

SPANISH ECONOMIC OUTLOOK

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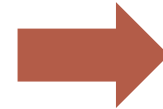
Bolsa de Madrid
12 September 2022



High and persistent inflationary dynamics everywhere

Global monetary policy normalization/tightening

War in Ukraine



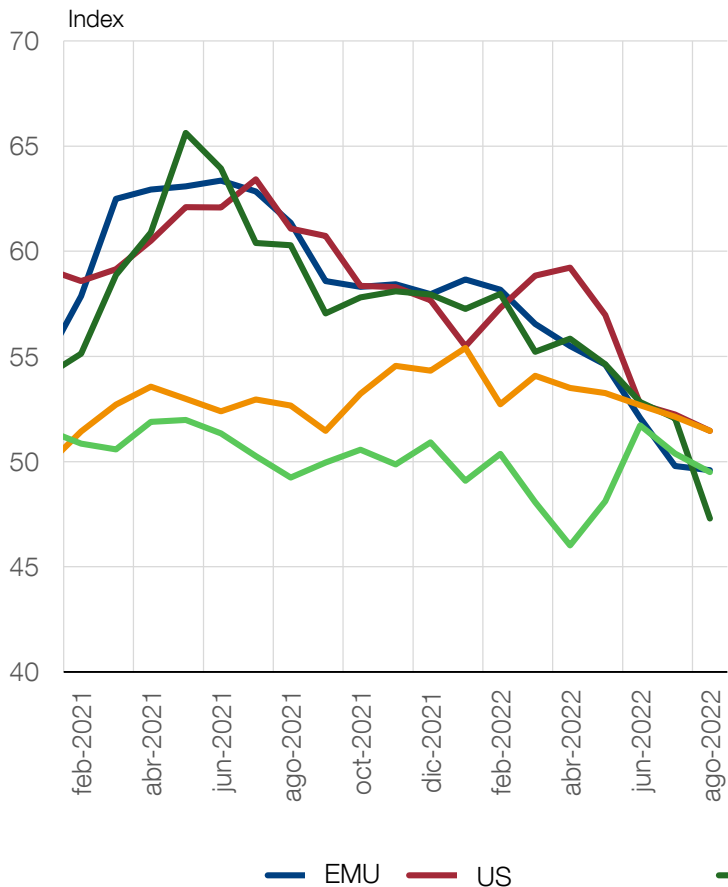
Slowdown in global economic activity

Already visible in:

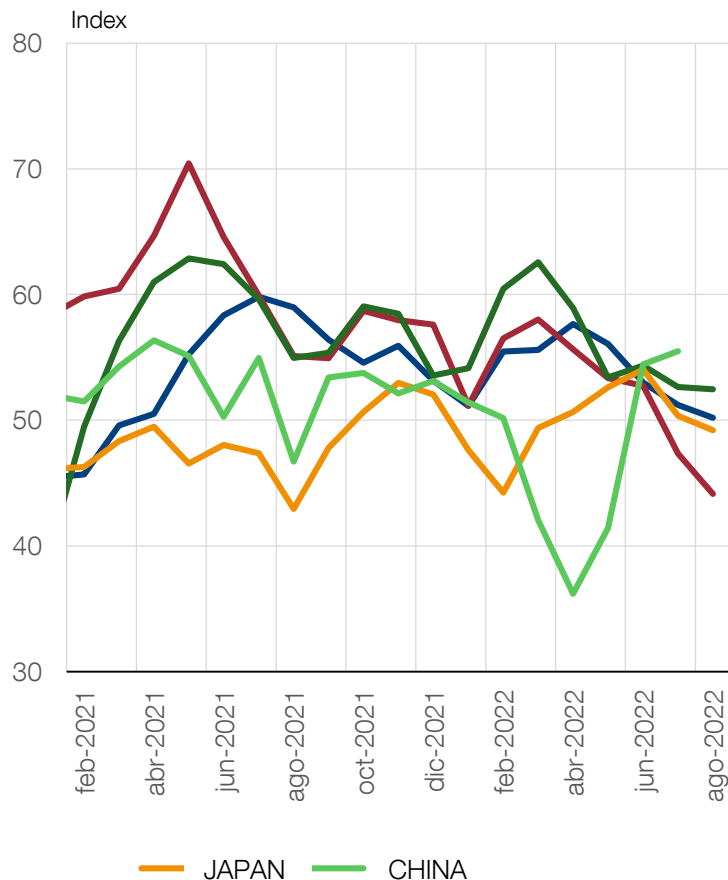
- US: GDP contraction over the last two quarters
- China: GDP contraction in 2Q and further slowdown in most recent activity indicators, all amid material weakening in the real estate sector and strict zero-Covid policy

THIS SLOWDOWN IS ALSO EVIDENT IN GLOBAL PMI AND TRADE DYNAMICS

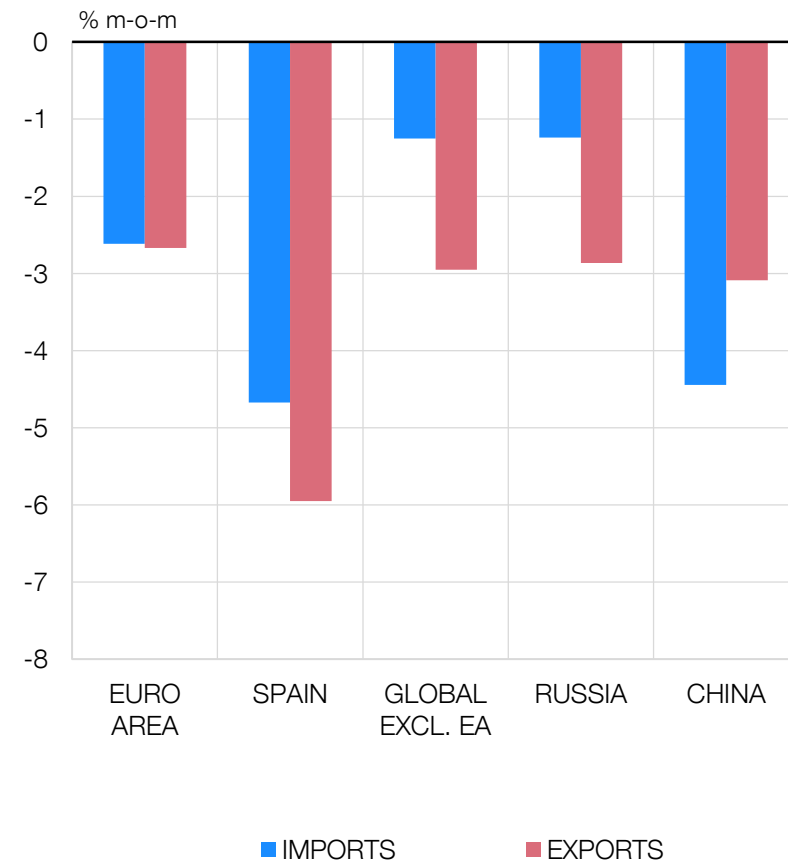
MANUFACTURING PMI



SERVICES PMI



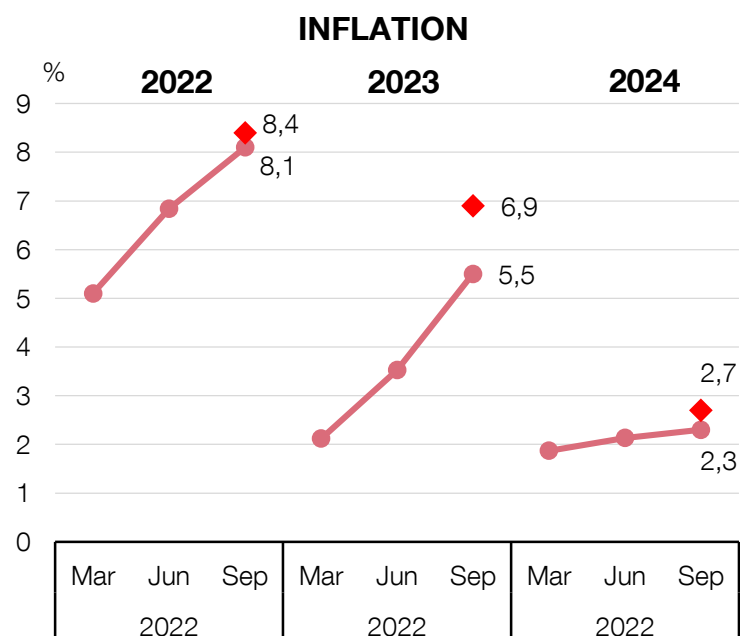
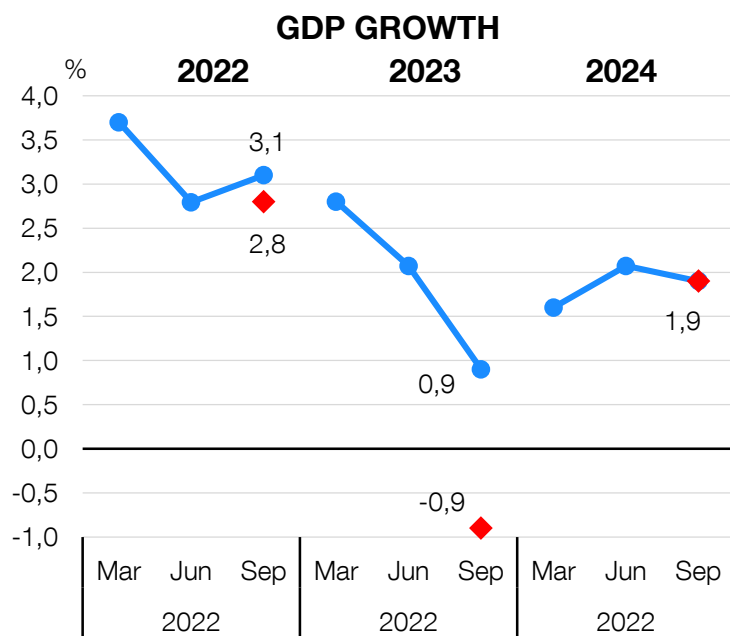
TRADE IN GOODS JULY-AUGUST FORECAST



Sources: IHS Markit and Kiel Institute for the World Economy.

Strong first half of the year, but stagnation expected in the second half of 2022 and the first quarter of next year, amid higher and more persistent inflation dynamics

EURO AREA MACROECONOMIC PROJECTIONS B/MPE

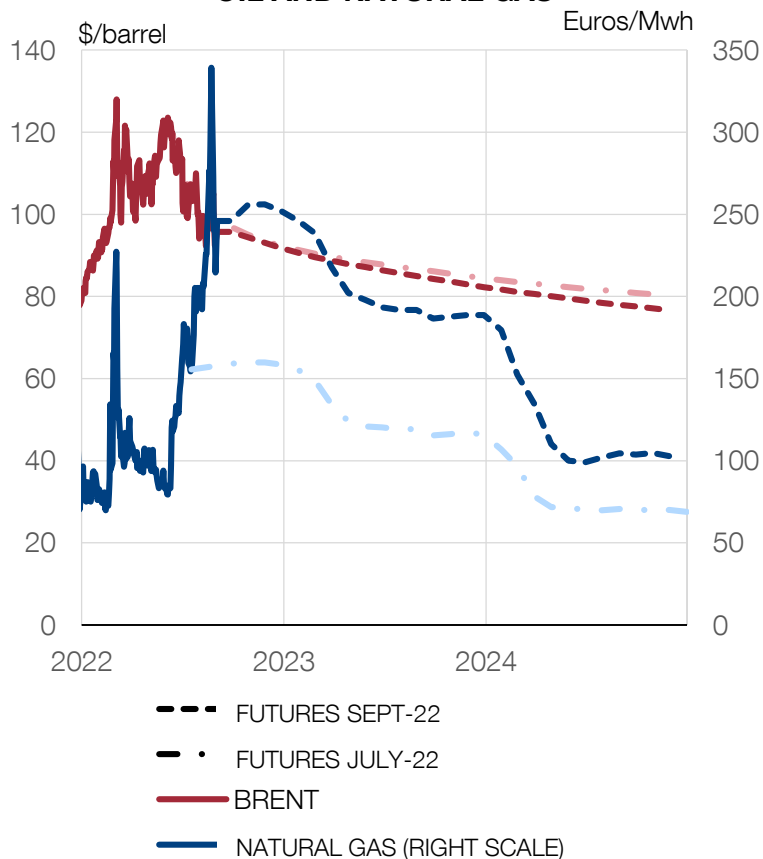


—●— GDP —●— GENERAL INFLATION ◆ DOWNSIDE SCENARIO

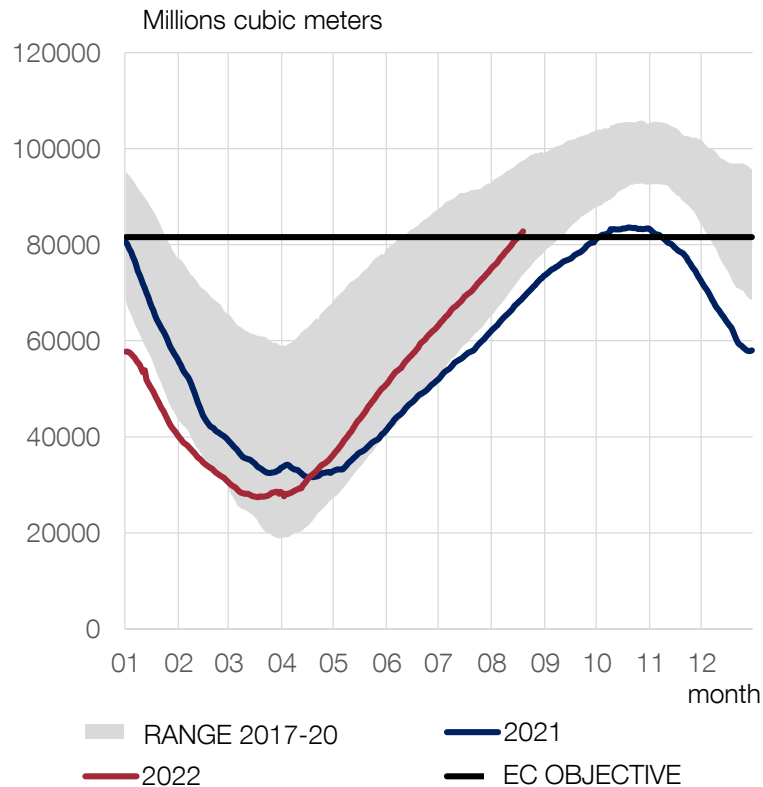
Source: ECB.

