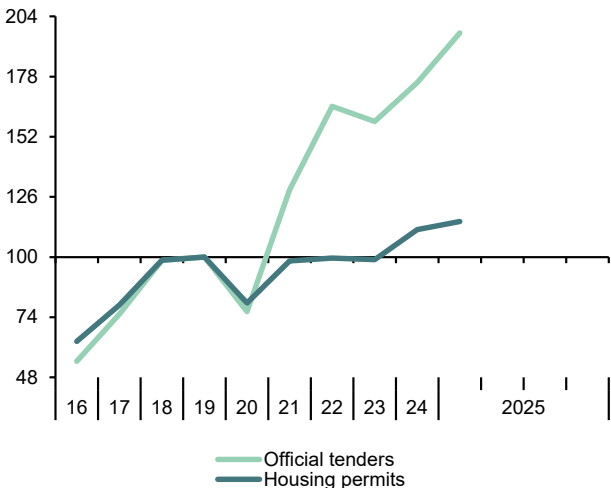


Chart 9.3 - Services indicators (I)

Level, 2019=100

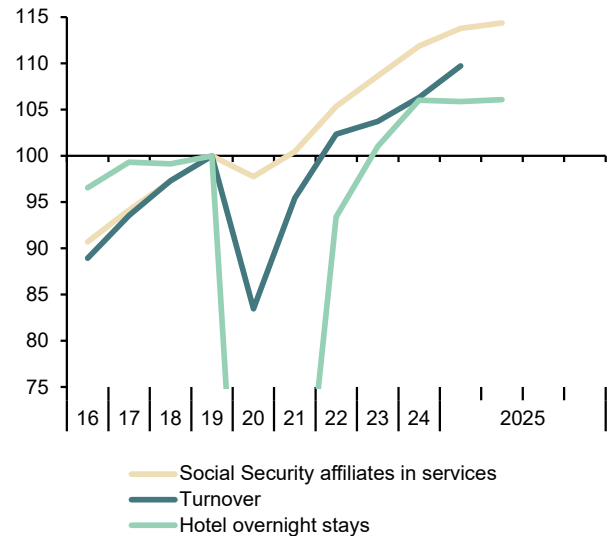


Chart 9.4 - Services indicators (II)

Index

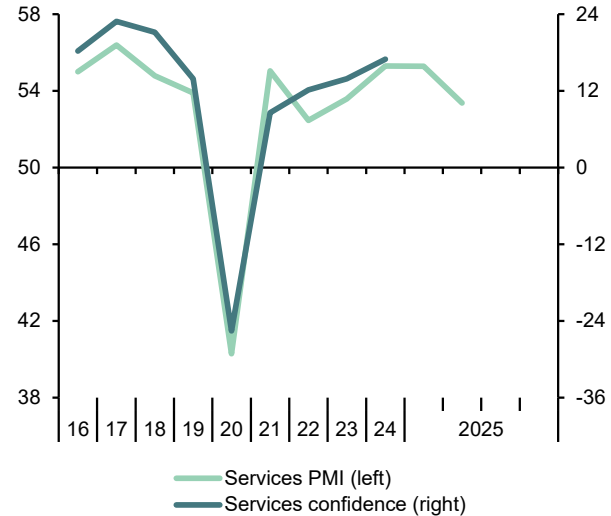


Table 10

Consumption and investment indicators (a)

	Consumption indicators						Investment in equipment indicators			
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Large company sales (consumer goods and services)	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (volume)	Large company sales (capital goods)
	2019=100	Thousands, monthly average	Balance of responses	Million, monthly average	Balance of responses	2019=100	Thousands, monthly average	Balance of responses	2019=100	2019=100
2017	97.1	111.8	-2.9	9.7	2.2	95.0	17.8	4.9	97.9	91.5
2018	97.7	118.7	-4.4	9.7	-5.6	97.5	19.9	12.4	99.8	95.6
2019	100.0	114.6	-6.3	10.0	-2.9	100.0	19.2	8.8	100.0	100.0
2020	93.5	78.3	-22.6	4.3	-25.5	91.6	15.0	-22.7	94.7	93.5
2021	97.4	79.5	-12.8	7.6	-11.1	96.0	16.4	4.7	104.4	98.0
2022	99.5	76.2	-26.5	10.0	-2.8	102.3	14.6	28.2	118.1	105.8
2023	102.1	86.7	-19.2	10.1	-6.7	104.1	18.0	17.9	122.2	121.9
2024	103.9	94.3	-15.2	10.2	-10.1	108.1	19.6	4.3	127.1	123.3
2025 (b)	99.5	106.5	--	7.6	-8.7	--	20.0	-8.4	127.9	131.0
2023	III 101.8	85.9	-16.2	10.1	-8.5	105.0	16.8	11.8	121.3	118.2
	IV 102.5	96.3	-18.9	10.1	-6.8	105.3	18.9	9.4	119.9	121.7
2024	I 102.4	89.1	-17.2	10.1	-7.8	105.7	19.4	6.8	120.5	119.9
	II 103.1	92.0	-14.5	10.2	-11.0	106.5	18.2	10.1	123.2	122.8
	III 104.4	91.8	-13.7	10.0	-7.9	108.6	17.4	-0.7	128.0	119.9
	IV 105.4	108.2	--	10.2	-13.8	110.4	19.8	1.1	132.1	127.3
2025	I 105.7	103.1	--	10.1	-10.1	111.6	19.6	-10.7	133.0	132.9
	II (b) --	102.7	--	10.0	-4.8	--	19.2	-1.7	--	--
2025	Feb 106.2	105.4	--	10.1	-8.4	111.9	20.2	-15.4	133.0	134.3
	Mar 106.0	102.1	--	10.2	-11.5	112.6	19.2	-7.2	132.9	139.7
	Apr --	102.7	--	10.0	-4.8	--	19.2	-1.7	--	--
Percentage changes (c)										
2017	1.2	9.1	--	1.4	--	2.7	9.6	--	6.4	3.6
2018	0.6	6.1	--	0.6	--	2.6	11.4	--	2.0	4.4
2019	2.4	-3.4	--	2.7	--	2.6	-3.2	--	0.2	4.6
2020	-6.5	-31.7	--	-57.2	--	-8.4	-21.9	--	-5.3	-6.5
2021	4.2	1.5	--	77.3	--	4.9	9.3	--	10.3	4.9
2022	2.1	-4.1	--	32.3	--	6.5	-10.9	--	13.0	8.0
2023	2.6	13.7	--	1.4	--	1.8	22.9	--	3.5	15.1
2024	1.8	8.8	--	0.2	--	3.8	9.2	--	4.0	1.1
2025 (d)	3.1	14.6	--	-1.6	--	4.7	2.3	--	9.7	14.1
2023	III -0.8	3.6	--	-0.3	--	5.9	5.2	--	-7.0	-16.6
	IV 0.7	12.1	--	-0.2	--	1.1	12.3	--	-4.5	12.2
2024	I 0.0	-7.4	--	0.2	--	1.5	2.6	--	2.2	-5.7
	II 0.6	3.2	--	0.9	--	3.0	-5.9	--	9.1	10.0
	III 1.3	-0.2	--	-1.9	--	8.3	-4.5	--	16.7	-9.2
	IV 0.9	17.9	--	1.7	--	6.8	14.0	--	13.3	27.2
2025	I 0.3	-4.7	--	-0.7	--	4.4	-1.1	--	2.8	18.6
	II (e) --	-0.4	--	-1.1	--	--	-2.0	--	--	--
2025	Feb 1.3	3.5	--	0.5	--	1.6	3.6	--	0.0	7.7
	Mar -0.2	-3.1	--	0.2	--	0.6	-5.0	--	-0.1	4.0
	Apr --	0.6	--	-1.3	--	--	0.3	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: European Commission. M. of Economy. M. of Industry. National Statistics Institute. DGT. ANFAC and Funcas.

