

MACROECONOMIC PROJECTIONS FOR SPAIN 2024-2026

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1. Global environment
2. Recent developments in the Spanish economy
3. Macroeconomic projections 2024-2026
4. Focal points
 - 4.1. Recent tourism buoyancy
 - 4.2. Services inflation

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GLOBAL ENVIRONMENT

Activity

- In recent months, global economic activity has performed somewhat better than expected and although it is growing at a relatively modest pace it has accelerated slightly,
- The strength of activity has continued to be underpinned by services, although there has been a gradual improvement in manufacturing

Inflation

- Disinflation has continued in recent months, albeit at a slower pace than in 2023
- In some geographical areas, services inflation is proving stickier than expected, partly as a result of notably buoyant international labour markets

Energy

- Against a background of persistently heightened geopolitical tensions, energy prices are displaying considerable volatility
- In particular, in recent months, oil and natural gas prices have been higher than they were expected to be a few months ago, exerting upward pressure on energy inflation

Monetary policy

- Some advanced economies have recently reduced their interest rates
- However, market expectations regarding the future path of interest rates have generally been revised upwards in Q2

Financial markets

- Despite the persistence of various sources of geopolitical uncertainty, developments on international financial markets have been particularly favourable in Q2, with some stock market indices close to all time highs and relatively low risk premia

Euro area

- GDP growth surprised on the upside in 2024 Q1 and economic activity is showing incipient signs of a recovery that could firm over the coming quarters
- In comparison with the March Eurosystem staff Broad Macroeconomic Projection Exercise, the June exercise revised upwards euro area GDP growth in 2024 and headline inflation in 2024 and 2025

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RECENT DEVELOPMENTS IN THE SPANISH ECONOMY ACTIVITY

National Accounts 2024 Q1

- GDP growth in 2024 Q1 surprised on the upside (+0.7% vs an expected +0.4%). This growth was essentially underpinned by exports of services, especially travel services, while private consumption remained somewhat subdued and investment accelerated slightly
- Also, GDP growth rates in the second half of 2023 have been revised upwards

Employment

- Job creation in Q2 appears to have been about as vigorous as it was in Q1
- As in previous quarters, employment was notably buoyant in the largest firms and in services

Confidence indicators

- PMIs have risen steadily in the Spanish economy in recent months, both in the case of services and manufacturing (with the latter now in expansionary territory)

Banco de España Business Activity Survey (EBAE)

- The surveyed firms report an increase in turnover in 2024 Q2 (relative to Q1) and a somewhat less negative impact of some of the factors that have been limiting their activity in recent quarters

Financial conditions

- Access to funding is stabilising or improving, while funding flows show signs of recovery and funding costs remain on a downward trend that dates back to late 2023 (although they are still relatively high)

Overall, the available indicators suggest that GDP growth in Q2 will stand at 0.5% quarter-on-quarter, compatible with a year-on-year growth rate of 2.4%, the rate recorded in Q1

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

PRICES

Headline inflation

- Headline inflation has risen considerably in recent months, from 2.9% in February to 3.8% in May

Surprises in recent months

- This increase has been greater than envisaged in the Banco de España's March projections, the difference being explained essentially by:
 - the unexpected rise in oil prices in recent months
 - stickier than expected services inflation

Core inflation

- Even so, according to the most granular data (only available up to April), the gradual slowdown in core inflation has continued during the year-to-date, essentially as a result of the decline in non-energy industrial goods prices

Food inflation

- Despite the slight rise between March and April, food inflation continued its relatively broad-based slowdown
- The positive food inflation differential between Spain and the euro area observed in recent months stems mainly from composition effects

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MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2024-2026)

SUMMARY TABLE

				JUNE 2024 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE MARCH PROJECTIONS			
	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026
GDP	6.4	5.8	2.5	2.3	1.9	1.7	0.0	0.4	0.0	0.0
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	3.0	2.0	1.8	0.0	0.3	0.1	0.1
HICP excl. energy and food	0.6	3.8	4.1	2.6	2.0	1.9	0.0	0.4	0.1	0.1
Unemployment rate (% of labour force). Annual average	14.9	13.0	12.2	11.5	11.3	11.2	0.1	-0.1	-0.2	-0.1
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.7	-3.6	-3.3	-3.1	-3.2	0.2	0.2	0.4	0.3
General government debt (% of GDP)	116.8	111.6	107.7	105.8	106.2	107.2	0.0	-0.7	-1.0	-1.2

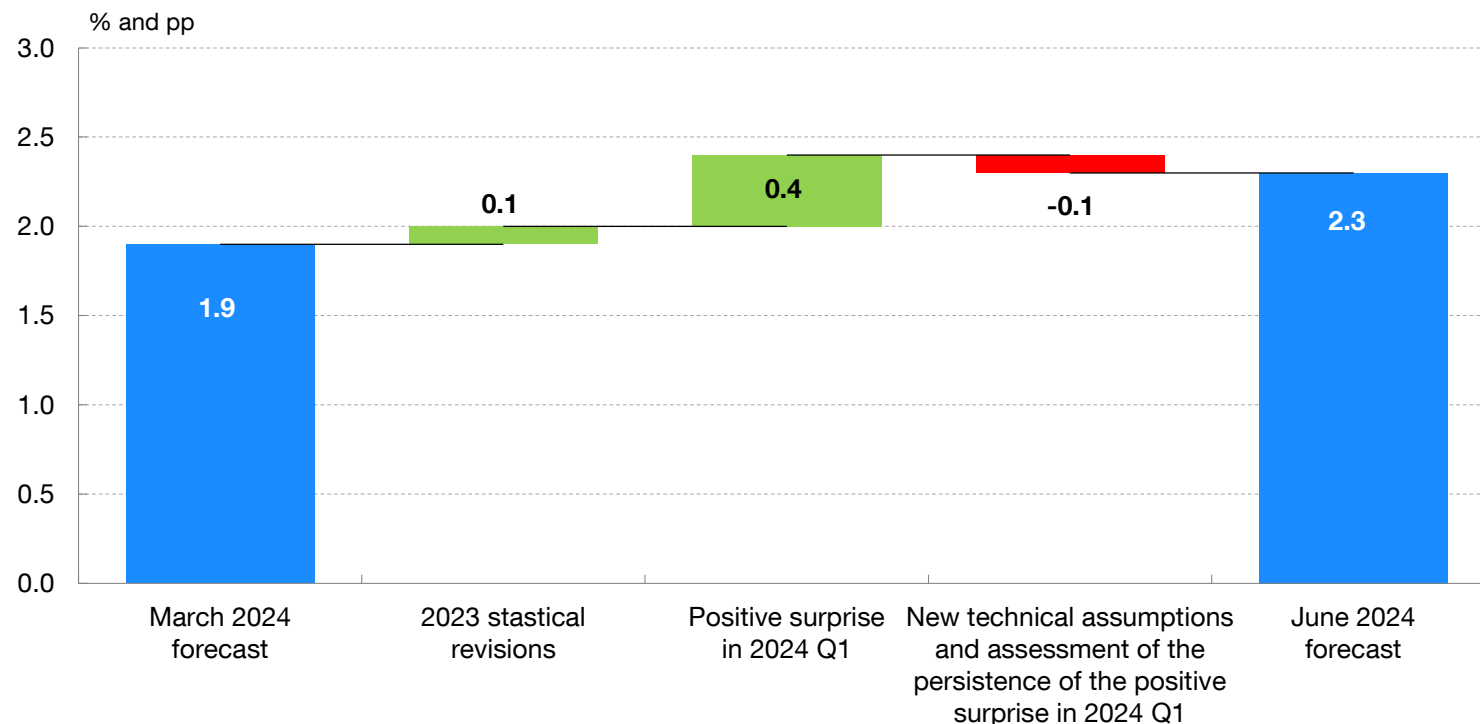
Sources: INE and Banco de España.
(a) Projections cut-off date: 22 May 2024.

[More details](#) 

GDP GROWTH FOR 2024 IS REVISED UP TO 2.3% DUE TO THE POSITIVE CARRY-OVER EFFECT RESULTING FROM THE NEW DATA IN THE QNA FLASH ESTIMATE

- The GDP growth rates projected for the coming quarters are not very different from those envisaged in March and are expected to gradually converge towards rates consistent with the Spanish economy's potential growth:
 - According to the latest [technical assumptions](#) future oil prices and short-term interest rates will be higher than those envisaged in March → These assumptions entail less favourable conditions for activity growth in the coming quarters
 - The positive surprise in GDP growth in 2024 Q1 mainly stemmed from the [extraordinary buoyancy of travel services exports](#). Most of this surprise is incorporated into the new projections in the form of a more favourable path for this item over the course of 2024 than envisaged a few months ago. However, another portion of the surprise is deemed to be essentially temporary

CHANGES IN THE GDP GROWTH FORECAST FOR 2024

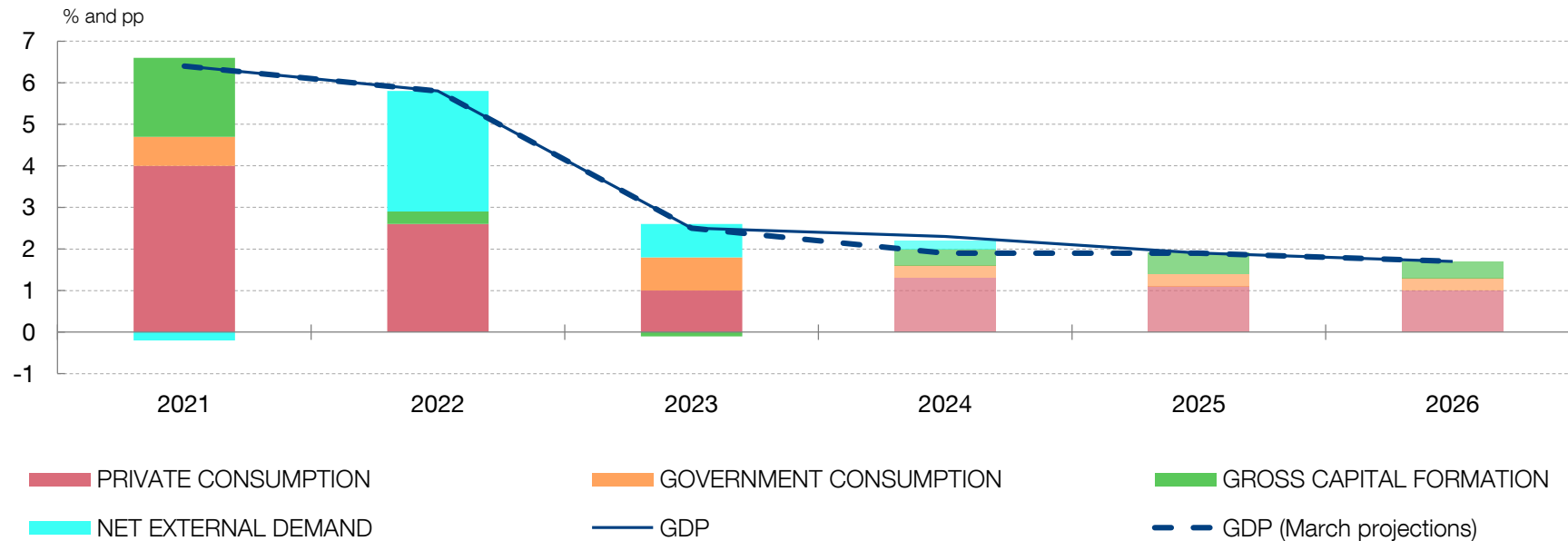


Source: Banco de España.

THROUGHOUT THE PROJECTION HORIZON, ACTIVITY WILL MAINLY BE UNDERPINNED BY DOMESTIC DEMAND

- Household consumption – which has surprised on the downside in recent quarters – will gather momentum going forward, spurred by the increase in real income (in step with the forecast path of job creation, wages and inflation), population growth and the improvement in household confidence. However, consumption per capita will not recover its pre-pandemic level until 2025
- Investment – which remains below its pre-pandemic level – will also rise throughout the projection horizon, driven by the impetus from the NGEU programme (whose roll-out is expected to gain momentum in 2024 and 2025) and by a slight improvement in financing conditions. In any event, at end-2026 investment will be the demand component with the lowest cumulative growth since 2019
- Net external demand will make a positive contribution to GDP growth in 2024, before shrinking to zero in 2025-2026, partly because imports are expected to accelerate more sharply than exports, in step with the greater momentum of gross fixed capital formation and goods exports, which are the final demand components with the highest import content

GDP GROWTH AND CONTRIBUTION OF THE MAIN COMPONENTS

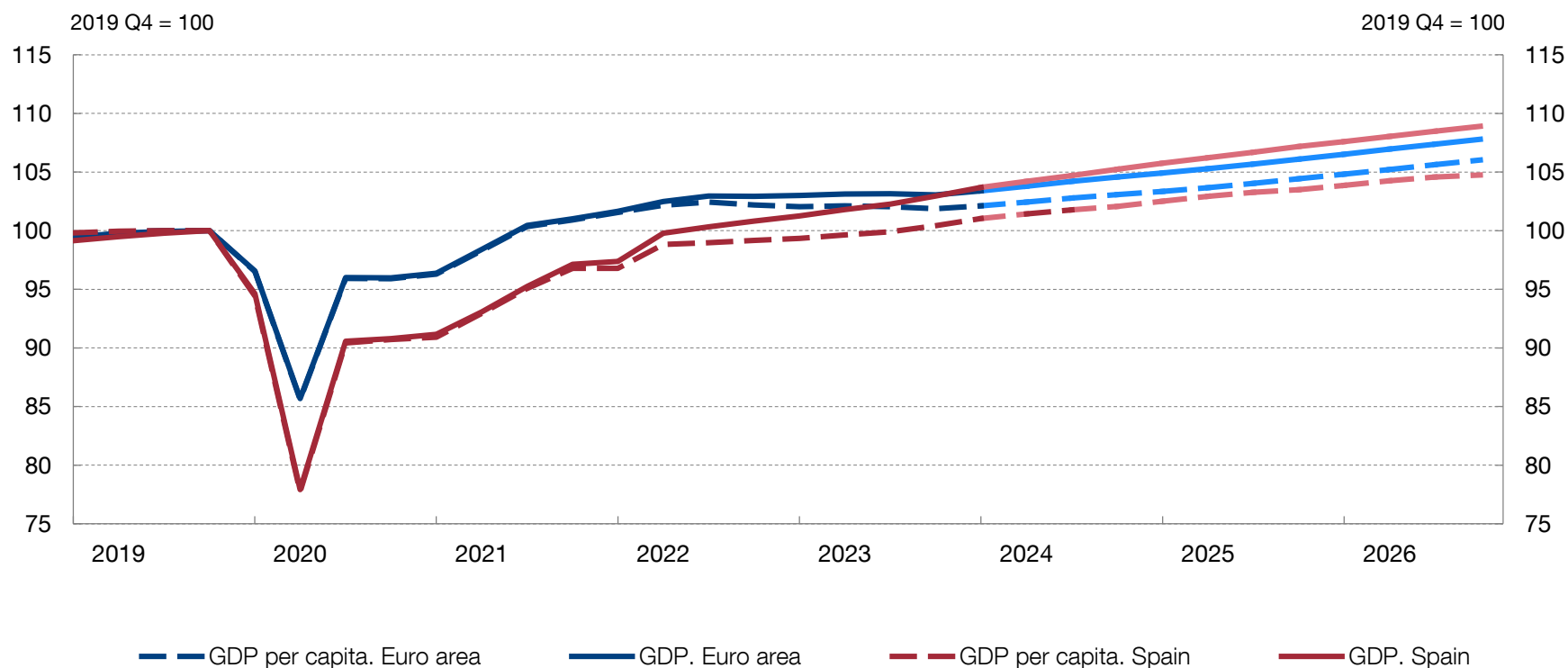


Sources: INE and Banco de España.

AT END-2026, SPANISH GDP WILL BE 8.9 PP ABOVE ITS PRE-PANDEMIC LEVEL, ALTHOUGH THE GAP WILL BE SMALLER IN PER CAPITA TERMS (+4.8 PP) ...

- According to the June Eurosystem staff macroeconomic projection exercise, at end-2026 **euro area GDP** will be 7.8 pp above its pre-pandemic level, although in per capita terms the gap will be 6 pp

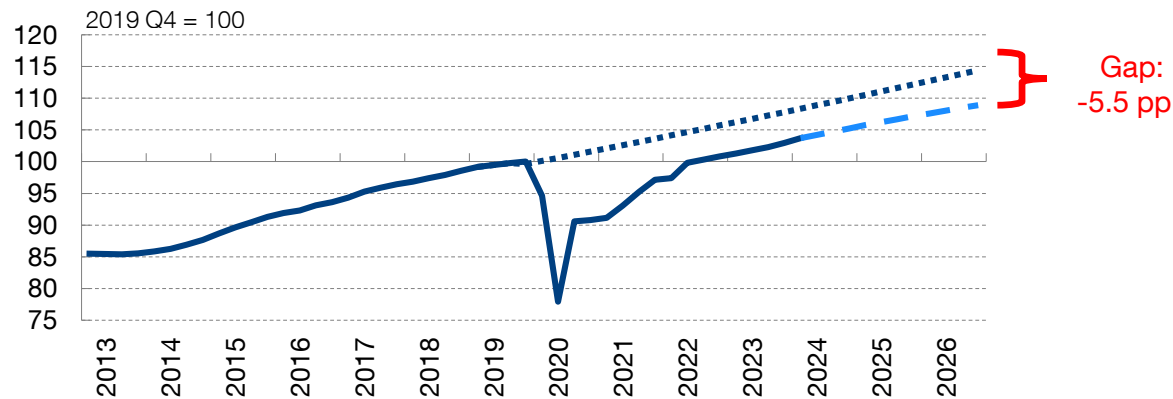
GDP AND GDP PER CAPITA IN SPAIN AND THE EURO AREA



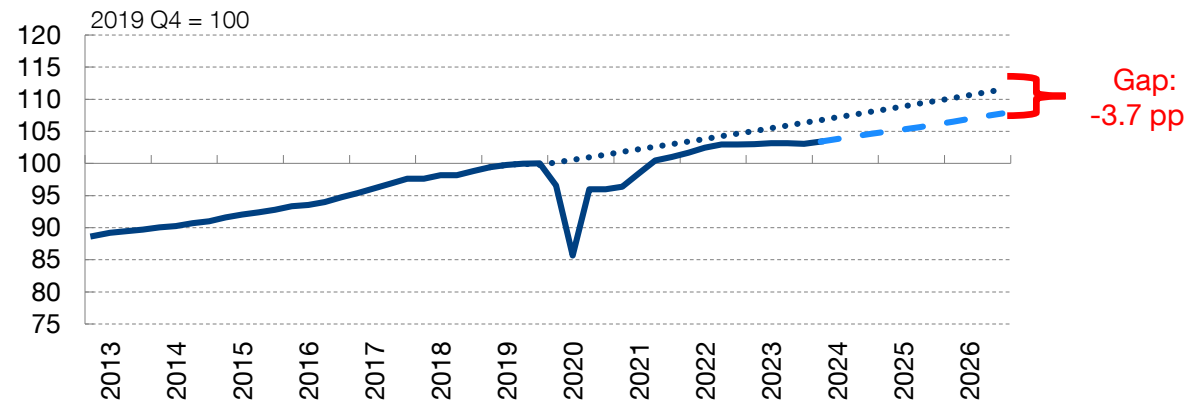
Sources: INE, Eurostat, ECB and Banco de España.

HOWEVER, THERE WOULD STILL BE NEGATIVE GAPS WITH RESPECT TO THE GDP RECORDED AT END-2026 HAD THE PRE-PANDEMIC GROWTH PATH CONTINUED

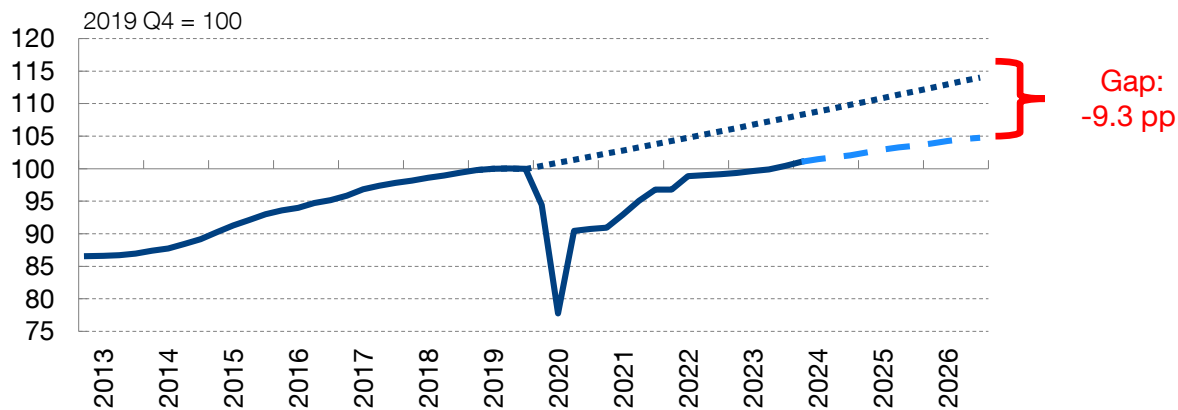
GDP IN SPAIN



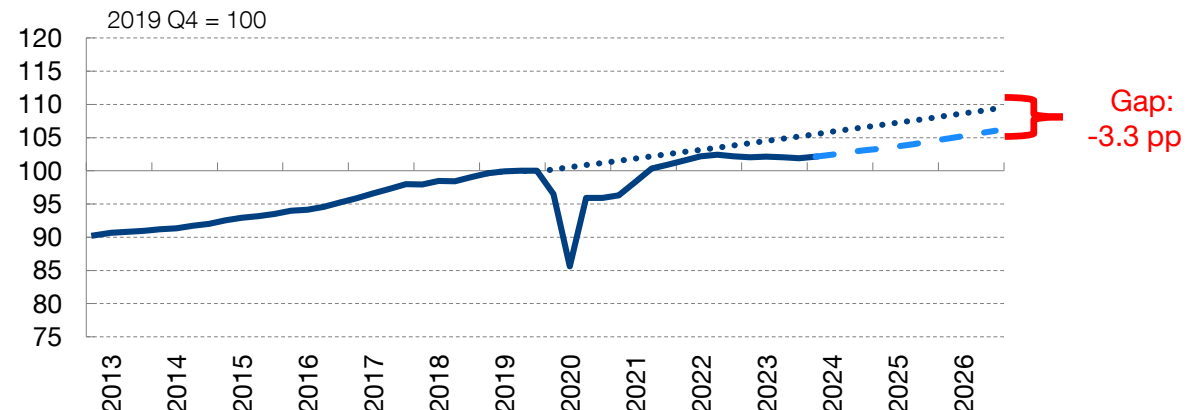
GDP IN THE EURO AREA



GDP PER CAPITA IN SPAIN



GDP PER CAPITA IN THE EURO AREA



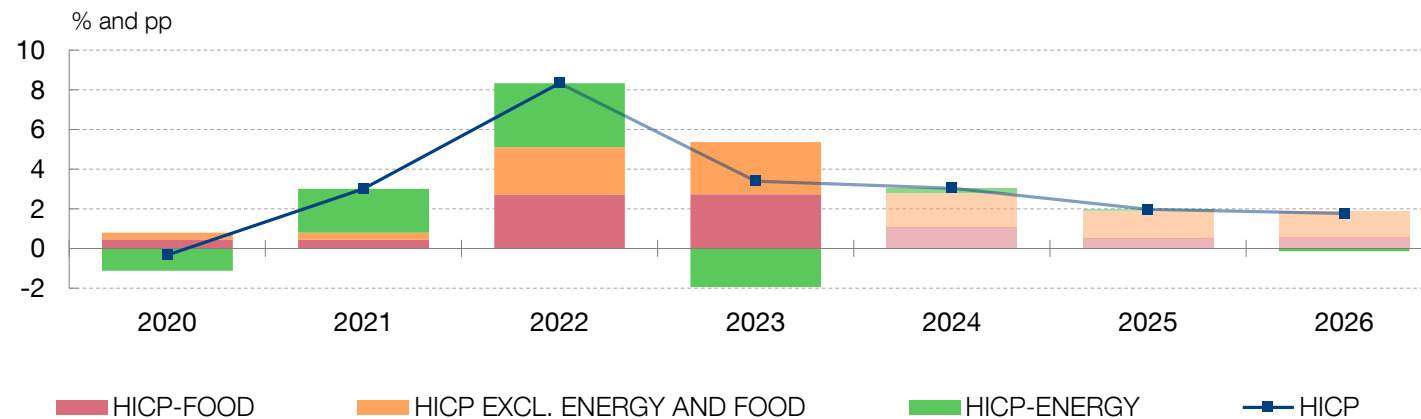
— OBSERVED 2013-2019 TREND - - - PROJECTIONS

Sources: INE, Eurostat, ECB and Banco de España.

IN THE COMING QUARTERS FOOD AND UNDERLYING INFLATION WILL CONTINUE TO EASE, WHILE HEADLINE INFLATION WILL RESUME A DOWNWARD PATH

- The easing of **food inflation** is consistent with, inter alia, futures market prices for various food commodities and with the marked slowdown observed in recent months in food prices at the early stages of the production process
- The deceleration of **underlying inflation** will be driven by a certain stabilisation of NEIG inflation at relatively subdued rates (in keeping with producer prices for these goods in recent quarters) and by a slowdown in services inflation
- Food and core inflation will contribute to the decline in **headline inflation**, as will the energy component. Despite energy prices contributing to inflationary pressures in 2024, their contribution to HICP growth will be virtually zero in 2025 and even negative in 2026, once various positive base effects have disappeared and considering current energy commodity futures market prices

CONTRIBUTIONS TO HICP GROWTH, BY COMPONENT

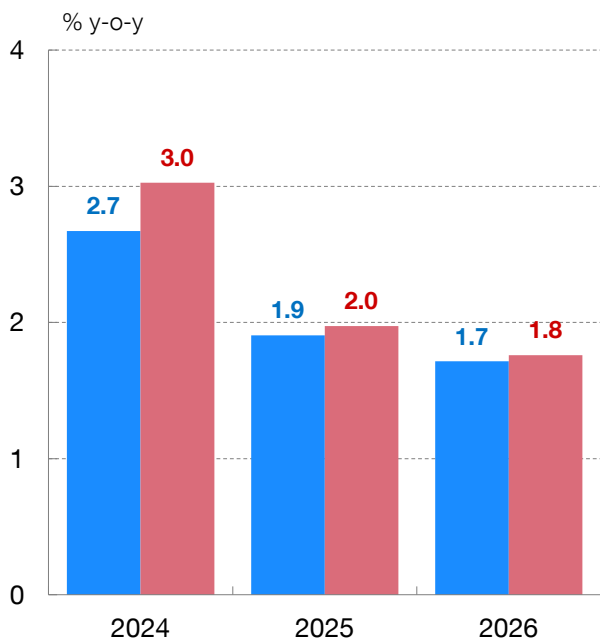


Sources: INE and Banco de España.

