

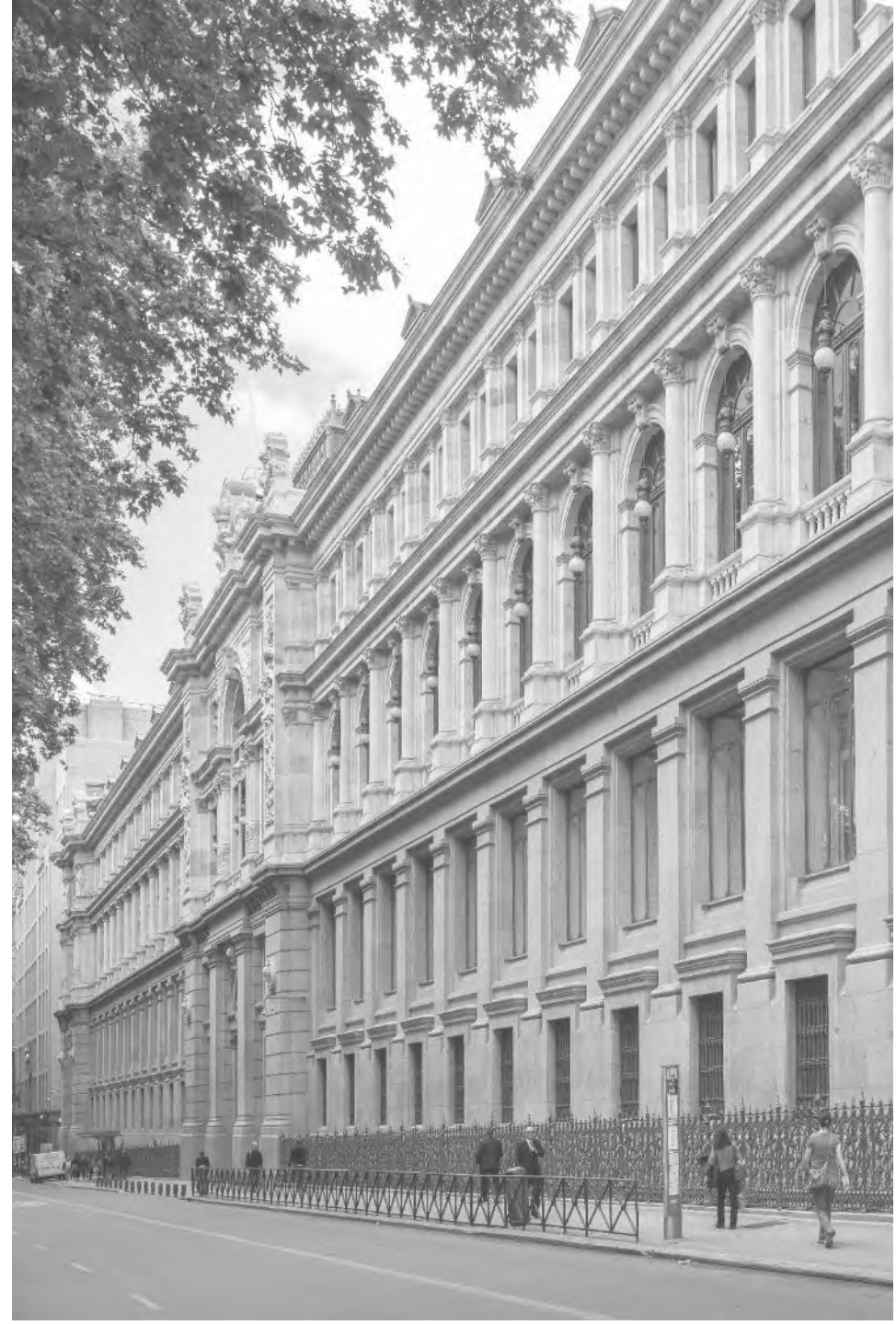
MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2025)

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Madrid

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- 1. Global environment**
- 2. Spanish economy – recent developments**
- 3. Macroeconomic projections (2023-2025)**
- 4. Main sources of uncertainty**

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- 1. Global environment**
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Supported by:


- The significant easing of [energy prices](#) and [bottlenecks](#) in global value chains
- [Improved confidence and buoyant services](#), which continued to be driven by the return to normal following the end of the health crisis
- Strong global job markets and national fiscal policy support, which have mitigated the impact of high inflation on household incomes

While at the same time:


- Headline [inflation rates](#) have prolonged their global moderating path, although as yet there has been no widespread downward shift in underlying inflation
- The world's main central banks have reduced the pace of their [monetary policy](#) tightening
- [International capital markets](#) have performed relatively favourably, with stock market indices recovering and lower volatility in sovereign bond yields, since the turmoil that occurred in March

... ALTHOUGH SOME SIGNS OF WEAKENING HAVE ALSO BEEN OBSERVED, ESPECIALLY IN THE MOST RECENT PERIOD

These signs have been particularly evident:

- 
- In terms of geographical areas: [in the euro area](#), as well as in China
 - In terms of sectors: [in manufacturing](#), although they seem to be spreading to services as well

And they may reflect the first effects on activity of the considerable monetary policy tightening that has occurred in recent quarters, both in the euro area and globally

- 
- The empirical evidence suggests that manufacturing activity is more sensitive to the monetary policy stance than services (owing, among other reasons, to the longer time horizon and greater exposure to interest rates of spending decisions in relation to capital goods and/or consumer durables), although services activity is also affected by monetary policy, but with a slight lag
 - In the [latest Eurosystem projections](#), euro area GDP growth is revised downwards slightly in the period 2023-2025, while inflation, particularly underlying inflation, is revised upwards

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The latest National Accounts data published by the INE revised GDP growth up in the final stretch of 2022 and pointed to growth in 2023 Q1 being stronger than expected in the Banco de España's March projections (0.5% quarter-on-quarter vs. 0.3%)



- Net external demand has been the main driver of this growth ...
- which has been weighed down by the decline in private consumption and sluggish housing investment

On balance, the short-term economic indicators available for Q2 suggest that economic growth in Spain may have accelerated in this period, to 0.6%



- Examples of indicators pointing in this direction are:
 - social security registrations in the quarter as a whole
 - the behaviour of confidence indicators
 - and the results of the latest edition of the Banco de España Business Activity Survey (EBAE)

[Other indicators]

However, some of these same indicators point to a certain moderation of activity in the final stretch of the quarter




- This slowdown pattern, similar to that observed in the euro area as a whole, is particularly evident in ...
- ... the latest developments in employment and the confidence indicators ...
- ... and has been reflected, to some degree, in the real-time forecasts of GDP growth for the current quarter

While the monetary policy tightening continues to pass through to lending dynamics, which will foreseeably exert further downward pressure on momentum in activity over the coming quarters




- The tightening of financial conditions for households and firms is visible, for example, in:
 - the (higher) cost and (smaller) volume of new bank financing
 - a tightening of lending standards, according to the Bank Lending Survey (EPB)
 - and greater difficulties for SMEs in obtaining bank loans, according to the SAFE


Headline inflation: energy component vs. underlying inflation and food prices

- 
- Until now, the decline in headline inflation has essentially been underpinned by the slowdown in energy prices, which have continued to ease more strongly than expected
 - However, Q2 so far appears to have seen the beginning of a slight downward trend in food prices and underlying inflation

Underlying inflation: non-energy industrial goods vs. services

- 
- Within underlying inflation, consumer prices for non-energy industrial goods have decelerated more than services prices, in line with the inflationary pressures reported by firms and industrial price developments
 - Indeed, in recent months, consumer prices for non-energy industrial goods have eased more than expected, while services inflation has decreased less than expected

Inflation: Spain vs. the euro area

- 
- In recent months, the negative inflation differential between Spain and the euro area has remained virtually unchanged. This primarily reflects a faster and stronger deceleration of energy inflation in Spain, which already seems to be reflected in a differential performance in the more energy-intensive components of underlying inflation as well
 - However, greater wage restraint in Spain also appears to be contributing to lower inflation in services

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SUMMARY OF THE PROJECTIONS

				JUNE 2023 PROJECTIONS (a)			DIFFERENCES WITH RESPECT TO THE MARCH PROJECTIONS		
	2020	2021	2022	2023	2024	2025	2023	2024	2025
Annual rate of change (%), unless otherwise indicated									
GDP	-11.3	5.5	5.5	2.3	2.2	2.1	0.7	-0.1	0.0
Harmonised index of consumer prices (HICP)	-0.3	3.0	8.3	3.2	3.6	1.8	-0.5	0.0	0.0
HICP excl. energy and food	0.5	0.6	3.8	4.1	2.1	1.7	0.2	-0.1	-0.1
Unemployment rate (% of labour force). Annual average	15.5	14.8	12.9	12.2	11.5	11.3	-0.5	-0.8	-0.7
General government net lending (+) / net borrowing (-) (% of GDP)	-10.1	-6.9	-4.8	-3.8	-3.4	-4.0	0.3	0.1	0.4
General government debt (% of GDP)	120.4	118.3	113.2	109.7	107.4	108.0	-1.4	-1.4	-1.9

Sources: INE and Banco de España.
(a) Projections cut-off date: 31 May 2023.


More details 


OVERVIEW

ECONOMIC GROWTH

As a result of the INE's revision to the 2022 H2 GDP growth rates and the high buoyant activity in 2023 H1, the GDP growth forecast for 2023 is revised upwards to 2.3% (↑)

Beyond the inclusion of these historical data, the growth outlook for the coming quarters has not changed significantly and is the result of weighting various factors that affect activity in opposite directions

- 
- Labour market buoyancy, which will boost the recovery in household consumption
 - Exports of goods and non-travel services, driven, in part, by recent competitiveness gains and a better global setting
 - Greater roll-out of the NGEU programme, which will further strengthen business investment
 - Easing of inflationary pressures
 - Progressive reduction of past negative supply-side shocks

- 
- Progressive pass-through of monetary policy tightening to activity
 - Gradual withdrawal of the measures adopted in response to the energy crisis
 - Smaller contribution of tourism exports to GDP growth, now that this variable has returned to pre-pandemic levels

In any event, the composition of GDP growth in 2024 and 2025 will differ greatly from that projected for 2023, as it will shift to rest mainly on growth in private consumption (↑)

OVERVIEW

INFLATION

Headline inflation will fall below 2% in June, but will rise in 2023 H2, owing to base effects linked to the energy component, and remain high in 2024, due to the expected withdrawal of the measures rolled out in response to the energy crisis (*)

Meanwhile, the incipient moderating path in underlying inflation and in the food component observed in recent months is expected to continue over the projection horizon (*)

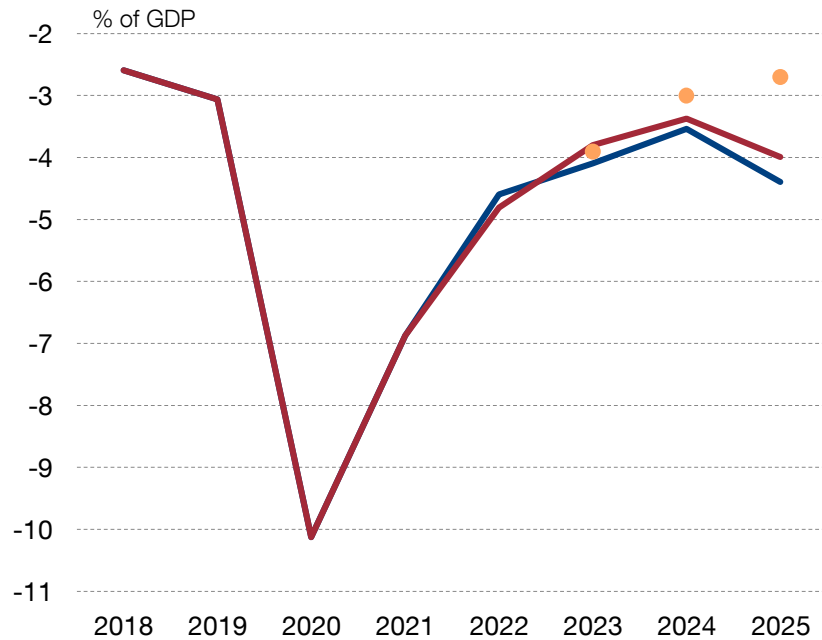
- 
- This process will be assisted, among other factors, by:
 - the gradual pass-through of the falls in energy and other non-energy input prices to consumer prices
 - the impact of the cumulative tightening of monetary policy on aggregate demand
 - the fading of the remaining distortions in global supply chains
 - the easing of the inflationary pressures stemming from the reopening of the economy after the pandemic
 - Indeed, firms currently perceive an easing of the inflationary pressures and expect that this will continue in the future

Nevertheless, the average rate of headline inflation for 2023 is revised downwards from the March projections exercise (owing to a sharper than expected fall in energy prices), while underlying inflation is revised upwards (*)

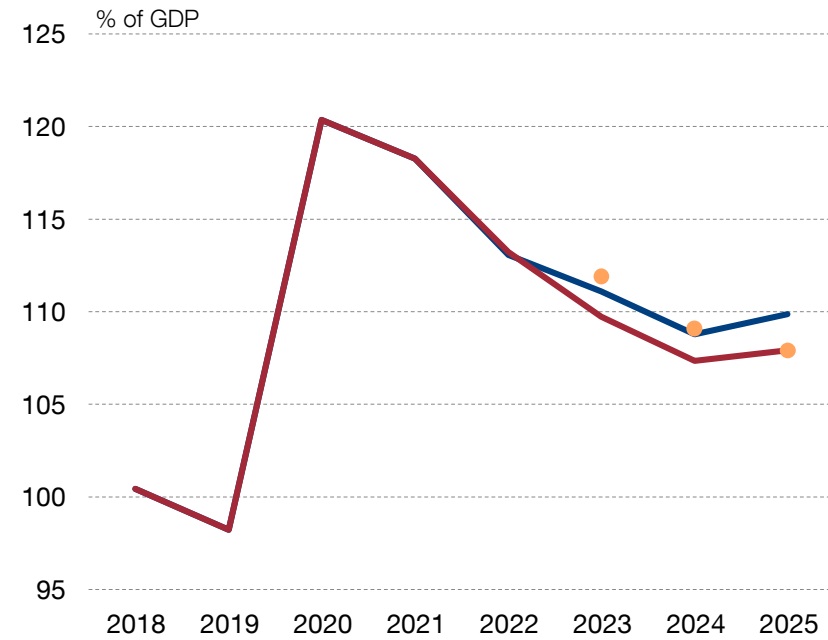
OVERVIEW PUBLIC FINANCES

- With respect to the March projections, the upward revision to nominal GDP, slightly lower interest rates and a lower unemployment rate result in an improvement in the general government balances in the period 2023-2025. The new measures that have been approved since March will have a relatively small impact on these balances
- Nevertheless, Spanish general government will continue to present a high fiscal imbalance at the end of the projection horizon

GENERAL GOVERNMENT BALANCE



GENERAL GOVERNMENT DEBT



— MARCH

— JUNE

● SPU 2023


Sources: IGAE, INE, Stability Programme Update (April 2023) and Banco de España.

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THE UNCERTAINTY SURROUNDING THESE PROJECTIONS IS STILL VERY HIGH, WITH MANY HIGHLY DIVERSE RISK FACTORS

The risks to the growth projections are mainly tilted to the downside, while for the inflation projections, they are considered to be balanced

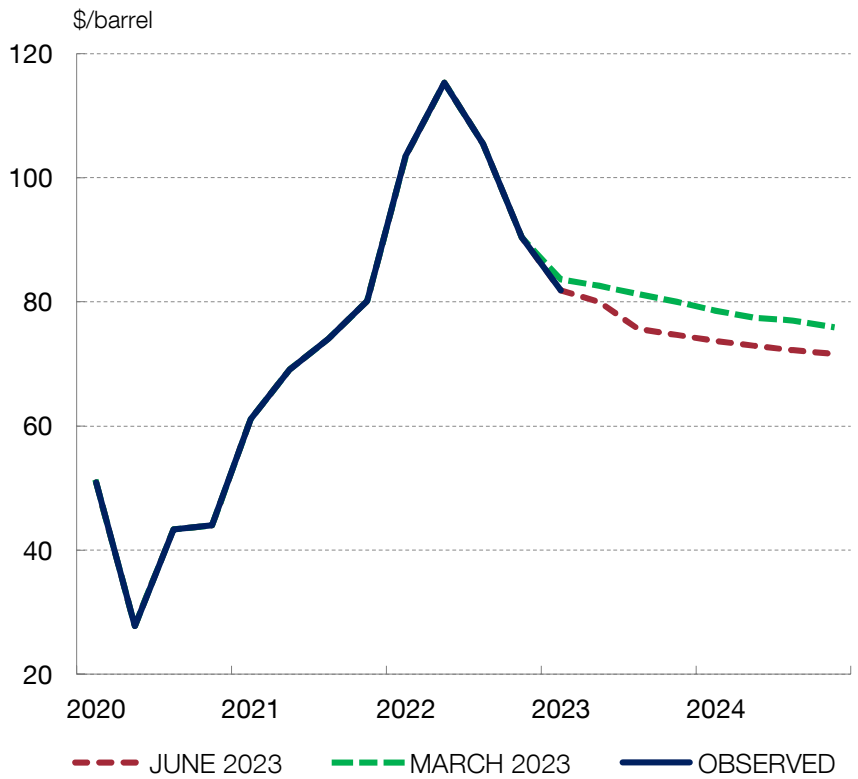
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- The main sources of uncertainty notably include:
 - a possible worsening of the **signs of weakness recently observed** in Spanish, European and global economic activity over the coming months
 - the **impact of monetary policy tightening** on activity and the financial markets
 - the **extent and speed of the pass-through of the recent declines in some commodity prices** to consumer prices
 - the possible emergence of **second-round effects on inflation through wages and/or profit margins**
 - the roll-out and impact of the **NGEU programme**
 - the course of the **war in Ukraine** and global geopolitical tensions

THANK YOU FOR YOUR ATTENTION

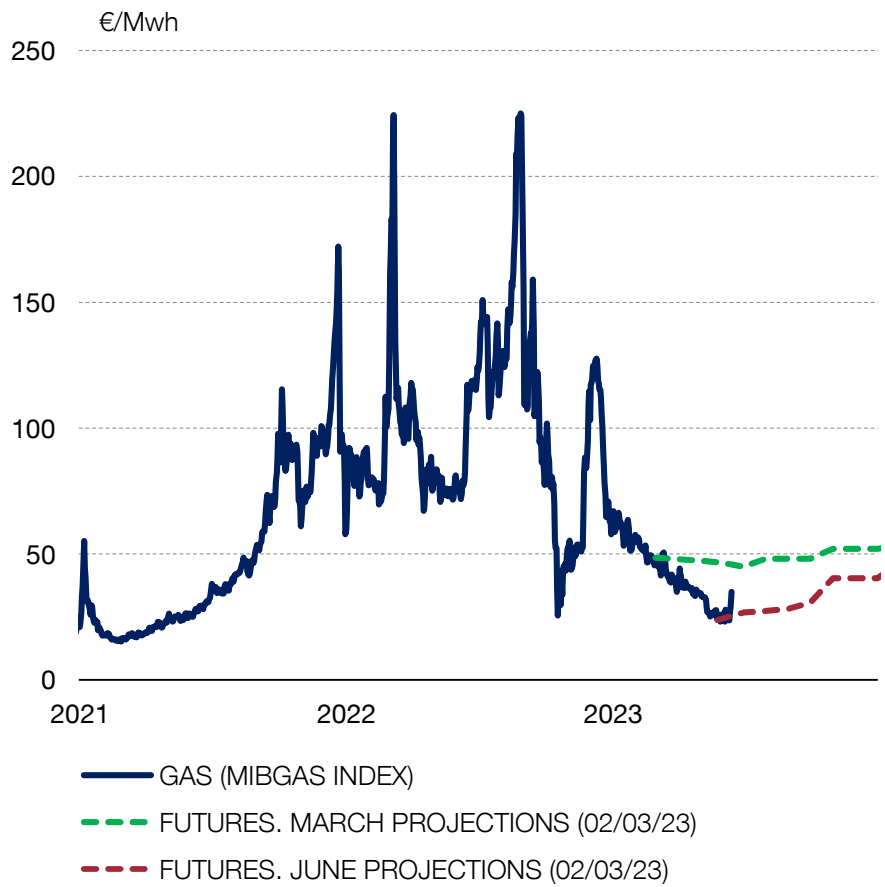


ENERGY PRICES HAVE CONTINUED TO FALL IN RECENT MONTHS, MORE SHARPLY THAN EXPECTED

OIL PRICE



GAS PRICES AND FUTURES. MIBGAS

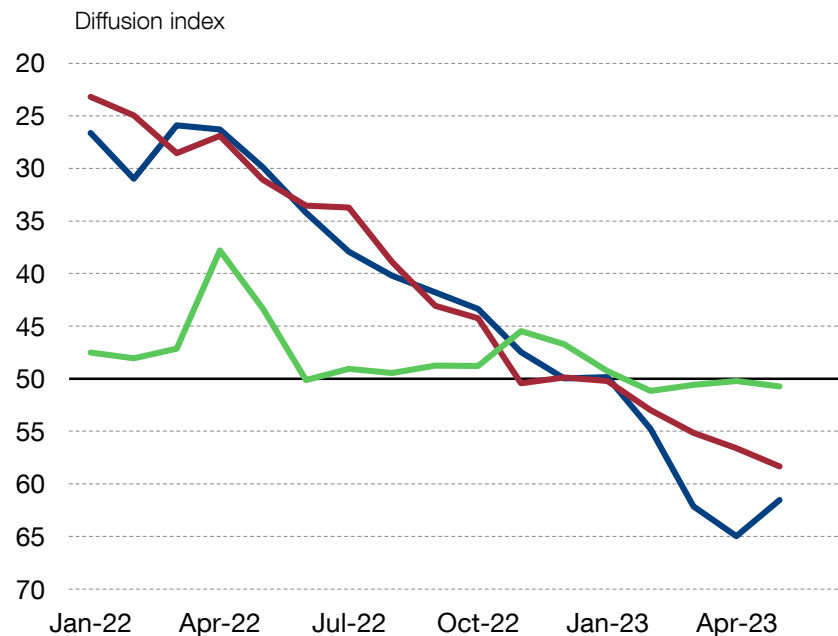


Sources: Reuters, Banco de España and MIBGAS.

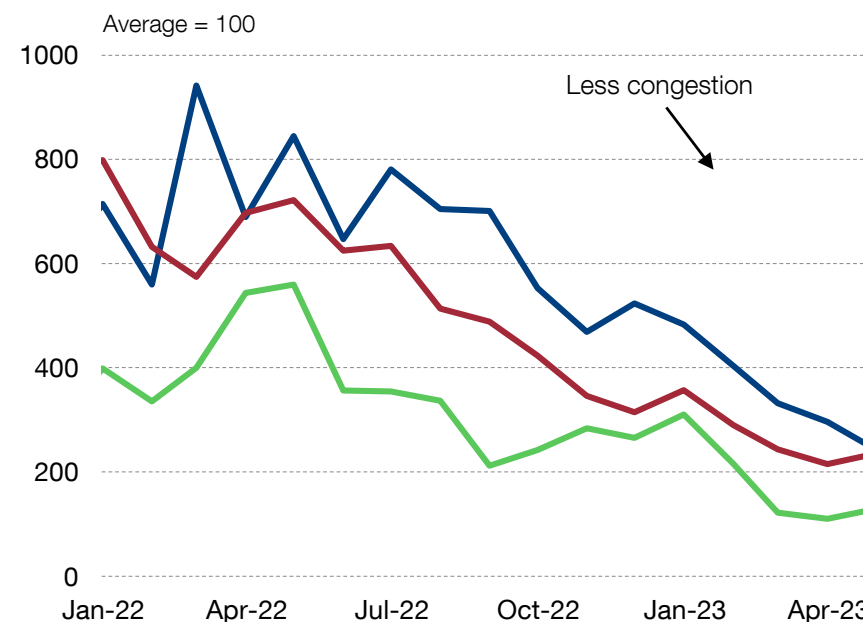


THE BOTTLENECKS IN GLOBAL PRODUCTION AND SUPPLY CHAINS HAVE CONTINUED TO EASE

PMI: SUPPLIERS' DELIVERY TIMES



TEXT-BASED INDEX OF SUPPLY CHAIN BOTTLENECKS (a)



— EURO AREA

— UNITED STATES

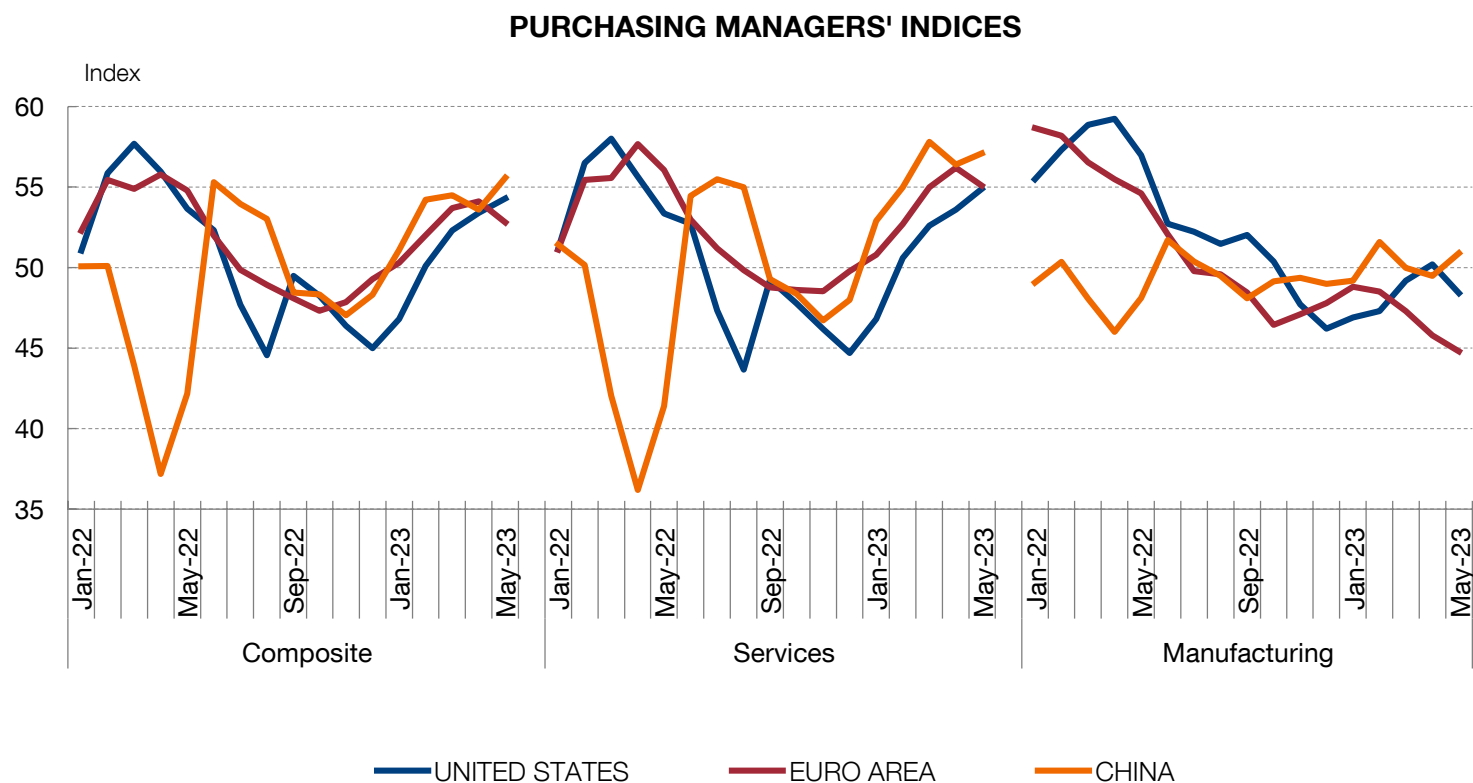
— CHINA

Sources: Banco de España, Factiva and S&P Global. Latest observation: May (PMI) and 30 May (text-based index).

