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## Briefing note

### Macroeconomic projections for the Spanish economy (2021-2023)

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This note describes the key features of the **macroeconomic projections for the Spanish economy** for the period 2021-2023, published today by the Banco de España on its website (available at this [link](#)). Compared with those published in June, the current projections include new information that has since become known.<sup>1</sup>

The projections are based on the assumption that headway in the immunisation of the population and the ongoing effectiveness of the vaccines will continue to mitigate the impact of the pandemic on economic activity in the coming months, significantly reducing the need to keep containment measures in place. Under these conditions, the gradual return to normal activity would translate into GDP growth rates remaining relatively high until mid-2022 and more moderate thereafter.

**In annual average terms, GDP would grow by 6.3% in 2021, 5.9% in 2022 and 2% in 2023.** GDP would return to pre-pandemic levels in 2022 H2 and surpass them in the final stretch of the projection horizon. The buoyancy of output will be driven by the continued support to growth provided by monetary and fiscal policy. As regards the latter, projects under the Next Generation EU (NGEU) programme will play a key role at the supra-national level. This year's spending under these projects is now expected to be lower than projected in June. This current unused spending would be committed over the remainder of the projection horizon. Also supporting growth are the recovery in the rest of the advanced economies (which have made more headway in the vaccination process than emerging economies), the continuing upswing in resident household spending (albeit dampened by the pick-up in inflation) and the expected greater dynamism in international tourist flows.

**Set against those published in June, the current projections revise GDP growth upwards slightly over the projection horizon** (by 0.1 pp in 2021 and 2022 and 0.2 pp in 2023), reflecting the confluence of various contrasting factors. First, the Quarterly National Accounts data that have become known since June have a very positive impact on the annual average growth rates for 2021 and, to a lesser extent, 2022. Second, the pace of recovery in activity now expected for the second half of this year is somewhat lower than that forecast in June. Lastly, the overall impact on GDP growth of the changes in the

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<sup>1</sup> The Banco de España prepares its projections drawing on quarterly macroeconomic series. However, it has not been possible to incorporate the review of the Annual National Accounts series for previous years, released by the INE on 16 September, as it has not been accompanied by the publication of the quarterly series consistent with the annual series.

assumptions underlying the projections is negative in 2021 and 2022 and positive in 2023 (albeit of a relatively small magnitude in all cases).

As regards **prices**, the progressive recovery in demand for consumer goods and services is expected to prompt **a slight gradual increase in core inflation** over the projection horizon. Nevertheless, underlying inflation is expected to remain at moderate levels at the end of the projection horizon (specifically, at an average of 1.4% in 2023). Meanwhile, the upward pressure exerted on headline inflation by the energy component will remain high until early 2022 and is expected to ease subsequently, in step with the view included in the projections that the recent spike will be predominantly transitory. In 2022 as a whole, the slowdown in energy prices is expected to comfortably offset the upturn in inflation in services and non-energy industrial goods, so that **headline HICP will moderate**, from **2.1% in 2021** to 1.7% in 2022. **In 2023**, it is expected to fall further (to **1.3%**).

These projections are subject to numerous **risks of both signs that, overall, are considered balanced in terms of their impact on the economic growth projections**. The downside risks stem chiefly from a greater persistence of the current disruption to global supply chains, a potentially more unfavourable course of the pandemic (especially in emerging market economies) and scarring effects from the pandemic on the productive system. 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 converging to pre-pandemic levels more quickly.

Turning to **consumer prices**, the current setting is characterised by a **much higher degree of uncertainty than that observed in recent years**. Specifically, the current increase in inflationary pressures could potentially be longer-lasting than is considered in these projections. The materialisation of this risk will depend, first, on whether commodity prices show greater upward inertia than is reflected in the assumptions incorporated in the projection exercise and, second, on whether the pass-through to final prices and wages of the increases already observed in these prices is greater than that considered in these projections, which is based on the empirical regularities observed in recent years.