

## Spain: Economic and fiscal outlook

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**Central banks:** Between a rock and a hard place?

**Economic projections** for Spain: 2023-2024

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**AI and the banking sector:** Initial considerations

**Spanish fiscal policy** in an EU context: The transition back to normal

Fiscal sustainability of Spain's **local governments:** Targeted weaknesses within overall strength

**Industrial policy** in the EU and Spain: Recent debates

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# SEFO

SPANISH AND INTERNATIONAL  
ECONOMIC & FINANCIAL OUTLOOK

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# Letter from the Editors

Recent trends point to a weakening of the international environment, especially in Europe. In June, the PMI for the eurozone fell to just below 50, pointing to a contraction in activity. The trend is also towards a slowdown in the US and China, albeit less pronounced than in Europe, with PMI indicators still in expansionary territory.

In its latest outlook, the OECD predicts global growth of less than 3% in both 2023 and 2024, a significant decline compared to 2022 which would be mainly due to the tightening of monetary policy. The economic weakening would mostly affect the eurozone.

Within this context, in this July issue of *Spanish and International Economic & Financial Outlook (SEFO)*, we start off by looking at financial turbulence at the global level, subsequently supplementing this analysis with perspectives for the Spanish economy.

Financial turbulence has been easing in recent weeks, reflecting the idiosyncratic nature of the Silicon Valley Bank (SVB) and Credit Suisse (CS) failures and the adequacy of the responses by the affected central banks, although some risks remain. Monetary tightening led to a more than 4pp increase in official rates worldwide in 18 months, a movement with no precedent in recent decades in terms of its speed or intensity.

Such pronounced and intense rate increases constitute a steep stress test for banks with solvency and/or liquidity weaknesses. The good news is that the fallout has been fairly limited. The US authorities have managed to: protect deposit holders; minimise risks for taxpayers; and, curtail the loss of confidence in the regional banks which in many states are key for monetary policy transmission. Questions remain as to where the next hotspots of instability could lie, with potential high-risk areas including: commercial real estate valuations; hedge fund leverage; loans by US banks to non-bank financial institutions; liquidity at certain life insurers in the US; and, structural weaknesses in some mutual fund categories. Thus, we need to be aware of the difficulties that will face the central banks as they near the end of their monetary policy tightening process, as the complexity of restoring price stability while minimising outbreaks of financial stress is set to increase.

As regards the Spanish economy, the energy crisis and war in Ukraine marked the start of a period of uncertainty. However, the main macroeconomic variables have performed better than most analysts were expecting. This resilience may be attributable to the competitiveness of Spanish exporters, the absence of a property bubble (in contrast to the situation prevailing in many other European economies) and low household indebtedness. In the months ahead, the Spanish economy will be shaped by the

disinflation process and monetary policy developments. Overall, despite anticipated cooling, the strong start to the year is expected to leave GDP growth at 2.2% in 2023, up 0.7 points from our last set of forecasts. In 2024, growth is expected to slow to 1.6%, albeit improving as the year unfolds. There are also downside risks, however, especially surrounding the risk of sharper than anticipated monetary tightening. A more pronounced increase in borrowing costs than we are estimating would exacerbate risks in the more vulnerable sectors. Elsewhere, the ECB has warned of vulnerabilities in the finances of the shadow banking system with potential consequences for the European economy. Lastly, the persistence of a high public deficit is a source of vulnerability for the Spanish economy with the European fiscal rules about to come back into play and the ECB withdrawing support in the form of low rates and debt repurchases, a worry with Spain due to step up public debt issuance this year.

We then move on to see how the rapid rise in interest rates, apart from its impact on the global financial system and the economy, has had important implications in terms of financial stability given banks' sensitivity to interest rate changes.

Although the new interest rate scenario is clearly good news for the banks' margins, the intensity, speed and persistence with which the increases have affected all tenors of the curve have other potentially very adverse effects for the banks more exposed to interest rate risk, as evidenced in the recent crises affecting several American banks and, here in Europe, Credit Suisse. In order to prevent contagion with implications for financial stability, it is vital to correctly measure latent interest rate and liquidity risk on both the asset (looking beyond conventional portfolio classification for accounting purposes) and liability sides of the banking business in terms of financial stability and sensitivity. It is against that backdrop that we raise and address two questions. The first relates to the sufficiency of the current regulatory and supervisory framework governing

these two principal risks, having failed to prevent or sufficiently foresee the excessive build-up of both risks at the banks in question. The second has to do with risks to financial stability, to which end we analyse the European and US banking sectors to conclude that while EU banks on the whole appear to be less exposed to interest rate and liquidity risk, these aggregate parameters mask significant dispersion among the various entities on both sides of the Atlantic.

As well, for the banking sector, we explore one of the most significant technological disruptions in decades, the development and launch of generative AI, and its preliminary and potential applications in the financial industry.

Despite having been in development for some time, it seems as if AI's moment has arrived. The European banking sector has widely embraced the new technology. According to the European Banking Authority (EBA), 83.3% of European banks currently use artificial intelligence for a range of purposes. That incidence has been rising consistently since 2018. Indeed, the EBA estimates that by 2025, all European banks will have implemented solutions powered by AI. Artificial intelligence is already being used in a myriad of ways. For now, its use is concentrated in the development of solutions that improve the user experience, facilitate performance of the banks' compliance obligations and enable more efficient management of banking risks. Following the success of ChatGPT, the banks are moving to transform their virtual assistants into intelligent digital assistants capable of providing personalised service in real time to their customers, as well as their employees. Going forward, the banks will have to continue to invest in AI to ensure its usage translates into lasting competitive advantages.

We then focus on the fiscal outlook, looking at Spain's broad fiscal policy and consolidation post crisis, as well as provide a more granular analysis of what is going on at the local government level.

Spain recorded a deficit of 4.8% of GDP in 2022, which was better than initially forecast

by the government, but worse than the analyst community was forecasting by the end of the year. However, the curtailment of the cost of the expansionary fiscal package and positive surprises in GDP and employment make the 2023 deficit target look feasible. Moreover, 2023 will end four years of extraordinary budget and fiscal policies, with next year marking the year that the Stability and Growth Pact's fiscal straitjacket will be reinstated, albeit likely in a reformed version. Along these lines, the government is forecasting a gradual reduction to leave the deficit at the permitted threshold of 3% by 2024. As for public debt, starting from a figure of 113.2% of GDP in 2022, indebtedness is expected to decline by 6.4 points to 106.8% by 2026, the end of the projection period. The European Commission's assessment of Spanish fiscal policy calls for stronger consolidation efforts in 2024, with conclusions and recommendations more general for 2025 and beyond. As regards the Commission's new fiscal rules framework, the goal of the latest proposal currently under debate is to keep national deficits under 3% in the medium-term and converge towards the debt ratio established by way of common anchor. Any sound fiscal consolidation strategy for Spain should contemplate that the country's high structural deficit requires gradual but unflagging and urgent correction.

While as regards to fiscal performance and the achievement of financial equilibrium, Spain's local governments on aggregate have been the best performing level of the Spanish administration, a more granular assessment reveals vast differences across municipalities. Over 100 municipalities face structural financial challenges, primarily recording too high a level of public debt for too long a time frame. Restructuring public finances across these heavily indebted municipalities will require implementing policy measures aimed at restoring fiscal sustainability and a balanced budget. The deferral of debt service payments, the main policy tool formulated by the central government in recent aid mechanisms, has proven ineffective to resolve the current fiscal imbalances at the local level and has even at times exacerbated the problem. To tackle the problem

identified, new solutions are needed. The local authorities should be held jointly responsible for the restructuring process by making them take the steps needed to balance their budgets over time in a sustainable manner.

We close this issue with an assessment of the state of play and outstanding challenges for Spanish industrial policy, in particular within the context of the quest to maximize NGEU funds. We provide an overview of the key elements of the current debate surrounding the conception, design, and implementation of industrial policy in the EU and Spain. Firstly, we outline the six fundamental external dependencies, or interdependencies, characterising the EU and its member states, which are concentrated in the areas of: trade, energy, raw materials, digitalisation, finance and labour markets/immigration. Next, we look at the Inflation Reduction Act (IRA) passed in the US in 2022, which includes certain protectionist provisions, and the key responses being explored by the EU. There seems to be consensus around: the importance of avoiding an escalation in trade tensions, assessing the opportunities the IRA may imply for certain EU sectors and keeping trade negotiations open to limit the impact of the protectionist elements. Thirdly, turning to policy in Spain, we analyse some of the obstacles that have hindered the deployment of plans for the country's strategic sectors devised under the umbrella of the NGEU funds: structural/regional weaknesses of the Spanish economy; obstacles arising from regulation and lack of administrative agility; rigidity in tender terms; and, potential to increase agreement among business associations and local authorities. Tackling these obstacles will be key in order to implement appropriate industrial policy measures to ensure the transformation of the Spanish economy.

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## What's Ahead (Next Month)

Month	Day	Indicator / Event
August	2	Social Security registrants and official unemployment (July)
	2	Tourist arrivals (June)
	4	Industrial production index (June)
	11	CPI (July)
	17	Foreign trade report (June)
	29	Retail trade (July)
	30	Preliminary CPI (August)
	31	Balance of payments monthly (June)
September	1	Tourist arrivals (July)
	4	Social Security registrants and official unemployment (August)
	8	Industrial production index (July)
	11	Non-financial accounts, State (July)
	11	Non-financial accounts, Regional Governments and Social Security (June)
	12	CPI (August)
	14	ECB monetary policy meeting
	21	Foreign trade report (July)
	22	Balance of payments quarterly (2 <sup>nd</sup> quarter)
	22	Quarterly National Accounts (2 <sup>nd</sup> quarter, 2 <sup>nd</sup> release)
	28	Preliminary CPI (September)
	28	Retail trade (August)
	29	Non-financial accounts, State (August)
	29	Non-financial accounts, Regional Governments and Social Security (July)
	29	Non-financial accounts, General Government (2 <sup>nd</sup> quarter)
	29	Quarterly Non-financial sector accounts (2 <sup>nd</sup> quarter)
29	Balance of payments monthly (July)	

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# What Matters



## 5 **Central banks: Between a rock and a hard place?**

Financial turbulence has been easing in recent weeks, reflecting the idiosyncratic nature of the Silicon Valley Bank (SVB) and Credit Suisse (CS) failures and the adequacy of the responses by the affected central banks, although some risks remain. Central banks will face an increasingly challenging context as they seek to restore price stability, while minimising outbreaks of financial stress.

José Ramón Diez Guijarro

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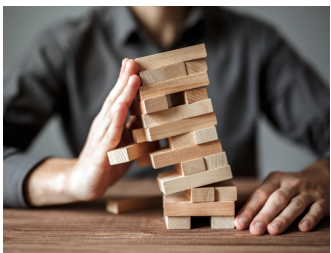


## 15 **Economic projections for Spain: 2023-2024**

Despite a period marked by uncertainty, the Spanish economy has remained resilient, outperforming analysts' expectations. Export performance has been particularly strong; nonetheless, downside risks remain, particularly those related to a sharper than anticipated monetary policy tightening, vulnerabilities in the shadow banking system at the EU level, and the elevated stock of public debt.

Raymond Torres and Maria Jesús Fernández

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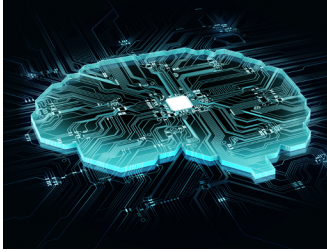


## 25 **Interest rate risk in the banking book and financial instability: Europe versus the US**

Although the new interest rate scenario is clearly good news for the banks' margins, the intensity, speed and persistence with which the increases have affected all tenors of the curve have other potentially very adverse effects for the banks more exposed to interest rate risk. While a comparison of EU *versus* US banks reveals that EU banks are less exposed to interest rate and liquidity risk, these aggregate parameters mask significant dispersion among the various entities on both sides of the Atlantic.

Marta Alborni, Ángel Berges and María Rodríguez, Afi

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### 33 **AI and the banking sector: Initial considerations**

The rise in chats powered by artificial intelligence (AI) places this new development at the heart of the debate about the application of technology in the banking sector. In an environment in which competition will be increasingly digital, it is essential that the traditional banking sector digitalise by making more intensive use of artificial intelligence.

Santiago Carbó Valverde, Pedro Cuadros Solas and Francisco Rodríguez Fernández

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### 39 **Spanish fiscal policy in an EU context: The transition back to normal**

Although Spain recorded a fiscal deficit in 2022 that was worse than expected, lower extraordinary fiscal support measures, together with upside surprises in GDP and employment, make attainment of the 2023 deficit target look feasible. Going forward, any sound fiscal consolidation strategy for Spain should contemplate that the country's high structural deficit requires gradual but unflagging and urgent correction.

Santiago Lago Peñas

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### 49 **Fiscal sustainability of Spain's local governments: Targeted weaknesses within overall strength**

While Spain's local governments have achieved balanced budgets on the whole, a number of municipalities present fiscal sustainability issues. Addressing these long-standing challenges will require extraordinary measures to improve structural solvency.

Ana Aguerrea, Afi

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## 55 Industrial policy in the EU and Spain: Recent debates

An examination of industrial policy in the EU and Spain reveals the need to reduce key external dependencies, or interdependencies, as well as arrive at an adequate path that avoids protectionist retaliation to the recently passed US Inflation Reduction Act, while at the same time harnesses the economic potential of the bloc. Going forward, taking into consideration current obstacles and limitations both at the EU and Spanish level, it will be necessary to embrace the appropriate industrial policy measures to ensure the transformation of the Spanish economy, in particular through maximisation of NGEU funds.

Ramon Xifré

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# Central banks: Between a rock and a hard place?

Financial turbulence has been easing in recent weeks, reflecting the idiosyncratic nature of the Silicon Valley Bank (SVB) and Credit Suisse (CS) failures and the adequacy of the responses by the affected central banks, although some risks remain. Central banks will face an increasingly challenging context as they seek to restore price stability, while minimising outbreaks of financial stress.

José Ramón Díez Guijarro

**Abstract:** Financial turbulence has been easing in recent weeks, reflecting the idiosyncratic nature of the Silicon Valley Bank (SVB) and Credit Suisse (CS) failures and the adequacy of the responses by the affected central banks, although some risks remain. Monetary tightening led to a more than 4pp increase in official rates worldwide in 18 months, a movement with no precedent in recent decades in terms of its speed or intensity. Such pronounced and intense rate increases constitute a steep stress test for banks with solvency and/or liquidity weaknesses. The good news is that the fallout has been fairly

limited. The US authorities have managed to: protect deposit holders; minimise risks for taxpayers; and, curtail the loss of confidence in the regional banks which in many states are key for monetary policy transmission. Questions remain as to where the next hotspots of instability could lie, with potential high-risk areas including: commercial real estate valuations; hedge fund leverage; loans by US banks to non-bank financial institutions; liquidity at certain life insurers in the US; and, structural weaknesses in some mutual fund categories. Thus, we need to be aware of the difficulties that will face the

“ Until this year, after a long period of extraordinarily expansionary monetary policy, there had been no contradictions between the two central bank goals of inflation targeting and financial stability. ”

central banks as they near the end of their rate tightening process, as the complexity of restoring price stability while minimising outbreaks of financial stress is set to increase.

### Introduction

The weak global economy is entering a new phase in the search for new equilibriums following the succession of shocks sustained in recent years. In that transition, for the first time in the last decade, the central banks' dual mandate of controlling inflation and ensuring financial stability will be put to the test with the recent spate of intense tightening beginning to spark hotspots of tension. The Silicon Valley Bank crisis and its reverberations in Europe (Credit Suisse) have not been a game changer but have fired a warning shot about the potential price of the final phase of monetary normalisation in terms of financial stability. Also, this has been a signal that financial system supervision and regulation are facing new challenges nearly a decade on from the changes introduced in the wake of the Global Financial Crisis. The good news is that a few months on from the onset of the bank troubles in the US, the financial stress appears to be relatively under control and, although it is too soon to estimate its impact on economic activity, we are far from looking at a credit crunch.

### The end of the beginning?

The Global Financial Crisis (2008-2012) widened the central banks' remit, adding

financial stability [1] to the traditional inflation target, a prerequisite for keeping prices in check by ensuring that a key monetary policy transmission channel can do its job properly. Until this year, after a long period of extraordinarily expansionary monetary policy, there had been no contradictions between the two targets. However, the intense tightening undertaken since early 2022 would put the compatibility of the two policy goals to the test. [2] In theory, macroeconomic instability should be addressed using traditional monetary policy tools and transmission channels, while financial instability should be tackled via macroprudential regulation and supervision, coupled with suitable management of the discount window liquidity facilities. However, when confidence in the system is lost, the tools and targets get mixed up, as was evidenced once again in the US last March.

The source of the tension was the more than 4pp increase in official rates worldwide in 18 months, a movement with no precedence in recent decades in terms of its speed or intensity. With monetary policy already in contractionary territory, when the rate tightening process is complete, [3] the central banks will have hiked rates by more than twice the average during contractionary cycles in recent decades (450 *versus* 200 basis points). [4] Something not even the economic agents or financial markets were prepared for after a decade of extraordinarily expansionary monetary policy. [5] In December 2021,

“ With monetary policy already in contractionary territory, when the rate tightening process is complete, the central banks will have hiked rates by more than twice the average during contractionary cycles in recent decades (450 *versus* 200 basis points). ”



monetary policy expectations suggested barely any possibility of the central banks raising rates in 2022, despite clearly ominous signals regarding inflation.

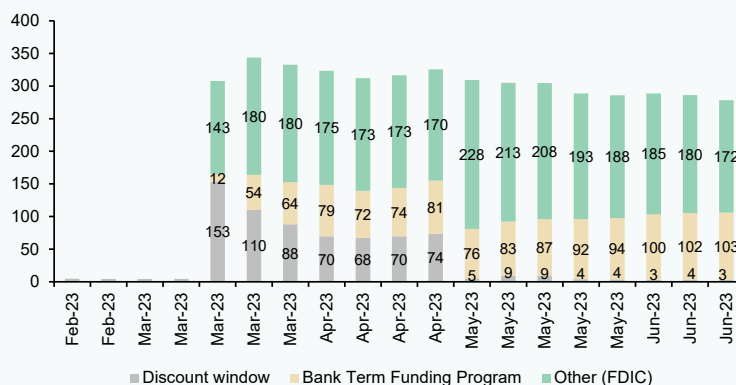
Such pronounced rate increases constitute a steep stress test for banks with weaknesses in their business models that have subsisted on account of inadequate regulations/supervision. SVB was a case in point, having increased its assets three-fold in three years thanks to growth in deposits by tech firms and the investment of that liquidity in long-term public debt with no hedges whatsoever. Once the central banks shifted their policy tack, the American bank began to pile up sizeable unrealised losses. Doubts about the bank’s liquidity and solvency triggered a sharp run on deposits, which were highly concentrated and very unstable (95% of the deposit balances were above the 250,000 dollar threshold for coverage by the deposit insurance scheme). The role played by the social media was another catalyst, with 40 billion dollars of deposits withdrawn in just one day (25% of the total). The intensity of the run was eight times that observed at the height of the financial crisis of 2008.

To prevent contagion, the US Treasury and the Federal Deposit Insurance Corporation (FDIC) announced they would guarantee all of the bank’s deposits and the Federal Reserve presented a new one-year liquidity facility (Bank Term Funding Program) which can be discounted using Treasury securities valued at par as collateral. Another three banks also had to be intervened: Silvergate and Signature Bank (both with significant exposure to crypto currencies) and First Republic Bank. The contagion in Europe was concentrated at Credit Suisse, a bank that had been struggling with credibility issues for years and which had seen 68 billion dollars of deposits withdrawn in the first quarter of the year. [6] In the end, it too had to be intervened and sold to UBS, [7] giving rise to a controversial ranking of loss absorption by shareholders *versus* bondholders.

With the purchase of First Republic by JP Morgan at the start of May, the perception is that the situation is reasonably under control thanks to the rapid intervention and sale of the affected entities and the Fed’s actions to provide liquidity buffers to the banks. Since the second half of March, the American banks have been obtaining 300 billion dollars via the Fed’s facilities (Exhibit 1), with use of those

Exhibit 1 Use of the Fed’s discount windows

Billions of dollars



Source: Federal Reserve.

“ The US authorities have managed to: protect deposit holders; minimise risks for taxpayers; and, curtail the loss of confidence in the regional banks which in many states are key for monetary policy transmission purposes. ”

discount windows actually beginning to taper in recent weeks, suggesting that the tension is gradually beginning to ease.

Likewise, the recent trends in the regional banks’ share prices and in deposit movements within the American financial system are consistent with stabilisation of the crisis. In fact, only at the height of the turbulence (mid-March) did the regional banks lose sizeable volumes of deposits to the major US banks (Exhibit 2).

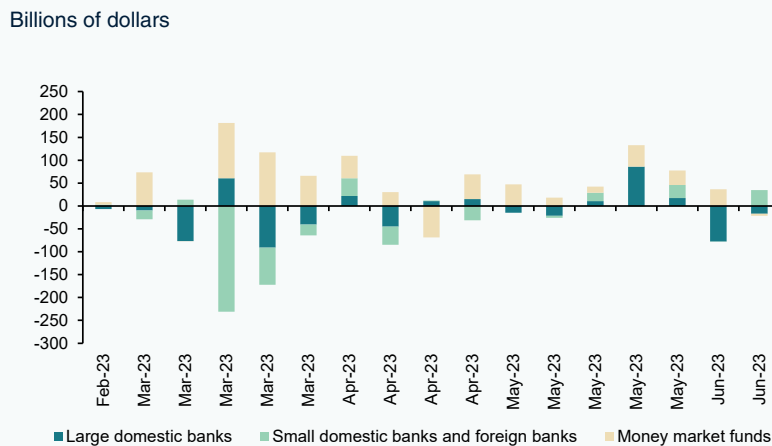
Since then, the movements have been limited, the only noteworthy development being a logical shift by retail customers into money market funds to take advantage of the high return on short-term bills. Therefore, the US authorities have managed to: protect deposit holders; minimise risks for taxpayers; and

curtail the loss of confidence in the regional banks which in many states are key for monetary policy transmission purposes (Exhibit 3).

In fact, having initially paused their rate increases, in June, the members of the FOMC revised their guidance for year-end rates upwards by 50bp and the market is no longer discounting rate cuts after the summer, evidencing how, in the balance between economic and financial stability, attention has returned to the trend in inflation in the near-term. Which is ultimately a good sign.

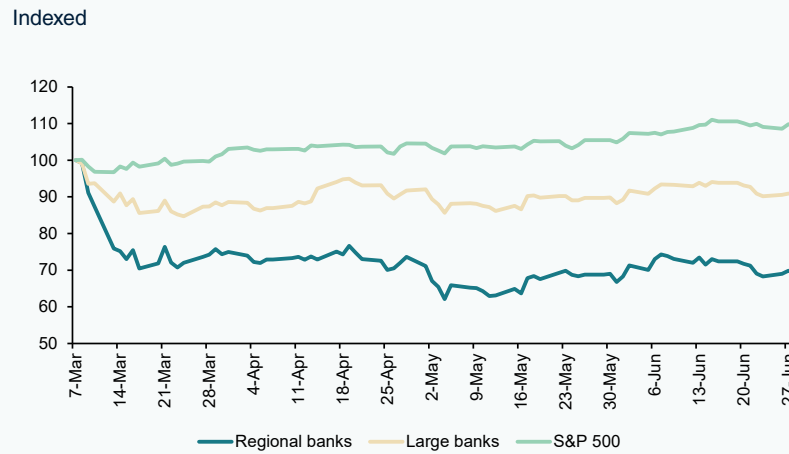
Therefore, one quarter on from the first episode of financial instability triggered by monetary tightening, [8] aware that the effects of the rate increases will remain a threat to the most fragile parts of the financial system

Exhibit 2 **Movement in deposits and money market funds (US)**



Source: CaixaBank Research, based on Federal Reserve data.

### Exhibit 3 US banks' share price performance



Source: Bloomberg.

and markets for a significant period of time, the situation looks to be reasonably under control. The main conclusions from the March events are, therefore:

- The affected banks (SVB, Signature, *etc.*) were outliers with very fragile business models as a result of managerial shortcomings.
- Once again, it has become clear that the financial chain is only as strong as its weakest link, spelling the need for stringent supervisory and regulatory controls irrespective of entity size. To be able to anticipate weaknesses such as that of SVB requires the use of qualitative preventive mechanisms that enable business model restructuring.
- Contagion beyond the US has been limited, [9] except for the failure of Credit Suisse, which had been suffering from credibility problems for some time. The AT1 bond market (contingent convertible bonds or CoCos) has even been recovering, having been seriously disrupted when investors in Credit Suisse's securities saw all of their value wiped out ahead of the bank's shareholders, [10] altering the usual loss absorption hierarchy. AT1 bond prices have recovered by more than 10% from their lows of 20 March and are now just 4% below pre-crisis levels.
- A decade on from the last financial crisis, supervision and regulation needs to be adapted for new challenges, including the role of social media. The speed with which crises of confidence can spread has intensified, which means that the speed and flexibility of the resulting interventions must also be reinforced. In the third quarter of this year, the US regulators are slated to announce new capital requirements in the US. [11] Meanwhile, the Swiss National Bank (SNB) acknowledged in its last *Stability Report* that the Credit Suisse crisis has highlighted that: i) the liquidity buffers were insufficient to cover such an intense run on deposits; ii) the AT1 triggers were inadequate as they were not activated even when the bank's financial health was already very precarious; and, iii) the regulatory capital buffer did not work as a security net.
- The financial instability of March has brought the role of deposit insurance

Exhibit 4

### AT1 bond price performance



Source: Bloomberg.

schemes back into the limelight. The FDIC report on the March crisis recalls that in the US, some 46.6% of deposits are not insured under the current threshold (250,000 dollars). The FDIC’s reform proposals include:

- Increasing the limit on insured deposits from 250,000 dollars to the level deemed opportune (limited coverage).
- Insuring all deposits regardless of their size (unlimited coverage), which could create a moral hazard problem.
- Keeping deposit coverage at current levels (250,000 dollars) and also covering all transaction deposits (targeted coverage). The FDIC’s preference is this last option although it would be hard to define what

is a transaction deposit (held to transfer monetary value) rather than a deposit held for savings (store of value).

The last question is where the next hotspots of instability could lie. In its last *Financial Stability Report*, the Fed detected the following potential sources of fragility: commercial real estate valuations, [12] hedge fund leverage, loans by US banks to non-bank financial institutions; liquidity at certain life insurers in the US, and structural weaknesses in some mutual fund categories.

#### Fallout from the financial instability

The biggest question mark in such a changing world is how an episode of financial instability such as that observed in March could alter the monetary policy transmission mechanisms, affecting the delicate balance facing the central

“ The speed with which crises of confidence can spread has intensified, which means that the speed and flexibility of the resulting interventions must also be reinforced. ”

“ The revision of interest rate expectations and attendant drop in short-term sovereign bond yields partially offset the spread widening observed in both corporate bonds (particularly those with lower credit ratings) and interbank rates and the correction in the banks’ share prices. ”

banks of having to reconcile growth, inflation, and financial stability targets. Indeed, having stuck with their original rate hike decisions in March (backtracking would have undermined confidence), the central banks then took some time until June to assess the effects of the regional bank crisis in the US on growth by either pausing their tightening (Fed and Bank of Canada, among others) or reducing their intensity (ECB).

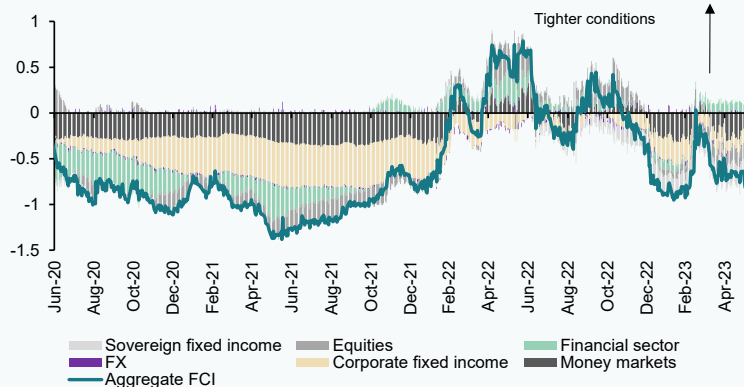
The channels by which an episode of financial stress affects growth are confidence, financial conditions, and credit standards. With respect to confidence, neither household nor corporate expectations appear to have been dented at any stage. The rapid response by the Federal Reserve and FDIC,

stepping in to insure all of the deposits of the first banks to be affected, swiftly limited the damage to confidence. That is evident in the stability observed in deposit flows from the American regional banks to their larger counterparts (Exhibit 2 above).

Elsewhere, the crisis had the effect of tightening financial conditions in the eurozone and US alike (Exhibit 5). [13] The metrics suggest, however, that the deterioration was short-lived and far less intense than during previous episodes. In fact, the tightening was far less intense than during other times of uncertainty in recent years, such as when the Russian forces invaded Ukraine. And some of the tightening has since reversed, particularly in the US. By component, the revision of interest

Exhibit 5 **Financial Conditions Index (US)**

Indexed (0 = long-run average)



Source: CaixaBank Research.

“ It is also worth noting that monetary tightening is having a bigger impact on demand for financing than on the supply of credit. ”

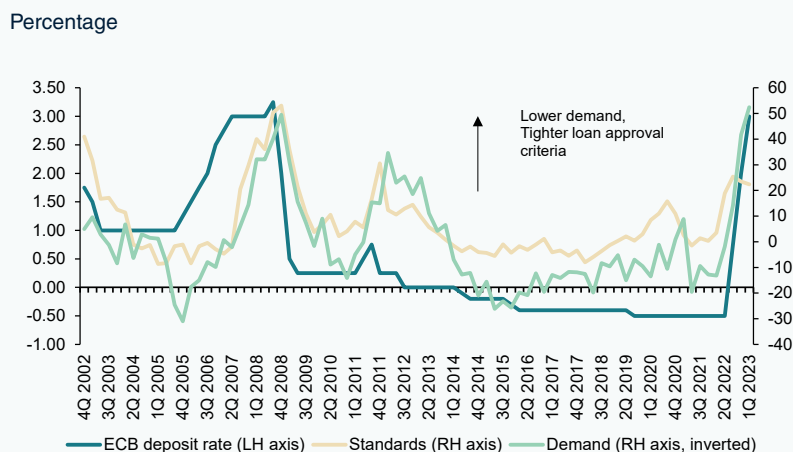
rate expectations and attendant drop in short-term sovereign bond yields partially offset the spread widening observed in both corporate bonds (particularly those with lower credit ratings) and interbank rates and the correction in the banks’ share prices. In general, however, at no time did the more fragile segments of the market appear to be under threat and the central banks were not obliged to intervene, [14] other than to reinforce the odd discount window lending programme in the US and enhance the provision of liquidity through the standing US dollar swap line arrangements, thanks to coordinated action by the Fed, ECB, Bank of Canada, Bank of Japan and Swiss National Bank.

Lastly, the rate increases by the Fed and the ECB (+500bp and +400bp, respectively) are already translating into tighter loan approval

standards and weaker demand for credit, foreshadowing cooling in the lending channel. That is borne out by the most recent banking surveys conducted by the Fed and the ECB (the BLS in Europe and the SLOOS in the EU), in which the first-quarter 2023 figures reflect the accumulated tightening (Exhibit 6).

It is important to underline, however, that the trend has not intensified since the March financial crisis on either the supply or demand side, suggesting continuity of the previous momentum. It is also worth noting that monetary tightening is having a bigger impact on demand for financing than on the supply of credit. As a result, the situation bears little similarity to the credit crunch observed in many countries during the 2008-2012 crisis, evidencing the international financial system’s very different solvency and liquidity

Exhibit 6 **Credit standards and demand for loans (EMU)**



Note: The percentages relate to the net difference between the number of banks that report having tightened their standards / have seen a decrease in demand and those that have eased standards / seen an increase in demand.

Source: The ECB’s Bank Lending Survey.

situation. In short, in a context of higher interest rates, tighter loan approval criteria and lower demand, lending volumes are bound to cool. But nothing out of the ordinary or different from what the central banks will be expecting from one of the main monetary policy transmission channels.

## Conclusions

Financial turbulence has been easing in recent weeks, reflecting the idiosyncratic nature of the SVB and CS failures and the adequacy of the responses by the affected central banks, although some risks remain. Such pronounced and intense rate increases constitute a steep stress test for banks with solvency and/or liquidity weaknesses. The good news is that the fallout has been fairly limited. However, we need to be aware of the difficulties that will face the central banks as they near the end of their rate tightening process, as the complexity of restoring price stability while minimising outbreaks of financial stress will only increase.

## Notes

- [1] The ECB defines financial stability as “a condition in which the financial system is capable of withstanding shocks and the unravelling of financial imbalance. This mitigates the prospect of disruptions in the financial intermediation process that are severe enough to adversely impact real economic activity”.
- [2] As the BIS has recently reminded us, a better balance between monetary and fiscal policy would make the two targets more compatible.
- [3] After the latest moves by the Bank of Canada, Bank of England and the ECB, and the latest guidance from the members of the Federal Reserve’s FOMC, we are likely to see rates rise a further 50 basis points before reaching their terminal rate.
- [4] However, the starting point on this occasion was much lower.
- [5] The first warning came in September 2022 with the British debt crisis and its effects on the pension funds.
- [6] Credit Suisse had been suffering from reputational issues, had sustained significant losses on defaulted transactions (Archegos and

Greensill Capital) and had a deposit base that was scantily covered by the deposit guarantee scheme.

- [7] The state guarantee amounts to 9 billion euros and the Swiss National Bank has provided the new entity with a 100-billion-euro liquidity facility. The merger took place over a weekend, before the Asian markets opened, taking advantage of the flexibility provided in Article 185 of the Swiss Constitution.
- [8] In the case of the debt crisis in the UK in September 2022, the trigger was the announcement of a fiscal package that considerably undermined the health of the country’s public finances.
- [9] No comparison with the events of 2008 and the contagion triggered by the CDOs.
- [10] The eurozone authorities rapidly clarified that a similar treatment of AT1 bondholders would not have been possible in the EU.
- [11] The key will be the changes made to how the 100 mid-sized entities are regulated (the 20 largest are supervised directly by the Fed). The mid-sized banks have between 10 and 150/200 billion dollars of assets, and they provide one-third of the system’s loans.
- [12] The total value of the system’s exposure to CRE is 5.6 trillion dollars, with the weakest part (offices in Central Business Districts (CBDs)) accounting for 25% of that total.
- [13] Monetary tightening first impacts financial conditions and, later, affects growth and inflation.
- [14] In contrast to what happened in March and April 2020.

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# Economic projections for Spain: 2023-2024

Despite a period marked by uncertainty, the Spanish economy has remained resilient, outperforming analysts' expectations. Export performance has been particularly strong; nonetheless, downside risks remain, particularly those related to a sharper than anticipated monetary policy tightening, vulnerabilities in the shadow banking system at the EU level, and the elevated stock of public debt.

Raymond Torres and María Jesús Fernández

**Abstract:** The energy crisis and war in Ukraine marked the start of a period of uncertainty for the Spanish economy (Torres and Fernández, 2022). However, the main macroeconomic variables have performed better than most analysts were expecting. This resilience may be attributable to the competitiveness of Spanish exporters, the absence of a property bubble (in contrast to the situation prevailing in many other European economies) and low household indebtedness. In the months ahead, the Spanish economy will be shaped by the disinflation process and monetary policy developments. Overall, despite anticipated cooling, the strong start to the year is expected to leave GDP growth at 2.2%

in 2023, up 0.7 points from our last set of forecasts. In 2024, growth is expected to slow to 1.6%, albeit improving as the year unfolds. There are also downside risks, however, especially surrounding the risk of sharper than anticipated monetary tightening. A more pronounced increase in borrowing costs than we are estimating would exacerbate risks in the more vulnerable sectors. Elsewhere, the ECB has warned of vulnerabilities in the finances of the shadow banking system with potential consequences for the European economy. Lastly, the persistence of a high public deficit is a source of vulnerability for the Spanish economy with the European fiscal rules about to come back into play and

“ The savings rate recorded in the first quarter of 2023 was the highest first-quarter figure since 2004, excluding the years of the pandemic – 2020 and 2021, which were marked by anomalous surplus savings. ”

the ECB withdrawing support in the form of low rates and debt repurchases, a worry with Spain due to step up public debt issuance this year.

### Recent economic performance in Spain

According to the revised quarterly national accounts, Spanish GDP recovered pre-pandemic levels in the first quarter of 2023, having increased by 0.6% from the previous quarter. The fourth quarter 2022 growth figure was revised upwards to 0.5%. These figures contrast with the contractions recorded by the eurozone in both periods. They do, however, mask considerable weakness in domestic demand, which contracted in both quarters, with the slump in private consumption particularly noteworthy, having shrunk by an accumulated 2.9% in the two periods in real

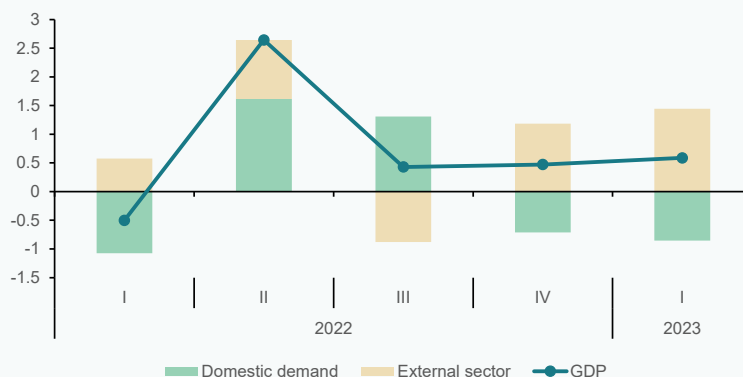
terms. Therefore, GDP growth was fuelled by external trade: imports fell in the last quarter of 2022, while tourism exports rebounded sharply in the first quarter of 2023 (Exhibit 1).

While private consumption fell, growth in household disposable income accelerated by 10.1% year-on-year in the first quarter of 2023, thanks to gains in employee compensation, social benefits (mainly pensions) and, to a lesser degree, property income, and despite a 52% jump in interest payments. As a result, the savings rate recorded in the first quarter of 2023 was the highest first-quarter figure since 2004, excluding the years of the pandemic – 2020 and 2021, which were marked by anomalous surplus savings. In deseasonalised terms, the household savings rate rose to 11.8% from 9.3% the previous quarter (Exhibit 2).

Exhibit 1

### Factors driving GDP growth

Percentage points



Source: INE.

Exhibit 2

**Household savings rate**

Percentage of gross disposable income



Source: INE.

As for the second quarter, available indicators provide mixed signals. In general, those related with industrial activity began the quarter weaker, whereas those related with services fared somewhat better. In June, most of the sentiment indicators sustained widespread deterioration, as did both the manufacturing and services PMI readings. Employment, according to the Social Security contributor reports, also slowed considerably in June, following an excellent performances in the previous two months. Elsewhere, housing sales are easing, as are new mortgages. Likewise, new business loans, which started to contract at the end of last year, remained lacklustre at the start of the second quarter.

The result is that the economy as a whole appears to have lost momentum as the quarter unfolded. Quarterly growth is estimated at 0.4%.