GAS PRICE AND QUANTITY DYNAMICS ARE PLAYING AND WILL PLAY A CRITICAL ROLE IN THIS OUTLOOK

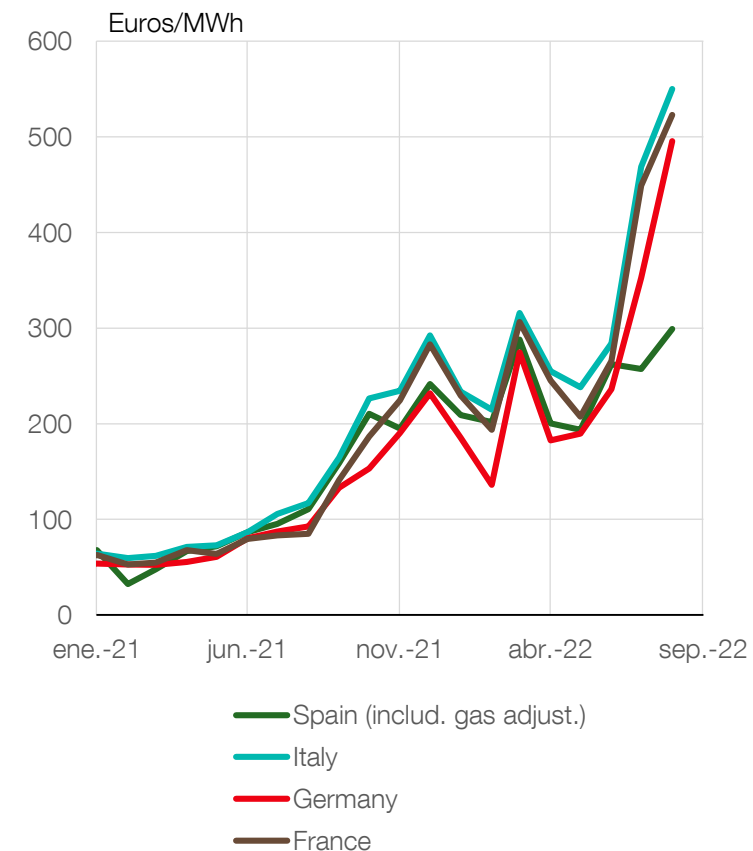
SPOT AND FUTURES PRICES OIL AND NATURAL GAS



GAS NATURAL INVENTORIES IN EUROPE



ELECTRICITY PRICES GENERATION MARKETS



Sources: Refinitiv, AIE, Bloomberg and ENTSOG.

Second quarter

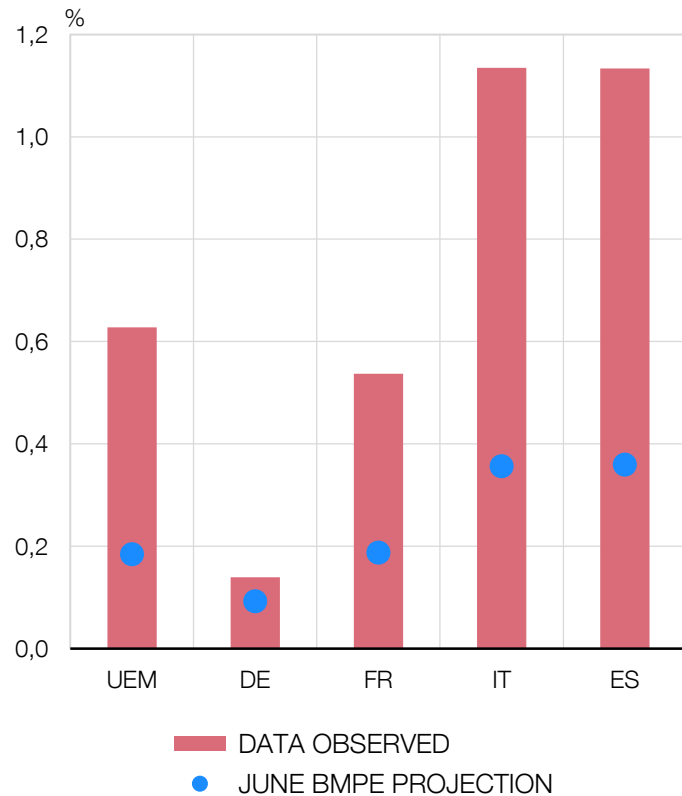
- Higher than expected GDP growth (1,1% QoQ) fueled, mostly, by the reopening of the economy
- Inflation kept surprising on the upside and spreading around all the consumption basket

Next few quarters

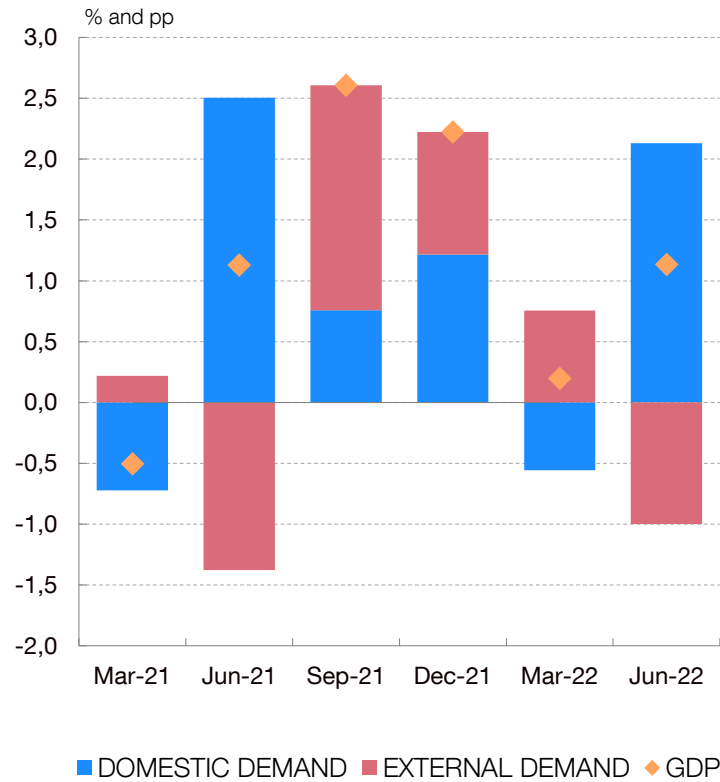
- Economic activity is expected to slow down, penalized by the same headwinds that weigh on the global and European outlooks (inflation, uncertainty, energy crisis, tightening in financial conditions, ...)
- High levels of inflation to persist for longer than anticipated