Chart 10.1 - Consumption indicators

Level, 2019=100 and balance of responses

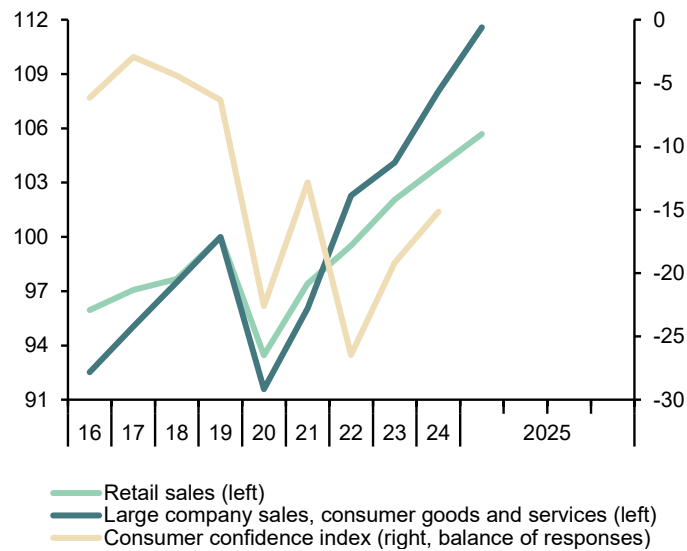


Chart 10.2 - Investment indicators

Level, 2019=100 and balance of responses

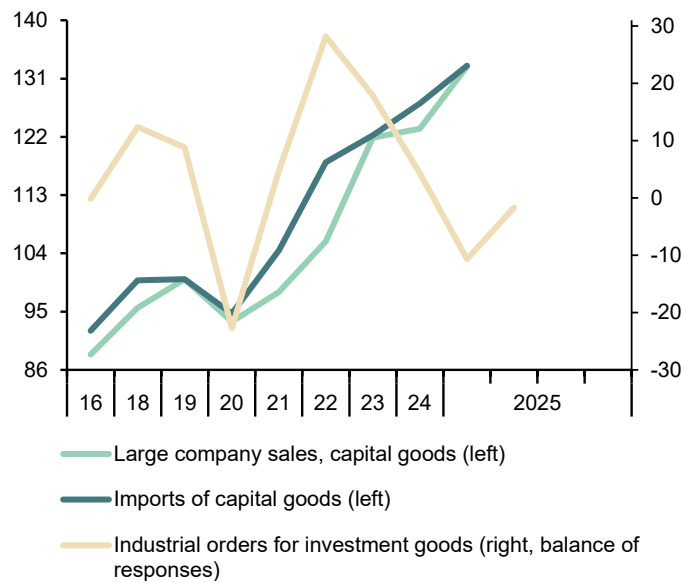


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate (a)	Employment rate (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Seasonally adjusted		Original	
			I	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12
Million									Percentage					
2017		38.7	22.7	--	18.8	--	3.9	--	75.1	62.1	17.2	38.6	16.3	23.8
2018		38.9	22.8	--	19.3	--	3.5	--	74.9	63.4	15.3	34.3	14.3	21.9
2019		39.3	23.0	--	19.8	--	3.2	--	75.0	64.3	14.1	32.5	13.2	20.1
2020		39.6	22.7	--	19.2	--	3.5	--	73.4	62.0	15.5	38.3	14.1	24.6
2021		39.9	23.3	--	19.8	--	3.5	--	74.9	63.7	14.9	35.1	13.6	23.1
2022		40.4	23.6	--	20.5	--	3.1	--	75.3	65.4	13.0	29.7	12.0	19.4
2023		41.0	24.1	--	21.2	--	2.9	--	75.8	66.5	12.2	28.7	11.2	17.7
2024		41.6	24.4	--	21.7	--	2.8	--	75.9	67.2	11.3	26.5	10.3	16.8
2025		42.1	24.7	--	22.1	--	2.6	--	75.8	--	10.5	--	--	--
2026		42.4	24.9	--	22.4	--	2.5	--	75.8	--	10.0	--	--	--
2023	II	40.9	24.1	24.1	21.3	21.2	2.8	2.9	75.9	66.6	12.2	28.9	10.7	17.1
	III	41.1	24.3	24.2	21.4	21.3	2.9	2.9	76.0	66.8	12.1	28.2	11.0	16.6
	IV	41.2	24.3	24.3	21.4	21.4	2.9	2.9	76.0	66.8	11.9	28.5	10.8	17.2
2024	I	41.3	24.2	24.3	21.3	21.5	3.0	2.8	76.0	67.1	11.6	27.3	11.1	18.6
	II	41.5	24.4	24.4	21.7	21.6	2.8	2.8	75.9	67.1	11.5	26.8	10.2	16.9
	III	41.6	24.6	24.4	21.8	21.7	2.8	2.8	75.8	67.2	11.3	26.5	10.3	15.7
	IV	41.8	24.5	24.5	21.9	21.9	2.6	2.7	75.8	67.5	10.9	25.7	9.6	15.8
2025	I	41.9	24.6	24.7	21.8	22.0	2.8	2.7	76.1	67.8	10.8	26.3	10.3	16.5
Percentage changes (d)									Difference from one year ago					
2017		0.3	-0.4	--	2.6	--	-12.6	--	-0.3	1.6	-2.4	-5.9	-2.4	-2.8
2018		0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.3	-2.0	-4.2	-2.0	-2.0
2019		1.0	1.0	--	2.3	--	-6.6	--	0.1	0.9	-1.2	-1.8	-1.1	-1.8
2020		0.8	-1.3	--	-2.9	--	8.7	--	-1.5	-2.4	1.4	5.8	0.9	4.5
2021		0.9	2.5	--	3.3	--	-1.5	--	1.5	1.7	-0.6	-3.2	-0.5	-1.5
2022		1.1	1.4	--	3.6	--	-11.4	--	0.3	1.7	-1.9	-5.5	-1.7	-3.6
2023		1.5	2.1	--	3.1	--	-4.6	--	0.5	1.1	-0.9	-1.0	-0.8	-1.7
2024		1.4	1.3	--	2.2	--	-5.7	--	0.1	0.7	-0.8	-2.2	-0.9	-1.0
2025		1.3	1.1	--	2.1	--	-6.9	--	-0.1	--	-0.9	--	--	--
2026		0.7	0.7	--	1.2	--	-3.4	--	0.0	--	-0.4	--	--	--
2023	II	1.5	2.0	2.0	3.2	3.1	-6.2	-5.4	0.4	1.1	-0.9	-1.0	-0.9	-1.9
	III	1.5	2.4	2.3	3.4	3.4	-4.3	-4.6	0.8	1.4	-0.9	-2.3	-0.7	-2.0
	IV	1.5	2.2	2.5	3.6	3.6	-7.2	-5.4	0.9	1.6	-1.0	-0.5	-1.2	-1.7
2024	I	1.4	1.7	1.7	3.0	3.0	-6.5	-6.7	0.5	1.2	-1.1	-1.9	-1.1	-1.4
	II	1.5	1.6	1.3	2.0	2.0	-1.9	-3.8	0.0	0.5	-0.6	-2.0	-0.5	-0.3
	III	1.4	1.0	0.9	1.8	1.8	-4.9	-5.9	-0.2	0.4	-0.8	-1.7	-0.7	-0.9
	IV	1.4	0.8	1.1	2.2	2.2	-9.3	-7.0	-0.1	0.7	-1.0	-2.9	-1.2	-1.4
2025	I	1.4	1.3	1.5	2.4	2.4	-6.3	-5.8	0.1	0.7	-0.8	-1.1	-0.8	-2.1

(a) Labour force aged from 16 to 64 years over population aged from 16 to 64 years. (b) Employed aged from 16 to 64 years over population aged from 16 to 64 years. (c) Unemployed in each group over labour force in that group. (d) Annual percentage changes for original data; quarterly percentage changes for S.A. data.

Source: INE (Labour Force Survey) and Funcas.

Chart 11a.1 - Labour force, employment and unemployment, SA

Thousands and percentage of active population

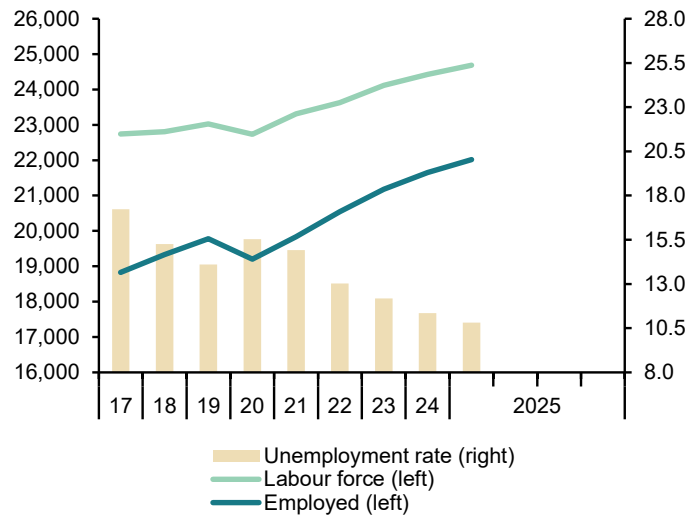


Chart 11a.2 - Unemployment rates

Percentage

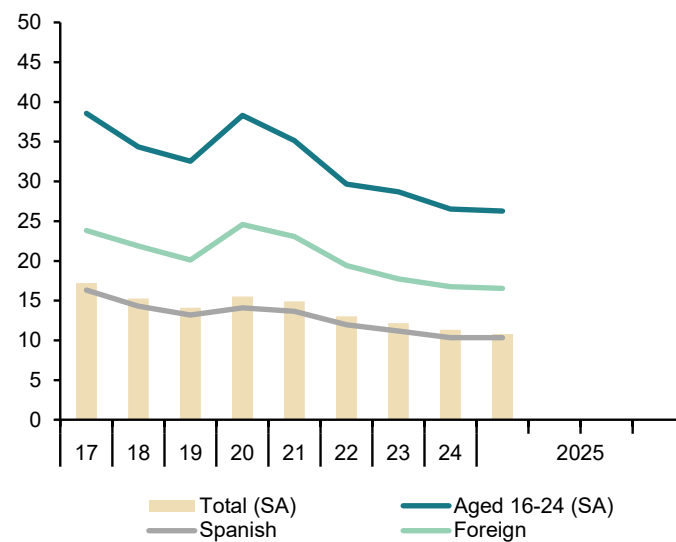


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day			
	Agriculture	Industry	Construction	Services	Employees				Self employed	Full-time	Part-time	Part-time employment rate (b)	
					Total	By type of contract		Temporary employment rate (a)					
						Tempo-rary	Indefinite						
	I	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12	
Million (original data)													
												(b)	
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97	
2018	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.50	2.83	14.65	
2019	0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.88	2.90	14.64	
2020	0.77	2.70	1.24	14.49	16.11	3.88	12.23	24.1	3.09	16.51	2.70	14.05	
2021	0.82	2.71	1.32	14.99	16.66	4.21	12.45	25.2	3.17	17.08	2.75	13.87	
2022	0.80	2.78	1.35	15.61	17.37	3.70	13.66	21.3	3.18	17.76	2.78	13.55	
2023	0.77	2.81	1.40	16.20	17.96	3.10	14.87	17.2	3.22	18.36	2.82	13.31	
2024	0.75	2.89	1.46	16.55	18.44	2.93	15.51	15.9	3.21	18.72	2.93	13.55	
2025 (c)	0.76	2.92	1.48	16.61	18.50	2.80	15.70	15.1	3.27	18.69	3.08	14.13	
2023	II	0.78	2.74	1.40	16.34	3.15	14.85	17.5	3.26	18.38	2.88	13.53	
	III	0.72	2.85	1.42	16.46	3.17	15.08	17.4	3.20	18.76	2.69	12.54	
	IV	0.79	2.86	1.44	16.30	3.01	15.12	16.6	3.26	18.51	2.88	13.47	
2024	I	0.77	2.83	1.42	16.24	2.84	15.23	15.7	3.19	18.31	2.94	13.84	
	II	0.77	2.89	1.48	16.54	2.94	15.50	16.0	3.24	18.74	2.94	13.57	
	III	0.73	2.91	1.48	16.70	3.06	15.60	16.4	3.16	19.03	2.79	12.80	
	IV	0.74	2.92	1.48	16.72	2.88	15.71	15.5	3.27	18.80	3.06	14.00	
	2025	I	0.76	2.92	1.48	16.61	2.80	15.70	15.1	3.27	18.69	3.08	14.13
Annual percentage changes								Difference from one year ago	Annual percentage changes			Difference from one year ago	
2017	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2	
2018	-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.1	0.4	-0.3	
2019	-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0	
2020	-4.0	-2.3	-2.6	-3.0	-3.4	-11.4	-0.5	-2.2	-0.5	-2.2	-6.9	-0.6	
2021	6.9	0.5	5.7	3.4	3.4	8.5	1.8	1.2	2.6	3.5	2.0	-0.2	
2022	-2.4	2.5	3.0	4.2	4.3	-11.9	9.7	-3.9	0.2	4.0	1.2	-0.3	
2023	-3.9	1.3	3.2	3.8	3.4	-16.4	8.8	-4.1	1.3	3.4	1.2	-0.2	
2024	-2.0	2.6	4.7	2.2	2.7	-5.4	4.3	-1.4	-0.2	1.9	4.1	0.2	
2025 (d)	-0.5	3.2	4.3	2.3	2.4	-1.4	3.1	-0.6	2.5	2.1	4.6	0.3	
2023	II	-4.2	-1.6	2.4	4.4	3.4	-19.5	10.0	-5.0	1.8	3.5	1.3	-0.2
	III	-3.7	1.1	3.6	4.1	3.9	-11.5	7.9	-3.0	0.3	3.7	1.0	-0.3
	IV	1.6	2.0	7.5	3.7	3.7	-5.3	5.6	-1.6	3.5	3.8	2.7	-0.1
2024	I	-1.2	0.7	6.1	3.3	3.4	-7.2	5.7	-1.8	0.7	2.8	4.1	0.1
	II	-0.6	5.4	5.3	1.3	2.5	-6.6	4.4	-1.5	-0.5	2.0	2.3	0.0
	III	1.3	2.3	4.4	1.5	2.3	-3.4	3.5	-1.0	-1.2	1.5	3.9	0.3
	IV	-7.1	1.9	3.1	2.6	2.5	-4.4	3.9	-1.1	0.4	1.6	6.2	0.5
2025	I	-0.5	3.2	4.3	2.3	2.4	-1.4	3.1	-0.6	2.5	2.1	4.6	0.3

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed.

(c) Average of available data. (d) Change of existing data over the same period last year

Source: INE (Labour Force Survey).

