

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2026)

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CONTENTS

1. Takeaways

- Activity developments in 2023 Q4
- Macroeconomic outlook for the coming quarters
- Recent price behaviour and future expectations
- Balance of risks in this projection exercise

2. Focus

- Potential economic consequences of the uncertainty
- Determinants of oil price developments and their economic implications

CONTENTS

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The indicators available for Q4 suggest that economic activity has continued to grow at a pace similar to that recorded in Q3, with quarter-on-quarter GDP growth of 0.3%

In line with the September projections, such behaviour would confirm the slowdown in economic growth in Spain in H2

That said, in a complex macro-financial setting (global monetary policy tightening, geopolitical uncertainty, etc.), Spain's economic activity appears to be notably resilient, especially compared to the euro area's

[Main aspects of the recent behaviour of global economic activity]

In particular, Spain's more buoyant activity, vis-à-vis the euro area, appears to have been driven, inter alia, by the relative strength recently displayed by household consumption and goods exports (despite the slowdown in the latter)

[In addition to the robust behaviour of exports of travel and non-travel services already mentioned in previous reports]

Spain's economic activity is projected to pick up modestly and gradually in the coming quarters, assisted by a gradual improvement in the European and global environment, the roll-out of the NGEU programme, the increase in real incomes, the recovery in confidence and, as regards 2025-2026, the smaller macroeconomic impact of monetary policy tightening

In any event, the GDP growth rate in 2024-2026 will be significantly lower than in 2023, now that pre-pandemic activity levels have already been regained

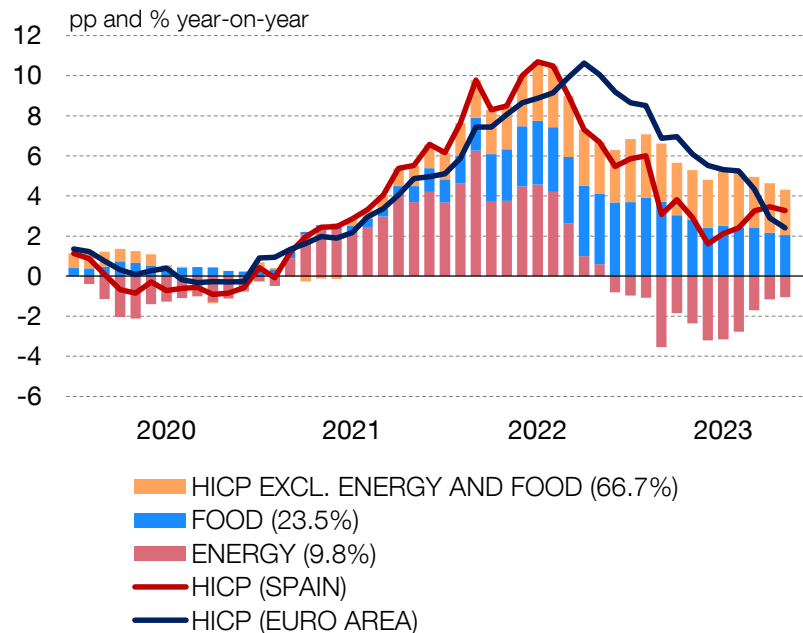
Also, GDP growth in 2024 and 2025 is revised down slightly with respect to that envisaged in the September projection exercise, owing, inter alia, to a less favourable outlook for household consumption (even though this component of demand will continue to be the main engine of Spanish growth over the entire projection horizon)

The outlook for the Spanish economy is relatively favourable, but ambitious action is still needed to address the main structural impediments weighing on Spanish economic activity in recent decades, in particular, low productivity, high unemployment and the sizeable fiscal imbalance

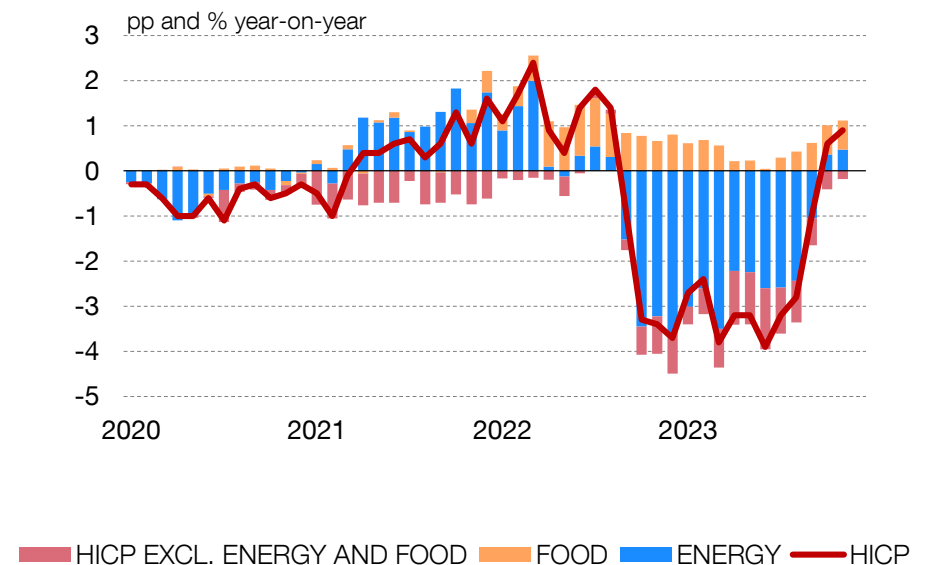
RECENT PRICE BEHAVIOUR

- **Headline inflation**, which had been rising since July (essentially as a result of a marked easing in the rate of decline of energy prices), fell again in November, by somewhat more than expected, owing to downward surprises in energy prices
- **Underlying inflation** has gradually slowed over recent months, across most items and indicators
- The slowdown in **food prices**, which is very broad based across food products, came to a halt in the summer, but has resumed during the last two months
- Since October, the **inflation differential with respect to the euro area** has turned positive, due to energy and food prices

HEADLINE HICP AND CONTRIBUTIONS (a)



CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA



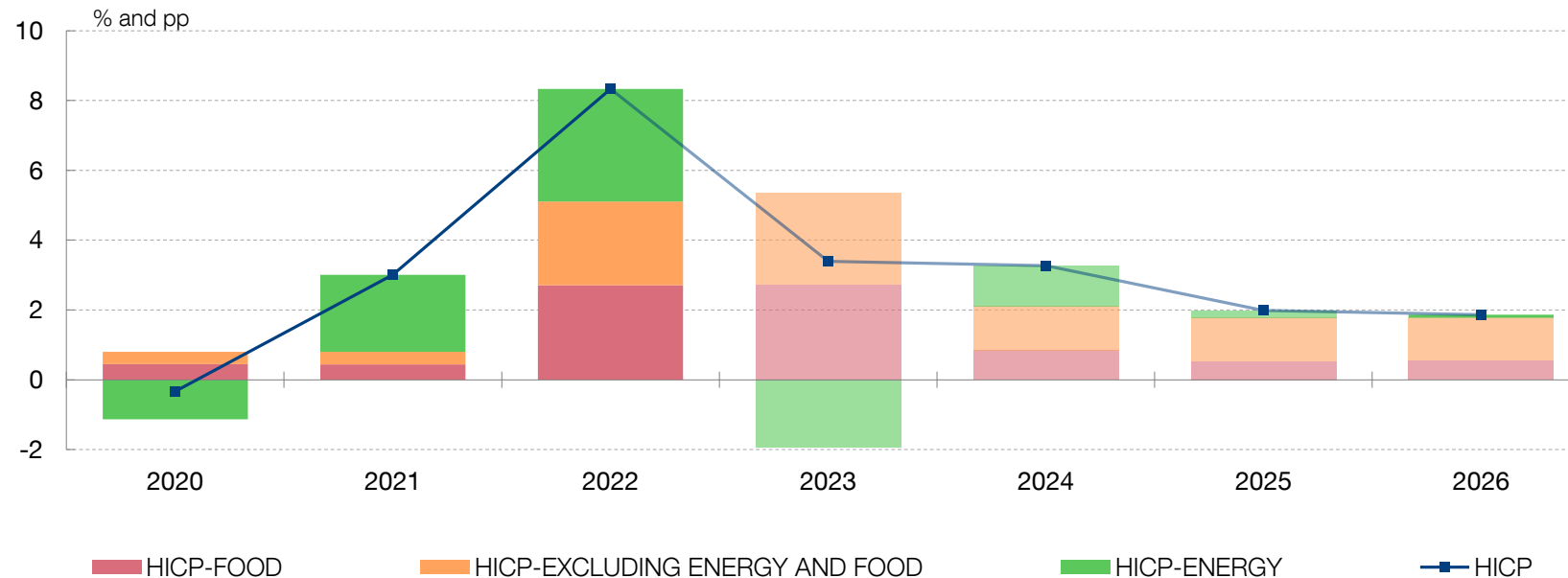
Sources: INE and Eurostat. Latest observation: November 2023.

(a) The share of each component in headline HICP is given in brackets.

OUTLOOK FOR FUTURE INFLATION DEVELOPMENTS

- **Headline inflation** is expected to remain on a moderately upward path at the beginning of 2024 and to resume its decline in the second half of the year. These developments are driven, essentially, by the expected behaviour of energy prices, with the upward movement stemming from the expiry, at the end of 2023, of the main measures implemented by the authorities in 2021 and 2022 to mitigate the effects of the inflationary surge
- **Food and underlying inflation** are expected to continue to fall gradually over the projection horizon, given the expected decline in commodity and food prices and the downward trend in industrial prices

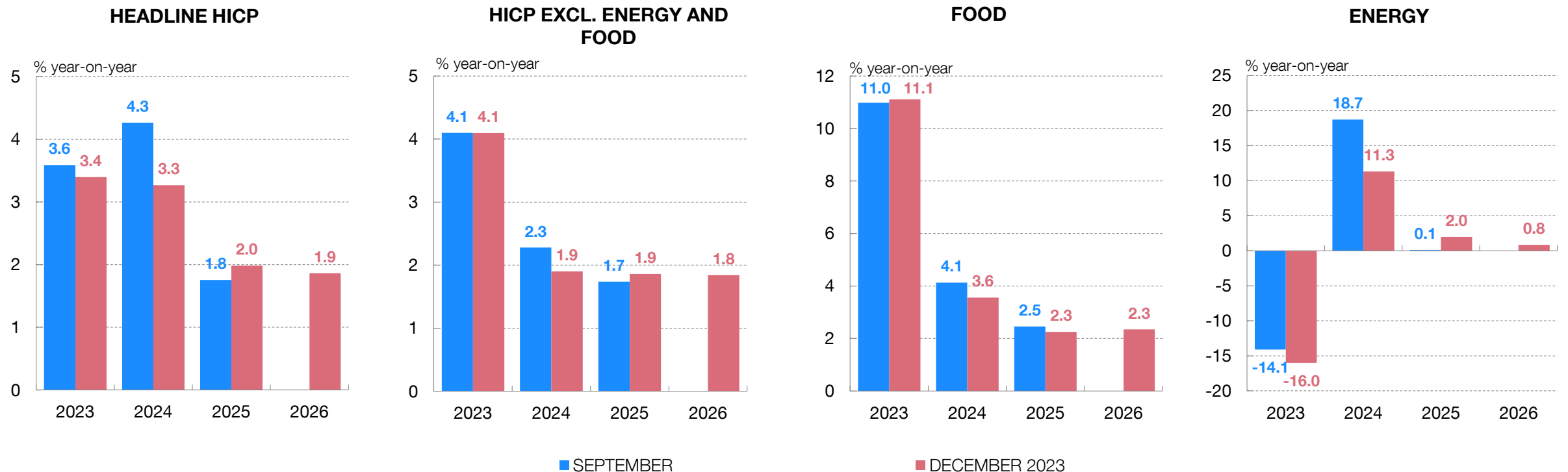
CONTRIBUTIONS TO THE GROWTH OF THE HICP BY COMPONENTS



Sources: INE and Banco de España.

CHANGE IN THE INFLATION FORECASTS WITH RESPECT TO THE SEPTEMBER PROJECTION EXERCISE

- In 2023, headline inflation is revised slightly downwards (-0.2 pp), owing to a sharper than expected fall in energy prices, while underlying inflation and food inflation appear to have behaved essentially as expected
- In 2024, headline inflation is revised significantly downwards (-1 pp), owing to the expectations of lower energy prices and the extension to 2024 of some of the measures taken by the authorities to combat inflation (i.e. public transport subsidies and lower VAT on food). This extension also affects underlying inflation and food inflation
- In 2025, headline inflation is revised slightly upwards (+0.2 pp), partly as a result of the discontinuation that year of the crisis measures extended to 2024



Sources: INE and Banco de España.

A CENTRAL ASSUMPTION OF THESE INFLATION PROJECTIONS: MODERATE WAGE INCREASES ARE ACCOMMODATED BY PROFIT MARGINS THAT ARE LESS BUOYANT THAN IN 2022

Having risen in 2022, profit margins appear to have moderated slightly in 2023. This overall trend is, however, consistent with a significant degree of heterogeneity across sectors

In 2023, the wage increases in collective agreements generally appear to be in line with the recommendations in the 5th Employment and Collective Bargaining Agreement

Even so, in recent quarters, the rise in compensation per employee in the market economy has outstripped the wage increases in collective agreements, while non-wage labour costs have increased (owing, inter alia, to the increase in social contributions) and there has been positive wage drift, in a relatively tight labour market

Against a background of weak productivity growth, this growth in compensation per employee (higher, in real terms, than before the pandemic) entails increases in unit labour costs which may eventually affect the price competitiveness of Spanish firms and generate further domestic inflationary pressures

BALANCE OF RISKS IN THIS PROJECTION EXERCISE

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

Some of the main sources of risk

Escalation in armed conflicts in the Gaza Strip and Ukraine

Scale of the effects of monetary policy tightening on activity and prices

Uncertainty about the extension of the measures deployed to combat the rise in inflation in Spain

Possible episodes of turmoil/correction in the financial markets

New information that has become available since the projections cut-off date, i.e. lower interest rates and energy prices

Changes in profit margins, wages, unit labour costs and competitiveness

Reduced momentum in global economic activity, i.e. owing to sharper than expected slowdown in China

Uncertainty over economic policies

Pace of roll-out of the NGEU-related projects and their impact on activity

CONTENTS

1. Takeaways

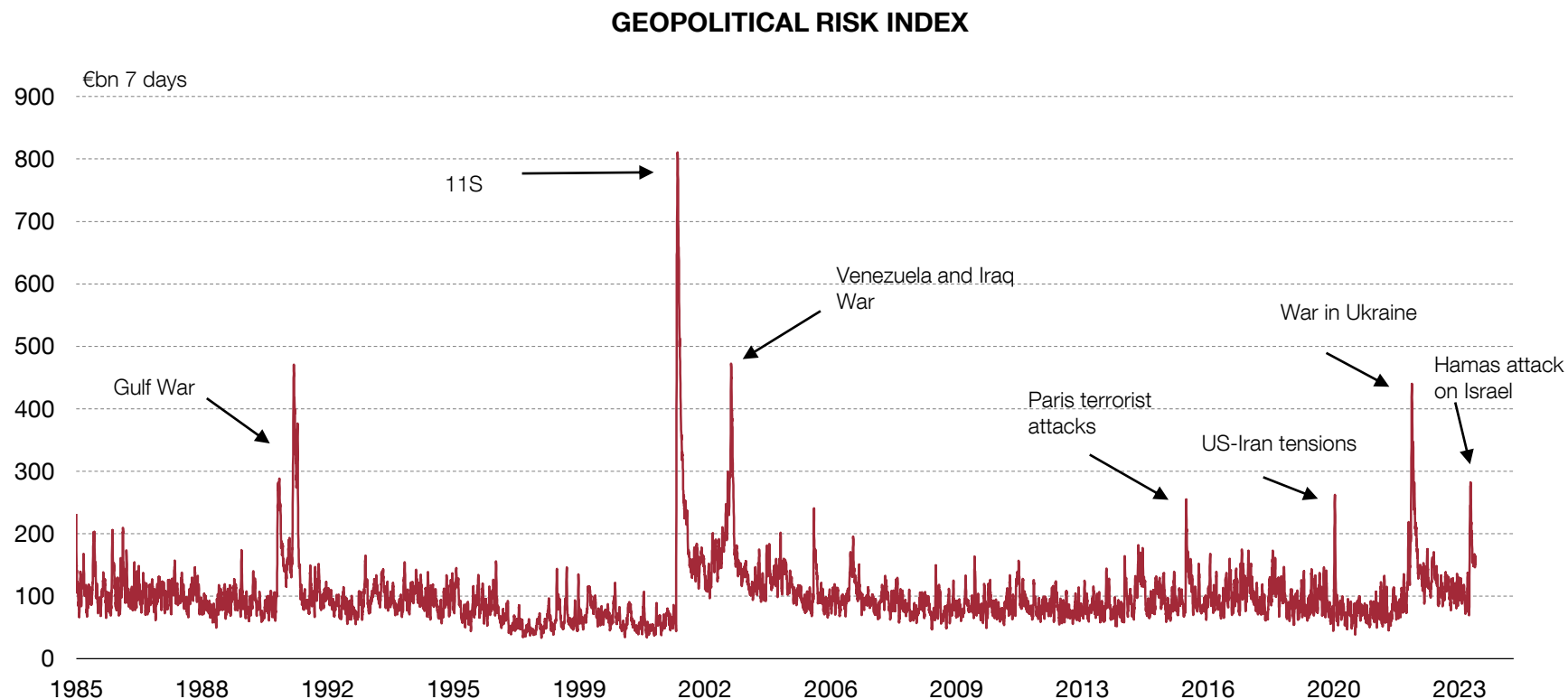
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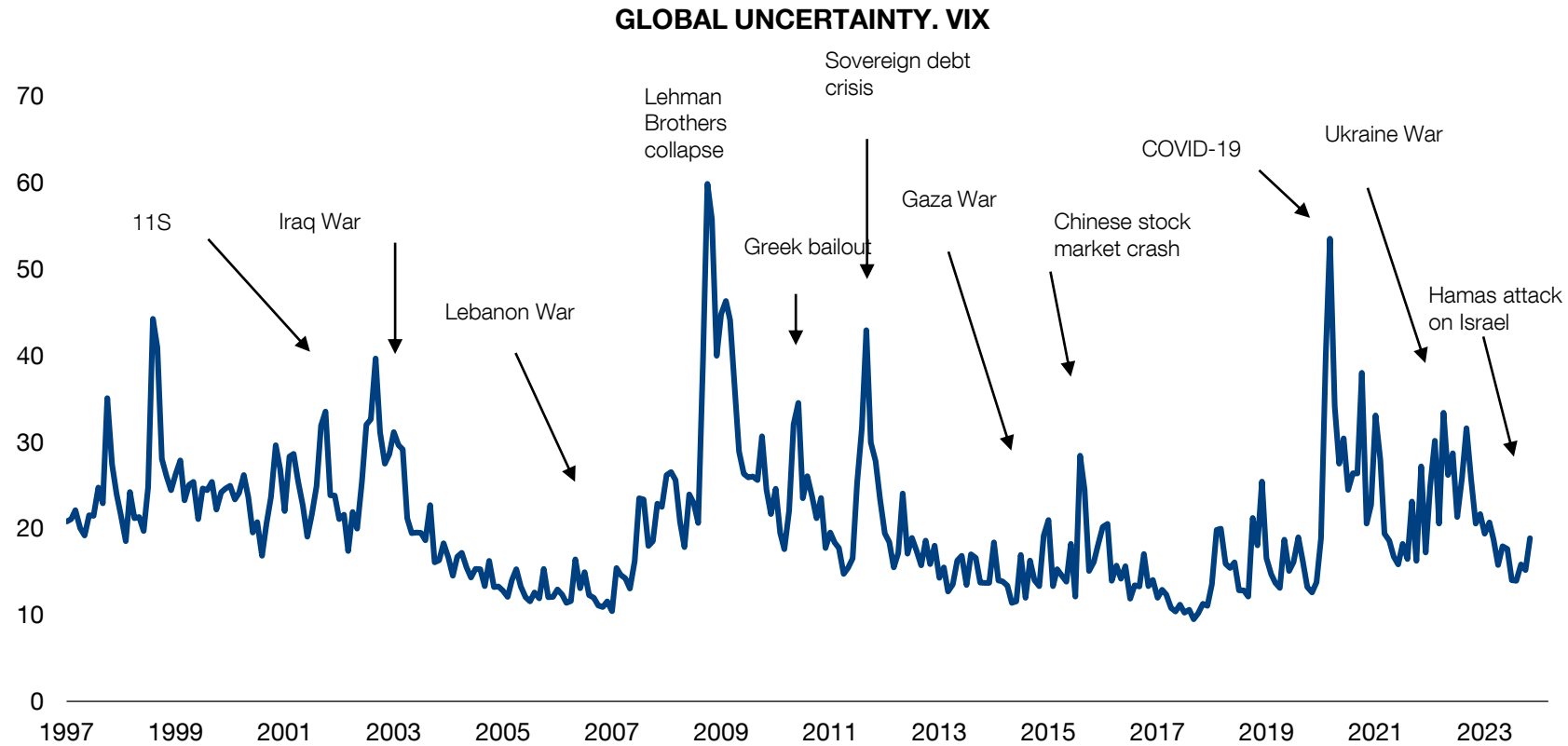
THE MIDDLE EAST CONFLICT HAS BECOME A NEW FACTOR OF GEOPOLITICAL RISK, WHICH COMPOUNDS THAT ARISING FROM THE WAR IN UKRAINE, AMONG OTHERS

Risk of escalation in the wars in the Middle East and Ukraine, with possible implications for energy generation/exports, maritime trade, international financial markets, etc.



Source: Banco de España drawing on data from Iacoviello and Caldara (2022), “[Measuring Geopolitical Risk](#)”, *American Economic Review*, April, 112(4), pp.1194-1225. Data available [online](#). Latest observation: 11 December.

SO FAR, THE WAR IN THE MIDDLE EAST HAS LED TO RELATIVELY MODERATE INCREASES IN THE MORE HABITUAL INDICATORS OF GLOBAL UNCERTAINTY ...

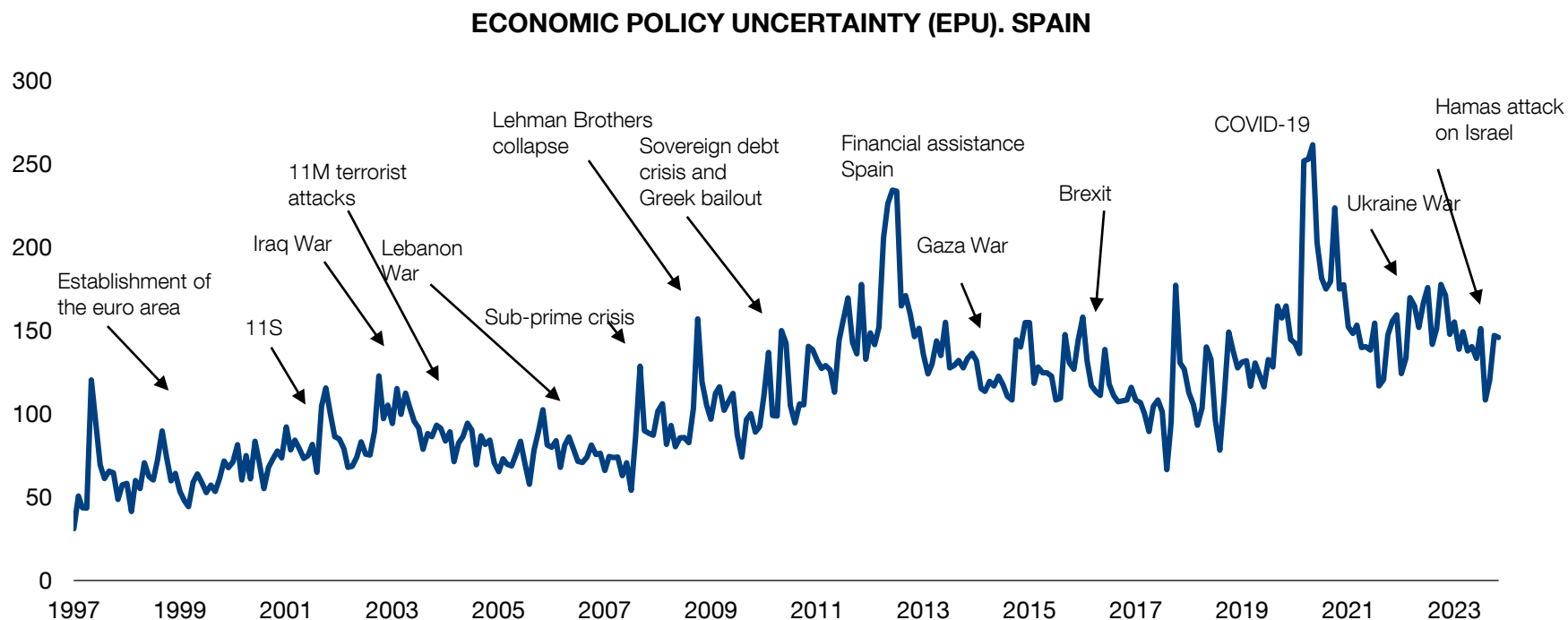


Source: CBOE Volatility Index.

(a) The VIX Index is a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time prices of S&P 500 Index call and put options. Globally, it is one of the most recognised measures of volatility, widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

... AND NO NOTABLE INCREASES HAVE BEEN OBSERVED RECENTLY IN A STANDARD ECONOMIC POLICY UNCERTAINTY (EPU) INDICATOR ESTIMATED FOR SPAIN

However, this indicator remains at relatively high levels from a historical perspective



Sources: Factiva DJ and Banco de España.

(a) The EPU indicator for Spain is prepared by the Banco de España and is available [online](#). The construction of the EPU follows closely the procedure in *Measuring Economic Policy Uncertainty* by Scott R. Baker, Nicholas Bloom and Steven J. Davis. It is based on the frequency of newspaper coverage of issues related to economic policy uncertainty in articles published by a sample of Spanish newspapers (*El País*, *El Mundo*, *La Vanguardia*, *ABC*, *Expansión*, *Cinco Días* and *El Economista*) from January 1997 to date. The procedure consists of counting the number of articles containing simultaneously at least one keyword related to the categories of “uncertainty”, “economy” and “policy”. Articles meeting these criteria are considered to be related to economic policy uncertainty.

HOW WOULD A SUBSTANTIAL RISE IN UNCERTAINTY (GLOBAL OR DOMESTIC) AFFECT SPAIN'S MACROECONOMIC OUTLOOK?

