ECONOMIC BULLETIN

2/2022

BANCO DE ESPAÑA
Eurosistema

CONTENTS

QUARTERLY REPORT ON THE SPANISH ECONOMY

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1 OVERVIEW

The outbreak of the war in Ukraine marked the start of a period of great uncertainty that, three and a half months later, is yet to dissipate. In addition, inflationary pressures have intensified and global supply chain disruptions have continued in recent months, partly as a result of the war. These factors are constraining global activity and clouding the economic outlook. The intensity of the price strains is speeding up the timetables for the withdrawal of monetary stimulus, in a complex setting which is forcing central banks to carefully weigh up highly uncertain matters (e.g. the effects of the war on economic activity and even the impact of monetary policy normalisation itself on inflation, given that the surge in this variable is largely due to supply-side factors).

The pandemic has become significantly less important as a determinant of global economic activity. However, fresh outbreaks in some geographical areas have required the reintroduction of containment measures. China is the most striking example in this regard. The fresh restrictions in this country have fuelled the global production chain bottlenecks. By contrast, in the advanced economies, where vaccination campaigns have generally been more successful, the incidence of COVID-19 has waned significantly, allowing containment measures to be lifted almost entirely.

The end of the restrictions is having a positive impact on economic activity. The impetus is proving particularly strong in the contact-intensive sectors. Since these sectors account for a relatively high share of the Spanish productive system, economic activity in Spain has become somewhat more buoyant in the spring, after the sluggish momentum witnessed in Q1.

Persistently high energy prices are still one of the main determinants of economic developments in Spain. Spain imports the gas and oil it consumes. As a result, prices rising as they have since early 2021 has a marked adverse impact on the purchasing power of incomes and, therefore, on private agents' spending. Leaving aside the surge in energy and food prices, there have also been upward surprises in underlying inflation in the first months of 2022. Indeed, the persistence of the rising costs of inputs has meant that the increases in inflation have been increasingly – and to a greater extent than expected – passed through to the non-energy industrial goods and services in the harmonised index of consumer prices (HICP). However, at present there are hardly any signs that the increase in consumer prices is feeding into wage demands. To ensure that inflation in the euro area returns to the 2% target over the medium term, on 9 June the ECB Governing Council took further steps towards the normalisation of its monetary policy. These included the early announcement of its intention to raise key ECB interest rates in July (by 25 basis

Table 1
MAIN SPANISH MACROECONOMIC AGGREGATES (a)

	2021	2020		2021				2022	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
National Accounts									
Quarter-on-quarter rate of change, unless otherwise indicated									
GDP	5.1	16.8	0.2	-0.5	1.1	2.6	2.2	0.3	0.4
Contribution of domestic demand (b)	4.7	15.4	-0.1	-0.7	2.5	0.8	1.2	-1.2	1.2
Contribution of net external demand (b)	0.5	1.4	0.3	0.2	-1.4	1.8	1.0	1.5	-0.8
Year-on-year rate of change									
Employment: hours worked	7.0	-6.3	-6.1	-2.7	29.7	3.3	2.7	7.5	3.5
Price indicators									
HICP	3.0	-0.6	-0.8	0.5	2.3	3.4	5.8	7.9	7.8
HICP excluding energy and food	0.6	0.1	-0.1	0.1	-0.2	0.7	1.6	2.6	3.4

SOURCES: INE and Banco de España.

a Information available to 24 May 2022. The shaded figures are Banco de España projections.
b Contribution to the quarter-on-quarter rate of change of GDP, in percentage points.

points (bp)) and September (by an amount that will depend on the updated medium-term inflation outlook).

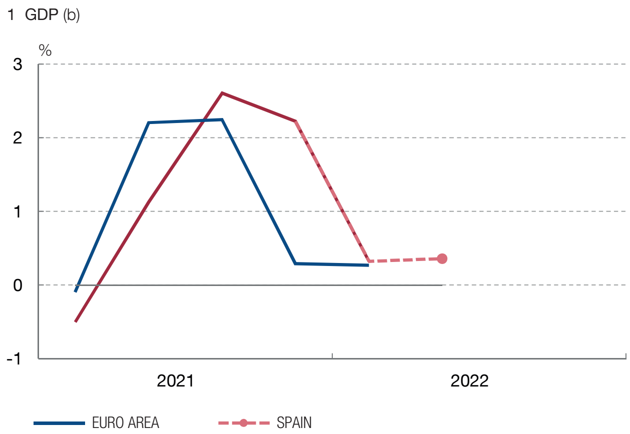
Job creation remained vigorous in April and May. In aggregate terms, growth in employment has only been slightly slower than in the same months in pre-pandemic years. However, developments have been particularly uneven across sectors. Specifically, employment has been highly buoyant in the activities boosted the most by the lifting of the pandemic restrictions, while it has slowed markedly in some of the sectors, like health and education, where it grew the most during the health crisis and in those most affected by the bottlenecks, such as manufacturing and construction.

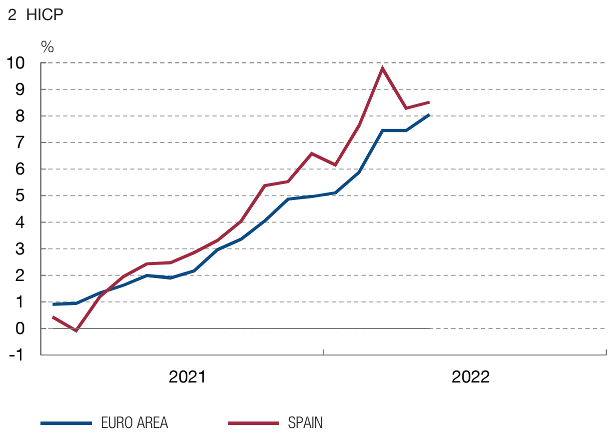
Under the baseline scenario in the Banco de España's latest projections, the Spanish economy will grow by 4.1% in 2022. Relatively strong GDP growth of 2.8% in 2023 and 2.6% in 2024 is also projected.[1] This outlook rests on a set of assumptions surrounded by a high degree of uncertainty. Specifically, it is assumed that: (i) energy and food prices will moderate in line with the paths signalled by the futures markets; (ii) bottlenecks will progressively dissipate over the course of 2022; (iii) the consequences of the war will gradually ease; and (iv) the higher prices will only be modestly passed through to final prices and wage demands. Under these assumptions, the overall HICP rate will be 7.2% on average in 2022, easing considerably in 2023 (to 2.6%) and 2024 (to 1.8%).

1 See Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)", of this report.

Chart 1
ACTIVITY HAS PERFORMED SOMEWHAT MORE FAVOURABLY IN Q2, IN A SETTING WHERE THERE HAVE BEEN INFLATIONARY SURPRISES (a)

The lifting of the pandemic containment measures has enabled the services sectors most affected by the restrictions to gain more momentum. Also, consumer prices have accelerated against a backdrop of continued high energy and food prices and of rising costs increasingly being passed through to other prices.





SOURCES: Eurostat, INE and Banco de España.

a Quarter-on-quarter rates of change based on the seasonally adjusted series in the case of GDP, and year-on-year rates of change in the case of the HICP.
b The Q2 data are Banco de España projections.

These projections are subject to significant risks which are tilted to the downside in the case of GDP growth and to the upside in that of inflation. Specifically, while medium-term inflation expectations in the euro area remain anchored around the monetary policy target of 2%, there are some signs of an incipient increase in the risks of de-anchoring (both in the measures of such expectations based on surveys of different types of economic agents and in financial market-based measures).

Financing conditions in the Spanish economy have started to tighten slightly in recent months. For instance, the Spanish 10-year government bond yield has increased by around 188 bp since the beginning of the year and its yield spread against the German Bund has widened by almost 35 bp. Furthermore, while the average costs of bank lending to households and firms have remained at record-low levels in recent months, given the typical lending market dynamics, the recent increase in interbank market interest rates can ultimately be expected to be passed through to the cost of bank lending to these agents, which could adversely impact their spending power. In addition, amid high volatility, influenced by monetary policy tightening and by investor concern over economic growth, bouts of financial turbulence on international capital markets, possibly leading to a further tightening of financing conditions, cannot be ruled out.

Figure 1

RECENT GLOBAL ECONOMIC DEVELOPMENTS, OUTLOOK AND MAIN SOURCES OF UNCERTAINTY

	MAIN RECENT DEVELOPMENTS	SHORT-TERM OUTLOOK	SOURCES OF UNCERTAINTY
ACTIVITY	Global growth, which was hampered in early 2022 by the resurgence of the pandemic, has continued slowing in recent months, mainly as a result of the war in Ukraine	The adverse effects of the war in Ukraine, China's zero-COVID strategy and the gradual withdrawal of economic policy stimuli dampen the global growth outlook in the coming quarters, despite the lifting of pandemic-related restrictions in most advanced economies	— Energy prices and the possible indirect and second-round effects on inflation — Duration and intensity of the armed conflict in Ukraine, and the persistence of the possible geopolitical fallout, as well as of global production and supply chain bottlenecks — Global financing conditions and financial stability amid the normalisation of monetary policy around the world — The nature and magnitude of the fiscal response to contend with the war's adverse consequences — The pandemic
PRICES	Rising energy and food prices and the persistence of bottlenecks have continued to drive up inflation. Inflationary pressures are now widespread in the basket of consumer goods and services, and also affect core inflation	The average inflation forecast for 2022 and, to a lesser degree, 2023, has been revised significantly upwards. Nonetheless, the current high inflation rates are still expected to gradually ease over the coming quarters, provided there are no significant indirect or second-round effects	
OTHER	In a context of high inflation, most of the world's central banks, in both the advanced and the emerging market economies, have continued to tighten their monetary policy stance	In a highly volatile setting shaped by monetary policy tightening and investor concern over economic growth, global financial conditions are likely to continue to tighten	

SOURCE: Banco de España.

BOX 1

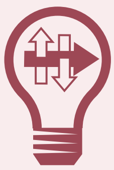
Spanish GDP growth in 2022 has been revised downwards, as economic activity slowed more sharply than expected in Q1. That said, activity seems to have become more buoyant in recent months. The intensity and persistence of the rise in inflation continues to surprise on the upside. Apart from the headline inflation rate in 2022, which has been revised down slightly owing to the entry into force of the Iberian mechanism to lower electricity bills, the other headline and underlying inflation rates have been revised significantly upwards in the period 2022-2024

BOX 2

Consumer inflation expectations have increased in recent quarters, in particular among those households most exposed to the increase in energy prices and those that are most pessimistic about future economic developments

BOX 3

At the end of 2021, mark-ups in Spain stood below their pre-pandemic levels and were less buoyant than in the euro area as a whole. Also, there have been signs of some decline in profit margins in recent quarters, although this aggregate behaviour is compatible with significant sectoral variation



BOX 4

The Iberian mechanism to cap the price of gas used in electricity generation would reduce the inflation rate projected for 2022 by 0.5 pp and that projected for 2023 by 0.1 pp, although the uncertainty surrounding these estimates is very high

Box 1

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2022-2024)

These projections for the Spanish economy are the Banco de España's contribution to the Eurosystem's projections for the euro area as a whole released by the European Central Bank (ECB) on 9 June.[1, 2] Under the assumptions of the exercise, Spanish GDP is projected to grow at 4.1%, 2.8% and 2.6% in 2022, 2023 and 2024, respectively (see Table 1). Headline inflation will decelerate from 7.2% in 2022 to 2.6% in 2023 and 1.8% in 2024, while the underlying component will go from 3.2% on average this year to 2.2% in 2023 and 2% in 2024. The cut-off date for this projection exercise was 24 May, with the exception of the data used to prepare the assumptions, for which the cut-off date was 17 May.

Activity

In 2022 Q1 the GDP growth rate slowed substantially, to 0.3% quarter-on-quarter. Chronologically, this was initially due to the adverse impact of the COVID-19 Omicron variant on recreational activities and, subsequently, to the economic fallout of the invasion of Ukraine by Russia. These developments were compounded, at the end of the quarter, by the production and distribution disruptions caused by the road hauliers' strike in Spain. The effect of this temporary factor appears to have been greater than was estimated in the last projection exercise published by the Banco de España in April.[3]

In Q2, the war in Ukraine is adversely affecting economic activity through the persistence of high prices in numerous commodities including energy, minerals and foodstuffs (see Chart 1), its impact on agents' confidence (which, in general, has not yet returned to where it stood before the Russian invasion), and the reduced buoyancy in world markets, in a setting in which the war and China's zero-COVID policy have hindered the resolution of supply chain bottlenecks or have even exacerbated them.

These adverse effects have tended to be offset by other countervailing effects, most notably the virtual elimination of the restrictions associated with the health crisis, which is driving a remarkable rebound in the services most affected by them. Additionally, the impact of the rise in inflation on consumption and production is being partially cushioned by the fiscal and regulatory measures adopted to address it. Lastly, the decline in household confidence in March has subsequently partially reversed, boosting consumption in Q2. As a result of all these factors, GDP is expected to increase by 0.4% in the current quarter, although this figure is subject to a high level of uncertainty as the quantitative economic information for the quarter is still limited.

In the short term, the war is expected to continue to have a considerable impact on activity. In the absence of significant additional shocks, economic activity is expected to gain greater momentum as from the final stretch of the year, in line with the gradual improvement in confidence, the progressive easing of supply chain

Table 1
MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (a)

Annual rates of change (%)

	GDP				Harmonised index of consumer prices (HICP)				HICP excluding energy and food				Unemployment rate (% of labour force) (b)			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
June 2022	5.1	4.1	2.8	2.6	3.0	7.2	2.6	1.8	0.6	3.2	2.2	2.0	14.8	13.0	12.8	12.7
April 2022	5.1	4.5	2.9	2.5	3.0	7.5	2.0	1.6	0.6	2.8	1.8	1.7	14.8	13.5	13.2	12.8

SOURCES: Banco de España and INE.
NOTE: Latest QNA figure published: 2022 Q1.

a Projections cut-off date: 24 May 2022.
b Annual average.

1 Compared with those published on 5 April, these projections incorporate the new information that has become available since then, including, in particular, the Quarterly National Accounts (QNA) data for 2022 Q1 and the changes in the technical assumptions underlying the performance of the different variables (see Table A.1).

2 See *Eurosystem staff macroeconomic projections for the euro area,* June 2022.

3 See Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)", Quarterly Report on the Spanish Economy, *Economic Bulletin* 1/2022, Banco de España.

disruptions and the roll-out of NGEU-related funds. Financial conditions are, however, expected to be somewhat tighter than in the recent past (partly as a result of the monetary policy normalisation or tightening process undertaken by the main central banks worldwide), which could contribute to a certain moderation in the rate of growth of activity.

The projected GDP growth would allow the Spanish economy to return to its pre-pandemic output level in the second half of 2023 (see Chart 2). By demand component, economic growth in 2022 would rest very significantly on the recovery of tourism exports and, to a lesser extent, on the implementation of investment projects associated with the NGEU programme. By contrast, in the period 2023-2024 growth would be underpinned by the expected greater dynamism of private consumption, spurred among other factors by strong job creation, which would bring the unemployment rate down to 12.6% at end-2024 (see Chart 3 and Table 2). Meanwhile, the budget deficit is projected to narrow appreciably once again in 2022 (to 4.6% of GDP, 2.3 pp below the 2021 level), although it would decline only marginally in the following two years.

Chart 1
ENERGY PRICES

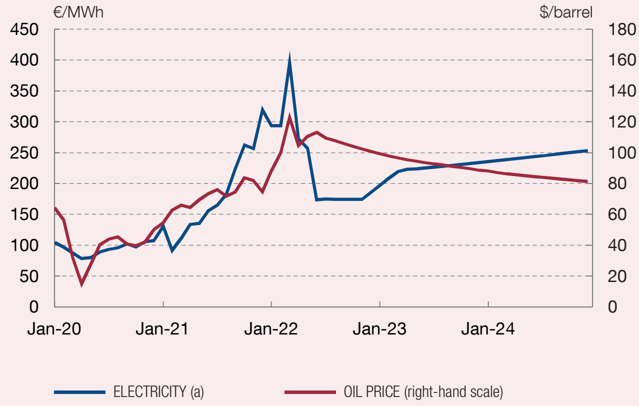
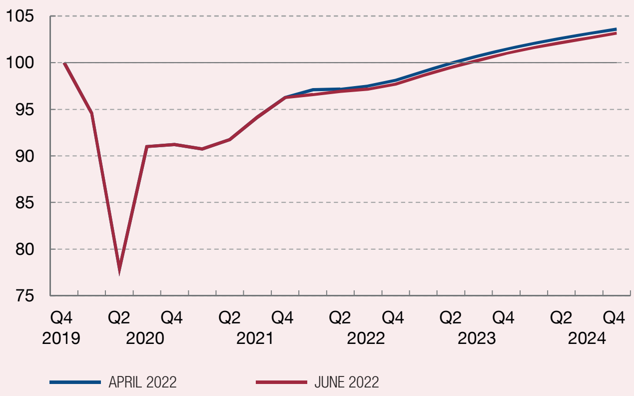


Chart 2
REAL GDP. LEVEL (2019 Q4 = 100)



SOURCES: INE, Reuters and OMIP.

a Regulated rate for small consumers of electricity.

Chart 3
GDP GROWTH AND CONTRIBUTIONS OF MAIN COMPONENTS

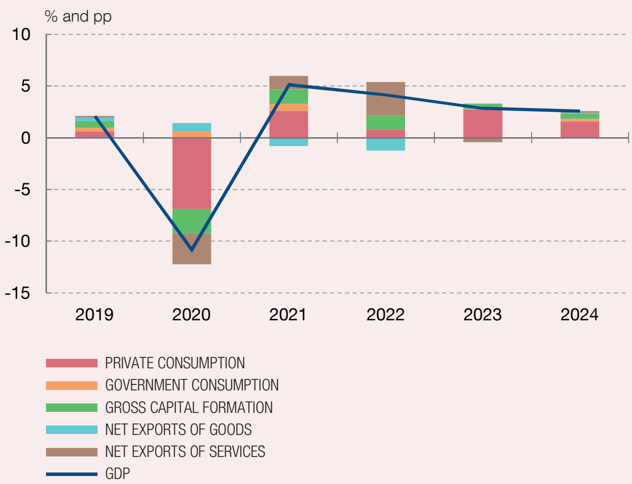
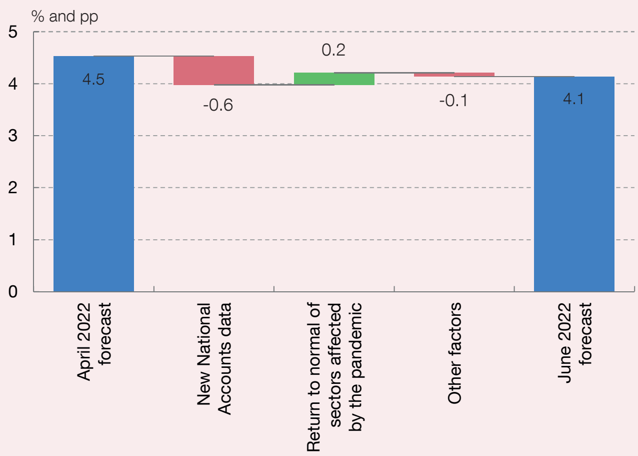


Chart 4
CHANGES IN THE 2022 GDP FORECAST



SOURCES: Banco de España and INE.

