

THE SPANISH ECONOMY: STRONG GROWTH MOMENTUM, WHILE SOME KEY STRUCTURAL CHALLENGES PERSIST

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CONTENTS

- 1. June 2024 Banco de España Macroeconomic Projections**
- 2. Newly available information (since June)**
- 3. Some relevant aspects/questions regarding the Spanish growth momentum**
- 4. Some of the main structural challenges for the Spanish economy**

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BANCO DE ESPAÑA MACROECONOMIC PROJECTIONS

JUNE 2024

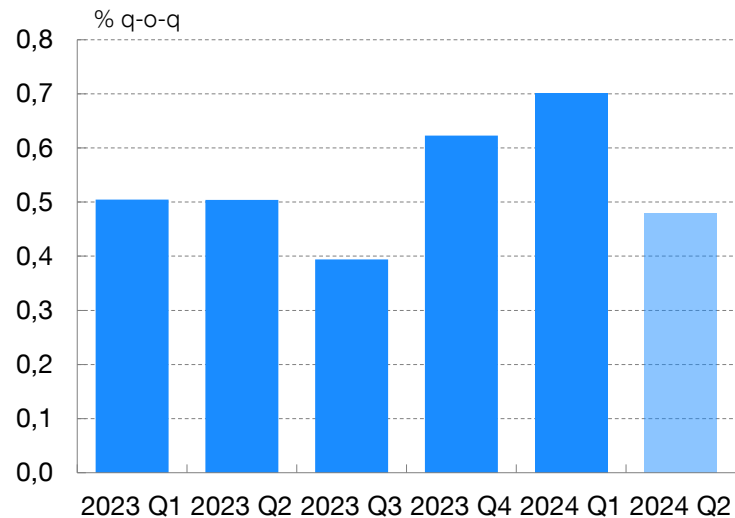
							JUNE 2024 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE MARCH PROJECTIONS			
	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026			
GDP	6.4	5.8	2.5	2.3	1.9	1.7	0.0	0.4	0.0	0.0			
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	3.0	2.0	1.8	0.0	0.3	0.1	0.1			
HICP excl. energy and food	0.6	3.8	4.1	2.6	2.0	1.9	0.0	0.4	0.1	0.1			
Unemployment rate (% of labour force). Annual average	14.9	13.0	12.2	11.5	11.3	11.2	0.1	-0.1	-0.2	-0.1			
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.7	-3.6	-3.3	-3.1	-3.2	0.2	0.2	0.4	0.3			
General government debt (% of GDP)	116.8	111.6	107.7	105.8	106.2	107.2	0.0	-0.7	-1.0	-1.2			

Sources: Banco de España and INE
(a) Projections cut-off date: 22 May 2024

THESE OUTDATED PROJECTIONS WERE CONSISTENT WITH ...

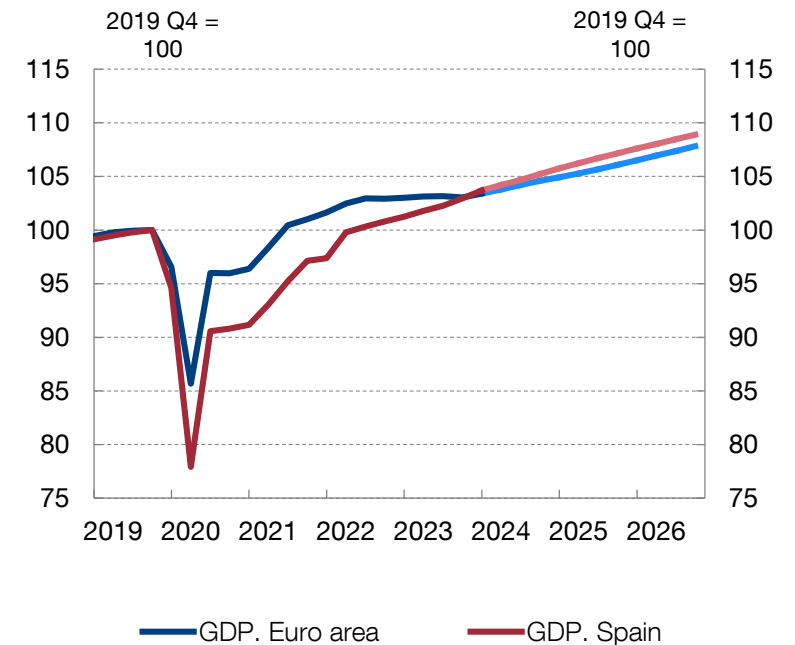
... A 0,5% QoQ GROWTH RATE FOR GDP IN 2024 Q2

REAL GDP GROWTH (a)



... SPAIN OUTPERFORMING THE EMU OVER THE PERIOD 2024-2026

GDP AND GDP PER CAPITA IN SPAIN AND THE EURO AREA

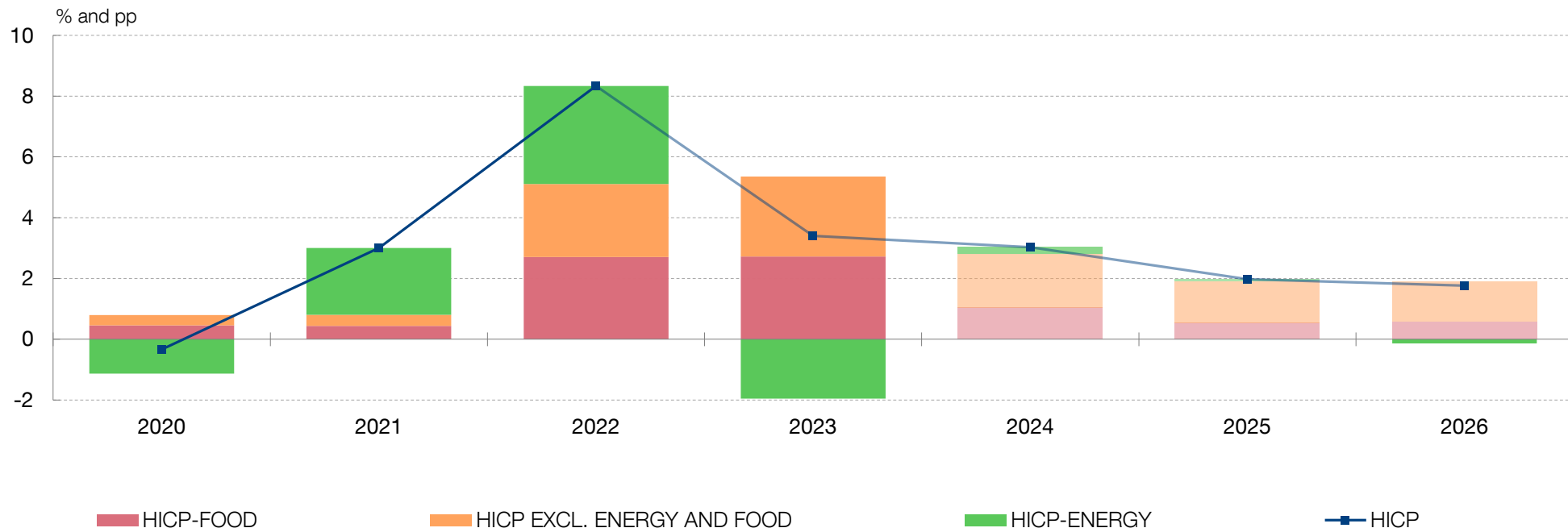


Sources: Banco de España, INE, Eurostat and European Central Bank

(a) Quarterly National Accounts GDP growth rates that were published at the time of conducting June 2024 Banco de España Macroeconomic Projections

... HEADLINE INFLATION MAINTAINING A GRADUAL DOWNWARD PATH, WHICH WOULD BE SOMEWHAT LESS INTENSE IN THE CASE OF CORE AND, PARTICULARLY, SERVICES INFLATION