HOUSEHOLDS

Increase in precautionary saving and decrease in consumption

FIRMS

Delay in investment projects and hiring

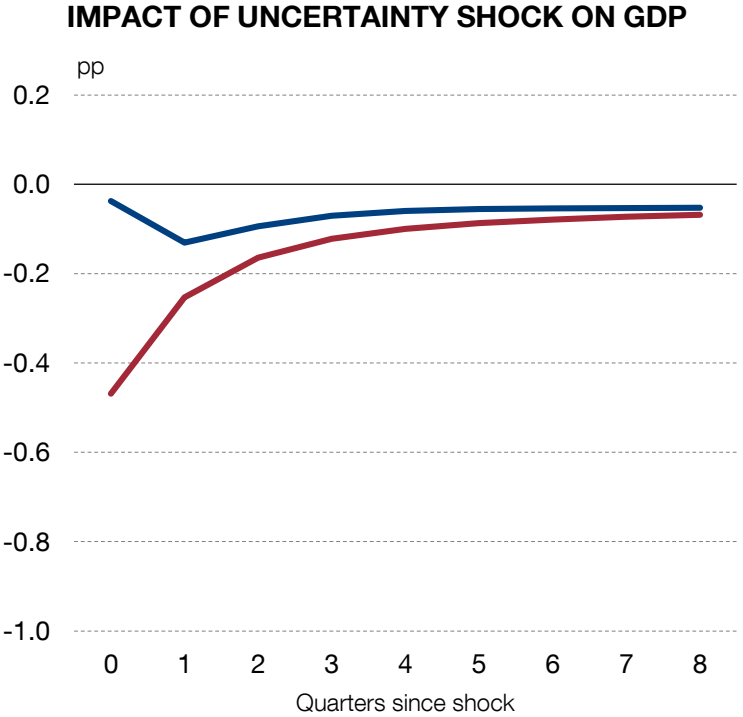
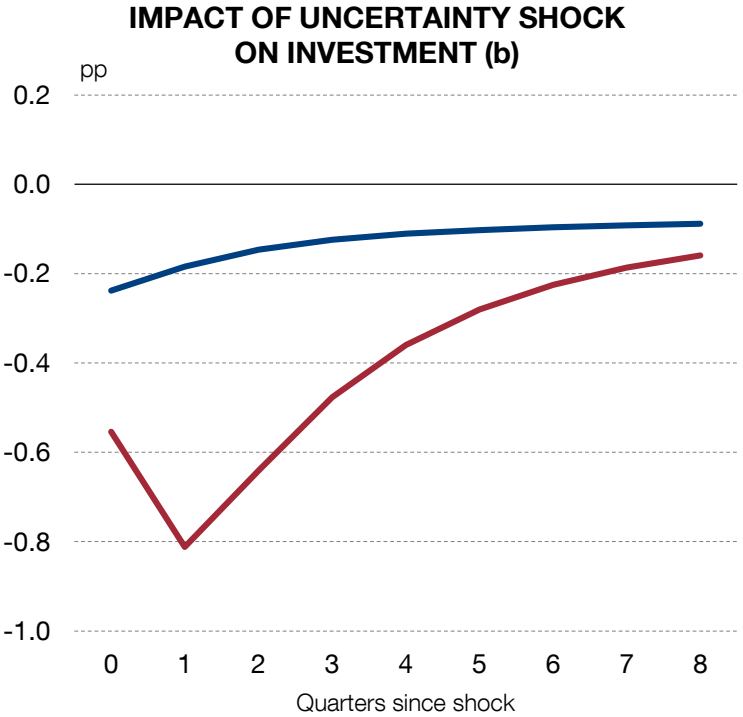
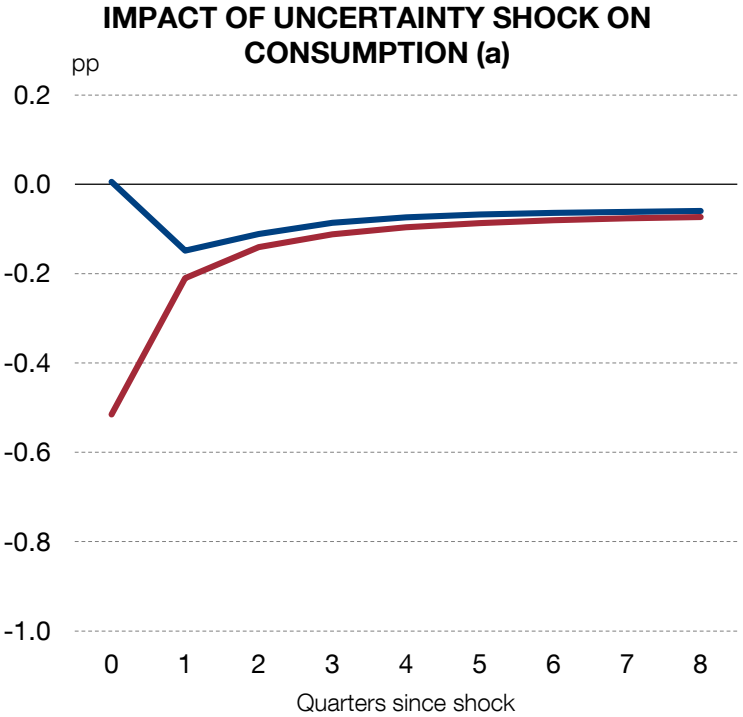
FINANCIAL INSTITUTIONS

Contraction of loans for investment and consumption

FINANCIAL MARKETS

Increase in cost of financing via risk premia and volatility

IN SPAIN, A SHARP INCREASE IN ECONOMIC UNCERTAINTY (DOMESTIC OR GLOBAL) WOULD WEIGH ON CONSUMPTION, INVESTMENT AND GDP



— EPU — VIX

Sources: Factiva DJ, Eurostat, CBOE and Banco de España.
 The impulse response functions are obtained from a VAR model estimated for Spain for the period 1999 Q1-2023 Q4 with the endogenous variables in the following order: VIX (as a proxy for global uncertainty), EPU (as a proxy for local uncertainty), spread, GDP (consumption or investment) and inflation. Dummies for the COVID-19 period are included as exogenous variables. The assumption that VIX is an exogenous variable is also made (in particular, it is assumed that its equation is an AR(1)). The model includes one lag. The model's structural shocks are identified using Choleski's decomposition.
 (a) Private consumption.
 (b) Gross fixed capital formation.

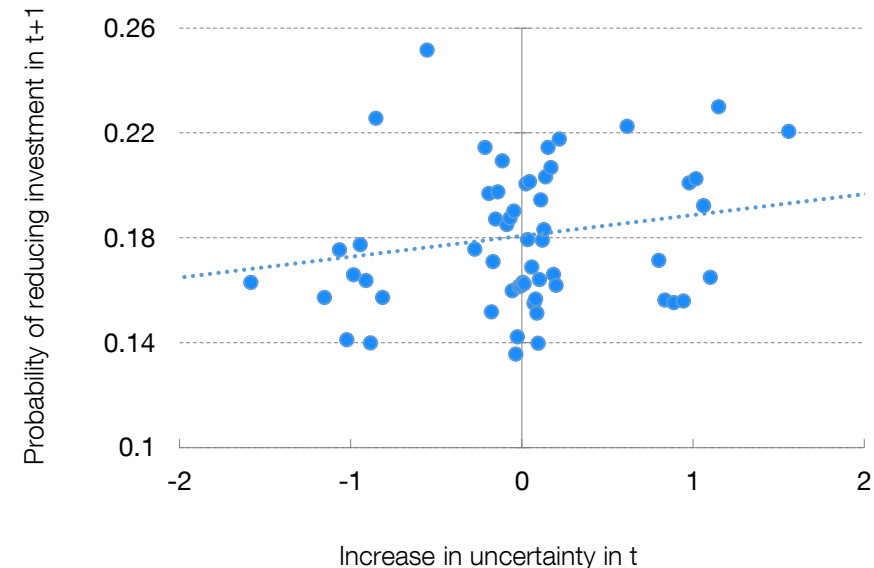
MEANWHILE, THE FIRMS SURVEYED IN THE EBAE HAVE BEEN PERCEIVING A RISE IN ECONOMIC POLICY UNCERTAINTY IN RECENT QUARTERS

- The latest edition of the EBAE suggests that, for the second consecutive quarter, the percentage of Spanish firms that report economic policy uncertainty as a factor affecting their activity has risen, standing at 60%. This is close to the levels observed during the energy crisis but below the COVID-19 pandemic levels
- Should these patterns persist, they could have an adverse impact on the future growth path of the Spanish economy

FIRMS AFFECTED BY UNCERTAINTY



RISING UNCERTAINTY AND INVESTMENT DECISIONS (a)



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

(a) Relationship between the increase in uncertainty perceived by a firm from one EBAE wave to the next and the probability of reporting a decline in investment in the following quarter. Controls are included for fixed effects relating to time, sector, size, changes in current and future demand, and financing conditions. Period: 2022 Q3-2023 Q4.

CONTENTS

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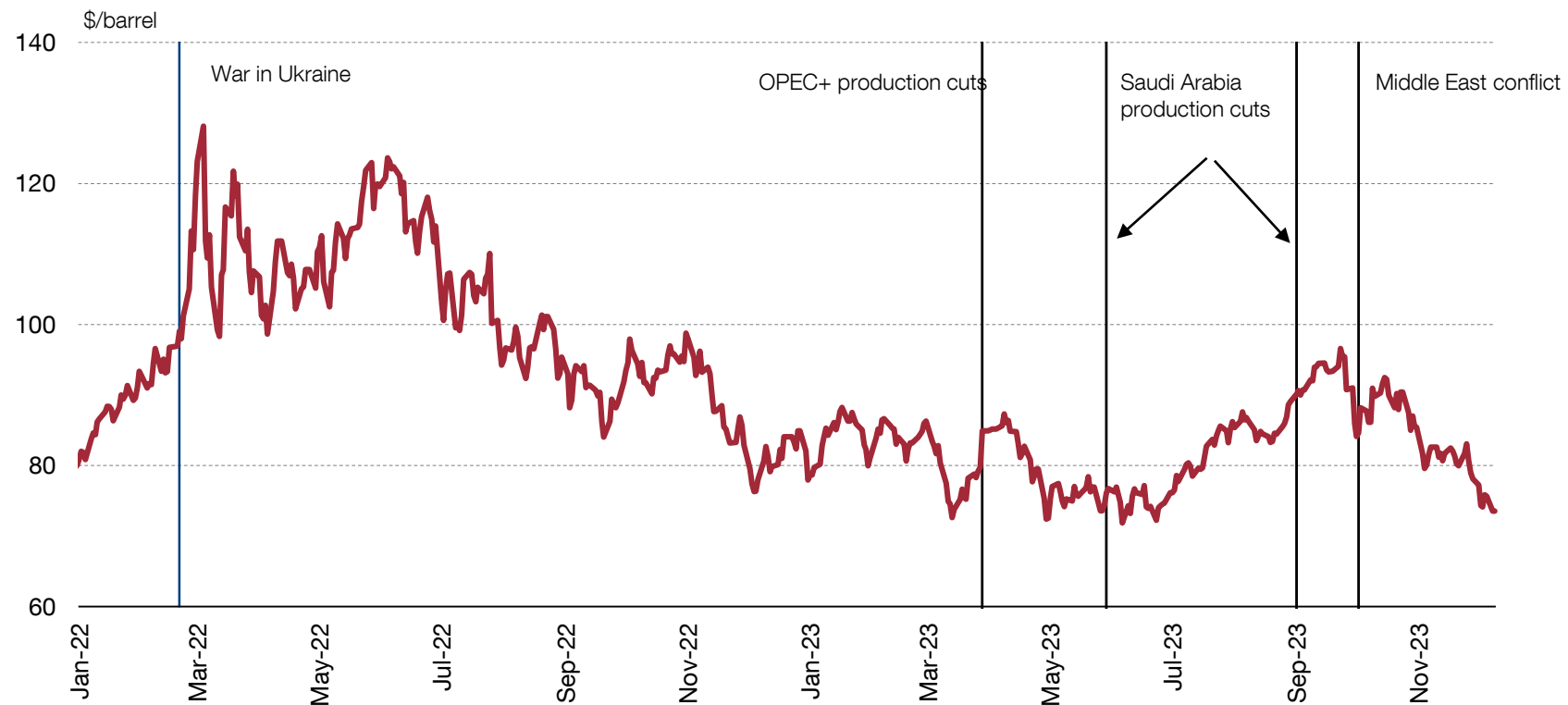
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THERE HAVE BEEN SUBSTANTIAL OIL PRICE FLUCTUATIONS IN RECENT QUARTERS

BRENT CRUDE OIL PRICE PER BARREL

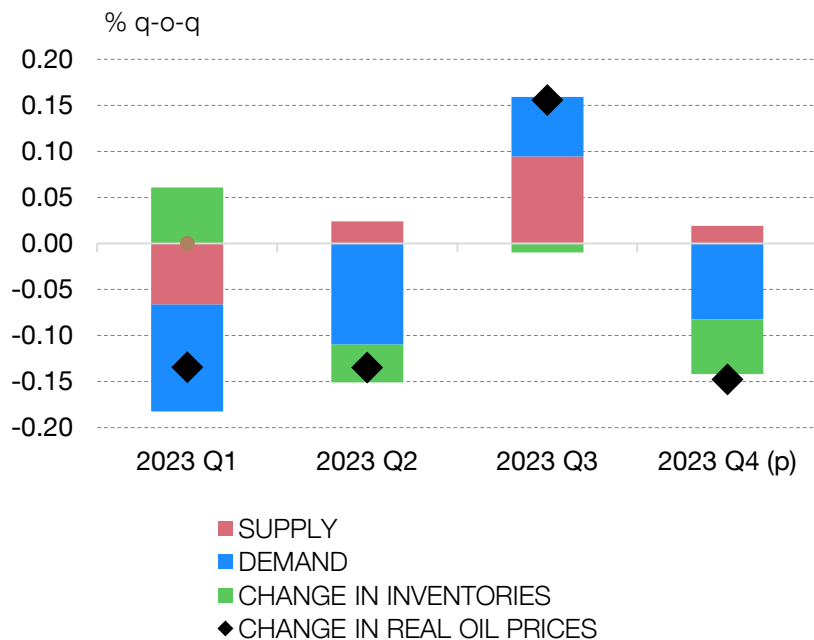


Source: Refinitiv. Latest observation: 12 December.

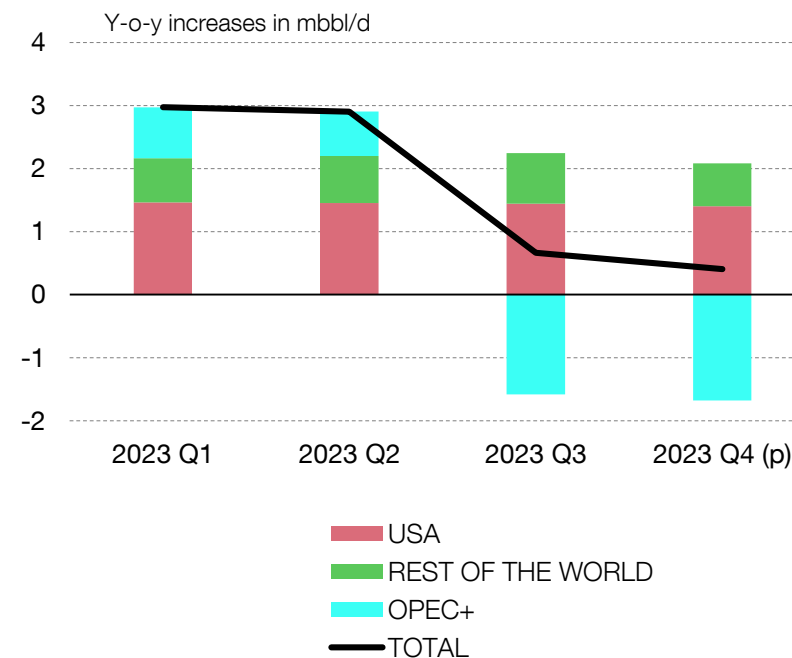
IT IS IMPORTANT TO UNDERSTAND THE MAIN REASON FOR EACH OF THESE FLUCTUATIONS, AS THIS INFLUENCES THEIR POTENTIAL MACROECONOMIC IMPACT

According to Banco de España estimates, the rise in oil prices in 2023 Q3 was mainly influenced by the contraction of supply. By contrast, the drop in oil prices in the first half of the year and in Q4 owes, above all, to weak demand

BREAKDOWN OF RECENT OIL PRICES



OIL SUPPLY



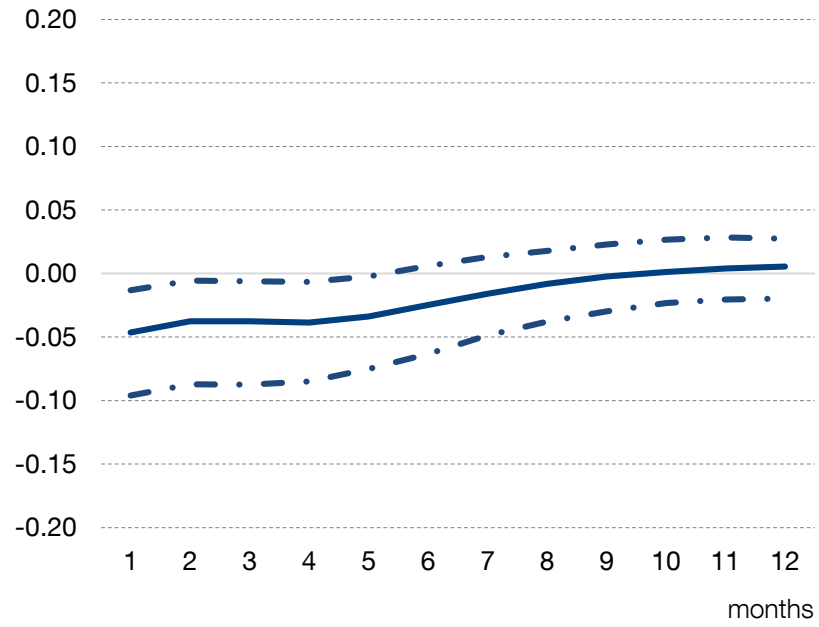
Sources: Banco de España drawing on AIE data (forthcoming).

Banco de España calculations based on a sign restrictions model that distinguishes between a shock to oil supply, global demand, specific oil demand and precautionary demand (proxied by the change in inventories). Demand includes both global demand and specific demand owing to idiosyncratic factors of the model. The 2023 Q4 data are partial and only represent the information available for October and November.

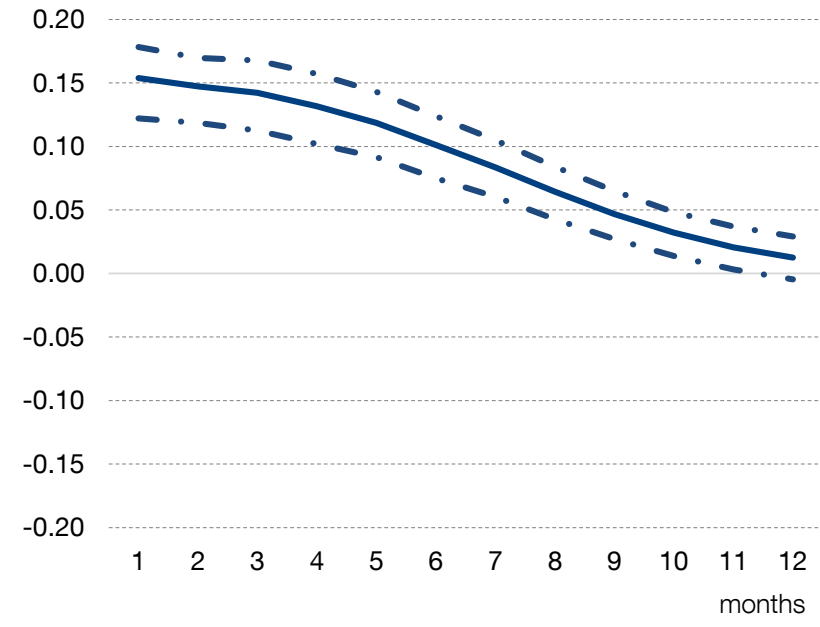
HIGHER OIL PRICES TRIGGERED BY SUPPLY CUTS GENERALLY HAVE AN ADVERSE IMPACT ON GLOBAL ECONOMIC ACTIVITY

By contrast, similar rises in oil prices associated with increased demand tend to be accompanied by an improvement in global economic activity

IMPACT OF A SUPPLY-SIDE SHOCK ON GLOBAL ECONOMIC ACTIVITY (a)



IMPACT OF A DEMAND-SIDE SHOCK ON GLOBAL ECONOMIC ACTIVITY (a)



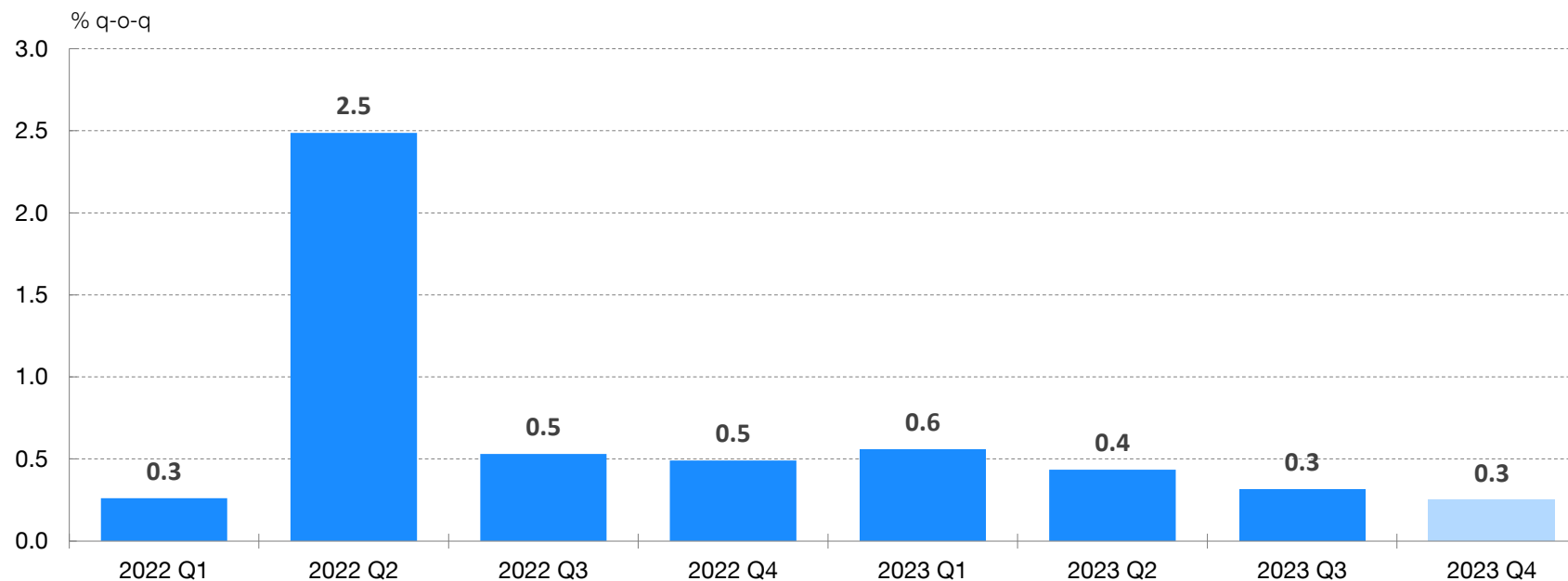
Source: Alonso and Santabárbara (2024).
(a) Banco de España calculations based on a sign restrictions model that distinguishes between a shock to oil supply, global demand, specific oil demand and precautionary demand (proxied by the change in inventories). Shown is the impulse response to a structural shock to these variables that causes a 10% increase in oil prices in $t=1$. Global economic activity is proxied by means of the principal component obtained drawing on co-movement of a broad set of commodity prices.

THANK YOU FOR YOUR ATTENTION



THE PERFORMANCE OF ACTIVITY IN Q4 SUGGESTS THAT SPANISH GDP COULD GROW IN THIS PERIOD BY 0.3% QUARTER-ON-QUARTER

REAL GDP GROWTH IN SPAIN



Sources: INE and Banco de España.

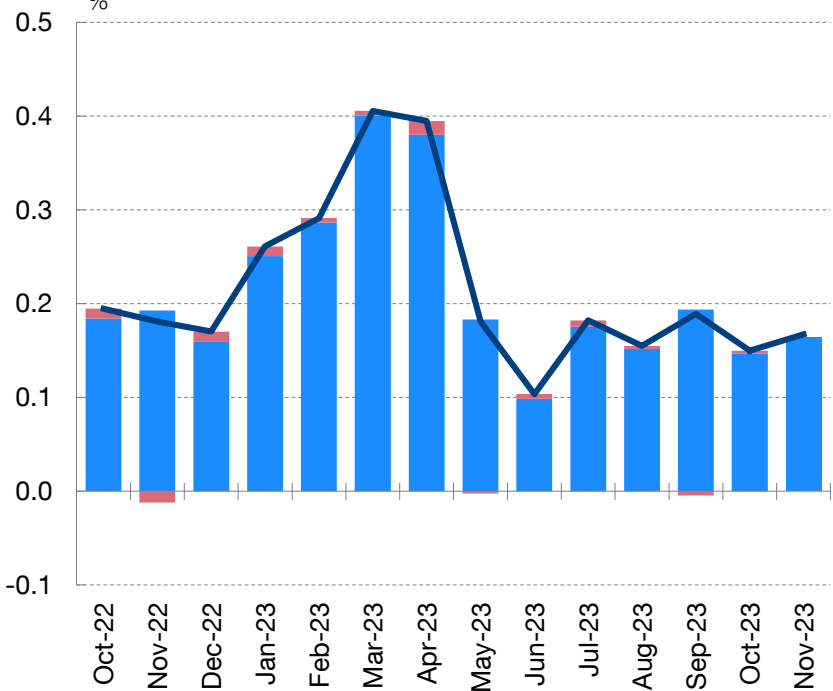
Job creation momentum in Q4 has been on a par with that recorded in Q3

The EBAE points to a stabilisation in firms' turnover in Q4

Other qualitative indicators to November have remained at similar levels to those observed in Q3

EMPLOYMENT GROWTH APPEARS TO HAVE STABILISED IN Q4

TOTAL REGISTRATIONS, WORKERS ON JOB RETENTION SCHEMES AND EFFECTIVE REGISTRATIONS (a)

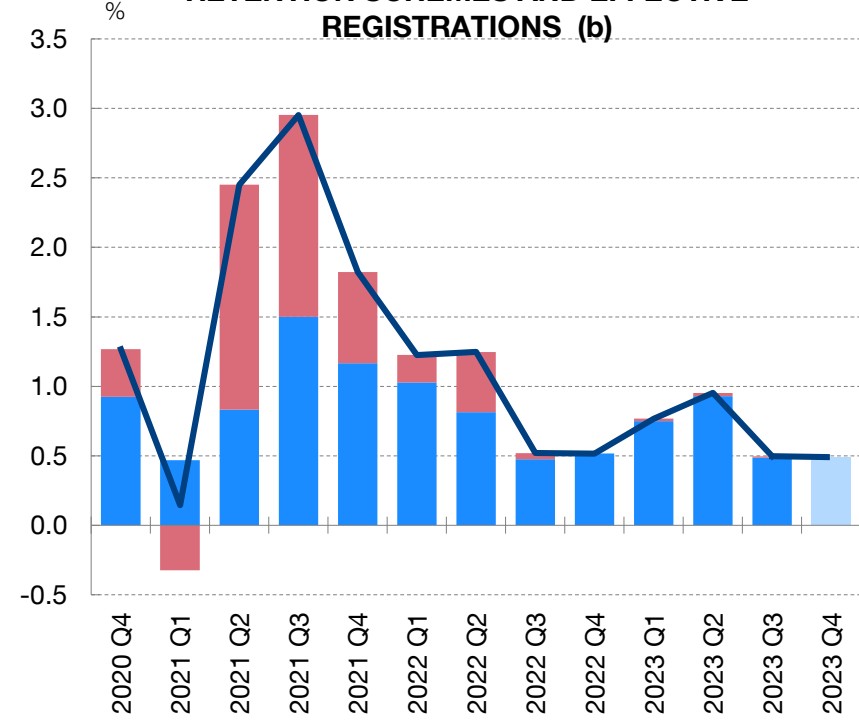


TOTAL REGISTRATIONS

WORKERS ON JOB RETENTION SCHEMES

EFFECTIVE REGISTRATIONS

TOTAL REGISTRATIONS, WORKERS ON JOB RETENTION SCHEMES AND EFFECTIVE REGISTRATIONS (b)



Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest observation: November 2023.

