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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

What are the implications of the Fed slowing down its balance sheet reduction process?

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The world holds its breath over Trump's tariffs

US tariffs: where do we stand and what comes next?

A changing European labour market: the role of immigration and new jobs

SPANISH ECONOMY

The CaixaBank Research real estate clock: the Spanish real estate market picks up the pace

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Lower budget deficit in 2025 in Spain, but the structural challenges persist

The exposure of employment in Spain to the US: key sectors and characteristics

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June 2025

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Hegemonic stability in times of change

A month ago, the global economy found itself subject to an effective US tariff of 30% (3% before L-Day) and there was a feeling that only the behaviour of the bond markets was managing to inject some sense into the trade negotiations which, amid all the chaos, had too many open fronts for the American administration. The state of the trade conflict in the first week of June reflects a slight de-escalation of tensions as we await the Court of International Trade's final decision given that, along the way, the US has reached an agreement with the United Kingdom and has signed a truce with China to reduce the reciprocal tariffs for 90 days. All of the above has lowered the average tariff to 14.6% (around 40% with China and 10% for the rest of the world), including the latest hike to 50% for tariffs on steel and aluminium. Moreover, this reflects a realignment in the Trump administration's delicate strategy as it aims to minimise the short-term damage while seeking a rebalancing that is beneficial to the American economy in the long term.

Therefore, as the summer gets underway, US import tariffs are at levels compatible with an orderly slowdown in global economic activity. In our baseline scenario, with an average tariff of around 10%, global growth would be 2.9% (1.2% for advanced economies and 3.2% for emerging economies), with the euro area growing at a rate of 0.9% (2.4% in Spain), supported by the fall in energy prices (around 25% in euros so far this year) and by a monetary policy that is expected to reach neutral territory in June. The country hardest hit by the trade hostilities in the short term will be the US itself, with a much worse combination of growth and inflation in 2025 (1.3% and 2.9%, respectively) compared to that expected prior to the announcement of the tariff hikes, bringing it dangerously close to stagflation. This divergence on either sides of the Atlantic, with Europe faring better for the first time in a long time, continues to be reflected both in the behaviour of the financial markets and in savings flows and exchange rate movements. The problem is that, after four months benefiting from the pre-L-Day inertia and from purchasing decisions being brought forward, the pattern in global economic activity will experience a clear shift in the middle of the year; it is difficult to anticipate the combined effect of the tariff disorder, the geopolitical uncertainty, rising inflation in the US and the sharp depreciation of the dollar, both on the decisions of consumers and businesses and on financial asset prices.

This is particularly the case given the new elephant in the room, namely the US fiscal situation currently undergoing a budget negotiation process, bearing in mind the current levels of the public deficit (6.5% of GDP), public debt (120% of GDP) or the high cost of debt servicing (3.8% of GDP). Such fiscal indicators are hardly compatible with the maximum rating which Moody's was assigning to US debt (AAA) prior to its recent downward revision. In this context, the yields on 10-year or 30-year bonds (4.4% and 4.95%, respectively) will be highly sensitive to the budget currently being debated in the Chambers and which includes some rather concerning aspects, such as Section 899 which could penalise international investment. This is especially the case due to the perceived distrust of the dollar among a large number of investors. That said, the evidence suggests that the movement of recent weeks is more of an intense (and rather disorderly) correction rather than the first signs of any structural change in its traditional role as the global reserve currency, given that it continues to trade 19% above the average of its real effective exchange rate of the past 20 years. However, as Martin Wolf recently reminded us using the theory of hegemonic stability, the equilibrium of an open world economy depends on the existence of an economic power that is capable of offering essential public goods, open markets for trade and a stable currency, in addition to becoming a lender of last resort when needed. The US has been able to play such a role since 1945. The question is whether this is compatible with the Trump administration's strategic shift, which appears to be seeking a partial or full retreat by the world's leading power to its winter barracks. This would leave the world economy orphaned from that economic stabiliser, given that China, in the short term, does not appear to be in a position to offer such leadership. Therefore, with geopolitics gaining prominence at times, the design of the new world economic order will pivot on the strategic game between these two economic realities (the US and China) which threaten to overlap, after following parallel trajectories over the past few decades. These parallel trajectories did, however, generate concurrent macroeconomic dynamics and, in the end, they were mutually beneficial.

José Ramón Díez
June 2025

Chronology

MAY 2025

- 3** OPEC increases oil production while internal tensions rise.
- 28** Legal doubts about the Trump administration's tariffs increase uncertainty over their global effects.

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%.

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.

Agenda

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).
- 4-5** 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 by institutional sector (Q1).
- 25** Spain: GDP breakdown (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).

JULY 2025

- 1** Euro area: CPI flash estimate (June).
- 2** Spain: registration with Social Security and registered unemployment (June).
- 9** Spain: financial accounts (Q1).
- 10** Portugal: international trade (May).
- 16** China: GDP (Q2).
- 18** Portugal: balance of payments (May).
- 22** Spain: loans, deposits and NPL ratio (May).
- 23-24** Governing Council of the European Central Bank meeting.
- 24** Spain: labour force survey (Q2).
- 29** Spain: GDP flash estimate (Q2).
- 29-30** Federal Open Market Committee meeting.
- 30** Spain: CPI flash estimate (July).
Portugal: GDP flash estimate (Q2).
Euro area: GDP (Q2).
Euro area: economic sentiment indicator (July).
US: GDP (Q2).
- 31** Spain: state budget execution (June).
Portugal: CPI flash estimate (July).
Portugal: budget execution (June).
Portugal: tourism activity (June).

The Spanish economy holds up

This month, CaixaBank Research has updated its forecast scenario for the Spanish economy. Although growth is now expected to be slightly lower than previously anticipated, the message remains broadly positive. In particular, the new scenario envisages a gradual moderation of GDP growth: following the solid 3.2% recorded in 2024, it is expected to grow by 2.4% in 2025, 0.1 pp less than in the previous scenario, and by 2.0% in 2026, also 0.1 pp lower than previously anticipated.

These figures stand out for several reasons. Firstly, because they reflect buoyant economic growth, above the historical average of 1.8% between 2000 and 2024. Secondly, because this growth is expected to be widespread across the various sectors. Thirdly, because this is occurring in an unfavourable international context, marked by geopolitical and trade tensions. Finally, because the expected growth far exceeds that of the major developed economies: this year, more than double that of the euro area and surpassing US growth by 1 pp.

The moderation of the growth rate is mainly a response to the exhaustion of some of the factors that have been driving economic activity in recent quarters. Exports of non-tourism goods and services have lost momentum amid the weakness shown by Spain's major trading partners, while growth in tourism and public consumption is normalising. Added to this is the impact of the uncertainty generated by the new US administration's erratic economic policy and the increase in tariffs on exports to that country. In the previous scenario, an impact of 0.2 pps on growth in 2025 was already contemplated, assuming a moderate increase in tariffs to 10% and an upturn in uncertainty until the middle of the year. However, the uncertainty has been greater than expected and the global economy weaker, resulting in a downward revision of an additional 0.1 pp both in 2025 and again in 2026.

Despite these adverse factors, there are several elements sustaining the Spanish economy's dynamic growth. Most notably, these include household consumption and investment, which are being supported by a quicker than expected decline in inflation – thanks to falling energy prices – as well as lower interest rates and a healthy financial situation among both firms and households.

Demographic dynamics and the gradual execution of the European NGEU funds also continue to boost domestic demand. All these elements should consolidate the good figures observed in recent months.

The latest indicators confirm that economic activity remains robust in Q2 of this year. GDP growth is likely to be only slightly below the strong figure recorded in Q1. Job creation remains buoyant, with rates similar to those recorded at the beginning of the year. The [CaixaBankResearch Real-Time Consumption Indicator](#) also remains at high levels. Moreover, as set out in the recently published [Sectoral Observatory](#), 50% of the economy's sectors are currently expanding, with growth rates in excess of their historical average, compared to a figure of 20% last year. Only 24% of the sectors are growing below their long-term trend, versus 34% the previous year. In addition, according to our estimates, no sector is currently in contraction.

Beyond the uncertain international environment and the loss of momentum in some growth drivers, the main structural challenge facing the Spanish economy in the short and medium term lies in the real estate market. The sharp recovery in demand – driven by the improvement in household purchasing power, lower interest rates and strong foreign demand – has coincided with a slow-reacting supply. Although new construction licences are picking up, the pace of construction remains insufficient to absorb the housing deficit that has accumulated in recent years. As set out in the Focus [«The CaixaBank Research real estate clock: the Spanish real estate market picks up the pace»](#) in this same report, this imbalance is exerting increasing pressure on prices, which have accelerated notably in recent quarters. According to the new CaixaBank Research forecasts, the house prices could grow by 9.0% in 2025 and by 5.7% in 2026 (according to the indicator published by the Ministry of Housing and Urban Agenda, MIVAU), well above the expected growth of disposable income per household. This trend threatens to exacerbate the housing affordability problem, particularly in areas with higher demand, and reinforces the need to accelerate the construction of affordable housing as a means to ensure inclusive and sustainable economic growth.

Oriol Aspachs

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	4.00	3.25
3-month SOFR	3.62	1.01	1.07	5.37	4.37	4.07	3.35
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.75	3.41
2-year government bonds	3.70	1.04	1.21	4.46	4.24	4.10	3.90
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.60	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	1.89	1.97
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.30	2.40
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.48	2.63
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.67	2.84
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.00	3.20
Risk premium	11	164	85	98	68	70	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.01	2.14
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.31	2.49
10-year government bonds	4.49	4.67	0.96	2.74	2.68	2.85	3.10
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	1.14	1.15
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	61.7	62.8
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.8	54.1	54.6

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 GROWTH¹							
Global	4.3	3.3	2.5	3.5	3.3	2.9	2.9
Developed countries	2.7	1.5	1.7	1.7	1.8	1.3	1.3
United States	2.7	1.8	2.1	2.9	2.8	1.3	1.3
Euro area	2.3	0.8	1.2	0.5	0.8	0.9	1.1
Germany	1.6	1.3	0.2	-0.1	-0.2	0.4	1.0
France	2.3	1.0	0.7	1.6	1.1	0.4	0.8
Italy	1.5	-0.3	1.6	0.8	0.5	0.6	1.0
Portugal	1.5	0.4	1.5	2.6	1.9	1.7	1.9
Spain	3.6	0.7	0.6	2.7	3.2	2.4	2.0
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	1.1	1.2
Emerging and developing countries	6.3	4.9	3.1	4.7	4.3	3.9	3.9
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	0.6	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	4.3	3.9
Developed countries	2.1	1.6	3.7	4.6	2.6	2.3	2.3
United States	2.8	1.8	4.6	4.1	3.0	2.9	2.6
Euro area	2.2	1.4	3.7	5.4	2.4	2.0	1.9
Germany	1.7	1.4	4.1	6.0	2.5	2.1	2.0
France	1.9	1.3	2.8	5.7	2.3	1.4	1.9
Italy	2.4	1.4	3.5	5.9	1.1	1.6	1.8
Portugal	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Spain	3.2	1.3	3.7	3.5	2.8	2.4	2.2
Japan	-0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.8	2.2	4.2	7.3	2.5	2.9	2.3
Emerging and developing countries	6.9	5.5	6.8	8.0	7.7	5.6	4.9
China	1.7	2.6	1.8	0.2	0.2	0.5	1.0
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

Note: 1. Figures adjusted for seasonality and calendar effects for the euro area, Germany, France, Italy, Portugal, Spain and Poland. Figures adjusted for seasonality for the United States and the United Kingdom.

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	2.8	2.7	2.3
Government consumption	4.5	0.9	2.6	5.2	4.1	2.0	0.8
Gross fixed capital formation	5.7	-1.2	-1.0	2.1	3.0	3.9	3.0
Capital goods	4.9	0.2	-2.5	1.1	2.8	5.9	2.3
Construction	5.7	-2.6	-1.9	3.0	3.5	3.2	3.4
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.7	1.6	2.7	2.5	2.0
Exports of goods and services	4.7	2.9	2.5	2.8	3.1	2.2	2.1
Imports of goods and services	7.0	0.2	2.5	0.3	2.4	3.0	2.5
Gross domestic product	3.6	0.7	0.6	2.7	3.2	2.4	2.0
Other variables							
Employment	3.2	-0.5	1.4	3.2	2.4	2.4	1.7
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	2.4	2.2
Unit labour costs	3.1	0.6	3.6	6.1	4.0	3.5	2.7
Current account balance (% GDP)	-5.8	-0.2	0.6	2.7	3.0	2.7	2.9
External funding capacity/needs (% GDP)	-5.2	0.2	1.4	3.7	4.2	3.7	3.9
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	2.0	2.1
Government consumption	2.2	-0.3	2.0	0.6	1.1	1.0	1.1
Gross fixed capital formation	-0.4	-0.7	2.9	3.6	3.0	4.0	3.4
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	2.6	1.7	2.2
Exports of goods and services	5.3	4.0	3.6	3.8	3.4	3.3	3.0
Imports of goods and services	3.6	2.7	4.0	1.8	5.0	3.4	3.5
Gross domestic product	1.5	0.4	1.5	2.6	1.9	1.7	1.9
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	2.1	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

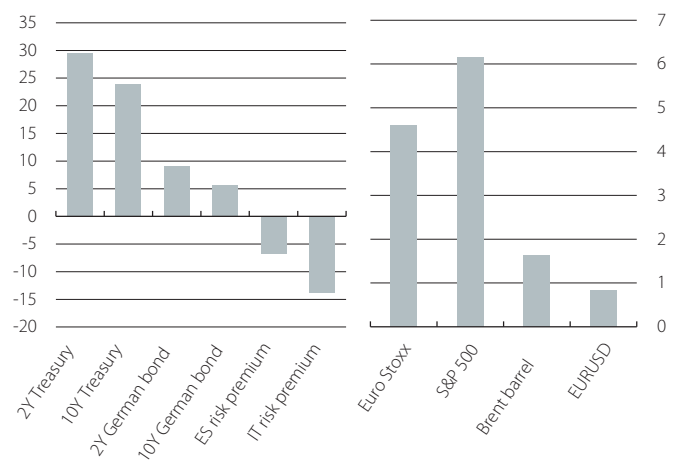
Uncertainty over economic policy continues to steer investor mood

The markets, torn between optimism about the trade truce and concern over the US' fiscal deterioration. The truce in the tariff tensions between Washington and Beijing ended up fuelling a renewed risk appetite in May, backed by economic data which confirmed the resilience – for now – of economic activity and the progress of disinflation, both in the US and in Europe. However, the optimism was gradually overshadowed as the month progressed by the predictable fiscal deterioration in the US and other developed economies, as well as by the persistent volatility in Trump's trade policy. In this context, sovereign yields rebounded, while equity investors chose to view the glass as being half full, benefiting cyclical sectors in particular and allowing the US indices to wipe out the losses accumulated in the year to date. In the foreign exchange market, the dollar once again showed significant sensitivity, while in the commodities market the most noteworthy development was the fact that gold, which has recorded a significant appreciation this year, did not capitalise on the fiscal uncertainty.

The central banks remain cautious. The Fed chose to keep interest rates unchanged in May, waiting to assess the impact of the tariffs on prices and economic activity, although its chair Powell expressed concern over the growing risks of stagflation as a result of the trade tensions. The April data supported this approach: various measures of inflation and production prices slowed, while retail sales fell and consumer spending declined, although consumer confidence rebounded rapidly in May following the trade truce. The resilience of the US economy led investors to anticipate two rate cuts by the Fed this year in May, compared to the four that were being anticipated at the end of April. For the ECB, the swings were smaller: investors anticipated two further rate cuts in 2025 and the probability of a third fluctuated based on inflation expectations. Regarding the latter, the markets have been reflecting lower expectations since *Liberation Day* (anticipating a reduction to 1.5% in three years time), while consumers in the euro area in April were expecting a rebound (3.1% in three years time), in both cases influenced by the US tariffs.

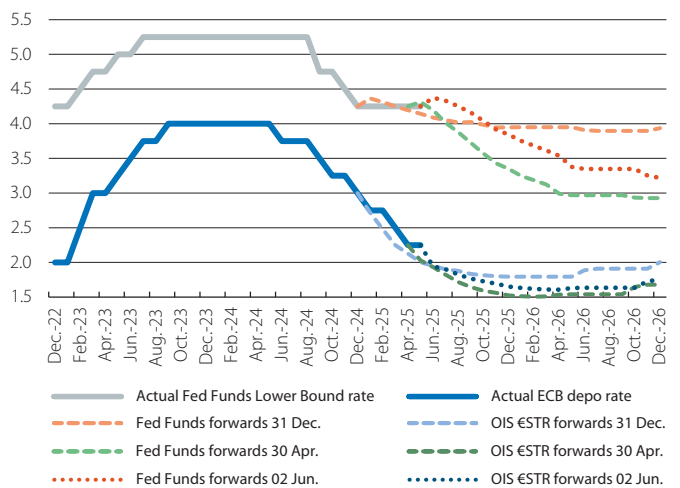
The concerns over fiscal sustainability drove up sovereign yields. The passing of Trump's tax reform by the House of Representatives, combined with Moody's downgrading of the US' credit rating (the latest agency to withdraw its triple A rating), served as catalysts for a sharp rise in rates in the month, even despite the reform being softened during its passage through Congress. The increase in the yield on Treasuries, however, was concentrated in the short segments of the curve due to the expectation of higher Fed rates. Fiscal tensions also took their toll in other markets: in Japan, they mainly affected longer-term yields, in a context marked by a gradual reduction of the central bank's balance sheet. In the case of the United Kingdom, the government's limited fiscal margin also drove up longer-term yields. In the euro area, the rebound was more moderate: the curve remained flat and peripheral spreads narrowed, as part of a normalisation process following April's risk-off movement and amid an improvement in risk appetite.

Monthly performance of the main financial assets (bps) (%)



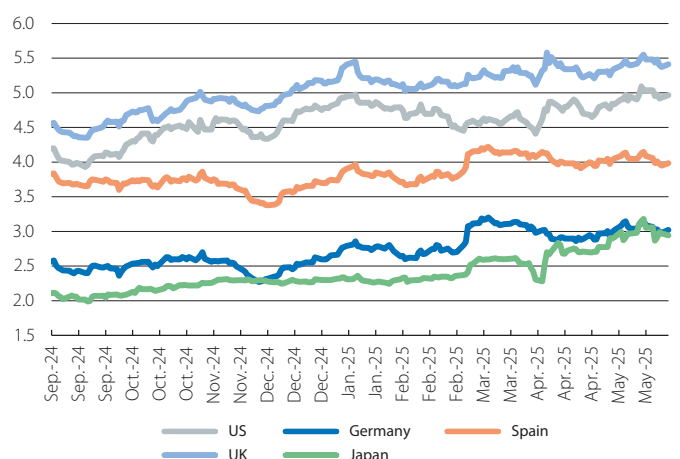
Source: CaixaBank Research, based on data from Bloomberg.

