

The limits of uncertainty

The Spanish economy is growing at a good pace – more so than expected – and this leads us here at CaixaBank Research to revise our growth forecasts for 2025 upwards from 2.3% to 2.5%. Despite the good news, the focus is not on the improvement in the forecasts, but rather on the uncertainty that surrounds them. For years now, every article on current economic developments has been packed with references to uncertainty. Sometimes we use this word as a form of disclaimer to safeguard ourselves from the mistakes we will inevitably make. But the level of uncertainty fluctuates over time and right now it has risen once again.

In spite of everything, it is worth noting that the Spanish economy ended 2024 with growth of 3.2%; this is more than 1.5 pps above the expectations of a year ago and all this in a global economic context that was not particularly favourable. Moreover, the first indicators available for 2025 suggest that the pace of growth remains strong. Job growth remains dynamic, as does household consumption, and other activity indicators continue to point to growth rates similar to those of 2024. This is expected to be compounded by a drop in interest rates and a moderation in inflation, which ought to help to keep the economy's underlying dynamics positive. If we translate this into concrete figures, the message becomes a clearly positive one. The incorporation of the latest growth data, which are higher than had been expected by CaixaBank Research, would increase the expected growth for 2025 from 2.3% up to 2.7%. If we add to this the good dynamics shown by the latest indicators, the upward revision of growth for this year could be even greater.

However, the international context invites prudence. The policy of tariffs being pursued by the new US administration and, above all, the uncertainty generated by the erratic nature of developments will erode the Spanish economy's growth capacity. The direct and indirect exposure to the US economy is limited, so the impact of tariff hikes such as the those being proposed should not exceed a few tenths of a point of GDP growth. In fact, depending on the evolution of the exchange rate and our ability to find new destinations for Spanish exports, the direct macroeconomic impact could end up being rather negligible. In short, the fear does not arise from the direct impact of the tariff hikes, but rather from the unpredictability of the new US administration and, above all, from the implications of the new political and economic relations between the US and European countries, since while it is difficult to imagine what they will look like right now, it is unlikely to be positive for anyone. This is the main source of uncertainty.

For the time being, the indicators for uncertainty in economic policy have soared globally, exceeding the peaks reached during the pandemic. The spike is particularly notable in the countries that are directly impacted by the trade war with the US, such as Mexico and Canada. That said, they have increased significantly in Europe too, and in several countries they are now above the peaks reached during the financial crisis of 2012 and are not far from the levels reached during the pandemic. CaixaBank Research's forecast scenario is compatible with a temporary spike in uncertainty. If this situation lasts for more than a few months, then it could significantly affect the global economy and, in particular, the US economy itself. The rise in inflation expectations coupled with a further weakening of the economy could once again strain financial conditions, especially in a context marked by stock market valuations that are already under pressure. Unlike the financial crisis or the pandemic, this time the factor that is generating the uncertainty has a name and surname, and ultimately it is in his interest that the US economy does not derail.

On the upside, if the uncertainty recedes, the outlook could improve significantly. The recent announcements by Germany to relax its fiscal rules and the European Commission's proposals to accommodate an increase in European security spending are also positive for confidence and will support an improvement in economic activity in the short and medium term. In this context, Spain could even grow once again at rates of around 3%.

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