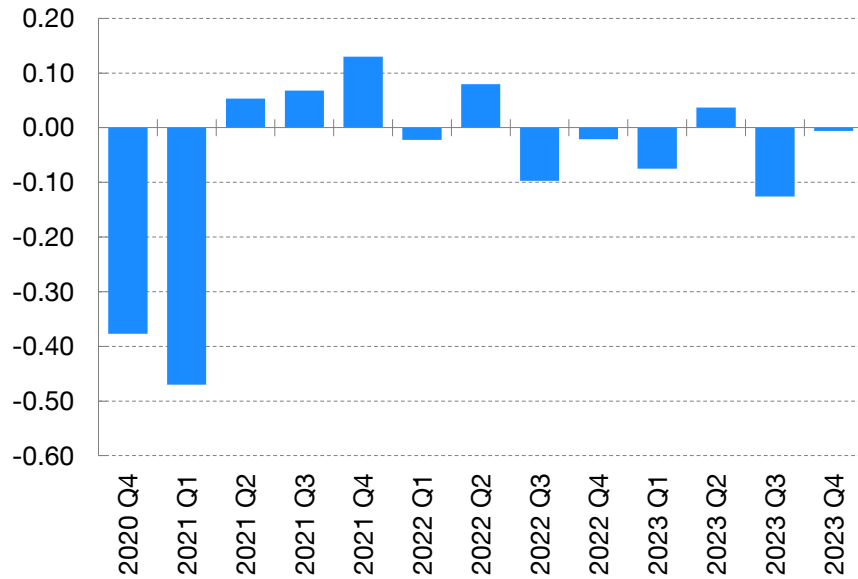
(a) Seasonally adjusted monthly rates.

(b) Seasonally adjusted quarterly rates, including the ARIMA model forecast for December.

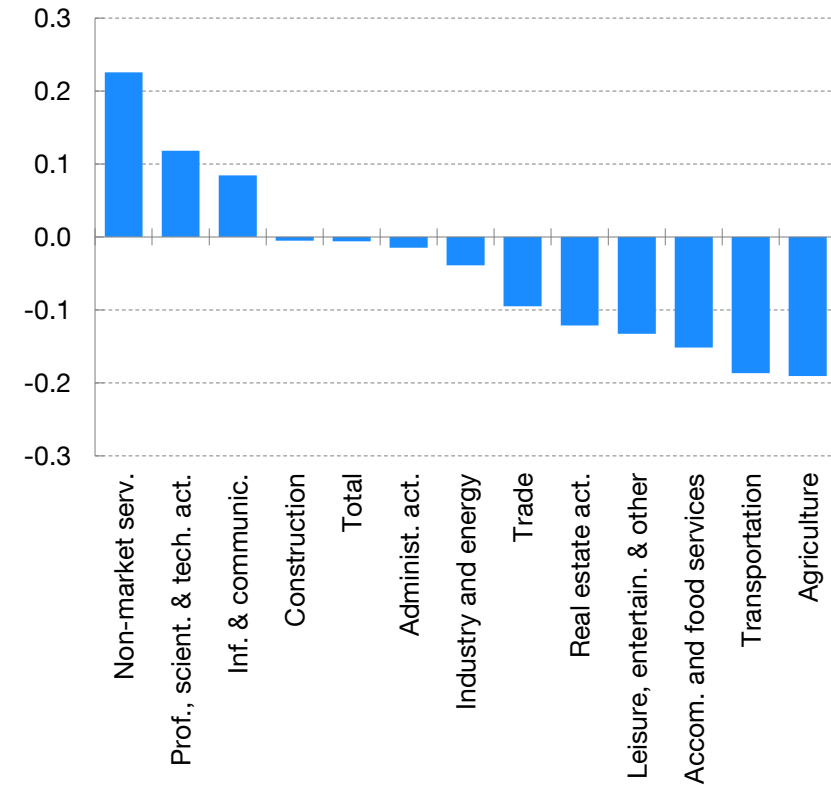


THE EBAE SUGGESTS THAT FIRMS' TURNOVER HAS REMAINED PRACTICALLY UNCHANGED IN Q4 COMPARED WITH Q3, ALBEIT WITH SUBSTANTIAL SECTORAL HETEROGENEITY

QUARTERLY CHANGE IN TURNOVER (a)



CHANGE IN TURNOVER IN Q4, BY SECTOR (a)



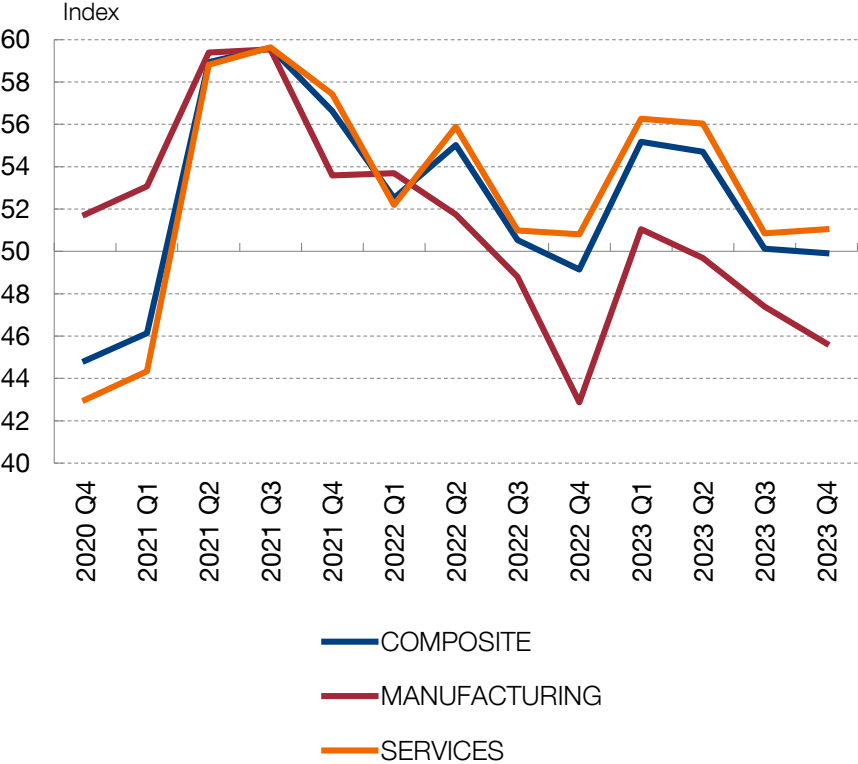
Source: Banco de España Business Activity Survey (EBAE).

(a) The index is constructed based on the following: Significant decrease = -2; Slight decrease = -1; Stability = 0; Slight increase = 1 and Significant increase = 2.

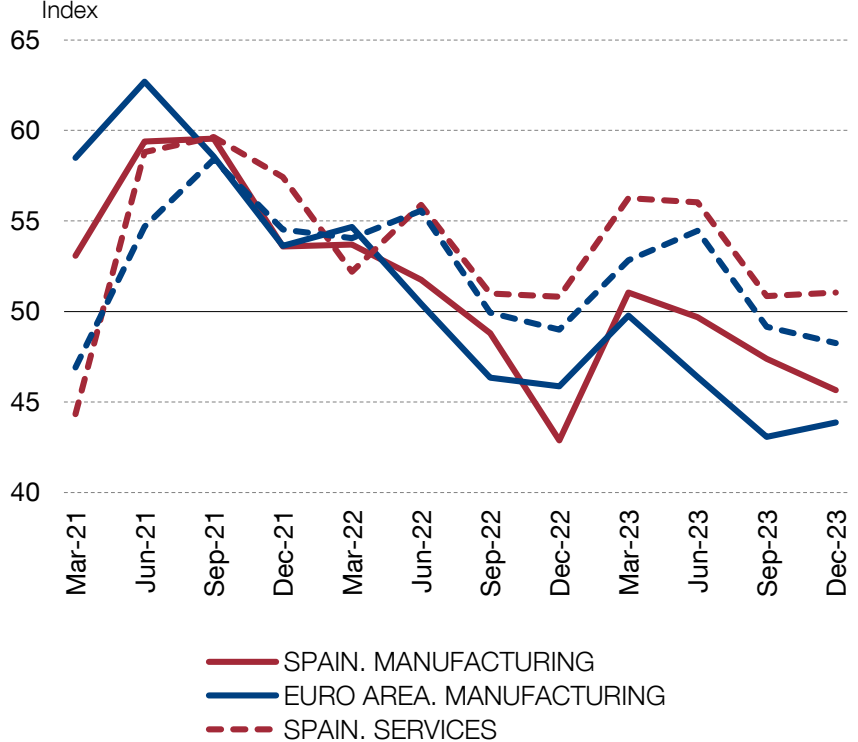


PMI INDICATORS HELD AT AROUND Q3 LEVELS UNTIL NOVEMBER, ABOVE THOSE OBSERVED IN THE EURO AREA

CHANGE IN PMIs (a)



PURCHASING MANAGERS' INDICES (a)



Source: S&P Global.
 (a) Quarterly averages depicted, with data to November for 2023 Q4.



GLOBAL GDP GROWTH APPEARS TO HAVE SLOWED SIGNIFICANTLY BETWEEN 2022 AND 2023, WITH NOTABLE HETEROGENEITY ACROSS REGIONS ...

... and is not projected to pick up appreciably in 2024

However, the world economy remains notably buoyant. Indeed, Q3 was marked by upward surprises to GDP growth, particularly in the United States and China

By contrast, economic activity in the euro area has continued to show clear weakness in recent months and is only expected to gain momentum gradually. Accordingly, the most recent Eurosystem staff macroeconomic projections have revised euro area GDP growth down for both 2023 and 2024

All this, against a setting in which ...

... energy prices have moved onto a downward path, following the initial rise observed after the Hamas attack on Israel

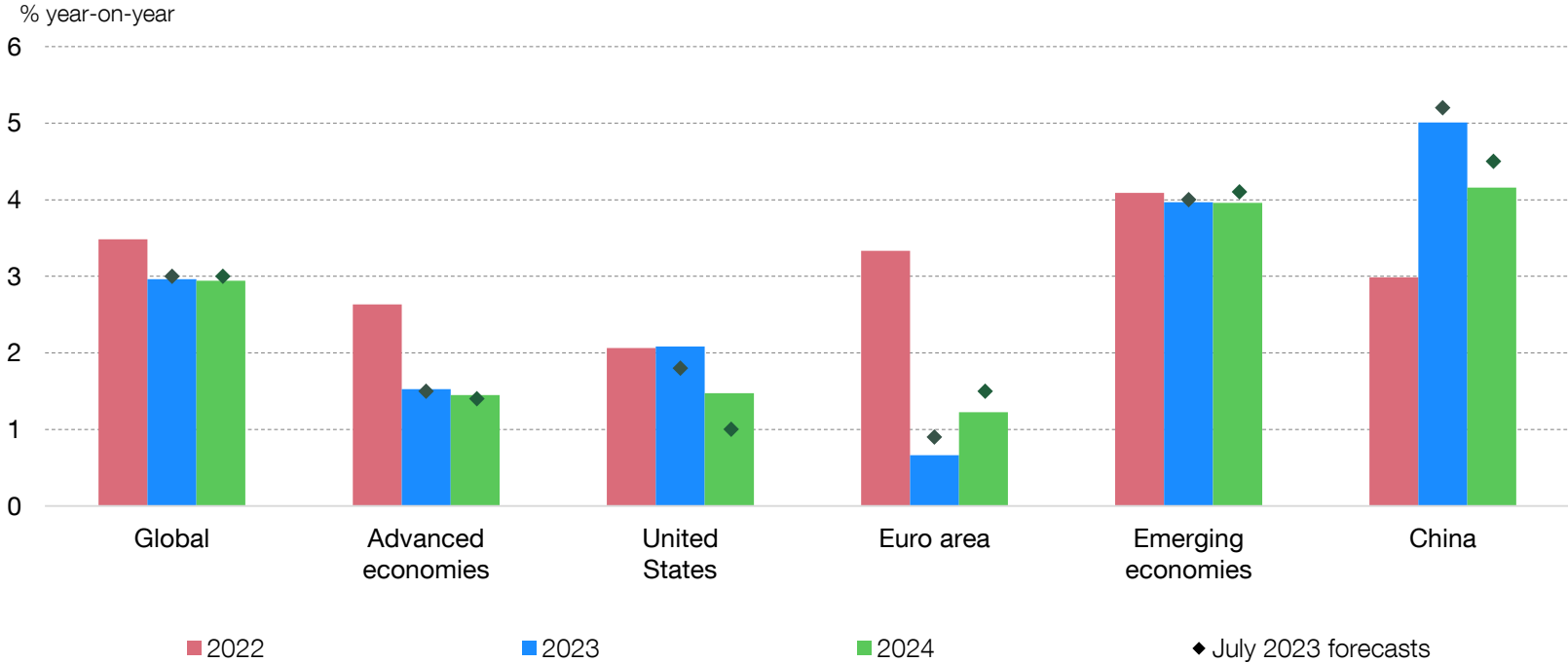
... the disinflationary process has continued at global level, even exceeding expectations in some geographical areas

... the financial markets expect policy rates to be cut earlier and by a larger amount, especially in the United States and the euro area



GLOBAL GDP GROWTH APPEARS TO HAVE SLOWED SIGNIFICANTLY BETWEEN 2022 AND 2023 AND IS NOT EXPECTED TO PICK UP APPRECIABLY IN 2024

GDP GROWTH FORECASTS



Source: IMF (October 2023 WEO and July 2023 WEO).

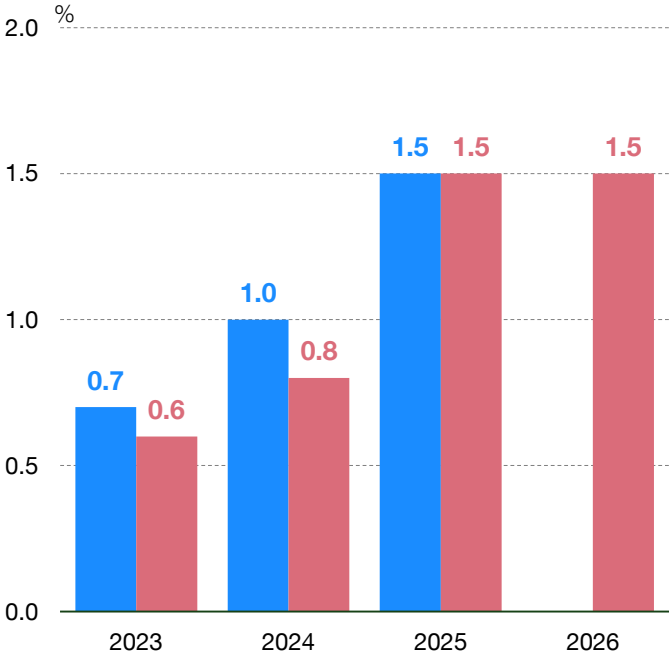


THE LATEST EUROSISTEM MACROECONOMIC PROJECTIONS REVISE GDP GROWTH IN THE EURO AREA DOWN FOR BOTH 2023 AND 2024

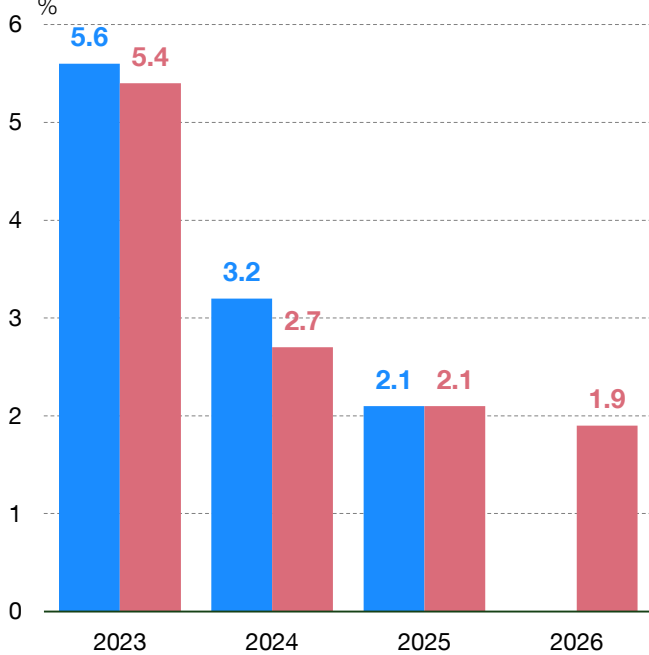
According to these projections, headline inflation and underlying inflation have also been revised downwards for those years

EURO AREA FORECASTS

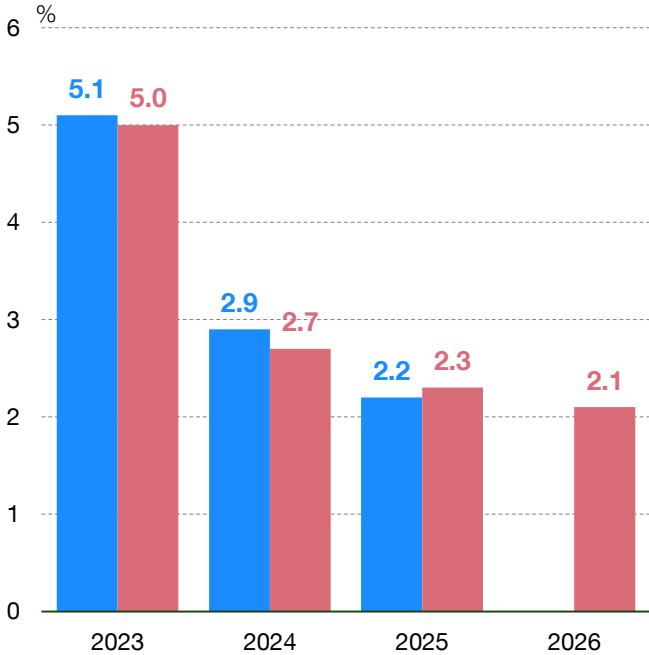
GDP GROWTH



HEADLINE INFLATION



UNDERLYING INFLATION



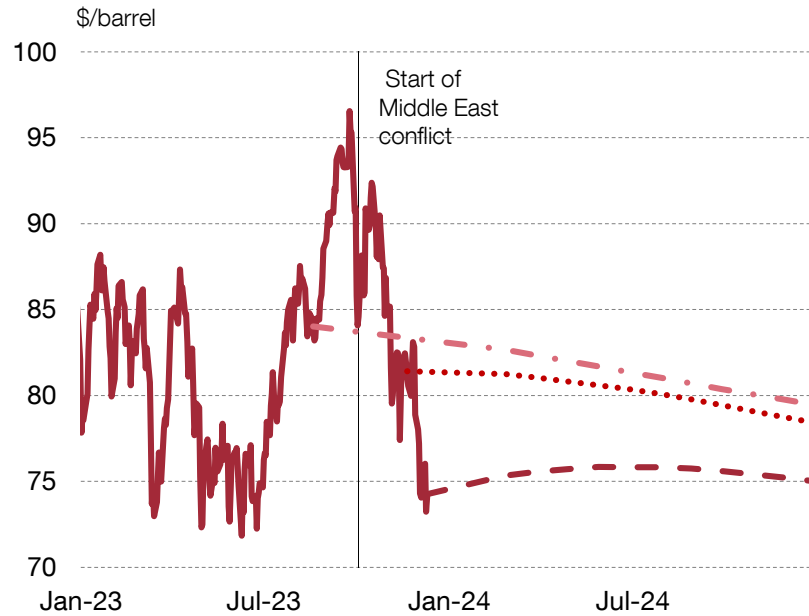
■ SEPTEMBER ■ DECEMBER

Source: Eurosystem.

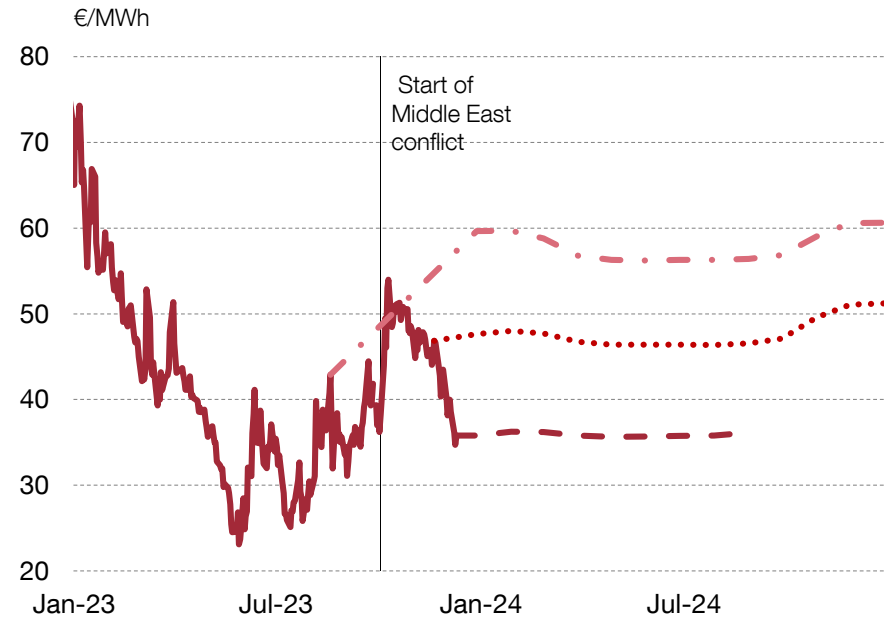


IN RECENT MONTHS ENERGY PRICES HAVE TENDED TO SURPRISE ON THE DOWNSIDE, PARTICULARLY IN THE CASE OF OIL

OIL PRICES



NATURAL GAS PRICES



— · — FUTURES 2023 Q3 CUT-OFF

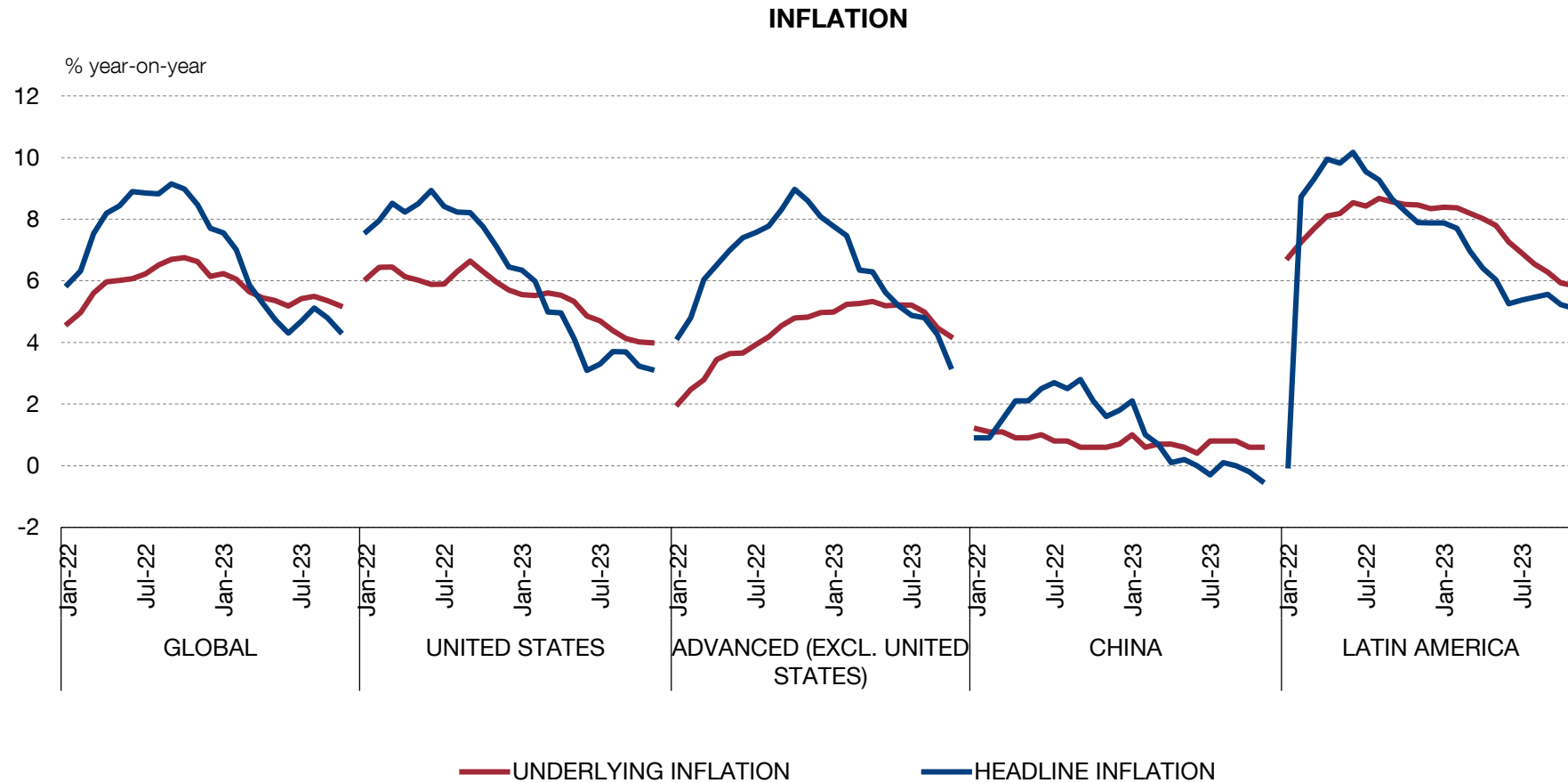
····· FUTURES 2023 Q4 CUT-OFF

— — LATEST FUTURES

Sources: Bloomberg and Refinitiv. Latest data: 13 December. 2023 Q3 projections cut-off date: 22 August. 2023 Q4 projections cut-off date: 23 November.



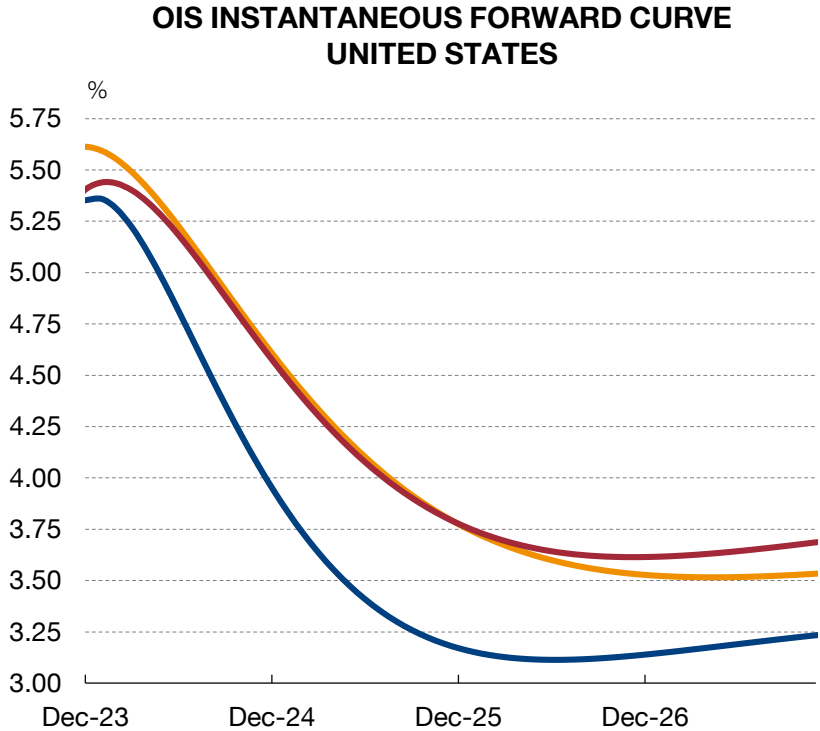
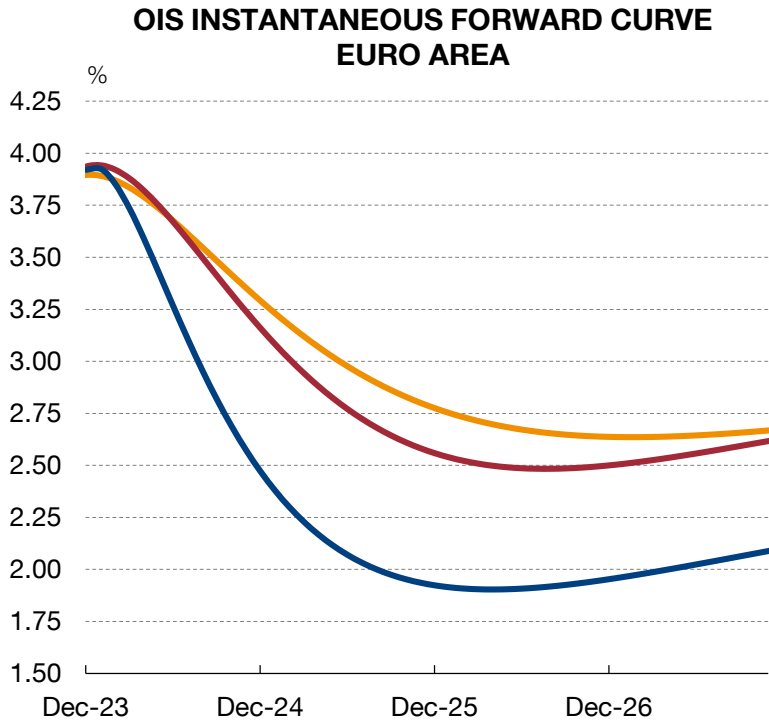
IN RECENT MONTHS, THE DISINFLATIONARY PROCESS HAS CONTINUED AT GLOBAL LEVEL, WITH SOME GEOGRAPHICAL AREAS EVEN EXCEEDING EXPECTATIONS



Source: National statistics.