Market expectations regarding policy rates (%)



Source: CaixaBank Research, based on data from Bloomberg.

Evolution of 30-year sovereign interest rates (%)



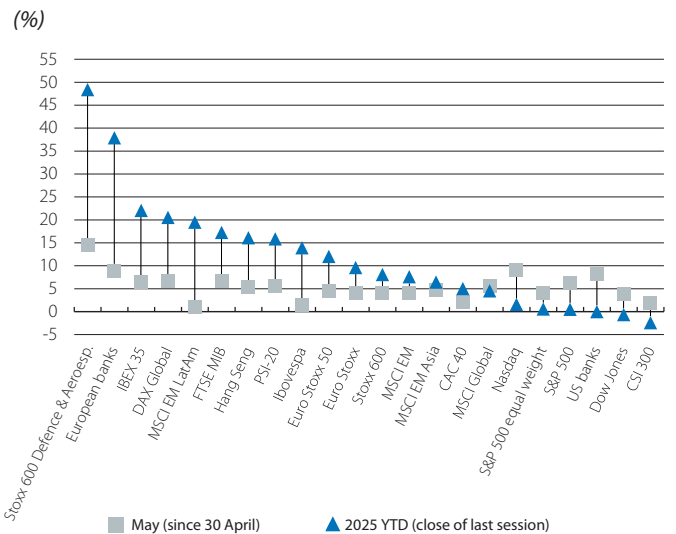
Source: CaixaBank Research, based on data from Bloomberg.

The foreign exchange market reflected the tension between trade and fiscal factors. The dollar showed two clear trends: first, strength at the beginning of the month due to optimism on the trade front and the resilience shown by the US labour market in April, and then weakness in the wake of Moody's downgrade, the passing of the tax reform and the turbulence towards the end of the month in the China-US trade negotiations. The net result against the euro was a practically flat month, leaving a cumulative appreciation in the year to date of around 10%. The main beneficiary of the trade truce turned out to be the South Korean won, which was also favoured by the country's renewed political stability. The pound sterling, meanwhile, depreciated slightly due to the mixed economic data in the United Kingdom and doubts over the government's fiscal plans. Among emerging currencies, those of Latin American countries showed divergent performance depending on their fundamentals and their exposure to global trade, with the Mexican peso appreciating after the trade truce between China and the US.

Equities, the main beneficiaries of the China-US trade truce. The increased risk appetite and the resilience of the economy benefited sectors typically linked to the business cycle (e.g. technology and industrial goods), which led the gains in the US and Europe, while more defensive ones, such as health and basic consumption, lagged behind. The US indices for large cap companies recovered the losses accumulated in the year, returning to positive territory. In Europe, the German, Italian and Spanish markets performed particularly well, while markets with a greater number of defensive companies, such as France, recorded more moderate advances. Emerging economies participated selectively in the rally. Mexico and Brazil performed particularly well, supported by their favourable domestic dynamics. Among the Chinese indices, the CSI 300 recorded more moderate gains, despite the monetary stimulus recently implemented, and reflected a degree of investor scepticism about its durability and impact on the country's growth. The Hang Seng, meanwhile, posted higher gains driven by the tech sector. The rest of the Asian indices (Japanese, South Korean and Indonesian) did benefit to a greater extent from the US-China trade truce.

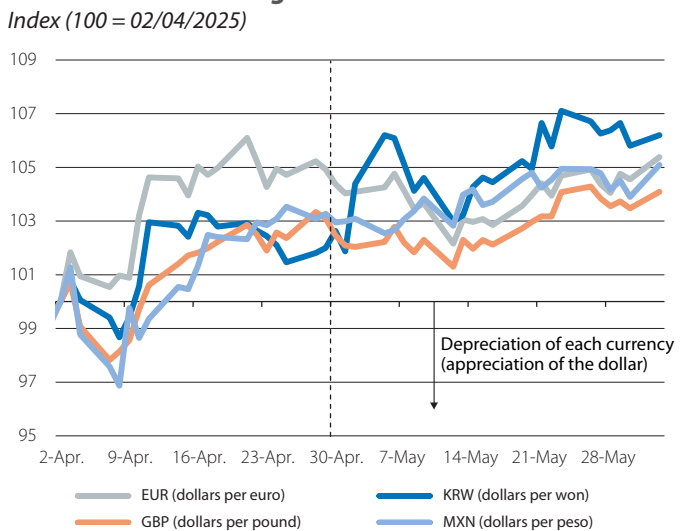
Mixed behaviour in commodities. The European benchmark gas price registered one of the biggest monthly gains due to the confluence of several factors: the progress made by the European Commission to eliminate the flow of Russian gas into the EU, the reduced supply from Norway due to maintenance works and failures in key infrastructure, as well as the fact that storage levels remain low. Oil showed more complex dynamics, with modest gains, as investors sought to balance greater optimism about global demand with signs that OPEC+ was considering further production increases in July (finally approved, and adding to the increases of more than 400,000 barrels already planned in June) and with a degree of optimism regarding the negotiations between the US and Iran on the latter's nuclear programme. Among industrial metals, copper benefited from the optimism regarding global manufacturing activity. Among precious metals, meanwhile, gold remained flat, between the declining demand for safe-haven assets and fiscal concerns, while platinum recorded a sharp rise, driven by Chinese demand amid high gold prices and signs of depletion in current deposits.

Performance of stock market indices



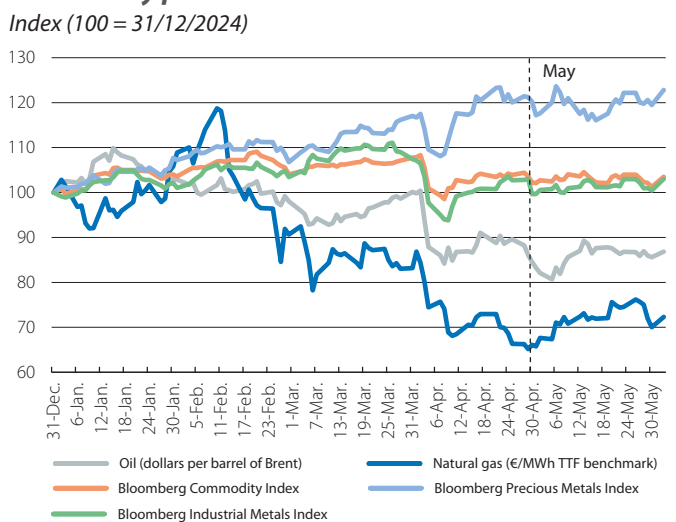
Source: CaixaBank Research, based on data from Bloomberg.

Selected currencies against the dollar



Source: CaixaBank Research, based on data from Bloomberg.

Commodity prices



Source: CaixaBank Research, based on data from Bloomberg.

What are the implications of the Fed slowing down its balance sheet reduction process?

In March 2025, the Federal Reserve (Fed) announced a slowdown in the pace of its balance sheet reduction process beginning in April. This decision reflects both the fact that its reserves are close to the level considered appropriate and the need to avoid liquidity tensions in the financial markets. In this article, we assess the impact of this decision and update our projections for the Fed’s balance sheet with respect to the estimates made at the end of last year.¹

How is the QT being carried out?

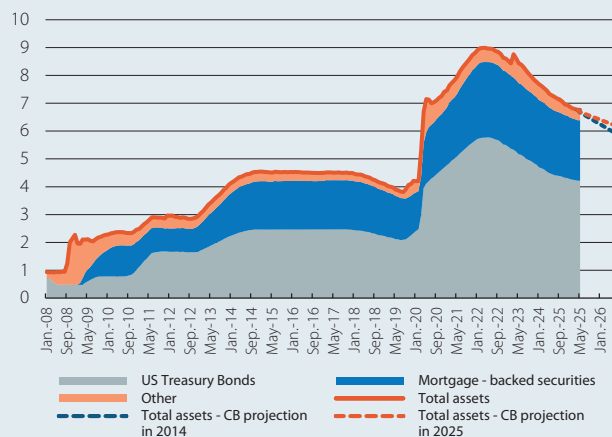
During the years of expansionary monetary policy (2019-2022), the Fed embarked on an asset purchase programme aimed at injecting liquidity and stimulating the economy, which resulted in an unprecedented accumulation of assets that peaked at 35% of US GDP in mid-2022. Thereafter, the inflationary crisis required a restrictive monetary policy, which included reducing the size of the central bank’s balance sheet in order to withdraw liquidity from the financial system. This programme, known as quantitative tightening (QT), has been implemented through a passive strategy that consists of not renewing the portfolio of Treasuries and mortgage-backed securities (MBSs) as they reach maturity.² Since its inception in June 2022, the QT programme has been implemented in different phases, with the balance sheet being reduced at varying rates. Initially, the process was accelerated, but from mid-2024 its pace was gradually moderated.

Since April 2025, the Fed has further slowed the pace of its balance sheet reduction, limiting monthly redemptions of Treasuries to 5 billion dollars, while maintaining the cap for MBSs at 35 billion, which has allowed the Fed to reduce its balance sheet to 28% of GDP. Had the pace of reduction announced in June last year been maintained, our estimates suggested that, by the end of 2025, the Fed could have reduced it to around 25% of GDP. Now, at the reduction rate in force since April, the balance sheet is set to reach a similar but slightly higher level of around 26% of GDP, and in order to reach the levels estimated previously, it would need at least an additional six months.

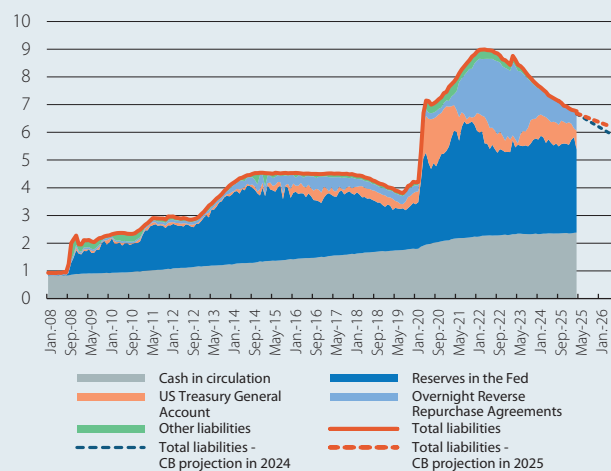
How long could the process last?

So far, the markets have absorbed the QT and the change in its intensity without any major issues or turbulence arising. However, the main risk is the Fed withdrawing more liquidity than desired, which could lead to episodes of financial stress. The Fed’s goal is to reduce the balance sheet to a level with «ample» reserves, that is, not so abundant as in the past, but sufficient to ensure that the financial system can operate without liquidity restrictions and that the effective federal funds rate (EFFR) is not overly sensitive to daily fluctuations in the level of reserves. This equilibrium level, which is difficult to estimate accurately, is identified more by its effects than by any specific measure, so the Fed uses various indicators to assess whether the volume of liquidity is adequate.

Fed: assets on its balance sheet
(USD trillions)



Fed: liabilities on its balance sheet
(USD trillions)



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

1. See the Focus «[Balance sheets: the not-so-visible normalisation of monetary policy](#)» in the MR11/2024.
2. When the Fed purchases financial assets, it pays for them by creating new reserves that are deposited in the sellers’ accounts in the Fed, thus increasing the liquidity of the system. On its balance sheet, those assets are reflected as assets for the Fed, while the reserves are created as liabilities. When the Fed sells those assets or allows them to mature, it does not receive any cash income, but rather decreases the balance of the reserves, thus reducing liquidity.

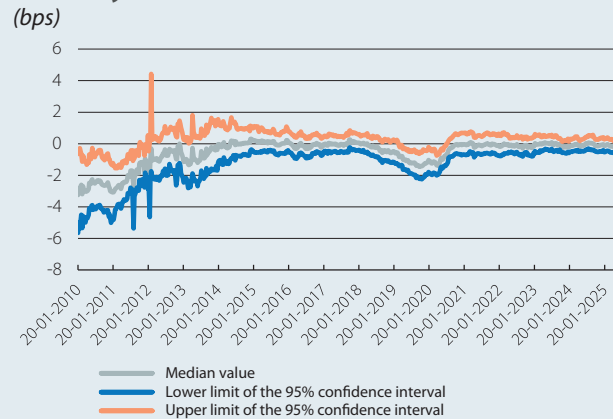
One of these indicators is the elasticity of the EFFR with respect to reserves, that is, how much the interest rate varies in response to changes in the amount of reserves. When the elasticity is high (which, for a demand curve, it means that it becomes more negative), small changes in reserves have a greater impact on the EFFR, making it difficult for the Fed to control rates and, therefore, to implement its monetary policy. Conversely, if the elasticity is close to zero, then the EFFR hardly changes, even with large variations in reserves. Currently, we are in this second case (see second chart), with abundant reserves and liquidity needs covered. Ideally, the QT process would end when the elasticity goes from almost zero to slightly negative. However, it is difficult to identify that point, given that over time changes occur in both the demand and supply of reserves that are beyond the Fed's control.

A second measure is the amount of reserves that non-banking financial institutions hold through overnight financing operations known as ONRRPs.³ With the start of the new cycle of rate hikes, the Fed used ONRRPs to incentivise these entities to deposit their excess liquidity and prevent them offering it in the market, which would apply downward pressure on the EFFR, making it difficult to implement monetary policy. By offering an attractive interest rate on ONRRPs, the Fed convinced them to park their liquidity, turning that rate into a lower bound for the EFFR. As the first chart shows, this has been the component of liabilities that has been reduced the most since the beginning of the QT process, falling from 2.5 trillion dollars in June 2022 to 632 billion, bringing it close to pre-pandemic levels.⁴ The moment non-banking institutions are left with no excess liquidity, the ONRRPs will be reduced to zero, and the QT process will drain reserves directly from the banks, which could begin to shift the elasticity of the reserves from zero into negative territory.

Based on these indicators, the Fed has suggested that total reserves of around 10%-11% of GDP⁵ would be a good target level, and they are currently at around 13%. If we assume that the Fed maintains the current rate of reduction, then its reserves would reach 10%-11% beginning in Q2 2026. Therefore, in the absence of any frictions in liquidity, the Fed has the green light to continue to reduce its balance sheet over the next year.

3. ONRRPs (Overnight Reverse Repurchase Agreements) are one-day agreements in which the Fed borrows money by offering securities as collateral in order to reduce liquidity in the financial system.
 4. The other liability accounts have remained relatively stable: bank reserves held by banks in deposits in the Fed went from 3.1 trillion dollars to 3 trillion, cash in circulation (notes and coins) actually increased slightly from 2.3 trillion to 2.4 trillion; and the US Treasury General Account (TGA) in the Fed went from 0.8 trillion dollars to 0.7 trillion.
 5. Christopher Waller. «A Conversation with Federal Reserve Governor Christopher Waller». The Brookings Institute, 2024.

Elasticity of the demand for reserves



Note: Daily real-time estimates of the slope of the reserve demand curve using the methodology described by Afonso, Giannone, La Spada and Williams (2022, revised in 2024). The elasticity indicates by how many bps the spread between the EFFR and the IORB rate would move in the event of an increase in reserves equivalent to 1% of the banks' total assets.
Source: CaixaBank Research, based on data from the Federal Reserve Bank of New York.

Why is the Fed moderating the speed of its QT?

As the Fed approaches the desirable level of reserves but, as we have seen, in the absence of any precise measure to know when to halt QT, it prefers to slow down so as not to subject the financial system to an episode of liquidity stress. Fed Chair Powell has described it as being like a plane slowing down as it comes in to land, in order to reach the runway on target. Moreover, such prudence is even more important in the current context.

The sovereign debt markets in the US have been the protagonists of high volatility due to the uncertainty surrounding the Trump administration's economic policy. The erratic implementation of tariffs has led to see-saw movements in sovereign yields. Furthermore, the doubts surrounding fiscal sustainability, with a deficit close to 7% of GDP and with no sign of it being materially corrected any time soon, have put additional pressure on sovereign yields. The impact of this situation is already apparent, with a weak auction of 20-year securities in mid-May. A sudden withdrawal of the Fed as a major buyer of Treasuries poses an additional risk to financial stability, and while the Fed does not explicitly acknowledge this, it will certainly want to avoid it.

Antonio Marta Miranda and Isabela Lara White

Interest rates (%)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.40	2.40	0	-75.0	-210.0
3-month Euribor	2.00	2.16	-16	-71.9	-175.7
1-year Euribor	2.09	2.05	4	-37.0	-160.0
1-year government bonds (Germany)	1.77	1.75	2	-47.1	-158.9
2-year government bonds (Germany)	1.78	1.69	9	-30.6	-120.4
10-year government bonds (Germany)	2.50	2.44	6	13.3	-1.2
10-year government bonds (Spain)	3.09	3.11	-2	3.1	-15.0
10-year government bonds (Portugal)	2.98	3.00	-3	12.7	-13.6
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	-100.0
3-month SOFR	4.32	4.27	6	1.9	-101.4
1-year government bonds	4.10	3.85	25	-4.4	-99.4
2-year government bonds	3.90	3.60	29	-34.4	-82.5
10-year government bonds	4.40	4.16	24	-16.9	12.5

Spreads corporate bonds (bps)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	58	68	-11	0.1	5.8
Itraxx Financials Senior	62	73	-11	-2.0	3.2
Itraxx Subordinated Financials	107	129	-21	-5.0	2.5

Exchange rates

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.135	1.133	0.2	9.6	4.4
EUR/JPY (yen per euro)	163.460	162.010	0.9	0.4	-3.7
EUR/GBP (pounds per euro)	0.843	0.850	-0.8	1.9	-0.8
USD/JPY (yen per dollar)	144.020	143.070	0.7	-8.4	-7.7

Commodities

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	555.0	547.6	1.4	3.5	2.0
Brent (\$/barrel)	63.9	63.1	1.2	-14.4	-18.5
Gold (\$/ounce)	3,289.3	3,288.7	0.0	25.3	39.7

Equity

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,911.7	5,569.1	6.2	0.5	10.4
Eurostoxx 50 (euro area)	5,366.6	5,160.2	4.0	9.6	6.6
Ibex 35 (Spain)	14,152.2	13,287.8	6.5	22.1	24.7
PSI 20 (Portugal)	7,388.5	6,992.3	5.7	15.9	8.2
Nikkei 225 (Japan)	37,965.1	36,045.4	5.3	-4.8	-1.4
MSCI Emerging	1,157.3	1,112.8	4.0	7.6	8.9

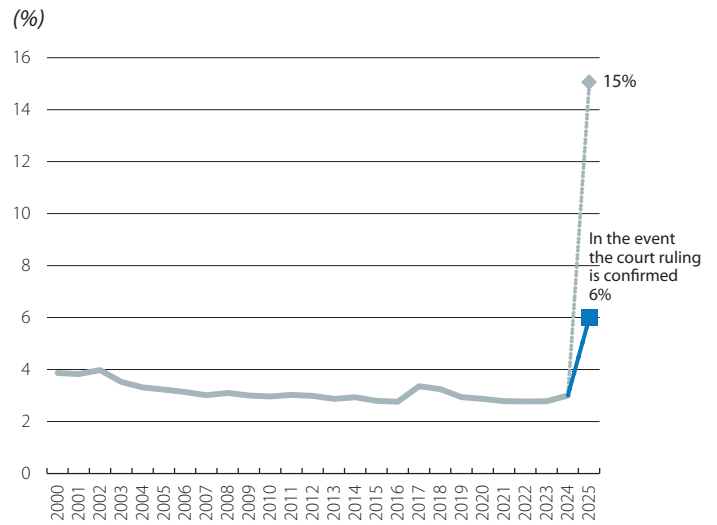
Trump’s announcements detract from the economic indicators

Ongoing tariff negotiations but with new sources of uncertainty. Following the unprecedented escalation between China and the US that led to reciprocal tariffs well in excess of 100%, on 12 May the two countries agreed on a substantial tariff cut for 90 days and the start of negotiations (see the Focus [«US tariffs: where do we stand and what comes next?»](#) in this same report). The tensions persist, however, not only with China but also with the EU, which was surprised by the announcement of a 50% tariff that was finally postponed until 9 July, following Europe’s commitment to accelerate the talks. In addition to the uncertainty over the economic impact of the tariffs and the outcome of the trade negotiations, legal doubts have now arisen over the measures adopted by Trump since February. On 28 May, the US Court of International Trade ruled that Trump lacked the authority to introduce a general increase in protectionism on Canada, Mexico and China, as well as to impose the universal tariff and the «reciprocal» tariffs announced on 2 April. For the moment, we will have to wait for the outcome, since a federal body has accepted the government’s appeal and the tariffs remain in force until a final decision is taken (not before 9 June). In addition, Trump decreed the doubling of the tariff on aluminium and steel to 50% beginning on 4 June. The discussion about the future of the public finances is following all these developments very closely, as the uncertainty is also affecting Trump’s plans to use the revenue from the collection of tariffs to fund his tax cut plan. Congress passed the so-called «One Big Beautiful Bill Act», which includes extensions of tax cuts, new exemptions and cuts to social programmes and could cost 2.5 trillion dollars over the next decade.

