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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

Trump's policies, the main question mark surrounding the global economic outlook

INTERNATIONAL ECONOMY

Inflation in China: in which direction will the snake creep?

SPANISH ECONOMY

New economic scenario: prudent optimism in a context of uncertainty

Excellent records in the foreign sector in 2024

DOSSIER: THE TRANSFORMATIVE CAPACITY OF NGEU AND OTHER FISCAL STIMULUS PLANS

NGEU funds: what is the status of their implementation at the European level?

NGEU funds: what can we say about their impact and future challenges?

How the NGEU funds are going in Spain: bread for today and hope for tomorrow

Beyond NGEU: investments in Europe to adapt to and survive in the new times

US: A model of economic transformation very different from Europe's

**MONTHLY REPORT -
ECONOMIC AND FINANCIAL
MARKET OUTLOOK**
March 2025

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

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INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKETS

9 *Trump's policies, the main question mark surrounding the global economic outlook*

Rita Sánchez Soliva

12 INTERNATIONAL ECONOMY

14 *Inflation in China: in which direction will the snake creep?*

Luís Pinheiro de Matos

18 SPANISH ECONOMY

20 *New economic scenario: prudent optimism in a context of uncertainty*

Oriol Carreras Baquer and Zoel Martín Vilató

22 *Excellent records in the foreign sector in 2024*

Anna Bahí Esteba and Sergio Díaz Valverde

25 PORTUGUESE ECONOMY

27 DOSSIER: THE TRANSFORMATIVE CAPACITY OF NGEU AND OTHER FISCAL STIMULUS PLANS

27 *NGEU funds: what is the status of their implementation at the European level?*

David Martínez Turégano

29 *NGEU funds: what can we say about their impact and future challenges?*

David Martínez Turégano

31 *How the NGEU funds are going in Spain: bread for today and hope for tomorrow*

Javier García-Arenas

33 *Beyond NGEU: investments in Europe to adapt to and survive in the new times*

Rita Sánchez Soliva

35 *US: A model of economic transformation very different from Europe's*

Isabela Lara White

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%.

Oriol Aspachs
March 2025

Chronology

<p>FEBRUARY 2025</p> <ul style="list-style-type: none"> 1 Trump signs the first executive orders imposing tariffs on China, Canada and Mexico. 10-11 Artificial Intelligence Action Summit in Paris, with the participation of governments, organisations and companies from over 100 countries. 	<p>JANUARY 2025</p> <ul style="list-style-type: none"> 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 depo rate to 2.75%.
<p>DECEMBER 2024</p> <ul style="list-style-type: none"> 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. 	<p>NOVEMBER 2024</p> <ul style="list-style-type: none"> 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%.
<p>OCTOBER 2024</p> <ul style="list-style-type: none"> 17 The ECB cut interest rates by 25 bps and lowered the depo rate to 3.25%. 	<p>SEPTEMBER 2024</p> <ul style="list-style-type: none"> 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.

Agenda

<p>MARCH 2025</p> <ul style="list-style-type: none"> 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). 	<p>APRIL 2025</p> <ul style="list-style-type: none"> 3 Euro area: CPI flash estimate (March). 2 Spain: registration with Social Security and registered unemployment (March). Spain: household savings rate (Q4). 8 Portugal: turnover in industry (February). 10 Spain: financial accounts (Q4). 11 Spain: Fitch rating. 17 Governing Council of the European Central Bank meeting. China: GDP (Q1). 24 Spain: loans, deposits and NPL ratio (February). 28 Spain: labour force survey (Q1). 29 Spain: GDP flash estimate (Q1). Spain: CPI flash estimate (April). Portugal: bank credit portfolio (March). Euro area: economic sentiment index (April). 30 Portugal: GDP flash estimate (Q1). Portugal: CPI flash estimate (April). Portugal: budget execution (March). Euro area: GDP (Q1). US: GDP (Q1).
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The times are changing

The disruptive potential of the changes in the geopolitical and trade order that lie before us exceeds the predictive capacity of economic models and makes it difficult for economic agents to make decisions. The world was simpler for economists and the markets when inflation, central bank movements and fiscal variables were the catalysts for investment, consumption and savings decisions. Now that geopolitics and trade policies have taken the lead, the difficulty of incorporating and quantifying the daily developments in both spheres and translating them into economic and financial scenarios is increasing exponentially. Just in the last few weeks we have witnessed live and direct the deterioration of US-Ukraine relations (with a freeze on military aid and intelligence assistance), the EU's response with a defence spending programme that would have been unthinkable only a few months ago (800 billion euros), the reform of the debt brake in Germany being pursued by the new coalition government (together with an infrastructure spending programme of 500 billion euros) and a resurgence of the trade war, with tariffs moving at a speed that makes it difficult to anticipate where we will end up when it's all over. As things stand right now, the average effective US tariff could end up being around 10%, triple the pre-Trump level and the highest since 1943. Therefore, the old aphorism that each era asks the questions that it can answer has been completely washed aside after the first 50 days of a US administration that is seeking to redefine the role of the world's leading economic power, with a strategy that clearly has room for improvement.

The string of supply and demand shocks triggered by the announcements of recent weeks will alter the balances of growth and inflation, while the expectations variable will modulate the effects that will be transmitted through the trade and financial channels. The biggest risk is a widening of regional and sectoral divergences and greater volatility in the financial markets that could trigger episodes of instability. In this context, both economic agents and the markets are showing a contained response to the shocks, although in the short term we will perceive some noise in the economic data, both due to the anticipation of decisions by exporters and importers and their effects on inventories and because of the reconsideration of investment projects (uncertainty is usually a bad companion for planning). The key is that the tariff tensions remain contained and, above all, that the new trade framework is quickly established in order to reduce the disruptive potential of the current lack of confidence.

For now, only a slight deterioration is beginning to be perceived in surveys in the US, both due to a decline in consumer confidence, which has already been reflected in a fall in retail sales in January, and because of a rise in inflation expectations; this is in addition to an almost 25% increase in the trade deficit in the first month of the year, due to a rise in imports prior to the introduction of the tariffs. All of the above suggests we will see a slowdown in economic activity in Q1 – nothing that cannot be reversed in the coming months, but nevertheless a sign of the risks that come with rewriting the rules of the game in a disorderly manner, be it in trade relations or in the way in which the government operates. The financial markets, in the midst of a tense sense of calm, have not shown any major changes in trends since the beginning of the year either, besides a logical reduction in risk appetite and a weakening of the dollar. Confidence in the ability of the central banks to compensate for potential distortions in inflation and growth provides a backstop for investors, although there have been some warning signs in the public debt markets, such as the biggest daily rise in German bond yields in the last quarter century (+30 bps) following the announcement of the reform of the debt brake and the publication of the plan to increase public investment.

Looking ahead to the coming months, the list of open issues with a high potential impact on the economy is long, ranging from Europe's ability to mobilise the funds announced in the first week of March and adapt the recently revised Stability and Growth Pact to the new geopolitical reality, to the US Treasury's margin to implement a balanced expansionary fiscal policy, to the flexibility of the central banks to keep inflation expectations in check, through to the resilience of value chains to the new trading environment. Above all, however, the most important thing will be to manage the truce in the war in Ukraine fairly and to renegotiate trade and defence relations between the US and Europe in a balanced way. This is a reflection of how the times are changing and how the moment has come to adapt as quickly as possible.

José Ramón Díez

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	4.00	3.75
3-month SOFR	3.62	1.01	1.07	5.37	4.37	4.07	3.85
12-month SOFR	3.86	1.48	1.48	4.95	4.19	4.01	3.93
2-year government bonds	3.70	1.04	1.21	4.46	4.24	4.35	4.10
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.80	4.50
Euro							
ECB depo	2.05	0.20	-0.30	4.00	3.09	1.75	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	1.90	2.15
€STR	-	-0.54	-0.38	3.90	3.06	1.70	2.06
1-month Euribor	3.18	0.50	-0.32	3.86	2.89	1.74	2.10
3-month Euribor	3.24	0.65	-0.21	3.94	2.83	1.76	2.11
6-month Euribor	3.29	0.78	-0.07	3.93	2.63	1.91	2.14
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.09	2.18
Germany							
2-year government bonds	3.41	0.35	-0.21	2.55	2.02	1.87	1.96
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	2.41	2.58
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.52	2.72
10-year government bonds	4.42	3.17	0.99	3.09	2.90	2.70	2.95
Risk premium	11	164	85	98	68	70	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	1.95	2.10
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.16	2.36
10-year government bonds	4.49	4.67	0.96	2.74	2.68	2.55	2.85
Risk premium	19	314	82	63	46	55	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.02	1.08
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.81	0.80
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	69.8	72.1	64.0

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	4.3	3.3	2.5	3.3	3.2	3.1	3.1
Developed countries	2.7	1.5	1.6	1.7	1.8	1.6	1.7
United States	2.7	1.8	2.1	2.9	2.8	2.1	1.9
Euro area	2.3	0.8	1.2	0.5	0.7	0.8	1.4
Germany	1.6	1.3	0.2	-0.1	-0.2	0.0	0.9
France	2.3	1.0	0.6	1.1	1.1	0.5	1.1
Italy	1.5	-0.3	1.5	0.8	0.5	0.5	1.3
Portugal	1.5	0.4	1.5	2.6	1.9	2.4	2.1
Spain	3.6	0.7	0.6	2.7	3.2	2.5	2.1
Japan	1.4	0.4	-0.2	1.9	0.1	1.0	1.0
United Kingdom	2.7	1.2	0.9	0.4	0.9	1.0	1.3
Emerging and developing countries	6.3	4.8	3.1	4.4	4.3	4.1	4.1
China	10.6	8.0	4.7	5.4	5.0	4.2	3.9
India	7.2	6.7	3.6	7.7	6.5	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	3.3	2.1	2.9
Poland	4.2	3.7	3.6	0.1	2.8	3.6	-
INFLATION							
Global	4.1	3.7	5.5	6.7	5.8	4.6	3.9
Developed countries	2.1	1.6	3.7	4.6	2.6	2.6	2.3
United States	2.8	1.8	4.6	4.1	3.0	3.1	2.7
Euro area	2.2	1.4	3.7	5.4	2.4	2.4	1.9
Germany	1.7	1.4	4.1	6.0	2.5	2.6	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	1.9	1.8
Portugal	3.1	1.1	3.0	4.3	2.4	2.2	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	2.6	2.1
Emerging and developing countries	6.9	5.6	6.9	8.1	7.8	5.7	4.7
China	1.7	2.6	1.8	0.2	0.2	0.8	1.3
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	-

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	3.1	2.4
Government consumption	4.5	0.9	2.6	5.2	4.9	1.9	0.8
Gross fixed capital formation	5.7	-1.2	-1.0	2.1	2.3	3.1	3.0
Capital goods	4.9	0.2	-2.5	1.1	2.3	3.8	1.5
Construction	5.7	-2.6	-1.9	3.0	2.6	3.0	3.8
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.7	1.7	2.8	2.7	2.1
Exports of goods and services	4.7	2.9	2.5	2.8	2.9	2.1	2.3
Imports of goods and services	7.0	0.2	2.5	0.3	2.0	2.9	2.5
Gross domestic product	3.6	0.7	0.6	2.7	3.2	2.5	2.1
Other variables							
Employment	3.2	-0.5	1.4	3.2	2.4	2.0	1.8
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	10.7	10.2
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	2.7
Current account balance (% GDP)	-5.8	-0.2	0.6	2.7	3.0	2.9	3.1
External funding capacity/needs (% GDP)	-5.1	0.2	1.3	3.6	4.1	3.9	4.0
Fiscal balance (% GDP) ¹	0.3	-6.5	-7.1	-3.5	-3.2	-2.8	-2.6

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	1.9	3.2	2.3	1.8
Government consumption	2.2	-0.3	2.0	0.6	1.1	0.9	0.8
Gross fixed capital formation	-0.4	-0.7	2.9	2.0	1.7	5.5	5.2
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	2.5	2.7	2.3
Exports of goods and services	5.3	4.0	3.6	3.8	3.4	3.4	3.7
Imports of goods and services	3.6	2.7	4.0	1.8	4.8	4.0	4.1
Gross domestic product	1.5	0.4	1.5	2.6	1.9	2.4	2.1
Other variables							
Employment	0.4	-0.4	1.1	2.3	1.2	1.0	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	2.2	2.0
Current account balance (% GDP)	-9.2	-2.9	-1.0	0.6	2.2	1.4	1.4
External funding capacity/needs (% GDP)	-7.7	-1.6	0.2	2.0	3.3	3.1	3.2
Fiscal balance (% GDP)	-4.5	-5.1	-3.0	1.2	0.5	0.3	0.2

■ Forecasts

High volatility in a new geopolitical environment

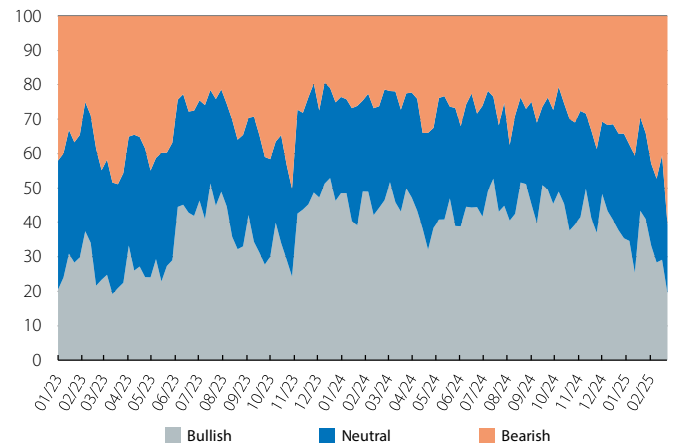
Change in investor sentiment. The start of 2025 has brought a change in the focus of the financial markets, which was consolidated in February. Investors have shifted their attention away from the central banks, which were the main driver of the markets in 2024, towards an environment of high geopolitical risk, with the «Trump effect» as a key catalyst. The uncertainty derived from his trade policy and the spending cuts in the federal government, which affected both business and consumer confidence (see the [International Economy - Economic Outlook section](#)), began to reinforce the narrative that US economic growth will moderate over the coming quarters and triggered a risk-off movement in the country's risk assets as risk appetite wavered. In the euro area, the markets are navigating the trade uncertainty amid developments in the war in Ukraine, including a change of stance on the part of the US, a possible negotiation for an end to the conflict and an intensification of pressure on the euro area to increase defence spending, at the same time as Germany held elections and entered a new phase of negotiations to form a government. The geopolitical landscape has thus taken centre stage in the financial markets, and the heightened uncertainty has led to a spike in volatility.

The central banks are advancing at different speed.

February was a month of limited activity from the central banks. The main meeting was the Bank of England's, which cut its benchmark interest rate to 4.50%, the third 25-bp reduction since August, and the Monetary Policy Committee highlighted the gradual approach planned for future rate cuts. It is this same caution that is guiding the Fed's strategy, as the minutes of its last meeting in January reveal, in which the FOMC members highlighted the elevated uncertainty and the risk of more persistent inflation. Factors such as possible changes in trade and migration policies were identified as key risks. However, in the last few sessions of the month, the markets have begun to anticipate the likelihood that the Fed will pursue further rate cuts than previously anticipated if activity weakens, as the recent confidence indicators suggest. On the ECB's side, expectations are still that the depo rate will reach 2% in the summer, which is considered a neutral level and where it are expected to remain throughout the second half of the year.

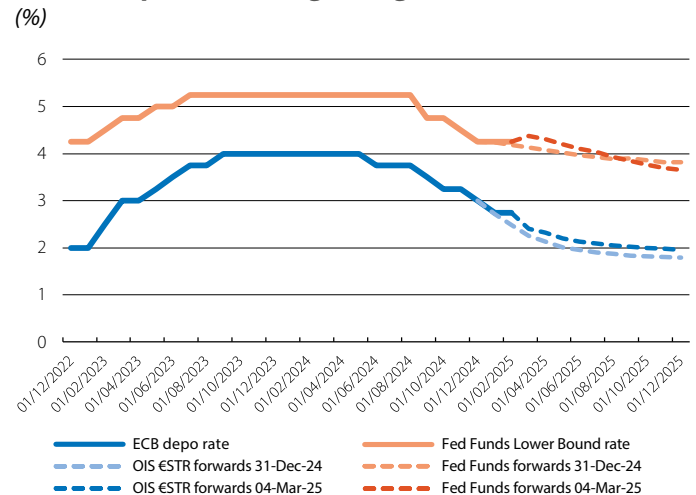
Sovereign interest rates reflect the economic and political uncertainties. In the euro area, on the one hand, expectations of a more dovish ECB and Trump's delay in imposing tariffs on the EU drove down yields, but on the other hand, the growing pressure to increase defence spending exerted an upward force. Thus, euro area yields experienced round-trip fluctuations in the month, finally ending up with slight declines. In the US, the feeling of risk aversion directed flows towards Treasuries as a safe-haven asset, driving down yields. Declines of up to

US: investor sentiment
(% of investors)



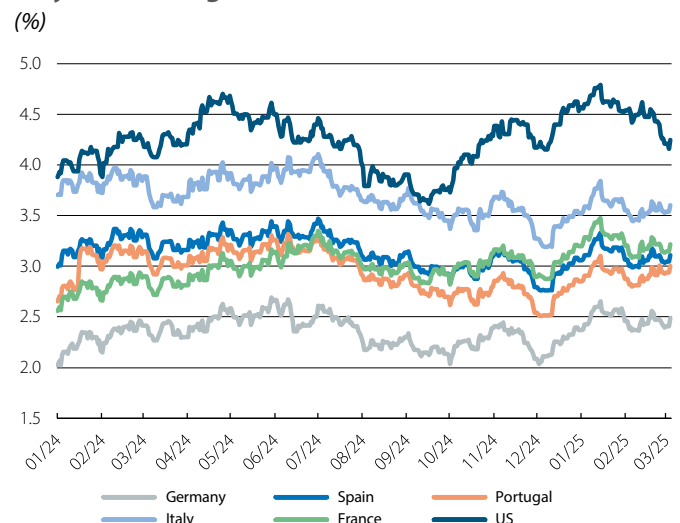
Note: Percentage of investors who respond to the American Association of Individual Investors survey about their sentiment: optimistic (bullish), neutral or pessimistic (bearish).
Source: CaixaBank Research, based on data from the American Association of Individual Investors.

