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# Economic Comment

## Investment surprised to the upside

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1Q25 GDP growth has been confirmed by the stats office at 3.2% y/y and 0.7% q/q on a seasonally adjusted basis. The big positive surprise was investment, which rose 6.3% y/y (our forecast was -2.0% y/y). Private consumption was up 2.5% y/y (we expected 2.7% y/y). The foreign trade balance subtracted 1.1 percentage points from GDP growth, while inventories added 1.5 percentage points. We believe the GDP will gradually accelerate in the upcoming quarters, increasingly supported by the recovering investment cycle, with entire 2025 at 3.4%.

1Q25 GDP growth has been confirmed by GUS at 3.2% y/y and 0.7% q/q on a seasonally adjusted basis. We believe the GDP will gradually accelerate in the upcoming quarters, increasingly supported by the recovering investment cycle, with 2025 full-year growth at 3.4%.

Domestic demand grew 4.6% y/y, with private consumption up 2.5% y/y (we expected 2.7% y/y) and public consumption up 2.0% y/y. We expect significantly lower growth in household disposable income this year than in 2024, so consumption is unlikely to grow faster than the 3.1% y/y registered last year. Moreover, slower public consumption growth (last year it was 8.2% y/y) mostly results from the slower public sector wage growth.

The big surprise was investment, which rose by 6.3% y/y. Given the solid data on local government investment as well as the weak data on investments of large enterprises and construction, the increase in overall investment likely had its source in the public sector, possibly due to increasing use of EU funds, although arms supplies may also have been involved. As a reminder, the 2024 investment data had also initially looked good until they were revised sharply downwards, so perhaps we should not be too attached to the notion of a robust recovery in investment activity.

The foreign trade balance subtracted 1.1 percentage points from GDP growth, driven by a 1.1% y/y increase in exports against a 3.5% y/y increase in imports. We expect that it could be similar in the quarters ahead, with solid domestic demand supporting imports, and weaker economic conditions in Europe and trade wars possibly negatively impacting exports. However, there may be temporary distortions in the data due to increased pre-tariff purchases. In 1Q, inventories added 1.5 percentage points to growth, so roughly speaking their impact on growth and the impact of net exports balanced each other out.

### GDP growth and its components (% y/y)

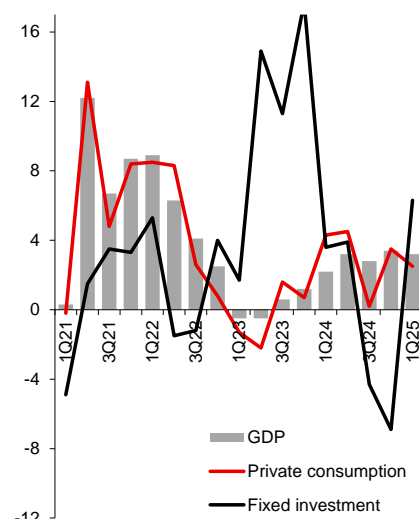
	2023	2024	1Q24	2Q24	3Q24	4Q24	1Q25
GDP	0.1	2.9	2.2	3.2	2.8	3.4	3.2
Domestic demand	-3.1	4.1	1.9	4.9	4.6	5.3	4.6
Total consumption	0.9	4.3	5.3	6.1	1.3	4.6	2.4
Private consumption	-0.3	3.1	4.3	4.5	0.2	3.5	2.5
Public consumption	4.5	8.2	9.2	11.3	5.2	7.6	2.0
Gross accumulation	-16.6	4.0	-17.0	-1.1	20.8	7.3	19.9
Fixed investment	12.7	-2.2	3.6	3.9	-4.3	-6.9	6.3
Stock building *	-5.7	1.1	-2.9	-0.8	4.0	3.5	1.5
Net export *	3.2	-1.0	0.5	-1.3	-1.6	-1.6	-1.1

\* contribution to GDP growth (percentage points)

Source: GUS, Santander

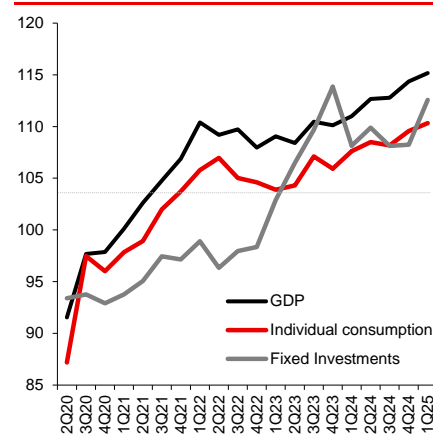
Gross value added slowed in 1Q to 2.2% y/y from 2.5% y/y in 4Q24. Gross value added thus accounted for 2.0ppt of GDP growth in 1Q, while it had added 2.2ppt in 4Q24. In industry, annual growth in gross value added slowed from 1.7% y/y to 1.0% y/y, and in trade and

GDP and its components, % y/y



Source: GUS, Santander

GDP and its components, s.a. 4Q19=100



Source: GUS, Santander

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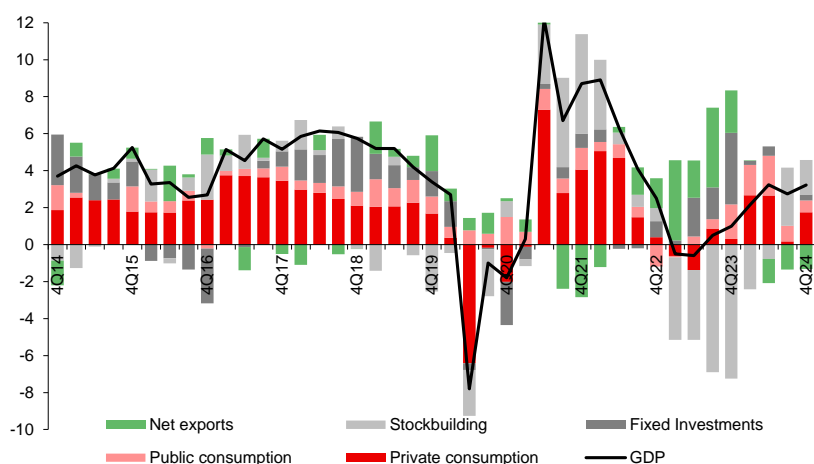
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repair from 2.8% y/y to 1.7% y/y. The transport and storage sector also slowed down (4.1% y/y in 1Q after 5.8% y/y in 4Q). The information and communication services as well as financial and insurance services sectors went from positive to negative y/y prints in 1Q. Instead, improvement was seen in construction, with 1Q showing the first positive y/y growth (0.8%) since 4Q23 and the second one in the last 11 quarters. The solid growth rate of over 5% in value added in a broad services category comprising of professional, scientific and technical activities as well as administration and support activities was further boosted in 1Q25 to 6.6% y/y. We expect an improvement in construction performance in the coming quarters and see an prospects for a better contribution from trade and services.

#### GDP growth and its components (% y/y)



Source: GUS, Santander

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