

# MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2025)

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# CONTENTS

- 1. Global environment**
- 2. Spanish economy – recent developments**
- 3. Macroeconomic projections (2023-2025)**
- 4. Main sources of uncertainty**



# CONTENTS

- 1. Global environment**
2. Spanish economy – recent developments
3. Macroeconomic projections (2023-2025)
4. Main sources of uncertainty

# GLOBAL ECONOMIC ACTIVITY SLOWED DOWN, ALBEIT LESS THAN EXPECTED, IN THE FINAL MONTHS OF 2022, BUT APPEARS TO BE GAINING TRACTION IN EARLY 2023 ...

- Activity is proving more resilient than expected a few months ago – particularly in terms of the [labour markets](#) –, although [household consumption](#) is showing signs of weakness, adversely affected by the loss of purchasing power and by the tightening of financing conditions over recent quarters
- The [peak of the inflationary episode](#) appears to be behind us, mainly thanks to the [deceleration in energy prices](#), while underlying and food inflation are proving to be more downwardly sticky

## Against a backdrop of ...

Improving [confidence indicators](#)

[Fiscal policy](#) continuing to underpin activity's buoyancy

The end of [zero-COVID in China](#) only appearing to have had a relatively temporary (adverse) impact on activity

[Bottlenecks](#) continuing to gradually ease

[Monetary policy](#) continuing to tighten globally

The [latest activity figures](#) surprising on the upside

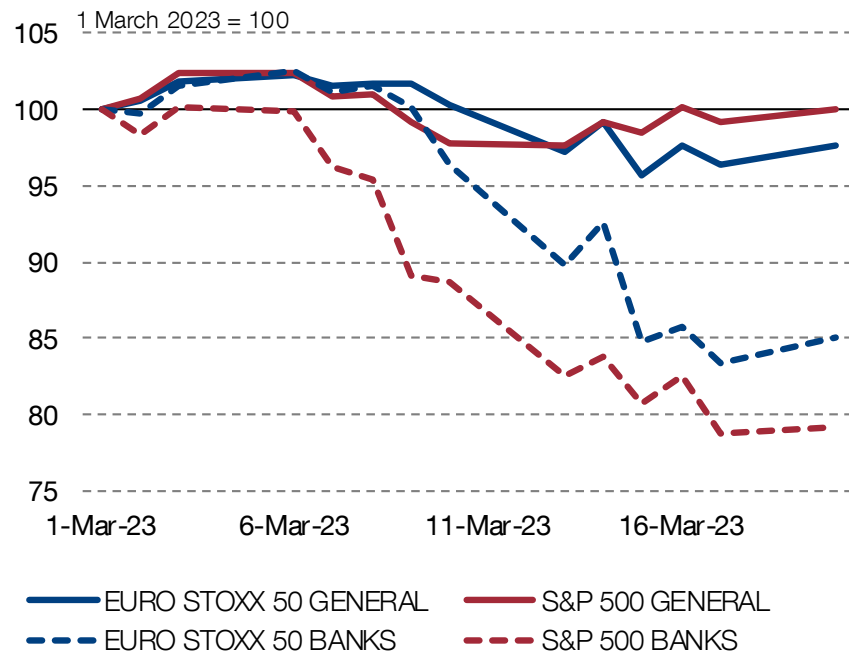
... in the main, for 2023 GDP growth forecasts are being revised up and headline inflation projections down (📉)

↳ Latest [European Central Bank projections](#)

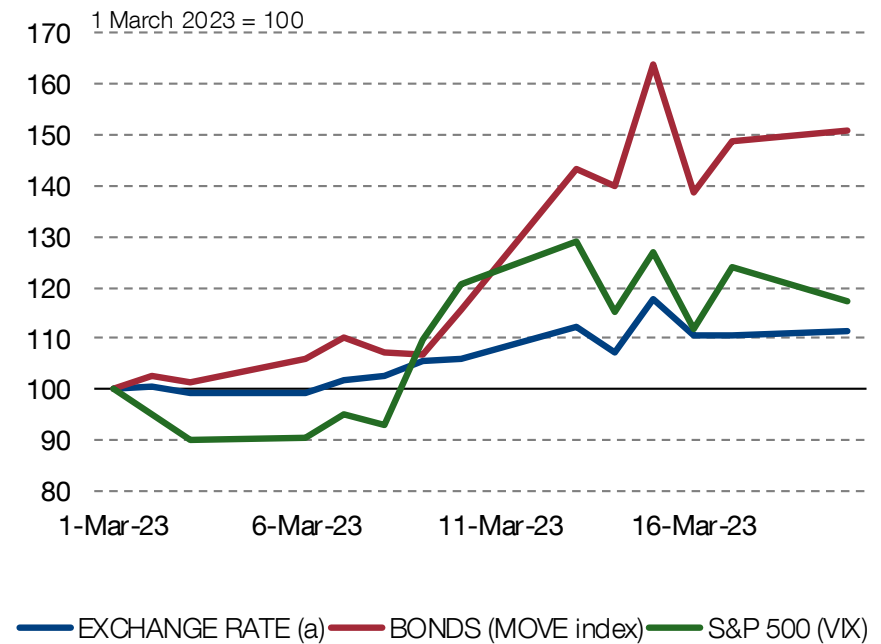
# ... ALTHOUGH THE RECENT TENSIONS ON GLOBAL FINANCIAL MARKETS HAVE PROVIDED A FURTHER ADVERSE SHOCK

- The doubts that have surfaced in recent days about the soundness of some banks globally have increased the **risk aversion and volatility on global financial markets**
- For the more immediate future, **considerable uncertainty** surrounds the extent and persistence of this financial stress, which is not included in the latest Banco de España or European Central Bank projection exercises
- In any event, such stress will likely have a somewhat **adverse impact on the course of economic activity** in the coming quarters, which could also help weaken the current inflationary dynamics

### STOCK MARKET INDICES



### IMPLIED VOLATILITIES



Sources: Refinitiv Datastream and Banco de España. Latest figure: 20 March 2023.  
 (a) Average three-month volatility of USD/EUR, USD/GBP and JPY/USD.

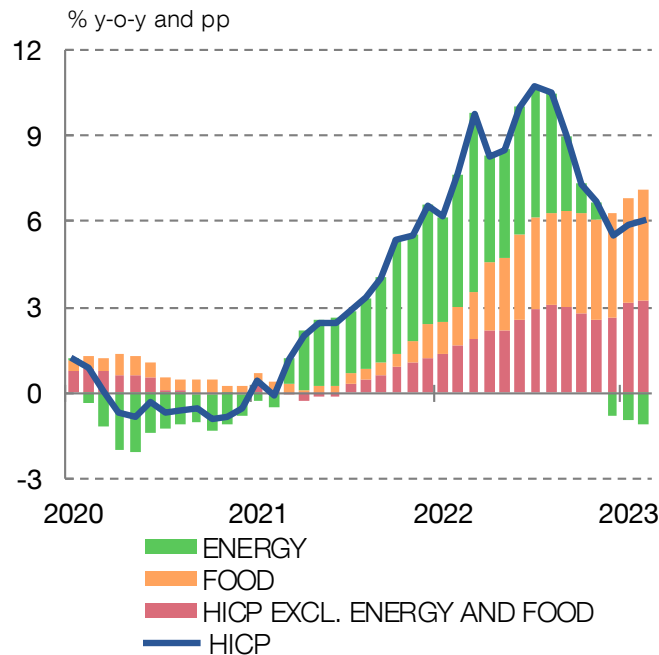
# CONTENTS

1. Global environment
- 2. Spanish economy – recent developments**
3. Macroeconomic projections (2023-2025)
4. Main sources of uncertainty

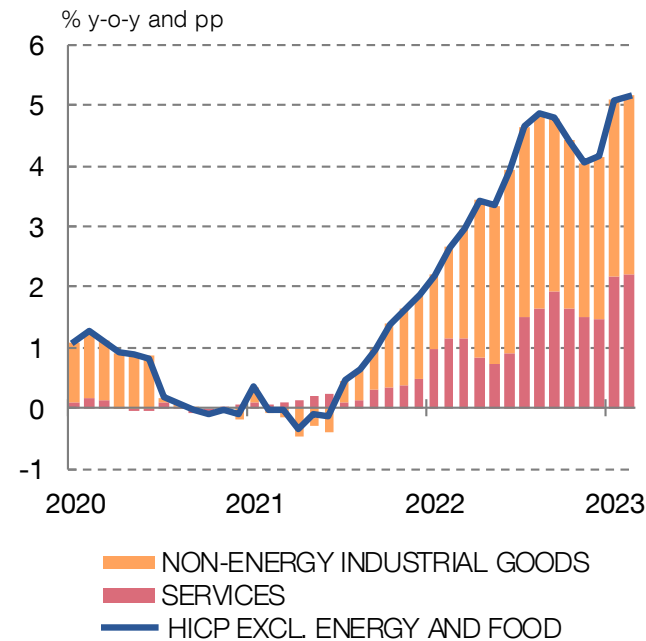
# PRICES: AFTER DECELERATING SHARPLY IN 2022 H2, HEADLINE INFLATION INCREASED SLIGHTLY IN JANUARY AND FEBRUARY ...

- The deceleration in **headline inflation** in 2022 H2 was almost exclusively due to the energy component, which is now recording negative year-on-year rates
- By contrast, **underlying inflation** has mainly surprised on the upside in recent months, reaching an all-time high (5.2%) in February
- Meanwhile, **food inflation** has continued to accelerate of late (its force also surprising on the upside), driven especially by the inflationary pressures behind processed foods

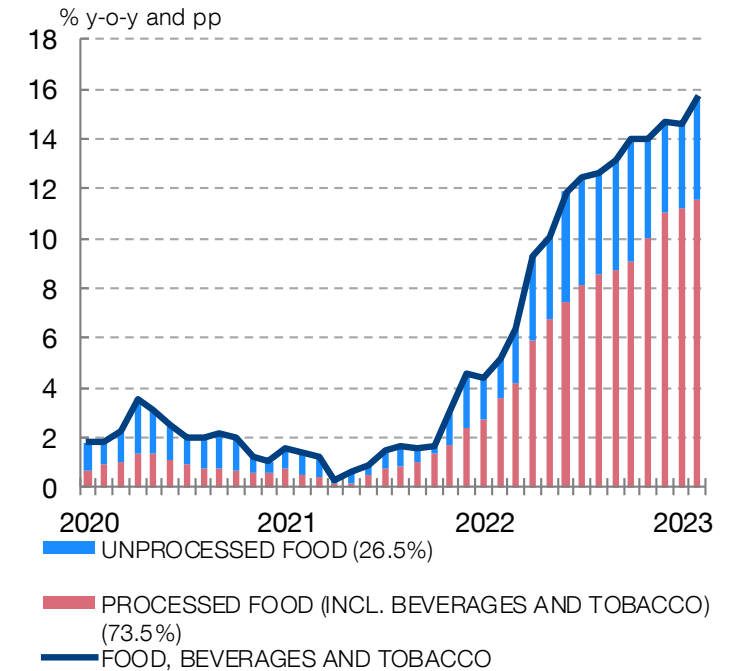
**HICP: RATES AND CONTRIBUTIONS**



**HICP EXCL. ENERGY AND FOOD: RATES AND CONTRIBUTIONS**



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



Sources: INE and Banco de España.

(a) The weight in 2022 of each component in the HICP food, beverages and tobacco sub-index appears in brackets.

# ... ALTHOUGH IT IS IMPORTANT TO BEAR IN MIND THAT INFLATION DEVELOPMENTS IN EARLY 2023 HAVE BEEN AFFECTED BY DIFFERENT TECHNICAL ASPECTS

Elimination of the fuel subsidy for non-professional consumers at end-2022



+0.7 pp (approx.) to headline inflation in January

Incorporation of free market contracts into the measurement of gas and electricity prices



+0.4 pp (approx.) to headline inflation in January

Annual revision of the weights of the different goods and services in the household consumption basket



+0.3 pp (approx.) to headline inflation in January

Reduction in VAT on some basic foodstuffs, in force since early 2023



-0.2 pp (approx.) from headline inflation in January

↳ Consistent with a 90% (approx.) pass-through of the tax reduction to consumer prices

Methodological change introduced by the INE in January 2022, which has affected the behaviour of clothing and footwear prices



Excluding this component, underlying inflation has remained relatively stable since mid-2022



# SOME DETAILS ON FOOD PRICE DEVELOPMENTS IN SPAIN AND THE EURO AREA IN 2022

1

In 2022 the prices of food, beverages and tobacco (“food”) recorded similar rates of growth in Spain and in the euro area as a whole ...

2

... but the contribution of food to headline inflation was somewhat larger in Spain than in the euro area because it accounts for a greater share of Spain’s household consumption basket (25.1% vs. 20.9%)

3

The recent rise in food prices is largely the result of the gradual pass-through to prices of the higher costs borne by producers in recent quarters

4

In any event, food price developments are considerably affected by various essentially global supply and demand factors, which are also quite specific to each component

For more details, see F. Borrillo, L. Cuadro, M. Pacce and I. Sánchez (2023). “Evolución reciente de los precios al consumo de los alimentos en el área del euro y en España”, Banco de España, forthcoming.

# ACTIVITY: THE SPANISH ECONOMY APPEARS TO HAVE BEEN SLIGHTLY MORE BUOYANT IN 2023 Q1 THAN IN 2022 H2

## Quarterly National Accounts (QNA) flash estimate for 2022 Q4

- [Provisional QNA data for 2022 Q4](#) point to GDP growth in that quarter in line with the Banco de España's December projections (0.2% vs. 0.1%) ...
- ... but the provisional data include significant revisions to growth in earlier quarters (0.2 pp deducted from the quarter-on-quarter rate for 2022 Q1 and 0.8 pp added to the quarter-on-quarter rate for Q2) ...
- ... and to its breakdown (stronger private consumption, weaker investment and smaller contribution of the external sector)

## Employment

- [Social security registration](#) data to mid-March 2023 show an acceleration in job creation

## Banco de España Business Activity Survey (EBAE)

- The [results of the EBAE](#) suggest that activity was as weak in 2023 Q1 as in 2022 H2, although firms now expect turnover to decline less in the current quarter than three months ago

## Confidence indicators

- In January and February, the main [confidence indicators](#) reached, on average, higher levels than those observed in the last two quarters of 2022

## Other indicators

- Overall, the [other available indicators](#) for the current quarter provide mixed signals (e.g. better vehicle registrations but poorer retail trade)

GDP is projected to grow by 0.3% in Q1, although the uncertainty surrounding that figure is particularly high

# CONTENTS

1. Global environment
2. Spanish economy – recent developments
- 3. Macroeconomic projections (2023-2025)**
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# SUMMARY OF THE PROJECTIONS

			MARCH 2023 PROJECTIONS (a)				DIFFERENCES WITH RESPECT TO THE DECEMBER PROJECTIONS			
	2020	2021	2022	2023	2024	2025	2022	2023	2024	2025
Annual rate of change (%), unless otherwise indicated										
<b>GDP</b>	-11.3	5.5	<b>5.5</b>	<b>1.6</b>	<b>2.3</b>	<b>2.1</b>	0.9	0.3	-0.4	0.0
<b>Harmonised index of consumer prices (HICP)</b>	-0.3	3.0	<b>8.3</b>	<b>3.7</b>	<b>3.6</b>	<b>1.8</b>	-0.1	-1.2	0.0	0.0
<b>HICP excl. energy and food</b>	0.5	0.6	<b>3.8</b>	<b>3.9</b>	<b>2.2</b>	<b>1.8</b>	0.0	0.5	0.0	0.0
<b>Unemployment rate (% of labour force). Annual average</b>	15.5	14.8	<b>12.9</b>	<b>12.7</b>	<b>12.3</b>	<b>12.0</b>	0.1	-0.2	0.1	0.0
<b>General government net lending (+) / net borrowing (-) (% of GDP)</b>	-10.1	-6.9	<b>-4.6</b>	<b>-4.1</b>	<b>-3.5</b>	<b>-4.4</b>	-0.4	0.0	0.2	0.1
<b>General government debt (% of GDP)</b>	120.4	118.3	<b>113.1</b>	<b>111.1</b>	<b>108.8</b>	<b>109.9</b>	0.0	0.5	0.0	0.1

Sources: INE and Banco de España.  
(a) Projections cut-off date: 2 March 2023.

[More details](#) 



# GROWTH FORECASTS SUMMARY

Economic activity has proven somewhat more resilient than expected in recent quarters (partly as a result of the fiscal support measures implemented, whose positive impact on activity will foreseeably decrease in the future), ...

... yet this has not prevented a sharp slowdown in the pace of growth of GDP, with the cumulative loss in household purchasing power since the start of the current inflationary episode and the tightening of financing conditions holding back domestic demand

These factors will continue to adversely affect activity in the coming quarters (leaving to one side that the current financial tensions may intensify)

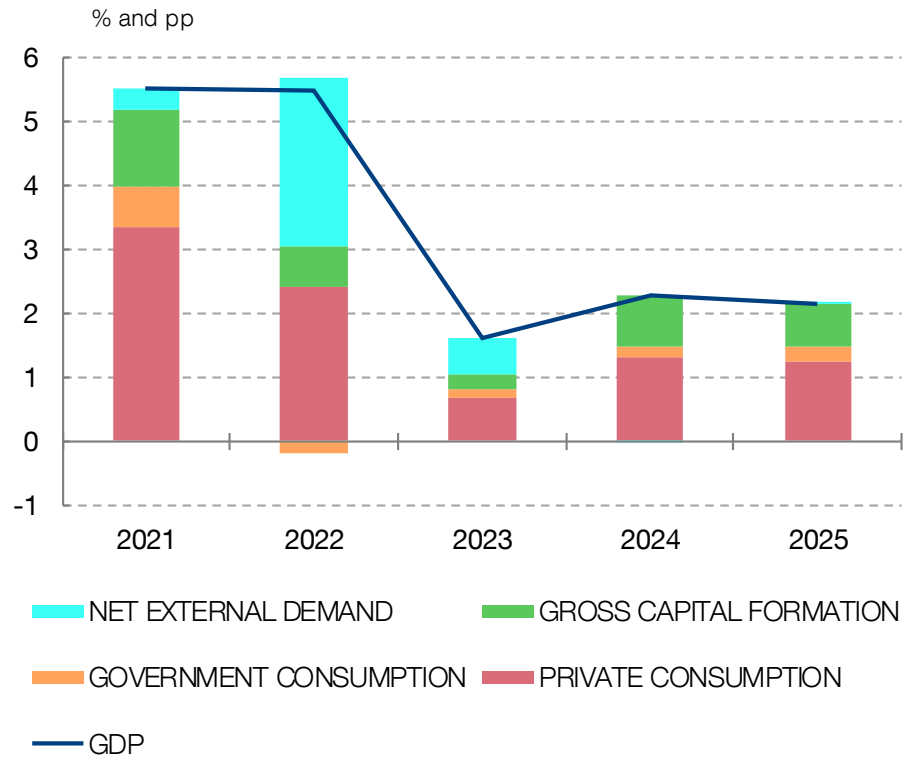
However, even in this relatively weak environment, economic activity is expected to pick up from spring onwards, ...

... driven, among other factors, by the decline in inflationary pressures, the easing of bottlenecks, the roll-out of the NGEU programme and the improvement in external demand, ...

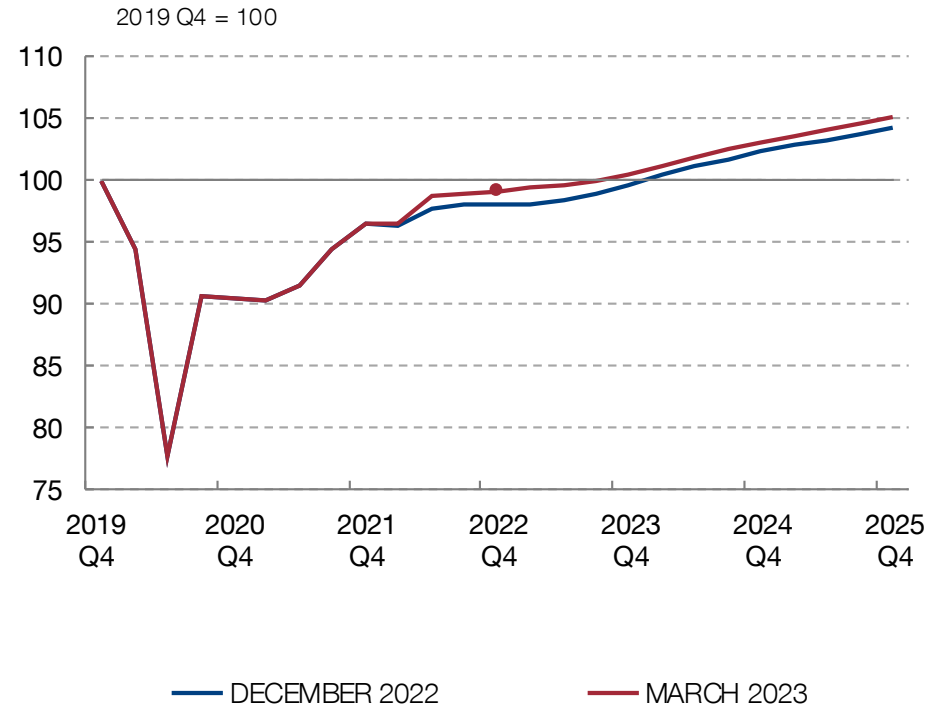
... which, overall, will enable the Spanish economy to recover its pre-pandemic GDP in 2023 H2 and will boost growth in private consumption and gross capital formation in 2024 and 2025

# GROWTH FORECASTS SUMMARY

## GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



## REAL GDP (Chained volume index)



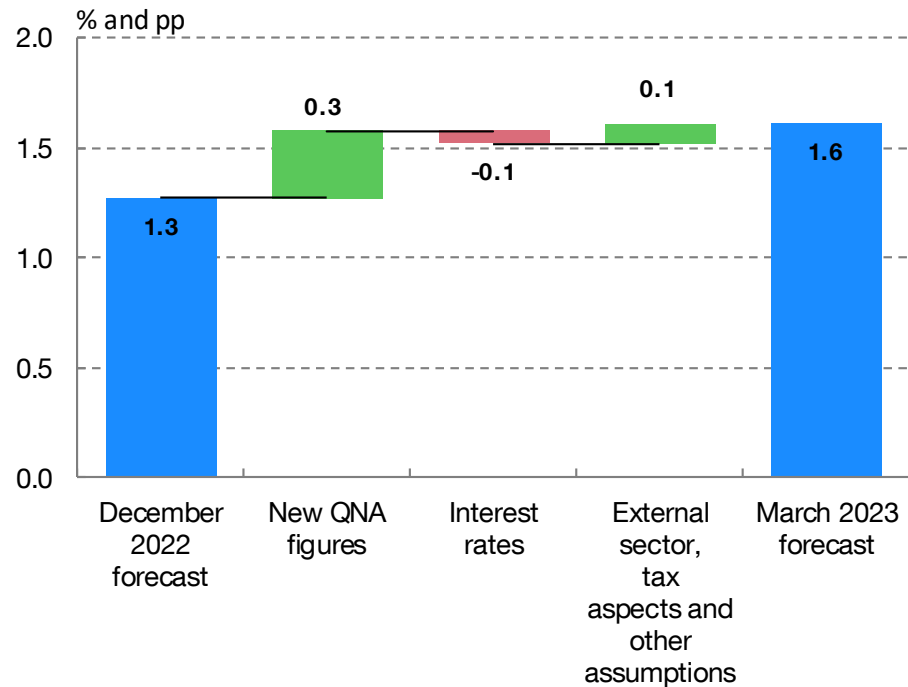
Sources: INE and Banco de España.

# GROWTH FORECASTS

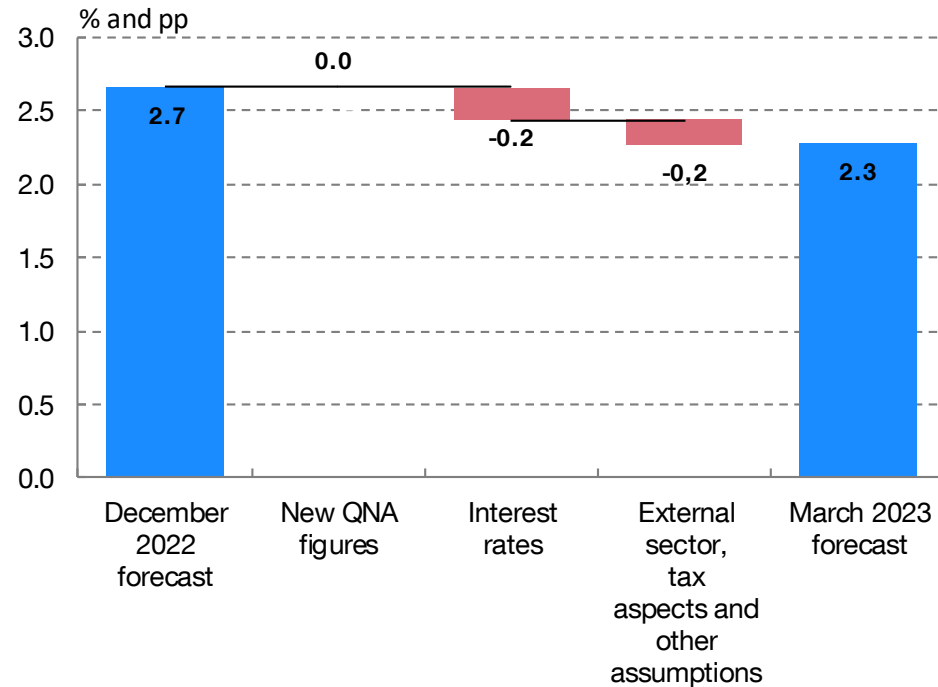
## CHANGE WITH RESPECT TO THE DECEMBER PROJECTIONS

- **GDP growth is revised up in 2023** (owing to activity performing better than expected in 2022 H2 and the brighter external and domestic outlook for this year) ...
- **... but is revised down in 2024** (owing to greater expected tightening in financing conditions, a higher euro exchange rate and a larger fiscal adjustment)

**CHANGES IN THE GDP GROWTH FORECAST FOR 2023**



**CHANGES IN THE GDP GROWTH FORECAST FOR 2024**



Changes in assumptions

# INFLATION FORECASTS SUMMARY

The deceleration in headline inflation that began around summer 2022 is expected to continue over the projection horizon

In 2023 this process will continue to be driven by the deceleration in the energy component (taking into consideration the future path of energy prices signalled by the futures markets and the presence of significant negative base effects linked to the behaviour of these prices in 2022) ...