Headline inflation fell to 1.9% in June, its lowest level since March 2021, as a result of a pronounced base effect in energy products, for which prices peaked in June of last year. Core inflation – at 5.9% – continues its sluggish descent. Inflationary pressures, while remaining strong in food and services, seem to be easing. With respect to food prices, the trend in agricultural commodity prices in the international markets and in the prices fetched along the production chain foreshadow a potential end to the upward spiral of costs. It will take time, however, before the slowdown in costs is transmitted to final consumer prices, in light of lags in price transmission coupled with the fallout from the drought.

The ECB increased rates by a total of 50 basis points in May and June. 12-month Euribor continued its upward trend, ending June at 4.1%, which is 3.2 percentage points

“ Headline inflation fell to 1.9% in June, its lowest level since March 2021, as a result of a pronounced base effect in energy products, for which prices peaked in June of last year. ”

“ In the months ahead, the Spanish economy will be shaped by both the disinflation process and monetary policy developments. ”

higher year-on-year. The yield on 10-year government bonds held relatively steady with respect to prior months at around 3.4%. The risk premium was likewise stable.

The current account surplus hit a new record in the first quarter of 2023 of 10.3 billion euros. The goods trade deficit narrowed year-on-year, whereas the services trade surplus, in both tourism and non-tourism exports, registered strong growth, offset only slightly by a small increase in net property income paid overseas.

The public deficit amounted to 2.2 billion euros in the first quarter of 2023, compared to 6 billion euros in the same period of 2022. The improvement was driven by revenue growth, particularly from personal income taxes and social security contributions. On the spending side, pensions increased a substantial 3.7 billion euros compared to the first quarter of 2022. Public consumption, however, is growing at moderate rates.

### **Projections for 2023-2024**

In the months ahead, the Spanish economy will be shaped by both the disinflation process and monetary policy developments. It is therefore worth outlining the assumptions underpinning our forecasts in both respects. Firstly, exogenous drivers will keep inflation on a slowing path, thanks to stabilisation in energy and agricultural commodity markets and the resolution of supply chain bottlenecks in key sectors such as microchips. Elsewhere, in line with the ECB's diagnosis, the weakening

of demand is conducive to reduced profit-push inflation, all the more so because corporate profits are already back above pre-pandemic levels – on average and on a per-unit-of-product basis – (Hahn, 2023). All of that should create room for a slight recovery in the purchasing power of wages as from next year, without, however, triggering major second-round effects. In other words, we are not expecting a widespread wage-profit doom loop.

Secondly, considering the ECB's concerns about high core inflation in most eurozone countries, our projections assume two additional interest rate hikes to leave the deposit facility rate at 4% by the end of September. We think interest rates will stay at that level until at least the second quarter of 2024, *i.e.*, until the ECB considers the disinflation process well entrenched.

Starting from these assumptions, in the near-term we are looking at a heightening of the signs of weakness observed of late as a result of monetary tightening, with growth slowing in the second half of the year. Beyond that, however, the stabilisation of interest rates, coupled with slight growth in real wages (thanks to the incomes agreement), should lead to a gradual economic recovery.

Overall, despite the anticipated cooling, the strong start to the year is expected to leave GDP growth at 2.2% in 2023, up 0.7 points from our last set of forecasts. This revision is driven almost entirely by the carryover effect of the upward revision of the fourth-quarter

“ Overall, despite the anticipated cooling, the strong start to the year is expected to leave GDP growth at 2.2% in 2023, up 0.7 points from our last set of forecasts. ”

“ The slowdown will carry over to 2024, when growth is expected to slow to 1.6%, albeit improving as the year unfolds. ”

2022 growth figure by the INE and the stronger than expected economic performance in the first quarter (adjustments not known at the time of our last report).

Growth will come mainly from external trade, which is expected to contribute 1.6 percentage points of the total, thanks largely to momentum in tourism, but not only: Spain is expected to gain market share in trade in both goods and non-tourism services, reflecting the strong competitive positioning of Spanish companies –a factor especially relevant at a time of “de-risking” of global supply chains.

The strong results by the external sector should offset the impact of weak internal demand, which is only expected to contribute 0.6 points to GDP, due to stagnating private spending, undermined by households’ loss of purchasing power and the inability of many families to continue to draw from savings to

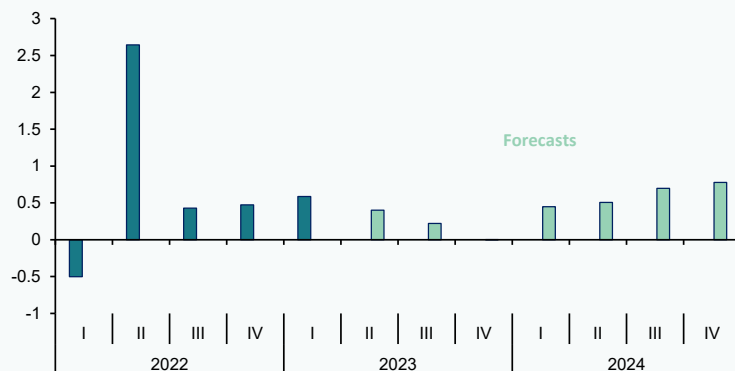
fund their consumption. Public consumption, meanwhile, is expected to increase at a moderate pace, in line with the recent trend in this aggregate. Investment should prove a little more dynamic thanks to the impetus provided by the NGEU funds, albeit losing steam as the year progresses as a result of the higher borrowing costs.

In short, the contractionary effects of prevailing monetary policy will be felt more keenly in the second half of the year (Exhibit 3).

This slowdown will carry over to 2024, when growth is expected to slow to 1.6%, albeit improving as the year unfolds. Next year the main driver should be internal demand, thanks to a slight recovery in household purchasing power as a result of the anticipated disinflation and the incomes agreement. The pause in rate tightening, coupled with the delayed effect of exports, should provide a

**Exhibit 3 GDP, quarter-on-quarter growth rates**

Percentage points



Source: INE and Funcas forecasts.

“ In addition to the external surplus, the labour market should remain one of the main sources of economic resilience in Spain, although the unemployment rate is forecast at 11.6% in 2024, which would still be double the European average. ”

stimulus for new investments at the end of the projection period. On the other hand, no major changes are expected with respect to public consumption trends, pending more insight into where fiscal policy could be headed next year. The external sector is expected to continue to make a positive contribution to growth, albeit smaller than in 2023 as the impact of the normalisation of tourism runs its course.

The drop in energy prices will help ease inflation, which is nevertheless expected to remain above the ECB’s target throughout the projection horizon. The deflator for household consumption is forecast to decrease to 4.1% this year (which is 0.2 points below our previous estimate) and to fall to 3.4% in 2024 (unchanged). The GDP deflator, which measures the pressure exerted by internal

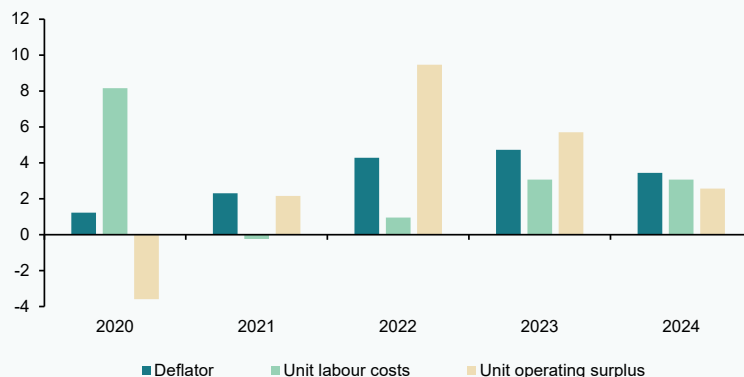
prices by stripping out imported costs, is expected to rise sharply to 4.7% in 2023 and return to 3.4% in 2024. This tendency towards moderation should lead to gradual contention of corporate profits, which would facilitate a slight recovery in wages in 2024 (Exhibit 4). [1]

The boom in net exports of goods and services, coupled with an improvement in the real terms of trade associated with cheaper imports, is expected to yield a significant increase in the external surplus. The current account surplus is forecast at over 2.5% of GDP throughout the projection period, five times more than in 2022. The result in terms of the total external surplus (which is deducted by adding European fund transfers to the current account surplus), looks even stronger, accelerating the reduction in Spain external indebtedness.

Exhibit 4

**GDP deflator, labour costs and gross operating surplus**

Year-on-year change, %



Source: INE and Funcas forecasts.

Table 1

**Economic forecasts for Spain, 2023-2024**

Annual growth rates of change in %, unless otherwise indicated

	Observed data			Funcas forecasts		Change of forecasts (a)	
	Average 2008-2013	Average 2014-2019	2022	2023	2024	2023	2024
<b>1. GDP and aggregates, constant prices</b>							
<b>GDP</b>	<b>-1.3</b>	<b>2.6</b>	<b>5.5</b>	<b>2.2</b>	<b>1.6</b>	<b>0.7</b>	<b>0.2</b>
Final consumption households and NPISHs	-2.1	2.2	4.4	0.1	1.4	-0.6	0.4
Final consumption general government	0.9	1.3	-0.7	0.9	0.8	-1.3	0.1
Gross fixed capital formation	-7.6	4.8	4.6	1.0	2.0	-1.6	-0.3
Construction	-10.7	4.9	4.7	1.1	1.5	-1.5	-0.2
Capital goods and other products	-2.7	4.8	4.6	0.9	2.6	-1.8	-0.4
Exports goods and services	1.8	3.9	14.4	6.9	3.0	4.1	0.6
Imports goods and services	-4.0	4.4	7.9	3.1	2.7	0.6	0.7
National demand (b)	-3.1	2.6	3.1	0.6	1.3	-0.7	0.1
External balance (b)	1.8	0.0	2.4	1.6	0.3	1.4	0.1
GDP, current prices: - € billion	--	--	1,327.1	1,420.9	1,493.3	--	--
- % change	-0.8	3.4	10.0	7.1	5.1	0.7	0.4
<b>2. Inflation, employment and unemployment</b>							
GDP deflator	0.5	0.8	4.3	4.7	3.4	-0.1	0.2
Household consumption deflator	1.7	0.7	6.8	4.1	3.4	-0.2	0.0
Total employment (National Accounts, FTEJ)	-3.4	2.6	3.8	1.2	1.0	0.1	0.1
Remuneration per worker	2.4	0.9	2.0	4.0	3.5	0.5	0.1
Unemployment rate (LFS)	20.2	18.8	12.9	12.3	11.6	0.0	-0.3
<b>3. Financial balances (% of GDP)</b>							
National saving rate	18.8	21.7	21.6	23.5	23.4	1.1	0.8
- of which, private saving	22.9	23.6	23.6	25.0	24.2	0.9	0.3
National investment rate	21.7	19.4	21.0	20.7	20.8	-0.3	-0.4
- of which, private investment	17.7	17.2	18.2	17.8	17.9	-0.2	-0.3
Current account balance with RoW	-2.9	2.3	0.5	2.8	2.6	1.4	1.2
National net lending (+) / net borrowing (-)	-2.4	2.7	1.5	3.4	3.0	1.5	1.3
- Private sector	6.6	6.8	6.3	7.7	6.6	1.3	0.6
- General gov. deficit exc. financial instit. bailouts	-9.0	-4.1	-4.8	-4.3	-3.7	0.2	0.6
Public debt according to EDP	69.0	101.9	113.2	110.0	108.4	-1.0	-1.9
<b>4. Other variables</b>							
Eurozone GDP	-0.2	2.0	3.5	0.7	0.8	0.0	0.0
Household saving rate (% of GDI)	8.8	6.7	7.2	7.2	7.0	0.5	0.5
Household gross debt (% of GDI)	128.5	101.6	86.0	82.0	77.6	-0.2	-0.8
Non-financial corporations gross debt (% of GDP)	112.7	81.6	72.2	66.9	63.2	-0.3	-0.3
12-month EURIBOR (annual average %)	1.90	0.01	1.09	3.90	3.95	-0.35	-0.05
10-year government bond yield (annual average %)	4.74	1.58	2.19	3.50	3.45	-0.25	-0.30

(a) Change in percentage points between previous and current forecasts.

(b) Contribution to GDP growth, in percentage points.

Sources: 2008-2022: INE and Bank of Spain; Forecasts 2023-2024: Funcas.

Table 2 **Quarterly forecasts for Spanish economy**

Growth rates of change in %, unless otherwise indicated

Forecasts in shaded area

Period	GDP	Private consumption	Public consumption	GFCF	Exports	Imports	Contrib. to growth (1)		Employ. (2)	Unemp. rate	
							National demand	External balance			
2015	3.4	2.7	1.0	4.1	4.7	5.3	3.4	0.0	3.2	22.1	
2016	3.4	2.8	1.7	3.2	4.9	3.0	2.7	0.7	2.8	19.6	
2017	2.9	2.8	0.8	5.4	5.8	5.6	2.5	0.3	2.9	17.2	
2018	3.0	2.5	2.6	8.5	2.9	6.0	3.9	-0.9	2.2	15.3	
2019	2.0	1.1	1.9	4.5	2.2	1.3	1.6	0.4	3.3	14.1	
2020	-11.3	-12.2	3.5	-9.7	-19.9	-14.9	-9.1	-2.2	-6.8	15.5	
2021	5.5	6.0	2.9	0.9	14.4	13.9	5.2	0.3	6.6	14.8	
2022	5.5	4.4	-0.7	4.6	14.4	7.9	3.1	2.4	3.8	12.9	
2023	2.2	0.1	0.9	1.0	6.9	3.1	0.6	1.6	1.2	12.3	
2024	1.6	1.4	0.8	2.0	3.0	2.7	1.3	0.3	1.0	11.6	
Quarter-on-quarter growth rates										Unemp. rate	
2022	I	-0.5	0.0	-0.5	3.6	2.8	1.4	-1.1	0.6	-0.1	13.6
	II	2.6	2.6	-0.8	3.3	4.9	2.2	1.6	1.1	0.9	12.5
	III	0.4	1.9	1.8	-0.5	0.4	3.0	1.3	-0.9	1.1	12.7
	IV	0.5	-1.6	2.1	-3.7	-1.0	-4.4	-0.7	1.2	0.1	12.9
2023	I	0.6	-1.3	-1.6	1.8	5.7	2.6	-0.8	1.4	0.1	13.3
	II	0.4	0.9	0.2	1.1	0.3	1.2	0.8	-0.4	0.2	12.2
	III	0.2	0.5	0.2	1.3	0.5	1.4	0.6	-0.4	0.1	12.0
	IV	0.0	0.3	0.1	0.4	0.3	1.0	0.3	-0.3	0.0	12.0
2024	I	0.4	0.2	0.2	0.2	1.1	0.6	0.2	0.2	0.3	12.4
	II	0.5	0.3	0.2	0.3	0.6	0.1	0.3	0.2	0.3	11.6
	III	0.7	0.4	0.2	0.4	1.1	0.3	0.3	0.4	0.5	11.4
	IV	0.8	0.4	0.2	0.6	1.1	0.3	0.4	0.4	0.5	11.1
Year-on-year growth rates											
2022	I	6.3	4.6	-1.2	3.8	17.1	12.6	4.6	1.7	18.9	--
	II	7.7	5.1	-2.6	6.0	20.1	8.6	3.7	4.0	6.4	--
	III	4.9	4.9	-1.3	6.3	14.2	8.8	2.9	2.0	6.0	--
	IV	3.1	3.0	2.5	2.5	7.2	2.1	1.1	1.9	5.2	--
2023	I	4.2	1.6	1.4	0.7	10.2	3.3	1.3	2.8	5.1	--
	II	1.9	-0.1	2.4	-1.4	5.4	2.3	0.5	1.4	2.8	--
	III	1.7	-1.5	0.9	0.3	5.5	0.7	-0.2	1.9	2.0	--
	IV	1.2	0.4	-1.1	4.6	6.8	6.3	0.8	0.5	2.3	--
2024	I	1.1	1.9	0.7	3.0	2.2	4.3	1.8	-0.7	1.6	--
	II	1.2	1.3	0.7	2.2	2.6	3.1	1.3	-0.1	0.6	--
	III	1.7	1.2	0.8	1.3	3.2	2.0	1.1	0.6	0.4	--
	IV	2.5	1.3	0.9	1.5	4.0	1.3	1.2	1.3	0.6	--

(1) Contribution in percentage points to GDP growth; (2) Full-time equivalents.  
Source: INE and Funcas (forecasts).



In addition to the external surplus, the labour market should remain one of the main sources of economic resilience in Spain. The rate of unemployment is forecast at 11.6% in 2024, which would still be double the European average.

The economic slowdown, coupled with the measures taken to combat inflation, the indexation of pensions and the increase in debt service costs generated by the increase in interest rates, will make it hard to correct budget imbalances. In the absence of further deficit-cutting measures, we are estimating a deficit of 3.7% in 2024, with public debt at over 108% of GDP, which is 10 points higher than before the onset of the pandemic.

### Risks

It is important to note that the Spanish economy is performing better than predicted by most analysts. Its relative resilience may be attributable to the competitiveness of Spanish exporters, the absence of a property bubble (in contrast to the situation prevailing in many other European economies) and low household indebtedness. Those factors could therefore yield further positive surprises in the months to come.

There are also downside risks, however, especially around the impact of monetary policy tightening. Interest rate increases could be sharper than we are currently anticipating if inflationary pressures continue –a stance which cannot be ruled out considering that some eurozone economies are close to full employment. A more pronounced increase in borrowing costs than we are estimating would magnify the risks facing the more vulnerable sectors. Elsewhere, the ECB has warned of vulnerabilities in the finances of the shadow banking system with potential consequences for the European economy, a source of potential instability that is increasing with each turn of the monetary policy screw.

Lastly, the persistence of a high public deficit is a source of vulnerability for the Spanish economy, with the European fiscal rules about to come back into play and the ECB withdrawing monetary and liquidity support

–a worry with Spain due to step up public debt issuance this year. In addition, yields on 10-year bonds have risen from below 1% not long ago to around 3.5%, which will increase the ratio of debt service payments over GDP. In the absence of fiscal consolidation measures, there is no guarantee that debt will come down as a percentage of GDP as from 2025. Although the risk premium remains stable for now, the situation could change in the event of turbulence in the financial markets.

### Notes

[1] For an analysis of margin and wage dynamics in inflation, refer to R. Torres (2023).

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# Interest rate risk in the banking book and financial instability: Europe *versus* the US

Although the new interest rate scenario is clearly good news for the banks' margins, the intensity, speed and persistence with which the increases have affected all tenors of the curve have other potentially very adverse effects for the banks more exposed to interest rate risk. While a comparison of EU *versus* US banks reveals that EU banks are less exposed to interest rate and liquidity risk, these aggregate parameters mask significant dispersion among the various entities on both sides of the Atlantic.

Marta Alberni, Ángel Berges and María Rodríguez

**Abstract:** Although the new interest rate scenario is clearly good news for the banks' margins, the intensity, speed and persistence with which the increases have affected all tenors of the curve have other potentially very adverse effects for the banks more exposed to interest rate risk, as evidenced in the recent crises affecting several American banks and, here in Europe, Credit Suisse. In order to prevent contagion with implications for financial stability, it is vital to correctly measure latent interest rate and liquidity

risk on both the asset (looking beyond conventional portfolio classification for accounting purposes) and liability sides of the banking business in terms of financial stability and sensitivity. It is against that backdrop that we raise and address two questions. The first relates to the sufficiency of the current regulatory and supervisory framework governing these two principal risks, having failed to prevent or sufficiently foresee the excessive build-up of both risks at the banks in question. The second has to do with risks to

“ Banks’ maturity transformation, borrowing short to lend long, results in asset and liability maturity mismatches that give rise to what are known as structural balance sheet risks –liquidity and interest rate risk– in prevailing bank risk regulations. ”

financial stability, to which end we analyse the European and US banking sectors to conclude that while EU banks on the whole appear to be less exposed to interest rate and liquidity risk, these aggregate parameters mask significant dispersion among the various entities on both sides of the Atlantic.

### **Interest and liquidity risk: Dimensions and measurement metrics**

The assumption of interest rate and liquidity risk, closely entwined, is intrinsic to the banking business. Specifically, in their intermediation role, they assume liabilities that are mainly due in the short-term (on demand in the case of most deposits) and place the money borrowed in long-term assets, extending loans (mainly home mortgages) and investing in fixed-income securities (bonds and notes). This maturity transformation, borrowing short to lend long, results in asset and liability maturity mismatches that give rise to what are known as structural balance sheet risks –liquidity and interest rate risk– in prevailing bank risk regulations.

Interest rate risk derives precisely from maturity mismatches between bank assets and liabilities, exposing the banks to potential

losses as a result of movements in market rates.

This risk needs to be measured and managed from a dual time perspective:

- Over the short-term, by analysing the impact on net interest income, specifically the sensitivity of an entity’s earnings in the near-term (12 months) to a specific shock by comparison with a baseline interest rate scenario. The sensitivity of net interest income, defined as the difference between the interest and similar income obtained on a range of financial products (loans, fixed-income securities and interbank assets) and the cost of funding (deposits, interbank liabilities and wholesale funding), to movements in market rates depends on the repricing gaps affecting the various balance sheet items and the linkages between repriced and market rates.
- Taking a longer-term view, interest rate risk also needs to be measured by modelling the sensitivity of economic value to movements in interest rates. Economic value to this end is defined as the present value of all future cash flows as a result of the existing balance sheet structure and its sensitivity is measured by comparing that value under a

“ Current interest and liquidity risk measurement dimensions may not provide enough information about the adverse impacts of sudden movements in interest rates of the calibre observed in the past year, particularly if accompanied by customer behaviour that can accentuate the perceived weakness of certain entities in the face of those risks. ”

baseline scenario with an adverse interest rate scenario. As a result, the time horizon considered for this measurement is much longer than the annual horizon used to measure earnings sensitivity.

In addition to interest rate risk, where asset and liability repricing gaps are key, it is important to consider liquidity risk, for which the maturity structure of an entity's balance sheet is what counts, as that determines the availability of assets to service liabilities.

Specifically, liquidity risks arises from contractual mismatches between liabilities and assets, in addition to the high cost of potentially having to monetise an asset if needed, giving rise to two approaches to liquidity risk management:

- *Basic liquidity risk*: the risk in the short-term of not having enough liquid assets to meet an entity's obligations at a given point in time.
- *Structural liquidity risk*: taking a longer-term and more strategic approach, this is the risk that an entity could face difficulties in raising the funding needed to unlock growth in assets.

These complementary interest and liquidity risk measurement dimensions may not, however, provide enough information about the adverse impacts of sudden movements in interest rates of the calibre observed in the past year, particularly if accompanied by customer behaviour (runs on deposits, loan prepayments, *etc.*) that can accentuate the perceived weakness of certain entities in the face of those risks.

The American bank SVB clearly fell victim to this phenomenon, as did, to a degree, Signature and First Republic, whose balance sheets exposed them to too much interest rate and liquidity risk through a combination of long positions in fixed-coupon, long-term bonds equivalent to nearly half of their assets coupled with funding that was overly reliant on short-term deposits (80% of assets at some banks), exposing them to margin contraction via repricing risk and a run on deposits in light of their unstable nature, as ultimately occurred.

The intensity and speed with which both risks –interest rate and liquidity– materialised and fed off each other triggered the collapse of SVB, contagion at other banks with similar structures (Signature and First Republic) and intervention by the competent authorities (the Fed, Treasury and Federal Deposit Insurance Corporation (FDIC)) to stem the contagion that was threatening to spread unchecked, potentially jeopardising financial stability.

It is against that backdrop that we raise and address two questions in the rest of this paper. The first relates to the sufficiency of the current regulatory and supervisory framework governing interest rate and liquidity risk, having failed to prevent or sufficiently foresee the excessive build-up of both risks at the banks in question. The second has to do with risks to financial stability, to which end we analyse the European and US banking systems for the presence of potentially excessive risks.

### **Interest rate risk: The regulatory and supervisory framework**

Unlike credit risk, which translates directly into Pillar 1 capital requirements for all entities, interest rate risk does not require the banks to explicitly set aside capital

“ Unlike credit risk, which translates directly into Pillar 1 capital requirements for all entities, interest rate risk does not require the banks to explicitly set aside capital and is monitored at the supervisory level. ”

and is monitored at the supervisory level. The supervisor can impose higher capital requirements for individual banks under their Pillar 2 requirements if it believes their exposure to interest rate risk is excessive.

The first key differences between the European and American systems are to be found in this regulatory and supervisory framework. The framework applicable in the US to entities with between 100 and 250 billion dollars of assets was eased during the Trump administration leaving entities of that size under a regulatory and supervisory umbrella seen as relatively lax. The regulatory exceptions provided for entities of a size that could be relevant for financial stability purposes have been criticised for permitting the three mentioned American banks (SVB, Signature and First Republic) to operate in an interest rate and liquidity risk management and control environment that has clearly proven deficient. It is therefore likely that this framework will be revised in certain respects, including in the area of capital requirements, judging by the press release [1] put out by the Vice Chair of the Federal Reserve, Michael S. Barr, following his analysis of the SVB crisis.

The different framework applicable to entities of a certain size is not the only difference between the regulatory environments on either side of the Atlantic associated with recent events. Another difference worth highlighting, this time an accounting consideration, may have played an even bigger role in the fall of the American banks and unquestionably did so in the case of SVB. Recall that the accounting framework is extraordinarily relevant in the case of investments in long-term fixed-income instruments, such as Treasury bonds. Banks invest in these instruments for several reasons, including as purely speculative trades (betting on rates going lower, increasing the value of bond holdings), for structural balance sheet management purposes (hedging against low rates for a protracted period of time) or simply as an investment in highly liquid assets to meet regulatory liquidity risk coverage requirements.

Under the European financial reporting framework, IFRS, the banks have to classify

these investments in accordance with the “business model” used to manage their portfolios, whereas under US GAAP that classification is tied to the banks’ intention when acquiring the securities. Framed by these differing accounting criteria on either side of the Atlantic, the banks have to classify their assets in one or another portfolio and that classification in turn determines different criteria for recognising the gains or losses associated with movements in the market or fair value of the financial instruments they have invested in. Specifically, changes in the value of investment portfolios held for trading in the short-term or with the aim of maximising their value for the investor over the lives of the securities must be recognised instantly, whereas with investments in portfolios held to maturity (HTM), the banks do not have to reflect the impact on their assets of valuation changes derived from movements in market interest rates until the bonds are sold.

That is exactly what happened at SVB, which was forced to sell some of its held-to-maturity bond portfolio to replenish liquidity in the face of a sharp run on deposits, accelerated by that bank’s specialisation in highly volatile depositors who proved very sensitive to remuneration and social media rumours. The sale of that portfolio to cover deposit withdrawals triggered the recognition of a sizeable loss, not only on the bonds sold but on the entire portfolio classified as held to maturity. As explained by Coelho-Restoy-Zamil (2023), this is another major difference between the US and Europe, as European accounting rules permit the banks to identify different business models for their portfolios so curtailing the potential contamination effect and preventing the reclassification of the entire HTM portfolio. This difference is particularly relevant in a context in which market rates have increased by over 300 basis points from their lows at the end of 2022, prompting losses on 10-year bonds purchased at the time of close to 20%. Recall that in the case of SVB, its HTM portfolio represented nearly half of its assets so that the mandatory and full reclassification of that portfolio under US GAAP clearly accelerated the entity’s downfall.

“ Recent events have prompted additional debate about the sufficiency of current liquidity coverage requirements and whether current methodology used to calculate these ratios is fit for purpose.

It could be said that the European approach better ring-fences capital against market movements, while the US approach is more propitious to incorporating market value into bank management. Each approach has its advantages and disadvantages. The US model is more transparent but also more procyclical and conducive to self-fulfilling panics.

Note that the challenge posed by these potential self-fulfilling panics has been heightened by the immediacy with which bank runs can take place in the context of mainstream and widespread use of digital channels in the banking business, especially in certain customer segments. Recent events have prompted additional debate about the sufficiency of current liquidity coverage requirements and whether current methodology used to calculate these ratios is fit for purpose considering that they are calibrated around historical patterns that may not factor in highly destabilising elements that are currently playing a crucial role in behavioural models, particularly around deposit withdrawals. In fact, the shorter-term liquidity coverage ratio, or LCR, assumes a stress scenario in which deposits are withdrawn over a month. The recent crises of confidence show how funds can be withdrawn in sizeable amounts much quicker than that, unfolding faster even than other episodes of instability observed. Moreover, these coverage ratios fail to contemplate aspects that could be key to measuring an entity's vulnerability to intense withdrawals,

such as balance concentration metrics or average deposit size.

The unusual structure of SVB's depositors, with higher average deposits (much higher than the amounts theoretically covered by the FDIC), highly concentrated among digital users capable of moving all of their money instantly to more profitable and/or safer investments, highlighted the vulnerability of certain banks to deposit concentration factors.

#### **European *versus* American banks' positioning against interest rate and liquidity risk: Aggregate positioning and dispersion across the individual entities**

Framed by the above considerations about certain gaps in interest rate and liquidity risk controls, related with accounting and regulatory approaches in the case of the former and measurement metrics that seem to be missing certain aspects that proved critical in the recent episodes of crisis in the case of the latter, we next analyse how the European banking system is positioned relative to the American system before drawing a few conclusions at both the aggregative level and in relation to potential flashpoints. To do that we rely on data taken from the European Central Bank (ECB), European Banking Authority (EBA) and the International Monetary Fund (IMF).

An initial high-level look at the two systems indicates that the European system is

“ The European banks have relatively smaller amounts of fixed-income portfolios on their balance sheets and their deposits are more atomised with a higher weight of smaller-sized deposits. ”

**Table 1 Interest rate and liquidity risk indicators. Eurozone versus the US**

	Eurozone	US
Securities holdings as a % of assets	22	28
Of which: Fixed-income securities	12	25
Of which: Held-to-maturity (HTM) securities	8	10
<b>Unrealised losses (% of CET1)</b>	0.5	2.5
<b>Deposits covered by insurance scheme (% of total deposits)</b>	55	40

*Sources: Authors' own elaboration using data from the ECB (2023), IMF (2023) and Schnabel (2023).*

substantially less exposed to interest rate and liquidity risk than the American system, as shown by the synthetic indicators provided in Table 1:

- On the asset side, the European banks have relatively smaller amounts of fixed-income portfolios on their balance sheets and, by extension, smaller unrealised losses on their held-to-maturity (HTM) portfolios.
- On the liability side, the European banks' deposits are more atomised with a higher weight of smaller-sized deposits that are covered by the various national deposit guarantee schemes.

These aggregate parameters mask significant dispersion among the various entities on both sides of the Atlantic, making it important to analyse the outliers that present more evident risk. According to the IMF's estimates, in the US, the 5% of banks with more exposure to interest rate risk carry unrealised losses on their HTM portfolios that would erode their tier 1 (CET1) capital by 700bp. Clearly, the three recently intervened banks (SVB, Signature and First Republic) fell into that percentile of riskier banks. In Europe, a similar exercise by the IMF suggests that the 5% of banks with greatest exposure to fixed-income securities are sitting on unrealised losses that would reduce their CET1 by 300bp.

By the same token, likewise using IMF estimates, the degree of median deposit coverage, which is substantially higher in Europe than the US, is very uneven from one entity to the next, with coverage dropping to around 30% in both jurisdictions in that same percentile.

In short, these high-level comparative figures for the two banking systems, coupled with the observations made above, yield three interesting conclusions:

- Firstly, the interest rate and liquidity risks materialising across a few American banks would appear to be fairly contained within a small number of entities and their issues are far from generalised or systemic. The supervisory exceptions provided for smaller-sized US banks (assets of under 250 billion dollars) could be behind the failure to identify their risks sooner, so requiring their preventive recapitalisation.
- That oversight, coupled with the sense that information was not forthcoming about the rest of the banks, may have helped spark contagion to entities with similar exposures to those initially affected.
- In Europe, the system is less exposed to interest rate risk on aggregate than the US system, although there are outliers where risk is high. While oversight in Europe does



not leave any entities out on account of size, greater transparency around individual entity exposure to interest rate risk would be a welcome step in stemming contagion in the future.

## Notes

[1] *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank*: <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>

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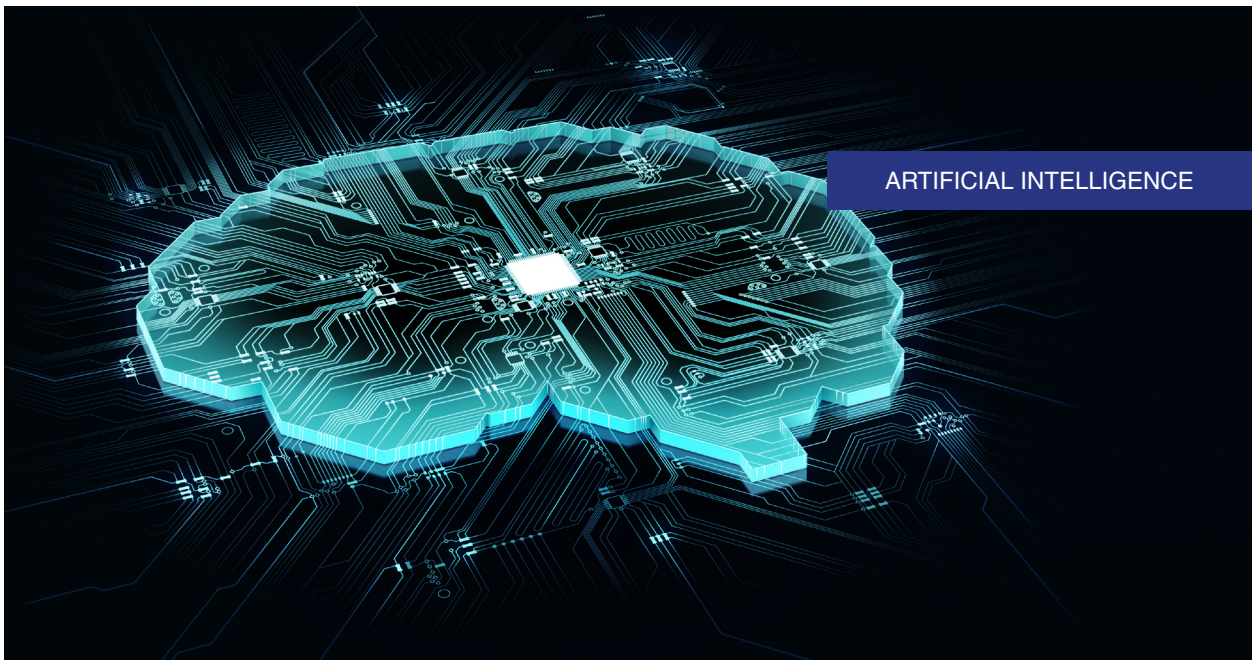
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# AI and the banking sector: Initial considerations

The rise in chats powered by artificial intelligence (AI) places this new development at the heart of the debate about the application of technology in the banking sector. In an environment in which competition will be increasingly digital, it is essential that the traditional banking sector digitalise by making more intensive use of artificial intelligence.

Santiago Carbó Valverde, Pedro Cuadros Solas and Francisco Rodríguez Fernández

**Abstract:** Despite having been in development for some time, it seems as if AI's moment has arrived. The European banking sector has widely embraced the new technology. According to the European Banking Authority (EBA), 83.3% of European banks currently use artificial intelligence for a range of purposes. That incidence has been rising consistently since 2018. Indeed, the EBA estimates that by 2025, all European banks will have implemented solutions powered by AI. Artificial intelligence is already being used in a myriad of ways. For now, its use is concentrated in the development of solutions that improve the user experience, facilitate performance of the banks' compliance obligations and enable more efficient management of banking

risks. Following the success of ChatGPT, the banks are moving to transform their virtual assistants into intelligent digital assistants capable of providing personalised service in real time to their customers, as well as their employees. Going forward, the banks will have to continue to invest in AI to ensure its usage translates into lasting competitive advantages.

## **The advent of artificial intelligence (AI) in the banking business**

The use of the so-called “new bank technologies”, which notably include artificial intelligence, blockchain technology, big data capabilities, cloud computing and biometrics,

“ The recent development of conversational AI, such as ChatGPT (OpenAI) and Bard (Google), has placed AI at the forefront of the technology debate in the banking industry. ”

has increased in recent years and accelerated remarkably since the COVID-19 pandemic (Carbó, Cuadros and Rodríguez, 2021). All this new technology is revolutionising the way in which financial transactions are carried out, making them safer and more efficient and enhancing the customer experience.

Within this universe of technologies, artificial intelligence (AI) has been coming to the fore in the financial sector. The recent development of conversational AI, such as ChatGPT (OpenAI) and Bard (Google), has placed AI at the forefront of the technology debate in the banking industry. The sector sees this language processing tool as having more potential than other technologies. In fact, according to the data presented in the EBA’s 2022 Risk Assessment of the European Banking System, use of this technology is growing rapidly.

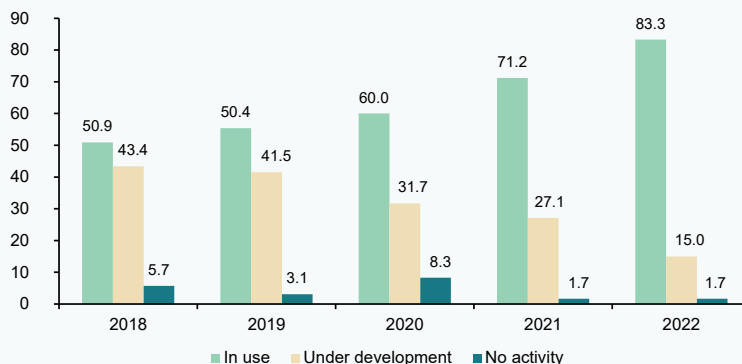
In the broadest sense, the advent of AI has marked a significant milestone in the banking business, emerging as a disruptive technology with a significant impact on the way banks operate and provide service. AI stands out for the ability to process vast volumes of data, analyse complex patterns, and generate original information for input into real-time decision-making. Its application in the banking business is opening up new possibilities for improving how banking services are provided.

AI’s significant potential for use in the banking business is evident in the trend in its application by the European banking sector. As shown in Exhibit 1, the percentage of European banks using AI has increased continuously since 2018. In 2022, 83.3% of the European banks were using AI for different purposes. That percentage rises to 98.3%

Exhibit 1

**Trend in the use of artificial intelligence (AI) in the European banking sector**

Percentage



Source: EBA Risk Assessment Report (2022) and authors' own elaboration.

“ If the rate of growth remains stable over time, the EBA figures suggest that the entire European banking sector will be using AI by 2025. ”

layering in the European banks that are in the process of pilot testing or developing AI. In 2018, just 50.9% of European banks were using it, implying growth of 32.4 percentage points in just four years. The pandemic accelerated its deployment significantly. Between 2020 and 2021, its penetration jumped a noteworthy 11.2 percentage points. Exhibit 1 also suggests that as the banks explore the potential of AI via pilots, they tend to then adopt it in the following years. Hence, the successive growth in usage coincides with a reduction in the percentage of banks in the testing phase. If the rate of growth remains stable over time, the EBA figures suggest that the entire European banking sector will be using AI by 2025.

