2025

Macro Analysis of Spain:

From Problem to European Powerhouse: Spain and the End of the "PIGS" Era

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Introduction

The macroeconomic analysis of a country is fundamental for understanding its economic performance, assessing its stability, and projecting its future trajectory.

In this document, we will examine Spain's key macroeconomic indicators, including **agency ratings, GDP, unemployment rate, private consumption, trade balance, and risk premium.** It also addresses indicators that reflect the health of the financial system, such as the **evolution of the Euribor, delinquency rate, and bank credit.** Finally, we also consider the state of the corporate sector, including the **trends in insolvency proceedings and the performance of the IBEX 35 selective index.**

Through this study, we aim to provide a clear and detailed overview of the evolution of the Spanish economy in recent years, as well as the challenges and opportunities it faces in the current context.

We hope this document proves useful and contributes to a better understanding of the Spanish economy, both in general terms and especially for our investor community.

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February 2025
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Investment Grade Sovereign Debt

As of February 2025, the three main credit rating agencies have assigned the following ratings to Spain's sovereign debt:

• S&P: A, stable outlook.

• Moody's: Baa1, positive outlook.

• Fitch: A-, positive outlook.

These ratings reflect confidence in the Spanish economy, supported by solid growth, making it one of the best-performing economies in the Eurozone in 2024.

Additionally, according to the recent publication by the Bank of Spain, public sector debt as of December 2024 is expected to have fallen to 101.8% of GDP, a 3.3% decrease from the end of 2023 and well below the peak of 124.2% reached during the pandemic, due to strong economic growth and fiscal consolidation.

Rating Agency	Moody's	S&P	Fitch
Long-Term Rating	Baa1	A	A
Outlook	Positive	Stable	Positive
Short-Term Rating	P-2	A-1	F1
Action Date	19/03/2024	20/11/2019	08/11/2024

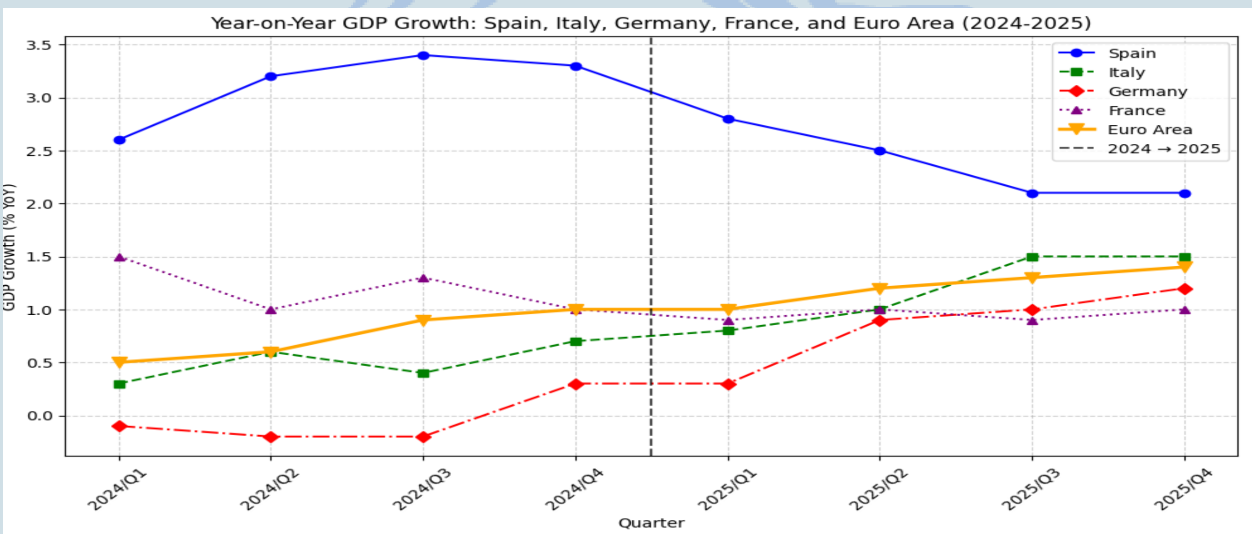
Source: Tesoro.es. Own elaboration

GDP Growth Above the Eurozone and Countries Such as Germany, France, or Italy

Compared to the Eurozone, Spain has demonstrated a more dynamic GDP growth over the past year, with its expansion surpassing the Eurozone average. However, it still faces structural challenges, such as improving productivity and its higher reliance on more cyclical sectors like tourism.

