

MACROECONOMIC PROJECTIONS FOR SPAIN 2022-2025

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CONTENTS

- 1. Global environment**
- 2. Spanish economy – recent developments**
- 3. Macroeconomic projections 2022-2025**
 - **Projections update – main drivers**
 - **Growth forecasts**
 - **Inflation forecasts**
 - **Public finances**
 - **Balance of risks and main sources of uncertainty**

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Activity

Clear signs of slowdown in global economic activity (e.g. PMIs and international trade) ...

↑ Owing, among other factors, to the war in Ukraine, high inflation rates and monetary policy tightening

... although activity is still quite resilient (even with upside surprises)

↑ Partly due to the strong labour market momentum and the fiscal policy measures introduced

Prices

Commodity prices are slowing ...

↑ Partly owing to the slowdown in economic activity, the easing of the supply bottlenecks and a relatively warm autumn

... and there are incipient signs of inflation moderating in some economies, although underlying inflation rates are still very high

↑ Moreover, the rate of growth of food prices has generally continued to gather pace in recent months

In general, growth projections are being revised up for 2022 and down for 2023 (*) while inflation projections are being revised up (*)

↳ Latest Eurosystem projections

The main central banks worldwide expect monetary policy tightening to continue

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Headline inflation in Spain has fallen significantly (from 10.7% in July to 6.7% in November) ...

... mainly owing to the energy component

The inflation differential with the euro area stood at an all-time low in November

Underlying inflation has also fallen slightly, while the rate of growth of food prices has gathered pace

Partly thanks to wage moderation, services inflation has been lower in the more labour-intensive sectors

Government measures continue to play a part in the decline in the headline inflation rate

GDP slowed significantly in Q3, in line with the Banco de España's October projections (+0.2% vs. +0.1%)

Employment has been quite steady in Q4 ...

... as has the temporary employment ratio, following the sharp declines earlier in the year [Effects on consumption?]

According to the Banco de España Business Activity Survey (EBAE), in aggregate terms, business turnover has been steady in Q4

Confidence indicators have remained very low or have continued to head down

Other indicators provide mixed signals, generally pointing to a certain level of weakness in economic activity

The tighter financial conditions have continued to be passed through to households and firms

Economic momentum in Q4 has been similar to that observed in Q3 (*)

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Data that have become available since the cut-off date for the October projection exercise

- **In terms of activity**, the new data point to an increase in the rate of growth of GDP in 2022 and have a slightly positive carry-over effect on the growth rate in 2023
- **In terms of prices**, the steep drop in the inflation rate in recent months provides a more favourable starting point

Changes in the assumptions about certain key variables over the projection horizon

- **Energy prices**: considerably lower wholesale gas and electricity prices, and slightly higher oil prices
- **External demand**: lower due to deterioration in the global economic outlook
- **Euro exchange rate**: slightly higher
- **Interest rates**: slightly lower than expected in October
- **Fiscal policy**: incorporation of the Draft Budget for 2023 and various other fiscal policy measures

New assumptions about the time frame of the measures rolled out by the authorities to mitigate rising energy prices

- Although there is as yet no official decision, the baseline scenario of the new projection exercise assumes that most of the current measures will remain in force throughout 2023

SUMMARY OF THE PROJECTIONS

- **GDP growth is revised upwards slightly in 2022** (due to activity performing better than projected in 2022 H2), **but downwards slightly in 2023** (mainly due to poorer external demand, which offsets the positive carry-over effect of the 2022 H2 data and the boost from the extension to 2023 of some of the measures to mitigate rising prices) **and in 2024** (mainly due to application of the aforementioned measures ending)
- **The average inflation rate is revised downwards in 2022** (due to a greater-than-expected decline in inflation in recent months) **and in 2023** (on account of new assumptions and the incorporation of the extension throughout 2023 of some of the measures currently in force to mitigate rising prices), **but is revised upwards in 2024** (mainly due to application of the aforementioned measures ending)

			DECEMBER 2022 PROJECTIONS (a)				DIFFERENCES WITH RESPECT TO THE OCTOBER PROJECTIONS			
	2020	2021	2022	2023	2024	2025	2022	2023	2024	2025
Annual rate of change (%), unless otherwise indicated										
GDP	-11.3	5.5	4.6	1.3	2.7	2.1	0.1	-0.1	-0.2	-
Harmonised index of consumer prices (HICP)	-0.3	3.0	8.4	4.9	3.6	1.8	-0.3	-0.7	1.7	-
HICP excluding energy and food	0.5	0.6	3.8	3.4	2.2	1.8	-0.1	-0.1	0.1	-
Unemployment rate (% of labour force). Annual average	15.5	14.8	12.8	12.9	12.2	12.0	0.0	0.0	-0.2	-
General government net lending (+)/net borrowing (-) (% of GDP)	-10.1	-6.9	-4.2	-4.1	-3.7	-4.5	0.1	-0.1	0.6	-
General government debt (% of GDP)	120.4	118.3	113.1	110.6	108.8	109.8	-0.2	-0.1	-1.1	-

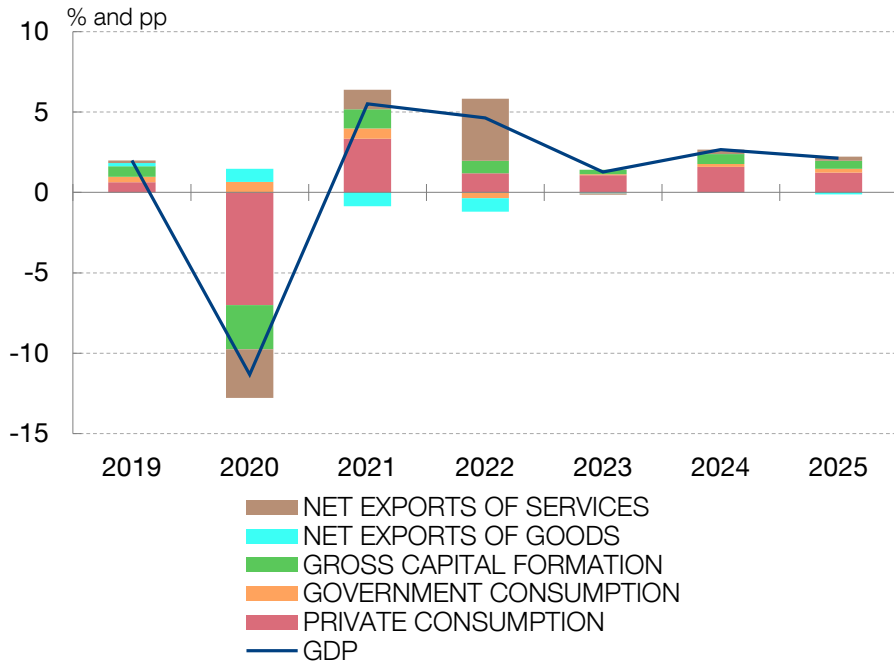
Sources: Banco de España and INE.
(a) Projections cut-off date: 30 November 2022.

More details 

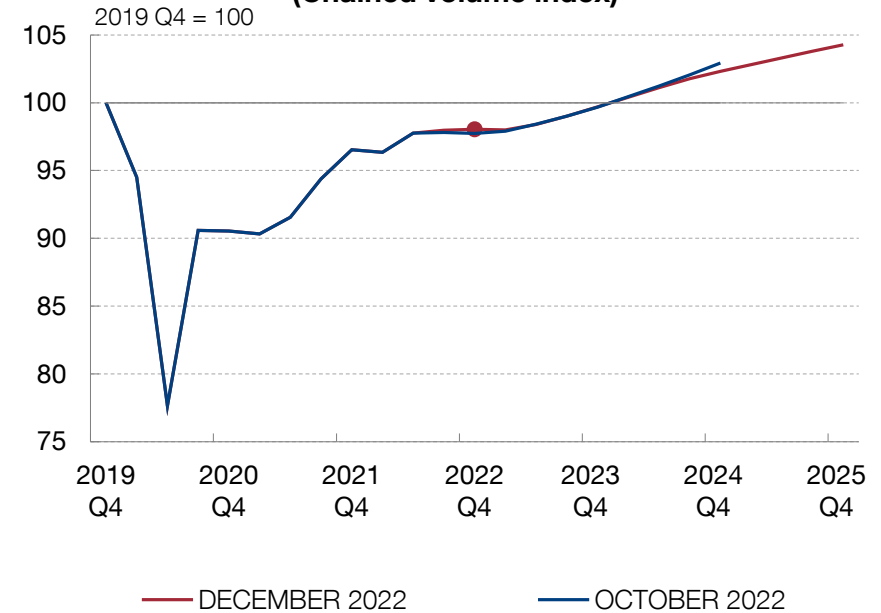
GROWTH FORECASTS SUMMARY

- Spanish economic activity is expected to remain considerably weak over the coming months (The outlook for early 2023 is one of continuing high inflationary pressures, a further tightening of financial conditions, persistent relatively low confidence levels and lacklustre global economic activity)
- Activity will regain increasing momentum from spring 2023, boosted by a combination of factors (These include the gradual easing of energy market tensions and inflationary pressures, the ongoing roll-out of NGEU funds and the gradual resolution of the global supply chain disruptions)

GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



REAL GDP (Chained volume index)



Sources: INE and Banco de España.

GROWTH FORECASTS CONSUMPTION

Compared with other demand headings, the return of household consumption to its pre-pandemic level is lagging particularly behind: it is still more than 5 pp below its 2019 Q4 level



In recent months, use of the savings households built up at the height of the pandemic has been relatively limited and has not significantly boosted aggregate spending levels

Against a backdrop marked by extraordinary uncertainty and in which household confidence has deteriorated significantly, consumption will likely take longer than GDP to return to its pre-pandemic level ...



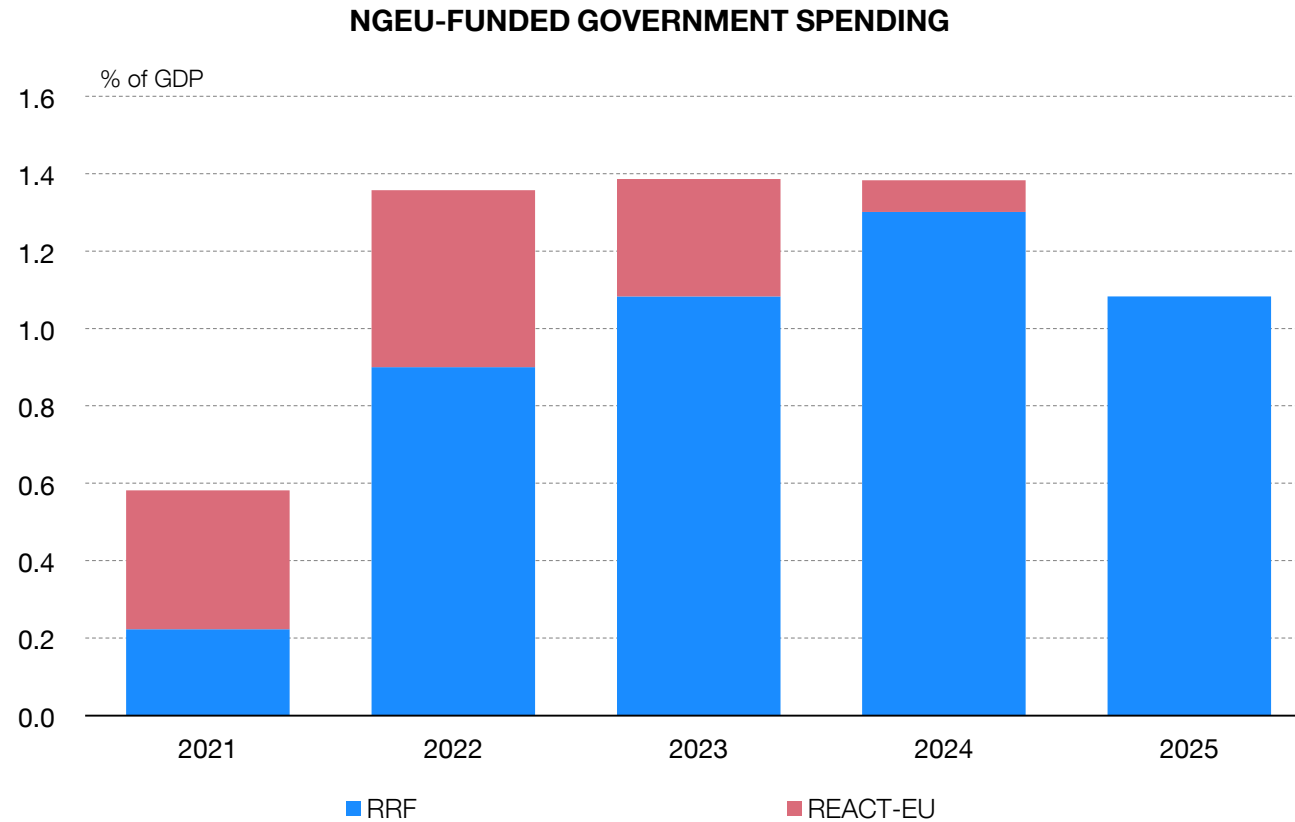
In the coming months, use of the savings built up during the health crisis (which are concentrated in higher income households) is not expected to be particularly important in terms of driving aggregate consumption



... despite the saving rate standing below its historical average throughout the projection horizon

GROWTH FORECASTS NGEU PROGRAMME

In line with the latest information available, this projection exercise maintains, throughout the period 2022-2025, NGEU-funded government spending trajectories that are very similar to those considered in the October projection exercise

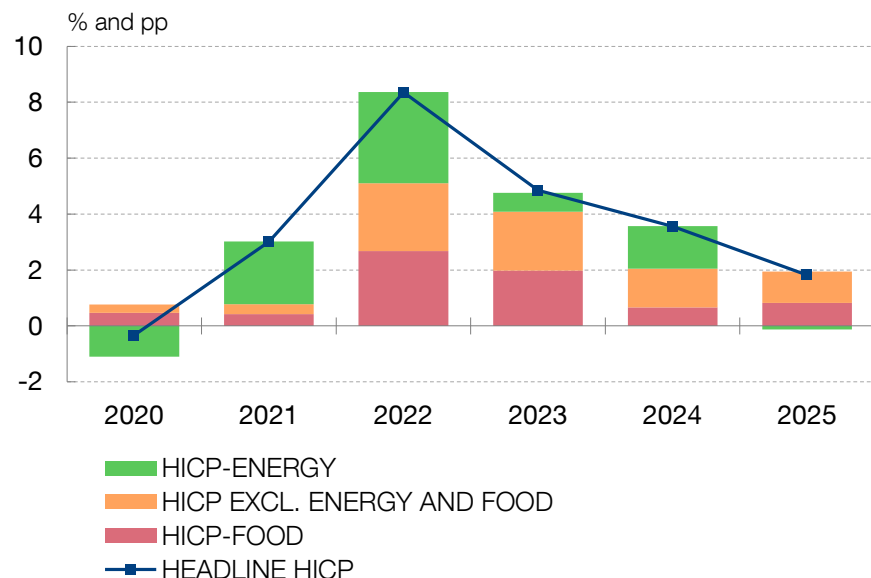


Sources: Banco de España and IGAE.

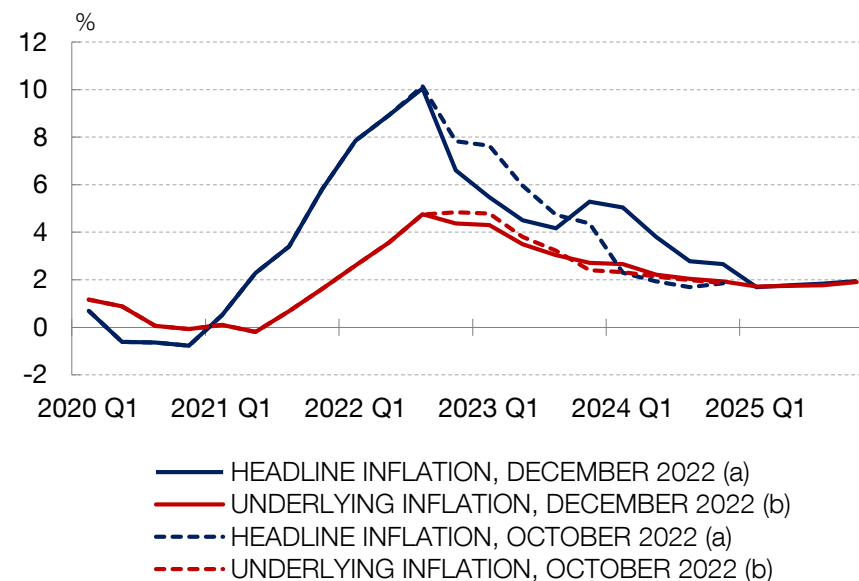
INFLATION FORECASTS SUMMARY

- **Headline inflation is forecast to gradually ease from its current level** (The rates in 2023/2024 will be particularly affected by the support measures deployed by the authorities)
- **The reduction in inflation will initially be explained by the energy component** (Due, partly, to negative base effects in the short term and on account of the lower prices signalled by energy commodity futures markets)
- **The pace of food price growth will moderate and the rate of underlying inflation will drop somewhat later** (The progressive disappearance of the bottlenecks, the gradual impact of the change in monetary policy stance and lower commodity prices, among other factors, will contribute to this)

CONTRIBUTIONS TO HICP GROWTH BY COMPONENT



HEADLINE AND UNDERLYING INFLATION



Sources: INE and Banco de España.

(a) Measured by the harmonised index of consumer prices (HICP).

(b) Measured by the HICP excluding energy and food.

INFLATION FORECASTS

FACTORS SUGGESTING A RELATIVE PERSISTENCE OF INFLATIONARY PRESSURES

Inflationary pressures are very widespread in the basket of consumer goods and services

Despite the decline in the year-on-year rate of inflation in recent months, month-on-month price dynamics are still exhibiting very strong inflationary momentum

The pass-through of the recent cost increases to all consumer goods and services prices is not yet fully complete

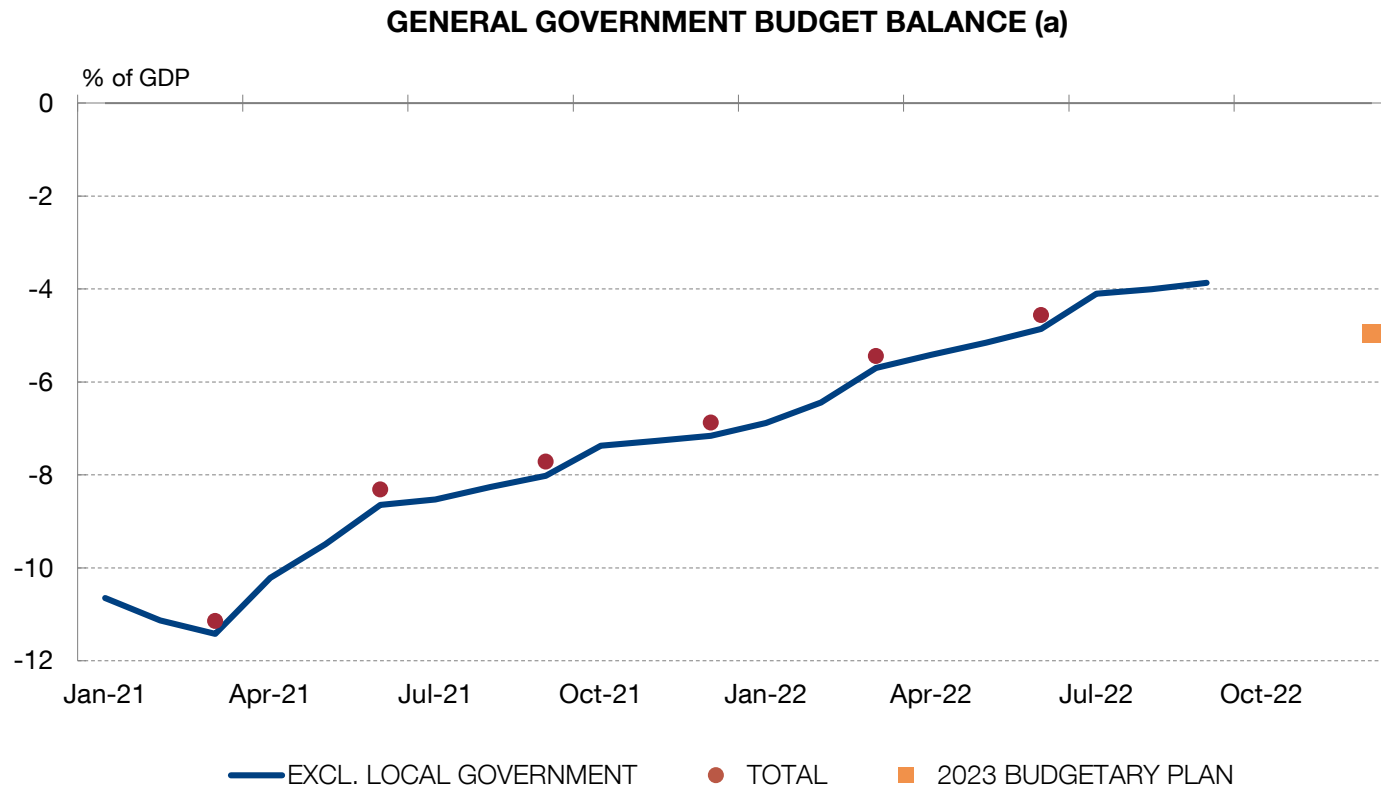
According to the Banco de España Business Activity Survey (EBAE), while firms have recently observed a slight easing of inflationary pressures, such pressures have barely weakened one year ahead

Producer prices suggest that processed food inflation may still remain high over the coming months

PUBLIC FINANCES

GENERAL GOVERNMENT BALANCE IN 2022

Government receipts continue to display strong momentum and suggest that the budget deficit in 2022 as a whole will be smaller than envisaged in the Budgetary Plan



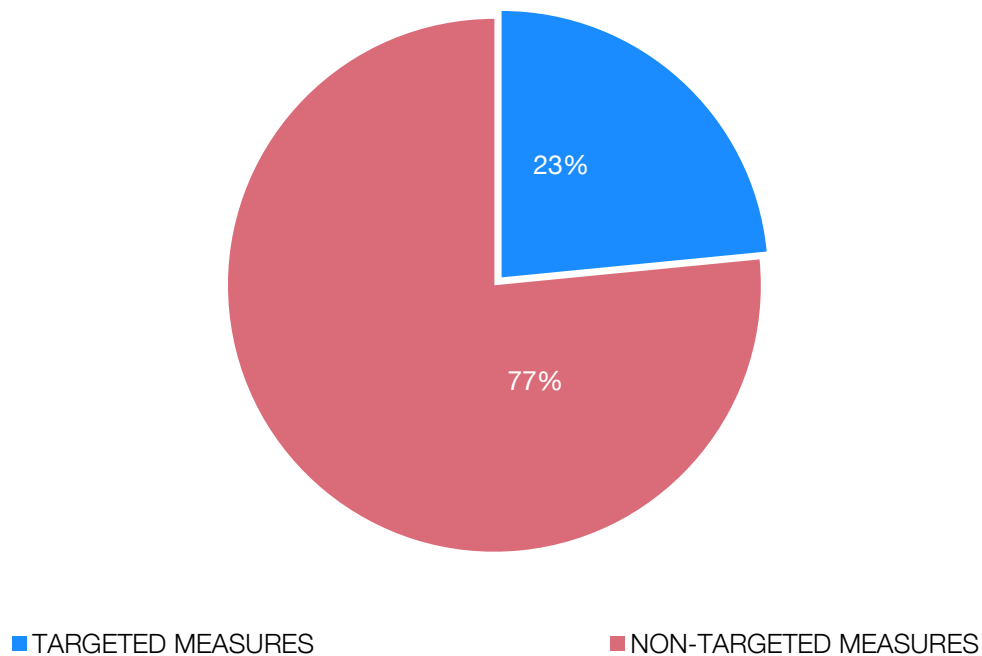
Sources: Banco de España and IGAE.