### How artificial intelligence is being used in the banking sector?

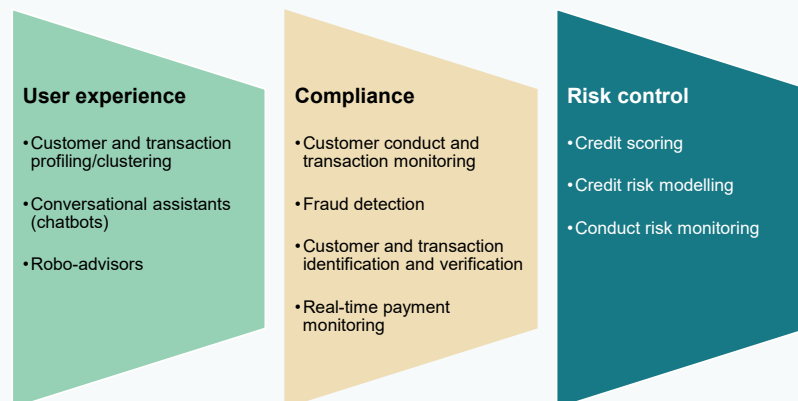
AI's potential utility in the banking sector is also explained by the broad diversity of use

cases in the business. Although there are many different ways in which the banks can use AI, they can be grouped into three main categories (Exhibit 2):

- *Improving the user experience:* In this category, one of the most noteworthy applications is the use of virtual assistants, or chatbots, that provide customer service 24 hours a day, seven days a week, enhancing the customer experience and speeding up enquiries and transactions. Moreover, AI makes it possible to identify common patterns and behaviours so as to better understand customer profiles and needs. And by developing automated investment advisors, known as robo-advisors, it is also possible to offer customers personalised and automated recommendations about how to manage their investments.

Exhibit 2

### Use cases for AI in banking



Source: Authors' own elaboration.

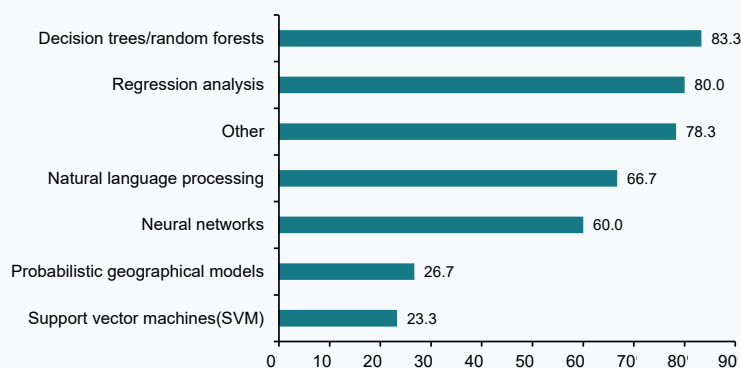
- **Compliance:** IA can help alleviate the high cost of regulatory and legal compliance. For example, AI is being used to monitor customer behaviour and transactions, helping to detect and prevent fraud and money laundering. It can furthermore be used to speed up and automate customer identification and verification processes and detect and prevent fraudulent or suspicious activities immediately via real-time payment monitoring.
- **Risk control:** AI is too being used to deliver more efficient management of various classes of banking risks. For example, it is widely utilized to evaluate customer creditworthiness, permitting more informed and faster loan approval decisions. It is also being used to manage financial risks by optimising modelling and analytical processes.

Elsewhere, there are different techniques or approaches for enabling effective development of AI in the banking business, ranging from neural networks to decision trees and natural language processing tools. Each technique has unique characteristics that make them more or less suited for different uses. According to the data provided by the EBA, the European banks stand out for their use of decision trees and random forests (83.3%), regression analysis (80%) and natural language processing (66.7%). In general, decision trees and random forests are used for credit scoring as they are particularly reliable at accurately determining the probability that a customer will honour his or her financial obligations. At any rate, the variety of techniques is pretty high, as 60% of the European banks using AI use other approaches than those monitored by the EBA.

Exhibit 3

### Proportion of European banks that use different AI approaches

Percentage



Source: EBA Risk Assessment Report (2022) and authors' own elaboration.

“ According to the data provided by the EBA, the European banks stand out for their use of decision trees and random forests (83.3%), regression analysis (80%) and natural language processing (66.7%). ”

### ChatGPT and conversational AI in the banking sector

The advent of ChatGPT, a conversational AI tool that has seemingly limitless potential, has marked a watershed moment for the impact of AI in banking. Following the success of ChatGPT, many banks have embarked on the process of enhancing their own virtual assistants in order to tap AI to offer their customers a better user experience. In fact, the banking industry is focusing strategically on transforming its virtual assistants into intelligent digital assistants (IDAs). Whereas basic chatbots are limited to a catalogue of frequently asked questions, IDAs receive prior training which includes learning about customers' financial history and behavioural patterns, giving them a more comprehensive conversational base for addressing specific user needs, covering a breadth of experiences, languages, and terms.

Moreover, IDAs are intended to go beyond resolution of consumers' basic transaction-related enquiries. The aim is to turn them into banking experts capable of providing the banks' customers with advice about their financial activities. These chatbots, such as the advanced generative AI model, ChatGPT, are capable of understanding and answering user enquiries and requests in a natural manner, providing personalised and real-time customer service. Thanks to their ability to process natural language, these intelligent assistants can hold fluent and context-appropriate conversations, providing accurate and complete responses to complex questions. And they can adapt and learn from each interaction so as to continuously improve their performance and the experience they provide. By introducing chatbots underpinned by generative AI, the banks can speed up and automate processes, enhancing customer service and freeing up resources for more strategic tasks.

Elsewhere, the use of these chatbots is not limited to customers. Some banks are increasingly using these intelligent conversational assistants to provide direct support to their employees, effectively transforming their chatbots into just another member of their teams. This application can be very compelling in circumstances in which neither the employees nor their colleagues have ready answers for what their customers are asking.

### Conclusions: Implications for the banking sector

The banking sector is in the midst of significant digital transformation fuelled by the adoption of new technologies. AI has emerged as the technology darling of the banking world. Its ability to process vast volumes of data, analyse complex patterns and take decisions in real time has positioned it as a disruptive force that is having a significant impact on how banks operate and provide services. The onset of AI nevertheless has a series of implications for banking business development:

- To ensure sustainable competitive advantages in the future, the banking sector needs to invest proactively in implementation of this new technology. In an increasingly digital environment, investing in AI will be essential to remaining competitive in a constantly changing climate.
- The neobanks and big tech firms are penetrating the banking business with digital solutions powered by AI. This is intensifying competition for the traditional banks and pushing them to adapt and innovate to stay relevant in the market.
- The use of AI can significantly alter the way in which banks do business. Managers need to prepare their organisations and

“ By introducing chatbots underpinned by generative AI, the banks can speed up and automate processes, enhancing customer service and freeing up resources for more strategic tasks. ”

employees to change the way they are currently executing some of their tasks. For example, laborious manual processes, such as document verification, fraud detection and credit scoring, can be automated to a degree.

- Increased use of AI, and other new technologies, must not compromise security at financial institutions. Greater reliance on this technology could expose the banks to greater cybernetic risk. It is essential that digitalisation of the banking business does not come at the cost of comprising the high levels of cybersecurity currently boasted by the banking system.

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# Spanish fiscal policy in an EU context: The transition back to normal

Although Spain recorded a fiscal deficit in 2022 that was worse than expected, lower extraordinary fiscal support measures, together with upside surprises in GDP and employment, make attainment of the 2023 deficit target look feasible. Going forward, any sound fiscal consolidation strategy for Spain should contemplate that the country's high structural deficit requires gradual but unflinching and urgent correction.

Santiago Lago Peñas

**Abstract:** Spain recorded a deficit of 4.8% of GDP in 2022, which was better than initially forecast by the government, but worse than the analyst community was forecasting by the end of the year. However, the curtailment of the cost of the expansionary fiscal package and positive surprises in GDP and employment make the 2023 deficit target look feasible. Moreover, 2023 will end four years of extraordinary budget and fiscal policies, with next year marking the year that the Stability and Growth Pact's fiscal straitjacket

will be reinstated, albeit likely in a reformed version. Along these lines, the government is forecasting a gradual reduction to leave the deficit at the permitted threshold of 3% by 2024. As for public debt, starting from a figure of 113.2% of GDP in 2022, indebtedness is expected to decline by 6.4 points to 106.8% by 2026, the end of the projection period. The European Commission's assessment of Spanish fiscal policy calls for stronger consolidation efforts in 2024, with conclusions and recommendations more general for 2025

and beyond. As regards the Commission’s new fiscal rules framework, the goal of the latest proposal currently under debate is to keep national deficits under 3% in the medium-term and converge towards the debt ratio established by way of common anchor. Any sound fiscal consolidation strategy for Spain should contemplate that the country’s high structural deficit requires gradual but unflagging and urgent correction.

### 2023 budget outcome

Spain recorded a deficit of 4.8% of GDP in 2022, which was better than initially forecast by the government (5.0%), but worse than the analyst community was forecasting by the end of the year (Lago Peñas, 2022). The consensus forecast was for a deficit of 4.3% of GDP, which would have made delivery of the target set for 2023 very achievable (3.9%).

On the positive side, the rollover of the measures for tackling the fallout from the war

in Ukraine and resulting inflationary pressures will be less expensive than initially expected. In October 2022, AIReF estimated that the full rollover of the initial measures would have had a financial impact equivalent to 1.3% of GDP. However, the government has pared those measures back, specifically eliminating the non-targeted fuel subsidy to households. In fact, despite the introduction of new measures, such as reduced VAT on food products, the overall cost of the package has decreased by around 5 billion euros, or 0.3pp of GDP. Table 1 presents the difference between AIReF’s *ex-ante* simulations and its recent estimates, dated to May.

Moreover, Spanish GDP is performing considerably better than expected by analysts. When the 2023 budget was presented and debated, the government’s growth forecast (2.1%) was widely considered too optimistic. The Funcas consensus as of November 2022 was for growth of 1.1%. Since then, however,

**Table 1 AIReF estimates of the budgetary impact of the measures introduced in response to the energy crisis and invasion of Ukraine**

Millions of euros

	Initial estimate 2023	Updated estimate 2023
VAT – electricity	-2,280	-2,349
VAT – gas, briquettes and pellets	-806	-796
VAT – food		-782
Excise duty on electricity	-1,952	-2,215
<b>Total revenue</b>	<b>-5,038</b>	<b>-6,142</b>
Fuel subsidy	6,774	1,347
Sector-specific aid	3,587	2,688
Direct aid for individuals	540	600
Other aid for individuals	2,588	2,396
Aid for refugees		300
<b>Total expenditure</b>	<b>13,490</b>	<b>7,331</b>
<b>Total impact (revenue foregone + additional expenditure)</b>	<b>-18,528</b>	<b>-13,473</b>
<b>Total impact (% of GDP)</b>	<b>-1.30</b>	<b>-1.00</b>

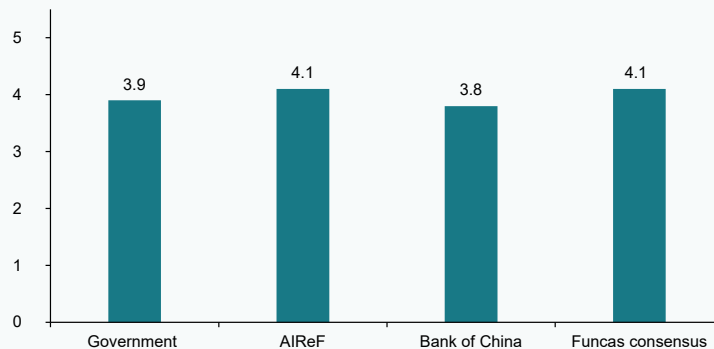
Source: Authors’ own elaboration based on AIReF (2022 and 2023a).

“ Although 2022 ended worse than expected, the curtailment of the cost of the expansionary fiscal package and the positive surprises in GDP and employment make the 2023 deficit target look feasible. ”

Exhibit 1

**Updated deficit forecasts for 2023**

Percent of GDP



Sources: Author's own elaboration based on Government of Spain (2023), AIReF (2023b), Bank of Spain (2023) and Funcas (2023).

the analyst community has been revising those growth estimates upwards. Specifically, the Bank of Spain is now looking for growth of 2.3% (2023) and the Funcas (2023) consensus forecast has risen to 2.1%.

In short, although 2022 ended worse than expected the curtailment of the cost of the expansionary fiscal package and the positive surprises in GDP and employment make the 2023 deficit target look feasible (Exhibit 1).

**Government plan for 2023-2026**

2023 will end four years of extraordinary budget and fiscal policies. The chain of crises triggered by the pandemic and invasion of Ukraine prompted activation of the Stability and Growth Pact (SGP) escape clause, so preventing the application of the excessive

deficit procedure. In 2024, however, the Pact straitjacket will be reinstated, albeit in all probability in a reformed version. In the last section of this article, we refer to the current status of the debate around this development. Suffice to say here that whatever shape the new version takes, it will usher in a period of fiscal consolidation and the end of the current exceptional situation.

Two additional factors define the era beginning in 2024. The first and most important: the general elections in July open the possibility of a change of government and will at any rate mark the start of a new legislative term with a host of implications for government impetus. The second is the fact that the fiscal package implemented to mitigate the effects of the invasion of Ukraine will have only a marginal

“ 2024 will be defined both by general elections in July and their subsequent potential implications for government impetus for fiscal policy, as well as the fact that the fiscal package implemented to mitigate the effects of the war in Ukraine will have only a marginal impact. ”

impact: 184 million euros according to AIReF (2023a), which is equivalent to less than 0.2pp of GDP.

In light of the foregoing, the updated Stability Programme for 2023-2026 should be viewed as a scenario subject to potentially significant changes, whether at the government’s initiative or required under the reinstated Pact. As a result, the most interesting aspect is an assessment from the credibility standpoint. To what extent do the deficit and debt figures fit with current macroeconomic projections and foreseeable spending and revenue dynamics?

Table 2 sheds light on the deficit variable. The government is forecasting a gradual reduction to leave the deficit at the permitted threshold of 3% by 2024. AIReF is a little less optimistic about the probability of bringing the deficit under that threshold in the absence of additional adjustments. The Bank of Spain is forecasting a lower deficit than the government is targeting in 2023 but thinks it will climb back up to 4% in 2025.

The differences between the government and AIReF figures lie with the revenue estimates. AIReF is forecasting less dynamic tax revenue, specifically due to lower growth in personal income tax and, in 2023, the tax breaks introduced to mitigate the effects of the energy crisis and inflation. In 2024, the gap between the two institutions’ sets of forecasts narrows due to the withdrawal of the energy product tax relief and the spike in collection from temporary tax measures. By 2025, those measures disappear, leaving only the impact of the regulatory changes made to personal income tax this year. Elsewhere, most of the differences with respect to the trajectory forecast by the Bank of Spain similarly lie on the revenue side, namely the withdrawal of the temporary tax measures in 2025 and the assumption that the surprising increase in tax revenue observed in 2020-2021 will partially revert. On top of that, the losses on the loans extended by Spain’s official credit institute, ICO, in response to the pandemic are expected to materialise for the most part in 2024 and 2025. Overall, the Bank of Spain believes fiscal policy will be slightly expansionary in

Table 2

**Public deficit projections for 2023-2026**

Percentage of GDP

	2023	2024	2025	2026
Spanish government	3.9	3.0	2.7	2.5
Bank of Spain	3.8	3.4	4.0	
AIReF	4.1	3.0	3.0	3.0

Sources: Author’s own elaboration based on Government of Spain (2023), AIReF (2023a) and Bank of Spain (2023).

“ Overall, the Bank of Spain believes fiscal policy will be slightly expansionary in 2023, moderately contractionary in 2024 and expansionary in 2025. ”

2023, moderately contractionary in 2024 and expansionary in 2025.

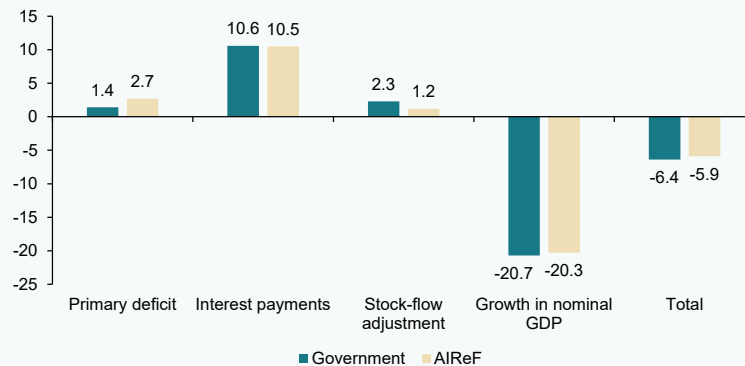
As for public debt, AIREF has, essentially, endorsed the scenario contemplated by the government in its updated Stability Programme. Exhibit 2 provides the breakdown of the estimated change in the debt ratio between 2023 and 2026. Starting from a

figure of 113.2% of GDP in 2022, indebtedness is expected to decline by 6.4 points to 106.8% by the end of the projection period. According to AIREF, debt will be half a point higher in 2026: 107.3%. In both instances, the only factor helping Spain deleverage is the growth in nominal GDP. To illustrate the power of this force, in a zero deficit scenario and assuming no adjustments, the debt ratio would drop

Exhibit 2

**Contributions by the various factors explaining the forecast reduction in the debt-to-GDP ratio in 2023-2026**

Percentage points of GDP



Sources: Author's own elaboration based on AIREF (2023a).

“ To illustrate the power of nominal GDP growth, in a zero deficit scenario and assuming no adjustments, the debt ratio would drop to 92.5% over the four-year period. ”

“ The Commission believes Spain needs to reduce its structural deficit by an amount equivalent to at least 0.7pp of GDP, prompting the recommendation that Spain keep growth in nationally financed current expenditure at under 2.6% in 2024. ”

to 92.5% over the four-year period. That highlights how ambitious intervention to reduce the structural deficit is, in general, sufficient to unlock a swift and sizeable reduction in the debt ratio.

### **Fiscal stability in Spain from the European Commission’s viewpoint**

The contents of the European Commission’s assessment of Spanish fiscal policy is a mix of analysis and regulatory considerations and refers to both the short- (2023 and 2024) and longer-term.

In 2023, the Commission’s forecast for Spain’s deficit (4.1%) is a little higher than the government’s (European Commission, 2023a). It is likely, however, that the gap will narrow or disappear altogether in light of the widespread improvement in the outlook for GDP growth. The Commission has corroborated that the growth in nationally financed primary current expenditure will be in line with the country specific recommendation (CSR) made by the European Council.

The assessment calls for stronger fiscal consolidation efforts in 2024. The deficit is not expected to drop below 3.3%, with the debt ratio forecast at 109.1%. As a result, the Commission believes Spain needs to reduce its structural deficit by an amount equivalent to at least 0.7pp of GDP, prompting the recommendation that Spain keep growth

in nationally financed current expenditure at under 2.6% in 2024. The reality is that both figures are feasible. The Stability Programme already contemplates a reduction of 0.5pp in the total structural deficit and of 0.7pp in the primary structural deficit, while the European Commission itself notes in its assessment that, by its calculations, assuming no major policy changes, net primary expenditure will only increase by 1.4% in 2024.

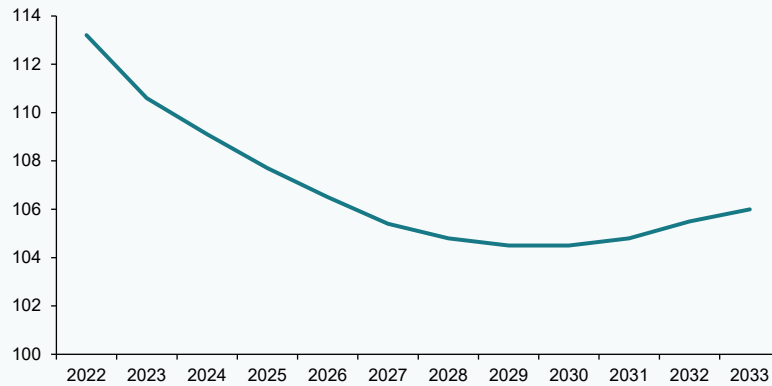
For 2025 and beyond, the conclusions and recommendations are more general. The Commission simply underlines the need to combine a gradual and sustainable fiscal consolidation strategy with reforms designed to stimulate higher sustainable growth so as to attain a prudent fiscal situation in the medium-term. The debt sustainability analysis included in the Country Report accompanying the Recommendations (European Commission, 2023b) provides additional insight into the Commission’s thinking. Although the short-term fiscal sustainability risks (2023-2024) are classified as low, the medium-term risks (2033) are perceived as high. The projection for 2033 in the baseline scenario is that debt will remain at 106% of GDP (Exhibit 3), while the stochastic debt projections suggest a 32% probability that in 2027, Spain’s public debt ratio will be higher than that of 2022. It is interesting to note that the baseline ratio projected by the Commission for 2026 (106.5%) is, in fact, slightly lower than that

“ Spain appears to have ample time to design and implement a consolidation strategy that would put Spanish debt well below the 100% mark by the end of the decade. ”

Exhibit 3

**Projections for the debt-to-GDP ratio**

Percentage



Source: Author's own elaboration based on the European Commission (2023b).

calculated by the government and AIREF. That suggests that Spain has ample time to design and implement a consolidation strategy that would put Spanish debt well below the 100% mark by the end of the decade.

### **The new fiscal rules: Notes on the reforms underway**

The European Commission published its proposals for redefining the European Union's fiscal governance framework on 11 November 2022. The proposal respects the limits set down in the EU Treaty: a maximum deficit of 3% of GDP and a maximum debt ratio of 60%. It acknowledges, however, that many member states are far from meeting these thresholds, especially the debt ceiling.

To prevent sharp and costly adjustments, the Commission proposes a dual approach in the medium- and long-term. The countries that are close to meeting the thresholds should stick with them, whereas those that are far from them must commit to gradually converging towards them. As for simplification of the rules, the idea is to use the rate of growth in nationally financed net primary spending as a key indicator. That indicator excludes interest payments, expenditure on unemployment benefits and expenditure financed by discretionary measures or European funds. The structural deficit and the requirement to reduce debt by one-twentieth will no longer be relevant variables. The goal is to keep national deficits under 3% in the medium-term and

“ The goal of the Commission's proposal for redefining the EU's fiscal governance framework is to keep national deficits under 3% in the medium-term and converge towards the debt ratio established by way of common anchor. ”

converge towards the debt ratio established by way of common anchor. The proposal is to take a multi-year approach with time horizons of four to seven years for government fiscal plans. One idea is to evaluate budget stability as a process using tools such as stress tests and stochastic analysis. The member states would be required to design plans that are consistent with these evaluations in order to ensure fiscal stability. The escape clauses will be left place for tackling symmetric and asymmetric shocks such as the pandemic or intense crises that affect a single member state. Although public investment financed nationally would be considered expenditure, the Commission acknowledges the importance of the investments needed for the green and digital transitions. The role of the national fiscal authorities will be reinforced around plan definition and supervision, but the European Commission will remain the key player. The proposal entails revising the enforcement regime, lowering financial penalties but making them more frequent and introducing reputational penalties.

Publication of this Communication marked the start of debate among the member states which gave rise to a legislative proposal presented on 26 April 2023, which introduces some significant changes. Firstly, countries with a deficit of over 3% of GDP will be required to reduce their deficits annually by an amount equivalent to 0.5% of GDP. Secondly, the debt/GDP ratio must come down significantly over the course of the national four-year plans. Thirdly, when the plans are extended to seven years, the bulk of the adjustments must take place in the initial years. Fourthly, national net expenditure must be always kept below medium-term output growth. And fifthly: countries that deviate from their plans in the

medium-term will by default come under the umbrella of an excessive deficit procedure.

Although this legislative proposal has already garnered significant backing, having been endorsed by the International Monetary Fund, [1] the agreement will require a second round of modifications. At the time of writing, the debate was ongoing. From what has reached the media, it appears that some of the member states are advocating for greater rigidity and controls. In an Op-Ed article published in several European newspapers on 15 June by the German Finance Minister, Christian Lindner, which was endorsed by another 10 finance ministers, [2] the message was clear: “These proposals should be seen as a steppingstone in our discussions in the Council, not as a conclusion”. The article emphasises the need to balance finances and reduce debt in good times to prevent continuous and unsustainable growth in debt. This idea is borne out by the German government in its reiterated proposal of having the most indebted nations reduce their debt ratios by at least 1% per annum. He also warns that, irrespective of its use, debt is debt in the eyes of the capital markets, calling into question the golden rules for public investment that does not compute for the purposes of application of the fiscal rules, and he expresses scepticism about time horizons for necessary consolidation work that go beyond one term of office on account of the risk of postponing difficult decisions.

The final agreement should be reached during Spain’s Presidency of the European Semester, giving the Spanish government a prominent role and some control over the process. However, that role also requires it to act neutrally. The fact that major economies, such

“ Reductions of 0.5-0.7pp per annum in the structural deficit over the next four years and of 1% per annum in the debt ratio are not far removed from minimum levels of ambitiousness if Spain wants to regain margin for fiscal policy and be able to cushion the higher cost of money any time soon. ”



as France and Italy, are in similar situations to Spain ensures that its interests will be well represented. Moreover, it must be said that, to some extent, Germany's demands should in actuality constitute core elements of any sound fiscal consolidation strategy for Spain: the country's high structural deficit requires gradual but unflagging and urgent correction; reductions of 0.5-0.7pp per annum in the structural deficit over the next four years and of 1% per annum in the debt ratio may be seen as ambitious but necessary if the country wants to regain margin for fiscal policy and be able to cushion the higher cost of money any time soon.

## Notes

[1] "The European Commission's legislative proposal for economic governance reform would appropriately promote a differentiated, risk-based medium-term fiscal adjustment. Relying on net primary expenditure as the operational target simplifies the framework and allows countercyclical automatic stabilizers to operate. At the same time, cautious implementation of the framework would be critical. The possibility to extend adjustment periods in return for growth-enhancing reforms and investment is positive but relying on overly optimistic growth estimates must be avoided. In this context, an Independent European fiscal council could add credibility to the process. An EU-wide fiscal capacity for macroeconomic stabilization and provision of public goods would also strengthen the framework. It is vital that an agreement is reached soon so the new framework can anchor fiscal policies in 2025 and beyond." (<https://www.imf.org/en/News/Articles/2023/06/15/euro-area-imf-staff-concluding-statement-of-2023-mission-on-common-policies-for-member-countries>).

[2] The finance ministers of the Czech Republic, Austria, Bulgaria, Denmark, Croatia, Slovenia, Lithuania, Latvia, Estonia and Luxembourg. (<https://elpais.com/economia/2023-06-15/europa-debe-contar-con-una-normativa-clara-para-reducir-la-deuda-que-se-aplique-por-igual-a-todos-los-estados.html>).

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# Fiscal sustainability of Spain's local governments: Targeted weaknesses within overall strength

While Spain's local governments have achieved balanced budgets on the whole, a number of municipalities present fiscal sustainability issues. Addressing these long-standing challenges will require extraordinary measures to improve structural solvency.

Ana Aguerrea

**Abstract:** While as regards to fiscal performance and the achievement of financial equilibrium, Spain's local governments on aggregate have been the best performing level of the Spanish administration, a more granular assessment reveals vast differences across municipalities. Over 100 municipalities face structural financial challenges, primarily recording too high a level of public debt for too long a time frame. Restructuring public finances across these heavily indebted municipalities will require implementing policy measures aimed at

restoring fiscal sustainability and a balanced budget. The deferral of debt service payments, the main policy tool formulated by the central government in recent aid mechanisms, has proven ineffective to resolve the current fiscal imbalances at the local level and has even at times exacerbated the problem. To tackle the problem identified, new solutions are needed. The local authorities should be held jointly responsible for the restructuring process by making them take the steps needed to balance their budgets over time in a sustainable manner.

“ On the basis of established thresholds from the most recent budget settlement agreement from 2021, we arrive at a cohort of 136 financially-compromised municipalities. ”

## Background

Within the Spanish public administration, from a budgetary stability standpoint, the local government subsector has been the best performing since the passage of the Budget Stability and Financial Sustainability Law (Organic Law 2/2012) on 27 April 2012. Except for 2022, the local governments have presented a budget surplus consistently since 2012. 2022 was conditioned by a negative definitive settlement in respect of 2020.

Despite the overall favourable assessment, there is a small group of municipalities in a far more precarious situation. Already in December 2017, Spain's Independent Fiscal Institute, AIReF, having evaluated a group of 18 local authorities with more than 20,000 inhabitants, noted that nine of them presented “structural and grave financial sustainability issues”. For those authorities, AIReF recommended that the Ministry of Finance and Civil Service convene and head up a committee of experts, as contemplated in Articles 25.2 and 26 of the above-mentioned Budget Stability and Financial Sustainability Law, to analyse the root causes and propose suitable solutions.

In this paper, we review the cohort of local authorities that could be considered to present structural sustainability problems in order to determine their defining characteristics and analyse the source of their problems. Lastly, we propose a solution to the situation documented based primarily on the nature of the problematic councils in question and measures taken by a number of authorities in the past in similar situations.

## Profiling sustainability challenges across municipalities

The municipalities considered to present sustainability issues are those with the following characteristics:

- Firstly, they are overly indebted (their debt is equivalent to over 110% of current revenue, which is the limit defined in applicable regulations as the threshold beyond which the local authorities cannot arrange any new debt).
- Secondly, they have surpassed that threshold for a considerable number of years, demonstrating an inability to pay down their borrowings.

On the basis of the above definition and using the most recent budget settlement available (that of 2021), we arrive at a cohort of 136 financially-compromised municipalities.

Analysing the characteristics of these municipalities' treasuries in order to determine whether they share patterns that could point to structural factors leading to these predicaments, we found that:

- a) The biggest number of municipalities with debt equivalent to more than 110% of their current income is found in the population bracket encompassing municipalities with up to 1,000 inhabitants, at 40, followed by those with between 1,001 and 5,000 inhabitants, a bracket containing a further 39 municipalities.
- b) The highest population brackets present the lowest number of local authorities with debt in excess of the legal threshold:
  - In the bracket with between 20,001 and 50,000 inhabitants: 12 municipalities.
  - In the bracket with between 50,001 and 100,000 inhabitants: 5 municipalities.
  - In the bracket with over 100,000 inhabitants: 6 municipalities.

“ The amount of debt incurred beyond the legal threshold stands at 2.81 billion euros on aggregate, of which over half (1.49 billion euros) is owed by municipalities with over 100,000 inhabitants. ”

Nevertheless, the above distribution of the over-indebted municipalities is consistent, and directly related, with the number of local authorities comprising each population bracket. As a result, there is no bias in the effect that population size has on over-indebtedness.

If, however, within this analysis we look at the amount by which the affected authorities are overly indebted, we observe that the biggest excesses are found in the municipalities with more than 100,000 inhabitants. The amount of debt incurred beyond the legal threshold stands at 2.81 billion euros on aggregate, of which over half (1.49 billion euros) is owed by municipalities with over 100,000 inhabitants.

The volume of surplus debt increases considerably in the population brackets with more than 20,000 inhabitants.

This phenomenon is primarily attributable to the size of their municipal budgets as the average volume of debt per inhabitant is actually higher in municipalities with up to 1,000 inhabitants.

Indeed, the municipalities with up to 20,000 inhabitants account for just 14% of the surplus debt, whereas they represent 83% of the affected authorities.

c) Elsewhere, an analysis of the length of time the identified municipalities have presented surplus debt reveals a sharply structural phenomenon, as most of it stems from state financing mechanisms put in place in 2012 and 2013 to reduce trade debt in the public sector.

Specifically, that debt came about fundamentally as a result of the following regulations:

Table 1 **Surplus debt by population bracket**

Population size	# of municipalities	Volume of surplus debt	% of the total surplus
Up to 1,000 inhabitants	40	24,158,795	0.9
Between 1,001 and 5,000 inhabitants	39	113,086,757	4.0
Between 5,001 and 10,000 inhabitants	19	103,850,405	3.7
Between 10,001 and 20,000 inhabitants	15	141,038,716	5.0
Between 20,001 and 50,000 inhabitants	12	562,880,727	20.1
Between 50,001 and 100,000 inhabitants	5	371,910,656	13.3
Over 100,000 inhabitants	6	1,489,942,699	53.1
<b>TOTAL</b>	<b>136</b>	<b>2,806,868,755</b>	<b>100.0</b>

Source: Ministry of Finance and Civil Service and SCAL.

“ An analysis of the length of time the identified municipalities have presented surplus debt reveals a sharply structural phenomenon, as most of it stems from state financing mechanisms put in place in 2012 and 2013 to reduce trade debt in the public sector. ”

- Royal Decree-Law 4/2012 (24 February 2012) determining certain reporting obligations and procedures for establishing a mechanism to finance supplier payments by local authorities. This regulation allowed local governments to cancel outstanding debts with their suppliers as a result of works contracted, supplies procured or services rendered that had been invoiced prior to 1 January 2012. As a result, trade debt was turned into financial debt.
- Royal Decree-Law 8/2013 (28 June 2013) on urgent measures for tackling non-performance in local government and supporting local entities with financial problems. The purpose of this piece of legislation was to create a temporary and extraordinary mechanism to help local governments reduce accumulated trade debt. As set down in that piece of legislation, the idea was to set the trade debt counter at zero prior to implementation of the e-invoicing system, book-keeping,

average payment term requirements and, ultimately, the Budget Stability and Financial Sustainability Law controls. Once again, this measure had the effect of increasing the local authorities’ financial debt in order to decrease the sums owed to suppliers.

This means, in short, that the identified municipalities’ debt problem is an entrenched issue for which the specific measures rolled out in the past have not been effective and have even led to a sharp increase in their pool of debt.

Moreover, the budget structure of a good number of the municipalities in this situation in 2021 suggests they are not in a position to deleverage.

The situation outlined and its characteristics yield two noteworthy conclusions:

Table 2 **Age of surplus local government debt**

Population size	% of municipalities presenting surplus debt since 2012-2013 or earlier
Up to 1,000 inhabitants	78
Between 1,001 and 5,000 inhabitants	77
Between 5,001 and 10,000 inhabitants	74
Between 10,001 and 20,000 inhabitants	73
Between 20,001 and 50,000 inhabitants	75
Between 50,001 and 100,000 inhabitants	100
Over 100,000 inhabitants	100

Source: SCAL.

“ The Spanish constitution guarantees that when the administrative and territorial structure is found to present economic imbalances that prove persistent over time, the State is required to play an active role in restoring equilibrium, irrespective of the oversight or monitoring system put in place to ensure that they do not recur. ”

a) For the most part, the local authorities' surplus debt is structural, as it has been in place for over a decade. aggregate, over 100 municipalities face structural financial challenges. The authorities in question hold too much debt and have done so for too long.

b) The borrowings taken on under the above-mentioned financing mechanisms revealed that the entities with more than the permitted levels of debt had for a long time been presenting budget imbalances which ultimately led them to accumulate excessive trade debt. For the most part, those imbalances remain intact at present, so that the troubled authorities do not have the ability to generate enough gross savings to pay down their debt. Restructuring the finances of these troubled municipalities requires designing and implementing measures aimed at restoring a sustainable, balanced budget. The deferral of debt service payments, the main tool used by the government in recent aid mechanisms, has proven ineffective in these situations and has sometimes exacerbated underlying issues.

Here it is worth noting that the trade debt payment mechanisms were mandatorily accompanied by financial restructuring plans by the local authorities in question. The Ministry signed off on the measures included in the planning documents and subsequently monitored the authorities performance. However, time has shown – with most of the affected authorities continuing to present surplus debt – that the system for controlling execution of those restructuring plans has been ineffective at restructuring the troubled local treasuries.

To tackle the problem identified, new solutions are needed. Here it is worth noting that other countries have successfully pursued budget rebalancing measures in the past, as have a number of regional governments in Spain, including those of the Canary Islands, Andalusia and Valencia.

The local authorities should be held jointly responsible for the restructuring process by making them take the steps needed to balance their budgets over time in a sustainable manner.

They should have to commit to complying with a series of targets around basic metrics:

### Conclusions

Although the local government subsector presents broad financial equilibrium on

- a) Positive gross savings.
- b) The non-generation of extra-budgetary debt.

“ Other countries have successfully pursued budget rebalancing measures in the past, as have a number of regional governments in Spain, including the Canary Islands, Andalusia and Valencia. ”

- c) A year-on-year change in non-financial spending within the percentage stipulated by the central government.
- d) The non-generation of a budget deficit in national accounting terms.

**Ana Aguerrea, Afi**





# Industrial policy in the EU and Spain: Recent debates

An examination of industrial policy in the EU and Spain reveals the need to reduce key external dependencies, or interdependencies, as well as arrive at an adequate path that avoids protectionist retaliation to the recently passed US Inflation Reduction Act, while at the same time harnesses the economic potential of the bloc. Going forward, taking into consideration current obstacles and limitations both at the EU and Spanish level, it will be necessary to embrace the appropriate industrial policy measures to ensure the transformation of the Spanish economy, in particular through maximisation of NGEU funds.

Ramon Xifré

**Abstract:** This paper provides an overview of the key elements of the current debate surrounding the conception, design, and implementation of industrial policy in the EU and Spain. Firstly, it outlines the six fundamental external dependencies, or interdependencies, characterising the EU and its member states, which are concentrated in the areas of: trade, energy, raw materials, digitalisation, finance and labour markets/immigration. Next, it looks at the Inflation Reduction Act (IRA) passed in the US in 2022, which includes certain protectionist

provisions, and the key responses being explored by the EU. There seems to be consensus around: the importance of avoiding an escalation in trade tensions, assessing the opportunities the IRA may imply for certain EU sectors and keeping trade negotiations open to limit the impact of the protectionist elements. Thirdly, turning to policy in Spain, we analyse some of the obstacles that have hindered the deployment of plans for the country's strategic sectors devised under the umbrella of the NGEU funds: structural/regional weaknesses of the Spanish economy;

“ The most modern approaches to industrial policy acknowledge that national economies do not function in isolation, which is why it is necessary to understand how countries depend on each other. ”

obstacles arising from regulation and lack of administrative agility; rigidity in tender terms; and, potential to increase agreement among business associations and local authorities. Tackling these obstacles will be key in order to implement appropriate industrial policy measures to ensure the transformation of the Spanish economy.

## Introduction

Debates around industrial policy and direct state intervention in companies' productive decisions are frequent but have attracted growing interest of late. Discussions regarding the objectives and best instruments for “coordinating” or “orienting” the productive apparatus tend to receive increase attention during and after crises, which is why industrial policy has returned to the heart of the economic and political debate in the wake of the economic and financial crisis of 2008 and ensuing succession of crises, marked by the pandemic and Russia's invasion of Ukraine.

Despite the fact that the term “industrial policy” is widely used, there is no single definition that offers a good general fit for all countries or situations. In broad terms, industrial policy consists of public policies designed to restructure an economy, sometimes with the aim of correcting the odd market failure, other times with the goal of stimulating public-private partnership and still others with the objective of fostering social and economic transformation. The key instruments of industrial policy include public grants, loans, regulatory changes, state participation in private companies and, in their most interventionist form, a degree of protectionism or mandatory local production and/or local profit reinvestment clauses (Arrilucea *et al.*, 2020; IMF, 2022; Fuest, 2023; Myro, 2016; Rodrik, 2004, 2022).

The aim of this paper is to analyse the main industrial policy debates emerging in the EU and Spain since the COVID-19 crisis and draw some conclusions. The recent Inflation Reduction Act (IRA) passed in the US in 2022 is a key development and has sparked very important debate and reactions in the EU. This article is therefore structured as follows: a review of industrial policy in the EU prior to the IRA; an analysis of the EU's key reactions to the IRA; an assessment of implications for Spain; and lastly, a set of conclusions.

