REPORT

## 1 Global economic activity shows signs of stabilisation with upward revisions to growth forecasts for the United States

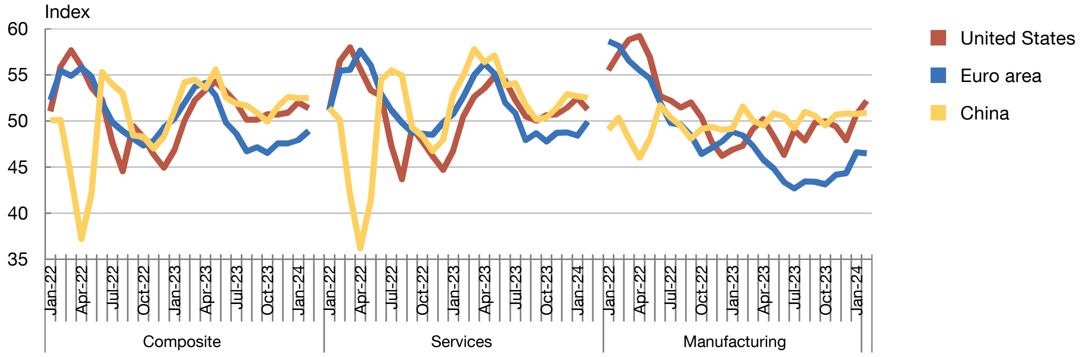
— Global growth at end-2023 was higher than expected, especially in the United States, where private consumption was the most dynamic component of demand, underpinned by the positive performance of employment, real income gains in response to lower inflation, the fiscal impulse and the use of savings built up during the pandemic. However, in other regions, such as the euro area, activity was weaker than expected.

— On data to February, recent PMI indicators reflect some stabilisation of global economic activity, including in manufacturing, which already appears to have moved out of contractionary territory in the United States and China (see Chart 1.a).

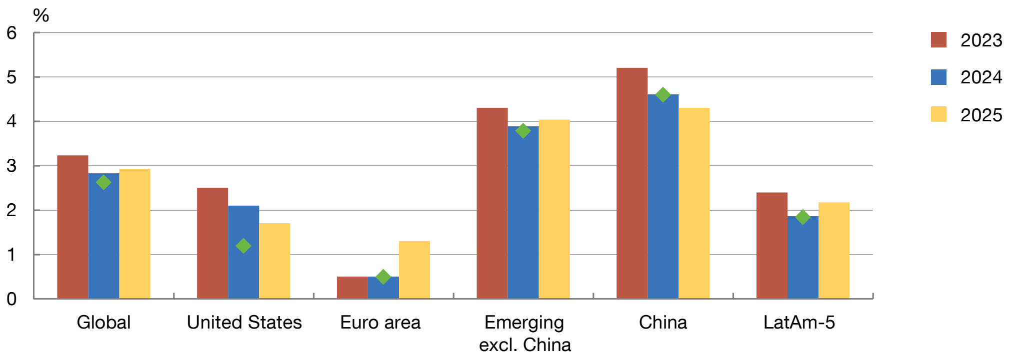
— The global growth outlook for 2024 has been revised slightly upwards in recent months, mainly owing to the United States (see Chart 1.b). In any event, relatively moderate global GDP growth rates (in historical terms) are envisaged for 2024 and 2025, with a gradual slowdown in the momentum of activity projected in the United States and China.

Chart 1

1.a PMIs




1.b Consensus growth forecasts (a)




**SOURCES:** S&P Global and Consensus Forecast.

a The February 2024 forecasts (bars) are compared with the December forecasts (diamonds). "Emerging excl. China" includes India, Indonesia, Malaysia, Philippines, Thailand, Bulgaria, Hungary, Poland, Romania, Russia, Türkiye and Ukraine. "LatAm-5" includes Mexico, Colombia, Peru, Chile and Brazil. Lastly, "Global" includes all the foregoing plus the United States, China and the euro area.

## 2 The global disinflation process continues, even at a somewhat faster pace than forecast in certain regions

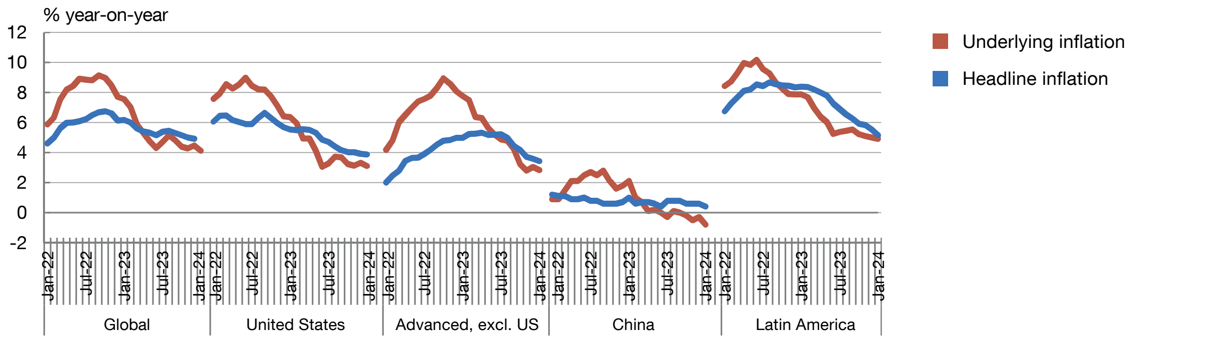
— In general, inflation rates (both headline and underlying) have continued to moderate in recent months in the main world economies (see Chart 2.a).

— In a setting of restrictive monetary policies, this disinflation process has also been influenced by the fall in energy prices – particularly sharp in the case of natural gas (see Chart 2.b) – and the absence, for the time being, of significant second-round effects. This has led to medium-term inflation expectations remaining anchored around the monetary policy targets of the world's main central banks.

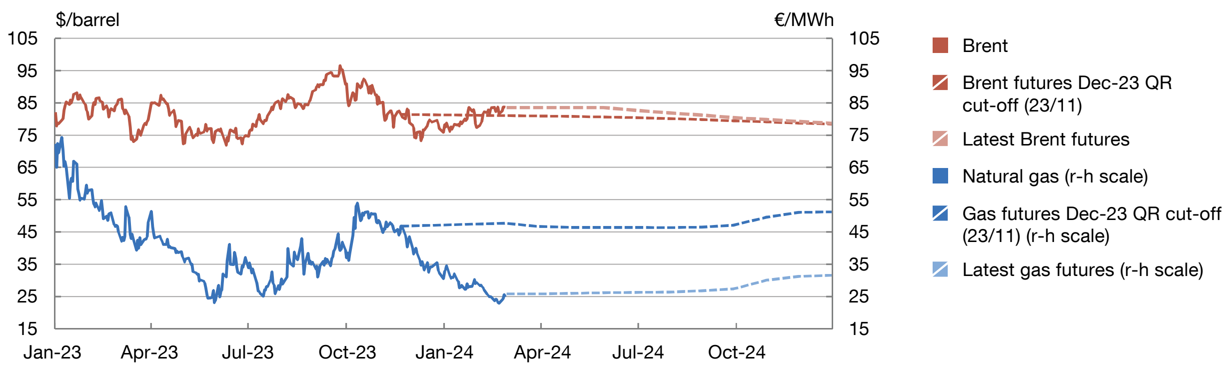
— Looking forward, inflation is expected to continue to decline over the coming quarters, albeit at a slightly more moderate pace than in 2023, especially in the advanced economies. Nevertheless, these expectations largely depend on profit margins and wages remaining relatively contained and on no further deterioration in the global geopolitical situation that could lead to fresh global trade disruptions and energy commodity price rises.

Chart 2

2.a Inflation




2.b Oil and gas prices and futures




**SOURCES:** National statistics and Refinitiv.

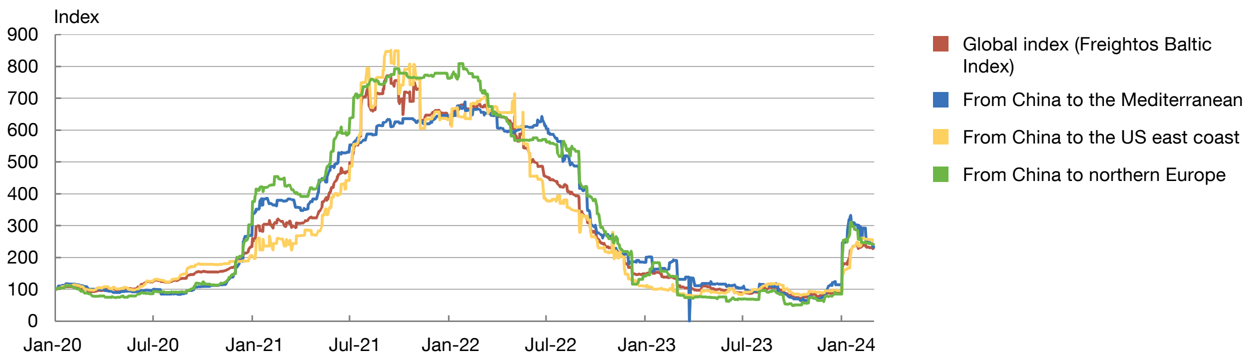
## 3 The geopolitical tensions in the Red Sea have led to a sharp increase in transport costs, although their impact on global supply chains remains muted

— Since mid-December, as a result of the Houthi rebels' attacks on container ships passing through the Red Sea on their way to the Suez Canal, major shipping companies are rerouting much of this traffic via the Cape of Good Hope, significantly increasing transit times and shipping costs (see Chart 3.a).

