REPORT

1 Despite the restrictive global monetary policy stance and the numerous sources of geopolitical uncertainty, the world economy remains notably buoyant

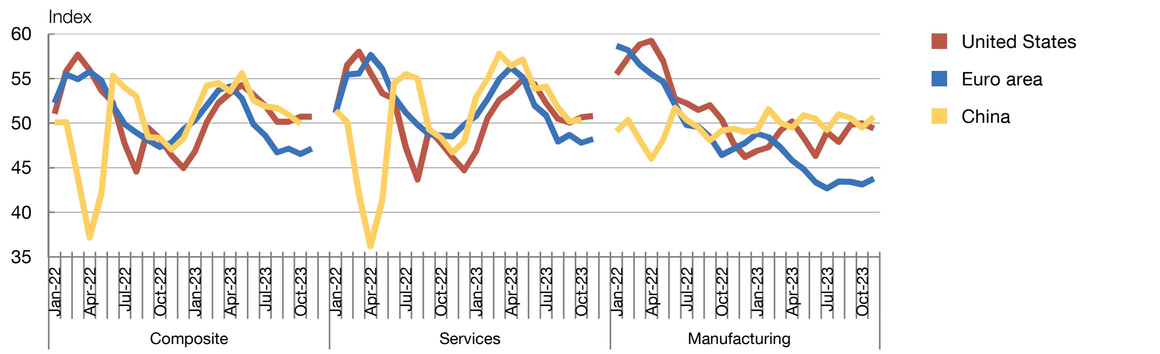
— Q3 was marked by upward surprises to GDP growth, particularly in the United States – thanks to strong employment and private consumption – and in China – amid greater fiscal support to counter the weakness of the real estate sector. Nonetheless, activity was more lacklustre than expected in certain regions, such as the euro area and Japan.

— Although a slowdown in global economic activity is expected in Q4, it should be relatively mild, particularly in light of the most recent Purchasing Managers Index (PMI) indicators, as the downward trend of recent quarters now looks to be showing signs of levelling off (see Chart 1.a).

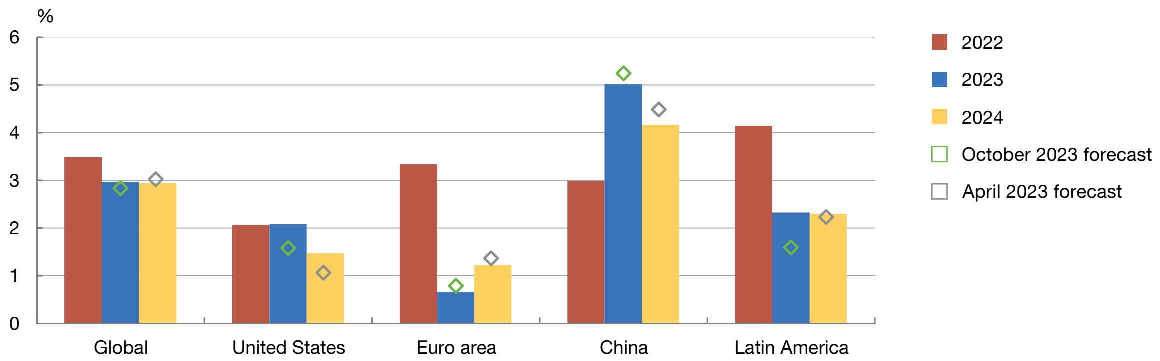
— In any event, global GDP growth appears to have slowed significantly between 2022 and 2023 – with notable heterogeneity across regions – and is not projected to pick up appreciably in 2024, partly due to the loss of momentum expected in the United States and China[1] (see Chart 1.b).

Chart 1

1.a PMIs



1.b Growth forecasts



SOURCES: S&P Global and IMF.

1 For further details of the economic situation in China and its global implications, see Alonso, Santabárbara and Suárez-Varela (2023).

2 In recent months, the disinflationary process has continued at global level, with some geographical areas even exceeding expectations

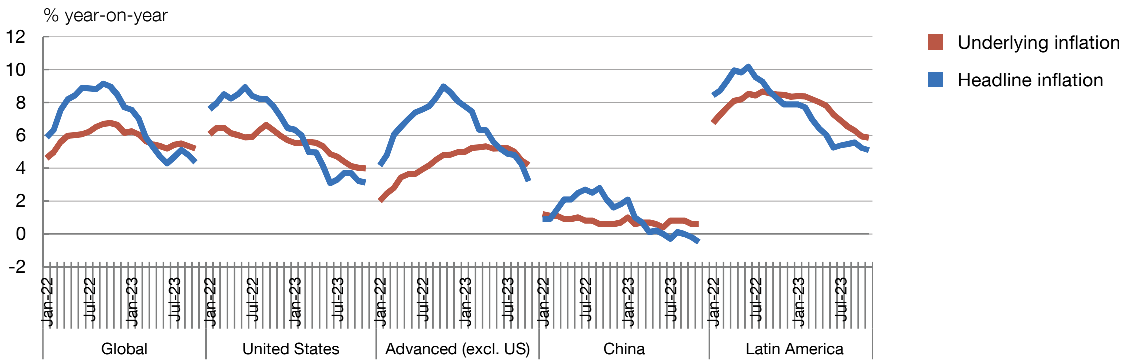
— Inflationary pressures have continued to recede faster in terms of headline inflation than of underlying inflation (see Chart 2.a), where the rate of decline is still shaped by the greater relative persistence of services inflation. All of this in a context in which energy prices, which have been highly volatile of late, have tended to surprise on the downside, particularly in the case of oil (see Chart 2.b).

— By geographical area, the recent pace of disinflation has, broadly speaking, been faster than anticipated in the advanced economies – particularly in the United States and the euro area– – and has been in line with expectations in some emerging economies – especially in Latin America and Eastern Europe.

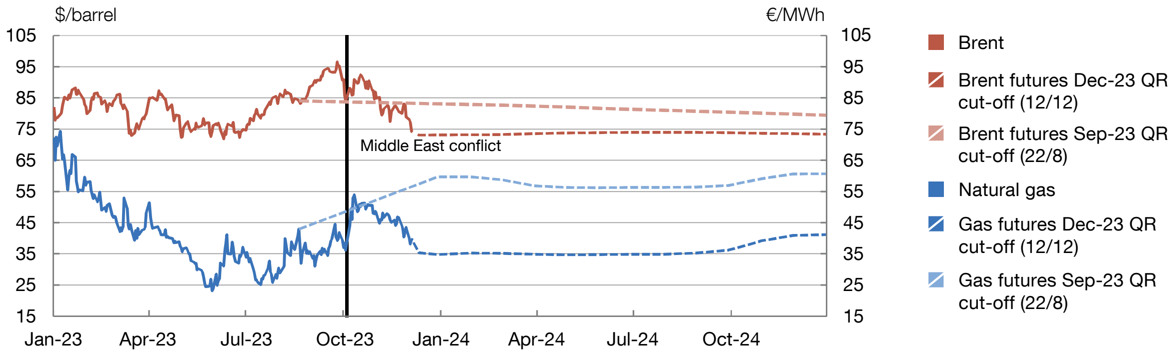
— Inflation rates are expected to continue falling worldwide in the coming quarters, an expectation that will depend crucially on avoiding an escalation in the conflicts in Ukraine and the Gaza Strip, which could significantly push up energy prices.

Chart 2

2.a Inflation



2.b Oil and gas prices and futures



SOURCES: National statistics and Refinitiv.

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3 Central banks in emerging economies have continued to loosen their restrictive monetary policy stance, while their counterparts in the main advanced economies have paused their interest rate hiking cycles

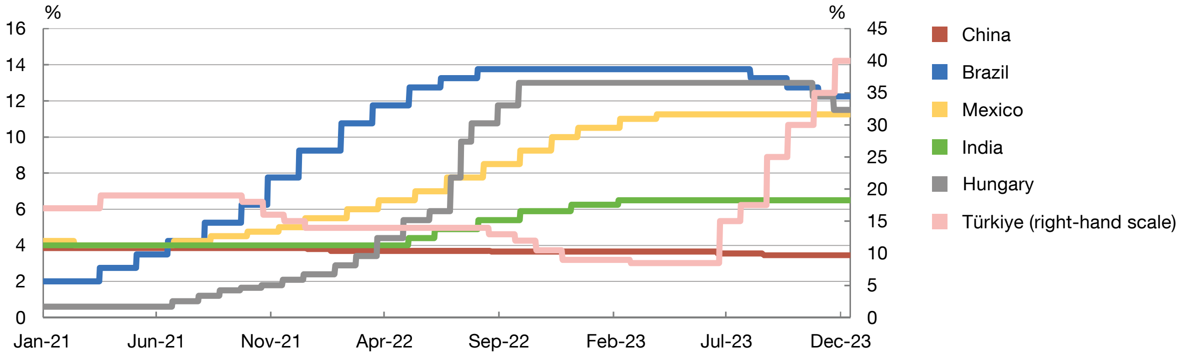
- In the emerging economies, notable examples include the rate cuts in Brazil – by a total of 150 basis points (bp) (see Chart 3.a) between August and November – and in Chile – 225 bp over the same period. Similarly, in a context of minimal inflationary pressures and some structural signs of sluggish economic activity, China's central bank also relaxed its monetary policy, cutting the one-year rate by 20 bp. Conversely, policy rates in Türkiye have risen by 3,150 bp since May in an attempt to curb inflation rates that still remain above 61%.

