

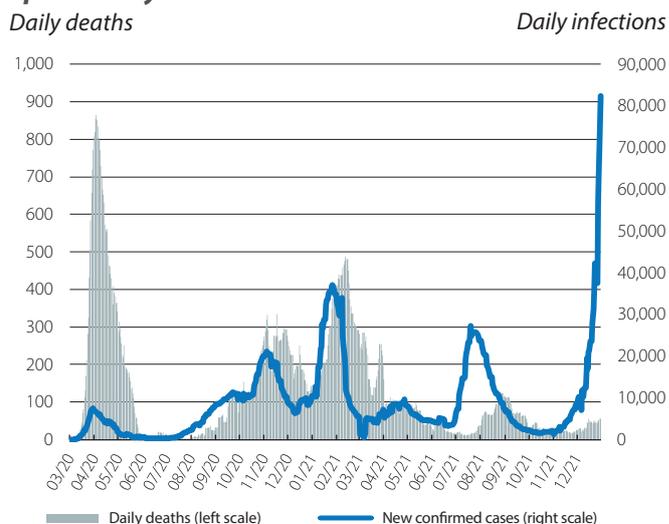
## 2022, the year to underpin the recovery of the Spanish economy

**2021, an intense but incomplete recovery.** Following the unprecedented collapse of the economy in the previous year triggered by the COVID-19 crisis, in 2021 we also witnessed a historic recovery in GDP. Thanks to the widespread roll-out of the vaccinations which facilitated the lifting of restrictions, coupled with the support provided by economic policies, according to our estimates GDP grew in 2021 by 4.8%, the highest rate since the year 2000. However, this growth rate falls short of what was expected at the beginning of the year, and at the end of the year GDP will still have been 4.6% below the last quarter of 2019. The incomplete recovery in international tourist flows and household consumption, despite the high volume of savings accumulated during the lockdowns, has hampered the recovery of the Spanish economy compared to the other large euro area economies. That said, where the gap generated by the outbreak of the pandemic has been closed is in the labour market, which has experienced a faster and more intense recovery than economic activity. This allowed the country to reach pre-pandemic levels in terms of effective employment (i.e. not counting workers on furlough) as early as July last year. The year closed with a record number of people registered with Social Security, at 19,825 million, representing 776,478 more than in December 2020 and 416,373 more than at the end of 2019. In addition, the number of workers on furlough at 31 December fell to 122,672, which is 580,136 less than a year earlier.

**Omicron tarnishes the beginning of 2022.** The sixth wave, with the emergence of the more contagious Omicron variant, has triggered a surge in the cumulative incidence rate, generating uncertainty and leading to the reintroduction of some restrictions. However, although the cumulative incidence exceeded 2,000 infections per 100,000 inhabitants in the first few days of the year, thanks to the high vaccination rates (the roll-out of the booster dose has begun) the epidemiological situation has remained more controlled than in previous waves, in terms of both pressure on hospitals and mortality. In this context, the latest indicators appear to suggest a somewhat less buoyant economic activity. In particular, the PMIs registered a slowdown in December, although they remain in expansionary territory (above 50). The PMI for industry fell to 56.2, its lowest in 10 months and down from 57.1 in November, as a result of the supply-chain problems and a moderation in new orders. The services PMI, meanwhile, stood at 55.8 compared to 59.8 the previous month, reflecting the impact of the Omicron variant on the sector's activity. This impact was particularly felt among catering and leisure companies, which registered booking cancellations.

**Inflation ended 2021 at a three-decade high.** In December, inflation was once again higher than expected, rising to 6.7% (5.5% in November), the highest year-end figure since 1989.

### Spain: daily infections and deaths



**Note:** 7-day averages for infections and deaths. Data by notification date.  
**Source:** CaixaBank Research, based on data from the Ministry of Health.

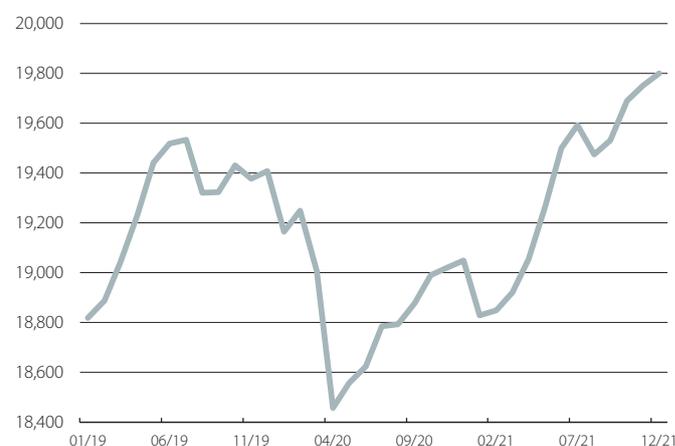
### Spain: GDP

Level (100 = Q4 2019)



**Source:** CaixaBank Research, based on data from the National Statistics Institute.

### Spain: registered workers affiliated with Social Security (Thousands)



**Note:** Average monthly figures, not seasonally adjusted.  
**Source:** CaixaBank Research, based on data from the Ministry of Social Security.

