

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2026)

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- 1. External environment**
- 2. Recent developments in the Spanish economy**
- 3. Macroeconomic projections (2024-2026)**
- 4. Focal points**
 - 4.1. Investment: recent developments**
 - 4.2. Wage drift and labour market tightness**
 - 4.3. Exposure of Spanish firms to China**

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EXTERNAL ENVIRONMENT

Activity

- Global economic activity shows signs of stabilisation
- Global GDP growth in 2024 has been revised slightly upwards in recent months, but will remain at relatively moderate rates in historical terms

Inflation

- The global disinflation process continues, even at a somewhat faster pace than forecast in some regions

Energy

- Energy prices in the international markets have continued to fall in recent months, especially in the case of natural gas, contributing to the buoyancy of activity and the moderation of inflation

Monetary policy

- Although the central banks of the main advanced economies maintain their policy rates unchanged, the financial markets anticipate that they will begin a cycle of interest rate cuts in the coming months

Financial markets

- Despite the recent increase in long-term interest rates, the main stock market indices have risen notably over the quarter and risk premia have remained contained

Euro area

- Economic activity remains lacklustre and growth projections for the short and medium term are modest
- Inflation has surprised on the upside in recent months

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RECENT DEVELOPMENTS IN THE SPANISH ECONOMY ACTIVITY

Quarterly National Accounts
2023 Q4

- Unexpected pick-up in GDP growth in 2023 Q4 and slight upward revision to the rates of change of GDP in 2023 Q2 and 2023 Q3
- Despite these upside surprises, the composition of this growth provides mixed signals

Employment

- Job creation remains strong, buoyed, as in previous quarters, by the strength of employment among foreign nationals

Confidence indicators

- On data to February, PMIs rose above the levels observed at end-2023, particularly in the case of manufacturing PMIs

Banco de España Business
Activity Survey (EBAE)

- The results of the EBAE suggest that turnover declined in aggregate terms in Q1 as a whole compared with the previous quarter

Financing conditions

- Credit dynamics appear to be stabilising, in terms of both (high) prices and (low) amounts, and (banks') supply and (households' and firms') demand conditions

The joint analysis of the various indicators available suggests that the GDP growth rate in 2024 Q1 could rise to 0.4% quarter-on-quarter (📈)

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

PRICES

Headline inflation

- Headline inflation declined to 2.9% in February, following the increase observed in January, which reflected the partial reversal of support measures deployed in response to the energy crisis

Food inflation

- On data to January, the slowdown in food prices halted at the start of the year, mainly owing to the base effect stemming from the VAT rate reduction in early 2023

Underlying inflation

- In recent months underlying inflation has prolonged its decline, to 3.2% year-on-year in January, nearly 2 pp below that recorded a year earlier
- Greater slowdown in non-energy industrial goods than in services

Surprises in recent months

- Downside in energy, upside in food and core inflation

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MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2026)

SUMMARY TABLE

				MARCH 2024 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE DECEMBER PROJECTIONS				
	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026	
Annual rate of change (%), unless otherwise stated											
GDP	6.4	5.8	2.5	1.9	1.9	1.7	0.1	0.3	0.0	0.0	
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	2.7	1.9	1.7	0.0	-0.6	-0.1	-0.2	
HICP excl. energy and food	0.6	3.8	4.1	2.2	1.9	1.8	0.0	0.3	0.0	0.0	
Unemployment rate (% of labour force). Annual average	14.8	12.9	12.1	11.6	11.5	11.3	0.0	-0.1	0.1	0.0	
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.7	-3.8	-3.5	-3.5	-3.5	0.0	-0.1	0.1	0.1	
General government debt (% of GDP)	116.8	111.6	107.7	106.5	107.2	108.4	0.4	0.2	0.0	0.0	

Source: Banco de España.
(a) Projections cut-off date: 22 February 2024.

[More details](#) 

MAIN DETERMINANTS OF THESE PROJECTIONS ACTIVITY

Some factors that will contribute positively to the buoyancy of activity over the projection horizon

The negative impact on activity of **monetary policy** tightening will dissipate gradually

Real income will grow and the **European and global economy** will gradually gain momentum

Larger rollout of **NGEU funds** and higher **population growth** than expected

Some factors that will contribute negatively to the buoyancy of activity over the projection horizon

Some **tailwinds** that have recently boosted growth will peter out

Persistence of considerable **geopolitical tensions** and **energy prices** above their pre-pandemic level

Possible structural factors in the recent weakness of **investment**



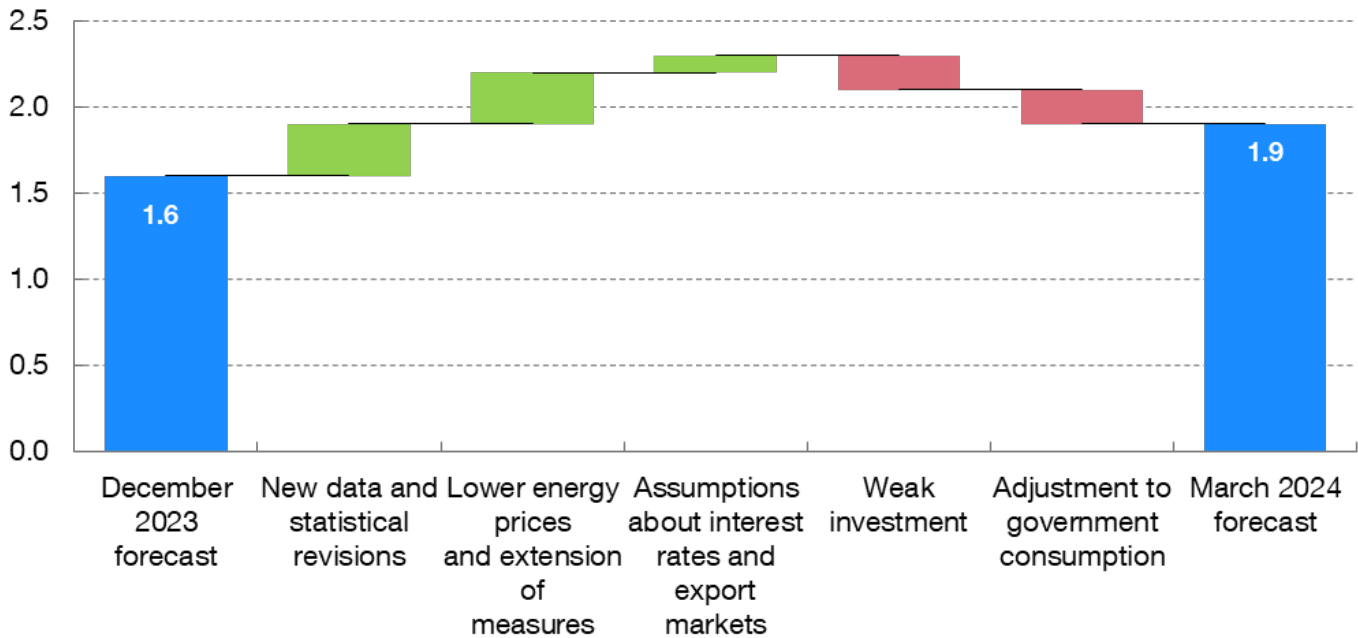
In the coming months, relatively stable GDP growth rates are expected to converge, over the projection horizon, toward rates consistent with the Spanish economy's growth potential.

Growth will be driven by domestic demand, especially by private consumption (*)

COMPARED WITH THE DECEMBER PROJECTIONS, GDP GROWTH FOR 2024 IS REVISED UP BY 0.3 PP, TO 1.9%

- **Upward revision:** the new QNA data and some more favourable assumptions about growth with regard to the future path of energy prices and interest rates, and the partial extension of some of the support measures in response to the energy crisis
- **Downward revision:** weak investment and the assumption about government consumption losing steam slightly

CHANGES IN THE GDP GROWTH FORECAST FOR 2024



Source: Banco de España.

MAIN DETERMINANTS OF THESE PROJECTIONS PRICES

Some of the factors that will contribute to inflation remaining on a gradual downward path over the coming quarters (*)

Relatively favourable dynamics for **energy prices**
(although the energy component of the HICP will not make as negative a contribution as in 2023 going forward)

Gradual pass-through to the other components of the HICP of the observed decreases in energy prices (in line with the dynamics observed in **producer prices in the early stages of production**)

Impact on demand of the cumulative tightening of **monetary policy**

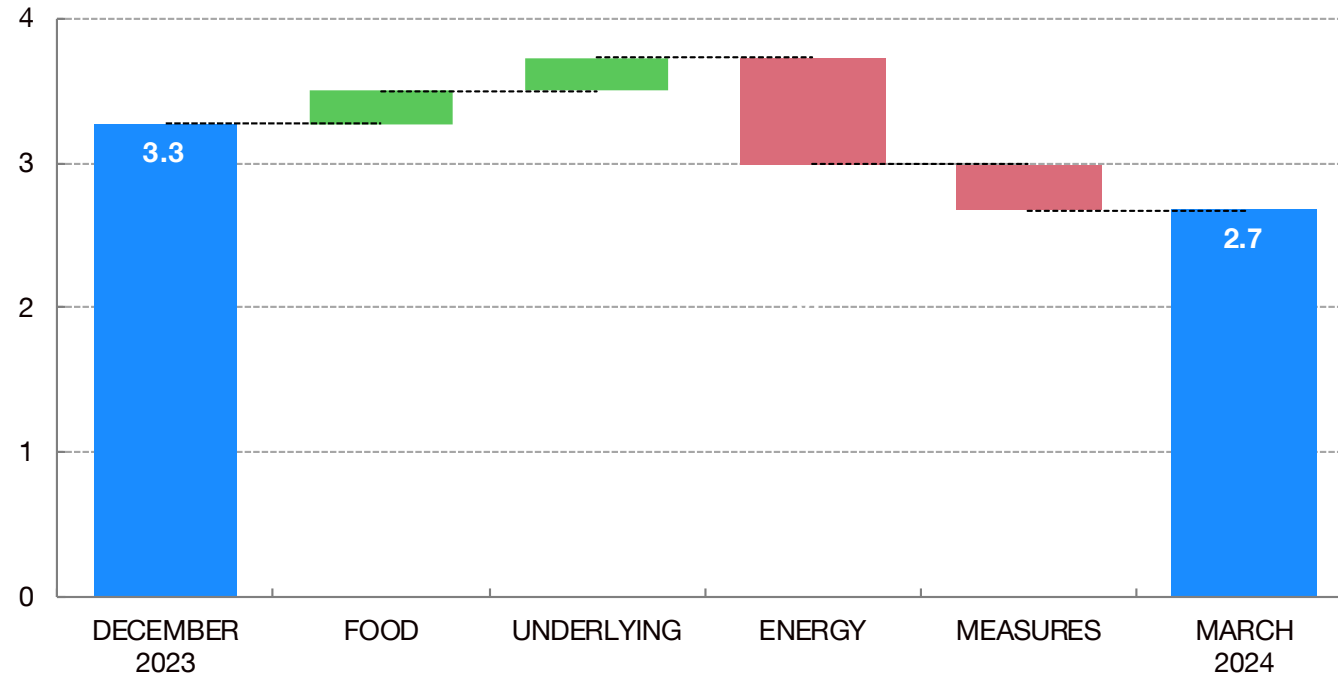
Assumption that significant **second-round effects** on inflation will not materialise (consistent with **recent developments in wage settlements and profit margins**)

(with upside risks, against a backdrop of high positive wage drift and sluggish productivity)

COMPARED WITH THE DECEMBER PROJECTIONS, HEADLINE INFLATION IN 2024 IS REVISED DOWN BY 0.6 PP, TO AN AVERAGE RATE OF 2.7%

- **Downward revision:** (1) the lower energy prices observed in recent months and the more favourable outlook that the futures markets now signal for energy prices over the coming quarters, and (2) the partial extension (not envisaged in the December projections) of some of the measures deployed in response to the energy crisis
- **Upward revision:** recent upward surprises in underlying and food inflation

CHANGES IN THE INFLATION FORECAST FOR 2024



Sources: INE and Banco de España.

MAIN DETERMINANTS OF THESE PROJECTIONS PUBLIC FINANCES

The revised forecast growth and inflation paths, and the partial extension (not envisaged in the December projections) of some of the measures deployed in response to the energy crisis have opposite impacts on the budget deficit forecasts, which undergo minor adjustments over the projection horizon

The decline in the deficit in 2023 was the result of high revenue growth (of 8.5% to November, although negative tax residuals are now being observed) and lower growth in spending that, nevertheless, grew by 6.5%, driven up by the revaluation of pensions and the momentum of government consumption

In the absence of further fiscal measures, over the coming years the budget deficit would stand at around 3.5% of GDP (with a structural deficit of close to 4%), while government debt would remain above 105% of GDP

BALANCE OF RISKS IN THIS PROJECTIONS EXERCISE

The risks are **tilted to the downside** for the economic growth projections, while they are considered to be **balanced** in the case of projected inflation

Some of the main sources of risk

Escalation of the conflicts
in the Gaza Strip, the Red Sea and Ukraine

Size of the effects of monetary tightening on
activity and prices

Profit margins, wages, unit labour costs and
competitiveness

Sluggish global economic activity (i.e. due to a
sharper than expected slowdown in China)

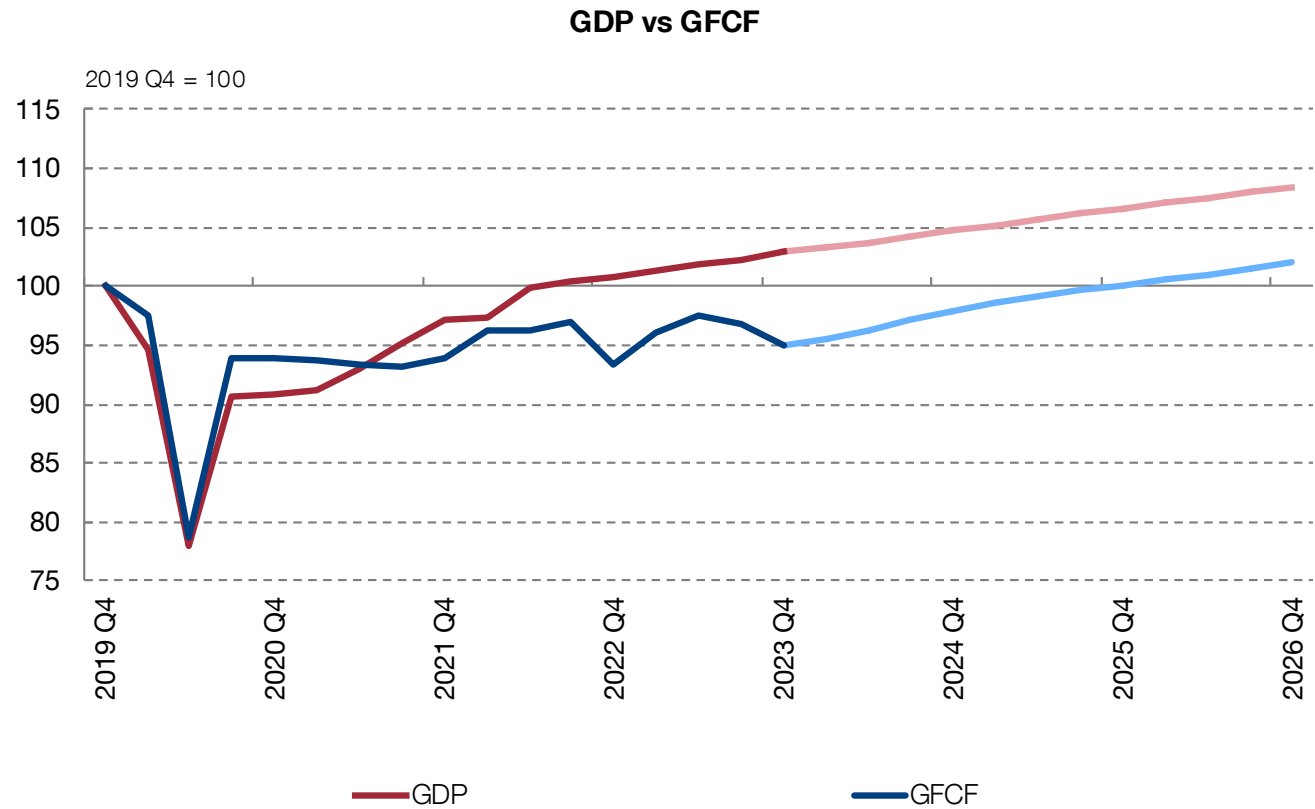
Reactivation of the
European fiscal rules

Pace of execution of NGEU projects
and impact on activity

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SINCE THE PANDEMIC, INVESTMENT HAS BEEN MORE SLUGGISH THAN ACTIVITY, ...

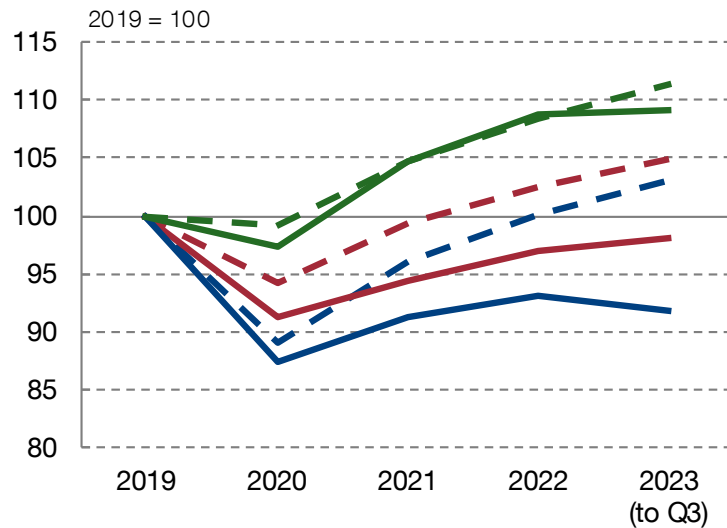


Sources: INE and Banco de España.

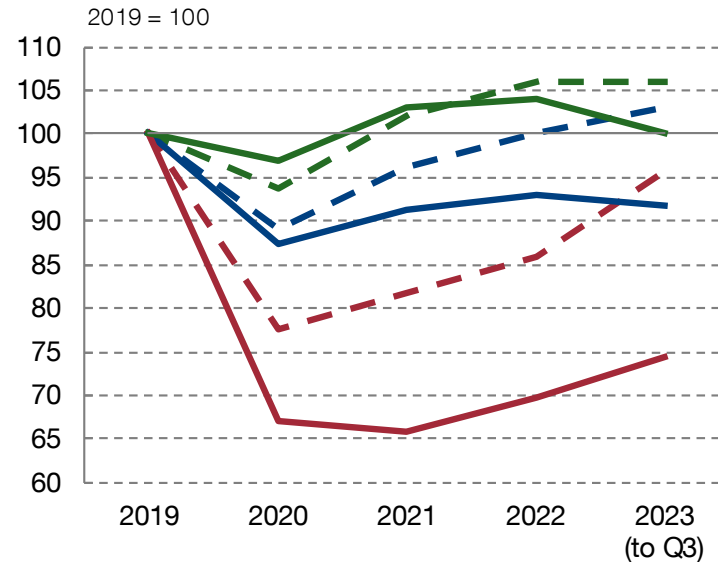
... WITH TRANSPORT AND HOUSING PERFORMING PARTICULARLY WEAKLY

- Investment in intellectual property has been the most dynamic component of GFCF since the pandemic, both in Spain and in the euro area, but it still accounts for a small share of total GFCF
- Turning to investment in capital goods, machinery has already recovered its pre-pandemic levels, while transport is lagging further behind

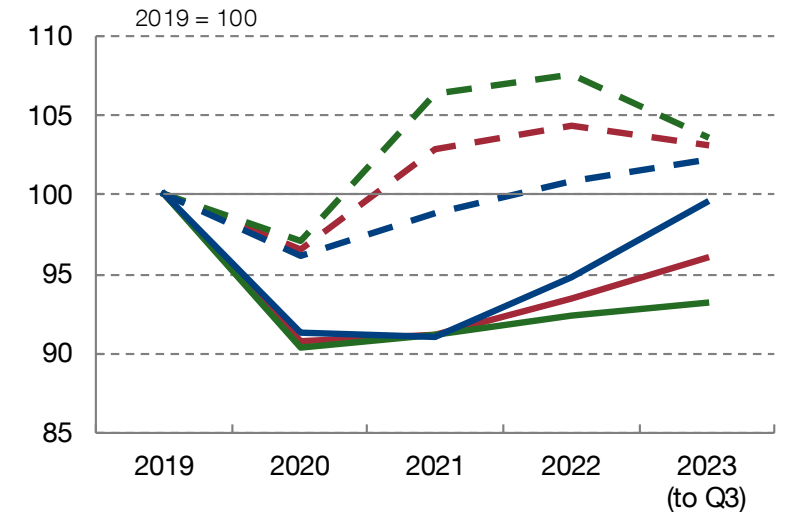
INVESTMENT IN SPAIN AND THE EURO AREA (IN REAL TERMS)



— NON-RESIDENTIAL GFCF
 — CAPITAL GOODS
 — INTELLECTUAL PROPERTY



— CAPITAL GOODS
 — TRANSPORT
 — MACHINERY
 — SPAIN
 - - - - - EURO AREA (a)

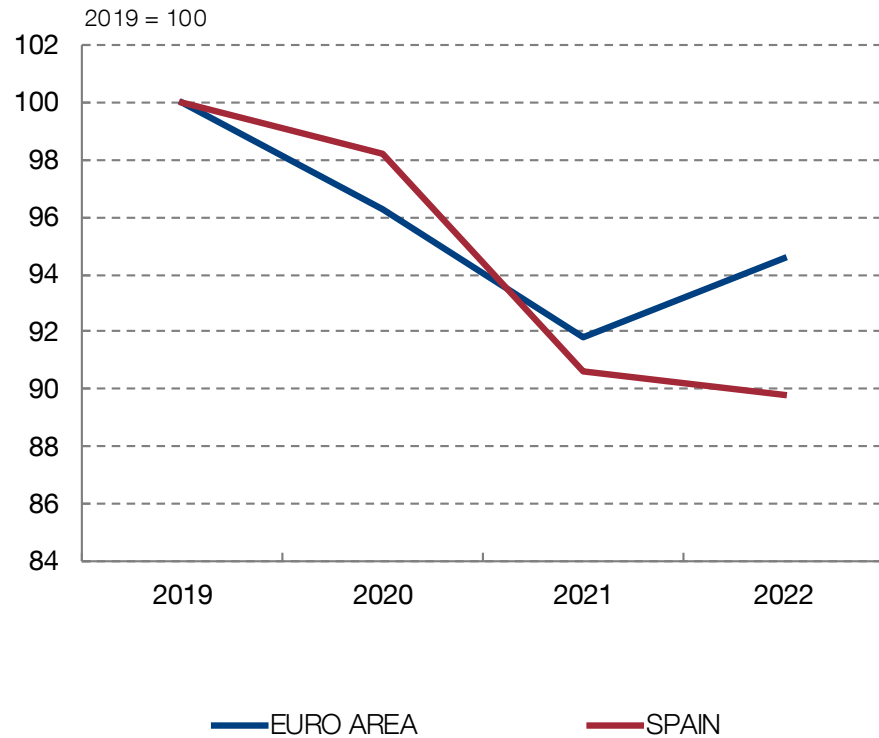


— CONSTRUCTION
 — HOUSING
 — OTHER CONSTRUCTION

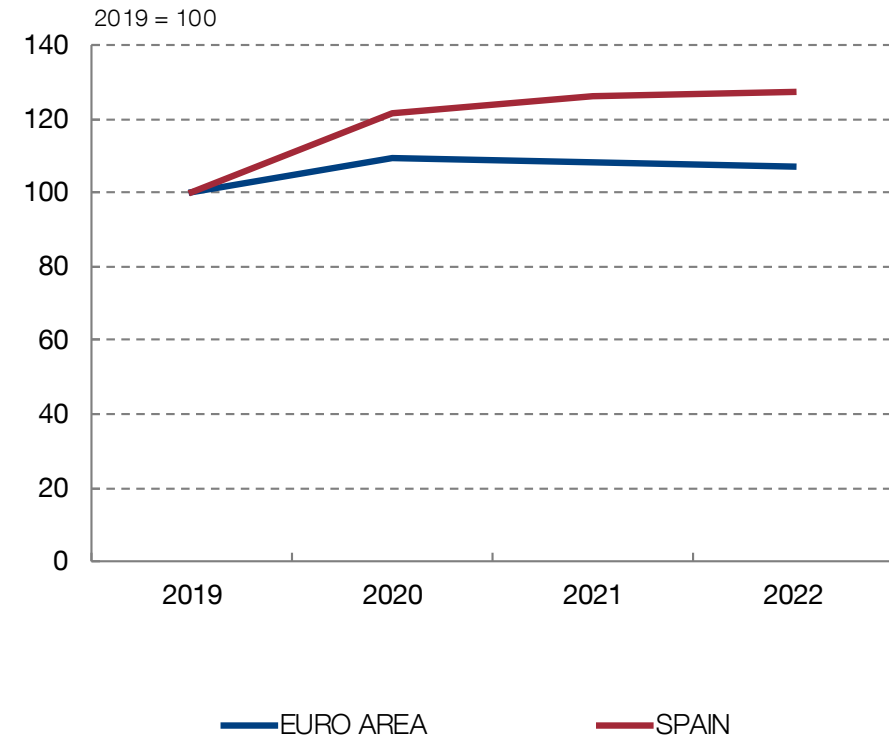
Source: Eurostat. Latest observation: 2023 Q3.
 (a) The euro area time series do not include Ireland.

THE RECENT WEAKNESS OF INVESTMENT IN SPAIN IS CONCENTRATED IN THE PRIVATE SECTOR

PRIVATE INVESTMENT AS A % OF GDP



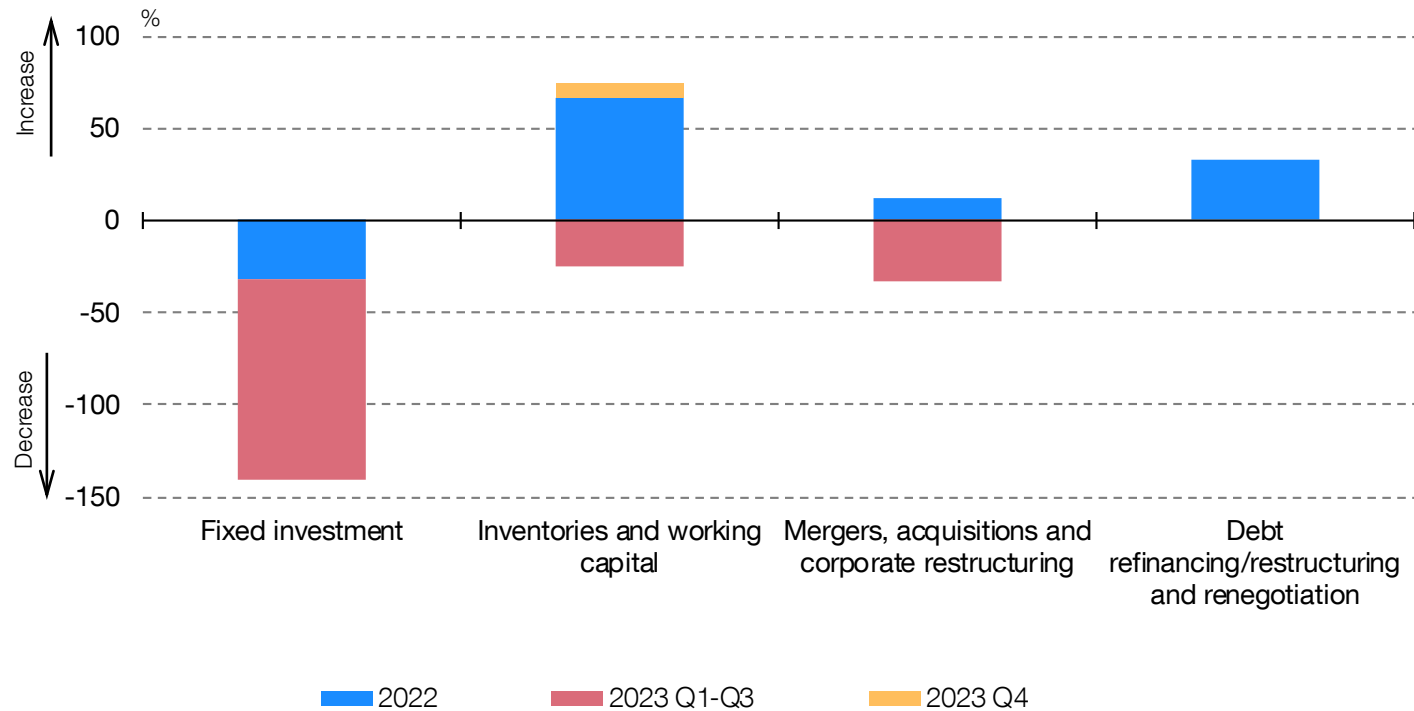
GOVERNMENT INVESTMENT AS A % OF GDP



Source: Eurostat

IN RECENT QUARTERS, FIRMS HAVE SOUGHT FUNDS TO FINANCE INVENTORIES AND WORKING CAPITAL, BUT NOT FOR NEW INVESTMENTS ...