- In the main advanced economies, at their latest monetary policy meetings the US Federal Reserve, the Bank of England and the European Central Bank (ECB), among others, decided to keep their policy rates unchanged, having reached their highest level since 2008 (see Chart 3.b).

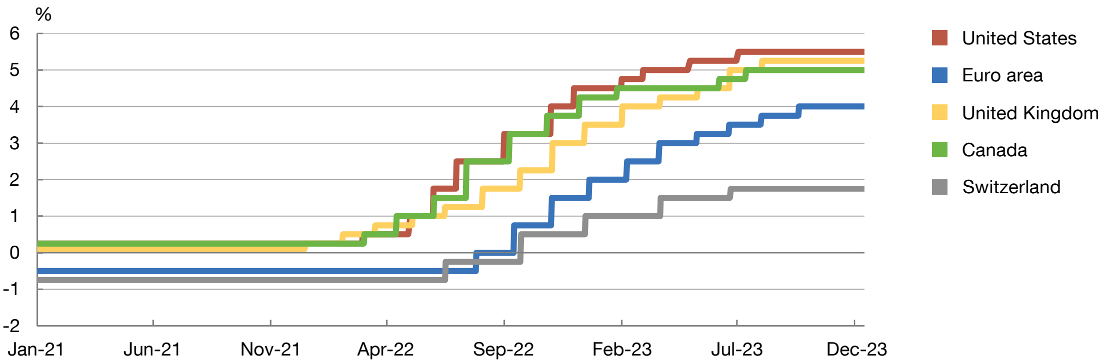
- In any event, these central banks, which have been keen to stress publicly that the policy rates will probably have to remain at their current levels for some time to ensure that inflation returns to its medium-term target, are starting to signal that the current monetary tightening cycle may have reached its limit, and that the restrictive monetary policy must be given time to take full effect.

Chart 3

3.a Policy interest rates in emerging economies



3.b Policy interest rates in advanced economies



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SOURCES: National central banks and Refinitiv.

4 Global financial markets have moved sharply, with notable stock price gains and declines in long-term interest rates

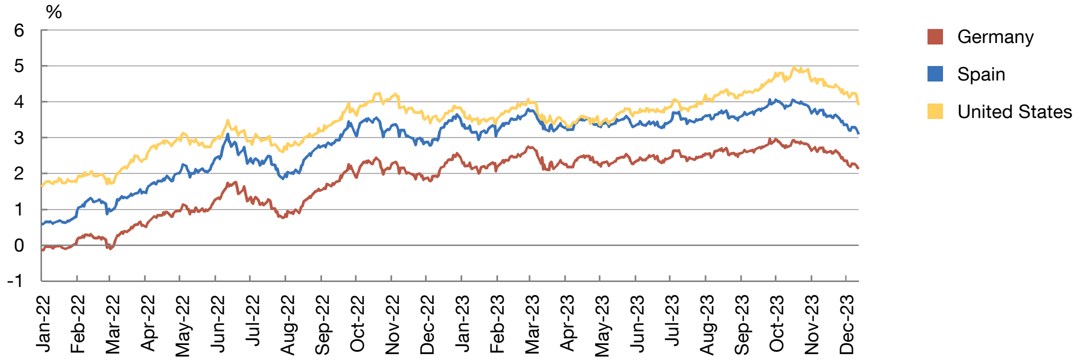
- The performance of global financial markets has continued to be shaped by expectations over the future path of monetary policy.

- These expectations have changed substantially over Q4, with policy rates for 2024 now expected to be cut earlier and by a larger amount in both the United States and the euro area. Thus, for instance, at the cut-off date of this Report, the markets are expecting the first policy rate cut in the United States midway through 2024 (vs September 2024, as expected three months ago) with an overall reduction of 125 bp in 2024 (75 bp more than anticipated three months ago).

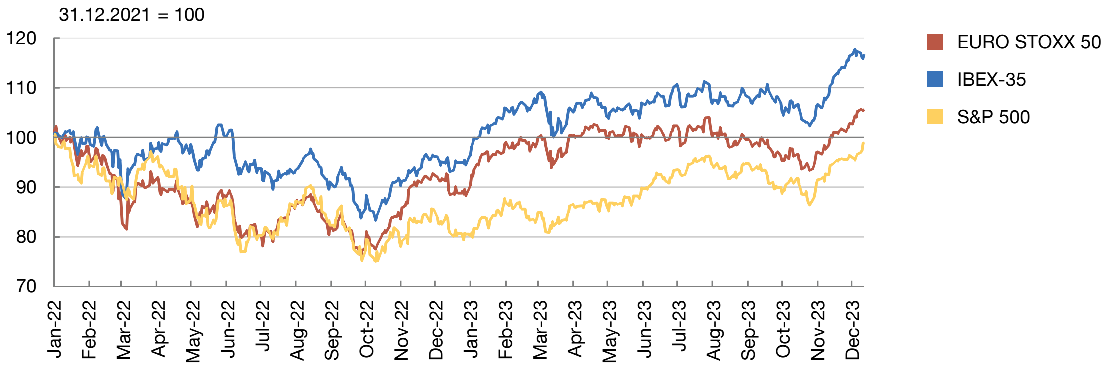
- This has triggered significant falls in long-term yields (see Chart 4.a) and sharp rises on the main stock market indices (see Chart 4.b). Moreover, sovereign bond spreads in the euro area have narrowed overall, particularly in the case of Greek and Italian debt, in the context of an improvement in their credit ratings.[2]

Chart 4

4.a 10-year sovereign debt yields



4.b Stock market indices



SOURCE: Refinitiv Datastream.

2 Standard & Poor's and Fitch rated Greek sovereign debt as investment grade on 20 October and 1 December, respectively. Meanwhile, on 17 November Moody's upgraded the outlook for Italian sovereign debt from "negative" to "stable".

5 Economic activity in the euro area has continued to show clear weakness and is only expected to pick up at a relatively slow pace

— Euro area GDP shrank by 0.1% in 2023 Q3, performing slightly worse than expected, owing to the slowdown in the international environment, the deterioration in households' purchasing power, tightening financial conditions and the decreased competitiveness of the region as a whole on the international stage.

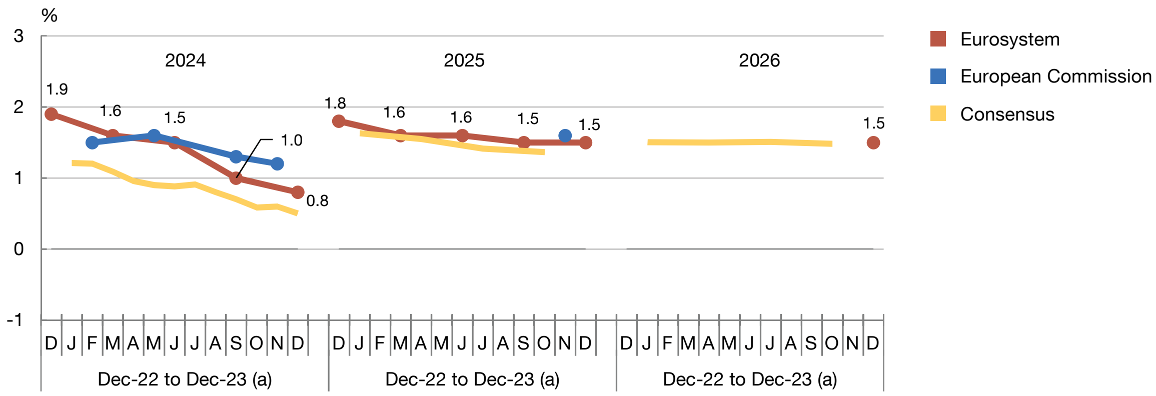
— The most recent activity indicators suggest that these factors have continued to weigh on the dynamism of the euro area's economic activity in Q4. According to the most recent Eurosystem staff macroeconomic projections exercise, GDP will rise by just 0.1% this quarter, underpinned by muted growth in consumer confidence

— This exercise also saw the growth outlooks for 2023 and 2024 revised down slightly from 0.7% and 1% in September to 0.6% and 0.8%, respectively, while the 2025 outlook held steady at 1.5% (see Chart 5.a). Looking further ahead, further growth of 1.5% is forecast in 2026.