EXPECTATIONS OVER FUTURE INTEREST RATES HAVE BEEN TEMPERED SIGNIFICANTLY IN RECENT WEEKS



— 28/08/2023

— 23/11/2023

— 14/12/2023

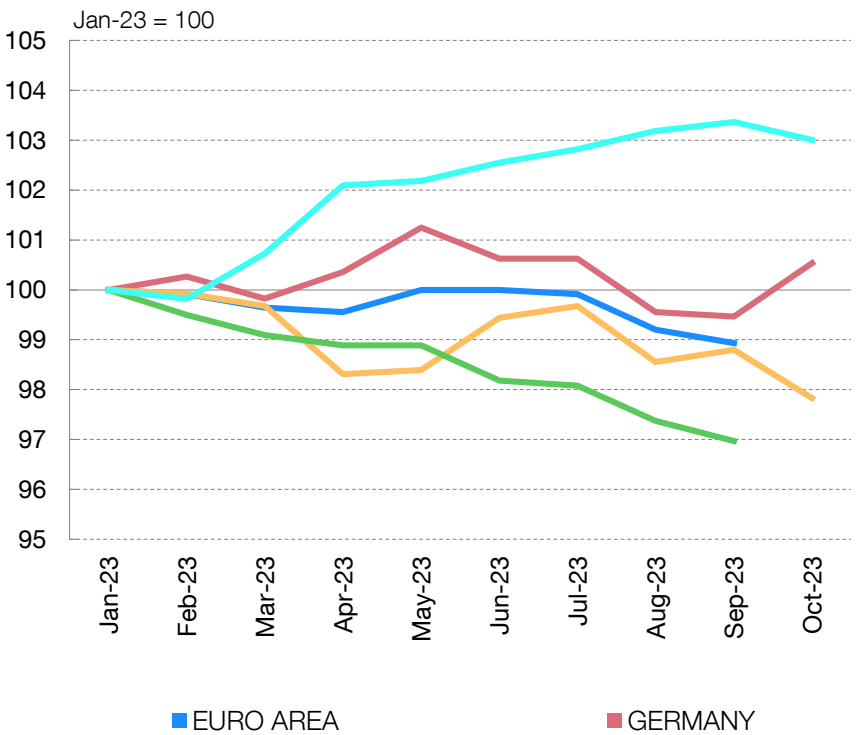
Sources: Refinitiv Datastream, Bloomberg Data License and Banco de España.



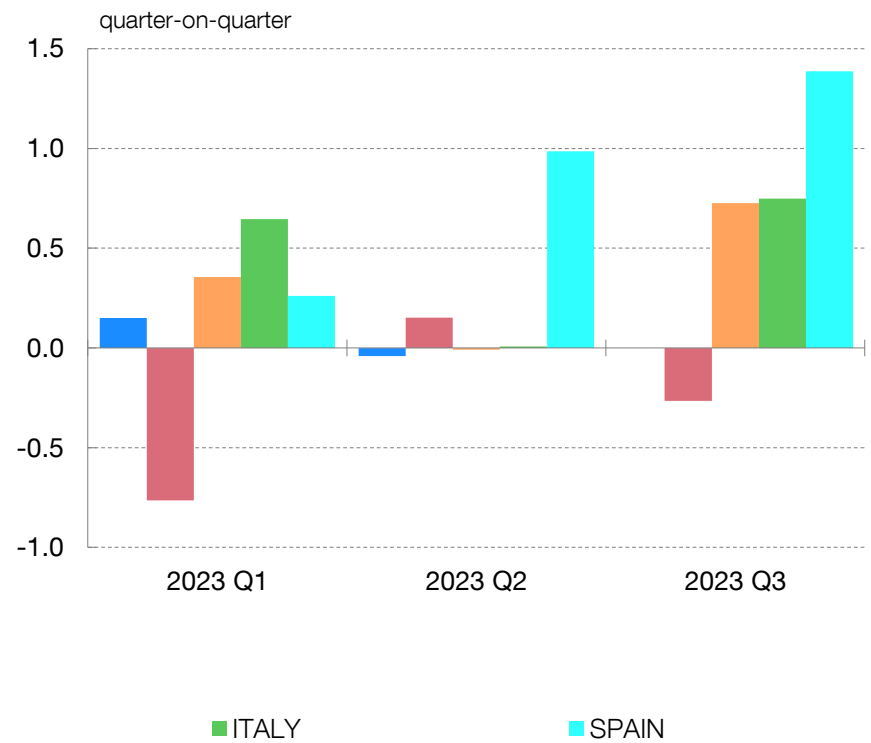
IN RECENT QUARTERS HOUSEHOLD CONSUMPTION HAS BEEN MORE ROBUST IN SPAIN THAN IN THE MAIN EURO AREA COUNTRIES

The possible factors behind this better relative performance notably include (i) a **different starting point** (given that private consumption fell more in Spain during the pandemic), (ii) the **bigger improvement in Spanish households' real income**, and (iii) **higher confidence levels in Spain**

RETAIL TRADE INDICES



PRIVATE CONSUMPTION



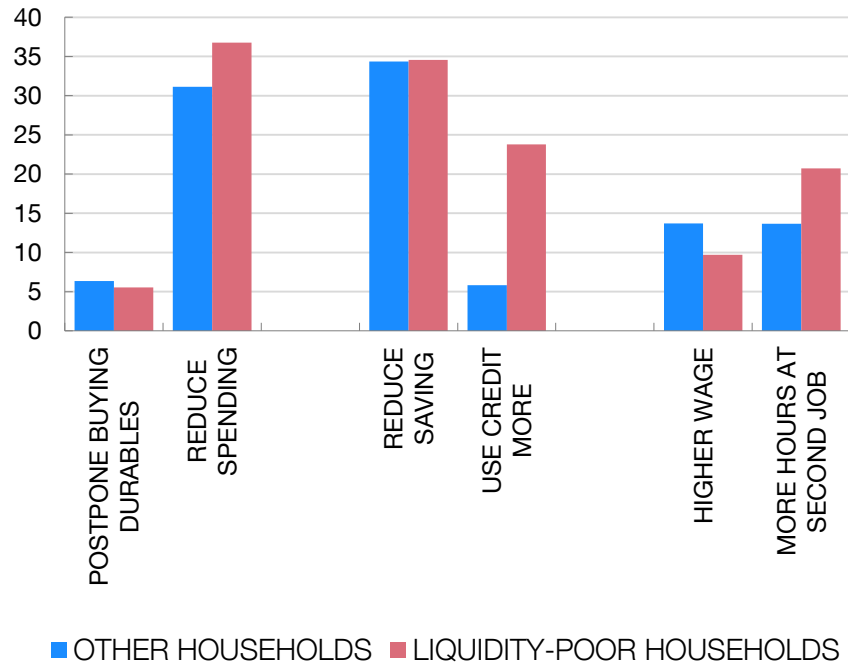
Sources: INE and Eurostat.



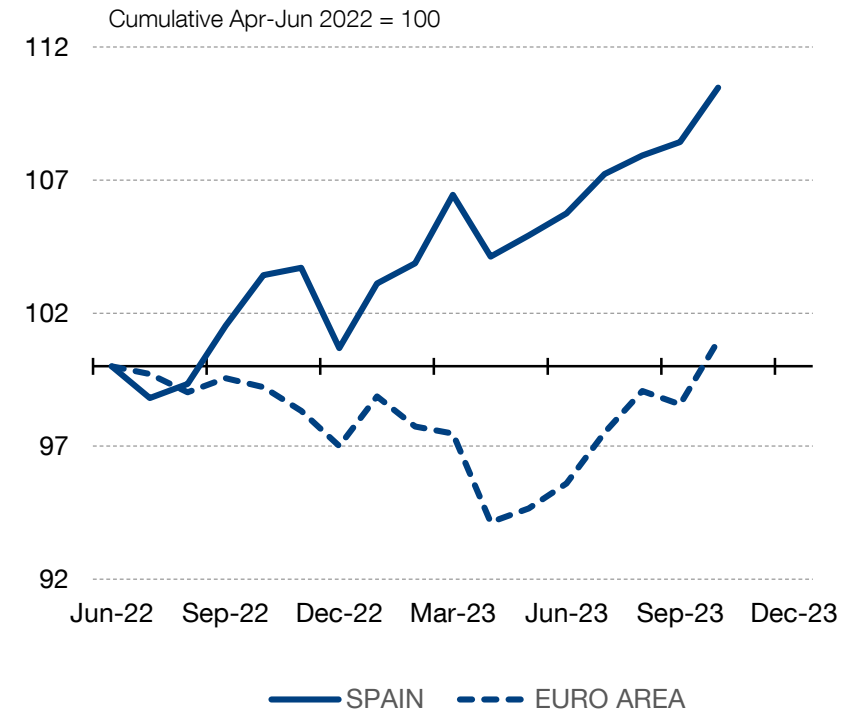
THE RECENT STRENGTH OF SPANISH HOUSEHOLD CONSUMPTION APPEARS TO HAVE BEEN PARTLY UNDERPINNED BY INCREASED USE OF CREDIT/SAVINGS AND A SLIGHT IMPROVEMENT IN INCOME

Comparatively speaking, **liquidity-poor households** have used credit more and increased their labour supply to a greater extent, while a larger share of them report having reduced their spending

ACTIONS TAKEN IN THE LAST 12 MONTHS IN RESPONSE TO PRICE DEVELOPMENTS



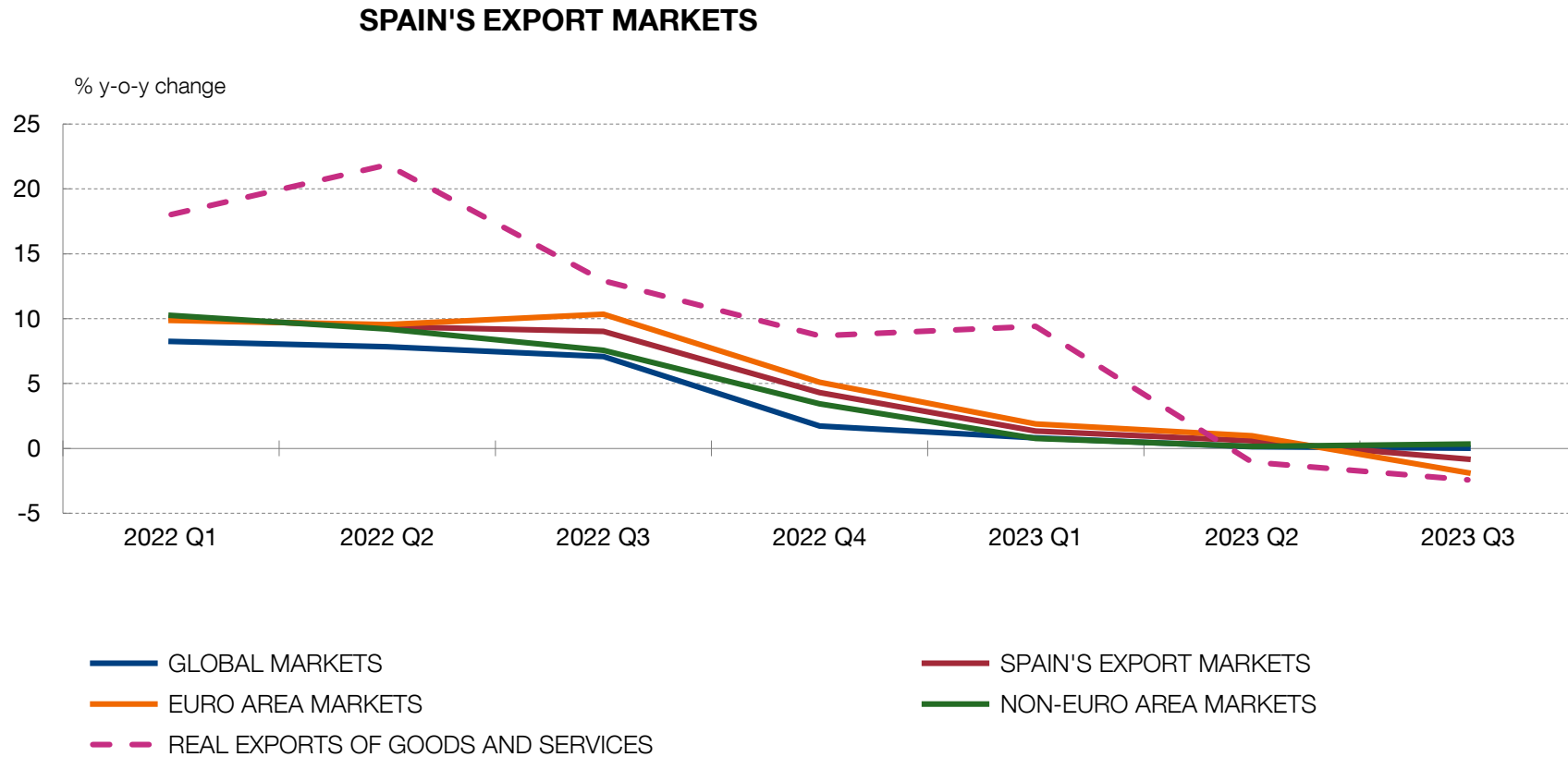
CONSUMER CREDIT



Source: Consumer Expectations Survey (ECB).



SPANISH EXPORTS HAVE SLOWED IN RECENT QUARTERS, IN LINE WITH THE MODERATION OBSERVED IN WORLD MARKETS



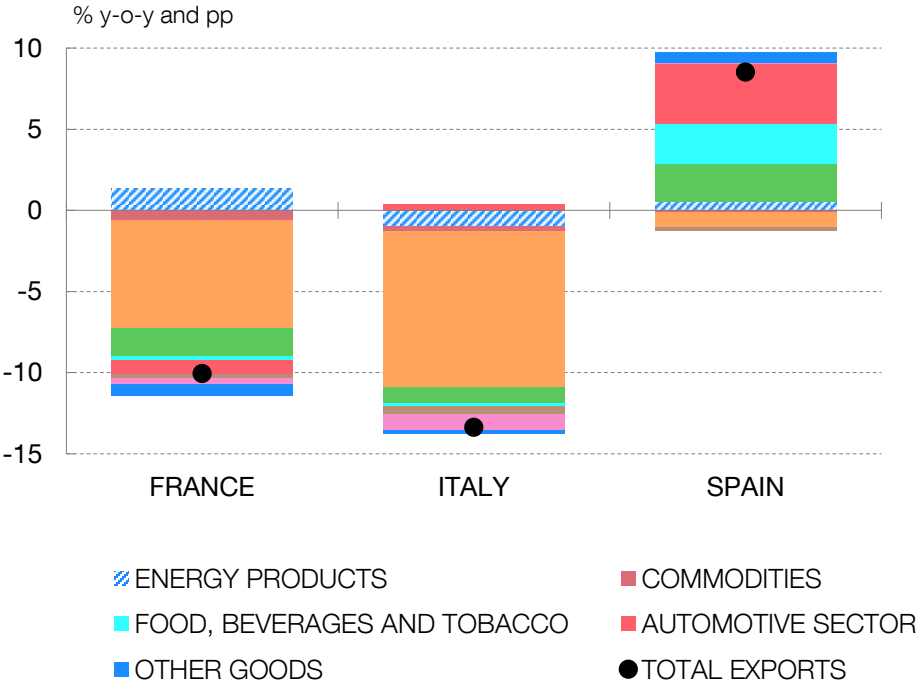
Sources: ECB, Banco de España and INE.



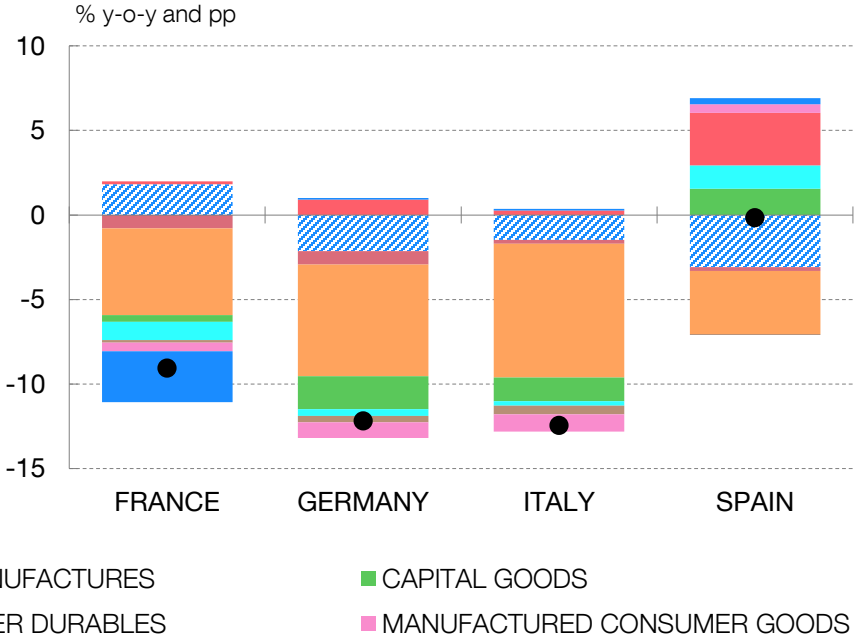
NEVERTHELESS, SPANISH GOODS EXPORTS TO GERMANY/THE EURO AREA HAVE BEEN NOTABLY RESILIENT, DESPITE THE WEAKNESS OF THESE ECONOMIES

It is still too soon to tell how structural these dynamics are. For instance, they are partly attributable to the recent pick-up in new car registrations/exports, amid easing supply-side bottlenecks and the post-pandemic release of pent-up demand for cars

CONTRIBUTION OF EACH PRODUCT TO THE CHANGE IN EXPORTS TO GERMANY IN 2023 (a)



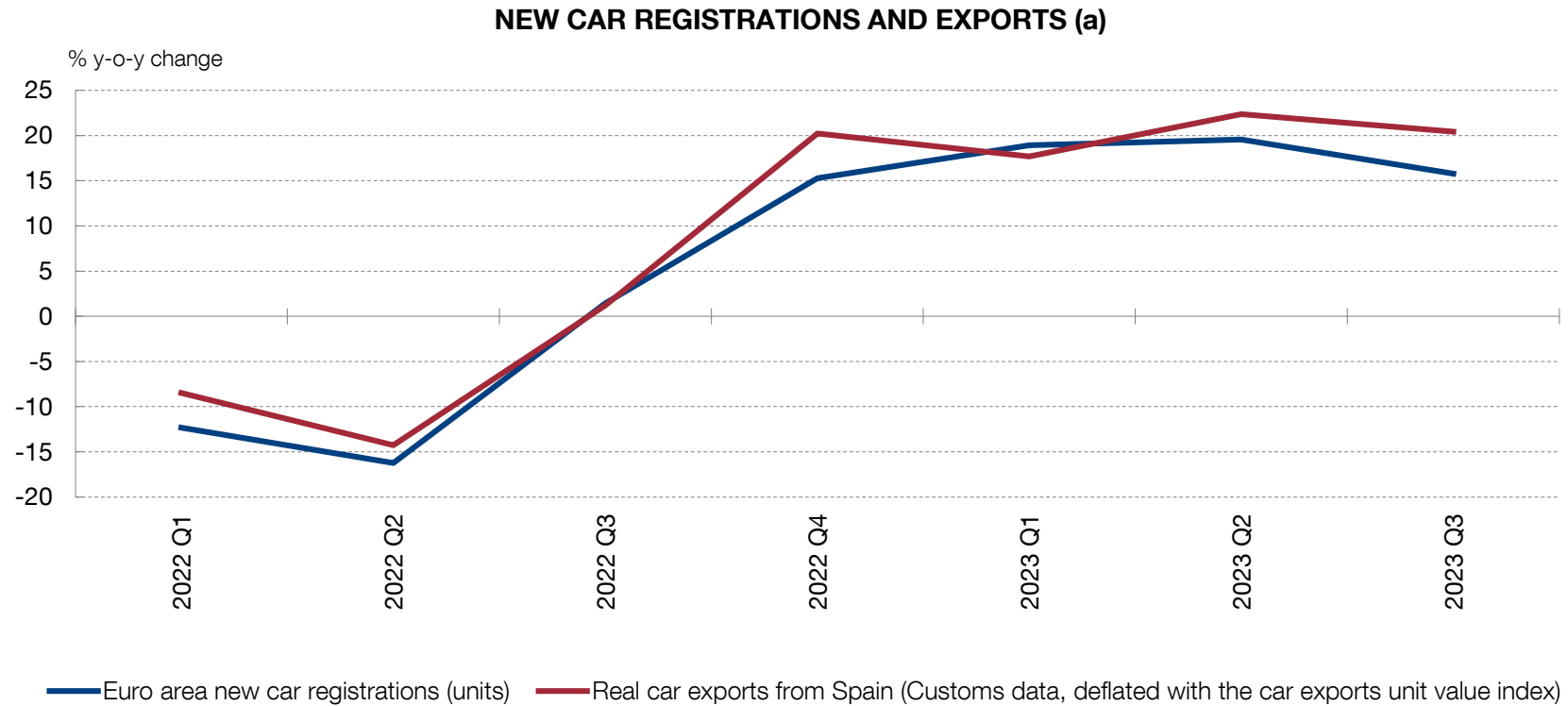
CONTRIBUTION OF EACH PRODUCT TO THE CHANGE IN EXPORTS TO THE EURO AREA IN 2023 (a)



Source: Ministerio de Economía, Comercio y Empresa. Latest data: September 2023.
 (a) The change covers the period January-September 2023.



SPANISH CAR EXPORTS HAVE MOVED IN LINE WITH THE RECOVERY IN EURO AREA NEW CAR REGISTRATIONS, FOLLOWING THE EASING OF SUPPLY DIFFICULTIES



Sources: Eurostat, Departamento de Aduanas and Ministerio de Economía, Comercio y Empresa.
(a) Real car exports are calculated as nominal exports deflated with the car exports unit value index.



MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2026): SUMMARY

				DECEMBER 2023 PROJECTIONS (a)				DIFFERENCES WITH RESPECT TO THE SEPTEMBER PROJECTIONS			
	2020	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026
Annual rate of change (%), unless otherwise indicated											
GDP	-11.2	6.4	5.8	2.4	1.6	1.9	1.7	0.1	-0.2	-0.1	-
Harmonised index of consumer prices (HICP)	-0.3	3.0	8.3	3.4	3.3	2.0	1.9	-0.2	-1.0	0.2	-
HICP excl. energy and food	0.5	0.6	3.8	4.1	1.9	1.9	1.8	0.0	-0.4	0.2	-
Unemployment rate (% of labour force). Annual average	15.5	14.8	12.9	12.1	11.7	11.4	11.3	0.1	0.2	0.1	-
General government net lending (+) / net borrowing (-) (% of GDP)	-10.1	-6.7	-4.7	-3.8	-3.4	-3.6	-3.6	-0.1	0.0	0.5	-
General government debt (% of GDP)	120.3	116.8	111.6	107.3	106.3	107.2	108.4	-1.5	-0.6	-0.7	-

More details 

Sources: Banco de España and INE.
(a) Projections cut-off date: 30 November 2023.

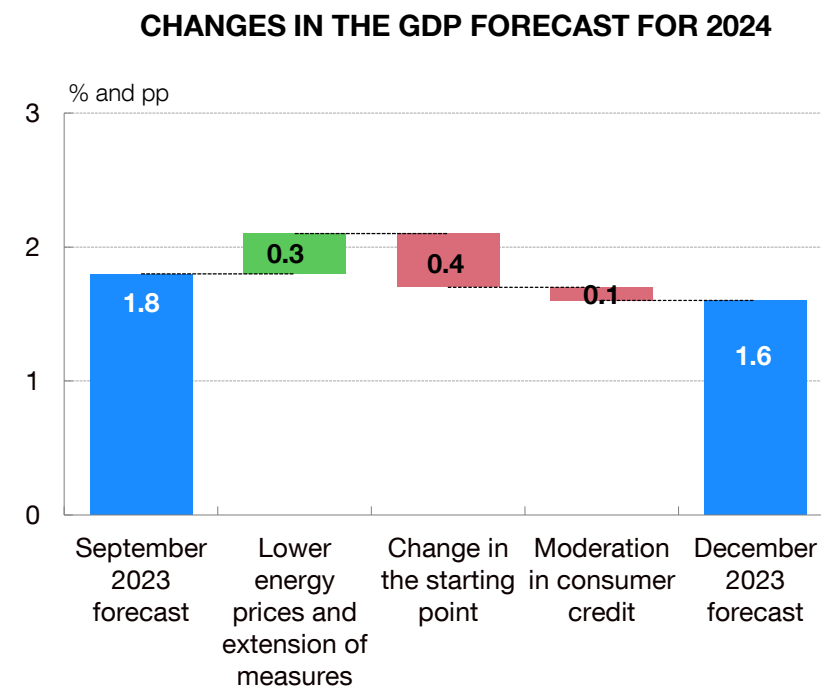
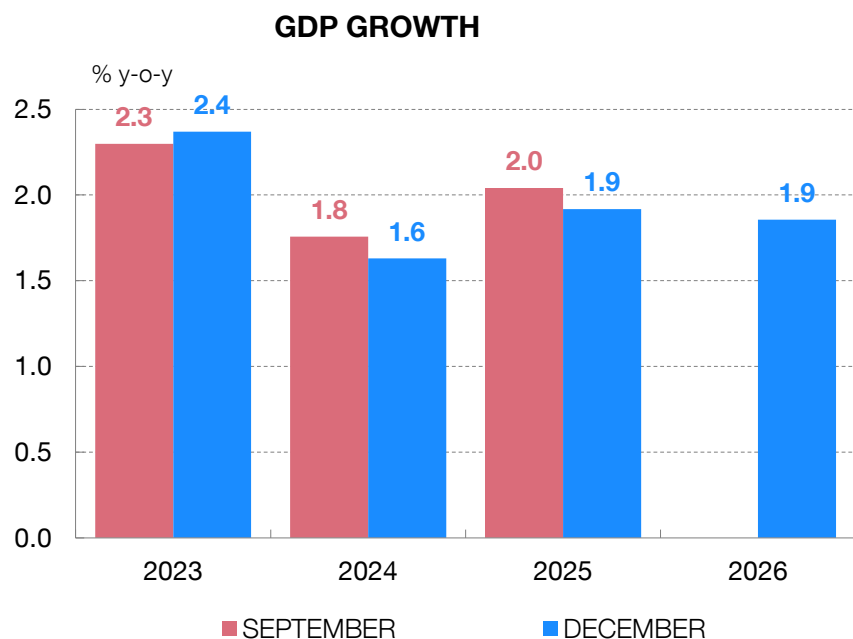
MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2026): MAIN ITEMS

	2022	December 2023 projections				September 2023 projections		
		2023	2024	2025	2026	2023	2024	2025
Annual rate of change in volume terms (%) and % of GDP								
GDP	5.8	2.4	1.6	1.9	1.7	2.3	1.8	2.0
Private consumption	4.7	2.2	2.3	1.7	1.5	0.7	2.2	2.0
Government consumption	-0.2	2.2	0.8	1.5	1.3	1.4	0.8	1.4
Gross fixed capital formation	2.4	1.8	2.7	2.7	1.8	3.1	3.4	2.4
Exports of goods and services	15.2	1.0	0.3	3.0	2.9	4.0	2.2	3.0
Imports of goods and services	7.0	-0.4	1.3	3.0	2.7	1.5	3.2	3.0
Domestic demand (contribution to growth)	2.9	1.8	2.0	1.8	1.5	1.2	2.1	1.9
Net external demand (contribution to growth)	2.9	0.6	-0.4	0.1	0.2	1.1	-0.3	0.1
Nominal GDP	10.2	8.2	4.2	4.2	3.8	7.6	5.1	3.8
GDP deflator	4.1	5.6	2.6	2.3	2.1	5.2	3.3	1.7
HICP	8.3	3.4	3.3	2.0	1.9	3.6	4.3	1.8
HICP excluding energy and food	3.8	4.1	1.9	1.9	1.8	4.1	2.3	1.7
Employment (hours)	3.9	1.8	1.3	1.1	0.9	1.3	1.5	1.3
Unemployment rate (% of labour force). Annual average	12.9	12.1	11.7	11.4	11.3	12.0	11.5	11.3
Net lending (+) / net borrowing (-) of the nation (% of GDP)	1.5	3.4	2.9	3.0	3.0	5.0	4.1	3.3
General government net lending (+) / net borrowing (-) (% of GDP)	-4.7	-3.8	-3.4	-3.6	-3.6	-3.7	-3.4	-4.1
General government debt (% of GDP)	111.6	107.3	106.3	107.2	108.4	108.8	106.9	107.9

Sources: Banco de España and INE.



