

PARLIAMENTARY TESTIMONY: PRESENTATION OF THE BANCO DE ESPAÑA ANNUAL REPORT 2023

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Governor

ECONOMIC AFFAIRS, TRADE AND DIGITAL TRANSFORMATION COMMITTEE

Spanish Parliament - Madrid

7 May 2024



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1. Recent economic developments
2. The outlook for the coming years
3. The structural challenges facing the Spanish economy
 - Driving productivity growth
 - Reducing the high structural unemployment rate
 - Ensuring the sustainability of public finances
 - Reducing vulnerabilities observed in some household segments: housing affordability problems
 - Tackling the green transition
 - Continuing to strengthen the Spanish banking sector's resilience
 - Strengthening European economic integration to successfully address global challenges



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1. Recent economic developments

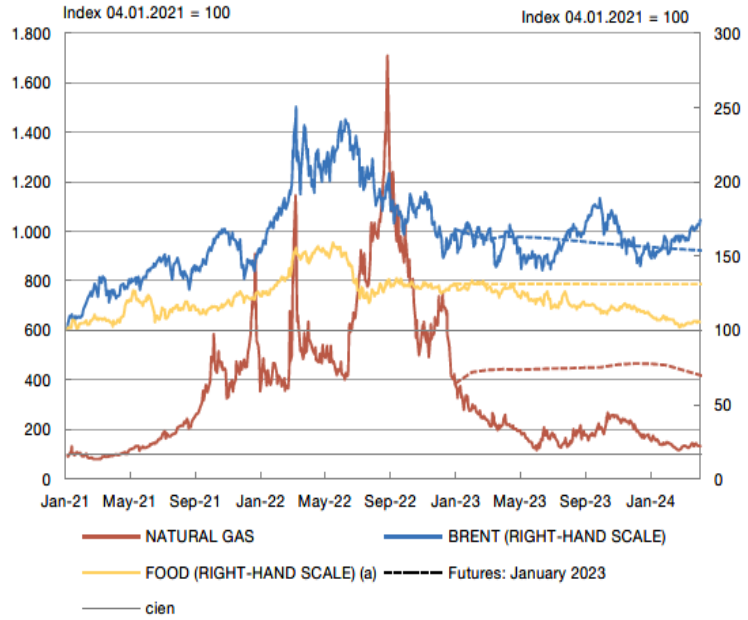
2. The outlook for the coming years

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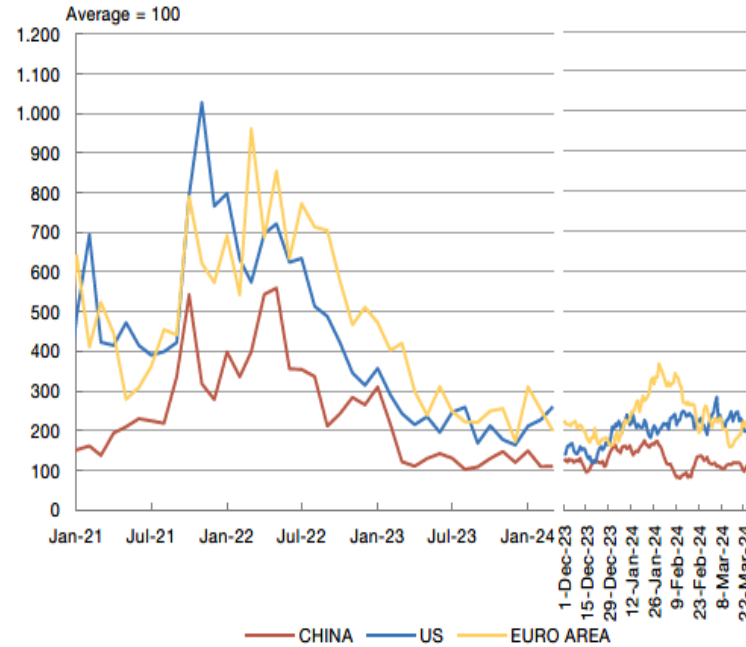


GAS, OIL AND FOOD PRICES

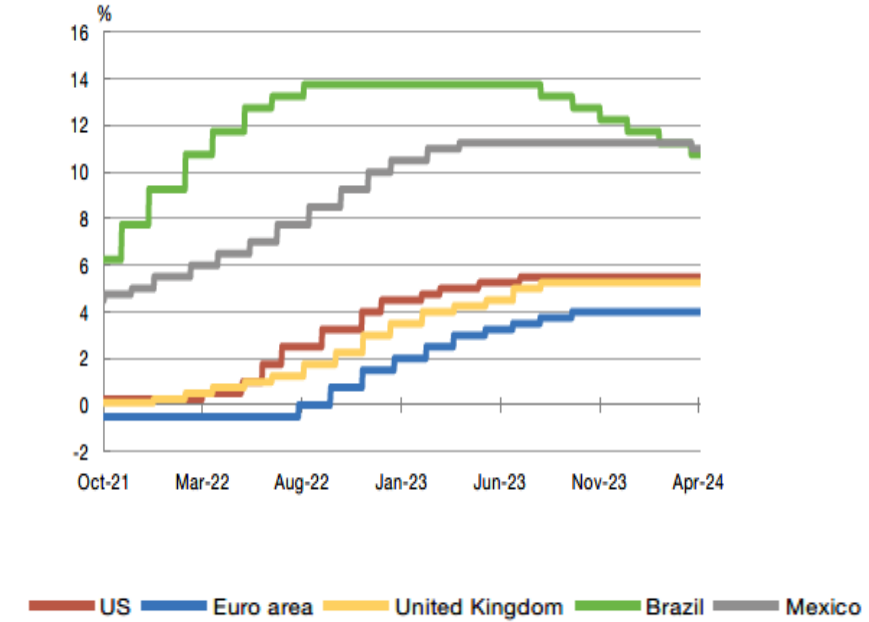


(a) Bloomberg - Agriculture Spot Index.

SUPPLY BOTTLENECKS INDEX: RED SEA CRISIS (b)



POLICY RATES

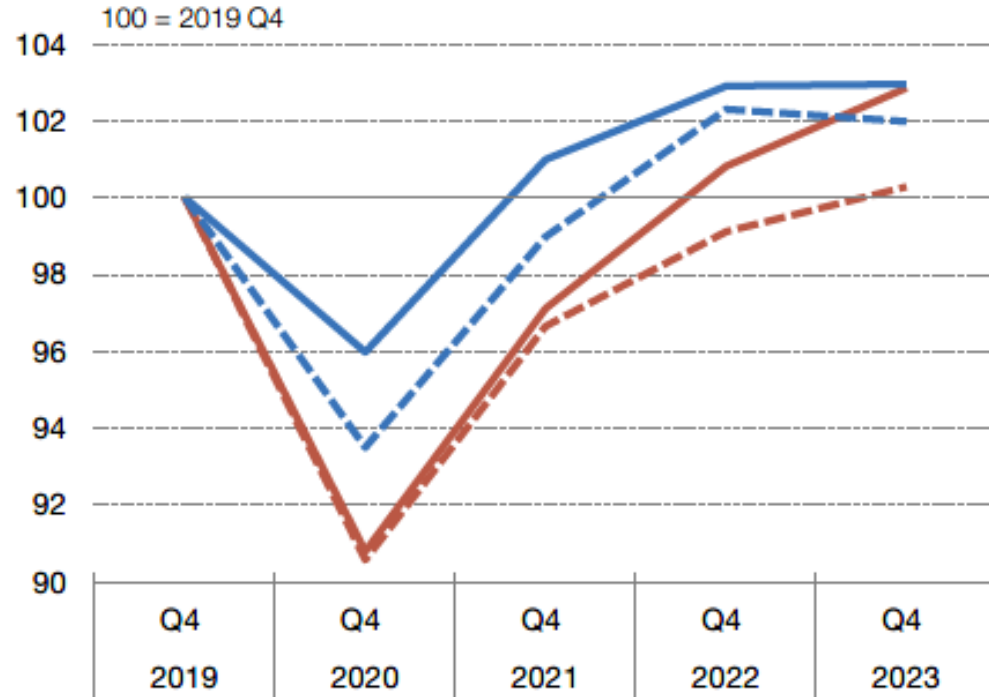


SOURCES: Banco de España, drawing on Burriel, Kataryniuk, Moreno and Viani (2024), national statistics and Refinitiv.

a. Bloomberg - Agriculture Spot Index.

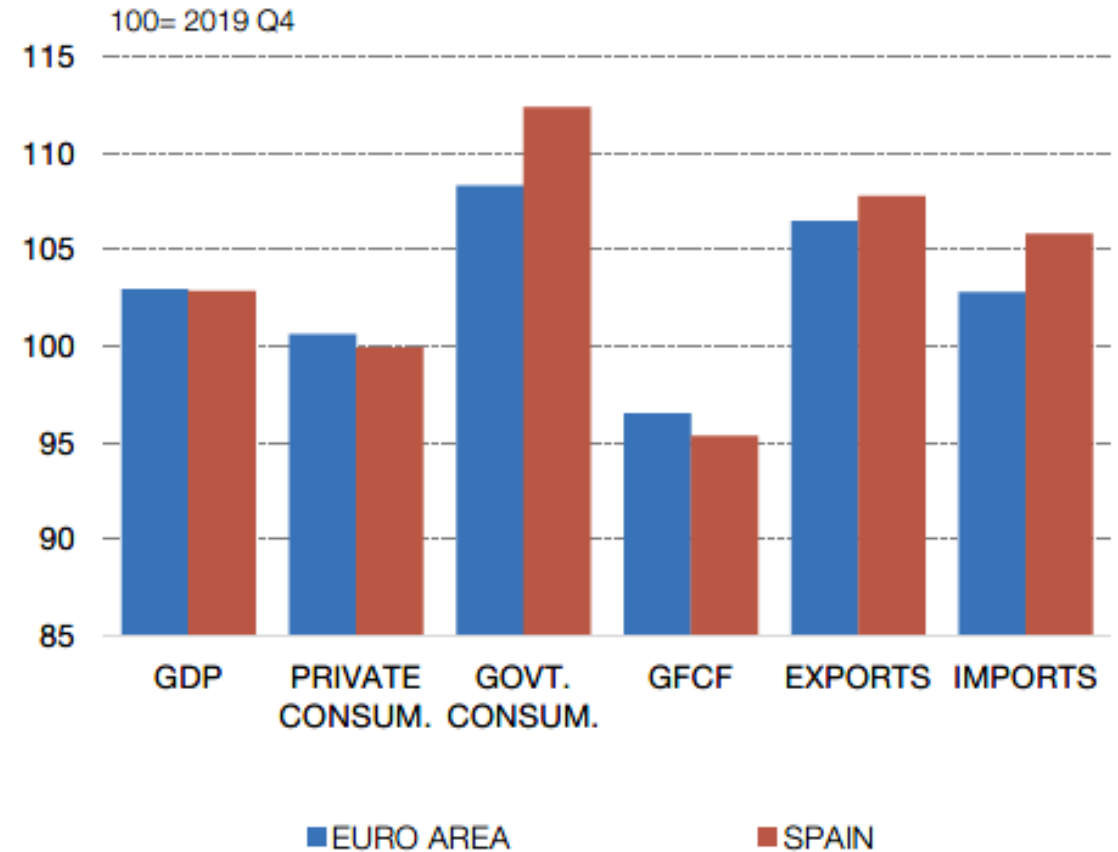
b. The supply bottlenecks index measures the proportion of newspaper articles that report on supply problems and is indexed to 100 for the period ending in December 2021 (Burriel, Kataryniuk, Moreno and Viani, 2024). The euro area index is calculated as the average of the domestic German, French, Italian and Spanish indices.

AGGREGATE AND PER CAPITA GDP IN SPAIN AND THE EURO AREA

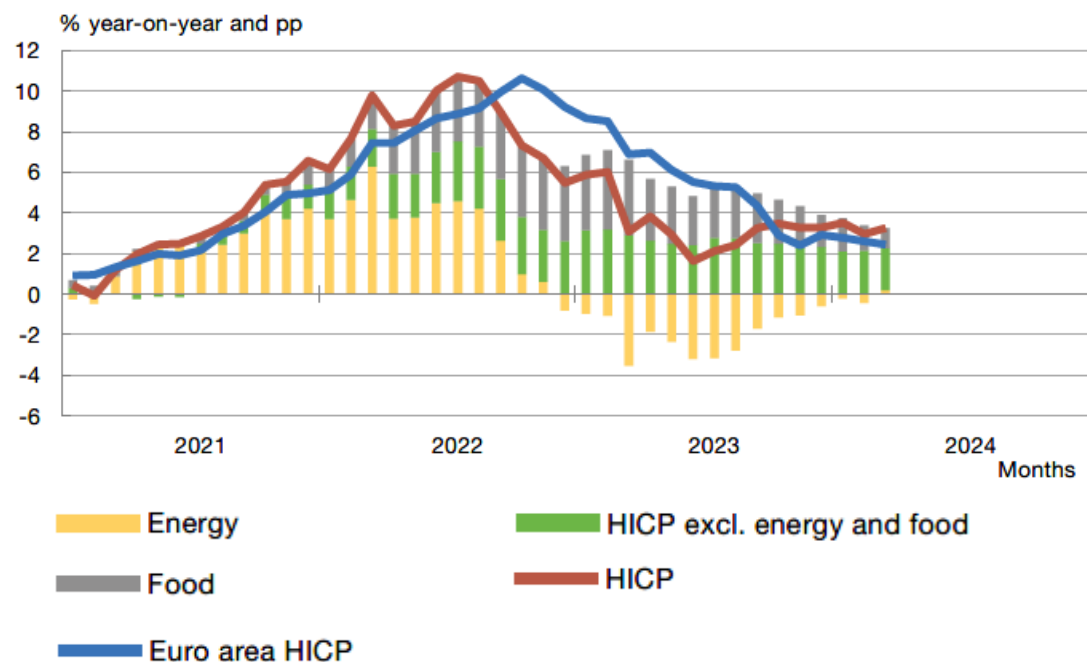


— AGGREGATE GDP. SPAIN
— AGGREGATE GDP. EURO AREA
- - - PER CAPITA GDP. SPAIN
- - - PER CAPITA GDP. EURO AREA

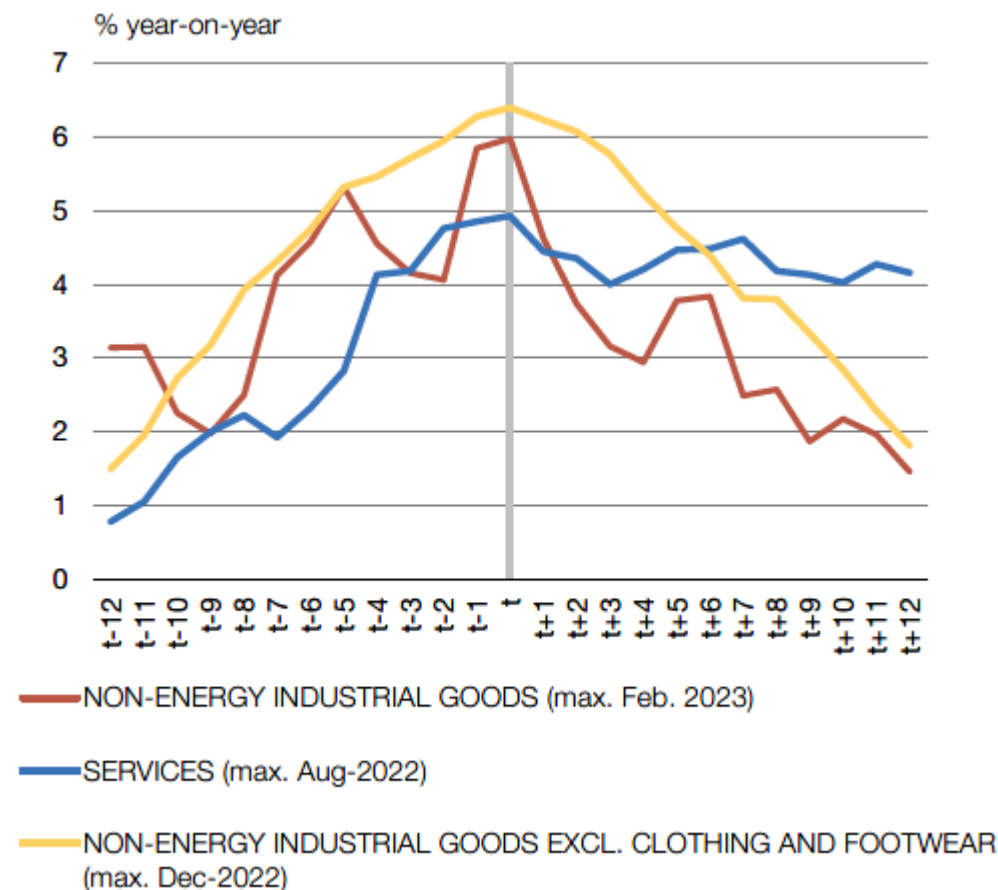
CUMULATIVE GDP GROWTH AND DEMAND COMPONENTS (2023 Q4)



