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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

*China and the stockpiling of commodities:
strategy or growth?*

INTERNATIONAL ECONOMY

*Measuring Trump 2.0's fiscal room
for manoeuvre*

SPANISH ECONOMY

*2025 Treasury strategy in a context
of reduction of Spain's public deficit*

*New forecasts for the Spanish real estate
sector: the expansionary cycle takes hold
in 2025*

Employment stability improves in Spain

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

February 2025

The *Monthly Report* is a publication developed jointly by CaixaBank Research and BPI Research (UEEF)

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Trump agenda: a question of balance

Trump's first weeks in the White House have brought a *totum revolutum* of measures. Their implications, however, are difficult to quantify in economic and financial terms, as in some cases economic policy instruments (tariffs) are being used as a foreign policy tool, which makes it difficult to anticipate what final objective is being pursued and how the economic variables will react. Faced with the challenge of filtering out all the noise, the financial markets are remaining cautious, anticipating that there will be no major changes in the growth trends in the short term (deregulation and tax cuts will offset the tariffs and the impact of immigration restrictions on the labour market) and that the price to be paid in terms of inflation will be moderate. This means relying on the stabilising role of the markets themselves («bond vigilantes») and on the counterweight of the Fed, as well as on the flexibility of global supply to adapt to the new restrictions that will appear along the way. The paradox is that the changes are being led precisely by the country that has had one of the best post-pandemic economic performances, thanks to a more appropriate combination of economic policies (fiscal, monetary and industrial) than in other regions, as well as due to the positive effect of immigration on the labour market. The «new» view of trade as a zero-sum game could widen global economic and monetary divergences and unbalance the orderly landing in which the global business cycle has been immersed following the shocks of recent years.

Therefore, the main threat to the economic scenarios in the coming months is a new supply shock, this time caused by the start of a trade war, the intensity of which we cannot currently predict. What we have on the table right now is a 25-bp increase («frozen» for a month) in the tariff on US imports from Mexico and Canada, plus an additional 10 pps, already in effect, on products originating in China. The Asian country has responded in a measured manner, with a tariff of 10%-15% on energy products and vehicles, among other measures (restrictions on the trade of rare earths, etc.). In the context of the US' negotiation strategy, logic would suggest that the tariffs imposed on Mexico and Canada are a maximum rate that can be reduced, while the contrary is true in the case of China. As we await news of the measures to be imposed on Europe and the rest of the world, if we assume that the average US tariff will rise from the current level of 2.4% to 10% (which would mark the highest they have been in over six decades), then the effect on growth would be less than 0.5 pps for the EU (five or six times more for Canada and Mexico).

Nevertheless, there remains significant uncertainty over how the tariffs will impact economic activity. After all, we must consider changes in the exchange rate, consumers' willingness to pay more for certain products, the possibility that trade could be diverted to other geographical areas, the effects on the expectations of economic operators and, most importantly, the adoption of equivalent measures by the countries concerned. Moreover, all this is without considering the consequences of dismantling value chains as efficient as those that exist between the US, Canada and Mexico. Fewer doubts are raised about the effects on inflation, which will be clearly negative in the US and very diluted in Europe, due to the weakness of the business cycle and the global oversupply that can find an outlet in European markets. This would lead to a widening of the interest rate spread on either side of the Atlantic and the possibility of a break of parity in the dollar/euro exchange rate. Indeed, it is precisely the behaviour of the dollar and of long-term interest rates in the US that could moderate the temptation to overreact on the part of the US authorities. We must also not forget the elephant in the room, which is fiscal policy, of which little has been said so far besides a few spending cuts in federal agencies such as the one dedicated to deploying development aid. This once again highlights that the weakest link in the chain in the process of transforming the global economy will be low-income countries.

In short, we are witnessing an acceleration of the reconfiguration of the world economic order that was already underway before the pandemic and, in that transition process, we will see winners and losers. In macroeconomic terms, this adjustment process could be orderly, but it is not easy to switch from the old balances to the new ones without encountering some bumps along the road, especially when words such as cooperation, coordination or multilateralism seem disused. Perhaps it is excessive to state, like Martin Wolf, that the tariff hike will change the world, because announcements like the advances in AI achieved by DeepSeek (precisely stimulated by export restrictions) have a transformative potential that far exceeds something as old as mercantilism, but it is at least a sign of which way the winds will blow in the short term. All in all, the time has come to navigate an environment that is undergoing a transformation, subjected to much more numerous shocks, while advances in AI are spreading across the economy, enabling a jump in productivity. The key is that the adjustment must occur quickly and in a balanced way.

José Ramón Díez
February 2025

Chronology

JANUARY 2025

- 10 The EU's Copernicus programme reports that 2024 was the warmest year on record and the first to exceed the threshold of 1.5°C above the pre-industrial average.
- 30 The ECB cuts interest rates by 25 bps and lowers the depot rate to 2.75%.

NOVEMBER 2024

- 7 The Fed cuts interest rates by 25 bps, placing them in the 4.50%-4.75% range.
The BoE cuts interest rates by 25 bps to 4.75%.

SEPTEMBER 2024

- 12 The ECB cut interest rates 25 bps, placing the depo rate at 3.50% and the refi rate at 3.65%.
- 18 The Fed cut interest rates 50 bps, placing them in the 4.75%-5.00% range, having raised them 500 bps since March 2022.

DECEMBER 2024

- 12 The ECB cuts interest rates by 25 bps and leaves the depo rate at 3.00%.
- 18 The Fed cuts interest rates by 25 bps, placing them in the 4.25%-4.50% range.

OCTOBER 2024

- 17 The ECB cut interest rates by 25 bps and lowered the depo rate to 3.25%.

AUGUST 2024

- 1-5 Strong turbulence in the financial markets triggered by the Bank of Japan's decision and worse-than-expected employment data for July in the US.
- 12 OPEC revises its forecasts for global oil demand in 2024 and 2025 slightly downwards, mainly due to slowing consumption in China.
- 23 The Fed will begin cutting interest rates in September, according to Powell's speech in Jackson Hole.

Agenda

FEBRUARY 2025

- 3 Euro area: CPI flash estimate (January).
- 4 Spain: registration with Social Security and registered unemployment (January).
- 5 Portugal: employment and unemployment (Q4).
- 7 Spain: industrial production (December).
- 10 Portugal: international trade (December).
- 14 Portugal: average gross monthly wage per worker (Q4).
- 17 Japan: GDP (Q4).
Spain: foreign trade (December).
- 18 Portugal: industrial price index (January).
- 24 Spain: loans, deposits and NPL ratio (December).
- 27 Spain: CPI flash estimate (February).
Euro area: economic sentiment index (January).
- 28 Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).
Portugal: CPI flash estimate (February).

MARCH 2025

- 3 Euro area: CPI flash estimate (February).
- 4 Spain: registration with Social Security and registered unemployment (February).
- 6 Governing Council of the European Central Bank meeting.
- 14 Spain: S&P rating.
Portugal: Fitch rating.
- 17 Spain: quarterly labour cost survey (Q4).
- 18-19 Federal Open Market Committee meeting.
- 20-21 European Council meeting.
- 21 Portugal: house prices (Q4).
- 25 Spain: loans, deposits and NPL ratio (Q4).
- 26 Spain: GDP flash estimate (Q4).
Portugal: GDP breakdown (Q4).
- 27 Portugal: NPL ratio (Q4).
- 28 Spain: CPI flash estimate (March).
Spain: Moody's rating.
Euro area: economic sentiment index (March).
- 31 Portugal: CPI flash estimate (March).
Portugal: industrial production (February).
Portugal: employment and unemployment (February).

2024: a year to remember

The Spanish economy has closed a year to remember, with some extraordinary figures. Extraordinary, because they have far surpassed expectations. And extraordinary, because they have occurred in a context that has not been particularly favourable. In fact, the context has been quite adverse in several regards. But surely the most important thing is that, beyond the big macroeconomic figures, the strength of the Spanish economy, and of the labour market in particular, is helping to improve the situation of households, even though there are still many groups that find themselves in difficulties.

Forecasts for a year ahead rarely hit the mark to the decimal point. In the last 15 years, the average growth forecasts of the major research centres have only achieved it once. CaixaBank Research's forecasts have only hit the bullseye twice. Generally speaking, the world of economic prophets is populated by pessimistic or conservative people. It is preferable for things to go better than expected than for us to be caught off guard. Thus, 63% of the time, economic growth ends up being higher than predicted. However, in most cases, the deviations are relatively small, averaging 0.6 pps. They rarely exceed one percentage point. In contrast, in the last two years economic growth has been almost 2 pps higher than expected: 1.7 points in 2023 and 1.9 points in 2024. Normally, when there are positive surprises in Spain, they also occur in Europe with a similar magnitude. But that has not been the case this time. As expected, the economic situation in Europe has remained relatively weak, which makes the surprise of the Spanish economy all the more remarkable.

In part, the buoyancy of the Spanish economy has been the result of higher than expected population growth. This has boosted economic activity and job creation. Foreigners account for 43% of the increase in social security affiliates. This also boosted household consumption, which contributed around half of last year's GDP growth. Public consumption was also higher than expected. The higher growth of the economy and, with it, of government revenues allowed for greater public spending, without any significant deviation anticipated in the public deficit. Then again, this also means that the opportunity provided by the favourable economic situation to accelerate the cleansing of the public accounts has been missed. Finally, the other cornerstone of the growth was foreign demand, and service exports in particular. During the early part of the year, exports

of non-tourism services led the charge, consolidating their position as the primary component of service exports and accounting for 7.4% of GDP. Exports of tourism services, meanwhile, also remained surprisingly buoyant and they now account for 5.4% of GDP.

Beyond the main factors that drove the growth of the Spanish economy, there are two elements which were less prominent last year, but which may be key going forward. The first is the recovery of investment, which appears to have got underway in the closing stages of 2024. Prior to that, investment had remained relatively weak, held back by the rise in interest rates in recent years. In Q4, investment increased by a notable 3.4%, driven by investment in capital goods. The reduction in interest rates, which looks set to continue this year, coupled with the execution of NGEU funds should help the recovery of investment to be consolidated, making it one of the cornerstones of Spain's economic growth this year, although uncertainty could act as a hurdle.

The other element that stands out is the pace of productivity growth, which accelerated significantly in 2024. Specifically, GDP growth per hour worked reached 1.3% for the year as a whole, compared to 0.7% in 2023 and 0.6% on average in the last 10 years. If the Spanish economy is to maintain a dynamic and sustainable growth rate, without depending on demographic swings, and one which translates into improvements in the economic well-being of the population as a whole, it is key that productivity growth is consolidated at levels similar to last year. Moreover, in an international context that is becoming increasingly uncertain, this would also help to make the Spanish economy more resilient.

Oriol Aspachs

Average for the last month in the period, unless otherwise specified

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.00	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.07	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.10	3.15
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.35	3.38
10-year government bonds	4.69	2.57	1.76	4.01	4.40	3.80	3.90
Euro							
ECB depo	2.05	0.20	-0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	-	-0.54	-0.38	3.90	3.06	2.01	2.01
1-month Euribor	3.18	0.50	-0.32	3.86	2.89	2.04	2.04
3-month Euribor	3.24	0.65	-0.21	3.94	2.83	2.06	2.07
6-month Euribor	3.29	0.78	-0.07	3.93	2.63	2.12	2.12
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.18	2.16
Germany							
2-year government bonds	3.41	0.35	-0.21	2.55	2.02	2.05	2.00
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.00	2.15
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.32	2.39
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.41	2.53
10-year government bonds	4.42	3.17	0.99	3.09	2.90	2.80	2.95
Risk premium	11	164	85	98	68	80	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.53	2.63
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.56	2.71
10-year government bonds	4.49	4.67	0.96	2.74	2.68	2.75	2.95
Risk premium	19	314	82	63	46	75	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.00	1.04
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.86	0.83
EUR/JPY (yen per euro)	129.56	126.41	129.91	156.99	161.18	158.00	154.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	71.0	77.3	73.1	73.5	69.2
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.9	73.5	66.5

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH							
Global	4.4	3.3	2.4	3.3	3.2	3.1	3.2
Developed countries	2.7	1.5	1.5	1.7	1.8	1.7	1.8
United States	2.7	1.8	2.1	2.9	2.8	1.9	1.8
Euro area	2.3	0.8	1.2	0.5	0.7	1.3	1.8
Germany	1.6	1.3	0.2	-0.1	-0.2	0.7	1.5
France	2.3	1.0	0.6	1.1	1.1	1.2	1.6
Italy	1.5	-0.3	1.5	0.8	0.5	1.0	1.5
Portugal	1.5	0.4	1.5	2.5	1.9	2.3	2.2
Spain	3.6	0.7	0.6	2.7	3.2	2.3	2.1
Japan	1.4	0.4	-0.2	1.9	0.8	1.0	1.0
United Kingdom	2.7	1.2	0.9	0.1	1.1	1.0	1.3
Emerging and developing countries	6.4	4.9	3.1	4.4	4.1	4.0	4.1
China	10.6	8.0	4.5	5.3	5.0	4.0	3.9
India	7.2	6.7	3.6	7.7	6.6	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	2.5	2.0	1.8
Mexico	2.3	1.5	0.5	3.3	1.5	1.0	1.4
Russia	-	1.4	0.7	3.7	3.7	1.7	1.3
Türkiye	5.5	4.5	6.3	5.1	2.9	2.1	2.9
Poland	4.2	3.7	3.6	0.1	2.9	3.6	3.3
INFLATION							
Global	4.2	3.7	5.6	6.8	5.8	4.5	3.8
Developed countries	2.1	1.6	3.7	4.6	2.6	2.2	2.1
United States	2.8	1.8	4.6	4.1	3.0	2.0	2.0
Euro area	2.2	1.4	3.7	5.4	2.4	2.2	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.2	2.0
France	1.9	1.3	2.8	5.7	2.3	2.0	1.9
Italy	2.4	1.4	3.5	5.9	1.1	2.0	1.8
Portugal	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Spain	3.2	1.3	3.7	3.5	2.8	2.5	2.2
Japan	-0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	2.3	2.1
Emerging and developing countries	6.7	5.5	7.0	8.3	7.9	5.9	4.7
China	1.7	2.6	1.8	0.2	0.2	1.4	1.4
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	4.6	3.4

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	2.8	2.5	2.3
Government consumption	4.5	0.9	2.6	5.2	4.9	1.6	1.2
Gross fixed capital formation	5.7	-1.2	-1.0	2.1	2.3	3.4	3.0
Capital goods	4.9	0.2	-2.5	1.1	2.3	4.3	3.3
Construction	5.7	-2.6	-1.9	3.0	2.6	3.0	2.8
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.7	1.7	2.8	2.4	2.1
Exports of goods and services	4.7	2.9	2.5	2.8	2.9	2.3	2.1
Imports of goods and services	7.0	0.2	2.5	0.3	2.0	2.8	2.3
Gross domestic product	3.6	0.7	0.6	2.7	3.2	2.3	2.1
Other variables							
Employment	3.2	-0.5	1.4	3.2	2.4	2.1	1.8
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	11.2	10.8
Consumer price index	3.2	1.3	3.7	3.5	2.8	2.5	2.2
Unit labour costs	3.1	0.6	3.6	6.1	4.0	3.3	2.4
Current account balance (% GDP)	-5.8	-0.2	0.6	2.7	3.1	3.1	3.2
External funding capacity/needs (% GDP)	-5.1	0.2	1.3	3.6	4.1	4.1	4.2
Fiscal balance (% GDP) ¹	0.3	-6.5	-7.1	-3.5	-3.0	-2.6	-2.3

Note: 1. Excludes losses for assistance provided to financial institutions.

