

MACROECONOMIC PROJECTIONS FOR SPAIN 2022-2024

ÁNGEL GAVILÁN

Director General Economics, Statistics and Research

Madrid

5 April 2022



CONTENTS

- 1. Overview**
- 2. Developments in economic activity in the short term**
- 3. Economic projections for the Spanish economy for 2022-2024**
- 4. Main risks and sensitivity exercises**



ÍNDICE

1. Overview

2. Developments in economic activity in the short term

3. Projections for the Spanish economy for 2022-2024

4. Main risks and sensitivity exercises

THE SPANISH ECONOMIC OUTLOOK IN THE SHORT AND MEDIUM TERM IS HEAVILY INFLUENCED BY THE RUSSIAN INVASION OF UKRAINE

Until the outbreak of the armed conflict in Ukraine: activity posted upside surprises, as did inflation

- **National Accounts:** data better than expected
- The **Omicron variant** had a smaller impact on activity than previous waves of the pandemic
- Initial signs of an easing of **bottlenecks**

The war in Ukraine: a considerable negative shock when the recovery from the health crisis was still incomplete

- Sharp rise in **commodity prices**
- Sanctions against Russia and decline in **trade flows**
- Negative impact on **agents' confidence** and financial dynamics

New macroeconomic projections: the extraordinary uncertainty as to the duration and intensity of the conflict makes it impossible to assess its precise implications

- **GDP is revised downwards** in 2022 and 2023, and upwards in 2024
- **Inflation is revised sharply upwards** in 2022, although a gradual moderation is projected in the medium term

CONTENTS

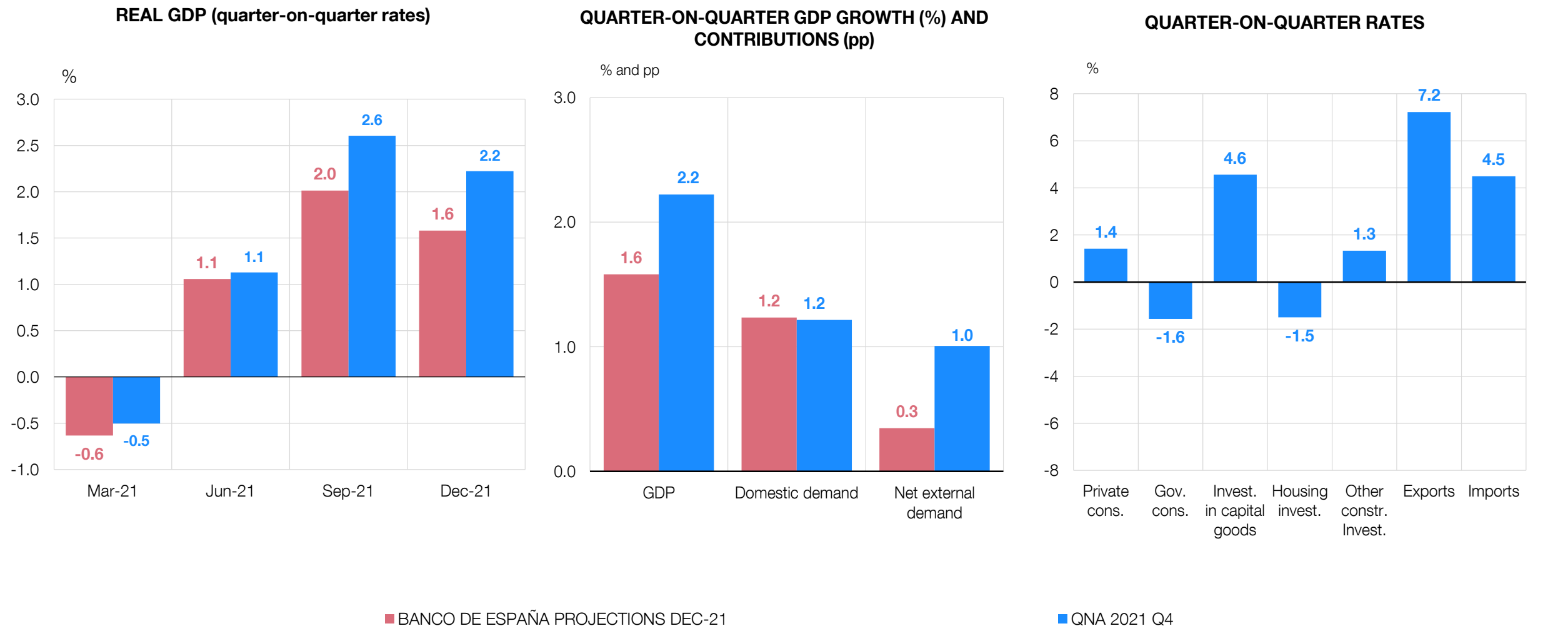
1. Overview

2. Developments in economic activity in the short term

3. Projections for the Spanish economy for 2022-2024

4. Main risks and sensitivity exercises

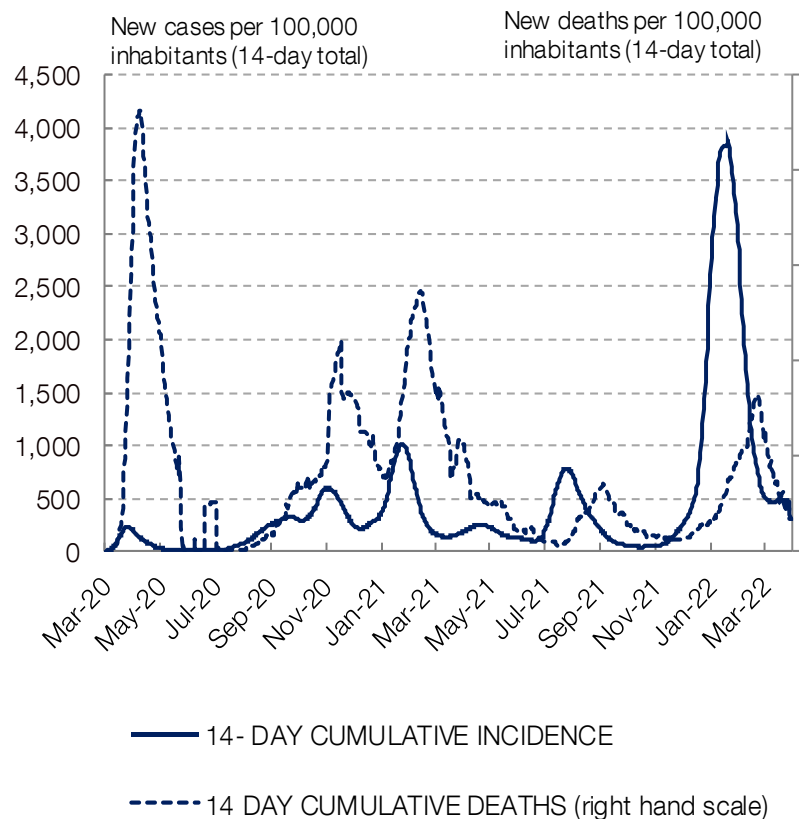
POSITIVE SURPRISES IN NATIONAL ACCOUNTS DATA WITH RESPECT TO THE BANCO DE ESPAÑA'S DECEMBER PROJECTIONS



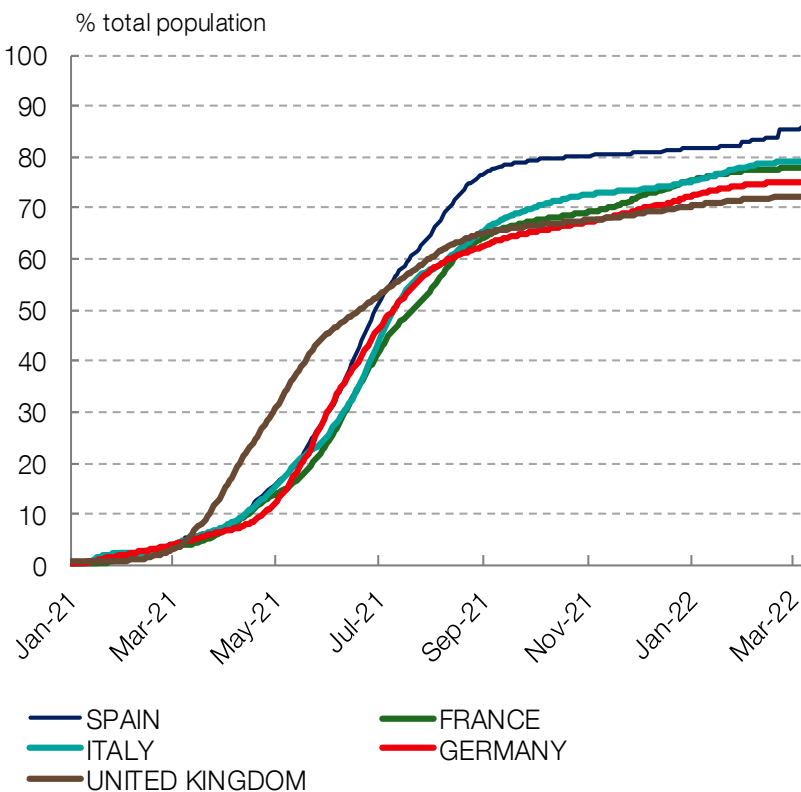
SOURCES: Banco de España and INE.

THE SPREAD OF THE OMICRON VARIANT AT THE END OF 2021 AND BEGINNING OF 2022 AFFECTED ACTIVITY DEVELOPMENTS, BUT THE HIGH VACCINATION RATE LIMITED ITS IMPACT

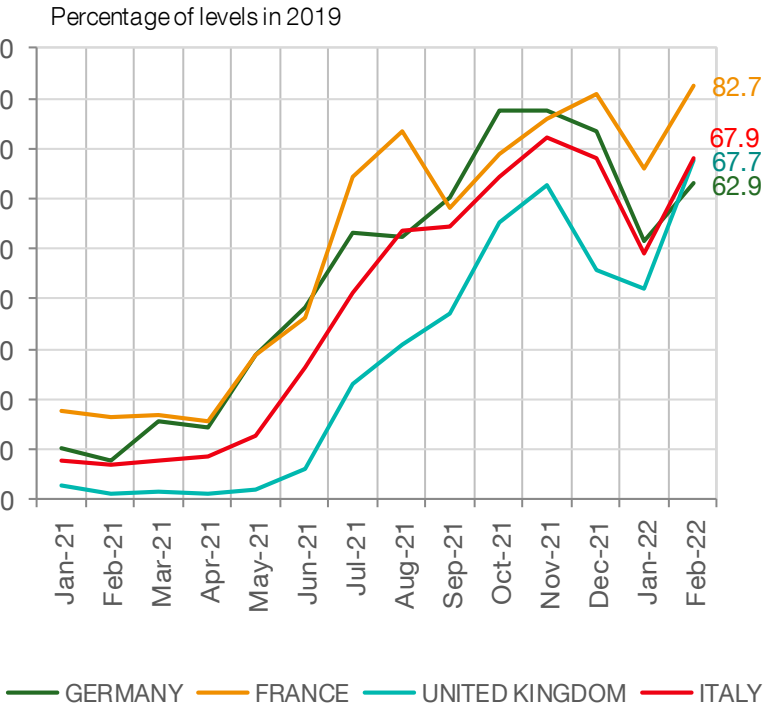
COVID-19 IN SPAIN



FULLY VACCINATED POPULATION

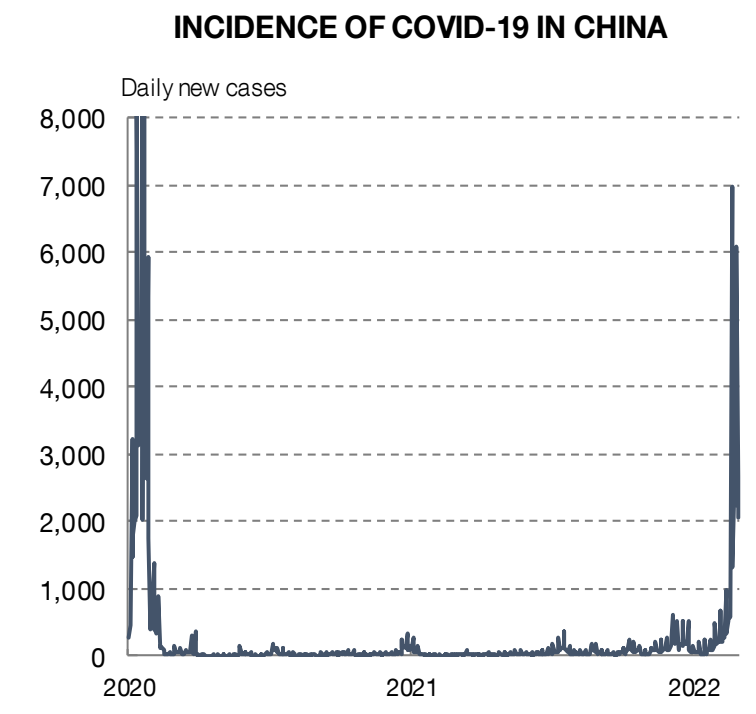
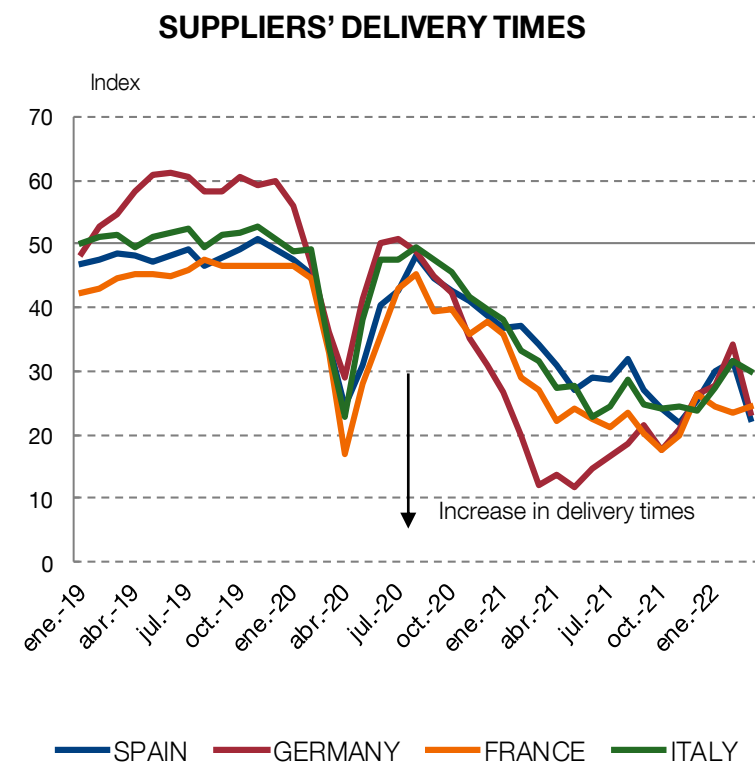
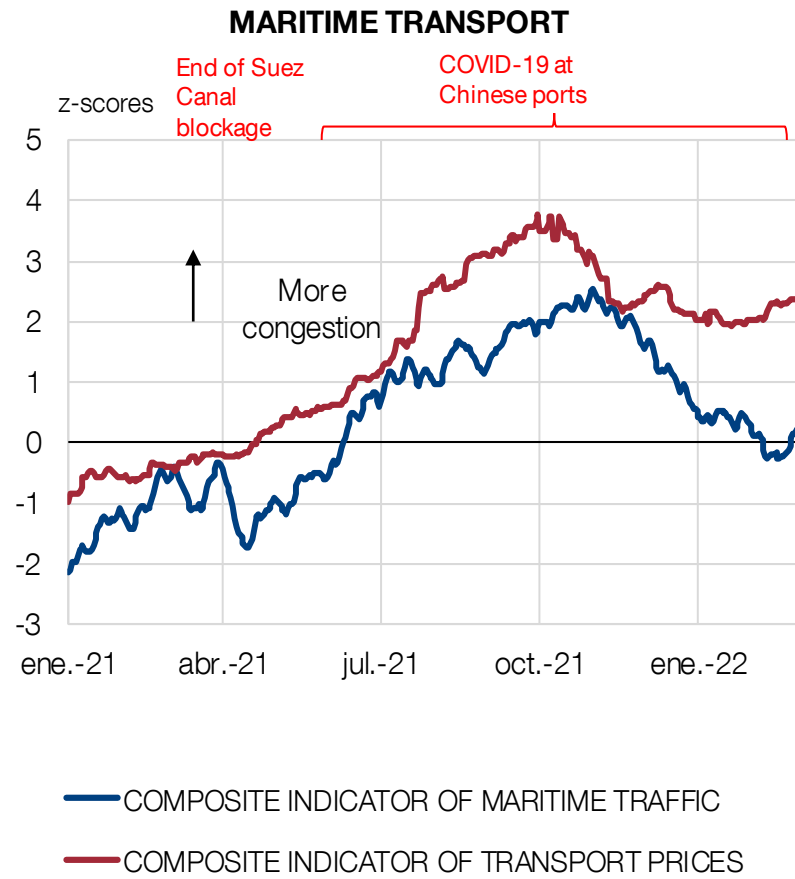


INTERNATIONAL AIR PASSENGERS BY COUNTRY
(percentages of figures for same dates in 2019)



SOURCES: Our World in Data and AENA.

IN THE FINAL STRETCH OF 2021 AND EARLY 2022, THERE WERE SIGNS OF MODERATION IN THE BOTTLENECKS. THE WAR AND THE FRESH OUTBREAKS OF COVID-19 IN CHINA HAVE REVERSED THIS TREND

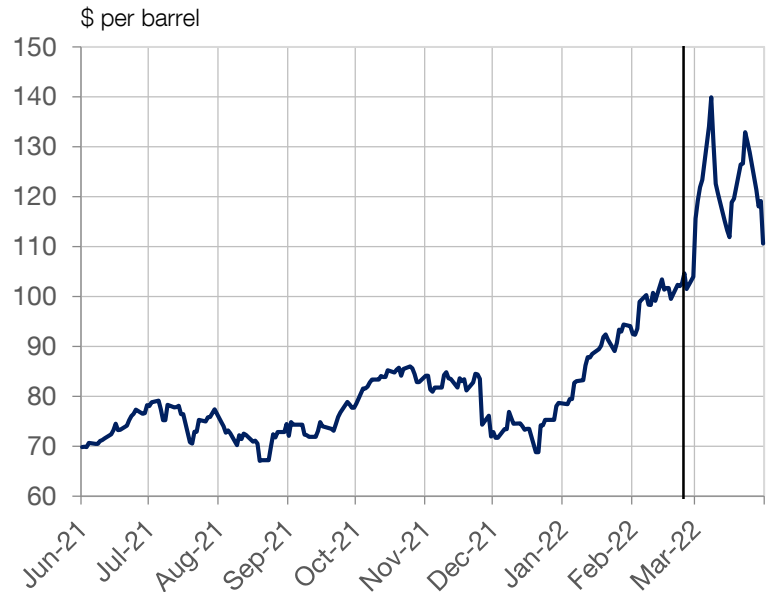


SOURCES: IHS Markit, Johns Hopkins University and Banco de España.

a) An increase in the indicators denotes greater congestion in sea ports. The composite indicator of maritime traffic is the main component of the indicators of container traffic in the Suez Canal and of wait times at four US and Chinese ports. The composite indicator of transport prices is the main component of prices of Baltic Dry Index, Harpex Global and container traffic between Asia and the United States and between Asia and Europe.