— The projected gradual road to recovery would appear to rely above all on private consumption, buoyed by the rise in households' real disposable income in an environment of rising wages and falling inflation. External demand is also expected to perform positively, although its contribution to growth will be limited by euro area exports' loss of market share.

Chart 5

5.a Euro area GDP growth forecasts



SOURCES: ECB, European Commission and Consensus Economics.

a The letters refer to the month in which the corresponding earlier forecast was published.

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6 Headline inflation in the euro area has recently fallen more than expected, thanks to the slowdown in all its components

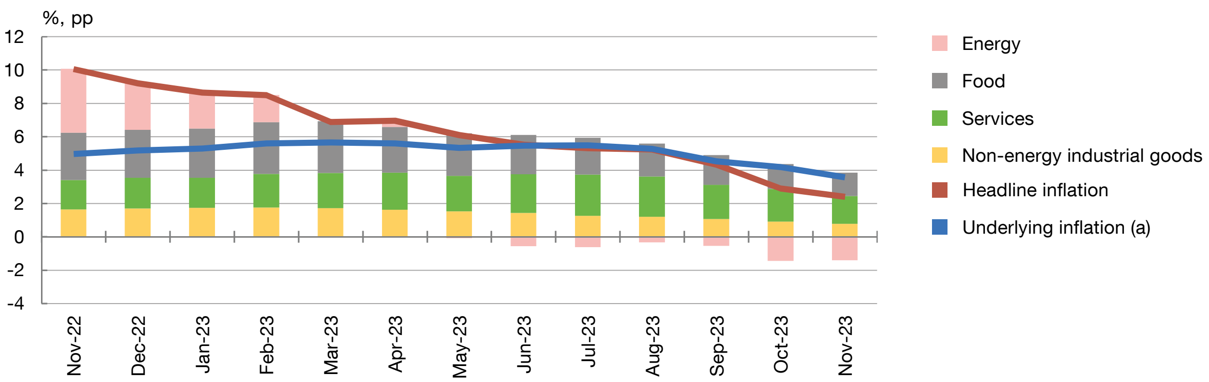
— Euro area inflation stood at 2.4% in November, having declined more quickly in the two previous months (see Chart 6.a). This notwithstanding, inflationary pressures still remain high, with strong contributions from food prices and, above all, services, meaning that underlying inflation is still at 3.6%.

— The price slowdown is expected to continue in the coming quarters. The Eurosystem projection exercise published in December shows headline inflation at 5.4% for 2023 as a whole, easing to 2.7% in 2024 (see Chart 6.b). Price growth is expected to slow further in 2025 and 2026, to 2.1% and 1.9%, respectively.

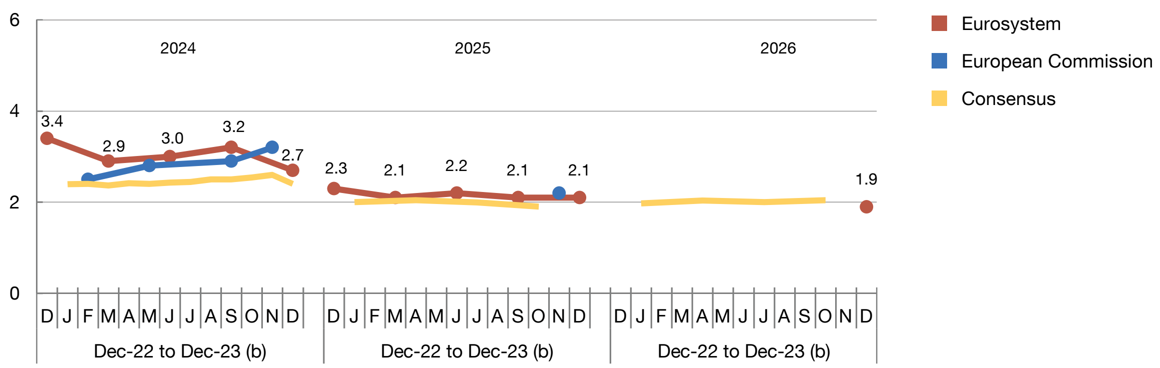
— In the current environment of high uncertainty over future energy price movements, among other factors, the latest projections lower the previous quarter's inflation outlook for 2023 and 2024 by 0.2 percentage points (pp) and 0.5 pp, respectively, while that of 2025 is unchanged. These revisions are fundamentally the result of more encouraging developments in energy prices.

Chart 6

6.a Euro area inflation and contribution of components



6.b Euro area inflation forecasts



SOURCES: European Commission, Consensus Economics, Eurosystem and Eurostat.

a Headline HICP excluding energy and food.
b The letters refer to the month in which the corresponding earlier forecast was published.

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7 The European Central Bank halted the rate hiking cycle

— Following ten consecutive key rate rises up to September 2023, the Governing Council of the European Central Bank (ECB) considers that, based on its current assessment, the key interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to ensuring that inflation returns to its 2% medium-term target in a timely manner.

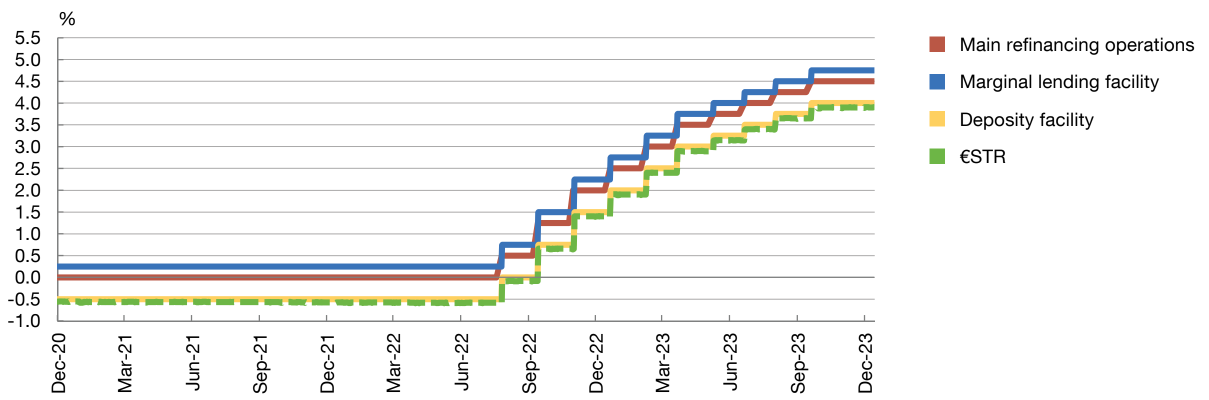
— As a result, the Governing Council kept the key interest rates unchanged at its December meeting, as in October, with the interest rate on the deposit facility remaining at 4% (see Chart 7.a).

— The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

— At its December meeting, the Governing Council also announced its intention to begin reducing the pandemic emergency purchase programme (PEPP) portfolio during the second half of 2024, by €7.5 billion per month on average, as part of the Eurosystem's balance sheet normalisation. The principal payments from maturing securities will continue to be reinvested in full until then. Furthermore, as previously announced, it intends to discontinue reinvestments under the PEPP at the end of 2024.

Chart 7

7.a Key ECB interest rates and €STR



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SOURCES: Banco de España and Refinitiv Datastream. Latest data: 14 December 2023.

