

THE SPANISH ECONOMY: OUTLOOK AND CHALLENGES OUTSTANDING

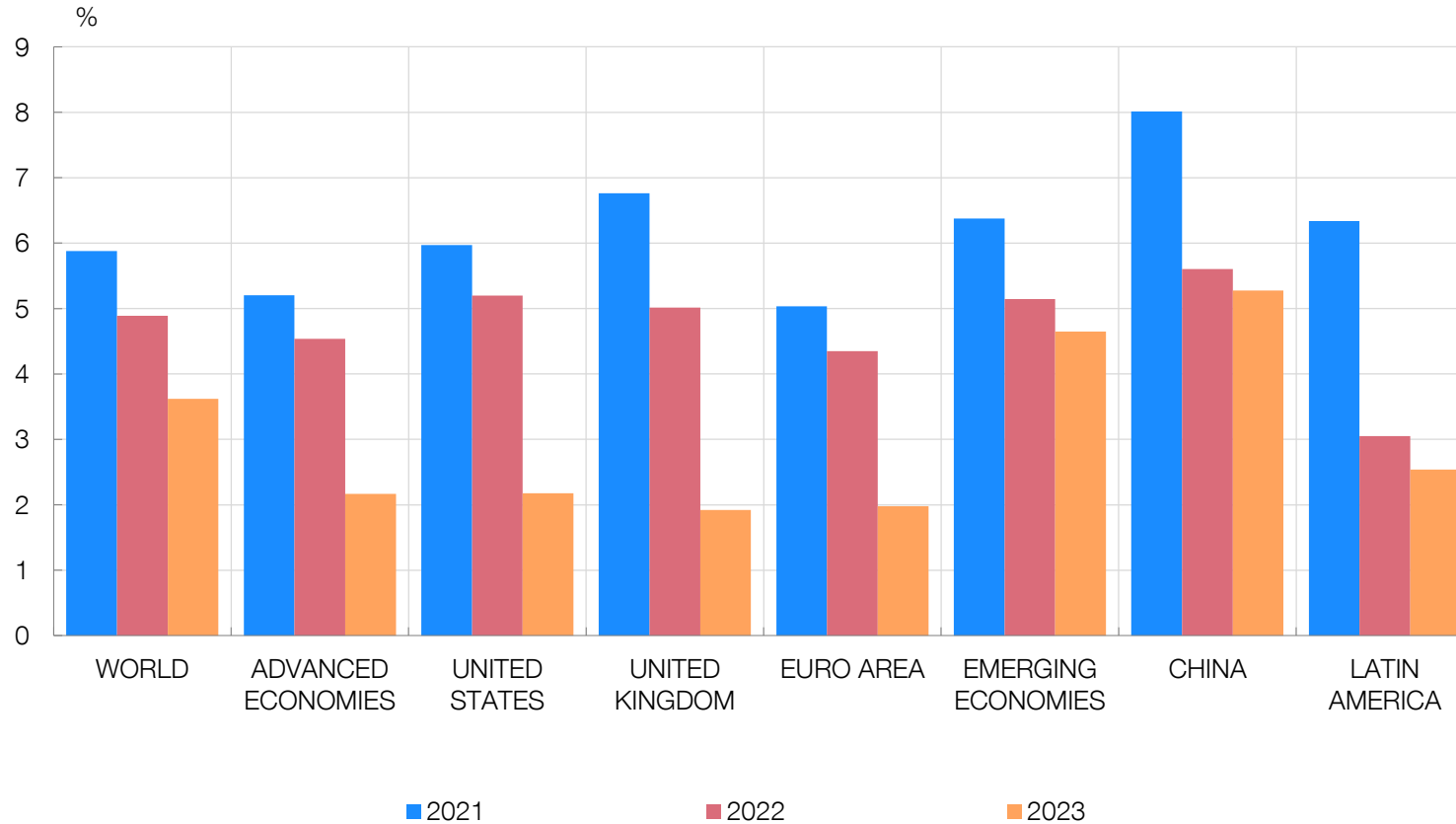
Pablo Hernández de Cos
Governor

FORO ECONÓMICO DE GALICIA

Santiago de Compostela
4 November 2021

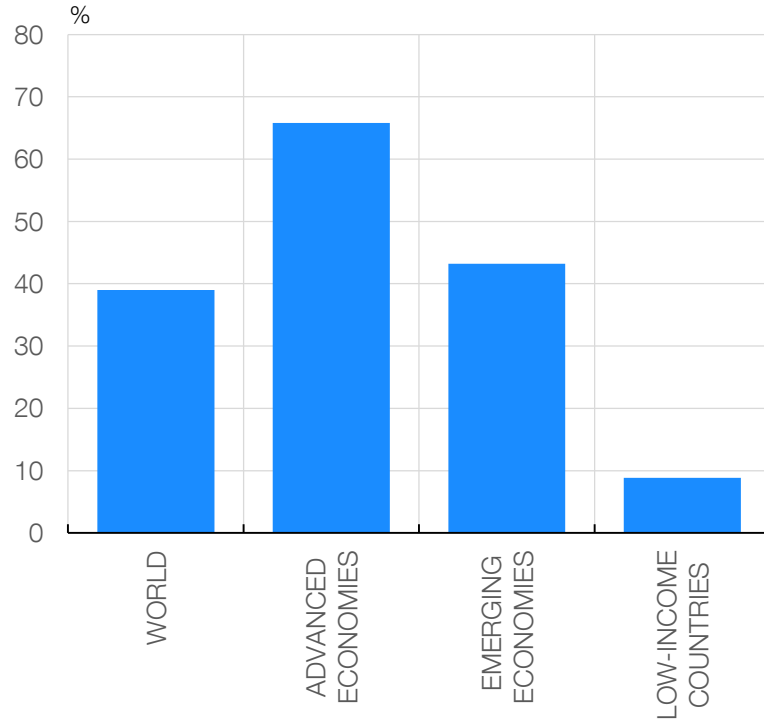


GDP GROWTH FORECASTS

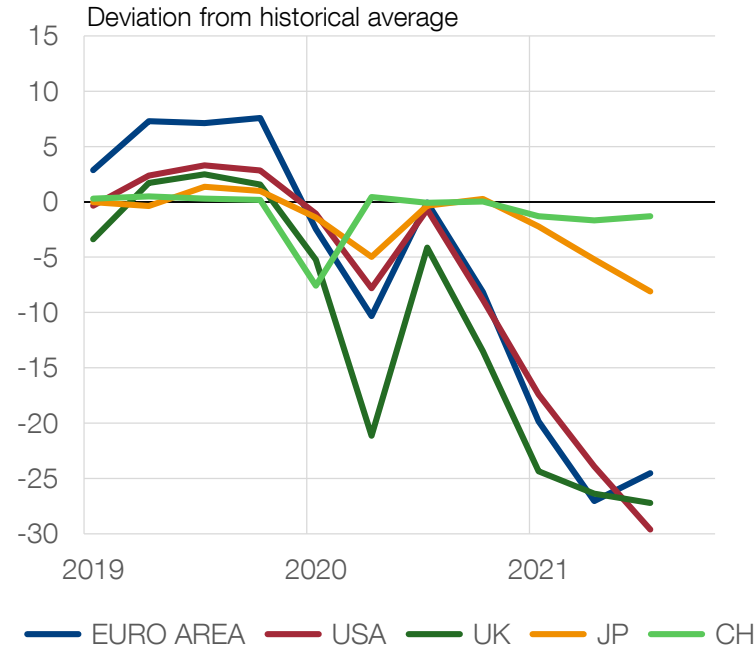


SOURCE: World Economic Outlook (IMF, Oct. 2021).