The outlook for 2025 points to a moderation in growth, although still above the Eurozone, thanks to the resilience of domestic consumption, the consolidation of tourism, and increased investment driven by the digital and ecological transitions.

According to the latest report prepared by the European Commission in autumn 2024, average GDP growth for 2025 is expected to be 2.38% in Spain, 0.85% in Germany, 0.95% in France, 1.2% in Italy, and 1.23% for the Eurozone.



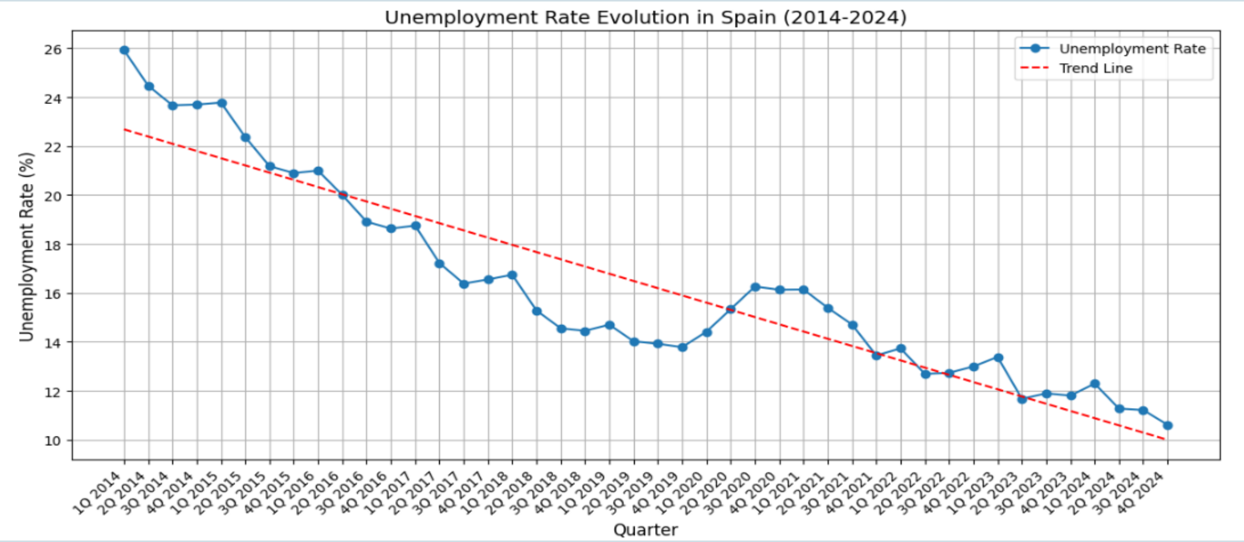
Source: European Economic Forecast. Autumn 2024. Own elaboration

Positive Evolution of the Unemployment Rate

The Spanish labor market has shown an evolution characterized by cycles of strong expansion and pronounced crises. Since the 2008 financial crisis, Spain has experienced a gradual recovery, although with an unemployment rate historically higher than the European average.

After the impact of the financial crisis, unemployment peaked at nearly 27% in 2013. Since then, economic recovery has allowed for a sustained reduction in this figure, supported by labor reforms and job growth in sectors such as tourism, technology, and services. The 2020 pandemic represented a new blow to employment, but furlough schemes (ERTEs) helped mitigate the impact, and the subsequent recovery was faster than in previous crises.