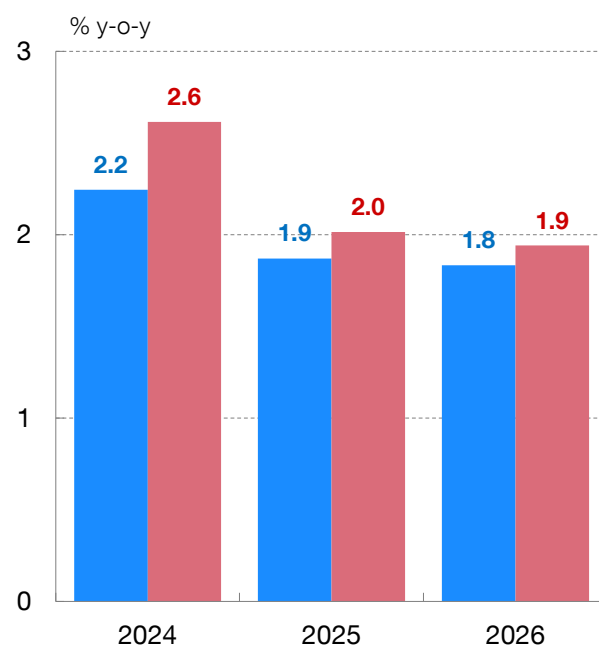
COMPARED WITH THE MARCH PROJECTIONS, AVERAGE HEADLINE INFLATION IN 2024 WAS REVISED UP, TO 3%

- This revision mainly reflects **higher energy prices** and **somewhat more persistent underlying inflation** than envisaged in March, which also has an upwards impact on headline inflation over the rest of the projection horizon

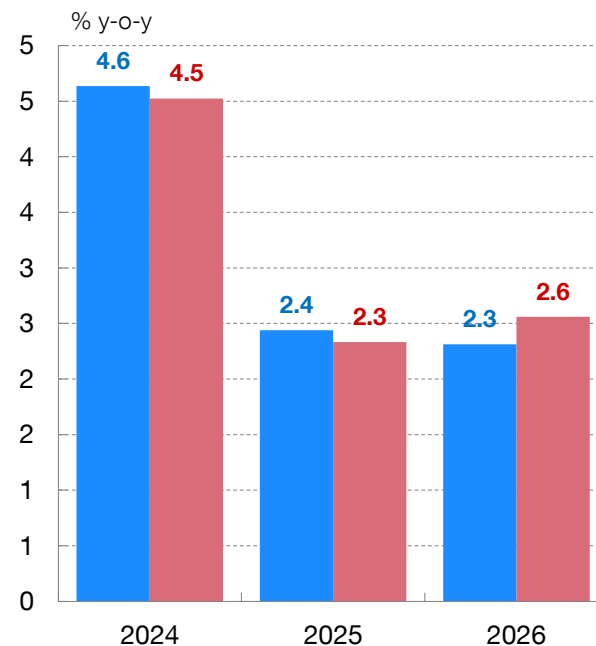
HICP



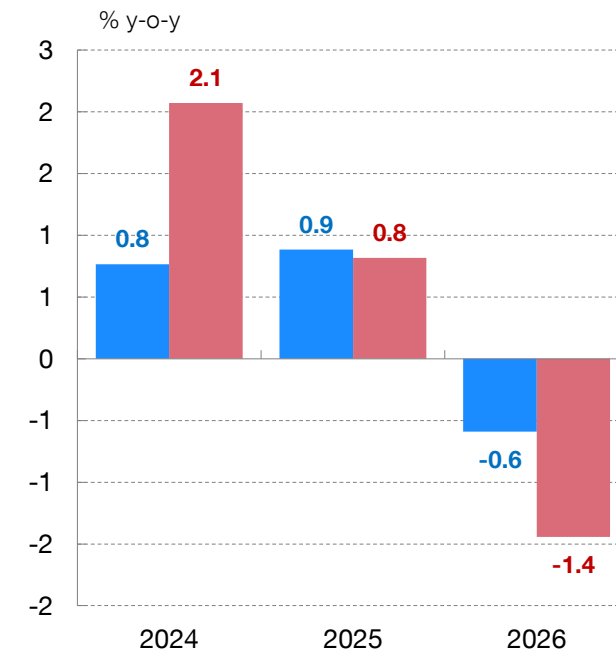
HICP EXCL. ENERGY AND FOOD



FOOD



ENERGY

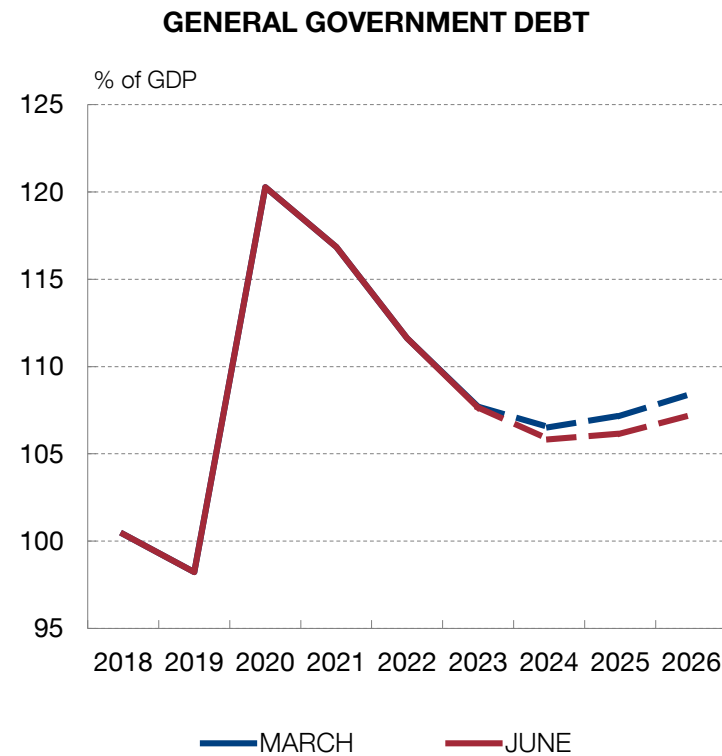
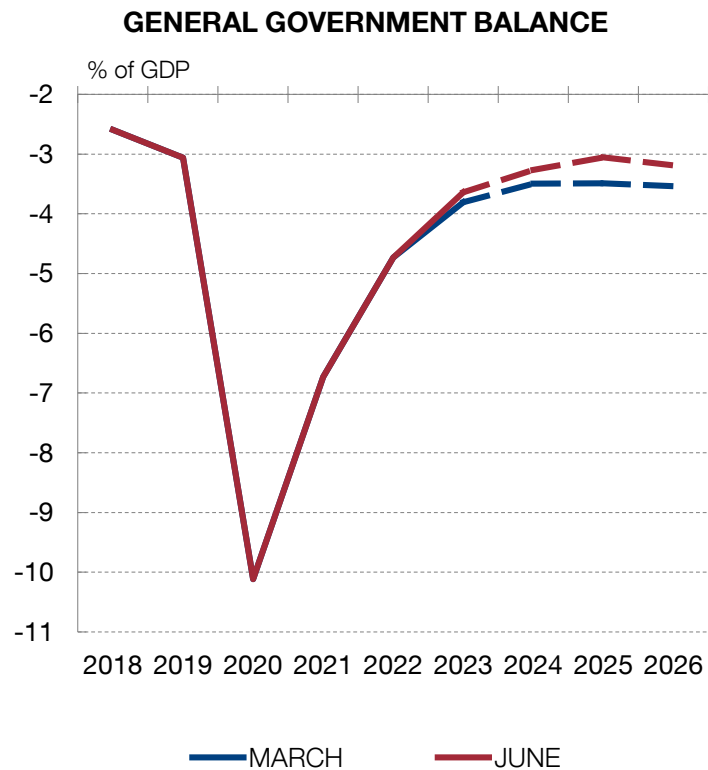


■ MARCH 2024

■ JUNE 2024

Source: Banco de España.

- Public revenue and expenditure growth rates were high in the early months of 2024
- The budget deficit and public debt projections for 2024-2026 have been revised down with respect to March, mainly owing to the new macroeconomic scenario
- However, the structural imbalance in the public finances remains high, and its correction requires the design and implementation of a medium-term fiscal consolidation process (in line with the new European fiscal governance framework)



Sources: Intervención General de la Administración del Estado and Banco de España.

BALANCE OF RISKS IN THIS PROJECTION EXERCISE

As in previous exercises, these projections are subject to high uncertainty, and there have been no major changes in either the nature or the assessment of the main sources of risk

Escalation of current geopolitical tensions
(e.g. those associated with the armed conflicts in Ukraine and the Gaza Strip, or the US-China trade tensions)

Possible episodes of financial market turmoil
(e.g. owing to adverse developments in the Chinese real estate sector or to an abrupt shift in market expectations regarding future monetary policy developments worldwide)

Reactivation of the European fiscal rules

The pace of implementation of the projects associated with the **NGEU programme** and their impact on private investment and activity

In any event, in recent months, the focus has increasingly shifted to the possible pace of disinflation (globally, in the euro area and in Spain) in the coming quarters, which is still highly uncertain

Developments in the **labour market**

Degree of buoyancy of **productivity, wages, unit labour costs and profit margins**

Performance of **activity in the services sector** and, in particular, of **travel services**



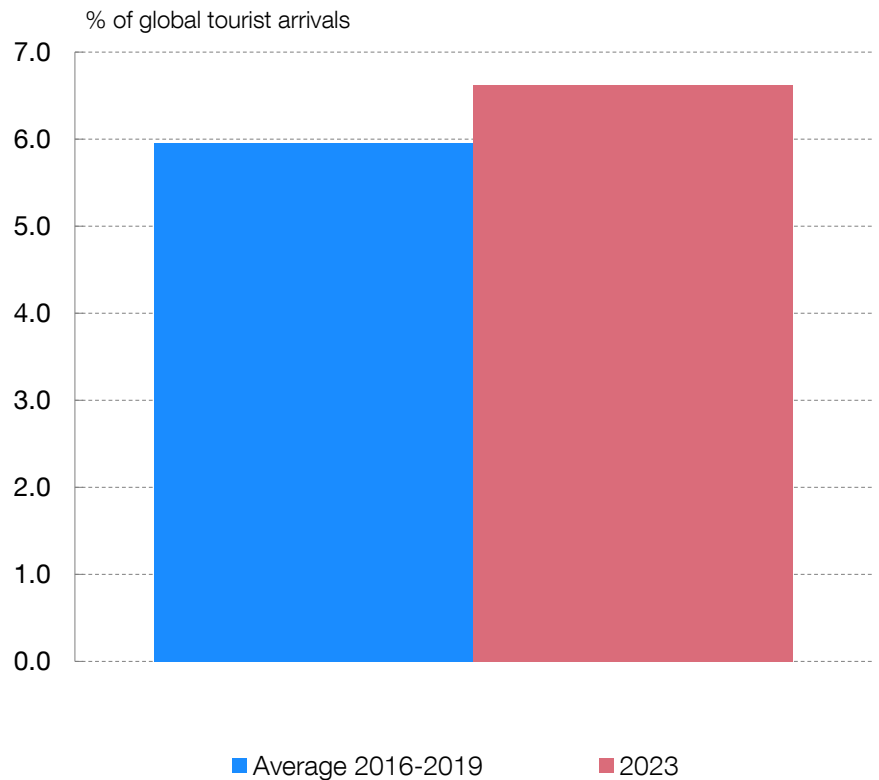
The risks to the economic growth projections are on the downside, whereas the risks to the inflation projections are on the upside for the coming quarters and are balanced for 2025 and 2026

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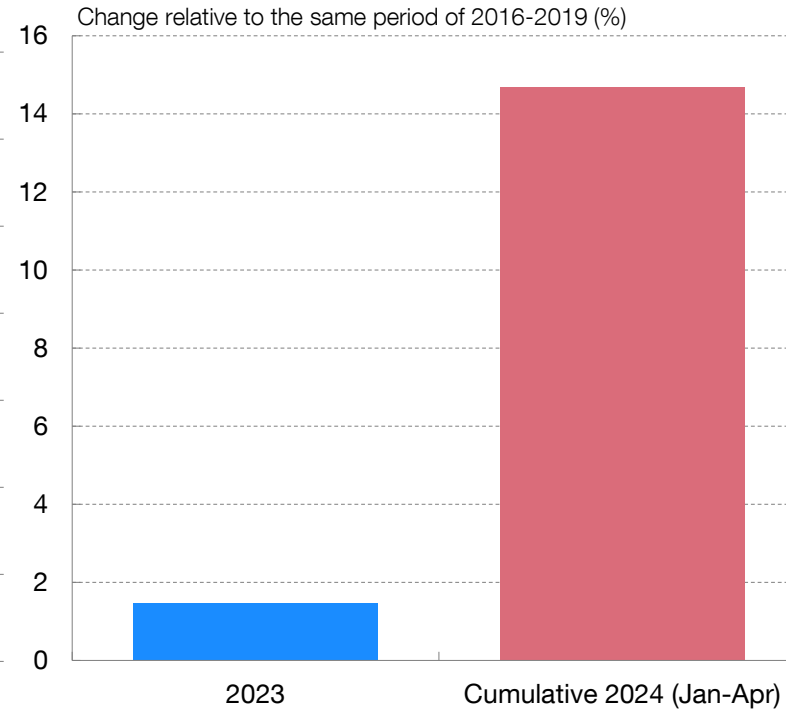
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INTERNATIONAL TOURISM IN SPAIN WAS HIGHLY BUOYANT IN 2023, WHEN IT REACHED AN ALL-TIME HIGH. IT HAS REMAINED STRONG IN 2024 TO DATE

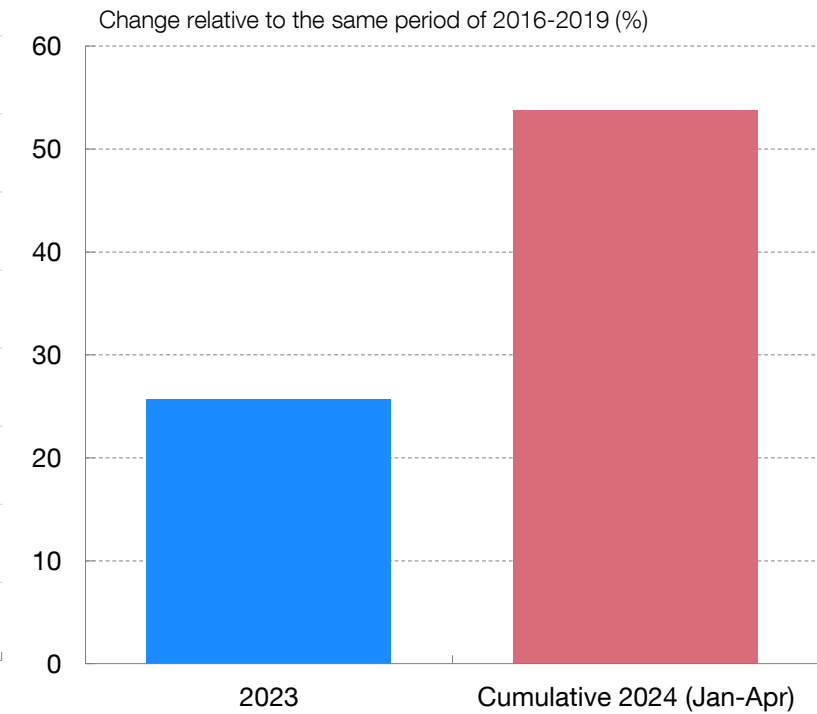
RECENT CHANGES IN SPAIN'S SHARE OF GLOBAL TOURIST ARRIVALS



FOREIGNER OVERNIGHT HOTEL STAYS



TOTAL SPENDING BY FOREIGN TOURISTS

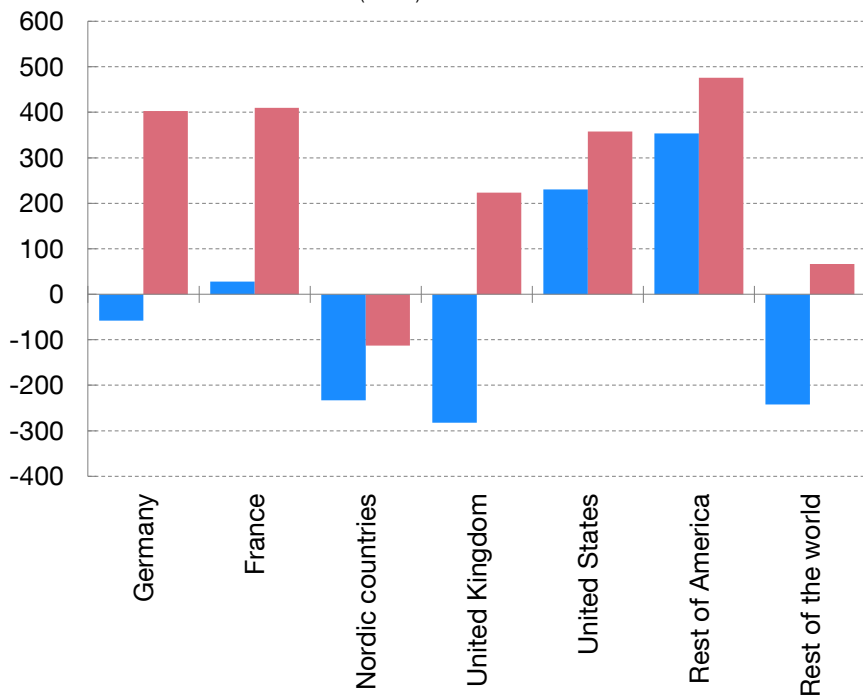


Sources: INE and Banco de España. For further details, see Blanca Jiménez-García and Coral García Esteban (2024).

THIS MOMENTUM WAS DRIVEN BY TOURIST FLOWS TO SPAIN BECOMING INCREASINGLY DIVERSIFIED (IN TERMS OF COUNTRY OF RESIDENCE, DESTINATION AND SEASON)

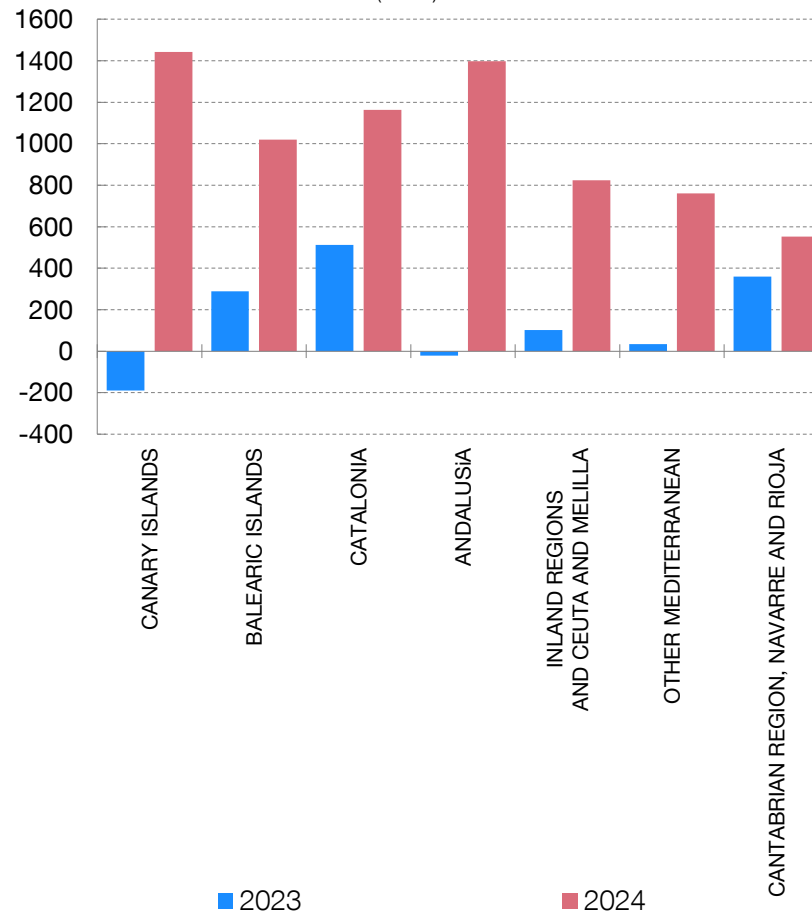
TOURIST ARRIVALS BETWEEN JANUARY AND APRIL, BY COUNTRY OF RESIDENCE

Absolute change relative to the same period of 2016-2019
(000s)



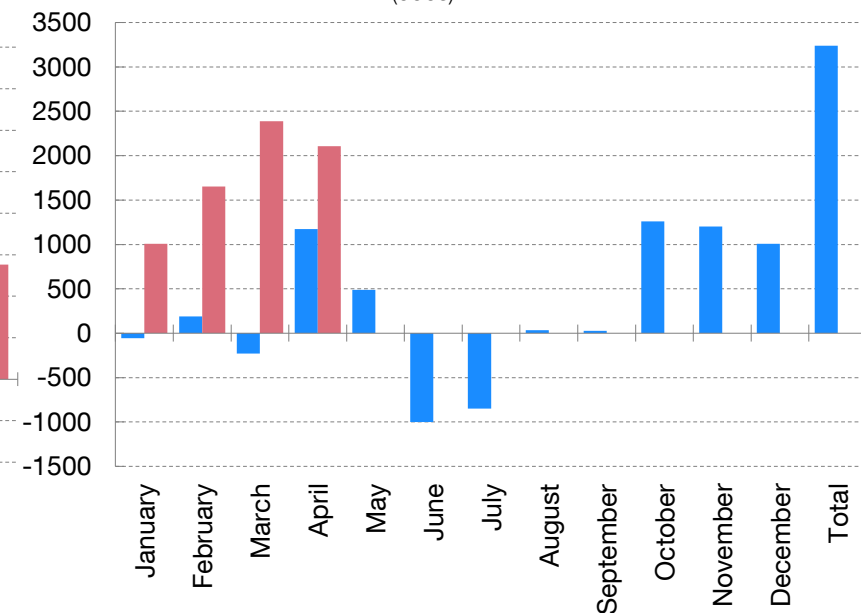
FOREIGNER OVERNIGHT HOTEL STAYS BETWEEN JANUARY AND APRIL, BY REGION (a)

Absolute change relative to the same period of 2016-2019
(000s)



FOREIGNER OVERNIGHT HOTEL STAYS, BY MONTH

Absolute change relative to the same period of 2016-2019
(000s)

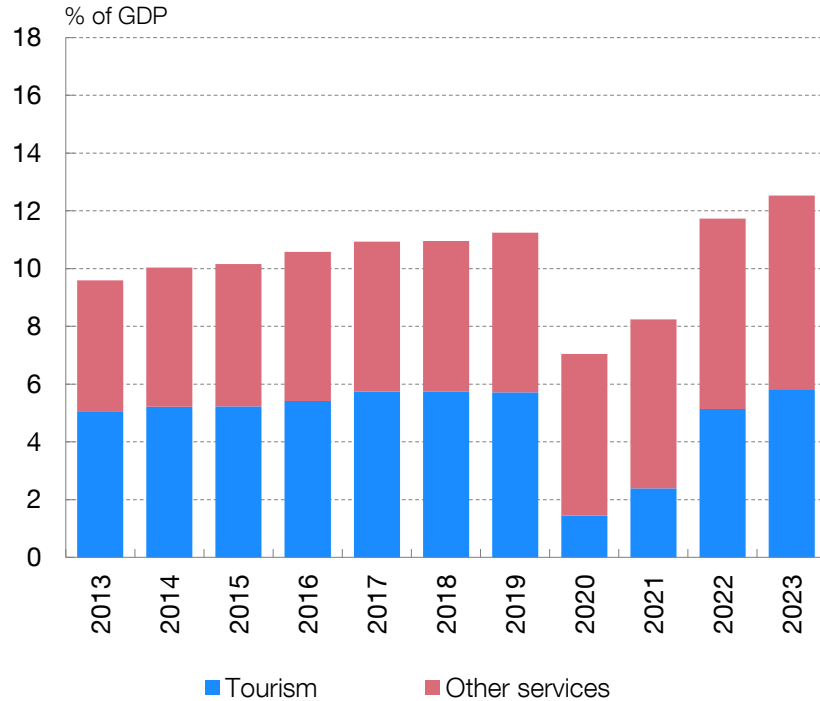


Source: INE.

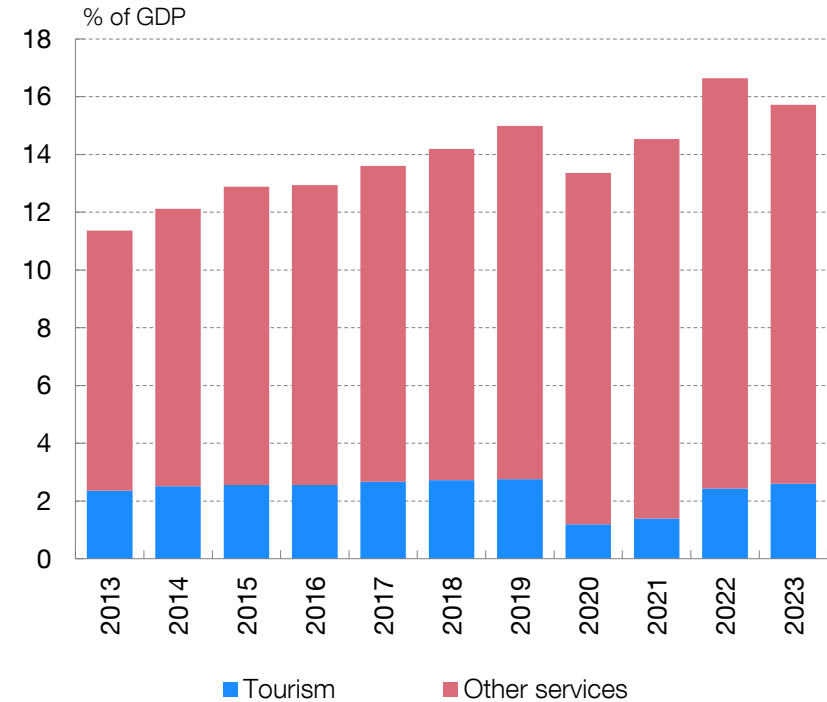
(a) "Cantabrian region" includes Asturias, Galicia, Cantabria and the Basque Country; "Other Mediterranean" includes the Valencia and Murcia regions.