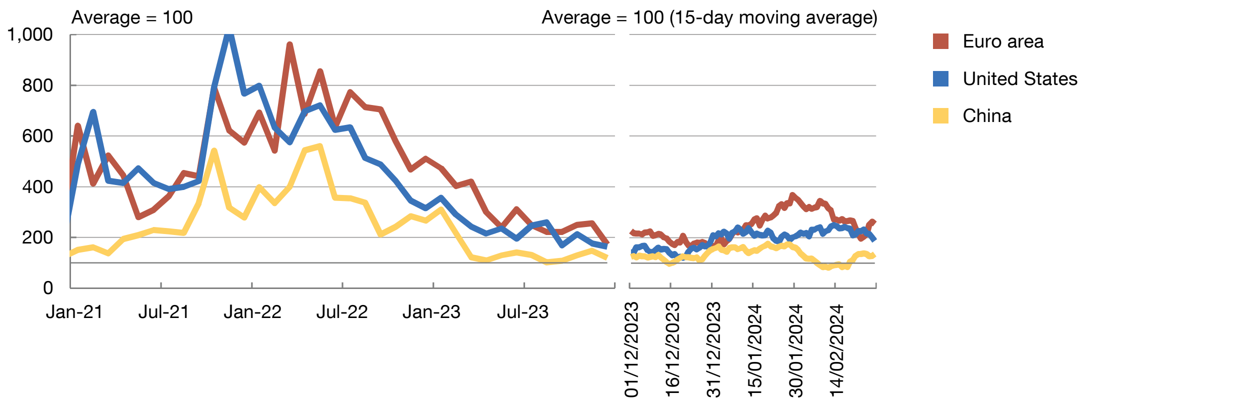
— In any event, the current shock, which causes delays but no interruption of maritime traffic, arises amid the absence of congestion in logistics industries and global supply chains, thus limiting the impact on them so far. The bottleneck indices available point in this direction[1] (see Chart 3.b). In particular, according to these indicators, the impact appears to be somewhat greater in the euro area, although the index for this region is still very distant from the highs observed during the pandemic.

Chart 3

3.a Maritime transport cost indicators




3.b Supply bottlenecks index (monthly and daily)




**SOURCES:** Refinitiv and Banco de España. Latest observation: 1 March 2024.

1 See Pablo Burriel, Iván Kataryniuk, Carlos Moreno Pérez and Francesca Viani (2024). "A new supply bottlenecks index based on newspaper data". *International Journal of Central Banking.* Forthcoming.

## 4 The central banks of the main advanced economies keep their interest rates unchanged

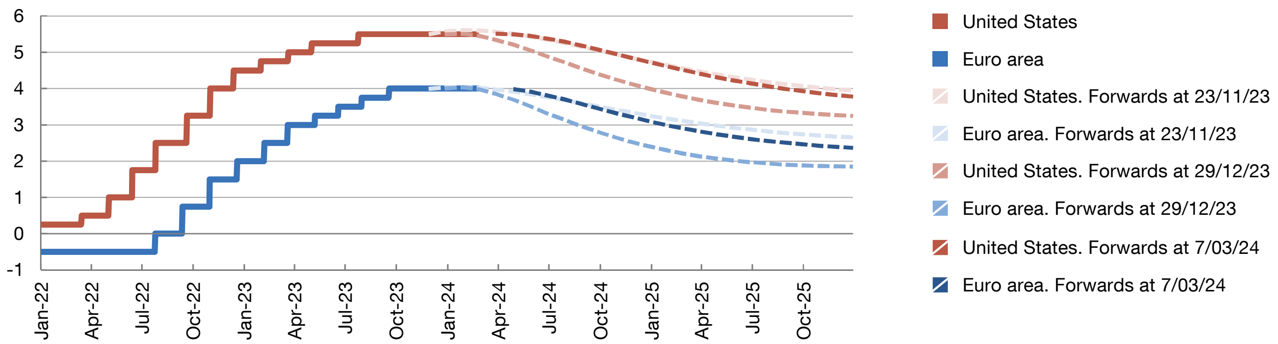
— Monetary policies are at different phases of the tightening cycle. In emerging market economies central banks have continued to cut their policy rates, a process which began in 2023 H2, albeit with varying intensity.

— By contrast, in the main advanced economies central banks have kept their policy rates unchanged, highlighting that there is no fixed timetable for rate cuts and that future decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

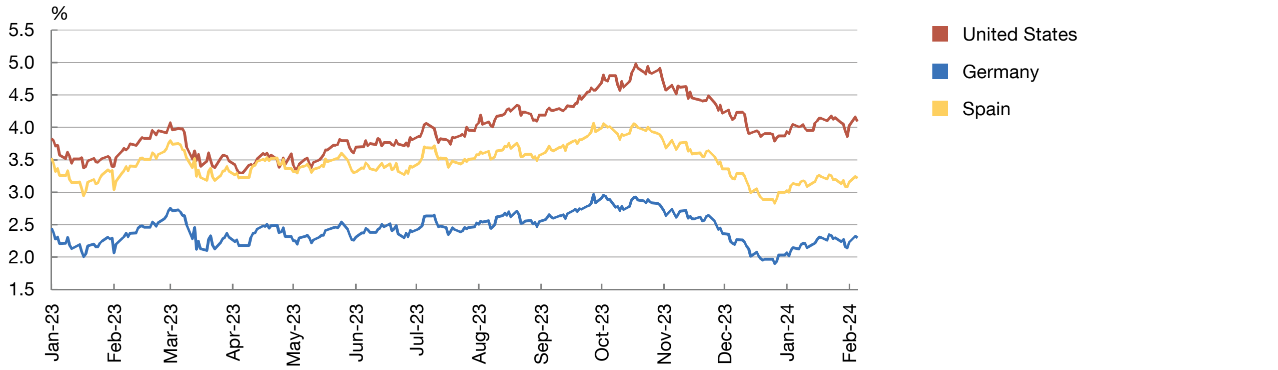
— Both in the United States and in the euro area, the expectations about the future path of policy rates have been revised upwards since end-2023, returning to figures similar to, although still somewhat lower than, those as at the cut-off date for the Banco de España's December forecasting exercise (see Chart 4.a).[2] Accordingly, long-term interest rates have also generally risen in Q1 (see Chart 4.b), although euro area sovereign risk premia have declined.

Chart 4

4.a Policy interest rates observed and forwards (a)




4.b 10-year sovereign debt yields




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

**a** Instantaneous forwards estimated based on market data on OIS rates at different maturities using the Svensson parametric model (Lars E. O. Svensson (1994). "Estimating and Interpreting Forward Interest Rates: Sweden 1992-1994". IMF Working Papers, 94/114, International Monetary Fund) and adding the spread between the policy rate and the overnight interest rate at the estimation date.

2 The cut-off date for the Banco de España's March projections exercise was 15 February, when the interest rate assumptions were slightly lower than those at the cut-off date of this report.

## 5 Stock market prices have risen and risk premia have remained low despite the recent interest rate hikes

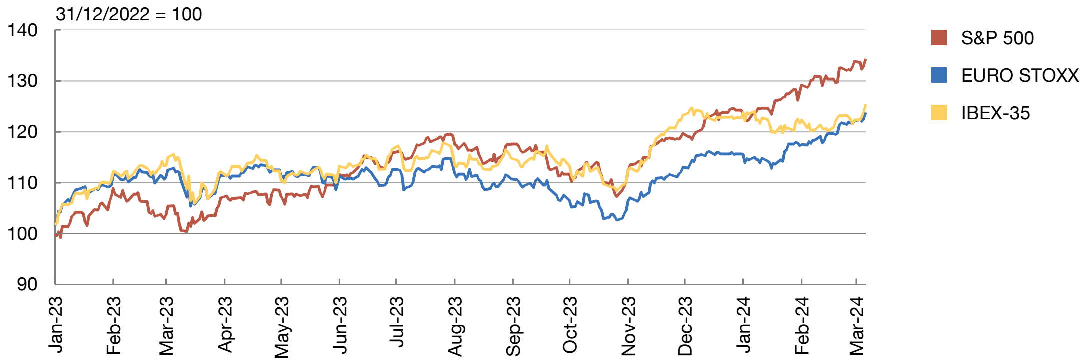
— Positive macroeconomic surprises and good corporate earnings, especially in the United States, have prompted strong stock market gains internationally in the quarter, prolonging the upward trend of late 2023 (see Chart 5.a). Gains have been particularly noteworthy in the artificial intelligence sector. Despite the increase observed in long-term interest rates in the year to date, some indices, such as the S&P 500 and the EURO STOXX, have posted record highs.

— The IBEX-35, however, has risen more moderately, in part influenced by the lack of tech stocks in the index and the unfavourable performance of certain sectors, such as the electricity and real estate sectors.