Compared with those published at the beginning of April, the current projections entail a downward revision of 0.4 pp to GDP growth in 2022, essentially as a result of the incorporation of the Q1 QNA data (see Chart 4). Specifically, lower GDP growth between January and March than was estimated in April automatically leads to a downward revision of 0.6 pp in this year's average growth rate. Conversely, the return to normal activity in the sectors most affected by the pandemic is proving faster and more intense than was expected in April. This is leading to stronger GDP growth in the current quarter, which boosts the average annual growth rate by 0.2 pp. Moreover, overall, the changes in the assumptions underlying the projections – including most notably the fiscal and financial assumptions and those relating to foreign market developments – lead to modest shifts in the projected GDP path for 2022. In the subsequent two-year period, the projections for activity are practically the same as those published in April. Therefore, the new information that has become known between these two projection exercises is not expected to significantly alter the medium-term outlook for Spanish GDP growth.

Prices and costs

in April, Spanish headline inflation, measured by the HICP, fell by 1.5 pp to 8.3%. This decline was the result of two opposite trends. The sharp fall in energy prices (whose year-on-year rate of change dropped to 33.3%, a decrease of 27 pp) was partly as a result of the measures introduced under Royal Decree-Law 6/2022 of 29 March 2022 in the framework of the Spanish National Plan in response to the economic and social consequences of the war in Ukraine. However, food inflation accelerated by 2.9 pp to 9.3% and underlying inflation also rose, by 0.4 pp, to stand at 3.4%.

Looking ahead, commodity prices on futures markets, which continue to signal a gradual moderation in these prices in the coming quarters, and the entry into force of

Table 2
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES OF THE SPANISH ECONOMY (a)

Annual rate of change in volume terms (%) and % of GDP

		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.
NOTE: Latest QNA figure published: 2022 Q1.

a Projections cut-off date: 24 May 2022.

the so-called Iberian mechanism to cap gas prices and reduce electricity bills recently agreed with the European Commission, suggest that the energy component of Spanish prices will decelerate sharply over the projection period. In consequence, the year-on-year rate of change, which stood at 46% in 2022 Q1, is expected to turn negative from summer 2023 (see Chart 5).

Food prices and underlying inflation, which both surprised on the upside in April, are expected to continue to accelerate in the short term, in a setting in which the war in Ukraine and China's zero-COVID policy have delayed resolution of the global supply chain disruptions (and in some cases have even heightened them), firms are partially passing through their production cost increases to sale prices, and demand is growing quite sharply in more contact-intensive services (see Chart 6). However, on a broader time horizon, both food and underlying inflation are expected to moderate slowly in 2023 and 2024, albeit to a limited extent. This is because demand is also expected to gradually recover, as the factors that have driven the recent surge in inflationary pressures in these items begin to reverse (see Chart 5).

These projections are essentially based on two assumptions. First, that the bulk of the pass-through to sale prices of the recent cost increases has already occurred. Second, that the response of wage demands to the growth in inflation will be limited, consistent with the pattern observed to date, which would avoid feedback loops between wage increases and final prices.

Compared with the last projections, the surprise in underlying inflation in April and the assumption that the increase will be longer lasting, lead to an upward revision of 0.5 pp in the rate of change of underlying inflation for 2022, to 3.2%, and to a smaller revision, to 2.2% and 2%, respectively, for 2023 and 2024. By contrast, the headline inflation rate projected for 2022 – 7.2% – is now 0.2 pp lower than that forecast in April, as a result of the downward revision of the energy component which more than offsets the upward revisions to underlying and food price inflation in 2022. Projected electricity prices have been revised down, partly because of the incorporation, in this projection exercise, of the mechanism to cap gas prices and reduce electricity bills that Spain and Portugal have recently agreed with the European Commission. As explained in Box 4 of this report, under the assumption that the mechanism will come into effect on 15 June, in 2022 average inflation will fall by 0.5 pp.[4] In any event, the reversal of this measure in 2023, together with the higher inflation projected for the underlying components and food prices, explains the

Chart 5
CONTRIBUTIONS TO HICP GROWTH BY COMPONENT

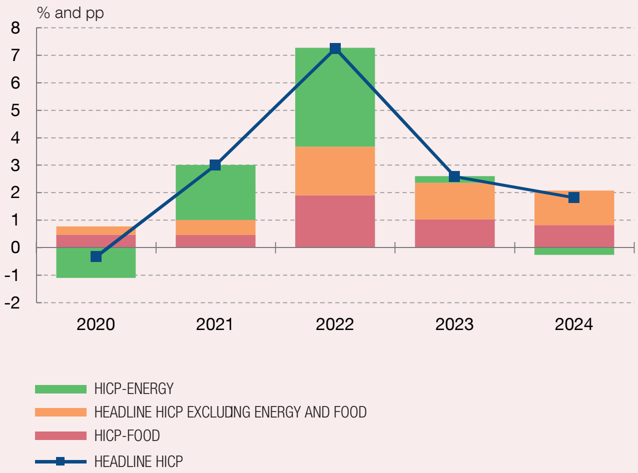
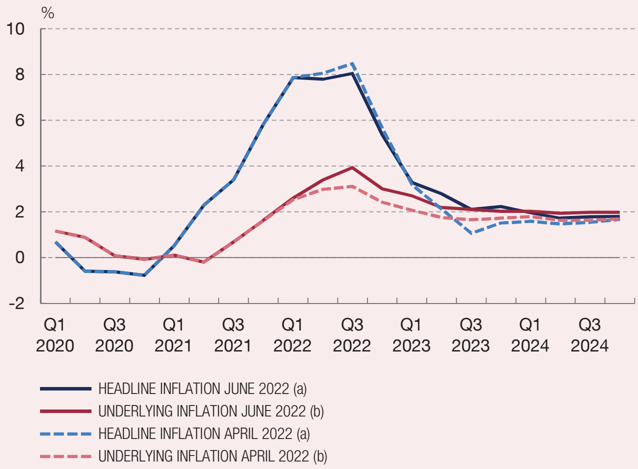


Chart 6
HEADLINE AND UNDERLYING INFLATION



SOURCES: Banco de España and INE.

a Measured by the harmonised index of consumer prices (HICP).
b Measured by the HICP excluding energy and food.

4 The assumption was subsequently confirmed (the mechanism came into effect on 8 June).

upward revision of 0.6 pp – to 2.6% – in the headline HICP inflation rate for that year compared with the April projections. For 2024 the revisions are less significant.

Latest data

Since the cut-off date for this projections exercise – carried out jointly with the Eurosystem – two particularly relevant items of information have become known which, had they been available earlier, would have given rise to certain significant changes to these projections, especially insofar as the projected inflation rates for the short term are concerned.

First, on 30 May, the National Statistics Institute (INE) published its HICP flash estimate for May, which at 8.5% year-on-year is 0.5 pp higher than the figure included in these projections. An automatic update of the effects of this further upside inflationary surprise signals a headline inflation rate 0.1 pp higher in 2022 and 0.1 pp lower in 2023 than those forecast before this information was known. As a result of this surprise, the underlying inflation rates would also be revised upwards, by 0.2 pp for 2022 and by 0.1 pp for 2023.

Second, on 1 June, the Government announced its intention to extend to September the measures currently in force to counter the consequences of higher energy prices for households' and firms' income, in particular the fuel rebate and electricity tax reductions. By contrast, this projection exercise assumes that these measures will expire at end-June. According to the calculations made, the extension to September will lead to a headline inflation rate in 2022 some 0.3 pp lower than under the baseline scenario. This effect will be reversed completely in 2023. The underlying inflation rates for both 2022 and 2023 are almost unchanged compared with the baseline scenario of this projection exercise. In turn, the average rate of growth of GDP will be slightly higher in the short term, although this effect will be reversed when the measures recently extended are withdrawn. Lastly, the budget deficit is expected to grow as a percentage of GDP by between 0.2 pp and 0.3 pp in 2022.

Risks

The risks to the baseline scenario of the joint projections with the rest of the Eurosystem are tilted to the downside in the case of activity and to the upside in the case of inflation, primarily as a result of the uncertainty over the course of the war in Ukraine and its economic repercussions.

An additional and very significant source of risk is associated with the extent to which the recent rise in prices and costs is passed through to other prices in the economy and to wages. The intensity with which some indirect effects – i.e. the pass-through of higher production costs to final prices – appear to be materialising in recent months has increased the likelihood of significant second-round effects or price-wage feedback loops, which for the Spanish economy would mean a loss of external competitiveness, higher inflation and a lower level of activity and employment throughout the projection horizon.

The pace of NGEU implementation will be a further source of uncertainty in the coming quarters. The scant information available suggests that there may be some delay in the expenditure relative to the schedule considered in the projections. In addition, the uncertainty over the effective roll-out of NGEU projects could delay some private investment decisions. So suggests the qualitative information compiled by Banco de España in its telephone conversations with a number of Spanish non-financial corporations.

Lastly, the process of monetary policy normalisation is prompting a certain tightening of financing conditions, as has begun to become apparent in the wholesale markets. In the current highly uncertain setting, this process of monetary stimulus withdrawal could lead to more abrupt price adjustments in capital markets, especially in the event of spikes in risk aversion (associated, for example, with a potential further deterioration in the geopolitical situation). In the near term, the combination of higher inflation (which erodes households' and firms' real income) and an increase in interest rates could make it harder for the more vulnerable agents to service their debts (consequently limiting their spending levels).

ANNEX 1
Assumptions underlying the projections

As compared with the April projections, the main changes to the assumptions relate to short and long-term interest rates (both now higher), the euro exchange rate (now lower) and export markets (whose growth rate has been revised downwards in 2022) (see Box 1).[5]

As regards fiscal policy, there have been no regulatory changes except for the extension of the escape clause of the Stability and Growth Pact to 2023. In particular, no

5 For a description of the methodology used to construct projections for the Spanish economy's external markets for goods and services, prices in the financial and commodities market, and fiscal policy, see Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)", Quarterly Report on the Spanish Economy, *Economic Bulletin* 1/2022, Banco de España.

new measures were included in the Stability Programme Update 2022-2025. In this setting, the information that has become known since the April projection exercise is important in three main dimensions.

First, the latest budget outturn data show that the strong tax revenue of recent times has been bolstered even further. Tax receipts are growing at far higher rates than would be inferred from developments in National Accounts tax bases. Accordingly, more buoyant revenue is considered over the projection horizon than in the April projections, 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.

Second, albeit subject to extraordinary uncertainty, the latest information on calls for funding proposals within the framework of NGEU bears out the assumptions considered in the April projections regarding the pace of expenditure under this programme.

Lastly, the assumptions take into account the proposed European Commission recommendation to Spain, included in the European Semester Spring Package, which urges the authorities to limit, in 2023, the growth of nationally-financed current expenditure below medium-term potential GDP growth. As a result, the projected current expenditure has been revised down slightly. Otherwise, the fiscal projections are based on the usual technical assumptions.

The resulting fiscal policy stance, measured by the change in the primary structural balance net of European funds, is expected to be expansionary in 2022 and 2023 (0.9 and 0.6 pp of GDP, respectively) and contractionary in 2024 (-0.4 pp).[6]

Table A.1
INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

Annual rates of change (%), unless otherwise indicated

		June 2022 projections			Difference between the current projections and the April 2022 projections (b)		
	2021	2022	2023	2024	2022	2023	2024
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. Figures expressed as levels are annual average; the figures expressed as rates are calculated on the basis of the related annual averages.
b The differences are in rates for export markets, in levels for oil prices and the dollar/euro exchange rate, in percentages for the nominal effective exchange rate and in percentage points for interest rates.
c The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the *June 2022 ECB staff macroeconomic projections for the euro area.*
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 on proxies thereof and should not be interpreted as a Eurosystem prediction as to the course of these variables.

6 These figures are primarily determined by developments in NGEU-funded expenditure. The funds received under this programme entail a lower structural deficit, but not a more contractionary fiscal policy stance, as they do not stem from taxes collected from resident agents. By contrast, the NGEU-funded expenditure in Spain does influence the fiscal policy stance.

Figure 1
SUMMARY OF THE MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2022-2024)

	2022	2023	2024
GDP	4.1% ↓ 0.4 pp	2.8% ↓ 0.1 pp	2.6% = 0.0 pp
Inflation	7.2% ↓ 0.2 pp	2.6% ↑ 0.6 pp	1.8% ↑ 0.3 pp

MAIN REASONS FOR THE REVISION
(with respect to the April projections)

- The downside surprise in the economic growth data for Q1 automatically lowers GDP growth in 2022
- However, this revision is partially offset by the buoyancy of services in April and May, signalling higher-than-projected growth in 2022 Q2
- The growth outlook for the rest of the projection horizon is not significantly different from that published in April
- Inflation in 2023 and 2024 is revised upwards due to the stronger and more persistent increase in underlying inflation
- Despite the rise in underlying inflation, headline inflation in 2022 is revised downwards due to the impact of the Iberian mechanism to cap the gas price

MAIN SOURCES OF UNCERTAINTY

- New information that becomes available after the cut-off date which might significantly alter the projections (e.g. data on inflation in May and extension of measures in Spain to mitigate surging energy prices)
- Intensity of the indirect and second-round effects on inflation
- Duration and severity of the war in Ukraine and developments in energy prices and global value chain bottlenecks
- Developments in financial conditions in a context of monetary policy normalisation globally
- Use and macroeconomic impact of European funds

SOURCE: Banco de España.

Box 2

CHANGES IN CONSUMER INFLATION EXPECTATIONS IN RESPONSE TO THE RECENT RISE IN PRICES AND THE WAR IN UKRAINE

Luis Guirola and Iván Kataryniuk

Inflation has soared globally since early 2021. This rise has fed through, to differing degrees, to economic agents' medium and long-term inflation expectations. For instance, financial market-based long-term inflation compensation has increased continuously during this period in both the euro area and the United States (see Chart 1). Professional forecasters' long-term inflation expectations have also risen (to 2% in the euro area and to 3% in the United States).

Leaving these measures to one side, this box focuses on recent changes in consumer inflation expectations. Monitoring these expectations is particularly important from the monetary policy conduct standpoint. Indeed, they influence employees' demands for wage increases and, the more such increases are passed through to the prices of companies' goods and services, future inflation developments as well. In addition, these expectations also affect household consumption and investment decisions, with the ensuing knock-on effect on aggregate economic activity and, ultimately, once again, inflation.

Charts 2 and 3 highlight that since mid-2021 consumer inflation expectations have risen noticeably both in the United States and in the euro area. The increase has been particularly sharp in the euro area since the start of Russia's invasion of Ukraine at the end of February.

Drawing on granular data from the European Central Bank's monthly Consumer Expectations Survey (CES) of more than 10,000 respondents who are representative of the population of the six largest euro area countries, it is possible to analyse how the exposure of different types of households to energy prices and the deterioration in the economic outlook induced by the war in Ukraine have recently influenced euro area consumer inflation expectations. In this regard, at a time when the increase in inflation in recent months has largely been due to the rise in energy prices, the households most exposed to such higher prices can be expected to have adjusted more sharply their future inflation expectations. Likewise, it could also be the case that, as certain papers suggest,[1] the future inflation perceptions of the households with a more pessimistic economic outlook have risen more sharply, potentially compounding the adverse effects of the recent slowdown in activity on short and medium-term growth and hindering the task of economic policy.

Chart 4 depicts, by consumers' exposure to rising energy prices, the changes in euro area consumer inflation expectations three years ahead. To do so, households are divided on the basis of their percentage of spending, in October 2021, on transport and basic utilities – mainly electricity, gas and other fuels –, distinguishing between the most exposed 30% of households (i.e. with a greater share of spending on these items) and the remaining 70%. In this regard, it should be highlighted that, in general, the group of households most exposed to the higher energy prices have a lower level of income[2] and, in the current inflationary episode, appear to be experiencing higher average inflation.[3]

Up to mid-2021, both types of households had similar expectations for future inflation (see Chart 4). However, from 2021 Q3 onwards, the inflation outlook of the households most exposed to the increase in energy prices has risen more sharply. This trend became more pronounced following Russia's invasion of Ukraine. This group of households is also currently more uncertain about future inflation developments (see Chart 5).

As mentioned above, the deterioration in the economic outlook triggered by the outbreak of the war in Ukraine could have impacted – possibly unevenly – medium-term consumer inflation expectations. In this regard, Chart 6 depicts, for each month of the period July 2021-April 2022, the estimated relationship between each household's revised three-years-ahead inflation expectations and their revised economic outlook for the next 12 months. In contrast to what is observed in the rest of the period, precisely from March 2022, after the war broke out, there is a negative and statistically significant correlation between the variables analysed. In other words, between

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1 See S. Tsiaplias (2021), "Consumer inflation expectations, income changes and economic downturns", *Journal of Applied Econometrics,* Vol. 36(6), pp. 784-807.

2 The level of inflation expectations largely depends on household characteristics. Specifically, lower-income households, older households and women tend to have higher inflation expectations. See K. Bańkowska et al. (2021), "ECB Consumer Expectations Survey: an overview and first evaluation", *ECB Occasional Paper Series,* No 287.

3 See Chapter 3 of the Banco de España *Annual Report 2021.*

Russia launching its invasion of Ukraine and the end of the period analysed, the consumers who revised their medium-term inflation forecast upwards the most were, on average, those who became most pessimistic about the economic outlook.

In sum, this box highlights that the recent rise in euro area consumer inflation expectations is in part influenced by households' exposure to the increase in energy prices and by their pessimism about future economic developments.