(a) P. Burriel, I. Kataryniuk, C. Moreno and F. Viani. (2023). [A new supply bottlenecks index based on newspaper data](#). Documentos de Trabajo - Banco de España, 2304.



OVERALL, CONFIDENCE INDICATORS HAVE RISEN IN RECENT MONTHS, BUT THEY SHOW MARKED ASYMMETRY, WITH STRENGTH IN SERVICES VS. WEAKNESS IN MANUFACTURING

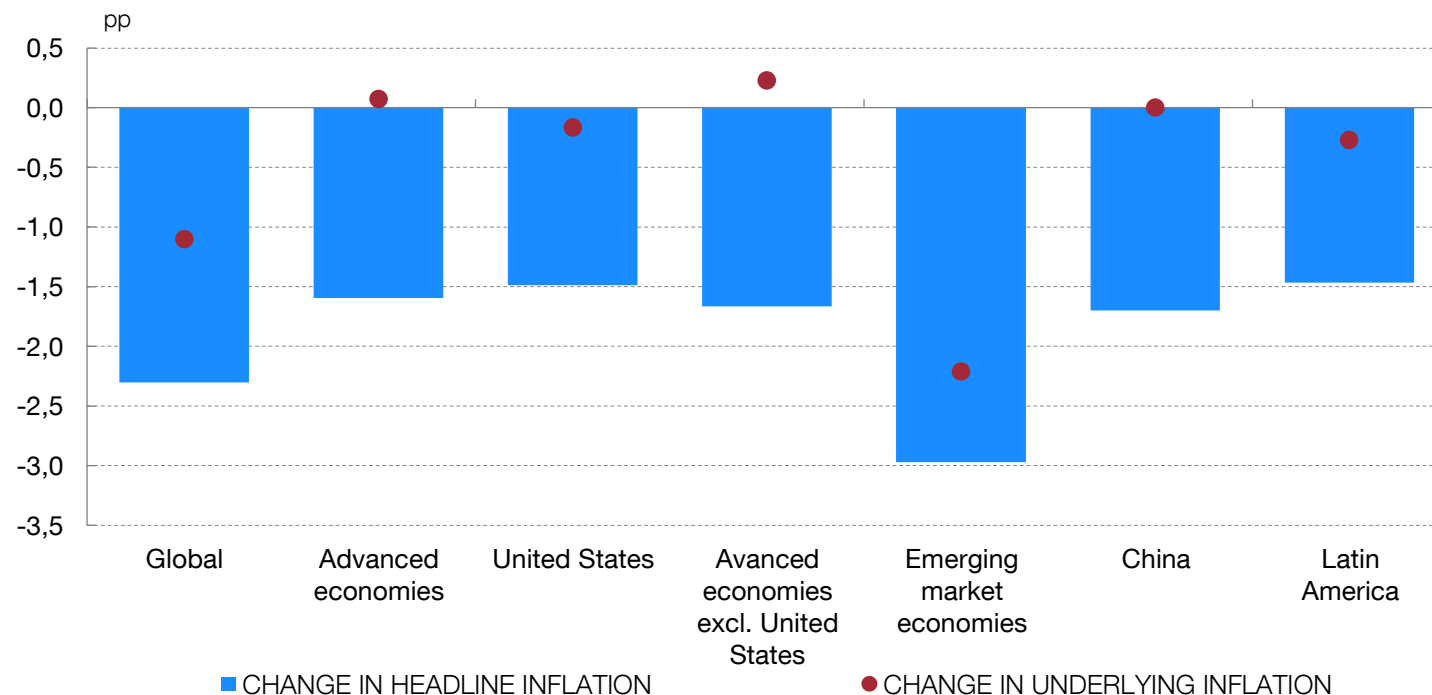


Source: S&P Global.



HEADLINE INFLATION RATES HAVE PROLONGED THEIR MODERATING PATH, ALTHOUGH AS YET THERE HAS BEEN NO WIDESPREAD DOWNWARD SHIFT IN UNDERLYING INFLATION

CHANGE IN HEADLINE AND UNDERLYING INFLATION BETWEEN DECEMBER 2022 AND APRIL 2023 (a)

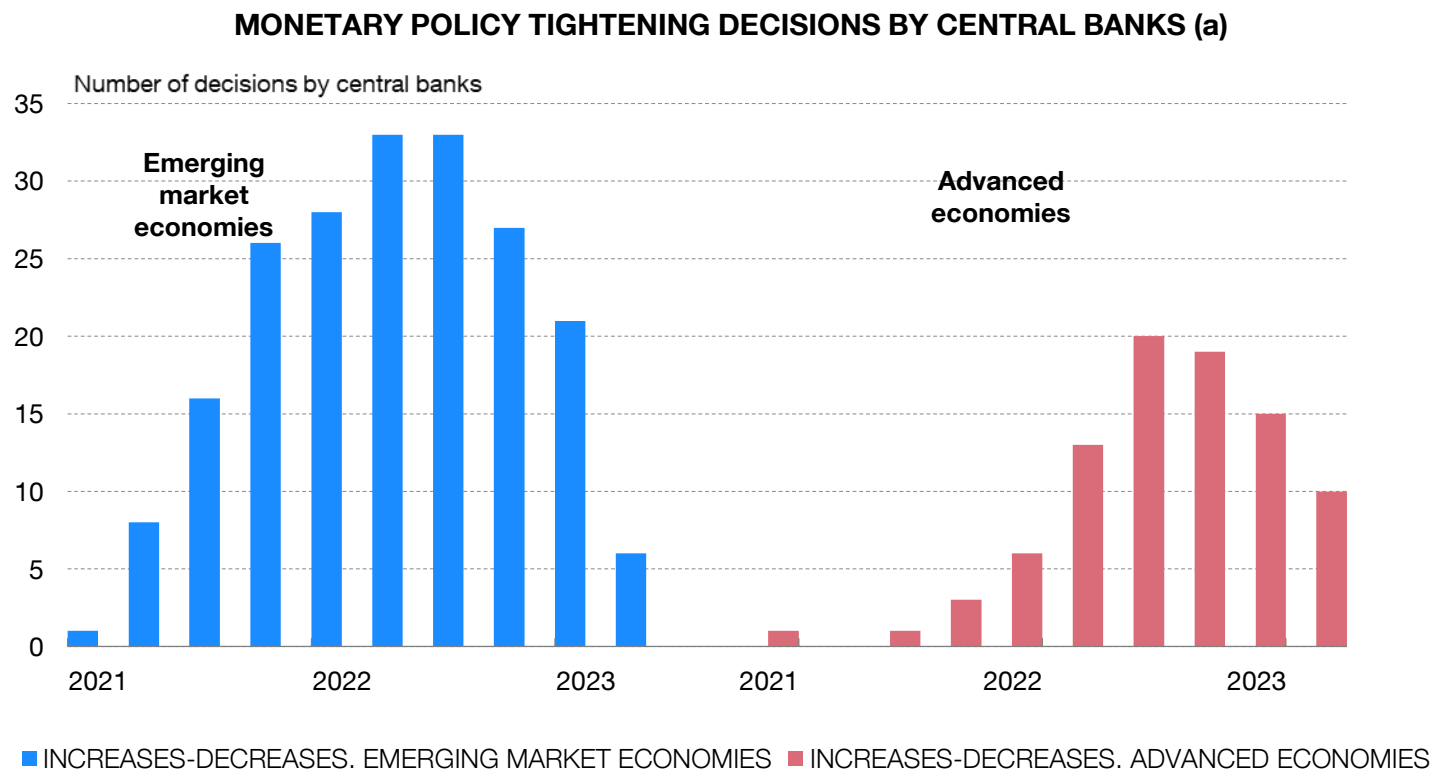


Source: National statistics.

(a) The change between December and April is depicted for China and the United States. "Global" comprises China, Czech Republic, euro area, Hong Kong, Hungary, India, Indonesia, Japan, Malaysia, Russia, Singapore, South Korea, Taiwan, Thailand, Turkey, United Kingdom and United States, as well as "Latin America" (comprising Brazil, Chile, Colombia, Mexico and Peru). "Advanced economies" comprises Canada, euro area, Japan, Norway, Sweden, Switzerland, United Kingdom and United States.



THE WORLD'S MAIN CENTRAL BANKS HAVE REDUCED THE PACE OF THEIR MONETARY POLICY TIGHTENING



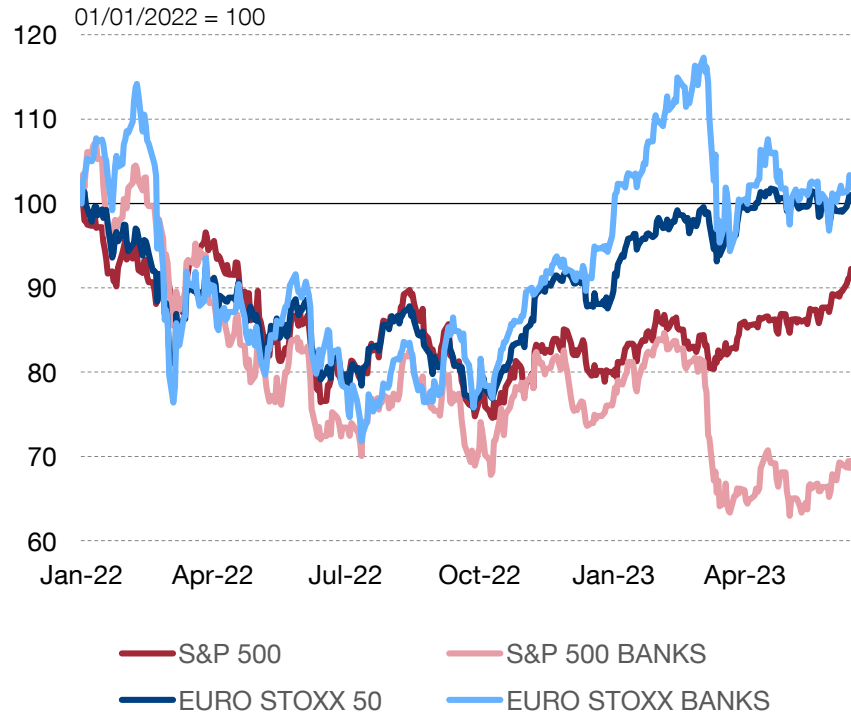
Source: Central banks of each country.

(a) "Advanced economies" comprises 11 geographical areas (Australia, Canada, Denmark, euro area, Japan, New Zealand, Norway, Sweden, Switzerland, United Kingdom and United States). "Emerging market economies" comprises 23 economies from Asia, eastern Europe and Latin America (Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Kazakhstan, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa, South Korea, Thailand, Tunisia, Turkey and Ukraine).

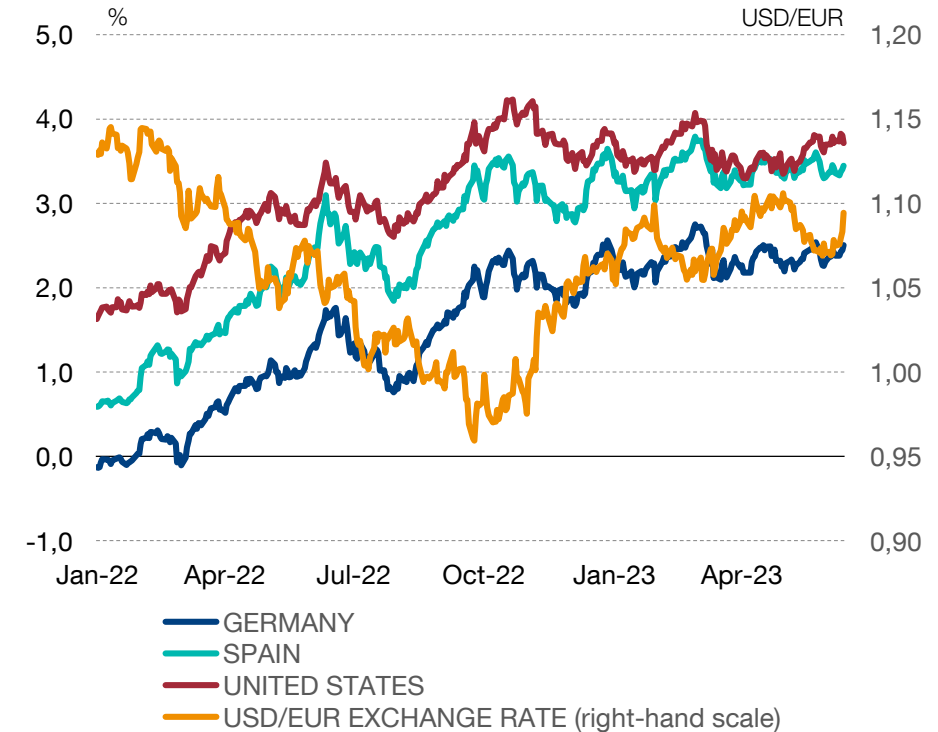


INTERNATIONAL CAPITAL MARKETS HAVE PERFORMED RELATIVELY POSITIVELY SINCE THE TURMOIL IN MARCH

STOCK MARKET INDICES



TEN-YEAR SOVEREIGN BOND YIELD AND EXCHANGE RATE

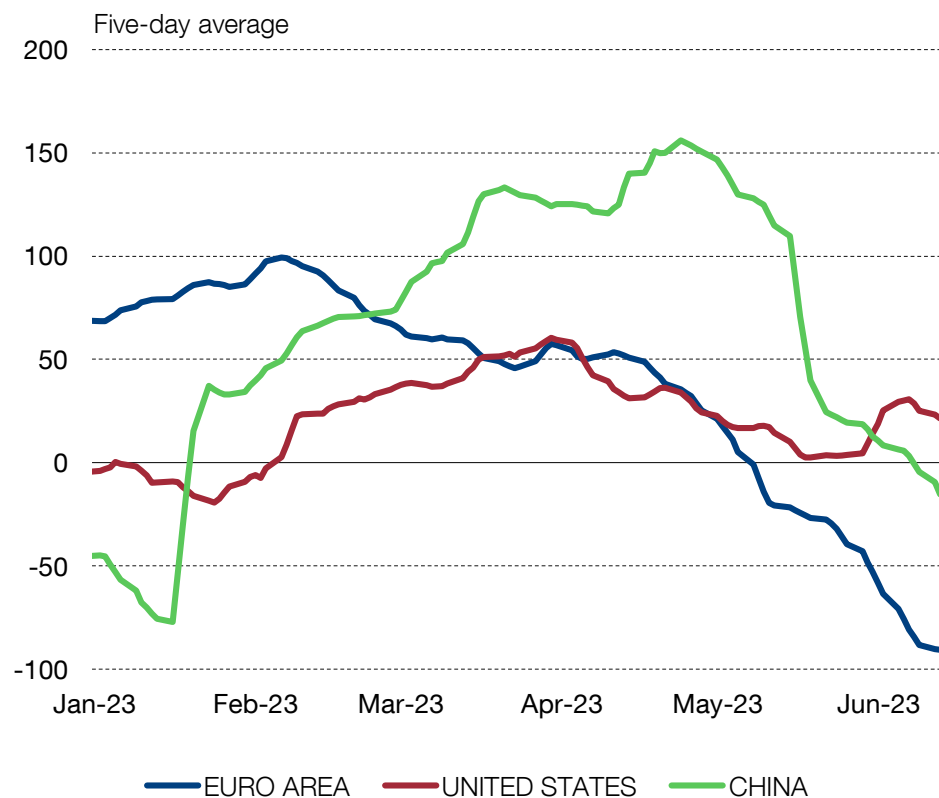


Source: Refinitiv Datastream. Latest observation: 15/06/2023.

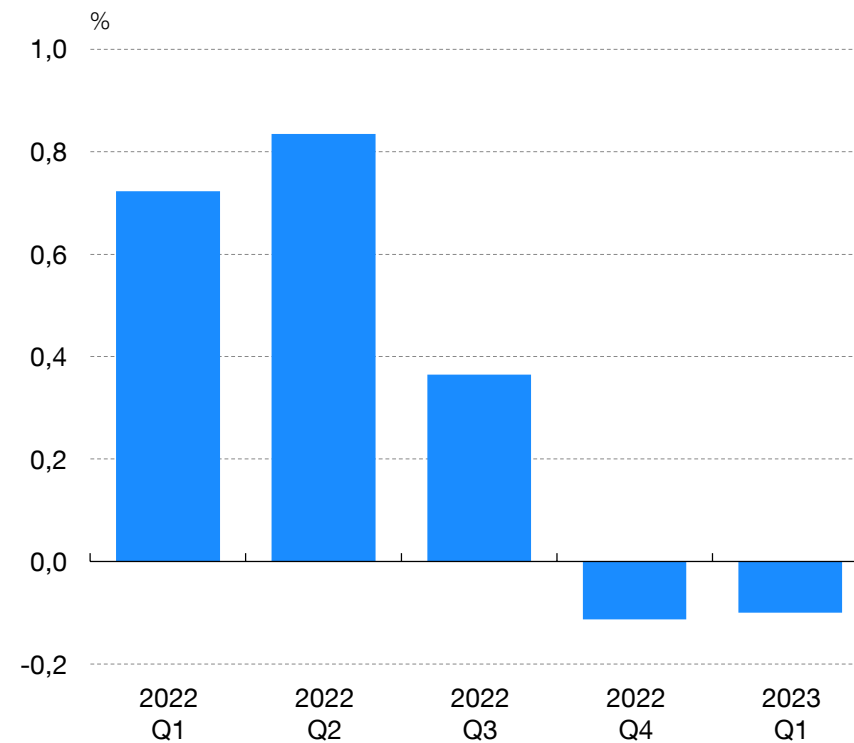


ACTIVITY HAS RECENTLY SURPRISED ON THE DOWNSIDE IN CHINA AND THE EURO AREA, WHERE GDP CONTRACTED SLIGHTLY IN THE LAST TWO QUARTERS

CITIGROUP ECONOMIC SURPRISE INDEX
Macroeconomic data vs. analysts' expectations



EURO AREA. QUARTER-ON-QUARTER GDP GROWTH

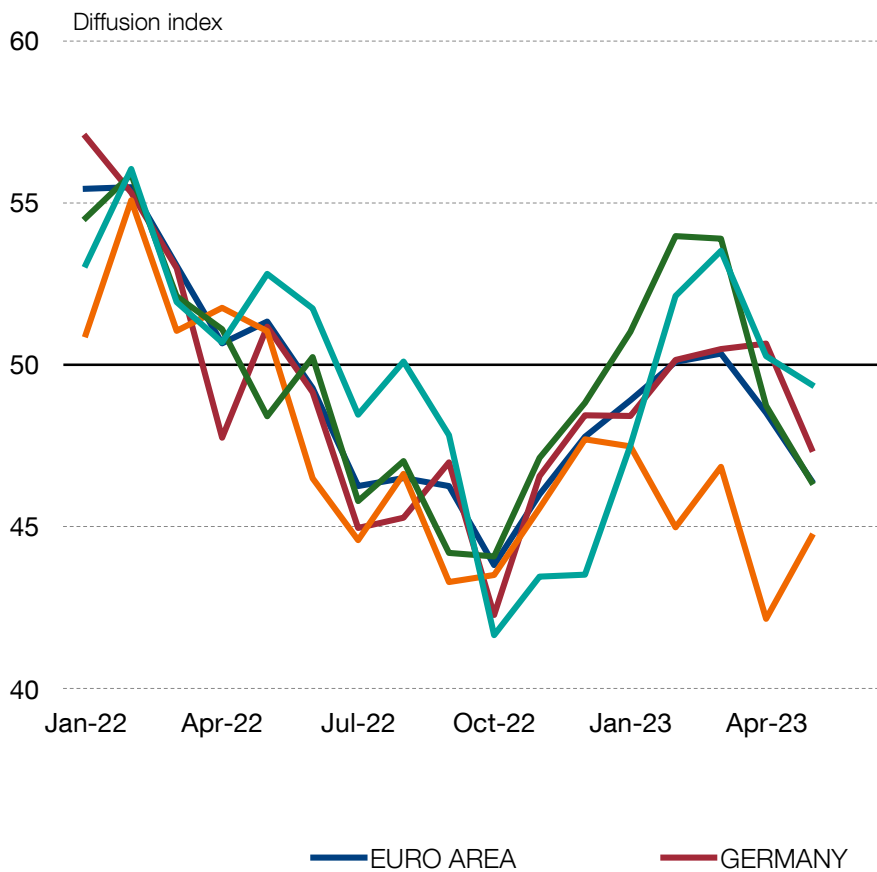


Sources: Citigroup and Eurostat.