GDP GROWTH IS REVISED DOWN SLIGHTLY FOR 2024 AND 2025 AS COMPARED WITH THE SEPTEMBER PROJECTION EXERCISE

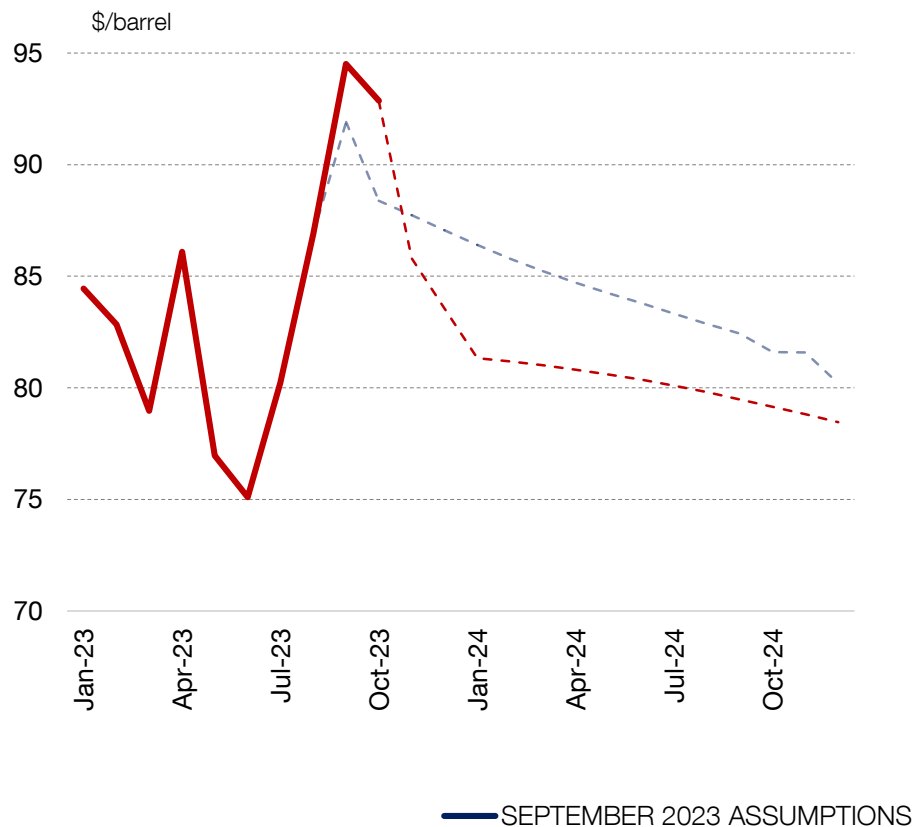


Source: Banco de España.

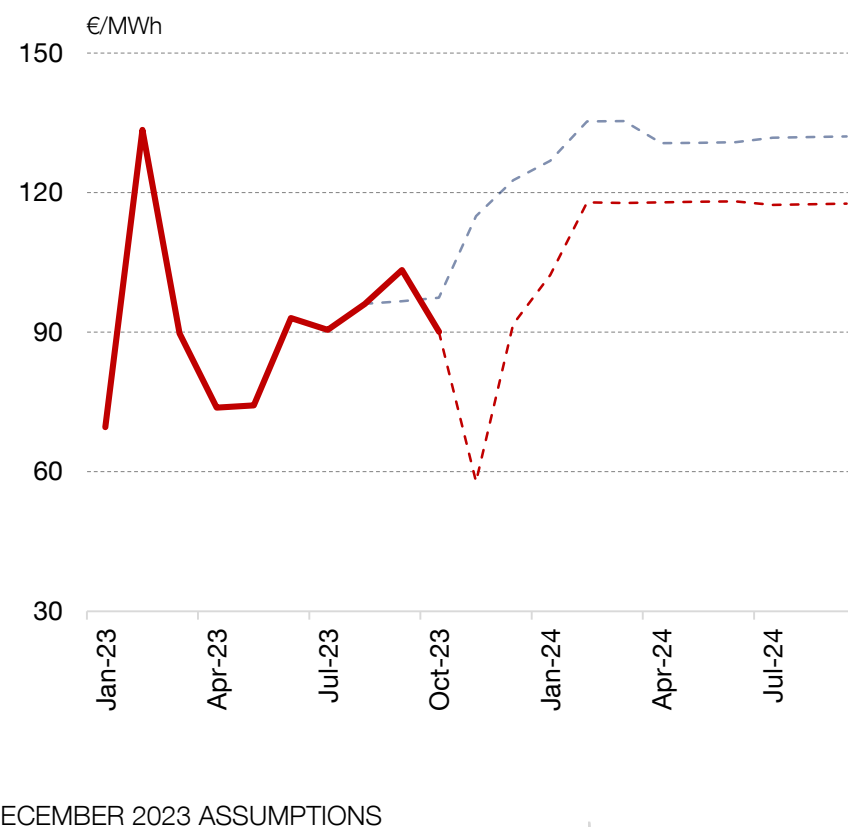
- GDP growth for 2023 is revised up slightly (+0.1 pp), attributable to the positive effect that the INE's statistical revisions in recent months have had on output growth rates in 2023 H1 and 2022 H2
- GDP growth for 2024 is revised down slightly (-0.2 pp), owing to the confluence of various opposing factors:
 - On the one hand, lower energy prices than envisaged in September and the extension of some of the measures deployed by the authorities to combat the effects of the inflationary episode (i.e. the reduced VAT rate on food and public transport subsidies)
 - On the other hand, as a result of the statistical revisions conducted by the INE in recent months, the initial GDP and consumption levels for 2023 Q3 considered in this projection exercise are significantly higher than those envisaged in September. The statistical revisions also mean less slack in the Spanish economy, thus leaving less room for future economic growth

ELECTRICITY PRICE DEVELOPMENTS SURPRISED ON THE DOWNSIDE IN OCTOBER AND NOVEMBER, WHILE FORWARD ENERGY PRICE TRAJECTORIES WERE ALSO REVISED DOWN

OIL PRICES



WHOLESALE ELECTRICITY MARKET

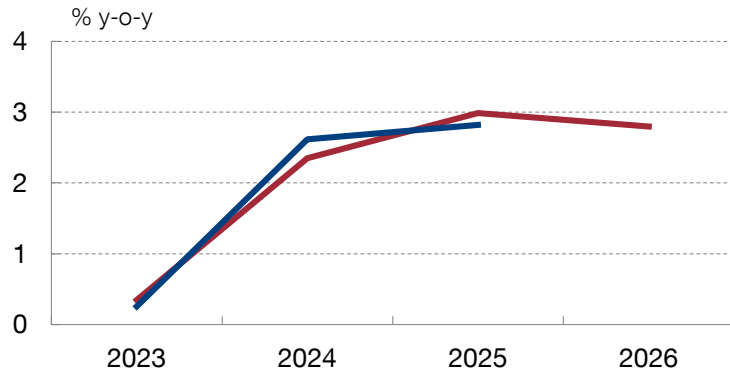


Other changes in assumptions

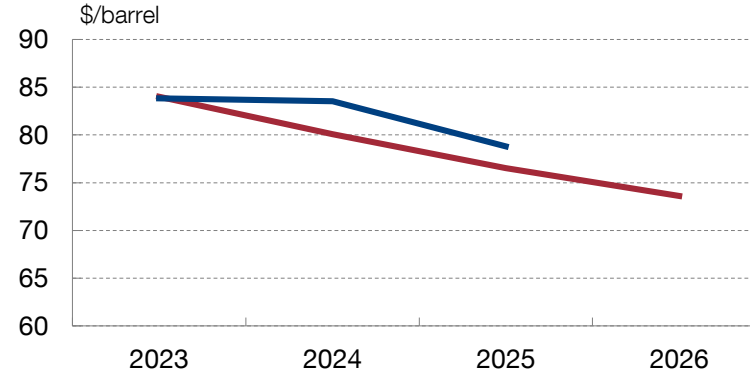
Sources: Reuters, OMIE, Banco de España and MIBGAS.

CHANGES IN THE TECHNICAL ASSUMPTIONS BETWEEN THE SEPTEMBER AND DECEMBER BANCO DE ESPAÑA PROJECTION EXERCISES

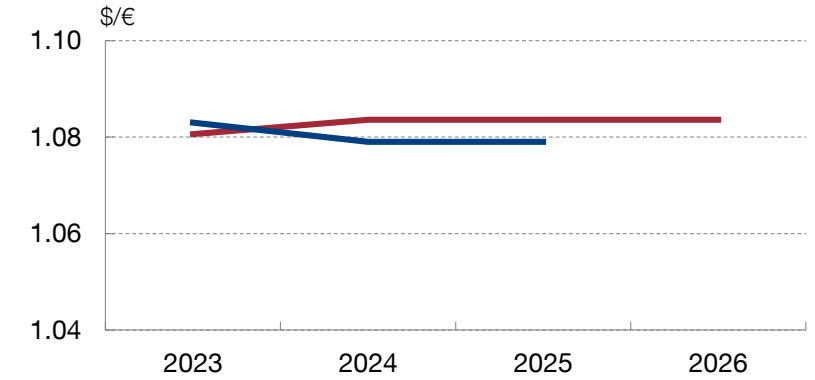
EXPORT MARKETS



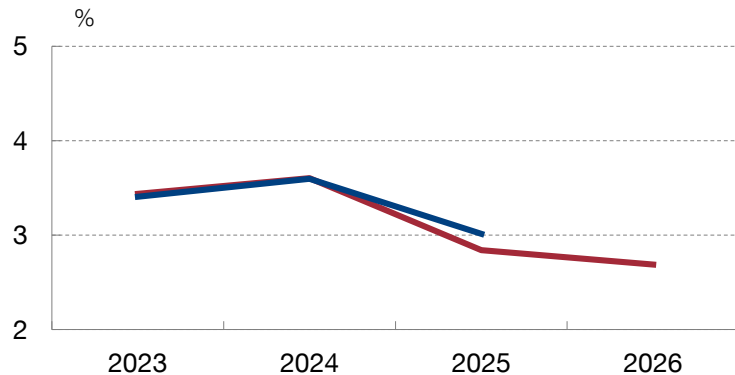
OIL PRICES



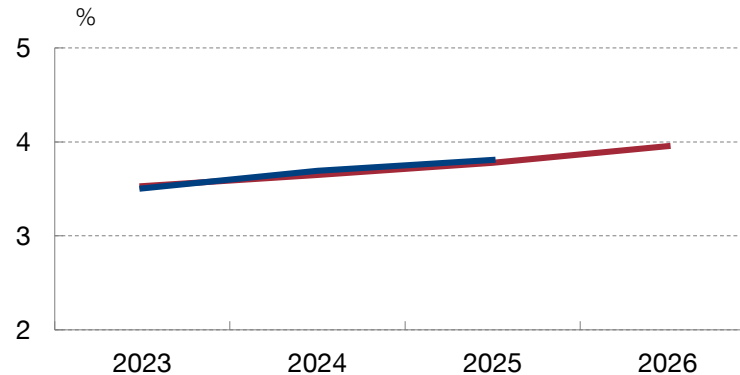
EXCHANGE RATE



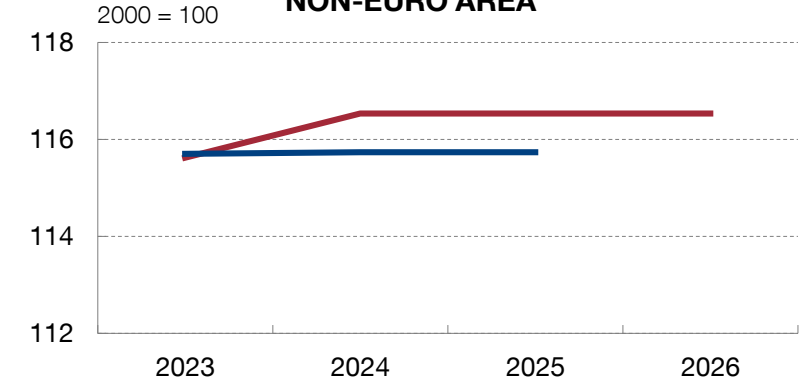
SHORT-TERM INTEREST RATES



LONG-TERM INTEREST RATES



NOMINAL EFFECTIVE EXCHANGE RATE VIS-À-VIS THE NON-EURO AREA



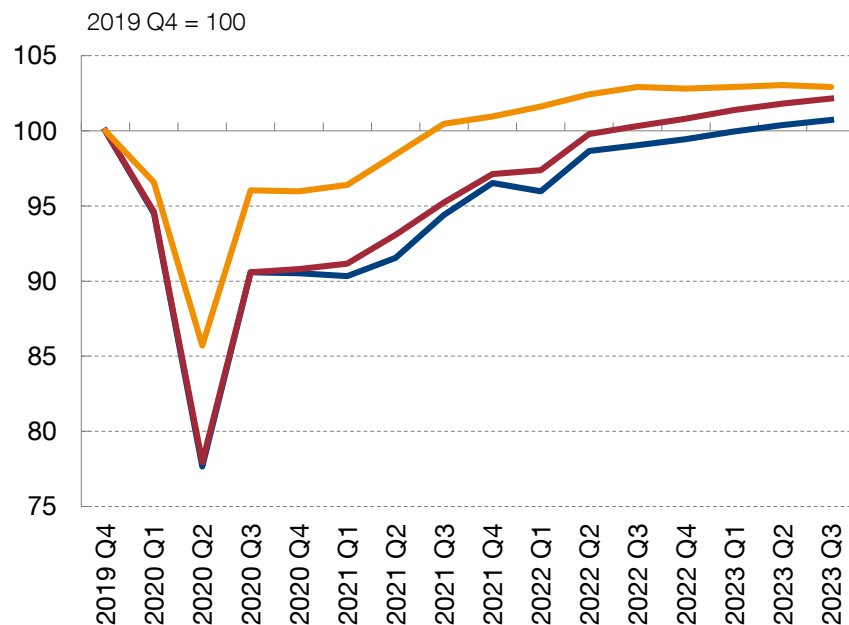
— SEPTEMBER 2023 — DECEMBER 2023

Sources: INE, ECB and Banco de España.

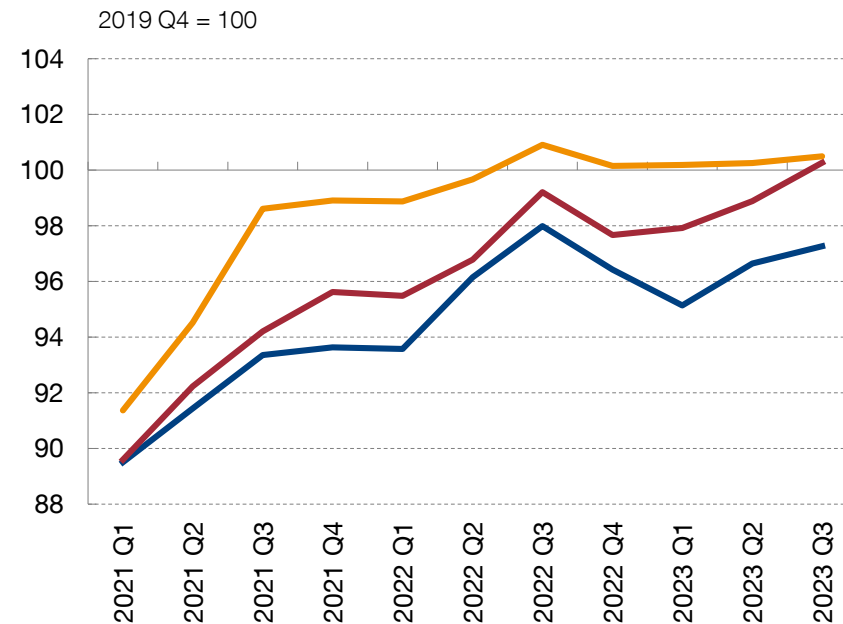


THE NEW ANA FIGURES AND LATEST REVISIONS TO THE QNA HAVE RESULTED IN HIGHER GDP AND CONSUMPTION LEVELS IN Q3 THAN ENVISAGED IN THE SEPTEMBER PROJECTIONS

GDP



PRIVATE CONSUMPTION



— SPAIN. SEPTEMBER

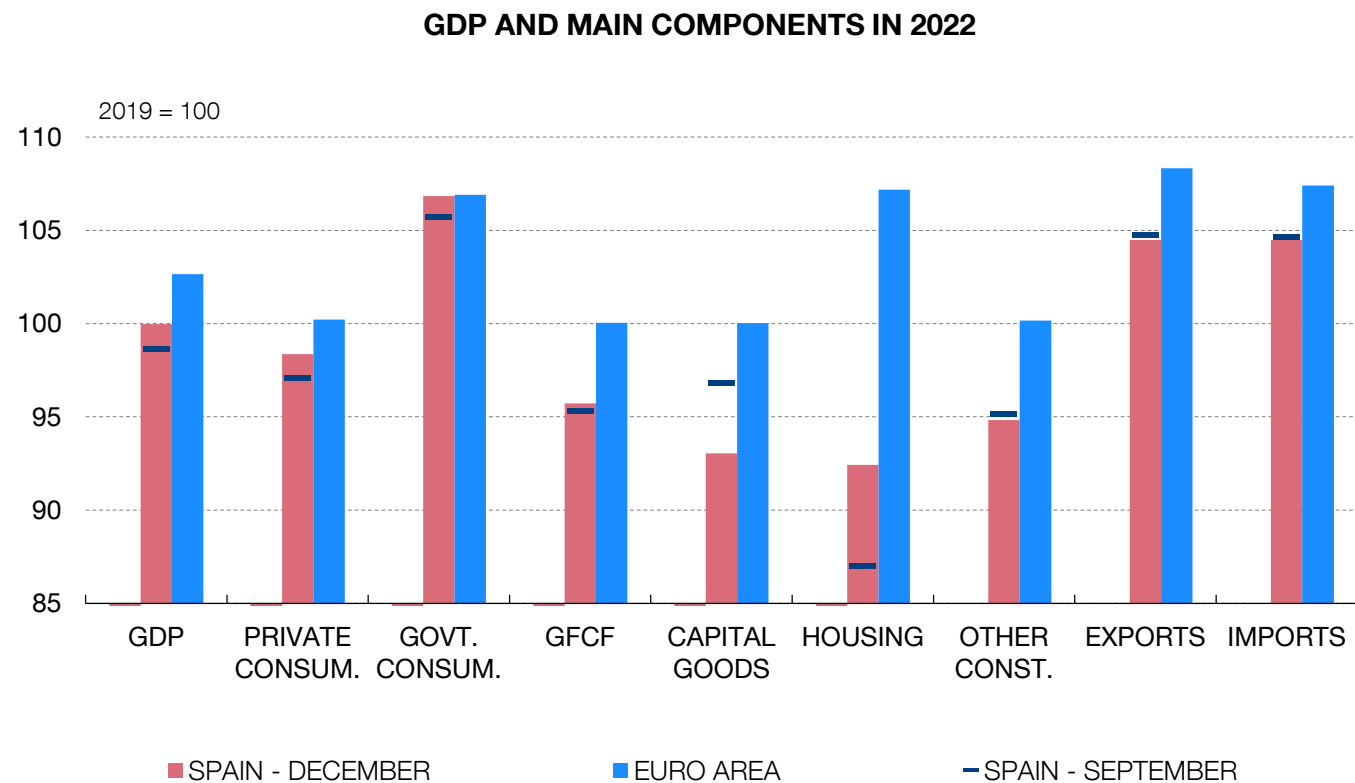
— SPAIN. DECEMBER

— EURO AREA. DECEMBER

Changes in other items

SOURCES: INE and Eurosystem.

THE REVISION TO THE ANNUAL NATIONAL ACCOUNTS (ANA) FIGURES HAVE ENTAILED SIGNIFICANT CHANGES IN THE LEVEL OF GDP AND OF ITS MAIN COMPONENTS

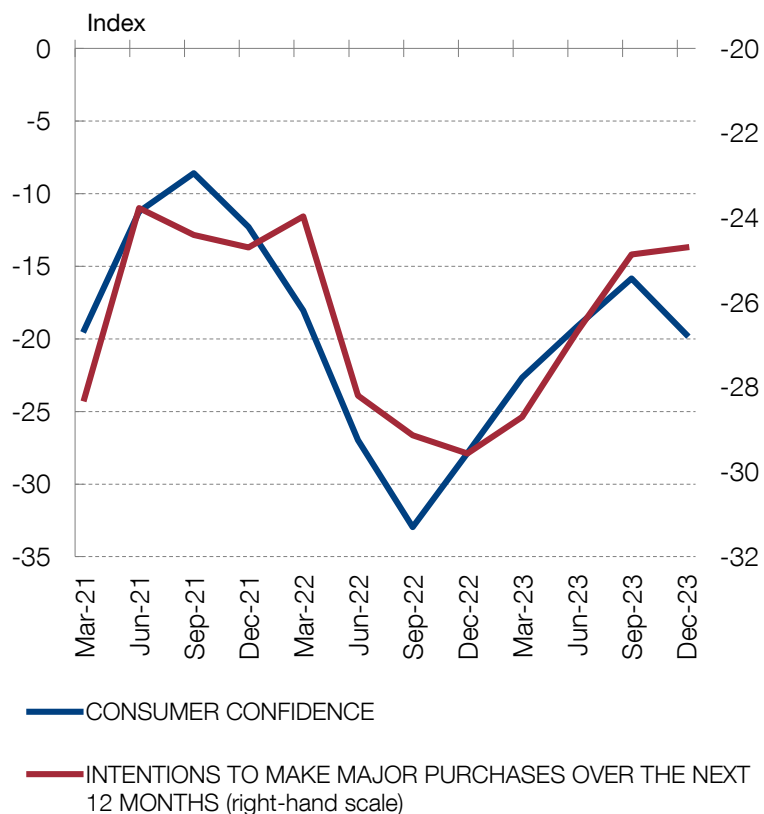


SOURCES: INE and Eurostat.

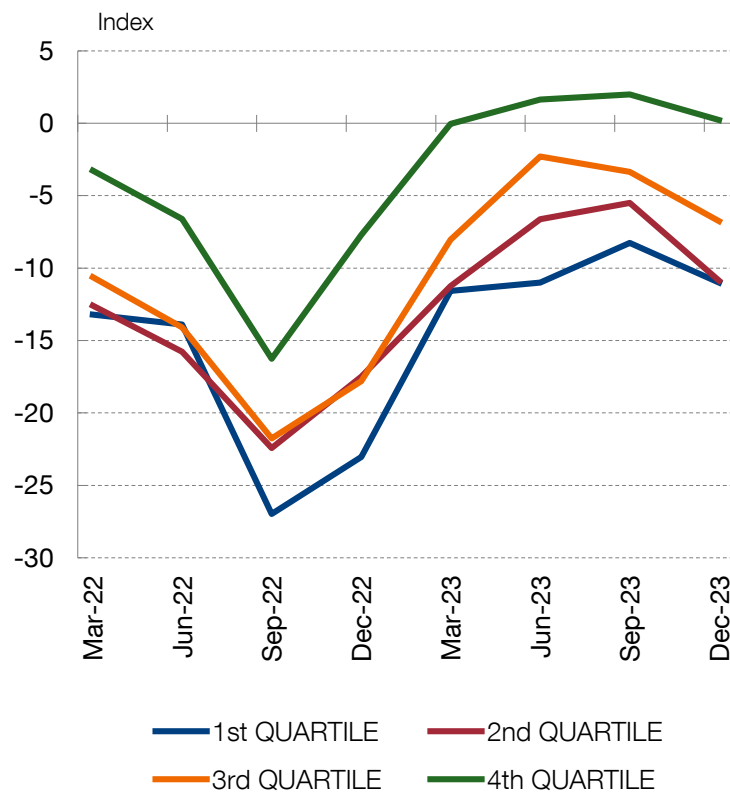


VARIOUS INDICATORS POINT TO MORE MODERATE PRIVATE CONSUMPTION GROWTH RATES IN Q4 AND BEYOND THAN IN THE LAST TWO QUARTERS

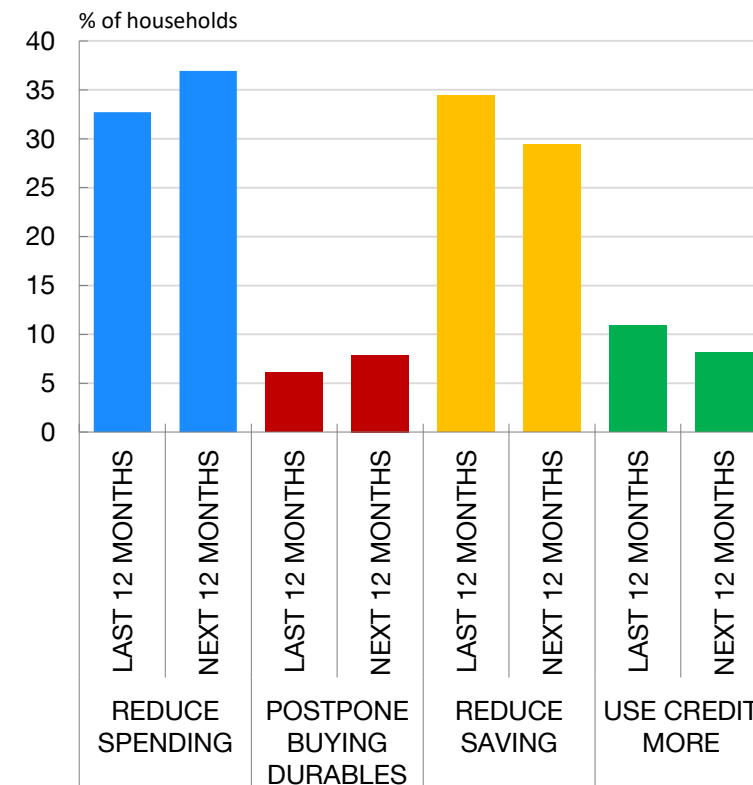
CONSUMER CONFIDENCE



EXPECTATIONS ABOUT THE FINANCIAL SITUATION IN THE NEXT 12 MONTHS



CONSUMPTION ADJUSTMENTS TO COPE WITH THE TRAJECTORY OF PRICES

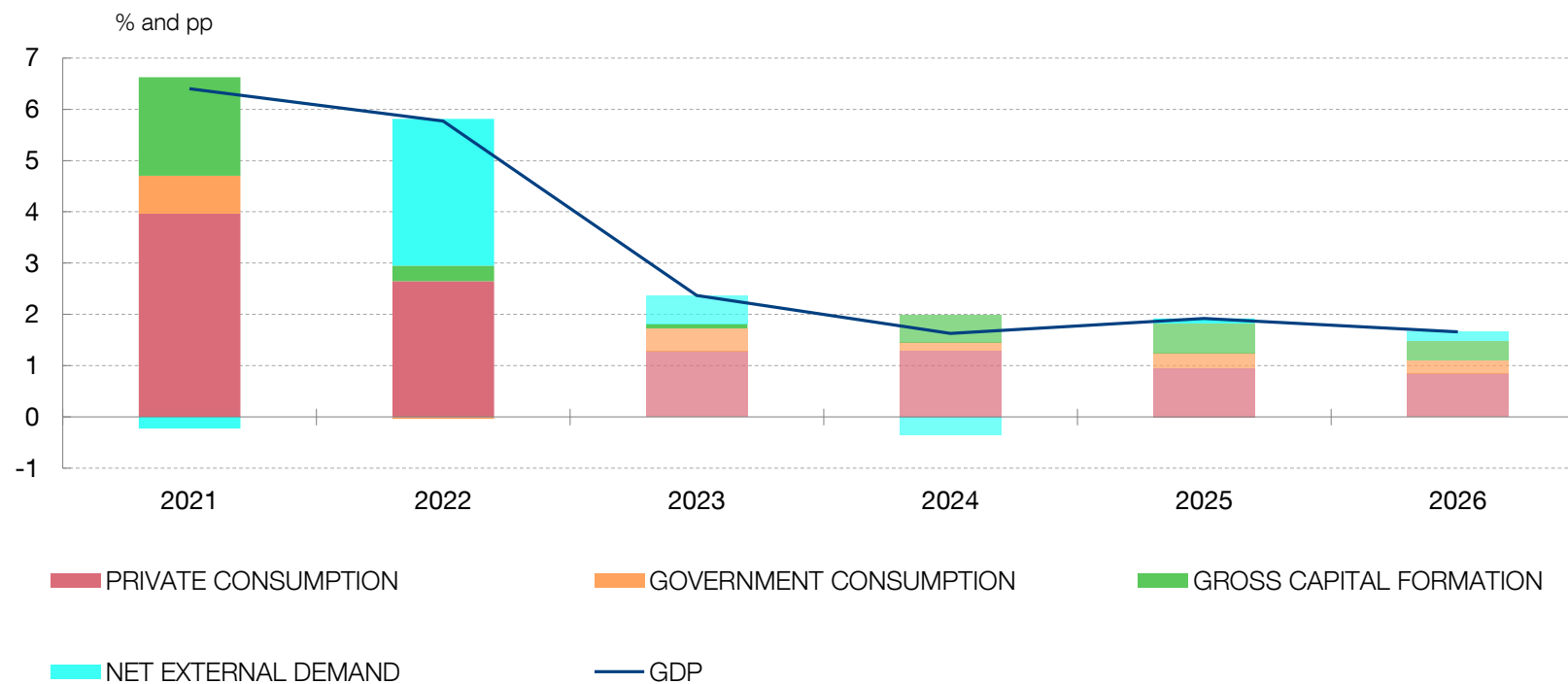


SOURCES: European Commission and Consumer Expectations Survey (ECB).