Chart 1
INFLATION SWAPS MARKET-BASED MEASURES OF INFLATION EXPECTATIONS (a)

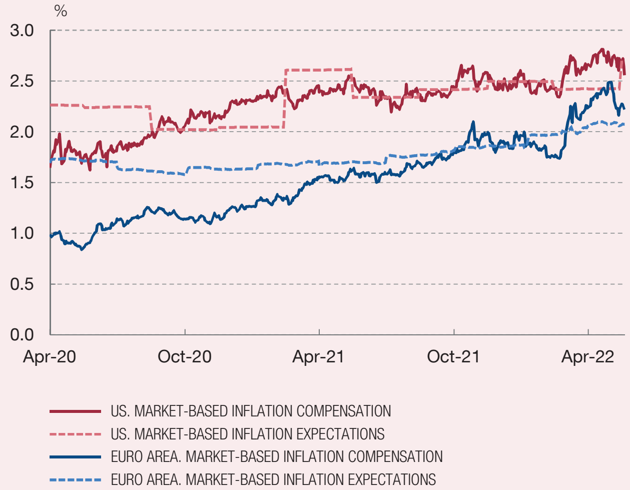


Chart 2
US CONSUMER INFLATION EXPECTATIONS (MEDIAN)

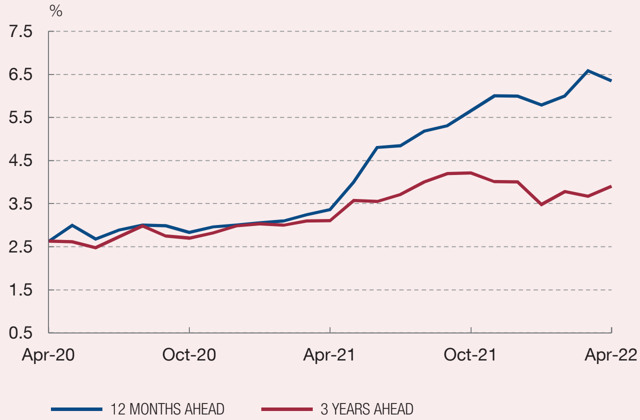


Chart 3
EURO AREA CONSUMER INFLATION EXPECTATIONS

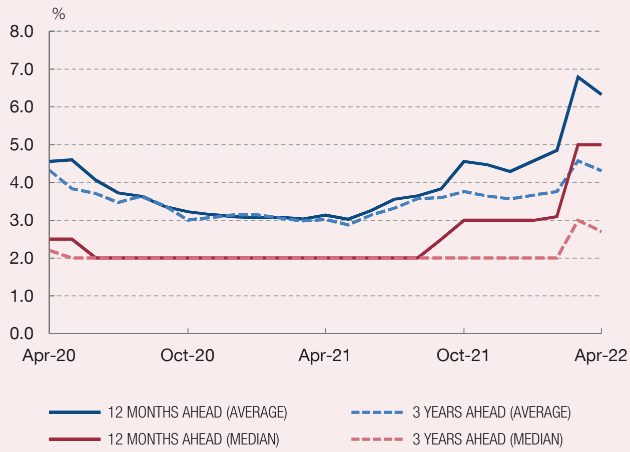
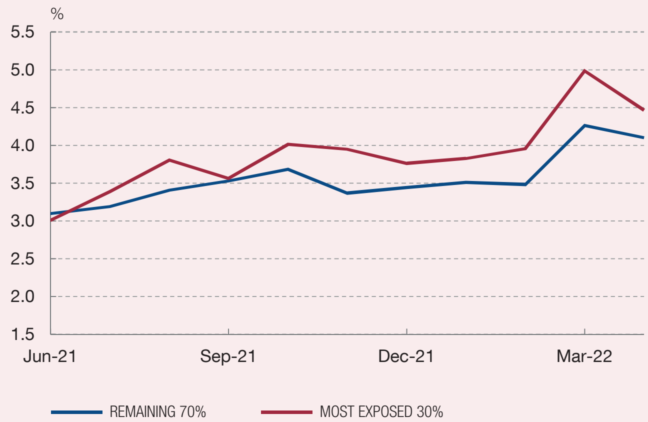


Chart 4
AVERAGE INFLATION EXPECTATIONS THREE YEARS AHEAD, BY TYPE OF HOUSEHOLD (b)



SOURCES: CES (ECB), Survey of Professional Forecasters (ECB and Federal Reserve Bank of Philadelphia), Bloomberg and own calculations.

a Five-year, five-year forward inflation compensation, daily data to 27 May 2022. The compensation for inflation priced into inflation swaps is, for each horizon, broken down into the sum of the inflation expectations and the risk premium by term, using a model that estimates the term structure of inflation using daily data on inflation swaps at several time horizons (for the euro area or for the United States), monthly HICP data for the euro area (CPI for the United States) and quarterly data on one, two and five-year inflation expectations from the Survey of Professional Forecasters conducted by the ECB (Federal Reserve Bank of Philadelphia in the United States). See R. Gimeno and E. Ortega (2022), "Modelling inflation expectations: the value of mixing information and frequencies", *Working Papers,* Banco de España, forthcoming.

b The most exposed households are those whose percentage of consumer spending on transport and basic utilities is in the upper 30% of the distribution. The findings are similar using country-specific thresholds and other percentages.

Chart 5
PROBABILITY DISTRIBUTION OF CONSUMER INFLATION EXPECTATIONS THREE YEARS AHEAD, BY EXPOSURE (a)

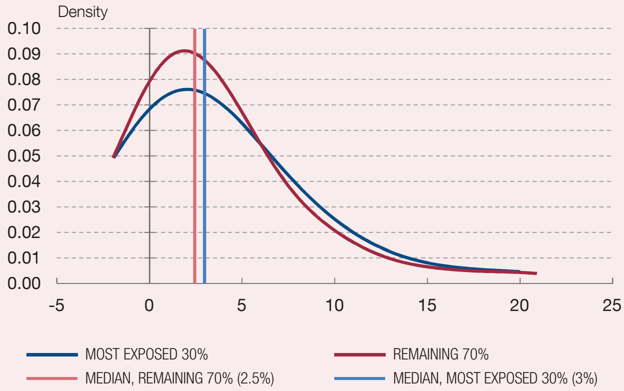
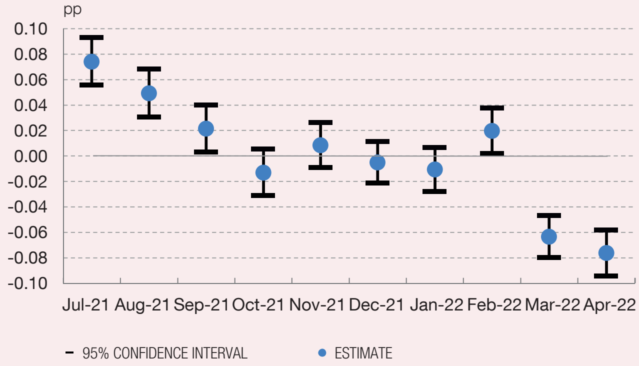


Chart 6
RELATIONSHIP BETWEEN REVISED INFLATION AND GROWTH EXPECTATIONS (b)



SOURCES: CES (ECB), Survey of Professional Forecasters (ECB and Federal Reserve Bank of Philadelphia), Bloomberg and own calculations.

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. The findings are similar using country-specific thresholds and other percentages.
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.

Box 3

MARK-UPS IN SPAIN: RECENT DEVELOPMENTS

Alejandro Fernández-Cerezo, José Manuel Montero and Elvira Prades

Global production and supply chain bottlenecks and the surge in numerous energy and other commodity prices have in recent quarters put considerable upward pressure on firms' costs, both in Spain and worldwide. As the Banco de España has indicated in various reports,[1] the degree to which Spanish firms pass these cost increases through to the prices of the goods and services they produce will be crucial in determining how long the current inflationary episode will persist and in any assessment of possible future developments in the Spanish economy's international competitiveness and employment.

Various indicators suggest that costs are already being passed through to prices. Indeed, the fact that inflationary pressures have spread in recent quarters (beyond energy inputs) and are already evident in a very significant proportion of goods and services in the household consumption basket is consistent with an incipient materialisation of these indirect effects on inflation.

The Banco de España Business Activity Survey (EBAE)[2] points in the same direction. On the basis of qualitative data, it shows that Spanish firms have recently been increasing their selling prices. However, according to the same source, this pass-through is only partial, insofar as selling prices are not perceived to be rising as forcefully as input prices. This qualitative evidence would thus be consistent with a certain decline in mark-ups in Spain in recent quarters.

To supplement this evidence, the behaviour of profit margins in Spain and other European economies since the outbreak of the pandemic is analysed in this box on the basis of a quantitative approach, using certain metrics commonly employed in the academic literature to proxy the behaviour of this variable. It should be noted, however, that there are considerable difficulties involved in estimating mark-ups (a variable that cannot be directly observed), so that the results of this exercise must be treated with caution. In fact, whether for conceptual or methodological reasons, significant differences have frequently been observed between the dynamics of profit margins estimated using different quantitative approaches.[3]

A first approach defines mark-ups as the ratio of the gross operating surplus (GOS) to the gross value added (GVA) of non-financial corporations,[4] both of which are available in the non-financial accounts of the institutional sectors in the National Accounts. According to this metric, mark-ups were highly volatile in Spain at the height of the pandemic, increased slightly in the first half of 2021 and were somewhat subdued in the second half of 2021, as inflation surged. In any event, at the end of last year, profit margins in Spain were some 3 pp below their pre-pandemic levels, a wider gap than in other euro area countries (and above the euro area average), where mark-ups recovered more forcefully following the turbulence in 2020 (see Chart 1).

A second way of estimating mark-ups consists in calculating the ratio of GOS to GVA for the economy as a whole using the INE's estimation of GDP in the Quarterly National Accounts by means of the income approach. This approach has certain limitations compared with the first one,[5] but it also has the advantage of enabling mark-up developments to be analysed across sectors of activity. According to this indicator, and in line with the first approach, profit margins in Spain still stand almost 4 pp below their pre-pandemic level, although they vary considerably across sectors of activity. On one hand, mark-ups in manufacturing, mining and quarrying, energy and water have recovered strongly following their fall in 2020 and, in 2022 Q1, stood above their pre-pandemic levels. On the other hand, in construction and market services, mark-ups have remained more subdued following their decline at the height of pandemic and are still below their 2019 levels (see Chart 2).[6]

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1 See, for example, Chapter 3, *Annual Report 2021,* Banco de España.

2 For further details of the latest wave of this survey, see M. Izquierdo (2022), "Encuesta a las empresas españolas sobre la evolución de su actividad: segundo trimestre de 2022", Notas Económicas, *Boletín Económico,* 2/2022, Banco de España.

3 For an example of these discrepancies, see J. M. Montero and A. Urtasun (2013), "Recent developments in non-financial corporations' mark-ups", *Economic Bulletin,* 12/2013, Banco de España.

4 This approach is not free from interpretation and measurement problems as the GOS includes, among other items, capital remuneration and depreciation costs, which means it is difficult to interpret it as corporate profit.

5 This approach to mark-ups can be considered to be less precise than the first metric presented in this box because it includes other institutional sectors apart from NFCs (such as households and general government) and does not subtract from the GOS net taxes on products and imports.

6 These results are consistent with those obtained using an alternative approach to mark-ups based on the difference between the change in the GDP deflator and unit labour costs. For further details of this methodology, see Box 4, "Recent developments in euro area labour costs and mark-ups", Quarterly report on the Spanish economy, *Economic Bulletin* 2/2019, Banco de España.

A third approach to monitoring mark-ups uses the firm-level data available in the Banco de España's Central Balance Sheet Data Office Quarterly Survey (CBQ).[7] In particular, the CBQ enables the operating margin (defined as the ratio of gross operating profit to turnover) to be calculated for each firm. According to this metric, the aggregate behaviour of profit margins in Spain since the outbreak of the pandemic is generally consistent with the behaviour observed on the basis of information from the National Accounts. In particular, at the end of 2021, the aggregate operating margin had still not recovered to pre-pandemic levels, although it varied considerably across

Chart 1
NFCs' GOS/GVA RATIO

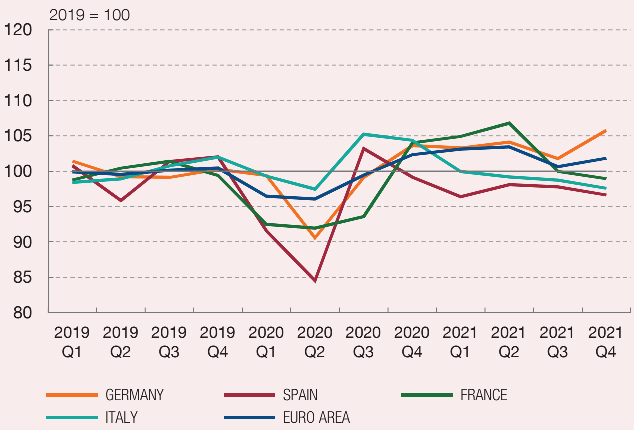


Chart 2
GOS/GVA RATIO IN SPAIN, BY SECTOR OF ACTIVITY (a)

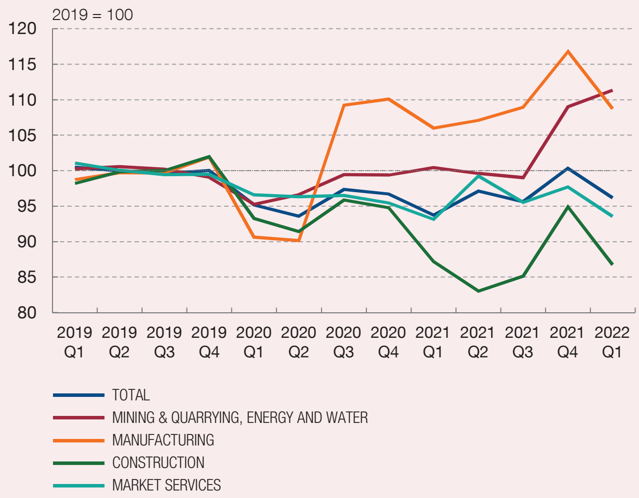


Chart 3
OPERATING MARGIN ACCORDING TO THE CBQ, BY SECTOR OF ACTIVITY (b)

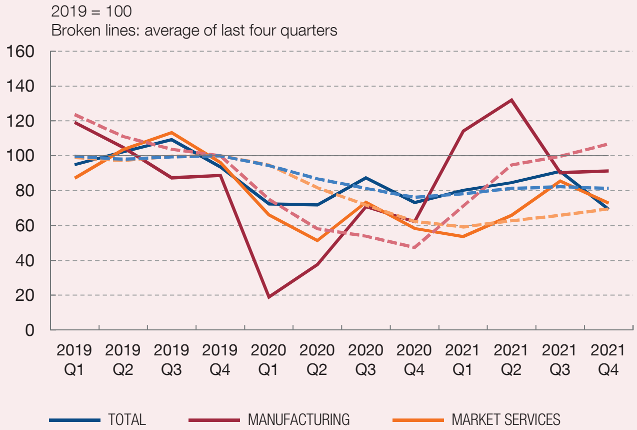
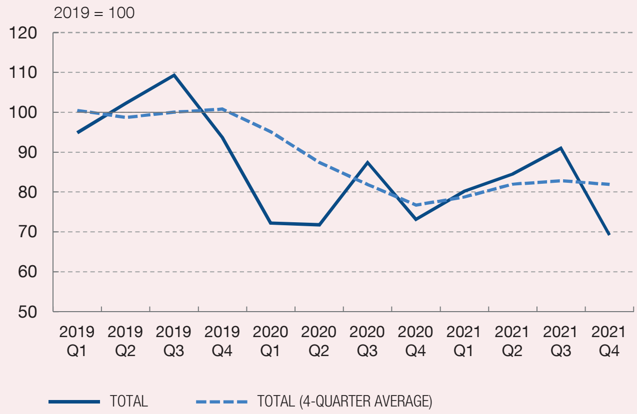


Chart 4
OPERATING MARGIN ACCORDING TO THE CBQ (b)



SOURCES: EUROSTAT, INE and Banco de España.

a Gross operating surplus (GOS) is calcuated as gross value added (GVA) less compensation per employee.
b Operating margin = gross operating profit / net turnover.

7 For further details, see Á. Menéndez and M. Mulino (2020), "Results of non-financial corporations to 2021 Q4. Preliminary year-end data", Analytical Articles, *Economic Bulletin,* 1/2022, Banco de España.

sectors (see Chart 3). Also, mark-ups appear to have edged down in 2021 Q4, the latest data available in the CBQ (see Chart 4).[8]

In short, although the measurement of mark-ups is surrounded by great uncertainty, certain conclusions regarding their recent behaviour can be drawn from the various indicators analysed in this box. First, 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. Second, this overall behaviour is compatible with considerable variation across sectors, mark-ups having been seen to behave less favourably in the market services sectors most affected by the pandemic restrictions. Finally, there are signs that profit margins were somewhat subdued over recent quarters, especially according to the information reported by firms to the Banco de España. In any event, 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.

8 This figure would, however, be heavily influenced by the performance of the operating margins of certain electric utilities.

Box 4

IMPACT ON INFLATION OF THE MECHANISM TO CAP GAS PRICES ON THE IBERIAN MARKET

Matías Pacce and Isabel Sánchez

The sharp rise in natural gas prices on European markets has played a key role in the current inflationary episode, particularly because it has prompted an increase in electricity prices.[1] In this setting, Spain and Portugal have agreed with the European Commission to implement the so-called Iberian mechanism to temporarily cap the cost of the gas used in electricity generation and thus lower electricity bills. This box describes this mechanism and presents an estimate of its impact on future inflation developments in Spain.[2]

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.[3] Specifically, the reference price is set at €40/MWh until December 2022, and will then be increased by €5/MWh each month in the following five months until it reaches €65/MWh in May 2023. In operational terms, the affected power plants will receive, for each MWh generated, a transfer for the difference between the price of natural gas on the Iberian Gas Market (MIBGAS) and the reference price.[4] Thus, the mechanism will generate costs equal to this unit amount multiplied by the electricity generated by the affected power plants (see Chart 1). These costs will have to 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. However, since the price of electricity will be lower in Spain than in France, once the aforementioned mechanism becomes effective electricity sales to France will increase sharply[5] and this additional income will also be used to fund the costs of the mechanism.

Based on these details, the measure's ultimate impact on inflation in Spain will depend on future developments in four key variables: gas prices, the total volume of electricity generation affected by the measure, the percentage of consumers that will bear the costs and the difference between Spanish and French wholesale market prices. Although the uncertainty surrounding future developments in these variables is very high, this box considers the following assumptions in order to construct a baseline scenario to estimate the potential impact of the mechanism on inflation. First, it is assumed that gas prices between June 2022 and May 2023 will follow the path of MIBGAS gas futures (see Chart 2). Second, it is assumed that, from June 2022 to May 2023, the electricity generated to meet Spanish mainland demand that is affected by the measure will equal that of the same month of the previous year.[6] A further assumption is that the additional electricity required for exports to France will be generated by power plants affected by the measure (see Chart 3). Third, it is assumed that 46% of Spanish mainland demand for electricity would fund the costs of the adjustment mechanism in the first month, a percentage that would increase by 4.9 pp each subsequent month in which the mechanism remains in force.[7] Fourth, it is assumed that the price difference between the Spanish and the French market throughout this period will be equal to the

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1 See M. Pacce, I. Sánchez and M. Suárez-Varela (2021), "Recent developments in Spanish retail electricity prices: the role played by the cost of CO2 emission allowances and higher gas prices", *Occasional Paper* No 2120, Banco de España.

2 Although this rule entered into force with the publication of Royal Decree-Law 10/2022 on 13 May (only available in Spanish), the mechanism will be effective from 14 June 2022 onwards – after receiving the European Commission's approval on 8 June – and will remain in place until 31 May 2023.

