The Spanish economy continues to grow at a steady pace despite the uncertain international environment

Uncertainty is the buzzword of the moment, but it is felt less in our economy than elsewhere in Europe. The turbulent international context, shaken by the actions of the Trump administration, remains the subject of the utmost attention and concern. There is high uncertainty surrounding several elements: regarding the trade war unleashed by the US, about developments in the war between Russia and Ukraine and about the transatlantic relationship itself. Faced with so much uncertainty, it is worth differentiating its intensity by country. In Spain, the uncertainty indices, measured through textual analysis of the country's main newspapers, show a lower upturn than that observed for Europe as a whole. Spain's more contained exposure to trade with the US compared to Europe as a whole, or its distance from the Ukrainian front, could be some of the explanations for this gap. That being the case, for the moment, and while we wait for events to unfold, it seems that our economy ought to weather this period of uncertainty better than our main trading partners.

The services sector continues to enjoy rapid growth, while the turbulent international context is being felt in industry. On the services side, in Q1 the Purchasing Managers' Index (PMI) for the sector stood at 55.3 points, 0.2 points higher than in the previous quarter. Also, the production index for the services sector climbed a notable 1.5% month-on-month in January, propelling the year-on-year rate from 2.1% to 4.2%. In contrast, the manufacturing PMI fell 3.6 points in the Q1 2025 average compared to Q4 2024, to 50 points. This decline is explained by the weakness of foreign demand, affected by the uncertainty surrounding tariffs. In the same vein, the industrial production index began the year on a bad footing, with a month-on-month decline of 1.0%. On the consumption side, the signals are mixed. In the January and February average, the retail trade index was up 0.2% from the previous quarter average and the CaixaBank Research consumption indicator showed growth of 3.4% year-on-year, with data up until the third week of March, compared to the 4.0% registered in the previous quarter. However, it should be noted that the March readings were particularly modest, mainly because of the in-person consumption category, which may have been affected by the heavy rains during the month as well as by a calendar effect caused by Easter, which in 2024 fell in March. Finally, as we will discuss below, employment has continued to make good progress. Thus, despite their nuances, the available indicators continue to point to a significant rate of GDP growth, which we place in the range of 0.6%-0.7% quarter-on-quarter.

Job creation remains dynamic in March despite the fact that Easter falls in April this year. In March, the number of S.S. affiliates increased by 161,492 people (0.8% month-on-month).

Spain: economic policy uncertainty indices
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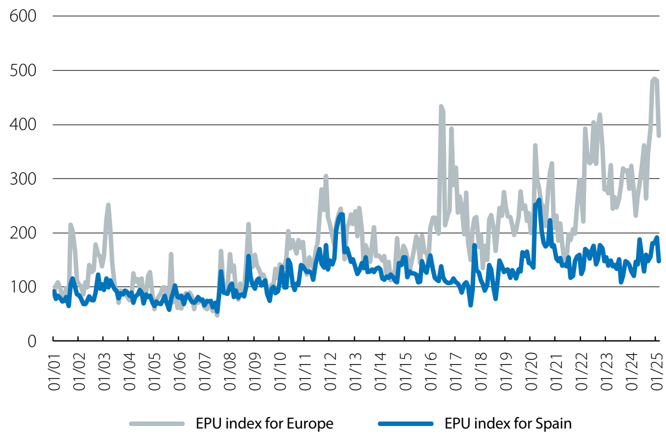
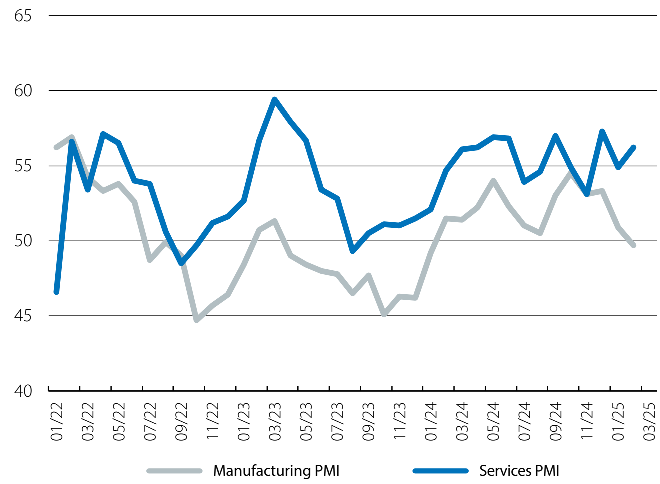


