MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2026)

Macroeconomic projections for the Spanish economy (2023-2026)

This section presents the key features of the most recent update to the Banco de España's macroeconomic projections for the Spanish economy for 2023-2026.[1]

Under the assumptions of the exercise, Spanish GDP – which grew by 5.8% in 2022 – will slow to a growth rate of 2.4% in 2023 and 1.6% in 2024. It will then run at 1.9% in 2025 and 1.7% in 2026 (see Table 1). As for prices, headline inflation – which stood at 8.3% on average in 2022 – will fall to 3.4% in 2023 and continue to soften over the full projection horizon (recording average rates of 3.3% in 2024, 2.0% in 2025 and 1.9% in 2026). Meanwhile, underlying inflation will run at 4.1% this year (0.3 percentage points (pp) higher than in 2022), slow to 1.9% in the following two years and stand at 1.8% in 2026. Lastly, the unemployment rate will decrease from 12.9% in 2022 to 12.1% in 2023 and will head slowly downwards – standing at around 11% – over the period 2024-2026.

The projections are structured as follows. First, the key assumptions and determinants underlying these projections are described. Then, the main features of the outlook for activity and prices are detailed. Lastly, some of the main risks to these projections are discussed.

Main determinants and assumptions underlying the projections

Broadly speaking, any projection exercise is affected by two key factors. First, a set of technical assumptions that describe the expected future path of certain macro-financial and fiscal variables. These developments are key to determining how activity and inflation may evolve in the coming quarters. Second, any statistical revisions made in recent months that may have changed the starting point used to project the future paths of activity and prices. The role that these factors play in the current projection exercise is described briefly below.

Assumptions about future energy price developments. Eurosystem projection exercises use energy commodity futures to proxy the expected future path of energy commodity prices over the projection horizon, which can only be estimated with an extraordinarily high degree of uncertainty. Futures markets currently signal lower oil and natural gas futures prices than those incorporated into the September projections, although they remain above their pre-pandemic levels (see Chart 1).

1 Compared with the projections published on 19 September, these projections incorporate the new information that has become available since then. This includes, in particular, the revised Annual National Accounts (ANA) figures for the period 2020-2022, the revision, in line with the new ANA time series, to the Quarterly National Accounts (QNA) up to 2023 Q2, the Quarterly Non-Financial Accounts for the Institutional Sectors for 2023 Q2, the QNA flash estimate for 2023 Q3 and the changes in the technical assumptions underlying developments in various variables that are key to this exercise. In addition, these are the first projections to include 2026 in the horizon. The cut-off date for the projections is 30 November.

Table 1
Macroeconomic projections for the Spanish economy (a)

Annual rate of change (%)

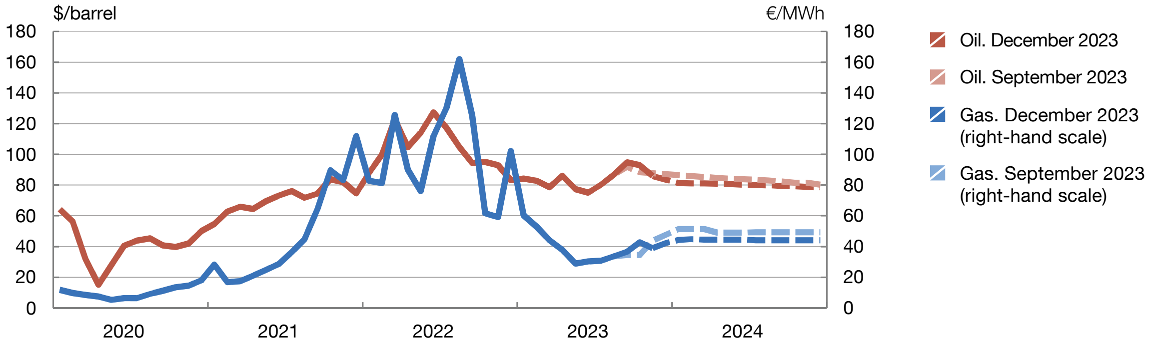
	GDP				Harmonised Index of Consumer Prices (HICP)				HICP excluding energy and food				Unemployment rate (% of labour force) (b)			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
December 2023	2.4	1.6	1.9	1.7	3.4	3.3	2.0	1.9	4.1	1.9	1.9	1.8	12.1	11.7	11.4	11.3
September 2023	2.3	1.8	2.0	—	3.6	4.3	1.8	—	4.1	2.3	1.7	—	12.0	11.5	11.3	—

SOURCES: Banco de España and INE.
NOTE: Latest QNA figure published: 2023 Q3.

a Projections cut-off date: 30 November 2023.
b Annual average.

