

# MACROECONOMIC PROJECTIONS FOR SPAIN 2022-2024

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- 1. Activity**
- 2. Inflation**
- 3. Government deficit and debt**
- 4. Information available after the projection exercise cut-off date**



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- 1. Activity**
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## Q1

Sharper slowdown than projected in our last projection exercise (due to Omicron, the road hauliers' strike and the outbreak of war), which significantly affects the projection of average GDP growth in 2022, with a downward revision from 4.5% to 4.1%

## Q2

Acceleration in the rate of growth of activity, partly as a result of the buoyancy of contact-intensive sectors following the easing of practically all pandemic restrictions. GDP growth in Q2 is estimated at 0.4%, up 0.1 pp from Q1

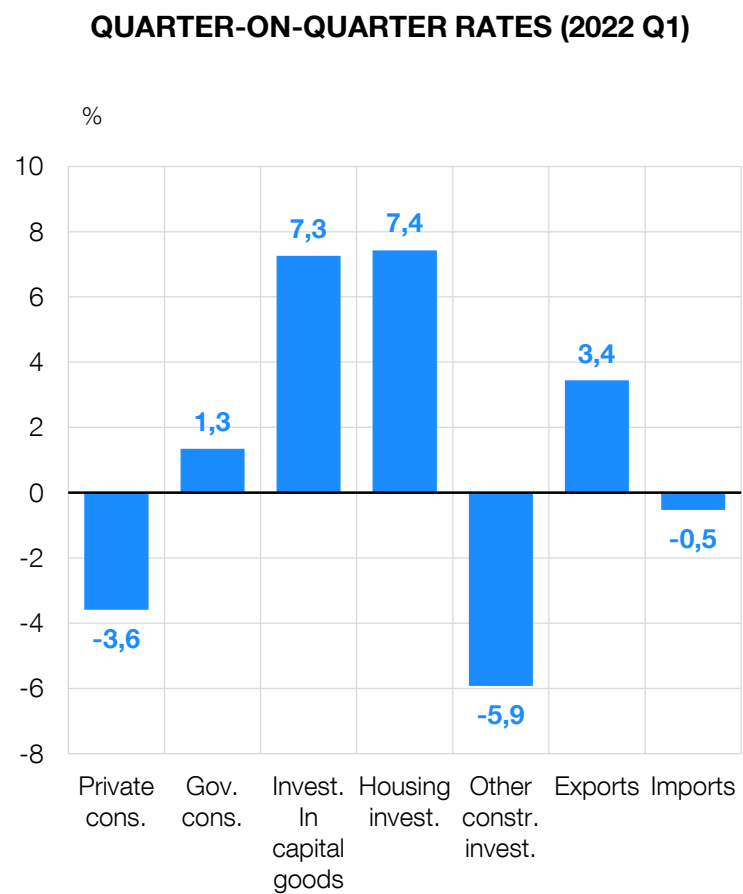
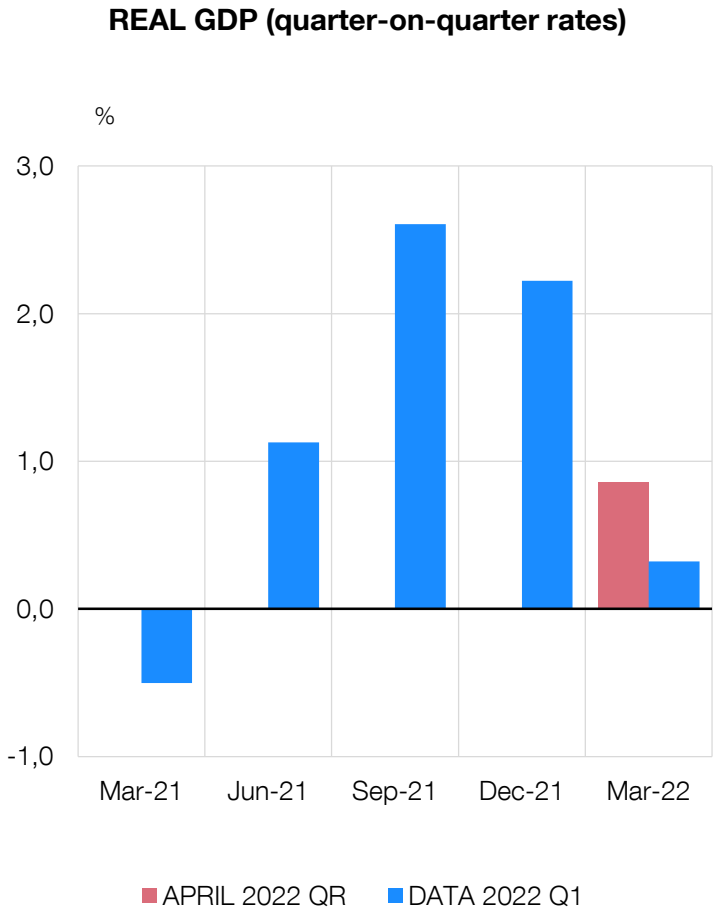
## Rest of the projection horizon

No significant changes to the outlook for activity beyond the near term. Relatively robust growth is maintained from the second half of 2022, with GDP growth of 2.8% in 2023 and 2.6% in 2024. Pre-pandemic activity levels are regained in 2023 Q3

## Main risks (on balance on the downside)

- Duration and intensity of the war in Ukraine (uncertainty, commodity prices, bottlenecks, etc.)
- Impact of worldwide monetary policy normalisation on financial markets and financing conditions
- Use and impact on the Spanish economy of European NGEU funds
- Persistence and impact of the current inflationary episode (macro impact, competitiveness, etc.)
- Course of the pandemic (zero-COVID policy in China, services recovery, etc.)

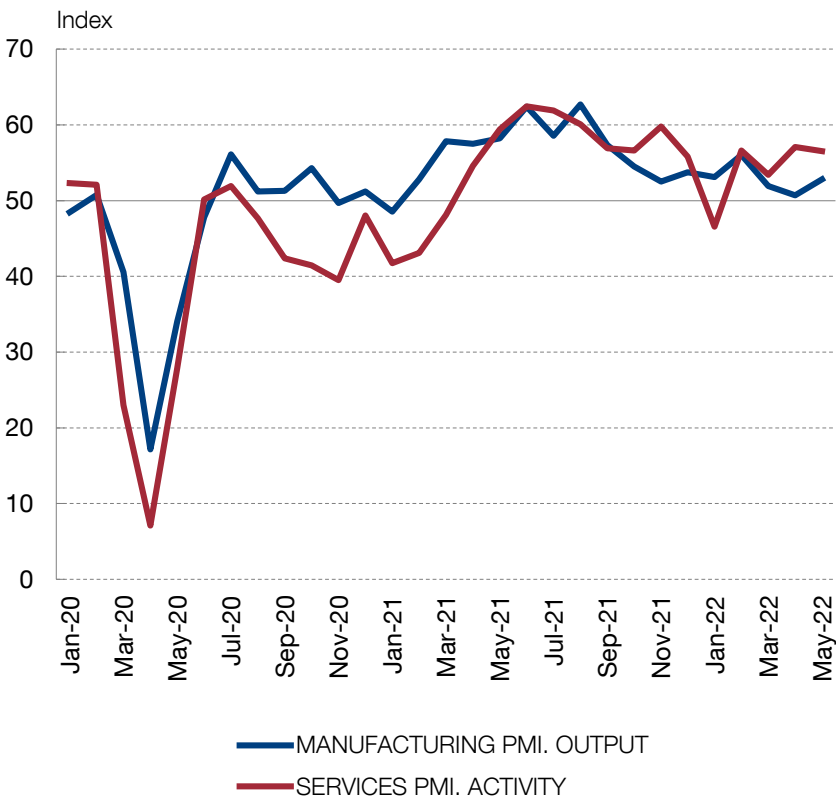
IN Q1, THE SLOWDOWN IN ACTIVITY WAS SHARPER THAN EXPECTED, WITH PRIVATE CONSUMPTION SLOWING ESPECIALLY STRONGLY



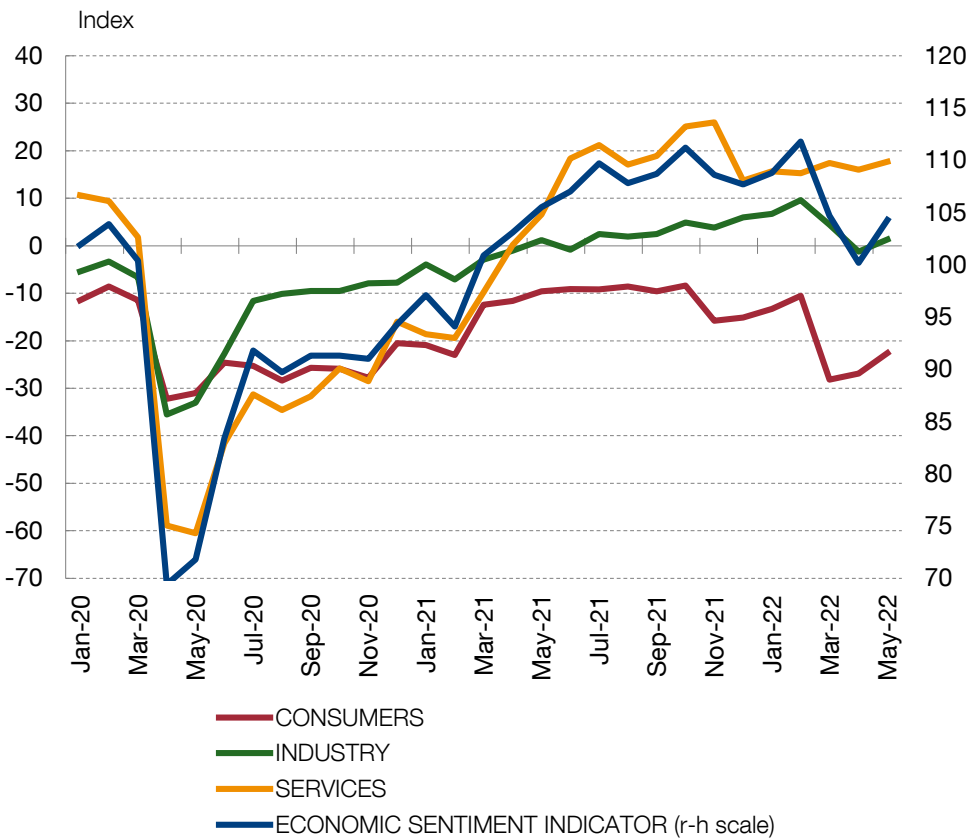
SOURCES: ANFAC, INE and Banco de España.

# IN Q2, ACTIVITY SEEMS TO BE RECOVERING SOME MOMENTUM ... PARTIAL RECOVERY OF CONFIDENCE

PURCHASING MANAGERS' INDEXES



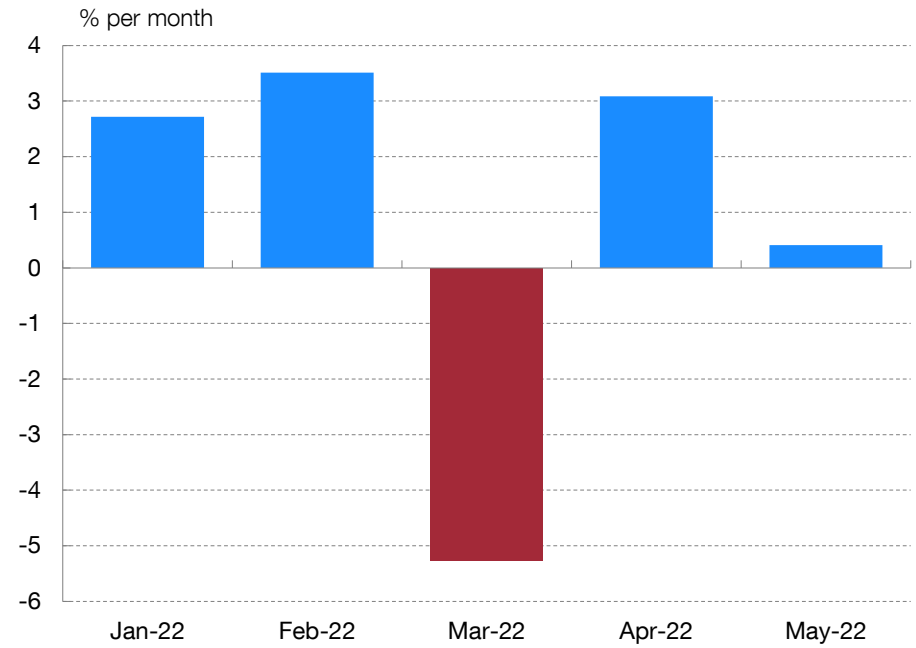
CONFIDENCE INDICATORS



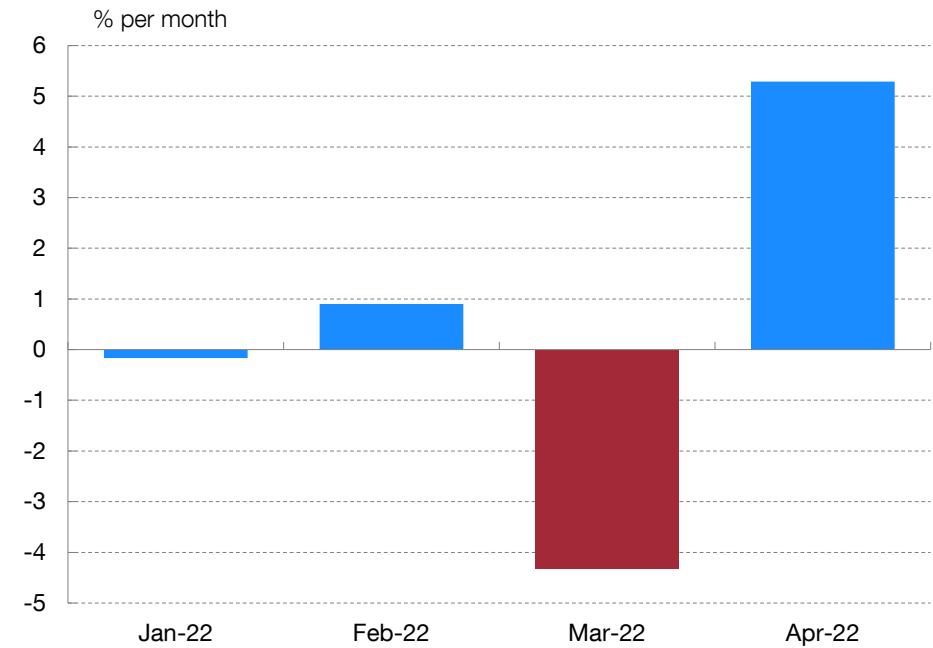
SOURCES: IHS Markit and European Commission.