CONTRIBUTIONS TO HICP GROWTH, BY COMPONENT

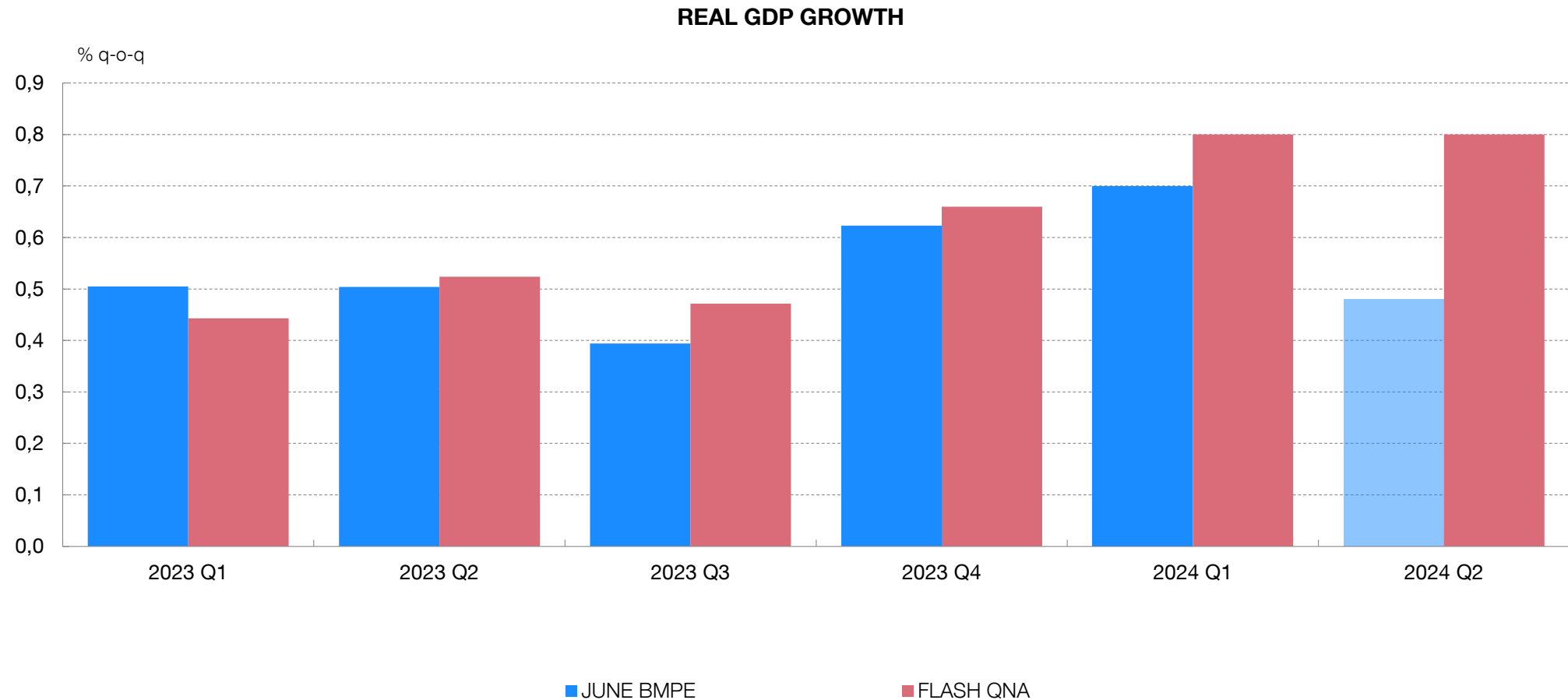


Sources: Banco de España and INE

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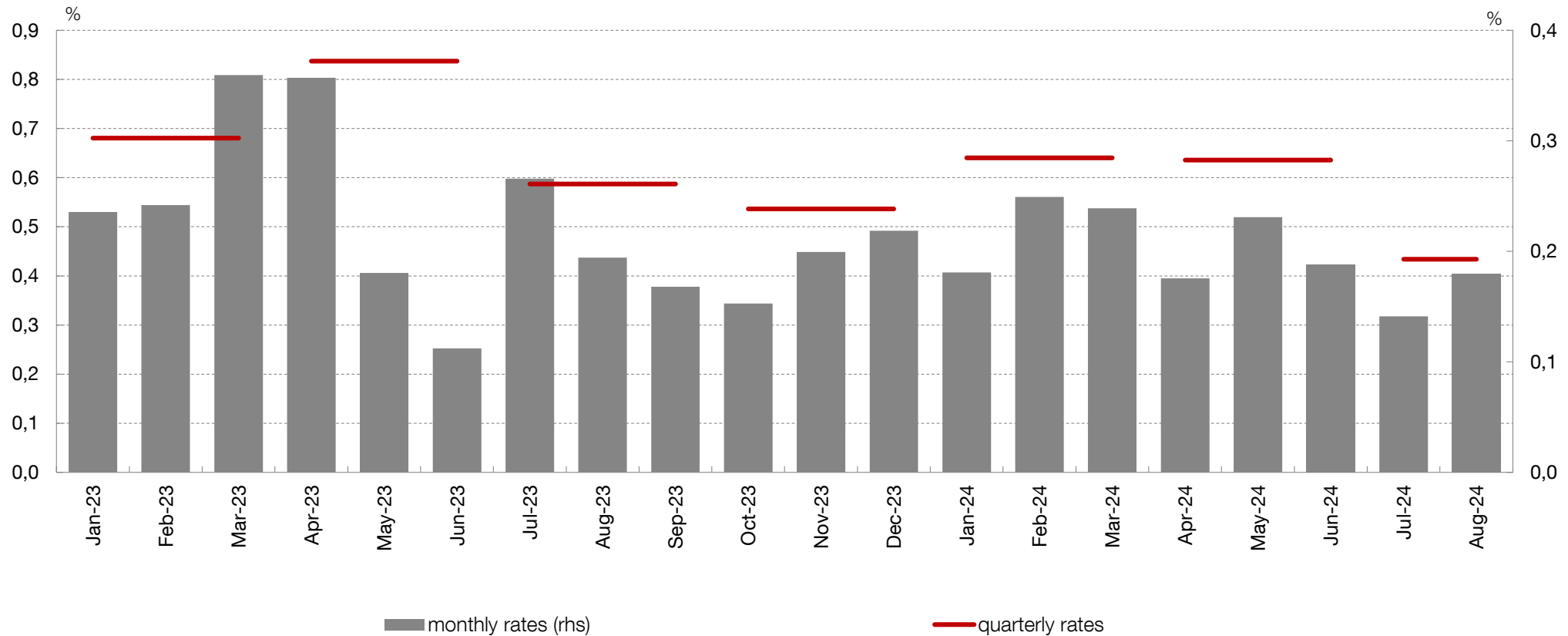
IN 2024 Q2, GDP GROWTH SURPRISED CLEARLY ON THE UPSIDE AND SOME PREVIOUS GROWTH FIGURES WERE ALSO REVISED UPWARDS