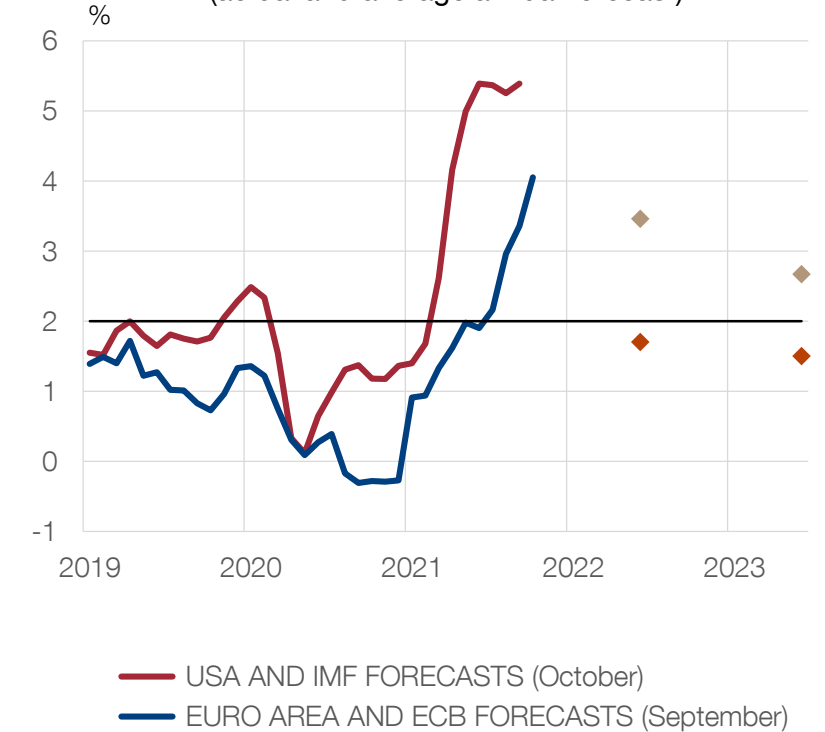
POPULATION FULLY VACCINATED
(02/11/2021)



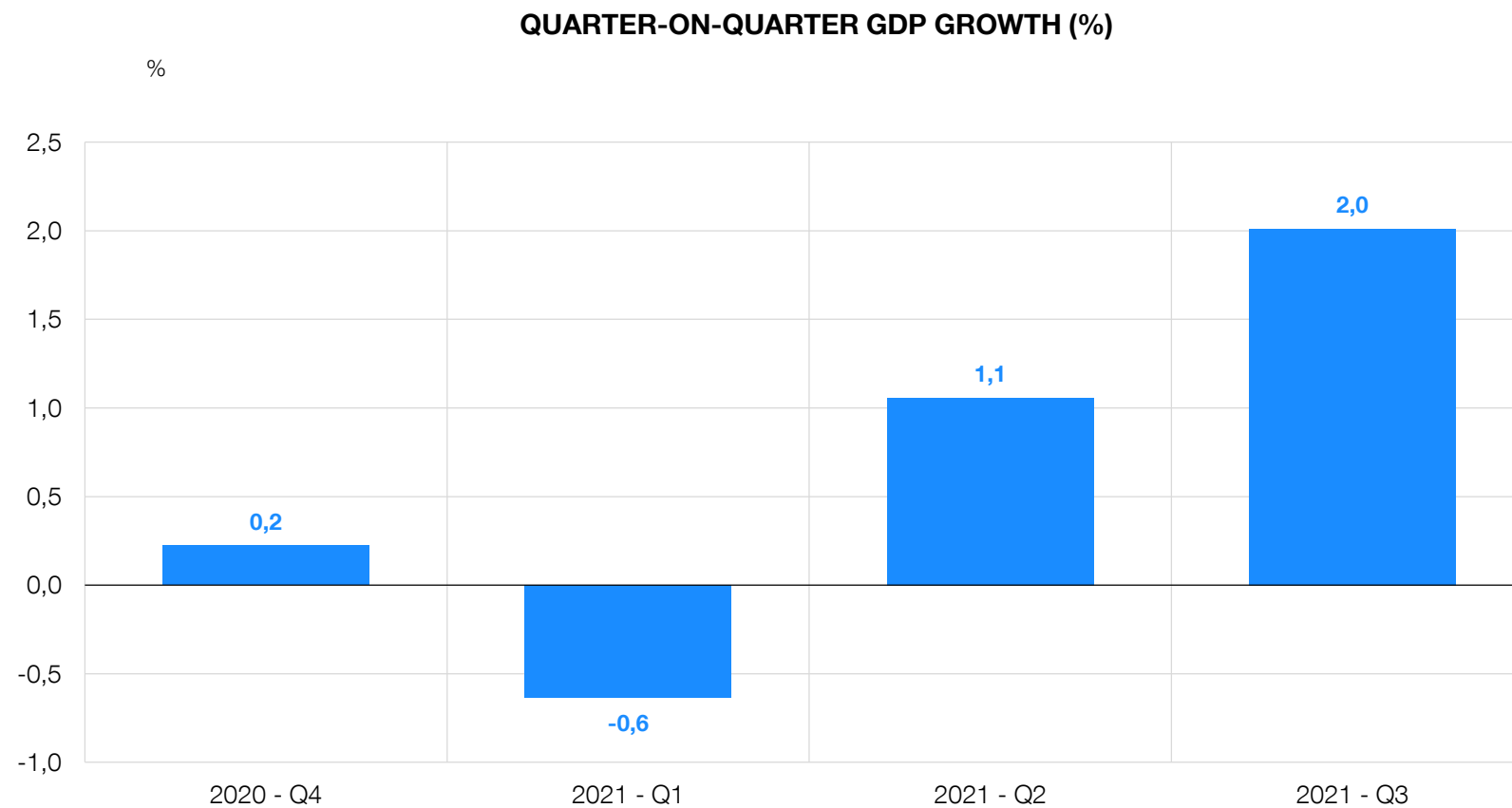
PMI SUPPLIERS' DELIVERY TIMES
(average monthly data)



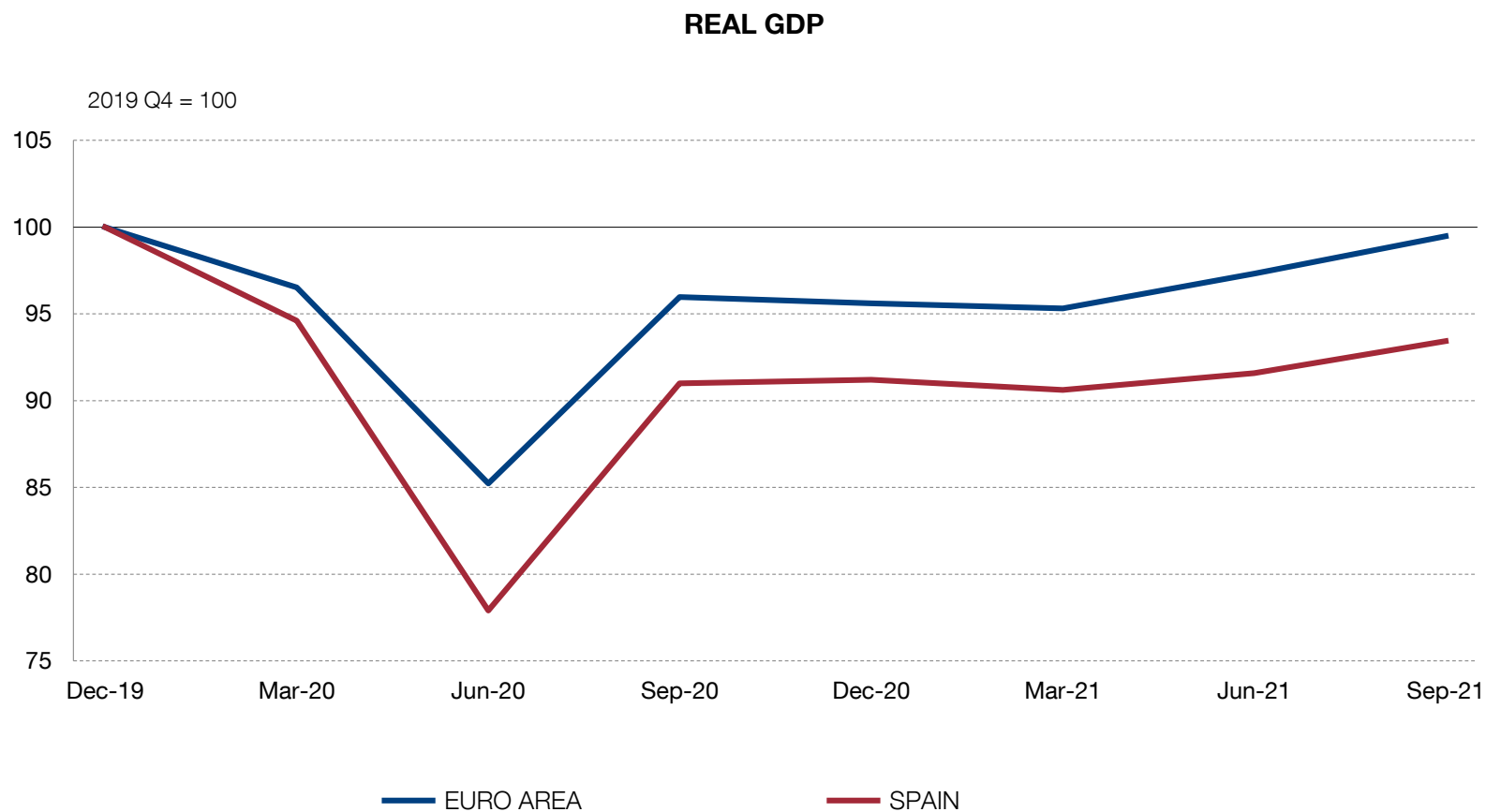
HEADLINE HICP
(actual and average annual forecast)