COMMODITY PRICES REMAINED ON AN UPWARD PATH OVER THE QUARTER, SURGING AT THE START OF THE ARMED CONFLICT IN UKRAINE, BUT MODERATING RECENTLY

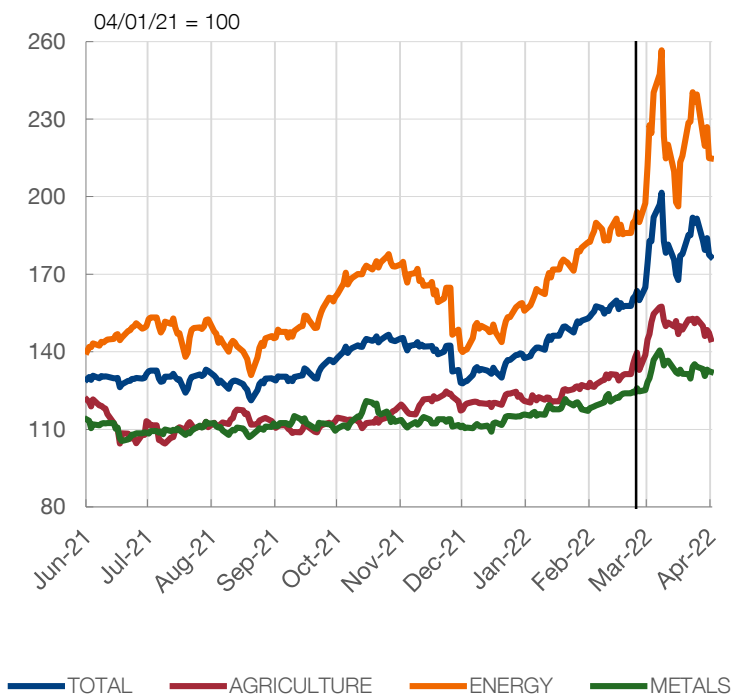
OIL PRICES



MIBGAS INDEX FOR SPAIN (a)

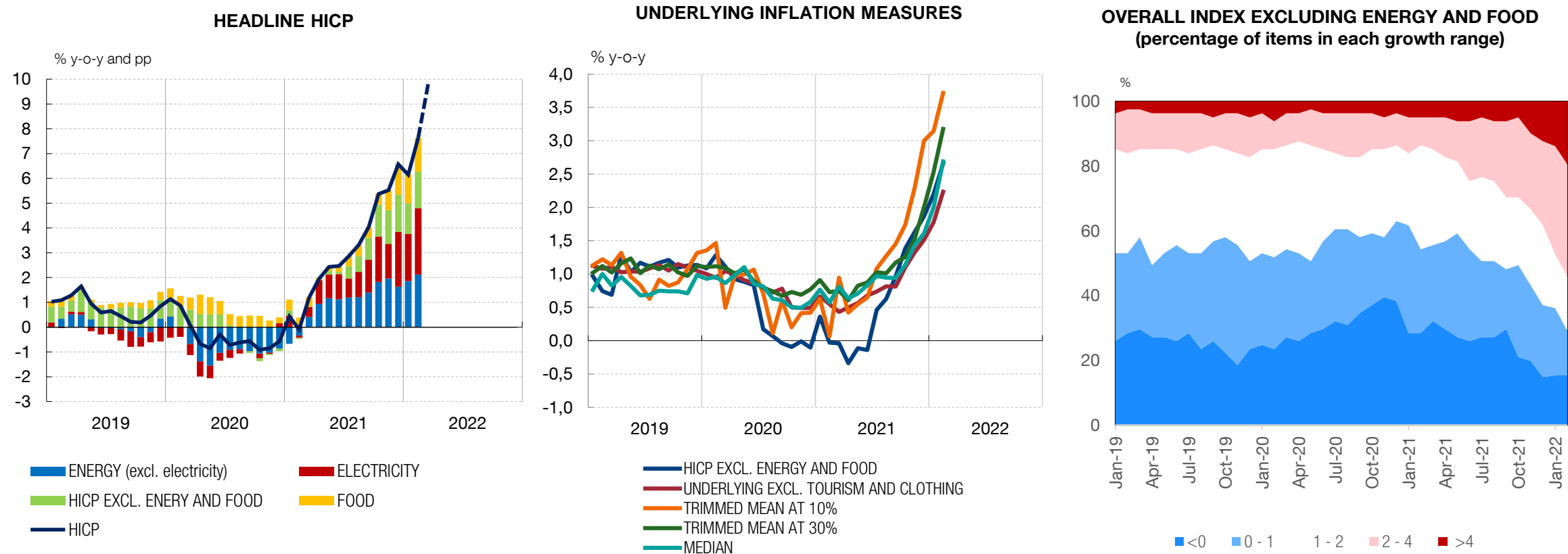


COMMODITY PRICES (S&P)



SOURCES: Refinitiv and Mibgas.
(a) The MIBGAS index is the weighted average price for all gas transactions carried out on the same day at all the Trading Sessions for Spain.

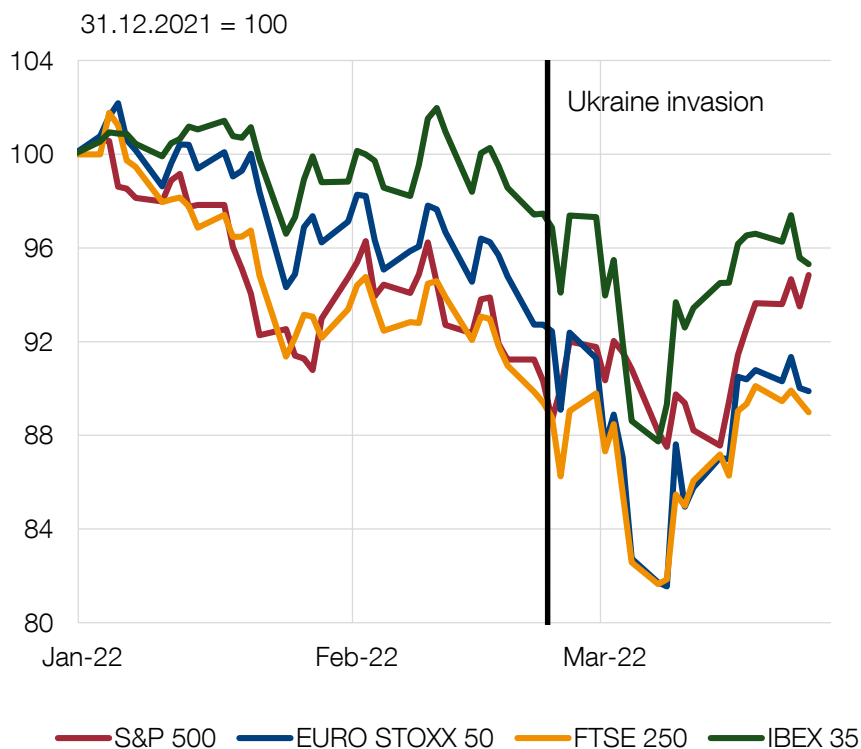
IN RECENT MONTHS INFLATION HAS CONTINUED TO ACCELERATE, MAINLY OWING TO ENERGY AND FOOD, BUT ALSO TO THE INCREASE IN UNDERLYING INFLATION



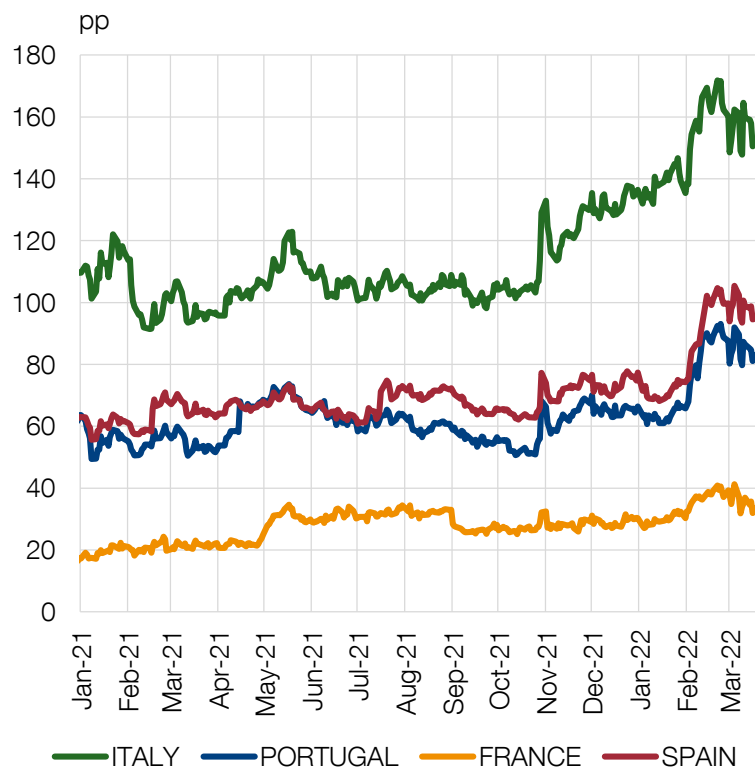
SOURCES: INE, Eurostat and Banco de España. Latest observation: February 2022 (March 2022 flash estimate for the HICP).

HIGH VOLATILITY IN THE FINANCIAL MARKETS, OWING TO THE WAR AND THE CHANGES IN EXPECTATIONS OF THE MONETARY POLICY RESPONSE TO INFLATION, ALTHOUGH WITHOUT HIGHLY DISRUPTIVE EPISODES

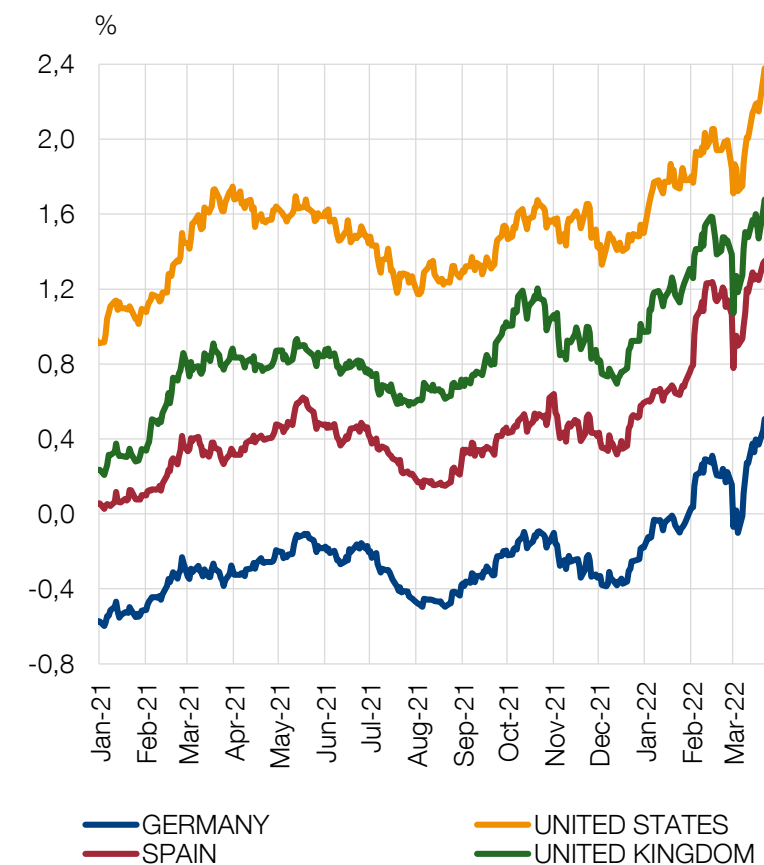
STOCK MARKET INDICES



SOVEREIGN SPREADS IN THE EURO AREA

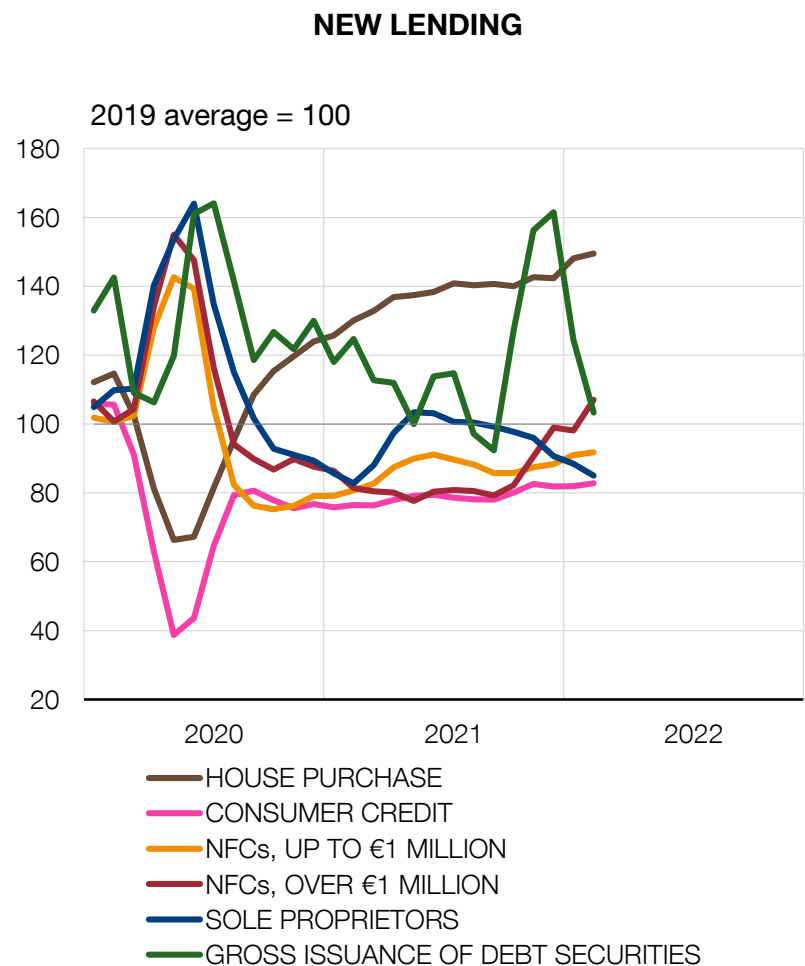
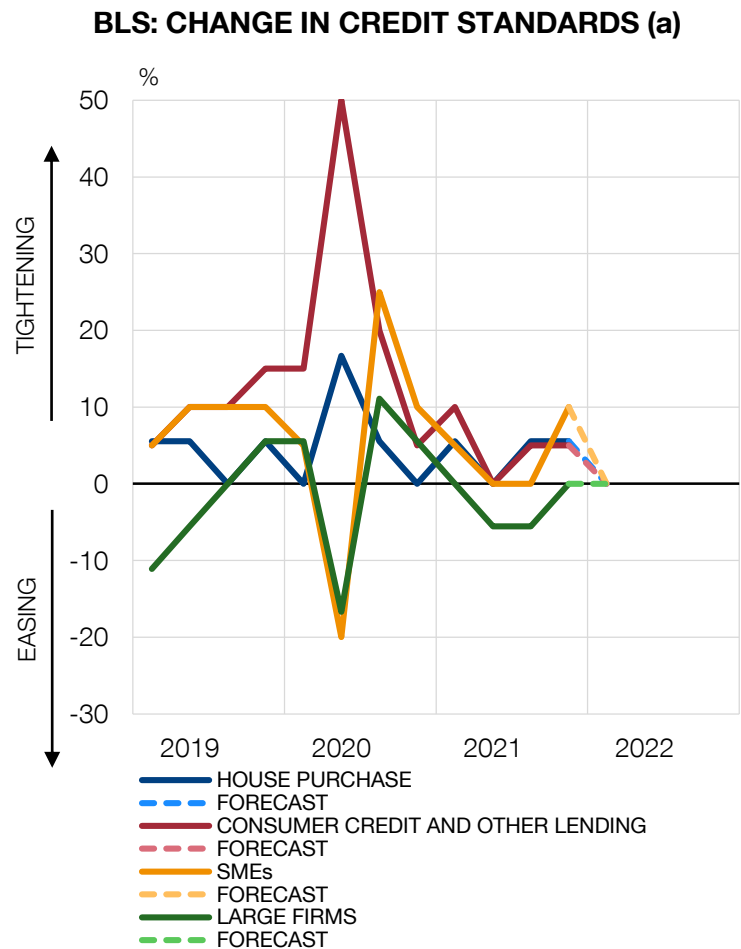
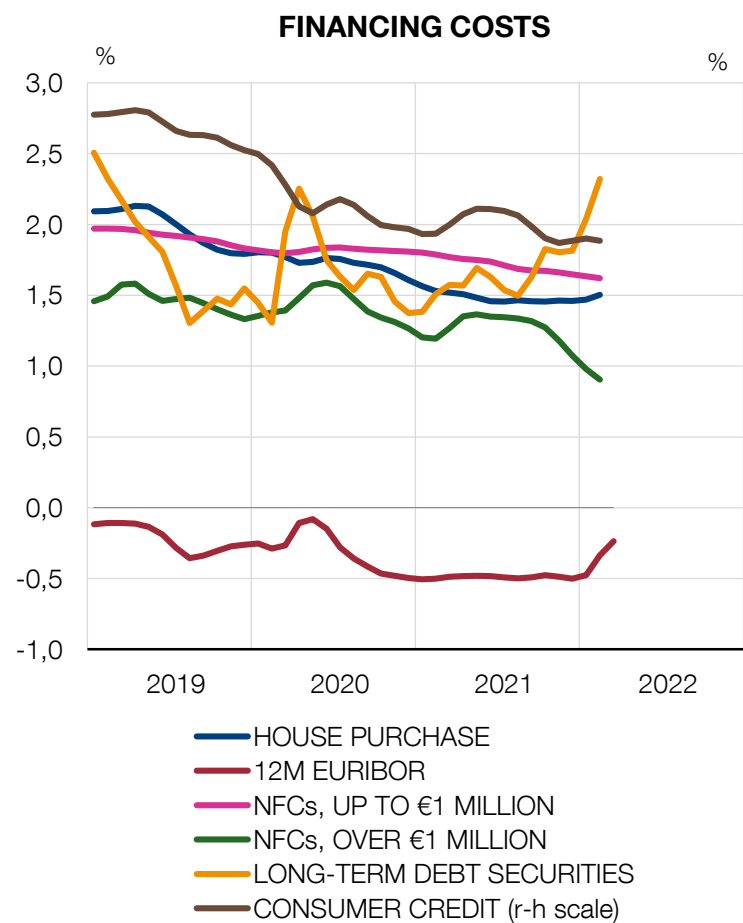


INTEREST RATES ON 10-YEAR SOVEREIGN DEBT



SOURCE: Refinitiv Datastream. Latest observation: March 31.