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	1.7	0.5	1.2	2.0	2.2	1.7	2.2
Government consumption	2.2	-0.3	2.0	0.6	1.0	0.8	0.8
Gross fixed capital formation	-0.4	-0.7	2.9	3.6	1.3	5.7	5.9
Capital goods	3.4	3.0	5.8	5.7	-	-	-
Construction	-1.3	-2.4	2.6	1.3	-	-	-
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	1.7	1.8	2.3	2.7
Exports of goods and services	5.3	4.0	3.6	3.5	4.2	5.0	5.2
Imports of goods and services	3.6	2.7	4.0	1.7	4.6	5.0	6.3
Gross domestic product	1.5	0.4	1.5	2.5	1.9	2.3	2.2
Other variables							
Employment	0.4	-0.4	1.1	2.3	0.9	1.3	1.5
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.4	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Current account balance (% GDP)	-9.2	-2.9	-1.0	1.4	1.2	1.4	1.4
External funding capacity/needs (% GDP)	-7.7	-1.6	0.2	2.7	2.8	3.1	3.2
Fiscal balance (% GDP)	-4.5	-5.1	-3.0	1.2	0.5	0.3	0.2

Forecasts

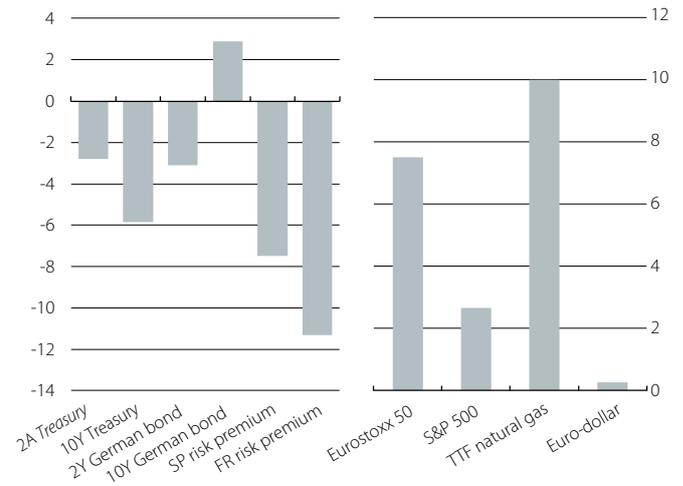
Ups and downs in the financial markets

A month of ups and downs in almost every corner of the market. 2025 began with a month of contrasts: on the one hand, the central banks acted in line with expectations (the ECB cut rates by 25 bps, with no changes by the Fed) and gave stability to the market. In other assets, however, several factors stirred up the market: sovereign debt and currencies suffered fluctuations both due to the gradual disinflation in the euro area and the US and as a result of the first economic policy moves of the Trump administration. In equities, China's advances in artificial intelligence with DeepSeek caused sharp price corrections for tech companies throughout the West, although in many cases they did not last. In the commodities market, meanwhile, European natural gas and precious metal prices surged. With all this, the beginning of the year exemplifies how political and geo-economic risks can continue to steer the market.

Monetary policy meets expectations in January. In particular, the ECB placed the depo rate at 2.75%, with the fifth 25-bp cut since last June. Although interest rates remain in restrictive territory, Lagarde appeared confident that they will continue to fall. Money market implicit rates point to a further cut of 25 bps in March and anticipate that the depo rate will stabilise between 1.75% and 2.00% in the second half of 2025. For its part, the Fed kept rates unchanged (fed funds rate in the 4.25%-4.50% range) and Powell indicated that they were not in a hurry to lower rates and preferred to wait to assess the impact of Trump's economic measures. With this, money market implicit rates are anticipating that the Fed will lower rates to around 4.00% towards the end of 2025, which would entail between one and two cuts of 25 bps in the year as a whole. The Bank of Japan, on the other hand, raised rates by 25 bps (the benchmark rate now stands at 0.50%) and revised its inflation forecasts upwards. In addition, in recent weeks, several bank officials have shown a willingness to continue to raise rates in light of the prospect that inflation could leave behind the weakness of recent decades more permanently.

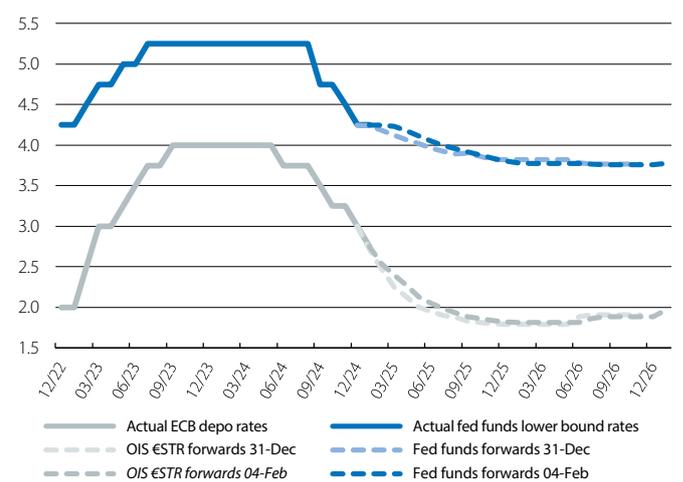
Sovereign debt seeks direction. Sovereign rates began the year prolonging the rebound which they began in December, especially in the long sections of the curve, in the face of greater future economic uncertainty. This trend reversed mid-month, following the publication of better-than-expected core inflation data in the US, and lasted up until the last week, when the protectionist rhetoric of the Trump administration intensified. The announcements regarding US tariffs resulted in a reduction of sovereign interest rates in both the US and the euro area. Moreover, there was a tightening of the periphery's sovereign risk premiums, with that of France performing somewhat better (after Ecofin endorsed the Commission's fiscal recommendations). In this context,

Monthly performance of the main financial assets (p. b.) (%)



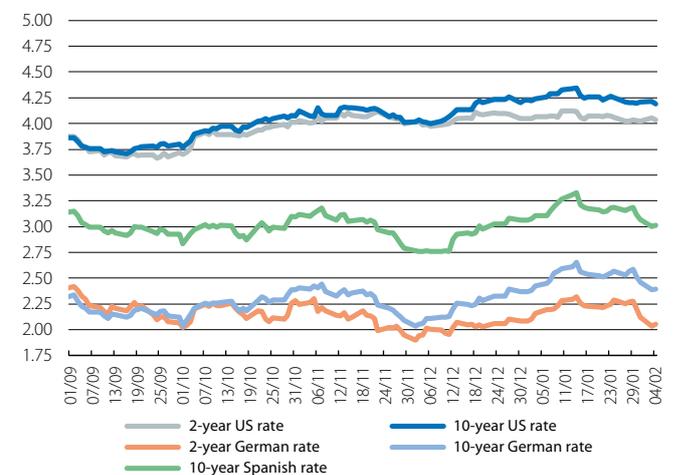
Source: CaixaBank Research, based on data from Bloomberg.

Market expectations regarding intervention rates (%)



Source: CaixaBank Research, based on data from Bloomberg.

Evolution of sovereign interest rates (%)



Source: CaixaBank Research, based on data from Bloomberg.

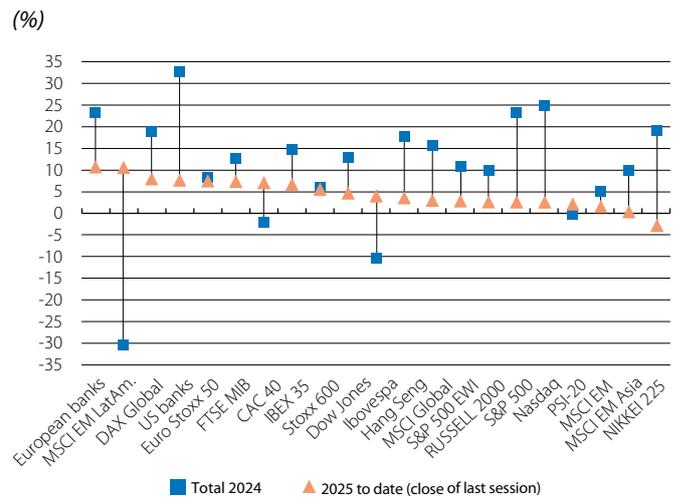
Japanese sovereign rates picked up following the hikes by the central bank, while British debt – for which the 10-year benchmark reached its highest level since 2008 – recorded setbacks in the month, which were more intense in the short sections of the curve due to the lack of buoyancy in the economic data and the moderation of core inflation.

Stock markets in developed economies posted a month of widespread gains despite DeepSeek. European indices led the gains, with Germany’s DAX, France’s CAC and Spain’s IBEX at the helm. However, the market gains were not linear and the final stretch of the month was marked by widespread and significant setbacks in the tech sector throughout the West following the launch of DeepSeek, which weighed down the general indices given the sector’s large capitalisation. These falls, however, moderated in most companies once investors recalibrated the impact of this innovation on future profits. Emerging stocks in Latin America also posted gains, especially the Brazilian stock market, with a more positive perspective among investors regarding the country’s fiscal outlook since the announcement of government spending cuts in late 2024.

Volatility increases among currencies, an asset class particularly exposed to the protectionist escalation. The dollar closed the month practically flat, albeit not without movements, in line with the performance of sovereign rates and for similar reasons. The euro also followed a specular pattern to that of the dollar, fluctuating with the perceived risk of the US imposing tariffs on the EU. The yen, meanwhile, clearly appreciated against the dollar, backed up expectations of rate hikes by the Bank of Japan. Among emerging currencies, most notable was the appreciation of the Brazilian real, in a context of recovery of Brazil’s various financial asset classes. On the other hand, the Mexican peso and the Canadian dollar, which followed a very similar pattern during the month, depreciated (especially the peso) following the announcement of tariffs by Trump, and despite the fact that these were finally put on hold.

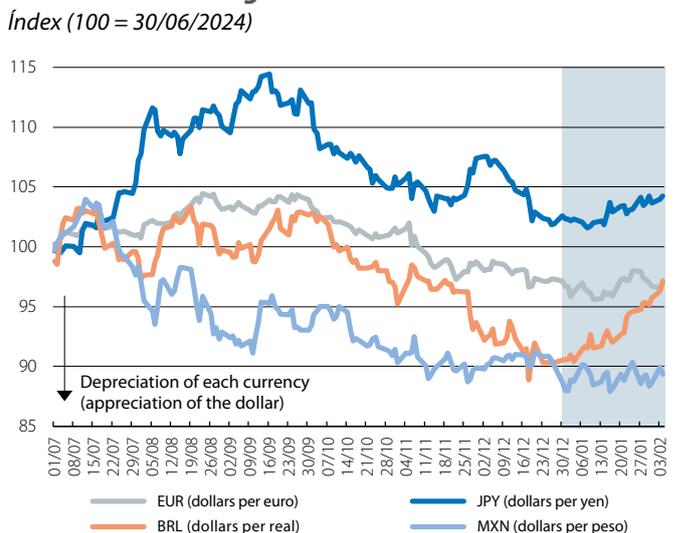
Widespread rally in commodity prices. In an environment of rising prices, the increase in that of natural gas in Europe stood out: the Dutch TTF exceeded 50 euros/MWh, reaching its highest levels since 2023. This increase was driven by European reserves declining faster than in previous years (although they remain at high levels) and a context in which Russian gas is no longer flowing through Ukraine since the beginning of the year. Oil closed the month slightly up, while precious metals made notable advances, favoured by their role as a safe-haven asset in an environment of greater uncertainty surrounding trade. Finally, agricultural commodities also recorded price increases, driven up by the supply risk posed by dry weather in several Latin American producing countries.