Although unemployment remains the major challenge for the Spanish economy, its trend is highly positive, as evidenced by the following chart. According to the latest "Encuesta de Población Activa" (EPA) published by the "Instituto Nacional de Estadística" (INE), the unemployment rate stands at 10.61%.



Source: INE. Labour Force Survey (EPA). Fourth quarter 2024. Own elaboration

Solid Evolution of Private Consumption

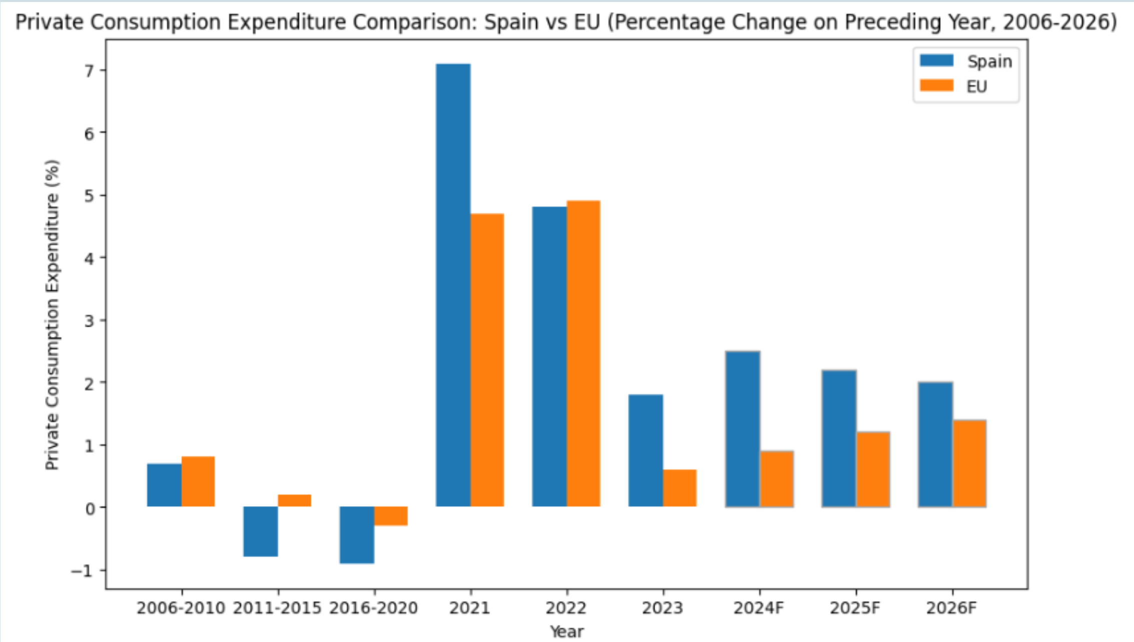
Private consumption in Spain has experienced notable evolution over the past decades, influenced by various economic, social, and political factors.

After the financial crisis, private consumption suffered a significant contraction due to a decrease in household incomes, rising unemployment, and economic uncertainty. **However, since 2014, economic recovery has driven gradual growth in consumption, supported by improvements in labor conditions, a decline in the unemployment rate, and an expansive monetary policy by the European Central Bank.**

During the 2020 pandemic, private consumption plummeted due to restrictions and economic uncertainty, **but the recovery was swift, and by the end of 2021 and into 2022, consumption levels returned to pre-pandemic levels.**

Regarding the European context, Spain has shown behavior similar to the Eurozone. **However, in recent years, the growth of private consumption in Spain has been somewhat faster in gross terms compared to the European average, maintaining a positive trend in household spending.**

The graph below shows the evolution of private consumption expenditure in volume compared to the previous year. The data from 2006 to 2020 are arithmetic averages for four-year periods, while from 2020 onwards, the data are annual. **The estimated variation in private consumption for Spain in 2025 and 2026 is 2.2% and 2%, respectively, while for the Eurozone, it is 1.2% and 1.4%.**