8 In Spain, the National Statistics Institute's revision of the Annual National Accounts raised the increase in GDP for 2020-2022 as a result of higher growth in domestic demand

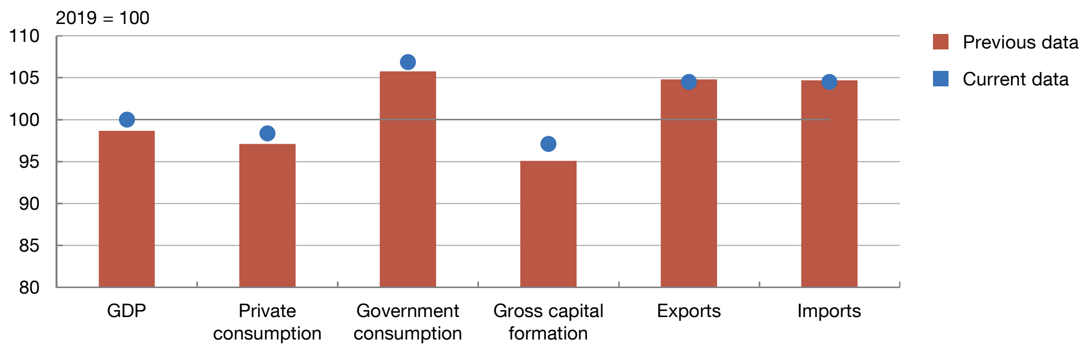
— According to this revision, Spanish GDP shrank by 11.2% in 2020, but grew by 6.4% and 5.8% in 2021 and 2022, respectively. These figures suggest that GDP growth in each of these three years was 0.2 pp, 0.9 pp and 0.3 pp, respectively, higher than previously reported. This would mean that Spain's economy was able to recover to its pre-pandemic level of activity by 2022 Q3.

— As explained in Fernández, González Mínguez, Izquierdo and Urtasun (2023), this statistical change also led to significant changes in other key areas of the Spanish economy's recent performance. For example, there was a significant increase in the contribution of domestic demand to GDP growth in the period analysed (see Chart 8.a). Similarly, the new figures entail a change in tax revenue that is somewhat more consistent with the macroeconomic bases, as well as more dynamic developments in household spending in line with the significant increase in real incomes. Meanwhile, although productivity was slightly stronger than initially reported, the significant increase in compensation per employee in the period under review led to higher unit labour costs.[3]

— As part of this process of statistical revision, harmonised at European level, GDP growth in the euro area was also revised upwards in recent years. Following these revisions, euro area GDP in 2023 Q3 stood above its pre-pandemic level, as did Spanish GDP, although the difference was smaller – 3 pp compared with 2.1 pp.

Chart 8

8.a GDP and main components. 2022 vs 2019



SOURCE: INE.

3 For their part, profit margins, proxied by the ratio of gross operating surplus (GOS) to gross value added (GVA), stood slightly below their pre-pandemic level in 2023 Q2, at 46.7% compared with the 47.5% estimated using the earlier time series.

9 After a remarkable upswing in the first half of 2023, Spanish economic activity slowed down in Q3

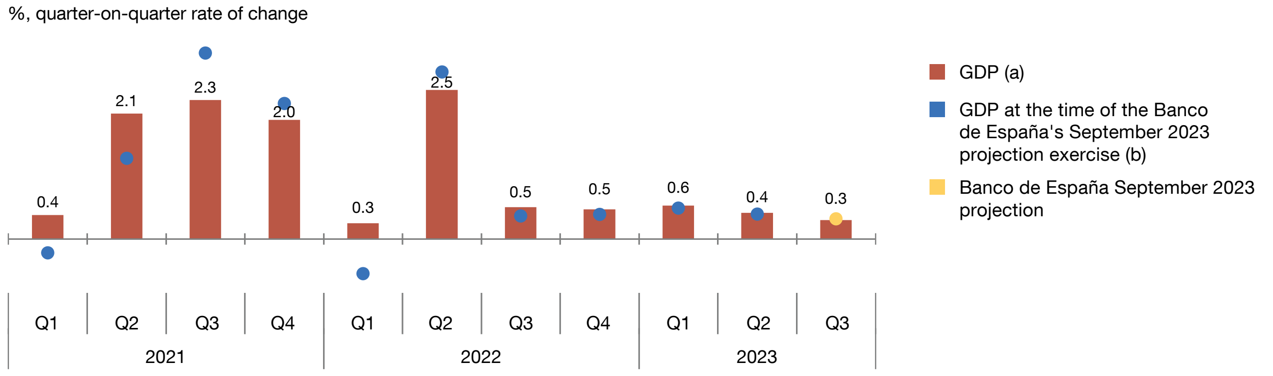
— The Quarterly National Accounts (QNA) flash estimates published at end-October suggest GDP grew by 0.3% in Q3, 0.1 pp less than in the previous quarter, in line with the forecasts of the Banco de España's September projection exercise (see Chart 9.a).

— Output growth in Q3 was once again driven by domestic demand, especially by private consumption and investment in capital goods, which recorded quarter-on-quarter growth rates of 1.4% and 2%, respectively (see Chart 9.b). By contrast, net external demand made a negative contribution to growth, as exports – weighed down mainly by the slowdown in global and European economic activity – fell more than imports.

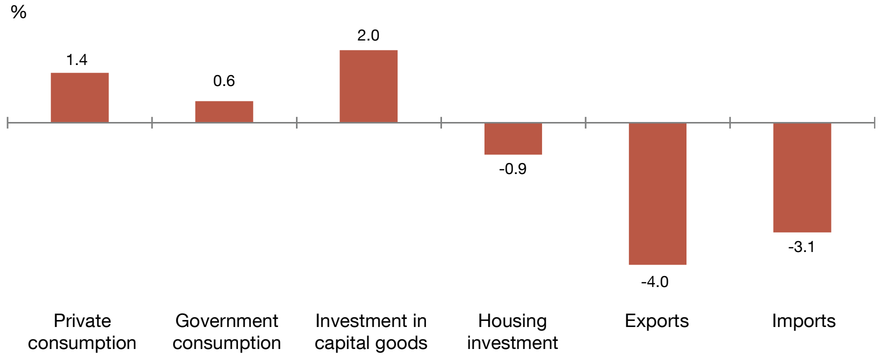
— By activity, services continued to perform comparatively better (particularly the artistic activities and information and communication sectors, whose level of activity grew by 11.9% and 1.1%, respectively, in Q3). Conversely, agriculture, industry and construction shrank by 3.4%, 0.6% and 0.6%, respectively.

Chart 9

9.a GDP growth in Spain



9.b Quarter-on-quarter growth rates for the main components in Q3



SOURCES: Banco de España and INE.

a Latest series published by the Spanish National Statistics Institute (INE by its Spanish abbreviation) (27 October 2023).
b Latest GDP series available (28 July 2023) at the time of the Banco de España's September 2023 projection exercise. Since then, Annual National Accounts figures for the period 2020-2022 have been revised and new QNA series consistent with the new national data have been published, along with the Q3 QNA flash estimate.

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10 The indicators available for Q4 suggest that economic activity has continued to grow at a pace similar to that recorded in Q3

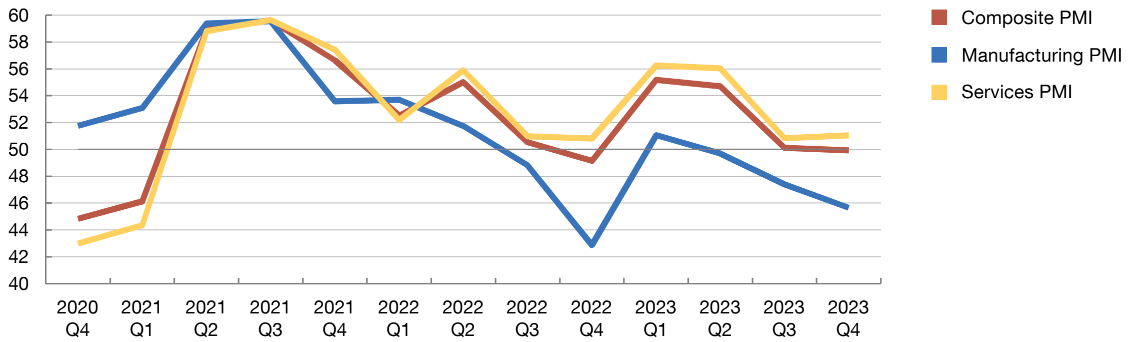
— An overall analysis of the various indicators (including employment, consumption and confidence indicators) that provide partial, and as yet incomplete, information on the performance of activity in 2023 Q4 suggests that Spanish GDP could grow in this period by 0.3% quarter-on-quarter. There is, however, considerable uncertainty surrounding this estimate.[4]

— Among the available indicators, the PMIs held at around Q3 levels until November and continue to point to greater buoyancy in services compared with manufacturing (see Chart 10.a).