Chart 11b.1 - Employment by sector (LFS)

Level, 2019=100

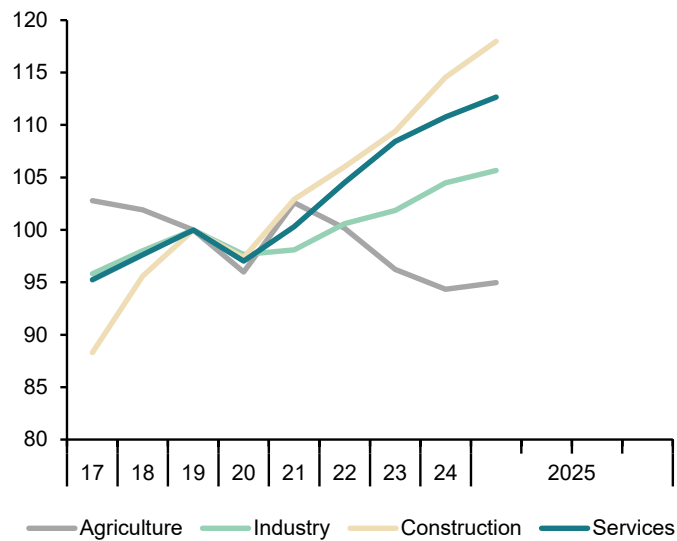


Chart 11b.2 - Temporary employment rate

Percentage over total employees



Table 12

Index of Consumer Prices

Forecasts in yellow

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
			Total	Non-energy industrial goods	Services	Processed food				
% of total in 2024		100.00	68.37	84.45	20.80	47.57	16.09	6.22	9.32	22.31
Indexes, 2021 = 100										
2019		97.3	98.9	98.5	99.2	98.7	97.5	94.2	91.3	96.3
2020		97.0	99.4	99.2	99.4	99.4	98.7	97.7	82.5	98.4
2021		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2022		108.4	103.7	105.2	104.2	103.3	110.6	110.9	127.9	110.7
2023		112.2	108.3	111.5	108.6	107.8	124.0	121.2	107.1	123.0
2024		115.3	111.2	114.7	109.4	111.6	128.6	125.2	108.1	127.5
2025		118.2	114.1	117.4	109.9	115.6	130.1	132.1	109.5	130.5
2026		120.3	116.5	119.7	110.4	118.8	131.5	136.9	109.1	132.8
Annual percentage changes										
2019		0.7	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9
2020		-0.3	0.6	0.7	0.2	0.8	1.3	3.7	-9.6	2.1
2021		3.1	0.6	0.8	0.6	0.6	1.3	2.4	21.2	1.7
2022		8.4	3.7	5.2	4.2	3.3	10.6	10.9	27.9	10.7
2023		3.5	4.4	6.0	4.2	4.3	12.1	9.3	-16.3	11.1
2024		2.8	2.7	2.9	0.7	3.5	3.7	3.3	1.0	3.6
2025		2.4	2.6	2.4	0.5	3.6	1.2	5.5	1.3	2.4
2026		1.8	2.1	1.9	0.5	2.8	1.0	3.6	-0.4	1.8
2025	Jan	2.9	2.5	2.4	0.5	3.4	2.1	2.7	8.1	2.2
	Feb	3.0	2.4	2.2	0.5	3.2	1.3	5.0	9.0	2.3
	Mar	2.3	2.2	2.0	0.5	3.0	1.0	6.5	2.0	2.5
	Apr	2.2	2.8	2.4	0.5	3.9	0.7	6.0	-2.2	2.2
	May	2.1	2.8	2.4	0.5	3.8	0.7	6.0	-2.6	2.2
	Jun	2.1	2.6	2.3	0.5	3.6	0.8	5.9	-2.4	2.2
	Jul	2.3	2.8	2.4	0.5	3.8	1.1	5.1	-0.5	2.2
	Aug	2.5	2.8	2.5	0.5	3.8	1.2	6.0	0.2	2.5
	Sep	2.8	2.8	2.5	0.5	3.8	1.5	6.4	3.0	2.9
	Oct	2.6	2.7	2.4	0.4	3.7	1.2	6.0	2.2	2.5
	Nov	2.4	2.7	2.4	0.4	3.7	1.3	5.5	-0.1	2.4
	Dec	2.2	2.6	2.3	0.4	3.5	1.3	5.1	-0.8	2.4
2026	Jan	1.7	2.7	2.4	0.5	3.7	0.8	5.0	-6.2	1.9
	Feb	1.5	2.6	2.3	0.5	3.6	0.8	3.8	-6.7	1.6
	Mar	1.8	2.6	2.3	0.5	3.5	1.1	2.5	-3.0	1.5
	Apr	1.8	2.1	2.0	0.5	2.9	1.2	2.4	0.0	1.5
	May	1.8	2.0	1.8	0.5	2.7	1.2	2.7	0.9	1.6
	Jun	1.8	1.9	1.8	0.5	2.6	1.2	3.1	1.1	1.7
	Jul	1.8	1.9	1.7	0.5	2.5	1.2	3.6	1.6	1.8
	Aug	1.8	1.9	1.7	0.5	2.5	1.0	3.7	1.6	1.8
	Sep	1.8	1.9	1.7	0.5	2.5	1.0	3.8	2.0	1.8
	Oct	1.9	1.9	1.7	0.5	2.5	1.0	4.0	2.0	1.8
	Nov	1.9	1.9	1.7	0.5	2.5	1.1	4.4	2.0	2.0
	Dec	1.9	1.9	1.7	0.5	2.5	1.1	4.6	1.6	2.0

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

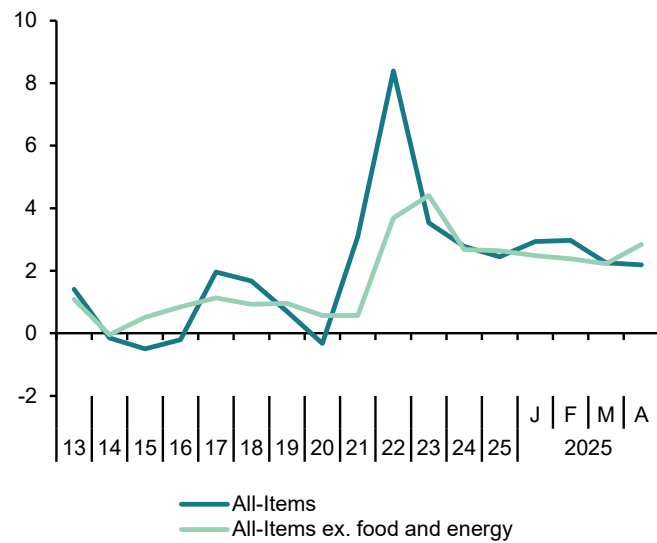


Chart 12.2 - Inflation rate (II)

Annual percentage changes

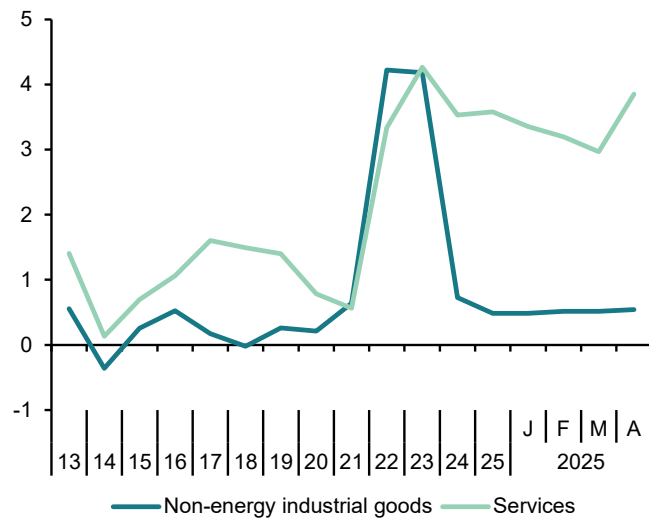


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	m ² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
			2019=100	2019=100	2019=100	2019=100		2019=100	2019=100	2019=100	2019=100	
2017		97.4	97.5	98.8	89.2	93.8	100.8	96.8	97.2	95.8	96.0	--
2018		98.6	100.4	99.9	95.2	96.9	99.3	97.8	98.2	96.7	97.4	--
2019		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--
2020		101.1	95.7	100.0	102.1	98.9	90.6	97.8	97.4	99.0	106.6	--
2021		103.7	112.3	107.0	105.9	101.0	94.0	103.5	103.4	103.8	105.9	--
2022		108.6	152.2	121.5	113.7	106.1	98.7	107.9	108.2	107.0	108.0	--
2023		115.4	145.0	126.0	118.2	110.2	96.0	113.8	113.4	115.0	113.7	--
2024		118.8	139.7	126.4	128.1	116.6	105.3	118.3	117.7	120.0	118.7	--
2025 (b)		120.8	142.8	126.4	--	--	--	--	--	--	--	--
2023	III	115.0	145.2	125.6	120.6	110.4	99.8	110.0	108.3	114.7	115.7	--
	IV	117.4	142.9	125.7	119.3	112.3	96.1	119.6	120.7	116.5	120.6	--
2024	I	118.1	138.3	126.5	122.5	113.7	104.1	114.4	112.8	119.1	111.0	--
	II	118.2	136.5	126.8	126.9	115.5	103.6	120.1	120.4	119.4	117.1	--
	III	118.8	141.2	126.4	130.4	117.0	104.6	114.8	112.8	120.7	121.6	--
	IV	120.1	142.7	125.8	132.8	120.2	109.1	123.8	124.9	120.7	125.2	--
2025	I	120.8	144.7	126.3	--	--	--	--	--	--	--	--
	II (b)	--	137.2	126.5	--	--	--	--	--	--	--	--
2025	Feb	--	147.3	126.4	--	--	--	--	--	--	--	--
	Mar	--	141.3	126.6	--	--	--	--	--	--	--	--
	Apr	--	137.2	126.5	--	--	--	--	--	--	--	--
Annual percent changes (c)												
2017		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019		1.4	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020		1.1	-4.3	0.0	2.1	-1.1	-9.4	-2.2	-2.6	-1.0	6.6	1.9
2021		2.6	17.3	7.0	3.7	2.1	3.7	5.9	6.3	4.8	-0.6	1.5
2022		4.7	35.5	13.6	7.4	5.0	5.0	4.2	4.6	3.1	1.9	2.8
2023		6.2	-4.7	3.6	4.0	3.9	-2.8	5.5	4.8	7.5	5.3	3.5
2024		3.0	-3.7	0.3	8.4	5.8	9.7	4.0	3.8	4.3	4.4	3.1
2025 (d)		2.3	3.9	-0.1	--	--	--	--	--	--	--	3.4
2023	III	6.2	-9.0	1.8	4.5	4.2	6.8	5.0	4.2	7.2	5.5	3.4
	IV	4.9	-7.2	1.1	4.2	5.3	-3.3	5.0	4.0	8.0	5.4	3.5
2024	I	3.2	-6.9	0.1	6.3	4.3	13.0	3.9	3.8	4.5	4.4	2.9
	II	3.2	-4.8	0.4	7.8	5.7	7.9	4.0	4.0	4.1	4.3	3.0
	III	3.3	-2.7	0.7	8.2	6.0	4.9	4.4	4.1	5.2	5.2	3.0
	IV	2.3	-0.2	0.1	11.3	7.0	13.5	3.5	3.5	3.6	3.8	3.1
2025	I	2.3	4.6	-0.1	--	--	--	--	--	--	--	3.3
	II (e)	--	0.6	-0.2	--	--	--	--	--	--	--	3.4
2025	Feb	--	6.7	0.0	--	--	--	--	--	--	--	3.0
	Mar	--	4.6	-0.1	--	--	--	--	--	--	--	3.3
	Apr	--	1.9	-0.1	--	--	--	--	--	--	--	3.4