3 Combined cycle, cogeneration and coal-fired power plants. Only cogeneration power plants that do not fall under the specific remuneration framework are included. For more details, see Royal Decree-Law 10/2022 of 13 May 2022 (only available in Spanish).

4 The MIBGAS gas price refers to the "average weighted price of all natural gas trades in daily products with delivery on the following day at the virtual balancing point". Additionally, this difference is divided by 0.55 (i.e. the reference value to estimate the thermal efficiency of combined cycle power plants, meaning that 1.8 MWh of gas is needed to generate 1 MWh of electricity).

5 This exercise assumes an increase in exports to France of 1.2 TWh per month, which is the difference between the average monthly maximum export capacity to France (1.7 TWh) and average monthly exports (0.5 TWh) in 2021. In other words, since, once the measure comes into effect, the price will be lower in Spain, it is assumed that the maximum available capacity will be exported.

6 While it is possible that demand in mainland Spain will increase slightly compared with last year owing to the price drop induced by the measure, this effect is not considered in this exercise.

7 According to the National Commission on Markets and Competition (CNMC), at 31 October 2021 41% of electricity was sold at a variable price. Assuming a 4.9 pp monthly increase from April 2022 onwards would result in this proportion reaching 46% of the electricity sold in June 2022 (the 4.9 pp monthly increase stems from the assumption that approximately one-twelfth of fixed-price contracts are updated each month). See CNMC (2022), *Informe de supervisión de los mercados minoristas de gas y electricidad. Año 2020 y avance sobre la situación de crisis energética actual.*

Box 4

IMPACT ON INFLATION OF THE MECHANISM TO CAP GAS PRICES ON THE IBERIAN MARKET (cont'd)

Chart 1
EXAMPLE OF THE REDUCTION IN THE SUPPLY PRICE AND THE ADJUSTMENT MECHANISM'S TOTAL AMOUNT OWING TO THE PRICE CAP ON GAS FOR ELECTRICITY GENERATION (a)

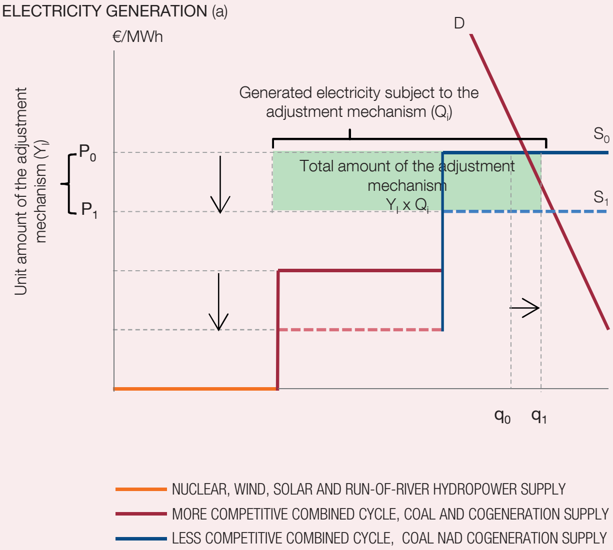


Chart 2
GAS FUTURES, REFERENCE PRICE OF GAS FOR THE ADJUSTMENT MECHANISM AND ESTIMATED UNIT AMOUNT OF THE ADJUSTMENT MECHANISM

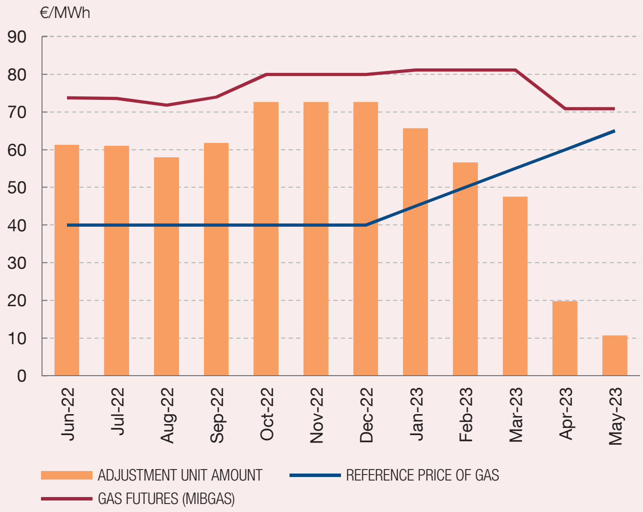


Chart 3
ELECTRICITY GENERATION ASSUMPTIONS FOR THE TECHNOLOGIES SUBJECT TO THE ADJUSTMENT MECHANISM (b)

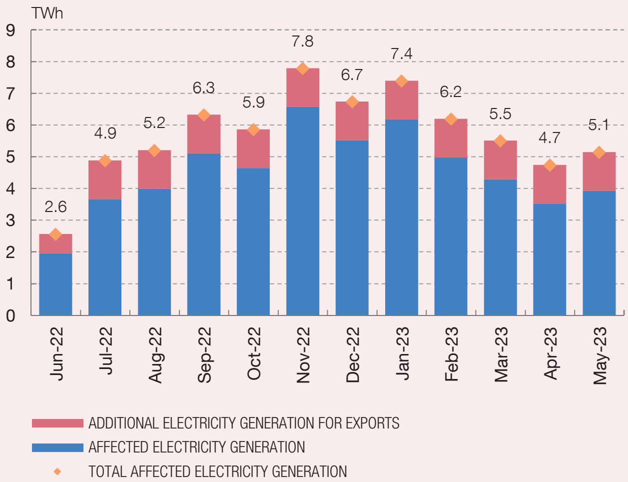
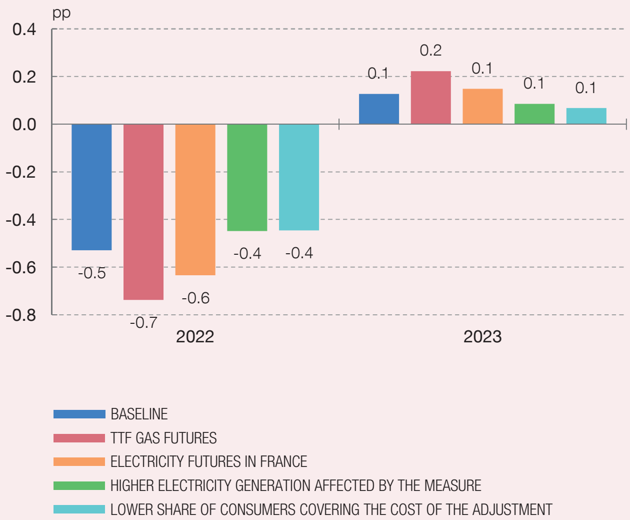


Chart 4
ESTIMATED IMPACT OF THE GAS PRICE CAP ON HEADLINE INFLATION IN 2022 AND 2023 (c)



SOURCES: OMIE, Red Eléctrica de España, MIBGAS and Banco de España.

a For the sake of simplicity, electricity supplied by storage hydropower facilities, whose supply price is similar to that of the less competitive combined cycle, coal and cogeneration plants, is excluded from the example.
b It assumed that the electricity generated in each month equals that generated in the same month of the previous year. Only half of the electricity generated in June is considered.
c The baseline scenario refers to the most likely scenario described in the main text. 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; 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.

mechanism's unit amount, which would generate additional income of around €300 million from increased electricity exports to France through "congestion income",[8] which would be used to cover the cost of the mechanism.

Under these assumptions, the mechanism to cap the price of gas on the Iberian market would reduce wholesale electricity prices by around 30% on average over the next 11 and a half months. As a result, the regulated rate for small consumers would decrease by 17%,[9] after taking into account the additional charge to fund the total costs of the mechanism. This would result in the HICP electricity component declining by 13 pp on average in 2022. Thus, bearing in mind that electricity accounts for around 4% of the HICP basket, the mechanism would subtract approximately 0.5 pp from the average inflation rate for 2022 (see Chart 4). As regards the impact on inflation in 2023, although the retail consumer bill would be lower than in the absence of this mechanism, its effect on the average inflation rate for 2023 can be expected to be slightly positive (of around 0.1 pp). This is because the impact of the measure will wane over 2023 H1 (given the rising profile of the reference price of gas) and because in 2023 H2 electricity prices will be compared with lower price levels in the same period of 2022, thanks to the implemented measure.[10]

In any event, the great uncertainty as to future changes in the different variables incorporated into the baseline scenario makes it advisable to complement this point estimate with some sensitivity analyses. First, the possibility of gas prices rising higher is considered, based on Dutch TTF futures rather than on MIBGAS futures. Under this assumption, the impact of the mechanism on average inflation would be -0.7 pp in 2022 (see Chart 4). Second, a greater price differential between Spain and France is assumed, considering the price signalled by electricity futures in France. This assumption would entail congestion income of more than €2 billion, compared to the €300 million envisaged in the baseline scenario, which would therefore cover a higher percentage of the mechanism's total costs. This would reduce the burden on consumers' bills and the impact on average inflation in 2022 would stand at around -0.6 pp. Lastly, two additional sensitivity exercises are considered which would result in a weaker impact of the mechanism on the average inflation rate for 2022. First, it is envisaged that the generated electricity affected by the measure will be 20% higher than that assumed in the baseline scenario (for instance, due to lower renewable generation). In this case, the estimated impact would stand at around -0.4 pp in 2022. Second, the possibility that the percentage of Spanish mainland demand (i.e. the consumers) that would have to cover the costs of the mechanism from June onwards would be 35% (instead of the 46% considered in the baseline scenario) is taken into account. In this case, the impact of the mechanism on average inflation in 2022 would also be -0.4 pp.

8 As indicated above, monthly exports of 1.7 TWh are assumed, which would mean that interconnections are operating at maximum capacity. This entails the payment of congestion income, which is calculated by multiplying the electricity exported (or imported) in each hour of system saturation by the price difference between the two markets. This income is split equally between the two countries. See CNMC Resolution of 6 May 2021 (only available in Spanish). Spain's congestion income has been estimated at €525 million over the next 11 and a half months. However, only additional congestion income should be taken into account, i.e. the congestion income amount for the same months of the previous year should be subtracted (some €250 million, which also include congestion income received by Spain owing to imports from France).

9 The impact has been estimated based on a standard bill with an annual consumption of 3.49 MWh and an authorised service capacity of 4.5 kW.

10 However, it should be mentioned that the impact of the measure in 2023 is shrouded in even greater uncertainty due to the Government's commitment, set out in Royal Decree-Law 10/2022 of 13 May 2022, to establish a new regulated rate starting in early 2023, which will have a direct impact on the HICP electricity component.

So far in the second quarter, long-term yields on sovereign bonds have risen sharply and stock market indices have fallen back, in a highly volatile setting shaped by monetary policy tightening in the advanced economies and investor concern over economic growth

The increase in long-term yields on higher-rated sovereign bonds essentially owes to expectations of a faster-than-anticipated withdrawal of monetary stimulus measures (see Chart 2.1). So far in Q2, yields on US and German 10-year sovereign bonds have posted a cumulative increase of 71 basis points (bp) and 78 bp, respectively, while fixed income funds have continued to record net outflows (see Chart 2.2). In any event, this upward trend in sovereign yields was curbed during several weeks in May due to concern among investors over global economic growth, leading to periods of flight to safe assets.

Shifting expectations regarding the pace of monetary policy normalisation, along with higher risk perception, have driven up euro area sovereign bond spreads and corporate risk premia. Yield spreads for euro area 10-year sovereign bonds have widened significantly so far in the current quarter, particularly for Italian (61 bp), Greek (43 bp) and Portuguese (38 bp) bonds, but less so in the case of Spanish bonds (26 bp) (see Chart 2.3). Risk premia on non-financial corporate bonds have risen, more so in the high-yield segment (relative to investment grade) and in the euro area (compared with the United States) (see Chart 2.4).

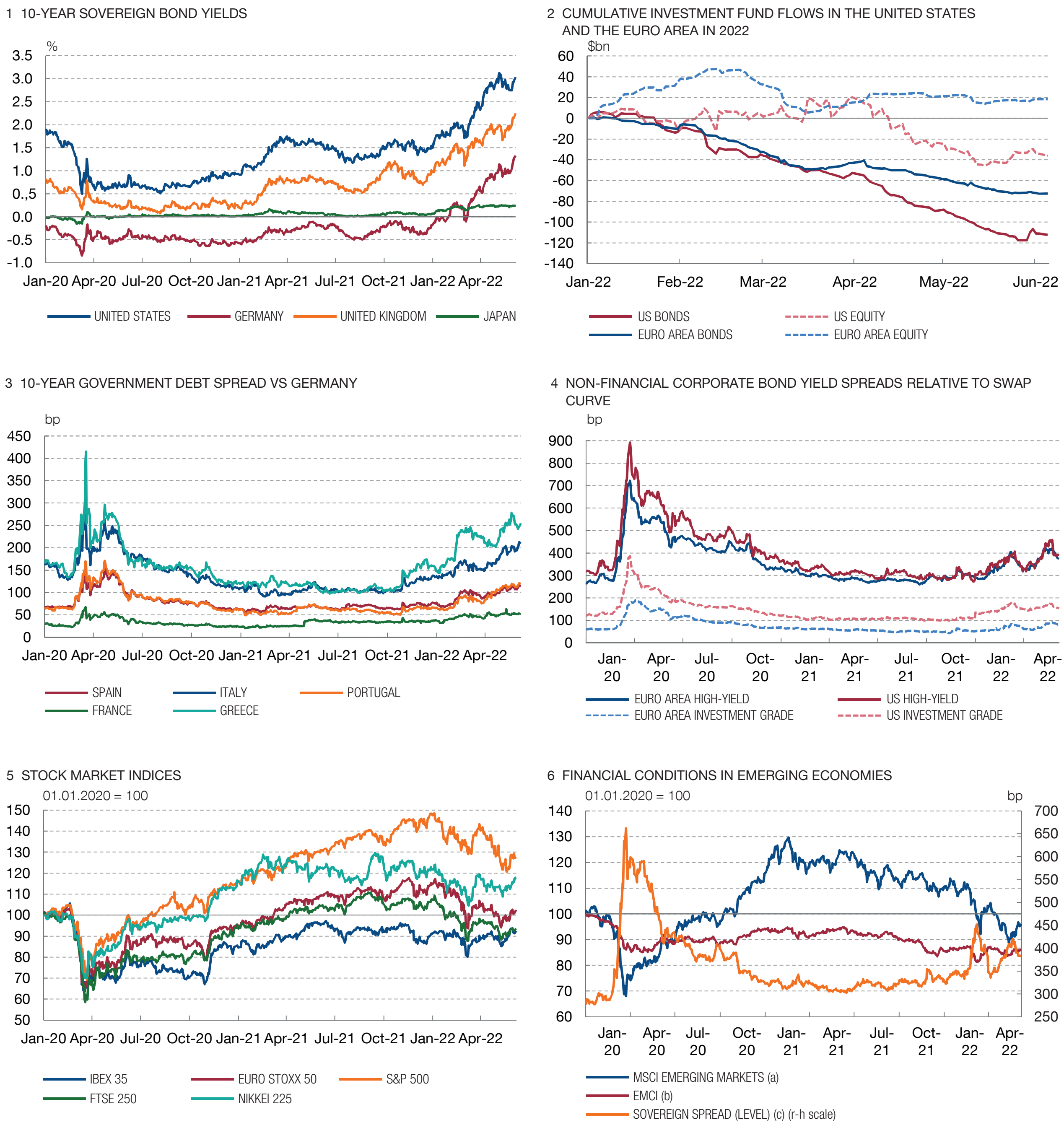
Rising risk perception and progress towards monetary policy normalisation have also led to declines on the main stock market indices of the developed economies in Q2. The S&P 500 fell particularly sharply (-9%), impacted by the downturn in technology stocks which account for relatively large share of this index (see Chart 2.5). Meanwhile, the European indices, such as the Euro Stoxx 50 and the FTSE 250, have declined by less than 4%. This more negative performance from US stock market indices has also been reflected in outflows from US equity investment funds (see Chart 2.2). The bearish stock price trend has partially reversed in recent weeks owing, among other factors, to some better-than-expected corporate earnings and the less stringent restrictions in China thanks to the improving health situation.

On the foreign exchange markets, the US dollar has risen robustly against the Japanese yen as the two countries' monetary policy cycles have increasingly diverged. The US dollar's appreciation against the euro this quarter has been more moderate and driven both by the widening interest rate differentials between the two regions and by occasional bouts of investor flight to safe assets, which boosted the

Chart 2

FALLING STOCK MARKET INDICES AND A RISE IN THE LONG-TERM YIELDS OF HIGHER-RATED SOVEREIGN DEBT

A rise in euro area sovereign yield spreads and corporate risk premia has also been observed. Meanwhile, financial conditions in emerging market economies have worsened, with falling stock market indices and rising credit risk premia. These developments in the international financial markets have been influenced by both changing expectations as to the pace of monetary policy normalisation and the increasing concern among investors regarding global economic growth.



SOURCE: Refinitiv Datastream. Data updated as at 6 June 2022.

a Stock exchange index compiled by Morgan Stanley for an aggregate of emerging market economies.
b Index of exchange rates against the US dollar compiled by JP Morgan for an aggregate of emerging economy currencies. An increase (decrease) denotes an appreciation (depreciation) of the currencies against the dollar.
c Spread of a set of emerging economy sovereign bonds that comply with certain requirements as regards liquidity and issue size vis-à-vis the US equivalent, compiled by JP Morgan.

US currency. In any event, the downward revision in the level of US policy interest rates expected by the market over a medium-term horizon appears to have partially reversed the dollar's appreciation against the euro in the most recent period.

In emerging market economies, stock market indices have declined across the board and sovereign bond yield spreads have widened (see Chart 2.6). At the same time, long-term interest rates in local currency have risen, above all in countries subject to particular social and political unrest (Latin America for instance). Meanwhile, the volume of debt security issuances by these economies on international financial markets slowed substantially in May.

3.1 External environment of the euro area

Global growth, which was hampered in early 2022 by the resurgence of the pandemic, has continued slowing in recent months mainly as a result of the war in Ukraine, leading to significantly higher commodity prices and to a slight worsening of the bottlenecks. These developments have triggered a downward revision of growth projections and an upward revision of inflation projections for 2022 and 2023

In 2022 Q1 global economic activity decelerated primarily owing to the spread of the COVID-19 Omicron variant, the end of some stimulus programmes, the persistence of inflationary pressures and the incipient effects of the war in Ukraine. Thus, GDP growth was lower than projected in practically all the world's main economies (see Chart 3.1). Among the advanced economies, the pace of output growth declined between 2021 Q4 and 2022 Q1 in the United States (from +1.7% to -0.4%), the United Kingdom (from +1.3% to +0.8%), Japan (from +0.9% to -0.2%) and the euro area, excluding Ireland (from +0.5% to +0.3%).[2] The slowdown in activity also extended to some emerging market economies, in particular China, whose GDP grew by +1.3% in 2022 Q1 (compared with +1.5% in 2021 Q4), weighed down by the pandemic containment measures and the slowing real estate sector. In Latin America, GDP for the region as a whole accelerated slightly, growing by +0.9% in the quarter (compared with +0.8% in 2021 Q4). Activity expanded more strongly, compared with previous quarters, in Brazil (from +0.7% to +1%) and, especially, Mexico (from +0.2% to 1%). In line with these developments, global trade growth moderated in 2022 Q1, to 0.8%, well below the 2.8% posted at end-2021.