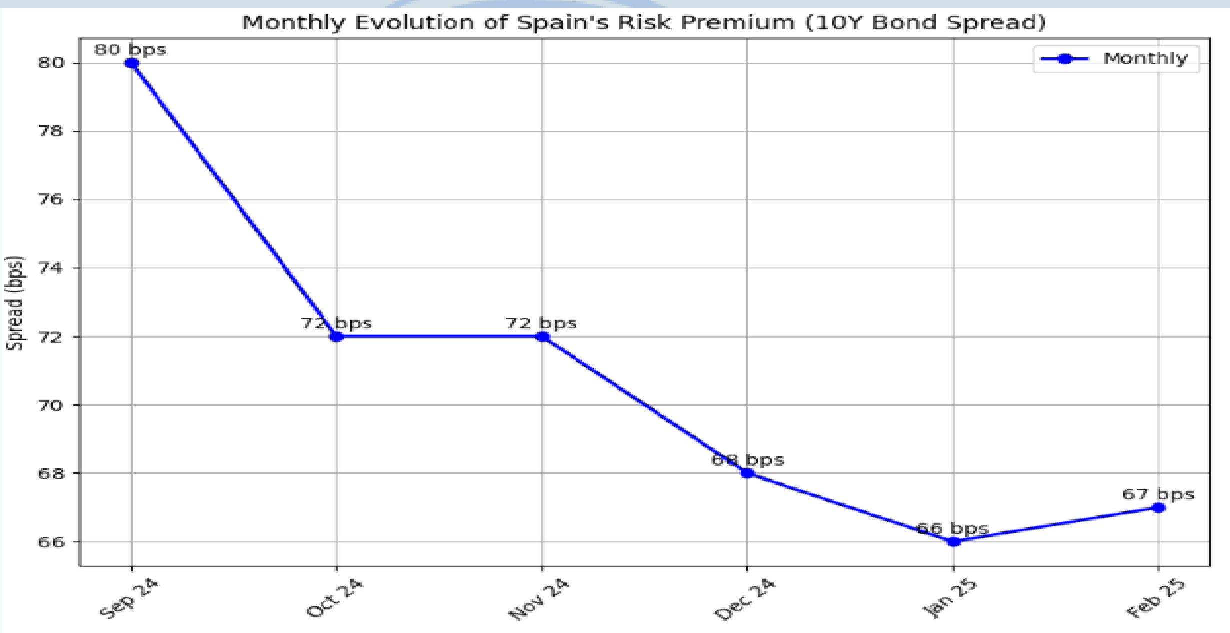


Source: Economic Forecast. Autumn 2024. Percentage change on preceding year, 2006-2024. Own elaboration.

Reduction of the Risk Premium

The risk premium is an indicator that reflects the difference between the yield of a country's bonds and that of German 10-year bonds, given their perceived higher security. A higher risk premium indicates a perception of greater risk associated with the country's debt.

The Spanish risk premium has shown a positive trend, due to an improved perception of Spain's economy by investors. As of February 2025, the risk premium was quoted at **67 basis points (daily average for the month)**, with a slight increase compared to the previous month. **In 2025, the Spanish risk premium has been quoted lower than the French one**, which stood at 80.26 basis points in January and 71.65 basis points in February.