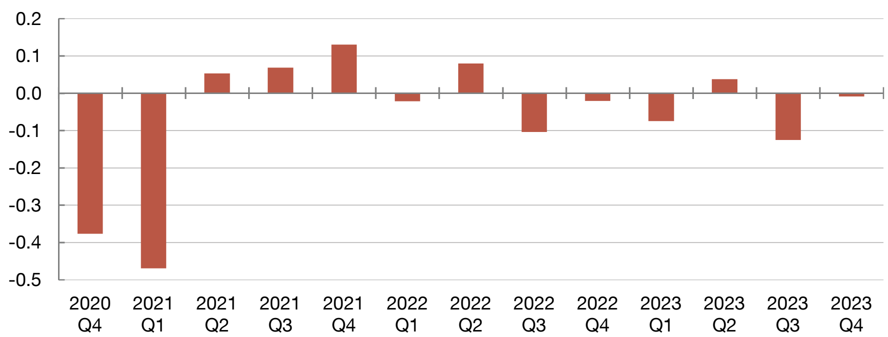
— In the same vein, the Banco de España Business Activity Survey (EBAE by its Spanish abbreviation) suggests that firms' turnover remained practically unchanged compared with Q3, a period in which firms reported a decline in their turnover (albeit with notable sectoral heterogeneity)[5] (see Chart 10.b).

Chart 10

10.a PMIs in Spain (a)



10.b Quarterly change in EBAE turnover (b)



SOURCES: S&P Global and EBAE (Banco de España).

a The 2023 Q4 PMI figure is the average in October and November.
b The qualitative responses from the EBAE are converted into a numerical scale as follows: significant decrease = -2; slight decrease = -1; stability = 0; slight increase = 1; significant increase = 2.

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4 For more details, see the Projections in this report.

5 For more details, see Fernández and Izquierdo (2023).

11 Employment growth appears to have stabilised in Q4, buoyed once again by the strength of employment among foreign nationals

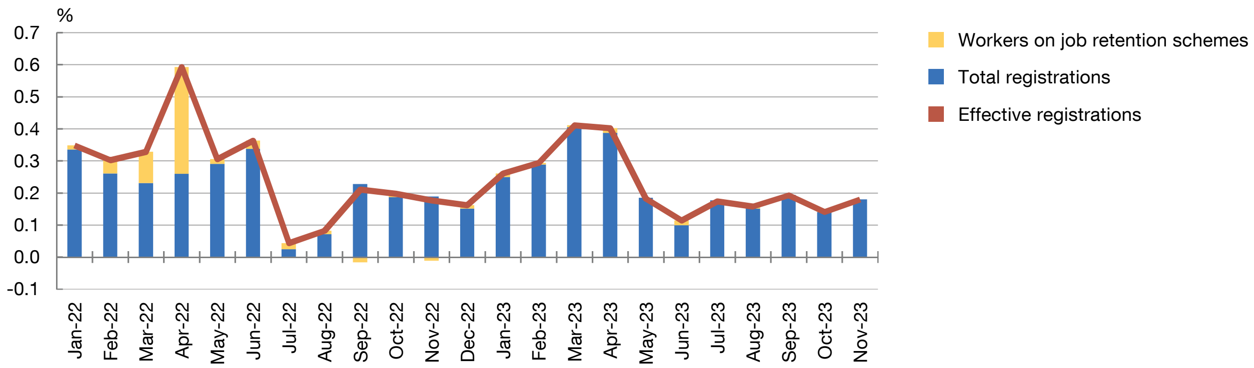
— After some loss of momentum in October, in November social security registrations grew by almost 0.2% in seasonally adjusted terms, in line with the net job creation rates seen in the summer months (see Chart 11.a). This could herald a rise in employment in Q4 similar to that seen in Q3.

— By activity, social security registrations grew across the board, with the recovery in employment in the agricultural sector standing out, after the declines seen in prior months.

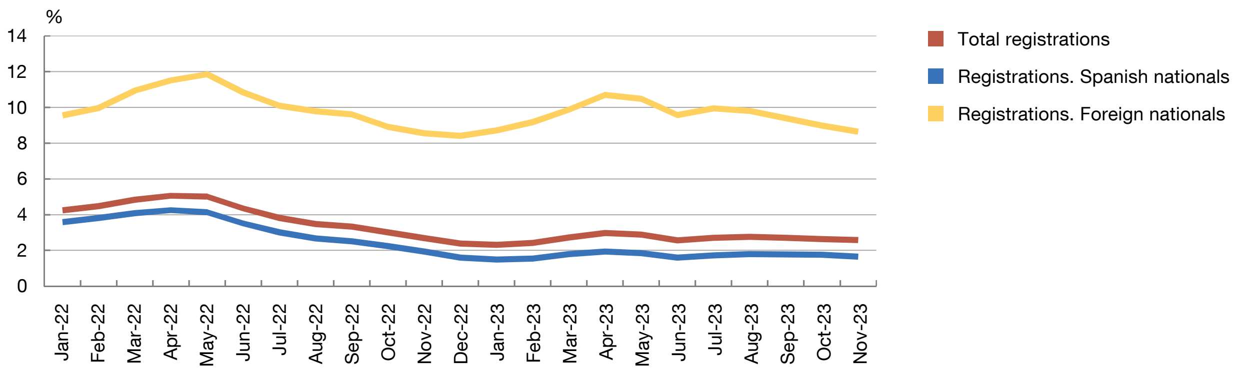
— The strength of employment in recent quarters was closely linked to the strong momentum in the foreign worker group, which saw a year-on-year increase in social security registrations of 8.6% in November, compared with 1.7% for Spanish nationals (see Chart 11.b). Thus, in the past year, foreign workers were behind somewhat more than 40% of total growth in social security registrations and now account for 12.8% of total registrations, up from around 11% at end-2019.

Chart 11

11.a Total social security registrations, workers on job retention schemes and effective social security registrations (a)



11.b Social security registrations by nationality (b)



SOURCES: Ministerio de Inclusión, Seguridad Social y Migraciones and Banco de España.

a Seasonally adjusted monthly rate.
b Year-on-year rate.

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12 The pass-through of monetary policy tightening to financing costs and bank lending has continued in recent months

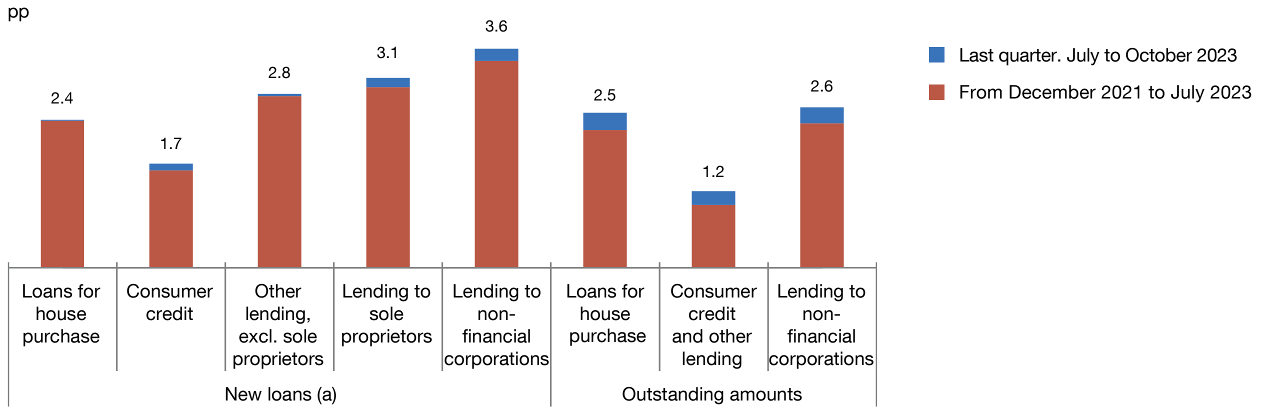
— The cost of new bank loans to households and firms and the average cost of outstanding debt has continued to increase in recent months (see Chart 12.a).

— Moreover, the latest edition of the Bank Lending Survey pointed to a further reduction in demand and a tightening of credit standards across all credit market segments. For Q4, respondent financial institutions expect both supply and demand to continue to contract, albeit somewhat less sharply than in Q3.