Chart 1

1.a Energy prices



SOURCES: Mercado Ibérico del Gas and Reuters.

Assumptions about future interest rate developments. International financial market expectations[2] are for short and long-term interest rates to remain at relatively high levels over the full projection horizon. However, compared with the expectations of financial market participants a few months ago, the expected future path of interest rates has recently been revised downwards slightly (see Table 2).

Assumptions about future external market developments. In line with the outlook for global economic activity in the coming quarters and, in particular, for euro area economic growth, the joint Eurosystem projection exercise envisages a gradual recovery in Spain's export markets in the coming years. However, this recovery is expected to be slightly weaker than envisaged in the September projection exercise, due above all to the slower momentum anticipated in the final

2 In Eurosystem projection exercises, the assumptions about market interest rates – like those about oil and other commodity prices – are based on the prices quoted on the respective markets during the ten business days prior to the cut-off date for the projections.

Table 2

International environment and monetary and financial conditions (a)

Annual rate of change (%), unless otherwise indicated

		December 2023 projections				Difference between the current projections and the September 2023 projections (b)		
	2022	2023	2024	2025	2026	2023	2024	2025
Spain's export markets (c)	8.1	0.2	2.2	3.0	2.9	-0.1	-0.5	0.2
Oil price in dollars/barrel (level)	103.7	84.0	80.1	76.5	73.6	0.2	-3.4	-2.3
Monetary and financial conditions								
Dollar/euro exchange rate (level)	1.05	1.08	1.08	1.08	1.08	0.00	0.00	0.00
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	112.1	115.6	116.5	116.5	116.5	-0.1	0.8	0.8
Short-term interest rates (3-month EURIBOR; level) (e)	0.3	3.4	3.6	2.8	2.7	0.0	0.0	-0.2
Long-term interest rates (10-year Spanish government bond yield; level) (e)	2.2	3.5	3.6	3.7	3.9	0.0	-0.1	-0.1

SOURCES: Mercado Ibérico del Gas, ECB and Banco de España.

a Cut-off date for assumptions: 28 November for Spain's export markets and 23 November for all other variables. Figures expressed as levels are annual averages; figures expressed as rates are calculated on the basis of the related annual averages.
b Differences in rates for export markets, in levels for oil prices, the dollar/euro exchange rate and the nominal effective exchange rate, and in percentage points for interest rates.
c The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the December 2023 *Eurosystem staff macroeconomic projections for the euro area*.
d A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.
e For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the path of these variables.

stretch of 2023 and the opening months of 2024. Meanwhile, compared with the September projections, the nominal effective exchange rate has appreciated somewhat.

Assumptions about fiscal policy in Spain. The new fiscal assumptions include some significant changes from those used in the September projections, namely the extension, to December 2024, of the public transport subsidies rolled out in 2023 (as detailed by the Government in the latest draft budgetary plan) and the extension, to June 2024, of the lower VAT rate on certain foods (as announced by the Government). However, the assumption about the end, in late 2023, of the other measures deployed to address the energy crisis (specifically, lower taxes on energy) is unchanged. Disregarding the fiscal impulse from the Next Generation EU (NGEU) programme, the foregoing represents a contractionary fiscal stance in 2024, albeit one that is looser than in the September projections. In addition, the fiscal stance should become slightly expansionary in 2025, on account of the assumption that the temporary revenue-raising measures[3] will not be extended beyond their current expiration date.

3 The temporary levies on the financial and energy sectors, a wealth tax and for consolidated groups a limit on offsetting losses for corporate income tax purposes.