FINANCING TERMS AND CONDITIONS TIGHTENED SLIGHTLY, IN A SETTING IN WHICH NEW LENDING TO ENTERPRISES AND TO HOUSEHOLDS FOR HOUSE PURCHASE SHOWED GREATER MOMENTUM

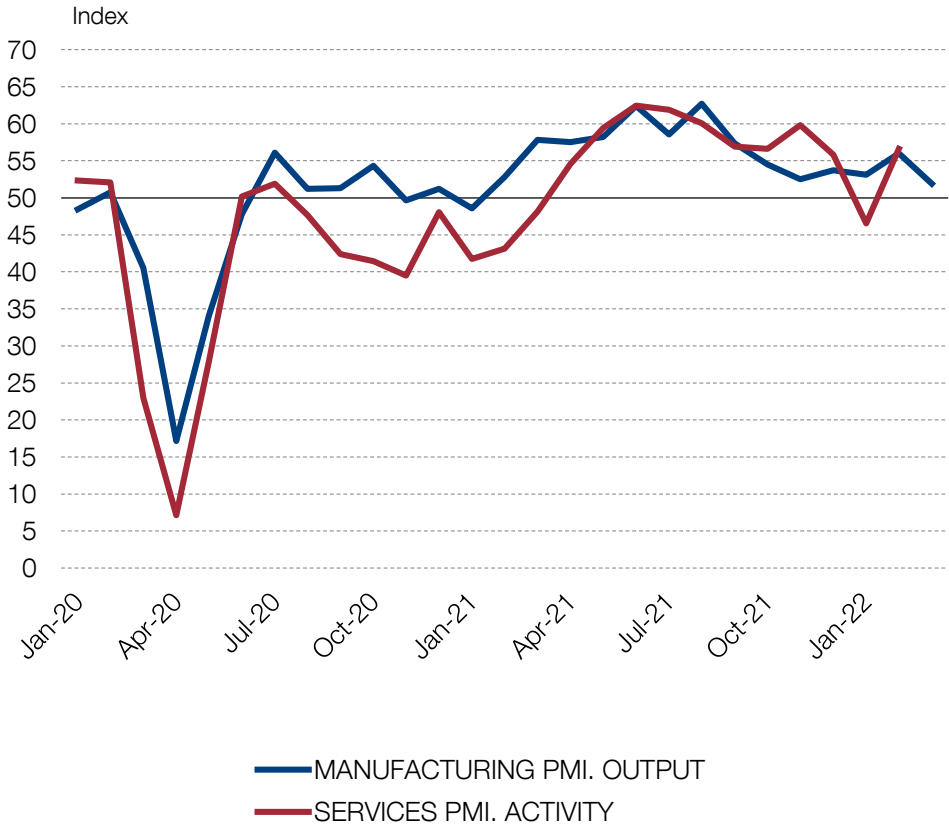


SOURCES: Banco de España and Refinitiv Datastream. Latest observation: February (financing costs and new lending), March (EURIBOR) and 2021 Q4 (credit standards).

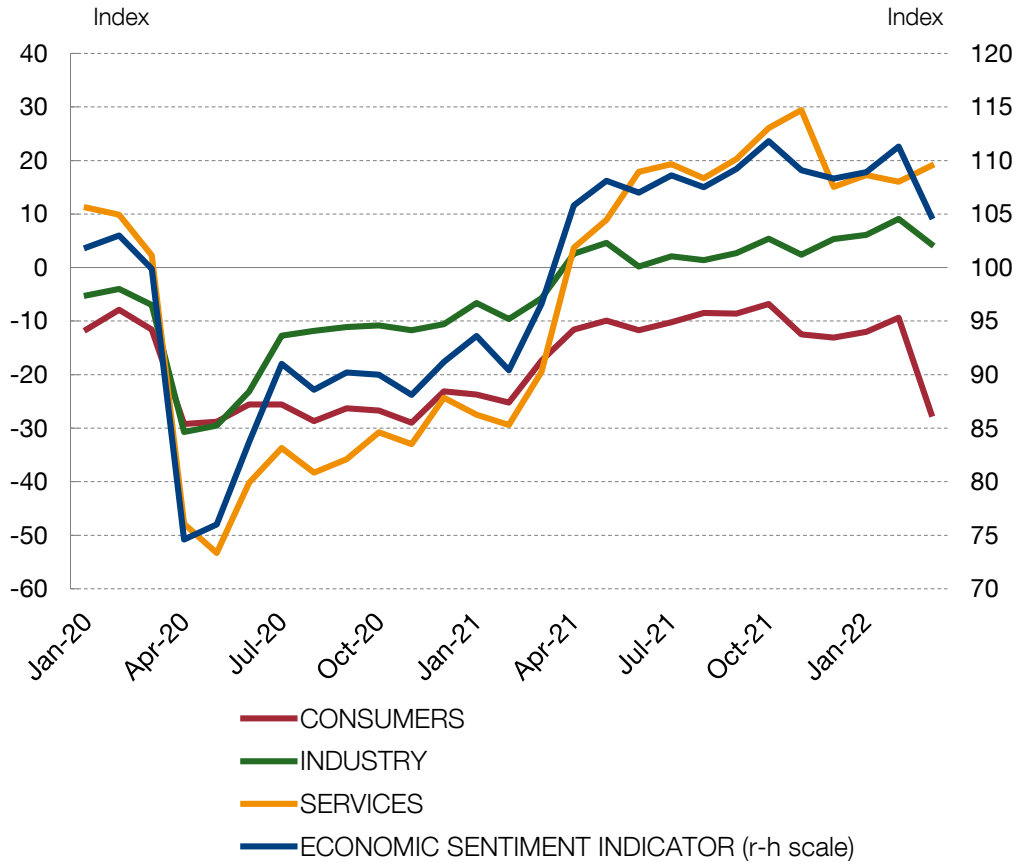
a. Indicator = percentage of banks that have tightened their credit standards considerably \times 1 + percentage of banks that have tightened their credit standards somewhat \times 1/2 – percentage of banks that have eased their credit standards somewhat \times 1/2 – percentage of banks that have eased their credit standards considerably \times 1.

THE WAR INTERRUPTED THE IMPROVEMENT OBSERVED AT THE BEGINNING OF THE QUARTER IN THE CONFIDENCE INDICATORS

PURCHASING MANAGERS' INDEXES

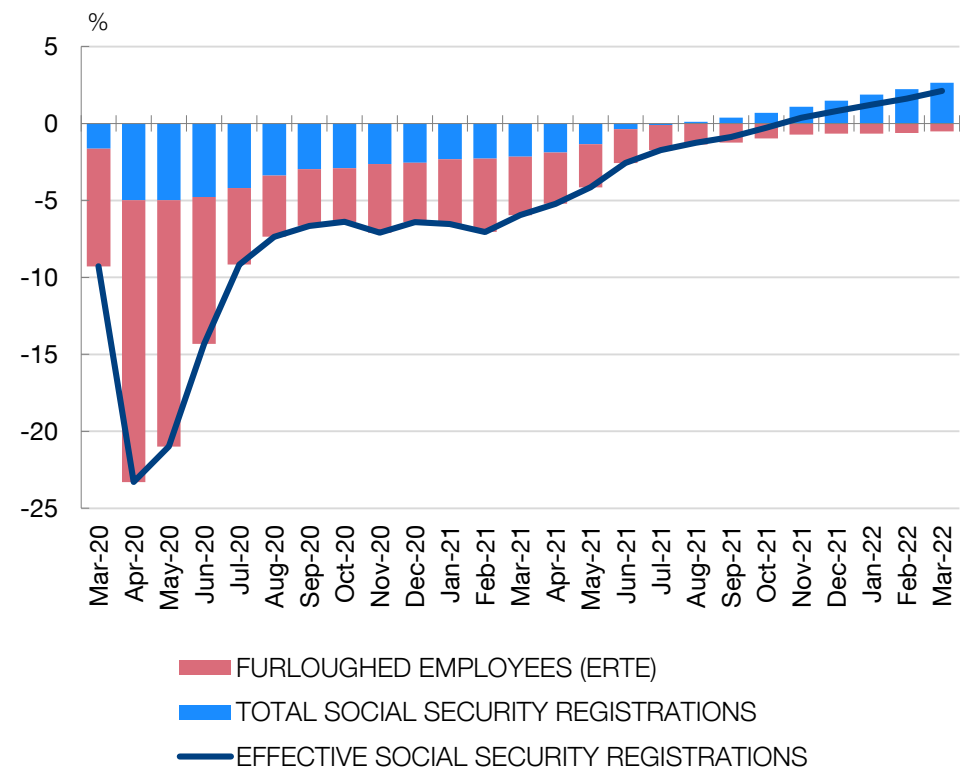


CONFIDENCE INDICATORS

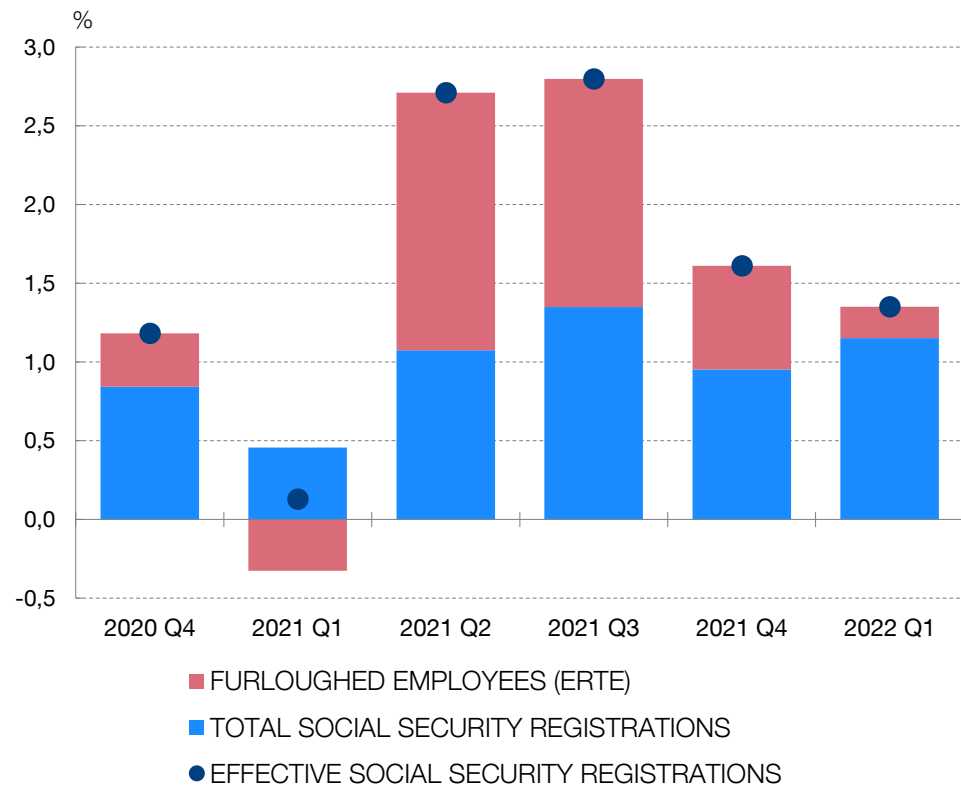


SOURCES: IHS Markit and European Commission.

CHANGE IN TOTAL AND ACTUAL SOCIAL SECURITY REGISTRATIONS AND IN FURLOUGHED EMPLOYEES VERSUS FEBRUARY 2020 (a)

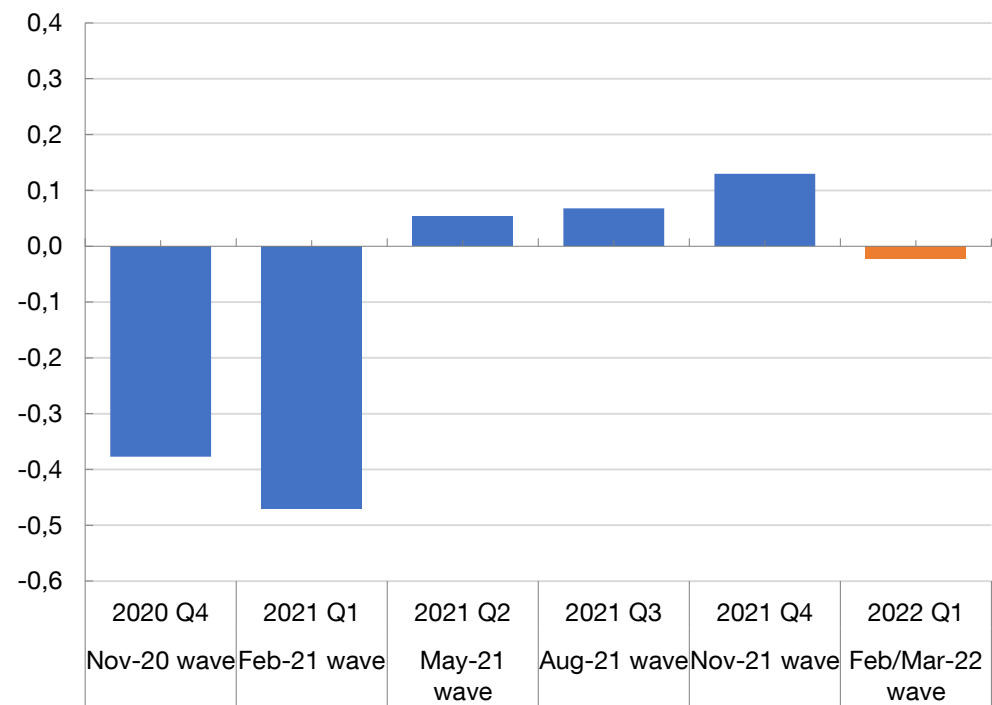


QUARTERLY CHANGE IN ACTUAL SOCIAL SECURITY REGISTRATIONS AND CONTRIBUTION OF TOTAL REGISTRATIONS AND OF FURLOUGHED EMPLOYEES (a)

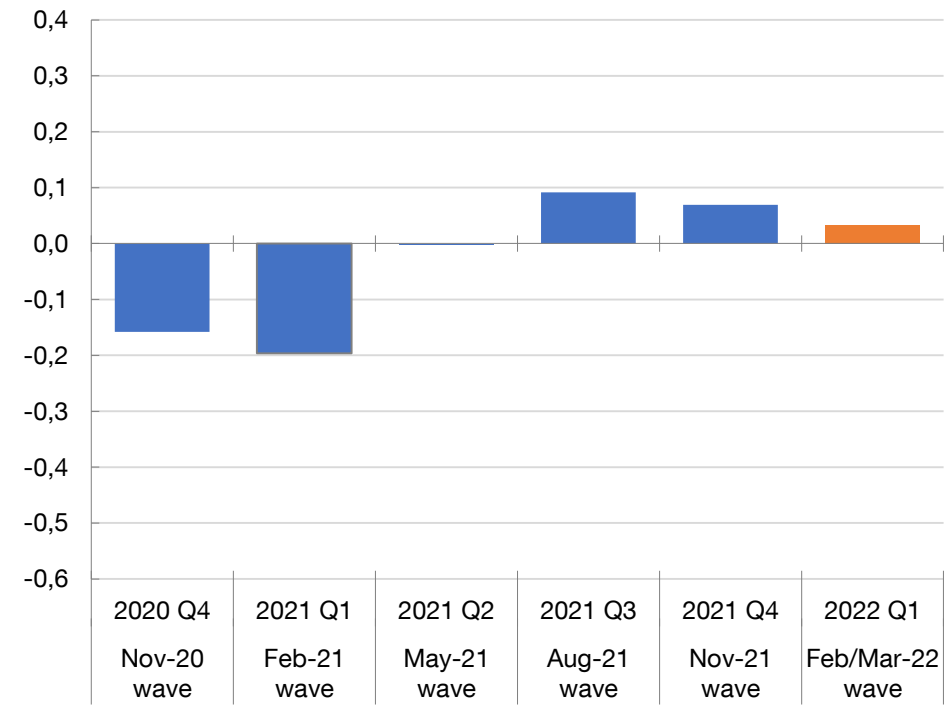


SOURCES: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. Latest observation: March 2022.
a) Seasonally adjusted series.

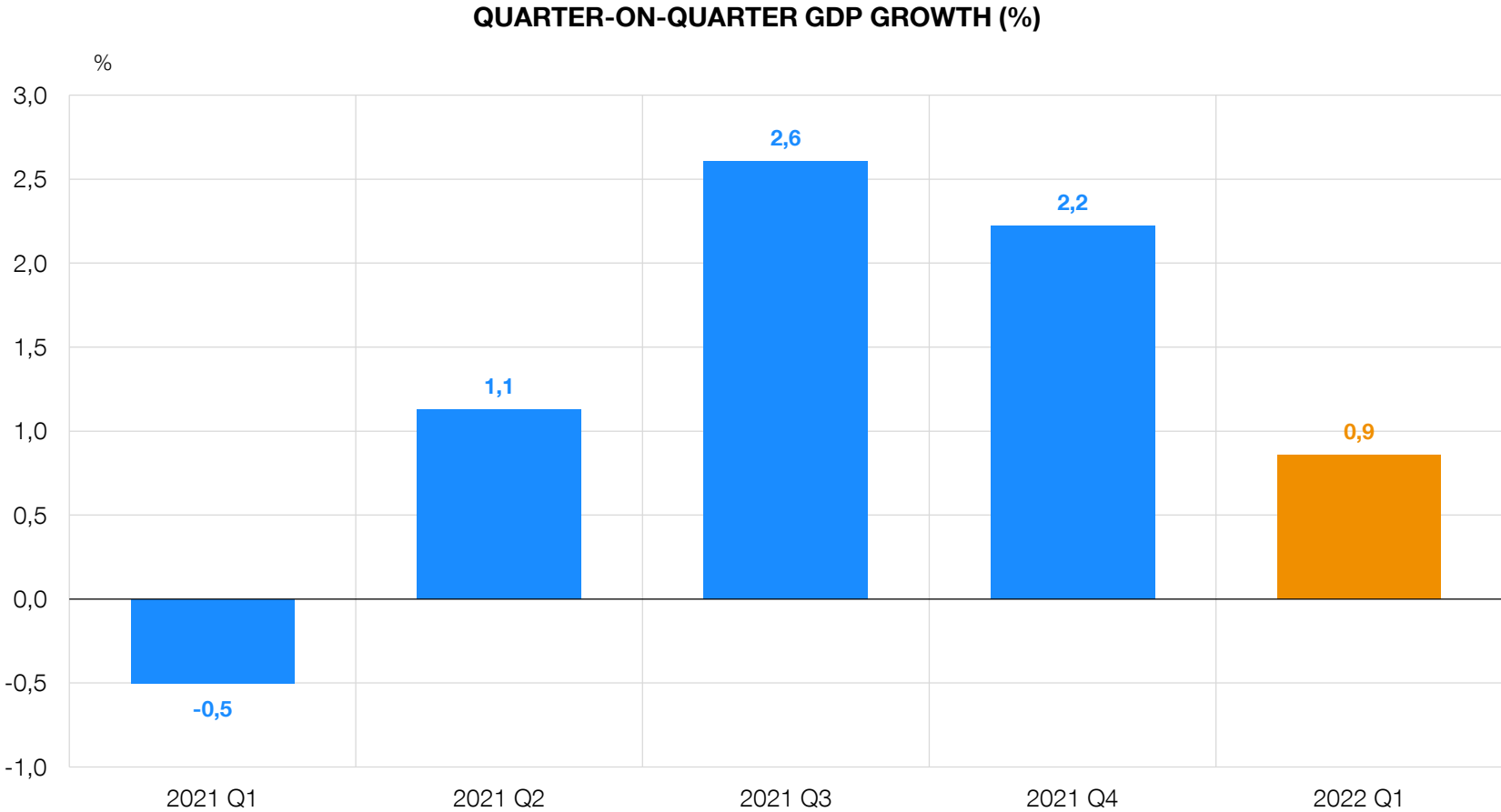
TURNOVER. QUARTERLY CHANGE (a)



EMPLOYMENT. QUARTERLY CHANGE (a)



SOURCE: Banco de España (EBAE).
a) Index calculated as steep decrease = -2, slight decrease = -1, stable = 0, slight increase = 1, steep increase = 2.