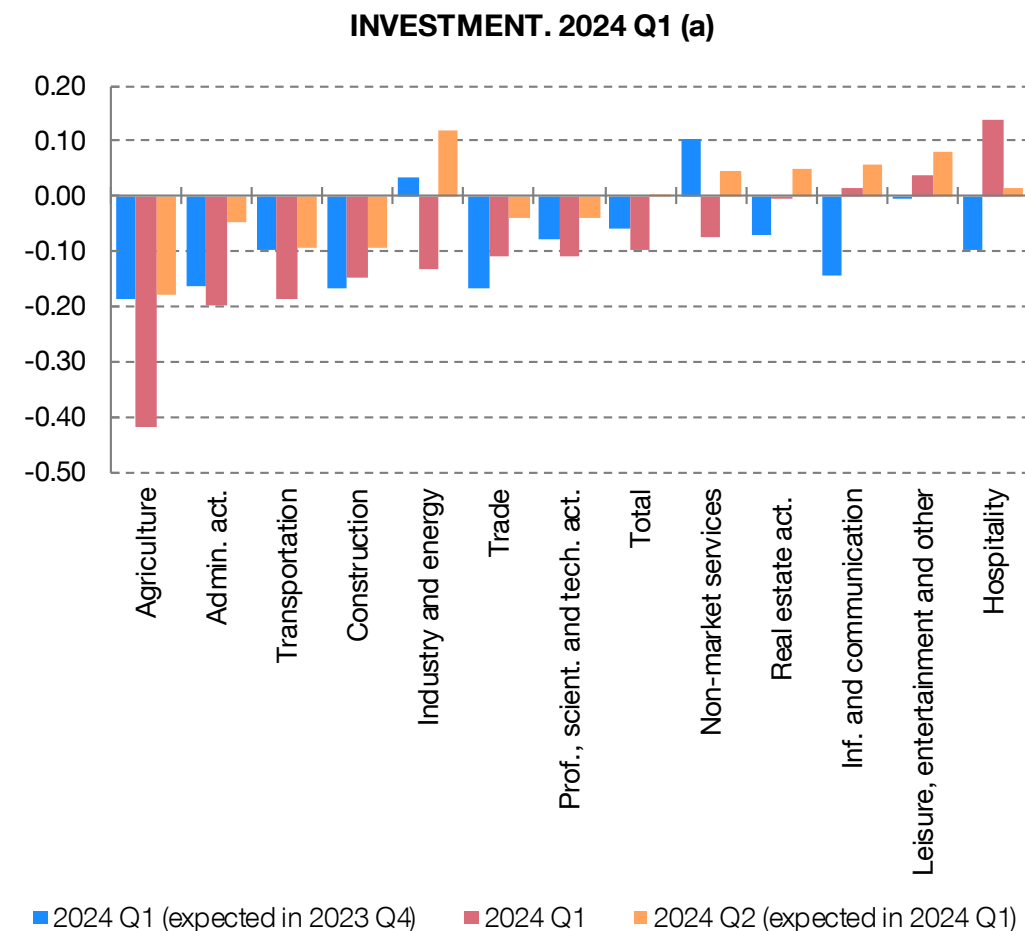
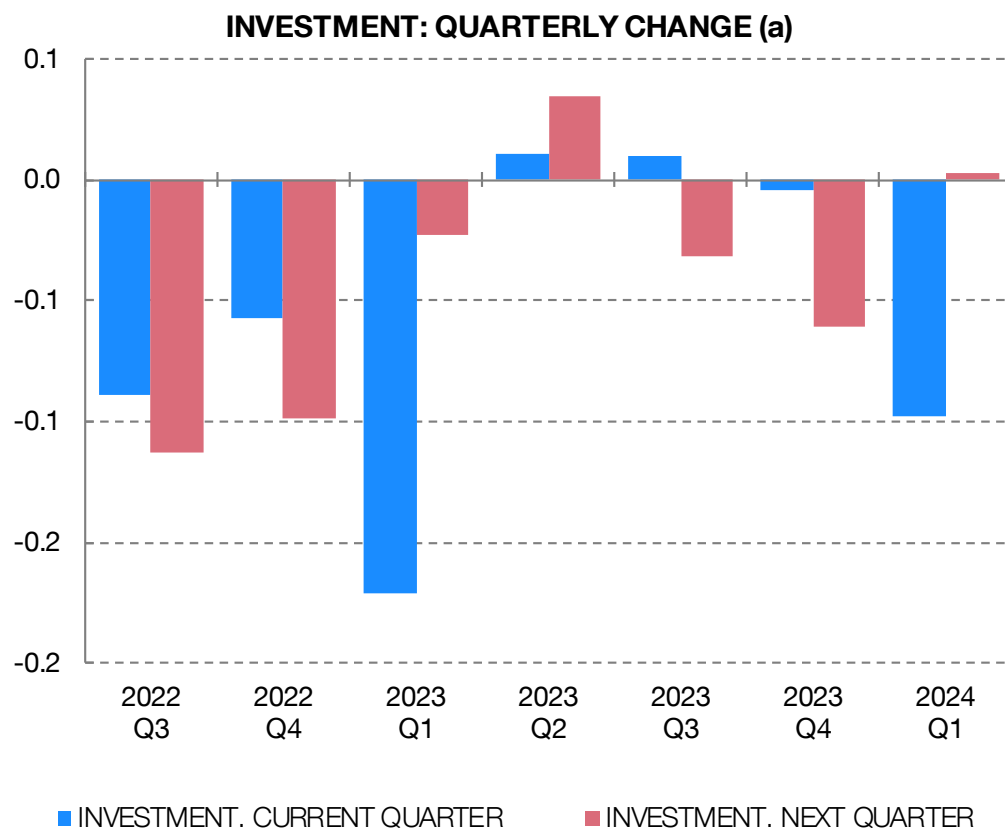
CONTRIBUTION OF FINANCING NEEDS TO THE CHANGE IN FIRMS' LOAN DEMAND IN SPAIN. BLS (a)



Sources: ECB and Banco de España. Latest observation: 2023 Q4.

(a) Percentage of banks reporting that the factor had contributed to an increase in loan demand less percentage of banks reporting that it had contributed to a decrease. Cumulative data for the reference period.

... MOREOVER, ACCORDING TO THE EBAE, FIRMS REPORTED INVESTMENT FARING WORSE IN 2024 Q1 THAN EXPECTED THREE MONTHS AGO



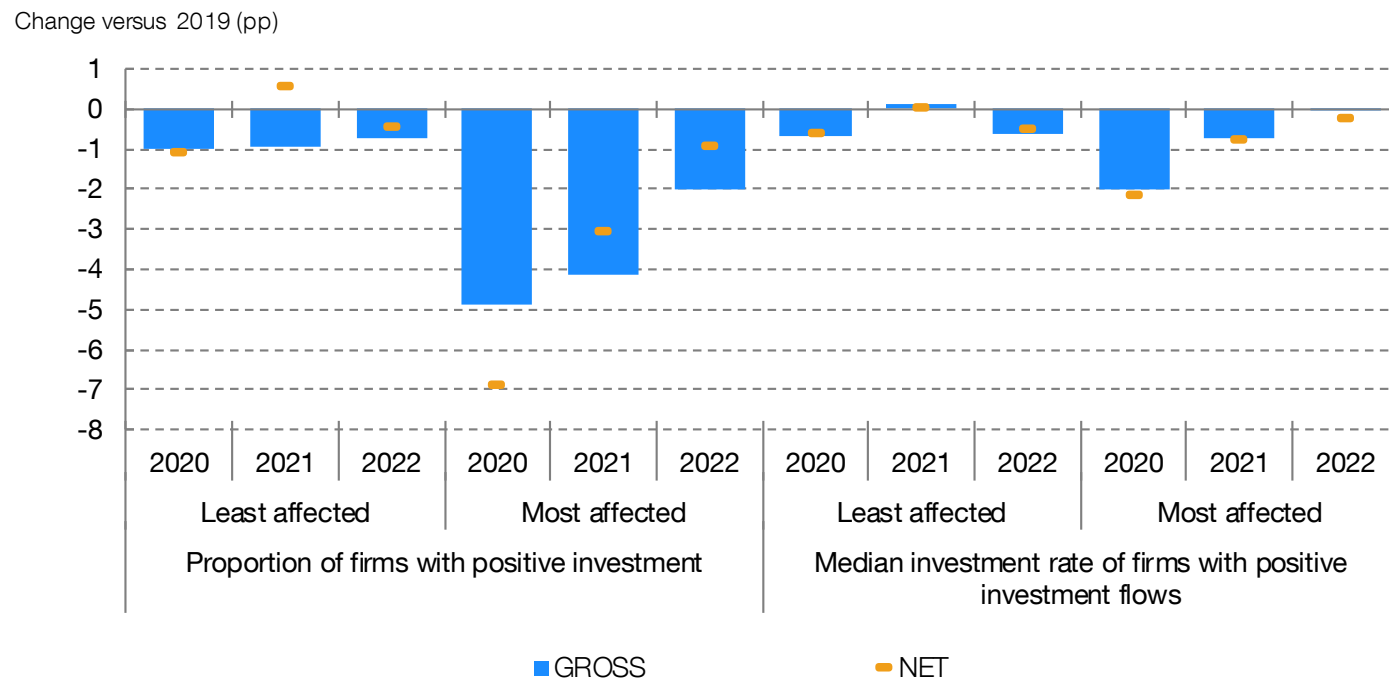
Source: EBAE.

(a) Constructed index defined as: Significant decrease = -2; Slight decrease = -1; Unchanged = 0; Slight increase = 1; and Significant increase = 2.

A DISAGGREGATED ANALYSIS OF INVESTMENT SINCE THE ONSET OF THE PANDEMIC DRAWING ON DATA FROM THE BANCO DE ESPAÑA'S CENTRAL BALANCE SHEET DATA OFFICE

- Investment by firms in the sectors most affected by the pandemic (i.e. hospitality, leisure and transportation) fell the steepest in that period, in both the intensive and extensive margin, and had not returned to 2019-levels by 2022

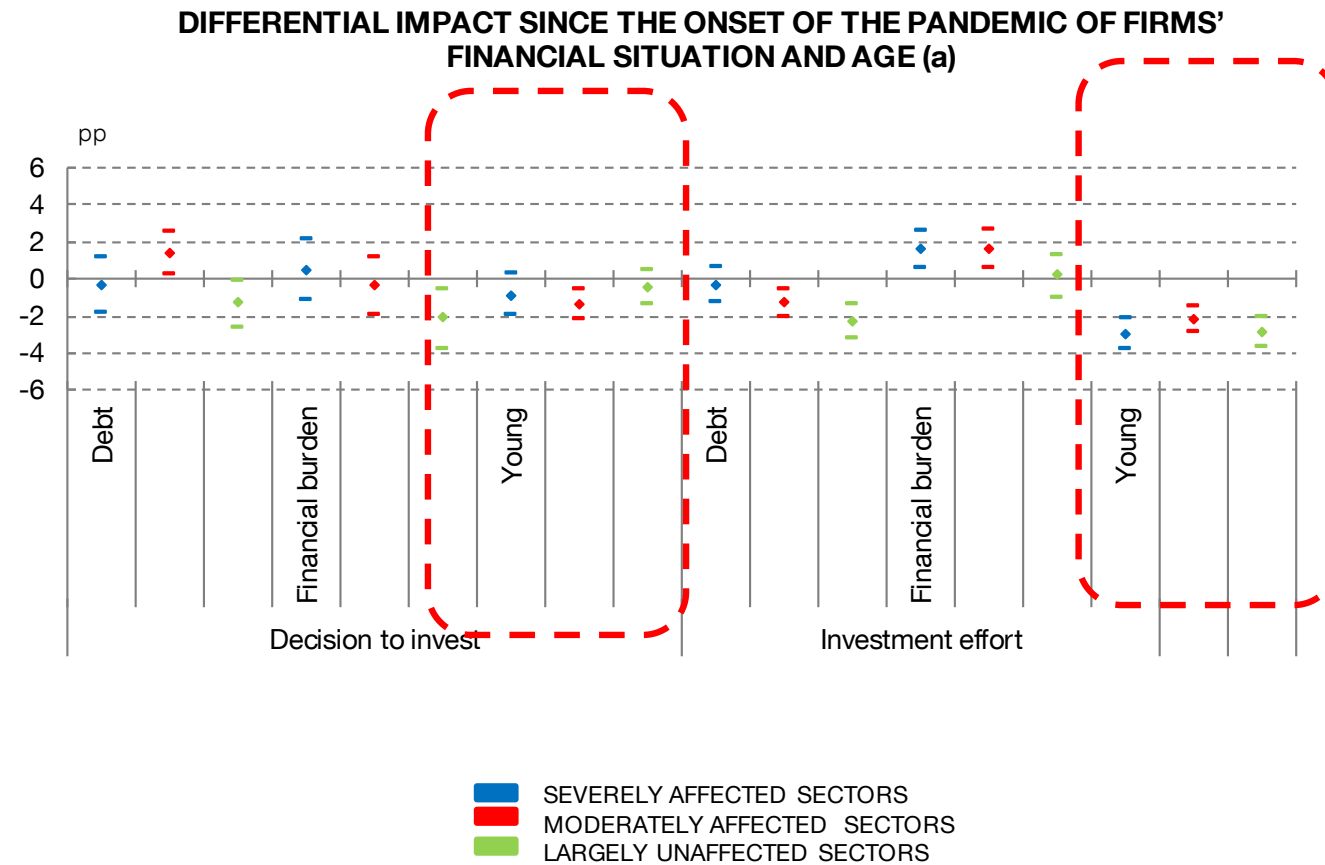
BUSINESS INVESTMENT, BY SECTORS AFFECTED BY THE PANDEMIC (a)



Source: Banco de España.

(a) The sectors most (least) affected by the pandemic are defined as those - one-third (two-thirds) of the total – in which the median fall in turnover in 2020 was steeper (less steep).

INVESTMENT BY THE YOUNGEST FIRMS HAS BEEN PARTICULARLY AFFECTED SINCE THE PANDEMIC



Source: Banco de España.

(a) The diamonds depict the estimated coefficients associated with each of the variables, while the dashes depict the confidence interval for the coefficient's value using a 95% confidence level.

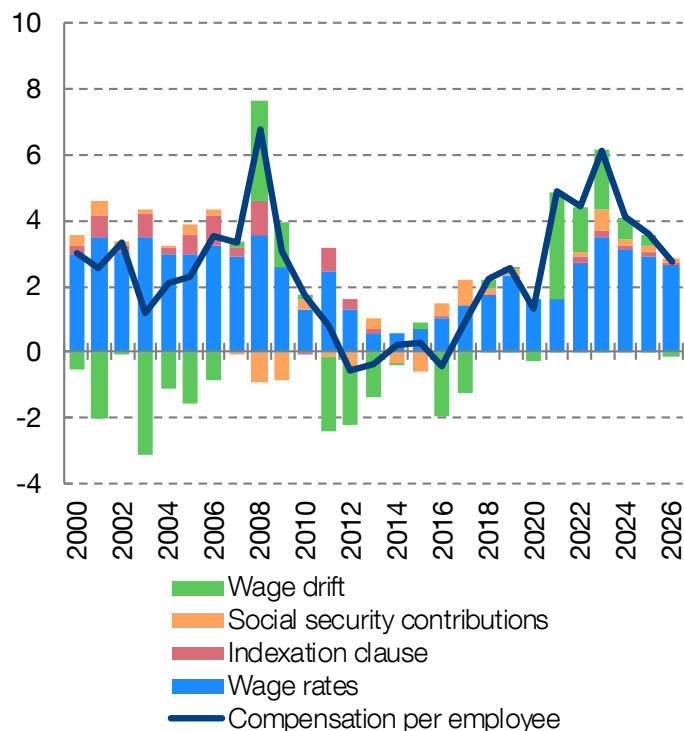
CONTEXT

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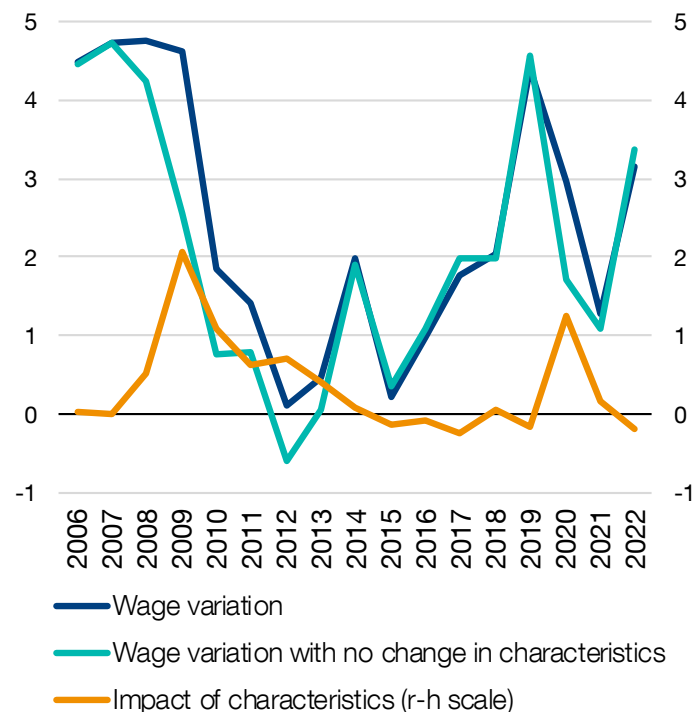
WAGE DRIFT HAS BEEN POSITIVE IN SPAIN SINCE 2021, SOMETHING UNUSUAL IN UPSWINGS AND THAT DOES NOT APPEAR TO BE EXPLAINED BY CHANGES IN THE COMPOSITION OF THE EMPLOYED

- In other European countries, however, wage drift has typically behaved procyclically, related to how tight the labour market is

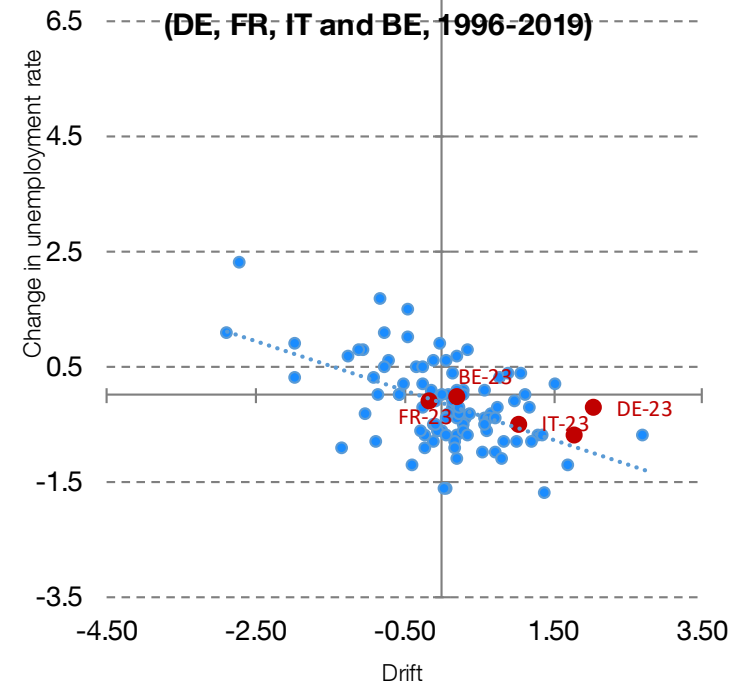
COMPENSATION PER EMPLOYEE AND CONTRIBUTIONS



CHANGES IN WORKERS' CHARACTERISTICS AND WAGE GROWTH (a)



WAGE DRIFT AND UNEMPLOYMENT RATE



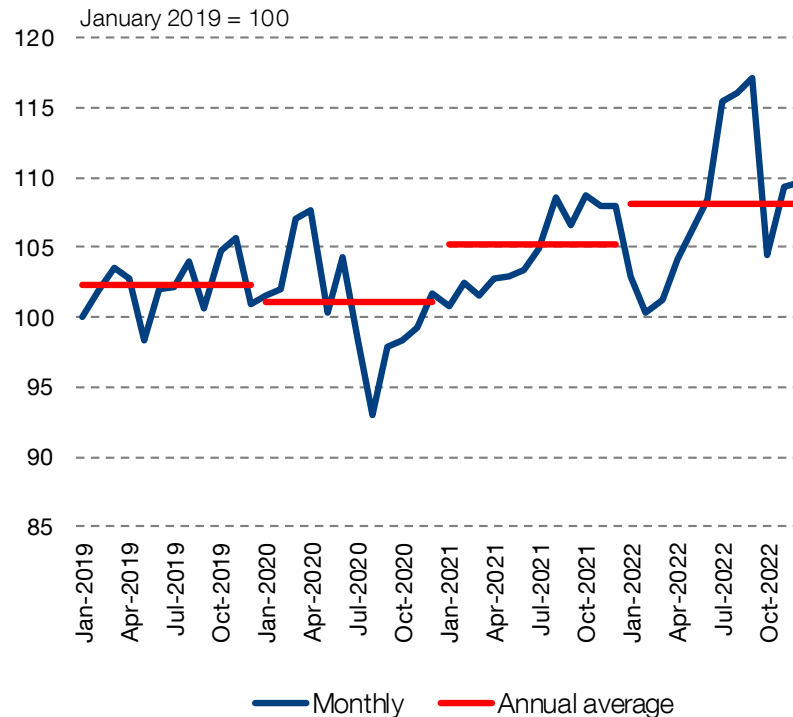
Sources: INE, Muestra Continua de Vidas Laborales, Banco de España and Eurostat.

(a) Wage variation with no change in characteristics is estimated using a wage equation that links each worker's individual salary to their characteristics (gender, age, contribution group, nationality and job tenure). Based on this equation, the change at constant characteristics is calculated for each two consecutive years and the difference vis-à-vis the total wage variation is the effect of changes in the composition of employment. See [Galán and Puente \(2014\)](#) for more details.

THIS POSITIVE WAGE DRIFT COULD BE DUE, AT LEAST IN PART, TO THE SPANISH LABOUR MARKET'S CURRENT TIGHTNESS AND TO THE DIFFICULTY OF FILLING SOME VACANCIES

- In addition to this micro evidence, a positive relationship is also observed between the job vacancy rate and wage drift by sector of activity

VACANCIES WITHOUT ANY CANDIDATES AS A % OF TOTAL VACANCIES (ONLINE PORTAL)



CORRELATION BETWEEN THE WAGE OFFERED FOR NEW VACANCIES AND THE DIFFICULTY OF FILLING SIMILAR VACANCIES PREVIOUSLY (a)

	Ln (median wage)
No candidates for similar vacancies in the previous six months	0.02 (0,007)**
Year and month	Yes
Educational level	Yes
Firm	Yes
Observations	7.704
R ²	0.6

Source: Banco de España calculations drawing on Infoempleo data. See Lacuesta, Regil, Sánchez and Tomás (forthcoming) for more details.

(a) Result of a regression of log of the median wage of the vacancies requiring a certain level of training on a dummy variable that takes the value 1 if the firm has not received applications from candidates during the previous six months for at least 50% of the vacancies with the same training requirements. In addition, training, corresponding month and year, and firm fixed effects are added. Standard deviation in brackets and asterisks denote that the coefficient is significant at 95%.

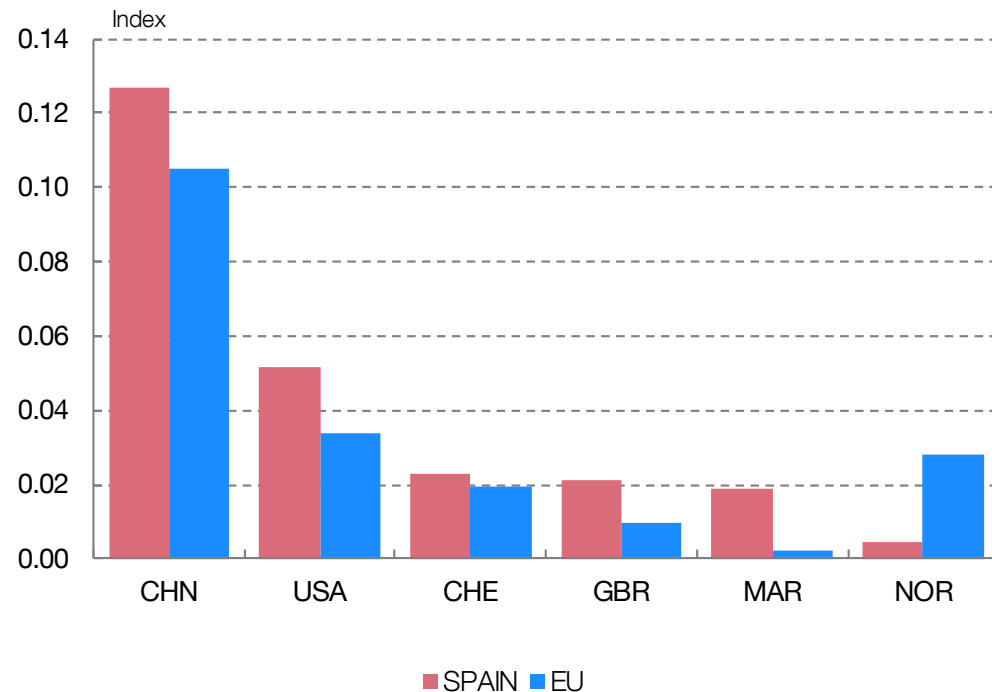
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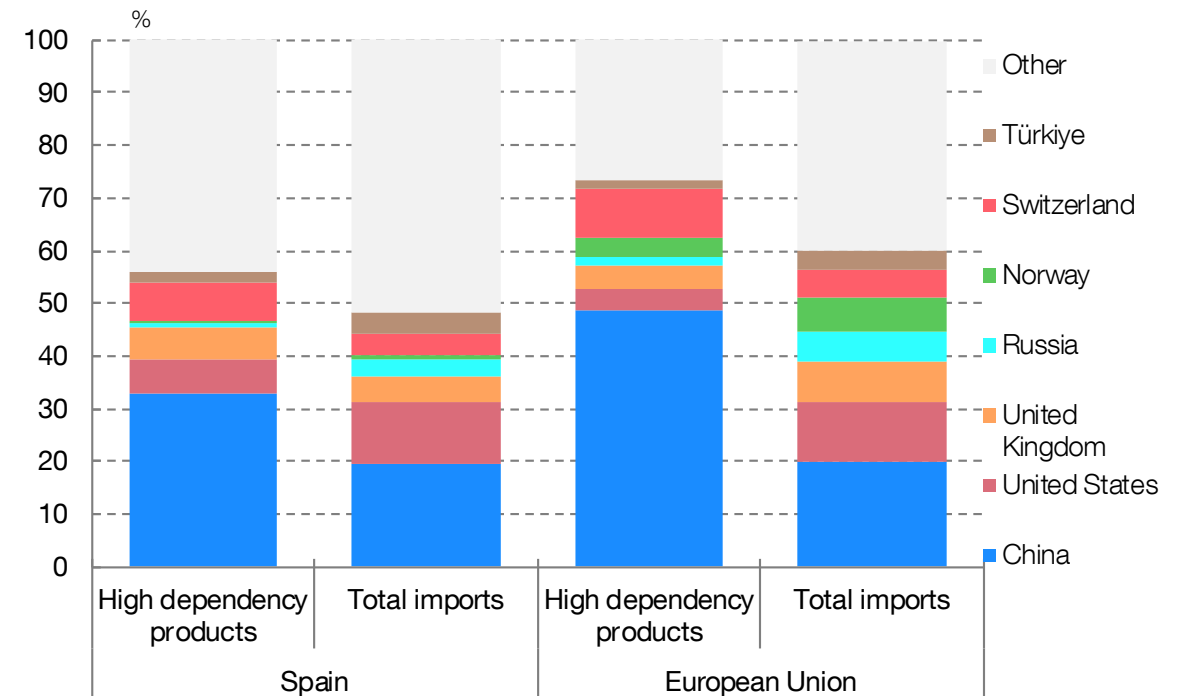
CHINA IS THE MAIN SOURCE OF TRADE VULNERABILITY FOR SPAIN AND THE EU, DUE TO BOTH THE VOLUME AND THE CONCENTRATION AND NATURE OF THE IMPORTS

- “High dependency” products are those whose concentration, scarcity and substitutability indices exceed the reference thresholds defined by the European Commission

BILATERAL CONCENTRATION OF IMPORTS IN 2022 (a)



TOTAL IMPORTS AND IMPORTS OF “HIGH DEPENDENCY” PRODUCTS IN 2022 (b)