HCIP AND CONTRIBUTIONS



HICP-SERVICES AND GOODS IN SPAIN: INFLATION BEFORE AND AFTER RECENT HIGHS

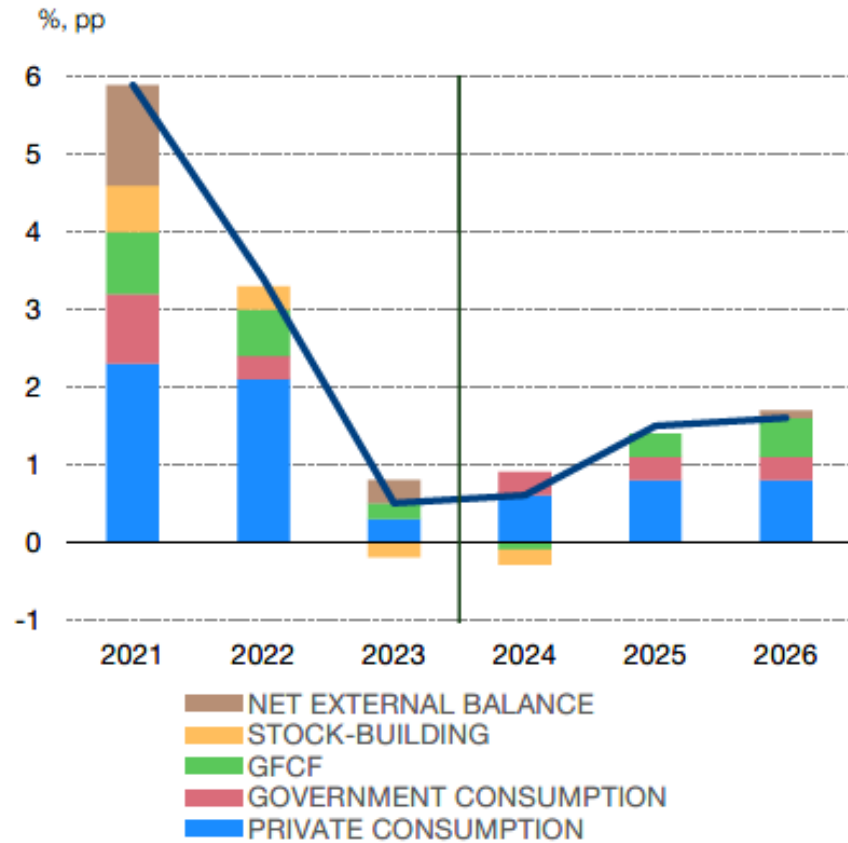


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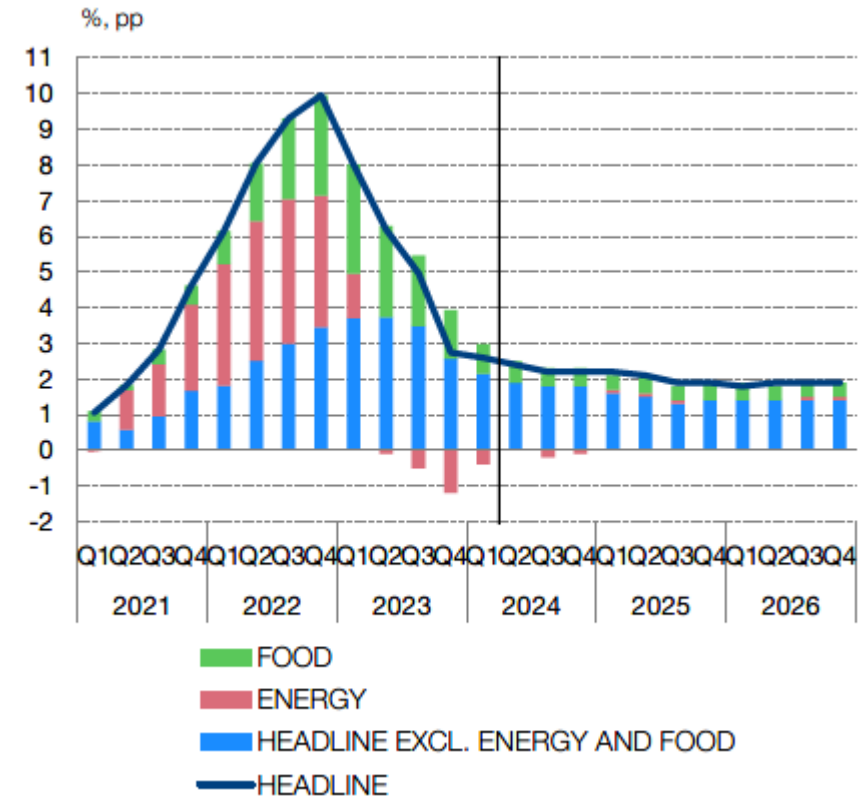
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**EURO AREA REAL GDP GROWTH
CONTRIBUTIONS OF EXPENDITURE COMPONENTS (a)**



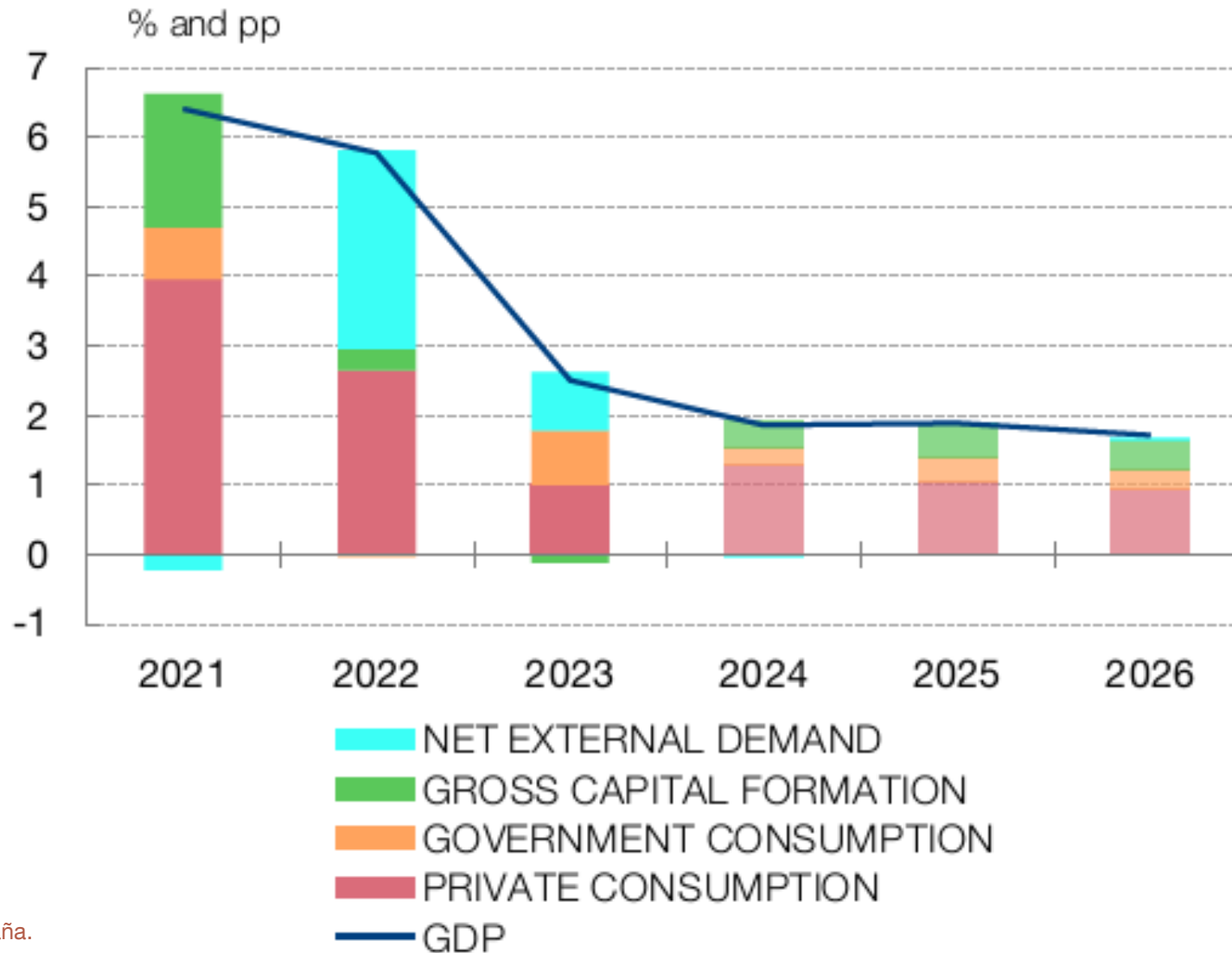
**EURO AREA HICP INFLATION
CONTRIBUTIONS OF MAIN COMPONENTS (a)**



(a) Latest observation: 2023 Q4 (GDP) and March 2024 (HICP).

SOURCES: Eurostat and ECB.

GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



According to the Banco de España's latest projections, the GDP growth rate is expected to fall from 2.5% in 2023 to 1.9% in 2024 and 2025, and 1.7% in 2026, about the potential growth

Some of the factors that are set to make a positive contribution to activity growth over the coming quarters include

The **gradual reactivation of the European economy** as the negative impact of monetary policy tightening on activity slowly fades

The **recovery** in economic agents' **real income**

The population growth envisaged and the **fiscal impulse** from the **NGEU programme**

Some of the factors that are set to make a negative contribution to activity growth over the coming quarters include

The notably **weak investment and sluggish productivity** of recent quarters

The **fading of certain tailwinds** that have recently driven growth (relating to the sharp correction of some of the negative supply side shocks that acted as a drag on activity in 2021 and 2022)

Some of the main sources of risk over the coming quarters

Escalation of the conflicts in the Middle East and Ukraine

The persistence of a large structural budget deficit and high government debt, as the European fiscal rules are reactivated

Developments in wages, unit labour costs, profit margins and the competitiveness of Spanish firms

Rising economic policy uncertainty, the main constraint on the activity reported by firms

The pace of execution of NGEU-related projects and their impact on activity

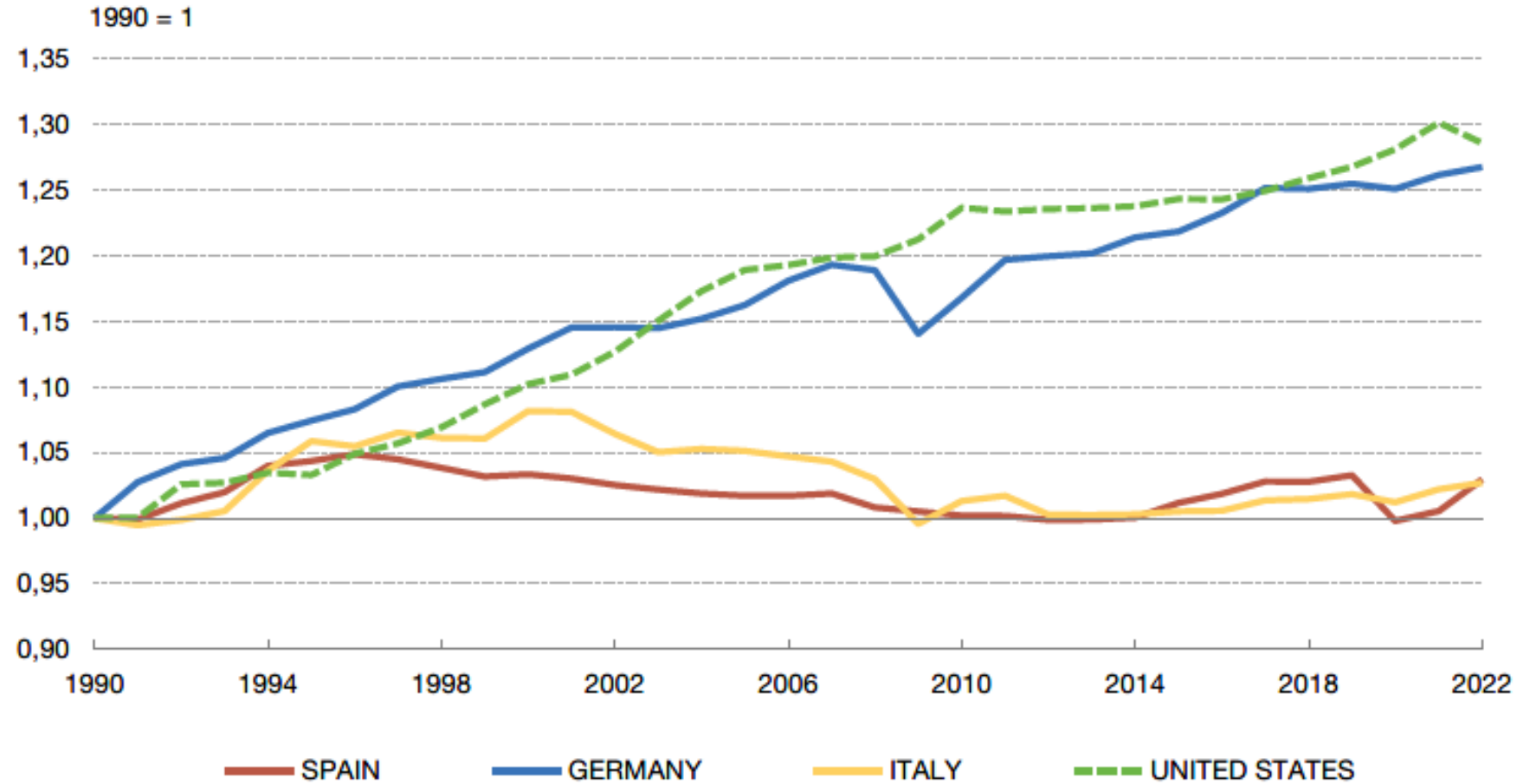
Beyond the short and medium-term outlook, the Spanish economy's growth capacity over the years ahead will be highly influenced by a number of far-reaching structural challenges that have continued to hamper convergence in income per capita terms with the euro area in recent decades...