TOURISM IS A KEY COMPONENT OF ECONOMIC ACTIVITY IN SPAIN, ACCOUNTING FOR A CONSIDERABLY HIGHER SHARE THAN IN THE EURO AREA AS A WHOLE

EXPORTS OF SERVICES. SPAIN



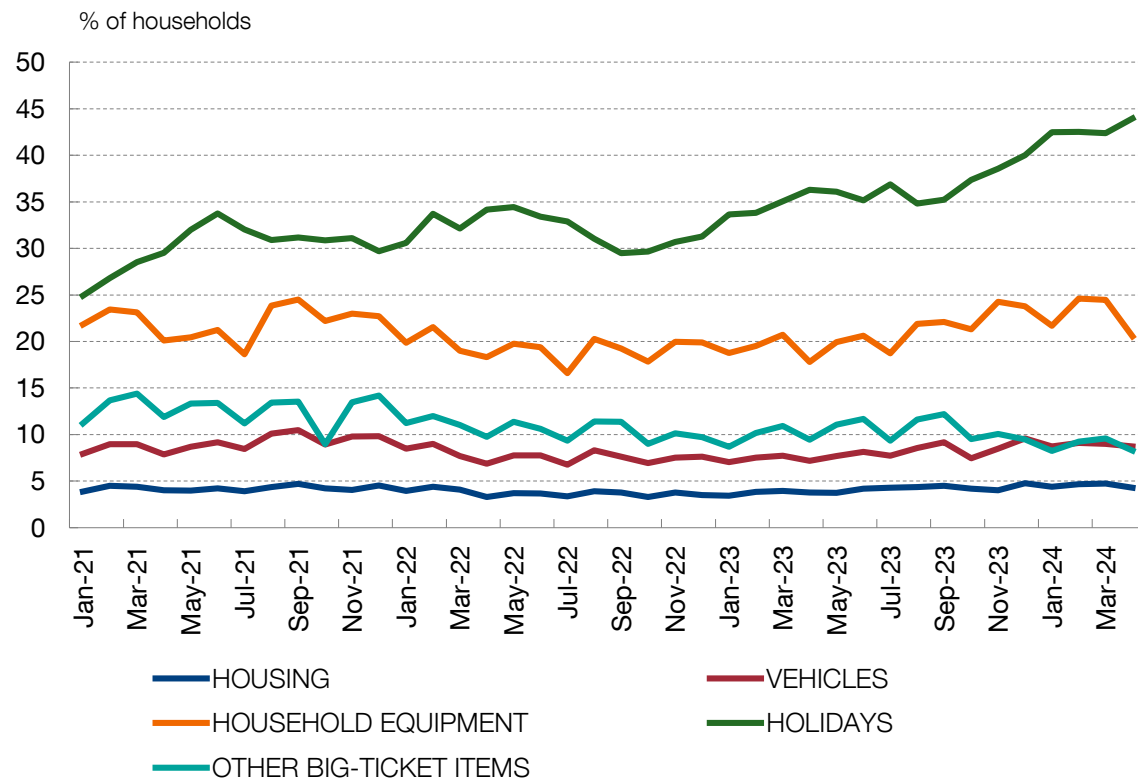
EXPORTS OF SERVICES. EURO AREA



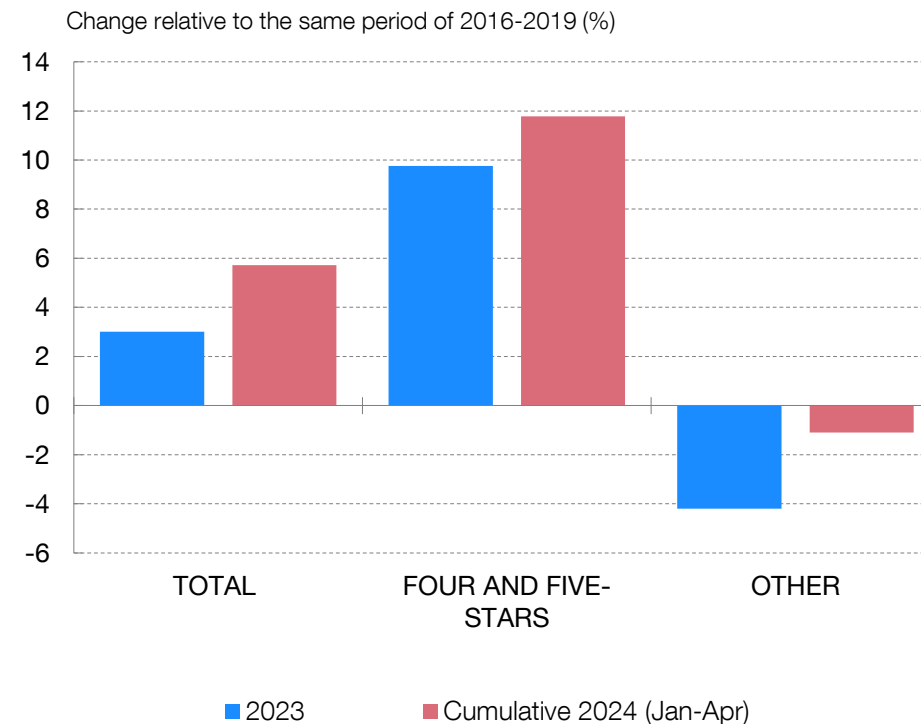
Sources: INE and Banco de España.

HOW PERSISTENT WILL THE CONSIDERABLE BUOYANCY OF TRAVEL SERVICES EXPORTS BE? SOME SUPPLY AND DEMAND-SIDE FACTORS

PROPORTION OF HOUSEHOLDS EXPECTING TO SPEND ON DIFFERENT ITEMS OVER THE NEXT 12 MONTHS (a)



ESTIMATED BED PLACES, BY ESTABLISHMENT CATEGORY



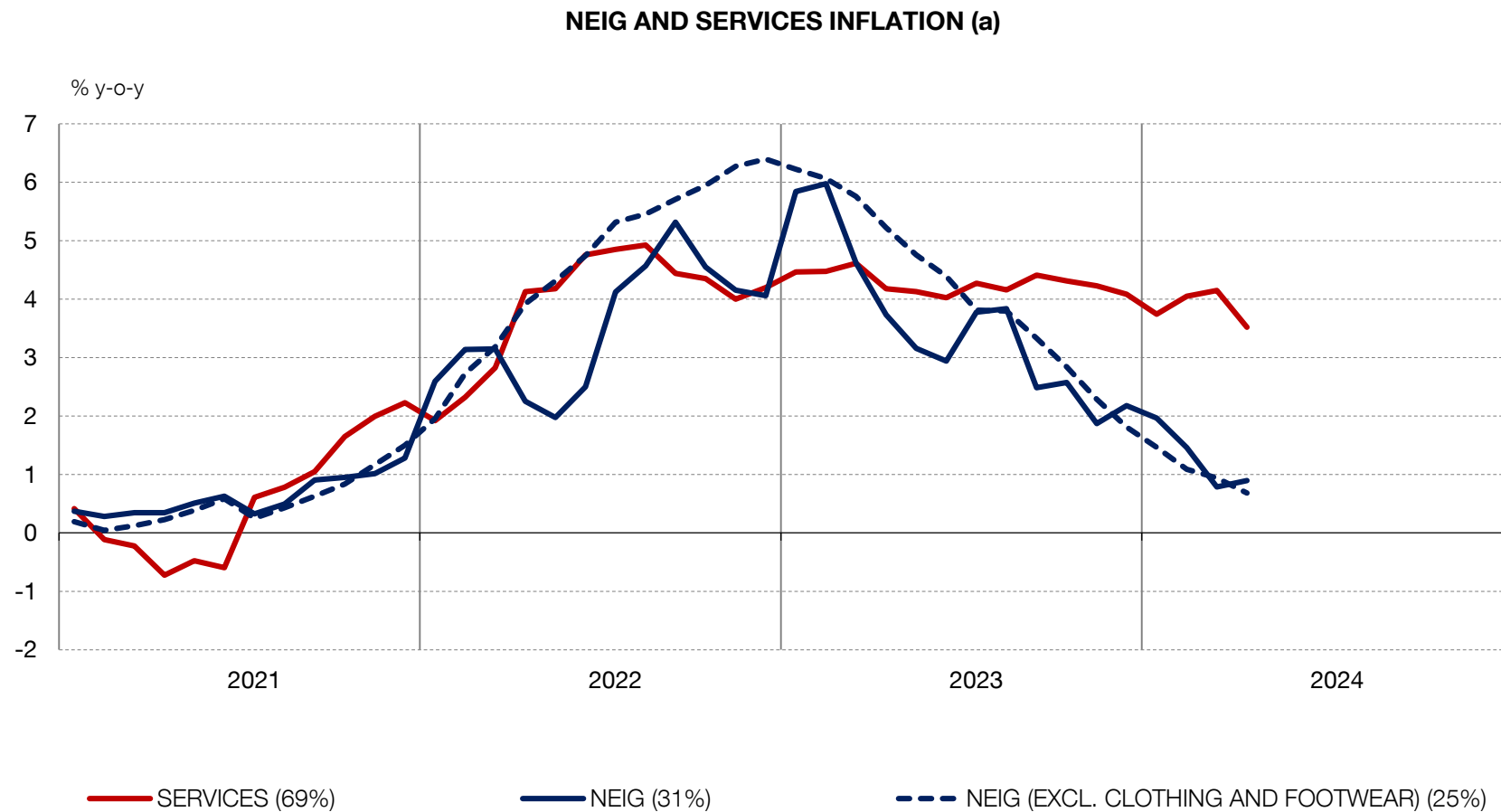
Sources: ECB and INE.

(a) The sample comprises the following countries: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, the Netherlands and Portugal.

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SERVICES INFLATION HAS PROVEN HIGHLY STICKY OVER THE LAST TWO YEARS ...

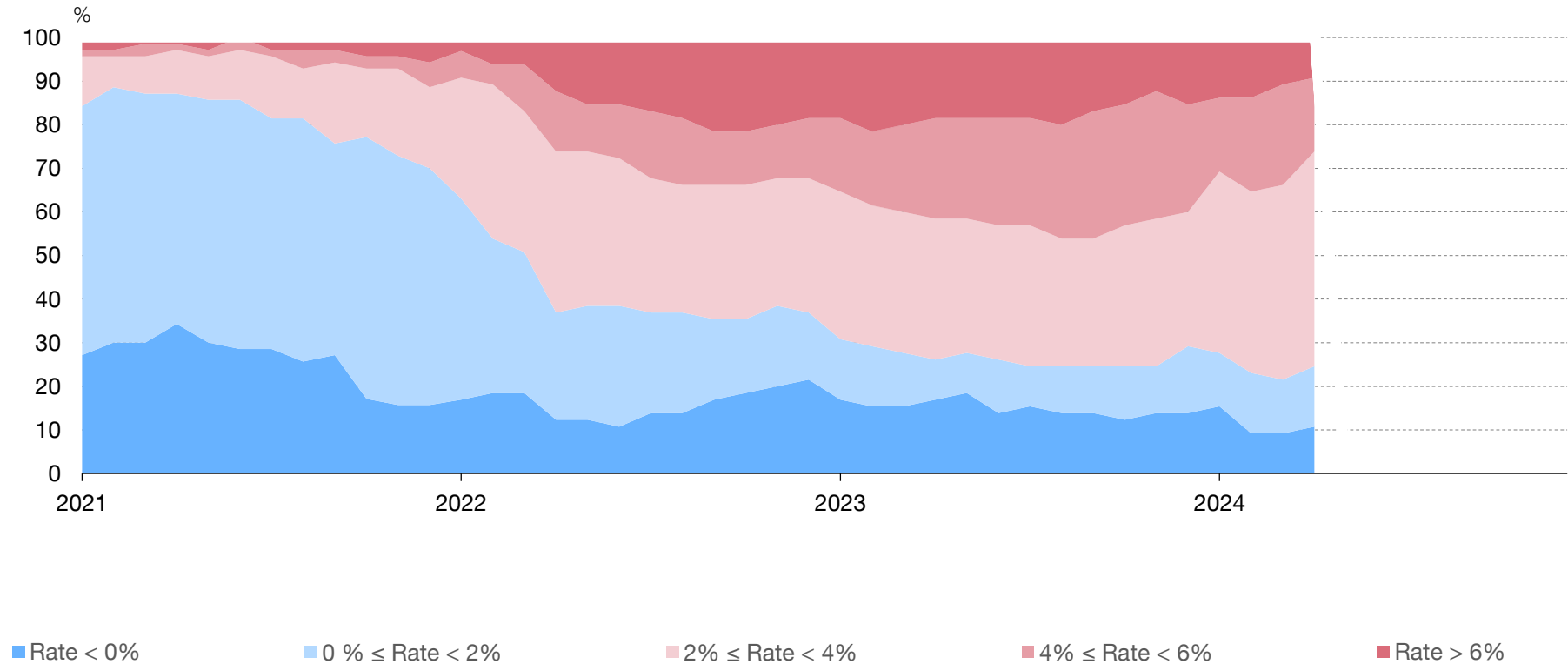


Sources: INE and Banco de España.

(a) The weight in 2024 of each component in core HICP is shown in brackets.

... ALTHOUGH THE PERCENTAGE OF SERVICES ITEMS WITH INFLATION RATES OVER 4% HAS DECREASED IN RECENT MONTHS ...

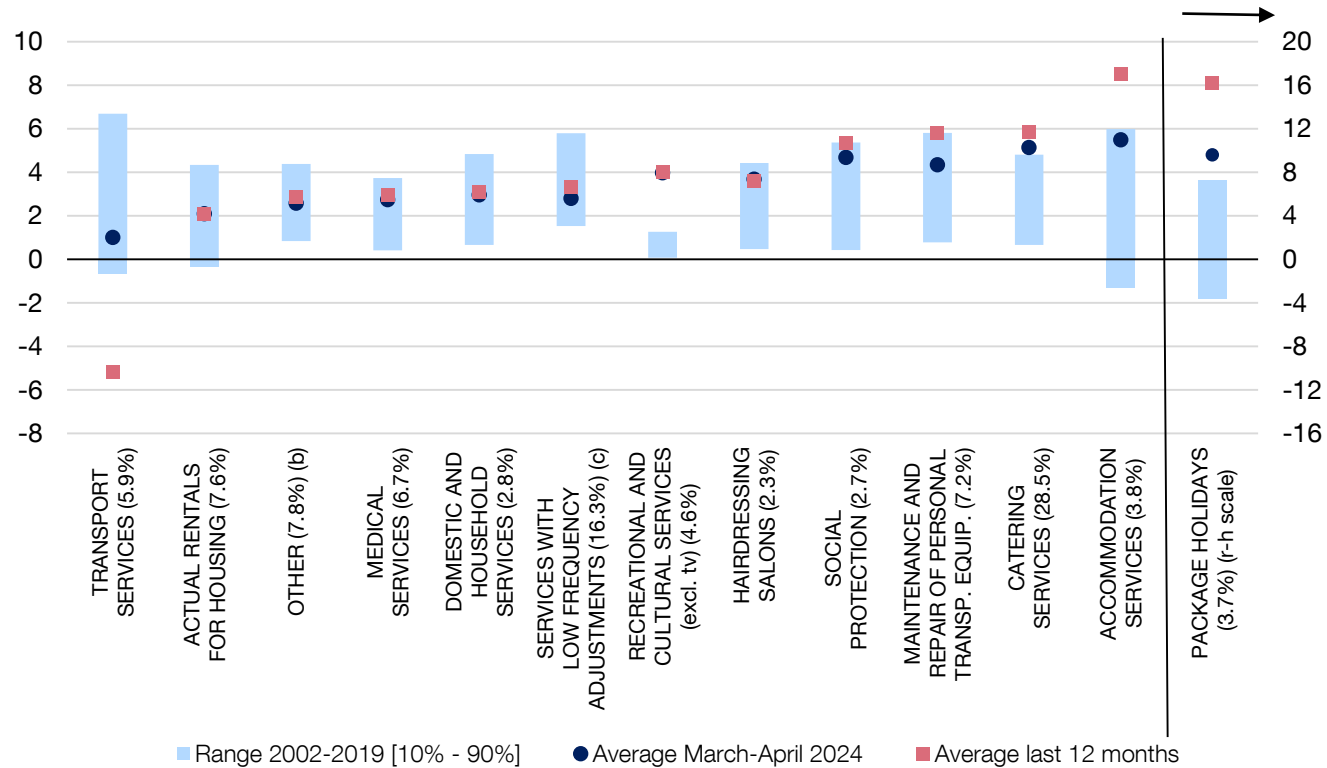
HICP - SERVICES: PERCENTAGE OF ITEMS BY RANGE OF YEAR-ON-YEAR GROWTH RATE



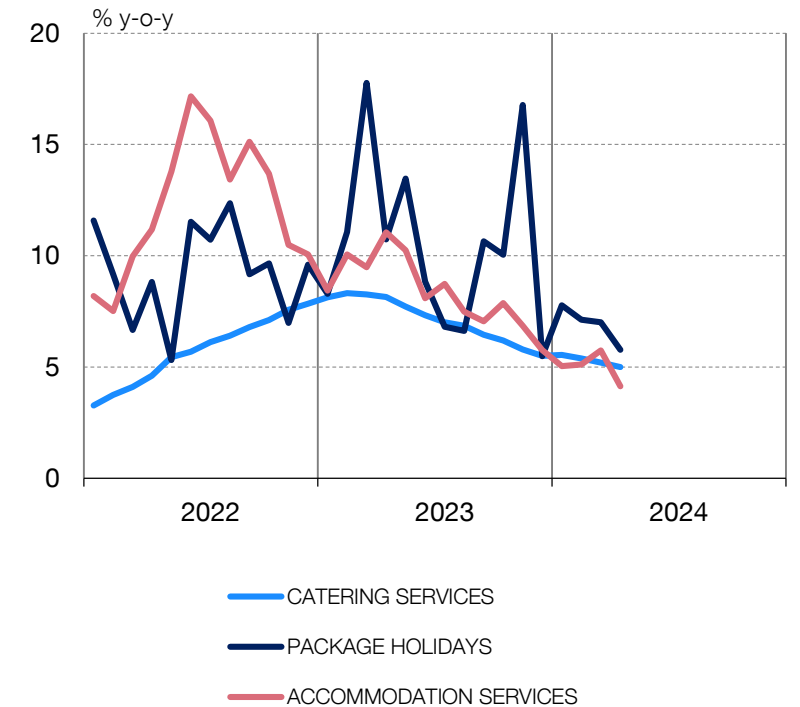
Sources: INE and Banco de España.

... AND THERE ARE OTHER SIGNS THAT INFLATIONARY PRESSURES ARE STARTING TO EASE

HICP - SERVICES: RANGE OF CHANGE BETWEEN 2002 AND 2019 OF DIFFERENT AGGREGATES (a)



HICP - SERVICES: ITEMS RELATED TO HOSPITALITY AND TOURISM (a)



Sources: INE and Banco de España.

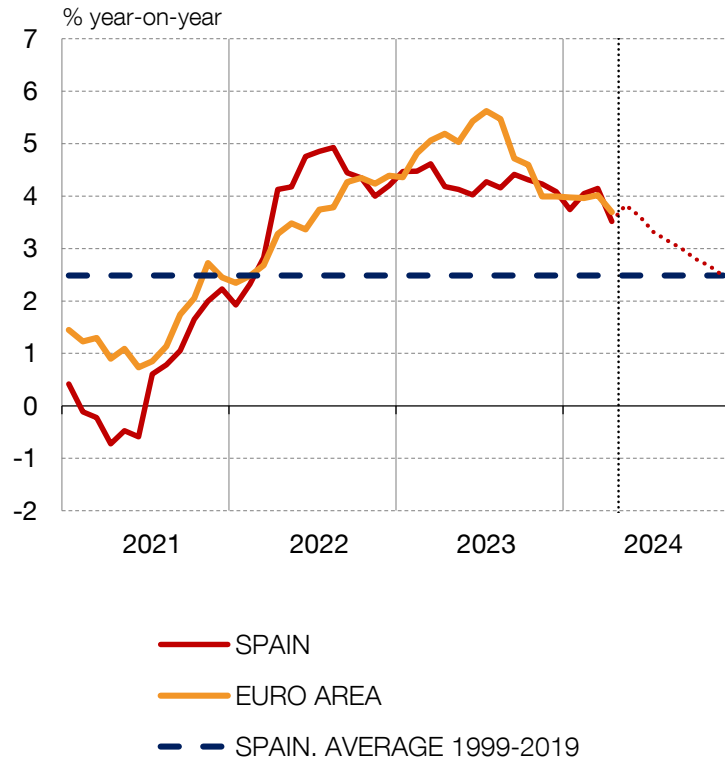
(a) The weight in 2023 of each aggregate in HICP - Services is shown in brackets.

(b) "Other" includes "Services for the maintenance and repair of the dwelling", "Other services related to the dwelling", "Other postal services", "Veterinary and other services for pets", "Education not definable by level" and "Funeral services".

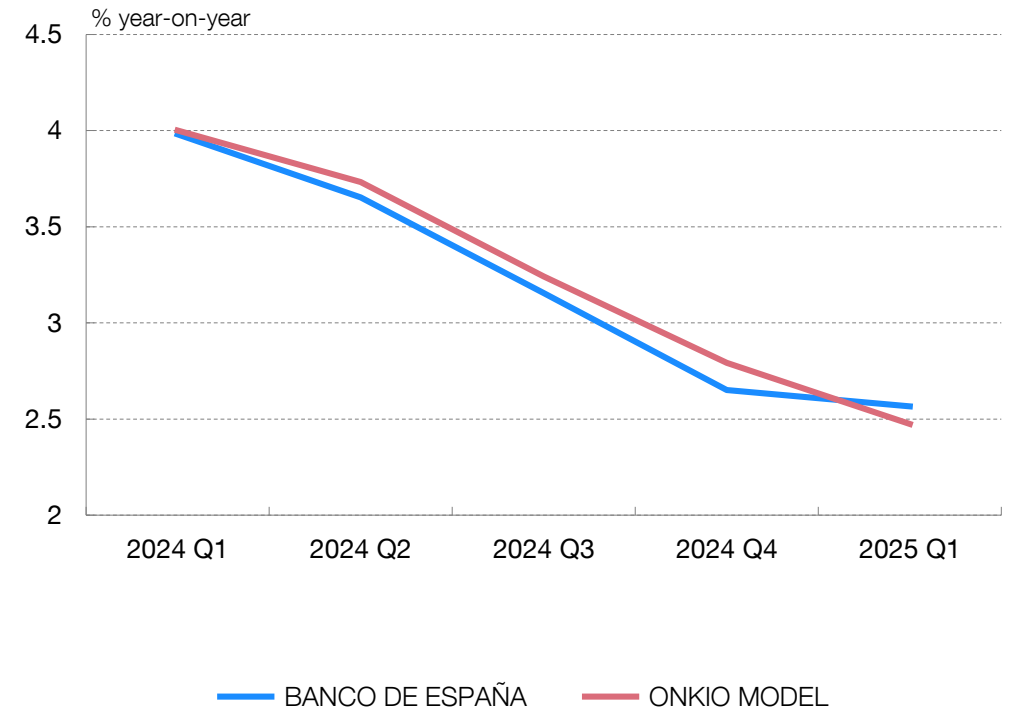
(c) "Services with low frequency adjustments" refers to those services with fewer than five month-on-month price adjustments in 2023 (excluding transport services). It includes "Refuse collection", "Sewerage collection", "Telephone and telefax services", "Television and radio licence fees, subscriptions", "Education (excl. education not definable by level)", "Insurance", "Charges by banks and post offices", "Other services n.e.c. (excl. funeral services)".

GOING FORWARD, SERVICES INFLATION IS EXPECTED TO GRADUALLY EASE, CONSISTENT WITH THE FORECASTS DERIVED FROM A GENERAL EQUILIBRIUM MODEL ...

HICP-SERVICES. YEAR-ON-YEAR RATE (a)



HICP SERVICES INFLATION FORECASTS (BANCO DE ESPAÑA VS ONKIO MODEL) (b)



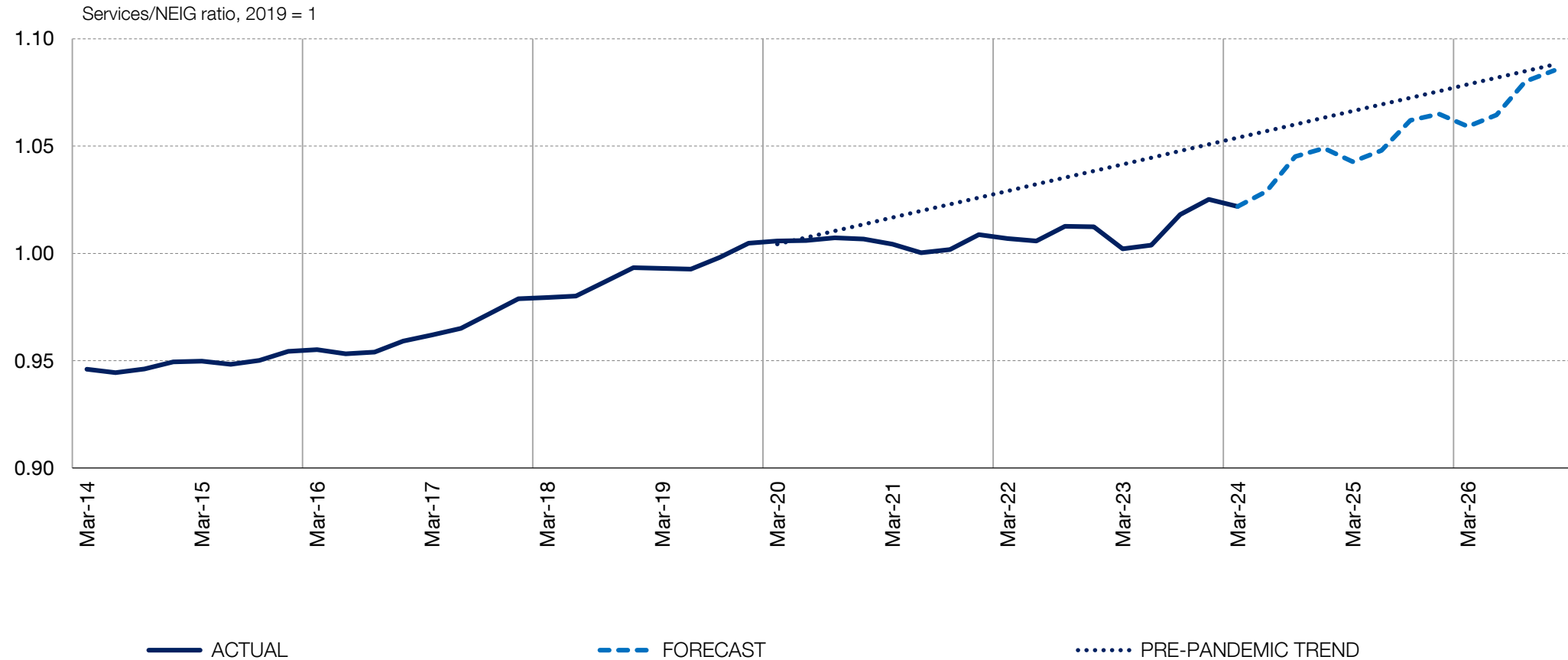
Sources: INE and Banco de España.