Market expectations regarding intervention rates



Source: CaixaBank Research, based on data from the ECB, the Fed and Bloomberg.

10-year sovereign interest rates



Source: CaixaBank Research, based on data from Bloomberg.

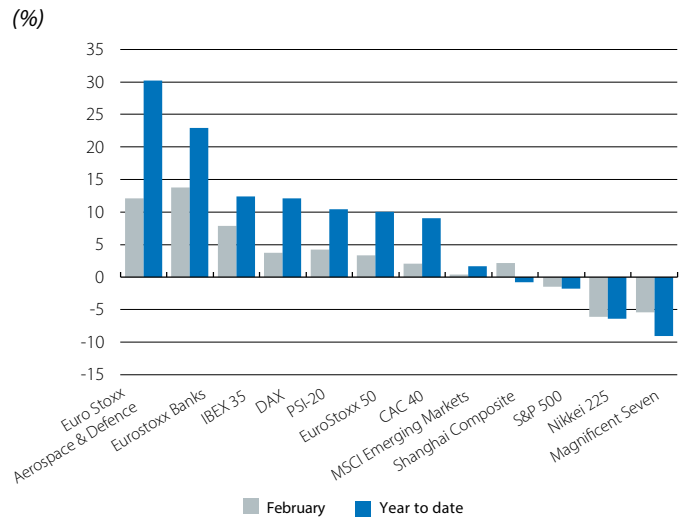
30 bps were recorded in the long end of the curve, mostly driven by the fall in real rates (the nominal interest rate on a sovereign bond can be broken down as the sum of the real interest rate plus expected inflation, or break-even inflation). This suggests that the markets are beginning to anticipate an environment of lower growth and higher inflation, in which the future fiscal policies and their effect on the deficit and debt are yet to be clarified.

European fixed income emerges as a leader. In line with the risk-off tone of the month, US shares closed February with losses and, at the time of this publication, will have completely erased the gains of the post-election rally. By sector, technology and consumer discretionary (both cyclical in nature) have been the worst performers. In contrast, the main euro area indices have shown a much stronger performance, recording gains of over 10% in the year among the region's main stock market indices. The biggest driver of the rebound has been the defence sector (+30%), given the new geopolitical context, although the banks (+26%) have also acted as a catalyst following a good earnings season. Moreover, the better performance of European stocks compared to those of the US is occurring in a context of high relative valuations in the US, which makes its markets more vulnerable to negative macroeconomic surprises. In the euro area, meanwhile, where valuations had been depressed relative to those of the US, the margin for gains is greater.

The euro strengthens. The euro closed the month with gains against the dollar, trading close to 1.06 dollars, up from the 1.03 observed at the beginning of February. The delay in the introduction of tariffs on the EU, a possible deal in Ukraine and a deterioration in the macro outlook in the US have all acted as appreciating forces for the currency. The yen also appreciated against the dollar amid greater expectations that the Bank of Japan will continue to raise interest rates (inflation picked up in January again). In contrast, both the Mexican peso and the Canadian dollar depreciated at the end of the month following President Trump's confirmation of the reinstatement of the 25% tariffs on imports from both countries.

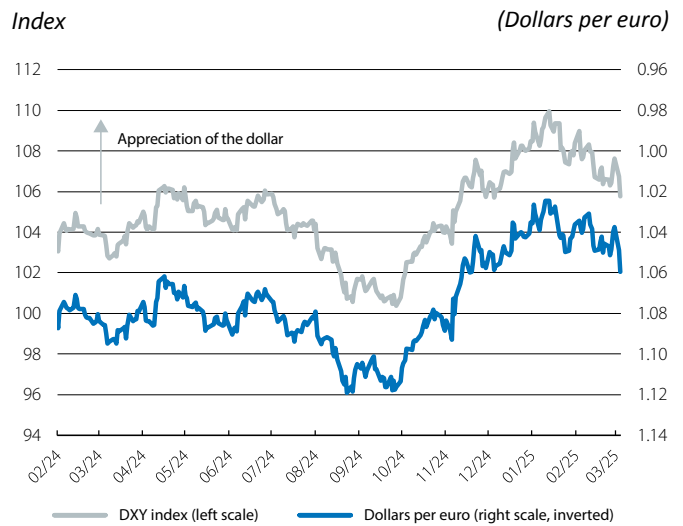
The month of gold. The uncertainty surrounding tariffs has also translated to the commodity markets and has led to a widespread rise in prices, as well as incentivising advance purchases, exerting even more upward pressure. The price of gold, a safe-haven asset per excellence, has surged by almost 10% in the year, and this comes in the wake of the price increases of 2024, reflecting the economic and geopolitical uncertainty. On the other hand, energy has moved in the opposite direction. Gas prices have fallen sharply amid expectations of a resolution of the conflict in Ukraine, as have oil prices in the face of the uncertainty over the slowdown in US demand. In addition, OPEC and its allies confirmed their intention to begin reversing the oil production cuts beginning in April, after more than two years reducing supply, applying downward pressure on prices.

Performance of stock market indices



Note: Year to date as of 04/03/2025. Source: CaixaBank Research, based on data from Bloomberg.

Performance of the dollar



Source: CaixaBank Research, based on data from Bloomberg.

Commodity prices

	Measure	Price	Change (%)			
			Last month	Year to date	2023	2024
Commodities	Index	103.6	1.3	4.9	-12.6	0.1
Energy	Index	31.3	4.8	6.3	-25.6	-3.9
Brent	\$/barrel	73.1	-4.8	-2.1	-10.3	-3.1
Natural gas (Europe)	€/MWh	45.2	-15.1	-7.6	-57.6	51.1
Precious metals	Index	286.2	0.3	7.5	4.1	19.0
Gold	\$/ounce	2,857.8	2.1	8.9	13.1	27.2
Industrial metals	Index	145.8	2.9	3.9	-13.7	-1.6
Aluminium	\$/MT	2,632.5	1.2	3.2	0.3	7.0
Copper	\$/MT	9,389.5	3.2	7.1	2.2	2.4
Agriculture	Index	58.9	-1.1	3.3	-9.3	-8.7
Wheat	\$/bushel	546.8	-2.3	-0.9	-20.7	-12.2

Note: Prices as at 28/02/2025. Source: CaixaBank Research, based on data from Bloomberg.

Trump’s policies, the main question mark surrounding the global economic outlook

Developing forecast scenarios in economics is far from an exact science and the forecasts that are produced are always subject to a certain margin of error. However, the current context is especially challenging, as Trump’s second term seems more unpredictable, generating more economic uncertainty and financial volatility. In fact, in less than a month, Trump has signed more than 60 executive orders, three times the number signed in the first 100 days of his first term and almost twice as many as Biden in the same time interval. These measures have focused, above all, on controlling immigration and raising tariffs.

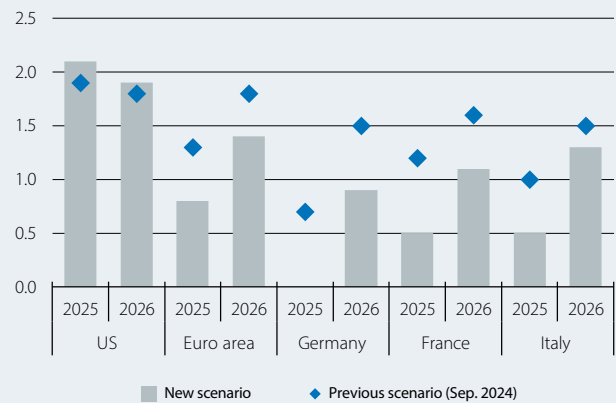
Trump uses tariffs as a negotiating tool, following a pattern similar to during his first term: he announces strong measures, signs the executive order, and then postpones its application in order to open negotiations, which in some cases can lead to the initial tariff being reduced or even eliminated. Thus, at the close of this report, we have on the table 20 additional pps to be imposed on products originating in China (China has responded with a tariff of 10%-15% on energy products, cars and various agricultural products); an increase of 25 pps in the tariff on imports from Mexico and Canada and of 10 pps on Canadian energy; 25% on steel and aluminium, and reciprocal tariffs on the EU and other economies currently being studied (a tariff of 25% «generally speaking» has been mentioned in the case of the EU); and a tariff on all agricultural imports from 2 April has been announced. He also announced that the customs exemption for all shipments from China with a value of less than 800 dollars will remain in place until appropriate systems for processing and collecting tariff revenues are developed.

We are therefore heading towards a context with higher tariffs and in which, most likely, there will be some reconfiguration of global value chains in an attempt to compensate, insofar as possible, for the loss of attractiveness of the US market. Consequently, we are moving towards a world with greater fragmentation, lower economic growth and the risk of higher inflation. In elaborating the new forecast scenarios, we have assumed a situation with a contained trade war in which there is no escalation and in which the new rules of the game are established by the middle of the year.

The euro area, in a weak starting position to face a year of challenges

The euro area closed 2024 practically stagnant (0.1% quarter-on-quarter in Q4 2024), with Germany and

GDP growth forecasts for the US and euro area (%)



Source: CaixaBank Research.

France recording negative GDP growth. The first indicators of 2025 point to a certain stabilisation of activity, but we cannot expect to see any significant upturn in the short term (see the [International Economy - Economic Outlook section](#) of this same report). Therefore, the euro area is in a rather weak starting position to overcome the significant challenges it faces, which are not just limited to the impact of a tariff hike by the US. There are also domestic factors which could impair activity growth in the region’s large economies during the first half of the year. On the one hand, the political instability in France still persists and the possibility of new elections this summer cannot be ruled out. On the other hand, in Germany, the elections held on 23 February handed victory to the CDU/CSU with 28.5% of the votes and they could form a coalition government with the SPD (16.4%). However, the strong performance of the AfD (21%) and of the radical left party Die Linke (9%) gives them enough seats to block changes to the «debt brake», which requires the approval of two-thirds of the House. All this is taking place while progress is being made in the sphere of fiscal consolidation, on the objectives of the so-called Competitiveness Compass presented in February by the European Commission and on the recommendations of the Draghi report, and also while the need to substantially boost defence spending is being addressed, now that it is clear that Europe cannot rely solely on NATO to guarantee its security. Consequently, growth for 2025 is estimated at 0.8% and for 2026 at 1.4%, 0.5 pps and 0.4 pps, respectively, lower than the previous forecasts. We will have to wait to see if there is any response on the fiscal side that can stimulate activity in the coming quarters.

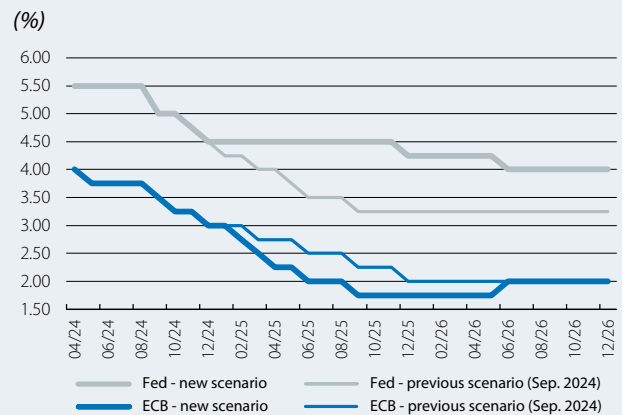
The impact on inflation, meanwhile, is not so clear. The imposition of reciprocal tariffs on the US represents an upside risk for prices, which could be offset by weak domestic demand, the limited ability of companies to translate the tariff hikes to final prices and the potential redirection of trade flows from China to the euro area. Therefore, we have kept the inflation scenario virtually unchanged, which also limits the modest adjustments in our expectations for the ECB's interest rates. Thus, after the 25-bp cut already approved in January, we expect the depo rate to be in the lower end (1.75%) of the range considered neutral, before returning to 2% in 2026.

Trump's political agenda would negatively affect US growth and raise inflation

The US economy has been performing better than expected in the past two years, but this could change going forward. The Trump administration's agenda, designed to *Make America Great Again*, could have the opposite effect. The attempt to cut the size of the public sector considerably could lead to a certain demand shock due to job losses, reduced public spending and increased uncertainty linked to cuts in social programmes. Coupled with the supply shock that could be triggered by the restrictive immigration measures and the tariff hikes, this will have a negative impact on growth and increase the risk of higher inflation. However, the positive inertia of the economy will persist during the first half of the year and it will not be until the second half of 2025 and early 2026 that the impact of the measures on growth will be felt more intensely. This explains why we anticipate GDP growth of 2.1% in 2025 and of 1.9% in 2026, slightly above the previous forecasts. However, this good outlook masks the fact that, in the absence of Trump's measures, average growth in both years could have been around 0.5 pps higher. Regarding headline inflation, we estimate that it will reach 3.1% this year and 2.7% in 2026, which would be around 0.2 and 0.4 pps higher, respectively, than without the Trump agenda.

This higher inflation, in a context of relative buoyancy in the economy, explains the substantial adjustment we have made to expectations for the Fed's interest rates, with a much less aggressive and more gradual pattern of rate cuts than had been expected up until now. Thus, we anticipate a single rate cut at the end of the year of 25 bps, which would place the upper band of the Fed Funds rate at 4.25%. We then expect it to remain at that level until around mid-2026, when another 25-bp cut could bring it down to 4.0%, where it would remain for the rest of the year.

Expectations regarding Fed and ECB interest rates



Note: Fed fund upper bound rate for the Fed and depo rate for the ECB. Source: CaixaBank Research.

China, one of the main targets of Trump's tariff policy

The Chinese economy just about managed to meet the 5.0% growth target in 2024, but expectations for this year are somewhat more pessimistic. One of the goals of the new Trump administration is to reduce the trade deficit with China and, to this end, it has already begun a cycle of tariff hikes on its imports, as promised during the election campaign. In response to the renewed US protectionism, China has already approved tariffs on certain products, with the automotive and energy sectors being the most affected, as well as restrictions on exports of critical minerals. In addition, the Chinese authorities have launched an antitrust investigation against Google and added US companies to their list of untrusted entities, suggesting that they are preparing to retaliate if the upcoming bilateral tariff negotiations fail. Given the weakness that lies ahead for the country's foreign demand, the Chinese authorities have already shown their commitment to continuing to support growth this year. In this regard, there is still a great deal of uncertainty regarding the magnitude of the fiscal stimulus and we will have to wait for the conclusion of the «Two Sessions» at the start of March to learn more about it, but all the indicators suggest that it will depend on how the negotiations with the US evolve.

What seems clear is that the impact of the ongoing trade war will cause a slowdown in the economy and we anticipate growth of 4.2% in 2025 and of 3.9% in 2026, around 0.5 pps lower than would have been achieved in the absence of this surge in global protectionism.

Rita Sánchez Soliva

Interest rates (%)

	28-February	31-January	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.90	2.90	0	-25.0	-160.0
3-month Euribor	2.46	2.59	-13	-25.0	-143.1
1-year Euribor	2.39	2.52	-13	-6.6	-126.2
1-year government bonds (Germany)	2.02	2.14	-12	-22.7	-130.4
2-year government bonds (Germany)	2.03	2.12	-9	-5.7	-60.5
10-year government bonds (Germany)	2.41	2.46	-5	3.9	9.0
10-year government bonds (Spain)	3.05	3.07	-2	-1.5	-19.3
10-year government bonds (Portugal)	2.94	2.88	6	9.2	-18.8
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	-100.0
3-month SOFR	4.32	4.30	1	1.2	-99.7
1-year government bonds	4.08	4.15	-7	-6.1	-72.5
2-year government bonds	3.99	4.20	-21	-25.3	-44.0
10-year government bonds	4.21	4.54	-33	-36.1	8.7

Spreads corporate bonds (bps)

	28-February	31-January	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	54	53	1	-3.8	-6.0
Itraxx Financials Senior	57	60	-2	-6.4	-14.0
Itraxx Subordinated Financials	100	105	-6	-12.5	-32.2

Exchange rates

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.038	1.036	0.1	0.2	-3.7
EUR/JPY (yen per euro)	156.270	160.780	-2.8	-4.0	-2.1
EUR/GBP (pounds per euro)	0.825	0.836	-1.3	-0.3	-3.3
USD/JPY (yen per dollar)	150.630	155.190	-2.9	-4.2	1.7

Commodities

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	539.2	542.0	-0.5	0.5	4.3
Brent (\$/barrel)	73.2	76.8	-4.7	-2.0	-7.6
Gold (\$/ounce)	2,857.8	2,798.4	2.1	8.9	40.4

Equity

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,954.5	6,040.5	-1.4	1.2	19.2
Eurostoxx 50 (euro area)	5,463.5	5,286.9	3.3	11.6	16.8
Ibex 35 (Spain)	13,347.3	12,368.9	7.9	15.1	35.0
PSI 20 (Portugal)	6,800.1	6,524.3	4.2	6.6	10.0
Nikkei 225 (Japan)	37,155.5	39,572.5	-6.1	-6.9	2.9
MSCI Emerging	1,097.3	1,093.4	0.4	2.0	9.4

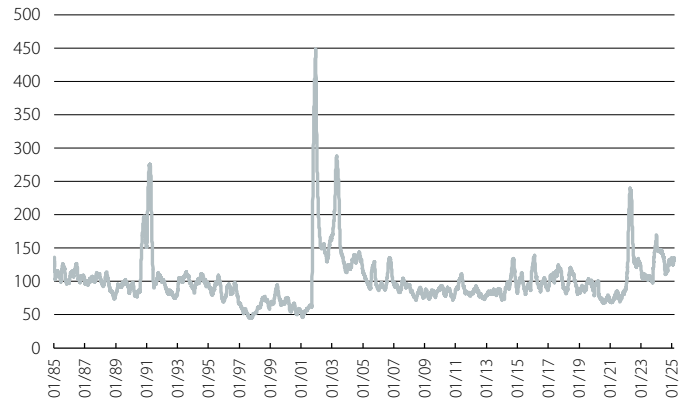
A geopolitical outlook

A new geopolitical order... The last few weeks have inescapably been marked by geopolitics. In his first six weeks in the White House, President Trump has succeeded in disrupting the world order repeatedly. Therefore, we can expect four years of a more unilateralist, transactional and confrontational US administration. On the geopolitical front, it appears that the mantra «peace through strength» is being applied to the letter. Just days after a controversial proposal for the Israeli-Palestinian conflict, the Trump administration has left its European allies scrambling to show a united front, after the unilateral start of negotiations on Ukraine's future with Russia without the presence of President Zelensky himself. After an historic vote at the United Nations condemning Moscow's actions and backing Ukraine's territorial integrity, where the US has voted against the motion, alongside Russia, Iran and North Korea. The climax of this dizzying sequence of events came during President Zelensky's visit to the White House, which ended in a diplomatic conflict and the announcement of the suspension of US military aid. The emergency meetings taking place between European leaders highlight what a delicate moment this is for the continent. Part of the European response will come in the form of increased defence spending, although there are still question marks over what format it will take and how it will be funded, as well as regarding what the EU's position will be in the new geopolitical balance.

