

Spanish headline inflation edges up in February

Spanish headline inflation rose to 3% in February, driven by increases in electricity prices. Meanwhile, core inflation continued its downward trend, cooling from 2.4% to 2.1%



Spanish headline inflation rises while core inflation continues to decline

Spanish inflation edged up to 3% in February, according to initial figures released this morning by Spain's statistics office, INE. This increase was in line with consensus expectations. Monthly inflation came in at 0.4%, slightly above expectations. The European harmonised inflation rate remained stable at 2.9%.

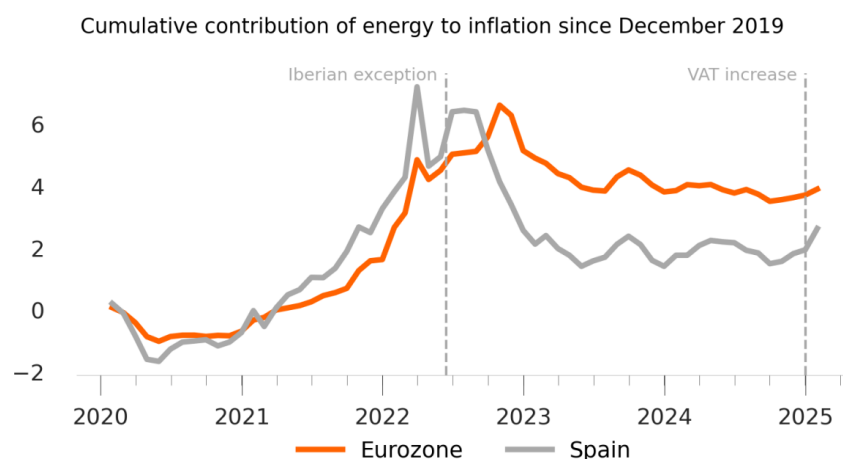
The rise in inflation is mainly driven by higher electricity prices, while there was a notable decline in vehicle fuel prices. Core inflation, excluding food and energy, continued to decrease, falling from 2.4% in January to 2.1%. The ongoing decline in Spanish core inflation is good news for the European Central Bank and serves as a counterweight to recent hawkish comments from ECB board members, as it indicates that underlying price pressures are continuing to ease in Spain, helping the ECB move closer to its target inflation rate.

Upward pressure from electricity prices

Headline inflation figures are consistent with overall eurozone inflation, which has stalled its decline primarily due to rising energy and food prices. In January, Spanish purchasing managers reported increasing input costs across both the manufacturing and services sectors, including utility prices, and indicated a willingness to pass these costs on to output prices.

Spanish consumers are particularly feeling the impact of rising energy prices more profoundly now that protective measures have been phased out. During the energy crisis, Spain notably shielded energy consumers from price hikes through the Iberian exception – a temporary measure implemented by Spain and Portugal to cap the price of gas used in electricity generation – and VAT reductions. As a result, the cumulative contribution of energy inflation to headline inflation in Spain was 2.4 percentage points lower than in the overall eurozone by the end of 2023, when the Iberian exception was phased out (see figure below).

Spain's energy prices had a smaller direct impact on headline inflation compared to the eurozone



Source: Eurostat, ING Research calculations

Along with the phasing out of VAT reductions ([from 10% VAT when electricity prices were sufficiently high back to an unconditional 21%](#)) last month, energy price inflation in Spain has been slightly higher than in the overall eurozone, reducing the cumulative advantage to 1.3 percentage points in January 2025.

The VAT resumption is a one-off event, though, and energy markets are beginning to price in the potential for a Russia-Ukraine peace deal. With core inflation trending down, external demand slowing (as evidenced by Q4 2024 GDP figures and confirmed by purchasing manager surveys at the start of 2025), and [downward pressure from base effects](#), we anticipate inflation will continue to ease throughout 2025. Consequently, we project that headline inflation will decelerate to an annual rate of 2.2% this year.

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