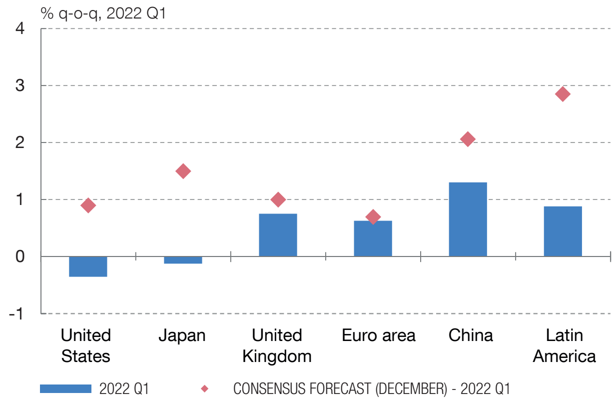
Against this backdrop, the adverse effects of the war in Ukraine and the gradual withdrawal of economic policy stimuli have contributed to a downward revision of growth forecasts (see Chart 3.2). So far in Q2, the armed conflict in Ukraine and China's zero-COVID strategy have delayed the resolution of the bottlenecks that have been disrupting the global value chains, leading to an increase in delivery times in some economies. Also, in a setting of high volatility, commodity prices have increased notably since the Russian invasion of Ukraine began, given the importance of both countries in the supply of food, metals and energy (see Chart 3.3). In this connection, the rise in the prices of certain agricultural products, such as wheat (which has increased by 23.5% since the start of the war) and fertilisers, threatens to trigger a food security crisis that would especially affect

2 Ireland is excluded because the high growth recorded in this country in Q1 affects the changes in output growth in the euro area as a whole. For further details, see note 3.

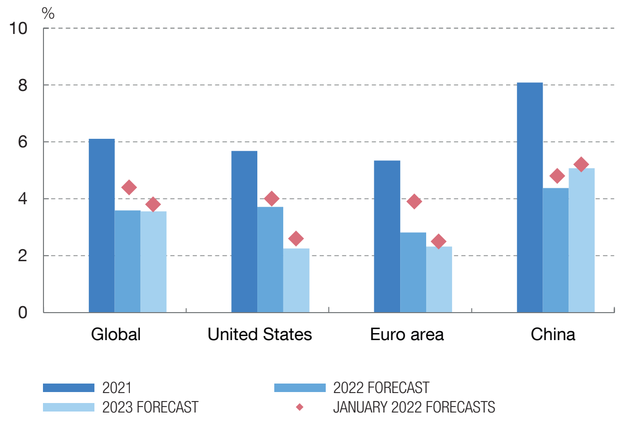
Chart 3
SLOWDOWN IN GLOBAL GROWTH AND RISE IN INFLATION

Global growth, which was hampered in early 2022 by the resurgence of the pandemic, has continued slowing in recent months mainly as a result of the war in Ukraine, leading to significantly higher commodity prices and to a slight worsening of the bottlenecks. These developments have triggered a downward revision of growth projections and an upward revision of inflation projections for 2022 and 2023.

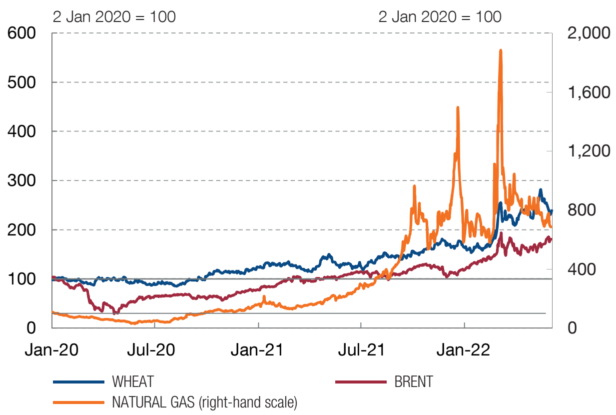
1 QUARTER-ON-QUARTER GROWTH



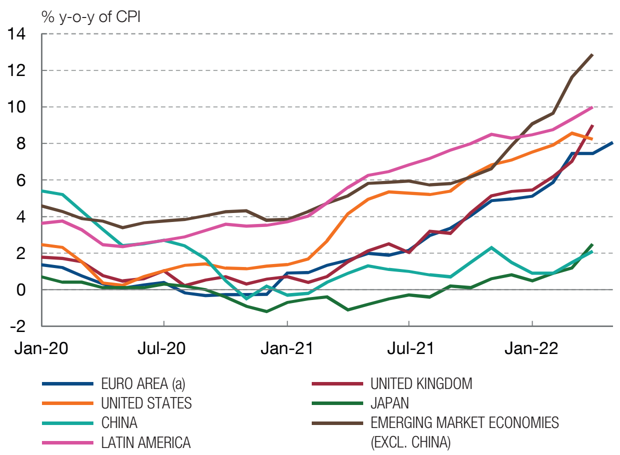
2 GROWTH FORECASTS FOR 2022
World Economic Outlook, IMF



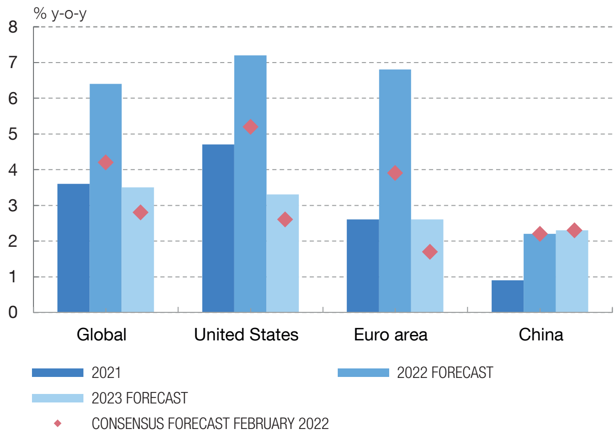
3 COMMODITY PRICES



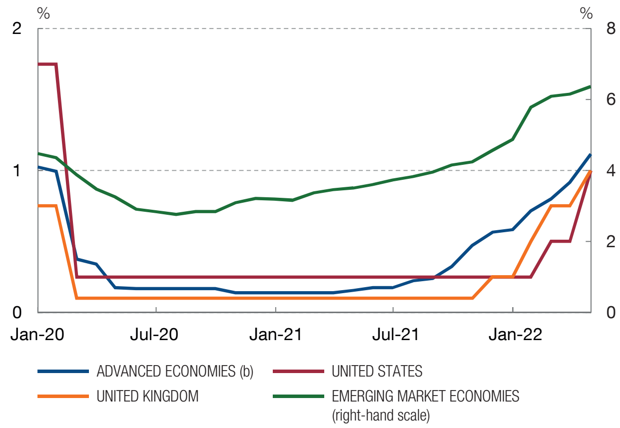
4 HEADLINE INFLATION



5 INFLATION FORECASTS (2021-2023)
Consensus Forecast May 2022



6 POLICY INTEREST RATES



SOURCES: IMF, Consensus Forecast, national statistics and Refinitiv.

a The latest figure for May relates to the preliminary figure published by Eurostat.
b The aggregate "Advanced economies" includes 14 economies: euro area, Canada, Czech Republic, Denmark, Iceland, Norway, Switzerland, Sweden, United Kingdom, United States, Hong Kong, Japan, New Zealand and Australia.

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low-income countries, where food has a much higher weight in the consumption basket.

The increase in energy and food prices and the prolonged bottlenecks have continued to drive inflation up (see Chart 3.4)**, leading to a significant increase in the average inflation forecast for 2022 and, to a lesser extent, 2023** (see Chart 3.5). In particular, in April headline inflation in the United States and the United Kingdom reached 8.3% and 9%, respectively, and underlying inflation stood at 6.3% and 6.2%, respectively. In the euro area, headline inflation rose in May to 8.1%, while underlying inflation was more contained (3.8%). Among the emerging market economies, the rise in inflation has been particularly notable in Eastern Europe and Latin America.

Against this high-inflation background, most of the world's central banks, in both the advanced economies and the emerging market economies, have continued to tighten their monetary policy stance (see Chart 3.6). For instance, so far in Q2, the US Federal Reserve and the Bank of England have raised their policy interest rates by 50 basis points (bp) and 25 bp, respectively, and have announced that they will start to reduce the size of their balance sheets. Also, most of the central banks in the emerging market economies have continued to raise their reference interest rates in response to the increase in inflationary pressures and to the risk of potential capital outflows. A notable exception has been the People's Bank of China, which has cut its main reference interest rates in recent months to support economic growth.

On the fiscal front, in an overall setting of consolidation – following the support programmes deployed to counter the adverse effects of the pandemic –, some governments have recently adopted various measures to mitigate the negative effects of the war and the rise in prices, which are particularly severe for those who are the most vulnerable. In this connection, the Chinese government has promoted a fiscal package that includes tax cuts and an increase in spending on infrastructure to try to limit the economic slowdown.

3.2 The euro area

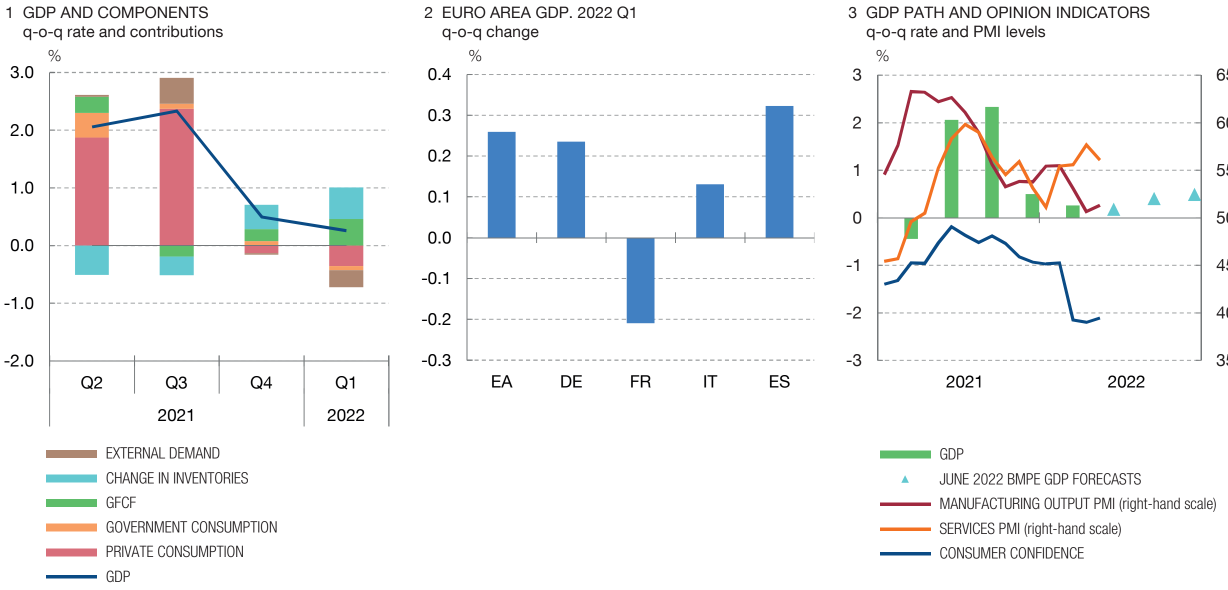
Despite the lifting of pandemic-related restrictions, the economic recovery in the euro area is slowing as a result of the war, which has exacerbated supply-side disruptions and eroded the confidence of households and firms. Price hikes have reached all-time highs and are negatively affecting household disposable income. Against this background, the Eurosystem's June projection exercise revises the forecasts down for growth and up for inflation in 2022 and 2023

In 2022 Q1, GDP in the euro area, excluding Ireland, rose by 0.3% in quarter-on-quarter terms, 0.2 percentage points (pp) less than in the preceding quarter

Chart 4

THE EURO AREA'S ECONOMIC RECOVERY SLOWED IN 2022 H1 (a)

Despite the lifting of pandemic-related restrictions, the economic recovery in the euro area is slowing as a result of the war, which has exacerbated supply-side disruptions, increased uncertainty and eroded the confidence of households and firms. Price hikes have reached all-time highs and are negatively affecting household disposable income.



SOURCES Eurostat, Markit Economics, ECB and national central banks.

a. The aggregate for the euro area excludes Ireland.

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(see Charts 4.1 and 4.2).[3] This moderate growth was mainly due to the increase in investment and the build-up of inventories. These countered the decline in private consumption, which was weighed down by the restrictions introduced at the start of the year associated with the increased spread of infections owing to the Omicron variant, the fall in households' real disposable income triggered by rising prices and greater uncertainty deriving from the Russian invasion of Ukraine. Sectorally speaking, there was a particularly notable slowdown in activity in manufacturing, a sector highly affected by the intensification of global supply bottlenecks as a result of the war and the application of zero-COVID strategies in China. Conversely, the services sector continued to recover over the quarter, especially in those sectors of activity that require a high degree of social interaction, as the pandemic-related restrictions started to be eased, especially from March.

The primarily qualitative activity indicators available for Q2 suggest that growth will remain modest in the short term. For example, the scant increase in the manufacturing output PMI in May, the slight decline in the services sector PMI,

3 Irish GDP was more volatile during this period, contracting by 6.2% in 2021 Q4 and growing by 10.9% in 2022 Q1, mainly owing to the change in the external sector's contribution to GDP. Therefore, euro area GDP including Ireland would have grown in this period by 0.4 pp, to 0.6% in 2022 Q1.

Table 2
EURO AREA GDP AND HICP GROWTH FORECASTS (a)

	2022		2023		2024	
	GDP	HICP	GDP	HICP	GDP	HICP
ECB (June)	2.8 (-0.9)	6.8 (1.7)	2.1 (-0.7)	3.5 (1.4)	2.1 (0.5)	2.1 (0.3)
European Commission (May)	2.7 (-1.3)	6.1 (2.6)	2.3 (-0.4)	2.7 (1)		
OECD (December 2021)	4.3 (-0.3)	2.7 (0.8)	2.5 (…)	1.8 (…)		
IMF (April)	2.8 (-1.1)	5.3 (2.3)	2.3 (-0.2)	2.3 (0.6)		
Consensus Forecasts (May)	2.7 (-0.1)	6.8 (0.3)	2.2 (-0.1)	2.6 (0.2)		
Survey of Professional Forecasters (June)	2.9 (-1.3)	6.0 (3.0)	2.3 (-0.4)	2.4 (0.6)	1.8 (0.1)	1.9 (0.0)

SOURCES: ECB, European Commission, Consensus Forecasts, IMF and OECD.

a In brackets is the change with respect to the previous forecast, which was March for the ECB, February for the European Commission, September 2021 for the OECD, January for the IMF, April for Consensus Forecasts and March for the Survey of Professional Forecasters.

the downturns in confidence captured by the European Commission's surveys and the economic sentiment indicator all point in this direction (see Chart 4.3).

In its June Broad Macroeconomic Projection Exercise (BMPE), the Eurosystem has revised downwards the euro area growth forecasts for 2022 and 2023 and revised upwards the outlook for 2024.[4] Specifically, the baseline scenario of this exercise forecasts GDP growth of 2.8% in 2022, 2.1% in 2023 and 2.1% in 2024, a downward revision of 0.9 pp in 2022 and 0.7 pp in 2023 and an upward revision of 0.5 pp in 2024 compared with the March exercise (see Table 2). These projections are built on several key assumptions. In particular, they envisage the European Union's (EU) sanctions against Russia remaining in place over the entire projection horizon and the global production and distribution chain bottlenecks intensifying temporarily and then unwinding gradually. They also contemplate significantly higher energy and food prices than those considered in the March exercise and tighter financial conditions. Given the high uncertainty surrounding the current situation, the Eurosystem has also presented an adverse scenario. This scenario incorporates the impact of a potential escalation of the war in Ukraine, including further sanctions against Russia being approved by Western countries that would entail cutting off access to Russian gas and a full disruption of oil from that country. It also incorporates a worsening of the supply problems and economic and financial uncertainty, and an increase in the costs of bank lending. Under this adverse scenario, euro area GDP would grow by 1.3% in 2022, contract by 1.7% in 2023 and return to growth, of 3%, in 2024.

Inflation in the euro area as a whole remains at record highs. According to the flash estimate, the annual rate of change of headline inflation rose by 0.7 pp to 8.1%

4 See *ECB staff macroeconomic projections for the euro area,* June 2022.

Chart 5

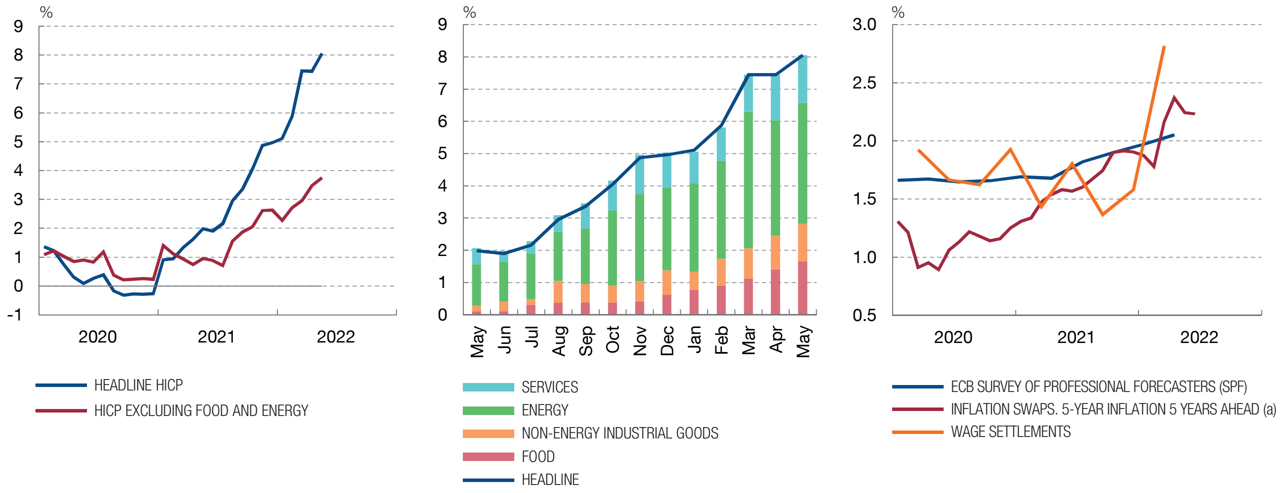
EURO AREA INFLATION REMAINS AT RECORD HIGHS

Inflation in the euro area as a whole remains at record highs. This chiefly reflects the direct effects of higher energy prices. However, it also reflects the indirect effects on the prices of other goods and services of higher energy, logistics and transport costs stemming from the war in Ukraine and the global production bottlenecks. Moreover, given the widespread lifting of the pandemic containment measures, the buoyancy in demand has led to higher inflation in close contact services. Long-term inflation expectations show an upward trajectory, although the pass-through to wages is still limited.