... and a new trade disorder. On the trade policy front, tariff hikes have been approved on imports entering the US from China (+10 pps at the start of February, +10 pps at the start of March), from Canada and Mexico (25% with the exception of imports of energy goods from Canada, 10%), and on aluminium and steel globally (up to 25%), while tariffs on the EU have not yet been announced. That said, President Trump has indicated that there will be tariff hikes soon and has ordered the preparation of reciprocal measures, which would include tariff differentials as well as potentially non-tariff barriers. Between official announcements and night-time tweets, it is clear that the uncertainty surrounding trade policies will cloud the economic outlook in the short and medium term, with a high risk of a global protectionist escalation.

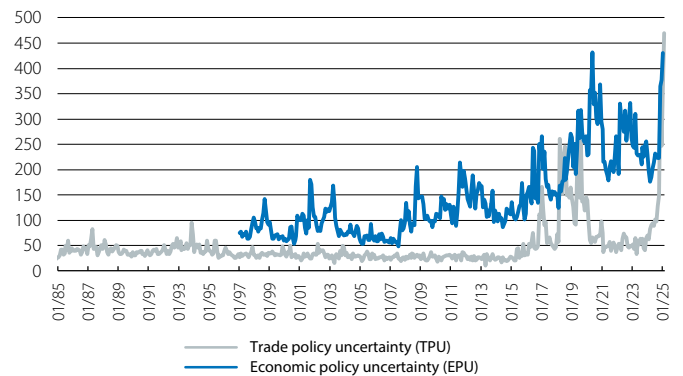
A turbulent start of the year with effects on confidence already emerging. In January, the composite PMI for global activity stood at 51.8 points, 0.8 points below its level at the 2024 year end, with widespread declines recorded on the services side, which have been only partially offset by a slight improvement in manufacturing activity. In February, these trends continued in the US and the euro area, as orders accelerated in some industries, possibly in anticipation of an escalation of tariffs. Of particular note was the sharp slowdown in the services PMIs in the US, which went from 56.8 points in December to 49.7 in February, marking the lowest level in two years. The deterioration in business confidence is attributed to the decline in activity and in new orders, which have been affected by the heightened uncertainty, the cuts in federal spending and the prospect of higher inflation. This deterioration in confidence levels is also evident in consumer confidence surveys in the US. In addition, the decline in the ISM manufacturing index (from 50.9 to 50.3 points), with sharp

Global: geopolitical risk Index (100 = 1985-2019 average)



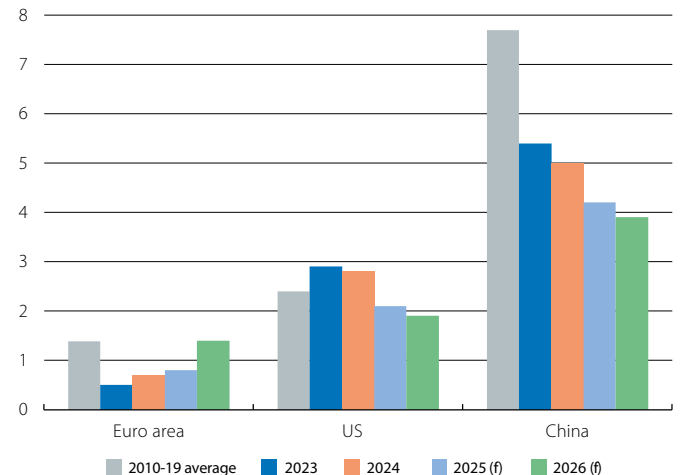
Notes: The index is built using newspaper articles, by searching for keywords related to geopolitical risks in the electronic archives of 10 newspapers published in English. A higher value for the index indicates an increase in risk. The 90-day average is shown.
Source: CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2022), «Measuring Geopolitical Risk».

Global: economic uncertainty Index



Notes: The indices are built using newspaper articles, by searching for keywords related to trade policy uncertainty (TPU) and economic policy uncertainty (EPU). A higher value for each index indicates an increase in uncertainty. The EPU index uses an average (weighted by the GDP of each country) of the national indices for a sample of 21 countries and takes the average for the period 1997-2015 as its 100-point base. The TPU index is normalised to 100, for a proportion of 1% of the articles in 7 (mostly US) newspapers discussing trade policy uncertainty.
Source: CaixaBank Research, based on data from S. Baker et al. (EPU) and D. Caldara et al. (GPR) (downloaded from <https://www.policyuncertainty.com/> on 25/02/2025).

Global: GDP Global: GDP



Source: CaixaBank Research, based on data from Bloomberg and internal forecasts.

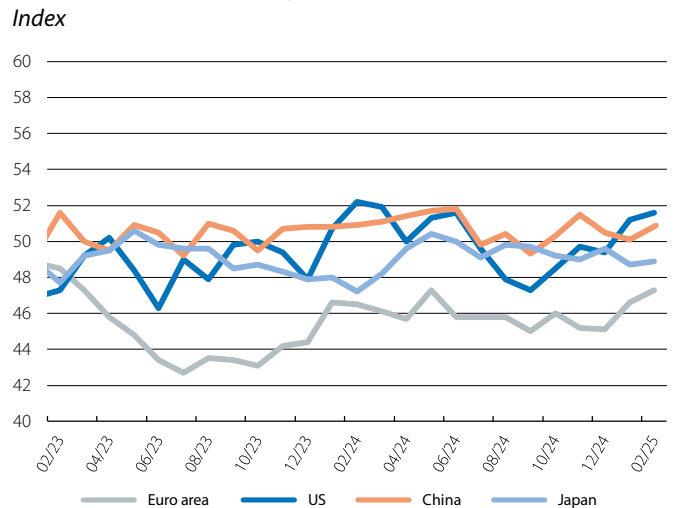
swings in the components of new orders (down) and prices (up), indicates that the recovery of recent months may be at risk of reversing, with the emergence of a trade war.

The euro area, between Germany's electoral hangover and mixed data in Q1. Following the victory of Friedrich Merz's CDU/CSU, negotiations for a grand coalition between the CDU and the SPD are expected to begin, with major challenges ahead. These include the reform of the «debt brake», without which the increase in infrastructure investment and defence spending will be limited. Meanwhile, the Ifo economic sentiment index remained unchanged in February, at around 85 points, well below the 100-point threshold that denotes growth around the historical average. In the euro area, the economic sentiment index rose to 96.3 points (vs. 95.3 previously), thanks to improvements in Germany and France. On the other hand, the unemployment rate remained at 6.2% in January, despite the fact that some indicators, such as the employment component of the PMIs, point to a slowdown in the labour market.

Acceleration of growth in Asia at the end of 2024 and the beginning of 2025. Japan's GDP grew by 0.7% quarter-on-quarter in Q4 2024 (vs. 0.4% in Q3), with the foreign sector being the main driver of growth. For the year as a whole, the Japanese economy grew by just 0.1% (vs. 1.5% in 2023). Nevertheless, the latest GDP and inflation data could bolster the Bank of Japan's confidence to raise interest rates in the coming months, particularly if they are accompanied by wage increases during the annual spring negotiations between big Japanese firms and unions. In India, the economy grew by 6.5% in 2024 (vs. 7.7% in 2023) and the breakdown by component reveals that private consumption remained the main source of support for the economy in Q4. On the other hand, the acceleration of public spending should continue throughout this year, with an intensification of the support from fiscal policy and a monetary policy placing greater emphasis on supporting growth. In China, the PMIs signal an acceleration of the economy in February relative to the previous month. While the support from fiscal policy and the recovery of the real estate sector could support the Asian giant's economy, the tariff escalation remains a major downside risk.

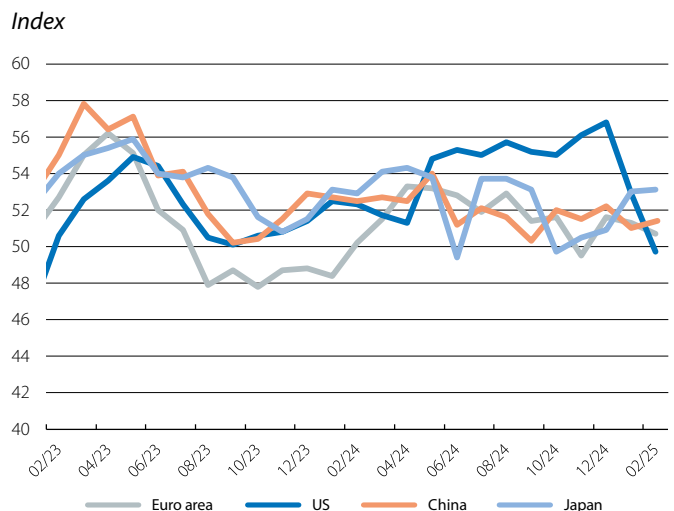
New forecasts for 2025-2026: between inertia, tariffs and more inflation. Faced with a horizon of high economic and geopolitical uncertainty, we have reviewed our global growth forecasts (for further details, see the Focus «[Trump's policies, the main question mark surrounding the global economic outlook](#)»). In the euro area, we have revised downwards the forecasts for both 2025 (0.8% vs. 1.3% previously) and 2026 (1.4% vs. 1.8% previously). In the US and China, the upward revisions are mainly explained by the stronger than expected GDP data in the second half of 2024, and the negative impact of relatively contained tariff hikes has been incorporated. Overall, we expect a more inflationary environment, mainly in advanced economies. In this context, we have revised upwards our inflation forecasts for the US, to 3.1% in 2025 (+1 pp) and to 2.7% in 2026 (+0.7 pps). In the euro area, the latest data reinforce the disinflationary dynamics observed in recent months, with the decline of inflation in services being particularly pronounced (falling to 3.7%, its lowest level in 10 months).

Global: manufacturing PMI



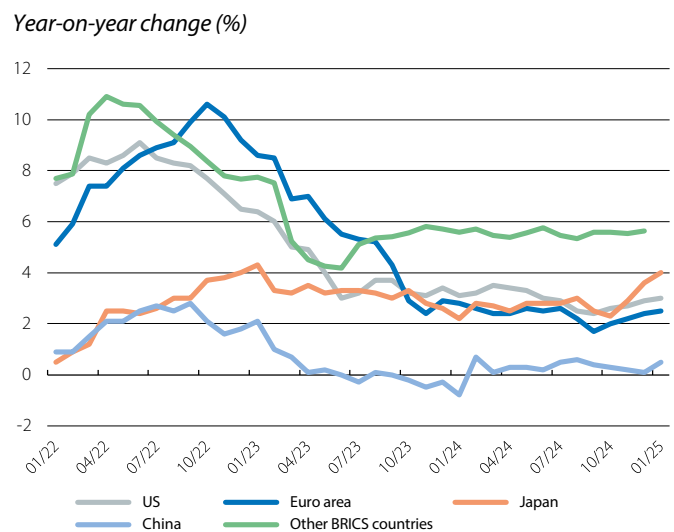
Source: CaixaBank Research, based on data from S&P Global and the National Statistics Office of China, via Bloomberg.

Global: services PMI



Source: CaixaBank Research, based on data from S&P Global and the National Statistics Office of China, via Bloomberg.

Global: headline inflation



Source: CaixaBank Research, based on data from Bloomberg.

Inflation in China: in which direction will the snake creep?

While most advanced and emerging economies have faced a period of high inflation in the past two years, in China it has remained close to zero. Core inflation, which excludes more volatile components such as food and energy, has stood at around 0.5%, not far from the average recorded since 2005 (around 1%), but showing a persistent downward trend since 2018. What is behind the recent cycle of low inflation and what risk factors could transform it into a deflationary crisis?

A relationship between supply and demand

In the last two years, 50% of the components of the consumer basket have maintained negative average inflation (23% of them below -2%) and only 10% have recorded inflation above 2% (see first chart).¹ Among the most visible symptoms of the recent moderation in inflation in the Asian giant are persistent declines in the prices of food, durable goods, cars and rents.² In the case of food, despite falling prices observed in various products (such as meat, oil and eggs) and their high relative weight in the basket, these declines are likely to be reversed given the high volatility of these components. On the other hand, the falls in rental prices are another symptom of the crisis in the real estate sector which has plagued the country since 2021. Given that it will be difficult to absorb the excess capacity in this sector, it will continue to exert downward pressure on inflation in the coming years, whether directly (due to declines in rental and housing prices) or indirectly (due to lower demand for durable goods related to housing and confidence or wealth effects).

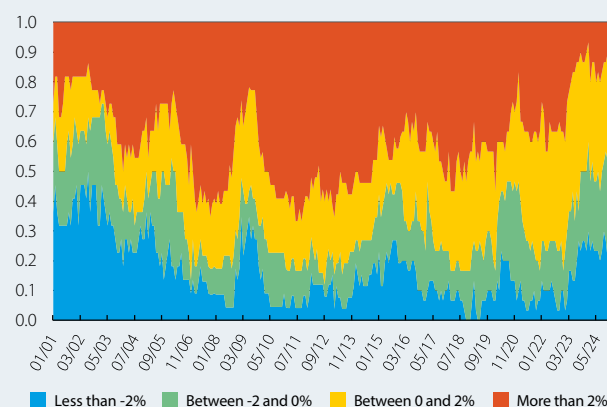
It is also worth highlighting the automotive sector (see second chart), which has been recording deflation of around 5% for two years now (compared to a historical average of -2%), in a context marked by productivity improvements in the sector, fierce competition and in which the demand for cars has slowed, serving as an illustrative case of the structural factors behind the current cycle of low inflation.³ With all this, there are factors that suggest that the downward pressures on

1. In a previous deflationary episode, in 2009, core inflation stood at -1% . Over 30% of the consumer basket had inflation above 2% at the time (mainly essential goods and services, such as food and housing), while services inflation stood at -1% in the period (versus around 1% since 2023).

2. For example, there have also been significant price declines in telecommunications equipment, although they have been smaller than those recorded historically (-2% in the last two years compared to almost -10% since 2001).

3. Specifically, sales of basic passenger vehicles have increased by around 2% in 2023 and 2024, compared to a historical average growth of around 4% per year, while sales of SUVs have increased by around 15%, compared to a historical average of over 30%. Together, these two categories account for more than 80% of total vehicle demand.

China: inflation traffic light
(% of the components of the CPI basket)

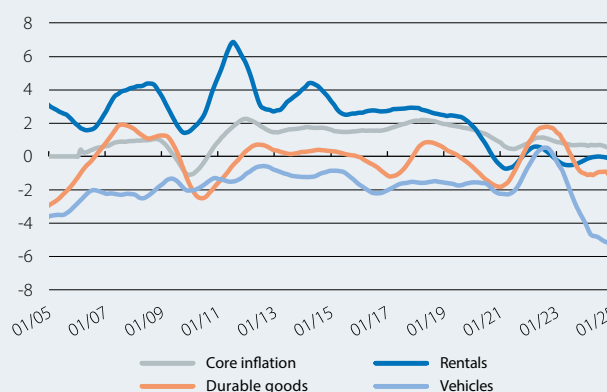


Note: For the 30 main components of the consumer basket, the percentage of components that registered year-on-year inflation in the indicated ranges is illustrated each month.

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

China: components of core inflation

Year-on-year change, 12-month average (%)



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

inflation of recent years are not so limited to specific sectors and that the Chinese economy is facing chronic oversupply (or lack of demand).

In order to analyse the phenomenon of overcapacity in China's industry more systematically, we have compared the evolution of investment with that of production prices. Although there is a negative correlation between the two variables, that is, the greater the accumulated investment in recent years, the greater the falls in production price inflation, the situation varies by sector. On the one hand, sectors such as the automotive industry, machinery and textiles show moderate investment flows and moderate price falls, whereas the electrical and electronics equipment sectors have among the highest investment flows, but with moderate production price falls. This invites us to think

that this is a multidimensional phenomenon. In more technologically advanced sectors, the rebound in investment can simply be explained by higher investment needs and more dynamic demand.⁴ On the other hand, in sectors such as metals and the chemicals industry, which combine high cumulative investments with significant price reductions, the case appears to be different.

In the case of some of these sectors, the combination of high investment and significant price declines is compounded by a steady decline in profitability (see third chart). This is the case in the chemicals, paper, textile and automotive industries, while the most extreme cases are found in the minerals and ferrous metal processing sectors. In the former, there has been cumulative investment growth of 30%, while prices have fallen by 9% and profits by more than 50%. In the latter, investment has almost doubled, with prices falling in excess of 10% and profits by around 90%. On the other hand, sectors such as electrical products, electronics and machinery have registered increases in their profitability in the same period.

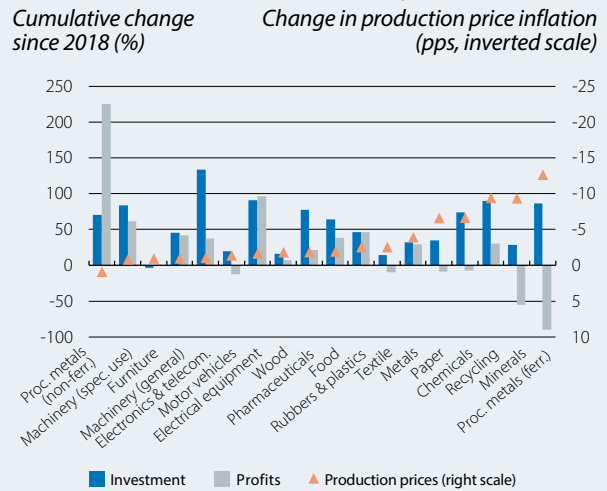
Inflation or deflation in China: is this time different?

The current deflationary cycle in China thus has some important nuances. Although the problems of overcapacity in industry appear to be concentrated in certain sectors of the economy, such as the chemicals and metals industries, they have major ramifications for other economic sectors. On the other hand, in sectors such as textiles or durable consumer goods (such as the automotive sector), the episode of falling prices could be explained rather by stagnating domestic demand.