(a) Seasonally adjusted. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

Chart 13.1 - Housing and urban land prices

Level, 2019=100

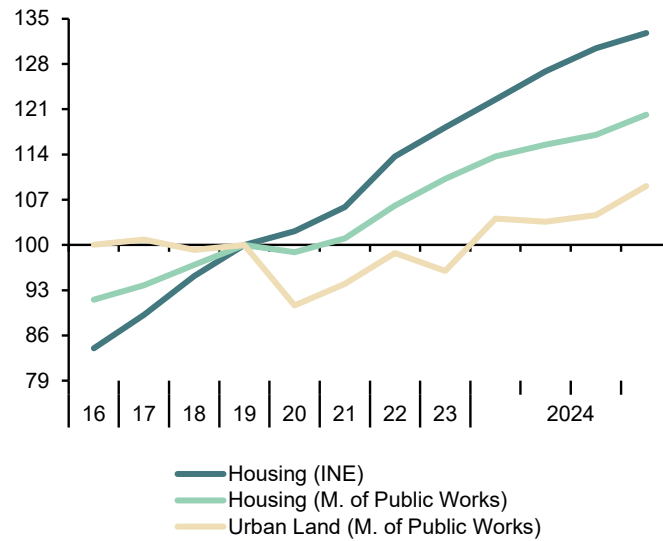


Chart 13.2 - Wage costs

Annual percent change

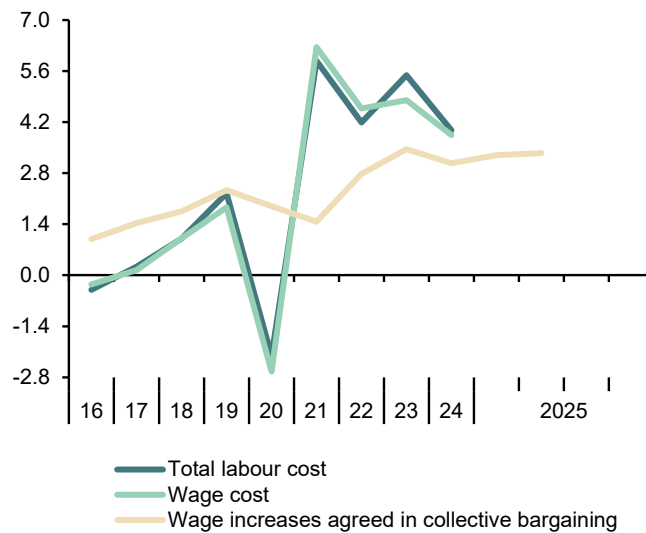


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2019=100			2019=100							
2017		94.9	96.5	98.4	93.8	95.8	97.9	13.6	9.5	-2.2	0.0	0.6
2018		98.1	99.3	98.7	99.1	100.1	99.1	14.1	9.7	-2.9	-0.3	0.7
2019		100.0	100.0	100.0	100.0	100.0	100.0	14.3	9.9	-2.6	-0.3	0.8
2020		90.6	99.3	91.2	85.9	96.9	88.6	13.3	8.6	-1.1	0.3	1.3
2021		108.2	107.9	100.3	107.4	108.5	99.0	16.1	10.1	-2.6	-0.2	1.7
2022		133.2	127.6	104.4	142.4	134.8	105.7	20.3	12.0	-6.0	-1.2	3.1
2023		131.9	132.6	99.5	131.6	132.1	99.6	20.0	11.9	-3.4	-0.3	2.6
2024		132.5	134.9	98.2	131.5	131.4	100.0	19.8	12.2	-3.4	-0.4	2.5
2025 (b)		133.4	136.2	98.0	142.3	131.6	108.2	19.8	12.1	-5.0	-1.4	2.1
2023	II	130.5	132.4	98.5	130.7	129.8	100.7	19.7	11.8	-3.7	-0.8	2.2
	III	128.6	131.5	97.8	129.0	129.4	99.7	19.3	11.7	-3.7	-0.4	1.9
	IV	131.1	132.3	99.0	131.9	133.4	98.9	19.9	11.8	-3.9	-0.5	2.6
2024	I	130.7	133.0	98.3	129.0	133.0	97.0	19.8	11.8	-3.2	0.0	2.5
	II	134.3	135.7	99.0	131.1	132.0	99.3	19.9	12.5	-2.9	0.0	2.9
	III	133.4	135.2	98.7	130.5	130.5	100.0	20.1	12.1	-2.9	-0.1	2.9
	IV	131.6	136.0	96.8	135.2	130.2	103.8	19.4	12.4	-4.6	-1.2	1.9
2025	I	133.4	136.2	98.0	142.3	131.6	108.2	19.8	12.4	-6.1	-2.3	-2.1
2025	Jan	131.7	136.0	96.8	140.1	131.4	106.6	19.6	12.2	-5.9	-2.0	2.4
	Feb	134.0	136.2	98.4	140.5	131.6	106.7	19.5	12.9	-5.5	-0.6	2.6
	Mar	134.5	136.4	98.7	146.5	131.8	111.2	20.4	12.1	-7.0	-4.3	1.2
Percentage changes (c)										Percentage of GDP		
2017		7.7	0.7	7.0	10.5	4.7	5.5	8.3	6.9	-2.2	0.0	0.7
2018		3.3	3.0	0.3	5.7	4.5	1.2	3.9	2.5	-2.8	-0.3	0.7
2019		2.0	0.7	1.3	0.9	-0.1	0.9	1.8	2.2	-2.5	-0.3	0.8
2020		-9.4	-0.7	-8.8	-14.1	-3.1	-11.4	-7.0	-12.9	-1.2	0.3	1.4
2021		19.4	8.6	10.0	25.0	12.0	11.7	20.9	17.2	-2.5	-0.2	1.6
2022		23.1	18.3	4.1	32.6	24.2	6.8	25.7	19.0	-5.2	-1.1	2.7
2023		-1.0	3.9	-4.7	-7.6	-1.9	-5.8	-1.1	-0.8	-2.7	-0.2	2.1
2024		0.2	1.8	-1.6	0.1	-0.5	0.6	-1.1	2.4	-3.4	-0.4	2.6
2025 (d)		2.6	1.8	0.8	9.3	-2.8	12.5	0.2	6.8	--	--	--
2023	II	-7.1	-1.3	-5.9	-4.4	-4.6	0.2	-8.4	-4.7	-3.0	-0.6	1.8
	III	-1.5	-0.7	-0.8	-1.4	-0.4	-1.0	-1.9	-0.8	-2.9	-0.3	1.5
	IV	1.9	0.6	1.3	2.3	3.1	-0.8	2.9	0.3	-3.0	-0.4	2.0
2024	I	-0.3	0.5	-0.8	-2.2	-0.3	-1.9	-0.4	-0.1	-2.5	0.0	1.9
	II	2.8	2.1	0.7	1.6	-0.7	2.4	0.7	6.3	-2.2	0.0	2.2
	III	-0.7	-0.4	-0.3	-0.4	-1.1	0.7	0.8	-3.1	-2.2	-0.1	2.2
	IV	-1.3	0.6	-1.9	3.5	-0.2	3.8	-3.4	2.1	-3.4	-0.9	1.4
2025	I	1.4	0.2	1.2	5.3	1.1	4.2	2.2	0.2	-4.5	-1.7	-1.5
2025	Jan	-0.2	0.1	-0.3	3.9	-0.1	3.9	2.2	-3.8	--	--	--
	Feb	1.8	0.1	1.7	0.3	0.2	0.1	-0.6	5.6	--	--	--
	Mar	0.4	0.1	0.2	4.3	0.2	4.2	4.9	-6.5	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data. (d) Growth of available period over the same period of the previous year.

Source: Ministry of Economy and Fincas.

Chart 14.1 - External trade (real)

Level, 2019=100

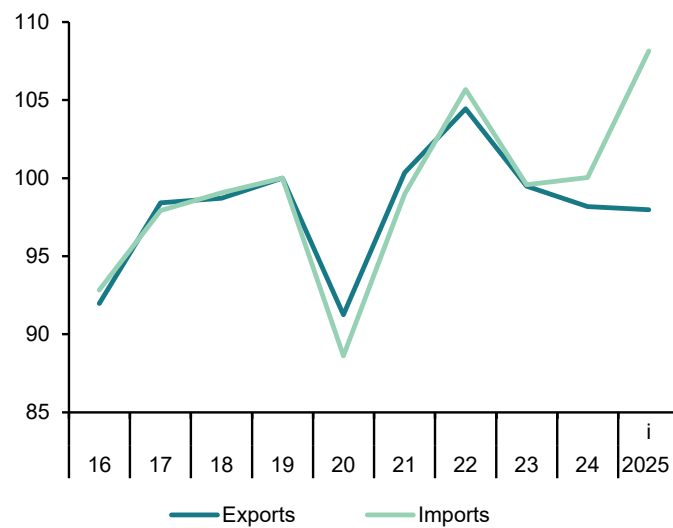
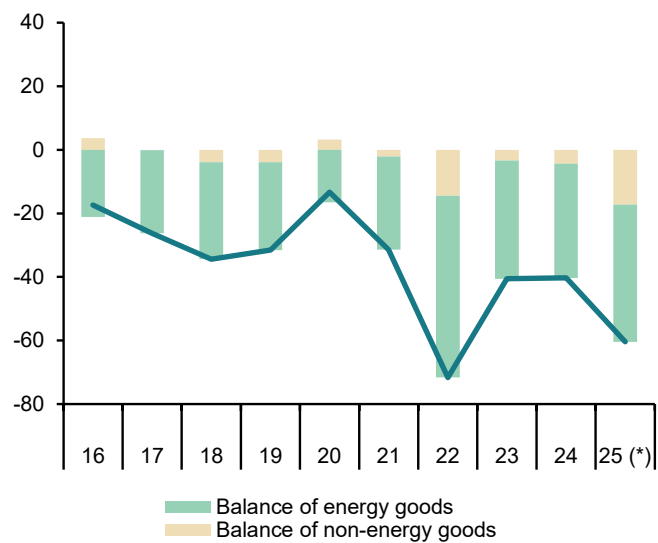


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months



(*) Period with available data.

Table 15

Balance of Payments (according to IMF manual) (Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain	
									Total	Direct investment	Portfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
2017		32.69	-21.19	63.70	-0.49	-9.33	2.79	35.48	68.25	13.23	24.91	22.38	7.72	-32.63	0.14
2018		22.76	-28.25	61.47	0.44	-10.90	5.79	28.55	45.32	-17.91	15.26	48.87	-0.90	-14.25	2.53
2019		26.69	-25.19	62.62	1.21	-11.94	4.20	30.89	11.02	9.30	-50.83	58.08	-5.53	15.76	-4.11
2020		8.91	-7.03	24.15	2.06	-10.27	5.04	13.95	92.45	16.47	50.87	31.79	-6.67	-81.84	-3.34
2021		9.55	-21.30	33.53	8.25	-10.93	10.73	20.29	9.71	-11.60	3.76	16.72	0.84	16.12	5.57
2022		4.81	-60.08	72.21	6.00	-13.31	12.67	17.49	-8.42	3.99	26.95	-41.81	2.45	30.27	4.37
2023		39.78	-34.63	93.47	-7.22	-11.84	16.22	55.99	-54.59	-2.93	-17.54	-29.95	-4.16	114.36	3.79
2024		48.14	-32.30	100.43	-8.14	-11.85	18.51	66.65	118.04	18.52	6.46	97.06	-4.00	-48.20	3.20
2023	I	10.52	-4.90	17.20	-0.04	-1.74	2.84	13.36	-50.76	3.88	18.59	-70.72	-2.51	55.91	-8.21
	II	9.03	-8.56	24.91	-3.95	-3.37	2.22	11.25	-17.21	-14.85	-9.78	8.66	-1.24	33.20	4.75
	III	11.48	-12.11	30.78	-2.69	-4.51	3.23	14.71	-6.44	5.83	-12.77	2.21	-1.72	23.35	2.20
	IV	8.76	-9.06	20.58	-0.55	-2.22	7.93	16.68	19.82	2.20	-13.58	29.90	1.30	1.90	5.04
2024	I	12.01	-6.01	19.83	-1.03	-0.79	1.78	13.79	40.02	0.40	-14.51	55.40	-1.27	-28.80	-2.56
	II	12.84	-6.03	27.25	-4.34	-4.03	3.16	16.01	59.89	6.00	20.16	36.13	-2.40	-36.08	7.81
	III	14.70	-9.91	31.70	-2.65	-4.44	4.48	19.18	-7.47	2.71	-21.62	12.94	-1.51	17.63	-9.03
	IV	8.59	-10.35	21.66	-0.13	-2.59	9.08	17.67	25.60	9.41	22.43	-7.41	1.17	-0.96	6.97
			Goods and Services		Primary and Secondary Income										
2024	Nov	2.07	2.82		-0.75		1.60	3.67	17.23	-0.16	0.83	15.42	1.15	-16.42	-2.86
	Dec	1.67	1.40		0.27		5.47	7.14	23.04	2.10	15.75	6.70	-1.51	-11.51	4.39
2025	Jan	1.20	0.95		0.26		0.20	1.41	-21.04	3.59	-1.98	-24.35	1.71	24.26	1.81
Percentage of GDP															
2017		2.8	-1.8	5.4	0.0	-0.8	0.2	3.0	5.8	1.1	2.1	1.9	0.7	-2.8	0.0
2018		1.9	-2.3	5.1	0.0	-0.9	0.5	2.4	3.7	-1.5	1.3	4.0	-0.1	-1.2	0.2
2019		2.1	-2.0	5.0	0.1	-1.0	0.3	2.5	0.9	0.7	-4.1	4.6	-0.4	1.3	-0.3
2020		0.8	-0.6	2.1	0.2	-0.9	0.4	1.2	8.2	1.5	4.5	2.8	-0.6	-7.2	-0.3
2021		0.8	-1.7	2.7	0.7	-0.9	0.9	1.6	0.8	-0.9	0.3	1.4	0.1	1.3	0.5
2022		0.4	-4.4	5.3	0.4	-1.0	0.9	1.3	-0.6	0.3	2.0	-3.0	0.2	2.2	0.3
2023		2.7	-2.3	6.2	-0.5	-0.8	1.1	3.7	-3.6	-0.2	-1.2	-2.0	-0.3	7.6	0.3
2024		3.0	-2.0	6.3	-0.5	-0.7	1.2	4.2	7.4	1.2	0.4	6.1	-0.3	-3.0	0.2
2023	I	2.9	-1.4	4.8	0.0	-0.5	0.8	3.7	-14.2	1.1	5.2	-19.8	-0.7	15.7	-2.3
	II	2.4	-2.3	6.6	-1.1	-0.9	0.6	3.0	-4.6	-4.0	-2.6	2.3	-0.3	8.8	1.3
	III	3.1	-3.3	8.3	-0.7	-1.2	0.9	4.0	-1.7	1.6	-3.5	0.6	-0.5	6.3	0.6
	IV	2.2	-2.3	5.2	-0.1	-0.6	2.0	4.2	5.0	0.6	-3.4	7.5	0.3	0.5	1.3
2024	I	3.2	-1.6	5.3	-0.3	-0.2	0.5	3.7	10.6	0.1	-3.8	14.7	-0.3	-7.6	-0.7
	II	3.2	-1.5	6.8	-1.1	-1.0	0.8	4.0	15.0	1.5	5.0	9.0	-0.6	-9.0	1.9
	III	3.7	-2.5	8.1	-0.7	-1.1	1.1	4.9	-1.9	0.7	-5.5	3.3	-0.4	4.5	-2.3
	IV	2.0	-2.5	5.1	0.0	-0.6	2.2	4.2	6.1	2.2	5.3	-1.8	0.3	-0.2	1.7