(a) The IGAE only provides information on the overall general government sector quarterly.

PUBLIC FINANCES

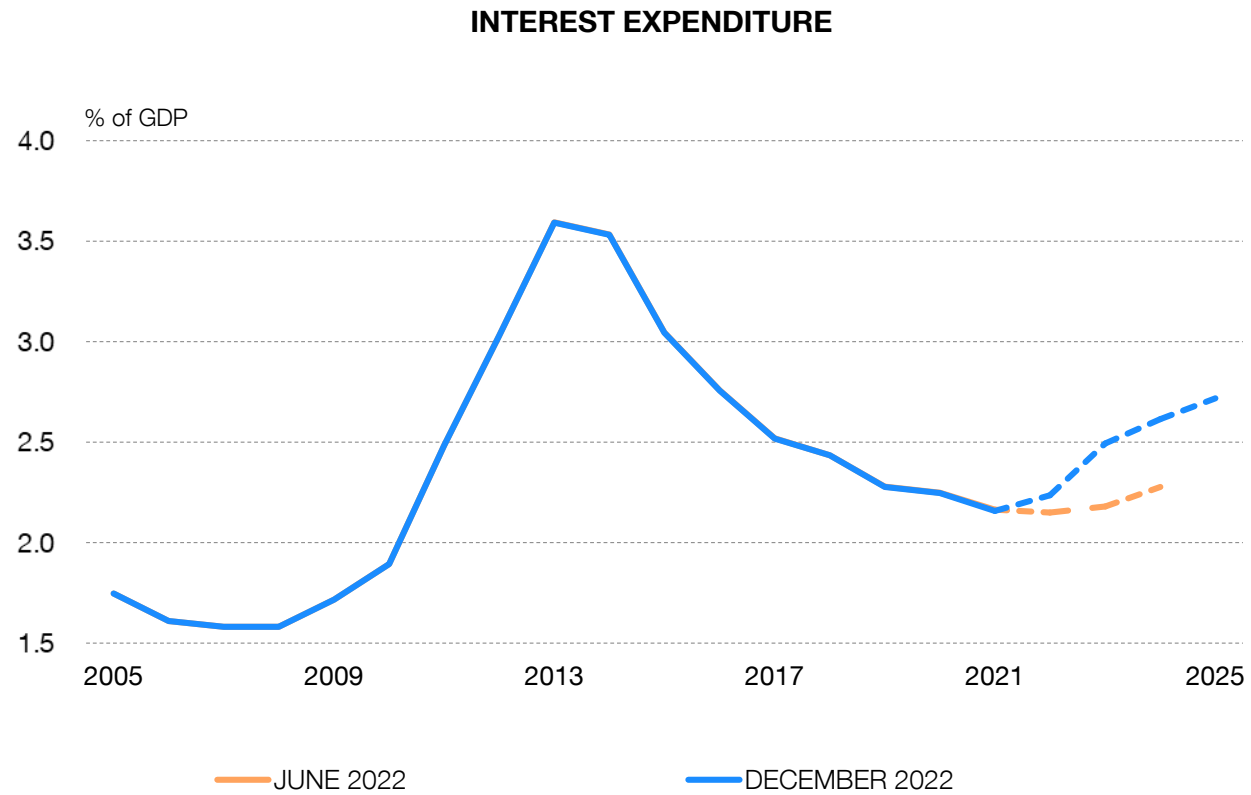
NATURE OF THE MEASURES IMPLEMENTED TO MITIGATE THE INCREASE IN PRICES

CHARACTERISATION OF THE MEASURES APPROVED IN 2022 TO MITIGATE THE EFFECT OF INFLATION



PUBLIC FINANCES

DEBT INTEREST EXPENDITURE



Sources: Banco de España and IGAE.

Balance of risks

- In the short term, the risks to the growth projections are mainly tilted to the downside, while for the inflation projections upside risks predominate
- Towards the end of the projection horizon the risks are broadly balanced

Main sources of uncertainty

War in Ukraine

Macroeconomic impact of monetary policy tightening

Labour market

Energy markets
(prices, supply and winter temperatures)

Coordination of monetary and fiscal policies

Consumption / saving rate

Global economic growth
(United States, China, Germany, etc.)

Financial vulnerability of households and firms

Duration of the measures to mitigate higher energy prices

Financial markets
(disruptive episodes?)

NGEU
(roll-out and structural impact)

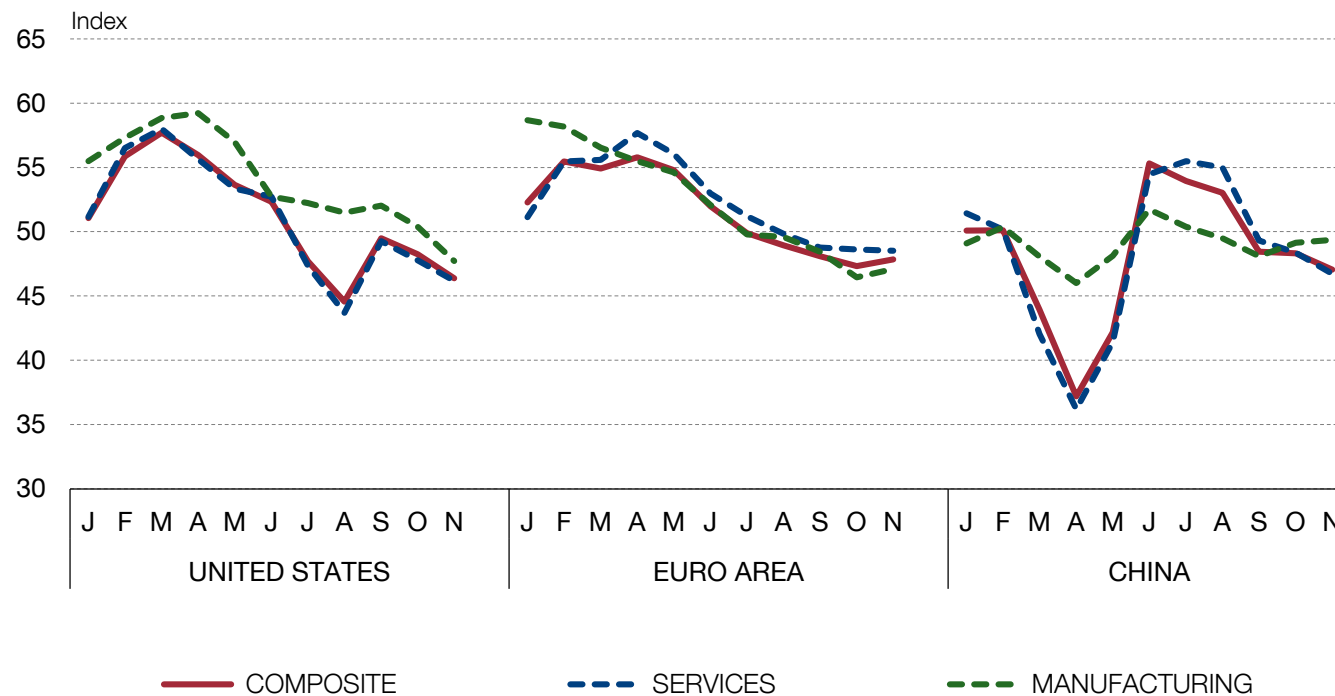
Second-round effects on inflation

THANK YOU FOR YOUR ATTENTION



IN RECENT MONTHS CONFIDENCE INDICATORS HAVE SHOWN A CLEAR DETERIORATION, WITH MANY STANDING IN CONTRACTIONARY TERRITORY

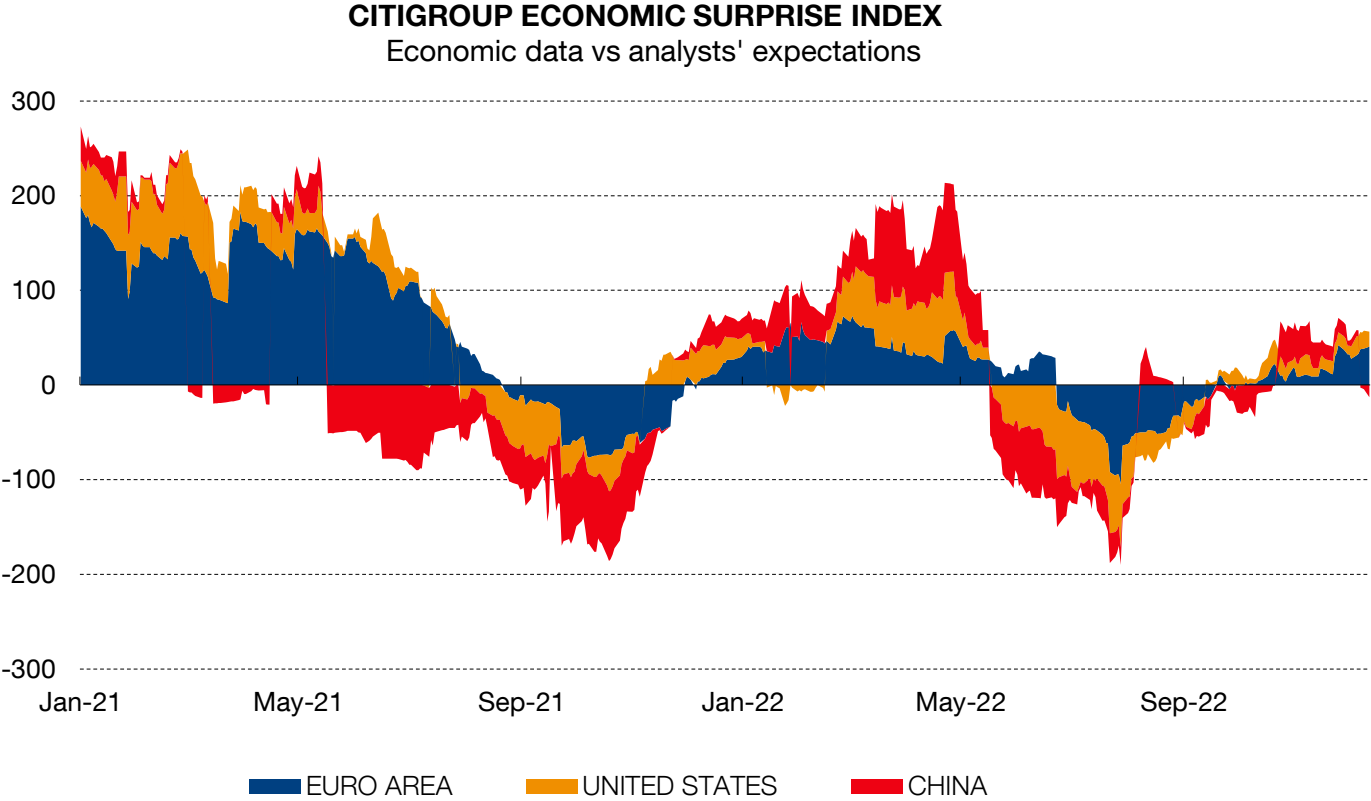
PMI DEVELOPMENTS IN 2022



Source: S&P Global. Latest observation: November 2022.



BROADLY SPEAKING, THE MOST RECENT DATA HAVE BEEN SOMEWHAT MORE ROBUST THAN EXPECTED

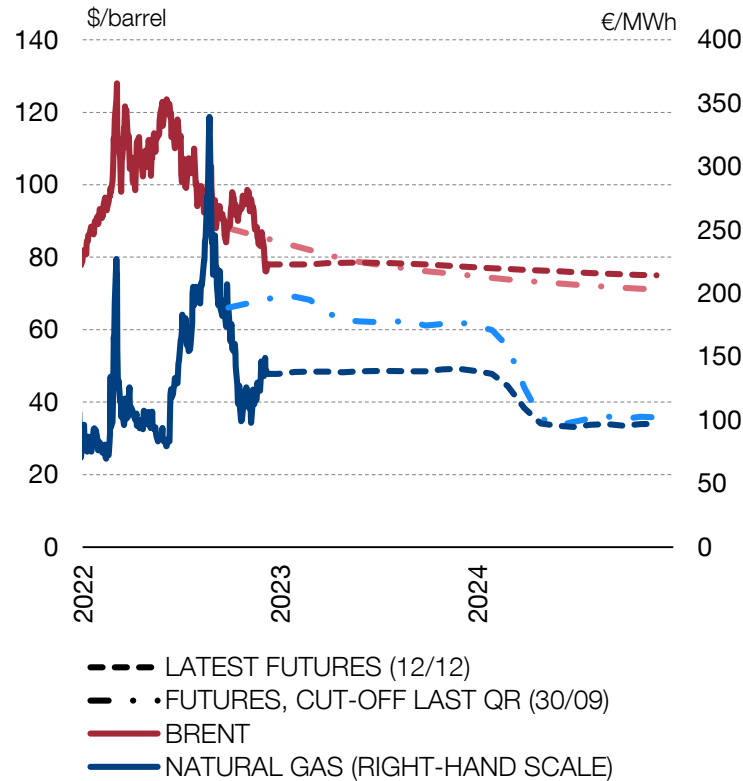


Source: Citigroup.

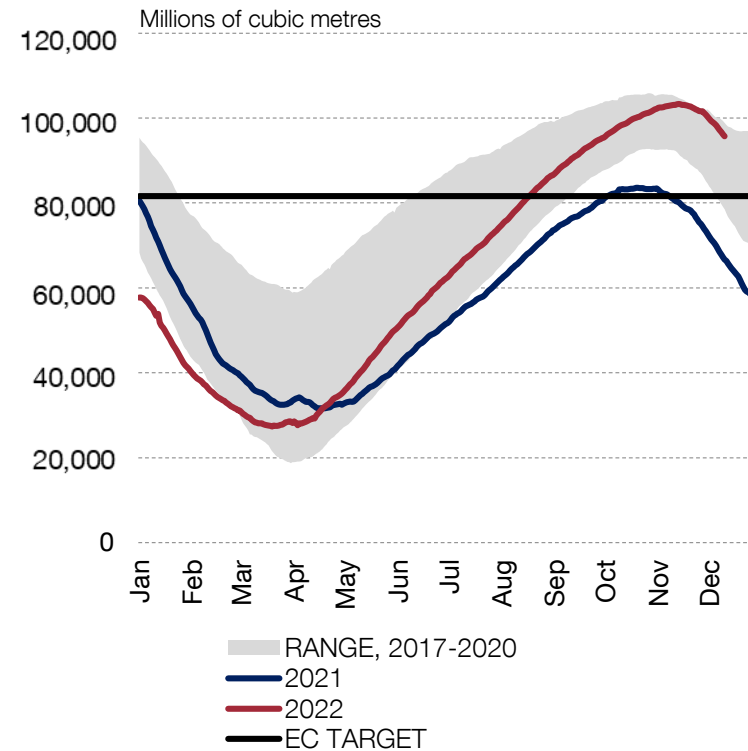


IN THE LAST FEW MONTHS, COMMODITY PRICES – AND ENERGY COMMODITY PRICES IN PARTICULAR – HAVE DECLINED NOTABLY

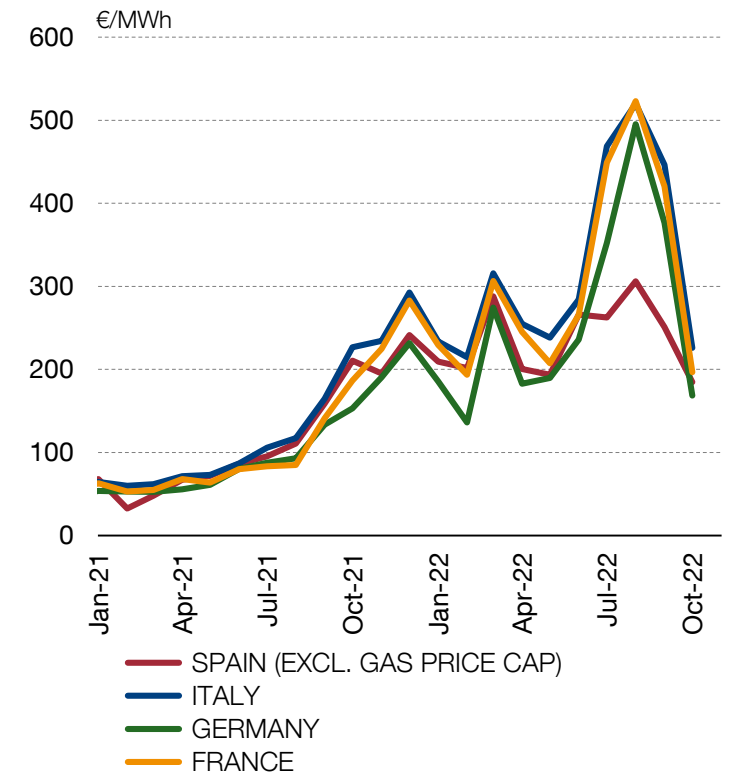
OIL AND NATURAL GAS PRICE AND FUTURES



NATURAL GAS INVENTORIES IN EUROPE



ELECTRICITY PRICE. GENERATION MARKET

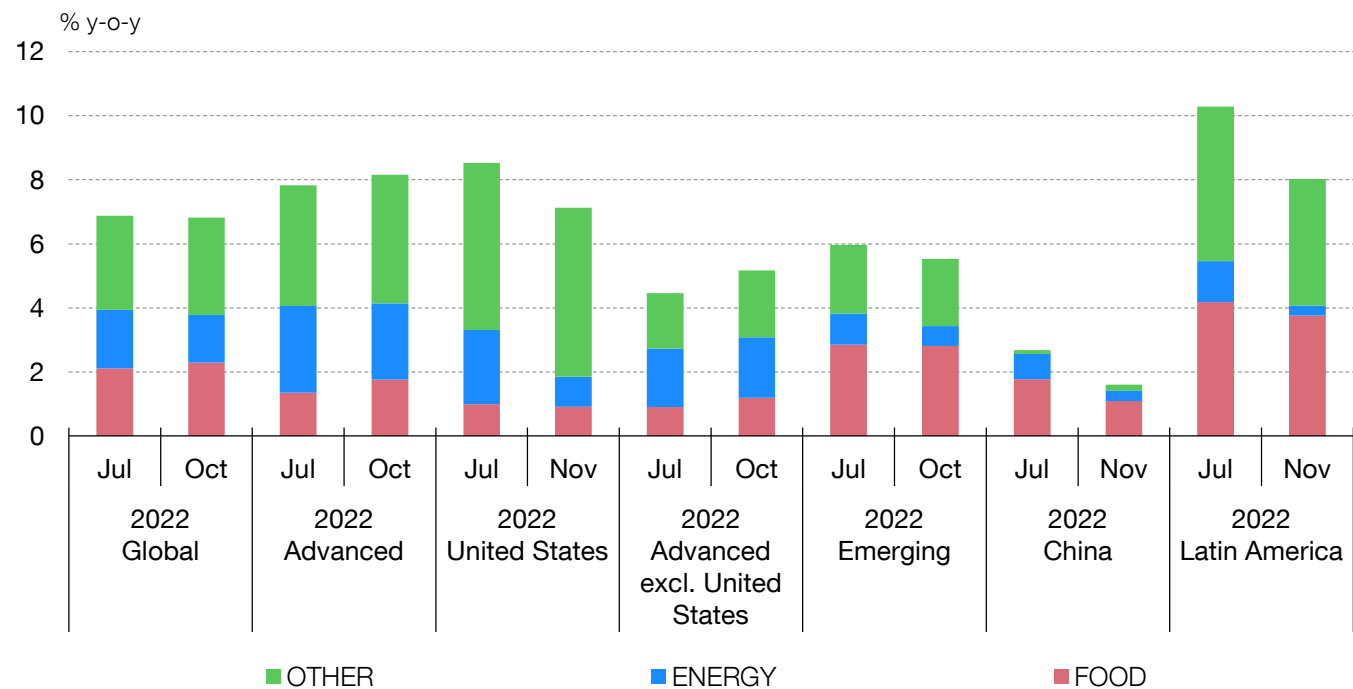


Sources: Refinitiv, International Energy Agency, Bloomberg and ENTSOG.



