MR05

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

Gold: the shiniest asset

Anatomy of a depreciation: the dollar in times of economic policy uncertainty

INTERNATIONAL ECONOMY

A snapshot of investor apathy in the EU

India: the wheel of dharma on the path to development

SPANISH ECONOMY

Spanish firms bolster their financial solidity

Why has public consumption grown so much in recent years?

AIReF's evaluation of the pension reform: first match ball saved, but with big challenges on the horizon

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

May 2025

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

CaixaBank Research
www.caixabankresearch.com
research@caixabank.com
Enric Fernández
Chief Economist
José Ramón Díez
Head of International Economies and Financial Markets
Oriol Aspachs
Head of Spanish Economy
Sandra Jódar
Head of Strategic Planning
David Martínez Turégano and Nuria Bustamante
Monthly Report coordinators

BPI Research (UEEF)
www.bancobpi.pt /
http://www.bancobpi.pt/grupo-bpi/estudos-e-mercados/mercados-financeiros
deef@bancobpi.pt
Paula Carvalho
Chief Economist

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INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKETS

9 *Gold: the shiniest asset*
Beatriz Villafranca

11 *Anatomy of a depreciation: the dollar in times of economic policy uncertainty*
David del Val

14 INTERNATIONAL ECONOMY

16 *A snapshot of investor apathy in the EU*
David Martínez Turégano

18 *India: the wheel of dharma on the path to development*
Antonio Marta Miranda y Luís Pinheiro

23 SPANISH ECONOMY

25 *Spanish firms bolster their financial solidity*
Sergio Díaz Valverde

27 *Why has public consumption grown so much in recent years?*
Oriol Carreras Baquer

29 *AIReF's evaluation of the pension reform: first match ball saved, but with big challenges on the horizon*
Javier García-Arenas

33 PORTUGUESE ECONOMY

500 Monthly Reports

With this *Monthly Report* (MR) we celebrate 500 issues since the publication's birth in January 1980. It has been 45 years and five months, with 11 issues published each year (we only take a break in August) and with the same goal since the beginning: to offer the reader a view of the current economic situation, both in relation to the latest developments and underlying structural issues.

To a certain extent, the MR has embraced the words uttered by Professor Enrique Fuentes Quintana at a conference in November 1979: «a responsible democratic citizen is one who knows how to make choices on the basis of accurate information, and my purpose, therefore, is going to be simply to try and inform those who listen to me about where the economic crisis generally lies, such that each person can then make whatever decisions they consider appropriate guided by their free sense of responsibility and freedom.» We like to think that the MR does its bit to help readers make better decisions.

These 500 issues have spanned a period that has seen major economic events and huge changes. The MR has witnessed Spain's admission into the European Economic Community, the creation of the euro, the housing bubble and the consequences of its bursting, the Great Recession that followed the bankruptcy of Lehman Brothers, the European sovereign debt crisis, COVID-19, the energy shock triggered by the invasion of Ukraine and, now, the tariff crisis caused by the Trump administration. We have not lacked, nor do we lack now, major topics to address. During this period, Spain's population has grown by 30%, employment by 76%, GDP in real terms by 160% (2.2% annually on average) and the CPI has increased six-fold. Fortunately, inflation is no longer a chronic problem for the Spanish economy. Unfortunately, productivity remains a challenge that is yet to be addressed.

The way in which we prepare the MR has also changed significantly. 45 years ago, the economists of the "la Caixa" Research Service received economic information from official agencies by post, or by fax at best. This information arrived with a significant time lag, but it was analysed with the utmost rigour and with the tools that were available at the time. Today, the National Statistics Institute (INE) publishes its first GDP estimate online just four weeks after the end of each quarter. Moreover, in addition to the official data, we can use internal, anonymised data to try to understand what is going on in our economy in almost real time. The internet, big data and other advances have enabled us to greatly improve our productivity. This is a good example to illustrate that technological improvements do not necessarily lead to job destruction. If we were doing the same thing as our colleagues were back in 1980, then there could be far fewer of us on the team, but the improvement in productivity has allowed us to expand our analyses and our tasks to encompass all those we cover today.

This month we are marking 500 issues, and we intend to mark 500 more. In these next 500 issues, we would like to be able to explain that, in the end, Trump's shock affecting international trade was not as serious as it could have been; that the EU took the Draghi and Letta reports seriously and implemented changes that nurtured a truly single market as well as its competitiveness; that the productivity of the Spanish economy ended up taking off after a series of reforms bolstered its human capital, promoted the growth of the average business size and improved the efficiency and effectiveness of public administrations; that Spain was able to build enough homes to facilitate access to all segments of the population; that we managed to address the enormous challenge of declining birth rates and increasing longevity in time; that our efforts in the fight against climate change allowed us to avoid the worst-case scenarios; and that artificial intelligence contributed to an improvement in general well-being without having the effects on inequality that some had feared. No doubt not all of these wishes will be fulfilled, but what we can promise is that we will strive to continue to address all of these issues with the utmost rigour.

Finally, several acknowledgements are due. To all the teams in CaixaBank or "la Caixa" that have contributed to these 500 issues of the MR. To all those at the bank who, throughout its history, have supported the Research Service and have promoted our external publications. And, of course, to our readers, for being so loyal and so demanding, which helps us to be better. To everyone, thank you all very much.

And, now, here's to 500 more.

Enric Fernández
May 2025

Chronology

APRIL 2025

2 «Liberation Day»: Trump announces a universal 10% tariff and higher «reciprocal» tariffs on 57 countries.
17 The ECB cuts interest rates by 25 bps, leaving the depo rate at 2.25%.
28 Spain and Portugal are affected by a massive blackout, causing severe disruptions in both countries.

FEBRUARY 2025

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.

DECEMBER 2024

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

MARCH 2025

4 The European Commission presents its ReArm Europe plan to bolster the EU's defence capabilities.
6 The ECB cuts interest rates by 25 bps, leaving the depo rate at 2.50%.

JANUARY 2025

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

NOVEMBER 2024

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

Agenda

MAY 2025

2 Euro area: CPI flash estimate (April).
6 Spain: registration with Social Security and registered unemployment (April).
6-7 Federal Open Market Committee meeting.
7 Portugal: employment and unemployment (Q1).
8 Spain: industrial production index (March).
9 Portugal: international trade (March).
14 Portugal: labour cost index (Q1).
16 Japan: GDP (Q1).
19 Spain: international trade (March).
26 Spain: loans, deposits and NPL ratio (March).
27 Euro area: economic sentiment indicators (May).
30 Spain: CPI flash estimate (May).
Portugal: GDP breakdown (Q1).
Portugal: loans and deposits (April).
Portugal: tourism activity (April).

JUNE 2025

2 Portugal: employment and unemployment (April).
3 Spain: registration with Social Security and registered unemployment (May).
3 Euro area: CPI flash estimate (May).
5-6 Governing Council of the European Central Bank meeting.
17 Spain: quarterly labour cost survey (Q1).
17-18 Federal Open Market Committee meeting.
20 Portugal: industrial production prices (May).
23 Spain: balance of payments and NIIP (Q1).
Portugal: house prices (Q1).
24 Portugal: GDP breakdown (Q1).
25 Spain: quarterly national accounts (Q1).
Spain: loans, deposits and NPL ratio (Q1 and April).
26 Portugal: NPL ratio (Q1).
26-27 European Council meeting.
27 Spain: CPI flash estimate (June).
Euro area: economic sentiment indicator (June).
30 Spain: household savings rate (Q1).
Portugal: CPI flash estimate (June).

The scene after the storm

100 days after Donald Trump's inauguration as US president and five weeks following the announcement of the tariff hikes, there is a feeling of tense calm in the economy and the financial markets, as we wait to see how the negotiations between the major trading blocs develop. Nothing has been definitively broken, but the deterioration of confidence among economic agents, investors and even traditional political allies has been significant. In economics, as in so many other facets of life, there are repairable damages and others that are more difficult to restore, especially when uncertainty and predictability are gone. Beyond any hope that can be taken from the occasional recovery in financial asset prices, we cannot forget that, today, the effective US tariff remains 23% (3% prior to «Liberation Day»). Therefore, with the economy entering a new era, as the IMF has pointed out at its latest bi-annual meeting, the risk of changes in the economic paradigm of the last few decades remains on the table, and this could potentially affect economic and financial variables, as well as affecting key questions such as the dollar's role as the global reserve currency.

For now, the growth data for Q1, although of little use for extrapolating future trends, paint a picture of a global economy that was still showing strength and resilience before the storm, despite the difficulty of filtering out the distortions caused by agents bringing forward their decisions. In the US, the increase in imports in the run-up to 2 April (+9% quarter-on-quarter) caused a slight drop in GDP for the period January to March (–0.1% quarter-on-quarter), and this could be reversed in Q2. Meanwhile, the better than expected growth recorded in the euro area (0.4%), China (1.2%) and Taiwan (2.4%) reflect the other side of the coin in trade flows. Taken together and in chronological order from January to March, the data indicate that the world economy was still in the process of landing, growing by around 2.7% versus the 3.2% recorded in 2024. However, we are now entering unknown territory, as we wait to find out the extent of the decline in trade in the middle of the year, as well as the effects of uncertainty on consumers' and businesses' decisions. That said, it is also true that the sharp drop in the oil price (–17%) and the gas price (–30%) since January will counteract the decline in growth for many countries. Moreover, the sharp depreciation of the dollar gives economic policy outside the US a greater degree of freedom to respond to these new shocks, especially in emerging countries.

Therefore, what we already know is that the global slowdown is going to be more intense than we were anticipating a few months ago, that the risk of stagflation in the US is not insignificant and that the asymmetrical nature of the shock triggered by the trade war (a supply-side shock in the US and demand-side in the rest of the world) will lead to different economic policy responses in each region, especially in the monetary sphere. If the final balance is a scenario in which trade agreements are reached and the average US tariff is reduced to the 10-15% range, we could find ourselves within the IMF's baseline scenario, with weak global growth (2.8%) but avoiding a global recession. More adverse scenarios could also arise, with a significant deterioration in trade relations, which would trigger a more severe economic slowdown, losses in the financial markets and a more sweeping response from governments and central banks in order to contain the systemic risks. In any case, the key will lie in the final result of the negotiations between China and the US, as this will affect supply chains, international savings flows and will oblige all other countries – especially connecting countries (Vietnam, Mexico, etc.) – to optimise their trade relations with both economic powers in order to defend their competitive advantages. In this context, the thermometers for taking the temperature of the negotiations and the potential adoption, if necessary, of more aggressive negotiating strategies on the US administration's part will be the evolution of the yield on the 10-year US bond (with 5% as a threshold level) and the behaviour of the dollar. Trump can overcome most of the indicators, except that of the financial markets. What happens with US inflation will also be key, bearing in mind that the mid-term elections are just around the corner. In short, there are many pockets of risk threatening the global economy right now, as it continues to grapple with geopolitical risk (with the conflict between India and Pakistan as a new source of uncertainty) while sitting on a mountain of debt (324 trillion dollars, or 325% of global GDP).

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**	**3.5**	**3.3**	**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	0.8	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	1.6	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	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.0	1.3
Emerging and developing countries	***6.3***	***4.8***	***3.1***	***4.7***	***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	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.3	1.5	1.0	1.4
Russia	–	1.4	0.7	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	5.1	3.2	2.1	2.9
Poland	4.2	3.7	3.6	0.1	2.8	3.6	3.3
INFLATION							
Global	**4.1**	**3.7**	**5.5**	**6.6**	**5.7**	**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***	***8.0***	***7.7***	***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	3.4

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	2.8	3.1	2.4
Government consumption	4.5	0.9	2.6	5.2	4.1	1.9	0.8
Gross fixed capital formation	5.7	–1.2	–1.0	2.1	3.0	3.1	3.0
Capital goods	4.9	0.2	–2.5	1.1	2.8	3.8	1.5
Construction	5.7	–2.6	–1.9	3.0	3.5	3.0	3.8
Domestic demand (vs. GDP Δ)	4.4	–0.2	0.7	1.7	2.9	2.7	2.1
Exports of goods and services	4.7	2.9	2.5	2.8	3.1	2.1	2.3
Imports of goods and services	7.0	0.2	2.5	0.3	2.4	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)	–5.2	0.2	1.4	3.7	4.2	3.9	4.1
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	1.8	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	3.6	3.0	5.5	5.2
Capital goods	3.3	2.7	5.5	5.6	5.8	–	–
Construction	–1.4	–2.4	2.6	1.2	1.4	–	–
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	5.0	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	–2.8	–1.1	0.6	2.2	–	–
External funding capacity/needs (% GDP)	–7.7	–1.5	0.1	2.0	3.3	4.2	3.9
Fiscal balance (% GDP)	–4.5	–5.1	–3.0	1.2	0.7	0.4	0.3

Forecasts

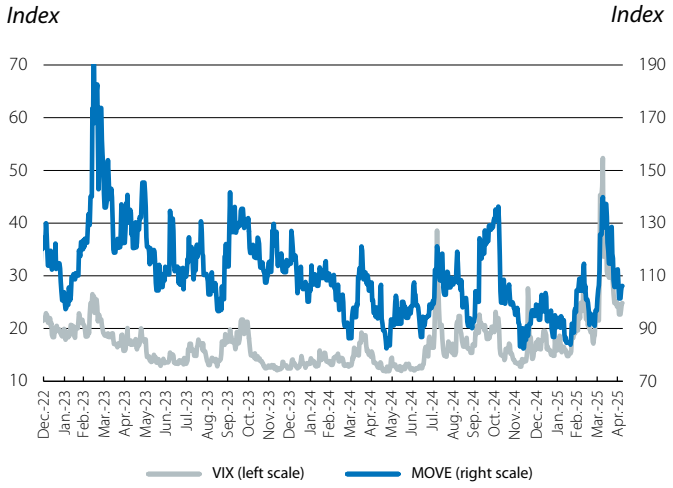
Financial markets embrace the tariff pause

Following the spike in volatility at the start of April, risk appetite recovers. President Trump's announcement of «reciprocal» tariffs on 2 April triggered an episode of high volatility in which uncertainty and concerns surrounding global growth, especially in the US, dominated the narrative in the markets. Global stock markets accumulated losses in excess of 10% in the space of just a few sessions, the dollar depreciated and even commodity prices suffered, particularly energy commodities and industrial metals. However, the 90-day pause on the tariffs announced by Trump, together with macroeconomic data suggesting that the global economy is holding up, at least for now, led to an easing of volatility in the markets. Risk appetite partially recovered and stock markets regained almost all of the lost ground. The dollar has managed to stabilise and commodities (with the exception of oil) recorded gains in the month. On the other hand, the declines in sovereign yields, particularly in the short end of the curves, have persisted amid expectations that central banks will continue to ease monetary policy.

Central banks' strategies diverge. The Fed finds itself in a delicate position in which its two mandates (price stability and full employment) are in tension. In this situation, and faced with a heightened risk of stagflation due to tariffs and the significant uncertainty of the current economic context, it has opted to put any decisions on hold until there is further clarity on the impact the tariffs will have on the real data. At its meeting in early May it kept the fed funds rate unchanged in the 4.25%-4.50% range for the third consecutive time. In contrast, with the risks clearly skewed towards weaker growth, other central banks have managed to continue easing policy. The ECB lowered interest rates by 25 bps at its April meeting, setting the marginal deposit facility rate at 2.25%, and it prepared to respond quickly to the impact of the tariffs, leaving the door open to future changes but without committing itself to any particular course of action. The Bank of England also cut rates by 25 bps at the beginning of May, placing the official rate at 4.25%, and highlighted the risks tariffs pose to economic activity. Looking ahead to the medium term, markets expect these three central banks will cut rates at least three more times by the end of the year, but the Fed has much less margin for manoeuvre, and in cumulative terms the ECB will have lowered interest rates the most in this cycle.