Germany led the growth at the start of the year. The revision of the Q1 GDP figures shows a disparate composition by country. Germany revised its growth to 0.4% quarter-on-quarter, versus the initial 0.2%, and Italy confirmed its rate of 0.3%. Both countries based their growth on domestic demand, while their foreign sectors benefited from the boost provided by exports (+3.2% and +2.8% quarter-on-quarter, respectively) due to the «anticipation» of the tariffs. In France, which grew by just 0.1%, only inventories contributed to growth (+1.0 pp) in a context of falling private consumption (–0.2%) and exports (–1.8%). In a way, the monthly indicators already hinted at this growth structure. Industrial production in the euro area grew in March by 2.6% on a month-on-month basis, thanks to Germany’s momentum (3.5%). In France and Italy, industrial production practically stagnated in March. The rise in industrial orders in Germany, especially foreign orders (3.6% and 4.7%, respectively), is not observed in France or Italy. Retail sales also experienced a revival in March in Germany (+0.4% month-on-month), while in France and Italy they remain weak (–0.1% and –0.3%, respectively). In France there is a revival of exports of goods (+5.6%), in Germany they are maintaining the previous growth rate (+1.2%), while in Italy they are declining (–1.0%).

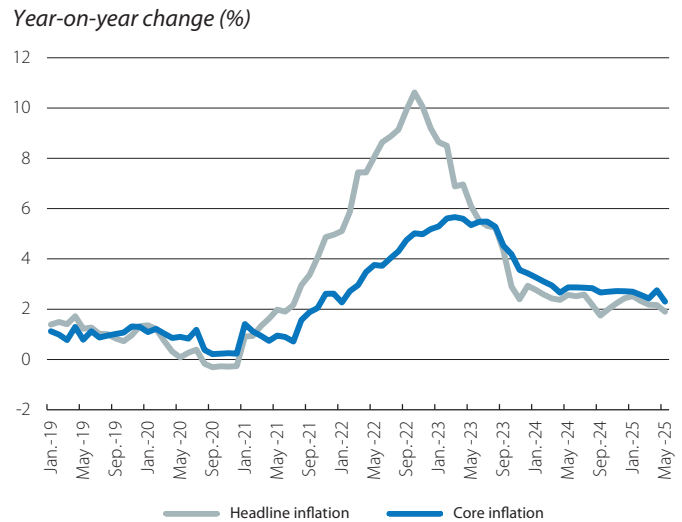
This pattern of behaviour is not sustainable and is due to an anticipation effect that will reverse in the coming months. The euro area’s Purchasing Managers’ Index (PMI) suggests a loss of

US: effective tariff applied



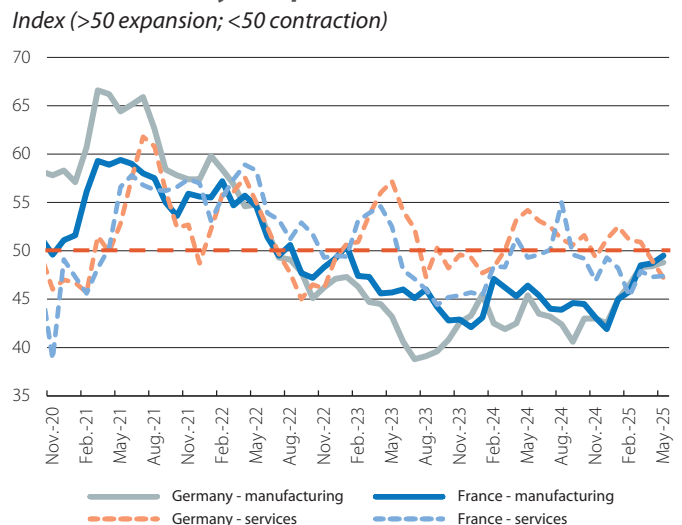
Source: CaixaBank Research, based on data from the WTO, the US CIT, the White House and internal calculations.

Euro area: headline inflation



Source: CaixaBank Research, based on data from Eurostat.

Euro area: PMI by component



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

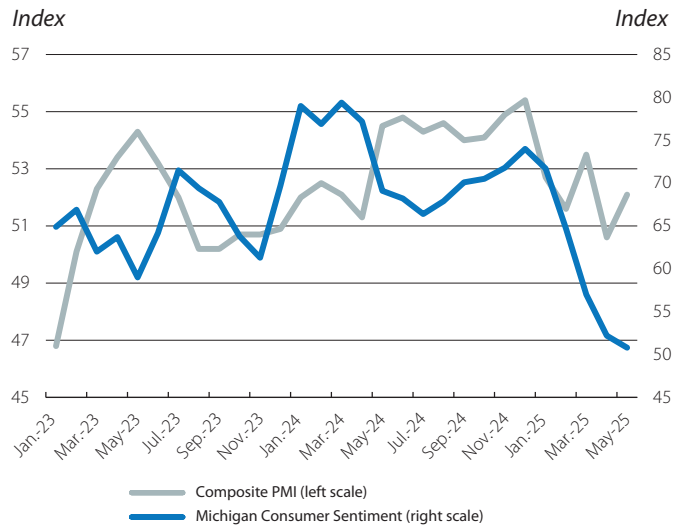
momentum in Q2 (49.5 in May vs. 50.4 in Q1), due to the slowdown in services activity (48.9 vs. 51.0 in Q1), while manufacturing is holding up slightly better (49.4 vs. 47.6). The European Commission's Economic Sentiment Indicator rose 1 point in May to 94.8, but it is still below the 100-point threshold. Consumer confidence in the euro area remains among the lowest levels in the last two years, despite the resilience of the labour market (the unemployment rate fell in April to a record low of 6.2%). Headline inflation moderated 0.3 pps in May, reaching 1.9%, while core inflation fell 0.4 pps, to 2.3%, thanks to slower price growth in services (-0.8 pps, to 3.2%). On balance, the indicators point to a rather weak economy without inflationary pressures.

Mixed signals in the US for Q2, after contracting in Q1. It has been confirmed that GDP contracted by 0.1% quarter-on-quarter in Q1, mainly due to the sharp increase in imports (of over 9%). For Q2, the signals are mixed in a context of high uncertainty due to Trump's tariff policy. The labour market remains strong: in April, the unemployment rate remained at 4.2% and 170,000 non-agricultural jobs were created, above the average of the previous three months. However, consumption is showing signs of weakness. Retail sales grew just 0.1% in April, following a 1.7% rebound in March; this volatility reflects the fact that consumption decisions were brought forward in anticipation of the tariffs. In addition, consumer confidence is deteriorating: the Michigan index fell to a three-year low, while the Conference Board index remains low. In the business sphere, the 90-day trade truce with China provided some relief: the PMI rose in May by 1.5 points, to 52.1, compared to an average of 52.6 in Q1. However, this rebound is largely explained by a record increase in inventories amid fears of future shortages due to the tariffs, so the doubts about the weakness of industry persist, with production stagnating in April after having fallen 0.3% in March.

The risks to US inflation are concentrated to the upside. So far, the impact of the tariff hikes on final prices has been limited. In April, headline inflation fell 0.1 pp, to 2.3%, thanks to lower energy prices, while the core index remained at 2.8%. However, the price components of the economic climate and sentiment indicators warn of the risk of future increases. Business leaders reported in May the largest price increase since August 2022. Consumers' inflation expectations are also high: the University of Michigan's May survey placed expected inflation one-year in the future at its peak levels since 1981.

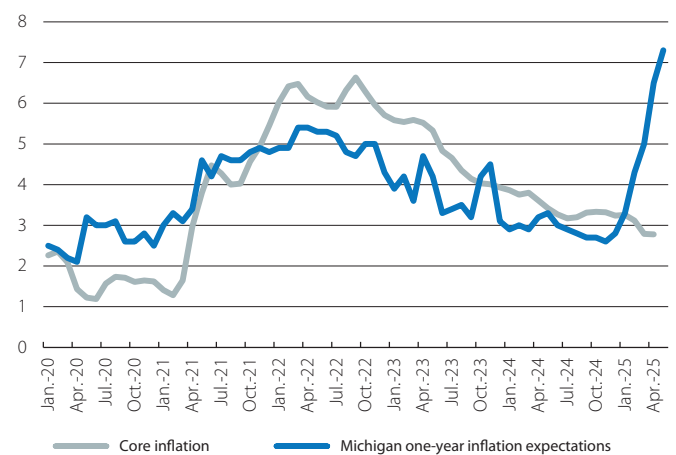
The Chinese economy shows signs of cooling at the start of Q2. After growing at a quarter-on-quarter rate of 1.2% in Q1, the available indicators point to a widespread slowdown in economic activity in the opening weeks of Q2. In April, industrial production grew by 6.1% year-on-year (vs. 7.7% in March), retail sales by 5.1% (vs. 5.9%) and urban investment maintained rates of around 4.0%. Confidence among business leaders and consumers is also suffering: in April, the manufacturing PMI fell 1.5 points, to 49.0, while the services PMI remains practically stagnant (50.1 vs. 50.3). Exports grew by 8.1% year-on-year (vs. 12.4%), thanks to the success of China's strategy to «pivot» towards its Southeast Asian neighbours as alternative markets to the US. However, the trade tensions persist and progress in the negotiations is expected to be slow.

US: confidence indicators



Source: CaixaBank Research, based on data from the University of Michigan and S&P Global.

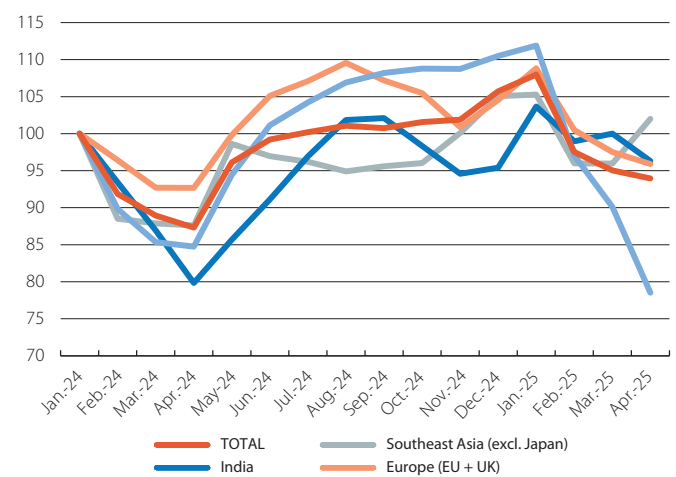
US: core inflation and inflation expectations (%)



Source: CaixaBank Research, based on data from the University of Michigan and the Bureau of Labor Statistics.

China: exports of goods

Index (100 = 3-month average; January 2024)



Source: CaixaBank Research, based on data from Bloomberg.

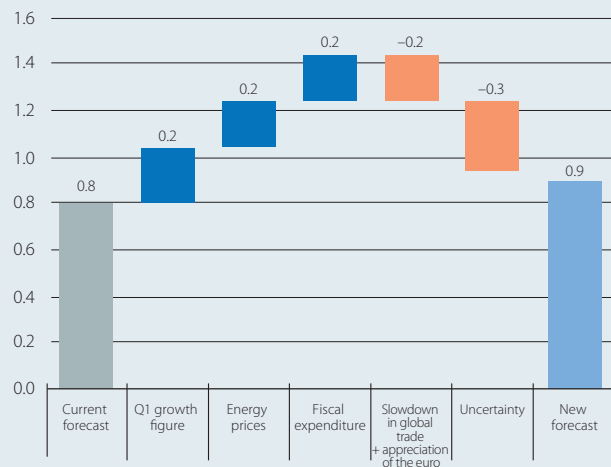
The world holds its breath over Trump's tariffs

The months since our previous revision of the international economic-financial scenario have been particularly intense on both sides of the Atlantic. In Europe, in mid-March, Germany shifted its traditional policy of fiscal austerity, modifying its constitution to «soften» the debt brake introduced in 2009 and approving an infrastructure plan for the next 12 years valued at 500 billion euros. Around the same time, obliged by the new Trump administration's position regarding its role in NATO, the European Commission presented the Rearm Europe plan, which included a package of measures worth 800 billion euros aimed at boosting defence spending over the next four years and which is awaiting approval at the European Council meeting in late June.

However, the world economy was shaken on 2 April by so-called *Liberation Day*, when Trump announced a universal tariff of 10% and imposed additional protectionist measures on a series of countries in the form of mislabelled «reciprocal» tariffs. The strong reaction of the markets to these plans (falls in the stock markets, a spike in Treasury yields and the depreciation of the dollar) led Trump, just a week later, to postpone the introduction of the toughest measures for 90 days. Nevertheless, this truce has coexisted for several weeks with an unprecedented escalation with China that has brought the effective average tariff applied by the US to around 15%, compared to 2.5% in 2024 (see the Focus [«US tariffs: where do we stand and what comes next?»](#) in this same *Monthly Report*).

In our revision of the international forecast scenario, we maintain the assumption that the bilateral tariff between the US and the EU will be 10%. Despite the fluctuations of recent weeks, we still consider this a reasonable assumption, as it is a high enough tariff to exert pressure, but without provoking large-scale reprisals from the EU, thus avoiding much more adverse scenarios in both economies. On the other hand, we also maintain the assumption that the tariffs between the US and China will reach a level of 60% in 2025 (45 pps higher than in December 2024), but now this increase is expected to occur less gradually than previously thought and there is greater uncertainty surrounding the negotiation process. In this context, and also incorporating the fiscal boost in Germany and the EU's defence plans, we anticipate that the euro will be trading around 8% higher against the dollar than the level anticipated a few months ago (1.14 euros/dollars at the end of this year, remaining around that level during 2026). As for oil and gas prices, given the greater risks of a slowdown in the global economy and high global supply, we expect they will be significantly lower (through to the end of 2026, the Brent

Euro area: growth forecast for 2025



Source: CaixaBank Research.

barrel price will range between 62 and 65 dollars and that of gas between 30 and 35 euros per MWh). Overall, the risks to growth remain skewed to the downside, conditioned by the outcome of the US' tariff negotiations and the response from its trading partners.

The euro area, between the impact of the tariffs and the anticipated fiscal boost

The European economy performed better than expected in Q1 of this year, and this has generated an upward knock-on effect of more than 0.2 pps for the euro area's growth forecasts for 2025. This boost is expected to be reinforced by the fiscal stimulus plans announced in March, although our starting assumption, in the absence of a specific timetable, is that their implementation will be very gradual, with little impact until next year. We estimate that the boost to the growth of the euro area and Germany will be just over 0.1 pp in 2025, while in 2026 it could potentially exceed 0.2 pps in the euro area and around 0.5 pps in Germany. Finally, substantially lower energy prices than previously anticipated (along with the appreciation of the euro) will also sustain growth, especially in economies that use fossil fuels more intensively.

On the downside, much of the growth recorded in Q1 2025 appears to be explained by the boost to exports generated by the «anticipation effect» ahead of Trump's tariff announcement, so we could foreseeably see a correction to the contrary in the coming quarters. The international context is now less favourable for the European economy, with the entry into force of the universal 10% tariff, risks of lower global growth and persistently high uncertainty, in addition to a more appreciated euro.

On balance, the euro area economy will show significant sluggishness and will not rebound until Q4 2025, skewing the growth forecast for 2026 to the downside. Thus, we have revised our growth forecast for 2025 upwards by 0.1 pp to 0.9%, but have cut the 2026 forecast by 0.3 pps to 1.1%, despite the positive effect of the fiscal boost. As for inflation, the lower than expected figures at the beginning of the year, coupled with a more favourable energy outlook and a stronger euro, lead us to revise our forecast for headline inflation in 2025 downwards by 0.4 pps, placing it at 2.0%, but without any significant changes to the 2026 estimate, which we keep at 1.9%. The predictions for core inflation have hardly changed and we are still anticipating a rate of 2.2% in 2025 and of 1.9% in 2026. In this context, we keep our forecast scenario for the ECB unchanged: we anticipate two further cuts in the depo rate this year, placing it at 1.75% in December.