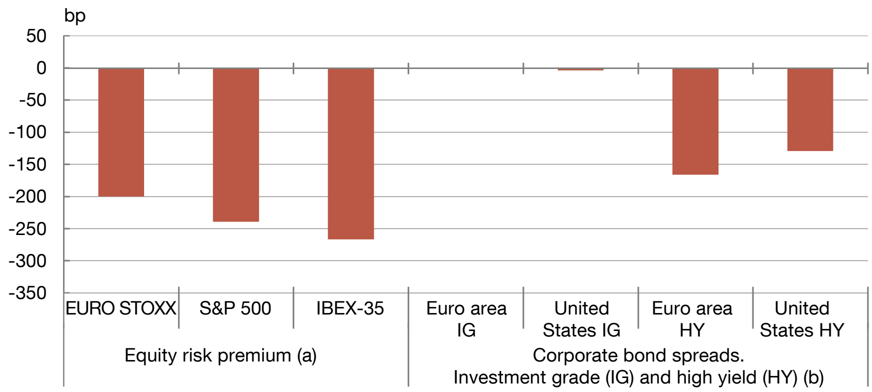
— Risk premia in the high-yield fixed-income segment and equities have remained at very low levels from a historical viewpoint, despite the fact that the macro-financial scenario remains complicated and is still affected by substantial geopolitical tensions (see Chart 5.b).

Chart 5

5.a Stock markets




5.b Risk premia. Deviation from the historical average




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

**a** The equity risk premium is calculated based on a two-stage dividend discount model (see Russell J. Fuller and Chi-Cheng Hsia. (1984). "A simplified common stock valuation model". *Financial Analysts Journal,* 40(5), pp. 49-56). Data as at 29/02/2024. The historical average, which refers to the period 2006-2024, is 659 bp for the EURO STOXX, 495 bp for the S&P 500 and 782 bp for the IBEX-35.

**b** Spreads over the swap curve of the ICE Bank of America Merrill Lynch indices. Data as at 7/03/2024. The historical average, which refers to the period 1998-2024, is 78 bp in the euro area and 131 bp in the United States for IG bonds, and 452 bp in the euro area and 445 bp in the United States for HY bonds.

## 6 Economic activity in the euro area remains sluggish, with modest growth forecasts in the short and medium term

— Economic activity in the euro area stalled in 2023 Q4, following a slight downturn in the previous quarter. GDP is estimated to have grown by 0.5% in 2023 as a whole, well below the 3.4% growth observed in 2022. Factors contributing to this lacklustre performance include tight financial conditions, deteriorating confidence and euro area countries' loss of global market share.

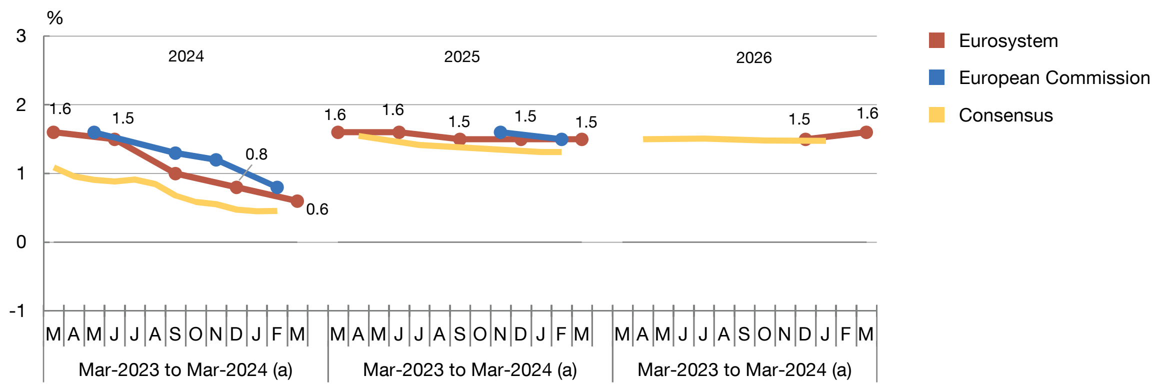
— Activity remained weak in early 2024, according to the most recent short-term indicators, which have performed worse than expected. However, these indicators, based on their forward-looking components, suggest a mild pick-up in economic activity. All this against a backdrop in which the labour market remains notably resilient and the unemployment rate holds stable at all-time lows, despite the fact that job creation has lost some momentum in the most recent period.

— In this setting, the March 2024 European Central Bank (ECB) staff macroeconomic projection exercise continues to point to a scenario of gradual, albeit weaker than expected, economic recovery in the euro area throughout the year, with GDP growth of 0.6% in 2024, 0.2 pp down on the level envisaged in the December 2023 exercise. For 2025 and 2026, the growth rate is expected to remain virtually unchanged at 1.5% and 1.6%, respectively (see Chart 6.a).

— The recovery in activity appears to rely above all on an improvement in households' real income, buoyed by the ongoing fall in inflation — in an environment of lower energy prices — and the forecast wage increases.

Chart 6

6.a Euro area GDP growth forecasts




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

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

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## 7 Euro area inflation has surprised on the downside in recent months

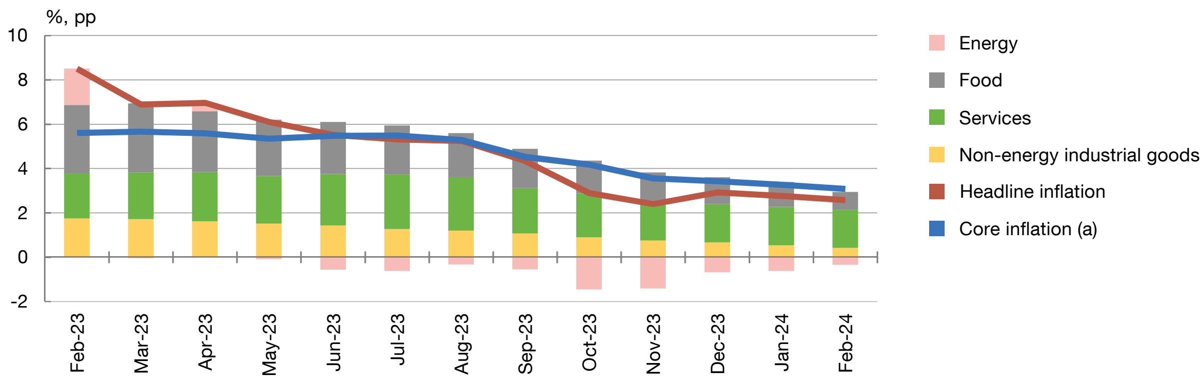
— According to the flash estimate of the Harmonised Index of Consumer Prices (HICP), headline inflation in the euro area surprised again on the downside in February, standing at 2.6%, partly due to the stronger-than-expected decline in the energy component (see Chart 7.a).

— Core inflation fell by 0.2 pp in February to 3.1%, firmly establishing the downward path that began in 2023 Q3. This decline was mainly attributable to the fall in the prices of non-energy industrial goods. Conversely, the contribution from services prices – more affected by the rise in labour costs – remains high.

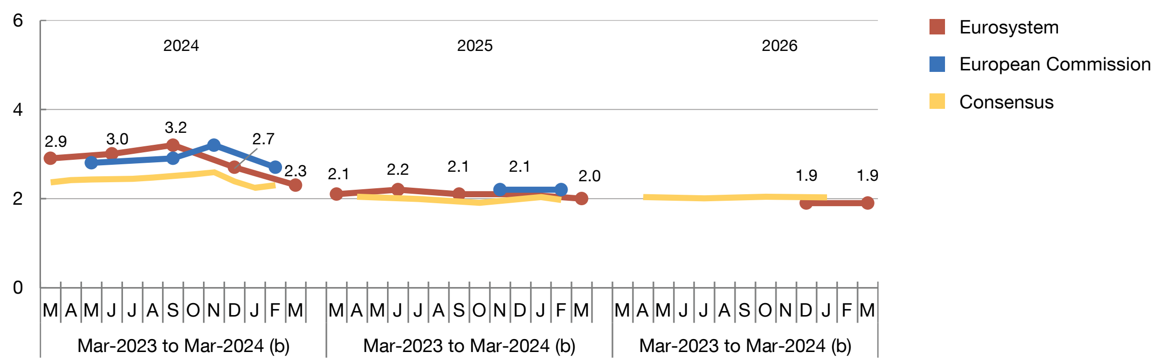
— In line with the recent favourable inflation data and the new assumptions (of lower future energy prices), the March ECB staff macroeconomic projection exercise revised the inflation outlook for 2024 and 2025 down from the December exercise, by 0.4 pp (to 2.3%) and 0.1 pp (to 2%), respectively. For 2026, inflation is expected to remain at 1.9% (see Chart 7.b).

Chart 7

7.a Euro area inflation and contribution of components




7.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 forecast was published.

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## 8 The ECB keeps its policy rates unchanged at restrictive levels

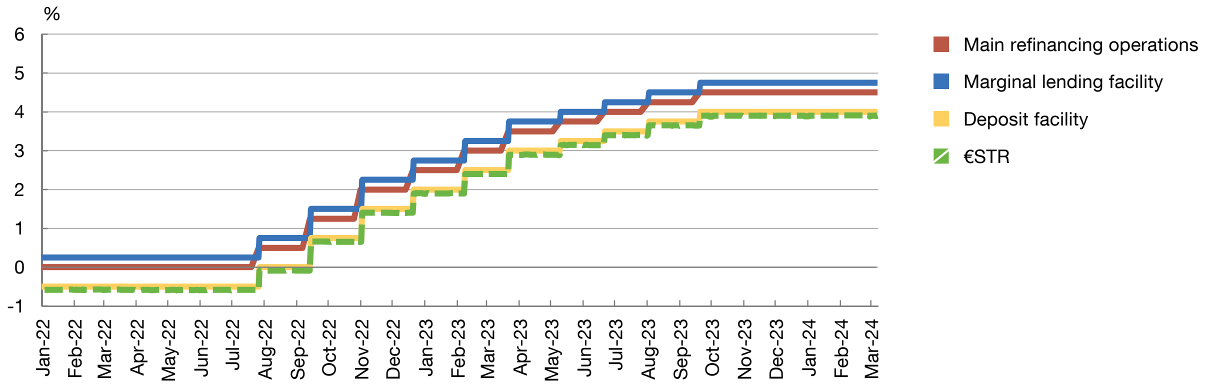
— At its March meeting the ECB Governing Council has, for the fourth consecutive time, decided to keep its three key interest rates unchanged (see Chart 8.a). The deposit facility rate has stood at 4% since September 2023.