... while underlying and food inflation will prove to be more downwardly sticky (given that the pass-through of past increases in costs to the final prices of consumer goods and services is somewhat lagged)

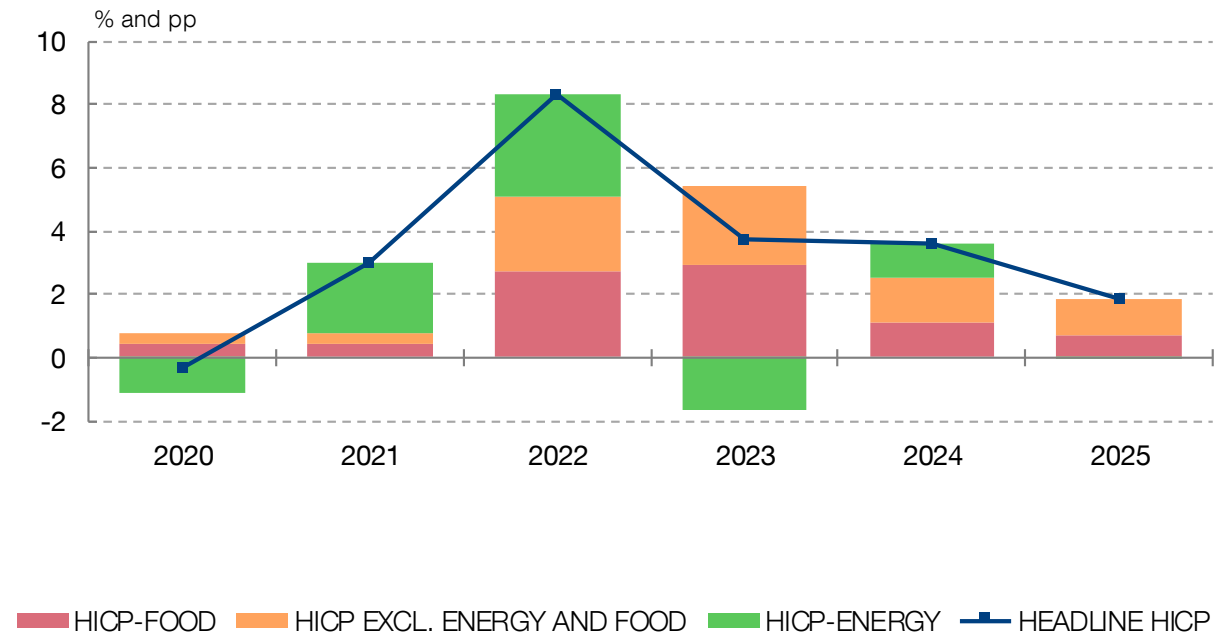
As (i) this pass-through of past increases in costs is completed, (ii) the effects of the recent drop in energy prices also begin to be passed through, (iii) bottlenecks fade and (iv) the impact of the cumulative tightening of monetary policy materialises, underlying and food inflation will also start to decelerate

However, in 2024 this deceleration will only offset the energy component's greater positive contribution to price growth (in light of the measures deployed to contend with the energy crisis being rolled back), resulting in the headline inflation rate standing at a very similar level to the 2023 average (before falling once again in 2025)



# INFLATION FORECASTS SUMMARY

## CONTRIBUTIONS TO HICP GROWTH, BY COMPONENT

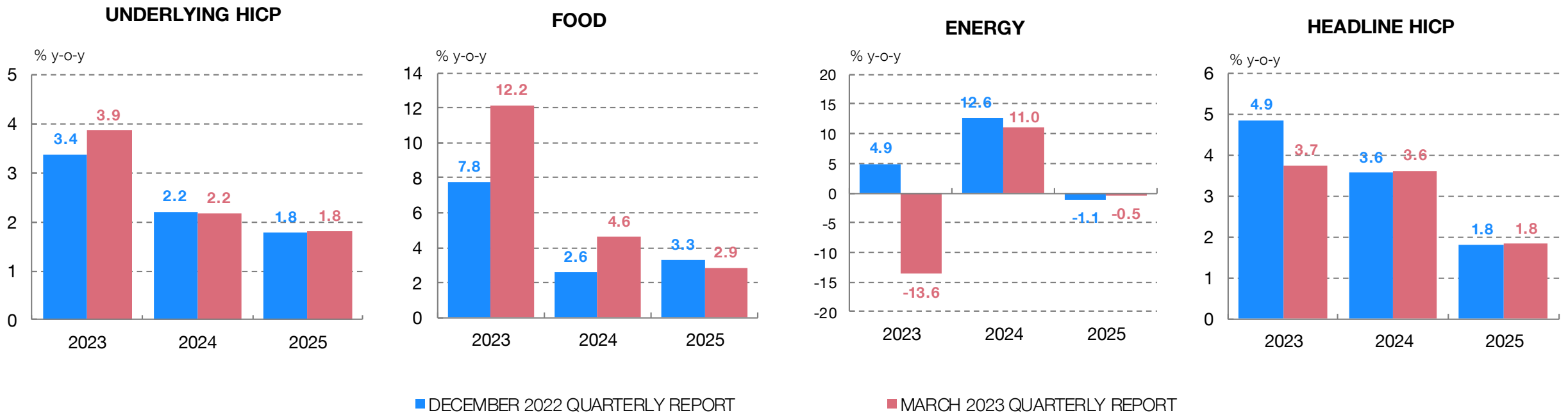


Sources: INE and Banco de España.

# INFLATION FORECASTS

## CHANGE WITH RESPECT TO THE DECEMBER PROJECTIONS

- Underlying and food inflation are revised up in 2023 (owing to the recent upward surprises in these components, which show the lag in the pass-through to consumer prices of the higher costs recorded over recent quarters) ...
- ... although average headline inflation for 2023 is revised down (essentially on account of the sharp drop in energy prices in recent months)

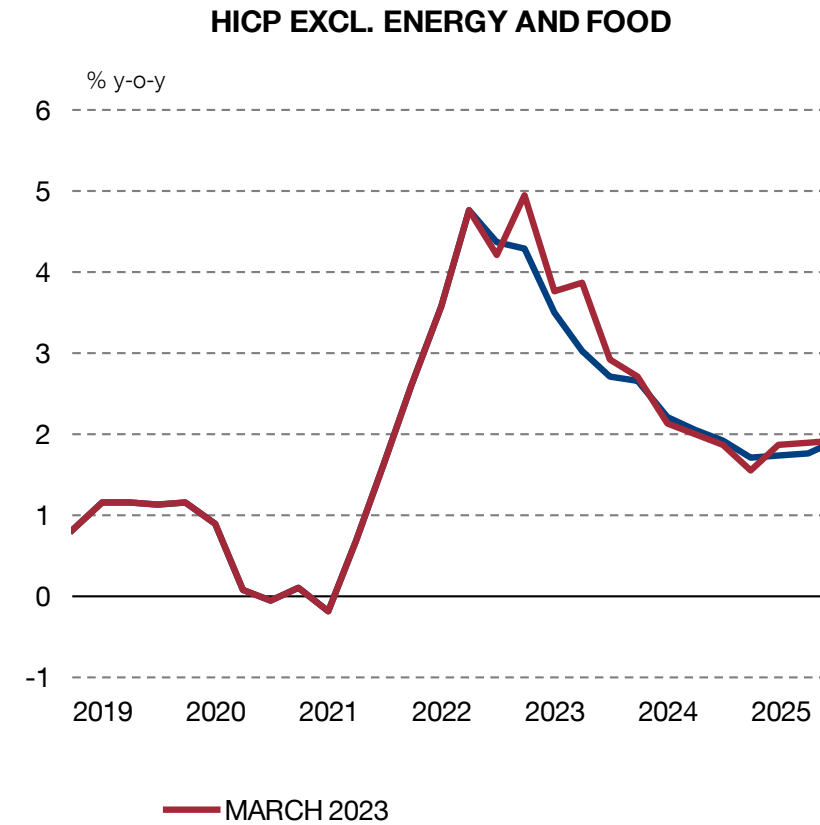
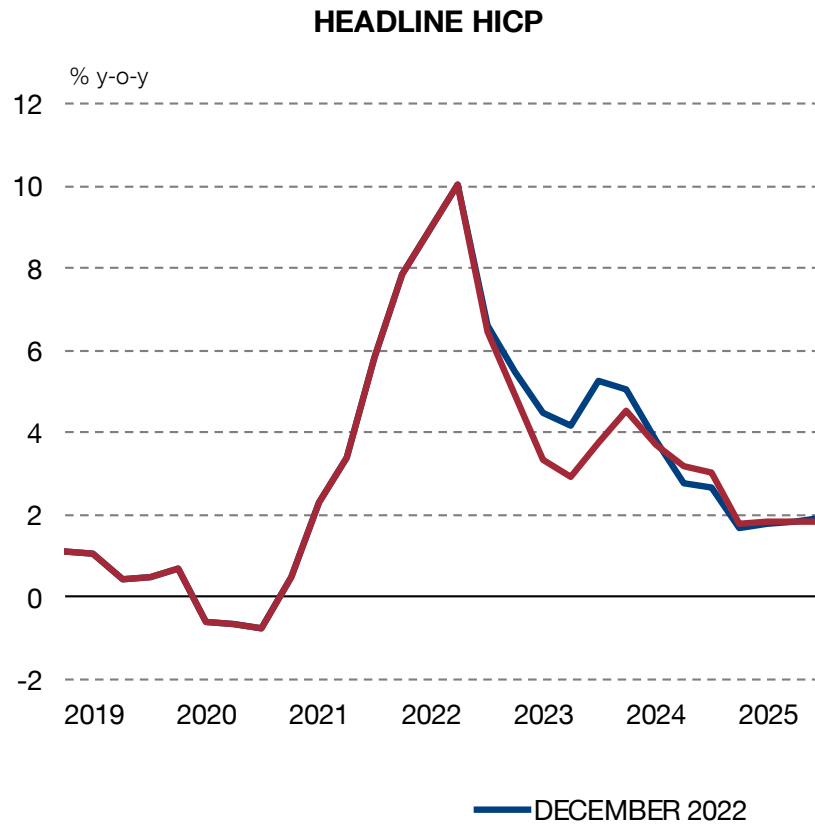


Changes in assumptions

Source: Banco de España.

# INFLATION FORECASTS

## CHANGE WITH RESPECT TO THE DECEMBER PROJECTIONS



Sources: INE and Banco de España.

# PUBLIC FINANCES SUMMARY

In 2022, the budget deficit as a percentage of GDP is likely to be larger than anticipated in December, but smaller than envisaged in the Government's latest official forecast

In particular, the flash QNA data for 2022 Q4 show government consumption increasing the final quarter of the year, along with a considerable and sharper-than-expected slowdown in indirect tax receipts

As compared with the December exercise, the projections for expenditure funded by NGEU in the years ahead are broadly unchanged

In 2023, additional fiscal measures are envisaged compared with the December projections exercise, amounting to approximately 0.2 pp of GDP (reduced VAT on food items, one-off subsidy for vulnerable households and further subsidies for hauliers and firms)

In the absence of further measures, Spain's budget deficit will hold at high levels over the coming years, even if the positive tax residuals observed in the most recent period are not reversed



# CONTENTS

1. Global environment
2. Spanish economy – recent developments
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- 4. Main sources of uncertainty**

# THE CURRENT SITUATION REMAINS EXTRAORDINARILY UNCERTAIN AND SUBJECT TO MULTIPLE AND HIGHLY DIVERSE RISK FACTORS

War in Ukraine

Extent and persistence of the  
current financial tensions

Impact of China's reopening  
on global growth and inflation

Monetary policy transmission

Pass-through of cost increases/decreases  
to consumer prices

Second-round effects on inflation via  
profit margins and/or wages

Financial vulnerability of households and firms

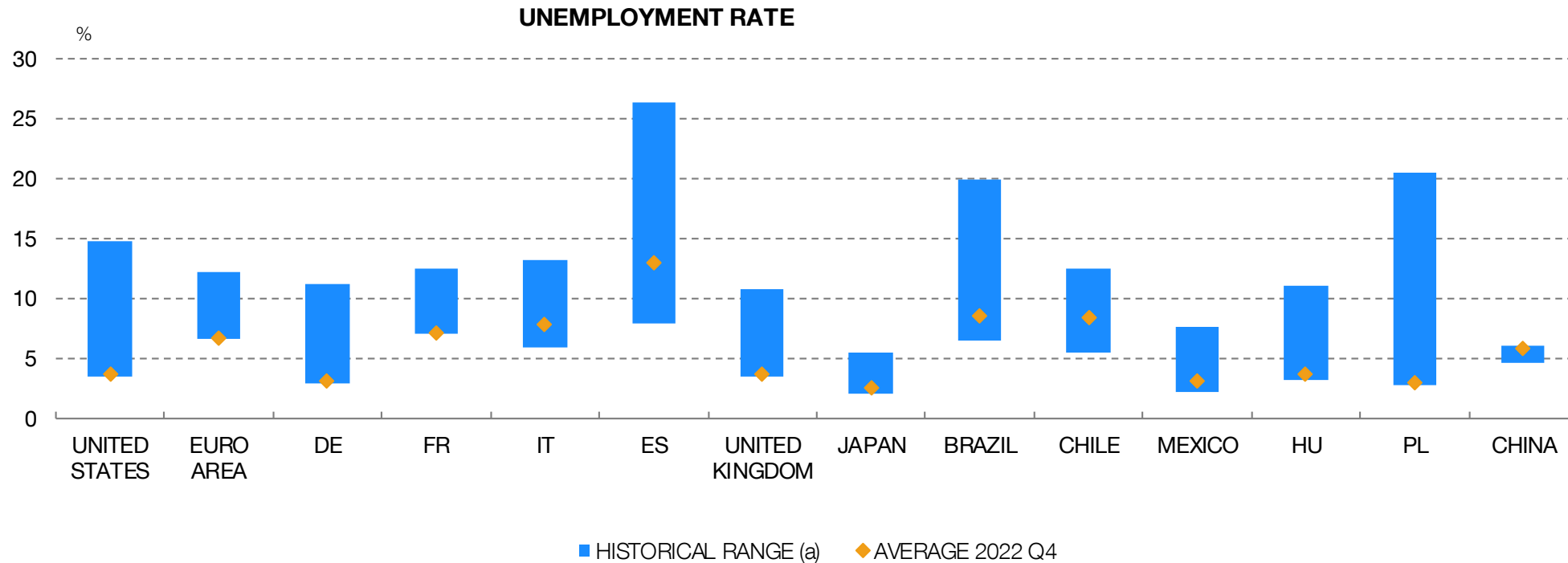
Roll-out and impact of NGEU

THANK YOU FOR YOUR ATTENTION



# IN MANY COUNTRIES, THE LABOUR MARKET HAS PROVED CONSIDERABLY STRONG IN RECENT QUARTERS, WITH UNEMPLOYMENT RATES AT (OR VERY CLOSE TO) ALL-TIME LOWS

- Various indicators – e.g. those relating to job vacancies or the main factors limiting firms' production – bear out the impression that global labour markets are particularly tight



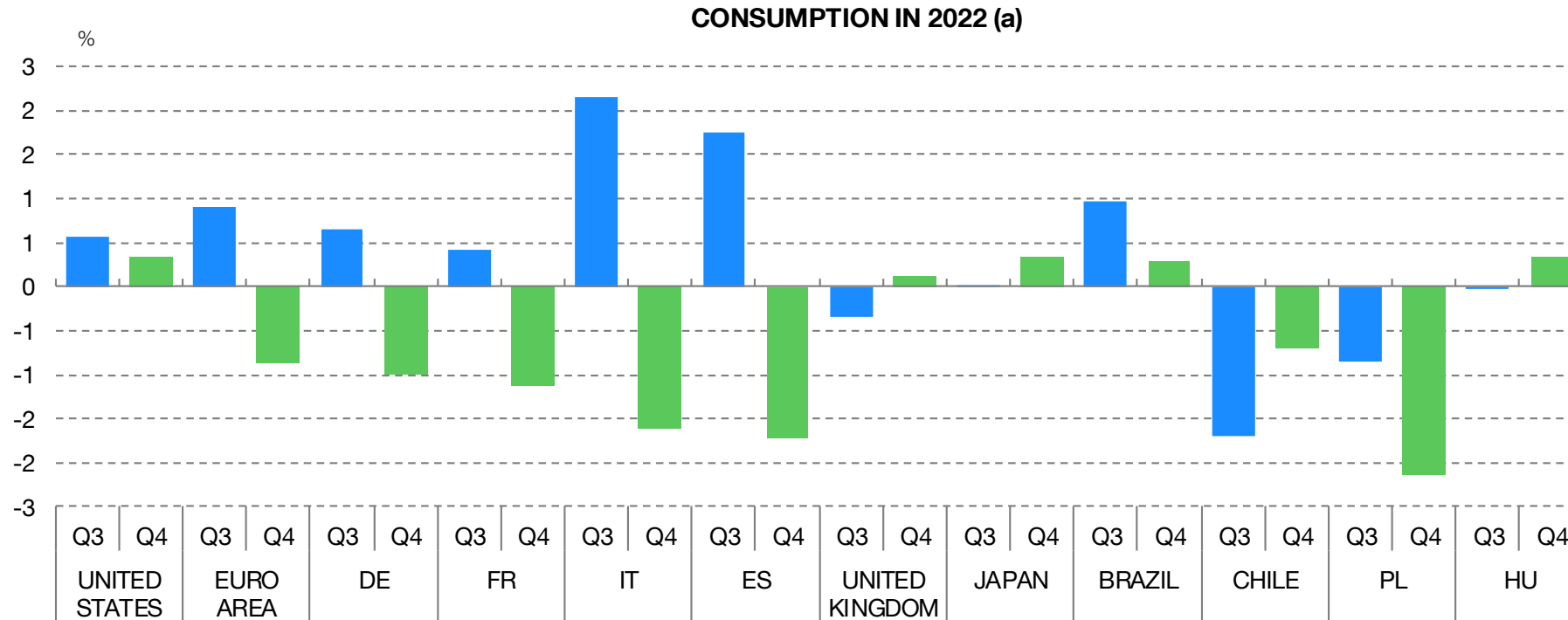
Sources: OECD and national statistics.

(a) From early 1990 or from the first observation available (in all cases prior to 2000, with the exception of China which is from January 2018) through to the latest data recorded.





# IN THE FINAL STRETCH OF 2022, HOUSEHOLD CONSUMPTION SHOWED SIGNS OF WEAKNESS, WEIGHED DOWN BY THE LOSS OF PURCHASING POWER AND TIGHTENING FINANCING CONDITIONS

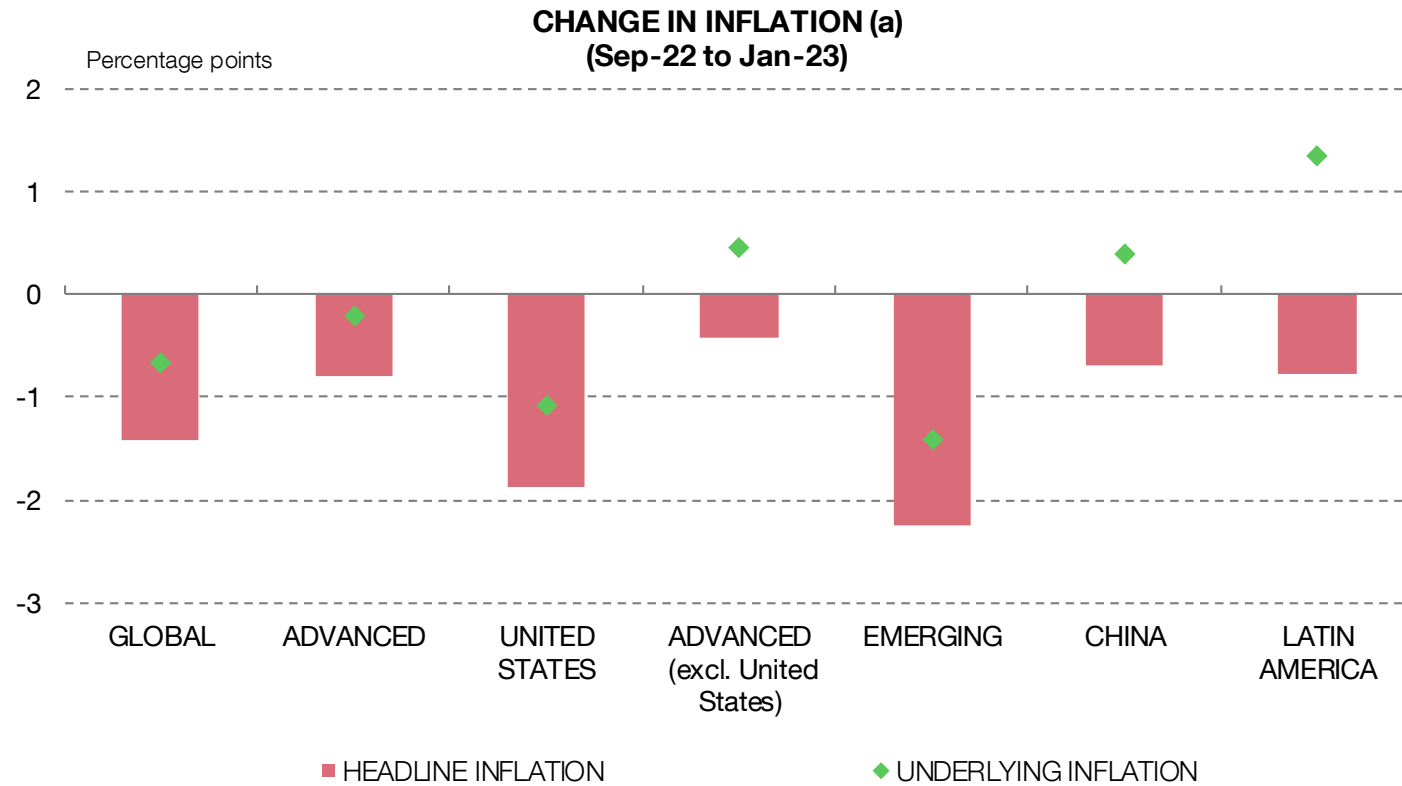


Sources: Eurostat and OECD.

(a) Calculated as the quarter-on-quarter growth rate of the corresponding quarters.



# IN RECENT MONTHS, HEADLINE INFLATION HAS DECLINED GLOBALLY (DUE TO FALLING ENERGY PRICES), BUT UNDERLYING INFLATION HAS SHOWN MORE DOWNWARD STICKINESS



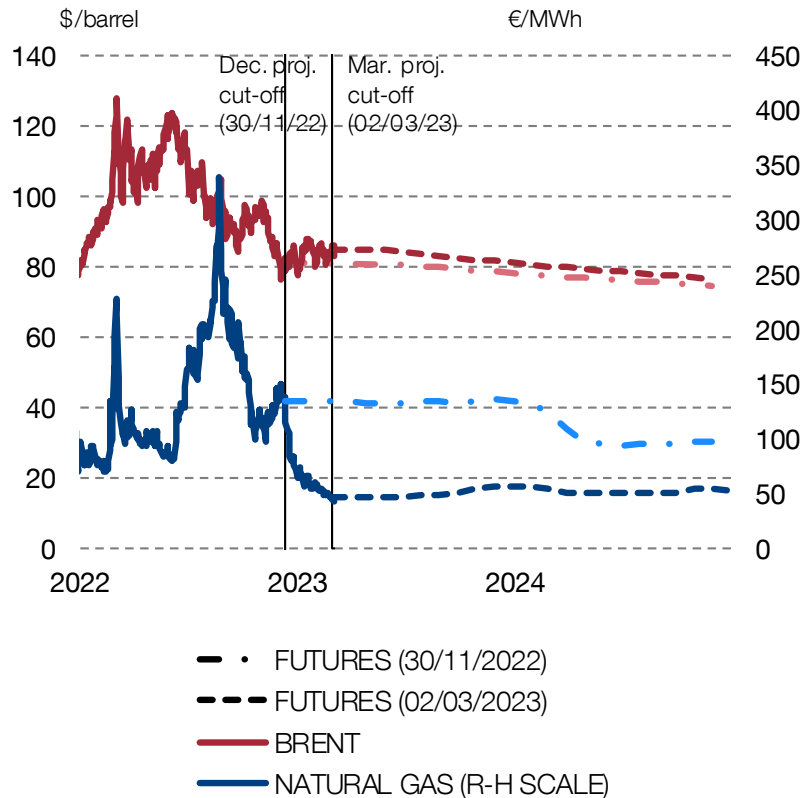
Source: national statistics.

(a) The “Global” aggregate includes the United States, the euro area, United Kingdom, Japan, China, Czech Republic, Hungary, Russia, Turkey, India, Indonesia, Hong Kong, South Korea, Singapore, Malaysia, Thailand and Taiwan, in addition to the “Latin America” aggregate (comprising Brazil, Chile, Colombia, Mexico and Peru). The “Advanced” aggregate includes the United States, the euro area, Japan, United Kingdom, Sweden, Switzerland, Canada and Norway.

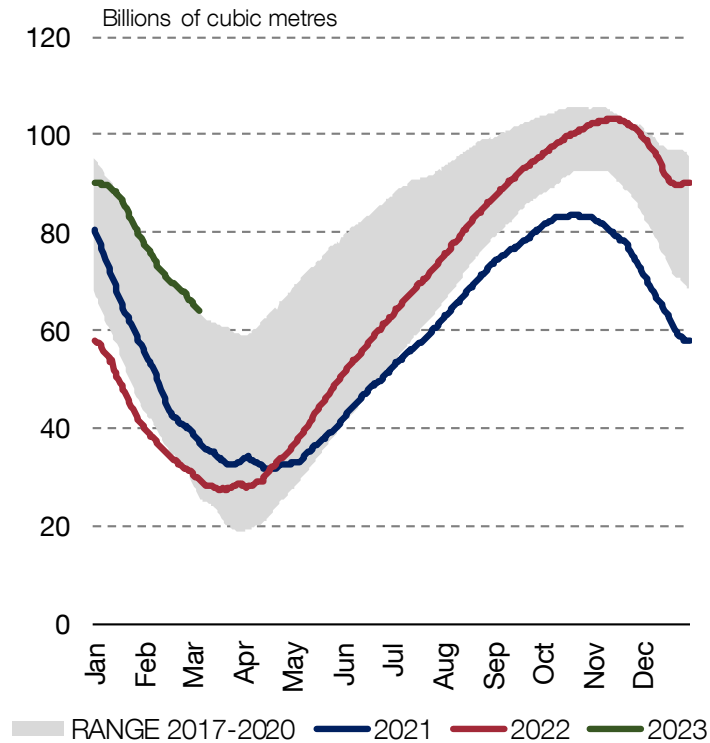
# ENERGY PRICES HAVE DECLINED PARTICULARLY SHARPLY – AND MORE SO THAN EXPECTED – IN EUROPE

- In Europe, the decline in natural gas prices has been quickened, among other factors, by the measures rolled out to discourage consumption and to diversify supply sources, and by the mild temperatures in the first half of winter. As a result, Europe's natural gas reserves currently stand at historically high levels

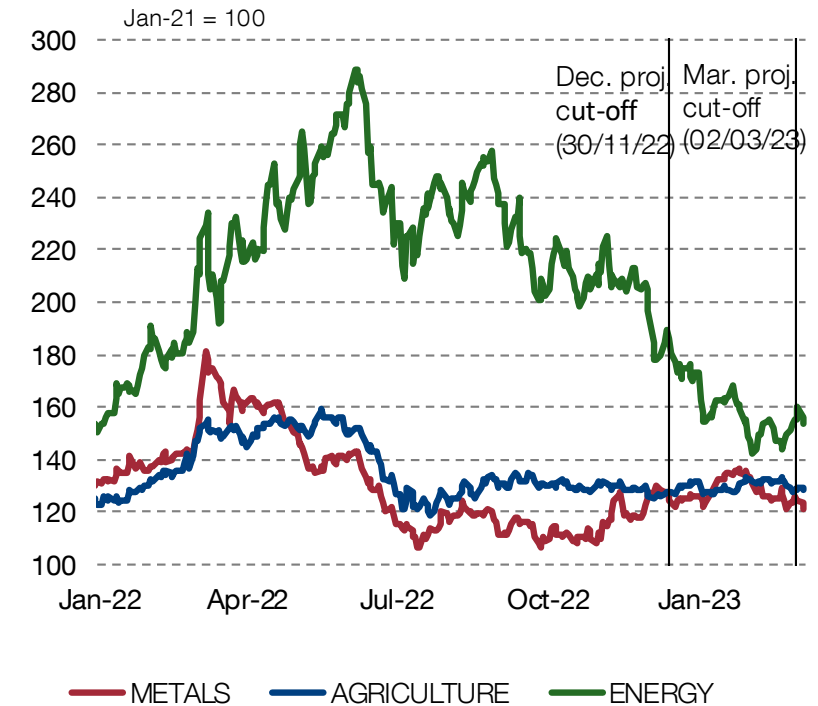
### OIL AND NATURAL GAS PRICE AND FUTURES



### NATURAL GAS RESERVES IN EUROPE



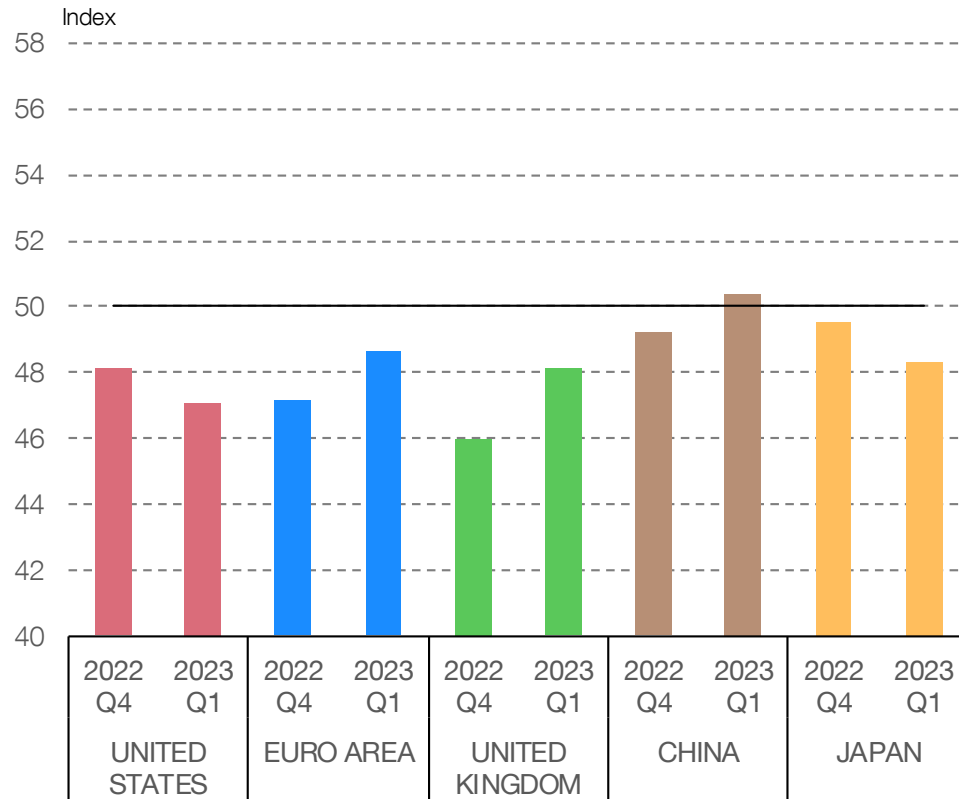
### COMMODITY PRICES



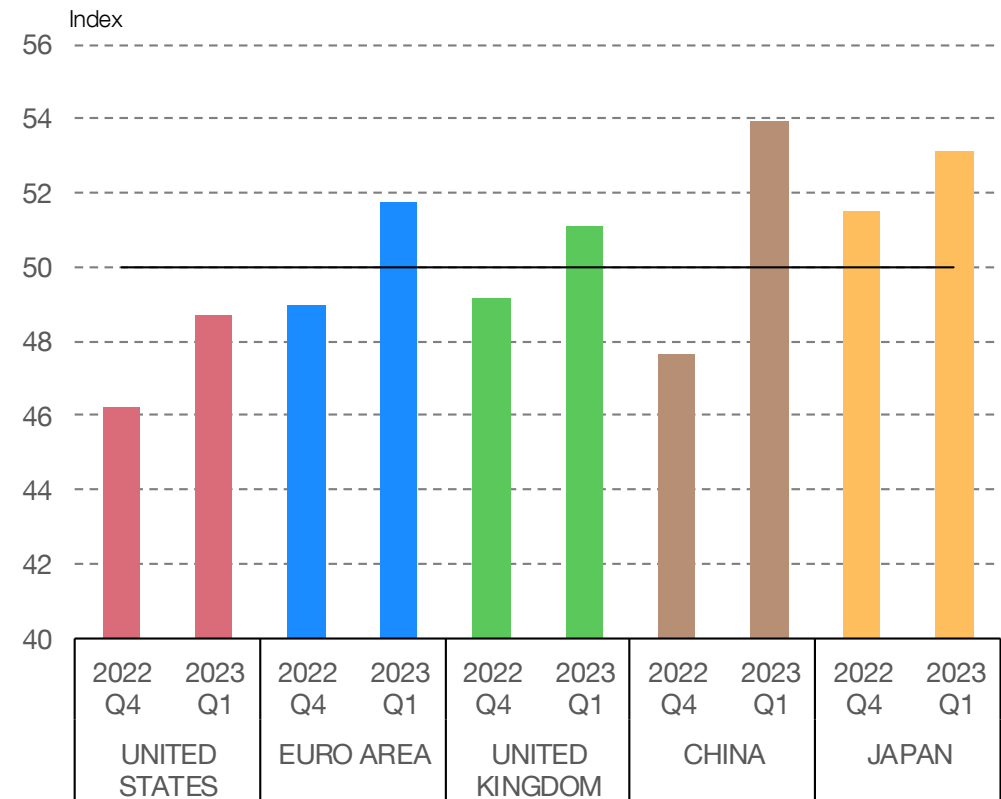
Sources: Gas Infrastructure Europe and Refinitiv. Latest data: 7 March 2023.