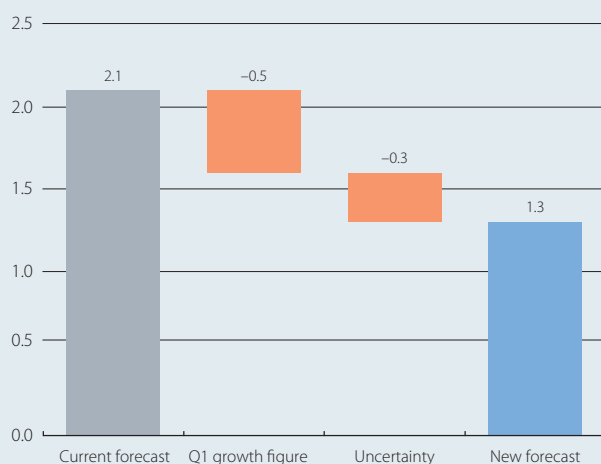
The US disappoints at the beginning of the year as a result of its own tariffs

The negative impact of the tariffs on US economic activity has been felt even earlier than we expected. Despite the resilience of domestic demand, GDP fell 0.1% in Q1 2025 due to a notable increase in imports in anticipation of the protectionist measures, generating a significant downward knock-on effect for growth in 2025 as a whole (almost -0.5 pps). While we expect some of this setback to be reversed in Q2 2025, the effect of the tariffs already in force and the persistence of uncertainty will weigh on economic activity, which will virtually stagnate in the second half of the year. Consequently, we have cut the expected growth rate for 2025 and 2026 by 0.8 and 0.3 pps, respectively, to 1.3% in both years.

On inflation, we anticipate a scenario with a more moderate increase in prices due to the lower-than-expected inflation rates recorded at the beginning of the year, foreseeably lower energy costs and the impact of a sharper economic slowdown. Thus, we have revised our inflation forecast for 2025 downwards by 0.2 pps, to 2.9%, and by 0.1 pp to 2.6% in 2026. In the core component, we keep our forecast for 2025 unchanged at 3.3% due to the pressure exerted by the tariffs on goods prices and the persistence of inflation in services, while we have lowered our 2026 forecast by 0.2 pps, to 3.0%, due to the more limited boost from private consumption.

In this context, we have slightly adjusted our rate expectations for the Fed. Specifically, we continue to expect one further rate cut in 2025, placing rates in the 4.00%-4.25% range, and we have incorporated three more cuts in 2026 (compared to just one previously), bringing them down to 3.25%-3.50% by December next year.

US: growth forecast for 2025



Source: CaixaBank Research.

China seeks to counteract the impact of the tariffs with new stimuli

The tariff anticipation effect also had a significant impact on the performance of the Chinese economy in Q1 2025, with a growth rate of 1.2% driven by an increase in exports. We expect this effect will be transitory and, in fact, the outlook for the coming quarters has deteriorated substantially due to the impact of the protectionist escalation with the US. Although the 90-day truce reached in mid-May has, for now, quelled fears of the most adverse scenarios (an almost complete decoupling between the two economies), the tariff hikes have been faster than we had anticipated in our previous forecast scenario.

So far, China has managed to «pivot» its trade towards other destinations (mainly Asian countries) to compensate for the fall in exports to the US, and this pattern is likely to continue over the coming months. However, the weakness of its domestic demand makes it difficult for this component to take the reigns in a sustained way, in the absence of fiscal stimuli more oriented at boosting household spending and less focused on supply-side policies, as has been the case up until now. Nevertheless, we believe that the fiscal and monetary measures that have been implemented will limit the negative impact of the trade war, leading us to make only a slightly downward revision to our growth forecasts for China. Specifically, we have revised the growth forecast for 2025 down by 0.1 pp, to 4.1%, and down by 0.2 pps in 2026, to 3.7%.

Rita Sánchez Soliva

US tariffs: where do we stand and what comes next?

Trump’s executive orders penalising imports from Canada, Mexico and China in early February marked the beginning of the tariff saga, which continued in March with global protectionist measures imposed on steel, aluminium and the automotive sector. The saga culminated on 2 April, under the official label of *Liberation Day* and with an unforgettable staging – now almost iconic – to present the misnamed «reciprocal» tariffs. After a period with an unprecedented escalation between China and the US, the most burdensome measures adopted in recent months are currently on hold until the summer, although the situation remains characterised by significant uncertainty, not only politically but now also in the judicial sphere. In the context of our revision of the international economic outlook (see «[The world holds its breath over Trump’s tariffs](#)» in this same *Monthly Report*), the aim of this article is twofold: to clarify, on the one hand, the US’ current tariff policy and, on the other, to summarise the response from its main trading partners and the state of the ongoing negotiations.

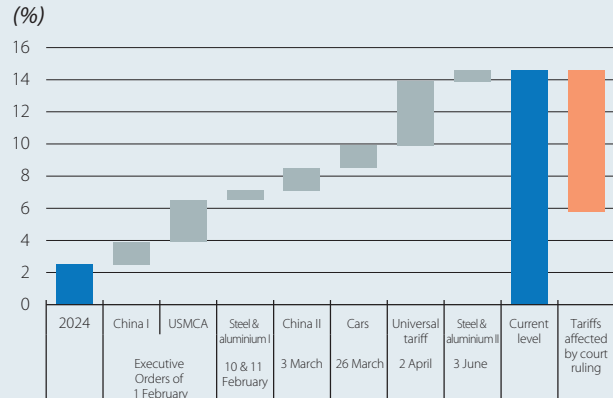
Current level of tariffs following the 2 April storm...

Following the barrage of announcements, suspensions and exemptions by the Trump administration, we estimate that the average value of the tariffs applied by the US has risen by over 12 pps in 2025 to date and currently stands at 15% (see first chart). That is five times the average tariff that was in force at the beginning of the protectionist escalation in 2018 and is a level unheard of since the 1940s.¹ However, we can state that, for now, a more severe outcome has been averted, since the current value is well below what the full implementation of the measures announced on 2 April would have entailed,² as well as being well below the levels reached a week later at the height of the trade war with China, when the mutual tariffs were well over 100%. As an additional ingredient of uncertainty, a recent ruling by the US Court of International Trade has added doubts about the legality of the general measures imposed on the country’s trading partners, which we estimate would affect the equivalent of 9 pps of the average tariff. For the moment, a government appeal is keeping the current conditions in force while the final decision is pending.

By country of origin, we can differentiate between the overall treatment of products from three economic areas. Firstly, imports from Canada and Mexico have been subject since early March to a 25% tariff, which has a number of exceptions. These include a 10% tariff on

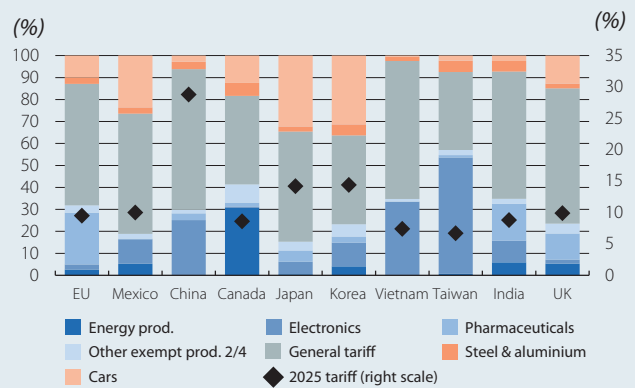
1. See E. Martínez-García and M. Sposi (2025). «U.S. tariff outcomes dependent on trading partner responses». Dallas Federal Reserve.
 2. See the Brief Note «[Valoración del anuncio de aranceles recíprocos en Estados Unidos](#)» published on 4 April 2025 by CaixaBank Research (content available in Spanish).

Average tariff on US imports (%)



Note: Cars refer to vehicles, parts and accessories; we assume that currently 60% of exports from Canada and Mexico meet USMCA requirements.
Source: CaixaBank Research, based on data from COMTRADE.

Composition of US imports from the top 10 trading partners and increase in the tariff in 2025 (%)



Note: Electronics refer to consumer electronics and semiconductors; other exempt products encompasses other products not subject to the universal tariff of 2 April; cars include vehicles, parts and accessories.
Source: CaixaBank Research, based on data from COMTRADE.

Canadian energy products, as well as on all goods that meet the requirements of the tripartite trade agreement with the United States (USMCA), initially estimated at around 50% of goods, although this figure is likely to gradually increase.³ Secondly, after the de-escalation in mid-May, the general tariff for imports from China has accumulated an increase of 30 pps since early February,⁴ which is in addition to the 10%-15% tariff already in force under the Biden administration.⁵ Thirdly and finally, following the 90-day suspension of the «reciprocal» tariffs, the rest of the world has been subject to the 10-pp

3. A good portion of the goods did not initially meet the documentary requirements of the USMCA as they were subject to very low tariffs outside the treaty, so the compliance rate could rise by the end of the year to around 90%.
 4. In addition to the three general increases of 10 pps, we must add a 54% tariff (with a minimum charge 100 dollars) for postal shipments of goods from China with a value of up to 800 dollars.
 5. See A. Flaaen, K. Langemeier and J. Pierce (2021). «Factors Affecting Recent U.S. Tariffs on Imports from China». Federal Reserve.

increase announced on 2 April, which represents a substantial shift from the previous prevalence of most-favoured-nation treatment, under which the average tariff was 2%-3%.⁶

There are also sector-specific tariffs that are either more or less relevant depending on each trading partner's export specialisations (see second chart). Focusing on what is currently in force, a 25% tariff on global imports of steel and aluminium products came into effect in mid-March, before being raised to 50% in June, and since early April a 25% tariff has been imposed on cars, including parts and accessories.⁷ These measures have a potentially significant impact on developed Asian economies, such as Japan and Korea, as well as on Germany and Italy within the EU. As for Canada and Mexico, in addition to the general exemptions discussed above, they also have a reduction in the tariff on finished cars corresponding to the portion of the value chain that is generated in the US (around 20%-30%). With regards to what is exempt from the application of the universal tariff introduced on 2 April,⁸ three key sectors stand out: energy products, with the exposure concentrated in the Middle East and Latin America; semiconductors and consumer technology (mainly mobile phones and computers), led worldwide by China and also of relative importance for other Asian economies such as Taiwan, Vietnam and Thailand; and pharmaceuticals, in which Europe has a competitive advantage, with the US being one of its top export destinations.

The path towards a new equilibrium in trade relations with the US

We are now in a situation in which general negotiations between the US and its trading partners are underway. However, we can distinguish between clearly different strategies from country to country, which also offers clues as to the risks posed by the ongoing talks. Indeed, the strategies adopted range widely. China opted for an uncompromising response to the 2 April announcements with an unprecedented escalation of – this time appropriately named – reciprocal tariffs.⁹ The EU, meanwhile, has drawn up contingency plans in the form of lists of US products that are candidates for protectionist

6. World Trade Organization (2024). «Country Tariff Profile: United States».

7. In the case of China, these tariffs apply in addition to the general increase of 20 pps accumulated in February and March, but not to the 25% on products coming from Canada and Mexico.

8. But not the tariff hikes imposed prior to that date on China (20 pps) and on USMCA partners (25% general and 10% specific on energy products from Canada).

9. The «reciprocity» of tariffs implies their application in response to trade barriers (whether in the form of tariffs or otherwise) that are imposed on a country's products. The tariffs announced on 2 April did not respond to such reciprocity and merely reflected a quantification of the bilateral trade deficit between the US and its trading partners. On the other hand, China has been responding with tariffs on US imports of exactly the same magnitude as those applied by the US on Chinese products.

China: exports by destination

Change (%)

	Apr. 2025 vs. Apr. 2024	Q1 2025 vs. Q1 2024	2024 vs. 2023	2022-2024 vs. 2016-2018
Total	8.1	5.1	5.8	53.3
US	-21.0	3.3	4.9	23.4
EU	8.2	2.8	3.1	39.9
ASEAN	21.0	8.0	12.0	93.5
Vietnam	23.0	19.1	17.6	104.5
Malaysia	14.6	2.9	16.1	122.1
India	21.9	14.4	2.4	74.4
Asia	14.2	7.0	6.7	50.1
Latin America	17.1	9.1	13.1	95.7
Brazil	3.9	-1.0	22.0	126.5
Chile	50.2	17.7	5.9	44.3
Africa	25.9	11.1	3.6	74.4
Nigeria	45.0	21.7	-6.3	69.5
South Africa	9.7	-4.7	-7.8	56.9

Source: CaixaBank Research, based on data from Bloomberg.

retaliatory measures (currently on hold) and it has intensified talks with alternative trading partners such as India. The United Kingdom, for its part, has reached an agreement in principle to define future trade relations with the US although, beyond a handful of benefits agreed upon for some specific sectors, many of the details are yet to be worked out.¹⁰

Much of the focus today is on China, which, with a strategy based on confrontation and a response in the form of a protectionist escalation, has achieved a result broadly similar to that of other countries: it has shaken off the most punitive tariffs announced on 2 April and has until 12 August to negotiate with the US. Even so, such a bilateral truce is not synonymous with peace and the new equilibrium towards which trade relations between the two countries are moving is fragile and still highly uncertain. Firstly, it will depend on the US negotiations with China's largest trading partners (the EU and ASEAN), and in particular on the inclusion of rules of origin that restrict the incorporation of value added in China. Secondly, it will depend on the effectiveness with which China's trade flows are redirected to other countries – whether through rerouting or by searching for new markets, as occurred in the previous episode of protectionist escalation in 2018.¹¹ For now, the limited data currently available seem to confirm a change of destination for Chinese exports. Thus, in April, the fall in sales to the US has been offset by an increase in exports to other

10. Another example is the reduction of tariffs on cars, steel and aluminium in the United Kingdom up to a certain quota, and in the opposite direction for beef and ethanol coming from the US.

11. China's exports to the US have increased since 2018 by just 20%, in contrast to the surge in exports to ASEAN countries, Mexico and the rest of Latin America, which almost doubled. In particular, China's sales to Vietnam have more than doubled in this period, while Vietnam's exports to the US have grown by 160%, a clear sign of rerouting in order to reach the US market.

destinations, in particular to ASEAN countries, but also to India, Latin America and Africa (see table). Thirdly, the progress made towards meeting the main objectives of the Trump administration's protectionist policy, such as reducing the trade deficit or increasing revenues from the collection of tariffs, will play an important role. Fourthly, the new equilibrium will depend on factors such as the evolution of the competition between the two powers, in the technological or financial sphere, and the ability of the Chinese economy to rebalance its growth model. The dependencies are mutual, and a good example is the electronics sector, where China became the world's leading manufacturing power, but the US maintained a clear technological leadership.¹²

A second major focus – also in terms of its contribution to the US trade deficit – is what happens in the negotiations that are underway with the EU. The Trump administration's rhetoric has been tough for months now and it does not seem that the talks are moving in the right direction, as shown by the US' threat to impose a 50% tariff on European products at the end of May, even if it was reeled back a few days later. In case a potential escalation does end up taking place, the European Commission has been announcing a series of contingency measures in the form of a list of products originating in the US which would be subject to higher tariffs. The first package, currently frozen while the negotiations continue, was a response to the introduction of a 25% tariff on steel and aluminium products and it affected US exports worth 28 billion euros. The second package is currently subject to public consultation until 10 June and would have a greater

economic reach, affecting US industrial and agricultural products worth up to 95 billion euros. Among the factors that will determine the outcome of the negotiations with the EU, there are some elements mentioned above for China, such as the extent to which the general objectives of Trump's trade policies are achieved and the conditions of competition in both markets. However, there are also some specific factors that are relevant too. These include how the US treats pharmaceutical products, which are exempt from the universal tariff as discussed above and in which Europe (the EU, the UK and Switzerland) has a competitive advantage, and, conversely, the EU's regulation of digital services (not only how they are taxed, but also in terms of competition and data protection), an area in which the US has a significant trade surplus. To finish squaring the circle, the relationship that the EU wants to establish with China in this new scenario will also be a fundamental ingredient in the talks, and the Trump administration will no doubt pay great attention to how this pans out.

In the end, the global economic impact of the tariffs will depend on how the negotiations with the US' two main trading partners are concluded and what the final tariff burden will be for the various sectors and countries,¹³ and this will determine what opportunities and risks emerge for exporting companies.¹⁴ For the moment, we remain cautiously optimistic, far from the despair of early April, but also working on the assumption that the protectionist shift we have experienced so far in 2025 is here to stay in our forecast horizon.

Luís Pinheiro de Matos and David Martínez Turégano

12. See the Focuses [«EU and China: mapping out a strategic interdependence»](#), in the MR05/2022, [«What will de-risking mean for the EU?»](#), in the MR11/2023, and [«Is there «early» evidence of de-risking? \(part I\): the US and China»](#), in the MR01/2024.

13. See the Focuses [«Exposure of the Chinese economy to a US tariff hike»](#) in the MR12/2024, [«Exposure of the European economy to a US tariff hike»](#) in the MR12/2024 and [«Exposure of the European economy to a US tariff hike: a perspective through value chains»](#) in the MR01/2025.

14. See the example for Spain in [«Tariff tensions and reconfiguration of trade flows: impact on Spain»](#), in the SO S1/2025.

A changing European labour market: the role of immigration and new jobs

In an environment of slowing economic activity following the pandemic, employment in the EU has continued to grow with some vigour and has increased by 7.2 million people since 2019. As a result, the unemployment rate has continued to decline, reaching a record low of 5.7%. Given this low unemployment, and in contrast to the pre-pandemic period, most of the job growth in recent years is explained by the increase in the labour force, mainly via non-EU immigration and increased participation among women and older workers. At the same time, the acceleration of the digital transformation has made the technology sectors the main source of job creation in recent years, in contrast to the decline in manufacturing. Active training policies, as well as the ability to attract talent in sectors with the greatest shortage of skilled personnel, will be key if the EU is to make progress in innovation and competitiveness and avoid falling behind its main competitors.

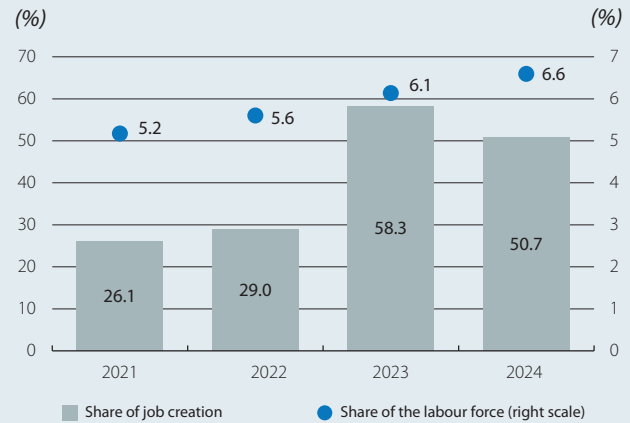
Non-EU workers have driven the growth of the labour force

The main labour market indicators have shown constant improvement in recent years: the participation rate rose to 80.4% in 2024 (77.9% in 2019), the employment rate to 75.8% (72.7% in 2019) and the unemployment rate fell to 5.7% (6.6% in 2019). This favourable trend has also benefited groups that are traditionally more vulnerable, such as women, whose participation rate has risen to 70.5% (3.7 pps more than in 2019) and who account for 64% of the total number of jobs created since 2019 (3.9 million jobs). This pattern has also been replicated among older workers (aged 55 to 64), for whom the activity rate has climbed to 60.8% in 2024 (an increase of almost 6 points compared to 2019) and who account for 20% of all those in employment (just over 40 million workers).