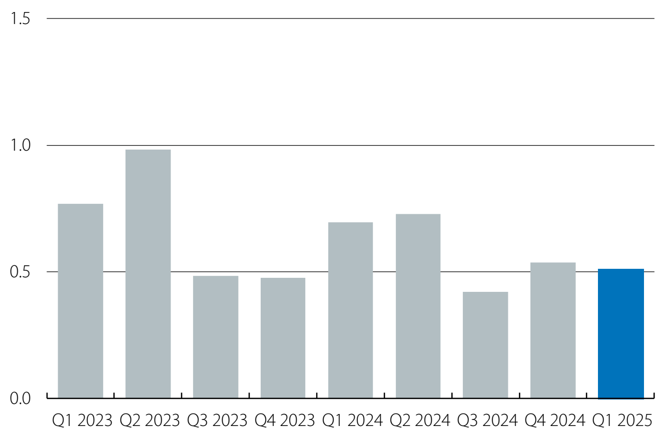
Source: *CaixaBank Research, based on data from S.R. Baker, N. Bloom and S. Davis, and C. Ghirelli, J.J. Pérez and A. Urtasun.*

Spain: PMI
Level



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

Spain: registered workers affiliated with Social Security
Quarter-on-quarter change (%)



Note: *Seasonally adjusted series of affiliates not on furlough (ERTE).*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

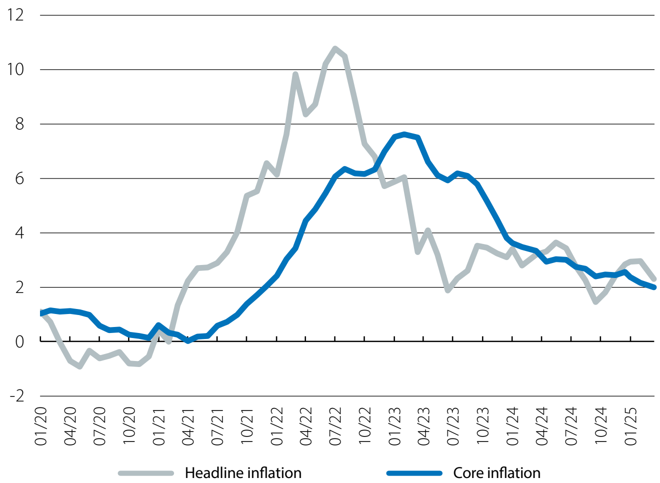
This is in line with the usual increase for this month of the year, but is slightly below the growth recorded in March 2024 (0.9%), given that last year Easter fell in March. In Q1 as a whole, the growth rate in the number of affiliates accelerated by 0.1 pp compared to the previous quarter, with an increase of 0.6% quarter-on-quarter after correcting for seasonality.

Significant reduction in inflation in March. Headline inflation fell by 0.7 pps in March to 2.3% and core inflation by 0.2 pps to 2.0%. This decline in headline inflation is largely a response to the drop in electricity prices. On the other hand, core inflation is following a pattern of sustained reduction, having fallen 0.6 pps in just three months, although this month's figure could be influenced by a calendar effect. Last year Easter fell in March, and this entailed an increase in the price of tourism services which has not materialised this month. The sharp price correction of the main energy commodities in March, coupled with the lower oil prices anticipated by the futures markets, suggests that energy prices should contribute to a moderation in inflation over the coming months.