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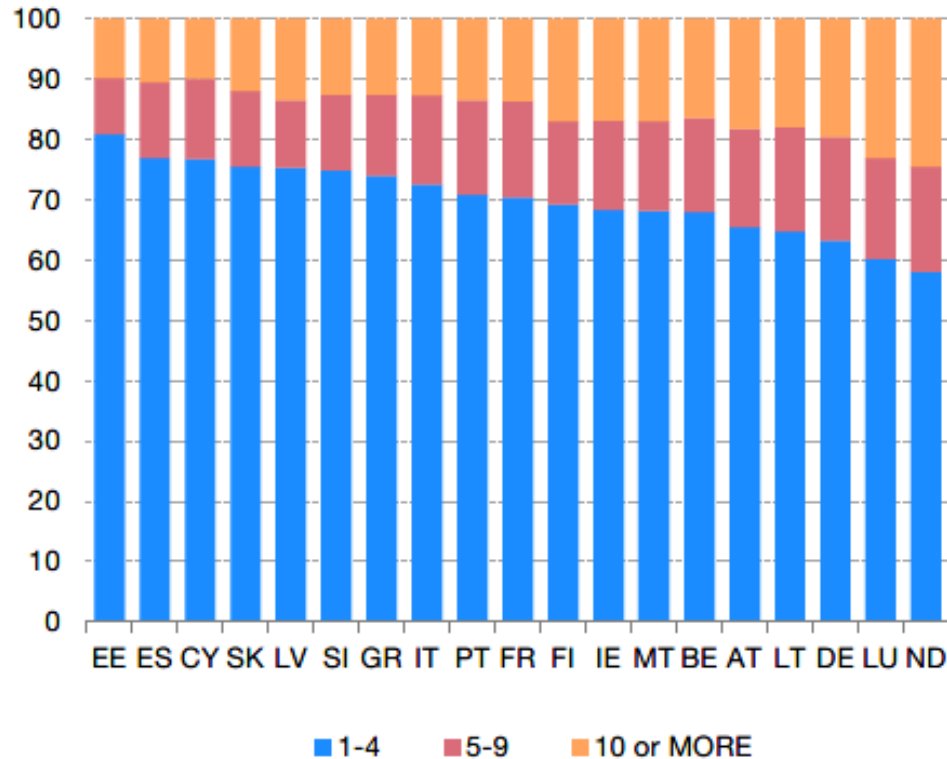
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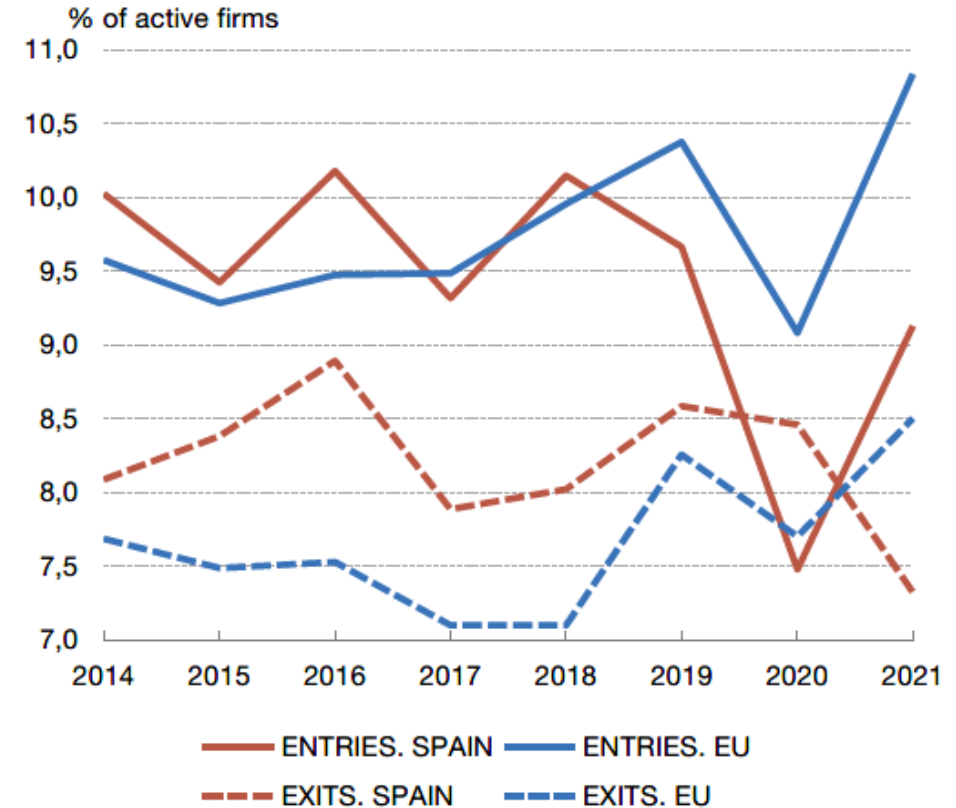
TOTAL FACTOR PRODUCTIVITY (TFP)



PERCENTAGE OF FIRMS BY NUMBER OF WORKERS.
EURO AREA COUNTRIES (a)



FIRM ENTRY AND EXIT RATES IN SPAIN AND THE
EU (b)

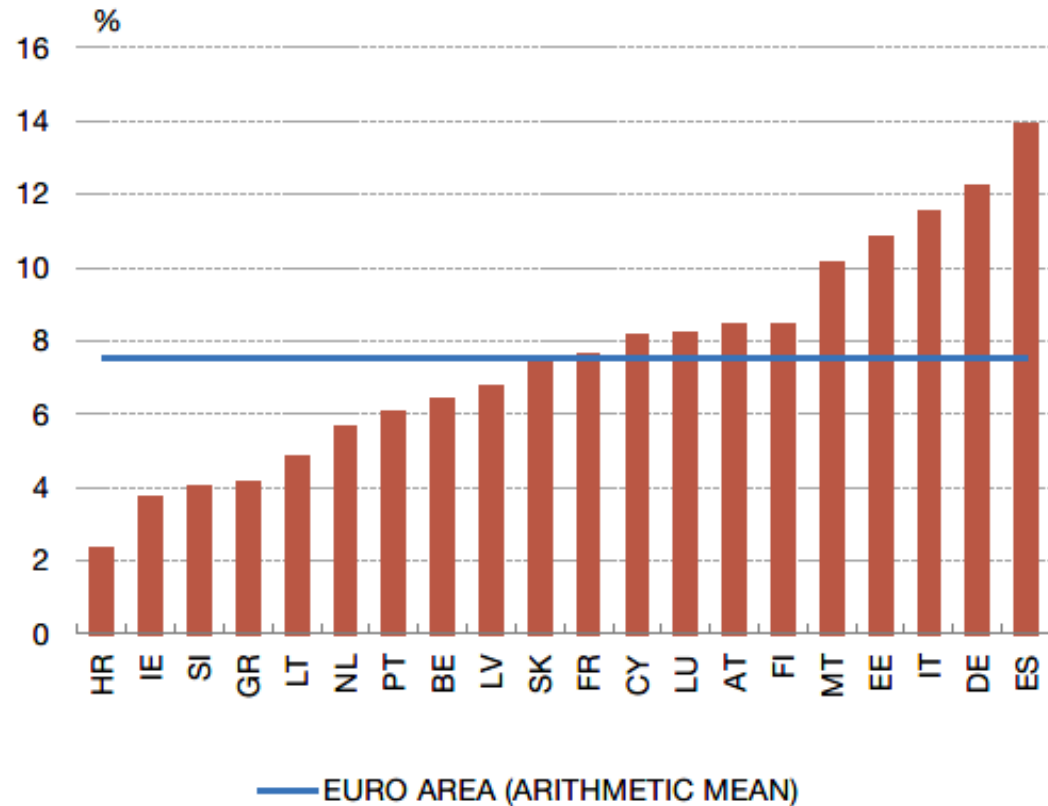


a. Given the lack of information for some of the years between 2014 and 2021, the EU aggregate does not include Belgium, Greece, Ireland, Malta, Poland or Sweden. Moreover, the Eurostat data do not include firms in the following sectors: agriculture (NACE Rev. 2 section A), financial service activities, except insurance and pension funding (division K64), public administration (section O), other service activities (section S), activities of households (section T) and activities of extraterritorial organisations and bodies (section U).

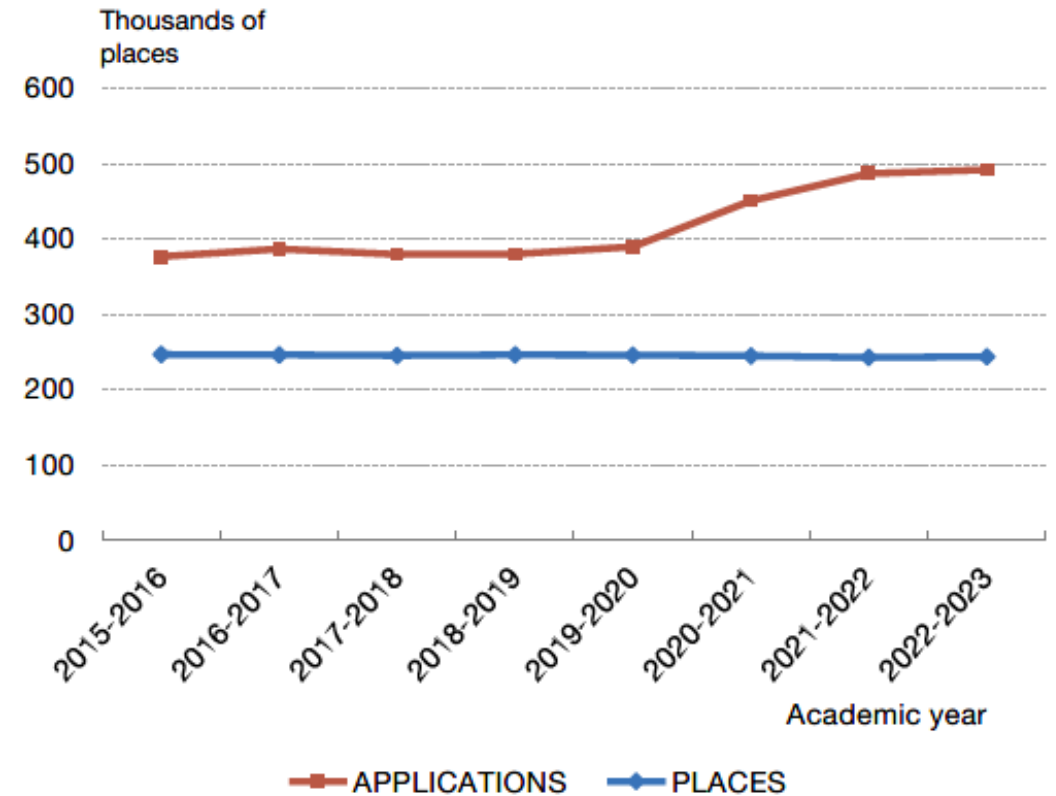
b. Data from 2021. Includes firms with at least one employee in the industrial, construction and services sectors.

SOURCE: Eurostat and OECD (Structural and Demographic Business Statistics)

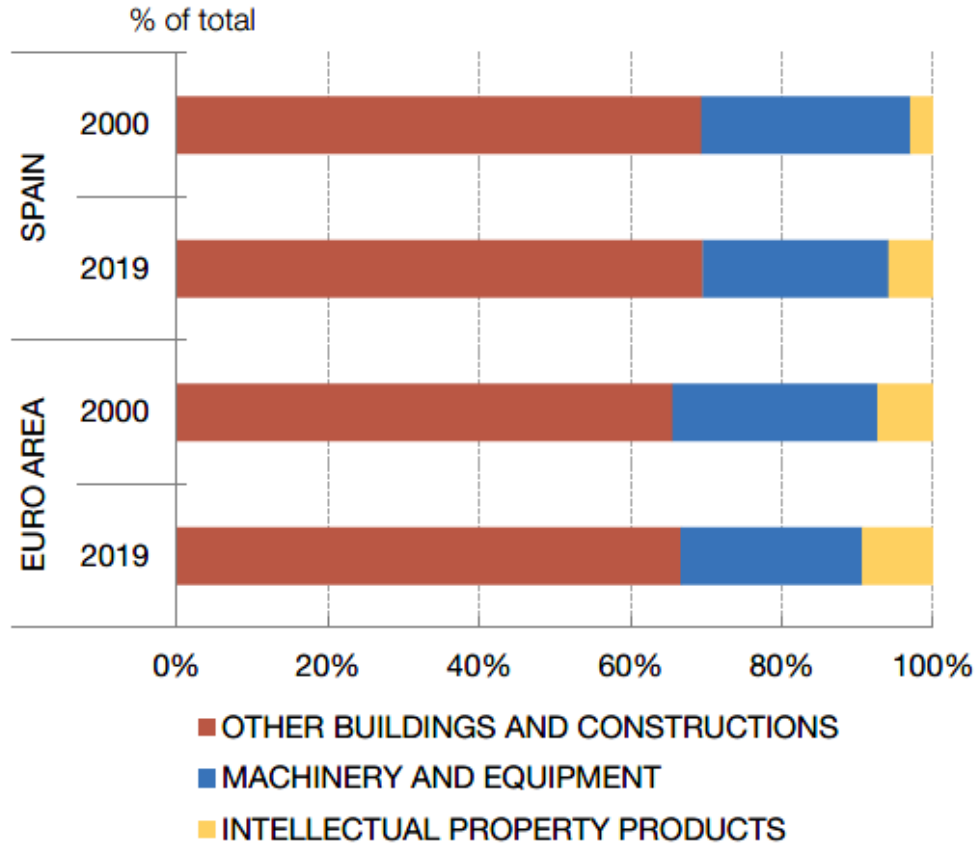
PERCENTAGE OF THE POPULATION AGED 18-24 THAT HAD LEFT THE EDUCATION SYSTEM EARLY (2022)



CONVENTIONAL PUBLIC UNIVERSITIES: FIRST-CHOICE APPLICATIONS AND PLACES

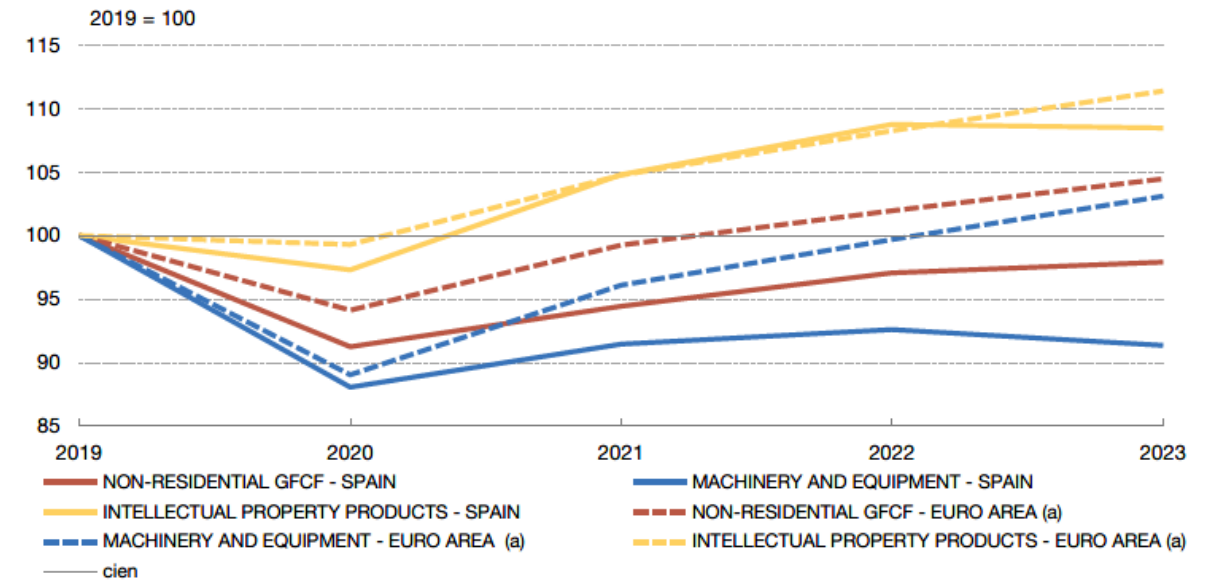


COMPOSITION OF NON-RESIDENTIAL CAPITAL STOCK IN SPAIN AND THE EURO AREA (a)