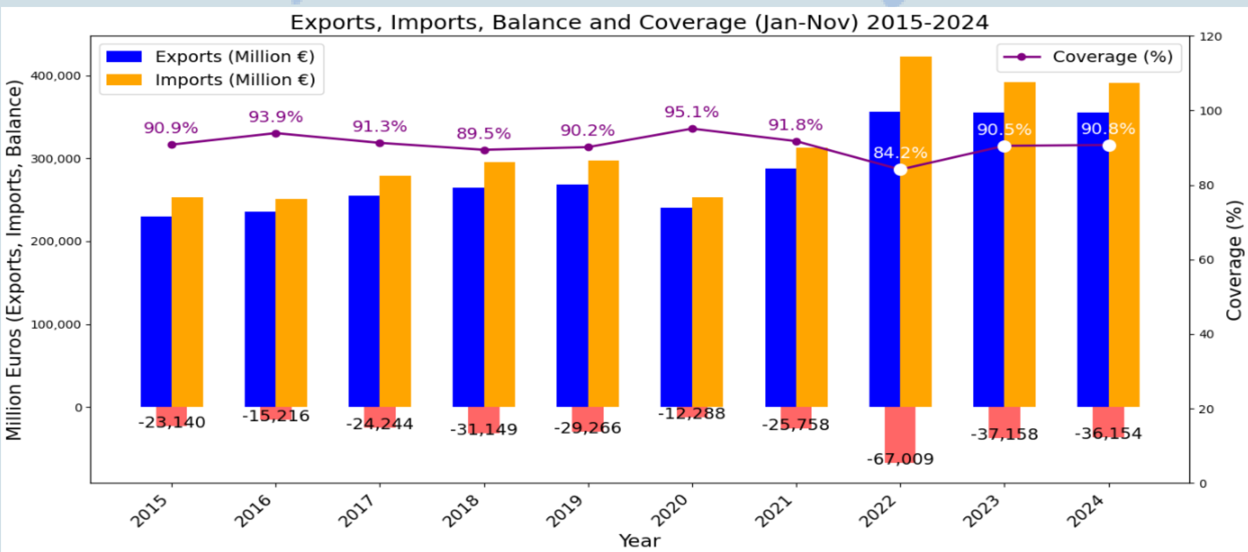
Source: Bank of Spain. Monthly data (average of daily data). Own elaboration

Positive Evolution of the Trade Balance in Recent Years

Spain's trade balance has experienced various fluctuations in recent decades, characterized by a persistent deficit. This deficit has been attributed to both structural and cyclical factors, such as energy dependency, as Spain lacks its own energy resources, requiring the import of oil and gas. **Despite the trade deficit, the surplus in the services balance, primarily driven by tourism, has helped mitigate the impact on the current account balance.**

In 2020, the year marked by the COVID-19 pandemic, Spain recorded a historically low deficit, with the coverage rate—measuring the ability of exports to cover imports—reaching 95.1%. In 2022, the trade deficit worsened due to the war in Ukraine, which led to higher energy prices, thus raising the cost of imports, as well as the need to accumulate energy reserves in the context of clear geopolitical uncertainty.

In the past two years, with energy prices more stabilized, we have seen an improvement in the coverage rate, with levels above 90%.



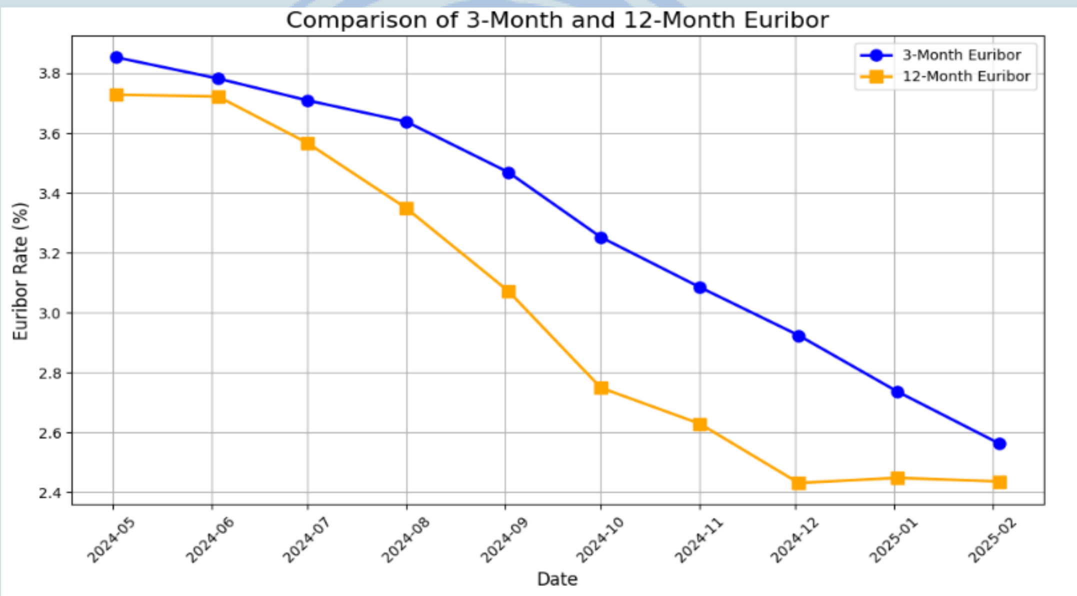
Source: Spanish Ministry of Economy, Trade, and Industry . Data as of November 2024Own elaboration