AFTER A STRONGER THAN EXPECTED GROWTH IN 2Q, WHERE ARE WE AT? GDP LEVELS VS EMU

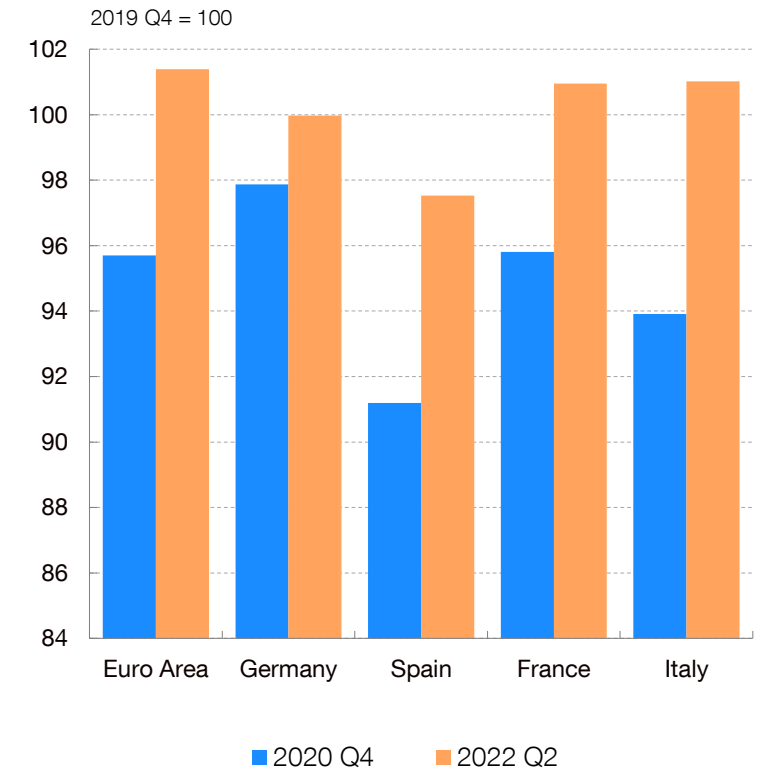
QoQ GDP GROWTH 2Q22



SPAIN: QoQ GDP GROWTH



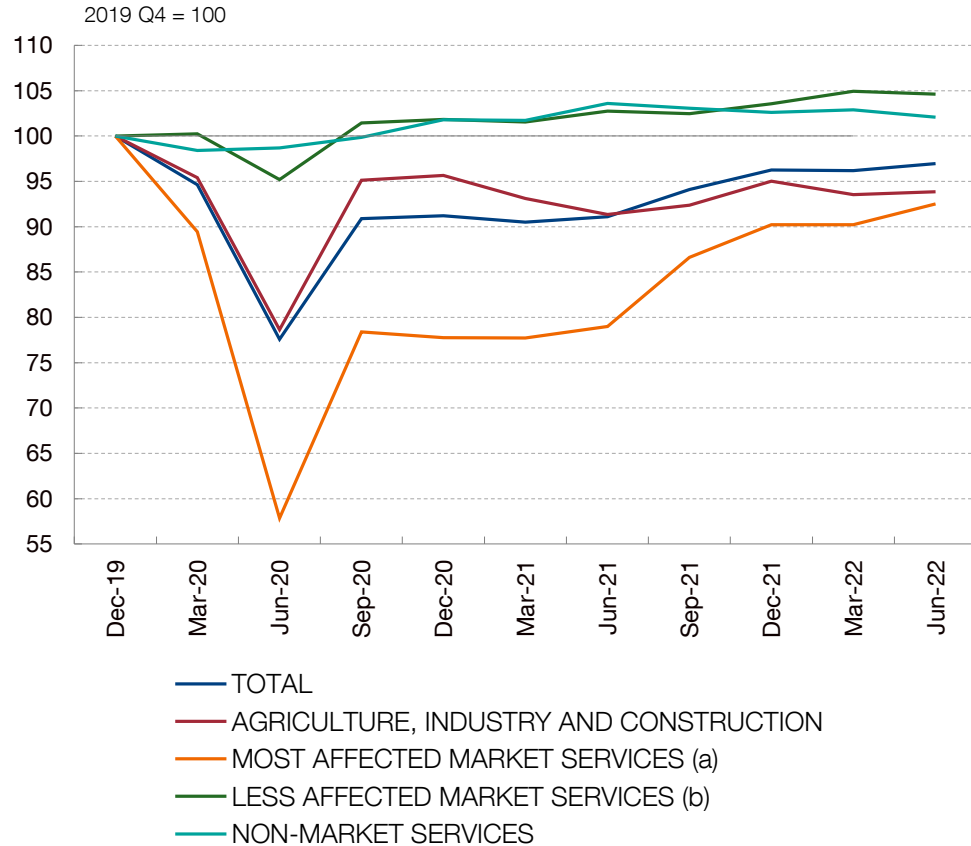
GDP CONVERGENCE RELATIVE TO PREPANDEMIC LEVELS



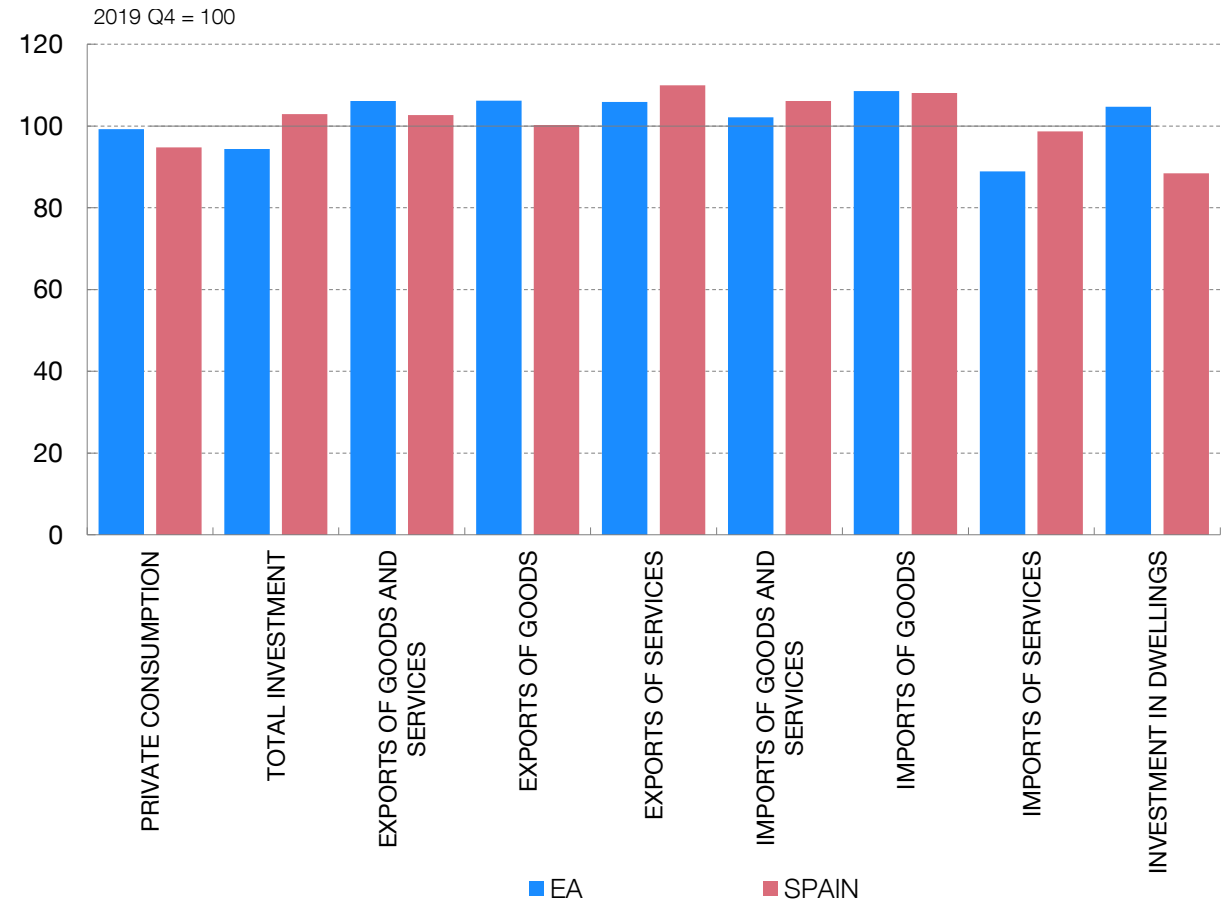
Sources: INE and Eurostat.

AFTER A STRONGER THAN EXPECTED GROWTH IN 2Q, WHERE ARE WE AT? LEVELS OF MAIN GDP COMPONENTS

EVOLUTION OF GROSS VALUE ADDED BY BRANCHES



GDP LEVEL BY DEMAND COMPONENT IN 2Q22



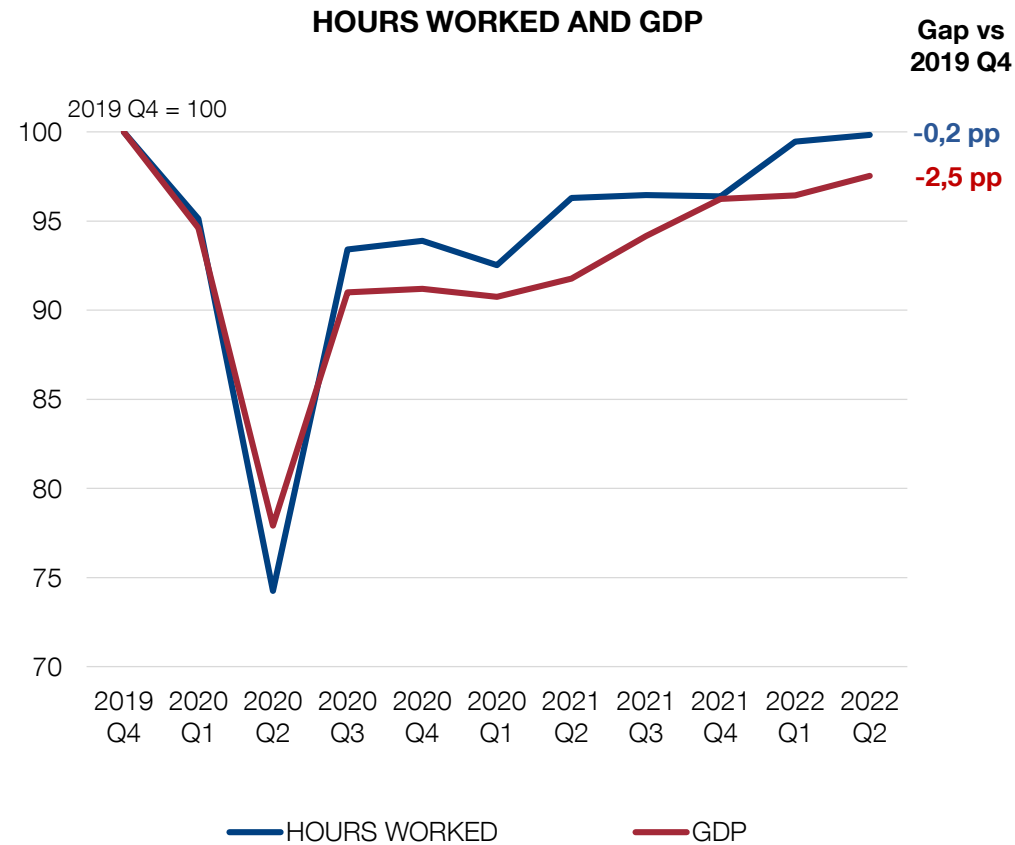
Sources: INE and Eurostat.

a) Trade, transport and hospitality, professional, scientific and administrative activities and artistic and leisure activities.

b) Information and communications, financial and insurance activities, and real estate activities.

AFTER A STRONGER THAN EXPECTED GROWTH IN 2Q, WHERE ARE WE AT? EMPLOYMENT

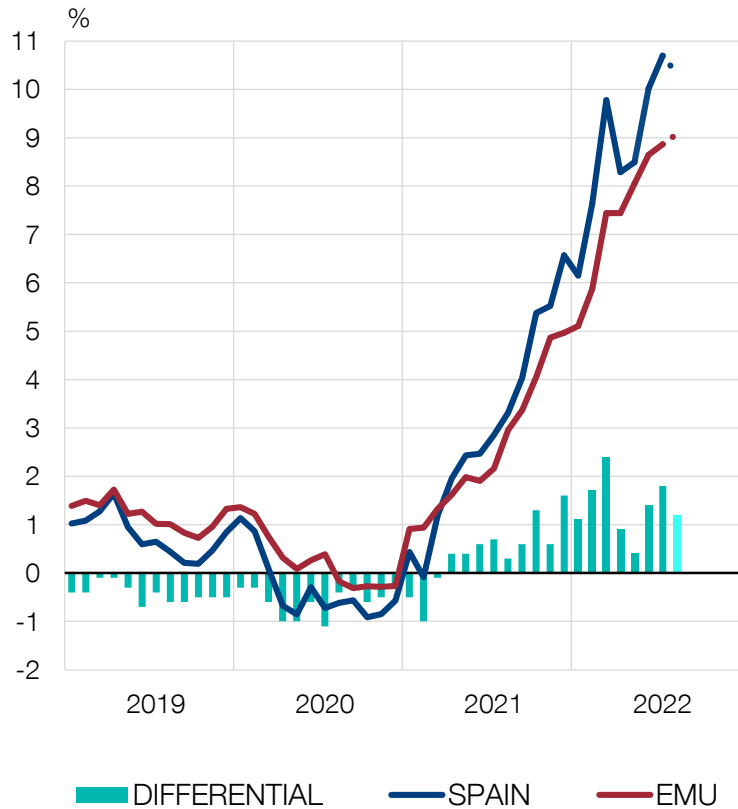
In terms of number of people, both Social Security records and the Labour Force Survey show that employment is already well above pre-pandemic levels



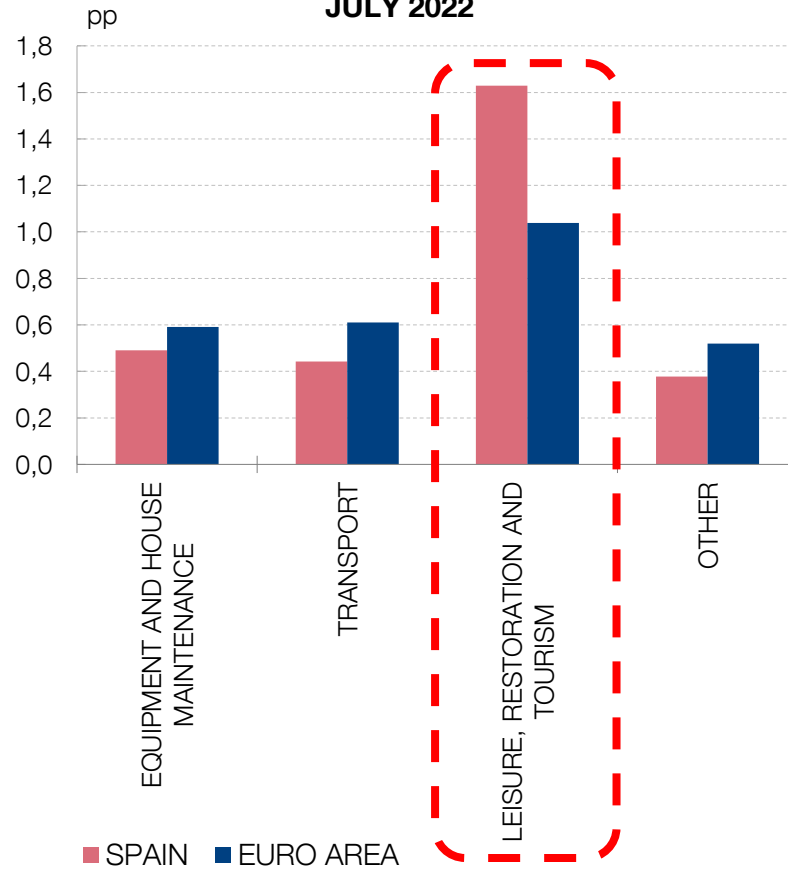
Source: INE.