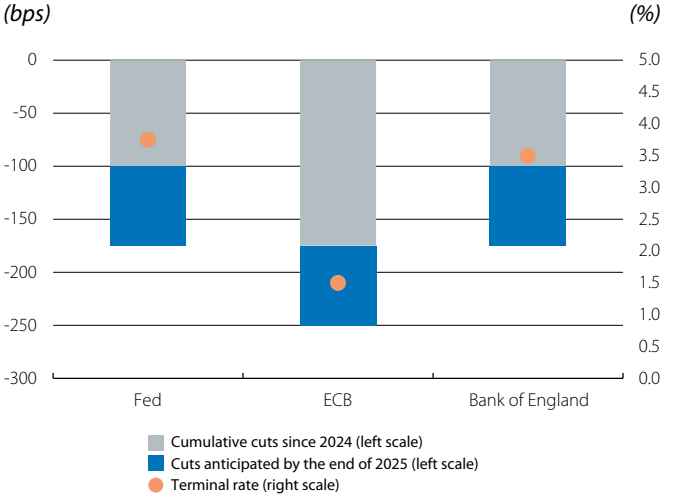
Sovereign yields fall back, in general terms, to the levels of March. In the US, the initial reaction to tariffs was a widespread spike in sovereign yields, but they have since fallen back down in the shorter section of the curve amid expectations that the Fed will cut interest rates this year. Yields in the longer sections, in contrast, have remained higher given the growing doubts surrounding the strength

Volatility indices



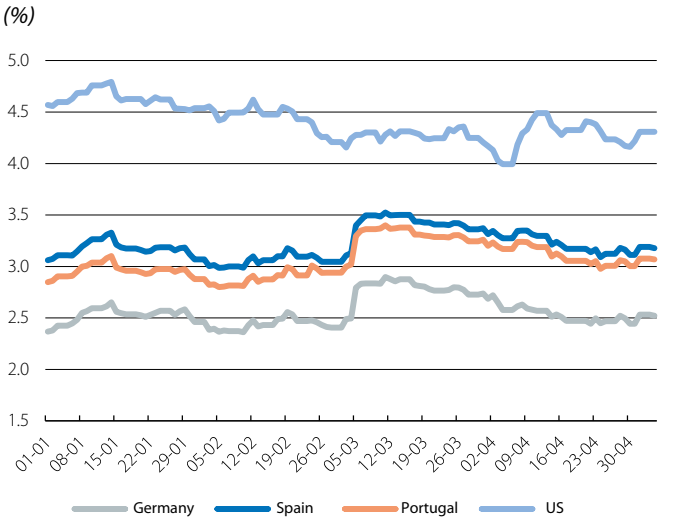
Note: *The VIX index measures the volatility of the S&P 500. The MOVE index measures the volatility of US debt markets.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rate expectations



Note: *Rate cuts anticipated according to the futures curves for the EFFR, the STR OIS and the GBP OIS.*
Source: *CaixaBank Research, based on data from the ECB, the Fed, the Bank of England and Bloomberg.*

10-year sovereign interest rates



Source: *CaixaBank Research, based on data from Bloomberg.*

of US economic activity and the potential fiscal deterioration. Sovereign yields in the euro area, meanwhile, have returned to the levels they were at in late March, along the whole curve, even falling below those levels and wiping out all the gains accumulated with the announcements of fiscal expansion and defence spending. The expectation of a dovish ECB has been the main catalyst behind the rally in European sovereign bonds of recent weeks.

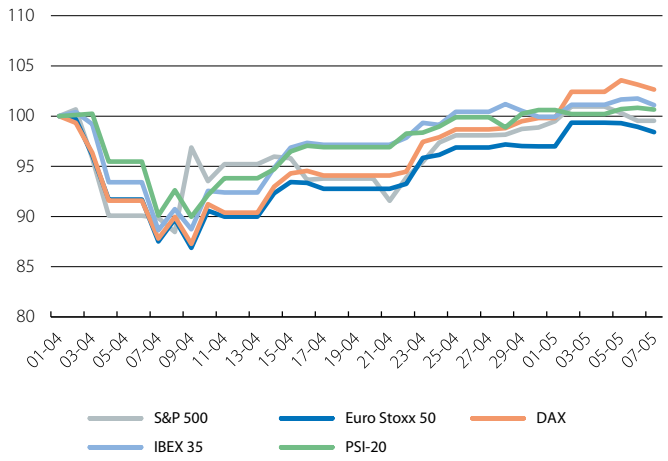
The stock markets recover some ground. The main global indices managed to recover the losses suffered at the start of the month and are now back at, or very close to, the level of the day prior to the tariffs announcement. The S&P 500 racked up nine consecutive sessions of gains at the end of April, the longest streak in two decades, driven by strong employment data and a good earnings season for tech firms. In the euro area, the German and Spanish stock markets led the gains amid better-than-expected economic activity data. Global sentiment also steadily gained traction on the back of the Trump administration's negotiation annoucements and as conversations with some trading partners got underway.

The dollar stabilises, but remains weak. Despite its traditional role as a safe-haven asset, the dollar suffered a sharp deterioration (of over 4%) against its main counterparts after tariffs were imposed and amid the surge in volatility in the financial markets. Moreover, this weakness was widespread: both against developed-economy currencies such as the euro, pound sterling and yen, and against those of emerging markets such as the Mexican peso. However, the dollar appears to have hit a floor, for now. Against the yen it has stabilised at around 142 and 143 dollars per yen, against the euro at 1.13, and against the pound sterling at 1.33. Similarly, against the Mexican peso, the dollar has been trading at around 19.6 dollars per peso for the past two weeks.

Energy prices feel the effects of the global uncertainty. The focus of commodity markets has been primarily on energy. The price of Brent fell more than 15% during the month of April, reaching around 60 dollars/barrel, its lowest level in four years. This is due, firstly, to expectations of lower global activity growth, which would stifle demand for crude oil. Secondly, it is because OPEC and its partners announced a production increase of 411,000 barrels a day beginning in June. Moreover, Saudi Arabia warned other members of the organisation that it would increase its production even more if they do not meet their quotas. On the other hand, gold has performed particularly well, amassing gains of over 25% in the year to date due to its role as a safe-haven asset (see the Focus «Gold: the shiniest asset» in this same *Monthly Report*).

Performance of stock market indices

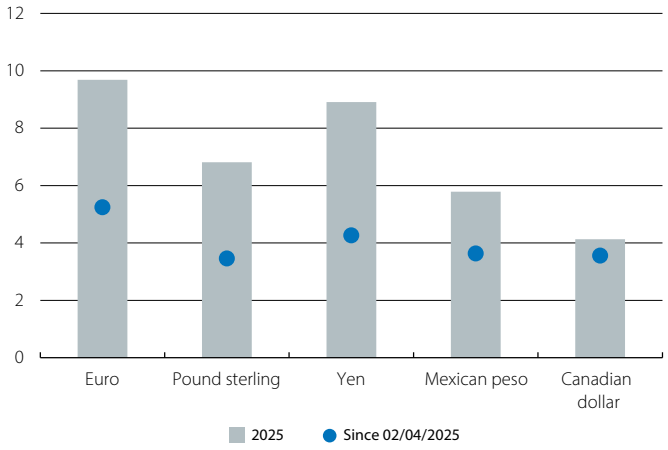
Index (100 = 01/04/2025)



Source: *CaixaBank Research, based on data from Bloomberg.*

Performance of currencies against the dollar

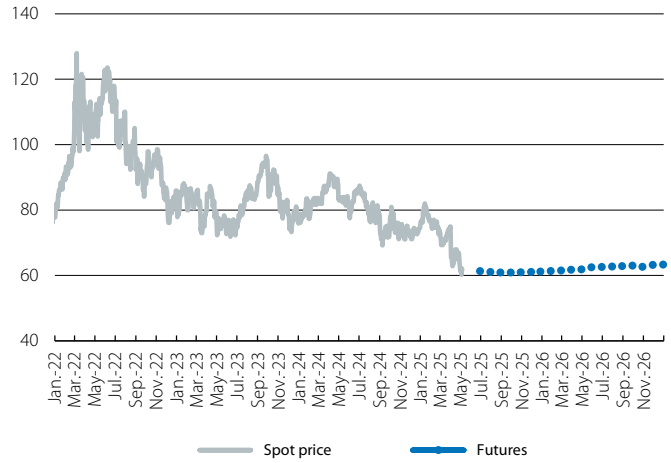
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Brent oil prices

(Dollars/barrel)



Source: *CaixaBank Research, based on data from Bloomberg.*

Gold: the shiniest asset

2024 was a record year for gold. The interest rate cuts in the US and the geopolitical tensions led both central banks, especially in emerging economies, and investors to intensify their demand for gold during the second half of the year. This preference for security, or the lower risk of gold, caused the price per ounce to surge by 27% in the year. To date, in the first four months of 2025, most of the dynamics that fed that rally either remain in place, such as the expectations of further rate cuts by the Fed, or have intensified, such as the geopolitical risks linked to Donald Trump's tariff policy. As a consequence, the total demand for gold has continued to grow,[1] largely driven by increased investment in gold (whether in the form of ETFs,[2] bars or coins), and this has allowed the price to reach 3,500 dollars per ounce.[3]

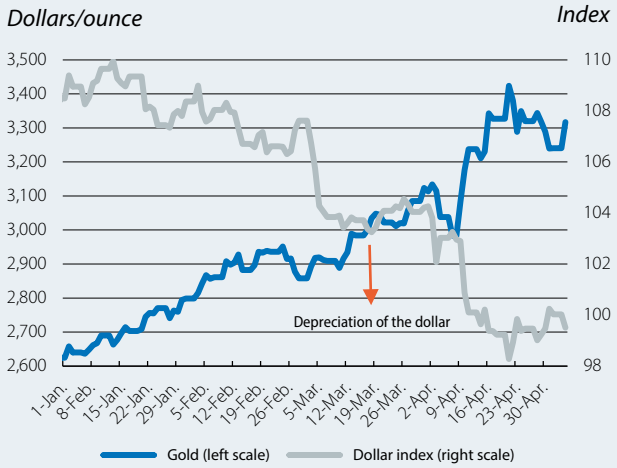
What triggered this gold boom?

Before delving into the causes of the current gold price rally, it is worth pausing to identify which theoretical factors determine prices of this precious metal. In the long term, on the demand side, wealth and disposable income play a key role: institutions and individuals invest in gold, while consumers spend a portion of their income and their wealth on jewellery and technology products that contain gold. On the supply side, aspects such as mining production and gold recycling, the availability of natural reserves and environmental factors also influence prices.

However, it is shorter-term factors that play a bigger role when it comes to determining the return, or the price, of gold. These include macrofinancial factors such as foreign exchange rates, the relative value of assets and the level of risk aversion in the financial markets, which introduce greater volatility relative to its long-term determining factors. The first is the so-called opportunity cost of currency: the price of gold is denominated in dollars, and when the dollar weakens, gold becomes more affordable for holders of other currencies (see first chart). The second factor is the opportunity cost of interest rates: the presence of gold in investment portfolios is partly due to its expected future return relative to other safe assets, such as US Treasury bonds. The interest rate yield of these bonds, particularly in the case of 10-year Treasuries, is closely and inversely correlated to the gold price. The third element is linked to gold's consideration among financial investors as a safe-haven asset. Therefore, its demand increases significantly when the market's perception of risks regarding economic growth and geopolitics is greater.

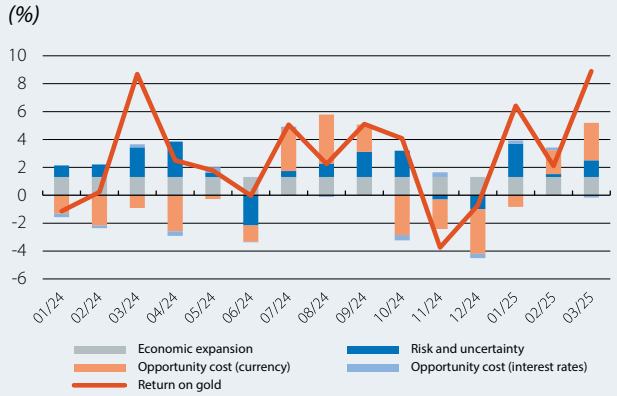
1. According to data from the World Gold Council (WGC), in Q1 2025 the total demand for gold grew by 40% compared to Q1 2024.
2. Gold ETFs (Exchange Traded Funds) are funds that are listed on the stock market which replicate the price of gold and allow investors to obtain exposure to gold without having to purchase or store physical gold.
3. During the session of 21 April 2025.

Gold price and the dollar



Source: *CaixaBank Research, based on data from Bloomberg.*

Main determining factors of the return on gold



Note: *Data as of 31 March 2025. Multiple regression model of returns on gold, based on four categories of determining factors. The results are based on the analysis of data between June 2019 and October 2024.*
Source: *CaixaBank Research, based on data from the World Gold Council.*

If we consider these factors in the current context, it is clear that they have supported the increase in the demand for gold and, therefore, the increase in its price. Donald Trump's arrival in the White House, with the introduction of tariffs and an erratic and unpredictable economic policy, has raised fears of a possible economic recession in the US. This, in turn, has been reflected in a weakening of the dollar and has fuelled pre-existing geopolitical unease, triggering an episode of significant tension in the financial markets. The heightened volatility and the risk aversion in such an uncertain environment have led many investors – both institutions and individuals – to choose to diversify their portfolios towards a safe-haven asset such as gold, driving up its price and attracting new investment flows, as reflected in the Gold Return Attribution Model of the World Gold Council (WGC) (see second chart).

Investment in gold, a classic that is gaining followers

For centuries, gold has been considered a safe asset in times of political and economic uncertainty, offering its holder a sense of security due to its nature as a high-value product that can be easily transported. However, today's investors prioritise the liquidity and stability that this asset provides rather than its intrinsic utility.

In 2024, the demand for gold as an investment asset reached 90.6 billion dollars, a record level surpassed only in 2020, when the economic crisis triggered by COVID-19 caused a surge in investment in safe-haven assets, and the level of investment reached 102 billion dollars. The data on investment in gold during Q1 2025 indicate that the trend remains upward, not only in monetary terms but also in physical terms,[4] with the demand in volume reaching a peak since the outbreak of the war in Ukraine in 2022. In this regard, in addition to the strength of demand for physical gold, mostly in the form of bars, investment through gold ETFs has also increased significantly. The flow of investment towards ETFs has remained positive for 10 months in the last year, and according to data from the WGC it reached 20.8 billion dollars between January and March. This increase will have been favoured by the appeal sparked by the rise in gold prices itself, as well as by fears of a recession in the US, volatility in the stock markets and investors' expectations of possible interest rate cuts by the Fed and the ECB.

The role of the central banks

The importance of gold in central banks' foreign reserves is due to its role as a long-term store of value, as an alternative to the major currencies and without any credit risk. This is why, since 2010, central banks have increased their gold positions and are net buyers. However, the rate of their purchases has doubled since Russia's invasion of Ukraine, particularly in the case of emerging economies. In the last few quarters, the highest demand for gold has come from the central banks of Poland, China, Kazakhstan, the Czech Republic and India. In this regard, the market views the purchases by central bank of China (PBoC) with some concern. At the beginning of 2025, it was estimated that the Chinese monetary authority's foreign reserves amounted to around 3 trillion dollars, of which 5.9% was in gold. If we put this percentage in perspective, and in order to understand the significance of the PBoC's actions, if it were to decide to increase this percentage to, say, the level of holdings of India's central bank (9%), this would generate additional demand of approximately 15,000 tonnes of gold, equivalent to around 30% of the total global demand for gold in 2023.

In short, the uncertainty dominating the current global economic and political outlook appears to be acting as a tailwind for the demand for gold to remain strong. However, major changes in international geopolitics, such as an end to the war between Russia and Ukraine or greater clarity regarding the US' trade policy, could lead to an easing of the buying pressure on gold on the part of investors.

Beatriz Villafranca

4. In Q1 2025, the demand for gold for investing stood at 552 tonnes, 170% more than in Q1 2024.

Anatomy of a depreciation: the dollar in times of economic policy uncertainty

The recent depreciation of the dollar, in a context of risk aversion in the financial markets, has triggered concerns among investors for two fundamental reasons. The first is based on an article published after last November's presidential election by someone who is now one of Trump's top economic advisers, defending the implementation of measures aimed at devaluing the dollar. The second was the announcement on 2 April of the mislabelled «reciprocal» tariffs, which introduced a higher-than-expected degree of trade protectionism, intensifying investor scrutiny over the new administration's reform agenda. For these reasons, we must consider the possibility that the anomalous behaviour of the currency in April could be an indication that the market is assessing the risk linked to unorthodox economic policies in the United States, which could affect the dollar's role as a reserve currency. Are there grounds for this viewpoint? For now, and despite the depreciation that the currency has accumulated so far this year, we cannot state with certainty that the current value of the dollar reflects any significant shift in its central role in the international monetary system.

Some controversial economic policy reflections…

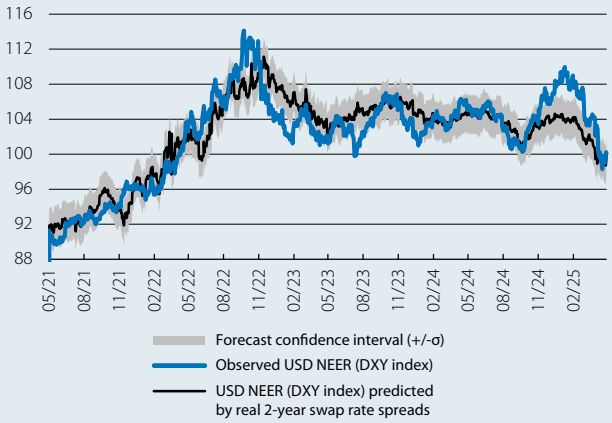
Stephen Miran, the current chair of the White House Council of Economic Advisers, published a report in late November (prior to his appointment) exploring how the US could achieve various economic policy goals contained in Trump's campaign programme.[1] Miran proposed a variety of ways in which to: reduce the cost of debt servicing and increase US Treasury revenues, get US allies to play their part in defence spending, and improve the price-competitiveness of US industry in order to regain productive capacity and jobs, all simultaneously.

To achieve all these objectives, he proposed a range of measures which included, among others: higher tariffs, the devaluation of the dollar, and even a charge on the yields of Treasury bonds held by foreign governments. Throughout the report, Miran outlined ways to implement these measures either simultaneously or alternately, and through both multilateral channels (i.e. agreed with other countries) and, ultimately, unilaterally by the US.

The potential impact of these measures put investors on high alert. Therefore, the recent depreciation of the dollar[2] in a context of risk aversion in the market, when the currency usually acts as a safe-haven asset and tends to appreciate in value, raised doubts as to whether the market was already pricing in the risk that the administration was implementing these less orthodox – and more profound – measures which Miran explored in his report.