Sources: Banco de España and INE

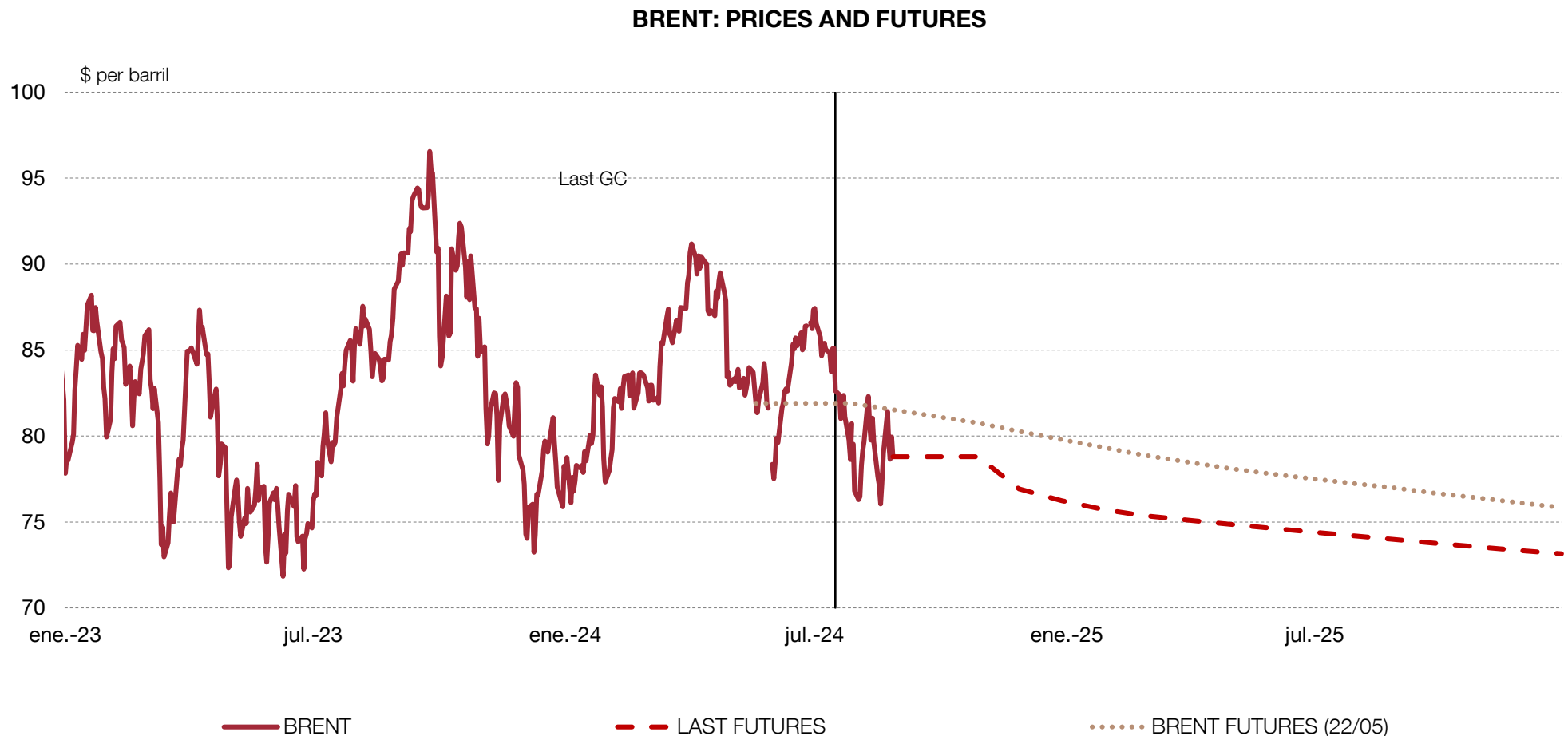
OVERALL, CONJUNCTURAL INDICATORS FOR 2024 Q3 SUGGEST THAT SHORT-TERM GROWTH REMAINS ROBUST, AMID SOME SLIGHT DECELERATION

SOCIAL SECURITY REGISTRATIONS - MONTHLY AND QUARTERLY GROWTH RATES (a)



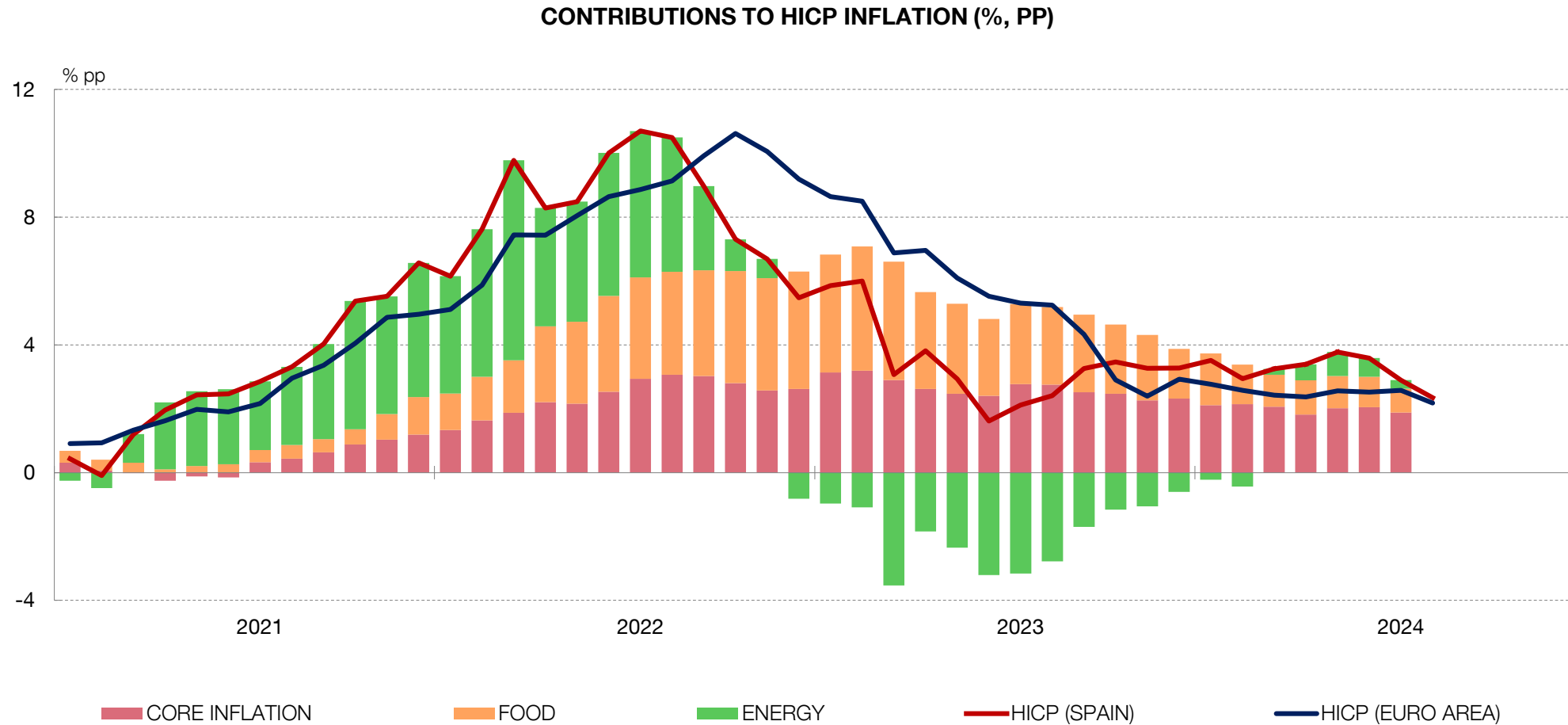
Source: Ministry of Inclusion, Social Security and Migration. Latest data: August 2024
 (a) Seasonally adjusted data. The q-o-q rate for Q3-24 is computed using the average for July and August only

LOOKING FORWARD, THE PATH EXPECTED FOR SOME KEY *EXTERNAL* VARIABLES –LIKE INTEREST RATES AND OIL PRICES– HAS BECOME MORE FAVORABLE TO GROWTH



Source: Refinitiv. Last data: August 29

HEADLINE INFLATION IN JUNE-AUGUST SURPRISED SLIGHTLY TO THE DOWNSIDE, WITH CORE AND SERVICES INFLATION BEING SLIGHTLY MORE PERSISTENT THAN EXPECTED



Sources: Eurostat, INE and Banco de España. Last observed data: August 2024 (leading indicator) and July 2024 (disaggregated data)

**BASED ON THE NEW INFORMATION AVAILABLE SINCE JUNE,
A MECHANICAL UPDATE OF BANCO DE ESPAÑA MACROECONOMIC PROJECTIONS WOULD IMPLY ...**