Assumptions about NGEU-funded spending. The projected path of NGEU-related spending and investment incorporates a slight delay compared with that included in the September projections. This is mainly attributable to tenders having been awarded more slowly than expected in recent months. Thus, compared with the previous projections, the impact of NGEU funds on GDP is now expected to peak in 2025 and 2026, rather than in 2024. In addition, these projections incorporate the use of loans linked to the NGEU programme and included in the Addendum to Spain's Recovery, Transformation and Resilience Plan, which was approved by the European Commission in October. However, in light of the high uncertainty over, and the lack of relevant information on, the implementation of the different mechanisms to channel these loans, the current projections only incorporate their effect on public debt over the projection horizon, but not their potential macroeconomic impact, which could materialise beyond the 2023-2026 horizon.

Statistical revisions. A factor with a considerable bearing on the current projections are the revisions by the National Statistics Institute (INE) in recent months both to the ANA (for the period 2020-2022) and to the QNA (for the first two quarters of 2023). While such revisions are well-known statistical procedures that are standardised across Europe, on this occasion they have prompted some very significant changes in both the level and the composition of Spanish economic activity, marking a considerable change in the starting point of these projections compared with the September exercise. In particular, as detailed in Fernández, González Mínguez, Izquierdo and Urtasun (2023), according to the new figures, the Spanish economy recovered its pre-pandemic GDP level in 2022 Q3 (rather than in spring 2023 as per the earlier information). This was explained, among other factors, by stronger than initially reported household consumption, with household real income also seeing a significant upward revision.

Activity

Against the backdrop of a weak external environment and the gradual pass-through of monetary tightening globally and in Europe to economic activity, the Spanish economy slowed in 2023 Q3, but continued to grow at a relatively fast pace. According to the QNA flash estimate published by the INE, GDP grew quarter-on-quarter by 0.3% in Q3, in line with the Banco de España's September projections.[4] Although this growth rate was down on the first two quarters of the year (0.6% and 0.4%, respectively), it was well above the euro area average (-0.1%) and the rates in the region's other major economies.

The indicators available for Q4 suggest economic momentum on a par with Q3, consistent with growth of around 0.3%. For example, the Purchasing Managers' Indices (which in October and November held at similar levels to those observed in Q3), the Banco de España Business Activity Survey (EBAE) (with firms reporting that turnover has remained unchanged in the final stretch of the year) and social security registrations (whose pace of growth in October and November was, on average, similar to the Q3 growth rate) all point in this direction.

4 "Macroeconomic projections for the Spanish economy (2023-2025)". *Economic Bulletin - Banco de España,* 3/2023.

Table 3
Projections for the main macroeconomic aggregates of the Spanish economy (a)

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

		December 2023 projections				September 2023 projections		
	2022	2023	2024	2025	2026	2023	2024	2025
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	1.9	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.
NOTE: Latest QNA figure published: 2023 Q3.

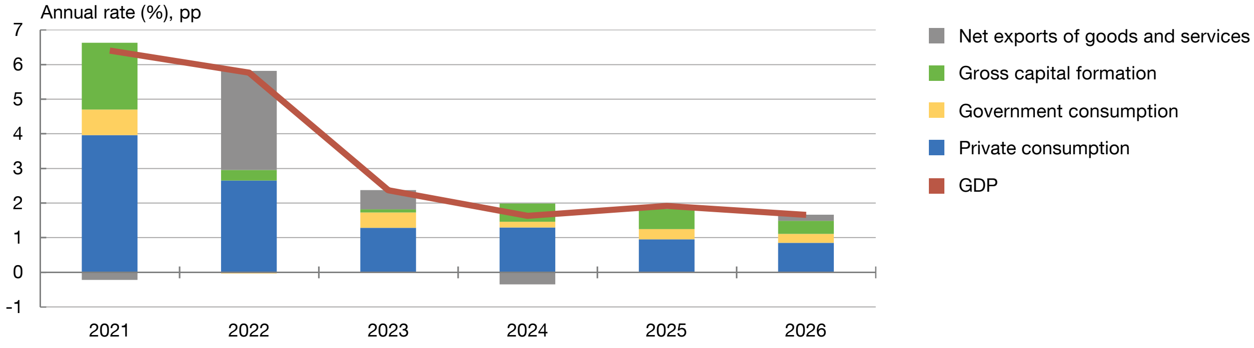
a Projections cut-off date: 30 November 2023.