(a) The red dotted line denotes the path of HICP-services envisaged in the Banco de España's June projection exercise.

(b) Forecasts per the ONKIO model proposed in Aguilar, Domínguez-Díaz, Gallegos and Quintana (2024).

... AND WITH GRADUAL CONVERGENCE TO THE HISTORICAL RELATIONSHIP BETWEEN HICP SERVICES AND HICP NEIG

RELATIONSHIP BETWEEN HICP SERVICES AND HICP NEIG (a)



Sources: INE and Banco de España.

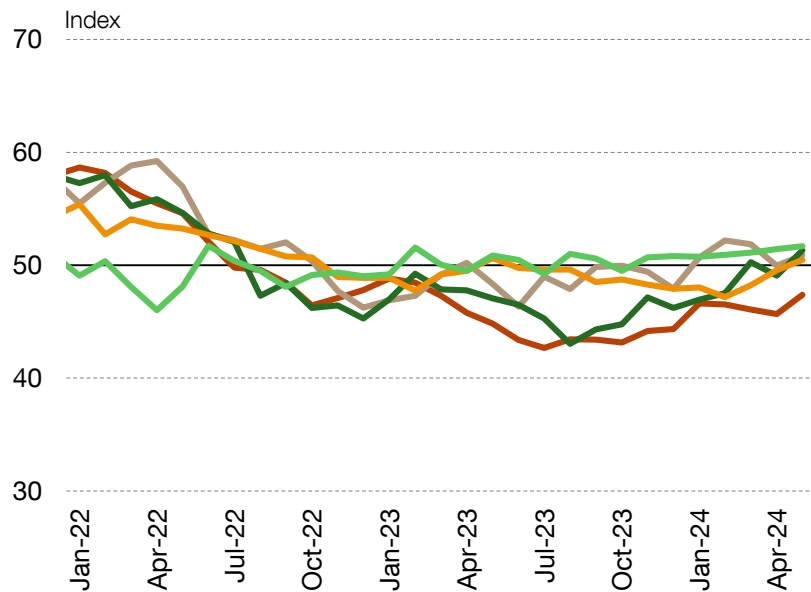
(a) Relationship between HICP services and HICP NEIG (base year 2019), estimated based on six-month moving averages. Pre-pandemic trend estimated based on 2015-2019 data.

THANK YOU FOR YOUR ATTENTION

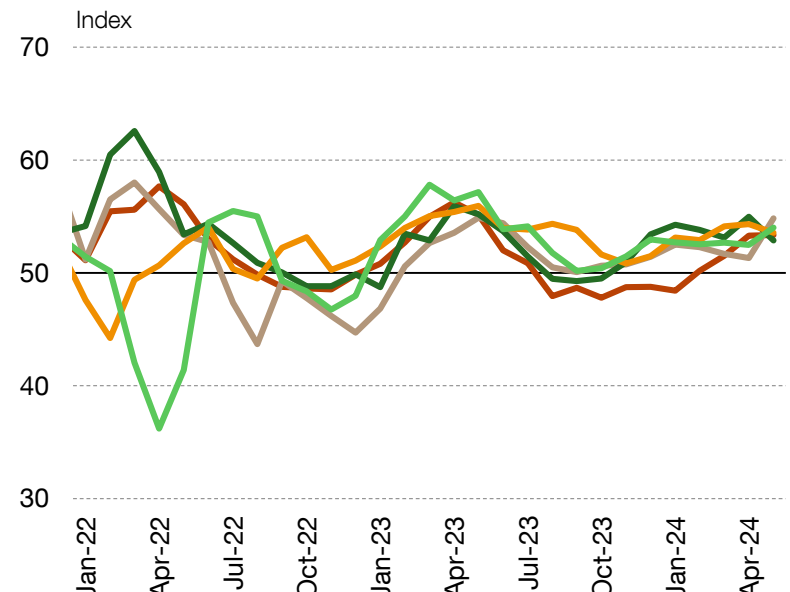


IN RECENT MONTHS GLOBAL ECONOMIC ACTIVITY HAS REMAINED UNDERPINNED BY SERVICES, ALTHOUGH MANUFACTURING IS GRADUALLY IMPROVING

MANUFACTURING PMI



SERVICES PMI

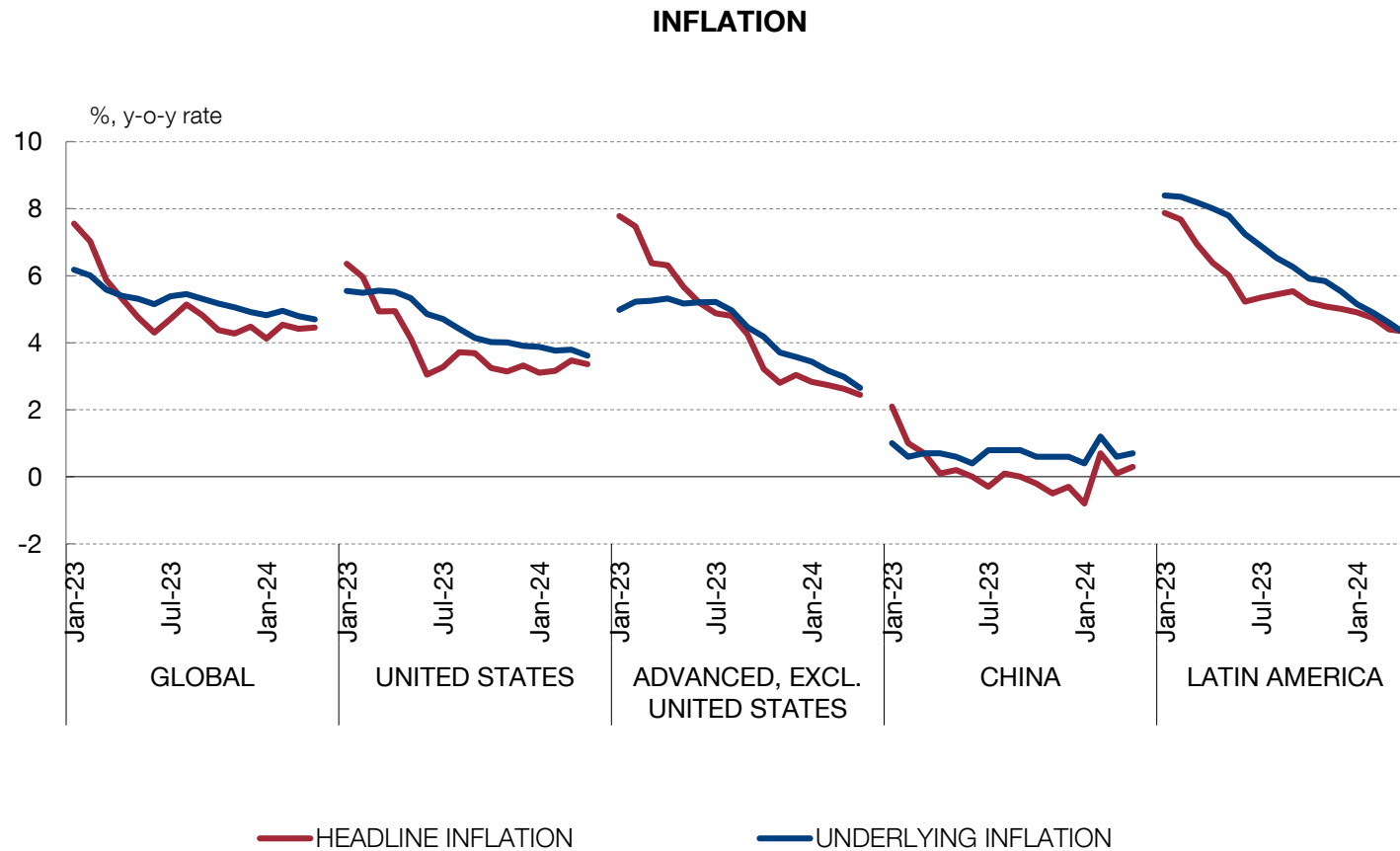


— EURO AREA
 — UNITED STATES
 — UNITED KINGDOM
 — JAPAN
 — CHINA

Source: S&P Global. Latest data observed: May 2024.



DISINFLATION CONTINUES AROUND THE WORLD, ALBEIT AT A SLOWER PACE THAN IN 2023 AND WITH THE FOCUS PRIMARILY ON SERVICES INFLATION

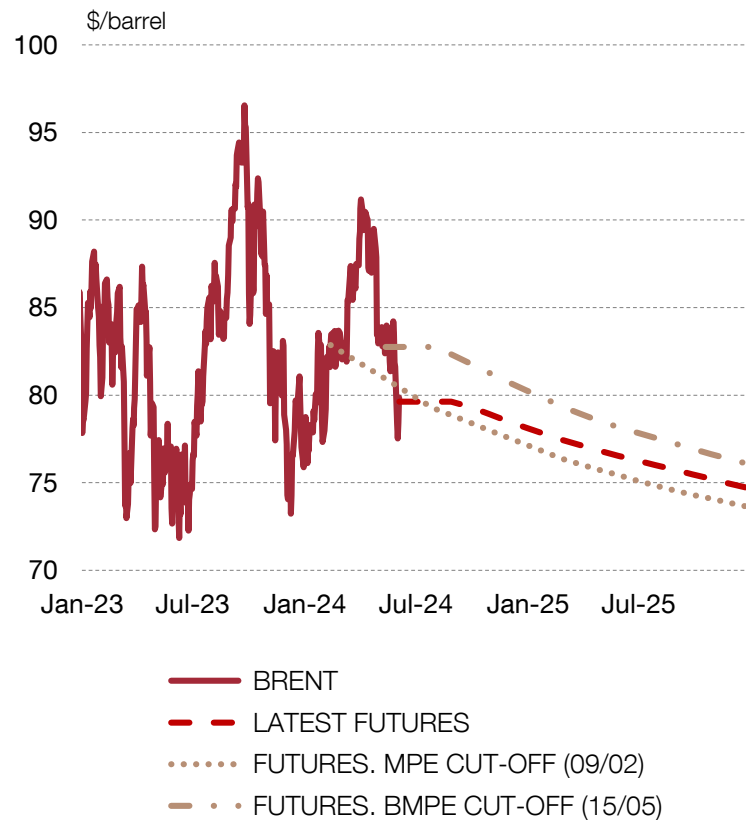


Sources: National statistics and Refinitiv. Latest data: April 2024.



AGAINST A HIGHLY VOLATILE BACKDROP, OIL AND NATURAL GAS PRICES HAVE BEEN HIGHER IN RECENT MONTHS THAN EXPECTED A FEW MONTHS AGO

OIL PRICES AND FUTURES



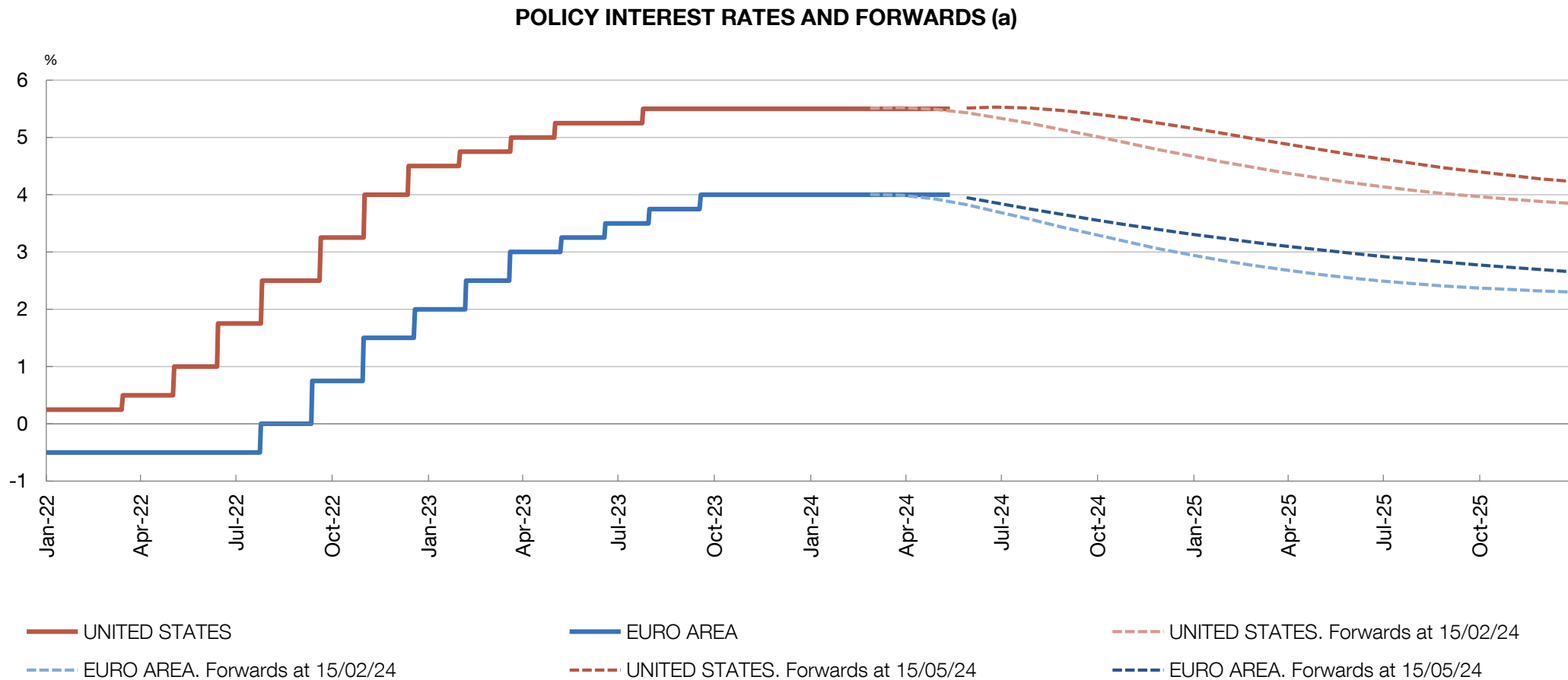
NATURAL GAS PRICES AND FUTURES



Sources: Refinitiv and ECB. Latest data observed: 7 June.



BROADLY SPEAKING, MARKET EXPECTATIONS FOR INTEREST RATE DEVELOPMENTS HAVE BEEN REVISED UP DURING THE SECOND QUARTER



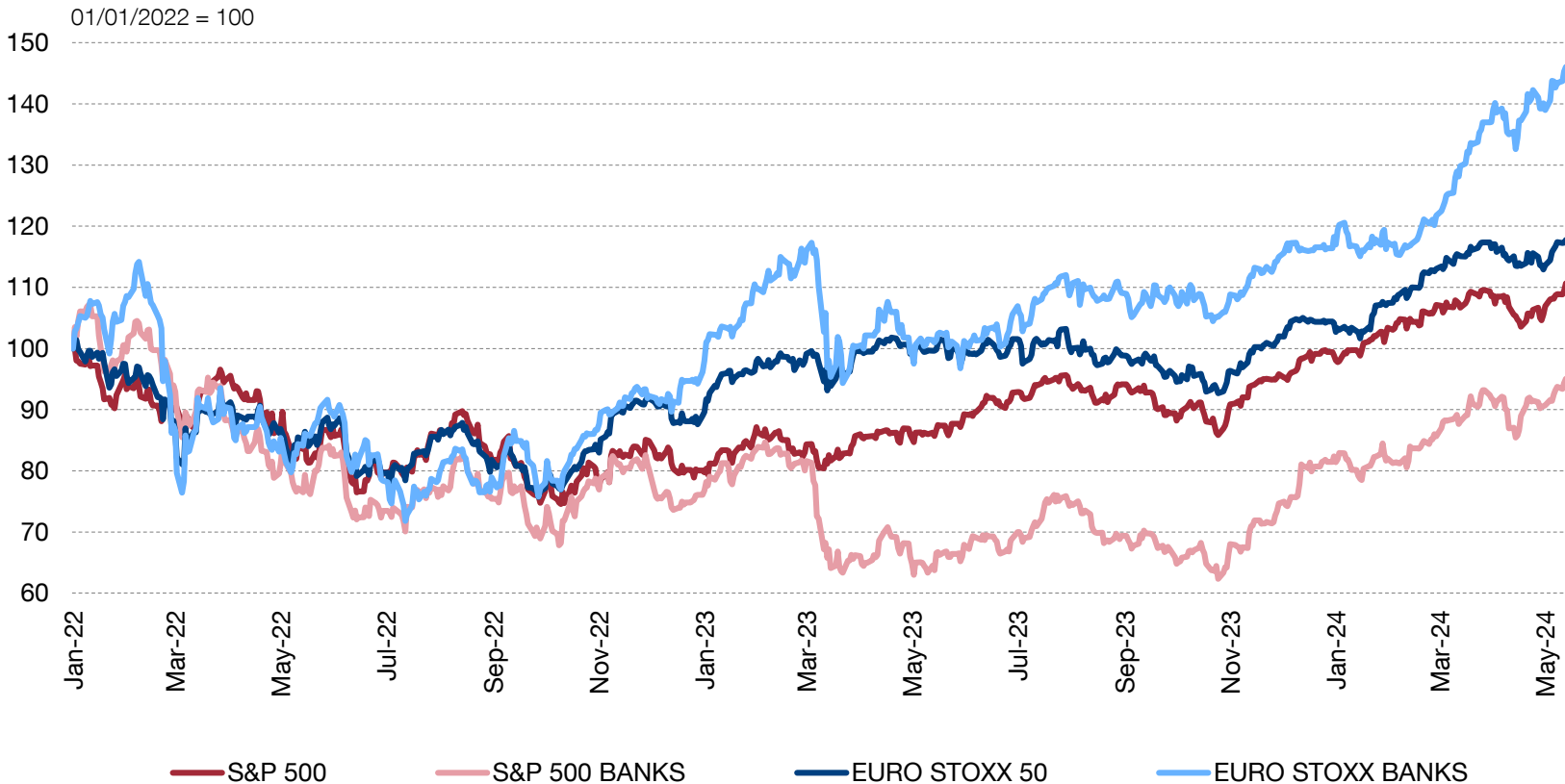
Sources: Refinitiv Datastream and Banco de España.

(a) Instantaneous forwards estimated based on market data on OIS rates at different maturities using the Svensson parametric model (Lars E. O. Svensson (1994). "Estimating and Interpreting Forward Interest Rates: Sweden 1992-1994". IMF Working Papers, 94/114, International Monetary Fund) and adding the spread between the policy rate and the overnight interest rate at the estimation date.



GLOBAL FINANCIAL MARKETS HAVE SHOWN HIGHLY POSITIVE DYNAMICS THIS QUARTER

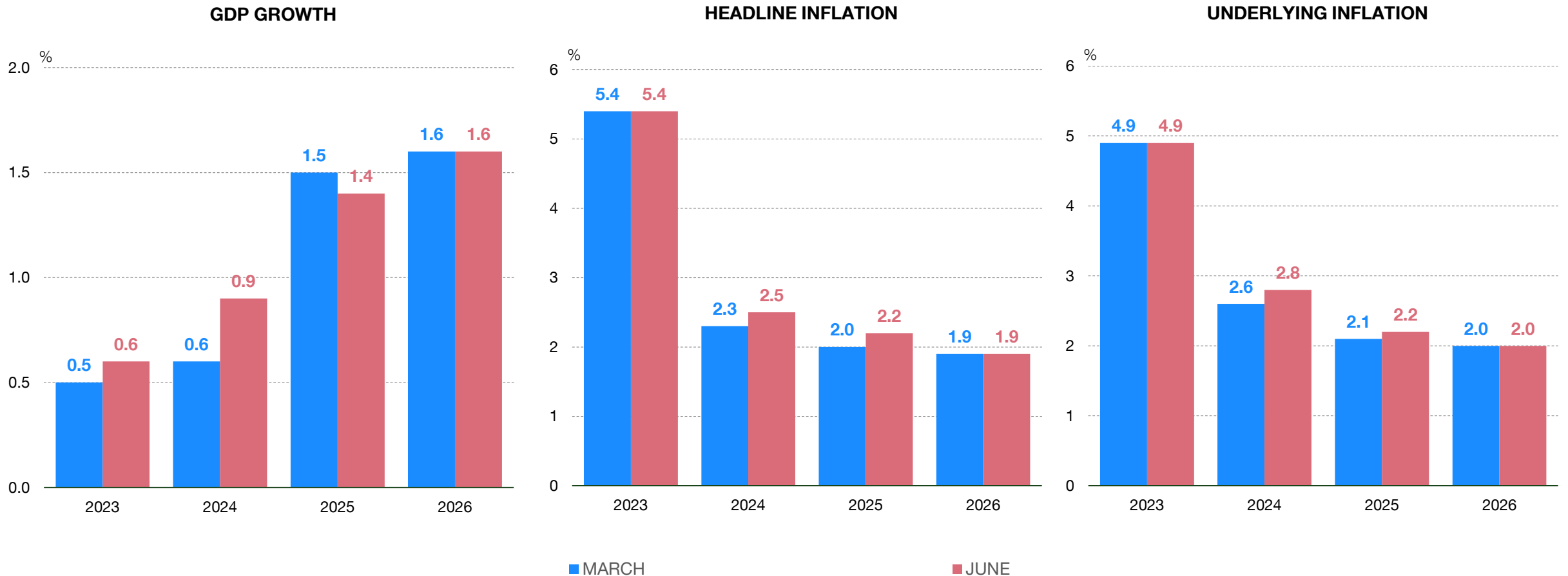
STOCK MARKET INDICES



Source: Refinitiv Datastream.



THE EURO AREA GDP GROWTH AND HEADLINE INFLATION RATES ENVISAGED FOR 2024 HAVE BEEN REVISED UP IN THE NEW EUROSISTEM PROJECTIONS



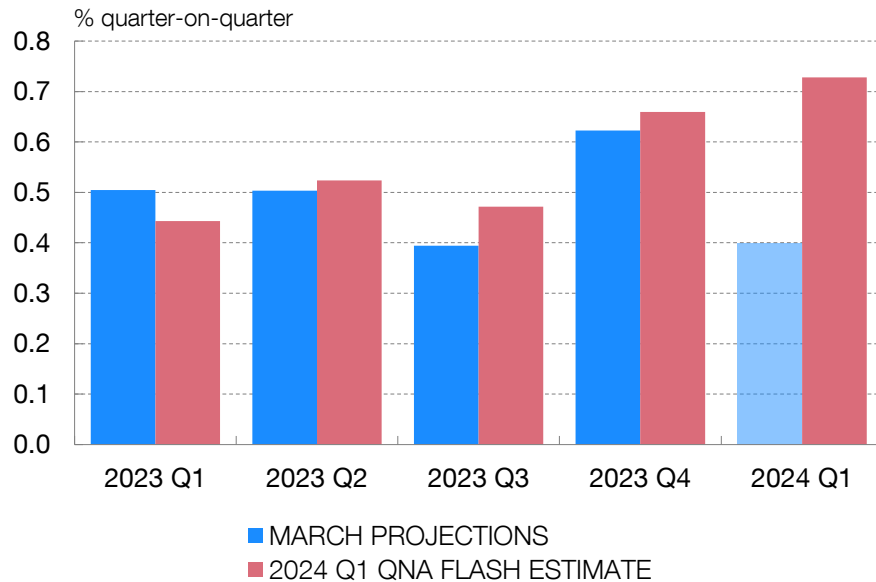
Source: ECB.



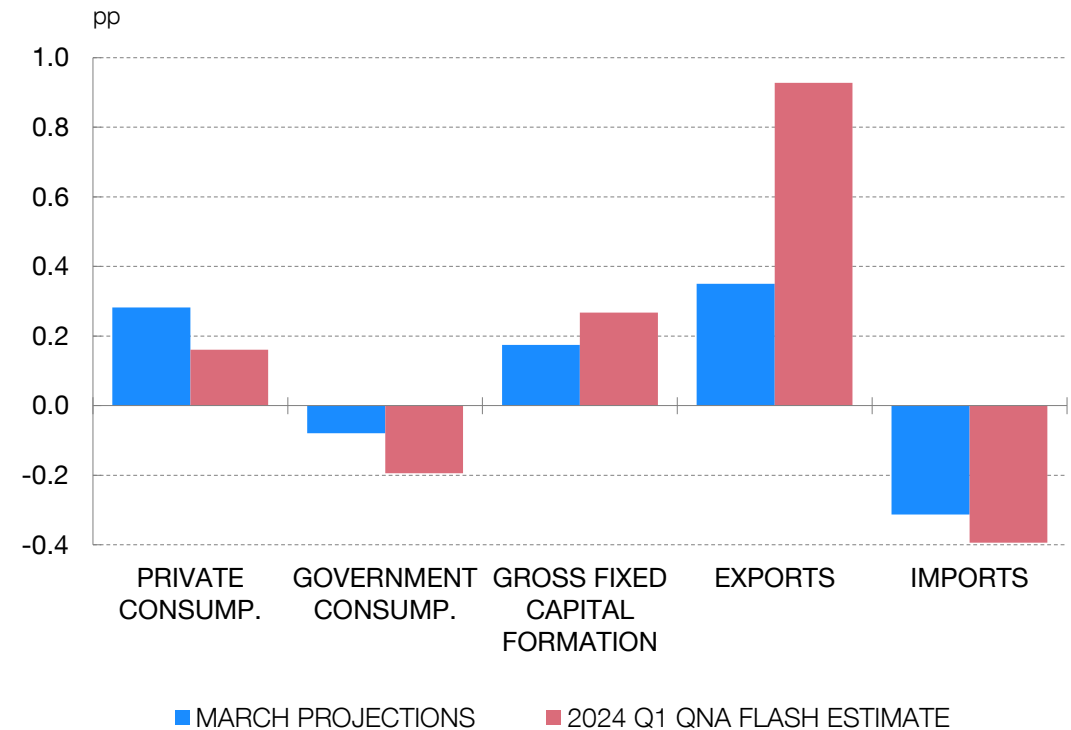
GDP GROWTH SURPRISED ON THE UPSIDE IN Q1, WITH SERVICES EXPORTS MAKING A VERY SIGNIFICANT CONTRIBUTION

- In the first quarter **tourism exports** grew by 19% quarter-on-quarter, while **non-travel services** exports rose by 6.1% and **goods** exports fell slightly (by 1.7%)

REAL GDP



CONTRIBUTIONS TO GDP GROWTH IN 2024 Q1

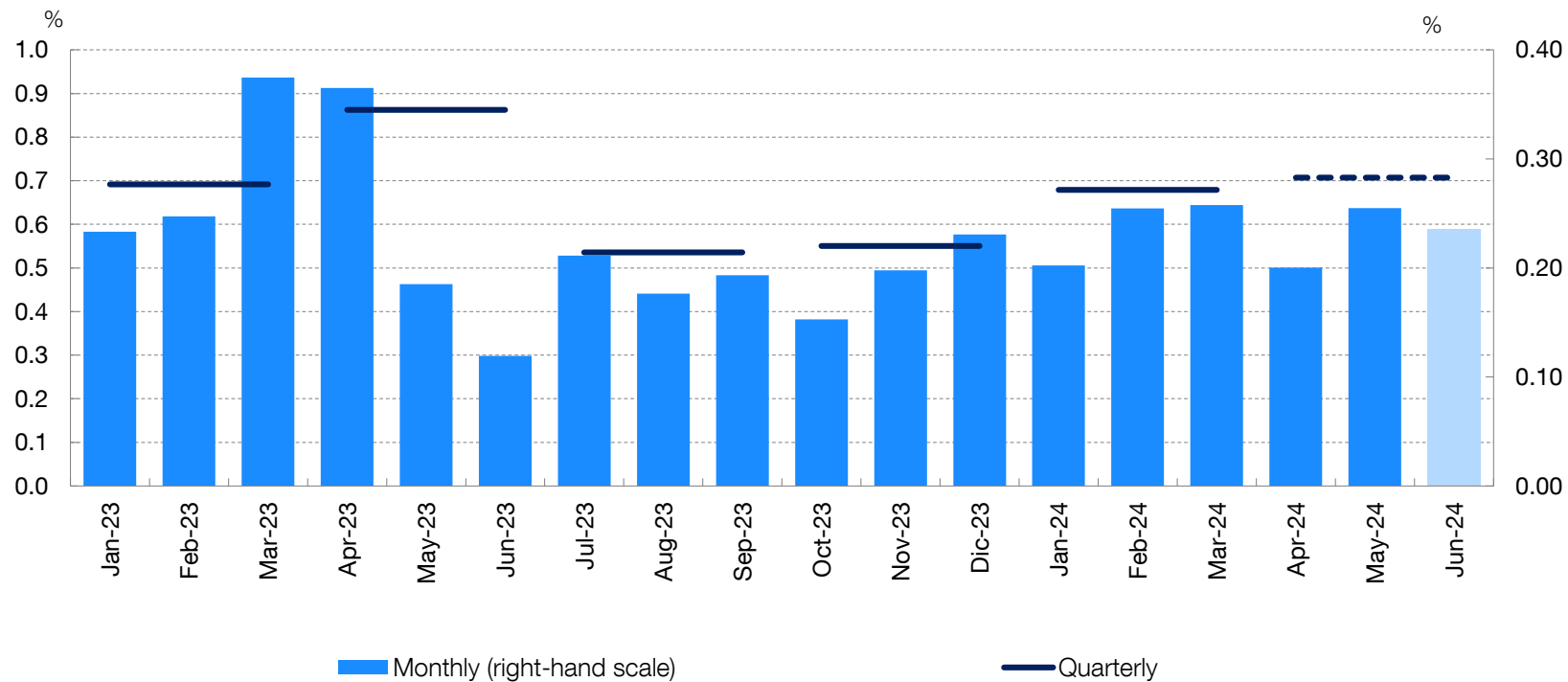


Sources: INE and Banco de España.