— The decision was taken in light of the incoming economic and financial data and the latest ECB staff projections. Although headline inflation and most measures of underlying inflation have continued to ease across the euro area, domestic price pressures remain high, in part owing to strong growth in wages. Accordingly, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will help to ensure that inflation soon reaches its medium-term target of 2%. In any event, the Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction.

— The process of normalisation of the Eurosystem's balance sheet continues. The portfolio of assets purchased under the asset purchase programme (APP) continues to decline at a measured and predictable pace, as since July 2023 the Eurosystem no longer reinvests the principal payments from maturing securities.

Chart 8

8.a Key ECB interest rates and €STR

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**SOURCES:** Banco de España and Refinitiv Datastream. Latest data observed: 07/03/2024.

## 9 In Spain, economic growth unexpectedly picked up speed in 2023 Q4

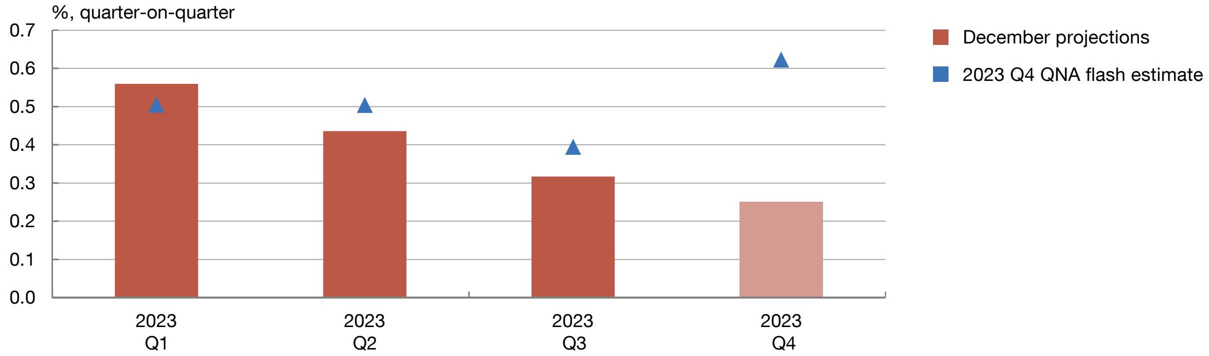
— According to the Quarterly National Accounts (QNA) flash estimate,[3] GDP grew by 0.6% in 2023 Q4, 0.3 pp more than envisaged in the Banco de España projection exercise published in December (see Chart 9.a). As per this estimate, the National Statistics Institute (INE) also revised GDP growth slightly upwards in 2023 Q2 and 2023 Q3. These figures point to output growth of 2.5% in 2023 as a whole, in contrast to the 5.8% observed in 2022.

— GDP growth in Q4 was once again driven by domestic demand, with a notable contribution from government consumption and stockbuilding (see Chart 9.b). Conversely, the contribution from private consumption and gross fixed capital formation surprised on the downside. Net external demand made a somewhat positive contribution to GDP growth, thanks to the greater relative momentum of exports.

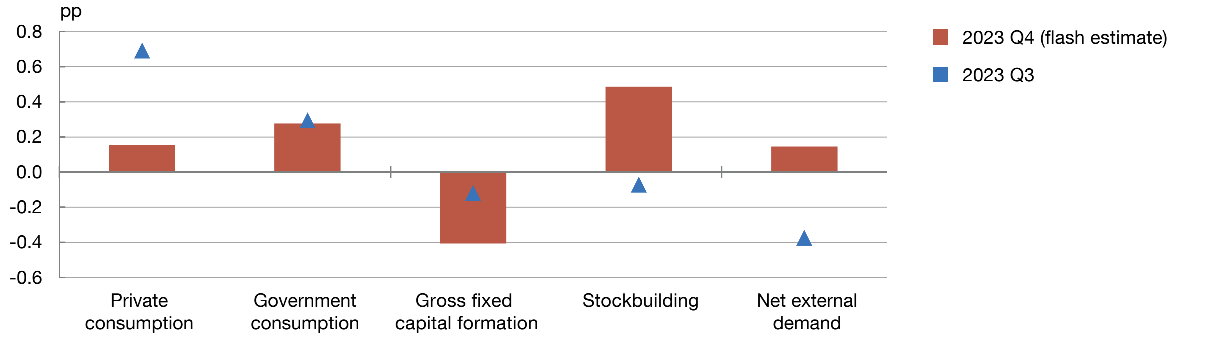
— From the supply perspective, agriculture, industry and construction made a higher contribution to growth in Q4 – following the weak performance of previous quarters – while activity slowed in the services sectors.

Chart 9

9.a GDP growth in Spain




9.b Contributions to GDP growth in Spain




**SOURCES:** INE and Banco de España.

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3 The information provided by the QNA for 2023 Q4 is still preliminary and thus subject to review.

## 10 The latest short-term economic indicators suggest that economic growth in Spain may have decelerated slightly in 2024 Q1

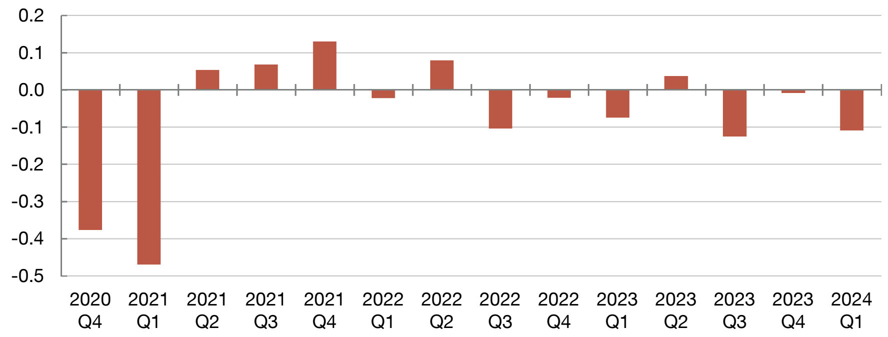
— An overall analysis of the various indicators (including employment, consumption and confidence indicators) that provide partial, and as yet incomplete, information on the performance of economic activity in 2024 Q1 suggests that Spanish GDP could grow in this period by 0.4% quarter-on-quarter. There is, however, considerable uncertainty surrounding this estimate.[4]

— Among the available indicators, the results of the Banco de España Business Activity Survey (EBAE, by its Spanish acronym) suggest that firms' turnover declined in aggregate terms in Q1 as a whole compared with the previous quarter (see Chart 10.a), albeit with notable sectoral heterogeneity.[5]

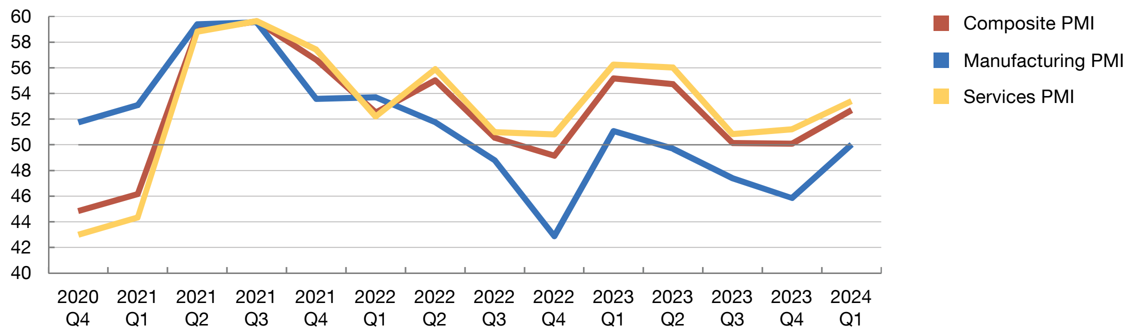
— On information up to February, the PMIs rose above the levels observed at end-2023, in particular, manufacturing PMIs, which had been in contractionary territory (below the 50 mark) since 2023 Q2 (see Chart 10.b).

Chart 10

10.a Quarterly change in EBAE turnover (a)




10.b PMIs (b)




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

**a** 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.
**b** The 2024 Q1 PMI figure is the average in January and February.

