

# THE SPANISH ECONOMY: NEAR-TERM OUTLOOK AND MAIN ECONOMIC CHALLENGES AHEAD

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1. **December 2023 Banco de España projections**
2. **Newly available information**
3. **Risks on the near-term outlook**
4. **Some of the main structural challenges for the Spanish economy**

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# BANCO DE ESPAÑA MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2023-2026

				DECEMBER 2023 PROJECTIONS (a)				DIFFERENCES WITH RESPECT TO THE SEPTEMBER PROJECTIONS			
Annual rate of change (%), unless otherwise indicated	2020	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026
<b>GDP</b>	-11.2	6.4	5.8	2.4	1.6	1.9	1.7	0.1	-0.2	-0.1	-
<b>Harmonised index of consumer prices (HICP)</b>	-0.3	3.0	8.3	3.4	3.3	2.0	1.9	-0.2	-1.0	0.2	-
<b>HICP excl. energy and food</b>	0.5	0.6	3.8	4.1	1.9	1.9	1.8	0.0	-0.4	0.2	-
<b>Unemployment rate (% of labour force). Annual average</b>	15.5	14.8	12.9	12.1	11.7	11.4	11.3	0.1	0.2	0.1	-
<b>General government net lending (+) / net borrowing (-) (% of GDP)</b>	-10.1	-6.7	-4.7	-3.8	-3.4	-3.6	-3.6	-0.1	0.0	0.5	-
<b>General government debt (% of GDP)</b>	120.3	116.8	111.6	107.3	106.3	107.2	108.4	-1.5	-0.6	-0.7	-

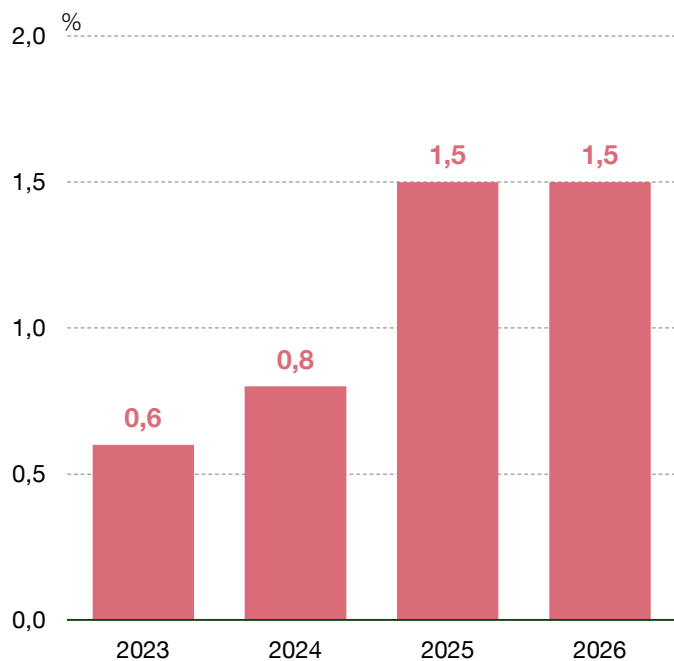
Sources: Banco de España and INE.

(a) Projections cut-off date: 30 November 2023.

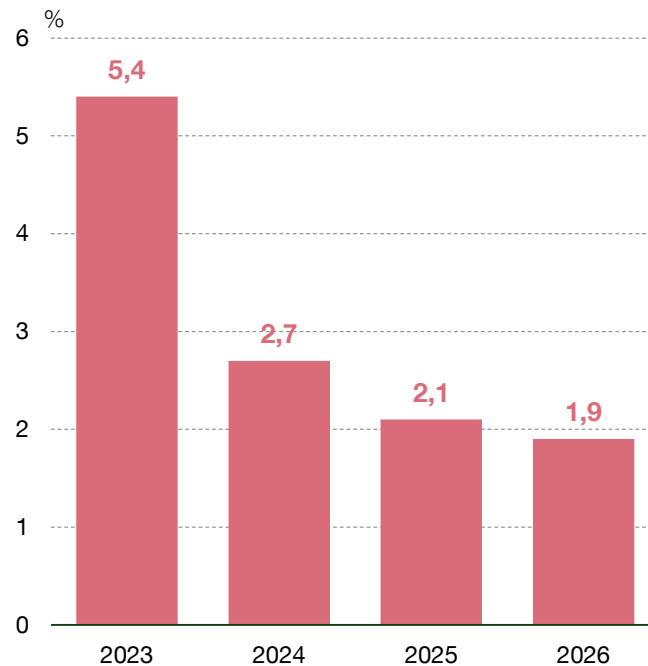
# EUROSYSTEM MACROECONOMIC PROJECTIONS FOR THE EURO AREA 2023-2026

## EURO AREA FORECASTS

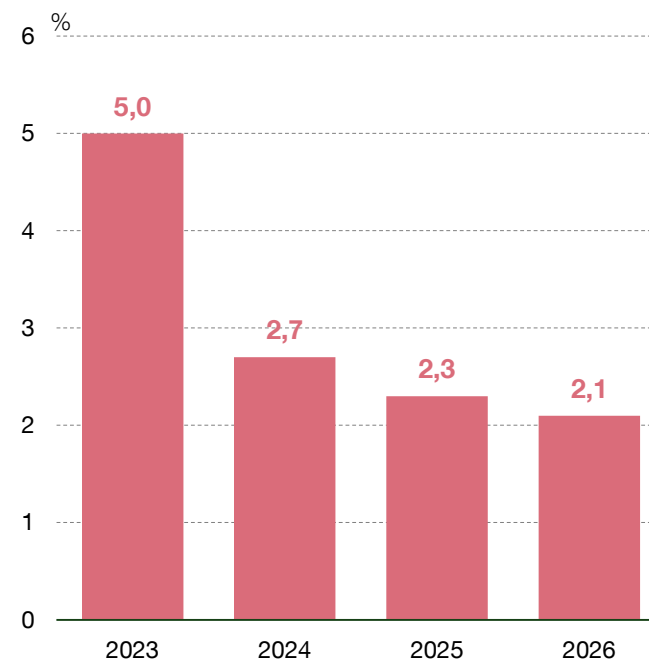
### GDP GROWTH



### HEADLINE INFLATION

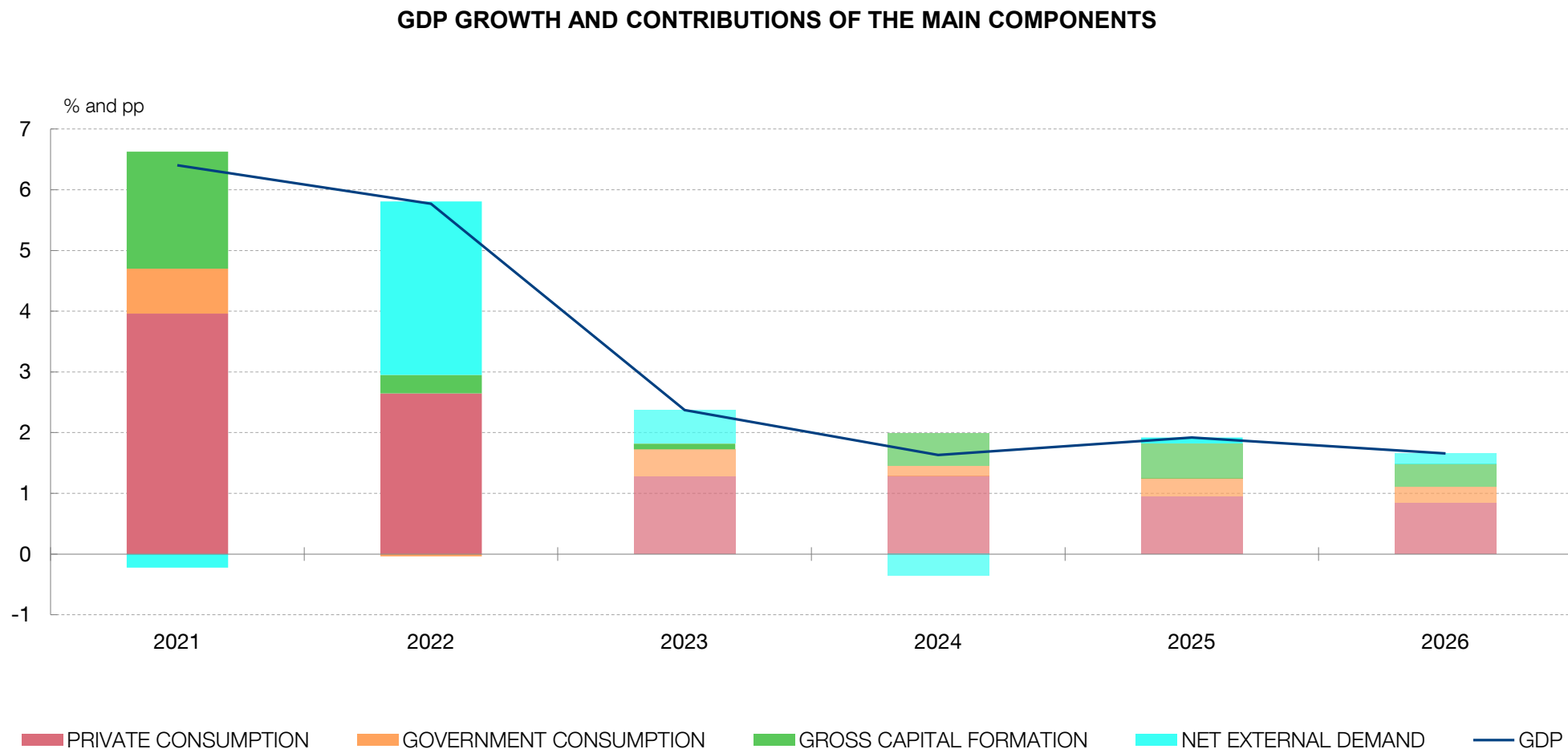


### UNDERLYING INFLATION



Source: Eurosystem.