# BUSINESS CONFIDENCE HAS IMPROVED MARKEDLY IN SERVICES – NOW STANDING IN EXPANSIONARY TERRITORY IN SOME REGIONS – AND, TO A LESSEXTENT, IN MANUFACTURING

**MANUFACTURING PMI (a)**



**SERVICES PMI (a)**

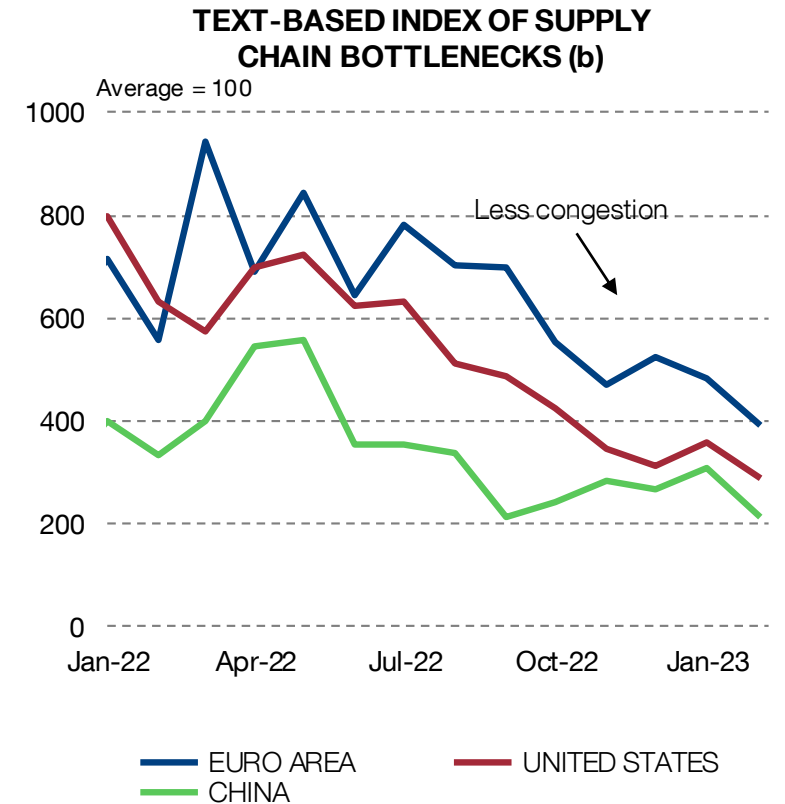
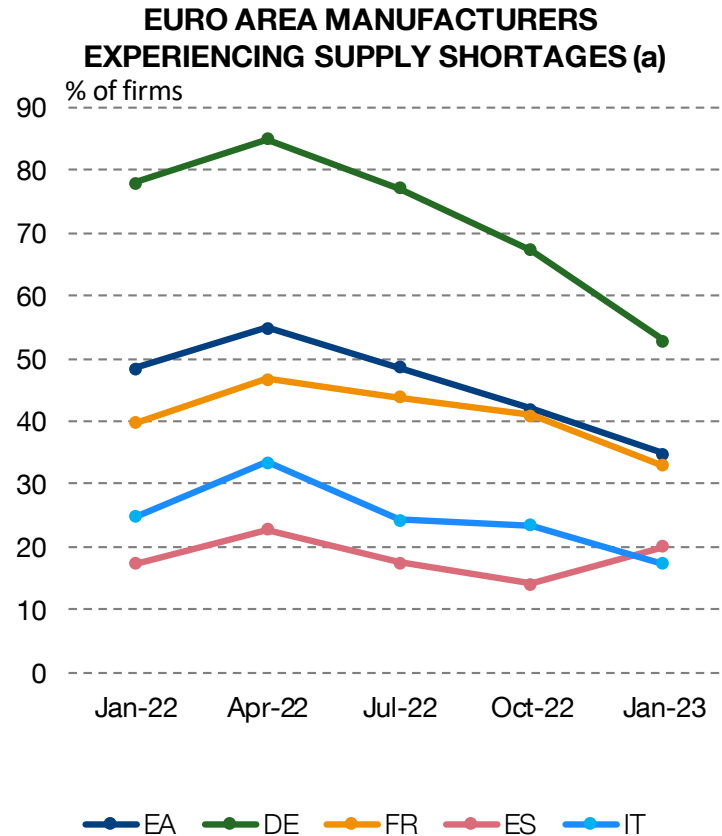
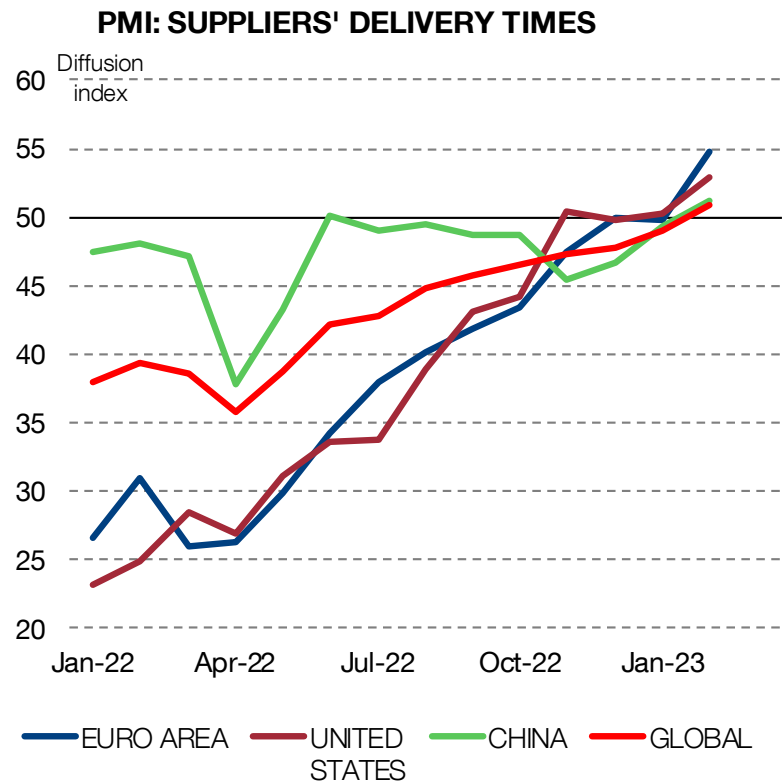


Source: S&P Global.

(a) The PMI for Q1 is the average of the data for January and February.



# THE GRADUAL EASING OF BOTTLENECKS IN GLOBAL PRODUCTION AND SUPPLY CHAINS CONTINUES

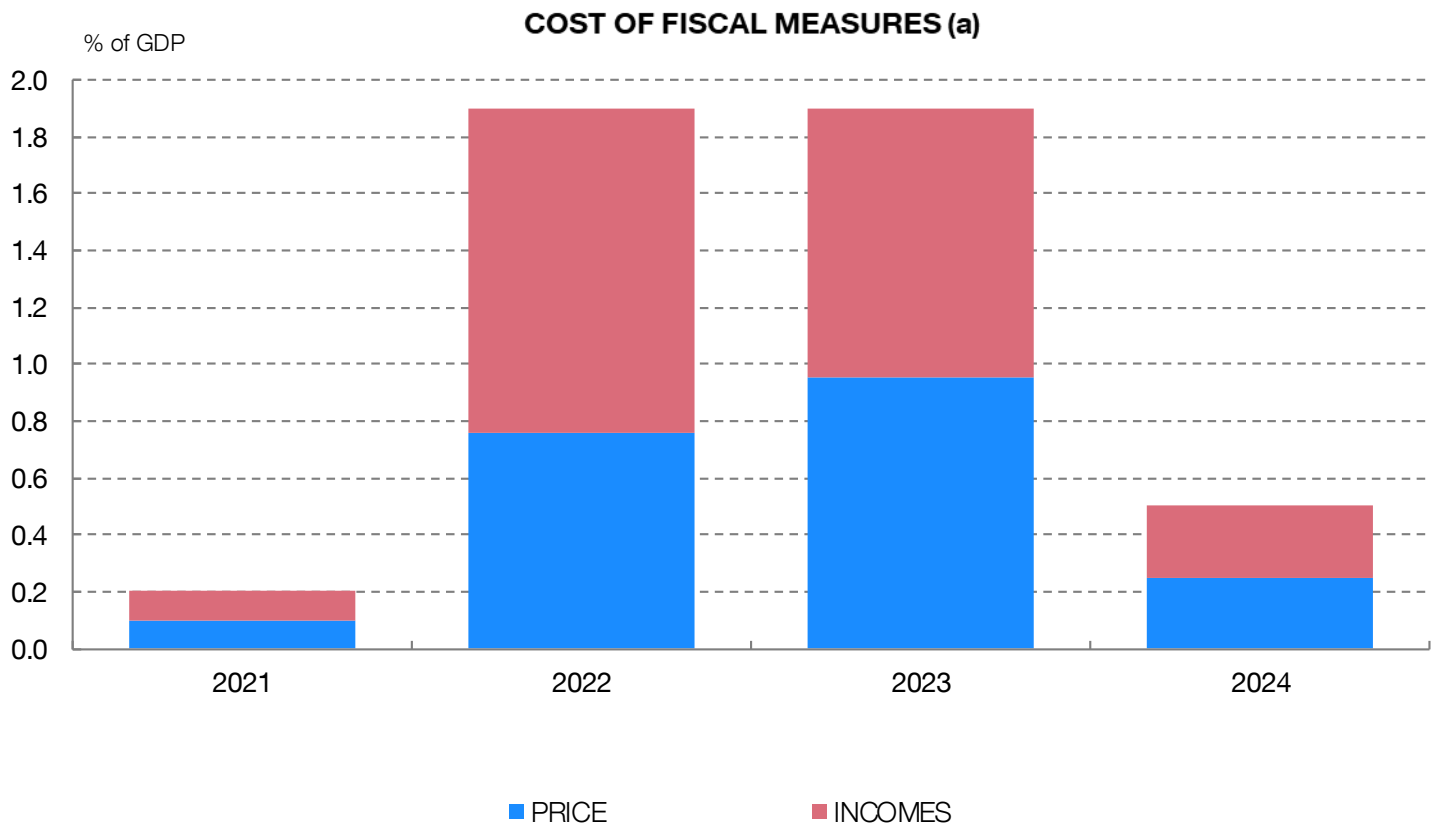


Sources: S&P Global, European Commission, Factiva and Banco de España. Latest data: February (PMI), 2023 Q1 (EC) and 28 February (text-based index).

(a) Quarterly European Commission survey on factors limiting production. Non-seasonally adjusted data.

(b) Pablo Burriel, Iván Kataryniuk, Carlos Moreno Pérez and Francesca Viani (2023). [A new supply bottlenecks index based on newspaper data](#). Documento de Trabajo 2304 - Banco de España (2023).

# COST OF THE FISCAL MEASURES TO COMBAT INFLATION AND THE ENERGY CRISIS IN THE EURO AREA



Source: ECB (February 2023).

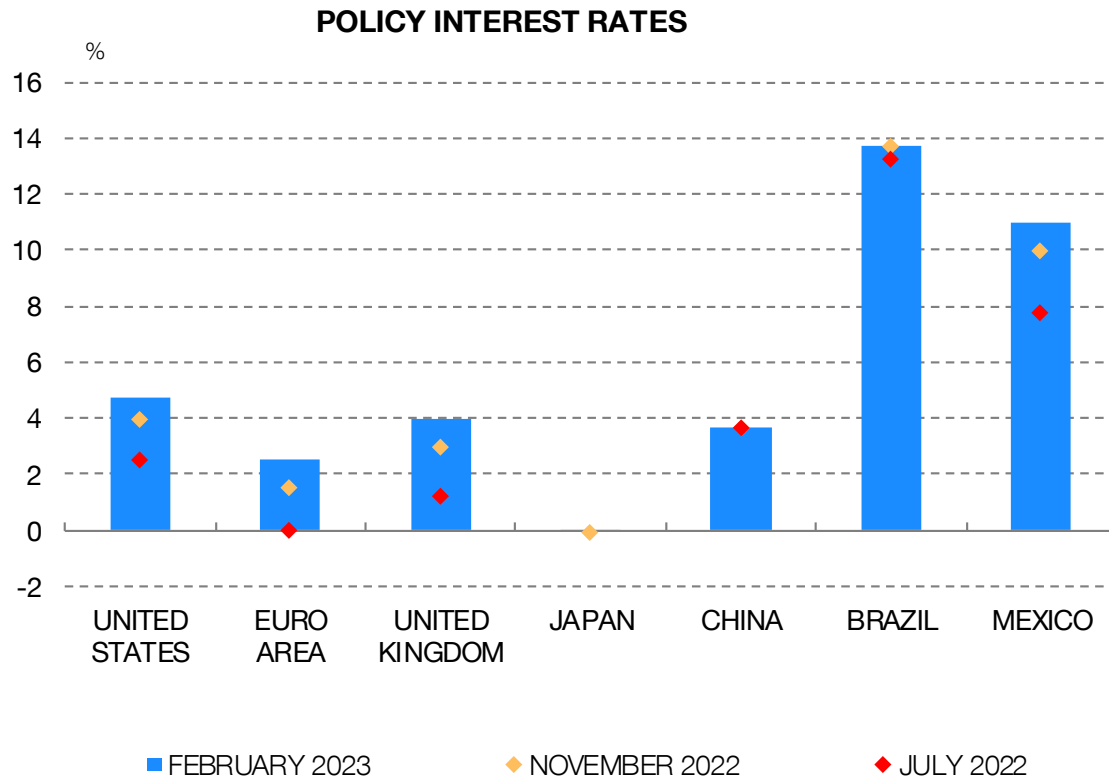
(a) Measures classified based on the European Commission's methodology. The price measures are those directly affecting the cost of consuming an additional unit of energy. The income measures do not directly depend on the volume of energy consumed.





# THE WORLD'S MAIN CENTRAL BANKS HAVE CONTINUED TIGHTENING THEIR MONETARY POLICY STANCE AT RECENT MEETINGS

- At its meeting of 16 March, the Governing Council of the European Central Bank decided to raise its policy interest rates by 50 basis points – increasing the deposit facility rate to 3% –, in line with its determination to ensure the timely return of inflation to the 2% medium-term target

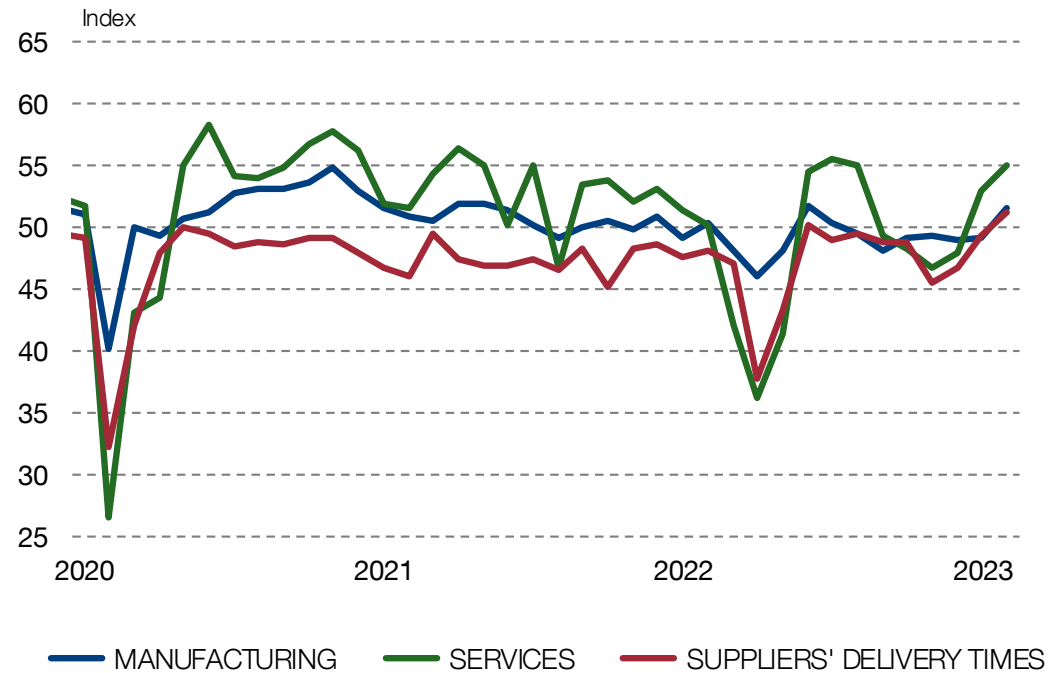


Sources: National central banks and Refinitiv.

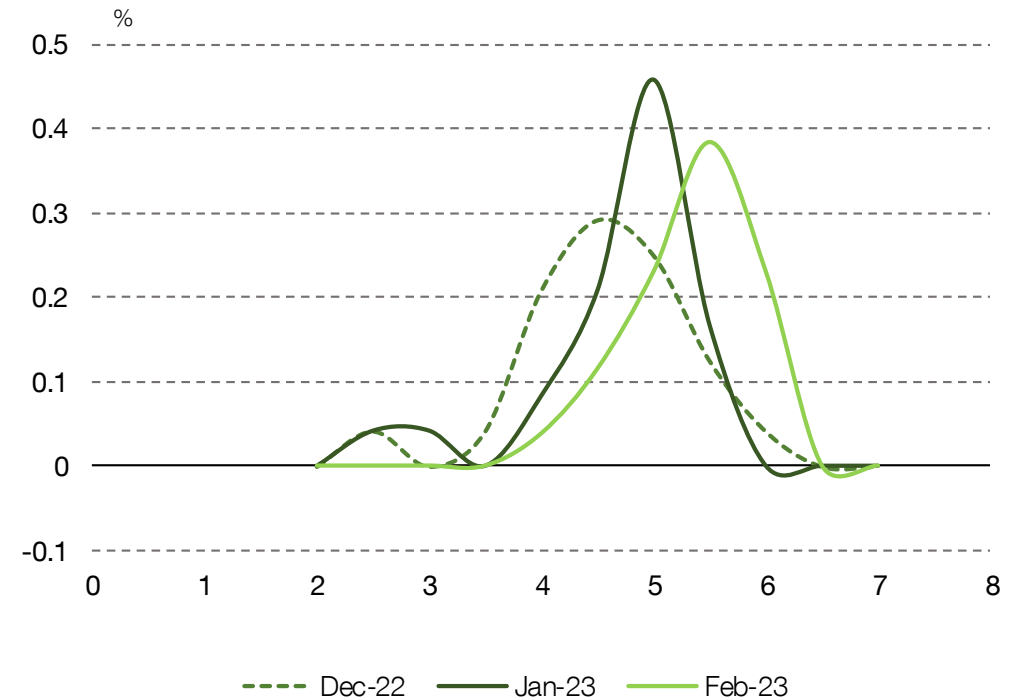


# IN CHINA, THE END OF THE ZERO-COVID POLICY CAUSED AN ABRUPT DETERIORATION IN ECONOMIC ACTIVITY IN LATE 2022, ALTHOUGH IT SEEMS TO HAVE RECOVERED RAPIDLY SINCE

CHINA: PMIs



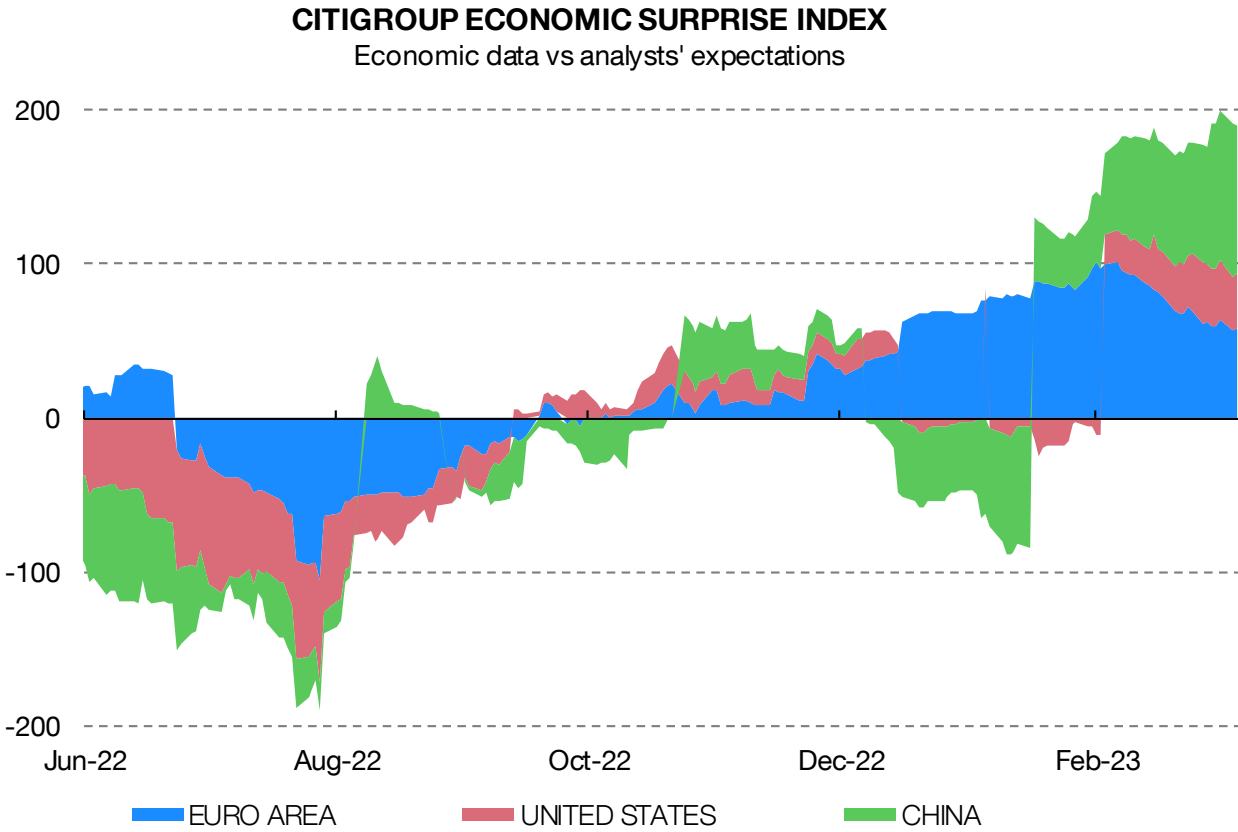
CHINA: GROWTH FORECASTS



Sources: S&P Global and Consensus Economics. Latest data: February 2023.



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

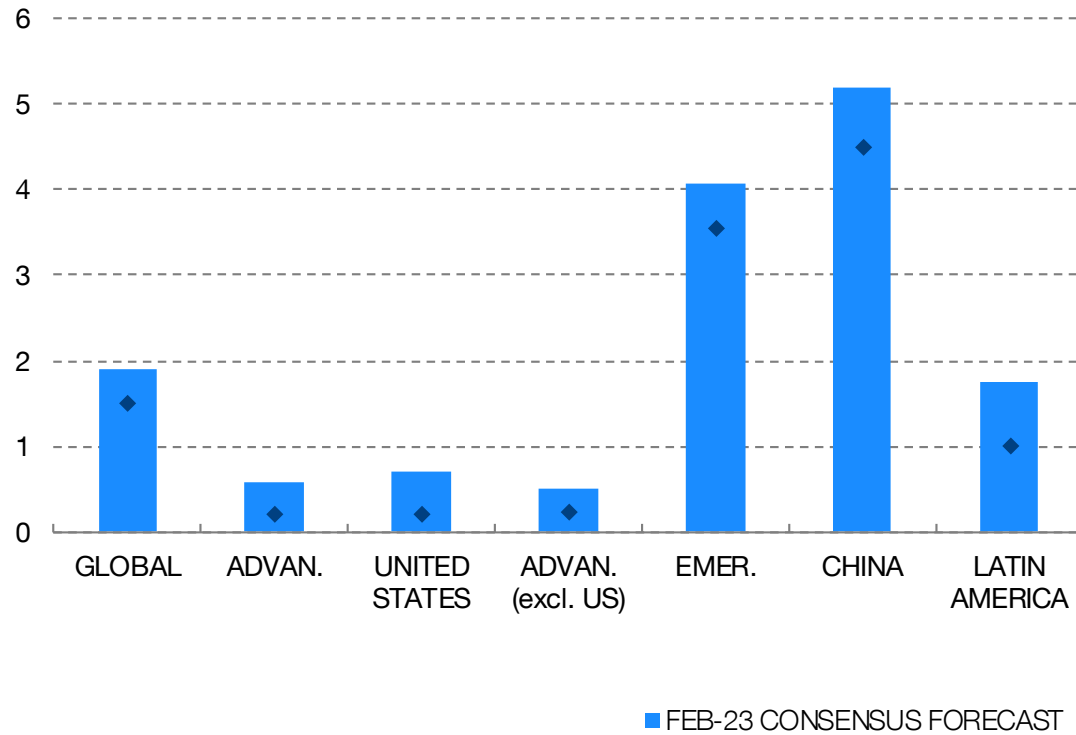


Source: Citigroup. Latest data: 7 March 2023.