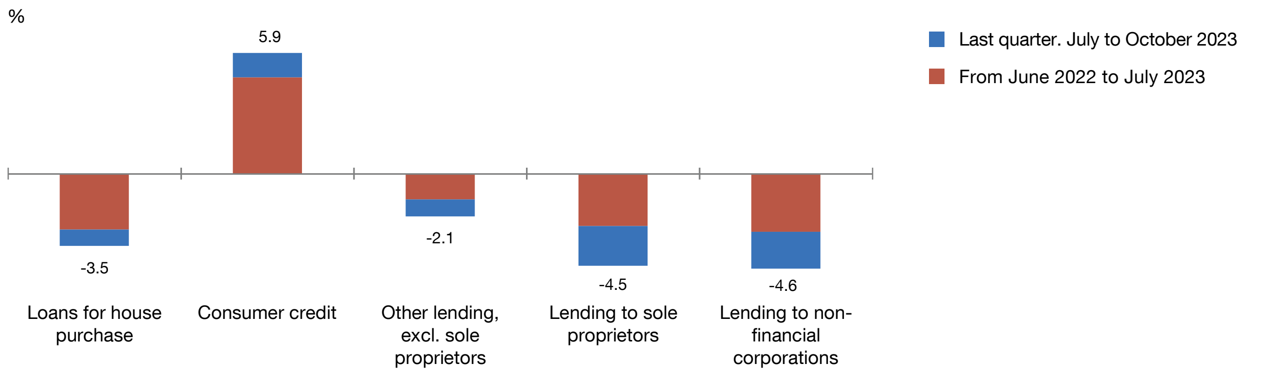
— Against this background, the decline in the outstanding balance of lending to the private sector has steepened, particularly in loans to firms and sole proprietors (see Chart 12.b). Conversely, consumer credit has continued to grow steadily at around 4% year-on-year, driven in the recent period by lending for durable consumption.

Chart 12

12.a Increase in the cost of credit since the start of the monetary policy tightening cycle



12.b Change in lending to households and firms since mid-2022 (b)



SOURCE: Banco de España.

a Bank interest rates are narrowly defined effective rates (NDERs), i.e. they exclude related charges, such as repayment insurance premia and fees, and are adjusted seasonally and for the irregular component (small changes in the series with no recognisable pattern in terms of periodicity or trend).
b Seasonally adjusted data. Includes securitisations except in the breakdown of other lending.

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13 The vigour of private consumption appears to have dampened in 2023 Q4

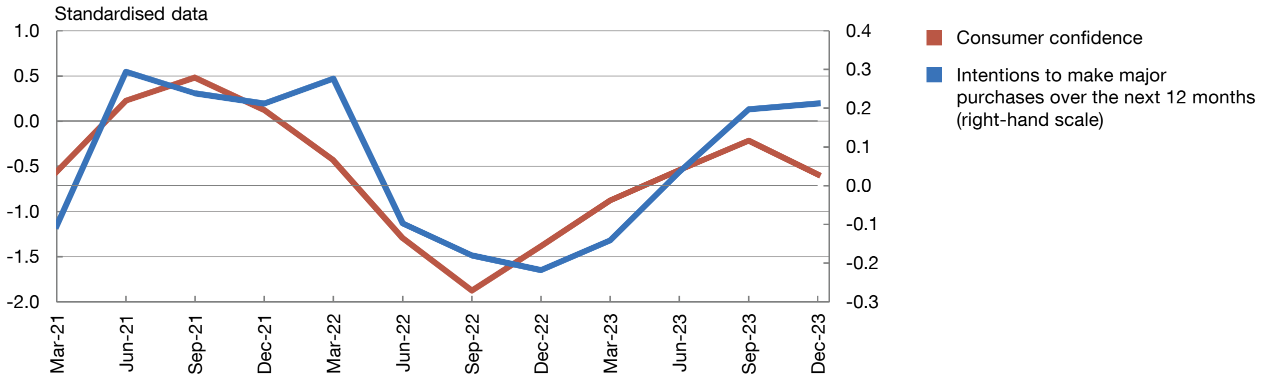
— The information available for Q4 suggests that, after exhibiting considerable buoyancy in Q3 which helped it return to its pre-pandemic level, household consumption has eased in the final stretch of the year. This is suggested, for example, by the retail trade index, whose increase in October was more moderate than in the summer.

— This moderation of consumption appears to reflect, inter alia, the ongoing pass-through of monetary policy tightening to the cost of credit and lower consumer confidence, which seems to have contributed recently to curtailing the increase observed over the last few months in consumers' intentions to make major purchases (see Chart 13.a).

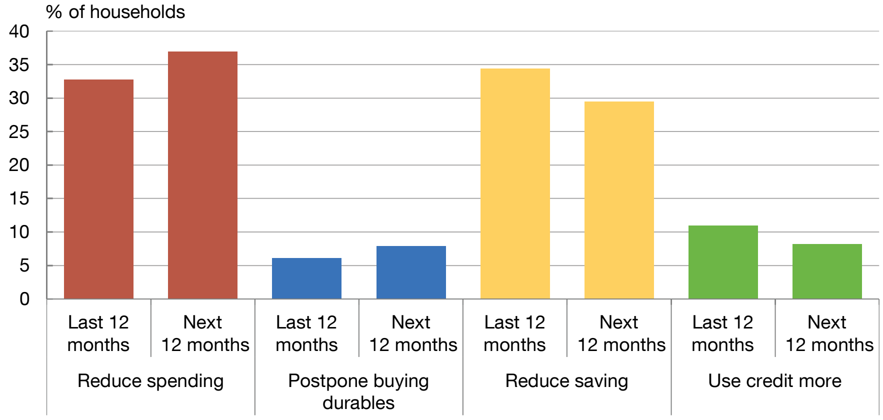
— In light of the results of the ECB's monthly Consumer Expectations Survey, Spanish households' spending might remain less dynamic over the coming quarters, owing in part to the lower use that they expect to make of consumer loans in the future (see Chart 13.b).

Chart 13

13.a Consumer confidence and intentions to make major purchases (a)



13.b Compared with the last 12 months, households expect to use credit less in the future to cope with the expected trajectory of prices (b)



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

a Quarterly averages depicted. 2023 Q4 calculated as the average of the October and November data.
b The chart shows the share of households that in September reported having taken each of the actions indicated in response to price changes in the past 12 months (and those that expected to take each of these actions in the next 12 months in response to price changes over the coming year), according to the survey used.

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14 In the closing months of the year, business investment could remain on the positive course observed in Q3

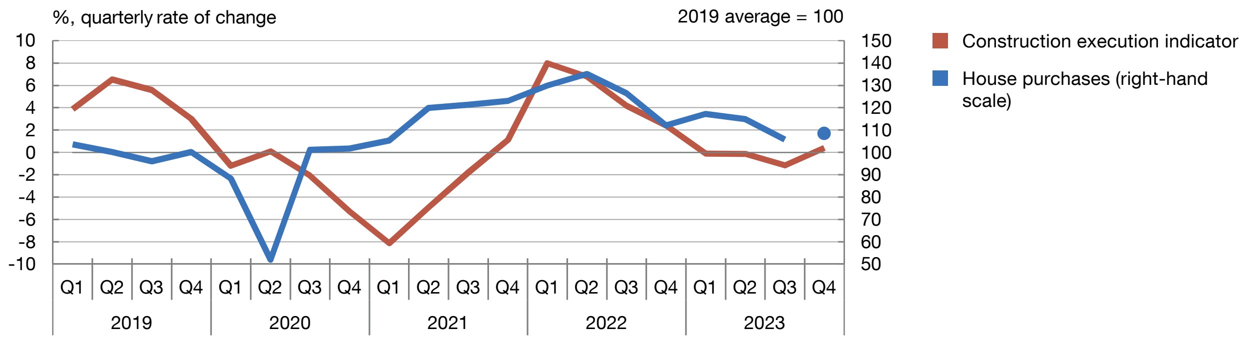
— Following the growth posted in Q3, investment in capital goods could hold on its path of returning to pre-pandemic levels in the last few months of the year. The improvement observed in the PMI for new manufacturing orders in November, for example, appears to be pointing in this direction.

— Also pointing along the same lines is the gradual development of the investment projects associated with the Next Generation EU (NGEU) programme. For instance, although the Recovery and Resilience Facility tenders under this programme are being awarded somewhat more slowly in 2023 than initially foreseen, the volume awarded in the first 10 months of the year was close to 40% higher than in the same period of 2022.

— Residential investment appears to have remained relatively stable in Q4, underpinned, inter alia, by the recent pick-up in the construction execution indicator (see Chart 14.a). For their part, house prices rose 4.5% year-on-year in Q3, 0.9 pp more than in Q2. All this, against a background in which the supply of housing (especially new housing) still faces significant obstacles to meeting continued strong demand, despite tightening financing conditions.