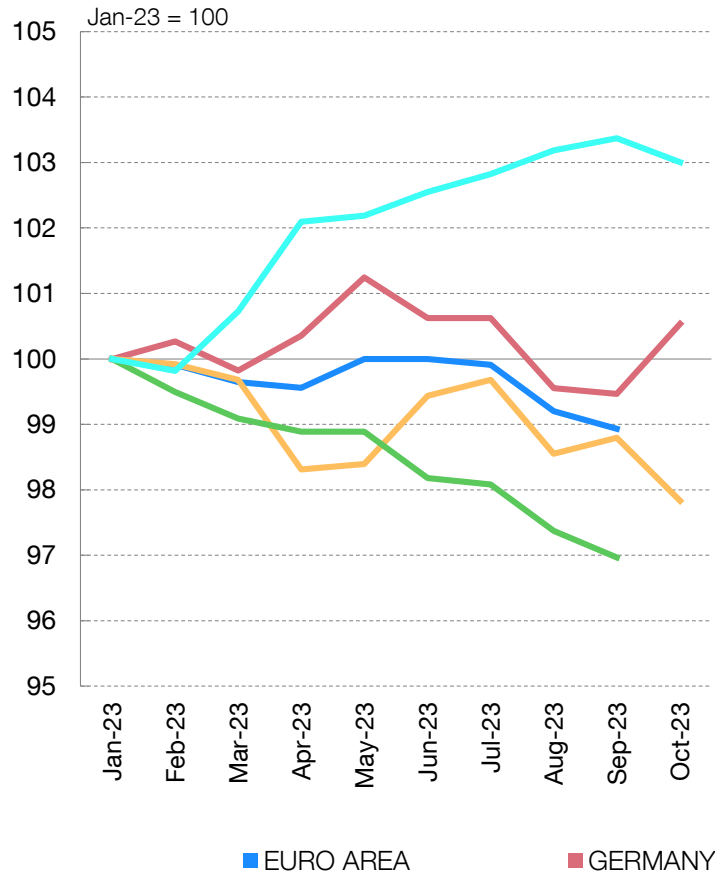
# SPAIN: GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



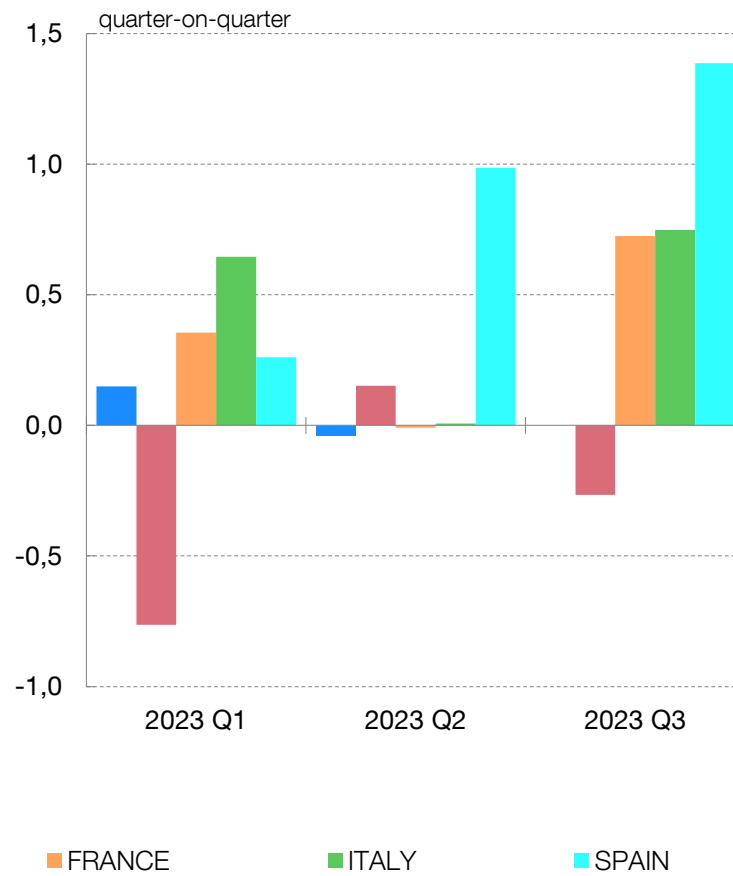
Sources: INE and Banco de España.

# IN RECENT QUARTERS, HOUSEHOLD CONSUMPTION HAS BEEN MORE ROBUST IN SPAIN THAN IN THE MAIN EURO AREA COUNTRIES ...

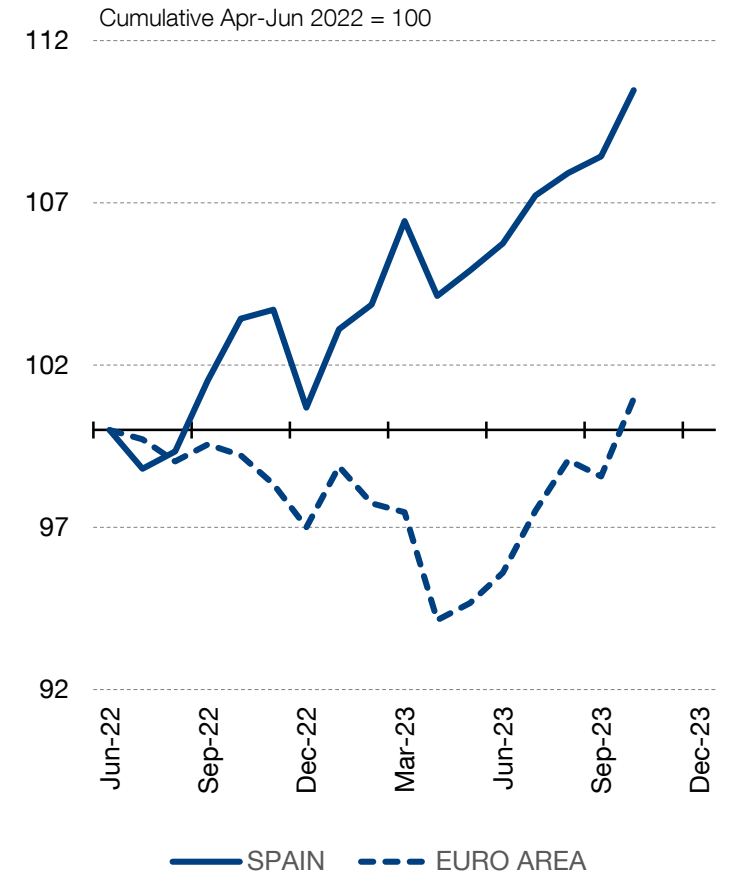
### RETAIL TRADE INDICES



### PRIVATE CONSUMPTION



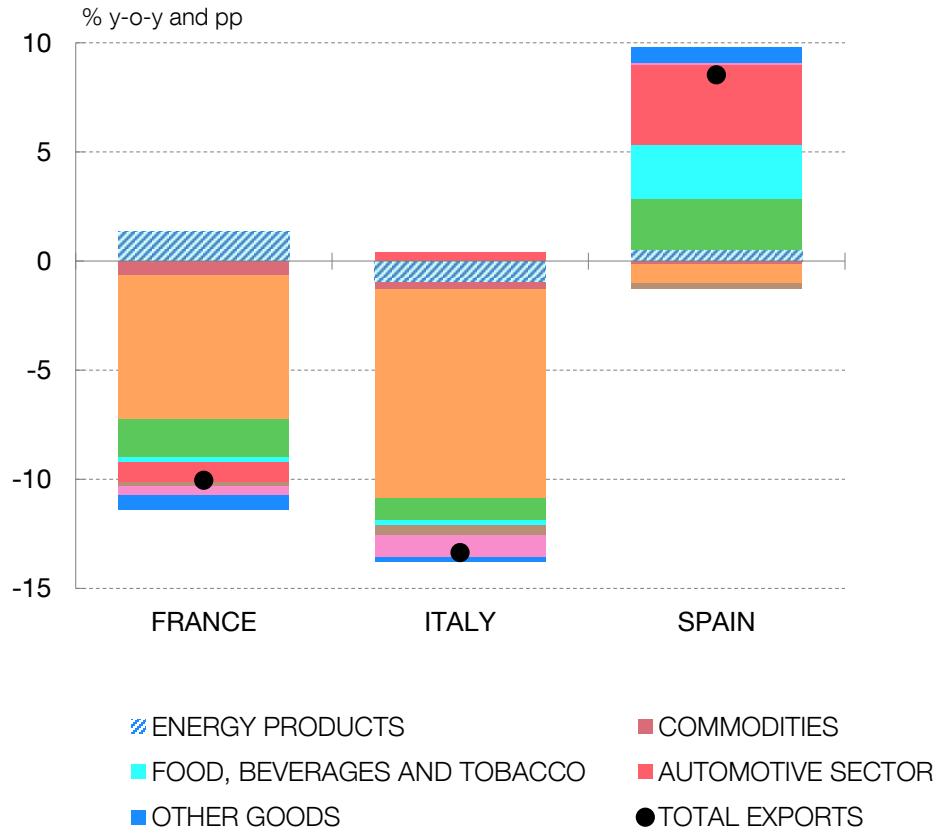
### CONSUMER CREDIT



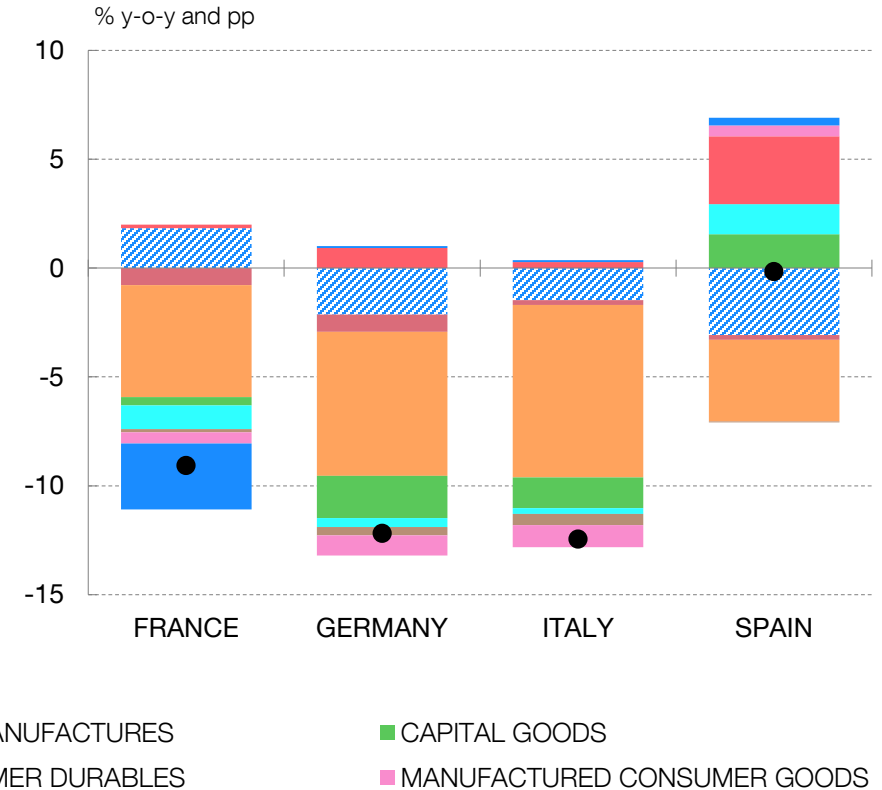
Sources: INE, Eurostat and Consumer Expectations Survey (ECB).