SOCIAL SECURITY REGISTRATIONS IN Q2 APPEAR TO BE GROWING IN SEASONALLY ADJUSTED TERMS AT A RATE SIMILAR TO THAT OF Q1

MONTHLY AND QUARTERLY CHANGE IN REGISTRATIONS (a)

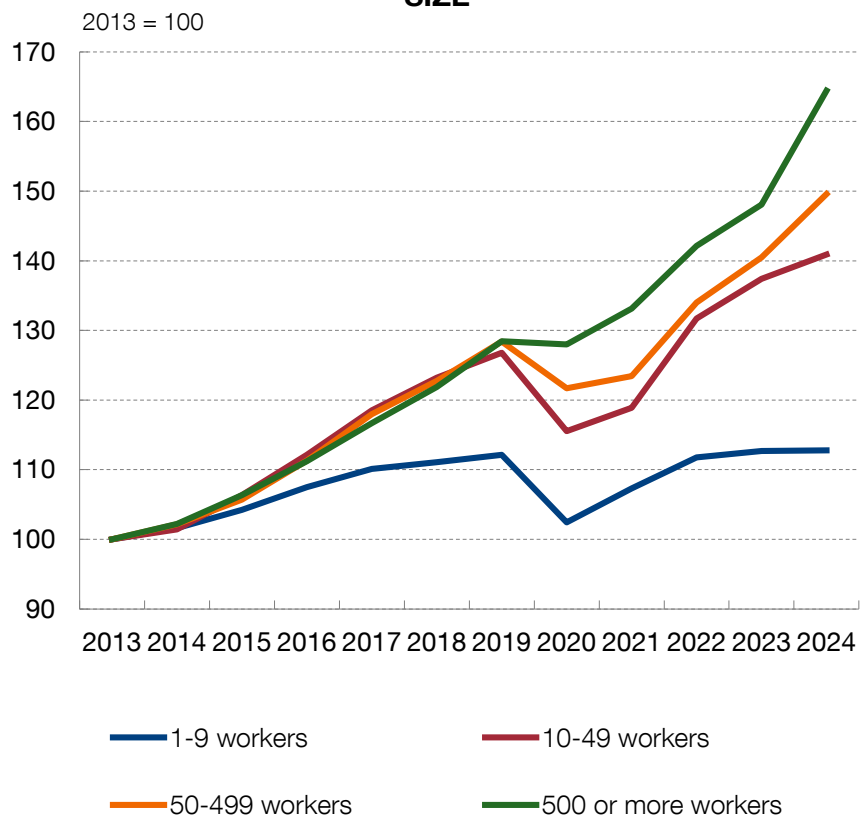


Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.
 (a) Seasonally adjusted monthly and quarterly rates. The figures for June are forecasts.

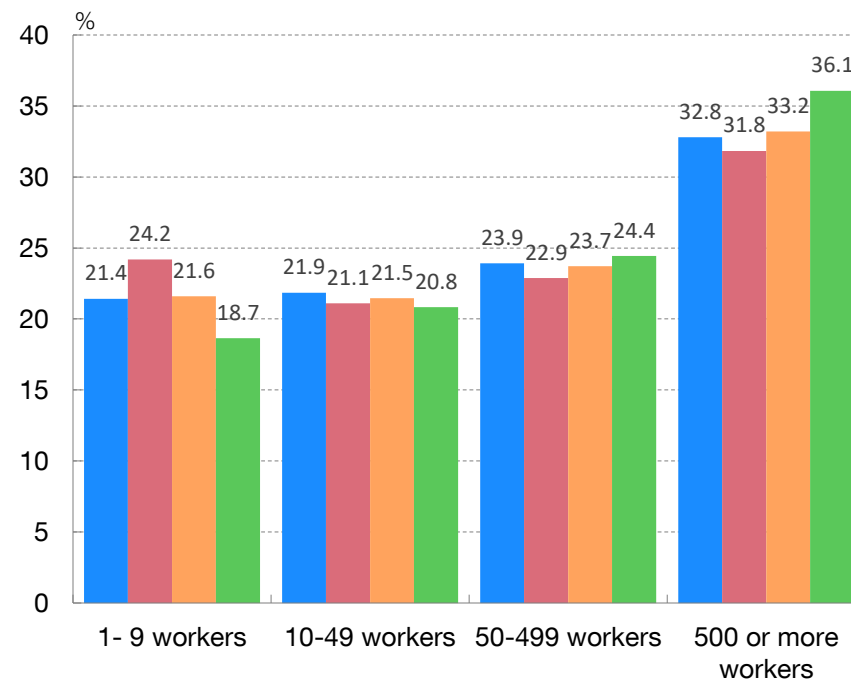


AS IN OTHER PERIODS OF EMPLOYMENT GROWTH, LARGER FIRMS ARE ACCOUNTING FOR A GROWING SHARE OF EMPLOYMENT ...

SOCIAL SECURITY REGISTRATIONS BY FIRM SIZE



DISTRIBUTION OF SOCIAL SECURITY REGISTRATIONS BY FIRM SIZE



Sources: Statistics on social security-registered firms and Banco de España. Latest observation: April 2024.



... ACROSS VIRTUALLY ALL SECTORS, ALBEIT MORE INTENSELY IN THE PROFESSIONAL ACTIVITIES, TRANSPORTATION, TRADE AND MANUFACTURING SECTORS

CHANGE IN THE SHARE OF SOCIAL SECURITY REGISTRATIONS ACCOUNTED FOR BY LARGE FIRMS (>250 EMPL.) WITHIN EACH SECTOR (a)



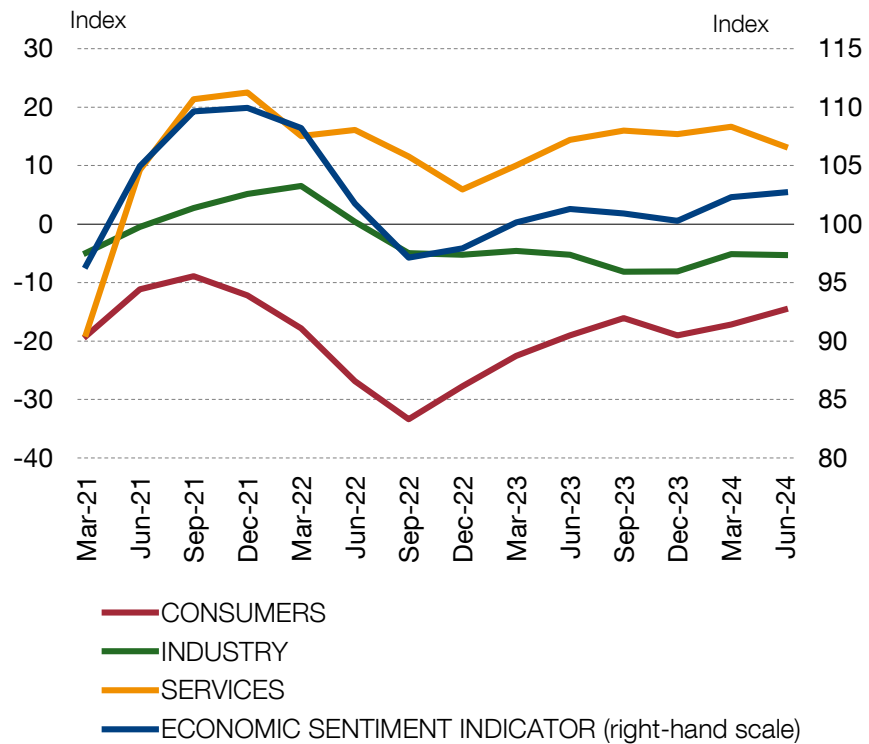
Sources: Statistics on social security-registered firms and Banco de España.
 (a) Includes firms in the non-agriculture and non-financial market economy.



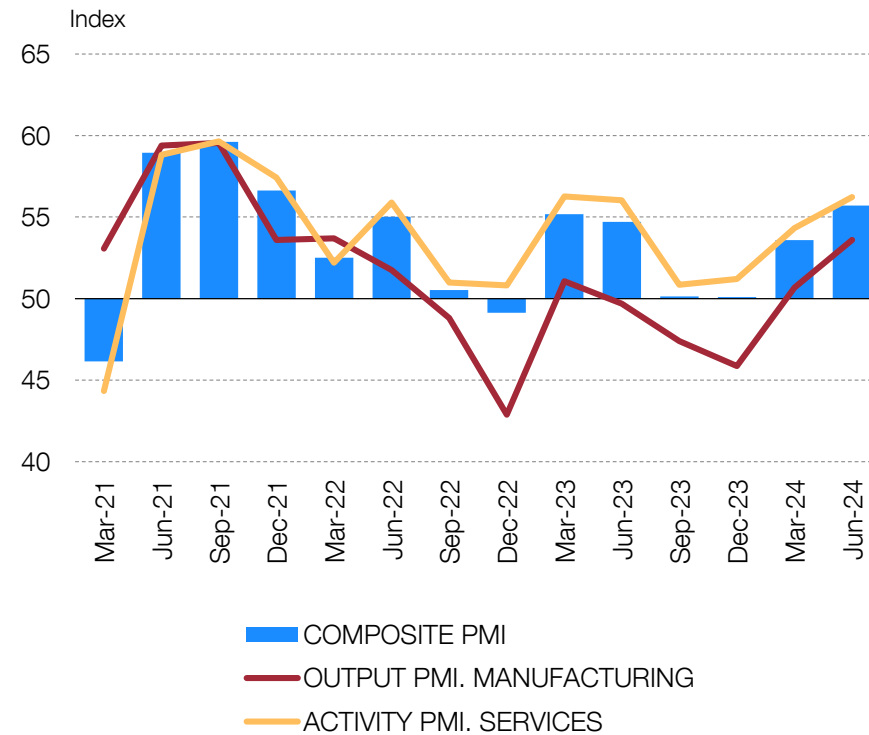
CONFIDENCE INDICATORS CONTINUE TO IMPROVE

- In recent months the manufacturing PMI has risen more in Spain than in Germany and the euro area as a whole; possibly linked to some extent to the divergent Industrial Production Index (IPI) trajectories seen in Spain and Germany
- In any event, within the manufacturing sectors, activity has been quite uneven in the recent period

CONFIDENCE INDICATORS



PURCHASING MANAGERS' INDEX

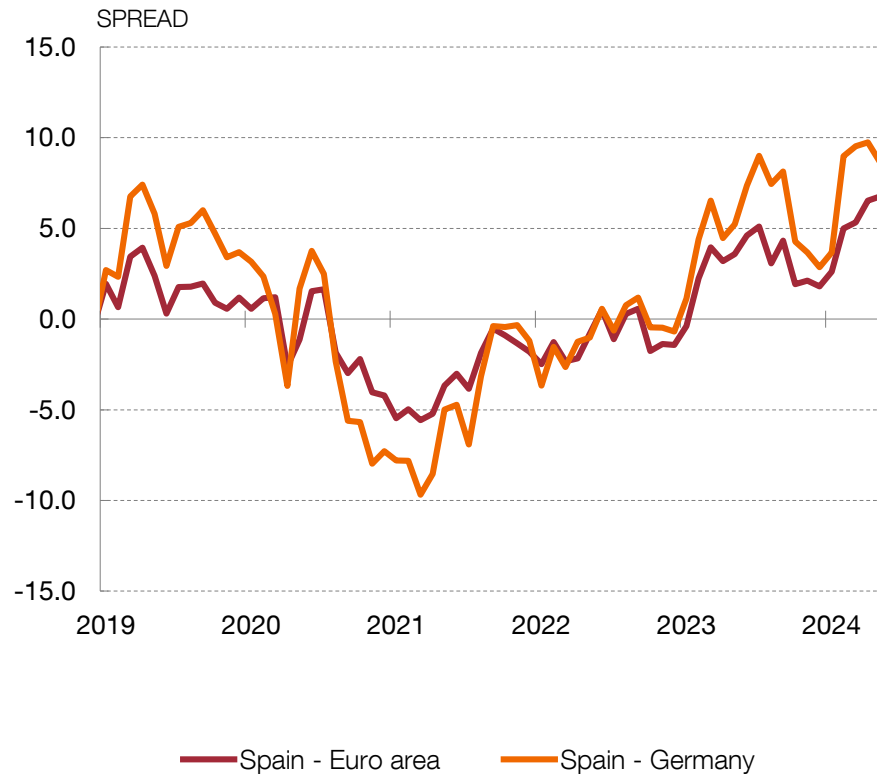


Sources: European Commission and S&P Global.
 (a) The figure for Q2 is the average of April and May.

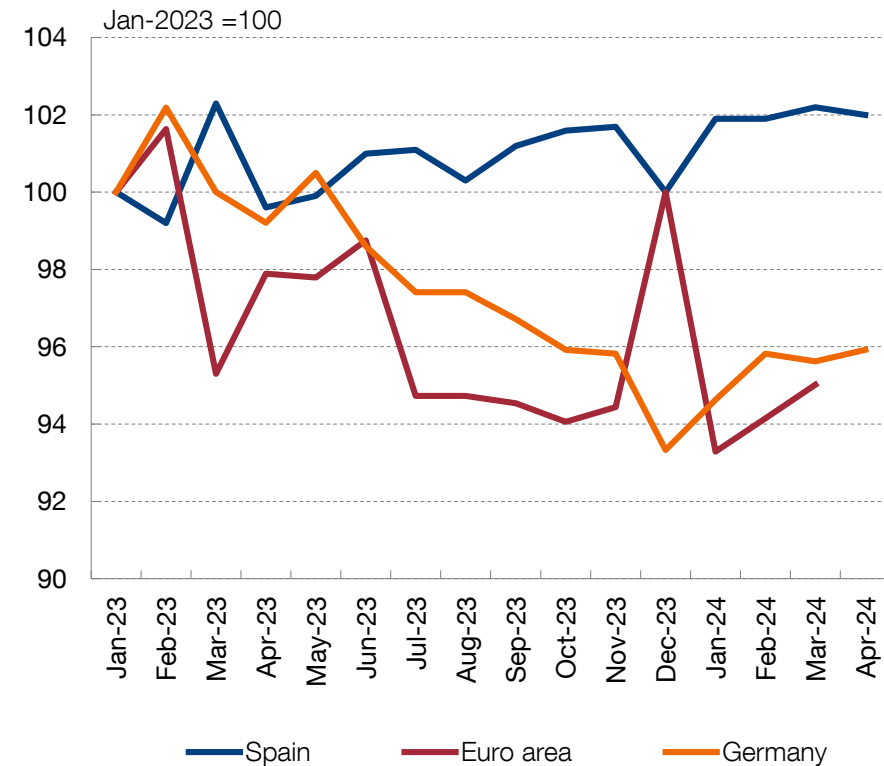


IN RECENT MONTHS, THE MANUFACTURING PMI HAS BEEN MORE DYNAMIC IN SPAIN THAN IN GERMANY AND IN THE EURO AREA OVERALL: RELATIONSHIP WITH THE INDUSTRIAL PRODUCTION

MANUFACTURING PMI



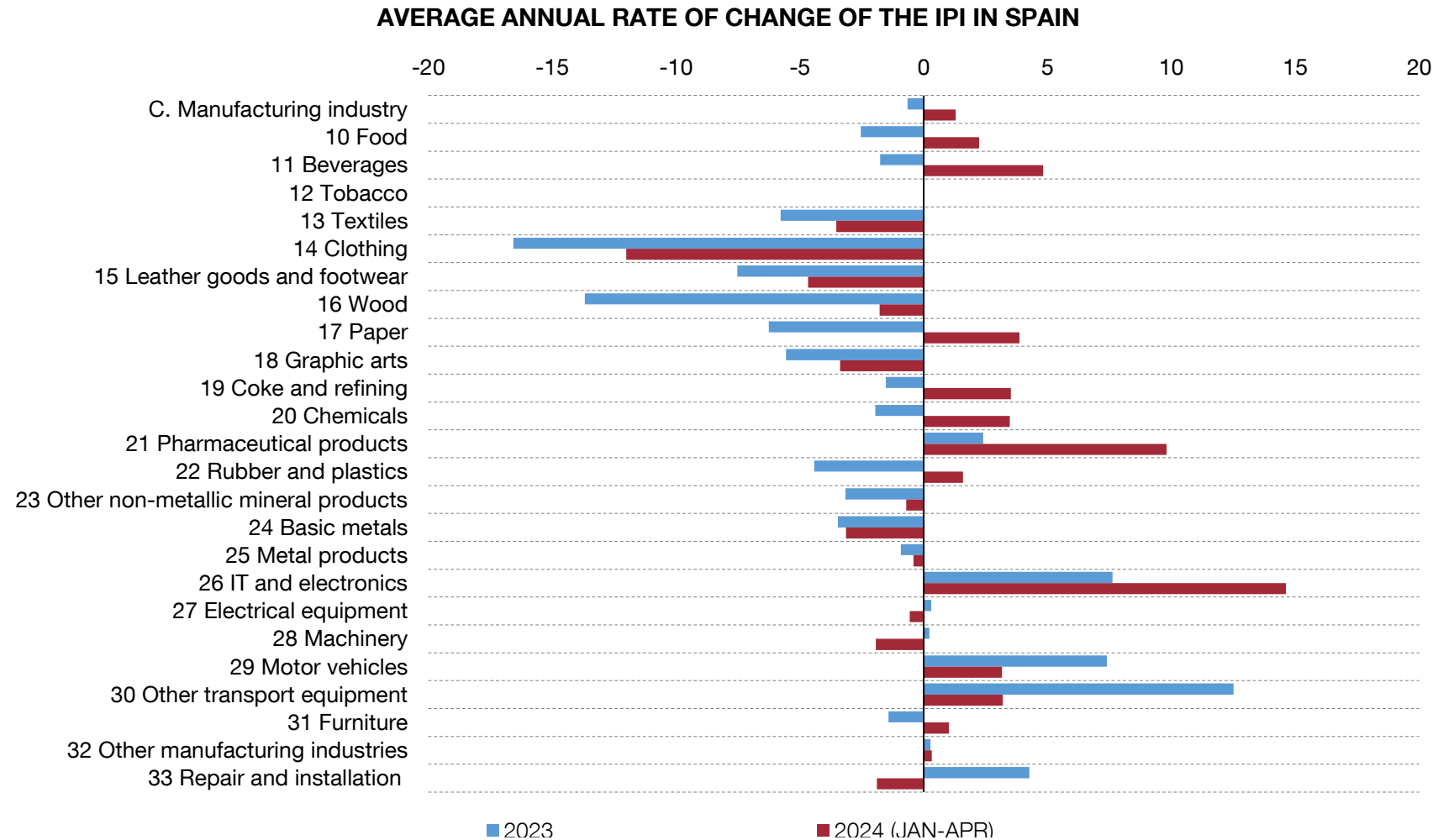
IPI, TOTAL MANUFACTURING



Sources: S&P Global and Eurostat. Last PMI observation: May 2024. Last IPI observation: April 2024.



WITHIN THE MANUFACTURING SECTORS, ACTIVITY HAS BEEN QUITE UNEVEN IN THE RECENT PERIOD

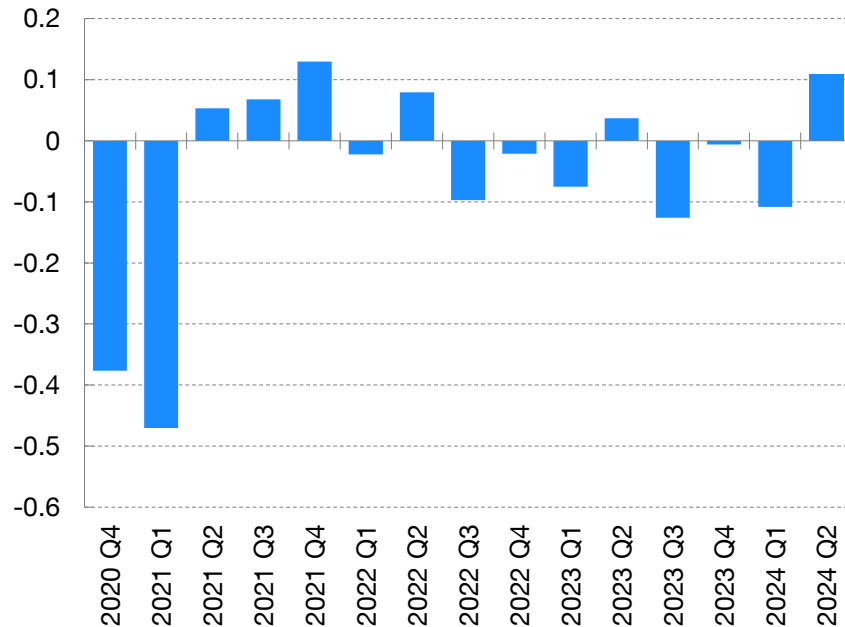


Source: Eurostat.

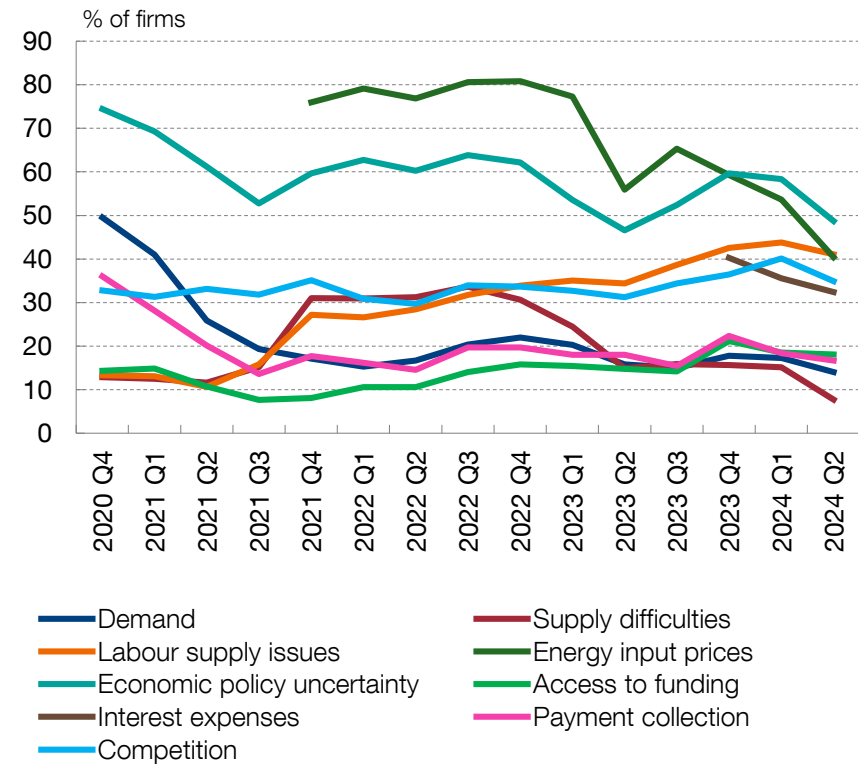


THE EBAE FIRMS EXPECT TO SEE HIGHER TURNOVER IN 2024 Q2 AND A LOWER NEGATIVE IMPACT OF SOME OF THE FACTORS THAT HAVE BEEN ACTING AS A CONSTRAINT ON THEIR ACTIVITY

QUARTERLY TURNOVER (a)



ACTIVITY CONSTRAINTS



Source: EBAE.