Performance of stock market indices



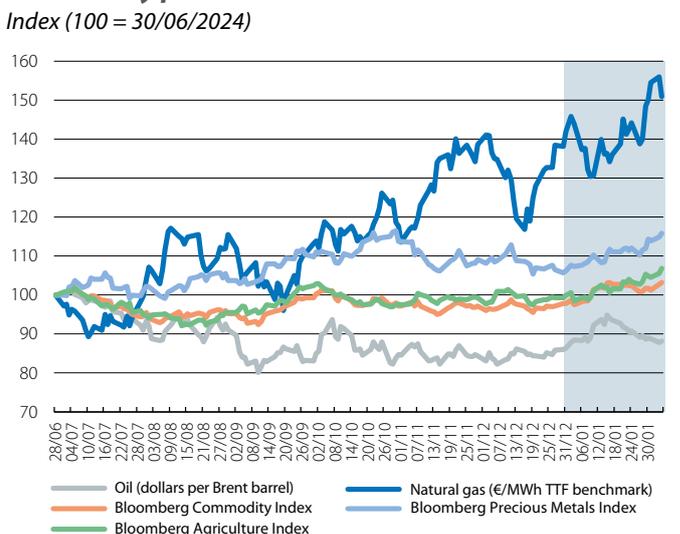
Source: CaixaBank Research, based on data from Bloomberg.

Select currencies against the dollar



Source: CaixaBank Research, based on data from Bloomberg.

Commodity prices



Source: CaixaBank Research, based on data from Bloomberg.

China and the stockpiling of commodities: strategy or growth?

China is the world’s largest consumer of commodities, consuming 40% of the world’s total and, consequently, it is a key player in the global demand for these products. The country is rich in some resources, mostly minerals, such as coal and some of the so-called critical minerals,¹ but it lacks others, such as copper and nickel. Moreover, China is home to one fifth of the world’s population, but arable land on its territory accounts for less than 10% of the world’s total and its hydrographic resources are limited. These circumstances mean that many of the commodities that China consumes are imported, especially by sea, in most cases crossing geographical choke points such as the Malacca Strait.

As a reference to understand this dependence on the outside world for its consumption of commodities, it is estimated that China imports 70% of the oil it consumes and 40% of its natural gas,² as well as 80% of its demand for copper, 65% for aluminium and up to 94% in the case of nickel. This percentage is around 100% in the case of agricultural products derived from water-intensive crops.³

Despite playing a leading role in the commodity market, its lack of capacity to meet its own demand and its dependence on imports from other countries is a major source of risk for China.

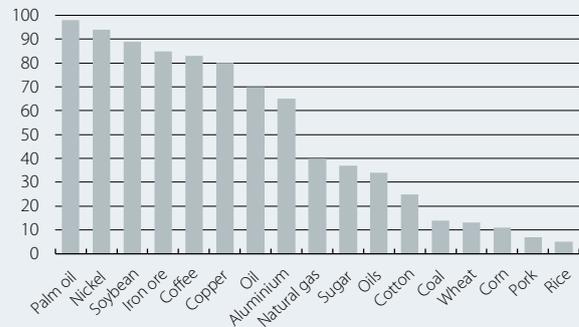
The accumulation of reserves, a long-term plan

In the 1980s, the Chinese authorities, aware of this source of risk, began to develop a long-term strategy that would allow them to safeguard the country’s national security and stabilise domestic markets in the event of any disruption in the global commodity market. Through the control of mines,⁴ of the trade in commodities,⁵ of the investment and financing of foreign production companies and through the signing of long-term contracts with energy and mineral suppliers, the Chinese government has been able to supply its productive structure. Simultaneously, since 2008 it has promoted

1. These are the minerals and metals needed to generate renewable energy, produce clean technologies and facilitate the transition to a more sustainable energy scenario. Their geopolitical relevance has intensified with the energy transition. Among others, there has been a rise in the demand for lithium, nickel, cobalt, graphite, manganese and rare earths.
 2. According to data from J.P. Morgan Global Commodities Research, «Supply insecure, China’s imports of commodities at all-time highs and likely to stay that way», July 2024.
 3. China leads the global production of wheat and rice, but its food self-sufficiency ratio has decreased from 93.6% in 2006 to 65.8% in 2020 and it is expected to drop to 58.8% by 2030. K. Dong and M. Prytherch (2024), «China’s Food Security: Key Challenges and Emerging Policy Responses», Center for Strategic and International Studies, March 2024.
 4. See Information Office of the State Council of the People’s Republic of China (2003). «China’s Policy on Mineral Resources».
 5. See National Development and Reform Commission (2013). «Belt and Road Initiative».

China: dependence on imports by product category

(% of commodity imports relative to Chinese final demand for natural resources)



Source: CaixaBank Research, based on data from JP Morgan.

China: volume of commodity imports *

(Millions of metric tonnes) **



Notes: * Aggregate volumes of imports of crude oil and derivatives, coal, coke, copper, aluminium, iron ore, nickel, steel, wheat, palm oil, soybean, oils and rice.
 ** Three-month moving average.

Source: CaixaBank Research, based on data from Bloomberg.

the growth of a huge fund of strategic reserves of natural resources. These reserves act as a buffer in times of supply interruptions or price volatility, and the Chinese government can strategically release or store these products to influence dynamics in the domestic market and avoid extreme price fluctuations.

The precise volume of reserves in the fund is unknown, as is the rate at which the government expects to gather commodities. Nevertheless, by monitoring China’s imports of these products, we can see how there have been significant increases in recent years, largely driven by events affecting its economy. In 2018, during his first term, Trump imposed tariffs on Chinese exports worth 60 billion dollars a year, prompting China to respond with tariffs on US soybeans. In 2020, the COVID-19 pandemic disrupted supply chains and raised the cost of commodities. Then, in 2022, the war in Ukraine drove up prices even more and showed the US’ willingness to make use of embargoes.

In 2023, the value of China's commodity imports reached an all-time high of 810 billion dollars (16% higher than the previous year), of which around 45% corresponded to purchases of crude oil and derivatives and just over 30% to industrial metals. In addition, the data for 2024 indicate that between January and November the value of imports of the main commodities continued to grow and was 1.5% higher than in the same period last year.

Another indicator that can shed some light on China's strategy of stockpiling commodities is the level of accumulated stocks. Information on China's emergency stocks is strictly guarded by the government, making it difficult to estimate their levels. However, in the last five-year plan (2021-2025), the government showed its willingness to intensify the expansion of the country's storage capacity as a way to increase import flows of energy and food. In the case of energy, it is estimated that the current storage capacity of crude oil is around 2 billion barrels, equivalent to almost six months of consumption, while that of the US is around 2.4 billion. For natural gas, the storage capacity could reach 85 billion cubic metres by 2030 (representing 16% of annual demand), compared to 130 billion cubic metres in the US (enough to supply 15% of the country's demand). Also, in this regard, the Shanghai Futures Exchange tracks inventory levels of a number of metals and energy materials⁶ deposited in stores throughout the country. Between January and November 2024, all the indicators showed an increase in excess of 100% (with the exception of zinc, which registered an increase of 84%), having reached the maximum levels of accumulation between June and July, depending on the product.

Could China be preparing for a more hostile future?

Certainly, the observed increase in commodity stocks could be related to the weakness of economic activity in the Chinese economy, which leads to lower consumption of these products. However, if we consider the international context that is beginning to emerge in 2025, we can find various arguments that would justify the intensification of China's commodity stockpiling activities. Firstly, despite the government's recent economic policies, China could be preparing for a more stable growth cycle in the medium term, and it would like to disengage from Western supplies. Secondly, China could be expanding its storage infrastructure⁷ and bringing its commodity purchases forward in anticipation of Trump's announced tariffs beginning in February. Another explanation could be that China is preparing for new geopolitical threats. In this regard, the influence of the US over the Strait of Malacca is a

crucial aspect for China, since two thirds of the goods that pass through its waters go to China. Finally, the US Security Commission points to the possibility that the accumulation of metals and minerals could be related to a potential Chinese incursion into Taiwan.⁸ Some financial analysts relate this argument to China's increased purchases of gold (gold stocks appear to have increased by more than 400% between April and December 2024) and to the reduction of its holdings of US debt (-6.9% between January and November) as a possible means of protecting itself against any Western sanctions on the country's dollar accounts.

Given that these factors will remain present in 2025, we can expect the Chinese government to maintain the pace at which it is accumulating commodity reserves, or even to increase it in the face of stress in some of them. If this were to happen, we believe it would most likely lead to greater upward pressure on commodity prices, as a result of the increased demand from China and the increased allocation of risk premiums in the financial markets.

Beatriz Villafranca

6. Copper, aluminium, zinc, lead, nickel, tin, gold, silver, steel and crude oil, among others.

7. In China, strategic reserve stores include private tanks, silos and warehouses that the state has access to in times of crisis.

8. See [U.S.- China Economic and Security Review Commission, Gregory Wischer Testimony](#).

Interest rates (%)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.90	3.15	-25	-25.0	-160.0
3-month Euribor	2.59	2.71	-13	-12.5	-130.6
1-year Euribor	2.52	2.46	6	5.9	-113.7
1-year government bonds (Germany)	2.14	2.24	-10	-10.4	-118.1
2-year government bonds (Germany)	2.12	2.08	4	3.7	-51.1
10-year government bonds (Germany)	2.46	2.37	9	9.3	14.4
10-year government bonds (Spain)	3.07	3.06	1	0.7	-17.1
10-year government bonds (Portugal)	2.88	2.85	3	3.0	-25.0
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	-100.0
3-month SOFR	4.30	4.31	0	-0.3	-101.2
1-year government bonds	4.15	4.14	1	0.6	-65.8
2-year government bonds	4.20	4.24	-4	-4.5	-23.2
10-year government bonds	4.54	4.57	-3	-3.0	41.8

Spreads corporate bonds (bps)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	53	58	-5	-4.6	-6.7
Itraxx Financials Senior	60	64	-4	-4.2	-11.7
Itraxx Subordinated Financials	105	112	-7	-7.0	-26.6

Exchange rates

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.036	1.035	0.1	0.1	-3.8
EUR/JPY (yen per euro)	160.780	162.780	-1.2	-1.2	0.7
EUR/GBP (pounds per euro)	0.836	0.827	1.0	1.0	-2.0
USD/JPY (yen per dollar)	155.190	157.200	-1.3	-1.3	4.7

Commodities

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	542.0	536.5	1.0	1.0	4.8
Brent (\$/barrel)	76.8	74.6	2.8	2.8	-3.1
Gold (\$/ounce)	2,798.4	2,624.5	6.6	6.6	37.5

Equity

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,040.5	5,881.6	2.7	2.7	20.9
Eurostoxx 50 (euro area)	5,286.9	4,896.0	8.0	8.0	13.0
Ibex 35 (Spain)	12,368.9	11,595.0	6.7	6.7	25.1
PSI 20 (Portugal)	6,524.3	6,377.3	2.3	2.3	5.5
Nikkei 225 (Japan)	39,572.5	39,894.5	-0.8	-0.8	9.6
MSCI Emerging	1,093.4	1,075.5	1.7	1.7	9.1

Surprises, disappointments and uncertainties in the international economy

Global resilience, with underlying uncertainty. In 2024, the global economy remained resilient in an environment marked by restrictive financial conditions and, overall, the major international economies managed to grow by more than expected. The biggest surprise was the US, where the strength of domestic demand and of the labour market propelled GDP to rates of nearly 3%, twice what the consensus had predicted at the start of the year. China also managed to grow more than expected. After a bumpy start to the year due to the housing crisis and weak domestic demand, the country's economy gained cyclical momentum in the final stretch of the year to reach the 5% target, thanks to a combination of fiscal and monetary stimulus measures and support for the real estate sector. Even the euro area recovered slightly more than predicted, with GDP growth in 2024 of 0.7% (a year ago the consensus was predicting 0.5%). That said, there was significant internal disparity and only Spain (which more than doubled the growth rate expected by the consensus) performed clearly better than expected, while Germany once again disappointed and is yet to recover its pre-pandemic GDP level. Despite these surprises and the fact that global monetary policy is no longer as restrictive as it was a few quarters ago, 2025 is still set to be a challenging year. After all, the threat of greater economic fragmentation has now been added to the risk map, with an increase in trade barriers and uncertainty that has already begun to materialise at the close of this report. The US has announced tariffs of 25% on virtually all imports of goods from Mexico and Canada (10% on Canadian energy products) and of 10% on China (in addition to eliminating the duty-free de minimis threshold). Forty-eight hours after signing the executive order, the White House froze the decision on Mexico and Canada for a month; this marked a pause for the tariffs, but not for the prospect of a 2025 conditioned by uncertainty.

Significant disparity in international economic activity. US GDP grew by 2.8% in 2024, enjoying a strong boost from domestic demand, which contributed 3.1 pps to the year's total growth due to the strength of both investment and private consumption. In addition, the US economy ended the year on a good note, growing by a remarkable 0.6% quarter-on-quarter in Q4 2024. In contrast, the euro area's GDP disappointed once again with stagnation in Q4 (0.0% quarter-on-quarter), placing the bloc's growth for 2024 as a whole at 0.7%. The sluggishness affected all the major economies, except Spain, which stood out with a quarter-on-quarter growth rate of 0.8%, and in all cases, except for Italy, foreign demand posed a burden for the economy in Q4. France contracted 0.1% quarter-on-quarter and registered an average growth rate of 1.1% in 2024. Italy stagnated for the second consecutive quarter and its average growth in 2024 was 0.5%. Finally, Germany shrank by 0.2% quarter-on-quarter and suffered a setback of 0.2% in 2024 as a whole (after -0.1% in 2023), meaning that its GDP has not yet recovered pre-COVID levels.