Nominal effective exchange rate of the dollar

Index



Source: *CaixaBank Research, based on data from Bloomberg and Macrobond.*

… and a dollar that returns to the level indicated by the yield spread

However, several analyses indicate that these factors, although still on investors' radar, have been transient, and the currency has returned to the levels indicated by its historical relationship with other assets and financial variables. One such relationship is the historical correlation between the dollar's nominal effective exchange rate and the spread between real interest rates in the US[3] and those of its main trading partners.[4] In fact, the dollar's nominal effective exchange rate is currently where this correlation predicts it should be[5] (the observed level barely deviates from the predicted level) and it seems to have found some stability there (see first chart).

The explanatory power of real rates for the exchange rate has fluctuated in recent months. Specifically, it decreased between last October and January this year.

1. A User's Guide to Restructuring the Global Trading System (November 2024).
2. In its nominal effective exchange rate, it has accumulated a depreciation of more than 8% in the year and of more than 4% since the announcement of «reciprocal» tariffs on 2 April.
3. Measured as the difference between Overnight Indexed Swap (OIS) rates and inflation swap rates.
4. According to the weighting of the DXY index (the standard benchmark for the overnight nominal effective exchange rate), these are: the euro, the yen, the pound sterling, the Canadian dollar and the Swedish krona.
5. Firstly, the joint movement of real rates in these currencies is obtained, excluding real rates in dollars (i.e. the first two factors of a principal component analysis), and this is then plotted against the DXY index.

After the Fed began its cycle of rate cuts in September 2024, the narrative that prevailed in the market was that of a soft landing of the US economy, thanks to good employment data and prices that seemed to be converging towards the 2% target. Later, Trump's victory breathed new air into that narrative of exceptional US economic growth.

In this context, the spread between rates widened, indicating a more appreciated dollar, and although the currency moved in that same direction, it did so more than the rates predicted. This decoupling was probably due to investors interpreting Trump's set of policies – tariffs, immigration restrictions, tax cuts – as being particularly favourable for the dollar.

It was not until January – when investor sentiment regarding Trump's policies changed and the depreciation trend that has pushed the dollar down to its current levels began – that the spread in real rates between the dollar and other major currencies recovered its great explanatory power for exchange rate fluctuations.

Thus, according to this analysis, the dollar's see-saw movement over the past eight months appears to be more related to a shift in the narrative regarding Trump's impact on the US' economic growth potential over the coming quarters than it is to the proposals put forward by Stephen Miran. The fact that the appreciation of the dollar began in October, before Miran's report was even published and in the opposite direction to that advocated by the report, is another piece of evidence to support the view that the dollar's see-saw movement since then (the DXY index is less than 1% below where it stood on 30 September) has been mainly driven by other forces and narratives. In other words, what we have witnessed since September appears to be the rise and fall of a market narrative that was highly favourable for US assets (referred to by some as the «Trump trade»).

In a specific and simplified version of this analysis, focusing solely on what happened relative to the euro, the conclusion is similar: the dollar's appreciation since October 2024 distanced it from the level predicted by the spread of real rates between the US and the euro area, but since then it has reverted to this predicted rate, albeit unusually quickly in the last two months following the announcement of higher public spending in Germany and Trump's so-called «Liberation Day» on 2 April (see second chart).

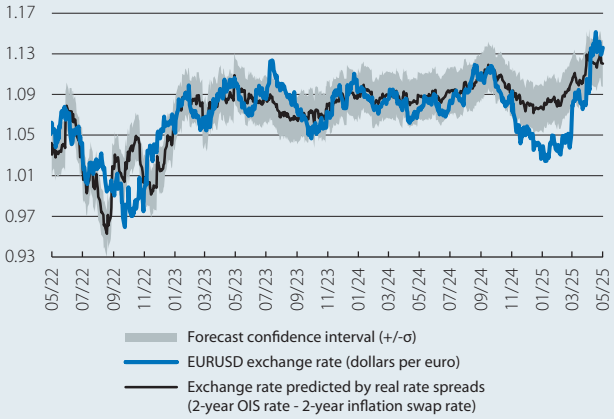
Structural strengths that remain Trump-proof

In short, it seems clear that, although the market narrative has changed and investors' sensitivity to any new «unorthodox» policy proposed by the Trump administration has soared following the announcement of the reciprocal tariffs, the fact is that if a structural shift in the dollar's role in the international financial system in the short-term was considered to be a likely scenario, then the dollar should have registered an even greater appreciation than it has.

For now, the dollar's structural strengths remain in place. Nevertheless, the mere suggestion of altering the value of the central asset of the international financial system has sent shivers throughout the market; its central role remains intact, at least as long as such suggestions do not materialise. As can be seen in the third chart, the dollar remains the international reserve currency, the most highly-traded currency in foreign exchange markets, the currency in which the majority of global payments are denominated and that in which the greatest volume of debt is issued. It will take more than reflections on possible reforms to change this.

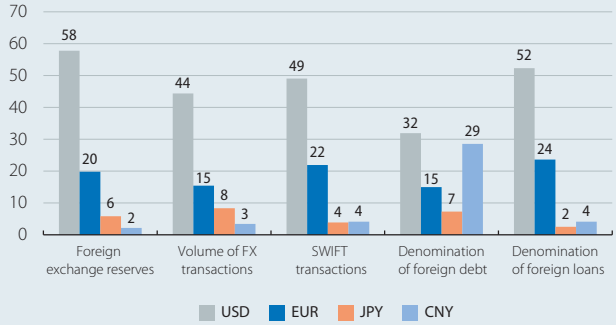
David del Val

EURUSD exchange rate
Dollars per euro



Source: *CaixaBank Research, based on data from Macrobond and Bloomberg.*

Use of currencies by instrument or concept
(% of the total in each case)



Note: *Data on foreign reserves obtained from the IMF (as of Q4 2024); FX transaction volume data obtained from the BIS (2022); SWIFT transaction data from SWIFT (March 2025); and debt and loan denomination data from Bloomberg (April 2025).*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates (%)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.40	2.65	–25	–75.0	–210.0
3-month Euribor	2.16	2.34	–18	–55.8	–163.2
1-year Euribor	2.05	2.31	–26	–41.1	–160.7
1-year government bonds (Germany)	1.75	2.01	–26	–49.2	–156.9
2-year government bonds (Germany)	1.69	2.05	–36	–39.6	–94.4
10-year government bonds (Germany)	2.44	2.74	–29	7.7	12.8
10-year government bonds (Spain)	3.11	3.37	–26	5.2	–12.6
10-year government bonds (Portugal)	3.00	3.26	–26	15.5	–12.5
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	–100.0
3-month SOFR	4.27	4.29	–2	–3.9	–104.8
1-year government bonds	3.85	4.02	–17	–29.3	–95.7
2-year government bonds	3.60	3.88	–28	–63.9	–82.6
10-year government bonds	4.16	4.21	–4	–40.7	4.1

Spreads corporate bonds (bps)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	68	64	4	10.7	8.5
Itraxx Financials Senior	73	69	4	9.4	1.8
Itraxx Subordinated Financials	129	120	8	16.4	–3.2

Exchange rates

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.133	1.082	4.7	9.4	5.2
EUR/JPY (yen per euro)	162.010	162.210	–0.1	–0.5	1.5
EUR/GBP (pounds per euro)	0.850	0.837	1.5	2.7	–0.4
USD/JPY (yen per dollar)	143.070	149.960	–4.6	–9.0	–3.4

Commodities

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	547.6	547.1	0.1	2.1	5.9
Brent ($/barrel)	63.1	74.7	–15.5	–15.4	–20.3
Gold ($/ounce)	3,288.7	3,123.6	5.3	25.3	61.6

Equity

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,569.1	5,611.9	–0.8	–5.3	11.5
Eurostoxx 50 (euro area)	5,160.2	5,248.4	–1.7	5.4	10.3
Ibex 35 (Spain)	13,287.8	13,135.4	1.2	14.6	34.4
PSI 20 (Portugal)	6,992.3	6,865.6	1.8	9.6	13.1
Nikkei 225 (Japan)	36,045.4	35,617.6	1.2	–9.6	–0.2
MSCI Emerging	1,112.8	1,101.4	1.0	3.5	11.0

The global economy shows symptoms of *tariffitis*

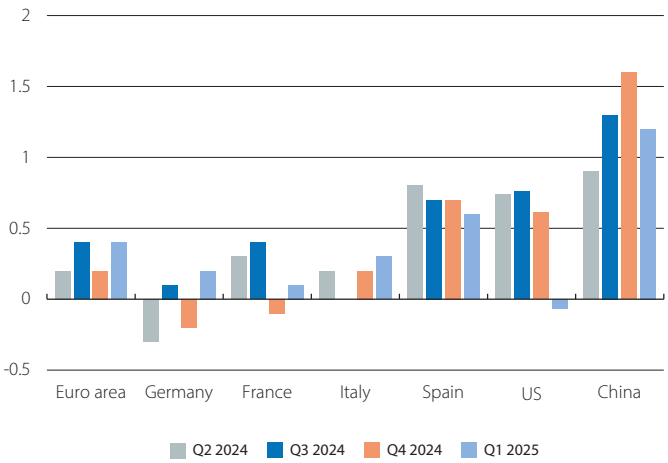
With Q1 now in the rear view mirror, the figures for US GDP reveal contrasts between strong domestic demand and trade flows that were anticipating the introduction of tariffs. According to the initial estimate, in Q1 2025 the US economy shrank by 0.1% quarter-on-quarter (the first negative growth since 2022) and the year-on-year rate of change moderated by 0.5 pps, to 2.0%. However, the impact of Trump's policies is starting to weigh on the economy. The contraction was primarily due to a rise in imports (+9.0% quarter-on-quarter), in anticipation of the now infamous «Liberation Day», while public spending declined (–0.4%). On a positive note, domestic demand continued to grow at a steady pace: investment grew 1.9% quarter-on-quarter, with a particularly marked acceleration in capital goods, while private consumption remained buoyant (0.4% vs. 1% in the previous quarter) in the context of a strong labour market.

The euro area accelerates in Q1, but it may soon run out of steam. In the euro area, GDP grew 0.4% quarter-on-quarter in Q1 2025 (vs. 0.2% in the previous quarter), with the year-on-year growth rate standing at 1.2%. While imports have acted as a headwind in the US, the latest data indicate that exports have served as a tailwind on this side of the Atlantic. All the major economies, with the exception of Spain (see the Spanish Economy - Economic Outlook section of this report), have accelerated their growth rate this quarter, particularly Germany (which grew by 0.2% quarter-on-quarter vs. –0.2% previously); France grew 0.1% (vs. –0.1%) and Italy 0.3% (vs. 0.2%). In China, GDP grew by 1.2% quarter-on-quarter in Q1 (vs. 1.6% in Q4) and the year-on-year rate remained at 5.4%. Despite the slowdown, the pace of growth has been robust in a quarter in which exports have accelerated and the support from fiscal policy has supported an expansion.

The tariffs, and their knock-on effects, will begin to take their toll. Given the choreography and magnitude of the tariff hikes imposed by the US administration, they will continue to have economic implications around the world, as well as knock-on effects on financial markets and on agents' confidence. On the one hand, despite having suspended the «reciprocal» part of the tariffs for 90 days, the White House has kept in place the universal floor of 10%, as well as sector-specific tariffs. On the other hand, in the protectionist escalation with China there is currently no truce in sight. Meanwhile, beyond the turbulence in financial markets (see the Financial Markets - Economic Outlook section of this report), the increase in uncertainty began to take its toll on agents' confidence. In the US, although economic activity is holding up, economic sentiment continues to deteriorate. The US composite PMI fell in April due to a significant decline in services, while the manufacturing sector has stabilised. Of particular note is the deterioration in the sub-components related to expectations, particularly on the services side, which are at their lowest levels since late 2022. On the consumer confidence side, the Conference Board's index hit its lowest level since 2020 and the OECD's equivalent index has been showing a downward trend since late 2024.

Global: GDP

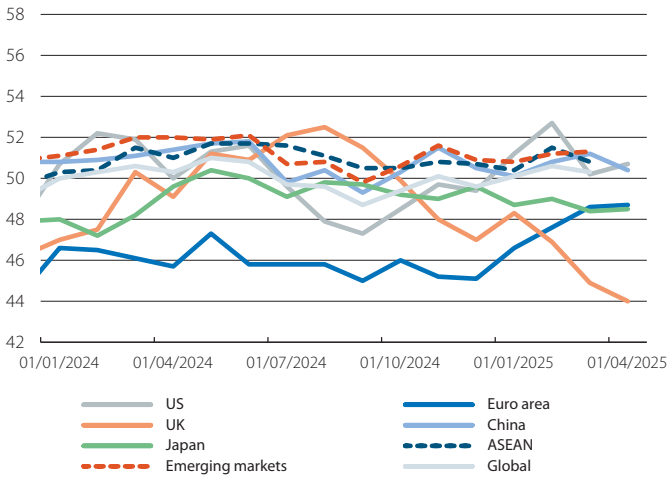
Quarter-on-quarter growth (%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Manufacturing PMI

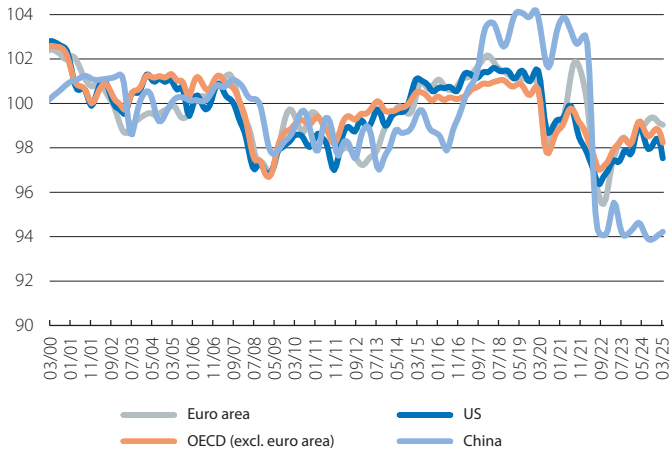
Index



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

Consumer confidence

Index



Note: *The chart uses the three-month average.*
Source: *CaixaBank Research, based on data from the OECD.*

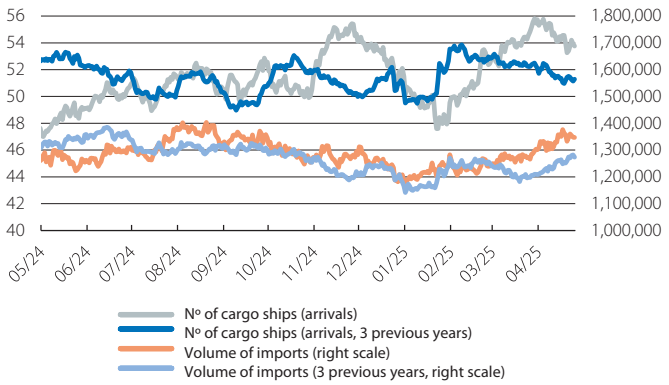
The European and Chinese economies have also cooled at the start of Q2. In the euro area, the composite PMI fell in April to 50.1 (vs. 50.9 previously), a fall also explained by the deterioration of the services component, although the composite indicator has managed to remain above the 50-point threshold for the fourth consecutive month. On the positive side, the German economy has shown consistent signs of improvement in the early part of the year: in April, the Ifo Industrial Climate Index consolidated the increase recorded in the previous month (+0.2 points, to 86.9). In China, the official manufacturing PMI stood at 49.0 points (vs. 50.5 in March), a sharp month-on-month decline that places the indicator at its lowest point since the end of 2023. The fall in the Caixin manufacturing PMI was more moderate (going from 51.2 points in March to 50.4 points in April), but both point to a sharp slowdown in the manufacturing sector, with particularly visible setbacks in the sub-components relating to new orders.

No clear signs of a «slump» in trade flows, for now. The chaotic days that followed the the US administration's announcement of the «reciprocal» tariffs raised fears of severe turbulence in trade flows. Although we are likely to see a material reduction in the flows of goods over the coming months, particularly between the US and China, the impact so far is still limited. In fact, between the end of January and the beginning of April, there has been an increase both in cargo ship arrivals and in the volume of imports arriving in the main US ports, clearly driven by US importers anticipating the tariff announcements. On the other hand, there are fluctuations in freight charges. Since the beginning of April, the price of shipping a container from Ho Chi Minh (Vietnam) to Los Angeles (the largest US port and the most important point of entry for goods arriving from Asia) has surged by 60%, while the price from Shanghai, following a brief increase, has remained at a level close to what was observed up until March.

With uncertainty at a peak, the global economy will enter a slowdown, with more downside risks and more questions than certainties. In its spring forecast report, the IMF noted that tariffs are a supply-side shock for the country that applies them and a demand-side shock for countries that find themselves on the receiving end. Consequently, the impact on global growth is clearly negative, although in the case of inflation there are forces acting in opposite directions. Thus, the IMF revised its growth forecast for the US down to 1.8% for 2025 and to 1.7% for 2026 (–0.9 and –0.4 pps, respectively, from the previous forecast), while for the euro area the adjustment was more modest, to 0.8% for 2025 and to 1.2% for 2026 (–0.2 pps vs. the previous forecast). China's growth is anticipated to be 4.0% (–0.6 and –0.5 pps). The IMF also revised upwards the forecast for global inflation in 2025 and 2026 to 4.3% and 3.6% (+0.1 pp), respectively. For 2025, inflation is expected to be 3.0% for the US (vs. 1.9% previously), 2.1% for the euro area (vs. 2.0% previously) and 0.0% for China (vs. 1.7% previously). In addition, the institution notes that the tariffs could also have a negative impact on growth in the medium term, by reducing innovation and competition. Amid an outlook marked by lower growth, rising financing costs and higher public spending on defence, the IMF predicts that public debt could exceed 100% of GDP by the end of the decade.