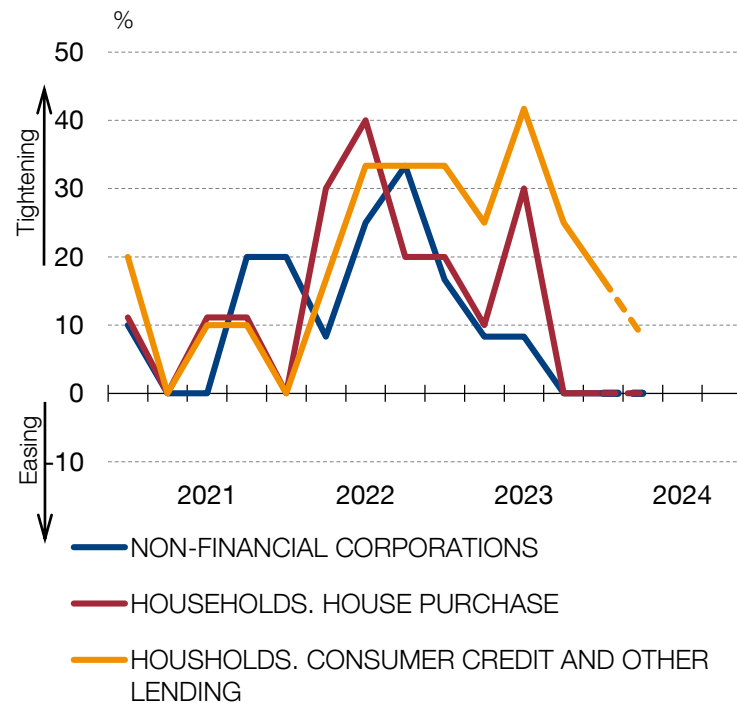
(a) Index constructed as: -2 = Significant decrease; -1 = Minor decrease; 0 = Stability; 1 = Minor increase; and 2 = Significant increase.



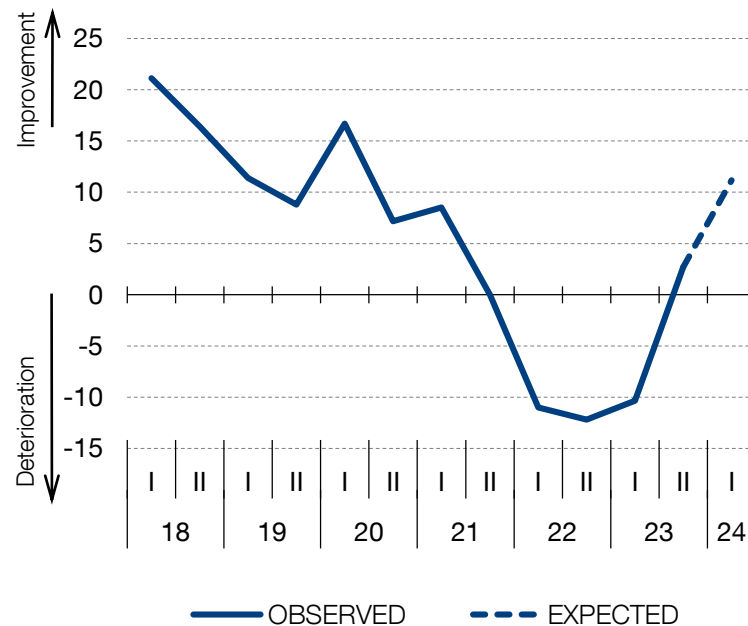
ACCESS TO FUNDING IS STEADYING OR EVEN IMPROVING

- According to the **Bank Lending Survey**, in 2024 Q1 only credit standards on consumer credit and other lending tightened, albeit less so than in previous quarters
- Moreover, pursuant to the latest edition of the **Survey on the access to finance of enterprises (SAFE)** (Oct-2023–Mar-2024), for the first time since 2021 SMEs perceived an improvement in access to bank credit, while the proportion of SMEs that find it difficult to obtain loans was practically unchanged

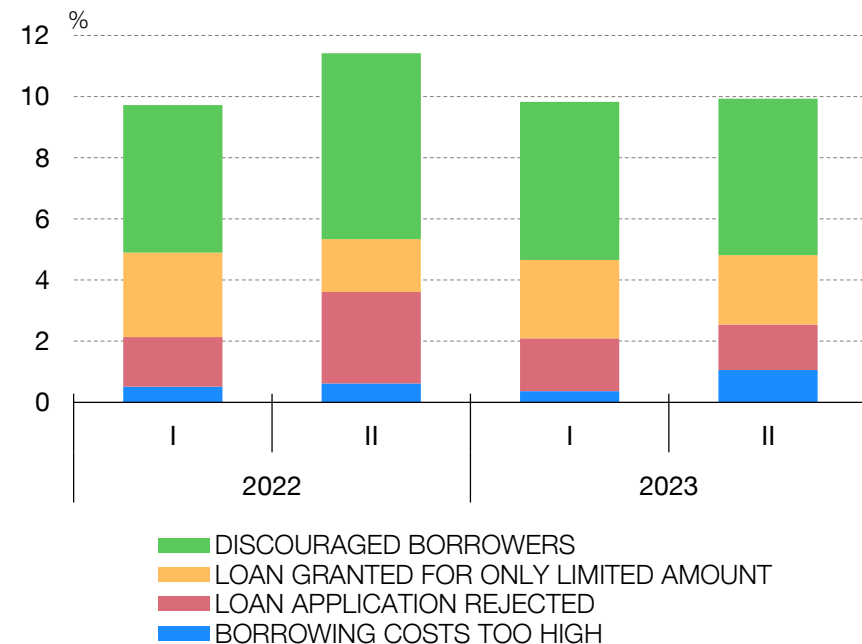
CHANGE IN CREDIT STANDARDS ON LOANS IN SPAIN (a)



AVAILABILITY OF BANK LOANS FOR SMEs IN SPAIN Net percentage (b)



SPANISH SMEs HAVING DIFFICULTIES OBTAINING BANK LOANS



Sources: ECB and Banco de España.

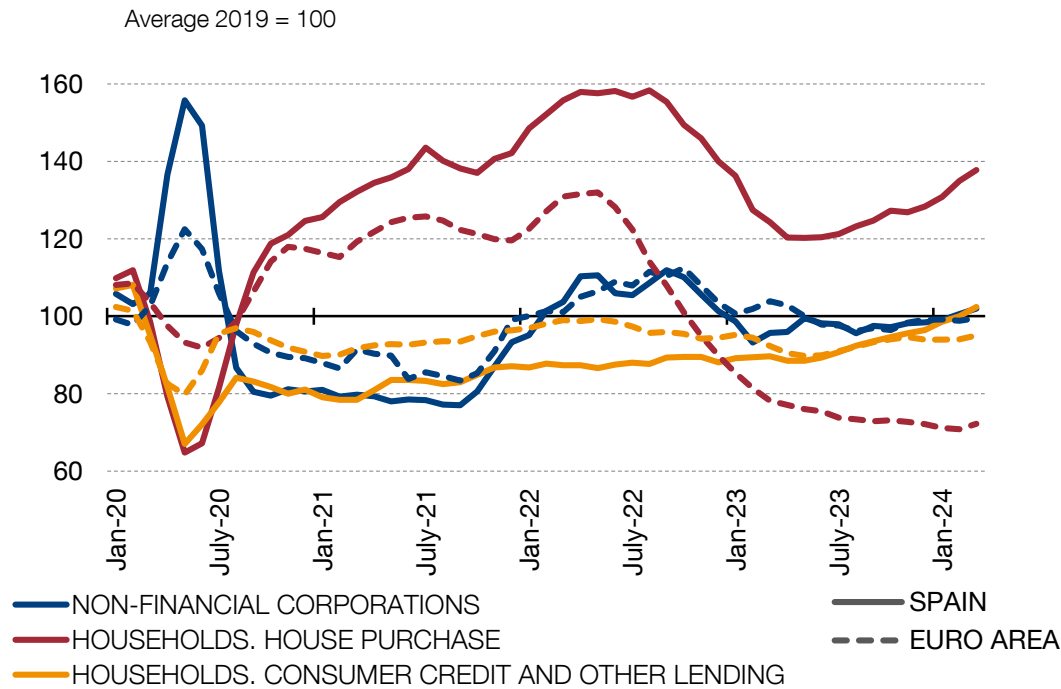
(a) Percentage of banks reporting tightening less those reporting easing.

(b) Percentage of firms reporting an improvement less those reporting a deterioration.

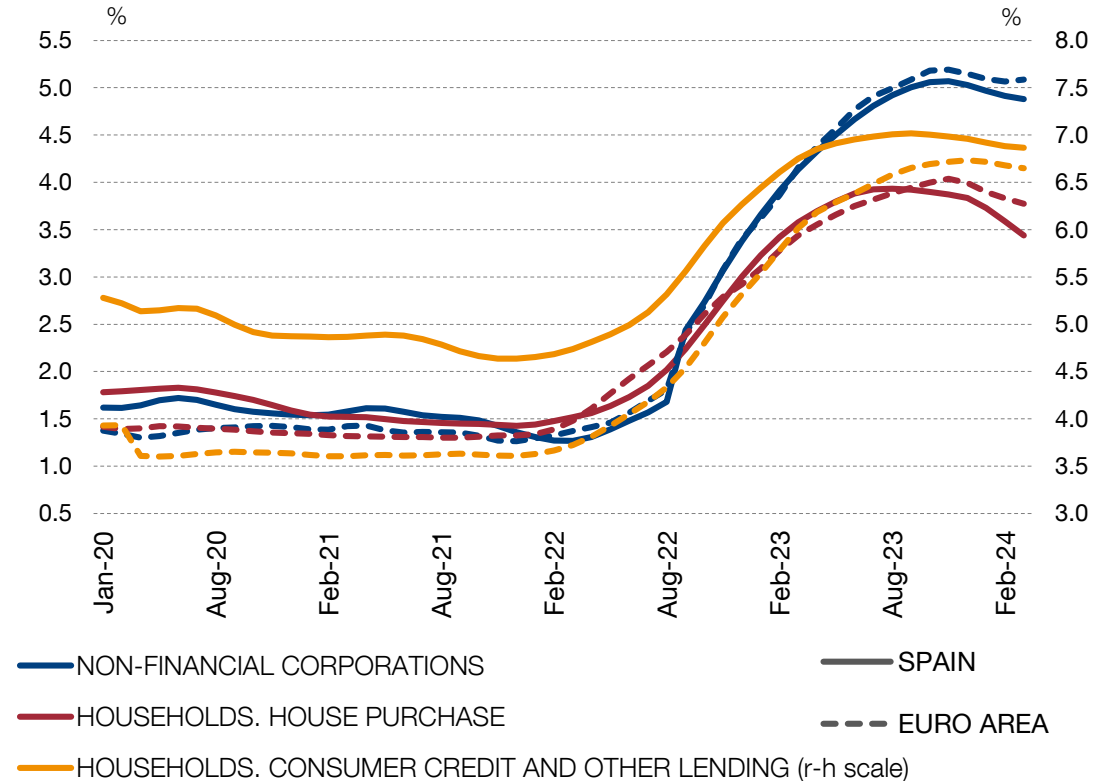


FINANCING FLOWS SHOW SIGNS OF RECOVERY, WHILE FINANCING COSTS CONTINUE TO EASE GRADUALLY

NEW LENDING (a)



COST OF NEW BANK LENDING (b)



Source: ECB. Last data observation: March 2024.

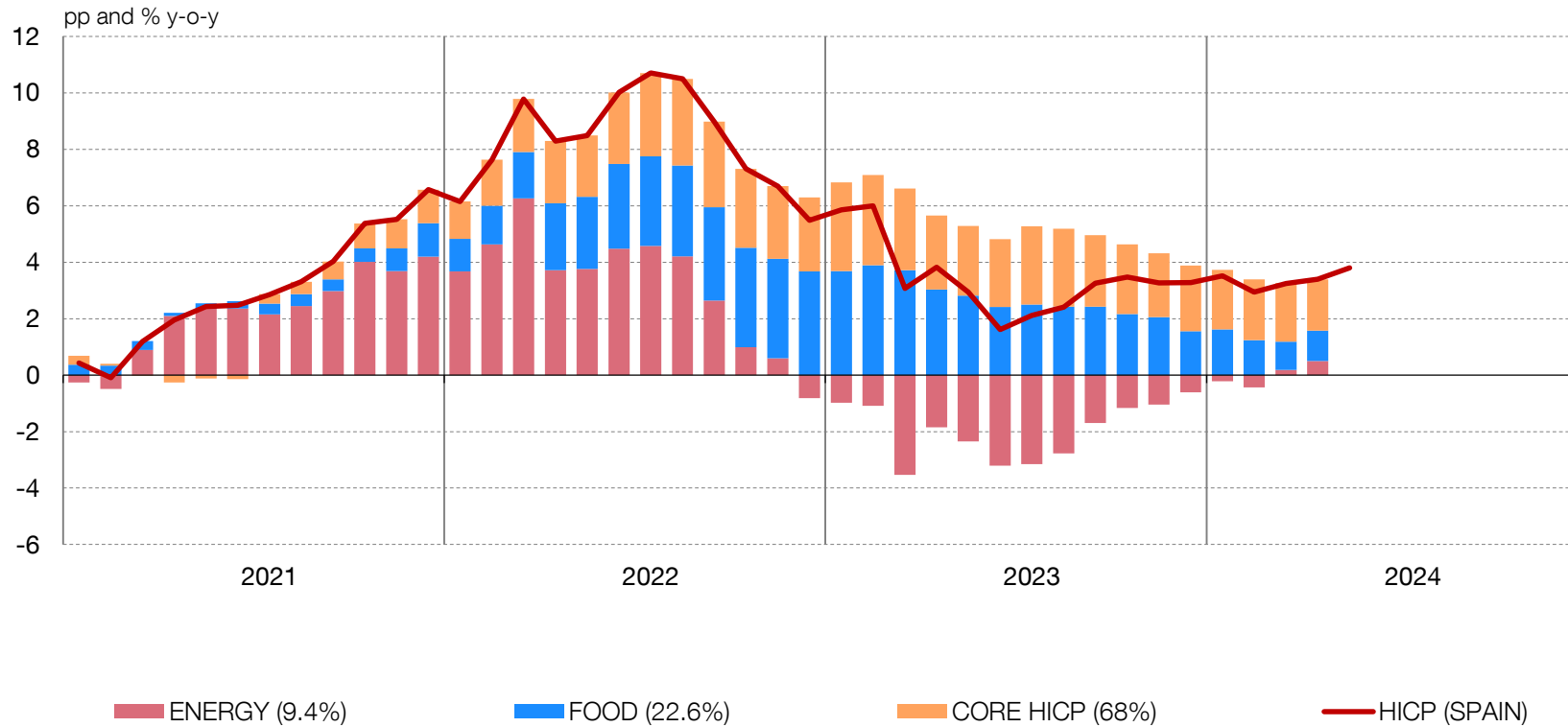
(a) 3-month cumulative seasonally adjusted flows relative to the 2019 monthly average.

(b) Bank interest rates are narrowly defined effective rates (NDERs), i.e. they exclude related charges, such as repayment protection insurance premiums and fees. They are also 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).



HEADLINE INFLATION HAS RISEN IN RECENT MONTHS, OWING TO THE PICK-UP IN ENERGY PRICES, AGAINST A BACKDROP OF A SLIGHT EASING IN CORE INFLATION

HEADLINE HICP AND CONTRIBUTIONS (a) (b)



Sources: INE and Banco de España.

(a) The figures in brackets denote the weight of each component in headline HICP in 2024.

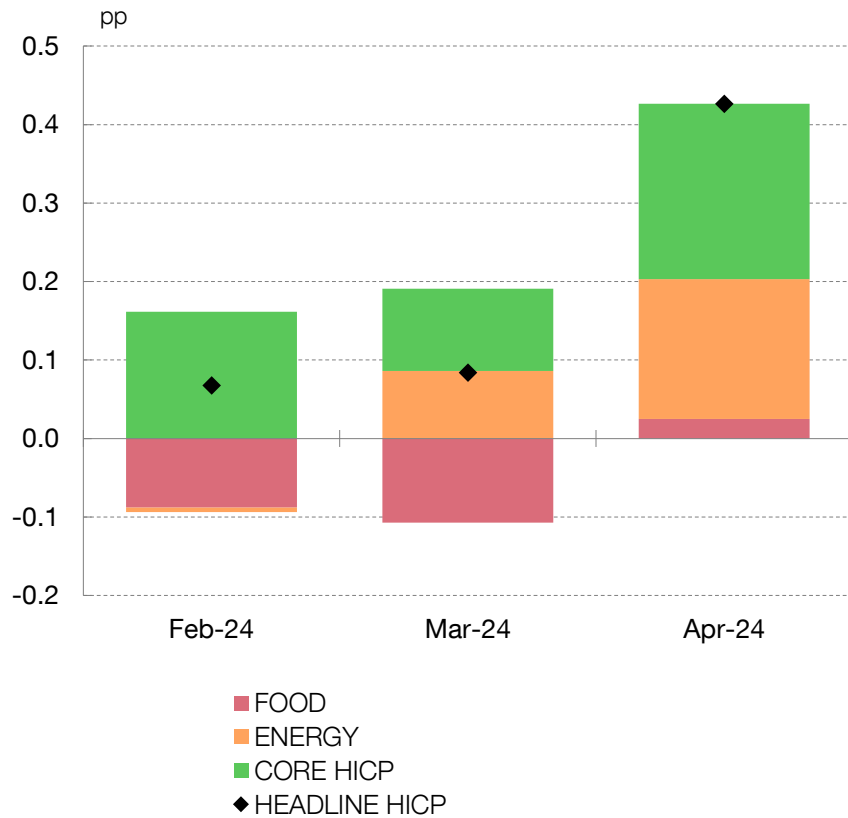
(b) Latest data available: May headline HICP flash estimate, with no breakdown by component.



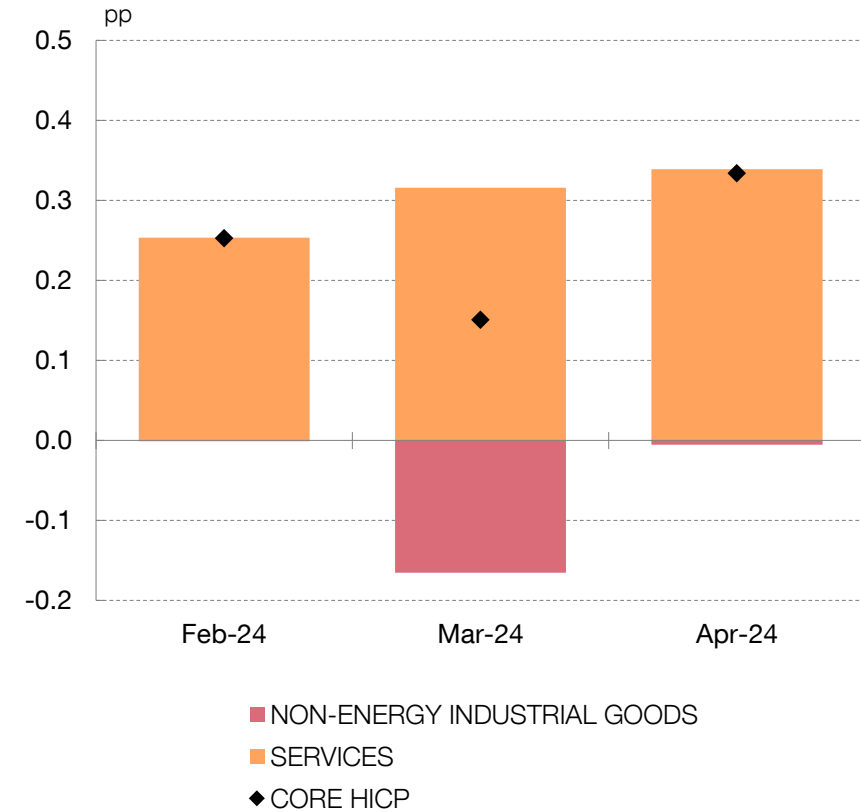
IN RECENT MONTHS, THE ENERGY COMPONENT AND SERVICES INFLATION HAVE PROVIDED THE MOST UPSIDE INFLATION SURPRISES

DIFFERENCE WITH RESPECT TO THE MARCH BANCO DE ESPAÑA PROJECTIONS

SURPRISE IN YEAR-ON-YEAR HEADLINE HICP INFLATION



SURPRISE IN YEAR-ON-YEAR CORE HICP INFLATION

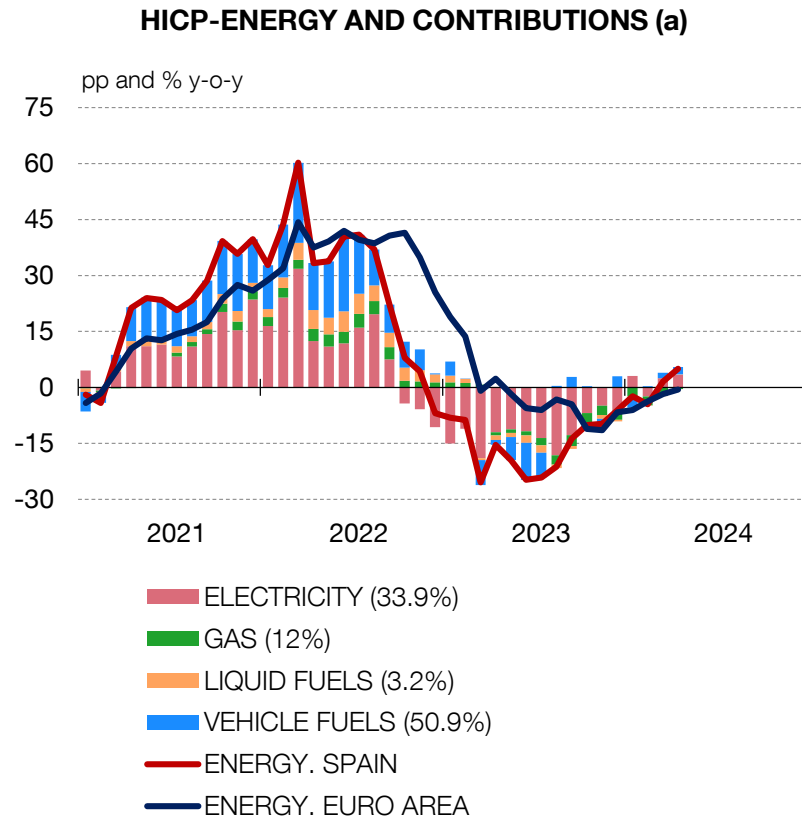


Sources: INE and Banco de España.



THE UNEXPECTED RISE IN OIL PRICES ON INTERNATIONAL MARKETS HAS LED TO HIGHER FUEL PRICES IN THE HOUSEHOLD CONSUMPTION BASKET

- Aside from the dynamics seen on international energy commodity markets, in Spain the gradual reversal of the tax cuts introduced by the authorities in response to the energy crisis has resulted in higher gas and electricity prices in recent months



IMPACT ON INFLATION IN APRIL OF THE PARTIAL REVERSAL OF SOME OF THE MEASURES INTRODUCED IN RESPONSE TO THE ENERGY CRISIS

	Partial reversal in April 2024	Effect on headline inflation (pp)
Excise duty on electricity	Increase from 2.5% to 3.8%	0.04
VAT on gas	Increase from 10% to 21%	0.10
Total		0.14

Sources: Eurostat and Banco de España.

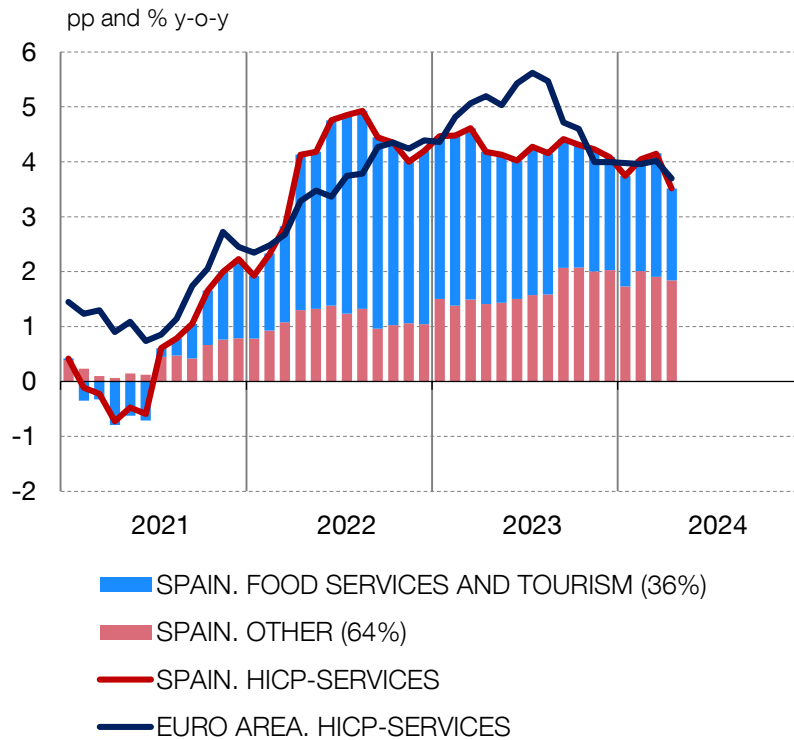
(a) The weight of each component in HICP-energy for 2024 is shown in brackets.