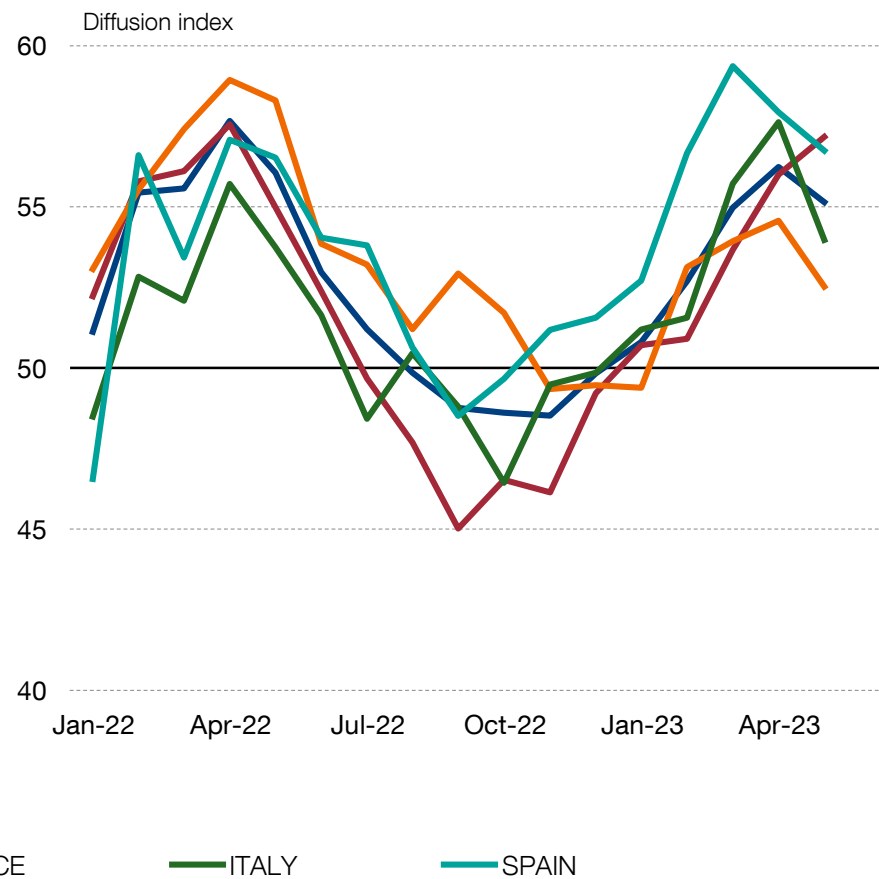


IN THE EURO AREA, MANUFACTURING PMIs FELL IN MAY, STANDING IN CONTRACTION TERRITORY. SERVICES PMIs ALSO DECLINED, BUT THEY REMAIN IN EXPANSION

MANUFACTURING PMIs. OUTPUT



SERVICES PMIs

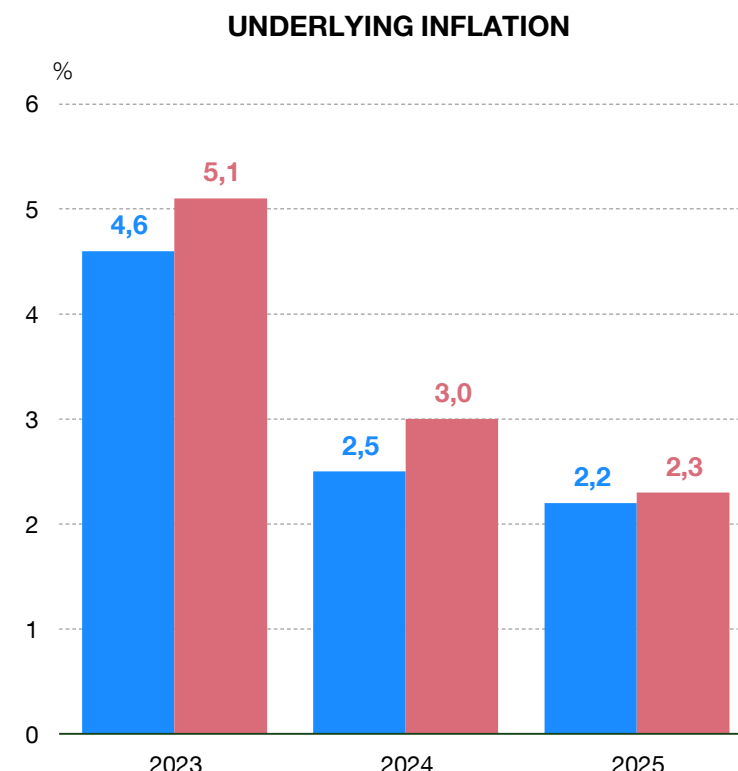
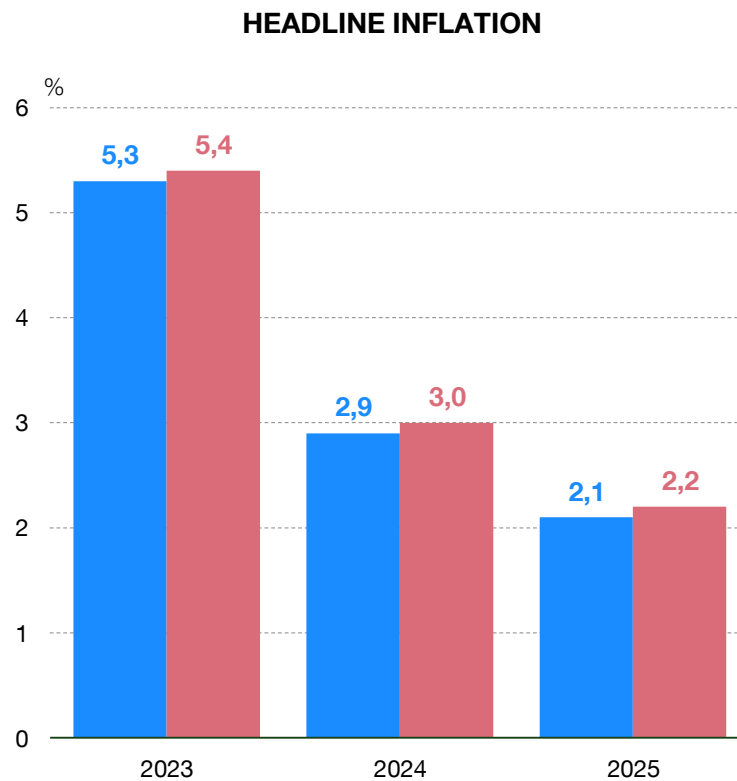
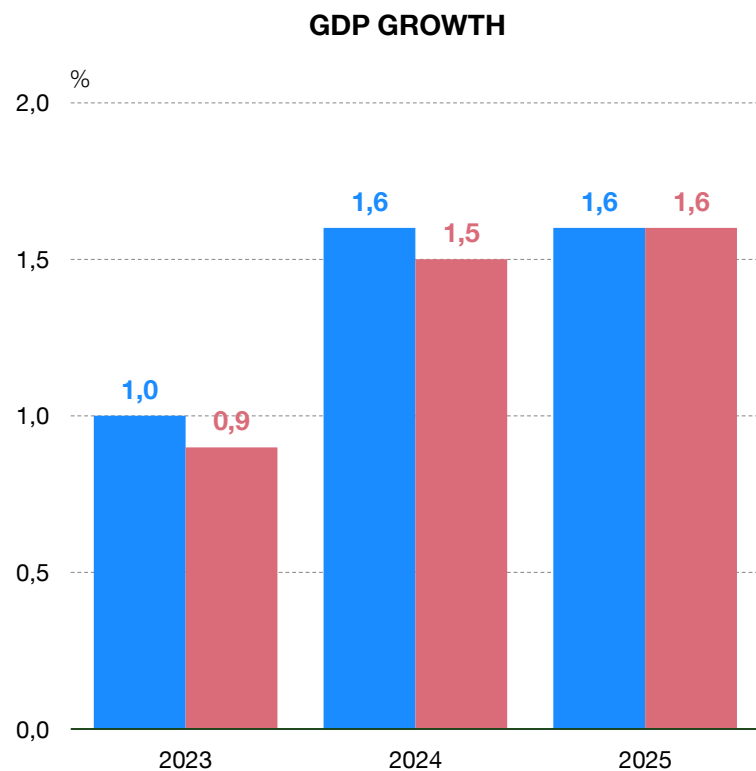


Source: S&P Global. Latest observation: May 2023.



IN THE LATEST EUROSISTEM PROJECTIONS, EURO AREA GDP GROWTH IS REVISED DOWN SLIGHTLY, WHILE INFLATION, ESPECIALLY UNDERLYING INFLATION, IS REVISED UP

PROJECTIONS FOR THE EURO AREA



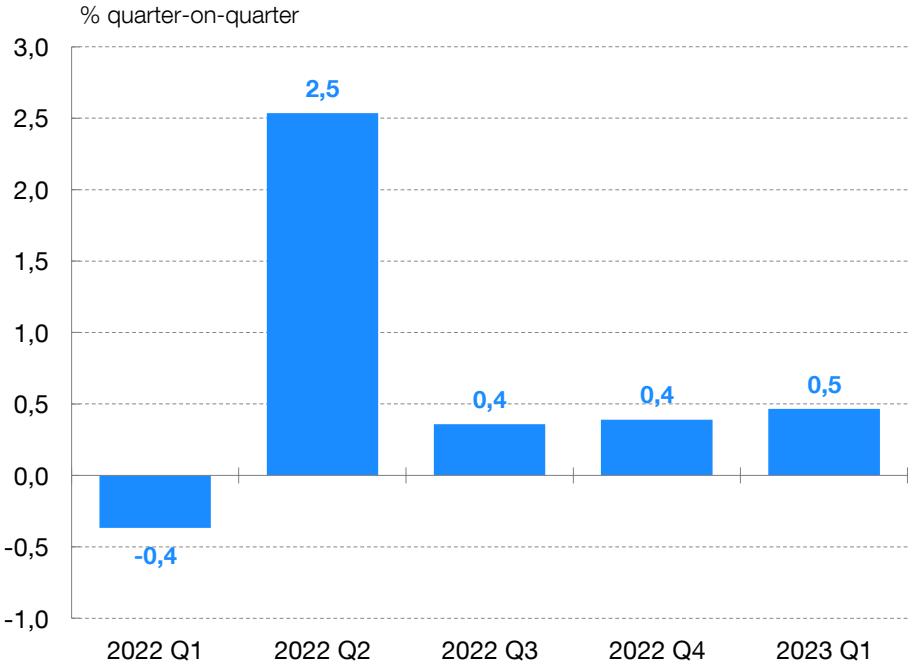
■ MARCH ■ JUNE

Source: Eurosystem.

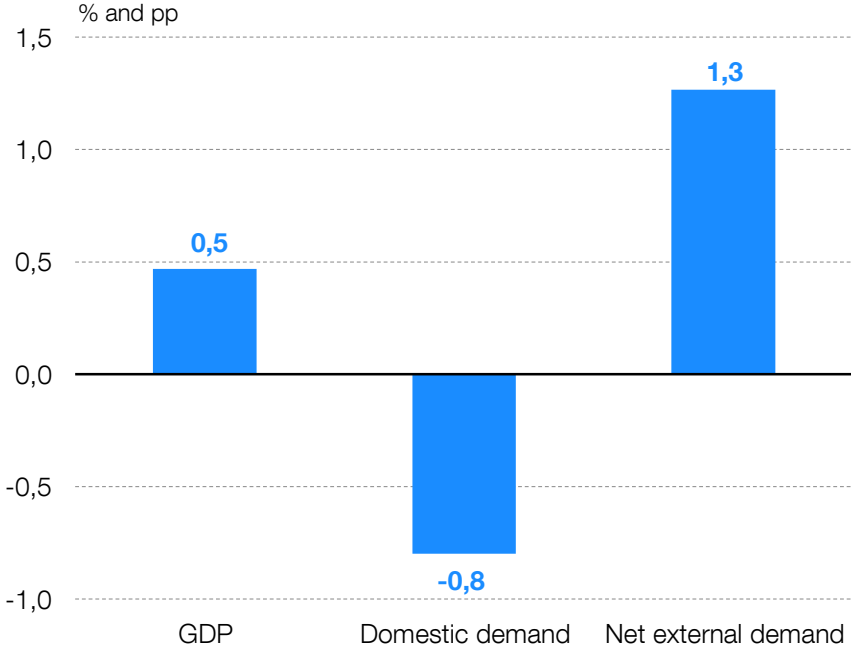


SPANISH GDP RECORDED ROBUST GROWTH IN 2023 Q1, UNDERPINNED BY STRONG NET EXTERNAL DEMAND

REAL GDP GROWTH IN SPAIN



QUARTER-ON-QUARTER GDP GROWTH AND CONTRIBUTIONS IN 2023 Q1



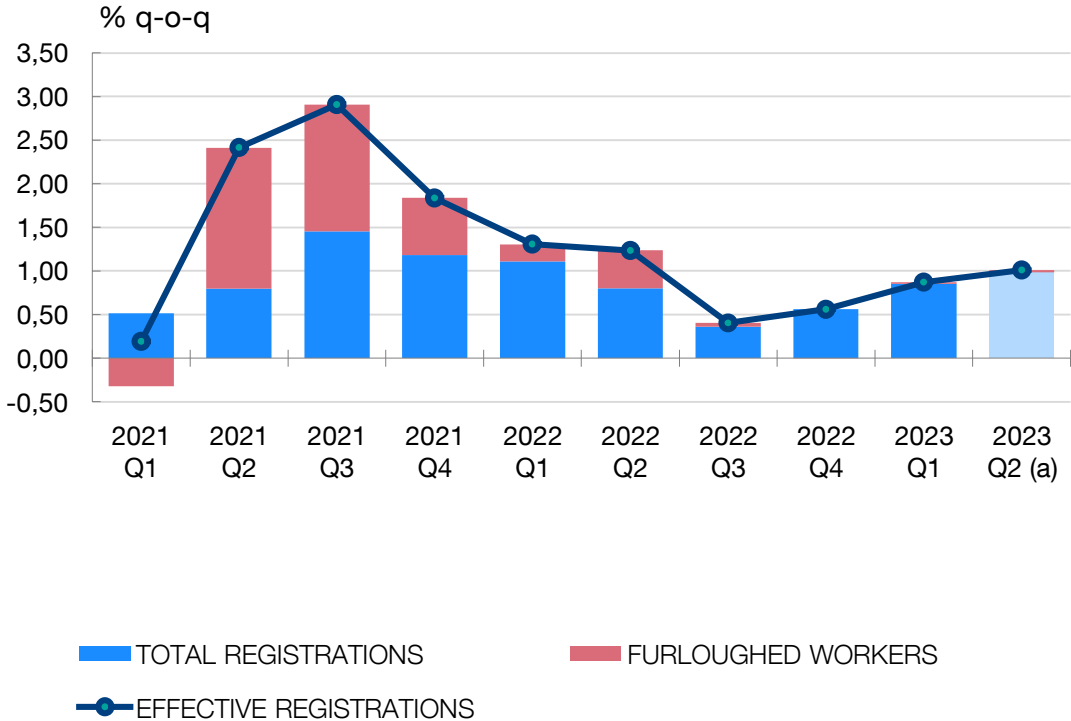
Sources: INE and Banco de España.



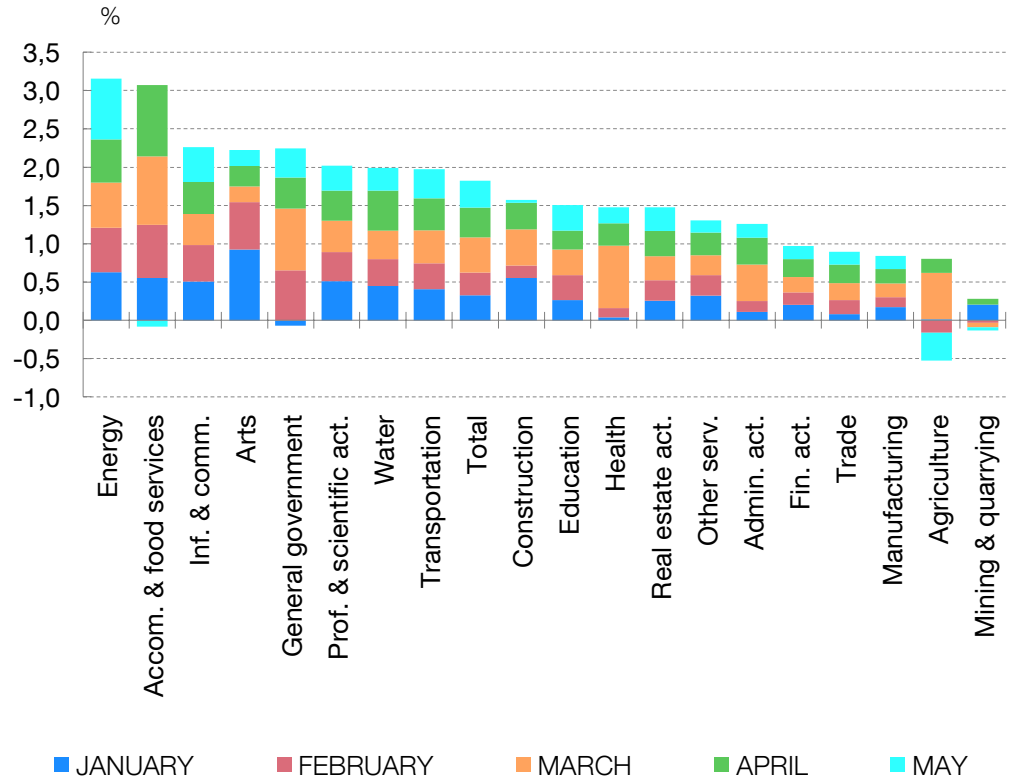
DESPITE THE SLOWDOWN IN RECENT WEEKS, SOCIAL SECURITY REGISTRATIONS HAVE GROWN MORE IN 2023 Q2 AS A WHOLE THAN IN PRIOR QUARTERS

- Growth in employment was especially strong in the services sectors, particularly in those related to leisure and tourism

TOTAL REGISTRATIONS, FURLOUGHED WORKERS AND EFFECTIVE REGISTRATIONS (seasonally adjusted series)



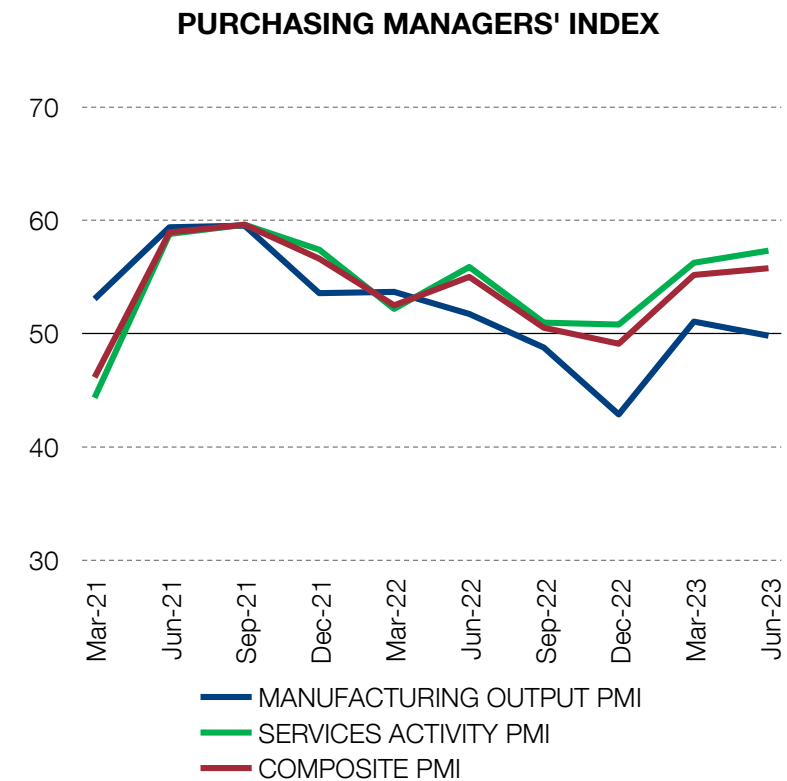
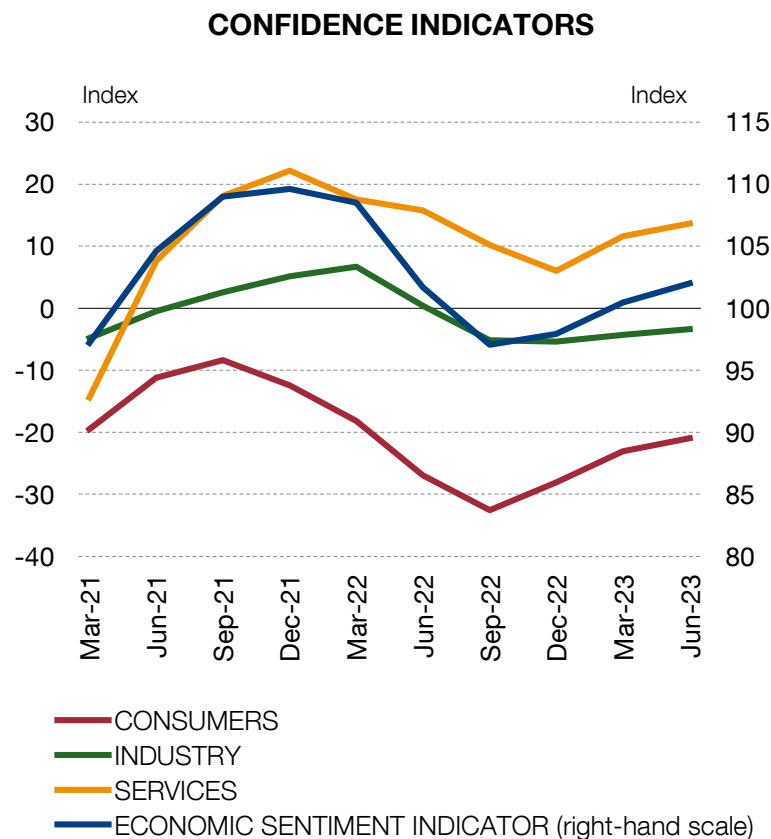
MONTHLY CHANGE IN REGISTRATIONS IN 2023, BY SECTOR (seasonally adjusted series)



Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España. (a) Includes a forecast for June to complete the quarter.



THE MAIN CONFIDENCE INDICATORS HAVE CONTINUED TO RECOVER IN 2023 Q2 AND, BROADLY SPEAKING, STAND ABOVE THE LEVELS RECORDED IN PRIOR QUARTERS



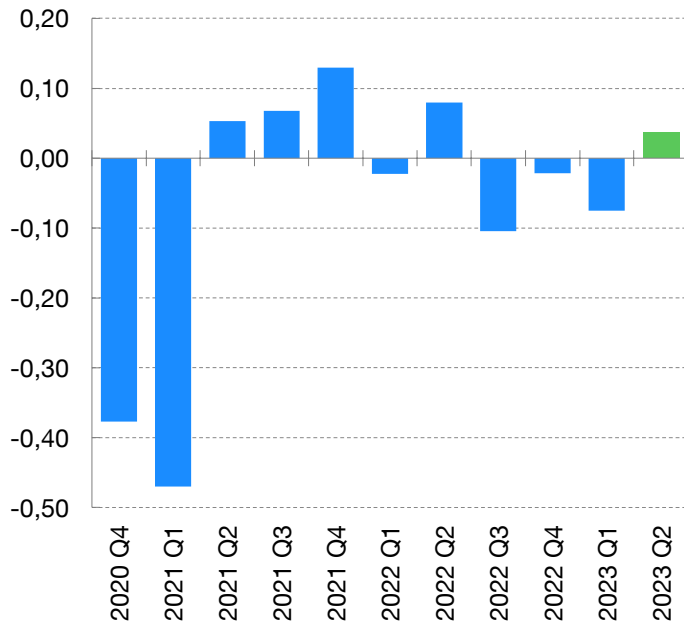
Sources: European Commission and S&P Global.
 (a) The average for April and May is depicted for 2023 Q2.



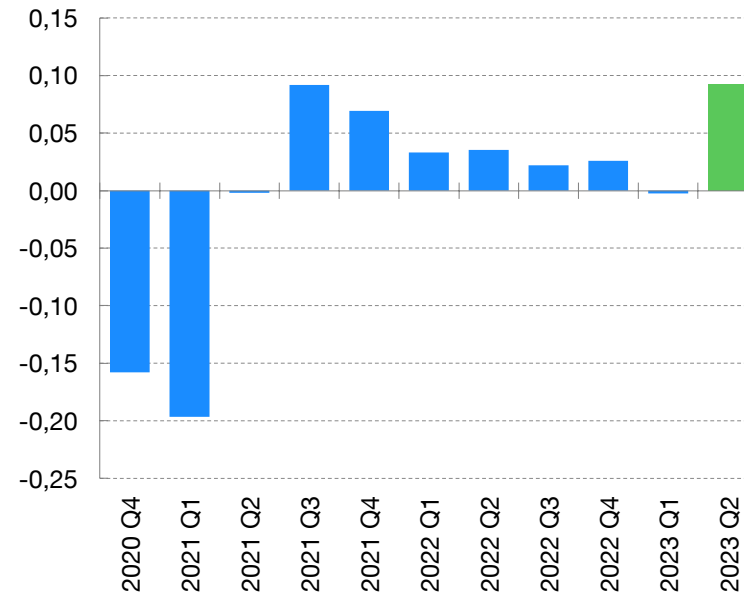
ACCORDING TO THE EBAE, SPANISH FIRMS' TURNOVER AND EMPLOYMENT HAVE BEEN STRONGER IN 2023 Q2 THAN IN Q1

- Business activity has been boosted, albeit with high cross-sector heterogeneity, by lower energy costs and reduced supply difficulties
- Labour shortages persist and appear particularly acute in agriculture, accommodation and food service activities and construction

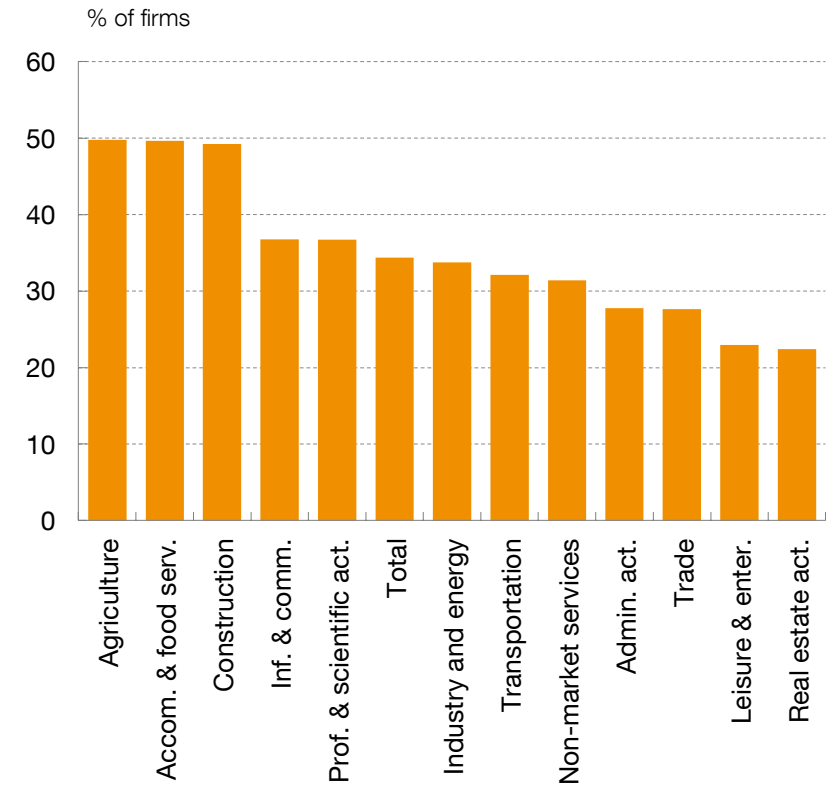
TURNOVER. QUARTERLY CHANGE (a)



EMPLOYMENT. QUARTERLY CHANGE (a)