# ... AND SPANISH GOODS EXPORTS TO GERMANY/THE EURO AREA HAVE BEEN NOTABLY RESILIENT, DESPITE THE WEAKNESS OF THESE ECONOMIES

**CONTRIBUTION OF EACH PRODUCT TO THE CHANGE IN EXPORTS TO GERMANY IN 2023 (a)**



**CONTRIBUTION OF EACH PRODUCT TO THE CHANGE IN EXPORTS TO THE EURO AREA IN 2023 (a)**

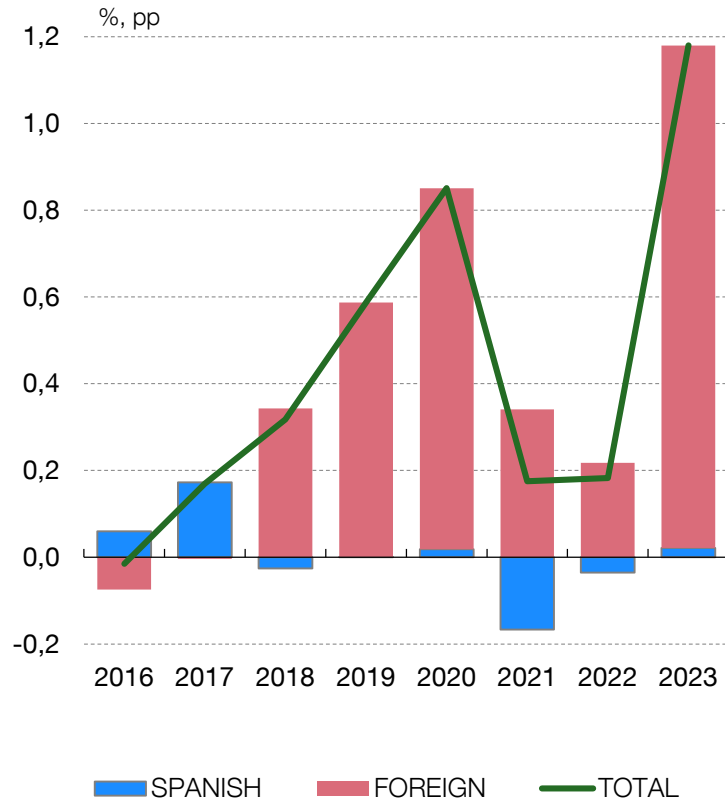


Source: Ministerio de Economía, Comercio y Empresa. Latest data: September 2023.  
 (a) The change covers the period January-September 2023.

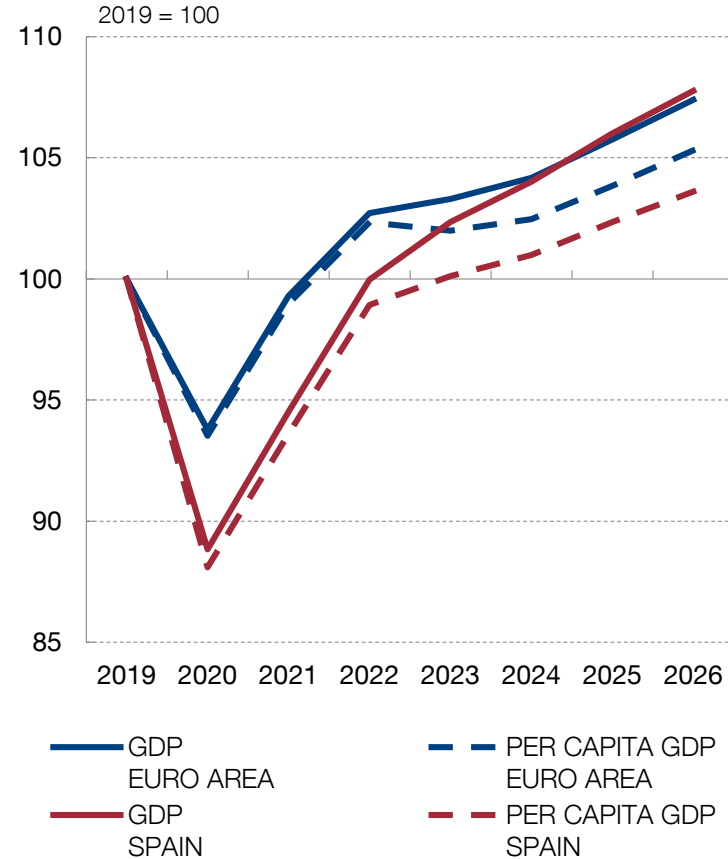


# NONETHELESS, MUCH OF THE ECONOMIC GROWTH IN SPAIN IN RECENT YEARS HAS BEEN DUE TO POPULATION GROWTH, WITHOUT ANY SIGNIFICANT IMPROVEMENT IN PRODUCTIVITY

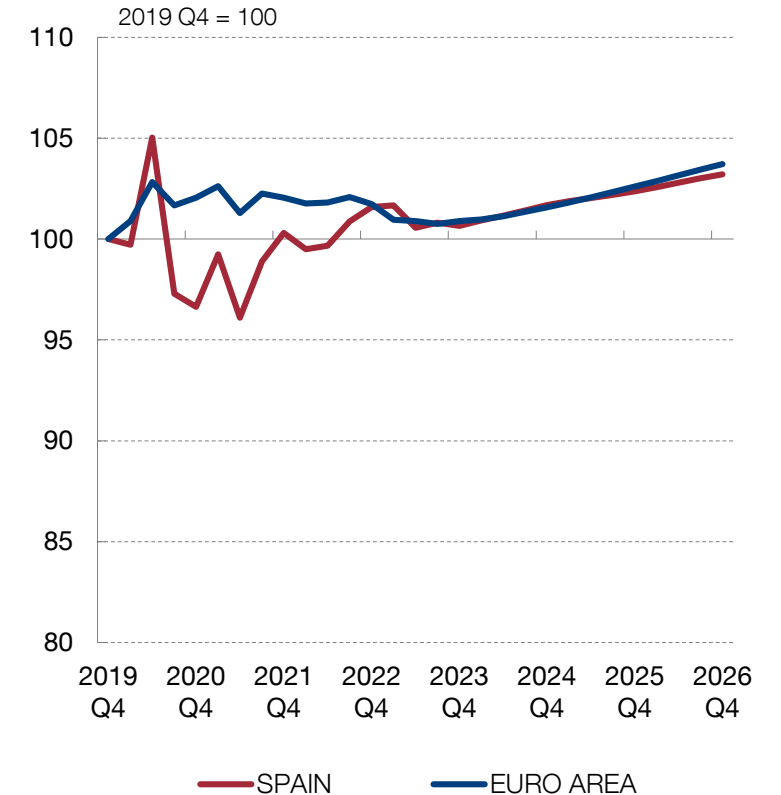
### POPULATION GROWTH IN SPAIN AND CONTRIBUTIONS BY NATIONALITY



### GDP AND PER CAPITA GDP IN SPAIN AND THE EURO AREA

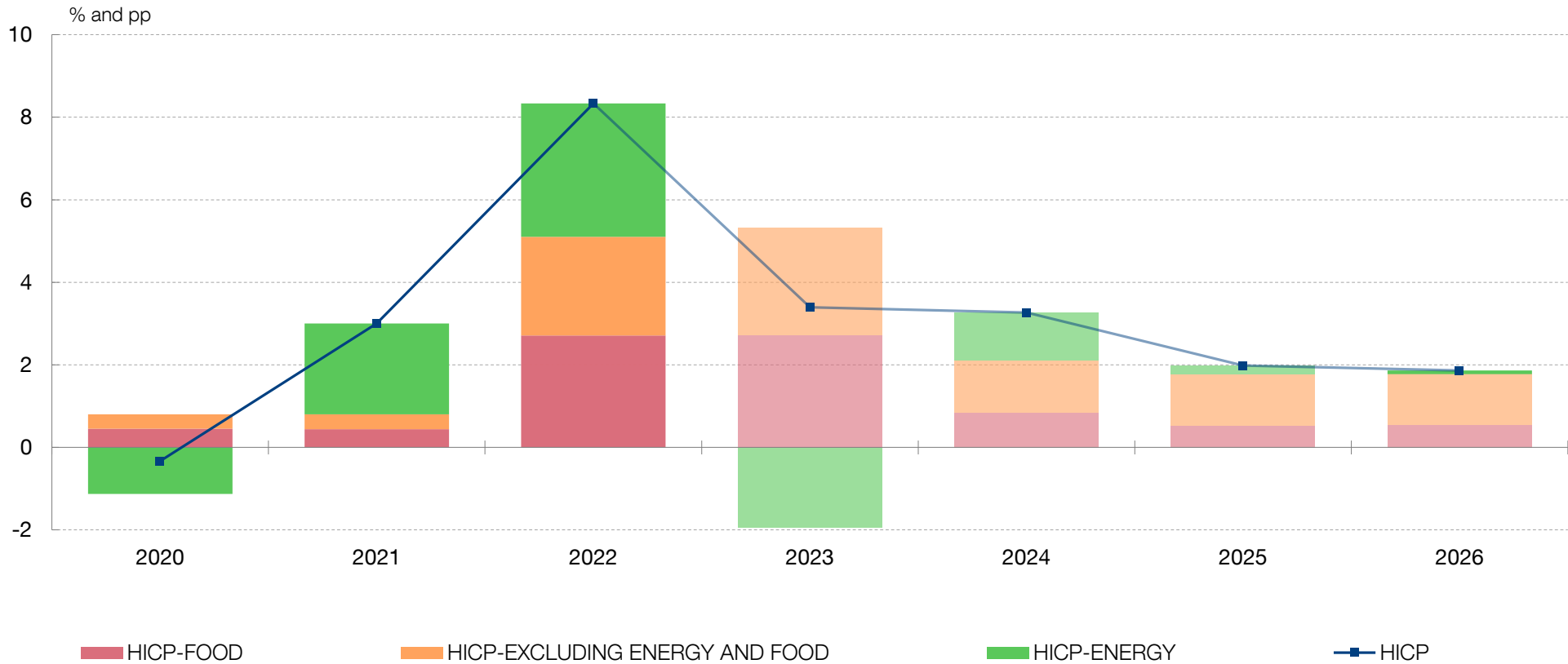


### HOURLY PRODUCTIVITY



Sources: INE, Banco de España and Eurosystem.