SOURCES: Our World in Data, Markit, Eurostat, Refinitiv, ECB and IMF.



SOURCE: INE.

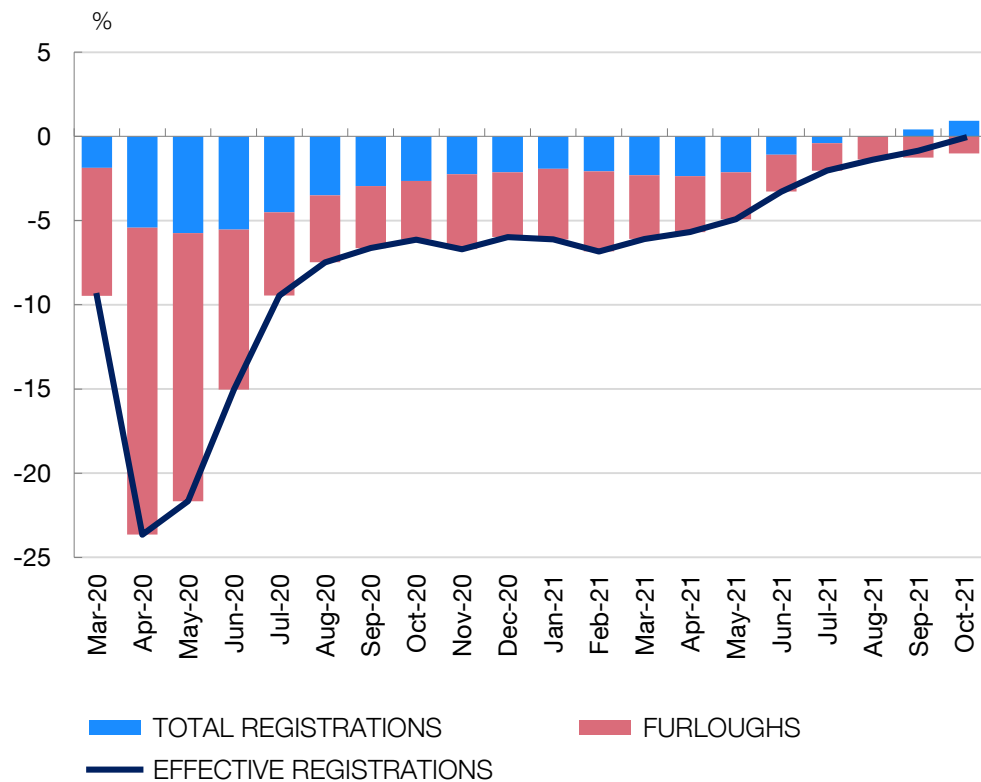


SOURCES: INE and Eurostat.

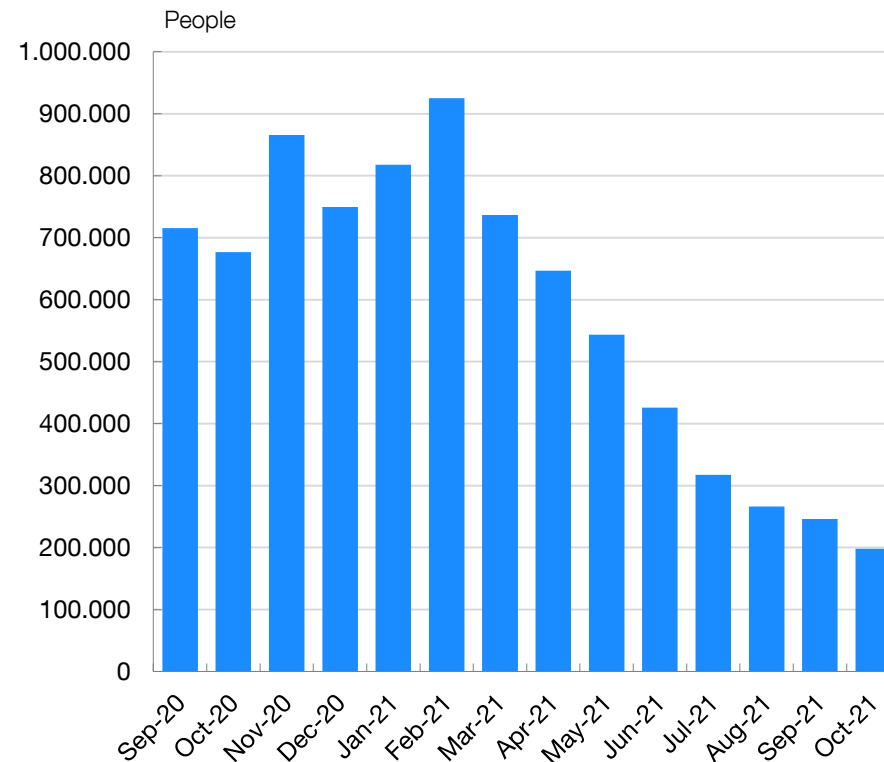
EMPLOYMENT IS RECOVERING FASTER THAN GDP. IN OCTOBER, EFFECTIVE SOCIAL SECURITY REGISTRATIONS STOOD JUST 0.1% BELOW THE PRE-CRISIS LEVEL

CHANGE IN TOTAL AND EFFECTIVE SOCIAL SECURITY REGISTRATIONS AND FURLOUGHS

(total registrations series is seasonally adjusted)



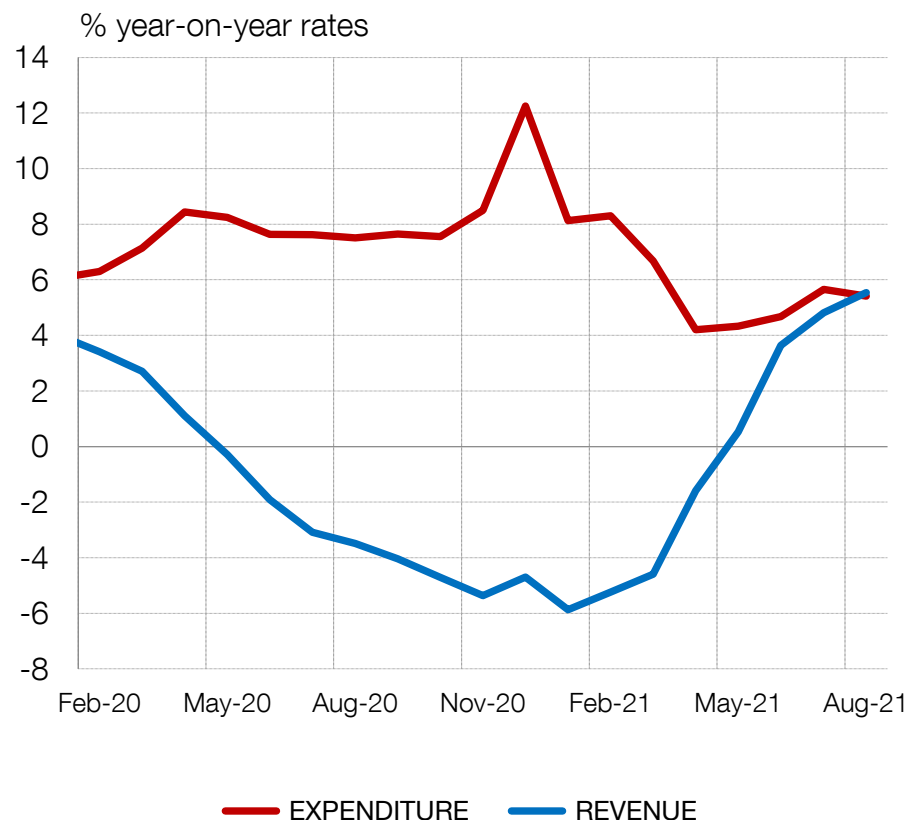
FURLOUGHED WORKERS (monthly average)