AFTER A STRONGER THAN EXPECTED GROWTH IN 2Q, WHERE ARE WE AT? INFLATION

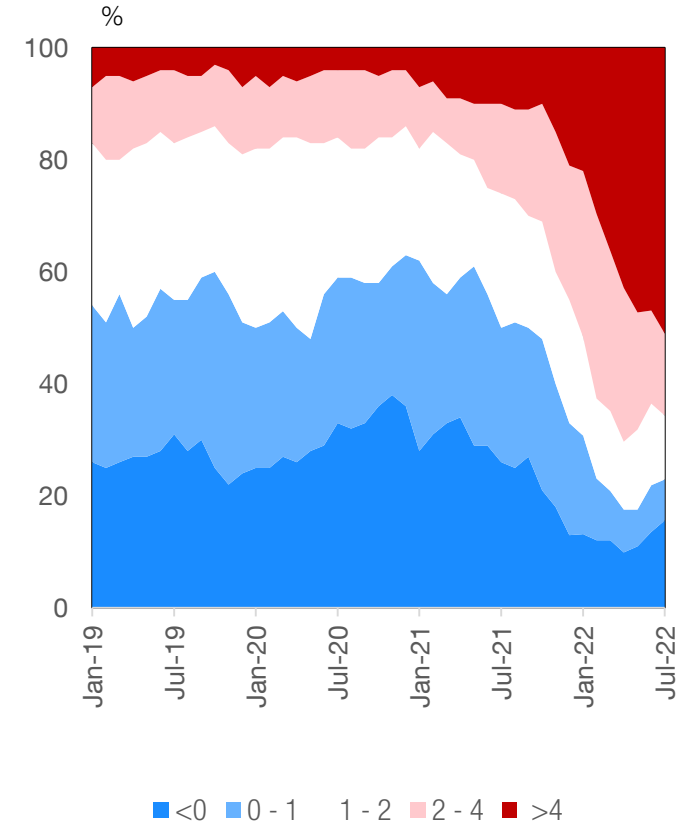
SPAIN AND EURO AREA HICP INFLATION



CONTRIBUTION TO GENERAL INFLATION IN THE EURO AREA AND SPAIN JULY 2022

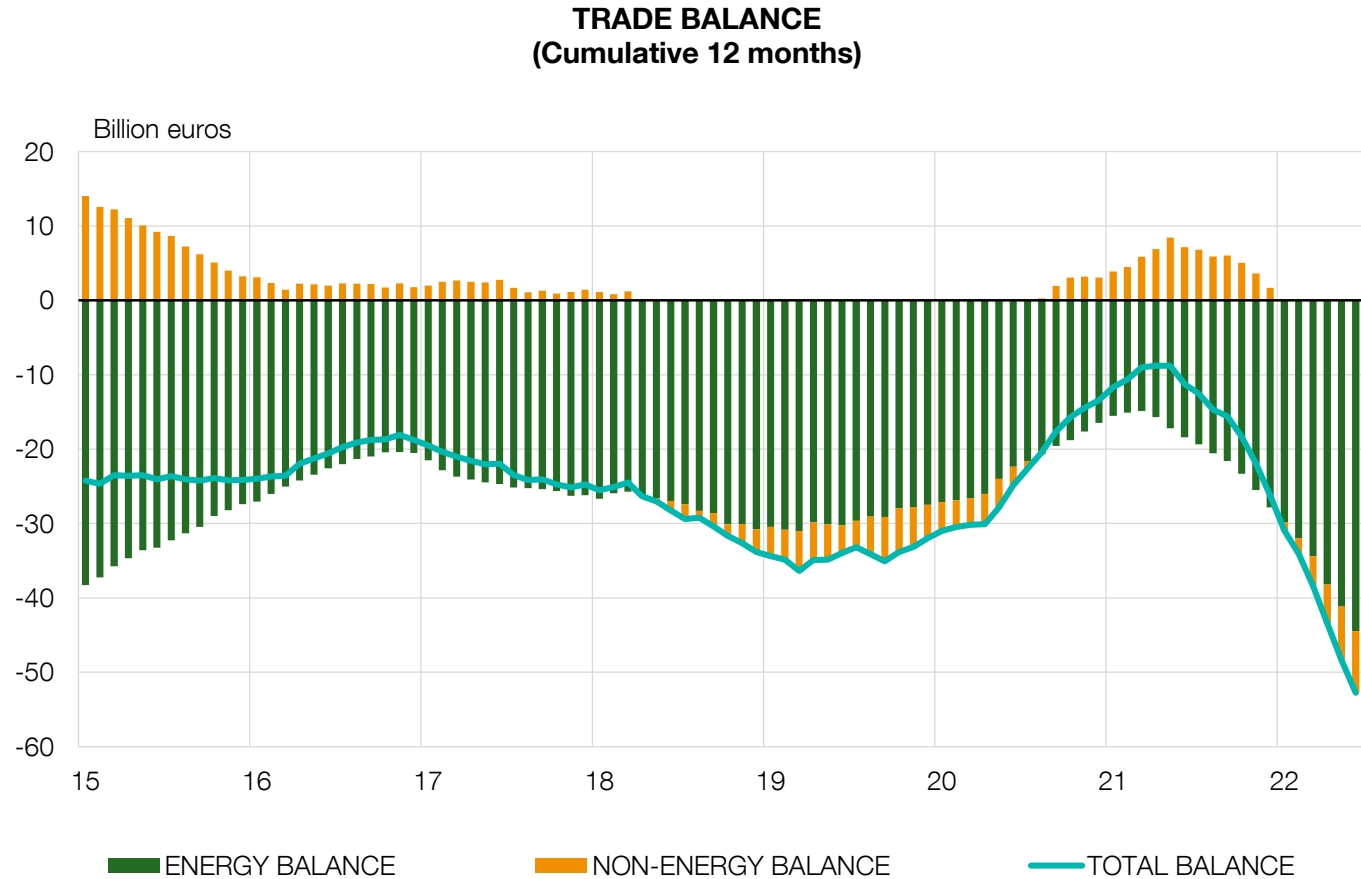


SPAIN: PERCENTAGE OF SUBCLASSES IN HICP IN EACH GROWTH RANGE



Sources: Eurostat, INE and Banco de España. Last observation: Spain (August 2022: flash estimate) and EA (August 2022: flash estimate).

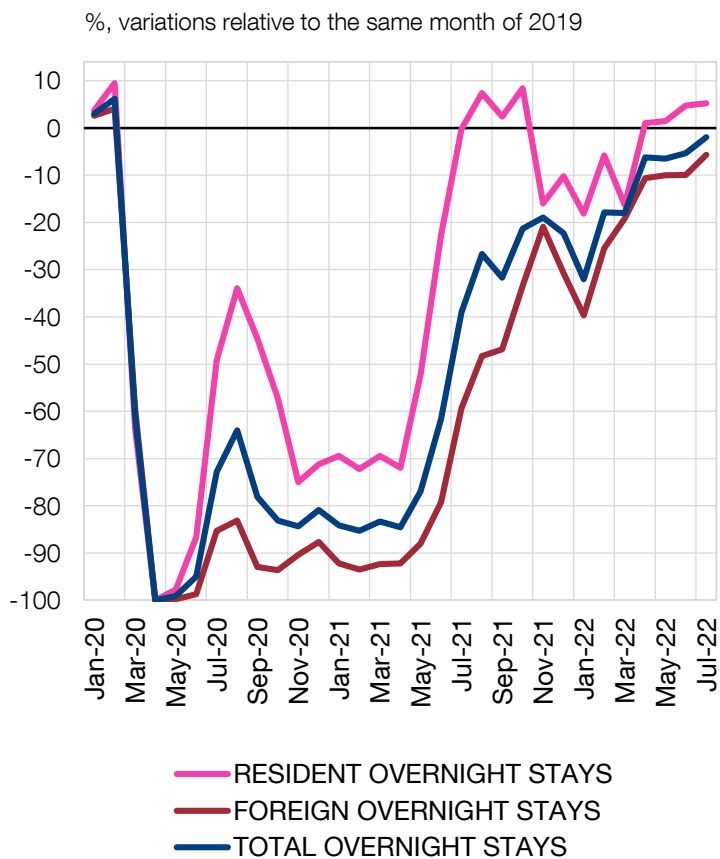
AFTER A STRONGER THAN EXPECTED GROWTH IN 2Q, WHERE ARE WE AT? EXTERNAL IMBALANCES



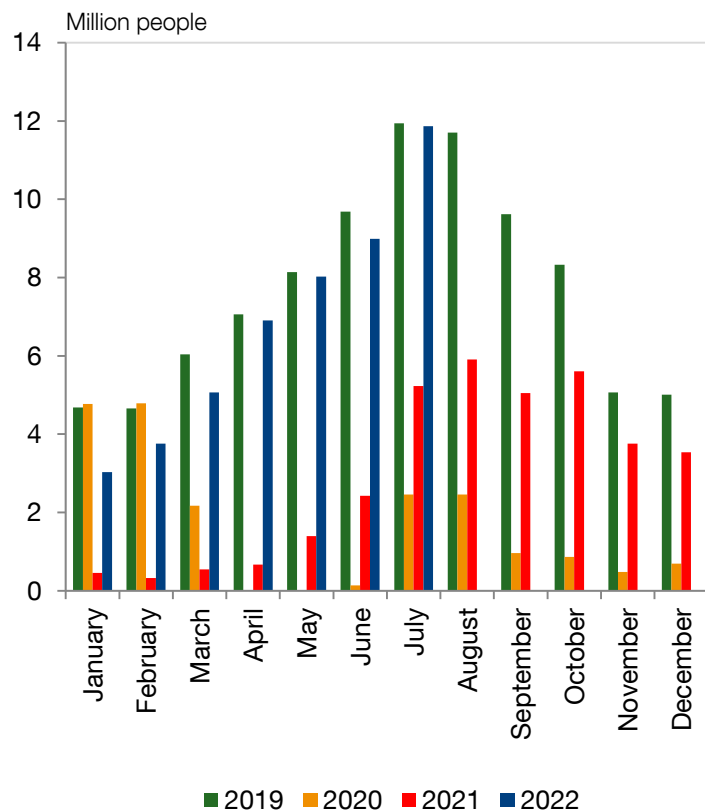
Source: Ministerio de Asuntos Económicos y Transformación Digital. Latest observation: June 2022.

LOOKING FORWARD, DESPITE A STRONG TOURISTIC SEASON, SOME SIGNS OF WEAKENING IN ECONOMIC ACTIVITY ARE ALREADY EVIDENT: EMPLOYMENT

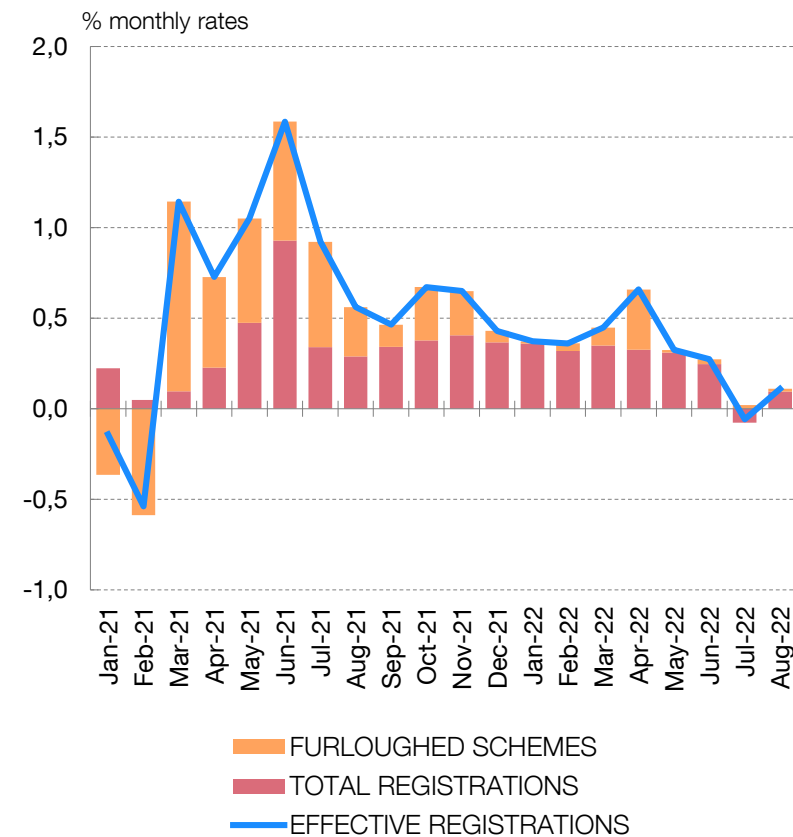
OVERNIGHT STAYS



EXPENDITURE OF FOREIGN TOURISTS. 2019 vs 2022



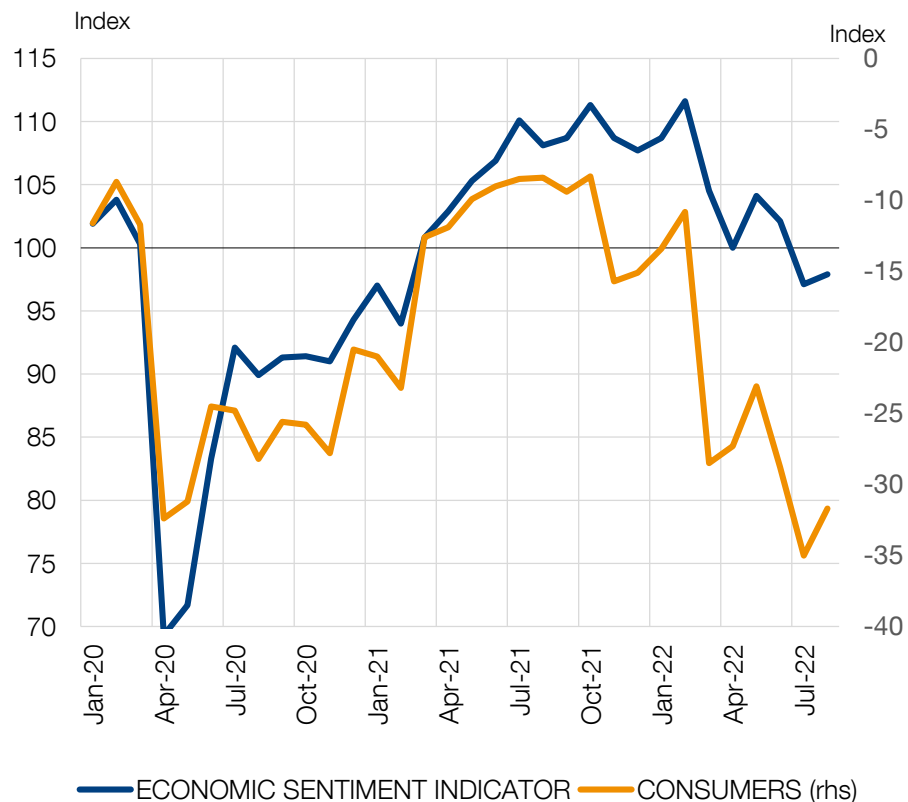
TOTAL SOCIAL SECURITY REGISTRATIONS, FURLOUGHED SCHEMES AND EFFECTIVE REGISTRATIONS (a)



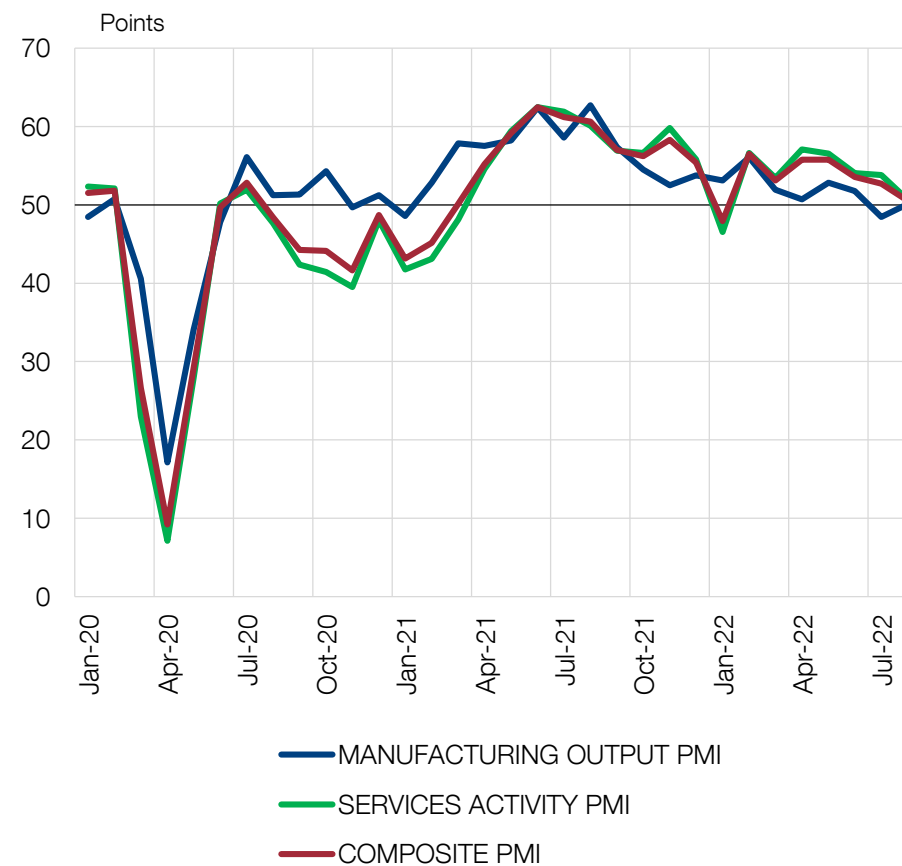
Sources: INE, Ministerio de Inclusión, Seguridad Social y Migraciones, and Banco de España.
a. Seasonally adjusted.