## CONTRIBUTIONS TO THE GROWTH OF THE HICP BY COMPONENT



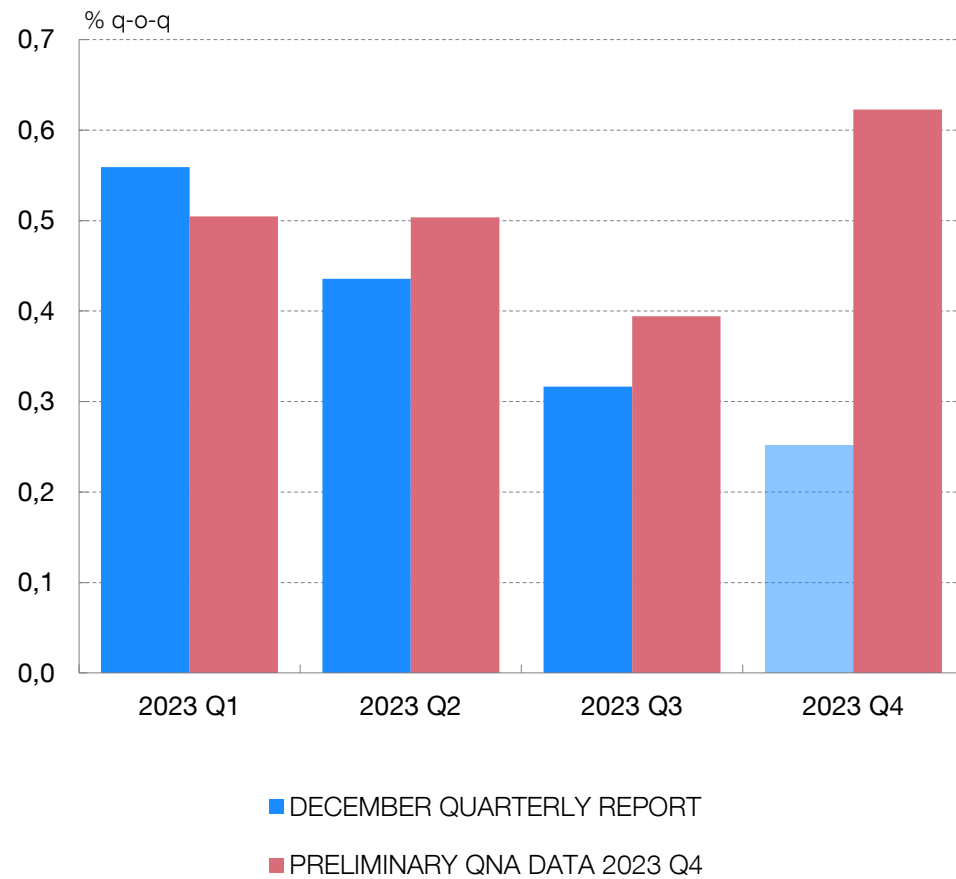
Sources: INE and Banco de España.

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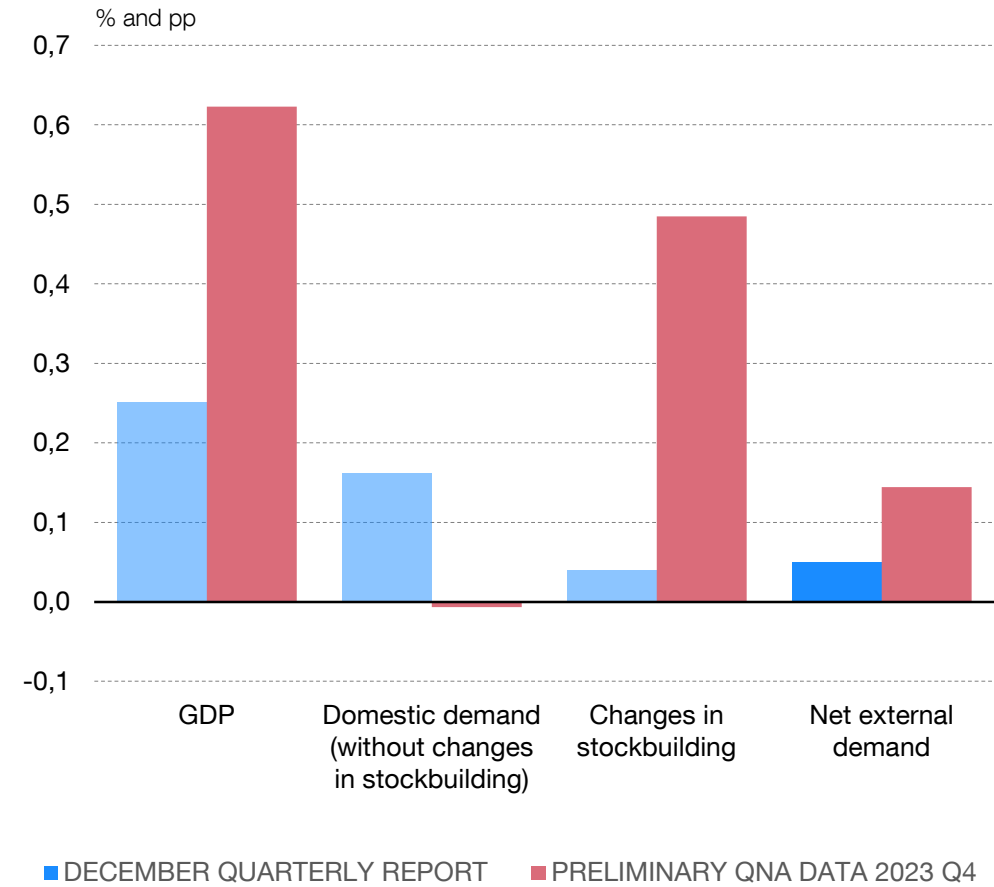
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# THE FLASH ESTIMATE FOR 2023Q4 SURPRISED ON THE UPSIDE, WITH QUARTER-ON-QUARTER GDP GROWTH OF 0.6%

## GDP GROWTH



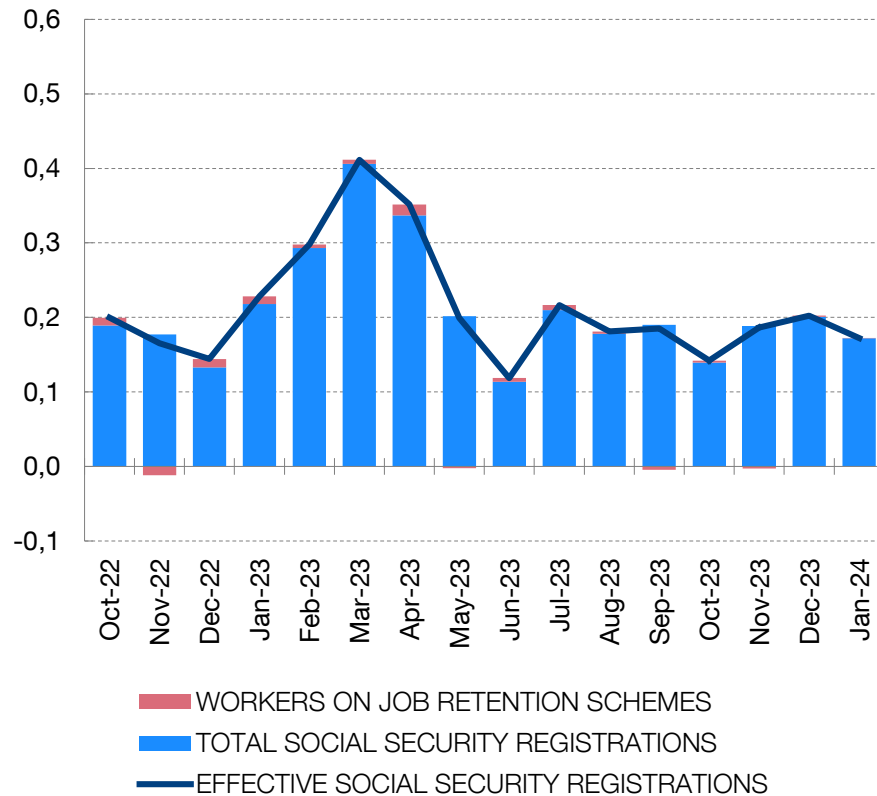
## QUARTER-ON-QUARTER GDP GROWTH IN Q4 AND CONTRIBUTIONS



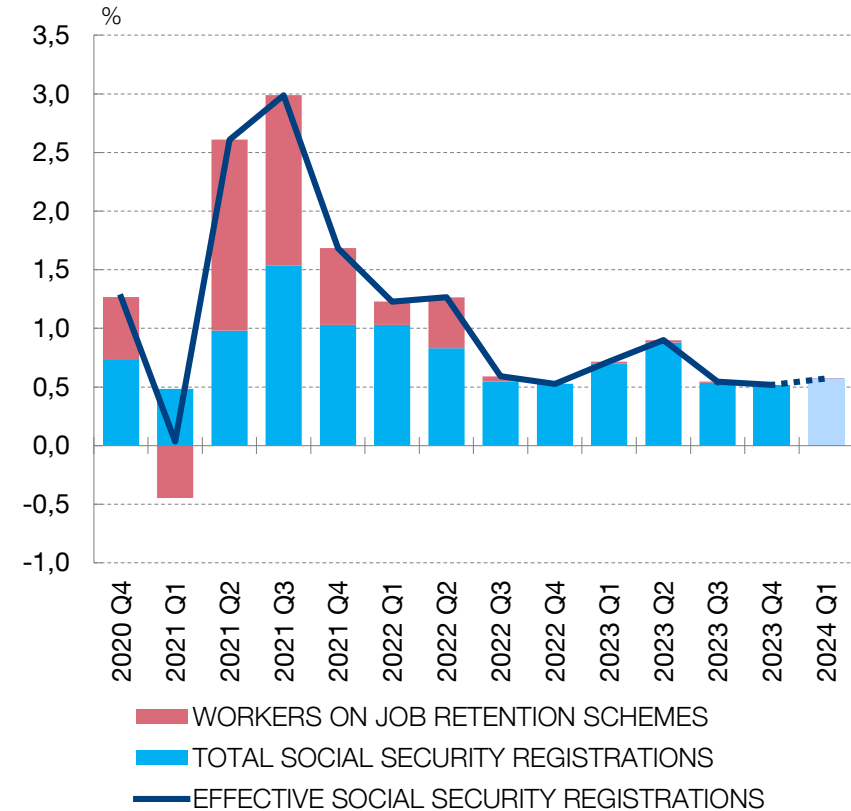
Sources: INE and Banco de España.