Looking ahead to the coming quarters, economic growth is expected to steady at levels slightly above those of H2. However, the high economic momentum in late 2022 and early 2023 means that, in annual average terms, GDP growth will slow between 2023 and 2024 (from 2.4% to 1.6%), before regaining some speed in 2025 and 2026, when it will reach rates of 1.9% and 1.7%, respectively (see Table 3). This is consistent with the assumptions underlying these projections (the fiscal impulse from the NGEU programme and the gradual resurgence of the European economy) and with the expected softening of inflation and the consequent recovery in agents' real income over the projection horizon. The adverse impact of monetary policy tightening on activity will peak next year and this will also drive the expected acceleration in the GDP growth rate in 2025-2026.

Throughout the projection horizon activity will mainly be underpinned by domestic demand (see Chart 2). Household consumption will be boosted by the increase in real income, against a backdrop of easing inflation rates and job creation and wage increases in a relatively buoyant labour market. Gross capital formation will also act as an important growth driver, largely because of the galvanising effect of the NGEU-related investment projects, which will gather pace in 2024 and 2025. Meanwhile, the contribution of net external demand to growth will recover over the

Chart 2

2.a GDP growth and contributions of main components



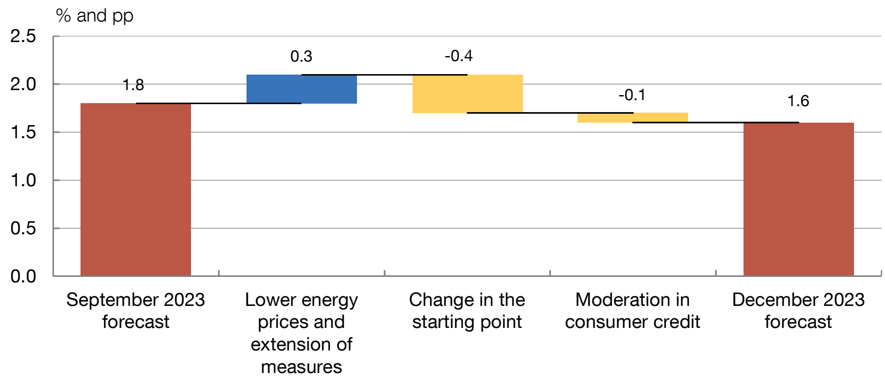
SOURCE: INE.

coming quarters (after making a marked negative contribution in spring and summer 2023). However, in the coming years, net exports are not expected to be able to drive GDP growth as forcefully as they did in 2022 and, to a lesser extent, have done in 2023. This is because the growing momentum projected for exports of goods and non-travel services (consistent with a gradual improvement in the external environment) will be offset by the recovery in imports (associated, among other factors, with the growth of gross fixed capital formation, which has a high import content (Prades and Villanueva, 2017)) and by the slowdown in exports of travel services which have already exceeded their pre-pandemic levels.

Compared with the September projections, GDP growth has been revised up slightly for 2023 and down for 2024 and 2025. The September projection exercise and this one basically envisage the same level of economic dynamism in Spain in 2023 H2. In consequence, the upward revision to the GDP growth rate for the year is essentially due to the positive effect of the statistical revisions mentioned above on the output growth rates for 2023 H1 and 2022 H2. The growth forecast for 2024 has been revised down by 0.2 pp owing to the confluence of various opposing factors. On the one hand, lower energy prices on the international markets and the extension of some of the measures deployed by the authorities to combat the effects of the inflationary episode reduce inflation. This helps boost real incomes and, therefore, GDP growth in 2024 compared with the previous projections (see Chart 3). 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. In addition, and also as a result of the statistical revisions, there is less slack in the Spanish economy, thus reducing the capacity for future economic growth. Moreover, even considering that household consumption will be the main growth driver in 2024, the European Central Bank's monthly Consumer Expectations Survey points to this demand component faring worse in the coming quarters than envisaged in the September projections. This relative slowdown in consumption is understood to stem, at least in part, from the lower use that households expect to make of consumer loans in the future, in a setting in which, in recent months, they have perceived a certain deterioration in their access to borrowing .