... AN UPWARD REVISION OF SPANISH GDP GROWTH OVER THE PERIOD 2024-2026

... NO MATERIAL CHANGES IN THE DISINFLATIONARY PATH PROJECTED IN JUNE

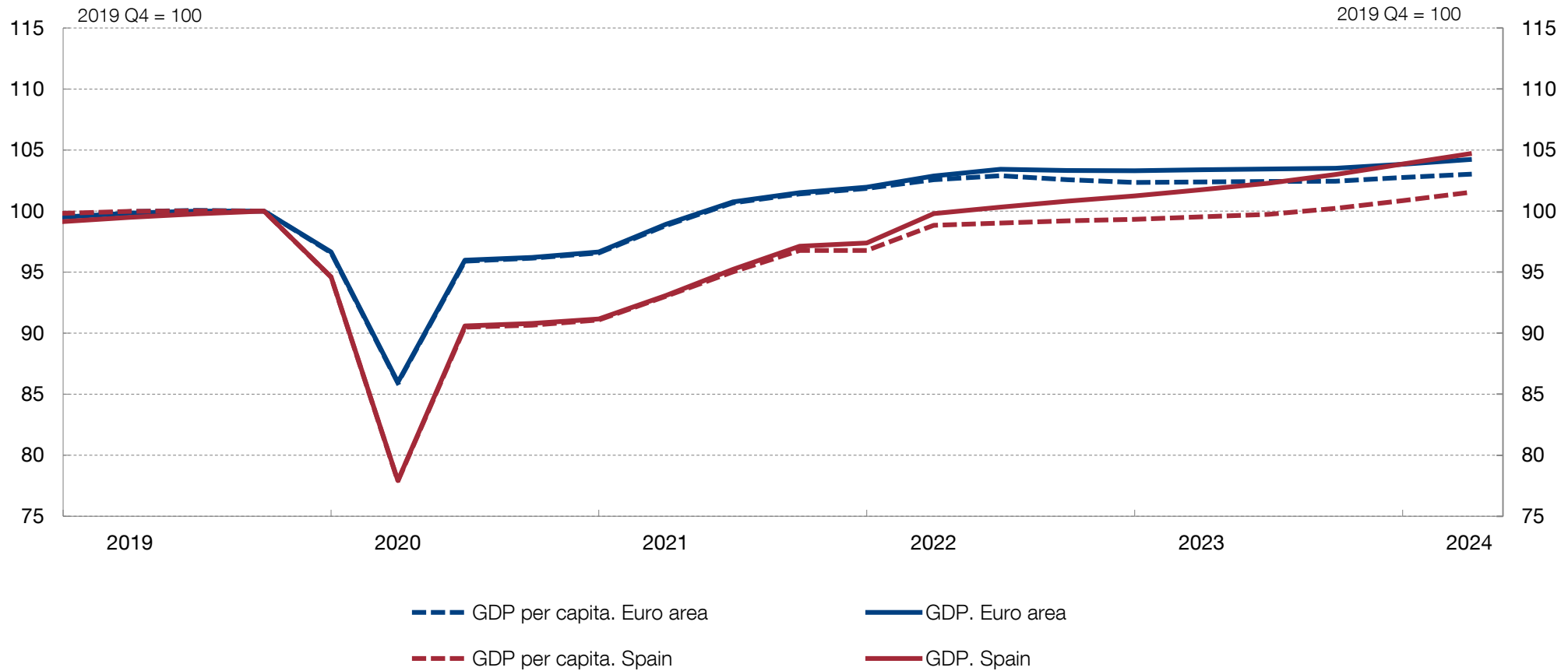
[September 2024 Banco de España Macroeconomic Projections will be published on September 17]

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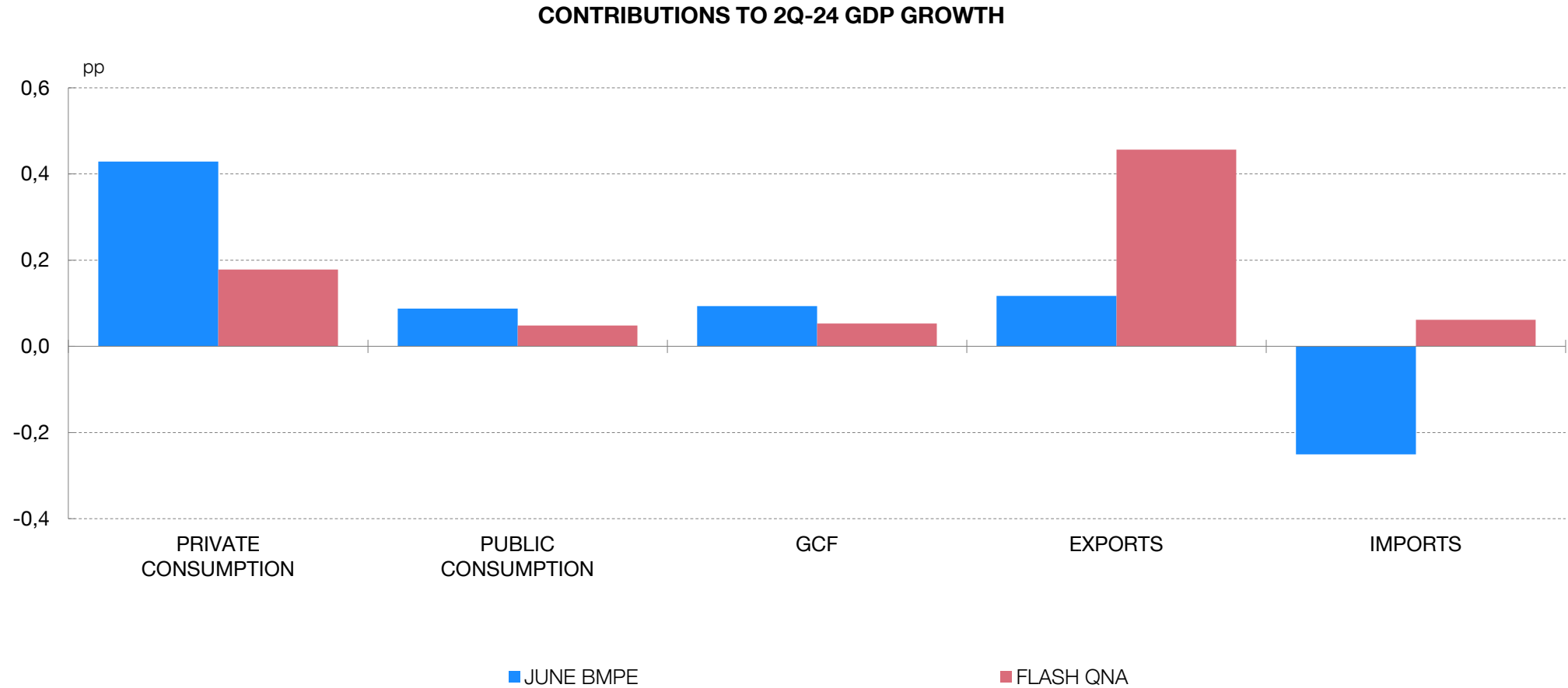
POPULATION HAS INCREASED MARKEDLY OVER THE LAST FEW QUARTERS –DUE TO IMMIGRATION INFLOWS–. THUS, PER CAPITA GROWTH IS LESS INTENSE THAN HEADLINE GROWTH

GDP AND GDP PER CAPITA IN SPAIN AND THE EURO AREA



Sources: Banco de España, INE, Eurostat and European Central Bank

IN 2024 Q1 AND 2024 Q2, GDP GROWTH WAS MOSTLY BY THE EXTERNAL SECTOR –SPECIALLY, NX OF TOURISM–, WHILE PRIVATE CONSUMPTION AND INVESTMENT HAVE BEEN MUCH MORE MUTED