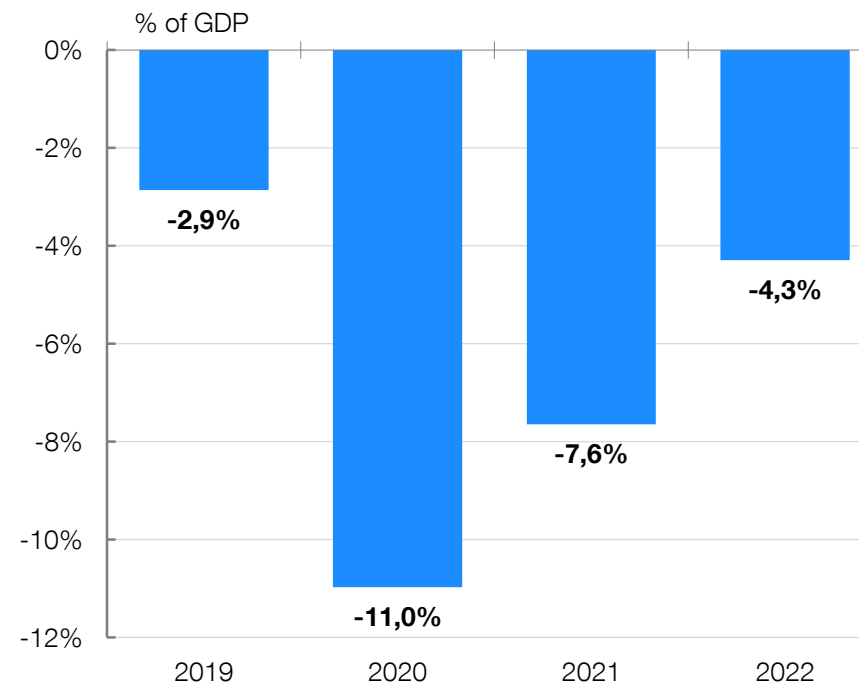
SOURCE: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest observation: October.

THE BUDGET DEFICIT INCREASED TO 11% OF GDP IN 2020, DRIVEN ESSENTIALLY BY RISING EXPENDITURE. IN AUGUST 2021 IT STILL STOOD AT 8.3% (12-MONTH CUMULATIVE)

GENERAL GOVERNMENT REVENUE AND EXPENDITURE (a) (b)



PUBLIC DEFICIT



SOURCES: Intervención General de la Administración del Estado (IGAE) and INE.

(a) The IGAE only provides quarterly information on general government as a whole. The monthly data are estimated based on information for the aggregate excluding local governments.

(b) Adjusted data distributing atypical revenue and expenditure generated in each month across the year as a whole.

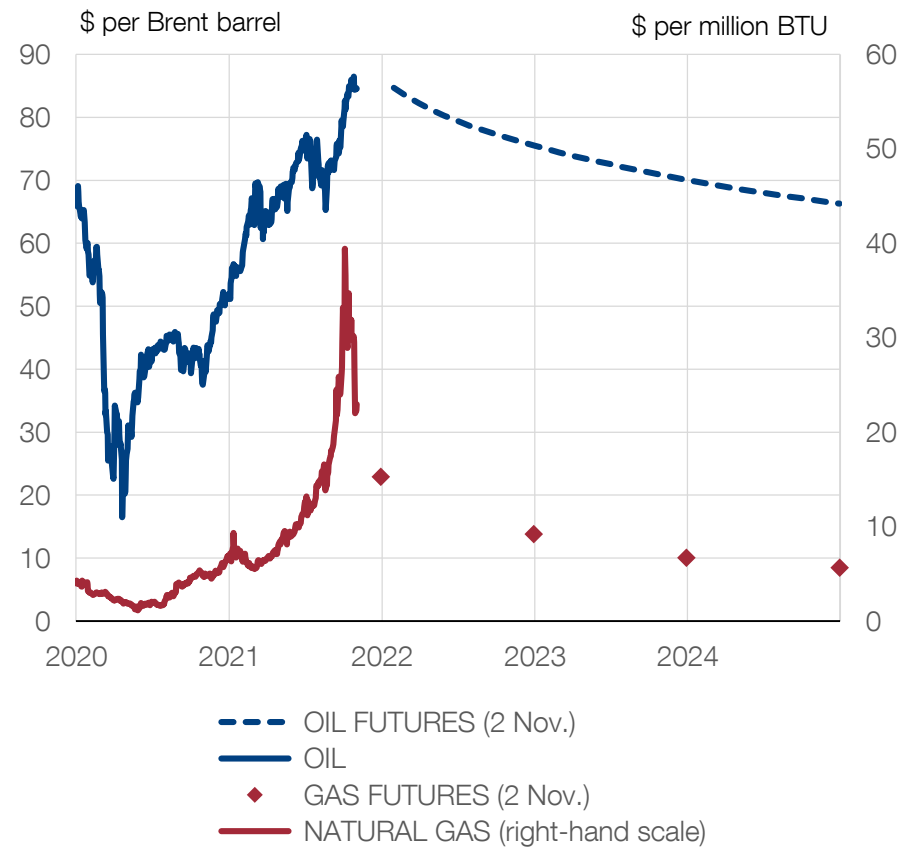
1. By sector: financial activities, information and communication, professional activities, education and health have already reached or surpassed pre-crisis levels. However, other sectors remain well short of pre-crisis levels, such as wholesale and retail trade, transportation, hospitality and entertainment.
2. By region: in 2021 Q3 the Spanish employment rate recovered the level recorded two years previously. In some regions, however, a negative gap of around 2 pp remains vis-á-vis 2019 Q3, while, conversely, in Castile-La Mancha and Murcia the employment rate stands nearly 2 pp higher than that level.
3. By age group: in Q3, the employment rates for the 16-19 age group were down 0.8 pp on those of two years previously, while those for the intermediate age group (30-44) and the over-45s stood 0.1 pp and 1.1 pp above pre-crisis levels, respectively.

1. The most recent QNA series published by the National Statistics Institute (INE) showed a lower GDP level for Q2 than the flash estimate. The GDP growth rate in Q2 was 1.1%, compared with 2.8% in the flash estimate.
2. The QNA flash estimates for Q3 confirmed the recovery path that began in spring, with quarter-on-quarter GDP growth of 2%.
3. A recent deterioration has been observed in some aspects of the international environment: global bottlenecks and upturns in commodity prices and other intermediate costs.