**IN Q2, ACTIVITY SEEMS TO BE RECOVERING SOME MOMENTUM ...  
CONSUMPTION RECOVERY**

**CARD SPENDING**



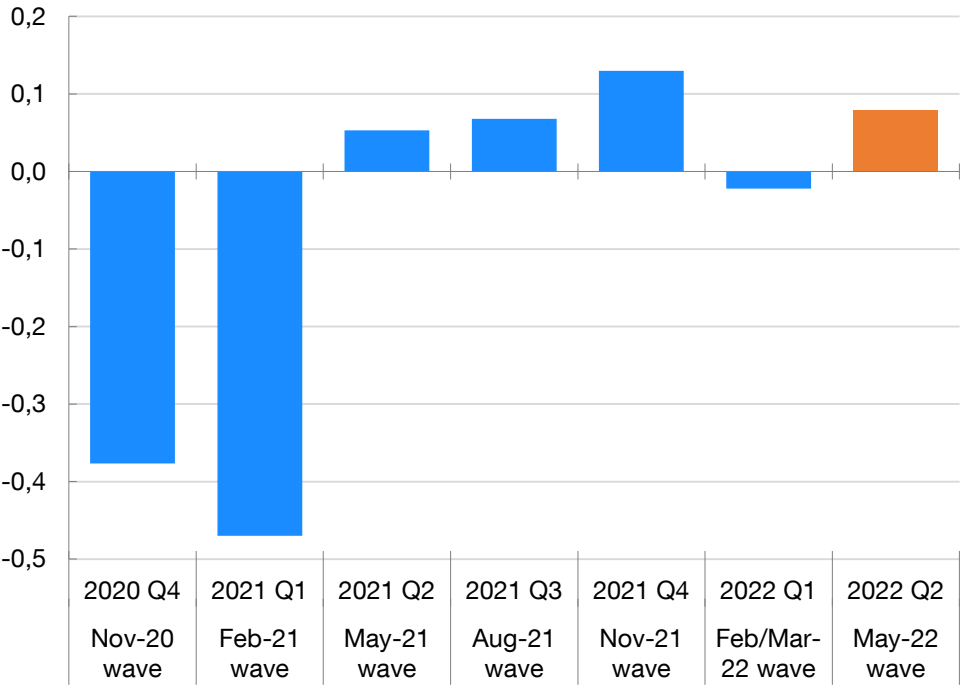
**RETAIL TRADE (a)**



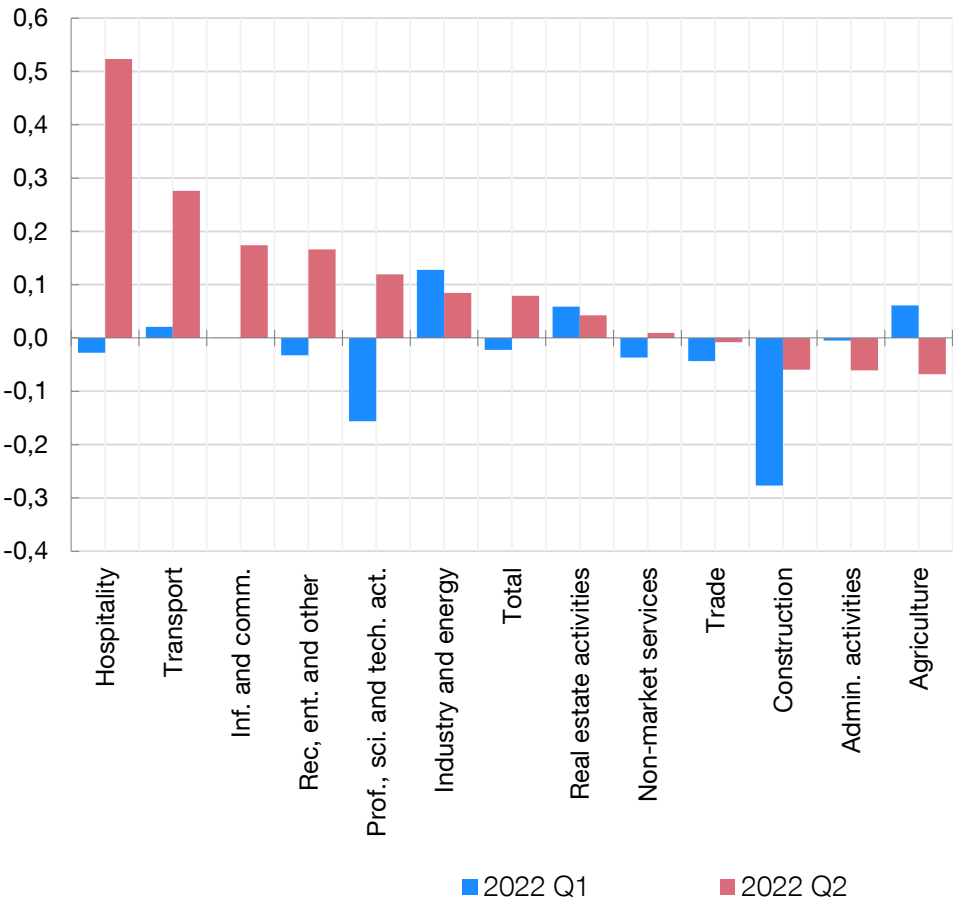
SOURCES: Sistema de Tarjetas y Medios de Pago, INE and Banco de España. Seasonally adjusted series.  
a) Includes spending with national cards at POS in Spain and ATM withdrawals, corrected for cash rotation.

**IN Q2, ACTIVITY SEEMS TO BE RECOVERING SOME MOMENTUM ...  
MODERATE OPTIMISM IN THE EBAA**

**TURNOVER: QUARTERLY CHANGE (a)**



**TURNOVER BY INDUSTRY (a)**

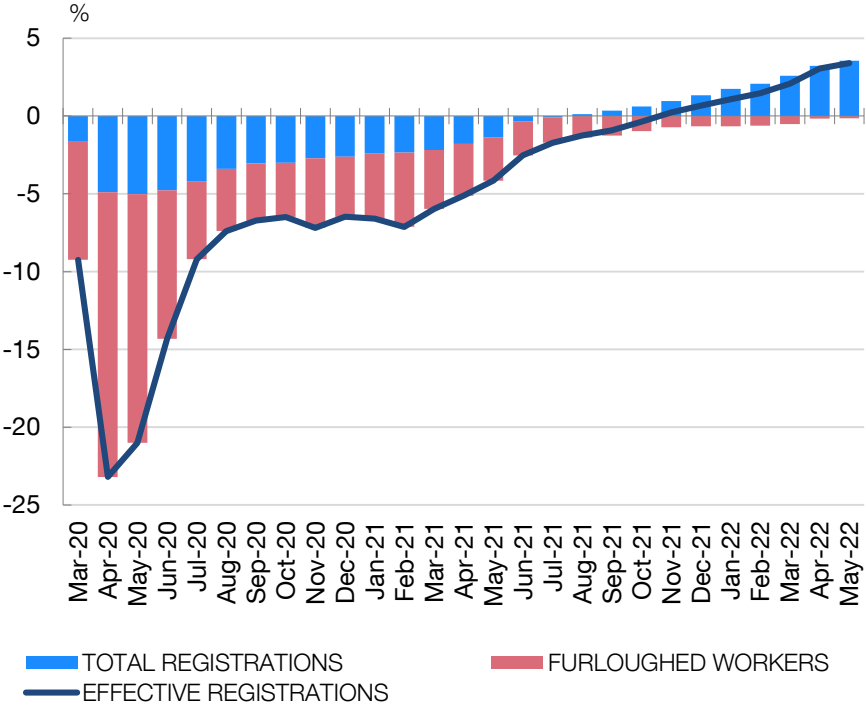


SOURCE: Banco de España (EBAE).  
a) Index calculated as significant decrease = -2; slight decrease = -1; stable = 0; slight increase = 1; significant increase = 2

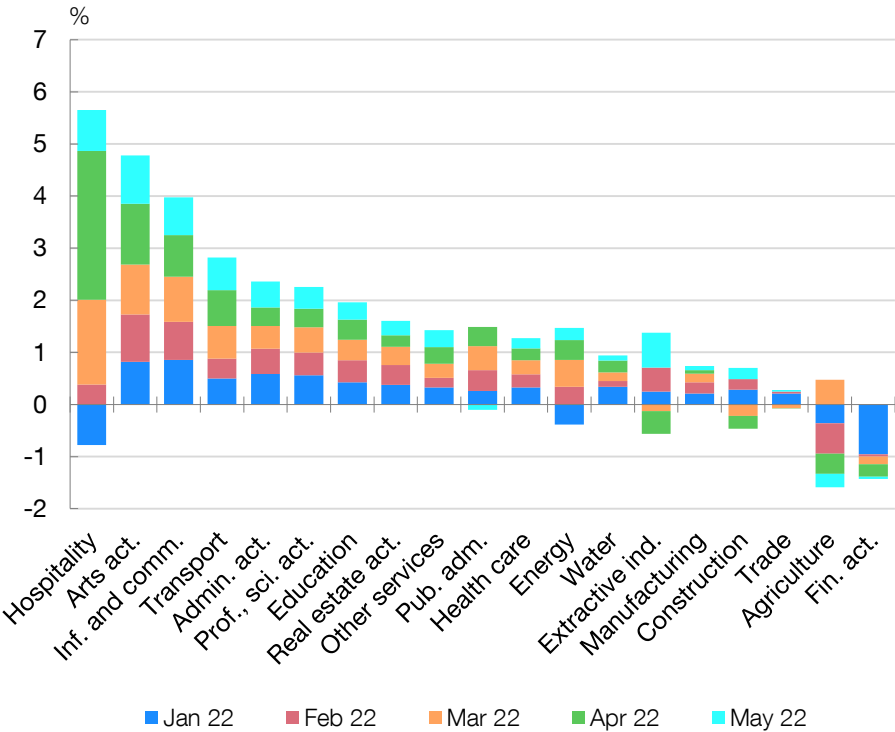


# IN Q2, ACTIVITY SEEMS TO BE RECOVERING SOME MOMENTUM ... ONGOING FAVOURABLE LABOUR MARKET DEVELOPMENTS

CHANGE IN FURLOUGHED WORKERS AND TOTAL AND EFFECTIVE REGISTRATIONS VS FEBRUARY 2020 (a)

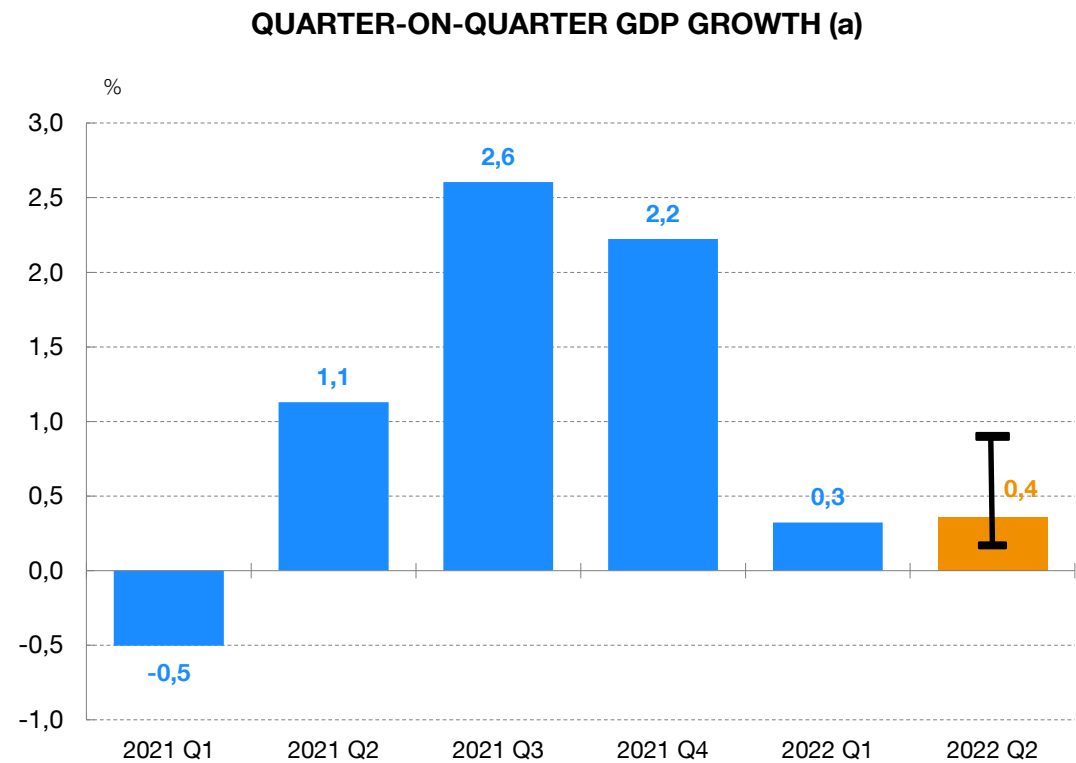


MONTHLY CHANGES IN REGISTRATIONS BY SECTOR (a)



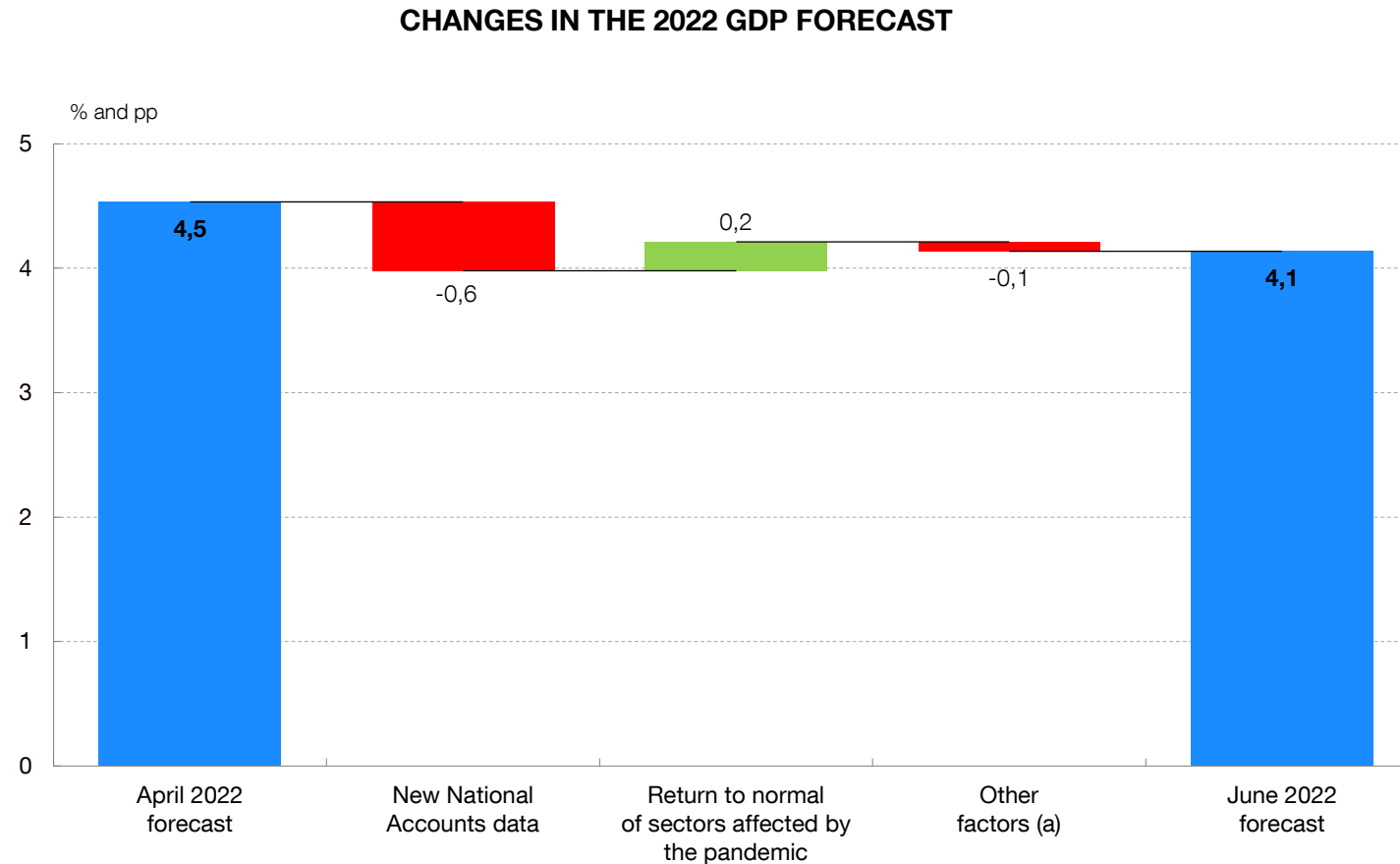
SOURCES: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. Latest observation: May 2022.  
a) Seasonally adjusted series.