Sources: Banco de España and INE

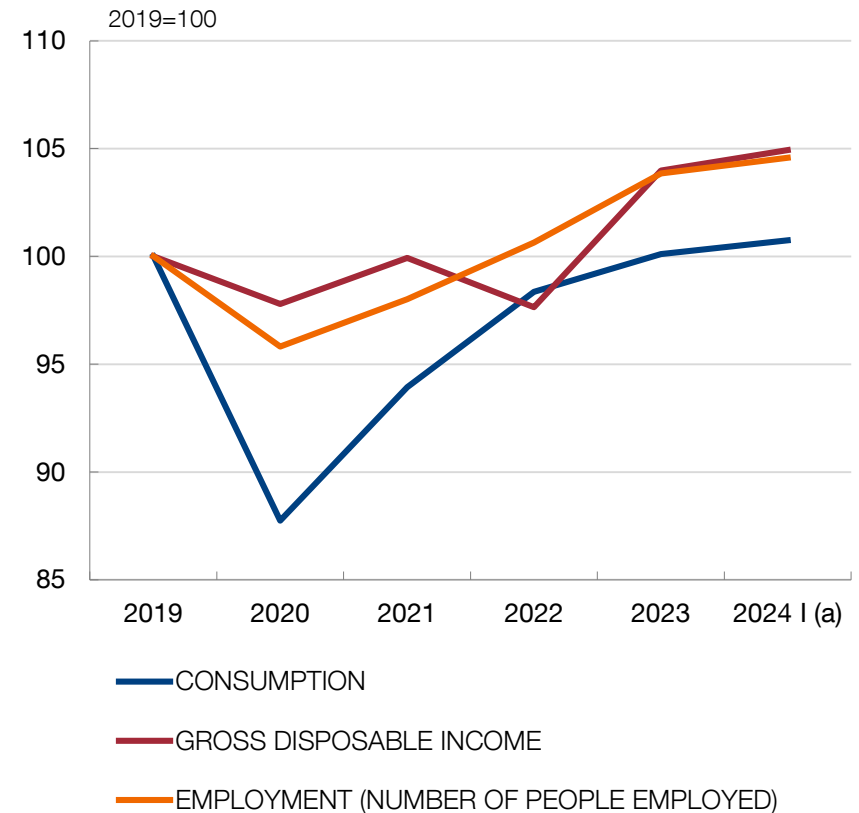
MAIN QUESTIONS (ON THE DOMESTIC FRONT) TO PROJECT NEAR-TERM GROWTH

**WHY CONSUMPTION IS SO (RELATIVELY) WEAK?
WOULD THIS WEAKNESS PERSIST?**

**WHEN AND HOW INTENSIVELY WOULD
NGEU FUNDS BOOST PRIVATE INVESTMENT?**

**WHAT ELSE TO EXPECT FROM NX OF TOURISM,
BUT ALSO FROM NX OF NON-TOURISTIC SERVICES?**

CONSUMPTION, INCOME AND EMPLOYMENT



Sources: INE and Banco de España. Last observation: 2024 Q2
(a) Four-quarter cumulative data

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STRUCTURAL CHALLENGES FACING THE SPANISH ECONOMY



Investment in
capital and
innovation



Firm size and
demographics



Structural
unemployment
(Chapter 3 AR 2023)



Inequality and
pockets of
vulnerability in
households



Housing market
(Chapter 4 AR 2023)



Public
finances



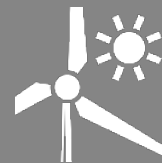
Population
ageing



Productivity



Human
capital



Green
transition



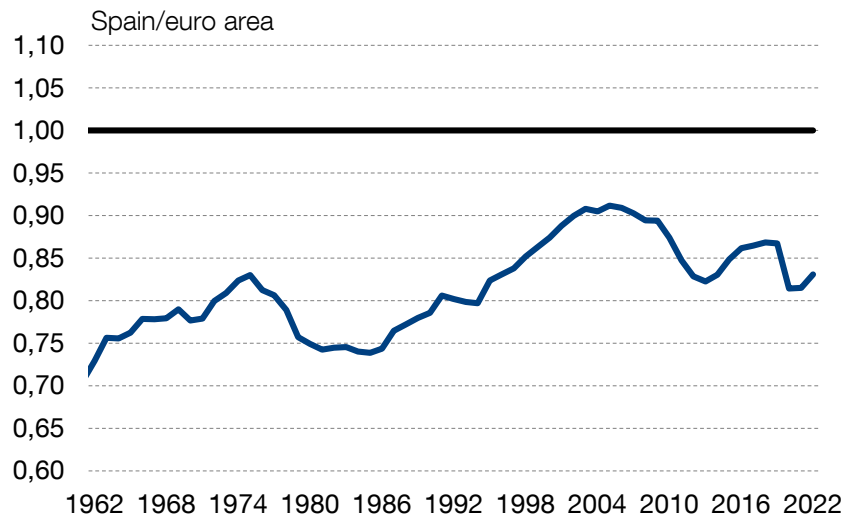
Institutional
framework

SPAIN'S ECONOMIC GROWTH IN RECENT DECADES HAS NOT BEEN SUFFICIENT TO ACHIEVE CONVERGENCE WITH EURO AREA PER CAPITA INCOME LEVELS

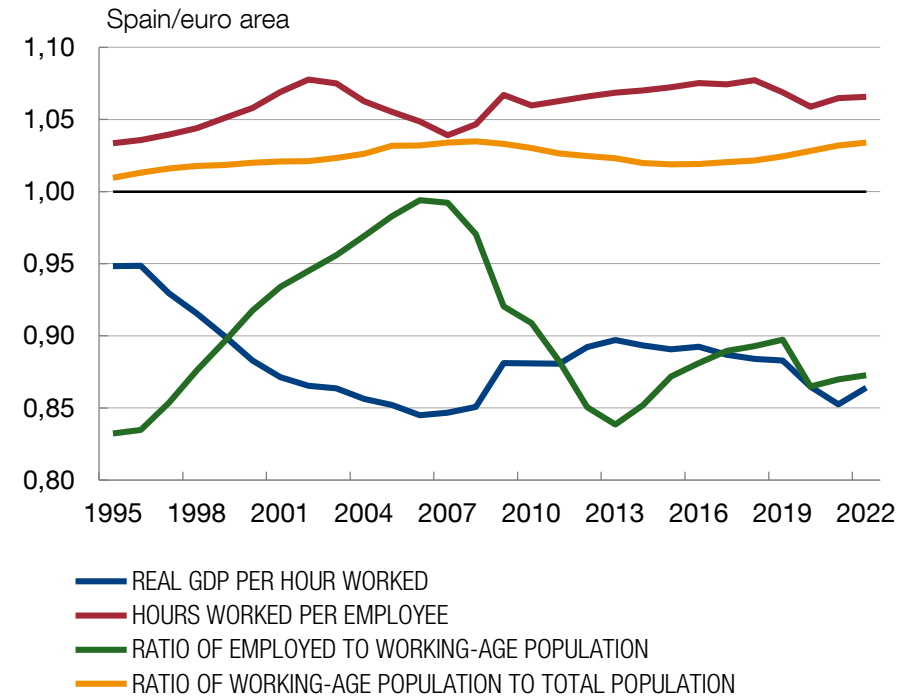
This lack of convergence is fundamentally driven by the persistence of two well-known shortcomings in the Spanish economy: **low productivity** and **a low rate of employment**

$$\frac{\text{GDP}}{P_{\text{total}}} = \frac{\text{GDP}}{\text{Hours}} \frac{\text{Hours}}{L} \frac{L}{P_{16-64}} \frac{P_{16-64}}{P_{\text{total}}}$$

GDP PER CAPITA (a)