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

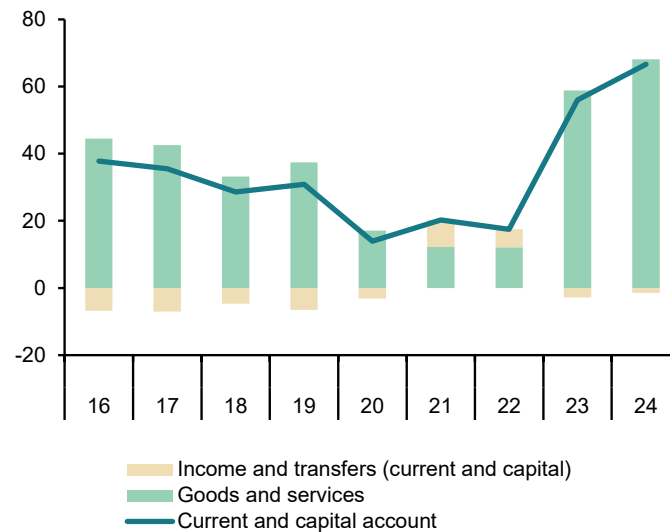


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

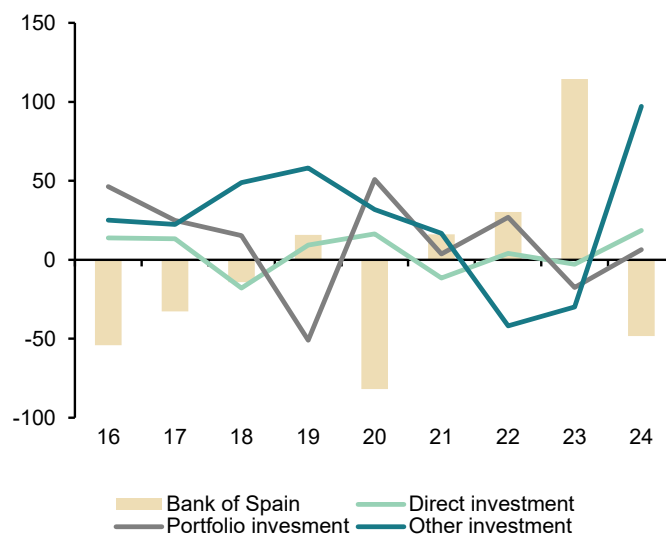


Table 16

Competitiveness indicators in relation to EMU

	Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
	Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
	2000=100			2015=100			2021=100			
2017	101.7	97.3	104.5	101.7	101.8	99.9	88.5	91.1	97.1	109.7
2018	100.8	94.4	106.8	103.5	103.6	99.9	90.6	93.4	97.0	110.5
2019	99.4	93.3	106.5	104.3	104.8	99.5	90.3	93.8	96.3	109.0
2020	102.8	87.5	117.6	103.9	105.1	98.9	87.1	91.4	95.3	108.4
2021	105.3	92.9	113.3	107.0	107.8	99.3	100.0	100.0	100.0	108.9
2022	104.2	95.1	109.6	115.9	116.8	99.3	129.7	126.0	102.9	108.0
2023	103.9	96.3	107.8	119.9	123.2	97.3	125.6	124.6	100.8	107.0
2024	105.0	100.0	105.1	123.3	126.1	97.8	122.5	121.1	101.2	105.9
2025 (b)	--	--	--	125.3	127.7	98.1	126.3	123.4	102.4	105.8
2023	II	--	--	119.7	123.3	97.1	124.6	123.6	100.8	105.6
	III	--	--	120.7	124.0	97.4	125.6	123.0	102.1	105.7
	IV	--	--	121.3	124.2	97.7	124.3	123.1	101.0	106.0
	I	--	--	121.7	124.4	97.8	121.3	121.1	100.2	105.9
2024	II	--	--	124.0	126.3	98.2	120.3	120.1	100.1	106.5
	III	--	--	123.5	126.6	97.5	123.5	120.9	102.2	105.6
	IV	--	--	124.1	126.9	97.8	124.7	122.1	102.1	105.4
	I	--	--	124.9	127.4	98.1	126.3	123.4	102.4	105.6
2025	Feb	--	--	124.8	127.3	98.1	128.1	124.0	103.3	105.2
	Mar	--	--	125.7	128.1	98.1	124.1	122.4	101.4	106.0
	Apr	--	--	126.4	128.8	98.2	--	--	--	--
Annual percentage changes						Differential	Annual percentage changes		Differential	Annual percentage changes
2017	-0.4	-0.3	0.0	2.0	1.5	0.5	4.2	2.7	1.4	1.5
2018	-0.9	-3.0	2.2	1.7	1.7	0.0	2.4	2.6	-0.2	0.8
2019	-1.4	-1.2	-0.2	0.8	1.2	-0.4	-0.3	0.4	-0.7	-1.3
2020	3.4	-6.2	10.3	-0.3	0.3	-0.6	-3.6	-2.6	-1.0	-0.6
2021	2.4	6.3	-3.6	3.0	2.6	0.4	14.9	9.4	4.9	0.4
2022	-1.1	2.3	-3.3	8.3	8.4	-0.1	29.7	26.0	2.9	-0.8
2023	-0.3	1.3	-1.6	3.4	5.4	-2.0	-3.1	-1.1	-2.0	-0.9
2024	1.1	3.8	-2.6	2.9	2.4	0.5	-2.5	-2.8	0.3	-1.0
2025 (c)	--	--	--	2.6	2.3	0.3	4.1	2.0	2.1	-0.2
2023	II	--	--	2.8	6.2	-3.4	-4.6	-0.3	-4.3	-2.3
	III	--	--	2.6	5.0	-2.4	-6.9	-6.5	-0.4	-0.8
	IV	--	--	3.3	2.7	0.6	-5.1	-6.1	1.0	1.3
2024	I	--	--	3.2	2.6	0.6	-5.1	-5.8	0.7	0.4
	II	--	--	3.6	2.5	1.1	-3.5	-2.8	-0.7	0.9
	III	--	--	2.3	2.2	0.1	-1.6	-1.7	0.1	-0.1
	IV	--	--	2.4	2.2	0.2	0.3	-0.8	1.1	-0.6
2025	I	--	--	2.7	2.3	0.4	4.1	2.0	2.1	-0.3
2025	Feb	--	--	2.9	2.3	0.6	5.8	2.6	3.2	-0.2
	Mar	--	--	2.2	2.2	0.0	4.1	1.6	2.5	-0.4
	Apr	--	--	2.2	2.2	0.0	--	--	--	--

(a) EMU excluding Ireland and Spain. (b) Period with available data. (c) Growth of available period over the same period of the previous year.

Sources: Eurostat. Bank of Spain and Funcas.