## Industrial policy in the EU prior to the IRA

The most modern approaches to industrial policy acknowledge that national economies do not function in isolation, which is why it is necessary to understand how countries depend on each other (IMF, 2022; Rodrik, 2022). First, we introduce a set of dependencies, or interdependencies, that require concerted strategic action and can be viewed as the basis for approaching, designing, executing, and evaluating industrial policy in the EU. According to a recent and exhaustive study by the ECB (ECB, 2023) these key dependencies are as follows:

- *Trade dependencies.* External trade dependencies can be measured using different metrics, notable among which: the share of an economy's value-added that comes from imported value-added; the scarcity of a certain product; and country-level import or export concentration. It should be noted that trade dependency ultimately reflects the level of participation in global production chains and is, therefore, an ambiguous phenomenon that can be viewed as both an opportunity and a threat. Considering the level of imported value-added relative to total value-added and considering the three main trading

blocs (EU, US, and China), in the primary food sector, the EU and US present dependencies of close to 20%, whereas China's dependence is less than 10%. In manufacturing, the differences between the blocs are smaller, with all three moving within a range of between 15% and 20%. In services, dependencies are lower in the EU (10%) and the US (5%), while the Chinese economy is more dependent (11%).

- *Energy dependencies.* The EU imports around 55% of the energy it consumes, and that dependency is very uneven from one economy and sector to the next. The countries with more developed renewable energy infrastructure (such as Denmark, Finland, and Sweden), more nuclear power capacity (Bulgaria, France, Slovakia, and Sweden) or relatively high production of fossil fuels (Czech Republic, Poland, and Romania) are less energy dependent.
- *Critical raw materials dependencies.* The EU classifies 30 raw materials as “critical” based on an evaluation across two dimensions: their economic relevance and their supply risk. According to the most recent data available, in 2019, the EU imported 15 billion dollars' worth of critical raw materials from the rest of the world. Moreover, the imports of some of these critical raw materials are highly concentrated among a very small number of trading partners and some of the raw materials are virtually impossible to substitute.
- *Digital transition.* According to the European Commission's International Digital Economy and Society Index (I-DESI), the EU ranks 12<sup>th</sup> when it comes to overall digital performance. The difficulties impeding swifter adoption of digital technologies in the EU are related with structural weaknesses in terms of digital infrastructure, skills of the population and regulation. It is foreseeable that, given the rising volume of data processed in different digital tools and solutions (cloud computing, AI, 3D printing), and the increasing needs in processing power, the EU's dependencies in this sector could become even more

important if measures are not taken to revert the lag.

- *Financial interdependencies.* According to the ECB (2023), there are four channels of financial dependency of relevance to the EU: (1) cross-border investments, with the eurozone characterised by a high degree of financial openness and with advanced economies as its main FDI partners; (2) limits to investment finance in the EU, as the European banking sector remains partly segmented along national lines and lacks deeper and broader capital markets; (3) payments and financial market infrastructures, the concern here being the dominant position of non-EU payment-related service providers; and, lastly, (4) the role of currencies, as the international use of an issuer's currency can lead to broader, cheaper and more easily accessible funding for the domestic economy and the euro has an undersized role relative to trade patterns and international investments involving the EU.
- *Labour market and migration interdependencies.* In the last 20 years, the number of immigrants from outside the EU and of EU citizens living in other EU countries has increased by 60%. On aggregate, migrant workers help to ensure a better match between supply and demand in the various segments of the labour market and are therefore a pillar of progress. According to the ECB (2023), there are several outstanding challenges: (i) intra-EU mobility remains lower than in the US, limiting potential growth; (ii) the EU could stand to make itself more attractive to more skilled immigrants; and, (iii) the prevailing level of geopolitical uncertainty is likely to have a major impact on migration flows.

These dependencies and interdependencies shape a first set of industrial policy aspirations and goals for the EU. Given that these dependencies ultimately imply risks for the EU and its members states, the first goal of industrial policy must be to anticipate, manage and, to the extent possible, mitigate these risks. It is important to point out that the interests of the members states and of

the EU as a bloc are generally aligned in this respect and any risks mitigated at the national level should make the bloc more solid as a whole.

Beyond these dependencies, prior to passage of the Inflation Reduction Act (IRA) in the US, another factor clearly driving industrial policy in the EU was the decarbonisation of the economy. The EU is striving to be climate neutral by 2050 but “decarbonising industrial production without deindustrialising Europe is a major challenge” (Fuest, 2023) around which there appear to be more questions than answers at present. Russia’s invasion of Ukraine has further highlighted the importance of decarbonising the European economy and what a thorny issue it is.

It appears that taxing and regulating CO<sub>2</sub> emissions alone will not do the job. By way of example, in the automotive sector, which is key on account of its size, the jobs it creates and knock-on effects on other sectors, an American company, Tesla, seems to be taking the lead in climate-friendly technologies, despite the environmental consciousness that characterises the Germans and the fact that Germany is a hub for top-flight car-makers (Fuest, 2023).

### **Industrial policy in the EU since the IRA**

In 2022, the US passed the Inflation Reduction Act (IRA), a legislative package made up of three sets of measures: tax reform, healthcare reform and new energy and climate legislation. The climate-related part of the package includes up to 400 billion dollars of spending over 10 years, articulated around the following measures (Kleimann *et al.*, 2023):

- Subsidies for electric vehicle purchases (for individuals and companies buying them);
- Production and investment subsidies for manufacturers of clean-tech products, including batteries and components used in renewable electricity generation; and,
- Subsidies for producers of carbon-neutral electricity, as well as hydrogen and other clean fuels.

The IRA contains protectionist aspects as some of the subsidies are conditional upon local manufacturing or purchasing requirements, in violation of World Trade Organisation (WTO) rules. The new legislative package is also likely to generate other distortive effects, such as increasing industrial concentration by subsidising large-scale production.

As a result, the IRA was not well received by the EU and it has sparked intense debate on the optimal response. For further analysis and assessment of the IRA, its impact, and proposals as to how the EU should react, refer to Buti and Mesori (2023), Business Europe (2023), Caixabank (2023), Fuest (2023), Hoyer (2023), Kleimann *et al.* (2023), Ruiz (2023) and Sweeney (2023).

On the one hand, the IRA clearly harms European industry as the production subsidies will make American products, services, and energies more competitive. On the other hand, to the extent that the IRA accelerates the decarbonisation of the American, and even the global, economy, it could have positive effects on sectors of the European economy specialised in supplying clean technologies and services related with the

“ The IRA could create opportunities for European companies in sectors which are at the technological forefront and that boast strong market presence and positioning, such as the wind power industry, potentially providing a stimulus for new large-scale investments in these sectors. ”

“ It is worth noting that there is widespread –albeit not unanimous– consensus that the EU should not respond to the IRA with protectionist countermeasures, which could be dangerously short-sighted. ”

transition towards sustainability. In fact, the IRA could create opportunities for European companies in sectors which are at the technological forefront and that boast strong market presence and positioning, such as the wind power industry, potentially providing a stimulus for new large-scale investments in these sectors (Business Europe, 2023; Hoyer, 2023).

Elsewhere, there appears to still be room for negotiation around application of the legislative package with scope for cushioning the negative impact in the EU of the IRA's more protectionist measures, such as making the subsidies entirely conditional on local production in the US (Kleimann *et al.*, 2023).

Another reaction that has been suggested is to tackle the challenge implied by the IRA together with other challenges being pursued by the EU: (i) the twin green and digital transition; (ii) preservation of Europe's social inclusion model; (iii) moving past policies based exclusively on demand; and (iv) combined articulation and exploitation of synergies with the projects financed by the NGEU funds. All of this could be handled if the institutions define targeted “European public goods” (EPGs) for channelling the investment efforts of the member states and of the EU (Buti and Mesori, 2023). This initiative still needs to be fleshed out in greater detail but its proponents believe that it could unleash several positive transformations across the EU's economies: revision of the productive specialisation pattern; redesign of the labour markets and social welfare systems; downward pressure on prices and containment of inflation; and, the curbing of euro depreciation.

It is also worth noting that there is widespread –albeit not unanimous– consensus that the EU should not respond to the IRA with protectionist countermeasures.

The dominant opinion, borne out by analysis, is that any such response would be dangerously short-sighted, potentially unleashing a global escalation in trade tensions and deepening international market disintegration and deregulation, with adverse consequences for all concerned.

### Recent debate around industrial policy in Spain

These debates are also relevant for Spain. Traditionally, the main objectives of industrial policy in Spain have been articulated around the following priorities: increasing the weight of the manufacturing sector in GDP; diversifying and specialising the productive apparatus; increasing the economy's R&D intensity; halting premature deindustrialisation in certain regions; fostering business' international expansion; boosting labour productivity and tightening cooperation between the public and private sectors (Myro, 2016, 2017, 2021; Xifré, 2014, 2017; Arrilucea *et al.*, 2020).

In addition, in the current setting, heavily marked by the NGEU programme for modernising Europe's economies, it is timely to ask how to best articulate both lines of initiative in Spain: the country's conventional industrial policy objectives and implementation of the NGEU funds in Spain through the Strategic Economic Recovery and Transformation Plans (hereinafter, PERTEs for their acronym in Spanish).

The PERTEs are a tool for public-private partnership inspired by the Important Projects of Common European Interest (IPCEIs) (Domínguez and Gomariz, 2023), related with the concept of the EPGs mentioned above (Buti and Mesori, 2023), which have the scope to play a key role in implementing new forms of industrial policy. There are currently

“ Given the conceptual proximity between the PERTEs and industrial policy in Spain, an analysis of the barriers to execution of the former could shed light on the challenges facing the latter. ”

12 PERTEs: plans for the development of electric and connected vehicles; avant-garde healthcare; renewable energy, renewable hydrogen and energy storage; agro-food; the new language economy; circular economy; the shipbuilding industry; aerospace; water cycle digitalisation; microelectronics and chips; the care economy; and, industrial decarbonisation. In total, they have been earmarked 40.09 billion euros of public investment, with significant disparity from one plan to the next in terms of budget size and execution pace (Domínguez and Gomariz, 2023).

Given the conceptual proximity between the PERTEs and industrial policy in Spain, an analysis of the barriers to execution of the former could shed light on the challenges facing the latter. These challenges can be classified into the following categories (Domínguez and Gomariz, 2023; FEDEA, 2023; Hidalgo, 2020; Myro, 2021; Xifré, 2020):

- i. Structural, circumstantial or regional weaknesses of the Spanish economy that impede absorption of investments related with technological innovation and the knowledge economy. These weaknesses can take the form of insufficient market size, a shortage of private funds available at the regional level to complement public investment, when both are necessary, and low private R&D intensity.
- ii. Obstacles derived from regulation and a lack of administrative agility. For example, we are seeing difficulties in getting all of the initiatives contemplated in the PERTEs completed within the stipulated deadline (end of 2026) for a mix reasons. It is also noteworthy the traditional bias in Spain in favour of *ex ante* controls to the detriment of *ex post* controls, and a weak

culture of assessing the impact of public policies (despite recent progress in this area).

- iii. Rigidity in the tenders' design and specific requirements. For example, in addition to the tight project execution timeframes, it is proving hard to form the groups of SMEs required for participating in the lever projects that encompass two or more regions and for SMEs in general to come up with the guarantees required. Here it is also worth mentioning the requirement that the investments translate into a net reduction in emissions and do not harm the environment significantly (DNSH certification), which can cause problems on account of its ambiguity.
- iv. There is also room for increasing the level of involvement in decision-making by different key agents such as business associations or the regional and local authorities. The goal should be for these economic transformation projects to be underpinned by maximum levels of institutional, social, and economic consensus from the initial stage.

That being said, it is worth noting that in the face of many of these obstacles, the affected parties are encountering a comprehensive and flexible attitude, within reasonable limits, on the part of the fund managers (refer to Domínguez and Gomariz, 2023; and FEDEA, 2023 for proposals for surmounting some of these obstacles). Nevertheless, these challenges and difficulties are relevant, as explained earlier, insofar as they provide valuable lessons for designing and adopting modern industrial policy measures in Spain.

## Conclusions

This paper provides an overview of the main current debates around the conception,

design, and implementation of industrial policy in the EU and Spain. Firstly, it itemises the six fundamental external dependencies of the EU and its member states. These (inter) dependencies provide the basic context for the development of any industrial policy measures. They were set down prior to passage of the Inflation Reduction Act (IRA) in the US in 2022, which includes certain protectionist measures. We then examine the IRA and the main responses being considered by the EU, highlighting three messages: (1) there is virtual full consensus that protectionist countermeasures should be avoided; (2) the IRA could emerge as an opportunity for European companies focused on the transition to sustainability; and, (3) the EU still has room to negotiate limits on the most harmful and protectionist aspects of the IRA. The paper concludes with a review of some of the main obstacles encountered in implementing the PERTEs under the umbrella of the NGEU funds. These obstacles are relevant as they offer important lessons learned.

They yield a series of recommendations for industrial policy in Spain, notable among which: (i) simplification of red tape and transition away from *ex ante* to *ex post* controls, coupled with reinforced accountability; (ii) building maximum economic, political and social consensus around the design and execution of industrial policy measures; (iii) decisive political commitment in favour of structural economic reforms (education, innovation, international expansion) and efficient organisation of economic activity from the local and regional perspectives; and, (iv) stimulation of public-private partnership.

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# Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

## **Law 11/2023 transposing EU Directives on accessibility to certain products and services into Spanish law (published in the Official State Journal on 9 May 2023)**

This piece of legislation transposes a number of European Directives into Spanish law, notably including, on account of its impact on the financial sector, Directive (EU) 2019/882 on the accessibility requirements for products and services, whose transposition will take effect on 28 June 2025.

Generally speaking, this piece of legislation establishes the universal accessibility requirements for certain products and services needed to optimise their foreseeable and autonomous use by all persons, particularly persons with disabilities. Specifically in relation to the financial sector, its scope of application includes the following products and services: payment terminals, self-service terminals (*e.g.*, ATMs) and consumer banking and financial services. Those services mean the provision of: consumer and mortgage credit agreements; certain investment services and activities; payment account cash lodging and withdrawal services; services linked to payment accounts related with the opening, operation and closure of a payment account, including payment services and transactions; and, electronic money. The websites for those products and services must meet, at least, the average standard required in generally accepted content accessibility criteria.

Other amendments included in this legislation with an impact on the financial sector include:

- Law 10/2014 (supervision and solvency): expands the list of credit institutions to include Spain's official credit institution,

the ICO, and the entities authorised to provide the following investment services: proprietary trading, portfolio management, investment advisory and financial instrument underwriting or placement on a firm basis.

- Royal Decree-law 19/2018 (payment services): modifies certain aspects of the communications and notifications payment service providers must provide to the Bank of Spain.
- Royal Decree Legislative 1/2010 (Corporate Enterprises Act): regulates the incorporation of limited liability companies online.
- Decree of 8 February 1946 (Mortgage Act): regulates the Digital Single Window, the possibility of making registry notifications and announcements electronically and the creation of a registry IT system.
- Law 34/2002 (information society and e-commerce services) and Law 6/2020 (trusted e-commerce services): introduces modifications related with the penalty regime.
- Organic Law 3/2018 (personal data protection) – notably the following: (i) elimination of the warning from the list of penalties that can be imposed on data controllers and processors, replacing it with a requisition; (ii) regulation of the performance of investigations using digital systems; (iii) increase from 9 to 12 months in the maximum duration of disciplinary proceedings and from 12 to 18 months in the duration of the pre-investigation process; (iv) regulation of the substitution

of the head of Spain's competent authority, the AEPD, in the event of absence, vacancy or illness, abstention or disqualification; (v) introduction of a forecast regarding notification of admission to processing in procedures with a high number of claimants; and, (vi) mandatory templates for presenting claims before the AEPD.

### **Law 12/2023 on the right to housing (published in the *Official State Journal* on 25 May 2023)**

This law, which took effect the day after its publication, introduces specific requirements for large-scale landlords, defined as natural or legal persons that own more than ten urban residential properties or a built area for residential use of over 1,500 m<sup>2</sup> (excluding garages and storerooms). This threshold may be reduced if a residential market is declared as 'tight', in which case landlords with five or more urban residential properties in that market would qualify as large-scale.

The key implications of the new legislation for these landlords are:

- An obligation to accept, in respect of leases over a primary residence, an extraordinary extension of no more than one year when the tenant can certify social or financial vulnerability.
- When the house is located in a tight residential market, they are obliged to collaborate with the competent housing authorities and provide them with information about how the homes they own are being used. In addition, the rent agreed at the start of a new contract may not exceed the last rent in the primary residence lease agreement in force over the same home during the previous five years, after application of the annual rent update clause contemplated in the previous lease or the price limit applicable under the reference price index system.
- Rent increases negotiated for primary residence lease agreements may not exceed the result of applying the annual change in the so-called Competitiveness Guarantee

Index. Moreover, in 2024, rent increases may not exceed 3%.

- With respect to eviction proceedings involving the primary residence of the affected occupant, if the latter is financially vulnerable and the claimant is a large-scale landlord, suits will not be admitted to processing unless the claimant can certify prior completion of the amicable settlement or intermediation procedure contemplated by the authorities. Likewise, an amicable settlement or intermediation procedure will also be required, so long as the claimant is a large-scale landlord and the defendant is financially vulnerable, prior to the start of the execution procedure for the auction of the foreclosed property.
- The eviction and repossession proceedings suspended under Articles 1 and 1 bis of Royal Decree-law 11/2020 may be resumed from 30 June 2023. However, when the claimant is a large-scale landlord, those proceedings may only be resumed, subject to express request by the plaintiff, following certification of completion of the amicable settlement or intermediation procedure contemplated by the authorities.

# Spanish economic forecasts panel: July 2023\*

Funcas Economic Trends and Statistics Department

## **2023 GDP growth estimate increased by four tenths of a percentage point to 2.1%**

The National Statistics Institute (INE) revised upwards its GDP growth figures for the fourth quarter of 2022 and the first quarter of 2023. This last figure was also higher than expected in the previous consensus, which was published prior to the first advance of this data. The most notable results in both quarters have been the drop in domestic demand –especially in private consumption– and the high contribution to growth from net exports. More specifically, in the first quarter of this year, growth came almost entirely from exports of tourism services.

The growth forecast for the second quarter remains unchanged at 0.3%, and that for the second half of the year is unchanged or slightly lower than in the previous Panel. Despite this, the effect of the upward revision of the figure for the fourth quarter of 2022, together with the better-than-expected result in the first quarter of 2023, has led to an upward revision in the growth forecast for the year as a whole by four tenths of a percentage point to 2.1%.

The contribution of domestic demand has dropped to 0.8 percentage points (two tenths less than in the previous Panel). Conversely, the contribution of net exports has been revised upwards to 1.3 points (three tenths more).

## **The forecast for 2024 unchanged at 1.8%**

The growth projection for 2024 remains unchanged at 1.8%. This figure is below the forecasts of the main national and international agencies. This result will come entirely from domestic demand. Specifically, both consumption and investment are expected to recover, so that the slowdown in GDP compared to 2023 will be the result of a slowdown in the external sector.

## **Downward revision of the inflation forecast**

The overall inflation rate stood at 1.9% in June, less than expected by panelists in the previous

consensus. However, this result could be the minimum for the year, since the outlook for the coming months is that inflation will rise again in year-on-year terms, reflecting base effects. All in all, the average annual consensus forecast has been lowered to 3.6%, and the forecast for next year remains at 2.9%.

As for the core inflation rate, the forecast for this year's average is 5.7%, and next year's has been lowered to 3.1%. The expected year-on-year rates for December 2023 and December 2024 are 3.7% and 2.3%, respectively.

## **Employment will continue to grow and the unemployment rate will fall to 12.2% in 2024, which is higher than the structural rate**

Although at the time of writing, the results of the second quarter *Labor Force Survey* were not yet available, the evolution of Social Security enrollment suggests that job creation has maintained its positive momentum. In June, a slowdown was detected, but it is too early to know whether this represents a change in trend.

The average employment growth estimate for 2023 has been increased by one tenth to 1.4%, while the forecast for 2024 remains at 1.3%. As for the unemployment rate, an annual average of 12.6% is expected for this year and 12.2% for next year.

In this edition of the Panel, participants were asked an additional question regarding their estimate of the structural unemployment rate. The average response places it at 11.7%. The range of estimates is between 8% and 15%, with the majority concentrated between 10% and 11%. In short, according to most of the panelists, the unemployment rate is still above its structural level.

The implicit forecast for productivity and unit labor cost (ULC) growth is based on forecasts of GDP, employment and wage growth. Productivity per full-time equivalent job will grow by 0.7% this year

and 0.5% in 2024, meanwhile ULCs will increase 3% in 2023 and another 3% in 2024.

### **Significant improvement in the trade surplus**

The current account recorded a surplus of 10.323 billion euros in the first quarter, which represents 2.9% of GDP, the best result for a first quarter in the entire historical series. On the one hand, the goods trade deficit narrowed, thanks to the fall in energy prices and the shift from deficit to surplus in the non-energy balance. On the other hand, the surplus in the services balance increased sharply, with respect to both tourism and non-tourism services.

The consensus forecast for the current account surplus has been raised to 1.4% of GDP in 2023, and 1.1% of GDP in 2024.

### **Public deficit outlook largely unchanged**

The General Government registered a deficit of 2.2 billion euros in the first quarter of 2023, compared to 6 billion a year earlier. The improvement was due to the strong growth in tax collection, especially in personal income and Social Security contributions.

The Panel foresees a reduction in the General Government deficit over the next two years, to 4.1% of GDP in 2023 and 3.5% in 2024, slightly lower than in the May Panel.

### **The international environment is unfavorable, especially in the EU**

Recent trends point to a weakening of the international environment, especially in Europe. In June, the PMI for the eurozone fell to just below 50, pointing to a contraction in activity. The trend is also towards a slowdown in the US and China, albeit less pronounced than in Europe, with PMI indicators still in expansionary territory. In general, the slowdown is more significant in industry than in the service sectors, which could evidence a change in global demand patterns.

In its latest outlook, the OECD predicts global growth of less than 3% in both 2023 and 2024, a significant decline compared to 2022 which would be mainly due to the tightening of monetary policy. The economic weakening would mostly affect the eurozone.

In line with these forecasts, the majority of panelists consider the external environment to be unfavorable, especially in the EU (no major changes compared to the previous Panel). All but one consider that this context will either continue or even worsen in the coming months.

### **Monetary and credit tightening continues**

At its last meeting, the ECB raised its main interest rates by 25 basis points, and statements from key monetary policymakers suggest that the tightening cycle is not over as yet. Although the headline CPI is moderating, its underlying components continue to grow at a rate still well above the price stability target, motivating the process of monetary tightening. On the other hand, the central bank is monitoring the possible emergence of second-round effects in terms of wages, with labor markets that continue to be stressed in most of the economies that make up the euro.

The ECB's *Financial Stability Report* released since the previous Panel confirms that monetary policy is generating a significant tightening of financial conditions. The report also points to risks of disorderly market adjustments.

In this context, analysts maintain their forecast for monetary policy tightening. The ECB's deposit facility is expected to maintain its upward trend until the end of the year, to close to 4% according to most panelists, and would start a downward path from the first quarter of next year. However, both the interest rate peak and its terminal value reached at the end of 2024 will reach higher levels than expected in the previous Panel.

Short-term market rates have also been adjusted compared to May's valuations. The one-year Euribor could exceed 4% by the end of 2023 (a threshold that was not reached in the previous Panel), and subsequently follow a downward trend. As for 10-year Spanish government bonds, little change is expected compared to May's consensus.

### **Euro appreciation against the dollar**

The rate hike path is expected to last longer in Europe than in the US, where the Federal Reserve has paused its adjustments. Given the lower expected interest rate differential between the two sides of the Atlantic, analysts forecast an appreciation of the euro against the dollar in the

coming months (Table 2), unchanged from the previous consensus.

**Fiscal policy should refrain from being expansionary**

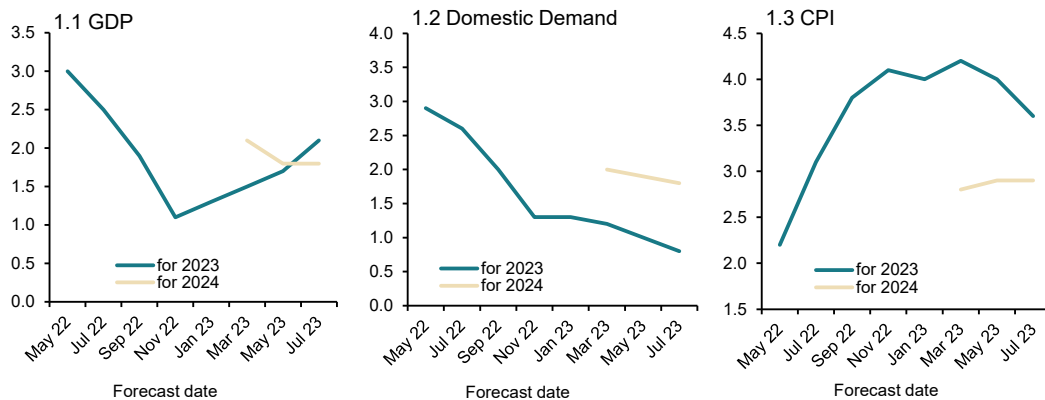
The panelists maintain their assessments regarding macroeconomic policy. Most of them continue to consider fiscal policy to be expansionary (Table 4),

and they all believe that this policy should be more neutral or even restrictive in relation to the economic cycle. On the other hand, almost all panelists agree that current monetary policy is restrictive, this being an appropriate stance in light of the inflationary pressures – an assessment practically unchanged from the previous consensus.

Exhibit 1

**Change in forecasts (Consensus values)**

Annual rates in %



Source: Funcas Panel of Forecasts.

\* The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 18 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the months of January, March, May, July, September and November. The responses to the survey are used to produce a “consensus” forecast, which is calculated as the arithmetic mean of the 18 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

# Spanish economic forecasts panel: July 2023\*

Funcas Economic Trends and Statistics Department

Table 1

## Economic Forecasts for Spain – July 2023

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand <sup>3</sup>	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Analistas Financieros Internacionales (AFI)	2.2	1.6	0.0	1.5	1.3	2.0	1.7	3.2	2.2	4.8	1.3	1.5	0.7	2.0
BBVA Research	2.4	2.1	0.7	2.6	1.8	2.9	2.7	5.6	1.6	5.8	3.0	6.1	1.6	3.3
CaixaBank Research	2.0	1.8	0.6	2.0	0.7	0.4	0.8	2.9	0.6	5.0	0.7	1.7	0.7	1.9
Cámara de Comercio de España	1.9	2.3	-0.7	2.1	0.9	0.9	0.3	4.7	-1.2	3.9	1.0	5.2	0.3	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.2	1.8	1.1	2.0	1.4	0.8	2.8	1.9	1.6	2.5	3.8	1.5	1.4	1.7
Centro de Predicción Económica (CEPREDE-UAM)	1.7	2.5	0.5	2.3	1.5	2.6	2.1	5.6	0.7	5.6	2.6	6.1	0.1	2.6
CEOE	2.0	1.4	0.0	0.8	1.3	0.9	2.0	2.5	-1.6	1.9	4.0	2.1	0.8	1.2
Equipo Económico (Ee)	2.4	1.9	0.6	0.9	0.8	0.7	3.0	4.5	1.8	4.7	3.4	4.3	1.1	1.6
EthiFinance Ratings	2.1	2.0	1.0	2.0	0.6	1.7	2.0	2.6	1.1	1.8	3.1	3.0	--	--
Funcas	2.2	1.6	0.1	1.4	0.9	0.8	1.0	2.0	2.0	2.1	1.1	1.5	0.6	1.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.5	2.4	1.3	1.9	2.1	1.8	0.8	2.5	0.2	4.4	1.2	1.2	1.1	1.8
Instituto de Estudios Económicos (IEE)	1.8	1.3	0.1	0.5	1.3	1.0	1.7	2.4	1.5	1.8	4.0	2.1	0.8	1.0
Intermoney	2.1	2.2	0.3	2.8	0.8	0.9	1.8	3.6	0.9	3.5	2.7	3.8	0.7	2.5
Mapfre Economics	2.2	1.9	0.8	2.1	1.2	1.1	0.6	1.5	--	--	--	--	1.1	1.6
Oxford Economics	2.5	1.3	0.9	2.1	1.2	1.1	-0.2	2.1	-1.4	1.6	3.0	1.9	1.1	1.7
Repsol	2.3	1.8	-0.2	2.0	1.5	1.1	2.8	3.1	4.3	3.7	2.1	2.4	0.2	1.8
Santander	2.1	1.2	0.2	1.9	1.0	0.5	0.9	4.6	0.2	5.4	0.7	3.8	0.3	2.1
Universidad Loyola Andalucía	1.8	1.9	0.8	1.7	1.1	1.3	1.9	2.8	-0.8	2.0	2.2	3.9	0.5	1.2
<b>CONSENSUS (AVERAGE)</b>	<b>2.1</b>	<b>1.8</b>	<b>0.4</b>	<b>1.8</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>3.2</b>	<b>0.8</b>	<b>3.6</b>	<b>2.4</b>	<b>3.1</b>	<b>0.8</b>	<b>1.8</b>
Maximum	2.5	2.5	1.3	2.8	2.1	2.9	3.0	5.6	4.3	5.8	4.0	6.1	1.6	3.3
Minimum	1.7	1.2	-0.7	0.5	0.6	0.4	-0.2	1.5	-1.6	1.6	0.7	1.2	0.1	1.0
Change on 2 months earlier <sup>1</sup>	0.4	0.0	-0.3	-0.1	-0.3	0.1	0.1	-0.2	0.0	-0.1	0.2	-0.1	-0.2	-0.1
- Rise <sup>2</sup>	15	5	5	4	5	6	8	7	6	6	5	5	2	5
- Drop <sup>2</sup>	0	6	9	8	7	4	7	5	8	7	8	6	9	5
Change on 6 months earlier <sup>1</sup>	0.8	--	-0.8	--	0.3	--	-1.3	--	-1.4	--	-0.7	--	-0.5	--
Memorandum items:														
Government (April 2023)	2.1	2.4	2.1	3.0	1.9	0.9	0.9	5.0	--	--	--	--	1.7	2.9
Bank of Spain (June 2023)	2.3	2.2	0.2	3.3	0.6	0.8	1.7	4.1	--	--	--	--	0.6	2.8
EC (May 2023)	1.9	2.0	0.9	2.3	1.7	0.6	2.2	4.2	1.8	5.3	2.3	3.9	1.3	2.3
IMF (April 2023)	1.5	2.0	1.1	1.7	2.0	0.7	1.3	3.9	--	--	--	--	--	--
OECD (June 2023)	2.1	1.9	0.5	2.0	1.8	2.0	0.0	2.9	--	--	--	--	0.8	1.9

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panellists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Contribution to GDP growth, in percentage points.

Table 1 (Continued)

**Economic Forecasts for Spain – July 2023**

Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Wage earnings <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. of payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Analistas Financieros Internacionales (AFI)	6.9	1.9	3.4	2.9	3.5	3.0	5.8	3.4	4.0	4.0	2.0	1.4	12.2	12.2	0.4	0.1	-3.8	-3.7
BBVA Research	5.2	2.9	3.4	5.8	3.4	3.2	6.1	3.0	3.4	5.0	1.6	1.6	12.3	11.7	2.2	2.0	-4.2	-3.5
CaixaBank Research	5.1	1.6	2.2	1.9	3.9	2.8	6.2	2.9	2.9	2.9	1.8	1.5	12.6	12.2	0.8	1.0	-4.2	-3.4
Cámara de Comercio de España	6.1	1.8	1.5	0.9	3.8	2.2	5.9	3.3	--	--	1.3	1.2	13.2	12.7	0.9	0.4	-4.4	-3.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.4	3.4	3.2	3.2	4.2	3.3	5.0	3.2	--	--	1.4	1.2	12.6	12.0	1.2	1.0	-4.1	-3.4
Centro de Predicción Económica (CEPREDE-UAM)	7.8	4.6	3.8	5.5	3.2	2.7	--	--	3.5	3.4	0.7	2.1	13.3	12.6	3.3	2.9	-3.9	-3.0
CEOE	6.4	3.3	3.4	3.0	3.5	2.8	6.2	3.1	4.0	2.9	1.7	1.0	12.5	12.4	1.0	0.8	-4.2	-3.8
Equipo Económico (Ee)	6.4	3.5	3.2	3.1	3.7	3.5	5.0	3.4	3.9	3.6	1.9	1.5	12.3	11.9	0.9	0.8	-3.9	-3.7
EthiFinance Ratings	6.3	3.8	0.1	4.1	3.2	3.3	4.3	2.6	--	--	--	--	12.6	12.1	1.0	1.0	-3.9	-3.8
Funcas	6.9	3.0	3.1	2.7	3.9	3.5	6.3	3.1	4.0	3.5	1.2	1.0	12.3	11.6	2.8	2.6	-4.3	-3.7
Instituto Complutense de Análisis Económico (ICAE-UCM)	7.2	4.4	3.7	3.2	3.5	2.8	5.7	3.0	--	--	1.1	1.7	12.5	11.9	0.5	0.6	-3.9	-3.2
Instituto de Estudios Económicos (IEE)	6.2	3.6	3.8	2.9	3.7	2.9	6.3	3.0	3.7	2.9	1.5	0.9	12.8	12.7	0.9	0.8	-4.3	-3.9
Intermoney	6.2	3.0	2.9	3.8	4.0	3.5	4.3	2.5	--	--	1.5	2.0	12.7	12.0	1.2	--	-4.0	-3.6
Mapfre Economics	4.4	2.5	2.3	2.3	3.4	2.5	5.8	3.5	--	--	--	--	13.3	13.0	2.4	1.7	-4.3	-3.1
Oxford Economics	5.1	1.0	1.3	2.1	3.3	2.3	5.9	2.4	--	--	--	--	12.7	12.8	2.6	1.7	-3.7	-3.5
Repsol	6.6	5.5	1.7	6.2	3.3	2.7	5.9	3.0	4.0	3.0	1.2	0.9	12.4	12.0	0.9	0.5	-4.4	-3.5
Santander	6.2	1.9	3.4	4.7	3.5	2.7	5.9	2.8	--	--	1.5	1.1	12.6	11.9	--	--	--	--
Universidad Loyola Andalucía	5.8	1.9	2.9	2.6	3.4	1.9	6.8	4.0	--	--	1.2	0.6	12.6	12.1	0.5	0.3	-3.9	-3.7
<b>CONSENSUS (AVERAGE)</b>	<b>6.1</b>	<b>3.0</b>	<b>2.7</b>	<b>3.4</b>	<b>3.6</b>	<b>2.9</b>	<b>5.7</b>	<b>3.1</b>	<b>3.7</b>	<b>3.5</b>	<b>1.4</b>	<b>1.3</b>	<b>12.6</b>	<b>12.2</b>	<b>1.4</b>	<b>1.1</b>	<b>-4.1</b>	<b>-3.5</b>
Maximum	7.8	5.5	3.8	6.2	4.2	3.5	6.8	4.0	4.0	5.0	2.0	2.1	13.3	13.0	3.3	2.9	-3.7	-3.0
Minimum	4.4	1.0	0.1	0.9	3.2	1.9	4.3	2.4	2.9	2.9	0.7	0.6	12.2	11.6	0.4	0.1	-4.4	-3.9
Change on 2 months earlier <sup>1</sup>	1.6	-0.3	0.1	-0.3	-0.4	0.0	-0.1	-0.3	-0.3	0.1	0.1	0.0	-0.2	-0.3	0.4	0.3	0.1	0.2
- Rise <sup>2</sup>	12	5	7	3	0	6	5	4	3	3	7	6	1	1	7	6	7	5
- Drop <sup>2</sup>	1	7	8	8	17	5	10	7	3	1	2	4	10	11	0	0	2	3
Change on 6 months earlier <sup>1</sup>	3.0	--	-0.6	--	-0.4	--	1.2	--	0.3	--	0.4	--	-0.4	--	1.1	--	0.2	--
Memorandum items:																		
Government (April 2023)	1.5	2.5	0.7	3.9	--	--	--	--	--	--	2.1	2.3	12.2	10.9	--	--	-3.9	-3.0
Bank of Spain (June 2023)	7.1	2.2	3.2	4.0	3.2 <sup>(6)</sup>	3.6 <sup>(6)</sup>	4.1 <sup>(7)</sup>	2.1 <sup>(7)</sup>	--	--	1.7 <sup>(8)</sup>	1.8 <sup>(8)</sup>	12.2	11.5	--	--	-3.8	-3.4
EC (May 2023)	4.1	3.3	2.8	4.2	4.0 <sup>(6)</sup>	2.7 <sup>(6)</sup>	4.9	3	4.7	3.5	1.1	1.3	12.7	12.4	1.6	1.5	-4.1	-3.3
IMF (April 2023)	2.8	3.8	3.1	3.8	4.3 <sup>(6)</sup>	3.2 <sup>(6)</sup>	--	--	--	--	0.8	0.6	12.6	12.4	0.9	0.8	-4.5	-3.5
OECD (June 2023)	5.8	2.4	2.9	3.2	3.9 <sup>(6)</sup>	3.9 <sup>(6)</sup>	4.8 <sup>(6)</sup>	3.7 <sup>(6)</sup>	--	--	--	--	12.8	12.4	4.0	3.6	-3.5	-3.2

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panellists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Average earnings per full-time equivalent job.

<sup>4</sup> In National Accounts terms: Full-time equivalent jobs.

<sup>5</sup> Current account balance, according to Bank of Spain estimates.

<sup>6</sup> Harmonized Index of Consumer Prices (HICP).

<sup>7</sup> Harmonized Index excluding energy and food.

<sup>8</sup> Hours worked.

Table 2

### Quarterly Forecasts – July 2023

	23-I Q	23-II Q	23-III Q	23-IV Q	24-I Q	24-II Q	24-III Q	24-IV Q
GDP <sup>1</sup>	0.5	0.3	0.1	0.2	0.4	0.6	0.6	0.5
Euribor 1 yr <sup>2</sup>	3.65	4.01	4.05	4.03	3.90	3.70	3.52	3.33
Government bond yield 10 yr <sup>2</sup>	3.43	3.41	3.49	3.49	3.41	3.34	3.29	3.25
ECB main refinancing operations interest rate <sup>3</sup>	3.50	4.00	4.31	4.32	4.17	3.94	3.66	3.38
ECB deposit rates <sup>3</sup>	3.00	3.50	3.79	3.82	3.67	3.45	3.22	2.94
Dollar / Euro exchange rate <sup>2</sup>	1.07	1.08	1.09	1.10	1.10	1.11	1.11	1.11

Forecasts in yellow.

<sup>1</sup> Qr-on-qr growth rates.

<sup>2</sup> End of period.

<sup>3</sup> Last day of the quarter.

Table 3

### CPI Forecasts – July 2023

Year-on-year change (%)					
Jun-23	Jul-23	Aug-23	Sep-23	Dec-23	Dec-24
1.9	2.0	2.2	2.9	3.7	2.3

Table 4

### Opinions – July 2023

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	2	16	1	13	4
International context: Non-EU	0	5	13	1	13	4
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	0	3	15	4	14	0
Monetary policy assessment <sup>1</sup>	15	2	1	13	5	0

<sup>1</sup> In relation to the current state of the Spanish economy.