LABOUR SHORTAGES

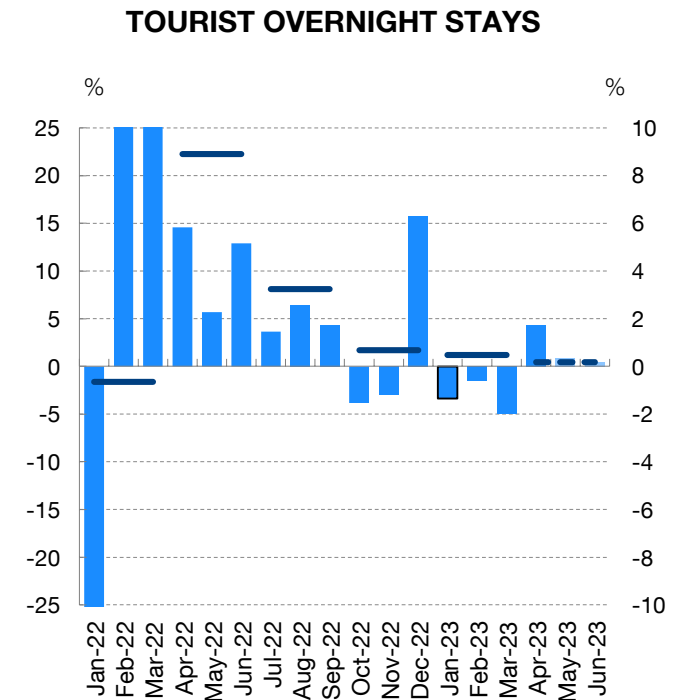
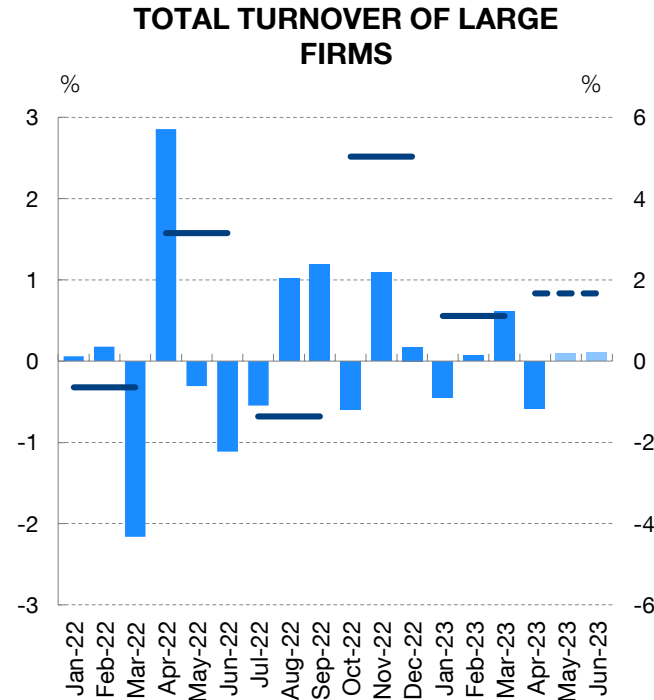
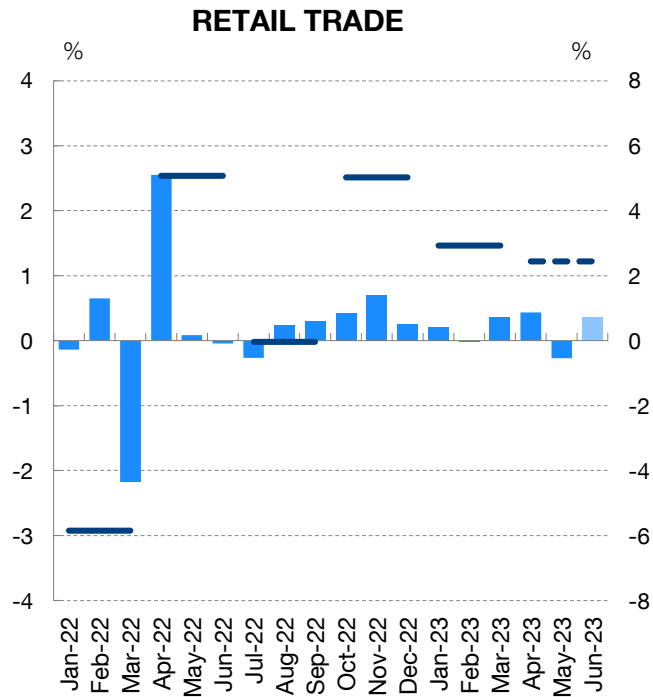


Source: Banco de España Business Activity Survey (EBAE).

(a) Index constructed using the following definitions: significant decrease = -2; slight decrease = -1; unchanged = 0; slight increase = 1; significant increase = 2.



OTHER AVAILABLE INDICATORS FOR Q2 GENERALLY POINT TO ACTIVITY REMAINING HIGHLY BUOYANT DURING THE QUARTER



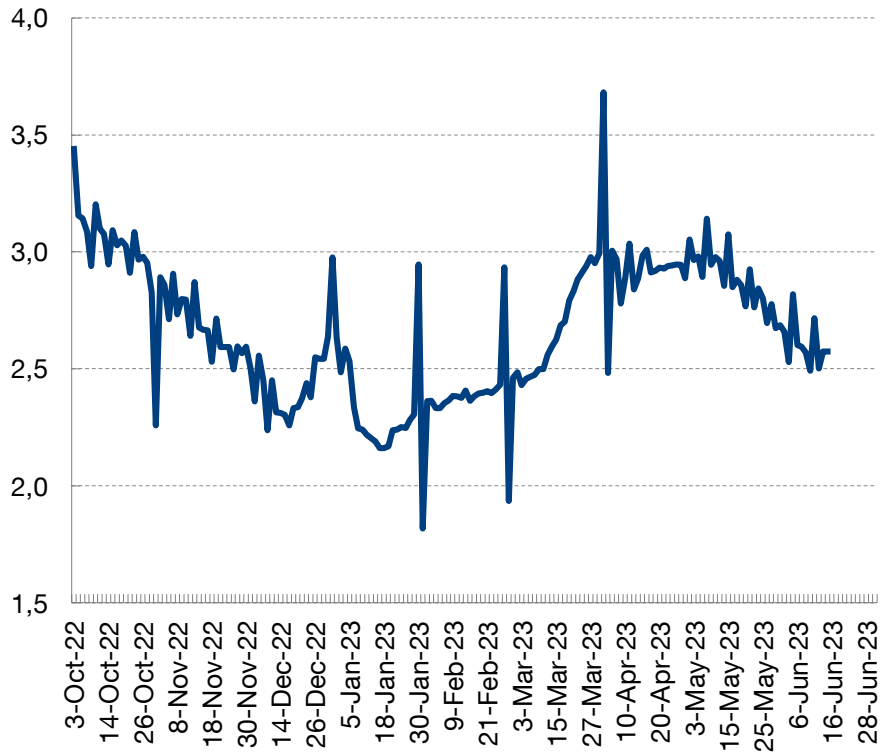
■ Monthly rate (right-hand scale)
 — Quarterly rate

Sources: INE, Agencia Tributaria and Banco de España.

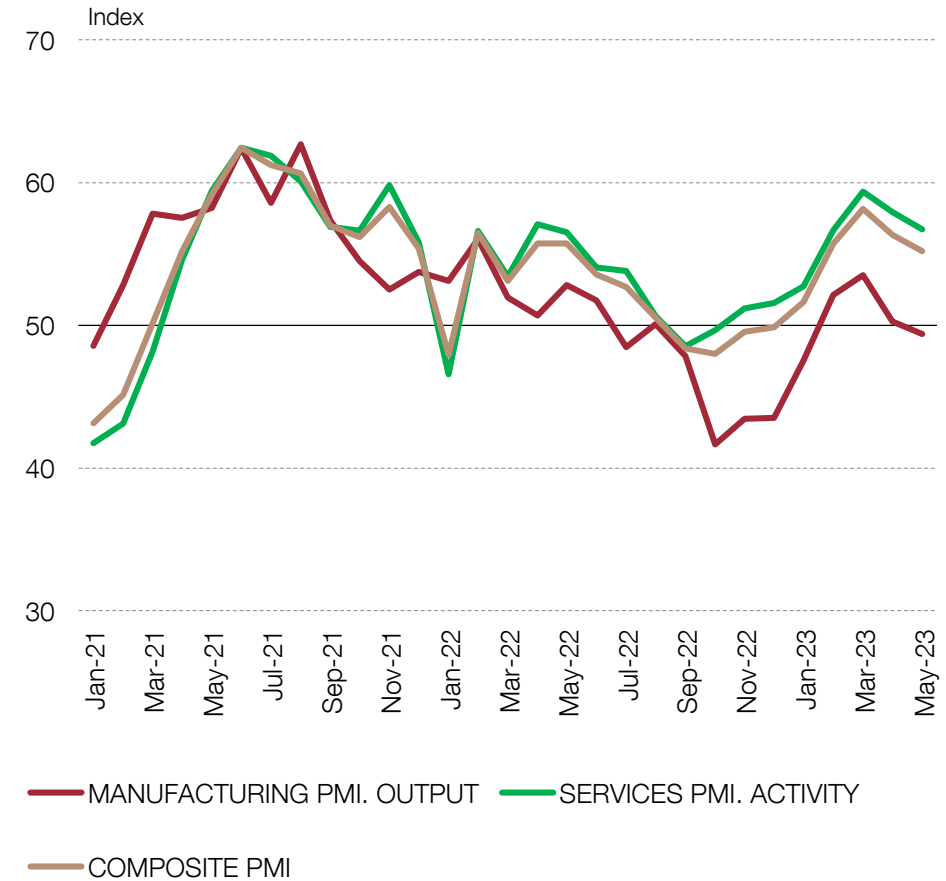


SOCIAL SECURITY REGISTRATIONS AND CONFIDENCE INDICATORS HAVE LOST STEAM RECENTLY IN SPAIN

YEAR-ON-YEAR RATE OF CHANGE IN DAILY REGISTRATIONS



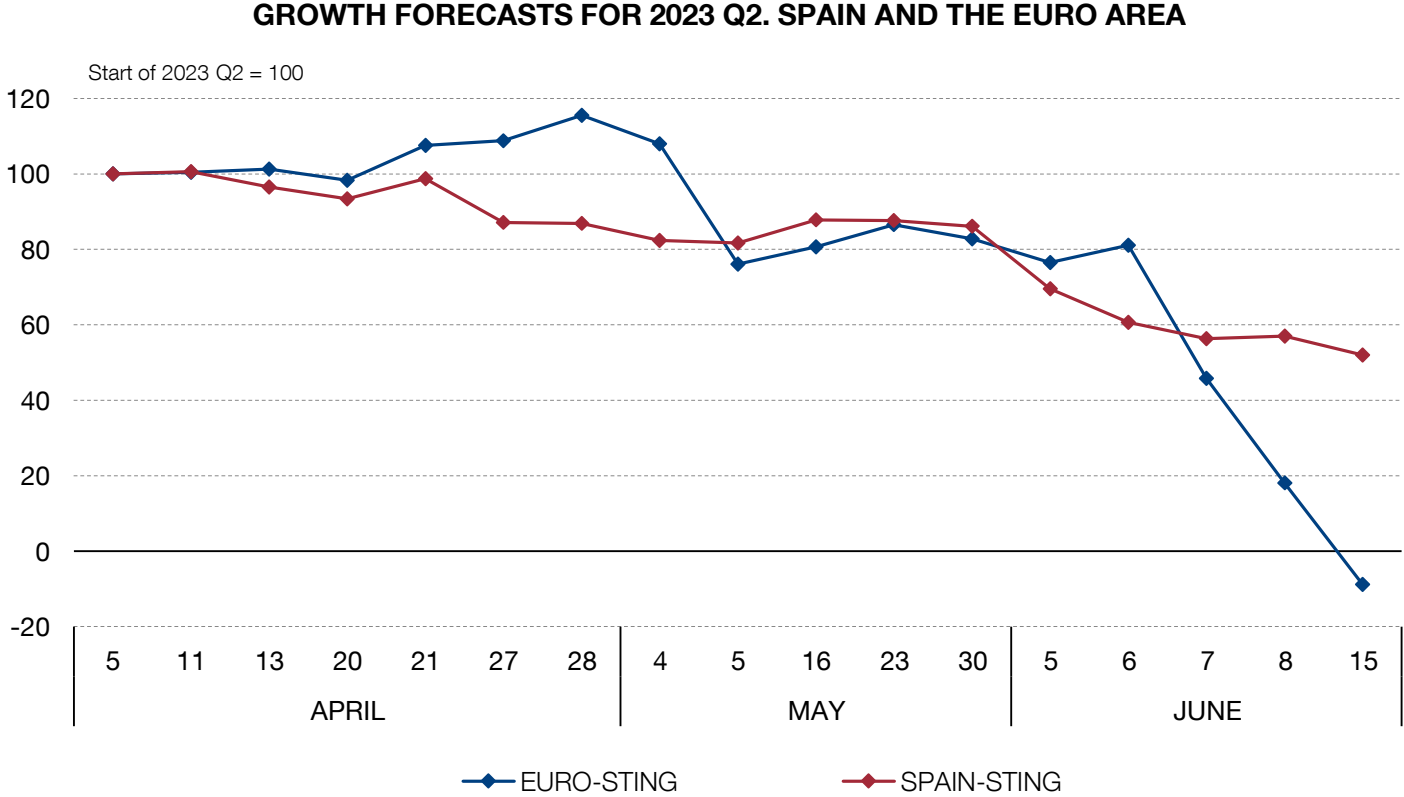
PURCHASING MANAGERS' INDICES



Sources: Ministerio de Inclusión, Seguridad Social y Migraciones and S&P Global.



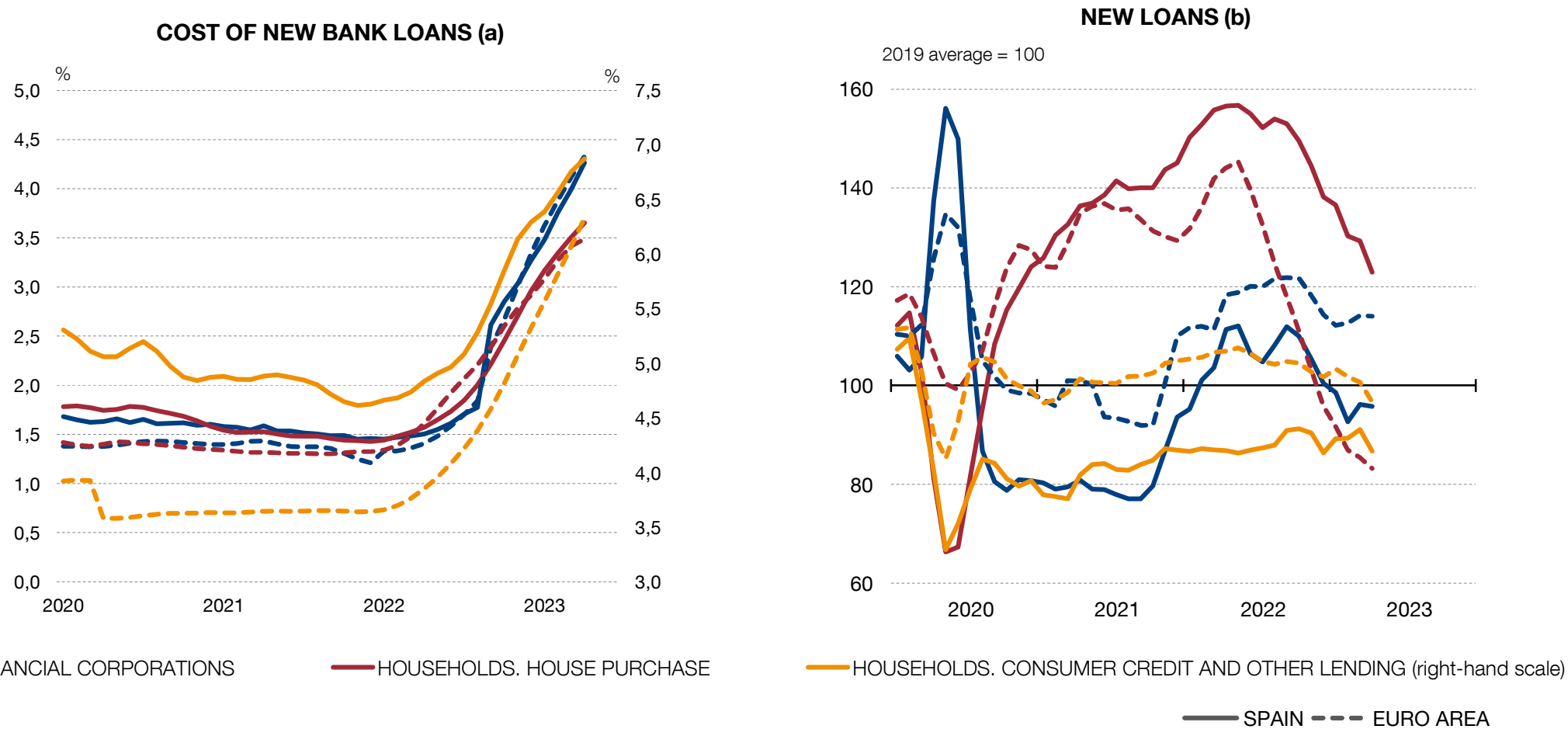
GDP GROWTH ESTIMATED FOR BOTH THE EURO AREA AND SPAIN IN 2023 Q2 HAS BEEN REVISED DOWN IN RECENT WEEKS, AS NEW INDICATORS BECAME AVAILABLE



Source: Banco de España.



THE COST OF NEW LOANS HAS CONTINUED TO SURGE IN RECENT MONTHS. THE DECLINE IN NEW LOANS IS PARTICULARLY STEEP IN THE LOANS FOR HOUSE PURCHASE SEGMENT



Source: ECB. Latest observation: April 2023.

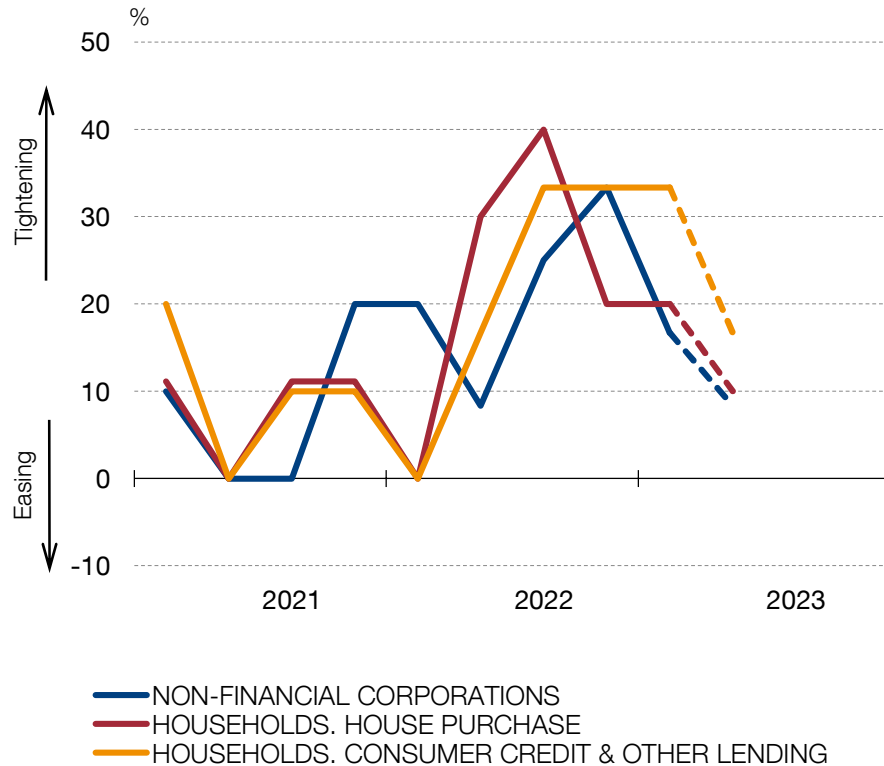
(a) Bank interest rates are narrowly defined effective rates, i.e. they exclude related costs, such as repayment insurance premiums and fees. In addition, they are trend-cycle rates, in other words, they are adjusted for seasonality and the irregular component (small changes in the series without an identifiable regular pattern or trend).

(b) Seasonally adjusted cumulative three-month flows compared with the monthly average for 2019.

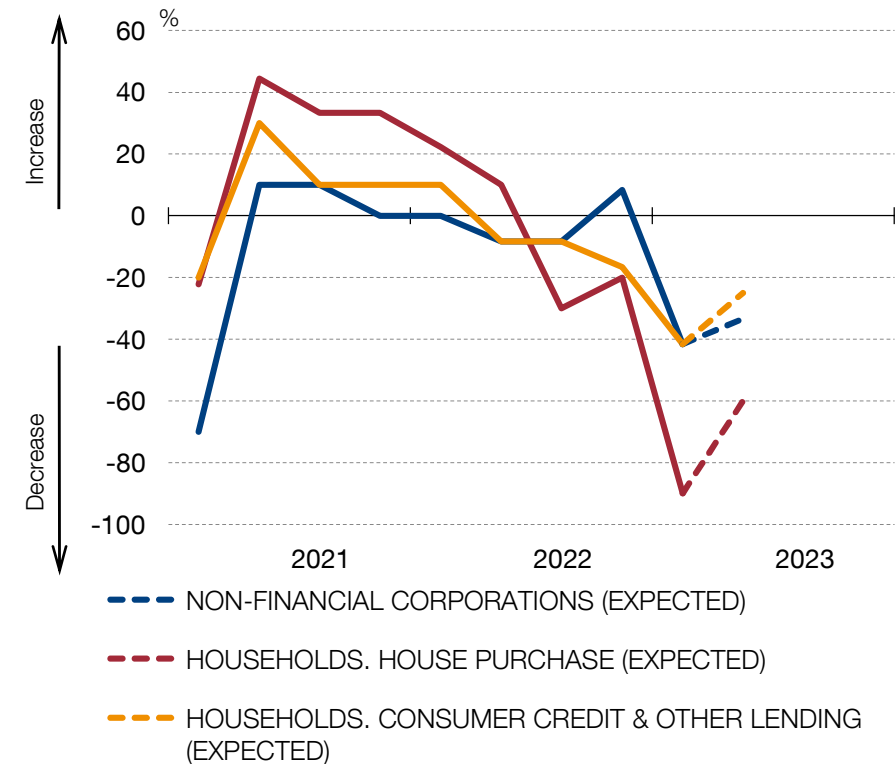


CREDIT STANDARDS TIGHTENED IN 2023 Q1 FOR THE FOURTH QUARTER RUNNING AND ARE EXPECTED TO DO SO AGAIN IN Q2

CHANGE IN CREDIT STANDARDS IN SPAIN (a)



CHANGE IN LOAN DEMAND IN SPAIN (b)



Source: Banco de España. Latest observation: 2023 Q1.

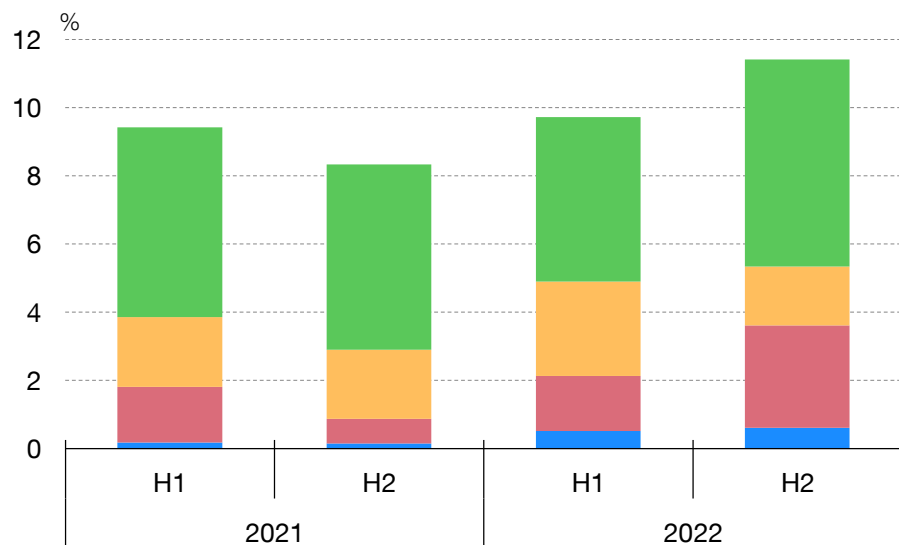
(a) Net percentage of banks reporting a tightening of credit standards.

(b) Net percentage of banks reporting an increase in demand.