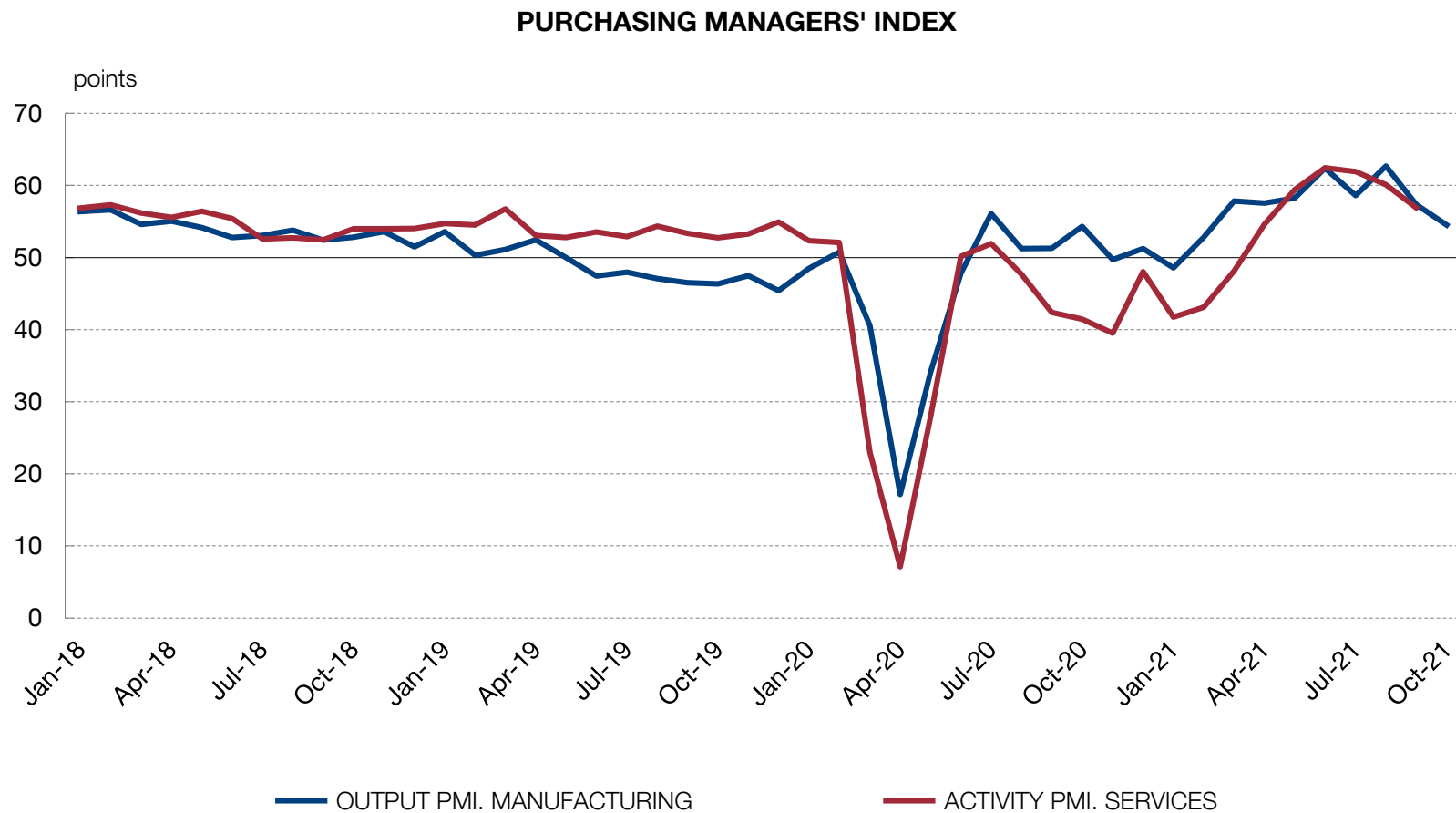
COMMODITY PRICES



PRICE OF OIL (BRENT) AND GAS (DUTCH TTF)



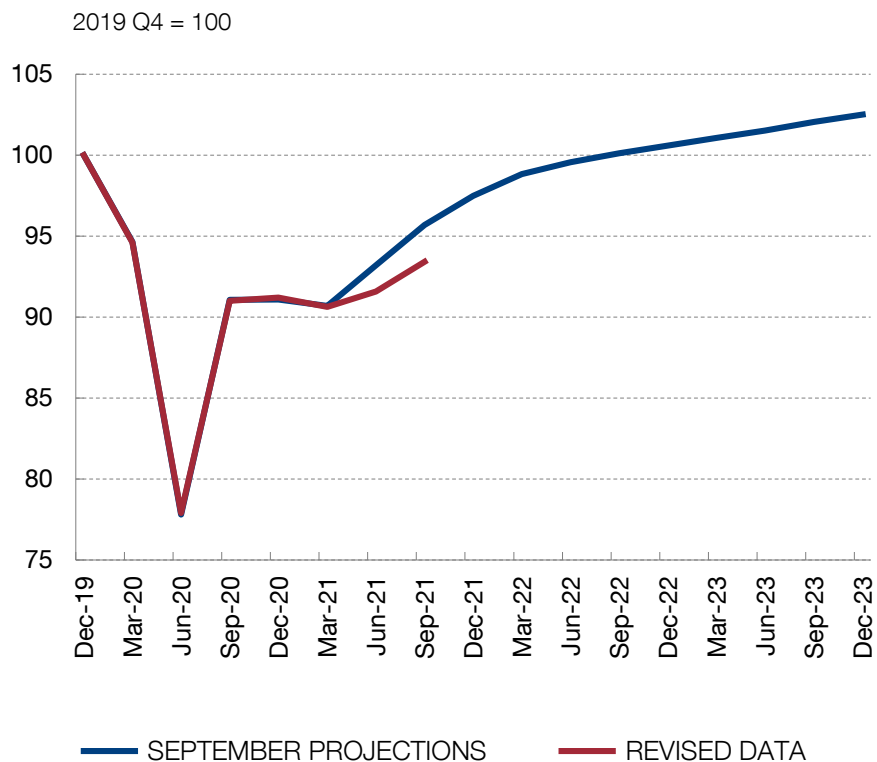
SOURCES: Refinitiv and Bloomberg.



SOURCE: IHS Markit. Latest observation: October (Manufacturing PMI) and September (Services PMI).

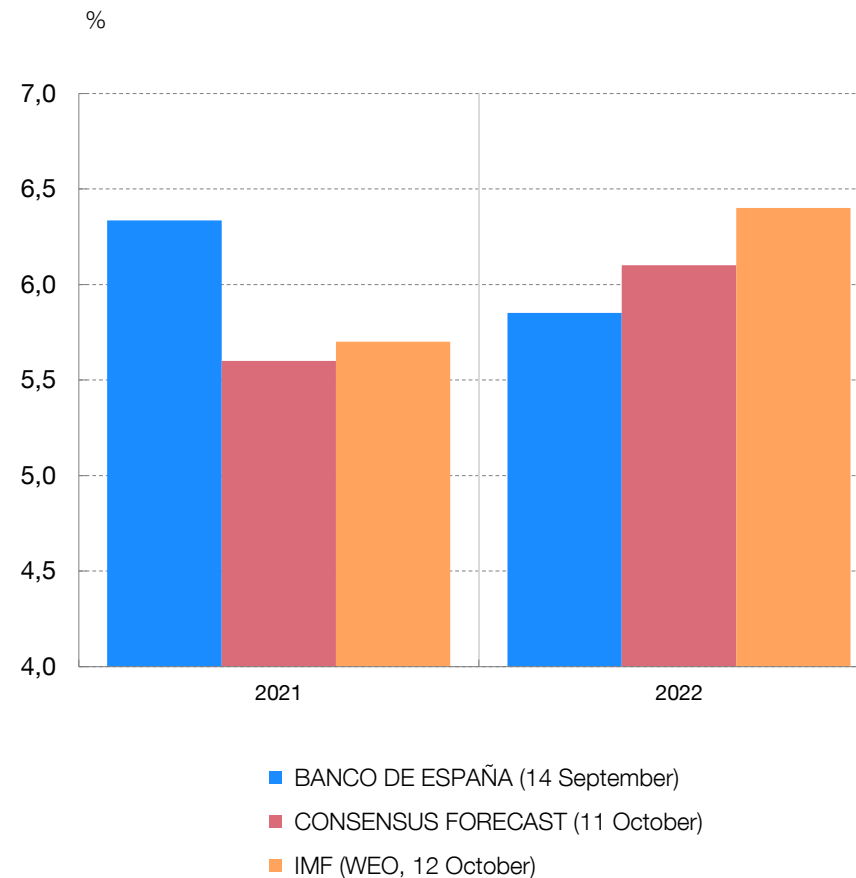
OVERALL: SIGNIFICANT DOWNWARD REVISION IN THE CONSENSUS GDP GROWTH FORECAST FOR 2021. FOR 2022: STABILITY AT AROUND 6%

REAL GDP



GDP GROWTH

Average annual rate



SOURCES: INE, IMF and Consensus Forecast.