Drastic Reduction of the Euribor

The Euribor is the key indicator for most variable interest rate financial transactions in Spain and Europe, and it has a significant impact on the economy, particularly on households and businesses that rely on external financing.

Regarding its most recent evolution, after reaching a historic peak in 2008 at 5.39%, the Euribor remained negative from February 2016 to March 2022. Since then, it has followed an upward trend, particularly in the second half of 2023, mainly due to inflationary tensions.

In the following graph, we can observe a clear downward trend from May 2024 to February 2025 in its two main rates, for 3 and 12 months.



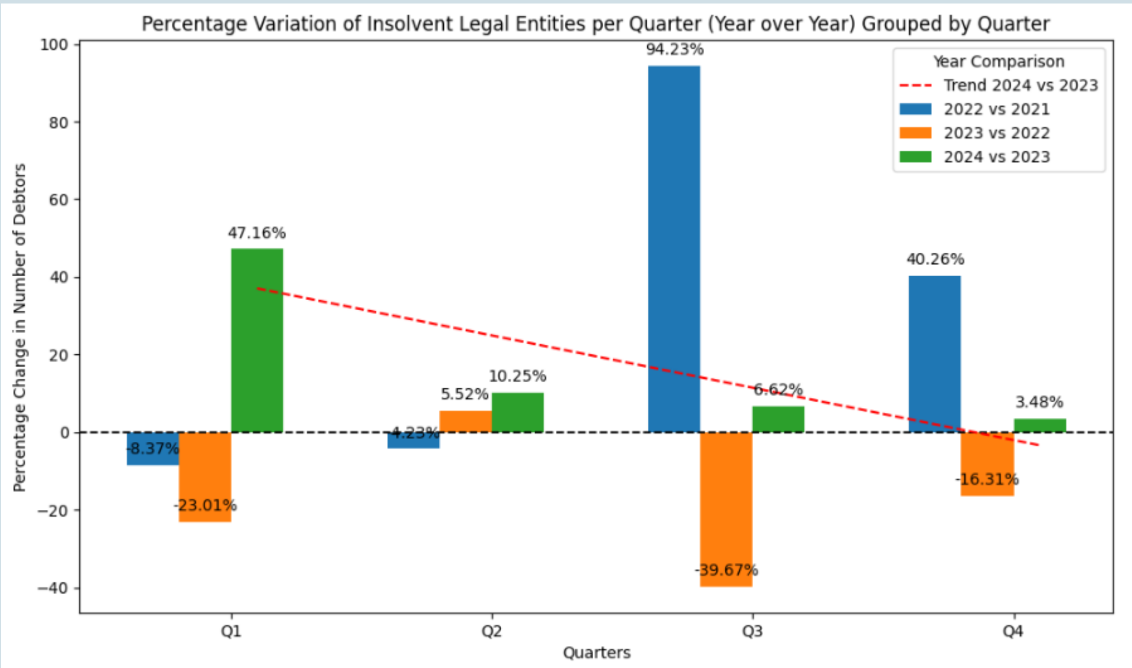
Source: https://www.euribor-rates.eu/. Data as of February 2025. Own elaboration

Bankruptcy Proceedings for SMEs and Large Corporates Follow a Decreasing Trend

Bankruptcy proceedings in Spain are a legal process initiated when a company or individual cannot meet their payment obligations. The main objective is to organize and manage insolvency in an attempt to save the company, or, if that is not possible, to proceed with its liquidation.