# THE LATEST INFORMATION SUGGESTS THAT EMPLOYMENT COULD CONTINUE TO GROW IN 2024Q1 AT A PACE SIMILAR TO THAT OF THE PREVIOUS QUARTER

**TOTAL SOCIAL SECURITY REGISTRATIONS, WORKERS ON JOB RETENTION SCHEMES AND EFFECTIVE SOCIAL SECURITY REGISTRATIONS (a)**



**TOTAL SOCIAL SECURITY REGISTRATIONS, WORKERS ON JOB RETENTION SCHEMES AND EFFECTIVE SOCIAL SECURITY REGISTRATIONS (b)**



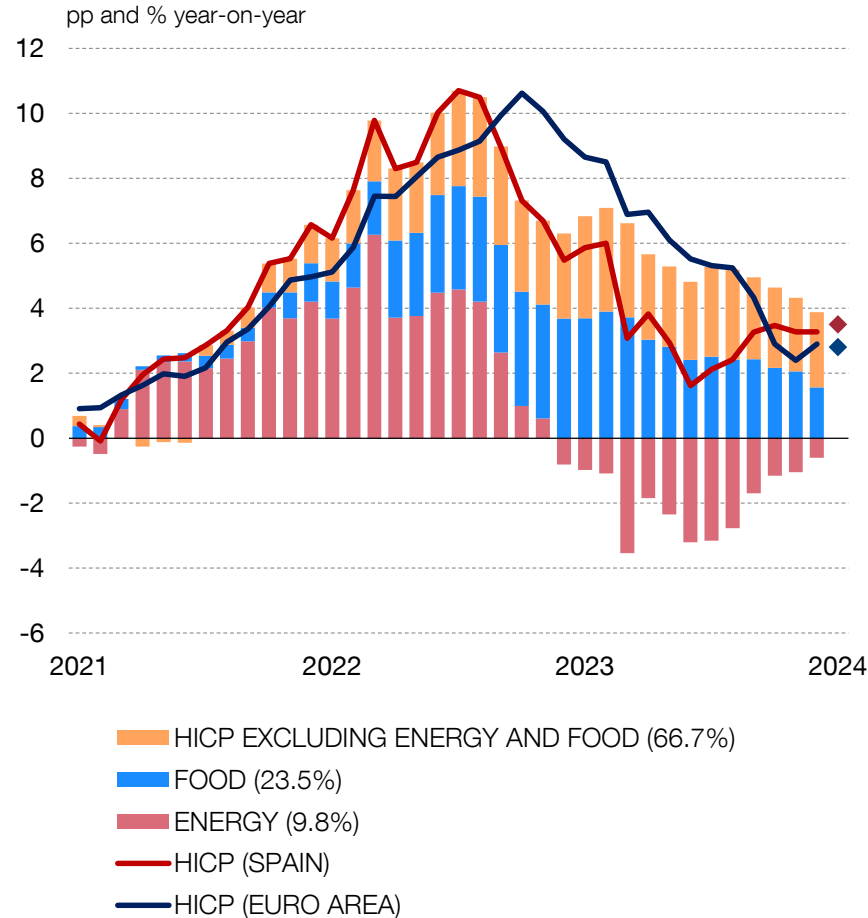
Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest data: January 2023.

(a) Seasonally adjusted monthly rates.

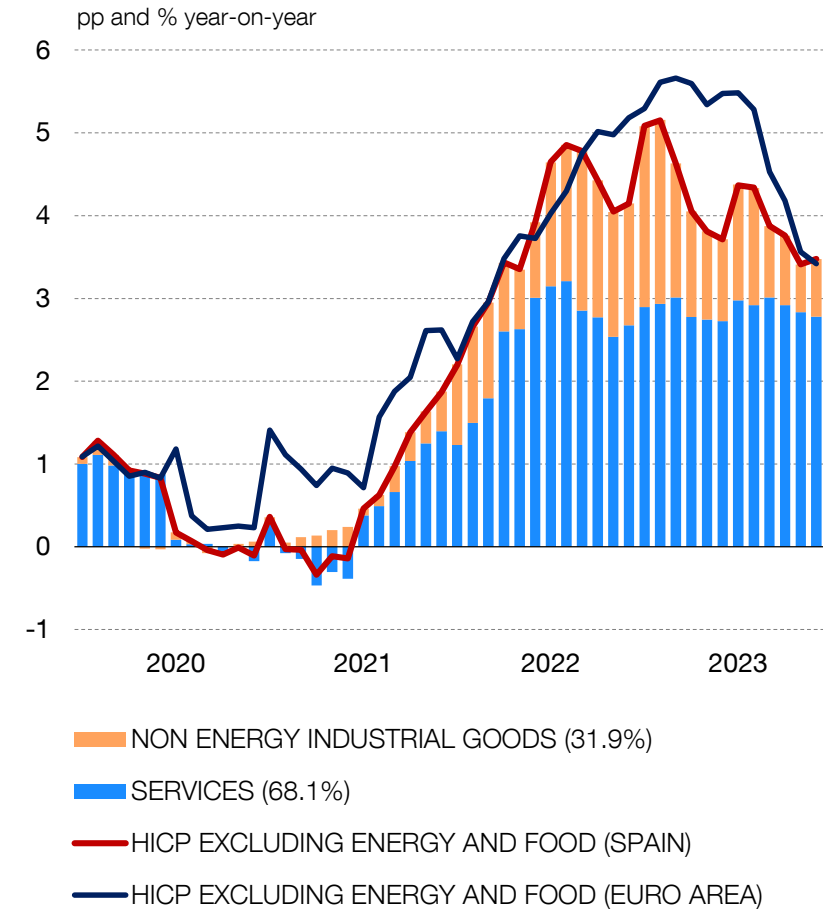
(b) Seasonally adjusted quarterly rates, including the ARIMA model forecast for February and March.

# INFLATION HELD STEADY IN DECEMBER AND PICKED UP SLIGHTLY IN JANUARY

## HEADLINE HICP AND CONTRIBUTIONS (a)



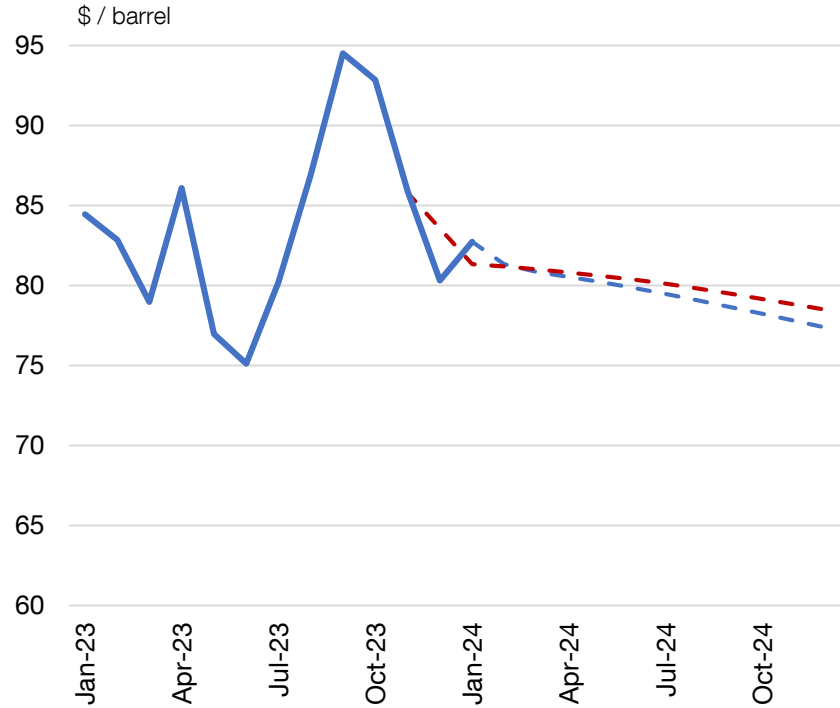
## HICP EXCLUDING ENERGY AND FOOD, AND CONTRIBUTIONS (b)



Sources: INE and Eurostat. Latest data: December 2023 (January flash estimate for headline HICP).  
 (a) The share of each component in headline HICP is shown in brackets.

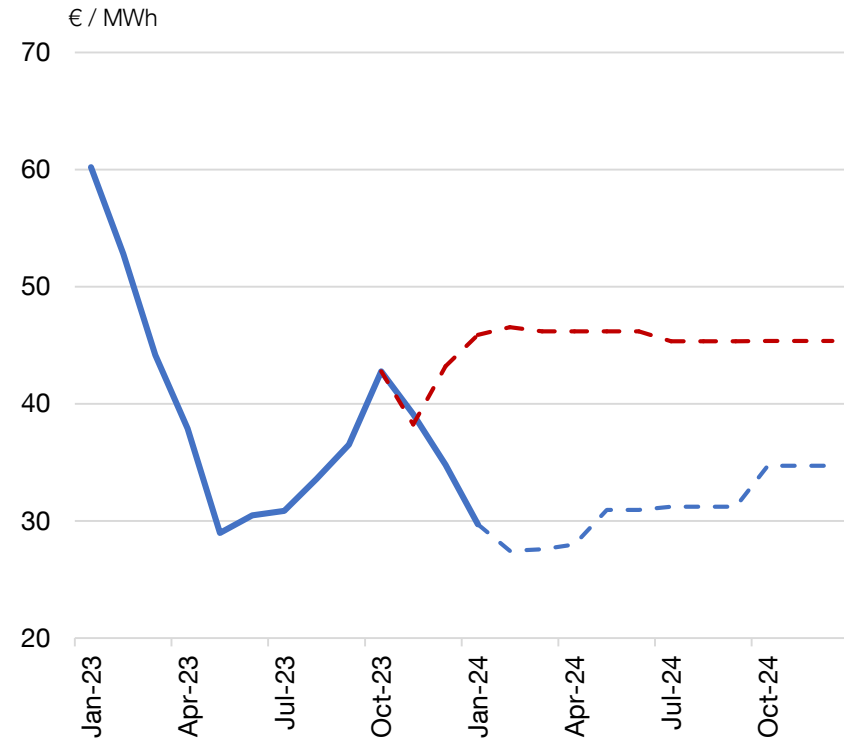
# ENERGY PRICES HAVE SURPRISED ON THE DOWNSIDE IN RECENT MONTHS AND THE OUTLOOK FOR FUTURE PRICE DEVELOPMENTS HAS ALSO BEEN REVISED DOWN

### OIL PRICES AND FUTURES



— DECEMBER 2023 ASSUMPTIONS

### GAS PRICES AND FUTURES (MIBGAS)



— LATEST ASSUMPTIONS (2/2/2024)

Sources: Reuters, Banco de España and MIBGAS.