✓ Epidemiological factors:

Pace of global vaccination: quickening this is essential to prevent new variants of the virus that might prompt the reintroduction of containment measure

✓ Factors related to the behaviour of economic agents:

The pace and scope of the process of spending the saving built up during the pandemic

The international movement of people and how quickly tourism returns

The pace of implementing the NGEU and its multiplier effect on activity

✓ Scarring from the crisis:

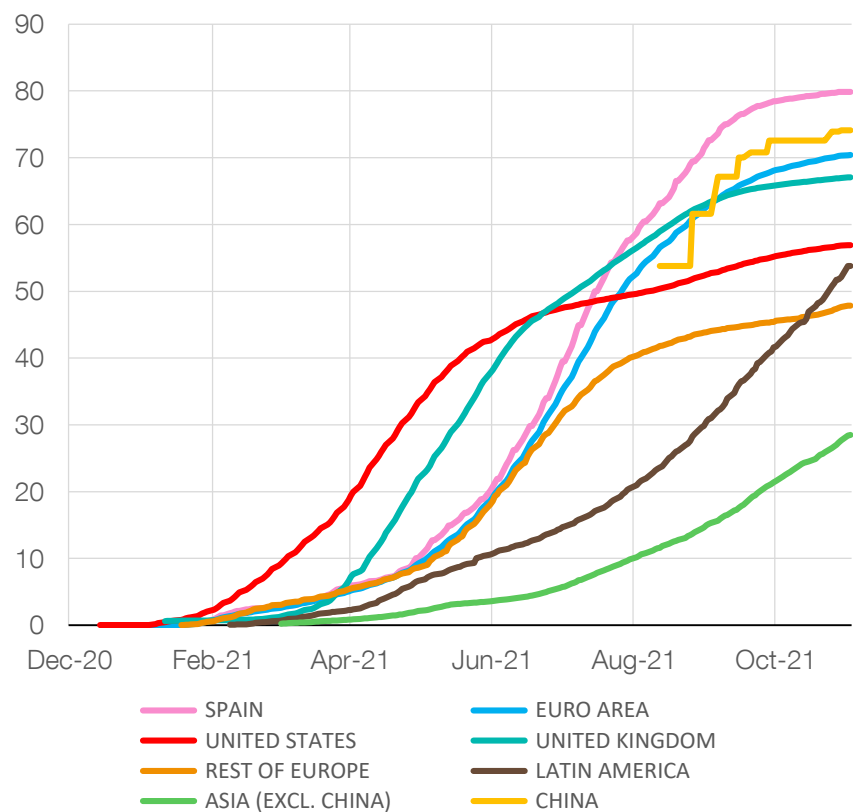
The persistent effects on potential growth (hysteresis in the labour market, destruction of firms) and the effectiveness of the economic policies intended to mitigate them

✓ Developments in some recent uncertainties stemming from the international environment:

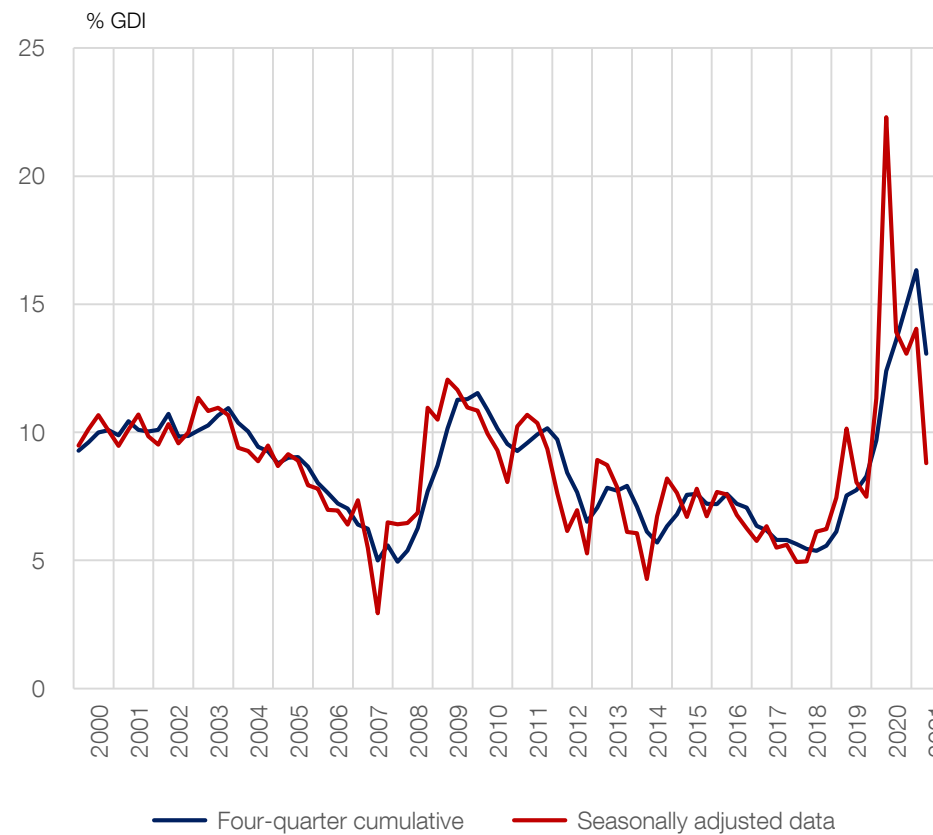
The persistence and intensity of disruptions to global production chains

The degree of persistence of cost increases and their pass-through to prices and wages

