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Briefing note

Macroeconomic projections for the Spanish economy (2021-2024)

This note describes the key features of the **macroeconomic projections for the Spanish economy** for the period 2021-2024, published today by the Banco de España on its website (available at this [link](#)). Compared with those published in September, the current projections include new information that has since become known. This includes the latest National Accounts data, which present a significantly less favourable starting point for the level of activity as compared with the previous projections.

In the short term, GDP will continue to be influenced by the factors that have constrained its growth over the most recent period. Specifically, the global supply chain disruptions are proving to be more persistent than anticipated three months ago and are only expected to disappear completely during 2022. Also, the information available suggests that high energy prices and significant inflationary pressures will continue until around the spring of 2022, reducing agents' spending power in the meantime. Finally, the recent surge in COVID-19 case numbers in Spain and the rest of Europe has somewhat dampened the outlook for a return to normal activity, particularly as regards international tourism flows.

These factors will in part be countered by the boost from the projects funded through the Next Generation EU (NGEU) programme and by the maintenance of favourable financing conditions. Along with the resolution of the above-mentioned short-term obstacles, this will give greater momentum to activity in 2022 H2. **In annual average terms, GDP is expected to grow by 4.5% in 2021, 5.4% in 2022, 3.9% in 2023 and 1.8% in 2024.**

Set against those published in September, the current projections revise GDP growth downwards by 1.9 pp in 2021 and 0.4 pp in 2022. These revisions chiefly reflect the new QNA figures and, to a lesser degree, the slight worsening of the short-term outlook, higher prices and costs and the persistence of supply bottlenecks. The upward revision in 2023 is attributable to the reversal of the inflation increase, the end of the supply disruptions and the timing assumed for the execution of NGEU projects.

As mentioned, **consumer prices** have seen high rates of change in recent months owing to a range of factors. These include the base effects stemming from the price drops at the onset of the pandemic, supply difficulties, the sharp rise in the prices of energy (especially in the case of electricity) and of other intermediate goods and, to a lesser degree, the impact of the recovery in demand on some services prices. Inflationary pressures will tend to dissipate during 2022 after the production chain disruptions gradually ease, should the

signals from the futures markets of a reversal of the increase in energy prices be confirmed. The year-on-year rate of change in headline HICP is expected to peak between 2021 Q4 and 2022 Q1 and fall sharply in late 2022. **In annual average terms, HICP growth is expected to increase from 3% in 2021 to 3.7% in 2022, before declining to 1.2% in 2023. It will rally slightly to 1.5% in 2024** as a result of changes in the non-energy components.

The projections are subject to a **high degree of uncertainty**. The **downside risks** to the baseline scenario for economic activity stem from different sources. The main source is the possibility that the upsurge in inflation and the supply problems prove to be more persistent than expected. For example, a smaller energy price correction than suggested by the futures markets, attributable to potential renewed pressure on gas prices in Europe against a hypothetical backdrop of heightened geopolitical tensions, could possibly trigger a longer-lasting inflationary process. Increased costs resulting from a potentially protracted period of high input prices, possibly also linked to supply issues lasting longer, could prompt more widespread rises in the selling prices of goods and services. Furthermore, the materialisation of a less favourable inflation scenario crucially hinges on the degree to which the rise in inflation passes through to wage demands. Were this pass-through to be intense, it could feed back into greater price increases. Wage costs have so far grown moderately due to the multi-year nature of collective bargaining and the low proportion of indexation clauses. However, the possibility that the current increases in prices and intermediate costs will prove to be more persistent, giving rise to a greater pass-through to labour costs, cannot be ruled out.

The **upside risks** derive from the possibility of households devoting a higher proportion of the savings they have built up since the start of the pandemic to current expenditure and of tourism flows recovering more quickly than expected.

Lastly, considerable uncertainty remains over the timing of the NGEU projects and their ultimate macroeconomic impact.