EDITORIAL

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In recent months global economic activity has shown signs of stabilisation and the disinflation process has continued worldwide, with some regions even seeing prices slow somewhat more quickly than forecast. In a setting in which considerable sources of geopolitical uncertainty persist, these favourable macroeconomic developments (particularly evident in the United States) are above all the result of the continued strength of the labour markets in the different economies and the ongoing sharp correction in energy prices.

Looking ahead to the coming quarters, the global economic and financial outlook is relatively positive. Global growth forecasts for 2024 have been revised up slightly in recent months, although they envisage modest growth rates by historical standards and incorporate a gradual slowdown in activity in the United States and China. Meanwhile, inflation is expected to continue to ease, although somewhat less sharply than in recent quarters. Against this backdrop, the cumulative monetary tightening in response to the inflationary process would continue to have a relatively low impact in terms of dampening activity and the labour market.

In line with this outlook, global financial markets are counting on policy rate cuts by the main advanced economies' central banks being around the corner, which has given rise to more favourable financial conditions. Investor expectations for when and by how much central banks will cut rates vary over time, depending, among other factors, on incoming macro-financial information and communication by the central banks themselves. In this respect, although expectations for the future path of policy interest rates have been revised upwards slightly in recent weeks, this path has shifted downwards since the cut-off date for the December Banco de España projections exercise.

Set against these global developments, the euro area remains one of the regions where economic activity is clearly weaker and where the short and medium-term outlook is for a more subdued recovery. Weak economic activity and the more pronounced than expected disinflation in the euro area in recent quarters could indicate stronger than expected monetary policy transmission, but also longer-lasting effects (e.g. via a deterioration in international competitiveness) of the energy crisis, to which the euro area has been more exposed than other regions of the world. In any event, the European Central Bank's March projection exercise envisages a gradual recovery in euro area activity over the coming quarters, although a somewhat weaker one than forecast in December. This recovery will mainly be underpinned by private consumption, buoyed by the increase in households' real disposable income amid rising wages and falling inflation.

Against this background, Spanish economic activity – which had been outstripping that of the euro area – has in recent months grown faster than initially expected. According to the

Quarterly National Accounts (QNA) flash estimate published by the National Statistics Institute (INE) last January, in 2023 Q4 the Spanish economy accelerated unexpectedly, recording quarter-on-quarter growth of 0.6%, compared with the 0.3% projected by the Banco de España in December. The INE also revised up slightly the rates of change of GDP for the second and third quarters of 2023 at the same time.

However, the breakdown of the growth observed at end-2023 hints at some weaknesses, while the latest short-term economic indicators suggest that the GDP growth rate has slowed slightly in 2024 Q1, to 0.4%. The information in the QNA flash estimate suggests that the main upward surprises in recent economic developments in Spain are associated with the momentum of government consumption and stockbuilding. By contrast, gross fixed capital formation and private consumption, which are typically the main underpinnings of stable growth for any economy, have performed worse than expected. Meanwhile, productivity remains considerably weak, which could constrain economic growth in the medium and long term. In addition, sluggish productivity appears to be partly contributing to a rise in unit labour costs, which could result in domestic inflationary pressures persisting for longer and possible international competitiveness losses.

Nevertheless, compared with the December projections, GDP growth in 2024 has been revised up by 0.3 percentage points (pp), to 1.9%, and is unchanged in 2025 (1.9%) and 2026 (1.7%). The main factors behind the revised average growth rate for 2024 are the new QNA figures for recent quarters, the lower energy prices of recent months, a more favourable outlook for the future path of energy prices and the partial extension, which was not expected in the December projections, of some of the measures deployed by the authorities to tackle the effects of the inflationary episode. Excluding the revised QNA figures, these same factors are, in turn, the main determinants of the downward revision, of 0.6 pp, to 2.7%, to the average headline inflation rate projected for 2024. All this in a setting in which the disinflation process is expected to continue over the coming years, falling to 1.9% in 2025 and 1.7% in 2026.

The risks to the baseline scenario presented in this Quarterly Report are tilted to the downside with regard to activity and balanced with regard to inflation. Aside from the uncertainty stemming from the geopolitical tensions and from quantifying the macroeconomic impact of the cumulative monetary tightening, on the domestic front the risks to the March projections' baseline scenario posed by the reactivation of the European fiscal rules should also be highlighted. Specifically, compliance with these rules will require the design and implementation of a medium-term fiscal consolidation plan that lays the foundations for a more pronounced correction of the structural budget deficit than envisaged in the projections. Although the economic consequences of this adjustment plan remain uncertain, and will critically depend on its design, its implementation would likely result in lower levels of activity over the projection horizon than envisaged in the projection exercise.

Figure 1

	2024	2025	2026
GDP	1.9% ↑ 0.3 pp	1.9% =	1.7% =
Inflation	2.7% ↓ 0.6 pp	1.9% ↓ 0.1 pp	1.7% ↓ 0.2 pp

SOURCE: Banco de España.