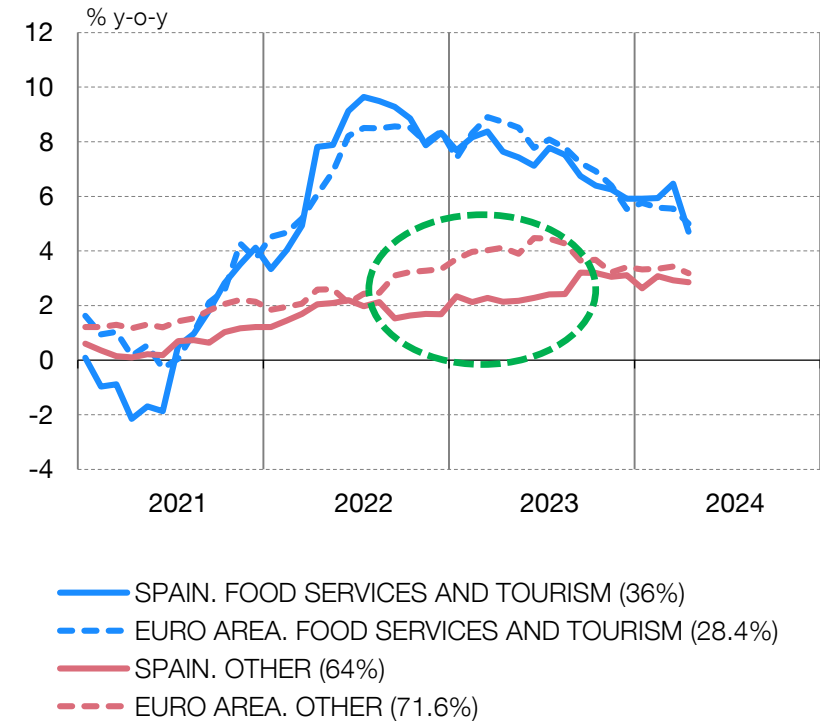
SERVICES INFLATION HAS BEEN MORE PERSISTENT THAN EXPECTED IN SPAIN AND IN OTHER ECONOMIES

- Since early 2024, **services inflation** has fallen by just 0.2 pp in Spain, from 3.7% in January to 3.5% in April, partly as a result of the strength of prices of package holidays and of accommodation and, to a lesser extent, food service activities
- **Services inflation levels in Spain have been relatively consistent with their developments in the euro area**, after accounting for the impact in Spain of the public transport measures introduced by the authorities

HICP-SERVICES AND CONTRIBUTIONS (a)



HICP-SERVICES: FOOD SERVICES AND TOURISM AND OTHER (a)



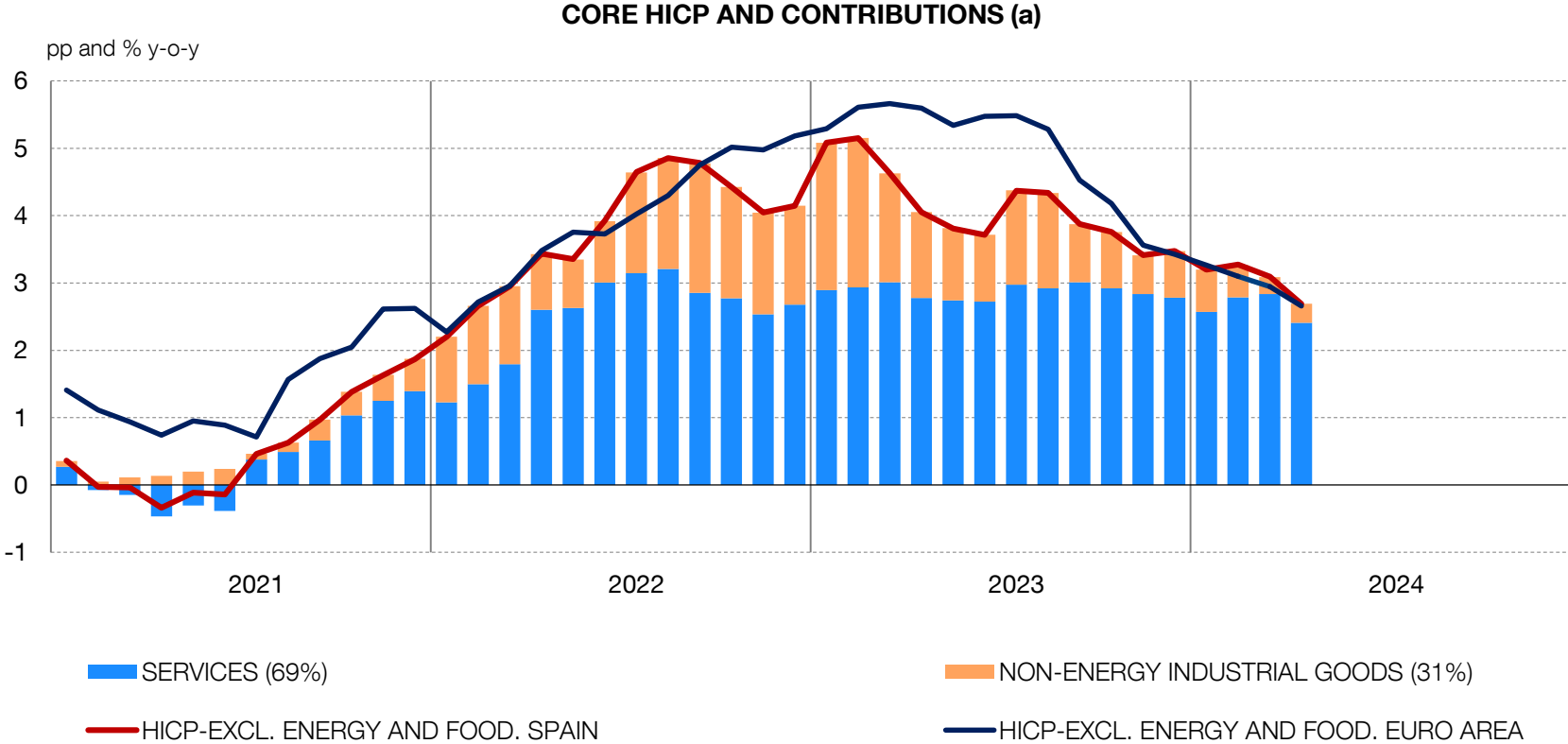
Sources: Eurostat and Banco de España.

(a) The weight of each component in HICP-services for 2024 is shown in brackets.



CORE INFLATION HAS CONTINUED TO DECELERATE GRADUALLY, MAINLY OWING TO THE EASING OF NON-ENERGY INDUSTRIAL GOODS PRICES

- Core inflation fell from 3.2% in January to 2.7% in April
- This was mostly the result of the slowdown in non-energy industrial goods inflation, which has fallen by 1.1 pp since the start of 2024 to 0.9%, less than projected in March



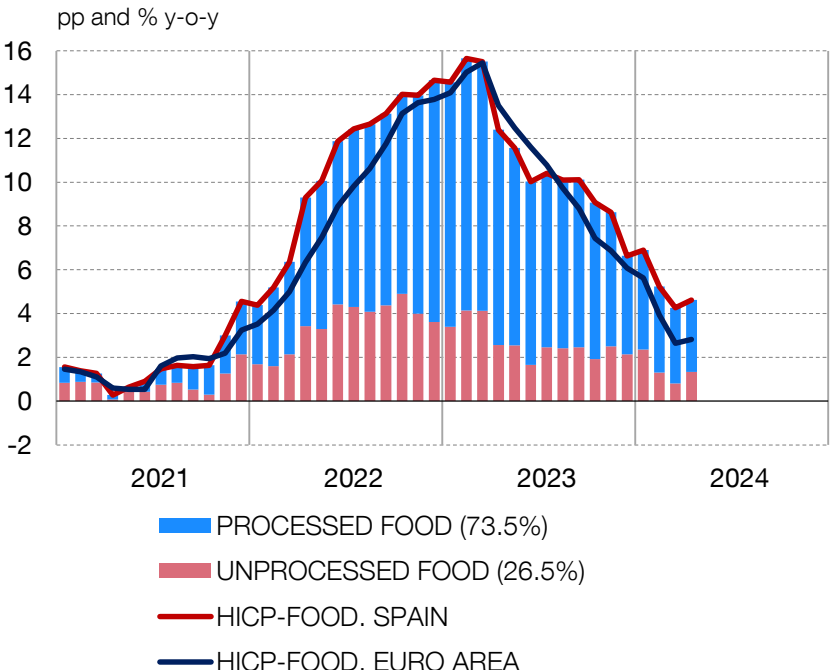
Sources: Eurostat and Banco de España.
 (a) The weight of each component in HICP-excluding energy and food for 2024 is shown in brackets.



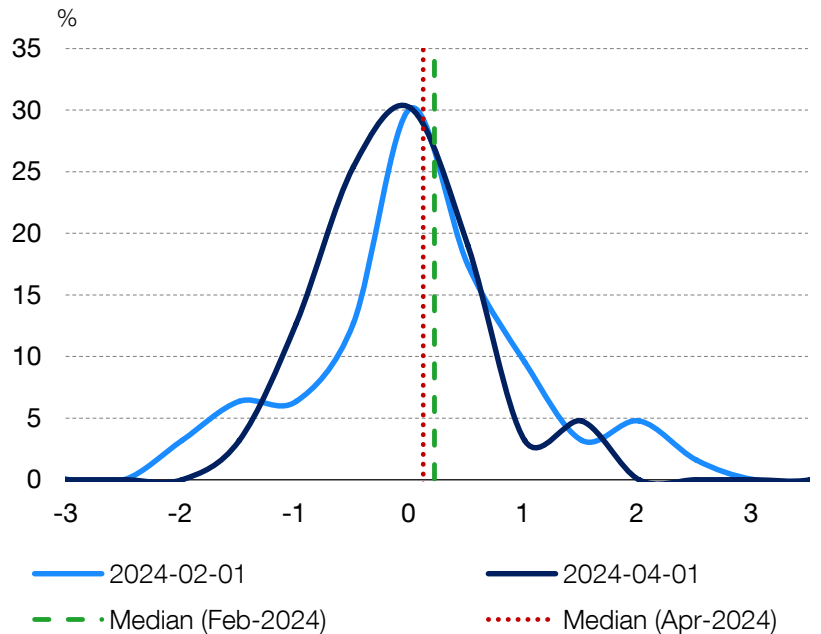
DESPITE THE SLIGHT UPTICK BETWEEN MARCH AND APRIL, THE RELATIVELY BROAD-BASED DECELERATION IN FOOD PRICE INFLATION CONTINUES

- **Food inflation** fell by 2.3 pp between January and April to 4.6%, although it did accelerate somewhat between March and April (by 0.3 pp) as a result of the uptick in prices of some fresh food items, such as fruit and vegetables.

HICP-FOOD, BEVERAGES AND TOBACCO (a)



PERCENTAGE OF HICP-FOOD SUB-CLASSES BY CORRECTED MONTH-ON-MONTH INFLATION RATES (b)



Sources: Eurostat and Banco de España.

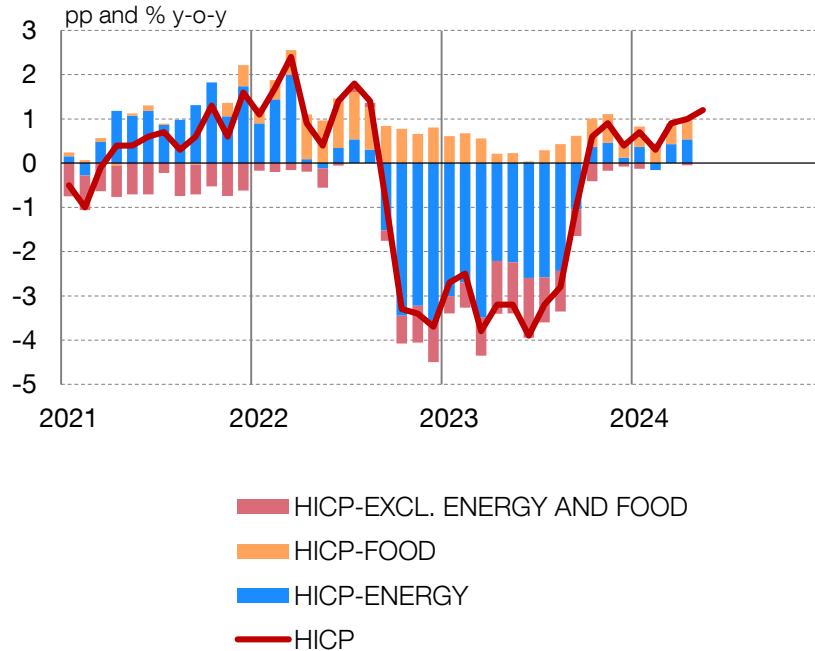
- (a) The weight of each component in HICP-food for 2024 is shown in brackets.
- (b) Month-on-month rates corrected for average rates in the period 2016-2019, for each month.



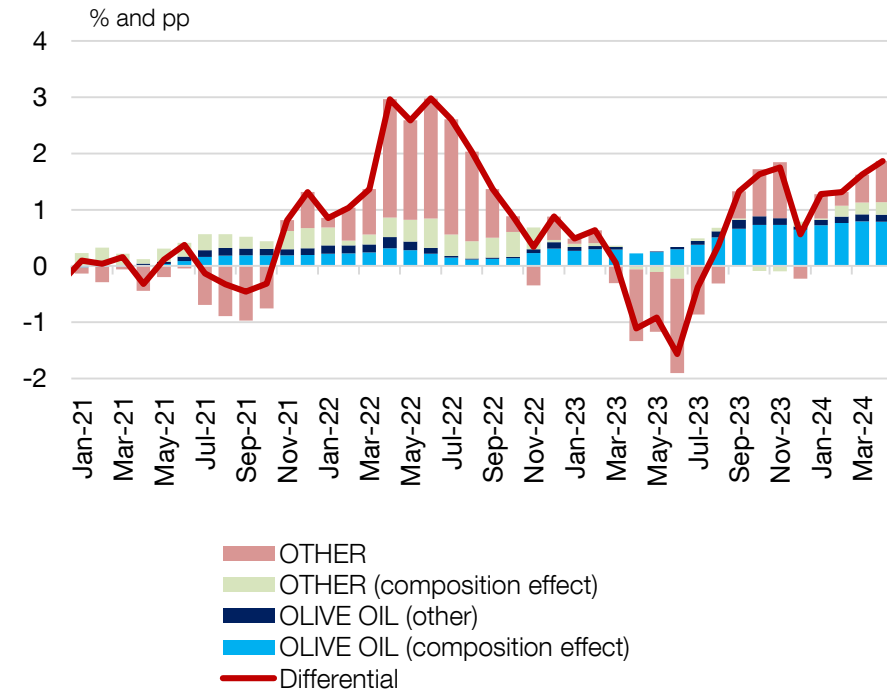
THE INFLATION DIFFERENTIAL WITH RESPECT TO THE EURO AREA HAS BEEN POSITIVE SINCE LATE 2023, OWING TO THE ENERGY AND FOOD COMPONENTS

- The positive food inflation differential between Spain and the euro area is largely explained by the greater weight in Spanish households' consumption basket of food items that have seen the largest price rises recently

CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA (a)



FOOD INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA AND ITS CONTRIBUTIONS (b)



Sources: Eurostat and Banco de España.

(a) Latest data available: May headline HICP flash estimate, with no breakdown by component.

(b) The “composition effect” is the difference between the inflation level observed in Spain and the level that would be observed were the weights of the various HICP sub-indices the same as those in the rest of the euro area. “Other” represents the difference between the inflation level observed in Spain and that of the euro area after discounting the composition effect.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2024-2026

MAIN ITEMS

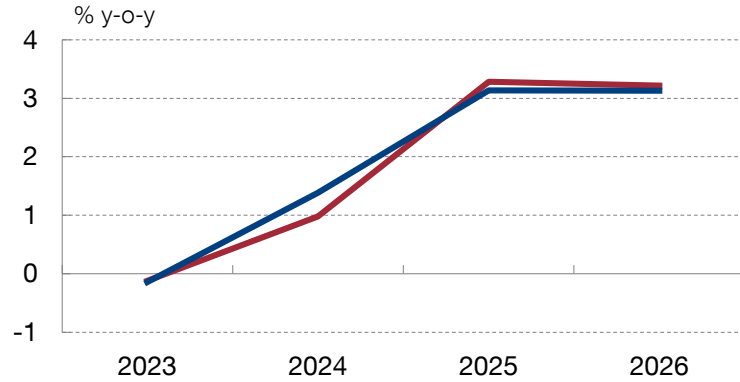
	2023	June 2024 projections			March 2024 projections			
		2024	2025	2026	2023	2024	2025	2026
Annual rate of change in volume terms (%) and % of GDP								
GDP	2.5	2.3	1.9	1.7	2.5	1.9	1.9	1.7
Private consumption	1.8	2.4	2.0	1.7	1.8	2.3	1.9	1.7
Government consumption	3.8	1.6	1.7	1.5	3.8	1.2	1.7	1.5
Gross fixed capital formation	0.8	1.9	2.4	1.9	0.6	0.4	2.7	1.9
Exports of goods and services	2.3	2.4	2.4	2.7	2.4	1.7	3.0	2.9
Imports of goods and services	0.3	2.0	2.7	3.0	0.3	2.1	3.4	3.0
Domestic demand (contribution to growth)	1.7	2.1	1.9	1.7	1.7	2.0	1.9	1.6
Net external demand (contribution to growth)	0.8	0.2	0.0	0.0	0.8	-0.1	0.0	0.1
Nominal GDP	8.6	5.4	4.0	3.5	8.6	4.8	4.1	3.6
GDP deflator	5.9	3.0	2.1	1.8	5.9	2.9	2.2	1.9
HICP	3.4	3.0	2.0	1.8	3.4	2.7	1.9	1.7
HICP-excluding energy and food	4.1	2.6	2.0	1.9	4.1	2.2	1.9	1.8
Employment (hours)	1.9	1.1	1.7	1.2	1.9	1.8	1.1	0.9
Unemployment rate (% of labour force). Annual average	12.2	11.5	11.3	11.2	12.1	11.6	11.5	11.3
Net lending (+) / net borrowing (-) of the nation (% of GDP)	3.7	3.6	3.7	3.7	3.6	3.4	3.5	3.6
General government net lending (+) / net borrowing (-) (% of GDP)	-3.6	-3.3	-3.1	-3.2	-3.8	-3.5	-3.5	-3.5
General government debt (% of GDP)	107.7	105.8	106.2	107.2	107.7	106.5	107.2	108.4

Sources: INE and Banco de España. Latest data published: 2024 Q1 QNA flash estimate.
Projections cut-off date: 22 May 2024.

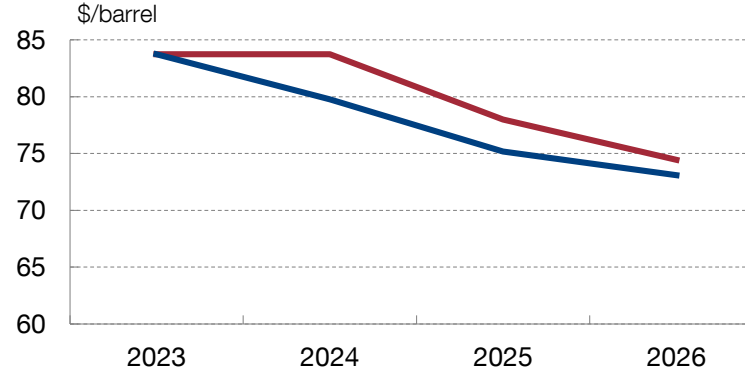


CHANGES IN THE TECHNICAL ASSUMPTIONS BETWEEN THE MARCH AND JUNE 2024 BANCO DE ESPAÑA PROJECTION EXERCISES

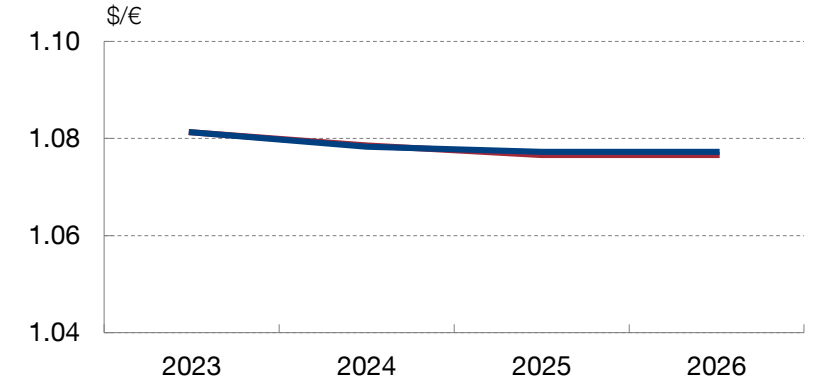
EXPORT MARKETS



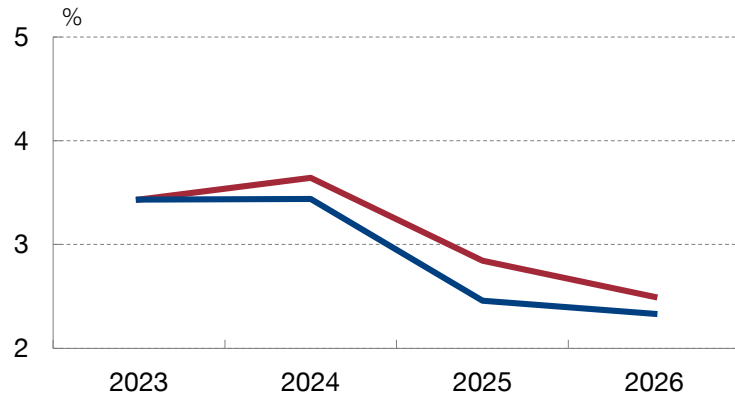
OIL PRICES



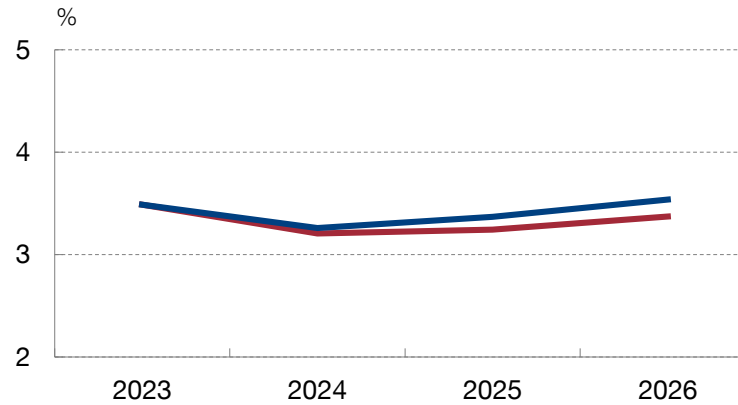
EXCHANGE RATE



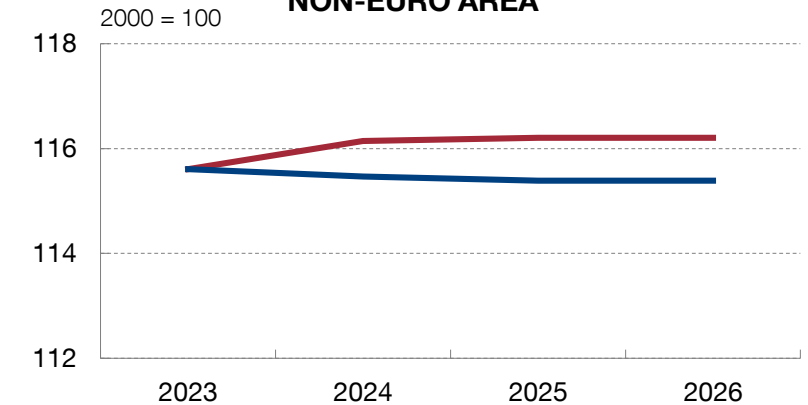
SHORT-TERM INTEREST RATES



LONG-TERM INTEREST RATES



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



— MARCH 2024

— JUNE 2024

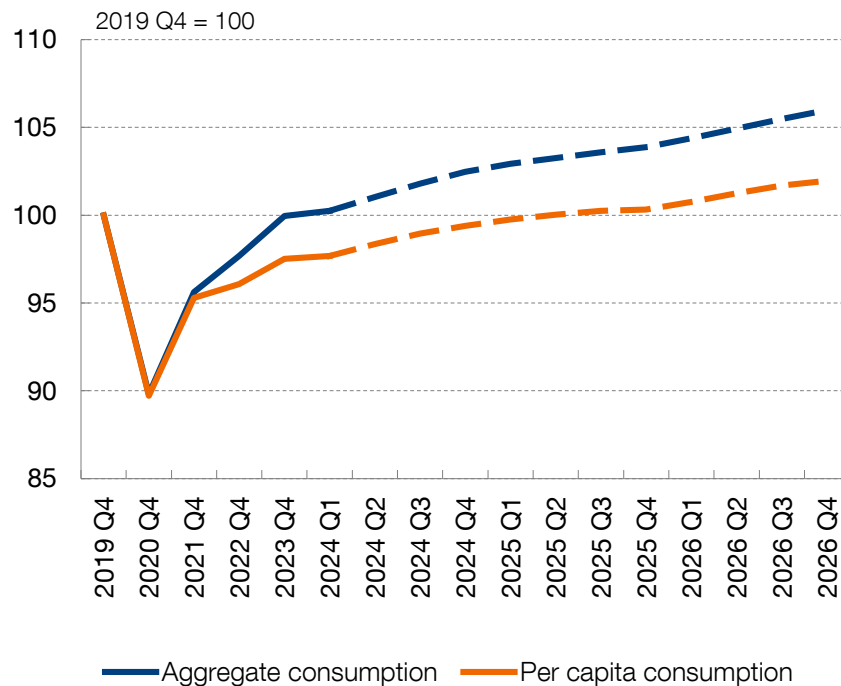
Sources: ECB and Banco de España.



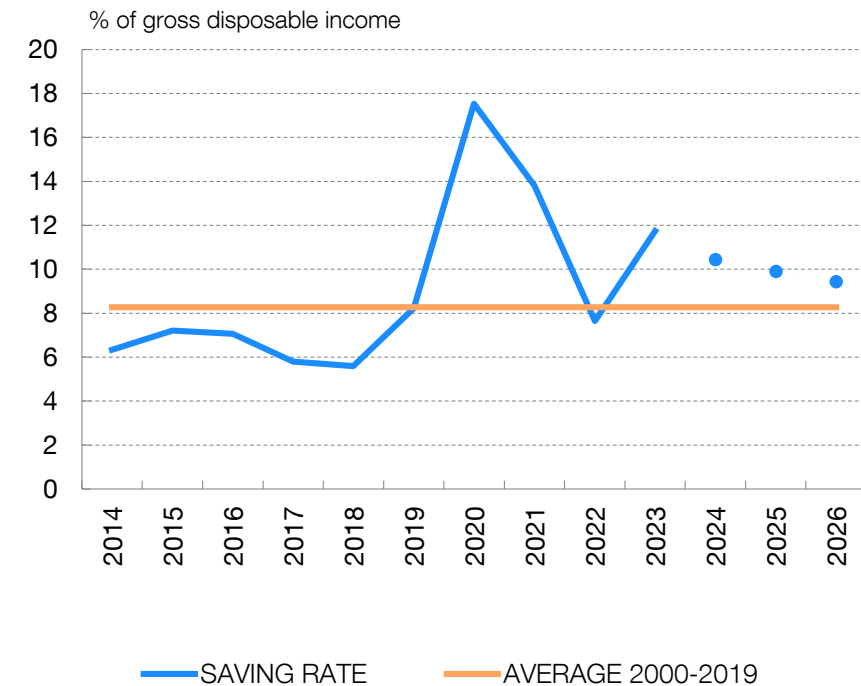
SINCE 2019 THE RECOVERY IN HOUSEHOLD AND PER CAPITA CONSUMPTION HAS LAGGED BEHIND THE RECOVERY IN GDP/GDP PER CAPITA

- There is considerable uncertainty over the extent to which various short-term and/or structural factors are shaping recent household consumption
- In any event, the **household saving rate** is expected to decline gradually over the coming quarters, although it will remain above the historical average throughout the projection horizon

CONSUMPTION AND PER CAPITA CONSUMPTION



SAVING RATE



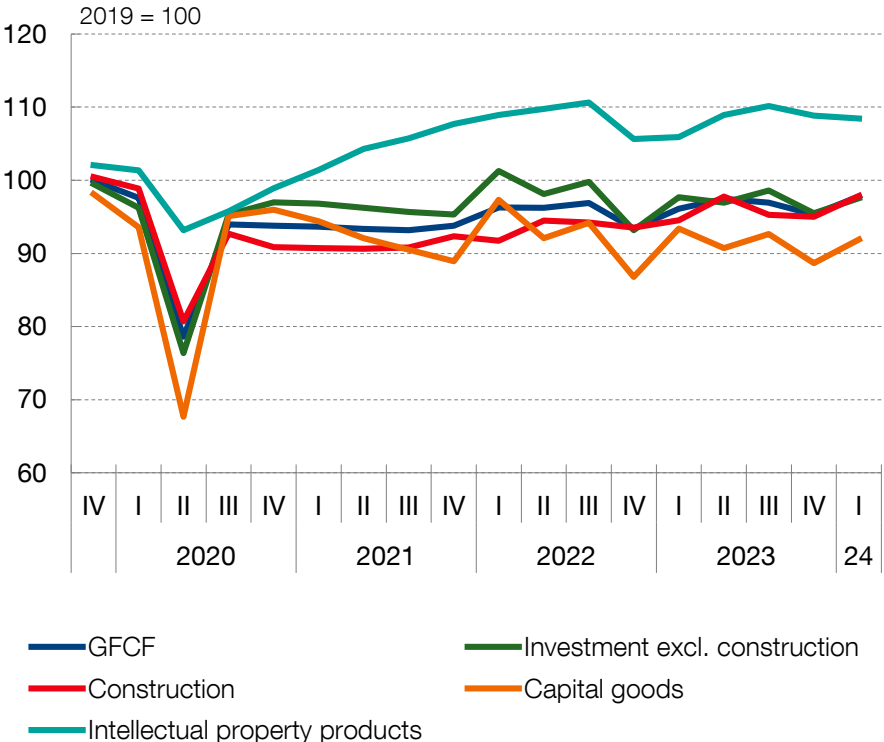
Sources: INE and Banco de España.