To properly understand the following graph, it is important to mention that **during the health crisis, the government implemented a series of measures such as bankruptcy moratoriums and guarantees from the "Instituto de Crédito Oficial" (ICO) to prevent a wave of business insolvencies.** This created a backlog of bankruptcy cases from April 2020 to June 2022, which explains the data related to variations in 2022 vs. 2021 in Q3 and to a lesser extent in Q4. The spike in bankruptcies in Q1 2024 compared to Q1 2023 is mainly due to higher inflation, rising energy costs, and tighter credit conditions.

The graph takes into account company bankruptcies (mainly Limited Liability Companies "SL" and Public Limited Companies "SA"). To account for seasonality, the data is grouped by quarters. By drawing a regression on the 2024 data, **we can observe a trend in the reduction of the number of company bankruptcies.**



Source: Registradores.org. Date updated to Q4-2024. Own elaboration

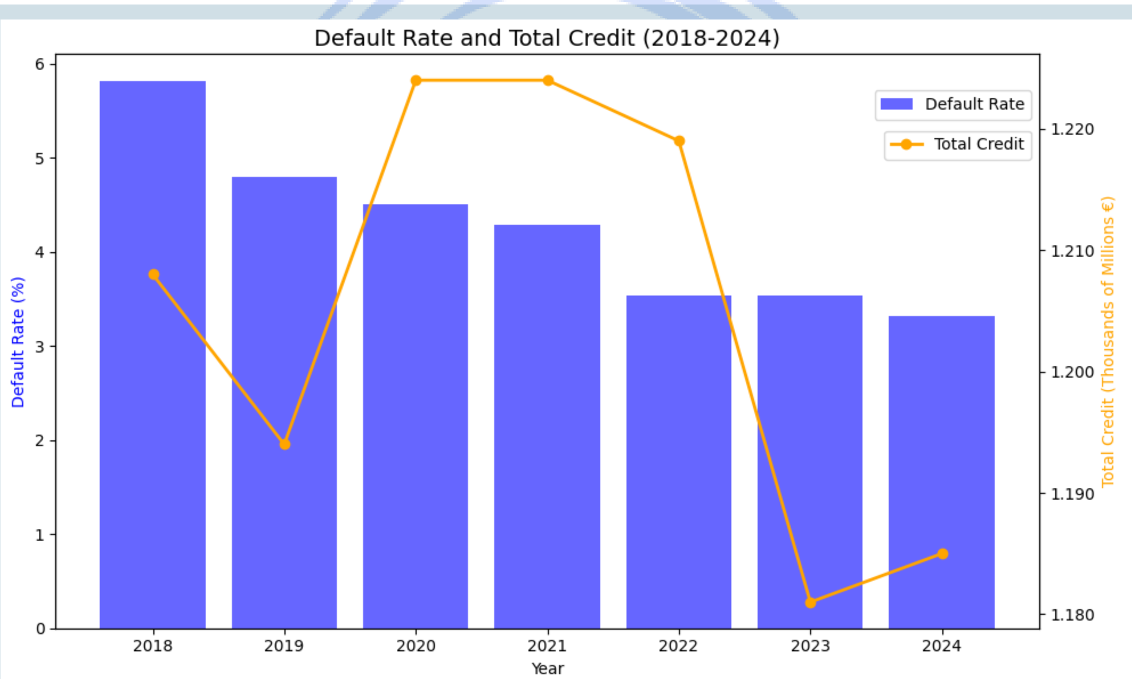
Positive Evolution of the Default Rate Accompanied by Growth in Bank Credit

The evolution of the default rate and credit in the Spanish financial system has shown very positive trends in recent years, reflecting the strength of the Spanish financial system.

The economic crisis that began in 2007/2008 brought a peak in defaults of 13.62% in December 2013. Since then, the trend has been clearly downward.