... WHICH, ALTHOUGH SUBJECT TO CONSIDERABLE UNCERTAINTY, WOULD BE CONSISTENT WITH GDP GROWTH OF 0.4% QUARTER-ON-QUARTER



SOURCES: Banco de España and INE.  
a) The range of forecasts for Q2 represents the results of three models: the [Spain-STING](#), the [Daily Economic News Sentiment Indicator \(DENSI\)](#) and a sectoral model constructed on the basis of Social Security registrations data by sector.

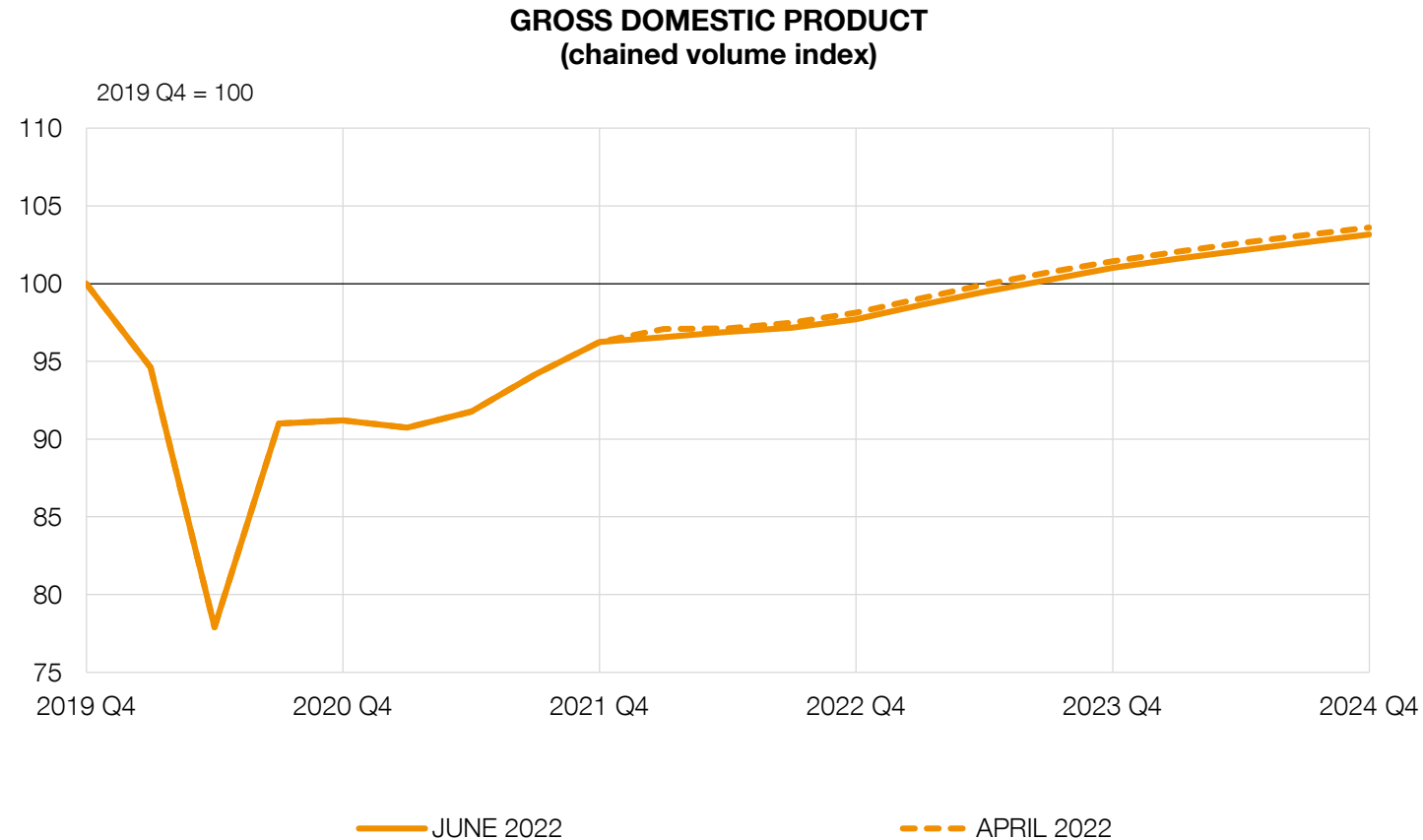
## OVER THE REST OF THE PROJECTION HORIZON, THE GROWTH OUTLOOK REMAINS UNCHANGED... GDP GROWTH IN 2022 HAS BEEN REVISED DOWNWARDS DUE TO THE SURPRISE IN Q1



SOURCE: Banco de España.

a) Other factors include fiscal measures, foreign markets and financial factors.

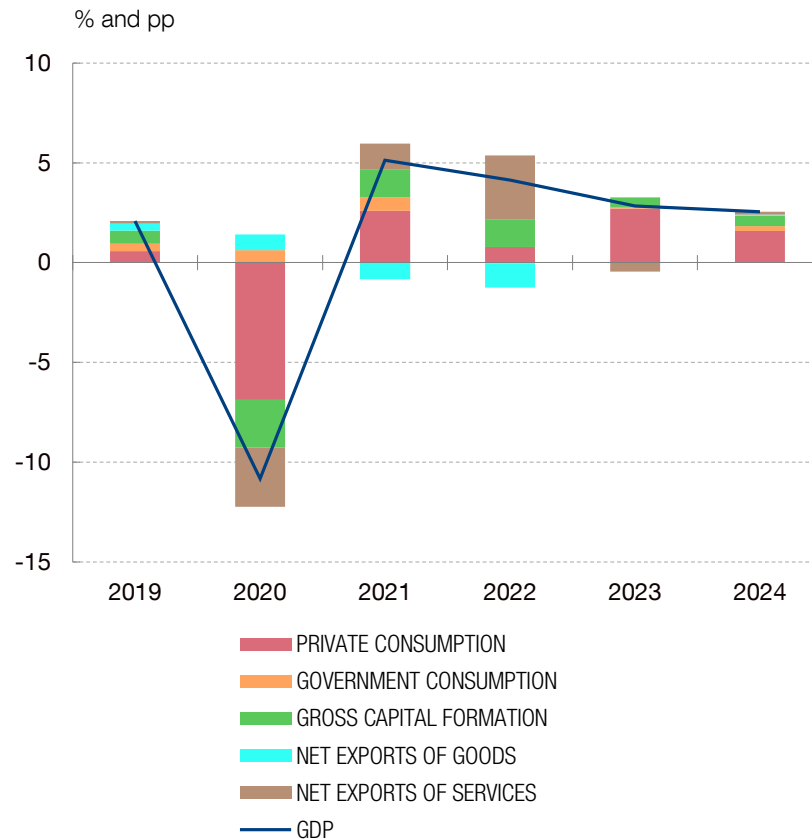
# OVER THE REST OF THE PROJECTION HORIZON, THE GROWTH OUTLOOK REMAINS UNCHANGED... GDP TO RECOVER PRE-PANDEMIC LEVEL IN 2023 Q3



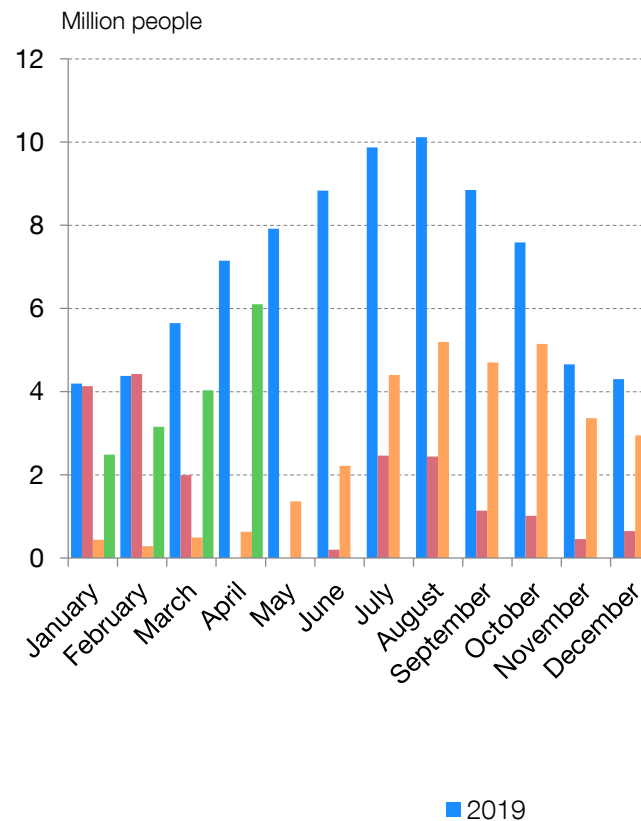
SOURCES: Banco de España and INE.  
Latest observation: 2022 Q1 (flash estimates).

# OVER THE REST OF THE PROJECTION HORIZON, THE GROWTH OUTLOOK REMAINS UNCHANGED... GDP DRIVEN BY TOURISM AND INVESTMENT (IN 2022) AND PRIVATE CONSUMPTION (IN 2023-2024)

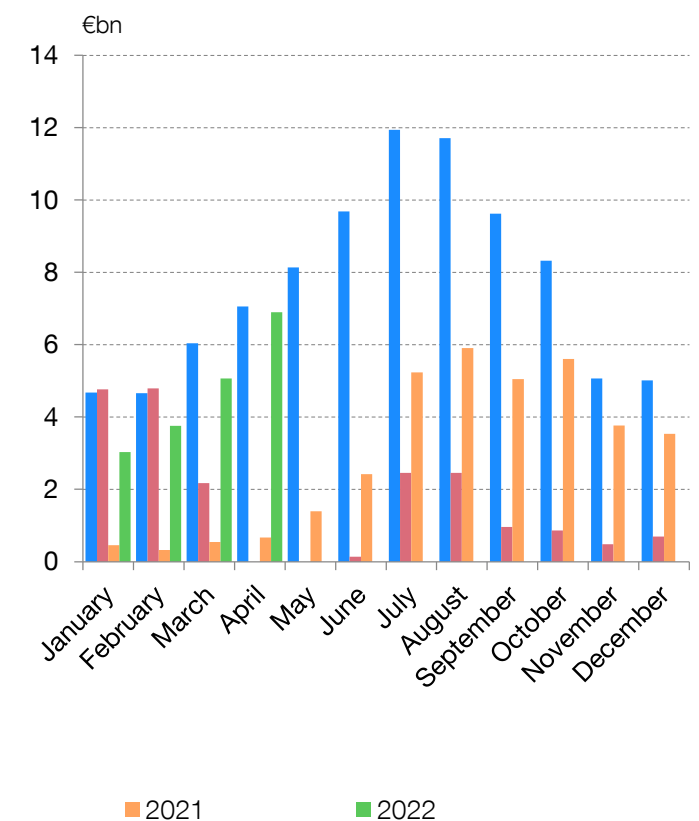
**GDP GROWTH AND CONTRIBUTIONS OF MAIN COMPONENTS**



**FOREIGN TOURIST ARRIVALS.  
Comparison 2019-2022**



**FOREIGN TOURIST SPENDING.  
Comparison 2019-2022**

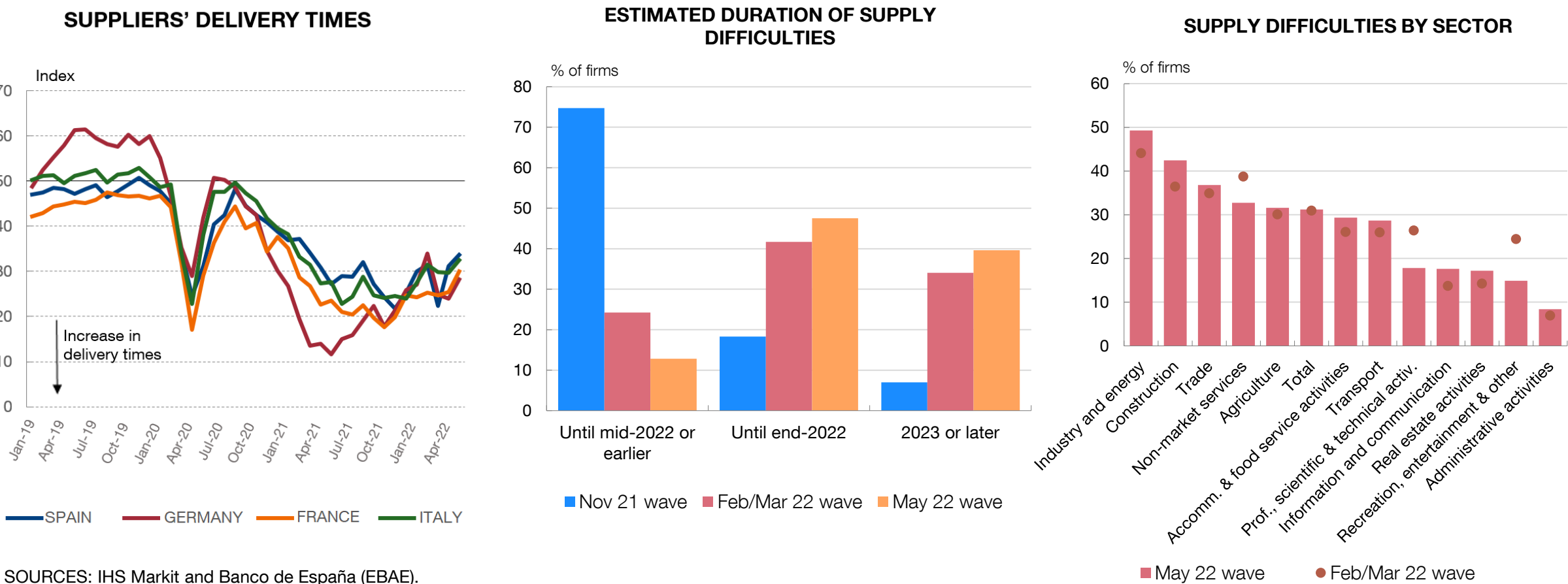


SOURCES: Banco de España and INE.