THERE ARE EARLY SIGNS OF INFLATION RATES MODERATING IN SOME ECONOMIES, BUT UNDERLYING INFLATION REMAINS VERY HIGH

CHANGES IN INFLATION AND CONTRIBUTIONS, BY GEOGRAPHICAL AREA (a)

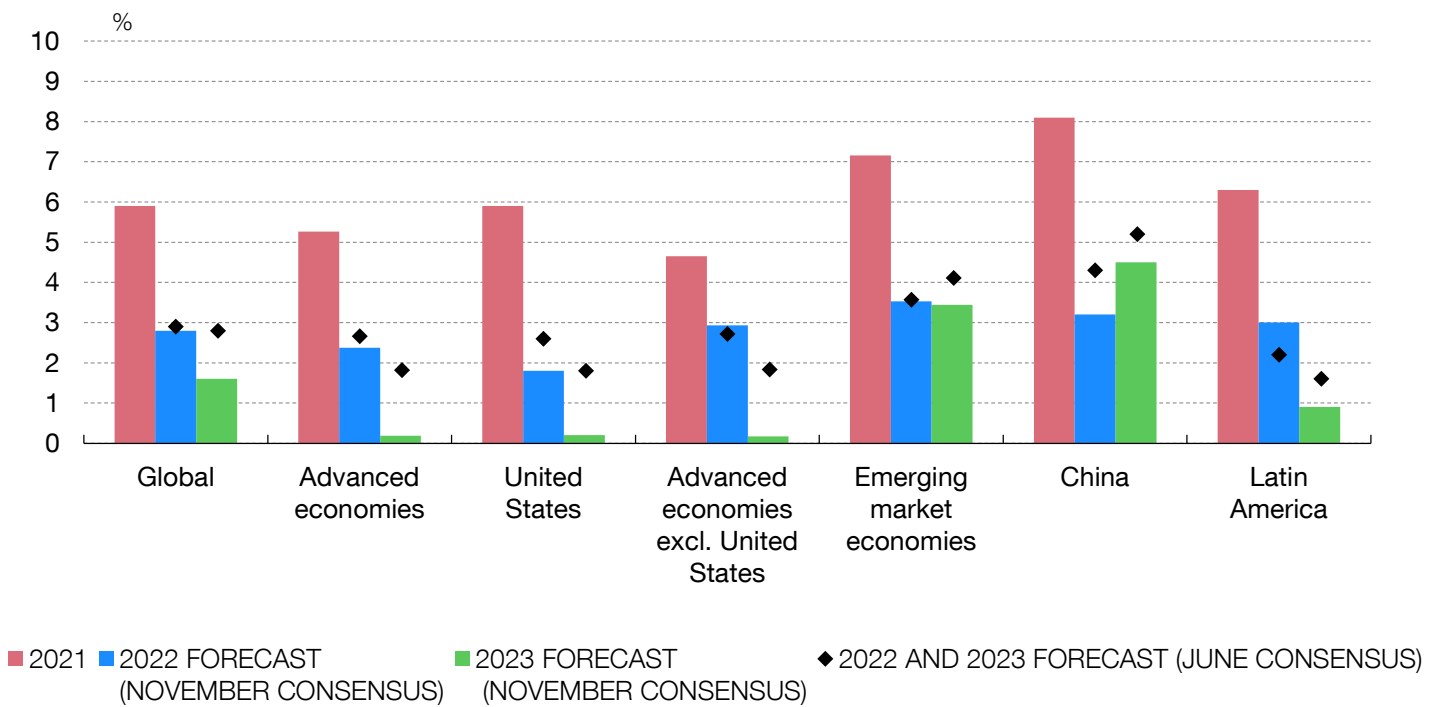


Sources: national statistics and Refinitiv.

(a) The advanced economies aggregate includes 13 geographical areas (euro area, United States, United Kingdom, Canada, Czech Republic, Denmark, Iceland, Israel, Japan, South Korea, Norway, Sweden and Switzerland) and the emerging market economies aggregate includes 13 Asian, East European and Latin American economies (China, India, Indonesia, Malaysia, Thailand, Hungary, Poland, Russia, Brazil, Chile, Colombia, Mexico and Peru).

GROWTH FORECASTS FOR 2023 TEND TO BE REVISED DOWNWARDS

GDP GROWTH FORECASTS FOR 2022 AND 2023 BY GEOGRAPHICAL AREA (a)

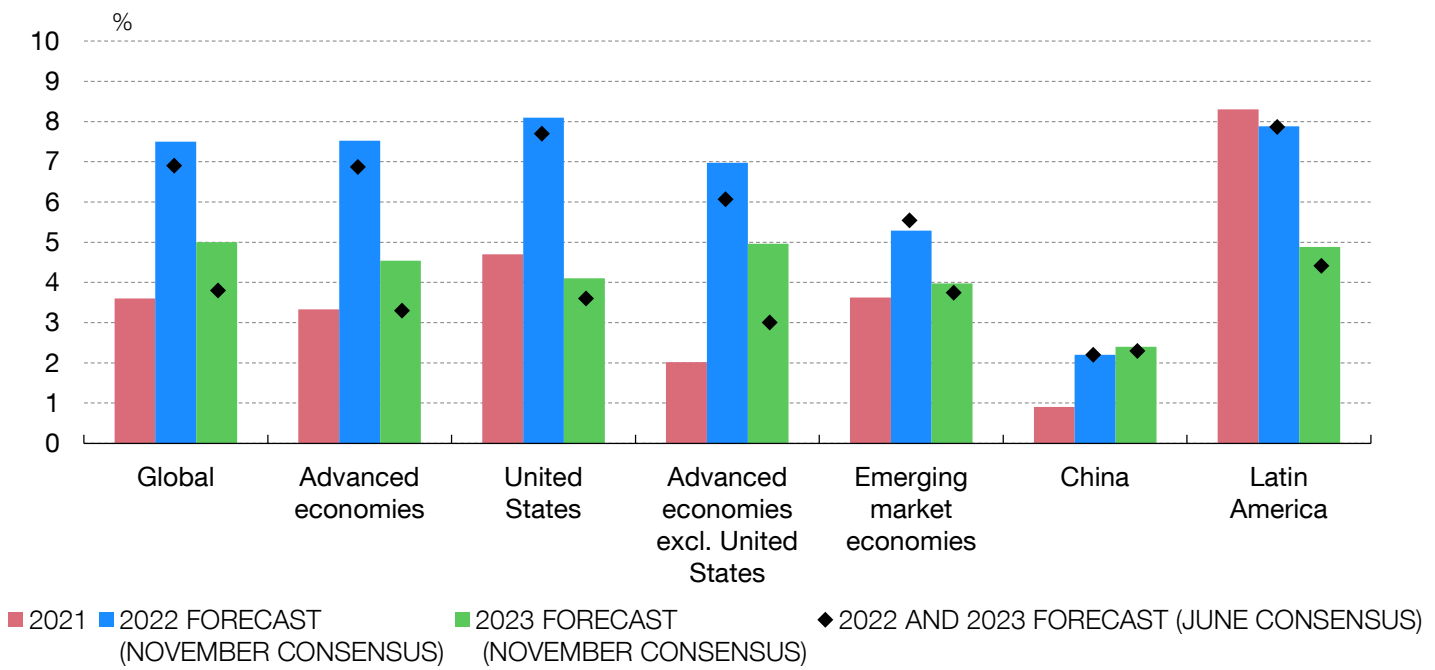


Sources: Bloomberg, Consensus Forecasts and S&P Global.

(a) The advanced economies aggregate includes 13 geographical areas (euro area, United States, United Kingdom, Canada, Czech Republic, Denmark, Iceland, Israel, Japan, South Korea, Norway, Sweden and Switzerland) and the emerging market economies aggregate includes 13 Asian, East European and Latin American economies (China, India, Indonesia, Malaysia, Thailand, Hungary, Poland, Russia, Brazil, Chile, Colombia, Mexico and Peru).

INFLATION FORECASTS ARE MOSTLY REVISED UPWARDS

INFLATION FORECASTS BY GEOGRAPHICAL AREA (a)

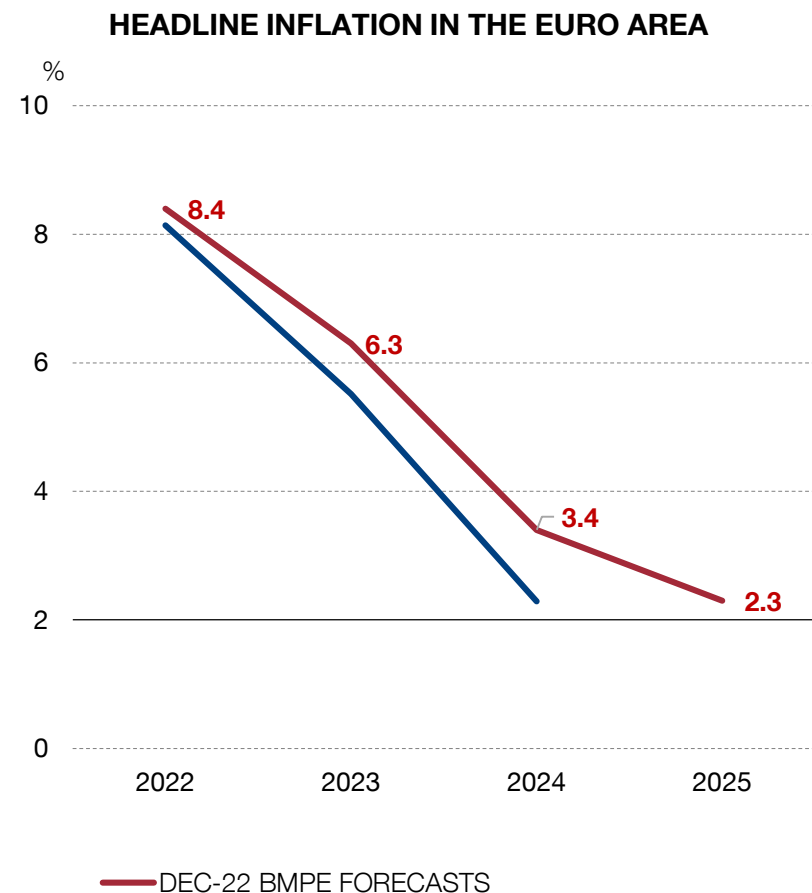
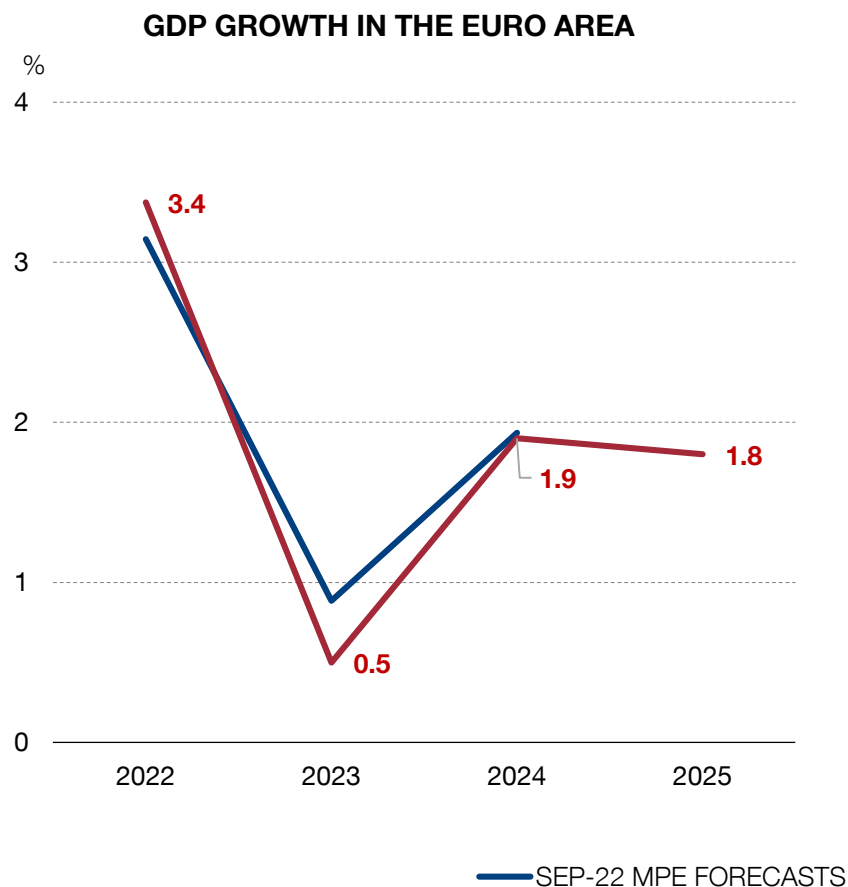


Sources: National statistics, Consensus Forecasts and Refinitiv.

(a) The advanced economies aggregate includes 13 geographical areas (euro area, United States, United Kingdom, Canada, Czech Republic, Denmark, Iceland, Israel, Japan, South Korea, Norway, Sweden and Switzerland) and the emerging market economies aggregate includes 13 Asian, East European and Latin American economies (China, India, Indonesia, Malaysia, Thailand, Hungary, Poland, Russia, Brazil, Chile, Colombia, Mexico and Peru).

THE LATEST EUROSISTEM PROJECTION EXERCISE REVISES EURO AREA GROWTH UPWARDS IN 2022 AND DOWNWARDS IN 2023. INFLATION IS REVISED UPWARDS THROUGHOUT THE PROJECTION PERIOD

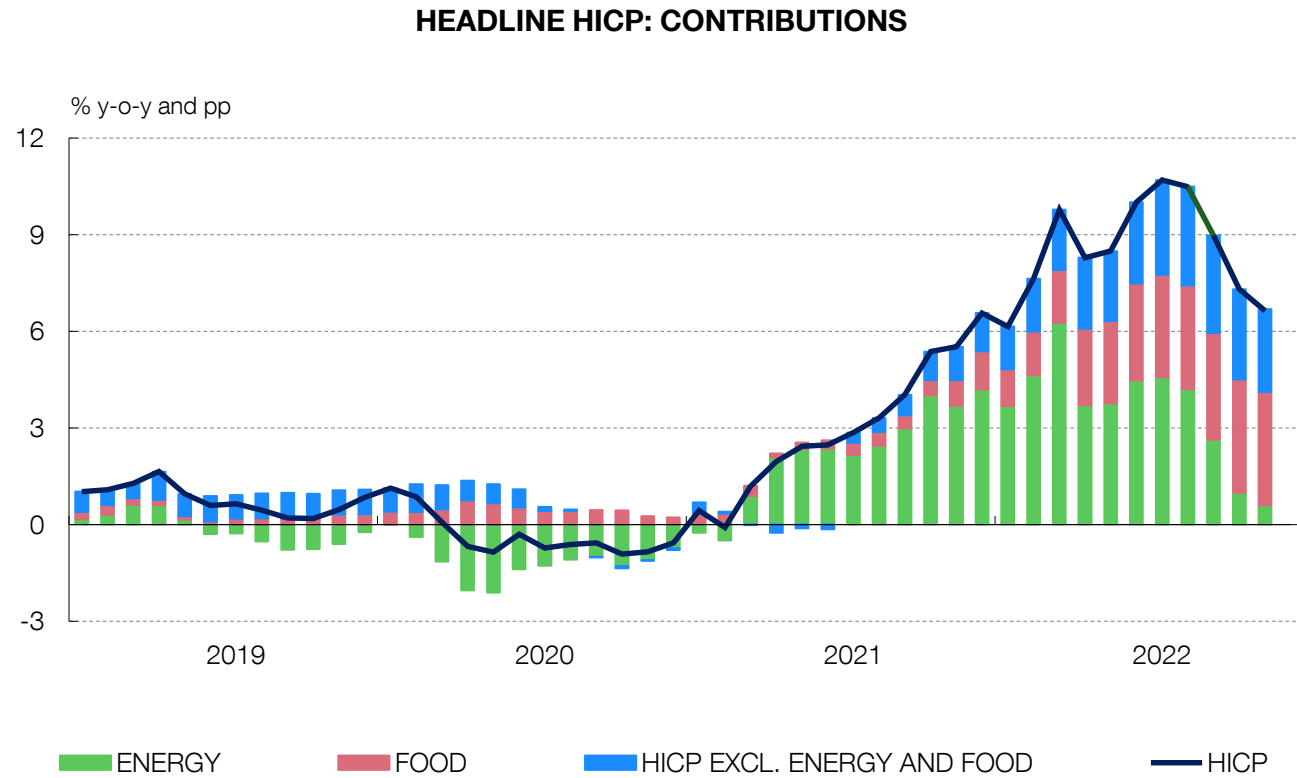
EUROSISTEM PROJECTION EXERCISE. DECEMBER 2022



Source: ECB.



THE HEADLINE INFLATION RATE HAS DECREASED SIGNIFICANTLY, MAINLY OWING TO CHANGES IN THE ENERGY COMPONENT OF PRICES



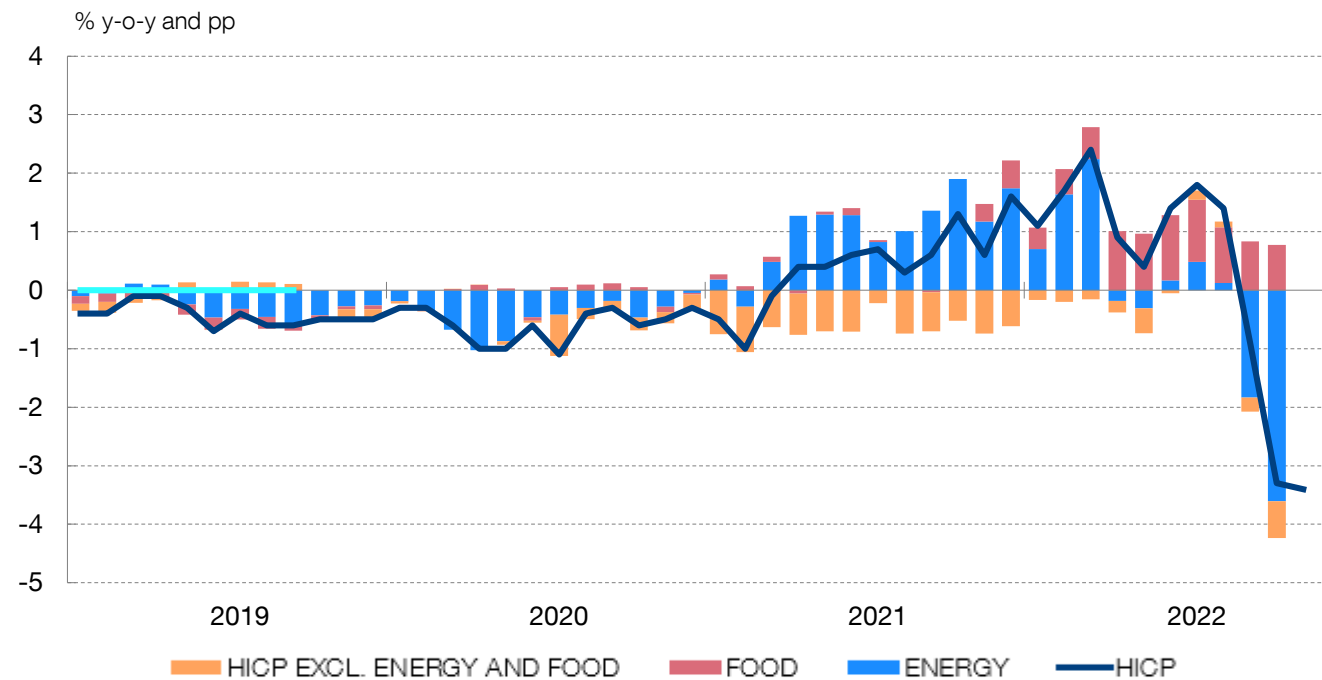
Sources: INE and Banco de España.



THE INFLATION DIFFERENTIAL WITH THE EURO AREA FELL TO ITS RECORD LOW IN NOVEMBER

- Most of this gap is due to the difference in the performance of electricity retail prices in Spain and the euro area
- Compared with the euro area, Spain's share of retail contracts with dynamic pricing means fluctuations in the wholesale markets are swiftly passed through to consumer prices
- This resulted in the highly positive inflation differential observed between Spain and the euro area in 2021 (when wholesale prices increased) and the very negative gap currently recorded (when declines in wholesale prices predominate)

CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA

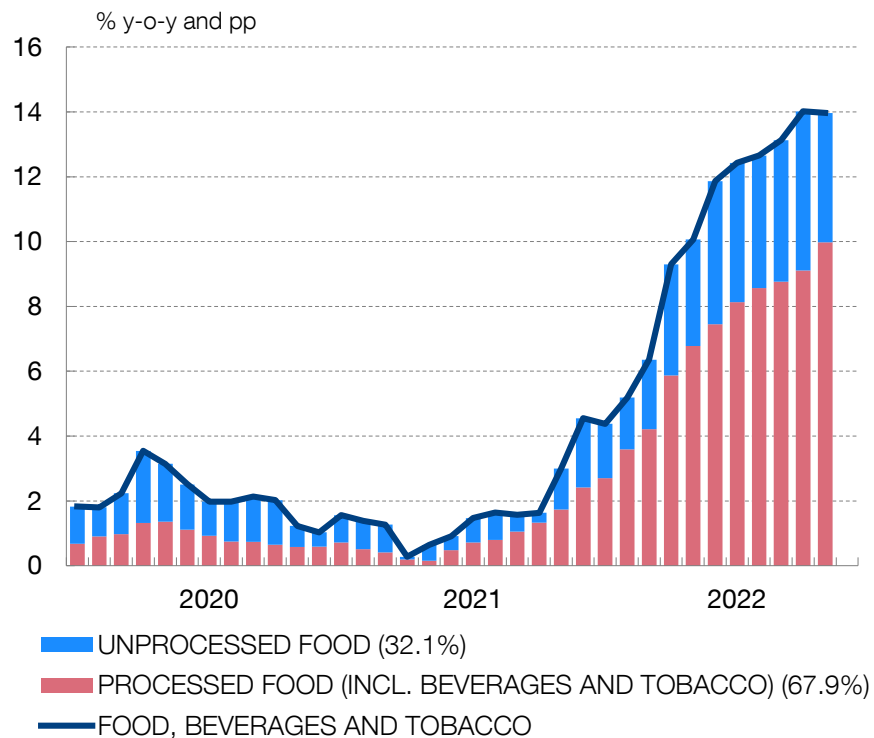


Sources: INE and Eurostat.