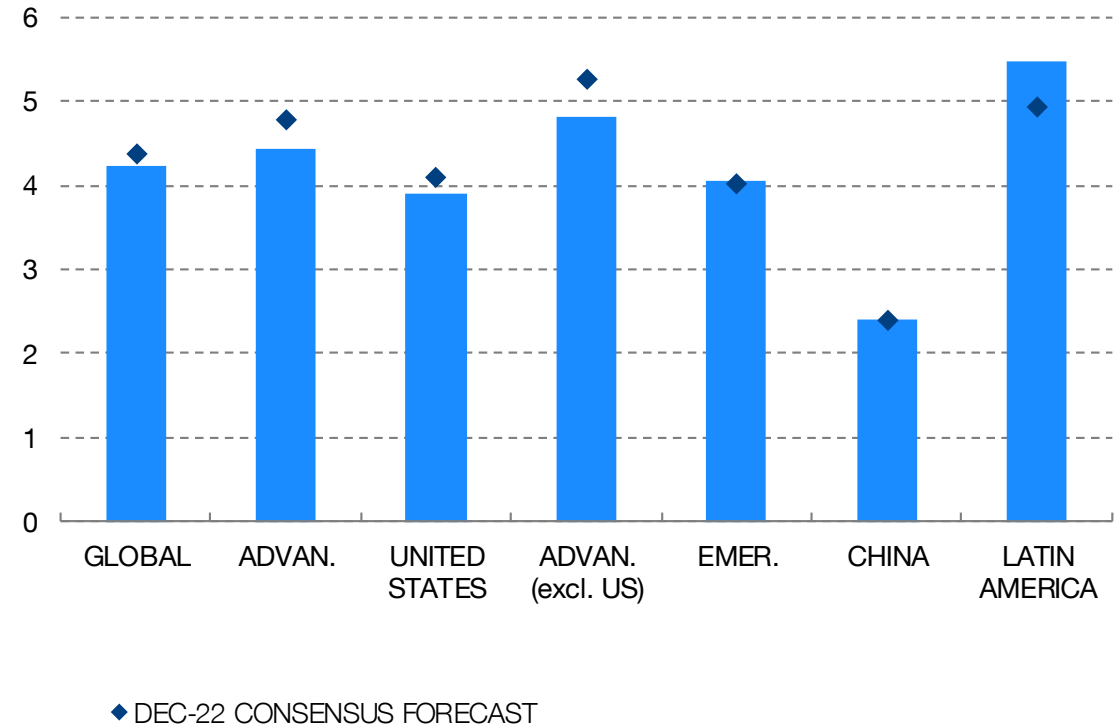


# IN RECENT MONTHS, GDP GROWTH FORECASTS FOR 2023 HAVE MOSTLY BEEN REVISED UP, WHILE HEADLINE INFLATION FORECASTS FOR THAT YEAR HAVE LARGELY BEEN REVISED DOWN

## GDP GROWTH FORECASTS FOR 2023



## INFLATION FORECAST FOR 2023



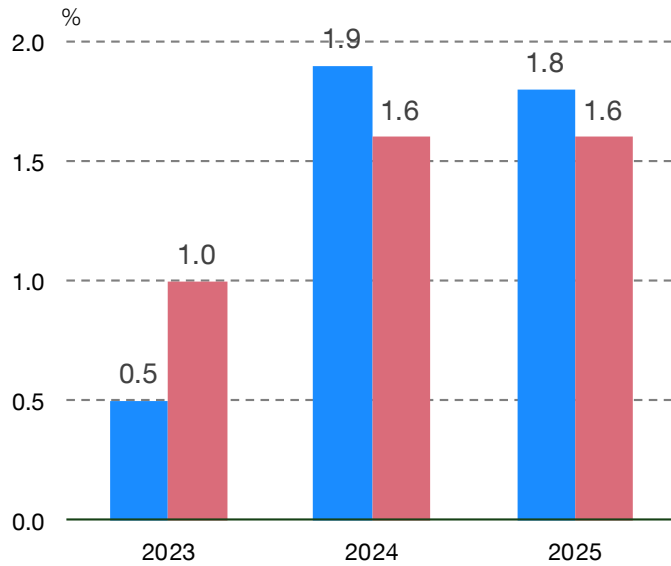
Source: Consensus Economics.



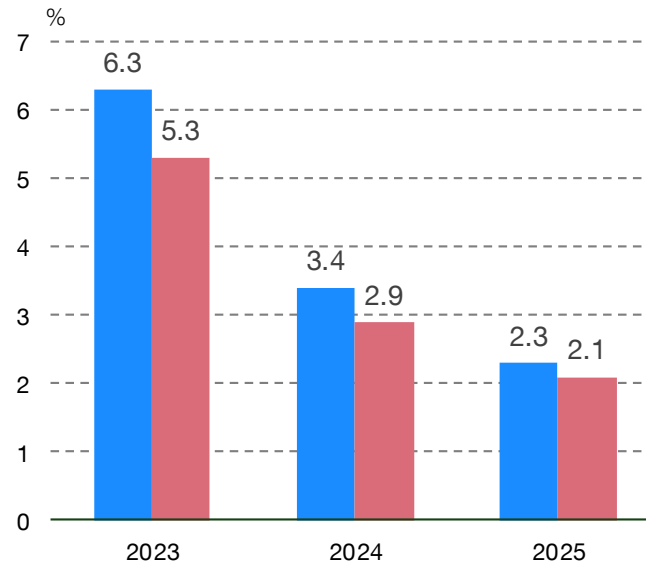
# THE LATEST ECB PROJECTIONS REVISE GDP GROWTH UP IN 2023 (ALTHOUGH LOWERING THAT FOR 2024 AND 2025) AND REVISE INFLATION DOWN (EXCEPT UNDERLYING INFLATION IN 2023)

## FORECASTS FOR THE EURO AREA

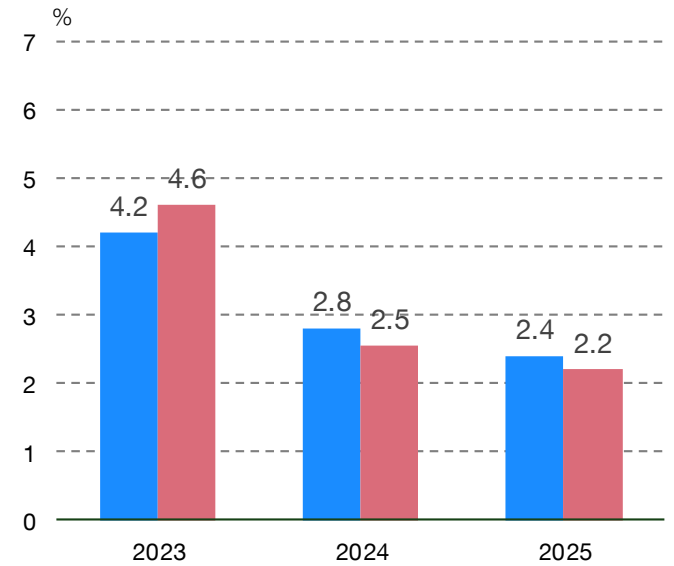
### GDP GROWTH



### HEADLINE INFLATION



### UNDERLYING INFLATION



■ DEC-22 BMPE

■ MAR-23 MPE

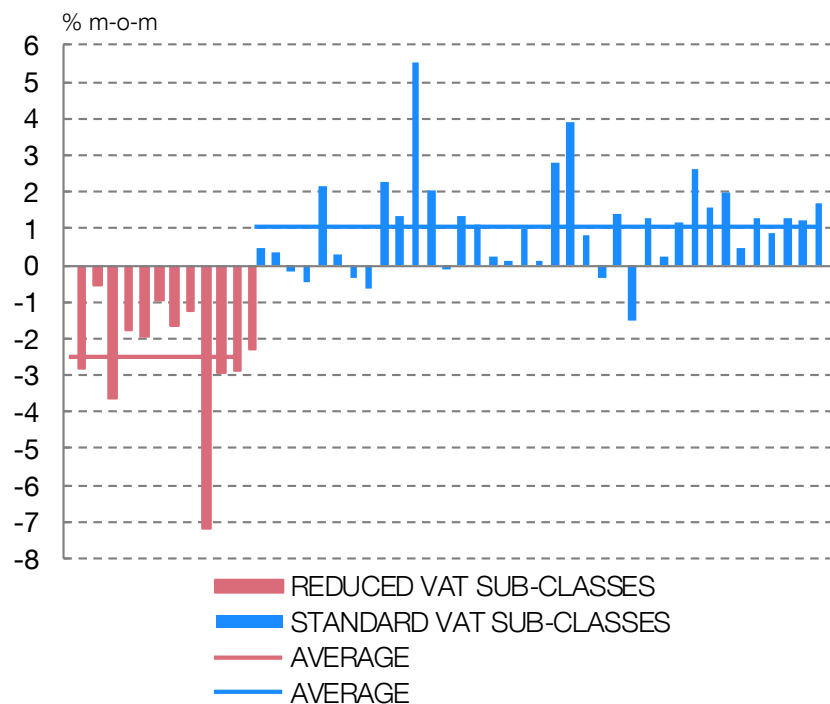
Source: ECB.



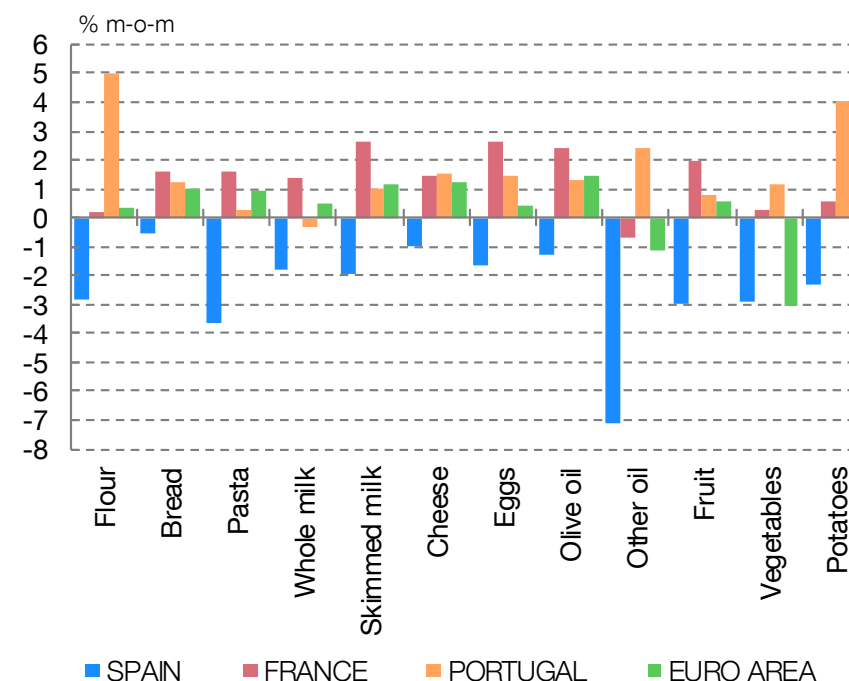
# ANALYSIS OF THE HICP FOOD COMPONENTS SUGGESTS THAT ROUGHLY 90% OF THE VAT REDUCTION ON CERTAIN FOOD ITEMS WAS PASSED THROUGH TO CONSUMER PRICES IN JANUARY ...

- This impact is estimated using the difference-in-differences method. Specifically, the difference is calculated between the January 2023 month-on-month percentage change of the price of each food and drink sub-classes affected by the measure and the average January month-on-month percentage change from 2016 to 2022. The difference between this difference for affected items and the equivalent difference for unaffected items is then calculated

**CHANGE IN FOOD PRICES IN JANUARY 2023.  
SPAIN (a)**



**CHANGE IN FOOD PRICES IN JANUARY 2023. REDUCED  
VAT SUB-CLASSES IN SPAIN (a)**

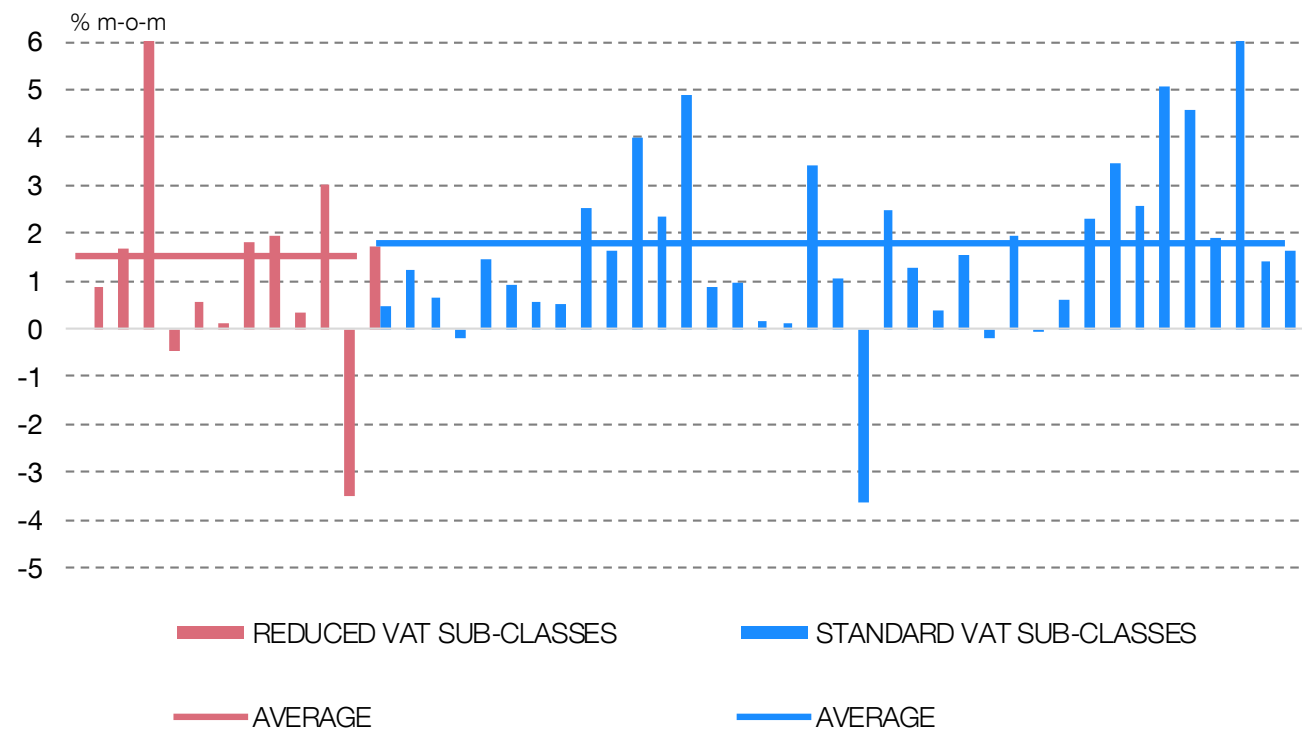


Sources: INE, Banco de España and Eurostat.

(a) Month-on-month rates for the HICP food sub-classes in January 2023, corrected for the average January month-on-month rate in the period 2016-2022.



## CHANGE IN FOOD PRICES. FEBRUARY 2023 (a)



Sources: INE and Banco de España.

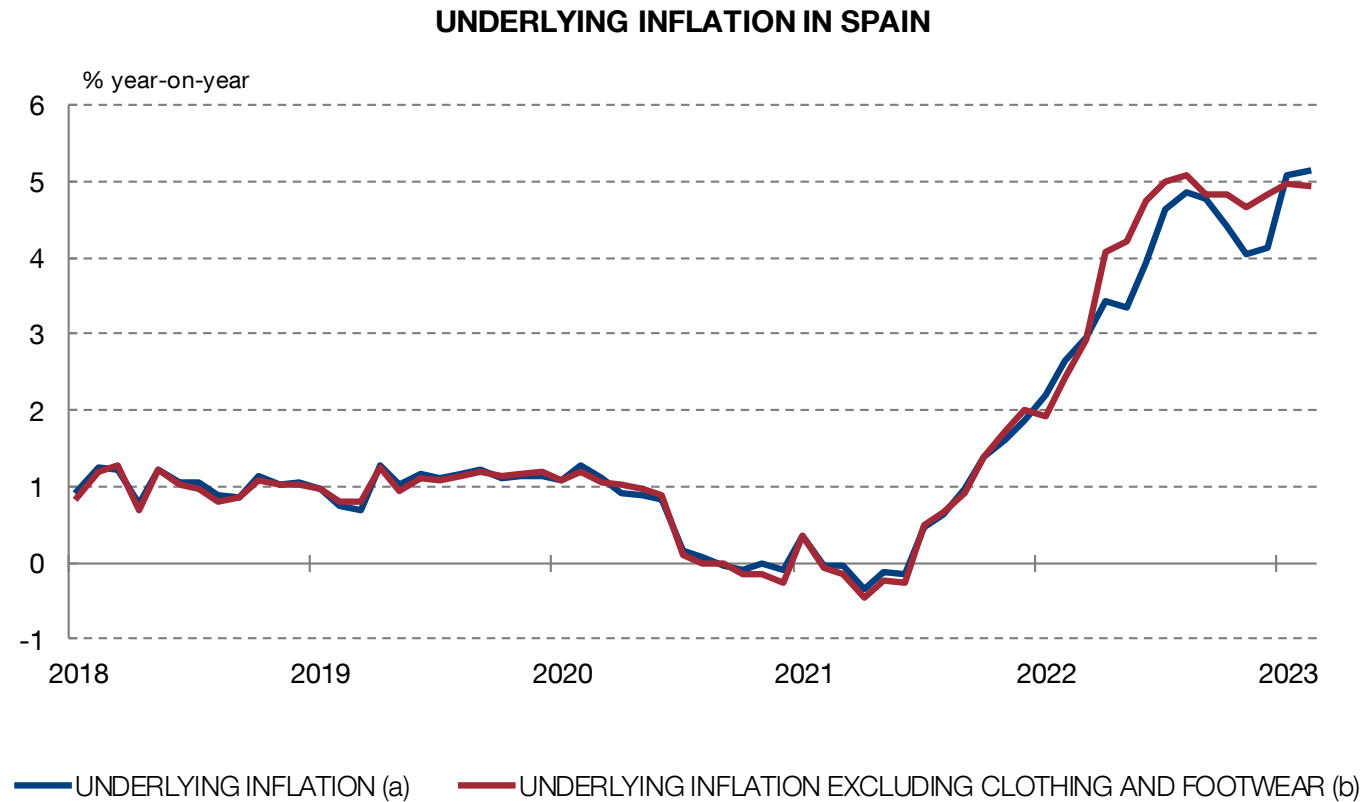
(a) Month-on-month rates for the HICP food sub-classes in February 2023, corrected for the average February month-on-month rate in the period 2016-2022.





# THE PERFORMANCE OF UNDERLYING INFLATION IN RECENT MONTHS HAS BEEN STRONGLY INFLUENCED BY CLOTHING AND FOOTWEAR PRICES

- Until December 2021 the INE considered price changes in clothing and footwear due to the sales period and new season fashion lines always in the same periods. However, from January 2022, these price changes are reflected at the time they occur, more accurately reflecting short-term price trends



Sources: INE and Banco de España.

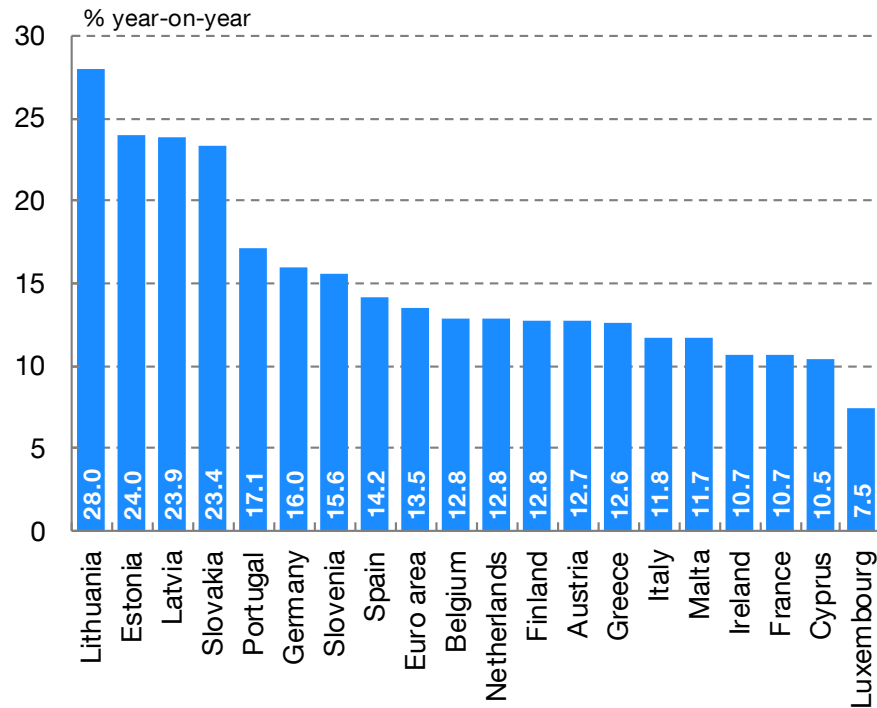
(a) Headline inflation excluding energy and food.

(b) Underlying inflation excluding Group 03 of the ECOICOP (“clothing and footwear”).



# IN 2022 FOOD PRICES IN SPAIN AND THE EURO AREA GREW AT SIMILAR PACES, ALBEIT UNEVENLY ACROSS SUB-CLASSES

**FOOD, BEVERAGE AND TOBACCO HICP BY EURO AREA COUNTRY (year-on-year growth in 2022 Q4)**



**FOOD HICP: YEAR-ON-YEAR CHANGE IN 2022 Q4 BY SUB-CLASS IN THE EURO AREA AND SPAIN**

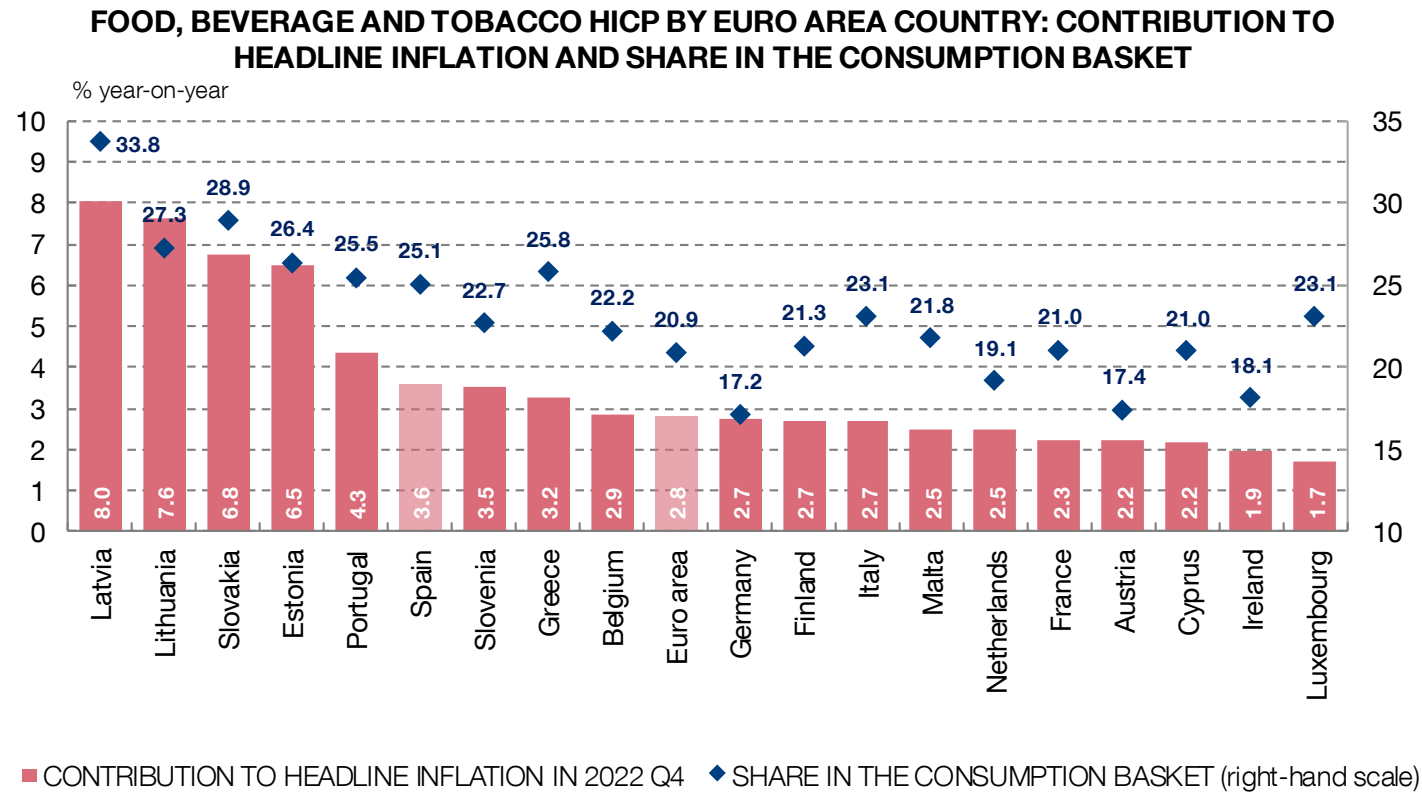


Source: F. Borrallo, L. Cuadro, M. Pacce and I. Sánchez (2023). “Evolución reciente de los precios al consumo de los alimentos en el área del euro y en España”, Banco de España, forthcoming.



# THE CONTRIBUTION OF FOOD TO HEADLINE INFLATION IN 2022 WAS GREATER IN SPAIN THAN IN THE EURO AREA, AS IT ACCOUNTS FOR A LARGER SHARE OF THE CONSUMPTION BASKET IN SPAIN

- If food accounted for the same share of the consumption basket in Spain as in the euro area, the counterfactual contribution of food prices to headline inflation in Spain in 2022 Q4 would have been 3.0 pp (instead of the actual contribution of 3.6 pp), very much in line with that seen in the euro area (2.8 pp)



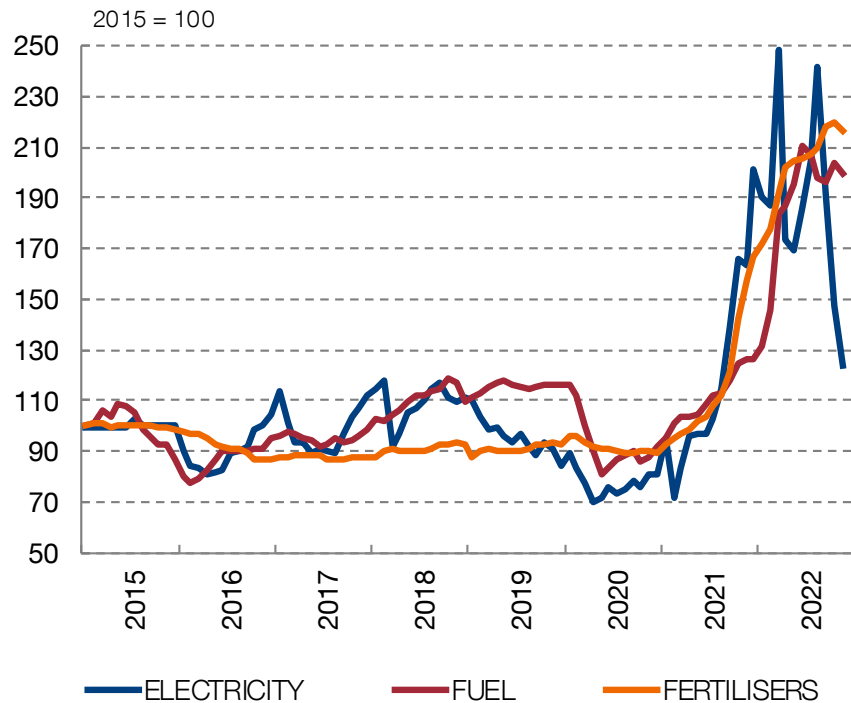
Source: F. Borrallo, L. Cuadro, M. Pacce and I. Sánchez (2023). “Evolución reciente de los precios al consumo de los alimentos en el área del euro y en España”, Banco de España, forthcoming.



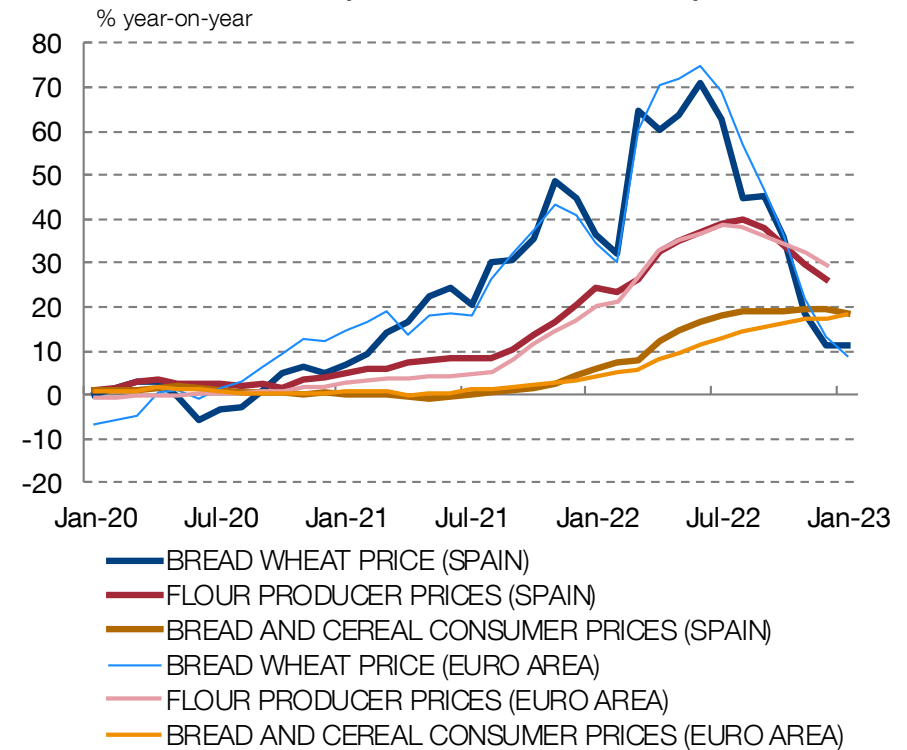
# HIGHER FOOD PRICES LARGELY REFLECT THE GRADUAL PASS-THROUGH TO PRICES OF RECENT COST INCREASES FOR PRODUCERS

- For example, the increase in the price of a raw material such as cereals has been gradually passed on to the entire value chain in both Spain and the euro area: first to the industrial prices of products made from cereals (such as flour) and subsequently to the consumer prices of bread and cereals

**PRICES PAID BY FARMERS IN SPAIN (SELECTED INPUTS)**



**CEREAL PRICES AT THE VARIOUS STAGES OF THE VALUE CHAIN (SPAIN AND EURO AREA)**

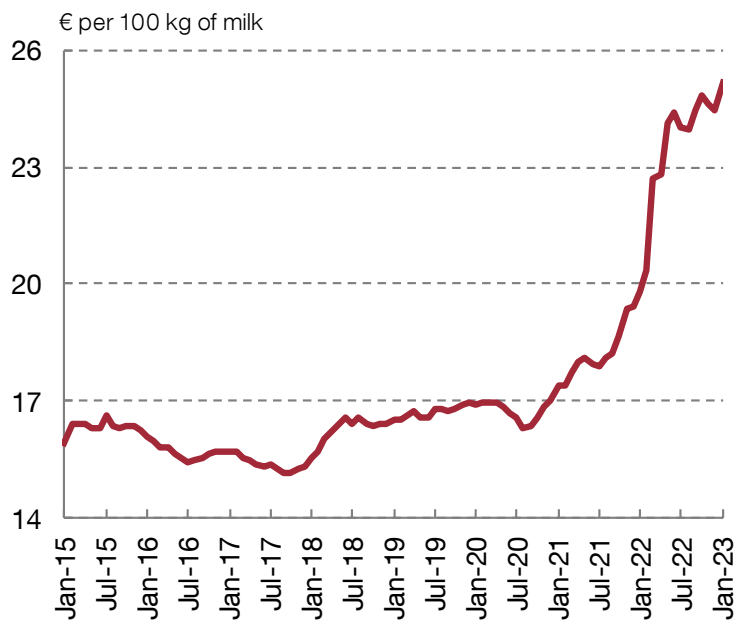


Source: F. Borrallo, L. Cuadro, M. Pacce and I. Sánchez (2023). “Evolución reciente de los precios al consumo de los alimentos en el área del euro y en España”, Banco de España, forthcoming.