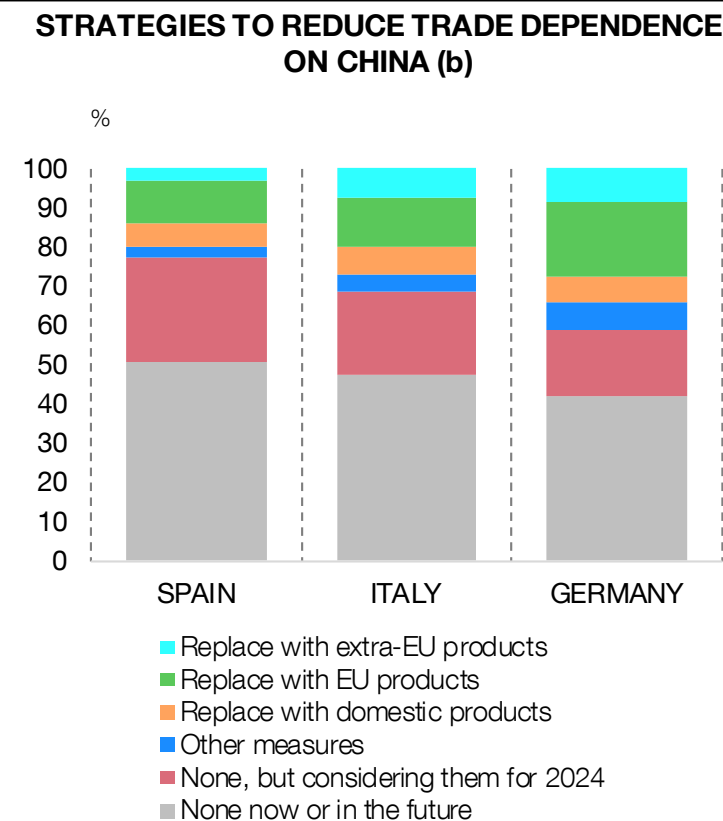
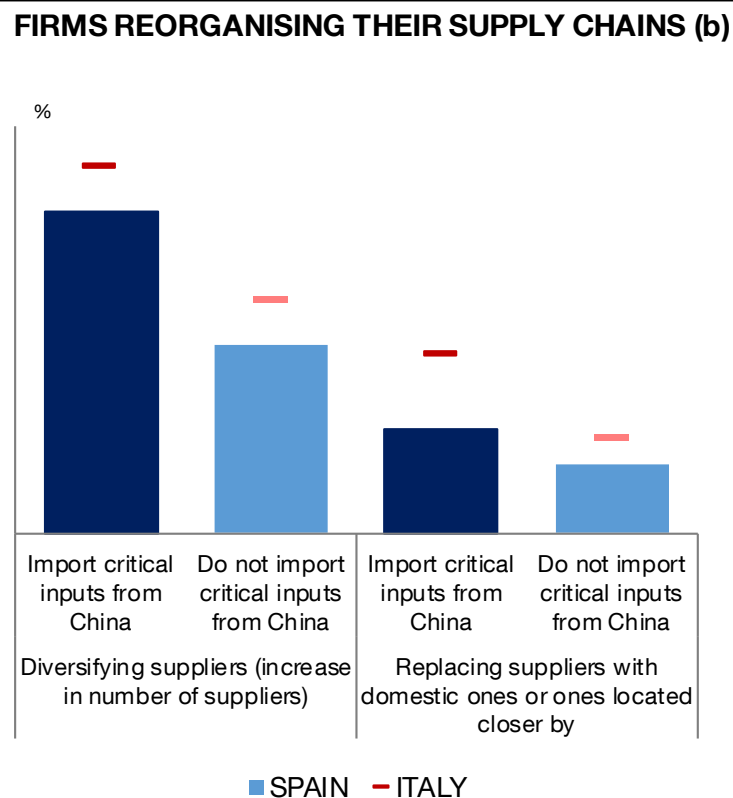
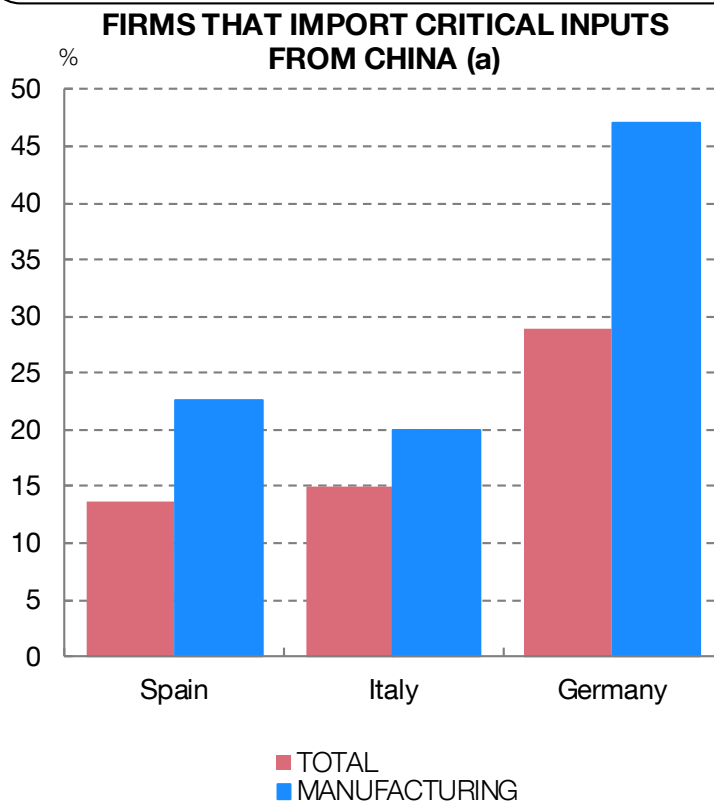
Sources: CEPII-BACI and Eurostat (2022). See [Ioannou and Pérez \(2023\)](#) for more details on the methodology used.

(a) The bilateral concentration of imports is measured by weighting the share of imports for each group of products for which the trading partner is the main provider by the imports concentration index of the respective group of products. The concentration index is a Herfindahl-Hirschman index (sum of squared shares of the different provider countries).

(b) Extra-EU imports and product categories defined at 6-digit level.

THE FIRMS THAT IMPORT CRITICAL INPUTS FROM CHINA ARE REORGANISING THEIR SUPPLY CHAINS MORE ACTIVELY THAN OTHERS, BUT MANY ARE YET TO TAKE MEASURES

Critical inputs are those whose shortage, according to the surveyed firms, would lead to a reduction in the quality of the good or service produced, or without which a significant part of the production process would not be completed or would cause considerable delays



Sources: EBAE (Banco de España), [Bundesbank](#) and [Borin et al. \(2023\)](#).

The responses are weighted to obtain results that are representative of the population of firms in the respective country.

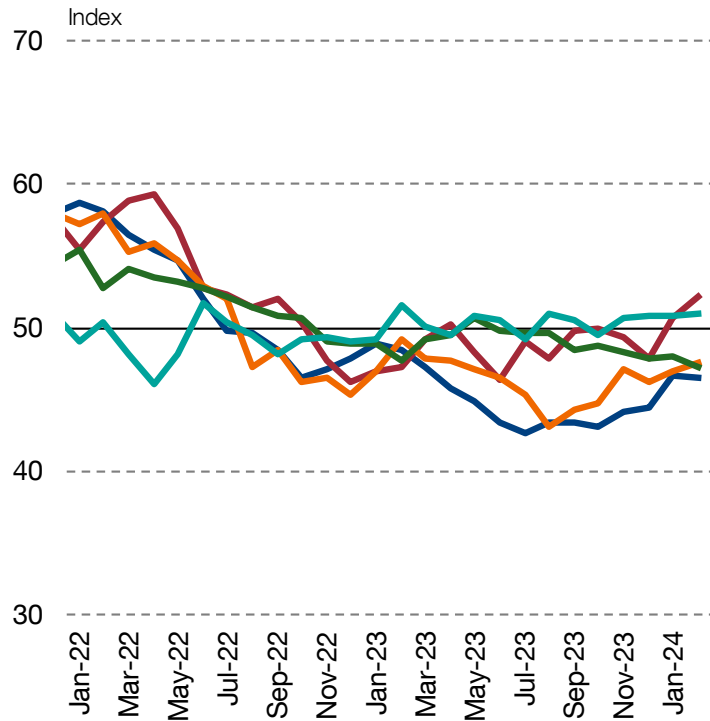
(a) Only firms with more than 20 employees and excluding the primary sector.

(b) Only manufacturing firms with more than 20 employees.

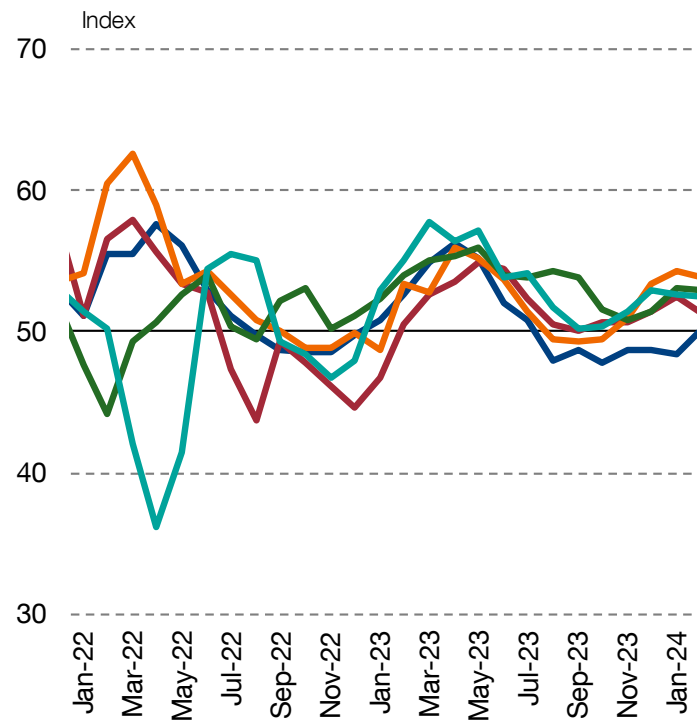
THANK YOU FOR YOUR ATTENTION

RECENT PMIs REFLECT SOME STABILISATION IN GLOBAL ECONOMIC ACTIVITY, INCLUDING IN MANUFACTURING

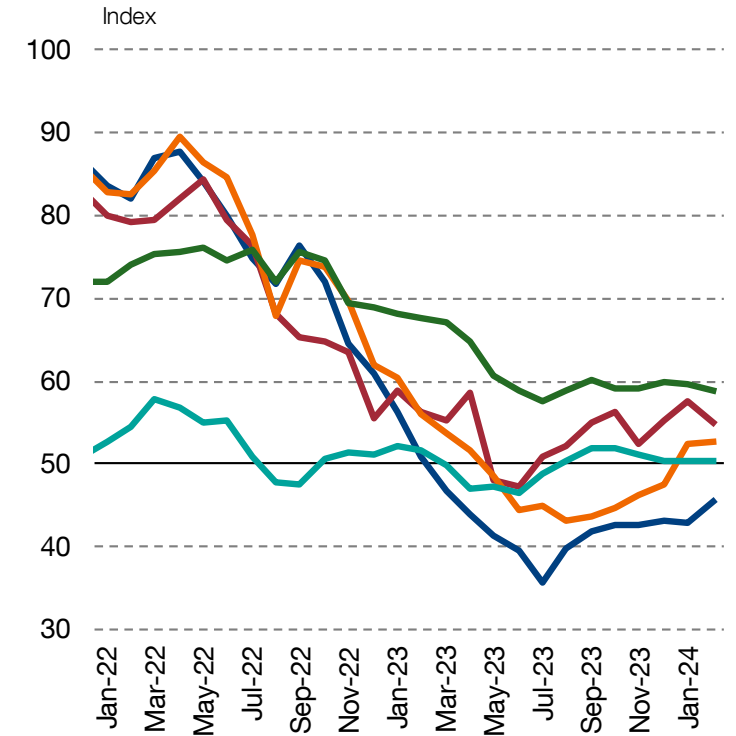
MANUFACTURING PMI



SERVICES PMI



MANUFACTURING PMI: INPUT PRICES



EURO AREA

UNITED STATES

UNITED KINGDOM

JAPAN

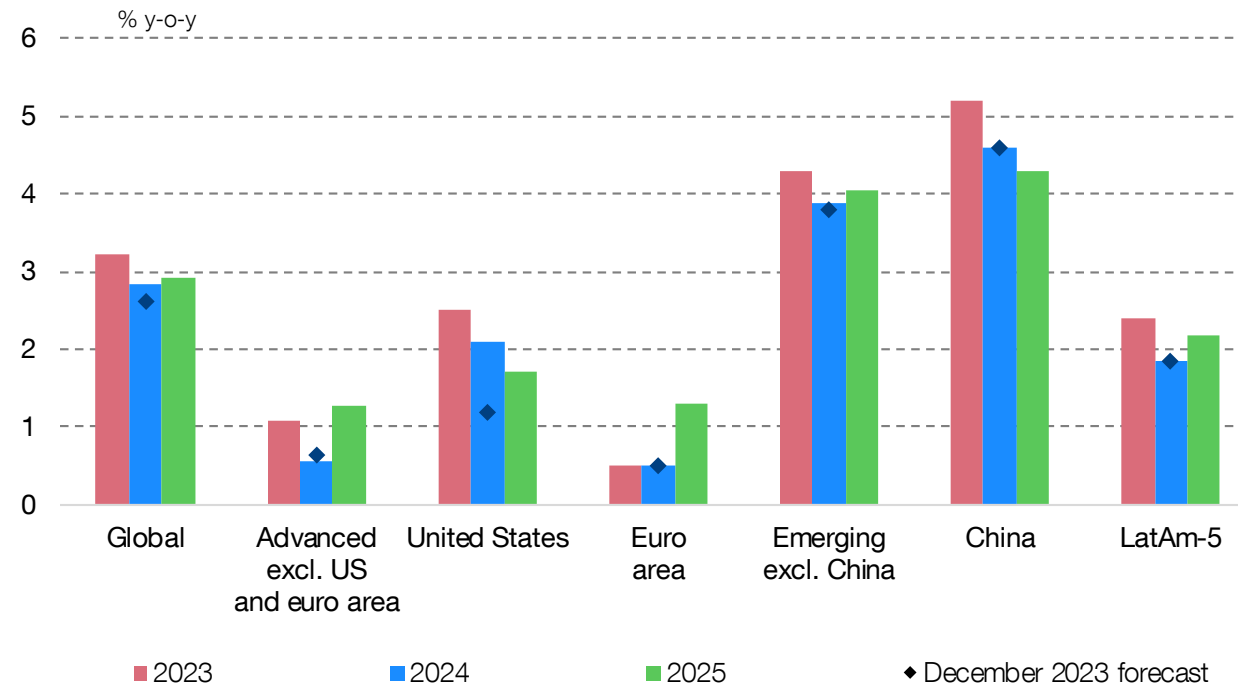
CHINA

Source: S&P Global. Latest observation: February 2024.



THE GLOBAL GROWTH OUTLOOK FOR 2024 HAS BEEN REVISED SLIGHTLY UPWARDS IN RECENT MONTHS, MAINLY OWING TO THE UNITED STATES

GDP GROWTH FORECASTS

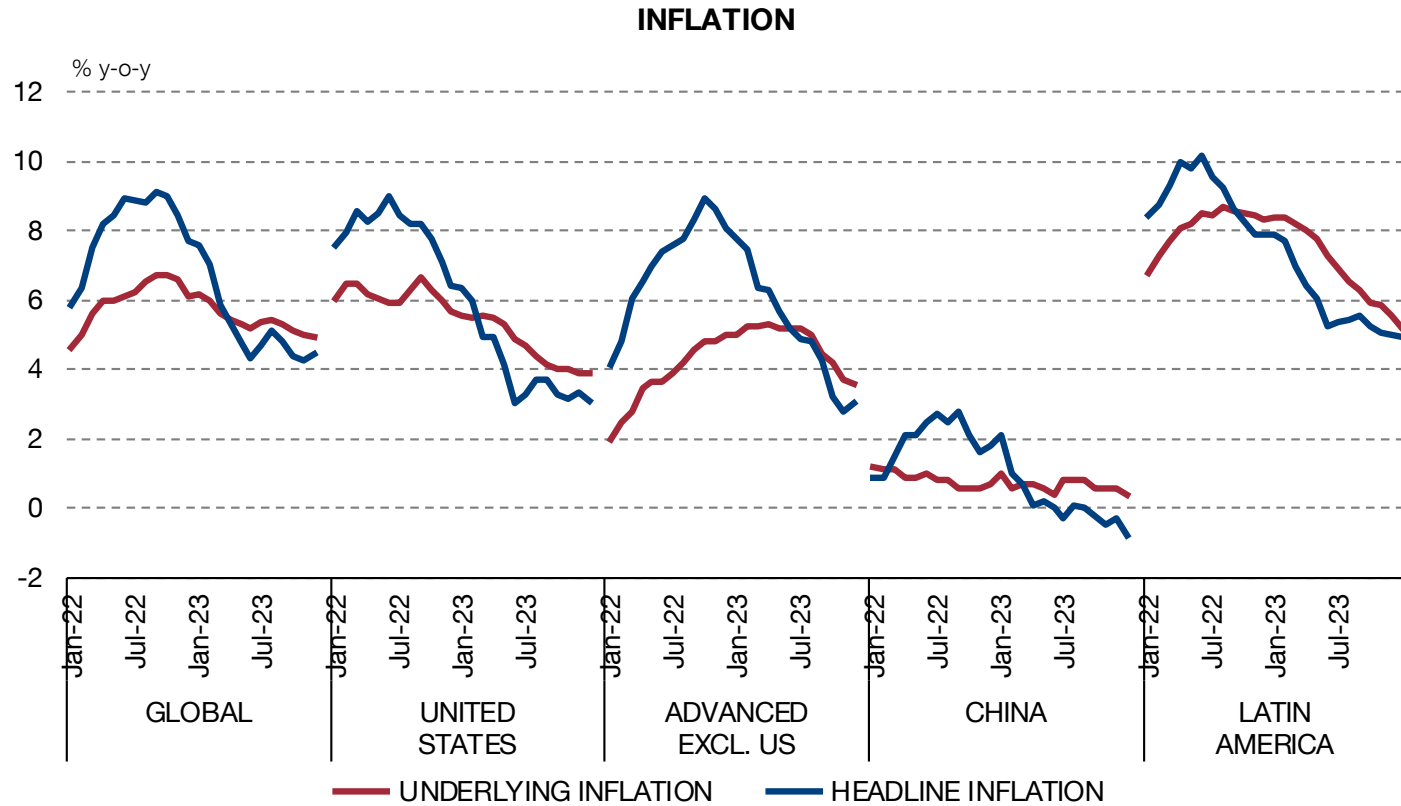


Source: Consensus Forecast (February 2024).

(a) "Advanced excl. United States and euro area" comprises Canada, Japan, Norway, Sweden, Switzerland and the United Kingdom; "Emerging excl. China" comprises India, Indonesia, Malaysia, Philippines, Thailand, Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Türkiye and Ukraine; "LatAm-5" comprises Mexico, Colombia, Peru, Chile and Brazil. Lastly, "Global" comprises all the foregoing plus the United States, the euro area and China.



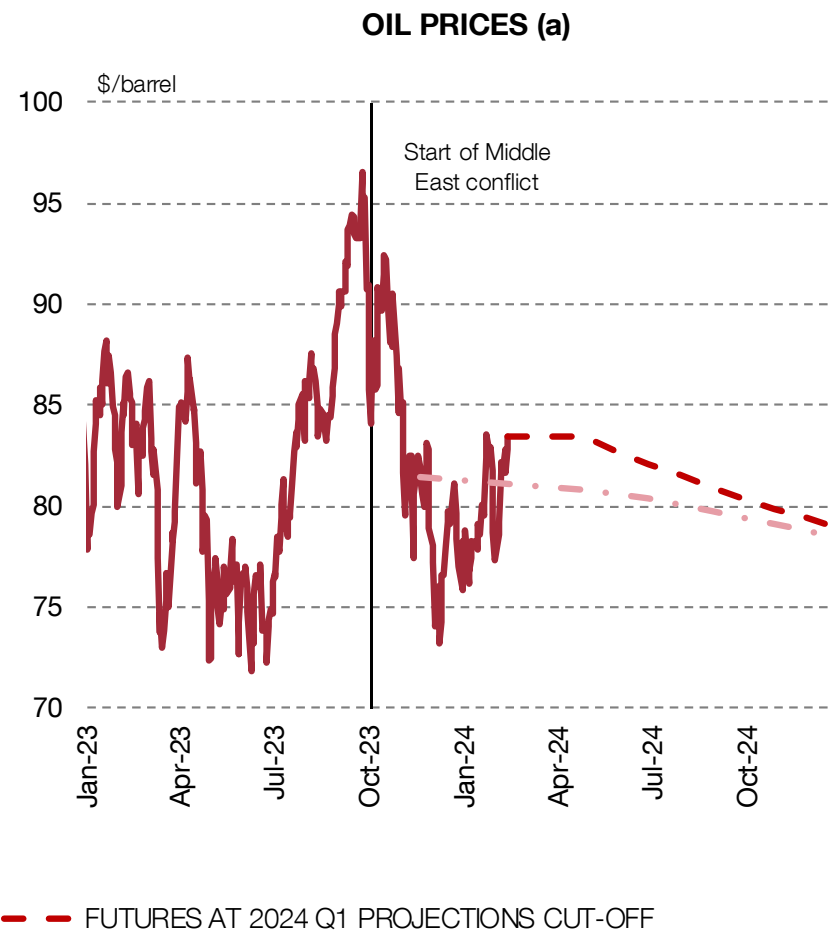
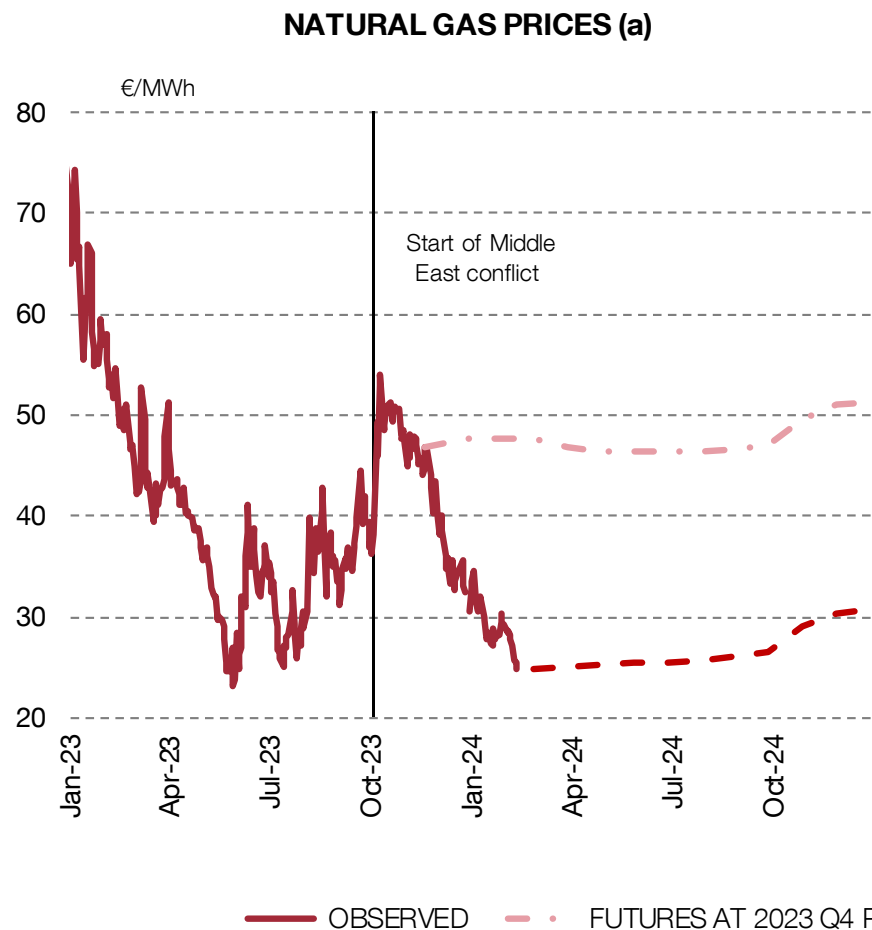
INFLATION RATES (BOTH HEADLINE AND UNDERLYING) HAVE CONTINUED TO MODERATE IN RECENT MONTHS IN THE MAIN WORLD ECONOMIES



Sources: National statistics. Latest observation: December 2023 for the global aggregate and advanced excl. United States; January 2024 for the rest.



IN RECENT MONTHS, NATURAL GAS PRICES HAVE SURPRISED ON THE DOWNSIDE WHILE OIL PRICES APPEAR TO HAVE STABILISED



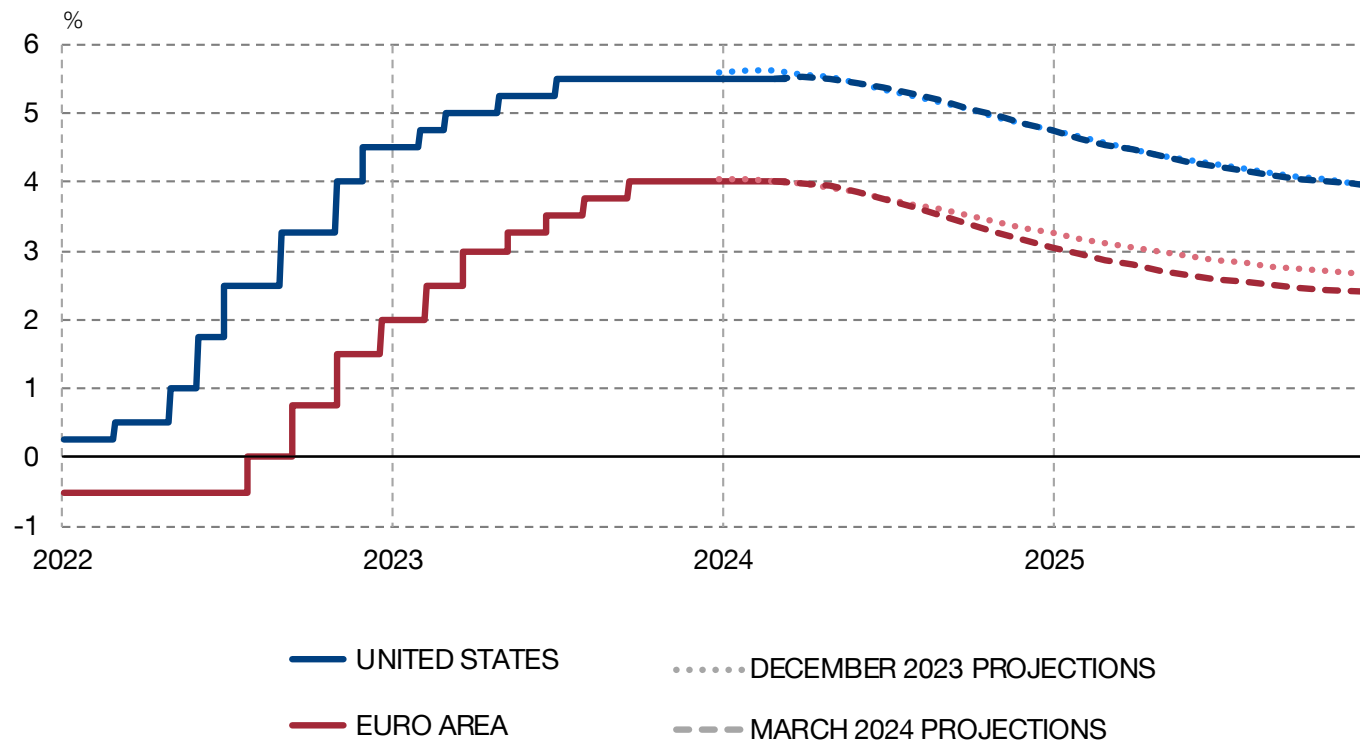
Sources: Bloomberg and Refinitiv. Latest observation: 14 February.

(a) Gas prices are TTF prices (the Dutch virtual gas market, used as a reference for European gas prices). Oil prices are Brent crude oil prices.



THE CENTRAL BANKS OF THE MAIN ADVANCED ECONOMIES KEEP THEIR INTEREST RATES UNCHANGED. INVESTORS EXPECT THEM TO BEGIN A CYCLE OF RATE CUTS SOON

POLICY INTEREST RATES: OBSERVED (a) AND FORECAST (b)



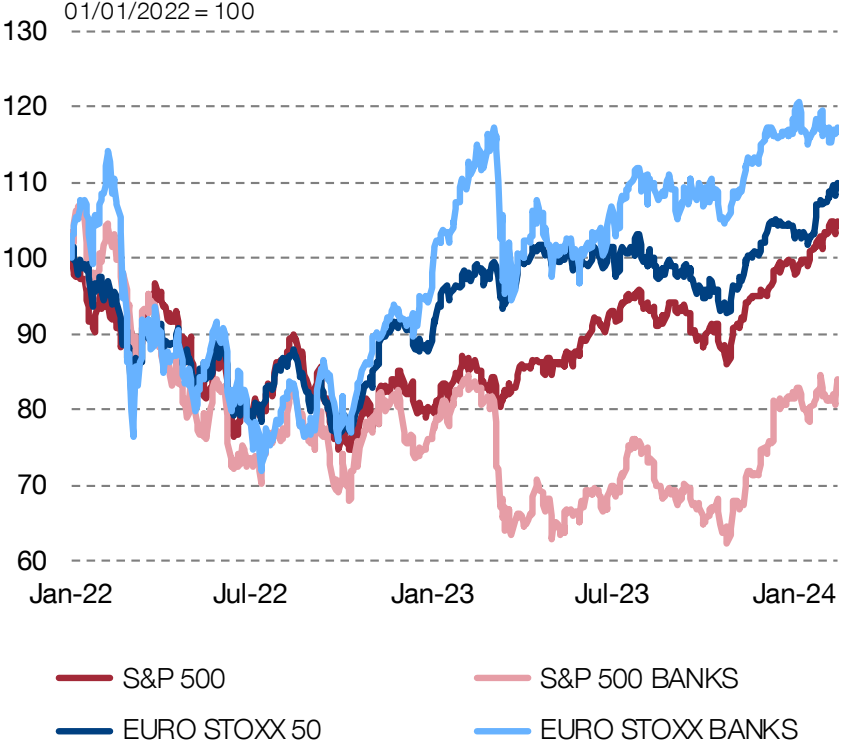
Sources: Refinitiv Datastream, ECB, US Federal Reserve, Bloomberg Data License and Banco de España calculations.