# MEASURES IN THE NEWLY APPROVED ROYAL DECREE-LAW 8/2023

Assumptions underlying the December 2023 projections	Measures approved in January 2024
<p><b>HICP - electricity</b></p> <ul style="list-style-type: none"> <li>In January 2024, VAT will return to 21% (from 5%) and the excise duty on electricity will return to 5.11% (from 0.05%)</li> </ul>	<p><b>HICP - electricity</b></p> <ul style="list-style-type: none"> <li>VAT was increased to 10% on 1 January 2024</li> <li>The excise duty on electricity is increased to 2.5% in 2024 Q1 and 3.8% in 2024 Q2, and will return to its pre-crisis level of 5.11% from 1 July 2024 onwards</li> </ul>
<p><b>HICP - natural gas</b></p> <ul style="list-style-type: none"> <li>In January 2024, VAT will return to 21% (from 5%)</li> </ul>	<p><b>HICP - natural gas</b></p> <ul style="list-style-type: none"> <li>VAT is increased from 5% to 10% in Q1 and will return to its pre-crisis level of 21% from Q2 onwards</li> </ul>
<p><b>HICP - food</b></p> <ul style="list-style-type: none"> <li>In <u>July 2024</u>, VAT on some foodstuffs will return to 4% (from 0%) and VAT on other foodstuffs will return to 10% (from 5%)</li> </ul>	<p><b>HICP - food</b></p> <ul style="list-style-type: none"> <li>In <u>July 2024</u>, VAT on some foodstuffs will return to 4% (from 0%) and VAT on other foodstuffs will return to 10% (from 5%)</li> </ul>
<p><b>HICP - transport</b></p> <ul style="list-style-type: none"> <li>Transport discounts <u>will be extended until end-2024 and withdrawn in 2025</u></li> </ul>	<p><b>HICP - transport</b></p> <ul style="list-style-type: none"> <li>Transport discounts <u>will be extended until end-2024 and withdrawn in 2025</u></li> </ul>



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# SOME OF THE MAIN SOURCES OF RISK

Escalation in armed conflicts in the Gaza Strip and Ukraine

Scale of the effects of monetary policy tightening on activity and prices

Possible episodes of turmoil/correction in the financial markets

Reduced momentum in global economic activity, i.e. owing to sharper than expected slowdown in China

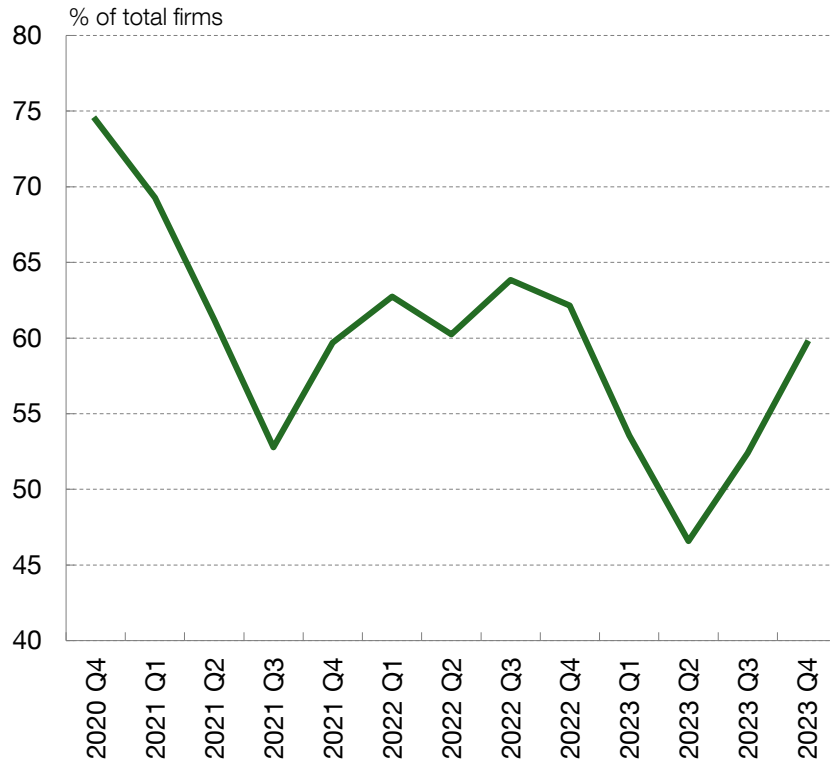
Changes in profit margins, wages, unit labour costs and competitiveness

Uncertainty over economic policies

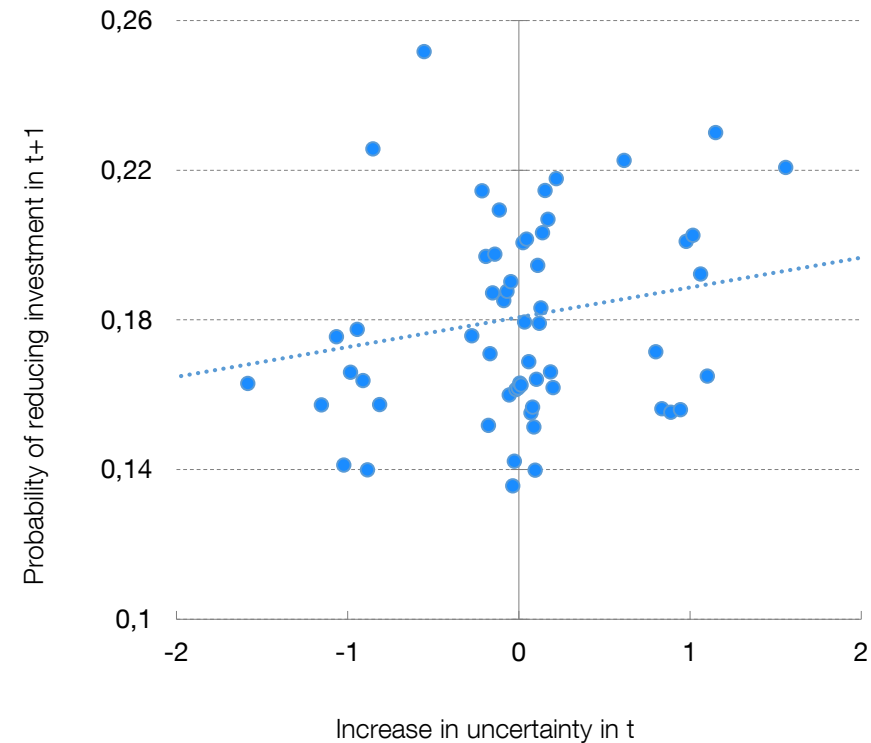
Pace of roll-out of the NGEU-related projects and their impact on activity

# FIRMS SURVEYED IN THE EBAE HAVE BEEN PERCEIVING A RISE IN ECONOMIC POLICY UNCERTAINTY IN RECENT QUARTERS

## FIRMS AFFECTED BY UNCERTAINTY



## RISING UNCERTAINTY AND INVESTMENT DECISIONS (a)

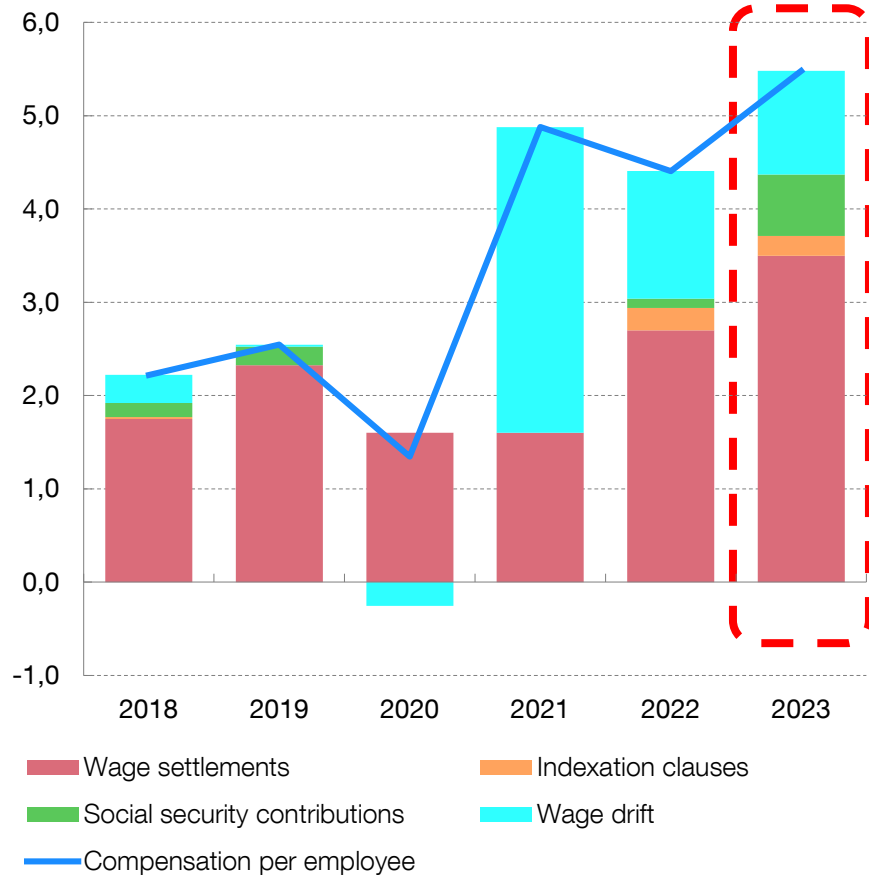


Source: Banco de España Business Activity Survey (EBAE).

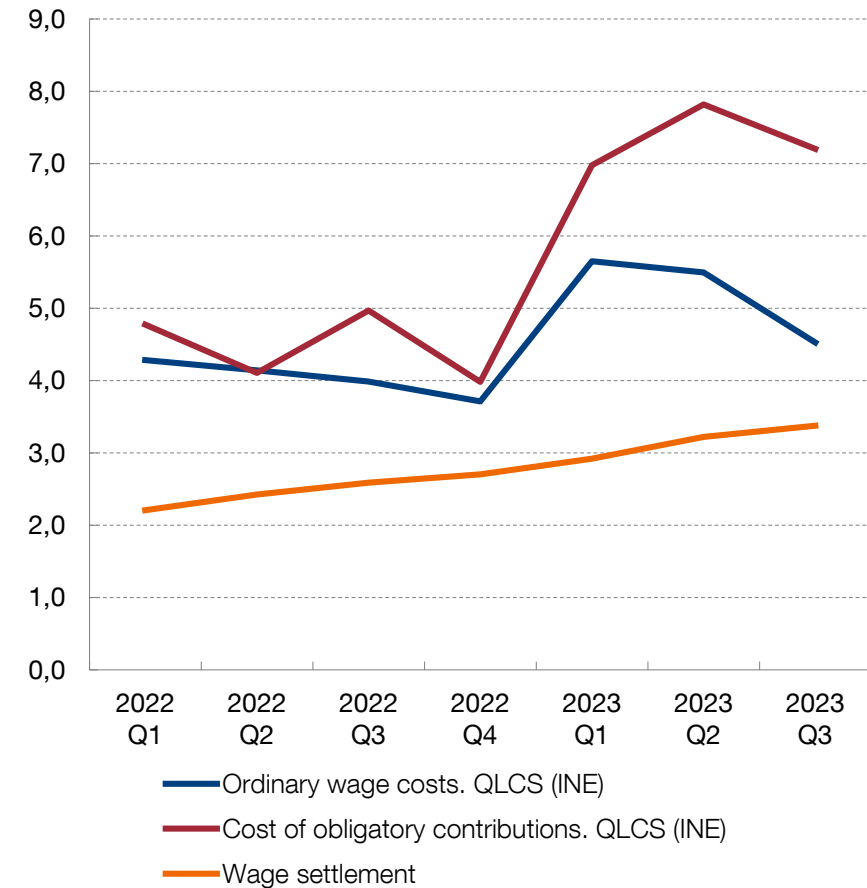
(a) Relationship between the increase in uncertainty perceived by a firm from one EBAE wave to the next and the probability of reporting a decline in investment in the following quarter. Controls are included for fixed effects relating to time, sector, size, changes in current and future demand, and financing conditions. Period: 2022 Q3-2023 Q4.