*US: arrivals of goods into major ports **

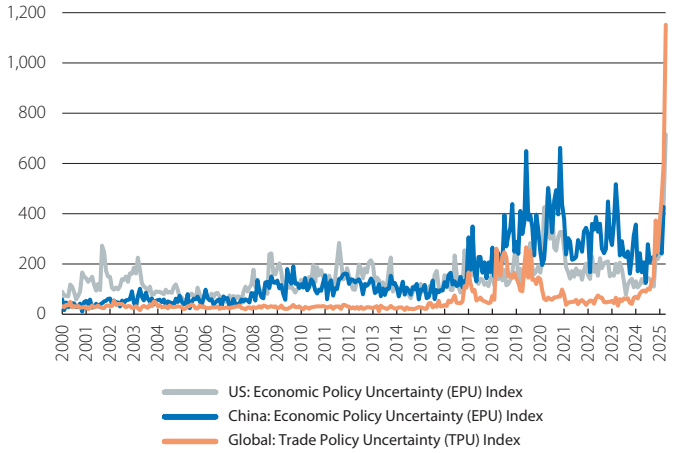
Cargo ship arrivals *Volume of imports (tons)*



Note: ** 30-day average. Based on the sum of the traffic in goods (in number of daily arrivals of cargo ships and in goods) of the 10 main ports in the US, according to the IMF's PortWatch: Los Angeles-Long Beach, New York-New Jersey, Houston, New Orleans, Savannah, South Louisiana, Charleston, Mobile, Baltimore, Marcus Hook. Together, these ports account for 60% of US imports by sea.*
Source: *CaixaBank Research, based on data from the IMF's PortWatch.*

Global: economic and trade uncertainty

Index



Source: *CaixaBank Research, based on data from the Economic Policy Uncertainty Index (downloaded from https://www.policyuncertainty.com/index.html on 02/05/2025).*

IMF: GDP growth forecasts

Annual change (%)

	Forecast			Δ vs. Jan. WEO (pp)	
	2024	2025	2026	2025	2026
Global GDP	3.3	2.8	3.0	–0.5	–0.3
Advanced economies	1.8	1.4	1.5	–0.5	–0.3
US	2.8	1.8	1.7	–0.9	–0.4
Euro area	0.9	0.8	1.2	–0.2	–0.2
Germany	–0.2	0.0	0.9	–0.3	–0.2
France	1.1	0.6	1.0	–0.2	–0.1
Italy	0.7	0.4	0.8	–0.3	–0.1
Spain	3.2	2.5	1.8	0.2	0.0
Emerging and developing economies	4.3	3.7	3.9	–0.5	–0.4
China	5.0	4.0	4.0	–0.6	–0.5
India	6.5	6.2	6.3	–0.3	–0.2
Brazil	3.4	2.0	2.0	–0.2	–0.2
Mexico	1.5	–0.3	1.4	–1.7	–0.6
Global trade	3.8	1.7	2.5	–1.5	–0.8
Global inflation	5.7	4.3	3.6	0.1	0.1

Source: *CaixaBank Research, based on data from the IMF (World Economic Outlook, April 2025).*

A snapshot of investor apathy in the EU

The agenda to boost defence spending, the change to Germany's fiscal orientation and the apparent greater unity within the EU in the face of the recent geopolitical challenges represent green shoots for the European economy's growth outlook. However, the challenges that lie ahead in order for this scenario to materialise are not insignificant, especially in an international context like the current one. To a large extent, the outcome will depend on whether the right conditions and confidence can be generated in order to promote investment projects that lay the productive foundations for the medium term, and this has not yet been achieved in the post-pandemic recovery phase. In fact, the business sector has become more reluctant to invest, opting instead to accumulate savings or to pay off debt while awaiting greater certainty and improvements in the competitive conditions of the single market.

(Lower) growth without investment

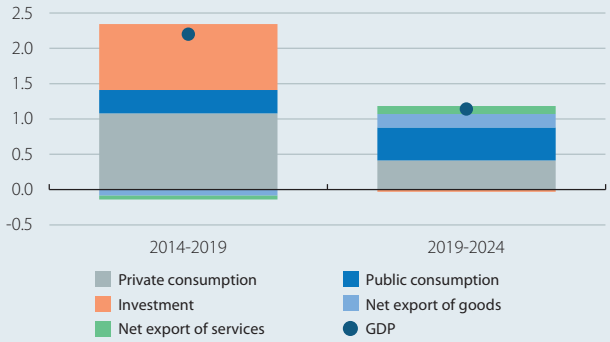
Economic growth in the EU has not only diminished in recent years by the string of intense and varied shocks it has endured (COVID-19 and the war in Ukraine), but its composition has also changed, with a greater role now played by public consumption, partly driven by the NGEU funds,[1] and by the foreign sector (see first chart). In contrast, private domestic demand is keeping a low profile, with a marked slowdown relative to the pre-pandemic years in both private consumption, despite the strength of the labour market, and particularly in the case of investment, which in 2024 was still showing a volume of activity similar to that of 2019.

By asset type, investment has been particularly weak in machinery, equipment and intangibles (see second chart), with COVID-19 continuing to have a negative and persistent impact in an environment marked by heightened uncertainty and limited prospects for increased capacity among European firms.[2] Capital expenditure on construction has performed better, supported in its non-residential segment by the increase in public investment, and in the housing segment in the first few years after the pandemic by the combination of accumulated savings, favourable financing conditions and schemes supporting home renovations – most notably Italy's Superbonus, where investment in housing has almost doubled compared to 2019.[3]

1. See the Dossier «The transformative capacity of NGEU and other fiscal stimulus plans» in the MR03/2025.
2. M. Andersson, V. Jarvis and M. Soudan (2025), «Business investment: why is the euro area lagging behind the United States?», ECB Economic Bulletin.
3. N. Battistini *et al.* (2021). «The euro area housing market during the COVID-19 pandemic», ECB Economic Bulletin.

Composition of average annual GDP growth in the EU-27

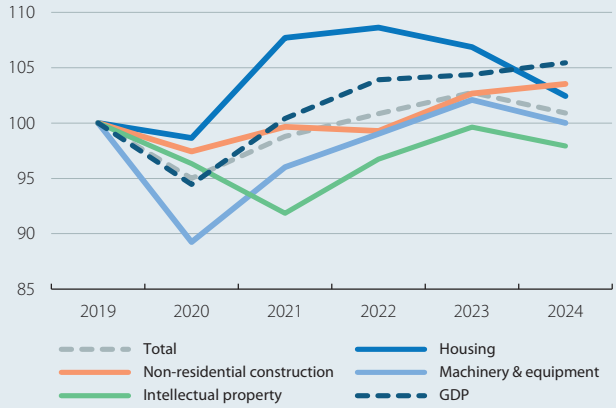
(pps)



Note: *Based on real data at constant 2020 prices; investment includes gross fixed capital formation and change in inventories.*
Source: *CaixaBank Research, based on data from Eurostat.*

Investment in the EU-27 by asset type

Index (100 = 2019)



Note: *Gross fixed capital formation. Real data at constant 2020 prices.*
Source: *CaixaBank Research, based on data from Eurostat.*

Manufacturing and technology drive the decline in European firms' appetite for investment

The EU-wide investment rate – measured as the ratio between gross fixed capital formation and GDP in nominal terms – has fallen to almost 2018 levels, with a cumulative decline of 0.8 pp since COVID-19 (see third chart).

By institutional sector, this setback has been led by non-financial corporations, which account for most of the stock of capital in machinery, equipment and intangibles – precisely the types of assets that have shown the worst trend in volume terms, as noted above, and have also seen price declines relative to other products. At the opposite end of the spectrum, both the general government and households – with their capital concentrated in infrastructure and housing, respectively – have contributed to raising the aggregate rate of investment recording growth in volume terms just below

that of GDP but a sharp increase in relative prices, driven by the rise in the cost of construction materials in the wake of the war in Ukraine and the price rally in most European residential markets since the pandemic.[4]

Given its central role in the sluggishness of capital formation in the EU, we took a deeper dive into the business sector, performing an analysis disaggregated by investment sector. With data in this case up until 2023, and limiting the analysis to industry and market services, we observe that the fall in the real investment rate has been mostly the result of the more significant decrease in manufacturing and in information and communication technology (ICT) services. Together, these sectors explain a decline of 1.7 pps (see fourth chart), which is only partially offset by a higher investment rate in the utilities sector and a greater role of ICT in the economy as a whole (given its more capital-intensive nature).

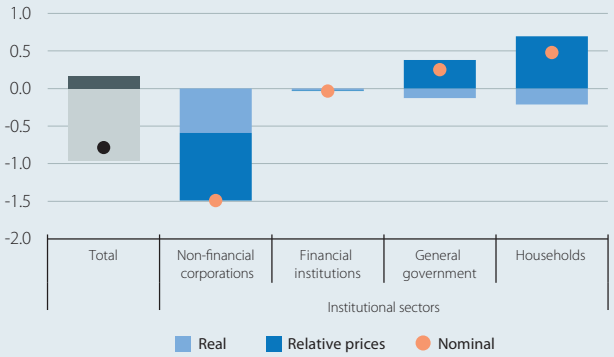
Levers and risks on the horizon

The European Investment Bank has recently recalled that the main factors that are considered detrimental to investment are, in this order, a lack of adequate labour, energy costs, uncertainty and the regulatory framework, in all cases to a greater extent in Europe than for US companies.[5] Many of these aspects have been the subject of deep reflection in the Letta and Draghi reports published last year and have served as the basis for the competitiveness plan presented by the European Commission on 29 January (the so-called Competitiveness Compass).[6] The deployment of measures aimed at reducing the fragmentation of the internal market, lowering energy prices and meeting human capital needs ought to support a more positive medium-term outlook for European investment. However, these measures appear insufficient while we await confirmation of the extent of public leverage in order to boost productive spending in the EU and the establishment of a genuine Savings and Investment Union that can channel the bloc's persistent and abundant private savings towards the funding of strategic sectors (see fifth chart). Moreover, just when financial conditions were also becoming more accommodative, thus providing an extra boost to firms' plans to expand their capacity, new threats in the form of tariffs have emerged, bringing renewed uncertainty. When faced with such a situation, investment tends to be halted in its tracks and support from economic policies becomes critical to minimise the damage to future growth potential.

David Martínez Turégano

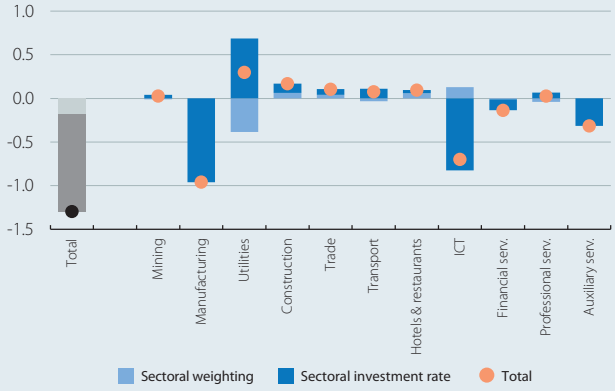
4. See «House prices in Europe reactivate with the shift in monetary policy» in the *Real Estate Sector Report* of S1/2025.
5. European Investment Bank (2025). «EIB Investment Report 2024/2025: Innovation, integration and simplification in Europe».
6. See the Focus «A shift in the EU's political priorities» in the MR04/2025.

Investment rate in the EU-27: change between 2019 and 2024
(pps of GDP)



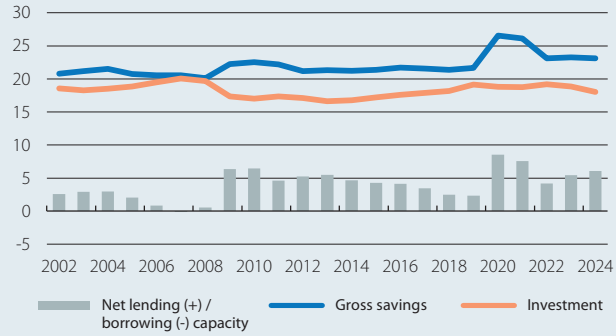
Note: *Gross fixed capital formation. Real data at constant 2020 prices and relative prices between the investment deflator and the GDP deflator.*
Source: *CaixaBank Research, based on data from Eurostat.*

Investment rate in the EU-27 in market sectors: change between 2019 and 2023
(pps of value added)



Notes: *Gross fixed capital formation. Real data at constant 2020 prices. Market sectors include CNAE sections B to N, excluding L-Real estate services. Aggregate for 20 EU countries.*
Source: *CaixaBank Research, based on data from Eurostat.*

Private-sector savings and investment rate in the EU-27
(% of GDP)



Notes: *The private sector includes households, non-profit institutions serving households, non-financial corporations and financial institutions. Investment corresponds to gross fixed capital formation. Nominal data.*
Source: *CaixaBank Research, based on data from Eurostat.*

India: the wheel of dharma on the path to development

Over the last decade, many have argued that a change is brewing in the multi-polar world order, as globalisation appears to be stagnating, new geopolitical conflicts threaten to become entrenched and the economic rise of great powers such as India is accelerating. In this challenging context, one of the big questions is whether India could become the new China. The wheel of dharma – a key element of the tricolour flag since the country's independence in 1947 – offers a symbol of progress and represents the values that India will need to possess for such a future to materialise, such as the discipline and wisdom necessary to seize opportunities and address weaknesses.

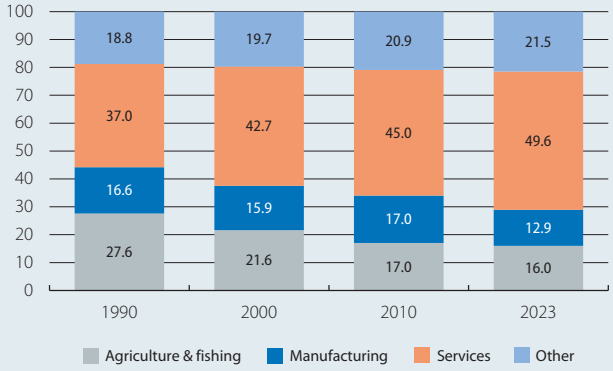
India's economy in perspective

Without indulging in guessing games, India is the most populated country in the world, with approximately 1.44 billion inhabitants in 2023. This places it above China, the population of which has been in decline for several years now and currently stands at 1.41 billion. Moreover, India will no doubt remain the most populated country for the rest of the 21ST century, as its population continues to grow at a steady pace (0.9% in 2023, in line with the global average), it has a comparatively young structure, and there is scope for it to increase its life expectancy, which is currently low compared to other emerging economies in its vicinity.

Being the most populated country in the world, and with a young and growing demographic, has given India a certain advantage in terms of economic growth (the so-called demographic dividend), since domestic demand – consumption and investment – has been the main driver of its economic growth and has provided a buffer against external shocks. Thus, India's GDP has grown at annual rates of around 7% in recent years, with the exception of 2020. In 2023, its GDP slightly exceeded that of the United Kingdom, its former colonial power, reaching 3.57 trillion current dollars. However, India's GDP per capita in 2023 was around 2,500 current dollars (almost 10,200 in purchasing power parity terms), placing it around the average mark for lower-middle-income countries,[1] and indicating that the country still has a lot of room left to grow. By way of comparison, China reached that income level between 2004 and 2005, and its GDP per capita, at around 12,600 current dollars, places it slightly above average among upper middle-income countries.

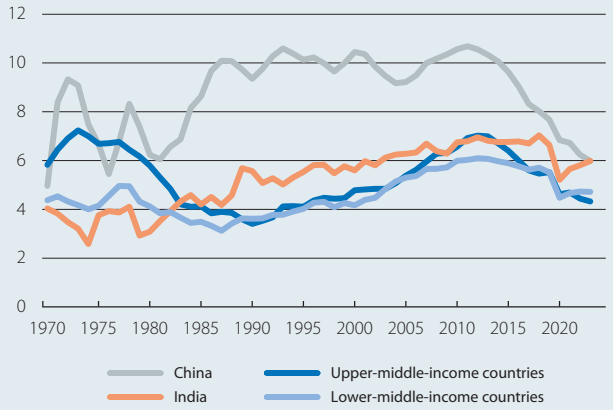
This high growth rate is the result of the growing role of services, which in 2023 accounted for almost 50% of its GDP (see first chart). However, the labour market shows some of the Indian economy's weaknesses. Around half of the labour force is employed in low-productivity sectors, such as agriculture, construction or trade. In addition, according to the IMF,[2] the informality rate of the labour market is very high, and stands at around 90% for the country as a whole, with a particularly high rate in rural areas. Labour participation has also remained low in recent years, rising barely 8 pps between 2018 and 2024 to 56.4%, reflecting the difficulties faced by women in entering the labour market (the participation rate in urban areas barely reaches 30%).