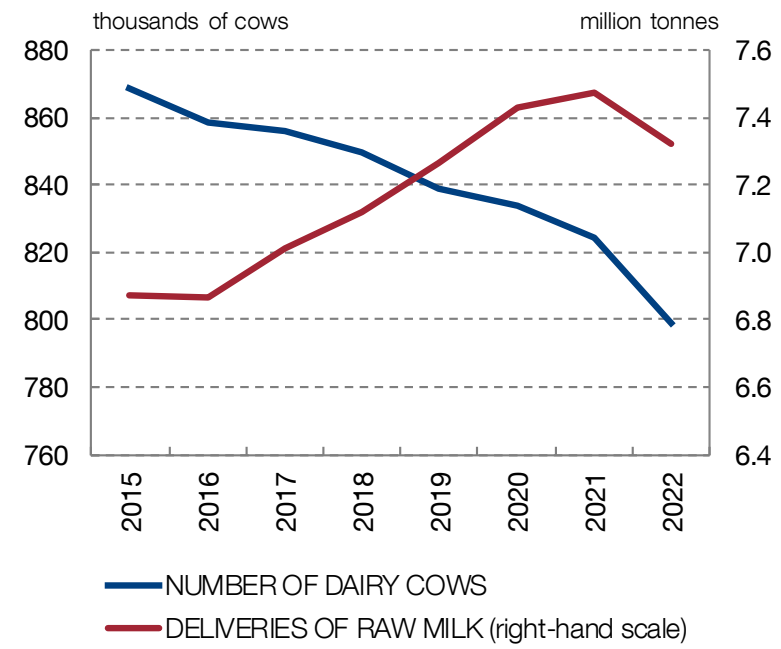
# IN ANY EVENT, FOOD PRICES ARE STRONGLY INFLUENCED BY VARIOUS GLOBAL SUPPLY AND DEMAND FACTORS THAT ARE HIGHLY SPECIFIC TO EACH ITEM

- For example, for much of 2021 and in early 2022 milk producers faced significant cost increases, which could have led to more cattle slaughter in the EU (see FAO, 2022). This in turn appears to have prompted a fall in the stock of dairy cows and the supply of raw milk in 2022, ultimately pushing up milk prices

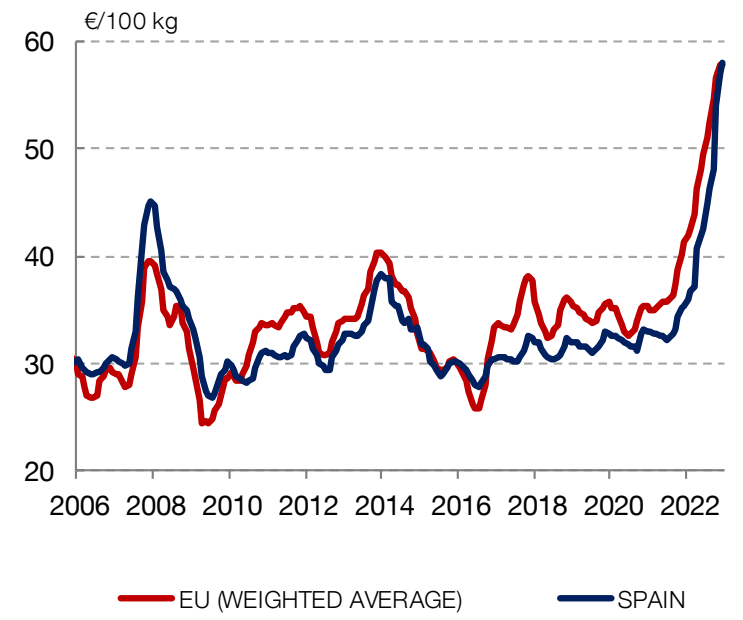
**FEED COSTS OF DAIRY CATTLE IN SPAIN**



**NUMBER OF DAIRY COWS AND DELIVERIES OF RAW MILK IN SPAIN**

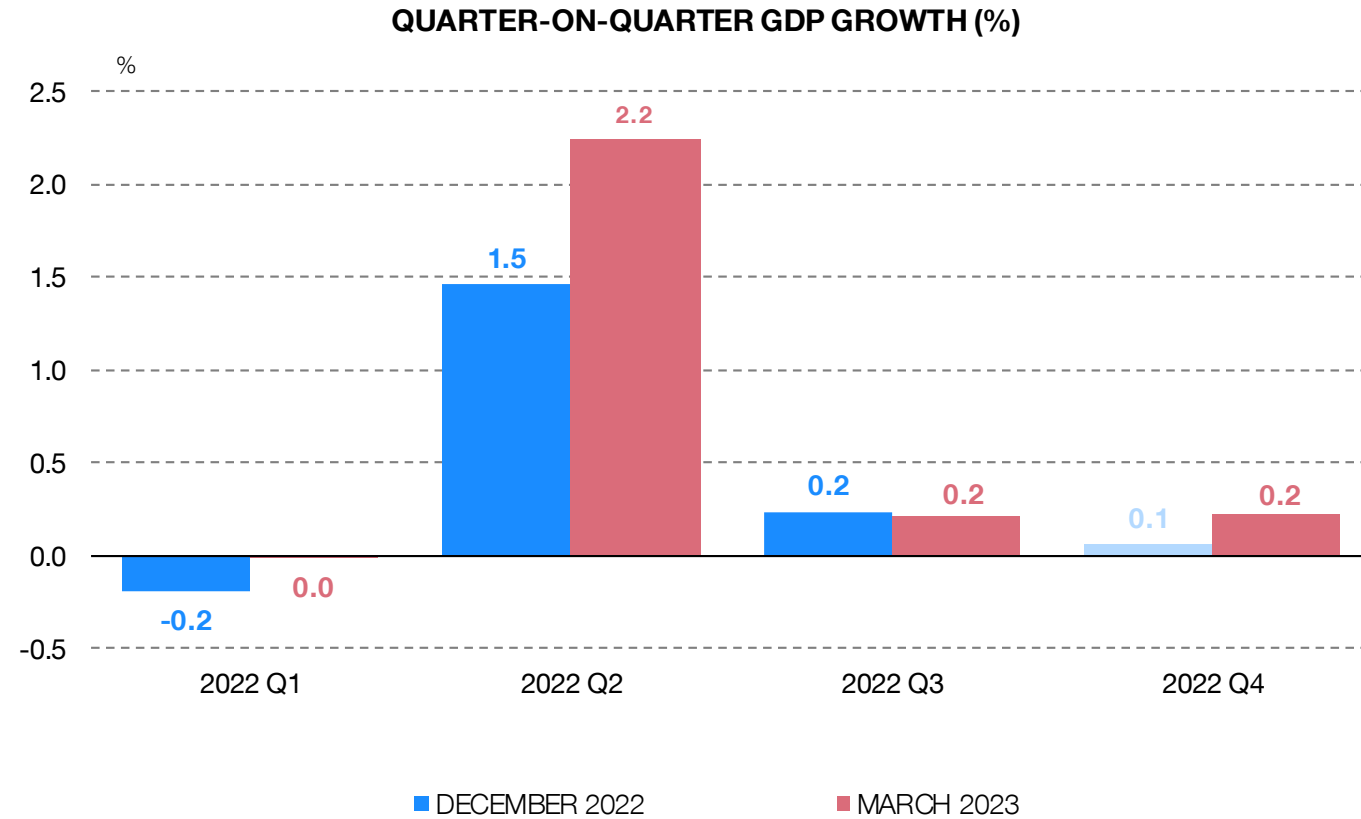


**FARMGATE MILK PRICES**



Sources: F. Borrillo, L. Cuadro, M. Pacce and I. Sánchez (2023). “Evolución reciente de los precios al consumo de los alimentos en el área del euro y en España”, Banco de España, forthcoming, and FAO (2022). “[Dairy Market Review: Overview of global dairy market and policy developments in 2021](#)”.

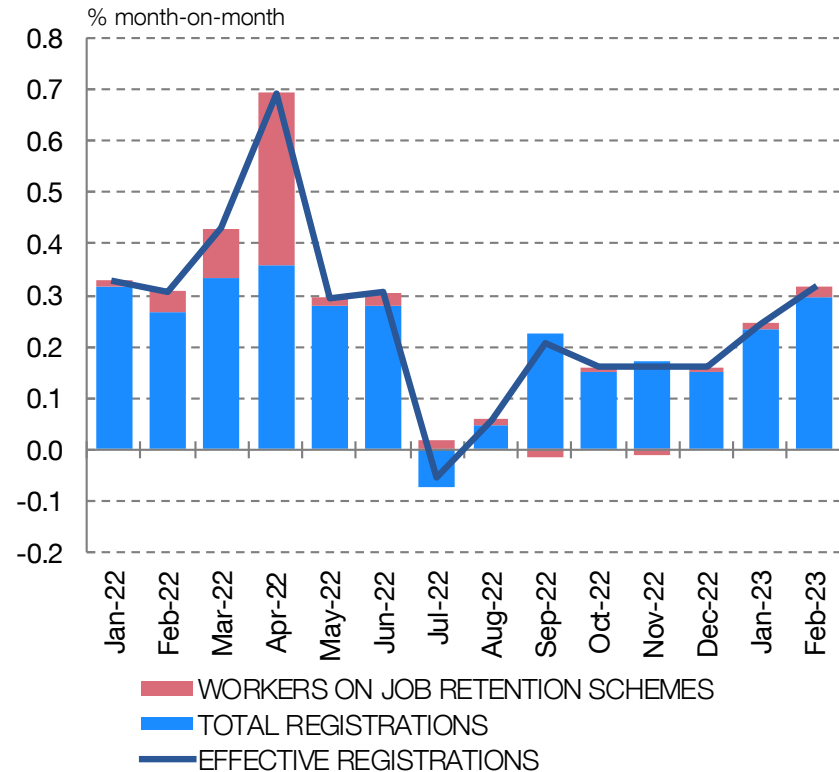
# OUTPUT GROWTH WAS RELATIVELY MODEST IN 2022 Q4, ALTHOUGH IT SURPRISED SLIGHTLY ON THE UPSIDE



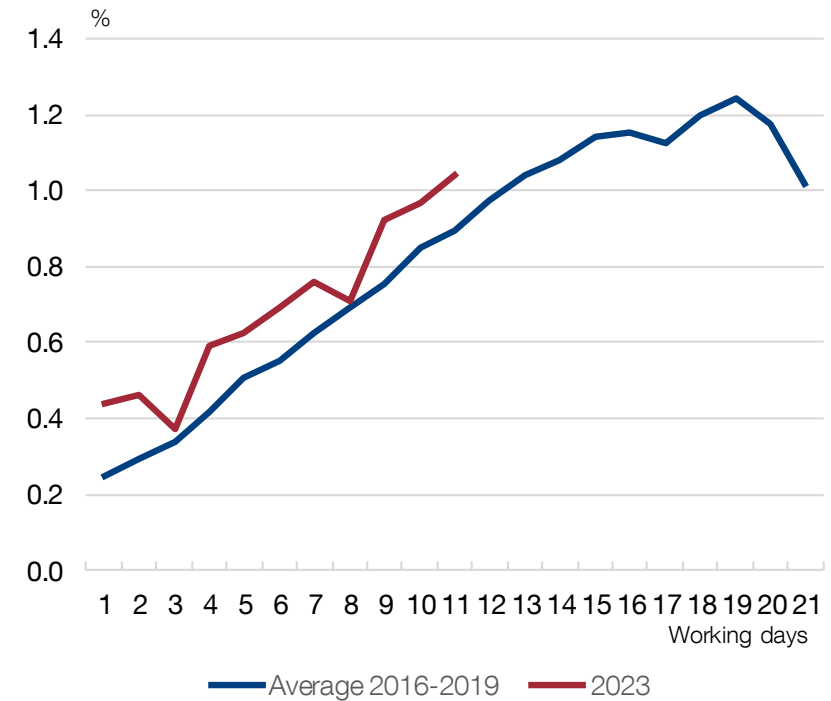
Sources: INE and Banco de España.



**TOTAL SOCIAL SECURITY REGISTRATIONS, WORKERS ON JOB RETENTION SCHEMES AND EFFECTIVE REGISTRATIONS (a)**



**DAILY CHANGE IN SOCIAL SECURITY REGISTRATIONS IN MARCH 2023 COMPARED WITH AVERAGE REGISTRATIONS IN MARCH IN THE PERIOD 2016-2019**

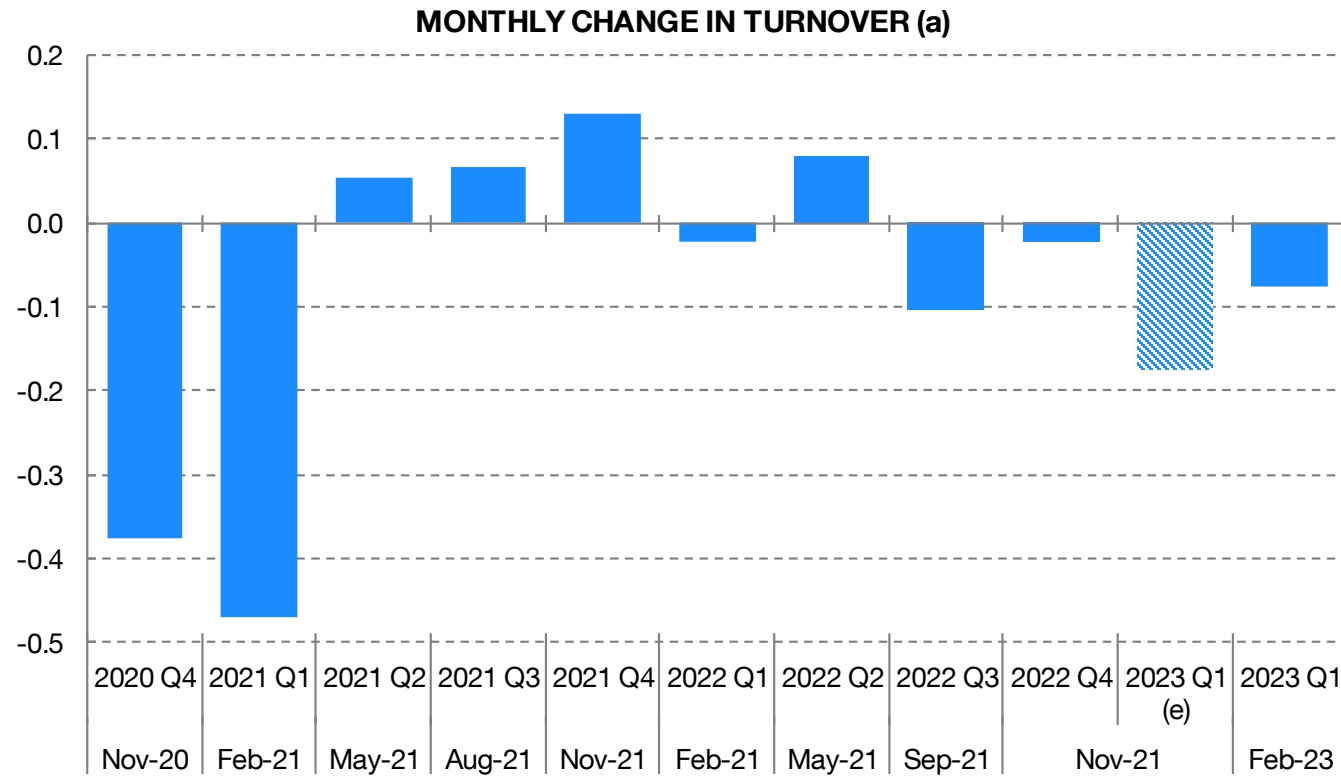


Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. Latest observation: 15 March 2023.  
 (a) Seasonally adjusted monthly series.





# ACCORDING TO THE EBAE, BUSINESS TURNOVER IN 2023 Q1 PERFORMED SOMEWHAT BETTER THAN WAS EXPECTED IN NOVEMBER



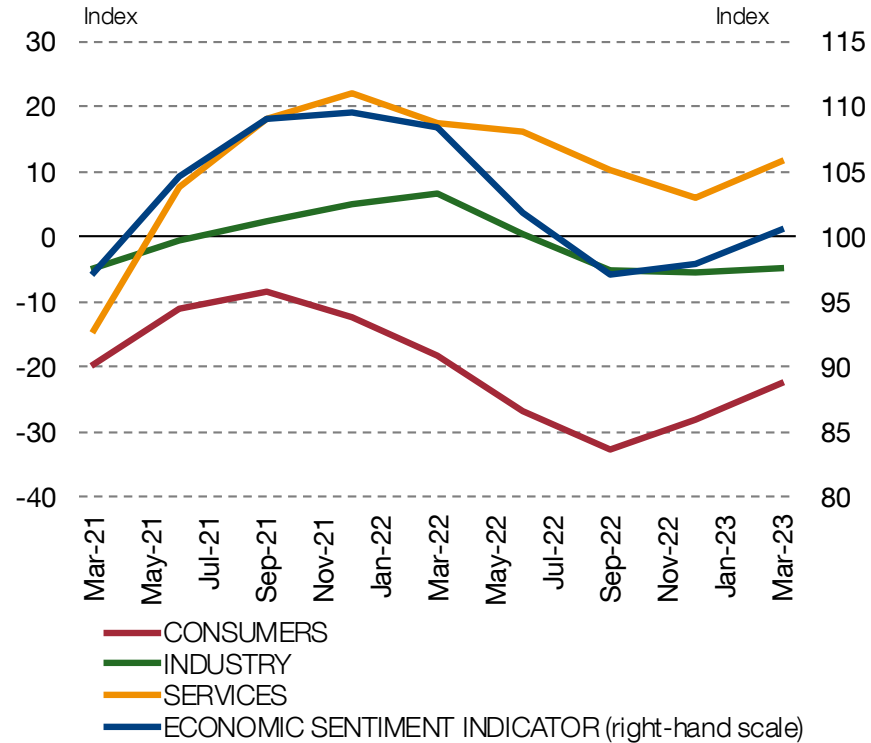
Source: Banco de España Business Activity Survey (EBAE).

(a) The qualitative responses from the EBAE are converted into a numerical scale as follows: significant decrease = -2; slight decrease = -1; stable = 0; slight increase = 1; significant increase = 2.

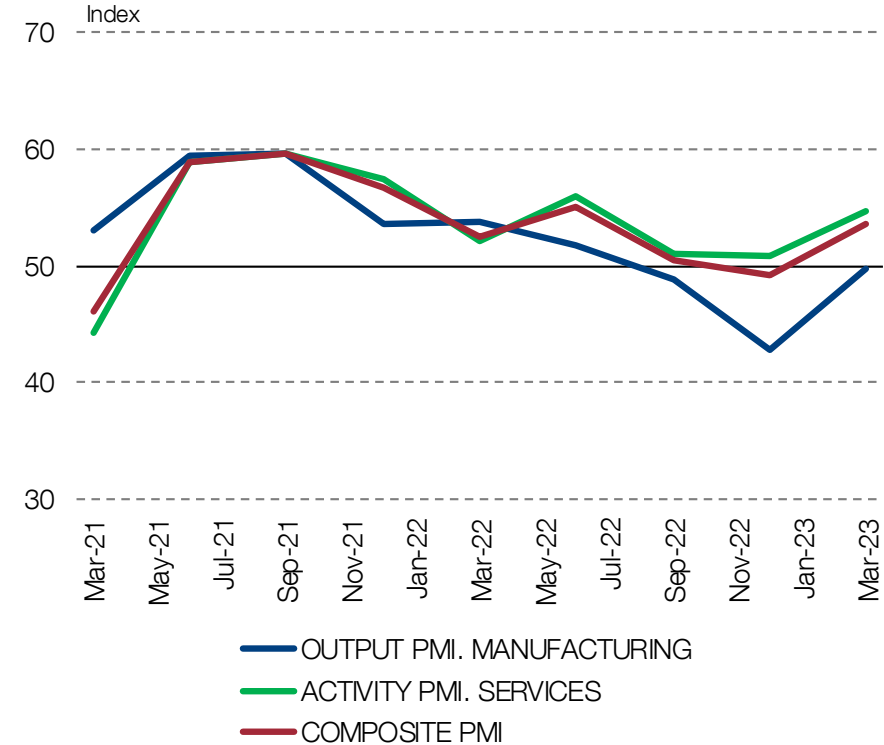


# KEY CONFIDENCE INDICATORS HAVE RECENTLY IMPROVED, ALTHOUGH SOME OF THEM REMAIN AT RELATIVELY LOW LEVELS

### CONFIDENCE INDICATORS (a)



### PURCHASING MANAGERS' INDICES (a)



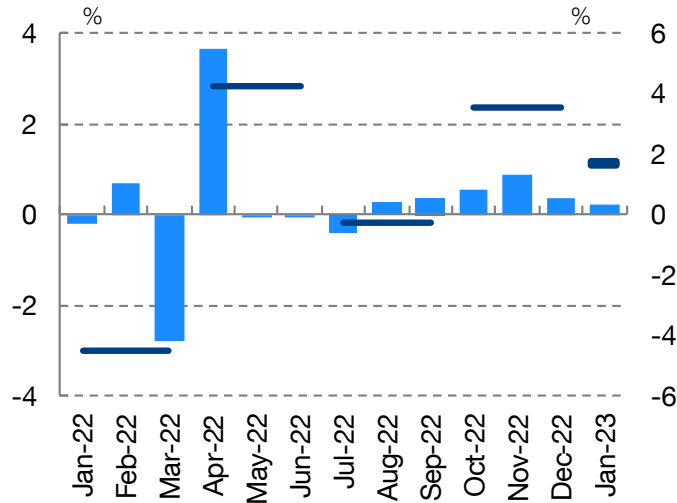
Sources: S&P Global and European Commission.

(a) The figure for 2023 Q1 is the average of January and February.

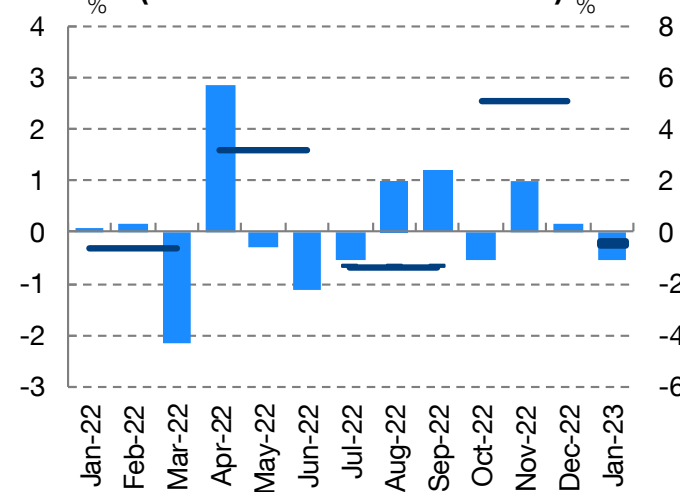


# OTHER INDICATORS AVAILABLE FOR THE CURRENT QUARTER PROVIDE MIXED SIGNALS

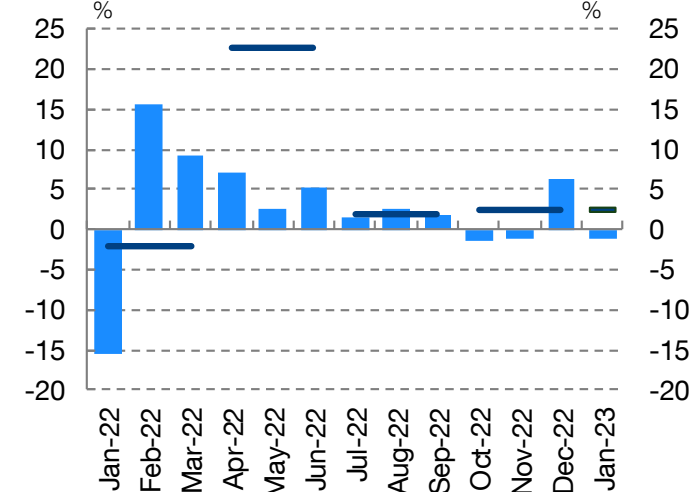
### RETAIL TRADE INDEX



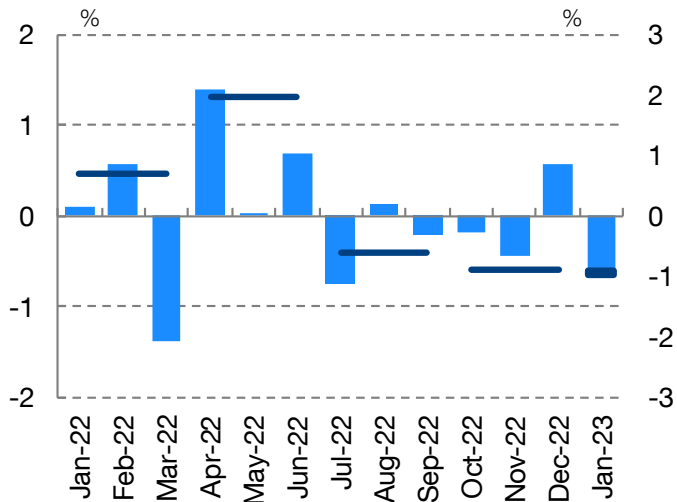
### TURNOVER OF LARGE CORPORATIONS (SPANISH TAX AUTHORITIES)



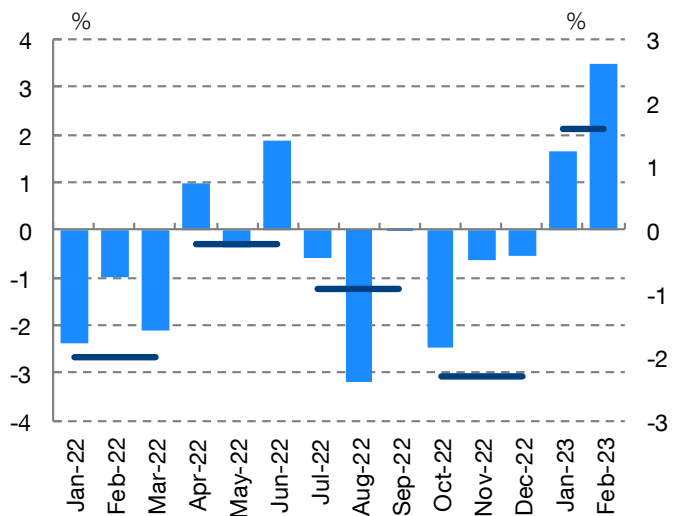
### TOURIST OVERNIGHT STAYS



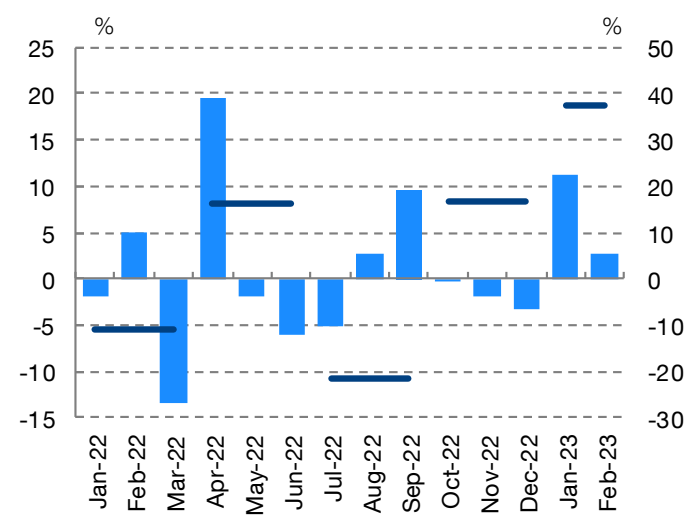
### INDUSTRIAL PRODUCTION INDEX



### ELECTRICITY CONSUMPTION



### PRIVATE VEHICLE REGISTRATIONS



■ Monthly rate (right-hand scale)  
— Quarterly rate

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



# MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2025)

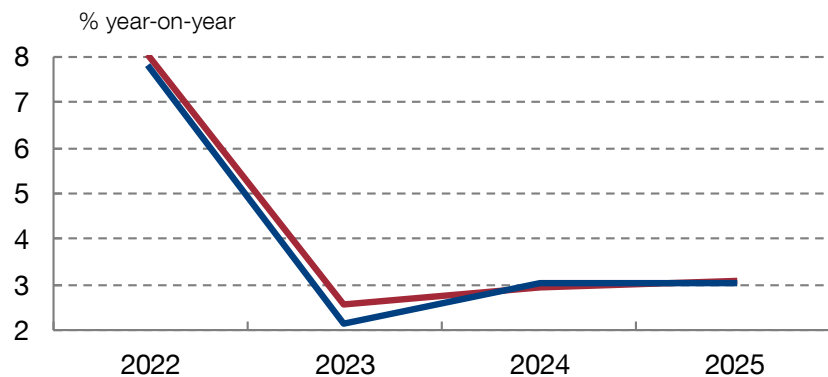
	2022	March 2023 projections			December 2022 projections			
		2023	2024	2025	2022	2023	2024	2025
Annual rate of change in volume terms and % of GDP								
GDP	5.5	1.6	2.3	2.1	4.6	1.3	2.7	2.1
Private consumption	4.3	1.2	2.3	2.2	2.1	1.9	2.8	2.1
Government consumption	-0.9	0.5	0.8	1.2	-1.6	0.3	0.9	1.2
Gross fixed capital formation	4.3	0.3	3.9	3.0	5.2	1.6	3.0	2.3
Exports of goods and services	14.9	3.1	2.9	3.0	18.0	3.8	3.0	3.1
Imports of goods and services	7.7	1.8	3.1	3.1	9.7	4.3	2.5	2.9
Domestic demand (contribution to growth)	2.9	1.0	2.3	2.1	1.6	1.4	2.4	1.9
Net external demand (contribution to growth)	2.6	0.6	0.0	0.0	3.0	-0.1	0.3	0.2
Nominal GDP	10.1	5.3	5.4	4.1	8.5	5.8	5.9	4.4
GDP deflator	4.4	3.6	3.0	1.9	3.6	4.5	3.2	2.2
HICP	8.3	3.7	3.6	1.8	8.4	4.9	3.6	1.8
HICP excluding energy and food	3.8	3.9	2.2	1.8	3.8	3.4	2.2	1.8
Employment (hours)	4.1	0.9	1.3	1.0	4.1	0.5	1.6	1.1
Unemployment rate (% of labour force). Annual average	12.9	12.7	12.3	12.0	12.8	12.9	12.2	12.0
Net lending (+)/net borrowing (-) of the nation (% of GDP)	2.1	2.3	2.1	1.5	2.4	2.1	2.4	2.3
General government net lending (+)/net borrowing (-) (% of GDP)	-4.6	-4.1	-3.5	-4.4	-4.2	-4.1	-3.7	-4.5
General government debt (% of GDP)	113.1	111.1	108.8	109.9	113.1	110.6	108.8	109.8

Sources: INE and Banco de España. Latest QNA data published: 2022 Q4 flash estimate. Projections cut-off date: 2 March 2023.