# IN RECENT QUARTERS, COMPENSATION PER EMPLOYEE IN THE MARKET ECONOMY HAS OUTPACED WAGE INCREASES NEGOTIATED IN COLLECTIVE AGREEMENTS ...

### COMPENSATION PER EMPLOYEE (market economy)



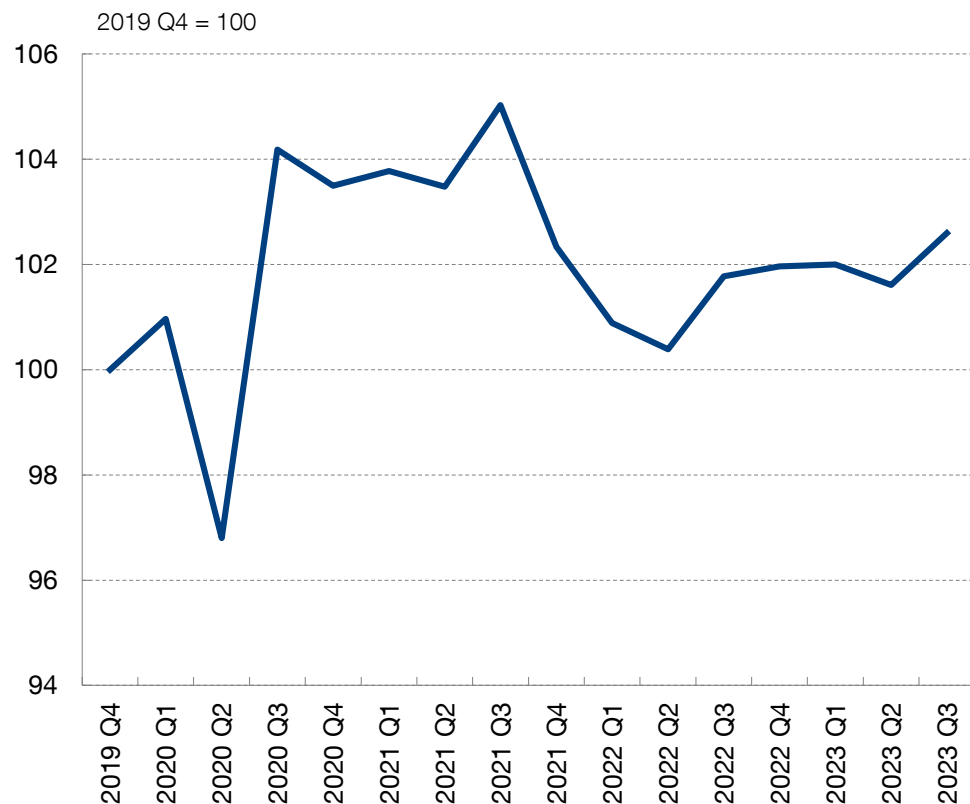
### LABOUR COSTS



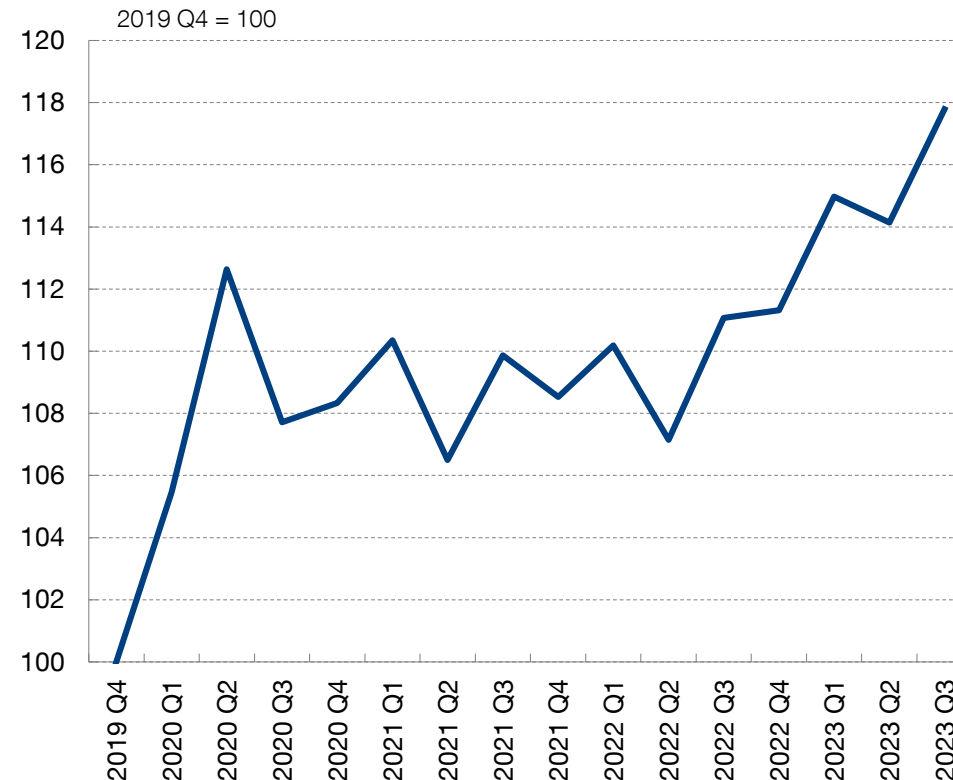
Sources: INE and Banco de España.

# ... AGAINST A BACKDROP OF WEAK PRODUCTIVITY, SUCH DEVELOPMENTS IN COMPENSATION PER EMPLOYEE MEAN HIGHER UNIT LABOUR COSTS

### REAL COMPENSATION PER EMPLOYEE



### UNIT LABOUR COSTS



Sources: INE and Banco de España.

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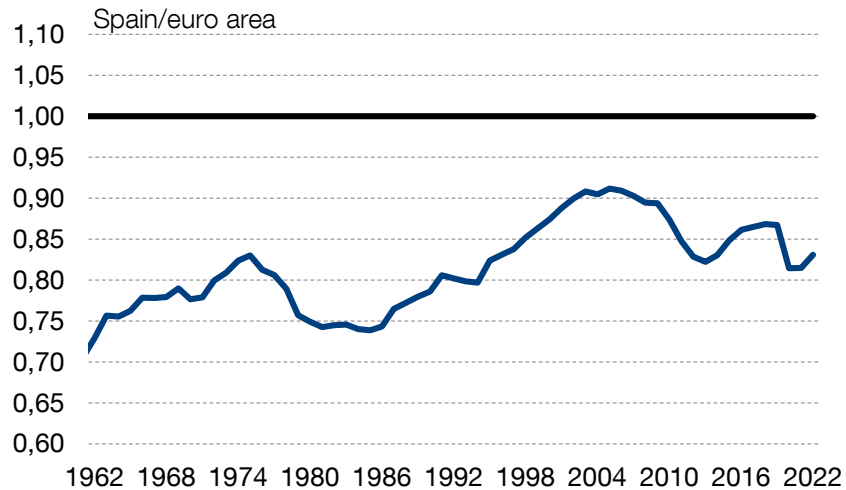
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# SPAIN'S ECONOMIC GROWTH IN RECENT DECADES HAS NOT BEEN SUFFICIENT TO ACHIEVE CONVERGENCE WITH EURO AREA PER CAPITA INCOME LEVELS

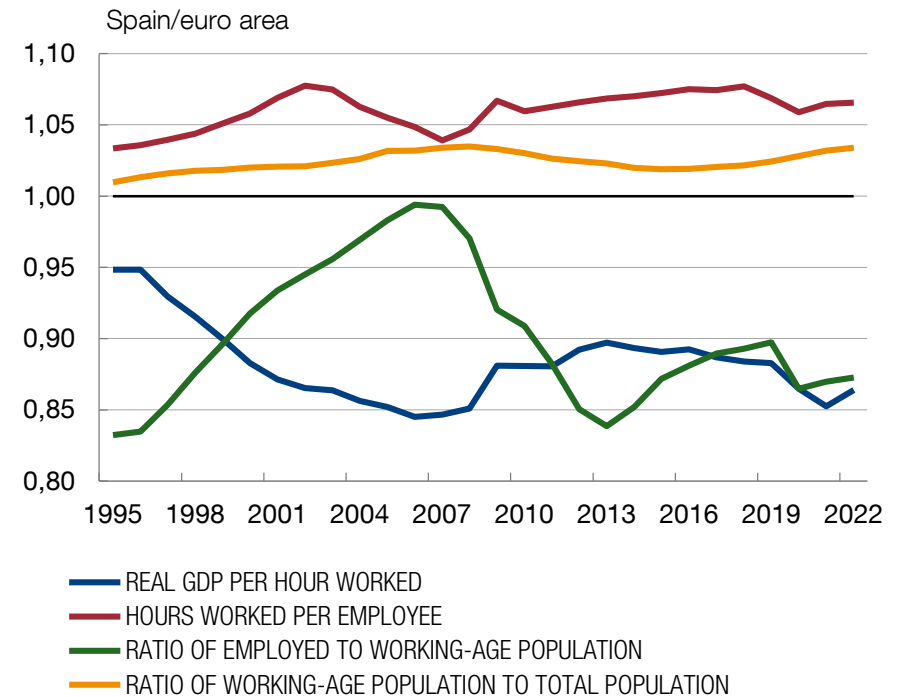
This lack of convergence is fundamentally driven by the persistence of two well-known shortcomings in the Spanish economy: **low productivity** and **a low rate of employment**

$$\frac{\text{GDP}}{P_{\text{total}}} = \frac{\text{GDP}}{\text{Hours}} \frac{\text{Hours}}{L} \frac{L}{P_{16-64}} \frac{P_{16-64}}{P_{\text{total}}}$$