Special mention should be made of the contribution of the foreign population to the positive labour market dynamics, in a context of an ageing population and low productivity growth. Specifically, just over 50% of the jobs created between 2019 and 2024 were occupied by workers from outside the EU (around 3.4 million), despite the fact that they accounted for just 6.6% of the European labour force in 2024 (5.0% in 2019) (see first chart). A significant proportion of the increased growth since 2022 is attributed to the influx of Ukrainian citizens as a result of the war with Russia. Indeed, over four million Ukrainians have settled abroad, with Poland and Germany being the main recipients, accounting for 37% and 25% of the total, respectively.

In a recent study, the ECB quantified the contribution of non-EU immigration to GDP growth and cited the growth

Contribution of non-EU citizens to EU employment in 2021-2023



Source: CaixaBank Research, based on data from Eurostat.

of the foreign working-age population and its higher employment rate as the main factors behind the increase in economic activity in the euro area in 2023 and 2024.¹ However, this contribution varies widely from country to country. In Italy, for instance, the impact has been smaller, since it had a starting point with lower participation rates and it is the national population that has driven the country's economic growth. In contrast, in Germany, which has a higher activity rate, foreign workers have mitigated the effects of population ageing and the decline in the working-age population. Spain lies somewhere in the middle, with immigration playing a key role in labour dynamics, but with nationals also making a positive, albeit more moderate, contribution.²

Another positive aspect of the influx of the foreign population in recent years is linked to the fact that the extent of their over-qualification (and the gap which still persists with respect to domestic workers) has been narrowing noticeably.³ This trend could be explained by the increased recognition of studies carried out abroad, the improvement in access to more qualified jobs that are

1. See https://www.ecb.europa.eu/press/blog/date/2025/html/ecb_blog20250508~897078ce87.en.html.

2. In a [recent article](#), the Bank of Spain analyses the factors that influence migratory flows to our country and other advanced economies and shows how, among advanced countries, Spain has one of the highest inflows of foreigners per thousand inhabitants. The reason for this increase is primarily the situation in the countries of origin (political instability or natural disasters, among others), although the characteristics of the destination country (opportunities for finding work, language or the existence of compatriots already settled in the destination country) are becoming increasingly important.

3. Over-qualified workers are people with a higher level of education who work in low- or medium-skilled occupations. See [Migrant integration statistics - over-qualification - Statistics Explained - Eurostat](#).

better suited to immigrants' level of educational or active labour integration policies.⁴

Employment in the ICT sector is growing, but the shortage of specialists is limiting its development

The growth of employment since 2019 has been widespread across the various sectors, with the exception of the primary sector (which is merely a continuation of the downward trend observed since the 1990s) and manufacturing, which has not yet recovered its pre-pandemic employment levels and has almost half a million fewer workers today than it did in 2019. At the other end of the spectrum, employment growth has been particularly strong in the information and communications technology (ICT) sector, with a 21.4% increase since 2019 (1.3 million jobs) (see second chart).

This buoyancy is closely linked to the acceleration of the digital transformation (it now employs over 7.5 million workers, 3.5% of the total number of people in employment in Europe). However, as is the case in other sectors,⁵ it is not immune to the shortage of skilled labour which, although reduced from its peak, remains very high (see third chart). The gap between the demand for workers with digital skills and their supply has become a bottleneck for the advancement of innovation and competitiveness in the EU. Although progress has been made in training and in attracting professionals with the necessary skills, the EU is still far from reaching its goal of 20 million ICT specialists by 2030. Therefore, more must be done to bolster training in this sector and to attract talent, given that the ICT sector is expected to continue to be one of the hotspots for growth over the coming years.

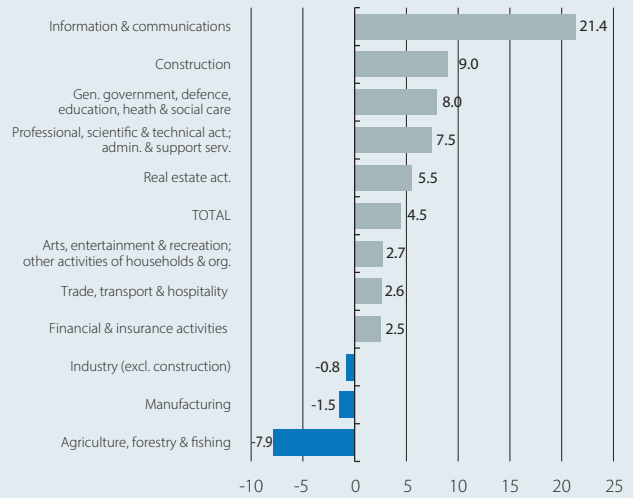
The European labour market faced with the challenge of training and attracting talent and adapting

Since the pandemic, the EU labour market has shown remarkable buoyancy, with employment growth largely driven by non-EU immigration and increased labour participation, both in general and particularly among the groups with lower participation rates, such as women, young people and those over 55 years of age. However, the EU faces major challenges over the coming years. The ageing of the population, low birth rates and a shortage of skilled labour – especially in key sectors such as technology, health and construction – are obstacles to economic growth. Despite advances in the integration of immigrants into the labour force and in digital training, a significant gap persists between supply and demand when it comes to skills. Overcoming these challenges will

4. As in the case of the *Integration durch Qualifizierung*, which aims to improve the labour integration of migrants in Germany and provides support through the certification of professional qualifications, additional training and personalised guidance.

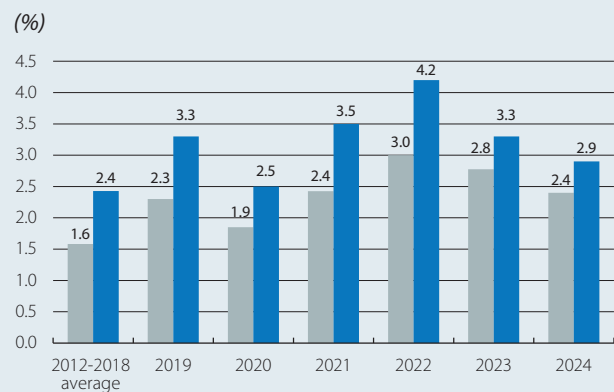
5. Labour shortages are found across a variety of occupations and sectors, such as within the health system, drivers, electricians, cooks, waiters and construction workers, among others. The European Commission has identified 42 professions with this problem: [EUR-Lex - 52023PC0716 - EN - EUR-Lex](https://eur-lex.europa.eu/lexUri.do?uri=CELEX:52023PC0716-EN-EUR-Lex).

Employment growth by sector in the EU between 2019 and 2024 (%)



Source: CaixaBank Research, based on data from Eurostat.

EU: job vacancy rate in total* and in the ICT sector



Note: * In total includes industry, construction and services (excluding household activities as employers and offshore organisations and entities).

Source: CaixaBank Research, based on data from Eurostat.

require active training policies, attracting talent and adapting the labour market to new demographic and technological realities. It is precisely these challenges that are the core focus of the Union of Skills.⁶ As one of the five levers of the EU Competitiveness Compass, presented in March 2025, this project aims to achieve a profound transformation of education and training systems in order to ensure a well-prepared workforce. Although its implementation will be challenging, its success will be decisive for the EU's economic future.

María Romero Meléndez

6. See https://commission.europa.eu/topics/eu-competitiveness/union-skills_en.

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

UNITED STATES

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Activity									
Real GDP	2.9	2.8	3.0	2.7	2.5	2.1	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	3.3	3.6	4.1	4.9	5.3	5.4	...
Consumer confidence (value)	105.4	104.5	98.9	102.2	110.6	99.8	93.9	85.7	98.0
Industrial production	0.2	–0.3	0.0	–0.4	–0.3	1.5	1.3	1.5	...
Manufacturing activity index (ISM) (value)	47.1	48.2	48.5	47.3	48.2	50.1	49.0	48.7	48.5
Housing starts (thousands)	1,421	1,371	1,343	1,338	1,387	1,396	1,339	1,361	...
Case-Shiller home price index (value)	312	330	329	332	336	340	340	...	...
Unemployment rate (% lab. force)	3.6	4.0	4.0	4.2	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	60.0	...
Trade balance ¹ (% GDP)	–3.1	–2.9	–2.8	–2.9	–3.1	–3.5	–3.8	...	...
Prices									
Headline inflation	4.1	3.0	3.2	2.6	2.7	2.7	2.4	2.3	...
Core inflation	4.8	3.4	3.4	3.2	3.3	3.1	2.8	2.8	...

JAPAN

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Activity									
Real GDP	1.4	0.2	–0.6	0.8	1.3	1.7	–	–	–
Consumer confidence (value)	35.1	37.2	37.2	36.9	36.1	34.7	34.1	31.2	32.8
Industrial production	–1.4	–3.0	–3.5	–1.8	–2.5	2.5	1.0	0.7	...
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	2.5	2.5	...
Trade balance ¹ (% GDP)	–3.0	–1.1	–1.0	–1.1	–1.0	...	...	...	...
Prices									
Headline inflation	3.3	2.7	2.7	2.8	2.9	3.8	3.6	3.5	...
Core inflation	3.9	2.4	2.2	2.0	2.3	2.7	2.8	3.0	...

CHINA

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
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	5.9	5.1	...
Industrial production	4.6	5.6	5.9	5.0	5.6	6.8	7.7	6.1	...
PMI manufacturing (value)	49.9	49.8	49.8	49.4	50.2	49.9	50.5	49.0	49.5
Foreign sector									
Trade balance ^{1,2}	865	995	864	897	995	1,085	1,085	1,108	...
Exports	–5.1	4.6	4.4	5.4	10.0	5.7	12.2	7.9	...
Imports	–5.5	1.1	2.5	2.2	–1.7	–7.0	–4.4	–0.2	...
Prices									
Headline inflation	0.2	0.2	0.3	0.5	0.2	–0.1	–0.1	–0.1	...
Official interest rate ³	3.5	3.1	3.5	3.4	3.1	3.1	3.1	3.1	3.0
Renminbi per dollar	7.1	7.2	7.2	7.2	7.2	7.3	7.3	7.3	7.2

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	03/25	04/25	05/25
Retail sales (year-on-year change)	-1.9	1.1	0.3	2.1	2.1	1.8	1.5	...	...
Industrial production (year-on-year change)	-1.6	-3.0	-4.0	-1.7	-1.6	1.4	3.6	...	...
Consumer confidence	-17.4	-14.0	-14.2	-13.0	-13.4	-14.1	-14.5	-16.6	-15.2
Economic sentiment	96.2	95.7	95.9	96.1	95.2	95.5	95.1	93.8	94.8
Manufacturing PMI	45.0	45.9	46.1	46.4	46.3	46.3	48.6	49.0	49.4
Services PMI	51.2	51.5	51.7	52.7	53.1	52.6	51.0	50.1	49.7
Labour market									
Employment (people) (year-on-year change)	1.4	1.2	1.0	1.0	0.7	0.8	-	-	-
Unemployment rate (% labour force)	6.6	6.4	6.4	6.3	6.2	6.3	6.3	6.2	...
Germany (% labour force)	3.1	3.4	3.4	3.5	3.4	3.6	3.6	3.6	...
France (% labour force)	7.3	7.4	7.4	7.4	7.3	7.4	7.4	7.1	...
Italy (% labour force)	7.7	6.6	6.8	6.3	6.1	6.1	6.1	5.9	...
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	0.0	-	-	-
France (year-on-year change)	1.6	1.1	1.0	1.1	0.6	0.6	-	-	-
Italy (year-on-year change)	0.8	0.5	0.7	0.6	0.6	0.7	-	-	-

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
General	5.5	2.4	2.5	2.2	2.2	2.3	2.2	2.2	1.9
Core	5.0	2.8	2.8	2.8	2.7	2.6	2.4	2.8	2.3

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	03/25	04/25	05/25
Current balance	2.0	3.5	3.2	3.5	3.5	3.7	3.7	...	...
Germany	5.6	5.7	6.4	6.3	5.7	5.6	5.6	...	...
France	-1.0	0.4	-0.4	0.0	0.4	0.1	0.1	...	...
Italy	0.1	1.1	0.9	0.9	1.1	1.1	1.1	...	...
Nominal effective exchange rate¹ (value)	94.7	95.0	95.1	95.5	94.2	93.5	94.7	96.9	96.3

Credit and deposits of non-financial sectors

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Private sector financing									
Credit to non-financial firms ²	2.7	0.8	0.4	1.0	1.4	2.2	2.4	2.6	...
Credit to households ^{2,3}	1.7	0.5	0.3	0.5	0.9	1.5	1.7	1.9	...
Interest rate on loans to non-financial firms ⁴ (%)	4.6	4.9	5.1	4.9	4.4	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	3.9	...	...
Deposits									
On demand deposits	-8.5	-3.9	-5.5	-2.5	1.2	3.6	4.1	5.3	...
Other short-term deposits	21.1	12.3	14.3	10.5	5.9	2.3	1.5	0.6	...
Marketable instruments	20.3	20.3	19.8	22.1	18.6	15.6	11.9	10.8	...
Interest rate on deposits up to 1 year from households (%)	2.7	3.0	3.1	3.0	2.6	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.

Spain: much ado about nothing, for now

Slight recalibration of the macroeconomic outlook. The outlook for the Spanish economy continues to be conditioned by developments in the trade war between the US and the rest of the world, as well as by our assumptions about it. Despite the heightened uncertainty, the ongoing negotiations – such as the reduction of tariffs with China, the US-UK trade agreement and the temporary 10% tariff on the EU until July while the definitive ones are being negotiated – suggest that the US tariffs will likely stabilise at a level close to the 10% assumption we made in February. However, so far, the spike in uncertainty has been greater than anticipated and we cannot rule out further episodes of tension.

The revision of the forecast scenario incorporates the latest economic activity data – which, overall, have been in line with expectations – as well as an update of the assumptions regarding energy prices and interest rates based on the latest market information. As a result, we have revised our GDP growth forecasts for 2025 and 2026 downwards by 0.1 pp, placing them at 2.4% and 2.0%, respectively.

In the labour sphere, the lower projected growth is offset by a better than expected figure in the Q1 2025 Labour Force Survey, which allows the expected path for the unemployment rate to remain unchanged. In terms of inflation, the downward impact of more moderate energy prices than those anticipated in February has been partially offset by the acceleration of unprocessed food prices. Overall, we have revised our 2025 inflation forecast downwards by 0.1 pp, to 2.4%, and have kept the 2026 forecast unchanged at 2.2%.

The available indicators show that the economy continues to grow at a steady pace in Q2. In May, the PMI for the manufacturing sector rebounded following the slump recorded in April, climbing to 50.5 points, above the 50-point threshold indicating expansion in the sector. In contrast, the counterpart indicator for the services sector slipped 2.1 points to 51.3 points, affected by weak international demand. Consumption, for its part, has been showing positive signals in Q2 to date. Retail sales in April grew by 0.7% month-on-month, with the year-on-year rate reaching 4%. Also, with data up to 21 May, the CaixaBank Research Consumption Indicator, which is based on duly anonymised data on card spending and cash withdrawals, shows an acceleration in the year-on-year growth rate of 0.6 pps compared to the previous quarter, reaching 4%. Overall, the indicators suggest that the growth rate of the economy in Q2 could be close to, albeit somewhat below, that of the previous quarter.

Job creation moderates in May, although in Q2 to date as a whole it has shown rapid growth. In May, the number of Social Security affiliates increased by 0.9% month-on-month, falling short of the usual increase in that month of the year

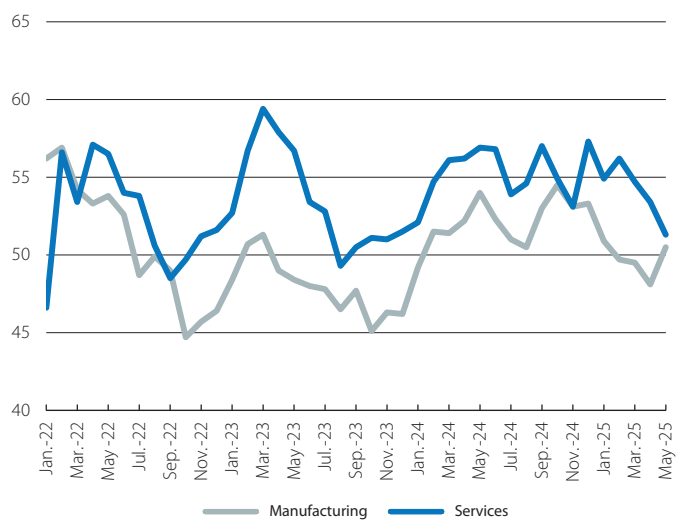
Spain: new macroeconomic forecast scenario
Annual change (%), unless expressly indicated

	New macroeconomic scenario			Previous scenario		
	2025	2026	2027	2025	2026	2027
GDP	2.4	2.0	2.0	2.5	2.1	2.0
Unemployment rate (% of labour force)	10.7	10.2	9.7	10.7	10.2	9.7
Inflation	2.4	2.2	2.2	2.5	2.2	2.2

Source: CaixaBank Research.

Spain: PMI

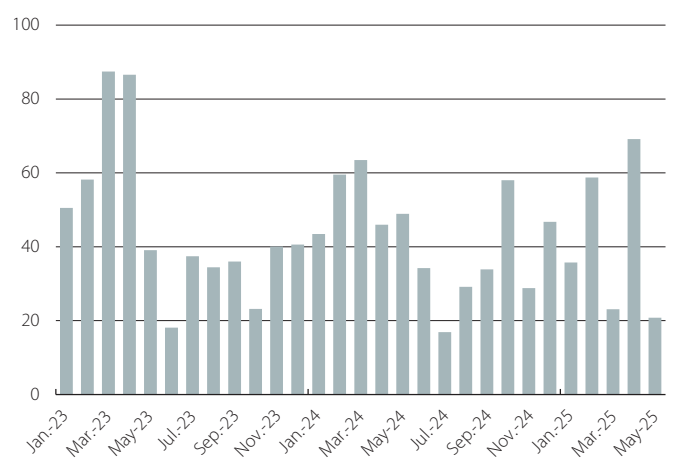
Level



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 (MISSEM).