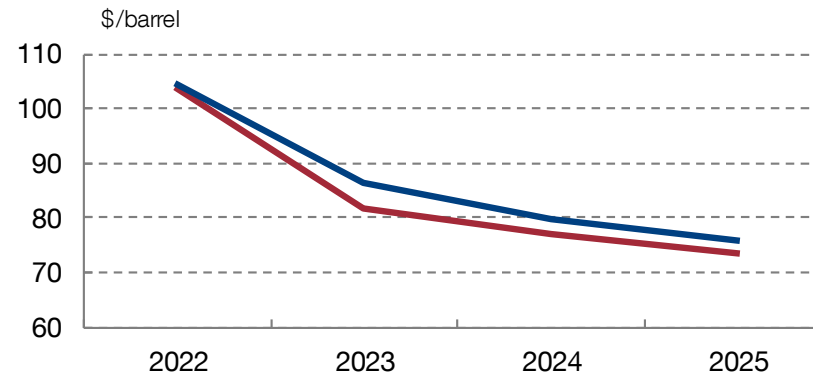


# ASSUMPTIONS REGARDING THE INTERNATIONAL ENVIRONMENT AND FINANCIAL CONDITIONS

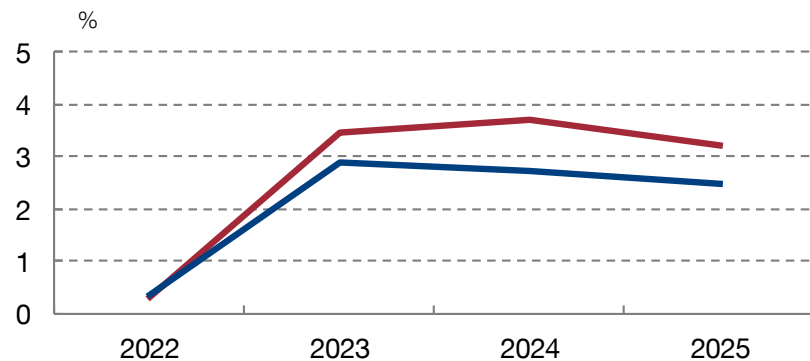
## EXPORT MARKETS



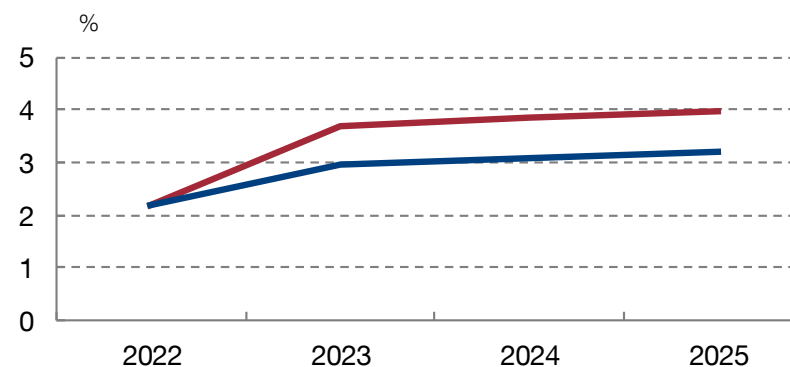
## OIL PRICE



## SHORT-TERM INTEREST RATES



## LONG-TERM INTEREST RATES



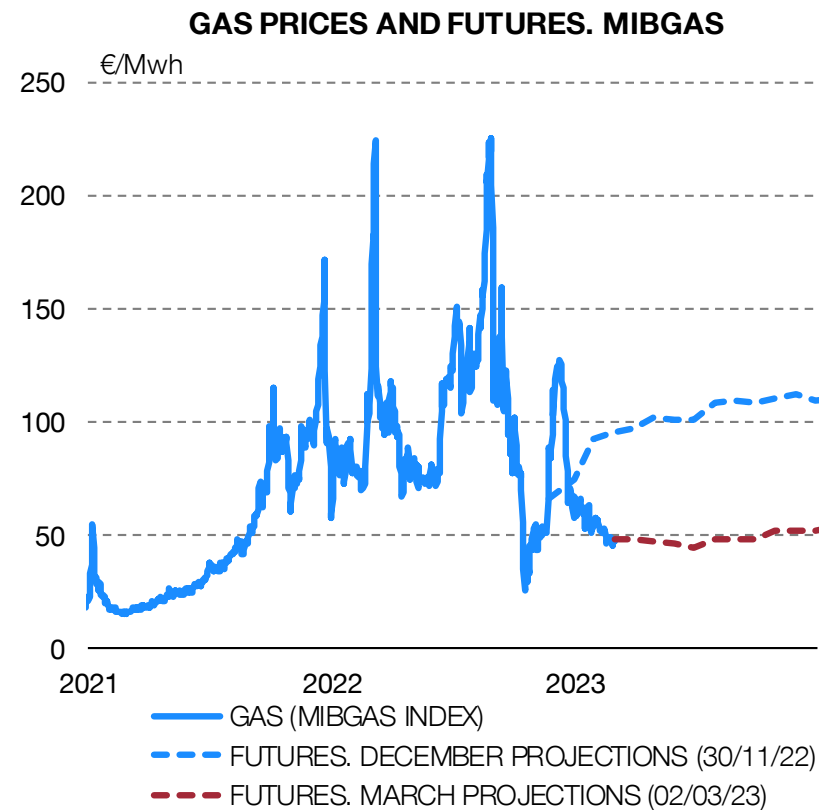
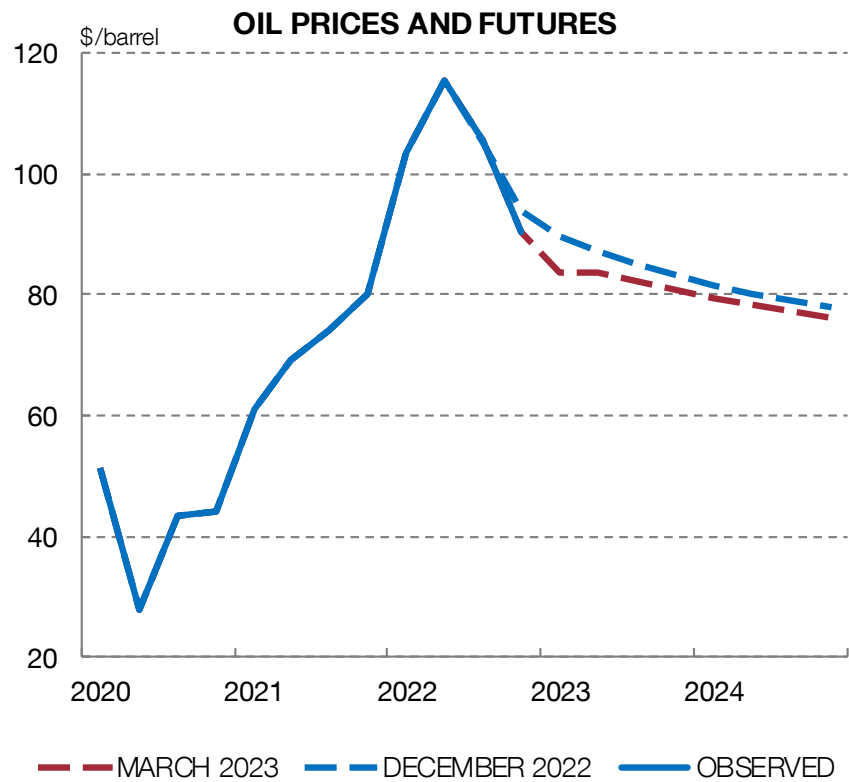
— MARCH 2023

— DECEMBER 2022

Sources: Banco de España and ECB.



# ASSUMPTIONS REGARDING OIL AND GAS PRICES



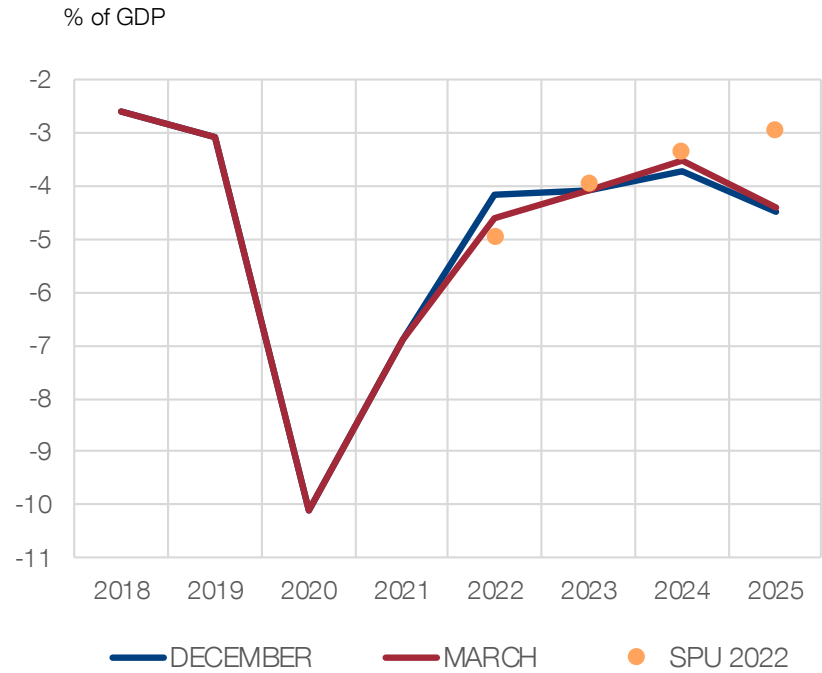
Sources: Mibgas, Reuters and Banco de España.



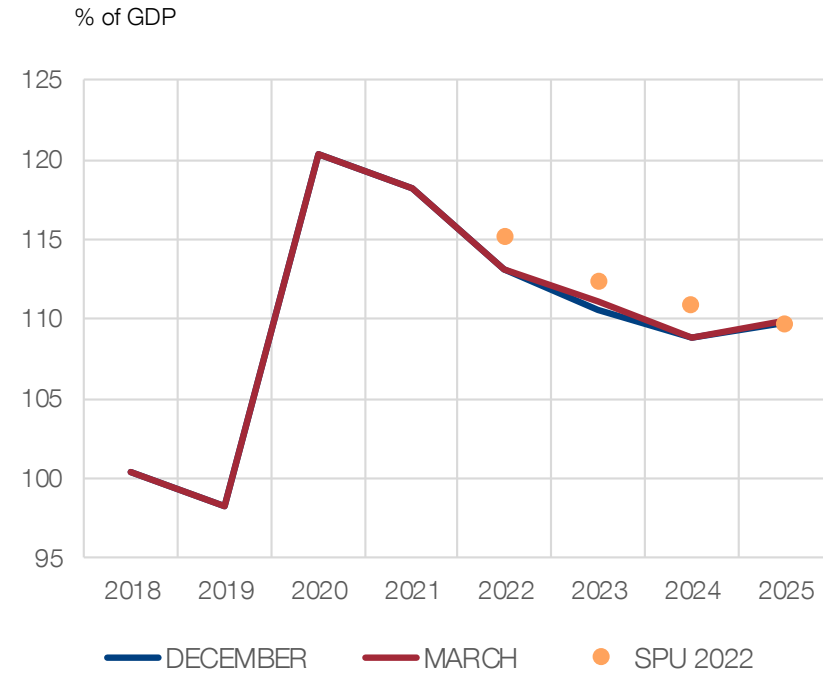


# EXPECTED GENERAL GOVERNMENT BALANCE AND DEBT

## GENERAL GOVERNMENT BALANCE



## GENERAL GOVERNMENT DEBT

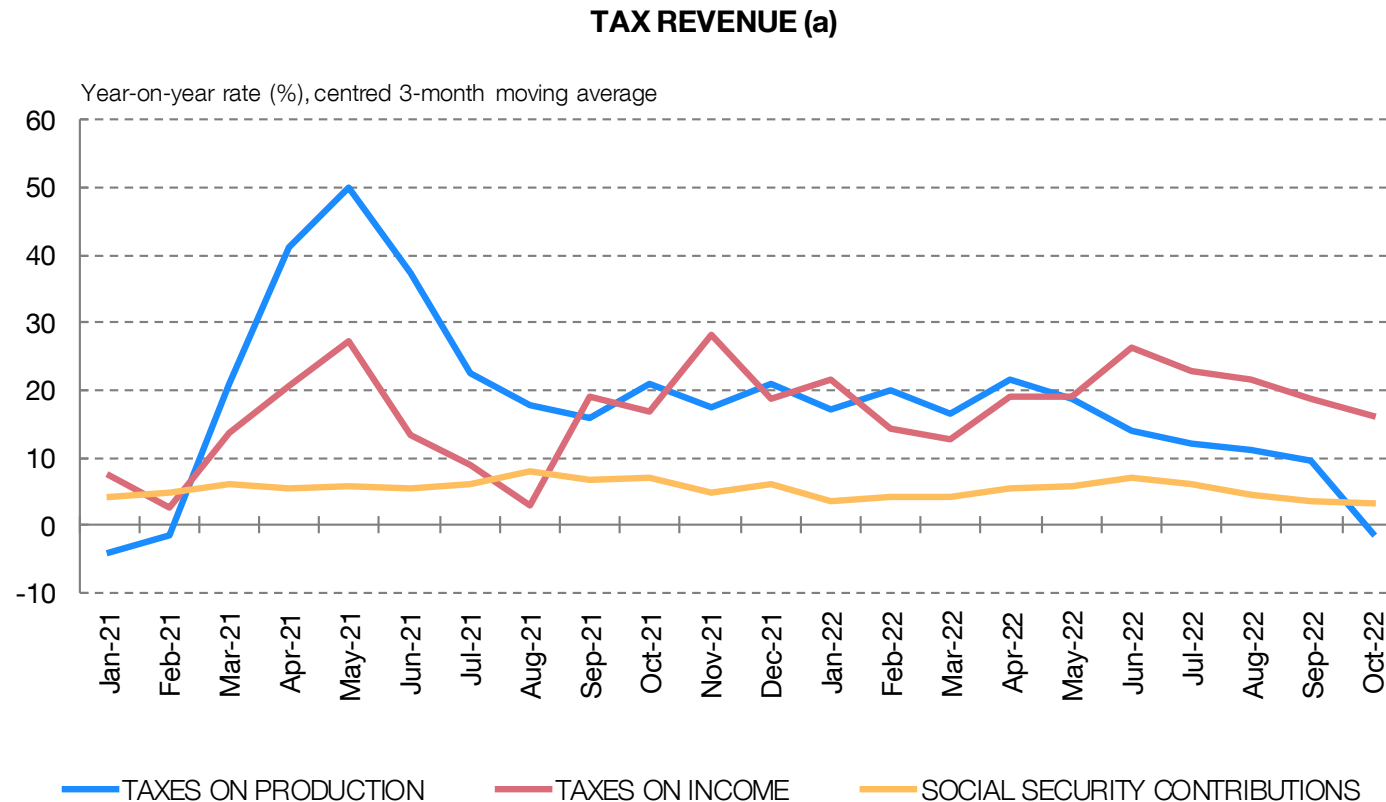


Sources: IGAE, INE, Stability Programme Update (April 2022) and Banco de España.



# THERE WAS A NOTABLE SLOWDOWN IN REVENUE FROM TAXES ON PRODUCTION IN THE FINAL MONTHS OF 2022

- Revenue from taxes on production recorded negative year-on-year growth rates in October and November and stood below what could be expected even bearing in mind the tax cuts approved and the performance of their macroeconomic bases



Sources: IGAE and Banco de España.

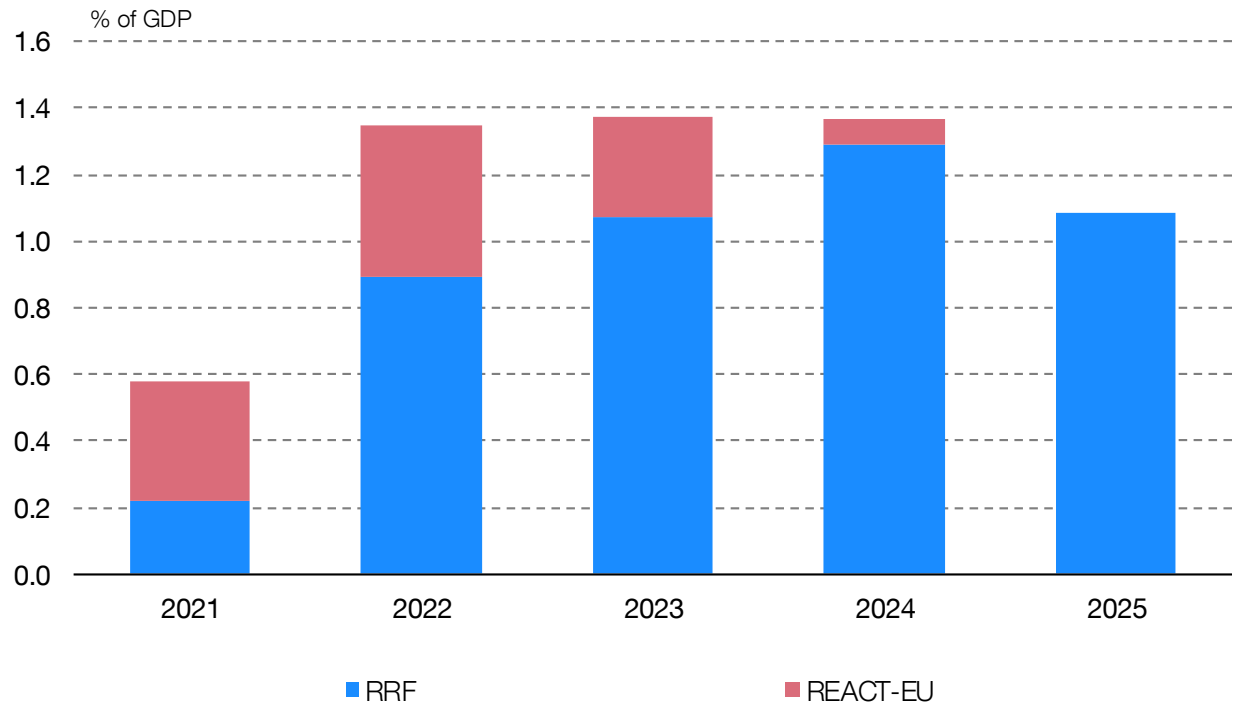
(a) General government excluding local government (latest available figure: November 2022). Income taxes include personal income tax, corporate income tax and other ordinary taxes on income and wealth. Taxes on production taxes include all indirect taxes on products, production and imports (VAT, excise duties, property transfer tax and stamp duty, etc.).



# NO SIGNIFICANT CHANGES IN THE PROJECTED SPENDING TO BE FINANCED BY NGEU FUNDS IN THE COMING YEARS COMPARED TO THE DECEMBER PROJECTIONS

- According to the [most recent wave of the EBAE](#), 16.5% of firms have applied for NGEU funding and slightly more than 10% additional firms plan to apply at some point this year
- Among the firms making applications, 44% (accounting for 7.3% of the total sample) have already been successful and a further 35% (nearly 6% of the total) were still awaiting a decision
- By sector, transportation firms were particularly active in submitting applications

**PUBLIC SPENDING FINANCED WITH NGEU FUNDS (a)**



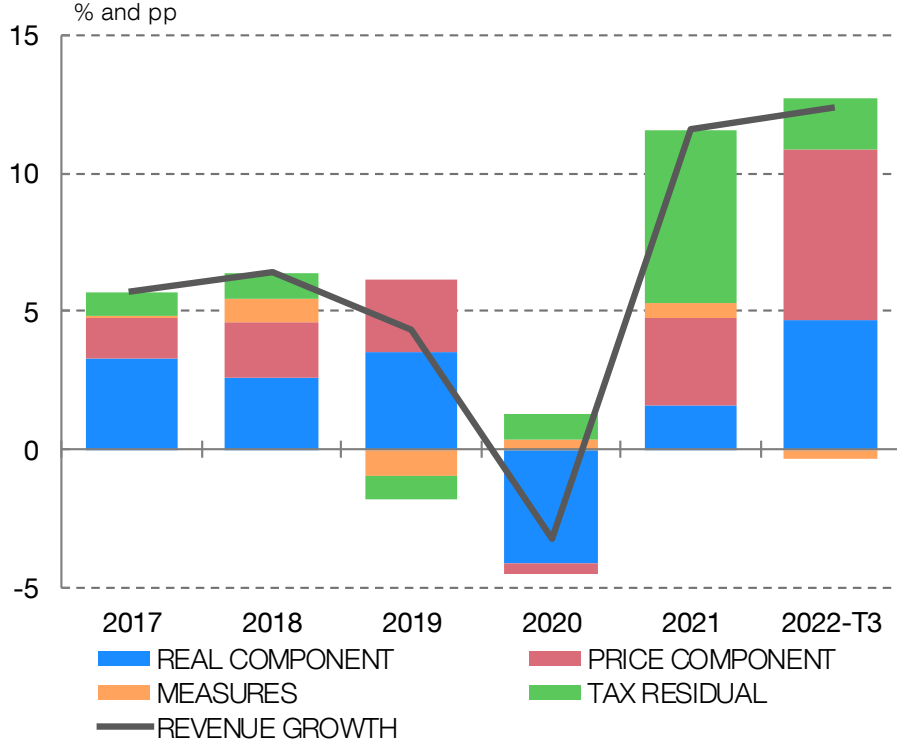
Source: Banco de España, based on tenders published on the RTRP website.  
(a) The NGEU programme is made up of various components; the two most important of which are the RRF and REACT-EU.



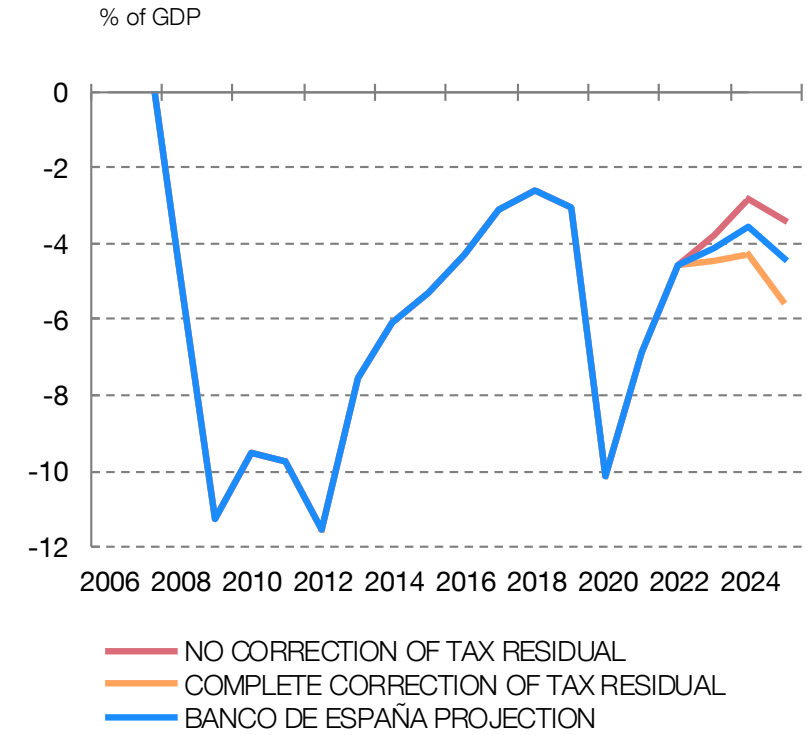
# CLOSE ATTENTION MUST BE PAID IN THE FUTURE TO GOVERNMENT REVENUE, WHICH HAS POSTED POSITIVE RESIDUALS IN RECENT YEARS

- Even if the tax residual (i.e. the unexplained component of growth in government revenue, which cannot be attributed to the result of changes in economic activity, prices or fiscal measures approved) does not correct itself in the future, the projected increase in public spending means that the general government deficit in Spain will remain relatively high in the years to come

**TOTAL REVENUE (a)  
GROWTH AND CONTRIBUTIONS**



**GENERAL GOVERNMENT BALANCE**



Source: Banco de España, based on IGAE, INE and AEAT data.

For more details, see [“Government revenue in the wake of the pandemic. Tax residuals and inflation”](#), Economic Bulletin article in this Quarterly Report, Banco de España.

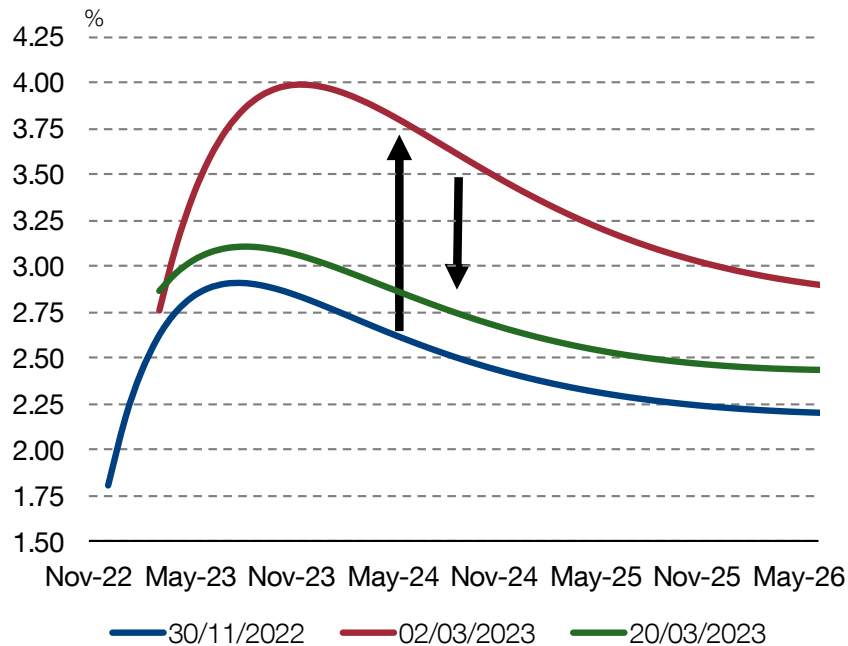
(a) Including VAT, personal income tax, social security contributions and corporate income tax.