% OF THE POPULATION FULLY VACCINATED

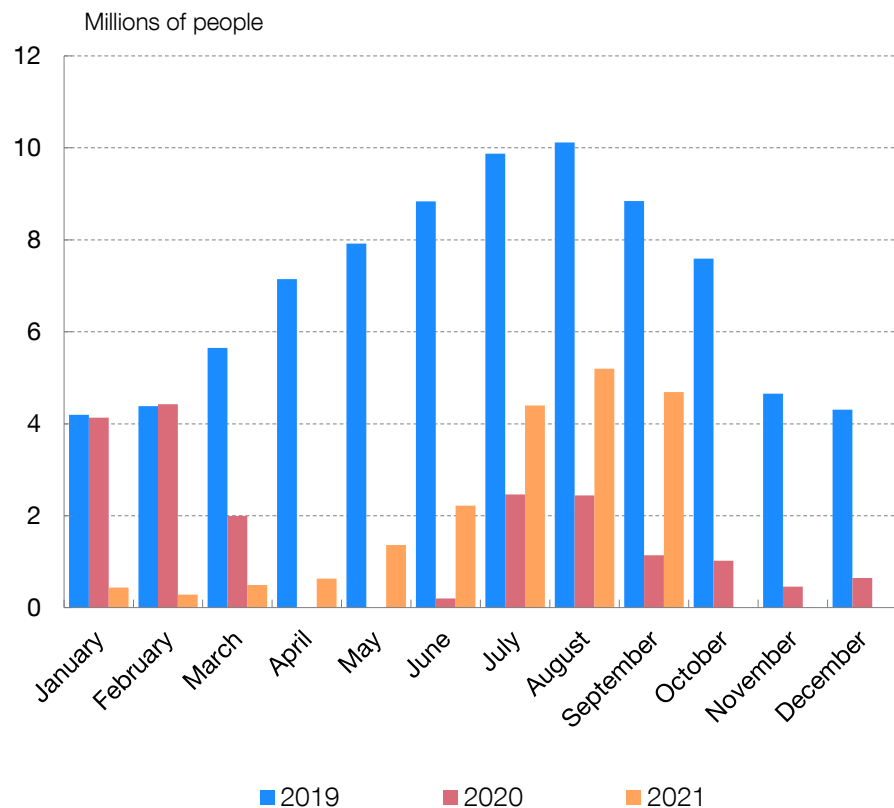


SPANISH HOUSEHOLD SAVING RATE

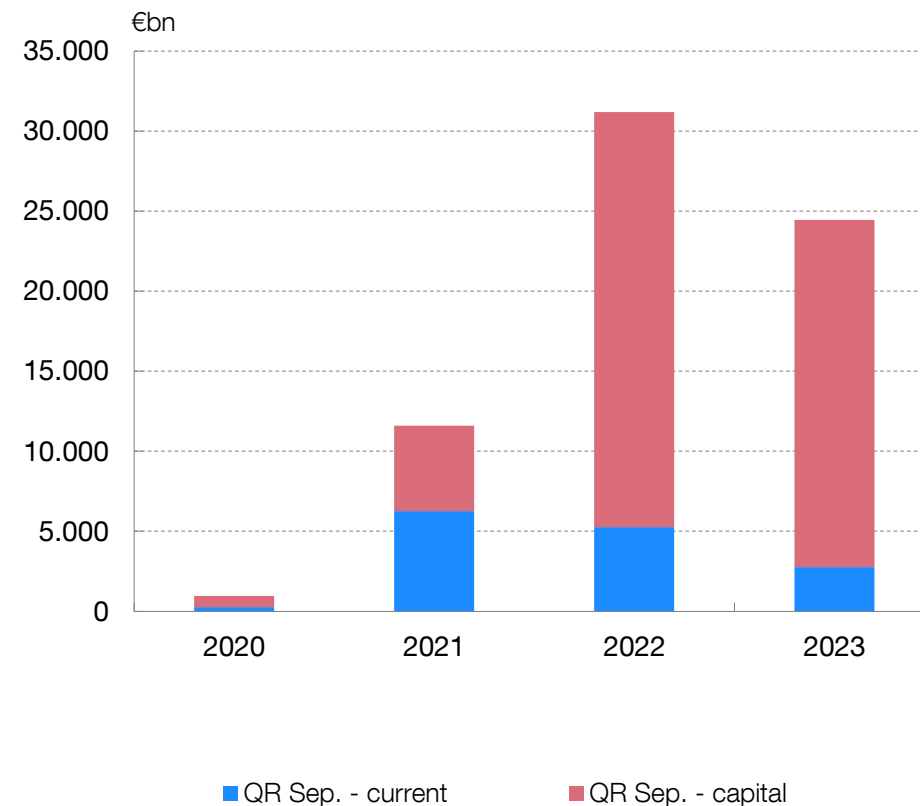


SOURCES: Reuters (left; latest update: 2 November) and INE (right).

**FOREIGN TOURIST ARRIVALS.
Comparison 2019-2020-2021**

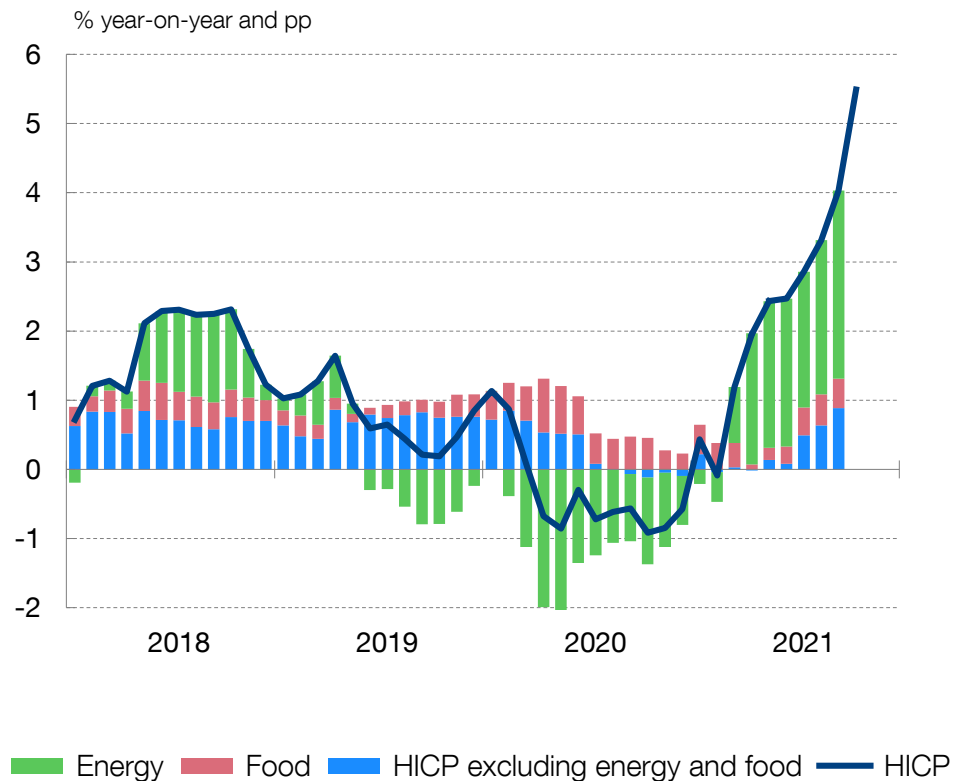


**NGEU ABSORPTION ASSUMPTIONS
(RRF + REACT-EU)**

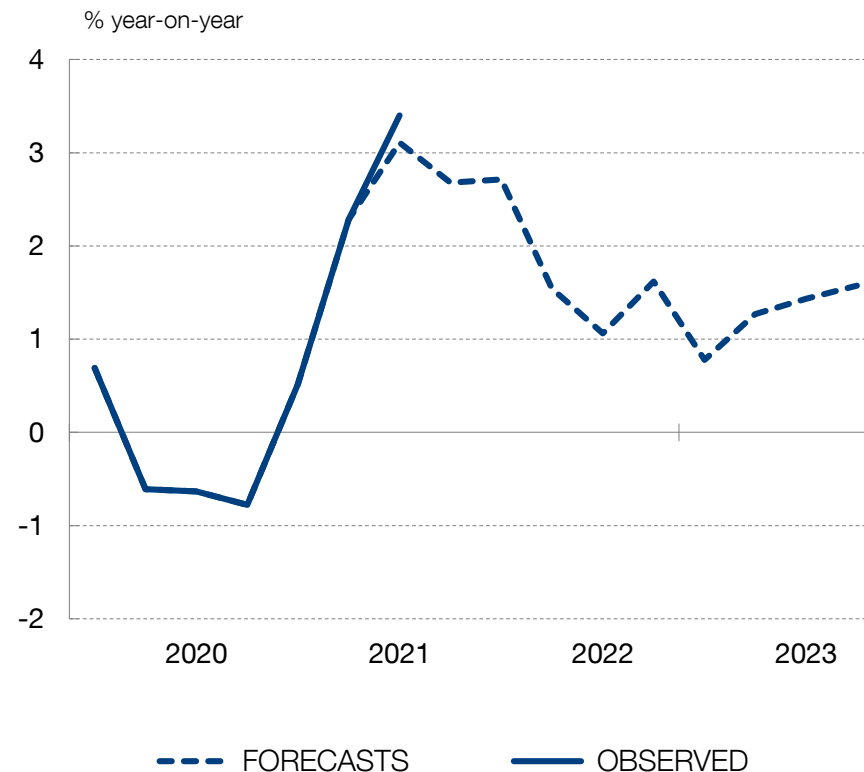


SOURCES: INE and Banco de España.

CONTRIBUTIONS (pp) TO THE YEAR-ON-YEAR HICP RATE (%)