SOURCES: Banco de España and INE.

CONTENTS

1. Overview
2. Developments in economic activity in the short term
- 3. Projections for the Spanish economy for 2022-2024**
4. Main risks and sensitivity exercises



THE ARMED CONFLICT IN UKRAINE AFFECTS THE OUTLOOK FOR GROWTH AND INFLATION, THROUGH VARIOUS CHANNELS

Commodities channel

- Increase in the price of these inputs and higher consumer price inflation
- Possible supply problems

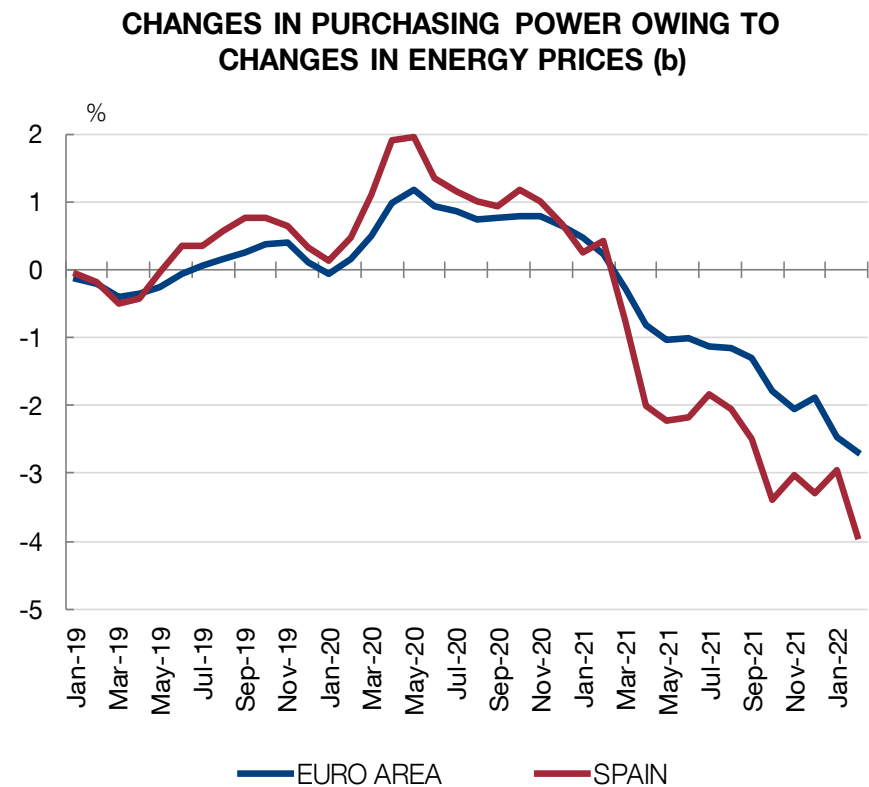
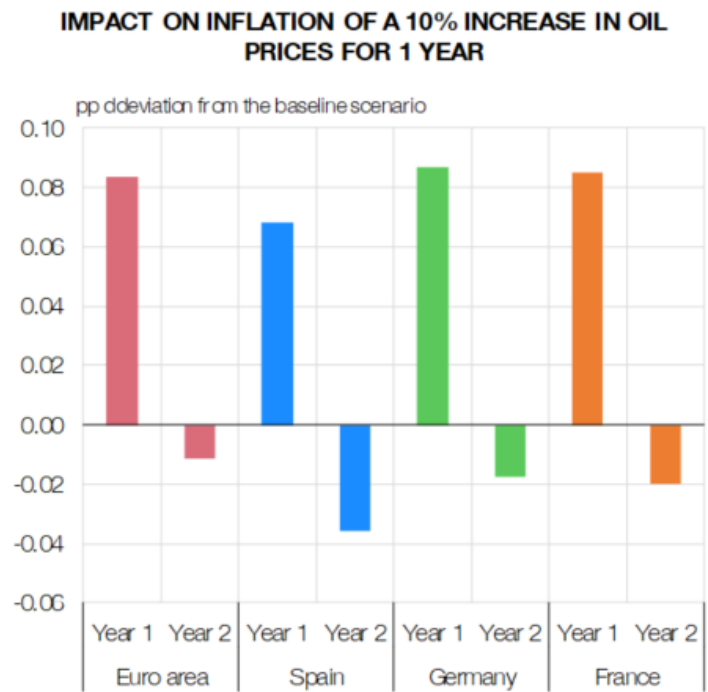
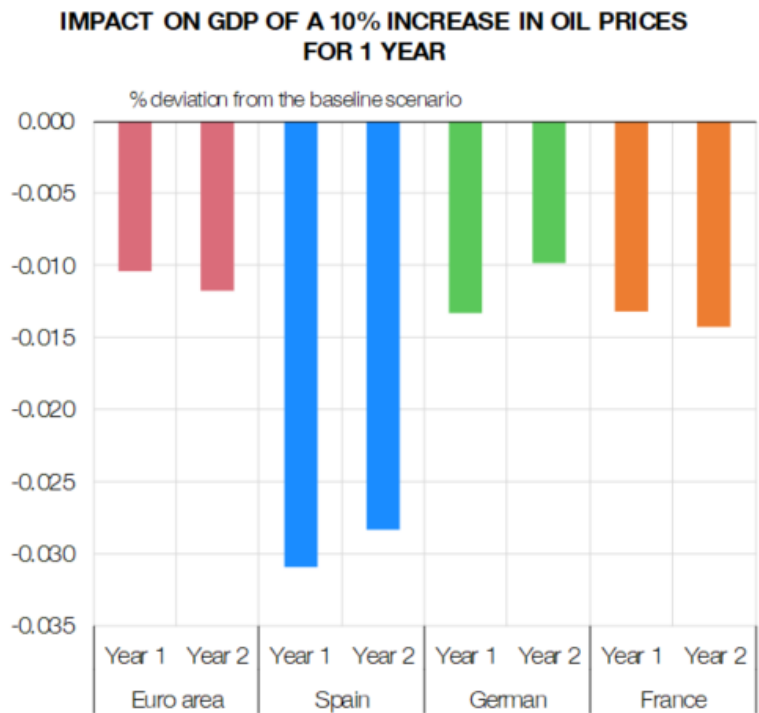
Trade channel

- Deterioration in global economic outlook
- Worsening of global value chain bottlenecks

Confidence/uncertainty channel

- Postponement of consumption and investment decisions of households and firms
- Tightening of financing conditions

COMMODITIES CHANNEL: ALTHOUGH SPAIN’S RELIANCE ON RUSSIAN ENERGY IS NOT HIGH, IT HAS ALWAYS BEEN PARTICULARLY VULNERABLE TO ENERGY SHOCKS



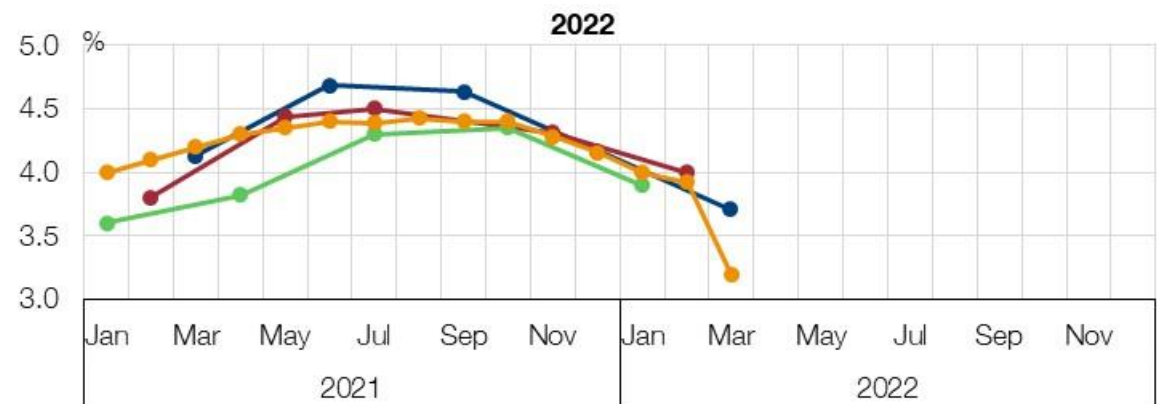
SOURCES: INE, Eurostat and Banco de España.

a) Simulations based on the NiGEM model with rational expectations and exogenous monetary policy.

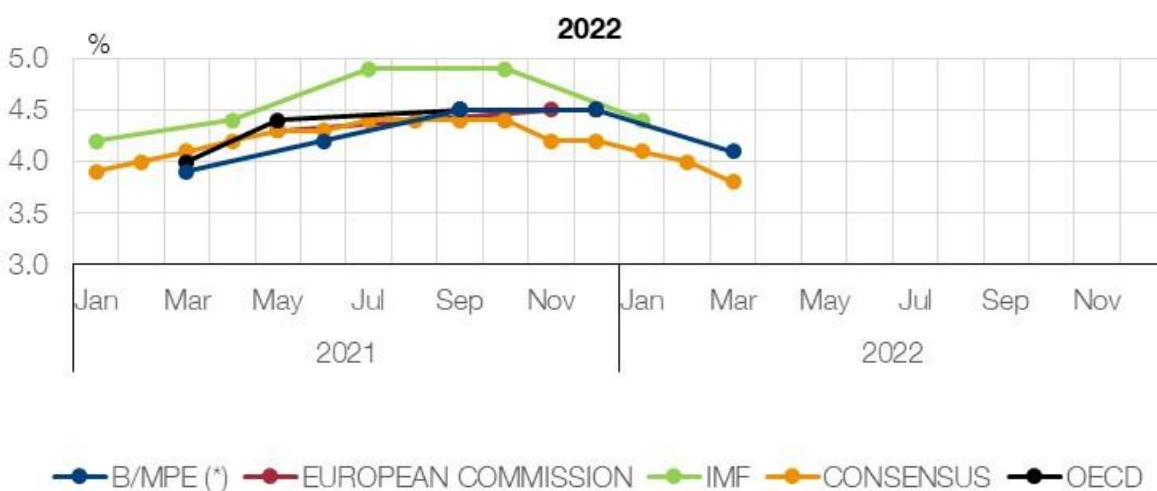
b) The indicator proxies the change in households’ purchasing power stemming from changes in the price of energy if their gross disposable income were to grow at the same pace as the HICP.

TRADE CHANNEL: SPAIN'S DIRECT EXPOSURE TO RUSSIA IS MODEST, BUT GLOBAL ECONOMIC ACTIVITY IS ALREADY HIGHLY INTERCONNECTED. POSSIBLE WORSENING OF BOTTLENECKS

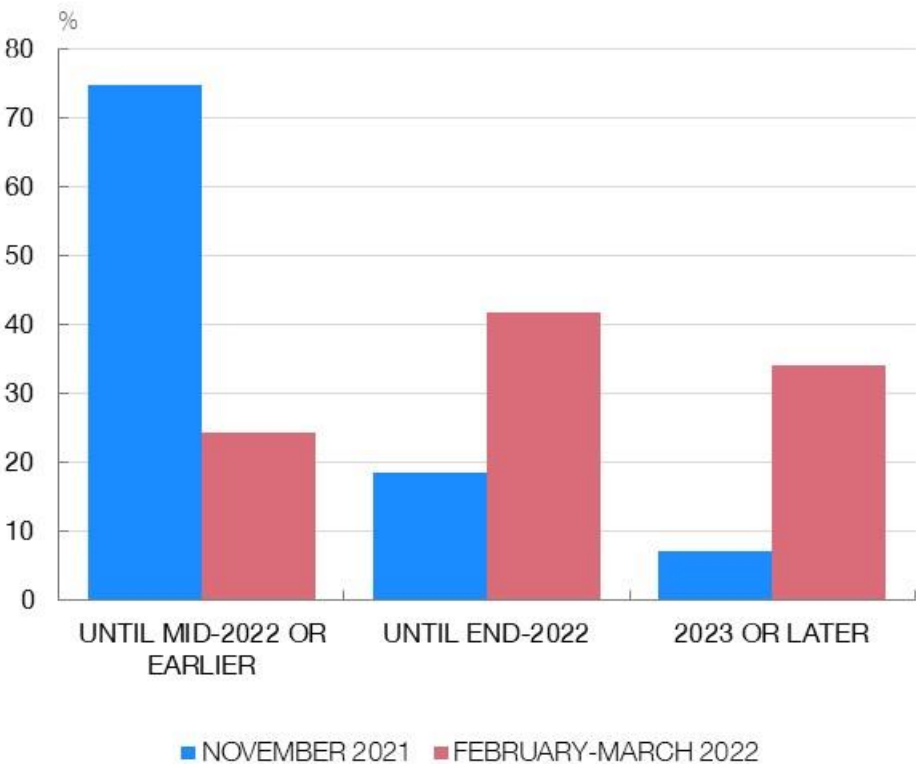
EURO AREA GDP GROWTH FORECASTS



WORLD GDP GROWTH FORECASTS

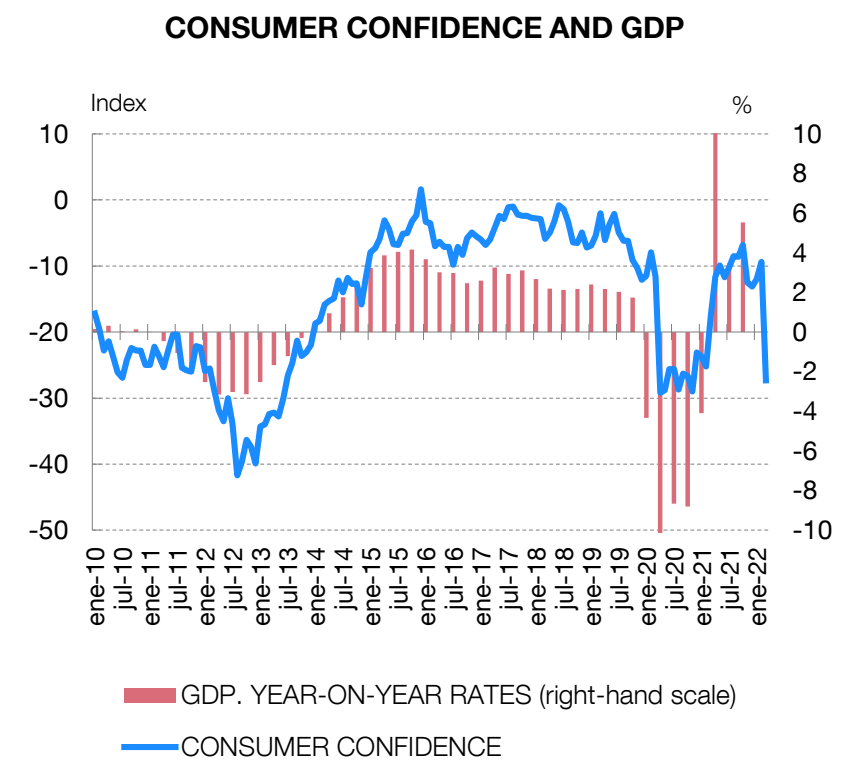
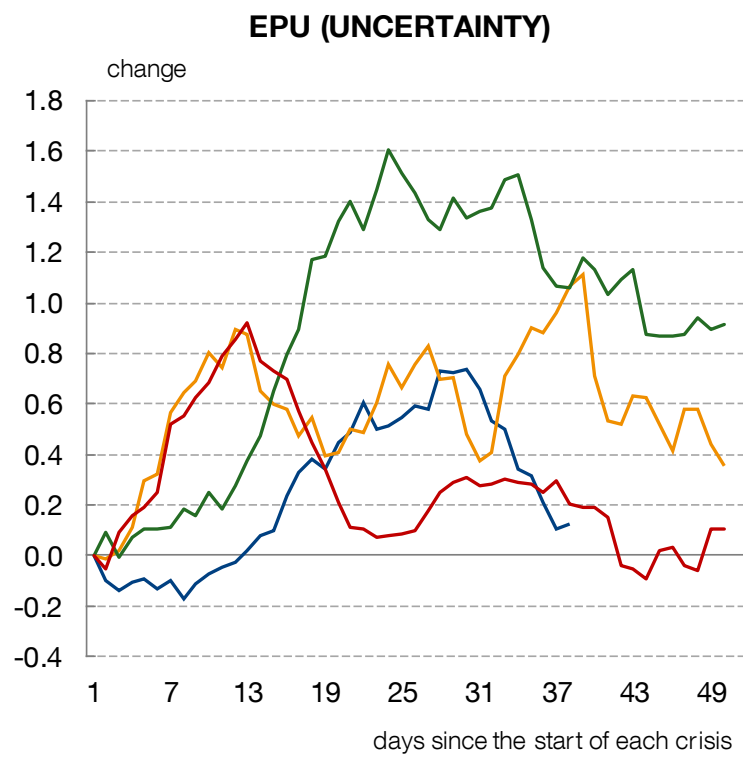
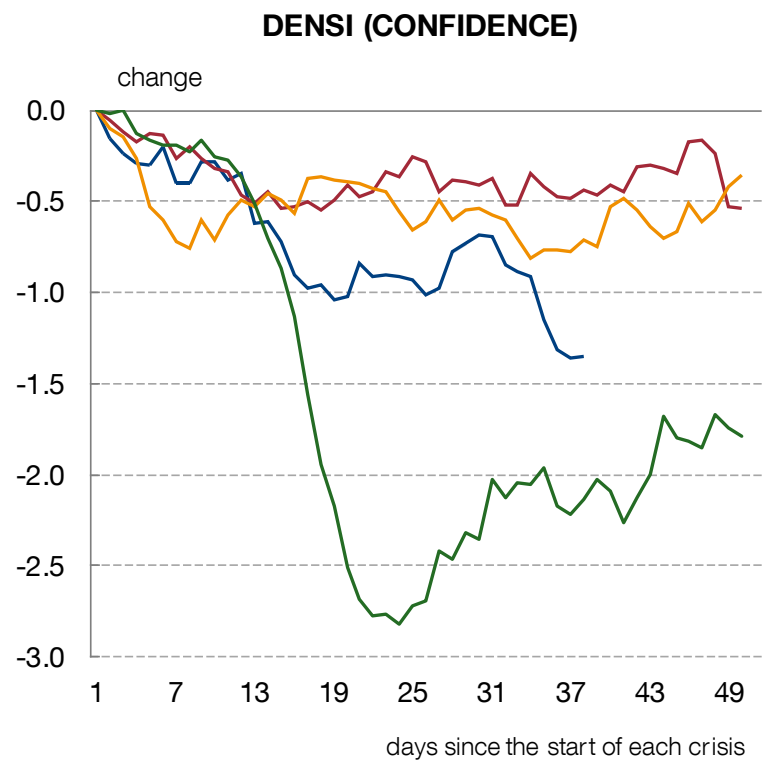


EXPECTED DURATION OF SUPPLY DIFFICULTIES



SOURCES: ECB, European Commission, IMF, Consensus Forecast and Banco de España (EBAE).