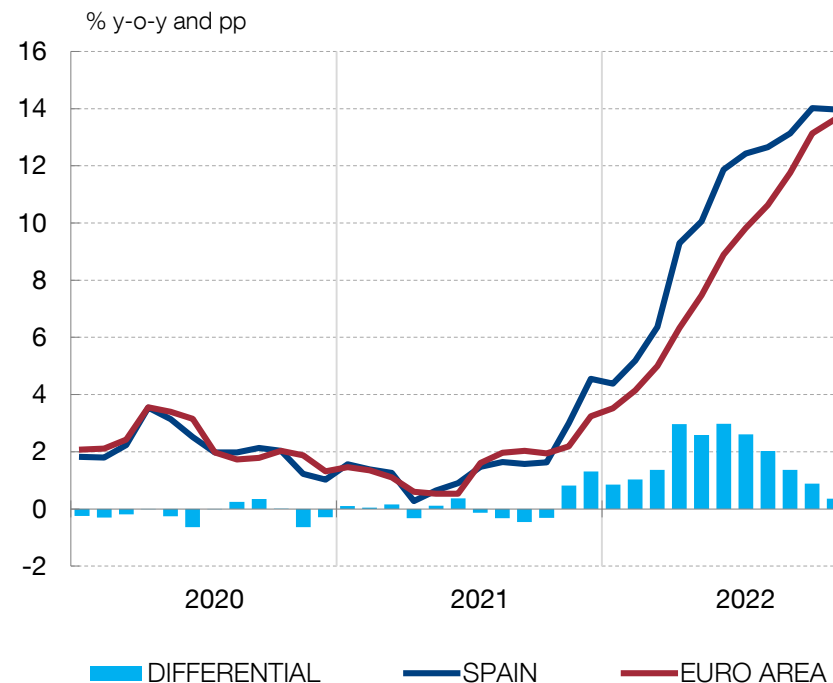


FOOD INFLATION HAS ACCELERATED MORE INTENSELY IN SPAIN THAN IN THE EURO AREA, ALTHOUGH THE DIFFERENTIAL BETWEEN THE TWO AREAS HAS NARROWED RECENTLY

HICP FOR FOOD, BEVERAGES AND TOBACCO: RATES AND CONTRIBUTIONS (a)



HICP FOR FOOD, BEVERAGES AND TOBACCO: CHANGES AND DIFFERENTIAL

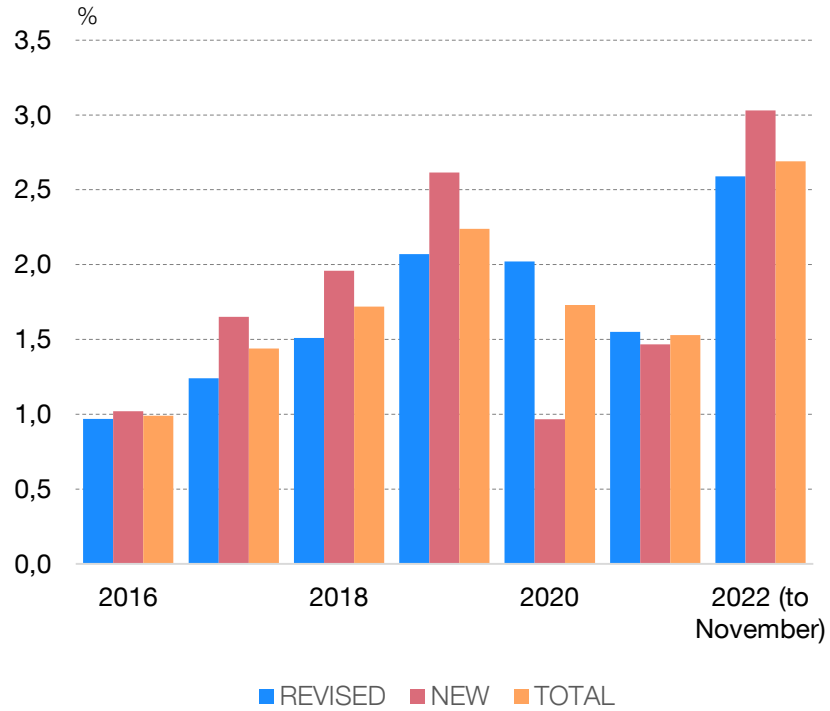


Sources: INE and Banco de España.

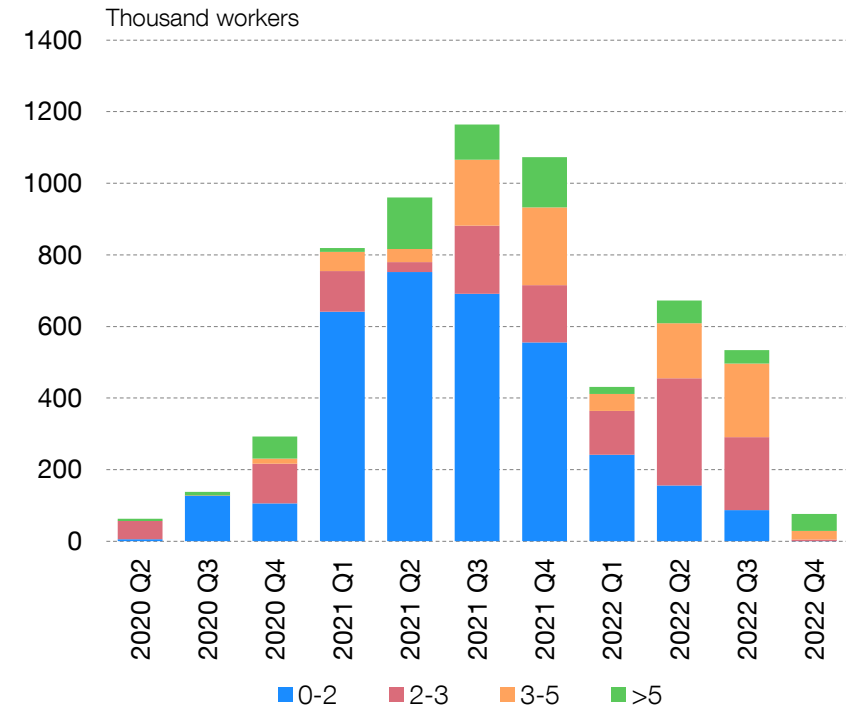
(a) The weight in 2022 of each component in HICP for food, beverage and tobacco is shown in brackets.



WAGE SETTLEMENTS



AFFECTED WORKERS BY QUARTER IN WHICH THE AGREEMENT WAS SIGNED AND WAGE SETTLEMENT (a)

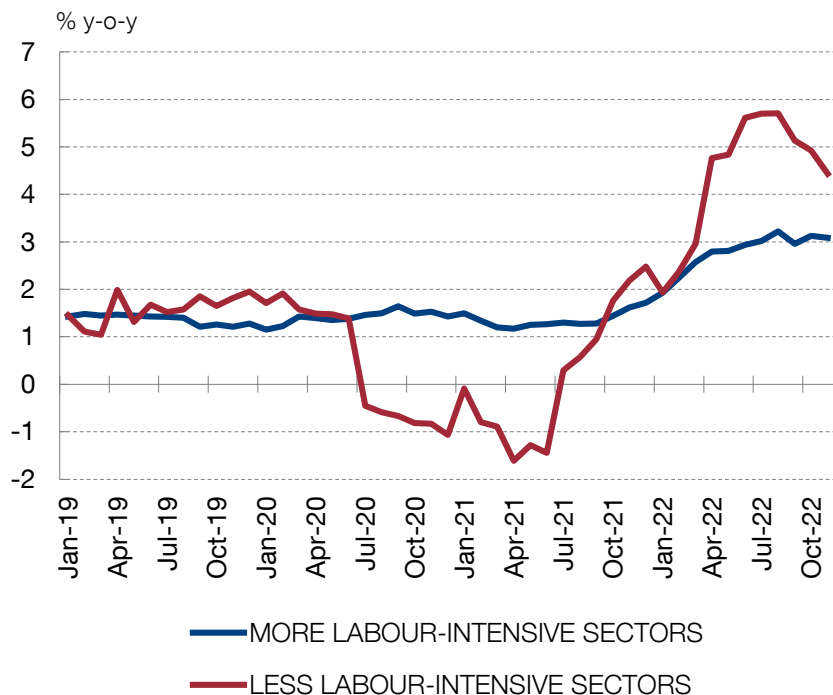


Source: Ministerio de Trabajo y Economía Social.

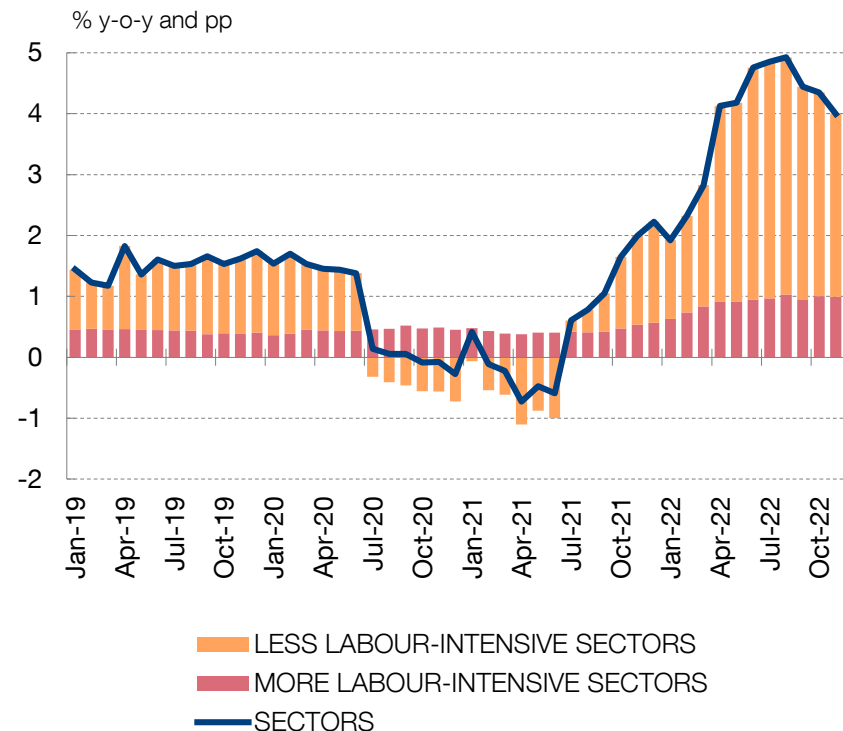
(a) Based on individual information on agreements recorded up to November 2022.



HICP SERVICES, BY SECTOR (RATES)



HICP SERVICES, BY SECTOR (CONTRIBUTIONS)



Sources: INE and Banco de España.

For services sectors corresponding to the HICP services classes, data from the input-output tables are used to calculate wages as a share of total costs. Sectors whose shares are higher than the average for all services (41.7%) are considered labour intensive. Also included are veterinary services and repair of motor vehicles, with shares of 41.1% and 35.6%, respectively (repair of motor vehicles also includes sales).

Extraordinary and temporary discount on the retail price of fuel

Price changes in rental agreements capped at 2%

Cap on the price of gas used to generate electricity

Reduced tax rates on electricity bills: VAT to 5% and excise duty on electricity to 0.5%

Suspension of the tax on electricity generation

Butane gas price freeze

Reduced price of public transport season tickets and free rail season tickets

Cap on the increase in the cost of gas in the regulated rate for small natural gas consumers (maximum of 15%)

Reduced VAT rate on natural gas

Reduction of just over 2 pp in the November inflation rate (compared with a scenario of no measures)

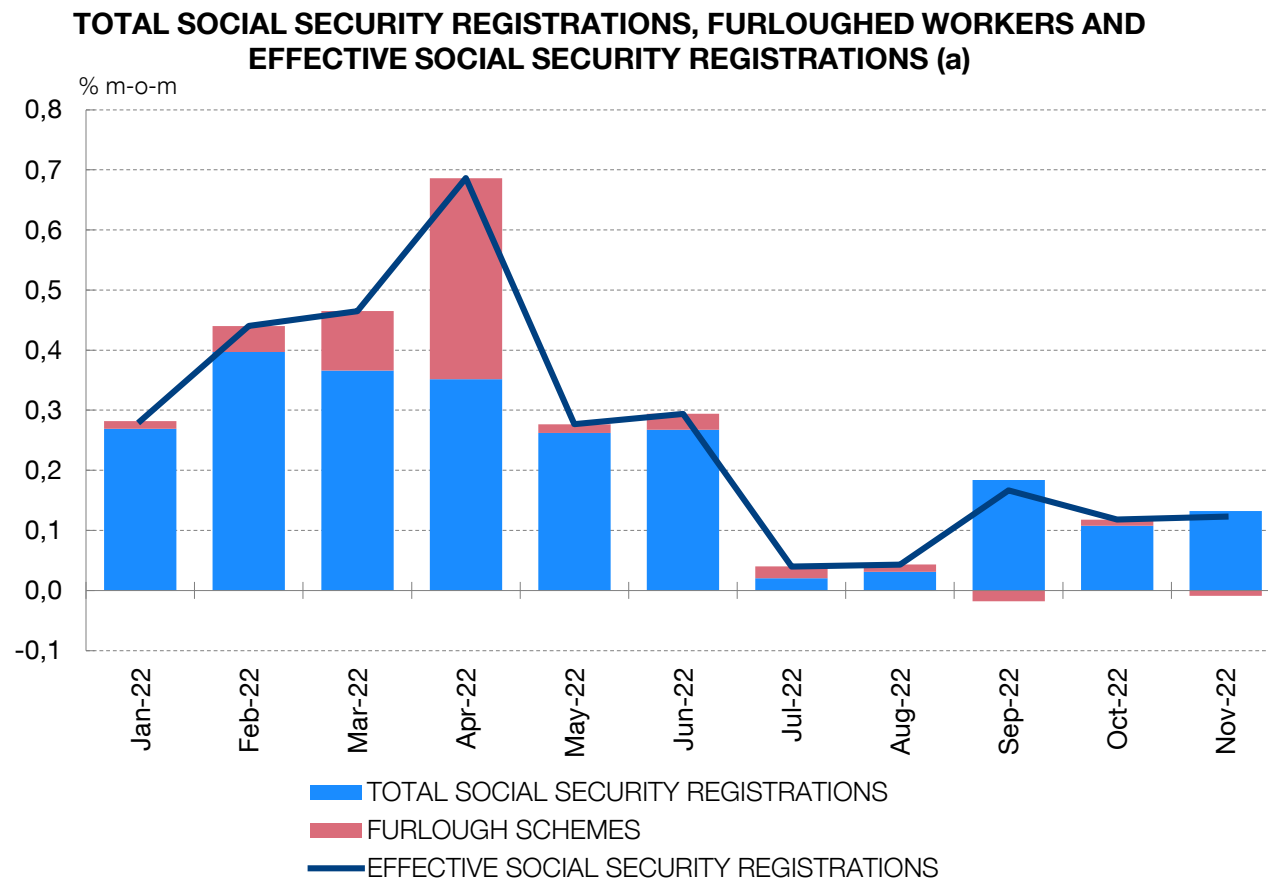
THE FLASH ESTIMATE OF GDP GROWTH IN Q3 (+0.2%) – IN LINE WITH THE BANCO DE ESPAÑA OCTOBER PROJECTIONS (+0.1%) – POINTS TO A SIGNIFICANT SLOWDOWN COMPARED WITH Q2 (+1.5%)



Sources: INE and Banco de España.



ON THE INFORMATION AVAILABLE, EMPLOYMENT GROWTH IN Q4 HAS BEEN SIMILAR TO THAT OBSERVED IN Q3



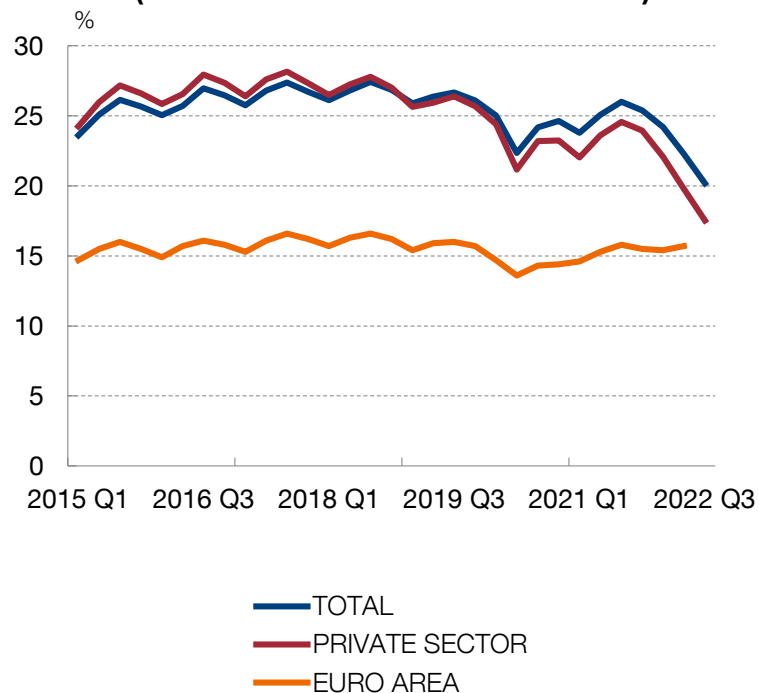
Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.
 (a) Seasonally adjusted series.



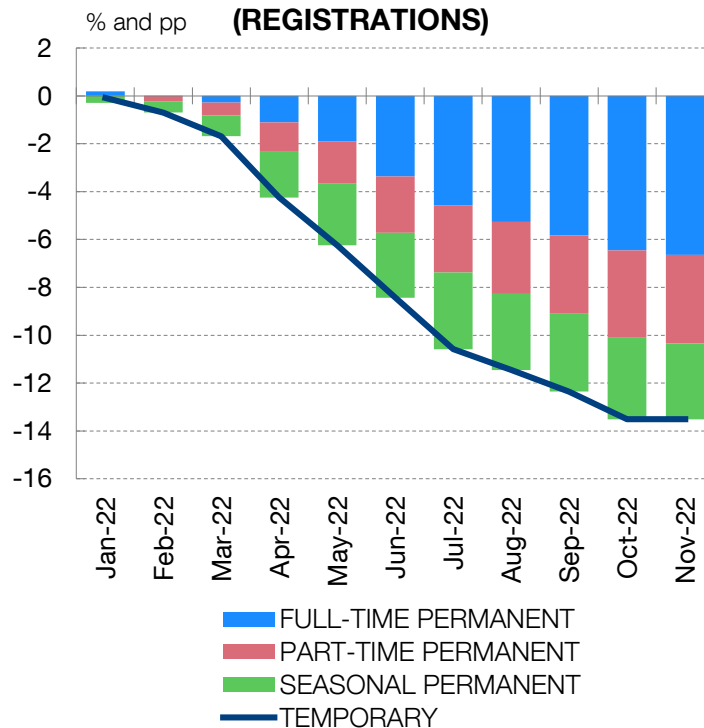
THE SHARE OF TEMPORARY EMPLOYMENT HAS FALLEN VERY SHARPLY IN THE SPANISH JOB MARKET SINCE EARLY 2022, APPROACHING THE EURO AREA AVERAGE

The **temporary employment ratio** has declined by 13.5 pp since November 2021. Around 25% of this decrease (3.2 pp) has been attributable to the increase in **permanent seasonal contracts**. For this type of contract, the **deregistration rate** (i.e. average monthly deregistrations as a percentage of the total number registered) has increased in recent months and approached the deregistration rate for temporary contracts

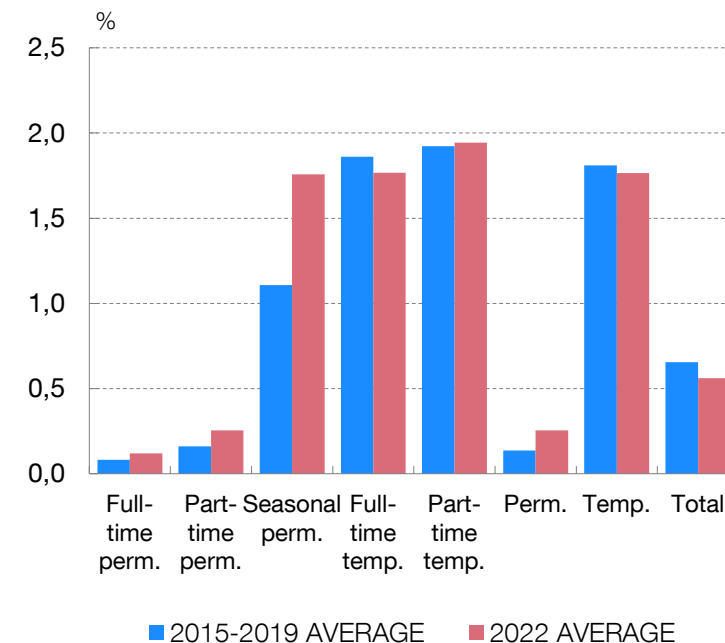
TEMPORARY EMPLOYMENT RATIO (SPANISH LABOUR FORCE SURVEY)



YEAR-ON-YEAR CHANGE IN THE TEMPORARY EMPLOYMENT RATIO AND CONTRIBUTIONS BY TYPE OF PERMANENT CONTRACT (REGISTRATIONS)



DEREGISTRATION RATE BY TYPE OF CONTRACT



Sources: EPA (INE), EU-LFS (Eurostat), Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.