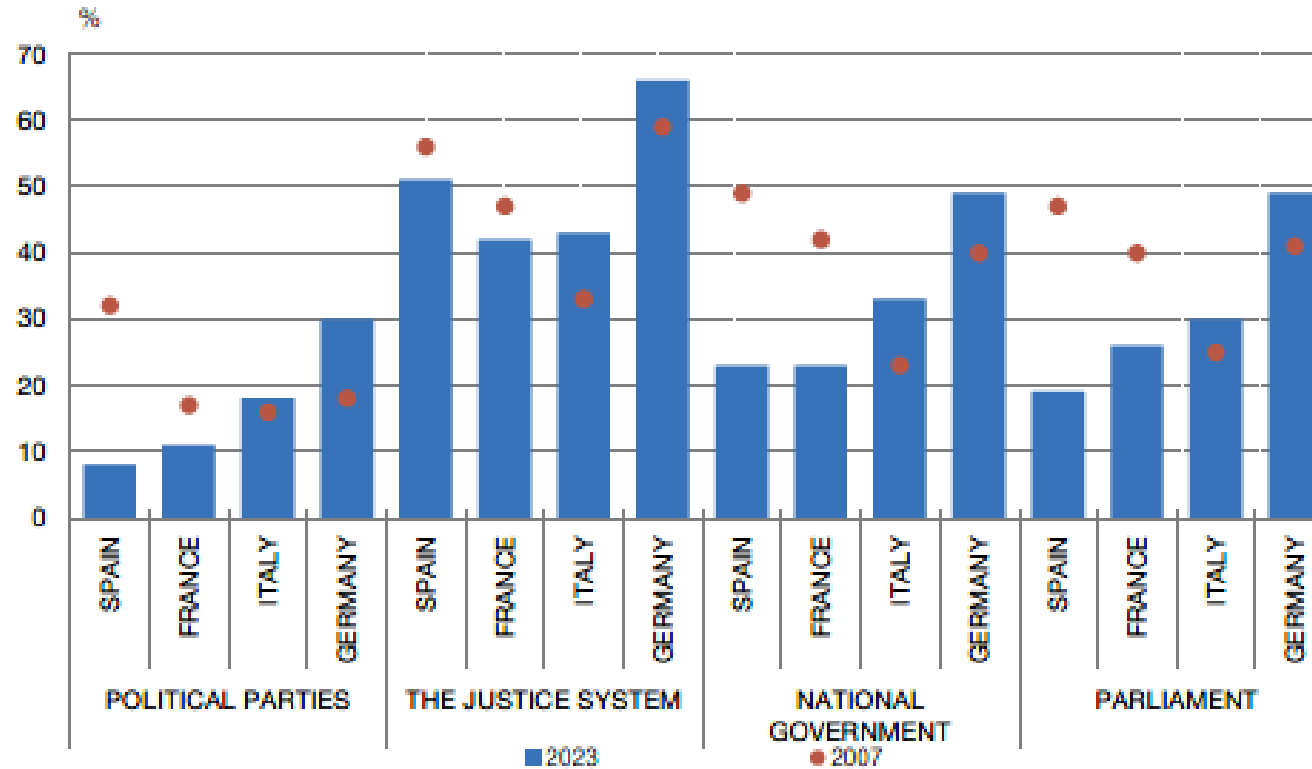


(a) Ireland is excluded from the euro area.

POST-PANDEMIC RECOVERY IN INVESTMENT, BY COMPONENT



TRUST IN INSTITUTIONS IN THE MAIN EURO AREA ECONOMIES: 2007 AND 2023 (a)



a. The numbers express the share of individuals reporting that they trust the institution in question. The gaps between Spain and all of the other countries have a statistical significance of at least 5% for all of the indicators, with the sole exception of the comparison with France in the case of national government.

According to various internationally comparable indicators, since the financial crisis **institutional quality and trust** in Spain **have deteriorated** more than in other European countries.

There is scope for **improving the “quality of regulation”** in Spain, as it negatively affects not only firm size and the Spanish economy’s productivity, but also judicial efficacy.

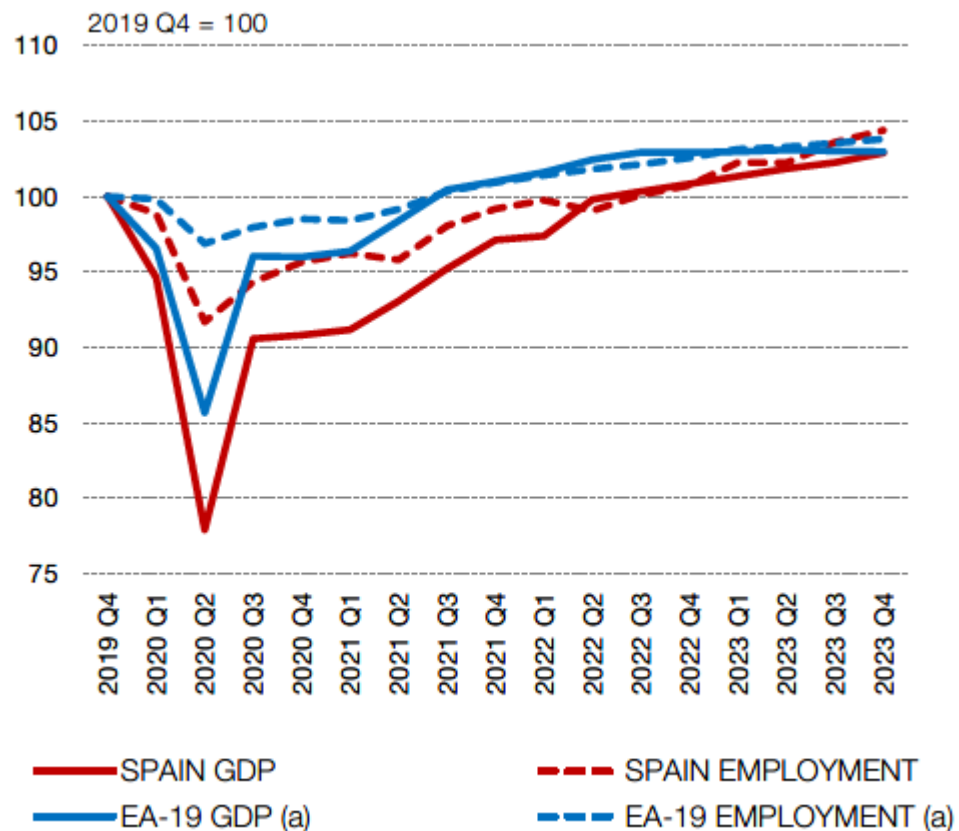
Action is needed to **boost the efficacy and efficiency of Spanish general government**; this would help lift productivity and would have a positive spillover effect on private sector expenditure, investment and innovation.

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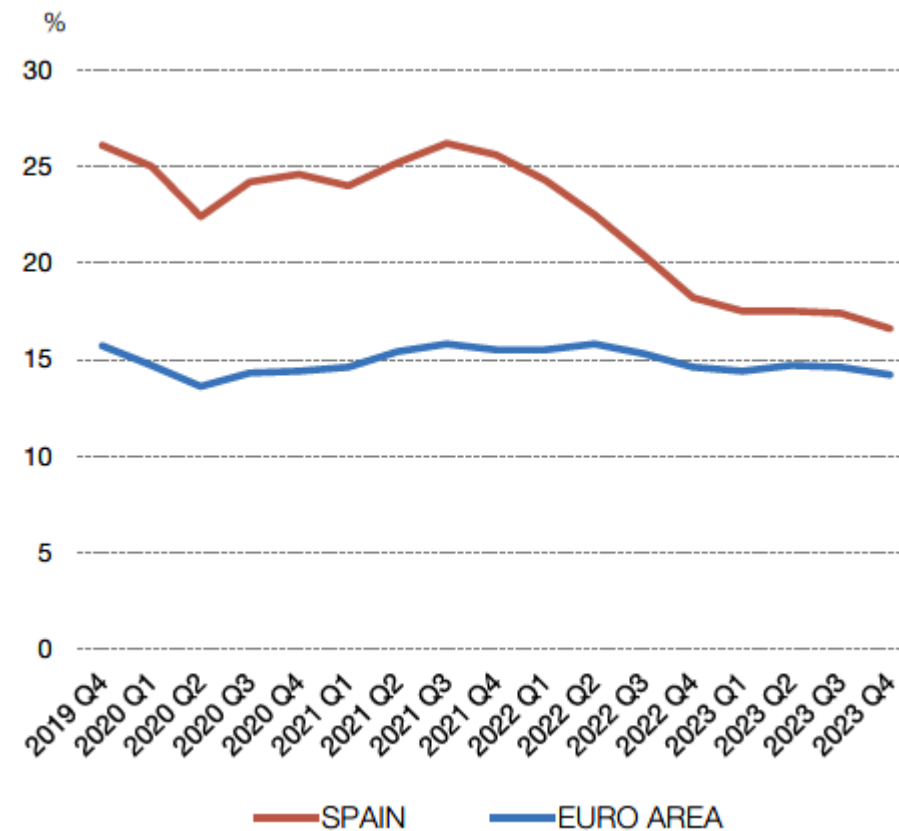
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GDP AND EMPLOYMENT IN SPAIN AND IN THE EURO AREA



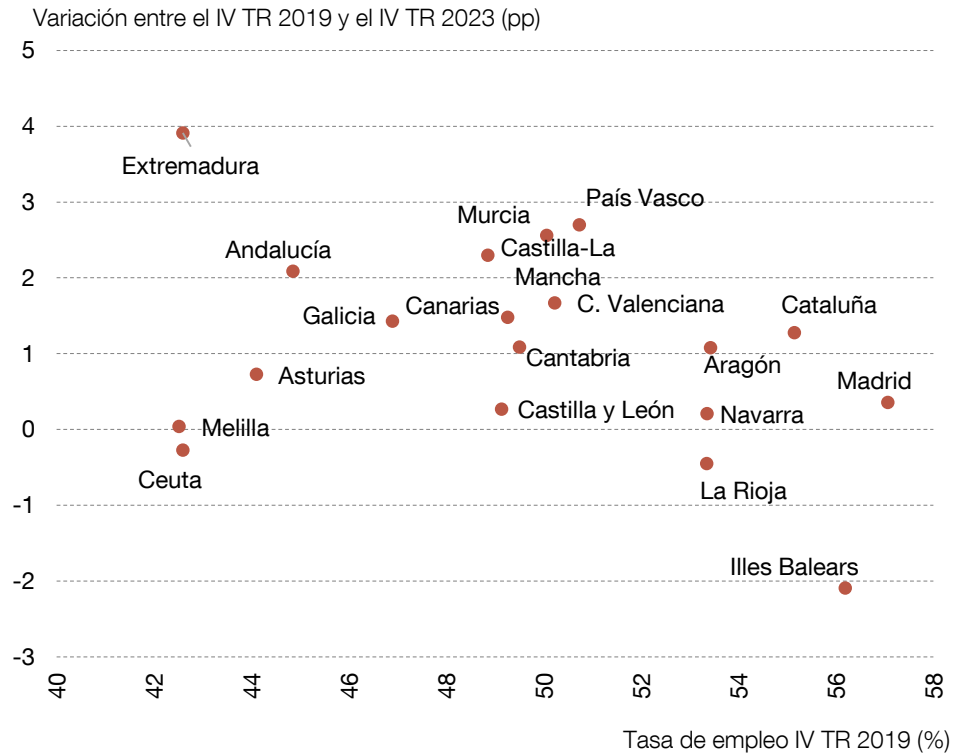
TEMPORARY EMPLOYMENT IN SPAIN AND THE EURO AREA (b)



a. GDP and employment according to the National Accounts, seasonally adjusted data. EA-19 refers to the euro area countries in the period 2015-2022.

b. Temporary employment ratio calculated for the population between 15 and 74.

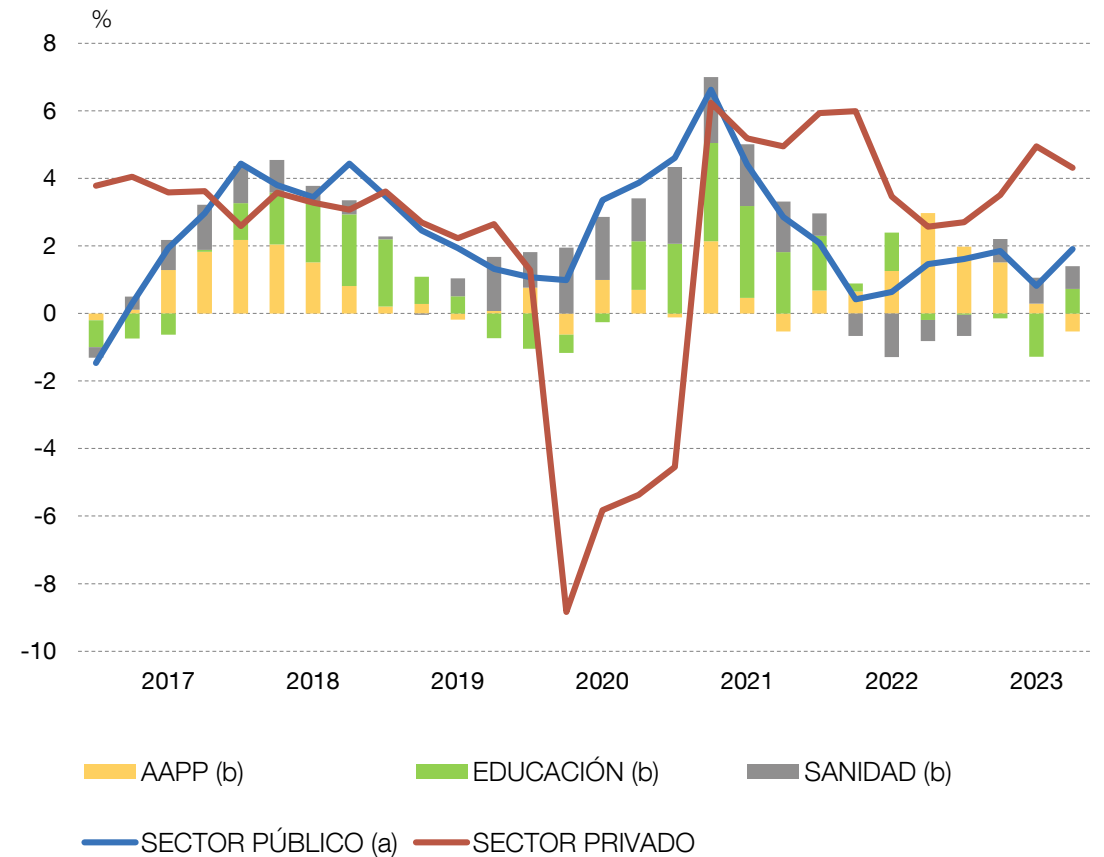
VARIACIÓN DE LA TASA DE EMPLEO POR CCAA, DESDE CUARTO TRIMESTRE DE 2019 A 2023



● VARIACIÓN TASA DE EMPLEO ENTRE IV TR 2019 Y IV TR 2023

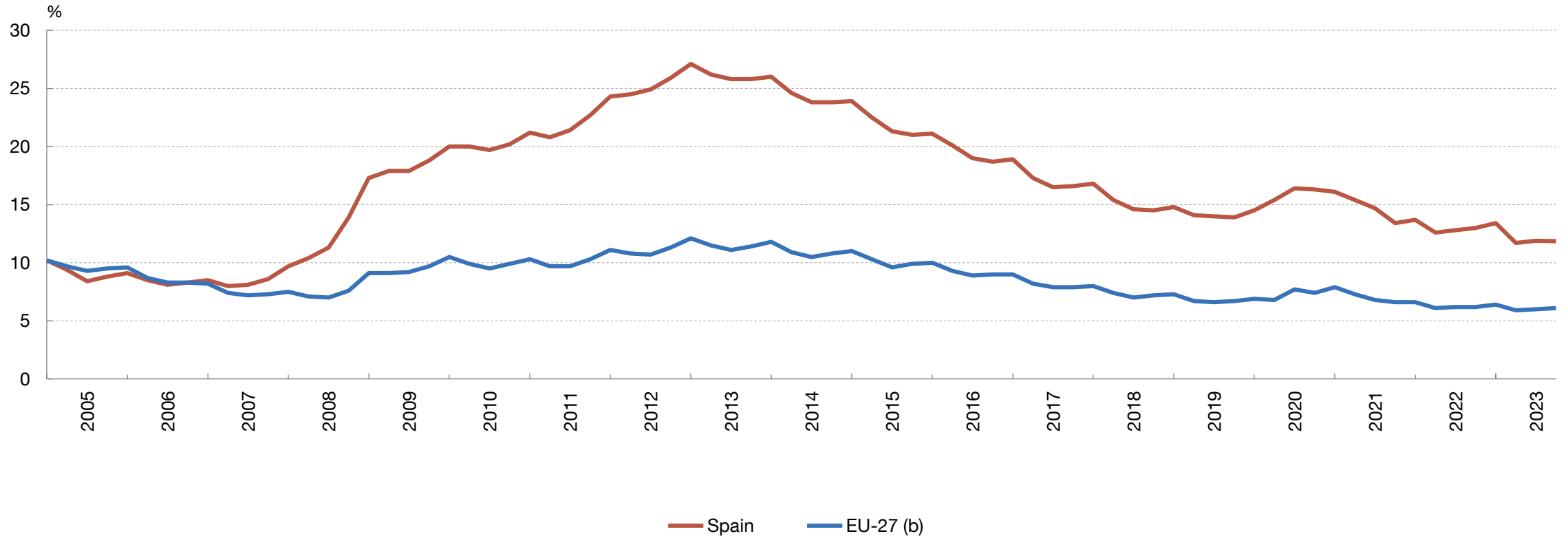
(a) Empleo público medido por los asalariados del sector público.