(a) For the euro area, observed rates are the deposit facility rate. For the United States, observed rates are the upper limit of the target range for the Fed Funds Rate (a rate set by the Fed for overnight interbank lending of reserves held at the Federal Reserve).

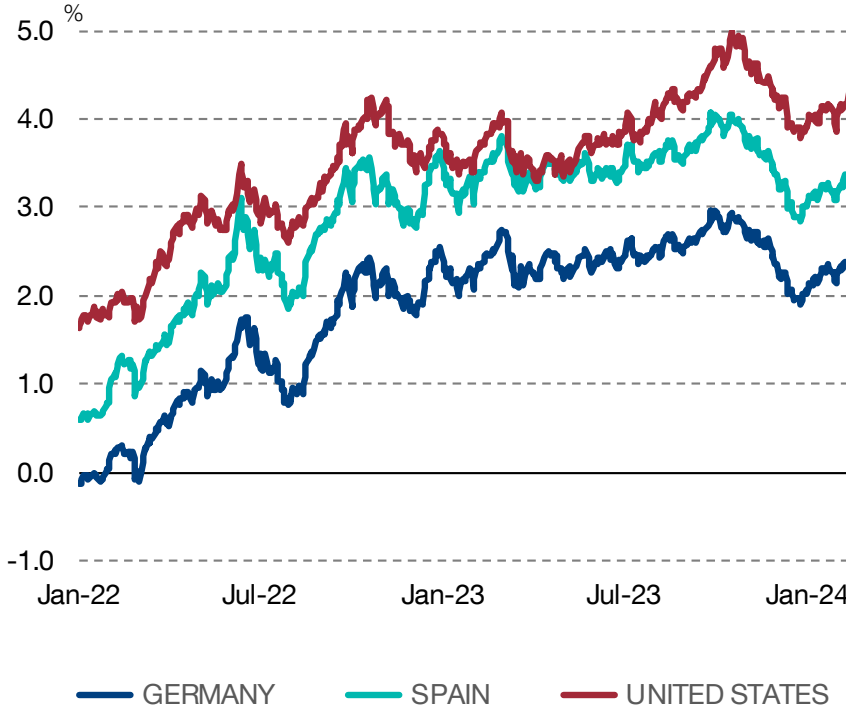
(b) Forecast rates are the instantaneous forward rates estimated based on market data on OIS rates at different maturities using the Svensson parametric model (Lars E. O. Svensson (1994)) and adding the spread between the policy rate (the deposit facility rate for the euro area and the upper limit of the Fed Funds Rate target range for the United States) and the overnight interest rate on the estimation date (€STR or the effective Fed Funds Rate, respectively).

DESPITE THE RECENT INCREASE IN LONG-TERM INTEREST RATES, THE MAIN GLOBAL STOCK MARKET INDICES RECORDED CONSIDERABLE GAINS IN THE QUARTER WHILE RISK PREMIA REMAINED LOW

STOCK MARKET INDICES



10-YEAR SOVEREIGN DEBT YIELDS

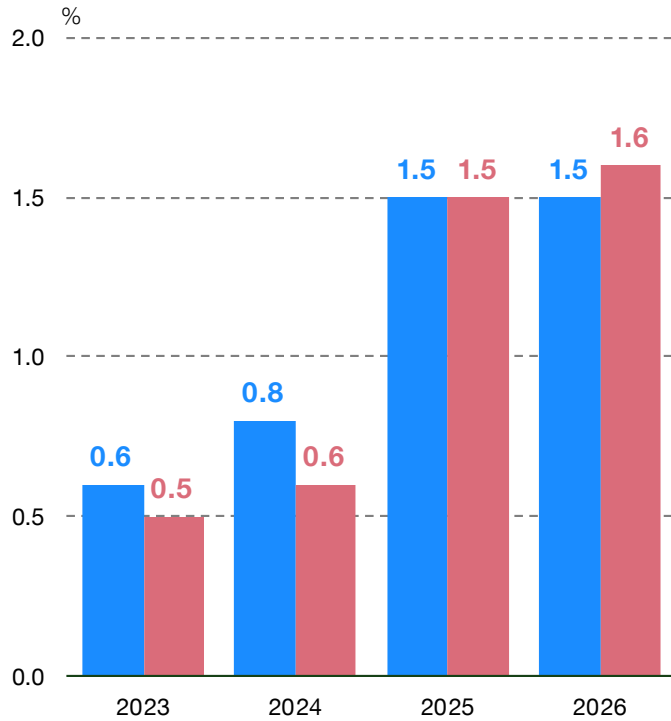


Sources: Refinitiv Datastream, Bloomberg Data License and Banco de España calculations. Latest observation: 16/02/2024.

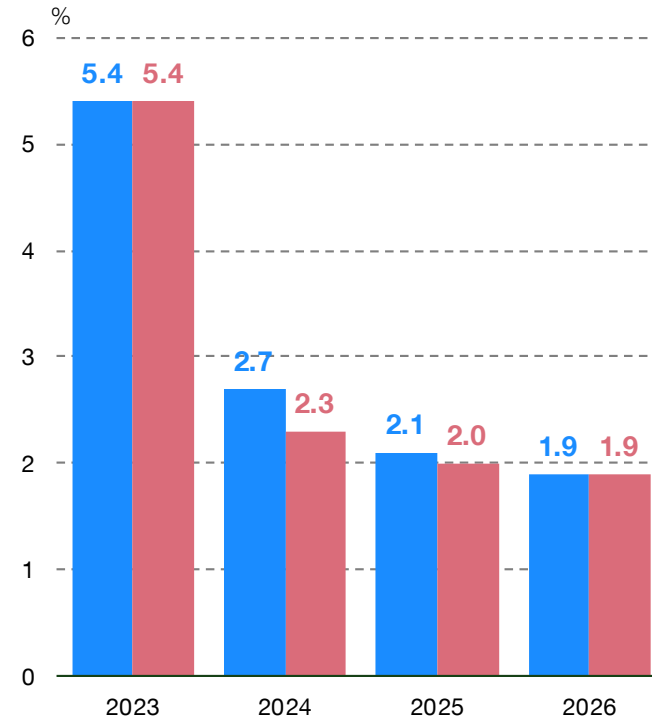


THE LATEST ECB STAFF MACROECONOMIC PROJECTIONS REVISE DOWN GDP GROWTH AND INFLATION FOR 2024

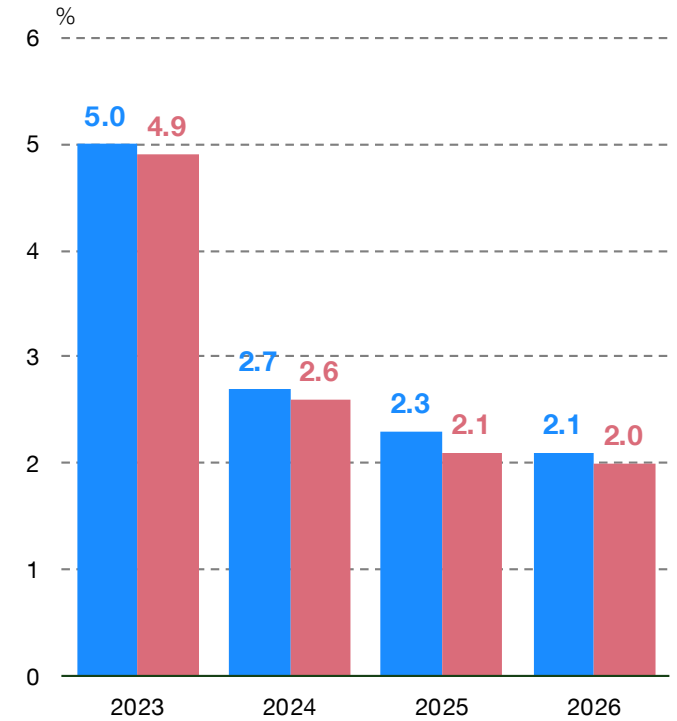
GDP GROWTH



HEADLINE INFLATION



UNDERLYING INFLATION



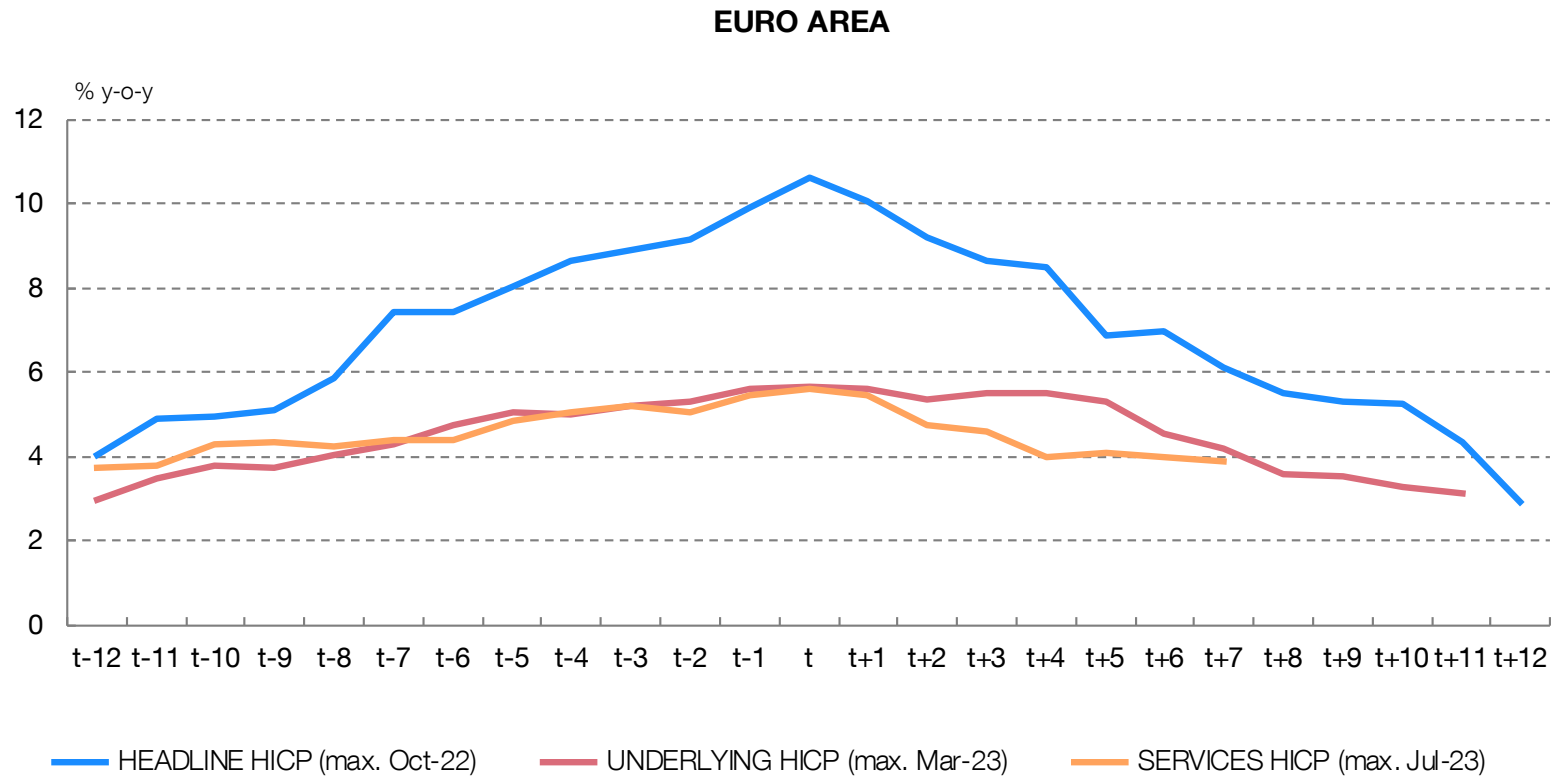
■ DECEMBER

■ MARCH

Source: ECB.



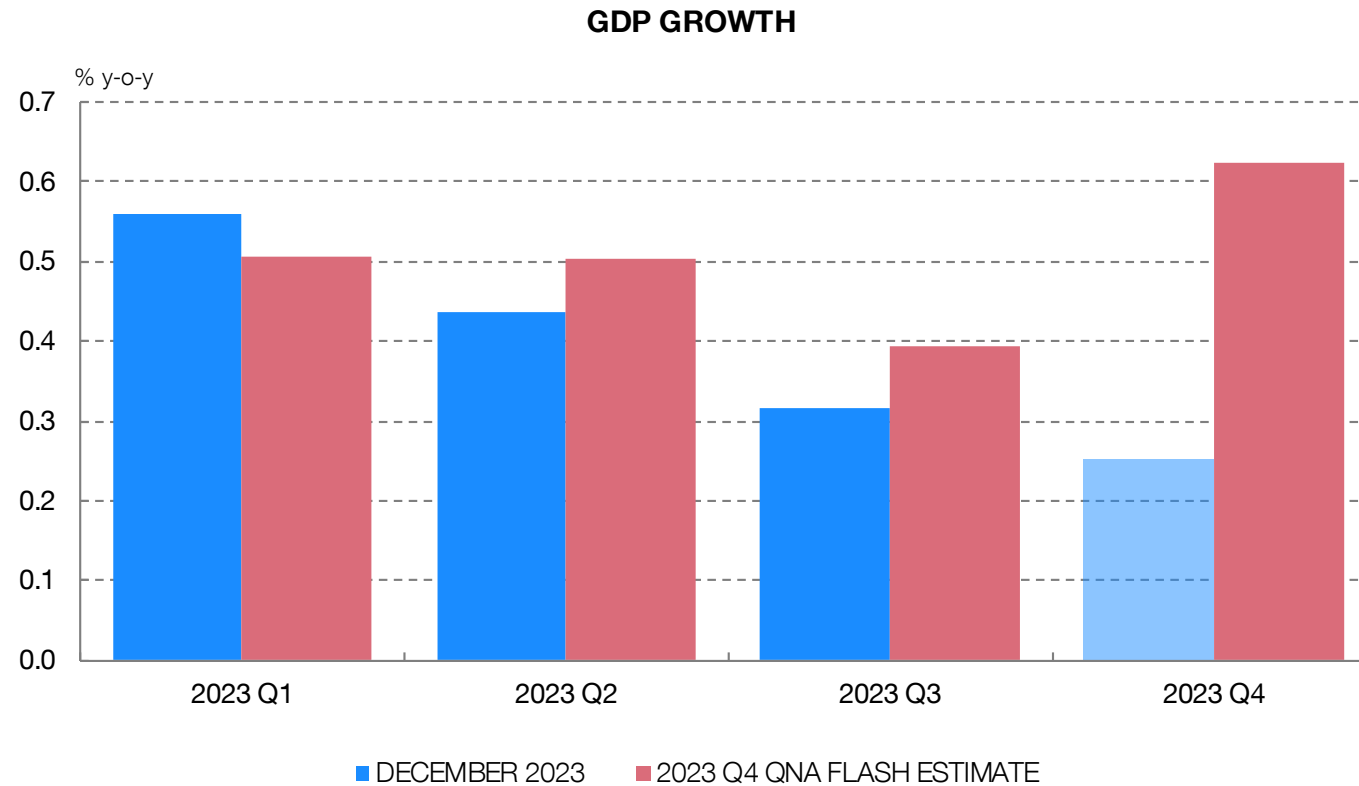
HEADLINE, UNDERLYING AND SERVICES INFLATION BEFORE AND AFTER THEIR RECENT HIGHS



Source: Eurostat



UNEXPECTED ACCELERATION IN GDP GROWTH IN 2023 Q4 (TO 0.6%) AND GDP GROWTH REVISED SLIGHTLY UPWARDS IN 2023 Q2 AND 2023 Q3



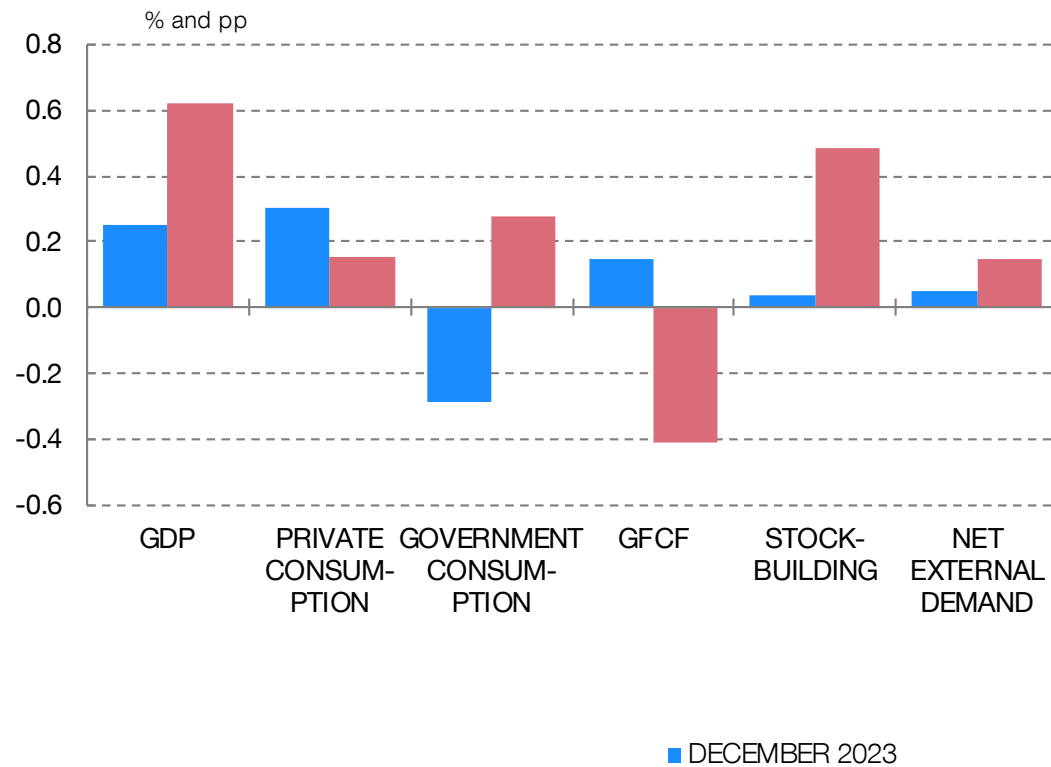
Sources: INE and Banco de España.



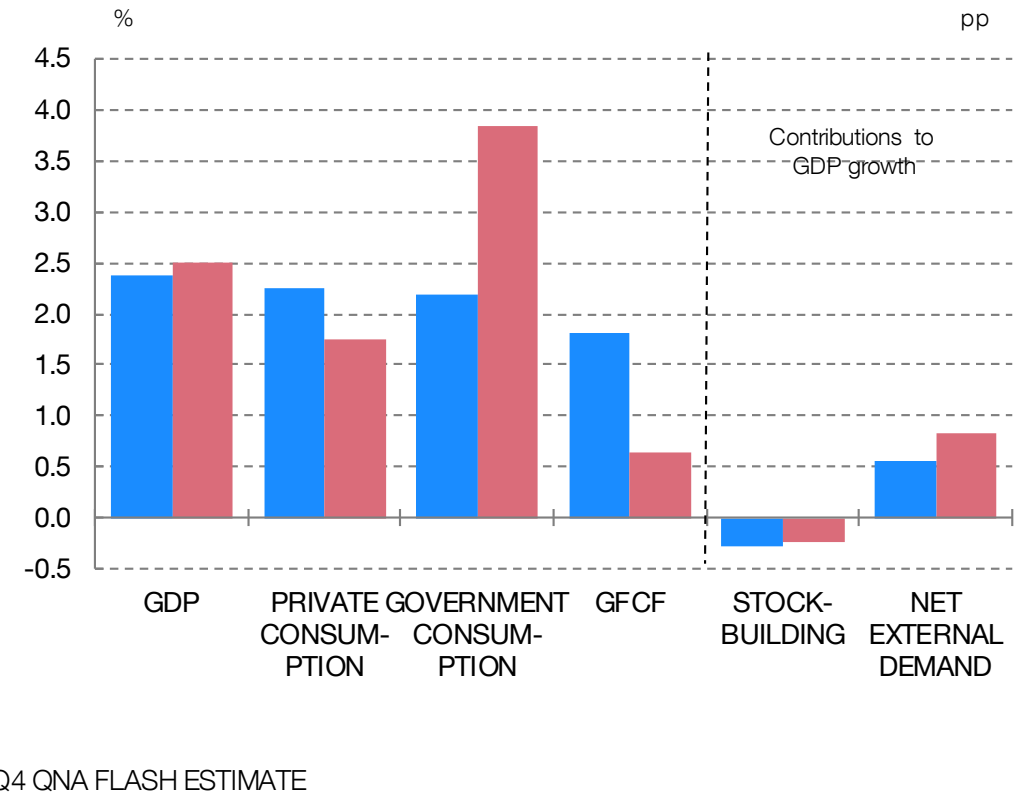
DESPITE THE POSITIVE GDP GROWTH SURPRISES IN THE FLASH ESTIMATES IN RECENT QUARTERS, THE BREAKDOWN OF THAT GROWTH OFFERS MIXED SIGNALS

- The GDP growth in 2023 Q4 was based primarily on higher than expected government consumption and stockbuilding. By contrast, private consumption and gross fixed capital formation surprised on the downside
- In 2023 as a whole, strong government consumption contrasted with sluggish private consumption and weak investment

GDP GROWTH IN 2023 Q4 AND CONTRIBUTIONS



GDP GROWTH AND ITS COMPONENTS IN 2023



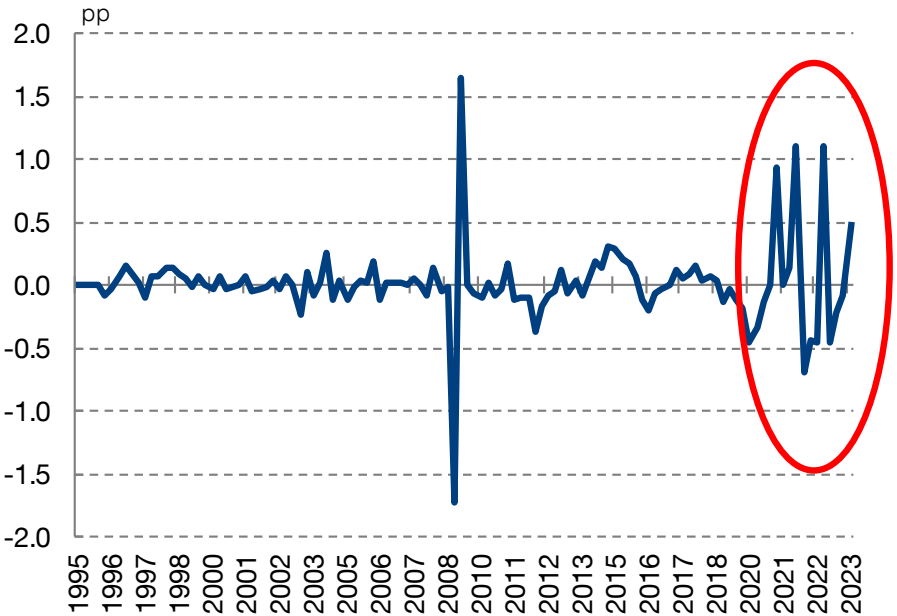
Sources: INE and Banco de España.



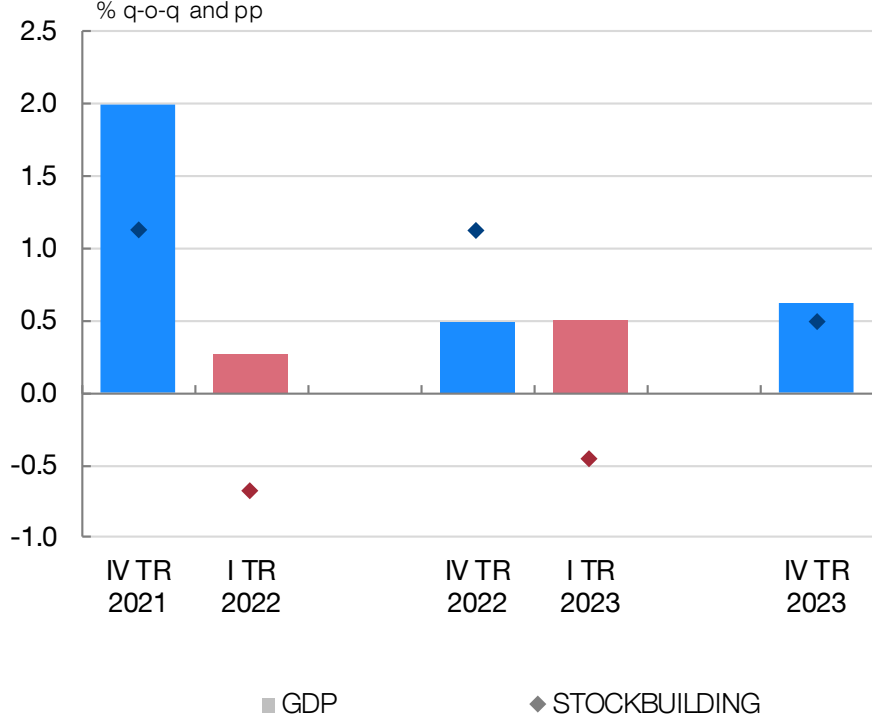
CHANGES IN INVENTORIES HAVE BEEN HIGHLY VOLATILE SINCE THE ONSET OF THE PANDEMIC

- In 2021 and 2022 changes in inventories made a notably positive contribution to GDP growth in Q4 which, however, turned negative in the next quarter, i.e. in 2022 Q1 and 2023 Q1

CONTRIBUTION OF CHANGES IN INVENTORIES TO GDP GROWTH



CONTRIBUTION OF CHANGES IN INVENTORIES TO GDP GROWTH



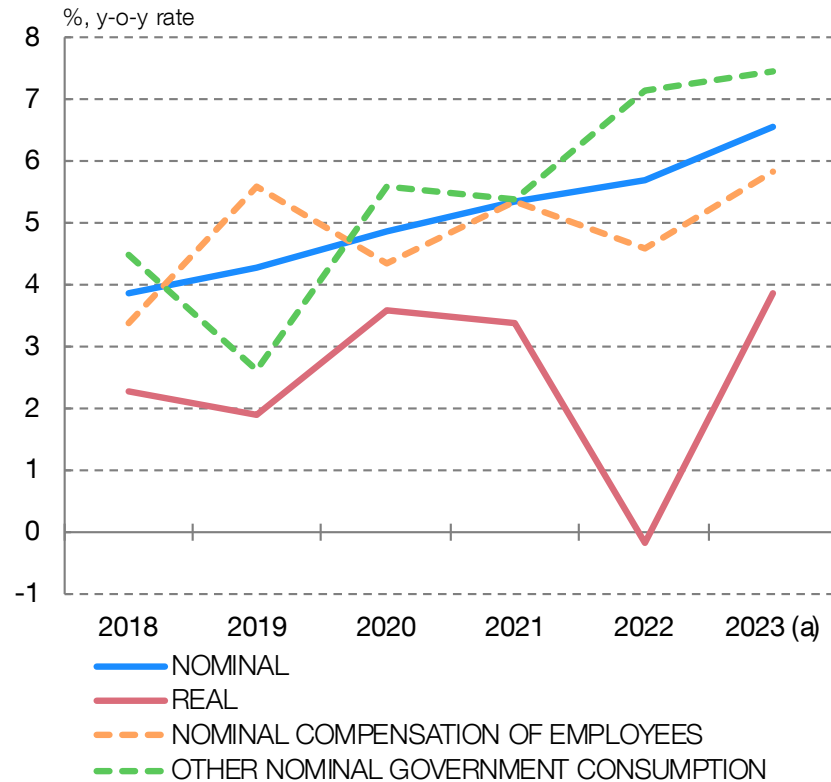
Source: INE.