LOOKING FORWARD, DESPITE A STRONG TOURISTIC SEASON, SOME SIGNS OF WEAKENING IN ECONOMIC ACTIVITY ARE ALREADY EVIDENT: CONFIDENCE INDICATORS

ECONOMIC SENTIMENT INDICATOR



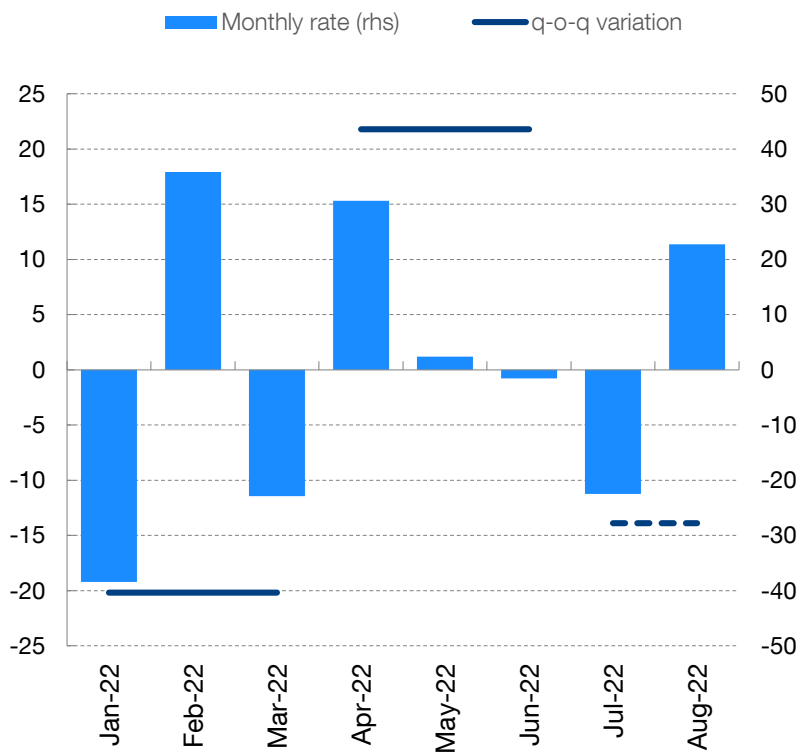
PURCHASING MANAGERS' INDEX



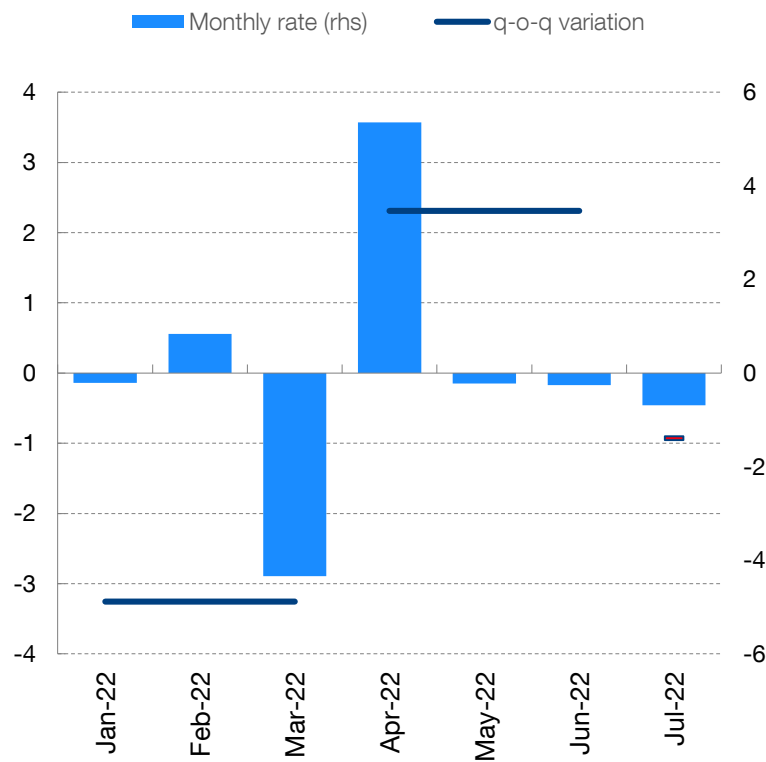
Sources: European Commission and IHS Markit. Latest observation: August 2022.

LOOKING FORWARD, DESPITE A STRONG TOURISTIC SEASON, SOME SIGNS OF WEAKENING IN ECONOMIC ACTIVITY ARE ALREADY EVIDENT: CONSUMPTION AND PRODUCTION INDICATORS

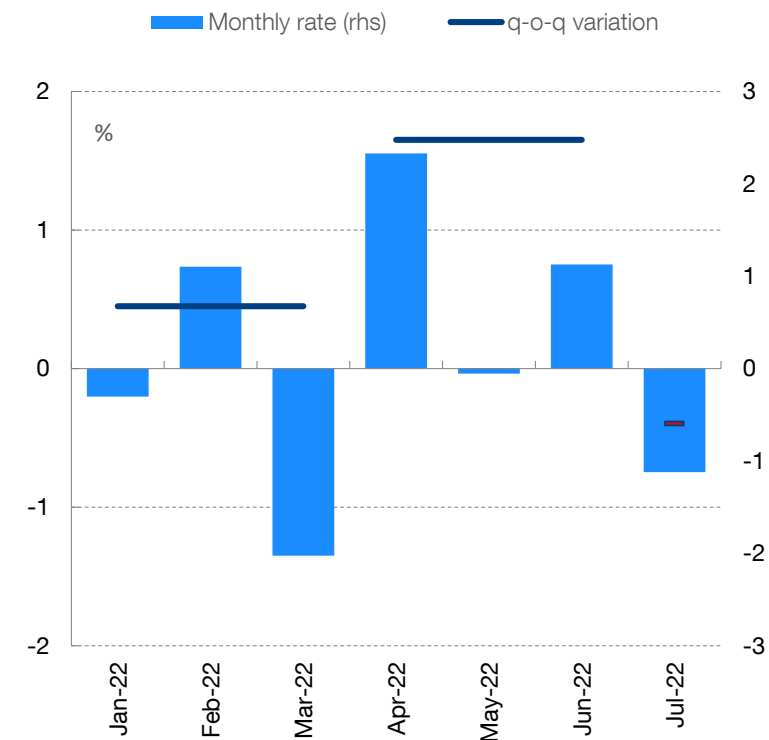
VEHICLE REGISTRATIONS



RETAIL TRADE INDEX



INDUSTRIAL PRODUCTION INDEX

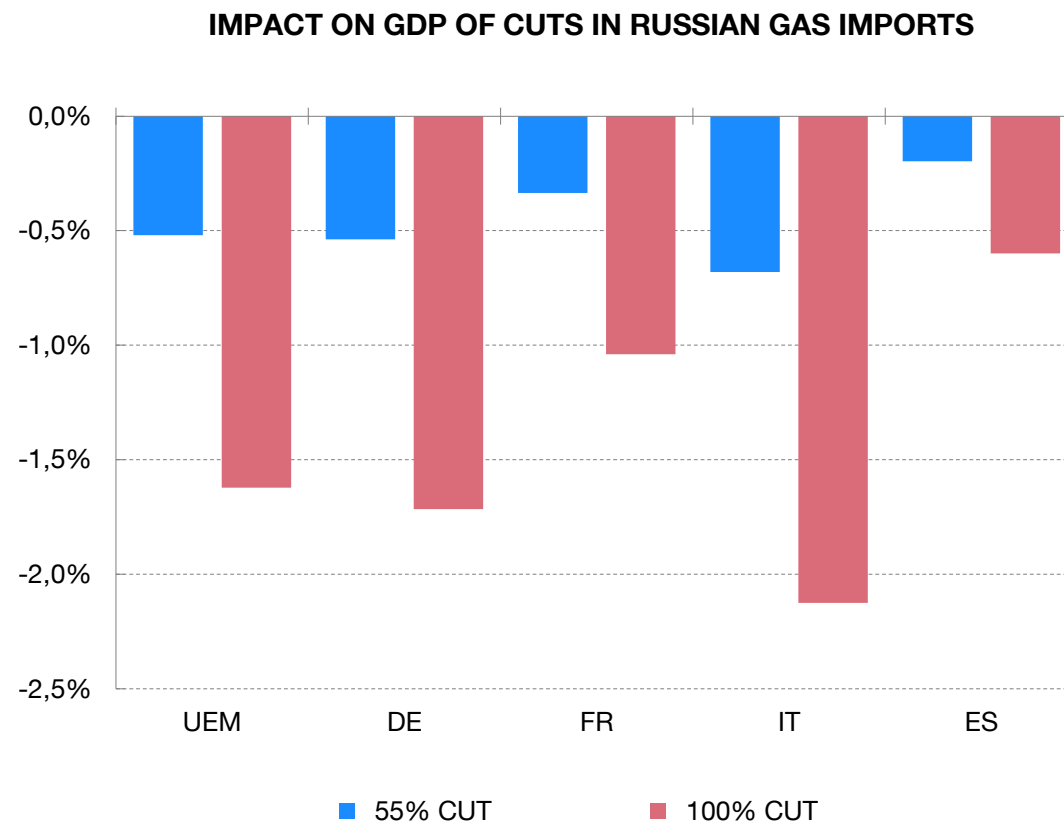


Sources: ANFAC, INE and Banco de España.

Notes: All series are seasonally adjusted. QoQ variation is calculated using the last available observation of the current quarter relative to the previous quarter.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: SEVERITY OF THE ENERGY CRISIS?

The Spanish economy would be materially affected by a complete cut in gas imports from Russia. Yet, this impact would be less acute than the one expected in other euro area countries



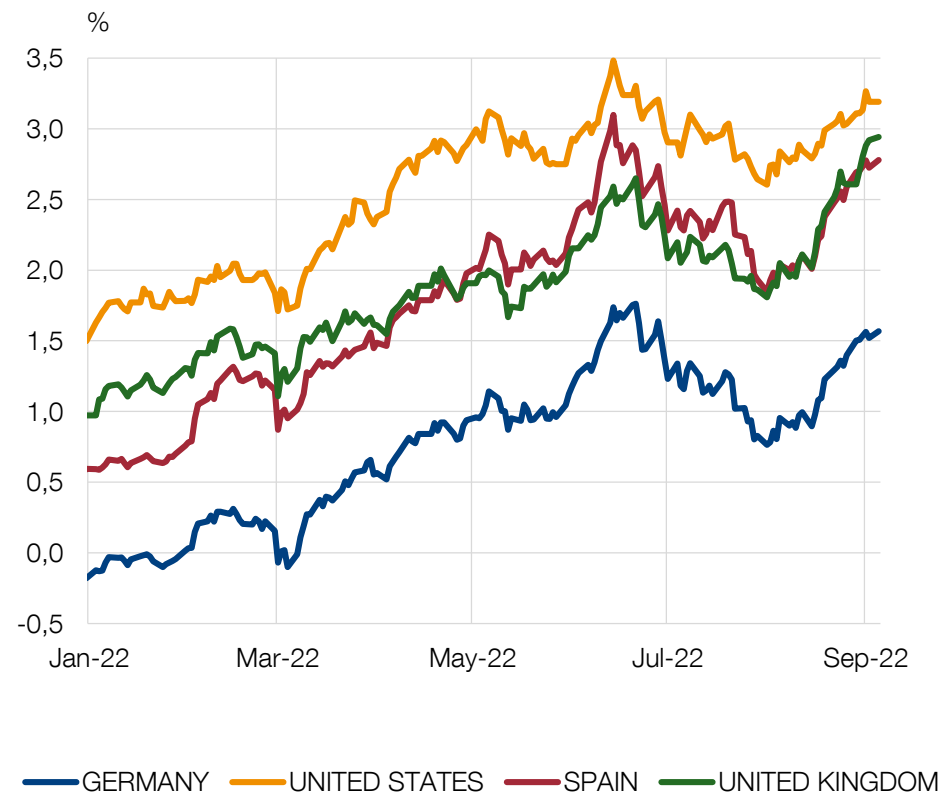
Source: Izquierdo, Moral-Benito, Prades and Quintana (2022), "The propagation of worldwide sector-specific shocks", Working Paper, Banco de España 2213.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: FINANCIAL MARKETS DISRUPTIONS (1/2)?