1 EURO AREA INFLATION (HICP)

2 EURO AREA INFLATION. CONTRIBUTION BY COMPONENT

3 LONG-TERM INFLATION EXPECTATIONS AND WAGE SETTLEMENTS



SOURCES: Bloomberg, Eurostat and ECB.

a Monthly average of daily data.

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in May, while underlying inflation rose by 0.3 pp to 3.8% (see Charts 5.1 and 5.2). This inflation pattern chiefly reflects the direct effects of higher energy prices. However, it also reflects the indirect effects on the prices of other goods and services of higher energy, logistics and transport costs stemming from the war in Ukraine and the global production bottlenecks. Moreover, given the widespread lifting of the pandemic containment measures, the buoyancy in demand has led to higher inflation in close contact services. Looking ahead, while wage increases have so far been limited, in a context of labour market tightness and higher inflation expectations among economic agents (see Box 2), the current inflation dynamic could lead to appreciable second-round effects. This would pose a risk to the inflation and growth trajectories in the medium term (see Chart 5.3).

Following the surprises observed in price developments in recent months and in view of the greater persistence of the factors underlying the current inflationary episode, the Eurosystem has revised its inflation projections upwards over the entire forecasting horizon. Under the June BMPE baseline scenario, the annual average inflation rate is expected to rise to 6.8% in 2022, to then decline to 3.5% in 2023 and 2.1% in 2024, owing mainly to the projected moderation in energy prices. These figures are 1.7 pp, 1.4 pp and 0.2 pp, respectively, above the forecasts published by the ECB in March (see Table 2). For its part, underlying inflation is expected to rise to an annual average rate of 3.3% in 2022 (0.7 pp higher than envisaged in March), to then decrease to 2.8% in 2023 and 2.3% in 2024 (1 pp and 0.4 pp above the previous projection). In the adverse scenario, linked to an intensification of the war, the Eurosystem raises headline inflation to 8% in 2022 and to 6.4% in 2023, and reduces it to 1.9% at the end of the projection horizon.

At its June monetary policy meeting, the ECB's Governing Council announced the end of net purchases under its asset purchase programme (APP) and changed its forward guidance on key interest rates, communicating that they would be raised in July. The Governing Council has decided to end monthly net purchases under the APP as of 1 July and announced that it intends to raise key interest rates by 25 bp at its next meeting in July. It also communicated its intention to raise them again in September, indicating that the calibration of this additional increase will depend on the medium-term inflation outlook as, if this outlook persists or deteriorates, an increment larger than 25 bp may be appropriate. Lastly, the Governing Council stated that it intends to continue raising key interest rates in a gradual but sustained manner from September, noting that the pace of these increases will depend on the incoming data and how it assesses inflation to develop in the medium term.

The expectations of monetary policy normalisation, in addition to the increase in risk premia, have prompted financial conditions to tighten slightly since the start of the year. Thus, the cost of corporate financing on the fixed-income markets has risen significantly, with the average yield on long-term bonds issued by non-financial corporations increasing in cumulative terms by 188 bp between end-2021 and May 2022 (see Chart 6.1). Moreover, the increase in risk-free interest rates seems to have begun to pass through to all bank lending segments, although it has done so relatively slowly and the costs of bank lending remain at record-low levels. Moreover, according to the Bank Lending Survey, credit standards tightened slightly in 2022 Q1, except in consumer credit and other lending to households, and looking to 2022 Q2, banks anticipate a further contraction in the supply of credit across all segments (see Chart 6.2).

Lending to households has shown greater momentum recently, while business financing has slowed slightly. In recent months, the rate of growth of lending to households quickened, driven by greater momentum in all its components. For its part, the growth rate of financing raised by firms has declined as a result of the slowdown in bank loans.

In response to the new macroeconomic and geopolitical context, the European Commission has decided to extend the Stability and Growth Pact (SGP)

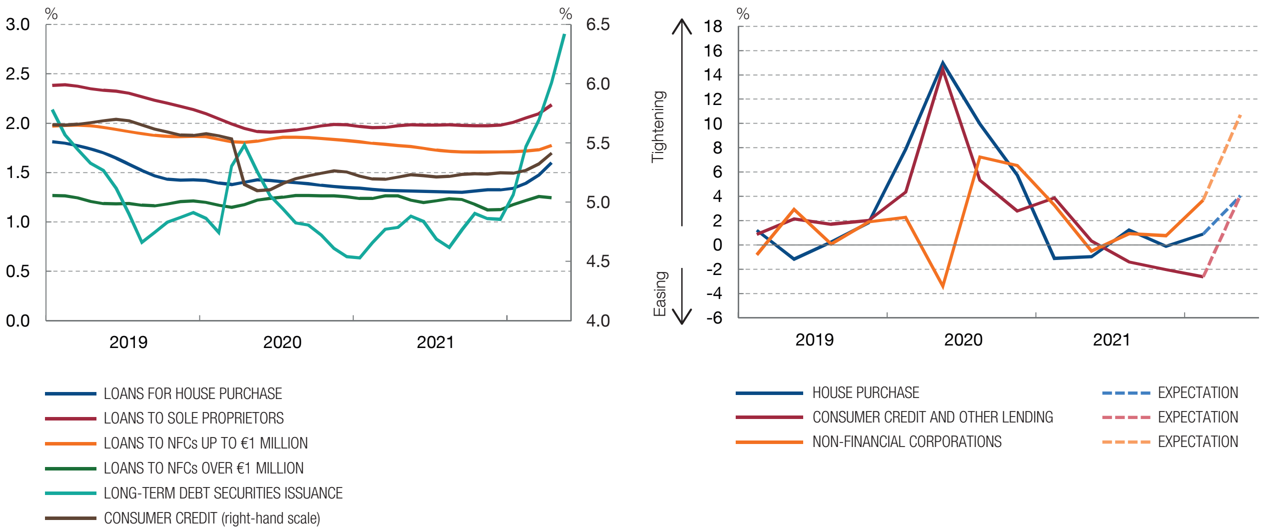
Chart 6

TIGHTENING FINANCIAL CONDITIONS SINCE EARLY 2022 AMID EXPECTATIONS OF MONETARY POLICY NORMALISATION AND AN INCREASE IN RISK PREMIA

The cost of corporate debt issuance has increased significantly since early 2022, while interest rates on bank loans have done so more moderately and remain at low levels. The supply of credit is expected to tighten in 2022 Q2.

1 COSTS OF BORROWING (a)

2 BLS: CHANGE IN CREDIT STANDARDS (b)



SOURCES: Refinitiv Datastream and ECB.

a Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).

b Indicator = percentage of banks that have tightened their standards considerably × 1 + percentage of banks that have tightened their standards somewhat × 1/2 – percentage of banks that have eased their credit standards somewhat × 1/2 – percentage of banks that have eased their credit standards considerably × 1.

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general escape clause and approved the REPowerEU plan. In 2021, the euro area budget deficit stood at 5.1% of GDP (2 pp down from the previous year), while public debt declined to 97.4% of GDP (1.8 pp down from 2020). These ratios are expected to continue to improve in 2022, insofar as the temporary measures adopted in response to COVID-19 are withdrawn and economic growth is reflected in the budget components that are more sensitive to the cycle. In this setting, the European Commission has decided to postpone deactivating the SGP general escape clause until at least 2023, so that national fiscal policies can respond to the challenges posed by the energy and humanitarian crisis while smoothly transitioning from a clearly expansionary stance in the period 2020-2022 to a neutral one in 2023. The European Commission has also unveiled the REPowerEU plan, which aims to accelerate the climate transition and the switch away from Russian fossil fuels by promoting energy efficiency and renewable energy (in particular, solar energy) and increasing internal production and imports of green hydrogen.

Financing conditions in the Spanish economy have tightened so far in the current quarter, primarily owing to expectations of a faster-than-anticipated withdrawal of monetary stimulus measures

Spanish stock prices have performed relatively well in Q2, while government debt issuance costs have continued to rise. Between 31 March and the cut-off date for this report, the IBEX 35 accumulated a gain of 4.6%, compared with a decline of 1.6% on the EURO STOXX 50. The Spanish index's stronger performance relative to its European counterpart is likely associated with the lower weight in the IBEX 35 of some of the sectors that have performed more negatively in recent months (such as technology), and the higher weight of other, better performing sectors (such as electricity). The Spanish 10-year government bond yield has increased by 103 bp in Q2 to date and the Spanish yield spread over the German Bund has widened by 26 bp (less than the Italian or Portuguese spreads).

The cost of long-term corporate debt issuance has risen sharply in recent months, although the average cost of new bank loans has held at all-time lows (See Chart 7.1). However, given typical credit market dynamics, the recent increase in benchmark market rates can be expected to ultimately pass through to the cost of bank lending to firms and households. According to the Bank Lending Survey (BLS), credit standards for lending to non-financial corporations (NFCs) tightened moderately in 2022 Q1, and three months ago financial institutions envisaged widespread further tightening in Q2 (see Chart 7.2), against a backdrop of increased risk perception and lower risk tolerance among financial intermediaries.

Economic activity in Spain slowed more sharply than expected in Q1

After growing by 2.2% in 2021 Q4, Spanish GDP expanded by 0.3% in 2022 Q1. This growth rate was appreciably lower than envisaged in the Banco de España's April projections exercise (0.9%).[5] This marked slowdown stemmed from the spread of the Omicron variant early in the year and, in particular, from the detrimental impact on activity of Russia's invasion of Ukraine and the road hauliers' strike in March. The latter developments especially prompted a steep rise in uncertainty and

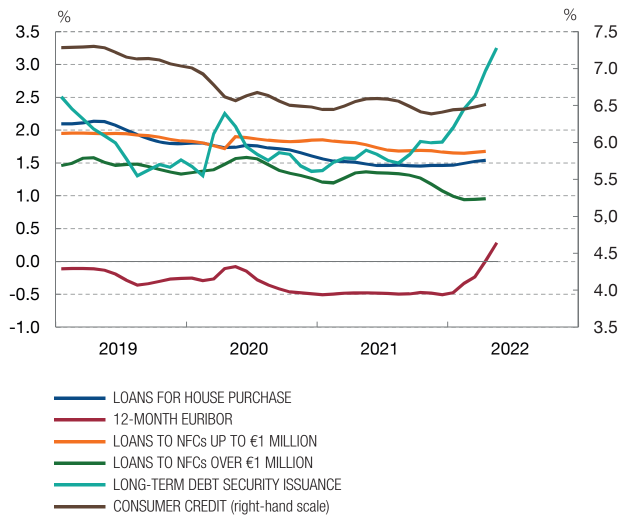
5 See Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)", Quarterly report on the Spanish economy, *Economic Bulletin* 1/2022, Banco de España.

Chart 7

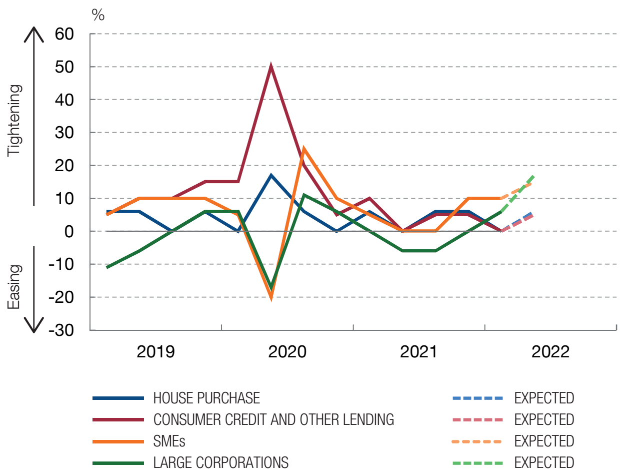
FINANCING CONDITIONS IN THE SPANISH ECONOMY CONTINUED TO TIGHTEN IN 2022 Q2

The average cost of bank financing to households and firms has barely changed in recent months. By contrast, the average interest rate on long-term corporate debt securities has risen significantly. In the latest wave of the BLS three months ago the respondent banks envisaged a widespread tightening of credit standards in Q2.

1 COST OF BORROWING (a)



2 BLS: CHANGE IN CREDIT STANDARDS (b)



SOURCES: Banco de España and Refinitiv Datastream.

a Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).

b Indicator = percentage of banks that have tightened credit standards considerably × 1 + percentage of banks that have tightened credit standards somewhat × 1/2 – percentage of banks that have eased credit standards somewhat × 1/2 – percentage of banks that have eased credit standards considerably × 1.

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commodity prices, which adversely affected household consumption decisions (see Chart 8.1). As a result, in 2022 Q1 Spanish GDP still stood 3.4 pp short of its pre-pandemic level, while the euro area overall recovered that mark in the final stretch of 2021 (see Chart 8.2).

The latest activity indicators suggest that the pace of Spanish economic growth has accelerated in Q2

The Banco de España's projections, published in Box 1 of this report,[6] envisage GDP growth of 0.4% in Q2. This forecast is consistent with the most recent developments in a broad range of indicators. In particular, confidence appears to be recovering somewhat, while activity looks particularly resurgent in the more contact-intensive services, against a backdrop of fewer pandemic-related restrictions (see Chart 9.1). Retail sales recovered emphatically in April, up 5.3%

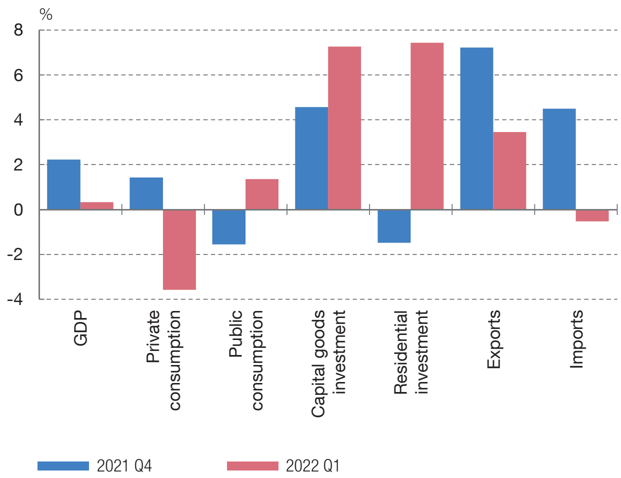
6 See Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)".

Chart 8

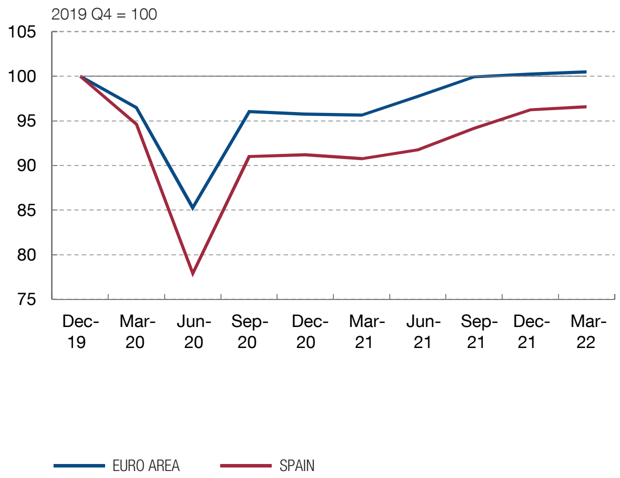
THE SPANISH ECONOMY GREW LESS THAN EXPECTED IN Q1, DUE TO A DECLINE IN PRIVATE CONSUMPTION IN MARCH

GDP grew by 0.3% in 2022 Q1, down by 1.9 pp on the previous quarter owing to the sharp drop-off in private consumption, which was hit by the war in Ukraine and the road hauliers' strike. As a result, Spanish GDP remains 3.4 pp below its end-2019 level, whereas euro area GDP has already recovered the pre-pandemic mark.

1 CHANGE IN GDP AND ITS COMPONENTS IN 2021 Q4 AND 2022 Q1. Q-O-Q RATES



2 GDP IN SPAIN AND THE EURO AREA



SOURCES: Eurostat and INE.

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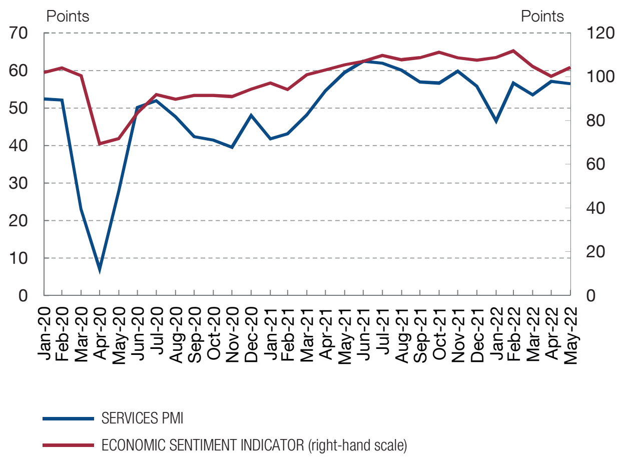
Chart 9

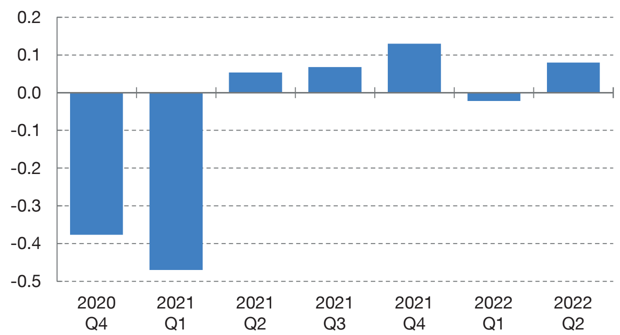
GDP GROWTH IS EXPECTED TO RISE SOMEWHAT IN Q2

GDP growth is expected to pick up somewhat in 2022 Q2, underpinned by momentum in services, particularly in those sectors benefitting most from the lifting of pandemic-related restrictions. The EBAE points to a recovery in business turnover in Q2.

1 CONFIDENCE INDICATORS (a)



2 QUARTERLY CHANGE IN TURNOVER (b)



SOURCES: European Commission, IHS Markit and Banco de España.

a Latest observation: May 2022.
b Index constructed allocating the following values to the firms' qualitative responses: significant increase = 2; slight increase = 1; stability = 0; slight decrease = -1; significant decrease = -2.