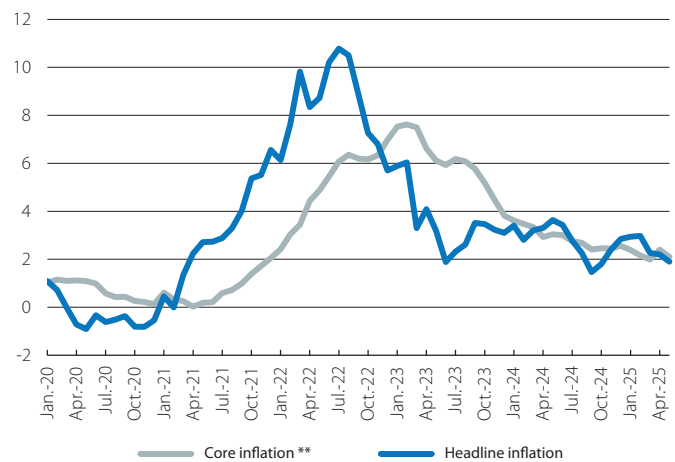
(+1.2% on average in the months of May during the period 2014-2019). This result may be affected by the change of seasonal pattern that is being observed after the pandemic, with the tourism season starting earlier, such that some of the hiring in the accommodation and food services sector is brought forward to April. Correcting for seasonality, employment posted an increase of 20,790 affiliates, the lowest growth since July 2024, although the April-May average stood at 44,975, which exceeds the monthly average for Q1 (39,191). Thus, again in seasonally adjusted terms, the number of affiliates grew by 0.53% on average in April and May compared to the Q1 average. This is a steady growth rate and is only just below the quarter-on-quarter growth rate recorded in Q1, of 0.58%.

Inflation continued to decline in May. Headline inflation fell 0.3 pps to 1.9% year-on-year. This decline is mainly due to the reduction of prices related to leisure and culture, as well as transportation (which includes fuels). On the other hand, core inflation resumed its downward trend, falling 0.3 pps to 2.1% year-on-year following the rebound in April, which was caused by the effect of Easter. The fall in the core index hints at a possible decline in services inflation, which last month stood at a high 3.9% driven by the increase in tourism-related services. It remains to be seen how unprocessed food prices have evolved, this being the component that has shown higher than expected increases in recent months, with year-on-year rates in excess of 5% since February due to the spike in the price of meat and eggs. The short- and medium-term inflation outlook remains moderate, largely thanks to the correction of prices among the main energy commodities.

The real estate market, on an upward path. The set of indicators available for Q1 point to an acceleration in the growth rate of the real estate market, both in prices and in terms of activity, thus giving continuity to the upward trend of the previous year. The repeat home sales price index produced by the Association of Property Registrars grew 14.6% year-on-year in Q1 2025, surpassing both the figure for the previous quarter, of 12.6%, and that of 2024 as a whole, of 10.4%. Also, on the activity side, sales rose 13.7% year-on-year in Q1 2025, compared to 9.9% year-on-year in 2024 on average. The strength of demand, coupled with a more modest increase in supply, leads us to predict that the price pressures will persist in the coming quarters.

Non-energy imports continue to weigh on the current account balance. In May, the cumulative 12-month current account surplus fell 0.22 pps to 2.55% of GDP. The figure for May is almost 0.5 pps below the balance at the 2024 year end, when it stood at 3.0%. This deterioration with respect to the end of 2024 is almost entirely due to the balance in the trade of non-energy goods, for which the deficit has widened by 0.34 pps to -0.61% of GDP. The increase in the deficit is explained by the impact of imports, which grew more than exports amid strong domestic demand: in the trailing 12 months to May 2025 they registered year-on-year growth of 5.5%, compared to 4.2% in the case of exports.

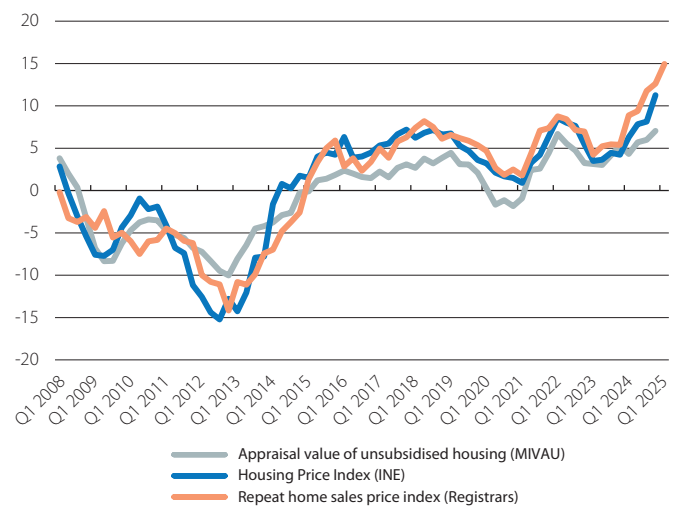
Spain: inflation *
Change (%)



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

Spain: house prices

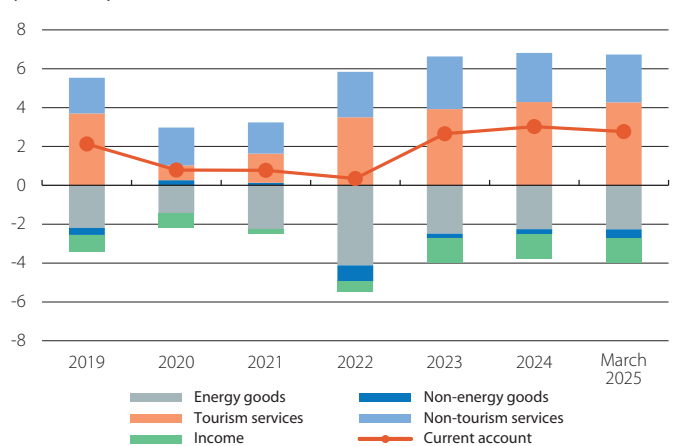
Year-on-year rate of change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Ministry of Housing and Urban Agenda (MIVAU) and the Association of Property Registrars.

Spain: current account balance

(% of GDP)



Note: 12-month cumulative totals. Source: CaixaBank Research, based on data from the Bank of Spain.

The CaixaBank Research real estate clock: the Spanish real estate market picks up the pace

The real estate sector has kicked off 2025 with a notable acceleration, both in house prices and in the volume of sales. After the rally already noted in 2024, facilitated by the interest rate cuts, this year's Q1 has confirmed that the market is in the midst of the expansionary phase of the cycle. The repeat home sales price index produced by the Association of Property Registrars recorded a 14.6% year-on-year increase in Q1 2025, after the already significant advance of 10.4% in 2024 as a whole. The number of sales, meanwhile, rose 13.7% year-on-year in Q1 2025 (compared to 9.9% in 2024) and reached 673,000 transactions in the trailing 12 months to March, surpassing the previous post-pandemic peak of 2022.

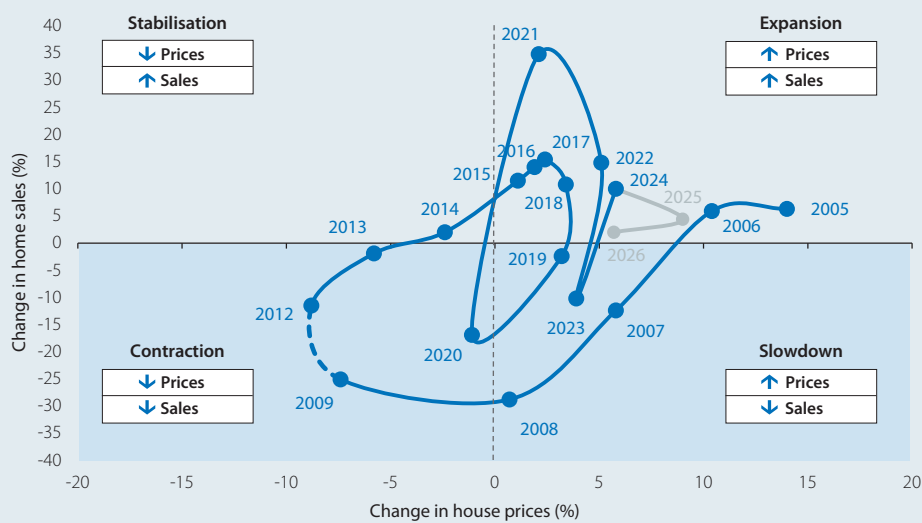
This strong demand is being driven by a combination of cyclical and structural factors. On the one hand, the ECB's interest rate cuts have made mortgage financing more affordable, reactivating the flow of credit destined for home purchases, which grew by 35.4% year-on-year in Q1 2025. On the other hand, the improvement in households' purchasing power – driven by the rise of disposable income and the moderation of inflation – has strengthened their purchasing capacity. Added to this is the buoyancy of foreign demand, both among non-residents – attracted by Spain as a destination for holidays or work – and for residents, supported by positive migration flows. Finally, the expectation that prices will continue to rise acts as an additional incentive to bring purchase decisions forward.

The start of 2025 has also seen strength on the supply side. New construction permits rose 19.4% year-on-year in Q1 2025, reaching a total of 133,000 homes in the past 12 months. This upward trend is expected to continue, although the supply will remain insufficient to absorb the strong demand and close the deficit of approximately 500,000 homes that has accumulated since 2021. This persistent imbalance between supply and demand is acting as a driver for prices, and it is expected to continue to exert upward pressure over the coming quarters.

The CaixaBank Research real estate clock reflects the boom that the sector is currently enjoying, with significant growth in both sales and prices.¹ We expect the market will remain in this phase of the cycle for the remainder of 2025 and in 2026. The acceleration observed at the beginning of the year and the persistence of the factors driving demand have prompted an upward revision of our forecasts: we estimate some 670,000 transactions in 2025 and around 683,000 in 2026. As for prices, we forecast growth of 9.0% in 2025 and of 5.7% in 2026 (+3.1 and +2.7 pps versus the previous forecast), according to the indicator published by the Ministry of Housing and Urban Agenda (MIVAU). This upward revision, which is higher than the expected growth in disposable income per household, will generate some additional pressure on the affordability ratios, reinforcing the need to accelerate the construction of affordable housing in areas of higher demand.

Judit Montoriol Garriga

CaixaBank Research real estate clock



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

1. For a description of the movements of the real estate clock in recent years, see the Focus «The CaixaBank Research real estate clock: slowdown in sight» in the MR09/2022. The latest update of the clock was published in the MR02/2025: «New forecasts for the Spanish real estate sector: the expansionary cycle takes hold in 2025».

Economic situation in the Valencia province six months after the floods

Last April marked six months since the floods that hit the province of Valencia. Throughout this period, at CaixaBank Research we have been monitoring the pattern of consumption in the area hardest hit.^{1,2} On this occasion, in order to make an assessment of the economic recovery, we have expanded our analysis using aggregated and anonymised CaixaBank data.³

Taking stock: consumption tracker, six months later

During the course of these six months, the area hardest hit by the floods has experienced a two-speed recovery. If we look at residents in the epicentre, in the days following the floods (from 30 October to 5 November) their consumption spending fell 47% relative to the same days in the previous year. However, as we can see in the first chart, the recovery was rapid and, one month later, the growth rate of spending by residents in this area exceeded the average for the rest of the country, probably due to replenishment needs. Throughout these six months, this trend has remained constant.

From the point of view of the business establishments in this same area, the impact was much more intense: between 30 October and 5 November, the turnover of those located in ground zero was 83% lower than in the same period of the previous year. Moreover, as we can see in the second chart, the level of spending carried out in the establishments within this area still lies below that of a year ago. Thus, the recovery in consumption of the inhabitants of ground zero is not being reflected in the turnover of the businesses in that area. One possible explanation for this pattern could be the high number of businesses that had not yet reopened their doors. In April, the number of active business establishments in ground zero remained 20% below the pre-flood period.⁴ The differences by sector are stark, as while the number of active businesses in the transport sector is 15% lower, this figure rises to 25% in the case of retail trade.

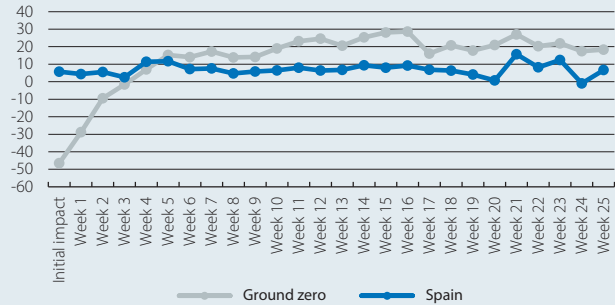
The differential impact of the floods by municipality

The initial impact of the floods across the different municipalities of the affected area was not even, and

1. See the initial assessment of the economic impact in the Focus [«Economic impact of the floods in the Valencia province»](#) in the MR12/2024 and the subsequent monitoring through our [consumption tracker](#).
2. Ground zero includes the 15 municipalities hardest hit by the floods (Alaquàs, Albal, Aldaia, Alfafar, Algemesí, Benetússer, Beniparrell, Catarroja, Chiva, Llocnou de la Corona, Massanassa, Paiporta, Picanya, Sedaví and Utiel).
3. Including in-person card spending, online card purchases and cash withdrawals.
4. An active business establishment is defined as one which has recorded payment transactions with cards issued by CaixaBank. The reference period prior to the floods spans from 1 to 28 October. Includes new business establishments.

Total spending by residents

Change relative to the same week in the previous year (%)



Notes: A person is defined as a resident in ground zero if the post code of their address is within one of the 15 municipalities that were hardest hit (Alaquàs, Albal, Aldaia, Alfafar, Algemesí, Benetússer, Beniparrell, Catarroja, Chiva, Llocnou de la Corona, Massanassa, Paiporta, Picanya, Sedaví and Utiel). Includes spending with cards, cash withdrawals (except for ATMs moved to the affected area) and e-commerce spending. The e-commerce data correspond to transactions carried out 4 days before the dates indicated due to the delay in online transactions being charged.
Source: CaixaBank Research, based on internal CaixaBank data.

Spending with domestic cards in business establishments

Change relative to the same week in the previous year (%)



Note: Ground zero includes the 15 municipalities hardest hit (Alaquàs, Albal, Aldaia, Alfafar, Algemesí, Benetússer, Beniparrell, Catarroja, Chiva, Llocnou de la Corona, Massanassa, Paiporta, Picanya, Sedaví and Utiel).
Fuente: CaixaBank Research, a partir de datos internos de CaixaBank.

Consumption and active business establishments by municipality

	Spending by residents ¹	Spending in the area	Active business establishments ²
	Year-on-year change (%)	Year-on-year change (%)	Percentage change (%)
Païporta	24.9	3.3	Big decline
Benetússer	24.6	20.9	Big decline
Catarroja	24.5	2.8	Moderate decline
Picanya	24.3	1.4	Moderate decline
Alfafar	23.8	-2.6	Big decline
Sedaví	23.2	-2.1	Moderate decline
Massanassa	23.2	2.6	Big decline
Algemesí	21.1	12.6	Small decline
Albal	18.5	18.2	Moderate decline
Aldaia	15.0	1.5	Moderate decline
Chiva	14.8	18.7	Small decline
Alaquàs	12.9	9.4	Small decline
Utiel	8.0	13.4	Small decline

Notes: Reference period: April 2024 and 2025. Data at the municipality level for Llocnou de la Corona and for Beniparrell are not reported. 1. Includes spending with cards, cash withdrawals (except for ATMs moved to the affected area) and e-commerce spending. The e-commerce data correspond to transactions carried out 4 days before the dates indicated due to the delay in online transactions being charged. 2. An active business establishment is defined as one which has recorded payment transactions with cards issued by CaixaBank. Includes new business establishments. The declines in the number of active business establishments are categorised into three categories: small (a decline below the 33rd percentile), moderate (a decline between the 33rd and 66th percentiles) and big (a decline above the 66th percentile).
Source: CaixaBank Research, based on internal CaixaBank data.

neither is the recovery. The first two columns of the first table show the pattern of inhabitants' consumption and that of spending carried out in the business establishments of each municipality. As we can see, an increase in the consumption of a given municipality's inhabitants does not necessarily equate to higher turnover in its establishments. This is the case for Alfafar and Sedaví, where their inhabitants' consumption has grown in excess of 20% year-on-year in April, while the turnover of their business establishments remains below that of the same month last year. This is linked to the impact the floods had on the business sector: in many of these areas, the percentage of active business establishments has fallen.

The impact the floods had on the business sector in these areas is directly reflected in the consumption patterns of their inhabitants. As we can see in the second table, in the vast majority of the affected municipalities, the proportion of consumption that residents carry out within the same municipality has reduced. This is particularly the case for Paiporta, where the proportion of consumption that is carried out within the municipality has fallen by 7.6 pps.

The differential impact of the floods on the inhabitants and businesses of ground zero

Internal CaixaBank data also allow us to focus more specifically on the pattern of consumption among the affected areas' inhabitants and on the turnover of the businesses according to their characteristics. In the case of residents' spending, those with lower incomes were the ones most affected by the floods, as their consumption fell by as much as 82%, compared to a drop of 40% among those with the highest incomes. On the other hand, the pace of the recovery in consumption has been similar across all income segments: between December and April, consumption by low-income residents rose by 19% year-on-year on average, which is only slightly above the 16% increase recorded among high-income residents.

As for businesses, the impact of the floods has also been uneven, depending on their size. On the one hand, large corporations weathered the storm better: their turnover fell 85% in the days after the floods, but in April their turnover was just 3% below that of last year. In the case of small businesses, their turnover in the days after the floods was down 98% – a much bigger drop than that experienced by large corporations. In addition, in April the turnover of small businesses was still 21% below that of the same period last year.

At CaixaBank Research, we believe in the importance of providing quality economic information that is accessible to all. For this reason, we will continue to track the evolution of consumption in the area most affected by the floods in our [consumption tracker](#).

Zoel Martín Vilató and Eduard Alcobé Garcia

Change in the pattern of geographical consumption by municipality

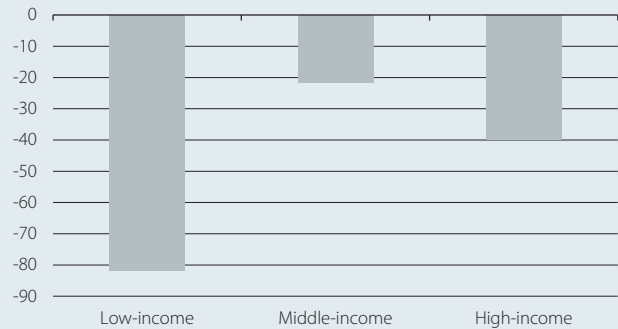
Differences in pps of the % of expenditure carried out within the municipality and outside it

	Municipality	Rest of the affected area	Rest of the province
Paiporta	-7.6	0.2	7.5
Picanya	-5.4	-0.3	5.7
Catarroja	-4.9	-1.4	6.3
Alfafar	-4.5	-1.3	5.8
Massanassa	-4.4	-2.1	6.6
Sedaví	-4.0	-1.0	5.0
Aldaia	-3.1	0.2	2.9
Algemesí	-3.1	-0.4	3.5
Alaquàs	-2.3	0.1	2.3
Albal	-1.5	-2.7	4.1
Benetússer	-0.9	-4.1	4.9
Chiva	0.7	-0.6	-0.1
Utiel	0.8	-0.3	-0.5

Notes: Reference period: April 2024 and April 2025. Data at the municipality level for Llocnou de la Corona and for Beniparrell are not reported.
Source: CaixaBank Research, based on internal CaixaBank data.