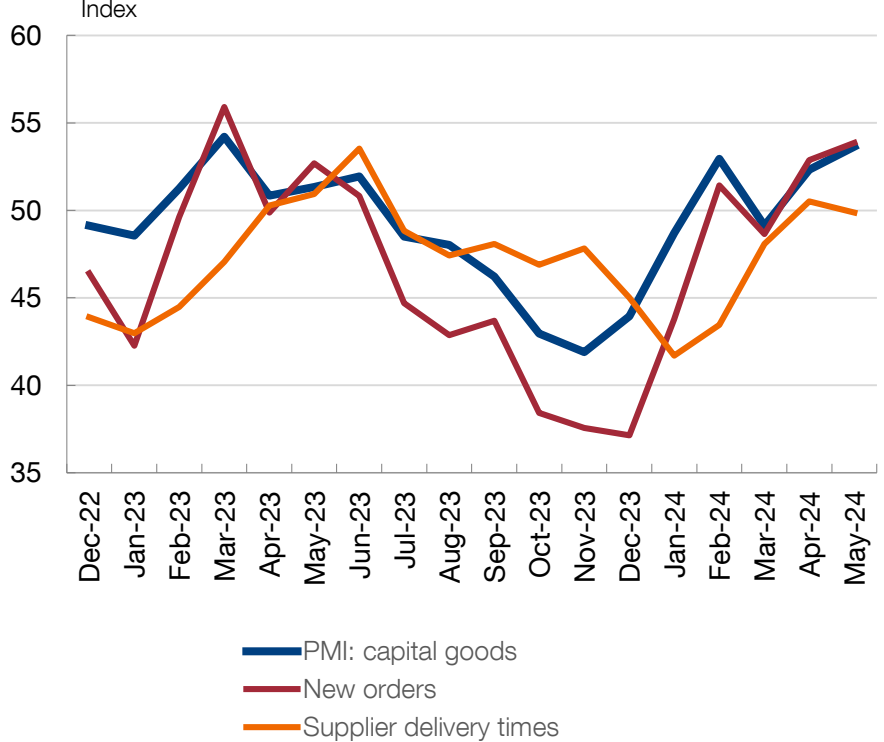
INVESTMENT REMAINS BELOW ITS PRE-PANDEMIC LEVEL, ALTHOUGH IT LOOKS TO BE SHOWING SOME INCIPIENT SIGNS OF GREATER DYNAMISM

- Various **Banco de España papers** suggest that the weakness of investment since late 2019 has been concentrated in (i) the private sector, (ii) investment in capital goods (particularly transport), and (iii) investment by younger and smaller firms
- This weakness can largely be attributed to **economic policy uncertainty**. Looking ahead, it will be essential to determine the extent to which the NGEU programme has a meaningful spillover effect on private investment and generates "new/additive" investment

GFCF AND ITS COMPONENTS



PMI: CAPITAL GOODS



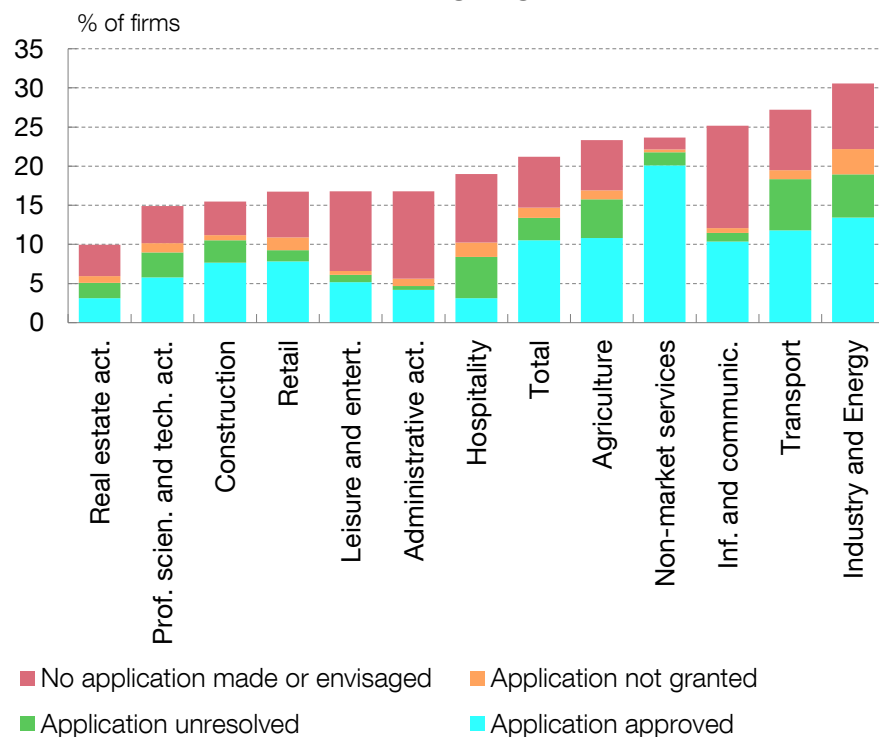
Sources: INE and S&P Global.



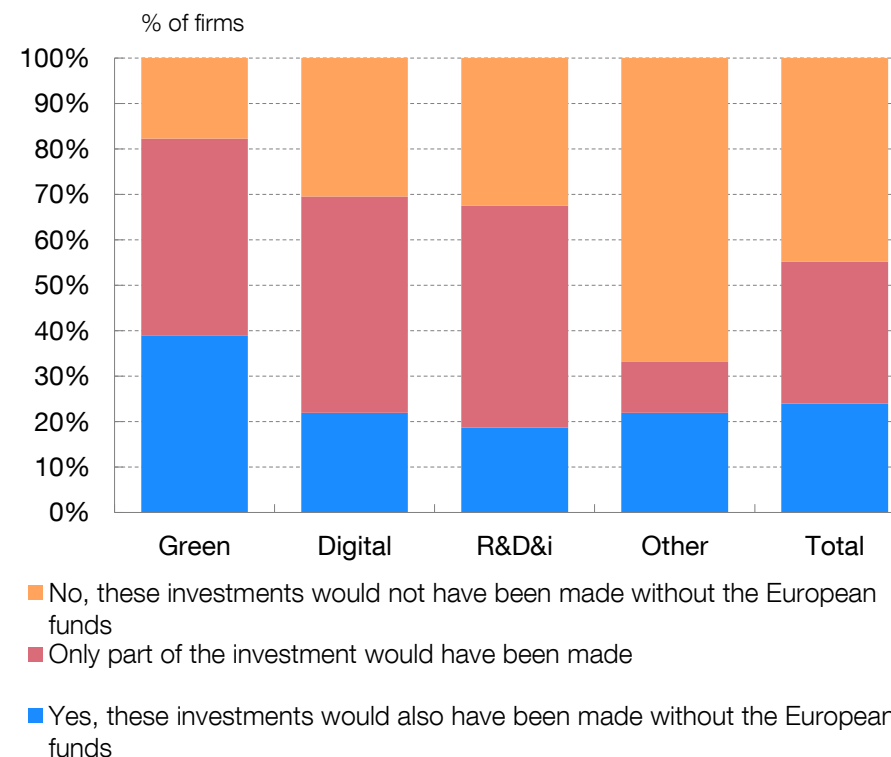
IT IS STILL TOO EARLY TO PROPERLY GAUGE THE POSSIBLE MACROECONOMIC IMPACT OF THE NGEU PROGRAMME. THE BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY OFFERS A FEW INITIAL POINTERS

- 15% of the firms surveyed have applied for in NGEU funds in some form, whereas 79% have neither done nor plan to do so. The firms involved in NGEU-related investments are concentrated in certain sectors, such as information and communication, transport, and industry and energy
- Among the firms that have made (or that plan to make) investments using NGEU funds, around 75% report that, without the European funds, they would not have made such investments or would only have done so partially

PARTICIPATION IN PROJECTS LINKED TO NGEU FUNDS



NGEU ACTIVITY



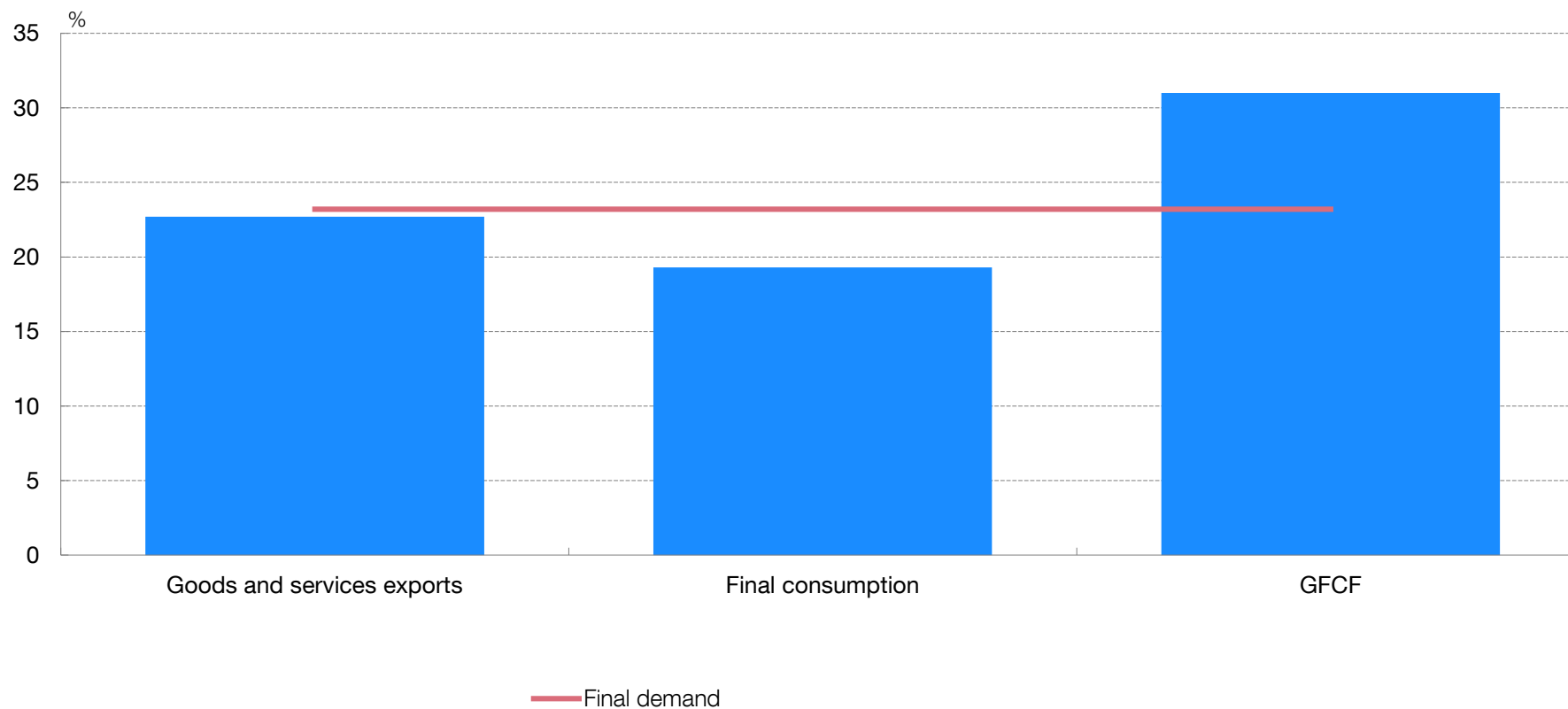
Source: Banco de España Business Activity Survey (EBAE).

(a) Question: “If your firm has made plans to make investments using NGEU funds, would you have done so in the absence of these European funds?”



IN RECENT YEARS, THE LACKLUSTRE PERFORMANCE OF THE COMPONENTS WITH THE GREATEST IMPORT CONTENT HAS WEIGHED ON IMPORTS. THIS TREND IS EXPECTED TO REVERSE IN THE FUTURE

IMPORT CONTENT OF FINAL DEMAND IN 2019



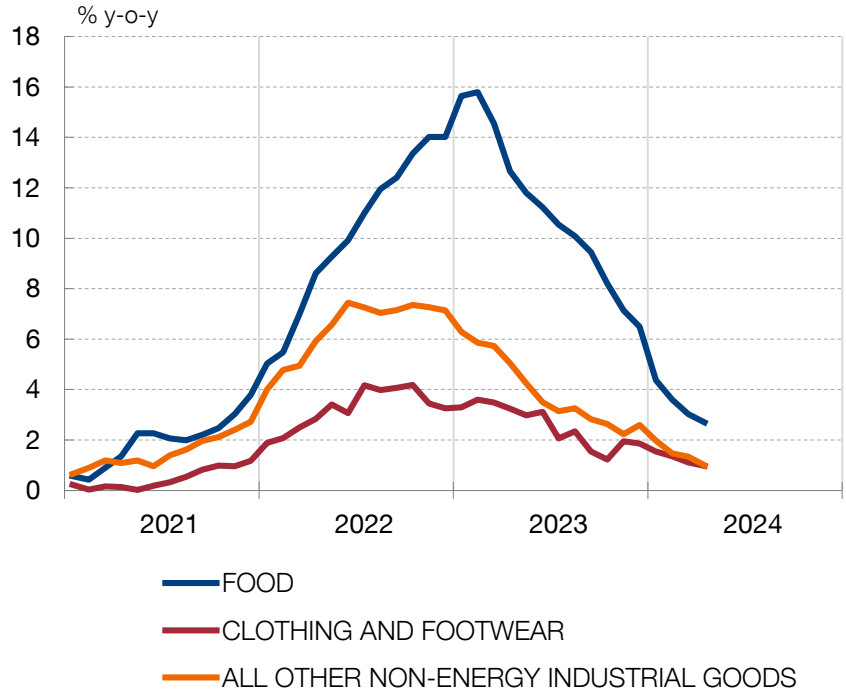
Sources: INE, OECD TiVA and Banco de España.



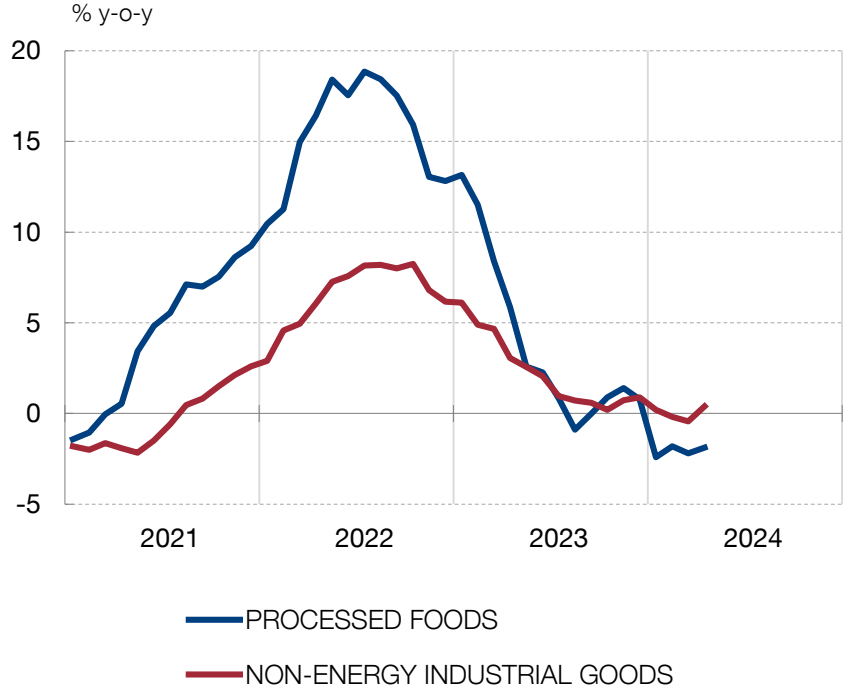
INDUSTRIAL PRICES (OF FOOD AND OTHER NON-ENERGY INDUSTRIAL GOODS) CONTINUE TO LOSE MOMENTUM. THIS DYNAMIC WILL CONTINUE TO PASS THROUGH TO CONSUMER PRICES

- In any event, this easing in consumer food prices will include some ups and downs in the coming months
- For instance, the reversal of the cut in the VAT rate on food as from July 2024 will exert some upward pressure on these prices in the second half of the year

INDUSTRIAL PRICE INDICATORS (a)



INDUSTRIAL PRODUCT IMPORT PRICE INDICATORS (a)



Sources: INE and Banco de España. Latest figures: April 2024.

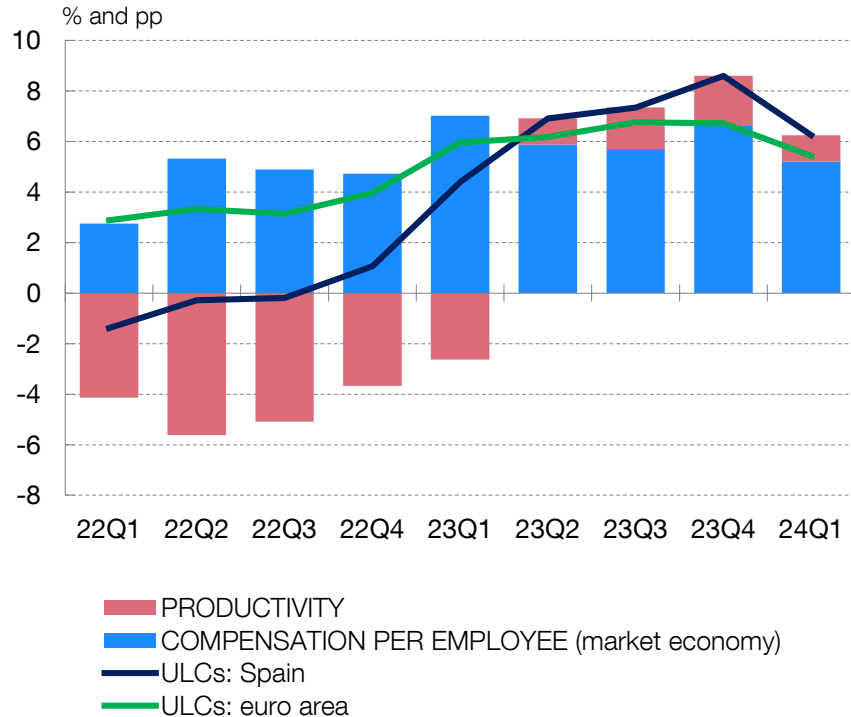
(a) Indicators calculated on the basis of the corresponding subgroups of the Industrial Producer Price Index (IPRI), weighted by their respective weight in the HICP consumption basket.



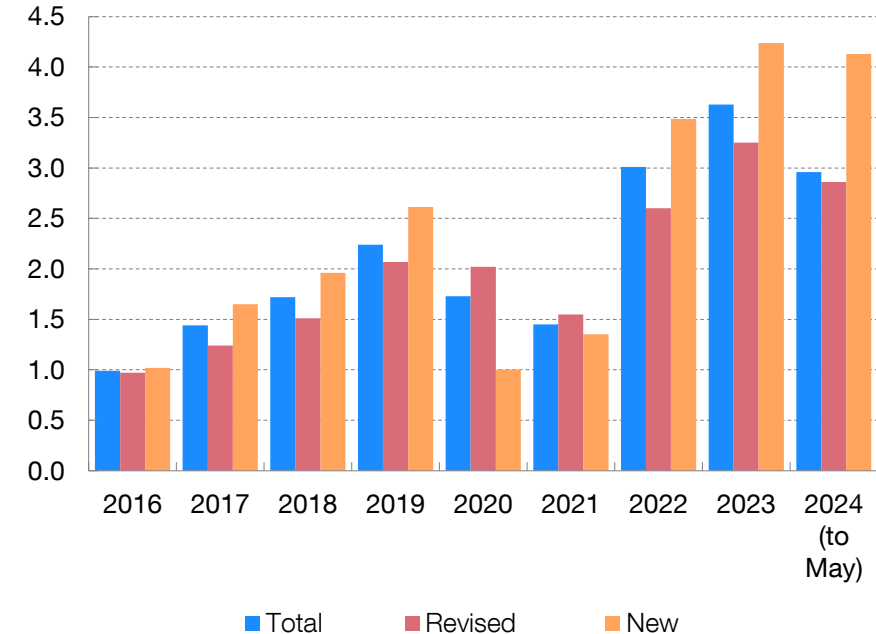
SERVICES INFLATION, SOMEWHAT MORE PERSISTENT THAN EXPECTED, IS SET TO SLOW IN THE COMING QUARTERS THANKS TO VARIOUS FACTORS

- First, as observed in 2024 Q1, **growth in unit labour costs is expected to slow**, owing not only to moderation in compensation per employee but also to somewhat higher productivity
- Second, based on the most recent developments, **profit margins are expected to weaken**, thereby partially offsetting the expected increase in labour costs

UNIT LABOUR COST AND CONTRIBUTIONS



NEGOTIATED WAGE INCREASE (%)



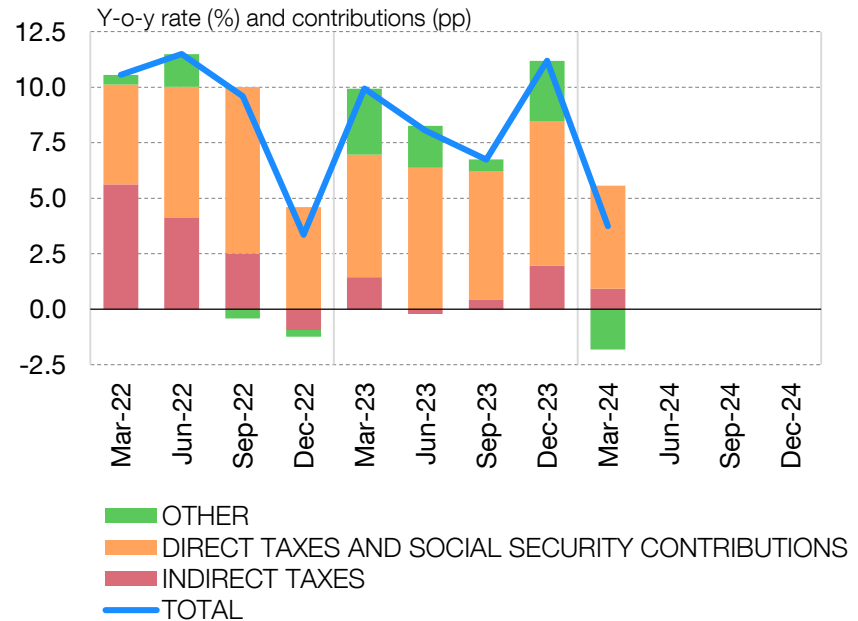
Sources: Ministerio de Trabajo y Economía Social, INE and Banco de España.



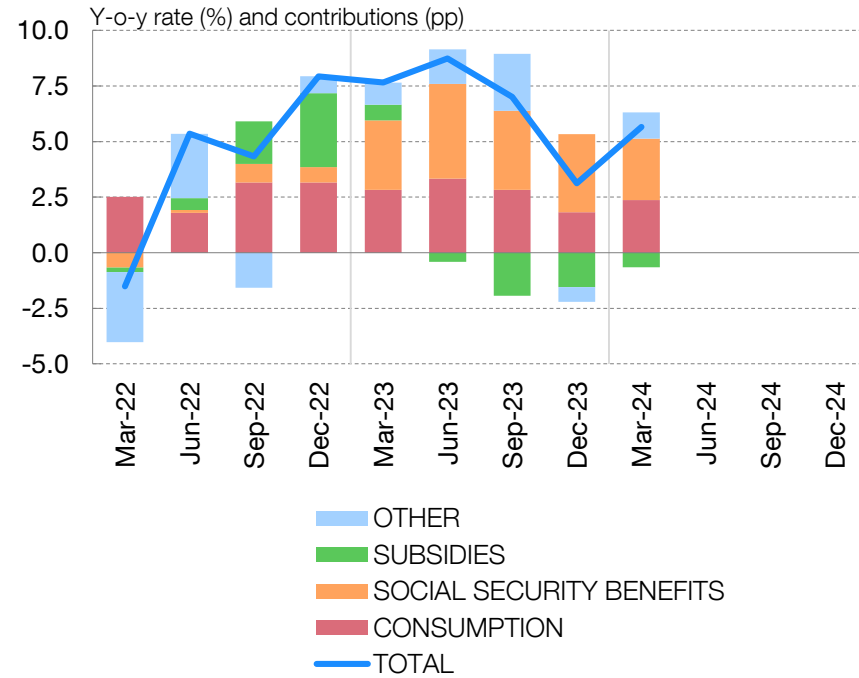
GOVERNMENT REVENUE AND EXPENDITURE CONTINUED TO GROW AT A SIGNIFICANT RATE IN THE EARLY MONTHS OF 2024

- In 2024 Q1 **revenue** from taxes and social security contributions grew by 6.2% year-on-year. The main factors contributing to this growth were the tax base increases and, to a lesser extent, the gradual withdrawal of some of the support measures deployed in response to the energy crisis
- In the same period, **public expenditure** in social benefits and consumption increased by 6.5% and 6.0%, respectively
- As a result of these developments, it is estimated that the **general government deficit**, in cumulative 12-month terms, stood at 3.8% of GDP in March, compared with 3.6% at end-2023

GOVERNMENT REVENUE (a)



GOVERNMENT EXPENDITURE (a)



Sources: Intervención General de la Administración del Estado and Banco de España.
 (a) The data do not include local government.