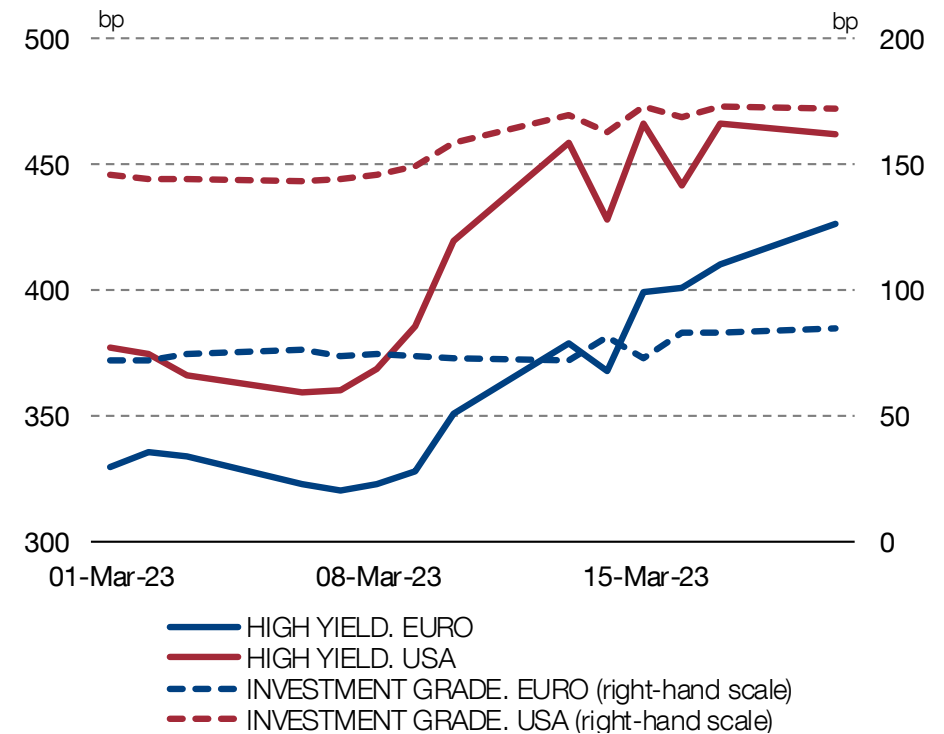
# THE SCALE AND PERSISTENCE OF THE RECENT TENSIONS UNLEASHED ON THE FINANCIAL MARKETS CANNOT BE PRECISELY DETERMINED

- In recent days, these tensions have affected **investors' outlook on the future monetary policy of the world's main central banks** – which has already shifted substantially from that envisaged in the most recent Banco de España and ECB projections
- They have also caused a significant **uptick in volatility and risk aversion on global financial markets**, which will probably have something of an adverse effect on economic activity in the coming quarters

**INSTANTANEOUS FORWARD OIS €STR. EURO AREA**



**NON-FINANCIAL CORPORATE BOND SWAP SPREAD**

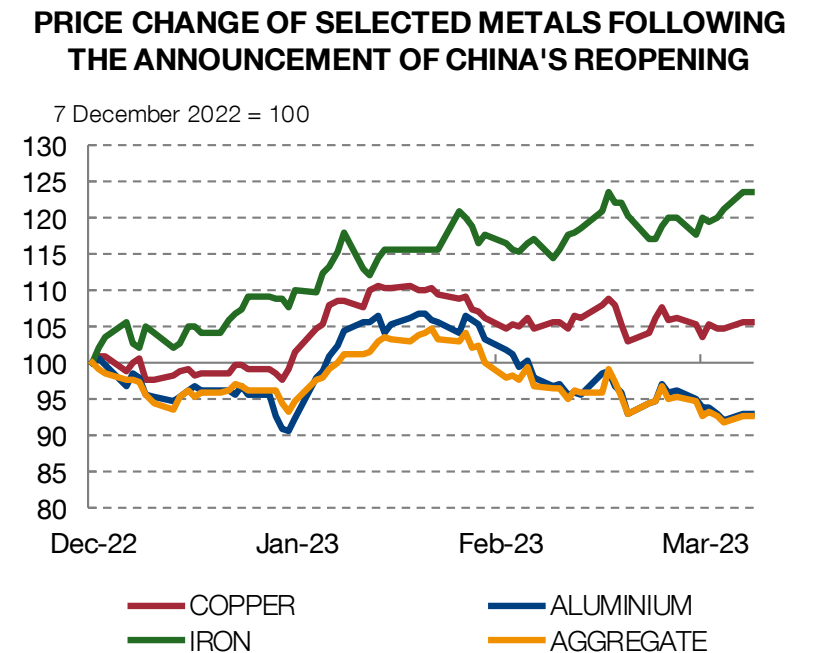
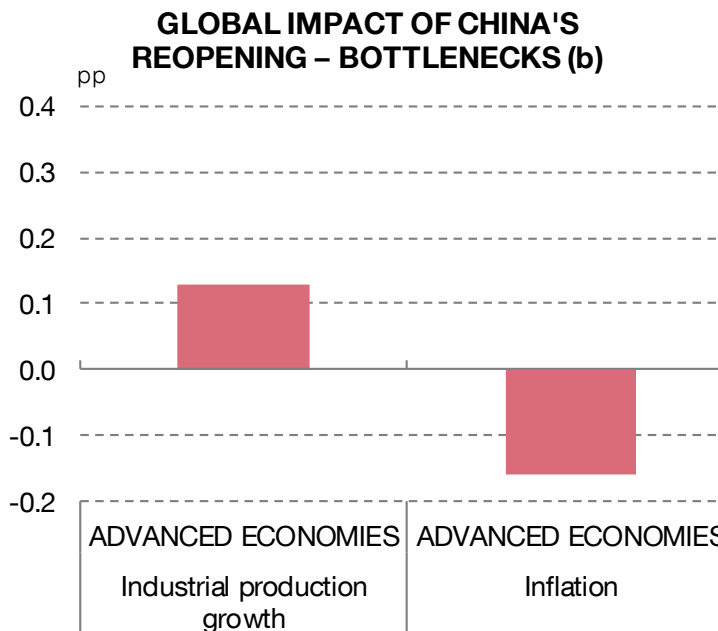
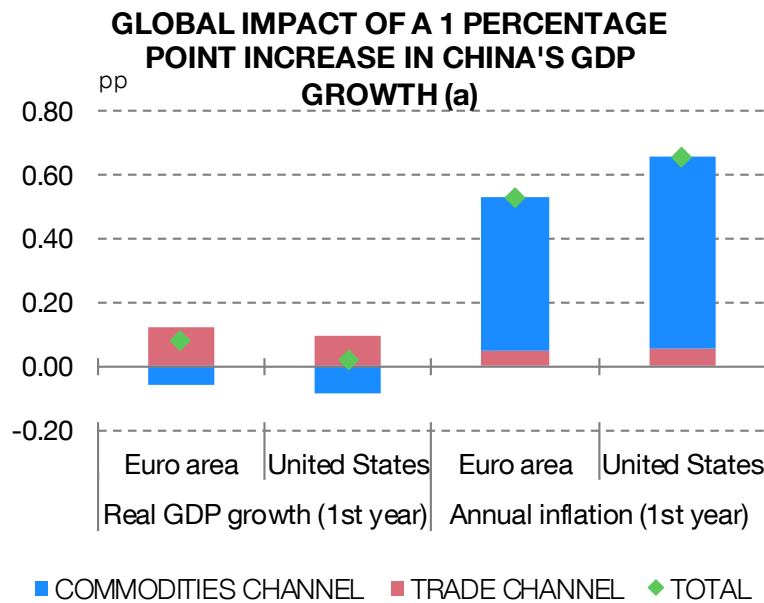


Sources: Refinitiv Datastream and Banco de España. Latest data observed: 20/03/2023.



# THE REOPENING OF CHINA'S ECONOMY COULD HAVE AN IMPACT ON INFLATION WORLDWIDE THROUGH VARIOUS CHANNELS

- On the one hand, **stronger growth in China would drive global demand**, especially for commodities, which would put upward pressure on inflation rates
- On the other hand, **China's reopening could accelerate the elimination of bottlenecks** and boost global supply capacity to meet demand, which would allow the current high inflationary pressures to ease somewhat
- **Which of these channels will ultimately prevail is highly uncertain** and will depend on the breakdown of the economic recovery in China itself, among other factors. **For now, commodity prices – and futures – remain relatively contained**



Sources: Banco de España and Refinitiv. Latest data observed: 13 March (right).

(a) Simulations with the NiGEM model considering an increase in China's internal demand (to which consumption contributes 80%) of 1 pp over one year (trade channel) and an increase of 9.5% in oil prices and of 8.5% in industrial metal prices (Kolerus et al. 2016) (commodity price channel).

(b) Estimation performed using a structural VAR model for a panel of six advanced economies (USA, UK and the four largest euro area economies: Spain, France, Italy and Germany) between 2010 and 2020. A fall to its pre-COVID level is simulated in the Banco de España's text-based indicator of bottlenecks.

# THERE IS SIGNIFICANT UNCERTAINTY REGARDING THE PROCESS OF MONETARY POLICY TRANSMISSION IN THE CURRENT ENVIRONMENT

In Spain, the pass-through of higher market rates to the cost of new bank transactions is occurring somewhat more slowly compared to previous tightening episodes and to other euro area countries

In any case, the impact of the interest rate raise on the average cost of debt in the private sector – which has been limited so far – will be felt increasingly keenly in the coming months

Meanwhile, it can be seen that banks' loan approval criteria are tightening, which has historically been associated with a decline – with some lag – in lending flows to the private sector

Taken together, these developments will have a negative impact on household consumption (to varying degrees depending on the volume of savings available and whether a household owns or rents their home, among other factors)...

... and on corporate and household investment

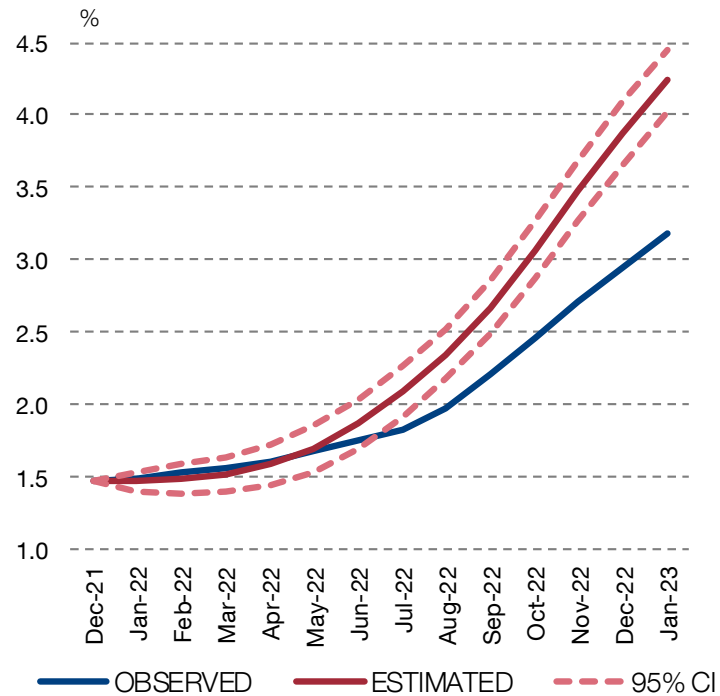
However, the speed and intensity with which monetary policy decisions ultimately influence activity are highly uncertain and will depend on the interaction of multiple factors: debt levels and maturities, debt interest rates, the response of other economic policies, and the pace and cumulative extent of monetary tightening. These factors have all evolved significantly with respect to previous periods of interest rate hikes



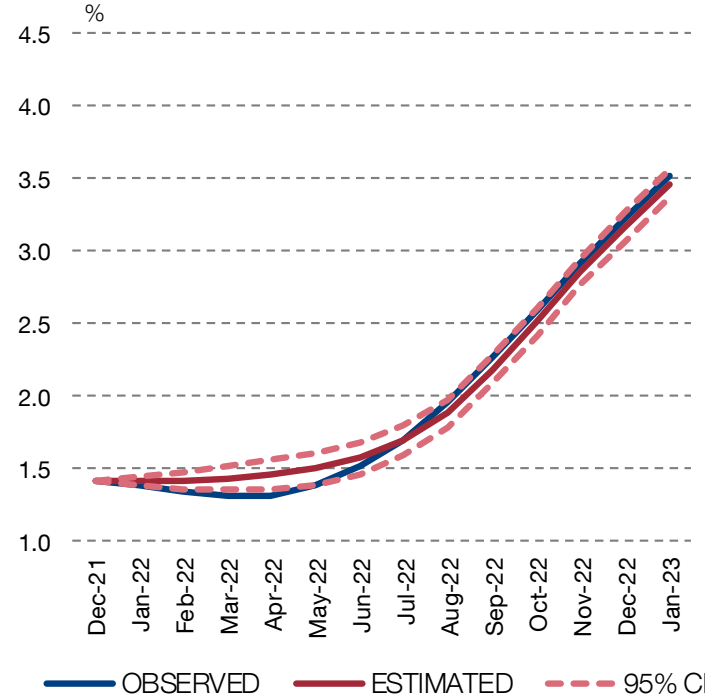


# PASS-THROUGH OF MARKET RATE HIKES TO THE COST OF NEW BANKING TRANSACTIONS IN SPAIN

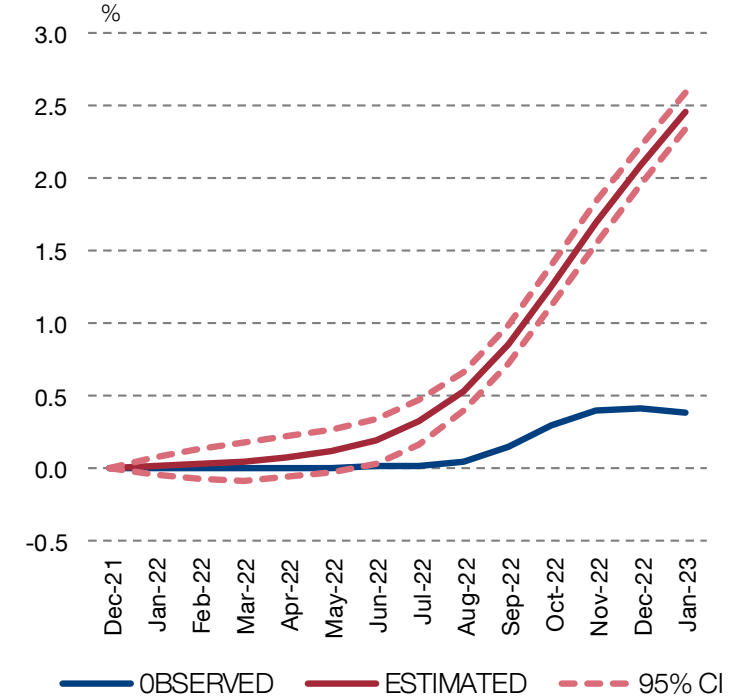
**LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE. OVER ONE YEAR (a)**



**LENDING TO NON-FINANCIAL CORPORATIONS. UP TO ONE YEAR (a)**



**DEPOSITS FROM HOUSEHOLDS. UP TO ONE YEAR (a)**



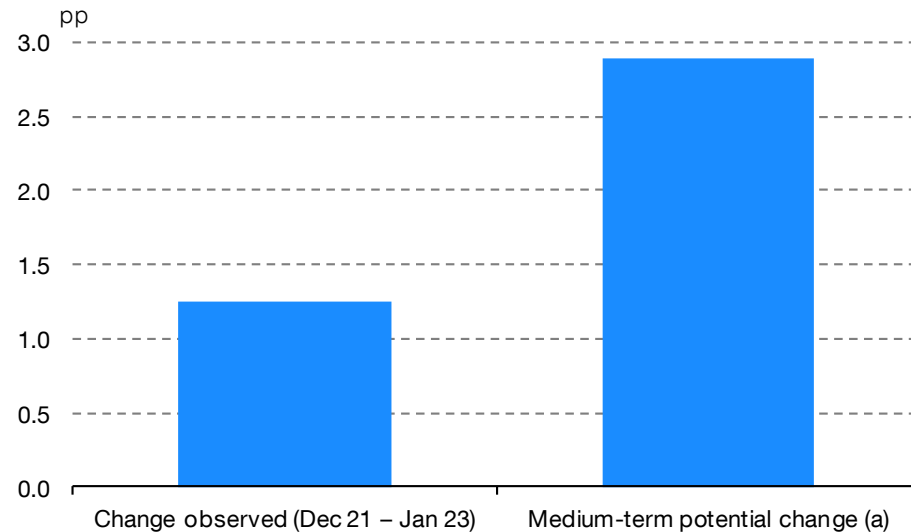
Source: Banco de España. Latest data observed: January 2023.

(a) Interest rates are NDER (they exclude related charges, such as repayment insurance premiums and fees). They are also trend-cycle interest rates, i.e. they are adjusted for the seasonal and irregular component (small changes in the series with no recognisable pattern in terms of periodicity or trend). This means that they may be revised as a result of new estimations of these components as new data are gathered. The term refers to the frequency at which the interest rate is reviewed.

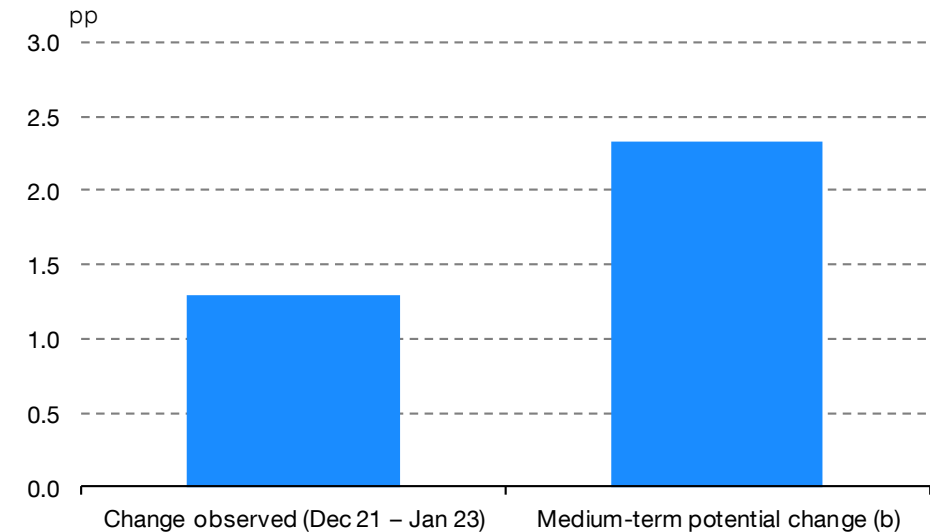


# THE IMPACT OF RISING INTEREST RATES ON THE AVERAGE COST OF DEBT IN THE PRIVATE SECTOR – WHICH HAS BEEN LIMITED THUS FAR – WILL GROW IN THE COMING MONTHS

### CHANGE IN HOUSEHOLDS' AVERAGE COST OF DEBT ASSOCIATED WITH LOANS FOR HOUSE PURCHASE



### CHANGE IN NON-FINANCIAL CORPORATIONS' AVERAGE COST OF DEBT



Source: Banco de España.

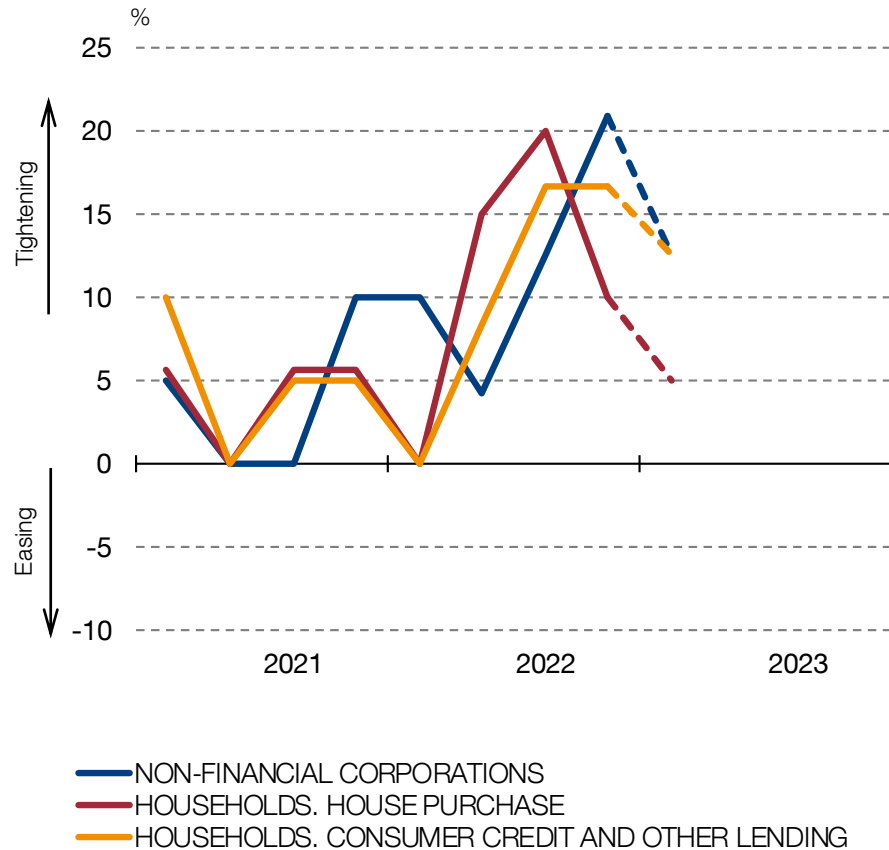
(a) Calculated by multiplying the share of the variable rate debt's outstanding balance (as at June 2022) by the cumulative increase of the 12-month EURIBOR since late December 2021.

(b) Calculated by multiplying the share of the bank debt's outstanding balance that matures or whose interest rate is updated within a year (as at September 2022) by the cumulative increase of the 3-month EURIBOR since late December 2021.

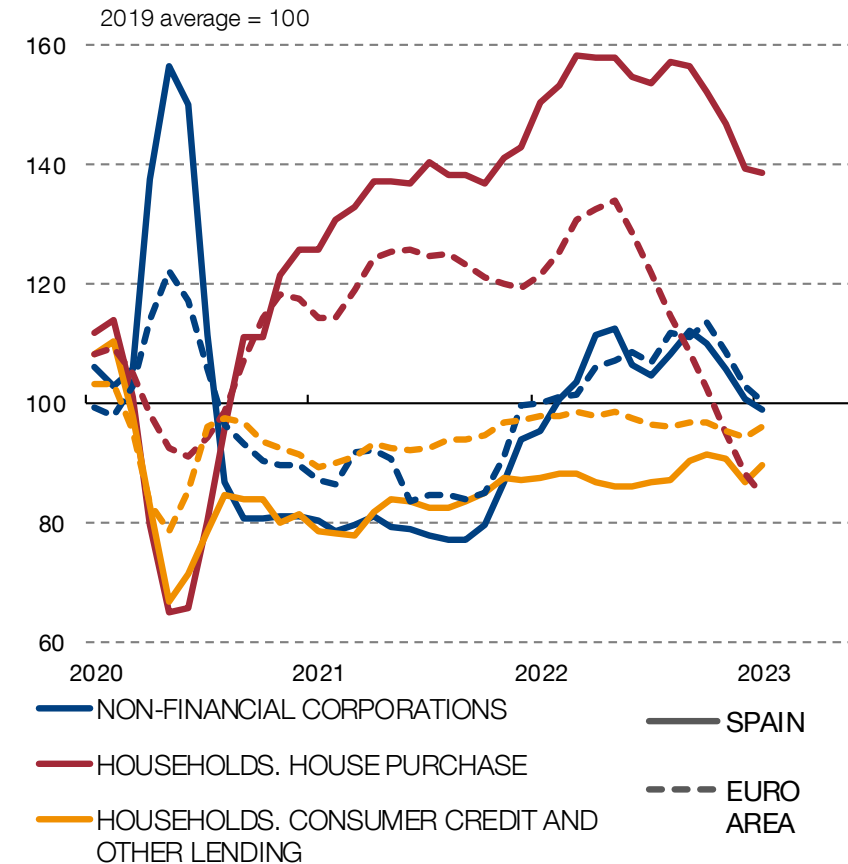


# CREDIT STANDARDS ACCORDING TO THE BANCO DE ESPAÑA'S BANK LENDING SURVEY AND NEW LENDING

**CHANGE IN CREDIT STANDARDS IN SPAIN (a)**



**NEW LENDING (b)**



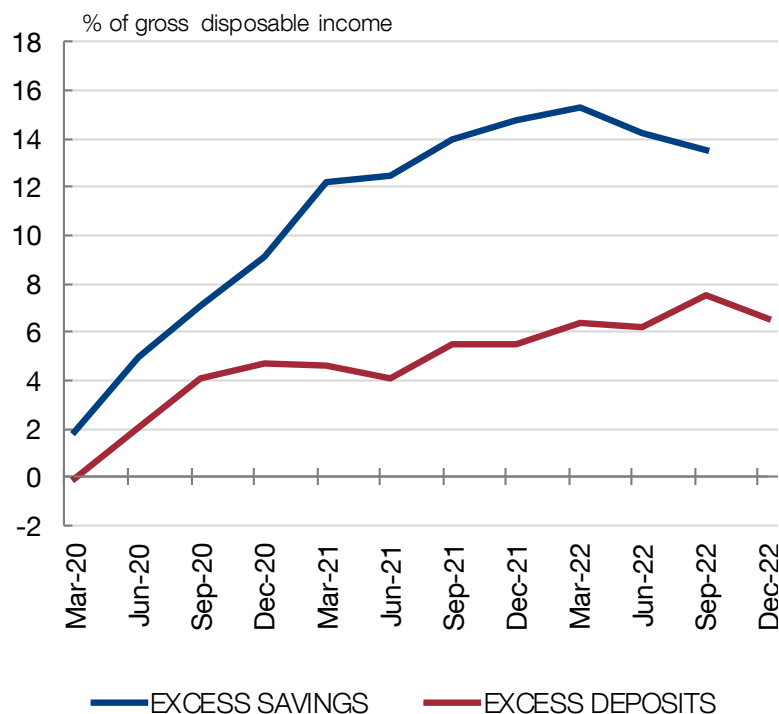
Source: Banco de España. Latest data observed: 2022 Q4 (BLS) and January 2023 (new lending).

(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.

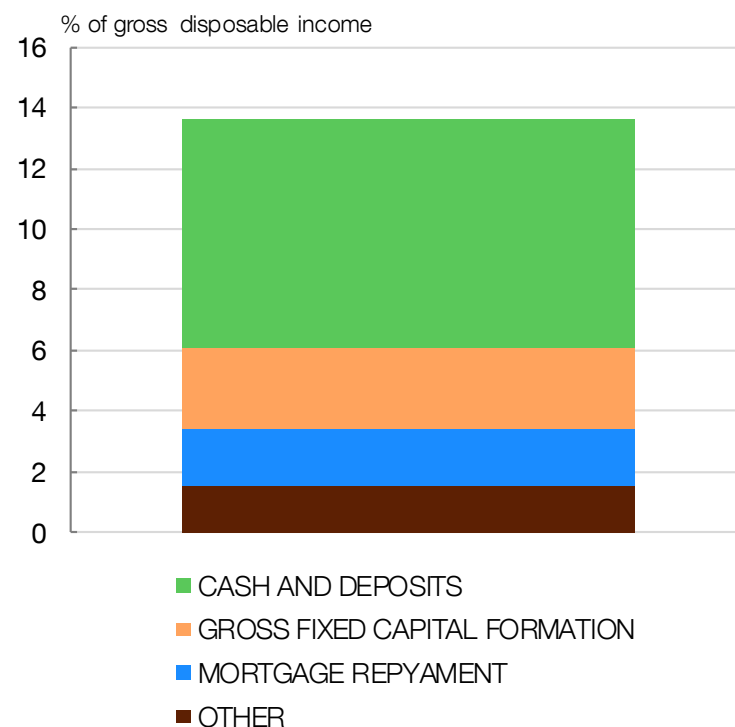
(b) Bank financing series include financing granted by credit institutions and by specialised lending institutions and exclude renegotiations of previous loans. All the series are 3-month cumulative seasonally adjusted flows.