THE CONVERSION OF TEMPORARY TO PERMANENT CONTRACTS MAY HAVE HELPED SUSTAIN AGGREGATE SPENDING IN RECENT MONTHS (1/2)

Empirical evidence before the reform:

- Workers with a permanent contract allocate an average of 81% of their household income to spending, compared with 72% in the case of those with a temporary contract (Source: Anghel, Barceló and Villanueva (2023))
- Converting temporary to permanent contracts has historically led to an increase in spending of approximately 20% in the following two quarters (Source: Anghel, Barceló and Villanueva (2019))

Initial tentative approximations of the impact of the observed reduction in the share of temporary employment on consumption:

Counterfactual scenario 1: the spending-to-income ratios remain constant at 2019 levels, but the proportions of workers by contract type change in line with developments in the Spanish Labour Force Survey between 2021 Q3 and 2022 Q3

↳ In this period the increase observed in the share of workers with a permanent contract (out of the total population) would have raised the aggregate spending-to-income ratio by approximately 0.3 pp

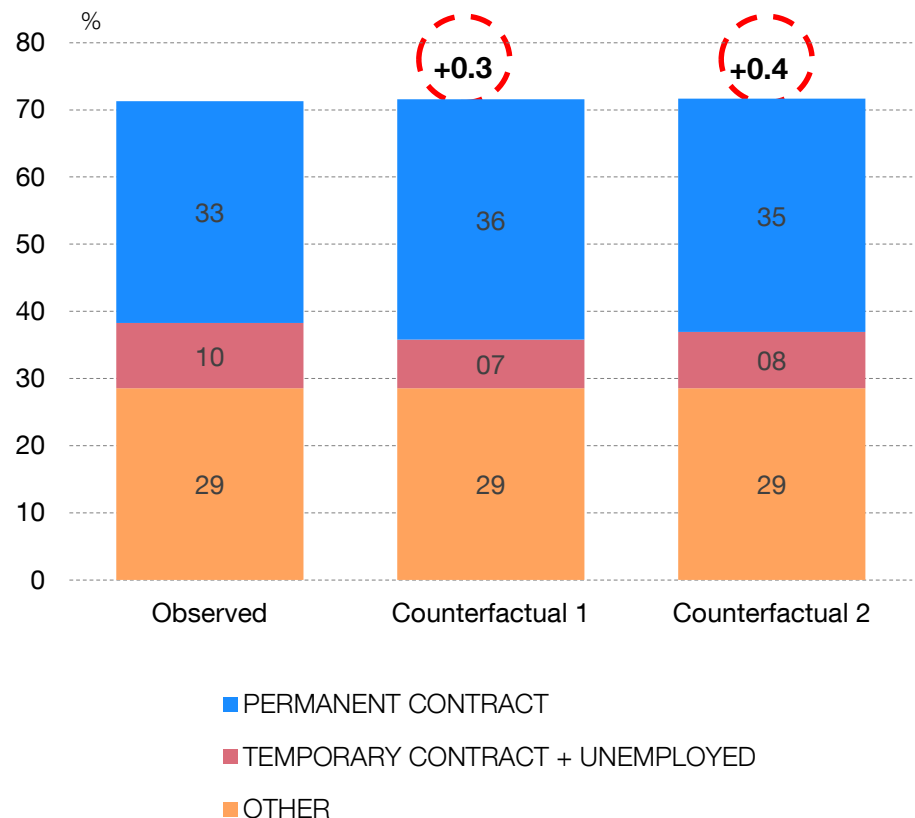
Counterfactual scenario 2: the weights of the different types of workers in the income distribution remain constant at 2019 levels, but the spending-to-income ratio changes in line with (1) the observed conversion of temporary to permanent contracts and (2) the elasticities of the spending-to-income ratio to the conversion of temporary to permanent contracts in Anghel, Barceló and Villanueva (2019)

↳ The conversions carried out during the period of analysis would lead to an increase in the aggregate spending-to-income ratio of approximately 0.4 pp

[More details](#) 

THE CONVERSION OF TEMPORARY TO PERMANENT CONTRACTS MAY HAVE HELPED SUSTAIN AGGREGATE SPENDING IN RECENT MONTHS (2/2)

SPENDING-TO-INCOME RATIO, WEIGHTED BY CONTRIBUTIONS



Caveats

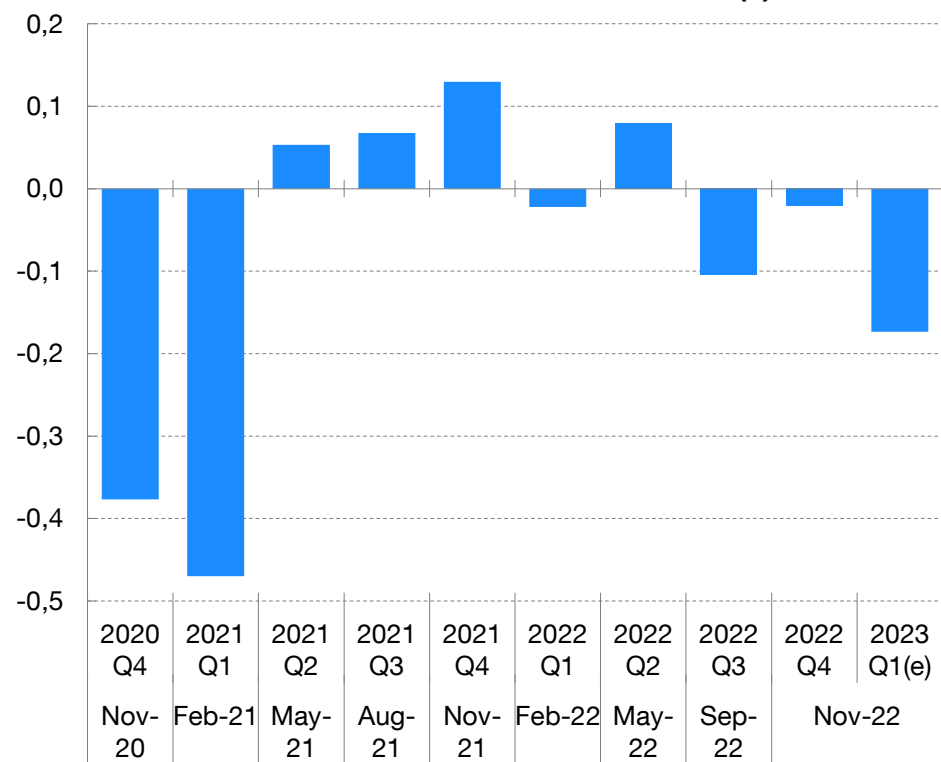
- These exercises do NOT represent an assessment of the recent labour market reform ...
- ... which would need to consider multiple issues (for example, the impact on employment, on the working lives of workers with different contracts and their human capital accumulation, on labour turnover, on job postings, on business productivity...) ...
- ... and calls for having more information to correctly identify causal relationships
- These exercises are based on historical evidence (in which seasonal permanent contracts have accounted for a very low share of total permanent contracts), and the results therefore cannot be fully extrapolated to the current situation

Source: Anghel, Barceló and Villanueva (2023), “El aumento de los contratos indefinidos y su posible impacto en el gasto”, Banco de España, forthcoming.

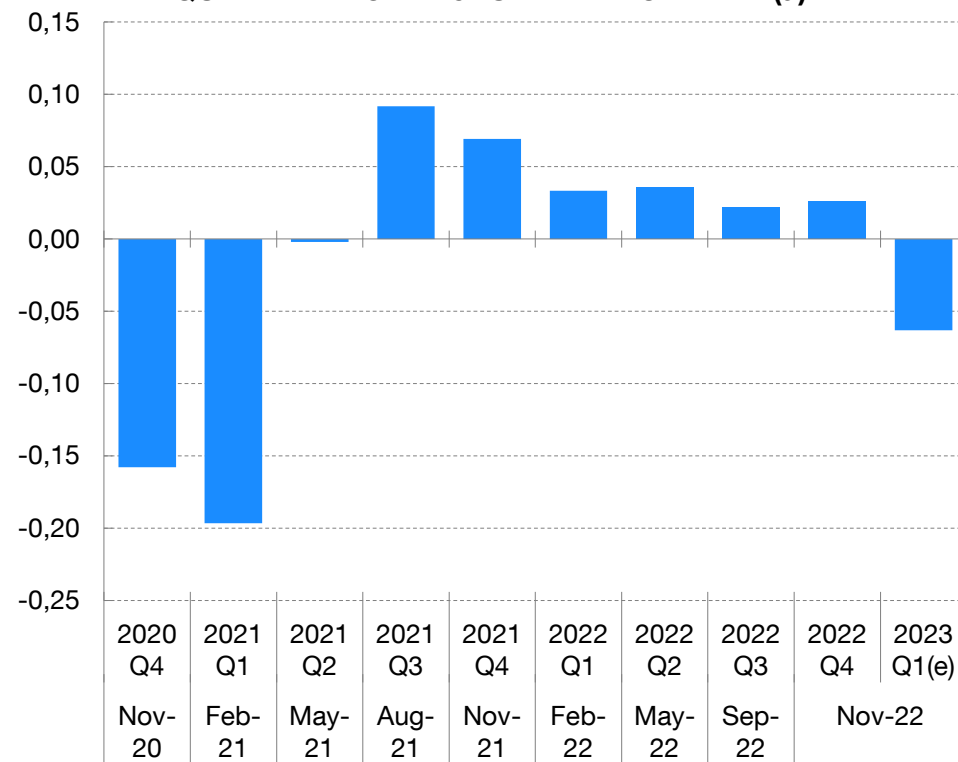


ACCORDING TO THE BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY, BUSINESS TURNOVER HAS REMAINED PRACTICALLY STABLE IN Q4, WHILE EMPLOYMENT HAS INCREASED SLIGHTLY

QUARTERLY CHANGES IN TURNOVER (a)



QUARTERLY CHANGES IN EMPLOYMENT (a)



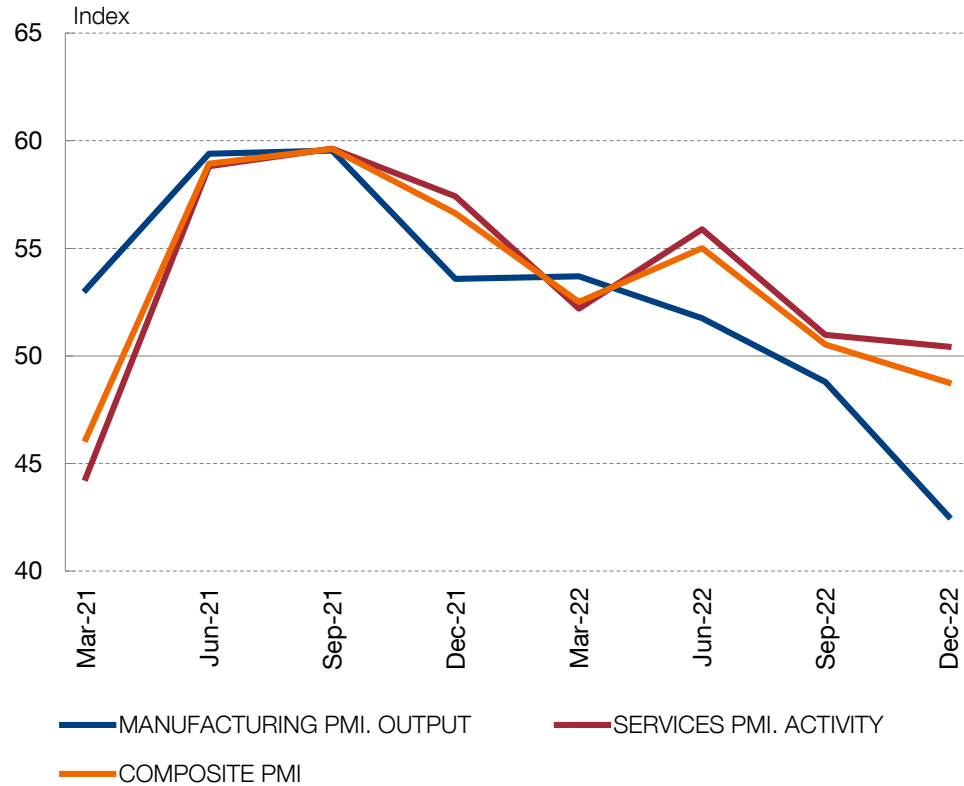
Source: EBAE (Banco de España).

(a) Index constructed by assigning the following values to firms' responses: significant increase = 2; slight increase = 1; stable = 0; slight decrease = -1; significant decrease = -2.

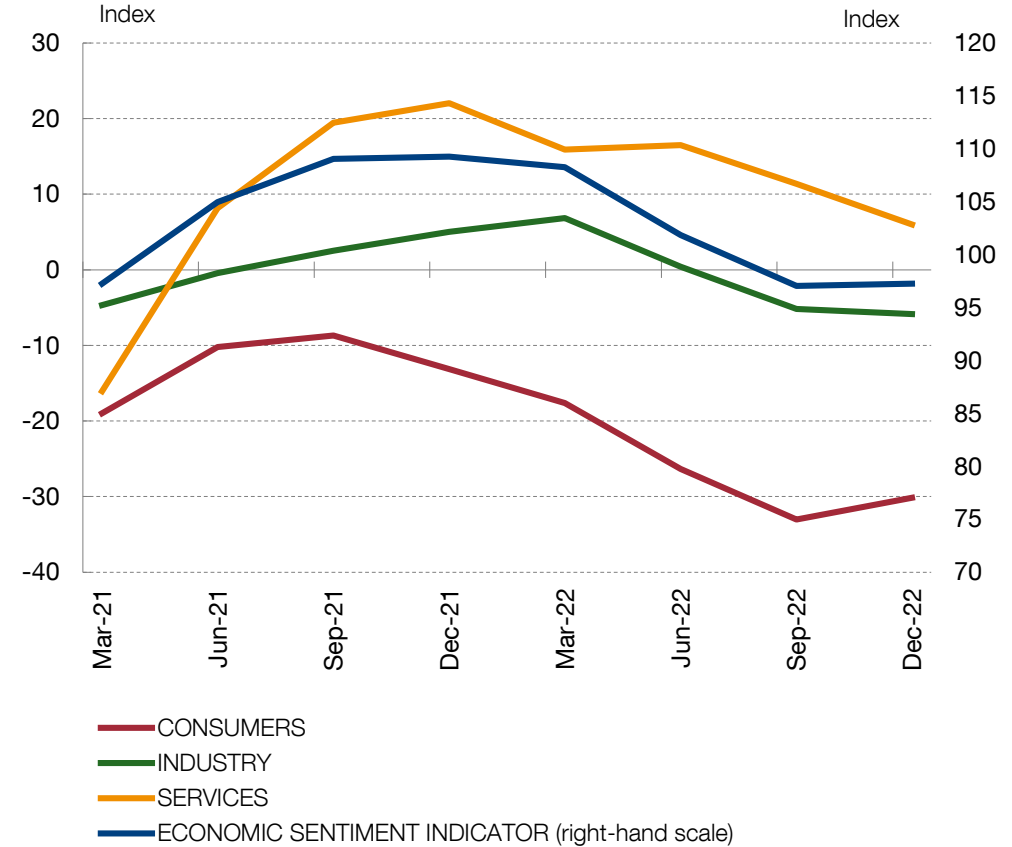


CONFIDENCE INDICATORS HAVE REMAINED AT VERY LOW LEVELS OR CONTINUED TO DECLINE

PURCHASING MANAGERS' INDEX



CONFIDENCE INDICATORS



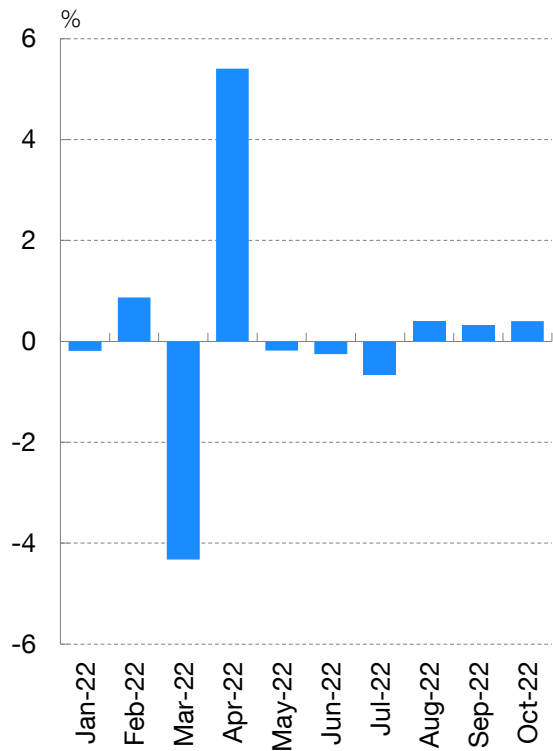
Sources: S&P Global and European Commission.

(a) Quarterly averages based on data available for the period: October-November average for the fourth quarter of the year.

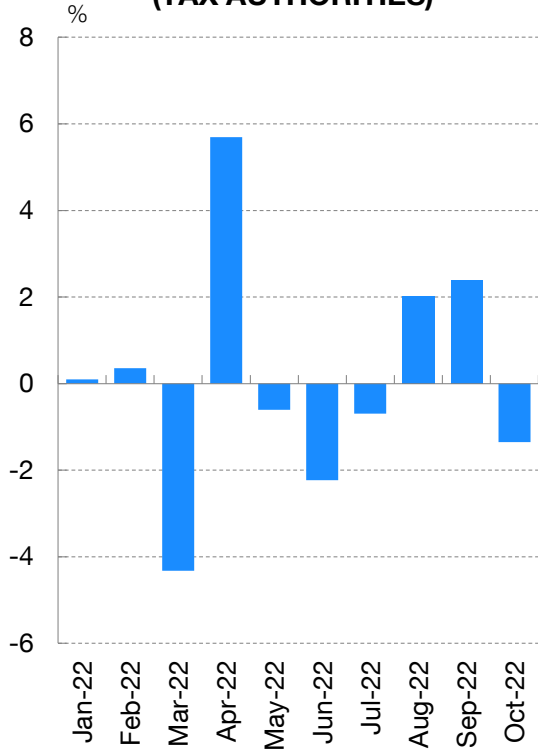


OTHER INDICATORS PROVIDE MIXED SIGNALS BUT GENERALLY POINT TO SOME WEAKNESS IN ACTIVITY

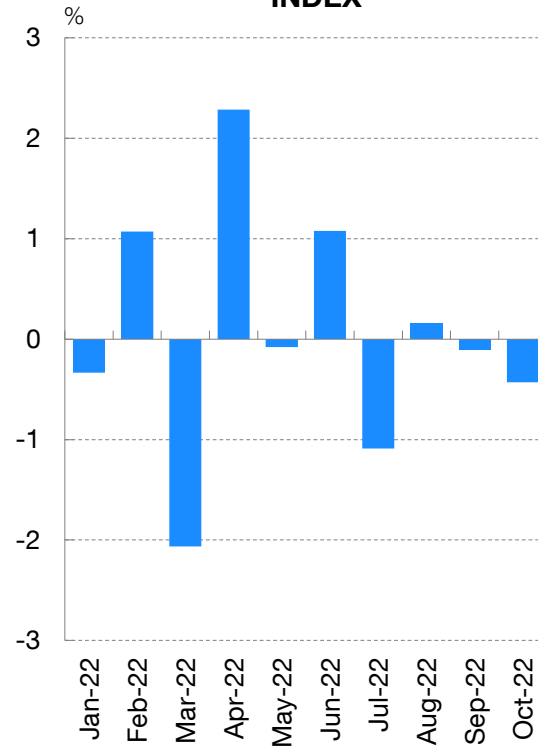
RETAIL TRADE INDEX



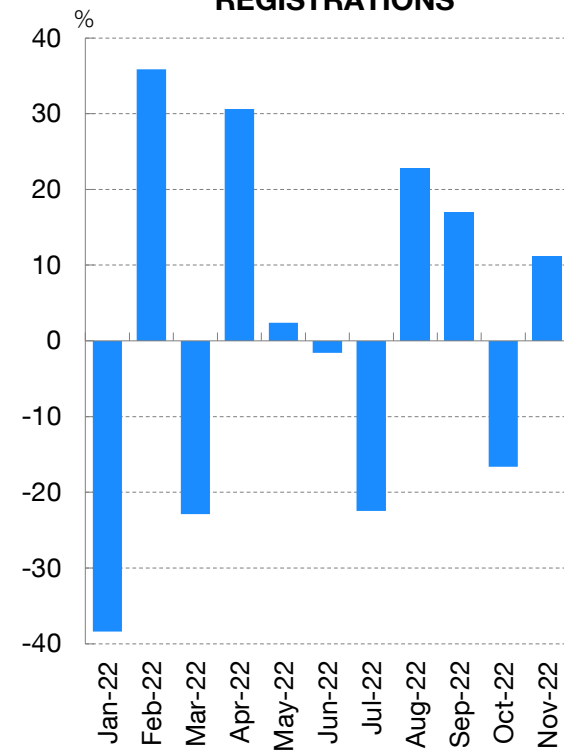
SALES OF LARGE CORPORATIONS (TAX AUTHORITIES)



INDUSTRIAL PRODUCTION INDEX



PRIVATE VEHICLE REGISTRATIONS

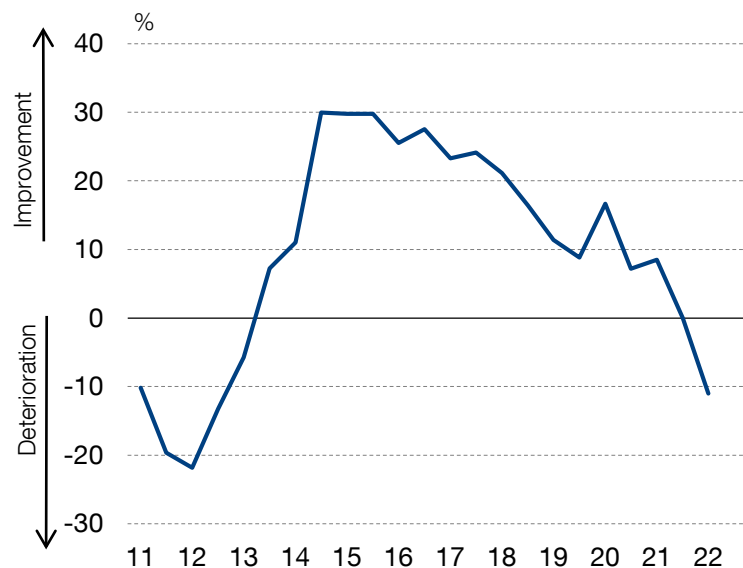


Sources: INE, Agencia Tributaria and Banco de España. Seasonally adjusted series.