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

5 For more details, see Fernández and Izquierdo. (2024).

## 11 Job creation remains strong, buoyed, as in previous quarters, by the strength of employment among foreign nationals

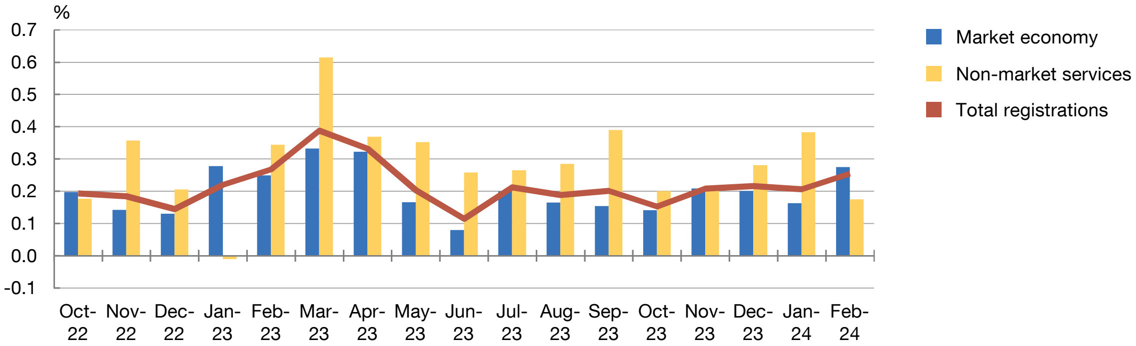
— In February, social security registrations rose by 0.3% in seasonally adjusted terms, a slightly higher rate than that observed since summer 2023 (see Chart 11.a). By activity, there was notable employment growth in the market economy, particularly in the agricultural and market services sectors (especially in hospitality).

— In 2023 as a whole, the contribution of foreign national workers provided a strong boost to social security registrations, which grew by 9.5% on average in this group, compared with 1.7% for Spanish nationals. This pattern continued into early 2024, with year-on-year growth in February of 8.3% and 1.9% in the social security registrations of foreign and Spanish nationals, respectively.

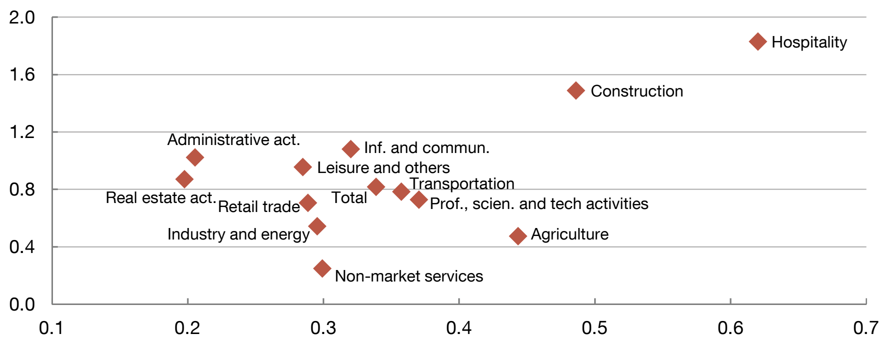
— In recent quarters, the strength of employment among foreign nationals appears to have contributed to easing the labour market tightness in some sectors, such as hospitality and construction, where firms report more severe labour shortages (see Chart 11.b). Indeed, these two sectors, the hardest hit by labour shortages (according to the EBAE), saw the highest relative increase in the number of foreign national workers in 2023.

Chart 11

11.a Total social security registrations in the market economy and non-market services sectors (a)




11.b Relationship between growth in registrations of foreign nationals and perceived labour shortages (b)




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

**a** Seasonally adjusted monthly rate.
**b** The vertical axis shows the change in weight of social security registrations of foreign nationals in total social security registrations in each sector between 2022 and 2023. The horizontal axis represents the indicator of labour shortages reported in 2022 Q4 by firms participating in the EBAE.

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## 12 Financing to households and firms remains weak, against a backdrop of high financing costs

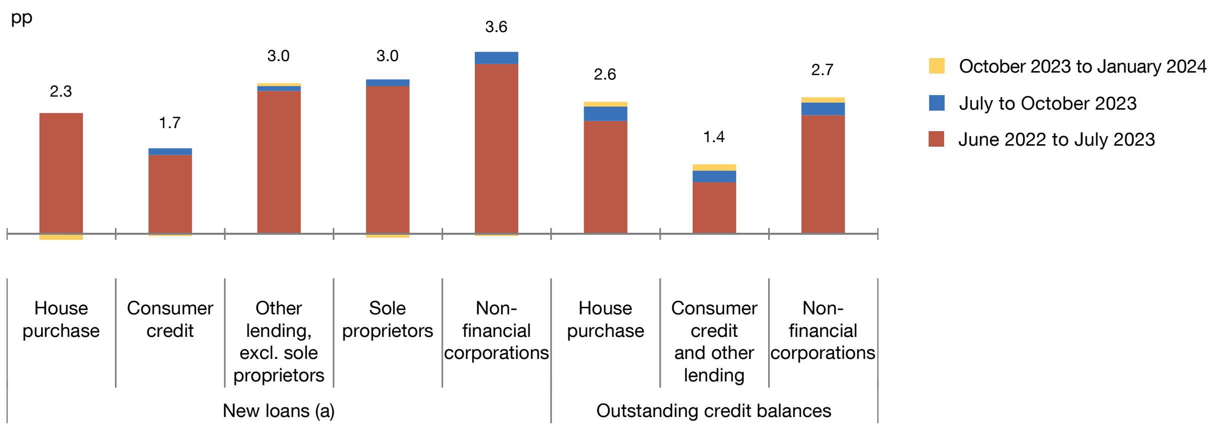
— As the ECB monetary tightening cycle has peaked, interest rates on new lending to households and firms have started to decline somewhat, while the average cost of outstanding credit is still rising, albeit very slightly (see Chart 12.a).

— According to the Bank Lending Survey (BLS), in 2023 Q4 demand for credit contracted and credit standards tightened only for consumer credit and other lending to households, although to a lesser extent than in Q3. Financial institutions expect credit demand and supply dynamics to be very similar in 2024 Q1.

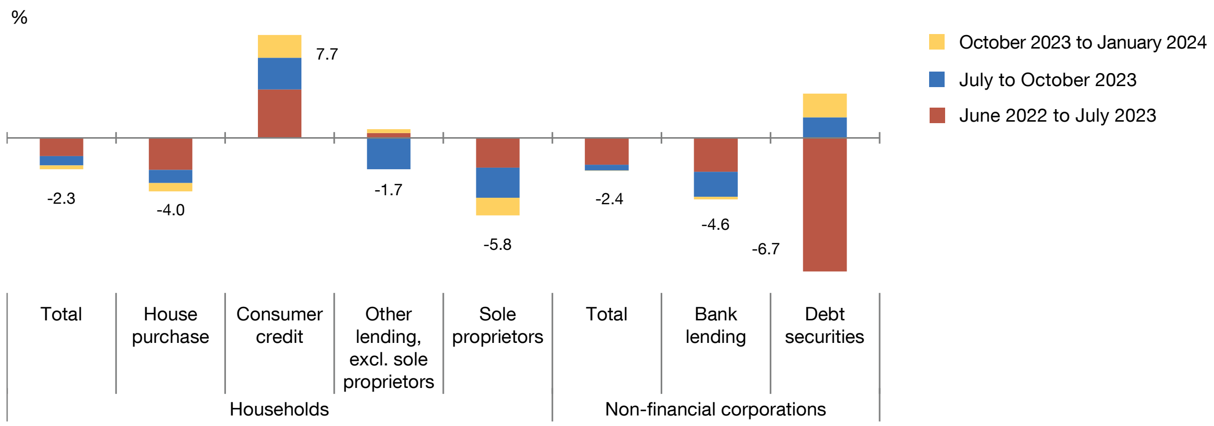
— Financing to households and firms has continued to contract, albeit at a declining pace (see Chart 12.b). However, consumer credit and corporate bond issuance have recorded positive financing flows in recent quarters.

Chart 12

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




12.b Change in financing 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.
b Seasonally adjusted data. Includes securitisations except in the breakdown of other lending. The total includes the rest of the world. Debt securities include issues of subsidiaries abroad.

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## 13 Private consumption in 2024 Q1 maintains the previous quarter's momentum

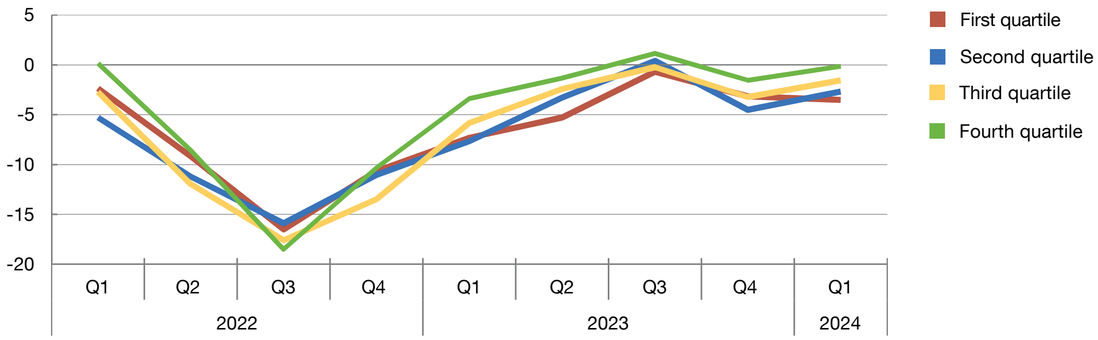
— After a stronger-than-expected slowdown in the final months of 2023, private consumption appears to be growing at a rate similar to that of 2023 Q4. This growth would be underpinned, among other factors, by the still strong labour market, the high initial saving rate and the gradual improvement in consumer confidence, particularly in the middle and high-income brackets (see Chart 13.a).

— In any event, recent developments in consumer credit and car sales (see Chart 13.b) suggest that the boost to consumption from household spending on durable goods is waning, as already anticipated in the Banco de España's December projection exercise.