India: value added by economic sector
(% of GDP)



Source: *CaixaBank Research, based on data from the World Bank.*

GDP growth
10-year average (%)



Source: *CaixaBank Research, based on data from the World Bank.*

A structural viewpoint

In recent years, India has experienced remarkable growth, far surpassing that of China and that of middle-income

1. The World Bank classifies economies into different groups according to their income levels, based on Gross National Income (GNI) per capita as calculated using the Atlas Method (which uses data unadjusted for purchasing power parity), assigning India a GNI per capita of 2,520 current dollars. These groups consist of: low-income economies (1,145 dollars or less); lower-middle-income economies (1,146 to 4,515 dollars); upper-middle-income economies (4,516 to 14,005 dollars), and high-income economies (more than 14,005 dollars).

2. IMF (2025). «India: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for India», IMF Staff Country Reports 2025, 054.

India: development indicators

	2010-2019				2000-2009				1990-1999			
	China	India	Lower-middle -income countries	Upper-middle -income countries	China	India	Lower-middle -income countries	Upper-middle -income countries	China	India	Lower-middle -income countries	Upper-middle -income countries
Economic indicators												
GDP per capita (USD thousands)	14.2	6.4	6.4	15.6	6.2	3.8	4.3	9.6	2.6	2.5	3.1	6.6
GDP growth (annual, %)	7.7	6.6	5.5	5.5	10.4	6.3	5.7	6.3	10.0	5.8	4.3	4.5
Inflation, CPI (annual, %)	2.6	6.8	4.4	3.2	1.9	5.5	5.5	5.4	7.8	9.5	9.3	11.7
Agriculture (% of GDP)	8.3	16.7	16.3	7.4	12.0	18.5	18.5	8.3	20.1	25.7	23.5	11.1
Manufacturing (% of GDP)	29.6	15.3	14.6	22.6	32.1	16.3	15.3	22.6	30.0	16.4	17.1	20.0
Services (% of GDP)	49.2	47.3	49.3	52.2	42.0	44.4	47.0	49.7	34.9	38.5	42.1	49.9
Foreign debt	14.0	20.6	26.2	23.1	11.7	18.8	30.7	26.3	16.0	27.1	49.1	30.8
FDI (% of GDP)	2.4	1.7	1.9	2.5	3.7	1.6	2.2	3.0	3.9	0.4	1.1	2.1
Imports of goods and services (% of GDP)	20.3	25.3	29.0	23.6	23.9	20.5	27.4	26.4	15.0	10.8	20.9	20.6
Fuel imports (% imp. of goods)	16.0	32.6	21.3	14.5	10.5	32.9	21.1	11.5	5.0	26.3	16.2	6.4
Exports of goods and services (% of GDP)	22.6	21.6	24.7	24.8	28.5	17.9	24.1	29.1	17.1	9.9	17.5	20.2
Manufactures exports (% exp. of goods)	93.7	65.9	58.2	75.1	91.3	70.6	58.8	75.9	83.8	73.9	58.3	73.5
Food exports (% exp. of goods)	2.9	10.5	13.4	8.7	3.8	10.5	14.9	7.8	8.6	16.8	20.0	12.2
Demographic and poverty indicators												
Fertility rate	1.7	2.3	2.9	1.9	1.6	3.0	3.5	1.9	1.7	3.7	4.2	2.2
Urban population (% of total)	54.8	32.6	36.9	61.8	41.8	29.1	32.6	52.4	30.6	26.5	29.4	43.5
Poverty headcount ratio (% of total)	3.7	16.3	17.5	4.1	25.5	37.1	32.6	19.7	58.0	48.0	43.8	40.7
Dependency ratio, older population	14.1	8.4	7.6	12.6	11.0	7.5	7.0	10.4	9.0	7.2	6.9	8.8
Dependency ratio, younger population	25.6	44.6	52.5	31.3	29.8	54.8	60.4	36.1	41.1	64.0	69.7	47.2
Education and health indicators												
Government expenditure (% of GDP)	4.1	4.0	3.6	4.2	3.0	3.5	3.1	4.1	1.8	3.8	2.9	4.1
Literacy rate	95.0	69.0	72.4	94.4	91.0	62.0	65.4	91.6	78.0	48.0	56.9	84.6
Pupil-teacher ratio, primary education	16.6	33.0	29.5	18.5	18.6	40.5	33.8	20.8	22.7	40.0	34.7	23.9
Current health expenditure (% of GDP)	4.8	3.3	3.7	5.5	4.2	3.8	3.9	5.2	–	–	–	–
General government health expenditure (% of total)	56.4	28.5	31.7	54.7	33.0	20.4	27.7	45.0	–	–	–	–
Out-of-pocket health expenditure (% of total)	37.3	61.5	55.3	33.1	56.2	71.7	61.0	41.5	–	–	–	–
Hospital beds (per 1,000 people)	3.7	1.6	1.4	3.0	1.9	1.8	1.6	2.1	2.6	0.8	1.1	2.9

Note: *The averages of each period are used. GDP per capita in purchasing power parity (PPP) terms, in constant 2021 dollars. The relative weight of agriculture, manufacturing and services is calculated as the % of the GVA originating in each sector. Foreign debt is calculated as a % of national income. Only inbound FDI flows are considered. The fertility rate is calculated as the number of births per woman. For the calculation of the poverty rate, the % of the population living on less than $2.15 a day is considered. The dependency ratios are calculated as a % of the working-age population. The literacy rate is calculated as a % of the population aged 15 or over. Public and direct private spending on health is calculated as a % of the total current spending on health.*
Source: *CaixaBank Research, based on data from the World Bank.*

economies as a whole (around 5%, see second chart). Taking a broader view, the average growth rate since 2010 has been 6.8% (excluding the years 2020 and 2021), compared to 6.3% in the period 2000-2009 and 5.8% in the previous decade. On the other hand, China had been growing at an average rate of 10% per year between the mid-1980s and 2010, which has allowed it to rapidly converge with higher-income countries in terms of GDP per capita, and it now finds itself in a different phase of development, with lower growth rates and adverse demographics. In short, India's recent «overtaking» of China, in terms of growth rate, is taking place because these countries are at different stages in their development.

The evolution of the Indian economy in recent decades can be illustrated through three key spheres of development: changes in its economic structure, demographics, and educational and health conditions (see table). In the economic sphere, of particular note is the similarity between India and other lower-middle-income countries in terms of their sectoral composition and the profile of their imports and exports. This is an

economy in which agriculture still plays a vital role (around 17%), and that of the manufacturing sector is relatively low (around 15%), while food and fuel still make up a significant portion of the country's international trade.[3] There are also similarities with other lower-middle-income countries at the demographic level, including a high percentage of the population living in poverty and living in rural areas, despite the rapid progress made in the last decade in reducing poverty in the country. At the same time, structural weaknesses are evident in the education and health indicators, with persistently low literacy rates, and a health system with limited coverage and infrastructure.

However, the last few years of President Modi's rule have been an example of successful macrofinancial stabilisation. Since 2013, inflation, while still highly volatile due to its heavy dependence on the food component, has been within the target range of between 2% and 6%, and episodes of higher inflation have been brief. In this task of controlling inflation, a monetary policy focused on bolstering the credibility of the central bank in achieving its objective has been key, with increases in the intervention rate when necessary. All this has been accompanied by a sustained increase in foreign reserves, which has supported the rupee, and contained levels of foreign debt. These years of orthodox monetary and exchange rate policy have allowed the country to begin to steadily lower interest rates.

On the other hand, unlike China, India has maintained a persistent current account deficit. This is because, although it exports professional and technological services, as well as high-value-added consumer electronics, this is not enough to offset its imports of all kinds of goods, including labour-intensive manufactured goods. The relatively small size of the country's manufacturing sector is partly due to the high obstacles that the country continues to impose on foreign direct investment and on various imports of intermediate goods. Alleviating these obstacles, as government initiatives such as *Make in India* or the *Production-Linked Incentive* are seeking to do, will help develop an Indian industrial sector that is integrated into global value chains and is capable of competing, especially in the current context marked by the reconfiguration of international trade, where friendshoring could play a vital role.

The new ~~China~~ India?

In short, having taken a brief snapshot of the Indian economy, the debate surrounding whether India could be the new China remains open. Robust demographics and economic growth play in its favour, accompanied by moderate inflation expectations and a healthy financial situation. Since 2024, India's growth has slowed slightly, but it is expected to remain above 6% in the coming years. However, there are still structural problems that limit the country's potential growth and need to be reformed, such as the labour market, institutional quality, bureaucracy, and the high poverty rate. Therefore, whether the wheel of dharma will be able to pick up the pace on the path to development will remain a topic of heated debate during the next decade.

Antonio Marta Miranda and Luís Pinheiro

3. This stands in stark contrast to the situation in China, where the manufacturing sector plays a significant role both in terms of value added and in the country's exports.

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

UNITED STATES

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Activity									
Real GDP	2.9	2.8	3.0	2.7	2.5	2.0	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.5	3.4	3.6	4.1	4.8	4.7	5.0	...
Consumer confidence *(value)*	105.4	104.5	98.9	102.2	110.6	99.8	100.1	93.9	86.0
Industrial production	0.2	–0.3	0.0	–0.4	–0.3	1.5	1.5	1.3	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	48.5	47.3	48.2	50.1	50.3	49.0	48.7
Housing starts *(thousands)*	1,421	1,368	1,340	1,332	1,392	1,393	1,494	1,324	...
Case-Shiller home price index *(value)*	312	330	329	332	336	...	340	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	4.0	4.2	4.1	4.1	4.1	4.2	4.2
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	60.1	60.0	59.9	60.0	59.9	59.9	60.0
Trade balance[1] *(% GDP)*	–3.1	–2.9	–2.8	–2.9	–3.1	–3.5	–3.5	–3.8	...
Prices									
Headline inflation	4.1	3.0	3.2	2.6	2.7	2.7	2.8	2.4	...
Core inflation	4.8	3.4	3.4	3.2	3.3	3.1	3.1	2.8	...

JAPAN

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Activity									
Real GDP	1.5	0.1	–0.7	0.7	1.1	...	–	–	–
Consumer confidence *(value)*	35.1	37.2	37.2	36.9	36.1	34.7	34.8	34.1	31.2
Industrial production	–1.4	–3.0	–3.5	–1.8	–2.5	2.1	4.3	–0.3	...
Business activity index (Tankan) *(value)*	7.0	12.8	13.0	13.0	14.0	12.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.6	2.5	2.5	2.5	2.4	2.5	...
Trade balance[1] *(% GDP)*	–3.0	–1.1	–1.0	–1.1	–1.0	...	–0.9	...	...
Prices									
Headline inflation	3.3	2.7	2.7	2.8	2.9	3.8	3.6	3.6	...
Core inflation	3.9	2.4	2.2	2.0	2.3	2.7	2.6	2.8	...

CHINA

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Activity									
Real GDP	5.4	5.0	4.7	4.6	5.4	5.4	–	–	–
Retail sales	7.8	3.3	2.6	2.7	3.8	3.6	4.0	5.9	...
Industrial production	4.6	5.6	5.9	5.0	5.6	6.8	5.9	7.7	...
PMI manufacturing *(value)*	49.9	49.8	49.8	49.4	50.2	49.9	50.2	50.5	49.0
Foreign sector									
Trade balance[1,2]	865	996	864	897	996	1,085	1,041	1,085	...
Exports	–5.1	4.6	4.4	5.4	10.0	5.7	–2.3	12.2	...
Imports	–5.5	1.1	2.5	2.2	–1.8	–7.0	1.4	–4.3	...
Prices									
Headline inflation	0.2	0.2	0.3	0.5	0.2	–0.1	–0.7	–0.1	...
Official interest rate[3]	3.5	3.1	3.5	3.4	3.1	3.1	3.1	3.1	3.1
Renminbi per dollar	7.1	7.2	7.2	7.2	7.2	7.3	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	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Retail sales *(year-on-year change)*	–1.9	1.1	0.3	2.1	2.1	1.8	1.9	1.5	...
Industrial production *(year-on-year change)*	–1.6	–3.0	–4.0	–1.7	–1.6	...	1.2	...	...
Consumer confidence	–17.4	–14.0	–14.2	–13.0	–13.4	–14.1	–13.7	–14.5	–16.7
Economic sentiment	96.2	95.7	95.9	96.2	95.2	95.4	96.1	95.0	93.6
Manufacturing PMI	45.0	45.9	46.1	46.4	46.3	46.3	47.6	48.6	49.0
Services PMI	51.2	51.5	51.7	52.7	53.1	52.6	50.6	51.0	50.1
Labour market									
Employment (people) *(year-on-year change)*	1.4	1.2	1.0	1.0	0.7	...	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.4	6.3	6.2	6.2	6.2	6.2	...
Germany *(% labour force)*	3.0	3.4	3.4	3.5	3.5	3.5	3.5	3.5	...
France *(% labour force)*	7.3	7.4	7.4	7.4	7.3	7.3	7.4	7.3	...
Italy *(% labour force)*	7.7	6.6	6.7	6.3	6.1	6.0	5.9	6.0	...
Real GDP *(year-on-year change)*	0.5	0.8	0.5	1.0	1.2	1.2	–	–	–
Germany *(year-on-year change)*	–0.1	–0.2	–0.2	–0.3	–0.2	–0.2	–	–	–
France *(year-on-year change)*	1.1	1.1	1.0	1.3	0.8	0.8	–	–	–
Italy *(year-on-year change)*	0.8	0.5	0.7	0.6	0.5	0.6	–	–	–

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
General	5.5	2.4	2.5	2.2	2.2	2.3	2.3	2.2	2.2
Core	5.0	2.8	2.8	2.8	2.7	2.6	2.6	2.4	2.7

Foreign sector

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Current balance	2.0	3.5	3.2	3.5	3.5	...	3.5	...	...
Germany	5.6	5.7	6.4	6.3	5.7	...	5.3	...	...
France	–1.0	0.4	–0.4	0.0	0.4	0.1	0.1	0.1	...
Italy	0.1	1.1	0.9	0.9	1.1	...	1.0	...	...
Nominal effective exchange rate[1] *(value)*	94.7	95.0	95.1	95.5	94.2	93.5	92.7	94.7	97.0

Credit and deposits of non-financial sectors

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Private sector financing									
Credit to non-financial firms[2]	2.7	0.8	0.4	1.0	1.4	2.1	2.1	2.3	...
Credit to households[2,3]	1.7	0.5	0.3	0.5	0.9	1.5	1.5	1.7	...
Interest rate on loans to non-financial firms[4] *(%)*	4.6	4.9	5.1	4.9	4.4	3.9	3.9	3.7	...
Interest rate on loans to households for house purchases[5] *(%)*	4.4	4.6	4.8	4.7	4.3	4.0	4.0	3.9	...
Deposits									
On demand deposits	–8.5	–3.9	–5.5	–2.5	1.2	3.6	3.7	4.1	...
Other short-term deposits	21.1	12.3	14.3	10.5	5.9	2.3	2.0	1.5	...
Marketable instruments	20.3	20.2	19.8	22.1	18.3	15.1	18.0	11.3	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	3.1	3.0	2.6	2.2	2.2	2.1	...

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 weathers the uncertainty storm

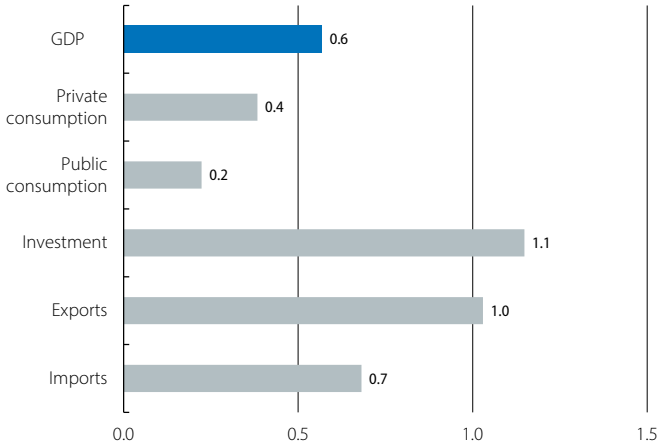
These first few months of 2025 have been marked by several announcements by the Trump administration to increase tariffs on imports from the US' main trading partners, including the euro area. Although part of these tariffs remain suspended until July pending negotiations, the back-and-forth barrage of announcements regarding US trade policy has entailed an unprecedented increase in uncertainty. This situation has led to a downward revision of the IMF's global growth forecasts. The Spanish economy, however, has been spared. In fact, the IMF has given a positive assessment of Spain's lower exposure to the US and its good growth dynamics to date, leading it to revise upwards its growth forecast for the Spanish economy to 2.5%.

Spain's GDP growth remains strong. During Q1 2025, GDP grew by 0.6% quarter-on-quarter, 0.1 pp below the previous quarter's growth rate. Thus, the Spanish economy continues to show resilience in an increasingly unfavourable environment. The breakdown by component reveals a solid pattern of growth, with domestic demand contributing 0.4 pps to quarterly GDP growth and foreign demand contributing 0.2 pps after two quarters of negative contributions. On the side of domestic demand, of particular note was the 1.1% quarter-on-quarter growth recorded by investment, in spite of the context of heightened uncertainty, while private consumption grew 0.4% quarter-on-quarter. As for foreign demand, exports grew faster than imports, driven by exports of non-tourism services. The Q1 GDP figure is in line with our forecasts, which already incorporated a slight slowdown derived from the increase in uncertainty linked to the trade tensions.