HICP: FORECASTS



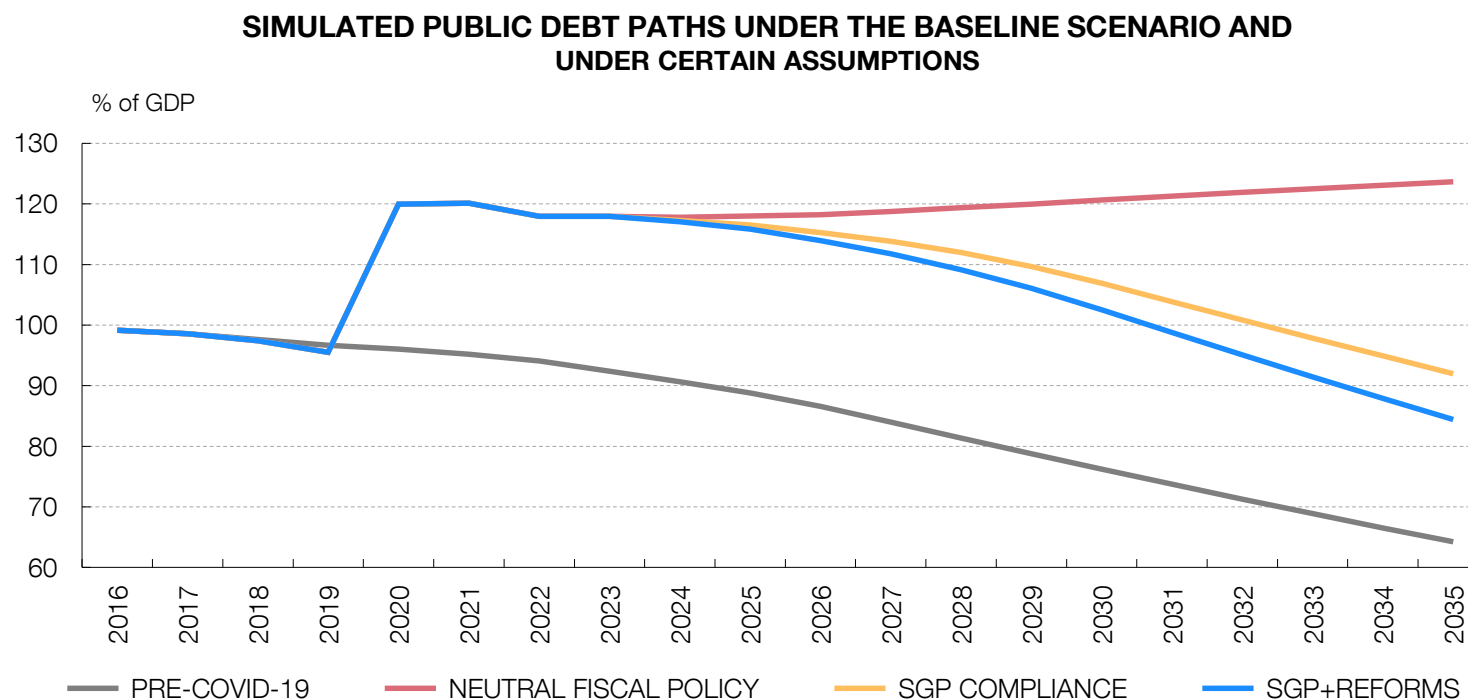
SOURCES: INE and Banco de España.

1. In the current and foreseeable context, monetary and fiscal policy should avoid a premature withdrawal of stimuli.
2. In the case of monetary policy, the latest ECB Governing Council decisions ensure that highly favourable financing conditions will be maintained during the economic recovery.
3. Fiscal policy support will continue to be necessary in 2022, albeit more selectively, focusing on firms and population groups in which the effects of the crisis are still being felt. It is important that measures are temporary so as not to increase the structural deficit further.
4. In parallel, a consolidation programme should be designed that would allow for a gradual reduction of the high budget deficit and public debt levels, with a view to launching the programme once the recovery has taken hold.
5. Economic policy should also help firms and workers adapt to the new economic circumstances arising from the pandemic. To do this, use of the adjustment mechanisms provided for by legislation should be allowed to adapt firms' specific conditions, improve debt restructuring procedures and strengthen training policies and job-search assistance for workers.
6. Medium-term challenges should be addressed with a resolute agenda of structural reforms, also supported by the use of the European funds.

7. Lastly, economic policy should be properly managed in the current context of rising inflation:
 - This is one more argument in favour of the selective fiscal policy approach, avoiding the widespread use of indexation in expenditure items.
 - Support for vulnerable households to withstand inflation must be accompanied by a profound reflection on the potential structural shortcomings of our energy market.
 - Firms and workers must internalise the essentially transitory nature of the upturn in prices and seek a fair distribution of the diminished income in the national economy compared with the rest of the world that the recent cost increases entail, in many cases concentrated in goods and services that our economy needs, but does not produce.

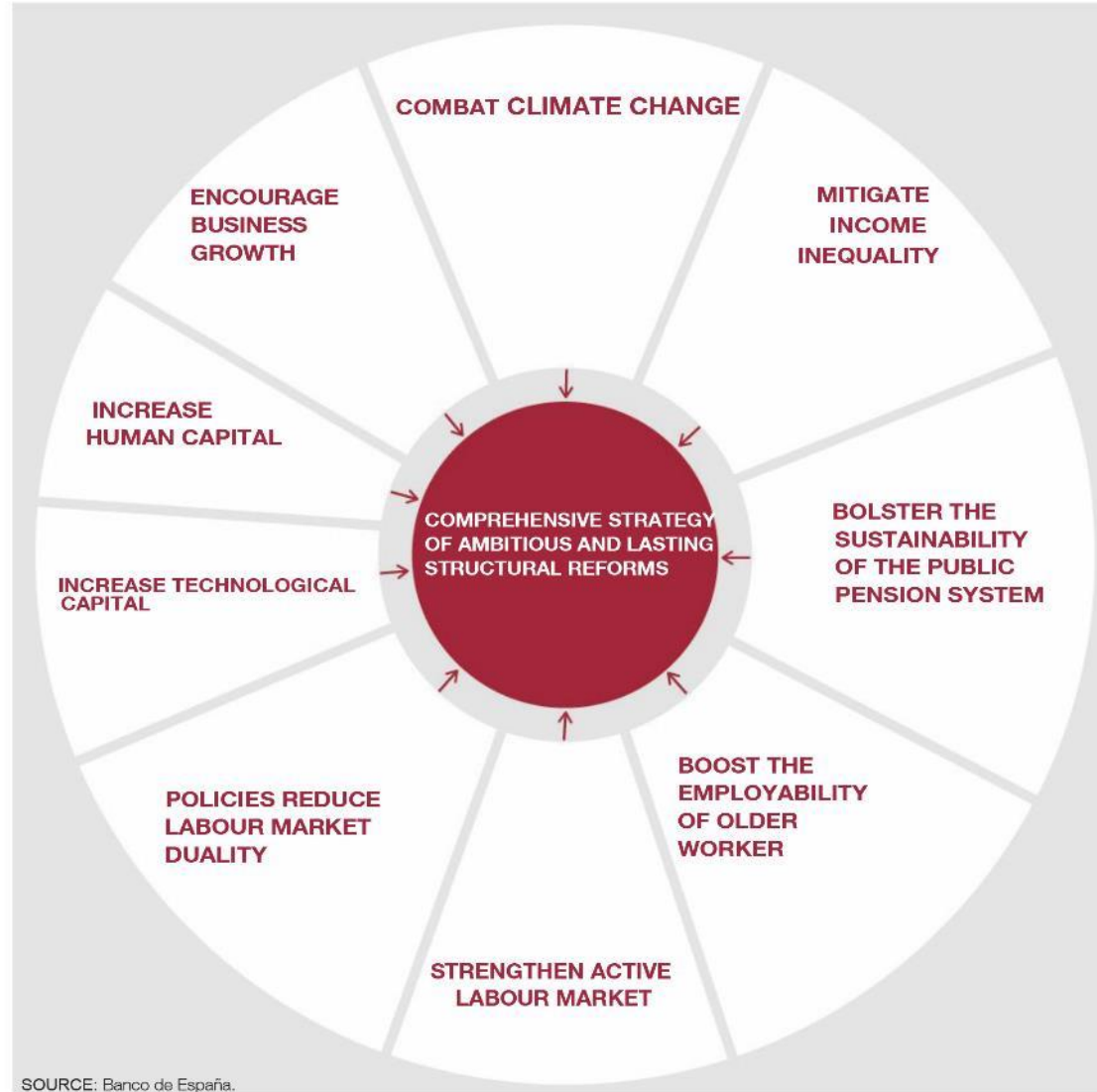
A CONSOLIDATION PROGRAMME TO REBUILD PUBLIC FINANCES MUST BE SPEEDILY DESIGNED

- The expansionary fiscal policy stance required during the present crisis must make way, when the recovery has firmly taken hold, for a **rebuilding of public finances** that will reduce the structural deficits and public debt.
- To boost the credibility of this process, it would be desirable for the main details to be **defined and announced early**.
- This programme should be based on a **comprehensive review of all public expenditure and revenue items** and an analysis of the implications of any fiscal policy action in terms of **efficiency and fairness**.



SOURCES: Banco de España, INE and Intervención General de la Administración del Estado.

AN AMBITIOUS, COMPREHENSIVE AND LASTING STRUCTURAL REFORM AGENDA IS NEEDED



THANK YOU FOR YOUR ATTENTION