Also, despite localised problems, chronic overcapacity problems in industries at the beginning of the value chain will continue to apply pressure on prices downstream, i.e. in sectors that use these products as production inputs. Similarly, the real estate crisis will continue to apply negative pressure on prices and on Chinese consumer demand.⁵ In this regard, inflation in China is likely to remain close to zero in the coming years.

But is this just another deflationary cycle or could the Chinese economy enter a phase of «Japanisation»? This process refers to a prolonged phase of low economic growth and low inflation, which in the case of Japan

China: evolution of investment, profitability and production prices in industry



Note: To calculate the production price growth differential, the average producer price inflation (PPI) between January 2023 and 2025 is compared with the average inflation recorded in the period 2015-2019.
Source: CaixaBank Research, based on data from Bloomberg.

since the late 1980s originated in the bursting of a housing bubble and very low fertility rates – two factors which it has in common with the current situation of the Chinese economy. In this equation, the determining factor will be how domestic demand evolves. Since the opening up of the Asian giant’s economy in the 1990s, the imbalance between supply and demand in China has been absorbed by the rest of the world; indeed, this «offset» has even intensified in recent years, with China gaining global market share thanks to its consistently high price-competitiveness. Faced with a new escalation of trade tensions, this time the main task will lie on the other side of the wall. Will the Chinese economic model be able to adapt?

Luís Pinheiro de Matos

4. In addition, some of these sectors are included in the *Made in China 2025* plan, which seeks to develop certain industries that are considered strategic. Also, in the case of sectors such as electronics or electrical equipment, this concerted investment effort has been accompanied by significant gains in global market shares in recent years (this is the case, for example, of components related to green energies).

5. For further details, see the Focus «[What is going on with Chinese consumers?](#)» in the MR07/2024.

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

UNITED STATES

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
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	2.8	3.4	3.5	3.9	3.9	3.9	...
Consumer confidence (value)	105.4	104.5	106.3	98.9	102.2	110.6	109.5	105.3	98.3
Industrial production	0.2	–0.3	–0.5	0.0	–0.4	–0.3	0.3	2.0	...
Manufacturing activity index (ISM) (value)	47.1	48.2	48.8	48.5	47.3	48.2	49.2	50.9	50.3
Housing starts (thousands)	1,421	1,367	1,407	1,340	1,332	1,388	1,515	1,366	...
Case-Shiller home price index (value)	312	330	325	329	332	336	338	...	...
Unemployment rate (% lab. force)	3.6	4.0	3.8	4.0	4.2	4.1	4.1	4.0	...
Employment-population ratio (% pop. > 16 years)	60.3	60.1	60.2	60.1	60.0	59.9	60.0	60.1	...
Trade balance ¹ (% GDP)	–3.1	–2.9	–2.8	–2.8	–2.9	–3.1	–3.1	...	...
Prices									
Headline inflation	4.1	3.0	3.2	3.2	2.6	2.7	2.9	3.0	...
Core inflation	4.8	3.4	3.8	3.4	3.2	3.3	3.2	3.3	...

JAPAN

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
Activity									
Real GDP	1.5	0.1	–0.8	–0.8	0.6	1.2	–	–	–
Consumer confidence (value)	35.2	37.2	38.9	37.0	36.8	36.3	36.2	35.2	35.0
Industrial production	–1.4	–2.7	–4.3	–2.9	–1.8	–1.8	–3.2	2.6	...
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	2.6	2.6	2.5	2.5	2.5	2.5	...
Trade balance ¹ (% GDP)	–3.0	–1.0	–1.2	–1.0	–1.0	–0.9	–0.9	–1.0	...
Prices									
Headline inflation	3.3	2.7	2.5	2.7	2.8	2.9	3.7	4.0	...
Core inflation	3.9	2.4	3.2	2.2	2.0	2.3	2.4	2.6	...

CHINA

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
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	3.7	...	...
Industrial production	4.6	5.6	5.8	5.9	5.0	5.6	6.2	...	...
PMI manufacturing (value)	49.9	49.8	49.7	49.8	49.4	50.2	50.1	49.1	50.2
Foreign sector									
Trade balance ^{1,2}	865	995	841	864	897	995	995	...	...
Exports	–5.1	4.6	–1.7	4.4	5.4	10.0	10.5	...	...
Imports	–5.5	1.1	1.6	2.5	2.3	–1.8	1.0	...	...
Prices									
Headline inflation	0.2	0.2	0.0	0.3	0.5	0.2	0.1	0.5	...
Official interest rate ³	3.5	3.1	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	7.3	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	12/24	01/25	02/25
Retail sales (year-on-year change)	-1.9	1.0	0.0	0.2	2.0	1.8	1.9	...	...
Industrial production (year-on-year change)	-1.7	-2.9	-4.7	-3.8	-1.5	-1.6	-2.0	...	...
Consumer confidence	-17.4	-14.1	-15.5	-14.3	-13.1	-13.6	-14.5	-14.2	-13.6
Economic sentiment	96.4	95.9	96.1	96.0	96.3	95.1	93.8	95.3	96.3
Manufacturing PMI	45.0	45.9	46.4	46.3	45.8	45.5	45.1	46.6	47.6
Services PMI	51.2	51.5	50.0	53.1	52.5	52.1	51.6	51.3	50.6
Labour market									
Employment (people) (year-on-year change)	1.4	1.2	1.1	1.0	0.9	0.7	-	-	-
Unemployment rate (% labour force)	6.6	6.4	6.5	6.4	6.3	6.2	6.2	6.2	...
Germany (% labour force)	3.0	3.4	3.3	3.4	3.5	3.4	3.5	3.5	...
France (% labour force)	7.3	7.4	7.4	7.4	7.4	7.3	7.3	7.3	...
Italy (% labour force)	7.7	6.6	7.1	6.7	6.3	6.2	6.4	6.3	...
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	0.6	-	-	-
Italy (year-on-year change)	0.8	0.5	0.3	0.6	0.6	0.6	-	-	-

Prices

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
General	5.5	2.4	2.6	2.5	2.2	2.2	2.4	2.5	2.4
Core	5.0	2.8	3.1	2.8	2.8	2.7	2.7	2.7	2.6

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	12/24	01/25	02/25
Current balance	2.1	3.5	2.6	3.2	3.3	3.5	3.5	...	...
Germany	5.8	5.8	6.1	6.3	6.2	5.8	5.8	...	...
France	-1.0	-0.4	-0.5	-0.4	-0.1	-0.4	-0.4	...	...
Italy	0.0	1.4	0.5	0.9	1.1	1.4	1.4	...	...
Nominal effective exchange rate¹ (value)	94.7	95.1	95.2	95.2	95.6	94.2	93.5	93.4	93.0

Credit and deposits of non-financial sectors

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
Private sector financing									
Credit to non-financial firms ²	2.7	0.8	0.3	0.4	1.0	1.4	1.7	2.0	...
Credit to households ^{2,3}	1.7	0.5	0.2	0.3	0.5	0.9	1.1	1.3	...
Interest rate on loans to non-financial firms ⁴ (%)	4.6	4.9	5.1	5.1	4.9	4.4	4.2	4.1	...
Interest rate on loans to households for house purchases ⁵ (%)	4.4	4.6	4.8	4.8	4.7	4.3	4.2	4.1	...
Deposits									
On demand deposits	-8.5	-3.9	-8.8	-5.5	-2.5	1.2	1.9	2.9	...
Other short-term deposits	21.1	12.3	18.3	14.3	10.5	5.9	4.4	3.3	...
Marketable instruments	20.3	20.0	20.6	19.8	22.1	17.6	15.8	14.7	...
Interest rate on deposits up to 1 year from households (%)	2.7	3.0	3.2	3.1	3.0	2.6	2.5	2.3	...

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 kicks off the year on a good footing

The indicators that have been published during the opening months of the year paint a picture of a buoyant Spanish economy in Q1 2025, albeit with a slightly less vigorous growth rate than in the previous quarter.

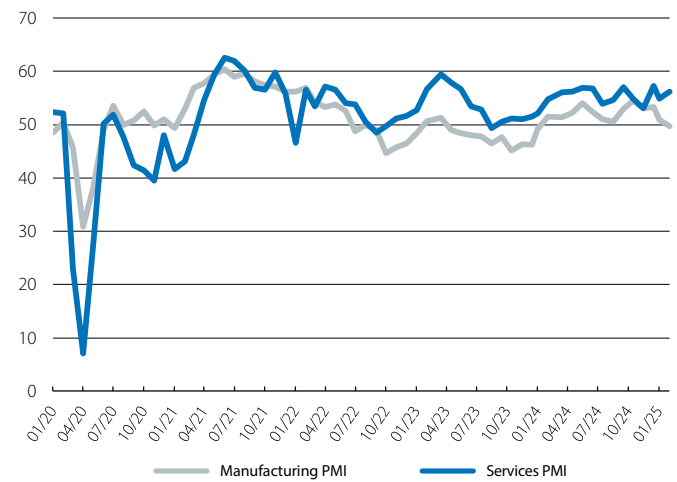
The services sector is looking particularly dynamic. The sector's PMI has risen to an average of 55.6 points in the first two months of the year, compared to 55.1 in Q4 2024. The improvement in activity continues to be supported by strong demand, especially in the field of trade, which in turn is being driven by a booming tourism sector. In this regard, the latest data confirm the strength of tourism activity: in January the number of foreign tourists who arrived in our country reached 5.1 million, which represents a growth rate of 6.1% year-on-year and of 20.7% versus pre-pandemic levels (January 2019).

The signals are somewhat weaker in industry, as the manufacturing sector's PMI in February fell below 50 points (49.7) for the first time since January 2024, although the January-February average is still within expansive territory (50.3 vs. 53.6 in Q4 2024); both production and new orders are slowing down, in a context of weakening demand amid a climate of high uncertainty. The signs are slightly more positive on the employment side in the industrial sector, with the number of registered workers up 1.7% year-on-year in January-February, compared to 1.6% in Q4 2024. Overall, the industrial sector is being weighed down by sluggish demand from our main European partners and by the question marks surrounding the US' tariffs policy. In this regard, although Spain's direct exposure to these changes is relatively low, sectors such as the agro-industrial or pharmaceutical industries could be particularly affected; in addition, the current geopolitical uncertainty could lead to the postponement of investment projects.

As for consumption, the indicators point to a moderation in its growth rate, following a good end to 2024. For instance, the growth of passenger car registrations normalised in January-February, standing at 8.4% year-on-year, following an extraordinary figure of 14.4% recorded in Q4 2024, which was largely driven by a December figure that was the best for that month in 4 years. In annualised terms, the number of registrations exceeds one million units – a milestone not surpassed since mid-2020. The CaixaBank Research indicator, for its part, shows that Spanish card activity is moderating in the opening weeks of the year, with growth to 21 February of 3.8% year-on-year, slightly below the rate recorded in Q4 2024 (4.0%).

Job creation continues to grow at a significant rate. The average number of registered workers in February increased by 100,340 people, slightly below last year's increase (103,621) but notably above the average of 70,616 for the months of February 2014-2019. Correcting for seasonality, employment

Spain: PMI
Level



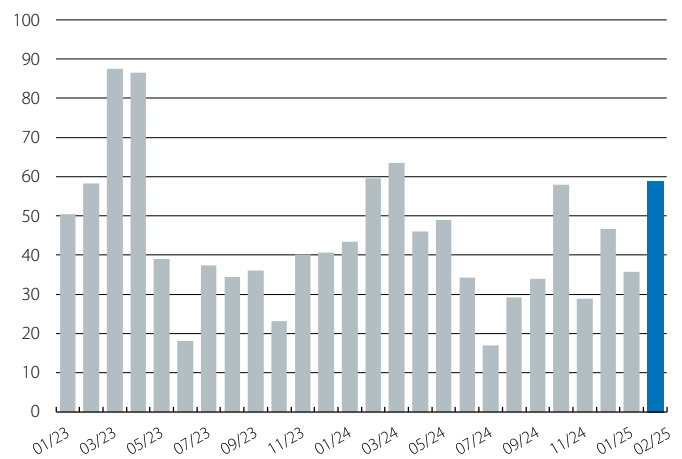
Source: CaixaBank Research, based on data from S&P Global PMI.

Spain: passenger car registrations
Trailing 12-month cumulative total (thousands)



Source: CaixaBank Research, based on data from ANFAC.

Spain: registered workers affiliated with Social Security
Month-on-month change (thousands of people)



Note: Series corrected for seasonality.

Source: CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).

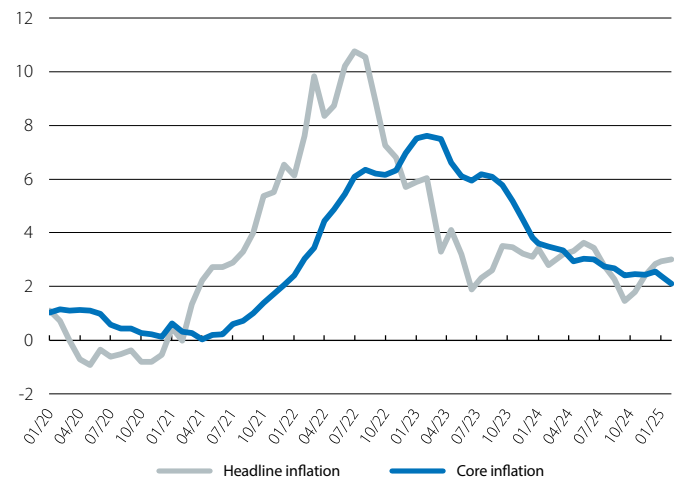
recorded a monthly increase of 58,735 registered workers, the biggest rise since March 2024; this places the average monthly growth in Q1 so far at 47,246 workers, surpassing the average for Q4 2024 (44,522). In addition, there has been a particularly notable improvement in hiring under permanent contracts. As such, the temporary employment rate continues to fall and now stands at 11.8%, 0.2 pps below the previous month and the lowest rate in the series.

Headline inflation continues to climb, but core inflation falls to its lowest level since 2021. According to the flash indicator published by the National Statistics Institute (INE), headline inflation stood at 3.0% in February, 0.1 pp more than the previous month and the highest rate since June 2024. In the absence of the breakdown by component, the INE notes that this result is primarily driven by the increase in electricity prices, which continue to be affected by the VAT increase from 10% to 21% applied to the electricity tariff in January. In contrast, core inflation (excluding energy products and unprocessed food) continues to steadily decline and fell by 0.3 pps, reaching 2.1%, the lowest level since December 2021. Thus, the underlying price trends continue to follow a downward path, despite the upturn in the headline indicator.

The trade deficit improves slightly in 2024, thanks to the energy component. In 2024, the balance of trade recorded a deficit of 40.276 billion euros, which is equivalent to 2.5% of GDP, 0.1 pp less than in 2023. This slight correction was thanks, exclusively, to the improvement in the energy balance. Specifically, the energy deficit fell by 3.4% to 35.929 billion euros, thanks to the fall in imports (-8.0%), with purchases practically stagnant in volume terms (-0.3%) and prices falling sharply (-8.3%). In contrast, the balance of non-energy goods deteriorated sharply, with its deficit increasing by 29.7% to 4.347 billion, in a context of a slowdown in trade (1.3% growth in exports and 1.5% in imports); in this regard, non-energy exports fell in volume terms for the second consecutive year, by 0.9%, reaching their lowest levels since 2020. For a more detailed analysis of the foreign sector balance in 2024, see the Focus «[Excellent records in the foreign sector in 2024](#)» in this same report.

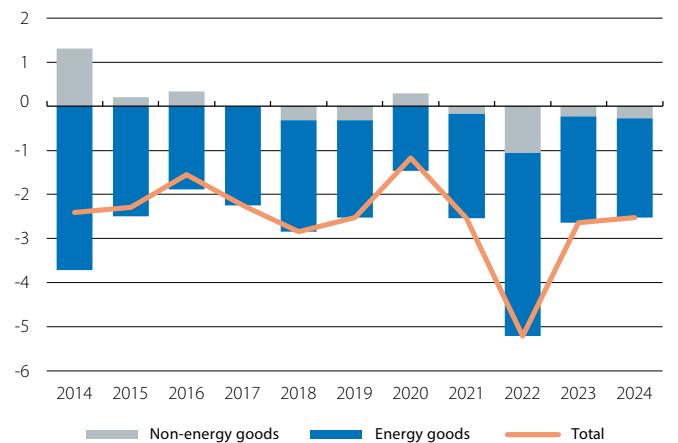
Housing demand gains momentum in 2024. Following the temporary setback in activity in 2023 (-10.2%), associated with the high interest rates, the number of sales transactions grew by 10% in 2024, to 642,000 homes. This is the third best record in the historical series, behind only the peak of 2007, in the midst of the real estate boom, and the 2022 rebound after the pandemic. This revival is a response to several factors: the shift in monetary policy, the strength of the economy and, in particular, of the labour market, together with the recovery of household disposable income and population growth driven by positive migration flows. In a context of rising demand and still insufficient supply, prices continue to rise: in Q4 2024, the appraisal value of housing increased by 2.7% quarter-on-quarter and placed the year-on-year rise at 7.0%, the biggest since Q1 2007.

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



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

Spain: balance of trade in goods
(% of GDP)

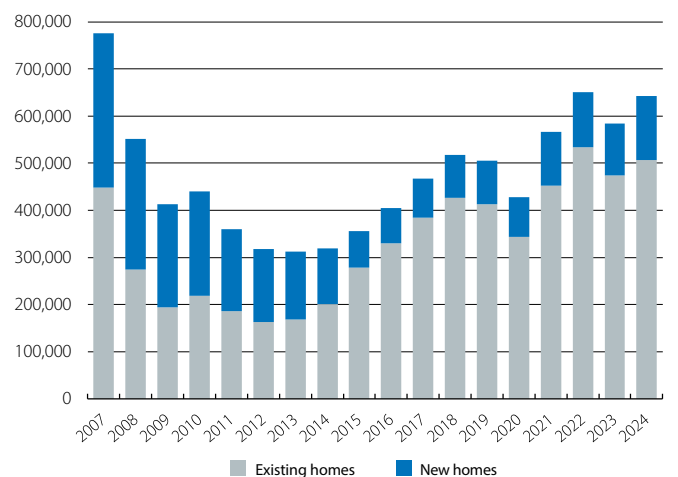


Notes: Data on the trade in energy goods according to the classification of usage groups. The data for 2024 are provisional.

Source: CaixaBank Research, based on data from the Customs Department.