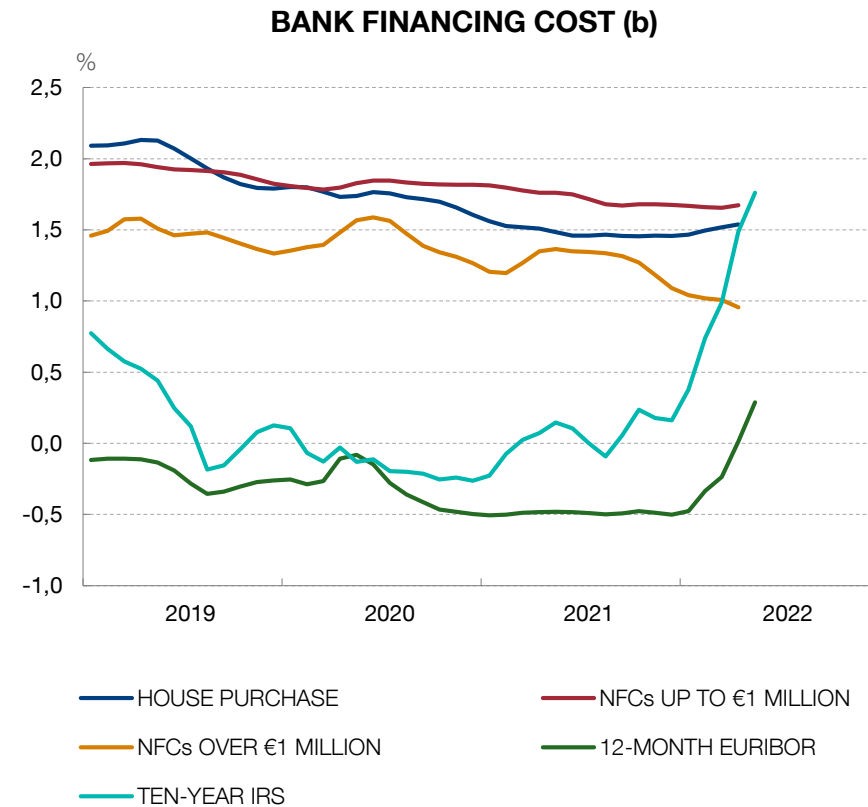
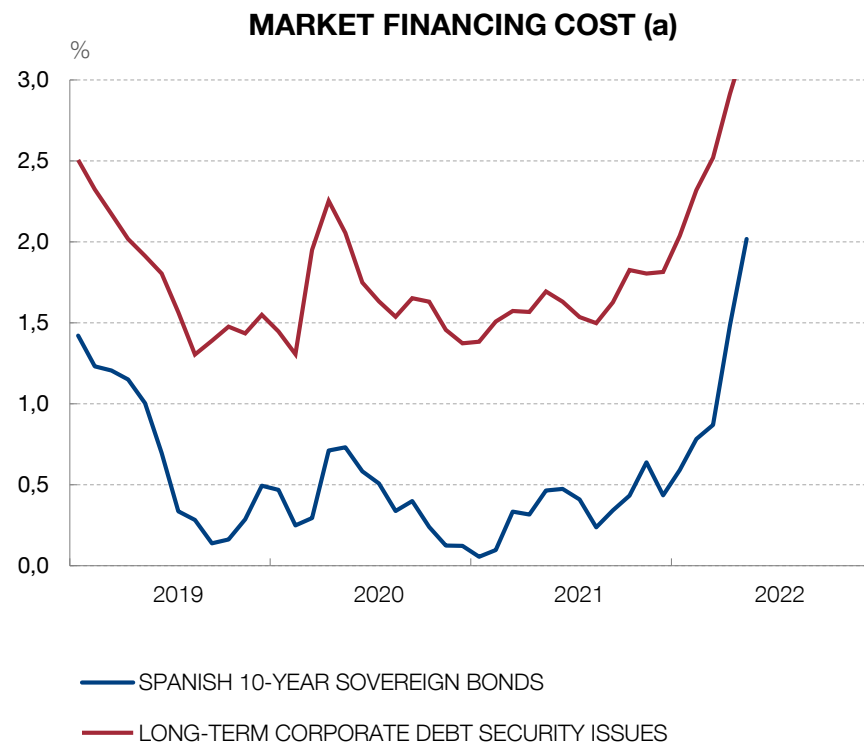
# ... ALBEIT WITH CONSIDERABLE DOWNSIDE RISKS IN THIS EXTRAORDINARILY UNCERTAIN SETTING: DURATION AND INTENSITY OF THE WAR IN UKRAINE

- The war in Ukraine and China’s zero-COVID policy have delayed the resolution of the global supply chain bottlenecks, even intensifying them in some cases. The pace at which these mismatches will be corrected is key in determining activity’s future path of recovery. In the Banco de España Business Activity Survey (EBAE) Spanish entrepreneurs have noted the profoundly asymmetric impact of these bottlenecks across sectors



## ... ALBEIT WITH CONSIDERABLE DOWNSIDE RISKS IN THIS EXTRAORDINARILY UNCERTAIN SETTING: MONETARY POLICY NORMALISATION

- The monetary policy normalisation process is translating into a global tightening of financial conditions. In Spain, financing conditions have become less accommodative in recent months and could foreseeably tighten further in the near future, negatively affecting the buoyancy of activity



SOURCE: Banco de España.

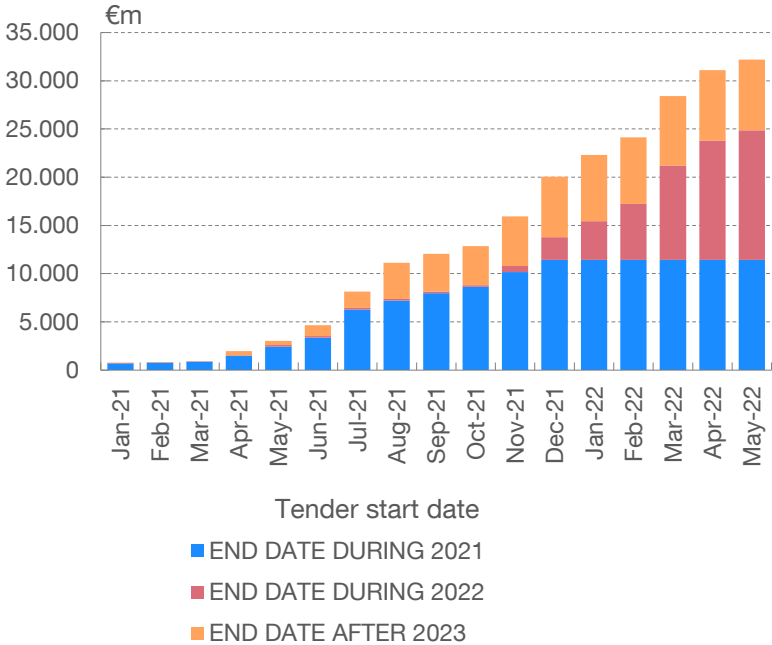
(a) Latest observation: May 2022.

(b) Latest observation for reference rates (12-month Euribor, 10-year IRS): May 2022. Latest observation for bank interest rates: April 2022.

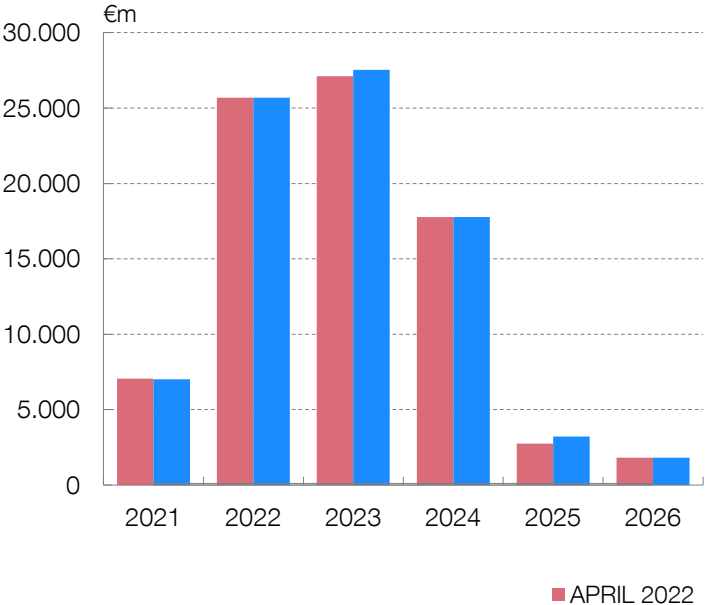
# ... ALBEIT WITH CONSIDERABLE DOWNSIDE RISKS IN THIS EXTRAORDINARILY UNCERTAIN SETTING: USE AND IMPACT OF THE NGEU FUNDS

- The scant information available on the degree of implementation of the programme (especially in National Accounts terms) suggests that there might be some delay in spending the funds with respect to the timeline considered in the projections. Also, uncertainty over the effective implementation of the NGEU-related projects might lead to some private investment decisions being delayed

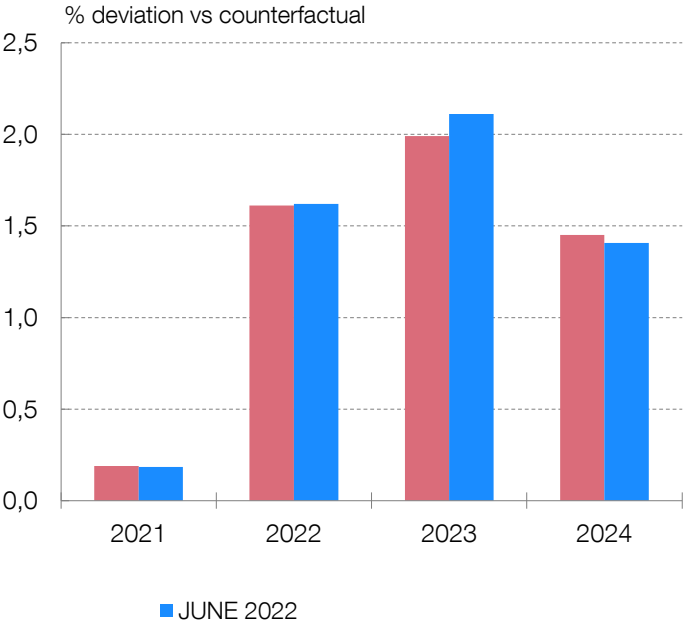
CUMULATIVE VOLUME OF PUBLISHED RRF TENDERS BY END DATE (a) (b)



NGEU SPENDING ASSUMPTIONS (RRF AND REACT-EU)



EFFECT OF NGEU ON GDP LEVEL

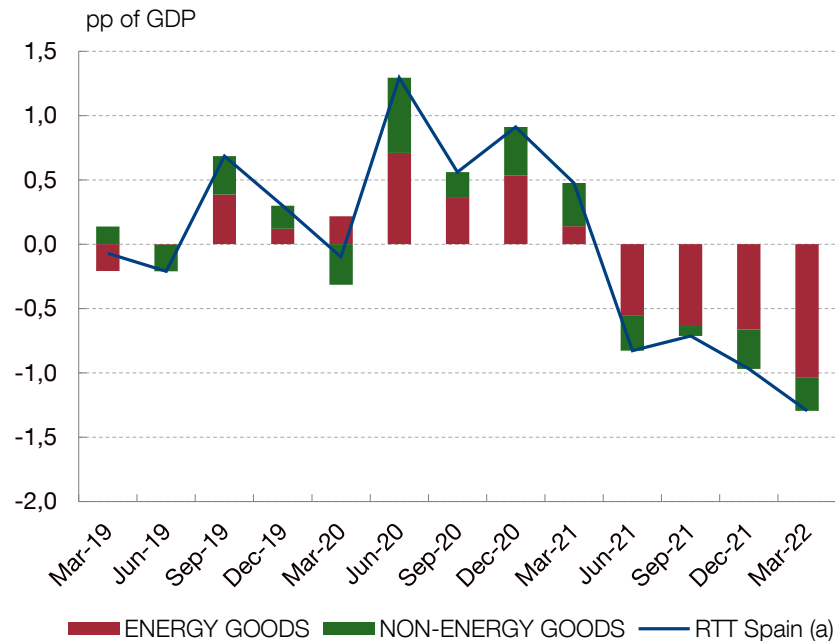


SOURCES: <https://planderecuperacion.gob.es> and Banco de España.  
 (a) Not including tenders in “forthcoming” status, those agreed without being publicised, those relating to Government guarantees or those identified as REACT-EU.  
 (b) Tenders published on the RTRPwebsite to 16/05/2022 and on a cumulative monthly basis.

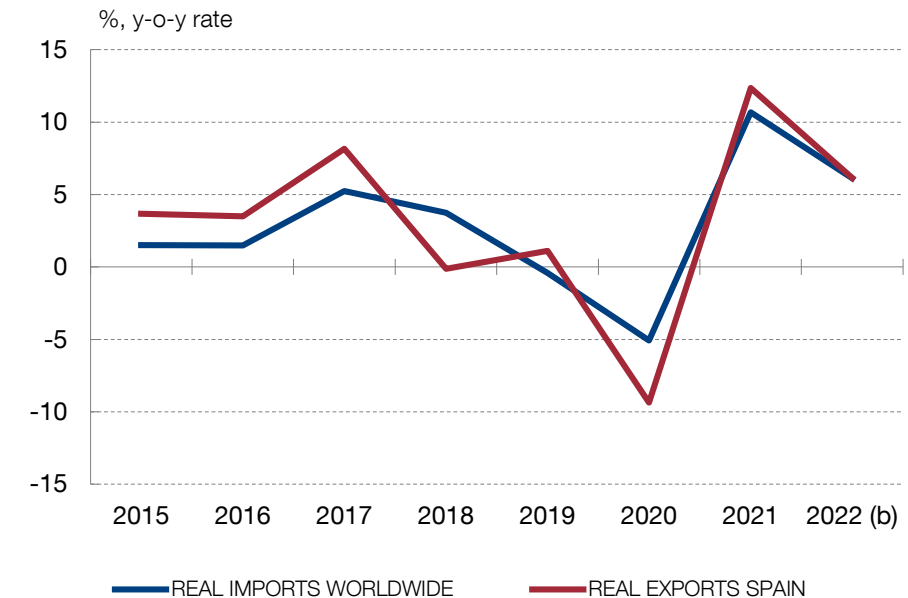
## ... ALBEIT WITH CONSIDERABLE DOWNSIDE RISKS IN THIS EXTRAORDINARILY UNCERTAIN SETTING: PERSISTENCE AND INCIDENCE OF THE CURRENT INFLATIONARY EPISODE

- The persistently high prices of certain commodities imported by Spain have a marked adverse impact on the purchasing power of domestic incomes and, therefore, on agents' spending. Also, should these inflationary pressures pass through to the economy's overall prices, Spain could experience a notable loss of competitiveness. It is still early to assess whether this loss is already materialising (there are mixed signals that should be interpreted with caution)

INCOME EFFECT OF THE REAL TERMS OF TRADE.  
SPAIN



GOODS TRADE, IN REAL TERMS



SOURCES: Departamento de Aduanas, Ministerio de Industria, Comercio y Turismo, INE, Eurostat and CPB.

(a) Calculated as the difference between the year-on-year growth rates of prices of goods exports and imports (according to the UVIs) weighted by the respective weights in GDP of goods exports and imports.

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## Recent developments

Inflation has continued to accelerate in recent months – mainly driven by energy and food, but also by the rise in underlying inflation –, leading to continuous upward revisions of the inflation rates projected by the analysts' consensus, for both the Spanish and global economies