**GDP PER CAPITA (a)**



**COMPONENTS OF GDP PER CAPITA (a)**

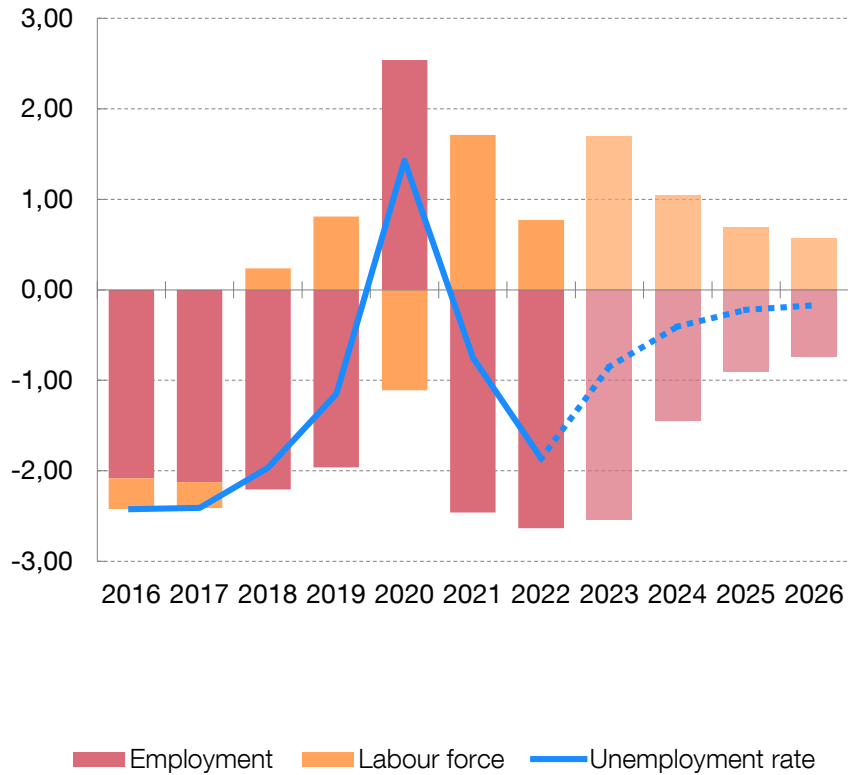


Source: Eurostat.

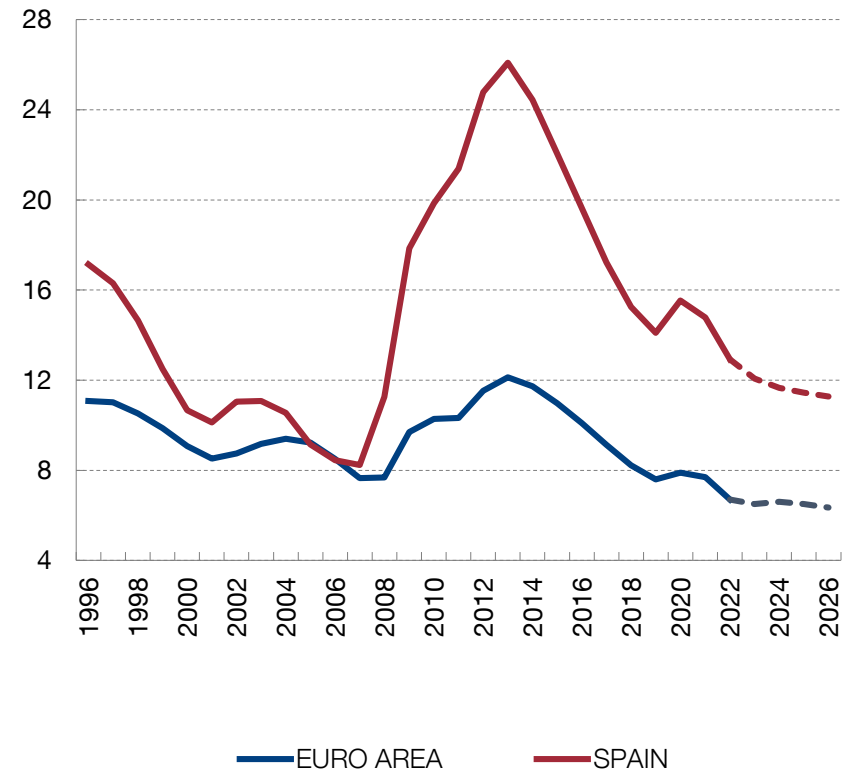
(a) GDP per capita in Spain relative to the 19 euro area countries, in real and relative purchasing power parity terms.

# WHILE SPAIN'S UNEMPLOYMENT RATE IS EXPECTED TO GRADUALLY DECLINE OVER THE COMING YEARS, IT WILL REMAIN WELL ABOVE THAT OF THE EURO AREA

**ANNUAL CHANGE IN THE UNEMPLOYMENT RATE AND CONTRIBUTIONS OF EMPLOYMENT AND THE LABOUR FORCE**



**UNEMPLOYMENT RATE**

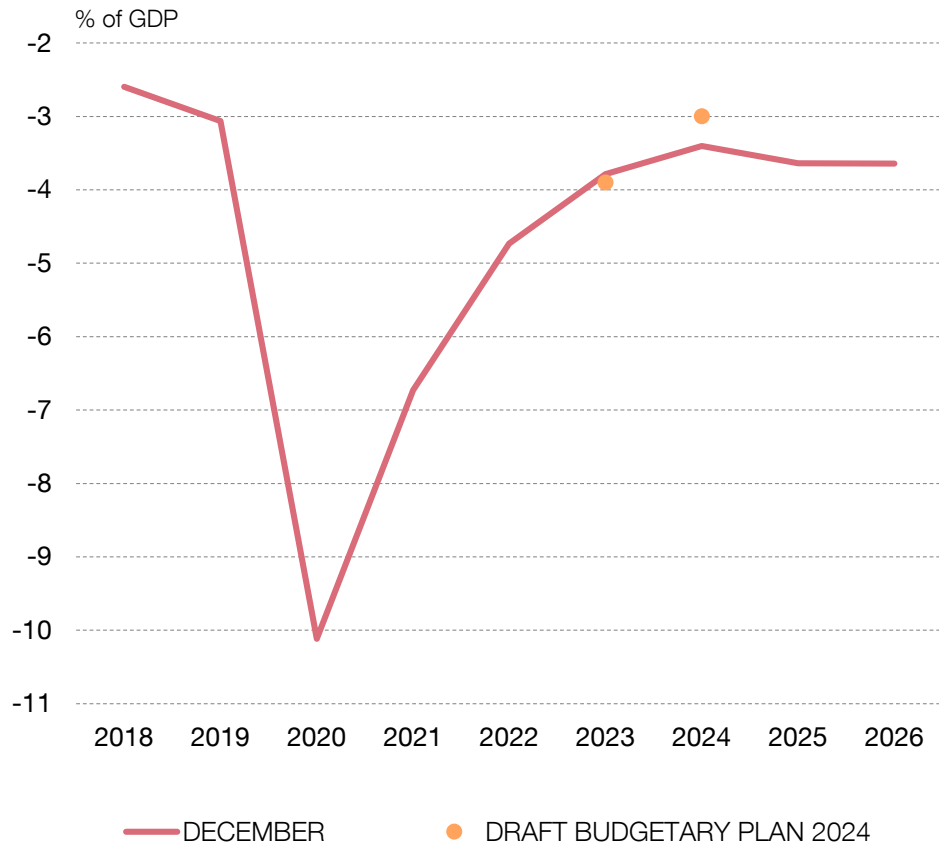


Sources: INE, Eurostat, Eurosystem's December 2023 macroeconomic projections and Banco de España.

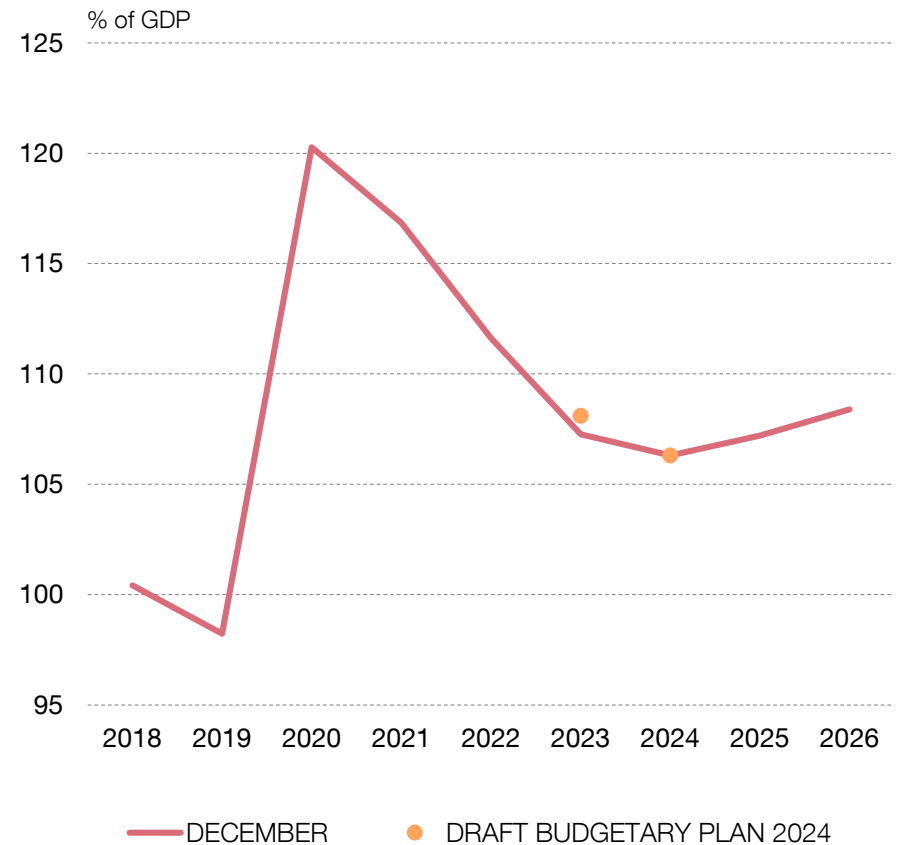


# GENERAL GOVERNMENT DEBT- AND DEFICIT-TO-GDP RATIOS WILL REMAIN VERY HIGH IN THE COMING YEARS

## GENERAL GOVERNMENT DEFICIT



## GENERAL GOVERNMENT DEBT



Sources: IGAE, INE, Draft Budgetary Plan 2024 and Banco de España.

THANK YOU FOR YOUR ATTENTION