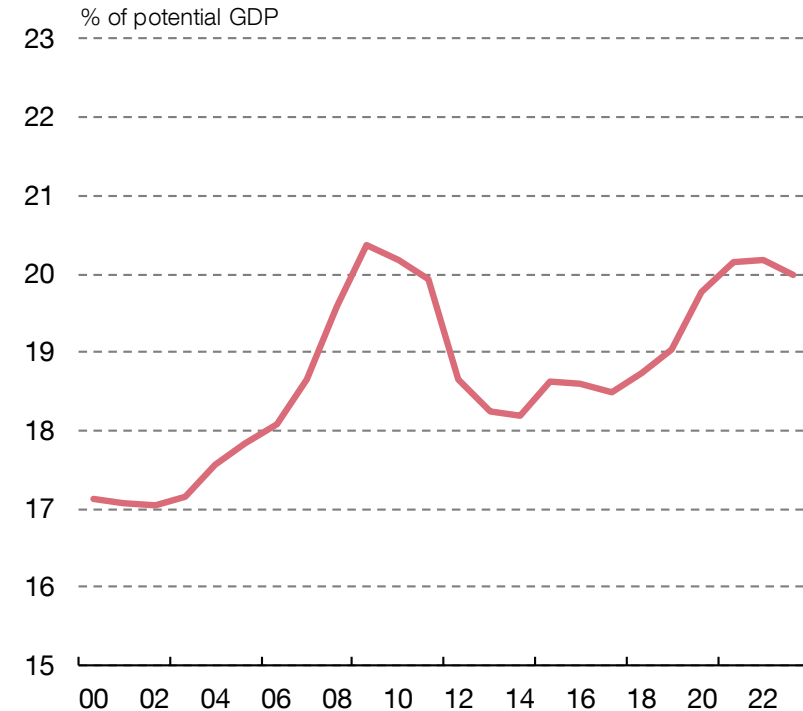
GOVERNMENT CONSUMPTION SURPRISED ON THE UPSIDE IN 2023

- There is considerable uncertainty over recent developments in this item. Insofar as it does not stem from transitory factors (such as possible NGEU-related spending and other temporary measures) this increased government consumption will put further pressure on public finances, underlining the need to embark on a rigorous fiscal consolidation process in Spain

DEVELOPMENTS IN GOVERNMENT CONSUMPTION



FINAL GOVERNMENT CONSUMPTION

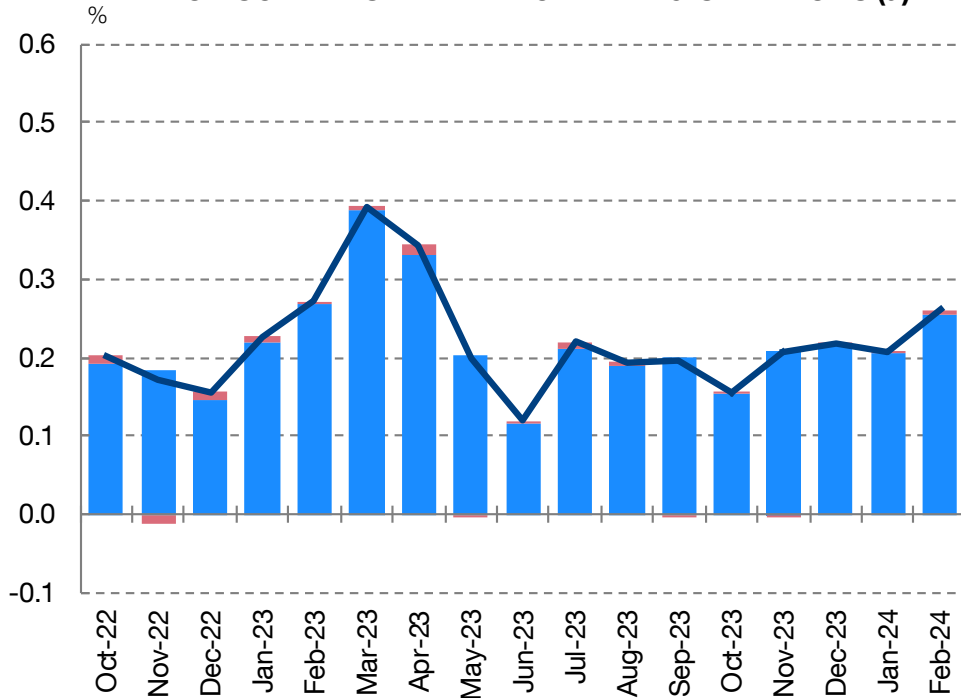


Sources: Banco de España, INE and IGAE.

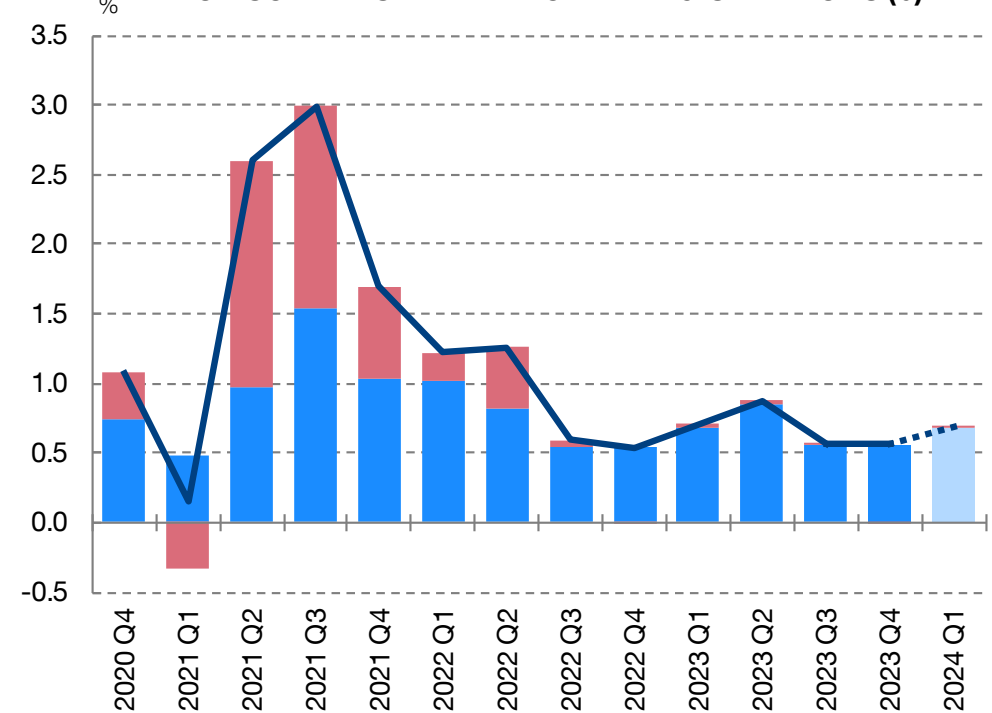
(a) For 2023, the breakdown of government consumption into employee compensation and other consumption is based on monthly data to November for the aggregate excluding local government.

ACCORDING TO THE LATEST INFORMATION AVAILABLE, IN 2024 Q1 EMPLOYMENT APPEARS TO HAVE GROWN AT A SLIGHTLY HIGHER PACE THAN IN 2023 Q4

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



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



■ TOTAL REGISTRATIONS
 ■ WORKERS ON JOB RETENTION SCHEMES
 — EFFECTIVE REGISTRATIONS
 - - -

Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. Latest observation: February 2024.

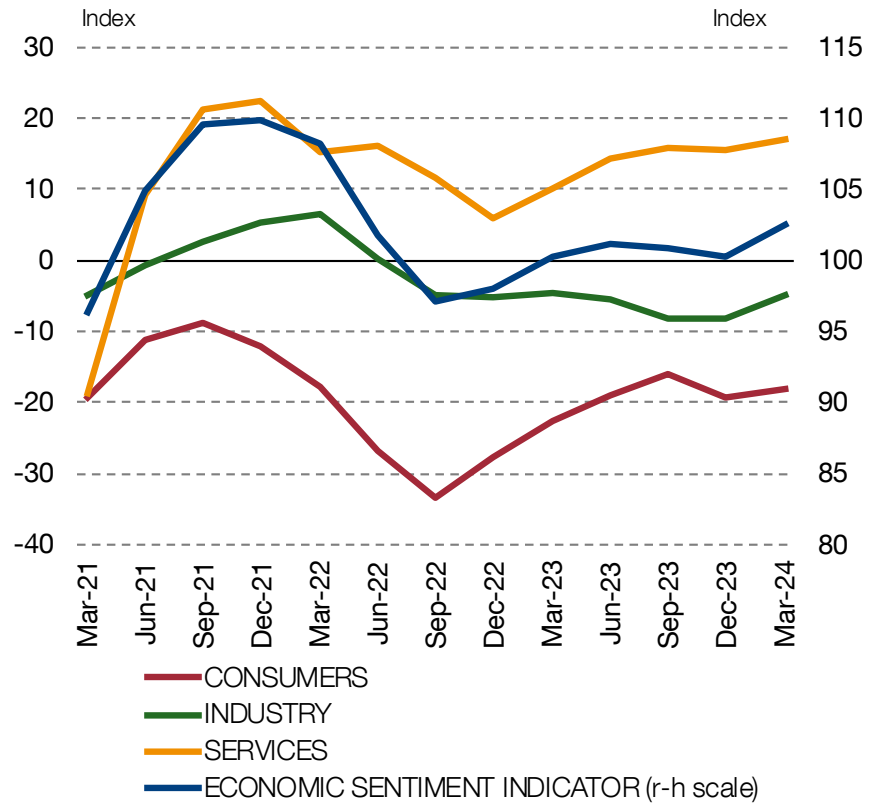
(a) Seasonally adjusted monthly rates.

(b) The first quarter of 2024 is calculated using data observed up to February and the ARIMA model forecast for March.

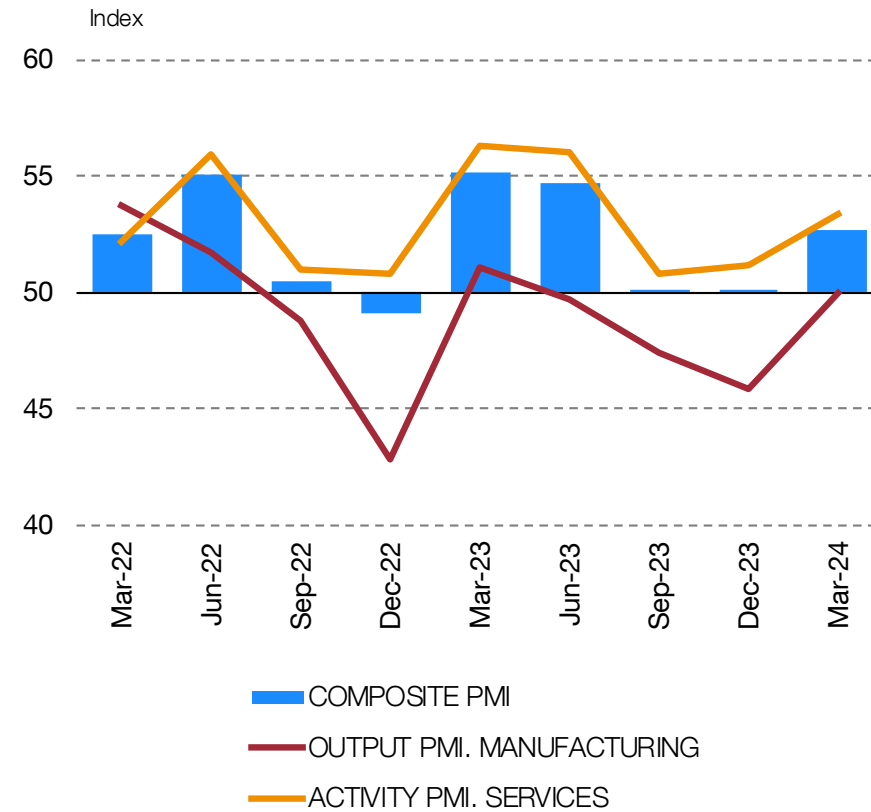


CONFIDENCE INDICATORS AND PURCHASING MANAGERS' INDICES HAVE ALSO PERFORMED FAVOURABLY IN THE MOST RECENT PERIOD

CONFIDENCE INDICATORS (a)



PURCHASING MANAGERS' INDICES (a)

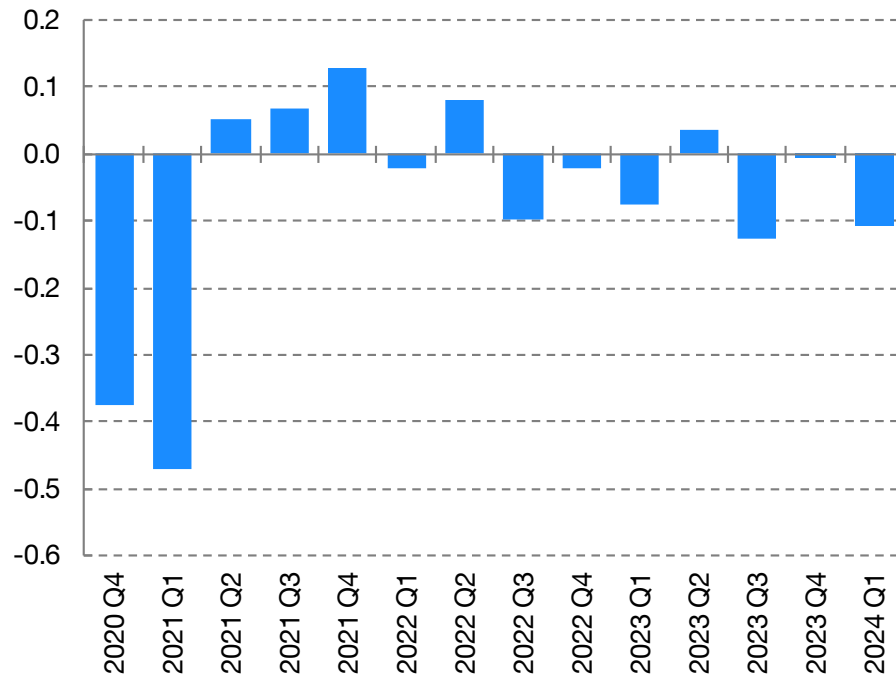


Sources: European Commission and S&P Global.
 (a) Quarterly data. The figure for 2024 Q1 is the average of January and February.

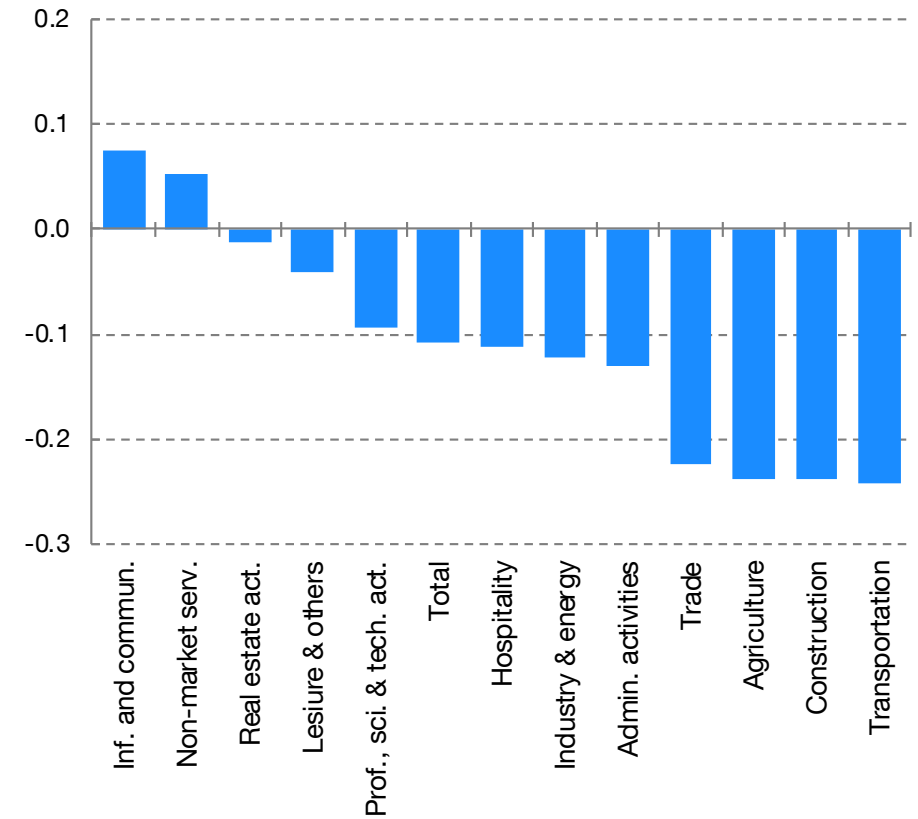


THE RESULTS OF THE EBAE POINT TO A DECLINE IN TURNOVER IN 2024 Q1, WITH NOTABLE HETEROGENEITY ACROSS SECTORS

QUARTERLY CHANGE IN TURNOVER (a)



QUARTERLY TURNOVER IN 2024 Q1, BY SECTOR (a)



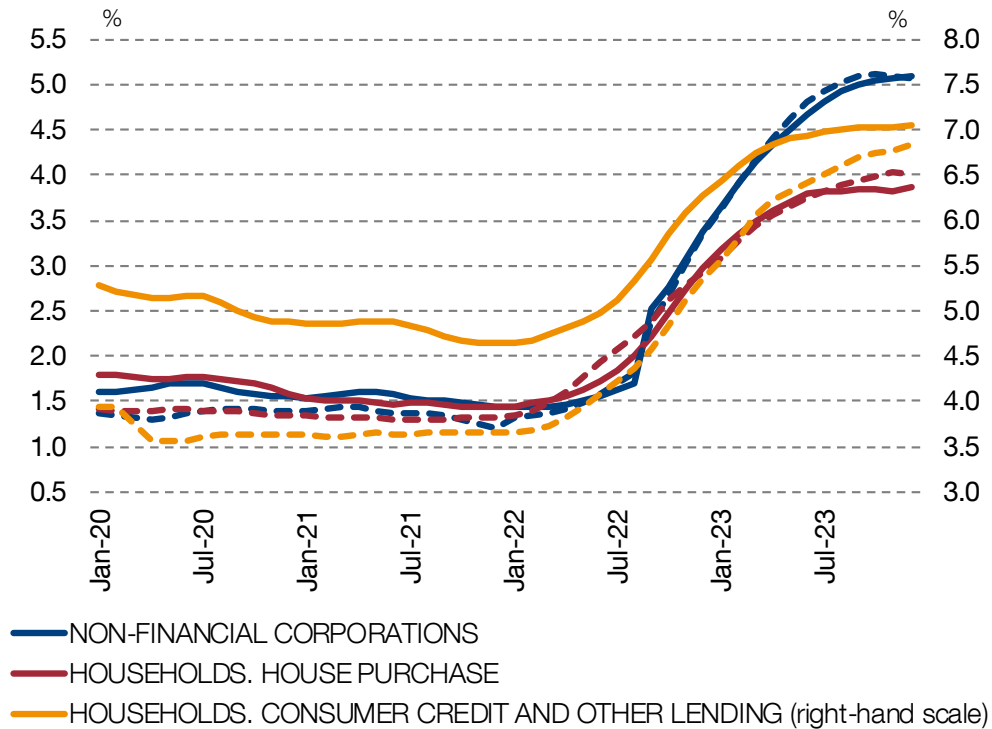
Source: EBAE.

(a) Constructed index defined as: Significant decrease = -2; Slight decrease = -1; Unchanged = 0; Slight increase = 1; and Significant increase = 2.

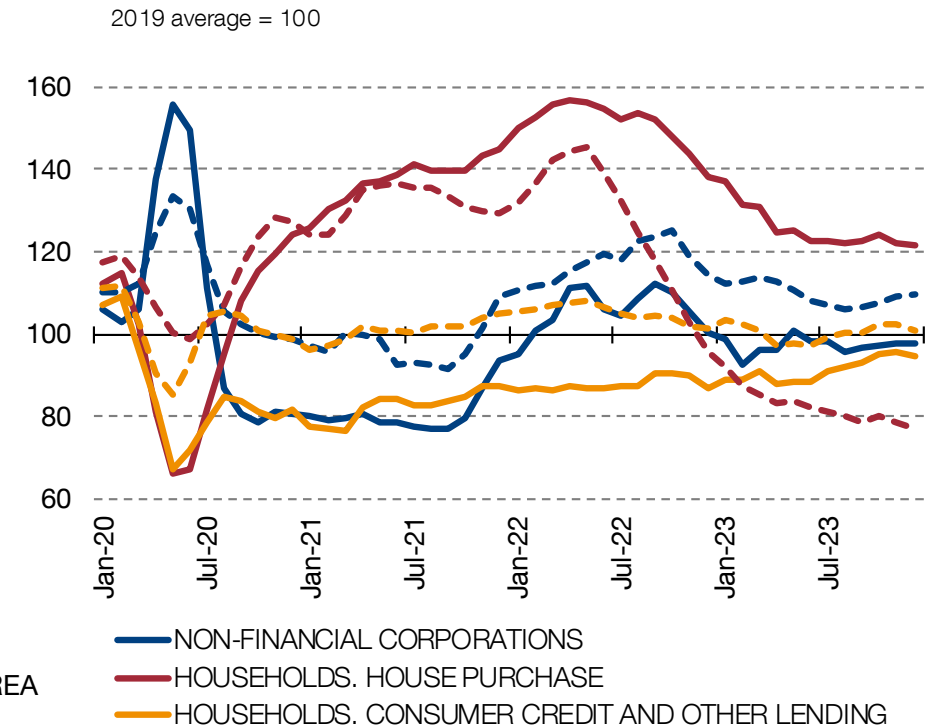


NEW LENDING REMAINS WEAK, AGAINST A BACKDROP OF STILL HIGH FINANCING COSTS

COST OF NEW BANK LENDING (a)



NEW LENDING (b)



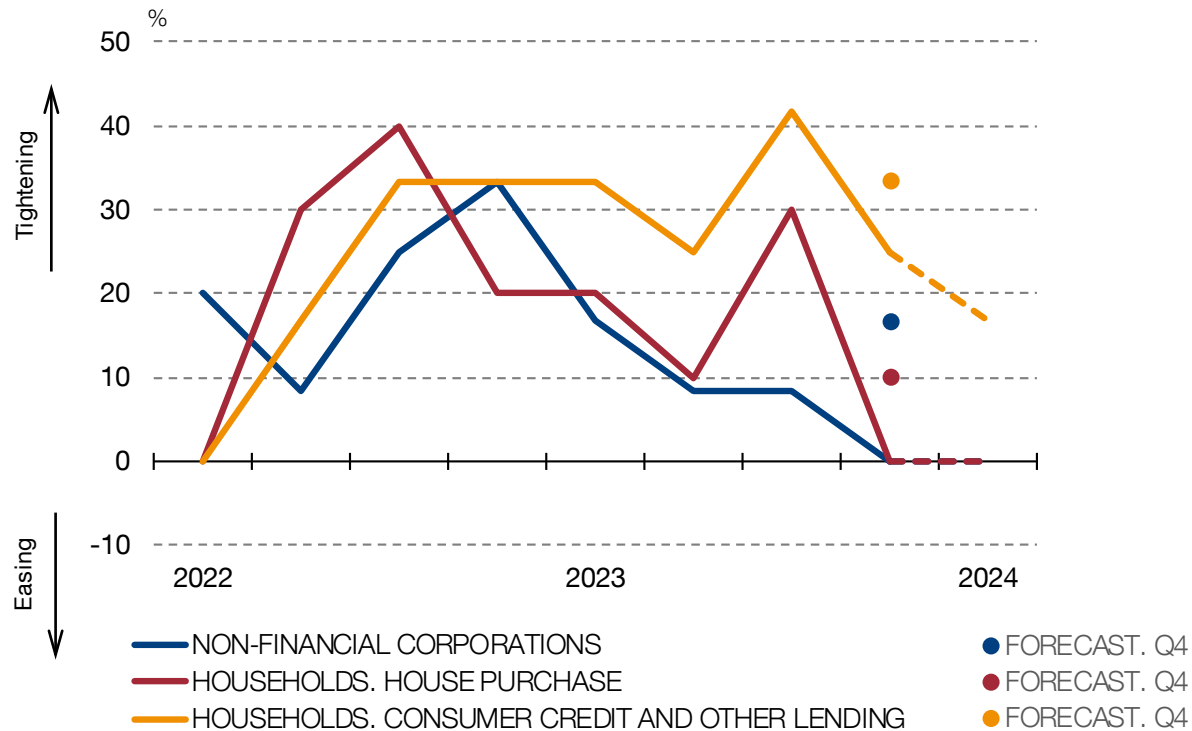
Source: ECB. Latest observation: December 2023.

(a) Bank interest rates are narrowly defined effective rates (NDEs), i.e. they exclude related charges, such as repayment insurance premia and fees. In addition, they are trend-cycle rates, i.e. they are adjusted seasonally and for the irregular component (small changes in the series without an identifiable regular pattern or trend).

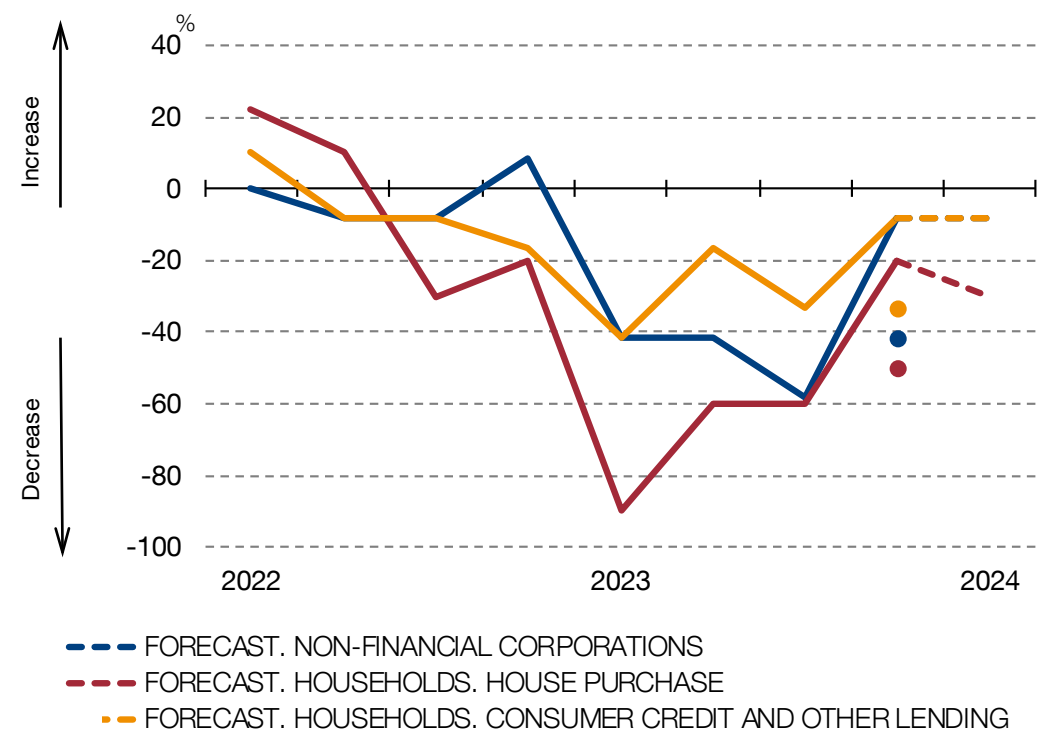
(b) 3-month cumulative seasonally adjusted flows relative to the 2019 monthly average.

IN 2023 Q4 CREDIT STANDARDS WERE BROADLY STABLE, WHILE DEMAND CONTRACTED LESS THAN IN PREVIOUS QUARTERS

CHANGE IN CREDIT STANDARDS IN SPAIN (a)



CHANGE IN DEMAND FOR LOANS IN SPAIN (b)



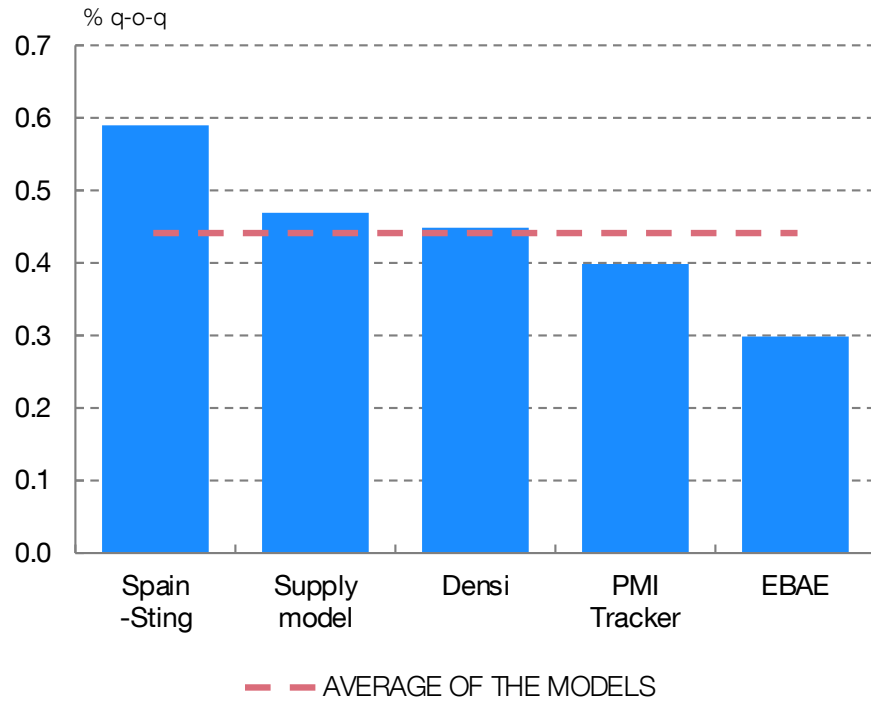
Source: Banco de España. Latest observation: 2023 Q4.

(a) Percentage of banks reporting a tightening less percentage of banks reporting an easing.
 (b) Percentage of banks reporting an increase less percentage of banks reporting a decrease.