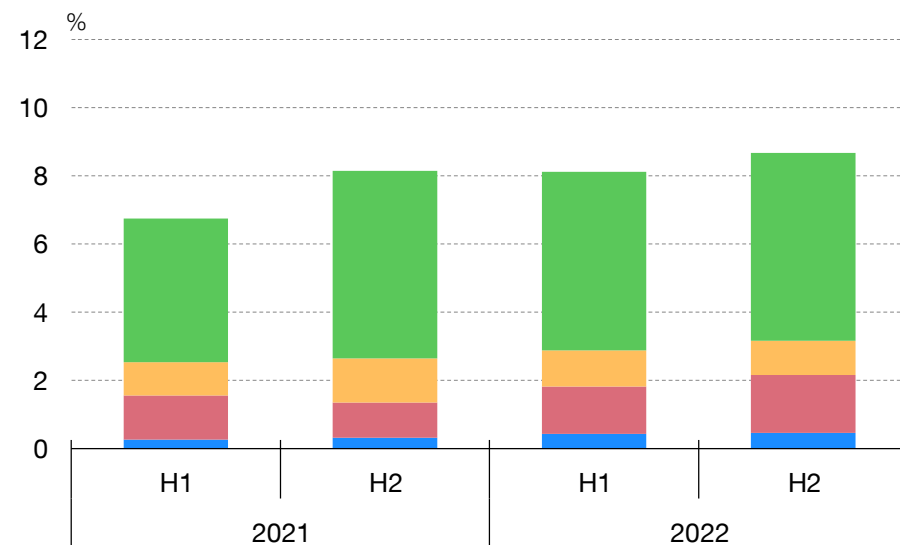


ACCORDING TO THE SAFE SURVEY, BETWEEN OCTOBER 2022 AND MARCH 2023 EUROPEAN AND SPANISH SMEs FACED GREATER OBSTACLES TO OBTAINING BANK LOANS

SPANISH SMEs FACING OBSTACLES TO OBTAINING BANK LOANS



EURO AREA SMEs FACING OBSTACLES TO OBTAINING BANK LOANS



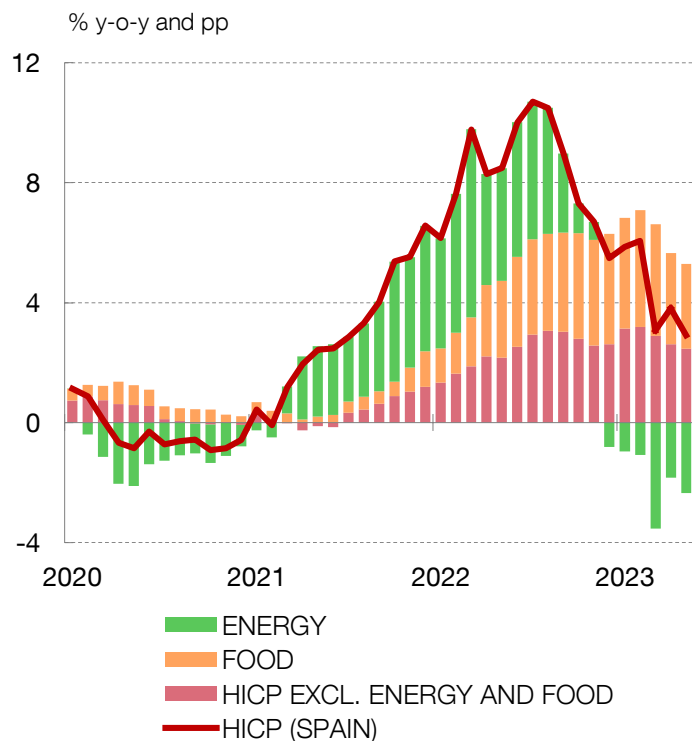
■ COST TOO HIGH
 ■ REJECTED
 ■ LIMITED AMOUNT
 ■ DISCOURAGED

Source: ECB.

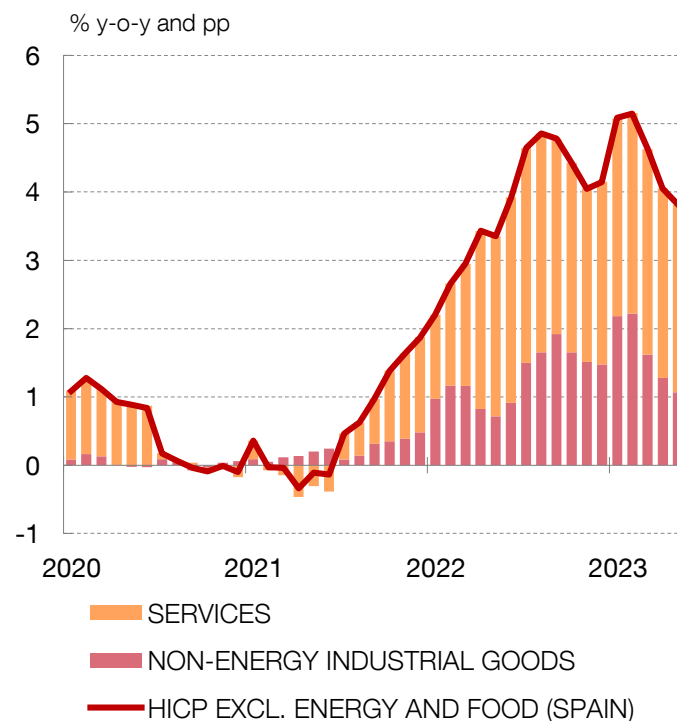


SINCE 2022 H2, THE DECLINE IN HEADLINE INFLATION HAS CHIEFLY OWED TO ENERGY. MORE RECENTLY, UNDERLYING AND FOOD INFLATION HAVE ALSO EASED

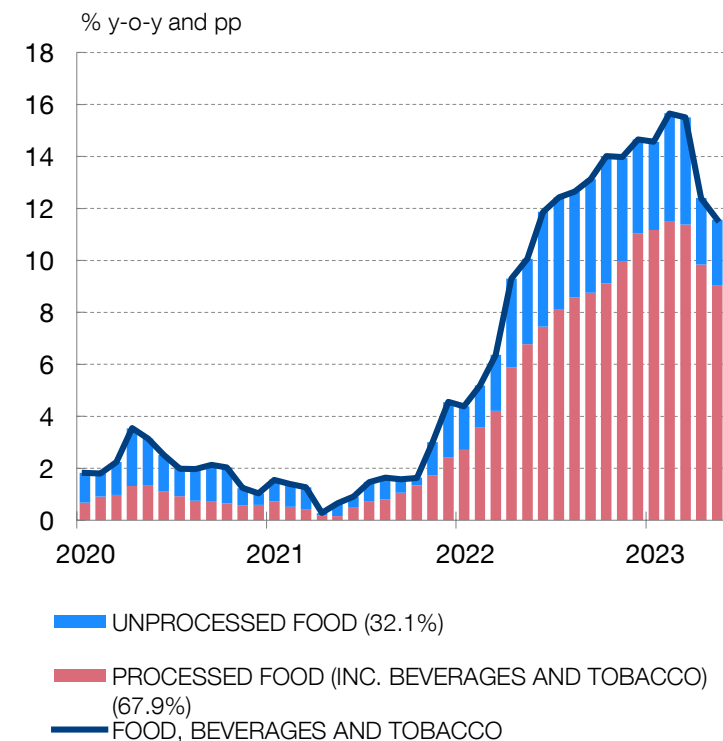
HICP: RATES AND CONTRIBUTIONS



HICP EXCL. ENERGY AND FOOD: RATES AND CONTRIBUTIONS



HICP-FOOD, BEVERAGES AND TOBACCO: RATES AND CONTRIBUTIONS (a)



Source: INE. Latest observation: May 2023.

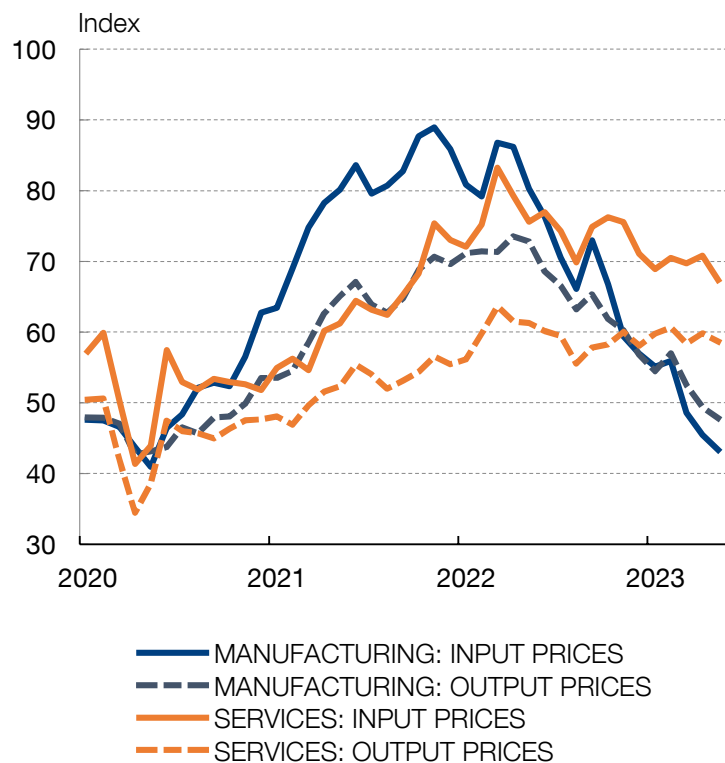
(a) The weight in 2023 of each component in the HICP food, beverages and tobacco sub-index appears in brackets.



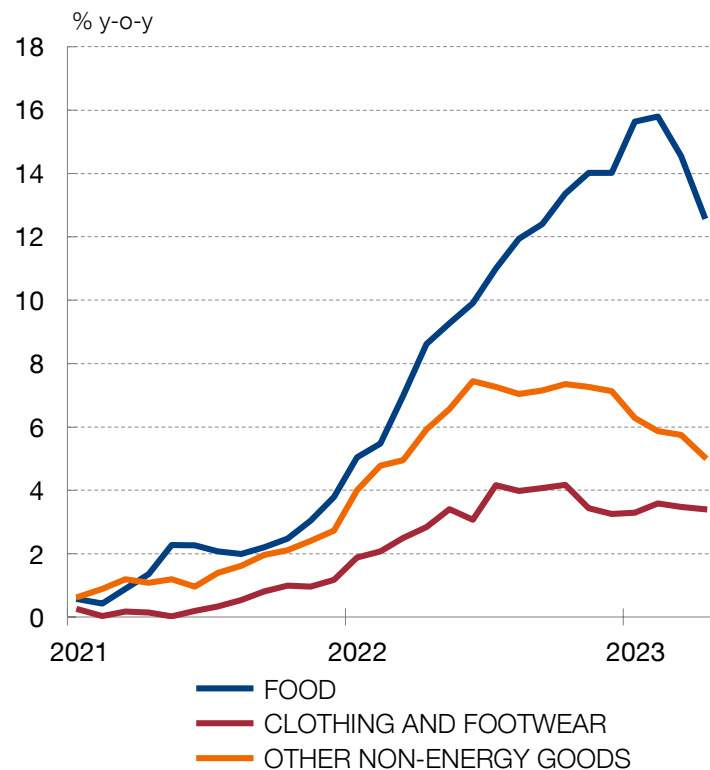
WITHIN UNDERLYING INFLATION, THE CONSUMER PRICES OF NON-ENERGY INDUSTRIAL GOODS ARE SLOWING FASTER THAN THOSE OF SERVICES

- This is consistent with the inflationary pressures reported by firms and with developments in producer prices, particularly those of imported goods ...
- ... while wages – which account for a larger relative share of services costs – continue to rise gradually

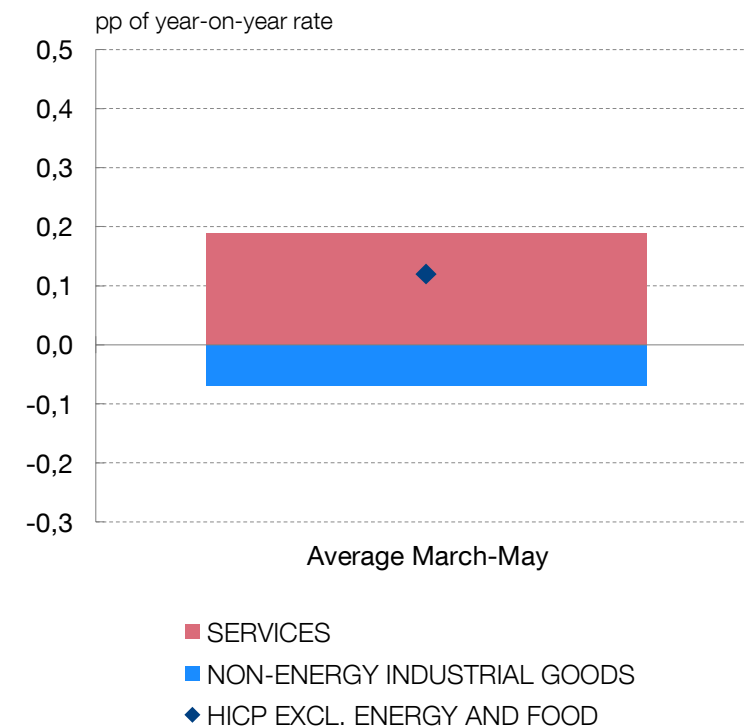
MANUFACTURING AND SERVICES PMIs



PRODUCER PRICE INDICATORS



UNDERLYING INFLATION PROJECTION ERRORS. MARCH PROJECTIONS



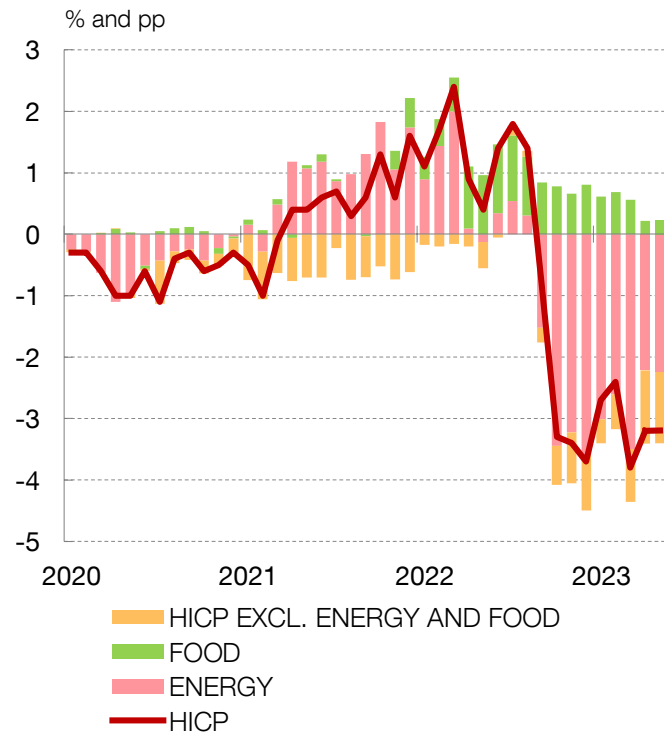
Sources: S&P Global, INE and Banco de España. Latest observation: May 2023 (PMIs) and April 2023 (producer prices).



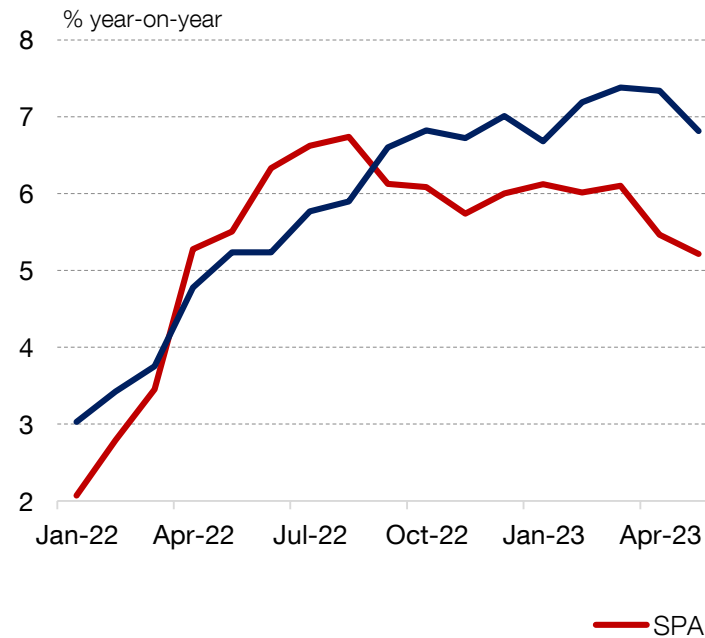
IN RECENT MONTHS, THE NEGATIVE INFLATION GAP BETWEEN SPAIN AND THE EURO AREA HAS REMAINED VIRTUALLY UNCHANGED

- This gap mainly reflects a faster and stronger slowdown in energy inflation in Spain, which is also evident in a differential performance of the energy-sensitive components of underlying inflation
- However, the greater wage moderation in Spain is also contributing to lower inflation in services

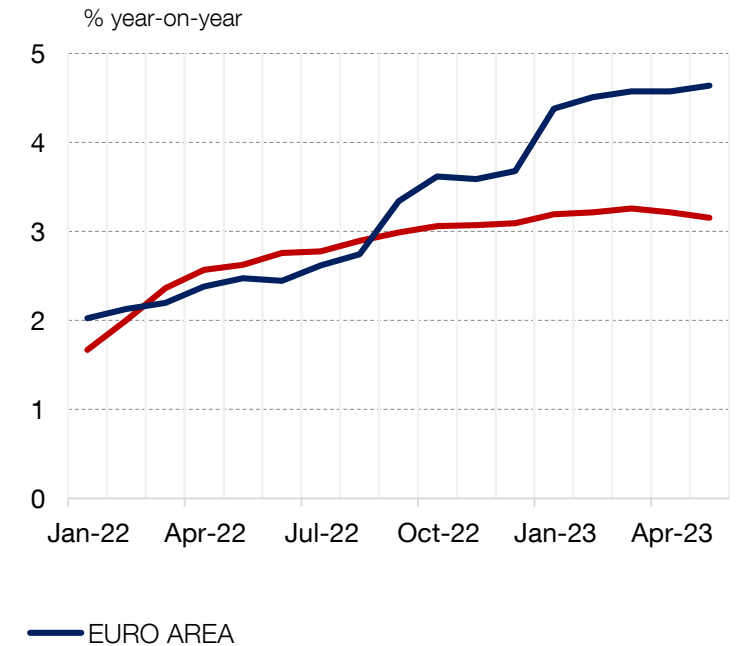
INFLATION GAP BETWEEN SPAIN AND THE EURO AREA: LEVEL AND CONTRIBUTIONS



UNDERLYING INFLATION: ENERGY-SENSITIVE COMPONENTS (a)



SERVICES HICP: WAGE-SENSITIVE COMPONENTS (b)



Sources: INE, Eurostat and Banco de España. Latest observation: May 2023.

(a) Underlying inflation is headline inflation excluding energy and food. The energy-sensitive component includes those items with a share of direct and indirect energy costs that is above the average for all items of underlying inflation. See P. Lane. (2023). "Underlying inflation". Trinity College Dublin. Ireland. (6 March).

(b) The index of wage-sensitive services comprises items with a share of wage costs above the average for all services items.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2023-2025

	2022	June 2023 projections			March 2023 projections		
		2023	2024	2025	2023	2024	2025
Annual rate of change in volume terms and % of GDP							
GDP	5.5	2.3	2.2	2.1	1.6	2.3	2.1
Private consumption	4.4	0.2	3.3	2.0	1.2	2.3	2.2
Government consumption	-0.7	0.6	0.8	1.3	0.5	0.8	1.2
Gross fixed capital formation	4.6	1.7	4.1	2.8	0.3	3.9	3.0
Exports of goods and services	14.4	7.1	2.2	3.0	3.1	2.9	3.0
Imports of goods and services	7.9	3.2	4.0	3.1	1.8	3.1	3.1
Domestic demand (contribution to growth)	3.1	0.6	2.8	2.0	1.0	2.3	2.1
Net external demand (contribution to growth)	2.4	1.7	-0.6	0.1	0.6	0.0	0.0
Nominal GDP	10.0	6.8	5.4	4.1	5.3	5.4	4.1
GDP deflator	4.3	4.4	3.2	2.0	3.6	3.0	1.9
HICP	8.3	3.2	3.6	1.8	3.7	3.6	1.8
HICP excluding energy and food	3.8	4.1	2.1	1.7	3.9	2.2	1.8
Employment (hours)	4.1	1.7	1.8	1.1	0.9	1.3	1.0
Unemployment rate (% of labour force). Annual average	12.9	12.2	11.5	11.3	12.7	12.3	12.0
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.5	4.8	3.9	3.5	2.3	2.1	1.5
General government net lending (+)/net borrowing (-) (% of GDP)	-4.8	-3.8	-3.4	-4.0	-4.1	-3.5	-4.4
General government debt (% of GDP)	113.2	109.7	107.4	108.0	111.1	108.8	109.9

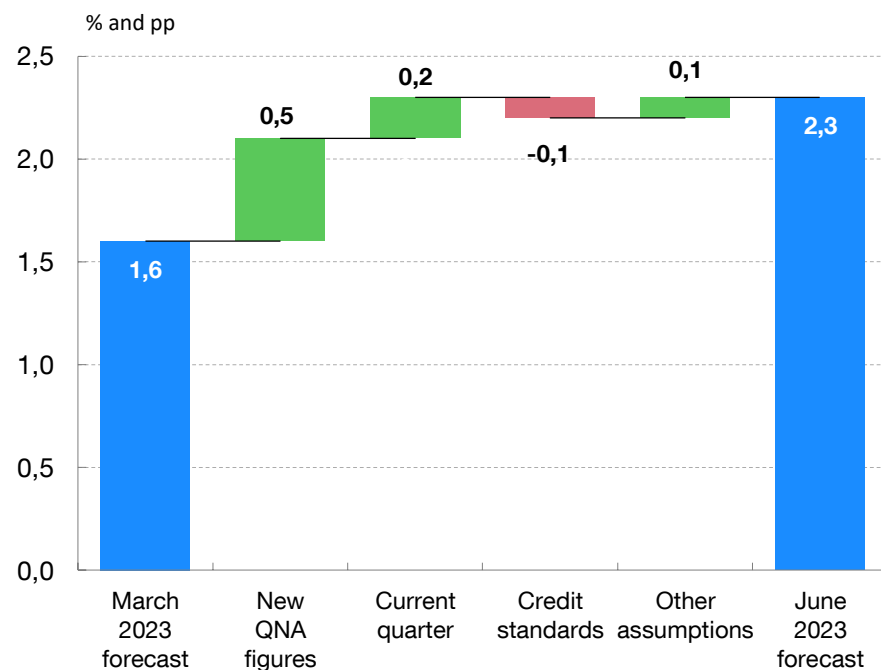
Sources: INE and Banco de España. Latest QNA data published: 2023 Q1 flash estimate. Projections cut-off date: 31 May 2023.



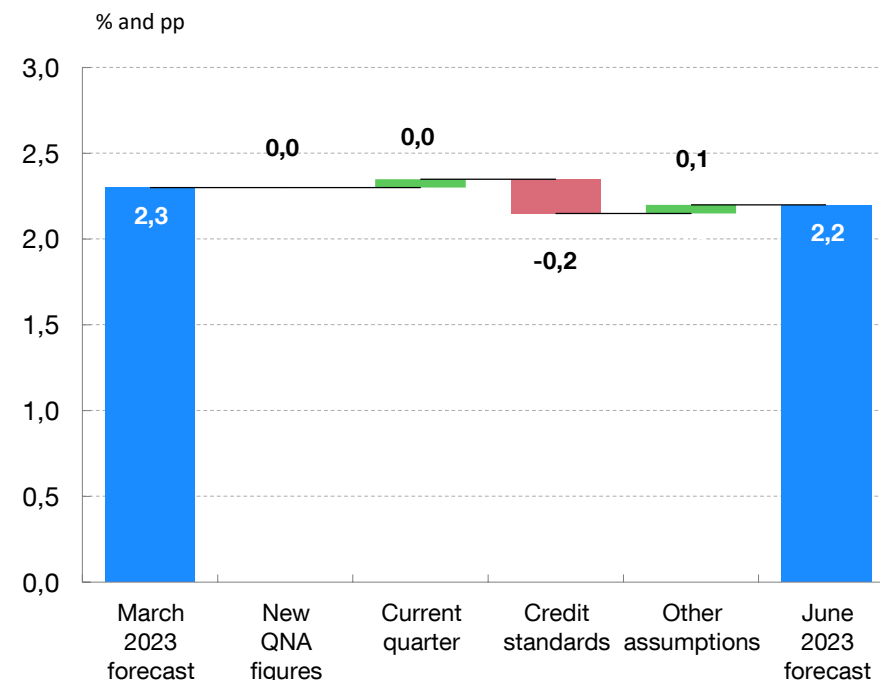
GDP GROWTH IS REVISED UP SIGNIFICANTLY IN 2023 – OWING TO GOOD FIGURES IN 2022 H2 AND 2023 H1 – AND DOWN SLIGHTLY IN 2024 – DUE TO TIGHTENING FINANCING CONDITIONS

- Although the assumptions about commodity prices are now more conducive to the growth of activity in 2023, and a somewhat stronger euro helps lower the prices of these goods compared with the March projections, this is offset by the more contractionary impact than projected in March of financing conditions and, in particular, the tightening of credit standards

CHANGES IN THE GDP GROWTH FORECAST FOR 2023



CHANGES IN THE GDP GROWTH FORECAST FOR 2024

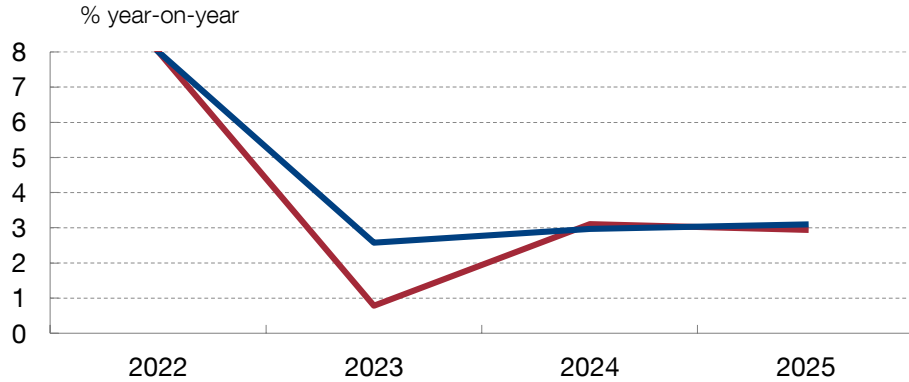


Changes in assumptions

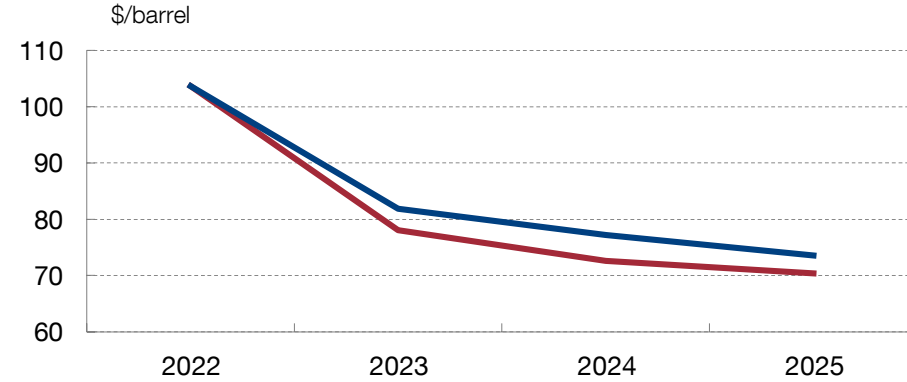
Sources: INE, Eurosystem and Banco de España.