ASALARIADOS DEL SECTOR PRIVADO Y PÚBLICO TASAS INTERANUALES



b) Contribución de cada rama a la tasa de variación del total de asalariados del sector público. Las ramas de AAPP, educación y sanidad suponen más del 85 % de los asalariados del sector público.

UNEMPLOYMENT RATE (a)



- a) Unemployment rate measured as the number of unemployed people as a percentage of the total labour force (aged 15-64).
b) EU-27 refers, throughout the period considered, to the aggregate of the European Union Member States from 2020 onwards.

Population ageing

An ageing workforce has a negative impact on employment and productivity growth, but certain decisive economic policy measures could, at least in part, mitigate these potential adverse effects

Technological innovation

Throughout history, technological innovations have sustained and even boosted employment, but the technological change under way (in particular, robotics and artificial intelligence) differs from past examples in certain very important ways.

In any event, its effects will materialise through three channels, the impact of which is hugely uncertain

Migration

Lengthening of working lives

Education/vocational training

Productivity growth

Displacement of some workers

New job creation

An overhaul of labour market policies is a priority, in light of the challenges within the Spanish labour market posed by a persistently higher unemployment rate than in other European countries, technological change and population ageing.

Public employment services should introduce new techniques for job profiling and for matching job-seekers to the available vacancies.

Vocational training and job intermediation programmes should be assessed continuously to improve both their design and the allocation of resources, and to evaluate possible partnerships and synergies with the private sector.

Unemployment benefits should provide the unemployed with appropriate protection, without disincentivising job-seeking and labour mobility.

More headway should be made in defining the **objective grounds for dismissal** and in making such processes less uncertain.

Collective bargaining should allow for a degree of flexibility to enable employment conditions to cater to firms' individual circumstances.

Longer working lives should be encouraged not just by raising the statutory retirement age, but also by doing away with certain aspects that, in practice, serve to drive older workers out of the labour market.

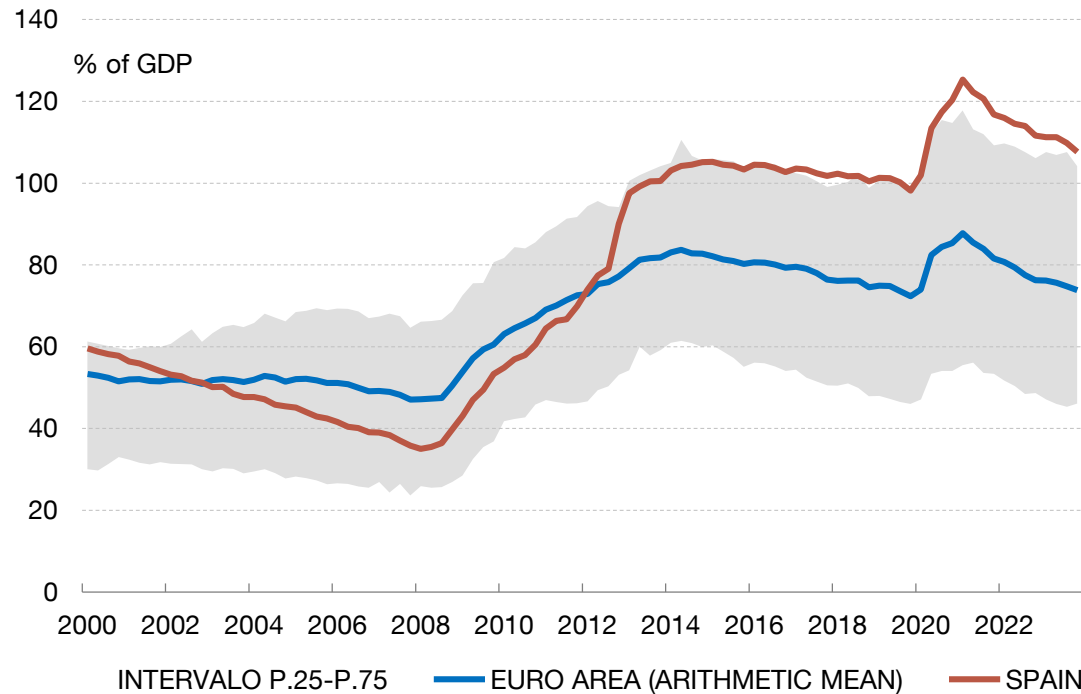
It would be advisable for **potential future increases in the national minimum wage** to take into account their possible adverse effects, in the absence of productivity gains, on employment for certain groups of workers, firms and regions.

Moving forward with **the reduction of the statutory working week** without taking into account either the differences in working hours across firms and sectors or productivity gains would pose risks to employment growth.

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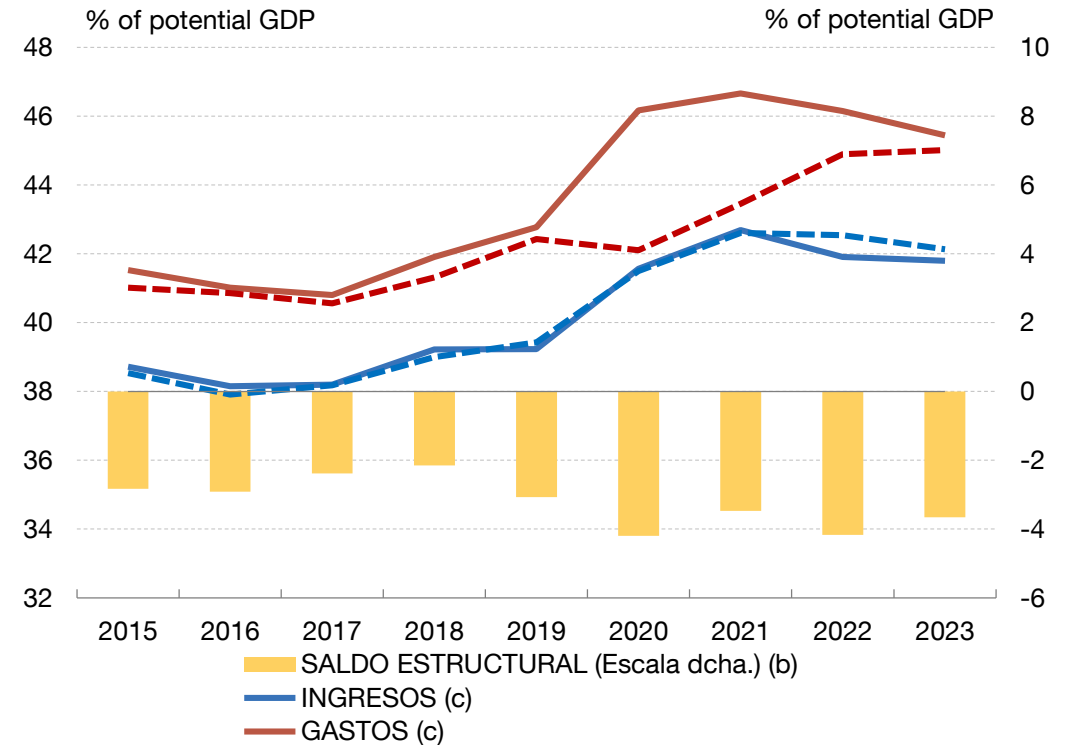
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GENERAL GOVERNMENT DEBT (a)



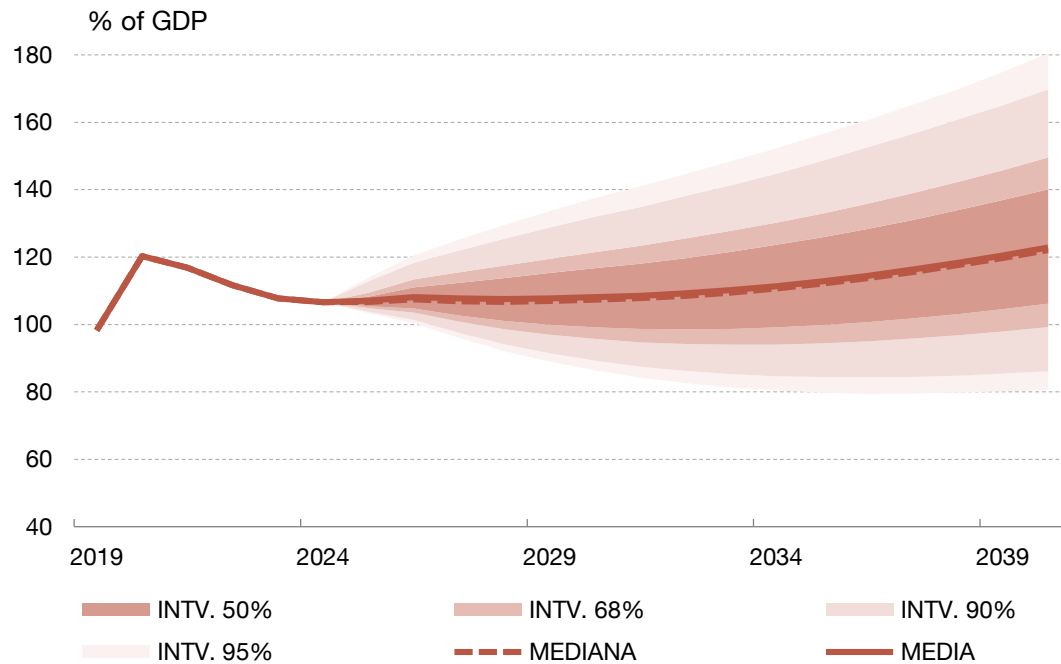
a) November 2023 European Commission estimates for 2023 Q4 (except Spain).

PUBLIC REVENUE AND EXPENDITURE (CYCLICALLY ADJUSTED), EXCLUDING NGEU



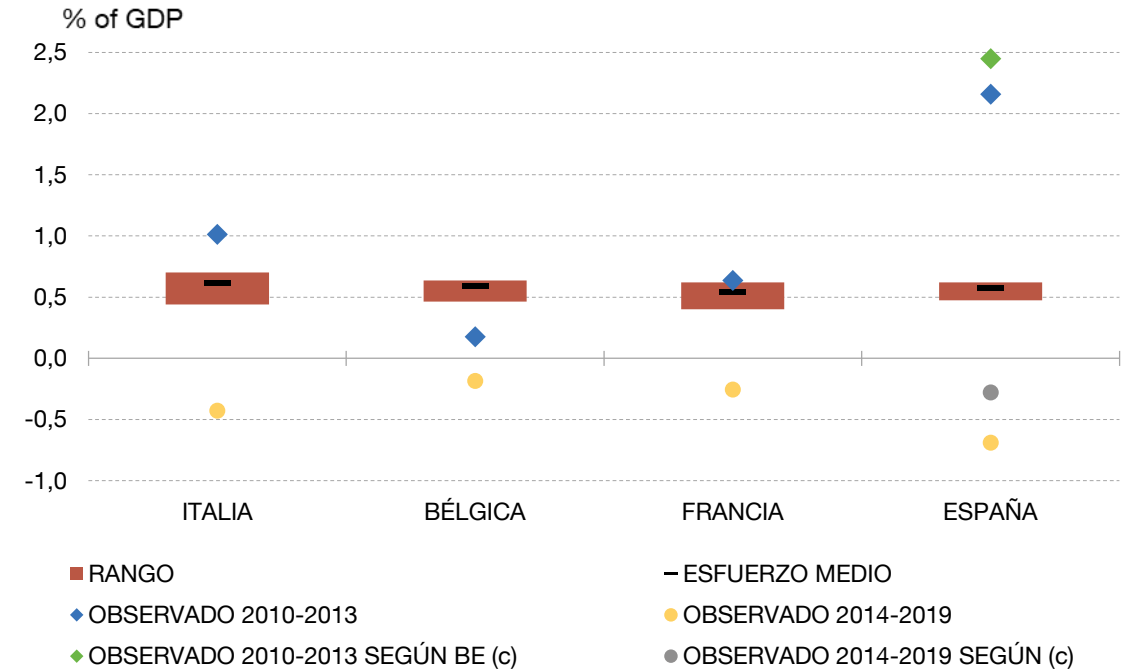
b) The structural balance is calculated by deducting from the total balance the cyclical component and the clearly temporary and non-recurring items. According to the Eurosistema's common methodology, items that are temporary but nonetheless increase the deficit and are the result of a discretionary (not forced) decision by the Government are not considered to be non-recurring.
c) The dotted lines exclude any measures announced as non-permanent.

PUBLIC DEBT-TO-GDP RATIO, NO FISCAL CONSOLIDATION SCENARIO (a)



(a) The scenario includes a worsening of the primary structural balance up to 2040 owing to the costs of ageing (pensions, health care and long-term care) and shows a fiscal effort consistent with the new measures envisaged in the 2023 pension system reform, but with no activation of the automatic mechanism to increase social security contributions to correct deviations in pension expenditure and no additional fiscal consolidation measures.