EQUITY INDICES



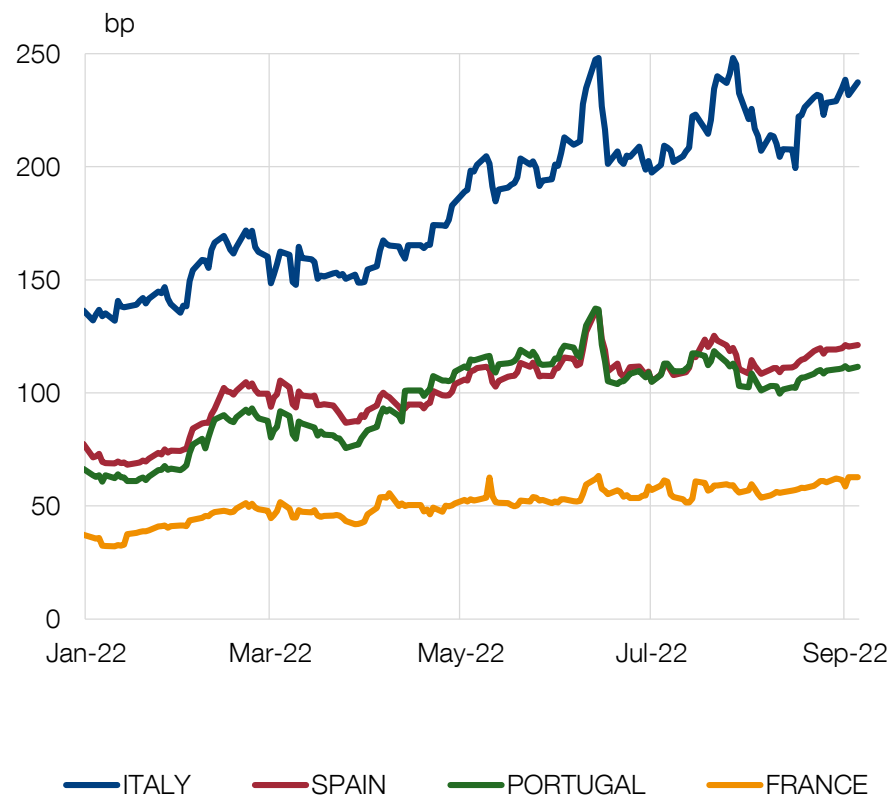
TEN-YEAR SOVEREIGN YIELDS



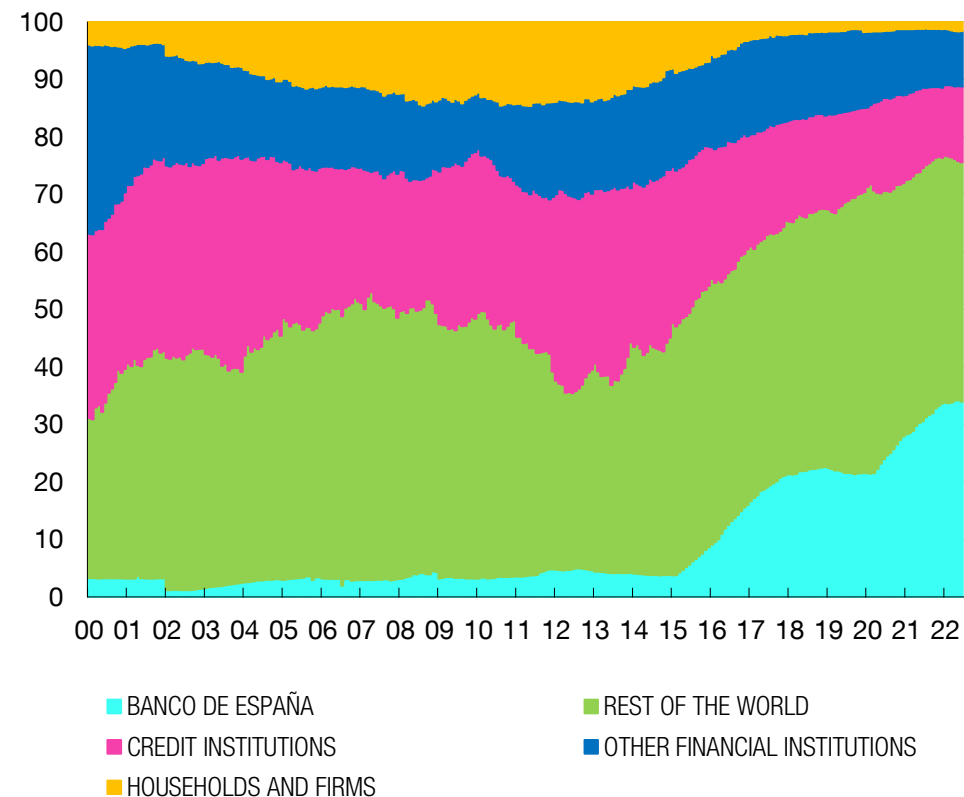
Sources: Refinitiv Datastream.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: FINANCIAL MARKETS DISRUPTIONS (2/2)?

TEN-YEAR SOVEREIGN SPREADS VIS-À-VIS GERMANY



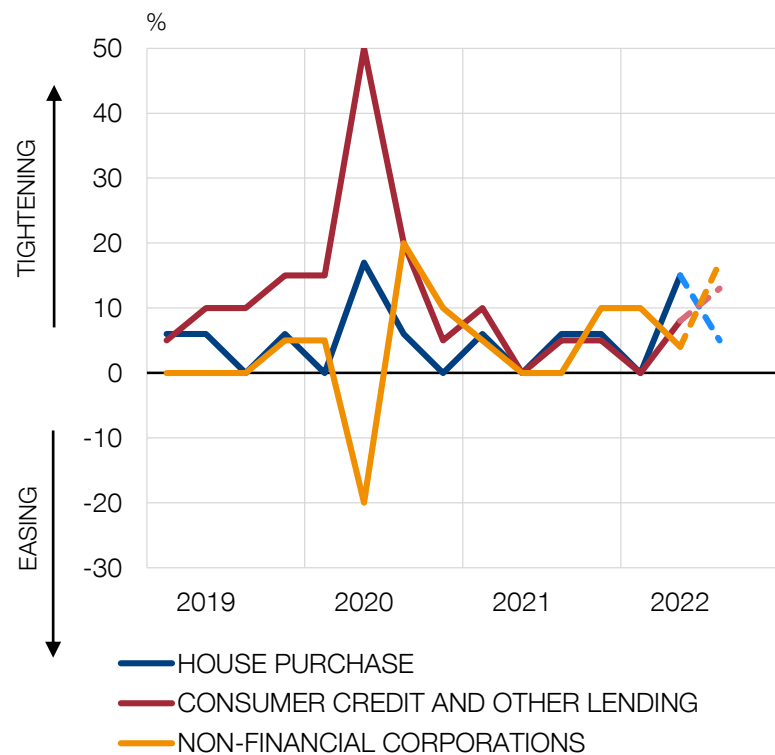
HOLDERS OF SPANISH PUBLIC DEBT (% TOTAL)



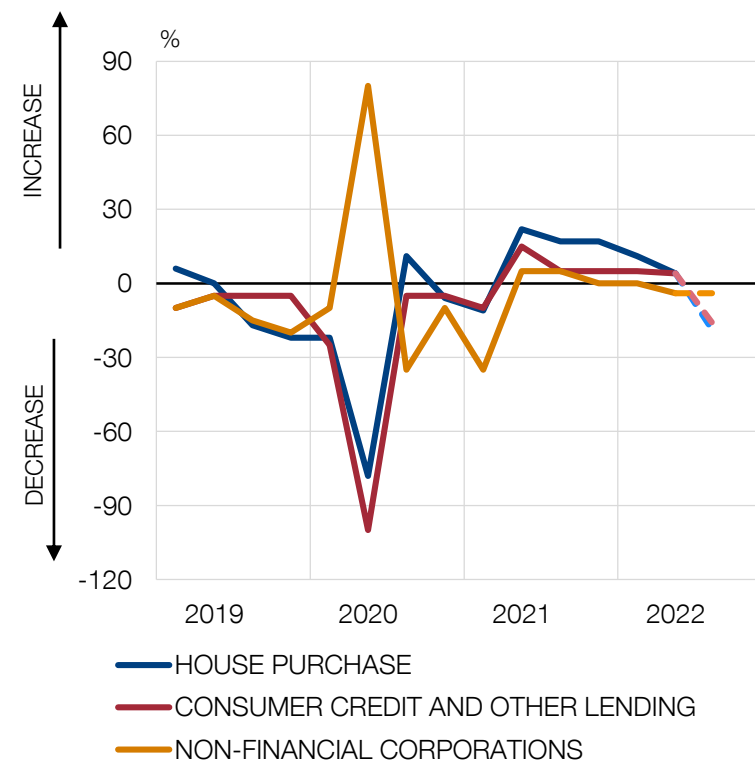
Sources: Refinitiv Datastream and Banco de España.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: TRANSMISSION OF TIGHTER FINANCIAL CONDITIONS TO ECONOMIC AGENTS (1/4)?

BLS: CHANGE IN CREDIT STANDARDS (a)



BLS: CHANGE IN CREDIT DEMAND (b)



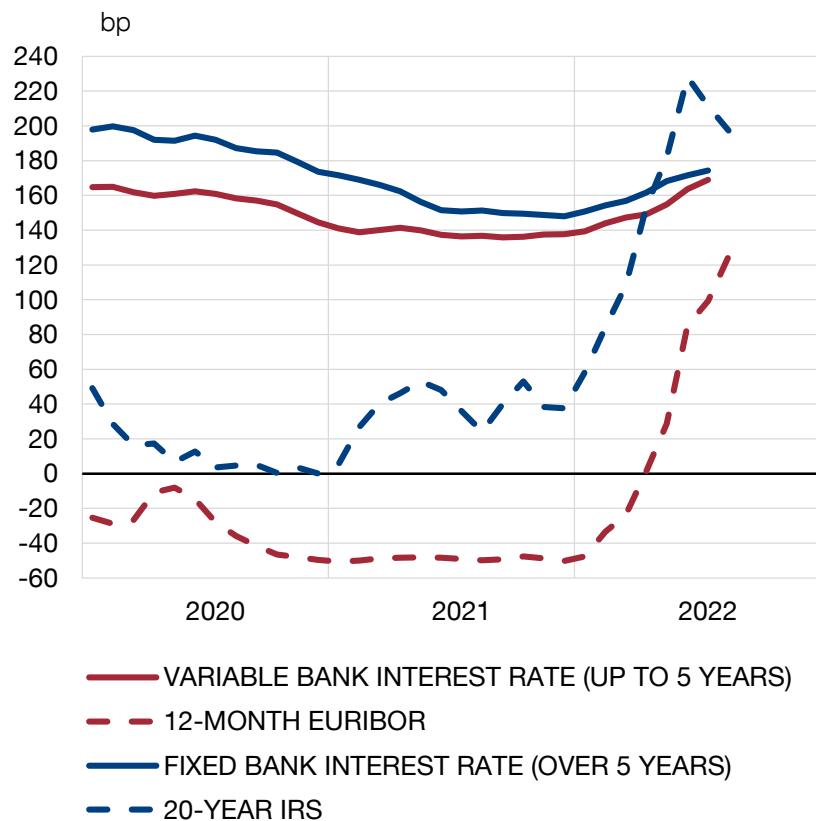
Source: Banco de España. Last observation: 2022 Q2.

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

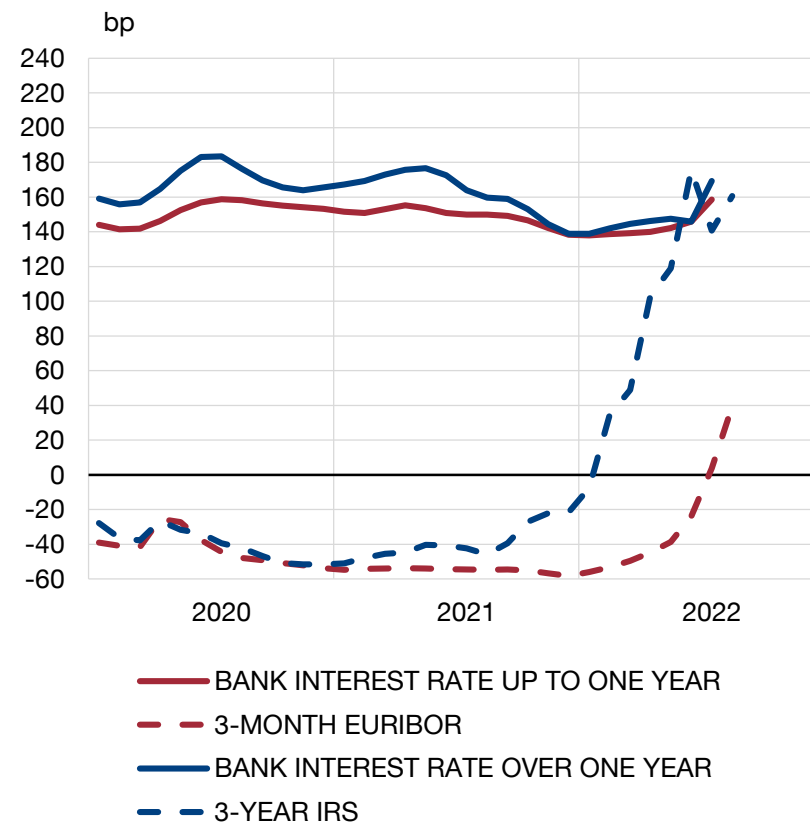
b) Indicator = percentage of banks reporting a considerable increase \times 1 + percentage of banks reporting some increase \times 1/2 – percentage of banks reporting some decrease \times 1/2 – percentage of banks reporting a considerable decrease \times 1.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: TRANSMISSION OF TIGHTER FINANCIAL CONDITIONS TO ECONOMIC AGENTS (2/4)?