Inertia and uncertainty in the opening weeks of 2025. The first economic activity data for 2025 continue to paint a picture

IMF: GDP forecasts

Annual change (%)

	Estimate		Forecast		Change vs. WEO Oct. 2024	
	2024	2025	2026	2025	2026	
World economy	3.2	3.3	3.3	0.1	0.0	
Advanced economies	1.7	1.9	1.8	0.1	0.0	
US	2.8	2.7	2.1	0.5	0.1	
Euro area	0.8	1.0	1.4	-0.2	-0.1	
Germany	-0.2	0.3	1.1	-0.5	-0.3	
France	1.1	0.8	1.1	-0.3	-0.2	
Italy	0.6	0.7	0.9	-0.1	0.2	
Spain	3.1	2.3	1.8	0.2	0.0	
Japan	-0.2	1.1	0.8	0.0	0.0	
United Kingdom	0.9	1.6	1.5	0.1	0.0	
Emerging & developing economies	4.2	4.2	4.3	0.0	0.1	
China	4.8	4.6	4.5	0.1	0.4	
India	6.5	6.5	6.5	0.0	0.0	
Russia	3.8	1.4	1.2	0.1	0.0	
Brazil	3.7	2.2	2.2	0.0	-0.1	

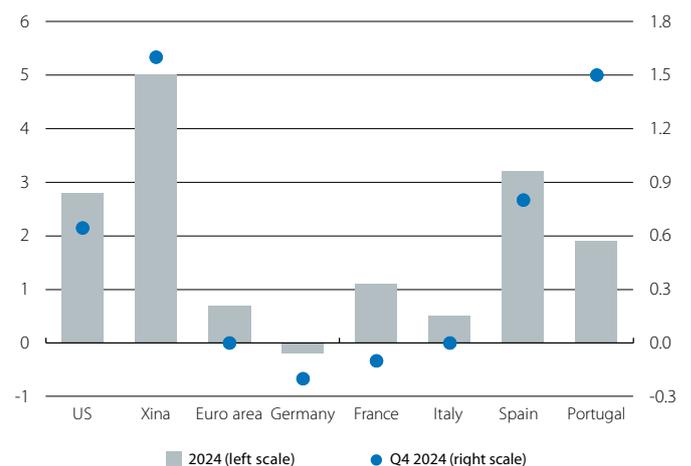
Note: * Projections for the fiscal year in the case of India.

Source: CaixaBank Research, based on data from the IMF (WEO, January 2025 update).

Global: GDP

Annual change (%)

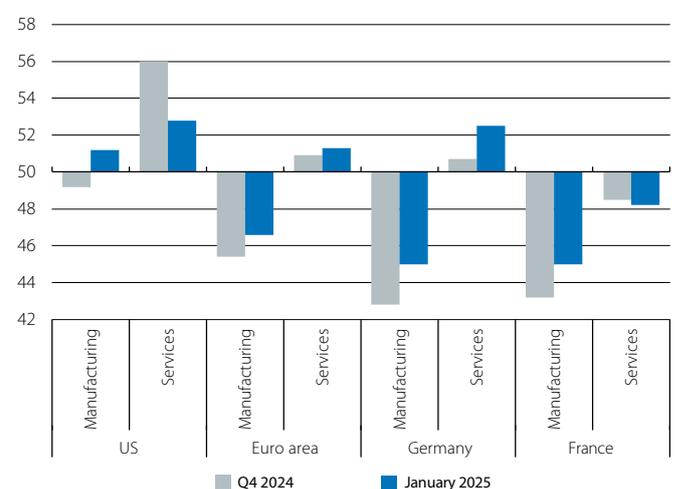
Quarter-on-quarter change (%)



Source: CaixaBank Research, based on data from the BEA, the National Statistics Office of China and Eurostat.

Advanced economies: PMI

Index



Source: CaixaBank Research, based on data from S&P Global PMI.

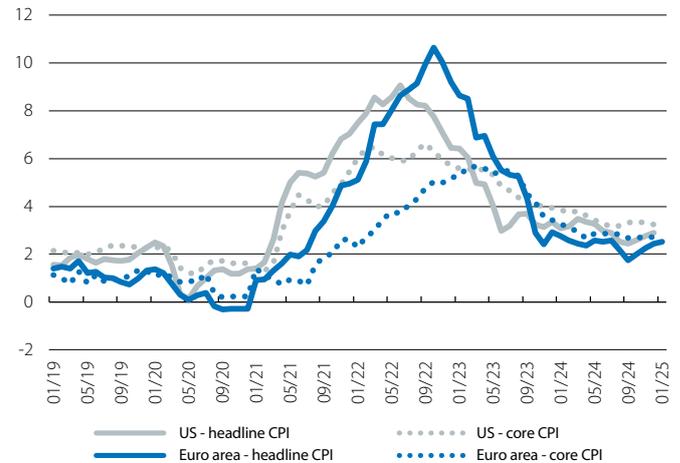
of buoyant growth in the US economy. The manufacturing ISM, at 50.9 points in January, abandoned contractionary territory for the first time since 2022, and the services ISM remained comfortably within the expansionary zone (52.8). The GDP trackers, meanwhile, hint at growth of +0.7% quarter-on-quarter in Q1 2025, although with very preliminary information. In the euro area, the PMIs recovered slightly in January, with a composite index of 50.2 points, marking the best figure in five months. However, this level is only just above the boundary between expansion and contraction. Moreover, the sectoral breakdown continues to show declining manufacturing activity (46.6) versus modest growth in services (51.3) and, by country, there are persistent signs of weakness in France (47.6) and Germany (50.5, a timid figure but, in this case, an eight-month high). The euro area's labour market, for its part, remains resilient with an unemployment rate at 6.3% in December (the second lowest rate in the historical series) and an incipient improvement in the employment expectations indicator (98.8 points in January vs. a historical average of 100). On the other hand, the ECB's bank lending survey showed an unexpected tightening of credit standards, concentrated in Germany and France, which institutions attributed to greater uncertainty in the macroeconomic scenario.

Disinflation continues. Although there has recently been a slight rebound in headline inflation, both in the US (2.9% year-on-year in December, +0.2 pps) and in the euro area (2.5% in January, +0.1 pp), this is essentially due to volatility in energy prices. Most notably, the data continue to reflect a moderation in the underlying price pressures. This disinflation is most visible in the euro area, where core inflation (which excludes energy and food) was 2.7% in January and, although it has remained at that level for the fifth consecutive month, more real-time indicators point to lower rates (the momentum of the core HICP, or its annualised quarter-on-quarter rate of change, was 1.8%). In addition, the indicators reflect a slowdown in wage growth and a compression of corporate margins across the euro area, reinforcing the medium-term disinflationary outlook. In the US, the latest core CPI figure offered slightly more optimism, after months of downward resistance. Specifically, core inflation decreased by 0.1 pp to 3.2% in December; although a modest decrease, this was the first since August and it was also accompanied by an annualised month-on-month rate of 2.7% (five-month low), as well as the second consecutive decrease in services inflation (although this indicator remains high, at 4.4% year-on-year).

China beats expectations and reaches the 5.0% growth target. In Q4 2024, the Chinese economy accelerated significantly, recording GDP growth of 1.6% quarter-on-quarter (up from 1.3% in Q3, revised upwards by +0.4 pps compared to the first estimates) and 5.4% year-on-year (vs. 4.6% in Q3). With these figures, which are the highest since the first half of 2023 (when the economy was recovering from a long period of zero-COVID policies), China's GDP managed to grow by 5.0% in 2024 as a whole, beating expectations and meeting the authorities' target. This acceleration came with signs of improvement in domestic demand and benefited from the support measures announced by the Chinese authorities since the summer, in addition to continued strong export growth and some signs of frontloading (such as the increase in exports to the US at the end of 2024) in anticipation of the expected US-China tariff hikes.

Advanced economies: CPI

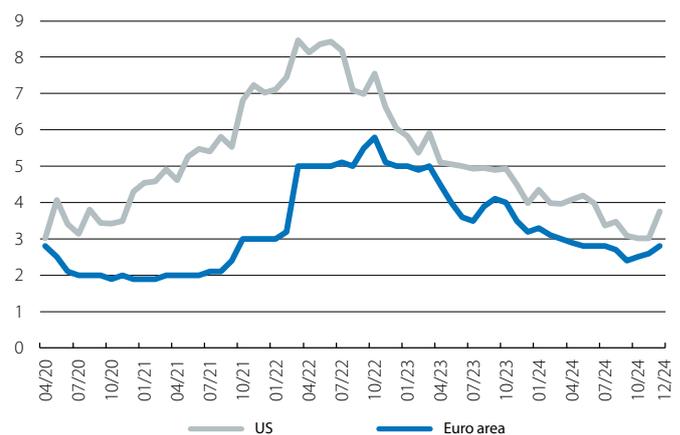
Year-on-year change (%)



Note: Core inflation excludes energy and all food. Source: CaixaBank Research, based on data from the Bureau of Labor Statistics and Eurostat.

Consumer inflation expectations for the next 12 months

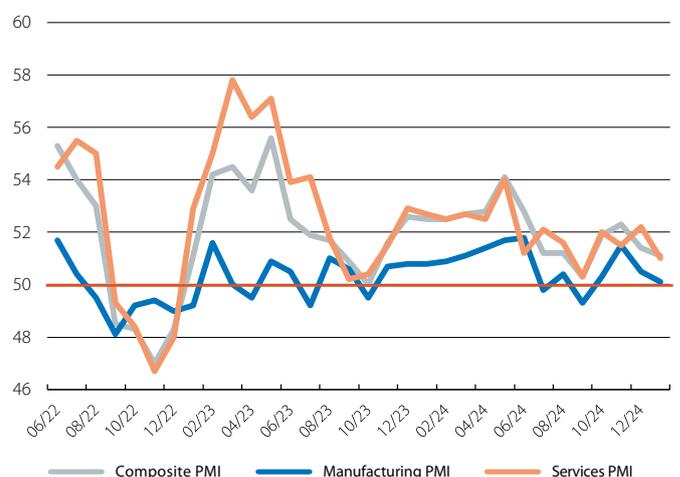
(%)*



Note: * Median quantitative expectation of respondents. Source: CaixaBank Research, based on data from the Federal Reserve Bank of New York and the ECB.

China: Caixin PMI

Index



Source: CaixaBank Research, based on data from S&P Global PMI.

Measuring Trump 2.0's fiscal room for manoeuvre

A concerning starting point

The federal government's 2024 fiscal year¹ ended with a government deficit of 1.8 trillion dollars: this represents 6.4% of GDP and an increase of 138 billion dollars over the previous year (6.2% of GDP). From a historical perspective, this is a very high figure. The average deficit over the past 50 years is 3.8% of GDP, and since 1946 it has only exceeded the 2024 level in six years: from 2009 to 2012, during the Great Recession, and from 2020 to 2021, in the years of the pandemic, both being periods of recession with a high unemployment rate. In 2024, however, the average unemployment rate was 4.0% and GDP growth was strong, which makes the current situation more worrying. The outlook is not terribly encouraging either. In fact, the Congressional Budget Office (CBO)² estimates that the total deficit will continue to fluctuate between 5% and 7% of GDP over the next decade, with federal government debt rising above 120%. To a large extent, these deficits will deteriorate due to an increase in interest payments (the CBO projects a reduction in the primary deficit, which excludes interest payments, from the current 4.0% to 2.7%).³

In this context, we must ask ourselves how the new White House administration's economic policies will affect the deficit. With few details and little clarity on the measures that will be taken (beyond what was discussed in the campaign, we will have to consider the reality of the negotiations in Congress and their final implementation), it is still too early to estimate the net impact accurately. However, we can conduct a preliminary analysis in order to understand the initial implications.

On the revenue side...

The federal government has three main sources of revenue: approximately 50% is derived from personal income tax, 35% from social security and Medicare contributions, 11% from corporate taxes, and the remaining 4% includes duties, inheritance taxes and other income. The CBO estimates that, by the end of 2034, revenues will increase to 18% of GDP from the

current 17.1%. However, that projection assumes that the tax reductions stipulated in the Tax Cuts and Jobs Acts (TCJA) approved in 2017 will expire in 2025,⁴ resulting in tax rates reverting to higher rates. However, one of the great bastions of Trump's campaign was to make the measures under the TCJA permanent. This would add between 3.5 and 5.0 trillion dollars to the deficit⁵ over the next 10 years, bringing it to around 8% or 9% of GDP (with debt climbing above 130%). If other measures proposed during the campaign are also approved, such as deductions on social security benefits, tips and overtime work and an additional corporate tax rate cut to 15%, estimates point to an extra 3 trillion dollars in deficit.

Alongside this deterioration in the deficit, the main new source of revenue highlighted in the election campaign by the new administration has been tariffs. However, the collection of tariffs falls far short of the projected deterioration of the deficit. For instance, in 2024 the government collected just 80 billion dollars in tariffs, representing 2% of total revenues (in contrast, personal income tax revenues amounted to 530 billion dollars). Even in an extreme case in which a 100% tariff were introduced on all imports of goods from China, the extra revenue would come to 400 billion dollars per year, but only if we assume that the 100% tariff does not cause a fall in import volumes, which is highly improbable: with such high tariffs, it is unlikely that the imports affected could represent a recurring and stable income on which the Treasury would be able to count. Similarly, a universal 10% tariff on all imports of goods could raise between 3 and 4 trillion dollars on a cumulative basis over the next decade, but again this is assuming local demand is inelastic to import prices and that there is no substitution or fall in import volumes. In addition, there is some uncertainty over the purpose of their use: will tariffs be used merely as a negotiating strategy and therefore as a temporary tool, or as a recurring and more permanent source of revenue?

1. US fiscal years span from 1 October to 30 September.

2. The CBO is a non-partisan congressional agency tasked with providing economic and budget analysis.

3. The CBO's projections are prepared on the assumption that, over the next decade, both revenues and expenditure will follow current policy trends and that inflation and GDP growth will average 2.0% and 1.8%, respectively. For further details, see the Focus «[Deficit and debt on the rise: the future of the US' public finances](#)» in the MR09/2024.

4. The Tax Cuts and Jobs Acts cut the corporate tax rate from 35% to 21% and reduced the maximum rates for each personal income tax bracket.

5. See «[Tax Cuts and Jobs Act Expiration: Options for the Tax Code](#)», Yale Budget Lab, 2024, «[The 2024 Trump Campaign Policy Proposals: Budgetary, Economic and Distributional Effects](#)», Penn Wharton Model, August 2024 and «[Donald Trump Tax Plan Ideas: Details and Analysis](#)», Tax Foundation, October 2024.

... and on the expenditure side?