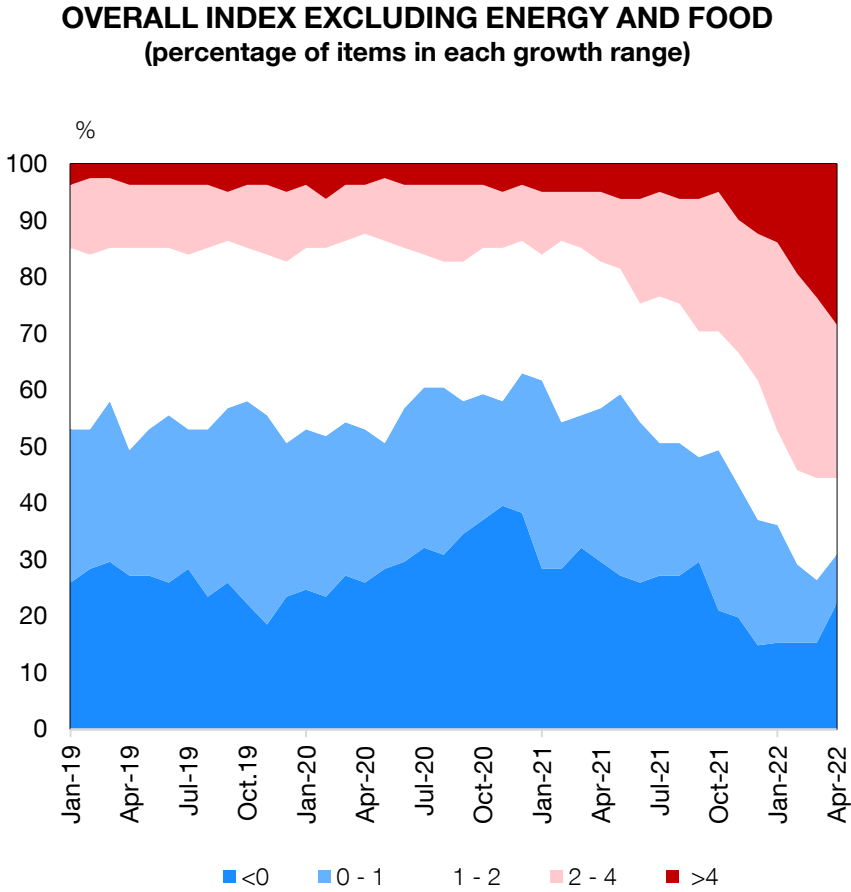
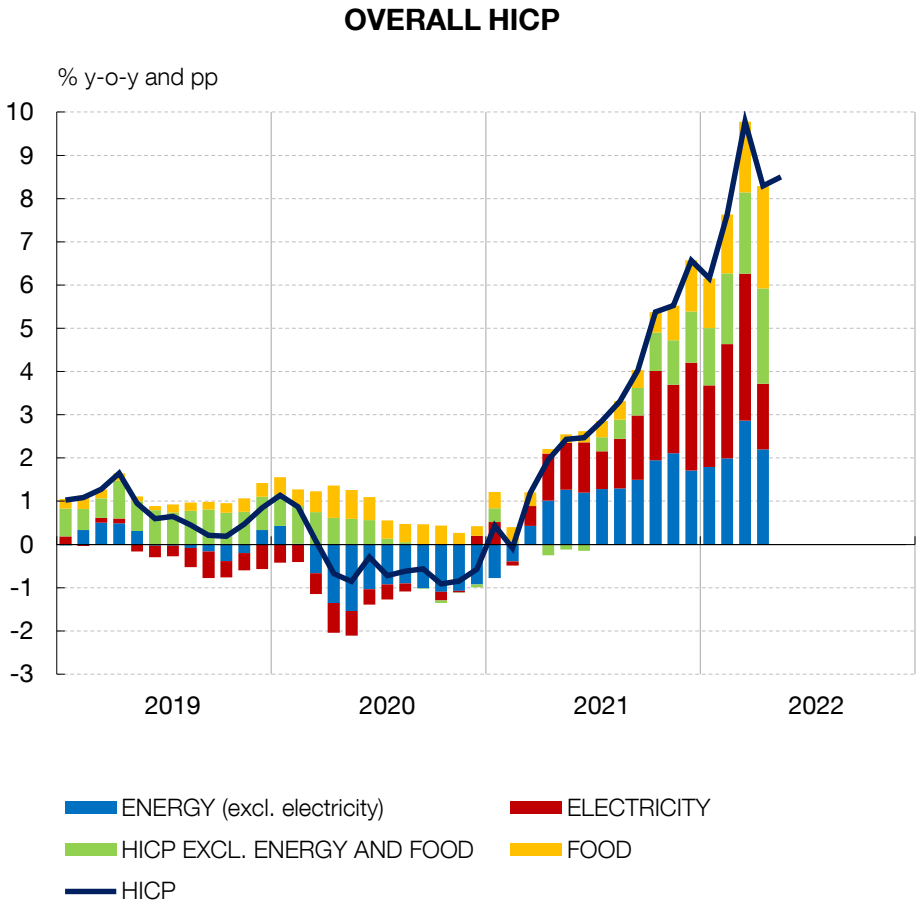
## Outlook for the coming quarters

- The entry into force of the Iberian mechanism to cap gas prices and reduce electricity bills will exert downward pressure on the energy component of inflation in the coming months, prompting a downward revision of the headline inflation forecast for 2022
- However, the inflation paths for food and the underlying component for the period 2022-2024 are revised up significantly, triggering an upward revision of the headline inflation rates forecast for 2023 and 2024
- Although the current inflationary episode is projected to gain in intensity and persistence, the recent high inflation rates are expected to moderate in the coming quarters, in line with commodity prices on futures markets and the gradual reversion of some of the factors that have triggered the price hikes (i.e. bottlenecks)

## Main risks (overall, upside)

- Duration and intensity of the war in Ukraine (commodity prices, bottlenecks, etc.)
- Materialisation of significant indirect and second-round effects

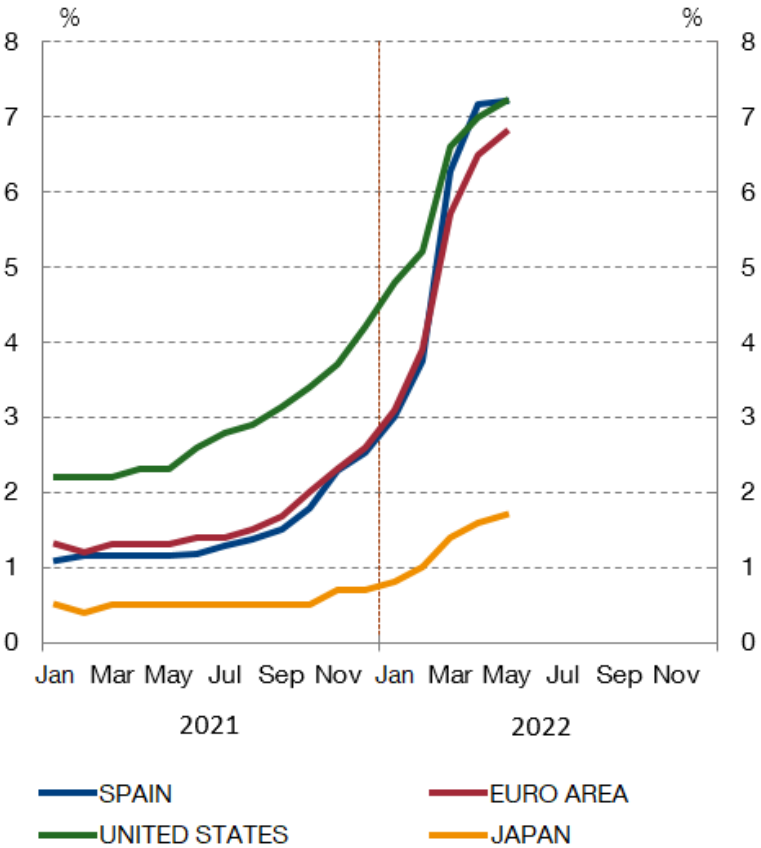
**INFLATION HAS CONTINUED TO ACCELERATE IN RECENT MONTHS – MAINLY DRIVEN BY ENERGY AND FOOD, BUT ALSO BY THE RISE IN UNDERLYING INFLATION –, ...**



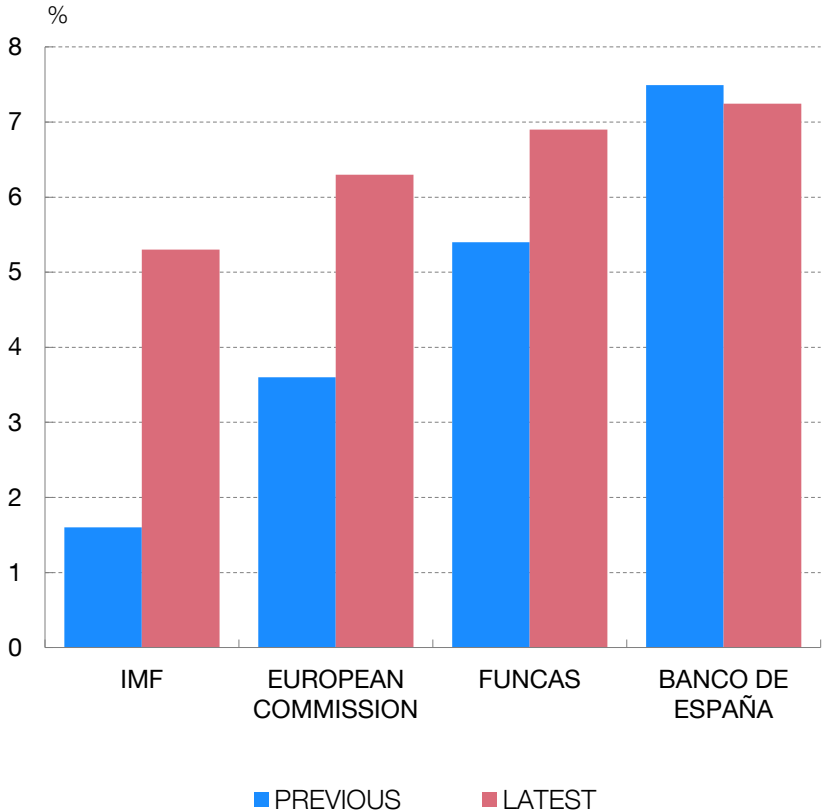
SOURCES: INE and Banco de España.  
Latest observation: April 2022 (overall HICP flash estimate).

... LEADING TO CONTINUOUS UPWARD REVISIONS OF THE INFLATION RATES PROJECTED BY THE ANALYSTS' CONSENSUS, FOR BOTH THE SPANISH AND GLOBAL ECONOMIES

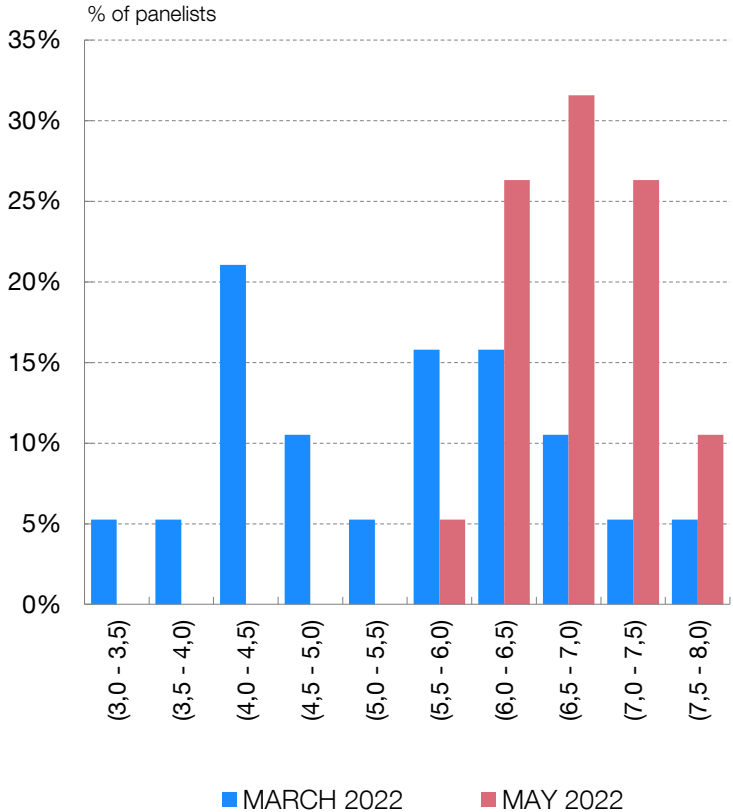
INFLATION IN 2022  
AVERAGE FORECASTS



INFLATION FORECASTS FOR SPAIN IN 2022 (a)



FUNCAS PANEL: RANGE OF FORECASTS  
FOR SPAIN'S CPI IN 2022



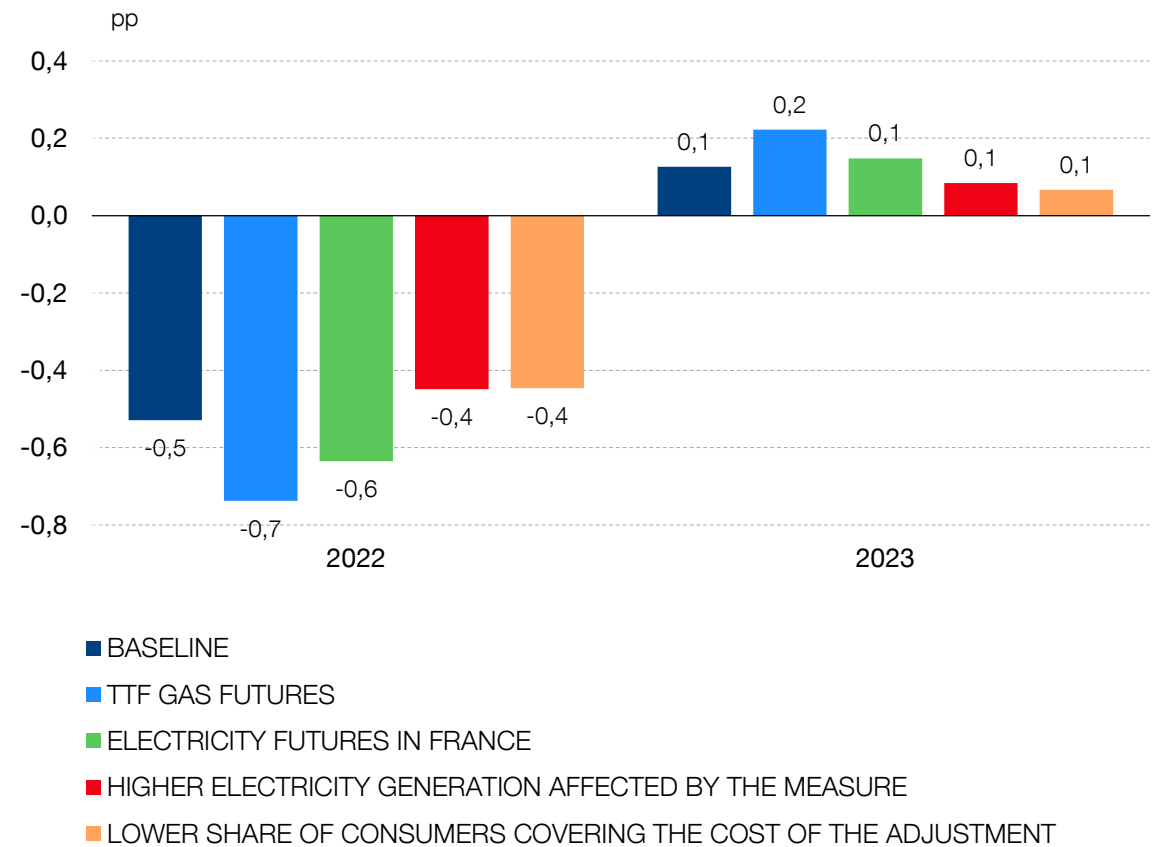
SOURCES: Consensus Forecasts, IMF, European Commission, FUNCAS and Banco de España.

a) The latest projections relate to June/May. The previous ones relate to October 2021 for the IMF (CPI), February for the European Commission, March for FUNCAS (CPI) and April for the Banco de España.