Core inflation, meanwhile, reached as high as 2.1% (1.7% in November): we need to go back to 2012 to find such a high core rate in December. The main cause of this escalation has been the energy component, particularly the high electricity prices. That said, base effects have also played a part, as the current prices are being compared to a year that saw a sharp drop in energy prices, as have the bottlenecks generated by the surge in demand. Although inflation will still remain high over the coming months, we expect to see a moderation in the second half of the year. While some of the rise in energy prices could be transmitted to the prices of industrial goods and services, which have also been affected by the bottlenecks, we do not expect the second-round effects to be severe enough to cause persistently high inflation in the medium term (for now, wage increases remain moderate due to the multi-year nature of collective labour bargaining agreements and the reduced impact of safeguard clauses). Following on from this, 10-year inflation expectations for Spain remain anchored at around the 2% mark. With the caution demanded by the current context, which is marked by high uncertainty, we expect headline inflation to remain above 5% until mid-year, before experiencing a significant correction as the comparative period becomes the latter part of 2021, when the surge in prices began. Thus, the annual average in 2022 is likely to be around 4.5%. On the other hand, we expect core inflation to continue to rise to over 3% by mid-year, with an average rate of 2.6% for the year as a whole.

**The surge in revenues favours the correction of the budget deficit.** The budget deficit stands at 3.9% of GDP in the cumulative period of the first 10 months of 2021 (consolidated general government deficit, excluding local corporations). This represents a substantial improvement compared to the 2020 level (deficit of 7.2%), but still far short of the level registered in 2019 (deficit of 1.3%). Consolidated expenditure is growing at a rate of 2.5% year-on-year (and 13.9% compared to January-October 2019), while revenues are registering a significant rebound (12.6% year-on-year and 6.2% compared to the same period of 2019) thanks to strong tax collections. Clearly, the pandemic continues to have a high impact on the public accounts, but less so than in 2020.

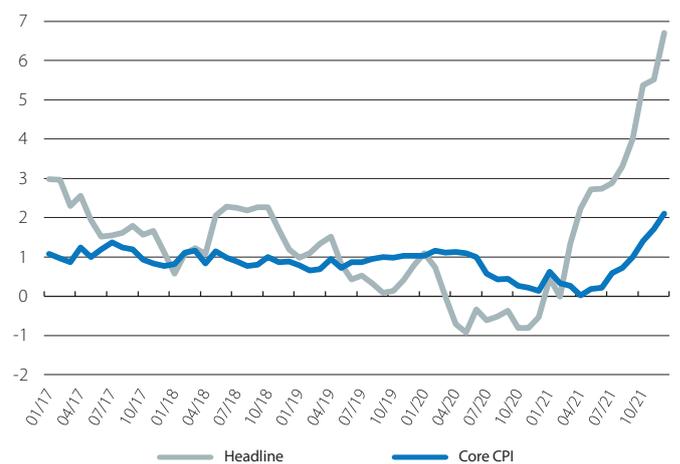
**The pattern of growth will be consolidated in 2022.** While the epidemiological situation remains one of the main determining factors for the 2022 outlook, we can expect the impact of the pandemic on economic activity to gradually decrease, allowing for a steady acceleration in activity. Specifically, we anticipate GDP growth of 5.5% for the year as a whole, thanks to the greater control of the pandemic, a recovery in household spending driven by the pent-up savings that were accumulated during the lockdowns, the recovery in tourism and an acceleration in the execution of NGEU funds, all in a context in which the financial conditions will remain favourable. Although economic activity will remain somewhat weak in the early stages of the year, still conditioned by the rise in energy prices and the bottlenecks, we believe that these factors will begin to gradually fade from Q2 2022.

**Spain: economic activity indicators, PMI**



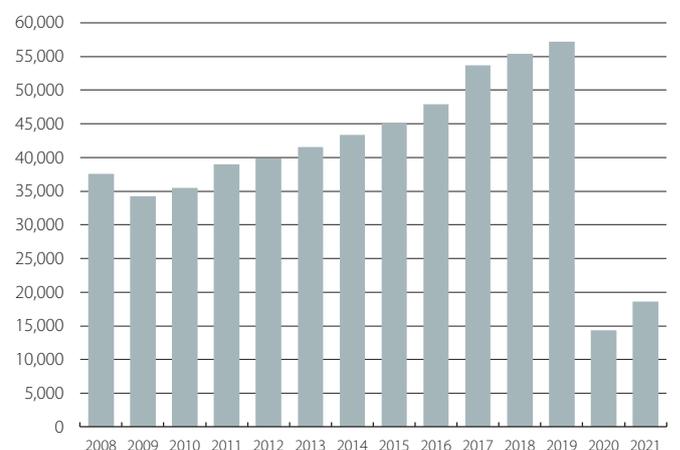
Source: CaixaBank Research, based on data from Markit.

**Spain: CPI**  
Year-on-year change (%)



Note: The latest data point refers to the flash indicator.  
Source: CaixaBank Research, based on data from the National Statistics Institute.

**Spain: tourism revenues**  
EUR millions



Note: Cumulative figures for January to September.  
Source: CaixaBank Research, based on data from the Bank of Spain (balance of payments).