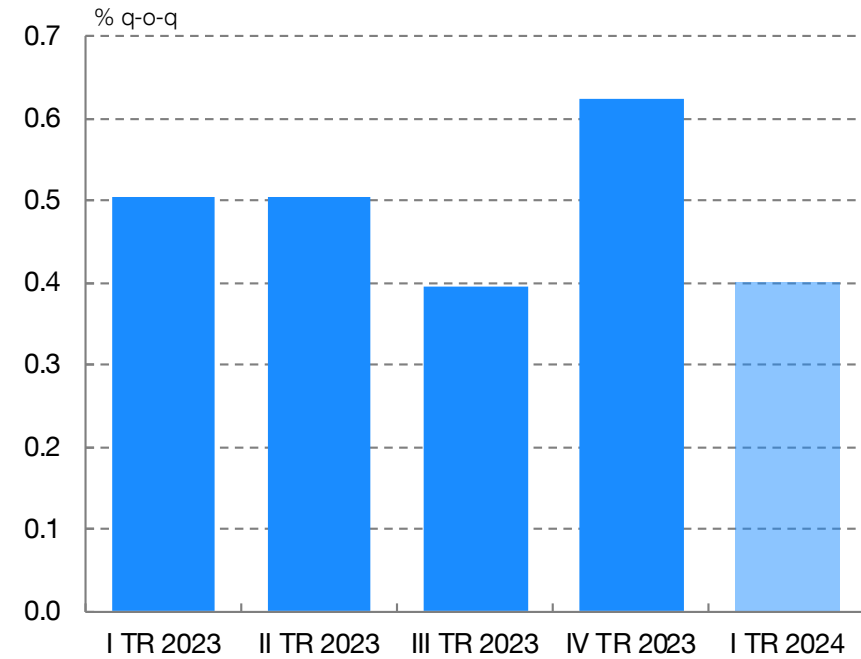


THE BANCO DE ESPAÑA'S MAIN NOWCASTING MODELS SIGNAL, WITH CONSIDERABLE UNCERTAINTY, GDP GROWTH OF AROUND 0.4% IN 2024 Q1

NOWCASTING MODELS. GDP GROWTH ESTIMATES FOR 2024 Q1



GDP GROWTH



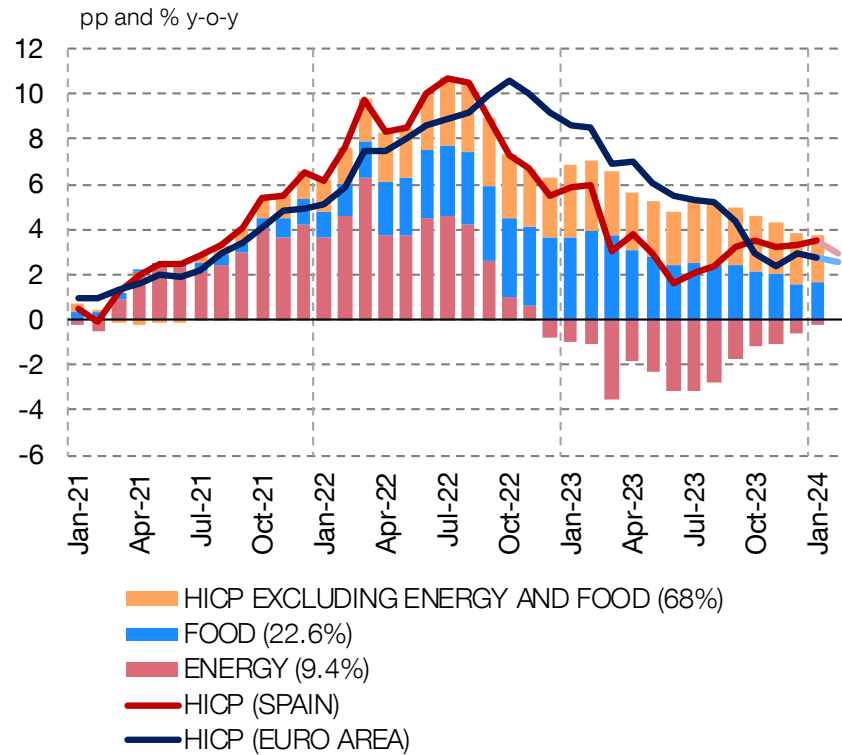
Sources: INE and Banco de España.



HEADLINE INFLATION EASED TO 2.9% IN FEBRUARY, FOLLOWING THE INCREASE IN JANUARY

- The increase in inflation in January owed primarily to the partial withdrawal of the support measures introduced in response to the energy crisis, which affected electricity and gas prices and is estimated to have added around 0.3 pp to headline inflation in that month
- In any event, inflation rose in January by less than envisaged in the Banco de España's December projections due to a more gradual rolling back of the support measures than anticipated

HEADLINE HICP AND CONTRIBUTIONS (a)



Impact of the partial reversal in January of measures to tackle inflation

	Effect on headline inflation (pp)	Estimated impact in the December projections
VAT on electricity	0.15	0.49
Excise duty on electricity	0.06	0.15
VAT on gas	0.04	0.14
Total	0.25	0.78

Sources: INE, Eurostat and Banco de España. Latest observation: February early estimate.
 (a) 2024 HICP weight of each component shown in brackets.

THE NEW MEASURES INTRODUCED BY ROYAL DECREE-LAW 8/2023

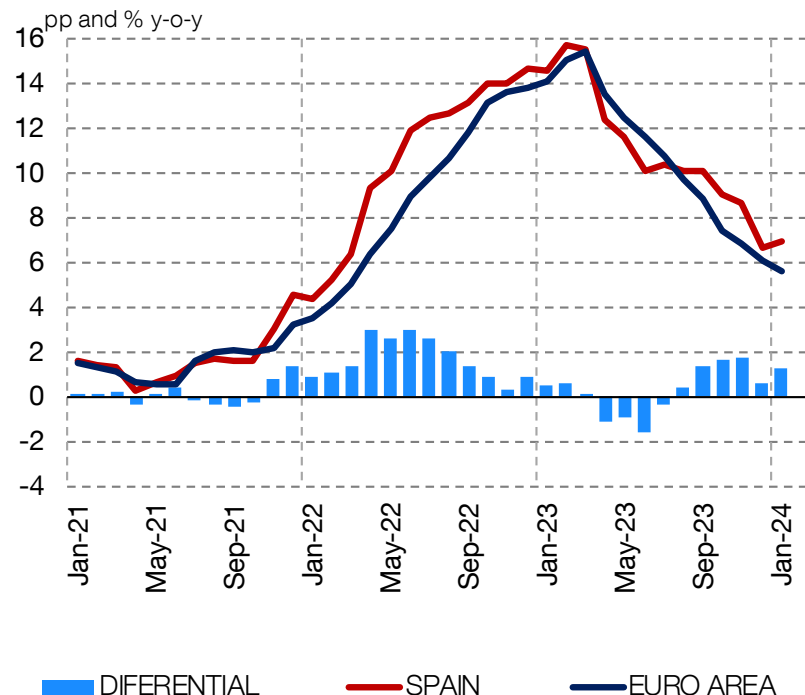
Assumptions included in the December 2023 projections	Measures approved in January 2024
<p>HICP - electricity</p> <ul style="list-style-type: none"> On 1 January 2024, the VAT rate returns to 21% (from 5%) and the excise duty reverts to 5.11% (from 0.5%) 	<p>HICP - electricity</p> <ul style="list-style-type: none"> On 1 January 2024, the VAT rate rises to 10% (*) The excise duty increases to 2.5% in 2024 Q1, to 3.8% in Q2 and returns to its pre-crisis level (5.11%) from 1 July onwards
<p>HICP - natural gas</p> <ul style="list-style-type: none"> On 1 January 2024, the VAT rate goes back to 21% (from 5%) 	<p>HICP - natural gas</p> <ul style="list-style-type: none"> The VAT rate increases to 10% in 2024 Q1 and returns to pre-crisis levels (21%) from Q2 onwards
<p>HICP - food</p> <ul style="list-style-type: none"> In July 2024, the VAT rate on certain food products returns to 4% (from 0%) and that on other food products reverts to 10% (from 5%) 	<p>HICP - food</p> <ul style="list-style-type: none"> In July 2024, the VAT rate on certain food products returns to 4% (from 0%) and that on other food products reverts to 10% (from 5%)
<p>HICP - transport</p> <ul style="list-style-type: none"> The transport subsidies are extended to the entirety of 2024 and are withdrawn in 2025 	<p>HICP - transport</p> <ul style="list-style-type: none"> The transport subsidies are extended to the entirety of 2024 and are withdrawn in 2025

(*) From January, the VAT rate on electricity rises to 10% if in the preceding month the average wholesale market price is higher than €45/MWh; if it is below that threshold, a VAT rate of 21% is charged.

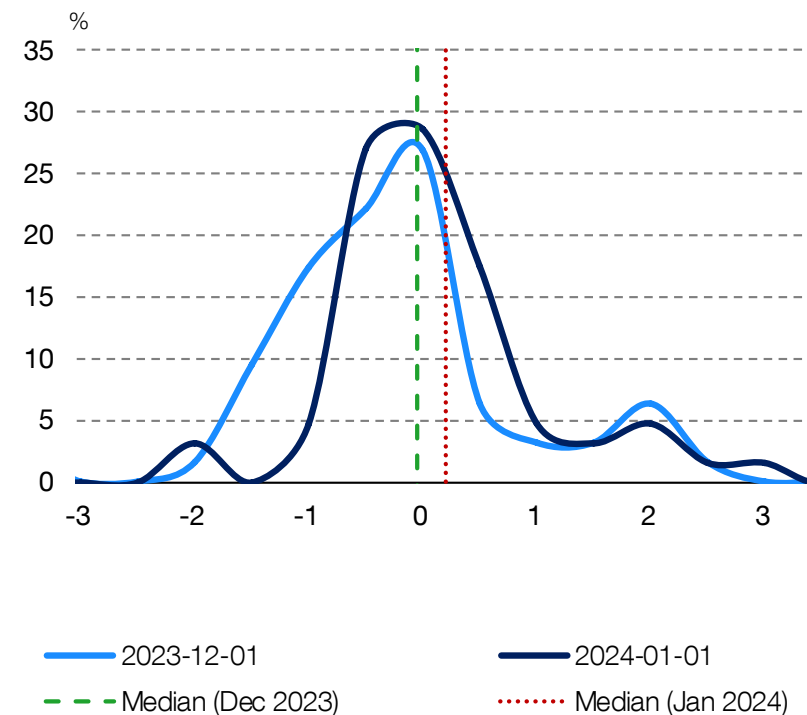
FOOD PRICES SLOWED THEIR DESCENT IN JANUARY, PARTLY AS A RESULT OF THE BASE EFFECT FROM THE VAT REDUCTION ON SOME FOODS PUT IN PLACE IN JANUARY 2023

- This item has recorded higher inflation in Spain than in the euro area in recent months

HICP-FOOD, BEVERAGES AND TOBACCO



PERCENTAGE OF HICP-FOOD ITEMS IN EACH RANGE OF MONTH-ON-MONTH GROWTH (a)



Sources: Eurostat and Banco de España.

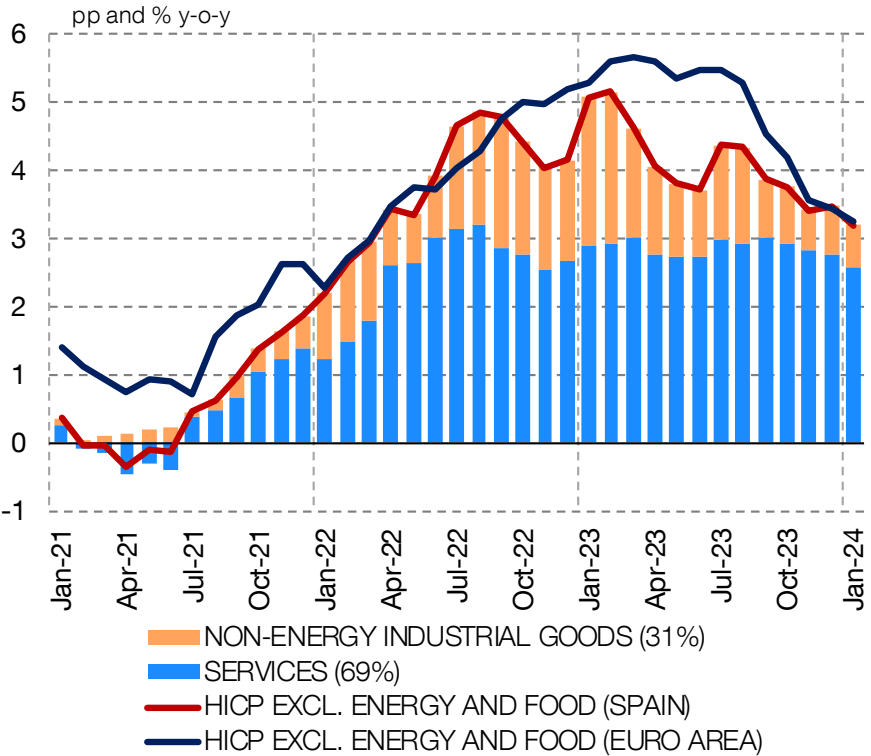
(a) Month-on-month rates corrected using average rates for each month between 2016 and 2019.



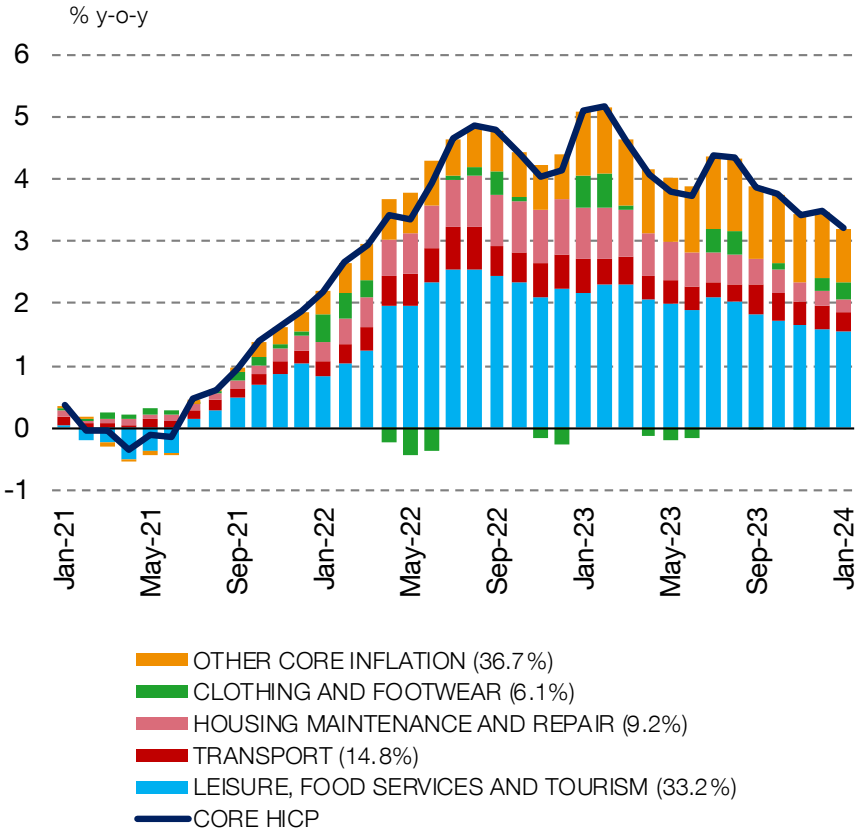
CORE INFLATION HAS CONTINUED TO FALL IN RECENT MONTHS

- By core inflation component, the slowdown seen in previous months in non-energy industrial goods continued, while the moderation in leisure, food services and tourism and in housing maintenance and repair underpinned a minor slowdown in the services component

HICP EXCL. ENERGY AND FOOD: RATES AND CONTRIBUTIONS (a)



HICP EXCL. ENERGY AND FOOD: MEASURES BY ITEM (a)

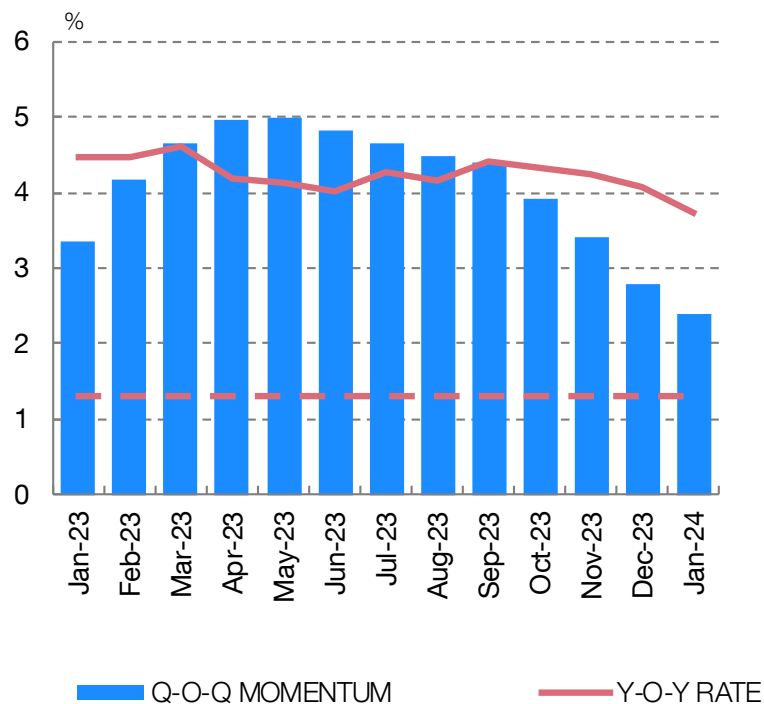


Sources: INE, Eurostat and Banco de España.
 (a) The weight of each component in HICP excluding energy and food in 2024 is shown in brackets.

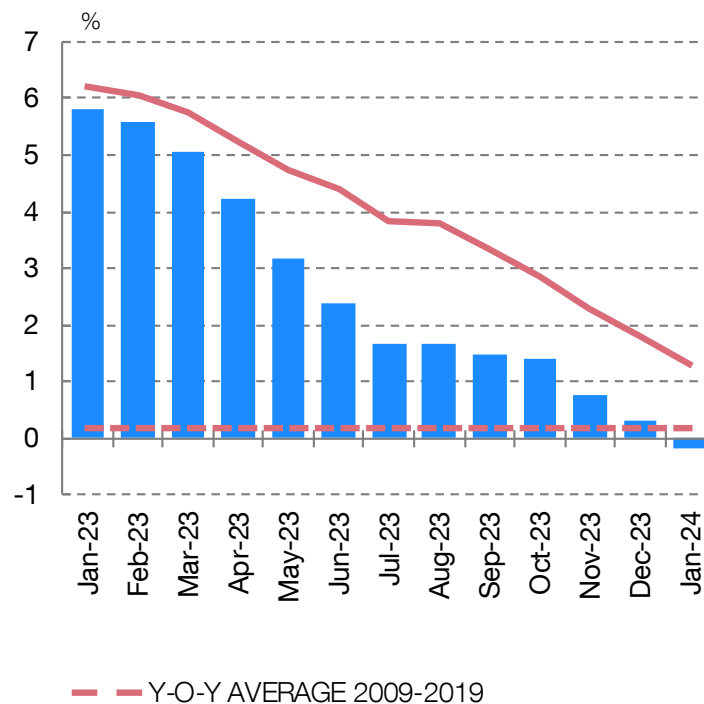


INFLATIONARY PRESSURE IS SLOWING MORE FOR NON-ENERGY INDUSTRIAL GOODS THAN FOR SERVICES

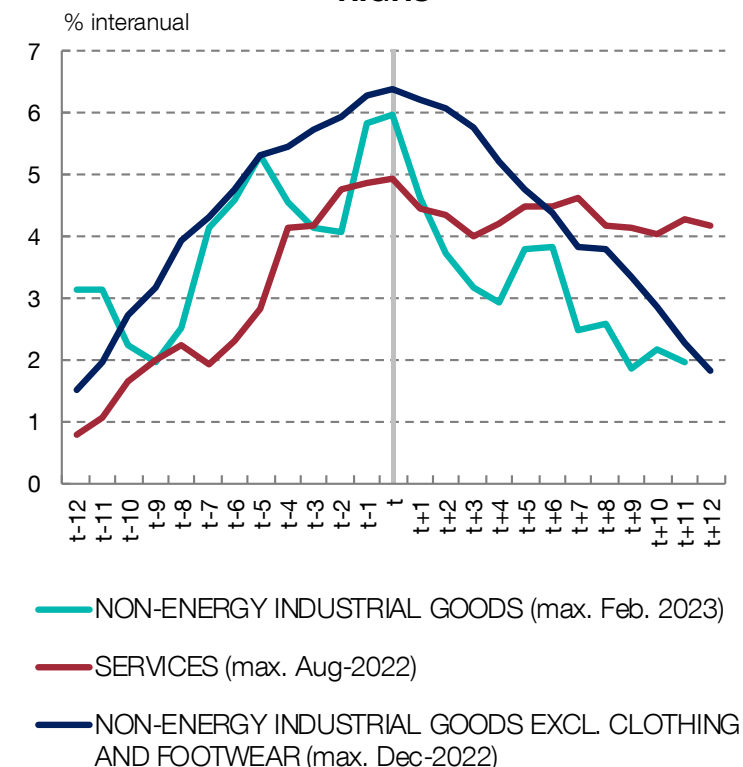
SERVICES



NON-ENERGY INDUSTRIAL GOODS (excl. clothing and footwear)



HICP-SERVICES AND NON-ENERGY INDUSTRIAL GOODS: INFLATION BEFORE AND AFTER RECENT HIGHS

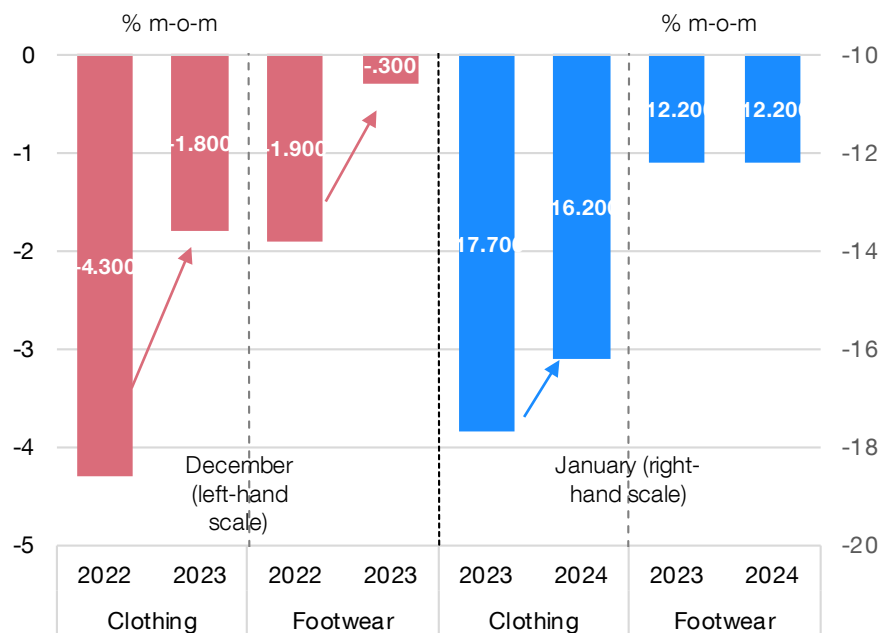


Sources: INE and Banco de España.

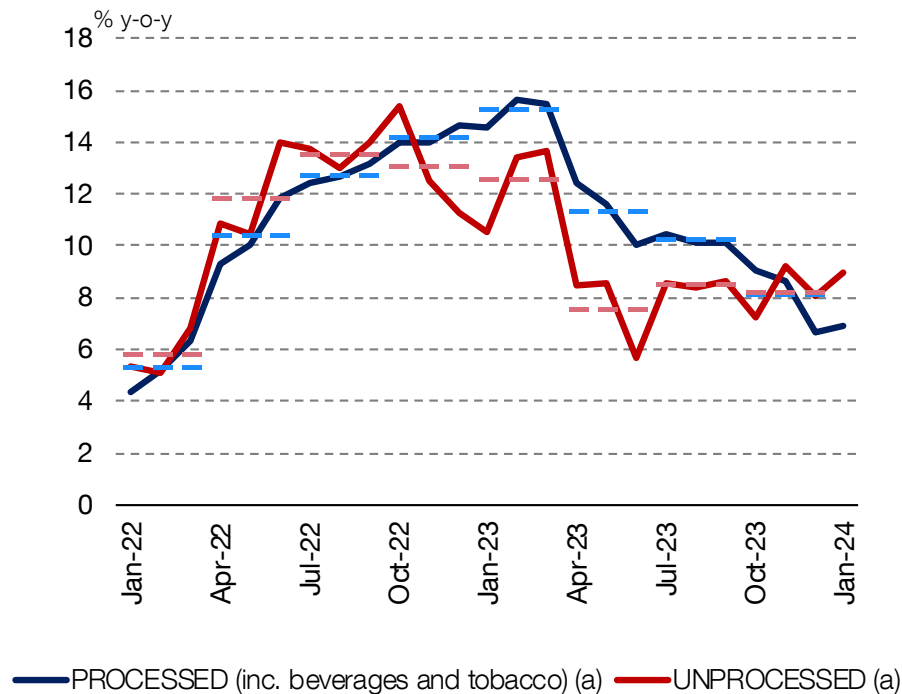


A LOWER IMPACT OF SALES AND POSSIBLE ADVERSE WEATHER EFFECTS AT LEAST PARTLY EXPLAIN RECENT ERRORS IN FORECASTS FOR FOOD AND CORE INFLATION

HICP-CLOTHING AND FOOTWEAR



HICP-PROCESSED AND UNPROCESSED FOOD



Source: INE. Latest observation: January 2024.

(a) The dotted lines denote the year-on-year rate in each of the corresponding quarters.



MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2026)

MAIN ITEMS

	2023	March 2024 projections			December 2023 projections			
		2024	2025	2026	2023	2024	2025	2026
Annual rate of change in volume terms (%) and % of GDP								
GDP	2.5	1.9	1.9	1.7	2.4	1.6	1.9	1.7
Private consumption	1.8	2.3	1.9	1.7	2.2	2.3	1.7	1.5
Government consumption	3.8	1.2	1.7	1.5	2.2	0.8	1.5	1.3
Gross fixed capital formation	0.6	0.4	2.7	1.9	1.8	2.7	2.7	1.8
Exports of goods and services	2.4	1.7	3.0	2.9	1.0	0.3	3.0	2.9
Imports of goods and services	0.3	2.1	3.4	3.0	-0.4	1.3	3.0	2.7
Domestic demand (contribution to growth)	1.7	2.0	1.9	1.6	1.8	2.0	1.8	1.5
Net external demand (contribution to growth)	0.8	-0.1	0.0	0.1	0.6	-0.4	0.1	0.2
Nominal GDP	8.6	4.8	4.1	3.6	8.2	4.2	4.2	3.8
GDP deflator	5.9	2.9	2.2	1.9	5.6	2.6	2.3	2.1
HICP	3.4	2.7	1.9	1.7	3.4	3.3	2.0	1.9
HICP excl. energy and food	4.1	2.2	1.9	1.8	4.1	1.9	1.9	1.8
Employment (hours)	1.9	1.8	1.1	0.9	1.8	1.3	1.1	0.9
Unemployment rate (% of labour force). Annual average	12.1	11.6	11.5	11.3	12.1	11.7	11.4	11.3
Net lending (+)/net borrowing (-) of the nation (% of GDP)	3.6	3.4	3.5	3.6	3.4	2.9	3.0	3.0
General government net lending (+)/net borrowing (-) (% of GDP)	-3.8	-3.5	-3.5	-3.5	-3.8	-3.4	-3.6	-3.6
General government debt (% of GDP)	107.7	106.5	107.2	108.4	107.3	106.3	107.2	108.4

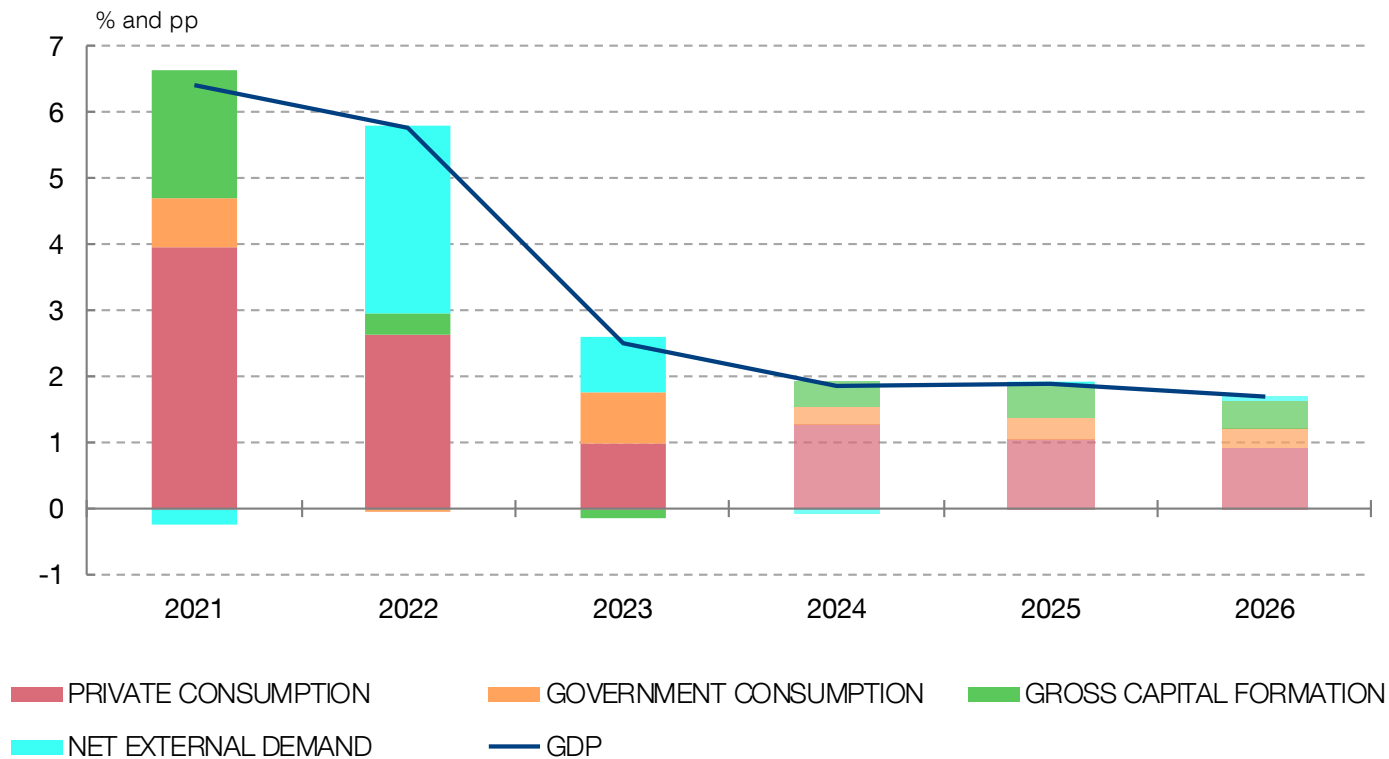
Sources: Banco de España and INE.