**IN THE COMING MONTHS, THE IBERIAN MECHANISM TO CAP THE GAS PRICE AND LOWER ELECTRICITY BILLS WILL EXERT DOWNWARD PRESSURE ON THE ENERGY COMPONENT OF INFLATION (BOX 4) ...**

- The main element of the mechanism is the capping of the cost of the gas used by fossil fuel-based power plants to generate electricity
- The mechanism's costs will be funded by consumers with contracts indexed to the wholesale price of electricity and by those with fixed-price contracts who have renewed them since end-April
- This measure could subtract around 0.5 pp from the average headline inflation rate for 2022

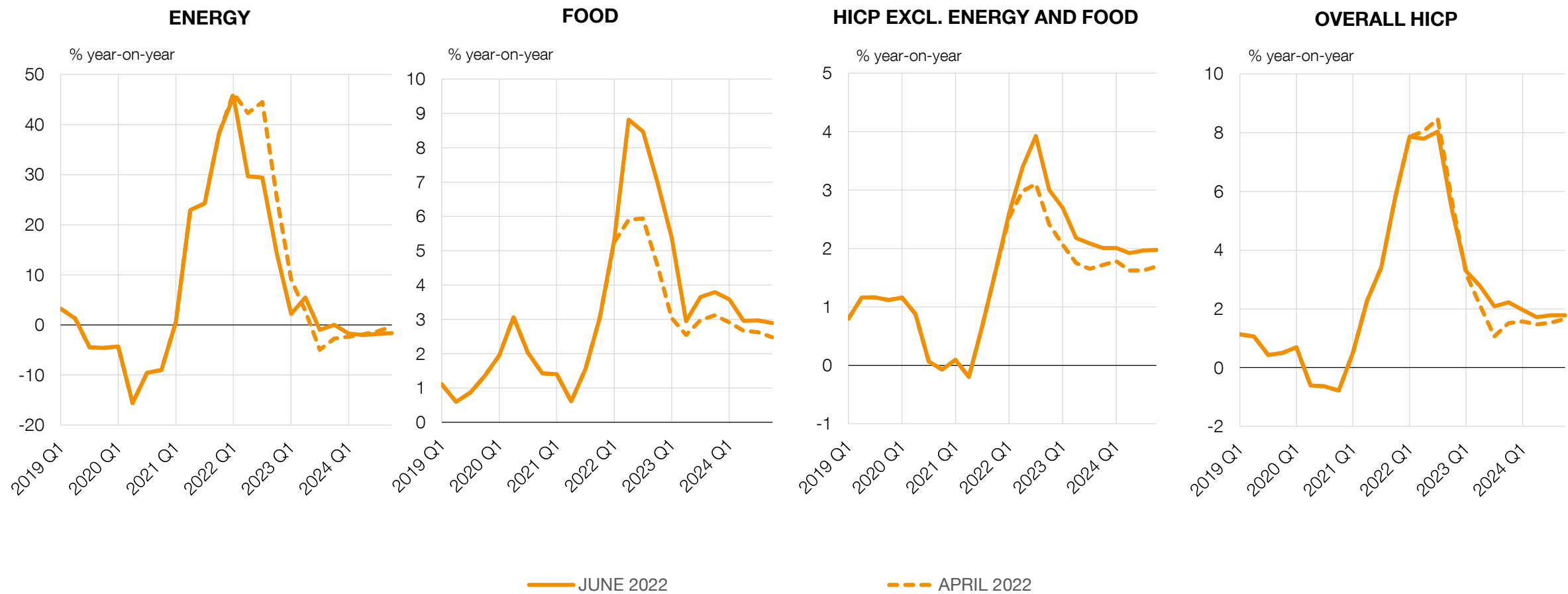
**ESTIMATED IMPACT OF THE GAS PRICE CAP ON HEADLINE INFLATION IN 2022 AND 2023 (a)**



SOURCE: Banco de España.

a) The baseline scenario refers to the most likely scenario. The scenario "TTF gas futures" considers the path of the Dutch TTF gas futures rather than the MIBGAS futures; the scenario "electricity futures in France" considers that the price difference between the Spanish and French markets is that between the expected price in Spain taking into account the adjustment mechanism and the price signalled by electricity futures in France, instead of the unit amount of the adjustment mechanism; the scenario "higher electricity generation affected by the measure" assumes 20% more electricity will be generated in combined cycle, cogeneration and coal power plants than in the baseline scenario; and the scenario "lower share of consumers covering the cost of the adjustment" considers that in June the percentage of energy demand covering the cost of the adjustment is 35%, rather than the 46% assumed in the baseline scenario.

... HEADLINE INFLATION IN 2022 IS THEREFORE REVISED DOWN SLIGHTLY, ALTHOUGH SLIGHTLY GREATER GROWTH IS PROJECTED FOR THE REST OF THE PROJECTION HORIZON ...



SOURCES: Banco de España and INE.  
Latest observation: April 2022.

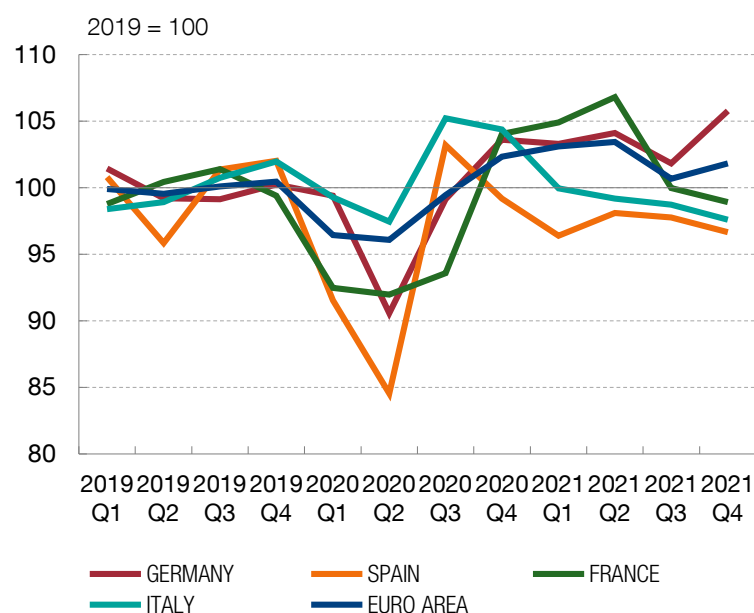


# ... ALL OF THIS IS SUBJECT TO CONSIDERABLE UPSIDE RISKS

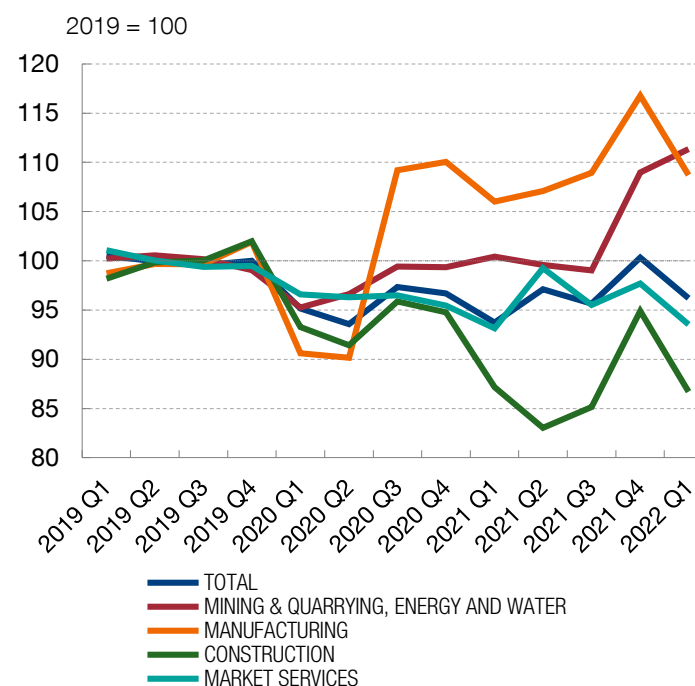
## BEHAVIOUR OF MARK-UPS (BOX 3)

- At the end of 2021, profit margins in Spain stood below their pre-pandemic levels and were less buoyant than in the euro area as a whole. This overall behaviour is compatible with considerable variation across sectors. There are signs that profit margins were somewhat subdued over recent quarters. The difficulty of proxying an unobservable variable, such as mark-ups, means that it is advisable to interpret these conclusions with caution and, above all, that verifiable metrics of the behaviour of mark-ups in the current context need to be developed

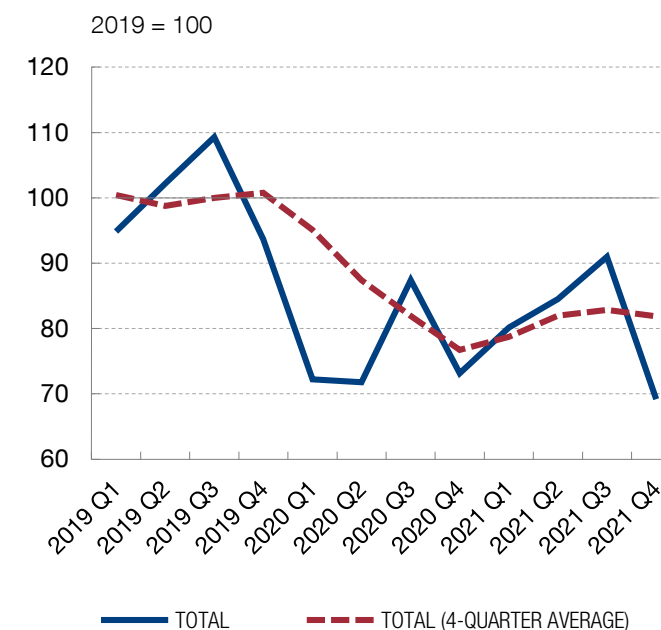
NFC's GOS/GVA RATIO



SPAIN: GOS/GVA RATIO BY SECTOR (a)



OPERATING MARGIN ACCORDING TO THE CBQ (b)



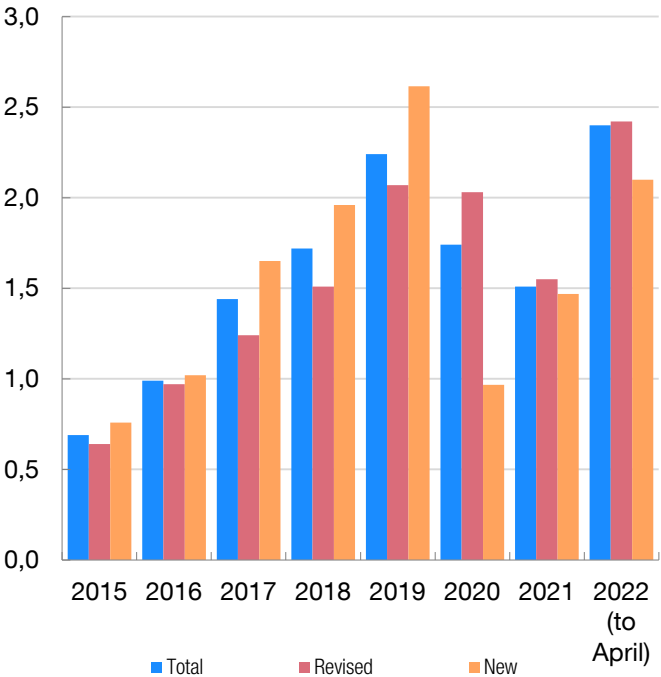
SOURCES: Eurostat, INE and Banco de España.

a) Gross operating surplus (GOS) is calculated as gross value added (GVA) less compensation per employee.

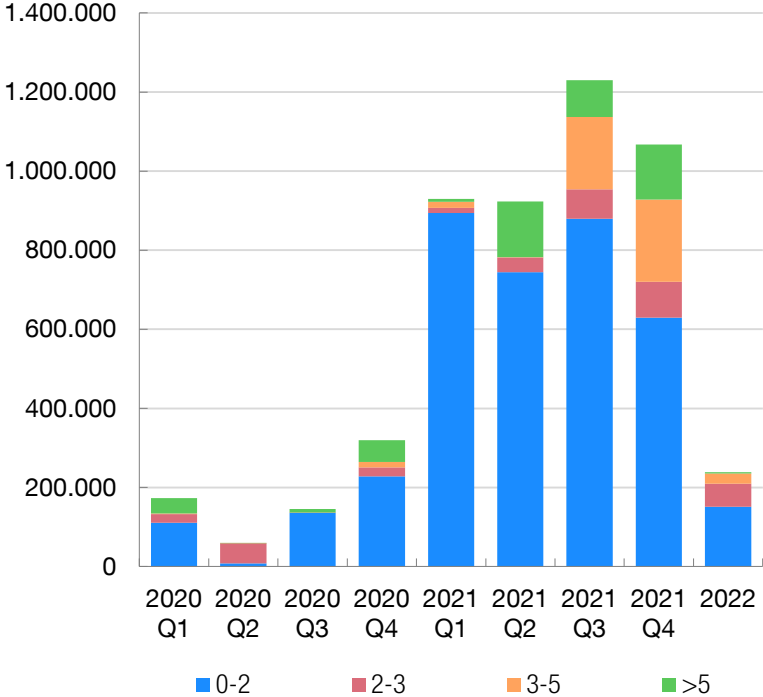
b) Operating margin = gross operating profit / net turnover.

... ALL OF THIS IS SUBJECT TO CONSIDERABLE UPSIDE RISKS  
POSSIBLE SECOND-ROUND EFFECTS ON INFLATION

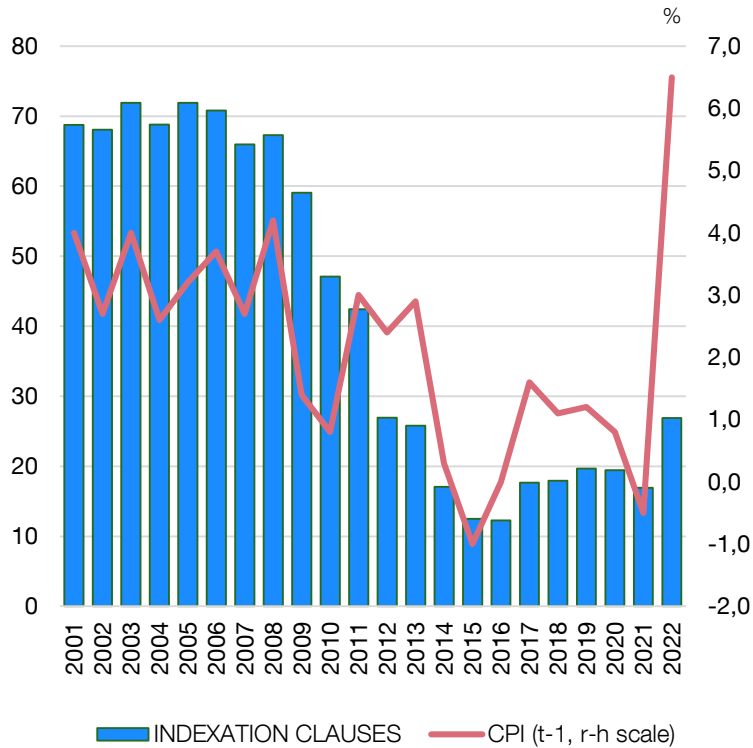
WAGE SETTLEMENTS (%)