The gap between services and industry persists. The main economic activity indicators remained marked by a gap between the services and manufacturing sectors, with the latter being more affected by the trade tensions. On the one hand, the Purchasing Managers' Index (PMI) for the services sector stood at 54.7 points in April, above the threshold denoting growth in the sector (50 points), albeit slightly below the 56.2 points of the prior month. On the other hand, the PMI for the manufacturing sector suffered another setback, standing at 48.1 points and remaining below the 50-point threshold for the second consecutive month. Respondent firms point out the impact derived from the US trade policies as one of the factors behind the deterioration. Finally, consumption remained strong in April, growing by 3.9% year-on-year, according to data from the CaixaBank Research consumption tracker. However, this figure is skewed slightly upwards by Easter, which fell this year in April but last year in March. In any case, if we take the average growth of the last two months as a benchmark, growth stands at 3.6%, slightly exceeding that of Q1.

Spain: GDP and its components

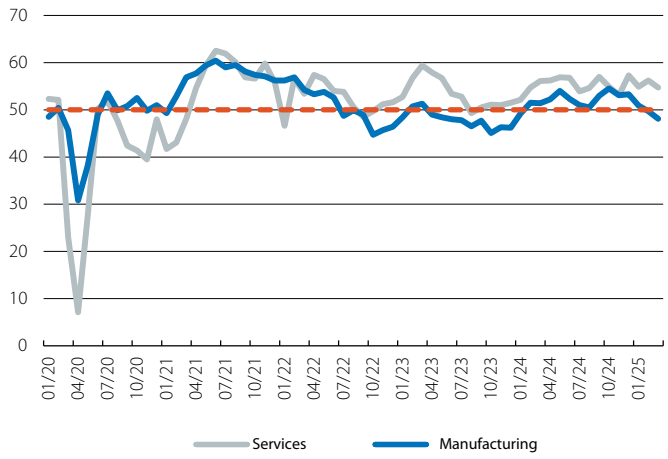
Quarter-on-quarter change in Q1 2025 (%)



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

Spain: PMI

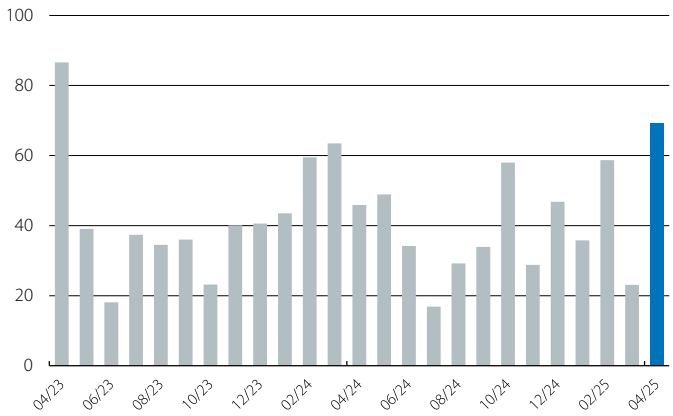
Level



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

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).*

Job creation gains traction. In April, the labour market provided a positive surprise with the number of registered workers affiliated with Social Security increasing by 230,993 (a monthly growth rate of 1.1%). This represents a bigger increase than the average growth of 174,000 affiliates in the months of April during the period 2014-2019 or the 200,000 recorded last year, although Easter fell in April this year. With this latest figure, the total number of registered workers stands at 21,588,639, marking a new record and representing 487,134 more than a year ago. The temporary employment rate stabilised at an all-time low: of the total number of affiliates registered under the General Scheme, 11.8% were temporary workers. This is the third consecutive month at this same rate, which itself is 0.8 pps lower than a year ago.

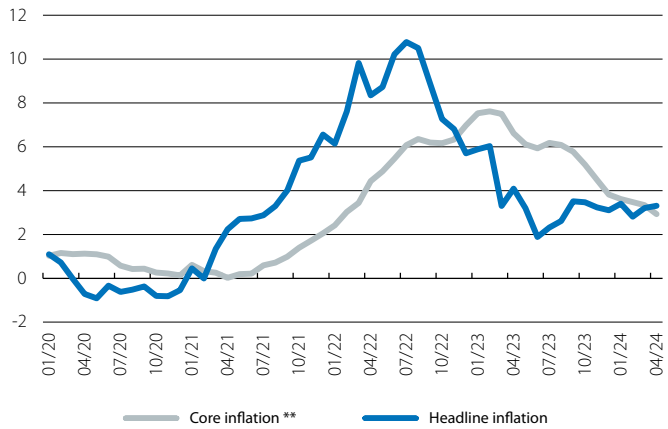
Inflation continues to decline thanks to energy. In April, headline inflation resumed its downward trend, falling 0.1 pp to 2.2%, according to the flash indicator published by the National Statistics Institute (INE). This marked the second decline following the inflationary spike that occurred between September and February, and it was primarily driven by the fall in electricity and fuel prices. However, core inflation, which excludes energy and unprocessed food, rebounded by 0.4 pps to 2.4%. This increase could be a response to Easter, which this year fell in April (whereas in 2024 it fell in March), as this period tends to see a temporary spike in the price of tourism services.

The trade deficit continued to rise in February. The foreign sector is experiencing a slight deterioration in an environment still marked by the weakness of the euro area and uncertainty surrounding trade policy. In particular, in February the trade deficit increased to –3.96 billion euros, compared to the –2.23 billion recorded in February last year. This was driven by import growth of 3.5% year-on-year, while exports grew by just 0.4%, weighed down by declines in the energy and automotive sectors, especially those destined for France, Germany, Italy and the United Kingdom. The increase in the trade deficit contrasts with the surplus in service exports of 6.7% of GDP (trailing 12-month total), primarily driven by the strength of tourism exports.

Residential activity in Spain records the best start to the year since 2007. In February, house sales were up 13.9% year-on-year, a growth rate 2.9 pps higher than in January. This buoyancy is driven by widespread activity growth in both new housing and existing homes, with increases of 22% and 12% year-on-year, respectively. In the first two months of the year, a total of 120,300 sales were closed, the highest figure for this period since 2007. By region and in total for the past 12 months, the biggest increases were registered in Asturias, La Rioja and Castilla-La Mancha, with growth rates in excess of 20% year-on-year. Andalucia was the only region among the major markets where sales grew above the average.

*Spain: headline and core inflation **

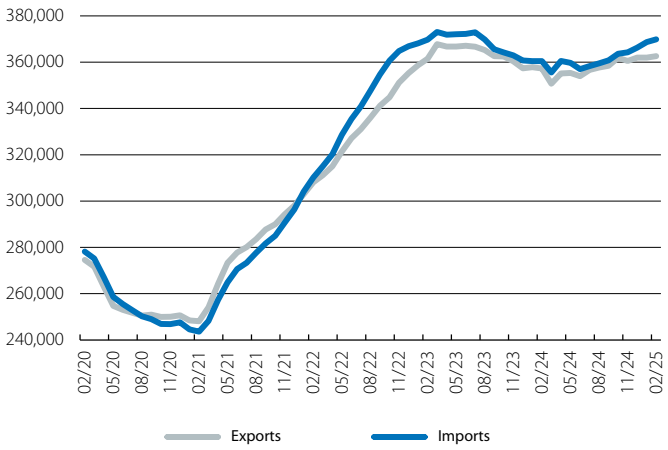
Change (%)



Notes: ** The data for April are preliminary. ** Core inflation excludes unprocessed food and energy.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

*Spain: foreign trade in goods **

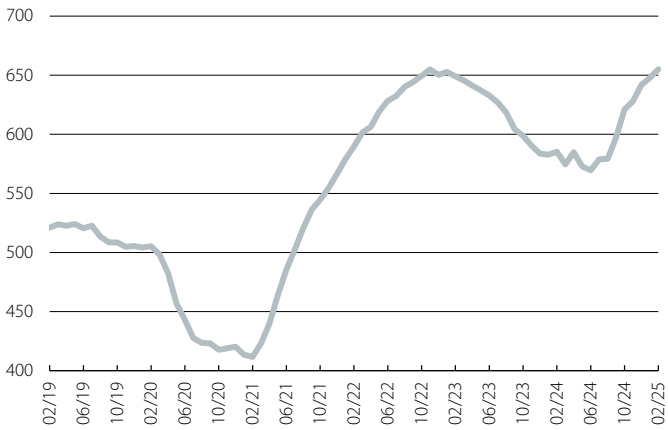
Trailing 12-month total (EUR millions)



Notes: **Nominal data, series not seasonally adjusted. Excludes energy.*
Source: *CaixaBank Research, based on data from the Customs Department.*

Spain: house sales

Trailing 12-month total (thousands of homes)



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

Spanish firms bolster their financial solidity

In 2024, Spanish firms experienced lower income growth, although they managed to continue improving their net assets and financial situation. This was reflected in their lending capacity, a sustained deleveraging process and an increase in their financial assets. However, despite this favourable position, a buoyant Spanish economy and an improvement in financing conditions, business investment remained weak throughout the year.

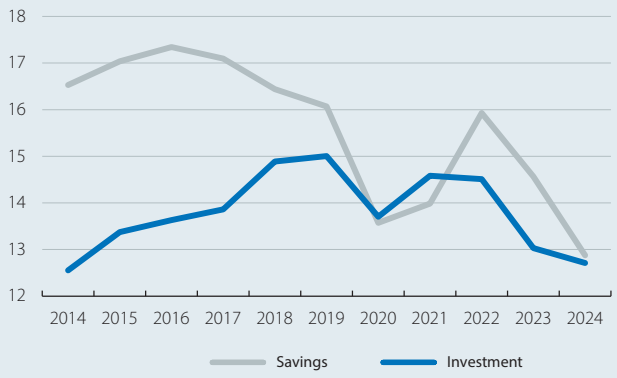
In 2024, firms' disposable income (equivalent to savings)[1] declined for the second consecutive year, and it did so sharply, by 6.1%. This was the biggest setback since 2011, if we exclude the year of the pandemic. This deterioration occurred in an environment marked by declining earnings (gross operating surplus, GOS), which were down 2.4%, and an increase in net property income, of 11.0%. This latter rate is significant, but much lower than that of the previous year (37.6%), which was mainly driven by an increase in net dividend payments (6.9%). In the case of net interest payments, they grew by 16.5%, although the rate of increase eased as the year progressed, in line with the relaxation of monetary policy. In fact, in Q4 2024, interest payments, before financial brokerage services (SIFMI), fell by 3.0% year-on-year, in contrast to an increase of over 40% recorded in the first half of the year. On the other hand, tax payments practically stagnated (up just 0.2%). Thus, last year, corporate savings stood at just 204.9 billion euros, or 12.9% of GDP (see first chart).

Business investment recorded a growth of 3.6% compared to the prior year, which is lower than nominal GDP growth (6.2%). Therefore, investment in terms of GDP fell 0.3 pps to 12.7% and remains below pre-pandemic levels (13.9% on average in the period 2014-2019).[2] Consequently, last year companies generated a lending capacity, specifically of 14.24 billion euros (0.9% of GDP). Although this has been commonplace since 2009, the figure is lower than that of 2023, which stood at 2.0% of GDP, or the average for the period 2014-2019, which was 3.2%.

1. Gross value added of companies, excluding wage earners' remuneration, tax payments and the net income balance, which includes interest payments and dividends distributed.
2. In real terms (using the capital goods investment deflator), growth in 2024 was 2.3% and is well below the peak reached in 2019 (–11.7%). Investment by firms is showing greater weakness than would be expected in a context in which the cost of debt is falling, driven by lower interest rates, and in which their net asset position has improved; the obstacles to investment are therefore related to other factors, such as uncertainty, the outsourcing of production processes and business regulation. See Bank of Spain (2025), «Report on the financial situation of households and firms», 2nd half of 2024, and «Weak business investment in Spain following the pandemic: an analysis based on the Banco de España Business Activity Survey», Economic Bulletin 2025/Q1.

Spain: savings and investment of non-financial corporations

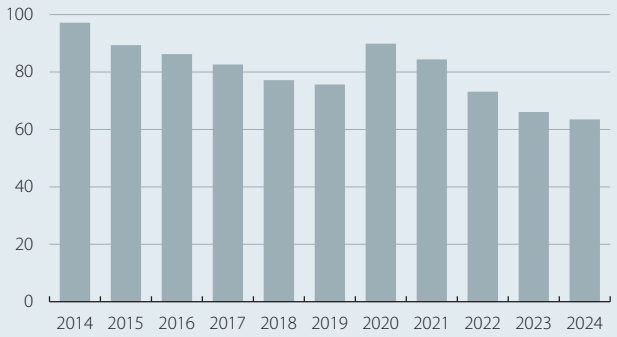
(% of GDP)



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

Spain: consolidated debt of non-financial corporations

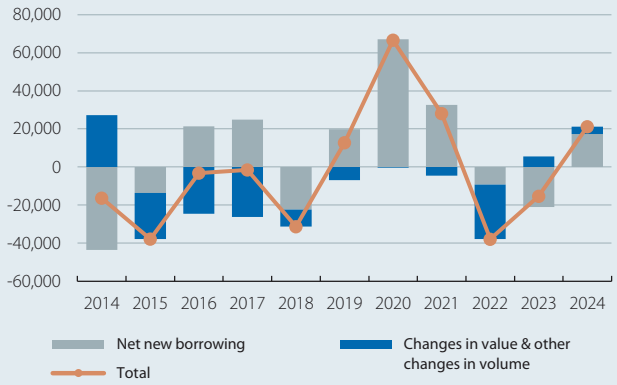
(% of GDP)



Note: *Debt in the form of debt securities and loans, excluding debt with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: change in the consolidated debt of non-financial corporations

(EUR millions)



Note: *Debt in the form of loans and debt securities, excluding debt with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

This lending capacity generated by the business sector last year was used for the acquisition of financial assets, for which firms also took on greater levels of debt (in volume terms): at a time when interest rates began to fall, companies were able to borrow again. In this regard, the volume of consolidated debt (i.e. excluding debt between companies) increased in 2024 for the first time in three years, by 21.2 billion euros (1.2%), reaching a total of 1.01 trillion. In any event, given that nominal GDP grew more rapidly, last year saw a continuation of the corporate deleveraging process (see second chart), which is understood as the reduction in the debt-to-GDP ratio: this ratio fell by 2.5 points to 63.5%, marking its lowest level since 2001. This is also a far cry from the peak reached in 2009 (119.0%), as well as being below the level for the euro area as a whole (67.3%). If we measure the total unconsolidated debt, it was slightly over 1.32 trillion euros, representing 83.2% of GDP and also well below the euro area level (105.6%).

The increase in the debt balance (the aforementioned 21.2 billion euros) corresponds to net new borrowing of 17.3 billion euros (the rest of the change corresponds to changes in value and other changes in volume), mostly in the form of fixed-income securities (13.4 billion), while net borrowing in the form of loans was also positive but somewhat lower (3.9 billion). In any case, bank loans – contracted with monetary financial institutions (MFIs) – continue to lose prominence in the companies' financing: whereas between 2014 and 2019 they represented almost half of the total consolidated debt on average, in 2024 that share stood at 44.5% (see fourth chart). On the other hand, loans granted by non-residents and, above all, the issuance of fixed-income securities have gained prominence.

In the case of companies' financial assets, they increased sharply last year, by 174.7 billion euros (5.7%), to a total of 3.25 trillion (see fifth chart): this increase far exceeds that of 2023 (126.2 billion) as well as the 2014-2019 average (100.0 billion). This increase in assets is explained both by their increase in value (94.3 billion), especially in the case of shares and investment funds (IFs) thanks to the good performance of the main stock market indices, as well as by the net acquisition of assets (82.9 billion). This financial investment by companies was focused in trade receivables, cash and deposits, as well as shares and IFs, while they disinvested slightly in fixed-income securities.

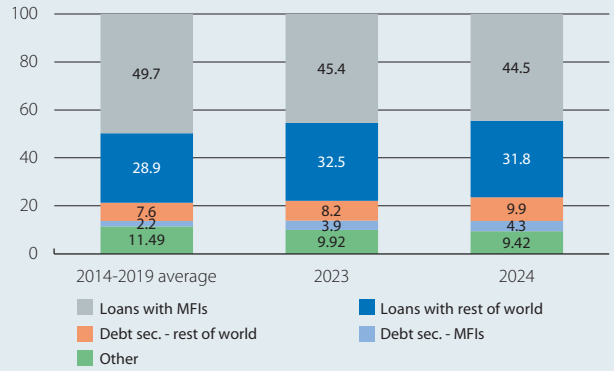
As for the structure of companies' financial wealth, it is still dominated by equity holdings in other companies and IFs, accounting for 54.7% of the total, which is slightly above the average for the period 2014-2019 (54.4%). Cash and deposits have also increased as a proportion of the total, while the proportion corresponding to loans and other assets, such as trade receivables, has decreased.

In short, non-financial corporations are facing the current context – marked by increasing uncertainty and risks surrounding the scenario – in a solid financial position. This strength, coupled with falling inflation, favourable financing conditions and the boost provided by NGEU funds, should help to drive stronger investment.