THROUGHOUT THE PROJECTION HORIZON, GROWTH IN THE SPANISH ECONOMY WILL BE UNDERPINNED BY DOMESTIC DEMAND, IN PARTICULAR BY PRIVATE CONSUMPTION

- Private consumption will continue to grow in 2024-2026, in line with the favourable outlook for the labour market and forecast income growth
- Of demand components, investment will continue to make the slowest recovery towards its pre-pandemic levels

GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS

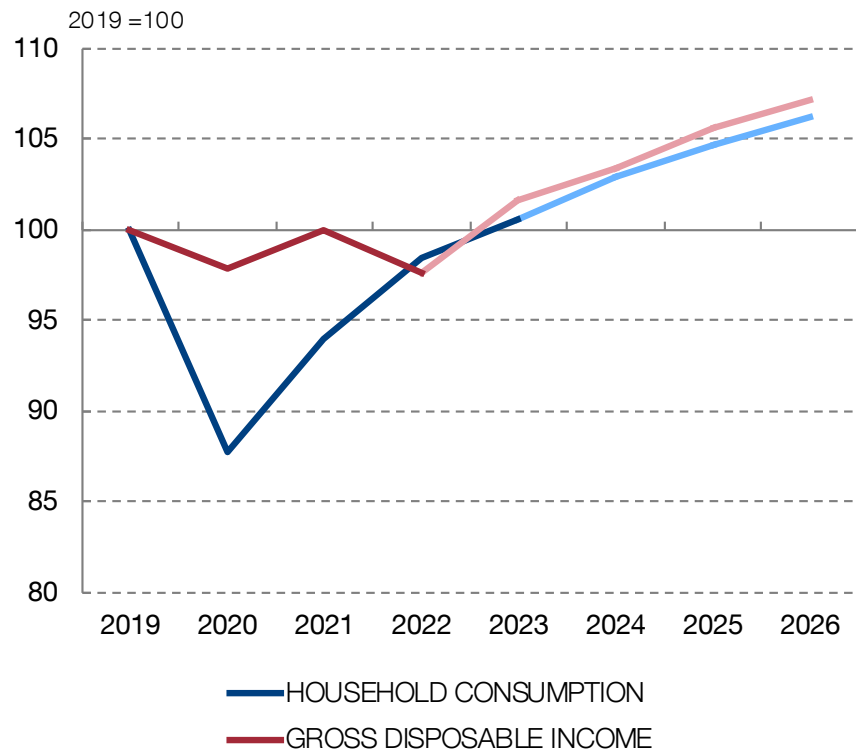


Sources: INE and Banco de España.

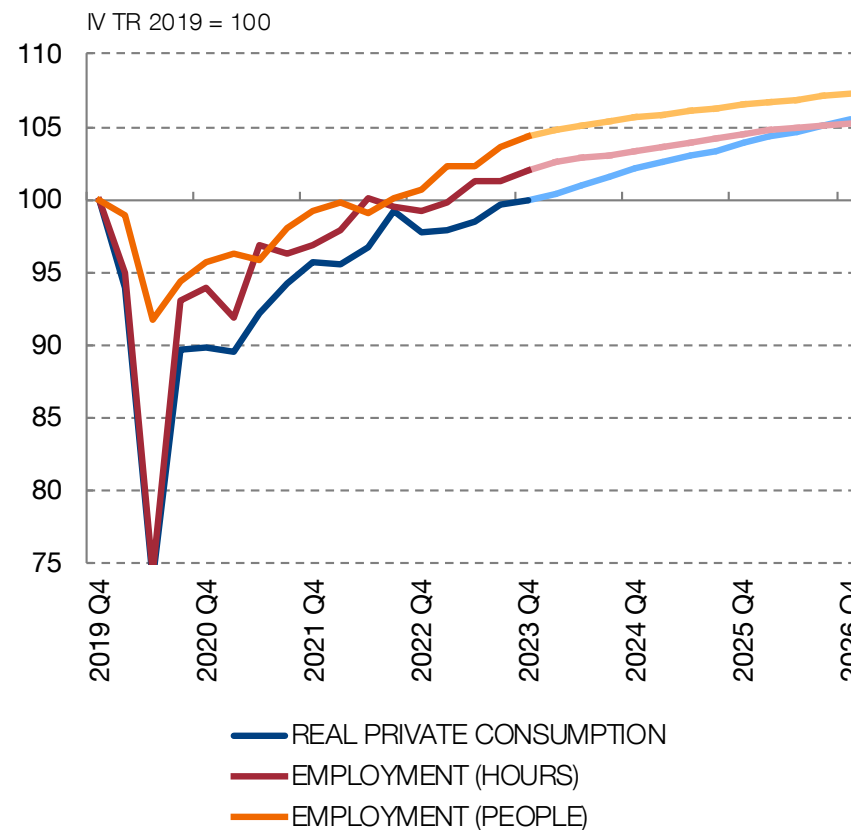


PRIVATE CONSUMPTION WILL CONTINUE TO GROW IN 2024-2026, IN LINE WITH THE FAVOURABLE OUTLOOK FOR THE LABOUR MARKET AND FORECAST INCOME GROWTH

CHANGE IN INCOME AND CONSUMPTION



CONSUMPTION AND EMPLOYMENT

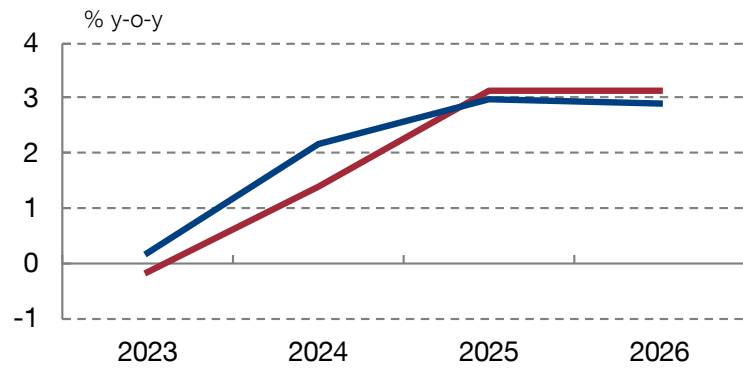


Sources: INE and Banco de España.

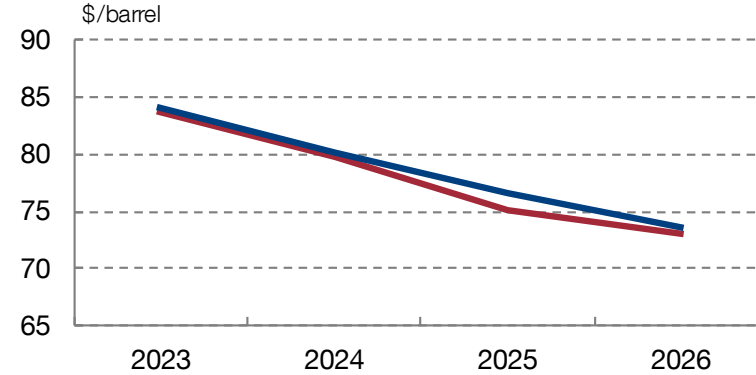


CHANGES IN THE TECHNICAL ASSUMPTIONS BETWEEN THE DECEMBER 2023 AND MARCH 2024 BANCO DE ESPAÑA PROJECTION EXERCISES

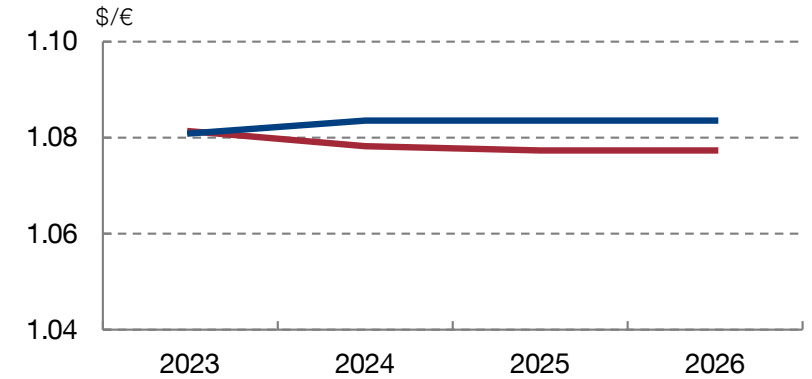
EXPORT MARKETS



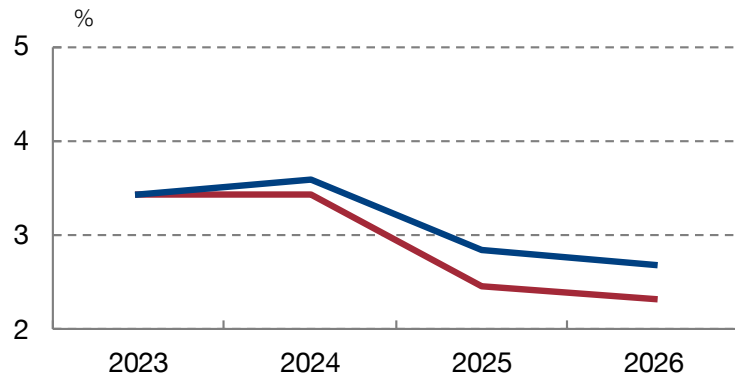
OIL PRICES



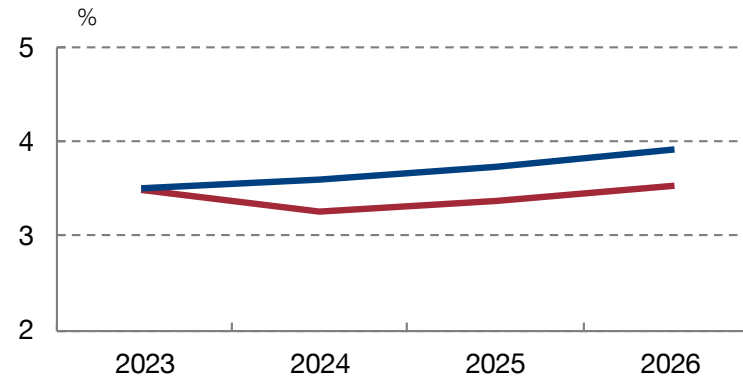
EXCHANGE RATE



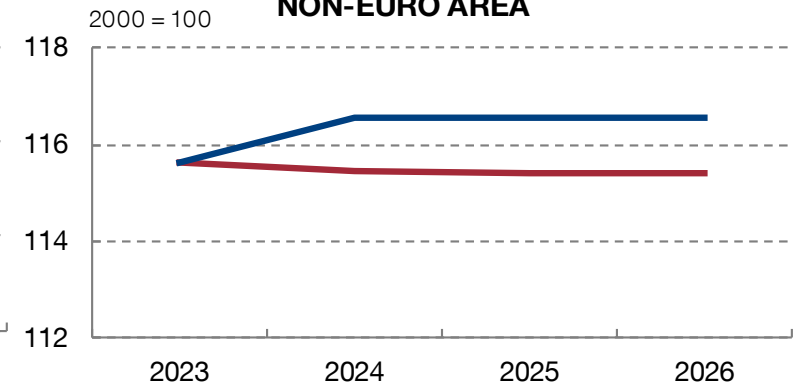
SHORT-TERM INTEREST RATES



LONG-TERM INTEREST RATES



NOMINAL EFFECTIVE EXCHANGE RATE VIS-À-VIS THE NON-EURO AREA



— DECEMBER 2023

— MARCH 2024

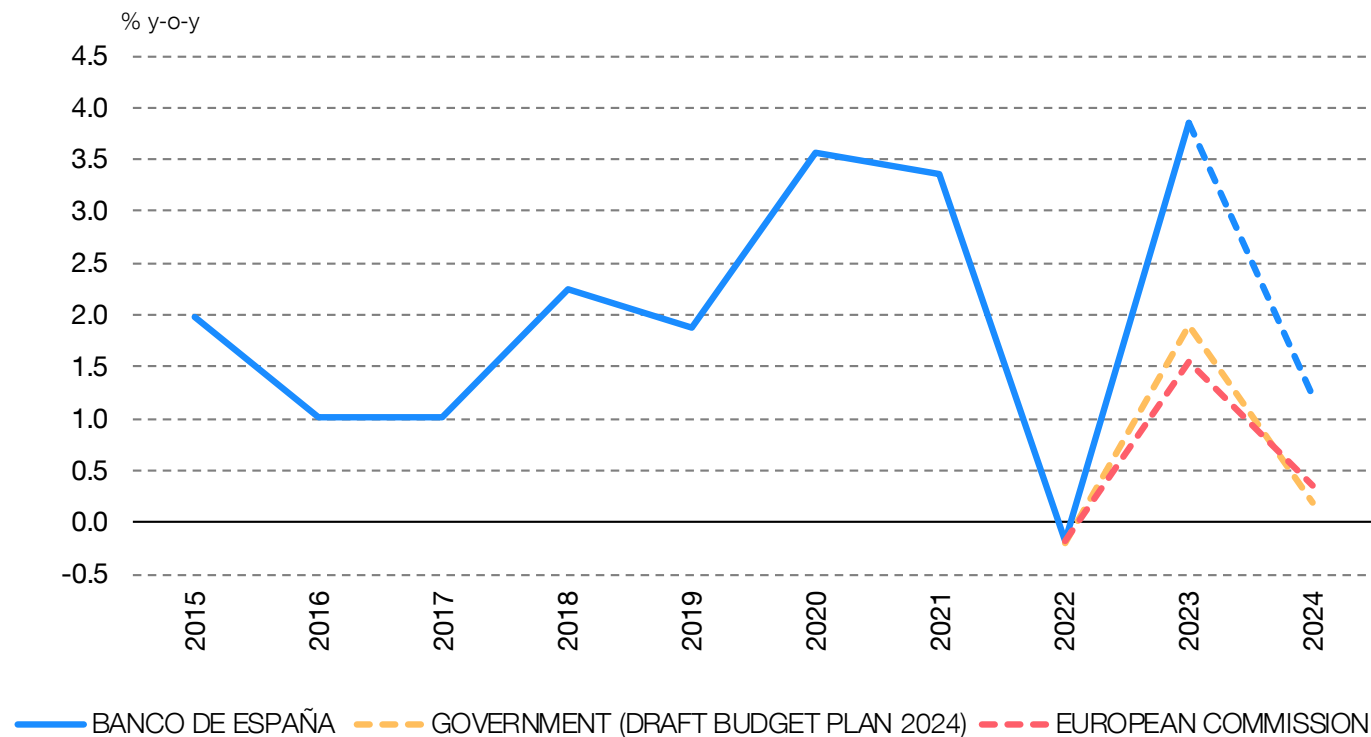
Sources: ECB and Banco de España.



IT IS ASSUMED THAT THE GROWTH RATE OF GOVERNMENT CONSUMPTION WILL SLOW IN 2024, GIVEN THE EUROPEAN RECOMMENDATION TO LIMIT EXPENDITURE

- All else being constant, if government consumption does not slow in 2024 in line with the assumptions of the baseline scenario in this projections exercise, there will be an upside risk to the GDP growth forecast, but also to the budget deficit

REAL GROWTH IN GOVERNMENT CONSUMPTION

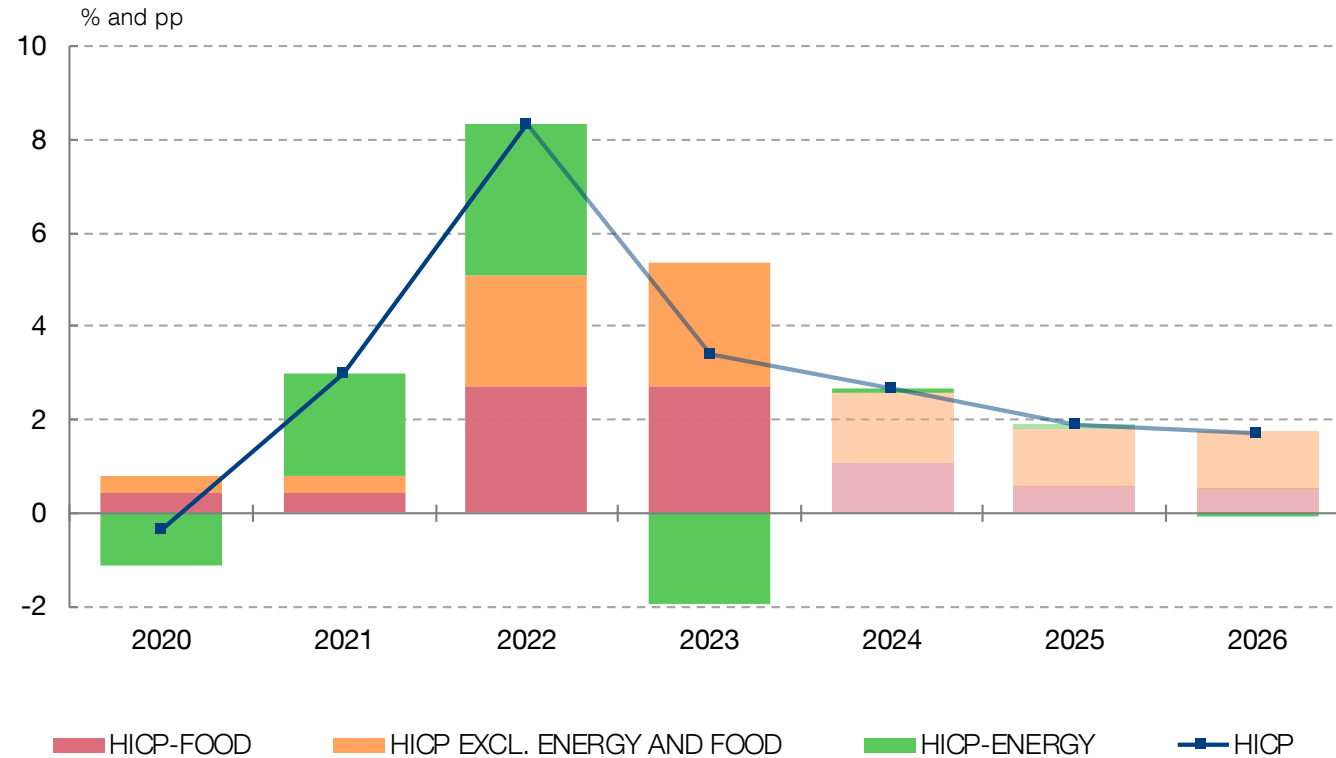


Sources: IGAE, Draft budgetary plan for 2024 (October 2023), European Commission (November 2023) and Banco de España.



HEADLINE, UNDERLYING AND FOOD INFLATION WILL CONTINUE TO FALL OVER THE COMING QUARTERS, ALTHOUGH AT A MORE MODERATE PACE THAN IN 2023

CONTRIBUTIONS TO HICP GROWTH, BY COMPONENT

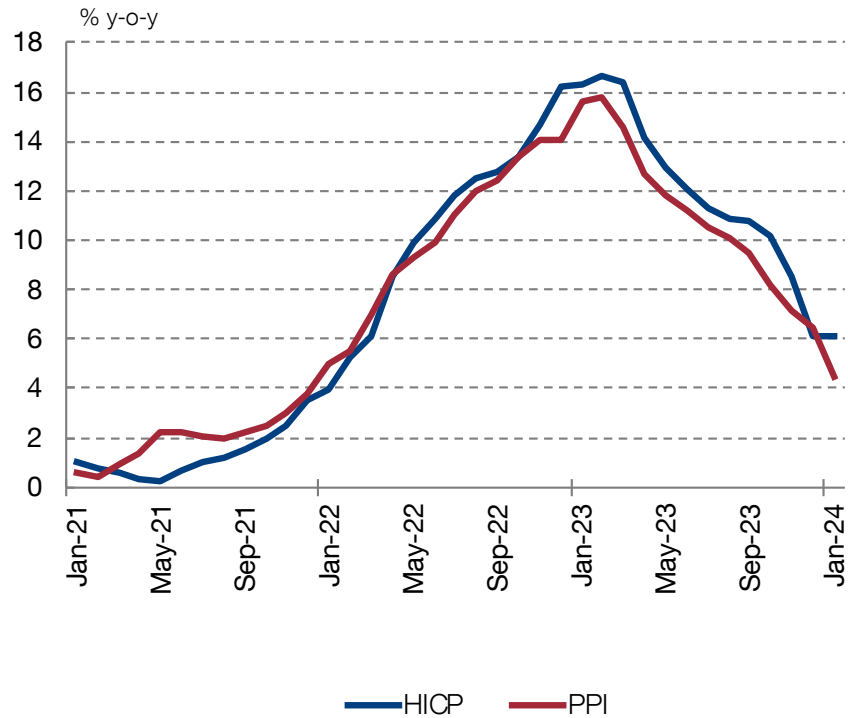


Sources: INE and Banco de España.

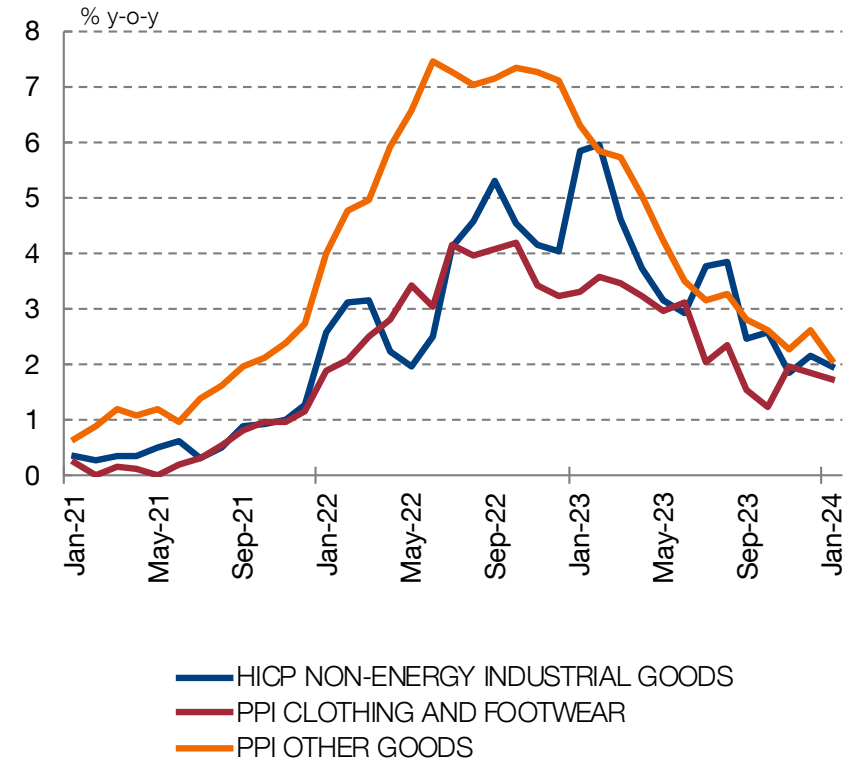


INDUSTRIAL PRICES REMAIN ON A CLEAR DOWNWARD TRAJECTORY, EVENTUALLY FEEDING THROUGH TO CONSUMER PRICES

PROCESSED FOOD PRICES



NON-ENERGY INDUSTRIAL GOODS PRICES

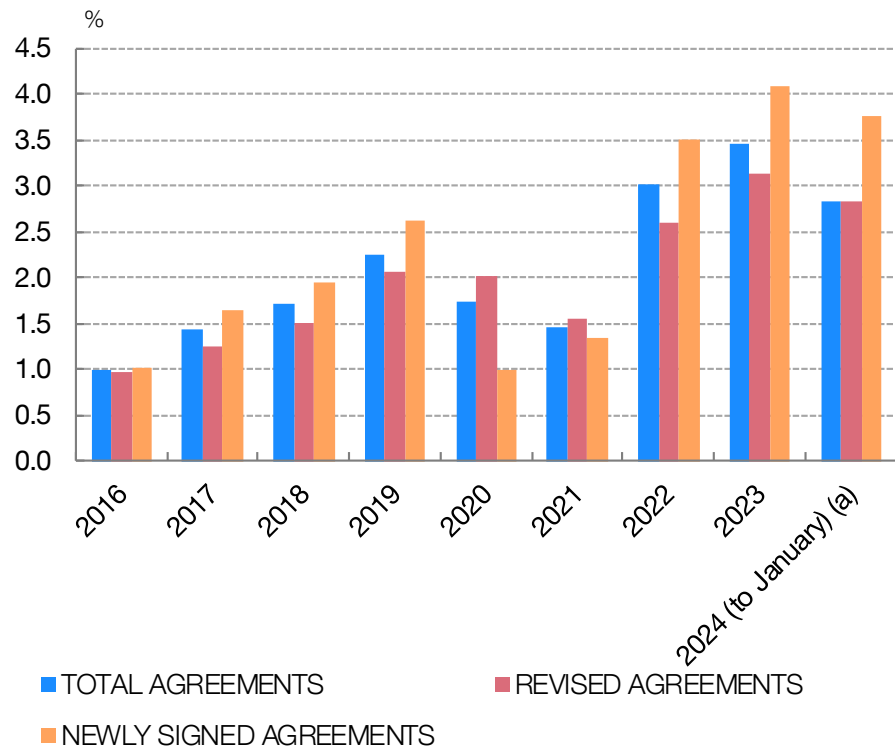


Sources: INE and Banco de España.

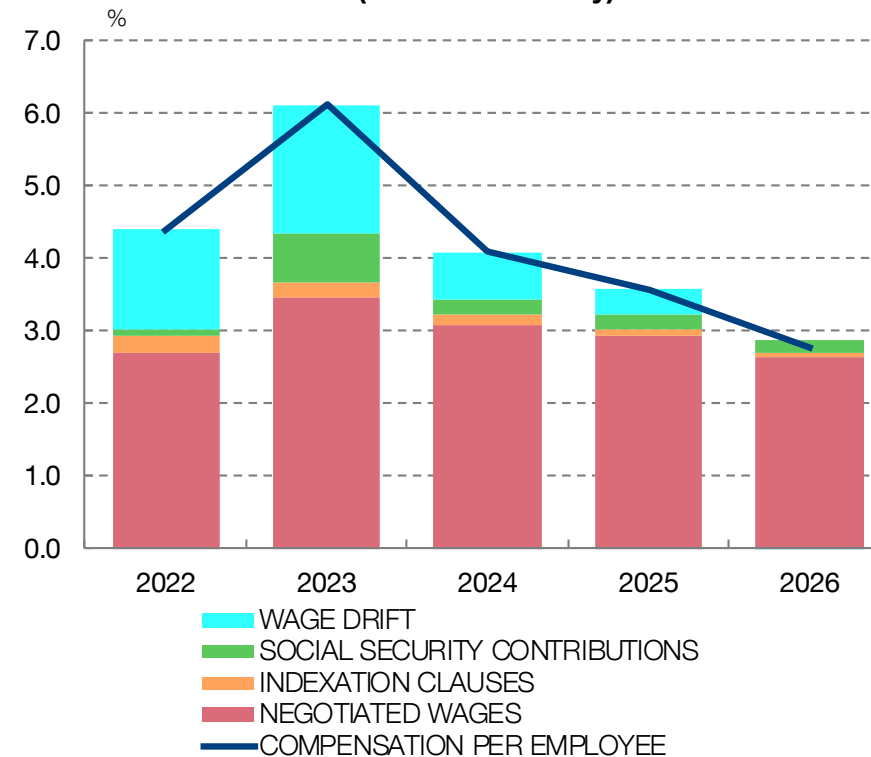


NEGOTIATED WAGE SETTLEMENTS CONTINUE TO BE RESTRAINED. THE PACE OF GROWTH IN COMPENSATION PER EMPLOYEE IS EXPECTED TO SLOW...