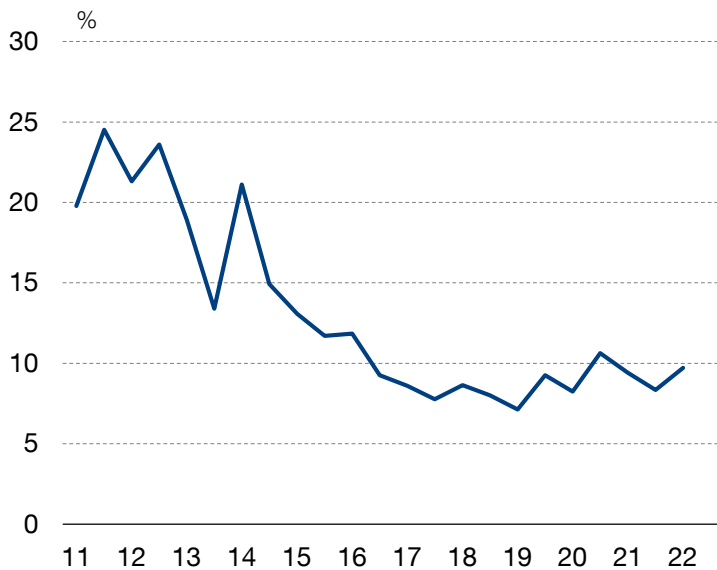


SMES PERCEIVE THAT THEIR ACCESS TO EXTERNAL FUNDING HAS DETERIORATED, ALTHOUGH THEY CONTINUE TO REPORT FEW DIFFICULTIES IN OBTAINING BANK FINANCING

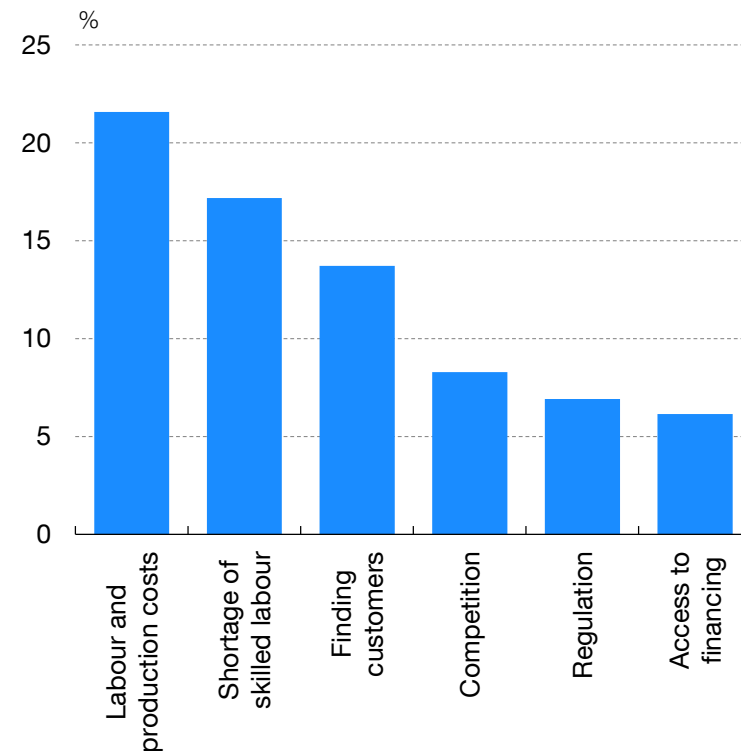
SPANISH SMEs' PERCEPTION OF THE AVAILABILITY OF BANK FINANCING (a)



SPANISH SMEs WITH DIFFICULTIES IN OBTAINING BANK FINANCING



MAIN CHALLENGES FOR SPANISH SMEs April-September 2022

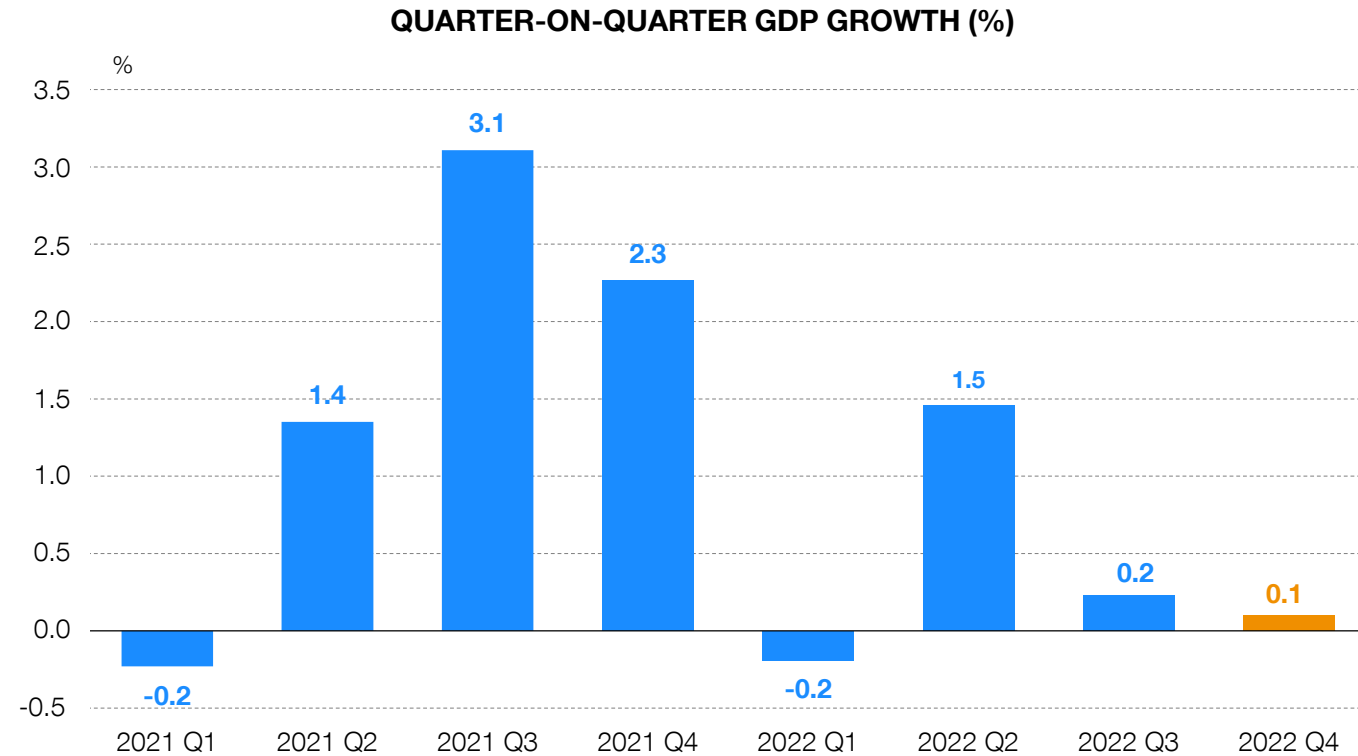


Source: ECB. Round of the survey: April-September 2022.

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

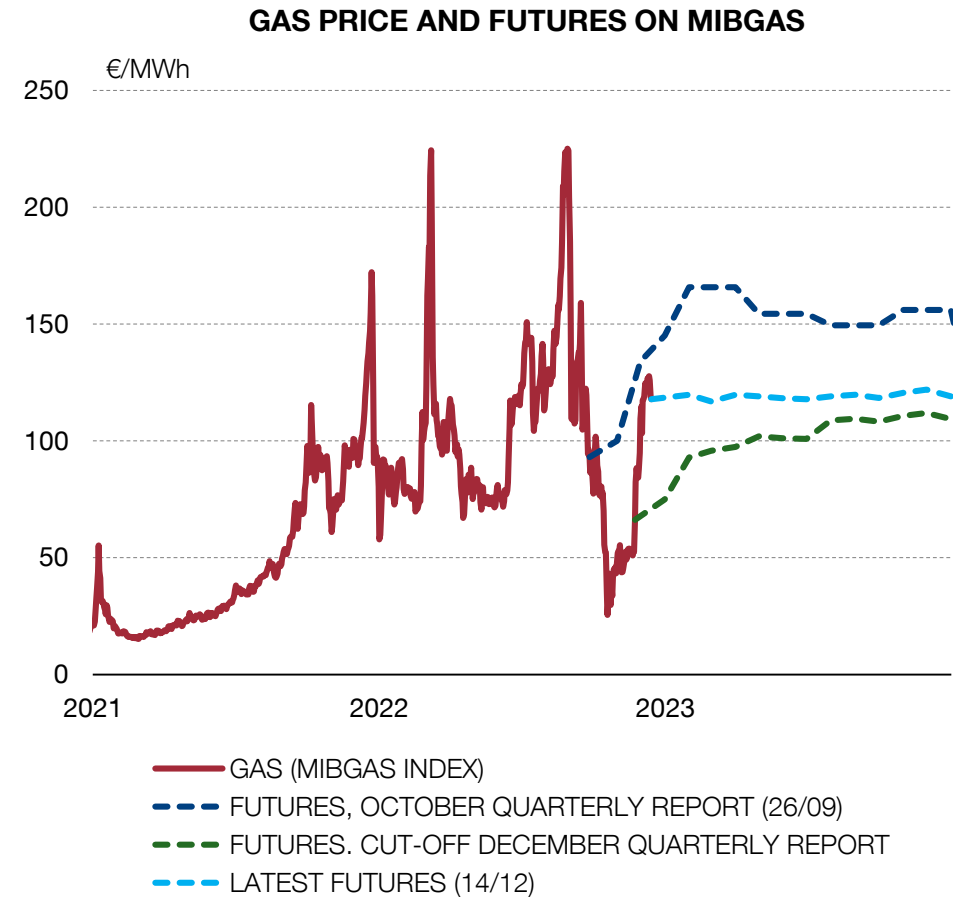
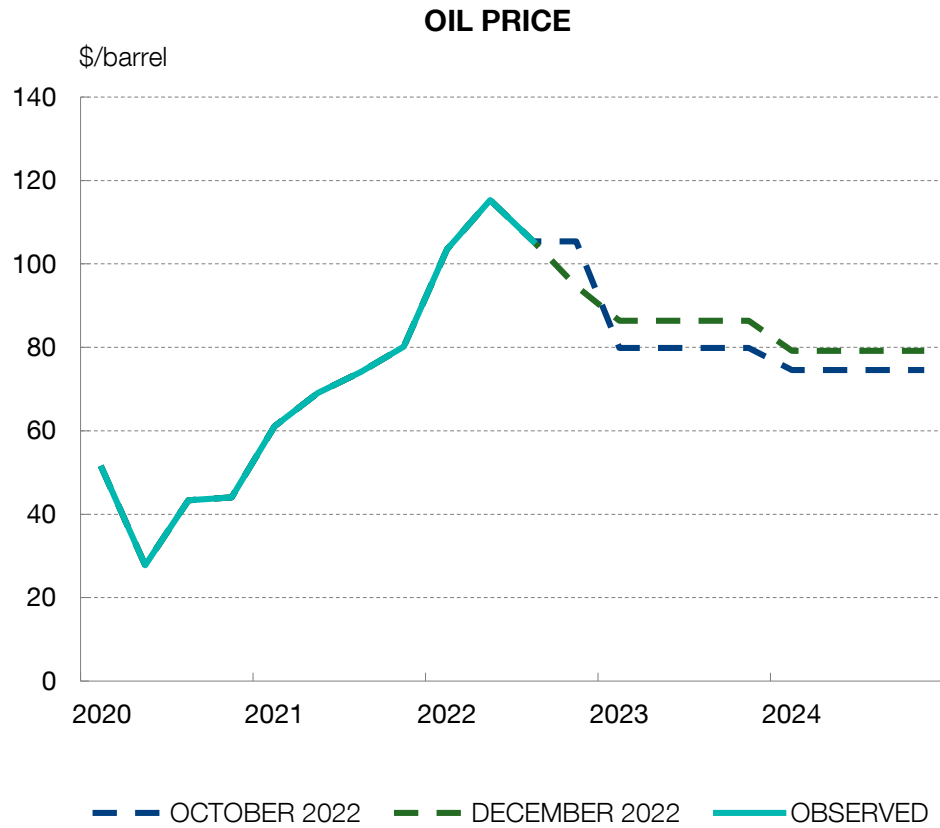


SPANISH GDP IS EXPECTED TO GROW BY 0.1% QUARTER-ON-QUARTER IN Q4, ALTHOUGH THIS ESTIMATE IS SUBJECT TO CONSIDERABLE UNCERTAINTY



Sources: INE and Banco de España.





Sources: MIBGAS, Reuters and Banco de España.



ASSUMPTIONS REGARDING DEVELOPMENTS IN THE INTERNATIONAL ENVIRONMENT AND IN MONETARY AND FINANCIAL CONDITIONS

	2021	December 2022 projections (a)				Difference between the current projections and the October 2022 projections (b)			
		2022	2023	2024	2025	2022	2023	2024	2025
Annual rate of change, unless otherwise indicated									
Spain's export markets (c)	9.9	7.7	2.1	3.0	3.1	1.4	-0.4	-0.1	-
Oil price in dollars/barrel (level)	71.1	104.6	86.4	79.7	76.0	1.7	6.9	5.5	-
Monetary and financial conditions									
Dollar/euro exchange rate (level)	1.18	1.05	1.03	1.03	1.03	0.01	0.05	0.05	-
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	120.7	111.9	111.2	111.2	111.2	0.6	3.9	3.9	-
Short-term interest rates (3-month EURIBOR. Level) (e)	-0.5	0.3	2.9	2.7	2.5	0.0	0.0	-0.2	-
Long-term interest rates (10-year Spanish government bond yield. Level) (e)	0.3	2.2	2.9	3.1	3.2	0.0	-0.5	-0.5	-

Sources: Banco de España and ECB.

(a) Cut-off date for assumptions: 28 November 2022 for Spain's export markets and 24 November 2022 for all other variables. Figures expressed as levels are annual averages; the figures expressed as rates are calculated on the basis of the related annual averages.

(b) The differences are in rates for export markets, in levels for oil prices and the dollar/euro exchange rate, in percentages for the nominal effective exchange rate and in percentage points for interest rates.

(c) The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the December 2022 Eurosystem staff macroeconomic projections for the euro area.

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

(e) 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 on proxies thereof and should not be interpreted as a Eurosystem prediction as to the course of these variables.

ASSUMPTIONS REGARDING THE DURATION OF THE MEASURES DIRECTLY AFFECTING INFLATION TAKEN BY THE AUTHORITIES TO MITIGATE THE INCREASE IN ENERGY PRICES

- Reduced tax rates on electricity bills: VAT to 5% and excise duty on electricity to 0.5%
- VAT on natural gas reduced to 5%
- Suspension of the tax on electricity generation
- Price changes in rental agreements capped at 2%
- Butane gas price freeze
- Reduced price of public transport season tickets (*)

- Cap on the increase in the cost of gas in the regulated rate for small natural gas consumers (maximum of 15%)
- Free rail season tickets

- Cap on the price of gas used to generate electricity

- Extraordinary discount on fuel retail prices



(*) It is assumed that only the portion financed by the central government is extended.

MACROECONOMIC PROJECTIONS 2022-2025

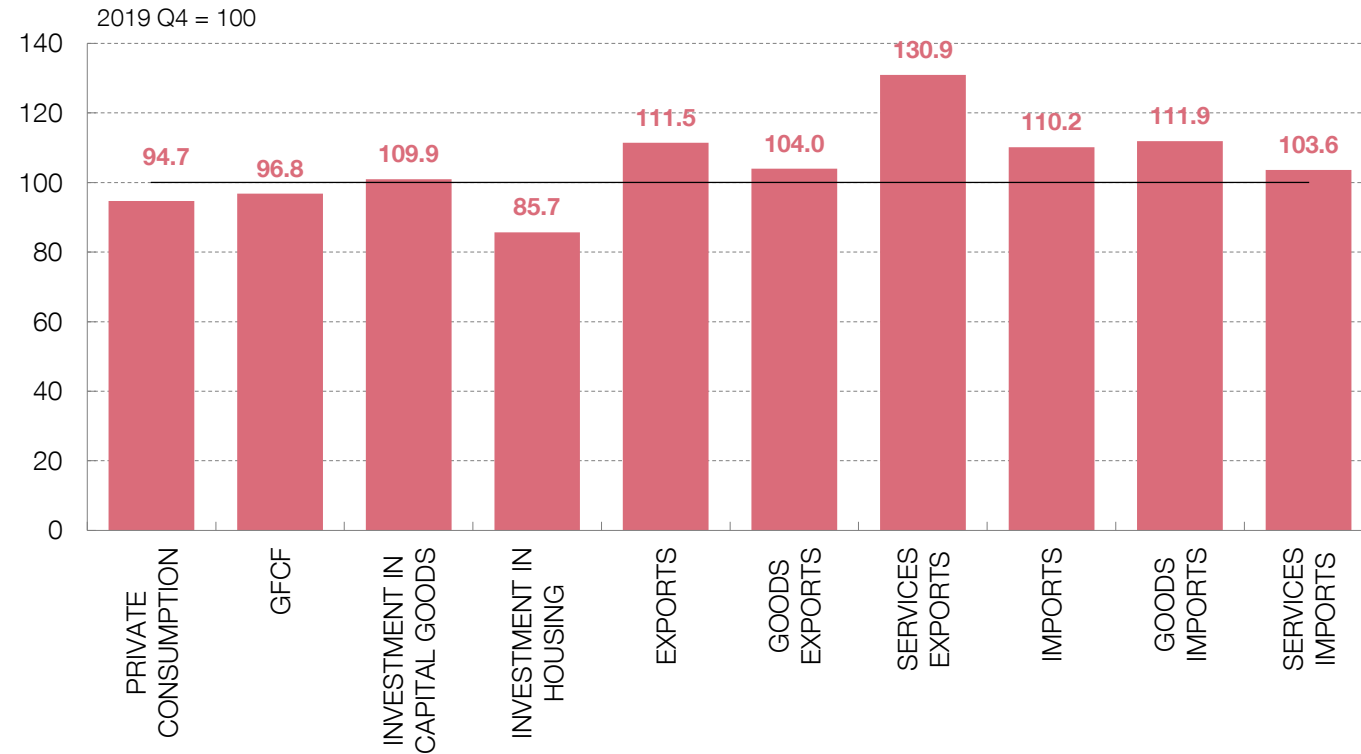
Annual rate of change in volume terms and % of GDP	2021	December 2022 projections				October 2022 projections		
		2022	2023	2024	2025	2022	2023	2024
GDP	5.5	4.6	1.3	2.7	2.1	4.5	1.4	2.9
Private consumption	6.0	2.1	1.9	2.8	2.1	1.6	1.3	3.2
Government consumption	2.9	-1.6	0.3	0.9	1.2	-1.5	0.0	0.9
Gross fixed capital formation	0.9	5.2	1.6	3.0	2.3	4.7	1.7	2.6
Exports of goods and services	14.4	18.0	3.8	3.0	3.1	17.5	4.0	3.1
Imports of goods and services	13.9	9.7	4.3	2.5	2.9	8.2	3.1	2.4
Domestic demand (contribution to growth)	5.2	1.6	1.4	2.4	1.9	1.1	0.9	2.5
Net external demand (contribution to growth)	0.3	3.0	-0.1	0.3	0.2	3.4	0.5	0.4
Nominal GDP	7.9	8.5	5.8	5.9	4.4	8.1	5.9	5.6
GDP deflator	2.3	3.6	4.5	3.2	2.2	3.5	4.5	2.6
Harmonised index of consumer prices (HICP)	3.0	8.4	4.9	3.6	1.8	8.7	5.6	1.9
HICP excluding energy and food	0.6	3.8	3.4	2.2	1.8	3.9	3.5	2.1
Employment (hours)	7.2	4.1	0.5	1.6	1.1	4.0	0.8	2.5
Unemployment rate (% of labour force). Annual average	14.8	12.8	12.9	12.2	12.0	12.8	12.9	12.4
Net lending (+) / net borrowing (-) of the nation (% of GDP)	1.9	2.4	2.1	2.4	2.3	2.6	2.7	3.4
General government net lending (+) / net borrowing (-) (% of GDP)	-6.9	-4.2	-4.1	-3.7	-4.5	-4.3	-4.0	-4.3
General government debt (% of GDP)	118.3	113.1	110.6	108.8	109.8	113.3	110.7	109.9

Sources: Banco de España and INE. Latest QNA figure published: 2022 Q3 flash estimate. Projections cut-off date: 30 November 2022.



HOUSEHOLD CONSUMPTION IS LAGGING PARTICULARLY BEHIND THE OTHER DEMAND COMPONENTS IN ITS RECOVERY TO PRE-PANDEMIC LEVELS

RETURN TO PRE-PANDEMIC LEVELS OF DEMAND COMPONENTS IN 2022 Q3



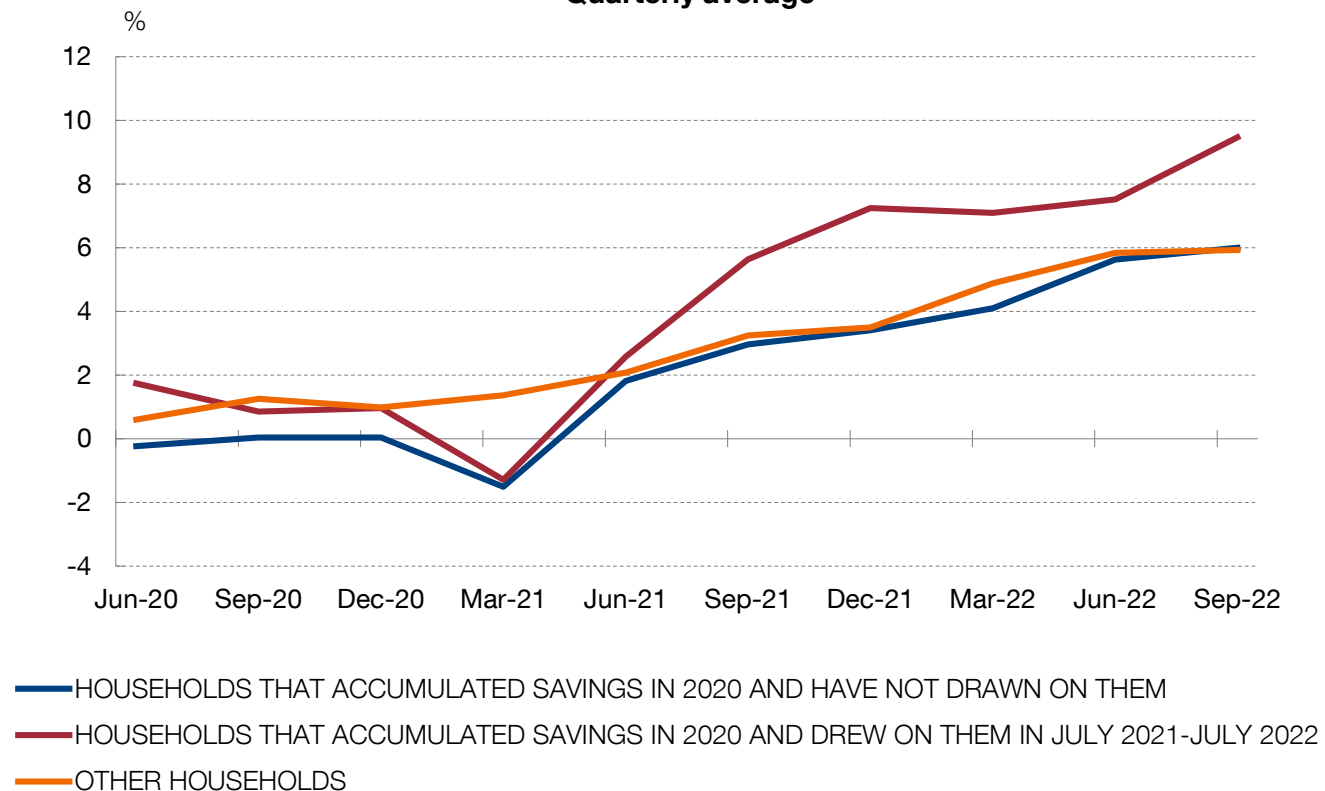
Sources: INE and Banco de España.