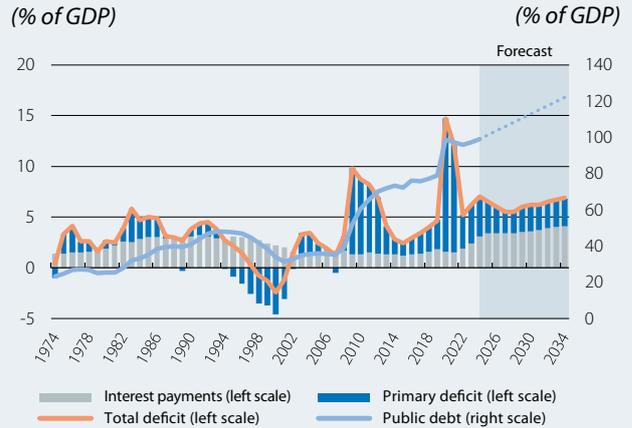
An alternative way to avoid the deterioration of the deficit could be spending cuts. To that end, the president created the DOGE (Department of Government Efficiency), led by Elon Musk, who declared an intention to cut spending by 2 trillion dollars over the next 18 months. Federal spending is divided into three categories. The first is «mandatory» spending (60% of the total), which includes commitments such as social security and health; this is stipulated by current legislation, so changes to laws are required in order to implement cuts. That is, it is difficult to reduce it, both from a legal standpoint and from a welfare perspective (since it mainly includes social security benefits and healthcare). The second category is discretionary spending, which is negotiated each year in Congress and in 2024 amounted to 1.8 trillion dollars.⁶ However, discretionary spending does not seem easy to cut either (approximately 50% is defence spending) and, in any event, it is at historically low levels and looks set to decline under the CBO's continuity forecasts. The third type is interest payments on government debt, which is where much of the deterioration is concentrated. In 2024, interest payments increased to 949 billion dollars, which is more than the total spending on defence (826 billion) or Medicare (870 billion) and represents almost 15% of total spending. Interest payments are likely to continue to rise. In fact, in the CBO's baseline scenario, with an interest rate around 4% and in which the primary deficit is predicted to fall from the current level of 4.0% to 2.7% by 2034, it is estimated that interest payments will increase to 1.7 trillion dollars (4% of GDP vs. 3% today). Stabilising interest spending would require a clearly greater fiscal effort and/or a scenario with significantly lower interest rates: we estimate that it would require either a reduction in the primary deficit of up to 1.5% of GDP in 10 years, or interest rates to converge on their pre-pandemic level of 2%.⁷ Reducing interest payments would require an even greater fiscal effort or even lower interest rates.

6. It should be noted that the target for spending cuts stated by the DOGE is greater than the total discretionary spending.
 7. These estimates are based on the simulation of the evolution of debt

$$d_{t+1} = d_t + \frac{i_{t+1} - g_{t+1}}{1 + g_{t+1}} d_t - b_{t+1}$$

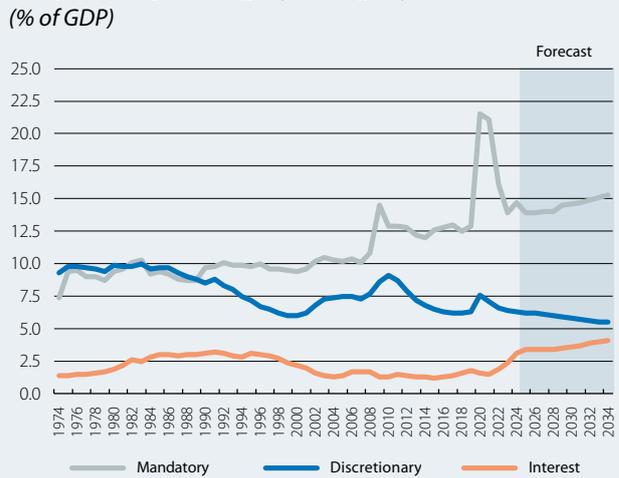
assuming nominal GDP growth according to the CBO. In one case, we set the evolution of interest rates as projected by market forwards as of mid-January 2025 and, in the other, we set the evolution of the primary deficit according to the CBO.

US: historical deficit and debt levels and CBO projections



Note: The negative figures on the left-hand axis indicate a surplus, and the positive figures, a deficit.
 Source: CaixaBank Research, based on data from the CBO.

US: public spending by category



Source: CaixaBank Research, based on data from the CBO and the Treasury Department.

In short, the fiscal scenario in which Trump finds himself at the beginning of his second term is very different from that of 2017 (see first chart). The overview of the current state of the public accounts and of the major fiscal proposals put forward by the new administration during the electoral campaign points to a sustained increase in the deficit and, consequently, in the level of debt. Given this outlook, doubts arise regarding the new administration's true capacity to implement its fiscal proposals.

Isabela Lara White

Year-on-year (%) change, unless otherwise specified

UNITED STATES

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	2.9	2.8	2.9	3.0	2.7	2.5	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	2.9	3.4	3.5	3.8	4.1	3.3	...
Consumer confidence (value)	105.4	104.5	106.3	98.9	102.2	110.6	112.8	109.5	104.1
Industrial production	0.2	–0.3	–0.5	0.0	–0.4	–0.2	–0.6	0.5	...
Manufacturing activity index (ISM) (value)	47.1	48.2	48.8	48.5	47.3	48.2	48.4	49.2	50.9
Housing starts (thousands)	1,421	1,365	1,407	1,340	1,332	1,379	1,294	1,499	...
Case-Shiller home price index (value)	312	...	325	329	332	...	336	...	...
Unemployment rate (% lab. force)	3.6	4.0	3.8	4.0	4.2	4.1	4.2	4.1	...
Employment-population ratio (% pop. > 16 years)	60.3	60.1	60.2	60.1	60.0	59.9	59.8	60.0	...
Trade balance ¹ (% GDP)	–3.1	–2.9	–2.8	–2.8	–2.9	–3.1	–3.0	–3.1	...
Prices									
Headline inflation	4.1	3.0	3.2	3.2	2.6	2.7	2.7	2.9	...
Core inflation	4.8	3.4	3.8	3.4	3.2	3.3	3.3	3.2	...

JAPAN

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	1.5	...	–0.9	–0.9	0.5	...	–	–	–
Consumer confidence (value)	35.2	37.2	38.9	37.0	36.8	36.3	36.4	36.2	35.2
Industrial production	–1.4	–2.7	–4.3	–2.9	–1.8	–1.7	–1.9	–2.8	...
Business activity index (Tankan) (value)	7.0	12.8	11.0	13.0	13.0	14.0	–	–	–
Unemployment rate (% lab. force)	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.4	...
Trade balance ¹ (% GDP)	–3.0	...	–1.2	–1.0	–1.0	...	–1.0	...	...
Prices									
Headline inflation	3.3	2.7	2.5	2.7	2.8	2.9	2.9	3.7	...
Core inflation	3.9	2.4	3.2	2.2	2.0	2.3	2.4	2.4	...

CHINA

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	5.4	5.0	5.3	4.7	4.6	5.4	–	–	–
Retail sales	7.8	3.3	4.7	2.6	2.7	3.8	3.0	3.7	...
Industrial production	4.6	5.6	5.8	5.9	5.0	5.6	5.4	6.2	...
PMI manufacturing (value)	49.9	49.8	49.7	49.8	49.4	50.2	50.3	50.1	49.1
Foreign sector									
Trade balance ^{1,2}	865	995	841	864	897	995	965	995	...
Exports	–5.1	4.6	–1.7	4.4	5.4	10.0	7.0	10.5	...
Imports	–5.5	1.1	1.6	2.5	2.3	–1.8	–4.0	1.0	...
Prices									
Headline inflation	0.2	0.2	0.0	0.3	0.5	0.2	0.2	0.1	...
Official interest rate ³	3.45	3.10	3.5	3.5	3.4	3.1	3.1	3.1	3.1
Renminbi per dollar	7.1	7.2	7.2	7.2	7.2	7.2	7.2	7.3	7.3

Notes: 1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.

Source: CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Retail sales (year-on-year change)	-1.9	1.0	0.0	0.2	2.0	1.8	1.6	1.9	...
Industrial production (year-on-year change)	-1.7	...	-4.7	-3.9	-1.6	...	-1.9	...	...
Consumer confidence	-17.4	-14.1	-15.4	-14.3	-13.1	-13.6	-13.8	-14.5	-14.2
Economic sentiment	96.4	95.9	96.1	96.1	96.3	95.1	95.8	93.8	95.3
Manufacturing PMI	45.0	45.9	46.4	46.3	45.8	45.5	45.2	45.1	46.6
Services PMI	51.2	51.5	50.0	53.1	52.5	52.1	49.5	51.6	51.3
Labour market									
Employment (people) (year-on-year change)	1.4	1.2	1.1	1.0	0.9	...	-	-	-
Unemployment rate (% labour force)	6.6	6.4	6.5	6.4	6.3	6.3	6.2	6.3	...
Germany (% labour force)	3.0	3.4	3.3	3.4	3.5	3.4	3.4	3.4	...
France (% labour force)	7.3	7.5	7.4	7.5	7.5	7.7	7.7	7.8	...
Italy (% labour force)	7.7	6.5	7.1	6.7	6.2	6.0	5.9	6.2	...
Real GDP (year-on-year change)	0.5	0.7	0.4	0.5	0.9	0.9	-	-	-
Germany (year-on-year change)	-0.1	-0.2	-0.1	-0.2	-0.3	-0.2	-	-	-
France (year-on-year change)	1.1	1.1	1.4	1.0	1.2	0.7	-	-	-
Italy (year-on-year change)	0.8	0.5	0.3	0.7	0.5	0.5	-	-	-

Prices

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	5.5	2.4	2.6	2.5	2.2	2.2	2.2	2.4	2.5
Core	5.0	2.8	3.1	2.8	2.8	2.7	2.7	2.7	2.7

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Current balance	2.1	...	2.6	3.2	3.3	...	3.5	...	...
Germany	5.8	...	6.1	6.3	6.2	...	6.0	...	...
France	-1.0	...	-0.5	-0.4	-0.1	...	-0.3	...	...
Italy	0.0	...	0.5	0.9	1.1	...	1.3	...	...
Nominal effective exchange rate¹ (value)	94.7	95.1	95.2	95.2	95.6	94.2	94.2	93.5	93.1

Credit and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Private sector financing									
Credit to non-financial firms ²	2.7	0.7	0.3	0.4	0.8	1.2	1.0	1.5	...
Credit to households ^{2,3}	1.7	0.5	0.3	0.3	0.6	1.0	0.9	1.1	...
Interest rate on loans to non-financial firms ⁴ (%)	4.6	4.9	5.1	5.1	4.9	4.4	4.4	4.2	...
Interest rate on loans to households for house purchases ⁵ (%)	4.4	4.6	4.8	4.8	4.7	4.3	4.3	4.2	...
Deposits									
On demand deposits	-8.5	-3.9	-8.8	-5.5	-2.5	1.1	1.5	1.8	...
Other short-term deposits	21.1	12.3	18.4	14.4	10.5	5.9	6.1	4.5	...
Marketable instruments	20.3	20.0	20.5	19.8	22.0	17.9	17.0	16.3	...
Interest rate on deposits up to 1 year from households (%)	2.7	3.0	3.2	3.1	3.0	2.6	2.6	2.5	...

Notes: 1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.

Source: CaixaBank Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.

The Spanish economy ended 2024 on a strong note and faces 2025 with optimism

Economic activity has shown remarkable buoyancy in a challenging environment. The Spanish economy grew by 3.2% in 2024 and exceeded our forecast of a year ago of 1.4%, despite the geopolitical uncertainty, high inflation and interest rates still at restrictive levels. This growth was driven by the strength of the foreign sector, tourism (which contributed 0.7 pps to growth) and the gradual revival of private consumption, which is gaining prominence to the detriment of public consumption, which was strong up until Q3. In 2025, the economy is expected to continue to grow above the euro area average, supported by strong household consumption, thanks to the recovery of purchasing power, and the recovery of investment. The major geopolitical challenges and Europe's weak growth represent the main risk factors.

Spain's GDP grows rapidly in Q4 2024 and exceeds expectations. In Q4 2024, GDP grew by 0.8% quarter-on-quarter and 3.5% year-on-year, maintaining the same pace as in Q3. This growth contrasts with the stagnation of the euro area. In 2024 as a whole, GDP grew by 3.2%, 0.5 pps more than in 2023, and it stood 7.6% above the pre-pandemic level. The positive surprise of the figure for Q4 GDP growth will lead us to revise upwards our 2025 growth forecast, which currently lies at 2.3%, due to the knock-on effect of the increased growth during the second half of last year. The labour market also offered good news: according to the Labour Force Survey, the unemployment rate fell to 10.6% in Q4, its lowest level since Q2 2008, and the number of people in employment increased by 34,800 over the previous quarter, an improvement compared to the Q4 average in the period 2014-2019 (+28,300).

Domestic demand, especially private consumption and investment, was the main driver of growth in Q4, contributing 1.2 pps to quarter-on-quarter GDP growth. Private consumption grew by an impressive 1.0% quarter-on-quarter, while investment, especially in equipment and construction, also registered a significant increase. In contrast, foreign demand had a negative contribution of 0.4 pps to quarter-on-quarter growth due to the fall in exports of goods (-1.1% quarter-on-quarter) and stronger imports.