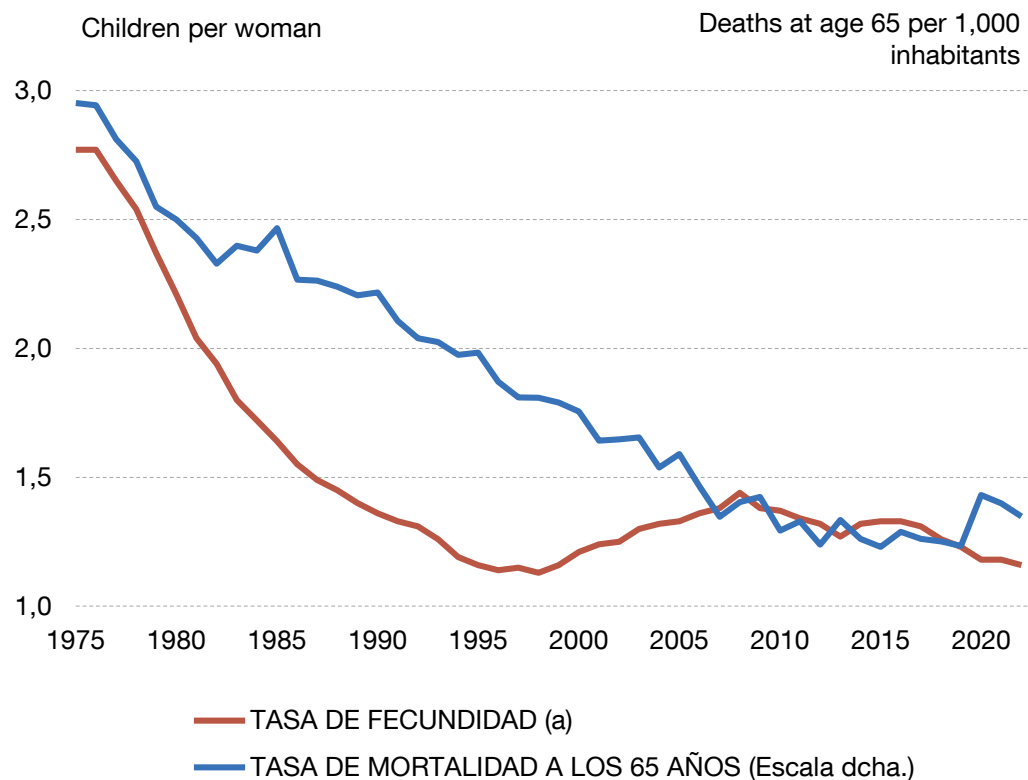
THE NEW FISCAL RULES COULD ENTAIL SIGNIFICANT FISCAL ADJUSTMENTS IN THE COMING YEARS FOR SOME COUNTRIES (7-YEAR ADJUSTMENT PROGRAMME) (b)



(b) The average annual change in the primary structural balance required to meet the debt and deficit targets under the new European fiscal rules, over a 7-year adjustment period. The range is the difference between the minimum fiscal effort required under the deterministic baseline scenario (Debt Sustainability Analysis (DSA)) and the maximum effort required under alternative scenarios of lower potential GDP growth and higher interest rates. The observed effort is that estimated by the European Commission during each period.

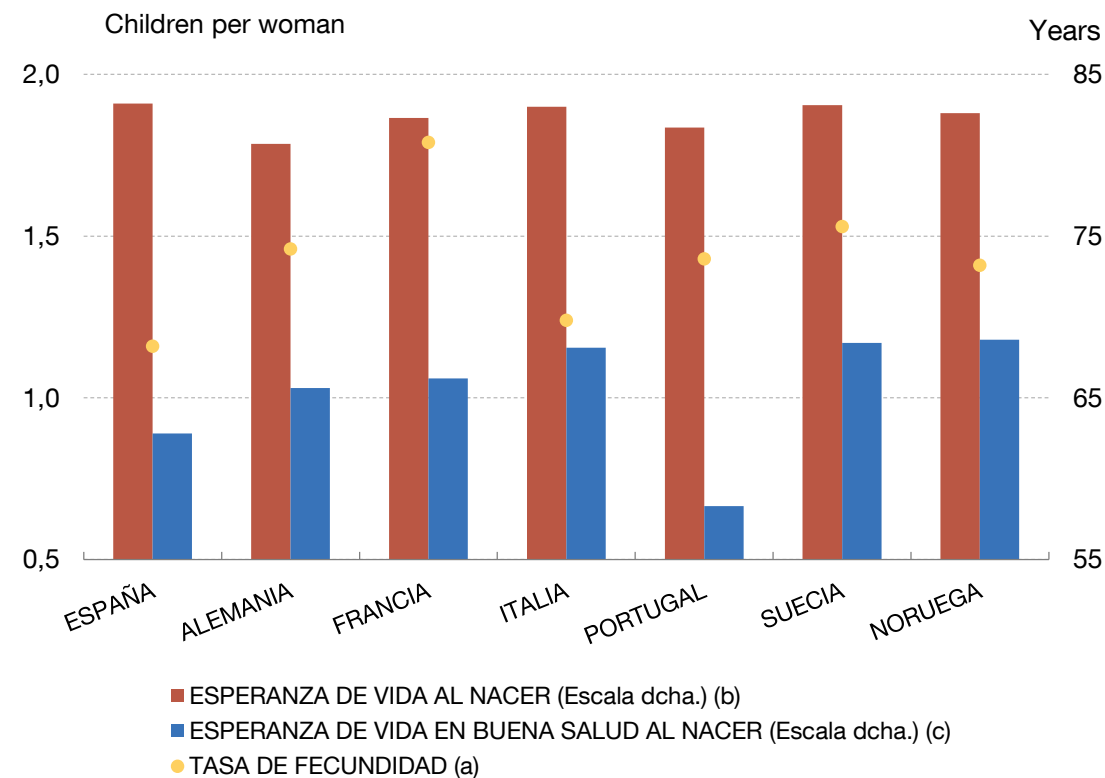
(c) For Spain, the estimated average fiscal effort differs from the European Commission estimate, primarily owing to the different potential GDP growth estimates used in the calculation.

FERTILITY AND MORTALITY RATES IN SPAIN



a) The fertility rate measures the average number of children a woman would give birth to during her child-bearing years, assuming she gave birth according to the average fertility rate for each year of age.

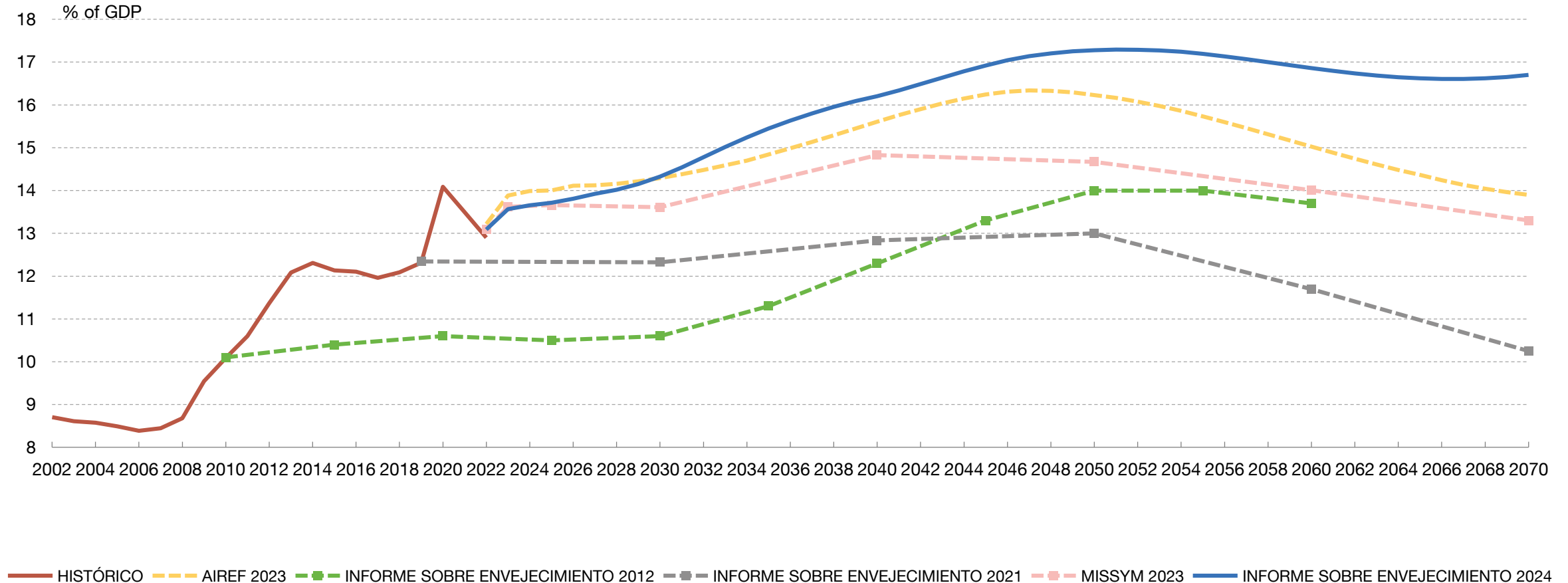
FERTILITY RATE, LIFE EXPECTANCY AT BIRTH AND HEALTHY LIFE EXPECTANCY IN 2022, BY COUNTRY



b) Life expectancy at birth measures the average number of years that a newborn is expected to live if the mortality patterns in the period observed remain unchanged.

c) Healthy life expectancy at birth is calculated on the basis of life expectancy at birth minus the expected number of years lived with disability or in poor health, considering the multiple causes that may contribute to poor health, weighted according to their severity (Mathers, Sadana, Salomon, Murray and Lopez, 2001). Data refer to 2021, except for Norway, where they refer to 2020.

PENSION EXPENDITURE, DEVELOPMENTS AND PROJECTIONS (a)

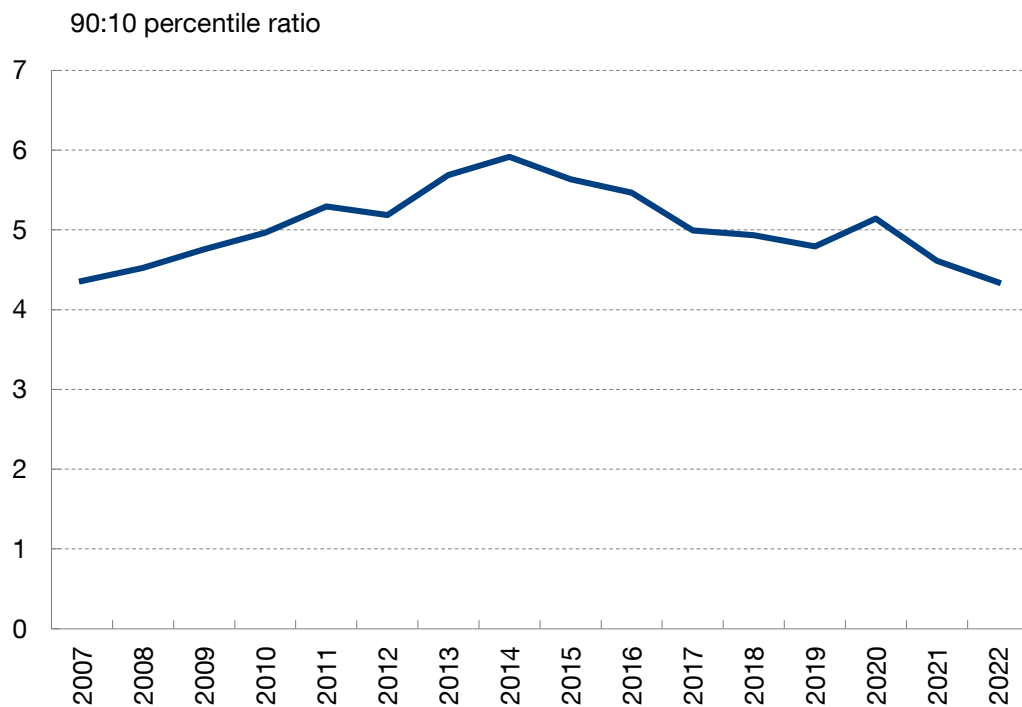


a) The 2012 and 2021 Ageing Report and Ministry of Inclusion, Social Security and Migration (MISSM) projections are interpolated on the published figures (shown by squares for the respective years).

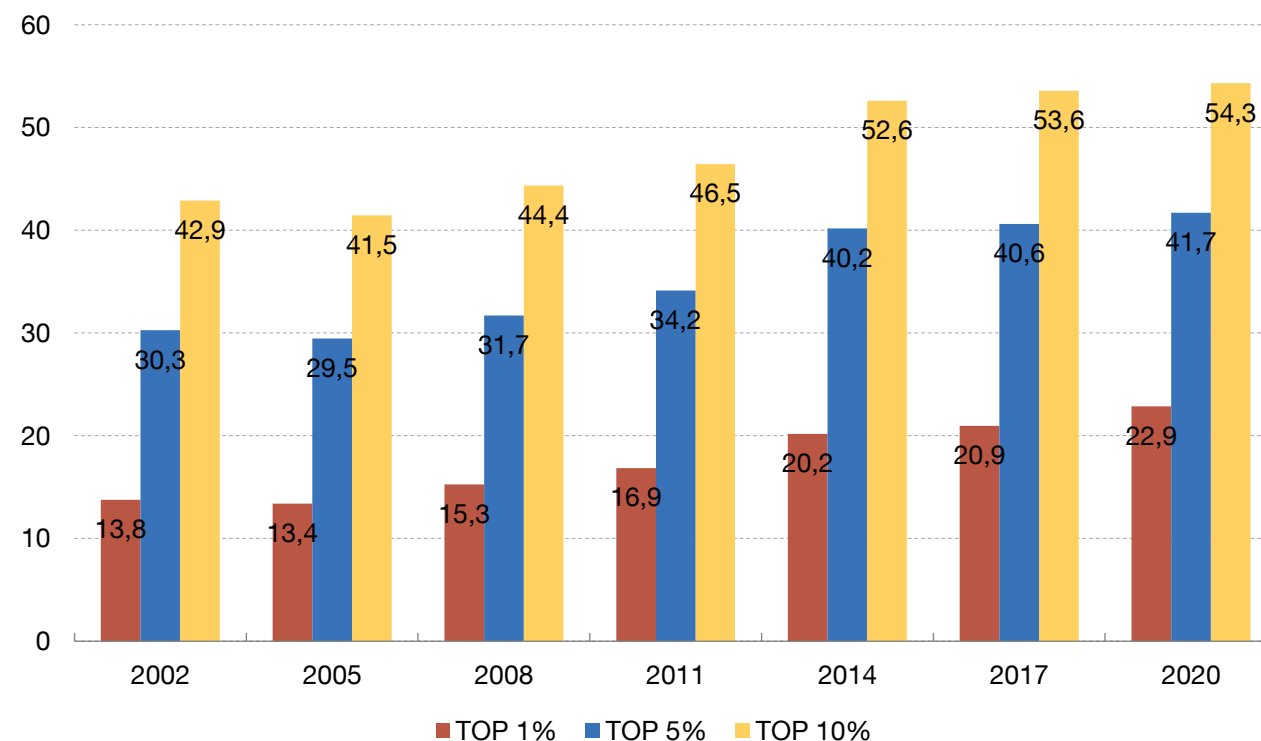
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CHANGES IN THE 90:10 PERCENTILE RATIO (a)

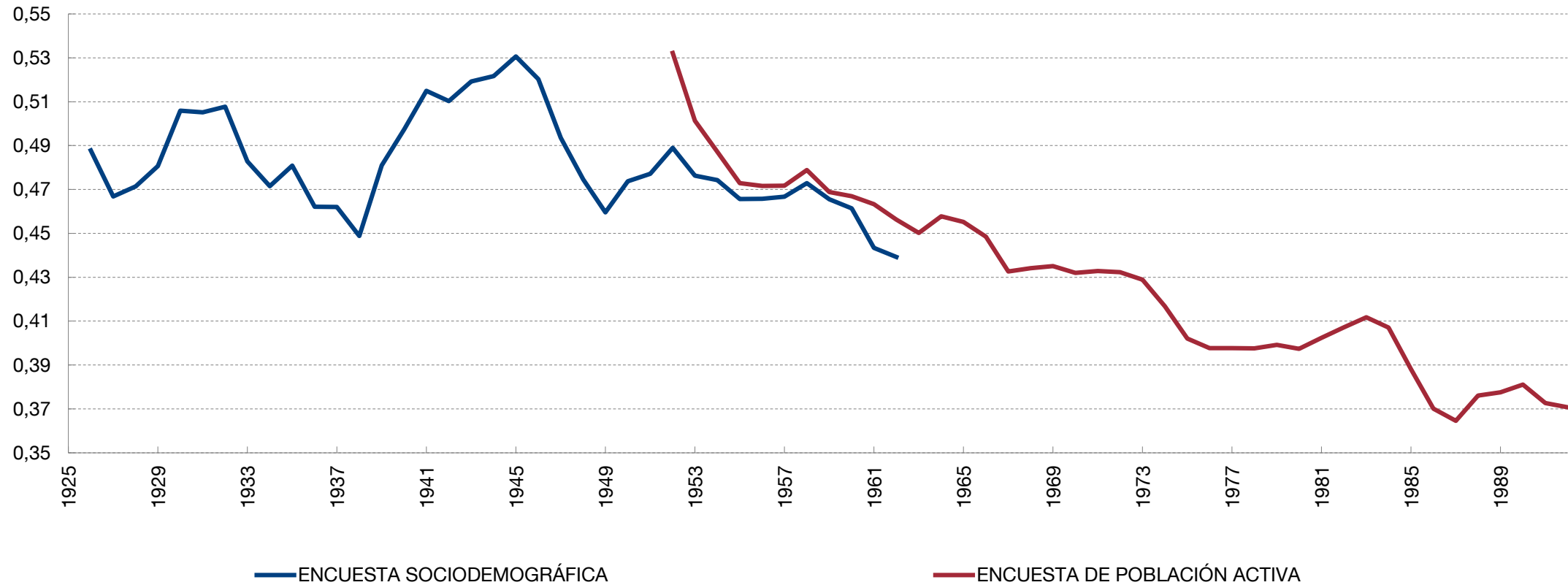


PERCENTAGE OF TOTAL NET WEALTH HELD BY THE HOUSEHOLDS WITH THE HIGHEST NET WEALTH (%)



(a) Ratio of two percentiles in the income distribution. For a sample of individuals aged between 25 and 60, income is measured as gross household income plus transfers, less taxes and mandatory social security contributions of workers, the self-employed, the unemployed (if applicable) and employers, divided by the number of household members calculated using the OECD's equivalence scale, where the first household member aged 14 or over counts as one person, other household members aged 14 or over are assigned a value of 0.5, and each household member aged under 13 a value of 0.3.