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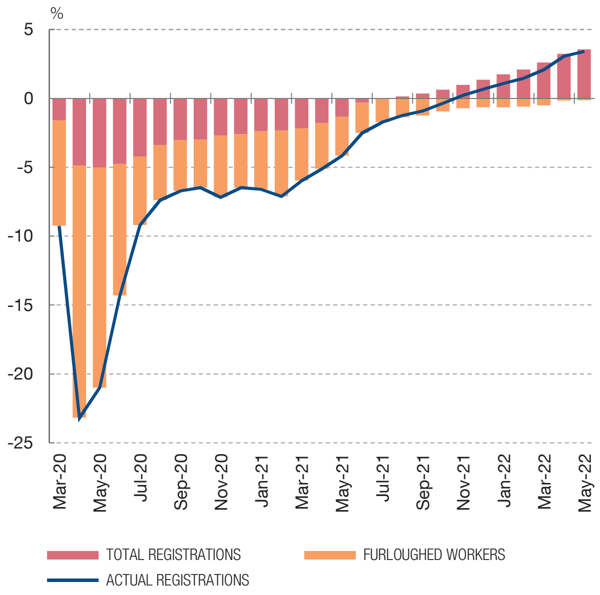
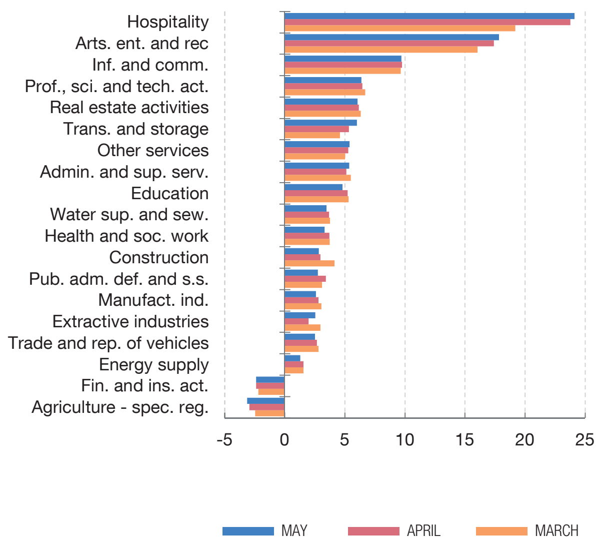
Chart 10
EMPLOYMENT CONTINUES TO IMPROVE, ALBEIT HETEROGENEOUSLY ACROSS SECTORS

Employment remained buoyant in April and May, with a year-on-year change of 5% in May, up 0.2 pp on March. The performance was heterogeneous by sector, with a notable recovery in hospitality (year-on-year growth of 24.1% in May).

1 CHANGE IN FURLOUGHED WORKERS AND TOTAL AND ACTUAL REGISTRATIONS VS FEBRUARY 2020



2 Y-O-Y REGISTRATION RATE, BY SECTOR



SOURCE: Ministerio de Inclusión, Seguridad Social y Migraciones.

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after a fall-off of 4.3% in March, when they were hit hard by the road hauliers' strike. Meanwhile, the qualitative results of the most recent wave of the Banco de España Business Activity Survey (EBAE, by its Spanish abbreviation) likewise point to a recovery in Spanish business turnover in Q2, following the slight decline observed in Q1 (see Chart 9.2).[7]

Employment has remained highly buoyant so far in the current quarter

Social security registrations continued to rise in April and May, while the number of furloughed workers declined. The increase in social security registrations in April and May was slightly short of the average employment growth for the same months in 2016-2019. Nevertheless, it allowed effective social security registrations in May to outstrip pre-pandemic levels by 3.4% (1.3 pp more than in March) and the number of furloughed workers to decline to 28,493 (71,550 fewer than in March) (see Chart 10.1). In keeping with the above-mentioned recovery

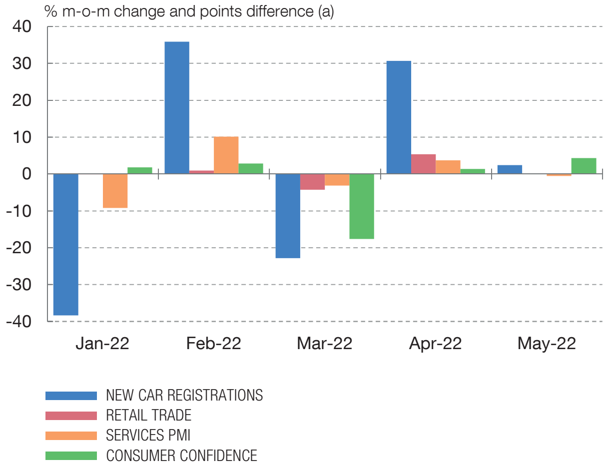
7 For more details, see "Encuesta a las empresas españolas sobre la evolución de su actividad: segundo trimestre de 2022", Notas Económicas, *Boletín Económico,* 2/2022, Banco de España.

Chart 11

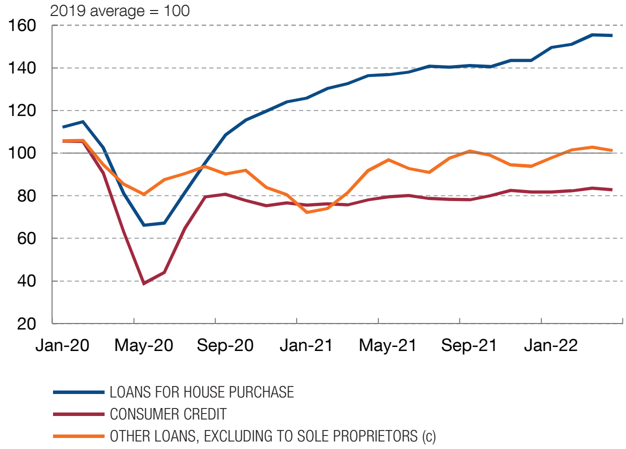
HOUSEHOLD CONSUMPTION RETURNED TO ITS RECOVERY PATH FROM APRIL, FOLLOWING THE MARKED IMPACT OF THE WAR IN UKRAINE AND THE ROAD HAULIERS' STRIKE

Consumption picked up in Q2, following the adverse impact of the war in Ukraine and the hauliers' strike in late March. So indicate the retail trade improvement in April and the rise during the March-May period both in new vehicle registrations and, according to the PMI, in services sector activity. The volume of new consumer credit has been sluggish, in keeping with the weak spending levels early in the year and with the still significant savings built up by households since the onset of the health crisis, while the amount of loans for house purchase remain markedly buoyant, standing at high figures by historical standards.

1 HOUSEHOLD CONSUMPTION-RELATED INDICATORS (a)



2 NEW LENDING TO HOUSEHOLDS (b)
Seasonally adjusted 3-month cumulative flows



SOURCES: European Commission, IHS Markit, INE and Banco de España.

a For vehicle registrations and retail trade, the m-o-m change is shown. For the services PMI and consumer confidence, the difference in points between the levels in two consecutive months is shown.
b The bank financing series include financing granted by credit institutions and specialised lending institutions.
c Includes renegotiations of previous loans.

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pattern, employment growth in recent months has been highly heterogeneous across sectors, with notable momentum in those that have benefited particularly from the lifting of the health restrictions, such as hospitality and arts and recreation services. The surge in employment in these industries has offset the slowing growth of social security registrations in others (especially marked in construction, extractive industries and agriculture) (see Chart 10.2).

GDP growth in Q2 appears to have been underpinned by growth in consumption and, to a lesser extent, in residential investment

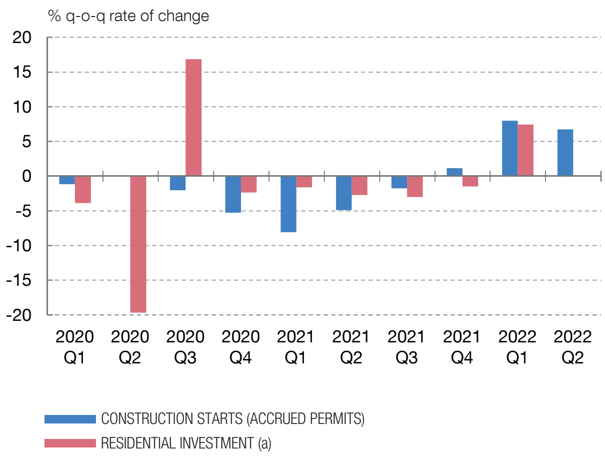
Consumption seems to be recovering in Q2, following the sharp fall-off in the final stretch of Q1. Pointing in this direction are the notable rise in the retail trade index in April and the sharp recovery during the March-May period both in new vehicle registrations and, according to the PMI, in services sector activity (see Chart 11.1).

Chart 12

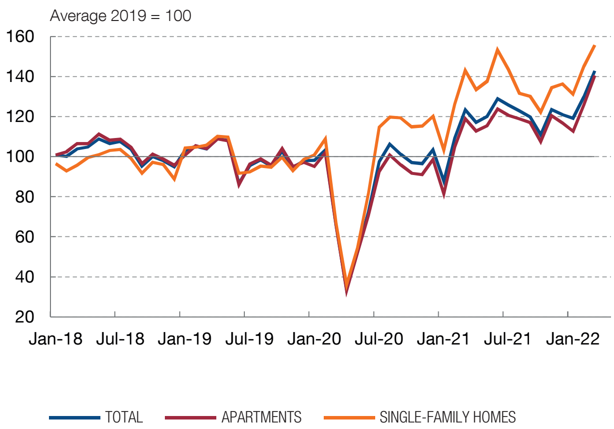
RESIDENTIAL INVESTMENT REMAINS BUOYANT IN Q2

Although the construction starts indicator suggests strong residential investment in Q2, the difficulties in terms of the supply and rising cost of materials could hamper the performance in the coming quarters. Meanwhile, house purchases and loans for house purchase remain well above pre-pandemic levels.

1 CONSTRUCTION STARTS AND RESIDENTIAL INVESTMENT



2 HOUSE SALES (NOTARIAL SALES) (b)



SOURCES: Banco de España, Centro de Información Estadística del Notariado, INE, Ministerio de Inclusión, Seguridad Social y Migraciones and Ministerio de Transportes, Movilidad y Agenda Urbana.

a Series adjusted for seasonal and calendar effects.
b The latest sales figure available is for March 2022. Series adjusted for seasonal and calendar effects.

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Consumer credit remained sluggish up to April, in keeping with the weak spending levels in the early stages of the year and with the still significant savings built up by households since the onset of the pandemic (see Chart 11.2).

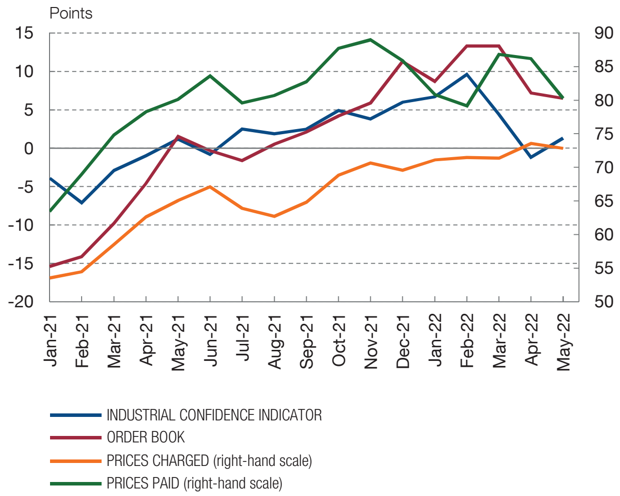
Growth in residential investment has remained relatively strong in Q2, consistent with developments in the construction starts indicator (see Chart 12.1). However, the rising prices of energy and construction materials, along with supply bottlenecks, appear to have hampered the sector's activity growth, which is reflected in a certain slowdown in its social security registrations. For their part, house purchases and lending for house purchase continue to far exceed pre-pandemic levels (see Charts 11.2 and 12.2).

The pace of growth in business investment could slow in Q2 after a highly buoyant start to the year. This comes against a background of deteriorating confidence and rising uncertainty associated with the war in Ukraine, which has prompted sluggishness in industrial order books and new supply-side problems that continue to exert upward pressure on input prices (see Chart 13.1). Indeed, the results of the latest wave of the EBAE show the war having an adverse impact on Spanish firms' investment decisions (see Chart 13.2).

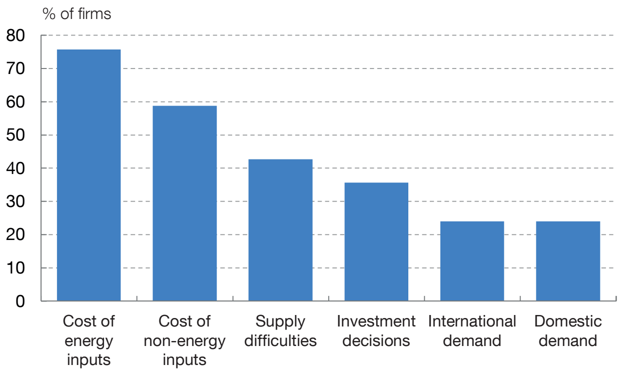
Chart 13
BUSINESS INVESTMENT COULD BE SLOWER IN Q2 AFTER A HIGHLY BUOYANT Q1

The qualitative data available signal a decline in confidence and in industrial order books in Q2. Delivery times remain high and upward pressure on prices persists. The uncertainty associated with the war in Ukraine could exacerbate these tendencies, acting as a drag on growth in business investment in the short term. Indeed, in the latest wave of the EBAE, 36% of firms reported that the war was having a negative or a very negative impact on their investment decisions.

1 QUALITATIVE INDICATORS



2 CHANNELS OF IMPACT OF THE WAR



SOURCES: European Commission, IHS Markit and Banco de España (EBAE).

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The contribution of external demand to growth is expected to decline somewhat in Q2, against a backdrop of slowing exports

Persistent global supply bottlenecks and slower than expected growth in export markets signal a deceleration in the rate of growth of foreign trade. Indeed, following the sharp deterioration in March, the survey-based PMI foreign trade indicators in April and May look to be consistent with a relatively moderate recovery in trade in goods, in a setting in which China's zero-COVID policy and the war in Ukraine are affecting foreign demand and resolution of the global supply chain problems (see Chart 14.1).

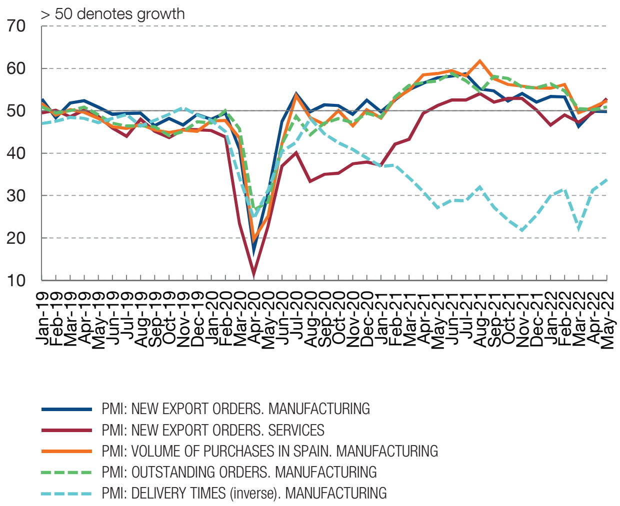
The recovery in foreign tourism has continued so far in the second quarter, underpinned by the easing of international travel restrictions. The latest figures available on international tourism flows and air traffic in Spain suggest that, in these areas, the war in Ukraine has had a limited and temporary impact, so that the process of economic normalisation post-pandemic will continue (see Chart 14.2). If this is the case, the summer season should be relatively dynamic, although higher transport costs and households' lower purchasing power as a result of the rise in inflation could act as a constraint.

Chart 14

FOREIGN TRADE IN GOODS HAS BEEN HIT BY GLOBAL TRADE TENSIONS, WHILE FOREIGN TOURISM CONTINUES TO NORMALISE GRADUALLY

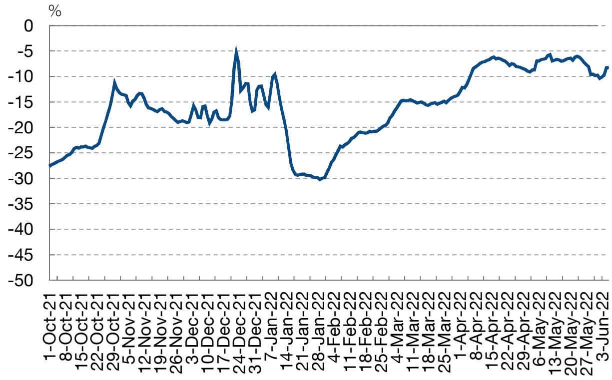
Bottlenecks and sluggish external markets are negatively affecting trade in goods, while the latest indicators point to a good foreign tourism performance, encouraged by the lifting of international travel restrictions.

1 PURCHASING MANAGERS' INDICES



2 CHANGES IN AIR TRAFFIC IN SPANISH AIRPORTS

Rates of change vs the same weeks in 2019; 7-day moving average



SOURCES: IHS Markit and Eurocontrol.

The general government deficit correction accelerated in the early months of the year

The latest National Accounts data published show a further correction in the general government deficit (see Chart 15.1). In March, in cumulative 12-month terms, the general government balance excluding local government stood at -5.7% of GDP, 1.5 pp above the December 2021 figure. This was in part due to public revenue remaining buoyant, with an increase in tax revenue of 17.1% year-on-year in 2022 Q1.[8] Meanwhile, public expenditure was relatively contained in year-on-year terms in Q1, partly owing to the comparison with the early months of 2021 in which COVID-related expenses were still significant (see Chart 15.2).

So far in the current quarter no new measures with a significant impact on public finances have been introduced, although it has been announced that some of the support measures deployed in April to counter the adverse effects of the war in Ukraine will be extended to end-September.[9] The Update of the Stability Programme 2022–2025, published on 29 April, maintains the general

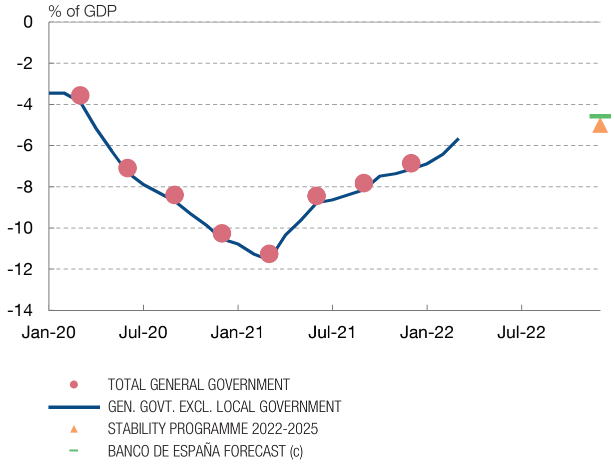
8 In National Accounts terms and excluding local government.

9 See Royal Decree-Law 6/2022 of 29 March 2022 (Spanish version only). The measures approved included a rebate per litre at the petrol pump, reductions in energy taxes, an increase in the minimum income scheme, extension of the social rebate on electricity and a limit on rental increases, all applicable from April to June 2022.