# Key Facts

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# Economic Indicators

Table 1

## National accounts: GDP and main expenditure components SWDA\*

Forecasts in yellow

	GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)	
				Total	Construction	Equipment & others products					
Chain-linked volumes, annual percentage changes											
2016	3.0	2.7	1.0	2.4	1.6	3.1	5.4	2.6	2.0	1.0	
2017	3.0	3.0	1.0	6.8	6.7	6.9	5.5	6.8	3.1	-0.2	
2018	2.3	1.7	2.3	6.3	9.5	3.4	1.7	3.9	2.9	-0.6	
2019	2.0	1.1	1.9	4.5	7.2	1.8	2.2	1.3	1.6	0.4	
2020	-11.3	-12.2	3.5	-9.7	-10.2	-9.2	-19.9	-14.9	-9.1	-2.2	
2021	5.5	6.0	2.9	0.9	-3.7	5.8	14.4	13.9	5.2	0.3	
2022	5.5	4.4	-0.7	4.6	4.7	4.6	14.4	7.9	3.1	2.4	
2023	2.2	0.1	0.9	1.0	1.1	0.9	6.9	3.1	0.6	1.6	
2024	1.6	1.4	0.8	2.0	1.5	2.6	3.0	2.7	1.3	0.3	
2022	I	6.3	4.6	-1.2	3.8	0.6	7.1	17.1	12.6	4.6	1.7
	II	7.7	5.1	-2.6	6.0	6.5	5.4	20.1	8.6	3.7	4.0
	III	4.9	4.9	-1.3	6.3	6.9	5.6	14.2	8.8	2.9	2.0
	IV	3.1	3.0	2.5	2.5	4.7	0.2	7.2	2.1	1.1	1.9
2023	I	4.2	1.6	1.4	0.7	4.9	-3.4	10.2	3.3	1.3	2.8
	II	1.9	-0.1	2.4	-1.4	-2.2	-0.6	5.4	2.3	0.5	1.4
	III	1.7	-1.5	0.9	0.3	-0.4	1.2	5.5	0.7	-0.2	1.9
	IV	1.2	0.4	-1.1	4.6	2.6	6.9	6.8	6.3	0.8	0.5
Chain-linked volumes, quarter-on-quarter percentage changes											
2022	I	-0.5	0.0	-0.5	3.6	0.7	6.5	2.8	1.4	-1.1	0.6
	II	2.6	2.6	-0.8	3.3	7.8	-1.1	4.9	2.2	1.6	1.1
	III	0.4	1.9	1.8	-0.5	-1.0	0.0	0.4	3.0	1.3	-0.9
	IV	0.5	-1.6	2.1	-3.7	-2.6	-4.9	-1.0	-4.4	-0.7	1.2
2023	I	0.6	-1.3	-1.6	1.8	0.9	2.7	5.7	2.6	-0.8	1.4
	II	0.4	0.9	0.2	1.1	0.5	1.7	0.3	1.2	0.8	-0.4
	III	0.2	0.5	0.2	1.3	0.8	1.8	0.5	1.4	0.6	-0.4
	IV	0.0	0.3	0.1	0.4	0.4	0.5	0.3	1.0	0.3	-0.3
Percentage of GDP at current prices											
	Current prices (EUR billions)										
2016	1,114	58.2	19.1	18.0	8.6	9.4	33.9	29.9	96.0	4.0	
2017	1,162	58.3	18.7	18.7	9.0	9.7	35.1	31.5	96.4	3.6	
2018	1,204	58.1	18.7	19.4	9.7	9.7	35.1	32.4	97.3	2.7	
2019	1,246	57.4	18.9	20.0	10.4	9.7	34.9	32.0	97.1	2.9	
2020	1,118	56.1	22.0	20.4	10.5	9.8	30.8	29.3	98.5	1.5	
2021	1,207	56.2	21.4	19.8	10.0	9.8	34.9	33.4	98.5	1.5	
2022	1,327	57.0	20.5	20.1	10.3	9.7	41.6	40.1	98.6	1.4	
2023	1,421	55.5	20.0	19.7	10.2	9.5	43.6	39.8	96.2	3.8	
2024	1,493	55.4	19.8	19.8	10.2	9.7	44.2	40.3	96.0	4.0	

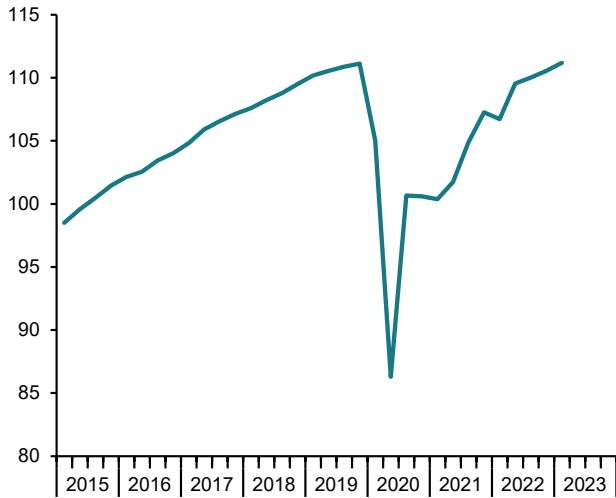
\*Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

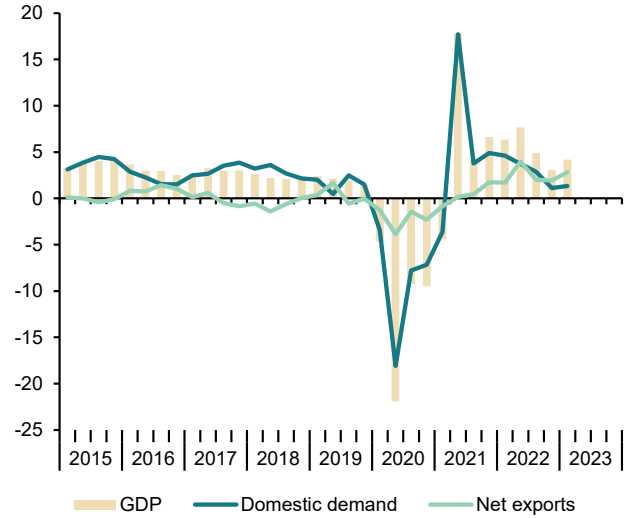
**Chart 1.1 - GDP**

Level, 2015=100



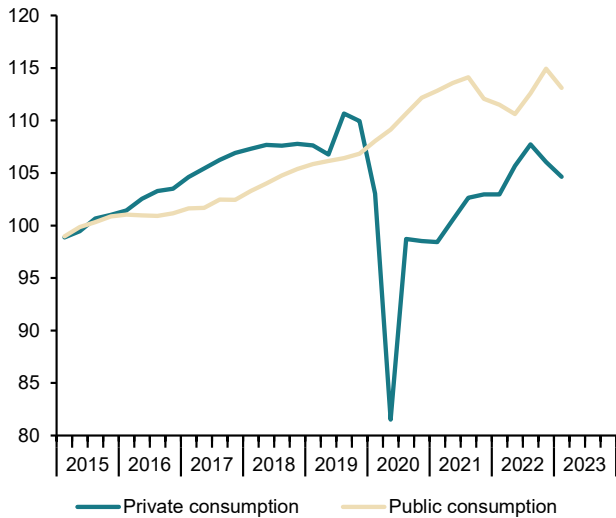
**Chart 1.2 - Contribution to GDP annual growth**

Percentage points



**Chart 1.3 - Consumption**

Level, 2015=100



**Chart 1.4 - Gross fixed capital formation**

Level, 2015=100

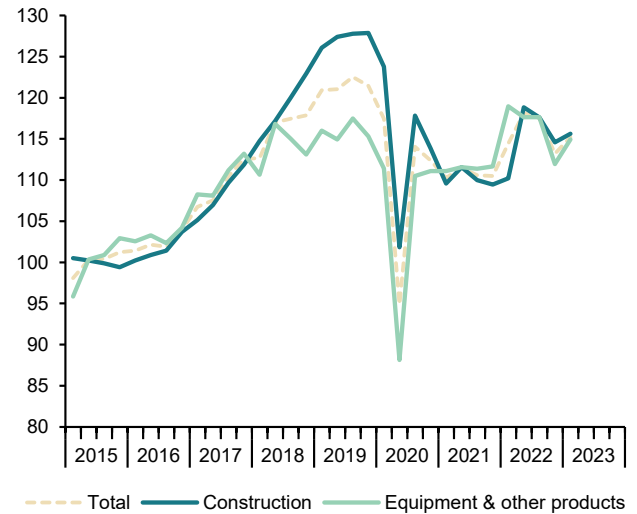


Table 2

**National accounts: Gross value added by economic activity SWDA\***

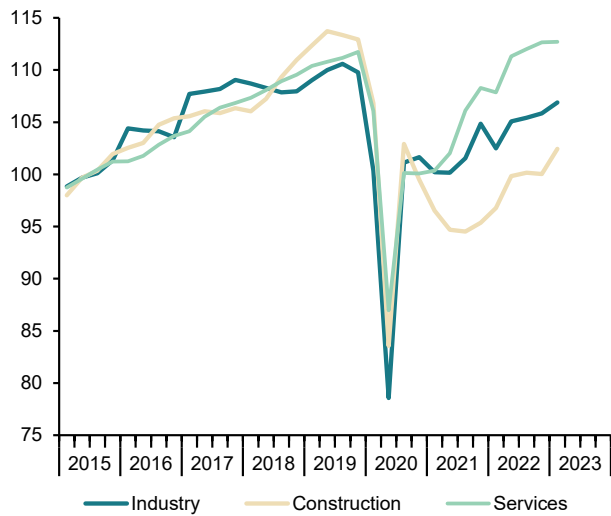
		Gross value added at basic prices								
		Industry			Services					
		Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
Chain-linked volumes, annual percentage changes										
2016		2.8	4.8	4.1	2.3	3.9	2.4	1.4	2.7	5.2
2017		3.1	-3.7	4.0	5.7	2.0	3.3	2.5	3.5	1.9
2018		2.3	7.5	0.0	-1.1	2.3	2.6	1.6	2.9	2.1
2019		2.1	-5.9	1.5	0.5	4.3	2.3	1.5	2.6	1.0
2020		-11.4	4.5	-13.1	-15.4	-13.2	-11.4	-1.4	-14.6	-10.8
2021		5.4	2.1	6.6	8.9	-3.0	6.0	1.1	7.8	6.7
2022		5.5	-1.1	3.0	3.8	4.1	6.5	-1.4	9.2	4.6
2021	II	17.9	0.0	27.5	36.1	13.3	17.3	3.2	23.4	17.6
	III	4.1	2.5	0.4	3.0	-8.2	6.0	1.2	7.7	5.3
	IV	6.4	1.8	3.2	4.0	-4.1	8.2	-1.3	11.7	8.7
2022	I	6.1	4.1	2.3	4.3	0.3	7.5	-3.0	11.3	8.8
	II	7.8	-3.1	4.9	6.0	5.4	9.1	-2.5	13.3	6.3
	III	5.0	-2.7	3.8	3.3	6.0	5.5	-1.4	7.9	3.7
	IV	3.4	-2.4	0.9	1.9	4.9	4.0	1.2	4.9	0.1
2023	I	4.5	2.8	4.3	5.6	5.8	4.5	1.1	5.6	1.5
Chain-linked volumes, quarter-on-quarter percentage changes										
2021	II	1.2	1.2	0.0	0.7	-1.9	1.7	0.1	2.2	3.4
	III	3.2	0.4	1.4	3.6	-0.2	4.0	-0.7	5.7	1.7
	IV	2.2	4.1	3.3	2.0	0.9	2.0	-0.5	2.9	2.7
2022	I	-0.6	-1.5	-2.3	-2.0	1.5	-0.4	-1.9	0.1	0.7
	II	2.8	-5.9	2.5	2.3	3.2	3.2	0.6	4.0	1.1
	III	0.6	0.8	0.3	1.0	0.3	0.6	0.4	0.7	-0.8
	IV	0.6	4.4	0.4	0.6	-0.1	0.6	2.1	0.1	-0.8
2023	I	0.4	3.8	1.0	1.5	2.4	0.0	-2.0	0.7	2.1
		Current prices EUR billions)	Percentage of value added at basic prices							
2016		1,011	3.1	16.2	12.4	5.9	74.9	18.4	56.5	10.2
2017		1,054	3.1	16.2	12.5	5.9	74.8	18.1	56.7	10.3
2018		1,089	3.0	16.0	12.2	5.9	75.0	18.1	56.9	10.5
2019		1,130	2.7	15.8	12.0	6.3	75.2	18.2	57.0	10.3
2020		1,020	3.1	16.0	12.1	6.1	74.8	20.3	54.5	9.6
2021		1,091	2.9	16.9	12.8	5.6	74.6	19.2	55.4	10.6
2022		1,207	2.6	17.6	12.8	5.2	74.5	17.7	56.8	10.0

\* Seasonally and Working Day Adjusted.

Source: INE.

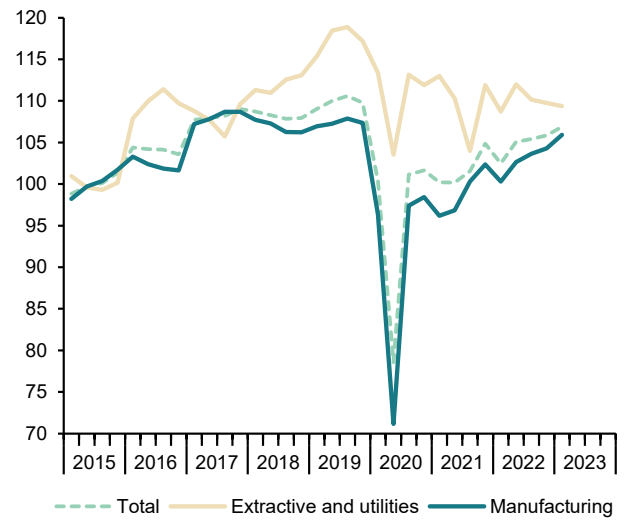
**Chart 2.1 - GVA by sectors**

Level, 2015=100



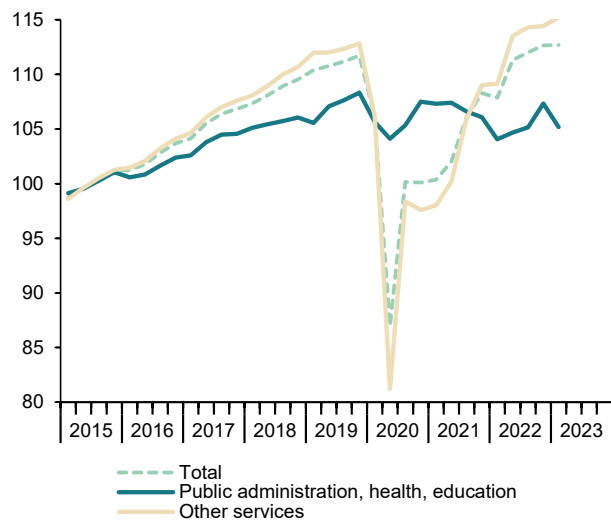
**Chart 2.2 - GVA. Industry**

Level, 2015=100



**Chart 2.3 - GVA, services**

Annual percentage change



**Chart 2.4 - GVA. structure by sectors**

Percentage of value added at basic prices

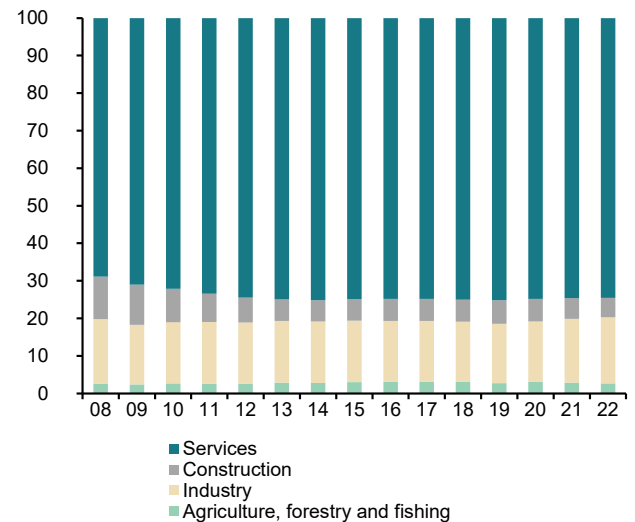


Table 3

**National accounts: Productivity and labour costs**

Forecasts in yellow

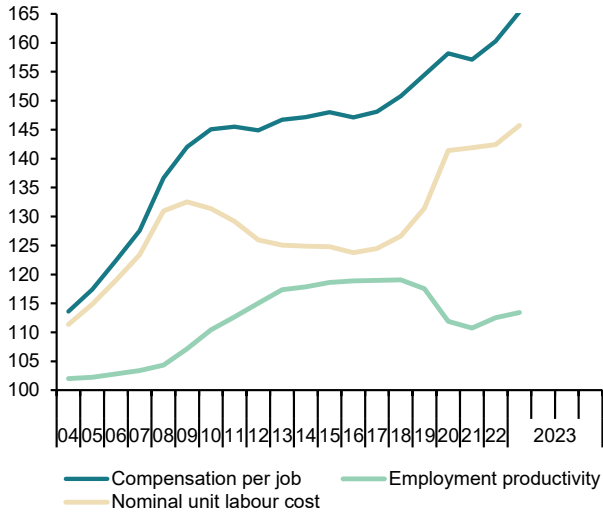
	Total economy						Manufacturing Industry						
	GDP constant prices	Employment (jobs. full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added constant prices	Employment (jobs. full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12	
Indexes. 2015 = 100. SWDA													
2016	103.0	102.8	100.2	99.4	99.2	98.8	102.3	103.5	98.9	100.1	101.3	100.5	
2017	106.1	105.8	100.3	100.1	99.8	98.2	108.1	106.6	101.4	101.5	100.1	100.1	
2018	108.5	108.1	100.4	101.9	101.5	98.6	106.9	108.7	98.3	102.7	104.5	102.4	
2019	110.7	111.7	99.1	104.4	105.3	100.9	107.4	110.6	97.1	104.3	107.4	103.3	
2020	98.1	104.0	94.3	106.9	113.3	107.2	90.8	105.7	85.9	105.3	122.6	110.1	
2021	103.6	110.9	93.4	106.2	113.7	105.2	98.9	107.7	91.8	105.7	115.1	99.6	
2022	109.2	115.1	94.9	108.3	114.1	101.3	102.7	110.7	92.8	107.1	115.5	93.5	
2023	111.6	116.5	95.8	112.6	117.5	99.5	--	--	--	--	--	--	
2024	113.4	117.7	96.4	116.6	120.9	99.0	--	--	--	--	--	--	
2021	II	101.7	109.1	93.2	105.4	113.1	105.9	96.9	107.9	89.8	105.2	117.2	102.6
	III	104.9	112.7	93.0	106.5	114.5	105.9	100.3	107.4	93.4	109.5	117.2	100.6
	IV	107.3	113.8	94.3	106.3	112.7	102.1	102.4	110.0	93.0	105.8	113.8	96.9
2022	I	106.7	113.7	93.9	106.3	113.2	102.2	100.3	107.9	92.9	102.2	110.0	92.3
	II	109.5	114.7	95.5	107.3	112.3	101.0	102.6	111.9	91.7	105.6	115.2	94.7
	III	110.0	115.9	94.9	109.0	114.9	101.9	103.6	111.0	93.4	110.5	118.3	95.0
	IV	110.5	116.1	95.2	110.5	116.1	100.0	104.3	112.2	93.0	110.1	118.4	92.0
2023	I	111.2	116.3	95.6	111.7	116.8	99.3	105.9	111.9	94.6	106.6	112.6	86.4
Annual percentage changes													
2016	3.0	2.8	0.2	-0.6	-0.8	-1.2	2.3	3.5	-1.1	0.1	1.3	0.5	
2017	3.0	2.9	0.1	0.7	0.6	-0.7	5.7	3.0	2.6	1.4	-1.1	-0.4	
2018	2.3	2.2	0.1	1.8	1.7	0.5	-1.1	2.0	-3.1	1.1	4.3	2.3	
2019	2.0	3.3	-1.3	2.4	3.8	2.3	0.5	1.7	-1.2	1.6	2.8	0.8	
2020	-11.3	-6.8	-4.8	2.4	7.6	6.3	-15.4	-4.4	-11.5	1.0	14.1	6.6	
2021	5.5	6.6	-1.0	-0.7	0.3	-1.9	8.9	1.9	6.9	0.4	-6.1	-9.5	
2022	5.5	3.8	1.6	2.0	0.4	-3.7	3.8	2.8	1.0	1.3	0.3	-6.2	
2023	2.2	1.2	1.0	4.0	2.9	-1.7	--	--	--	--	--	--	
2024	1.6	1.0	0.6	3.5	2.9	-0.5	--	--	--	--	--	--	
2021	II	17.9	18.9	-0.9	-3.7	-2.8	-4.1	36.1	11.3	22.2	1.0	-17.4	-14.7
	III	4.2	6.4	-2.0	-0.5	1.5	-0.6	3.0	1.6	1.3	2.2	0.8	-3.6
	IV	6.6	6.0	0.6	-0.3	-0.9	-4.5	4.0	1.9	2.0	-0.1	-2.1	-6.8
2022	I	6.3	5.2	1.0	-0.1	-1.1	-4.6	4.3	2.1	2.1	-0.1	-2.2	-6.3
	II	7.7	5.1	2.5	1.8	-0.6	-4.6	6.0	3.7	2.1	0.4	-1.7	-7.8
	III	4.9	2.8	2.0	2.4	0.4	-3.8	3.3	3.4	0.0	0.9	1.0	-5.6
	IV	3.1	2.0	1.0	4.0	3.0	-2.0	1.9	1.9	0.0	4.0	4.0	-5.0
2023	I	4.2	2.3	1.9	5.1	3.2	-2.9	5.6	3.7	1.9	4.3	2.4	-6.4

(a) Nominal ULC deflated by GDP/GVA deflator.

Source: INE and Funcas (Forecasts).

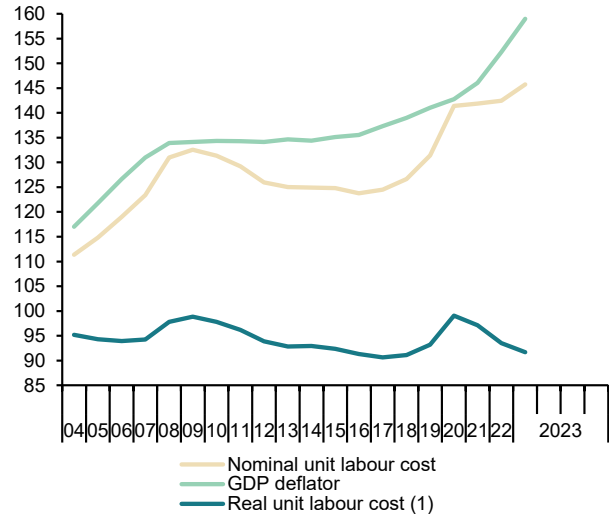
**Chart 3.1 - Nominal ULC, total economy**

Index, 2000=100



**Chart 3.2 - Real ULC, total economy**

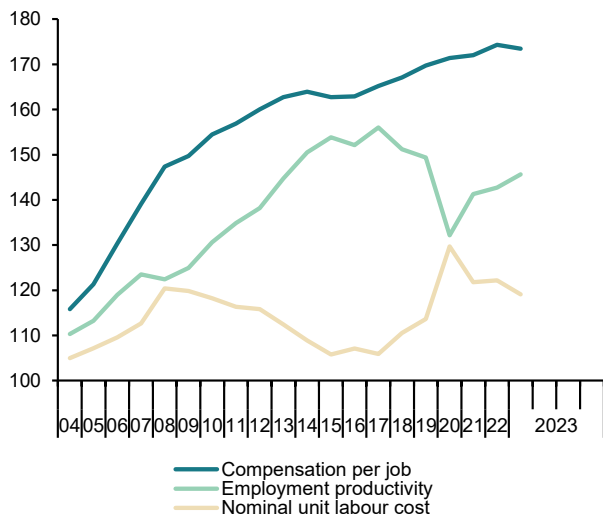
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

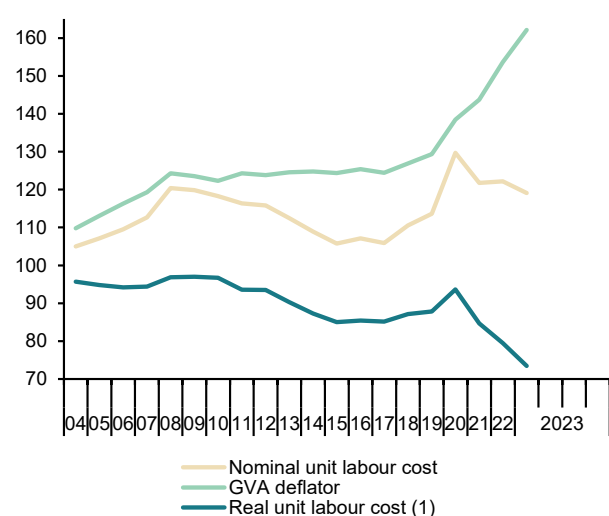
**Chart 3.3 - Nominal ULC, manufacturing industry**

Index, 2000=100



**Chart 3.4 - Real ULC, manufacturing industry**

Index, 2000=100



(1) Nominal ULC deflated by manufacturing GVA deflator.



Table 4

### National accounts: National income, distribution and disposition

Forecasts in yellow

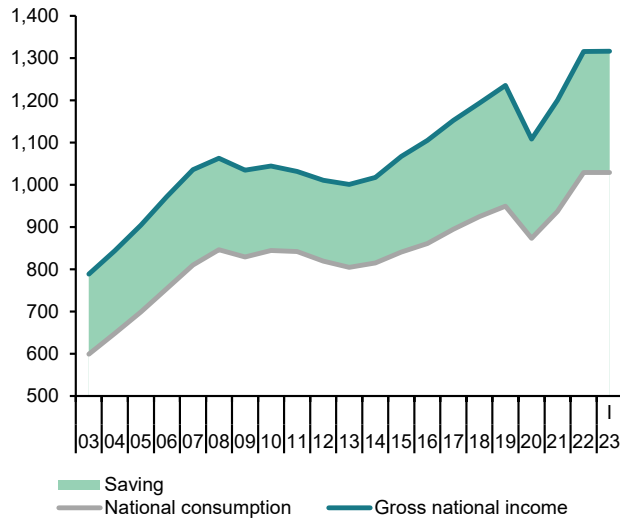
	Gross domestic product	Compensation of employees	Gross operating surplus	Gross national disposable income	Final national consumption	Gross national saving (a)	Gross capital formation	Compensation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing	
	EUR Billions, 4-quarter cumulated transactions							Percentage of GDP						
2016	1,114.4	503.7	496.4	1,105.4	861.1	244.2	208.9	45.2	44.5	21.9	18.7	3.2	3.4	
2017	1,162.5	523.7	519.0	1,152.8	895.1	257.7	225.5	45.0	44.6	22.2	19.4	2.8	3.0	
2018	1,203.9	545.7	532.0	1,193.8	924.8	269.0	246.4	45.3	44.2	22.3	20.5	1.9	2.4	
2019	1,245.5	579.4	538.5	1,235.1	949.5	285.7	259.4	46.5	43.2	22.9	20.8	2.1	2.4	
2020	1,118.0	555.7	460.4	1,108.5	873.6	234.8	228.1	49.7	41.2	21.0	20.4	0.6	1.1	
2021	1,206.8	585.0	496.3	1,200.5	937.4	263.1	251.5	48.5	41.1	21.8	20.8	1.0	1.9	
2022	1,327.1	622.7	572.8	1,316.0	1,029.3	286.7	279.1	46.9	43.2	21.6	21.0	0.6	1.5	
2023	1,420.9	656.1	619.0	1,407.4	1,073.0	334.5	294.6	46.2	43.6	23.5	20.7	2.8	3.4	
2024	1,493.3	687.1	645.1	1,472.6	1,122.9	349.6	311.1	46.0	43.2	23.4	20.8	2.6	3.0	
2021	II	1,157.6	568.8	473.9	1,149.0	906.7	242.4	237.0	49.1	40.9	20.9	20.5	0.5	1.3
	III	1,176.1	577.0	477.9	1,168.1	919.8	248.3	240.9	49.1	40.6	21.1	20.5	0.6	1.7
	IV	1,206.8	585.0	496.3	1,200.4	937.4	263.0	251.5	48.5	41.1	21.8	20.8	1.0	1.9
2022	I	1,236.3	593.6	510.9	1,232.8	958.2	274.6	258.8	48.0	41.3	22.2	20.9	1.3	1.5
	II	1,271.8	604.6	530.5	1,264.0	982.2	281.8	267.0	47.5	41.7	22.2	21.0	1.2	1.5
	III	1,300.6	613.0	549.3	1,292.8	1,007.9	284.9	273.4	47.1	42.2	21.9	21.0	0.9	1.4
	IV	1,327.1	622.7	572.8	1,316.2	1,029.3	286.9	279.1	46.9	43.2	21.6	21.0	0.6	1.5
2023	I	1,361.1	634.6	594.4	1,348.4	1,045.2	303.3	279.9	46.6	43.7	22.3	20.6	1.7	2.6
	Annual percentage changes							Difference from one year ago						
2016	3.4	2.2	4.9	3.6	2.4	7.8	2.0	-0.5	0.7	0.9	-0.2	1.1	0.7	
2017	4.3	4.0	4.6	4.3	3.9	5.5	8.0	-0.2	0.1	0.3	0.7	-0.4	-0.4	
2018	3.6	4.2	2.5	3.6	3.3	4.4	9.3	0.3	-0.5	0.2	1.1	-0.9	-0.7	
2019	3.5	6.2	1.2	3.5	2.7	6.2	5.3	1.2	-1.0	0.6	0.4	0.2	0.1	
2020	-10.2	-4.1	-14.5	-10.3	-8.0	-17.8	-12.1	3.2	-2.1	-1.9	-0.4	-1.5	-1.4	
2021	7.9	5.3	7.8	8.3	7.3	12.0	10.3	-1.2	-0.1	0.8	0.4	0.3	0.8	
2022	10.0	6.5	15.4	9.6	9.8	9.0	11.0	-1.5	2.0	-0.2	0.2	-0.4	-0.4	
2023	7.1	5.4	8.1	6.9	4.2	16.7	5.5	-0.7	0.4	1.9	-0.3	2.2	1.9	
2024	5.1	4.7	4.2	4.6	4.7	4.5	5.6	-0.2	-0.4	-0.1	0.1	-0.2	-0.4	
2021	II	-1.0	0.6	-4.0	-0.9	0.0	-4.2	-1.8	0.8	-1.3	-0.7	-0.2	-0.5	-0.5
	III	2.8	3.0	-0.4	3.0	3.4	1.5	2.3	0.1	-1.3	-0.3	-0.1	-0.2	0.6
	IV	7.9	5.3	7.8	8.3	7.3	12.0	10.3	-1.2	-0.1	0.8	0.4	0.3	0.8
2022	I	11.4	7.3	12.0	12.1	10.1	19.8	14.1	-1.8	0.2	1.6	0.5	1.1	0.4
	II	9.9	6.3	12.0	10.0	8.3	16.3	12.6	-1.6	0.8	1.2	0.5	0.7	0.3
	III	10.6	6.2	14.9	10.7	9.6	14.8	13.5	-1.9	1.6	0.8	0.5	0.3	-0.3
	IV	10.0	6.5	15.4	9.6	9.8	9.1	11.0	-1.5	2.0	-0.2	0.2	-0.4	-0.4
2023	I	10.1	6.9	16.3	9.4	9.1	10.4	8.1	-1.4	2.3	0.1	-0.4	0.4	1.1

(a) Including change in net equity in pension funds reserves.

Source: INE and Funcas (Forecasts).

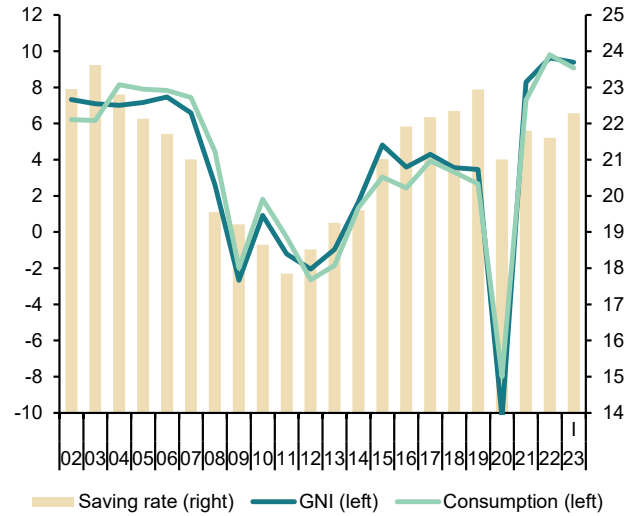
**Chart 4.1 - National income, consumption and saving**

EUR Billions, 4-quarter cumulated



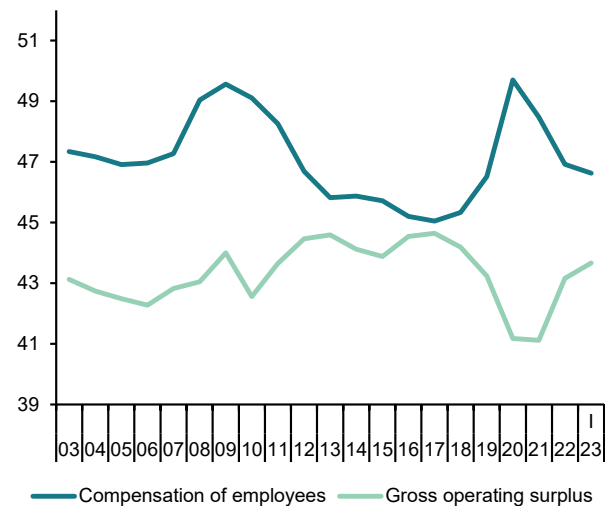
**Chart 4.2 - National income, consumption and saving rate**

Annual percentage change and percentage of GDP, 4-quarter moving averages



**Chart 4.3 - Components of National Income**

Percentage of GDP, 4-quarter moving averages



**Chart 4.4 - Saving, Investment and Current Account Balance**

Percentage of GDP, 4-quarter moving averages

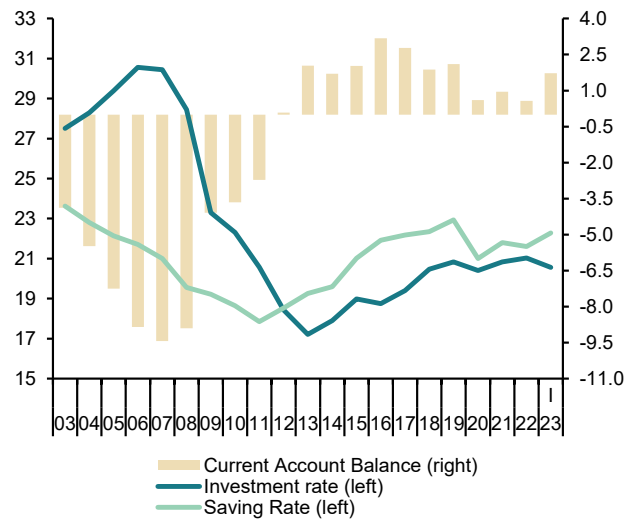


Table 5

**National accounts: Household and non-financial corporations accounts**

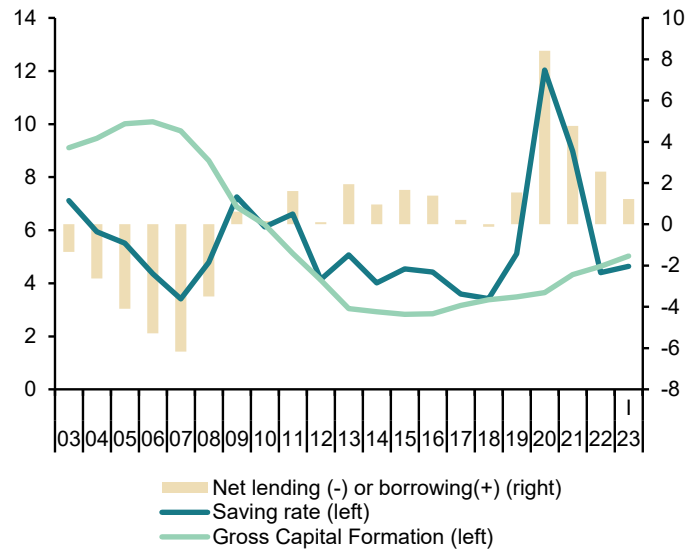
Forecasts in yellow

	Households							Non-financial corporations						
	Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	
	EUR Billions. 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP			EUR Billions. 4-quarter cumulated operations				Percentage of GDP	
2016	700.6	648.3	49.2	31.8	7.0	2.9	1.4	255.0	195.8	149.0	17.6	13.4	4.4	
2017	723.0	678.1	41.8	36.8	5.8	3.2	0.2	267.0	200.4	160.4	17.2	13.8	3.7	
2018	743.6	699.5	41.2	40.7	5.5	3.4	-0.1	271.1	199.7	176.7	16.6	14.7	2.2	
2019	780.9	714.5	63.6	43.4	8.1	3.5	1.5	275.7	202.8	186.2	16.3	15.0	1.6	
2020	765.7	627.3	134.5	40.8	17.6	3.6	8.4	214.2	148.6	150.1	13.3	13.4	0.2	
2021	789.3	678.8	108.3	52.2	13.7	4.3	4.8	236.6	163.1	161.2	13.5	13.4	0.8	
2022	817.5	756.9	58.5	59.3	7.2	4.5	-0.1	294.1	209.1	171.4	15.8	12.9	3.4	
2023	852.4	788.5	61.7	54.5	7.2	3.8	0.5	321.6	212.0	186.8	14.9	13.1	2.0	
2024	891.6	827.0	62.4	48.0	7.0	3.2	1.0	339.8	230.8	208.1	15.5	13.9	1.7	
2021	II	776.6	650.6	122.0	44.4	15.7	3.8	6.6	223.1	152.8	156.4	13.2	13.5	0.1
	III	779.7	659.6	117.5	45.6	15.1	3.9	6.2	224.0	155.7	155.5	13.2	13.2	0.5
	IV	789.3	678.8	108.3	52.2	13.7	4.3	4.8	236.6	163.1	161.2	13.5	13.4	0.8
2022	I	794.5	704.3	87.7	57.4	11.0	4.6	2.6	248.8	174.5	160.3	14.1	12.9	1.8
	II	805.5	725.6	77.8	63.9	9.7	5.0	1.2	261.2	178.4	160.3	14.0	12.6	2.1
	III	808.6	746.2	60.1	63.9	7.4	4.9	-0.2	277.1	192.7	168.1	14.8	12.9	2.5
	IV	817.5	756.9	58.5	59.3	7.2	4.5	-0.1	294.1	209.1	171.4	15.8	12.9	3.4
2023	I	836.1	770.6	63.1	56.7	7.5	4.2	0.4	307.3	218.4	174.4	16.1	12.8	3.8
	Annual percentage changes				Difference from one year ago			Annual percentage changes				Difference from one year ago		
2016	2.7	2.9	0.5	4.2	-0.2	0.0	-0.3	5.6	5.6	6.1	0.4	0.3	-0.1	
2017	3.2	4.6	-15.2	15.7	-1.2	0.3	-1.2	4.7	2.4	7.6	-0.3	0.4	-0.7	
2018	2.8	3.2	-1.3	10.6	-0.2	0.2	-0.3	1.5	-0.3	10.2	-0.7	0.9	-1.5	
2019	5.0	2.2	54.2	6.8	2.6	0.1	1.7	1.7	1.5	5.4	-0.3	0.3	-0.6	
2020	-2.0	-12.2	111.5	-6.1	9.4	0.2	6.9	-22.3	-26.7	-19.4	-3.0	-1.5	-1.3	
2021	3.1	8.2	-19.5	28.0	-3.8	0.7	-3.6	10.5	9.8	7.4	0.2	-0.1	0.6	
2022	3.6	11.5	-46.0	13.7	-6.6	0.1	-4.9	24.3	28.2	6.3	2.2	-0.4	2.6	
2023	4.3	4.2	5.6	-8.0	0.1	-0.6	0.6	9.4	1.4	9.0	-0.8	0.2	-1.4	
2024	4.6	4.9	1.0	-12.0	-0.2	-0.6	0.5	5.7	8.9	11.4	0.5	0.8	-0.3	
2021	II	1.2	-1.8	19.2	5.2	2.4	0.2	1.6	-6.8	-14.7	-5.2	-2.1	-0.6	-1.2
	III	1.2	1.8	-1.2	6.2	-0.4	0.1	-0.4	-1.7	-3.5	-0.8	-0.8	-0.5	-0.1
	IV	3.1	8.2	-19.5	28.0	-3.8	0.7	-3.6	10.5	9.8	7.4	0.2	-0.1	0.6
2022	I	4.0	14.3	-39.2	33.6	-7.8	0.8	-6.6	18.0	19.3	7.3	0.9	-0.5	1.6
	II	3.7	11.5	-36.2	44.0	-6.1	1.2	-5.4	17.1	16.8	2.5	0.8	-0.9	2.0
	III	3.7	13.1	-48.9	40.2	-7.6	1.0	-6.4	23.7	23.8	8.1	1.6	-0.3	2.0
	IV	3.6	11.5	-46.0	13.7	-6.6	0.1	-4.9	24.3	28.2	6.3	2.2	-0.4	2.6
2023	I	5.2	9.4	-28.0	-1.3	-3.5	-0.5	-2.1	23.5	25.2	8.8	2.0	-0.1	2.1

Source: INE and Funcas (Forecasts).

### Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages



### Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

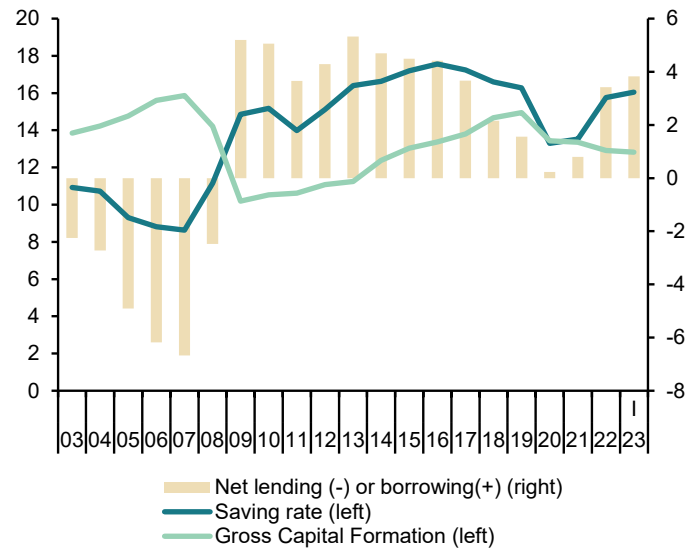


Table 6

### National accounts: Public revenue, expenditure and deficit

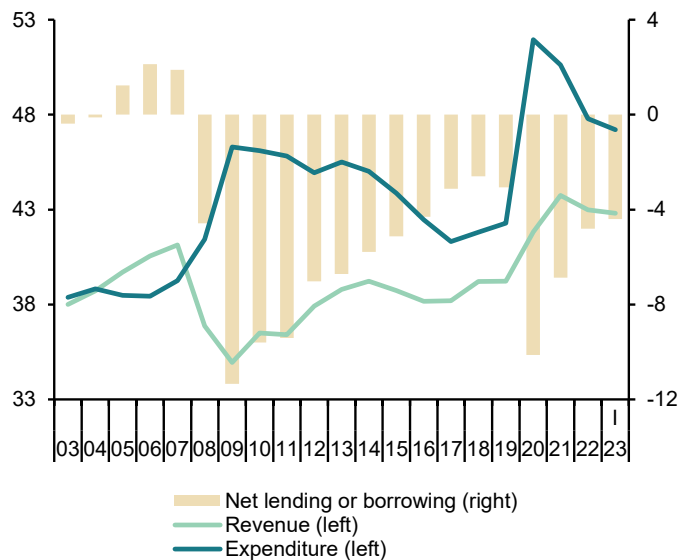
Forecasts in yellow

	Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	
	Taxes on production and imports	Taxes on income and wealth	Social contributions	Capital and other revenue	Total	Compensation of employees	Intermediate consumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expenditure	Total		
	1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8+9+10+11	13=5-12	
EUR Billions, 4-quarter cumulated operations														
2016	128.9	110.0	135.6	50.9	425.3	121.5	59.2	30.7	203.0	30.3	28.4	473.2	-47.9	
2017	135.1	116.9	142.4	49.6	444.0	123.5	60.5	29.3	207.4	31.5	28.1	480.3	-36.2	
2018	141.2	127.3	149.5	54.2	472.1	127.7	62.6	29.3	216.6	37.4	29.8	503.4	-31.2	
2019	143.0	129.1	160.7	55.7	488.5	134.8	65.2	28.4	229.6	37.2	31.6	526.7	-38.1	
2020	126.7	125.3	162.2	53.3	467.6	140.6	67.0	25.1	262.2	44.3	41.5	580.8	-113.2	
2021	146.7	143.4	171.7	66.2	527.9	147.6	71.8	26.1	263.6	59.9	42.0	610.9	-82.9	
2022	160.2	164.6	180.0	65.8	570.5	153.8	78.7	31.6	266.9	52.6	50.7	634.3	-63.8	
2023	169.2	179.0	188.6	63.6	600.4	160.7	83.3	36.6	284.0	53.2	43.0	660.8	-60.4	
2024	179.4	183.1	197.8	62.8	623.1	165.6	89.1	40.4	292.5	54.5	35.7	677.7	-54.6	
2021	II	136.7	132.2	166.4	56.1	491.5	144.9	69.5	25.4	260.8	47.2	40.0	587.8	-96.3
	III	142.2	133.7	169.6	61.3	506.8	146.5	70.6	25.3	261.5	53.2	40.5	597.5	-90.7
	IV	146.7	143.4	171.7	66.2	527.9	147.6	71.8	26.1	263.6	59.9	42.0	610.9	-82.9
2022	I	153.2	147.2	173.3	66.4	540.0	148.8	73.4	26.3	262.9	55.6	40.9	608.1	-68.0
	II	158.1	151.9	175.7	68.2	553.9	149.7	74.7	28.0	263.4	57.3	42.6	615.7	-61.8
	III	161.4	160.4	177.5	67.8	567.1	151.1	76.8	29.4	265.3	53.0	45.6	621.0	-53.9
	IV	160.2	164.6	180.0	65.8	570.5	153.8	78.7	31.6	266.9	52.6	50.7	634.3	-63.8
2023	I	162.1	167.9	183.2	69.4	582.6	155.7	80.2	31.6	271.5	53.2	50.4	642.5	-59.9
Percentage of GDP, 4-quarter cumulated operations														
2016		11.6	9.9	12.2	4.6	38.2	10.9	5.3	2.8	18.2	2.7	2.6	42.5	-4.3
2017		11.6	10.1	12.3	4.3	38.2	10.6	5.2	2.5	17.8	2.7	2.4	41.3	-3.1
2018		11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.1	2.5	41.8	-2.6
2019		11.5	10.4	12.9	4.5	39.2	10.8	5.2	2.3	18.4	3.0	2.5	42.3	-3.1
2020		11.3	11.2	14.5	4.8	41.8	12.6	6.0	2.2	23.5	4.0	3.7	51.9	-10.1
2021		12.2	11.9	14.2	5.5	43.7	12.2	6.0	2.2	21.8	5.0	3.5	50.6	-6.9
2022		12.1	12.4	13.6	5.0	43.0	11.6	5.9	2.4	20.1	4.0	3.8	47.8	-4.8
2023		11.9	12.6	13.3	4.5	42.3	11.3	5.9	2.6	20.0	3.7	3.0	46.5	-4.3
2024		12.0	12.3	13.2	4.2	41.7	11.1	6.0	2.7	19.6	3.6	2.4	45.4	-3.7
2021	II	11.8	11.4	14.4	4.9	42.5	12.5	6.0	2.2	22.5	4.1	3.5	50.8	-8.3
	III	12.1	11.4	14.4	5.2	43.1	12.5	6.0	2.1	22.2	4.5	3.4	50.8	-7.7
	IV	12.2	11.9	14.2	5.5	43.7	12.2	6.0	2.2	21.8	5.0	3.5	50.6	-6.9
2022	I	12.4	11.9	14.0	5.4	43.7	12.0	5.9	2.1	21.3	4.5	3.3	49.2	-5.5
	II	12.4	11.9	13.8	5.4	43.6	11.8	5.9	2.2	20.7	4.5	3.3	48.4	-4.9
	III	12.4	12.3	13.6	5.2	43.6	11.6	5.9	2.3	20.4	4.1	3.5	47.7	-4.1
	IV	12.1	12.4	13.6	5.0	43.0	11.6	5.9	2.4	20.1	4.0	3.8	47.8	-4.8
2023	I	11.9	12.3	13.5	5.1	42.8	11.4	5.9	2.3	19.9	3.9	3.7	47.2	-4.4

Source: IGAE and Funcas (Forecasts).

**Chart 6.1 - Public sector: Revenue, expenditure and deficit**

Percentage of GDP, 4-quarter moving averages



**Chart 6.2 - Public sector: Main expenditures**

Percentage of GDP, 4-quarter moving averages

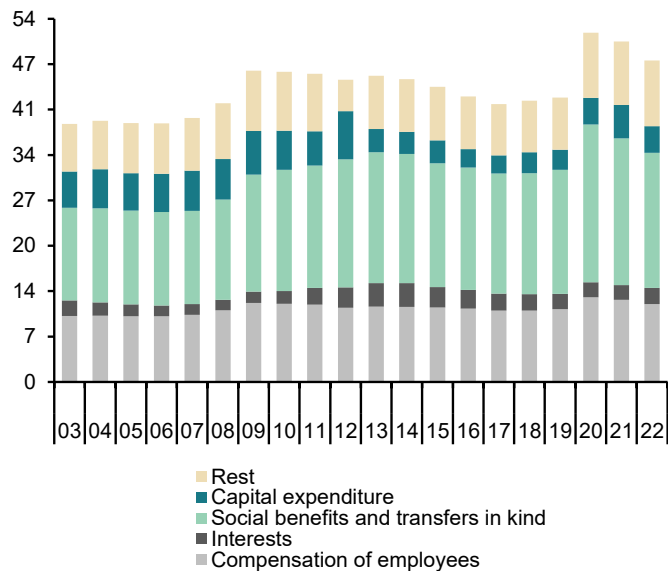


Table 7

### Public sector balances by level of Government

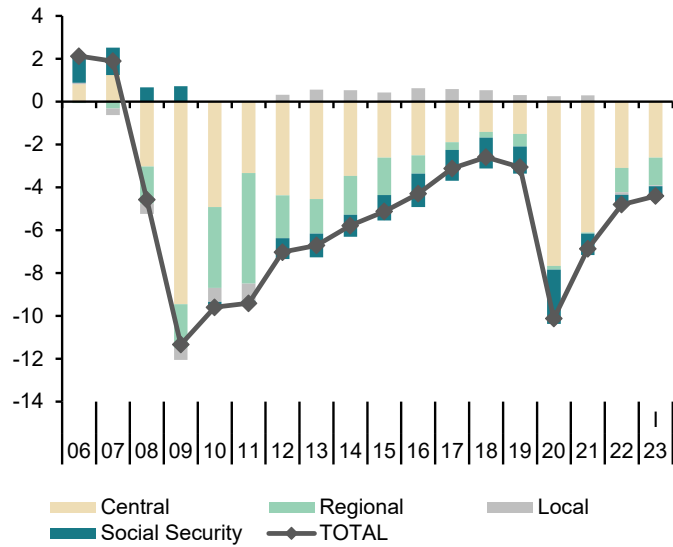
Forecasts in yellow

	Net lending (+)/ net borrowing (-)					Debt					
	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)	
	EUR Billions. 4-quarter cumulated operations					EUR Billions. end of period					
2016	-28.0	-9.5	7.0	-17.4	-47.9	1,008.9	277.0	32.2	17.2	1,145.1	
2017	-22.0	-4.2	6.7	-16.8	-36.2	1,049.8	288.1	29.0	27.4	1,183.4	
2018	-17.0	-3.3	6.3	-17.3	-31.2	1,082.8	293.4	25.8	41.2	1,208.9	
2019	-18.8	-7.3	3.8	-15.9	-38.1	1,095.8	295.1	23.2	55.0	1,223.4	
2020	-85.7	-2.0	2.8	-28.3	-113.2	1,206.6	304.0	22.0	85.4	1,345.8	
2021	-73.7	-0.6	3.5	-12.0	-82.9	1,280.0	312.6	22.1	97.2	1,427.2	
2022	-41.1	-15.1	-1.6	-6.0	-63.8	1,358.8	316.9	23.0	106.2	1,502.5	
2023	--	--	--	--	-60.4	--	--	--	--	1,563.4	
2024	--	--	--	--	-54.6	--	--	--	--	1,618.5	
2021	II	-74.8	-3.1	3.8	-22.1	-96.3	1,273.4	312.0	22.7	91.9	1,424.7
	III	-85.4	4.7	3.6	-13.6	-90.7	1,281.4	312.3	22.3	91.9	1,432.3
	IV	-73.7	-0.6	3.5	-12.0	-82.9	1,280.0	312.6	22.1	97.2	1,427.2
2022	I	-63.0	3.3	2.9	-11.2	-68.0	1,306.6	309.7	22.4	99.2	1,453.8
	II	-59.9	-0.2	2.3	-4.1	-61.8	1,325.7	316.7	22.8	99.2	1,475.0
	III	-32.5	-14.5	-1.5	-5.4	-53.9	1,359.0	314.8	22.3	99.2	1,503.8
	IV	-41.1	-15.1	-1.6	-6.0	-63.8	1,358.8	316.9	23.0	106.2	1,502.5
2023	I	-35.6	-17.6	-0.5	-6.2	-59.9	1,387.8	322.2	23.0	106.2	1,535.3
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2016		-2.5	-0.9	0.6	-1.6	-4.3	90.5	24.9	2.9	1.5	102.7
2017		-1.9	-0.4	0.6	-1.4	-3.1	90.3	24.8	2.5	2.4	101.8
2018		-1.4	-0.3	0.5	-1.4	-2.6	89.9	24.4	2.1	3.4	100.4
2019		-1.5	-0.6	0.3	-1.3	-3.1	88.0	23.7	1.9	4.4	98.2
2020		-7.7	-0.2	0.2	-2.5	-10.1	107.9	27.2	2.0	7.6	120.4
2021		-6.1	-0.1	0.3	-1.0	-6.9	106.1	25.9	1.8	8.1	118.3
2022		-3.1	-1.1	-0.1	-0.5	-4.8	102.4	23.9	1.7	8.0	113.2
2023		--	--	--	--	-4.3	--	--	--	--	110.0
2024		--	--	--	--	-3.7	--	--	--	--	108.4
2021	II	-6.5	-0.3	0.3	-1.9	-8.3	110.0	27.0	2.0	7.9	123.1
	III	-7.3	0.4	0.3	-1.2	-7.7	108.9	26.6	1.9	7.8	121.8
	IV	-6.1	-0.1	0.3	-1.0	-6.9	106.1	25.9	1.8	8.1	118.3
2022	I	-5.1	0.3	0.2	-0.9	-5.5	105.7	25.1	1.8	8.0	117.6
	II	-4.7	0.0	0.2	-0.3	-4.9	104.2	24.9	1.8	7.8	116.0
	III	-2.5	-1.1	-0.1	-0.4	-4.1	104.5	24.2	1.7	7.6	115.6
	IV	-3.1	-1.1	-0.1	-0.5	-4.8	102.4	23.9	1.7	8.0	113.2
2023	I	-2.6	-1.3	0.0	-0.5	-4.4	102.0	23.7	1.7	7.8	112.8

Sources: National Statistics Institute. Bank of Spain (Financial Accounts of the Spanish Economy) and Funcas (Forecasts).

**Chart 7.1 - Government deficit**

Percent of GDP, 4-quarter cumulated operations



**Chart 7.2 - Government debt**

Percent of GDP

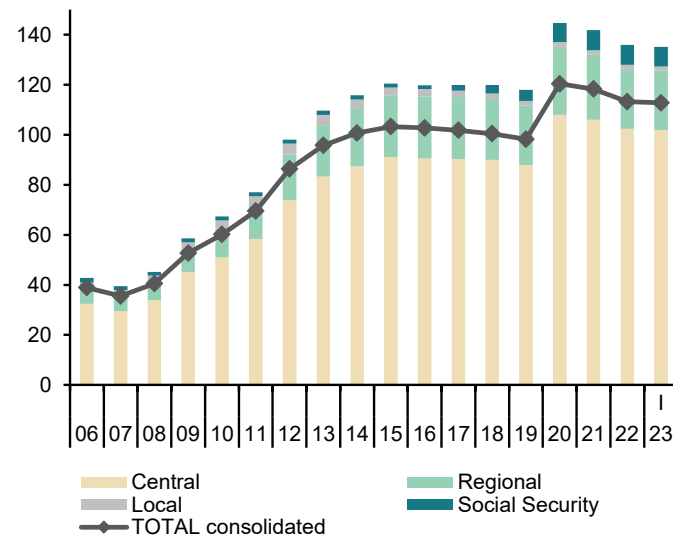




Table 8

**General activity and industrial sector indicators (a)**

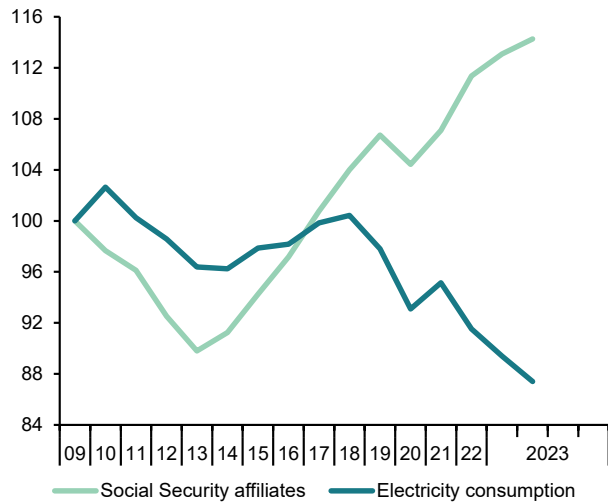
	General activity indicators				Industrial sector indicators						
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing turnover index deflated (g)	Industrial orders	
	Index	Index	Thousands	1,000 GWH, monthly average	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses	
2015	107.8	56.7	16,641.8	20.9	100.0	2,067.3	53.6	-0.6	100.0	-5.4	
2016	106.0	54.9	17,157.5	21.0	101.8	2,124.7	53.1	-2.1	102.7	-5.4	
2017	109.2	56.2	17,789.6	21.4	105.1	2,191.0	54.8	1.4	107.0	2.2	
2018	108.0	54.6	18,364.5	21.5	105.3	2,250.9	53.3	-0.5	108.4	-0.2	
2019	104.7	52.7	18,844.1	20.9	106.1	2,283.2	49.1	-3.6	109.0	-5.1	
2020	89.8	41.5	18,440.5	19.9	95.9	2,239.3	47.5	-13.6	98.2	-30.0	
2021	105.1	55.3	18,910.0	20.4	102.9	2,270.4	57.0	0.6	104.3	-1.8	
2022	101.3	51.8	19,663.0	19.6	105.9	2,324.3	51.0	-0.8	107.0	1.5	
2023 (b)	100.9	54.9	20,037.3	19.5	106.6	2,347.5	49.3	-4.8	104.4	-7.9	
2021	III	109.0	59.6	19,029.1	20.1	101.6	2,278.7	58.8	2.6	103.8	-0.5
	IV	109.6	56.6	19,266.0	20.3	104.9	2,295.5	56.9	5.1	105.8	7.0
2022	I	108.5	52.5	19,468.4	19.9	104.9	2,311.5	55.8	6.7	104.3	11.5
	II	101.7	55.0	19,636.1	19.9	106.8	2,319.4	53.2	0.4	109.0	7.2
	III	97.1	50.5	19,729.4	19.5	106.3	2,330.2	49.2	-5.1	107.8	-4.3
	IV	97.9	49.1	19,821.1	19.0	105.7	2,336.8	45.6	-5.3	106.7	-8.1
2023	I	100.5	55.2	19,970.1	19.1	106.4	2,347.9	50.1	-4.4	106.1	-8.6
	II (b)	101.2	54.7	20,175.2	18.7	105.8	2,359.1	48.5	-5.2	104.8	-7.2
2023	Apr	103.6	56.3	20,139.0	18.5	105.5	2,355.8	49.0	-1.6	104.8	-5.7
	May	100.5	55.2	20,182.9	18.9	106.2	2,360.1	48.4	-5.4	--	-6.3
	Jun	99.6	52.6	20,203.8	18.7	--	2,361.4	48.0	-8.5	--	-9.7
Percentage changes (c)											
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.2	--	
2016	--	--	3.1	0.3	1.8	2.8	--	--	2.7	--	
2017	--	--	3.7	1.7	3.2	3.1	--	--	4.2	--	
2018	--	--	3.2	0.6	0.2	2.7	--	--	1.4	--	
2019	--	--	2.6	-2.6	0.7	1.4	--	--	0.5	--	
2020	--	--	-2.1	-4.8	-9.6	-1.9	--	--	-9.9	--	
2021	--	--	2.5	2.2	7.3	1.4	--	--	6.2	--	
2022	--	--	4.0	-3.8	2.9	2.4	--	--	2.6	--	
2023 (d)	--	--	2.7	-4.0	0.5	1.7	--	--	0.0	--	
2021	III	--	1.5	-1.5	-0.6	0.8	--	--	0.5	--	
	IV	--	1.2	1.0	3.2	0.7	--	--	2.0	--	
2022	I	--	1.1	-2.4	0.0	0.7	--	--	-1.4	--	
	II	--	0.9	0.4	1.7	0.3	--	--	4.5	--	
	III	--	0.5	-2.0	-0.4	0.5	--	--	-1.1	--	
	IV	--	0.5	-2.9	-0.6	0.3	--	--	-1.0	--	
2023	I	--	0.8	0.9	0.6	0.5	--	--	-0.6	--	
	II (e)	--	1.0	-2.2	-0.5	0.5	--	--	-1.3	--	
2023	Apr	--	0.4	-3.2	-1.9	0.2	--	--	-0.4	--	
	May	--	0.2	2.4	0.6	0.2	--	--	--	--	
	Jun	--	0.1	-0.9	--	0.1	--	--	--	--	

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Excluding domestic service workers and non-professional caregivers. (g) Deflated by Funcas.

Sources: European Commission, S&P Global, M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

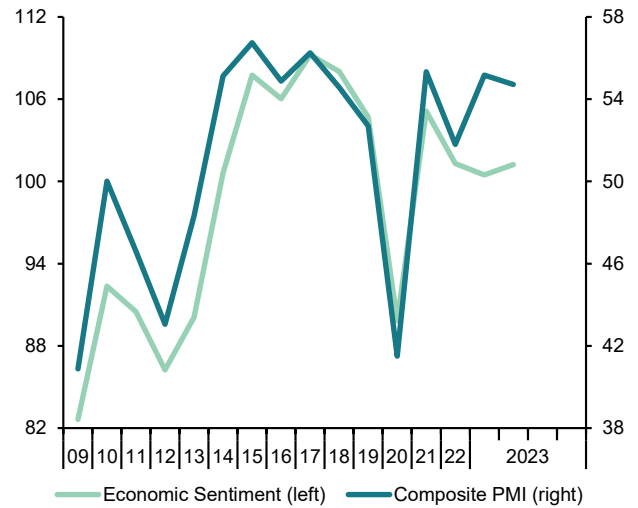
**Chart 8.1 - General activity indicators (I)**

Level, 2009=100



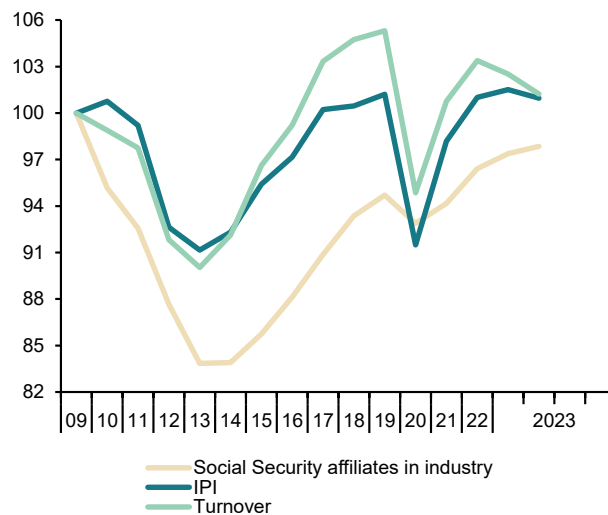
**Chart 8.2 - General activity indicators (II)**

Index



**Chart 8.3 - Industrial sector indicators (I)**

Level, 2009=100



**Chart 8.4 - Industrial sector indicators (II)**

Index

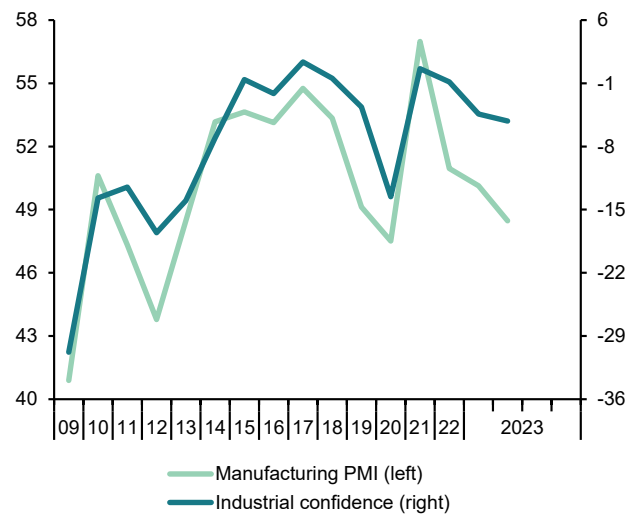


Table 9

**Construction and services sector indicators (a)**

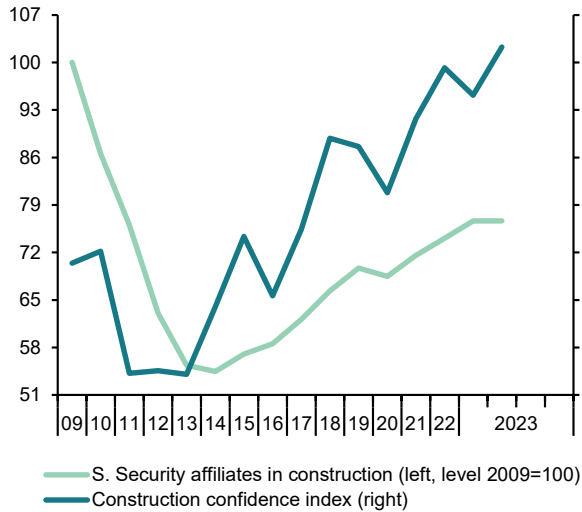
	Construction indicators					Service sector indicators						
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index deflated (h)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index	
	Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions, monthly average	Million m <sup>2</sup> monthly average	Thousands	2015=100 (smoothed)	Index	Million, monthly average	Million, monthly average	Balance of responses	
2015	1,026.7	100.0	-26.6	0.8	0.8	12,432.3	103.5	57.3	25.7	17.2	18.9	
2016	1,053.9	102.6	-39.1	0.8	1.1	12,851.6	109.2	55.0	27.6	19.1	18.2	
2017	1,118.8	111.5	-25.1	1.1	1.3	13,338.2	114.5	56.4	28.4	20.7	22.9	
2018	1,194.1	114.2	-6.0	1.4	1.6	13,781.3	119.2	54.8	28.3	21.9	21.2	
2019	1,254.9	124.8	-7.7	1.4	1.7	14,169.1	122.8	53.9	28.6	23.1	13.9	
2020	1,233.1	110.6	-17.4	1.1	1.3	13,849.2	102.7	40.3	7.7	6.3	-25.6	
2021	1,288.6	124.3	-1.9	1.8	1.6	14,235.1	111.4	55.0	14.4	9.9	8.4	
2022	1,333.8	126.1	8.9	2.4	1.7	14,926.3	119.9	52.5	26.7	20.2	12.4	
2023 (b)	1,379.7	124.0	8.2	2.0	1.7	15,239.3	115.0	56.1	22.7	20.5	12.8	
2021	III	1,296.2	124.5	-2.5	2.0	14,342.3	112.3	59.6	19.3	13.1	18.1	
	IV	1,310.4	125.3	1.1	2.2	14,554.4	116.2	57.4	23.0	16.5	22.2	
2022	I	1,324.1	126.6	4.8	1.8	14,739.7	118.0	52.2	22.2	16.4	17.6	
	II	1,319.7	130.0	9.9	2.3	14,914.5	120.1	55.9	27.1	19.7	15.8	
	III	1,335.1	122.6	5.9	2.4	14,988.0	120.0	51.0	27.8	21.0	10.2	
	IV	1,356.8	125.3	14.8	3.1	15,064.7	121.6	50.8	28.3	22.5	6.1	
2023	I	1,379.7	125.7	3.1	2.1	15,186.7	121.7	56.3	28.6	23.4	11.7	
	II (b)	1,380.0	121.9	13.2	1.9	15,381.4	121.5	56.0	29.5	22.5	13.8	
2023	Apr	1,383.6	119.1	11.9	1.9	15,339.9	121.5	57.9	29.7	21.4	13.7	
	May	1,380.3	124.8	14.2	--	15,387.3	--	56.7	29.2	23.5	13.6	
	Jun	1,376.0	--	13.6	--	15,416.9	--	53.4	--	--	14.2	
Percentage changes (c)												
2015		4.7	7.8	--	-28.2	42.6	3.6	6.9	--	4.4	6.0	--
2016		2.6	2.6	--	-1.7	29.0	3.4	5.5	--	7.4	11.0	--
2017		6.2	8.7	--	37.1	24.8	3.8	4.9	--	2.8	8.3	--
2018		6.7	2.4	--	30.8	24.5	3.3	4.1	--	-0.2	5.8	--
2019		5.1	9.2	--	1.7	1.3	2.8	3.0	--	0.9	5.3	--
2020		-1.7	-11.3	--	-22.5	-19.8	-2.3	-16.3	--	-73.1	-72.7	--
2021		4.5	12.3	--	69.3	22.7	2.8	8.5	--	87.4	57.8	--
2022		3.5	1.5	--	29.7	1.2	4.9	7.6	--	85.6	103.4	--
2023 (d)		4.5	-2.3	--	10.4	0.1	3.1	2.6	--	17.2	27.7	--
2021	III	1.1	-0.6	--	112.2	31.4	1.9	2.0	--	149.9	140.6	--
	IV	1.1	0.7	--	49.2	23.8	1.5	3.5	--	19.7	25.5	--
2022	I	1.0	1.0	--	35.7	20.1	1.3	1.5	--	-3.6	-0.4	--
	II	-0.3	2.7	--	22.0	-10.9	1.2	1.8	--	22.1	20.2	--
	III	1.2	-5.7	--	20.1	-9.7	0.5	-0.1	--	2.6	6.7	--
	IV	1.6	2.2	--	41.6	7.2	0.5	1.3	--	1.7	7.2	--
2023	I	1.7	0.2	--	15.5	-3.9	0.8	0.0	--	1.0	3.7	--
	II (e)	0.0	-3.0	--	-3.6	17.7	1.3	-0.1	--	3.2	-3.8	--
2023	Apr	0.1	-6.5	--	-3.6	17.7	0.5	-0.6	--	4.4	-8.0	--
	May	-0.2	4.8	--	--	--	0.3	--	--	-1.8	9.9	--
	Jun	-0.3	--	--	--	--	0.2	--	--	--	--	--

(a) Seasonally adjusted, except for annual data and (f). (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Percent changes are over the same period of the previous year. (g) Excluding domestic service workers and non-professional caregivers. (h) Deflated by Funcas.

Sources: European Commission, S&P Global, M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

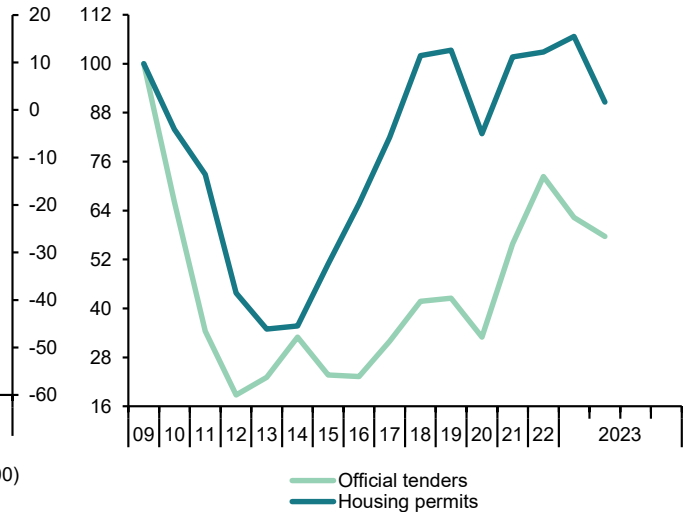
**Chart 9.1 - Construction indicators (I)**

Level, 2009=100 and index



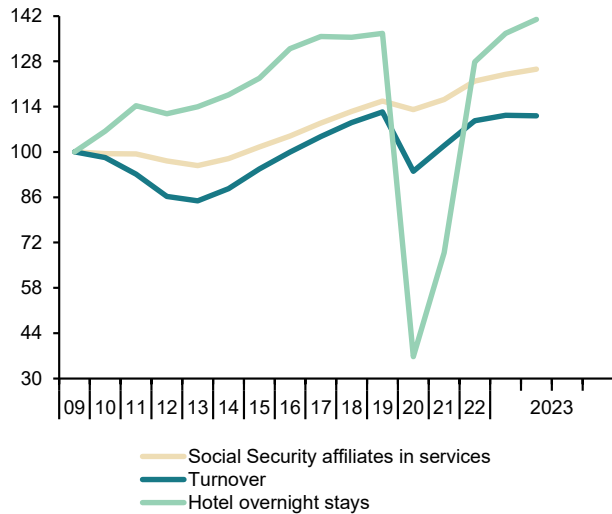
**Chart 9.2 - Construction indicators (II)**

Level, 2009=100



**Chart 9.3 - Services indicators (I)**

Level, 2009=100



**Chart 9.4 - Services indicators (II)**

Index

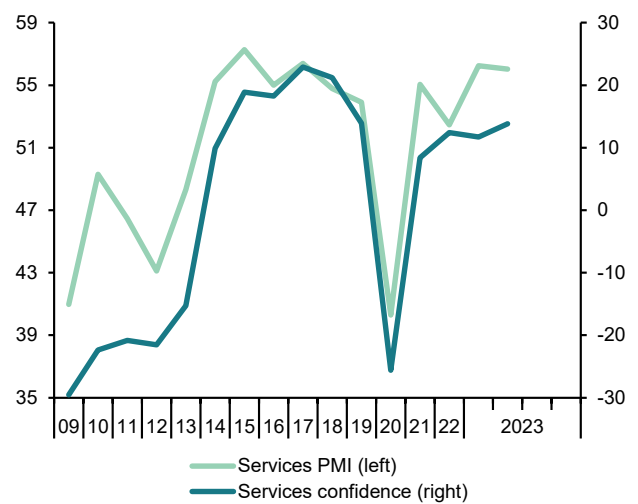


Table 10

**Consumption and investment indicators (a)**

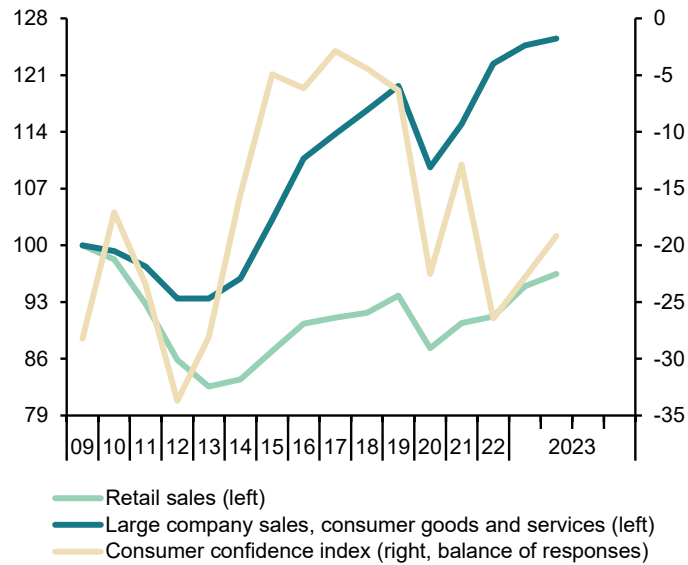
	Consumption indicators						Investment in equipment indicators				
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Large company sales (consumer goods and services)	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (volume)	Large company sales (capital goods)	
	2015=100	Thousands, monthly average	Balance of responses	Million, monthly average	Balance of responses	2015=100	Thousands, monthly average	Balance of responses	2015=100	2015=100	
2015	100.0	91.2	-4.9	9.2	-3.1	100.0	15.0	0.2	100.0	100.0	
2016	103.9	102.5	-6.2	9.5	-1.4	107.3	15.9	-0.2	104.1	104.0	
2017	104.7	111.8	-2.9	9.7	2.2	110.3	17.3	4.9	110.7	107.7	
2018	105.4	118.7	-4.4	9.7	-5.6	113.1	19.2	12.4	112.9	112.5	
2019	107.8	114.6	-6.4	10.0	-2.9	116.0	18.4	8.8	113.1	117.7	
2020	100.4	78.3	-22.5	4.3	-25.5	106.3	14.2	-22.7	107.1	110.0	
2021	104.0	79.5	-12.9	7.6	-11.1	111.4	15.6	4.7	118.1	115.4	
2022	104.9	76.2	-26.5	10.0	-2.8	118.7	13.9	28.2	133.5	124.6	
2023 (b)	105.2	88.4	-21.0	8.2	-6.0	113.1	16.2	25.2	137.2	140.6	
2021	III	104.6	81.4	-8.4	10.2	-9.4	109.2	14.5	6.4	119.7	113.1
	IV	105.6	85.5	-12.4	9.3	-1.5	116.6	14.4	14.7	123.5	119.0
2022	I	102.4	62.9	-18.1	8.6	0.9	118.3	12.7	33.8	129.5	118.9
	II	104.8	76.6	-27.0	10.3	2.6	118.8	13.3	29.8	134.2	121.8
	III	104.9	85.2	-32.7	10.2	-8.5	118.9	14.3	21.7	136.4	126.8
	IV	107.5	85.3	-28.1	10.3	-6.1	120.5	15.5	27.5	138.1	132.8
2023	I	109.2	85.4	-22.8	10.0	-6.0	120.8	16.8	25.8	140.1	147.6
	II (b)	111.0	80.3	-19.2	10.2	-6.1	121.7	15.3	24.6	140.6	141.9
2023	Apr	110.8	75.0	-20.3	10.1	-2.7	121.7	14.4	19.9	140.6	141.9
	May	111.1	85.6	-20.7	10.3	-6.0	--	16.2	26.2	--	--
	Jun	--	--	-16.5	--	-9.6	--	--	27.7	--	--
Percentage changes (c)											
2015		4.2	22.9	--	5.3	--	7.6	31.1	--	14.4	7.1
2016		3.9	12.4	--	3.6	--	7.3	6.1	--	4.1	4.0
2017		0.8	9.1	--	1.4	--	2.7	8.5	--	6.4	3.6
2018		0.7	6.1	--	0.6	--	2.6	10.8	--	2.0	4.4
2019		2.3	-3.4	--	2.7	--	2.6	-4.0	--	0.2	4.6
2020		-6.9	-31.7	--	-57.2	--	-8.4	-22.6	--	-5.3	-6.5
2021		3.5	1.6	--	77.3	--	4.9	9.4	--	10.3	4.9
2022		0.9	-4.1	--	32.2	--	6.5	-10.8	--	13.0	8.0
2023 (d)		6.5	22.6	--	7.6	--	2.4	23.3	--	7.7	23.2
2021	III	0.9	-2.6	--	97.2	--	-1.7	-11.4	--	3.3	0.2
	IV	0.9	5.0	--	-8.4	--	30.0	-1.2	--	13.2	22.7
2022	I	-3.0	-26.5	--	-8.0	--	5.7	-11.2	--	20.6	-0.5
	II	2.4	21.9	--	19.9	--	1.8	4.6	--	15.6	10.2
	III	0.0	11.2	--	-1.1	--	0.2	7.5	--	6.6	17.5
	IV	2.6	0.1	--	0.8	--	5.5	8.0	--	5.2	20.3
2023	I	1.5	0.1	--	-3.0	--	1.3	8.3	--	5.9	52.5
	II (e)	1.6	-5.9	--	2.2	--	2.8	-8.6	--	1.4	-14.4
2023	Apr	0.9	-12.8	--	3.3	--	-2.0	-11.8	--	0.1	-8.3
	May	0.3	14.2	--	2.2	--	--	12.6	--	--	--
	Jun	--	--	--	--	--	--	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: European Commission. M. of Economy. M. of Industry. National Statistics Institute. DGT. ANFAC and Funcas.