Impact on the spending of the inhabitants of ground zero by income level

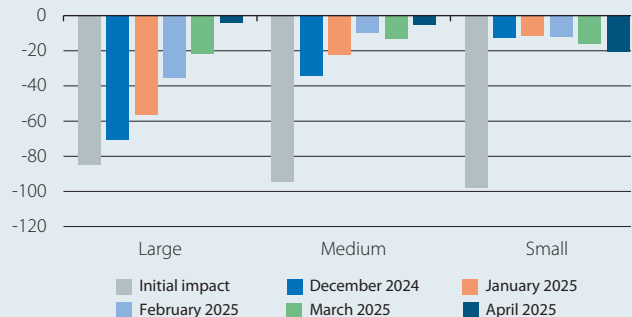
Year-on-year change (%)



Notes: Reference period: from 30 October to 5 November. Income is classified into three categories: low-income (less than 1,000 euros per month), middle-income (between 1,000 and 2,000 euros per month) and high-income (more than 2,000 euros per month).
Source: CaixaBank Research, based on CaixaBank data.

Evolution of spending in ground zero by business size

Year-on-year change (%)



Notes: The initial impact period corresponds to the days from 30 October to 5 November. The sample includes businesses that were active for a minimum of 20 days in October 2023 and 2024. Businesses are classified into three categories: small (pre-flood turnover up to the 25th percentile), medium (prior turnover between the 25th and 75th percentiles) and large (prior turnover above the 75th percentile).
Source: CaixaBank Research, based on CaixaBank data.

Lower budget deficit in 2025 in Spain, but the structural challenges persist

Reduction of the budget deficit in 2025

On 1 May, the government published and submitted to the regional authorities the *2025 Annual Progress Report*, as part of its commitments under the new fiscal rules regarding the tracking of the 2025-2028 fiscal and structural plan (which was extended up until 2031) published last autumn. The report, which replaces the old Stability Plan, sets out the macro-economic tables through to 2028 as well as budgetary projections for 2025.

One of the report's key messages is the improvement in the general government balance this year. It is estimated that the deficit will fall from 3.2% of GDP in 2024 to 2.8% in 2025, which aligns with CaixaBank Research's forecast of last February. This figure includes the impact of the expenditure associated with the floods in the province of Valencia, which is estimated at 0.3 pps of GDP in 2025, slightly less than in 2024. Excluding these exceptional expenses, the deficit would stand at 2.5% this year. The deficit reduction is largely explained by three key factors: higher revenues as a result of the complete reversal of the VAT cuts on electricity, gas and food, as well as due to the introduction of new regulatory measures; the stabilisation of government expenditure as a percentage of GDP, and macroeconomic developments that remain favourable.

In the macroeconomic sphere, the government forecasts buoyant growth for the Spanish economy, reaching 2.6% in 2025 and 2.2% in 2026 (see first table). These are the same forecasts as those envisaged by the government in February, albeit with some nuances: in 2025, it incorporates a small negative impact of 0.1 pp of GDP derived from the tariffs, which impacts exports in particular¹ and is offset by more buoyant private consumption (the growth forecast for this item has improved from 2.8% to 3.2%). In its analysis,² AIReF judges the 2.6% forecast to be somewhat optimistic, considering that stronger domestic demand is unlikely to be enough to offset the intensity of the external shocks linked to the high uncertainty and new tariffs.

Government revenues (excluding transfers from the EU, which are deficit-neutral as they are also reflected under expenditure) are expected to grow by 6.3% year-on-year, exceeding nominal GDP growth (predicted to be 5.3%). Consequently, as a percentage of GDP they are expected to increase from 40.9% in 2024 to 41.3% in 2025. This buoyancy in revenues is explained by strong economic growth that will boost tax collections and social security contributions, as well as several fiscal measures that will provide additional revenues relative to 2024 amounting to 0.6% of GDP. Of these 0.6 pps, half will come from the complete reversal in January 2025 of the VAT cuts on electricity and food that were introduced in 2022 following the energy shock and which began to be reversed in 2024, as well as from the

1. They have lowered export growth from 2.3% to 1.2%. Investment has also been reduced, but only very slightly, from 4.5% to 4.3%.

2. See AIReF. «Report on Monitoring of 2025-2028 Medium-Term Structural Fiscal Plan», Report 23/25, 14 May 2025.

Spain: macro forecast scenario per the Annual Progress Report

	2024	2025 (f)	2026 (f)
Real GDP (% growth)	3.2	2.6	2.2
Nominal GDP (% growth)	6.2	5.3	4.6
Unemployment rate (annual average %)	11.3	10.3	9.6
Remuneration per wage earner (% growth)	5.0	3.7	2.9
Private consumption deflator (%)	4.0	2.7	2.4
Real GDP per hour (% growth)	1.2	0.5	0.6
Short-term interest rate (annual average %)	3.6	2.2	2.0
Oil price (dollars/barrel)	79.9	65.0	64.6

Note: (f) Forecasts.

Source: CaixaBank Research, based on the Spanish government's Annual Progress Report.

excise duty on electricity which returned to its usual rate in July 2024. The other 0.3 pps will be obtained through recent fiscal measures.³ On the other hand, non-fiscal income (interest, dividends, etc.) will be reduced by 0.2 pps of GDP.

In parallel, government expenditure (excluding that funded by the EU) will remain virtually stable in terms of GDP, going from 44.1% in 2024 to 44.0% in 2025. This containment is partly due to a reduction of 0.3 pps of GDP in one-off expenditure linked to commitments arising from court rulings. In 2024, one-off expenditure resulting from such rulings⁴ had an impact on the deficit of more than 8 billion euros,⁵ or 0.5% of GDP, and in 2025 the impact estimated in the report is slightly lower, at 0.2% of GDP.⁶ This reduction in one-offs, coupled with a slight decrease as a percentage of GDP in other items of expenditure (wage earners' remuneration, intermediate consumption and social benefits in kind), will more than offset the anticipated increase between 2024 and 2025 in interest expenditure and public investment financed at the national level. In particular, according to the report, interest expenditure will increase from 2.4% of GDP in 2024 to 2.7% in 2025, despite the decline in interest rates. Finally, spending on social cash transfers will grow at the same rate as nominal GDP. This item will thus remain at around 17% of GDP (the bulk is spending on public pensions, which will be around 14.0% of GDP).

3. Specifically, the introduction of a minimum rate of 15% in corporation tax applicable to multinationals in compliance with EU rules, new limitations on the offsetting of prior tax losses and deductions for large corporations in corporation tax, the rise in the maximum rate of personal income tax on capital income, increases in taxes on tobacco and the increase in social security contributions through the Intergenerational Equity Mechanism and the «solidarity contribution».

4. Includes personal income tax refunds for members of mutual insurance schemes and the cancellation of the 2016 corporation tax reform, among others.

5. In fact, the 2024 deficit includes a negative impact from court rulings of 11.27 billion euros (0.7% of GDP). However, of this amount, only a little over 8 billion (0.5% of GDP) was non-recurring expenses which, therefore, will have no impact on the deficit in subsequent years.

6. They include the ruling on the pension supplement for fathers, among others. The AIReF report states that there is significant uncertainty over what the final impact will be this year.

Moreover, although the report envisages an increase in defence and security spending from 1.4% to 2.0% of GDP, it is assured that this will have virtually no impact on the deficit in 2025, as this increase will be achieved by redirecting other budgetary items of expenditure or lending not related to defence (including 1.36 billion euros of NGEU loans), as well as through spending savings.⁷

As for public debt, its decline this year will be very limited despite the reduction in the deficit, going from 101.8% of GDP in 2024 to 101.7% in 2025. This downward resistance is due to the incorporation of the first disbursements of the loans from the Next Generation EU (NGEU) programme.⁸ It should be recalled that the NGEU loans received by Member States must be recorded as debt with the EU's institutions,⁹ but they do not count towards the deficit unless the money is spent by a public administration/corporation or there is some kind of default that the state has to assume *a posteriori*.

European fiscal rules: compliance in 2025 by a narrow margin

The report also analyses compliance with the new European fiscal rules, focusing on controlling net expenditure or computable expenditure, this being the key variable for the expenditure rule that came into effect this year.¹⁰

For 2025, the growth of this expenditure is estimated at 4.1% year-on-year, exceeding the 3.7% agreed with Brussels in the autumn. Net expenditure represents approximately 40% of GDP, so a growth that is 0.4 pps more than what was agreed would be equivalent to approximately 0.15% of GDP. This deviation is attributed to the increase in defence spending, which, for the moment, has not been excluded by activating the escape clause.¹¹

The rules allow for annual deviations in net expenditure of up to 0.3% of GDP, and up to 0.6% in the cumulative balance in the fiscal and structural plan's adjustment period, which ends in 2031. The report explains that the deviation is contained and remains within the tolerated limit given that, at 0.15% of GDP, it falls within the margin allowed by the European legislation.¹² In addition, when assessing the cumulative deviation, the Progress Report highlights that

7. The increase in defence spending is expected to amount to 10.47 billion. Of this amount, current expenditure would be around 2.26 billion (wage earners' remuneration, intermediate consumption and subsidies), with 3.68 billion corresponding to capital expenditure and 4.53 billion to loans.

8. The report estimates that the disbursements in the form of loans from the European Commission will amount to 1.4 pps of GDP in 2025. Therefore, if we exclude the NGEU loans, then the public debt would meet the European requirement of a minimum reduction of 1 pp of GDP per year on average over the fiscal plan's time horizon.

9. Bank of Spain (2022). «Los fondos Next Generation EU (NGEU): cómo se contabilizan en la Balanza de Pagos/Posición de Inversión Internacional».

10. It should be recalled that, by definition, this metric is net government expenditure on interest, discretionary measures related to revenue, expenditure on EU programmes fully offset by revenue from EU funds (such as NGEU), national expenditure on co-financing programmes funded by the Union, cyclical components of expenditure on unemployment benefits and one-off items of expenditure.

11. Countries have the option to request the escape clause so that the cumulative increase in defence spending of up to 1.5 points of GDP relative to 2021 levels does not count towards the deficit or the debt for the purposes of the fiscal rules.

12. AIReF estimates that the deviation will be somewhat greater (increase in expenditure of 4.5% year-on-year instead of 4.1%), which would mean an annual deviation of precisely 0.3% of GDP.

Spain: budget table from the Annual Progress Report

Key elements	2023 (% of GDP)	2024 (% of GDP)	2025 (f) (% of GDP)
Government revenues¹	40.6	40.9	41.3
Indirect taxes (VAT, etc.)	11.0	11.1	11.3
Direct taxes	12.2	12.5	12.8
Capital taxes	0.4	0.4	0.3
Social security contributions	13.2	13.2	13.4
Other income ²	3.8	3.7	3.5
Government expenditure¹	44.1	44.1	44.0
Wage earners' remuneration	10.9	10.8	10.7
Intermediate consumption	5.7	5.6	5.5
Social monetary benefits	16.8	16.9	16.9
Social benefits in kind	2.7	2.7	2.6
Gross capital formation financed nationally	2.3	2.2	2.4
Interest expense	2.4	2.4	2.7
Subsidies	1.4	1.2	1.1
Other expenses ³	1.9	2.3	2.1
Government balance	-3.5	-3.2	-2.8
Government balance excl. floods	-3.5	-2.8	-2.5
Structural balance	-3.4	-2.9	-2.8
Public debt	105.1	101.8	101.7

Notes: (f) Forecasts. 1. Excludes transfers from the EU. 2. Includes interest, income from corporations and others. 3. Includes capital transfers and other support for investment, which is where the expenditure arising from court rulings is reflected.

Source: CaixaBank Research, based on the Spanish government's Annual Progress Report.

in 2024 net expenditure was lower than the government's fiscal commitment of 0.4% of GDP in 2025, and this generates a sufficient buffer to absorb the projected deviation in 2025, as well as helping to correct deviations in the cumulative balance over the coming years.¹³

In terms of the structural balance, this is expected to record only a very slight decline as a percentage of GDP in 2025, unlike what is expected for the total deficit, as it excludes the improvement resulting from the business cycle¹⁴ and the reduction of one-offs. Specifically, the structural balance is expected to go from -2.9% of GDP in 2024 to -2.8% in 2025, a stabilisation that suggests a neutral fiscal policy tone.¹⁵ This is still a high structural deficit, albeit smaller than that of France (structural deficit of 5.2% of GDP in 2025 according to the European Commission's forecasts) and Italy (3.7% of GDP).

In short, the 2025 Annual Progress Report envisages the reduction of the budget deficit and compliance with the fiscal rules in 2025, albeit by a narrow margin. The credibility of the plan will depend on the ability to stay on the path agreed with the Commission over the coming years, especially in an uncertain economic environment and with structural pressures on spending stemming from the ageing of the population.

Javier Garcia-Arenas

13. Thus, the cumulative growth of net expenditure in 2024-2025 would be 8.4%, placing it below the agreed increase of 9.2%. This equates to it remaining below an amount equivalent to 0.3% of GDP in 2025. Thus, in the cumulative balance for 2024-2025 there would be, in fact, no deviation.

14. The report predicts a positive output gap of 1.3% in 2025 (1.0% in 2024).

15. The primary structural balance – which is the one examined for the fiscal rules – is expected to improve by just 0.2 pps, from -0.4% to -0.2% of GDP.

The exposure of employment in Spain to the US: key sectors and characteristics

The US president’s trade policy, characterised by its apparent unpredictability and protectionist shift, is a source of concern due to its potential impact on our economy. In the article [«Tariff tensions and reconfiguration of trade flows: impact on Spain»](#), published in the latest CaixaBank Research *Sectoral Observatory*, we analyse the Spanish economy’s degree of exposure to the US, both in terms of economic activity and employment, among other exercises. In this article we delve deeper into the analysis of the exposure, in terms of employment, to trade with the US.

Exposure of employment to the US by sector

According to OECD data, in 2019, 2.2% of employment in Spain was linked to final US demand, a relatively low figure considering that 11.5% depended on demand from the EU and 11.6% on that of the rest of the world.¹ Exposure to the US, although limited, varies widely depending on the sector in question (see first chart).

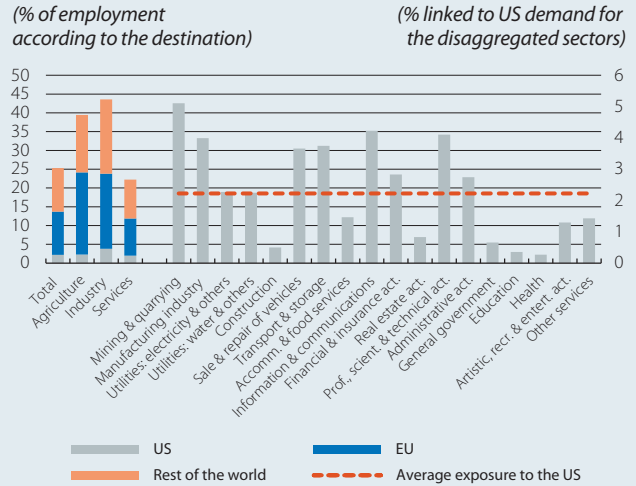
Among the most exposed, of particular note is the mining and quarrying sector, which is highly export-oriented and has 5.1% of its employment dependant on US demand. It is closely followed by the information and communications sector (4.2%), professional, scientific and technical activities (4.1%), manufacturing (4%) and transportation and storage (3.7%).

Within the manufacturing sector, the most exposed branch is the pharmaceutical sector: 8.2% of its employment depends on US demand. That is a high figure. Next in the ranking is the other non-metallic mineral products industry (6.3%), while the exposure of motor vehicle manufacturing (including trailers and semi-trailers) is less pronounced: it occupies 12th place among the most exposed manufacturing sectors, with 4.2% of its employment linked to the US, close to the 4.3% recorded by other transport equipment manufacturing.

Within the information and communications sector, employment in programming, consultancy and information services is the most exposed (4.8%). Within the transportation sector, meanwhile, air transportation stands out, given the US’ distance and its key role in tourism: 7.6% employment in this sector depends directly on the US market.

1. The latest available data is from 2020, but given the impact of the pandemic, we choose to show the figures for 2019.

Spain: employment linked to final foreign demand by sector *



Note: * Percentage of the total employment in each sector in 2019. Source: CaixaBank Research, based on data from Bloomberg.

Spain: most exposed sectors

	Sectors and sub-sectors	% of domestic employment in the sector	No. of workers
According to the percentage of domestic employment in the sector that is exposed	Quarrying & mining	5.1	1,000
	Support activities	9.0	100
	Information & communications	4.2	22,200
	Programming, consulting & information services	4.8	16,100
	Professional activities	4.1	44,800
	Manufacturing industry	4	81,800
According to the absolute number of workers	Manufacture of pharmaceutical products	8.2	3,900
	Transportation	3.7	34,500
	Air transportation	7.6	2,600
	Sale & repair of vehicles	3.7	126,600
	Manufacturing	4	81,800
	Manufacture of metal products	4.3	10,900
	Professional activities	4.1	44,800
	Administrative activities	2.7	40,300
	Transportation	3.7	34,500
	Land transportation	3.6	19,900

Source: CaixaBank Research, based on data from the OECD, Trade in Employment, from 2019.

Characteristics of the employment exposed to the US

Next, we will analyse the employment of the sectors that have the closest ties to trade with the US. We will look, on the one hand, at the three sectors that are most exposed in terms of employment in absolute terms: the sale and repair of vehicles, the manufacturing industry and professional, scientific and technical activities. On the other hand, we will also look at the information and communications and the transport sectors, due to the significant portion of their total employment that is exposed to the US (see table).² As far as the characteristics are concerned, we will focus on the recent developments and trends in employment in these sectors, both in terms of wages and in the temporary employment rate, the latter being an indicator of job stability.

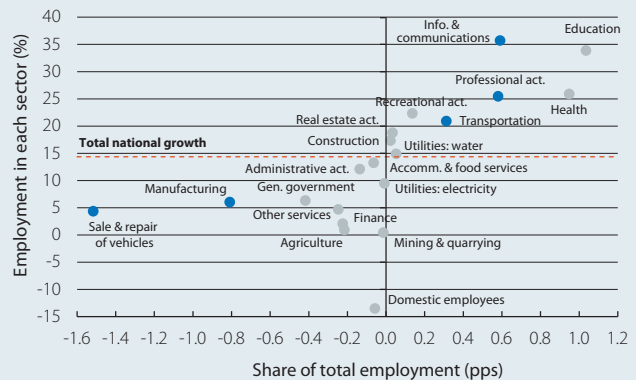
We will focus first on recent developments and trends. In April 2025, the five sectors mentioned represented 42.6% of the total number of Social Security affiliates, with the sale and repair of vehicles being the most representative (accounting for almost 40% of the total of these five sectors).³ However, their contribution to employment growth since April 2019 has been lower, at 36.6%, meaning that their role in the economy's total employment has declined as a whole over the past five years. There are differences between these five sectors, however. Employment growth in this period has been well below average (14.0%) in the sale and repair of vehicles and in manufacturing, so both have seen their share of the total decline (see second chart). However, within industry, the pharmaceutical sector stands out, having recorded employment growth of 25%. In contrast, transportation and, above all, professional activities and information and communications have been among the most dynamic, with cumulative employment growth since April 2019 in excess of 20%. As a result, their share of the total employment has increased: the acceleration of digitalisation and the technological transformation after the pandemic has boosted the demand for highly-qualified services, such as consulting, engineering, R&D, etc.