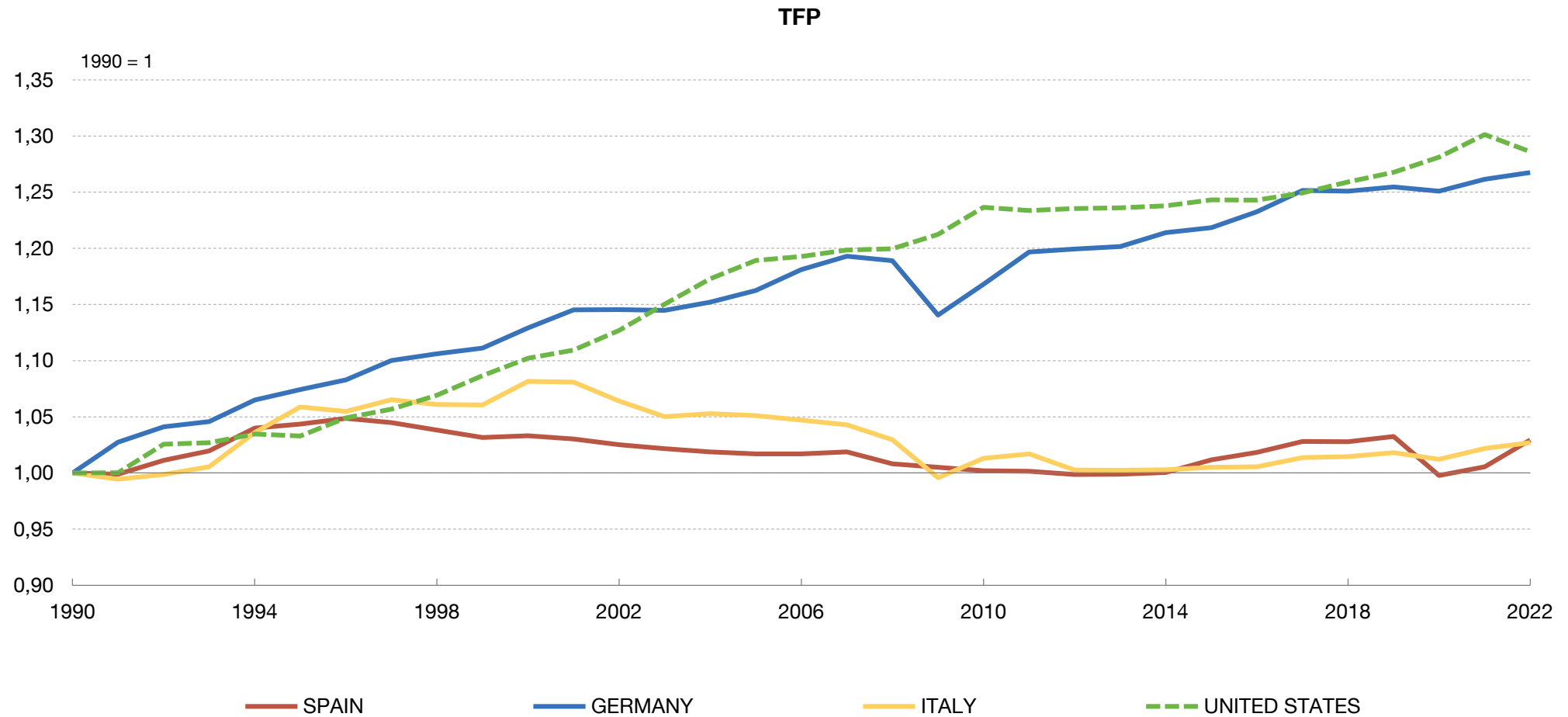
COMPONENTS OF GDP PER CAPITA (a)



Source: Eurostat

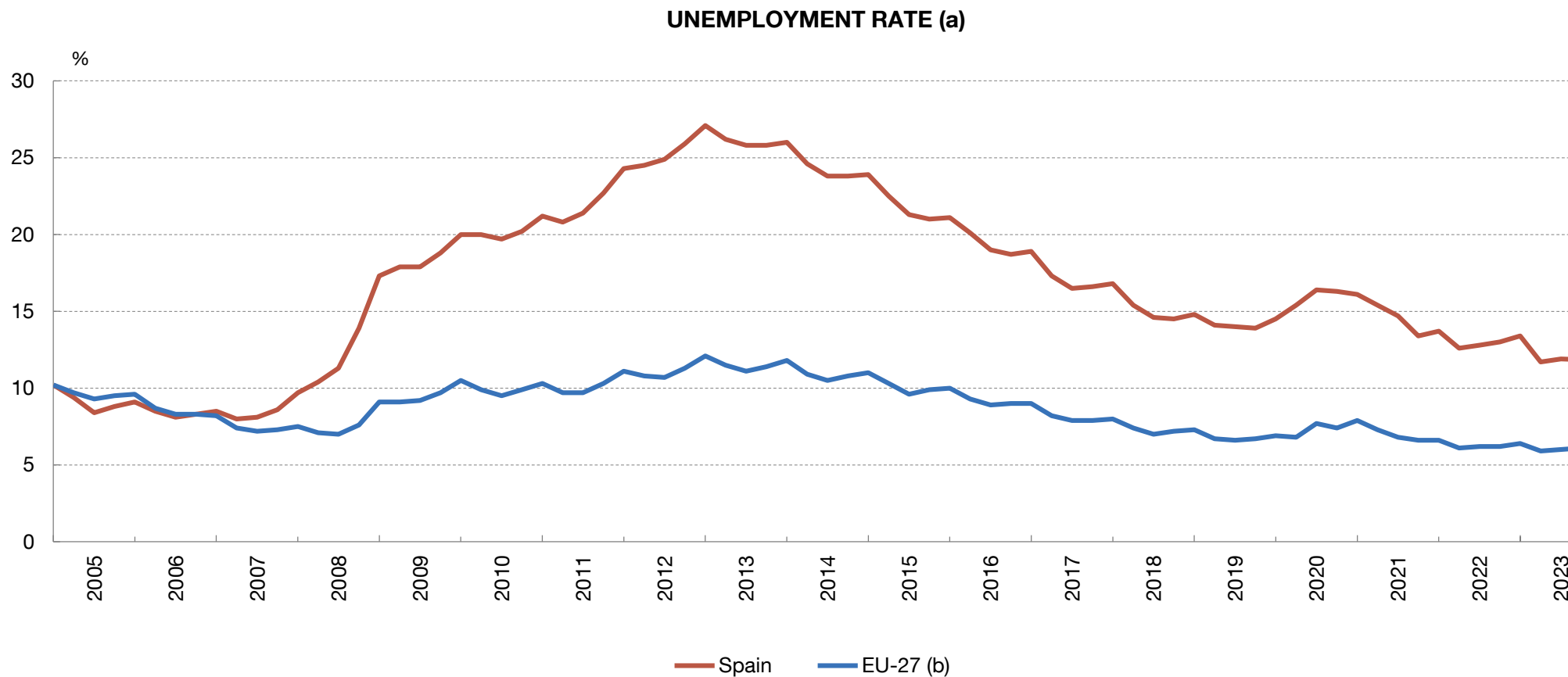
(a) GDP per capita in Spain relative to the 19 euro area countries, in real and relative purchasing power parity terms

SPANISH TOTAL FACTOR PRODUCTIVITY (TFP) GROWTH



Source: OECD

THE BUOYANCY OF EMPLOYMENT IN SPAIN HAS DRIVEN THE UNEMPLOYMENT RATE DOWN IN RECENT YEARS. HOWEVER, THIS IS STILL WELL ABOVE EUROPEAN METRICS



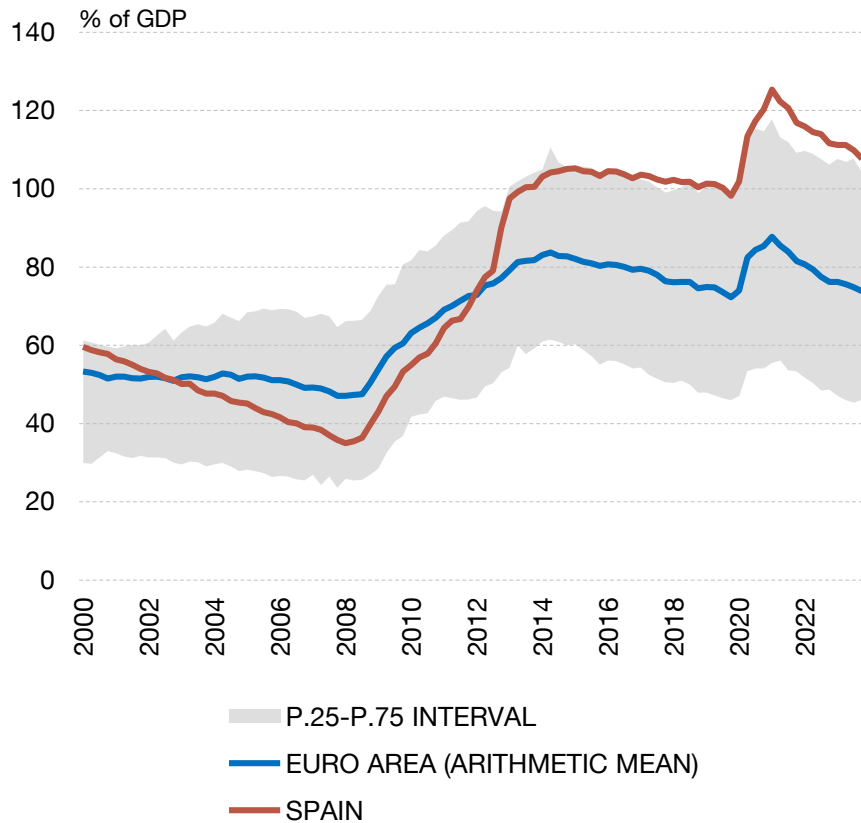
Source: Eurostat

(a) Employment rate measured as employed people as a percentage of the working-age population (aged 15-64)