Sergio Díaz Valverde

Spain: structure of the consolidated debt of non-financial corporations

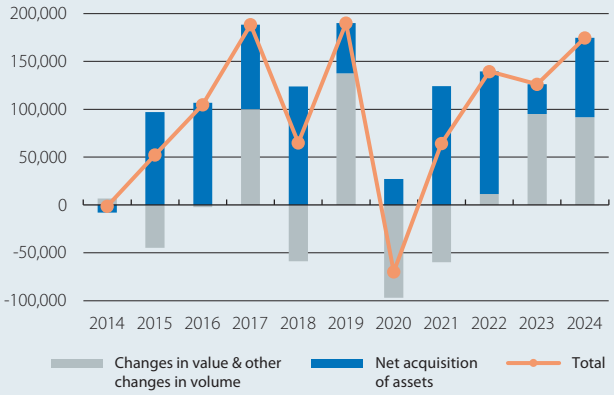
(% of the total)



Note: *Excluding debt with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: change in the financial assets of non-financial corporations

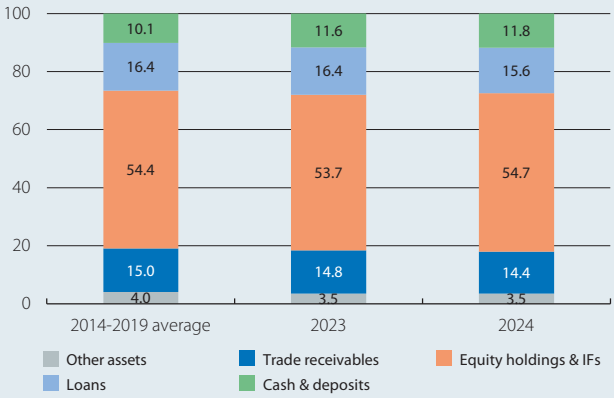
(EUR millions)



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

Spain: structure of the financial wealth of non-financial corporations

(% of the total)



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

Why has public consumption grown so much in recent years?

The final consumption expenditure of the general government, or public consumption hereon in, has experienced significant growth in recent years. As shown in the first chart, it went from accounting for 18.7% of GDP, on average between 2015 and 2019, to 21.7% in 2020, the year of the COVID-19 pandemic. This sharp increase is explained by the government support measured introduced that year, as well as by the collapse in GDP. Since 2021, the percentage has steadily moderated thanks to the strong recovery of GDP in the period, but in 2024 it stood at 19.4%, still 0.7 pps above the pre-pandemic figure. Before embarking on an analysis of the recent dynamics in public consumption, let's clarify what lies behind this concept.

What is public consumption?

Public consumption is the value of all the goods and services destined for consumption, which the general government provides to households. It includes goods and services produced by the government itself, as well as those it acquires in the market, such as education, health, culture and defence.[1] Since the production of these goods and services is supplied to households free of charge, or at below-market prices, this production is usually valued by taking the sum of the production costs, which includes wage-earners' remuneration and intermediate consumption, among other items.

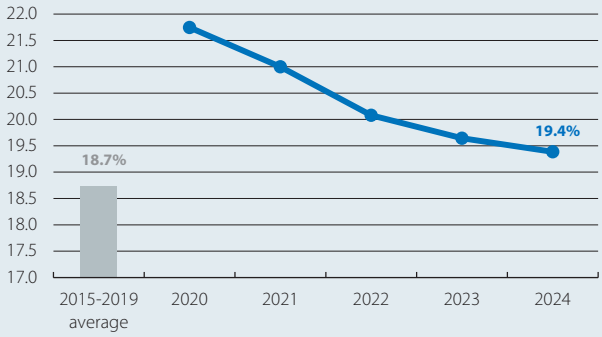
It is important to note that public consumption is not equivalent to public spending. There are items of public spending that do not fall within the definition of public consumption and vice versa. For instance, payments made by the public sector to households, such as pension spending, unemployment benefits or interest payments on public debt do not fall within the perimeter of public consumption. Public investment is also excluded, given that it is not consumption, as are various other items. On the other hand, expenditure on consumption of fixed capital, which represents the depreciation of the general government's fixed assets and constitutes a production cost (since it is an accounting concept that does not involve the disbursement of funds), is included within public consumption, but not within public spending.[2]

How has public consumption evolved recently?

The second chart shows the annual change in nominal public consumption since 2014, as well as the contribution of each of its components to its growth. There are several points worth highlighting. Firstly, public consumption continued to grow in 2020, despite nominal GDP

Spain: general government nominal final consumption expenditure relative to GDP

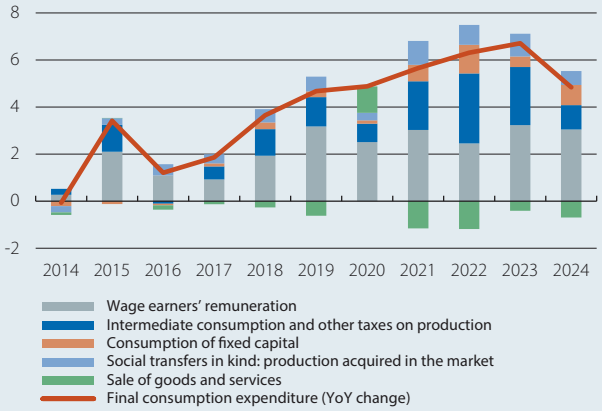
(%)



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

Spain: breakdown of general government nominal final consumption expenditure

Contribution (pps) and annual change (%)



Note: *Intermediate consumption consists of the goods and services that are consumed as inputs in a production process, excluding fixed assets, the consumption of which is recorded as consumption of fixed capital. In the production process, these goods and services are transformed or consumed in their entirety.*

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

plummeting by 9.9% that same year. This explains the sharp rise in public consumption as a percentage of GDP that year, as discussed at the beginning of the article.

Secondly, we can see how between 2021 and 2023 the acceleration in the growth of public consumption is mainly explained by the greater contribution of intermediate consumption.[3] Specifically, whereas the average contribution of intermediate consumption to the annual growth of public consumption between 2015 and 2019 was 0.8 pps, between 2021 and 2023 it was 2.5 pps. We can also see how the contribution of wage earners' remuneration has remained fairly stable throughout the period between 2021 and 2024 relative to 2019. Finally, in 2024 we see a substantial moderation in

1. From this value, we must deduct the value of the goods and services that the general government produces and sells.
2. For further details, see R. Losada «¿A qué nos referimos al hablar de Consumo público?», AIReF (2017, only available in Spanish).
3. In the interests of brevity, we have combined intermediate consumption with other taxes on production, but the contribution of the taxes on production category is small and can be ignored.

the growth of public consumption due to a normalisation of the contribution from intermediate consumption.

In order to dig a little deeper into what lies behind this higher growth in intermediate consumption, we must turn to the so-called Classification of the Functions of Government (COFOG). This classification breaks down public expenditure into 10 functional categories and allows us to track where the expenditure is being allocated.[4,5] In this way, we can see the destination of intermediate consumption expenditure.

In the third chart, we show the contribution of each of the 10 COFOG categories to the growth of intermediate consumption expenditure during the period 2015-2019 and during the period 2019-2023.[6,7] If a point lies above the 45-degree line (in red), it means that that category's contribution to the growth of intermediate consumption expenditure in the period 2019-2023 was higher than it was in 2015-2019.

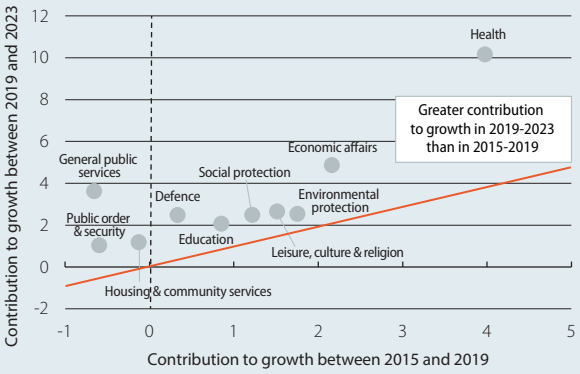
The chart reveals that all categories made a bigger contribution to this growth between 2019 and 2023 than they did in the period from 2015 to 2019. This comes as no surprise, given that the cumulative growth in intermediate consumption expenditure between 2019 and 2023 was much higher than in 2015-2019, standing at 33.2% compared to 10.4%, respectively (22.8 points higher).

It is thus more interesting to look at how far away each category lies from the 45-degree line. This distance tells us how much more this category has contributed in the period 2019-2023 compared to 2015-2019. According to this metric, there are three categories that stand out, in order of importance: Health, General Public Services and Economic Affairs. In other words, while in 2019-2023 intermediate consumption expenditure grew 22.8 pps more than it did in 2015-2019, of these 22.8 pps, 13.2 pps (almost 60%) is attributable to these three categories.

The COFOG classification also reveals a greater level of detail within each of the 10 categories, which allows us to interpret that, in all likelihood, both the pandemic and the interest rate hikes of 2022 and 2023 explain part of the increases in expenditure. Thus, the higher growth noted within the Health category is due to higher spending on the components of Hospital Services, Outpatient Services and Public Health Services. These categories include the cost of services offered

Spain: breakdown by COFOG classification of general government nominal intermediate consumption expenditure

(pps)



Source: *CaixaBank Research, based on data from the General Intervention Board of the State Administration (IGAE).*

to patients in outpatient clinics and hospitals, as well as the cost of the products used to provide these services, such as the cost of the medicines supplied or that of medical equipment. In this regard, we can see that after the pandemic the increase in health spending has been consolidated.

Within the General Public Services category, the component of Public Debt Transactions stands out, indirectly affected by the rise in interest rates, as does the General Services component, to a lesser extent.[8] General Services includes services that are not attached to a specific function and are typically performed in administrative offices of the various branches of government. Finally, within the category of Economic Affairs, Transport stands out and, to a lesser extent, so does Agriculture, Forestry, Fishing and Hunting, and Other Activities.[9]

Conclusions

The growth of public consumption in recent years has been mostly driven by the increase in intermediate consumption, especially in the areas of Health, General Public Services and Economic Affairs. This increase reflects both the consolidation of higher health spending after the pandemic and the rise in interest rates. As the pressure on these components, especially that linked to interest rates, fade over the coming quarters, we expect the growth rate of public consumption to continue the gradual moderation that has already begun in 2024.

Oriol Carreras Baquer

4. The 10 categories are as follows: General Public Services, Defence, Public Order and Security, Economic Affairs, Environmental Protection, Housing and Community Services, Health, Leisure, Culture and Religion, Education and Social Protection.
5. The COFOG classification also allows the 10 functional categories of expenditure to be broken down into a greater level of detail.
6. We analyse the period up until 2023 as this is the latest available data.
7. We focus on the contributions, rather than percentage changes, to avoid confusion given that there are items with very small quantities that can show very high percentage changes in the event of only small changes in expenditure in absolute terms.

8. Interest payments are not part of public consumption, but the category of Public Debt Transactions does include Financial Intermediation Services Indirectly Measured (FISIM) within intermediate consumption expenditure.
9. The Transport category includes all management, construction and maintenance of transport systems, whether road (motorways, roads, etc.), rail, sea or air (including airport management), in addition to the regulation and supervision of these systems.

AIReF's evaluation of the pension reform: first match ball saved, but with big challenges on the horizon

At the end of March, the Independent Authority for Fiscal Responsibility (AIReF) published its estimate, as was its mandate, of the average impact during the period 2022-2050 of the new revenue measures introduced as part of the pension reforms and other economic measures implemented since 2020 in order to fund the pension system.[1] This estimate was the last missing piece needed to determine whether the expenditure rule previously agreed between the government and the European Commission within the framework of the Recovery Plan, and which serves to determine whether additional measures need to be taken in the short term, is being complied with. The result of the evaluation is that Spain is complying with this expenditure rule, so no additional adjustment measures are required in 2025 besides, by default, increases in social security contributions (these revisions are every three years, the next one being due in 2028). In addition to evaluating the expenditure rule, AIReF has conducted a separate exercise to assess the sustainability of the public accounts, drawing somewhat less optimistic conclusions.[2] This exercise is necessary given that, as AIReF explains, complying with the expenditure rule does not mean that the pension system is not subject to pressures that need to be managed.

Expenditure rule: how it works and why it is not enough to guarantee sustainability

The government committed to the European Commission, within the framework of the Recovery Plan, that the average gross expenditure on pensions during the period 2022-2050 (both contributory and non-contributory pensions) would not exceed 13.3% of GDP plus the average contribution of the measures that it introduced to boost revenues in the reforms of 2020-2023. The pension expenditure rule included a requirement for AIReF to provide a final estimate in March 2025 of the expected contribution of the revenue measures. AIReF has quantified the impact of these new revenues measures during the period 2022-2050 at 1.4% of GDP. The new revenue measures considered include the increase in social security contributions through the Intergenerational Equity Mechanism (MEI), a schedule of updates to the maximum contribution base amounts, the additional solidarity contribution, the reform of the Special Scheme for Self-Employed Workers (RETA), the part corresponding to government transfers to the Social Security (S.S.) system which entails a permanent increase in revenues (essentially those intended to cover the reduction of revenues from contributions arising from measures such as subsidies or discounts for certain groups) and the permanent or structural impact on the system's revenues of the increases to the inter-occupational minimum wage and of the labour measures.

The expenditure rule thus implies that the 1.4 points of new revenues would allow for pension expenditure of 14.7% of GDP in 2022-2050 (13.3%+1.4%). This figure should be compared with the benchmark estimate of

Spain: average annual impact of the measures adopted since 2020 to boost the revenues of the public pension system in the period 2022-2050
(as a % of GDP)

	Impact to date	Average impact 2022-2050
Change in revenues	0.8	1.4
Intergenerational equity mechanism	0.2	0.4
Updates to the maximum contribution base amount	0.2	0.3
Additional solidarity contribution	–	0.1
Reform of self-employed worker contributions	–	0.2
Transfers	0.2	0.3
Increase in the inter-occupational minimum wage	0.1	0.1
Labour reform	–	–

Source: *AIReF.*

Spain: macroeconomic assumptions underlying the pension expenditure projections

	AIReF 2025	AR24
Real GDP growth 2025-2050	1.3%	1.2%
Growth of productivity per hour worked 2025-2050	1.1%	1.3%
Employment growth (hours) 2023-2050	0.2%	–0.1%
Net migration flows 2025-2050	264,000	227,000
Participation rate 2025-2050*	66%	69%
Unemployment rate 2025-2050**	9.3%	9.1%

Notes: **The participation rate used by AIReF is not comparable with that of AR24 since it is for an age range between 16 and 74 years, while that of AR24 is between 20 and 74.*
*** The unemployment rate used by AIReF is for the population between 16 and 74 years of age, while that of AR24 is between 20 and 74.*
Source: *CaixaBank Research, based on data and projections from the* Ageing Report 2024 *(European Commission) and AIReF technical documents.*

1. See the «Report on the Pension Expenditure Rule», published by AIReF on 31 March 2025.
2. See the second «Opinion on the long-term sustainability of public administrations: the impact of demographics», published by AIReF on 31 March 2025.

14.6% of GDP for average gross pension expenditure during the period 2022-2050 mentioned in the European Commission's *Ageing Report 2024* (or AR24). Thus, there is no need to take additional measures in the short term. The rule seems complex, but in reality it is very intuitive: 13.3% is very close to pension expenditure as a percentage of GDP in 2022, the year when the mechanism was agreed (with updates to the year's GDP it finally turned out to be 12.7%). From there, the rule states: if you want to increase expenditure relative to current levels as a percentage of GDP, then you have to offset it with revenue measures of a similar amount so that the deficit of the pension system does not increase.

This rule was the result of a complex political negotiation and is the method that was agreed for deciding whether immediate adjustment measures are required. However, this is not a rule that can be used to determine the long-term sustainability of the system as a whole. What it does do is to guarantee a ceiling on expenditure which can help to ensure the system's sustainability. However, the rule does not allow us to conclude that the system will have sufficient revenues to fund an average pension expenditure of 14.6% in 2022-2050 or, in other words, an expenditure that will grow according to this estimate to 16.1% of GDP by 2050 (in 2022, 12.7% of GDP). That is why AIReF is conducting a second exercise, analysed in the second part of this article, on the sustainability of the system as a whole. Specifically, the purpose of this exercise is to determine whether the system's revenues will evolve in such a way that they will be able to fund the projected pension expenditure.

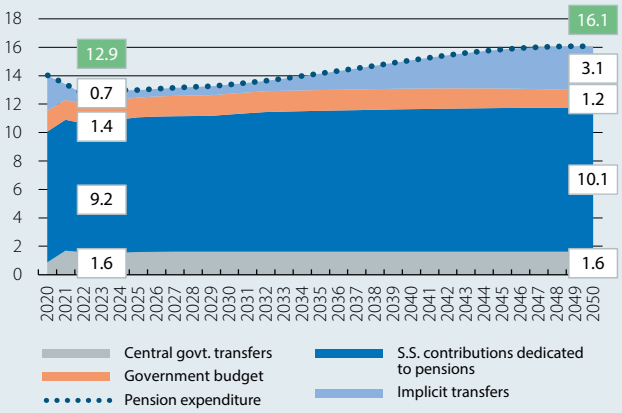
The underlying macro scenario for the expenditure rule is that set out in AR24 a year ago, with the updated GDP data for 2022-2023. However, it does not incorporate the favourable demographic data from the last two years resulting from the higher than expected net immigration figures in 2022 and 2023, nor does it include the methodological changes used in the underlying statistics that measure demographic phenomena. Specifically, the basic assumptions of AR24 are: population growth of 1.8 million between 2025 and 2050, average productivity growth of 1.3% in 2025-2050 and real GDP growth of 1.2% in 2025-2050.

Sustainability analysis of the public finances

The key is that, as AIReF points out, complying with the expenditure rule does not mean that the pension system will not be subject to additional pressures that need to be managed. In order to analyse the sustainability of the pension system and of the general government as a whole, AIReF has conducted a sustainability exercise itself, based on its own macroeconomic and demographic projections rather than those set out in AR24.