LOANS FOR HOUSE PURCHASE



LOANS TO NON-FINANCIAL CORPORATIONS

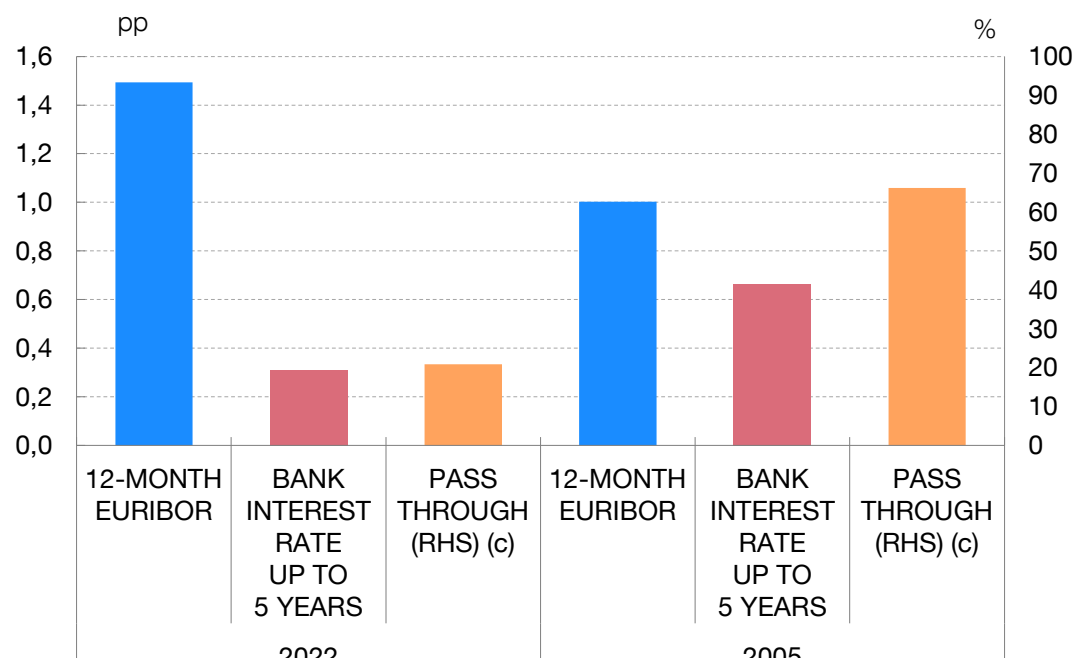


Source: Banco de España. Last observation: July (bank lending rates) and August (reference interest rate).

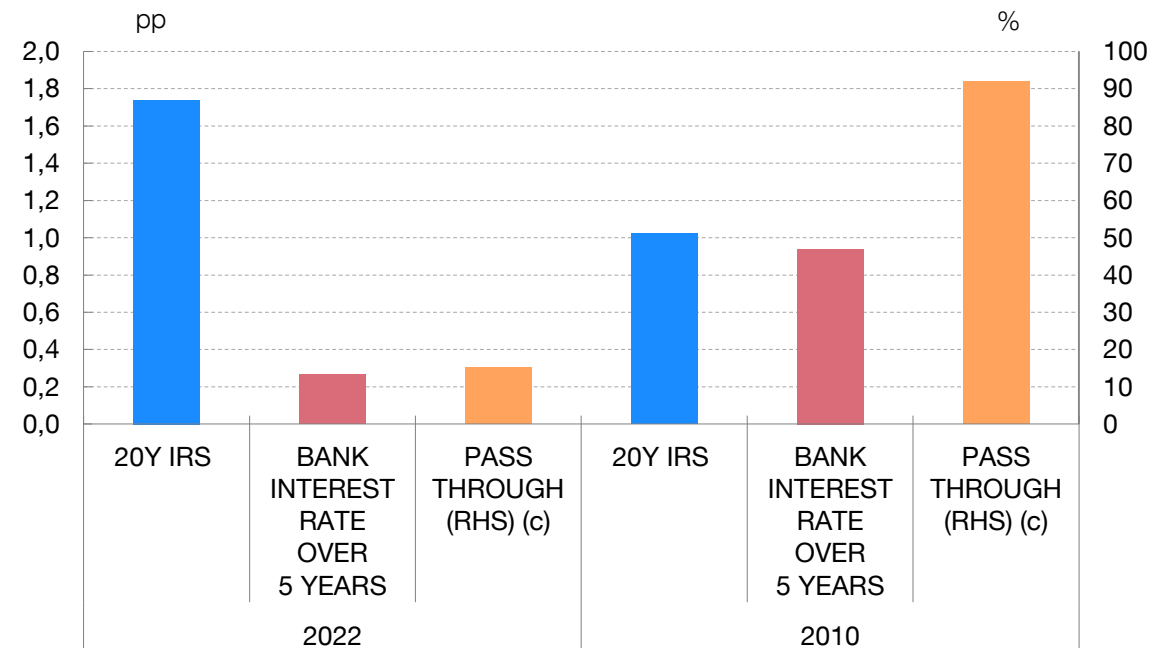
EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: TRANSMISSION OF TIGHTER FINANCIAL CONDITIONS TO ECONOMIC AGENTS (3/4)?

In loans for house purchase, the pass-through of higher market rates to lending rates is being, so far, lower than in previous interest rate hiking cycles

CUMULATIVE CHANGE IN SHORT-TERM INTEREST RATES (a) (b)



CUMULATIVE CHANGE IN LONG-TERM INTEREST RATES (a) (d)



Source: Banco de España.

a) Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognizable pattern in terms of periodicity or trend). The terms refer to the initial period of fixation of the rate.

b) The cumulative change in interest rates for two cycles between month 0 and month 7 is shown. In the year 2022 month 0 corresponds to December 2021 and in 2005 to September 2005.

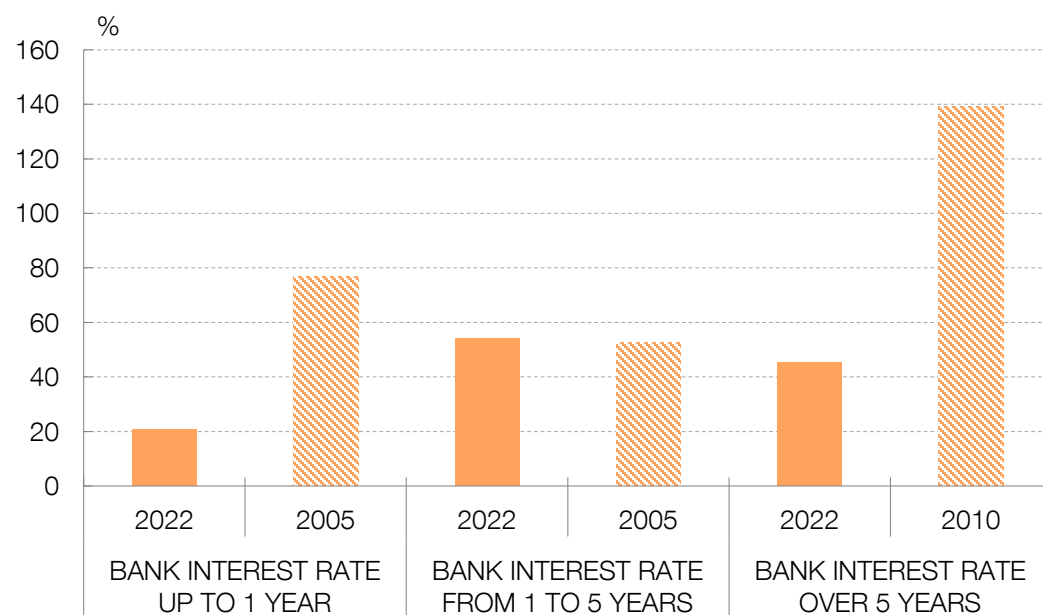
c) The percentage of transmission is calculated as the accumulated variation to month 7 in the bank interest rate over the analogous variation registered in the reference interest rate.

d) The cumulative change in interest rates for two cycles between month 0 and month 7 is shown. In the year 2022, month 0 corresponds to December 2021 and in 2010 to September 2010.

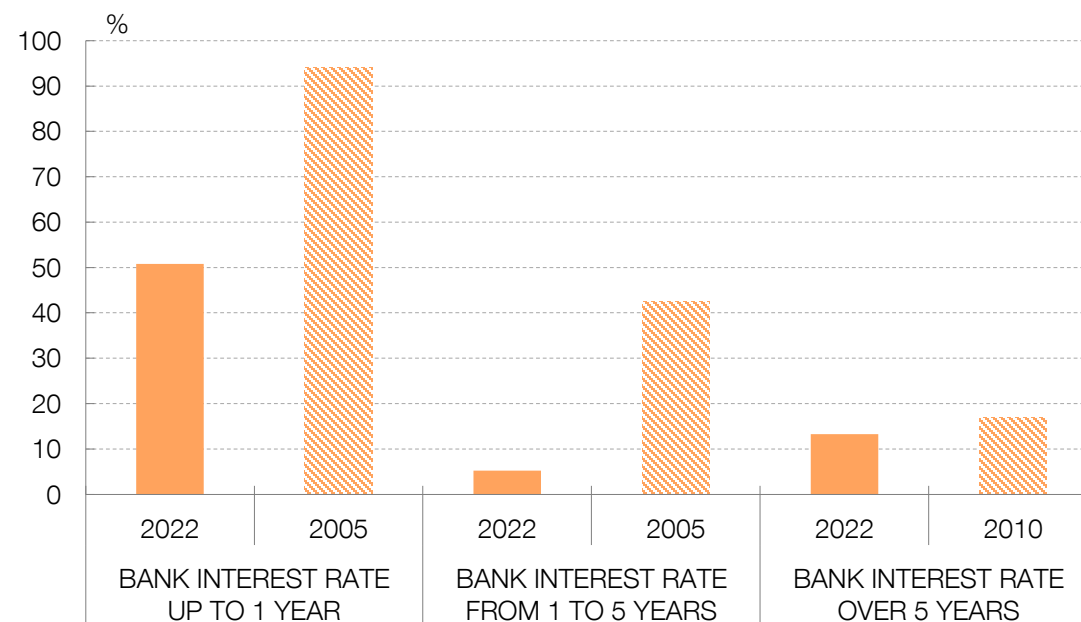
EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: TRANSMISSION OF TIGHTER FINANCIAL CONDITIONS TO ECONOMIC AGENTS (4/4)?

In loans to NFC, the transmission speed compared to previous hiking cycles is also being generally slower

TRANSMISSION OF THE CUMULATIVE CHANGE IN THE REFERENCE INTEREST RATE TO THE COST OF BORROWING. LOANS TO NFCs UP TO €1 MILLION (a) (b)



TRANSMISSION OF THE CUMULATIVE CHANGE IN THE REFERENCE INTEREST RATE TO THE COST OF BORROWING. LOANS TO NFCs OVER €1 MILLION (a) (b)



Source: Banco de España.

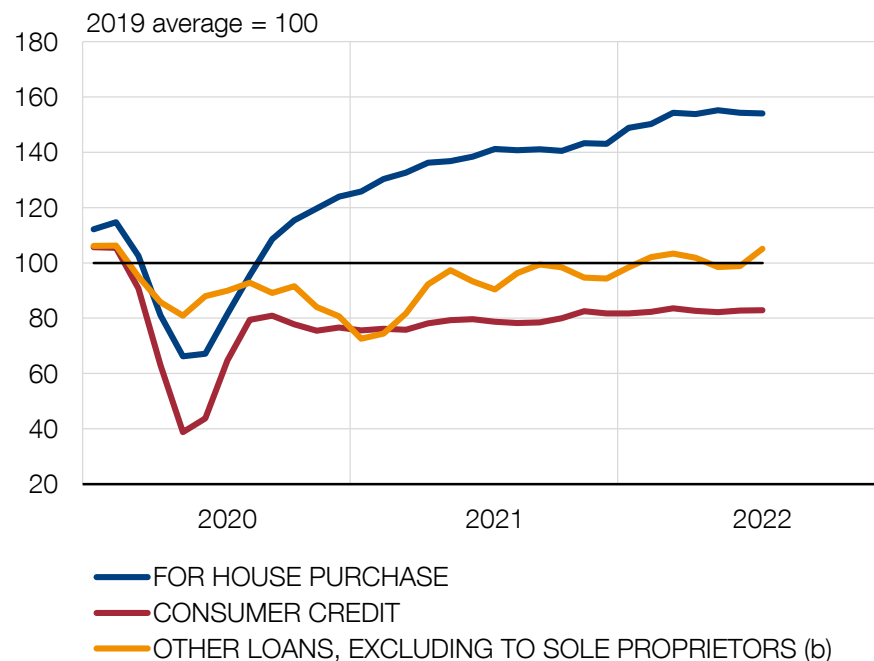
a) Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognizable pattern in terms of periodicity or trend. The terms refer to the initial period of fixation of the rate.

b) The transmission percentage is shown, calculated as the cumulative change between month 0 and month 7 in the bank interest rate over the analogous variation registered in the reference interest rate for different cycles. In the year 2022 month 0 corresponds to December 2021, in 2010 to September 2010 and in 2005 to September 2005.