### Chart 10.1 - Consumption indicators

Level, 2009=100 and balance of responses



### Chart 10.2 - Investment indicators

Level, 2009=100 and balance of responses

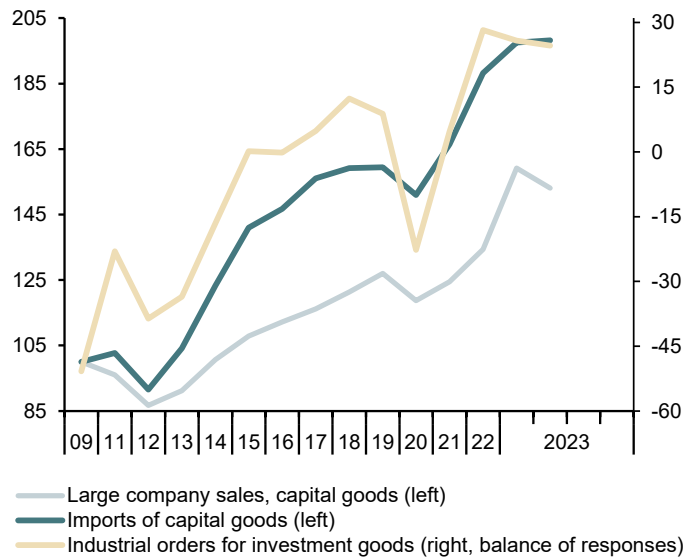


Table 11a

### Labour market (I)

Forecasts in yellow

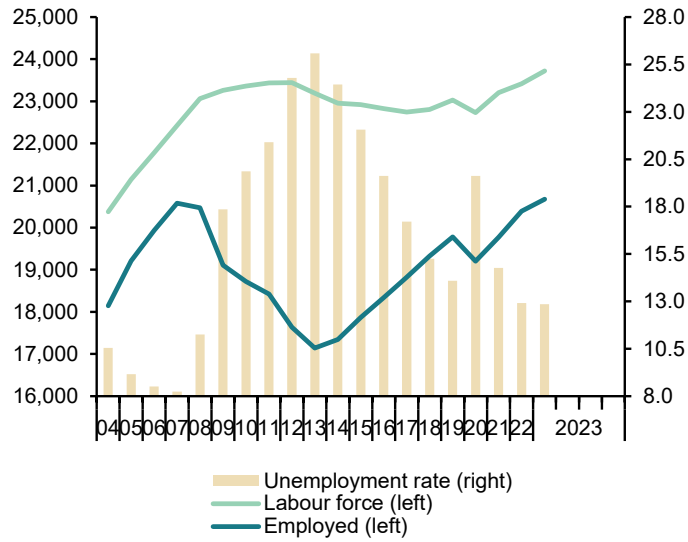
	Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)				
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign	
		I	2=4+6	3=5+7	4	5	6			7	8	9	10=7/3	11
Million								Percentage						
2016	38.5	22.8	--	18.3	--	4.5	--	59.2	47.6	19.6	44.4	18.7	26.6	
2017	38.7	22.7	--	18.8	--	3.9	--	58.8	48.7	17.2	38.6	16.3	23.8	
2018	38.9	22.8	--	19.3	--	3.5	--	58.6	49.7	15.2	34.3	14.3	21.9	
2019	39.3	23.0	--	19.8	--	3.2	--	58.6	50.4	14.1	32.5	13.2	20.1	
2020	39.6	22.7	--	19.2	--	3.5	--	57.4	48.5	15.5	38.3	14.1	24.6	
2021	39.7	23.2	--	19.8	--	3.4	--	58.5	49.9	14.8	34.9	13.5	23.1	
2022	39.9	23.4	--	20.4	--	3.0	--	58.6	51.1	12.9	29.7	11.9	19.3	
2023	40.1	23.5	--	20.6	--	2.9	--	58.6	51.4	12.3	--	--	--	
2024	40.2	23.6	--	20.8	--	2.8	--	58.6	51.7	11.9	--	--	--	
2021	II	39.6	23.2	23.2	19.7	19.6	3.5	3.6	58.5	49.5	15.4	38.8	13.9	23.8
	III	39.6	23.4	23.3	20.0	19.9	3.4	3.4	58.8	50.2	14.7	31.3	13.5	21.7
	IV	39.7	23.3	23.3	20.2	20.1	3.1	3.1	58.6	50.7	13.5	31.1	12.2	20.9
2022	I	39.8	23.3	23.4	20.1	20.3	3.2	3.1	58.9	51.1	13.2	29.7	12.5	21.3
	II	39.8	23.4	23.4	20.5	20.4	2.9	3.0	58.6	51.2	12.6	29.1	11.5	18.9
	III	40.0	23.5	23.4	20.5	20.4	3.0	3.0	58.5	51.1	12.8	30.5	11.8	18.4
	IV	40.1	23.5	23.5	20.5	20.4	3.0	3.0	58.5	50.9	13.0	29.5	11.9	18.6
2023	I	40.3	23.6	23.7	20.5	20.7	3.1	3.0	58.9	51.3	12.8	29.7	12.1	19.9
Percentage changes (d)								Difference from one year ago						
2016	0.1	-0.4	--	2.7	--	-11.4	--	-0.3	1.2	-2.4	-3.9	-2.2	-3.8	
2017	0.3	-0.4	--	2.6	--	-12.6	--	-0.4	1.1	-2.4	-5.9	-2.4	-2.8	
2018	0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.0	-2.0	-4.2	-2.0	-2.0	
2019	1.0	1.0	--	2.3	--	-6.7	--	0.0	0.7	-1.2	-1.8	-1.1	-1.8	
2020	-1.9	-0.9	--	-7.3	--	38.0	--	0.6	-2.8	5.5	11.9	5.5	6.5	
2021	2.9	1.7	--	7.8	--	-23.5	--	-0.7	2.3	-4.8	-9.5	-5.2	-3.5	
2022	0.7	0.9	--	3.1	--	-11.8	--	0.1	1.2	-1.9	--	--	--	
2023	0.4	0.3	--	1.0	--	-4.6	--	0.0	0.3	-0.6	--	--	--	
2024	0.4	0.4	--	1.0	--	-2.9	--	0.0	0.3	-0.4	--	--	--	
2021	II	0.2	5.6	5.7	5.7	5.2	5.3	3.0	2.6	0.0	-1.2	0.1	-1.2	
	III	0.1	2.4	2.3	4.5	4.5	-8.2	-8.4	1.3	2.1	-1.7	-9.5	-1.3	-3.9
	IV	0.2	1.0	1.0	4.3	4.4	-16.6	-16.4	0.5	2.0	-2.8	-9.2	-2.3	-5.7
2022	I	0.3	1.7	1.7	4.6	4.5	-13.1	-13.4	0.8	2.0	-2.3	-8.3	-2.0	-4.9
	II	0.5	0.7	0.7	4.0	4.0	-17.6	-17.2	0.1	1.7	-2.7	-9.7	-2.5	-4.8
	III	0.8	0.3	0.3	2.6	2.6	-12.8	-12.8	-0.3	0.9	-1.9	-0.8	-1.7	-3.3
	IV	1.1	0.9	0.9	1.4	1.4	-2.6	-2.6	-0.1	0.2	-0.5	-1.6	-0.2	-2.2
2023	I	1.3	1.4	1.4	1.8	1.8	-1.5	-1.7	0.0	0.3	-0.4	-0.1	-0.3	-1.4

(a) Labour force aged 16 or more over population aged 16 or more. (b) Employed aged 16 or more over population aged 16 or more. (c) Unemployed in each group over labour force in that group. (d) Annual percentage changes for original data; quarterly percentage changes for S.A. data.

Source: INE (Labour Force Survey) and Funcas.

**Chart 11a.1 - Labour force, employment and unemployment, SA**

Thousands and percentage of active population



**Chart 11a.2 - Unemployment rates**

Percentage

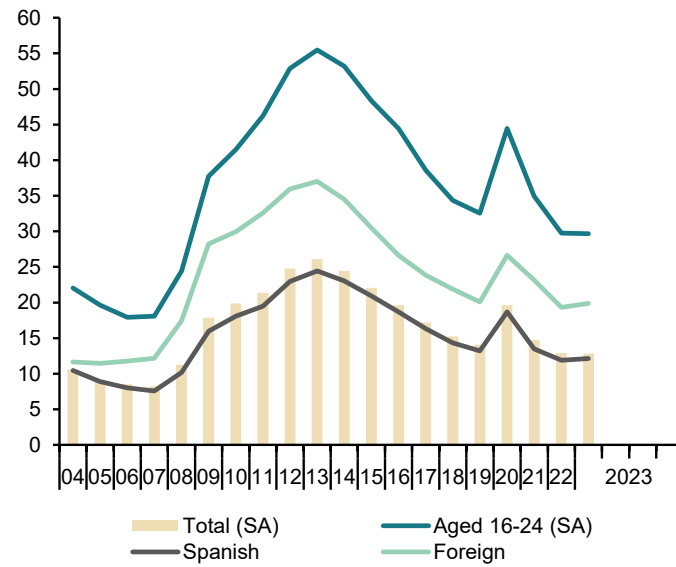




Table 11b

**Labour market (II)**

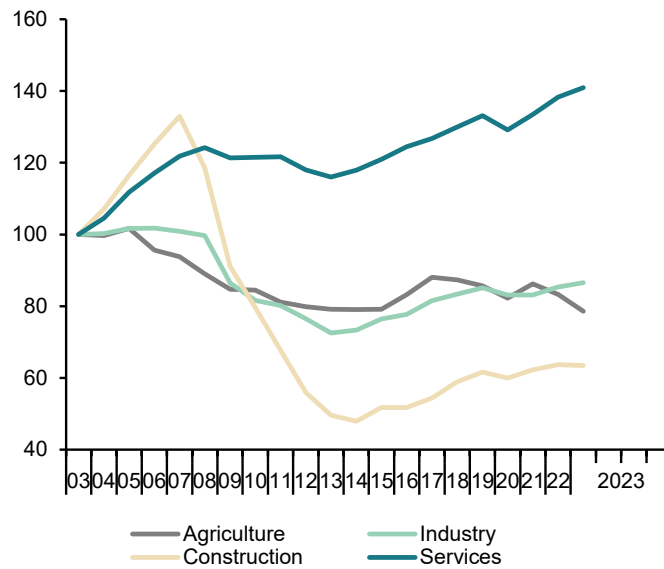
	Employed by sector				Employed by professional situation				Employed by duration of the working-day				
	Agriculture	Industry	Construction	Services	Employees			Self employed	Full-time	Part-time	Part-time employment rate (b)		
					Total	By type of contract							
						Tempo- rary	Indefinite					Temporary employment rate (a)	
1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12		
Million (original data)													
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21	
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97	
2018	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31	
2019	0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.95	2.83	14.30	
2020	0.77	2.70	1.24	14.49	16.11	3.88	12.23	24.1	3.09	16.51	2.70	14.05	
2021	0.80	2.70	1.29	14.98	16.63	4.17	12.46	25.1	3.15	17.03	2.74	13.87	
2022	0.77	2.77	1.32	15.52	17.25	3.65	13.61	21.1	3.14	17.63	2.76	13.52	
2023 (c)	0.75	2.79	1.30	15.62	17.35	3.00	14.35	17.3	3.10	17.65	2.81	13.72	
2021	II	0.81	2.67	1.32	14.87	16.51	4.14	12.37	25.1	3.16	16.84	2.84	14.41
	III	0.76	2.73	1.29	15.25	16.92	4.40	12.52	26.0	3.11	17.33	2.70	13.46
	IV	0.84	2.77	1.29	15.29	16.97	4.31	12.67	25.4	3.21	17.45	2.74	13.56
2022	I	0.83	2.70	1.32	15.24	16.93	4.10	12.83	24.2	3.16	17.28	2.81	13.99
	II	0.79	2.78	1.34	15.56	17.30	3.86	13.45	22.3	3.16	17.65	2.82	13.77
	III	0.73	2.81	1.33	15.68	17.40	3.51	13.89	20.2	3.14	17.92	2.62	12.76
	IV	0.75	2.80	1.30	15.61	17.37	3.11	14.26	17.9	3.09	17.68	2.78	13.59
2023	I	0.75	2.79	1.30	15.62	17.35	3.00	14.35	17.3	3.10	17.65	2.81	13.72
Annual percentage changes								Difference from one year ago	Annual percentage changes			Difference from one year ago	
2016		5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017		5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018		-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019		-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0
2020		-4.0	-2.3	-2.6	-3.0	-3.4	-11.4	-0.5	-2.2	-0.5	-2.6	-4.6	-0.3
2021		4.9	0.1	3.8	3.3	3.2	7.6	1.8	1.0	1.8	3.2	1.7	-0.2
2022		-3.5	2.6	2.3	3.6	3.8	-12.6	9.2	-3.9	-0.3	3.5	0.6	-0.3
2023 (d)		-9.6	3.5	-1.4	2.4	2.5	-26.9	11.9	-6.9	-1.6	2.2	-0.1	-0.3
2021	II	6.2	0.9	13.3	6.0	6.3	19.2	2.6	2.7	2.7	4.4	14.1	1.1
	III	4.2	1.5	3.5	5.1	5.0	13.0	2.5	1.8	1.5	4.9	1.6	-0.4
	IV	7.4	2.7	0.4	4.8	4.5	7.7	3.5	0.8	3.5	5.5	-2.2	-0.9
2022	I	3.7	2.1	4.3	5.1	5.1	7.0	4.5	0.4	1.7	4.6	4.2	0.0
	II	-2.7	4.2	1.0	4.7	4.8	-6.8	8.7	-2.8	0.0	4.8	-0.6	-0.6
	III	-4.3	3.0	2.7	2.8	2.9	-20.2	11.0	-5.8	0.9	3.4	-2.8	-0.7
	IV	-10.3	1.3	1.2	2.1	2.3	-27.7	12.6	-7.5	-3.7	1.3	1.6	0.0
2023	I	-9.6	3.5	-1.4	2.4	2.5	-26.9	11.9	-6.9	-1.6	2.2	-0.1	-0.3

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed. (c) Average of available data. (d) Change of existing data over the same period last year.

Source: INE (Labour Force Survey).

**Chart 11b.1 - Employment by sector**

Level, 2003=100



**Chart 11b.2 - Temporary employment rate**

Percentage over total employees

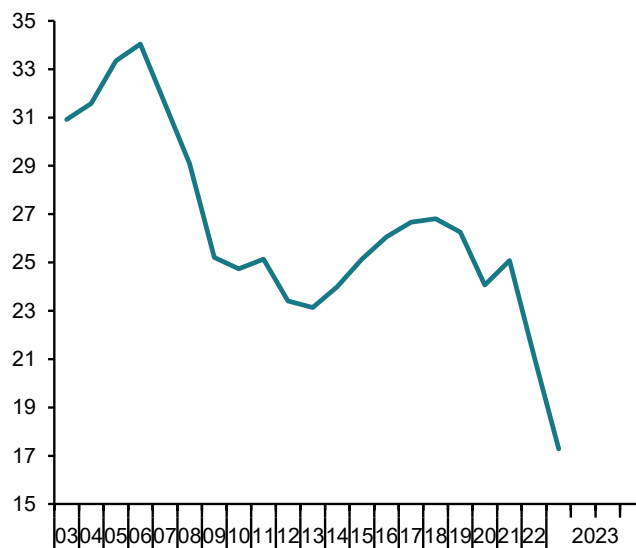


Table 12

### Index of Consumer Prices

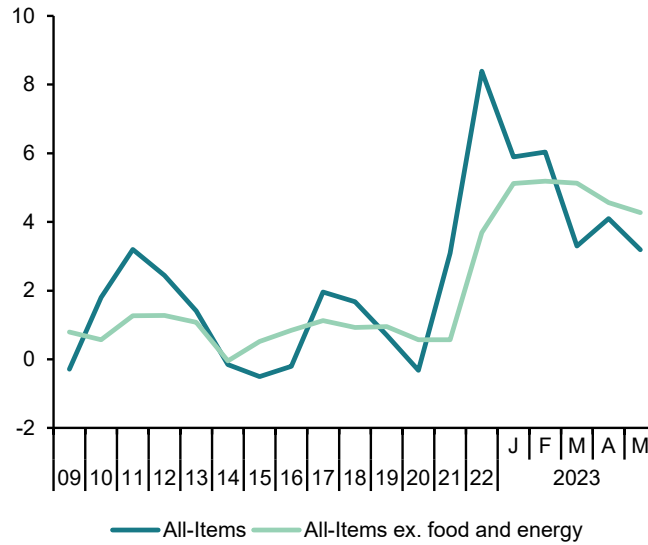
Forecasts in yellow

	Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food	
			Total	Non-energy industrial goods	Services	Processed food				
% of total in 2022	100.00	66.69	83.52	21.06	45.63	16.82	6.76	9.72	23.59	
Indexes, 2021 = 100										
2017	95.0	97.0	96.8	98.9	95.9	96.0	89.6	87.1	93.8	
2018	96.6	97.9	97.7	98.9	97.3	96.9	92.4	92.4	95.5	
2019	97.3	98.9	98.5	99.2	98.7	97.5	94.2	91.3	96.3	
2020	97.0	99.4	99.2	99.4	99.4	98.7	97.7	82.5	98.4	
2021	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
2022	108.4	103.7	105.2	104.2	103.3	110.6	110.9	127.9	110.7	
2023	112.6	108.5	111.9	109.1	107.8	124.9	121.4	107.6	123.7	
2024	116.4	111.5	115.4	111.1	111.3	130.7	127.4	112.8	129.6	
Annual percentage changes										
2017	2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3	
2018	1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8	
2019	0.7	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9	
2020	-0.3	0.6	0.7	0.2	0.8	1.3	3.7	-9.6	2.1	
2021	3.1	0.6	0.8	0.6	0.6	1.3	2.4	21.2	1.7	
2022	8.4	3.7	5.2	4.2	3.3	10.6	10.9	27.9	10.7	
2023	3.9	4.6	6.4	4.7	4.3	13.0	9.5	-15.9	11.8	
2024	3.4	2.8	3.2	1.9	3.2	4.7	5.0	4.8	4.7	
2023	Jan	5.9	5.1	7.5	6.5	4.1	16.5	10.7	-8.3	14.6
	Feb	6.0	5.2	7.6	6.5	4.2	16.8	13.4	-8.9	15.7
	Mar	3.3	5.1	7.5	5.9	4.4	16.5	13.6	-25.6	15.5
	Apr	4.1	4.6	6.6	4.8	4.3	14.2	8.8	-15.6	12.4
	May	3.2	4.3	6.1	4.2	4.2	12.9	8.9	-19.6	11.6
	Jun	2.0	4.2	6.0	4.0	4.1	12.5	7.1	-24.8	10.6
	Jul	2.3	4.7	6.3	4.1	4.5	12.1	7.6	-24.8	10.6
	Aug	2.6	4.9	6.5	4.2	4.8	12.1	8.2	-24.1	10.9
	Sep	3.5	4.7	6.3	4.2	4.7	12.3	8.9	-18.0	11.2
	Oct	4.0	4.3	5.9	4.1	4.3	11.7	8.5	-11.1	10.5
	Nov	4.6	4.2	5.5	4.0	4.3	10.5	9.6	-4.7	10.1
	Dec	5.0	4.0	4.9	3.6	4.2	8.4	8.9	3.3	8.6
2024	Jan	4.7	3.4	4.4	2.3	3.9	8.1	10.0	3.9	8.7
	Feb	4.0	3.3	4.0	2.0	3.9	6.8	7.9	1.0	7.1
	Mar	4.0	3.2	3.8	2.1	3.6	6.3	5.6	4.5	6.1
	Apr	4.1	3.0	3.6	2.4	3.3	5.9	6.7	6.4	6.1
	May	4.3	3.0	3.6	2.6	3.2	5.7	6.7	9.6	6.0
	Jun	3.9	2.9	3.3	2.4	3.1	5.1	6.0	7.7	5.4
	Jul	3.6	2.7	3.1	2.1	2.9	4.5	5.3	7.5	4.7
	Aug	3.3	2.5	2.8	1.9	2.8	3.8	4.3	6.8	4.0
	Sep	3.0	2.5	2.6	1.7	2.9	3.2	3.4	6.0	3.2
	Oct	2.6	2.4	2.5	1.4	2.9	2.7	2.8	4.2	2.8
	Nov	2.2	2.3	2.3	1.1	2.9	2.3	1.4	1.9	2.1
	Dec	1.8	2.2	2.2	0.9	2.9	1.9	0.5	-0.5	1.5

Source: INE and Funcas (Forecasts).

**Chart 12.1 - Inflation rate (I)**

Annual percentage changes



**Chart 12.2 - Inflation rate (II)**

Annual percentage changes

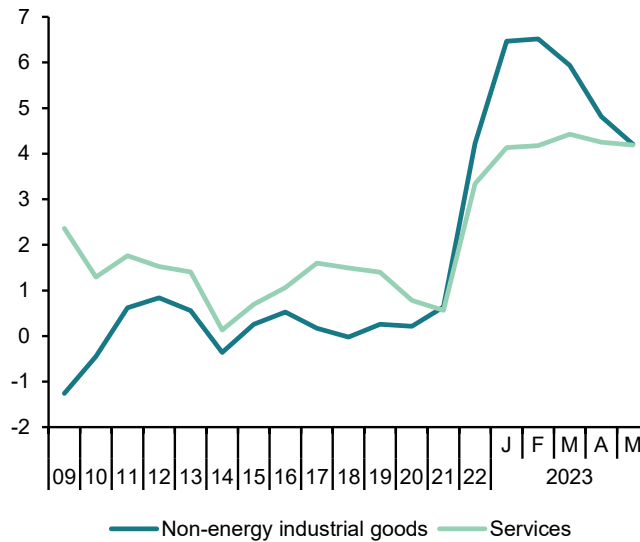


Table 13

**Other prices and costs indicators**

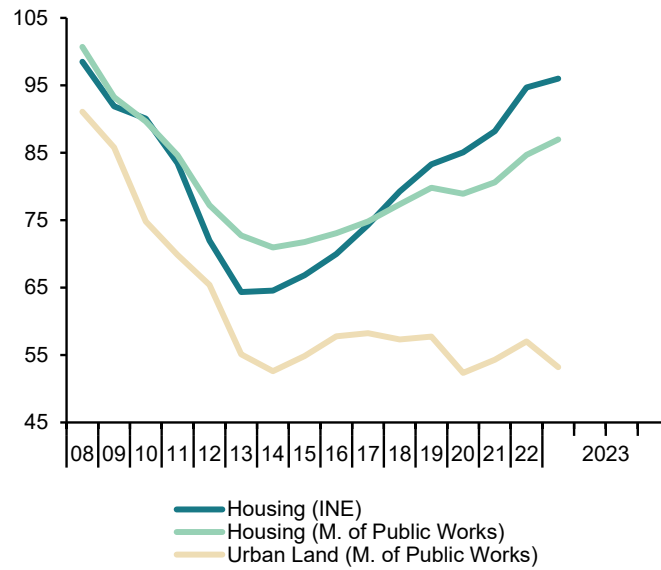
	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining	
		Total	Excluding energy	Housing Price Index (INE)	m <sup>2</sup> average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked		
		2015=100	2015=100	2007=100			2000=100					
2015	100.0	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.4	--	
2016	100.3	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.4	156.2	--	
2017	101.6	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.2	--	
2018	102.9	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.5	--	
2019	104.4	103.6	103.2	83.3	79.8	57.7	148.7	146.4	155.7	162.7	--	
2020	105.7	99.2	103.1	85.0	78.9	52.3	145.4	142.6	154.1	173.3	--	
2021	108.1	116.4	110.4	88.2	80.6	54.3	153.9	151.5	161.5	172.2	--	
2022	112.7	157.7	125.4	94.7	84.7	57.0	160.4	158.4	166.5	175.6	--	
2023 (b)	117.7	151.8	130.4	96.0	87.0	53.2	163.7	159.3	177.4	172.8	--	
2021	III	108.1	118.2	111.4	89.3	80.8	52.4	149.7	146.2	160.3	175.2	--
	IV	110.5	132.9	114.4	90.4	82.4	57.5	162.5	162.2	163.3	179.6	--
2022	I	110.8	147.1	119.6	92.7	84.3	58.3	154.2	150.3	166.2	165.2	--
	II	111.2	158.7	126.4	94.5	84.6	58.4	162.3	161.3	165.3	172.8	--
	III	112.7	165.4	127.4	96.2	84.6	53.9	155.7	152.2	166.5	178.3	--
	IV	116.1	159.6	128.3	95.4	85.1	57.4	169.4	169.9	167.9	186.2	--
2023	I	117.7	154.0	130.4	96.0	87.0	53.2	163.7	159.3	177.4	172.8	--
	II (b)	--	148.4	130.4	--	--	--	--	--	--	--	--
2023	Mar	--	152.5	130.8	--	--	--	--	--	--	--	--
	Apr	--	149.6	130.6	--	--	--	--	--	--	--	--
	May	--	147.2	130.3	--	--	--	--	--	--	--	--
Annual percent changes (c)												
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.1	1.0
2017		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019		1.4	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020		1.2	-4.3	0.0	2.1	-1.1	-9.4	-2.2	-2.6	-1.0	6.5	1.9
2021		2.3	17.3	7.0	3.7	2.1	3.7	5.9	6.3	4.8	-0.6	1.5
2022		4.3	35.5	13.6	7.4	5.0	5.0	4.2	4.6	3.1	2.0	2.8
2023 (d)		6.2	0.4	6.8	3.5	3.1	-8.8	6.2	6.0	6.7	4.6	3.3
2021	III	2.2	19.1	8.4	4.2	2.6	6.2	4.9	5.0	4.4	0.6	1.5
	IV	3.8	33.1	10.4	6.4	4.4	12.7	4.5	5.1	2.7	-0.5	1.5
2022	I	3.6	41.5	12.7	8.5	6.7	19.1	4.7	5.2	3.4	1.2	2.4
	II	4.1	43.9	15.4	8.0	5.5	0.2	3.8	4.3	2.2	1.2	2.5
	III	4.3	40.0	14.3	7.6	4.7	2.9	4.0	4.1	3.9	1.8	2.6
	IV	5.1	20.0	12.2	5.5	3.3	-0.1	4.2	4.7	2.8	3.7	2.8
2023	I	6.2	4.7	9.0	3.5	3.1	-8.8	6.2	6.0	6.7	4.6	3.1
	II (e)	--	-6.5	3.2	--	--	--	--	--	--	--	3.3
2023	Mar	--	-1.4	7.2	--	--	--	--	--	--	--	3.1
	Apr	--	-4.5	4.1	--	--	--	--	--	--	--	3.1
	May	--	-6.9	2.9	--	--	--	--	--	--	--	3.3

(a) Seasonally adjusted. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

**Chart 13.1 - Housing and urban land prices**

Level, 2007=100



**Chart 13.2 - Wage costs**

Annual percent change

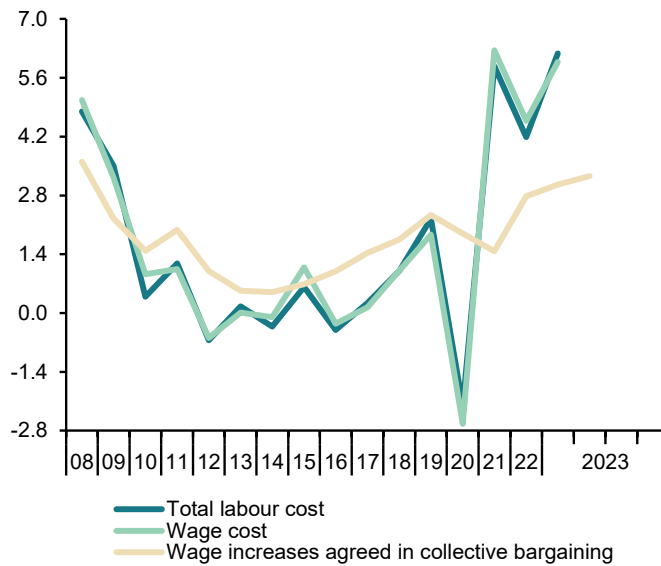


Table 14

**External trade (a)**

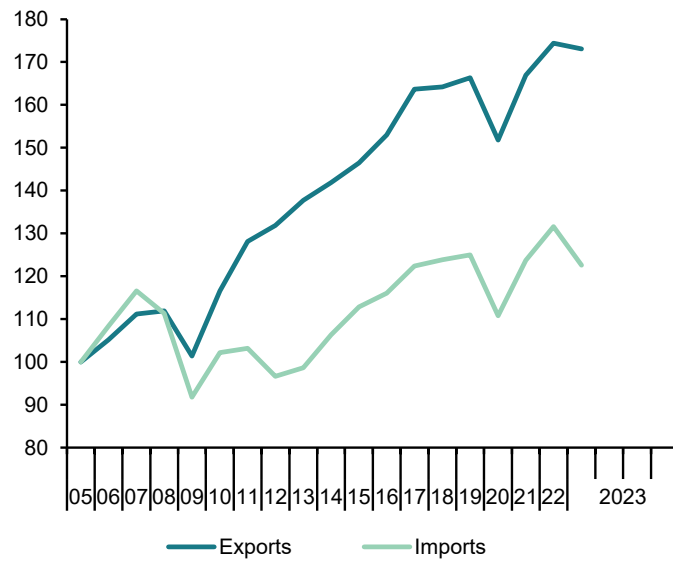
	Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)	
	Nominal	Prices	Real	Nominal	Prices	Real						
	2005=100			2005=100								EUR Billions
2015	161.2	110.1	146.5	118.0	104.6	112.9	12.0	8.9	-2.1	0.2	0.2	
2016	165.4	108.2	153.0	117.5	101.3	116.1	12.5	8.8	-1.4	0.3	0.4	
2017	178.2	108.9	163.7	129.8	106.1	122.4	13.6	9.5	-2.2	0.0	0.6	
2018	184.0	112.1	164.2	137.2	110.9	123.8	14.1	9.7	-2.9	-0.3	0.7	
2019	187.7	112.9	166.3	138.4	110.8	125.0	14.3	9.9	-2.6	-0.3	0.8	
2020	170.1	112.1	151.8	118.9	107.4	110.8	13.3	8.6	-1.1	0.3	1.3	
2021	203.1	121.7	166.9	148.6	120.2	123.7	16.1	10.1	-2.6	-0.2	1.7	
2022	251.1	144.0	174.4	196.3	149.3	131.6	20.4	12.1	-5.7	-1.0	3.3	
2023 (b)	259.3	153.8	168.6	186.4	151.2	123.3	21.1	11.9	-2.7	0.5	3.7	
2021	II	208.8	119.4	174.9	145.8	115.8	125.9	16.4	10.3	-1.4	0.5	1.9
	III	210.6	122.4	172.0	150.4	119.6	125.8	16.7	10.3	-2.1	0.3	2.4
	IV	215.6	126.2	170.9	164.4	124.1	132.4	17.1	10.6	-4.1	-0.9	2.2
2022	I	232.9	136.7	170.4	181.0	140.5	128.8	19.1	10.8	-5.1	-1.2	3.1
	II	262.1	144.6	181.2	207.3	146.8	141.2	20.4	13.2	-6.5	-1.2	2.8
	III	262.9	145.3	180.9	208.2	155.3	134.1	21.1	12.6	-6.5	-1.4	3.4
	IV	254.9	148.4	171.8	193.4	155.1	124.7	20.9	11.8	-4.7	-0.2	3.9
2023	I	266.6	154.1	173.1	188.3	153.6	122.6	22.1	12.1	-2.2	0.9	4.5
2023	Feb	262.6	156.0	168.3	188.4	152.1	123.8	21.9	11.8	-2.7	0.7	3.9
	Mar	276.2	148.6	185.9	187.7	146.4	128.2	22.5	12.9	-0.9	1.9	4.5
	Apr	237.3	153.0	155.1	180.8	144.2	125.4	19.1	11.4	-4.5	-0.8	2.0
Percentage changes (c)									Percentage of GDP			
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.3	1.8	-2.3	0.2	0.2
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	4.7	-0.1	-1.6	0.3	0.4
2017		7.7	0.7	7.0	10.5	4.7	5.5	8.3	6.9	-2.3	0.0	0.7
2018		3.3	3.0	0.3	5.7	4.5	1.2	3.9	2.5	-2.9	-0.3	0.7
2019		2.0	0.7	1.3	0.9	-0.1	0.9	1.8	2.2	-2.5	-0.3	0.8
2020		-9.4	-0.7	-8.8	-14.1	-3.1	-11.4	-7.0	-12.9	-1.2	0.3	1.4
2021		19.4	8.6	10.0	25.0	12.0	11.7	20.9	17.2	-2.6	-0.2	1.7
2022		23.6	18.3	4.5	32.1	24.2	6.3	26.2	19.4	-5.1	-0.9	3.0
2023 (d)		9.2	9.2	0.0	0.2	4.8	-4.4	10.3	7.3	--	--	--
2021	II	11.5	3.6	7.6	12.3	4.7	7.2	10.8	12.6	-1.5	0.5	1.9
	III	0.9	2.6	-1.6	3.2	3.2	-0.1	1.6	-0.2	-2.0	0.2	2.3
	IV	2.4	3.0	-0.7	9.3	3.8	5.3	2.2	2.5	-3.9	-0.8	2.1
2022	I	8.0	8.4	-0.3	10.1	13.2	-2.8	11.8	1.8	-4.8	-1.1	2.9
	II	12.5	5.8	6.4	14.6	4.5	9.7	6.8	22.8	-5.9	-1.1	2.5
	III	0.3	0.5	-0.2	0.4	5.8	-5.1	3.3	-4.3	-5.9	-1.3	3.1
	IV	-3.0	2.1	-5.1	-7.1	-0.1	-7.0	-1.0	-6.4	-4.1	-0.2	3.4
2023	I	4.6	3.8	0.8	-2.6	-1.0	-1.7	5.7	2.6	-1.9	0.7	3.8
2023	Feb	0.6	-1.4	2.1	-0.3	-6.7	6.9	0.2	1.5	--	--	--
	Mar	5.2	-4.8	10.4	-0.4	-3.8	3.5	2.7	9.7	--	--	--
	Apr	-14.1	3.0	-16.6	-3.7	-1.5	-2.2	-15.2	-12.2	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data. (d) Growth of available period over the same period of the previous year.

Source: Ministry of Economy.