Spain: expected evolution of pension expenditure and revenues to fund it

(% of GDP)



Source: *AIReF.*

Specifically, it incorporates the latest demographic data, but its macro scenario is broadly similar to that of AR24. AIReF estimates a population growth of 3.0 million between 2025 and 2050, an average annual productivity growth of 1.1% in 2025-2050 (lower than in AR24 due to higher growth in the number of hours worked) and average annual growth in real GDP of 1.3% in 2025-2050. Like the one in AR24, this is a reasonable macroeconomic scenario and it is consistent with estimates for Spain's medium-term GDP growth according to most economic analysis agencies, which generally place it slightly above 1%.

The main conclusion drawn in relation to the pension system is that pension expenditure is expected to rise by 3.4 points between 2022 and 2050 (reaching 16.1% of GDP in 2050), but revenues from social security contributions will only increase by 1 point. Therefore, it will be necessary to increase the system's revenues by 2.4 points of GDP via government transfers to the S.S. system in order to fund the higher pension expenditure. For a throughout understanding of the calculation and the complete picture (see chart), it should be recalled that in 2022 public pension expenditure stood at 12.7% of GDP. This was funded with 9.1% of GDP in social security contributions dedicated to contributory pensions and 3.6% of GDP in transfers to the S.S. system (1.6% of GDP of government transfers to fund contributory and non-contributory pensions, 1.4% via the General Government Budget for pensions for public sector workers and 0.7% via so-called «implicit transfers», with income from the central government or other S.S. funds).[3] By 2050, public pension expenditure will increase by 3.4 points to 16.1% of GDP. It is estimated that

3. Social Security funds in terms of national accounting are composed of the Social Security system, the Public State Employment Service (SEPE) and the Wage Guarantee Fund (FOGASA).

contributions would rise by 1 point to 10.1% of GDP, such that the remaining 6% would have to come, in 2050, from transfers to the S.S. system.[4] Consequently, in order to fund the anticipated increase in pension expenditure, these transfers would need to increase by 2.4 points.

To complete the analysis, AIReF presents an illustrative projection of how the public deficit and public debt would evolve if there were no changes in economic policies. It should be recalled that the increase in pension expenditure is compounded by other pressures on public spending. In the coming years, this will be defence-related. In the longer term, it will be driven by health and dependency, on which expenditure will increase by 2 points of GDP between 2023 and 2050 according to the AIReF, reaching 9.5% of GDP. Thus, if no measures are taken, public spending would increase by 5.3 points of GDP by 2050 (going from 44.7% of GDP to 51.0%), of which 3.2 points would be attributable to pensions and 2 points to health and dependency. In this illustrative scenario (no policy change), given the assumption that no measures will be taken to rebalance the public accounts, AIReF estimates that public debt would increase to 129% of GDP[5] by 2050 (current debt: 101.8% of GDP) and the deficit, to 7.0% of GDP by the same year (current deficit: 3.2% of GDP).

In short, based on its estimates for new revenues, AIReF has determined that the pension expenditure rule agreed with the European Commission has not been breached, although it notes that complying with this rule does not guarantee the sustainability of the pension system or of the general government as a whole. In particular, it warns that it will be necessary to boost government transfers to the S.S. system by 2.4 pps of GDP in order to sustain it between now and 2050.

Javier García-Arenas

4. To be more precise, they estimate that government transfers to fund contributory and non-contributory pensions would remain at 1.6% of GDP and the allocation for pensions of public sector workers would be reduced slightly as a percentage of GDP. As a result, in order to fund the anticipated increase in pension expenditure, implicit transfers from the central government or from other Social Security funds would need to increase by around 2.4 points.
5. 129% is the baseline forecast, but it could range from 116% of GDP, if GDP grows by 0.1 pp more on average between 2024 and 2050, to 143%, if GDP grows by 0.1 pp less on average over that period.

Activity and employment indicators

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Industry									
Industrial production index	–1.6	0.4	0.0	–0.2	1.2	...	–1.9	...	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–5.6	–2.9	–6.0	–5.4	–6.2	–5.5	–4.2
Manufacturing PMI *(value)*	48.0	52.2	52.8	51.5	53.6	50.0	49.7	49.5	48.1
Construction									
Building permits *(cumulative over 12 months)*	0.5	16.7	4.6	10.2	16.7	...	14.7	...	...
House sales *(cumulative over 12 months)*	–10.2	10.0	–10.0	–1.2	10.0	...	11.9	...	...
House prices	4.0	8.4	7.8	8.2	11.3	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	14.2	12.3	10.1	8.1	9.2	8.1	...
Services PMI *(value)*	53.6	55.3	56.6	55.2	55.1	55.3	56.2	54.7	53.4
Consumption									
Retail sales[1]	2.5	1.8	0.5	2.6	2.8	3.2	3.6	3.6	...
Car registrations	16.7	7.2	8.5	1.7	14.4	14.0	10.5	23.2	7.1
Consumer confidence index *(value)*	–19.2	...	–14.5	–13.7	...	...	...	...	...
Labour market									
Employment[2]	3.1	2.2	2.0	1.8	2.2	2.4	...	...	...
Unemployment rate (% labour force)	12.2	11.3	11.3	11.2	10.6	11.4	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.4	2.3	2.4	2.3	2.4	2.2	2.3
GDP	**2.7**	**3.2**	**3.3**	**3.3**	**3.3**	**2.8**	...	...	...

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
General	3.5	2.8	3.5	2.2	2.4	2.7	3.0	2.3	2.2
Core	6.0	2.9	3.0	2.6	2.5	2.2	2.2	2.0	2.4

Foreign sector

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	0.2	–4.9	–1.8	0.2	...	0.6	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	0.1	–7.1	–3.1	0.1	...	1.4	...	...
Current balance	**39.8**	**48.1**	**45.1**	**48.3**	**48.1**	**...**	**44.6**	**...**	**...**
Goods and services	58.8	68.1	65.2	68.3	68.1	...	64.7	...	...
Primary and secondary income	–19.1	–20.0	–20.2	–20.0	–20.0	...	–20.1	...	...
Net lending (+) / borrowing (–) capacity	**56.0**	**66.6**	**61.2**	**65.7**	**66.6**	**...**	**63.0**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Deposits									
Household and company deposits	0.3	5.1	5.2	4.3	5.1	4.5	5.3	4.5	...
Demand and notice deposits	–7.4	2.0	–1.9	–1.6	2.0	3.1	3.6	3.1	...
Time and repo deposits	100.5	23.5	68.0	47.5	23.5	12.3	14.4	12.3	...
General government deposits[5]	0.5	23.1	–4.1	14.8	23.1	24.2	24.6	24.2	...
TOTAL	**0.3**	**6.3**	**4.5**	**5.1**	**6.3**	**5.8**	**6.6**	**5.8**	**...**
Outstanding balance of credit									
Private sector	–3.4	0.7	–1.3	–0.3	0.7	1.7	1.5	1.7	...
Non-financial firms	–4.7	0.4	–1.8	–0.6	0.4	1.5	1.3	1.5	...
Households - housing	–3.2	0.3	–1.5	–0.7	0.3	1.4	1.1	1.4	...
Households - other purposes	–0.5	2.3	0.7	1.2	2.3	3.1	3.0	3.1	...
General government	–3.5	–2.6	–2.7	–5.4	–2.6	–0.2	0.0	–0.2	...
TOTAL	**–3.4**	**0.5**	**–1.4**	**–0.7**	**0.5**	**1.6**	**1.4**	**1.6**	**...**
NPL ratio (%)[6]	**3.5**	**3.3**	**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.*

Disappointment with Portugal's GDP in Q1

GDP fell short of expectations in Q1 2025, shrinking 0.5% quarter-on-quarter according to the preliminary estimate of Portugal's National Statistics Institute. This decline is largely attributable to a correction following the strong growth recorded in the previous quarter (1.4% quarter-on-quarter), which was associated with temporary factors. In particular, private consumption received a significant boost in the last quarter of 2024 from the increase in household disposable income, driven by changes to the personal income tax system (with retroactive effect from the beginning of 2024) and the payment of the exceptional supplement to pensioners in October 2024. Taking the last two quarters together (Q4 2024 and Q1 2025), activity growth in average terms stood at 0.45% per quarter. In any case, the Q1 figure was lower than expected and contrasts with the preliminary indicators, which did not suggest a contraction. On the consumption side, retail sales excluding fuel grew 0.7% compared to the previous quarter, while car sales were up 13% quarter-on-quarter. The European Commission's economic sentiment indicator stood at 104.4 points in Q1, following a downward trend during the course of the quarter but always remaining above the 100-point threshold which indicates expansion. In any case, the poor figure for Q1 2025 introduces downside risks to the CaixaBank Research forecast for Portuguese GDP growth in 2025 as a whole (2.4%).

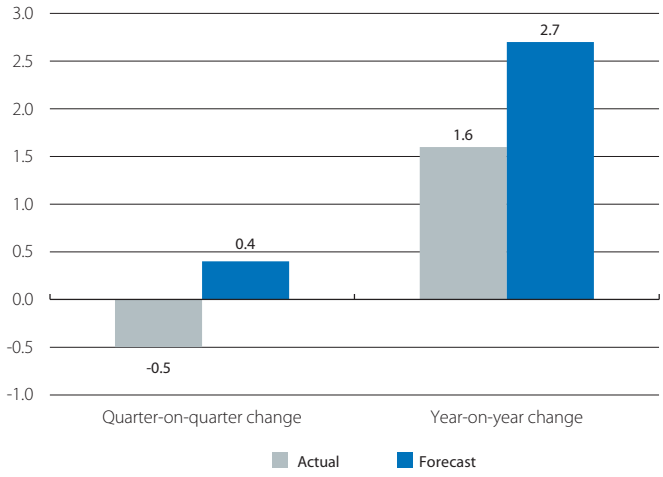
Several agencies have revised downwards their 2025 growth forecasts for the Portuguese economy. The IMF, the Catholic University (NECEP) and the CFP revised their forecasts by –0.2/–0.3 pps in April relative to their previous estimates. Still, the outlook remains positive and these three agencies continue to expect the economy to grow by around 2% in 2025.

Inflation rebounded above 2% in April. The headline CPI rose to 2.1% in April and the same was true of the core rate (both up from the 1.9% recorded in March). The monthly changes in both the core and the headline CPI (0.8% and 0.7%, respectively) once again exceeded the historical pre-pandemic average (0.5% in both cases). Despite the fact that the Brent oil price has already fallen by around 25% year-on-year (at the time of the closing of this report), the contribution of the energy component to disinflation is still modest and inflation in fresh foods this year has been above 2.5% on average.

Tourism recorded modest growth in Q1 2025. The number of tourists increased by 2.3% year-on-year, overnight stays fell by 0.5% and the sector's total revenues were up 4.8%. This pattern has been driven by a calendar effect associated with the different dates of Easter (this year it fell in April and last year in March). We expect to see a slight improvement over the coming months, supported by what should be the main drivers of the sector this year: the recovery of households' purchasing power, the diversification of source markets and a reduction of seasonality.

Portugal: real GDP in Q1 2025

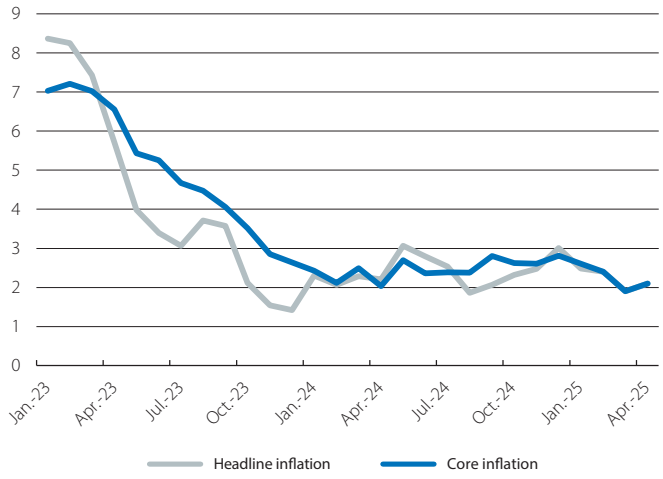
Rate of change (%)



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

Portugal: CPI

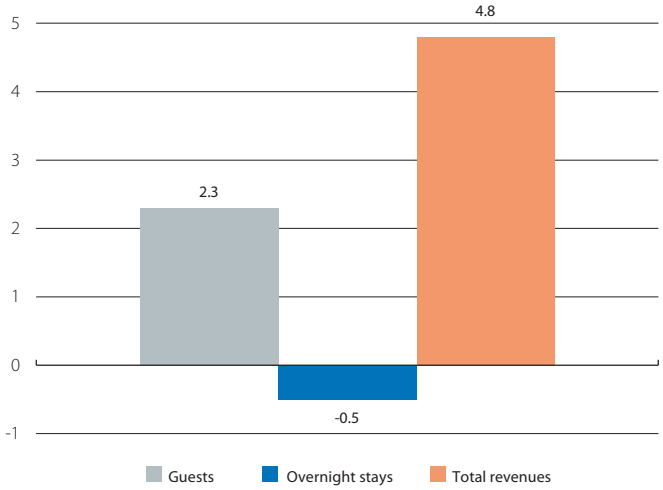
Year-on-year change (%)



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

Portugal: tourism in Q1 2025

Year-on-year change (%)



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

Activity and employment indicators

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Coincident economic activity index	3.5	1.8	1.7	1.6	1.8	1.9	1.9	2.0	...
Industry									
Industrial production index	–3.1	0.8	1.9	–0.2	–0.4	–2.3	1.2	–5.5	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–6.7	–6.2	–3.9	–5.1	–5.2	–5.4	–5.2
Construction									
Building permits - new housing (number of homes)	7.5	6.0	9.7	13.1	22.2	...	14.2	...	...
House sales	–18.7	14.5	10.4	19.4	32.5	...	...	...	...
House prices *(euro / m² - valuation)*	9.1	8.5	6.8	8.5	13.2	15.2	16.0	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.0	6.3	9.5	7.8	6.3	...	5.8	...	...
Confidence indicator in services *(value)*	7.6	5.5	4.3	–0.4	11.9	15.8	16.5	10.7	4.1
Consumption									
Retail sales	1.1	3.3	2.4	3.9	5.2	3.0	2.5	1.6	...
Coincident indicator for private consumption	2.9	2.8	2.4	2.8	3.6	4.0	4.1	4.1	...
Consumer confidence index *(value)*	–28.6	–18.0	–18.7	–14.3	–14.3	–15.5	–15.3	–16.0	–17.9
Labour market									
Employment	2.3	1.2	1.0	1.2	1.3	2.4	2.5	2.2	...
Unemployment rate (*% labour force*)	6.5	6.4	6.1	6.1	6.7	6.6	6.5	6.5	...
GDP	**2.6**	**1.9**	**1.5**	**2.0**	**2.9**	**1.6**	**...**	**...**	**...**

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
General	4.4	2.4	2.7	2.2	2.6	2.3	2.4	1.9	2.1
Core	5.1	2.5	2.4	2.5	2.7	2.3	2.5	1.9	2.1

Foreign sector

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	2.4	–3.7	0.7	2.4	...	4.3	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	2.2	–5.6	–0.8	2.2	...	3.3	...	...
Current balance	**1.5**	**6.1**	**4.2**	**5.2**	**6.1**	**...**	**5.6**	**...**	**...**
Goods and services	4.0	6.7	5.7	6.1	6.7	...	6.4	...	...
Primary and secondary income	–2.5	–0.5	–1.5	–0.9	–0.5	...	–0.8	...	...
Net lending (+) / borrowing (–) capacity	**5.3**	**9.3**	**7.9**	**8.6**	**9.3**	**...**	**8.5**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	02/25	03/25	04/25
Deposits [1]									
Household and company deposits	–2.3	7.5	5.6	6.0	7.5	6.5	7.1	6.5	...
Sight and savings	–18.5	–0.3	–8.6	–6.7	–0.3	3.5	2.5	3.5	...
Term and notice	22.2	15.3	24.0	20.9	15.3	9.3	11.4	9.3	...
General government deposits	–12.4	26.7	4.5	29.1	26.7	29.3	40.6	29.3	...
TOTAL	**–2.6**	**7.9**	**5.6**	**6.7**	**7.9**	**7.1**	**7.9**	**7.1**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	2.1	–0.3	1.0	2.1	3.3	3.0	3.3	...
Non-financial firms	–2.1	–0.6	–1.8	–0.6	–0.6	0.1	0.3	0.1	...
Households - housing	–1.4	3.2	0.1	1.4	3.2	5.1	4.5	5.1	...
Households - other purposes	–0.3	4.7	2.5	4.0	4.7	5.1	4.8	5.1	...
General government	–5.5	0.6	–5.8	–4.1	0.6	–8.0	1.0	–8.0	...
TOTAL	**–1.7**	**2.0**	**–0.5**	**0.9**	**2.0**	**2.9**	**2.9**	**2.9**	**...**
NPL ratio *(%)* [2]	**2.7**	**2.4**	**2.6**	**2.6**	**2.4**	**–0.2**	**...**	**...**	**...**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

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Real Estate Sector Report S1 2025

Spain's real estate market accelerated in 2024, supported by the easing of financial conditions and the strong performance of the Spanish economy. In 2025, we predict that demand will remain very strong and, although supply will continue to gradually grow, the deficit of housing accumulated in recent years will sustain significant price growth, at levels similar to the current ones.

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 S2 2024

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.

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