PRIVATE CONSUMPTION WILL BE THE MAIN DRIVER OF SPAIN'S ECONOMIC GROWTH THROUGHOUT THE PROJECTION HORIZON, FOLLOWED BY INVESTMENT

GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



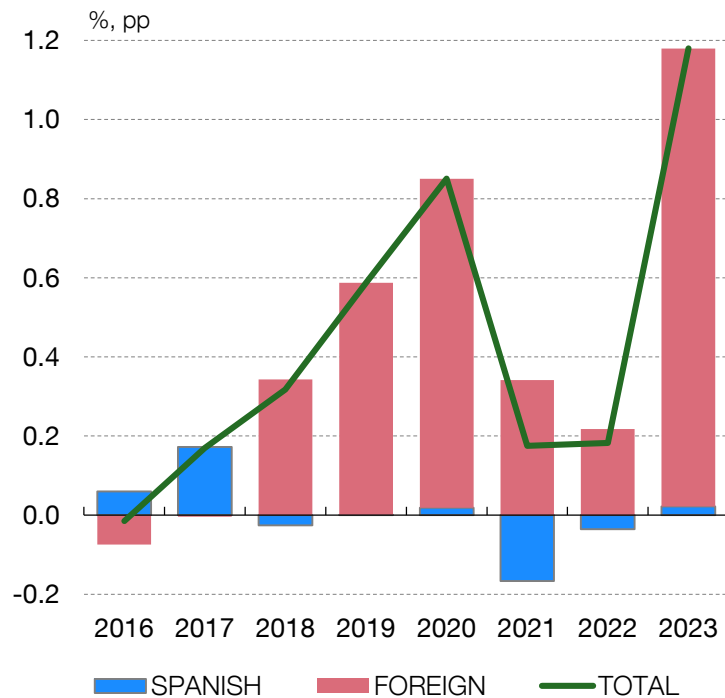
SOURCES: INE and Banco de España.



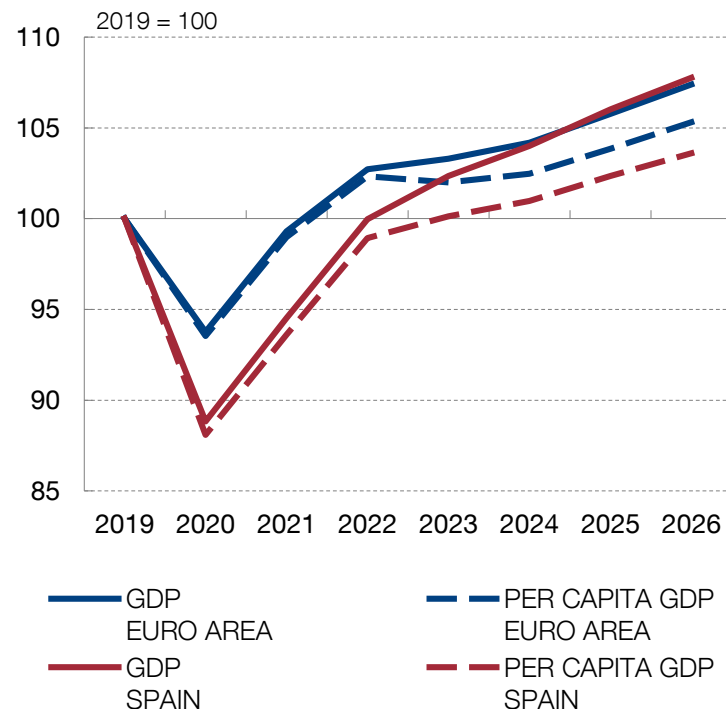
MUCH OF THE ECONOMIC GROWTH IN SPAIN IN RECENT YEARS HAS BEEN DUE TO POPULATION GROWTH, WITHOUT ANY SIGNIFICANT IMPROVEMENT IN PRODUCTIVITY

In recent years, the Spanish economy's per capita GDP and productivity have grown very little, both in absolute terms and compared with the euro area. These dynamics are expected to continue throughout the entire projection horizon

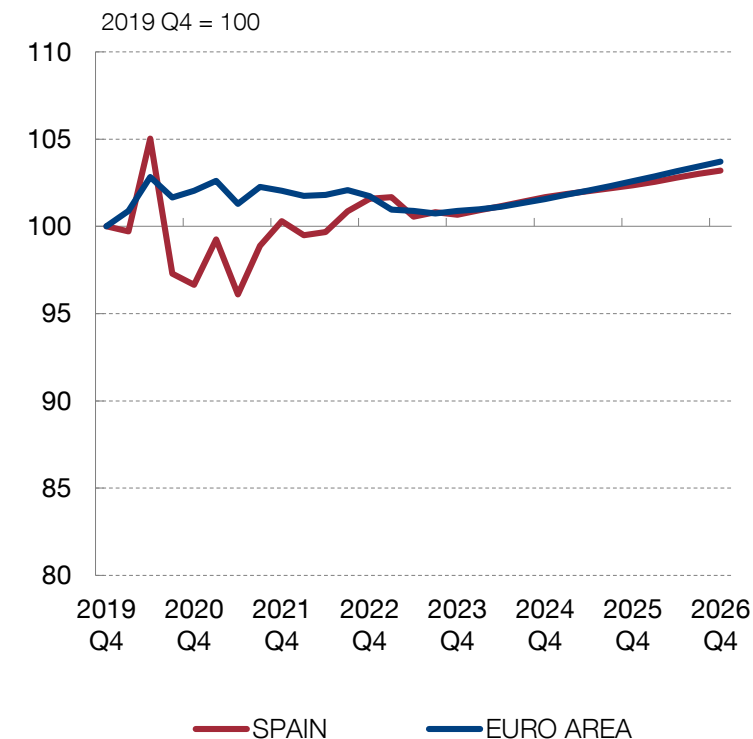
POPULATION GROWTH IN SPAIN AND CONTRIBUTIONS BY NATIONALITY



GDP AND PER CAPITA GDP IN SPAIN AND THE EURO AREA



HOURLY PRODUCTIVITY



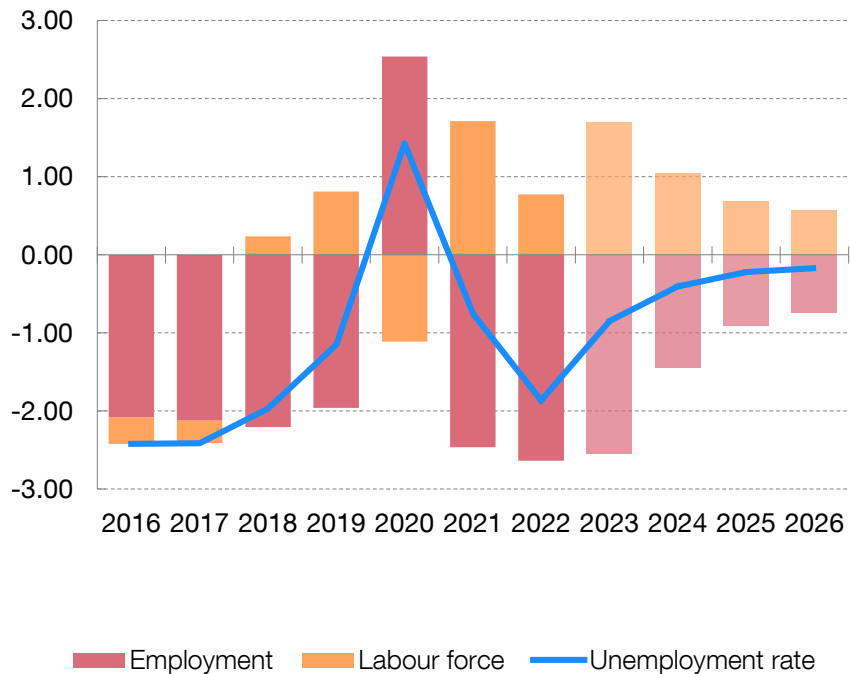
SOURCES: INE, Banco de España and Eurosystem.



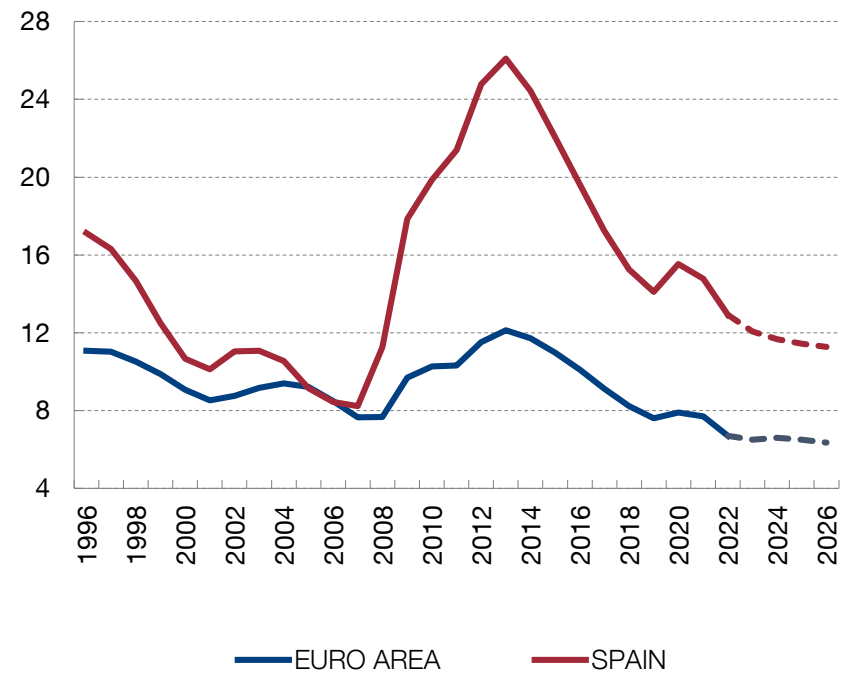
WHILE SPAIN'S UNEMPLOYMENT RATE IS EXPECTED TO GRADUALLY DECLINE OVER THE COMING YEARS, IT WILL REMAIN WELL ABOVE THAT OF THE EURO AREA

Significantly and structurally reducing Spain's unemployment rate will require ambitious and coordinated changes to the **active and passive labour market policies**

ANNUAL CHANGE IN THE UNEMPLOYMENT RATE AND CONTRIBUTIONS OF EMPLOYMENT AND THE LABOUR FORCE



UNEMPLOYMENT RATE



Sources: INE, Eurostat, Eurosystem's December 2023 macroeconomic projections and Banco de España.



ACTIVE AND PASSIVE LABOUR MARKET POLICIES ARE AN ESSENTIAL PILLAR OF THE WELFARE STATE AND OF THE INDISPENSABLE SAFETY NET NEEDED TO PROTECT WORKERS

Overall, these two policies should ...

- (1) ... protect the income of the unemployed while they are out of work and, at the same time, ...
- (2) ... encourage their return to the labour market through various actions that increase their human capital and employability

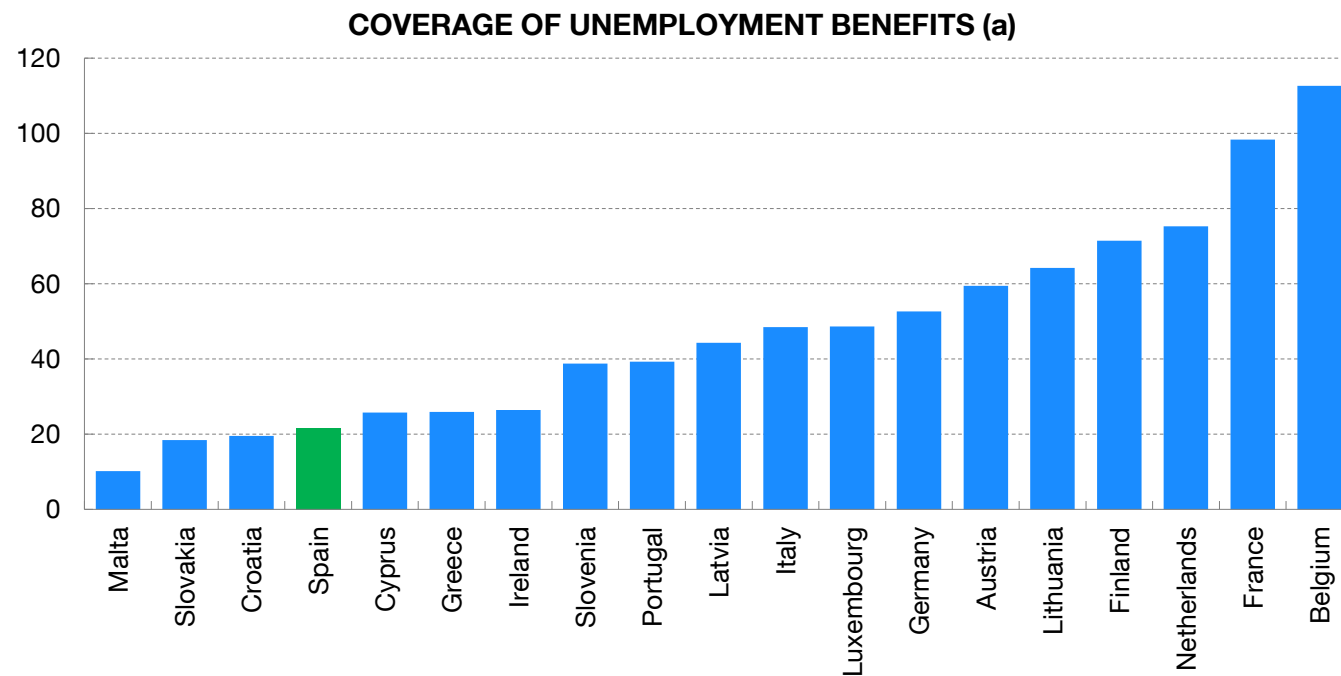
From an international standpoint, in Spain ...

- (1) ... the degree of protection/coverage of the unemployed is relatively low and, at the same time, ...
- (2) ... the design of the active and passive labour market policies does not sufficiently encourage a return to the labour market or increase the employability of the unemployed, which may be contributing to the persistence of high unemployment

In the light of the best practices implemented in other European countries, the following options may be worth exploring:

- Introducing changes to the duration of the benefits/subsidies– which could be conditional on the economic cycle– and/or decreasing their amount over time, without reducing the level of protection ex ante. See, for example, Banco de España 2022 Annual Report, Landais et al (2018) and Rebollo and Rodríguez Planas (2020)
- Allowing certain benefits/subsidies to be compatible (for part of or their entire duration) with employment (an option that is seldom envisaged in Spain). See, for example, Cahuc (2018)
- Improving the integration of the myriad income policies rolled out by the different tiers of general government, to provide efficient and robust social security that protects groups with a very limited employability, and strengthening the integration of active and passive labour market policies. See AIReF (2019)
- Properly profiling job seekers and vacancies and rigorously assessing training and vocational integration programmes, and allocating the funds to these on the basis of this assessment

THE SHARE OF THE UNEMPLOYED COVERED BY UNEMPLOYMENT BENEFITS IN SPAIN IS LOW IN COMPARISON WITH OTHER COUNTRIES



Source: OECD.

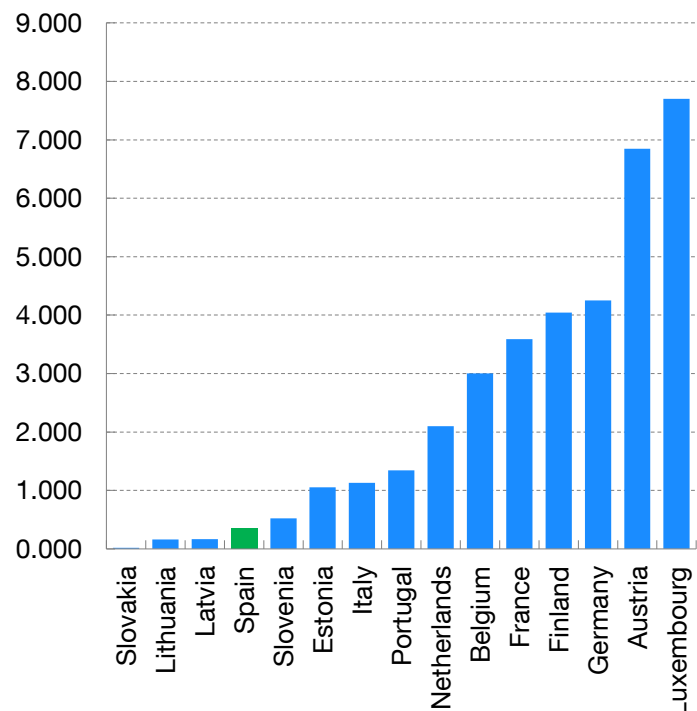
(a) Defined as the total number receiving unemployment benefits as a share of total unemployed. The set of those who receive benefits and unemployed people may not fully overlap.



RELATIVELY LITTLE IS SPENT ON TRAINING FOR UNEMPLOYED PEOPLE IN SPAIN...

...while the requirements to receive unemployment benefits are among the least strict in the world, which may contribute to keeping unemployment levels high

SPENDING ON TRAINING ACTIVITIES FOR UNEMPLOYED PEOPLE IN 2021 (a)



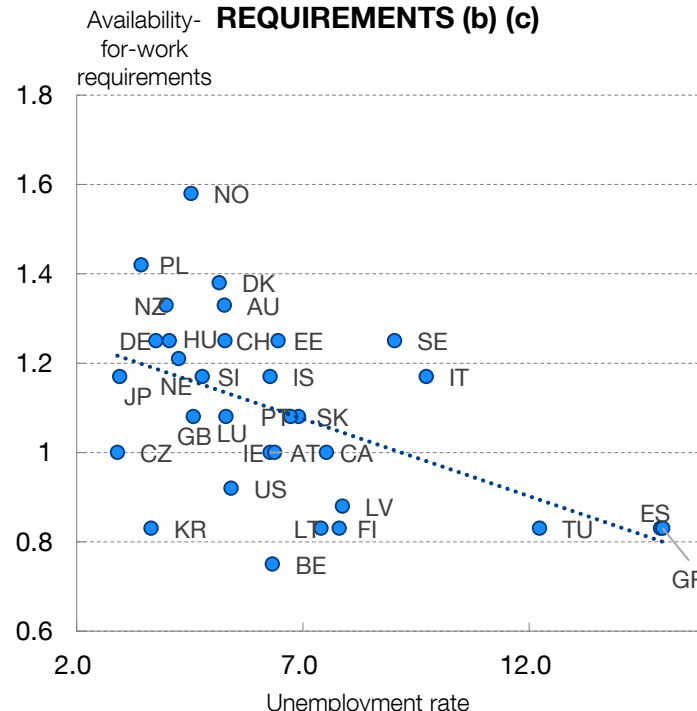
Source: OECD.

(a) In thousands of euro per unemployed person.

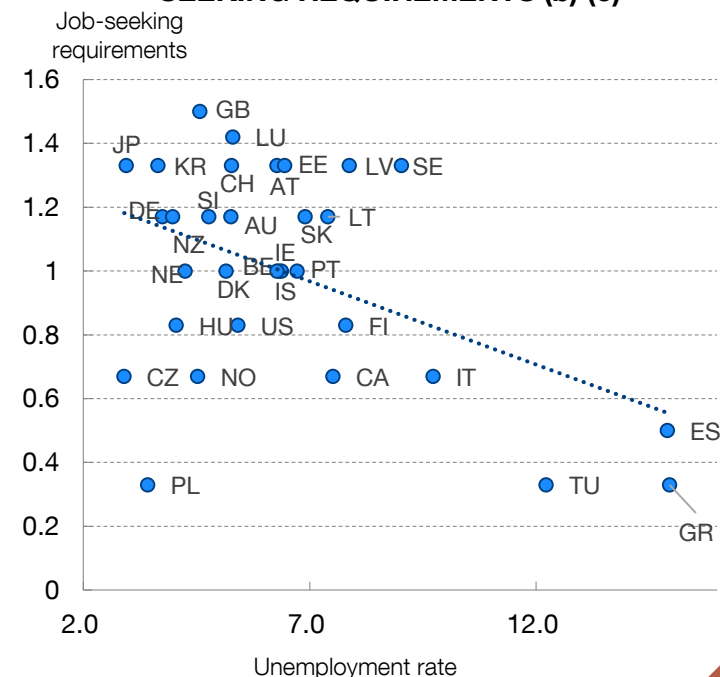
(b) Indicators of requirements ranging from 1 (least strict) to 5 (strictest). The indicator of availability includes information on availability requirements while participating in active labour market policies, occupational mobility demands, geographical mobility demands, and other valid reasons to reject job offers. The job-seeking indicator includes information on monitoring frequency and documentation of the job-seeking process. In both cases, these refer to requirements for contributory unemployment (first tier) benefits.

(c) Unemployment rate in 2022.

