

## The outlook in perspective

Finding the right word to sum up the future outlook for the Spanish economy is no easy task. It certainly does not look like we are on the cusp of a cycle of high GDP and job growth. But it also does not appear that the economy is going to enter a deep or prolonged recession. The shocks of recent years, as well as the existence of various factors that are pushing and pulling the economy in opposite directions, make the current context particularly difficult to assess.

Overall, GDP and job growth are most likely to remain positive but modest. Specifically, for 2023-2024, we expect cumulative GDP growth for this two-year period to be around 3%, with employment growing by around 2%. As for inflation, which is a key variable in the current context, all the indicators suggest that it will continue to moderate and could stand at around 3.5% on average during these two years.

Among the elements that will continue to drive the growth of economic activity and employment, some of the most important ones are the deployment of the European NGEU funds and the recovery of international tourism, especially long-haul tourism. In the opposite direction there will be downward pressure from the rise in interest rates and inflation, with the latter expected to remain high despite some moderation.

The uncertainty surrounding the outlook remains very high. The relative impact that each of these factors end up having will be decisive. For instance, inflation could moderate more quickly if the pressure on energy prices recedes earlier than expected. The fall in oil and gas prices we have seen in recent weeks appears to point in this direction. If confirmed, this would be a major relief for household consumption. On the other hand, however, it seems that the ECB will raise interest rates more than we were expecting prior to its December meeting.

Comparing where this scenario would lead us with what we were anticipating last year, or before the pandemic, helps give us a better idea of our current position. In terms of growth, the picture does not look encouraging. According to the current forecast scenario, in 2024 GDP will be just over 1 pp above the level of 2019. In contrast, a year ago, before the outbreak of the war in Ukraine, we were expecting GDP in 2024 to be around 4 pps above the 2019 level. Looking back on our growth forecasts in early 2020, before the outbreak of the pandemic, we see that by 2024 we were expecting GDP to have grown by over 5% during these years.

The message from the employment data is very different. According to the current scenario, in 2024 it will be 5% above the levels of 2019, a very similar figure to that which CaixaBank Research expected in early 2020, before the outbreak of the pandemic and the war in Ukraine. Despite the adversities of recent years, employment has been – and is expected to remain – very resilient.

Finally, where there has been a major surprise has been in the evolution of the prices of goods and services consumed by households. According to the current forecast scenario, with a gradual moderation in inflation, in 2024 the Consumer Price Index will be around 20% above the levels of 2019. A year ago, the increase in this period was expected to be 10%, while the figure that was expected at the beginning of 2020 was 8.3%.

Conducting a proper assessment of our current situation requires us to put it in perspective. Depending on the reference point we take or the variable we refer to, the impression we are given can differ. While the trends in growth and inflation have been worse than anticipated, employment is holding up well in the face of the recent adversities.

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