Spain: house sales

Units



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

New economic scenario: prudent optimism in a context of uncertainty

2024 leaves us with a good starting point

The Spanish economy once again produced a very good growth figure in the final stretch of 2024. In Q4 2024, GDP grew by 0.8% quarter-on-quarter, spurred by the momentum of private consumption and investment, and once again clearly outpacing the euro area as a whole, which remained stagnant in quarter-on-quarter terms. With this figure in hand, the economy grew by a significant 3.2% in 2024 as a whole.

The growth throughout 2024 was sustained mostly by domestic demand. Of the 3.2 points of GDP growth, private consumption contributed 1.6 pps, supported by the strength of the labour market and that of demographic growth, while public consumption contributed a further 1 pp. The foreign sector, meanwhile, contributed 0.4 pps to growth, thanks to the good performance of services exports and the moderate tone of imports, although its contribution declined during the course of the year. The impressive growth recorded in 2024 is all the more so when we consider that it took place in a context of still high (albeit moderating) interest rates and anaemic growth in our main European trading partners.

The starting point is good, not only because of the latest growth figures, but also because of the absence of any obvious financial imbalances. The current account balance recorded a surplus in 2024 for the thirteenth consecutive year. This continued improvement has enabled the net international investment position – which measures the difference between a country’s financial assets and liabilities vis-à-vis the rest of the world – to reduce its debt balance to below 50% of GDP (97.5% of GDP in 2009). Also, private debt (households and non-financial firms) remains contained at 125.1% of GDP, according to the latest data for Q3 2024, which places it below the euro area average of 153.5%, while public debt has also steadily declined to reach 101.8% in December 2024, 3.3 pps less than the previous year.

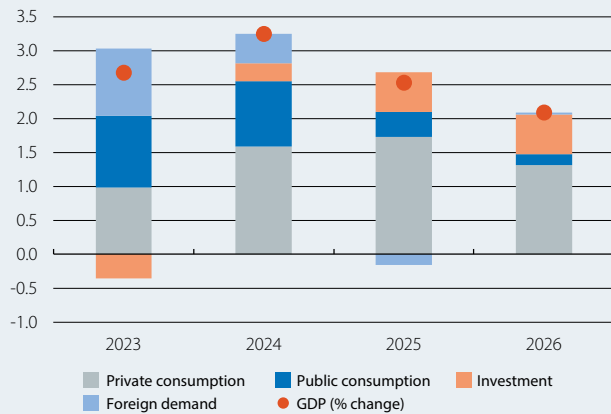
The strong growth in the final stretch of 2024 has a mechanical knock-on effect on the growth forecast for 2025. As an example, even if the economy were to remain stagnant throughout 2025 at the level of GDP that existed at the 2024 year end, annual growth in 2025 would still be 1.2% due to the starting point being higher than the average GDP of the previous year.

Review of the underlying assumptions of the scenario

The underlying assumptions of the scenario about the evolution of the ECB’s monetary policy, energy prices and exchange rates continue to add weight to the narrative that consumption and investment ought to gain prominence as growth drivers, displacing the role of foreign demand.

Firstly, our scenario envisages a gradual moderation of core inflation in the euro area as a whole, reaching 2% by the end of 2025. This pattern of inflation will allow the ECB, in a context of weakness in the euro area, to continue to steadily lower benchmark interest rates until the depo rate reaches 1.75% in the final stretch of 2025 (the lower bound of the range that is considered to be neutral).

Spain: contribution to GDP growth (pps)



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

Secondly, we anticipate a slight decline in the Brent barrel price: we expect it to be 76 dollars/barrel on average in 2025 (74.5 dollars in the previous scenario), slightly below the 79.8 dollars in the 2024 average. However, the impact on the Spanish economy will be limited due to the depreciation of the euro. The greater decoupling between monetary policies on either side of the Atlantic, with the ECB continuing to lower rates while the Fed has slowed its cycle of cuts, has led to a depreciation of the euro of around 7% between September 2024 and January 2025. We expect that this depreciation will have some continuity and that the euro will lose around 5% of its value against the dollar on average in 2025 compared to that of 2024. Thus, despite the fall in the dollar price, the price of Brent in euros would remain flat at 74 euros/barrel.

As for activity in foreign markets, we have revised downwards our expected growth of the euro area for 2025 by 0.5 pps to 0.8%, mainly due to the weakness of the German economy and the new tariff policy being pursued by the Trump administration. This slightly more adverse scenario reinforces the narrative that the growth of Spanish exports will slow in 2025.

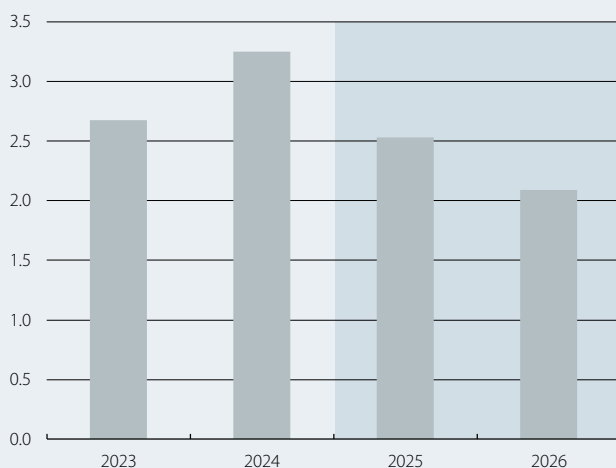
Outlook

The good growth data in the final stretch of 2024 lead us to make an upward revision to our GDP growth forecast for 2025. However, the greater likelihood of tariff tensions between the US and the EU invites us to remain cautious. In this regard, we expect the economy to grow by 2.5% in 2025, above the 2.3% we were previously predicting, albeit somewhat below the revision we could have made in the absence of this uncertainty factor.

Specifically, our scenario assumes a situation with «contained» tariff tensions in which there is no escalation and where the uncertainty surrounding this issue is dissipated by mid-year and the new «rules of the game» are already established. This assumption has a limited and transient direct impact in the case of the Spanish economy, since the country’s low trade exposure to the US means an estimated impact of 0.1 pp less GDP growth for every 10-pp increase in

Spain: GDP

Annual change (%)



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

tariffs. It also limits the greatest source of risk, namely the indirect impacts derived from the heightened uncertainty.

The growth will be sustained mostly by domestic demand. Despite the good growth figures for private consumption and investment in Q4 2024, both components still lag far behind the other components of GDP. Thus, whereas GDP in Q4 2024 was 7.6% above the pre-pandemic level, private consumption reached 3.6% above that level and investment, just 2.5%. The recovery of private consumption in the post-pandemic period is languishing even more if we take into account the population increase experienced since 2022. Thus, real consumption per capita in Q4 2024 was still 0.4% below the pre-pandemic level of Q4 2019. The fall in interest rates and the gradual moderation of inflation will support the growth of domestic demand. Investment will be favoured by the deployment of NGEU funds, while the high household savings rate, which stood at 14.2% in Q3 2024 versus an average of 7.3% in the period 2015-2019, also gives private consumption plenty of room to grow.

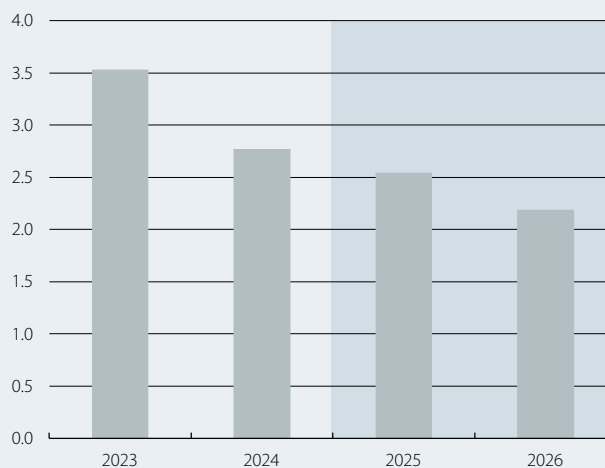
However, we expect growth to moderate relative to last year, as some of the tailwinds that our economy has benefited from in recent quarters lose strength. In particular, we will see a normalisation of the growth rate of the tourism sector and a certain moderation of the expected population influxes. Also, the sustained weakness of the European economy, with a growth forecast for 2025 below 1%, coupled with the possible increase in tariffs between the US and the EU will adversely affect our economy.

In this regard, we expect the foreign sector to make a slightly negative contribution to growth in 2025, in contrast to the positive contributions of previous years. This negative contribution is explained by the moderation in the growth rate of exports, which is closely linked to the normalisation of growth in the tourism sector and the weakness of our main export markets, as well as by the greater momentum of imports due to the strength of domestic demand.

On inflation, in 2025 we expect it to continue to moderate and, after registering an average rate of 2.8% in 2024, to stand at 2.5% in 2025. This moderation will be accompanied by the gradual reduction of inflation in the services component

Spain: inflation

Annual change (%)



and a more pronounced correction of inflation in the food component (going from 3.6% in 2024 to 2.0% in 2025), in line with the pattern observed in recent months. In contrast, the energy component will act in the opposite direction and limit the correction of headline inflation, spurred by the impact which the normalisation of VAT in the electricity tariff of January 2025 will have on the year as a whole, as well as by the impact that the depreciation of the euro will have on the oil price.

Finally, we expect the labour market to maintain a robust rate of employment growth, albeit slightly lower than that of last year. More specifically, we expect that the number of people in employment will grow by 2.0% in 2025, after registering 2.2% growth in 2024. In contrast, following the sharp increase in the labour force in 2023, with an annual growth rate of 2.1%, its growth rate moderated slightly to 1.3% in 2024. We expect that in 2025 the labour force will continue to grow at a significant rate (1.2%), albeit somewhat less than last year. These assumptions on the future trends in employment and the labour force lead to an improvement in the unemployment rate, which will reduce from 11.3% in 2024 as a whole to 10.7% in 2025.

As usual, the risks surrounding the scenario are multiple and material. The main upside risks are related to a higher than anticipated growth rate in consumption and investment if the rate cuts are accelerated or if households release their pent-up savings more rapidly. The possibility of a ceasefire in Ukraine could also result in a drop in energy prices. However, the main risks remain on the downside and are geopolitical in nature. At the international level, a greater than expected increase in trade tensions between the US and the EU could have a greater negative impact on trade flows and thus on the growth of our economy and that of our trading partners. We also cannot rule out the possibility of a further escalation of the conflict in the Middle East, which could trigger a spike in oil prices. At the national level, it is important that the execution of NGEU funds gains traction in order to support the recovery of business investment.¹

Oriol Carreras Baquer and Zoel Martín Vilató

1. See the article «[How the NGEU funds are going in Spain: bread for today and hope for tomorrow](#)», in the Dossier of this same report.

Excellent records in the foreign sector in 2024

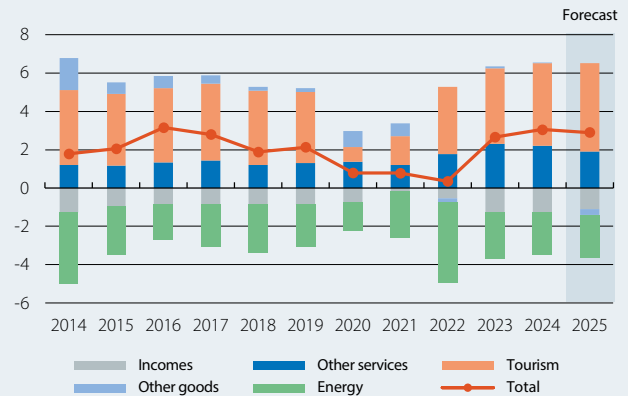
The significant buoyancy that the Spanish economy is showing, with GDP growth in 2024 reaching 3.2% and exceeding the forecasts of organisations and analysts, is largely explained by the excellent performance of the foreign sector. This sector is supported in particular by services exports, encompassing the usual strength of tourism, but also the strong growth of non-tourism services.

The exchange of goods, services and incomes between the Spanish economy and other countries (current account balance) recorded a surplus of 3.0% of GDP in 2024 (2.7% in the previous year), just shy of the historical peak reached in 2016 (3.1%). With the exception of the income sub-balance, for which the deficit stabilised at 1.3% of GDP¹, the rest contributed to the improvement of the current account balance, including both the slight correction of the trade deficit – in particular, the energy component, thanks to the sharp reduction in import prices – and the expansion of the surplus of services, mainly tourism.

The trade deficit in terms of the balance of payments differs slightly from that recorded in terms of customs, as it includes some adjustments.² In the absence of the year-end data for the balance of payments, we estimate that its deficit will have reduced from 2.3% of GDP in 2023 to 2.1%-2.2% in 2024. Despite the negative balance of trade in overall terms, Spain has significant surpluses with some of its main European partners – surpluses which, moreover, have increased in recent years – mostly thanks to vehicles and, above all, food (see second and third charts). In the opposite direction, the deficits have widened with Germany (the deficits in semi-manufactured and capital goods are partially offset by the surplus in food), China (capital goods and manufactured consumer goods account for 75% of the imbalance) and the US, with the energy component in this latter case causing a significant deterioration in the balance of trade in recent years.

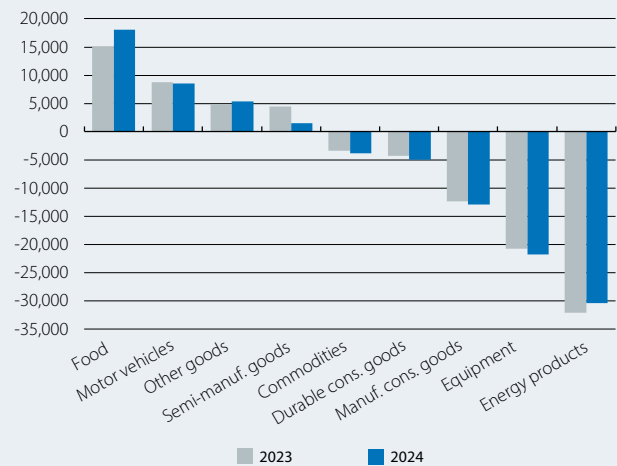
1. With data up to September, the primary income deficit widened by 21.0% year-on-year, due to the higher growth in payments, especially in the case of investment income from monetary financial institutions (MFIs) and public administrations. On the other hand, the secondary income deficit fell by 8.2% year-on-year, influenced, as has been frequently the case in recent years, by the receipt of NGEU funds.
 2. Basically, the differences between the trade deficit in terms of customs versus balance of payments (BP) are: (i) in customs, imports are valued on a CIF basis (cost, insurance and freight price, i.e. including the amounts associated with the shipping and insurance of imports), whereas in BP terms they are valued on a FOB basis, (ii) the BP includes transactions not covered by the customs statistics (goods that do not cross the border, but do change economic ownership) and it excludes others (goods that cross the border without any change of ownership), and (iii) the BP includes estimates produced by the National Statistics Institute (INE) of illegal activities related to the international trade in goods.

Spain: current account balance
(% of GDP)



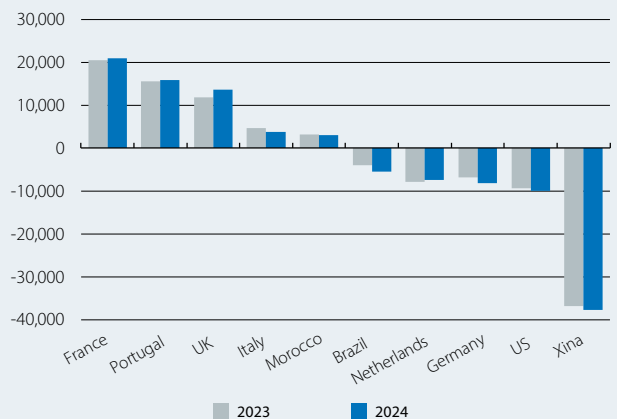
Note: Data on the trade in energy goods according to the classification of usage groups.
Source: CaixaBank Research, based on data from the Bank of Spain and the Customs department.

Spain: balance of trade by sector
(EUR millions)



Source: CaixaBank Research, based on data from DataComex.

Spain: balance of trade by country
(EUR millions)



Source: CaixaBank Research, based on data from DataComex.

In the case of the balance of trade in services, the data for tourism in 2024 were spectacular: the surplus grew by 16.4% to reach 68.4 billion euros, a new all-time high and equivalent to 4.3% of GDP (3.9% in 2023); 93.8 million tourists arrived in our country, 10.1% more than the previous year, and tourist revenues reached 98.6 billion euros, 15.9% more; record figures in both cases. Tourist payments grew slightly less, but nevertheless at a rapid pace of 14.7%, indicating that foreign trips undertaken by Spaniards are recovering rapidly following the sudden break caused by the pandemic.³

As for the balance of non-tourism services, the available data (three first quarters of 2024) point to a slight reduction in its surplus, following the record reached the previous year (2.3% of GDP). This is explained by the extraordinary growth in imports, which doubled that of exports (18.3% year-on-year vs. 9.0%). By type of service, the positive balance accumulated up to September is widespread across most categories, except in insurance and pensions and intellectual property; compared to the previous year, the improvement in the surpluses of financial and business services contrasts with the sharp deterioration in the case of transportation.

For 2025, we expect the current account balance to continue to show a surplus, albeit a slightly smaller one than in 2024 (it will lie below 3.0% of GDP) due to a slight increase in the deficit of the balance of goods, which will be partially offset by a smaller income deficit and an increase in the surplus of services.

On the one hand, we will probably see a rebound in imports of goods, driven by the anticipated increase in domestic demand and greater pressure on import prices. The trend in exports, meanwhile, will be affected by the sluggish performance of our main trading partners in the euro area, without forgetting the potential impact of the US tariff policy, which has become one of the main sources of risk for the macroeconomic scenario this year.⁴ Therefore, we expect the trade deficit to increase by around 0.3 pps of GDP, to around 2.5% of GDP.

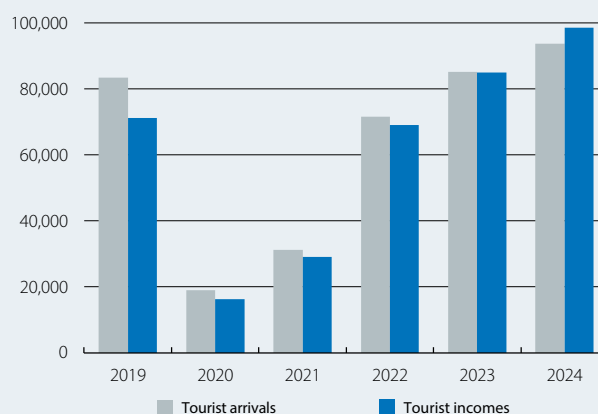
As far as tourism is concerned, we expect to see a normalisation of its growth rates, given the high levels achieved. In any event, some factors will continue to underpin its performance, such as the intense reduction of seasonality that is taking place in the sector or the recovery of real disposable income in the source countries; in addition, geopolitical uncertainty and chronic instability in the Middle East may favour Spain

3. 34.3% of tourist spending by Spaniards in 2024 (data from January to September) was carried out abroad, a percentage that already exceeds the levels of the pre-pandemic period (32.7% in 2015-2019).