**Chart 16.1 - Relative Unit Labour Costs
in manufacturing (Spain/Rest of EMU)**

2000=100

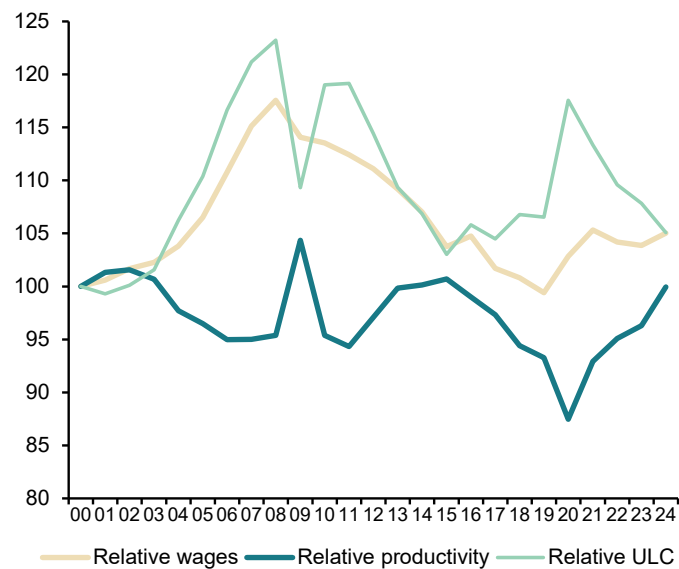


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

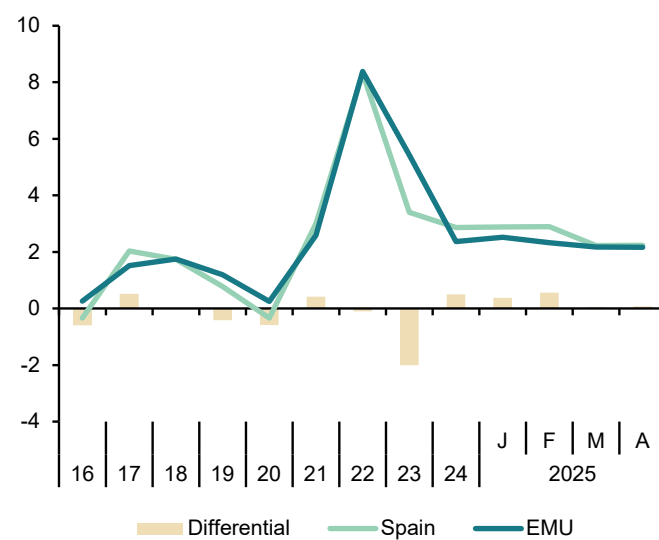


Table 17a

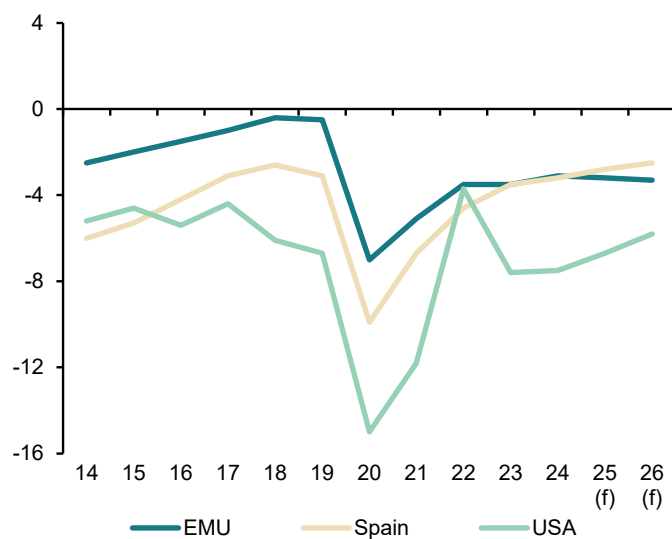
Imbalances: International comparison (I)
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	EMU	Spain	USA	EMU	Spain	USA	EMU	Spain	USA
Billions of national currency									
2011	-420.9	-103.6	-1,712.6	8,726.1	743.0	15,222.9	94.1	-27.9	-460.3
2012	-384.9	-119.1	-1,497.0	9,225.9	927.8	16,432.7	224.8	1.6	-424.0
2013	-323.0	-76.8	-983.5	9,561.5	1,025.8	17,352.0	284.0	21.3	-351.2
2014	-260.8	-62.7	-911.1	9,814.5	1,085.2	18,141.4	329.9	18.5	-375.1
2015	-213.8	-57.2	-842.3	9,938.3	1,114.1	18,922.2	346.7	22.2	-423.1
2016	-161.3	-47.4	-1,013.9	10,084.0	1,145.7	19,976.8	405.7	35.3	-401.4
2017	-114.4	-35.9	-868.7	10,179.6	1,184.1	20,492.7	404.9	32.7	-378.0
2018	-52.7	-30.9	-1,263.4	10,284.8	1,209.7	21,974.1	421.9	22.8	-441.2
2019	-66.3	-38.4	-1,441.7	10,383.5	1,224.4	23,201.4	366.3	26.7	-447.3
2020	-811.2	-111.9	-3,198.3	11,447.3	1,346.9	27,747.8	274.8	8.9	-572.9
2021	-643.0	-82.2	-2,803.8	12,075.0	1,429.4	29,617.2	448.2	9.6	-879.4
2022	-475.3	-63.1	-954.1	12,519.1	1,504.1	31,419.7	143.2	4.8	-1,020.9
2023	-515.5	-52.7	-2,100.3	12,979.1	1,575.4	34,001.5	375.3	39.8	-915.9
2024	-468.6	-50.2	-2,197.2	13,475.5	1,620.6	36,218.6	498.5	48.6	-1,087.6
2025	-505.1	-46.6	-2,041.2	14,095.7	1,685.6	38,169.8	470.4	45.6	-1,089.7
2026	-530.8	-43.5	-1,847.7	14,752.9	1,753.4	39,927.9	489.3	48.2	-1,060.3
Percentage of GDP									
2011	-4.2	-9.7	-11.0	88.0	69.5	97.6	0.9	-2.6	-3.0
2012	-3.9	-11.5	-9.2	92.7	89.6	101.1	2.3	0.2	-2.6
2013	-3.2	-7.5	-5.8	95.1	100.0	102.8	2.8	2.1	-2.1
2014	-2.5	-6.0	-5.2	95.3	104.4	103.0	3.2	1.8	-2.1
2015	-2.0	-5.3	-4.6	93.2	102.5	103.4	3.3	2.0	-2.3
2016	-1.5	-4.2	-5.4	92.1	102.0	106.2	3.7	3.1	-2.1
2017	-1.0	-3.1	-4.4	89.6	101.2	104.5	3.6	2.8	-1.9
2018	-0.4	-2.6	-6.1	87.6	99.8	106.4	3.6	1.9	-2.1
2019	-0.5	-3.1	-6.7	85.6	97.7	107.7	3.0	2.1	-2.1
2020	-7.0	-9.9	-15.0	98.6	119.3	129.9	2.4	0.8	-2.7
2021	-5.1	-6.7	-11.8	95.7	115.7	125.1	3.6	0.8	-3.7
2022	-3.5	-4.6	-3.7	91.2	109.5	120.8	1.0	0.4	-3.9
2023	-3.5	-3.5	-7.6	88.9	105.1	122.7	2.6	2.7	-3.3
2024	-3.1	-3.2	-7.5	88.9	101.8	124.1	3.3	3.1	-3.7
2025	-3.2	-2.8	-6.7	89.9	100.9	125.4	3.0	2.7	-3.6
2026	-3.3	-2.5	-5.8	91.0	100.8	126.3	3.0	2.8	-3.4

Source: European Commission Forecasts, Spring 2025

Chart 17a.1 - Government deficit

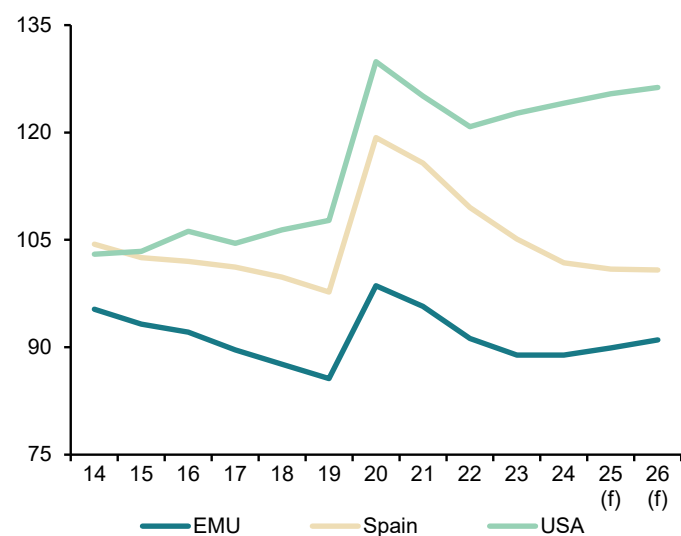
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
Billions of national currency						
2009	911.9	5,946.8	14,009.4	1,277.3	7,987.5	10,541.9
2010	908.2	6,089.7	13,777.6	1,277.3	8,078.2	10,410.9
2011	881.1	6,176.0	13,663.4	1,276.7	8,315.3	10,681.1
2012	843.4	6,168.1	13,550.5	1,232.7	8,444.5	11,260.1
2013	796.0	6,140.8	13,768.1	1,106.2	8,406.8	11,828.2
2014	759.9	6,152.0	13,866.0	1,025.4	8,531.3	12,653.2
2015	735.0	6,225.6	14,079.1	1,009.1	8,954.0	13,507.7
2016	719.8	6,338.5	14,486.8	971.3	9,162.1	14,181.9
2017	712.0	6,524.1	15,034.3	968.1	9,274.7	15,197.1
2018	710.5	6,698.9	15,496.6	966.6	9,481.3	16,190.9
2019	708.6	6,926.2	16,074.1	935.3	9,771.5	16,897.8
2020	701.7	7,099.9	16,620.1	948.1	10,307.6	18,469.2
2021	706.4	7,407.8	18,213.9	1,014.7	10,757.5	19,590.7
2022	706.9	7,684.9	19,375.2	1,042.8	11,020.8	20,610.2
2023	690.7	7,722.7	19,896.5	1,004.9	10,964.7	21,032.9
2024	695.6	–	20,195.5	989.5	–	21,552.9
Percentage of GDP						
2009	85.0	63.4	96.8	119.0	85.2	72.8
2010	84.3	63.1	91.6	118.5	83.8	69.2
2011	82.4	62.2	87.6	115.3	83.8	68.5
2012	81.4	62.0	83.4	106.8	84.8	69.3
2013	77.6	61.1	81.6	100.0	83.6	70.1
2014	73.1	59.7	78.7	97.1	82.8	71.9
2015	67.6	58.4	77.0	89.3	84.0	73.8
2016	64.1	57.9	77.0	86.2	83.6	75.4
2017	60.9	57.4	76.7	82.6	81.6	77.5
2018	58.6	57.0	75.0	77.1	80.8	78.4
2019	56.5	57.1	74.6	75.6	80.5	78.4
2020	62.1	61.1	77.8	89.9	88.7	86.5
2021	57.2	58.7	76.9	84.4	85.3	82.7
2022	51.5	56.0	74.5	73.2	80.3	79.2
2023	46.1	52.9	71.8	66.0	75.1	75.9
2024	43.7	–	69.2	63.5	–	73.8

(a) Loans and debt securities, consolidated.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

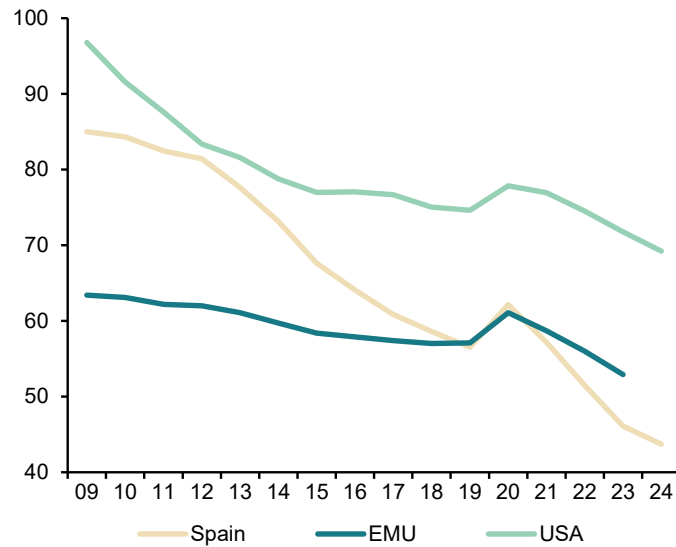
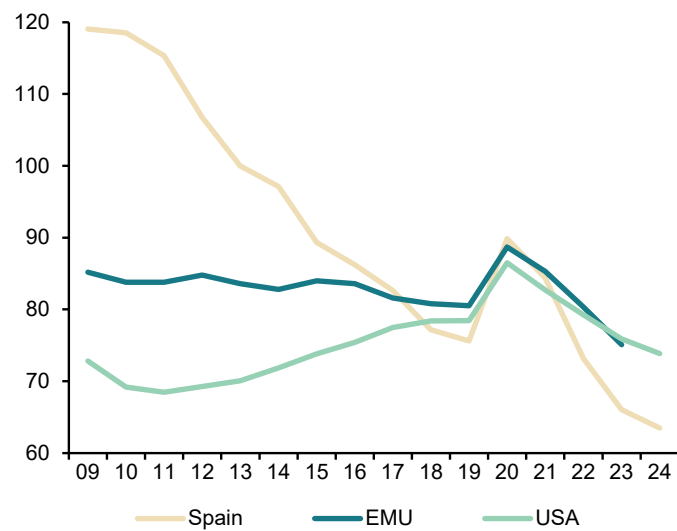


Chart 17b.2 - Non-financial corporations consolidated debt

Percentage of GDP



50 Financial System Indicators

Updated: May 15th, 2025

Highlights		
Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.1	February 2025
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.1	February 2025
Doubtful loans (monthly % var.)	-0.8	February 2025
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	13,277	April 2025
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	11,569	April 2025
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	0	April 2025
"Operating expenses/gross operating income" ratio (%)	41.16	December 2024
"Customer deposits/employees" ratio (thousand euros)	13,282.69	December 2024
"Customer deposits/branches" ratio (thousand euros)	123,540.71	December 2024
"Branches/institutions" ratio	94.4	December 2024

A. Money and Interest Rates

Indicator	Source	Average 2001-2022	2023	2024	2025 April	2025 May	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.5	0.1	3.4	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.2	3.433	3.572	2.254	2.141	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	1.4	3.868	3.274	2.148	2.050	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.0	3.4	3.0	3.1	3.2	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.6	-	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": At its latest meeting in April, the European Central Bank lowered eurozone interest rates for the seventh consecutive time in 2025, judging that the disinflationary process is well underway, despite this widening the gap with the Federal Reserve, which decided to hold rates steady. This decision, already anticipated by the markets, has been reflected in interbank interest rates. In the first half of May, the 12-month Euribor (the main reference for mortgages) averaged 2.050%, down from April's average of 2.148%, while the 3-month reference dropped from 2.254% in April to 2.141% in early May. Meanwhile, the yield on the 10-year government bond rose from 3.1% in April to 3.2% in the first half of May.