Chart 3

3.a Changes in the GDP growth forecast for 2024



SOURCES: INE and Banco de España.

Turning to the labour market, employment momentum will soften over the projection horizon, in keeping with expected developments in activity and with the minor recovery assumed in productivity. In particular, the pace of growth of productivity per hour worked is expected to normalise over the period 2023-2026, outpacing the growth observed in the more recent years but in line with the pre-pandemic figures. Meanwhile, the unemployment rate will continue to decline over the projection horizon, albeit at a slower pace than in recent years, owing to lower job creation and the expected growth in the labour force, driven by strong immigration flows. In consequence, the unemployment rate is expected to stand at 11.3% in 2026, below the historical average of the last four decades (16.8%) but above the all-time low (8.2%) recorded in 2007.

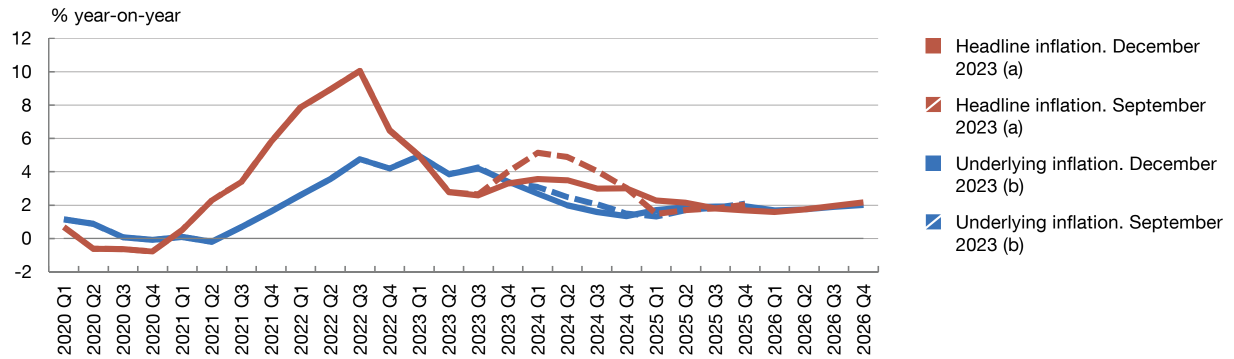
Prices and costs

After rising in recent months, headline inflation fell in November. Specifically, the year-on-year rate of change of the harmonised index of consumer prices (HICP) stood at 3.3% in November, 0.2 pp below the October figure. This is the result of a combination of factors: the increase in energy commodity prices observed up to early October has eased significantly in recent weeks, while in recent months food and underlying inflation, although still high, have continued to head down.

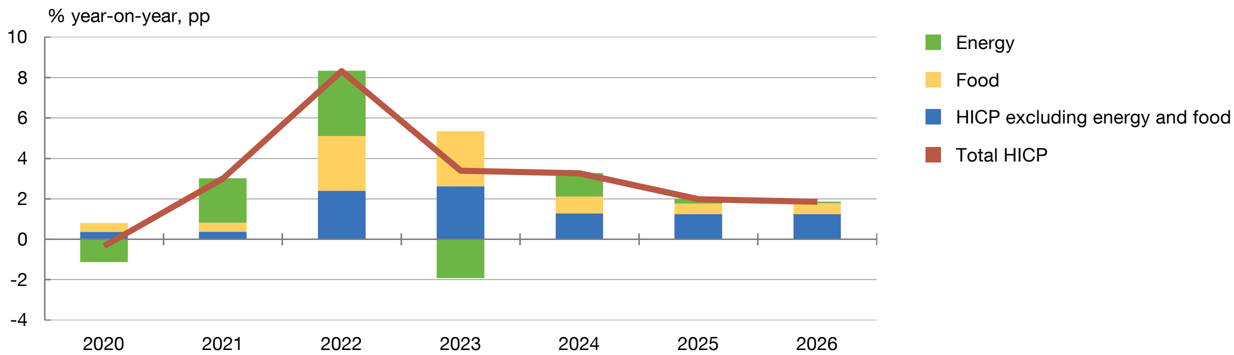
Headline inflation is expected to remain on a slightly upward path in early 2024 – albeit with a significantly lower growth trajectory than projected in September – and to resume a downward path in the second half of the year (see Chart 4.a). This pattern is essentially determined by the expected path of energy prices, which in turn is mainly driven by two factors. First, some energy futures prices, which point to a slight increase in the coming months, although as indicated above energy prices for the coming quarters are expected to be lower than envisaged in September. And second, the assumption underlying these projections that the principal