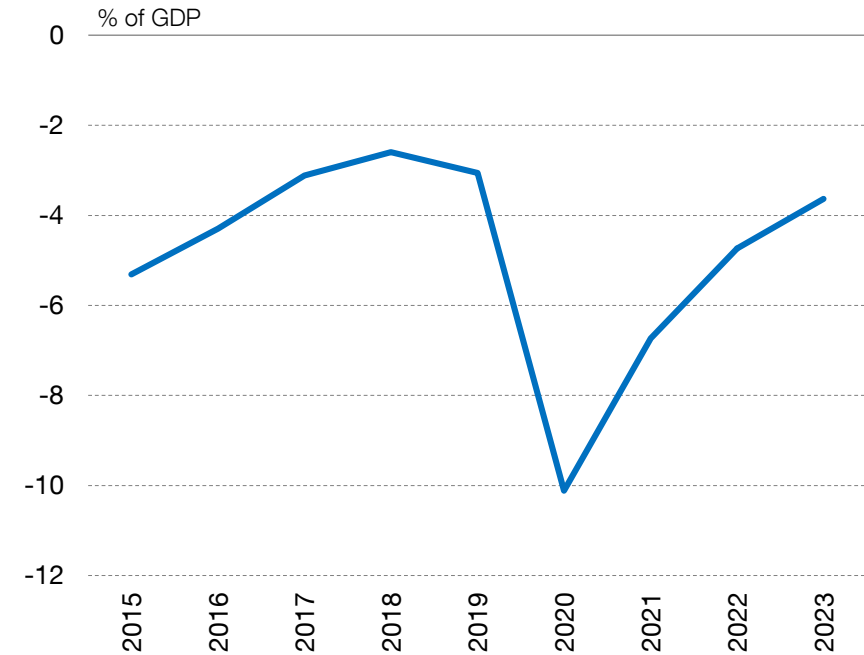
(b) EU-27 refers, throughout the period considered, to the aggregate of the European Union Member States from 2020 onwards

THE PUBLIC FINANCES IMBALANCE REMAINS HIGH –BOTH BY HISTORICAL AND INTERNATIONAL STANDARDS– AND HAS A LARGE STRUCTURAL COMPONENT, WHICH HAS NOT IMPROVED SINCE 2019

GENERAL GOVERNMENT DEBT

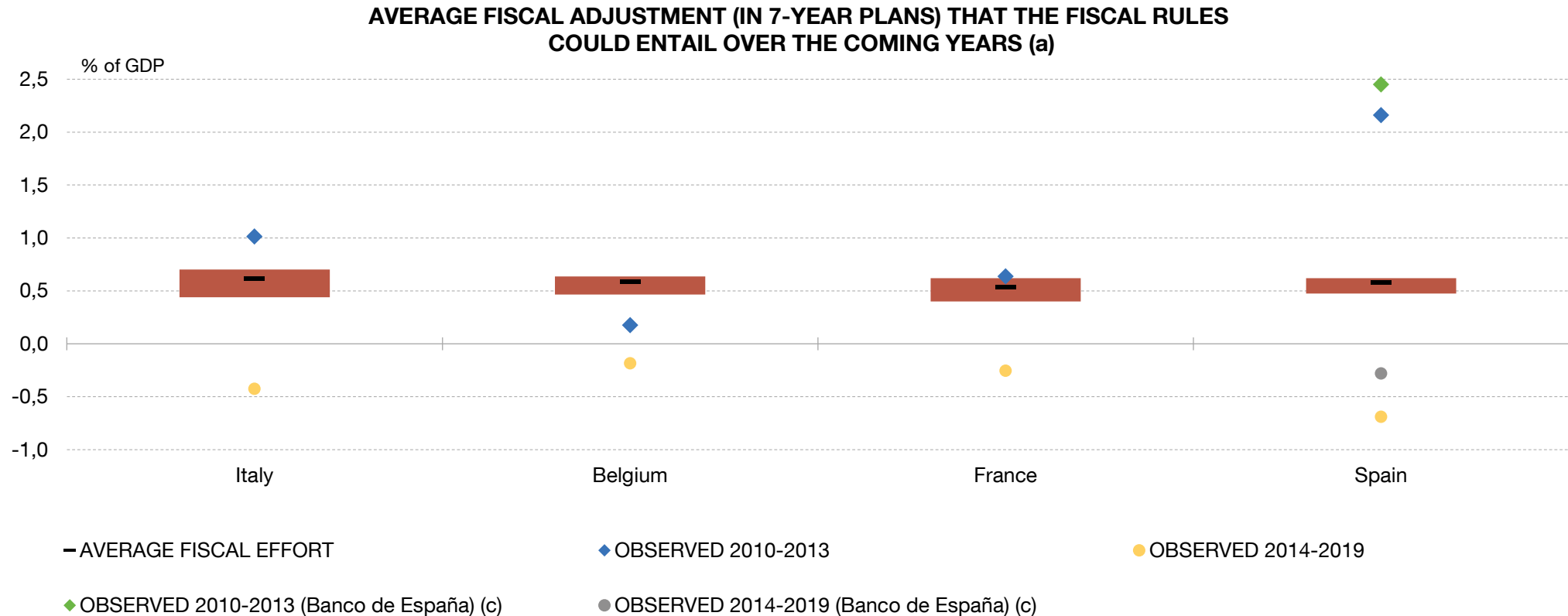


BUDGET BALANCE



Sources: Eurostat, European Commission, IGAE and Banco de España

THE NEW EUROPEAN FISCAL RULES COULD ENTAIL SIGNIFICANT FISCAL ADJUSTMENTS IN THE COMING YEARS FOR SOME COUNTRIES (SPAIN INCLUDED)



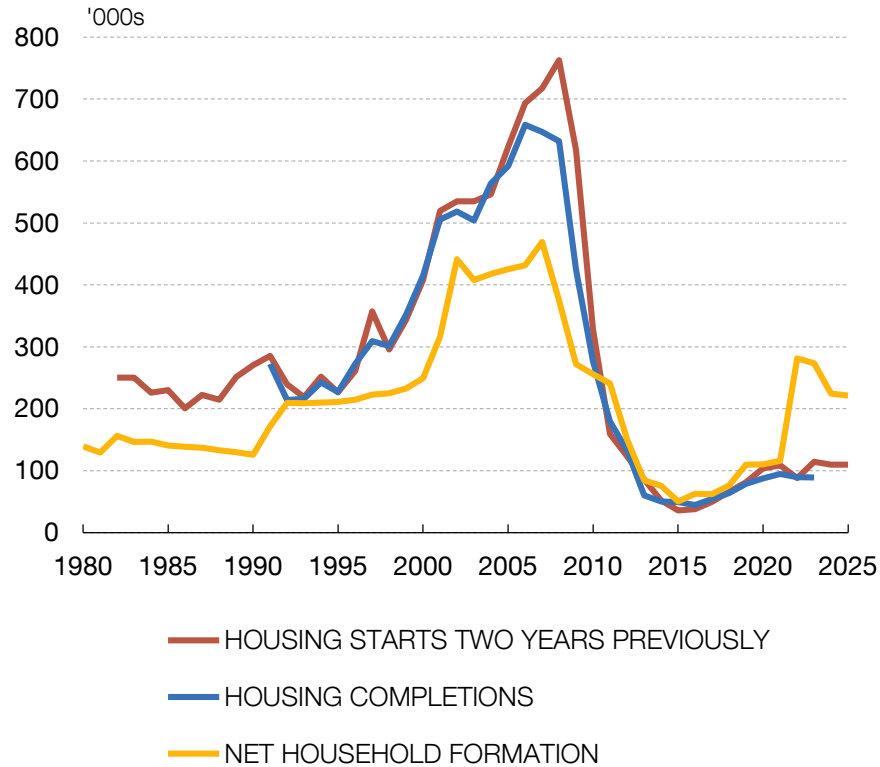
Sources: European Commission and Banco de España