WAGE SETTLEMENTS AND WORKERS COVERED IN 2022, BY DATE OF SIGNING OF AGREEMENT



INFLATION INDEXATION CLAUSES

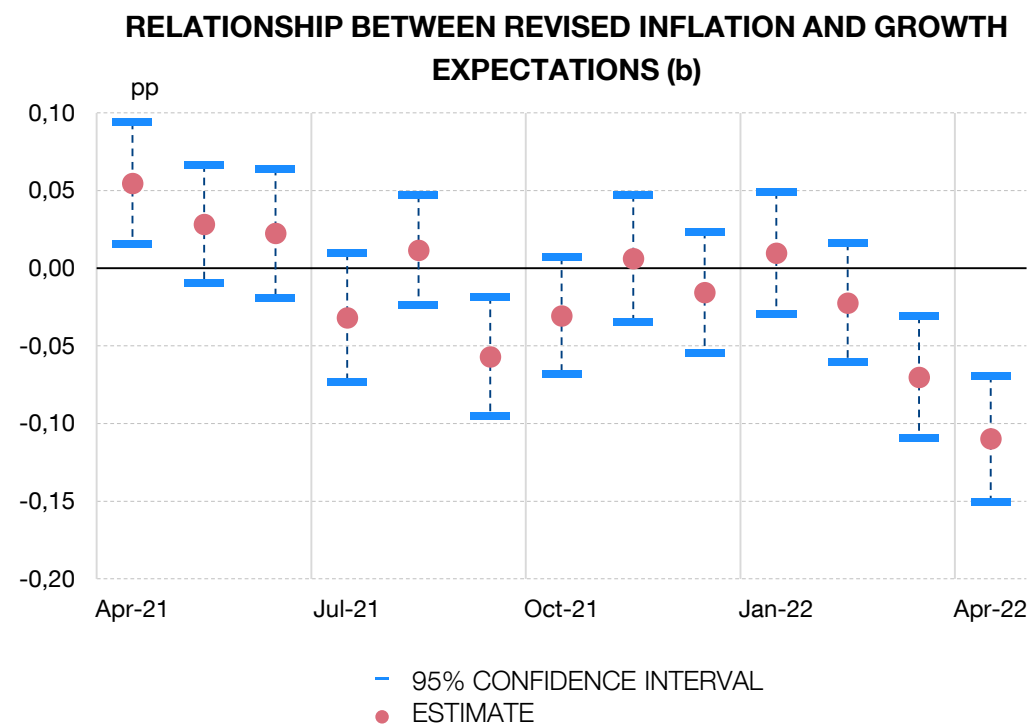
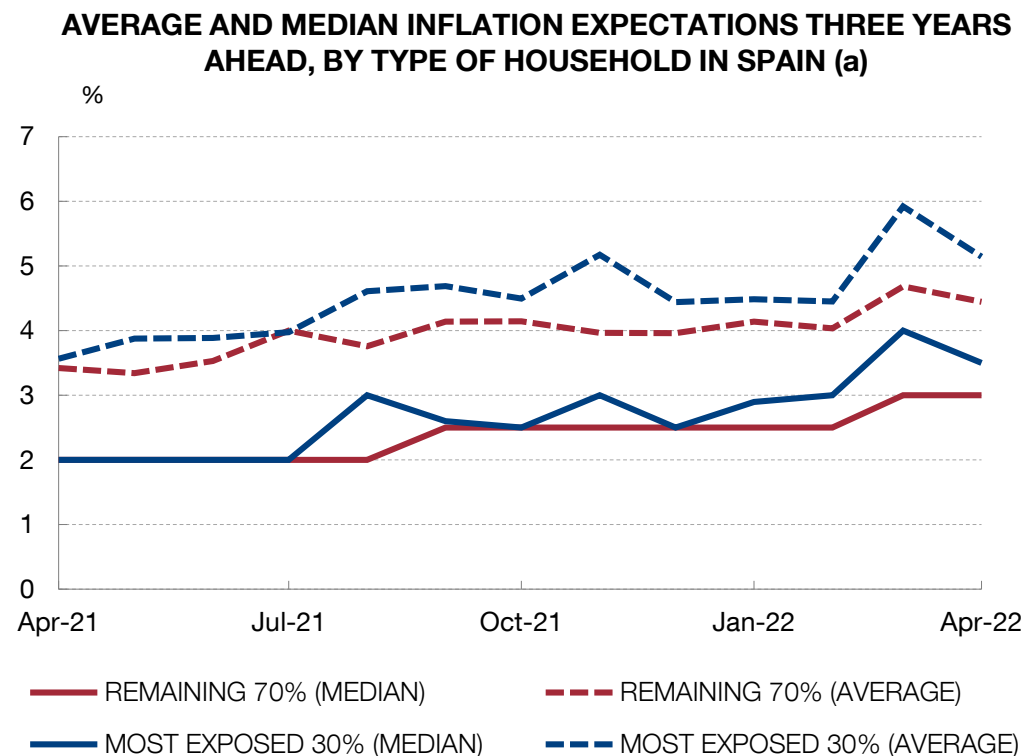


SOURCES: Ministerio de Trabajo y Economía Social and Banco de España

# ... ALL OF THIS IS SUBJECT TO CONSIDERABLE UPSIDE RISKS

## POSSIBLE DE-ANCHORING OF INFLATION EXPECTATIONS (BOX 2)

- The recent rise in consumer inflation expectations in Spain and the euro area is in part influenced by households' exposure to the increase in energy prices and by their pessimism about future economic developments



SOURCE: Consumer Expectations Survey (ECB).

a) The most exposed households are those whose percentage of consumer spending on transport and basic utilities is in the upper 30% of the distribution.

b) The chart shows the coefficient of a regression on the change in consumer inflation expectations three years ahead and the growth expectations for the following twelve months.

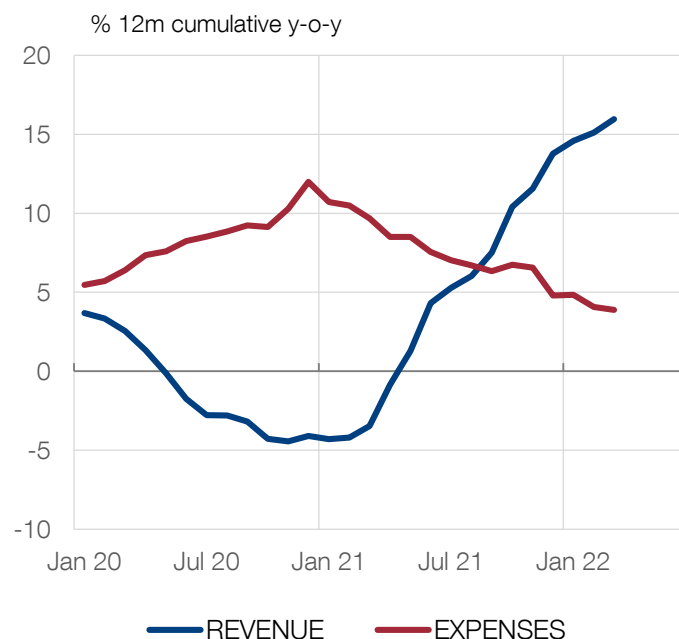
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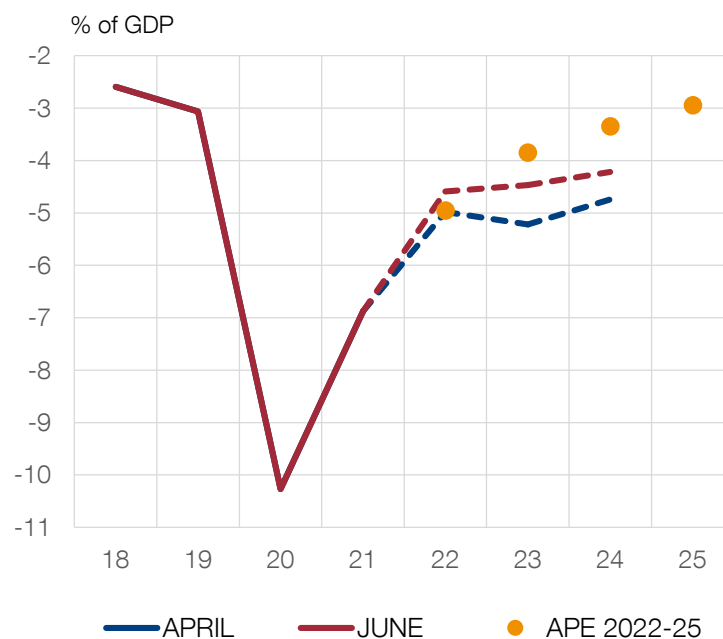
# THE NEW PROJECTIONS CONTEMPLATE A LOWER PUBLIC DEFICIT OVER THE COURSE OF THE PROJECTION HORIZON THANKS TO STRONG TAX REVENUE

- Tax receipts have grown in recent months. Accordingly, more buoyant revenue is considered over the projection horizon and, as a result, it is assumed that tax revenue will converge more gradually towards the lower theoretical level estimated according to the tax bases. Moreover, the proposed European Commission recommendation to Spain to limit current expenditure in 2023 has been partially taken into account

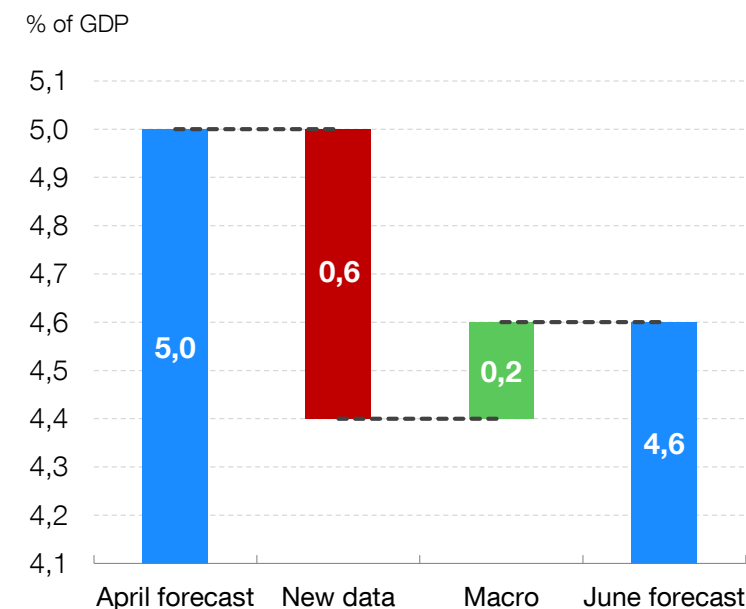
GENERAL GOVERNMENT REVENUE AND EXPENSES  
(a)



GENERAL GOVERNMENT BALANCE



CHANGES IN THE PUBLIC DEFICIT FORECAST FOR  
2022

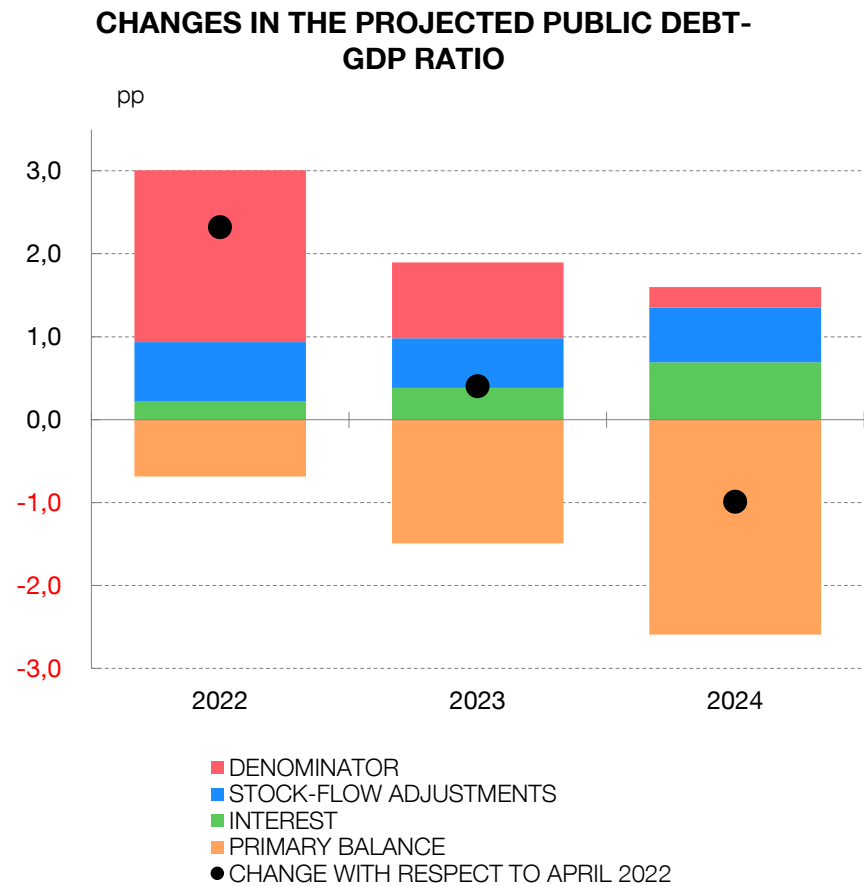
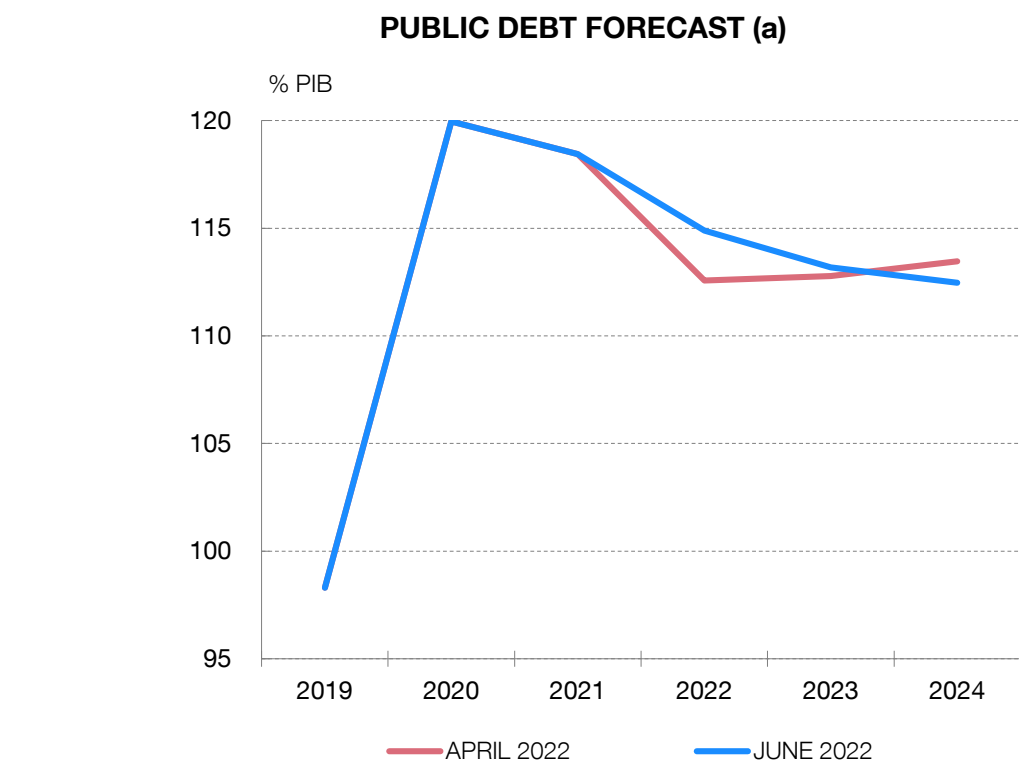


SOURCES: Banco de España, IGAE and the Stability Programme Update 2022-2025 (April 2022)

a) Outlier corrected series.



THE PUBLIC DEBT-TO-GDP RATIO IS REVISED UPWARDS IN 2022 (DUE TO LOWER GROWTH), ALBEIT SLIGHTLY DOWNWARDS IN 2024 (DUE TO AN IMPROVED BUDGET BALANCE)



SOURCES: INE and Banco de España.  
a) Including the reclassification of the SAREB within the general government sector.