Chart 14

14.a Changes in the main residential investment indicators (a)



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

a For the construction execution indicator, the time frame considered is three months from issuance of the building permit to the construction start date, and 18 months thereafter for the construction work. Seasonally adjusted series for house purchases. The dot for house purchases depicts the October 2023 figure.

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15 Following the deterioration in net external demand in recent quarters, its negative contribution to growth appears to have eased in Q4

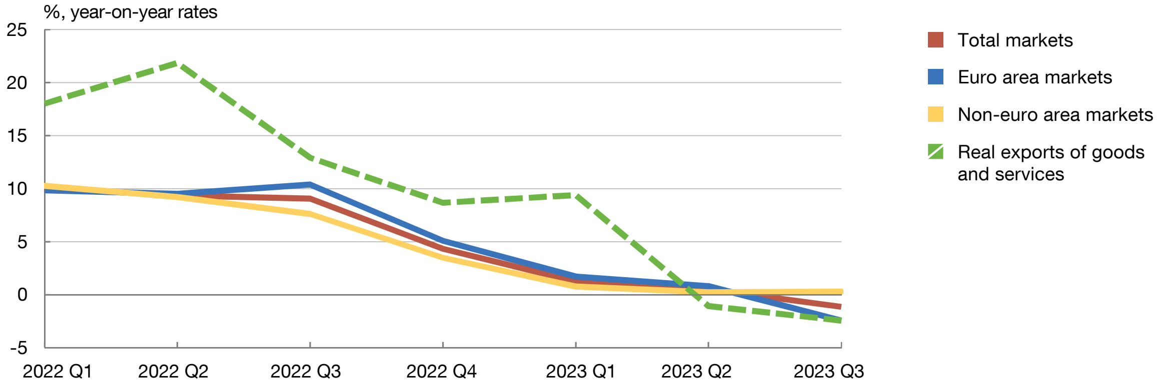
— The external sector continued to weigh on GDP growth in Q3, owing to a sharp fall in exports (4% quarter-on-quarter) amid a slowdown in external markets and, in particular, among Spain's main trading partners (see Chart 15.a).

— However, the fall in imports in Q3 partially mitigated the external sector's negative contribution to GDP growth. This decline appears to be associated with the post-pandemic boom in the consumption of services (which are less import-intensive) that had been observed in previous quarters, and with the deterioration in household purchasing power, which seems to have spurred a shift in consumption towards "own brand" goods, which have a lower import content.[6]

— Looking forward, the gradual recovery expected in the euro area should provide support for Spanish exports over the coming quarters. Nevertheless, the growth in tourism flows is expected to ease, now that these have returned to their pre-pandemic levels.[7]

Chart 15

15.a Spain's export markets



SOURCES: ECB and INE.

6 Own brands tend to be cheaper than manufacturer brands. This phenomenon appears to be particularly marked in some sectors such as food and textiles, where imports have fared worse than domestic sales.

7 On the latest INE data, foreign tourist arrivals in January-October 2023 exceeded their pre-pandemic levels by 0.2%.

16 The public deficit continues along its path of gradual decline

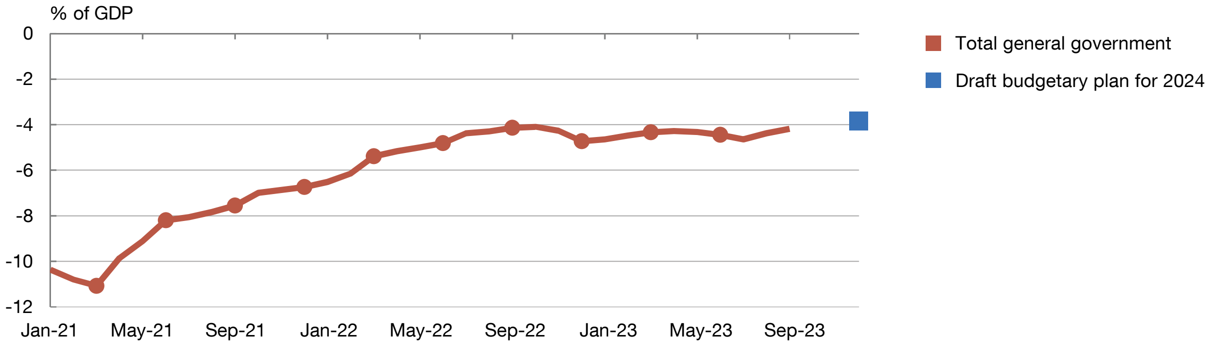
— In cumulative 12-month terms, the general government deficit stood at 4.2% of GDP at end-Q3, 0.3 pp lower than in June and 0.5 pp less than at end-2022. Nevertheless, it is yet to reach the Government's target of 3.9% for 2023 as a whole (see Chart 16.a).

— In cumulative terms from January, spending grew by 6.2% year-on-year in September, down slightly on the increase observed up to June. By item, social benefits were noteworthy, rising by 9.8% year-on-year, driven by the increase in pensions, and also by the growth in unemployment expenditure (which rose by 5.2%). Moreover, both government consumption and interest payments once again saw significant growth, posting rates of 6.1% and 8.8%, respectively. By contrast, public subsidies fell by 19.4%, owing to the base effect of the withdrawal of the fuel subsidies that were in force in 2022, while government investment decreased by 2.7%.

— Meanwhile, again in cumulative terms from January, revenue posted a year-on-year increase of 8.1% in September, slightly lower than that recorded up to June. Of note in this respect were the year-on-year rises in direct tax revenue (11.1%) and social security contributions (9.2%), helped by higher nominal income and certain recently approved measures, such as the increase in social security contributions and the introduction of windfall taxes on corporate profits and wealth. Nevertheless, the growth in tax revenue since end-2022 is smaller than what might be expected given the macroeconomic bases and the measures adopted, especially in the case of indirect taxes.

Chart 16

16.a General government balance (a)



SOURCES: Banco de España and IGAE.

a The dots correspond to the data for the overall general government sector, which the National Audit Office (IGAE) only publishes on a quarterly basis and with a longer time lag. The remaining monthly data are extrapolated drawing on information of the aggregate excluding local government.

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17 After several months of rising rates, headline inflation fell again in November, while underlying inflation has held on a gradually slowing path

— From the low levels observed in June (1.6% year-on-year), headline inflation climbed steadily to October, essentially due to the sharp slowdown in the decline of energy prices. In November, the fall in headline inflation (to 3.3%) chiefly owed to the deceleration of underlying inflation (see Chart 17.a).

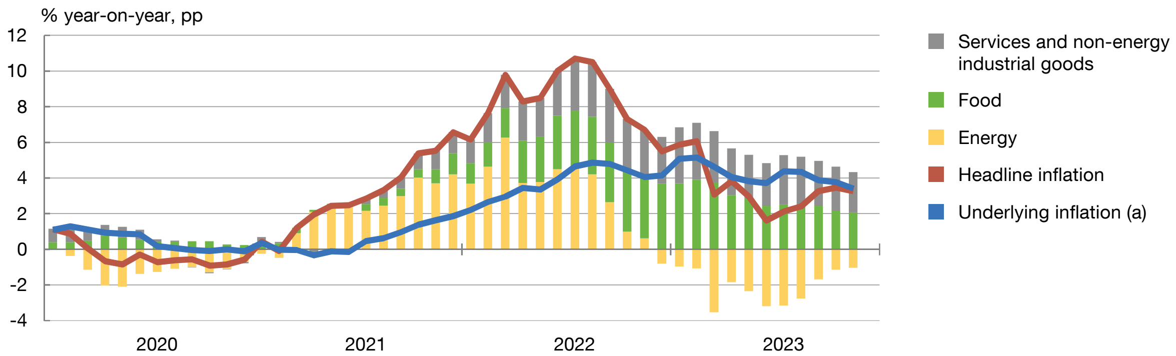
— The rate of growth of energy commodity prices observed up to early October has eased considerably in recent weeks, helping to check the acceleration of the energy component in November.

— Since July, underlying inflation has slowed progressively, to 3.4% in November. This decline stems chiefly from the fall observed in components relating to recreation, hospitality and tourism (from 6.6% in July to 5.4% in November), and to household equipment and maintenance (from 4.5% to 2.8% in the same period).

— Turning to food inflation, the slowdown came to a halt in the summer, but has resumed in the last two months, and inflation in this component stood at 8.6% in November. The prices of cereals, milk and dairy products have contributed the most to the recent slowdown in food inflation, although this phenomenon has been fairly broad-based across products.