The budget deficit fell to 3.2% of GDP in 2024 and stood just below 50.2 billion euros; this is equivalent to 3.15% of GDP and represents a reduction of almost 2.5 billion compared to 2023. Without counting the exceptional expenditure linked to the floods in Valencia, which was 5.59 billion euros, the deficit stood at 2.8% of GDP, 0.2 pps below the 3.0% target set by the government and the European Commission. Government revenues increased by 7.1%, driven by dynamic economic activity and still relatively high inflation, while spending grew by 6.2%, mainly due to increases in pension spending and public sector wages. 2024 closed with a considerable fiscal adjustment of 0.7 pps, if we exclude the exceptional expenditure due to the flooding.

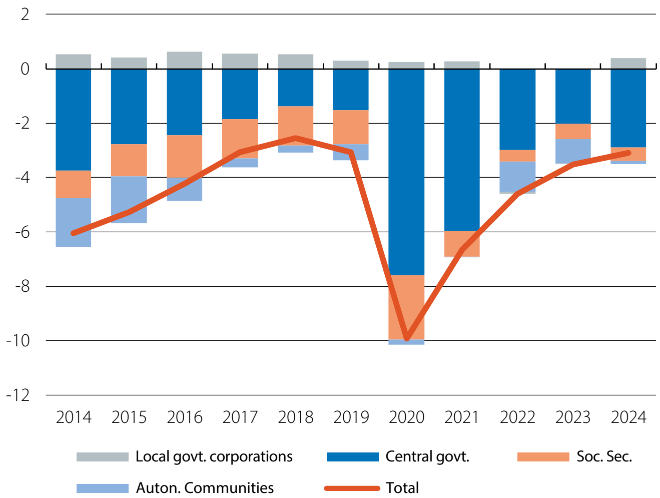
The foreign debtor position continues to decline thanks to the strength of the foreign sector. The current account balance closed 2024 with a surplus of 3.0% of GDP, up from the 2.7% of the previous year and very close to the historical peak of 3.1% reached in 2016. Both the balance of trade in goods and that of services contributed to the improvement in the current account balance: the deficit in the case of goods fell 0.3 pps to 2.0% pps of GDP, thanks to the energy component as a result of cheaper imports, while the surplus in services grew 0.1 pp, to 6.3%, thanks to the boost from tourism. In contrast, the deficit in the income balance remained stable at 1.3%. The healthy state of the current account, in conjunction with the surplus in the capital account, has further reduced the deficit in the net international investment position – the difference between the value of our assets abroad and that of foreigners' assets in this country – a dynamic which is discussed in more detail in the Focus «The high lending capacity continues to help reduce Spain's foreign debt» in this same *Monthly Report*. Specifically, the NIIP closed 2024 with a debit balance of 44% of GDP, 7.3 pps less than in 2023 and a level not seen since 2002.

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



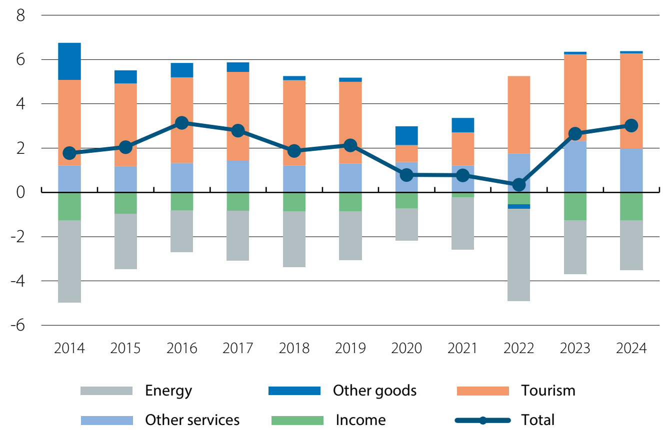
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: general government balance
(% of GDP)



Source: *CaixaBank Research, based on data from the Ministry of Finance.*

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.*