ASSUMPTIONS REGARDING THE INTERNATIONAL ENVIRONMENT AND FINANCIAL CONDITIONS

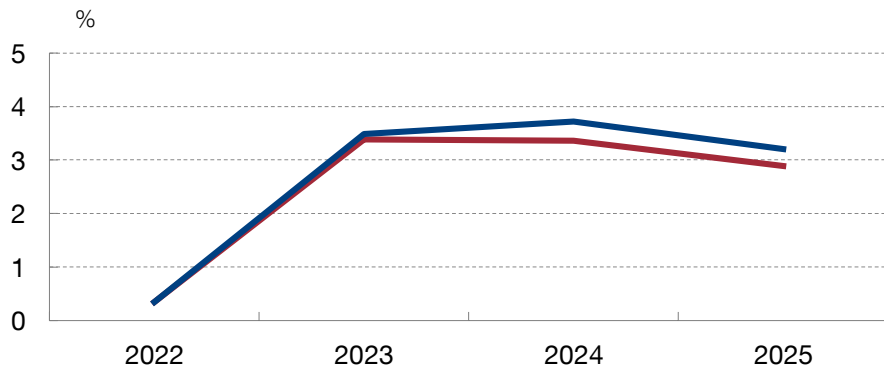
EXPORT MARKETS



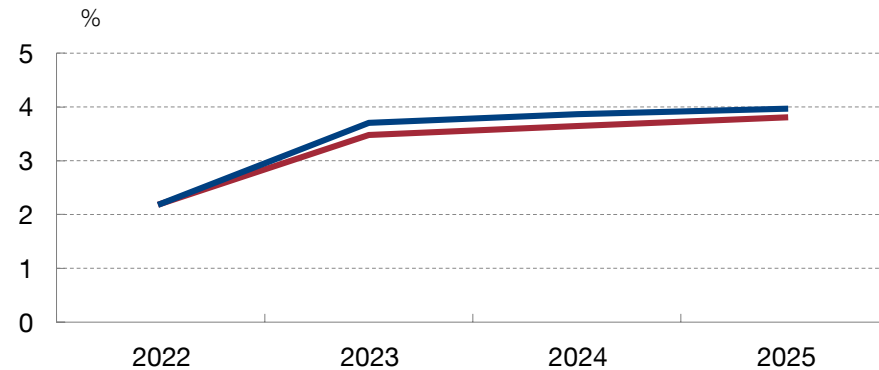
OIL PRICES



SHORT-TERM INTEREST RATES



LONG-TERM INTEREST RATES



— JUNE 2023

— MARCH 2023

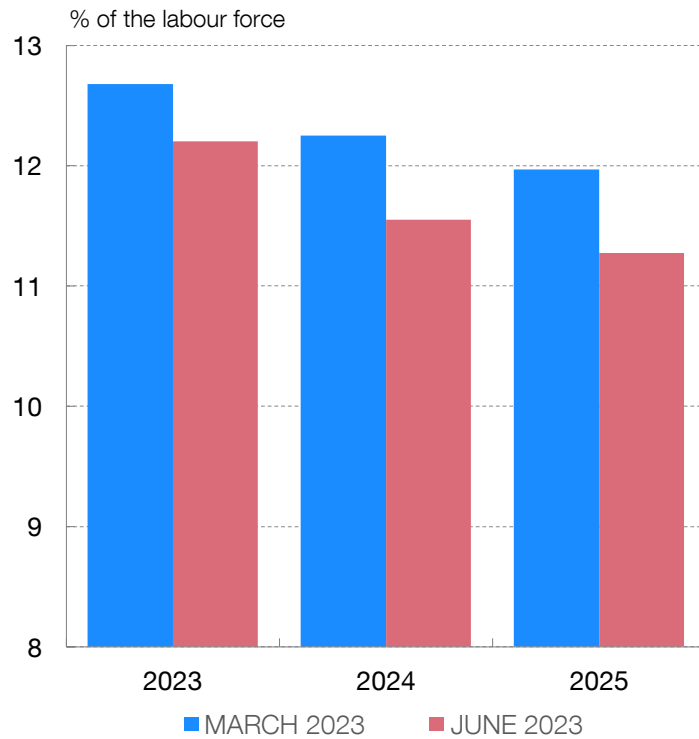
Sources: Banco de España and Eurosystem.



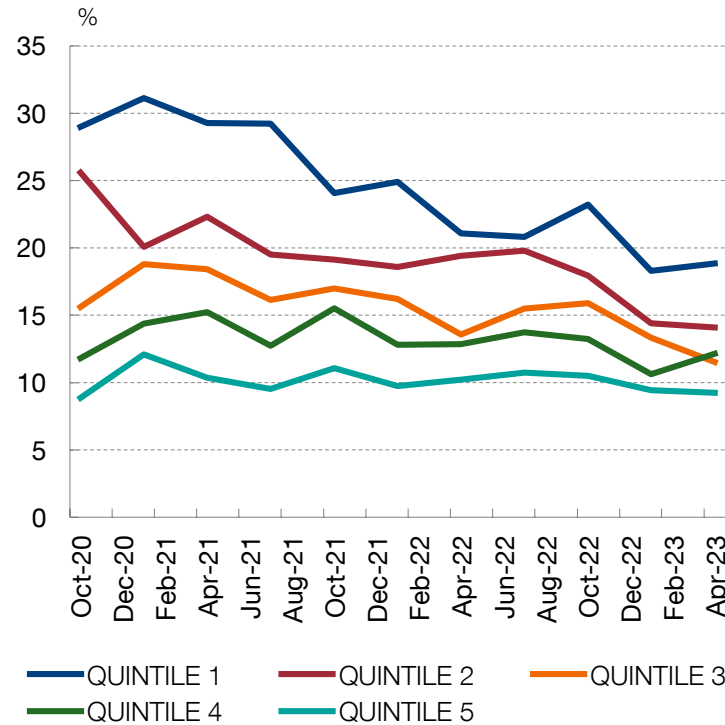
THE IMPROVED LABOUR MARKET OUTLOOK HAS EXPANSIONARY EFFECTS ON CONSUMPTION

- The sustained buoyancy of the Spanish labour market in recent quarters – driven largely by the increased labour market participation of immigrants and older workers – has prompted an upward revision to the market’s outlook for 2023-2025
- The empirical evidence suggests that a lower probability of job loss boosts consumption via lower precautionary saving

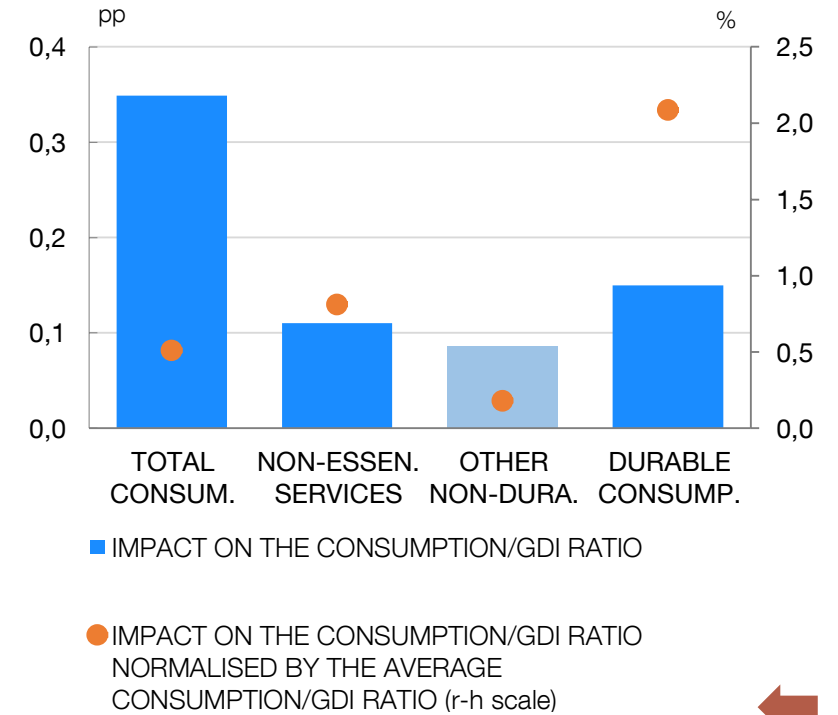
UNEMPLOYMENT RATE



PERCEIVED PROBABILITY OF JOB LOSS (AVERAGE), BY INCOME QUINTILE



IMPACT OF A 10 PP REDUCTION IN THE PROBABILITY OF JOB LOSS ON CONSUMPTION/GDI RATIOS (a)



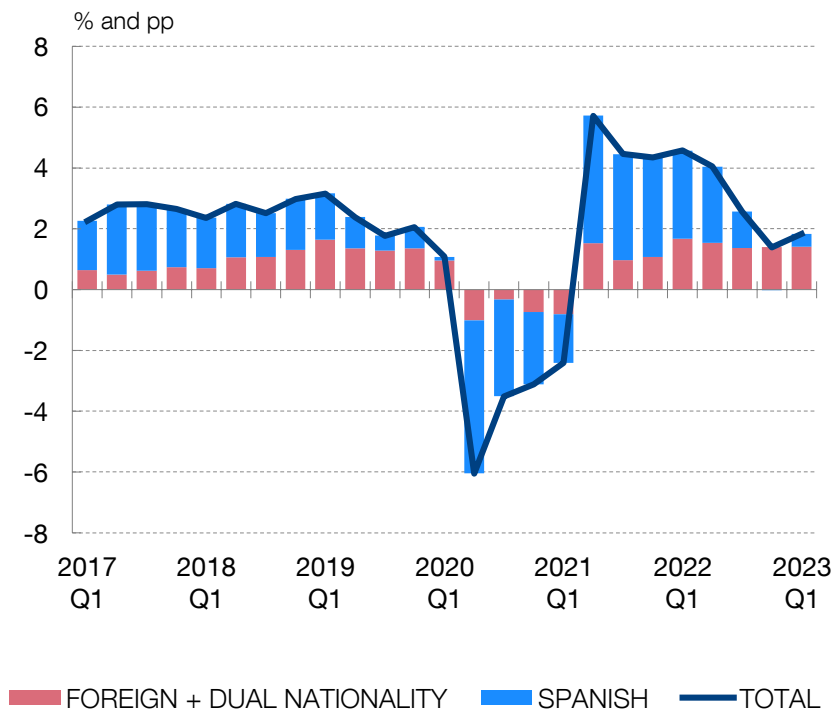
Sources: Consumer Expectations Survey and Banco de España.

(a) Results drawn from various estimations in which the dependent variable is each of the items shown in the chart. The explanatory variables are probability of job loss, household income level and age of the head of household. Time dummies are included, as are controls for household fixed effects.

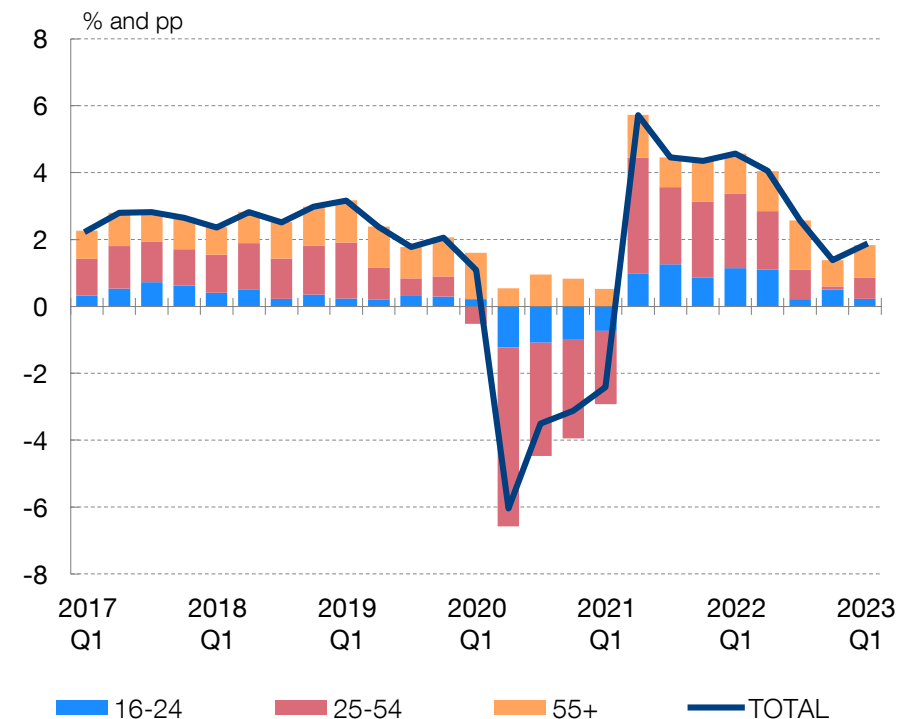
THE RECENT EMPLOYMENT GROWTH HAS BEEN CONCENTRATED AMONG OLDER WORKERS AND FOREIGNERS, IN LINE WITH THE PRE-PANDEMIC TRENDS

- Recent Spanish labour force data show the same pattern

Y-O-Y CHANGE IN EMPLOYMENT AND CONTRIBUTIONS, BY NATIONALITY



Y-O-Y CHANGE IN EMPLOYMENT AND CONTRIBUTIONS, BY AGE GROUP



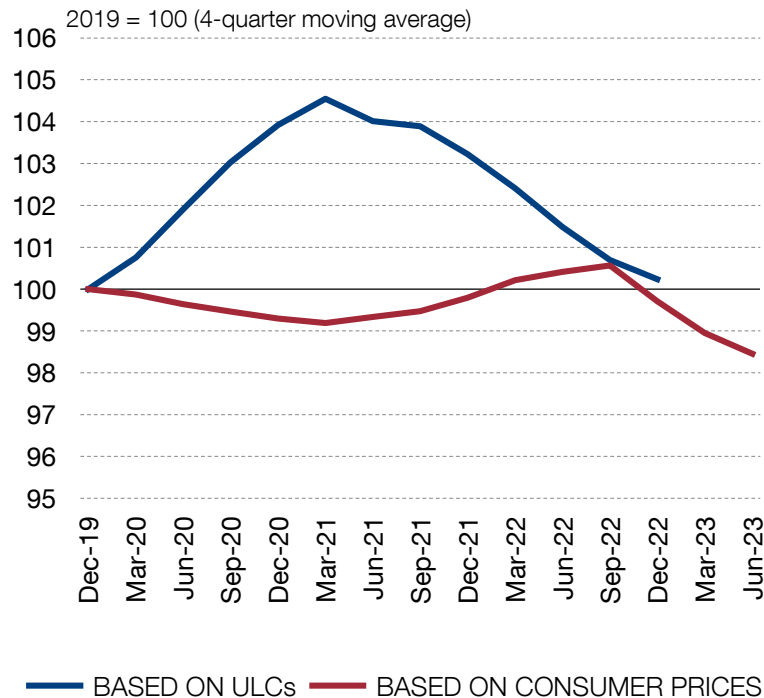
Source: Spanish Labour Force Survey (EPA).



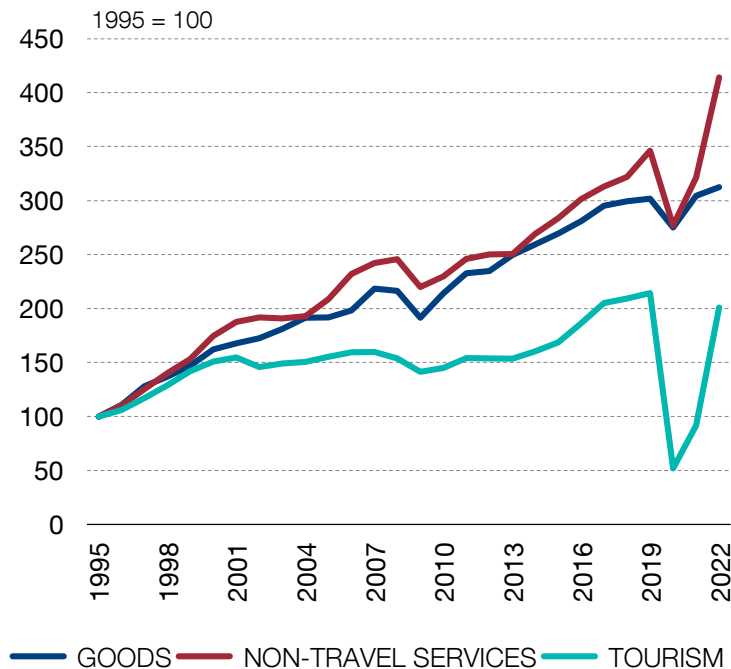
THERE IS SCOPE FOR EXPORTS OF GOODS AND OF NON-TRAVEL SERVICES TO CONTINUE CONTRIBUTING TO GDP GROWTH OVER THE PROJECTION HORIZON

- Going forward, goods exports should benefit from the Spanish economy's recent competitiveness gains, the clearing of bottlenecks and the improved external context and international trade flows
- Exports of non-travel services have followed a clear upward trend in recent decades, both in Spain and worldwide. This trend is likely to continue going forward, with Spanish exports set to converge with euro area levels

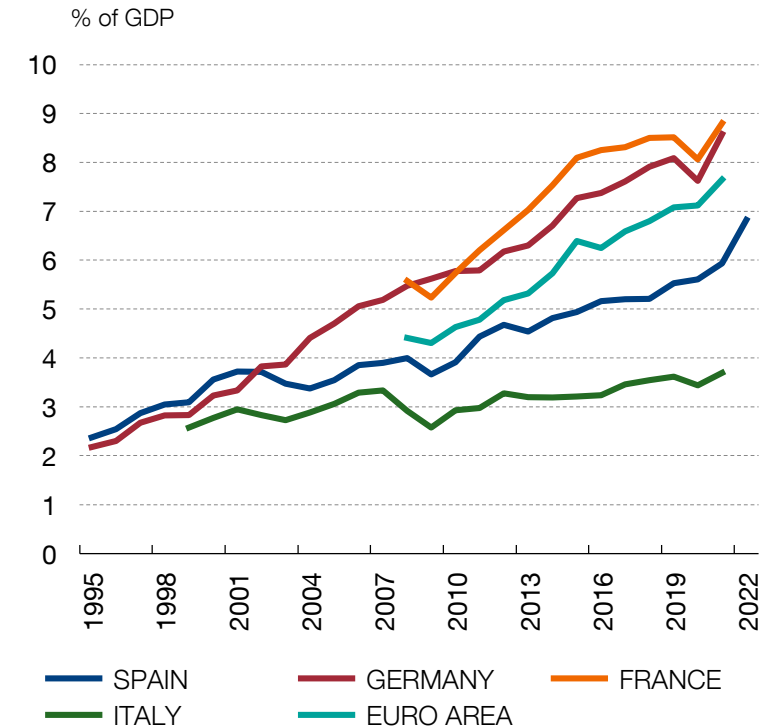
**COMPETITIVENESS INDICATORS.
SPAIN VIS-À-VIS THE EURO AREA (a)**



REAL EXPORTS



EXPORTS OF NON-TRAVEL SERVICES



Sources: INE, Eurostat and Banco de España.

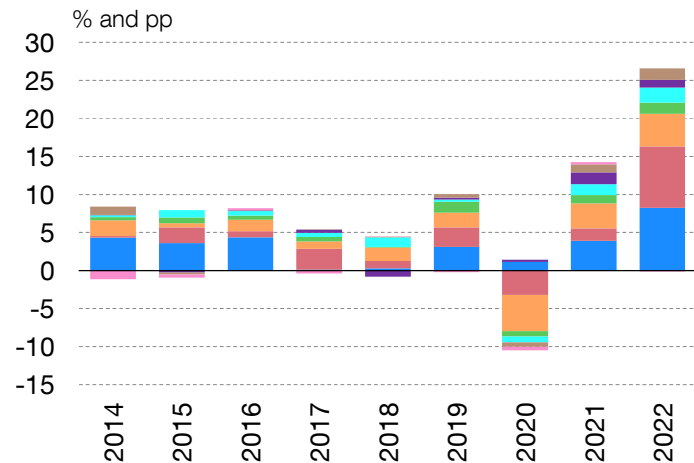
(a) An increase (decrease) denotes a loss of (gain in) competitiveness. For 2023 Q2, the data are to May.



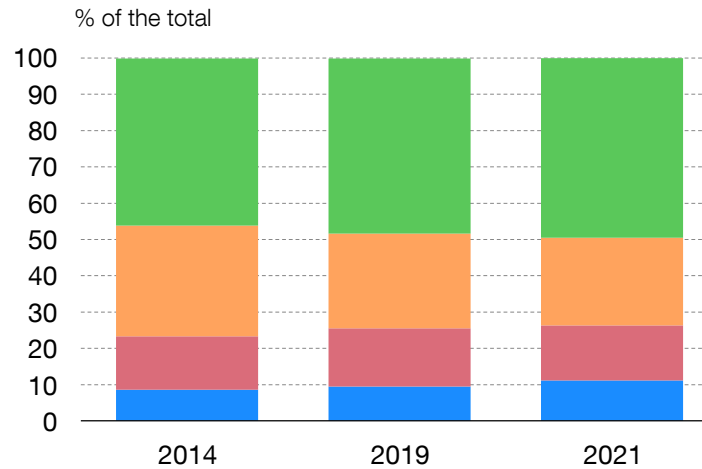
EXPORTS OF NON-TRAVEL SERVICES IN THE SPANISH ECONOMY

- The recent growth has been driven by transportation services (reflecting the recovery in international trade and tourism), business services (e.g. consulting and management services) and telecommunications, IT and information services
- Predominantly the exporting firms are large and belong to business groups (foreign or domestic)

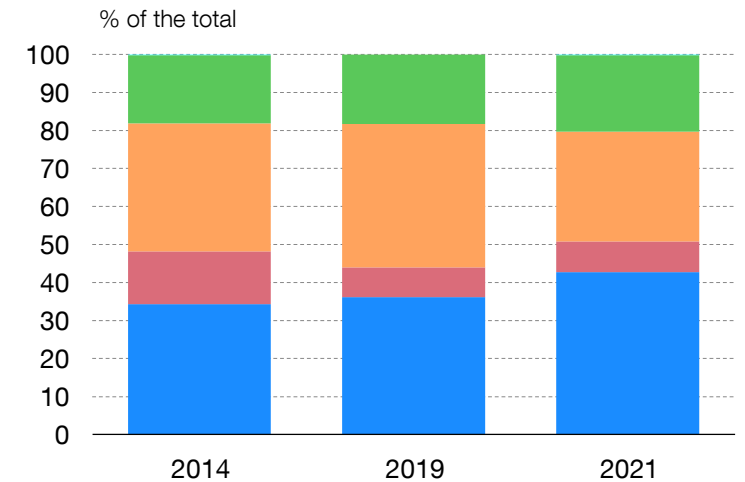
CONTRIBUTION TO GROWTH IN EXPORTS OF NON-TRAVEL SERVICES, BY SERVICE TYPE



EXPORTS OF NON-TRAVEL SERVICES, BY EXPORTING FIRM SIZE



EXPORTS OF NON-TRAVEL SERVICES, BY OWNERSHIP OF EXPORTING FIRM



- CONSTRUCTION
- PERSONAL, RECREATIONAL AND CULTURAL SERVICES AND GENERAL GOVERNMENT GOODS AND SERVICES
- FINANCIAL, INSURANCE AND PENSIONS
- GOODS PROCESSING, MAINTENANCE AND REPAIR
- INTELLECTUAL PROPERTY RIGHTS
- TELECOMMUNICATIONS, IT AND INFORMATION
- TRANSPORTATION
- OTHER BUSINESS SERVICES

- LARGE (250+ EMPLOYEES)
- MEDIUM-SIZED (50-249 EMPLOYEES)
- SMALL (10-49 EMPLOYEES)
- MICROENTERPRISE (0-5 EMPLOYEES)

- UNKNOWN
- NOT PART OF A GROUP
- SPANISH MULTINATIONAL GROUP
- SPANISH GROUP
- FOREIGN GROUP

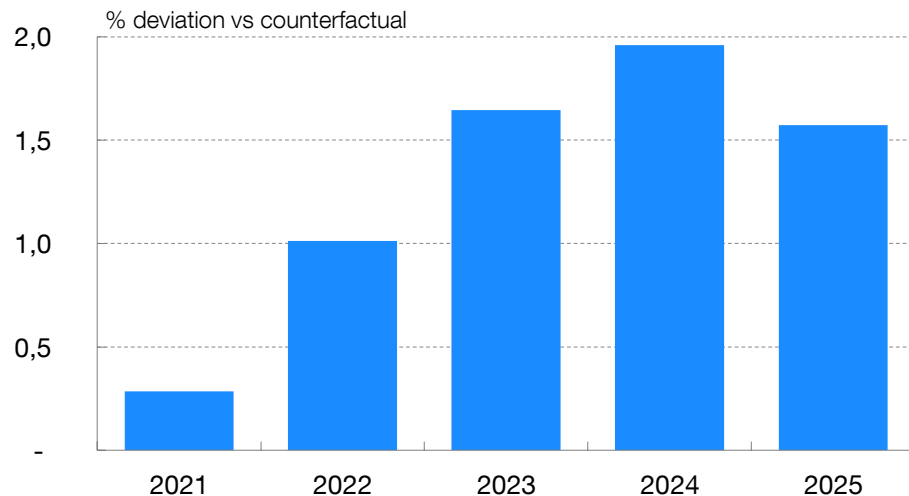
Sources: INE and Banco de España.



