

Quarterly report and macroeconomic projections for the Spanish economy. March 2023

Contents

EDITORIAL 4

REPORT 9

Global economy

- 1 Global economic outlook for 2023 slightly less gloomy 9
- 2 Headline inflation has moderated in the world's main economies, essentially on account of lower energy commodity prices 10
- 3 China abandoning the zero-COVID policy will boost its economic growth in 2023 and could impact global inflation in different ways 11
- 4 The world's main central banks continue to tighten their monetary policies 12
- 5 International financial markets have been conditioned by inflation developments, more-resilient-than-expected activity and, more recently, the uncertainty over the situation of some banks globally 13

Euro area economy

- 6 In the euro area, the strength of activity has surprised on the upside in recent months, which has prompted an upward revision to the growth forecasts for 2023... 14
- 7 ... in a setting in which headline inflation has eased, on the back of lower energy prices, while underlying and food inflation both remain high 15
- 8 The uncertainty surrounding the euro area growth and inflation projections remains very high 16
- 9 The ECB has continued to raise its key interest rates and has emphasised that it stands ready to respond as necessary to preserve price stability and financial stability in the euro area 17

Spanish economy

- 10 In Spain, GDP growth was higher than expected in 2022 overall, although the momentum declined as the year unfolded 18
- 11 Output growth was relatively modest in 2022 Q4, although it surprised slightly on the upside 19
- 12 The available indicators for 2023 Q1 suggest that GDP has grown in the quarter at a pace similar to that of the closing months of 2022 20
- 13 Job creation accelerated at the beginning of 2023 amid a decrease in the number of hours worked per worker 21

- 14 Financial conditions in Spain have continued to tighten, with a slight contraction in the volume of new lending in recent months 22
- 15 Household consumption appears to have remained quite weak in early 2023 23
- 16 Business investment could rise slightly in the first few months of the year 24
- 17 Housing investment seems to have continued to decelerate in Q1 against a backdrop of rising costs of loans for house purchase 25
- 18 Net exports' contribution to output growth appears to have moderated in Q1, following their significant contribution in late 2022 26
- 19 The gradual fall in the public deficit appeared to partially reverse in the closing months of last year owing to the slowdown in government revenue 27
- 20 Headline inflation rose again in early 2023 as a result of some technical corrections, while the growth rate of food prices remained high ... 28
- 21 ... and underlying inflationary pressures remain high 29
- 22 Wages continue to increase moderately in the early months of 2023... 30
- 23 ... while there seems to have been a certain rebound in profit margins throughout 2022, albeit with high heterogeneity across sectors and firms 31
- 24 The Banco de España's latest macroeconomic projections revise GDP growth slightly upwards for 2023 32

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2023-2025) 33

EDITORIAL

Editorial

Global economic activity weakened in the final stretch of 2022, although by less than expected. This loss of momentum was essentially a result of the persistence of high inflation and the consequent tightening of monetary policies and global financial conditions. Nonetheless, the falloff in activity was generally less pronounced than had been anticipated by most analysts' forecasts. Among other factors, the easing of bottlenecks in global production chains and the various measures taken by the public authorities to mitigate the effects of the inflationary surge and the energy crisis on the incomes and the consumption and investment decisions of private agents appear to have contributed to this greater resilience.

Moreover, the favourable developments in energy commodity markets (in particular, in the gas market) have helped to check the economic slowdown in recent months, especially in Europe. The rise in the price of gas and the deterioration in the security of supply of this commodity played a very important part in the worsening of the European economic outlook following the outbreak of war in Ukraine. However, in recent months this negative supply shock has been reversed more sharply than expected. In particular, largely as a result of the measures taken to discourage consumption and diversify supply, and of the mild early winter temperatures, gas prices have recently fallen below their pre-war levels and the risks of supply cuts in some of the main European economies have abated considerably.

In the first few months of 2023, there appears to be evidence of incipient improvement in the global economic environment. The signs of resilience exhibited by global economic activity in late 2022, the change in trend of many confidence indicators and the fact that China's abandonment of its zero-COVID policy appears to have had only a relatively transitory negative impact on its economy are some of the factors that have led many analysts to raise their growth forecasts for 2023 Q1 and for the year as a whole.

Also, some signs are discernible of inflationary pressures easing, although they have tended to be confined to the energy price component. In fact, generally, both food and the underlying component continue to display high inflation rates, which, in some cases, are still accelerating.

In comparison with these relatively positive developments, the appearance, following the closing date for this report,¹ of an episode of severe financial tensions at global level has brought about a new adverse shock of uncertain magnitude and persistence. This turbulence arose as a result of the deterioration in the financial position of a particular US bank with a very specific balance sheet structure, which made it particularly vulnerable to rising interest rates. Nonetheless, the fragility of this bank has generated doubts on international capital markets as to

¹ The cut-off date for this report is 2 March 2023.

the soundness of other financial institutions. All this has occurred against a background in which interest rates have, in historical terms, been rising very sharply and rapidly across the world in recent quarters. As a result of these doubts, a large majority of the world's banks have recently experienced a significant decline in their stock market valuations and some of them (in the United States and in Switzerland) have required specific support from the authorities. There is currently no way of knowing whether, in the immediate future, these financial tensions will persist or whether they will gradually diminish. In any event, it seems likely that the uncertainty that has been generated will have some adverse impact on economic activity in the coming quarters and will also help to weaken the inflationary dynamics.

In such an uncertain context, at its meeting on 16 March, the European Central Bank's (ECB) Governing Council decided to increase its key policy interest rates by 50 basis points (bp), in line with its determination to ensure the timely return of inflation to the 2% medium-term target. Moreover, the Governing Council stressed how the elevated level of uncertainty (to which the recent global financial tensions have contributed) reinforces the importance of a data-dependent approach to its future monetary policy decisions, 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, in particular.

The ECB's Governing Council stressed that the euro area banking system is highly resilient, with sound capital and liquidity positions. It also announced that it will closely monitor financial market tensions and that it stands ready to respond as necessary to preserve both price stability and financial stability in the euro area. The ECB's policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy.

In the first quarter of the year, the Spanish economy appears to have maintained a similar rate of momentum as in the second half of 2022. In 2022 Q4, GDP grew by 0.2%, against a background of notably weaker domestic demand, reflected, in turn, in a decline in imports. In early 2023, the favourable performance of social security registrations and the improvement in confidence indicators, among other factors, suggest that the rate of output growth may have increased slightly, to 0.3%. This would be consistent with the persistence of a certain degree of weakness in the macro-financial dynamics of the Spanish economy, in line with the information from the latest edition of the Banco de España Business Activity Survey (EBAE).² In particular, spending by Spanish households and businesses continues to be constrained by two important headwinds: persistently high inflation rates and rising interest rates.

Consumer price inflation has eased significantly in Spain since the highs recorded in the summer, although this has been almost exclusively attributable to the energy component. Indeed, as a result of energy prices moderating in Spain (to a greater degree than for other

² Mario Izquierdo. (2023). "Encuesta a las empresas españolas sobre la evolución de su actividad: primer trimestre de 2023". *Boletín Económico - Banco de España*, 1/2023, 21. <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletines/Revistas/BoletinEconomico/23/T1/Fich/be2301-art21.pdf>