Chart 4

4.a Headline and underlying inflation



4.b Contributions to HICP growth by component



SOURCES: INE and Banco de España.

a Measured by the HICP.
b Measured by the HICP excluding energy and food.

measures deployed by the authorities in 2021 and 2022 to mitigate the effects of rising inflation[5] will be withdrawn at end-2023. Accordingly, the rate of change in the energy HICP, which averaged -16% in July-November 2023, is expected to reach around 15% in mid-2024, a figure which is, however, 10 pp below that forecast in September.

Food inflation will continue to ease throughout the projection horizon. The main driver of this projected slowdown in food prices is the expected decline in food commodity prices, and in the prices of certain essential inputs for food production, such as energy and fertilizers, whose prices rose significantly during most of 2022. Meanwhile, in the early months of 2024, food inflation should ease rather more than was previously expected in September, driven in part by the assumption that the lower VAT rate on certain foods will continue through to June 2024 (as publicly announced by the Government). In any event, in the coming quarters food inflation may fall less than expected, should adverse weather conditions have a negative impact on the production of certain agricultural products in specific geographical areas.

5 Specifically, the cuts in tax rates on electricity bills (from 21% to 5% (VAT) and from 5.1% to 0.5% (excise duty on electricity)), the reduction in the VAT rate on natural gas (also from 21% to 5%) and the suspension of the tax on electricity generation.

Underlying inflation is expected to continue to decline, relatively gradually, throughout 2024, to stabilise at around 2% over the rest of the projection horizon (see Chart 4.a). The chief factors driving this anticipated easing in underlying inflation in the coming quarters are the gradual impact of monetary policy tightening on demand, the softening of the inflationary pressures stemming from the post-pandemic economic reopening, and the steady pass-through of lower energy costs to the prices of non-energy industrial goods and services. Among the underlying inflation components, over the coming quarters the slowdown is expected to be more pronounced in non-energy industrial goods than in services. This is consistent with the stronger demand for services, and with the fact that their labour costs account for a higher share of their total costs.

Both wage costs and profit margins are expected to remain relatively contained in the coming years, in line with the pattern observed in recent months. In particular, wage settlements look set to evolve in accordance with the fifth Employment and Collective Bargaining Agreement, with annual increases of around 3% in 2024-2026. In any event, throughout the projection horizon, compensation per employee will continue to grow at a somewhat faster pace than agreed in collective bargaining agreements, essentially as a consequence of the increases envisaged in social security contributions and, to a lesser extent, a slightly positive wage drift. Meanwhile, profit margins are expected to remain on the moderating path observed since early 2023, and to be able to accommodate the anticipated growth in unit labour costs. Overall, in line with developments to date, it is assumed that no significant second-round effects via wages and/or profit margins will emerge that could fuel inflationary feedback loops.

Considering all these developments, headline inflation will stand at 3.4% on average in 2023, falling to 3.3% in 2024, 2.0% in 2025 and 1.9% in 2026 (see Chart 4.b). Underlying inflation will amount to 4.1% in annual average terms in 2023, and will drop to 1.9% in 2024 (against a backdrop of lower economic growth), remaining around that level in 2025 and 2026.