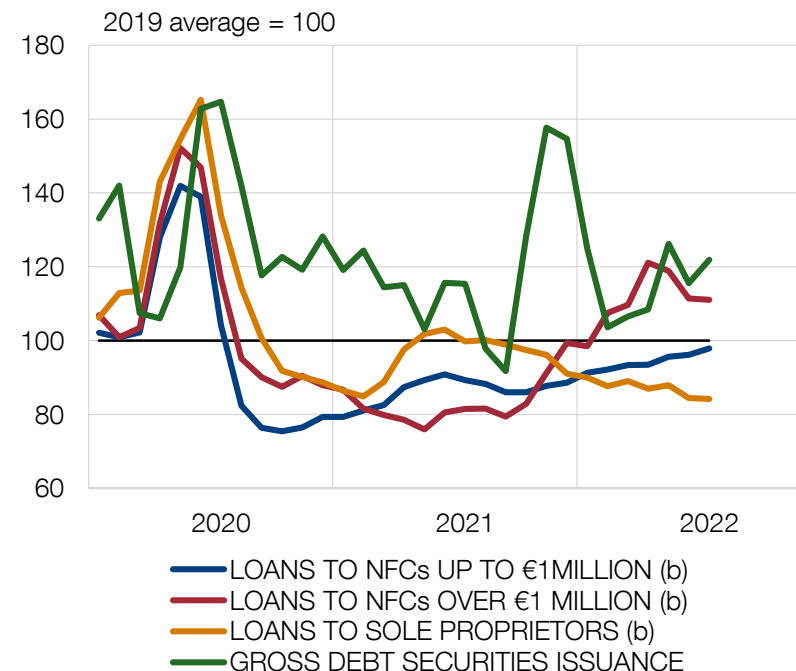
EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: IMPACT OF TIGHTER FINANCIAL CONDITIONS ON ECONOMIC AGENTS' DECISIONS (1/3)?

The flow of new loans to the private sector remains, so far, rather stable ...

NEW LENDING TO HOUSEHOLDS (a)
Seasonally adjusted 3-month cumulative flows



NEW LENDING TO PRODUCTIVE ACTIVITIES (a)
Seasonally adjusted 3-month cumulative flows



Source: Banco de España. Last observation: July 2022.

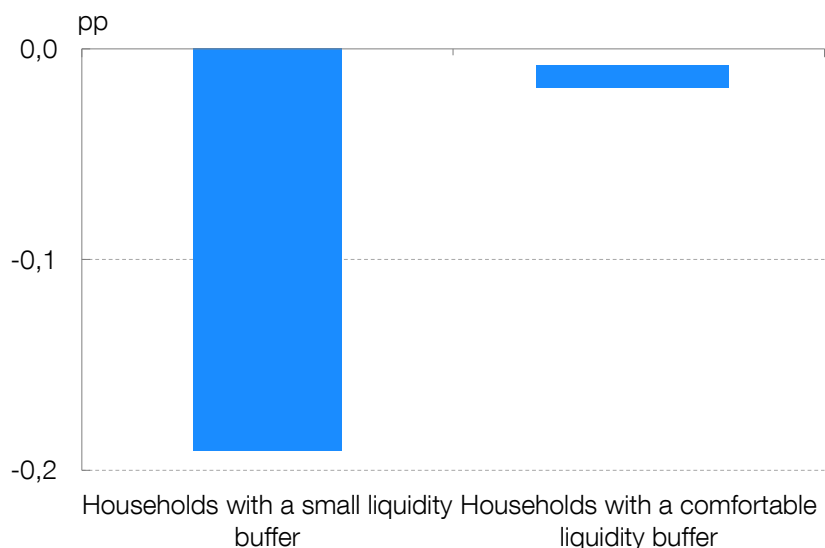
a) The bank financing series include financing granted institutions and specialized lending institutions.

b) Includes renegotiations of previous loans.

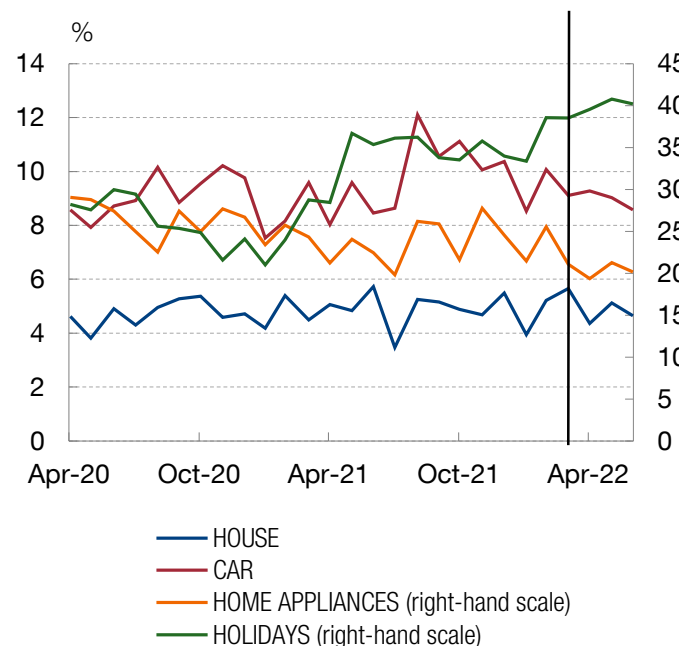
EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: IMPACT OF TIGHTER FINANCIAL CONDITIONS ON ECONOMIC AGENTS' DECISIONS (2/3)?

... although higher interest rates, lower confidence and higher energy prices seem likely to weigh on consumption and investment decisions by households looking forward ...

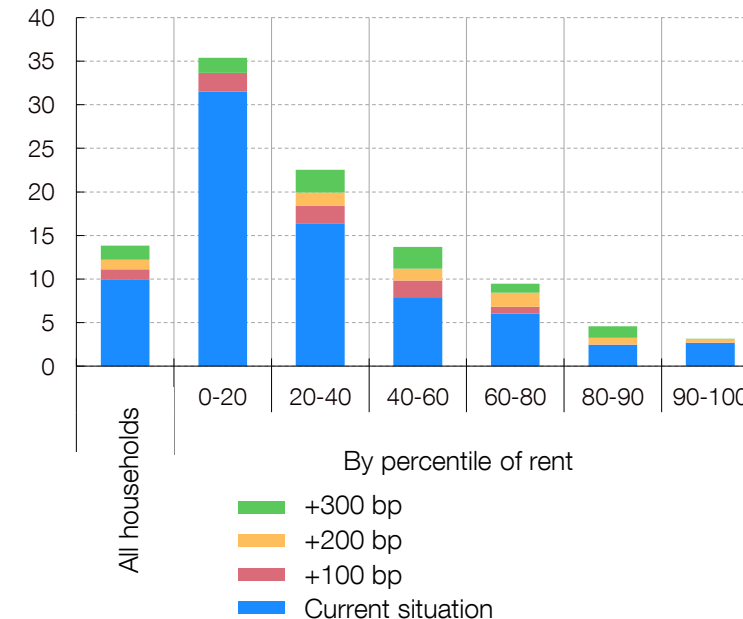
ADJUSTMENT TO THE SHARE OF HOUSEHOLD INCOME SPENT ON NON-ENERGY GOODS AND SERVICES IN THE EVENT OF A 1 PP INCREASE IN THE RATIO OF ENERGY SPENDING TO HOUSEHOLD INCOME (a)



SHARE OF HOUSEHOLDS EXPECTING TO SPEND ON MAJOR CONSUMER ITEMS OVER THE NEXT 12 MONTHS



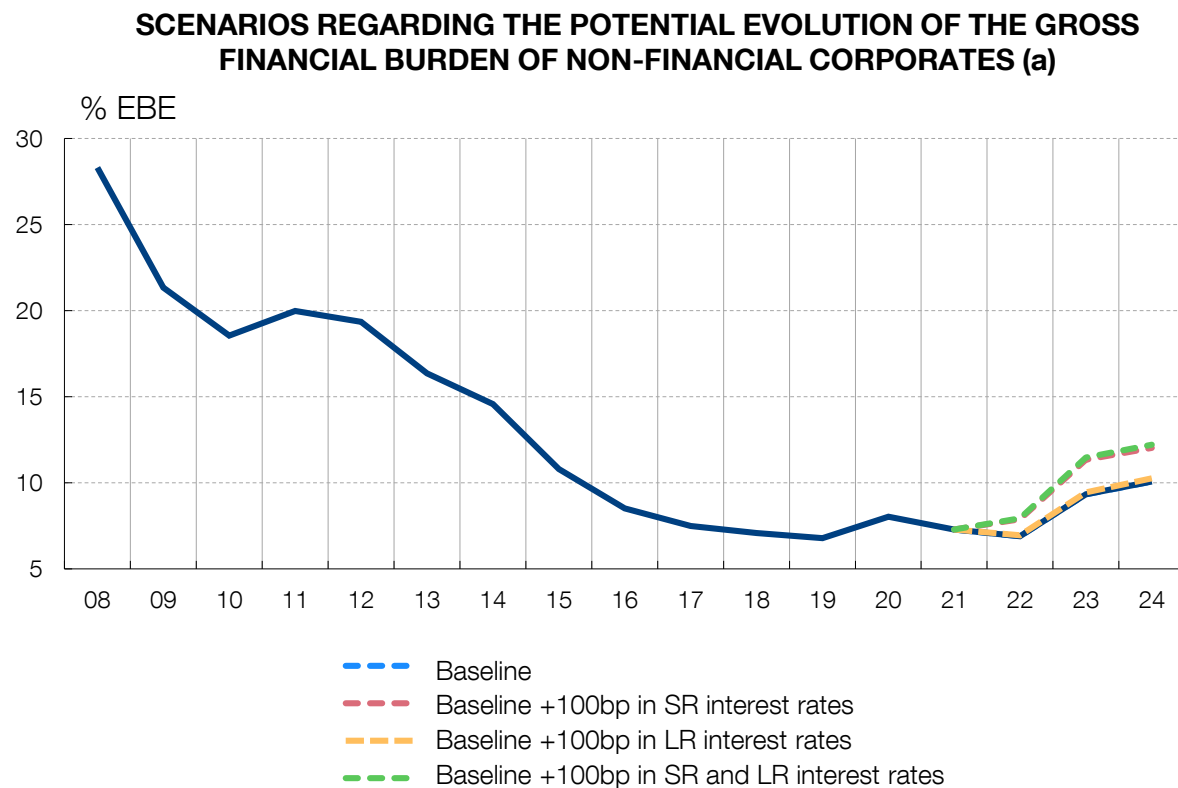
IMPACT OF AN INTEREST RATE INCREASE IN THE % OF HOUSEHOLDS WITH AN ELEVATED FINANCIAL BURDEN (b)



(a) C. Martínez-Carrascal (2022) “The impact of the surge in inflation and the war on Spanish households’ economic outlook”. Banco de España, Economic Bulletin, 3/2022. Households with a small liquidity buffer are defined as those that do not have sufficient liquidity (or the means to obtain it) to cover an unexpected payment equal to one month of household income. Energy spending is proxied by drawing on total spending on electricity, gas, water, sewerage, telephony and cable television, as the survey used for the analysis (CES) groups spending on these items together.
 (b) Encuesta Financiera de las Familias (2017) and Banco de España.

EXTRAORDINARY UNCERTAINTY REGARDING THE MAGNITUDE OF THE POTENTIAL SLOWDOWN IN THE NEAR TERM: IMPACT OF TIGHTER FINANCIAL CONDITIONS ON ECONOMIC AGENTS' DECISIONS (3/3)?

... the same is true in the case of firms, even if their activity and profit indicators have materially improved once the more acute phase of the pandemic has passed



Source: Banco de España.

a) Simulations using Banco de España's June macroeconomic projections and markets' interest rate expectations on June 22.

SOME OTHER KEY FACTORS WHICH MAY CRITICALLY INFLUENCE THE SHORT- AND/OR MEDIUM-TERM OUTLOOK OF THE SPANISH ECONOMY

The magnitude of indirect and second-round effects on inflation → Competitiveness

Evolution of corporate margins and wage increases set in collective bargaining agreements

The deployment and economic impact of NGEU funds → Growth potential

The evolution of public revenues and expenses

Type of fiscal policy response in the current juncture and medium-term fiscal plans

The impact of some recently approved reforms

For instance, the labor market reform and the reform of the insolvency framework

THANK YOU FOR ATTENTION