UNEMPLOYMENT RATE AND AVAILABILITY-FOR-WORK REQUIREMENTS (b) (c)



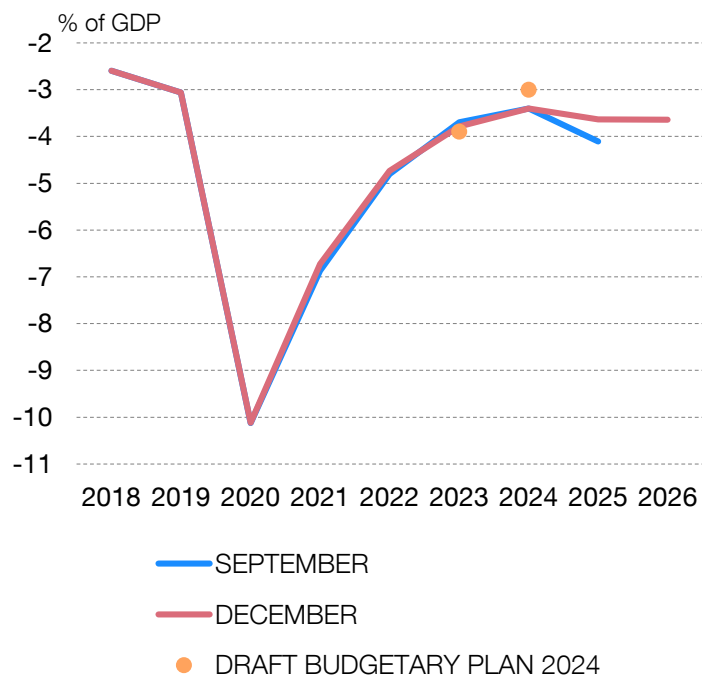
UNEMPLOYMENT RATE AND JOB-SEEKING REQUIREMENTS (b) (c)



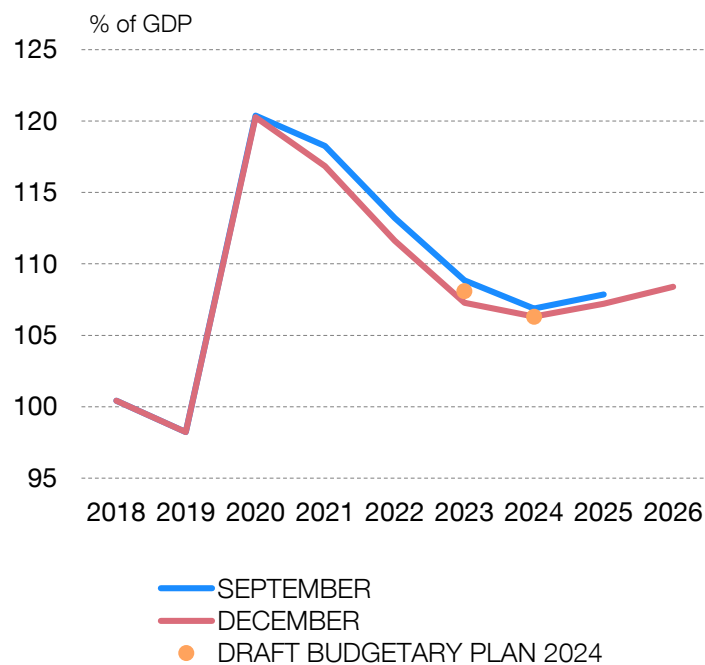
THE REVISION OF THE ANNUAL NATIONAL ACCOUNTS HELPED IMPROVE THE GENERAL GOVERNMENT DEBT- AND DEFICIT-TO-GDP RATIOS, ALTHOUGH THEY WILL REMAIN VERY HIGH IN THE COMING YEARS

Added to this is the fact that Spain's structural budget deficit is now greater than in 2019 and that, since end-2022, growth in tax revenue, especially in the case of indirect taxes, has been below what might be expected given the macroeconomic bases and the fiscal measures put in place

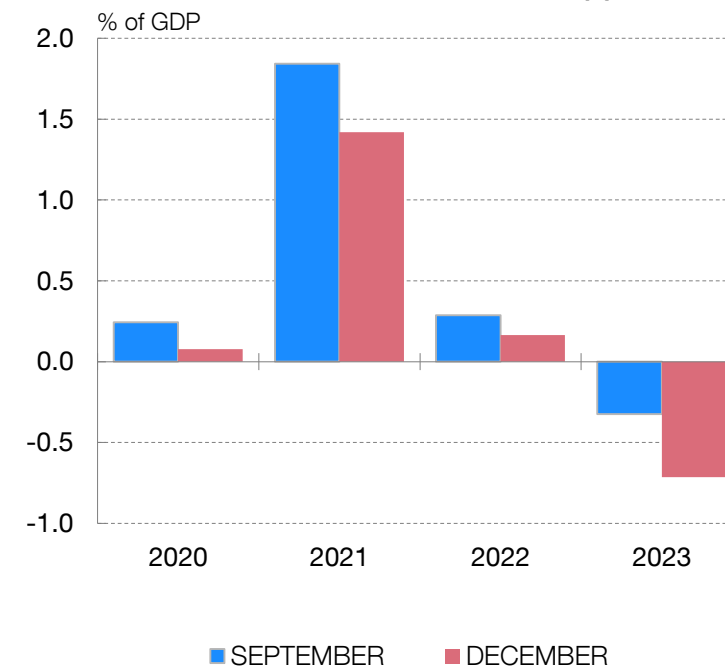
GENERAL GOVERNMENT DEFICIT



GENERAL GOVERNMENT DEBT



CHANGE IN TAX RESIDUALS (a)



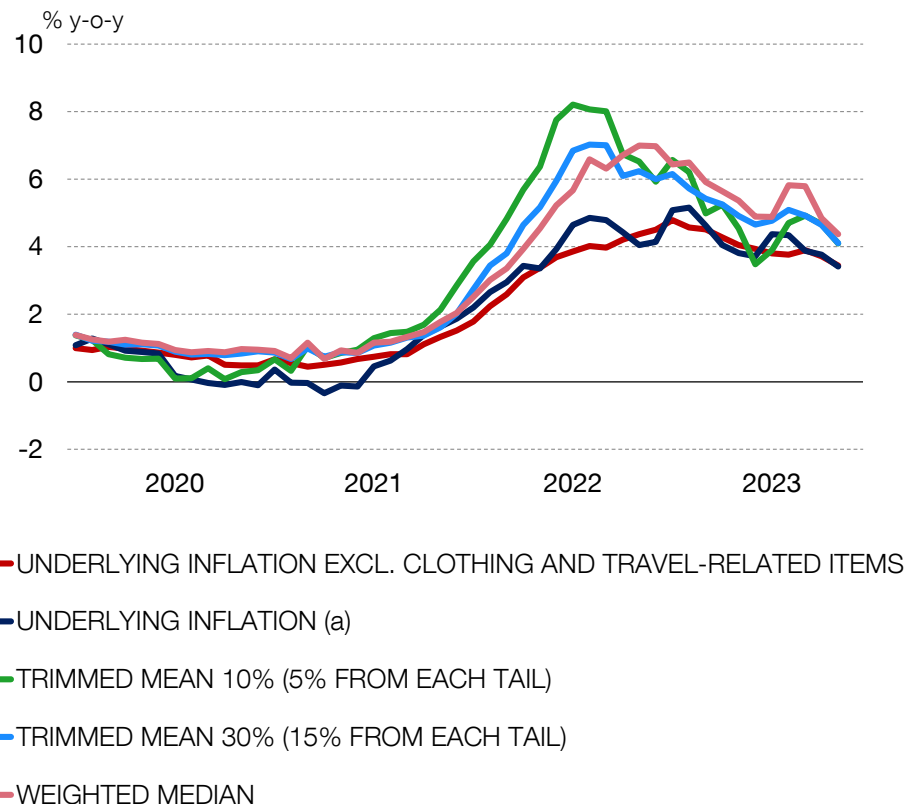
Sources: IGAE, INE, Draft Budgetary Plan 2024 and Banco de España.

(a) The tax residuals are calculated by taking the difference between the value recorded (or forecast, for 2023-26) for tax revenue and social security contributions and the value resulting from the models used by the Directorate General Economics Statistics and Research to forecast these revenues on the basis of changes in macroeconomic variables and measures taken. For more details, see [Government revenue in the wake of the pandemic. Tax residuals and inflation.](#)

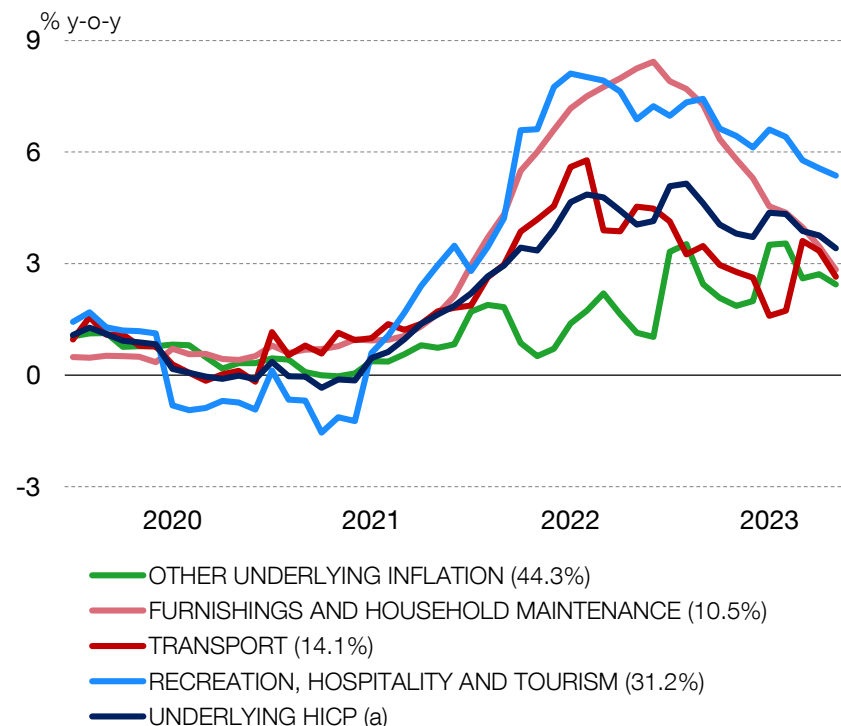


THE GRADUAL DECELERATION OF UNDERLYING INFLATION IN RECENT MONTHS IS FAIRLY BROAD-BASED ACROSS ITEMS AND INDICES

MEASURES OF UNDERLYING INFLATION



HICP EXCL. ENERGY AND FOOD: MEASURES BY ITEM (b)



Source: INE. Latest data: November 2023.

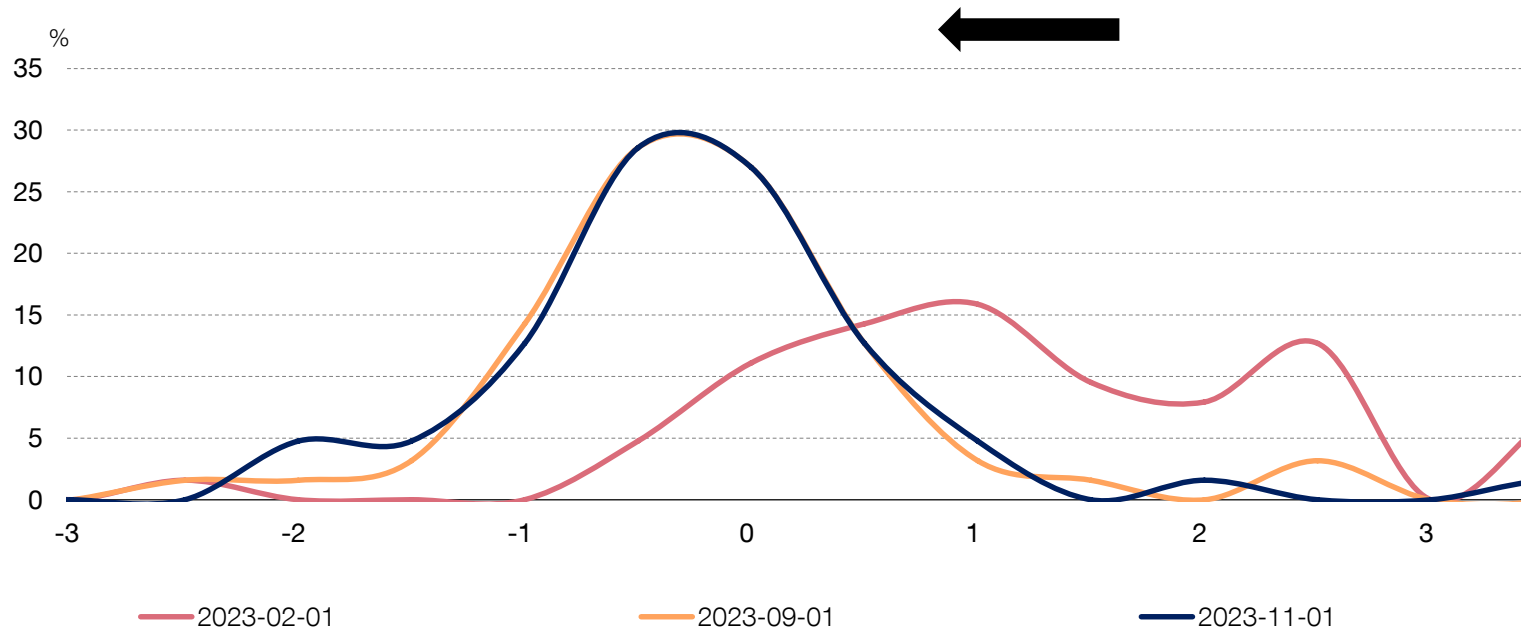
(a) Core inflation refers to headline inflation excluding energy and food.

(b) The weight of each measure in core inflation is shown in brackets.



MOST FOOD PRODUCTS ARE RECORDING A SLOWDOWN IN THEIR PRICE GROWTH, ALBEIT LESS SO THAN IN PREVIOUS MONTHS

PERCENTAGE OF FOOD HICP ITEMS IN EACH RANGE OF MONTH-ON-MONTH GROWTH (a)



Sources: INE and Banco de España. Latest data: November 2023.
(a) Month-on-month rates corrected by the 2016-2019 average rates for each month.

IT IS ASSUMED THAT THE MAIN MEASURES PUT IN PLACE BY THE GOVERNMENT IN 2021 AND 2022 TO MITIGATE THE EFFECTS OF RISING INFLATION WILL BE DISCONTINUED BY END-2023

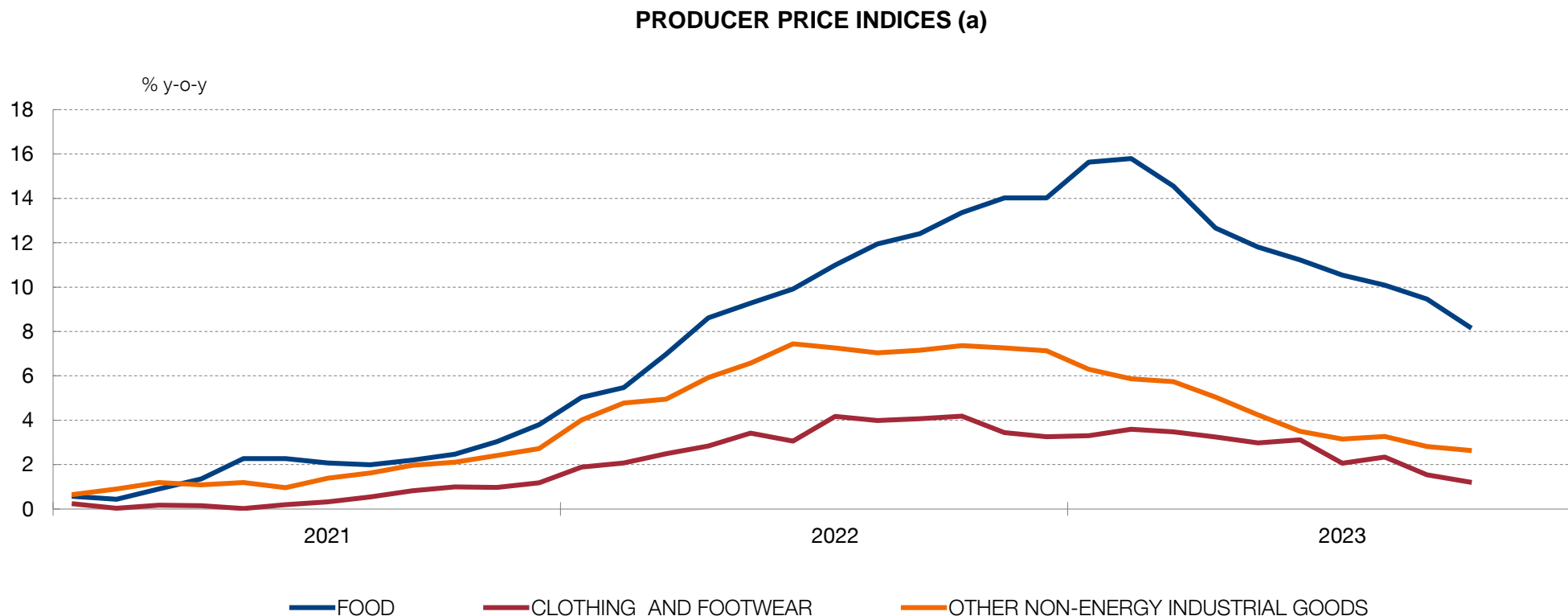
In this context, only two changes are considered relative to the September projection exercise: (1) the extension of the public transport subsidies to December 2024 (included in the Draft Budgetary Plan 2024 that the Government sent to the European Commission in October), and (2) the extension of the lower VAT rate on food to June 2024 (per the Government's public announcement)

ASSUMPTIONS ABOUT THE EXTENSION/WITHDRAWAL OF THE MEASURES PUT IN PLACE TO MITIGATE THE EFFECTS OF RISING INFLATION

Quarterly Report September 2023	Quarterly Report December 2023
HICP electricity <ul style="list-style-type: none"> VAT will return to 21% (from 5%) and the excise duty on electricity to 5.11% (from 0.5%) in January 2024 	HICP electricity <ul style="list-style-type: none"> The same outlook as in September
HICP natural gas <ul style="list-style-type: none"> VAT will return to 21% (from 5%) in January 2024 	HICP natural gas <ul style="list-style-type: none"> The same outlook as in September
HICP food <ul style="list-style-type: none"> VAT on some foods will return to 4% (from 0%) and on other foods to 10% (from 5%) in <u>January 2024</u> 	HICP food <ul style="list-style-type: none"> VAT on some foods will return to 4% (from 0%) and on other foods to 10% (from 5%) in <u>July 2024</u>
HICP transport <ul style="list-style-type: none"> The public transport subsidies <u>will be removed from January 2024</u> 	HICP transport <ul style="list-style-type: none"> The public transport subsidies <u>will be extended throughout 2024, to be lifted in 2025</u>



PRODUCER PRICES REMAIN ON A DOWNWARD TREND, WHICH WILL PROBABLY CONTINUE TO PASS THROUGH TO CONSUMER PRICES WITH SOME LAG

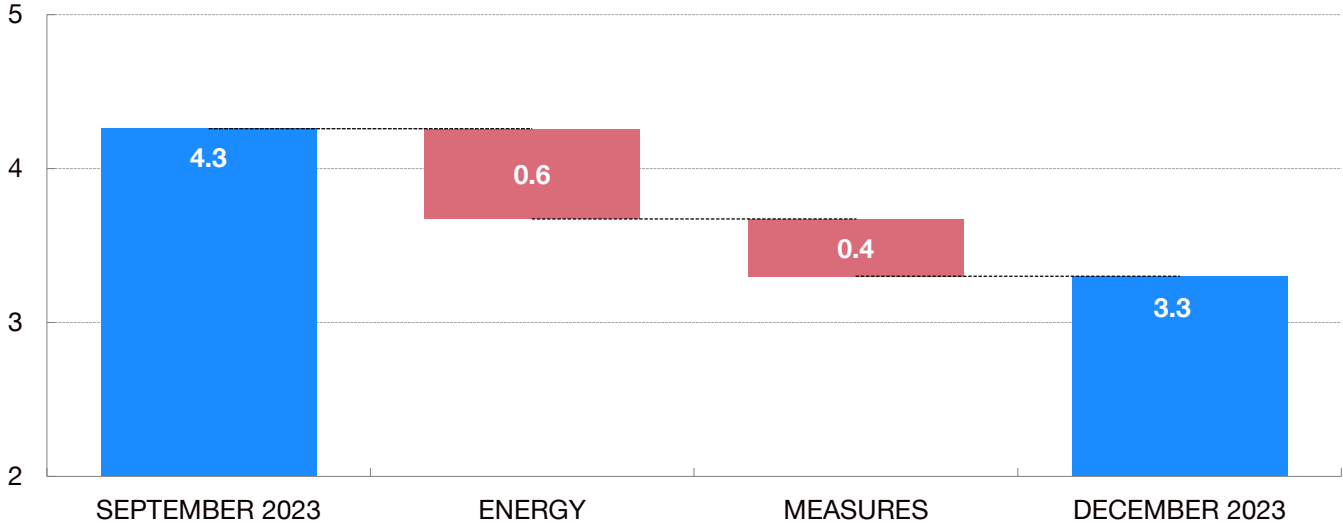


Sources: INE and Banco de España. Latest data: October 2023.

(a) Indices calculated on the basis of the corresponding subgroups of the producer price index (or import price index for industrial products) and weighted by the respective weights in the CPI consumption basket.

EXPECTATIONS OF LOWER ENERGY PRICES AND THE EXTENSION OF SOME MEASURES TO 2024 ARE BEHIND THE DOWNWARD REVISION OF HEADLINE INFLATION FOR 2024

CHANGE IN THE INFLATION OUTLOOK FOR 2024

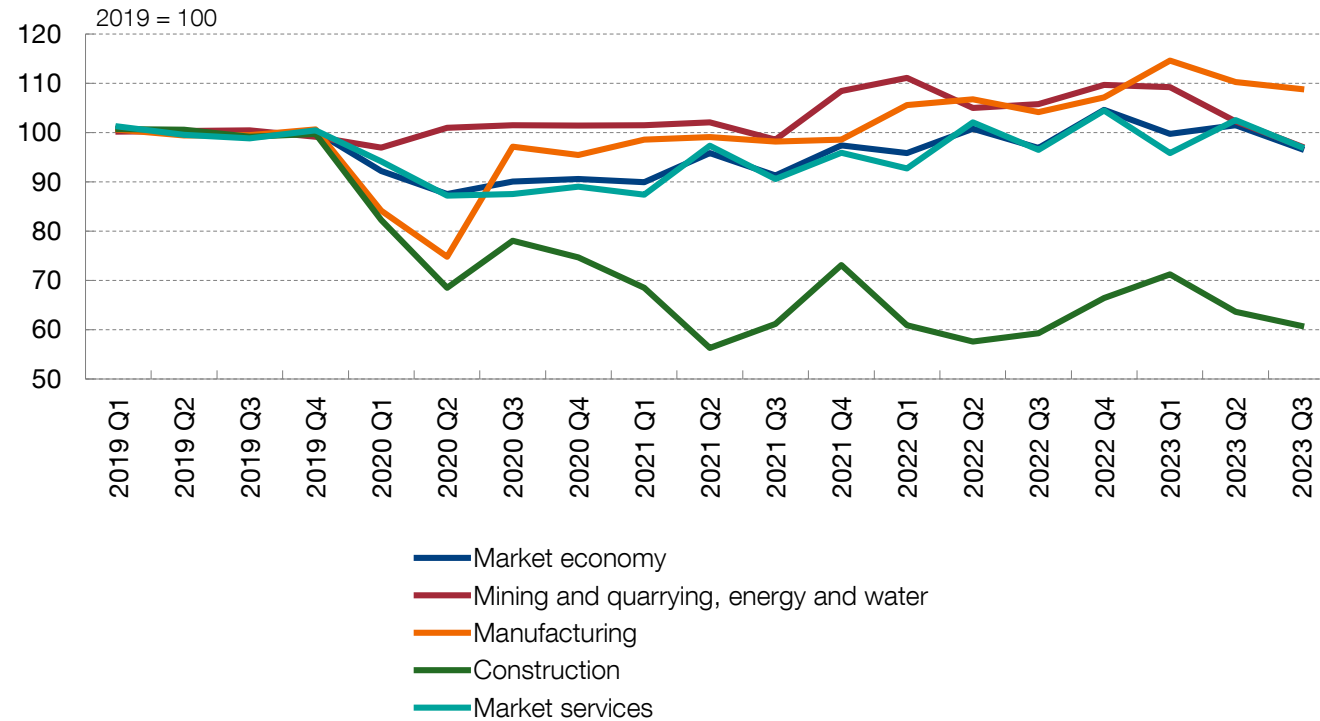


Source: Banco de España.



PROFIT MARGINS APPEAR TO HAVE MODERATED SLIGHTLY OVER THE COURSE OF 2023, FOLLOWING THE UPTURN SEEN IN 2022

**CHANGES IN PROFIT MARGINS (GOS/GVA) ACCORDING TO QNA DATA.
BREAKDOWN BY SECTOR**

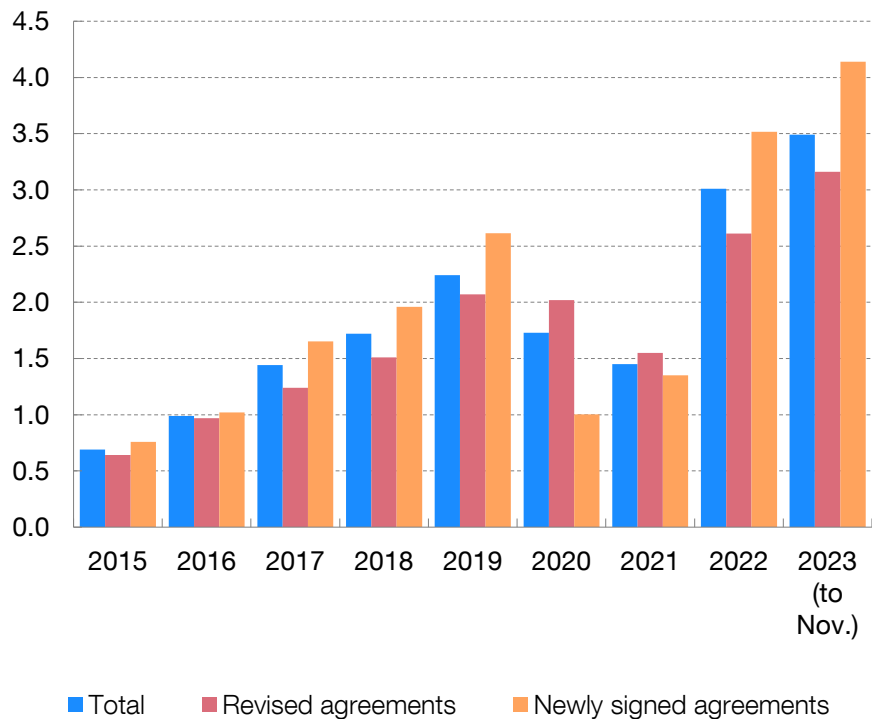


Sources: Banco de España and INE.

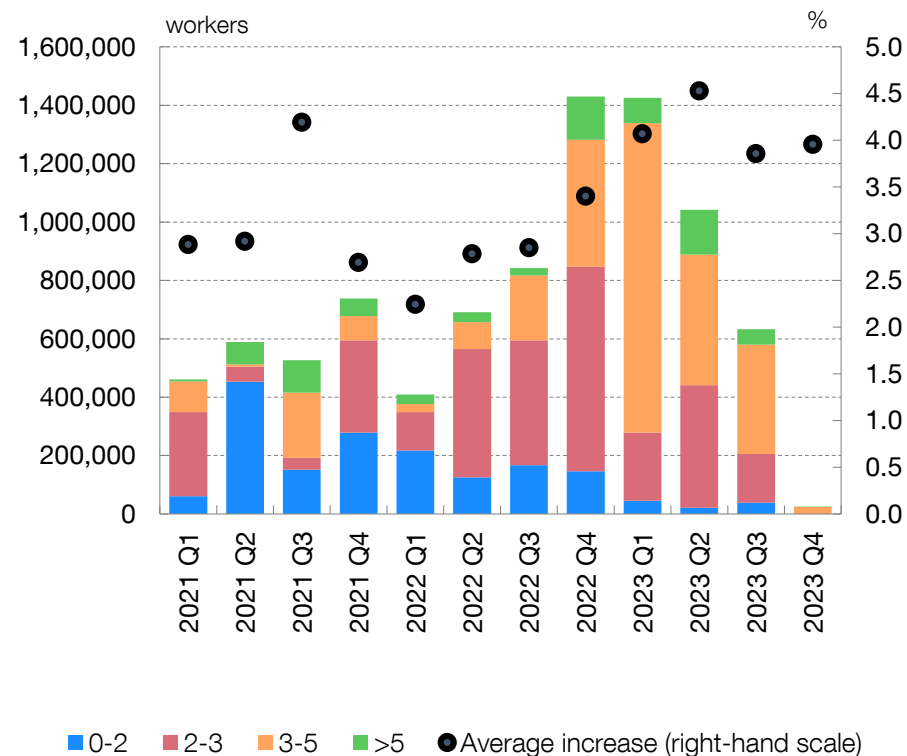


WAGE SETTLEMENTS SAW A CONTAINED RISE IN 2023, TO 3.5% ON AVERAGE AND 4.1% IN THE CASE OF NEWLY SIGNED AGREEMENTS

WAGE SETTLEMENTS



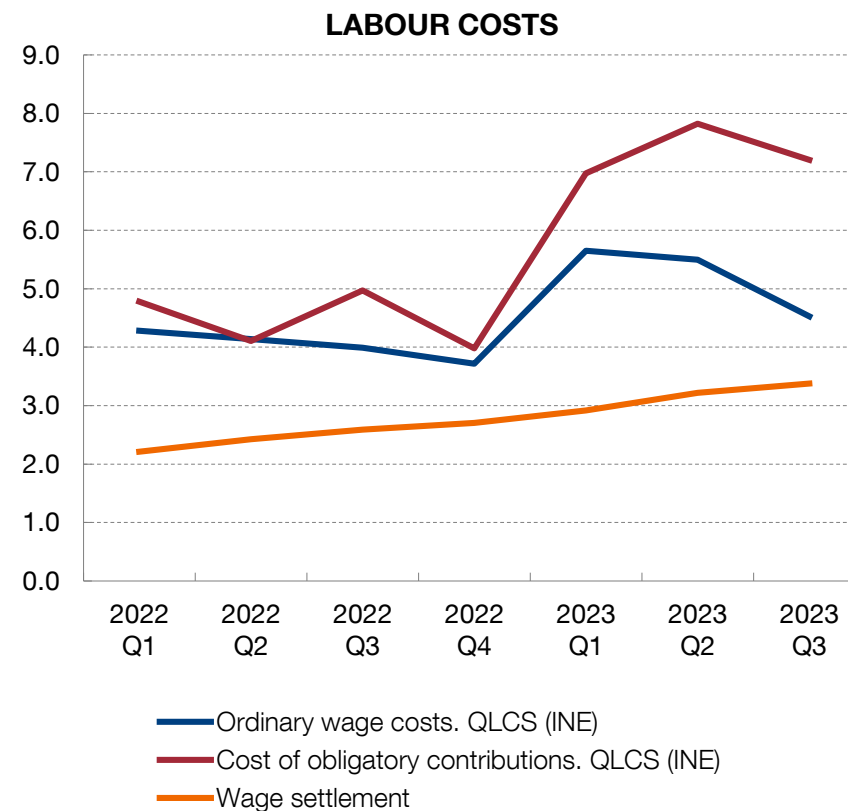
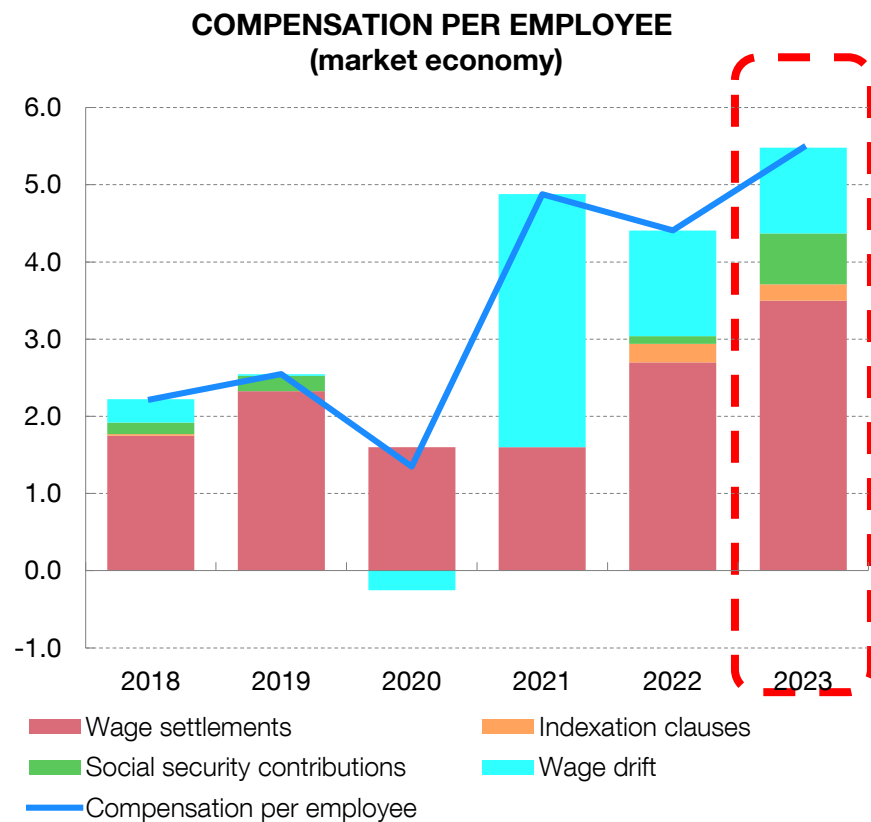
WAGE BARGAINING



Source: Estadística de Convenios Colectivos. Ministerio de Trabajo y Economía Social. Latest data: November 2023.