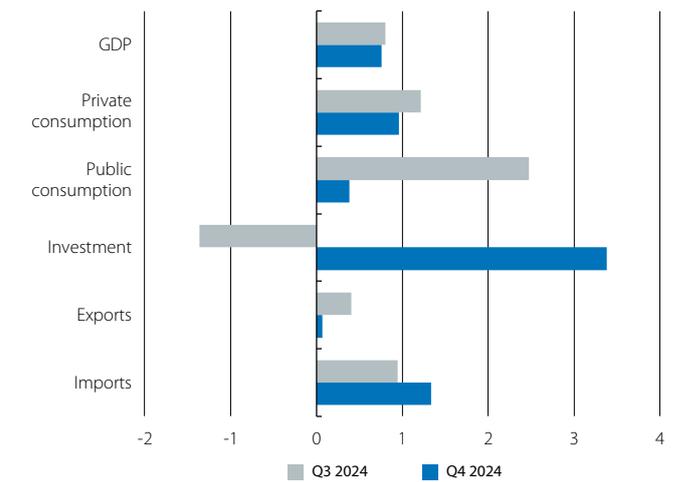
The first activity indicators available for 2025 paint a broadly positive picture, albeit with a slower pace of growth than in Q4 2024. According to Social Security affiliation data, the year started on a good footing. Although the number of registered workers fell, as is usual in the month of January, in seasonally adjusted terms employment registered an increase of 35,750 workers. The PMI for the services sector, for its part, stood at 54.9 points in January, remaining in expansionary

Spain: GDP Change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Spain: components of GDP
Quarter-on-quarter change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Spain: PMI
Level



Source: CaixaBank Research, based on data from S&P Global PMI.

territory (>50), albeit below the figure for December (57.3). However, the signals from industry were less encouraging, as the manufacturing PMI fell to 50.9 points in January, just above the expansion/contraction threshold and below the December figure (53.3), weighed down by the slowdown in new orders and production. Also, on the [consumption side](#), the [CaixaBank Research](#) consumption tracker shows that spending activity with Spanish cards remained buoyant in January with a growth of 3.9% year-on-year, compared to 3.2% in December and 4.1% in November.

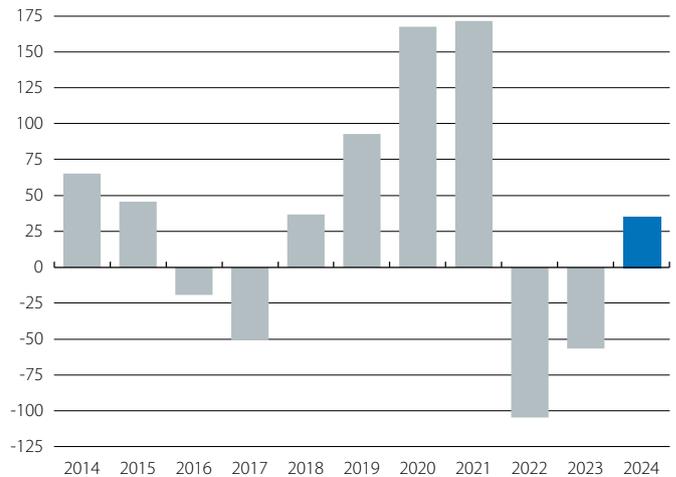
Core inflation continues to decline in January, while headline inflation picks up slightly due to energy. Headline inflation rose to 3.0% in January, 0.2 pps above the December figure. In contrast, core inflation (excluding energy and unprocessed food) fell 0.2 pps to 2.4% (3.6% a year ago). The slight uptick in headline inflation in January is explained by the increase in fuel prices and, to a lesser extent, electricity prices due to the rise in taxes on electricity bills (e.g. VAT on electricity rose from 10% to 21% on 1 January). On the positive side, the fall in core inflation seems to indicate that the underlying price trends continue to follow a downward path, beyond the upturn in the headline indicator.

House sales in Spain continue to grow at double-digit rates. Sales grew rapidly again in November (15% year-on-year), consolidating the exceptional increases observed in previous months (51% year-on-year in October). The shift in monetary policy in recent months accounts for much of the sector’s revival in 2024. Between January and November, 591,500 transactions were completed, marking a year-on-year growth of 8.1%. The buoyancy in sales, coupled with the acceleration of prices in a context of thriving demand and with supply responding at the same pace, has led us to raise our price and sales forecasts for 2024 and 2025, as explained in detail in the Focus «[New forecasts for the Spanish real estate sector: the expansionary cycle takes hold in 2025](#)» in this same report.

The tourism boom in Spain enables an improvement in the current account balance despite sluggish exports of goods. In the current year to November, exports of goods stagnated in year-on-year terms, while imports fell (-0.26% year-on-year), although the latter are steadily rising. Thus, the trade deficit to November stood at -2.3% of GDP, representing an improvement compared to the -2.5% recorded in the first 11 months of the previous year. The surplus of services for the current year to November, meanwhile, rose to 6.5% of GDP (6.3% in November 2023), hoisted up by the enviable strength of tourism, which closed 2024 with exceptional figures. In 2024, tourist arrivals reached around 94 million, 10.1% more than in 2023, and they spent 16.1% more than in 2023.

Spain: persons in employment

Quarterly change in Q4 (thousands)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Labour Force Survey).

Spain: CPI

Year-on-year change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Spain: foreign tourism indicators

Change versus the same month of 2019 (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

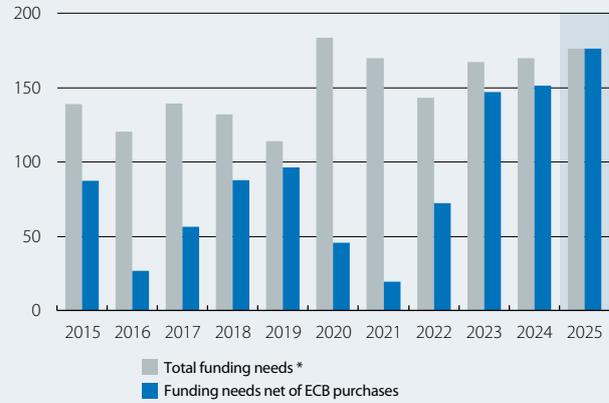
2025 Treasury strategy in a context of reduction of Spain's public deficit

Context: adjustment in the public accounts with the new fiscal rules

In 2025, we expect to see a reduction in the budget deficit of around half a percentage point of GDP, placing it close to 2.8% of GDP. This decrease is largely due to the end of the tax cuts and direct support measures, which in 2024 amounted to 5.5 billion euros (0.4% of GDP). This fiscal scenario already takes into account an exceptional increase in spending of several dozen basis points to support relief in the areas affected by the flooding in the Valencia region, which will be largely offset by the new revenue measures approved in December (minimum corporate tax rate of 15% for multinationals, increase in the top marginal personal income tax rate for capital income, tax on vapors, etc.). However, if the budgets for this year end up being approved and they incorporate additional spending measures, then the deficit could be somewhat higher.

A deficit of less than 3.0% is well below what is expected in countries such as France (between 5% and 6% of GDP) or Italy (deficit of around 3.5%) and it is also fully consistent with the fiscal rules that come into force this year. Specifically, as part of the Fiscal-Structural Plan 2025-2031 recently approved by the European Council, Spain has committed to a 40-bp reduction of its primary structural balance in 2025.¹ As interest expenditure is expected to remain stable as a percentage of GDP in 2025, the reduction of the deficit will essentially result from a reduction of the primary structural deficit with the

Spain: treasury funding needs (EUR billions)

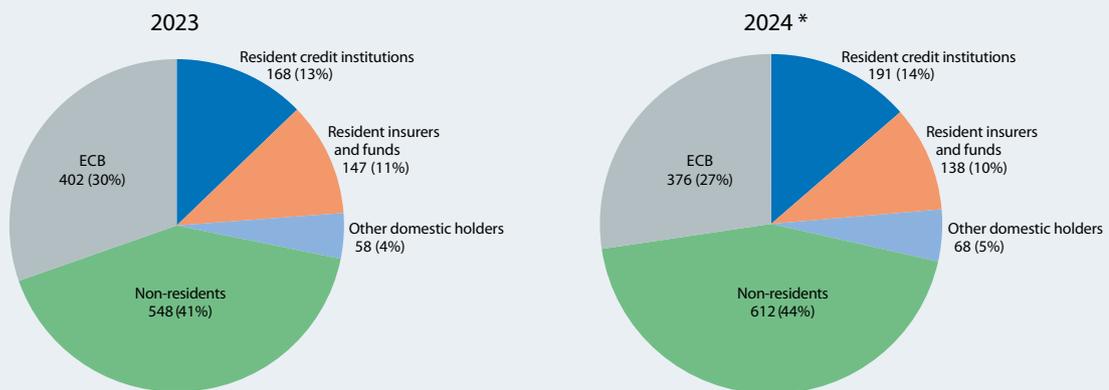


Note: * The repayment figures do not include bills.
Source: CaixaBank Research, based on data from the Secretary General of the Treasury.

withdrawal of the support measures (as a general rule, the European Commission has a very narrow definition of what it considers a one-off measure, so measures to combat inflation fall within the perimeter of the structural balance).

Thus, the fact that the economy is in a good position in the cycle will allow public revenues to enjoy strong growth of around 6% year-on-year. The increase in public spending, meanwhile, will be lower, bearing in mind that the structural plan sets the growth for Spain's net computable primary expenditure² (which does not include the

Spain: holdings of state debt (bills, bonds and obligations) EUR billions and structure (%)



Note: * Data as of November 2024.
Source: CaixaBank Research, based on data from the Secretary General of the Treasury.

1. The plan proposes a cumulative fiscal adjustment in the period 2024-2031 in the primary structural balance of 2.9 percentage points of GDP (0.42 points on average each year). In this way, and taking into account that interest spending will remain stable below 3% of GDP, the government deficit would fall from 3.0% of GDP in 2024 to 0.8% in 2031, while the primary balance would fall from -0.4% of GDP in 2024 to +2.0% in 2031.
2. Computable expenditure includes net public expenditure on interest payments, discretionary measures relating to revenue, expenditure on EU programmes fully offset by revenue from EU funds, national expenditure on co-financing programmes financed by the EU, cyclical elements of expenditure on unemployment benefits, and ad-hoc and other temporary measures.

measures announced in response to the floods) at slightly below 4% in 2025.³

Despite the expected decrease in the deficit, the Treasury's funding needs remain high. In 2025, the Treasury expects a net issuance of 60 billion euros, mainly covered by medium- and long-term instruments. This is a significant amount and exceeds the 2024 figure by 5 billion, due to the funding needs derived from the measures to support those affected by the floods (it should be recalled that the central government has approved measures amounting to over 16 billion euros, with an impact on the deficit of 0.5 pps of GDP), although it is 5 billion less than in 2023. The gross issuance of debt in the medium and long term will be 176.5 billion euros.

The Treasury's strategy, following the culmination of the ECB's withdrawal

This year the ECB will complete its withdrawal and will stop making reinvestments, marking a change of scenario for the placement of the debt to be issued.⁴ However, the context of higher interest rates relative to the period 2016-2022 and the anchoring of expectations should increase the attractiveness of public debt among investors, whether domestic or non-resident. In 2024, foreign investors increased their holdings of Spanish debt by 64.3 billion euros, well above the historical average in the period 2003-2021 (16.4 billion annual average increase). With this increase, the proportion of the total holdings of our debt (including bills, which account for just 5% of the debt portfolio) that is in the hands of foreign investors has risen to 44.2%, compared to 40.3% at the end of 2022.

On the other hand, Spanish retail investors have led domestic interest in Treasury bills, becoming the main holders, with a record increase of 24.1 billion euros since the end of 2022, although it has stabilised following the first rate cuts (-746 million between June and November). Thus, domestic investors as a whole account for 28.6% of all the debt in circulation (26.3% at the end of 2022).

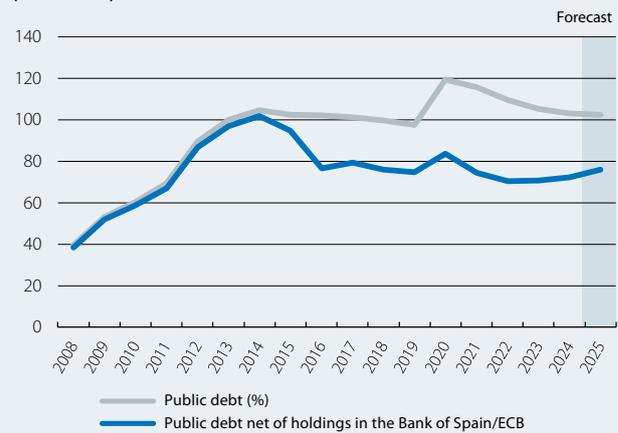
Looking at the total stock, we estimate that public debt held by the ECB in 2025 will represent 25.7% of the total debt (26.3% of GDP), leaving the remaining 73.7% (75.9% of GDP) in the hands of other investors. Between 2012 and 2015, the proportion of the total debt held by non-central bank actors far exceeded this figure (peaking at 101.6% of GDP in 2014).

In 2024, the average cost of new Spanish Treasury issues fell to 3.16%, 28 bps less than in 2023 and 80 bps below the October 2023 peak. This reduction is in line with the ECB's cumulative fall in rates, which remain higher than the average cost of the portfolio, and this will cause the average cost to continue to rise temporarily. The average life of the portfolio has remained stable at around eight years, as the Treasury has taken advantage of the years with low rates to issue debt in the longer sections of the

3. Net primary expenditure growth is expected to average 3% between 2025 and 2031.

4. In 2024, the ECB already ceased its net purchases of Spanish sovereign debt and limited itself to reinvesting repayments under the PEPP (pandemic emergency purchase programme) amounting to 18.6 billion (1.2% of GDP). In 2025, the ECB will stop reinvesting repayments under the PEPP.

Spain: public debt (% of GDP)



Source: CaixaBank Research, based on data from the Bank of Spain and the ECB.

Spain: interest payments on public debt (% of GDP)



Note: Since the average maturity is 8 years, the prediction is performed using the implicit market 8-year rate.
Source: CaixaBank Research.

curve. This stability has mitigated the impact of the rise in interest rates, with the average cost of debt increasing by just 57 bps since 2021 despite the surge in interest rates.