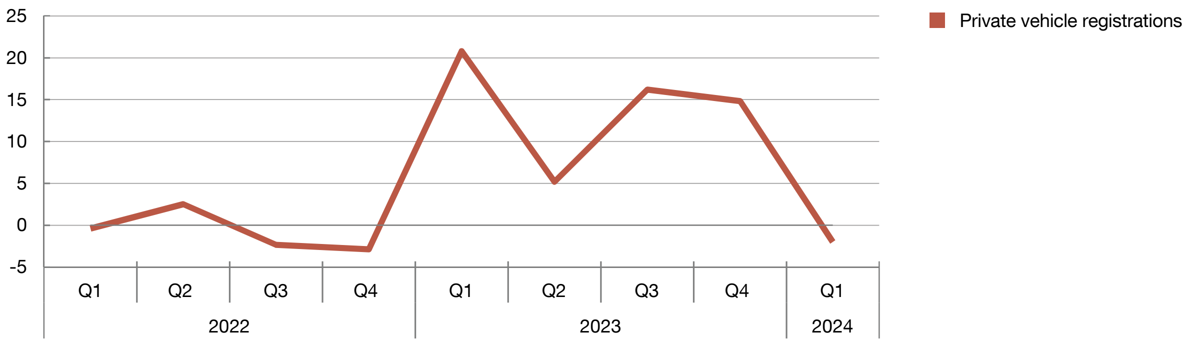
— Looking ahead to the coming quarters, in a setting of gradual moderation of inflationary pressures, a relatively strong labour market and somewhat more favourable financing conditions, household spending is expected to continue on an upward trend, with this demand component growing at a slightly higher rate in 2024 as a whole than in 2023 (1.8%).

Chart 13

13.a Consumer confidence (normalised data). Breakdown by income quartile (a)




13.b Private vehicle registrations (b)




**SOURCE:** European Commission and ANFAC.

a The figure for 2024 Q1 is the average of January and February (the latest data available). Normalised data, obtained by subtracting from the indicator its average value since 2000.
b Year-on-year annual growth rates. The figure for 2024 Q1 is calculated based on the information for January and February, with respect to 2023 Q1.

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## 14 Weakness in business investment could continue into early 2024, while residential investment appears to be moving at a more favourable pace

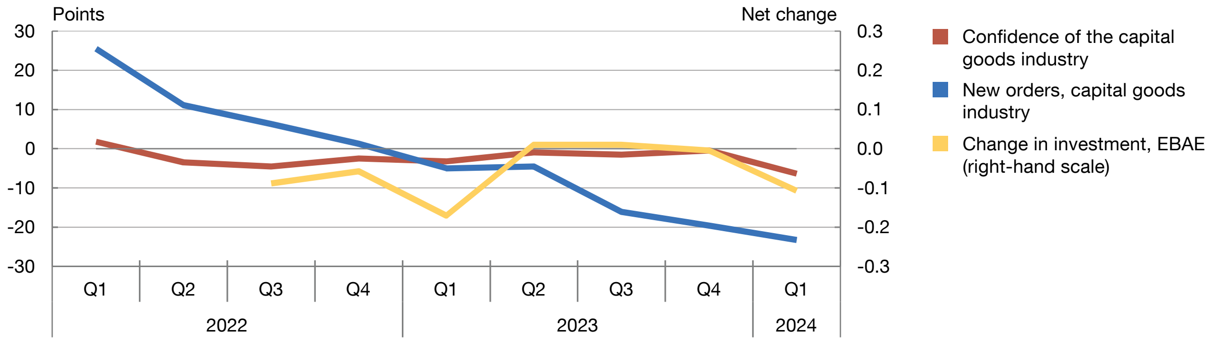
— In 2023 Q4 gross fixed capital formation performed worse than expected, falling by 2% quarter-on-quarter. This decline, which was greater than that seen in Q3 (0.7%), was fairly broad-based, with a notable drop in investment in machinery and equipment (4.8%).

— The succession of negative surprises in this demand component over the last few quarters may reflect a greater structural weakness of business investment than that considered a few months ago. This, together with recent developments in various qualitative indicators (see Chart 14.a), would point to a certain fragility in business investment in early 2024.

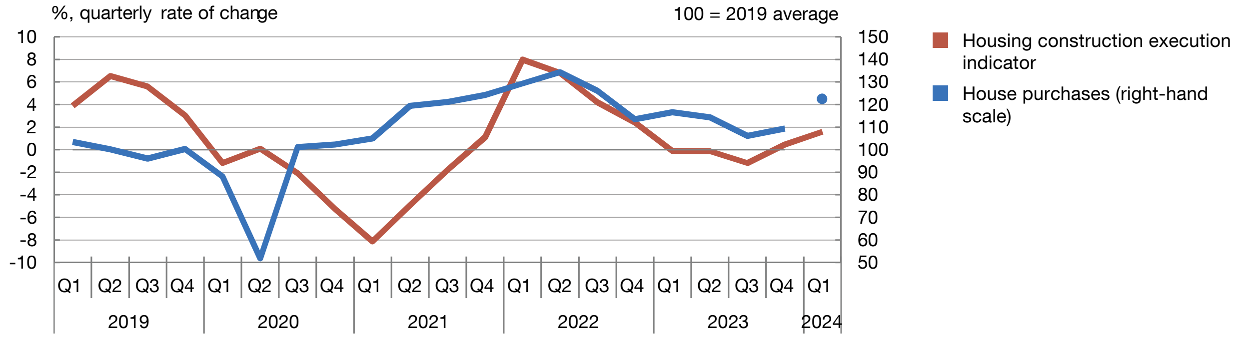
— Meanwhile, residential investment, which grew 0.2% at end-2023, is likely to remain positive in Q1 this year, in the light of the recent performance of the housing construction execution indicator (see Chart 14.b). All this in a setting of rising house prices (from 4.2% year-on-year at end-2023), mainly due to insufficient supply to meet demand.[6]

Chart 14

14.a Qualitative indicators of investment (a)




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




**SOURCES:** European Commission, EBAE (Banco de España), Centro de Información Estadística del Notariado, INE and Ministerio de Transportes y Movilidad Sostenible.

**a** The latest available observation for confidence and new industrial orders is February 2024. 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.

**b** For the housing construction execution indicator, the time frame considered is three months from issuance of the building permit to the construction start date and 18 months for the construction work. Seasonally adjusted series for house purchases. Latest observation: January 2024.

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6 See Lajer, Andrés, David López and Lucio San Juan. (2024). “El mercado de la vivienda residencial en España en perspectiva: hechos estilizados y evolución reciente”. Documentos Ocasionales, Banco de España. Forthcoming.

## 15 In 2024 Q1 the external sector remains on the positive trend of end-2023, in both the goods and the services component

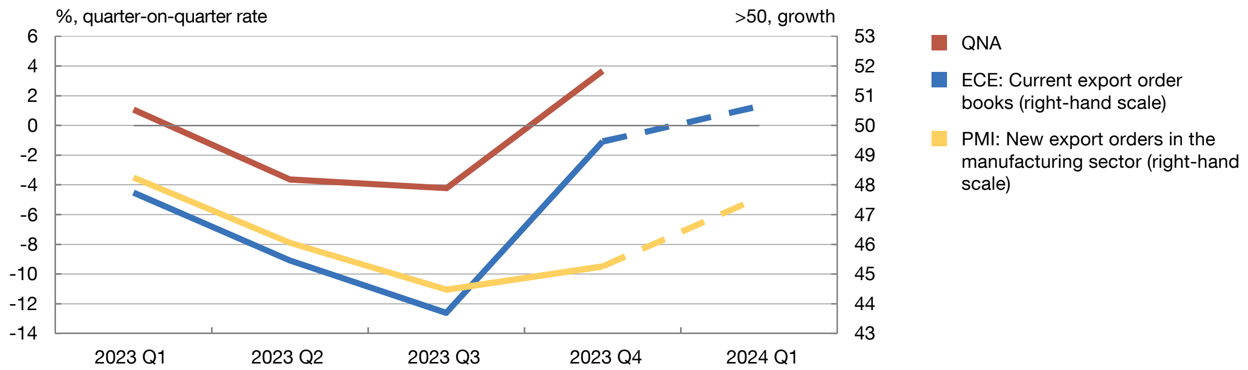
— The positive contribution of net external demand to growth in 2023 Q4 (0.1 pp) was driven by the marked improvement in exports (especially goods exports, which grew by 3.7%). In the light of recent developments in export order books and the PMI indicator of new export orders (see Chart 15.a), this favourable performance of goods exports appears to continue also in the first quarter of the year. Goods imports, for their part, seem to remain somewhat weighed down by the relative sluggishness expected in business investment.

— In any event, net goods exports in the coming months could be highly conditioned by the geopolitical tensions in the Red Sea and a possible escalation of protests in the European agricultural sector.

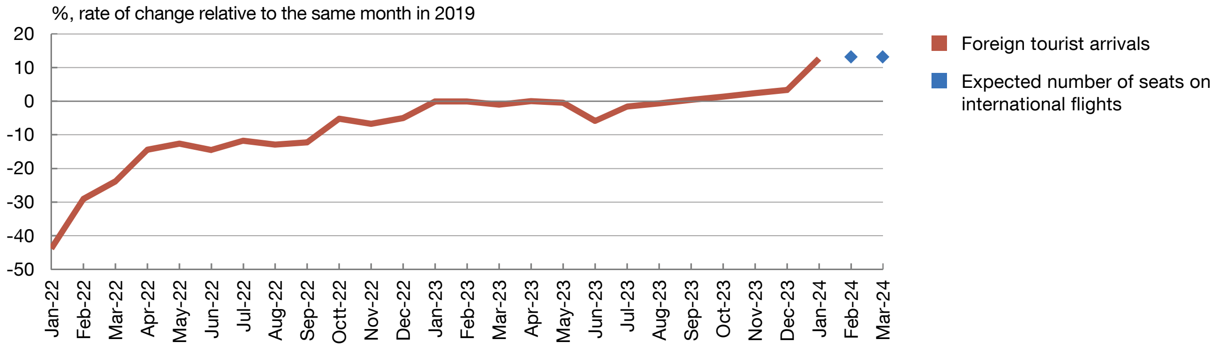
— Meanwhile, both non-travel services exports and tourism exports grew in 2023 Q4. As regards the latter, the latest indicators of international passenger arrivals are consistent with this positive course continuing in 2024 Q1 (see Chart 15.b).