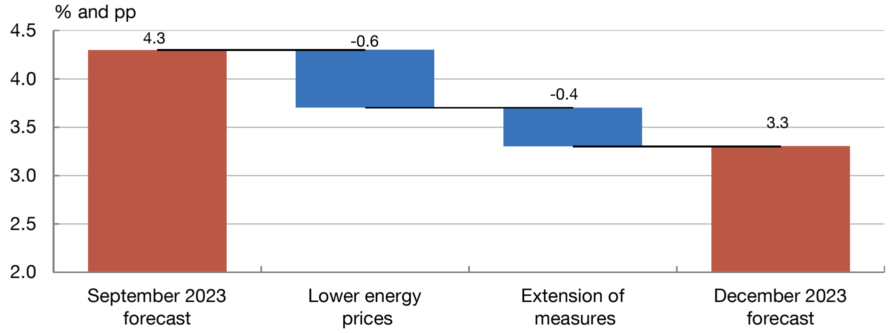
Compared with the previous projections, headline inflation has been revised down significantly for 2024 and revised up slightly for 2025. Specifically, the average headline inflation rate now expected for 2024 is 1 pp lower than that envisaged in September. As indicated above, this downward revision is mainly on account of the lower energy prices on the futures markets for the coming quarters and the effect of assuming that the lower VAT rate on food and the public transport subsidies will continue through to June and December 2024, respectively (see Chart 5). Moreover, the assumption that these measures will ultimately be withdrawn in June and December 2024 is the main factor behind the upward revision – by 0.2 pp – to projected headline inflation for 2025.

Main risks to these projections

The risks to the economic growth projections are on the downside, while the risks to the inflation projections are considered to be balanced.

Chart 5

5.a Changes in the inflation forecast for 2024



SOURCES: INE and Banco de España.

A potential escalation in the ongoing conflicts in the Gaza Strip and in Ukraine is the main source of risk to this projection exercise. Should this risk materialise, it would most likely have a negative impact on economic growth, insofar as greater geopolitical uncertainty makes for a less favourable environment for investment and spending decision-making by economic agents and may trigger episodes of financial market turmoil. Moreover, a possible escalation in these conflicts could also provoke fresh negative supply shocks. This would probably result in energy prices performing worse than envisaged under the baseline scenario, exerting downward pressure on activity and upward pressure on inflation.

Another highly significant source of uncertainty surrounding the baseline scenario relates to the scale of the effects of monetary policy tightening on activity and prices. In this respect, the weaker than expected economic activity in the euro area in recent months, and the slightly sharper than anticipated fall in inflation rates, could suggest a somewhat stronger than expected transmission of monetary policy to activity and prices. However, in such a complex environment, in which multiple shocks and public policies are simultaneously impacting the future of the economy, the uncertainty about the possible effect of monetary policy conduct on the main macro-financial aggregates remains extraordinarily high. Accordingly, continuous analytical monitoring of this issue is essential over the coming months.

A further risk that cannot be ruled out is that global economic momentum may falter, possibly linked to a slowdown in the Chinese economy sharper than expected under the baseline scenario. Alonso, Santabárbara and Suárez-Varela (2023) find that the materialisation of this risk would probably entail minor downward revisions to GDP growth and inflation, in the euro area and globally.

On the domestic front, doubts persist regarding the withdrawal, at end-2023, of some of the measures rolled out by the authorities to address the energy crisis. As indicated above, under the baseline scenario it is assumed that both the lower VAT rate on food and the public transport subsidies will be extended, but not the energy price measures, which are set to be withdrawn in December 2023. A potential extension of the energy price measures could further temper inflation and boost activity in 2024. However, in this hypothetical scenario, the eventual withdrawal of the measures would have a negative impact on both activity and prices. Another key risk linked to the hypothetical extension of some of the measures mentioned, assuming no tax steps were taken to offset their impact, would stem from continuing high structural budget deficit and public debt levels, especially against a backdrop of rising borrowing costs and reactivation of the European fiscal rules.

Other domestic risk factors could also have a considerable impact on activity and prices. First, in a setting marked by inflation rates that are still relatively high, the possible emergence of significant second-round effects via wages and/or profit margins that could fuel inflationary feedback loops cannot be completely ruled out. Second, doubts persist regarding the pace of execution of the NGEU-related projects and their impact on activity. Lastly, although some of the more habitual indicators used to proxy the degree of uncertainty about economic policies – such as the EPU – have not increased significantly in recent months, the latest edition of the EBAE shows 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 pandemic levels. Should these patterns persist, they could have an adverse impact on the future growth path of the Spanish economy.[6]

6 For more details on the economic impact of uncertainty in Spain and how it is measured, see, for instance, Ghirelli, Gil, Pérez and Urtasun (2021).