As of December 2024, the default rate stood at 3.32%, the lowest since late 2008.

This positive default rate figure is also accompanied by an increase in net credit issuance, with the total volume reaching 1,185 billion euros.



Source: Bank of Spain. December 2024. Own elaboration.

Strong Performance of the IBEX35 vs EuroStoxx50

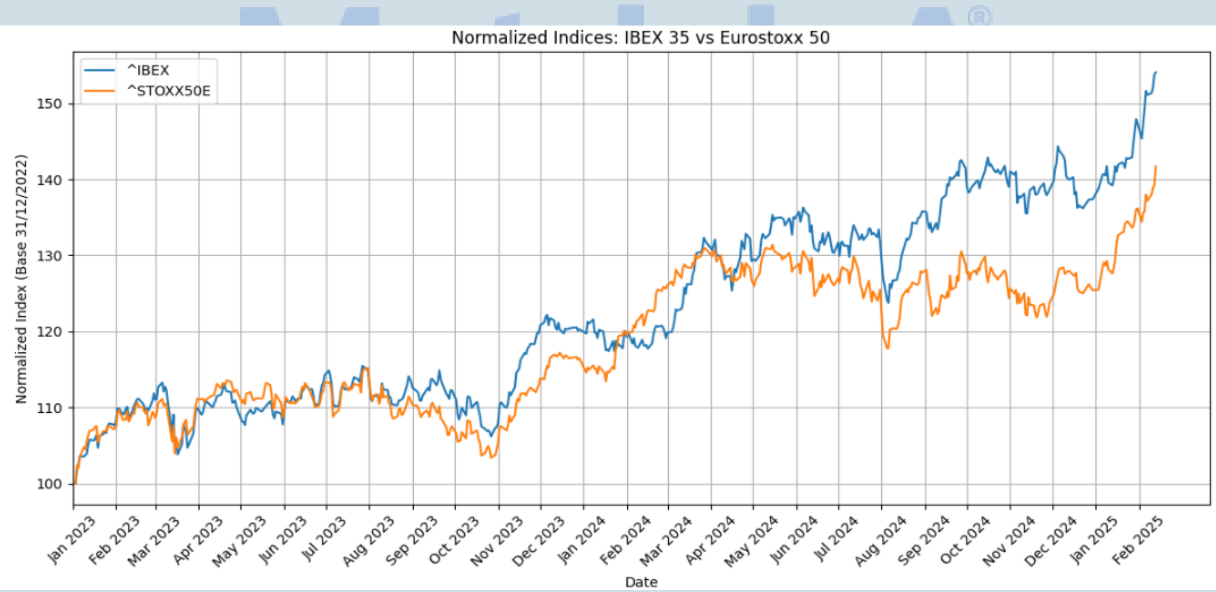
The IBEX 35 and the EURO STOXX 50 are two stock indices that reflect the performance of the leading companies in Spain and the Eurozone, respectively.

Below, a graph based on 100 as of December 2022, illustrates how both indices show a certain correlation. However, it is clear that since May 2024, the IBEX 35 has performed significantly better. This performance is set within a positive global economic context, lower perceived risk, and higher dividend yields.

However, it is important to make the following clarifications:

- IBEX 35: It has a high concentration in sectors such as banking and energy, making it more sensitive to fluctuations in these areas.
- EURO STOXX 50: Offers greater sectoral and geographical diversification, including companies from different Eurozone countries and varied sectors such as consumer, industry, and technology.

Among the main destabilizing factors in the market, we mainly find geopolitical risks arising from current conflicts, as well as tariff measures and protectionism from the new U.S. government, which could lead to a trade war that negatively impacts firm profitability.



Source: Yahoo Finance. Own elaboration

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Since its creation in 2015, it has financed more than 4,000 companies for an amount exceeding €550 million through its investor community.

Participated by Bonsai Partners and Inveready VC funds, it has a team of 30 people spread across its offices in Madrid, Soria and Valencia.

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