The three key elements of the new outlook for the Spanish economy

The Spanish economy remains immersed in an adverse context, marked by geopolitical uncertainty, high inflation and rising interest rates, which limits its capacity to grow. Despite this, during the last few months it has managed to overcome the adversities better than expected. Furthermore, the recent moderation in energy prices invites us to believe that the recovery could be somewhat more dynamic.

All this leads us to slightly improve our economic forecast for this year, with GDP growth now anticipated to reach 1.3%, 0.3 pps above the previous projection. On the other hand, we place inflation at 4.2%, somewhat lower than the 4.5% previously predicted. Uncertainty remains very high and there are multiple factors that could modify the course of the Spanish economy in the coming months, both for better and for worse. Among all these factors, there are three which stand out: the evolution of energy prices, the resilience of the labour market and the execution of the European NGEU funds.

With regard to energy prices, the major development has been the recent fall in oil and gas prices. In addition, the futures markets suggest that prices will remain at similar levels for the rest of the year. If this scenario is confirmed, then the headline inflation rate will move away from the high levels registered last year and, more importantly, the pressure on production costs will gradually fade.

As we set out in the Dossier on inflation included in this same report, the indirect effects that usually occur following an energy price shock are significant and persistent. The transmission of the rise in production costs to final prices occurs gradually, so the core inflation rate will remain high this year. But the first step in order for this process to lose momentum is a moderation in energy prices.

If the inflationary pressures remain contained during the course of the year, this will also make it easier for the ECB to stop raising interest rates in 2023. The combination of these two factors is of paramount importance for households to maintain their consumption levels and for companies to carry out their investment plans at such a key time of economic transformation.

The second key factor for determining the outlook is the resilience of the labour market. To date, employment has performed better than expected, in terms of both the number of jobs created and the reduction in temporary employment. This has also helped to sustain consumption: directly, because the income of Spanish households as a whole increases when there are more people in work, and moreover because when jobs are created in the economy as a whole, people are less fearful of losing their job – an especially important factor in the difficult current context. In previous crises, when unemployment tended to experience a sudden surge, households reacted by increasing their savings for precautionary reasons, which accentuated the weakness of consumption.

The labour market tends to have a delayed reaction to changes in the macroeconomic environment, so the pace of job creation can be expected to lose steam over the coming months. That said, we do not expect to see a rise in the unemployment rate: specifically, we place it at 12.8% for 2023 as a whole, slightly below our previous forecast and at a very similar level to that recorded in 2022.

Finally, we should consider the important role that the execution of the European NGEU funds will have throughout this year. While it is true that the implementation of this programme was initially somewhat slower than expected, the latest data show greater dynamism. In this regard, if the level of execution reached during the second half of 2022 is maintained, then the NGEU funds could contribute around 1 pp to GDP growth in 2023.

The execution of the NGEU funds should accelerate the transformation of the Spanish economy, boosting the digitalisation of businesses and making the production process more environmentally friendly. In addition, it should facilitate further improvements in the public accounts. This aspect gains relevance now that the ECB will gradually reduce its holdings of public debt and with the forthcoming approval of a new fiscal rules framework in the EU.

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