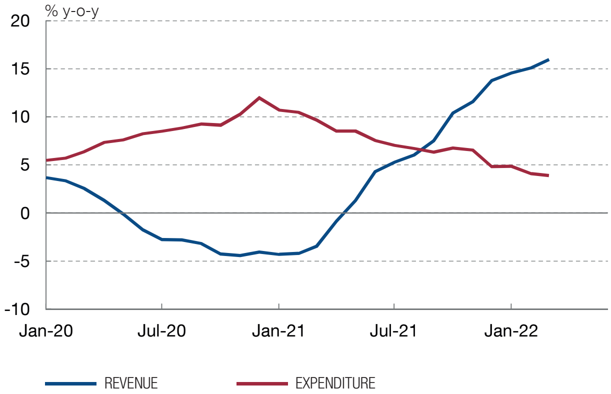
Chart 15
THE GENERAL GOVERNMENT BALANCE CORRECTION HAS ACCELERATED, DRIVEN BY STRONG PUBLIC REVENUE GROWTH

In the first quarter of 2022, in cumulative 12-month terms and excluding local government, the general government balance improved by 1.5 pp compared with end-2021, standing at -5.7% of GDP. This is the result of a combination of contained public expenditure and continued strong public revenue growth.

1 GENERAL GOVERNMENT BALANCE (a)
12-month cumulative



2 GENERAL GOVERNMENT REVENUE AND EXPENDITURE (b)
12-month cumulative



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

a The IGAE only provides information on the overall general government sector quarterly. It publishes total data excluding local government monthly.
b The general government sector aggregate, excluding local government and excluding transfers between different tiers of general government. Adjusted data, distributing atypical revenue and expenditure generated in each month over the full year.
c June 2022 macroeconomic projections for the Spanish economy.

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government deficit forecast at 5.0% of GDP for 2022 and envisages a gradual decline thereafter, to 2.9% of GDP by 2025. This decrease in the deficit would be essentially explained by the expected growth in activity. Meanwhile, the European Commission has extended the Stability and Growth Pact escape clause to 2023.

Prices have continued to rise in recent months, driven by the energy component, but also by the cost of food and underlying inflation

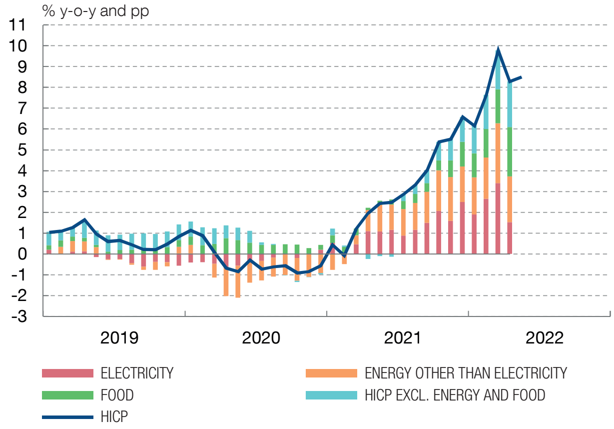
In May, the Harmonised Index of Consumer Prices (HICP) flash estimate rose to 8.5% year-on-year (see Chart 16.1). According to the National Statistics Institute (INE), this is essentially explained by the increase in fuel prices and in food and non-alcoholic beverage prices compared with May 2021, in a setting in which electricity prices were falling. It is also partly explained by various measures introduced under Royal Decree Law 6/2022 of 29 March 2022 in the framework of the Spanish National Plan in response to the economic and social consequences of the war in Ukraine.

Underlying inflation – i.e. excluding energy and food prices – has risen in recent months, mainly owing to higher services prices. In particular, underlying inflation

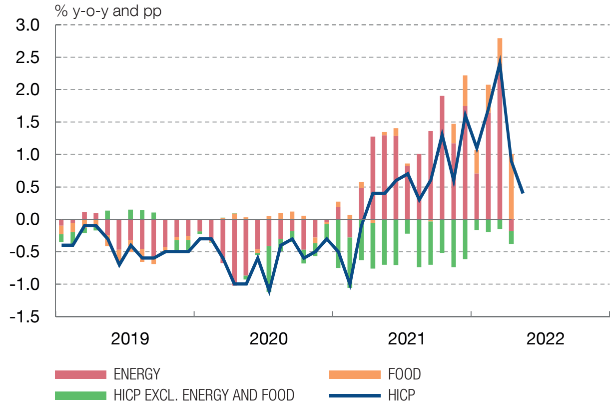
Chart 16
INFLATION HAS CONTINUED TO RISE IN RECENT MONTHS

Headline inflation has continued to rise in Spain in recent months, somewhat more sharply than in the euro area overall, driven by the energy component, but also by higher food prices and rising underlying inflation. The increase in energy prices reversed in April in Spain, owing to the fall-back in electricity prices and the impact of the measures adopted in response to the economic consequences of the war in Ukraine.

1 INFLATION IN SPAIN: CHANGE AND CONTRIBUTIONS



2 CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA



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SOURCES: INE, Eurostat and Banco de España.

stood at 3.4% year-on-year in April, compared with an average of 2.6% in Q1. This increase was partly the result of the acceleration of prices of certain non-energy industrial goods – such as vehicles, furniture and furnishings, and products for housing maintenance and repair – affected by the global supply bottlenecks. The acceleration of tourism and hospitality-related services prices has also intensified in recent months, which could suggest some pass-through of higher energy and food prices.

Although the euro area inflation rate reached an all-time high of 8.1% in May, Spain maintains a positive inflation differential with the euro area (see Chart 16.2). This gap is largely due to the comparatively higher increase in food and energy prices in Spain.[10] By contrast, underlying inflation has performed very similarly in Spain and in the euro area overall in recent months.

In this setting, the inflation outlook is subject to great uncertainty.[11] Although high inflation rates can be expected in the coming months – given the partial pass-through of higher prices of inputs to final prices of consumer goods and services – commodity prices on the futures markets and the latest measures approved by the

10 In Spain, energy prices have made a higher contribution to inflation because they account for a higher share of the Spanish consumption basket and also because retail electricity prices are more sensitive to changes in wholesale prices than on average in the euro area.

11 See Box 1, "Macroeconomic projections for the Spanish economy (2022-2024)".

Government,[12] including a cap on the price of gas used to generate electricity,[13] suggest that the current inflationary pressures could moderate from the second half of the year. Yet this outlook is subject to considerable upside risk, essentially owing to the potential negative consequences for the commodity markets of the war in Ukraine and the sanctions on Russia, and the possible materialisation of significant indirect and second-round effects on inflation.[14] In this respect, with data as at April, collective bargaining agreements in Spain reflect only moderate growth (2.4%) in wage settlements for 2022 compared with 2021 (1.5%). However, indexation clauses are becoming more prevalent, present in almost 27% of collective bargaining agreements compared with just 15.7% in 2021.

Cut-off date: 6.6.2022.
Publication date: 10.6.2022.

12 See Royal Decree-Law 10/2022 of 13 May 2022 (Spanish version only).

13 See Box 4, "Impact on inflation of the mechanism to cap gas prices on the Iberian market".

14 Part of these effects depend on the pass-through of costs to prices via mark-ups, an issue that is discussed in Box 3, "Mark-ups in Spain: recent developments".

Chronology of the Analytical Articles published in this Economic Bulletin.

ECONOMIC CONSEQUENCES OF A HYPOTHETICAL SUSPENSION OF RUSSIA-EU TRADE

Javier Quintana

Published on 31 May 2022

A hypothetical interruption of energy commodity imports from Russia could significantly affect the Spanish economy. The difficulty of replacing these products in the short term would reduce the energy supply and compound the current inflationary episode, both of which would weigh on economic activity. However, since Spain is less energy dependent on Russia than other European economies, the effects on the Spanish economy would be notably smaller. Lastly, the impact would be amplified due to the shock propagating through global production chains, with a particularly marked effect on certain sectors of activity. The interruption of exports or imports of other goods would also adversely affect the European economies, although it would have a more limited impact than in the case of energy commodities.

THE RESPONSE OF PRIVATE INVESTMENT TO AN INCREASE IN PUBLIC INVESTMENT

Mario Alloza, Danilo Leiva-León and Alberto Urtasun

Published on 25 May 2022

Since the 2008 crisis, public investment as a proportion of GDP has declined significantly both in Spain and in other euro area countries. That trend recently came to an end, given that public expenditure has been bolstered in response to the health crisis and will be further reinforced in Spain by the EU funds received under the Next Generation EU (NGEU) programme. Public investment's effect on economic activity will depend, among other factors, on its impact on private investment, the sign of which is, a priori, ambiguous. This article assesses the short-term relationship between public and private investment using the structural vector autoregressive (SVAR) approach. The results suggest that, on average, increases in public investment in Spain tend to generate a positive impact on private investment. In particular, an increase of 1% in public investment would be associated with an equivalent increase in private investment in the short term. This finding underscores the important role that NGEU could play in economic developments in the years ahead.

THE EFFECT OF WORKPLACE PENSION SCHEMES ON HOUSEHOLDS' PRIVATE SAVINGS

Marina Gómez-García and Ernesto Villanueva

Published on 5 May 2022

The tax incentive enjoyed by workplace pension schemes could encourage participants to increase their total savings or, alternatively, crowd out savings that would have materialised in other financial vehicles in the absence of this incentive. This article uses data from the Spanish Survey of Household Finances to estimate the additional savings generated by this type of scheme. To this end, the financial position of workplace pension scheme participants is compared to that of a group of workers of similar ages, with similar educational attainment levels and occupations, but who do not participate in such schemes. Once the comparable group is constructed, it can be seen that, on average, each euro saved in workplace pension schemes increases private savings by around 66 cents. This is the ratio of the difference in average net wealth between participants and their comparable group (€13,600) to the average amount accumulated in pension schemes (€20,600). Once adjusted for the fact that contributions are tax-exempt, the additional savings generated amount to around 31 cents for every euro contributed, calculated as the ratio of the €6,500 difference in tax-relief-adjusted wealth between the two groups to the average amount accumulated in workplace pension schemes.

THE EFFECT OF TLTRO III ON SPANISH CREDIT INSTITUTIONS' BALANCE SHEETS

M.ª Carmen Castillo Lozoya, Enrique Esteban García-Escudero and M.ª Luisa Pérez Ortiz

Published on 27 April 2022

With the onset of the COVID-19 crisis, the ECB's Governing Council modified the conditions of the TLTRO III, aiming to facilitate the flow of bank credit to the real economy. The new conditions encouraged an unprecedented level of take-up of the Eurosystem's refinancing operations by credit institutions. In the case of Spain, all participating banks met the eligible net lending target (that is, loans to non-financial corporations and households, except loans to households for house purchases) established for the period March 2020 to March 2021. To ascertain the impact on banks' balance sheets of this huge liquidity injection via TLTRO III, this article identifies four strategies – lending, holding reserves at the Banco de España, purchase of government debt and substitution for market funding – that banks could implement after applying for TLTRO III funding. The conclusion drawn is that there is a significant relationship between participation in TLTRO III and eligible lending and reserve holding strategies.

THE PERFORMANCE OF INVESTMENT IN CAPITAL GOODS DURING THE PANDEMIC AND THE ROLE OF ITS SECTORAL COMPOSITION

Matías Pacce

Published on 19 April 2022

The COVID-19 crisis has had a very uneven impact on the different productive sectors of the economy, with those requiring less personal contact or that are less labour-intensive, such as industry, being the least affected. This appears to have been a determining factor behind the buoyancy observed in investment in capital goods during the current crisis, as the sectors representing a higher relative share of investment are those that, broadly speaking, have been more resilient. The drive towards digitalisation and e-commerce has also helped cushion the fall in this aggregate in the current crisis, as they require investing in the relevant equipment. Furthermore, unlike in previous recessions, the relatively favourable financing conditions have helped prevent this factor from being an additional constraint in tackling planned investment projects. Lastly, general government has also played a key role in sustaining investment in capital goods during this crisis, given the effort required in terms of digitalisation in order to continue providing services in a setting marked by mobility restrictions and the need to acquire equipment to deal with the health emergency.

APRIL 2022 BANK LENDING SURVEY IN SPAIN

Álvaro Menéndez Pujadas and Maristela Mulino

Published on 12 April 2022

According to the Bank Lending Survey, during 2022 Q1 credit standards in business lending tightened both in Spain and in the euro area as a whole, against a backdrop of greater concern for the risks associated with the impact of the energy crisis and, more recently, the war in Ukraine. There were no significant changes in credit standards in Spain in the two household lending segments. Loan applications continued to increase moderately in both areas, across almost all segments. For Q2, supply is expected to contract, more intensely in business lending, both in Spain and in the euro area, in a setting of greater uncertainty associated with the effects of the war in Ukraine. Lastly, as regards the non-standard monetary policy measures of the European Central Bank (ECB), banks expect the favourable effects on their financial position and lending policy to diminish over the coming months, reversing their sign in some cases, against a background of gradual monetary policy normalisation.

Chronology of the Economic Notes published in this Economic Bulletin.

TURKEY: MACRO-FINANCIAL SITUATION

Paula Sánchez Pastor

Published on 25 April 2022

Developments in the Turkish economy in the second half of 2021 and early 2022 have been strongly influenced by the course of the COVID-19 pandemic and the implementation of an economic policy framework aimed at adjusting its external position through a weaker exchange rate. More recently, Turkey has also been affected by the Russian invasion of Ukraine, due to its exposure to those countries and to its heavy energy dependence. An extraordinarily loose monetary policy has supported the continued economic buoyancy, but it has also exacerbated some of Turkey’s main pre-existing imbalances, leading to a sharp depreciation of the exchange rate and a very high inflation rate. All this has happened in a setting of large external financing needs, high levels of foreign-currency denominated debt in non-financial corporations – and, increasingly, in the public sector –, low foreign exchange reserves, and high dollarisation of bank deposits. An attempt was made to reverse the latter through the introduction of a strategy seeking to increase the weight of the Turkish lira in the economy. The banking sector remains relatively sound and its non-performing loan ratio has declined, although some of its other indicators, such as solvency ratios, have slightly worsened.

BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.), which can be consulted in the Institutional Repository at https://repositorio.bde.es/.

Most of these documents are available in pdf format and can be downloaded free of charge from the Banco de España website at http://www.bde.es/webbde/en/secciones/informes/.

ISSN: 1695 - 9086 (online edition)

ACRONYMS AND ABBREVIATIONS

AIReF	Independent Authority for Fiscal Responsibility
AMCESFI	Spanish macroprudential authority
APP	Asset Purchase Programme
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BLS	Bank Lending Survey
BOP	Balance of Payments
CBA	CBSO Annual Survey
CBI	Integrated CBSO Annual Survey
CBQ	CBSO Quarterly Survey
CBSO	Central Balance Sheet Data Office
CCR	Central Credit Register
CDSs	Credit default swaps
CNE	Spanish National Accounts
CNMV	National Securities Market Commission
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CSPP	Corporate sector purchase programme
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of the European Communities (Economic and Financial Affairs)
EDP	Excessive Deficit Procedure
EFB	European Fiscal Board
EFF	Spanish Survey of Household Finances
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
EONIA	Euro overnight index average
EPA	Official Spanish Labour Force Survey
ESA 2010	European System of National and Regional Accounts
ESCB	European System of Central Banks
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
EURIBOR	Euro interbank offered rate
EUROSTAT	Statistical Office of the European Communities
FASE	Financial Accounts of the Spanish Economy
FDI	Foreign direct investment
FOMC	Federal Open Market Committee
FSB	Financial Stability Board
GDI	Gross disposable income
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GNP	Gross national product
GOP	Gross operating profit
GVA	Gross value added
HICP	Harmonised Index of Consumer Prices
IASB	International Accounting Standards Board
ICO	Official Credit Institute
IFRSs	International Financial Reporting Standards
IIP	International Investment Position
IMF	International Monetary Fund
INE	National Statistics Institute
LTROs	Longer-term refinancing operations
MFIs	Monetary financial institutions
MREL	Minimum requirement for own funds and eligible liabilities
MROs	Main refinancing operations
MTBDE	Quarterly Macroeconometric Model of the Banco de España
NAFTA	North American Free Trade Agreement
NCBs	National central banks
NFCs	Non-financial corporations
NGEU	Next Generation EU
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
ONP	Ordinary net profit
OPEC	Organisation of Petroleum Exporting Countries
PEPP	Pandemic Emergency Purchase Programme
PER	Price/earnings ratio
PMI	Purchasing Managers' Index
PPP	Purchasing power parity
QNA	Quarterly National Accounts
SDRs	Special Drawing Rights
SEPA	Single Euro Payments Area
SGP	Stability and Growth Pact
SMEs	Small and medium-sized enterprises
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFP	Total factor productivity
TLTROs	Targeted longer-term refinancing operations
ULCs	Unit labour costs
VAT	Value Added Tax
WTO	World Trade Organization

COUNTRIES AND CURRENCIES

In accordance with the protocol order, the EU Member States are listed using the alphabetical order of the country names in the national languages.

BE	Belgium	EUR (euro)
BG	Bulgaria	BGN (Bulgarian lev)
CZ	Czech Republic	CZK (Czech koruna)
DK	Denmark	DKK (Danish krone)
DE	Germany	EUR (euro)
EE	Estonia	EUR (euro)
IE	Ireland	EUR (euro)
GR	Greece	EUR (euro)
ES	Spain	EUR (euro)
FR	France	EUR (euro)
IT	Italy	EUR (euro)
HR	Croatia	HRK (Croatian kuna)
CY	Cyprus	EUR (euro)
LV	Latvia	EUR (euro)
LT	Lithuania	EUR (euro)
LU	Luxembourg	EUR (euro)
HU	Hungary	HUF (Hungarian forint)
MT	Malta	EUR (euro)
NL	Netherlands	EUR (euro)
AT	Austria	EUR (euro)
PL	Poland	PLN (Polish zloty)
PT	Portugal	EUR (euro)
RO	Romania	RON (New Romanian leu)
SI	Slovenia	EUR (euro)
SK	Slovakia	EUR (euro)
FI	Finland	EUR (euro)
SE	Sweden	SEK (Swedish krona)
UK	United Kingdom	GBP (Pound sterling)
JP	Japan	JPY (Japanese yen)
US	United States	USD (US dollar)

CONVENTIONS USED

M1	Notes and coins held by the public + sight deposits.
M2	M1 + deposits redeemable at notice of up to three months + deposits with an agreed maturity of up to two years.
M3	M2 + repos + shares in money market funds and money market instruments + debt securities issued with an agreed maturity of up to two years.
Q1, Q4	Calendar quarters.
H1, H2	Calendar half-years.
bn	Billions (10^9).
m	Millions.
bp	Basis points.
pp	Percentage points.
...	Not available.
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
0.0	Less than half the final digit shown in the series.