# THE RISE IN INTEREST RATES WILL INFLUENCE HOUSEHOLD CONSUMPTION TO A VARYING DEGREE DEPENDING ON SAVINGS AVAILABLE AND WHETHER A HOUSEHOLD OWNS OR RENTS

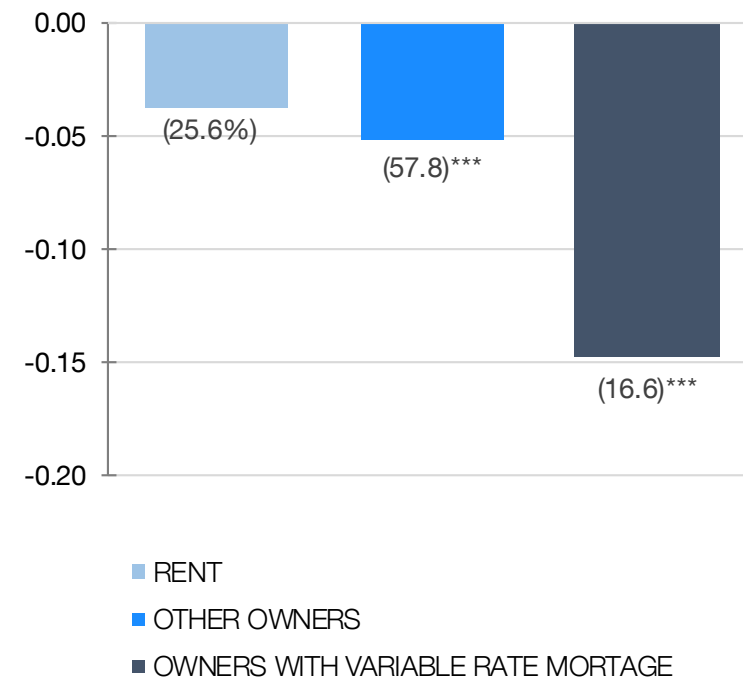
**ACCUMULATED EXCESS SAVINGS AND DEPOSITS ABOVE THE LEVELS OBSERVED IN 2019**



**USE OF EXCESS ACCUMULATED SAVINGS IN 2020-2022 Q4 ABOVE THE LEVELS OBSERVED IN 2019**



**IMPACT OF CHANGES IN EXPECTATIONS ABOUT MORTGAGE LENDING RATES ON EXPECTED CONSUMER GROWTH**



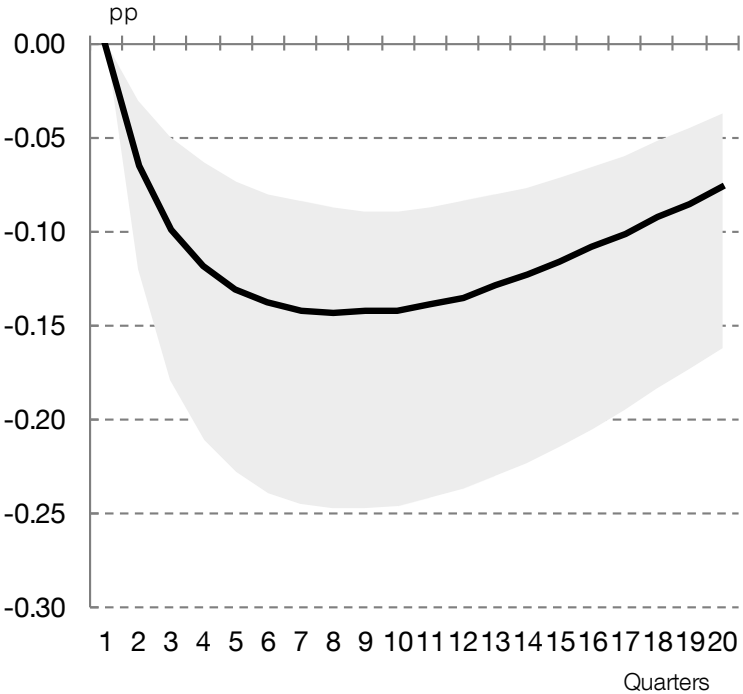
Sources: INE, Banco de España and the ECB's Consumer Expectations Survey. For more information, see K. Bańkowska et al. (2021), "ECB Consumer Expectations Survey: an overview and first evaluation", Occasional Paper Series, 287, European Central Bank, and D. Georgarakos and G. Kenny (2022), "Household spending and fiscal support during the COVID-19 pandemic: Insights from a new consumer survey", Journal of Monetary Economics, 129.

(a) Excess savings and deposits are calculated as the flow of each relative to gross disposable income above that observed in 2019. The second chart shows the amounts allocated to various assets and obligations above the amount observed, with regard to gross disposable income, in 2019. The "Other" category brings together all the flows allocated to assets and obligations that are not specified in the chart, as well as statistical discrepancies between the financial and capital accounts, net capital transfers and net purchases of non-produced assets. See P. Alves and C. Martínez-Carrascal (2023), "La evolución del ahorro de los hogares desde el inicio de la pandemia y su utilización". Banco de España, forthcoming.

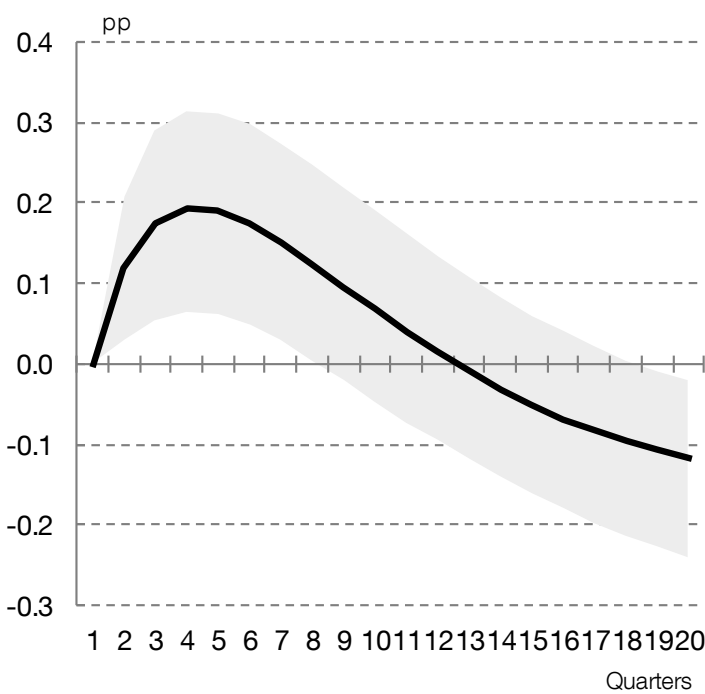
(b) Impact of changes in expectations for mortgage lending rates on expected consumer growth in real terms. The figures in brackets show the share of households that make up the group being analysed and \*\*\* indicates that the coefficient is significant. See C. Martínez-Carrascal (2023), "El impacto de la evolución de los precios y los tipos de interés sobre las perspectivas de gasto de los hogares", Banco de España, forthcoming.

# CORPORATE INVESTMENT RESPONDS NEGATIVELY TO INTEREST RATE HIKES, BUT POSITIVELY TO IMPROVEMENTS IN CONFIDENCE AND DEMAND

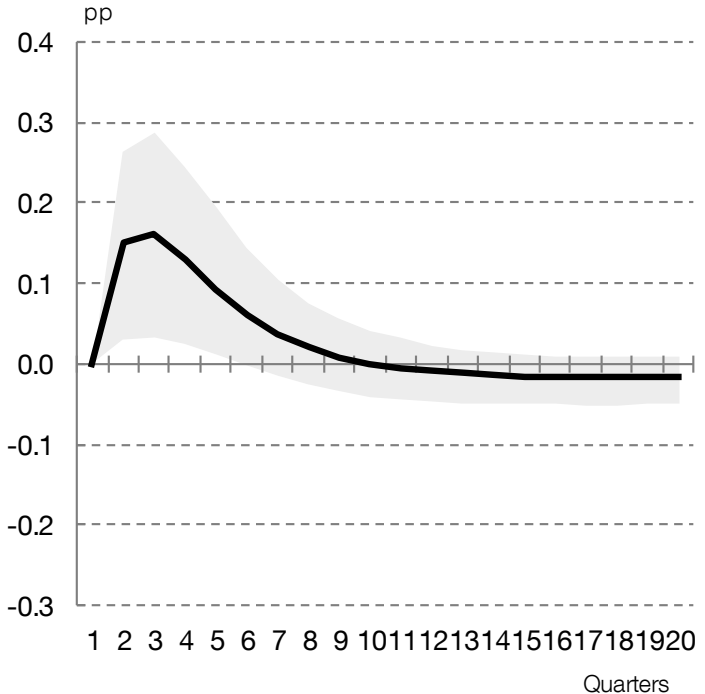
**INVESTMENT RESPONSE TO AN INTEREST RATE SHOCK**



**INVESTMENT RESPONSE TO A CONFIDENCE SHOCK**



**INVESTMENT RESPONSE TO A DEMAND SHOCK**



Source: P. Aguilar, C. Ghirelli and B. Jiménez-García (2023), “La evolución reciente de la inversión en España desde una perspectiva macroeconómica”. Banco de España, forthcoming.



# ISSUES REGARDING THE TRANSMISSION OF INCREASES/DECREASES OF COSTS TO CONSUMER PRICES

Inflationary pressures still have plenty of momentum

Although there is increasingly widespread evidence of a slowdown in the growth rate of prices upstream in the value chain, the EBAE shows a slight divergence in the paths of prices of input and output prices in 2023 Q1.

The Banco de España's projections suggest that increases in past costs should have mostly been passed through to consumer prices by the end of 2023...

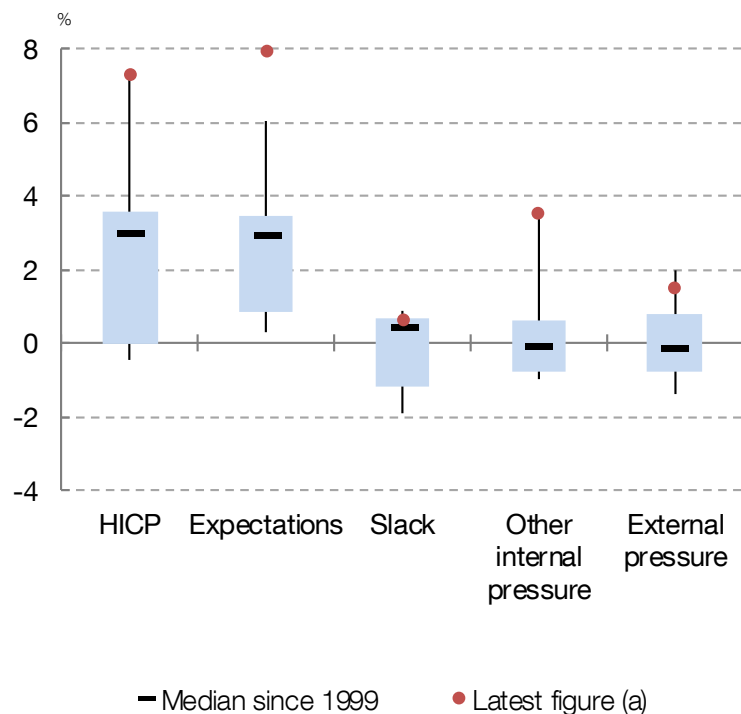
... while the disinflationary effects of recent drops in energy prices should be felt more strongly from 2024 onwards

Nevertheless, the existence of asymmetries in the pass-through of cost increases vs decreases to consumer prices cannot be ignored. In the case of energy (oil, fundamentally), the economic literature tends to reveal symmetric effects. However, in the case of agricultural commodities, some work suggests a level of asymmetry, such that cost increases are passed through to consumer prices more swiftly than decreases

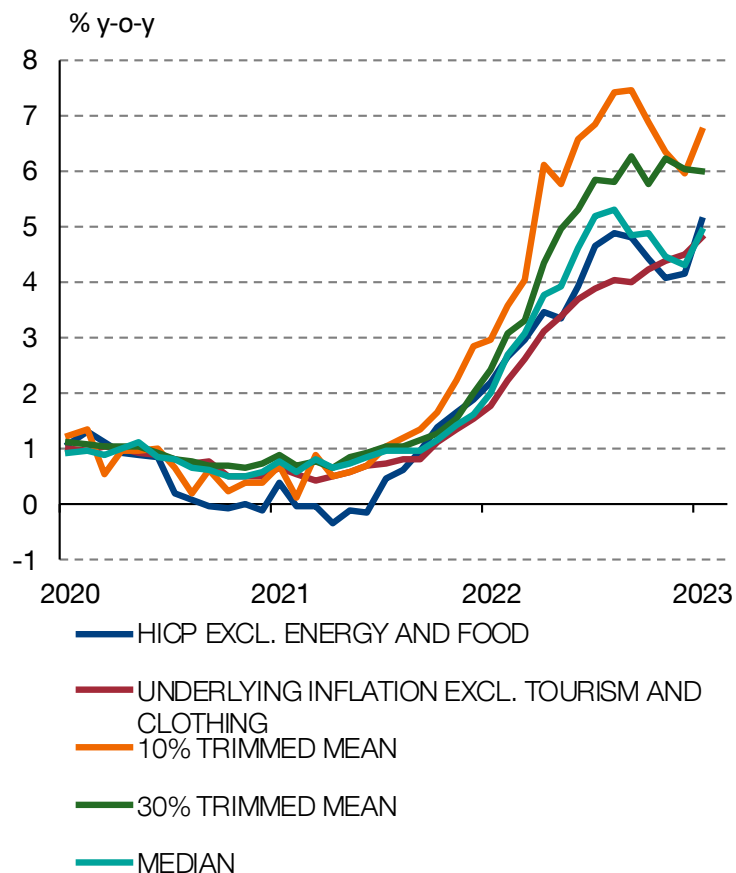


# INFLATIONARY PRESSURES STILL HAVE PLENTY OF MOMENTUM

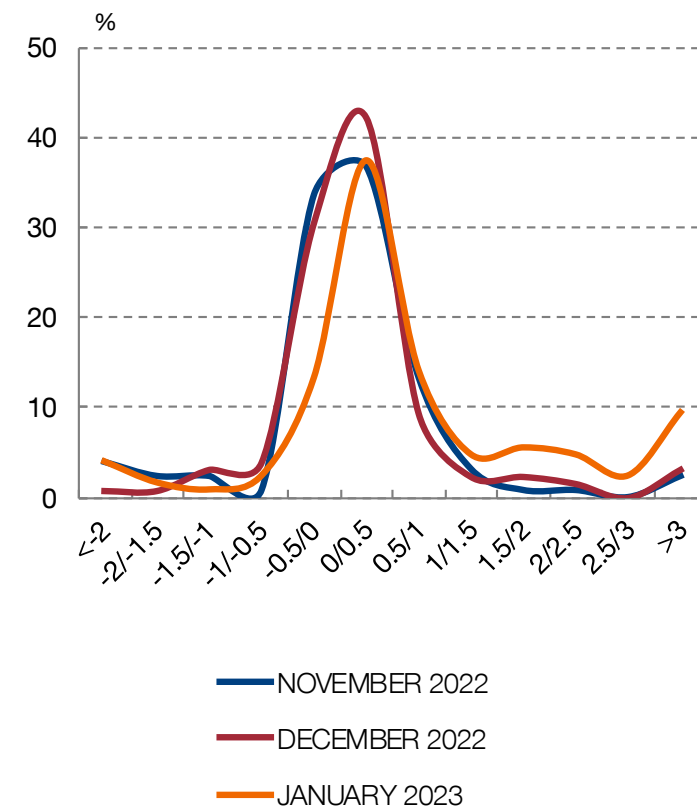
## INFLATIONARY PRESSURE INDICATORS



## MEASURES OF UNDERLYING INFLATION



## PERCENTAGE OF HICP SUBCLASSES IN EACH RANGE OF MONTH-ON-MONTH GROWTH (b)



Sources: INE and Banco de España.

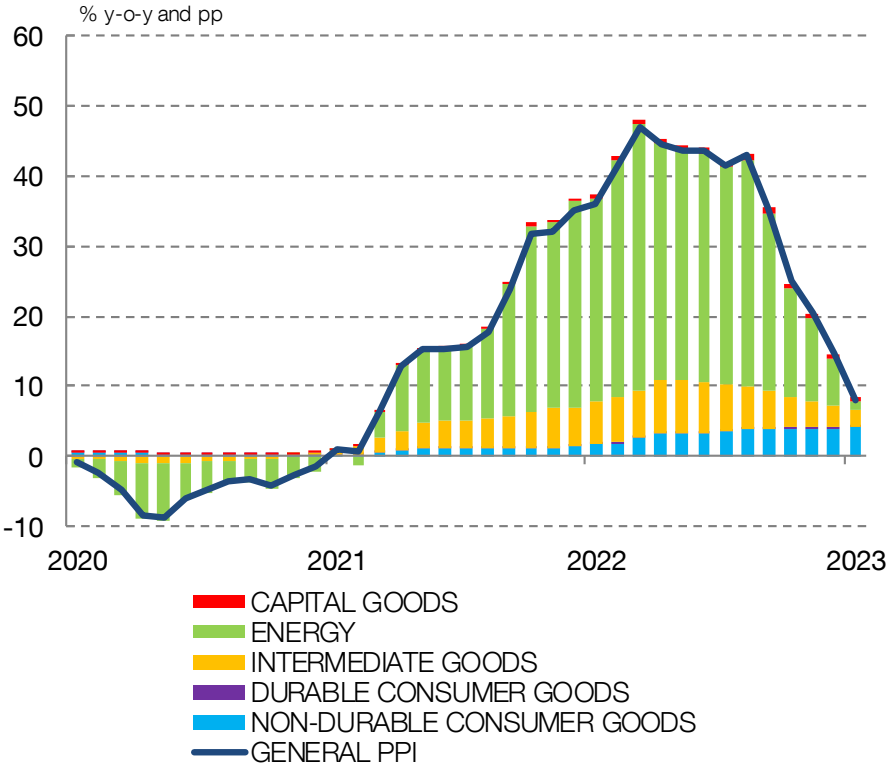
(a) Monthly: Jan 2023; quarterly: 2022 Q4; daily: 2 Feb 2023.

(b) Month-on-month rates corrected using average rates for each month between 2016 and 2019.

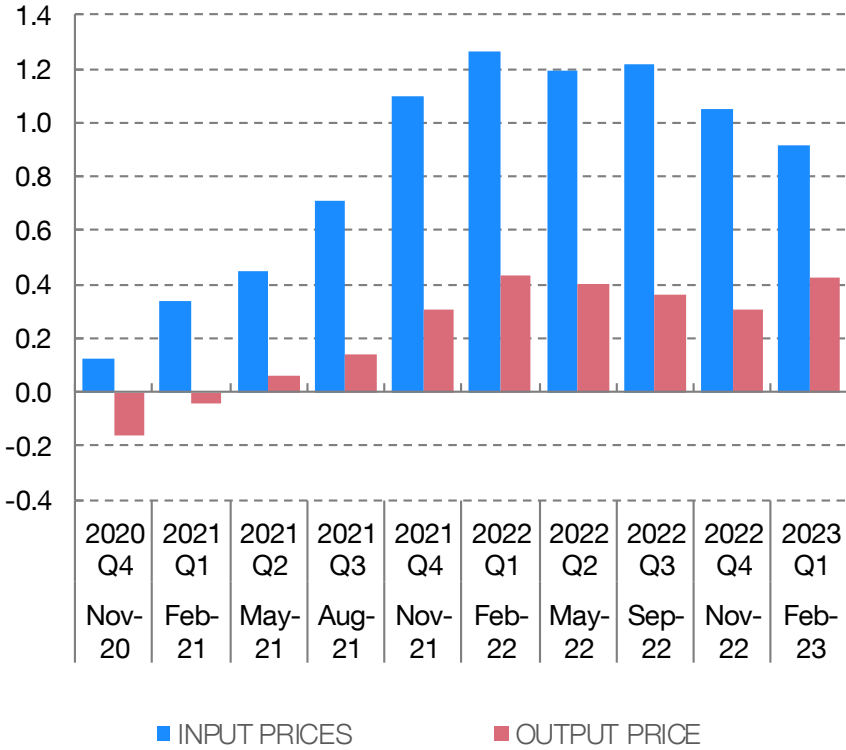


# PRODUCER PRICES CONTINUED TO SLOW DOWN, ALTHOUGH THE EBAAE SHOWS A SLIGHT DIVERGENCE IN THE PATHS OF INPUT AND OUTPUT PRICES IN 2023 Q1

**PPI: RATES AND CONTRIBUTIONS**



**QUARTERLY CHANGE IN PRICES (a)**



Sources: INE and EBAE.

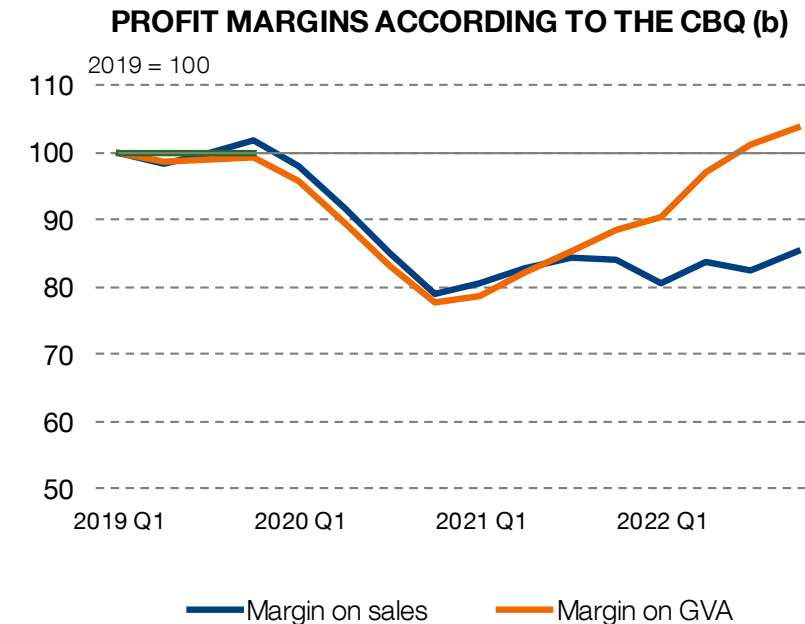
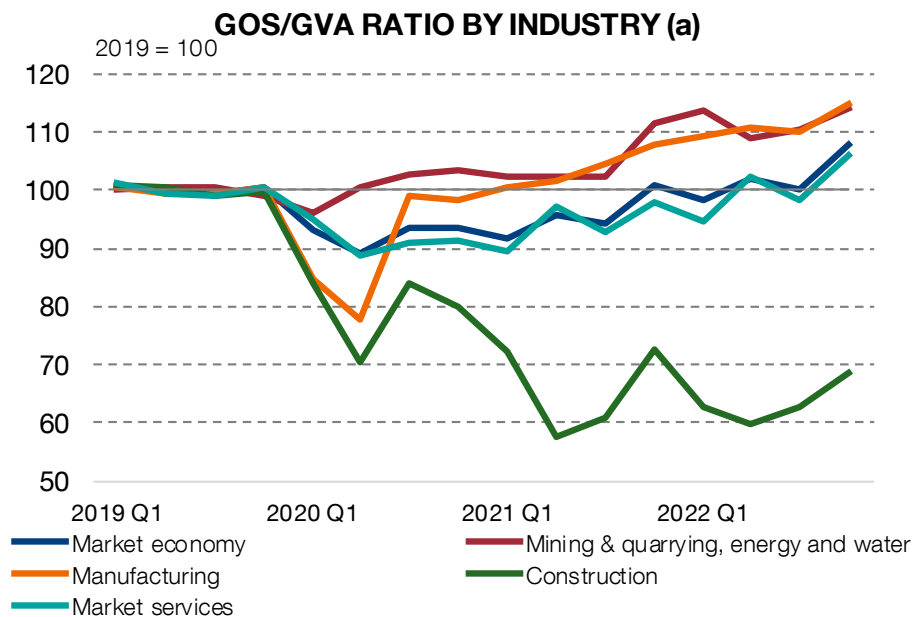
(a) Index constructed by assigned the following values to firms' responses: significant increase = 2; slight increase = 1; stable = 0; slight decrease = -1; significant decrease = -2.





# PROFIT MARGINS SEEM TO HAVE PICKED UP SOMEWHAT IN 2022; THEY NOW STAND SLIGHTLY ABOVE PRE-PANDEMIC LEVELS

- However, in the Central Balance Sheet Data Office Quarterly Survey (CBQ), the profit margin as approximated by the ratio of gross operating profit (GOP) to turnover appears to have remained relatively stable in 2022 and still below its 2019 level
- In any case, as in previous quarters, these aggregate behaviours mask significant heterogeneity across sectors and firms



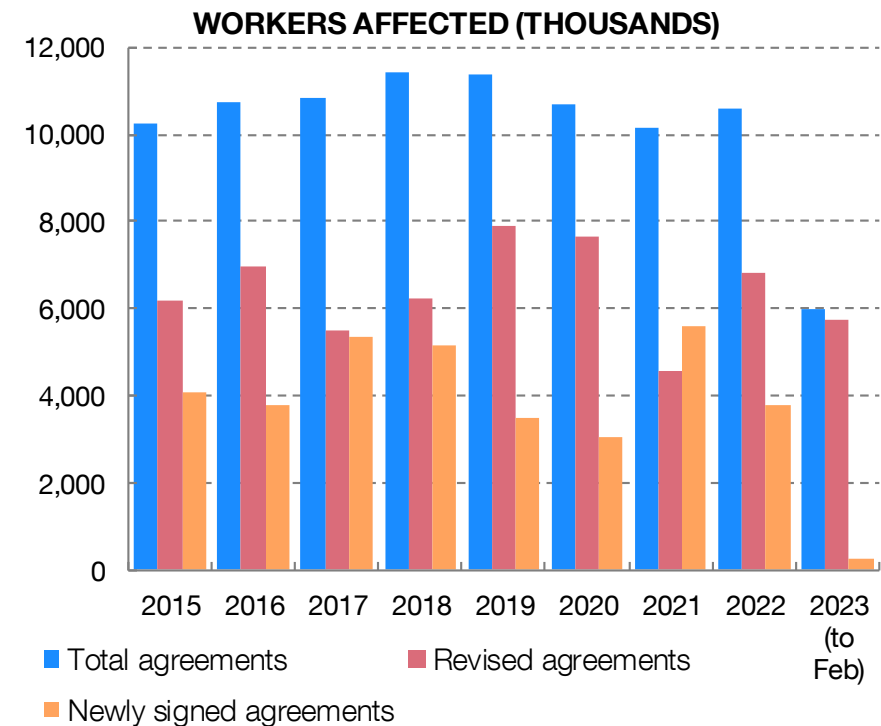
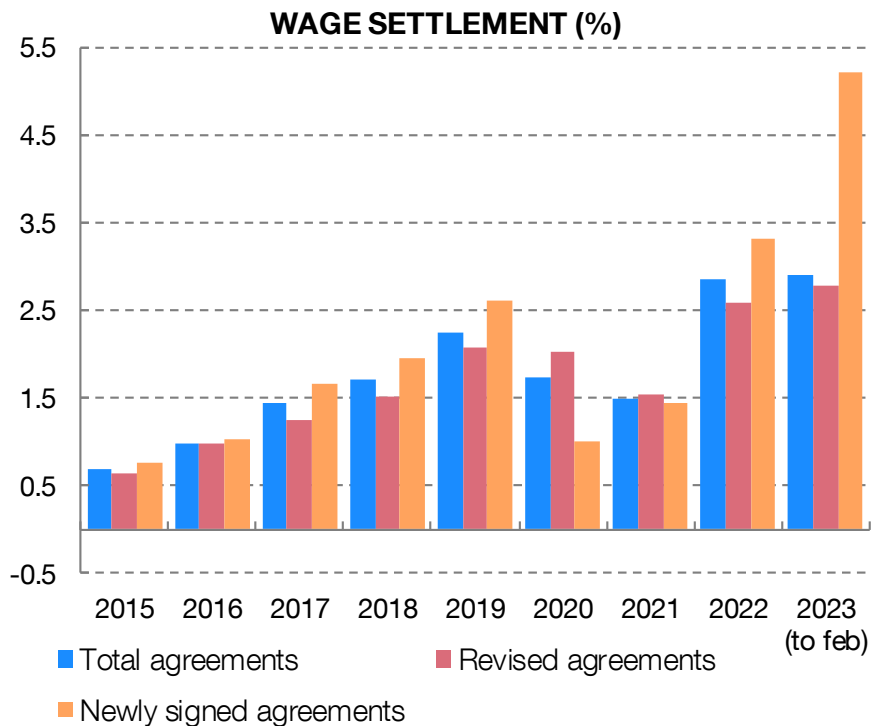
Sources: Banco de España and INE. Latest data observed: 2022 Q4.

(a) The gross operating surplus (GOS) is gross value added (GVA) less labour compensation, which imputes the average wage of employees to the self-employed. This measures of the GOS includes net taxes on production and imports.

(b) Margin on sales is defined as the ratio of GOP to net turnover. Margin on GVA is defined as the ratio of GOP to GVA. Four-quarter cumulative data.

# WAGE GROWTH REMAINS RELATIVELY CONTAINED, ALTHOUGH NEWLY SIGNED AGREEMENTS ARE BEGINNING TO SHOW LARGER RISES

- Negotiated wage increases for 2023 rose slightly to 2.89% – up from 2.81% in January. These agreements cover around 5.9 million workers and the large majority were signed in previous years
- Agreements signed in 2023 cover 244,000 workers and include a negotiated increase of 5.2%
- The prevalence of indexation clauses remained stable, covering 27% of workers



Source: Ministerio de Trabajo y Economía Social. Latest data observed: February 2023.