In 2025, the average cost of the total public debt is expected to increase very slightly, as a significant portion of the debt that will be repaid was issued seven or eight years ago at lower rates than the current issuance rates. In particular, interest payments on general government debt as a whole could be 2.5-2.6% of GDP in 2025, taking into account the rebound of sovereign rates through various channels such as the influence of the higher sovereign rates in the US, expectations of higher growth and greater uncertainty regarding where rates will be in the medium to long term. This would be a level similar to that of 2023-2024 and in line with AIREF's expectations, but lower than a decade ago (in 2014, for example, interest payments reached 3.5%).

In the medium term, in 2027, the general government's overall interest payments could be around 2.8% of GDP. Implementing a gradual and sustained fiscal consolidation strategy, in line with the new EU fiscal rules, will thus be key.

Javier Garcia-Arenas

New forecasts for the Spanish real estate sector: the expansionary cycle takes hold in 2025

The housing market entered expansive mode in 2024

2024 marked a change of trend for the real estate market. Whereas in 2023 the increase in interest rates led to a slowdown in house prices and a drop in demand (sales fell by 10.2%), in 2024 prices accelerated significantly. Specifically, the growth of house prices rose from 3.9% in 2023 to 6.0% year-on-year in Q3 2024 according to the Ministry of Housing and Urban Agenda (MIVAU), based on appraisal values. The acceleration is even more evident in the index produced by the National Statistics Institute (INE), which is based on transaction prices: the growth rate went from 4.0% in 2023 to 8.2% year-on-year in Q3 2024.

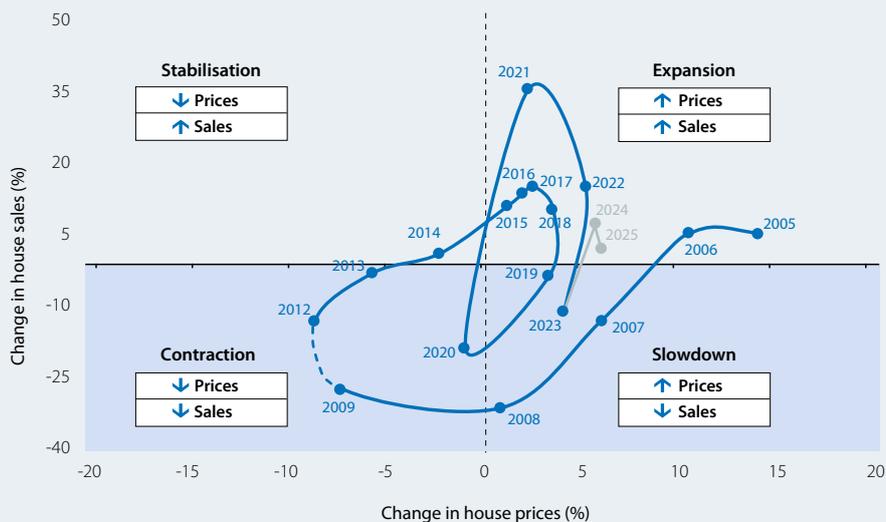
This acceleration in prices has occurred in a context in which housing demand has remained very strong. The number of sales transactions rose by 8.1% year-on-year in January-November of 2024 (628,000 units in the trailing 12 months to November, 24% more than in 2019). This growth is attributable to a series of factors that are driving demand: growth in gross disposable income, increasing foreign demand, positive migration flows, favourable household finances, lower interest rates and an expectation that house prices will continue to rise.

The CaixaBank Research real estate clock reflects this movement: after spending 2023 in the slowdown zone (with a decline in sales, but not in prices), in 2024 it entered the expansion zone (increase in both sales and prices).¹

The upward trend will continue in 2025

For 2025, we believe that the housing market will remain in this expansive zone. On the one hand, the various factors that have driven demand will remain present. The ECB will continue to lower interest rates, household incomes are expected to continue to regain purchasing power, and the population is also expected to continue to grow. Thus, we expect that the number of sales transactions will reach around 650,000, equalling the figure for 2022. On the other hand, we expect that the housing supply will continue to gradually increase: we have raised our forecast for new construction permits from 125,000 to 135,000 in 2025, after they gained traction in 2024 (+16.5% year-on-year in January-October of 2024, reaching around 125,000 permits in the trailing 12 months). However, the supply of new housing is likely to remain below the rate at which new households are being created, so house prices are likely to grow at rates similar to those observed in 2024. Specifically, we expect

CaixaBank Research real estate clock



Note: The period 2010-2011 is excluded due to the effect caused by tax incentives.
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Ministry of Housing and Urban Agenda (MIVAU) and internal forecasts.

1. For a description of the movements of the real estate clock in recent years, see the Focus «[The CaixaBank Research real estate clock: slowdown in sight](#)», in the MR09/2022. The latest update of the clock was published in the MR03/2024: «[The CaixaBank Research real estate clock: from slowdown to expansion](#)».

the housing price index according to the MIVAU (based on appraisal values) to grow by 5.6% and 5.9% in 2024 and 2025, respectively (+0.5 pps and +2.3 pps compared to the previous forecast). In the case of the INE's index (using transaction prices), the upward revision is +1.3 pps and +3.1 pps, respectively, bringing the figure to 8.5% in 2024 and to 7.2% for 2025.

According to these new forecasts, house price growth will slightly outpace that of disposable income per household. This will cause the affordability ratio² to increase slightly at the aggregate level, going from 7.2 in 2024 to 7.5 in 2025 and placing it a level similar to that of 2022, albeit well below the peak of 9.4 reached in 2007. In this way, the strength of household incomes ought to prevent the emergence of significant imbalances in prices at the aggregate level in the short term, although in the large cities there is a clear affordability problem. In any event, the pattern of house prices will continue to be largely conditioned by the mismatch between supply and demand. In this regard, a lower-than-expected revival of supply could put more pressure than expected on house prices and, depending on the response of demand, could exacerbate the affordability problems.³

Judit Montoriol Garriga

CaixaBank Research forecasts for Spain's real estate sector (January 2025)

	2021	2022	2023	2024	2025
Sales (Thousands)	566	650	584	630 (572)	650 (578)
New construction permits (Thousands)	108	109	109	125 (115)	135 (125)
House prices (MIVAU) (Annual change, %)	2.1	5.0	3.9	5.6 (5.1)	5.9 (3.6)
House prices (INE) (Annual change, %)	3.7	7.4	4.0	8.5 (7.1)	7.2 (4.1)

Note: In brackets, October 2024 forecast.

Source: CaixaBank Research.

2. The affordability ratio is calculated by dividing the price of a representative home by the gross disposable income of the median household, and it indicates the number of years of full income that the median Spanish household must dedicate to the purchase an average home.

3. For further details on the current state and future outlook for the sector, see the [Real Estate Sector Report S1 2025](#), available at www.caixabankresearch.com at the end of February 2025.

Employment stability improves in Spain

In view of the significant reduction in the temporary employment rate in recent years, which has occurred across the various sectors, age groups and regions, it could be said that the labour reform adopted in December 2021 has achieved one of its main objectives. In this regard, of the total number of social security affiliates registered under the General Regime at the 2024 year end, 12.7% were temporary workers, a figure which contrasts with the average rate of 29.7% in the period 2014-2019.¹ Has this resulted in greater employment stability? As we shall see in the following lines, we have witnessed an improvement in this regard too, albeit a less pronounced improvement than the fall in the temporary employment rate would suggest.²

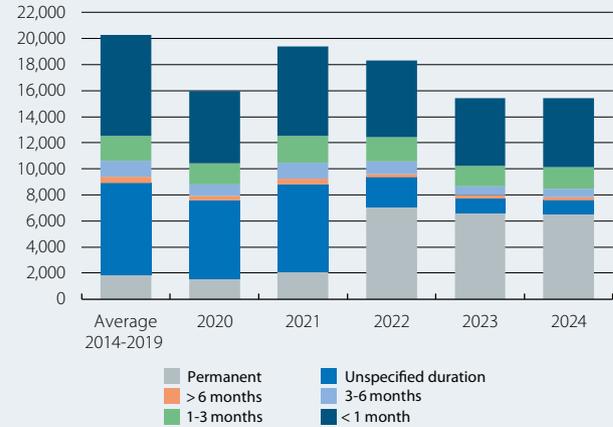
As the labour reform has discouraged temporary hiring and the proportion of permanent contracts has grown, there has been a significant drop in the number of contracts signed. Specifically, the number of contracts registered has increased from around 20.3 million on average per year before the pandemic (2014-2019) to 15.4 million in 2024 (see first chart); as a result, there has been a drop in the turnover rate (ratio between the number of contracts signed and the number of people hired in the period), going from a monthly average of 1.37 in 2014-2019 to 1.22 in 2024 (see second chart).

The fact that fewer contracts are being signed to replace temporary ones coming to an end automatically translates into a lower volume of registrations and de-registrations with the Social Security Institute. The evolution of registrations and de-registrations provides an approximation of the stability of employment. In this regard, in order to see the evolution of rotation in the labour market, we can look at the ratio of the sum of registrations and de-registrations each month over the total volume of affiliates (wage earners registered in the General Regime): this ratio shows us the intensity of the inflows and outflows of the labour market relative to the volume of employment.

As shown in the third chart, this turnover rate has declined in recent years, going from 1.30% on average in the period 2014-2019 (i.e. out of ever 100 workers, 1.30 registered or de-registered each month) to 1.10% in 2024. However, this good result is accompanied by a higher turnover, both among temporary workers (from 3.84% to 4.32%) and especially among permanent workers, whose

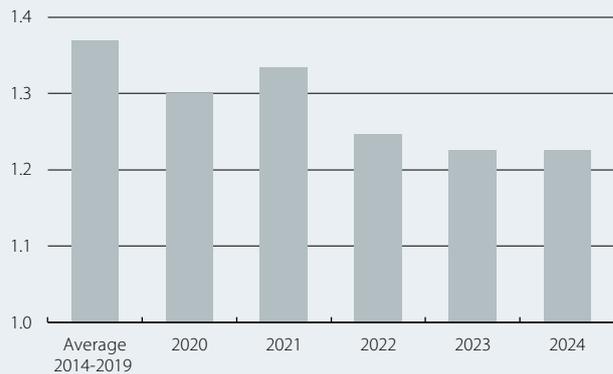
1. For further details, see the Focus «Where has the fall in the temporary employment rate been concentrated?» in the MR06/2024.
 2. See FEDEA (2023). «Reforming dual labor markets: “empirical” or “contractual” temporary rates?». Estudios sobre la Economía Española, issue 2023-36.

Spain: registered contracts by duration
(Thousands)



Source: CaixaBank Research, based on data from the Ministry of Work and Social Economy.

Spain: average monthly turnover rate of contracts
Contracts registered over people hired in the period (%)



Source: CaixaBank Research, based on data from the Ministry of Work and Social Economy.

Spain: monthly job turnover rate of wage earners
Sum of registrations and de-registrations over registered workers (%)



Note: Average of the monthly ratios.
 Source: CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration.

rate, although still low, has risen from 0.25% to 0.67%; the only reduction in turnover, from 0.47% to 0.40%, has occurred among other workers, which includes non-professional caregivers, civil servants and those with a training or internship contract.

Another indicator which attests to the greater stability in the labour market is the survival rate of contracts one year after their signing. Using data from the Continuous Work History Sample (MCVL),³ we can see that 16% of the contracts signed in March 2022 were still in force one year later, compared to 11% in the case of contracts signed in the same month of 2017 and 2018. On the other hand, the survival rate among permanent contracts, excluding fixed discontinuous contracts, has reduced from 52.5% to 48%, which would appear to confirm that part of the instability inherent in temporary contracts has been transferred to permanent contracts.

Along the same lines, flows according to the Labour Force Survey show a notable drop in the number of people in employment who become unemployed in the following quarter. From a quarterly average of 3.9% in the period 2014-2019, this figure has fallen to 2.9% in 2024, although this is still above the European average (1.3%).

In short, the stability of employment, in aggregate terms, has improved in recent years, despite the fact that turnover has increased within each type of contract. What has dominated is the composition effect, since permanent contracts, which have a lower turnover, have gained prominence in the overall mix.

Nuria Bustamante and Sergio Díaz

3. The Continuous Work History Sample (known by the acronym MCVL in Spanish) gathers anonymised individual information from the Social Security databases and other data from the Municipal Continuous Register (National Statistics Institute) and from the annual summary of personal income tax withholdings and payments (Spanish Tax Agency), on relations with the Social Security system of an extensive sample of registered workers and pensioners (1.32 million in the last edition of 2023); information is available on the date of registration and de-registration of each affiliation between January 2017 and March 2023. For more information, see Bank of Spain (2024), «The recent behaviour of the temporary employment ratio and other indicators proxying job stability», Box 3.1, *Annual Report 2023*.

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Industry									
Industrial production index	-1.4	...	-0.4	0.1	0.2	...	-0.4	...	...
Indicator of confidence in industry (value)	-6.5	-4.9	-5.2	-5.5	-2.9	-5.9	-5.2	-4.5	-4.3
Manufacturing PMI (value)	48.0	52.2	50.7	52.8	51.5	53.6	53.1	53.3	50.9
Construction									
Building permits (cumulative over 12 months)	0.5	...	2.0	4.6	10.2	...	15.9	...	...
House sales (cumulative over 12 months)	-10.2	...	-11.0	-10.0	-1.1	...	6.4	...	...
House prices	4.0	...	6.3	7.8	8.2	...	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	18.9	10.1	15.8	14.3	12.3	10.1	11.5	10.1	...
Services PMI (value)	53.6	55.3	54.3	56.6	55.2	55.1	53.1	57.3	54.9
Consumption									
Retail sales ¹	2.5	1.7	1.1	0.5	2.6	2.8	0.9	4.0	...
Car registrations	16.7	7.1	3.1	8.5	1.7	14.4	6.4	28.8	5.3
Consumer confidence index (value)	-19.2	...	-17.2	-14.4	-13.6	...	...	...	...
Labour market									
Employment ²	3.1	2.2	3.0	2.0	1.8	2.2	...	...	...
Unemployment rate (% labour force)	12.2	11.3	12.3	11.3	11.2	10.6	...	...	...
Registered as employed with Social Security ³	2.7	2.4	2.6	2.4	2.3	2.4	2.4	2.4	2.4
GDP	2.7	3.2	2.7	3.3	3.5	3.5	...	...	...