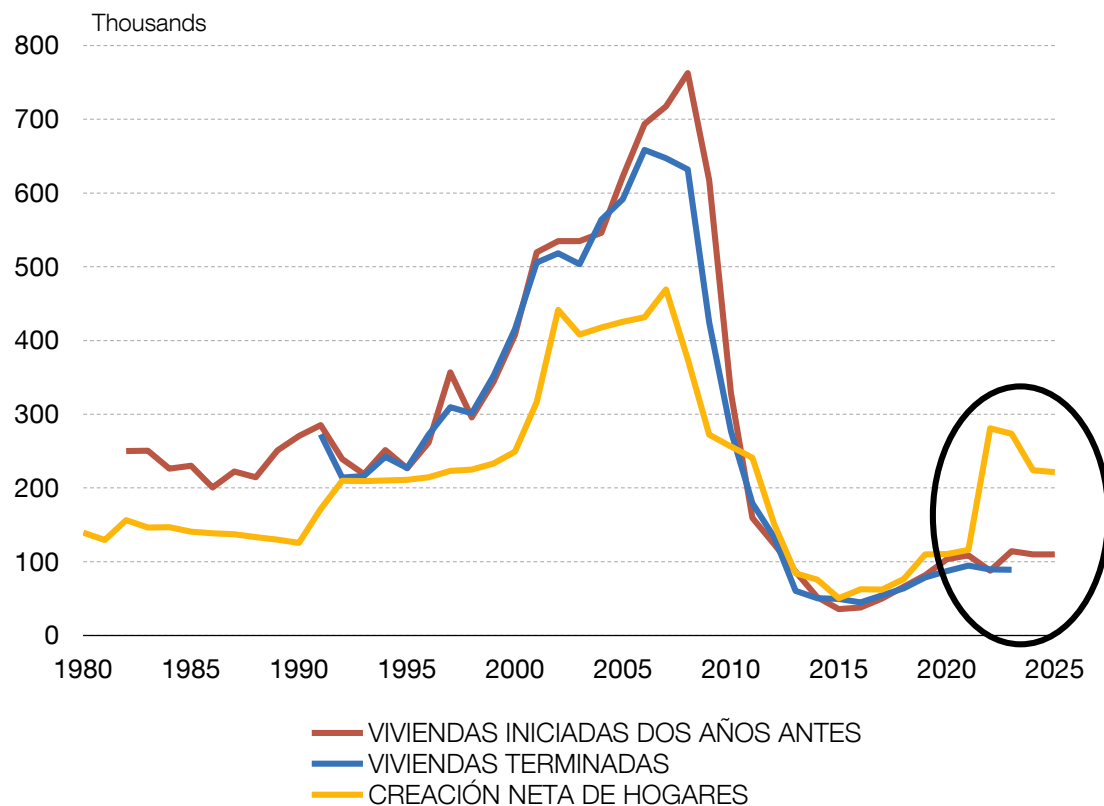
CORRELATION BETWEEN THE YEARS SPENT IN EDUCATION BY PARENTS AND THEIR ADULT OFFSPRING, BY YEAR OF BIRTH (a)



(a) In the Socio-demographic Survey, the correlation between the years spent in education is calculated by pairs of parents and their offspring and in the Labour Force Survey, by pairs of parents and their offspring living at home. For more details, see Grébol, Machelett, Stuhler and Villanueva (2024).

SOURCES: Spanish Labour Force Survey (EPA) (1977-2020) and Banco de España.

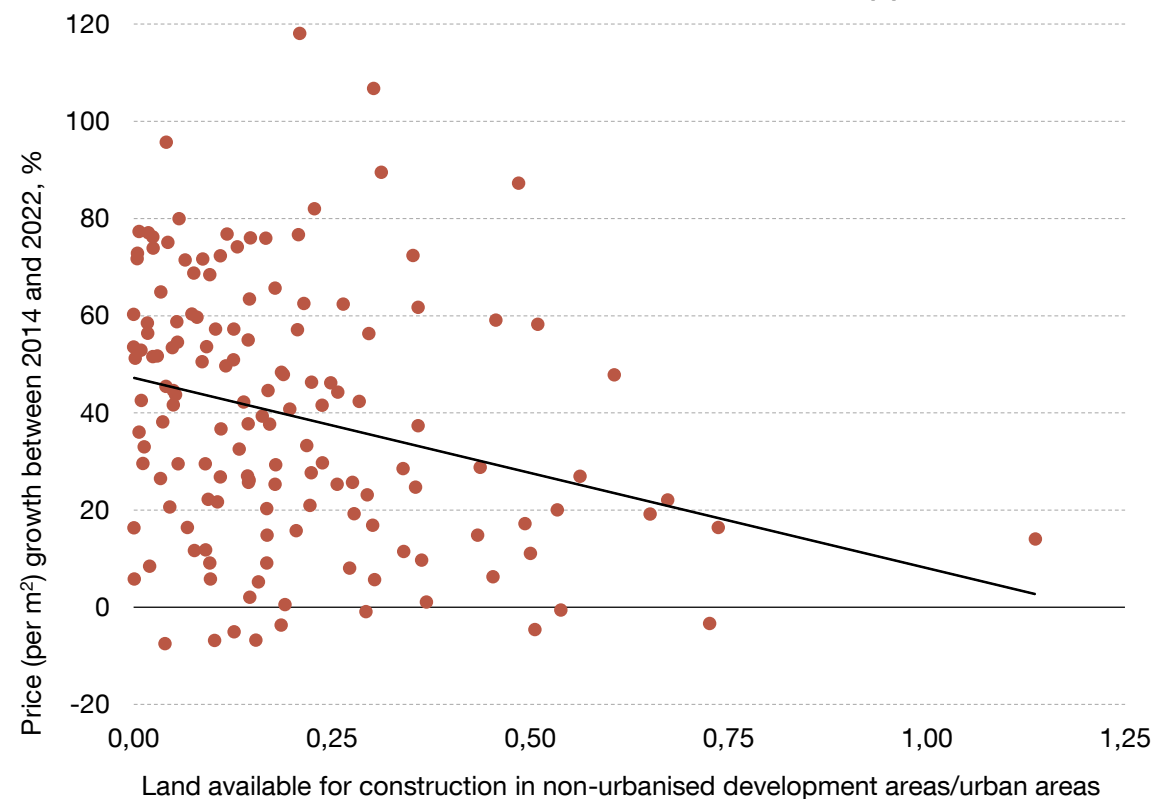
HOUSING STARTS AND HOUSEHOLDS (a)



(a) Net household formation to 2021 is based on the census and continuous registers published by the INE, while for 2022 and 2023 the figures are the average annual change in the number of households (based on quarterly data from the INE's Continuous Population Statistics). Net household formation for 2024 and 2025 corresponds to the latest household projections published by the INE in October 2022.

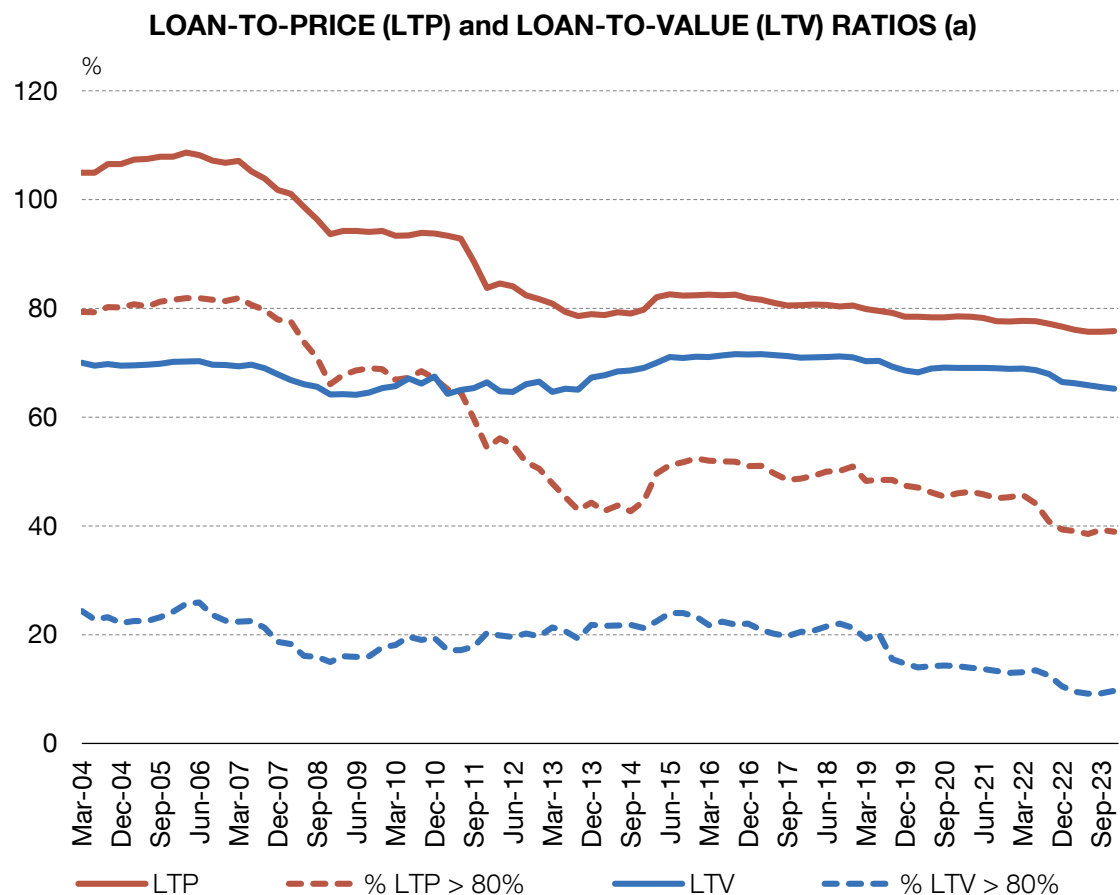
SOURCES: INE, Ministerio de Transportes y Movilidad Sostenible and Banco de España.

HOUSE PRICES AND LAND AVAILABLE (b)



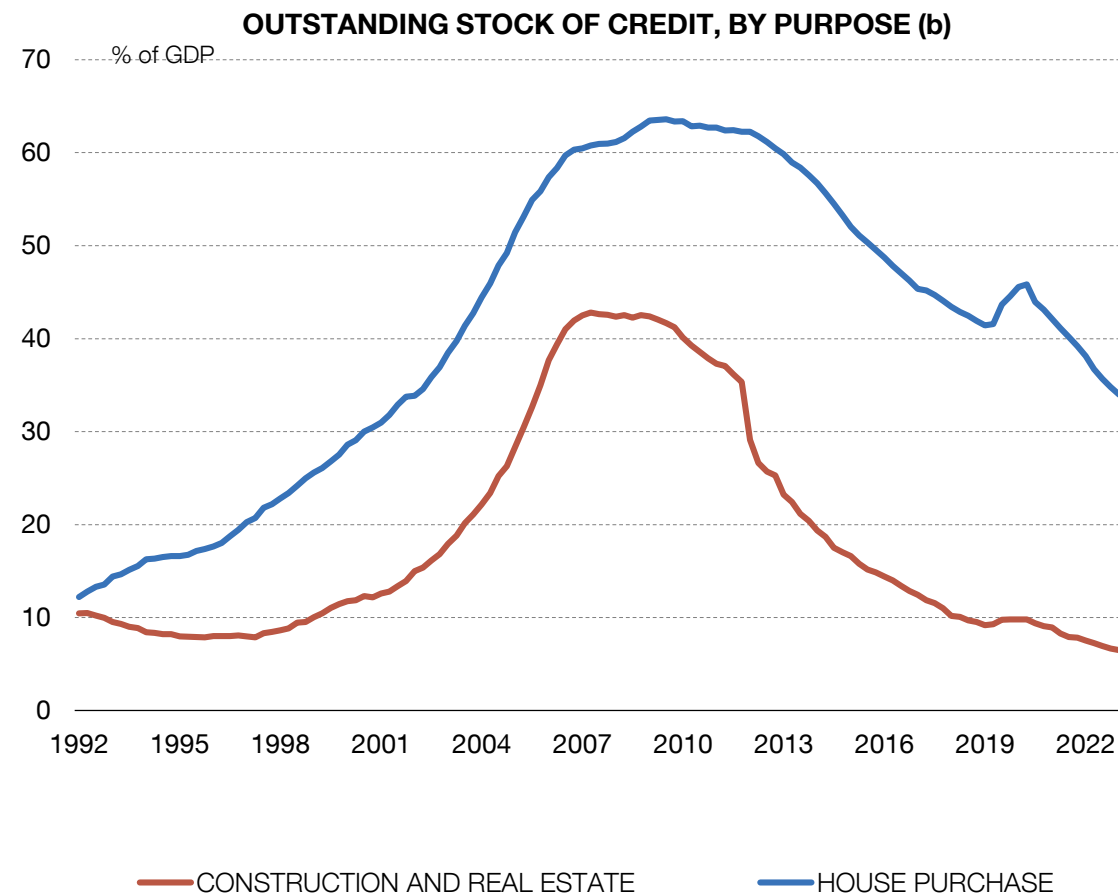
(b) Land available for construction in development areas corresponds to the latest figure published and urban land available corresponds to 2014. Calculations refer to municipalities with more than 50,000 inhabitants.

SOURCES: Ministerio de Vivienda and Banco de España using data from the Colegio de Registradores (Spanish Registrars' Association) and the AEAT Tax Studies and Statistics Service.



(a) The LTP ratio is the ratio of the mortgage principal to the house purchase price. The LTV ratio is the ratio of the mortgage principal to the appraisal value of the house. The average values of these ratios are weighted by the capital of each mortgage and are calculated for new mortgages.