4. For further information, see the Focuses «[Exposure of the European economy to a US tariff hike](#)» and «[Impact of tariff hikes on Spanish exports to the US: which sectors could be the hardest hit?](#)», both in the MR12/2024.

Spain: evolution of tourism

(Thousands of people and EUR millions)



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

as a safe and stable destination.⁵ Thus, the tourism surplus could continue to increase by a few tenths of a percentage point of GDP, reaching 4.6%.

Finally, we expect a slight correction of the deficit in the income balance of 0.2 pps, placing it at 1.1% of GDP, as a result of the fall in interest rates.

Anna Bahí Esteba and Sergio Díaz Valverde

5. For an in-depth analysis of recent developments and the future outlook for the tourism sector, see the [Tourism Sector Report S1 2025](#).

Activity and employment indicators

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
Industry									
Industrial production index	-1.4	0.4	-0.5	0.2	0.5	1.3	2.1	...	...
Indicator of confidence in industry (value)	-6.5	-4.9	-5.1	-5.5	-2.9	-6.0	-4.6	-4.4	-6.2
Manufacturing PMI (value)	48.0	52.2	50.7	52.8	51.5	53.6	53.3	50.9	49.7
Construction									
Building permits (cumulative over 12 months)	0.5	16.7	2.0	4.6	10.2	16.7	16.7	...	...
House sales (cumulative over 12 months)	-10.2	10.0	-11.0	-10.0	-1.1	10.0	10.0	...	...
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	10.1	9.7	...
Services PMI (value)	53.6	55.3	54.3	56.6	55.2	55.1	57.3	54.9	56.2
Consumption									
Retail sales ¹	2.5	1.7	1.1	0.5	2.6	2.8	4.0	...	...
Car registrations	16.7	7.2	3.3	8.5	1.7	14.4	28.8	5.3	10.5
Consumer confidence index (value)	-19.2	...	-17.2	-14.5	-13.7	...	...	...	...
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	12/24	01/25	02/25
General	3.5	2.8	3.1	3.5	2.2	2.4	2.8	2.9	3.0
Core	6.0	2.9	3.5	3.0	2.6	2.5	2.6	2.4	2.1

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	12/24	01/25	02/25
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	-1.4	0.2	-6.9	-4.9	-1.8	0.2	0.2	...	...
Imports (year-on-year change, cumulative over 12 months)	-7.2	0.1	-9.8	-7.1	-3.1	0.1	0.1	...	...
Current balance	39.8	48.4	41.2	45.4	49.6	48.4	48.4	...	...
Goods and services	58.8	68.4	60.5	65.5	69.3	68.4	68.4	...	...
Primary and secondary income	-19.1	-20.1	-19.2	-20.1	-19.7	-20.1	-20.1	...	...
Net lending (+) / borrowing (-) capacity	56.0	65.0	56.0	61.5	66.2	65.0	65.0	...	...

Credit and deposits in non-financial sectors⁴

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
Deposits									
Household and company deposits	0.3	5.0	3.3	5.2	4.3	5.0	5.0	5.4	...
Demand and notice deposits	-7.4	1.9	-5.2	-1.9	-1.6	1.9	1.9	3.1	...
Time and repo deposits	100.5	23.7	96.7	68.0	47.5	23.7	23.7	18.8	...
General government deposits ⁵	0.5	23.0	-4.6	-4.1	14.8	23.0	23.0	22.7	...
TOTAL	0.3	6.2	2.7	4.5	5.1	6.2	6.2	6.6	...
Outstanding balance of credit									
Private sector	-3.4	0.6	-2.6	-1.3	-0.3	0.6	0.6	1.4	...
Non-financial firms	-4.7	0.3	-3.6	-1.8	-0.6	0.3	0.3	1.5	...
Households - housing	-3.2	0.5	-2.5	-1.5	-0.7	0.5	0.5	0.8	...
Households - other purposes	-0.5	1.8	-0.1	0.7	1.2	1.8	1.8	2.8	...
General government	-3.5	-2.8	-4.8	-2.7	-5.4	-2.8	-2.8	-0.9	...
TOTAL	-3.4	0.4	-2.7	-1.4	-0.7	0.4	0.4	1.2	...
NPL ratio (%)⁶	3.5	3.3	3.6	3.4	3.4	3.3	3.3	...	...

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.

We anticipate Portuguese GDP growth of 2.4% in 2025

The Portuguese economy will enjoy a significant knock-on effect in 2025 due to the strong GDP growth recorded in Q4 2024. Although GDP shows no notable quarter-on-quarter growth in each of the four quarters of the year, the annual average growth is set to stand at 1.3%. This represents a major source of support for economic growth in 2025, bearing in mind the possibility that the international environment, which is looking highly uncertain, could have an unfavourable impact on economic activity. In this context, we have revised our GDP growth forecast for 2025 up by 10 basis points, to 2.4%.

In the opening weeks of the year, the available indicators reveal mixed patterns, suggesting less buoyant growth in Q1. The European Commission's economic sentiment indicator has fallen to 103.9 points in February, compared to levels around 107 points in the previous months. On the upside, the card payments indicator for January suggests that consumption remains robust, particularly in the case of non-durable consumer goods.

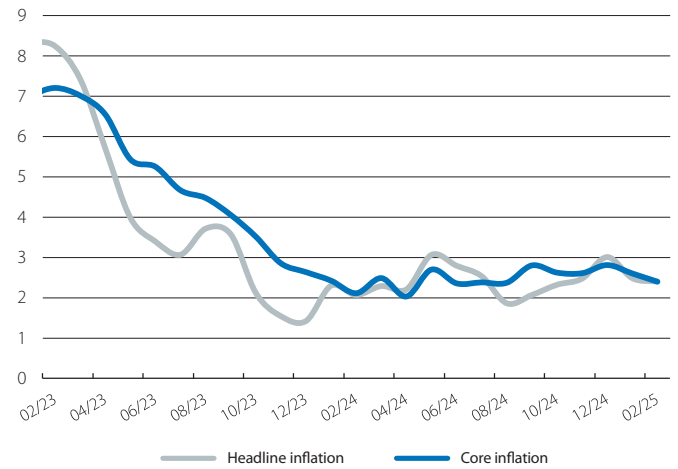
Inflation fell by 10 basis points in February, to 2.4%, and core inflation stood at 2.4%, versus 2.7% in January. We have revised our average inflation forecast for 2025 upwards to 2.2% for both headline and core inflation, due to more encouraging signs in economic activity and strong wage growth.

Employment has reached all-time peak levels and is exceeding expectations, increasing by 1.2% in 2024 compared to the 1.0% which we had anticipated. The average annual unemployment rate fell to 6.5%. We expect employment to grow at an average annual rate of 1.2% over the next three years and the unemployment rate to remain at around 6.4% due to intense but decreasing migration flows.

The current account surplus increased in 2024, reaching 6.143 billion euros, which represents 2.2% of GDP compared to 0.6% in 2023. The improvement in the surplus of the balance of services, both for tourism and for other services, and the reduction of the energy deficit and of the balance of incomes are the main driving forces behind this improvement. The outlook for 2025 remains positive and we anticipate a surplus similar to that of 2024. The significant foreign surplus has been reflected in the reduction of foreign debt, which in 2024 stood at 44.5% of GDP, its lowest level since 2005, while the debtor position of international investment fell to 58.5% of GDP.

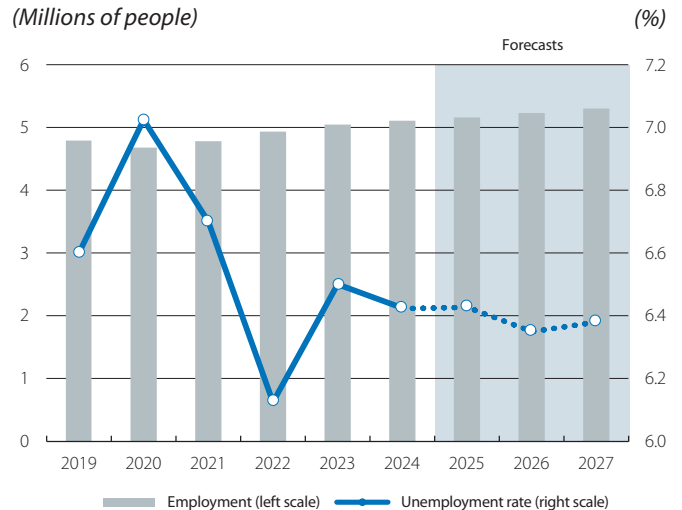
We estimate that the public debt ratio closed 2024 at 95.3% of GDP. If confirmed (depending on the final value of nominal GDP), this would represent a reduction of 2.6 pps compared to 2023 and the lowest ratio since 2009. For 2025, the ratio should stand at around 90% of GDP, as a result of the buoyancy of economic activity and, to a lesser extent, the positive primary balance.

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



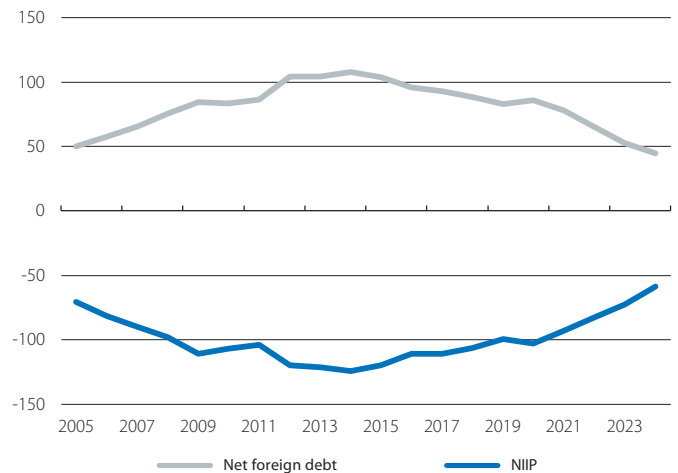
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: labour market



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

Portugal: net foreign debt and NIIP *
(% of GDP)



Note: * Net International Investment Position.

Source: CaixaBank Research, based on data from the Bank of Portugal.

Activity and employment indicators

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
Coincident economic activity index	3.5	1.8	2.2	1.7	1.6	1.8	1.7	1.6	...
Industry									
Industrial production index	-3.1	0.3	1.4	1.4	-0.8	-1.0	-4.9	-4.3	...
Confidence indicator in industry (<i>value</i>)	-7.4	-6.2	-7.9	-6.7	-6.2	-3.9	-4.1	-4.7	-5.2
Construction									
Building permits - new housing (number of homes)	7.5	4.9	-17.5	8.4	12.4	20.2	21.4	...	...
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	14.5	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	19.0	6.3	13.1	9.5	7.8	6.3	6.3	6.4	...
Confidence indicator in services (<i>value</i>)	7.6	5.5	6.3	4.3	-0.4	11.9	17.9	20.2	16.5
Consumption									
Retail sales	1.1	3.3	1.8	2.2	3.9	5.5	5.1	5.3	...
Coincident indicator for private consumption	2.9	3.1	2.6	2.6	3.1	3.9	4.0	4.1	...
Consumer confidence index (<i>value</i>)	-28.6	-18.0	-24.6	-18.7	-14.3	-14.3	-15.0	-15.1	-15.3
Labour market									
Employment	2.3	1.2	1.4	1.0	1.2	1.3	1.5	2.1	...
Unemployment rate (<i>% labour force</i>)	6.5	6.4	6.8	6.1	6.1	6.7	6.4	6.2	...
GDP	2.6	1.9	1.4	1.5	1.9	2.8	-	-	-

Prices

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	12/24	01/25	02/25
General	4.4	2.4	2.2	2.7	2.2	2.6	3.0	2.5	2.4
Core	5.1	2.5	2.3	2.4	2.5	2.7	2.8	2.7	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	12/24	01/25	02/25
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	-1.4	2.5	-5.5	-3.7	0.8	2.5	2.5	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	-4.0	1.9	-7.3	-5.6	-0.9	1.9	1.9	...	...
Current balance	1.5	6.1	3.2	4.2	5.2	6.1	6.1	...	...
Goods and services	4.0	6.7	5.2	5.7	6.1	6.7	6.7	...	...
Primary and secondary income	-2.5	-0.5	-2.0	-1.5	-0.9	-0.5	-0.5	...	...
Net lending (+) / borrowing (-) capacity	5.3	9.3	7.1	7.9	8.6	9.3	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	12/24	01/25	02/25
Deposits¹									
Household and company deposits	-2.3	7.5	2.7	5.6	6.0	7.5	7.5	7.3	...
Sight and savings	-18.5	-0.3	-14.8	-8.6	-6.7	-0.3	-0.3	2.0	...
Term and notice	22.2	15.3	27.1	24.0	20.9	15.3	15.3	12.5	...
General government deposits	-12.4	26.7	9.1	4.5	29.1	26.7	26.7	27.1	...
TOTAL	-2.6	7.9	2.9	5.6	6.7	7.9	7.9	7.8	...
Outstanding balance of credit¹									
Private sector	-1.5	2.2	-0.8	-0.3	1.1	2.2	2.2	2.9	...
Non-financial firms	-2.1	-0.4	-1.7	-1.7	-0.6	-0.4	-0.4	0.9	...
Households - housing	-1.4	3.3	-0.7	0.1	1.5	3.3	3.3	4.0	...
Households - other purposes	-0.3	4.8	1.5	2.5	4.0	4.8	4.8	4.7	...
General government	-5.5	0.6	5.9	-5.8	-4.1	0.6	0.6	-0.3	...
TOTAL	-1.7	2.1	-0.5	-0.5	0.9	2.1	2.1	2.8	...
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.

NGEU funds: what is the status of their implementation at the European level?

Almost five years have passed since the historic agreements to finance the EU's largest joint economic stimulus programme were reached. The Next Generation EU (NGEU) funds were designed with the dual target of helping to overcome, in the short term, the adverse effects of the COVID-19 pandemic and, in the medium term, to support the structural transformation of the European economy. Here, we review what has been achieved to date and what remains pending.

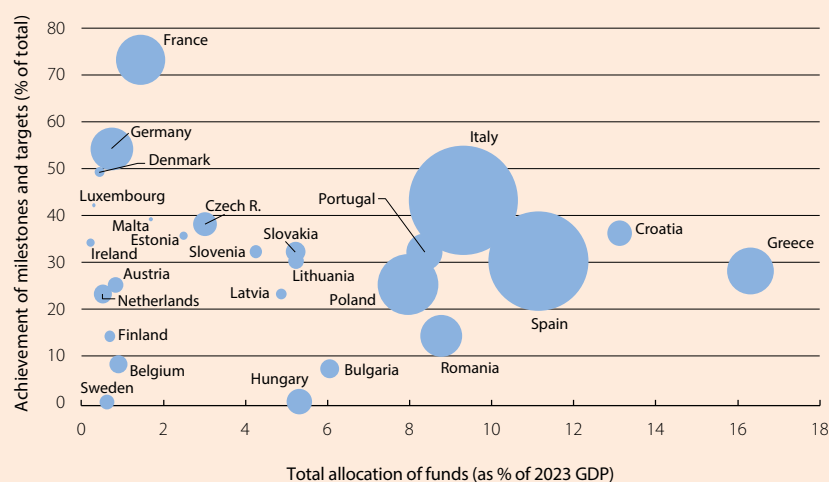
Progress, but uneven and slower than expected

The cornerstone of the NGEU funds was the creation of the Recovery and Resilience Facility (RRF), initially endowed with around 725 billion euros in grants and loans for investments and reforms structured into six pillars of action: green transition, digital transformation, sustainable growth, cohesion, resilience and youth. Unlike traditional European funds, with a cost-justification approach, this instrument involves the transfer of resources conditional on Member States achieving a series of milestones and targets that are defined in their Recovery and Resilience Plans (RRPs).

According to the RRF tracking tool,¹ the European Commission has thus far disbursed 306 billion euros.² This represents around 50% of the total volume of the final allocation of funds,³ and it includes 67 billion as pre-financing and 239 billion disbursed as a result of 64 requests for payment filed by Member States. These funds correspond to the achievement of 28% of the set of milestones and targets included in all the national RRFs. Consistent with the initial design of the plans and the goal of strengthening the complementary nature of the two types of measures, the relative progress is greater in the reforms (39%) than in the investments (21%).⁴

By country, the progress varies widely (see first chart). Focusing on Member States with a greater relative allocation of funds relative to their GDP, Italy and Croatia show the highest percentage of milestones and targets achieved, at around 40%, followed by Portugal, Spain, Greece and Poland, with around 30%. At the opposite end of the spectrum, the progress is most limited in Romania and Bulgaria (below 15%), while Hungary has not yet made any request for disbursements (although it has received pre-financing funds).

Achievement of milestones and targets of the RRFs



Note: The area of the circles is proportional to the total allocation of funds in nominal euros.
Source: CaixaBank Research, based on data from the European Commission.

The independent study for the mid-term evaluation of the RRF published in 2024⁵ noted the incipient nature of the deployment of the investments, which focus on the dual green and digital transition.⁶ It also highlighted the reforms undertaken in the spheres of the labour market, social protection and education (with particular mention of the 2021 labour reform in Spain and its role in reducing temporary employment in the private sector), general government, governance and justice (such as those in Italy and Croatia), as well as regulatory simplification and incentives for investments in renewable energy, sustainable transportation and the development of 5G and broadband (e.g. in Italy, Germany and Belgium).

1. See European Commission. «[Recovery and Resilience Scoreboard](#)».

2. €197 billion in the form of grants and €109 billion in loans.

3. A total of €650 billion, including the request for 76% of the available loans and an additional €22 billion in grants for reforms and investments related to the REPowerEU Plan, approved in 2022, in response to the invasion of Ukraine and the associated energy shock.