In terms of wages, at the 2024 year end, transportation and, in particular, the sale and repair of vehicles were below the all-sector average (see third chart). In contrast, manufacturing and, most notably, professional activities and information and communications were above the average. If we go into the detail by sub-sector, the latest data are those from the annual labour cost survey conducted by Spain's National Statistics Institute (INE), available up until 2023. According to those data, wage

2. We leave the mining and quarrying industry out of the analysis, even though it is the sector with the highest percentage of employment exposed, because in absolute terms it accounts for only a very small number of jobs.
3. General Scheme and Special Scheme for Self-Employed Workers (RETA).

Spain: job creation vs. share of total employment by sector

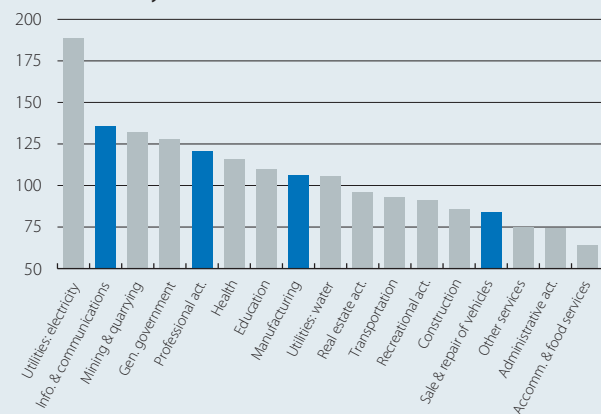
Change between April 2019 and April 2025



Note: Workers registered under the General Scheme and the Special Scheme for Self-Employed Workers (RETA).
Source: CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSEM).

Spain: wages by sector

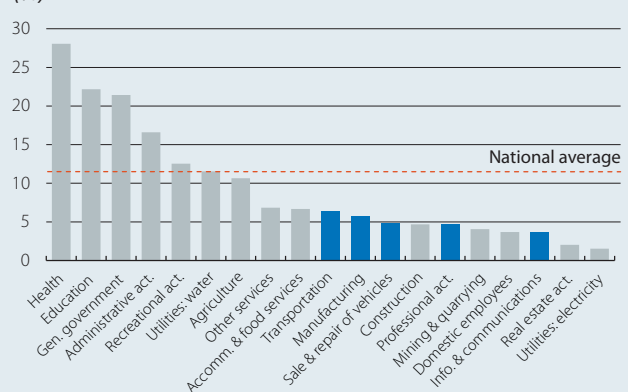
(Total economy * = 100)



Notes: Wage cost per effective hour. Data for Q4 2024. * Industry, construction and services (excluding household activities as employers and offshore organisations and entities).
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, quarterly labour cost survey).

Spain: temporary employment rate by sector

(%)



Notes: Workers registered under the General Scheme with a temporary contract. Data for April 2025.
Source: CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSEM).

costs in the pharmaceutical manufacturing sector – the one most exposed to trade with the US – were 72.2% above the average for all sectors, while in the case of air transportation they were 59.4% above the average.

In terms of job stability, all five sectors have a temporary employment rate well below the average: of the total number of workers registered with Social Security under the General Scheme in April this year, less than 7.0% were temporary workers in all five cases (this is also the case in the pharmaceutical industry, where the figure stands at 4.2%). This contrasts with a temporary employment rate of 11.8% for the economy as a whole (see fourth chart).

In short, although the exposure of Spanish employment to US demand is limited in aggregate terms, its impact

varies from sector to sector. Some, such as manufacturing – particularly the pharmaceutical sector – as well as air transportation, professional activities, information and communications and the sale and repair of vehicles, stand out for their close ties to the US market. These sectors, with the exception of the sale and repair of vehicles, combine a low temporary rate with high wages. This concentration in sectors with higher wages and greater job stability suggests that employment in these sectors may be less sensitive to temporary shocks, such as spikes in uncertainty resulting from the tariff conflict. However, the final impact on employment will depend on the persistence of the shock and on each sector's capacity to adapt to the new situation in the event of a more pronounced decoupling from the US economy.

Anna Bahí Esteba and Sergio Díaz Valverde

Activity and employment indicators

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Industry									
Industrial production index	-1.6	0.4	-0.1	-0.2	1.3	-0.7	1.0	...	...
Indicator of confidence in industry (value)	-6.5	-4.9	-5.5	-2.9	-6.0	-5.4	-5.5	-4.3	-5.0
Manufacturing PMI (value)	48.0	52.2	52.8	51.5	53.6	50.0	49.5	48.1	50.5
Construction									
Building permits (cumulative over 12 months)	0.5	16.7	4.6	10.2	16.7	20.1	20.1	...	...
House sales (cumulative over 12 months)	-10.2	9.9	-10.1	-1.2	9.9	17.2	17.2	...	...
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	8.1	8.3	...
Services PMI (value)	53.6	55.3	56.6	55.2	55.1	55.3	54.7	53.4	51.3
Consumption									
Retail sales ¹	2.5	1.8	0.4	2.6	2.8	3.3	3.8	4.0	...
Car registrations	16.7	7.2	8.5	1.7	14.4	14.0	23.2	7.1	18.6
Economic sentiment indicator (value)	100.5	103.0	102.6	105.5	101.5	103.3	103.4	103.8	103.4
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	2.2	2.3	2.2
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	03/25	04/25	05/25
General	3.5	2.8	3.5	2.2	2.4	2.7	2.3	2.2	1.9
Core	6.0	2.9	3.0	2.6	2.5	2.2	2.0	2.4	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	03/25	04/25	05/25
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	-1.4	0.2	-4.9	-1.8	0.2	3.3	3.3	...	...
Imports (year-on-year change, cumulative over 12 months)	-7.2	0.1	-7.1	-3.1	0.1	4.2	4.2	...	...
Current balance	39.8	48.1	45.1	48.3	48.1	41.1	41.1	...	...
Goods and services	58.8	68.1	65.2	68.3	68.1	62.0	62.0	...	...
Primary and secondary income	-19.1	-20.0	-20.2	-20.0	-20.0	-21.0	-21.0	...	...
Net lending (+) / borrowing (-) capacity	56.0	66.6	61.2	65.7	66.6	59.5	59.5	...	...

Credit and deposits in non-financial sectors⁴

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Deposits									
Household and company deposits	0.3	5.1	5.2	4.3	5.1	4.6	4.6	4.9	...
Demand and notice deposits	-7.4	2.0	-1.9	-1.6	2.0	3.1	3.1	4.7	...
Time and repo deposits	100.5	23.5	68.0	47.5	23.5	12.6	12.6	6.5	...
General government deposits ⁵	0.5	23.1	-4.1	14.8	23.1	24.4	24.4	20.6	...
TOTAL	0.3	6.3	4.5	5.1	6.3	5.9	5.9	6.0	...
Outstanding balance of credit									
Private sector	-3.4	0.7	-1.3	-0.3	0.7	1.7	1.7	2.1	...
Non-financial firms	-4.7	0.4	-1.8	-0.6	0.4	1.6	1.6	2.2	...
Households - housing	-3.2	0.3	-1.5	-0.7	0.3	1.4	1.4	1.8	...
Households - other purposes	-0.5	2.3	0.7	1.2	2.3	3.1	3.1	2.5	...
General government	-3.5	-2.6	-2.7	-5.4	-2.6	-0.3	-0.3	1.0	...
TOTAL	-3.4	0.5	-1.4	-0.7	0.5	1.6	1.6	2.0	...
NPL ratio (%)⁶	3.5	3.3	3.4	3.4	3.3	3.2	3.2	...	...

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.

Portugal: 2025 starts poorly, but the macro outlook is still supported by structural factors

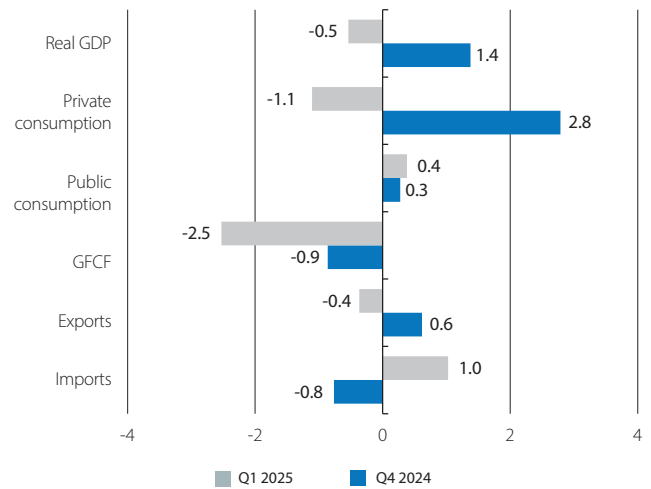
GDP contracted 0.5% quarter-on-quarter in Q1 2025, although the labour market remained strong. The growth of domestic demand (+0.1% quarter-on-quarter vs. -0.7% in the previous quarter) reflects significant differences between its components. Private consumption fell 1.1% in quarter-on-quarter terms (vs. +2.8% in the previous quarter), after registering a rebound in Q4 2024 associated with the increase in disposable income due to the changes in fiscal policy. Investment, on the other hand, rose by 3.8% as a result of a significant accumulation of inventories. This more than offset the contraction of gross fixed capital formation (-2.5% vs. -0.9% in the previous quarter) associated with the heightened uncertainty in Q1, both in the international context (in a period marked by the «anticipation of tariffs») and also domestically (with the emergence of the political crisis that culminated in the elections in May). Foreign demand deducted around 0.7 pps from GDP, due to a 0.4% drop in exports and a 1.0% increase in imports, a dynamic that was also associated with firms purchasing goods in advance in anticipation of the change in US trade policy. Employment, meanwhile, once again broke a new record in Q1, with a total of 5,181,400 people. This represents a 2.4% year-on-year increase (0.6% quarter-on-quarter), which is even more significant when compared to the historical data for Q1.

A worse-than-expected Q1 and uncertainty lead to a downward revision of the macroeconomic outlook. The data for Q1 reflect a correction in economic activity, rather than a sudden slowdown, following the strong growth recorded in the previous quarter. In fact, analysing the quarters together in order to reduce the noise associated with temporary factors, we find that the average quarter-on-quarter growth rate was 0.45% – although this represents a slowdown compared to the historical average (0.6% since 2015), it is still a buoyant growth rate. Even so, given its magnitude and the knock-on effect it will have on the rest of the year, the decline in Q1 will lead to a mechanical reduction of 0.9 pps in the growth forecast for 2025 as a whole. In addition, the uncertainty associated with US trade policy will have a more negative effect than previously anticipated. On the upside, some factors will support growth throughout the year, such as a further reduction in interest rates, lower energy prices and an accelerated in the execution of NGEU funds. In this context, we have revised our GDP growth forecast to 1.7% (down from 2.4%) for this year and to 1.9% for 2026 (vs. 2.1% previously).

Inflation rises again in May, while the data for Q2 do not yet show any clear trend. In May, both headline and core inflation rose again, with both standing at 2.3% (for the third consecutive month they are equal). This illustrates a disinflationary process that is now less volatile but also somewhat slower due to the rigidity of some sub-components in services (such as education and health, with more persistent inflation rates of around 3.5%). On the food and energy side, the upward surprise in food prices was offset by the fall in energy prices. Amid more benign price dynamics and a downward revision of the GDP forecast, we have adjusted our inflation forecast for 2025 slightly downwards (from 2.2 to 2.1%).

Portugal: components of demand

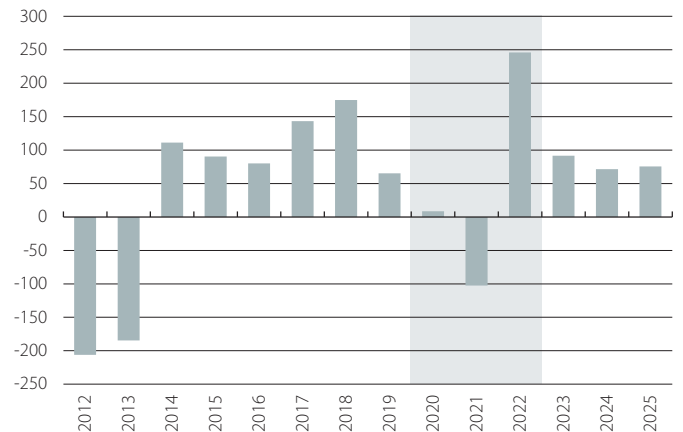
Quarter-on-quarter change (%)



Source: CaixaBank Research, based on data from Datastream.

Portugal: change in employment in Q1 of each year

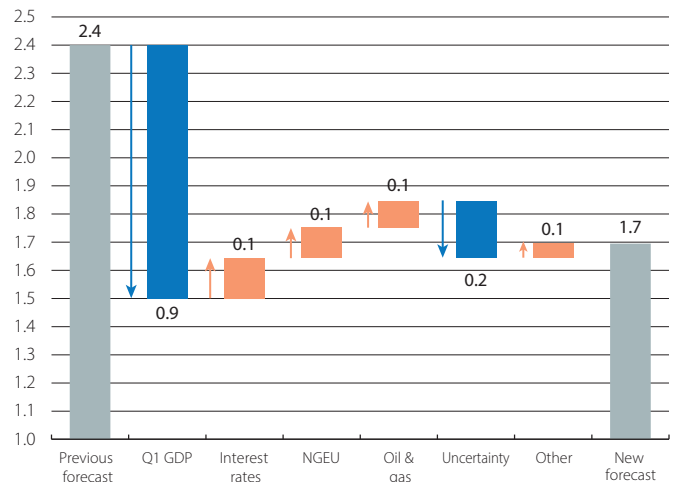
Year-on-year change (thousands of people)



Notes: Data not seasonally adjusted. The shading corresponds to the period affected by the pandemic. Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: GDP growth in 2025

Forecast (%) and contribution of different factors (pps)



Source: CaixaBank Research.

Activity and employment indicators

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Coincident economic activity index	3.5	1.8	1.6	1.5	1.8	1.7	1.6	1.6	...
Industry									
Industrial production index	-3.1	0.8	1.9	-0.2	-0.4	-2.3	-5.4	-2.2	...
Confidence indicator in industry (<i>value</i>)	-7.4	-6.2	-6.6	-6.1	-4.2	-5.1	-5.3	-5.1	-4.9
Construction									
Building permits - new housing (number of homes)	7.5	6.0	9.8	13.2	22.3	30.5	33.1	...	...
House sales	-18.7	14.5	10.4	19.4	32.5	...	-	-	-
House prices (<i>euro / m² - valuation</i>)	9.1	8.5	6.8	8.5	13.2	15.8	16.9	16.9	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	19.0	6.3	9.5	7.8	6.3	4.6	4.6	5.2	...
Confidence indicator in services (<i>value</i>)	7.6	5.5	5.4	2.4	10.9	12.5	8.8	4.4	6.1
Consumption									
Retail sales	1.1	3.3	2.4	3.9	5.2	3.0	1.6	4.4	...
Coincident indicator for private consumption	2.9	2.8	2.3	2.7	3.4	3.7	3.6	3.4	...
Consumer confidence index (<i>value</i>)	-28.6	-18.0	-18.7	-14.3	-14.3	-15.5	-16.0	-17.9	-18.2
Labour market									
Employment	2.3	1.2	1.0	1.2	1.3	2.4	2.3	3.0	...
Unemployment rate (<i>% labour force</i>)	6.5	6.4	6.1	6.1	6.7	6.6	6.4	6.3	...
GDP	2.6	1.9	1.5	2.0	2.8	1.6	-	-	-

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
General	4.4	2.4	2.7	2.2	2.6	2.3	1.9	2.1	2.3
Core	5.1	2.5	2.4	2.5	2.7	2.3	1.9	2.1	2.3

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	03/25	04/25	05/25
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	-1.4	2.4	-3.7	0.7	2.5	5.7	5.7	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	-4.0	2.2	-5.6	-0.8	2.2	5.5	5.5	...	...
Current balance	1.5	6.1	4.2	5.2	6.1	4.4	4.4	...	...
Goods and services	4.0	6.7	5.7	6.1	6.7	5.4	5.4	...	...
Primary and secondary income	-2.5	-0.5	-1.5	-0.9	-0.5	-1.0	-1.0	...	...
Net lending (+) / borrowing (-) capacity	5.3	9.3	7.9	8.6	9.3	7.6	7.6	...	...

Credit and deposits in non-financial sectors

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	03/25	04/25	05/25
Deposits¹									
Household and company deposits	-2.3	7.5	5.6	6.0	7.5	6.5	6.5	6.1	...
Sight and savings	-18.5	-0.3	-8.6	-6.7	-0.3	3.5	3.5	4.1	...
Term and notice	22.2	15.3	24.0	20.9	15.3	9.3	9.3	7.9	...
General government deposits	-12.4	26.7	4.5	29.1	26.7	29.3	29.3	26.5	...
TOTAL	-2.6	7.9	5.6	6.7	7.9	7.1	7.1	6.7	...
Outstanding balance of credit¹									
Private sector	-1.5	2.1	-0.3	1.0	2.1	3.3	3.3	3.7	...
Non-financial firms	-2.1	-0.6	-1.8	-0.6	-0.6	0.1	0.1	0.4	...
Households - housing	-1.4	3.2	0.1	1.4	3.2	5.1	5.1	5.7	...
Households - other purposes	-0.3	4.7	2.5	4.0	4.7	5.1	5.1	5.1	...
General government	-5.5	0.6	-5.8	-4.1	0.6	-8.0	-8.0	-0.4	...
TOTAL	-1.7	2.0	-0.5	0.9	2.0	2.9	2.9	3.6	...
NPL ratio (%)²	2.7	2.4	2.6	2.6	2.4	-	-	-	-

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.

Our publications:



Brief Notes on Economic and Financial Developments

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



Consumption tracker

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



Currency flash report

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



Sectoral Observatory S1 2025

The Spanish economy remains buoyant in a more challenging global context and a growing number of its sectors are in expansion. In this context, the sectors most exposed to the new protectionist shift in the US have the potential to redirect their exports to other global markets, while renewable energies can play a strategic role in the economy's industrial competitiveness.



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.

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

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