Chart 17

17.a Inflation in Spain: change and contribution of components



SOURCES: Eurostat and Banco de España.

a Headline inflation, excluding energy and food.

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18 Unit labour costs have grown significantly despite the contained rise in wage settlements

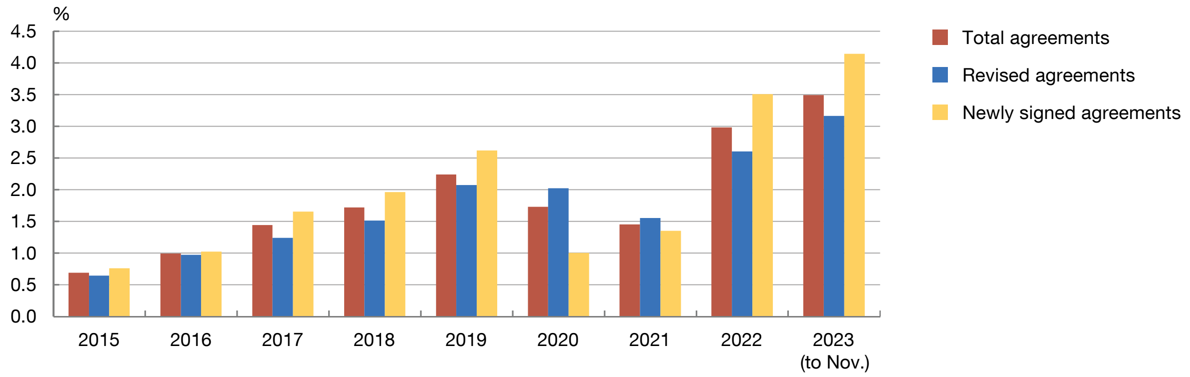
— Up to November, the wage settlement for 2023 stood at 3.5%, slightly above the 3% agreed for 2022 (see Chart 18.a). The negotiated increase is proving higher in the collective agreements signed this year, which already cover just over 3.5 million workers. Specifically, these new agreements envisage a wage increase of 4.1% for 2023, which is generally in line with the recommendations of the fifth Employment and Collective Bargaining Agreement.

— In any event, compensation per employee in the market economy has in recent quarters outpaced the wage increases negotiated in collective agreements, growing by 4.9% year-on-year in Q3, despite slowing down from the dynamics observed in the first half of the year.

— Against a backdrop of higher non-wage costs (for example, social security contributions) and weak productivity, this wage growth means that unit labour costs in Spain have risen more than in other euro area countries since the start of the pandemic, which could ultimately affect the price competitiveness of Spanish firms.

Chart 18

18.a Wage settlement



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SOURCE: Ministerio de Trabajo y Economía Social.

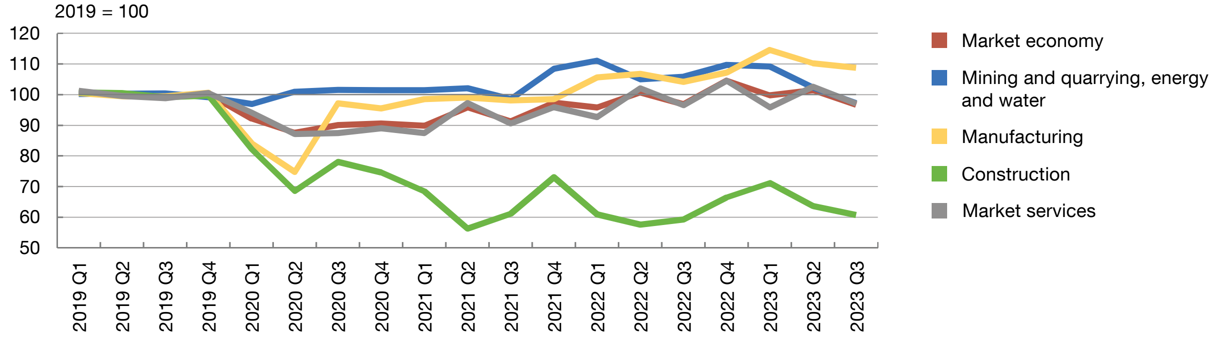
19 Profit margins appear to have moderated slightly in Q3

— According to QNA data for 2023 Q3, the ratio of gross operating surplus (GOS) to gross value added (GVA) in the market economy has held on a moderating path since the beginning of the year, following the upturn seen in 2022 (see Chart 19.a). However, the overall trend of this ratio remains compatible with a significant degree of heterogeneity across sectors.

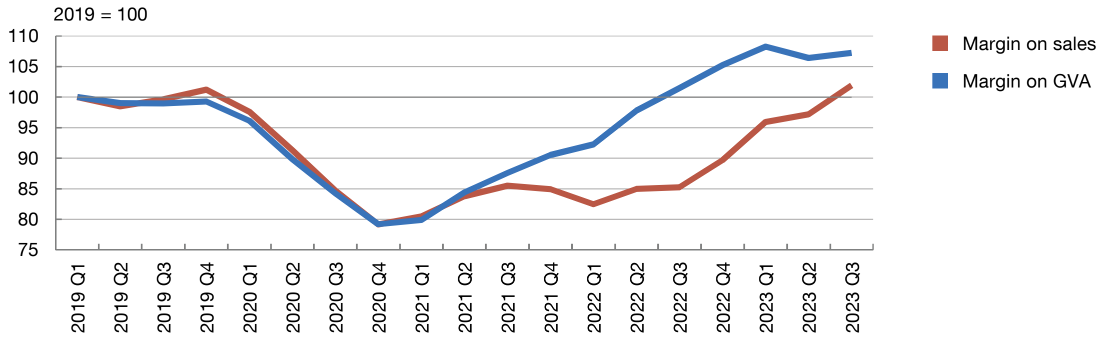
— These developments are consistent with the behaviour of the ratio of gross operating profit (GOP) to GVA observed in the sample of firms in the Banco de España's Central Balance Sheet Data Office Quarterly Survey (CBQ), although this ratio appeared to stabilise somewhat in Q3. Meanwhile, in the CBQ sample, profit margins (proxied as the ratio of GOP to turnover) continued to rally in Q3, reaching pre-pandemic levels (see Chart 19.b).

Chart 19

19.a Changes in profit margins (GOS/GVA) according to QNA data. Breakdown by sector



19.b Changes in profit margins according to CBQ data (a)



SOURCES: Banco de España and INE.

a Margin on sales is defined as the ratio of GOP to net turnover. Margin on GVA is defined as the ratio of GOP to GVA. Four-quarter cumulative data.

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20 The Banco de España's latest macroeconomic projections revise GDP growth for 2024 and 2025 slightly downwards and average headline inflation for 2024 significantly downwards

— The last section of this Report describes the key features of the Banco de España's latest macroeconomic projections for the Spanish economy over the horizon 2023-2026.

— Under the assumptions of the exercise, Spanish GDP is projected to grow by 2.4%, 1.6%, 1.9% and 1.7% in 2023, 2024, 2025 and 2026, respectively. As compared with those published in September, the current projections entail a slight upward revision, of 0.1 pp, to GDP growth for 2023, 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. Conversely, GDP growth for 2024 and 2025 is revised down by 0.2 pp and 0.1 pp, respectively, owing, among other factors, to a less favourable outlook for future household consumption, although this will continue to be the main driver of Spanish growth over the entire projection horizon.

— Meanwhile, inflation is expected to continue to ease gradually in the coming quarters, such that the rate of headline inflation will decrease from 3.4% in 2023 to 3.3% in 2024, to fall again in 2025 and 2026 to 2% and 1.9%, respectively. Compared with the September projections, headline inflation has been revised down by 0.2 pp for 2023, due to the surprises in the energy component in the last few months. Moreover, the latest projections revise headline inflation down by 1 pp for 2024 and up by 0.2 pp for 2025. The 2024 revision is mainly on account of the new assumptions underlying the projections, which envisage lower energy prices over the coming quarters and an extension of the lower VAT rate on food and the public transport subsidies through to June and December 2024, respectively. The upward revision for 2025 is primarily attributable to the withdrawal of these measures.

— The risks to these projections are tilted to the downside with regard to activity and balanced with respect to inflation.

Figure 1

	2023	2024	2025	2026
GDP	2.4% ↑0.1 pp	1.6% ↓0.2 pp	1.9% ↓0.1 pp	1.7%
Inflation	3.4% ↓0.2 pp	3.3% ↓1.0 pp	2.0% ↑0.2 pp	1.9%

SOURCE: Banco de España.