**Chart 14.1 - External trade (real)**

Level, 2005=100



**Chart 14.2 - Trade balance**

EUR Billions, moving sum of 12 months

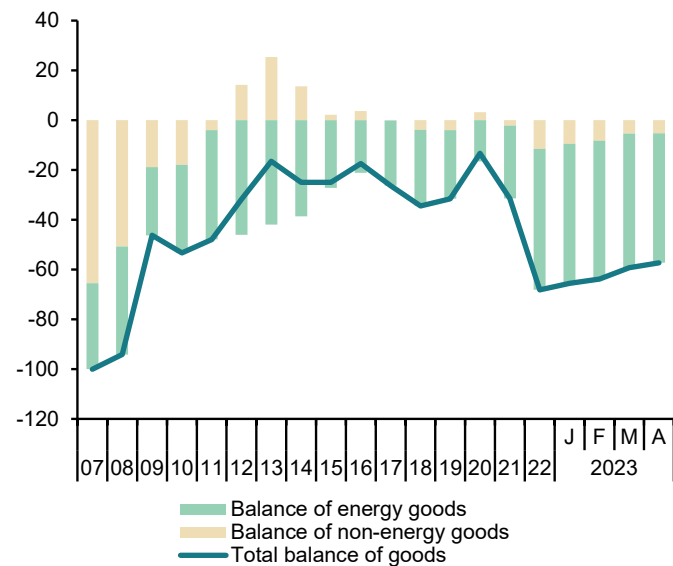




Table 15

**Balance of Payments (according to IMF manual)**  
 (Net transactions)

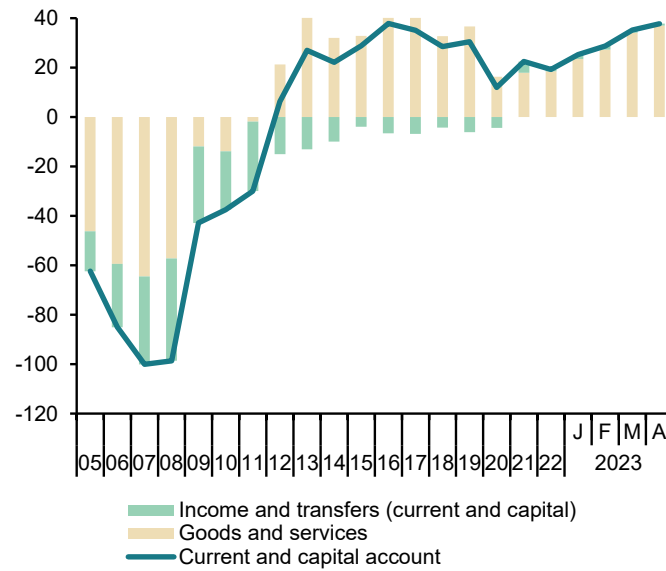
	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions	
	Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain		
								Total	Direct investment	Portfolio investment	Other investment	Financial derivatives			
	1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14	
EUR billions															
2015	21.83	-20.68	53.44	-0.24	-10.69	6.98	28.80	69.47	30.07	-5.16	40.75	3.81	-40.79	-0.12	
2016	35.37	-14.28	58.70	2.75	-11.80	2.43	37.80	89.49	11.19	46.65	29.09	2.57	-54.02	-2.34	
2017	32.21	-22.04	63.93	0.44	-10.13	2.84	35.05	68.01	12.46	25.08	22.74	7.72	-32.63	0.33	
2018	22.61	-29.31	62.00	1.73	-11.81	5.81	28.42	46.64	-16.87	15.13	49.43	-1.05	-14.25	3.98	
2019	26.24	-26.63	63.24	2.20	-12.58	4.22	30.45	10.07	7.95	-49.96	59.17	-7.09	15.76	-4.63	
2020	6.79	-8.63	24.92	2.74	-12.24	5.13	11.93	90.94	17.66	48.60	31.58	-6.91	-81.88	-2.87	
2021	11.52	-19.71	37.63	6.34	-12.74	10.91	22.44	7.48	-16.92	2.42	19.00	2.97	16.03	1.07	
2022	7.26	-58.23	76.69	3.51	-14.71	11.98	19.23	-8.92	1.31	34.96	-47.39	2.20	32.69	4.54	
2023 (a)	10.32	-4.15	17.69	-1.24	-1.98	2.76	13.08	11.15	5.27	-12.95	25.02	-6.19	-12.84	-14.77	
2021	II	2.26	-1.11	6.27	0.78	-3.68	1.78	4.04	24.11	-16.20	15.43	24.71	0.16	-14.40	5.66
	III	4.48	-6.96	13.93	0.40	-2.89	3.00	7.48	7.05	-2.24	2.20	6.41	0.68	6.88	6.45
	IV	5.30	-10.37	14.07	3.87	-2.27	5.07	10.37	13.38	6.14	-6.16	16.97	-3.57	-3.72	-0.71
2022	I	-3.97	-14.15	12.03	1.58	-3.43	1.15	-2.82	-2.06	-2.01	-24.60	24.33	0.22	2.66	3.43
	II	1.95	-14.54	20.73	-0.01	-4.23	2.53	4.48	22.09	9.93	-10.68	23.46	-0.62	-3.87	13.74
	III	2.79	-18.71	25.34	0.46	-4.30	3.15	5.94	-21.30	2.12	-20.59	1.99	-4.82	23.49	-3.75
	IV	6.49	-10.83	18.59	1.48	-2.76	5.15	11.64	11.33	-2.09	5.90	9.39	-1.87	-6.52	-6.83
2023	I	10.32	-4.15	17.69	-1.24	-1.98	2.76	13.08	11.15	5.27	-12.95	25.02	-6.19	-12.84	-14.77
			Goods and Services		Primary and Secondary Income										
2023	Feb	2.14	4.34		-2.20	0.94	3.07	-28.48	-1.21	0.88	-27.26	-0.88	26.24	-5.31	
	Mar	5.65	6.87		-1.22	1.33	6.98	2.09	-2.75	13.19	-7.59	-0.76	5.58	0.69	
	Apr	1.84	4.20		-2.36	0.77	2.61	-1.64	1.63	7.48	-10.92	0.18	7.79	3.54	
Percentage of GDP															
2015		2.0	-1.9	5.0	0.0	-1.0	0.6	2.7	6.4	2.8	-0.5	3.8	0.4	-3.8	0.0
2016		3.2	-1.3	5.3	0.2	-1.1	0.2	3.4	8.0	1.0	4.2	2.6	0.2	-4.8	-0.2
2017		2.8	-1.9	5.5	0.0	-0.9	0.2	3.0	5.9	1.1	2.2	2.0	0.7	-2.8	0.0
2018		1.9	-2.4	5.2	0.1	-1.0	0.5	2.4	3.9	-1.4	1.3	4.1	-0.1	-1.2	0.3
2019		2.1	-2.1	5.1	0.2	-1.0	0.3	2.4	0.8	0.6	-4.0	4.8	-0.6	1.3	-0.4
2020		0.6	-0.8	2.2	0.2	-1.1	0.5	1.1	8.1	1.6	4.3	2.8	-0.6	-7.3	-0.3
2021		1.0	-1.6	3.1	0.5	-1.1	0.9	1.9	0.6	-1.4	0.2	1.6	0.2	1.3	0.1
2022		0.5	-4.4	5.8	0.3	-1.1	0.9	1.4	-0.7	0.1	2.6	-3.6	0.2	2.5	0.3
2023 (a)		3.0	-1.2	5.1	-0.4	-0.6	0.8	3.8	3.2	1.5	-3.8	7.3	-1.8	-3.7	-4.3
2021	II	0.8	-0.4	2.1	0.3	-1.2	0.6	1.3	8.0	-5.4	5.2	8.2	0.1	-4.8	1.9
	III	1.5	-2.3	4.7	0.1	-1.0	1.0	2.5	2.4	-0.7	0.7	2.1	0.2	2.3	2.2
	IV	1.6	-3.2	4.3	1.2	-0.7	1.5	3.1	4.1	1.9	-1.9	5.2	-1.1	-1.1	-0.2
2022	I	-1.3	-4.6	3.9	0.5	-1.1	0.4	-0.9	-0.7	-0.6	-7.9	7.8	0.1	0.9	1.1
	II	0.6	-4.4	6.2	0.0	-1.3	0.8	1.3	6.6	3.0	-3.2	7.1	-0.2	-1.2	4.1
	III	0.8	-5.7	7.7	0.1	-1.3	1.0	1.8	-6.5	0.6	-6.3	0.6	-1.5	7.1	-1.1
	IV	1.8	-3.0	5.2	0.4	-0.8	1.4	3.3	3.2	-0.6	1.7	2.6	-0.5	-1.8	-1.9
2023	I	3.0	-1.2	5.1	-0.4	-0.6	0.8	3.8	3.2	1.5	-3.8	7.3	-1.8	-3.7	-4.3

(a) Period with available data.

Source: Bank of Spain.

**Chart 15.1 - Balance of payments: Current and capital accounts**

EUR Billions, 12-month cumulated



**Chart 15.2 - Balance of payments: Financial account**

EUR Billions, 12-month cumulated

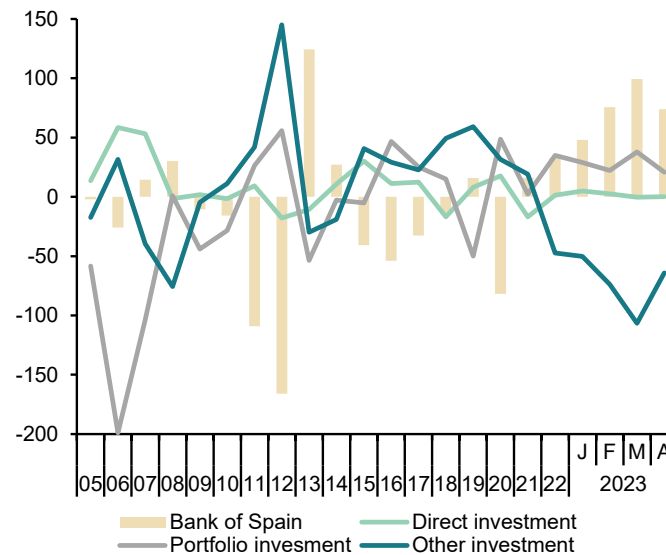


Table 16

**Competitiveness indicators in relation to EMU**

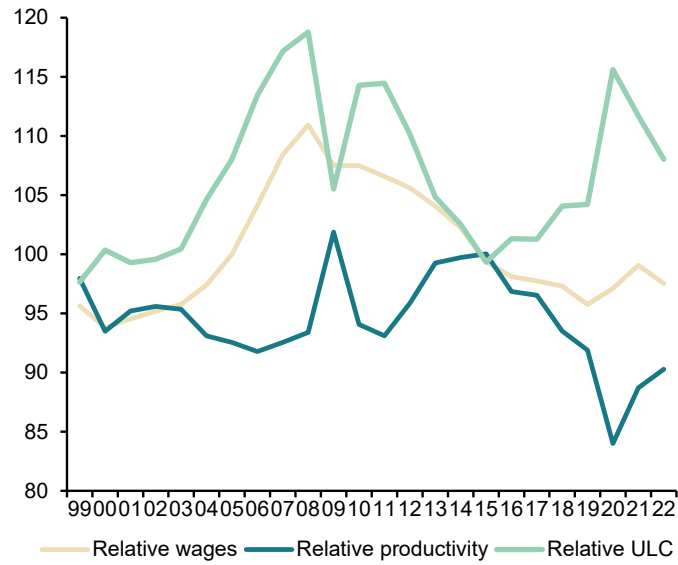
	Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries 1999 I =100	
	Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU		
	1998=100			2015=100			2015=100				
2016	98.1	96.8	101.3	99.7	100.3	99.4	96.9	97.9	98.9	108.0	
2017	97.7	96.5	101.3	101.7	101.8	99.9	101.2	100.7	100.5	109.7	
2018	97.3	93.5	104.1	103.5	103.6	99.9	103.8	103.3	100.4	110.5	
2019	95.8	91.9	104.2	104.3	104.8	99.5	103.4	103.7	99.8	109.0	
2020	97.1	84.0	115.6	103.9	105.1	98.9	99.8	101.2	98.6	108.4	
2021	99.1	88.7	111.7	107.0	107.8	99.3	114.6	111.0	106.2	108.9	
2022	97.5	90.3	108.0	115.9	116.8	99.3	148.5	140.7	105.6	108.0	
2023 (b)	--	--	--	118.5	122.0	97.1	145.7	141.7	102.8	106.7	
2022	II	--	--	106.9	107.4	99.5	109.5	107.2	102.2	109.5	
	III	--	--	106.9	108.0	99.0	116.3	112.2	103.7	108.3	
	IV	--	--	110.2	109.9	100.3	128.3	120.4	106.6	109.4	
2022	I	--	--	112.3	112.3	100.0	139.8	130.5	107.2	108.9	
	II	--	--	116.5	116.1	100.4	149.7	138.1	108.4	109.2	
	III	--	--	117.6	118.1	99.6	154.5	147.7	104.6	107.8	
	IV	--	--	117.4	120.8	97.1	150.1	146.4	102.5	105.9	
2023	I	--	--	117.9	121.3	97.2	146.4	142.9	102.5	106.7	
2023	Mar	--	--	119.1	122.4	97.3	145.6	141.6	102.8	107.0	
	Apr	--	--	119.6	123.1	97.1	143.6	138.2	103.9	107.1	
	May	--	--	119.4	123.2	97.0	--	--	--	106.6	
	Annual percentage changes			Differential			Annual percentage changes			Differential	Annual percentage changes
2016	-1.3	-3.2	2.0	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	0.2	
2017	-0.4	-0.3	0.0	2.0	1.5	0.5	4.5	2.8	1.7	1.5	
2018	-0.4	-3.1	2.8	1.7	1.7	0.0	2.5	2.6	-0.1	0.8	
2019	-1.6	-1.7	0.1	0.8	1.2	-0.4	-0.3	0.4	-0.6	-1.3	
2020	1.4	-8.6	11.0	-0.3	0.3	-0.6	-3.6	-2.5	-0.8	-0.6	
2021	2.0	5.6	-3.4	3.0	2.6	0.4	14.8	9.7	5.1	0.4	
2022	--	--	--	8.3	8.4	-0.1	29.7	26.8	2.9	-0.8	
2023 (c)	--	--	--	4.3	7.4	-3.1	2.7	7.3	-4.6	-0.8	
2022	II	--	--	2.3	1.8	0.5	12.5	7.3	5.2	0.9	
	III	--	--	3.4	2.8	0.6	16.6	11.5	5.1	0.1	
	IV	--	--	5.8	4.6	1.2	27.8	18.8	9.0	0.1	
2022	I	--	--	7.9	6.1	1.8	34.3	25.4	8.9	0.7	
	II	--	--	8.9	8.0	0.9	36.7	28.9	7.8	-0.3	
	III	--	--	10.0	9.3	0.7	32.9	31.6	1.3	-0.5	
	IV	--	--	6.5	10.0	-3.5	17.0	21.6	-4.6	-3.2	
2023	I	--	--	5.0	8.0	-3.0	4.7	9.5	-4.8	-2.0	
2023	Mar	--	--	3.1	6.9	-3.8	-0.1	5.0	-5.1	-2.8	
	Apr	--	--	3.8	7.0	-3.2	-2.8	0.9	-3.7	-1.5	
	May	--	--	2.9	6.1	-3.2	--	--	--	-2.0	

(a) EMU excluding Ireland and Spain. (b) Period with available data. (c) Growth of available period over the same period of the previous year.

Sources: Eurostat. Bank of Spain and Funcas.

**Chart 16.1 - Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU)**

1998=100



**Chart 16.2 - Harmonized Consumer Prices**

Annual growth in % and percentage points

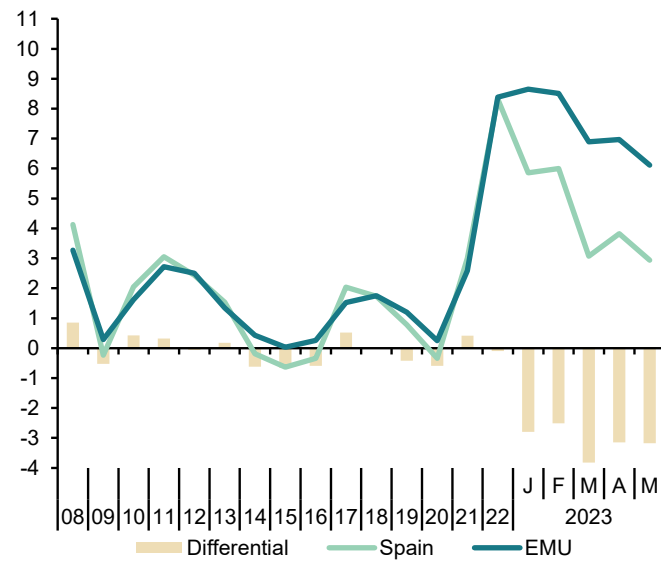


Table 17a

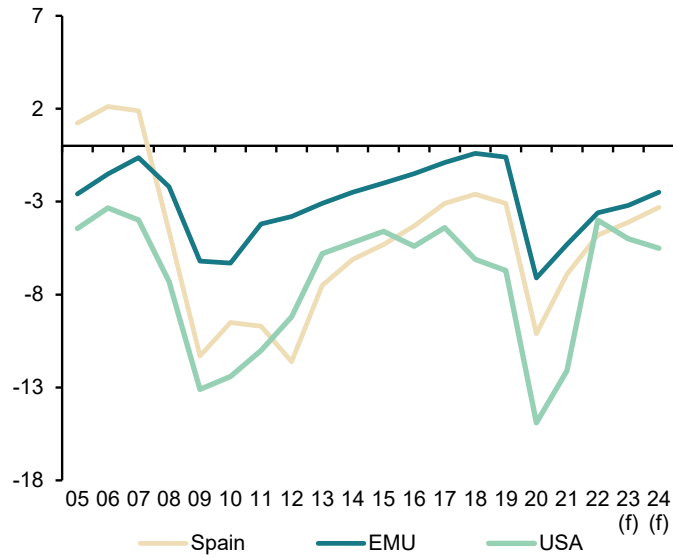
**Imbalances: International comparison (I)**  
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
	Billions of national currency								
2009	-120.6	-578.8	-1,896.6	569.5	7,466.8	12,311.3	-43.7	44.4	-383.1
2010	-102.2	-598.7	-1,863.1	649.2	8,215.0	14,025.2	-39.2	51.0	-439.8
2011	-103.6	-416.0	-1,709.1	743.0	8,677.1	15,222.9	-29.0	76.8	-460.3
2012	-119.1	-374.0	-1,493.3	927.8	9,172.9	16,432.7	0.9	211.0	-423.9
2013	-76.8	-305.1	-977.3	1,025.7	9,502.3	17,352.0	20.8	271.2	-352.1
2014	-63.1	-253.1	-910.4	1,084.8	9,745.8	18,141.4	17.5	315.3	-376.2
2015	-57.2	-209.1	-837.2	1,113.7	9,866.3	18,922.2	21.8	353.1	-424.7
2016	-47.9	-159.0	-1,010.1	1,145.1	10,041.3	19,976.8	35.4	385.0	-403.7
2017	-36.2	-105.0	-861.5	1,183.4	10,127.9	20,492.7	32.2	402.2	-371.4
2018	-31.2	-49.8	-1,251.1	1,208.9	10,239.8	21,974.1	22.6	409.1	-441.2
2019	-38.1	-77.0	-1,423.5	1,223.4	10,348.2	23,201.4	26.2	330.4	-452.6
2020	-113.2	-809.9	-3,129.6	1,345.8	11,415.4	27,747.8	6.8	279.5	-592.5
2021	-82.9	-657.4	-2,812.8	1,427.2	12,038.7	29,617.2	11.5	428.2	-861.4
2022	-63.8	-484.1	-1,020.0	1,502.5	12,480.0	31,419.7	7.8	76.7	-994.7
2023	-57.8	-454.6	-1,336.8	1,562.4	13,000.2	32,622.5	23.2	307.7	-875.2
2024	-49.2	-364.6	-1,511.0	1,617.4	13,430.4	34,036.3	22.4	360.3	-836.1
	Percentage of GDP								
2009	-11.3	-6.2	-13.1	53.3	80.1	85.0	-4.1	0.5	-2.6
2010	-9.5	-6.3	-12.4	60.5	85.7	93.2	-3.7	0.5	-2.9
2011	-9.7	-4.2	-11.0	69.9	88.2	97.6	-2.7	0.8	-3.0
2012	-11.6	-3.8	-9.2	90.0	92.8	101.1	0.1	2.1	-2.6
2013	-7.5	-3.1	-5.8	100.5	95.2	103.0	2.0	2.7	-2.1
2014	-6.1	-2.5	-5.2	105.1	95.4	103.4	1.7	3.1	-2.1
2015	-5.3	-2.0	-4.6	103.3	93.4	103.9	2.0	3.3	-2.3
2016	-4.3	-1.5	-5.4	102.7	92.4	106.9	3.2	3.5	-2.2
2017	-3.1	-0.9	-4.4	101.8	89.8	105.2	2.8	3.6	-1.9
2018	-2.6	-0.4	-6.1	100.4	87.9	107.0	1.9	3.5	-2.1
2019	-3.1	-0.6	-6.7	98.2	85.9	108.5	2.1	2.7	-2.1
2020	-10.1	-7.1	-14.9	120.4	99.1	131.8	0.6	2.4	-2.8
2021	-6.9	-5.3	-12.1	118.3	97.2	127.0	1.0	3.5	-3.7
2022	-4.8	-3.6	-4.0	113.2	93.1	123.4	0.6	0.6	-3.9
2023	-4.1	-3.2	-5.0	110.6	90.8	121.8	1.6	2.1	-3.3
2024	-3.3	-2.5	-5.5	109.1	89.9	122.8	1.5	2.4	-3.0

Source: European Commission Forecasts, Spring 2023.

**Chart 17a.1 - Government deficit**

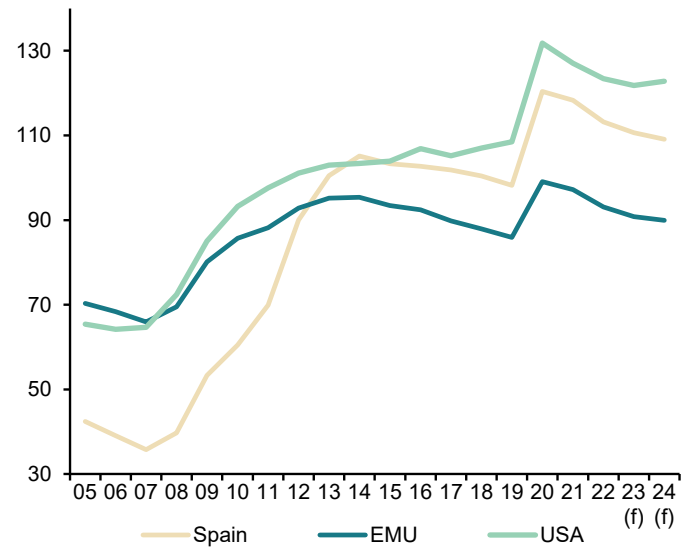
Percentage of GDP



(f) European Commission forecast.

**Chart 17a.2 - Government gross debt**

Percentage of GDP



(f) European Commission forecast.

Table 17b

**Imbalances: International comparison (II)**

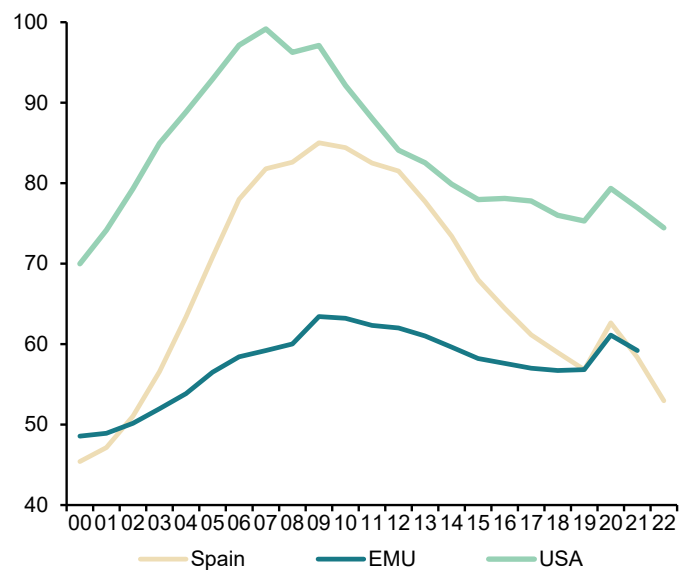
	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
Billions of national currency						
2005	656.2	4,771.1	12,115.6	954.1	7,223.7	8,187.2
2006	783.5	5,192.8	13,420.8	1,171.9	7,814.9	9,007.5
2007	879.3	5,560.9	14,350.6	1,371.6	8,718.6	10,141.9
2008	916.7	5,773.7	14,218.8	1,460.0	9,277.1	10,715.3
2009	908.9	5,880.4	14,056.7	1,473.5	9,305.3	10,197.4
2010	905.2	6,021.2	13,865.2	1,498.0	9,590.4	10,066.0
2011	877.9	6,104.2	13,734.6	1,458.3	10,035.5	10,303.2
2012	840.7	6,096.5	13,666.9	1,340.4	10,140.7	10,849.8
2013	793.4	6,057.5	13,899.2	1,268.5	10,119.6	11,363.5
2014	757.5	6,064.0	14,017.7	1,202.1	10,612.6	12,133.0
2015	733.1	6,127.4	14,190.2	1,183.8	11,352.5	12,945.7
2016	718.3	6,232.4	14,600.6	1,166.6	11,696.8	13,599.3
2017	710.8	6,394.5	15,145.5	1,147.0	11,853.7	14,562.7
2018	709.4	6,582.4	15,602.5	1,144.6	12,150.3	15,546.5
2019	707.5	6,811.0	16,094.8	1,160.9	12,573.0	16,306.1
2020	700.4	7,000.8	16,711.1	1,205.2	13,064.8	17,805.4
2021	704.2	7,294.1	17,939.7	1,261.6	13,693.9	18,673.5
2022	702.8	–	18,955.4	1,240.1	–	19,876.8
Percentage of GDP						
2005	70.8	56.5	92.9	102.9	85.6	62.8
2006	78.0	58.4	97.1	116.7	87.9	65.2
2007	81.8	59.2	99.1	127.5	92.9	70.1
2008	82.6	60.0	96.3	131.6	96.5	72.5
2009	85.0	63.4	97.1	137.8	100.4	70.4
2010	84.4	63.2	92.1	139.6	100.6	66.9
2011	82.5	62.3	88.0	137.1	102.4	66.0
2012	81.5	62.0	84.1	130.0	103.1	66.8
2013	77.7	61.0	82.5	124.3	101.8	67.5
2014	73.4	59.6	79.9	116.4	104.3	69.1
2015	68.0	58.2	77.9	109.8	107.9	71.1
2016	64.5	57.6	78.1	104.7	108.2	72.7
2017	61.1	57.0	77.8	98.7	105.6	74.8
2018	58.9	56.7	76.0	95.1	104.7	75.7
2019	56.8	56.8	75.3	93.2	104.9	76.3
2020	62.6	61.1	79.3	107.8	114.0	84.5
2021	58.4	59.2	76.9	104.5	111.2	80.1
2022	53.0	–	74.4	93.4	–	78.1

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

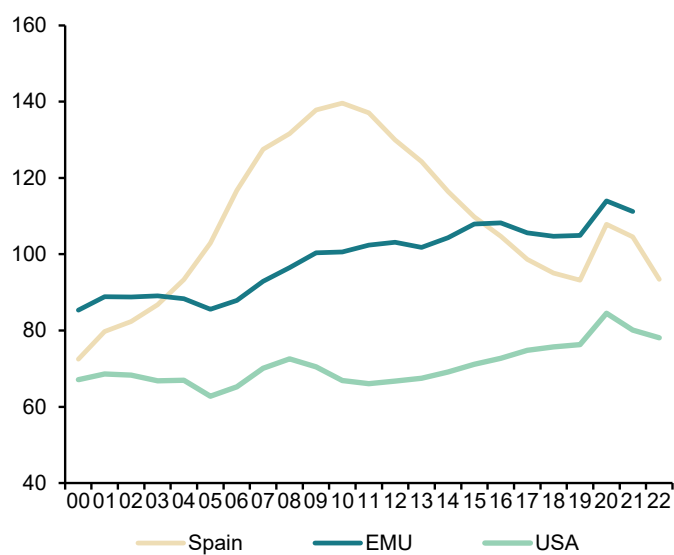
**Chart 17b.1 - Household debt**

Percentage of GDP



**Chart 17b.2 - Non-financial corporations debt**

Percentage of GDP





# 50 Financial System Indicators

Updated: June 30<sup>th</sup>, 2023

Highlights		
Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.2	April 2023
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.5	April 2023
Doubtful loans (monthly % var.)	1.2	April 2023
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	1,100,448	May 2023
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	96,179	May 2023
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	1	May 2023
"Operating expenses/gross operating income" ratio (%)	42.16	March 2023
"Customer deposits/employees" ratio (thousand euros)	12,993,97	March 2023
"Customer deposits/branches" ratio (thousand euros)	117,090.73	March 2023
"Branches/institutions" ratio	93.45	March 2023

## A. Money and Interest Rates

Indicator	Source	Average 2001-2020	2021	2022	2023 May	2023 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.1	12.3	6.9	1.4	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.4	-0.545	-0.572	3.463	3.587	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	1.8	-0.499	-0.501	3.939	4.103	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.4	0.03	0.5	3.3	3.3	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.8	1.3	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

*Comment on "Money and Interest Rates": In a situation of increased uncertainty between the fight against inflation and the confirmation of a recession in the Eurozone, the ECB raised interest rates by a quarter point in June, although it will closely monitor macroeconomic risks in its upcoming decisions. The Federal Reserve of the United States, however, did not raise rates in June, although it could resume increases in July. In this context, market interest rates have risen in June. The 3-month Euribor has increased from 3.463% in May to 3.587% in June, while the 12-month Euribor has risen from 3.939% to 4.103% over the same period. The yield on the 10-year government bond remained at 3.3% in June, compared to May.*

## B. Financial Markets

Indicator	Source	Average 2001-2020	2021	2022	2023 April	2023 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	35.7	27.9	27.8	22.78	24.05	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	23.1	14.1	12.4	8.47	11.37	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.39	0.04	0.26	0.10	0.35	(Traded amount/outstanding balance) ×100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.6	0.52	0.44	0.22	0.25	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.35	-0.62	0.02	2.9	3.1	Outright transactions in the market (not exclusively between account holders)
11. Ten-year maturity treasury bonds interest rate	BE	3.28	0.39	2.17	3.5	-	Average rate in 10-year bond auctions
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.06	1.3	-1.3	0.02	-1.9	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	2.5	0.5	1.8	-26.1	-16.3	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	986.4	861.3	824.2	917.08	949.51 (a)	Base 1985=100
15. IBEX-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,541.2	8,771.5	8,851.0	9,241.0	9,593.0 (a)	Base dec1989=3000
16. Nasdaq Index	Nasdaq	3,924.5	15,644.9	10,466.4	12,226.58	13,591.33	Nadaq composite index
17. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.4	21.1	16.1	29.3	28.1 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"

## B. Financial Markets (continued)

Indicator	Source	Average 2001-2020	2021	2022	2023 April	2023 May	Definition and calculation
18. Short-term private debt. Outstanding amounts (% chg.)	BE	0.79	2.4	8.01	-8.3	-34.3	Change in the outstanding short-term debt of non-financial firms
19. Short-term private debt. Outstanding amounts	BE	1.0	0.9	-5.72	0.02	-0.95	Change in the outstanding long-term debt of non-financial firms
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.3	2.10	-1.21	-29.7	7.7	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	14.8	21.1	35.8	-66.6	0	IBEX-35 shares concluded transactions

(a) Last data published: June 30<sup>th</sup>, 2023.

Comment on "Financial Markets": In June, Spanish stock indices maintained a somewhat more stable tone, with increases compared to the closing values in May. The IBEX-35 stands at 9,593 points. The General Index of the Madrid Stock Exchange is at 949.51 points. On the other hand, in the month of May (the latest available data), there was an increase in the ratio of trading in simple spot operations with Treasury bills (up to 24.05%) and government bonds (up to 11.37%). Trading in IBEX-35 futures increased by 7.7%, while financial options on the same index remained unchanged compared to the previous month.

## C. Financial Saving and Debt

Indicator	Source	Average 2008-2019	2020	2021	2022 Q3	2022 Q4	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-1.1	1.2	1.9	1.4	1.5	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.7	7.2	4.4	0.9	0.9	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	271.1	335.3	319.9	287.4	277.9	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	63.1	62.5	58.4	54.4	53.0	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.9	1.8	2.7	-2.0	2.8	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.1	0.3	0.8	-1.7	0.4	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2022Q4 the financial savings to GDP in the overall economy increased to a rate of 1.5% of GDP. The financial savings rate of households remained unchanged at 0.9%. The debt to GDP ratio of the economy fell to 277.9%. Finally, there was an increase in the stock of financial assets on households' balance sheets of 2.8% and of 0.4% in the stock of financial liabilities.

## D. Credit institutions. Business Development

Indicator	Source	Average 2001-2020	2021	2022	2023 March	2023 April	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	4.9	0.2	-0.04	0.2	0.2	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	6.0	0.3	0.01	-6.6	-0.5	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	8.4	-0.7	1.2	0.9	-0.8	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	7.5	0.1	-0.1	1.1	1.5	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.0	0.5	2.5	4.8	4.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.4	-0.4	-1.5	-1.4	1.2	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.1	0.6	-2.4	-11.3	13.6	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	6.4	-0.1	0.1	0.4	0.4	Equity percentage change for the sum of banks, savings banks and credit unions.

*Comment on "Credit institutions. Business Development": In April, the latest available data, there was an increase in credit to the private sector by 0.2%. Deposits decreased by 0.5%. Fixed-income securities decreased their share on the balance sheet by 0.8%, while stocks and equity increased by 1.5%. Additionally, there was an increase in the volume of non-performing loans by 1.2% compared to the previous month.*

## E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2019	2020	2021	2022 December	2023 January	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	176	113	110	110	110	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	76	78	84	80	78	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	229,219	175,185	164,101	164,101	158,317 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	36,919	22,589	19,015	17,648	17,569	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	385,079	1,774,798	2,206,332	1,638,831	1,100,448 (b)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	82,081	260,971	289,545	192,970	96,179 (b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	24,751	3	16	5	1 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2022.

(b) Last data published: May 30<sup>th</sup>, 2023.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 2023, the net appeal to the Eurosystem by Spanish financial institutions was 96,179 million euros.

MEMO ITEM: Since January 2015, the European Central Bank has also been reporting the amount of various asset purchase programs. In May 2023, its value in Spain was 620,755 million euros, and 4.8 trillion euros in the Eurozone as a whole.

## F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source	Average 2000-2019	2020	2021	2022 Q4	2023 Q1	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	46.86	54.90	54.18	46.99	42.16	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions' P&L accounts
44. "Customer deposits/employees" ratio (Euro thousands)	Bank of Spain	4,276.15	11,173.92	12,137.18	12,610.21	12,993.97	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	28,156.84	89,952.10	111,819.77	117,256.85	117,090.73	Productivity indicator (business by branch)

F. Credit institutions. Efficiency and Productivity, Risk and Profitability (continued)

Indicator	Source	Average 2000-2019	2020	2021	2022 Q4	2023 Q1	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	181.61	116.74	98.01	92.88	93.45	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.01	8.1	9.2	9.3	9.5	Branch size indicator
48. "Equity capital" (monthly average % var.)	Bank of Spain	0.04	-2.4	0.6	1.3	0.1	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.41	0.4	0.5	0.7	0.8	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	5.55	-0.7	6.9	9.8	11.3	Profitability indicator, defined as the "pre-tax profit/equity capital"

*Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2023Q1, there was a relative increase in the profitability of Spanish banks.*

# Social Indicators

Table 1

## Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (foreign-born)	New exits (born in Spain)
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	701,997	33,053
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	441,051	39,211
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	344,992	51,666
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	368,170	66,803
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	417,655	74,873
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	492,600	71,508
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	592,604	63,754
2018	46,722,980	43.1	19.1	80.5	85.9	53.6	29.3	13.7	715,255	56,745
2019	47,026,208	43.3	19.3	80.9	86.2	53.7	29.6	14.4	827,052	61,338
2020	47,450,795	43.6	19.4	79.6	85.1	53.5	29.8	15.2	523,618	41,708
2021	47,385,107	43.8	19.6	80.2	85.8	53.4	30.1	15.5	621,216	56,098
2022	47,475,420	44.1	20.0			53.5	30.7	15.9		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón Continuo.

EVR: Estadística de Variaciones Residenciales.

Dependency rate: (15 or less years old population + 65 or more years old population)/ 16-64 years old population, as a percentage.

Dependency rate (older than 64): 65 or more years old population/ 16-64 years old population, as a percentage.

Table 2

## Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.6
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.9
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.0
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.1
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.3
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.5
2017	18,512	2.52	14.2	11.4	7.4	7.0	2.11	35.3	33.2	2.7
2018	18,581	2.51	14.3	11.5	7.1	6.6	2.04	35.6	33.4	2.9
2019	18,697	2.52	14.9	11.2	7.1	6.7	1.95	36.0	33.9	3.1
2020	18,794	2.52	15.0	11.4	3.8	4.1	1.63	37.1	34.9	3.5
2021	18,919	2.50	15.6	11.0	6.3	5.6	1.83	36.8	34.6	3.4
2022	19,113	2.48	15.4	11.7						
2023●	19,281									
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (Continued)

**Households and families**

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.72	45.8	10.4	65.8
2017	30.9	1.25	1.71	46.8	10.5	66.1
2018	31.0	1.20	1.65	47.3	11.1	65.3
2019	31.1	1.17	1.59	48.4	11.5	64.1
2020	31.2	1.13	1.47	47.6	10.3	65.8
2021	31.6	1.16	1.38	49.3	10.7	67.2
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

LFS: Labour Force Survey. EPF: Encuesta de Presupuestos Familiares. ID INE: Indicadores Demográficos INE. MNP: Movimiento Natural de la Población. MSAN: Ministerio de Sanidad, Servicios Sociales e Igualdad.

Marriage rate: Number of marriages per thousand population.

Total fertility rate: The average number of children that would be born per woman living in Spain if all women lived to the end of their childbearing years and bore children according to a given fertility rate at each age.

Divorce rate: Number of divorces per thousand population.

Abortion rate: Number of abortions per thousand women (15-44 years).

• Data refers to January-March.

Table 3

**Education**

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (millions of €)	Public expenditure (% GDP)
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716	4.6
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099	4.9
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476	4.5
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846	4.3
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,598	4.3
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1,303,252	190,143	47,579	4.3
2017	21.4	6.6	28.5	41.2	1,767,179	676,311	667,984	1,287,791	209,754	49,458	4.2
2018	20.5	6.4	29.2	42.4	1,750,579	667,287	675,971	1,290,455	217,840	50,807	4.2
2019	19.3	6.3	30.3	44.7	1,749,597	673,740	706,533	1,296,379	237,118	53,053	4.3
2020	17.7	6.1	31.3	44.8	1,622,098	687,084	772,417	1,336,009	247,251	55,184	4.9
2021	16.4	5.8	32.3	46.7	1,628,472	690,481	773,689	1,338,304	258,991	59,657	4.6●
2022	16.1	5.8	32.6	49.2							
2023■	16.3	6.1	32.6	49.5							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	MECD

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

● Provisional data.

■ Data refers to January-March.



Table 4

**Social protection: Benefits**

	Contributory benefits*							Non-contributory benefits			
	Unemployment total	Retirement		Permanent disability		Widowhood		Unemployment	Social Security		
		Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)		Retirement	Disability	Other
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	807,614	6,038,326	1,138	957,500	975	2,361,620	712	912,384	259,570	193,122	14,997
2020	1,828,489	6,094,447	1,162	952,704	985	2,352,680	725	1,017,429	261,325	188,670	13,373
2021	922,856	6,165,349	1,190	949,765	994	2,353,987	740	969,412	262,177	184,378	11,892
2022	773,227	6,253,797	1,254	951,067	1,035	2,351,703	778	882,585	265,830	179,967	10,633
2023	790,261■	6,335,026●	1,372●	945,892●	1,120●	2,350,021●	850●	894,550■	268,671●	177,086●	9,925●
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMERSO	IMERSO	IMERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

IMERSO: Instituto de Mayores y Servicios Sociales.

\* Benefits for orphans and dependent family members of deceased Social Security affiliates are excluded.

● Data refer to January-May.

■ Data refer to January-April.

Table 5

**Social protection: Health care**

	Expenditure		Resources				Satisfaction*		Time on waiting list (days)	
	Public expenditure (% GDP)	Public expenditure (millions of €)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people assigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people assigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations per 1,000 inhabitants
2008	6.1	67,344	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	6.6	71,136	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	6.3	64,734	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	6.2	63,507	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	6.2	66,489	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	6.1	67,724	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	6.0	69,312	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018	6.0	72,157	2.0	0.8	3.5	0.7	6.6	7.5	129	96
2019	6.1	75,929	2.0	0.8	3.5	0.7	6.7	7.6	115	81
2020	7.6	85,503	2.0	0.8	3.7	0.7			148	99
2021	7.3	88,625●	2.1	0.8	3.9	0.7			123	89
2022							6.3		120	95
Sources	EUROSTAT	EUROSTAT	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

\* Average of population satisfaction measured on a scale of 1 to 10, where 1 means "totally unsatisfactory" and 10 "totally satisfactory".

● Provisional data.

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# Notes

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Orders or claims:

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