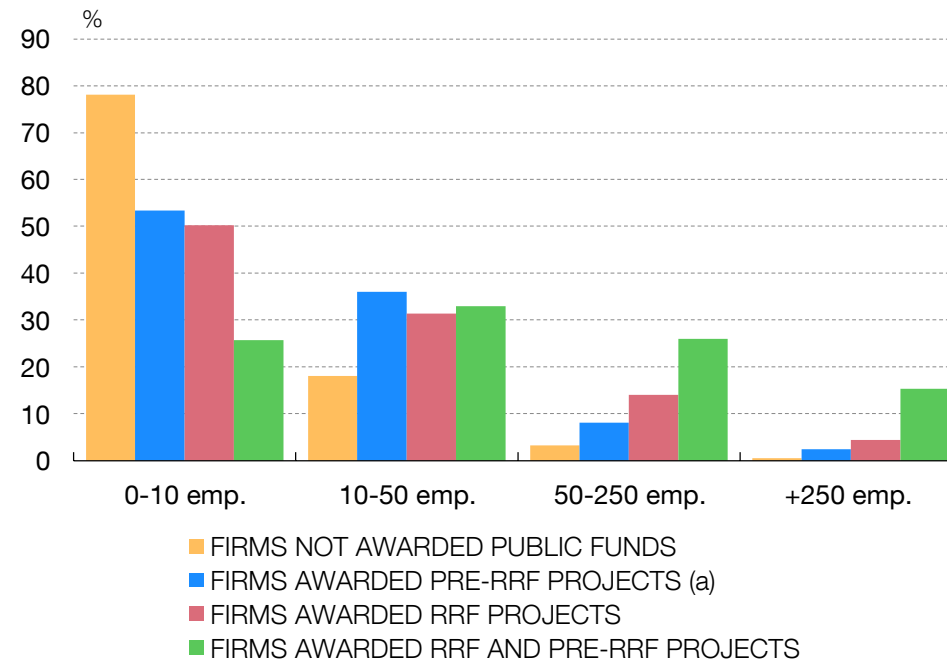
NGEU FUNDS WILL PROVIDE SIGNIFICANT SUPPORT TO SPANISH ECONOMIC GROWTH OVER THE COMING YEARS, BUT THEIR ULTIMATE IMPACT WILL DEPEND ON HOW THEY ARE ALLOCATED

- On the information available to date, the successful bidders in NGEU tenders are relatively large firms compared with both the firms not awarded public funds and the successful bidders in non-NGEU (pre-RRF) tenders
[\[Other characteristics\]](#)
- According to the economic literature, awarding projects to large firms is associated with stronger near-term growth since these firms are more productive (García et al., 2022). However, there is an opportunity cost, since supporting small firms could accelerate their development and contribute positively to aggregate investment in the long term

IMPACT OF THE RECOVERY AND RESILIENCE FACILITY (RRF) ON LEVEL OF GDP



FIRMS AWARDED RRF PROJECTS. DISTRIBUTION BY NUMBER OF EMPLOYEES



Sources: Base de Datos Nacional de Subvenciones, Plataforma de Contratación del Sector Público (PLACSP), INE and Banco de España.

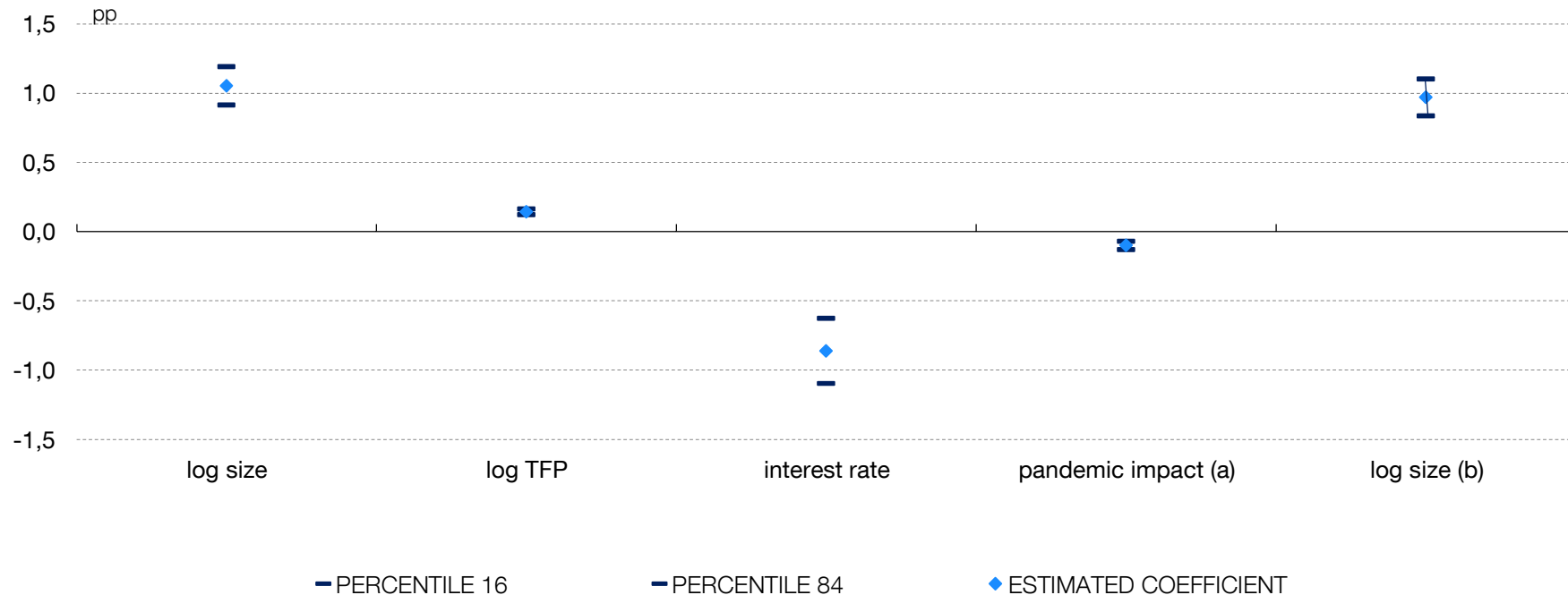
(a) The firms awarded pre-RRF projects are the successful bidders in tenders published on the public sector procurement platform (PLACSP) in 2019.



ALLOCATION OF NGEU FUNDS BY OTHER FIRM CHARACTERISTICS

- As well as being larger in size (even after controlling for economic sector and other characteristics), firms awarded NGEU tenders are significantly more productive, have better access to bank funding and saw smaller drops in their revenue during the pandemic

AVERAGE DIFFERENCE BETWEEN FIRMS AWARDED NGEU TENDERS AND FIRMS WINNING OTHER TENDER PROCESSES



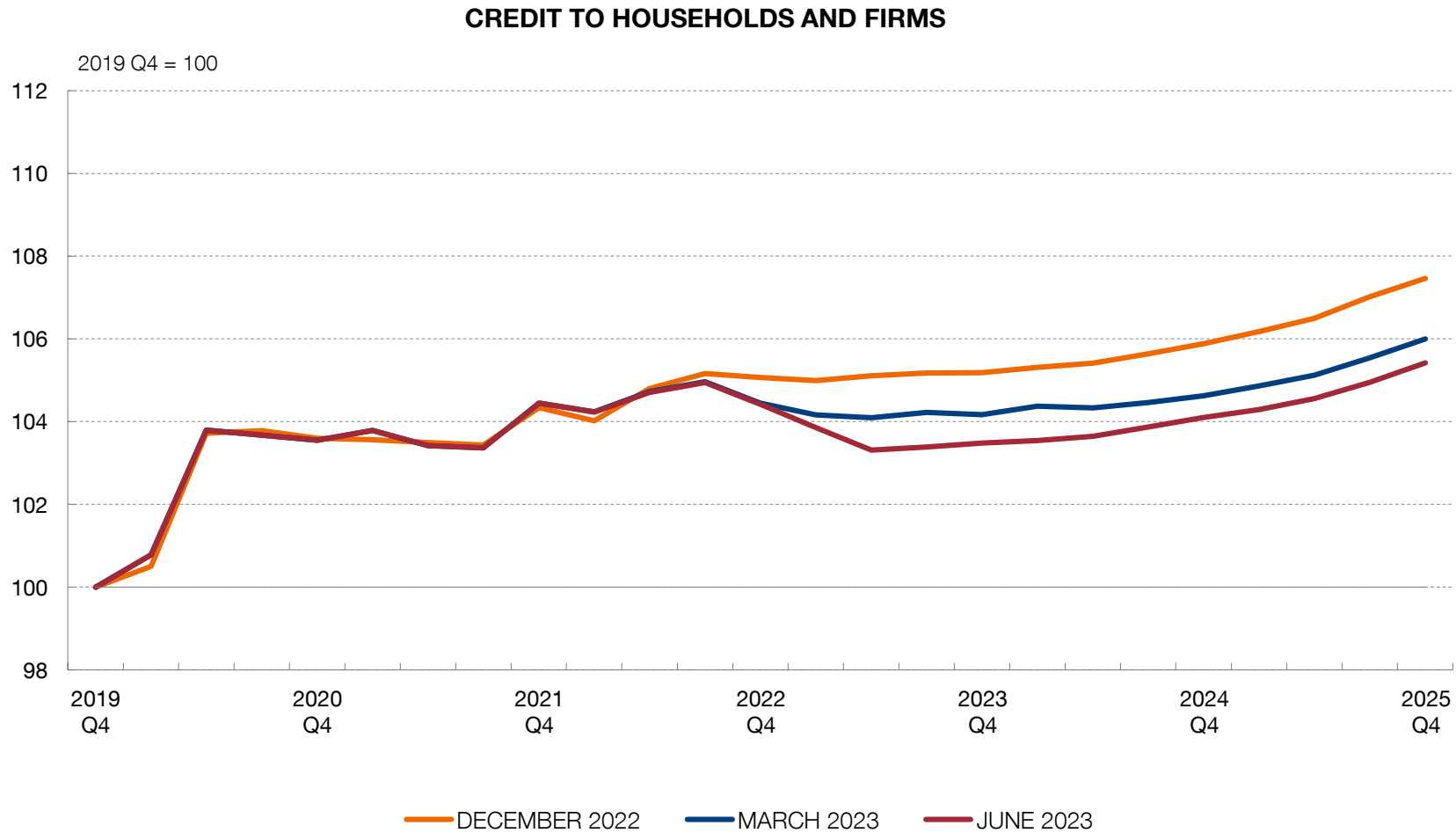
Sources: Banco de España and MINECO. Regressions include combined sector-region fixed effects.

(a) A dichotomous variable is included that takes the value 1 if the growth rate in revenue at firm level between 2019 and 2020 was below the median of the sectoral distribution.

(b) Other firm characteristics are included as independent variables (productivity, age, net equity, interest rate and the impact of the pandemic).



CREDIT HAS BEEN MORE SUBDUED THAN EXPECTED IN RECENT MONTHS. THIS AFTER THE OUTLOOK HAD BEEN REVISED DOWNWARDS IN THE FACE OF TIGHTENING FINANCIAL CONDITIONS



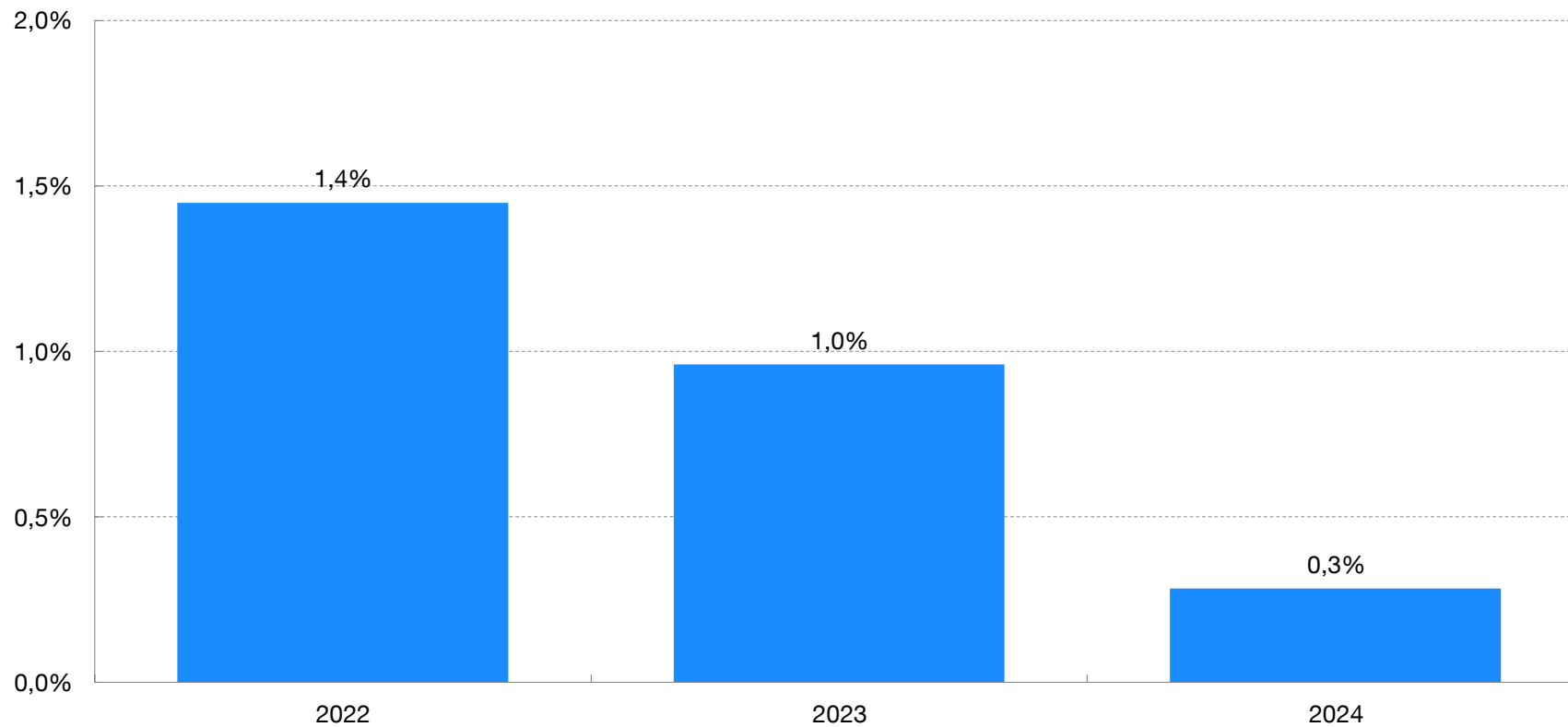
Source: Banco de España.



IN 2023, THE PUBLIC SECTOR WILL CONTINUE TO UNDERPIN ACTIVITY, PARTLY AS A RESULT OF THE STEPS TAKEN TO ADDRESS THE ENERGY CRISIS

- However, the expected withdrawal of most of these support measures will see the fiscal stance become somewhat contractionary

BUDGETARY IMPACT OF MEASURES TO ADDRESS THE ENERGY CRISIS



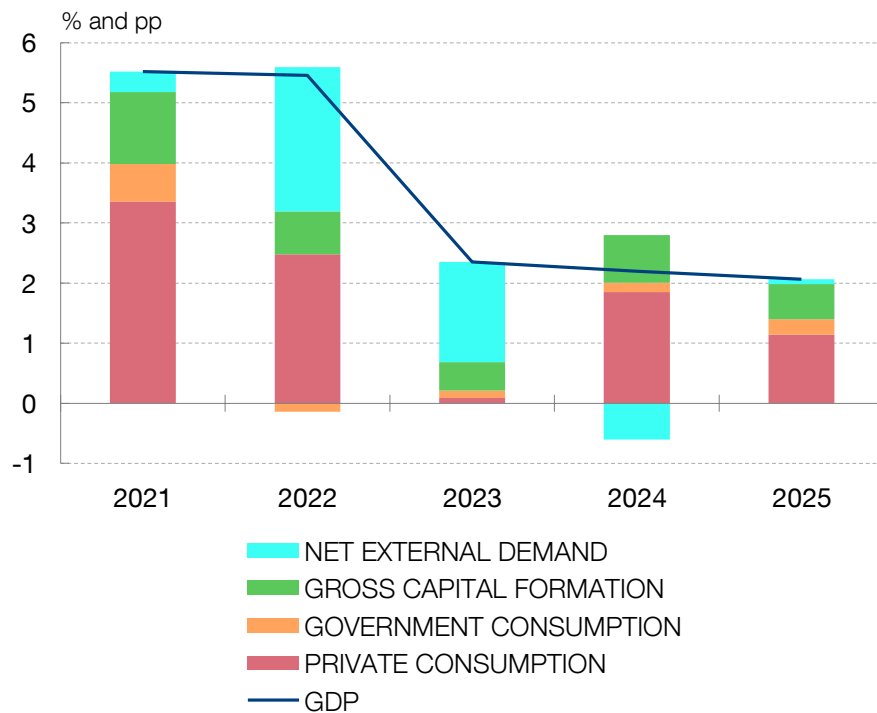
Sources: INE and Banco de España.



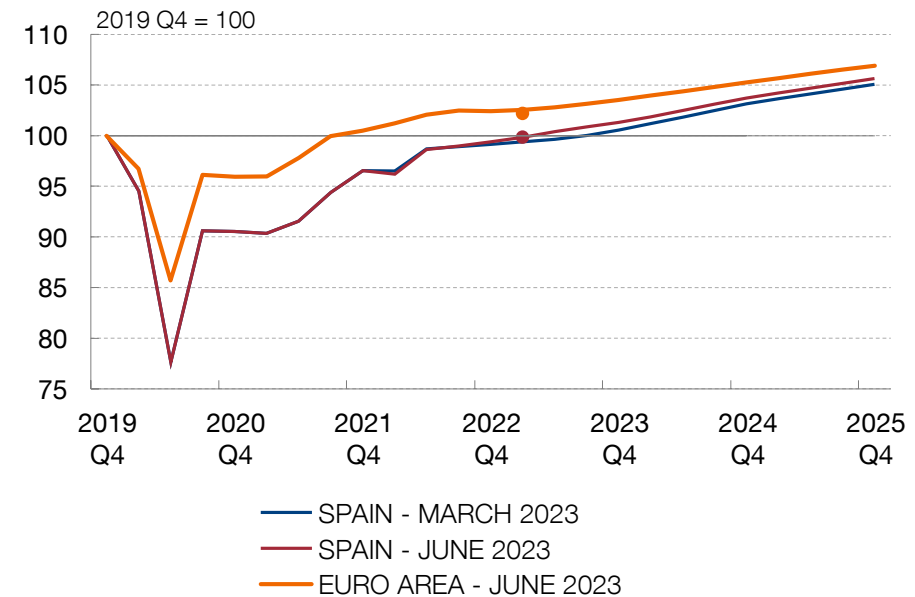
NET EXTERNAL DEMAND WILL BE THE MAIN DRIVER OF SPANISH GDP IN 2023. PRIVATE CONSUMPTION WILL TAKE OVER IN 2024-2025

- The growth rate of Spanish GDP is expected to exceed that of the euro area as a whole throughout the projection horizon
- However, that growth would not yet suffice to close the gap that opened between Spanish and euro area GDP at the start of the pandemic

GDP GROWTH AND CONTRIBUTION OF THE MAIN COMPONENTS



REAL GDP (chain-linked volume index)

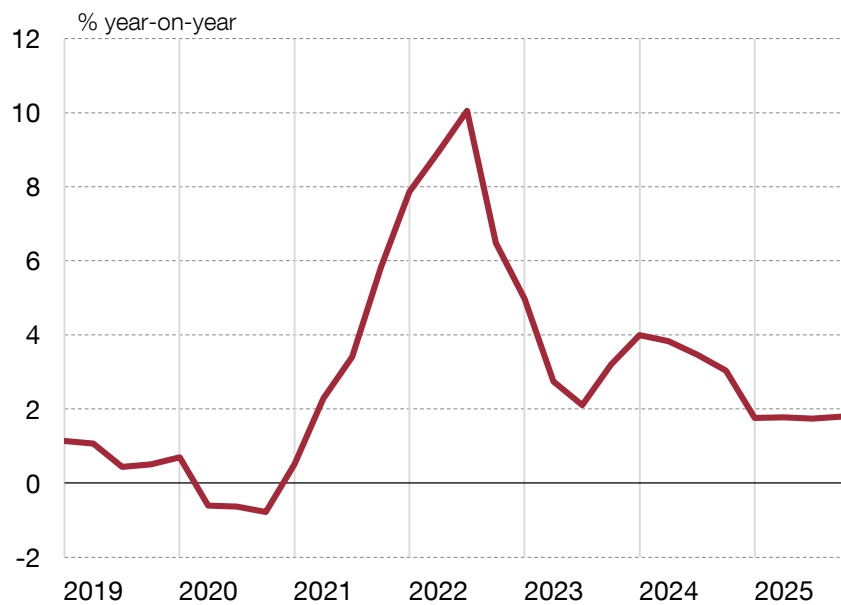


Sources: INE and Banco de España.

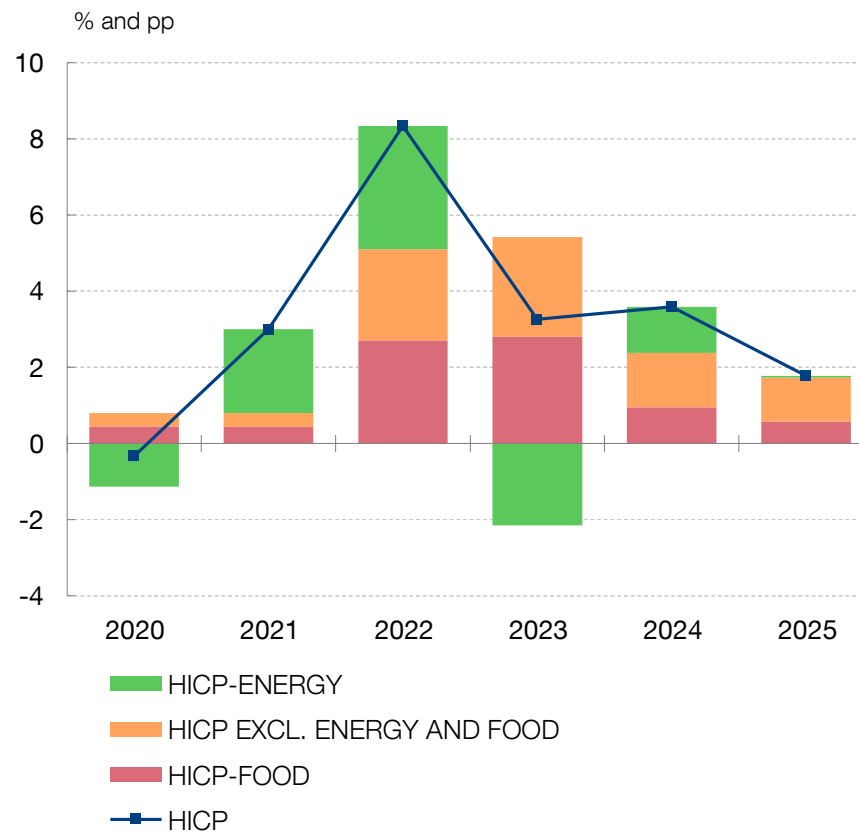


HEADLINE INFLATION WILL SLOW TO 3.2% IN 2023, PICK UP TO 3.6% IN 2024 AND EASE AGAIN IN 2025 TO STAND AT 1.8%

HEADLINE HICP

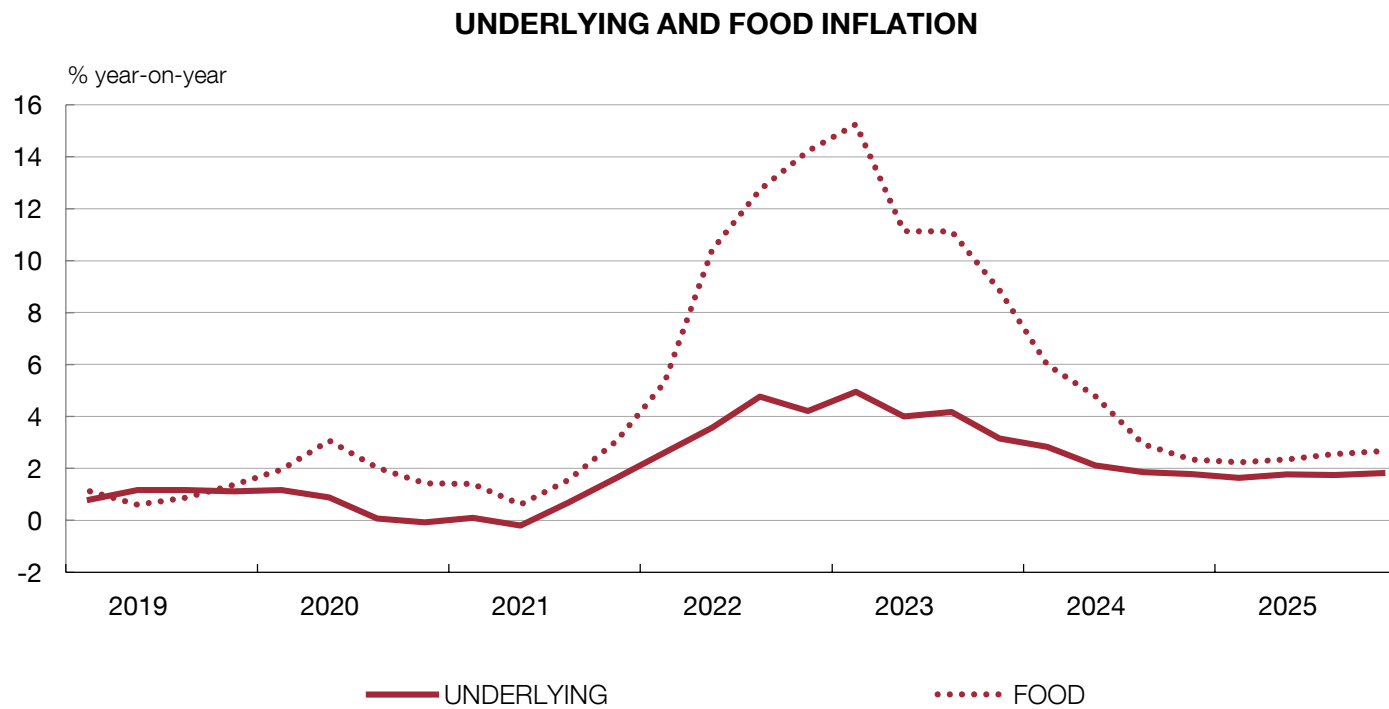


CONTRIBUTIONS TO HICP GROWTH



Sources: INE and Banco de España.