Prices

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	3.5	2.8	3.1	3.5	2.2	2.4	2.4	2.8	3.0
Core	6.0	2.9	3.5	3.0	2.6	2.5	2.4	2.6	2.4

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	-1.4	...	-6.9	-4.9	-1.8	...	-0.8	...	...
Imports (year-on-year change, cumulative over 12 months)	-7.2	...	-9.8	-7.1	-3.1	...	-1.2	...	...
Current balance	39.8	...	41.2	45.4	49.6	...	49.4	...	...
Goods and services	58.8	...	60.5	65.5	69.3	...	69.3	...	...
Primary and secondary income	-19.1	...	-19.2	-20.1	-19.7	...	-19.9	...	...
Net lending (+) / borrowing (-) capacity	56.0	...	56.0	61.5	66.2	...	65.9	...	...

Credit and deposits in non-financial sectors⁴

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Deposits									
Household and company deposits	0.3	5.0	3.3	5.2	4.3	5.0	5.6	5.0	...
Demand and notice deposits	-7.4	1.9	-5.2	-1.9	-1.6	1.9	1.4	1.9	...
Time and repo deposits	100.5	23.7	96.7	68.0	47.5	23.7	32.4	23.7	...
General government deposits ⁵	0.5	23.0	-4.6	-4.1	14.8	23.0	20.2	23.0	...
TOTAL	0.3	6.2	2.7	4.5	5.1	6.2	6.8	6.2	...
Outstanding balance of credit									
Private sector	-3.4	0.6	-2.6	-1.3	-0.3	0.6	0.4	0.6	...
Non-financial firms	-4.7	0.3	-3.6	-1.8	-0.6	0.3	0.2	0.3	...
Households - housing	-3.2	0.5	-2.5	-1.5	-0.7	0.5	0.1	0.5	...
Households - other purposes	-0.5	1.8	-0.1	0.7	1.2	1.8	1.9	1.8	...
General government	-3.5	-2.8	-4.8	-2.7	-5.4	-2.8	-3.0	-2.8	...
TOTAL	-3.4	0.4	-2.7	-1.4	-0.7	0.4	0.2	0.4	...
NPL ratio (%)⁶	3.5	...	3.6	3.4	3.4	...	3.4	...	...

Notes: 1. Deflated, excluding service stations. 2. LFS. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Public-sector deposits, excluding repos. 6. Data at the period end.

Sources: CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Transport, Mobility and Urban Agenda (MITMA), the Ministry of Inclusion, Social Security and Migration (MISSM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.

The Portuguese economy gains strength in Q4 2024

GDP beat expectations in Q4 2024 with a quarter-on-quarter increase of 1.5% (2.7% year-on-year). This placed growth for the year as a whole at 1.9%, surpassing the forecasts of CaixaBank Research (1.7%) and the analyst consensus. The good performance in the final stretch of 2024 introduces upside risks into CaixaBank Research’s current forecast for 2025 (2.3%), due to the knock-on effect.

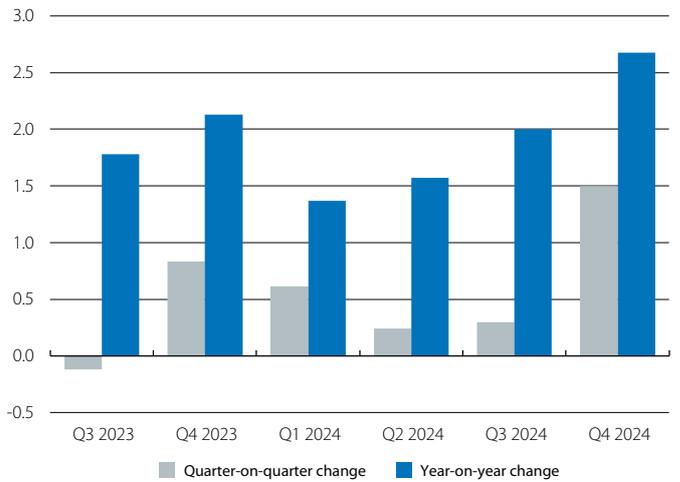
By component, investment ought to recover, given the anticipated acceleration in the execution of NGEU funds, which are entering their penultimate year, in an environment with less restrictive financing conditions. Private consumption will also remain highly buoyant, thanks to the strength of the labour market and the growth of households’ real disposable income. We believe that foreign demand will have a slight negative contribution to GDP growth, stemming from an acceleration in imports together with the fact that exports will be adversely affected by an international context still marked by uncertainty regarding the US’ more protectionist policies.

Inflation falls in January. The headline CPI fell to 2.5% in January, compared to 3.0% in the previous month, while the core index went from 2.8% to 2.6%. This correction is partly explained by a base effect associated both with the end of the VAT exemption on a series of essential food products and with the increase in electricity prices, which took place in January 2024. However, the data for January are higher than the figures from a year ago (2.3% for the headline rate and 2.4%, the core rate), reflecting the downward resistance of inflation in the last mile to the 2% target.

2024 was a new record year for the tourism sector, with 31.6 million tourist arrivals and 80.3 million overnight stays, representing growth of 5.2% and 4.0%, respectively. The increase in overnight stays was higher among foreigners (+4.8% vs. 2.4% among residents). Among the source markets, the United Kingdom remains the leader, although the most pronounced growth in overnight stays is found among tourists from Canada and the US (+17.1% and +12.1%, respectively). The outlook for 2025 remains very positive, as a result of the recovery of purchasing power and expectations that the dollar will remain strong.

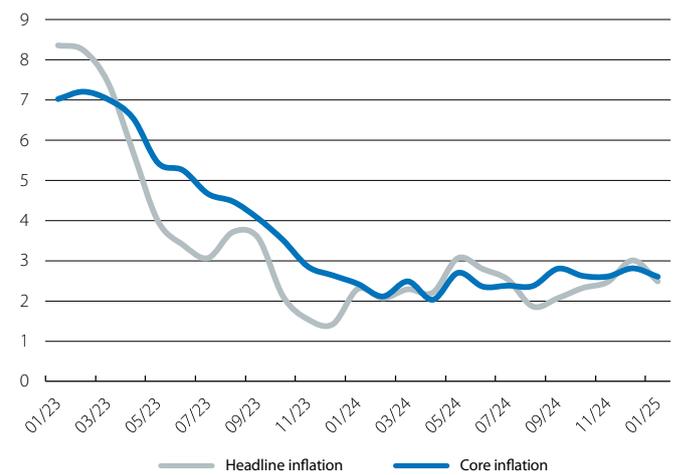
The public accounts end 2024 in positive territory for the second consecutive year. The budget balance (in cash terms) stood at 0.1% of GDP for the year as a whole, compared to 1.7% in 2023 (excluding the impact of the transfer of the CGD pension fund to CGA). The lower surplus is explained by the sharp growth in expenditure (9.2%, compared to 5.1% in the case of revenues). In any event, the slight positive balance is an improvement on the government’s own estimate (-0.4% of GDP). Based on this result, we estimate that in national accounting terms the surplus has been around 1.0% of GDP, which, if confirmed, would far exceed the estimates of both the government (0.4%) and CaixaBank Research (0.5%).

Portugal: GDP
Change (%)



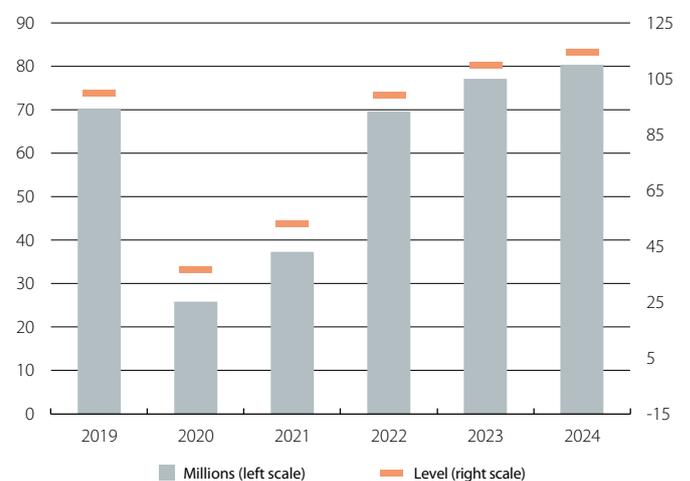
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: CPI
Year-on-year change (%)



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: overnight stays
(Millions)



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Coincident economic activity index	3.5	1.5	2.1	1.4	1.1	1.2	1.3	1.2	...
Industry									
Industrial production index	-3.1	0.3	1.4	1.4	-0.8	-0.9	-2.5	-4.9	...
Confidence indicator in industry (<i>value</i>)	-7.4	-6.2	-7.9	-6.7	-6.2	-3.9	-3.5	-4.1	-4.7
Construction									
Building permits - new housing (number of homes)	7.5	...	-17.5	8.4	12.0	...	26.9	...	...
House sales	-18.7	...	-4.1	10.4	19.4	...	-	-	-
House prices (<i>euro / m² - valuation</i>)	9.1	8.5	5.5	6.8	8.5	13.2	13.7	13.7	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	19.1	6.2	13.1	9.5	7.8	6.2	6.4	6.2	...
Confidence indicator in services (<i>value</i>)	7.6	5.5	6.3	4.3	-0.4	11.9	12.3	17.9	20.2
Consumption									
Retail sales	1.1	3.4	1.8	2.2	3.9	5.7	5.5	5.9	...
Coincident indicator for private consumption	2.9	2.5	2.4	2.2	2.5	3.0	3.0	3.3	...
Consumer confidence index (<i>value</i>)	-28.6	-18.0	-24.6	-18.7	-14.3	-14.3	-14.0	-15.0	-15.1
Labour market									
Employment	2.3	...	1.4	1.0	1.2	...	1.3	1.4	...
Unemployment rate (<i>% labour force</i>)	6.5	...	6.8	6.1	6.1	...	6.6	6.4	...
GDP	2.3	3.3	1.4	1.6	1.9	2.7	-	-	-

Prices

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	4.4	2.4	2.2	2.7	2.2	2.6	2.5	3.0	2.5
Core	5.1	2.5	2.3	2.4	2.5	2.7	2.6	2.8	2.6

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	-1.4	...	-5.5	-3.7	0.8	...	2.8	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	-4.0	...	-7.3	-5.6	-0.9	...	1.2	...	...
Current balance	1.3	...	3.1	4.4	5.2	...	5.7	...	...
Goods and services	3.3	...	4.6	5.2	5.8	...	6.2	...	...
Primary and secondary income	-2.0	...	-1.5	-0.8	-0.7	...	-0.5	...	...
Net lending (+) / borrowing (-) capacity	5.0	...	6.9	8.0	8.5	...	9.3	...	...

Credit and deposits in non-financial sectors

Year-on-year change (%), unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Deposits¹									
Household and company deposits	-2.3	7.5	2.7	5.6	6.0	7.5	6.9	7.5	...
Sight and savings	-18.5	-0.3	-14.8	-8.6	-6.7	-0.3	-2.1	-0.3	...
Term and notice	22.2	15.3	27.1	24.0	20.9	15.3	16.6	15.3	...
General government deposits	-12.4	26.7	9.1	4.5	29.1	26.7	11.1	26.7	...
TOTAL	-2.6	7.9	2.9	5.6	6.7	7.9	7.1	7.9	...
Outstanding balance of credit¹									
Private sector	-1.5	2.2	-0.8	-0.3	1.1	2.2	1.9	2.2	...
Non-financial firms	-2.1	-0.3	-1.7	-1.7	-0.6	-0.3	0.0	-0.3	...
Households - housing	-1.4	3.3	-0.7	0.1	1.5	3.3	2.6	3.3	...
Households - other purposes	-0.3	4.8	1.5	2.5	4.0	4.8	4.2	4.8	...
General government	-5.5	0.6	5.9	-5.8	-4.1	0.6	-4.0	0.6	...
TOTAL	-1.7	2.2	-0.5	-0.5	0.9	2.2	1.7	2.2	...
NPL ratio (%)²	2.7	...	2.7	2.6	2.6	...	-	-	-

Notes: 1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.

Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.

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Assessment of the main macroeconomic indicators for Spain, Portugal, the euro area, the US and China, as well as of the meetings of the European Central Bank and the Federal Reserve.

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Monthly analysis of the evolution of consumption in Spain using big data techniques, based on expenditure with cards issued by CaixaBank, non-customer expenditure registered on CaixaBank POS terminals and cash withdrawals from CaixaBank ATMs.

Currency flash report



Flash report on developments in the euro's exchange rate with the major currencies: the US dollar, pound sterling, Japanese yen and Chinese yuan. It offers technical, structural and predictive analysis.

Tourism Sector Report S1 2025



Spain's tourism sector enjoyed rapid growth in 2024 and has support factors to continue expanding in 2025. These include the economic growth of the main source countries and the sector's price competitiveness, as it continues to seek a reduction in its seasonality to avoid congestion during the peak season and increase the utilisation of the installed capacity. The good performance of the tourism sector will be key in ensuring that catering continues to enjoy its current level of buoyancy.

Sectoral Observatory



In 2024, the Spanish economy has experienced widespread growth across virtually all of its sectors. The outlook for 2025 also looks promising, although there will be differences in growth rates and the transition to a more sustainable production system will need to be tackled head on. The automotive sector will also face the challenge of remaining competitive in the new global ecosystem.

Agrifood Sector Report 2024



Activity in Spain's agrifood sector grew quicker than for the economy as a whole and the outlook for the 2024-2025 campaign is encouraging. Exports are faring well in the challenging environment of recent years and the food price rally has begun to slow, although the cumulative increase since 2019 remains significant.



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