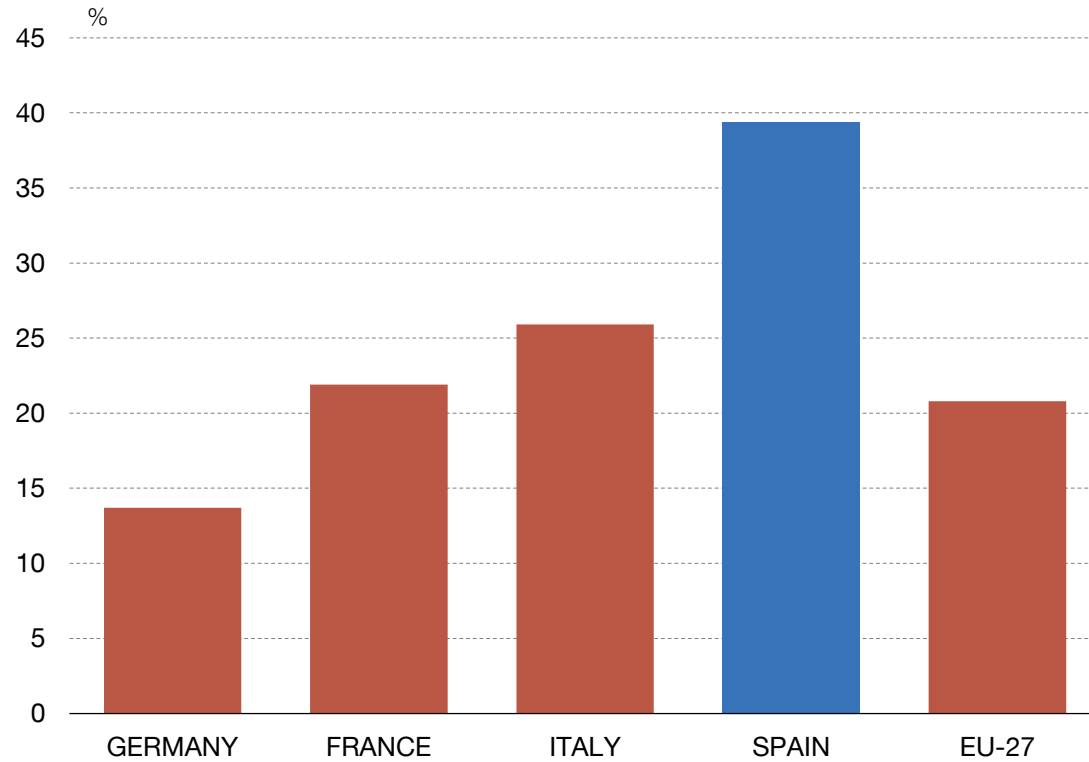
SOURCES: Banco de España, drawing on data from the Colegio de Registradores (Spanish Registrars' Association).



(b) Seasonally adjusted series. Latest data: 2023 Q4.

SOURCES: INE and Banco de España.

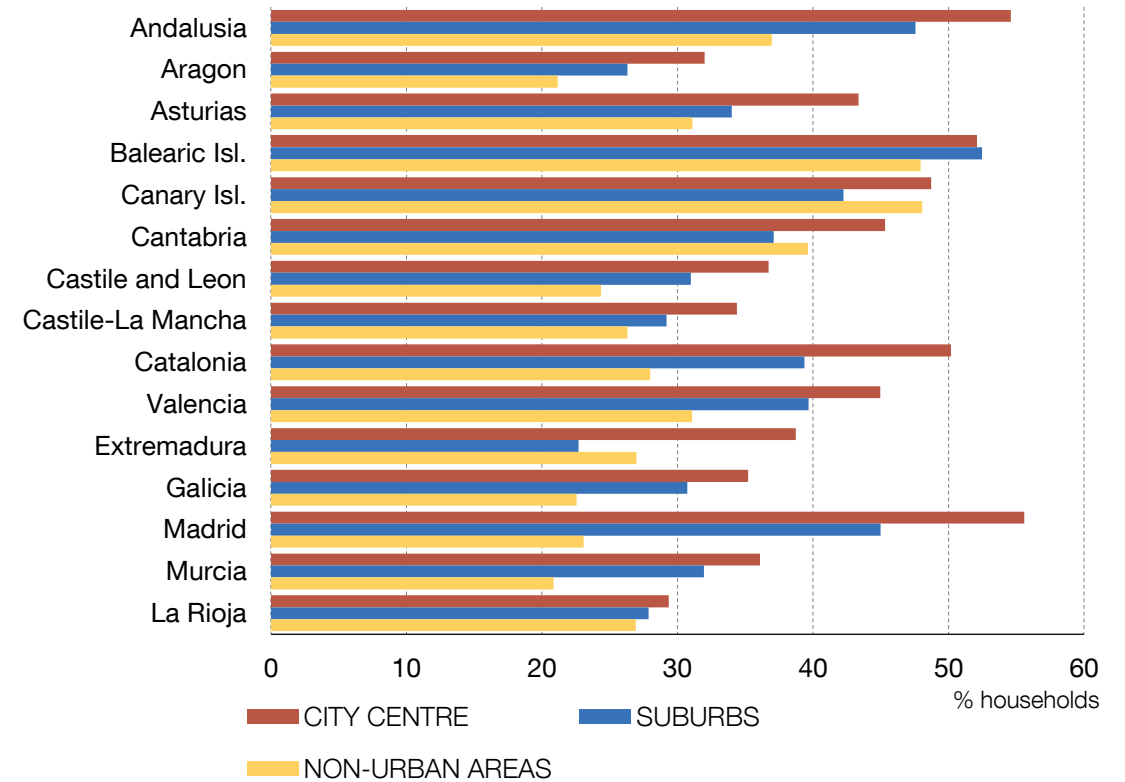
OVERBURDENED RENTER HOUSEHOLDS IN 2022 (a)



(a) Eurostat sets the threshold beyond which a household is considered to be overburdened by its housing costs at 40% of gross household income. Rental costs include rent payments and basic utilities (e.g. water, gas and electricity).

SOURCE: Banco de España, drawing on EU-SILC (Eurostat 2023) data.

RENT COST BURDEN, BY REGION (b)



(b) Overburden calculated for non-homeowner households in the different regions as the ratio of the average rent in the household's municipality of residence to net household income.

SOURCE: Banco de España, drawing on data from the AEAT Tax Studies and Statistics Service.

The impact of the **public policies** on access to housing already in place **should be evaluated**.

The actions of all the **tiers of government** with responsibility for housing **should be coordinated**.

Increasing residential housing supply should be prioritised, especially in the rental market.

There should be **collaboration with private initiatives** to significantly build up the stock of affordable **social rental housing**.

The **institutional private sector** should **step up** its participation in the **rental market** to raise the sector's professional profile.

Public resources should be **allocated** to **lower-income groups** and measures should be adopted for **areas under housing pressure**.

Legal certainty should be **strengthened** and **regulatory uncertainty reduced** to boost investment and minimise risks.

The administrative procedures relating to **land and urban planning policies** should be **improved** and **housing renovation** should be **encouraged**.

The design of housing policies should be combined with **structural reforms** (productivity and employment), **tax reforms** and improvements in **metropolitan public transport policies**.

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 - **Tackling the green transition**
 - Continuing to strengthen the Spanish banking sector's resilience
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Spain has taken on **ambitious environmental commitments**, in line with those of the EU and other advanced economies, given that the economic losses resulting from the physical risks of global warming would foreseeably far outweigh the cost of the transition.

There is consensus that **the Iberian Peninsula could be significantly affected by the physical risks** associated with climate change, as analysed in depth in the Banco de España's *Annual Report 2021*.

This calls for a mitigation strategy that is **ambitious, timely, orderly and predictable**. And if it is to be effective, this strategy needs to be **global**.

The energy transition will require the **large-scale deployment of renewable energy sources**, for which Spain has a very favourable climate.

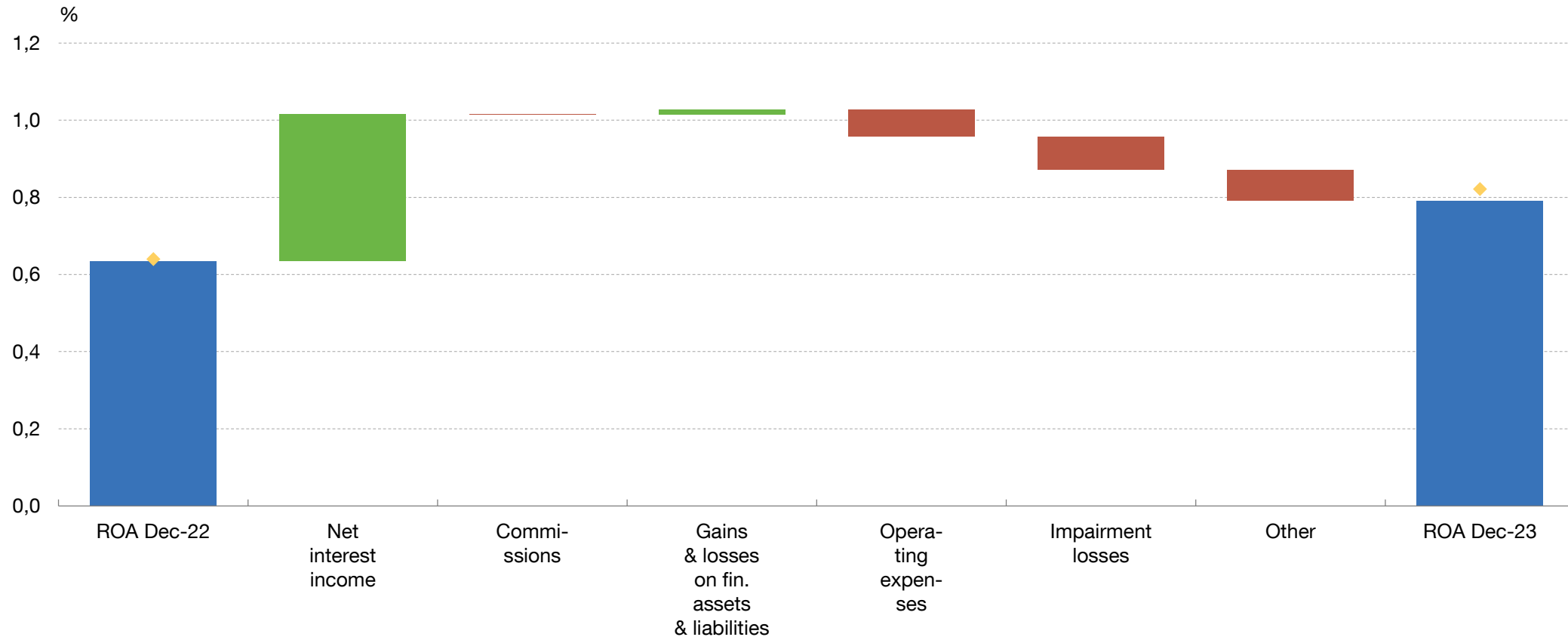
It will also call for **a determined commitment to energy efficiency gains**, which will help achieve climate goals and ease the green transition's adverse impact on activity.

Particular care must be taken to **mitigate distributional effects**. Otherwise, not only would the green transition be more costly in economic terms, but the pace and ambition of this transition could also be constrained by episodes of social unrest.

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1. Recent economic developments
2. The outlook for the coming years
- 3. The structural challenges facing the Spanish economy**
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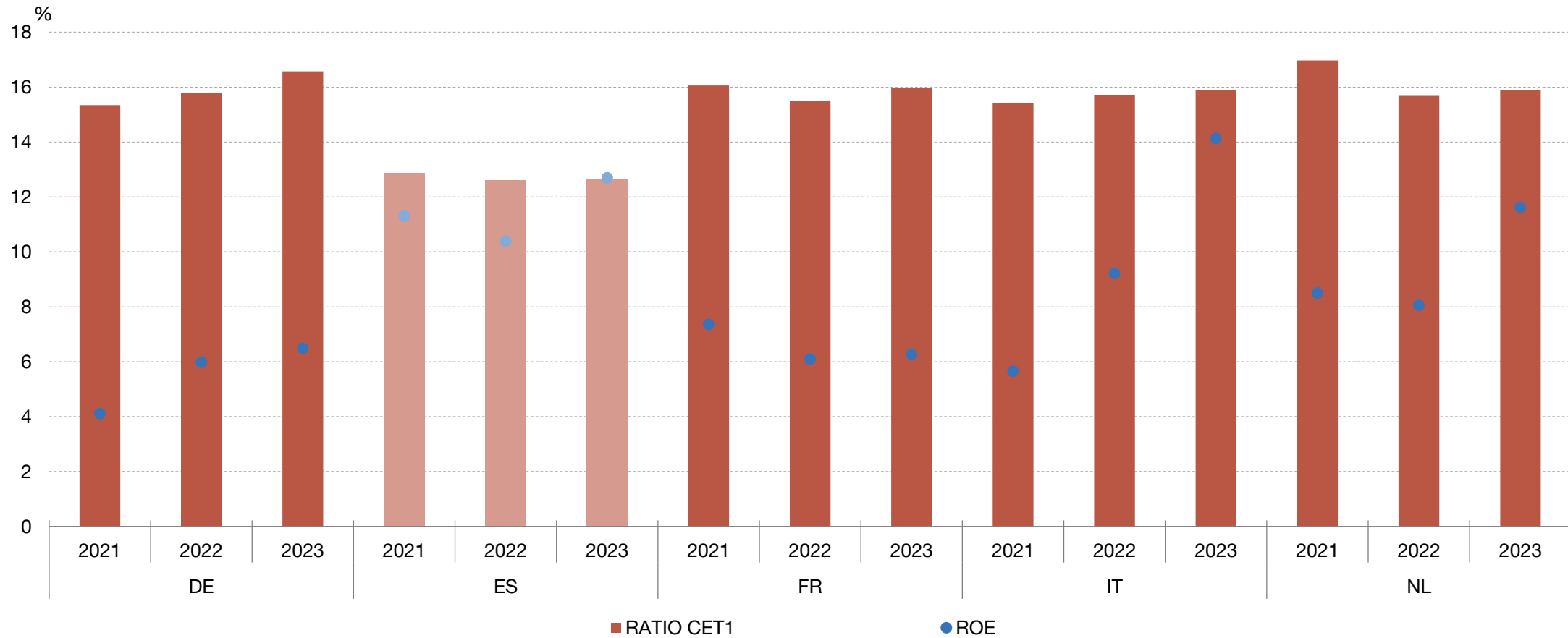
BREAKDOWN OF CHANGES IN INCOME. CONSOLIDATED NET INCOME AS A PERCENTAGE OF AVERAGE TOTAL ASSETS (a)



(a) The red (green) bars indicate a negative (positive) contribution of the corresponding item to changes in consolidated income in December 2023 compared with December 2022. The yellow diamonds show ROA, excluding extraordinary income in 2022 resulting from the purchase of offices by one bank (–€0.2 million) and the impact of the temporary levy on banks in 2023 (–€1.3 million).

(b) Includes, among other items, the extraordinary income and the temporary levy on banks mentioned in note (a) above.

CET1 RATIO, EUROPEAN COMPARISON. CONSOLIDATED DATA. DECEMBER 2021-2023



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Advancing towards a fiscal union and ensuring budgetary stability

Common funding to ensure optimum and efficient provision of European public assets

Cyclical mechanisms to ensure an appropriate aggregate fiscal policy stance

Reinforced oversight of compliance with the new fiscal rules to ensure their success and credibility

Completing the banking union and creating a capital markets union

The depth of capital markets should be increased to channel private investments towards projects that foster growth and innovation

A European safe asset should be created to contribute to capital market integration

A European deposit insurance scheme should be set up for greater financial stability and common financial safety

Pressing ahead with a dynamic and competitive common market

Internal fragmentation should be reduced giving greater emphasis to the role of European policies

European initiatives that seek to develop specific strategic sectors should be designed so as to maximise their effectiveness and efficiency and avoid distortionary effects

An ambitious agenda of liberalisation and structural reforms should be adopted to counter the adverse supply-side shocks

THANK YOU FOR YOUR ATTENTION