ONLY 15% OF THE HOUSEHOLDS THAT INCREASED THEIR SAVINGS DURING THE HEALTH CRISIS HAVE SUBSEQUENTLY DRAWN ON THOSE SAVINGS [ECB CONSUMER EXPECTATIONS SURVEY]

Recently, this use of accumulated savings appears to have enabled these households to maintain more dynamic consumption patterns than other households. Nevertheless, given the small size of this group of households, this does not appear to have driven up aggregate spending levels very significantly

NOMINAL CONSUMPTION GROWTH COMPARED WITH 12 MONTHS EARLIER.
Quarterly average

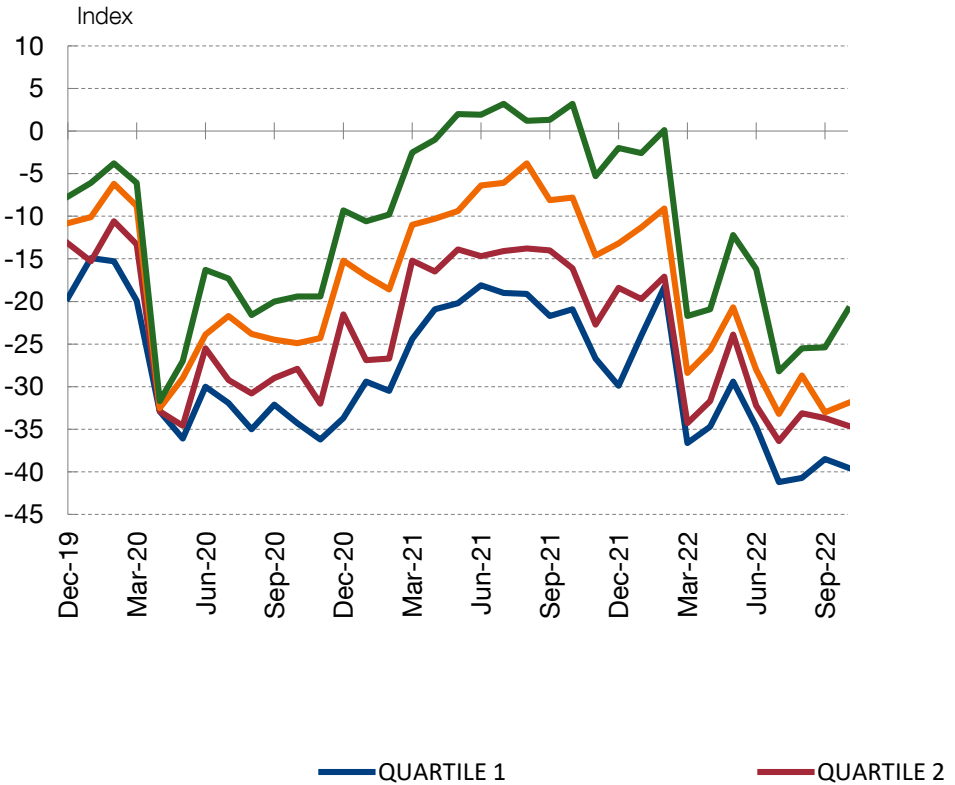


Source: “[Impact on recent and expected consumption patterns of the savings accumulated by households during the pandemic](#)”, Box 5 of this Quarterly Report, Banco de España.

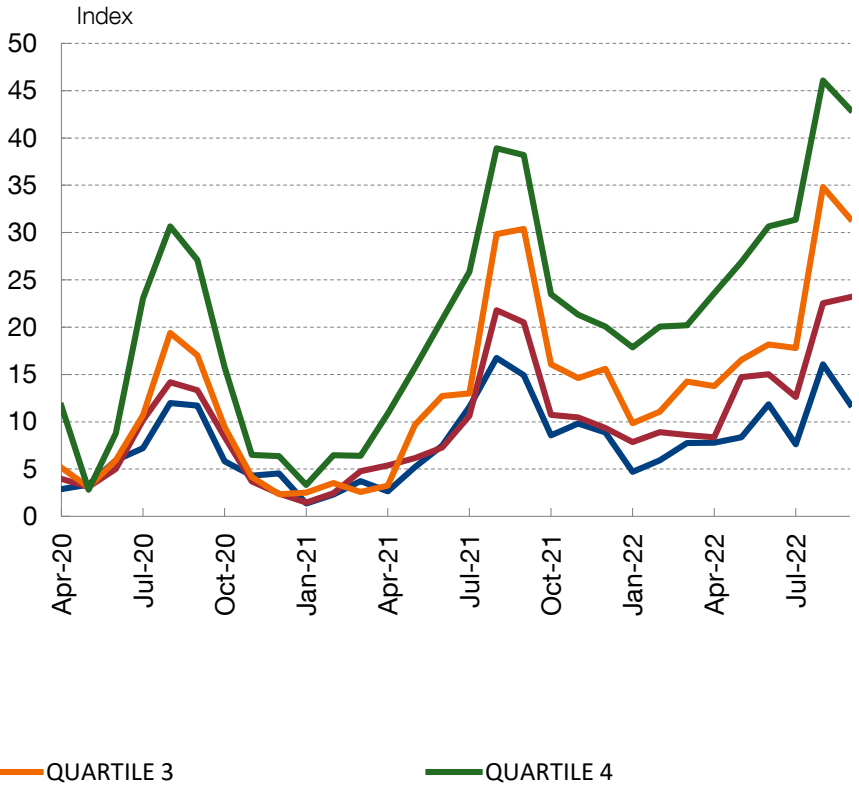


DETERIORATION IN HOUSEHOLD CONFIDENCE AND HOUSEHOLD EXPENDITURE PATTERNS, BY INCOME QUARTILE

CONSUMER CONFIDENCE BY INCOME QUARTILE



PROPORTION OF HOUSEHOLDS REPORTING HOLIDAY EXPENDITURE IN THE LAST MONTH

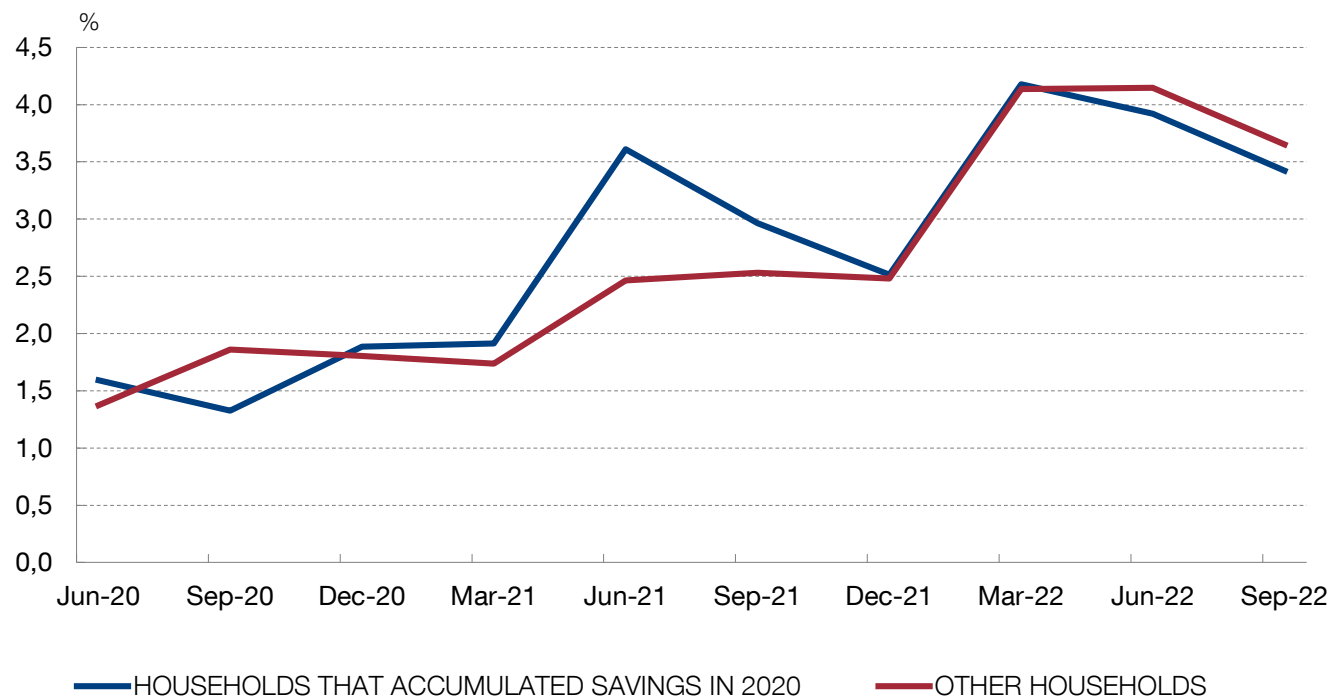


Sources: European Commission and Consumer Expectations Survey (ECB).

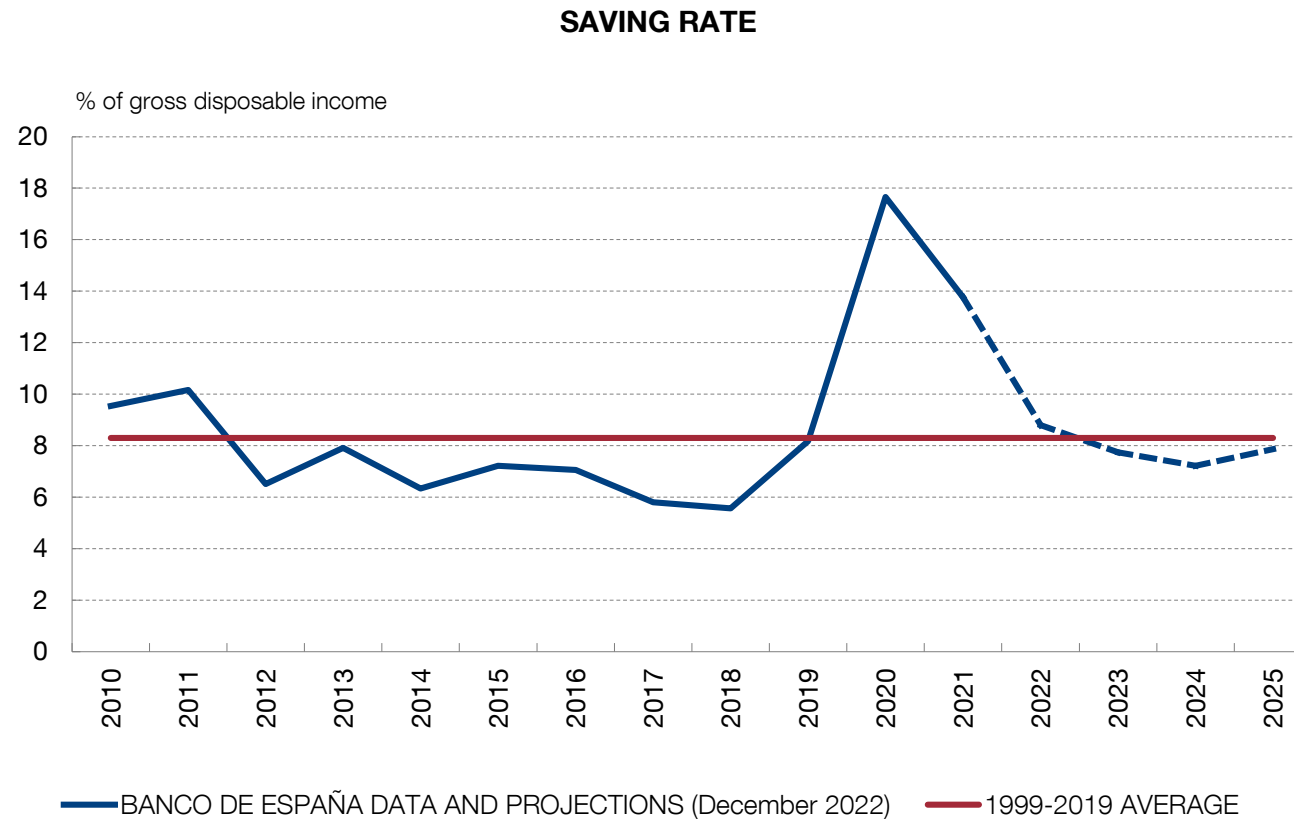


THE CONSUMPTION EXPECTATIONS OVER A ONE-YEAR HORIZON OF HOUSEHOLDS THAT SAVED DURING THE PANDEMIC ARE NO BETTER THAN THOSE OF HOUSEHOLDS THAT DID NOT [CES, ECB]

EXPECTED NOMINAL CONSUMPTION GROWTH IN NEXT 12 MONTHS. QUARTERLY AVERAGE

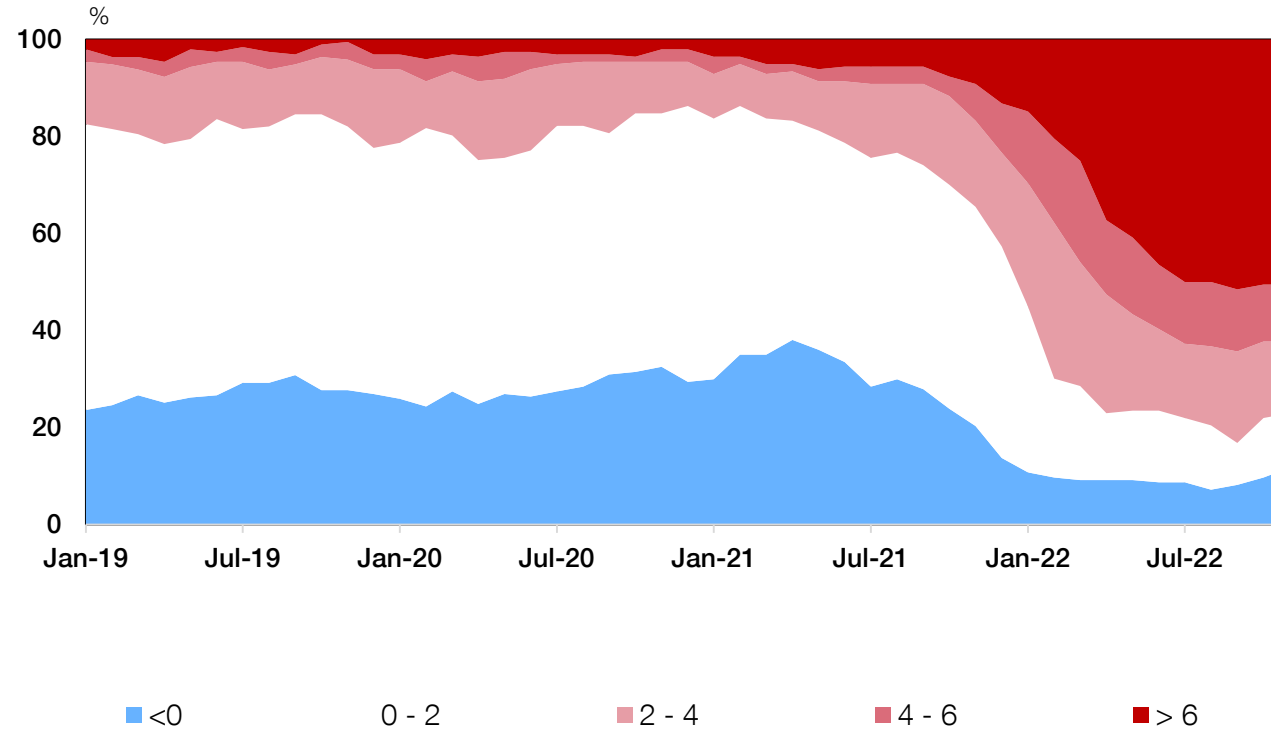


Source: “[Impact on recent and expected consumption patterns of the savings accumulated by households during the pandemic](#)”, Box 5 of this Quarterly Report, Banco de España.



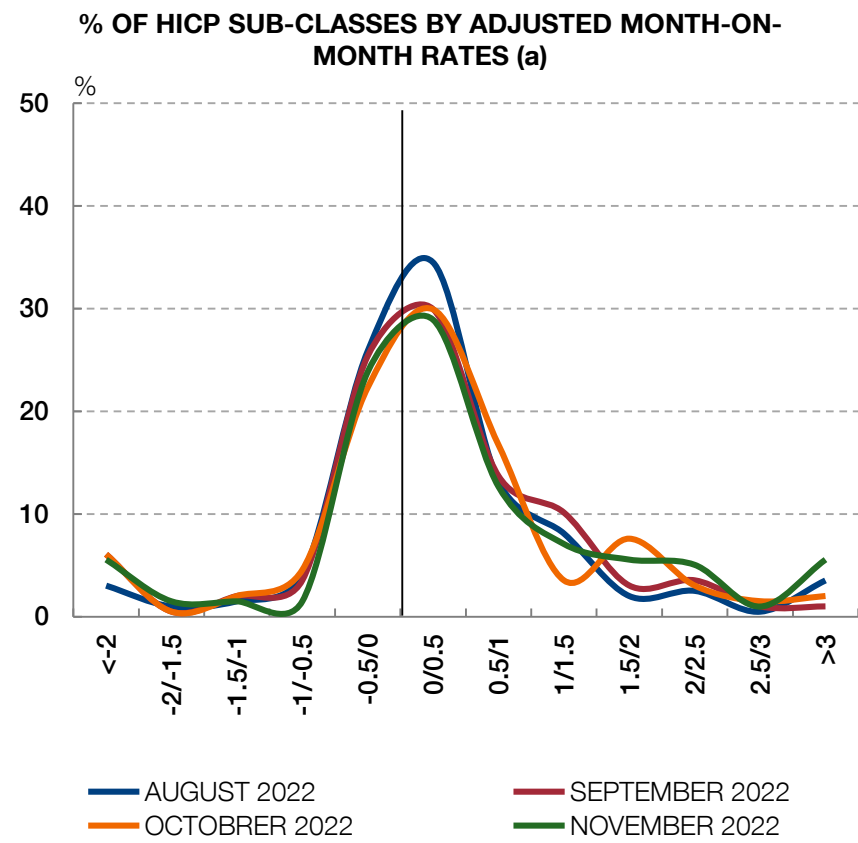
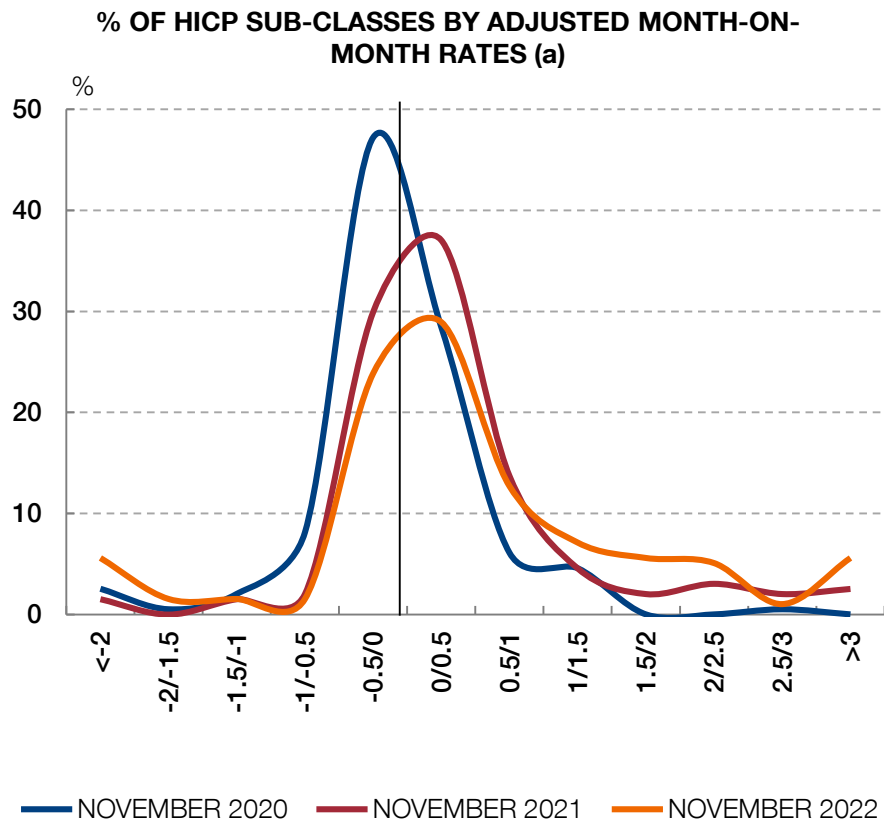
INFLATIONARY PRESSURES ARE VERY WIDESPREAD IN THE CONSUMER GOODS AND SERVICES BASKET

HICP: PERCENTAGE OF SUB-CLASSES IN EACH GROWTH RANGE



Sources: INE and Banco de España.



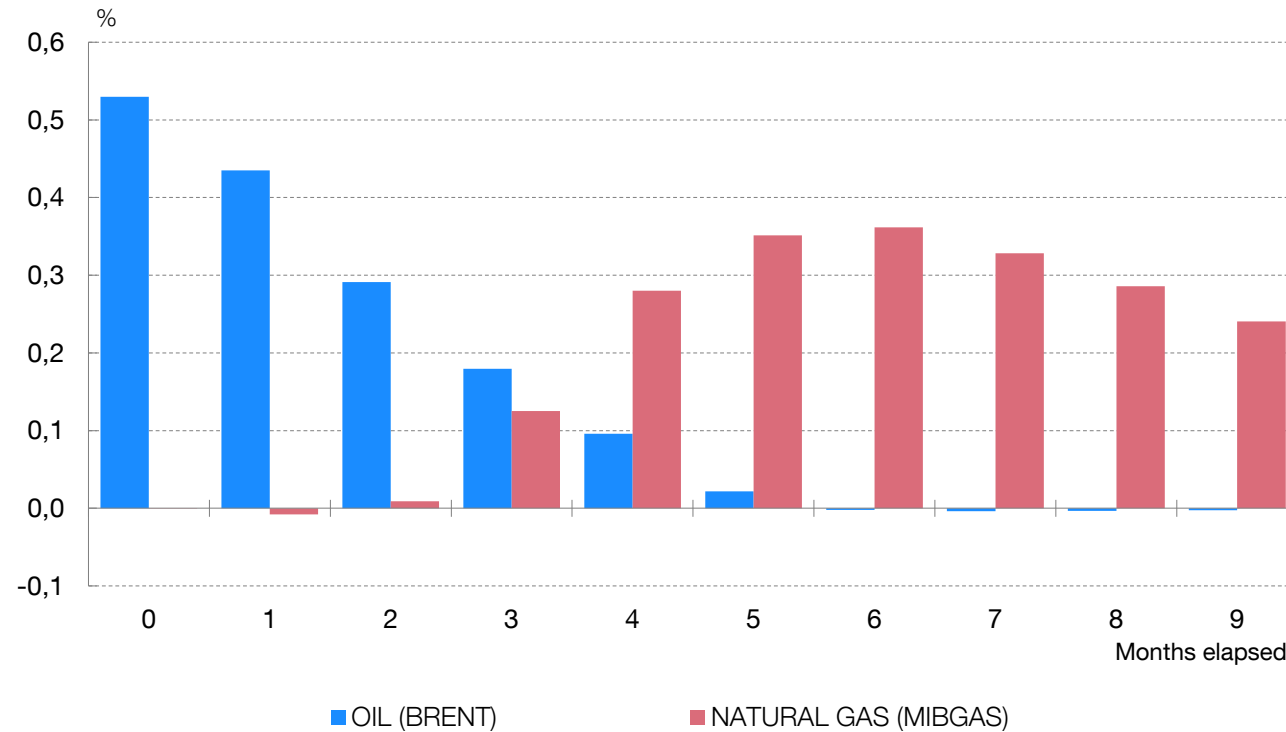


Sources: INE and Banco de España.
 (a) Month-on-month rates adjusted for the 2016-2019 average rates for each month.