Chart 15

15.a Volume of goods exports (a)




15.b International air passenger arrivals. Rates of change relative to pre-pandemic levels




**SOURCES:** INE, Ministerio de Economía, Comercio y Empresa, S&P Global and Aena.

a The data for 2024 Q1 are the average of January and February.

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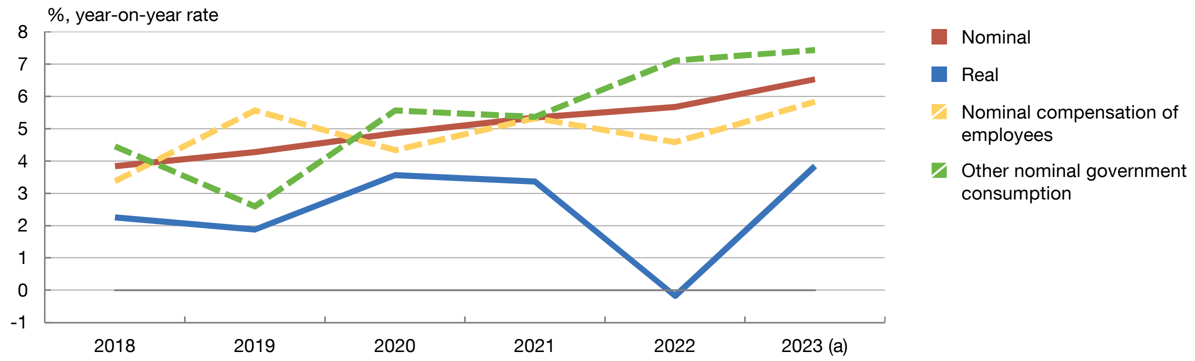
## 16 Government consumption surprised on the upside in 2023

— The flash QNA data for Q4 and the revision of previous quarters' data were a considerable upward surprise in terms of the behaviour of government consumption. Thus, in the year as a whole, this item would have increased by 3.8% in real terms (compared with the 2.2% forecast in the Banco de España's December projection exercise), a much higher rate than in 2022 and also higher than during the worst of the pandemic (see Chart 16.a). This acceleration, which is also evident in nominal terms, would be attributable to both employee compensation and other government consumption items.

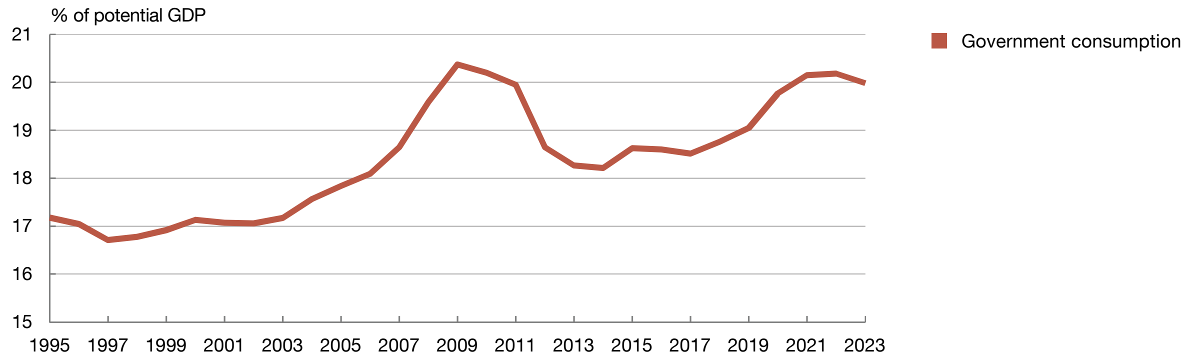
— Thus, as a percentage of potential GDP, government consumption would now stand at a level close to the 2009 all-time high (see Chart 16.b). Insofar as recent developments in this item – whose determinants are shrouded in considerable uncertainty – do not stem from transitory factors (such as possible NGEU-related spending and other temporary measures), this increased government consumption will put further pressure on public finances, underlining the need for Spain to embark on a rigorous fiscal consolidation process.[7]

Chart16

16.a Recent developments in government consumption




16.b Government consumption over the long term




**SOURCES:** Banco de España, INE and IGAE.

a For 2023, the breakdown of government consumption into employee compensation and other consumption is based on monthly data to November for the aggregate excluding local government.

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7 See the Foreword by the Governor in the Banco de España Annual Report 2022.

## 17 The partial extension into 2024 of the support measures introduced to cushion the impact of inflation could entail the need for compensatory fiscal adjustment measures

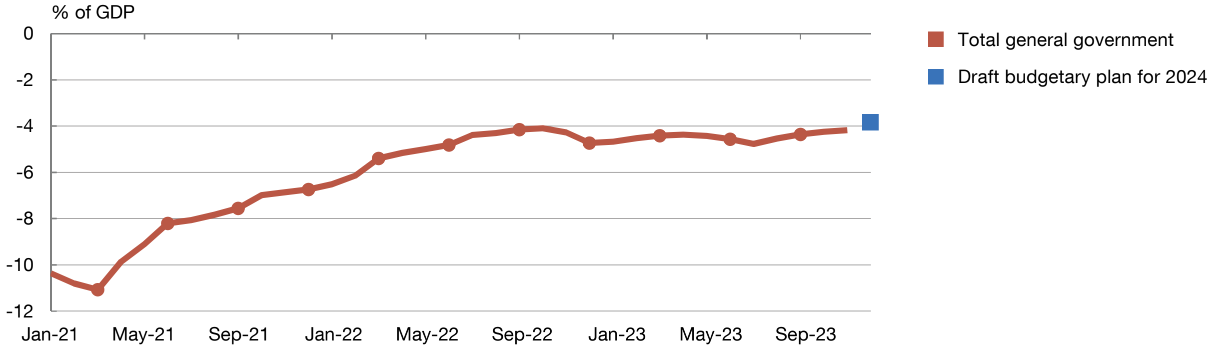
— To November 2023, in cumulative 12-month terms, the Spanish general government balance recorded a deficit equivalent to 4.2% of GDP. This imbalance stands almost mid-way between the 2022 figure (4.7% of GDP) and the Government's deficit target for 2023 (3.9% of GDP) (see Chart 17.a).

— The decline in the deficit in 2023 was due to high revenue growth (8.5% to November) that exceeded expenditure growth (6.5%). The main revenue drivers were the higher direct tax bases resulting from the nominal increases in corporate profits, wages and social benefits. Expenditure growth was driven by the revaluation of pensions and strong government consumption, but the impact was partly offset by the lower cost, compared with 2022, of the support measures introduced in response to the inflationary crisis.

— For 2024, the Government has partially extended some of these support measures, such as the lower VAT rate on food, lower energy taxes and the public transport subsidies.[8] Overall, this extension is expected to have a budgetary cost of around 0.6 pp of GDP in 2024. This is less than the cost of these measures in 2023 (1.2 pp of GDP) and in 2022 (1.5 pp of GDP). However, to meet the European recommendation for 2024 – that nominal growth of net nationally financed primary expenditure in 2024 should not exceed 2.6% – it may be necessary to implement further compensatory measures to cut spending or raise revenue.

Chart 17

17.a General government balance (a)




**SOURCES:** Banco de España and IGAE.

a The dots denote 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 the aggregate excluding local government.

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8 Royal-Decree Law 8/2023 of 27 December 2023.

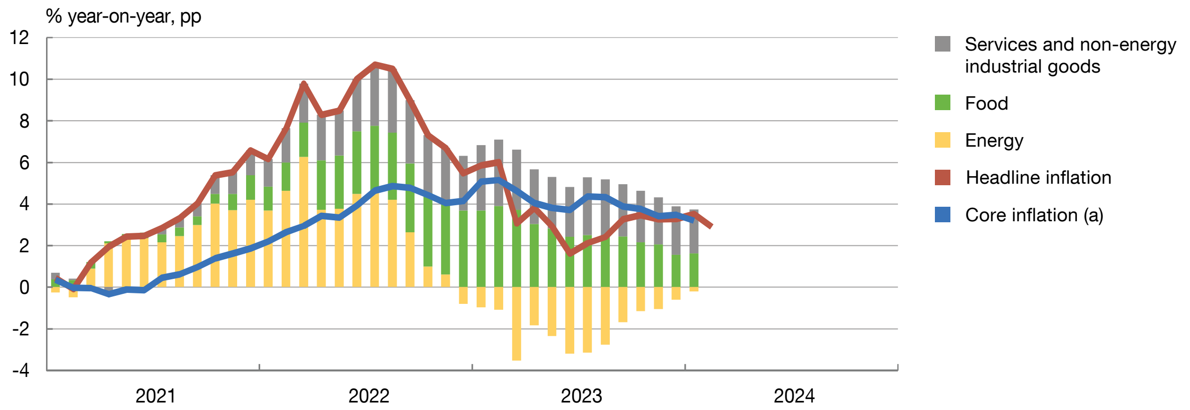
## 18 Inflation fell to 2.9% in February, after climbing in January following partial withdrawal of the support measures introduced in response to the energy crisis

— Inflation fell by 0.6 pp in February,[9] taking the year-on-year rate of HICP to 2.9% (see Chart 18.a), essentially as a result of the favourable performance of electricity prices in the month. The increase in inflation in January was mainly due to the partial withdrawal of the support measures introduced in response to the energy crisis. This affected electricity and gas prices[10] and is estimated to have added around 0.3 pp to the January headline inflation rate.