CONFIDENCE/UNCERTAINTY CHANNEL: CONFIDENCE AND UNCERTAINTY INDICATORS HAVE DETERIORATED SINCE THE START OF THE WAR, WHICH NORMALLY HAMPERS GROWTH

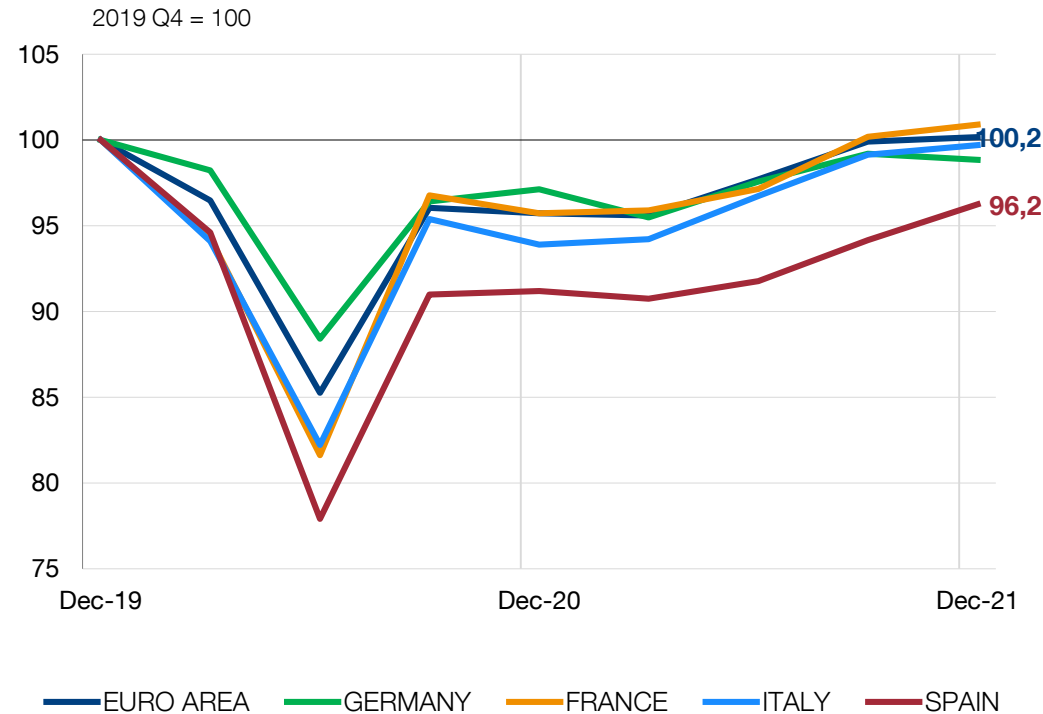


— UKRAINE CRISIS — FINANCIAL CRISIS — DEBT CRISIS — COVID-19 CRISIS

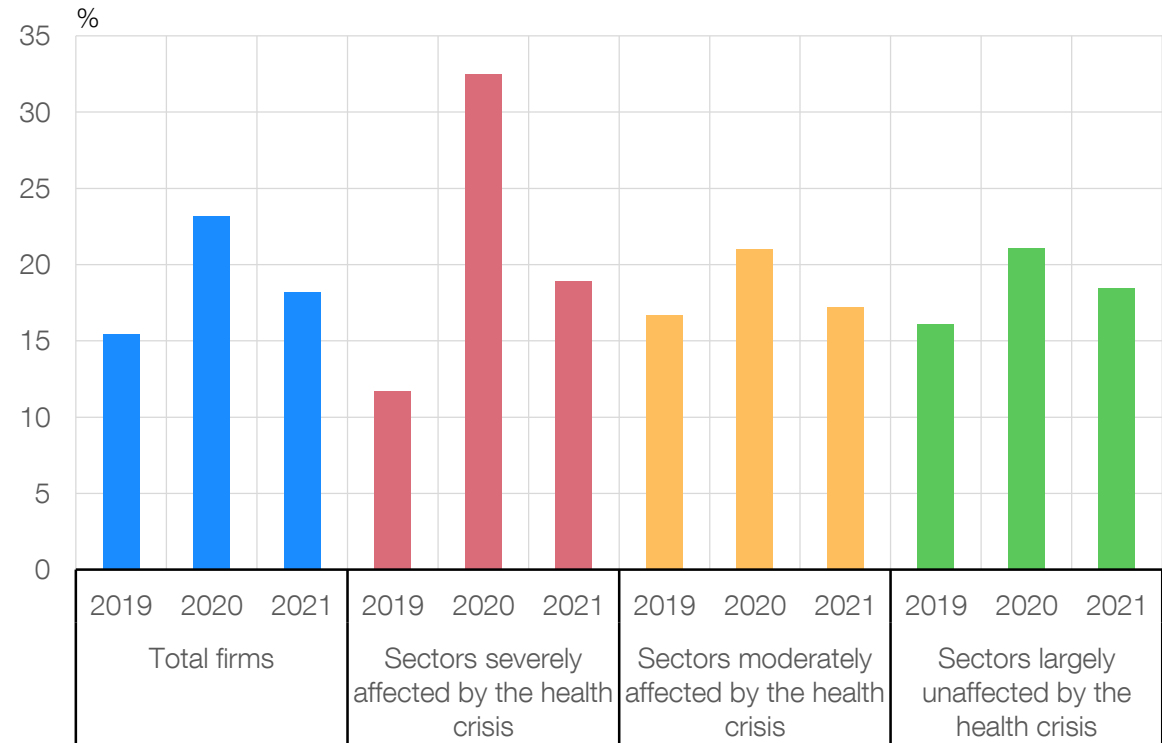
SOURCES: Banco de España, GPR, EPU, Refinitiv, Factiva, INE and European Commission.
The DENSI and EPU indicators are built on the “economic sentiment” and “economic policy uncertainty” contained in articles published in the main Spanish newspapers. The DENSI takes into account the difference between the number of articles containing terms that may be associated with a potential improvement and that referring to a potential worsening of economic activity in the short term, while the EPU is based on the number of articles about the uncertainty surrounding economic policies.

THE WAR IN UKRAINE HAS UNLEASHED A NEW NEGATIVE SHOCK WHILE WE HAVE YET TO COMPLETE THE RECOVERY FOLLOWING THE HEALTH CRISIS...

REAL GDP



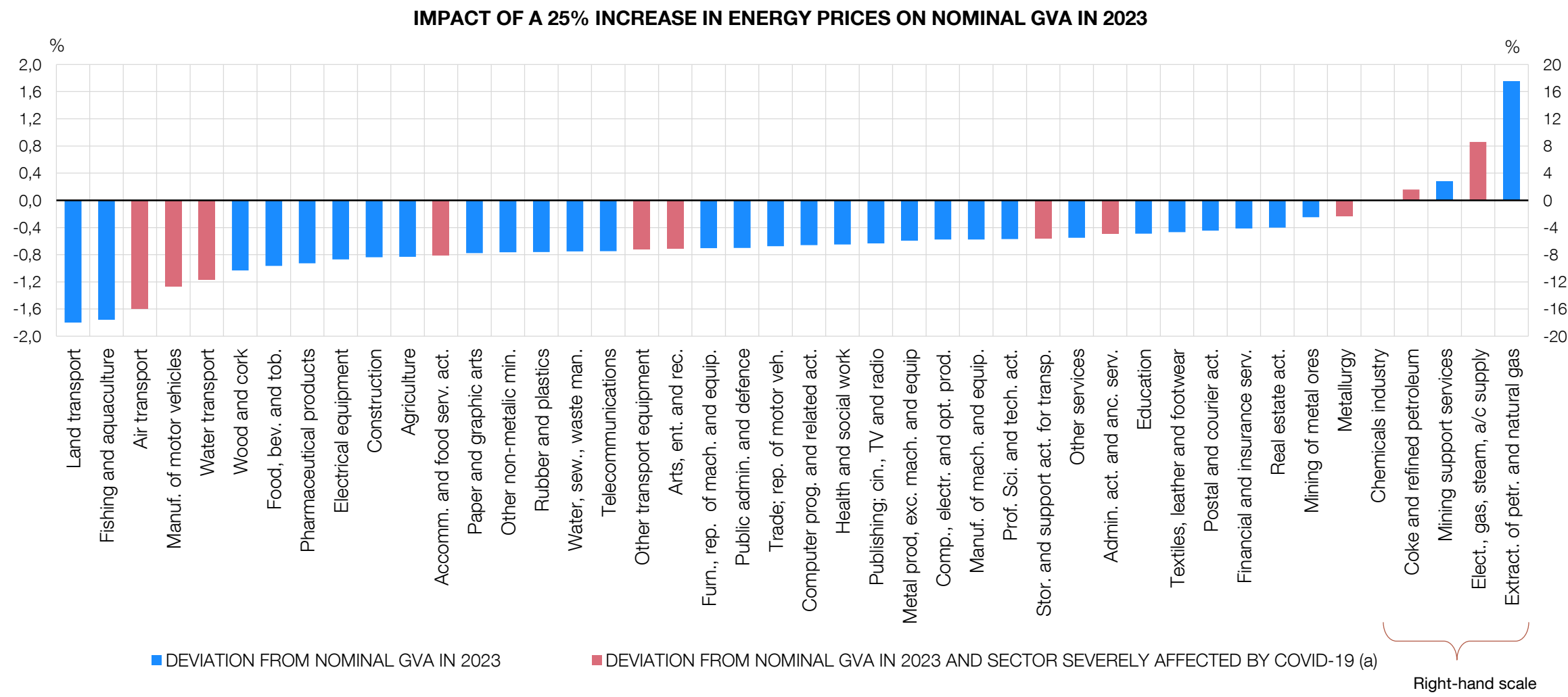
PERCENTAGE OF VULNERABLE FIRMS BASED ON THE NET DEBT / (GROSS OPERATING PROFIT + FINANCIAL REVENUE) RATIO (a) (b)



SOURCES: INE and Banco de España.

a. The most vulnerable firms are defined as those whose Net financial debt / (Gross operating profit + Financial revenue) ratio is greater than 10 or which have positive net financial debt and zero or negative earnings.

b. Sectors are defined as severely affected by the COVID-19 crisis if their sales fell by more than 15% in 2020; as moderately affected if their sales fell between 9% and 15%; other sectors are deemed to be largely unaffected.

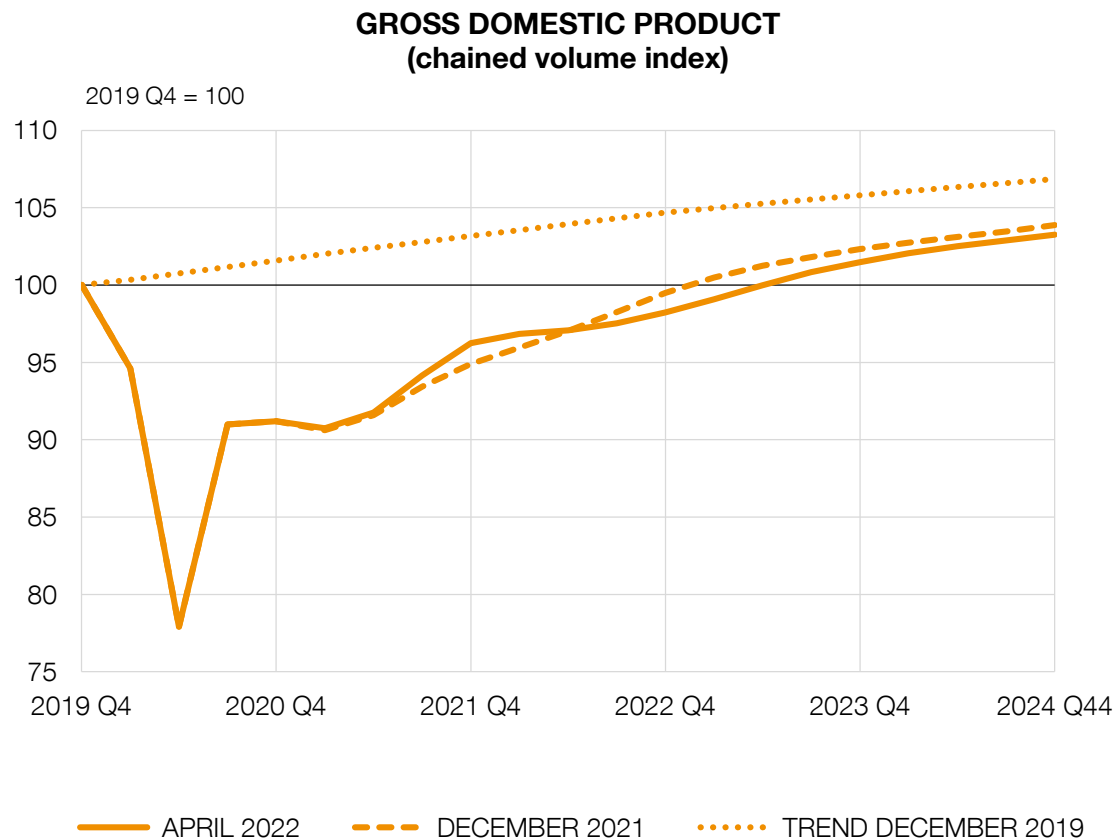


SOURCES: INE and Banco de España.
a) Sectors severely affected by the COVID-19 crisis are defined as those whose turnover fell by more than 15% in 2020.

			APRIL 2022 PROJECTIONS (a)			DIFFERENCE VIS-À-VIS DECEMBER PROJECTIONS		
Annual rate of change (%), unless otherwise indicated	2020	2021	2022	2023	2024	2022	2023	2024
GDP	-10.8	5.1	4.5	2.9	2.5	-0.9	-1.0	0.7
Harmonised index of consumer prices (HICP)	-0.3	3.0	7.5	2.0	1.6	3.8	0.8	0.0
HICP excluding energy and food	0.5	0.6	2.8	1.8	1.7	1.0	0.4	0.1
Unemployment rate (% of labour force). Annual average	15.5	14.8	13.5	13.2	12.8	-0.7	0.3	0.4
General government net lending (+)/net borrowing (-) (% of GDP)	-10.3	-6.9	-5.0	-5.2	-4.7	-0.2	-1.2	-1.4
General government debt (% of GDP)	120.0	118.4	112.6	112.8	113.5	-3.1	-0.9	0.0

SOURCES: Banco de España and INE.
a) Projections cut-off date: 31 March 2022.

GDP GROWTH IS REVISED DOWN IN 2022 AND 2023, AND UP IN 2024



In the baseline scenario, under which there is no escalation in the armed conflict in Ukraine, the war would have its largest adverse impact on activity in Q2

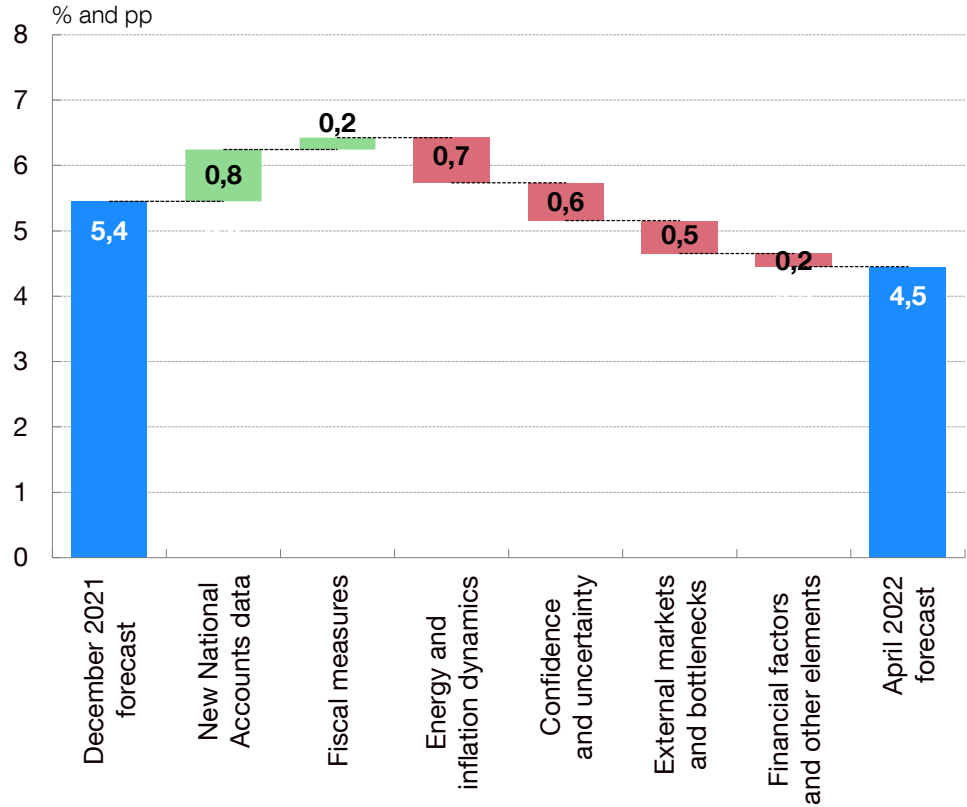
The conflict does not prompt an appreciable deterioration of potential growth: at the end of the projections horizon, economic growth stands at similar rates to those forecast in December

The Spanish economy's return to pre-pandemic GDP levels is pushed back to 2023 Q3

SOURCES: Banco de España and INE.
Latest observation: 2021 Q4.