IN RECENT QUARTERS, COMPENSATION PER EMPLOYEE IN THE MARKET ECONOMY HAS OUTPACED WAGE INCREASES NEGOTIATED IN COLLECTIVE AGREEMENTS



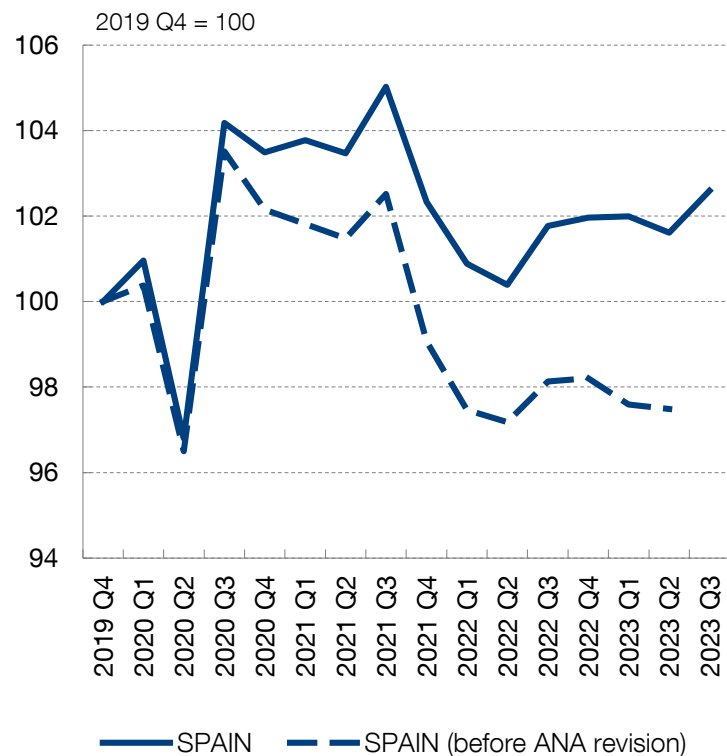
Sources: INE and Banco de España.



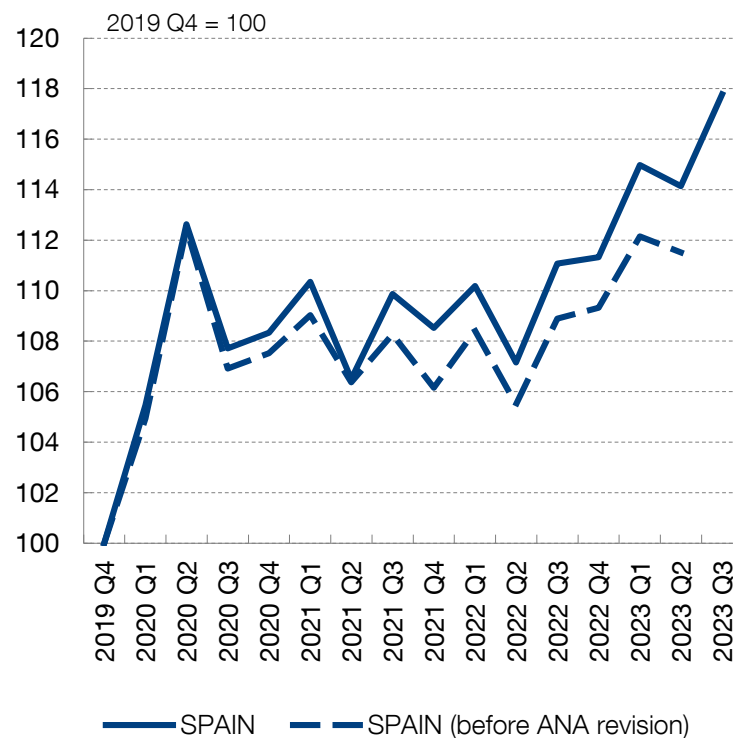
IN REAL TERMS, COMPENSATION PER EMPLOYEE APPEARS TO BE HIGHER THAN ITS PRE-PANDEMIC LEVEL

Against a backdrop of weak productivity, such developments in compensation per employee mean higher unit labour costs, which could ultimately affect the price competitiveness of Spanish firms and generate additional domestic inflationary pressure

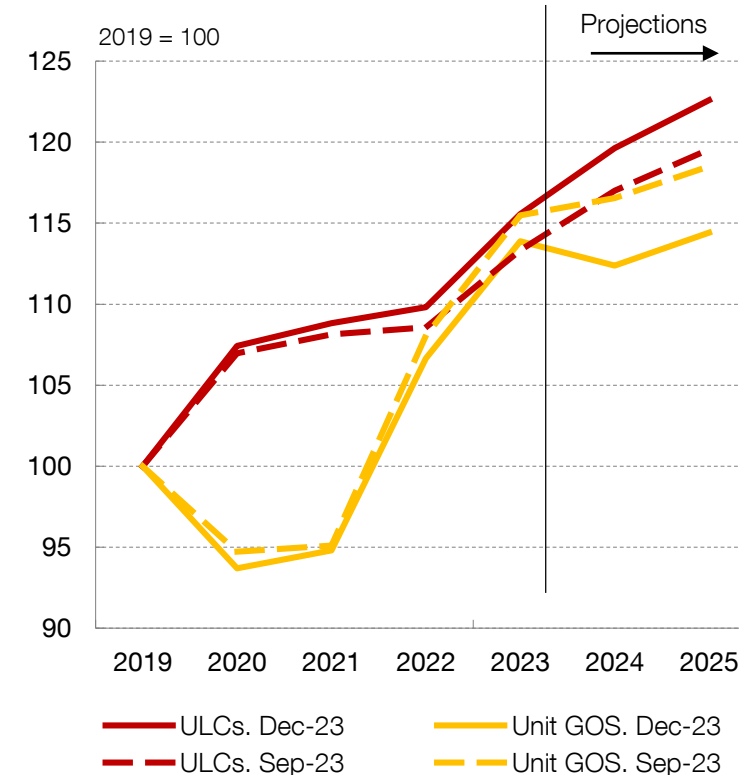
REAL COMPENSATION PER EMPLOYEE



UNIT LABOUR COSTS

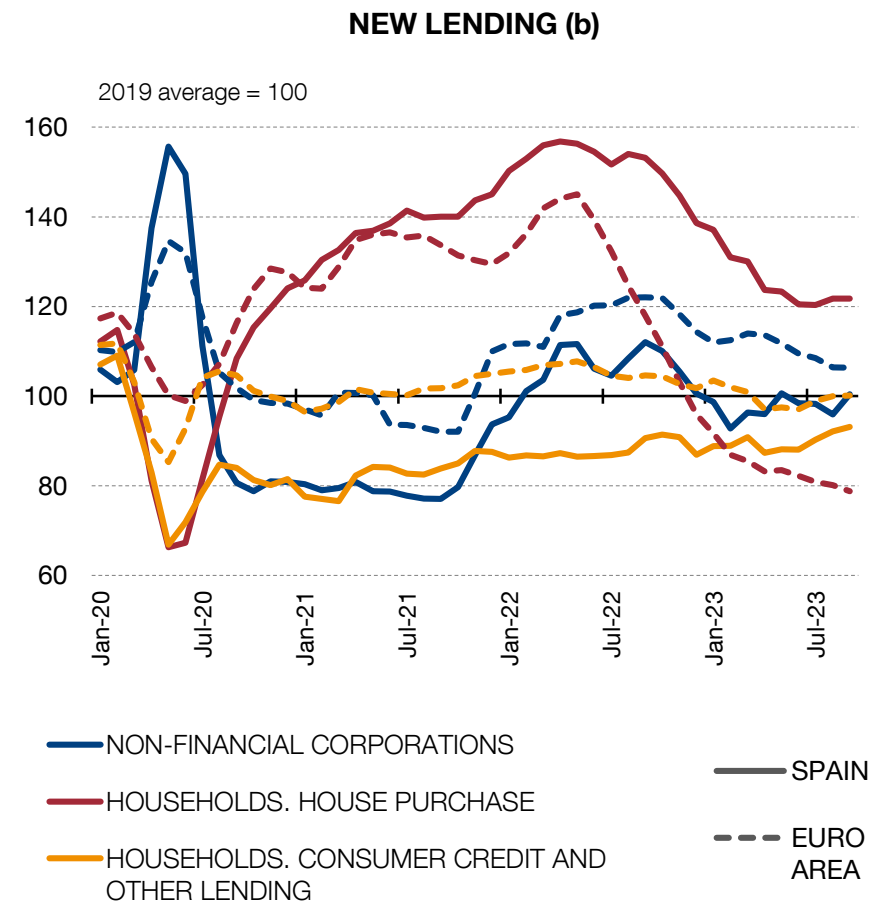
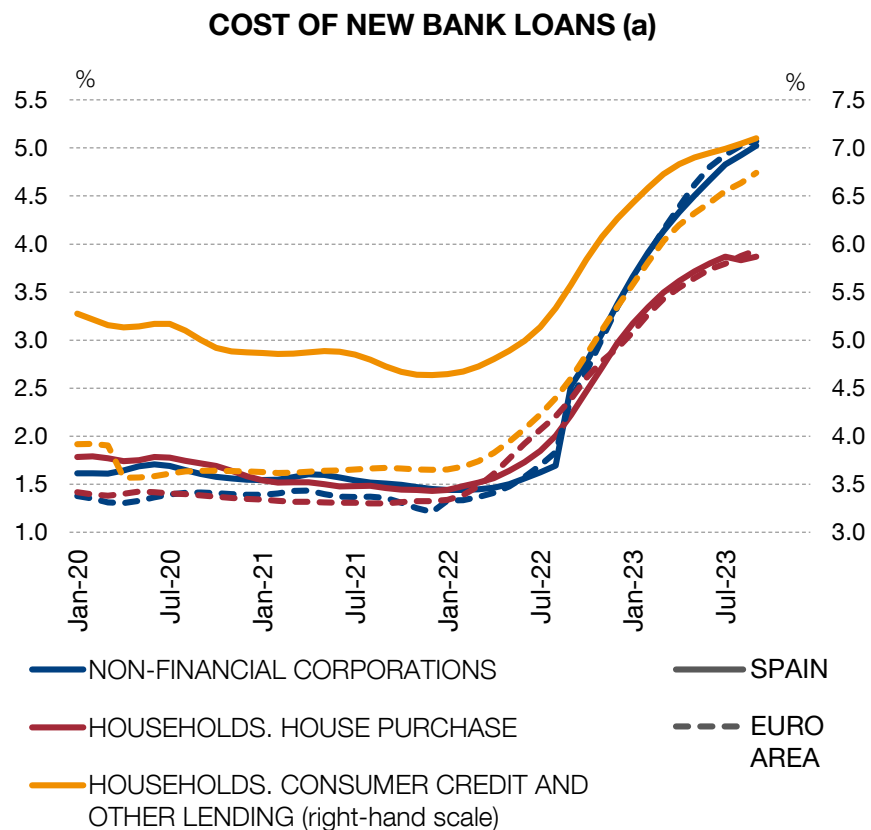


GDP DEFLATOR



Sources: INE and Banco de España.

THE COST OF NEW BANK LOANS TO HOUSEHOLDS AND FIRMS HAS CONTINUED TO RISE IN RECENT MONTHS



Source: ECB. Latest observation: September 2023.

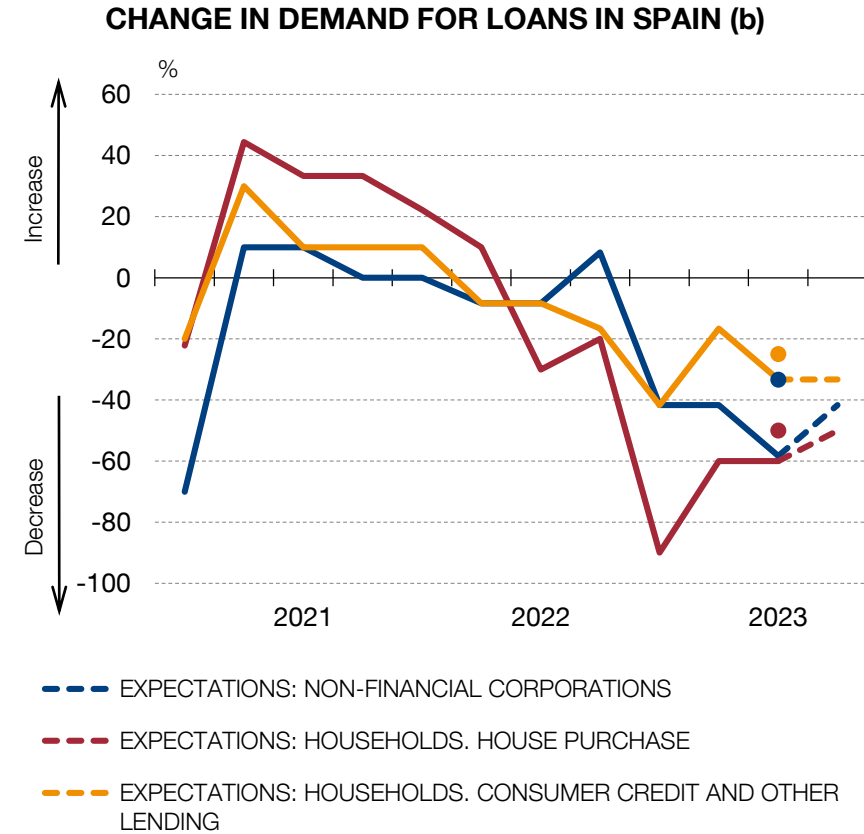
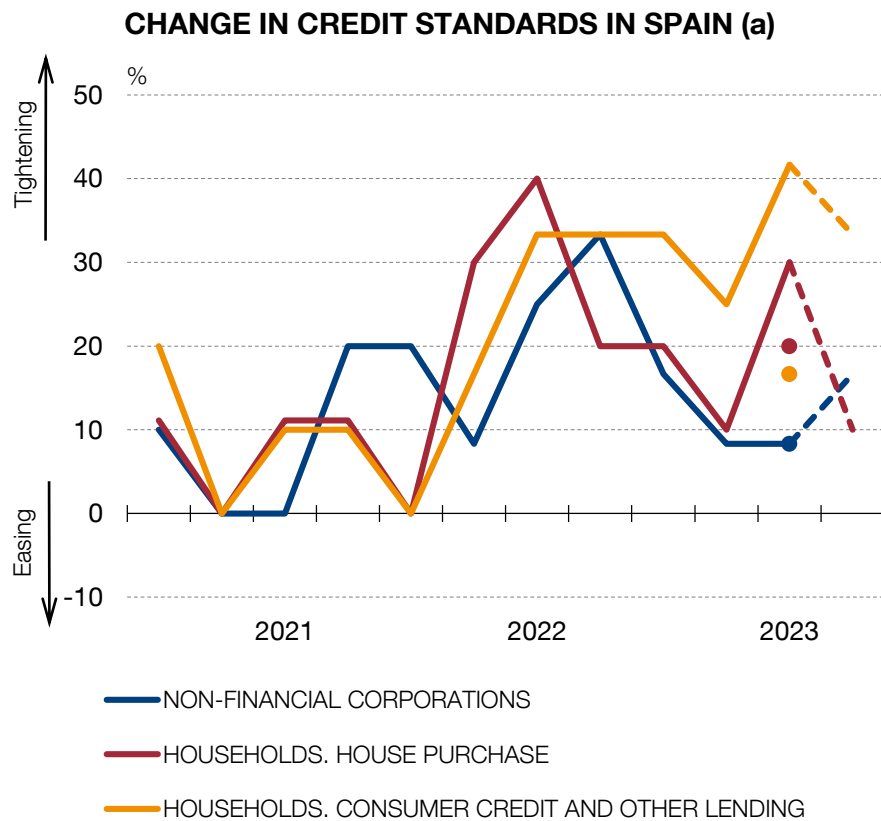
(a) Bank interest rates are narrowly defined effective rates, i.e. they exclude related costs, such as repayment insurance premiums and fees. In addition, they are trend-cycle rates, in other words, they are adjusted for seasonality and their regular component (small changes in the series without an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

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



CREDIT STANDARDS TIGHTENED ACROSS ALL CREDIT MARKET SEGMENTS IN Q3 AND ARE EXPECTED TO CONTINUE DOING SO IN Q4

In Q3, **demand for credit** fell more sharply than anticipated by banks and, in most segments, contracted more than in Q2. For Q4, banks expect demand to continue to contract



Source: Banco de España. Latest observation: 2023 Q3.

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

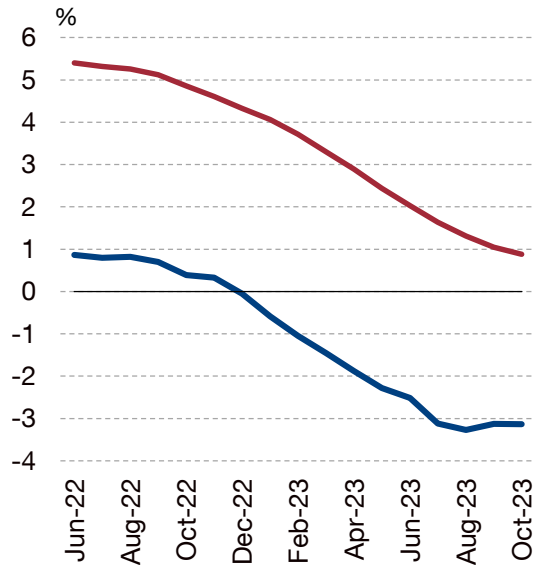
(b) Net percentage of banks reporting an increase in demand.



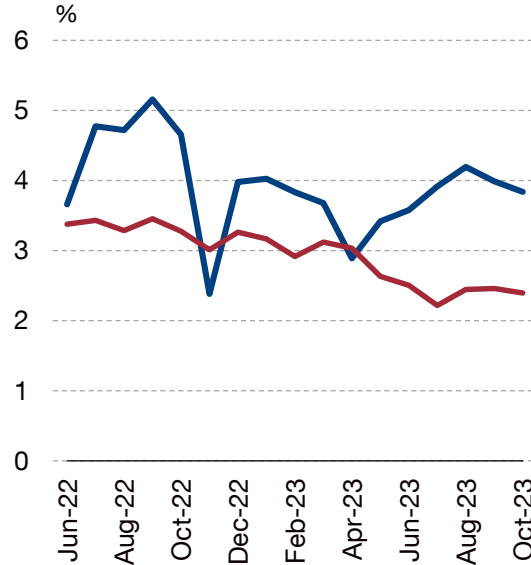
BANK LENDING CONTINUES TO MODERATE – MORE STRONGLY THAN ANTICIPATED – IN BOTH SPAIN AND THE EURO AREA

YEAR-ON-YEAR GROWTH IN BANK LENDING (a)

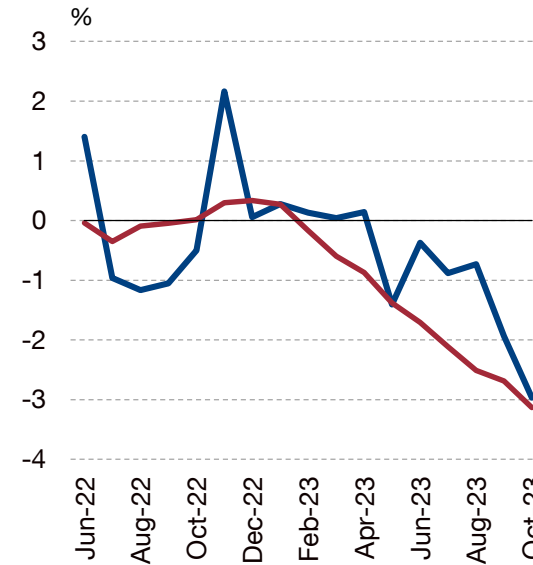
HOUSEHOLDS. HOUSE PURCHASE



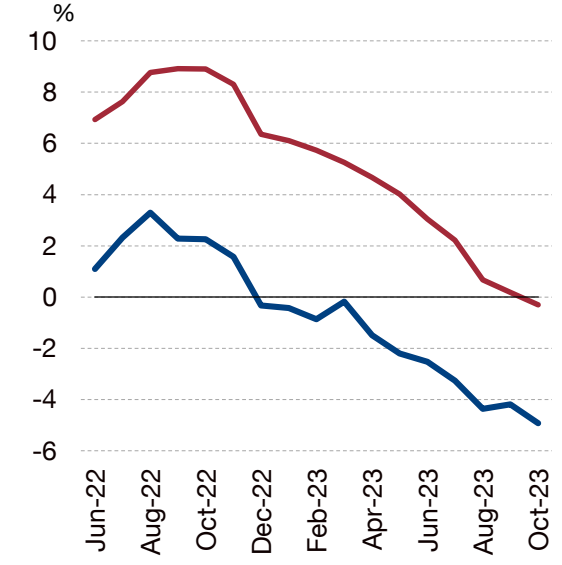
HOUSEHOLDS. CONSUMER CREDIT



HOUSEHOLDS. OTHER LENDING



NON-FINANCIAL CORPORATIONS



— SPAIN — EURO AREA (b)

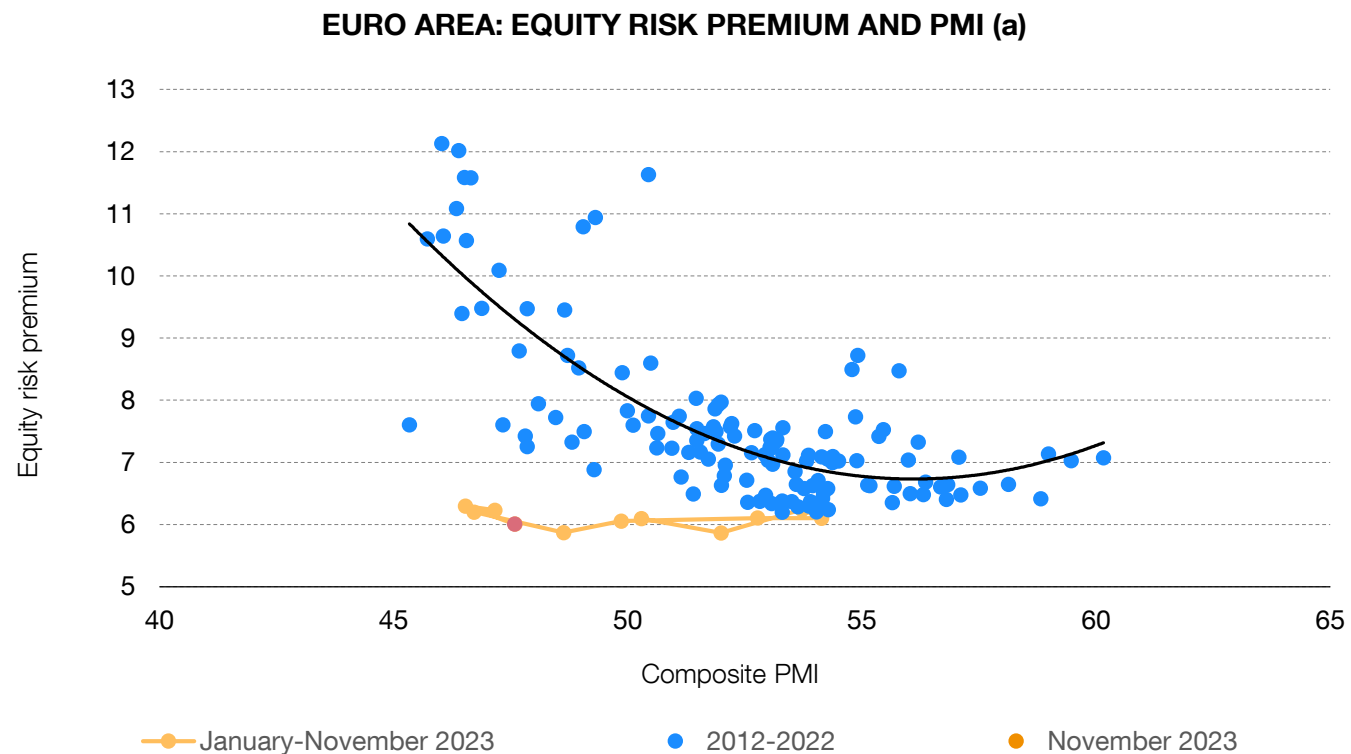
Sources: ECB and Banco de España. Latest observation: October 2023.

(a) Seasonally and securitisation-adjusted data.

(b) In the case of loans to households in the euro area, the data before December 2022 do not include securitisation owing to a lack of information.



THE EQUITY RISK PREMIUM HAS HARDLY RESPONDED TO THE WEAKENING IN EURO AREA ECONOMIC ACTIVITY, PROXIED BY THE COMPOSITE PMI, IN RECENT MONTHS



Sources: Refinitiv Datastream, Bloomberg Data License, S&P Global Market Intelligence and Banco de España.

(a) The fitted line is a quadratic function and excludes the first three months of pandemic-related lockdown (March to May 2020). The risk premium is calculated as the five-year CAPE yield for the EURO STOXX less the five-year real (inflation-swap-adjusted) German government bond yield.