4. More details are provided in the annual reports of the RRF, the latest of which was published in October 2024.

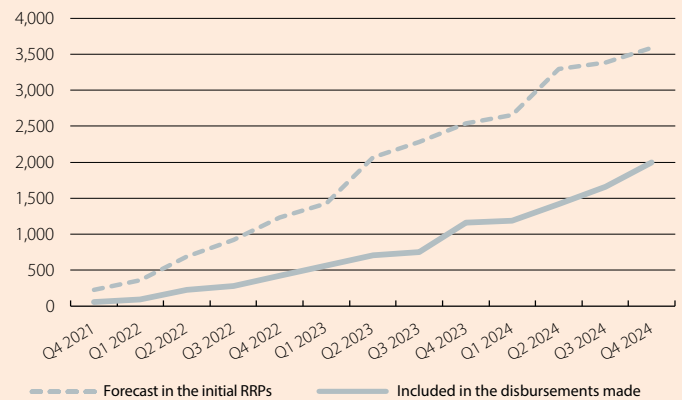
5. F. Corti, D. Nigohosyan, C. Pancotti and S. Millard (2023). «Study supporting the mid-term Evaluation of the Recovery and Resilience Facility», European Commission.

6. According to the regulation, a minimum of 37% of the funding assigned in the RRFs should be allocated to the green transition and a minimum of 20% to the digital transformation.

Despite the progress made, the implementation of the RRP has been slower than originally planned (see second chart). The almost 2,000 milestones and targets achieved so far represent around 60% of those anticipated for this point in the programme under the initial plans adopted in 2021-2022. Among the explanatory factors, the mid-term evaluation of the RRF emphasises a limited administrative capacity to absorb a high volume of funds, and this has been exacerbated by the frequent changes that have been made to the initial RRP.⁷ The escalation of prices following the invasion of Ukraine has also had a negative impact, having depreciated the value of the amount allocated to the funds by around 10% compared to the initial forecast,⁸ with construction materials experiencing a particularly sharp price rally.

In short, we see that there still remains much to be done in the execution of the NGEU funds, including for those countries that show greater progress so far. This will require the planned reforms and investments to be accelerated, but maintaining a necessary balance with the importance of the measures taken.⁹ Improving the EU's capacity for future economic growth is well worth the effort.

Achievement of milestones and targets of the RRP (Cumulative number)



Note: The forecast is based on the appendix to the first implementation decision of the Council, applying a delay of six months on the indicative date in order to reflect the processing of each request for payment, which includes the submission of the request by the member country, its evaluation by the Commission and its adoption by the Council.

Source: CaixaBank Research, based on data from the European Commission.

David Martínez Turégano

7. In order to simplify and accelerate these amendments, the European Commission updated its guidance to Member States in July 2024.

8. We take as a benchmark the cumulative deviation of the GDP deflator in the period 2022-2024 compared to the European Commission's autumn 2021 forecasts.

9. See the article «[NGEU funds: what can we say about their impact and future challenges?](#)» in this same Dossier.

NGEU funds: what can we say about their impact and future challenges?

Unlike the process of tracking the achievement of the milestones and targets laid out in the Recovery and Resilience Plans (RRPs),¹ assessing where we are in their implementation becomes more complicated when we try to quantify their macroeconomic impact and their transformative capacity for the European economy. This is becoming more relevant given the challenges posed by the increasingly complex geopolitical scenario we face.

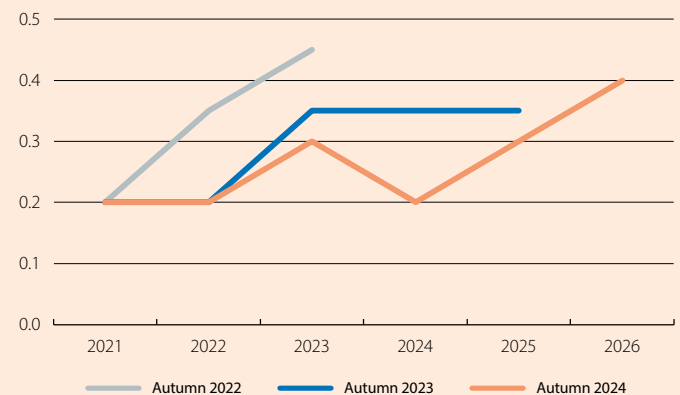
The medium-term impact as a great unknown

The European Commission has so far published two exercises projecting the impact of the Recovery and Resilience Facility (RRF). The first one, conducted in 2021 upon the approval of the RRFs, placed the peak impact on the level of GDP in 2026 within the 0.7%-1.2% range.² The second, in 2023, was conducted to reflect the revision of the RRFs, to include a more realistic schedule of payments and to capture the impact of the energy shock following the invasion of Ukraine, placing this range at 0.9%-1.4%.³ These latest projections, which barely vary from the initial ones, have already become outdated because they do not reflect the slower than expected progress in the implementation of the RRFs – an aspect which the European Commission has shown in its biannual forecast cycle, in which it has revised downwards the fiscal momentum derived from public spending financed with European funds (see chart). In the same vein, the ECB recently estimated for the euro area that the impact on GDP had been just 10 or 20 basis points in the period 2021-2023, well below the 0.5% boost initially expected.⁴

In the medium term, the range of uncertainty is much broader. On the investment side, the RRF regulation establishes that all payment requests must be filed by 31 August 2026 – a deadline which, given the current rate of achievement of the milestones and targets, opens up unknowns about the final percentage of the funds that will actually be absorbed. Even in the case of the loans, which can be channelled in the form of financing for the private sector and therefore have an impact beyond 2026, there is a question as to what the actual demand for funds will be and to what extent this demand will be additional in nature.⁵ In any event, it seems that the fiscal boost alone will have a very limited macroeconomic effect in the medium term. The European Commission itself, in its latest projections on the RRF, estimated that the cumulative impact on the level of EU GDP in 2031 will be in the range of 0.3%-0.7%, similar to the figures estimated by the ECB for the euro area (0.2%-0.6%).

On the reform side, there is broad consensus on how much scope they have to boost GDP and the potential growth of the European economy.^{6,7} The mid-term evaluation of the RRF points out the highly additional nature of the reforms contained in the RRFs, as well as their contribution to further progress in the implementation of the country-specific recommendations proposed by the Council in the context of the European Semester. However, given their importance for assessing the transformative capacity of the RRF, it would be useful to shed more light on the time scale of the expected impact as well as on the quantitative effects, including their contribution to advancing the EU's climate, energy, digital and social goals for 2030. The *ex-post* evaluation envisaged in the regulation for 2028 would be a good opportunity to address these shortcomings in the systematic monitoring of the RRF. For the moment, the benchmark estimates in this field continue to be those of the ECB, which for the euro area anticipates an increase in potential growth in the medium term in the range of 0.1-0.2 pps, largely as a result of the boost to total factor productivity provided by the structural reforms.

Fiscal boost from NGEU and other European funds
(Cumulative total as a % of GDP)



Note: Fiscal boost is defined as the change in public spending that exceeds the growth of potential nominal GDP.

Source: CaixaBank Research, based on data from the European Commission.

1. See the article «NGEU funds: what is the status of their implementation at the European level?» in this same Dossier.

2. See P. Pfeiffer and J. Varga (2021). «Quantifying Spillovers of Next Generation EU Investment», Discussion Paper n° 144, Directorate-General for Economic and Financial Affairs (DG ECFIN), European Commission.

3. The new EU-wide profile was published in the European Commission's working paper which accompanied the mid-term evaluation of the RRF published in February 2024.

4. K. Bańkowski *et al.* (2024): «Four years into NextGenerationEU: what impact on the euro area economy», Occasional Paper n° 362, ECB.

5. i.e. whether NGEU funds will be used for purposes that would not have otherwise been covered in their absence.

6. P. Pfeiffer, J. Varga and J. In 't Veld (2023). «Unleashing Potential: Model-Based Reform Benchmarking for EU Member States», Discussion Paper n° 192, Directorate-General for Economic and Financial Affairs (DG ECFIN), European Commission.

7. K. Bańkowski *et al.* (2022): «The economic impact of Next Generation EU: a euro area perspective», Occasional Paper n° 291, ECB.

Challenges in a new (geo)political context

In the five years since the conception of the NGEU funds, both the European political landscape and the global geopolitical context have undergone major transformations. Various national elections and those held in the European Parliament in 2024 have increased the representativeness of Eurosceptic parties, with the new European Commission receiving the least support in the appointment of its members. The growing internal fragmentation complicates the political arithmetic in order for progress to be made with the European agenda and in tackling the challenges of the coming years. These challenges include the negotiation of the new multi-year financial framework for 2028-2034 and the deployment of the European Commission's competitiveness plan, based on the recommendations of the Draghi report.⁸ Both of these elements should take over from the transformative momentum of the RRP, particularly in areas that are still lagging far behind, such as the development and use of artificial intelligence, the excessive regulatory burden on companies and the absence of a single capital market.⁹

The international environment has also become more complex. In addition to the war in Ukraine, a country which borders the EU and with which accession talks have been initiated, there is now uncertainty – beyond the protectionist threat – in relations with the new Trump administration. The EU faces further global geopolitical fragmentation with deep strategic dependencies in the spheres of defence, technology and clean energy. These elements could mark a shift in the spending priorities in the final stretch of the NGEU programme, especially given the reduced fiscal margin for manoeuvre that is available to a large number of Member States.¹⁰ This will require the use of existing degrees of flexibility, including to seek a consensus that does not dilute the good aims defined in 2020.

David Martínez Turégano

8. See the Focus [«Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades»](#) in the MR10/2024.

9. See the articles of the Dossier [«United in diversity: Europe's economic challenges»](#) in the MR06/2024.

10. See the Focus [«The new EU economic governance framework»](#) in the MR01/2025.

How the NGEU funds are going in Spain: bread for today and hope for tomorrow

The NGEU implementation period is entering its final two years. The programme began in 2021 and we have until August 2026 to achieve all the milestones and commit all the investments, including those financed with loans.¹

Remember that the NGEU plan for Spain consists of 80 billion euros of non-repayable transfers² and up to an additional 83 billion in loans to relaunch the economy after COVID with a focus on the green transition (the destination of 40% of the investments) and the digital transformation (26%). These investments and reforms are conveyed through the Recovery Plan and its addendum, which incorporates the loans.

To date, Spain has already complied with 70% of the reforms set out in the Plan, but only with 15% of the investments, partly because of the Plan's very nature, which places more emphasis on the reforms in the first few years, and partly due to some initial delays in the implementation.

What has been done so far?

Up until December, 47.6 billion euros had been executed, comprising calls to tender and projects already adjudicated, representing 60% of the total allocation of grants under the Plan. In 2024, 14.4 billion euros was executed, slightly below the figure for 2023 (16.45 billion) and slightly higher than that of 2022 (12.4 billion).

The public-private PERTE projects (an acronym in Spanish for Strategic Projects for Economic Recovery and Transformation) have made progress with 16 billion euros executed out of a total budget of 43.6 billion. Among the biggest are the PERTE project for the connected electric vehicle (4 billion euros executed) and the PERTE project for renewable energies (4.5 billion executed).

A report by the Bank of Spain reveals that 45% of companies with projects financed by NGEU would not have undertaken such investments without the programme, and 31% would have undertaken only part of them, suggesting that the investments have a relatively high additionality.³ By component, investments related to the energy transition show the lowest degree of additionality: 39% of companies would have undertaken them without NGEU, a percentage that falls to around 20% of companies in the case of digital and R&D&i investments.

Among the key reforms, the labour reform has helped to reduce the rate of temporary employment from 27% in 2021 to 12% today and has bolstered the role of ERTE projects as an adjustment mechanism (the so-called RED mechanism). The reform of vocational training has made dual training more widespread, promoting traineeships in companies and expanding the range of studies and funding for new places.

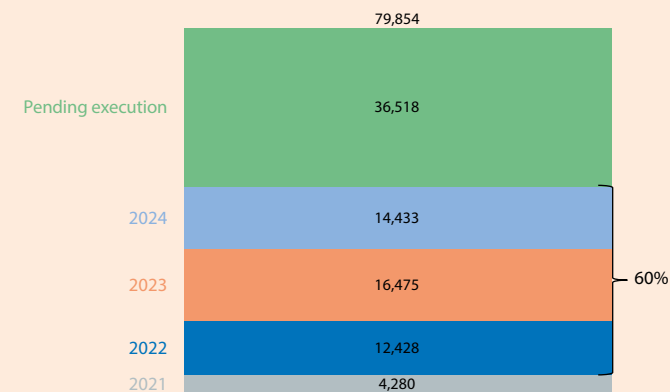
The ICO loans and credit lines have already been activated, with the aim of helping to finance the growth of the business sector and projects that contribute to stimulating the green and digital transition, such as the green ICO programme (with an allocated budget of 22 billion euros) and the entrepreneurs ICO programme (8.15 billion). The ICO is also responsible for the deployment of loans for the construction of social and affordable housing. The banking sector must play a key role as an intermediary for a large part of these funds.

What remains to be done?

When analysing the NGEU Plan by component, it is apparent that over 65% of the funds have been executed in the spheres of long-distance sustainable mobility infrastructure, urban mobility, modernisation of government administrations, digital connectivity and science, technology and innovation. However, most of the budget remains to be executed in the case of housing refurbishment, industrial policy, renewables, water resources and green hydrogen.⁴ By 2025, we expect around 20 billion euros

Execution of the European Next Generation EU funds

Total grants (EUR millions)



Note: Execution understood as calls to tender and projects adjudicated.

Source: CaixaBank Research, based on data from the ELISA portal (Government of Spain).

1. For full details, see the articles «[NGEU funds: what is the status of their implementation at the European level?](#)» and «[NGEU funds: what can we say about their impact and future challenges?](#)» in this same Dossier.

2. Supplementing the European funds from the NGEU programme, Spain has also received some 12 billion in transfers from the REACT-EU programme, mainly destined for health and education programmes of the autonomous communities.

3. An investment is considered to create additionality if it would not have been undertaken in the absence of these European funds. See the report «Weak business investment in Spain following the pandemic: an analysis based on the Banco de España Business Activity Survey», Bank of Spain, January 2025.

4. According to data from AIReF's Recovery, Transformation and Resilience Plan tracker. The total amount of the allocated funds, in billions of euros, is as follows: long-distance sustainable mobility: €6.66b, urban mobility: €6.5b, modernisation of government administrations: €4.37b, digital connectivity: €4.5b, science and technology and innovation: €4.19b, housing: €6.8b, industrial policy: €5.85b, renewables: €3.8b, water resources: €3.3b and €3.15b in green hydrogen.

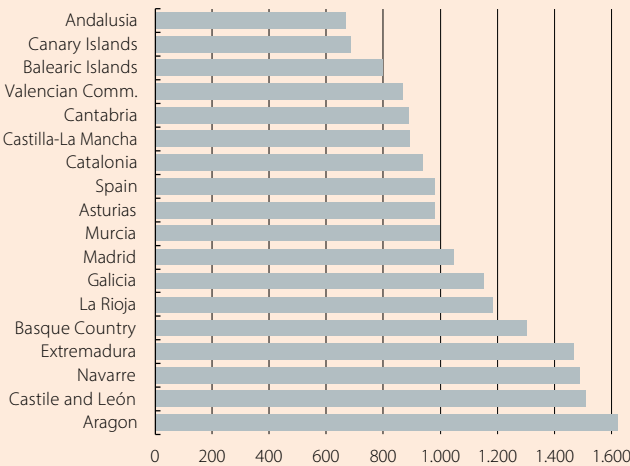
in grants to be executed and that investments under the addendum financed by loans, such as the Green ICO credit line, will begin to be deployed. It will be crucial to deploy the PERTE projects that are still in their early stages, such as those related to chips (12.25 billion), the water cycle (3.055 billion) and decarbonisation (3.17 billion). The RepowerEU programme will also be pursued, with some 7 billion euros of financing for energy, of which 4.2 billion is for the renewables PERTE project.

The recovery plan in Spain focused on reforms in the first three years, and then on milestones linked to investments in the period 2024-2026. The most important outstanding milestones include: implementing low-emission zones in towns and cities, increasing the use of digital technologies in 171,000 SMEs, modernising irrigation across 160,000 hectares, renovating 285,000 homes with a minimum energy saving of 30%, building 20,000 social housing units, deploying 238,000 electric vehicles and charging points, extending 5G networks to 75% of the population, restoring 145 kilometres of degraded coastal areas and attracting foreign talent. Other important investments that should be taken into account in the future, if there is ever scope to redirect funds, include the renovation of water infrastructure to mitigate climate risks following the flooding in Valencia, increasing the housing supply and investing in artificial intelligence in coordination with Europe (in Spain's current plan, only 538 million is allocated to AI).

Macro impact and regional analysis

Measuring the macroeconomic impact of the NGEU funds is a complex task, as it involves making assumptions about the fiscal multiplier of the annual investments and considering whether these investments could have been undertaken by the private sector anyway. In this analysis, we focus on estimating the macroeconomic impact of the investments financed by NGEU funds

NGEU funds executed per capita in 2021-2024



Source: CaixaBank Research, based on data from the ELISA portal (Government of Spain) and the Spanish National Statistics Institute (INE).

a lithium gigafactory in Navalморal by Envision-AESC, and the Basque Country and Navarre, with investments in sustainable mobility and renewables.

In short, the European funds are proving to be an important driver of the Spanish economy and the moment of truth to fully execute them is approaching. This will require us to roll up our sleeves and expedite the bureaucracy. We cannot forget that there is still a long way to go and time is short: Spain has achieved 131 of the 328 milestones included in the initial plan, while 85% of the objectives linked to investments are yet to be met.⁶

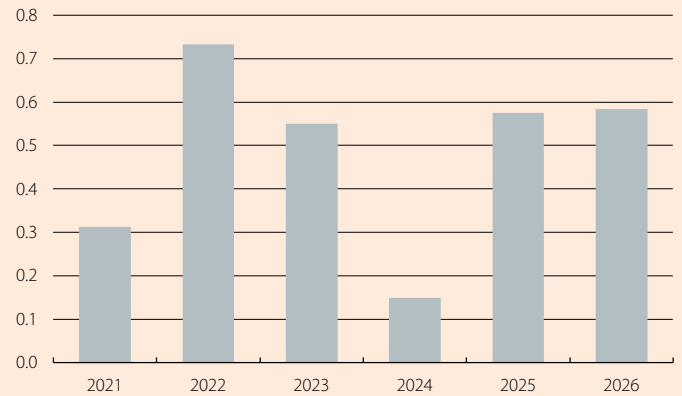
Javier Garcia-Arenas

5. A multiplier of 0.9 in the first year, 0.6 in the second year and decreasing to 0.2 in the fifth year after the investment. We assume that the degree of additionality is 1, such that the NGEU funds are not partially financing investments which the private sector would have undertaken anyway (crowding out), nor are they acting as a beacon for increasing private investments (crowding in). For the exercise, and for purely illustrative purposes, we assume there is a 50% take-up of the loans, consistent with the historical demand for the ICO lines of credit, although the confidence interval in this case is very wide.