— On data to January, the slowdown in food prices came to a halt in early 2024, mainly owing to the base effect of the VAT rate cut at the start of 2023.[11] Meanwhile, core inflation continued to decline, reaching a year-on-year rate of 3.2%, almost 2 pp below the figure recorded a year earlier. By component, the slowdown seen in previous months in non-energy industrial goods continued, although the seasonal sales had a smaller than expected impact on clothing and footwear. The moderation in leisure, food services and tourism and in housing maintenance and repair underpinned a minor slowdown in the services component.

Chart 18

18.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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9 According to the February headline HICP flash estimate. The disaggregated HICP data for February will be published on 14 March.

10 Although the measures approved in late December entailed a partial renewal of the support measures introduced in response to the surge in inflation, they did lead to increases in some tax rates. Thus, in January, the VAT rate on electricity and natural gas rose from 5% to 10% and the excise duty on electricity from 0.5% to 2.5%. As wholesale electricity prices dropped below €45/MWh in February, the VAT rate on electricity went back to 21% in March. In view of electricity prices on the futures markets, the VAT rate is expected to be at that level for four months in 2024.

11 In January the number of headings recording lower year-on-year growth fell to 54% of the food basket, compared with 90% in December. This is explained, in part, by the base effect of the cut in the VAT rate on certain essential food items introduced in January 2023.

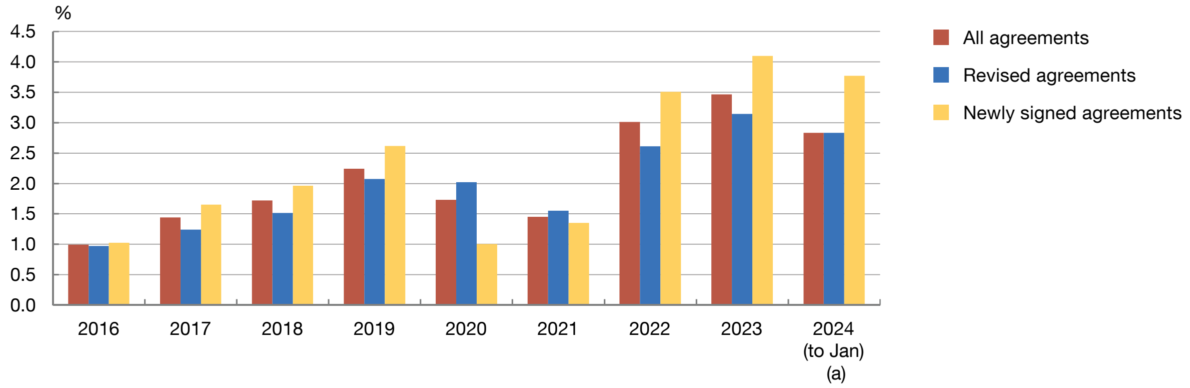
## 19 The negotiated wage increase for 2024 stands at 2.8%, in line with the fifth Employment and Collective Bargaining Agreement, but labour costs are rising at a faster pace

— On data to January, the negotiated wage settlement for 2024 is 2.8%. This is in line with the increase envisaged in the fifth Employment and Collective Bargaining Agreement[12] (AENC, by its Spanish acronym) and entails a decline of 0.7 pp in the rate of growth of negotiated wages compared with 2023 (see Chart 19.a). Almost all of the 7.3 million wage-earners with an agreement in force for 2024 had wage agreements in previous years.

— Compensation per employee in the market economy rose by 6% in 2023, outpacing the negotiated wage increases. According to the quarterly labour costs survey, with data to Q3, the reasons for this stronger growth appear to be the rise in non-wage costs – mainly owing to the higher social contributions[13] – and an increase in ordinary wage costs in excess of the negotiated wage increase.

Chart 19

19.a Wage settlements




**SOURCES:** Ministerio de Trabajo y Economía Social and INE.

**a** The newly signed agreements in January 2024 are not representative (just eight wage agreements covering only 16,453 workers).

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12 In the agreements signed in 2024, the wage increase agreed is 3.8% (above the benchmark set in the fifth AENC). But this only affects around 16,000 workers and cannot be considered representative of wage bargaining for the year. Taking into account the agreements with effect in 2024 signed in the second half of 2023, after the fifth AENC was signed in May, the average wage increase stands at 2.9%, in line with the 3% benchmark agreed.

13 Especially as a result of the rise in the maximum contribution bases (8.6%) and the minimum contribution bases (8%, following the increase in the national minimum wage), and the 0.6 pp hike in the social security contribution rate as a consequence of the entry into force of the intergenerational equity mechanism.

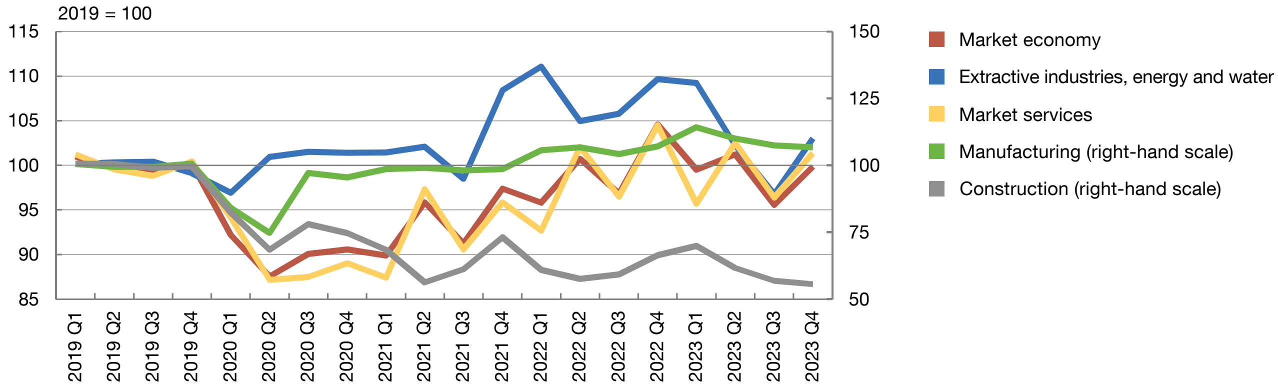
## 20 Profit margins remain close to their pre-pandemic levels, albeit with high cross-sector heterogeneity

— On QNA data, in 2023 the ratio of gross operating surplus (GOS) to gross value added (GVA) of the market economy remained slightly below its pre-pandemic level (see Chart 20.a). However, this aggregate performance continues to mask highly uneven cross-sector dynamics.

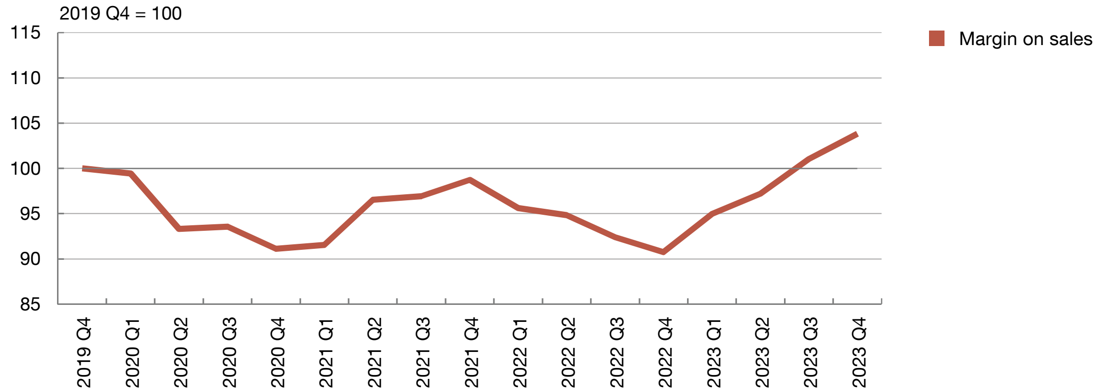
— According to Spanish Tax Agency (AEAT) information on turnover of large corporates and SMEs, net operating income (defined as the ratio of gross operating profit (GOP) to turnover) was somewhat more dynamic in 2023 (see Chart 20.b). This could have been at least partly influenced by the higher cost of borrowing that Spanish indebted firms bore throughout the year, against the backdrop of monetary policy tightening.

Chart 20

20.a Changes in profit margins (GOS/GVA) on QNA data. Breakdown by sector




20.b Changes in profit margins on AEAT data (a)




**SOURCES:** Banco de España, INE and tax forms for VAT and withholdings on labour income and income from economic activities (AEAT).

a All firms excluding petroleum refining (NACE 19), wholesale of fuels (NACE 4671) and gas and electricity (NACE 35) sectors. Margin on sales is defined as the ratio of GOP to turnover. Four-quarter cumulative data, current population.

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