(a) The average annual change in the primary structural balance required to meet the debt and deficit targets under the new European fiscal rules, over a 7-year adjustment period. The range is the difference between the minimum fiscal effort required under the deterministic baseline scenario (Debt Sustainability Analysis) and the maximum effort required under alternative scenarios of lower potential GDP growth and higher interest rates. The observed effort is that estimated by the European Commission during each period

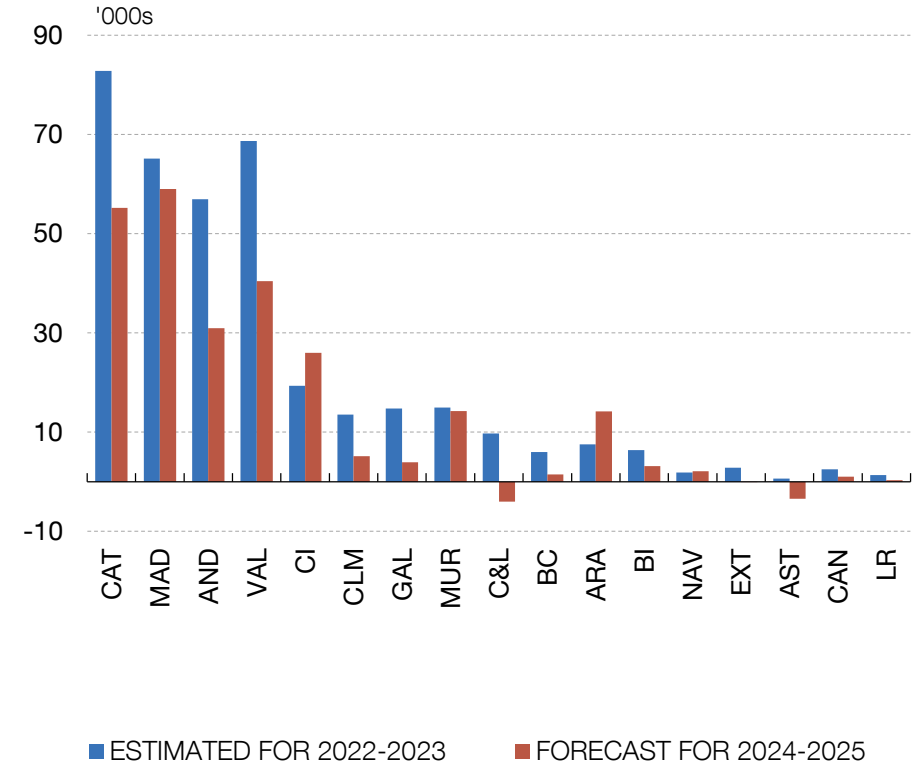
(b) For Spain, the estimated average fiscal effort differs from the European Commission estimate, primarily owing to the different potential GDP growth estimates used in the calculation

GROWTH IN HOUSING DEMAND HAS BEEN GREATER THAN THAT OF HOUSING SUPPLY ...

HOUSING AND NET HOUSEHOLD FORMATION (a)



DEFICIT/SURPLUS OF NEW HOUSES BY REGION (b)



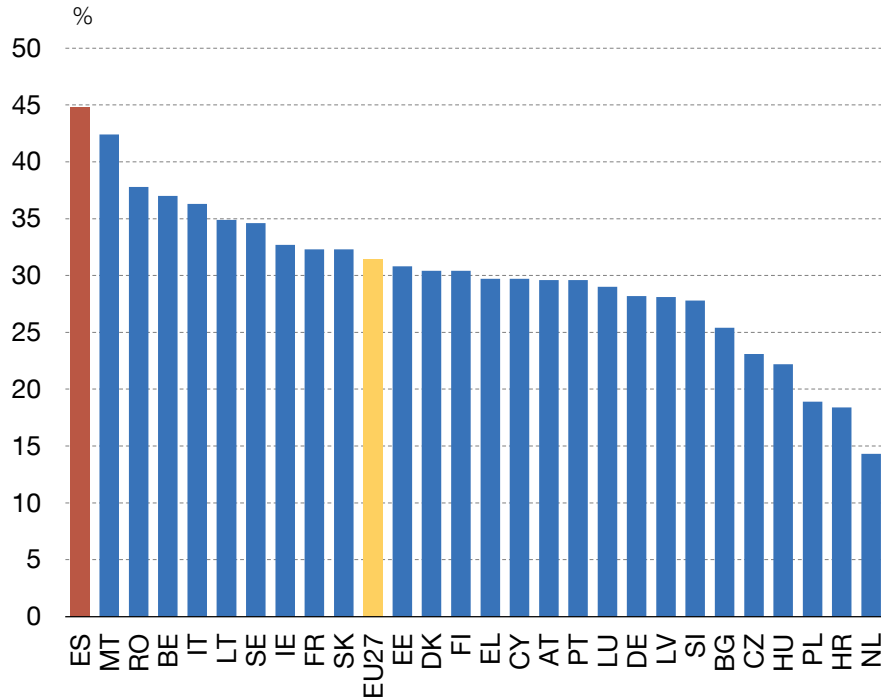
Sources: INE, Ministerio de Vivienda y Agenda Urbana, Ministerio de Transportes y Movilidad Sostenible and Banco de España

(a) Net household formation to 2021 is based on the census and continuous registers published by the INE, while for 2022 and 2023 the figures are the average annual change in households (based on quarterly data from the INE's Continuous Population Statistics). Net household formation for 2024 and 2025 corresponds to the latest household projections published by the INE in October 2022

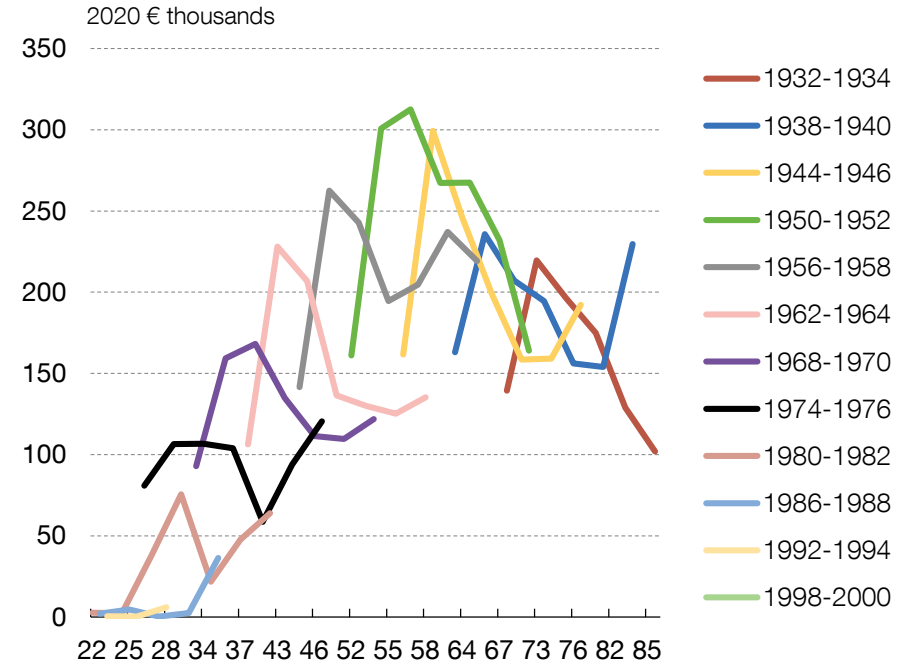
(b) The new housing deficit/surplus is calculated as the difference between net household formation and new housing production

... AND ASSOCIATED TO THAT, HOUSING AFFORDABILITY PROBLEMS HAVE BECOME MORE PRONOUNCED OVER THE LAST FEW YEARS, WITH ADVERSE ECONOMIC AND SOCIAL IMPLICATIONS

POPULATION LIVING IN RENTED ACCOMMODATION AT RISK OF POVERTY OR SOCIAL EXCLUSION IN 2022 (a) (b)



MEDIAN HOUSEHOLD WEALTH OVER LIFETIME, BY YEAR OF BIRTH



Sources: Eurostat (2023) and EFF 2020

(a) Market-rent households. Households whose income is no more than 60% of the median equivalised income after social transfers are considered to be at risk of poverty

(b) AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HR: Croatia; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; EU27: European Union

THANK YOU FOR YOUR ATTENTION