6. In this 85% we include the objectives linked to investments that form part of the request filed by Spain in December for the fifth payment, which is currently being examined by the Commission. If they are approved, then Spain will have 75% of the objectives linked to investments remaining to be met.

Contribution to GDP growth

(pps)



Note: We assume that all of the grants and, for illustrative purposes, half of the loans are executed. Source: Estimaciones de CaixaBank Research.

both grants and loans) and we exclude the medium-term impact of the structural reforms due to the high degree of uncertainty and complexity involved in its estimation. It is estimated that the cumulative impact of these investments on economic activity under reasonable assumptions⁵ will be 2.3% of GDP in 2025 and 2.9% in 2026, thus contributing over 0.5 pps to economic growth in both years, which is more than the average contribution of 0.4 pps in the period 2021-2024. For the period 2024-2026, an economic impact of more than 2% is expected, similar to the 1.7% estimated by the ECB, provided that funds are properly channelled into productive projects.

An interesting and little explored dimension is the execution of the funds by autonomous community, which affects regional convergence. Among the autonomous communities with the greatest executed expenditure per capita in 2021-2024, we find Aragon, with significant investments in renewables and the Stellantis and CATL gigafactory in Figueruelas; Castile and León, with investments in agrifood, digitalisation and SMEs; Extremadura, with investments in railway infrastructure and the construction of

Extremadura, with investments in railway infrastructure and the construction of

Beyond NGEU: investments in Europe to adapt to and survive in the new times

The NGEU funds and the national investment programmes in Germany and France are the result of a long process of changes in the big economic blocs, accelerated by COVID and the war in Ukraine. These efforts seek to redefine and adapt production models to the energy transition and digitalisation in a context of uncertainty and new geopolitical dynamics. These spheres of action represent the main pillars on which the Draghi plan is articulated, which states that, in order to achieve them, a coordinated effort among Member States and significant public investment is needed, with an industrial strategy and the single market as key priorities. The European Commission has «taken the baton» from Draghi and in January published its Competitiveness Compass, a timetable for implementing some of Draghi's main proposals.

Germany and France's plans within the framework of NGEU

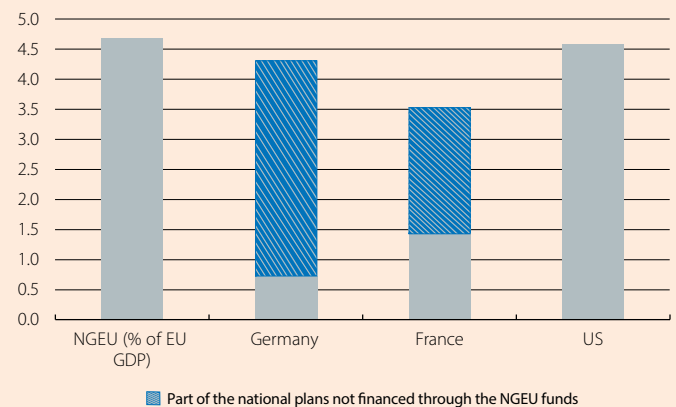
NGEU, with a budget of more than 800 billion euros between 2021 and 2026, is the largest stimulus programme in the European economy in recent decades. Initially, it focused on helping the most vulnerable economies and those hardest hit by COVID, through offering support for structural changes and projects related to the green and digital transition, very much in line with the subsequent recommendations of the Draghi report.¹ NGEU was spearheaded by Germany and France, which, with a more robust economic position, stepped forward and created their own national economic stimulus plans after the pandemic. Subsequently, a part of the measures incorporated in the national plans shaped their respective future recovery and resilience plans (RRPs), developed under the NGEU framework. Therefore, these funds are financing only a part of the total amount of their national plans: less than 20% in the case of Germany and 40% in the case of France. This contrasts with Italy and Spain, whose national revival plans were the RRP, and these were designed to match the volume of available NGEU funds.²

France launched the so-called *France Relance* programme in September 2020, comprising a series of measures valued at 100 billion euros (3.5% of 2023 GDP) to be pursued up until 2030. The plan is designed around three axis, among which the funds are allocated equitably. The first is to promote the energy transition. The second, to bolster the country's industrial sovereignty in order to make it more independent and improve its competitiveness. The third is to improve training and employment, with an emphasis on training for young people.

Germany, for its part, announced in June 2020 a stimulus programme worth 130 billion euros (3.1% of 2023 GDP), of which almost 40% was allocated to financing measures in the field of the green and digital transformation (other pillars of the programme include temporary VAT cuts, support for local municipal governments and subsidies for households). In March 2021, the German Future Fund was created, with a budget of 10 billion euros covering the next 10 years. This fund is aimed primarily at funding growing startups with high capital needs, and it could mobilise up to 50 billion euros, according to estimates by Germany's own Ministry of Finance, thanks to the participation of other public and private actors and the use of various existing financial instruments.

Public investment in fixed capital seems to be reflecting the impact of these plans. For instance, in France, its average annual growth between 2000 and 2019 was less than 3.0%, whereas since 2020 it has risen to 4.7%. An even bigger impact is observed in Germany, where it has gone from an average growth of 2.8% in the period 2000-2019, to an average of 6.0% since 2020.

Amount of the reform plans drawn up
(% of 2023 GDP of each country)



Note: US data represent the high estimated range for the IRA and the Chips Act. For further details, see the US section in this same Dossier.

Source: CaixaBank Research, based on data from AMECO, the European Parliament, the CBO and Goldman Sachs.

1. See the Focus «[Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades](#)» in the MR10/2024.

2. See the article «[NGEU funds: what is the status of their implementation at the European level?](#)» in this same Dossier.

The Draghi plan seeks to consolidate the NGEU model

The NGEU plan seeks to improve cohesion and accelerate economic convergence between Member States, with a focus on the energy transition and digitalisation. Financed by joint debt issues, it sets an important precedent. The Draghi report recommends going beyond NGEU, proposing a similar mechanism to finance a portion of the 800 billion euros a year that the plan aims to mobilise (around 5.0% of the EU's GDP) in key sectors such as semiconductors, AI, defence, energy and telecommunications, comprising 80% private and 20% public investment. It also suggests introducing more support measures in order to reduce disadvantages in the automotive and technology sectors vis-à-vis China.

In early 2025, the EU presented the Competitiveness Compass to implement the main recommendations of the Draghi report over the next five years.³ This plan is articulated in three pillars: innovation, competitive decarbonisation and economic security. To this end, it sets out five key strategies: simplifying regulation, integrating the single market, boosting financing with new savings-investment products, improving job skills and coordinating European instruments. It is promising to note that some of the elements that in principle generate more consensus among the member countries (regulatory simplification and the reduction of energy costs) are at the top of the schedule of measures to be implemented. Indeed, the first initiatives were already announced at the end of February (they now need to be discussed and approved by the European Council and Parliament). However, key aspects for reducing the fragmentation of the internal market have been pushed back until the beginning of next year and there is a lack of detail on how these efforts will be financed.

Future challenges

The NGEU funds and the national plans of France and Germany are part of a transformation process that is necessary in the current context of global changes. Europe is seeking to bolster its strategic autonomy, diversifying trade relations and promoting industrial policies that reduce its dependence on foreign actors.

However, the new Trump administration is accelerating a structural change in global geopolitics. Europe will need to increase its defence spending in order to reduce its dependence on the US for security, and this will exert greater pressure on the public accounts, right in the midst of a fiscal consolidation process.⁴ The challenge lies in how to reconcile this need with the development of other key areas, such as the energy transition and a new industrial policy, which were already being promoted through NGEU. The Competitiveness Compass sets out a timetable for these milestones, although the current geopolitical context may lead to a change in priorities and some of them, such as designing a new defence policy in the EU, could involve some very difficult negotiations in order for a consensus to be reached.

Rita Sánchez Soliva

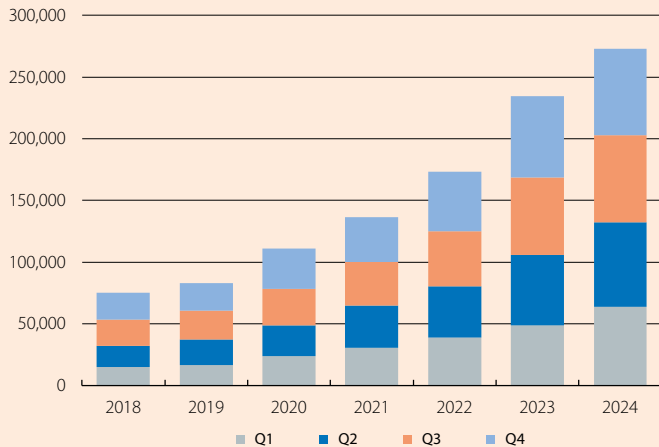
3. A Competitiveness Compass for the EU: https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

4. In this respect, a debate has been opened within the EU to exclude spending on defence from the calculation of the fiscal deficit under the rules of the Stability and Growth Pact. The possibility of allocating to defence any NGEU funds that are not finally spent is also being considered.

US: A model of economic transformation very different from Europe's

In the US, two major economic investment and modernisation plans have been launched in recent years which represent a very different model from the European one, with a more protectionist approach. The transformative efforts in energy and technology did not arise from the need to boost the economy after COVID, as was the case in the euro area with the European NGEU funds, but rather from the need to strengthen the US' autonomy and strategic position. Thus, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act was created, seeking to reduce the reliance on Asia in semiconductor production, as was the Inflation Reduction Act (IRA), seeking to accelerate the energy transition in the wake of the global energy shock of 2022. Both of these programmes are channelled partly through direct grants, similar to the NGEU funds, but they are also largely channelled through tax incentives that do not require direct federal government spending – a form of incentive that is barely present in the European investment plans. The total amount of these plans comes to around 4.5% of US GDP, similar to the relative weight of NGEU in the EU.

US: investments in clean technologies (USD millions)



Source: CaixaBank Research, based on data from the MIT Clean Investment Monitor and the Rhodium Group.

renewable energy, electric cars and energy efficiency.² The total cost of the programme is uncertain, with initial estimates from the CBO and the Congressional Joint Committee for Taxation of 271 billion dollars in tax credits (nearly 1.2% of GDP), but it could reach as much as 1 trillion dollars (4.3% of GDP) over the programme's 10-year period. The rest of the IRA is made up of direct investments financed through grants and loans, estimated at an additional 140 billion dollars (0.5% of GDP).

The IRA is still young to estimate the effect it will have on US growth and productive capacity in the long term. However, there are a number of statistics which suggest that its implementation has paid off for now. For instance, using the aggregates of household personal income tax returns in 2023, the Internal Revenue Service (IRS) reported that over three and a half million households applied for some form of IRA credit, saving them 8.4 billion dollars. Similarly, the IRS reported last June that, in the first half of 2024 alone, thanks to IRA deductions, consumers have saved nearly 1 billion dollars in more than 150,000 electric car purchases. In fact, following the implementation of the IRA, sales of electric vehicles increased a remarkable 50% in 2023 alone.

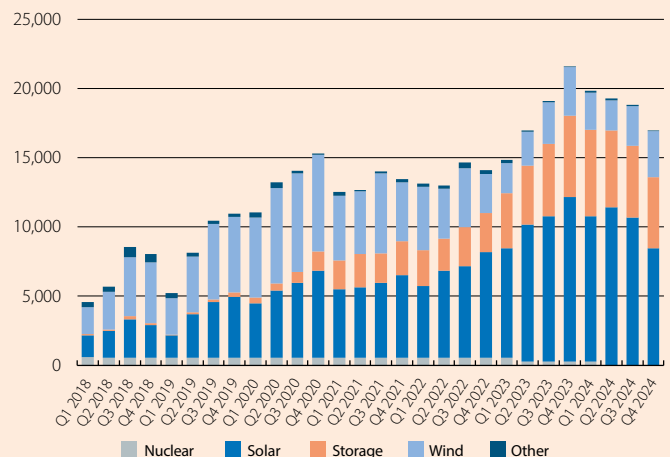
Other data collected from the MIT Clean Investment Monitor³ show a significant increase in green investments over the past three years. Between 2022 and 2024, these investments

programmes are channelled partly through direct grants, similar to the NGEU funds, but they are also largely channelled through tax incentives that do not require direct federal government spending – a form of incentive that is barely present in the European investment plans. The total amount of these plans comes to around 4.5% of US GDP, similar to the relative weight of NGEU in the EU.

The US focuses on semiconductors and the energy transition with a Made in America seal

The IRA is the biggest federal climate change response programme in the US, signed in 2022. It seeks to accelerate the transition to a green economy, create jobs and boost economic growth through loans, tax incentives and direct aid in the energy sector. Tax incentives represent the main channel through which the IRA operates, accounting for up to two-thirds of the total budget,¹ offering tax credits to households and businesses through to 2032 for making investments in

US: investment in energy (USD millions)



Source: CaixaBank Research, based on data from the MIT Clean Investment Monitor and the Rhodium Group.

1. See CBO estimates: «Estimated Budgetary Effects of Public Law 117-169, to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14».
 2. Includes production for energy storage, carbon capture, nuclear energy production, sustainable transportation (biodiesel) and renewable energy production facilities (wind, solar and hydro). For homes, includes installation of solar panels, battery storage and solar water heating, among others.
 3. See MIT's Clean Investment Monitor.

reached 683 billion dollars, an increase of more than 150% over those undertaken between 2018 and 2021. Although the increase in investment has been significant, since 2022, the share of electricity generated from renewable energies has increased by just 2 pps, to 22% (although this level is 10 pps above 2014 levels).⁴ Results have been most notable in the electric vehicles segment in 2024, investments reached 91 billion dollars and sales of electric vehicles (including hybrids) accounted for 21% of all vehicle sales (versus less than 10% in 2021).⁵

The CHIPS Act, signed in August 2022, seeks to strengthen semiconductor supply chains in the US. The Act allocated 53 billion dollars (0.23% of GDP) for the manufacture and research and development of semiconductors in the country, mainly in the form of grants.⁶ To date, over 38 billion dollars have been allocated to 48 projects in 23 states, generating more than 115,000 jobs. The protectionist bias of the CHIPS Act is conveyed through a ban on participating companies from expanding semiconductor manufacturing in China and in countries considered to be a threat to US security. It also incorporates a tax credit incentive of up to 25% for specialised investments in the manufacture of equipment needed for semiconductor production that are fully developed on US soil.

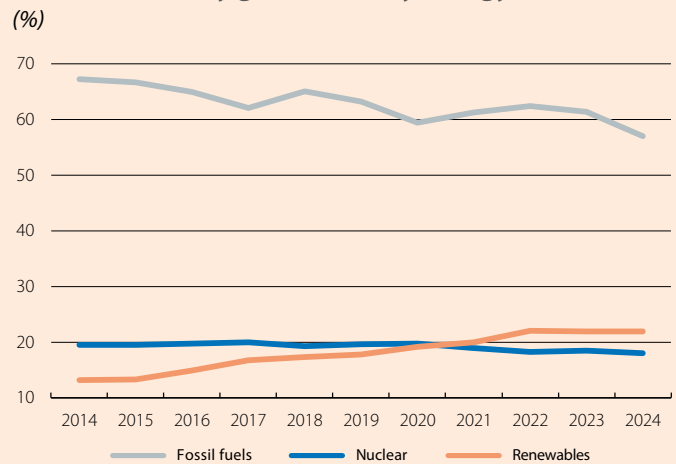
Future challenges

The IRA and the CHIPS Act are part of a economic transformation process, necessary in the global power shift that has been taking place in recent years. The US must address competition from new players in key areas in which it has traditionally played a hegemonic role, such as the case of China.

Trump's early days in office have made it clear that we will see an escalation of protectionism during his administration. Thus, while the CHIPS Act seems to fit in with White House policies, the IRA appears more threatened. The energy transition is not a priority on his agenda and, in fact, he will seek insofar as possible to increase fossil-fuel energy production. However, revoking the IRA will not be an easy task. Firstly, it was signed into law, which means that the support of both houses of Congress will be needed in order to revoke it. This seems unlikely considering that most of the investments have been made in the Southern and Great Lakes states – which are traditionally Republican-leaning states. What seems more likely is that certain provisions will be overturned or that the White House will place obstacles that will hinder its implementation: for example, delays in the delivery of funds and approvals, or making access to information more difficult.⁷

Isabela Lara White

US: net electricity generation by energy source



Source: CaixaBank Research, based on data from the US Energy Information Administration.

4. U.S. Energy Information Administration (2024). «Electric Power Monthly». Washington, D.C.: U.S. Department of Energy.

5. U.S. Energy Information Administration (2024). «U.S. share of electric and hybrid vehicle sales reached a record in the third quarter». Washington, D.C.: U.S. Department of Energy. Published on 04/12/2024.

6. Of the 53 billion dollars, 39 billion are allocated to a financial assistance programme – also called the CHIPS Fund for America – administered by the US Department of Commerce to build and expand manufacturing facilities. The rest will be used to incentivise the domestic environment for production, including research and development.

7. At the close of this publication, the White House has removed the official IRA web page and it can only be accessed through the Biden Administration's presidential archive, [Inflation Reduction Act Guidebook | Clean Energy | The White House](#), and it cannot be updated.

Through our studies, we help to stimulate debate and the exchange of views among all sectors of society, as well as to promote the dissemination of the major themes of the socio-economic environment of our time. Both the *Monthly Report* and the rest of CaixaBank Research's publications are available at: www.caixabankresearch.com

We recommend:

Brief Notes on Economic and Financial Developments



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.

Consumption tracker



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



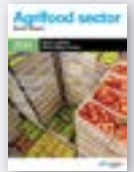
Spain's tourism sector enjoyed rapid growth in 2024 and has support factors to continue expanding in 2025. These include the economic growth of the main source countries and the sector's price competitiveness, as it continues to seek a reduction in its seasonality to avoid congestion during the peak 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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