NEGOTIATED WAGE SETTLEMENTS



COMPENSATION PER EMPLOYEES (Market economy)

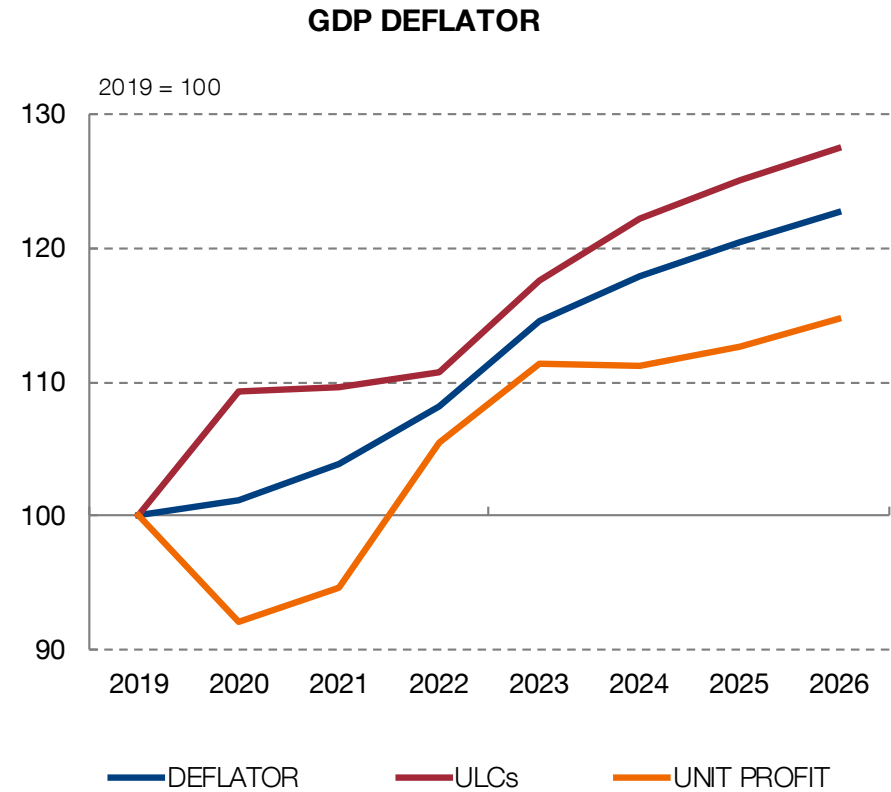
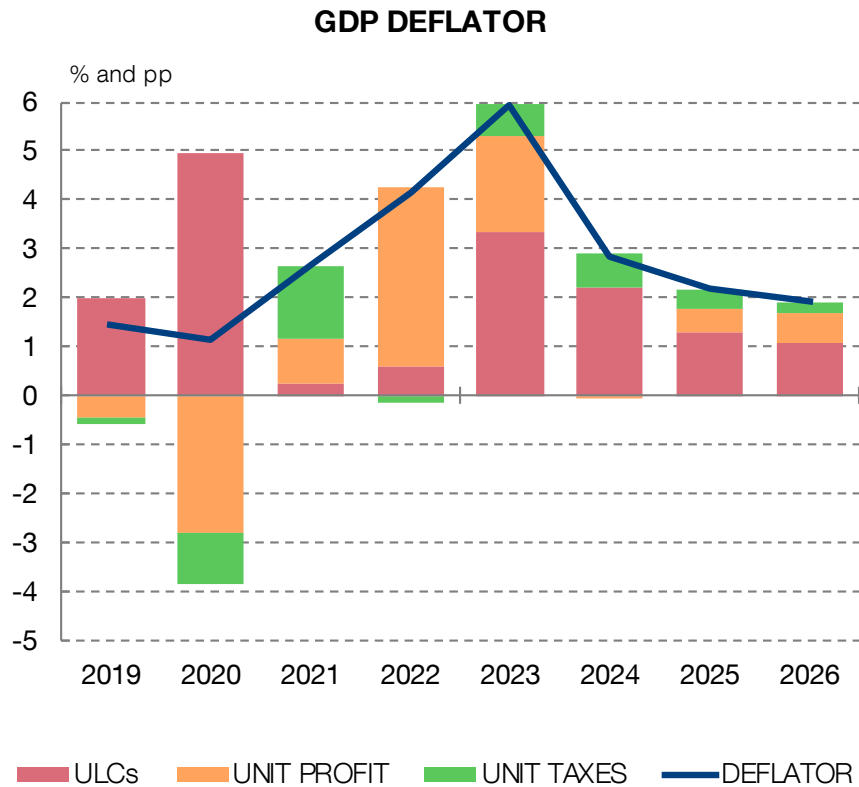


Sources: Ministerio de Trabajo y Economía Social and INE.

(a) The collective agreements newly signed in January 2024 are not particularly representative since they cover a mere 16,453 workers under only eight agreements.



... WHILE PROFIT MARGINS ARE EXPECTED TO CONTINUE TO ACCOMMODATE THE PROJECTED INCREASES IN UNIT LABOUR COSTS

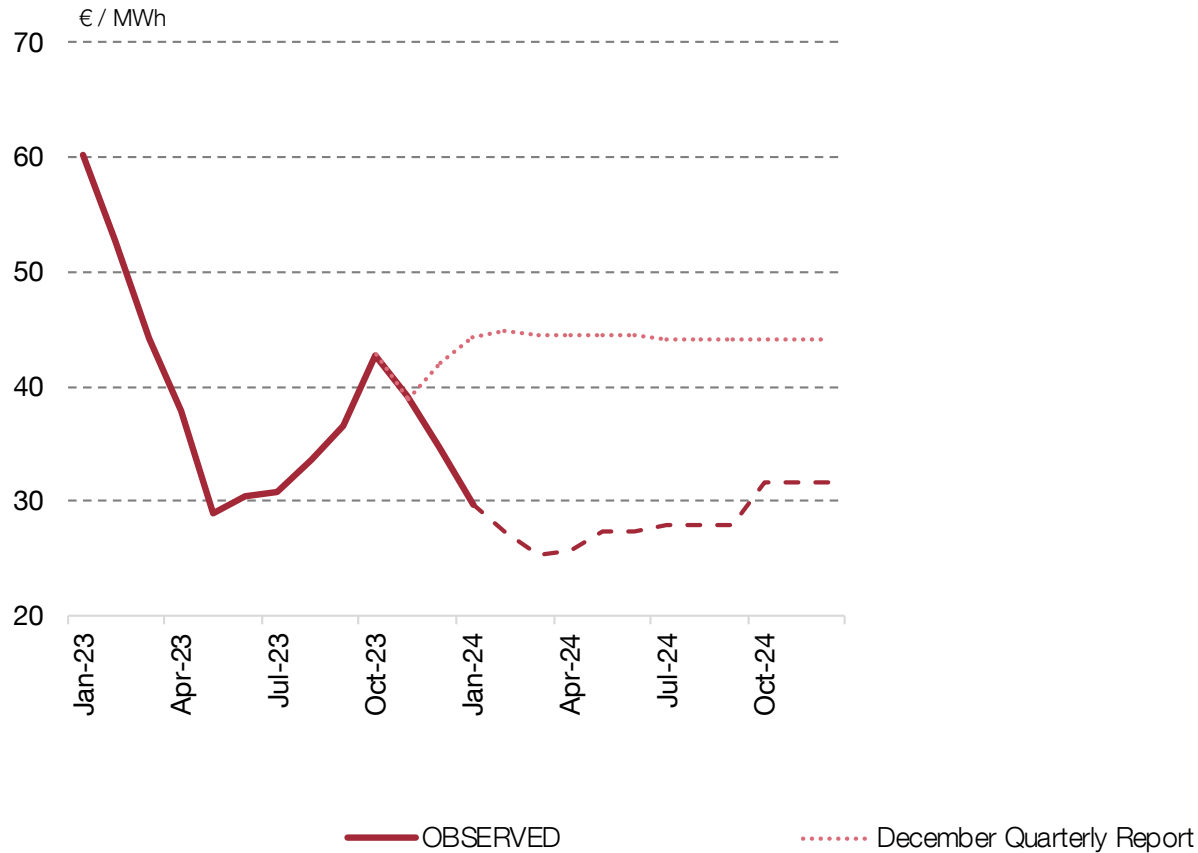


Sources: INE and Banco de España.

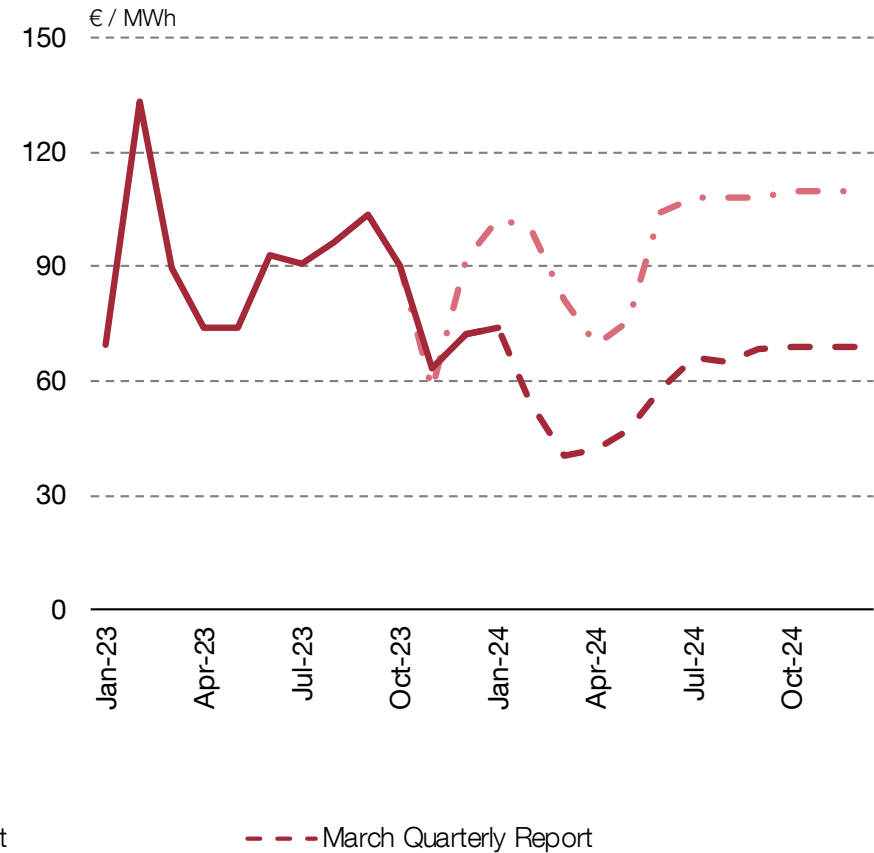


THE PATHS PROJECTED FOR GAS AND ELECTRICITY PRICES HAVE BEEN REVISED DOWNWARDS

GAS PRICE



WHOLESALE ELECTRICITY PRICE



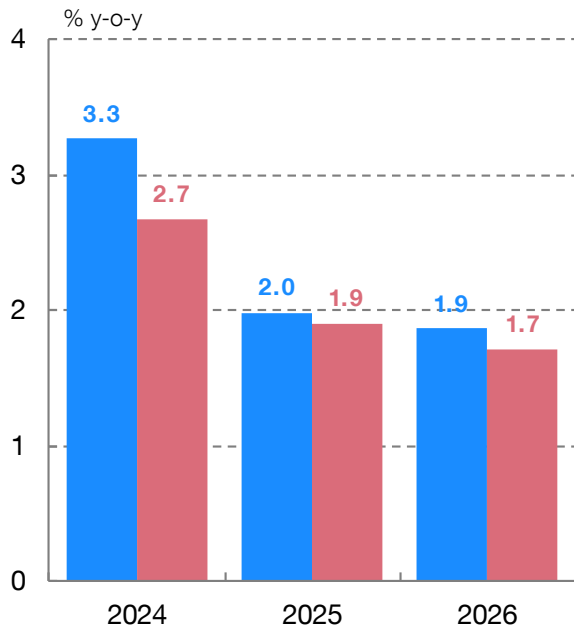
Sources: Mercado Ibérico del Gas and OMIE.



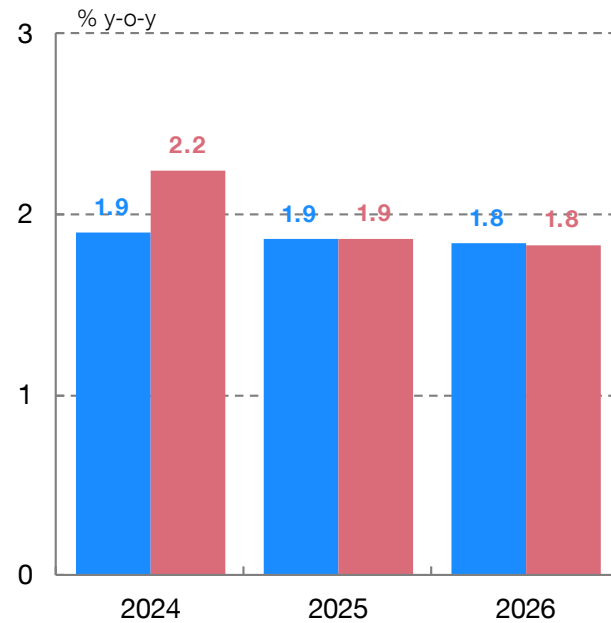
INFLATION PROJECTIONS

REVISION WITH RESPECT TO THE DECEMBER PROJECTIONS EXERCISE

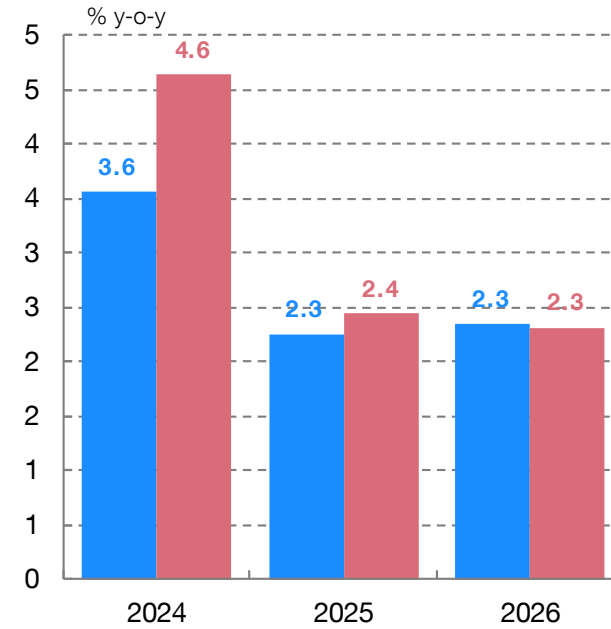
HEADLINE HICP



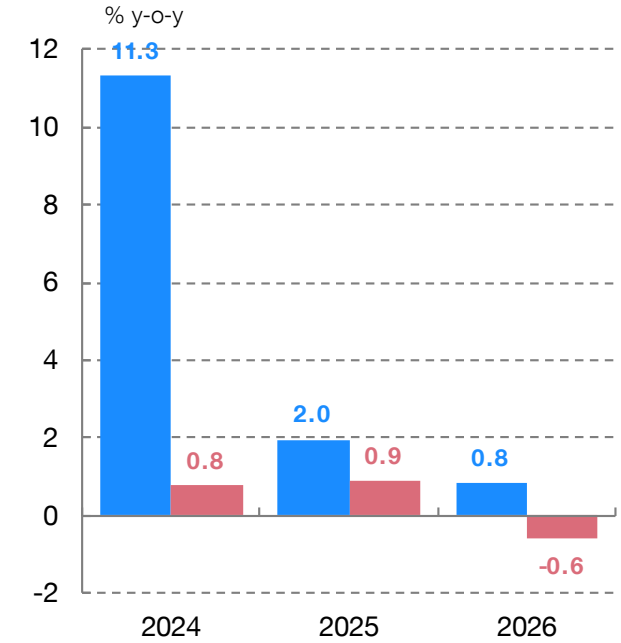
HICP EXCL. ENERGY AND FOOD



FOOD



ENERGY



■ DECEMBER 2023

■ MARCH 2024

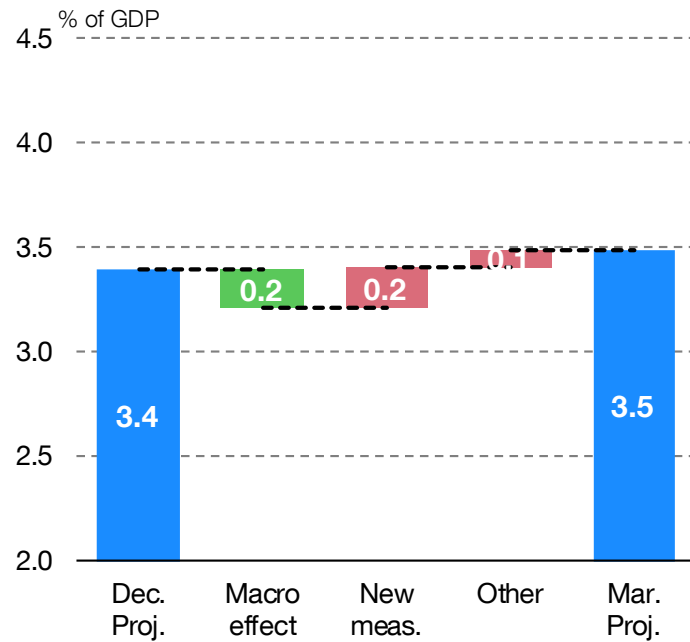
Source: Banco de España.



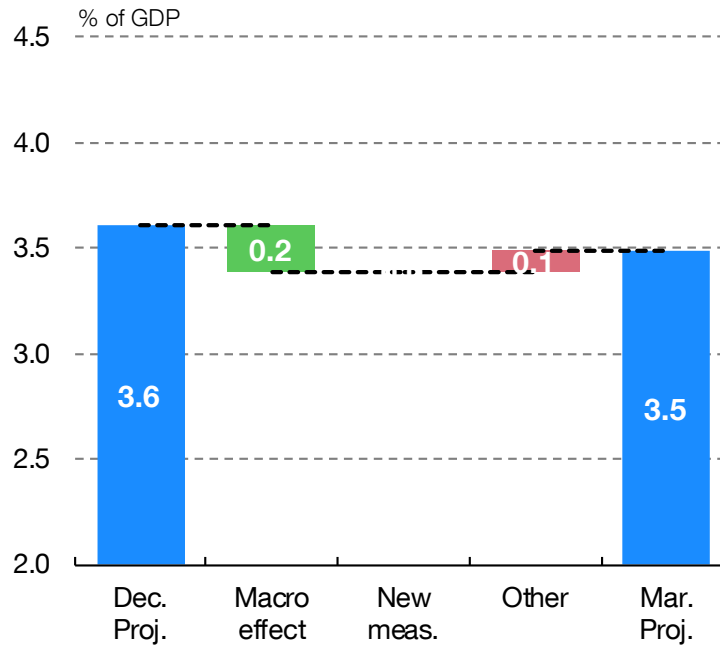
BUDGET DEFICIT PROJECTIONS

REVISION WITH RESPECT TO THE DECEMBER PROJECTIONS EXERCISE

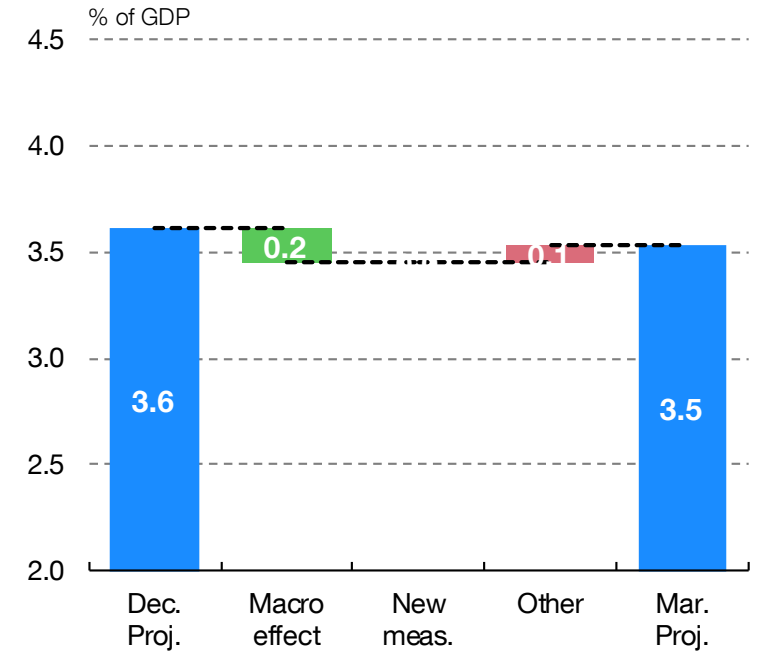
CHANGE IN THE BUDGET DEFICIT PROJECTION FOR 2024



CHANGE IN THE BUDGET DEFICIT PROJECTION FOR 2025



CHANGE IN THE BUDGET DEFICIT PROJECTION FOR 2026

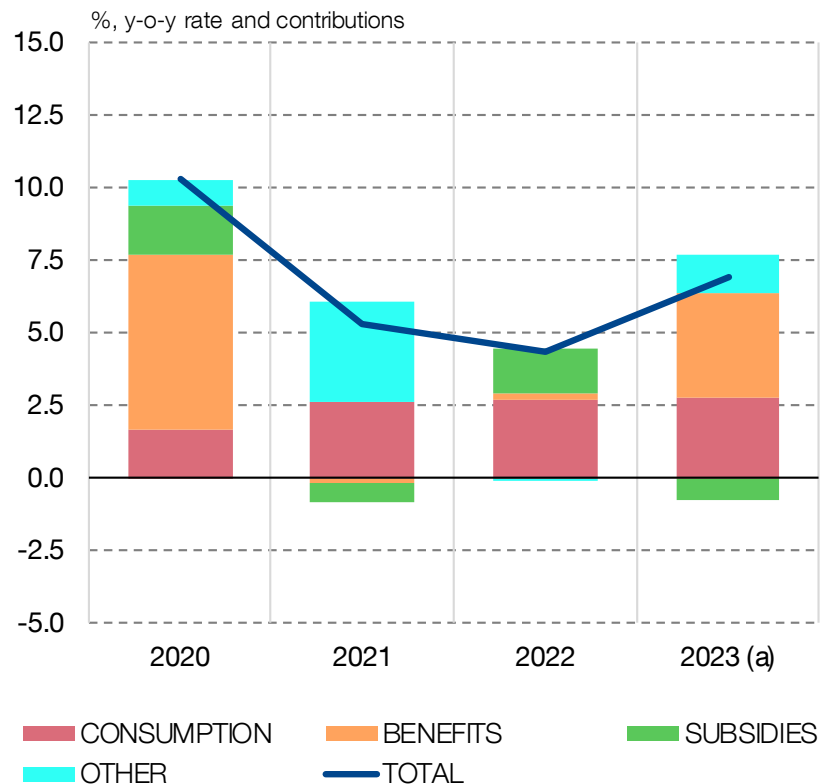


Source: Banco de España.

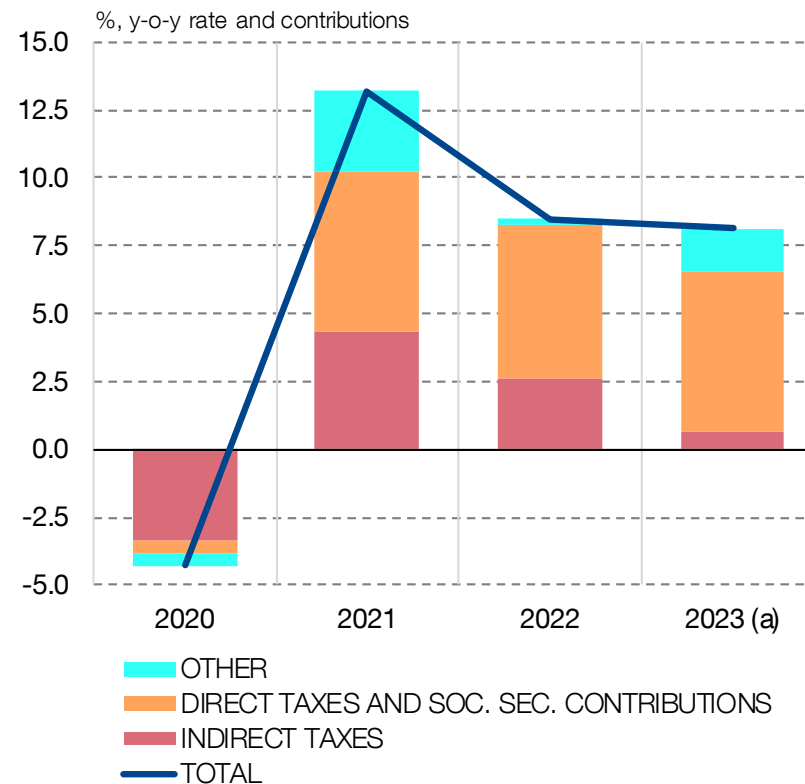


A BUDGET DEFICIT OF 3.8% OF GDP IS FORECAST FOR 2023 (VS 4.7% IN 2022), THANKS TO HIGHER REVENUE, OFFSETTING SIGNIFICANT ONGOING EXPENDITURE

GOVERNMENT EXPENDITURE



GOVERNMENT REVENUE



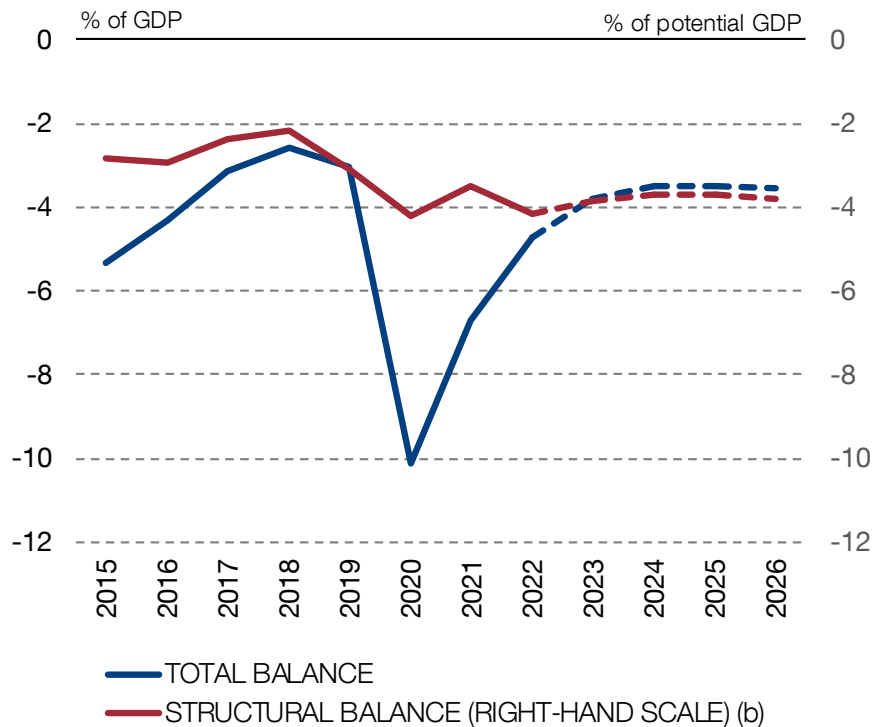
Sources: IGAE, INE and Banco de España.

(a) The 2023 figures are an overall estimate for January to November, based on data for the first three quarters of the year and the aggregated figures for October and November, excluding local government.

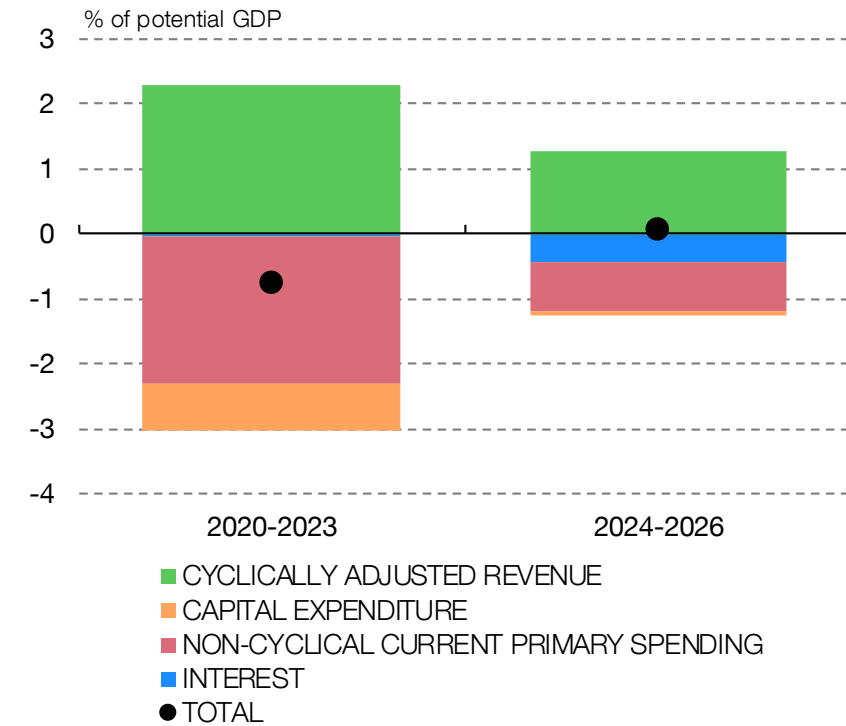


THE STRUCTURAL POSITION OF SPAIN'S PUBLIC FINANCES HAS DETERIORATED SINCE THE PANDEMIC

GENERAL GOVERNMENT BALANCE (a)



DETERMINANTS OF CHANGES IN THE STRUCTURAL BALANCE



Sources: : IGAE, and Banco de España.

(a) The broken lines correspond to the Banco de España's projections.

(b) The structural balance is defined as the total balance adjusted for the cyclical revenue and expenditure component and for other atypical components (which are transitory and outside government control), such as judgments or relief for financial institutions.