% y-o-y and pp	2021	2022	2023	2024
December 2021 forecast	4.5	5.4	3.9	1.8
New National Accounts data	0.6	0.8	0.0	0.0
Fiscal measures	0.0	0.2	-0.2	0.0
External markets and bottlenecks	0.0	-0.5	-0.3	0.1
Energy and inflation dynamics	0.0	-0.7	-0.7	0.5
Confidence and uncertainty	0.0	-0.6	0.1	0.1
Financial factors and other elements	0.0	-0.2	0.2	0.1
April 2022 forecast	5.1	4.5	2.9	2.5

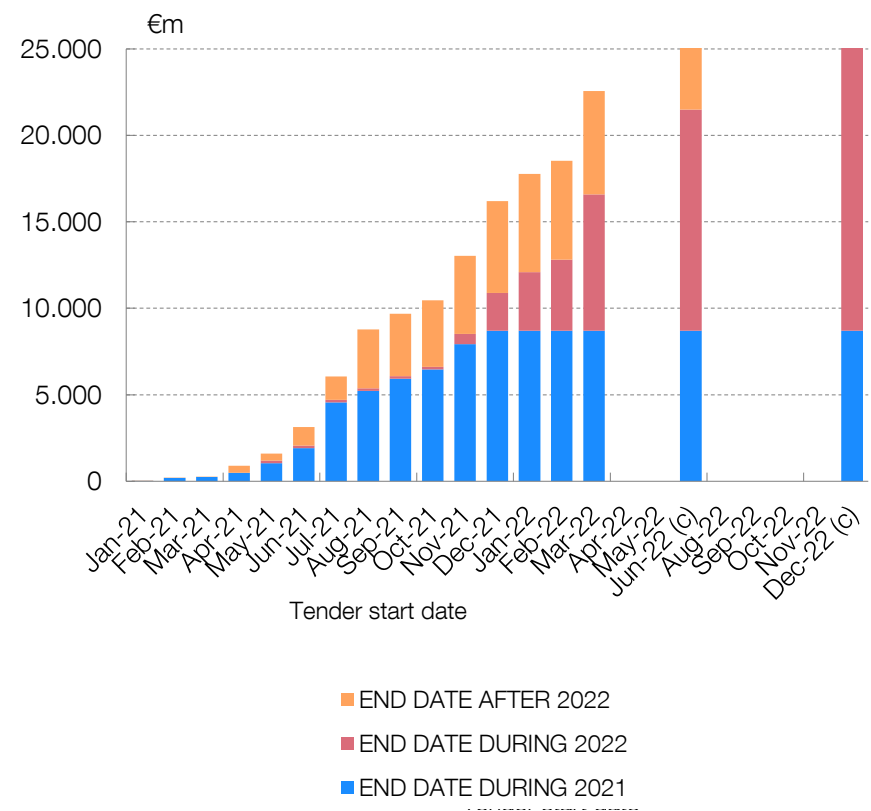
CHANGES IN THE GDP FORECAST IN 2022



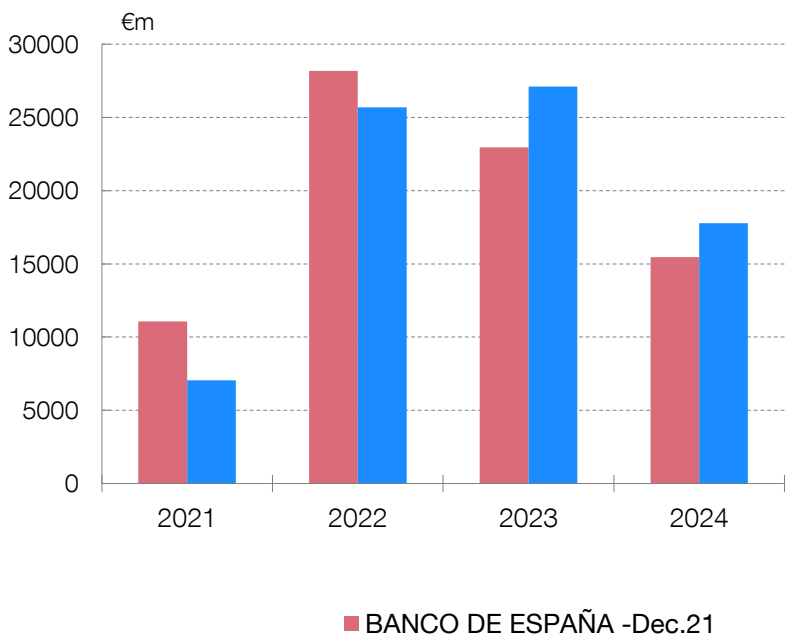
SOURCE: Banco de España.

A VERY SIGNIFICANT PORTION OF THIS GROWTH MUST BE DRIVEN BY IMPLEMENTATION OF INVESTMENT PROJECTS UNDER THE NGEU PROGRAMME

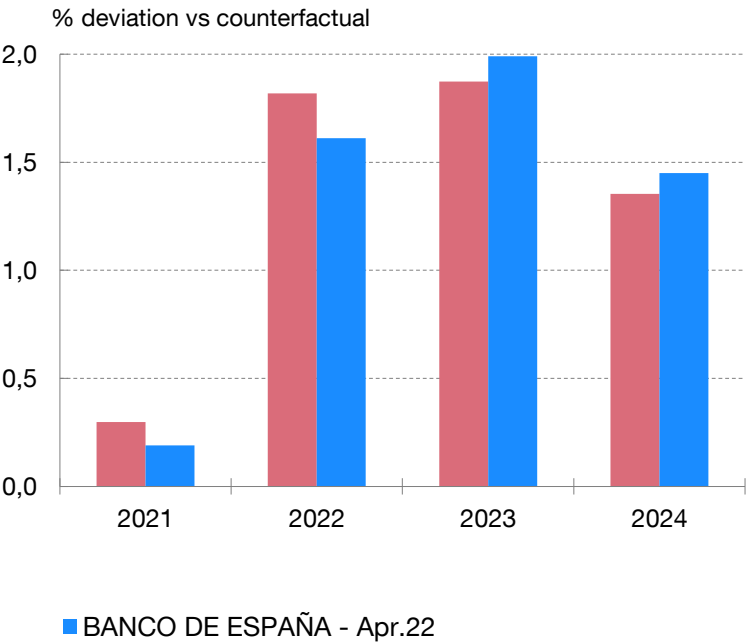
CUMULATIVE VOLUME OF PUBLISHED RRF TENDERS (a)
(b)



NGEU SPENDING ASSUMPTIONS
(RRF AND REACT-EU)



EFFECT OF NGEU ON GDP LEVEL

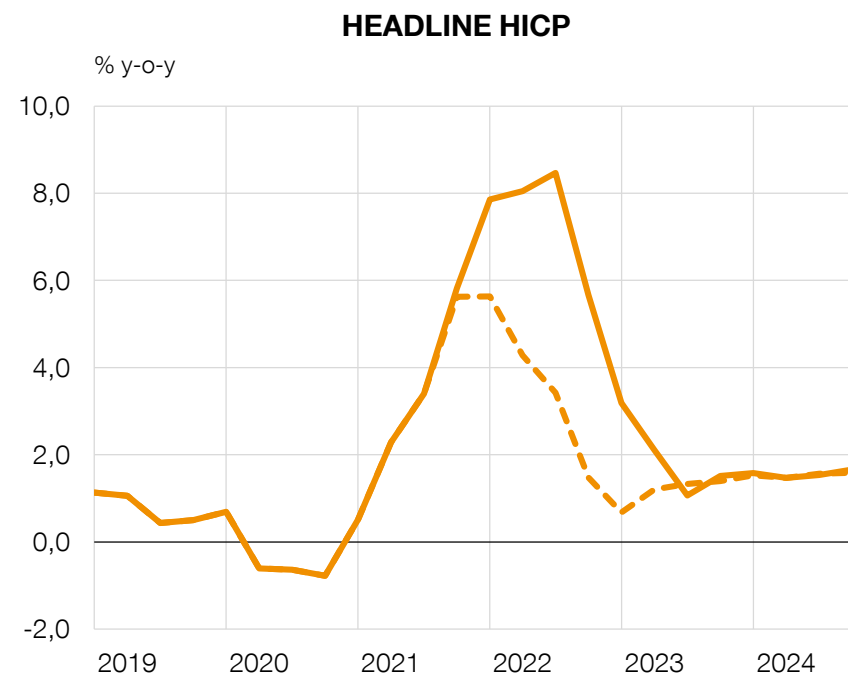


SOURCES: <https://planderecuperacion.gob.es>, 2022 Budgetary Plan, 2021-2024 Draft Budget, IGAE and Banco de España.

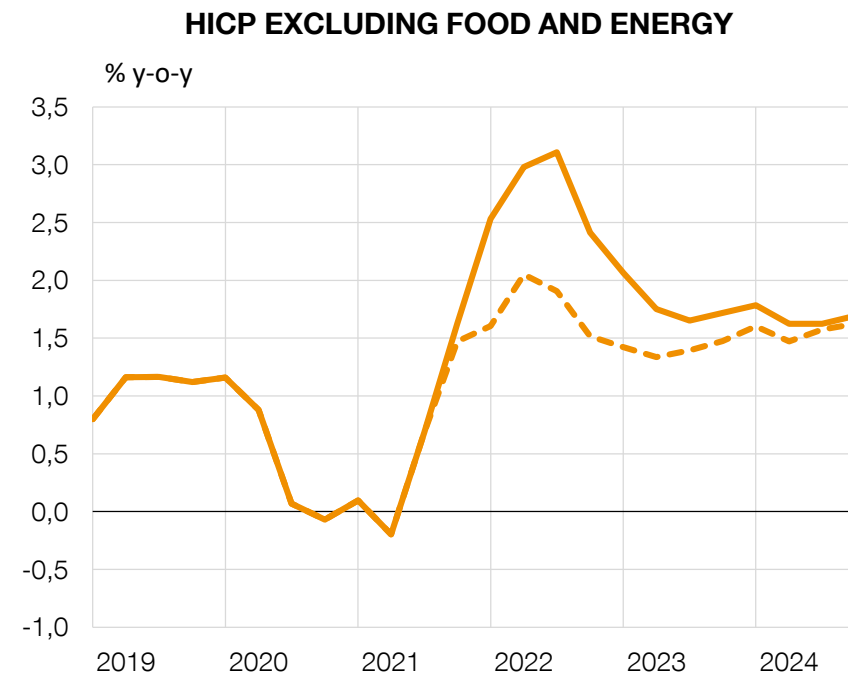
(a) Not including tenders in “forthcoming” status, those agreed without being publicised, those relating to Government guarantees or those identified as REACT-EU.

(b) Tenders published on the RTRP website to 29/03/2022 and on a cumulative monthly basis.

INFLATION IS REVISED UP SHARPLY IN 2022, BUT IS PROJECTED TO MODERATE GRADUALLY OVER THE MEDIUM TERM



— APRIL 2022



- - - DECEMBER 2021

SOURCES: Banco de España and INE.
Latest observation: February 2022.

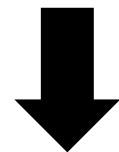
An extraordinary and temporary rebate (between 1 April and 30 June 2022) on the retail price of fuel

A 36% reduction in energy system-related charges with respect to March (55% with respect to August 2021) until 31 December 2022

An extension until 30 June 2022 of the suspension of the tax on electricity generation and of the reduced rates for VAT on electricity (10%) and the excise duty on electricity (0,5%)

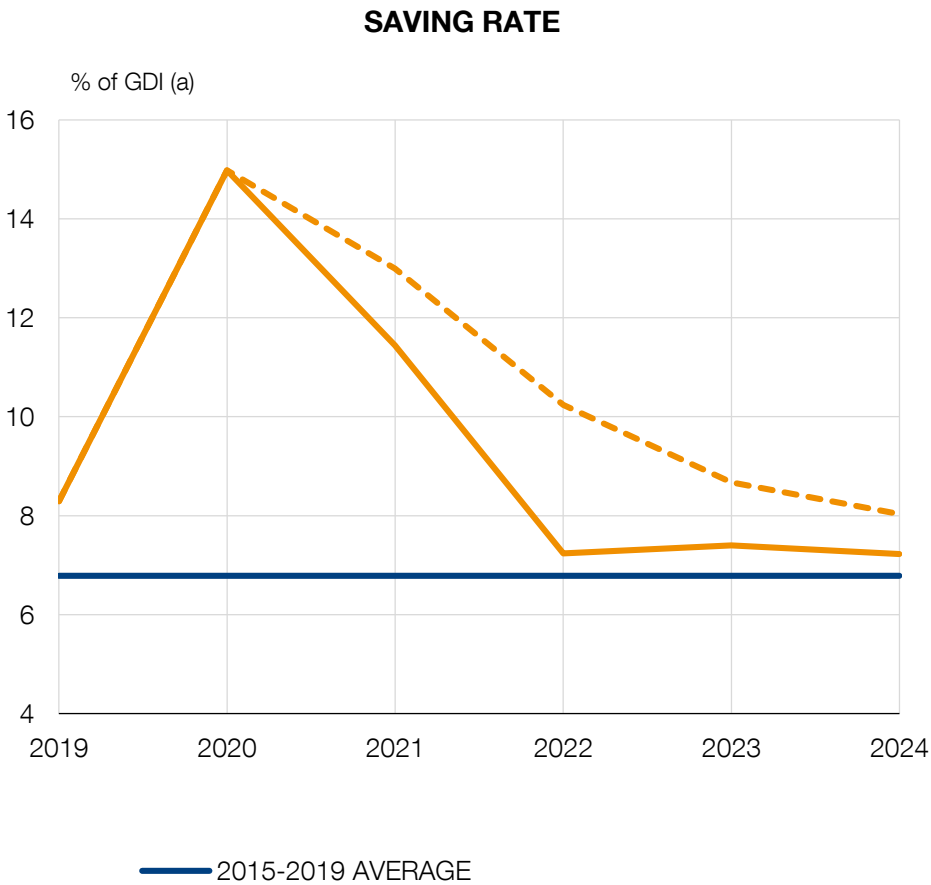
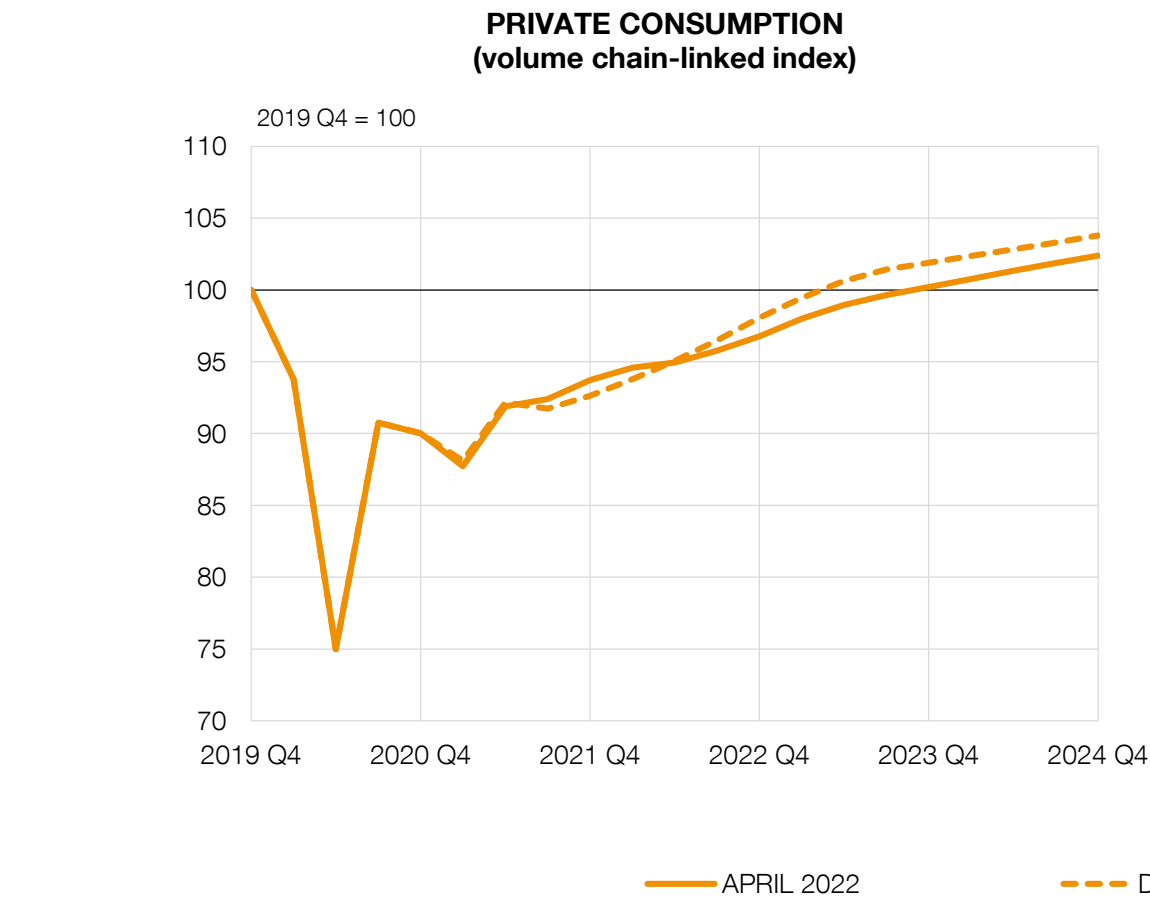
An extension of the cap on the April and July 2022 revisions of the regulated rate for small natural gas consumers (to a maximum increase of 5% for retail consumers)