THERE IS A LAG BETWEEN FLUCTUATIONS IN WHOLESALE ENERGY PRICES AND CHANGES IN INDUSTRIAL (AND CONSUMER) PRICES

IMPACT OF ENERGY PRICES ON PRODUCER PRICES (a)

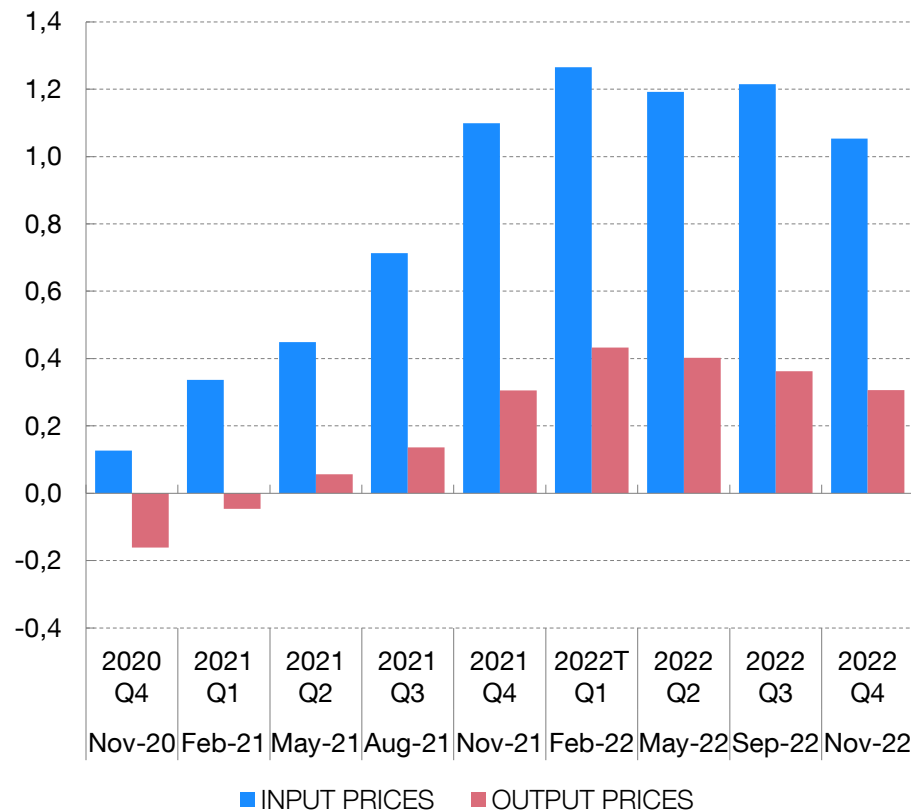


Source: “[The asymmetric response of producer prices to rising oil and gas prices](#)”, Box 3 of this Quarterly Report, Banco de España.

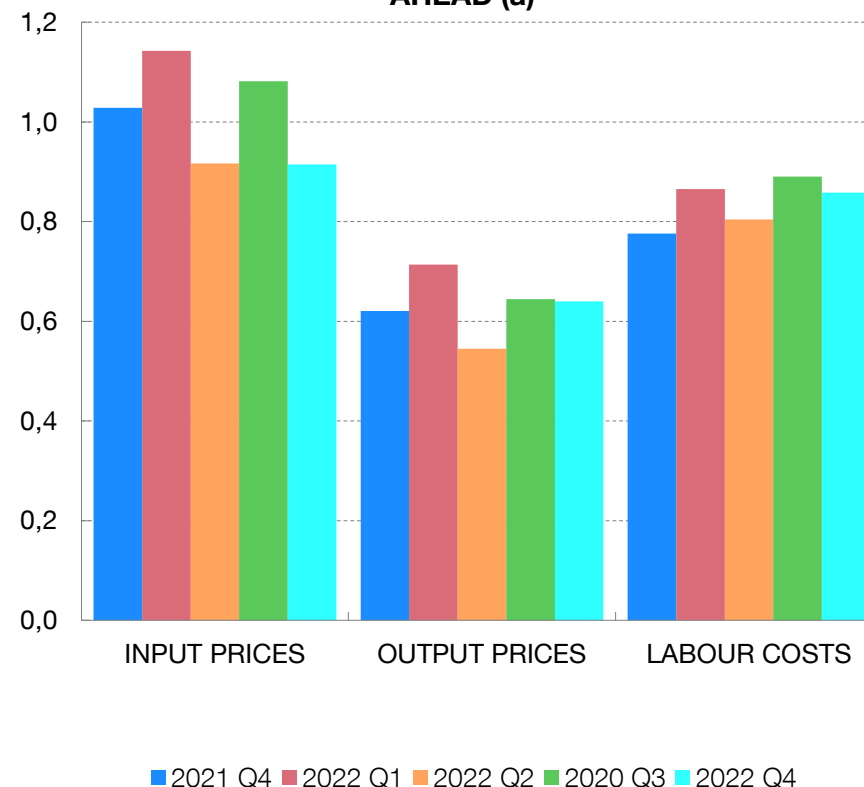


WHILE FIRMS PERCEIVE A CERTAIN EASING OF INFLATIONARY PRESSURES IN RECENT TIMES, SUCH PRESSURES ARE BARELY EXPECTED TO WEAKEN OVER THE COMING YEAR

QUARTERLY PRICE VARIATIONS (a)



OUTLOOK FOR PRICES AND COSTS 1 YEAR AHEAD (a)



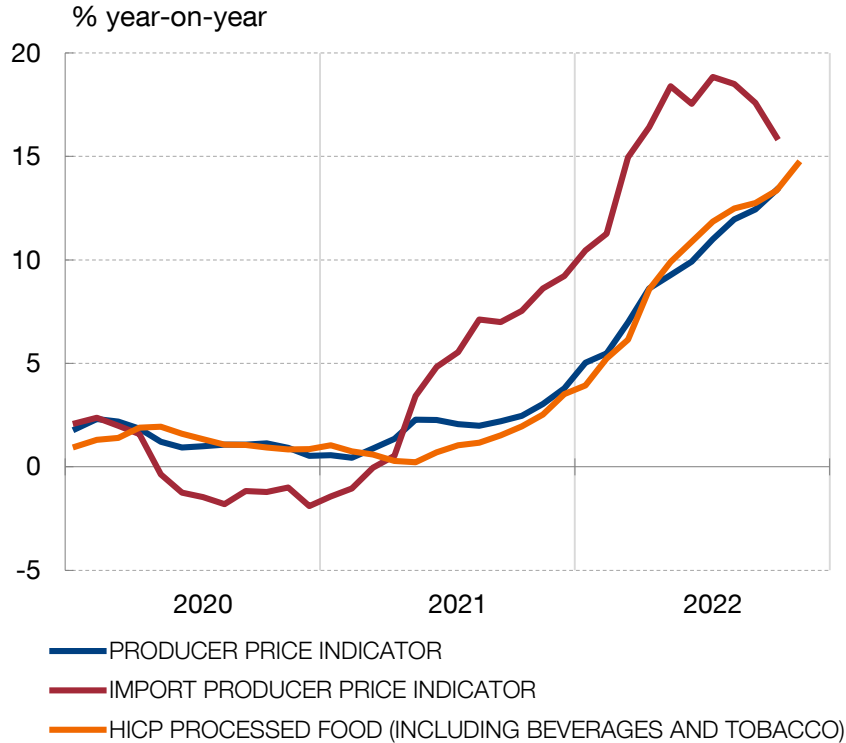
Source: EBAE (Banco de España).

(a) Index constructed by assigning the following values to firms' responses: significant increase = 2; slight increase = 1; stability = 0; slight decrease = -1; significant decrease = -2.

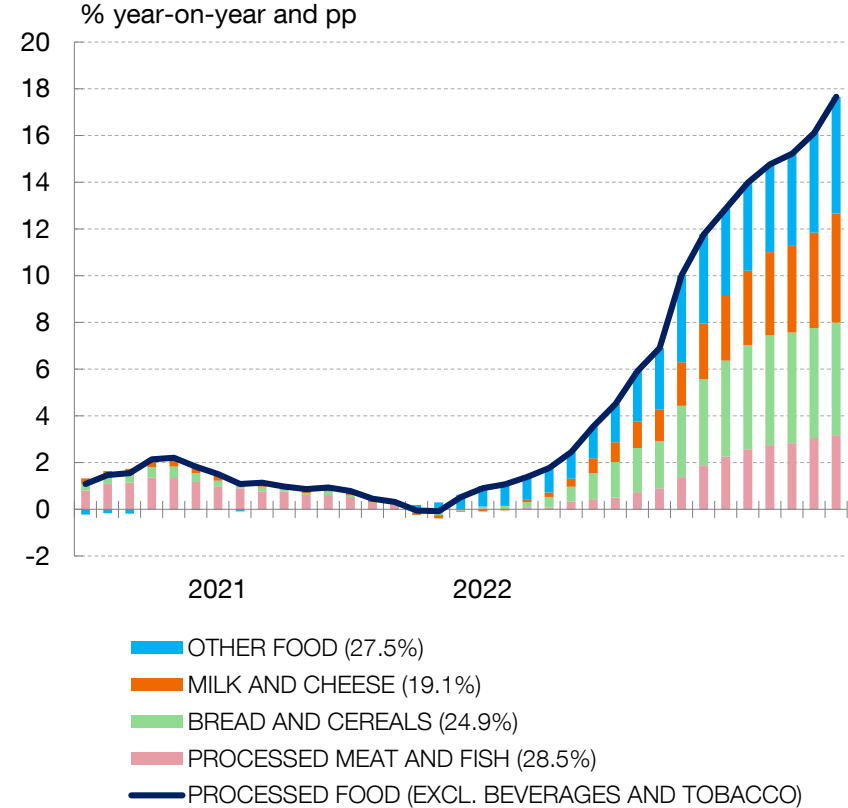


PRODUCER PRICES SUGGEST THAT PROCESSED FOOD INFLATION COULD REMAIN HIGH IN THE COMING MONTHS

FOOD: HICP AND PRODUCER PRICE INDICATORS



PROCESSED FOOD (EXCL. BEVERAGES AND TOBACCO): RATES AND CONTRIBUTIONS (a)



Sources: INE and Banco de España.

(a) In brackets, the share in 2022 of each HICP processed food component (excluding beverages and tobacco).



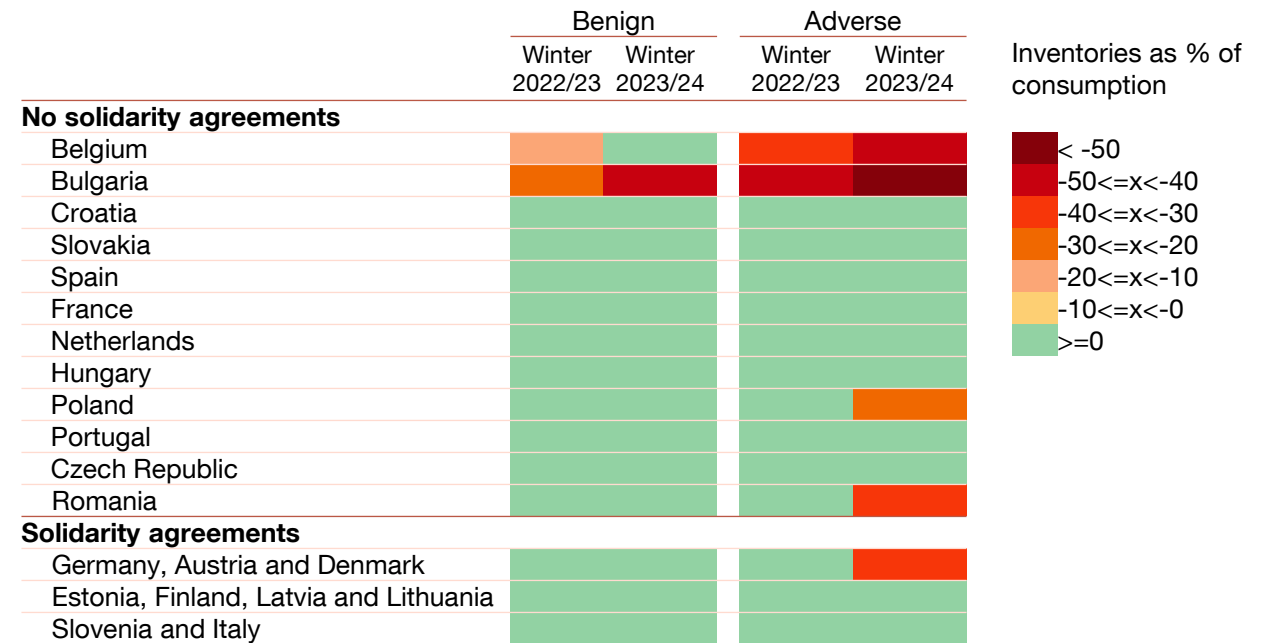
NATURAL GAS INVENTORIES IN 2022 AND 2023 IN THE EU ECONOMIES UNDER TWO HYPOTHETICAL SCENARIOS

Under different scenarios, the risk of gas shortages in the main European economies is quite limited in winter 2022/23 and slightly higher in winter 2023/24; in both periods the risk is quite low in Spain

EU GAS INVENTORIES



RISK SCENARIOS OF SHORTAGES IN THE EU IN WINTERS 2022/23 AND 2023/24 (a)



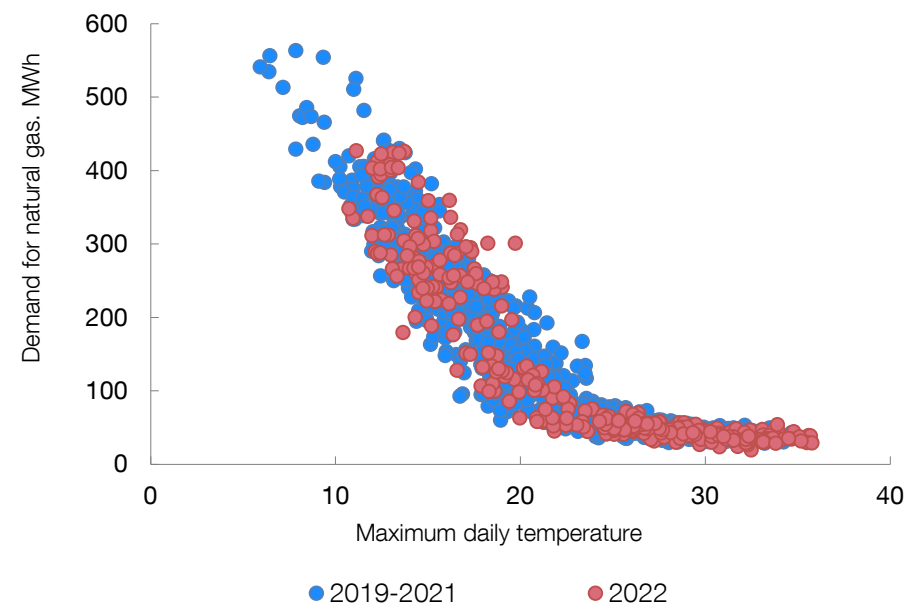
Sources: Banco de España and Gas Infrastructure Europe. Latest data observed: November 2022.

(a) The data depicted in the risk map correspond to the minimum ratio of inventories to monthly consumption, as a percentage, in the winter months (November to April). The benign scenario assumes that demand for natural gas is contained, thanks to favourable weather conditions and fulfilment of the European Commission's targets, and that the regasification and production projects announced are realised. Under the adverse scenario, consumption is higher owing to two consecutive cold winters and to a fall in consumption half that observed to date. Under this scenario, the supply-side projects are delayed by six months. Countries that have signed solidarity agreements, committing to share their surplus gas, are grouped together. Countries for which insufficient data are available are not included.

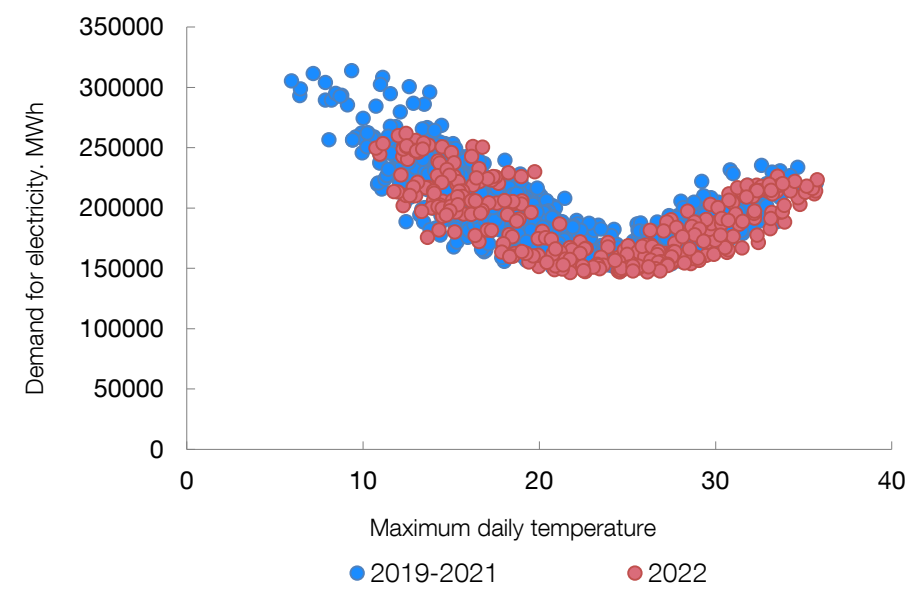
POTENTIAL SENSITIVITY OF NATURAL GAS AND ELECTRICITY CONSUMPTION IN SPAIN TO DIFFERENT WEATHER SCENARIOS IN WINTER 2022/23

- Changes in temperature are a key determinant of Spanish households' and SMEs' demand for energy – be it for natural gas or electricity
- If winter 2022/23 is as mild as winter 2021/22, the change in energy consumption patterns observed in recent months could lead to a decline of up to 10% year-on-year in natural gas consumption in Spain
- However, if winter 2022/23 proves to be as cold as winter 2004/05, natural gas consumption in Spain could be around 25% higher than last winter

HOUSEHOLD AND SME DEMAND FOR NATURAL GAS AND DAILY MAXIMUM TEMPERATURE



ESTIMATED HOUSEHOLD AND SME DEMAND FOR ELECTRICITY AND DAILY MAXIMUM TEMPERATURE

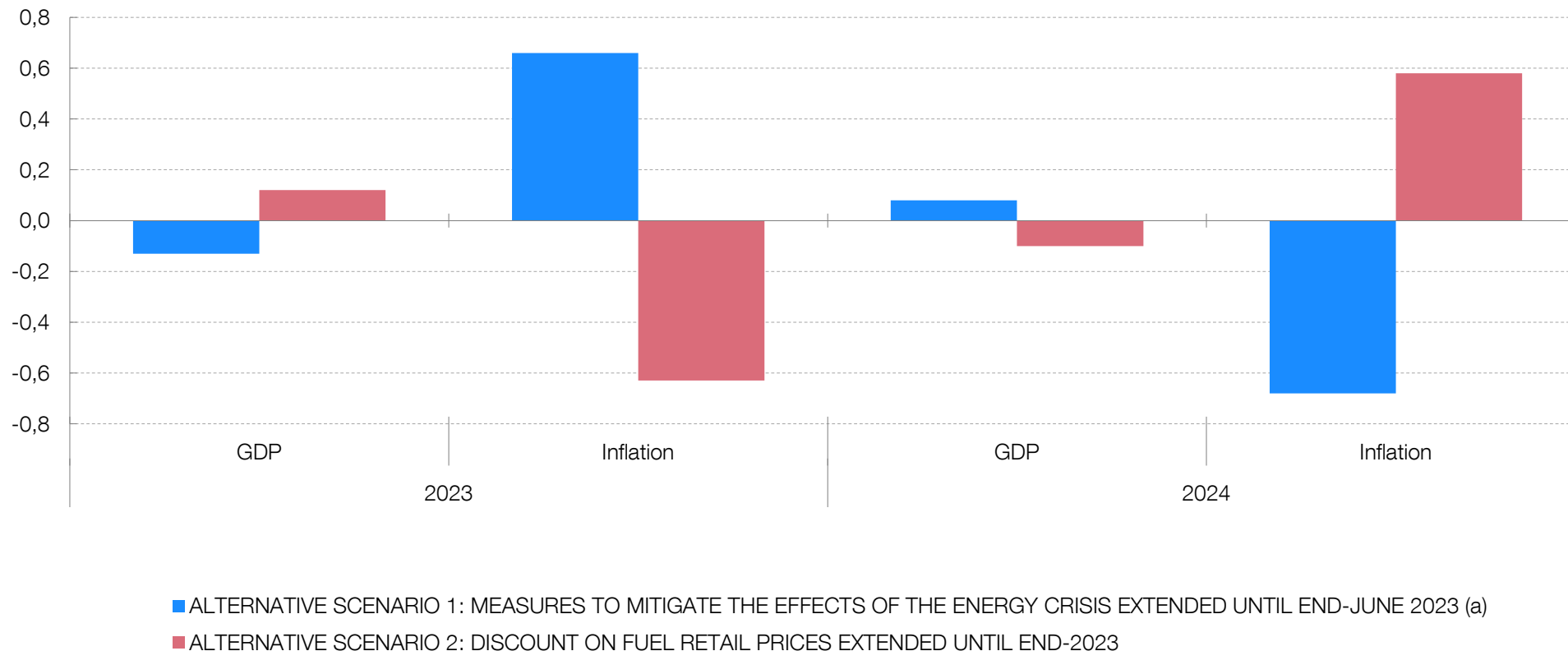


Source: “[Potential sensitivity of natural gas and electricity consumption in Spain to different weather scenarios in winter 2022-2023](#)”, Box 3 of this Quarterly Report, Banco de España.



SENSITIVITY OF THE GDP AND INFLATION PROJECTIONS TO DIFFERENT ASSUMPTIONS AS TO THE CONTINUATION OF THE MEASURES TAKEN TO MITIGATE PRICE RISES

DIFFERENCES VS THE BASELINE SCENARIO IN 2023 AND 2024 DUE TO THE FISCAL POLICY MEASURES. GDP GROWTH AND INFLATION



Source: Banco de España.

(a) Measures considered: the tax rate reductions in electricity bills (from 10% to 5% in the case of VAT and from 5.1% to 0.5% in the case of the excise duty on electricity); the reduction in the VAT rate on natural gas from 21% to 5%; the suspension of the tax on electricity generation; the butane gas price freeze; the government subsidy for public transport season tickets; and the 2% cap on rent increases.