B. Financial Markets

Indicator	Source	Average 2001-2022	2023	2024	2025 February	2025 March	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	34.9	26.91	18.1	18.03	12.80	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	22.1	12.01	11.9	13.67	0.06	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.36	0.48	0.24	0.20	0.04	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.58	0.25	0.27	0.55	0.50	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.29	3.15	3.16	2.44	2.37	Outright transactions in the market (not exclusively between account holders)
11. Ten-year maturity treasury bonds interest rate	BE	3.09	3.55	3.1	-	3.38	Average rate in 10-year bond auctions
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.04	1.1	1.1	6.36	-1.56	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	2.3	0.2	-0.2	16.74	18.35	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	973.3	927.57	1,137.34	1,312.16 (b)	1,367.88 (a)	Base 1985=100
15. IBEX-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,474.8	9,347.05	11,595.0	13,287.8 (b)	13,840.20 (a)	Base dec1989=3000
16. Nasdaq Index	Nasdaq	4,754.6	12,970.61	19,310.79	17,446.34 (b)	19,146.81 (a)	Nadaq composite index
17. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.6	27.5	14.4	14.9 (b)	15.1 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial Markets (continued)

Indicator	Source	Average 2001-2022	2023	2024	2025 February	2025 March	Definition and calculation
18. Short-term private debt. Outstanding amounts (% chg.)	BE	1.1	8.0	2.8	12.3	-7.16	Change in the outstanding short-term debt of non-financial firms
19. Short-term private debt. Outstanding amounts	BE	0.7	-5.7	-0.1	-0.2	-2.25	Change in the outstanding long-term debt of non-financial firms
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.3	34.5	-3.5	-11.2	13.1	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	16.0	41.8	4.2	-33.3	-2.44	IBEX-35 shares concluded transactions

(a) Last data published: May 15th 2025 (b) Last data published: April 30th 2025.

Comment on "Financial Markets": In the first half of May, the perception of reduced risk of a potential trade war has driven a rebound in Spanish stock market indices compared to end-April levels. In fact, during this period, the IBEX-35 surpassed the 13,500-point threshold, reaching 13,840.20 points. The Madrid Stock Exchange General Index stands at 1,367.88 points. Meanwhile, in March (latest available data), there was a decline in the trading ratio of simple spot transactions with Treasury bills (down to 12.80%). The trading ratio of simple transactions with government bonds also fell compared to the previous month (down to 0.06%). Transactions involving IBEX-35 stock futures rose by 13.1%, while financial options on the same index decreased by 2.44% compared to the previous month.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2021	2022	2023	2024 Q3	2024 Q4	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-0.7	1.5	4.1	4.5	4.4	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.2	0.9	2.7	3.9	4.3	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	278.8	278.1	253.6	255.8	250.0	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	62.7	53.0	46.1	44.1	43.7	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	1.0	2.8	2.9	0.7	2.1	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-0.8	0.4	0.1	-1.6	1.2	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": In the fourth quarter of 2024, financial saving across the economy stood at 4.4% of GDP. In the household sector, the financial saving rate rose to 4.3% of GDP. It is also observed that household financial debt declined to 43.7% of GDP.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2022	2023	2024	2025 January	2025 February	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	4.9	-0.2	0.09	-0.1	0.1	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	6.0	-0.5	0.39	-0.9	0.1	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	8.3	0.1	0.72	2.8	1.8	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	7.5	0.4	0.25	0.9	1.3	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-1.9	5.9	7.24	6.8	6.9	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.4	-0.2	-0.65	-0.1	-0.8	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.1	1.9	3.65	16.6	0.8	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	6.3	0.5	0.36	1.8	0.8	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": In February, the latest available data, there was a slight increase of 0.1% in credit to the private sector. Deposits also rose by 0.1%. Fixed-income securities increased their weight on the balance sheet by 1.8%, while shares and equity holdings rose by 1.3%. Additionally, in February, there was a 0.8% decline in the volume of non-performing loans compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2021	2022	2023	2024 September	2024 December	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	169	110	109	108	108	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	76	80	76	75	76	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	223,803	164,101	161,640	161,640 (a)	161,640 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	35,453	17,648	17,603	17,382	17,379	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	531,032	1,638,831	457,994	77,405	13,277 (b)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	99,642	192,970	27,860	4,138	11,569 (b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	22,501	5	297	2	0 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2023.

(b) Last data published: April 30th, 2025.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In April 2025, the net recourse of Spanish financial institutions to the Eurosystem's long-term refinancing operations stood at 13,277 million euros.

MEMO ITEM: Since January 2015, the European Central Bank has also been reporting the amounts of its various asset purchase programmes. In April 2025, their value stood at 547,352 billion euros in Spain and 4 trillion euros across the euro area.

F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source	Average 2000-2021	2022	2023	2024 Q3	2024 Q4	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	47.55	46.99	39.33	44.01	41.16	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions' P&L accounts
44. "Customer deposits/employees" ratio (Euro thousands)	Bank of Spain	4,739.84	12,610.21	12,992.81	13,160.34	13,282.69	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	33,357.11	117,256.85	116,854.11	122,381.65	123,540.71	Productivity indicator (business by branch)

F. Credit institutions. Efficiency and Productivity, Risk and Profitability (continued)

Indicator	Source	Average 2000-2021	2022	2023	2024 Q3	2024 Q4	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	174.86	92.88	95.15	94.9	94.4	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.25	9.3	8.9	9.2	9.3	Branch size indicator
48. "Equity capital" (monthly average % var.)	Bank of Spain	-0.03	1.3	1.6	0.3	1.8	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.41	0.7	1.0	1.2	1.3	Profitability indicator; defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	5.32	9.8	12.3	15.0	15.7	Profitability indicator; defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": In the fourth quarter of 2024, the profitability of the Spanish banking sector increased compared to the previous quarter. The return on equity (ROE) reached 15.7%.

Social Indicators

Table 1

Population

Population														
	Total population	Average age	67 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (men)	Life expectancy at 65 (men)	Life expectancy at 65 (women)	Dependency rate (67 or older)	Dependency rate	Foreign population (%)	Foreign-born population (%)	Foreign-born with Spanish nationality (% over total foreign born)	Immigration	Emigration
2013	46,712,650	41.8	15.7	79.9	85.5	18.9	22.8	23.0	46.6	10.8	13.2	24.7	280,772	532,303
2014	46,495,744	42.2	16.0	80.1	85.6	19.0	22.9	23.6	47.3	10.1	12.8	28.7	305,454	400,430
2015	46,425,722	42.5	16.3	79.9	85.4	18.8	22.6	24.1	47.9	9.6	12.7	31.8	342,114	343,875
2016	46,418,884	42.7	16.6	80.3	85.8	19.1	23.0	24.7	48.5	9.5	12.7	33.0	414,746	327,325
2017	46,497,393	43.0	16.9	80.3	85.7	19.1	23.0	25.1	48.9	9.5	12.9	34.4	532,132	368,860
2018	46,645,070	43.2	17.0	80.4	85.8	19.2	23.0	25.4	49.0	9.8	13.3	34.2	643,684	309,526
2019	46,918,951	43.4	17.2	80.8	86.2	19.4	23.4	25.5	48.9	10.3	14.0	33.8	750,480	296,248
2020	47,318,050	43.6	17.3	79.5	85.0	18.3	22.3	25.8	48.8	11.1	14.8	32.9	467,918	248,561
2021	47,400,798	43.8	17.5	80.2	85.8	18.9	23.1	26.0	48.5	11.4	15.3	33.1	887,960 ^b	696,866 ^b
2022	47,486,727	44.1	17.7	80.4	85.7	19.1	23.0	26.3	48.5	11.6	15.7	33.6	1,258,894	531,889
2023	48,085,361	44.2	17.8	81.1	86.3	19.7	23.5	26.4	48.1	12.7	17.1	32.2	1,250,991	608,695
2024	48,619,695		18.0					28.4	47.8	13.4	18.2	32.1		
2025**	49,077,984		18.3					28.9	47.6	14.0	19.1			
Sources	ECP	IDB	ECP	IDB	IDB	IDB	IDB	ECP	ECP	ECP	ECP	ECP	EMCR and EM*	EMCR and EM*

Dependency rate (67 or older): (population aged 67 or older / population aged 16 to 66) x 100.

Dependency rate: ((population from 0 to 15 years + population from 67 years or older) / population from 16 to 66) x 100.

ECP: Estadística continua de población.

IDB: Indicadores demográficos básicos.

EM: Estadística de migraciones.

EMCR: Estadística de migraciones y cambios de residencia.

* Estadística de migraciones y cambios de residencia (2021 onwards), Estadística de migraciones (up to 2020). Series not comparable.

b: Break in the series.

** Provisional.

Table 2

Households and families

Households						
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Single-parent households (%)	Emancipation rate 25-29 year old (%)
2014	18,329	2.52	14.2	10.6	8.2	50.4
2015	18,376	2.51	14.6	10.7	8.2	48.2
2016	18,444	2.50	14.6	10.9	8.3	47.2
2017	18,513	2.49	14.2	11.4	8.6	46.1
2018	18,581	2.49	14.3	11.5	8.3	46.1
2019	18,697	2.49	14.9	11.2	9.0	45.9
2020	18,794	2.49	15.0	11.4	9.1	43.2
2021	18,746	2.51	15.6	11.0	9.0	37.9
2022	19,078	2.49	15.4	11.7	8.8	40.4
2023	19,369	2.48	16.4	12.0	8.4	42.5
2024	19,537	2.48				42.3
2025*	19,672	2.48				43.1
Sources	EPA	EPA	EPF	EPF	EPF	EPA

* First quarter data.

EPA: Encuesta de Población Activa.

EPF: Encuesta de Presupuestos Familiares.

Note: The EPA data from 2021 onwards are calculated using a new population base. The EPF data in 2023 are not strictly comparable with previous ones, as they are based on new population estimates.

Single-parent households (%): One adult with a child /children.

Emancipation rate 25-29 year old (%): Percentage of persons (25-29 years old) living in households in which they are not children of the reference person.

Table 2 (Continued)

Households and families

	Nuptiality and divorces									
	Marriages per inhabitant	Marriages per inhabitant (Spanish)	Marriages per inhabitant (foreigners)	First marriages over total marriages (%)	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages, men (%)	Same sex marriages, women (%)	Mixed marriages (%)	Divorces per inhabitant
2013	0.46	0.49	0.34	84.3	34.3	32.2	1.05	0.91	15.0	0.28
2014	0.49	0.52	0.34	84.3	34.4	32.3	1.03	0.98	13.7	0.29
2015	0.52	0.55	0.34	83.7	34.8	32.7	1.14	1.07	13.1	0.28
2016	0.54	0.58	0.37	83.1	35.1	32.9	1.25	1.22	13.2	0.28
2017	0.55	0.58	0.38	82.4	35.3	33.2	1.34	1.33	14.0	0.29
2018	0.53	0.57	0.36	81.5	35.6	33.4	1.41	1.50	14.2	0.28
2019	0.53	0.57	0.37	80.5	36.0	33.9	1.50	1.59	15.1	0.27
2020	0.28	0.30	0.22	76.6	37.1	34.9	1.66	1.86	17.3	0.23
2021	0.47	0.52	0.30	80.4	36.8	34.6	1.48	1.93	14.8	0.25
2022	0.58	0.63	0.37	81.4	36.7	34.6	1.59	1.89	15.3	0.24
2023	0.55	0.60	0.35	81.5	36.9	35.7	1.84	2.09	16.7	0.22
Sources	IDB	IDB	IDB	IDB	IDB	IDB	MNP	MNP	MNP	IDB

IDB: Indicadores demográficos básicos.

MNP: INE, Movimiento natural de la población.

Marriages per inhabitant: Average number of times an individual would marry in his or her lifetime, if the same age-specific nuptiality intensity were to be maintained as observed in the current year.

Mixed marriage: Marriage of a Spaniard to a foreigner.

Divorces per inhabitant: Average number of times an individual would divorce in his or her lifetime, if the same intensity of divorce by age as observed in the current year were to be maintained.