A 2% cap on rent increases from 1 April to 30 June



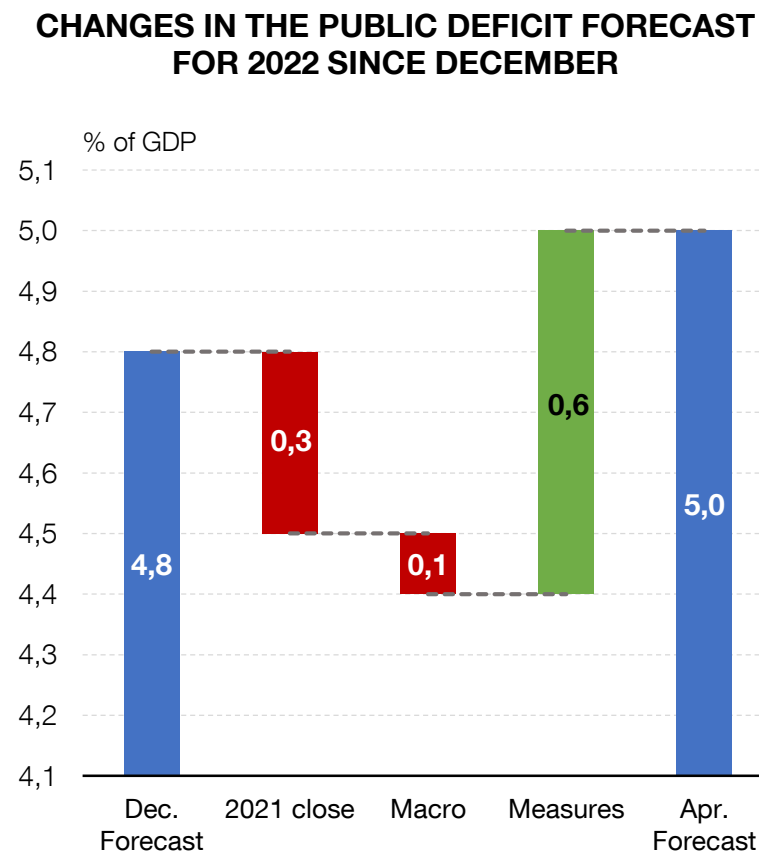
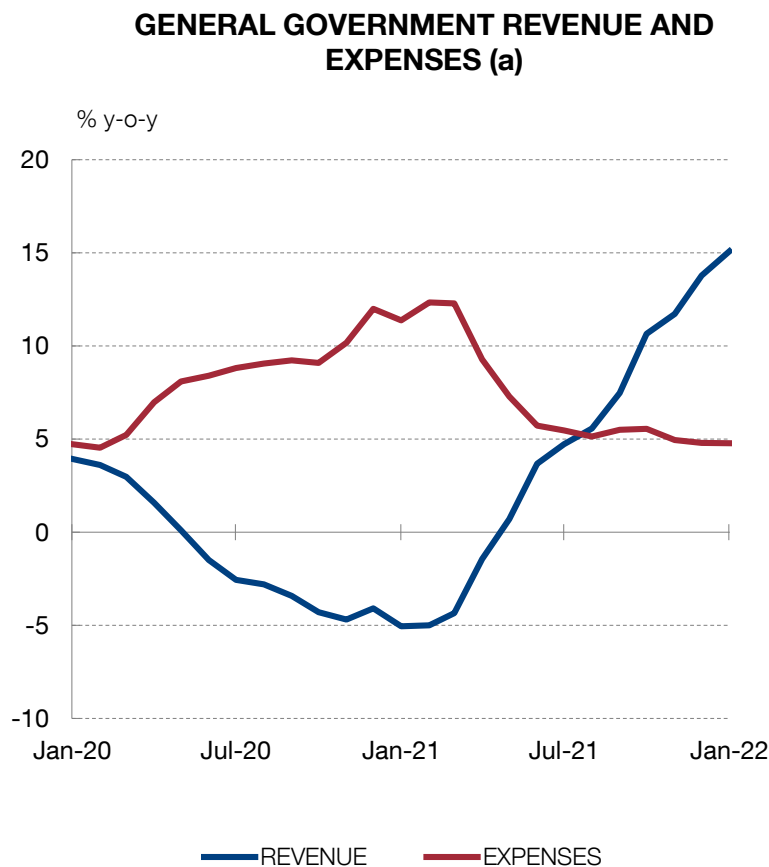
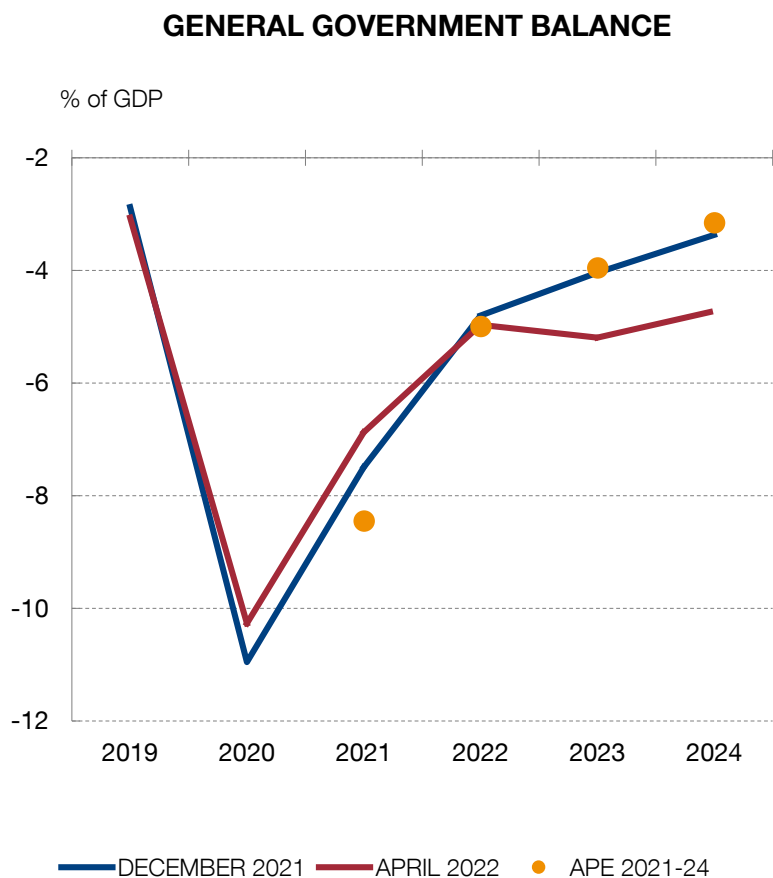
A reduction of between 0.5 pp and 0.8 pp in the average inflation rate for 2022 (compared with a scenario of no measures)

HOUSEHOLDS ARE EXPECTED TO RESORT TO A GREATER EXTENT TO THEIR ACCUMULATED SAVINGS, BUT THIS WILL NOT PREVENT A SLOWER RECOVERY IN REAL CONSUMPTION OWING TO HIGH INFLATION



SOURCES: Banco de España and INE.
Latest observation: 2021 Q4.
a) Gross disposable income.

IN 2021 THE GENERAL GOVERNMENT BUDGET BALANCE WAS BETTER THAN EXPECTED DUE TO SOUND REVENUE PERFORMANCE, BUT IT IS REVISED DOWN FOR 2022-2024



SOURCES: SPU 2021-2024, IGAE and Banco de España.
a) Relating to the general government aggregate, excluding local government and transfers between tiers of government.

CONTENTS

1. Overview
2. Developments in economic activity in the short term
3. Projections for the Spanish economy for 2022-2024
- 4. Main risks and sensitivity exercises**



AN EXTRAORDINARILY UNCERTAIN SCENARIO: MAIN SOURCES OF UNCERTAINTY

Duration and severity of the war in Ukraine and persistence of the possible geopolitical fall-out

Indirect and second-round effects on inflation

Take-up and economic impact of the European NGEU funds

Energy prices

Household consumption and recourse to stock of savings

Course of the pandemic

Bottlenecks in global production and supply chains

Impact of worldwide monetary policy normalisation on financial markets and financing conditions

Possible energy and fiscal policy measures in Spain and the European Union

SENSITIVITY EXERCISES

What if the high energy prices prove more persistent than expected?

What if trade with Russia is suspended?

What if significant second-round effects arise?

What if household consumption is more buoyant?

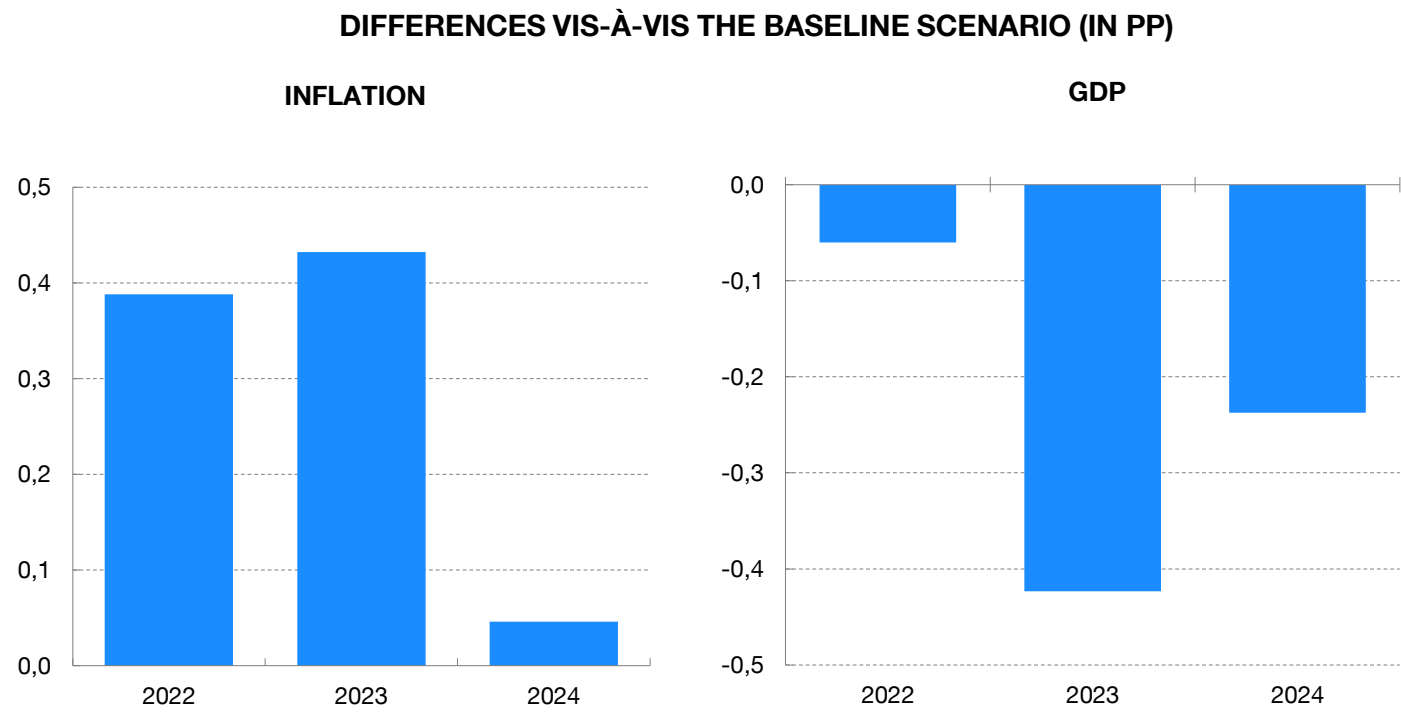
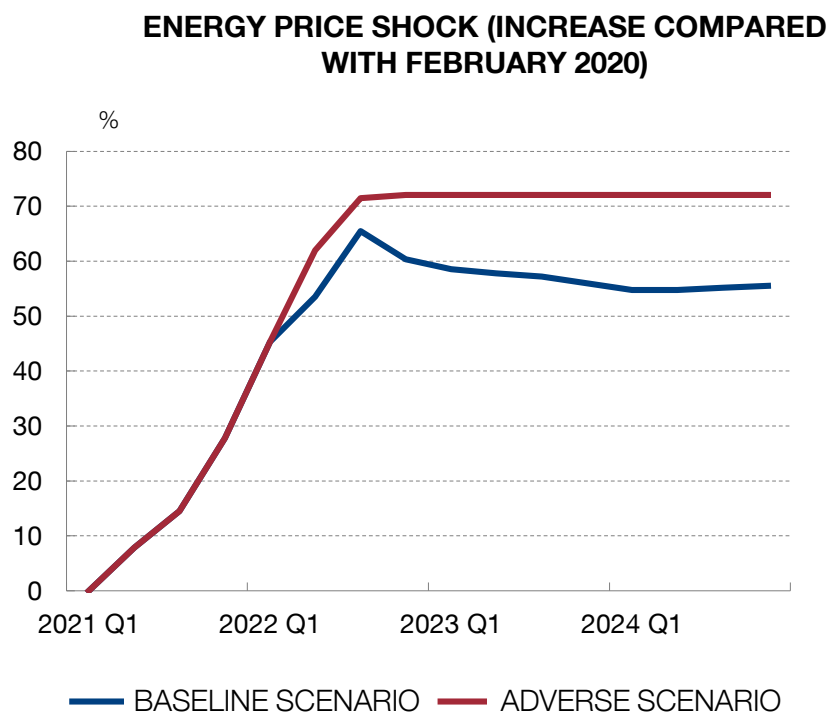
CAUTIONS

- **The counterfactual scenarios considered include assumptions which, albeit plausible, are less likely to arise than those envisaged in the baseline scenario**

- **The estimated impacts should be interpreted with caution, as it is not possible to accurately assess the economic response to relatively extreme assumptions**

- **The sensitivity exercises considered are interconnected, so the impacts are not cumulative**

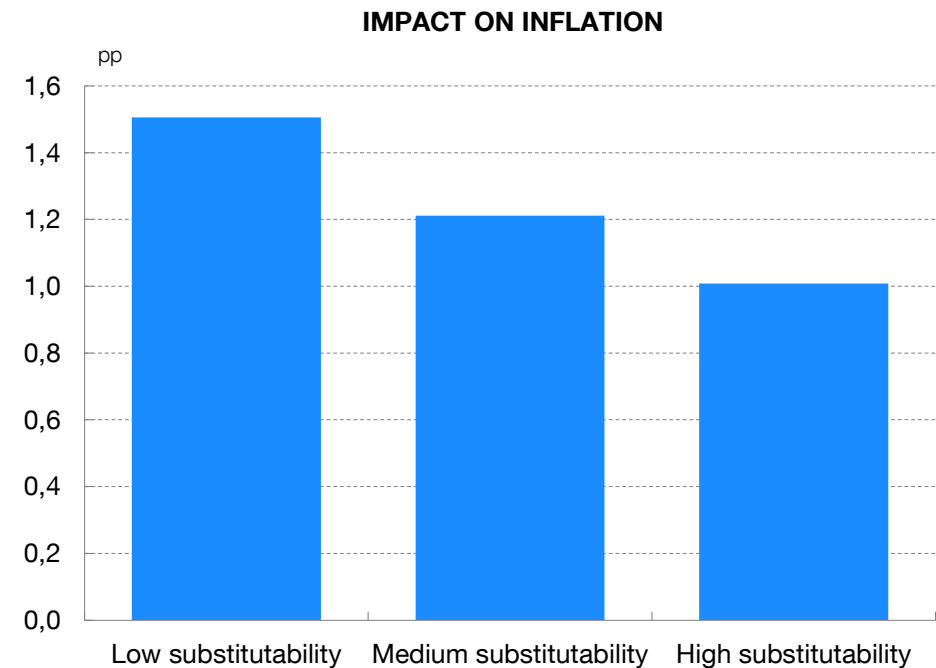
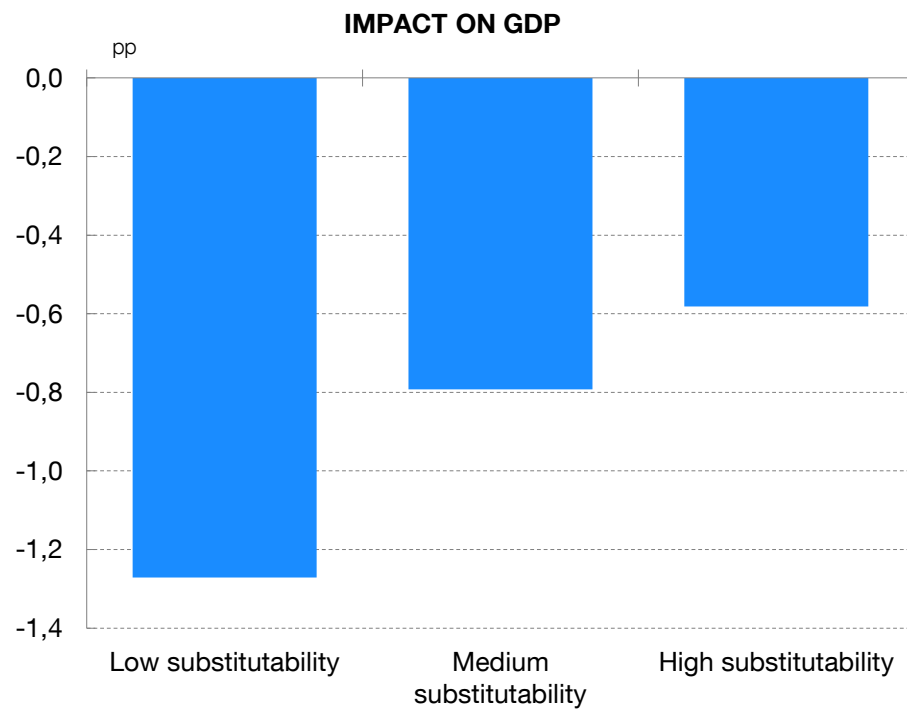
A future energy price trajectory is considered that holds steady around the highest level recorded since the start of the war in Ukraine (observed in mid-March)



SOURCES: Banco de España and INE.

The suspension of all bilateral trade between Russia and the European Union, including trade in energy commodities, is considered

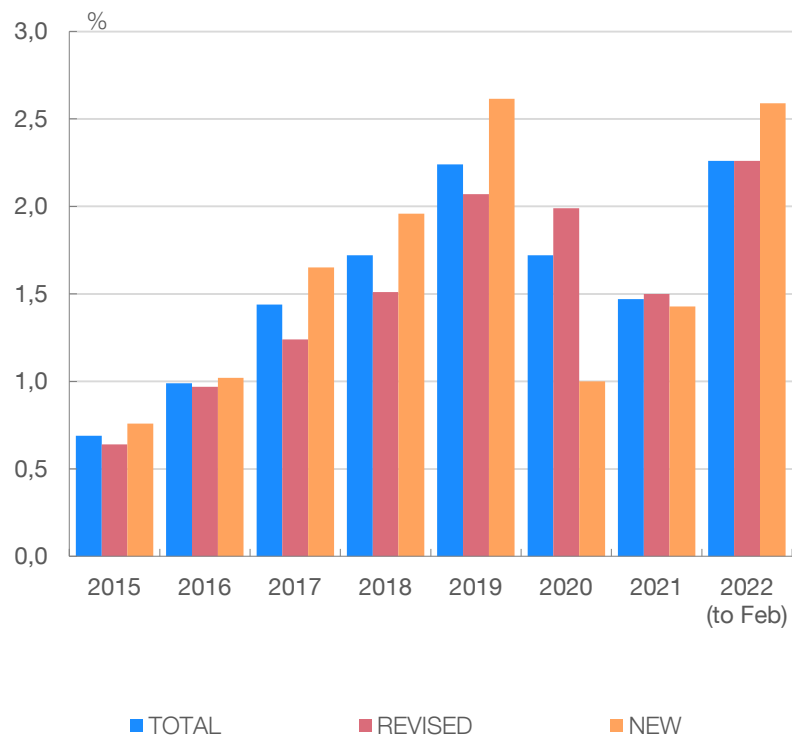
DIFFERENCES VIS-À-VIS THE BASELINE SCENARIO in 2022 (IN PP)



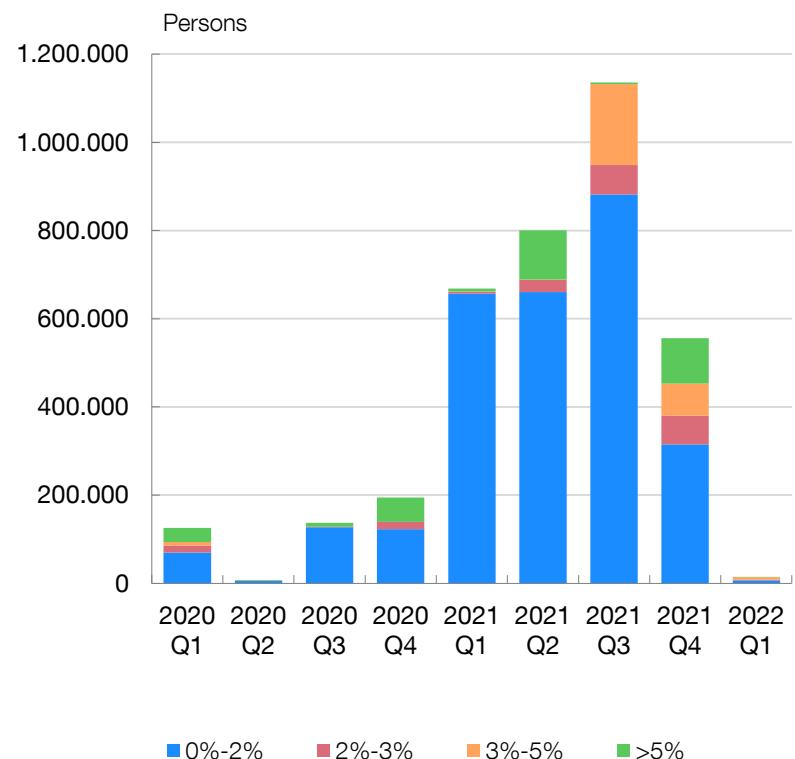
SOURCE: Banco de España.