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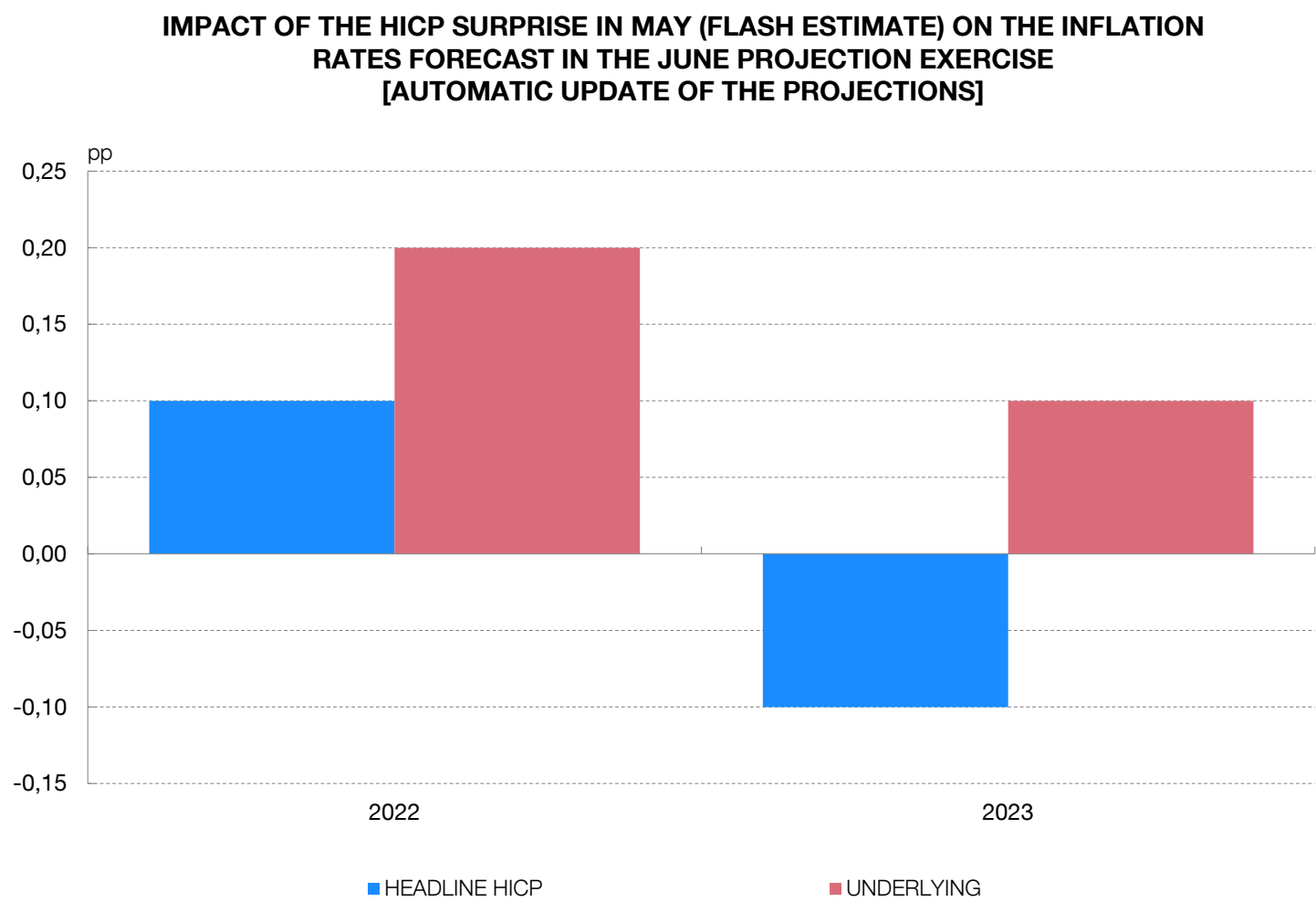
# 2022-2024 MACROECONOMIC PROJECTIONS

## AT THE CUT-OFF DATE

			JUNE 2022 PROJECTIONS			DIFFERENCES VIS-À-VIS APR PROJECTIONS		
Annual rate of change (%), unless otherwise indicated	2020	2021	2022	2023	2024	2022	2023	2024
GDP	-10.8	5.1	4.1	2.8	2.6	-0.4	-0.1	0.1
Harmonised index of consumer prices (HICP)	-0.3	3.0	7.2	2.6	1.8	-0.3	0.6	0.2
HICP excluding energy and food	0.5	0.6	3.2	2.2	2.0	0.4	0.4	0.3
Unemployment rate (% of labour force). Annual average	15.5	14.8	13.0	12.8	12.7	-0.5	-0.4	-0.1
General government net lending (+)/net borrowing (-) (% of GDP)	-10.3	-6.9	-4.6	-4.5	-4.2	0.4	0.7	0.5
General government debt (% of GDP)	120.0	118.4	114.9	113.2	112.5	2.3	0.4	-1.0

SOURCES: Banco de España and INE.  
 (a) Projections cut-off date: 24 May 2022. The differences with the April projections are calculated taking the figures to two decimal places.

# INFORMATION KNOWN AFTER THE PROJECTION CUT-OFF DATE: UPWARD SURPRISE IN THE MAY HICP FLASH ESTIMATE



SOURCE: Banco de España.

# INFORMATION KNOWN AFTER THE PROJECTION CUT-OFF DATE: EXTENSION OF MEASURES TO COUNTER RISING ENERGY PRICES

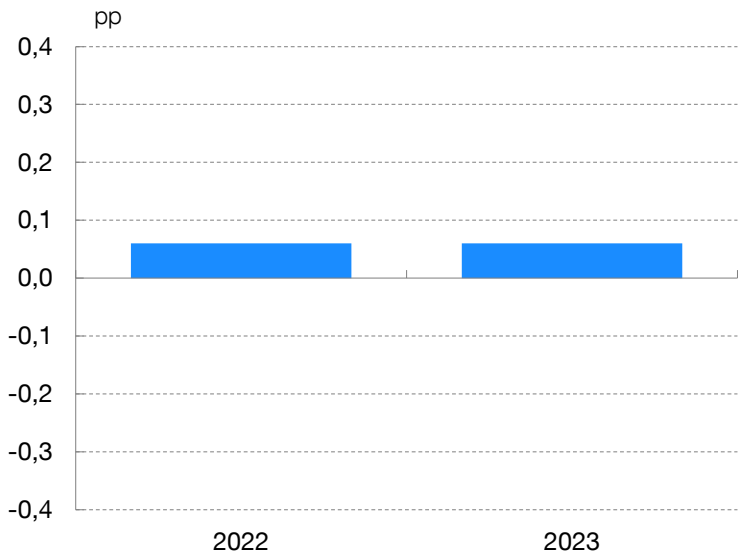
IMPACT ON THE RATES ENVISAGED IN THE JUNE PROJECTION EXERCISE OF THE EXTENSION TO SEPTEMBER, UNDER THE CURRENT ARRANGEMENT,  
OF:

The extraordinary rebate on the retail price of fuel

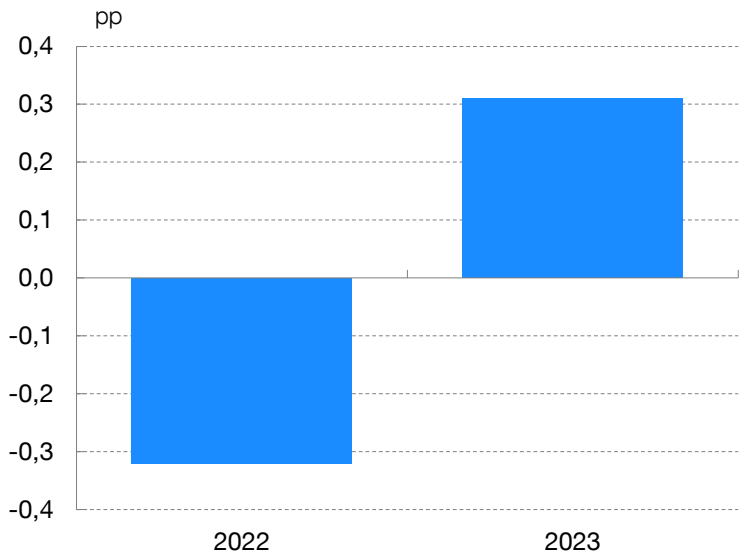
The suspension of the tax on electricity generation, the reduction to the VAT in electricity bills (10%) and the excise duty on electricity

## [AUTOMATIC UPDATE OF THE PROJECTIONS]

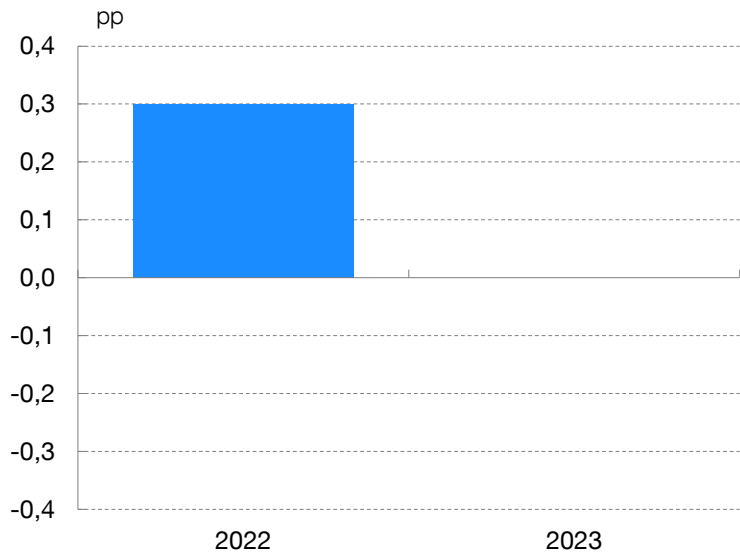
IMPACT ON GDP



IMPACT ON INFLATION



IMPACT ON BUDGET DEFICIT



SOURCE: Banco de España.

# INFORMATION KNOWN AFTER THE PROJECTION CUT-OFF DATE: ADDITIONAL PACKAGE OF EU SANCTIONS AGAINST RUSSIA

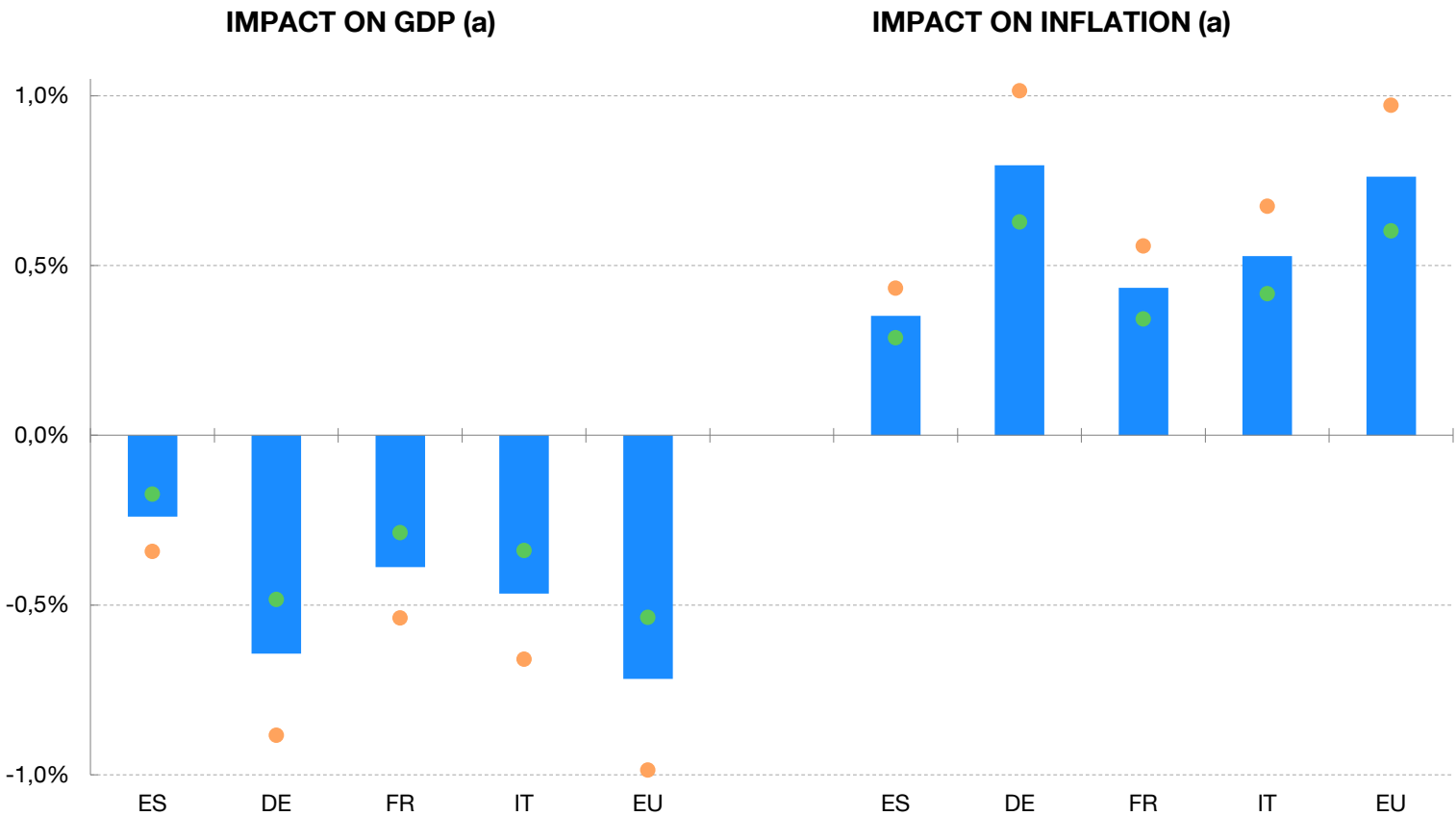
In Spain, limited impact of the embargo on Russian oil on GDP (downwards) and on inflation (upwards)

The fact that

(1) the measure enters into force as from 2023, and

(2) only affects seaborne imports

is likely to result in a smaller impact than shown in the figures



SOURCE: Banco de España.  
(a) The bars show the impact on GDP and inflation of a cut-off in the supply of oil and related products from Russia, assuming a trade elasticity equal to 1. The yellow and green dots show the impact when considering trade elasticities equal to 0.75 and 1.25, respectively.

# APPENDIX



# MACROECONOMIC PROJECTIONS (2022-2024)

		June 2022 projections			April 2022 projections		
	2021	2022	2023	2024	2022	2023	2024
GDP	5.1	4.1	2.8	2.6	4.5	2.9	2.5
Private consumption	4.6	1.4	4.9	2.8	4.5	3.9	2.4
Government consumption	3.1	-0.2	0.4	1.2	-0.3	0.8	1.2
Gross fixed capital formation	4.3	6.5	2.1	2.4	4.5	2.1	2.5
Exports of goods and services	14.7	12.5	2.9	3.5	12.0	3.8	3.7
Imports of goods and services	13.9	7.0	4.0	3.1	9.0	3.3	2.9
Domestic demand (contribution to growth)	4.6	2.1	3.2	2.4	3.3	2.7	2.1
Net external demand (contribution to growth)	0.5	2.0	-0.4	0.2	1.2	0.2	0.4
Nominal GDP	7.4	7.2	5.8	5.0	9.1	4.8	4.3
GDP deflator	2.2	2.9	2.9	2.4	4.4	1.9	1.7
Harmonised index of consumer prices (HICP)	3.0	7.2	2.6	1.8	7.5	2.0	1.6
HICP excluding energy and food	0.6	3.2	2.2	2.0	2.8	1.8	1.7
Employment (hours)	7.0	4.6	1.5	1.1	1.9	2.0	1.6
Unemployment rate (% of labour force). Annual average	14.8	13.0	12.8	12.7	13.5	13.2	12.8
Net lending (+) / net borrowing (-) of the nation (% of GDP)	1.9	3.1	3.2	3.0	2.7	3.3	3.2
General government net lending (+) / net borrowing (-) (% of GDP)	-6.9	-4.6	-4.5	-4.2	-5.0	-5.2	-4.7
General government debt (% of GDP)	118.4	114.9	113.2	112.5	112.6	112.8	113.5

SOURCES: Banco de España and INE. Latest QNA data published: 2022 Q1 (flash estimate). Projections cut-off date: 24 May 2022.



# ASSUMPTIONS ON THE INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

		June 2022 projections			Difference between the current projections and the April 2022 projections (b)		
Y-o-y growth rates unless otherwise indicated		2022	2023	2024	2022	2023	2024
	2021						
Spain's export markets (c)	9.9	4.6	3.0	3.4	-1.1	0.0	0.2
Oil price in dollars/barrel (level)	71.1	105.8	93.4	84.3	1.0	2.0	0.7
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.18	1.07	1.05	1.05	-0.04	-0.05	-0.05
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	120.7	113.1	111.9	111.9	-2.2	-3.1	-3.1
Short-term interest rates (3-month EURIBOR) (e)	-0.5	0.0	1.3	1.6	0.2	0.3	0.3
Long-term interest rates (10-year Spanish government bond yield) (e)	0.3	1.8	2.4	2.6	0.4	0.6	0.7

SOURCES: Banco de España and ECB.

a) Cut-off date for assumptions: 18 May 2022 for Spain’s export markets and 17 May 2022 for all other variables. The figures expressed as levels are annual averages. The figures expressed as rates are calculated based on the relevant annual averages.

b) The differences are expressed as rates for the export markets, as levels for oil prices and the \$/€ exchange rate, as percentages for the effective nominal exchange rate and as percentage points for interest rates.

c) The assumptions regarding the performance of Spain’s export markets in the table are obtained from the ECB staff macroeconomic projections for the euro area, June 2022.

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 approximations thereto, and should not be interpreted as a Eurosystem prediction as to how these variables will trend.