	Fertility										
	Median age at first child, women	Median age at first child, Spanish women	Median age at first child, foreign women	Total fertility rate	Total fertility rate, Spanish	Total fertility rate, foreigners	Births to single mothers (%)	Births to single mothers, Spanish (%)	Births to single mothers, foreigners (%)	Abortion rate	Abortion by Spanish-born women (%)
2013	30.4	31.0	27.3	1.27	1.23	1.52	40.9	41.0	40.2	11.7	62.2
2014	30.6	31.1	27.5	1.32	1.27	1.61	42.5	43.1	39.7	10.5	63.3
2015	30.7	31.2	27.6	1.33	1.28	1.65	44.5	45.5	39.6	10.4	63.9
2016	30.8	31.3	27.6	1.33	1.28	1.71	45.9	47.0	40.7	10.4	64.5
2017	30.9	31.5	27.6	1.31	1.25	1.70	46.8	48.1	41.1	10.5	64.6
2018	31.0	31.6	27.8	1.26	1.20	1.64	47.3	48.9	41.2	11.1	63.7
2019	31.1	31.7	28.1	1.23	1.17	1.58	48.4	50.1	42.4	11.5	62.6
2020	31.2	31.8	28.3	1.18	1.13	1.45	47.6	50.0	39.3	10.3	64.1
2021	31.5	32.1	28.8	1.18	1.15	1.35	49.3	52.0	39.2	10.7	65.1
2022	31.6	32.2	28.5	1.16	1.12	1.35	50.1	53.1	40.3	11.7	66.7
2023	31.5	32.2	28.5	1.12	1.09	1.28	50.0	52.7	41.5	12.2	63.1
Sources	IDB	IDB	IDB	IDB	IDB	IDB	IDB	IDB	IDB	MS	MS

IDB: Indicadores demográficos básicos.

MS: Ministerio Sanidad.

Total fertility rate: Average number of children a woman would have during her childbearing life if she were to maintain the same age-specific fertility intensity as observed in the current year.

Table 3

Education

	Population 25 years and older with primary education (%)	Population 16 years and older with tertiary education (%)	Population 25-34 with primary education (%)	Population 25-34 with tertiary education (%)	Gross enrolment ratio in pre-primary education, first cycle	Gross enrolment rate in Upper Secondary	Gross enrolment rate in lower vocational training	Gross enrolment rate in upper vocational training	Gross enrolment rate in undergraduate or postgraduate studies	Graduation rate in 4-year university degrees (%)
2013	28.6	28.2	7.6	41.1	31.9	81.3	39.1	37.1	46.5	48.6
2014	26.3	29.0	6.8	41.5	33.0	81.5	41.0	40.6	47.6	50.2
2015	25.2	29.3	7.3	41.0	34.2	80.7	41.5	41.7	47.4	51.8
2016	24.2	29.8	7.2	41.0	35.1	80.2	40.3	41.0	47.4	52.8
2017	23.2	30.4	6.7	42.6	36.7	76.9	38.5	43.6	47.7	53.4
2018	22.3	31.1	6.3	44.3	38.5	74.3	37.8	45.1	47.6	54.8
2019	20.9	32.3	5.8	46.5	39.9	72.5	38.1	44.9	47.1	
2020	19.2	33.4	5.5	47.4	41.3	71.0	38.8	47.3	46.7	
2021	18.4	34.1	5.6	48.5	36.0	70.4	41.1	53.6	47.6	
2022	18.0	34.4	5.6	50.2	42.0	69.5	42.3	54.6	47.3	
2023	17.8	34.9	5.3	52.0	46.0	67.1	42.6	55.4	46.1	
2024	17.0	35.4	5.0	52.6	47.9	65.8	43.4	57.3	45.7	
2025*	16.7	35.8	4.6	52.5						
Sources	LFS	LFS	LFS	LFS	MEFPD and ECP	MEFPD and ECP	MEFPD and ECP	MEFPD and ECP	MU	MU
	Drop-out rate in undergraduate studies (percentage)		Early school leavers from education and training (%)		Public expenditure (%GDP)		Private expenditure (%GDP)		Private expenditure (% total expenditure in education)	
2013	33.9		23.6		4.38		1.42		25.1	
2014	33.2		21.9		4.31		1.41		25.5	
2015	33.2		20.0		4.29		1.37		24.5	
2016	33.2		19.0		4.24		1.35		24.7	
2017	31.7		18.3		4.22		1.31		24.1	
2018	31.4		17.9		4.18		1.34		24.1	
2019			17.3		4.24		1.32		23.7	
2020			16.0		4.89		1.45		24.2	
2021			13.3		4.84		1.29		23.7	
2022			13.9		4.62				22.7	
2023			13.7		4.53				20.4	
2024			13.0							
Sources	MU		MEFPD		MEFPD		OECD		OECD	

* First quarter data.

Note: The LFS data from 2021 onwards are calculated using a new population base.

LFS: Labour Force Survey.

MEFPD: Ministerio de Sanidad.

ECP: Encuesta Continua de Población.

MU: Ministerio de Universidades.

OECD: Organisation for Economic Co-operation and Development.

Gross enrolment ratio in pre-primary education, first cycle: Enrolled in early childhood education as a percentage of the population aged 0 to 2 years.

Gross enrolment rate in Upper Secondary: Upper secondary enrolment as a percentage of the population aged 16 to 17.

Gross enrolment rate in lower vocational training: On-site and distance learning enrolment. Enrolled in Intermediate Level Training Cycles as a percentage of the population aged 16 to 17.

Gross enrolment rate in upper vocational training: On-site and distance learning enrolment. Enrolled in Higher Level Training Cycles as a percentage of the population aged 18 to 19.

Gross enrolment rate in undergraduate or postgraduate studies: Enrolled in official Bachelor's or Master's degrees as a percentage of the population aged 18 to 24.

Graduation rate in 4-year university degrees (%): Percentage of students who complete the degree in the theoretical time foreseen or in one additional academic year.

Drop-out rate in undergraduate studies (percentage): New entrants in an academic year who stop studying in one of the following 3 years.

Early school leavers from education and training (%): Percentage of the population aged 18-24 who have not completed upper secondary education and are not in any form of education and training.

Table 4

Inequality and poverty

	Gini index of equivalised disposable income	At-risk-of-poverty rate (%)	At-risk-of-poverty rate, 2008 fixed threshold (%)	Severe material deprivation (%)
2013	34.7	22.2	30.9	6.2
2014	34.6	22.1	29.9	7.1
2015	34.5	22.3	29.2	6.4
2016	34.1	21.6	26.5	5.8
2017	33.2	21.5	25.5	5.1
2018	33.0	20.7	24.9	5.4
2019	32.1	21.0	21.8	4.7
2020	33.0	21.7	22.8	7.0
2021	32.0	20.4	20.5	7.3
2022	31.5	20.2	20.1	8.1
2023	31.2	19.7	18.7	8.9
2024				8.4
Sources	ECV	ECV	ECV	ECV

ECV: Encuesta de Condiciones de Vida.

Gini index of equivalised disposable income: The extent to which the distribution of equivalised disposable income (net income divided by unit of consumption; modified OECD scale) deviates from a distribution of perfect equity (all individuals obtain the same income).

At-risk-of-poverty rate (%): Population below the poverty line. Poverty threshold: 60% of median equivalised disposable income (annual net income per unit of consumption; modified OECD scale) in each year.

At-risk-of-poverty rate, 2008 fixed threshold (%): Population below the poverty line. Poverty threshold: 60% of median equivalised disposable income (annual net income per unit of consumption; modified OECD scale). In this case, the threshold used is always that of 2008.

Severe material deprivation (%): People with material deprivation in at least 4 items (Europe 2020 strategy).

Table 5

Social protection: Benefits

	Contributory benefits									Non-contributory benefits		
	Public expenditure on minimum income benefits (% GDP)	Expenditure on social protection, cash benefits (% GDP)	Permanent disability, pensions	Permanent disability, average amount (€)	Retirement, pensions	Retirement, average amount (€)	Widowhood, pensions	Widowhood, average amount (€)	Unemployment	Unemployment	Disability	Retirement
2013	0.15	18.2	935,220	908	5,451,465	979	2,336,240	618			195,478	250,815
2014	0.15	17.8	929,484	916	5,558,964	1,000	2,348,388	624			197,303	252,328
2015	0.16	17.0	931,668	923	5,641,908	1,021	2,353,257	631	838,392	1,102,529	198,891	253,838
2016	0.14	16.9	938,344	930	5,731,952	1,043	2,358,666	638	763,697	997,192	199,762	254,741
2017	0.14	16.6	947,130	936	5,826,123	1,063	2,360,395	646	726,575	902,193	199,120	256,187
2018	0.14	16.8	951,838	946	5,929,471	1,091	2,359,931	664	751,172	853,437	196,375	256,842
2019	0.14	17.3	957,500	975	6,038,326	1,138	2,361,620	712	807,614	912,384	193,122	259,570
2020	0.21	21.9	952,704	985	6,094,447	1,162	2,352,680	725	1,828,489	1,017,429	188,670	261,325
2021	0.33	20.1	949,765	994	6,165,349	1,190	2,353,987	740	922,856	969,412	184,378	262,177
2022	0.36	18.4	951,067	1,035	6,253,797	1,254	2,351,703	778	773,227	882,585	179,967	265,831
2023		18.5	945,963	1,119	6,367,671	1,375	2,351,851	852	801,091	875,969	175,792	272,188
2024			965,412	1,163	6,484,984	1,443	2,351,531	896	840,127	858,594	171,353	282,403
2025*			1,006,570	1,206	6,566,320	1,501	2,348,494	933	905,948	755,712	169,397	288,662
Sources	MTES	Eurostat	MTES	MTES	MTES	MTES	MTES	MTES	MTES	MTES	MTES	MTES

MTES: Ministerio de Trabajo y Economía Social.

* January-April data, but for unemployment benefits (January-March).

Expenditure on social protection, cash benefits (% GDP): Includes benefits for: sickness or disability, old age, survivors, family and children, unemployment, housing, social exclusion and other expenses.

Public expenditure on minimum income benefits (% GDP): Minimum insertion wage and migrants' allowances and other benefits. Since 2020 it includes "IMV" minimum income benefits.

Table 6

Health

	Public expenditure (% GDP)	Private expenditure (% GDP)	Private expenditure (% total expenditure)	Primary care doctors per 1,000 people assigned	Primary care nurses per 1,000 people assigned	Medical specialists per 1,000 inhabitants	Specialist nurses per 1,000 inhabitants	Patients waiting for a first consultation in specialised care per 1,000 inhabitants*	Average waiting time for a first consultation specialised care (days)*	Patients waiting for a non-urgent surgical intervention per 1,000 inhabitants*	Average waiting time for non-urgent surgery (days)*
2013	6.2	2.6	29.0	0.76	0.65	1.78	3.04	39.0	67	12.3	98.0
2014	6.1	2.7	29.7	0.76	0.65	1.81	3.14	39.4	65	11.4	87.0
2015	6.1	2.6	28.7	0.76	0.64	1.85	3.19	43.4	58	12.2	89.0
2016	6.0	2.5	28.4	0.76	0.65	1.90	3.27	45.7	72	13.7	115.0
2017	5.9	2.6	29.5	0.77	0.65	1.93	3.38	45.9	66	13.1	106.1
2018	6.0	2.7	29.8	0.77	0.66	1.98	3.45	62.5	96	14.8	129.0
2019	6.1	2.7	29.5	0.78	0.67	1.97	3.50	63.7	88	15.5	121.5
2020	7.6	2.9	26.8	0.78	0.66	2.02	3.74	53.6	99	15.1	147.8
2021	7.2	2.7	26.3	0.77	0.66	2.11	3.90	77.2	89	15.4	122.9
2022	6.8	2.5	26.0	0.78	0.70	2.14	3.87	85.4	95	17.1	120.1
2023	6.6	2.4	25.7	0.78	0.73	2.15	3.87	81.5	101	18.1	128
2024								83.8	94	17.9	121
Sources	Eurostat	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

* Only in the public health system.

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Notes

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