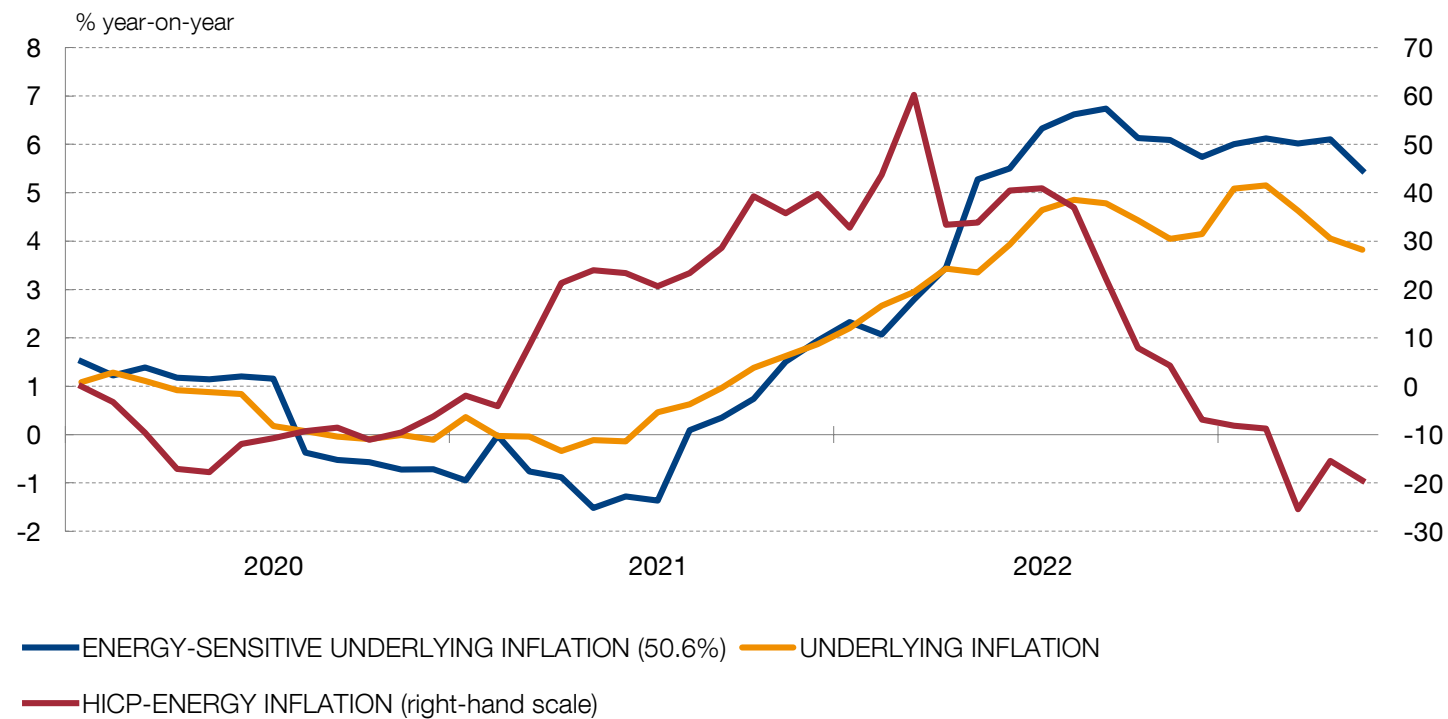


Sources: INE and Banco de España.



THE EASING OF THE ENERGY COMPONENT OF THE HICP DOES NOT APPEAR TO BE FULLY REFLECTED IN THE PRICES OF MORE ENERGY-SENSITIVE ITEMS

MEASURES OF UNDERLYING INFLATION AND HICP-ENERGY INFLATION (a)



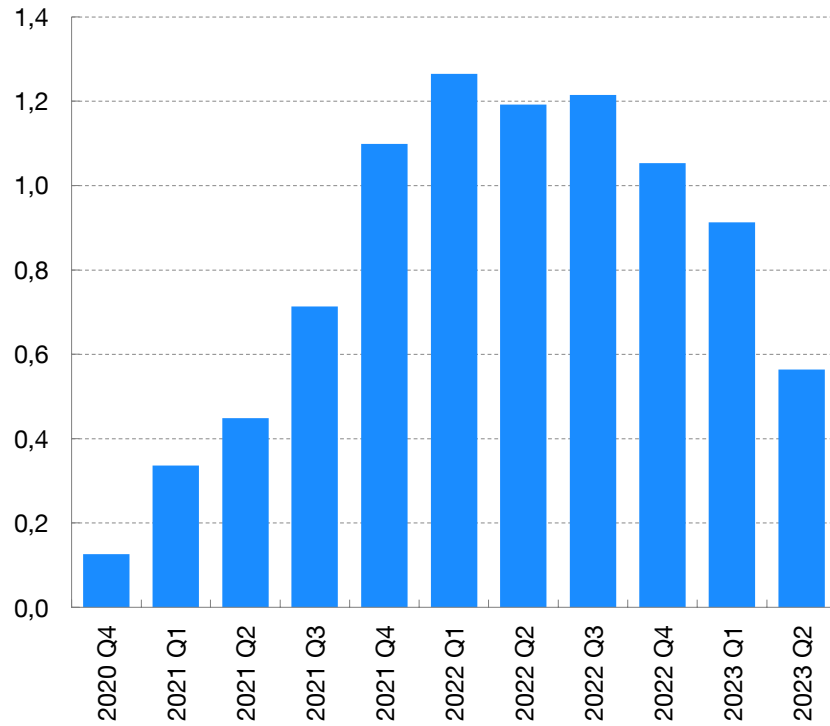
Sources: INE and Banco de España.

(a) The figure in brackets indicates the share of energy-sensitive underlying inflation in total underlying inflation in 2023. The energy-sensitive component includes those items with a share of direct and indirect energy costs that is above the average for all items of underlying inflation. See P. Lane. (2023). "Underlying inflation". Trinity College Dublin. Ireland. (6 March).

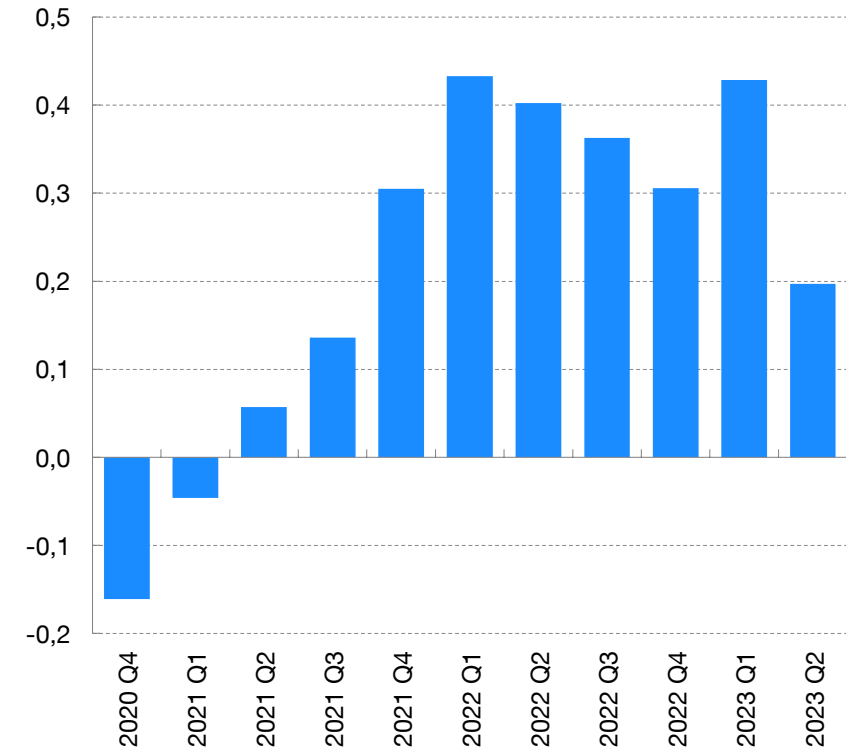


FIRMS PERCEIVE A SHARPER EASING OF INFLATIONARY PRESSURES

QUARTERLY CHANGE IN INPUT PRICES (a)



QUARTERLY CHANGE IN OUTPUT PRICES (a)



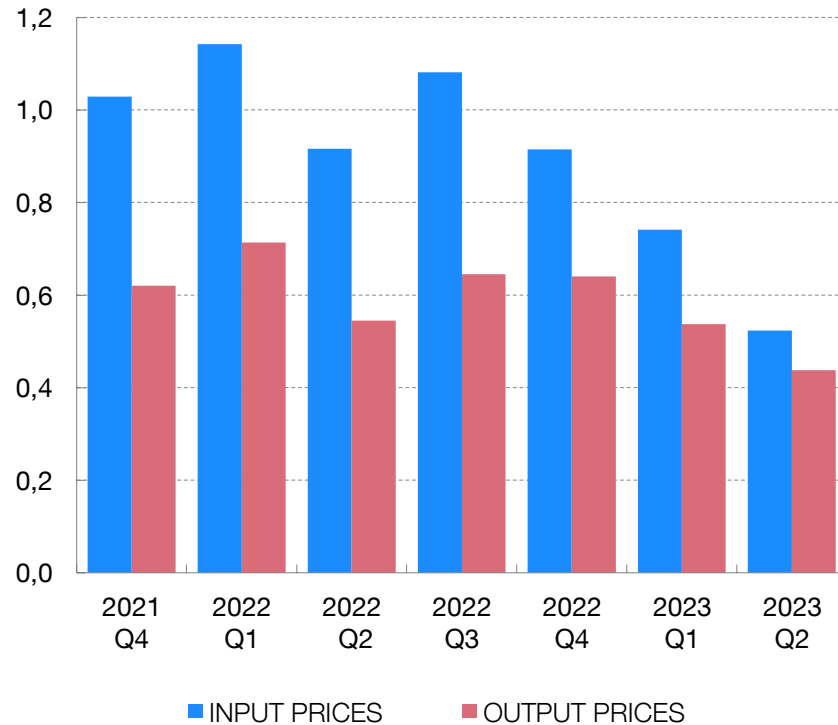
Source: Banco de España Business Activity Survey (EBAE).

(a) Results compiled using the following scale: significant decrease = -2; slight decrease = -1; stable = 0; slight increase = 1; significant increase = 2.

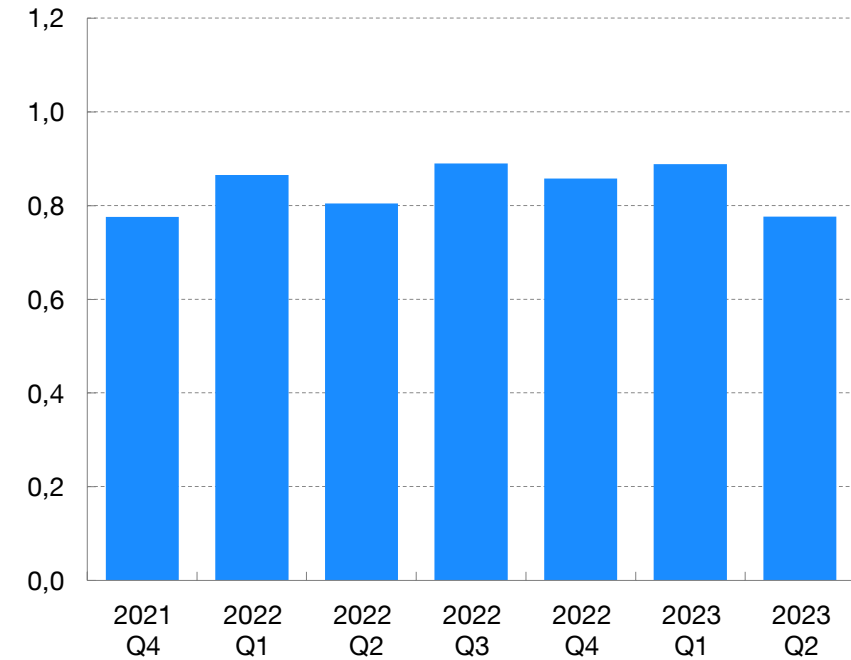


ACCORDING TO THE EBAE, SPANISH FIRMS EXPECT THE EASING OF INFLATIONARY PRESSURES TO CONTINUE IN THE MONTHS TO COME

PRICE EXPECTATIONS ONE YEAR AHEAD (a)



LABOUR COST EXPECTATIONS ONE YEAR AHEAD (a)



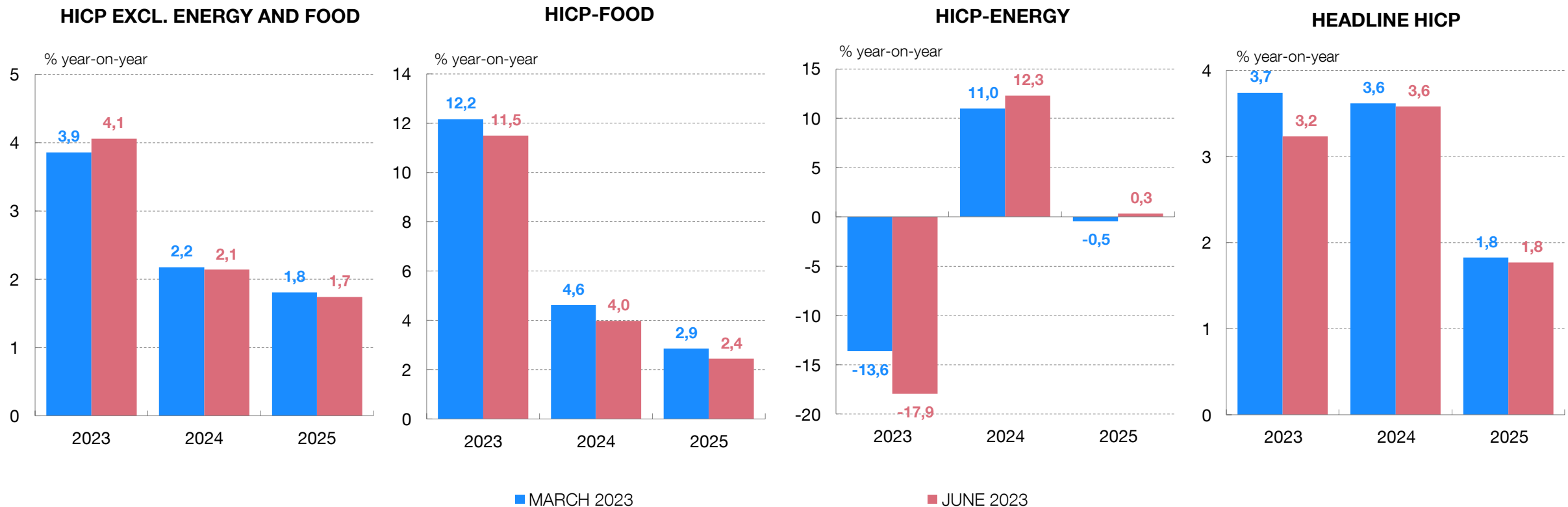
Source: EBAE.

(a) Results compiled using the following scale: significant decrease = -2; slight decrease = -1; stable = 0; slight increase = 1; significant increase = 2.



REVISION OF INFLATION PROJECTIONS RELATIVE TO THE MARCH PROJECTIONS

- Underlying inflation is revised slightly upwards in 2023 as a consequence of recent upward surprises in this item
- By contrast, headline inflation is revised downwards for the year average, owing to a greater than expected reduction in energy prices and lower than expected increases in food prices



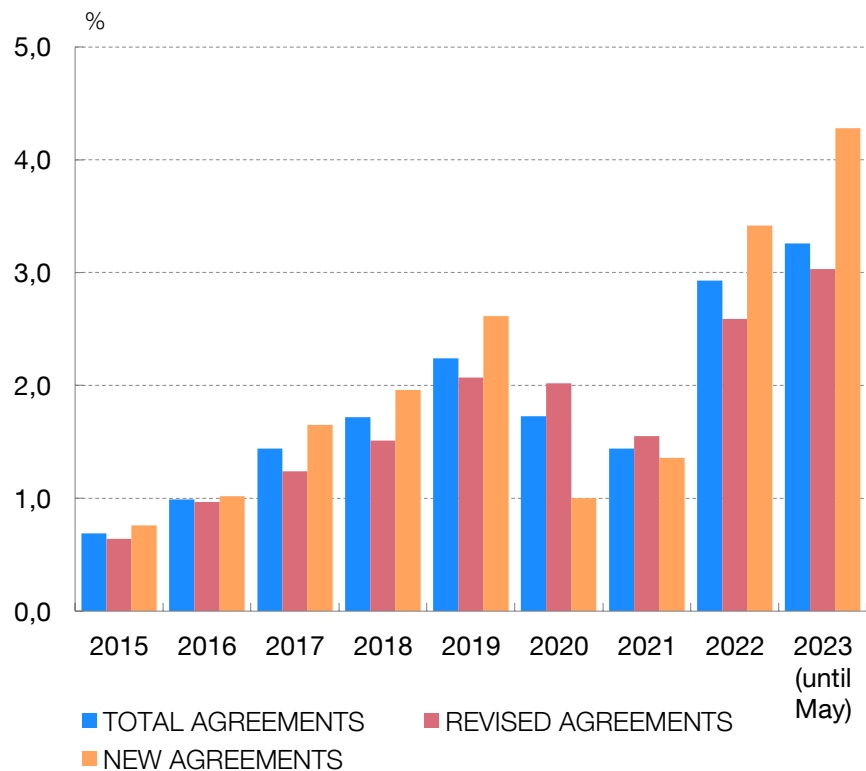
Source: Banco de España.



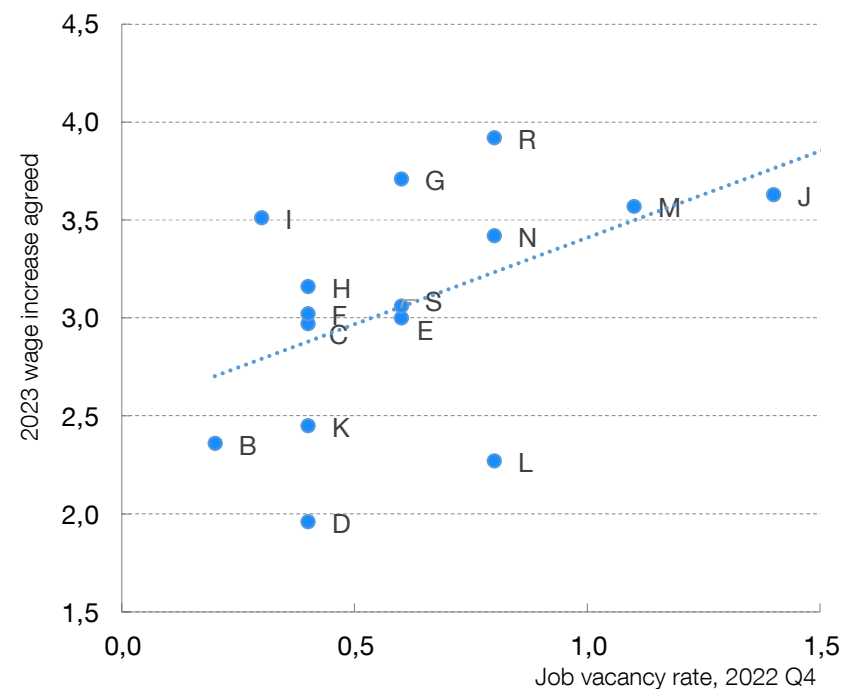
THE WAGE SLOWDOWN CONTINUES, ALTHOUGH THE INCREASES AGREED IN NEWLY SIGNED AGREEMENTS ARE HIGHER

- Furthermore, negotiated wage increases are higher in those services sectors in which workers are scarcer
- In any case, the fifth Employment and Collective Bargaining Agreement, recently signed by Spain's main social partners, includes recommended wage increases for 2023-2025 that somewhat mitigate the chance that second-round effects on inflation might emerge via wages

WAGE SETTLEMENTS



JOB VACANCY RATE AND WAGE INCREASE AGREED FOR 2023 BY SECTOR (non-agricultural market economy)



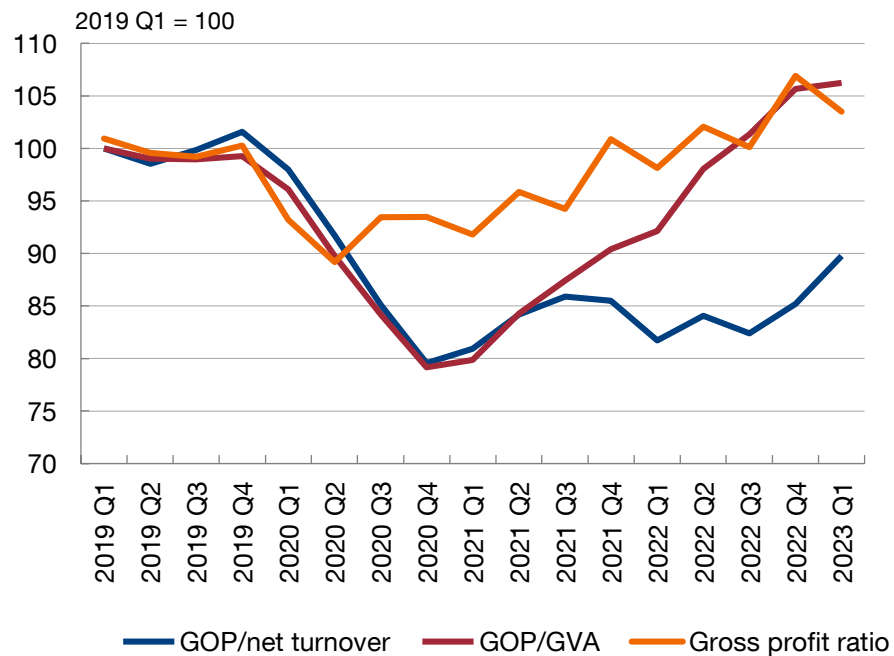
Sources: Ministerio de Trabajo y Economía Social and Eurostat.



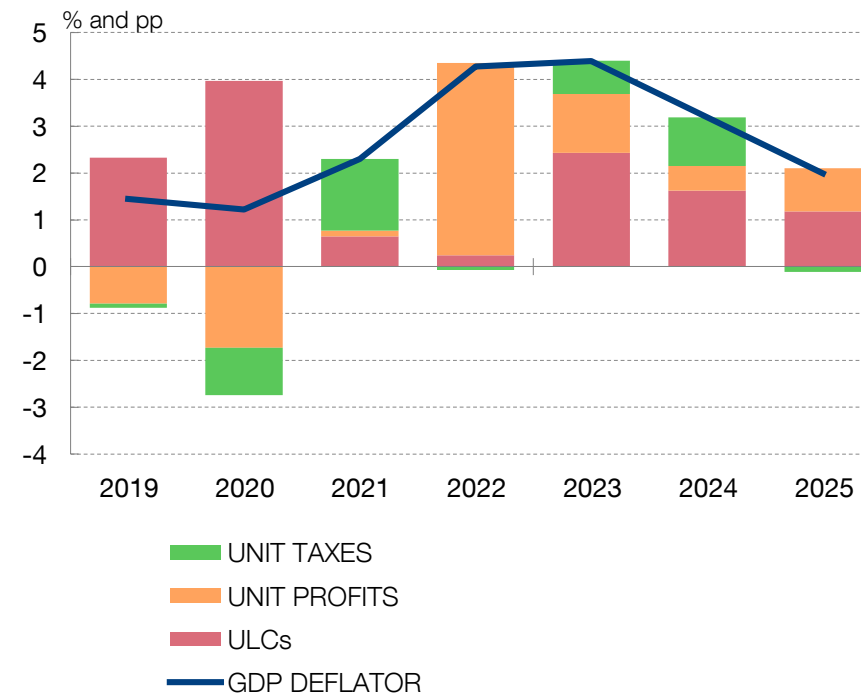
PROFIT MARGINS APPEAR TO HAVE CONTINUED TO RECOVER IN EARLY 2023, ALBEIT WITH HIGH HETEROGENEITY ACROSS SECTORS AND FIRMS

- The performance of the GDP deflator in the Banco de España's June projections assumes a slowdown in the rate of growth of unit profits in the years to come

CORPORATE PROFIT MARGINS ACCORDING TO NATIONAL ACCOUNTS AND CBQ DATA



GDP DEFLATOR (Growth rate and contributions)



Sources: INE and Banco de España.

(a) The gross profit ratio refers to the aggregate of the market economy and is found by imputing the average wage of employees to the self-employed. GOP/net turnover is the ratio of gross operating profit to net turnover. Data from the Banco de España Central Balance Sheet Data Office Quarterly Survey (CBQ) are used for both. Cumulative four-quarter data.