So far, wage settlements have increased only slightly, so workers are losing purchasing power

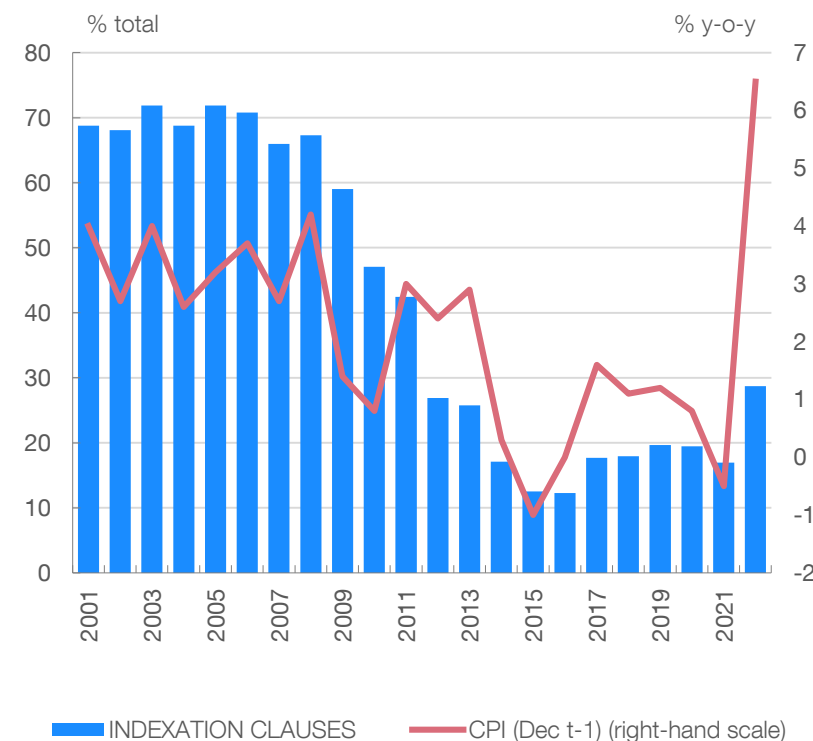
WAGE RISES



WAGE RISES AND WORKERS AFFECTED IN 2022 BY DATE OF SIGNING OF AGREEMENT



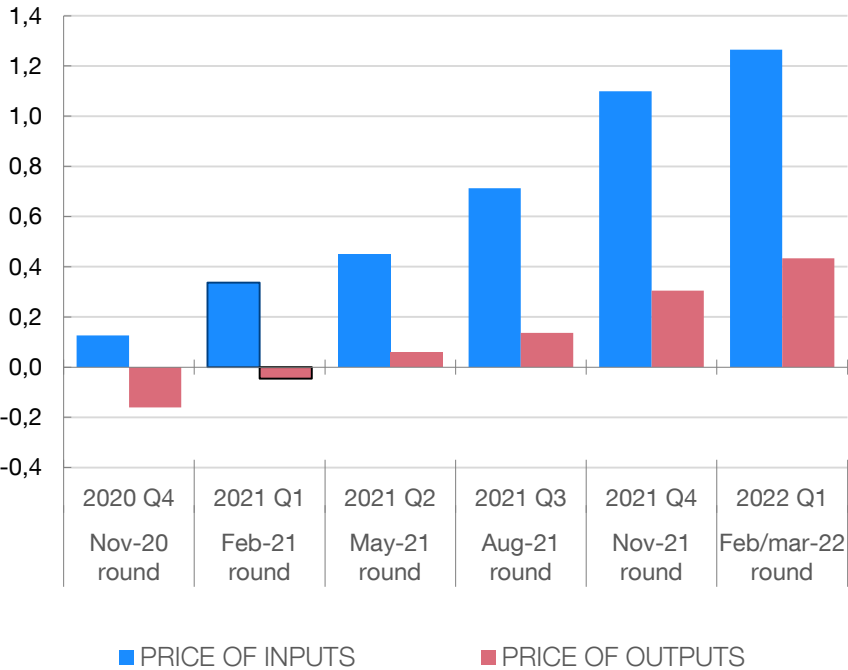
INFLATION INDEXATION CLAUSES



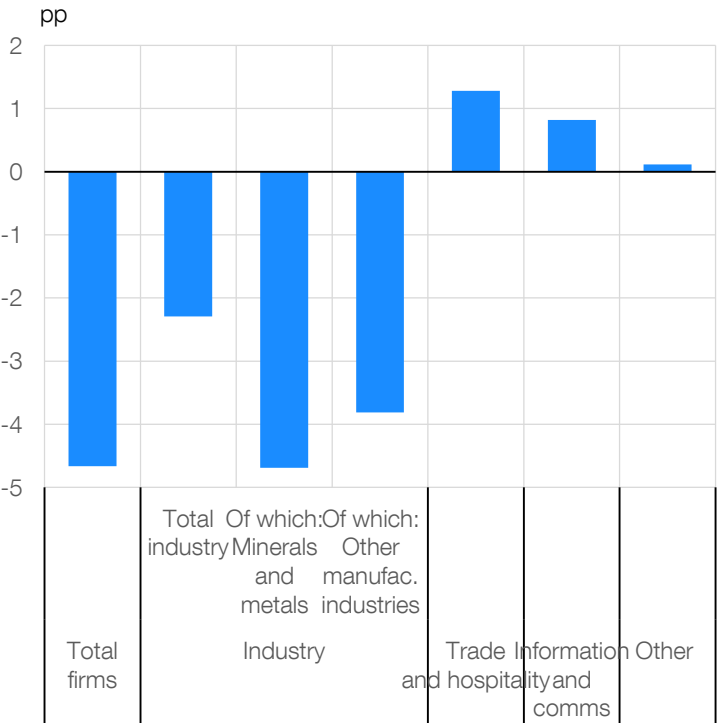
SOURCES: Ministerio de Trabajo y Economía Social and Banco de España.

For the time being, firms do not appear to be fully passing their rising input costs through to the price of their products: profit margins are narrowing

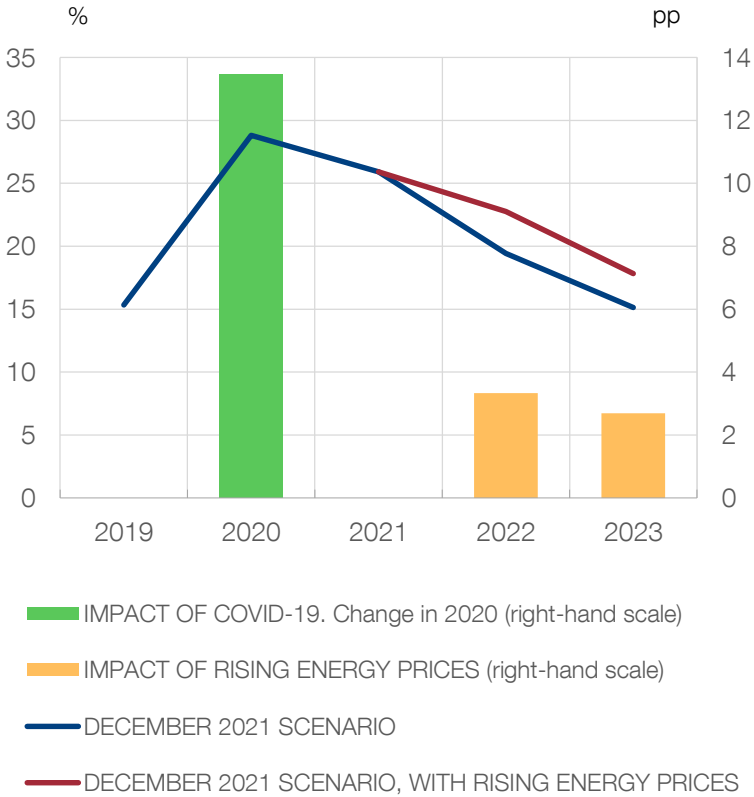
QUARTERLY EVOLUTION OF PRICES



CHANGES IN FIRMS' TRADE MARGINS IN 2021 Q4 (b)
Difference with respect to 2020 Q4



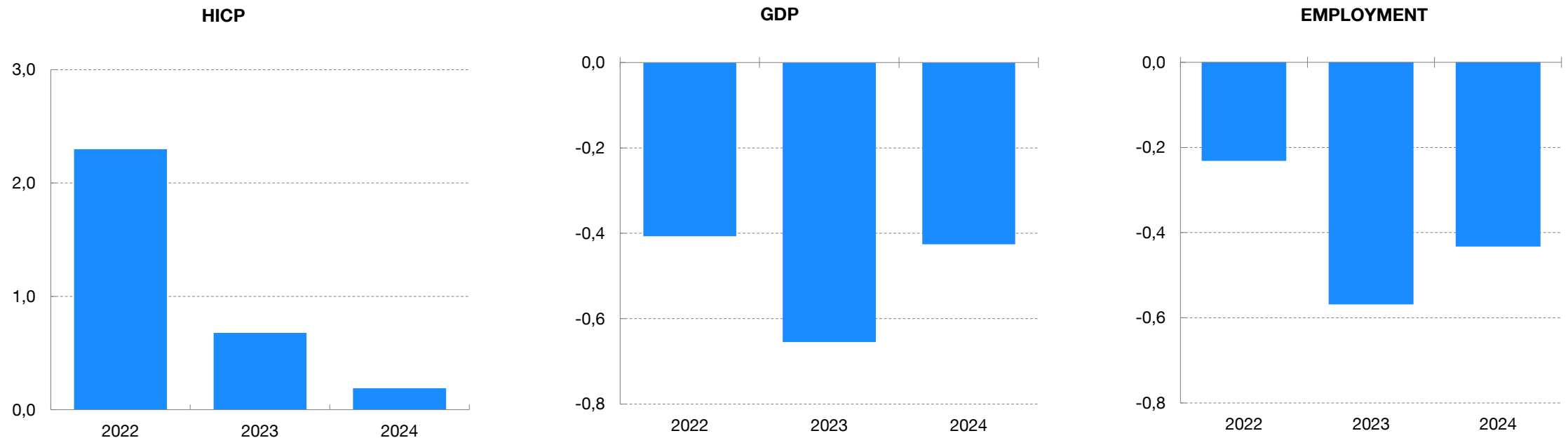
SHARE OF EMPLOYMENT OF FIRMS WITH NEGATIVE PROFITABILITY (c)



SOURCE: Banco de España (EBAE and CBQ).
a) Index calculated as Significant decrease = -2; Slight decrease = -1; Stability = 0; Slight increase = 1; Significant increase = 2
b) The trade margin is defined as the ratio of GVA to output.
c) 2019 employment. A 22% rise in energy prices has been assumed for 2022, with an additional 3% in 2023.

Meanwhile, a scenario is envisaged in which business owners and workers look to increase their prices and wages in order to neutralise the initial impact of the energy shock on their income, triggering second-round effects on prices and wages

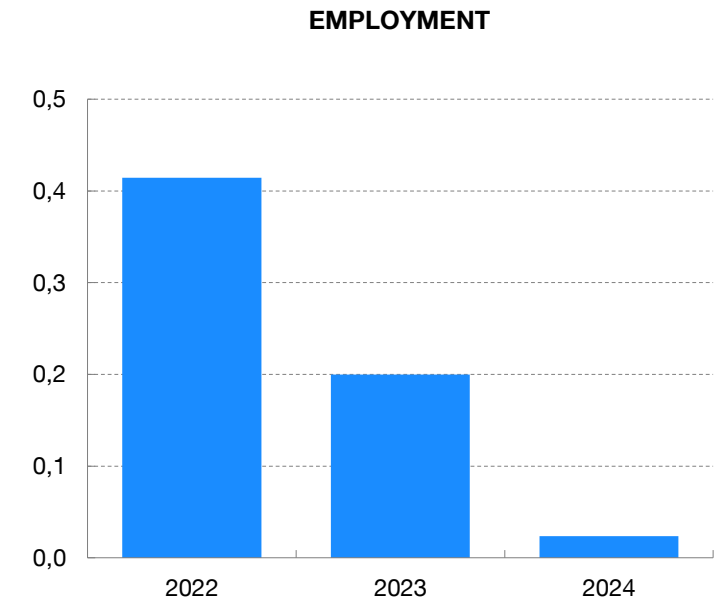
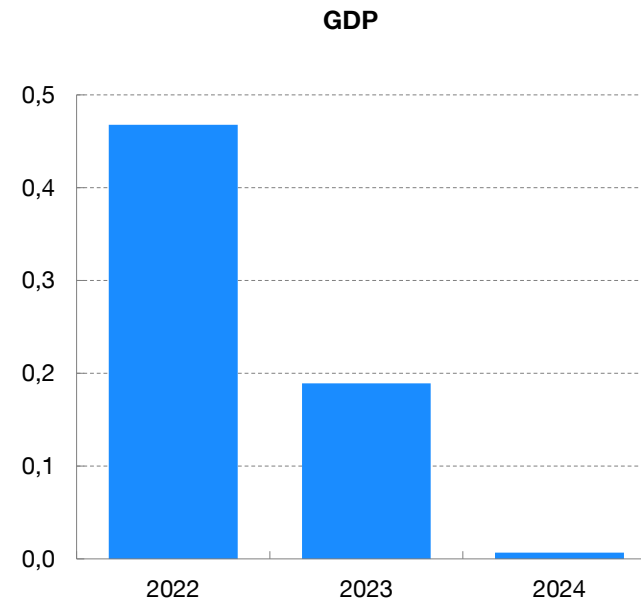
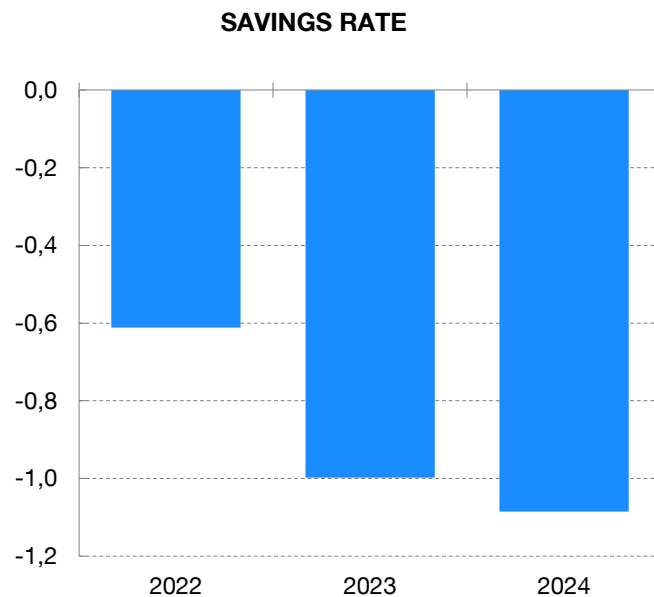
DIFFERENCES WITH RESPECT TO THE BASELINE SCENARIO (IN PP)



SOURCES: Banco de España and INE

In 2022-2024, a scenario has been envisaged in which households may use two thirds of the savings they have built up since the onset of the pandemic (only one third in the baseline scenario)

DIFFERENCES WITH RESPECT TO THE BASELINE SCENARIO (IN PP)



SOURCES: Banco de España and INE

APPENDIX



ASSUMPTIONS ON THE INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

		April 2022 projections (a)			Difference between the current projections and the December 2021 projections (b)		
Annual rates of change unless otherwise indicated		2022	2023	2024	2022	2023	2024
Euro area GDP growth (c)	2021 5.4	2.5	2.7	2.1	-1.7	-0.2	0.5
Regulated rate component of energy in €/MWh (level) (d)	180.5	309.7	283.9	307.7	8.4	-0.3	9.1
Oil price in \$/barrel (level)	71.1	104.8	91.4	83.6	27.3	19.1	14.3
Monetary and financial conditions							
\$/€ exchange rate (level)	1.18	1.11	1.10	1.10	-0.02	-0.03	-0.03
Nominal effective exchange rate against non-euro area (e) (2000 = 100)	120.7	115.3	115.0	115.0	-1.4	-1.7	-1.7
Short-term interest rates (3-month EURIBOR) (f)	-0.5	-0.2	0.9	1.2	0.2	1.1	1.2
Long-term interest rate (10-year government bond yield) (f)	0.3	1.4	1.7	1.9	0.7	0.9	0.8

SOURCES: Banco de España and ECB.

a. Cut-off date for assumptions: 31 March 2022. The figures expressed as levels are annual averages. The figures expressed as rates are calculated based on the relevant annual averages.

b. The differences are expressed as rates for euro area GDP, as levels for electricity and oil prices and the \$/€ exchange rate, as percentages for the effective nominal exchange rate and as percentage points for interest rates.

c. Obtained from the ECB staff macroeconomic projections for the euro area, March 2022.

d. Regulated rate for small electricity consumers.

e. A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.

f. For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or approximations thereto, and should not be interpreted as a Eurosystem prediction as to how these variables will trend.

MACROECONOMIC PROJECTIONS (2022-2024)

	2020	2021	April 2022 projections (a)			December 2021 projections		
			2022	2023	2024	2022	2023	2024
GDP	-10.8	5.1	4.5	2.9	2.5	5.4	3.9	1.8
Private consumption	-12.0	4.6	4.5	3.9	2.4	5.1	5.2	2.2
Government consumption	3.3	3.1	-0.3	0.8	1.2	-0.2	0.7	1.5
Gross fixed capital formation	-9.5	4.3	4.5	2.1	2.5	7.8	3.7	2.1
Exports of goods and services	-20.1	14.7	12.0	3.8	3.7	9.1	4.6	3.1
Imports of goods and services	-15.2	13.9	9.0	3.3	2.9	6.5	4.8	3.7
Domestic demand (contribution to growth)	-8.6	4.6	3.3	2.7	2.1	4.4	3.9	1.9
Net external demand (contribution to growth)	-2.2	0.5	1.2	0.2	0.4	1.0	0.0	-0.1
Nominal GDP	-9.8	7.4	9.1	4.8	4.3	8.1	5.6	3.6
GDP deflator	1.1	2.2	4.4	1.9	1.7	2.5	1.7	1.7
Harmonised index of consumer prices (HICP)	-0.3	3.0	7.5	2.0	1.6	3.7	1.2	1.5
HICP excluding energy and food	0.5	0.6	2.8	1.8	1.7	1.8	1.4	1.6
Employment (hours)	-10.6	7.0	1.9	2.0	1.6	3.8	2.8	1.3
Unemployment rate (% of labour force). Annual average	15.5	14.8	13.5	13.2	12.8	14.2	12.9	12.4
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.2	1.9	2.7	3.3	3.2	2.9	2.7	2.1
General government net lending (+)/net borrowing (-) (% of GDP)	-10.3	-6.9	-5.0	-5.2	-4.7	-4.8	-4.0	-3.4
General government debt (% of GDP)	120.0	118.4	112.6	112.8	113.5	115.7	113.7	113.5

SOURCES: Banco de España and INE. Latest QNA data published: 2021 Q4

a) Projections cut-off date: 31 March 2022.